

2024 Q1 Insights

**M&A Advisor to Global
Tech-Enabled Outsourced
Business Services Companies**



IN THIS ISSUE

- 3** Intro Letter
- 4** Conference List
- 5** First Quarter Overview
- 6** Tech-Enabled OBS Updates
- 12** About CAS

WELCOME TO OUR FIRST QUARTER 2024 NEWSLETTER

As we stride into the second quarter of 2024, we are thrilled to share that our CAS team has kicked off the year on a high note. One standout achievement includes the successful completion of CCMR3's sale of a group of healthcare assets to Professional Credit, marking a robust start with numerous engagements poised for further advancement.

In this edition of our newsletter, we explore a comprehensive review of the first quarter, spotlighting key highlights in M&A activities, capital investments, and emerging trends within the Tech-Enabled OBS verticals. Additionally, we offer insights into sector outlooks, current valuations, and market performance to equip our readers with valuable perspectives. As we [welcome aboard our newest Analyst, Simon](#), who joined us this April, we are also embracing the spirit of renewal as spring unfolds in Philadelphia, accompanied by the excitement of Philadelphia Phillies' season start.

Please reach out to Allie Baurer (abaurer@corpadvisorysolutions) to find some time to connect with us!

- Michael Lamm & Mark Russell



2024 Conferences



Customer Contact Week 2024

June 3-6
Las Vegas, NV

Nexus 2024

June 12-13
Jersey City, NJ

ACG SaaS & Tech-Enabled Services Deal Source

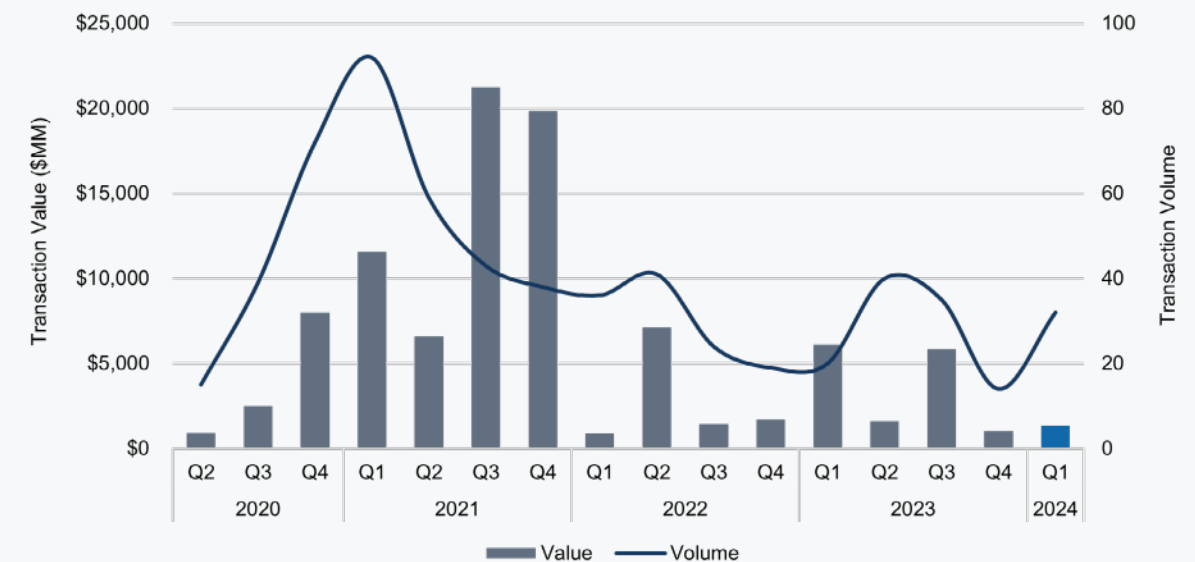
June 13
Lafayette Hill, PA

ACA International Annual Convention & Expo

July 22-23
San Diego, CA

FIRST QUARTER OVERVIEW

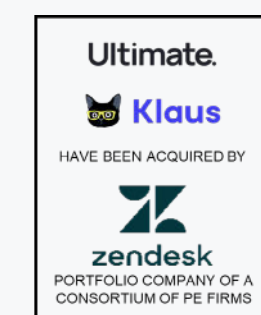
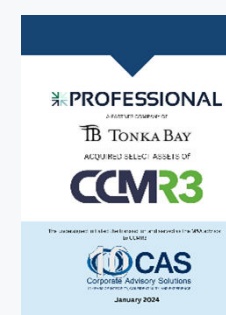
Reflecting on the initial quarter of 2024, the Tech-Enabled Outsourced Business Services (OBS) sector saw a modest uptick in M&A and capital investment activity compared to the fourth quarter of 2023, though still significantly lower than the deal surge during the peak of the COVID-19 pandemic. Transaction volume and value in the sector rose by approximately 130% and 30%, respectively, compared to the previous quarter. In contrast to the first quarter of 2023, transaction volume surged, propelled by heightened capital raising efforts within the sector. However, transaction value remains subdued due to the absence of significant acquisitions from both strategic and financial players.



Source: Corporate Advisory Solutions.

Notable Tech-Enabled OBS transactions in Q1 2024 spanned across all coverage verticals. In January 2024, CAS facilitated CCMR3's sale of a group of healthcare assets to Professional Credit, a Tonka Bay partner company, marking the first add-on acquisition for Professional Credit. This transaction underscores a continuing trend within the tech-enabled OBS sector, where strategic players utilize M&A to bolster their geographic target markets.

Other noteworthy transactions featured ResultsCX, a portfolio company of ChrysCapital, acquiring Huntswood to further enrich its CXM service capabilities. Zendesk sustained its acquisition momentum with the purchase of Klaus and Ultimate to augment its AI offerings following its privatization in 2022. Additionally, indicating a resurgence in private equity activity within the M&A market, Frazier Healthcare Partners acquired RevSpring from GTCR to expedite RevSpring's burgeoning offerings in their RCM suite of products.



TECH ENABLED OBS SECTOR

First Quarter Highlights:

At Corporate Advisory Solutions, we are observing similar M&A and capital investment trends across all three covered verticals in the tech-enabled OBS sector. As highlighted in the first quarter 2024 overview, heightened investment endeavors from venture capital, Volume by Transaction Type growth capital, and other investors, coupled with the absence of major M&A deals, drove the increased yet still relatively subdued activity in the sector.

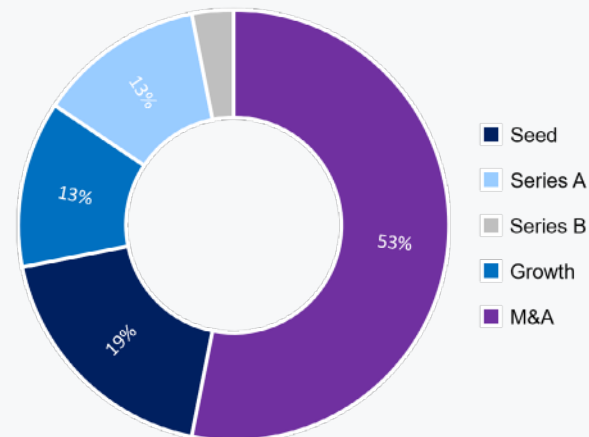
M&A transactions accounted for approximately 53% of all transaction volume in the sector, while capital investment efforts constituted around 47% of the activity. Noteworthy is the concentration of investment efforts in the early stages (seed and series A investing), indicating the ongoing wave of technology focused founders harnessing AI and ML to scale operations, enhance digital engagement, and automate traditional processes.

Within the Accounts Receivable Management (ARM) vertical, we noted a continual trend of market consolidation, as larger capital-rich, technology-driven strategic players acquired smaller agencies to expand their geographical footprint and gain access to specialized talent and domain expertise. Another significant driver behind ARM M&A activity was the anticipated acquisition for technology, reflecting companies' responses to evolving digital demands.

In the Revenue Cycle Management (RCM) vertical, continued consolidation marked the maturation of this sector. The primary driving force behind this consolidation is the desire to expand service and product offerings within existing portfolios and to achieve greater operational efficiencies. As the RCM vertical advanced, the pursuit of inorganic growth via M&A to attain cost synergies is a natural progression.




The Customer Relationship Management (CRM) vertical, which also encompasses Business Process Outsourcing (BPO) and Customer Experience Management (CXM), was the bulk of M&A and capital investment activity observed in Q1 2024. With AI and ML exerting a significant impact on this vertical, strategic players are compelled to position themselves as leaders in AI-first approaches within their target markets. This trend is driving both capital investment and M&A activity, as companies acquire cutting-edge AI technologies to enhance their products or engage in buyouts of competitors in diverse geographies and target industries to expand their client base and create opportunities for product cross-selling.

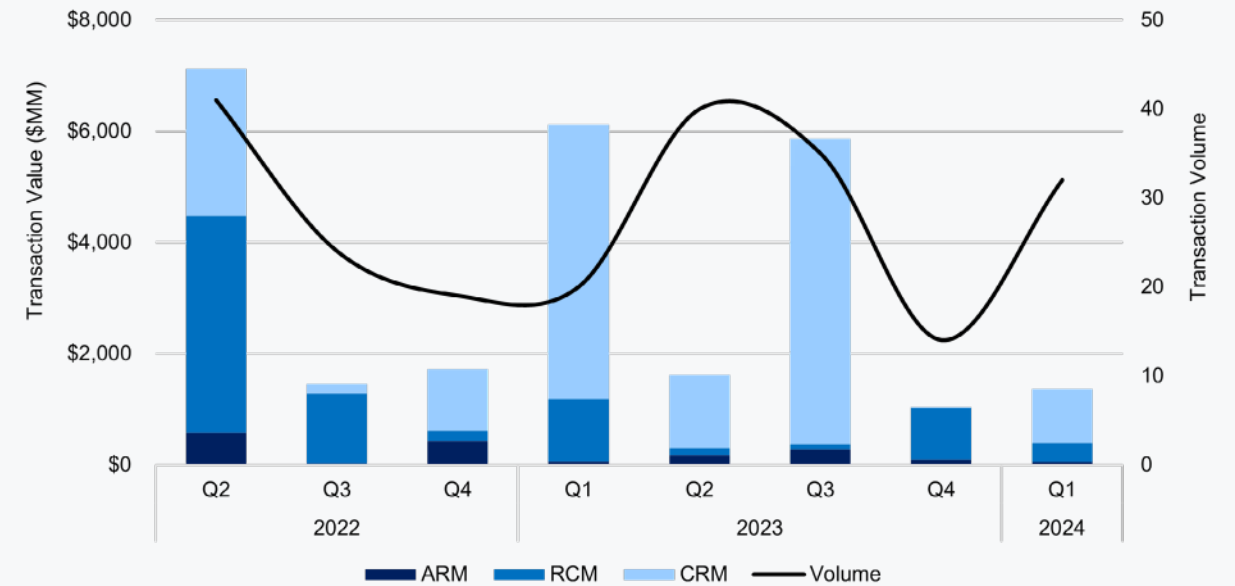
Volume by Transaction Type



Source: Corporate Advisory Solutions.

Most Common M&A Transaction Rationales

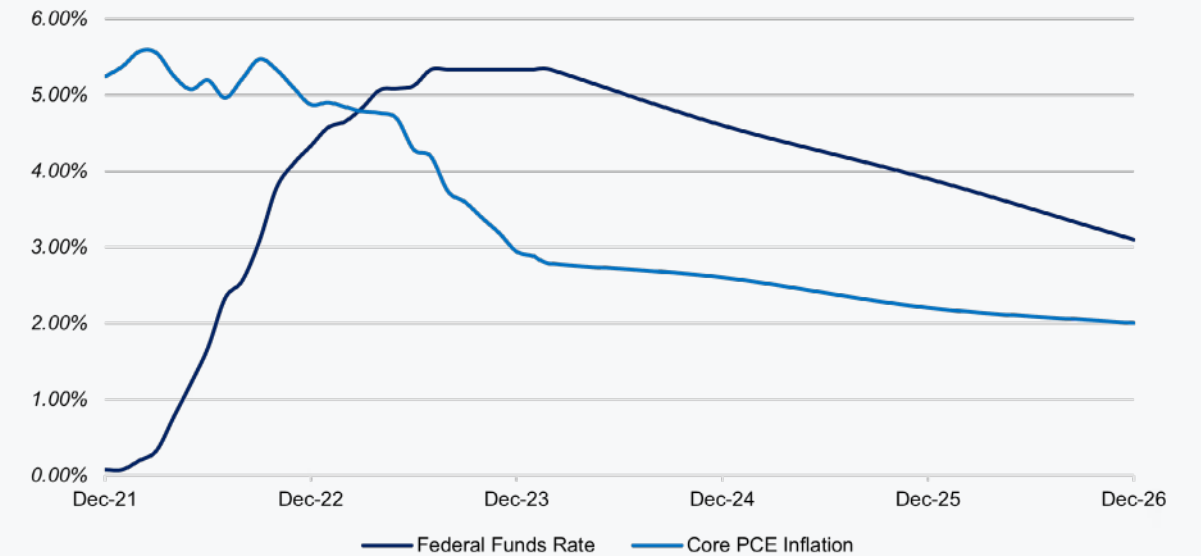
-  Enhancing Service Offerings & Expertise
-  Expanding Market Presence & Geographic Coverage
-  Strengthening Operational Capabilities & Tech Offerings



Source: Corporate Advisory Solutions.

First Quarter Outlook:

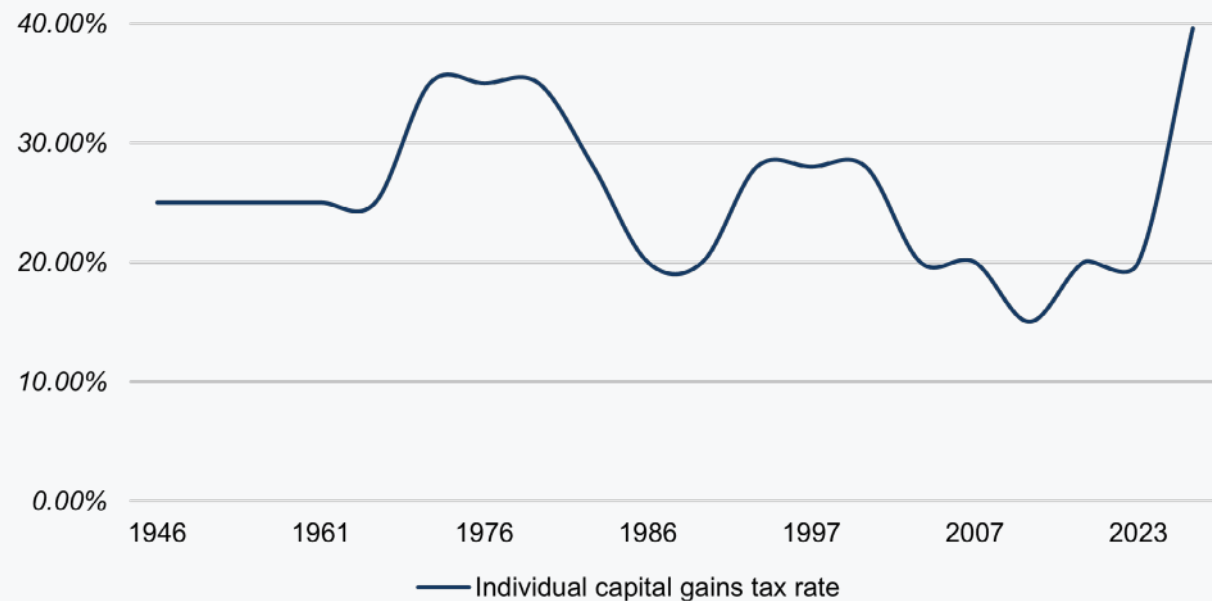
We anticipate that the Tech-Enabled OBS sector is primed for a further surge in M&A activity, both in transaction volume and value. Considering external factors, CAS foresees that the convergence of easing interest rates and inflation, coupled with the still record-high PE dry powder, will serve as the primary catalyst for increased M&A and capital investment activity. CAS predicts a significant uptick in deal activity from financial players as the cost of borrowing decreases and funds approach the end of their life cycles, compelling private equity firms to divest some of their investments and return capital to investors.



Source: Bureau of Economic Analysis, Federal Reserve.

As we are only 25% into 2024, it is important to note that the remainder of the calendar year is very uncertain. At the end of 2023, some officials predicted up to six federal funds rate cuts in 2024, but as the Consumer Price Index persistently exceeds the 2% Federal Reserve target rate, the [financial markets now expect the possibility of only two rate cuts in 2024](#). Looking ahead, CAS will continue to actively monitor upcoming macroeconomic developments, as they will have a profound impact on the future cost of borrowing. We anticipate that the future rate cuts, stemming from the high-interest rate environment that has favored equity over debt in deal structures, will revitalize M&A markets - where lower borrowing costs may drive an increase in transaction volume. Additionally, the expected 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.

CAS also predicts that the ongoing presidential election campaign will have a profound impact on M&A transaction volume. Leading up to November, we expect transaction volume to stay on par with previous quarters, but the uncertainty could lead to a slowdown in transaction value, as decision-makers at larger enterprises prefer to await the election results before making any major transaction decisions. Looking past the election results, CAS will continue to monitor and assess what either outcome will mean for M&A transaction volume and value. If President Biden were to be reelected, it could imply several major changes for the M&A market and business owners, as the current President has proposed severe changes to taxes in his latest budget proposal, which would have a direct impact on business owners looking to sell their businesses. Specifically, the proposed budget includes an [increase in the capital tax gains rate from the current 20% to 39.6%](#) for those earning over \$1 million. CAS expects that if President Biden were to move forward with this capital gains rate increase, it could create a rush for fast-tracked M&A sell-side processes. Although this would be an unprecedented tax raise, it is important to note that President Biden had a similar proposal during the last presidential election race and did not deliver on his promise during his four years in the Oval Office.



Source: Estimates from Wolters Kluwer.

Focusing on the specific factors within the Tech-Enabled OBS sector, CAS anticipates several significant drivers for future M&A and capital investment activity. As strategic players seek new avenues for growth and enhanced operational efficiencies, we anticipate that companies boasting state-of-the-art technological solutions will emerge as prime M&A targets amidst the ongoing race to adopt AI and ML. Moreover, as the costs associated with technology and compliance become increasingly burdensome for smaller operators, we expect to witness further consolidation across the covered verticals.

CAS also foresees the continued wave of inorganic M&A growth through geographic, industry, talent, and client acquisitions to persist as market leaders identify significant market opportunities but lack the necessary scale, which could be attained through M&A. We predict that serial acquirers will take advantage of the current consolidation trend to buy and build their product and service offerings with the end goal of providing a full-suite, customer-centric platform to meet the diverse needs of their clients and maintain their competitive advantage in the marketplace.

We at Corporate Advisory Solutions are eager to leverage our expertise and insights to assist you in navigating this evolving M&A landscape and exploring opportunities!

First Quarter Valuations & Performance:

The current valuations and trading performance of Tech-Enabled OBS companies in the public market appear subdued when compared to the overall market. Representative companies and markets are contending with specific headwinds.

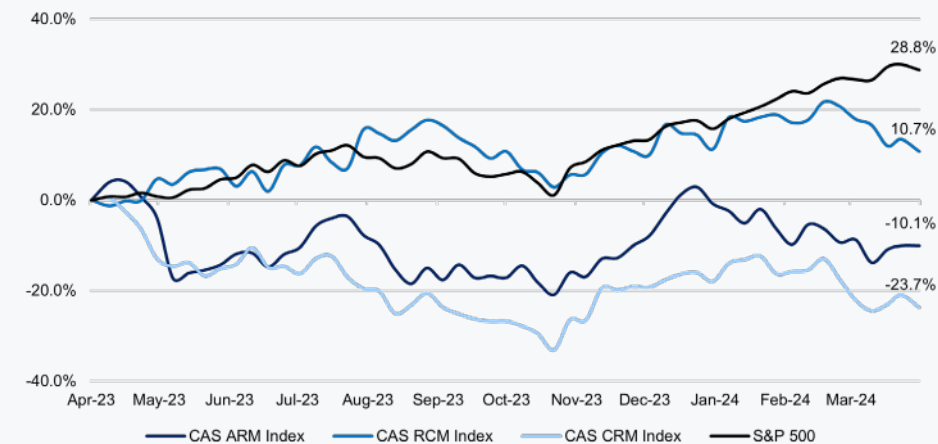
Within the ARM vertical, companies confront both idiosyncratic issues and escalating delinquency rates, leading to decreased collection performance. The latest [Household Debt and Credit Report](#) released by the Federal Reserve shows an ongoing increase in delinquency and charge-off rates, which, for the first time, leaped over the pre-pandemic

level. We expect the ongoing trend of higher delinquency and charge-off rates to continue in 2024, as consumers are facing stickier-than-expected inflation. This trend is also expected to have downstream effects on the entire ARM vertical, notably impacting debt buyers, who are already experiencing a significantly increased supply of paper with relatively low pricing.

In addition to grappling with higher delinquency rates, the RCM vertical is contending with entrenched issues within the healthcare sector, which are contributing to its underperformance. Factors such as increased denials, rising labor costs, and staffing shortages are significantly impacting the market. Besides these persistent RCM-specific headwinds, the vertical faces increased scrutiny in the current election season, as healthcare costs and related healthcare debt are sensitive issues for many Americans. According to [KFF's polling on healthcare costs](#), "about four in ten adults report having debt due to medical or dental bills ...". As presidential and congressional races heat up across America, leading up to November's election, we can expect an increased number of politicians addressing these challenges as they try to "reach across the aisle" for further votes.

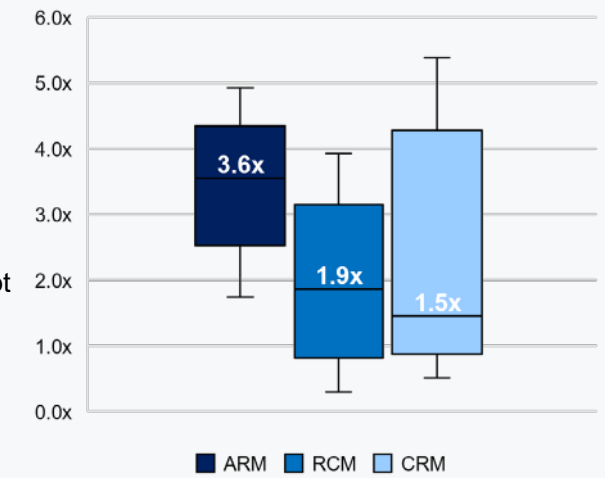
Companies within the BPO space are experiencing significant pressure on their valuations and performance, particularly as their operations, which heavily rely on human capital, are directly impacted by the adoption of new AI and ML tools, leading to the development of leaner operational structures. While experts have been predicting this trend for the BPO vertical since ChatGPT's release in November 2022, we are seeing a direct impact on large enterprises 18 months later. Among other publicly traded BPO providers, Teleperformance has been hit the hardest as [Klarna launched its new customer service AI assistant](#), completing the work of approximately 700 employees. Although the stock has gained some of its loss after plummeting almost 30% at one point, it is directly showing AI's impact on the vertical. We expect that companies who proactively engage with and implement emerging AI/ML tools into their products, services, and operations could gain a significant advantage over their peers and utilize the power of this technology for their betterment.

Please note that the valuations and performance discussed pertain specifically to publicly traded companies. Publicly traded companies generally command higher valuations compared to private companies, attributable to various factors, resulting in lower multiples for private companies.



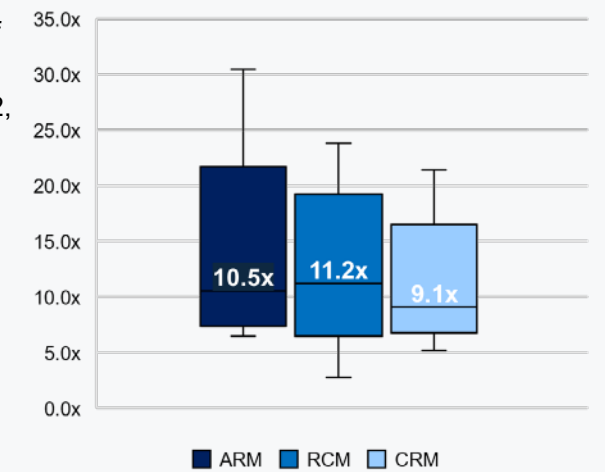
Source: FactSet. Data as of April 5, 2024.

Public Company EV/Revenue Valuations



Source: FactSet. Data as of April 5, 2024.

Public Company EV/EBITDA Valuations



Source: FactSet. Data as of April 5, 2024.

Conclusion & Key Takeways:

Reflecting on the first quarter of 2024, the Tech-Enabled Outsourced Business Services (OBS) sector exhibited a notable uptick in M&A and capital investment activity, although still below the peak levels observed during the pandemic. Notable transactions underscored strategic players' endeavors to enhance their market presence and technological capabilities. Looking forward, this momentum suggests a promising landscape for increased deal activity, driven by factors such as easing interest rates, technological advancements, and the pursuit of operational efficiencies through cost synergies. The rise in M&A and capital investment activity in Q1 2024 indicates a potential resurgence in deal-making momentum. Strategic players are leveraging acquisitions to bolster their geographic presence and technological capabilities, with a particular emphasis on integrating AI and ML solutions. Market consolidation remains a prevalent trend, notably observed in verticals such as Accounts Receivable Management (ARM) and Revenue Cycle Management (RCM), driven by the pursuit of expanded service offerings and operational efficiencies. Looking ahead, the outlook suggests continued momentum in M&A activity, fueled by factors like easing interest rates, technological advancements, and strategic imperatives for growth and scalability.

At Corporate Advisory Solutions, we remain committed to navigating these evolving trends and assisting clients in seizing opportunities for growth and expansion in this dynamic market. We invite you to reach out to us to explore how we can help your business thrive amidst these changing landscapes.

Public Comparables:

\$ in Millions	As of 04/05/2024	Price	% of 52 Week High	MarketCap	EnterpriseValue	Revenue	EBITDA	EBITDA Margin	EV/Revenue	EV/EBITDA
	Altisource Portfolio Solutions	\$1.7	25.3%	\$45.7	\$267.0	\$153.3	(\$6.3)	-4.1%	1.7x	N/M
	Axactor	\$0.4	70.9%	\$135.0	\$1,153.2	\$277.6	\$142.7	51.4%	4.2x	8.1x
	B2 Impact	\$0.7	96.0%	\$278.8	\$1,170.1	\$336.1	\$136.8	40.7%	3.5x	8.6x
Accounts Receivable Management	Encore Capital Group	\$43.6	79.6%	\$1,025.4	\$4,442.4	\$1,222.0	\$321.9	26.3%	3.6x	13.8x
	Hoist Finance	\$4.8	95.2%	\$431.7	\$990.4	\$350.9	\$94.2	26.8%	2.8x	10.5x
	Intrum	\$2.5	21.8%	\$300.3	\$6,677.9	\$1,872.5	\$547.9	29.3%	3.6x	12.2x
	KRUK	\$114.8	91.8%	\$2,218.0	\$1,569.6	\$444.0	\$242.9	54.7%	3.5x	6.5x
	PRA Group	\$25.3	62.5%	\$992.6	\$4,065.2	\$825.7	\$133.5	16.2%	4.9x	30.4x
Median			75.3%	\$366.0	\$1,369.8	\$397.4	\$139.7	28.1%	3.6x	10.5x
	CareCloud	\$1.2	31.5%	\$19.3	\$35.2	\$117.1	\$12.8	11.0%	0.3x	2.7x
	Cognizant	\$71.1	88.8%	\$35,411.5	\$36,822.7	\$19,353.0	\$3,463.0	17.9%	1.9x	10.6x
Revenue Cycle Management	Everyday People Financial	\$0.3	75.3%	\$14.2	\$54.3	\$13.8	(\$4.0)	-28.8%	3.9x	N/M
	Omniceil	\$27.5	35.7%	\$1,263.6	\$1,814.4	\$1,147.1	\$76.2	6.6%	1.6x	23.8x
	R1 RCM	\$12.5	66.7%	\$5,240.9	\$6,366.6	\$2,254.2	\$541.8	24.0%	2.8x	11.8x
	TruBridge	\$8.9	28.6%	\$129.0	\$358.3	\$335.6	\$23.0	6.9%	1.1x	15.6x
	Veradigm	\$8.0	56.6%	\$865.0	\$2,802.2	\$1,503.0	\$279.8	18.6%	1.9x	10.0x
Median			56.6%	\$865.0	\$1,814.4	\$1,147.1	\$76.2	11.0%	1.9x	11.2x
	8x8	\$2.5	50.4%	\$303.6	\$914.3	\$743.9	(\$8.4)	-1.1%	1.2x	N/M
	Concentrix Corporation	\$59.0	51.2%	\$3,908.6	\$10,354.2	\$7,114.5	\$1,139.3	16.0%	1.5x	9.1x
	Firstsource Solutions	\$2.4	90.9%	\$1,691.2	\$1,043.7	\$749.4	\$107.6	14.4%	1.4x	9.7x
Customer Relationship Management	NICE	\$250.4	92.7%	\$15,859.3	\$12,805.6	\$2,377.5	\$598.3	25.2%	5.4x	21.4x
	Conduent International	\$3.2	85.0%	\$680.3	\$1,911.2	\$3,722.0	\$369.0	9.9%	0.5x	5.2x
	ExtService Holdings	\$29.6	82.3%	\$4,902.2	\$5,164.6	\$1,630.7	\$298.5	18.3%	3.2x	17.3x
	Teleperformance	\$98.7	40.3%	\$5,991.2	\$13,583.6	\$9,021.9	\$1,764.4	19.6%	1.5x	7.7x
	TELUS	\$16.0	75.0%	\$23,488.5	\$47,122.0	\$14,822.0	\$5,201.2	35.1%	3.2x	9.1x
	TTEC Holdings	\$8.6	22.6%	\$407.9	\$2,004.6	\$2,458.9	\$235.1	9.6%	0.8x	8.5x
Median			75.0%	\$3,908.6	\$5,164.6	\$2,458.9	\$369.0	16.0%	1.5x	9.1x
Overall Median			68.8%	\$928.8	\$1,957.9	\$1,184.5	\$239.0	18.1%	2.4x	10.0x

Source: FactSet. Data as of April 5, 2024.

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, machinelearning, IoT, real-time analytics/dashboards, omnichannel communications, alternative credit data, and scoring, among others.

Valuation Services

- **Expertise:** CAS has the largest proprietary database of OBS companies currently in the systems 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 and strategic 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.

Dedicated Tech-Enabled OBS Expertise



MICHAEL LAMM
Managing Partner

Michael, a Managing Partner at CAS, leads M&A engagements, investment opportunities, and strategic consulting while guiding the firm's growth. With over a decade's experience, he's a respected voice in industry associations and frequently speaks on M&A trends, contributing expertise to publications.



MARK RUSSELL
Managing Partner

As a CAS co-founder, Mark oversees operations and transaction advisory engagements, including the firm's Merchant Banking. With extensive experience, he provides valuation and strategic consulting services, guiding clients through acquisitions and managing securities transactions as a Registered Representative of Finalis Securities 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.).

140+
Completed OBS M&A Engagements

\$2.5+ Billion
Deal Value in OBS M&A Engagements

\$25+
Years of OBS M&A Experience

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