2024 Q3 INSIGHTS

CAS
Corporate Advisory Solutions
INTEGRITY, CONFIDENTIALITY, EXPERIENCE

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

IN THIS ISSUE

WELCOME TO OUR THIRD QUARTER 2024 NEWSLETTER

As we approach the close of 2024, the CAS team remains focused on achieving a strong year-end finish, working diligently through the remainder of this year and into early 2025.

In this edition, we cover recent M&A trends, including a resurgence in consolidation across key markets within the Tech-Enabled Outsourced Business Services (OBS) sector. Notably, we are seeing elevated mega-deal activity compared to previous quarters, especially within the healthcare RCM space. The newsletter also examines the ARM industry, where rising delinquency rates are impacting market dynamics, and we take a closer look at whether AI-enabled bots are proving more cost-effective than traditional agents. Additionally, we analyze the increasing frequency of data breaches and ransomware attacks affecting companies in the Tech-Enabled OBS sector, underscoring the critical need for robust cybersecurity measures.

Outside Tech-Enabled OBS sector-specific topics, this newsletter also explores broader market dynamics crucial to our clients. We analyze how potential presidential and congressional outcomes could shape not only the Tech-Enabled OBS sector but also influence wider market stability amid today's complex geopolitical landscape. Both candidates' stances could significantly impact the sector, with implications for regulatory and economic policies. Beyond the election, we discuss the recent Federal Reserve decision to begin rate cuts, examining how this could boost M&A activity and drive an elevated deal environment by the end of 2025.

We look forward to sharing more of the work we have been accomplishing as we move through Q4 and into 2025. With an active pipeline of opportunities, we invite you to connect with the CAS team to share your
acquisition criteria as we head into a busy 2025. Heading into the holiday season, we are proud of the progress we have made and extend our best wishes to everyone for a successful year-end push.

For questions or to connect with us directly, please reach out to Allie Baurer at: abaurer@corpadvisorysolutions.com.

- Michael Lamm & Mark Russell

UPCOMING CONFERENCES

24

RMA Canada
November 18-20
Niagra Falls, ON

25

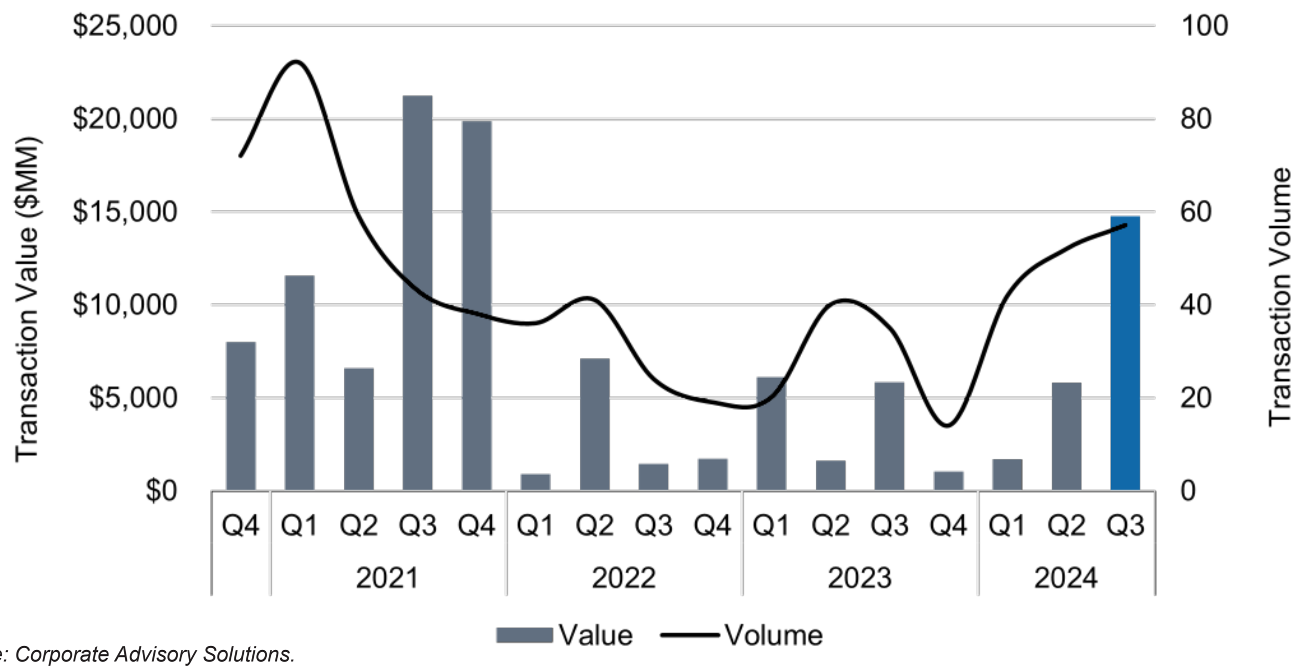
IACC Annual Convention
January 22-24
San Juan, PR

ARM Tech 2025
January 22-24
Nashville, TN

THIRD QUARTER M&A OVERVIEW

In the third quarter of 2024, CAS observed a modest increase in transaction volume and a significant rise in transaction value compared to the second quarter of 2024. With 57 transactions and nearly $15 billion in total transaction value, the quarter saw a growth of over 63% in transaction volume and a remarkable increase of over 150% in transaction value compared to third quarter of 2023. This is also the first quarter since the end of 2021 that recorded more than 50 transactions and over $10 billion in transaction value, signaling a rebound in deal flow.

The primary driver this quarter was the healthcare Revenue Cycle Management (RCM) space, with noteworthy deals such as R1 RCM being taken private by TowerBrook and CD&R, as well as New Mountain Capital's merger of three platform companies into one entity.

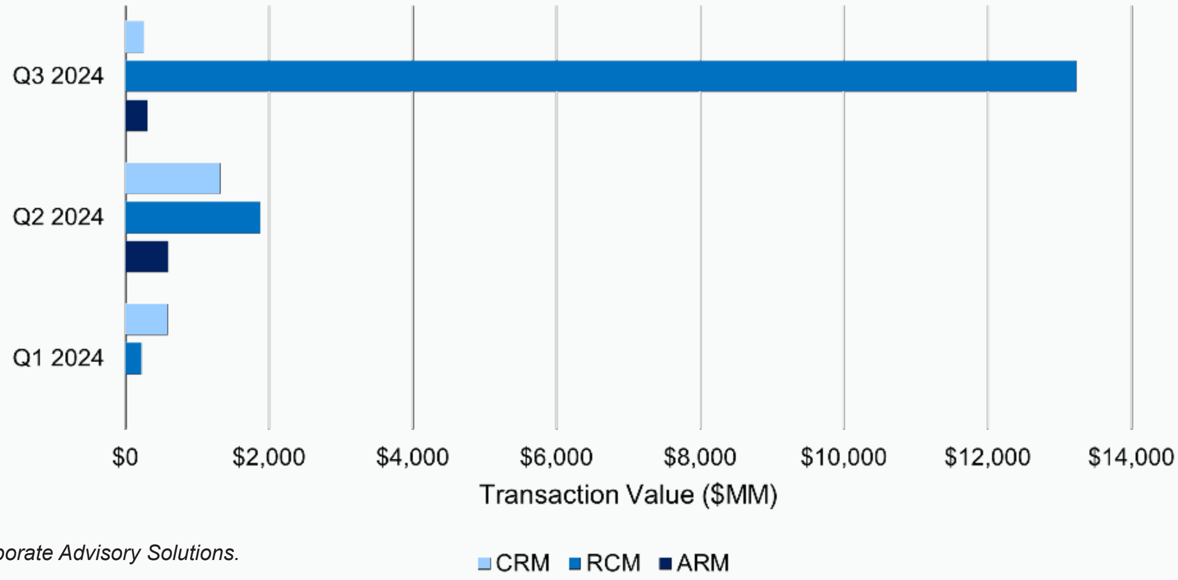


Source: Corporate Advisory Solutions.

As briefly mentioned in the introduction, the overarching theme of the third quarter was a steady increase in total transaction value, paired with limited growth in transaction volume. This trend highlights a resurgence of larger transactions in the marketplace, following years of limited to muted activity in bigger M&A deals.

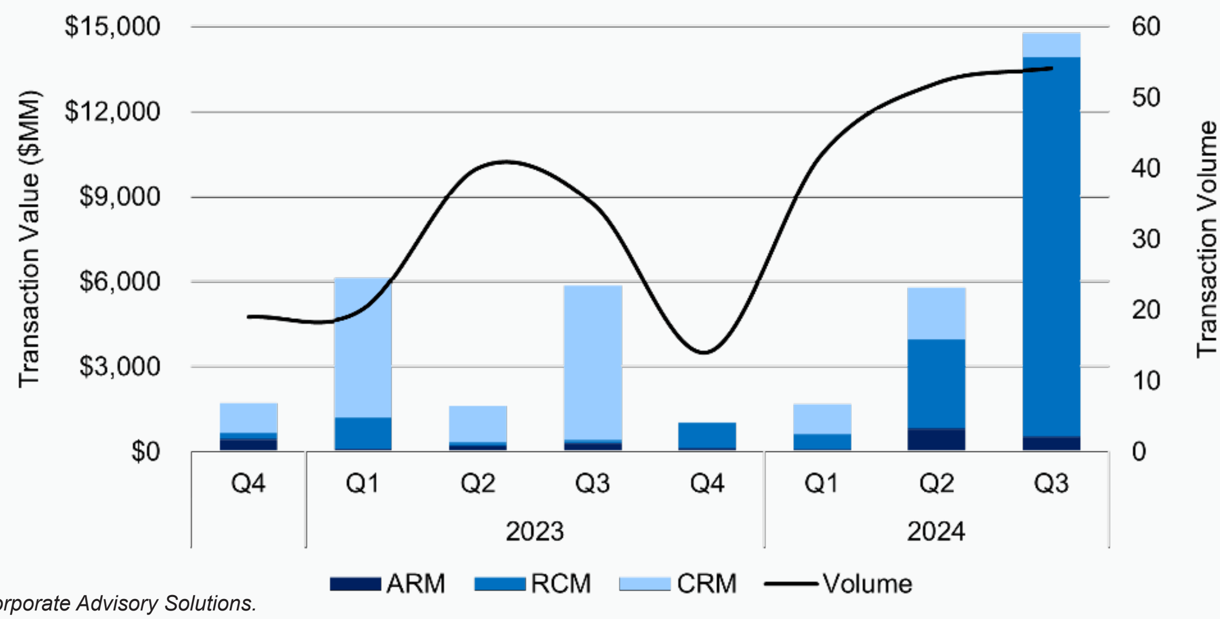
This trend is particularly evident in M&A transactions exceeding $50 million in transaction value. In the third quarter, there was a slight increase with eleven such deals, up from ten in the second quarter and only six in the first quarter, totaling $13.8 billion in transaction value – an exponential rise from previous quarters.

The trend is further underscored by the growing proportion of high-value M&A transactions (over $50 million in transaction value) within total transaction value, which has been climbing steadily. While this proportion was just under 50% in the first quarter – indicating over half of the total transaction value stemmed from smaller deals – it rose to 65.6% in the second quarter and reached 93.5% by the third quarter of 2024.



Source: Corporate Advisory Solutions.

Additionally, in the third quarter, CAS continued to observe an ongoing increase in buy-side activity across various acquirer types, including strategic players, investment firms, and new entrants from the technology sector. This trend is primarily driven by a mix of timing, resource availability, and asset quality. Acquirers are increasingly pursuing growth through acquisitions as a time-efficient way to expand into new verticals, geographies, or service areas, provided sufficient capital is available. Demand remains strong for high-quality assets, though CAS notes a widening gap in value expectations between buyers and sellers, creating headwinds for prospective acquirers.



Source: Corporate Advisory Solutions.

TECH ENABLED OBS SECTOR

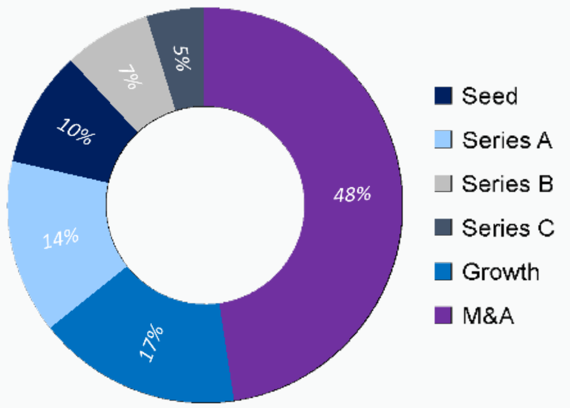
TRANSACTION ACTIVITY OVERVIEW:

At Corporate Advisory Solutions, we saw transaction value sore in the healthcare RCM industry, even as activity across our other two industries stayed more restrained. Looking ahead, we expect the overall transaction value to remain high or even rise in Q4 2024, driven by companies pushing to close deals before year-end. This momentum is amplified by the approaching presidential transition in January 2025, which adds extra urgency for firms looking to transact before the new president takes office.

This quarter's transaction breakdown mirrored that of Q2 2024, with M&A accounting for nearly half of the total volume. CAS observed a notable rise in late-stage investing – Series B, Series C, and Growth rounds – which climbed to over 29% of transaction volume, up from 22% in Q2 2024. Two main trends are driving this increase: companies are channeling new capital into expanding operations, services, and geographic reach to fuel organic growth, while investment in AI capabilities is accelerating. In AI, significant funds are allocated to training data sets, hiring specialized engineering talent, acquiring costly hardware, and extending R&D budgets. This approach to AI development stands in contrast to traditional SaaS models, where most raised capital typically supports development and marketing efforts.

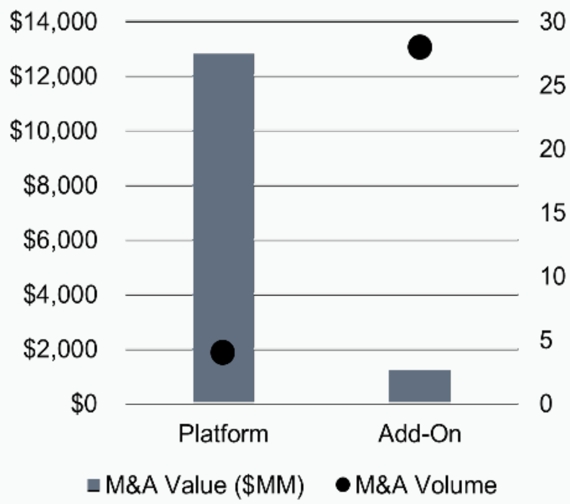
In the Tech-Enabled OBS sector, CAS saw an increase in both platform transaction value and add-on transaction volume. A closer look at the data reveals that add-on acquisitions maintained similar transaction value this quarter but saw a rise in transaction volume, indicating continued high activity from both strategic and financial acquirers. With organic growth still limited, the trend toward add-on acquisitions and overall consolidation is strengthening, as larger enterprises seek growth through M&A, supported by the decrease in capital costs. Interestingly, there were only four platform investments this quarter – down from eight in the previous quarter – but platform transaction value surged by 600%+. These platforms are expected to drive further add-on acquisitions, as sponsor-backed companies increasingly view add-ons as their primary growth strategy. As cost of capital continues to decline, CAS also anticipates further activity in platform investments and take-private acquisitions.

Transaction Volume by Transaction Type



Source: Corporate Advisory Solutions.

Value & Volume by M&A Type

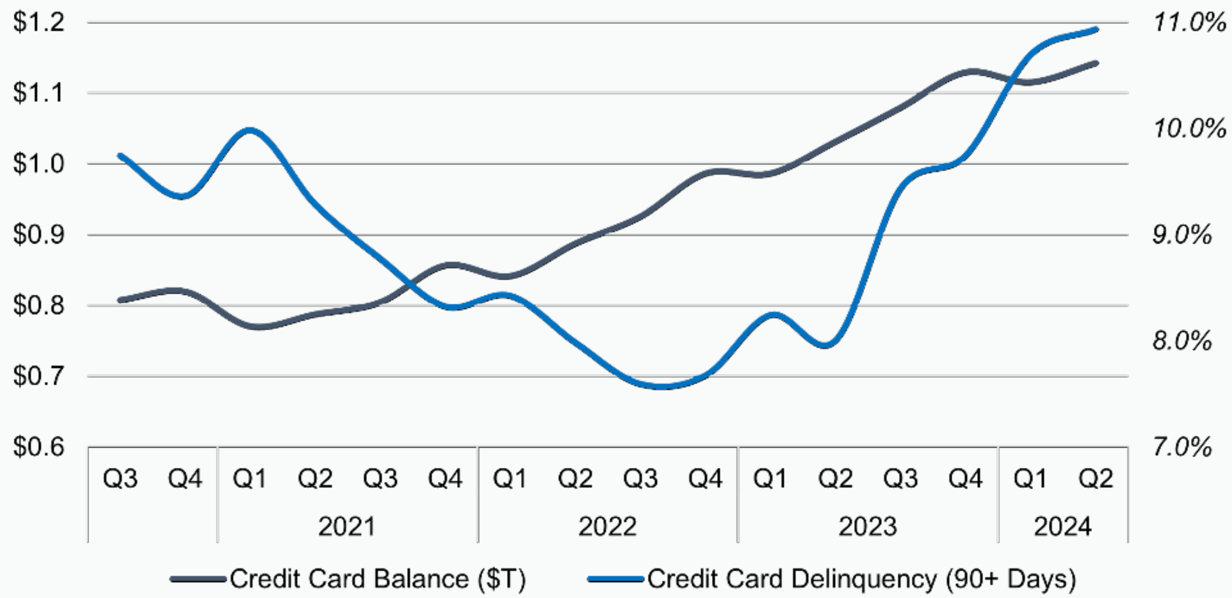


Source: Corporate Advisory Solutions.

CURRENT INDUSTRY TRENDS:

Accounts Receivables Management

In the Accounts Receivables Management (ARM) industry, the primary focus remains on the overall increase in delinquencies and credit balances, raising concerns among industry professionals about the financial health of the average U.S. consumer. According to the most recent Quarterly Credit Industry Insights Report from TransUnion, the average debt per borrower rose to $6,329 in Q2 2024, marking the fourth consecutive year of increases and a more than 30% rise in average debt compared to Q2 2021. This trend illustrates a troubling reliance on credit for financing everyday expenditures among U.S. consumers. Furthermore, as credit card balances continue to gradually rise and financial conditions deteriorate, the number of accounts transitioning to delinquency is rapidly increasing. CAS has been closely monitoring this trend over the past quarters and anticipates a continued rise in delinquencies, which will further drive the volume of charged-off balances entering the collection lifecycle, subsequently boosting both placements and collections within the ARM industry.



Source: Q2 2024 Household Debt and Credit Report (Federal Reserve Bank of New York).

Another significant topic within the ARM vertical revolves around student loans and their short- and medium-term impact on U.S. consumers. As President Biden's cabinet continues to implement new student loan debt relief initiatives ahead of the upcoming election, including a recent plan targeting individuals with substantial debts, it faces considerable challenges. First, the 12-month grace period announced following the Supreme Court's decision to end student loan forgiveness concluded on September 30, 2024 – meaning millions of U.S. consumers must resume their student loan payments if they haven't already done so, or they risk falling into delinquency. In addition, President Biden's efforts to offer affordable income-driven repayment plans, such as the SAVE plan, are currently stalled due to legal issues, placing further pressure on consumers to begin their repayments. This situation could significantly affect the financial health of U.S. consumers, though we are likely to see the true impact manifest later in 2025, especially in light of how the new presidential administration addresses student loans.

ARM industry professionals are also mindful of recent distress in the debt purchasing space, where over-leveraged companies that actively bought expensive paper during the supply-constrained pandemic period are now facing notable headwinds. The recent news that Intrum, one of the largest European debt purchasers, will seek U.S. bankruptcy protection to restructure its $4.7 billion net debt, demonstrates this situation. Such outcomes are expected in the European debt purchasing market, where there is a limited supply of charged-off paper and still relatively high pricing compared to U.S. markets, which continue to show stronger performance. CAS anticipates that larger debt purchasing players will increasingly shift focus to the more attractive U.S. market opportunities until the European market conditions improve, presenting opportunities for higher IRRs.

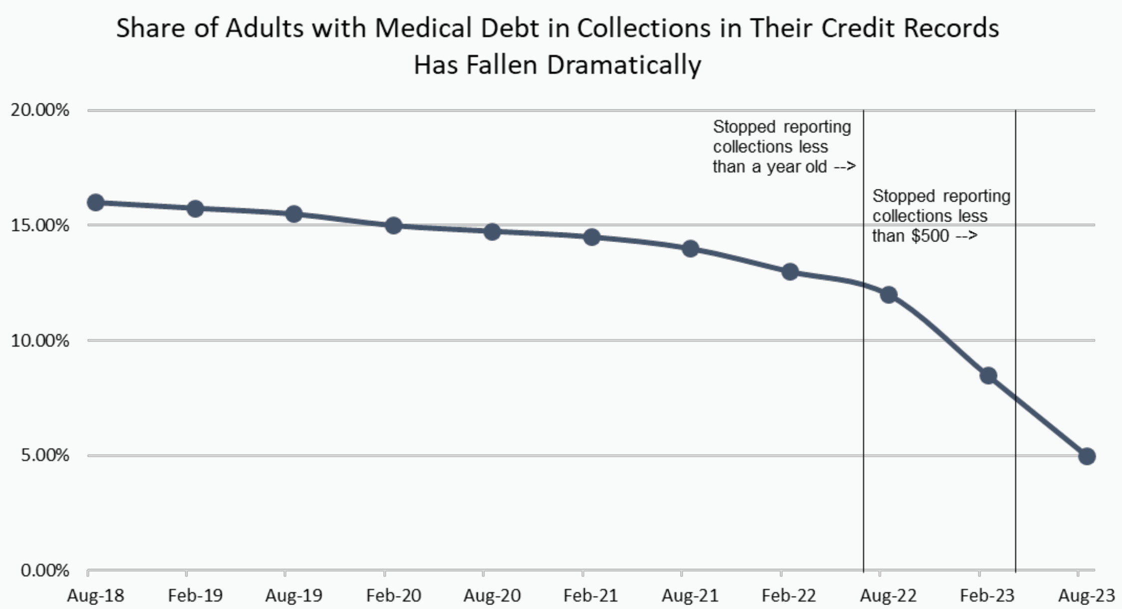
Lastly, the ARM industry is paying close attention to recent developments in the open banking environment and their impact on operations. Open banking has raised substantial concerns about risky scraping practices, where third parties access consumer financial data without proper authorization, potentially compromising data security. The recent CFPB rule aims to address these issues by mandating secure and consent-based access to financial information. For the ARM industry, this shift will likely result in increased compliance burdens as agencies navigate the new data-sharing requirements. While companies must ensure adherence to stringent privacy protocols, the rule also provides greater access to consumers' financial data – provided that consumers grant permission. This dual impact could enhance agencies' ability to tailor their strategies based on more accurate financial insights, ultimately fostering a more transparent and consumer-friendly environment within the industry.

Revenue Cycle Management

The healthcare Revenue Cycle Management (RCM) industry continues to attract considerable interest in recent quarters. The most dominant theme observed by CAS is the ongoing consolidation within the ecosystem, primarily driven by healthcare-focused private equity funds and sponsor-backed companies. The rationale behind this consolidation is twofold. First, companies are merging and being acquired to offer comprehensive end-to-end solutions, positioning themselves as ideal partners for outsourcing. Additionally, this consolidation enables companies to generate synergistic cost savings while pooling R&D expenditures and data to develop leading AI-driven tools that will propel the next phase of growth in the sector. These trends are exemplified by the recent merger of three New Mountain Capital-backed companies into a single provider capable of delivering end-to-end solutions, driving administrative cost savings, and focusing on the development of AI solutions.

The increasing role of private equity within the healthcare RCM industry is also prompting greater scrutiny from the public regarding the influence of financial entities within the U.S. healthcare ecosystem. Specifically, there are growing concerns that private equity-backed companies may prioritize driving up their revenues and profits at the expense of U.S. consumers, who are already grappling with medical debt and a Revenue Cycle Management system that supports the collections of delinquent accounts. As highlighted in a recent post by Axios on the role of private equity in the medical space, CAS anticipates that this scrutiny will intensify as consolidation progresses, driven by the attractive synergistic benefits realized on both the revenue and expense sides.

Lastly, the entire healthcare RCM industry is preparing for the end of medical debt reporting and its potential impact on company operations and the broader healthcare ecosystem. Although the proportion of adults with medical debt in collections on their credit records has significantly decreased over the past several quarters, many agencies still rely on existing credit reporting practices to drive higher liquidations – an option that may not be available for much longer. CAS anticipates that the cessation of medical debt reporting will lead to an increased reliance on legal collections within the healthcare sector, as an ample portion of medical debt typically consists of larger balances that are worth pursuing through legal avenues.

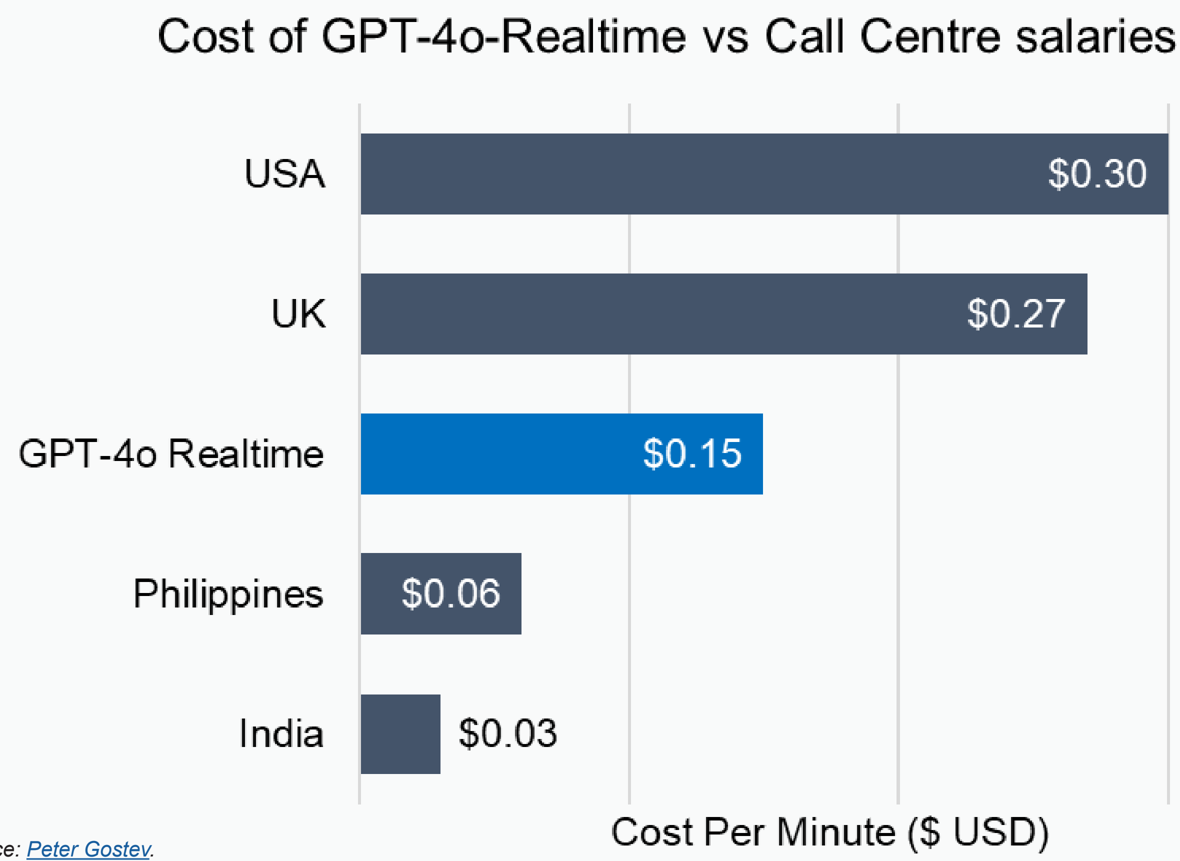


Source: Urban Institute.

Customer Relationship Management

The major trend in the Customer Relationship Management (CRM) industry – which includes Business Process Outsourcing (BPO), Customer Experience Management (CXM), and contact/call centers – is the potential influence of emerging AI technologies on this outsourcing ecosystem and its implications for agent-heavy legacy businesses. CAS believes that traditional agents will not be fully replaced by AI bots anytime soon; however, AI is poised to be a significant disruptor to this industry. We anticipate that AI bots will eventually replace level-1 agent support as technology advances, with human agents focusing more on complex level-2 and level-3 tasks. Nevertheless, this transition will likely take some time, as factors like integration costs, issues with AI accuracy, and potential regulatory measures may slow the adoption of these technologies into everyday operations.

Furthermore, as long as offshoring or nearshoring agents remain cost-competitive with AI voice technology, companies will continue to rely on human agents, who still hold advantages over AI bots in several areas. This is featured in a recent LinkedIn post by Peter Gostev, which compares the cost of the newly launched GPT-4.0 Realtime technology to traditional call center agents in the U.S., UK, Philippines, and India. While AI bot costs are lower than those in the U.S. and UK, they are still roughly double the cost of agents in the Philippines and India, underscoring that AI integration into call center operations may be years, if not longer, from widespread adoption.



Source: Peter Gostev.

Beyond the impact of AI on the traditional agent ecosystem, CAS continues to observe ongoing challenges in hiring and retaining domestic hourly agents, along with a sustained shift toward near- or offshoring these roles to third-party providers with the necessary capabilities. The primary factor driving this shift is cost; U.S.-based companies find it increasingly difficult to justify domestic hiring when outsourced markets offer significant savings. Additionally, domestic hourly workers often demonstrate less motivation than their near- or offshore counterparts, who not only bring higher engagement but also offer a larger talent pool that can be tapped quickly – something challenging to achieve in developed economies like that of the U.S. As a result, the conversation has shifted from whether to offshore to which near- or offshore markets to select, as well as the specific factors companies should weigh in making these decisions.

SECTOR OVERLOOK:

The primary non-industry-specific factor currently shaping M&A discussions is the 2024 election and its anticipated impact on the U.S. economy, tax policy, regulatory compliance, labor market, and other critical influences on the Tech-Enabled OBS sector. With heightened uncertainty surrounding the election, and polls showing a virtual tie between the two leading candidates, business owners are closely monitoring potential outcomes and likely policy shifts to inform their M&A strategies. Many are proactively evaluating how the incoming administration's policies might impact their businesses and shaping their decisions accordingly, as they prepare for the changes 2025 may bring.

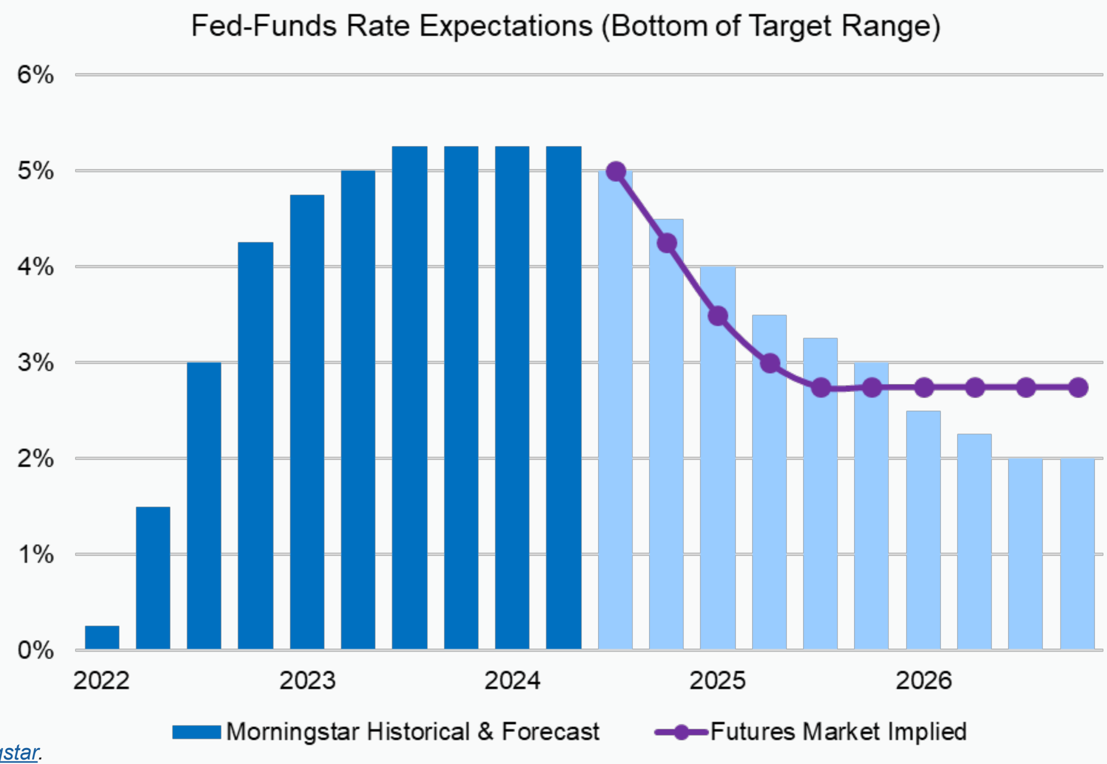
At CAS, we recently explored the 2024 election's potential impact on Tech-Enabled OBS businesses in a blog post, but it is equally important to analyze how the results of both the presidential and congressional races could reshape power in Washington, D.C., and what various outcomes might mean for the United States. A complete sweep by either party (where Democrats or Republicans control the presidency, Senate, and House of Representatives) would likely lead to more aggressive legislative changes. However, the more probable scenario is a split government (where each party holds at least one branch), which would result in more balanced and moderate legislation with fewer drastic shifts.

Potential Scenarios and Policy Implications on Tech-Enabled OBS Sector	
GOP SWEEP **Trump wins presidency** **House: GOP | Senate: GOP**	• Corporate tax lowered, preserving current capital gains rate. • Deregulation reduces compliance costs, bipartisan focus remains on data privacy. • Stricter immigration policy limits labor suppply, likely increasing offshoring needs.
STATUS QUO, CONGRESS FLIPS **Harris wins presidency** **House: DEM | Senate: GOP**	• Potential rollback of 2017 tax cuts and capital gains hike, affecting asset sales timing. • Increased oversight in tech and finance raises compliance costs, Senate limiting major shifts. • Limited changes to immigration or wage policy due to Senate opposition.
EXECUTIVE OVERHAUL **Trump wins presidency** **House: DEM | Senate: GOP**	• Lower corporate taxes with minimal other tax changes or new legislation. • Tech deregulatio continues with Senate stalling major regulatory expansions. • Tight immigration policy constrainst labor supply, increasing demand for offshoring.
DEMOCRATIC UPSIDE SURPRISE **Harris wins presidency** **House: DEM | Senate: DEM**	• Corporate and capital gains taxes increase, encouraging early asset sales. • Expanded oversight in tech and fiannce raises compliance barriers for smaller firms. • Wage hikes and relaxed immigration policies increase domestic labor supply but raise costs.

Source: Corporate Advisory Solutions, Goldman Sachs.

A Republican presidency would generally create a more business-friendly environment for Tech-Enabled Outsourced Business Services companies, likely marked by stable or lower tax rates, reduced regulatory constraints, and limited oversight from agencies like the Consumer Financial Protection Bureau (CFPB). In contrast, a Democratic presidency would likely prioritize consumer protections and aim to enhance regulatory agency powers, potentially imposing higher compliance requirements across industries. These opposing policy agendas would affect the OBS sector in distinct ways: under a Republican-led administration, companies could expect lower operational costs and fewer regulatory hurdles, while a Democratic-led administration would likely increase compliance obligations and prioritize consumer rights protections. Each approach carries unique implications for Tech-Enabled OBS businesses, shaping their regulatory, tax, and labor strategies, as they navigate changing market dynamics.

The Federal Reserve's recent interest rate cut marks a pivotal shift for the Tech-Enabled OBS industry, as the Fed aims to balance economic growth and inflation control. On September 19, 2024, the Federal Open Market Committee (FOMC) reduced the federal funds rate by 50 basis points to a range of 4.75% to 5.00%, signaling the start of a broader rate-cutting phase. This move follows several years of rate hikes aimed at curbing inflation and reflects the Fed's confidence in inflation moving closer to its 2.00% target. Markets are now anticipating additional cuts throughout 2025, potentially bringing rates down to 2.75%-3.00% by 2025 year-end. The gradual rate reductions are part of a "soft-landing" approach, intended to reduce borrowing costs without triggering a recession.



Source: Morningstar.

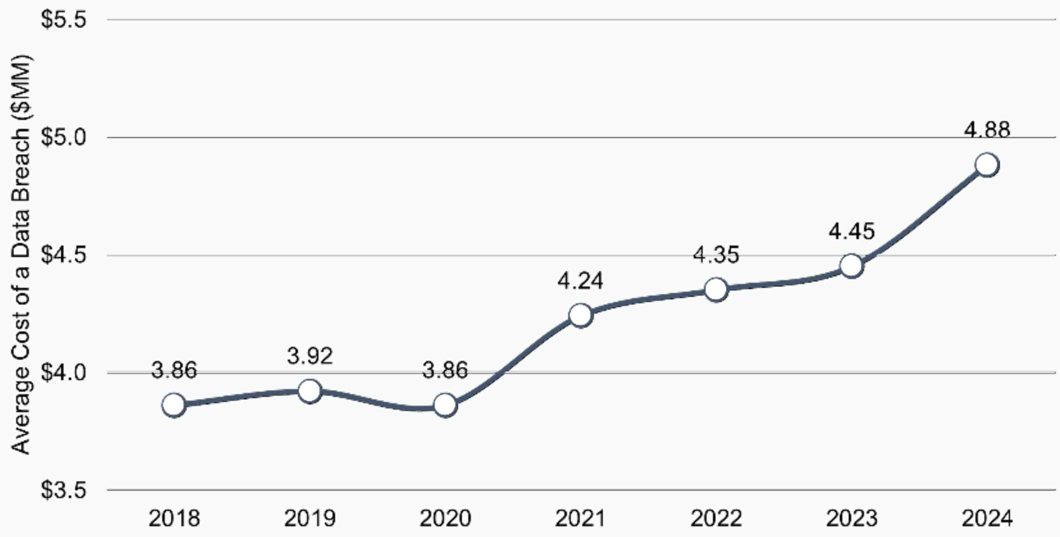
At CAS, we anticipate that projected Fed funds rate cuts will significantly influence the M&A landscape, especially for financial investors leveraging debt in their transactions. Lower interest rates will reduce the cost of capital, enabling private equity and other financial investors to borrow more affordably, which directly boosts potential returns and makes transactions more appealing. Alongside this reduced cost of capital, private equity funds face pressure from historically high levels of dry powder and the impending expiration of prior fund vintages, compelling them to accelerate capital deployment to maintain liquidity for their limited partners.

As inflation trends toward its long-term target of 2.00%, the primary macroeconomic indicators influencing future Federal Reserve interest rate decisions will center on the labor market. Key indicators include the unemployment rate, jobless claims, and other metrics reflecting how U.S. consumers are coping in the current environment. While the unemployment rate is expected to rise gradually, it is anticipated to remain below recessionary levels, having hovered near historical lows and indicating near-full employment over the past several years.

Regarding compliance and regulatory topics, there have been no noteworthy developments since the end of the second quarter, and the situation remains largely status quo as industry professionals await the results of the U.S. presidential elections. Given that most regulatory agencies operate under the direct supervision of the federal government, the industry is closely monitoring whether Donald Trump or Kamala Harris will take over the White House and the level of attention regulatory agencies will receive during their presidential campaigns. If Kamala Harris wins, it is expected that regulatory agencies like the CFPB will continue the recent trend of increased regulation and protection for U.S. consumers in financial services and other sectors. Conversely, if Donald Trump secures a second presidential term, a significant overhaul of the U.S. regulatory system is anticipated, as President Trump has indicated a desire for weaker oversight of the federal government, likely leading to new deregulation within the Tech-Enabled OBS sectors.

In other news, industry professionals are eagerly awaiting the impact of the June 28, 2024 Supreme Court ruling that overturned the Chevron doctrine, which weakens the federal government's position and grants more power to the courts. It is expected that already backlogged courts will face additional pressures from anticipated litigation targeting recently passed regulations. Moreover, the Tech-Enabled OBS sector is looking for new rulings that will establish guardrails for emerging AI and machine learning technologies and their implications for this rapidly growing space, which aims to disrupt major services within the industry.

Lastly, a vital technological topic in the Tech-Enabled Outsourced Business Services industry, aside from the impact of AI, is the growing importance of cybersecurity in day-to-day operations and the increasing threat posed by fraud, scams, attacks, and other malicious activities affecting businesses within the sector. With attacks becoming more frequent and sophisticated, the average cost of a data breach continues to rise steadily, markedly impacting the industry, and prompting founders to remain vigilant. CAS anticipates that cyber incidents and related issues will have a further negative effect on the industry, as business owners must upgrade their legacy firewall protections and proactively train their personnel.



Source: 2024 Cost of a Data Breach Report (IBM).

Given that industries covered in the Tech-Enabled OBS industry handle sensitive consumer information –such as Social Security Numbers, credit card details, and other personal data – cybercriminals are increasingly targeting these businesses, as the potential return on investment from such attacks remains appealing compared to other sectors. As business owners in the Tech-Enabled OBS industry brace for a rise in attacks, we expect expenditures on cybersecurity measures (including cyber insurance) to continue to increase significantly, further compressing margins for businesses across the board.

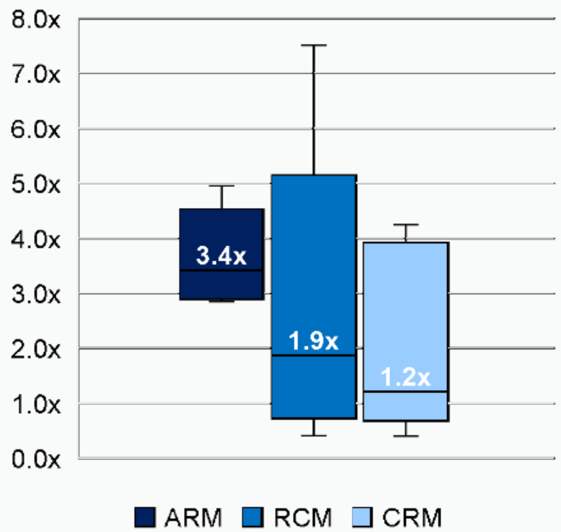
We at Corporate Advisory Solutions are eager to leverage our expertise and insights to assist you in the navigation of this evolving M&A landscape and exploration of strategic opportunities!

PERFORMANCE & VALUATION

The Tech-Enabled Outsourced Business Services market, composed solely of publicly traded companies, continues to underperform the broader market, as represented by the S&P 500. This underperformance stems not only from the benchmark's strong weighting toward technology companies (rather than service-based firms), but also from several industry-specific headwinds, highlighted in previous sections. These risks, observed over recent quarters – along with emerging pressures – are causing service-based, human-capital-intensive industries to lag behind the broader market.

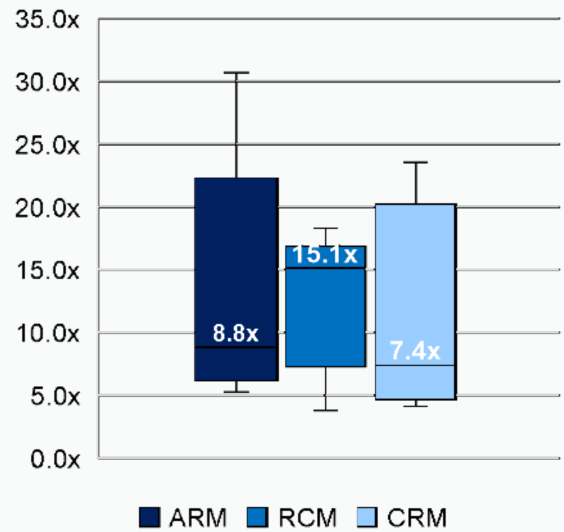
Compared to Q2 2024, all three target verticals showed significant growth, and in Q3 actually outperformed the S&P 500, though they still lag the over 35% increase seen over the trailing twelve months, as of September 30, 2024. Regarding public company valuations, represented by EV/Revenue and EV/EBITDA trading multiples, the valuation multiples remained relatively stable, with a notable increase in RCM valuation multiples driven by R1 RCM's take-private transaction announcement. This development may drive a valuation premium in other RCM companies, which could potentially become take-private targets for large private equity players in the coming quarters.

Public Company EV/Revenue Valuations



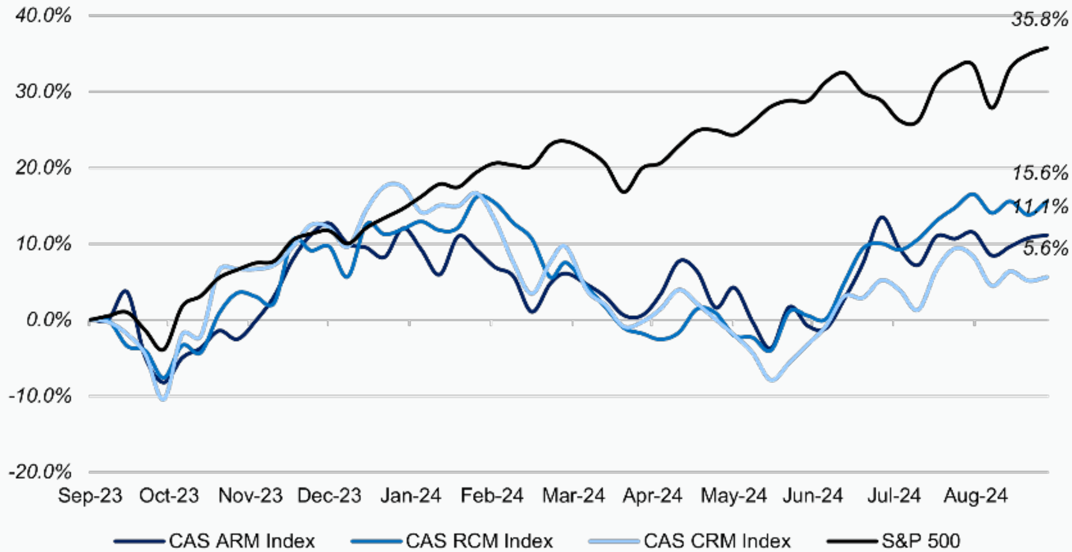
Source: Corporate Advisory Solutions.

Public Company EV/EBITDA Valuations



Source: Corporate Advisory Solutions.

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



Source: FactSet; Data as of September 30, 2024.

KEY TAKEAWAYS

Reflecting on the third quarter of 2024, the Tech-Enabled Outsourced Business Services (OBS) sector is poised for a new wave of consolidation, fueled by growth through inorganic M&A and increased access to cheaper capital. This environment is expected to drive a rise in private equity transactions over the coming quarters. In the Accounts Receivable Management (ARM) industry, challenges are mounting due to rising delinquency rates and the implications of student loan repayments. Concurrently, the healthcare Revenue Cycle Management (RCM) sector faces intensified scrutiny regarding the role of private equity, especially in light of medical debt being excluded from credit reports. In the Customer Relationship Management (CRM) space, companies are navigating unique challenges, including the transformative effects of AI and trends related to offshoring.

Looking ahead, attention is drawn to the potential impacts of the upcoming U.S. elections on the economic and regulatory landscape. The Federal Reserve’s recent pivot toward a rate-cut cycle aims to facilitate a soft landing for the economy, prompting companies to monitor shifts in interest rates closely. Moreover, cybersecurity remains a top priority, as organizations strive to safeguard against evolving threats. As these dynamics unfold, firms that can adapt through strategic investments in technology and operational efficiencies are likely to emerge as leaders in this competitive landscape.

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 09/30/2024	Price	% of52 Week High	MarketCap	EnterpriseValue	Revenue	EBITDA	EBITDA Margin	EV/Revenue	EV/EBITDA
Accounts Receivable Management	Encore Capital Group, Inc.	$47.3	86.7%	$1,119.9	$4,324.4	$1,222.0	$321.9	26.3%	3.5x	13.4x
	PRA Group, Inc.	$22.4	71.1%	$881.4	$4,094.8	$825.7	$133.5	16.2%	5.0x	30.7x
	Intrum AB	$4.7	64.9%	$571.0	$5,343.5	$1,872.5	$547.9	29.3%	2.9x	9.8x
	Hoist Finance AB	$8.6	90.0%	$747.7	$1,451.4	$350.9	$94.2	26.8%	4.1x	15.4x
	Axactor ASA	$0.4	77.0%	$119.3	$1,126.6	$275.7	$142.7	51.8%	4.1x	7.9x
	B2 Impact ASA	$0.7	82.4%	$303.3	$1,092.8	$332.5	$171.1	51.5%	3.3x	6.4x
	KRUK S.A.	$115.7	92.5%	$2,234.9	$1,289.6	$444.0	$242.9	54.7%	2.9x	5.3x
	Credit Corp Group Limited	$10.8	82.9%	$733.3	$989.8	$335.2	$137.7	41.1%	3.0x	7.2x
Median			82.6%	$740.5	$1,370.5	$397.4	$156.9	35.2%	3.4x	8.8x
Revenue Cycle Management	R1 RCM Inc	$14.2	93.7%	$5,978.2	$8,184.5	$2,254.2	$541.8	24.0%	3.6x	15.1x
	Streamline Health Solutions, I	$3.5	35.4%	$14.6	$23.0	$23.1	($3.7)	-16.1%	1.0x	N/M
	TruBridge, Inc.	$12.0	82.9%	$178.8	$354.9	$335.6	$23.0	6.9%	1.1x	15.4x
	CareCloud, Inc.	$2.6	69.5%	$42.6	$48.8	$117.1	$12.8	11.0%	0.4x	3.8x
	Cognizant Tech Solutions Co	$77.2	96.2%	$38,358.5	$37,390.5	$19,353.0	$3,463.0	17.9%	1.9x	10.8x
	Everyday People Financial In	$0.3	69.9%	$33.3	$52.4	$28.1	($2.3)	-8.3%	1.9x	N/M
	Waystar Holding Corp.	$27.9	97.6%	$4,648.1	$5,944.3	$791.0	$324.9	41.1%	7.5x	18.3x
Median			82.9%	$178.8	$354.9	$335.6	$23.0	11.0%	1.9x	15.1x
Customer Relationship Management	Concentrix Corporation	$51.3	48.3%	$3,300.2	$8,696.9	$7,369.9	$1,176.1	16.0%	1.2x	7.4x
	NICE Ltd. Sponsored ADR	$173.7	64.1%	$11,020.7	$10,096.6	$2,377.5	$598.3	25.2%	4.2x	16.9x
	Conduent, Inc.	$4.0	95.6%	$660.0	$1,516.0	$3,722.0	$369.0	9.9%	0.4x	4.1x
	ExlService Holdings, Inc.	$38.2	93.6%	$6,187.0	$6,321.0	$1,630.7	$298.5	18.3%	3.9x	21.2x
	Teleperformance SE	$103.8	61.9%	$6,181.9	$10,952.3	$9,021.9	$1,764.4	19.6%	1.2x	6.2x
	TELUS International, Inc.	$3.9	34.0%	$1,074.8	$2,576.8	$2,708.0	$562.0	20.8%	1.0x	4.6x
	TTEC Holdings, Inc.	$5.9	25.9%	$279.5	$1,246.9	$2,458.9	$235.1	9.6%	0.5x	5.3x
	Firstsource Solutions Limited	$3.7	82.6%	$2,550.2	$2,707.9	$753.4	$115.0	15.3%	3.6x	23.5x
	Genpact Limited	$39.2	98.1%	$6,986.3	$7,946.0	$4,475.6	$713.5	15.9%	1.8x	11.1x
Median			64.1%	$3,300.2	$6,321.0	$2,708.0	$562.0	16.0%	1.2x	7.4x
Overall Median			82.5%	$978.1	$2,642.3	$1,023.8	$270.7	18.9%	2.9x	10.3x

Source: FactSet. Data as of September 30, 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 serve a broad range of clients within the Outsourced Business Services (OBS) industries, our specialized focus is on partnering with tech-forward companies that are innovating within this space.

Valuation Services

- Market Valuation Assessment
- Intellectual Property (IP) Valuation
- Key Value Drivers and Detractors
- General Market Trend Analysis
- Technology Review and Research
- Operations Workflow
- 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

Strategic Advisory

- Board Level Consulting
- Business & Regulatory Compliance Assessments
- Financial Performance REviews
- Contribution Margin Analysis
- Market Research
- Executive Recruitment
- Exit Preparation
- Cost Optimization & Vendor Relationships

CAS works 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 within the OBS industries. Consequently, CAS has accumulated substantial experience advising companies adopting advanced technology models such as SaaS, Artificial Intelligence (AI), Machine Learning (ML), and Large Language Models (LLMs). This positions us as a strategic advisor adept at navigating the rapidly evolving tech landscape within OBS.

Valuation Services

- **Expertise:** CAS has one of 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.

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

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. Additionally, in 2024, we concluded two more deals – one in January and another in April, 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

Distressed Financial Services & Auto Collections Agency

CAS facilitated the sale of select auto and financial assets to a strategic buyer.

SBA Sale of Crowdfunding Company

CAS acted as the exclusive sell-side advisor for a crowdfunding company in SBA sale to a strategic buyer.

Sale of Educational Focused Collection Agency

CAS facilitated the sale of an educational focused ARM company to a strategic competitor.

Sale of Two Debt Portfolios on Behalf of Leading Syndicate

CAS facilitated the sale of two debt portfolios on behalf of a leading syndicate.

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MAXIMIZING VALUE THROUGH COST OPTIMIZATION

PREPARING YOUR BUSINESS FOR M&A

By Simon Rosenbaum

In the dynamic world of business transactions, preparing your tech-enabled outsourced business services company for a potential M&A transaction requires meticulous planning and strategic decision making. One of the most crucial aspects of this preparation is cost optimization, which involves strategically aligning your resources to maximize profitability and position your company for success in a business sale. Cost optimization is not just about cutting expenses; it is about ensuring that every dollar spent contributes effectively to your company's value. This process not only enhances your company's current financial profile but also significantly impacts its valuation in potential M&A scenarios.

The importance of cost optimization in M&A preparations cannot be overstated, especially since many tech-enabled outsourced business services companies trade based on a multiple of adjusted earnings. This valuation method considers not only the raw profitability of your business but also how your margin profile compares to peers. While acquirers will scrutinize past financials, their primary focus is on the future. A business demonstrating an expanding margin profile is likely to command a higher valuation multiple, making cost optimization a powerful tool for maximizing your company's enterprise value.

Let's explore key areas where cost optimization can make a considerable difference in preparing your business for a potential M&A transaction:

Financial Hygiene

Maintaining good financial hygiene is fundamental to presenting your business in the best light to potential acquirers. This process begins with a thorough analysis of your cost structure. Identify non-essential and inefficient costs that might be driving your margins down. These could include outdated systems, underutilized subscriptions, or inefficient processes that consume more resources than necessary.

Another critical aspect of financial hygiene is the proper tracking of non-recurring costs. These one-time or non-operational expenses can significantly impact your bottom line, potentially giving an inaccurate picture of your ongoing profitability. By diligently documenting these costs, you ensure they can be appropriately adjusted out during the sale process, providing a clearer view of your company's true operational performance.

Establishing and tracking departmental budgets is also a crucial element of financial hygiene. This practice not only helps control costs but also demonstrates to potential acquirers that your business has robust financial management and controls in place. It also lays the groundwork for creating accurate and credible financial forecasts – an important factor in how acquirers will value your business.

Operational Efficiency

Operational efficiency is a cornerstone of cost optimization and can substantially enhance your company's attractiveness to potential acquirers. One impactful strategy is the automation of recurring and repetitive tasks. By leveraging technology to handle routine processes, you can improve your margins, demonstrate efficiency, and free up valuable human capital for more complex, value-adding, and margin-expanding tasks.

Another key consideration is the timing of major projects. If you are planning significant changes, such as transitioning to a new software system, it is imperative to complete these before contemplating a strategic transaction. Running larger projects during this period can create the risk of costs overrunning, potentially negatively impacting your short-term profitability. By completing these projects beforehand, you can showcase your business with better margins and avoid the associated risks during the M&A process.

Strategic Business Decisions

Strategic business decisions play a vital role in optimizing your cost structure and enhancing your company's margin profile. A critical area to focus on is the analysis of margin and profitability across different clients and revenue streams. This analysis can reveal important insights about where your true profitability lies.

In some cases, your company may discover clients that generate revenue but are deeply unprofitable, with little prospect for improvement. In such situations, the strategic decision to "churn" these clients – deliberately ending unprofitable relationships – can actually improve your overall margin profile. While it may seem counterintuitive to reduce your client base, eliminating unprofitable engagements can allow you to redirect resources to more lucrative opportunities.

This ties directly into the next strategic focus: identifying and pursuing better opportunities that generate higher profit margins. By reallocating resources from unprofitable clients to high-margin potential areas, you can improve your margins and demonstrate to potential acquirers that you have a strong grasp of your business's growth levers. This might involve expanding services to existing profitable clients, targeting new market segments, or developing new service offerings that align with your core competencies and have higher profit potential.

By focusing on financial hygiene, operational efficiency, and strategic business decisions, you can significantly enhance your company's value proposition to potential acquirers. Do not wait until a potential buyer is at your doorstep to begin cost-optimizing your business. Whether or not you are currently considering selling your business, starting the preparation process early increases the likelihood of a successful outcome. Corporate Advisory Solutions specializes in guiding businesses through this process. Explore our Exit Preparation Services program to learn how we can help you prepare with cost optimization and other essential strategies to maximize value and secure your future. Engage with us today to leverage our expertise and ensure you are ready when the time is right to pursue your exit strategy.