



Tech-Enabled OBS M&A Market Outlook

FY
2024

Introduction & Overview

Tech-Enabled OBS M&A Market Update

In FY 2023, the Tech-Enabled Outsourced Business Services (OBS) sector experienced a 7% decrease in M&A deal count but saw increased deal volume, driven by major strategic transactions in CRM/BPO. In FY 2024, CAS expects to see a rise in M&A, spurred by high PE dry powder, potential interest rate cuts, and evolving trends in Tech-Enabled OBS.

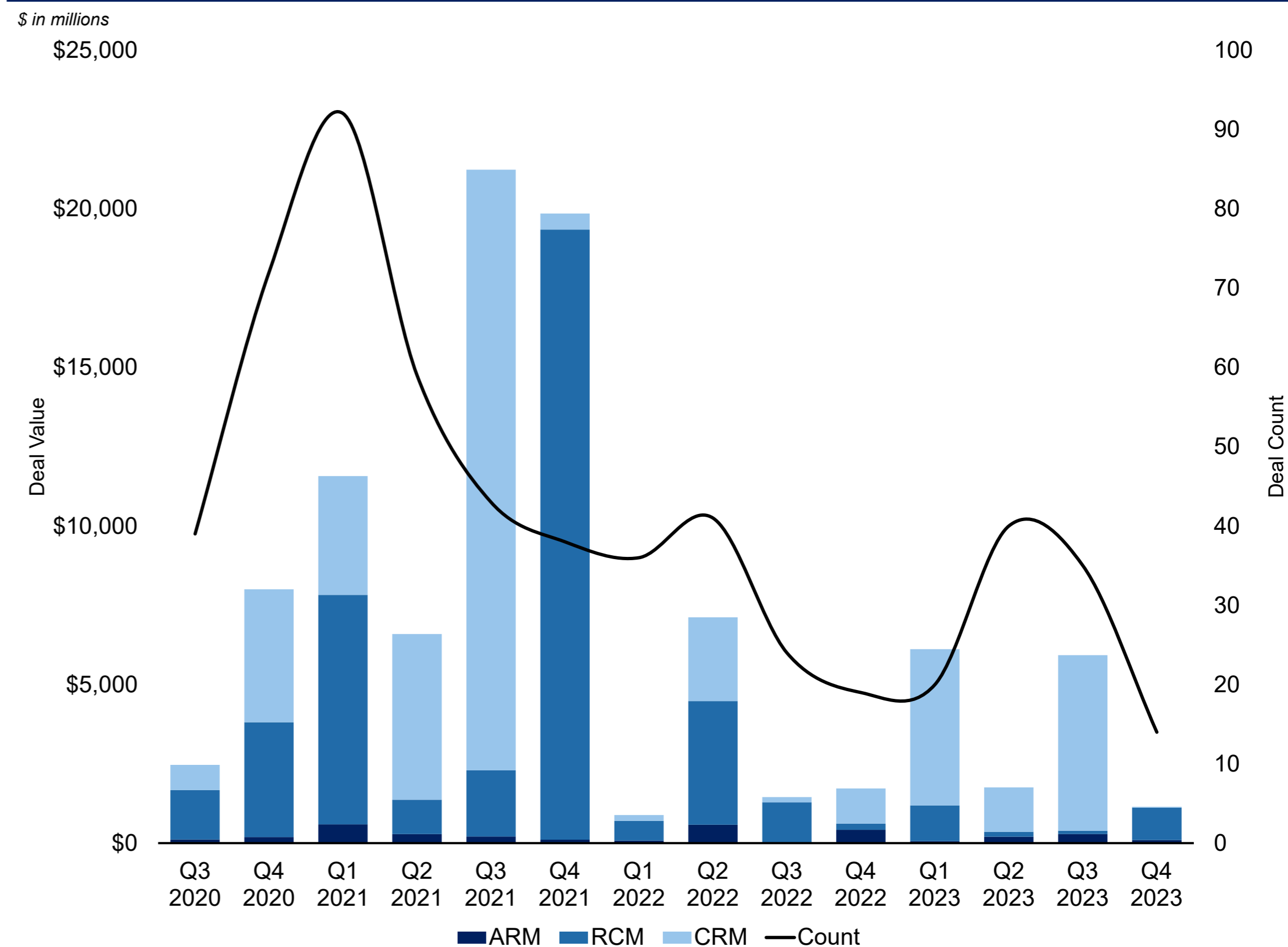
Tech-Enabled OBS M&A Market Outlook

Looking ahead to FY 2024, CAS anticipates a rise in M&A activity within this sector, fueled by record high PE dry powder, expected interest rate cuts, and anticipated reductions in interest rates, and emerging trends within the Tech-Enabled OBS landscape.

- In the Accounts Receivable Management (ARM) vertical, we expect an uptick in deal activity as disparities between market leaders and followers grow. The escalating importance of scale, alongside increasing fee pressures, compliance costs, and the necessity for technology integration, will be key drivers.
- The Revenue Cycle Management (RCM) vertical could see deal flow potentially plateauing or even dipping compared to recent years, mirroring the sector's maturation. With a dwindling number of bootstrapped companies, deal counts may stagnate or decline. Nonetheless, decreasing interest rates could catalyze larger transactions, especially as prominent platforms consider mergers or public offerings.
- The CRM/BPO vertical is set to maintain active M&A engagement. While advanced language models pose a future challenge, the premium on human expertise remains unshaken until these technologies mature in security and functionality. The ongoing quest for cost-effective labor, augmented by technological advances, is likely to spur consolidation in this field.

Across the board, M&A volumes are projected to swell, bolstered by descending interest rates, the deployment of substantial private equity reserves, and business owners evaluating their strategic options in an election year year marked by electoral intrigue. We are keen to engage and offer our insights on navigating this evolving M&A landscape in the year ahead.

OBS Sector: Historical M&A Deal Value and Transaction Volume

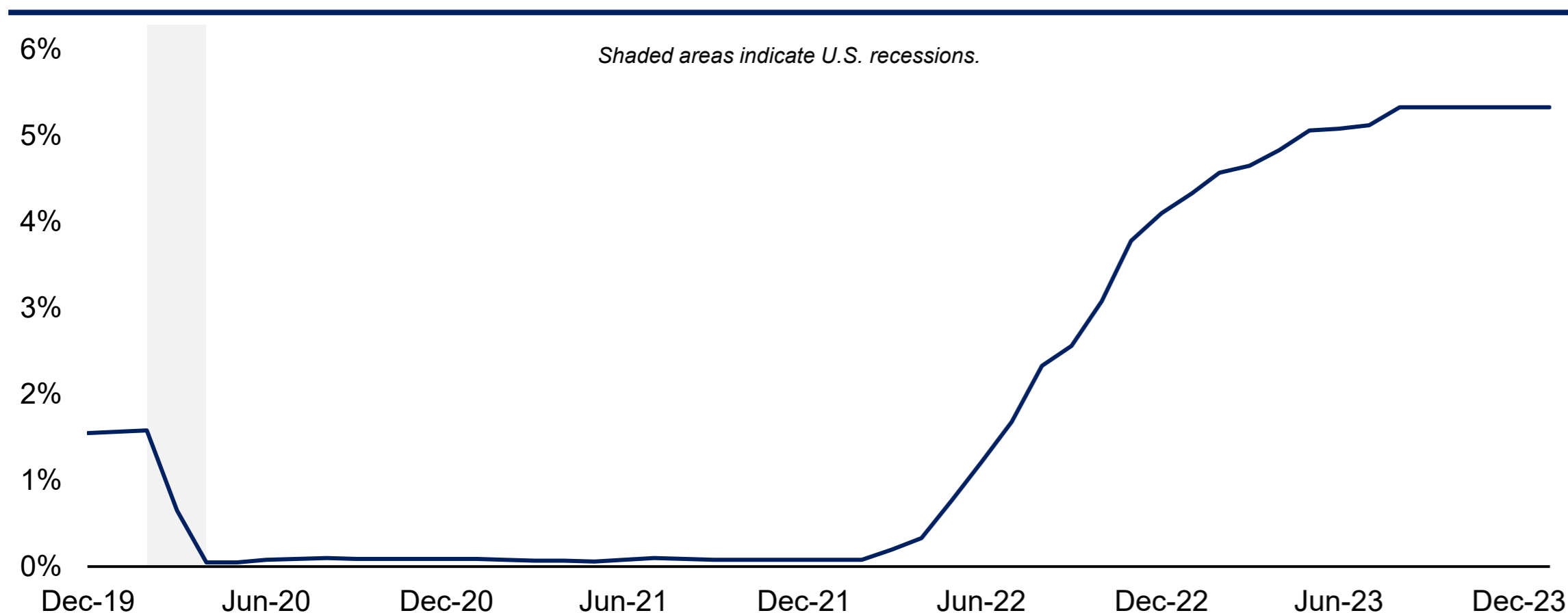


Interest Rate Environment

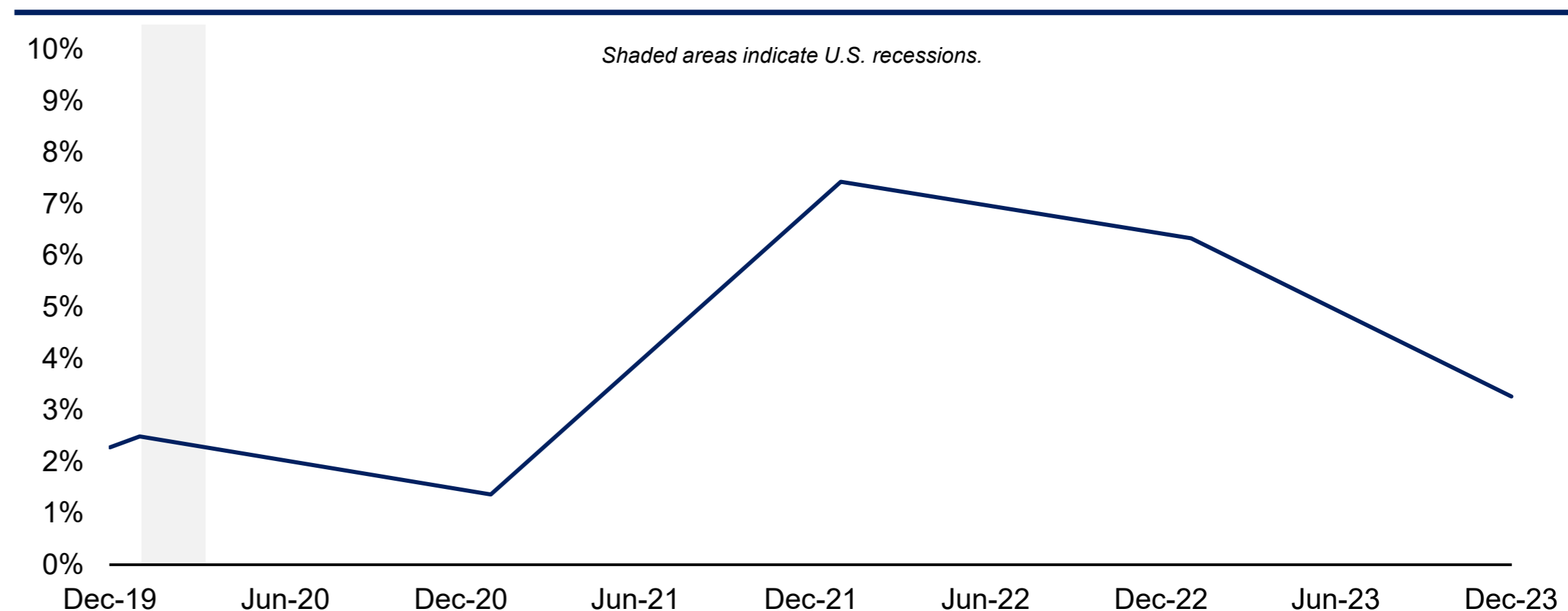
Expected Interest Rate Cuts Ahead

In 2024, the M&A landscape is poised for transformation as the current high-interest rate environment, which has favored equity over debt in deal structures, begins to shift. With anticipated interest rate cuts in FY 2024, we expect a revitalized M&A market where lower borrowing costs may drive an increase in deal volume. This easing of the credit environment is likely to enhance valuations and stimulate a more aggressive pursuit of strategic acquisitions, particularly in sectors ripe for consolidation.

Federal Funds Effective Rate



Consumer Price Index



Current Interest Rate Landscape and Impact on M&A

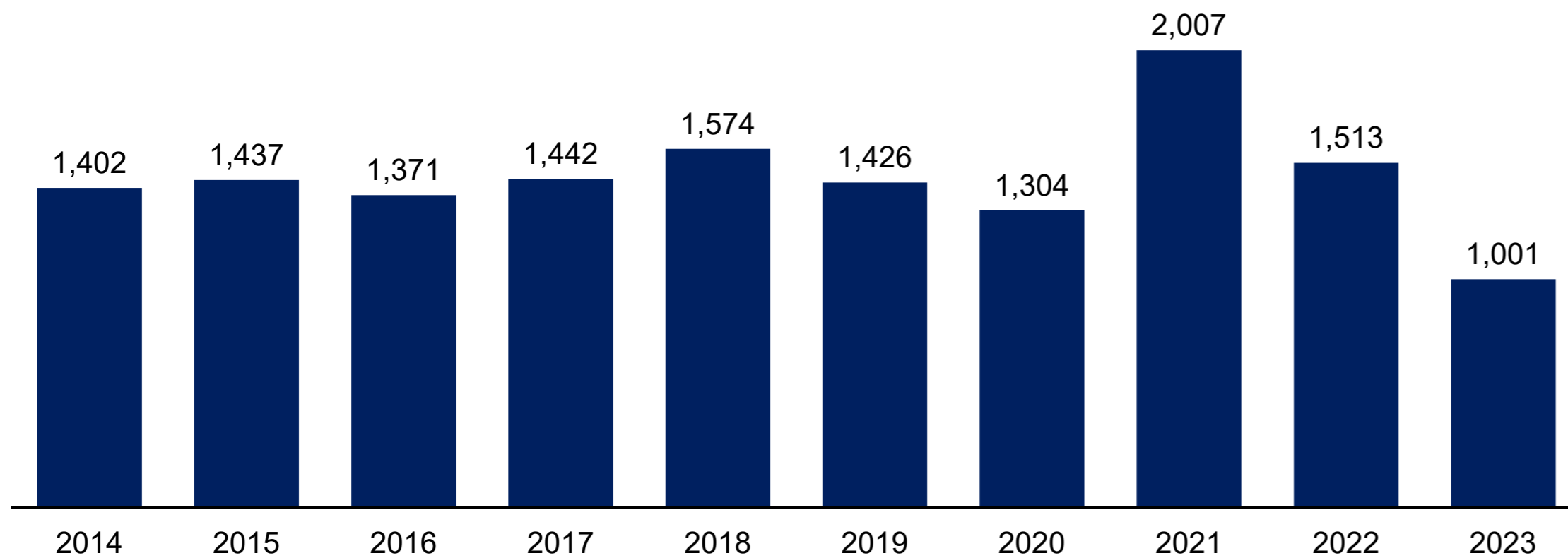
- The interest rate landscape in 2023 was marked by high-interest rates which significantly impacted valuations, pushing deal structures to favor equity over debt due to the stringent credit environment.
- In the tech-enabled OBS sector, these higher rates translated into increased borrowing costs, necessitating a pivot in investment strategies. Firms became more conservative in their leverage models and sought out opportunities to optimize capital structures.
- With predictions pointing towards a possible easing of interest rates starting in the second quarter of 2024, and additional reductions expected by the year-end, the M&A market is anticipated to react positively. Such movements may facilitate a more favorable borrowing climate, encouraging deal-making and potentially lifting valuations closer to the peaks seen in previous years.

Private Equity Dry Powder

Record-Level PE Dry Powder to Fuel M&A Activity

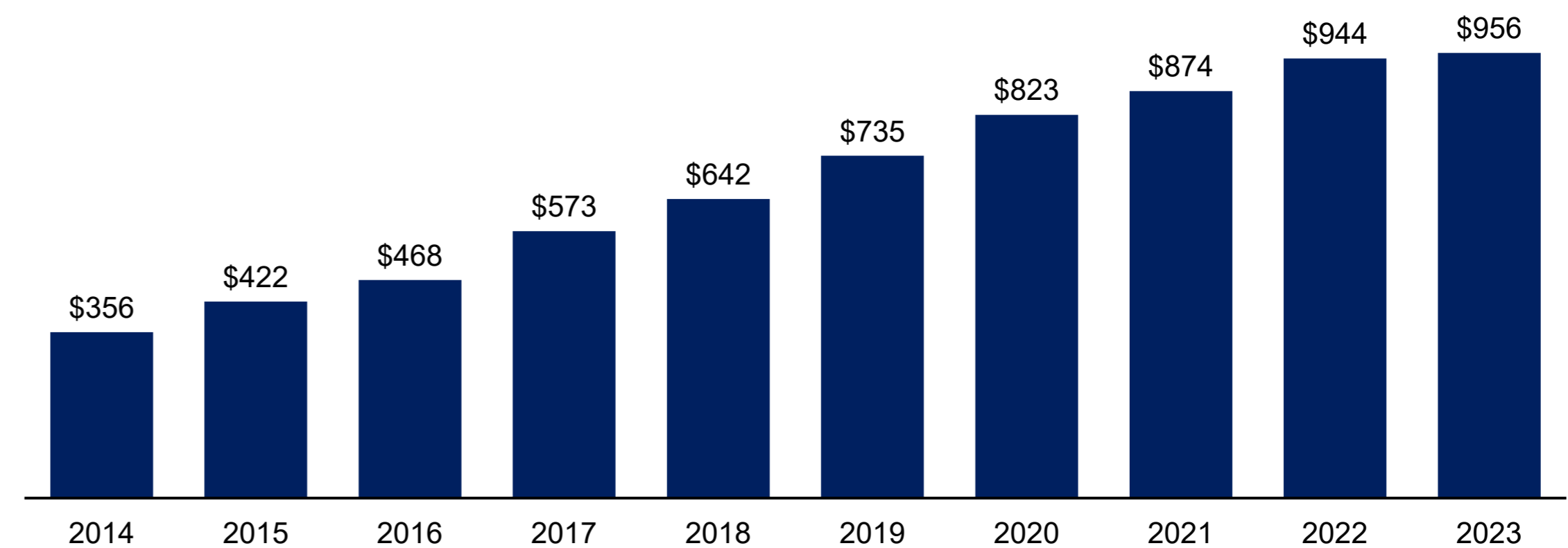
Private equity firms are sitting on record levels of dry powder, setting the stage for a flurry of investment activity within the OBS sector. This abundance of 'dry powder' is poised to intensify deal-making, elevate valuations, and fuel a competitive acquisition environment, as investors seek to deploy funds into high-potential OBS companies. The sector's attractive growth prospects and the pressing need for operational efficiencies are likely to draw heightened interest, reshaping the OBS landscape in the process.

North America PE Exits



U.S. PE Dry Powder

\$ in billions



Optimal Timing for PE Investment

- In the fiscal year 2023, private equity firms navigated a stringent lending landscape by focusing on smaller, strategic add-on acquisitions rather than larger platform investments.
- During this period, private equity dry powder reached a historic peak for U.S. firms of over \$955B, marking the ninth consecutive year of record highs. Amidst a strategic hiatus, with private equity firms biding their time for more favorable market conditions, U.S. exit activities hit a 13-year low of 1,001 transactions.
- As the market shifts toward larger deals, we anticipate a strategic pivot with private equity firms beginning to divest longer-held assets. This shift, coupled with the intensified pursuit of acquisitions by both strategic and financial buyers, present a strategic window for Tech-enabled OBS companies to secure favorable terms from PE firms eager to invest in high-potential ventures.

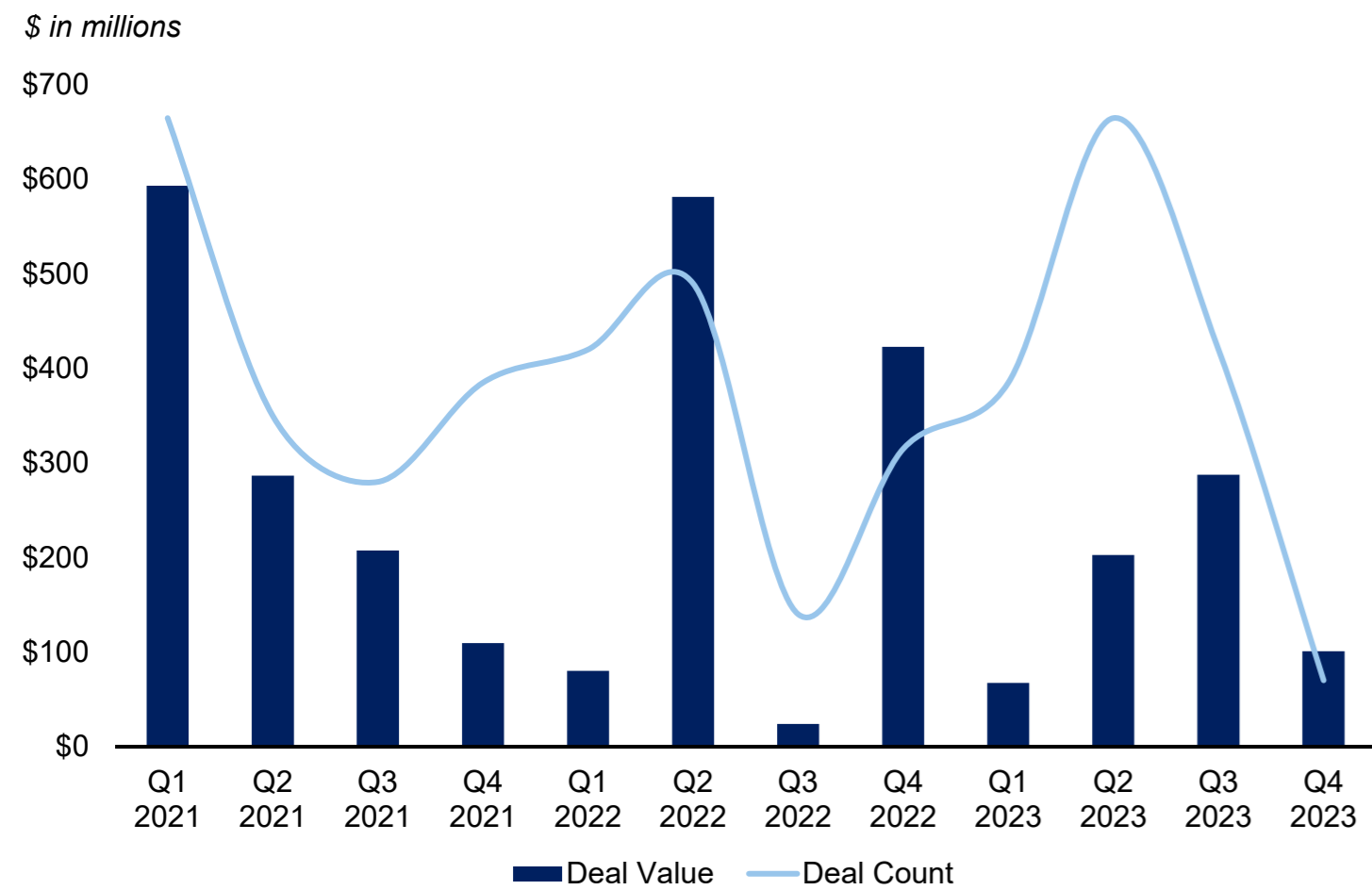
Conclusion & Key Takeaways

Key Takeaways and Strategic Considerations

Throughout 2024, the M&A landscape in the Tech-Enabled OBS sector is poised for an active upswing. This optimism is fueled by the anticipated easing of interest rates and the substantial reserves of private equity dry powder, factors that are likely to stimulate a surge in deal volumes. For business owners, the confluence of potential shifts in lifestyle and capital gains taxes, set against the backdrop of an interesting electoral environment, presents a landscape rich with strategic opportunities.

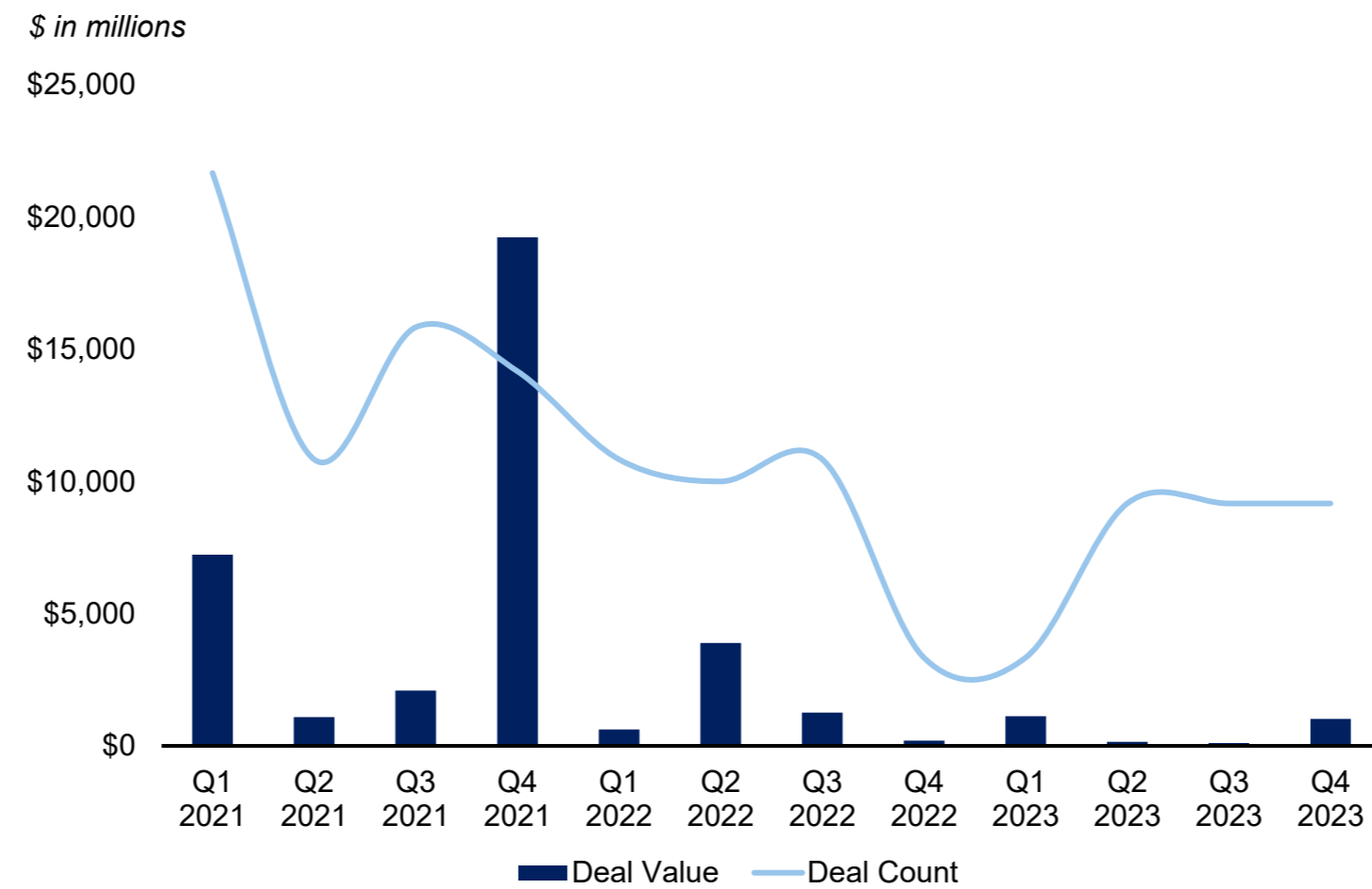
ARM Market Outlook

- The disparity between market leaders and smaller players in the ARM sector is expected to drive an uptick in deal activity, with larger firms consolidating their positions.
- The importance of scale is projected to grow within the ARM space due to downward pressure on fee rates, increasing regulatory compliance costs, and the necessity of integrating advanced technological tools for competitive parity.



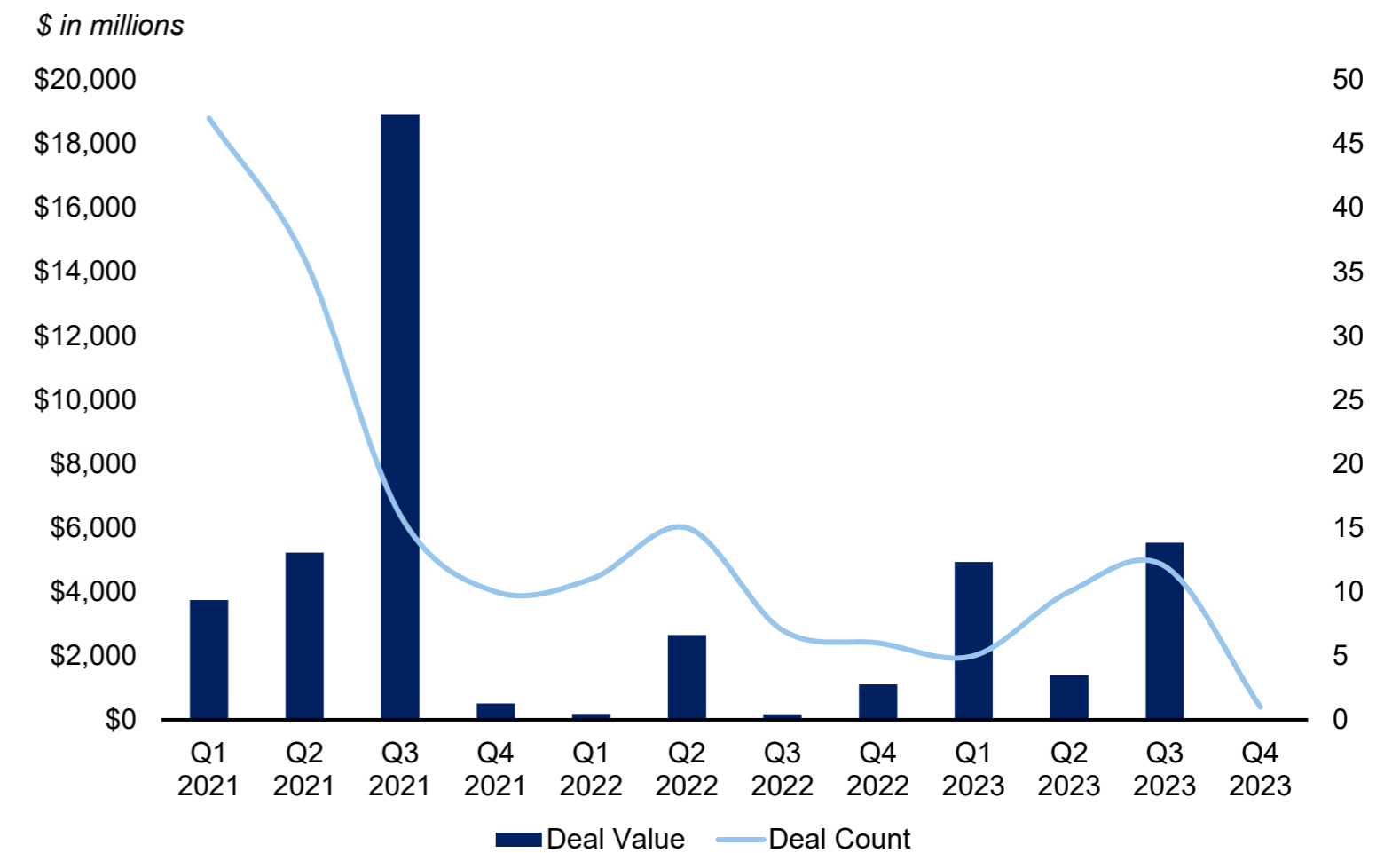
RCM Market Outlook

- The RCM sector is likely to see a stabilization or slight decline in transaction volume compared to recent years, reflecting the industry's progression towards maturity.
- With a diminishing number of independently funded entities in the RCM vertical, the frequency of deals is expected to plateau or decline. However, deal sizes could see an upturn if interest rates fall, fostering an environment conducive to larger-scale mergers or public offerings.



CXM/BPO Market Outlook

- The CXM/BPO sector is poised for sustained M&A activity, buoyed by the industry's growth and the enduring value of human expertise amidst the rise of large language models yet to meet high data security and service standards.
- Cost-effective labor strategies and technological enhancements are set to drive further consolidation and M&A momentum in the CXM/BPO landscape.



Conclusion & Key Takeaways

2024 Outlook: Navigating Change in the Tech-Enabled OBS Sector

Buoyed by unparalleled reserves of PE dry powder, forecasted interest rate trajectories, and sector-specific dynamics, the Tech-Enabled OBS industry is poised for a marked uptick in M&A activity throughout FY 2024. At CAS, we are carefully tracking the following trends that we believe will have a profound influence on M&A engagements within the tech-enabled OBS landscape.

Technological Disruption and Digital Transformation

- **Digital Adaptation in Outsourcing:** Heightened M&A within tech-enabled outsourced services, with companies acquiring specialized solutions due to the importance of digital transformation, led by Generative Artificial Intelligence (AI) and Large Language Models (LLMs).
- **Measured LLM Adoption:** Slower uptake of LLMs in obvious use cases as distinctions from human interactions emerge, but increased utility in niche applications.
- **Operational Efficiency and Technology:** M&A focusing on operational efficiencies, targeting synergies in technology and processes. LLMs will become key in leveling the playing field for technological latecomers.

Strategic Growth and Market Expansion

- **Geographical Market Expansion:** Non-public companies are actively seeking M&A opportunities to enter new markets and mitigate labor shortages. Acquiring smaller companies with local presence and expertise allows them to expand market share and leverage diverse, resilient business models.
- **Talent Acquisition:** OBS companies are prioritizing M&A to secure specialized talent and niche expertise, crucial for driving innovation and elevating service delivery.

Sector-Specific Financial Dynamics

- **Rise in Unsecured Asset Delinquencies:** Increased delinquencies in unsecured asset classes, affecting debt-related businesses due to higher credit card balances.
- **Student Loan Payment Impacts:** Ongoing financial stress on younger consumers from student loans, highlighting opportunities for businesses with strong digital engagement strategies.
- **Healthcare Debt in the Political Arena:** Healthcare debt becoming a focal point in election year debates, with potential new legislation influencing credit reporting on medical debt.

Security, Compliance, and Economic Realities

- **Data Security in M&A:** Given the sensitive nature of outsourced business services and the increasing cost of insurance (or changing coverage profiles), firms are seeking targets that demonstrate robust cybersecurity measures and adherence to stringent regulations.
- **Market Rationalization and Competitive Landscape:** Converging price expectations post-COVID, with sellers adjusting to new market realities and buyers facing increased competition and abundant dry powder.

About CAS

Global Tech-Enabled OBS Focus

Corporate Advisory Solutions, LLC (“CAS”) is an Independent Investment and Merchant Banking firm (Securities conducted through Finalis Securities Member FINRA/SiPC)* dedicated to partnering with clients to maximize shareholder value through a suite of transaction advisory and strategic advisory services on a domestic and international basis. While we provide services to clients in all the Outsourced Business Services (OBS) industries, our primary areas of focus and services have included those listed in the infographic below.

Valuation Services

- Market Valuation Assessment
- Operations Workflow
- Key Value Drivers and Detractors
- General Market Trend Analysis
- Technology Review and Research
- Compliance Assessment
- Financial and Operational Information

Transaction Advisory

- M&A and Merchant Banking
- Sell-Side and Buy-Side Representation
- Recapitalization and Capital Raising
- Strategic Partnership / Joint Venture
- Fairness Opinions / Market Valuations
- Distressed Asset Sales
- Specialty Finance

Strategic Advisory

- Board Level Consulting
- Comprehensive Business Assessment
- Regulatory Compliance Assessment
- Financial Performance Reviews
- Contribution Margin Analysis
- Market Research
- Executive Recruitment



We collaborate with businesses operating within heavily regulated sectors at both the state and federal levels. In recent years, there has been a significant shift in technology adoption, leading to disruption in the OBS industries. Consequently, CAS has accumulated substantial expertise in various areas, including digital collections, artificial intelligence, machine learning, IoT, real-time analytics/dashboards, omnichannel communications, alternative credit data, and scoring, among others.

CAS Competitive Advantage

Expertise

CAS has the largest proprietary database of OBS companies currently in the system boosted by big media presence.

Deal Experience

CAS has completed over 20 Tech-Enabled OBS transactions in the past three years with over 25 valuations each year for industry participants.

Track Record

At CAS, we focus 100% of our time in the OBS sector, offering services from transaction & strategy advisory to M&A exit—prep engagements.

Industry Trends

CAS is well-versed in the latest trends within the OBS sector, allowing us to best position our clients for future changes and long-term success.

Relationships

CAS is a leader in a niche OBS market – knowing majority of players, provides a well-rounded view on different verticals.

Global Network

CAS frequently attends and presents at industry conferences and networks with a diverse set of industry professionals.



*Michael Lamm and Mark Russell are Registered Representatives of Finalis Securities, LLC. Finalis Securities is not affiliated with Corporate Advisory Solutions, LLC.

About CAS

Recent Transactions & OBS Expertise

In FY 2023, CAS successfully closed 10 transactions, and an additional deal concluded in January 2024 (as detailed below). With over 140 successful M&A engagements in the OBS sector, these transactions demonstrate our skilled guidance through both acquisition and divestiture processes, confirming our deep insight and expertise in the M&A landscape, particularly within the OBS sector.

Industry Expertise

During our tenure in the OBS Sector, the CAS team members have completed more than 140 M&A engagements (both buy-side and sell-side), an average of 25 company valuations each year, and an increasing number of market intelligence reports and operational reviews.

CAS is geographically agnostic, having provided services worldwide, with the principals of CAS having past clients based in Germany, Luxembourg, the U.K., France, Canada, Australia, the Philippines, and India (e.g., EOS, Natixis Bank, Altisource Holdings, CIBC, etc.).

 	<p>SBA Sale of Crowdfunding Company</p>	 	 	 
<p>CAS advised CCMR3 on the divestiture of healthcare assets to Professional Credit (Tonka Bay) as the sell-side M&A advisor</p>	<p>CAS acted as the exclusive sell-side M&A advisor for a crowdfunding company in its SBA sale to a strategic buyer</p>	<p>CAS served as the sell-side M&A advisor to Cater to You in the sale to Elior North America</p>	<p>CAS served as the buy-side M&A advisor to Williams & Fudge in the acquisition of RGS</p>	<p>CAS served as the exclusive sell-side M&A advisor to WebRecon, LLC in the sale to Cora Group</p>

140+

Completed OBS M&A Engagements

\$2.5+ Billion

Deal Value in OBS M&A Engagements

25+

Years of OBS M&A Experience

  	<p>Distressed Financial Services & Auto Collections Agency</p>	<p>Sale of Educational Focused Collection Agency</p>	<p>Sale of Two Debt Portfolios on Behalf of Leading Syndicate</p>	 	 
<p>CAS served as the exclusive sell-side M&A advisor to ABC-Amega in the sale to Trivest (Cadex Solutions Corporation)</p>	<p>CAS facilitated the sale of select auto and financial assets to a strategic buyer</p>	<p>CAS facilitated the sale of an educational focused ARM company to a strategic competitor</p>	<p>CAS facilitated the sale of two debt portfolios on behalf of a leading syndicate</p>	<p>CAS served as the buy-side M&A advisor to Capital Accounts in the acquisition of CB Merchant Services</p>	<p>CAS served as the sell-side M&A advisor to Municipal Collection Services, LLC in the sale to Reliant Capital Solutions</p>

Disclaimer

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