

THE HUMAN CAPITAL MANAGEMENT GLOBAL M&A REPORT **2020**

Market trends and key transactional insights for owners
of knowledge-intensive services and software businesses



Management consulting



Technology services



Marketing, communications and
information services



Engineering consulting & services



Human capital management



SaaS / Software



FOREWORD



David Jorgenson
CEO Equiteq

Equiteq is delighted to present the results of our thirteenth annual review of M&A and equity market trends across the human capital management industry.

In 2019, human capital management deal count remained strong, but there was a dip in capital invested in the industry. With the US unemployment rate falling to its lowest level in almost 50 years, the war for talent remained a key driver for deal flow. M&A drivers also have included rising stock prices and strong levels of capital available for new deals. Regionally we noted a fall in M&A across North America and Europe, but a rise in capital invested in APAC and Australia & NZ.

The Equiteq Human Capital Management Share Price Index rose with broader equity market indices. Entering the new decade, we are experiencing new stock market turmoil, but also continue to observe strong levels of dry powder among buyers. Solid levels of capital available for M&A is coupled with skill shortages in hot areas of the market. This is maintaining some pressure on strategic and financial buyers to put their cash to work on new disruptive acquisitions.

New digital technologies are enabling the rapid evolution of the human capital management function. The convergence of human resources and technology is driving notable demand for human capital management digital transformation offerings, as well as disruptive IT staffing solutions and people analytics capabilities. Human resources businesses that are at the forefront of

developments shaping the digital age need to be rich in knowledge that remains cutting-edge from a culture of constant innovation, which includes a deep understanding of the latest digital technologies that are fusing to enable many of the latest disruptions to the human resources function.

Despite recent market volatility, buyers are pushing forward with their acquisition strategy. The outlook for the remainder of 2020 is expected to be more uncertain than the prior year. Nevertheless, there remains an unparalleled opportunity for pioneering business owners and entrepreneurs to create value, and make profitable exits within the disruption zone of the industry. We hope that this latest edition of The Human Capital Management Global M&A Report gives you a taste of Equiteq's deep insights into deal activity within this space.

If you would like to have a chat about your current sale journey as a business owner or acquisition strategy as an acquirer, please get in touch.

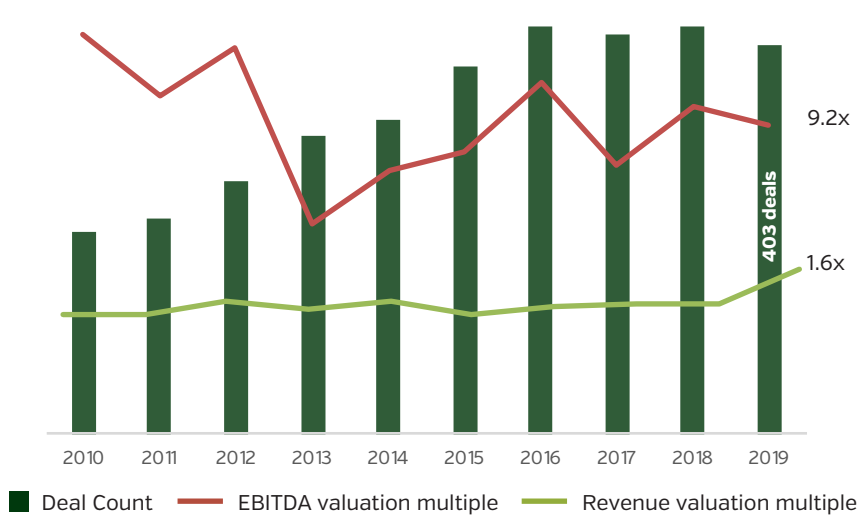


SEGMENT REVIEWS

HUMAN CAPITAL MANAGEMENT

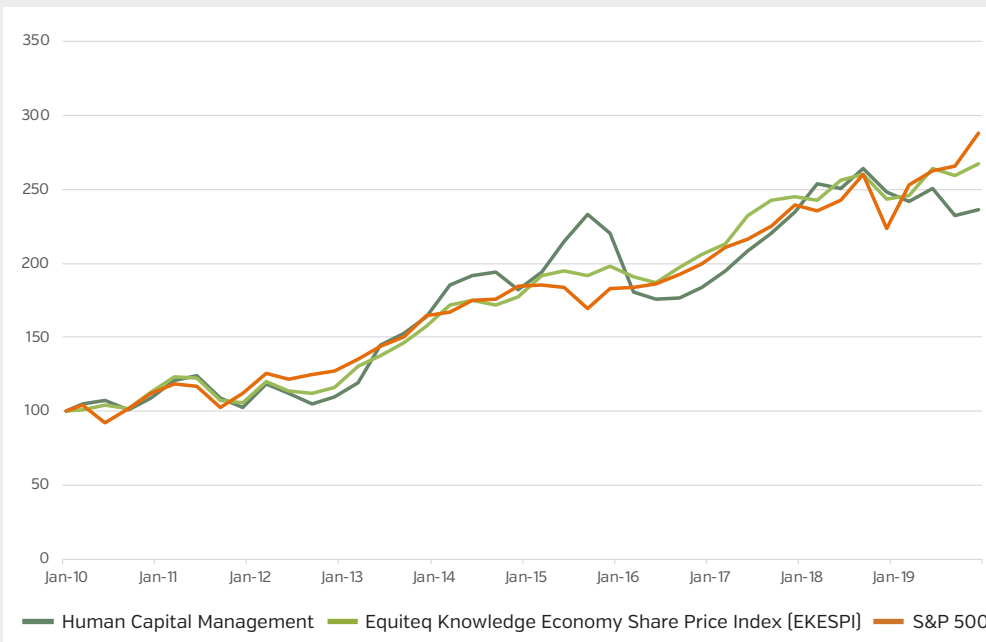
KEY FINDINGS

Deal volumes and capital invested dipped, but revenue valuation metrics rose strongly.



<p>4%</p> <p>Deal count 2019 vs. 2018</p>	<p>65%</p> <p>Capital invested 2019 vs. 2018</p>
<p>43%</p> <p>of deal count by private equity</p>	<p>56%</p> <p>of deal count by private equity</p>

The Equiteq Human Capital Management Share Price Index (EHCMSPI) rose, but underperformed the broader market.



<p>17%</p> <p>EHCMSPI return 2019</p>	<p>14%</p> <p>EHCMSPI average return 10 years</p>
<p>26%</p> <p>EKESPI return 2019</p>	<p>17%</p> <p>EKESPI average return 10 years</p>



KEY TRENDS

New digital technologies enabling the rapid evolution of the HCM function.

According to data from *Grand View Research*, the market for HR technology is expected to be worth c.\$30bn by 2025, growing at a compound annual growth rate of 11%. There are a variety of notable HCM technology trends that are driving demand for new deals. The latest artificial intelligence and data analytics tools are helping a variety of HCM functions. Self-service technology is enabling margin improvements by enabling employees to complete basic HCM transactions on their own. Active listening tools work to boost employee engagement by providing the opportunity for workers to give their own feedback in simple, straightforward ways.

War for talent driving demand for a range of HCM solutions.

With the US unemployment rate falling to its lowest level in almost 50 years, the war for talent remained a key driver for HCM solutions. *IBM's 2019 CEO survey* found that only 41% of CEOs surveyed say that they have the people, skills and resources required to execute their business strategies. This is creating challenges for businesses, which now need to implement a fundamental shift in how they manage their workforce needs. We are observing this driving demand for staffing and training services, as well as learning and training tools for upskilling and investing in the future workforce.

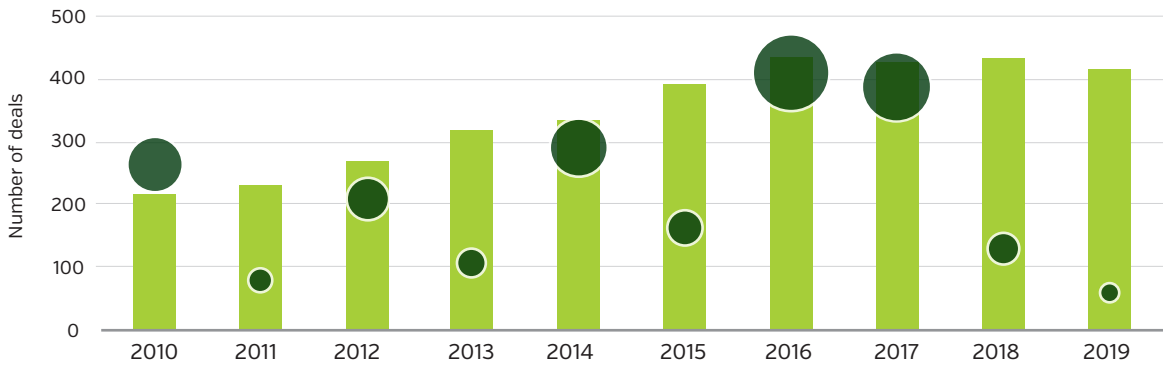
Employee benefits deal flow is robust as people retention remains a key business concern.

According to *SpendEdge*, global HCM benefits and administration services market is expected to experience spend growth of more than \$3bn between 2019 to 2024 at a compound annual growth rate of nearly 6%. This growth is being driven by increased complexity of employee-related regulations and healthcare regulatory frameworks. Rising expenses of HCM services and healthcare benefits is also driving businesses to outsource the management of employee benefits from innovative solution providers. The insurance agencies like Hub International and Arthur J. Gallagher remain key acquirers in the space.

Outlook

A continued global skills shortage with supply and demand imbalances will pose a significant challenge to companies in 2020. Deal flow in the space could therefore be buoyed by the competitive landscape for recruiting, retaining and upskilling employees. Increased automation and digital technologies will act as an enabler and catalyst of disruption, as well as create new opportunities and challenges for organizations and HCM functions.

Figure 1 Human Capital Management M&A activity, annually [2010 to 2019]



Note: Bubble size reflects comparative capital invested for the respective year.



The optimum size of a transaction will vary among buyers and the specific opportunity that they are considering. See **Consideration 1** in the back of the report for our perspectives on the relationship between business size and acquisition appetite.

In addition to running a competitive well-negotiated sale process, there are plenty of steps that owners can take to reduce risk in the eyes of a buyer which can make a material difference to their target deal structures. See **Consideration 2** in the back for our perspectives on the factors that influence deal structures.

INDUSTRY TRENDS

Areas of industry convergence



Hot spaces



Buyers in adjacent industries may be willing to pay a strategic premium for an acquisition that enables expansion into a new space. See **Consideration 3** in the back for our perspectives on how to consider buyers across adjacent industries.

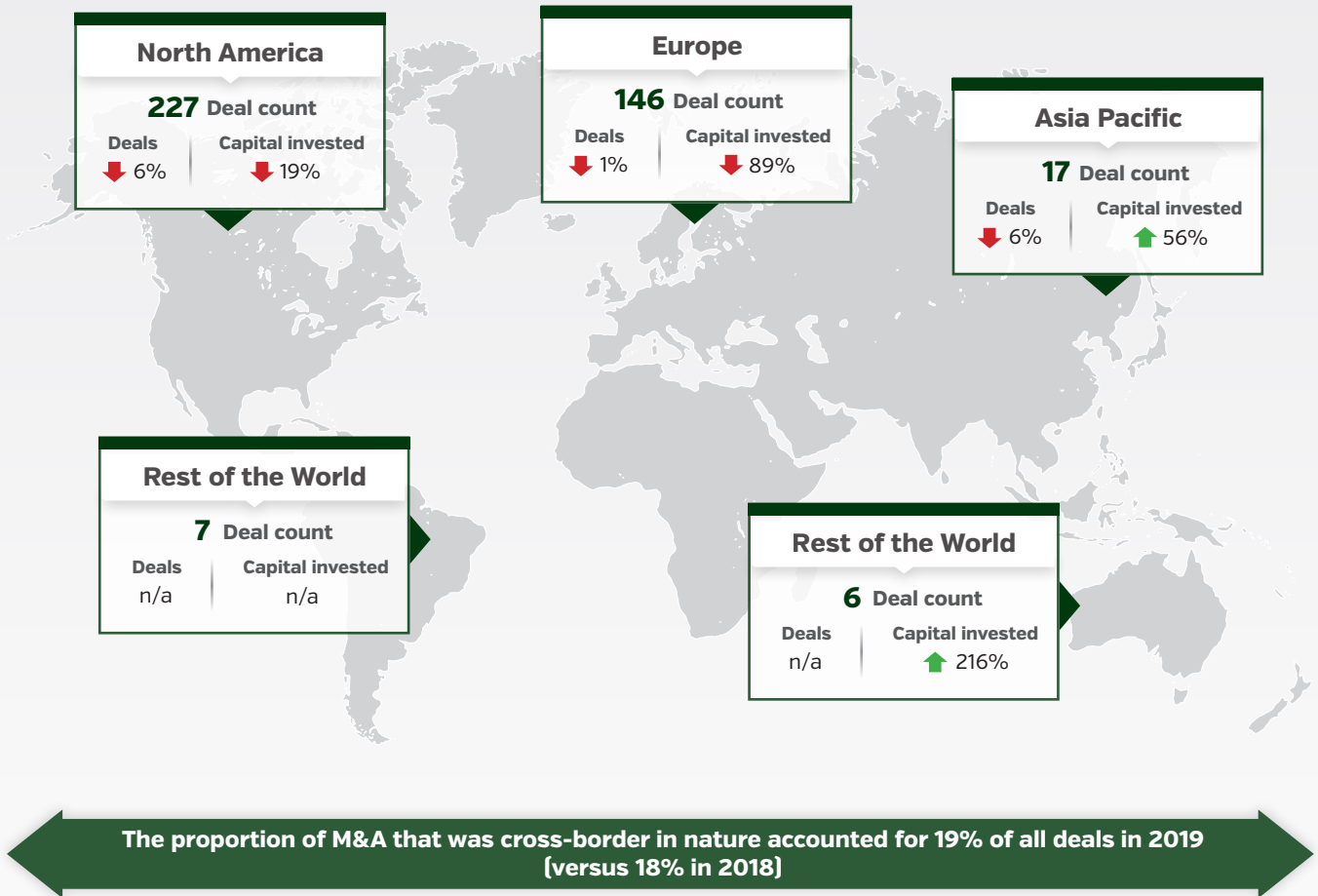


REGIONAL REVIEW

Fall in M&A across North America and Europe, but a rise in capital invested in APAC and Australia & NZ.

High-profile cross-border acquisitions across the knowledge economy are common and enable foreign buyers to penetrate new markets, gain new clients and grow revenues with existing global accounts. See **Consideration 4** in the back for our perspectives on incorporating international buyers into your sale process.

Figure 2 Regional M&A and cross-border review



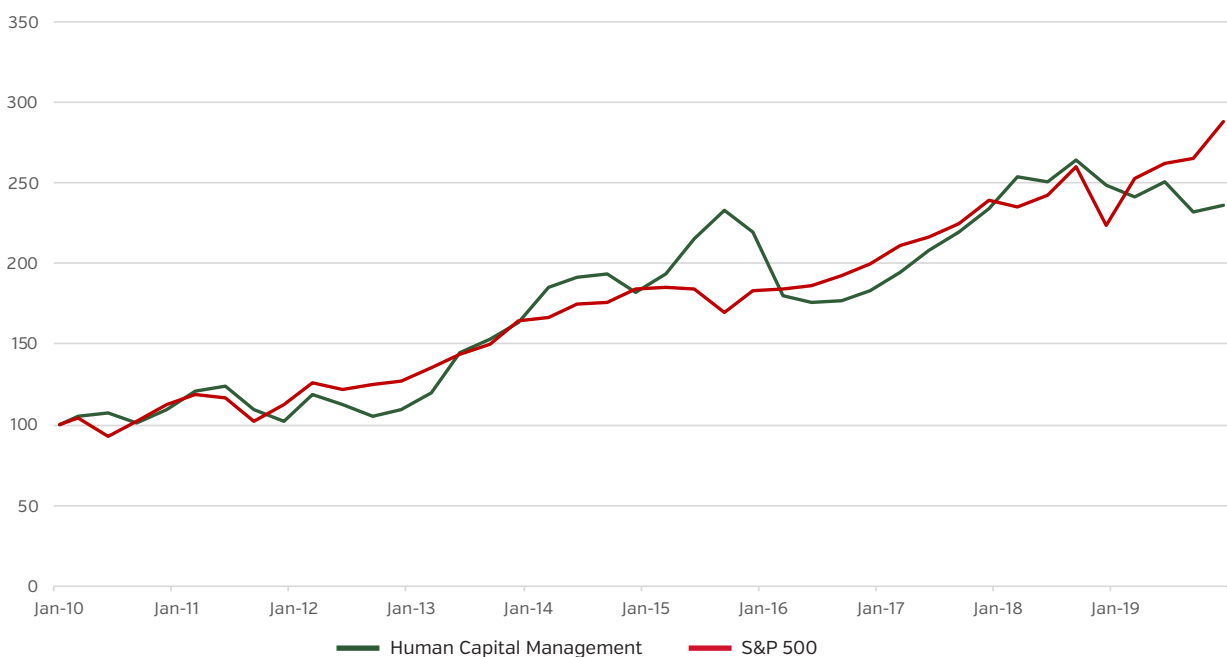
OVERVIEW OF EQUITY MARKET PERFORMANCE

The Equiteq Human Capital Management Share Price Index rose modestly in comparison to broader indices.

Figure 3 Equiteq Human Capital Management Share Price Index [2019]



Figure 4 Equiteq Human Capital Management Share Price Index [2010 to 2019]



Note: The Equiteq Human Capital Management Share Price Index is the only published share price index which tracks the listed companies within the human capital management industry. You will be able to receive further information on the index and its performance by joining Equiteq Edge at equiteq.com/equiteq-edge. The index is continually revised to consider new listed companies and to remove businesses that are no longer relevant in each quarter.



VALUATION MULTIPLES AND TRENDS

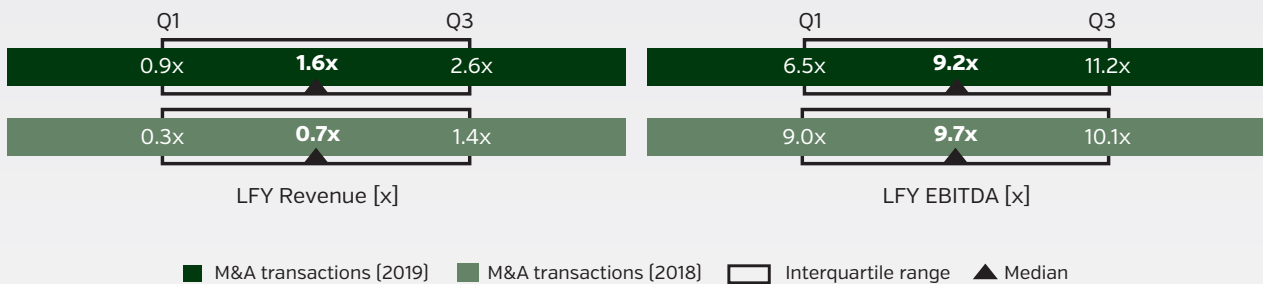
There was a strong rise in revenue valuation multiples for M&A transactions.



When reviewing this section, please note the issues of interpretation, along with the wide range of company and deal specific factors that influence the valuation of a knowledge economy business. The figures in this report are primarily a comparative guide and should not be used by sellers or buyers to value a business, for which we recommend you obtain independent financial advice.

See **Consideration 5** in the back on the key considerations when interpreting valuation metrics.

Figure 5 Enterprise Value (EV) as a multiple of Last Full Year (LFY) unadjusted revenue and EBITDA

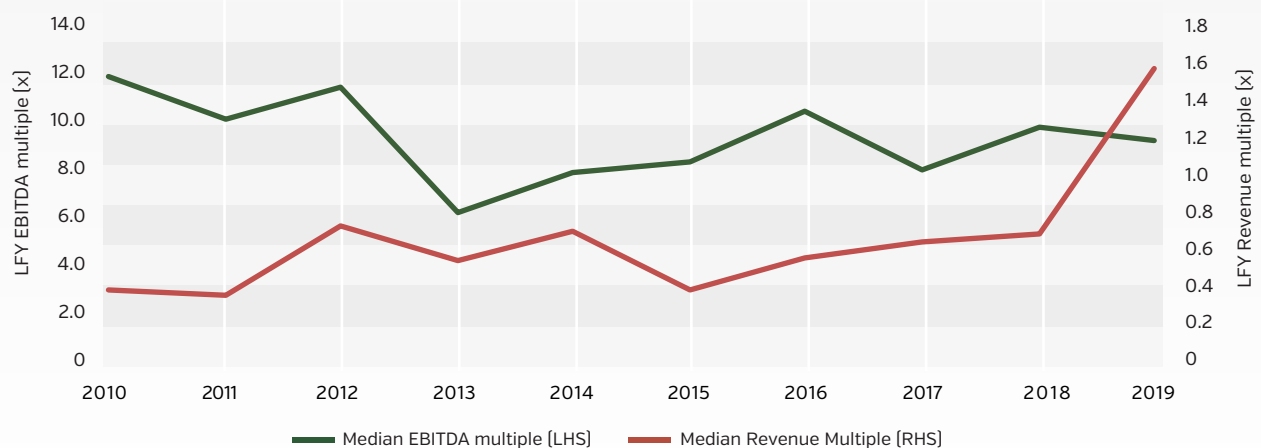


Note: The interquartile range is a measure of variability, based on showing the range of data in ascending order from the 25th percentile (Q1, 1st quartile) result to the 75th percentile (Q3, 3rd quartile) result.



As their quoted valuation metrics and cash balances rise, so does competition for assets from listed buyers, who are looking for new avenues of growth and are able to make earnings accretive acquisitions by paying a discount to their premium earnings ratio. See **Consideration 6** in the back for our perspectives on what rising share prices implies for listed buyers.

Figure 6 Valuation metrics, 2010 to 2019 (M&A transactions)





BUYER TRENDS

Prolific buyers consist of human resources consulting, risk management and staffing businesses.

43% [2019] **38%** [2018]
% of deal count by private equity

56% [2019] **57%** [2018]
% of capital invested by private equity

Selected notable strategic buyers

Korn Ferry - US-headquartered organizational consulting firm, synchronizing strategy and talent.

Korn Ferry acquired three businesses in the year - Miller Heiman Group, AchieveForum, and Strategy Execution. This follows a hold on M&A activity for the business since 2015. The deals in 2019 will build learning, development and performance improvement capabilities to bolster Korn Ferry's leadership development capabilities in the US. In its FY 2019 financial statements, Korn Ferry noted that it maintains a disciplined approach to M&A as part of its strategy to become an industry specialized, business outcomes-oriented solutions provider at the intersection of talent and strategy.

Alight Solutions - US-headquartered health, wealth, HR, finance and consumer experience.

The buyer made three notable acquisitions. The purchase of the Workday and Cornerstone OnDemand cloud practices of Wipro for \$110m, built scarce capabilities in hot HCM IT Consulting spaces. The purchase of Hodges-Mace for \$300m, extended the buyer's employee benefits technology, voluntary benefits and custom enrollment services. The acquisition of NGA Human Resources, built established digital HR and multi-country payroll services.

TMP Worldwide - US-headquartered provider of talent acquisition technologies.

TMP Worldwide acquired three businesses, expanding its technology capabilities and global footprint. The acquisition of Perengo, added a programmatic recruitment platform that helps large companies automate and improve their recruitment process. The purchase of Maximum involved the purchase of a recruitment marketing tech company with a base in the Netherlands. The buyer also purchased Carve, a London-based social media firm, creating global social strategies to help companies build and retain the right talent.

Broadstone Corporate Benefits - UK-headquartered provider of pensions, employee benefits and investment services.

Broadstone acquired four UK-based employee benefits and actuarial services businesses. The firm has been expanding since it was acquired by private equity Livingbridge in 2016. In February 2019, Broadstone received c.\$25m of additional development capital from Livingbridge. In 2019, Broadstone purchased CS Financial Services, Thomson Dickson Consulting and 3HR Benefits Consultancy. The buyer also notably acquired BBS Consultants and Actuaries, a 130-person workplace pensions consulting, actuary, investment adviser and administration firm.

Spencer Stuart - US-headquartered executive search and leadership consulting firm.

Spencer Stuart acquired three HR consulting business in 2019. This included the purchase of several talent businesses from rival human resources firm Aon with capabilities including culture, leadership assessment and development, as well as broader talent consulting. These businesses were later branded Kincentric, which later acquired the Mexican assets of Aon for \$45m. Spencer Stuart also acquired MERC Partners, Ireland's leading executive search and leadership consulting firm.

SELECTED TRANSACTIONS

Announced date	Target		Key services of target	Buyer		Deal value	EV / LFY revenue [x]
Dec-19	T-three Group		Leadership training and consultancy	Gateley		\$4.1m	1.0
Dec-19	PE Corporate Services		HR consulting	Willis Towers Watson		-	-
Nov-19	 Richardson		Sales training	Sales Performance International		-	-
Nov-19	Nyhart		Employee benefits consulting	Ascensus		-	-
Nov-19	AT Patrimoine		HR training and consulting	Groupe Mare		-	-
Nov-19	Levinson & Co.		Talent and leadership consulting	Pariveda		-	-
Nov-19	Toft Group		Life sciences and biotech recruiting	ZRG		-	-
Nov-19	HR inTune [Assets]		HR consulting	Alera Group		-	-
Oct-19	BBS Consultants and Actuaries		Employee benefits and pensions consulting	Broadstone		-	-
Oct-19	 Presence of IT		Workforce management and human resources consulting	Deloitte		-	-
Oct-19	Accendo International		Human capital strategy	Talent Plus		-	-
Oct-19	Regency Advisory		Employee benefits consulting	HUB International		-	-
Oct-19	Carve		Social analytics to empower leadership	TMP Worldwide		-	-
Oct-19	Strategy Execution		Leadership development	Korn Ferry		-	-
Sep-19	Miller Heiman Group		Leadership development	Korn Ferry		-	-
Sep-19	AchieveForum		Leadership development	Korn Ferry		-	-
Sep-19	LSG Insurance Partners		Insurance, risk management and consulting	Arthur J. Gallagher		-	-
Sep-19	FWD Training and Consultancy		Professional and apprenticeship training	Davies Group		-	-
Sep-19	The Human Capital Group		Executive search and leadership consulting	Arthur J. Gallagher		-	-
Sep-19	Pure Search		Search and recruitment	Dartmouth Partners		-	-
Sep-19	EPIC Retirement Services		Investment consulting	HUB International		-	-
Sep-19	StoneStreet Pearl River		Retirement plan consulting	HUB International		-	-



SELECTED TRANSACTIONS

Announced date	Target		Key services of target	Buyer		Deal value	EV / LFY revenue (x)
Sep-19	The Incentive Group		Employee benefits consulting	The Hilb Group		-	-
Aug-19	Professional Pension Planners		Actuarial consulting and pension administration	Economic Group Pension Services		-	-
Aug-19	FMP Global		Payroll and HR services	IRIS Software Group		-	-
Aug-19	InvisionBenefit		Employment benefits brokerage	Alliant		-	-
Aug-19	Cohesion		Workforce solutions and consulting	Alta IT Services		-	-
Jul-19	Hodges-Mace		Employee benefits consulting communication and custom enrollment	Alight Solutions		-	-
Jul-19	Perengo		Programmatic recruitment platform	TMP Worldwide		-	-
May-19	360 Corporate Benefit Advisors		Employee benefits consulting	The Hilb Group		-	-
May-19	Sinequanon		AI-enabled workforce solutions	Egon Zehnder		-	-
May-19	Accolo		Recruitment process outsourcing	Orion Novotus		-	-
Apr-19	Aon [Culture, Engagement, and Leadership Development & Advisory Businesses]		Risk, retirement and health solutions	Spencer Stuart		-	-
Apr-19	The Terrace Initiative		Change management consulting	Deloitte (Australia)		-	-
Mar-19	RiteHealth Solutions		Employment benefits brokerage	Hub International		-	-
Mar-19	Omni Resource		IT consulting, talent and software development	Saggezza		-	-
Mar-19	Employee Benefits Group		Employee benefits and retirement consulting	Marsh & McLennan		-	-
Feb-19	Aventine Hill Partners		Advisory, consulting and executive search	Vaco		-	-
Feb-19	Wipro's Workday and Cornerstone OnDemand Business		Provider of cloud-based human capital management software	Alight Solutions		\$110m	-
Jan-19	The Chapman Consulting Group		HR executive search	WILL GROUP		-	-
Jan-19	Benz Communications		HR and employee benefits communications consulting	The Segal Group		-	-
Jan-19	Complete Benefit Alliance		Benefits enrollment and communications	Arthur J. Gallagher		-	-
Jan-19	Sheridan Road [Assets]		Institutional retirement consulting	Hub International		-	-



KEY CONSIDERATIONS

The following considerations relate to some of the strategic issues that business owners on a sale journey should consider while reviewing the data analysis and findings within the report.

Consideration 1:

The relationship between business size and acquisition appetite

Although landmark deals grab headlines, there is notable deal flow at smaller transaction sizes, as highlighted by the large difference between mean and median deal sizes across segments each year. Nevertheless, we typically find that serial buyers do not focus on smaller deals below certain revenue thresholds, unless they offer exceptional synergy or intellectual property or are part of a team hire with limited cash consideration being paid. Buyers may also pay a premium for larger businesses with an established brand, attractive client relationships, embedded intellectual property and the investment in infrastructure that will enable future growth. The importance of revenue size to many buyers, highlights the benefits of setting a clear growth plan and a target scale at exit.

Consideration 2:

The factors that can influence a deal structure

A knowledge-intensive services acquisition can be structured in a variety of ways, but typically involves some mixture of upfront cash element, fixed deferred cash and an earn-out. The earn-out offers additional compensation in the future if the business achieves certain financial goals. There are many factors which influence deal structure, however those features which tend to drive more significant earn-out elements include:

- Owners' desire to share in synergy benefit and access to the buyers' clients;
- Buyers' perceived risk of acquisition, including dependency on the owner and ability to retain talent;
- Nature of the buyer;
- Nature of the sale process; and
- Owner awareness and ability to negotiate on deal structuring options.

There are a variety of steps that owners can take to reduce transaction risk for a buyer, which can improve target deal structures. Furthermore, we find that deal structures can be improved upon in well-managed competitive negotiations.

Consideration 3:

Considering buyers across adjacent industries

Convergence is a continuing trend in both operational and M&A growth for large players across the knowledge economy. Buyers in adjacent segments are often willing to pay premium prices that reflect the considerable synergy opportunity of cross-selling a broader set of complementary services among existing and new clients. Sellers should be aware that the highest price could therefore come from a strategic buyer outside of your core industry. Considering appropriate buyers across adjacent segments and appropriately positioning the synergy opportunity with these buyers is crucial to effectively managing a broad sale process.

Consideration 4:

Considering international buyers

Acquiring in desirable regions enables strategic buyers to gain quick access to lucrative markets, brands, intellectual property, local market knowledge, new clients and specific local expertise. As a result of this, overseas buyers may pay a premium to gain a market foothold.

It is therefore important to consider a range of appropriate international buyers in a broad sale process. To attract these buyers to the local market, it is important to demonstrate the attractiveness of the market and its position. It is also key to articulate why the acquisition will be less risky and deliver a faster return than opening an office and recruiting local talent.

Consideration 5:

Key considerations when interpreting valuation metrics

The typical metrics used by a buyer to value a knowledge economy business are Enterprise Value (EV) as a multiple of a seller's last full year (LFY) of revenue and EV as a multiple of a seller's LFY of EBITDA (referred to as "valuation multiples"). A buyer will typically consider reported valuation multiples on comparable M&A transactions, although only a small proportion of deals in the knowledge economy report revenue multiples and an even lower proportion report EBITDA multiples.

On larger transactions, buyers may also consider the valuation multiples of large global listed companies that are tracked within the Equiteq Knowledge Economy Share Price Index. Their valuation multiples are quoted publicly on a stock exchange at a given point in time and are therefore useful benchmarks of valuation based on current market sentiment.

It should be noted that to directly compare publicly quoted valuation multiples with transaction multiples requires the application of a strategic control premium and a liquidity discount, which can vary between company and equity market. Furthermore, valuation multiples for both transactions and listed companies typically relate to historic unadjusted financials. These issues with interpretation are compounded for EBITDA valuation metrics, where companies may under-report profits and not account for adjustments with respect to one-off items and equity components within salary expenses.

Given these issues of interpretation, along with the wide range of company and deal specific factors that influence the valuation of a knowledge economy business, valuation multiples will vary widely. The figures in this report are therefore primarily a comparative guide and to show trends year on year. They should not be used by sellers or buyers to value a business, for which we recommend you obtain independent financial advice.

Consideration 6:

What rising share prices means for listed buyers

As the publicly quoted valuation multiples and cash balances of listed buyers rise, so does competition for assets from this buyer group. Listed companies that are growing will be looking for new avenues of growth to meet shareholder expectations, and acquisitions quickly enables them to achieve this.

Earnings per share is a key metric that is tracked by public company shareholders to consider the dividend potential of the business. Earnings accretive acquisitions are often a key target of listed businesses. An accretive acquisition will increase a listed buyer's earnings per share and is expected to quickly be achieved by paying a forward EBITDA multiple that is at a discount to a buyer's own quoted EBITDA ratio. Therefore, premium and rising publicly quoted earnings ratios offers a buyer more scope to make earnings accretive acquisitions at higher prices.

With respect to deal structuring, some of these buyers will also be able to offer equity components to target companies. Listed equity is increasingly valuable as share prices rise and can be used to create potentially more compelling offers over private acquirers.

Consideration 7:

Key considerations when selling to a private equity firm

Private equity (PE) buyers differ from strategic buyers, in that the former acquire strictly to realize a cash return on their invested equity. Strategic buyers typically acquire to realize long-term strategic value. As a result, PE buyers will look for specific traits in an acquisition and selling to a PE buyer will have different implications as compared with selling to a trade buyer.

To make a return on their invested equity, PE buyers look for a company that has value enhancement potential and acquire it at a favorable price with financing. With knowledge economy businesses, they are attracted by the relatively high profit margins compared to other industries, the potential for high growth if a business is in a hot space and the barriers to entry that can be maintained if proprietary expertise is retained and leveraged through intellectual property.

APPENDIX

ABOUT EQUITEQ

Equiteq is a global leader in providing strategic advisory and merger & acquisition services to owners of IP-rich technology and services businesses

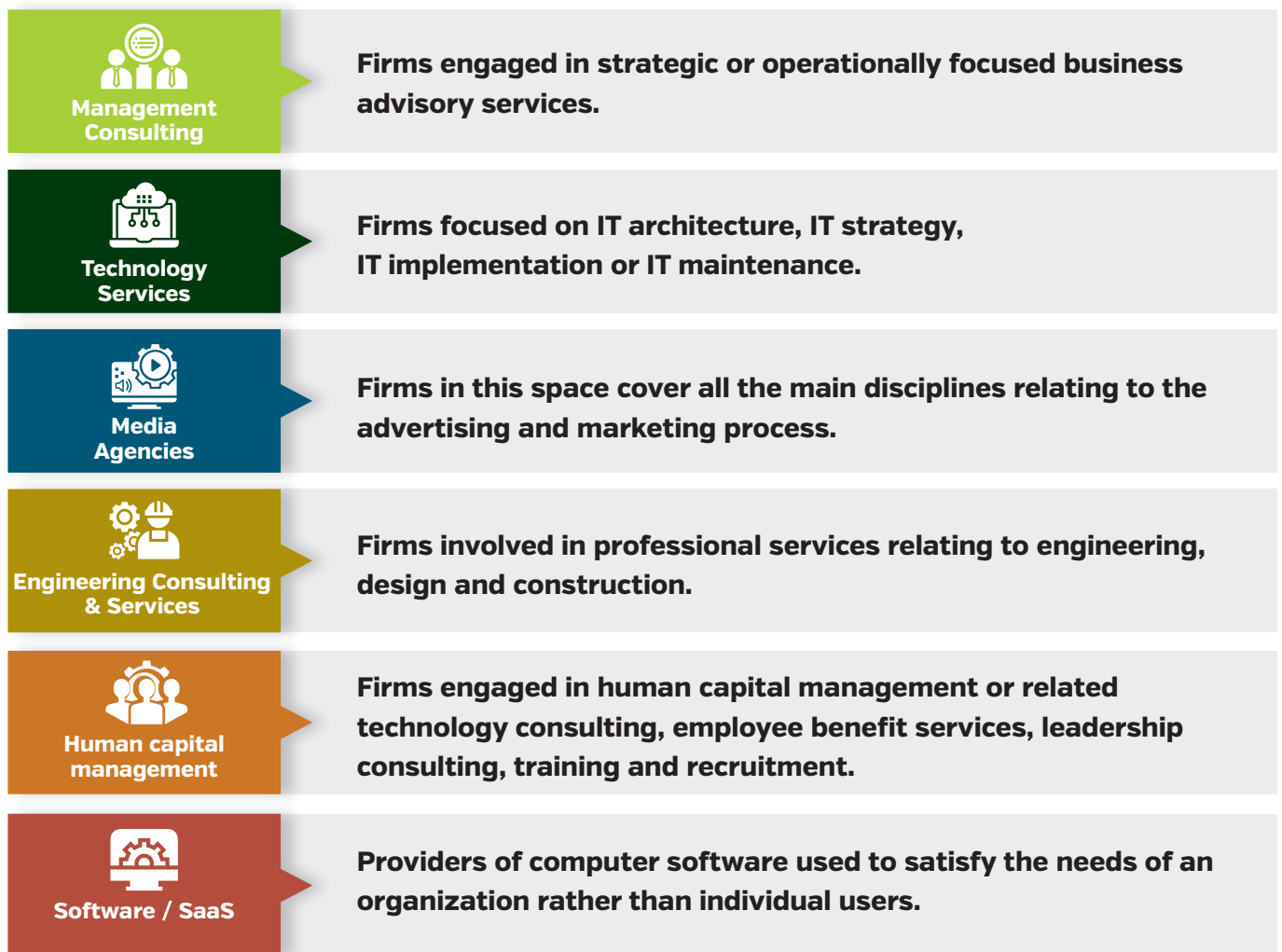
There are unique challenges to value growth and equity realization for shareholders and investors in the knowledge economy. Equiteq helps owners transform equity value and then realize maximum value through global sale processes.

Selected recent Equiteq transactions:

<p>Equiteq advised on the transaction</p> <p>Allolio&Konrad Telecoms Consultancy</p> <p>Sold to</p> <p>Analysys Mason</p>	<p>Equiteq advised on the transaction</p> <p>ChoiceFS Fintech software</p> <p>Sold to</p> <p>Raisin</p>	<p>Equiteq advised on the transaction</p> <p>The Shelby Group Procurement operations</p> <p>Sold to</p> <p>WestView Capital Partners</p>	<p>Equiteq advised on the transaction</p> <p>Access Partnership Public policy advisory</p> <p>Sold to</p> <p>Mobius Equity Partners</p>
<p>Equiteq advised on the transaction</p> <p>Intuitus Technology Advisory services</p> <p>Sold to</p> <p>Endava</p>	<p>Equiteq advised on the transaction</p> <p>Caiman Consulting Management Consulting</p> <p>Sold to</p> <p>Sia Partners</p>	<p>Equiteq advised on the transaction</p> <p>Mitrais Software Development</p> <p>Sold to</p> <p>CAC Holdings</p>	<p>Equiteq advised on the transaction</p> <p>Live Rice Index Price Reporting Agency</p> <p>Sold to</p> <p>S&P Global Platts</p>
<p>Equiteq advised on the transaction</p> <p>WGroup IT Management Consulting</p> <p>Sold to</p> <p>Wavestone</p>	<p>Equiteq advised on the transaction</p> <p>RevUnit Digital Strategy & Product Studio</p> <p>Sold to</p> <p>Mountaingate Capital</p>	<p>Equiteq advised on the transaction</p> <p>Cervello Data Analytics Consulting</p> <p>Sold to</p> <p>A.T. Kearney</p>	<p>Equiteq advised on the transaction</p> <p>Orbium Business & Technology Consulting</p> <p>Sold to</p> <p>Accenture</p>

KEY DEFINITIONS

Equiteq segments the knowledge economy into six key segments, which span a broad array of knowledge-intensive industries. These sub-sectors are defined further below:



For the purposes of this report we have broken down buyers into four groups, defined further below:

Private equity or financial buyers

Investment firms investing private capital into “portfolio companies”, which are typically held, grown organically and with “add-on acquisitions”, and then exited after a hold-period.

Serial buyers or prolific buyers

Buyers that have made multiple knowledge economy acquisitions over the last three years.

Strategic or corporate buyers

Non-private equity investors who have existing businesses which will typically make acquisitions that form part of their existing operations.

Listed buyers

Buyers whose equity is publicly traded on a stock exchange.

EQUITEQ MARKET INTELLIGENCE AND DATA SOURCES

The report utilizes multiple data sources including proprietary newsfeeds, press releases, various third-party information sources and data services. Additionally, our daily activities in the M&A marketplace with buyers and sellers provide insights into emerging trends and informs our research report's point of view. It is important to note that financial data, including valuation multiples, are derived from various sources including PitchBook and S&P Capital IQ information databases, combined with findings from our daily activities in the market with buyers and sellers that we utilize on an anonymized basis.



FURTHER RESOURCES

Join Equiteq Edge, a source of information, advice and insight to help you prepare for sale and sell your knowledge economy firm. Equiteq Edge gives you access to the findings of unique research conducted amongst buyers of knowledge economy firms from around the world, insight from those who have sold their businesses and other expert advice.

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Note 1: The returns of the S&P 500 index in this presentation act as appropriate benchmarks for comparison to the Equiteq Knowledge Economy Share Price Index and its constituent segment indices. The S&P 500 represents the Standard & Poor's 500 Index. We believe it is relevant to compare the Equiteq Knowledge Economy Share Price Index with broad U.S. and international public equities. These indices each focus on large capitalization public equities and can be viewed as proxies for the market overall. Notwithstanding the foregoing, there will not necessarily be a correlation between the performance of the Equiteq Knowledge Economy Share Price Index, on the one hand, and either of these indices, on the other hand. Investments cannot be made directly in indices and such indices may re-invest dividends and income.

Publication date: 12 March 2020

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