

The background of the entire image is a night-time photograph of a city skyline, likely London. The sky is a deep, dark blue. In the foreground, a large, modern building with a curved facade and many lit windows is prominent. Behind it, several other skyscrapers are visible, some with illuminated facades. A construction crane is visible on the right side of the skyline. The overall scene is illuminated by the city lights, creating a vibrant contrast against the dark sky.

# Business Services Sector Spotlight

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*April 2023*

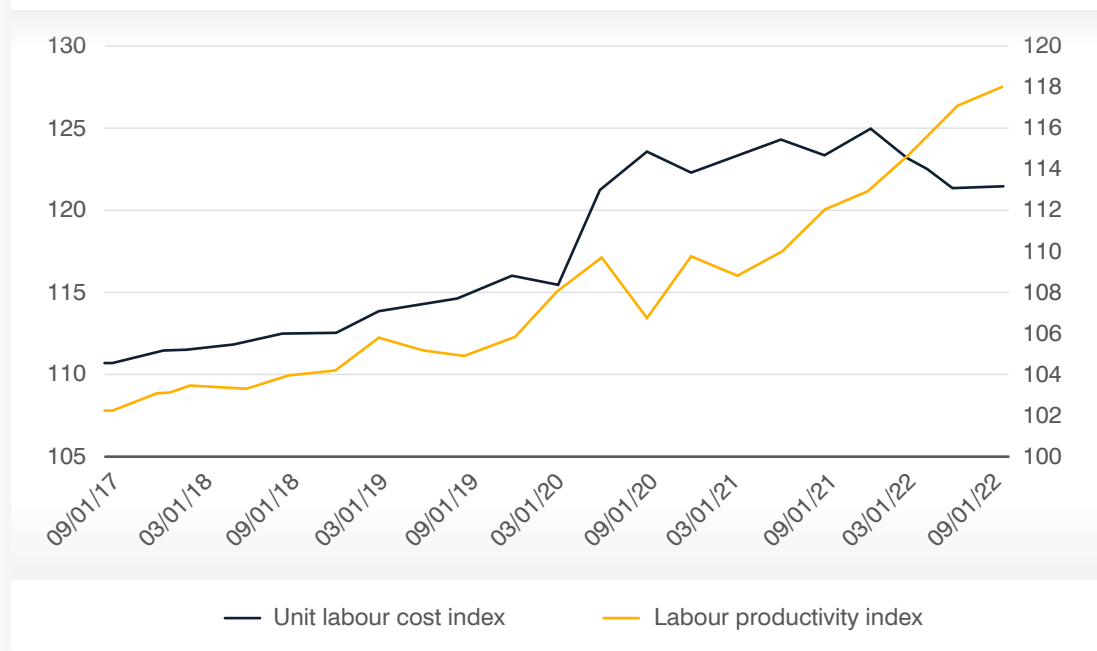


# Introduction

The Business Services sector continues to face significant challenges in limiting increases to its cost base against an environment of inflation and availability-induced-labour-rate pressure.

Going forward, many executives will seek to balance salary increases with productivity growth, to temper potential price increases and break the inflationary cycle. Efficiency improvements will be required to keep businesses competitive as automation initiatives, coupled with rapid advances in artificial intelligence, provoke fresh thinking that will undoubtedly play a key part in the third industrial revolution.

**Business Services Trends and Outlook**



Source: Bloomberg



## Private Equity has Moved ESG up its Agenda

An increasing number of PE firms are incorporating ESG factors into their corporate policies, operating procedures and investment decisions. In 2022, 1,069 more investors committed to the United Nations Principles for Responsible Investment (PRI). McKinsey reported that the proportion of total private capital fundraising that came from firms which incorporate ESG into their investment policies rose to 66% in 2022, a new high.

Why? Because the evidence increasingly supports a positive correlation between ESG

and financial performance. For example, recent McKinsey research found that publicly traded ESG outperformers that also outperformed peers on margin and growth delivered 200 basis points in excess return to their shareholders over companies that only outperformed financially. New government policies that provide incentives for certain ESG investments are likely to strengthen this correlation further. Second, LPs are increasingly incorporating ESG metrics into their capital allocation processes. One recent survey indicates that three quarters of LPs

would consider eliminating a manager from consideration if it was unable to provide acceptable standards of ESG-related disclosures.

Finally, macroeconomic forces, including higher energy prices and geopolitical conflict, have strengthened long-term investor interest in alternative energy sources and overall energy independence. ————— ♦

# Public company valuations

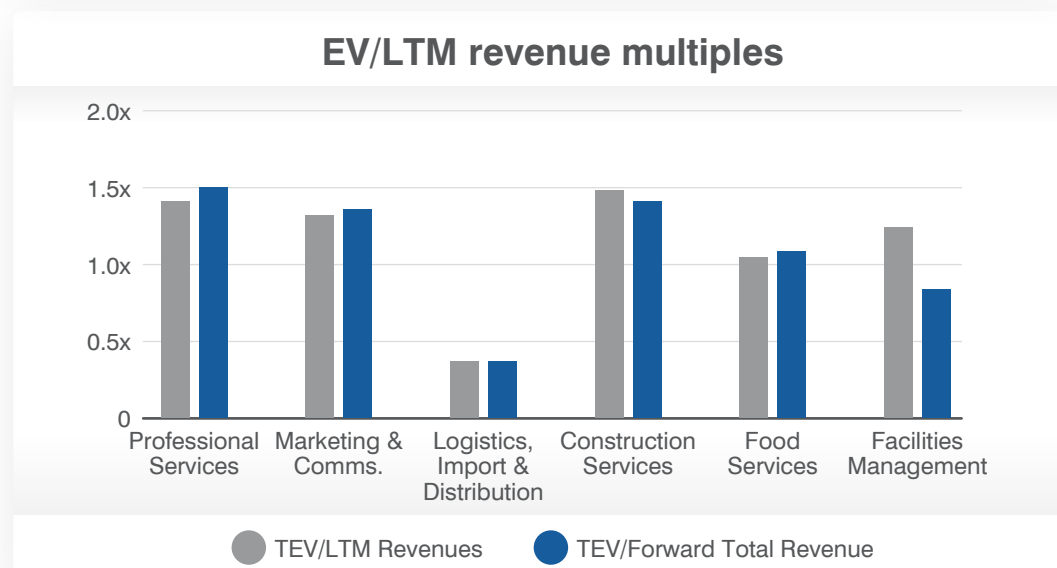
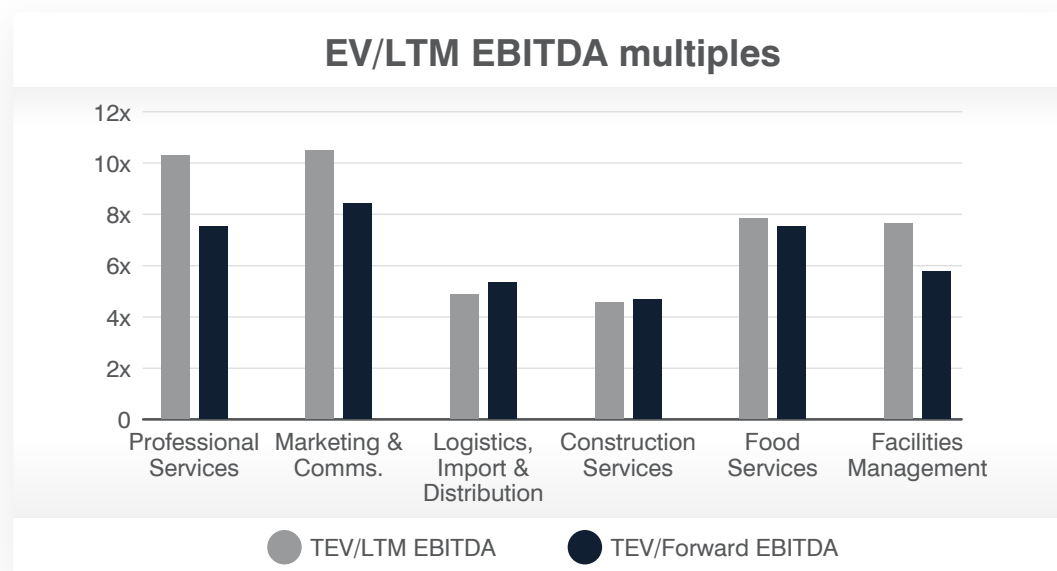
Listed comparables can provide a good indication of value. For a broad coverage of Business Services we have selected professional Services (i.e., Consulting, Legal, Recruitment, Financial Services etc.), Advertising & Marketing, Logistics, Construction/Real Estate Development, Food Services and facilities management.

Construction and Facilities Management are showing lower forward revenues indicating more bullish forecasts for the future. In Construction Services, the combination of public and private-sector demand, infrastructure modernisation and green initiatives will drive consistent revenue growth for the years to come.

Rises in revenue multiples show opposing sentiment across the remaining sectors as forecasts receive increased scrutiny and ongoing market pressures suppress discretionary spending expectations for external professional services and advertising.

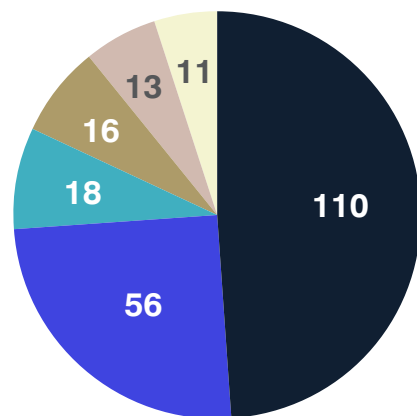
Despite the downgrade in revenue expectations, overall profitability is expected to remain strong across most services. The exceptions to this trend are Logistics and Construction Services which have significant fixed, non-labour costs limiting their ability to benefit from productivity initiatives.

Looking forward as inflation continues to remain above 10%, executives will need to balance restraint in raising prices with maintaining sufficient levels of profitability to sustain growth.



# Private sector transactions

The business services sector remained active despite ongoing uncertainty. Below are the following number of deals per sector:



## Number of deals per sub-sector

- Consulting & Professional Services - 110
- Construction Services - 56
- Logistics, Import & Distribution - 18
- Marketing & Communications - 16
- Facilities Management - 13
- Food Services - 11

# Selected Transactions



Acquired

**BARRY FLEMING & PARTNERS**

EV/Rev: **4.42x**

EV/EBITDA: **N/A**

Kingswood Holdings, a Guernsey-based wealth and investment management firm acquired BFP, a tax, trust and investment advisory firm for total consideration of £6.2m.



Acquired

**TETRA TECH**



EV/Rev: **1.33x**

EV/EBITDA: **13.02x**

US construction and consulting firm, Tetra Tech, acquired RPS Group - a global consulting and advisory firm to the property, energy, transport, defence, water and resources sectors - for £636m after outbidding WSP.



Acquired



**FENOM DIGITAL**



WPP was the most active acquiror in the Marketing and Comms space acquiring DTI Systems, Fenom Digital, Goat Solutions and Obviously Social.



Acquired



EV/Rev: **1.38x**

EV/EBITDA: **15.3x**

Dutch logistics giant DFDS acquired McBurney Transport, a haulage company in a £138m deal. Last year McBurney turned over £99.7m producing a GP of £15.2m.



Acquired

**CHOZEN**

Authentic Asian Food

EV/Rev: **N/A**

EV/EBITDA: **N/A**

Asian Quick Service Restaurant (QSR) chain Chopstix acquired Chozen Noodle's 27 franchised sites across Moto and Roadchef motorway service areas (MSAs).



Acquired



Construction engineering group, RSK, continues to be highly acquisitive: Treefellers and Richard Irvin FM, two facilities management businesses; marketing business, BMG Research; and ground investigation business Irish Drilling).