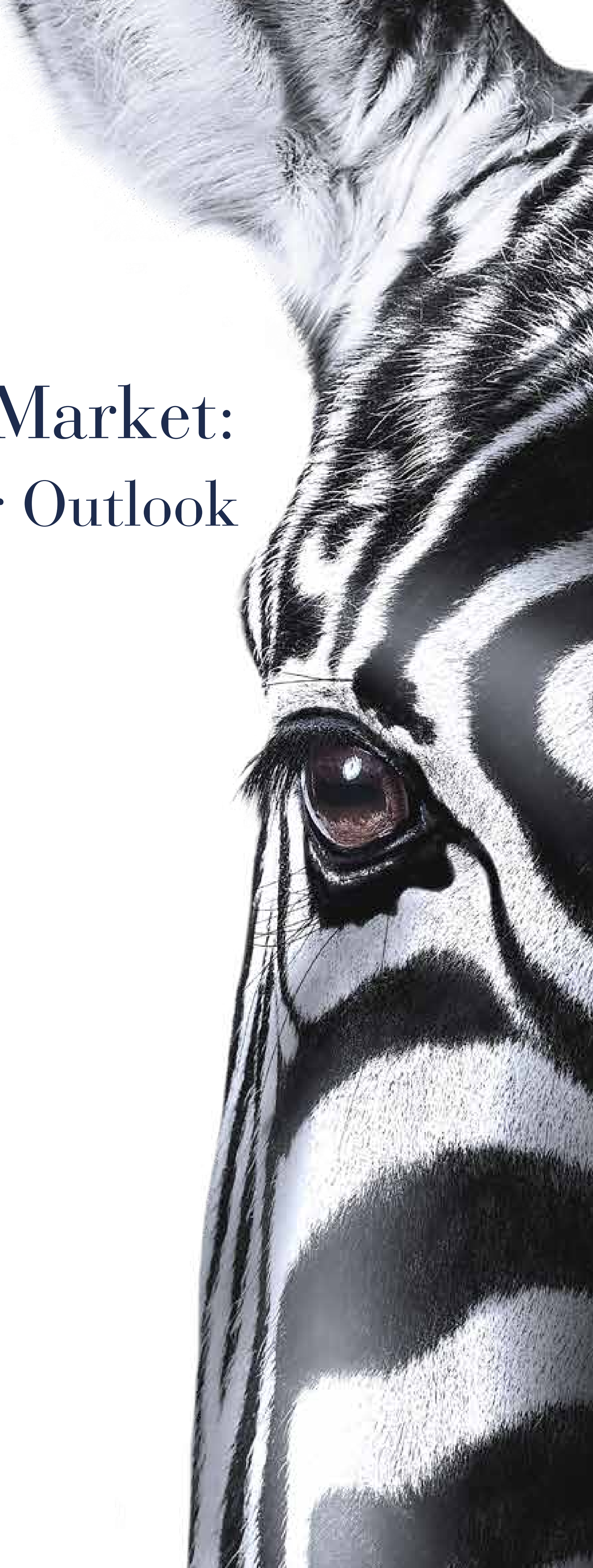
Eyes on the Market:
Services Sector Outlook

February 2020



Investec
Corporate & Investment Banking

2019 – Our reflections

Key trends and drivers seen in 2019

Political headwinds weigh heavy on corporate spending

- General uncertainty surrounding Brexit, the looming threat of a no deal scenario and a number of 'false starts' – notably Theresa May's failed withdrawal agreement – hampered UK deal activity in 2019
- Macroeconomic concerns including trade tensions and the approaching downturn of the cycle also blew subtle cold winds
- As a result, UK dealmaking saw a 27.2% decline in value from 2018 (£184.1bn, 1,657 deals) to £134.1bn across 1,403 deals
- A conservative majority win in December's general election marked the beginnings of political clarity – yet much remains to be seen

Private equity buyers remained confident in the mid market[1]...

- With trade buyers largely scaling back investment activity, financial sponsors proved their firepower, coupled with increased pressure to deploy capital, to be more than sufficient to push past the political deadlock
- Buyouts reached their highest value since the crisis, with the total spend on UK assets by PE firms at £42.4bn across 259 deals, up 58.2% on 2018
- Buyers saw a shift towards 'safe bets', with a move away from some of the more speculative deals observed in 2018. Funds are actively seeking assets with high quality of earnings, strong revenue visibility and the ability to transcend cyclical and macroeconomic pressures

...whilst sellers maintained their positions, as holding periods increased

- The value of private equity exits reached its lowest level since 2013, at £25bn across 176 deals, with firms holding onto assets in the hopes of stronger valuations in future years
- As the exit window closes for funds reaching lifetime, firms will seek to realise their investments. This implies an imminent 'wave' of exits – which may come in the form of private sales or IPOs

Public to Private transactions reached a 12 year high

- UK take-privates hit their highest value and volume since 2007, reaching £20.2bn across 14 deals
- Unloved plcs proved attractive targets for private equity buyers who faced increasingly competitive private M&A processes
- Attractive valuations have begun to outweigh the perceived complexity associated with public deals

Inbound cross-border UK M&A fell significantly

- 2019 saw the number of inbound M&A deals reach its lowest since 2013, with aggregate value falling 19.1% from 2018s figure to £98.2bn across 485 deals
- In context, 2019 followed a particularly strong year for inbound M&A in 2018. The decline in value is amplified by a weakened sterling and increased protectionism against foreign investment

Source: Mergermarket
Note: (1) The mid market is defined here as deals within the €100m-€1bn Enterprise Value range

2020 - Outlook and focus areas

1

An increasing pipeline of private equity exits

- A lack of visbility around the election and Brexit in 2019 led firms to hold onto assets, in the hope of a more certain and active market returning in 2020
- We expect this to reverse to some extent in 2020 as greater political certainty returns
- Although sterling has strengthened since 2018, it maintains a level low enough to attract overseas buyers

2

Continuance of the public to private trend

- Successful p2p deals in 2019 will attract more financial buyers to consider plc's as legitimate targets
- The quality and integrity of available public assets remains very attractive
- We expect the carve out of non core assets from plcs to increase in 2020

3

The return of the IPO

- Following a lull in 2019 as public market investors went 'risk off', we have started 2020 with a strong pipeline of IPO canidates
- We believe that the public markets will still pay up for strong, resilient growth businesses presenting another compelling exit option
- High quality tech-enabled services businesses are under represented on the public markets and will be highly valued by plc investors

4

Sector specific drivers

- We expect activity in the business services, financial services, healthcare and TMT sectors to continue to remain healthy in 2020, with a particular focus on sub sectors that demonstrate significant recurring revenue and strong cash flow characteristics
- In particular, tech-underpinned services will be a key trend for M&A this year, with valuation multiples boosted by premiums of the kind the market affords only to assets with value-enhancing tech-enablement
- Below are the sub-sectors which we envisage being particularly active within Services in 2020

Key areas of focus in 2020

Professional Services

Fund and trust administration

Education

Testing, Inspection and Certification

Financial Services

Source: Herbert Smith Freehills, Mergermarket, Bloomberg news, EY Global Capital Confidence Barometer

Professional Services

A look back at 2019

- High levels of M&A activity across both strategic and financial investor pools
- Trade deals have been driven by sometimes contradictory rationale
    - Some mergers have been used to grow scale and/or bring together complementary service offerings, e.g. Tilney Wealth Management merging with Smith & Williamson
    - Inversely, some firms have been divesting non-core business units with a view to reducing perceived conflicts across their various service lines, e.g. KPMG's sale of its pensions advisory business to Exponent Private Equity
- Private Equity investors continue to be increasingly active in the sector as they get more comfortable with "people businesses"
    - Most recently, Investec advised StoneTurn, a global advisory firm, on its growth capital raise and strategic partnership with MML Capital Partners

What we expect from 2020

- We expect M&A to continue in the professional services space as a result of the following drivers:
    - Independent firms seeking to grow at pace, e.g. the ability to hire integrated teams / specialist practices rather than having to build organically
    - Continued pressure on the largest firms to address perceived conflicts of interest, e.g. disposing of certain non-audit practices
    - Technology is playing an increasingly sophisticated role in professional service offerings, e.g. from retrospective e-discovery to predictive fraud analytics. Tech-enabled service offerings appeal to a wider investor base than the traditional "white-collar consulting" model
- Independent professional service firms, particularly partnerships, present a number of unique challenges in an M&A context, including, inter alia:
    - Changing partner compensation models
    - Pre-closing retained earnings treatment
    - Governance changes and independence
- Investec is well placed to advise on these and other issues given its experience in the space

StoneTurn

October 2019

Case study: StoneTurn Group

Investec acted as sole Financial Adviser to StoneTurn Group ("StoneTurn", "the Company") on their capital raise and strategic partnership with MML Capital Partners ("MML")

Founded in 2004, StoneTurn, a global advisory firm, assists companies, their counsel and government agencies on regulatory, risk and compliance issues, investigations and business disputes. It serves its clients from offices across the U.S., and in the U.K., Germany, Brazil and South Africa, assisted by a network of senior advisers around the world.

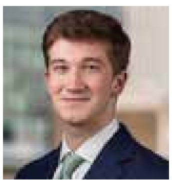
StoneTurn approached Investec directly in early 2019 to support them in finding a strategic partner who would provide a growth capital raise, following a previous fundraise attempt.

Investec solicited multiple funding offers from a targeted group of International investors. with a track record for minority investments in people businesses, including MML.

Deal team

Jonathan Arrowsmith

David Bickerstaffe



Hamish Ross

Following a comparative analysis of the inbound offers, it was clear that MML best understood StoneTurn's culture and was best placed to support the company in delivering its growth strategy. Investec advised the company on process timing, negotiation tactics and transaction strategy until the transaction completed in October 2019.

Fund and trust administration

A look back at 2019

- Strong structural growth drivers continued during the year. In particular, those administrators servicing alternative assets saw a tail wind of c.8% market growth, which is expected to continue in the foreseeable future

- As expected, consolidation continued at pace, with a growing number of consolidators seeking to build out both geographic presence and service capability through M&A

- Ocorian's acquisition of Estera was one of the stand out deals, providing the combined group with a true global presence

- Investment in technology is now a pre-requisite for long term success in the sector. Clients are becoming increasingly demanding, and those administrators who are able to both offer a superior front end, but equally important, back end infrastructure, put themselves at a significant competitive advantage

What we expect from 2020

- We expect consolidation to continue to drive the industry. Geographic expansion, service offering enrichment, and technology enhancement are likely to be the key drivers of M&A

- The industry is global and those administrators able to offer a global offering will be best placed. Asia-Pac and the US are likely to continue to be the fastest growing regions, however there will be continued growth coming from the EMEA region. For example, the tightening of regulation of Switzerland represents further growth potential in the region

OCORIAN	microgen Financial Systems	Equiom VÄRDE	SANNE	SANNE	ESTERA
MLA for debt facilities backing the merger of Ocorian and Estera	Class 1 disposal (carve-out) to Silverfleet Capital	Provider of debt to Varde	Acquisition of LIS	Acquisition of IFS and associated £102m fundraise	Refinance of existing shareholder loan notes
Super Senior Facilities Inflexion	Financial adviser	MLA for Super Senior Debt Facilities	Financial adviser	Sole financial adviser and broker	Sole arranger and provider
February 2020	March 2019	December 2019	September 2017	January 2017	January 2017

Equiom	alterDomus	SANNE	SANNE	ELIAN	SANNE
Refinance of existing shareholder loan notes	Acquisition by Permira	Acquisition of FLSV	Acquisition of IDS Fund Services	Acquisition of SFM Europe	£232m Main Market IPO
Sole arranger and provider	Provider of Senior Secured Debt Finance	Sole Financial adviser, Sponsor, bookrunner & broker	Financial adviser	Senior lender	Sponsor, Sole bookrunner & broker
December 2016	November 2016	November 2016	March 2016	September 2015	March 2015

Education

A look back at 2019

In 2019, the industry was characterised by the following trends:

- Increasing competition from non-degree routes such as apprenticeships
- Continued growth in education technology and online content / courses
- Changing workforce requirements with a significant increase in the number of reskilling / upskilling opportunities
- Increasing demand for higher quality education and use of additional resources to further education experiences

Continued interest in the sector from trade and PE was observed throughout 2019

Notable deals in the sector include Ardian's acquisition of Study Group from Providence, Inflexion's acquisition of Times Higher Education from TPG Capital, Synova's acquisition of Chatsworth Schools and Bright Scholar Education's acquisition of CATS Colleges from Bridgepoint backed Cambridge Education Group

What we expect from 2020

We expect significant interest in the UK education sector to continue from both trade and financial players, driven by supportive macro trends and a continuation of many of the themes seen in 2019. Valuations will likely remain comparatively high due to the scarcity of high quality assets of scale and significant demand from a global pool of investors. The potential impact on student mobility from Brexit and Coronavirus is still relatively unknown and will likely cause some concern to certain businesses and investors until more clarity emerges.

The UK education sector is constantly evolving with new regulations impacting different aspects of the value chain in a variety of ways, however, we still expect to see overall sector growth in the coming years as student numbers increase, demand grows for higher quality education and technology becomes more commonplace in the everyday education environment.

Key themes to watch in 2020:

- Increasing pupil numbers and the ongoing lack of teachers will likely put significant strain on the UK schooling system in coming years. This will likely give rise to school reforms in order to increase the number of classrooms and may also increase the number of academies and multi-acedemy trusts
- Reinforced focus on vocational learning - the new T Levels (modern vocational qualifications as an alternative to A Levels) will be taught from September 2020. These will replace a large number of existing courses with lessons and assessments that have been developed in conjunction with industry
- We also expect to see continuing growth in vocational, work focussed apprecticeships as industry increases adoption and levy utilisation
- Continuing advancements in EdTech will provide teachers and students with an ever increasing selection of digital content, customised learning tools (e.g. Virtual Reality) and valuable personalised analytics

TICC

A look back at 2019

- M&A activity has continued at high levels driven by a variety of investor rationale, including:
  - Trade buyers continuing to consolidate a highly fragmented market (e.g. Marlowe plc's acquisition of Quantum Compliance, a UK H&S compliance advisor))
  - PE-backed operators continuing their buy-and-build strategies (e.g. Bridgepoint backed EMT acquiring Aerotech, a UK inspection / NDT provider to the aerospace and other industries)
  - Financial investors seeking value in primary deals (e.g. Searchlight's acquisition of Opus Group, the Swedish-listed vehicle / emission inspection business, for c.7x EV/EBITDA)
- Private Equity investors increasingly sought tech-enabled TICC assets, with platform-like characteristics that scale favourably compared to traditional TICC models
- Furthermore, we saw particular interest from Private Equity investors in the Certification / Compliance end of the TICC spectrum
- Trade buyers (particularly the majors) traded at historically high multiples during 2019 and acquisitions have been highly value accretive

What we expect from 2020

- Strong macro drivers should continue to underpin organic growth in the sector, including:
  - The global trend of increasing regulation
  - Greater focus on environmental considerations (e.g. lifecycle carbon assessments, stricter emissions standards and testing, etc.)
  - Increasing global trade flows and higher scrutiny on supply chains
- Notwithstanding the UK's departure from the EU we are seeing increasing inbound and outbound interest in UK-EU M&A in the space; both the EU majors remaining highly acquisitive, and UK operators seeking EU platform assets
- Despite recent volumes of M&A activity the sector remains fragmented, with a long tail of privately owned, sub-scale operators ripe for consolidation
- Technological developments will continue to challenge (e.g. computer simulations replacing lab tests) and enhance (e.g. drones being used to inspect aerial structures) the TICC service offering, and those capable of embracing technology and adapting traditional methodologies will fare best
- We see the TICC sector developing in an exciting way, with tech-enabled players accelerating away from their peers and continuing to attract high levels of M&A activity

Investec and our European partner, Capitalmind, have significant TICC M&A experience having advised on a number of cross-border deals in the sector

Sale of Intersica by the Socotec Group July 2019	Sale of Bertin Pharma to Amatsi Group August 2018	Sale of Ascal to Eurfins July 2018	Acquisition of Care For Food by Normec May 2018	Sale of Milouda & Migal to Merieux February 2018
Sale of Geoscan to Pragma Capital February 2018	Sale of CEP Institute to Endel Engie January 2018	£614m sale of Exova to EMT October 2017	Sale of Plurel to Dekra September 2017	Sale of ETS Intertek July 2017
Sale of Schutter Group to Bureau Veritas March 2017	Sale of Fondis on behalf of Eurzeo July 2017	£44.5m sale of TRaC by Bioquesll to EMT March 2015		

European transactions delivered through our exclusive partnership with Capitalmind, an M&A specialist with >20 completed TIC transactions in recent years

Financial Services

A look back at 2019

- Strong levels of M&A continued across the sector as consolidation activity ramped up, with a number of high profile transactions

- A combination of rising regulatory cost and other expenses coupled with ongoing fee compression and a constant flow of capital into more passive management, continued to disadvantage small and mid-sized firms when competing against the majors

- M&A was typically driven by either a desire to gain scale and drive operational efficiencies or provide a more holistic client solution through vertical integration, taking fees at multiple points in the value chain. A few notable trade deals include:
    - Intrinsic’s takeover of Lighthouse Group plc for £46m
    - Tilney’s acquisition of Smith & Williamson for £625m (subject to regulatory approval)
    - Brooks MacDonald’s acquisition of Cornelian Asset Managers for up to £39m

- Financial Sponsors continued to seek opportunities in this space as they looked to acquire strong performing platforms for buy and build growth plans. A few notable PE deals include:
    - Phoenix Equity Partners acquisition of Mobius Life
    - Carlyle Group backed Hurst Point’s acquisition of Harwood Wealth for c. £91m

- The industry in 2019 was characterised by a number of key themes:
    - Further consolidation to build scale and efficiency
    - Continued vertical integration and strategic partnerships
    - Fee compression across product and advice
    - Increased regulatory and compliance cost
    - Digitalisation of client service

What we expect from 2020

- The sector has seen continued M&A activity at the start of 2020 with a number of announced deals (CBPE's acquisition of Perspective, AnaCap's acquisition of Wealthtime, Interactive Investor's recommended offer for Share plc and Jupiter's acquisition of Merian) and some discussions which did not progress (Harwood Capital's talks with Frenkel Topping)

- We expect significant levels of M&A activity to continue throughout 2020 as consolidation dominates the headlines

- Broader sector themes are likely to focus on the following key areas:
    - Increased regulatory and compliance burden will continue to make life tougher for firms, particularly smaller ones, in turn driving consolidation. Technology solutions including artificial intelligence will become more common in simplifying compliance and driving efficiency savings
    - Fees will come under continued pressure as the requirement for greater transparency and comparability continues to sweep the market
    - Greater prominence will be given to environmental, social, and governance (ESG) investment opportunities with clients putting pressure on advisers and fund managers
    - Technology will play an increasingly significant role in both client experience and insights - apps, digital platforms, and artificial intelligence is becoming the primary focus
    - The industry will pay closer attention to supporting client longevity as increasing amounts of capital are transferred to the next generation

Hurst Point Capital / The Carlyle Group	LIGHTHOUSE GROUP FINANCIAL SOLUTIONS	TILNEY GROUP
Financing of Hurst Point’s acquisition of Harwood Wealth	£46m recommended offer by Quilter	Joint Underwriter, MLA and Bookrunner for refinancing of Tilney Group
Term loan and revolving credit facility	Financial Adviser	Senior Secured Underwriter
December 2019	June 2019	December 2018

Lighthouse Group

June 2019

Case study: Sale of Lighthouse Group to Intrinsic Financial Services (Quilter)

Investec advised Lighthouse Group plc ("Lighthouse") on its £46.2m acquisition by Intrinsic Financial Services Limited ("Intrinsic"), a wholly-owned indirect subsidiary of Quilter plc ("Quilter")

LIGHTHOUSE GROUP
FINANCIAL SOLUTIONS

Quilter

Deal team

William Godfrey
Associate Director

David Bickerstaffe
Associate

Lighthouse was an AIM-quoted group of approximately 400 independent financial advisers (IFAs), providing financial advice to retail and corporate customers across the UK.

Intrinsic saw the opportunity to: (i) grow its national advice business, adding experienced advisers and complementary customer segments; (ii) add scale and operational strength to Intrinsic's existing Network business, with Lighthouse's Communities Network business; (iii) combine Lighthouse's successful affinity-based advisory business with Intrinsic's depth of advice capability, leveraging the breadth of combined market reach; and (iv) deliver Quilter's fully established investment solutions business to Lighthouse's existing and future client base.

Investec advised Lighthouse on the broad array of transaction strategy, negotiation tactics, shareholder engagement and regulatory considerations associated with a public takeover, and as a result, the transaction successfully completed in June 2019.

Deep Services sector knowledge and experience

OCORIAN

MLA for debt facilities backing the merger of Ocorian and Estera

Super Senior Facilities
Inflexion

February 2020

GCI nasstar

£80m Public to Private of Nasstar plc

Sole Financial Adviser

February 2020

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midwich

£39.7m placing to fund the acquisition of Starin Marketing Inc

NOMAD, Joint Broker and Joint Bookrunner

February 2020

DBAY Advisors

Capital injection and 51% takeover of Eddie Stobart Logistics' trading entities

Financial Adviser

December 2019

Hurst Point Capital
The Carlyle Group

Financing of Hurst Point's acquisition of Harwood Wealth

Term loan and revolving credit facility

December 2019

Equiom VÄRDE

Provider of debt to Varde

MLA for Super Senior Debt Facilities

December 2019

StoneTurn

Capital raise by StoneTurn from MML Capital Partners to provide growth capital and partner cash-out

Financial Adviser

November 2019

VERMAAT bridgepoint

Bookrunner, Underwriter and provider of Senior Debt Facilities

Senior Debt Facilities

October 2019

Chatsworth Schools
Synova Capital

Senior Debt Facilities to support Synova Capital buy & build platform

£15m Senior Debt Facilities

October 2019

SK AeroSafety Group

Acquisition Facilities to Support SK AeroSafety

Term Debt

October 2019

EATON GATE
MAGENTA

Senior Debt facilities to a specialist MGU

Senior Debt Facilities

October 2019

FirstPort Chamonix epiris

Acquisition of FirstPort by Equistone

Financial Adviser

July 2019

Deep Services sector knowledge and experience

EVCARGO / EmergeVest	AC / EmergeVest	GEV / BRIDGES	LIGHTHOUSE GROUP
Refinancing & new debt facilities across the EV Cargo Group £150m assed based and cash flow debt package	Revolving debt facilities into freight forwarding & supply chain specialist £22m Receivables Finance package	Acquisition Facilities to wind turbine maintenance business Senior Debt Facilities	£46m recommended offer by Quilter Financial Adviser
July 2019	July 2019	June 2019	June 2019

Equiom / VÄRDE / LDC	microgen Financial Systems	PRISM MEDICAL UK / Limerston Capital	UKFast / inflexion
Investment in a leading provider of professional administration services Super Senior Facilities	Class 1 disposal (carve-out) to Silverfleet Capital Financial adviser	Debt Facilities to Prism Medical UK Debt Facilities	MLA for acquisition of minority stake in UKFast Senior Secured Club
May 2019	March 2019	March 2019	February 2019

DENTEX / UNIVERSAL PARTNERS FX	supporting education / ICG	SK AeroSafety Group / LL	Autovista Group / HAYFIN
Acquisition Facilities to UK Based Dental Practice Acquisition Platform £15m Debt Facilities	Refinancing of Supporting Education Group Unitranche	Acquisition Facilities to SK AeroSafety Group Senior Debt Facilities	MLA for the refinancing of Autovista Super Senior Provider
February 2019	February 2019	January 2019	January 2019

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