

Global Business Process Outsourcing M&A Update

Summer 2014

Attractive near-shore M&A opportunities in added-value BPO categories

The global business process outsourcing (BPO) industry is changing, from offshore to near-shore and further diversification to value added services. In order to meet the needs of more demanding clients, BPO providers need to have scale, broad industry expertise and the latest technology.

Key observations from our research:

- **Targeted growth with new and existing clients**
IT outsourcing services and industry-specific BPO activities still dominate the majority of BPO services. However, this is a highly competitive market and the pressure on margins means that traditional providers are targeting higher growth, higher margin services, underpenetrated sectors and the under-served mid-sized corporations which are increasing outsourcing. M&A is often the fastest way to acquire capabilities and access to these markets.
- **Structural change through M&A**
BPO providers are transitioning away from traditional business models that are focused on labour cost reduction. They are using bolt-on acquisitions to provide end-to-end, sector vertical specific value added services.
- **Private equity is an important investor**
Private equity (PE) is attracted to the BPO industry and is targeting business models with long-term customer relationships and high levels of recurring revenues operating in a fragmented sector which facilitates a buy and build strategy.



“The BPO market continues to grow with companies outsourcing more and more of their services. BPO providers are actively looking to acquire niche players with innovative services and access to new geographical markets to secure their market position and margins.”

Jan Willem Jonkman

Managing Partner - Capitalmind

BPOs are looking to add additional and innovative services

Industry Trends

The US\$952 billion global BPO industry is characterized by strong growth prospects with individual segments forecast to grow with a CAGR between 3.5% and 7.6% from 2013 to 2017 (see Figure 1).

Whilst operational efficiency is still an important growth driver, BPOs are looking to add additional and innovative services which clients perceive as adding value. Major trends in the industry include:

- Delivery models evolving**

Declining margins from traditional outsourcing activities, due to increasing competition and an increasing focus on quality and capabilities, means that some BPOs are targeting higher margin services such as procurement and sourcing, talent acquisition and big data. For example, Canada's Telus International has invested to transform its procurement and supply chain operations in order to be able to win large contracts.

Cost savings are no longer the primary reason for companies to consider outsourcing. Competitiveness, scalability and innovation are also playing an increasingly important role. As clients increasingly outsource more strategic functions, BPOs have the opportunity to capture a greater proportion of client spend and increase customer loyalty.



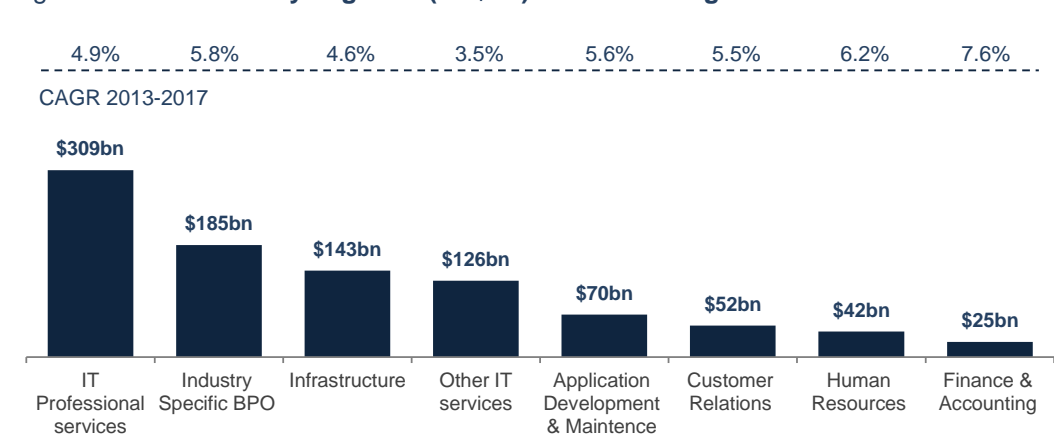
"Multi-channel approach, Big Data and new technologies are essential for delivering added value services to clients."

Jack Vermeer
CEO – IPG International

- Mid-sized clients increasing outsourcing**

Mid-sized companies are using outsourcing to overcome the rising costs of meeting compliance and regulatory obligations. Whilst large corporates are well served by BPOs and the market is becoming saturated, mid-sized corporates are an under penetrated customer base.

Figure 1: Market size by segment (US\$bn) and forecast growth



Sources: HFS Research, 2013; KellyOCG – 6 Key Trends in Outsourcing

Increasing trend to onshore and near-shore BPO

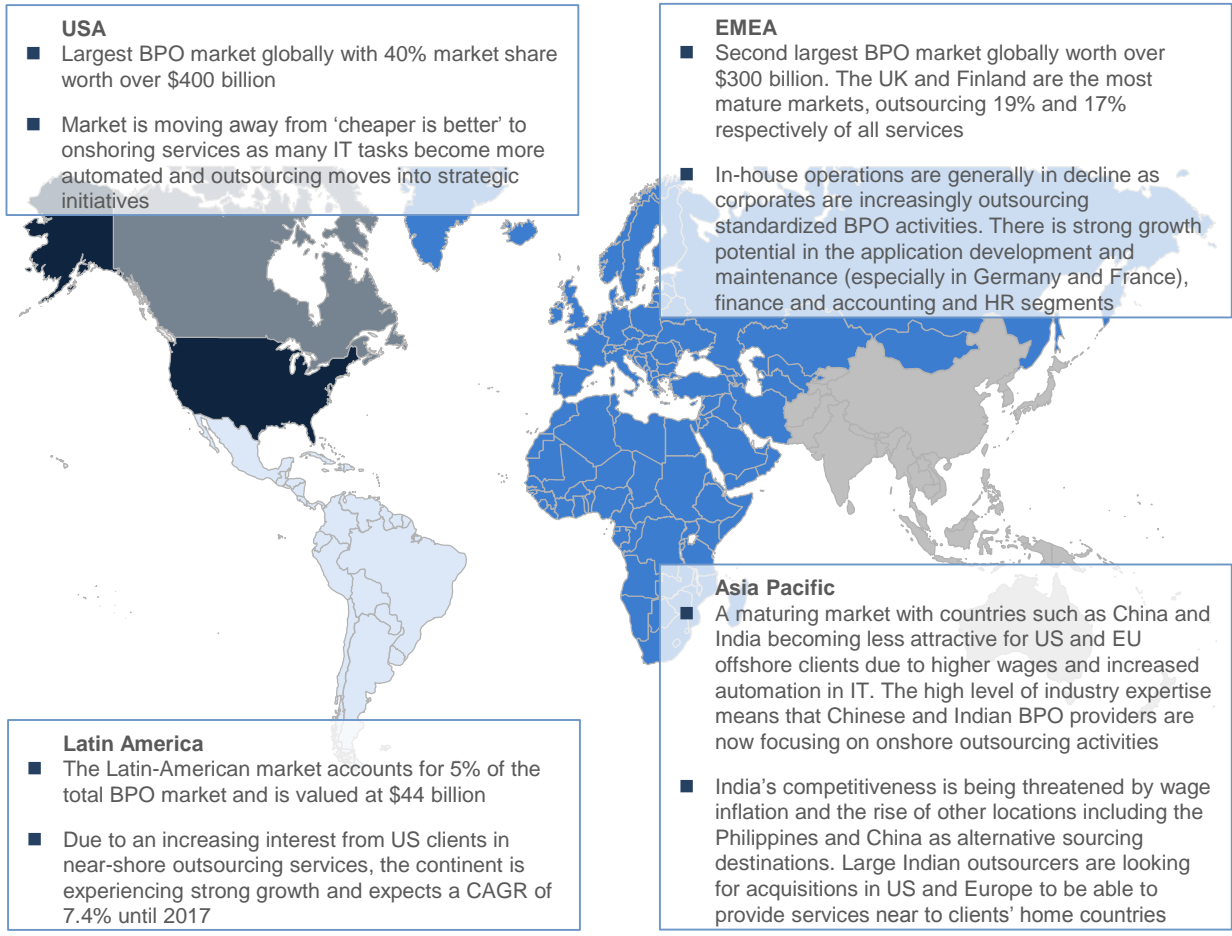
At the same time, clients' growing confidence in third party service providers is enabling them to divest their holdings of captives and concentrate on their core business. For example, Cognizant has acquired a number of captives including CoreLogic India, the India-based captive operations of CoreLogic, for US\$50 million, and ValueSource Technologies from Belgian bank KBC Group.

associated with miscommunication issues is leading a number of BPOs to move some operations back to home and neighbouring countries ('nearshoring'). For example, BPO provider Teleperformance serves the Czech Republic market by nearshoring from Poland and Slovakia.

- **Onshoring and nearshoring increasing**
Significant rises in wages in China and India and the operational and reputational risk

- **New clients in emerging markets**
The domestic markets in India, China and some South American countries are developing quickly. Some of the companies that provided services to corporates in the US or Europe are now increasing the number of domestic clients.

Figure 2: International trends



Scale is a key consolidation driver

M&A Activity

Leading BPO service providers are making strategic acquisitions to gain scale, geographical coverage and broaden or enhance their service offering in order to meet clients' demands and to protect margins and increase revenues (see Figure 3).

Gain scale

A number of deals are being driven by the strategic need to be able to provide a broad service offering across end markets to multinational clients.

- Convergys' recent US\$820 million acquisition of US-based Stream Global Services creates the second largest contact centre services provider globally. Stream's higher margin complementary customer portfolio expands its platform across several global markets including Latin America and EMEA and industries such as technology.

- NCO Group, backed by US-based One Equity Partners, has made a number of call centre acquisitions including the US\$488 million merger with APAC Customer Services. With combined revenues of approximately US\$2 billion, APAC and NCO will be a fully scaled BPO provider in both the CRM and ARM segments.
- US TeleTech Holdings' acquisition of Californian-based WebMetro, one of the 25 largest search marketing agencies, enables TeleTech to enhance its multi-channel customer acquisition capabilities.
- Some BPO providers are consolidating their home markets. For example, the leading hosting businesses in the Netherlands – ASP4all Bitbrains Group, IS and IT-Ernity – are using acquisitions to become the market leaders in their respective sectors.

Figure 3: Top 20 BPO companies

| | | Revenues (US\$m) | EV/EBITDA | Customer Contact Services | Finance & Accounting | Human Resources | IT / Hosting | Help Desk & Tech Support | Sales & Logistics | Media & Marketing Services | Analytics & Consultancy | Facility Management Security & Procurement | Payment Services / Recovery | Legal | Back Office Support | Engineering |
|----------------------------|--|------------------|-----------|---------------------------|----------------------|-----------------|--------------|--------------------------|-------------------|----------------------------|-------------------------|--|-----------------------------|-------|---------------------|-------------|
| Accenture | | 28,774 | 10.6x | x | x | | x | x | | | x | x | x | | | |
| Telus Intl. | | 11,467 | 8.8x | x | | | x | x | x | x | | x | | | x | |
| Synnex | | 11,411 | 10.4x | x | | | | x | x | | | | | | x | x |
| CGI Group | | 10,374 | 9.1x | | | | x | | | | x | x | | | x | x |
| Cognizant | | 9,244 | 12.9x | | x | | x | | | | x | | x | | | x |
| Infosys BPO | | 8,249 | 11.1x | x | x | x | | | x | | x | x | | x | | x |
| Capita | | 6,583 | 16.4x | x | x | x | x | x | | | | x | | | x | |
| Arvato (Bertelsmann) | | 5,613 | - | x | | | | | x | x | | | | | | |
| HCL Technologies | | 4,757 | 12.2x | | x | x | x | | | | x | | | | | x |
| Teleperformance | | 3,357 | 7.9x | x | x | | | | | x | x | | | | x | |
| Temp Holdings | | 3,236 | 12.4x | x | x | x | | x | x | x | | | | | | x |
| West Corp | | 2,701 | 7.6x | x | x | | | | x | | | | | | | |
| Genpact | | 2,156 | 9.5x | x | x | x | x | | | x | | x | x | x | | x |
| Convergys | | 2,046 | 6.7x | x | x | | | x | x | x | x | | | | x | |
| ACS INC (Xerox Company) | | 1,356 | - | x | x | x | x | | | | | | x | | | |
| Teletch Holdings | | 1,297 | 7.9x | x | | | x | x | x | x | | | | | x | |
| Atento | | 1,247 | - | x | x | | | x | x | | | | | | x | |
| NCO Group Inc | | 1,216 | - | x | x | | x | x | x | | x | x | x | x | x | |
| Sitel | | 1,118 | - | x | | | x | x | | | x | | | | | |
| Sutherland Global Services | | 1,074 | - | x | x | | | x | | | x | | | | x | |

Source: Capital IQ

This list includes BPO's active in different sub-segments of the BPO market. Beside these companies there are several large specialized IT outsourcing firms like Wipro, Terremark, Savvis, RackSpace and InterXion.

Acquire niche services

Large providers are targeting niche services which enable them to access or strengthen their offering in high growth verticals and higher margin support areas.

- TeleTech Holdings acquired Technology Solutions Group, a small communications solutions provider, to gain access to its strong presence in the healthcare sector.
- Serial acquirer Accenture’s 2013 acquisition of majority stake in Vivere Brasil, which provides it with access to Brazil’s high growth mortgage market, was followed by the US\$375 million acquisition of US-based procurement BPO specialist Procurian.

Acquire global capabilities

More BPO providers now serve clients that have operations based in locations with different regulatory and cultural operating environments. Cross-border deals are often driven by clients demanding a nearshore or onshore capability in the their home territory. Acquisitions are the fastest way to acquire local expertise.

- Access to bilingual skills, closer times zones and cultural similarities are supporting nearshore M&A activity. Convergys’ 2013 acquisition of New Zealand-based Datacom will add 15

Asian languages to Convergys’ language capabilities and 1,000 employees to its Southeast Asia platform. Teleperformance acquired Metis Group, one of the leading outsourced contact centres in Turkey, to develop both the local market as well as nearshore solutions.

- Affiliated Computer Services, the IT outsourcing and consulting arm of Xerox, entered the Italian market via its acquisition of the call centre BPO assets of Italy’s Innova Consulting. This followed the acquisition of Dutch Unamic, the largest privately-owned customer care provider in the Benelux, which added regional market expertise in Western Europe and Turkey.
- The combination of a focus on added value services and slowing organic growth in India means that large Indian outsourcers are acquisitive in the US and Europe. For example, Cognizant acquired Texas-based accounts payable service provider SourceNet Solutions from BNY Mellon and MediCall, a provider of outsourced clinical services with headquarters in US and major operations in the Philippines.

Transaction multiples for BPOs differ between sub-segments within the sector. We see EBITDA multiples of 5-7x for pure call centres to 9-11x for infrastructure players.

Acquisition in niche services enable large players to strengthen their offerings



Private equity is facilitating buy and build strategies

Private Equity

PE firms from the US and Europe are active in the sector. PE is attracted to business models with long-term customer relationships and high levels of recurring revenues operating in a fragmented sector which facilitates a buy and build strategy.

- Larger PE houses are active. APAX Partners has acquired Garda World Security Group and TIVIT, a leading integrated IT and BPO services provider in Latin America. Bain Capital has acquired a 30% stake in Genpact, an Indian business processing outsourcer, for US\$1 billion and the purchase of Atento, Telefonica's call centre business, for US\$1.34 billion.
- Mid-market PE is also active. Charterhouse Capital Partners-backed Webhelp's 2013 acquisition of call centre HEROTsc enables the French contact centre operator to expand into the UK. Philippines-based SPi Global, acquired by CVC Capital-Partners in 2013, recently completed the acquisition of Bachieve International, which enables SPi to gain access to China.

- PE has exited to both strategic buyers and financial investors. In 2013, ClearLight Partners sold US-based The Outsource Group, a provider of revenue management services in the healthcare sector, to Parallon Business Solutions, a healthcare business operational services provider. UK diversified services provider Serco's acquisition of Indian BPO Intelenet was an exit for Blackstone and Barclays.
- Blackstone's 2013 acquisition of Dutch Intertrust Group was an exit for Dutch investor Waterland Private Equity Investments.
- Vitruvian Partners has made a strategic investment in the recently merged ASP4all Bitbrains Group. The investment will help accelerate the integration of the two companies and will facilitate international expansion.



Prospects for M&A and the industry

We expect that M&A activity will continue at its current level for the next few years given all the factors outlined above. In particular we expect to see:

- Large BPOs continuing to target niche players providing specialist services in order to gain scale, broader geographic coverage, acquire technology, access new clients and offer higher value services.

- BPO providers continuing to use M&A to expand into high growth verticals including financial services, healthcare, oil & gas and retail.
- A number of providers establishing leading-edge technological platforms that enable delivery of complex services and which can be scaled up without significant cost increases.
- Domestic companies increasing their onshore services offering.

Figure 4: Selected BPO deals

| Date | Target Company | Country | Target activities | Acquirer | Country | Deal Value (US\$m) |
|---------------|--|-------------|---|--------------------------------|-------------|--------------------|
| July - 14 | ASP4all Bitbrains Group | Netherlands | One of the leading providers of managed hosting and cloud services in the Netherlands | Vitruvian (PE) | UK | nd |
| June - 14 | Stok UK Limited | UK | Logistics and fulfilment specialist providing hospitals and medical product manufacturers | Arvato AG | Germany | nd |
| May - 14 | Bachieve International Inc. | China | BPO and ITO services provider | SPi Global Holdings, Inc. | Philippines | nd |
| April - 14 | Stream Global Services Inc. | US | Business process outsourcing services provider | Convergys Corporation | US | 820 |
| February - 14 | SNT | Netherlands | Customer contact centre | Webhelp | France | nd |
| January - 14 | IBM Worldwide Customer Care Business Process Outsourcing Services Business | US | Business process outsourcing provider | Concentrix Corporation | US | 490 |
| January - 14 | GXS Group Inc | US | B2B cloud integration services providers | Open Text Corporation | Canada | 1165 |
| February - 13 | Telecom Service Centres Limited | UK | Customer management solutions provider | Webhelp, SA | France | 120 |
| April - 13 | Datacom Group Limited | Malaysia | Information technology and business process outsourcing providers | Convergys Corporation | US | 21 |
| April - 13 | Intertrust International Topholding B.V. | Netherlands | Trust and administration services providers to corporate clients | The Blackstone Group | US | 882 |
| May - 13 | IT-Ernity | Netherlands | Internet services and hosting solutions | GMT / Veronis Suhler Stevenson | UK / US | nd |
| December - 13 | Procurian Inc. | US | Procurement outsourcing solutions providers | Accenture plc | Ireland | 375 |
| June - 12 | Globe Op Financial Services, SA | UK | Providers of BPO, financial technology and analytics to hedge funds and other sectors of the financial industry | SS&C Technologies Holding | US | 824 |
| October - 12 | Genpact Limited | Bermuda | Business process outsourcing provider | Bain Capital | US | 1000 |
| October - 12 | Lodestone Holdings | Switzerland | Consulting firm advising companies on strategy, process optimization and IT transformation | Infosys Lyd | India | 331 |
| November - 12 | Garda Corp Security Corp | Canada | Physical security, risk consulting and cash logistics service providers | Apax partners | UK | 1050 |
| January - 11 | Decision Insight Information Group | US | Information and infrastructure products and services providers for financial and legal professionals | TPG Capital | US | 849 |
| March - 11 | Unamic/HCN | Netherlands | Customer care provider in the Benelux | Affiliated Computer Services | US | nd |
| March - 11 | Intelenet Global Services Pvt. Ltd. | India | Third party business process outsourcing service providers in India and Internationally | Serco Group | UK | 641 |
| May - 11 | Headstrong Inc. | US | Global consulting and IT services company | Genpact Limited | Bermuda | 550 |
| August - 11 | Raet BV | Netherlands | Providers of information technology solutions in the field of human resources and payroll services | CVC | UK | 576 |
| October - 11 | Apac Customer Services | US | Provides customer care outsourcing solutions and business process outsourcing services | Expert Global Solutions | US | 488 |

Sources: Capital IQ / Mergermarket

CASE STUDY 1: IPG INTERNATIONAL

Capitalmind advises the shareholders and management of IPG International, the leading Benelux contact centre provider, on its international growth strategy.



- IPG, owned by the Koramic Investment Group, has used a buy and build strategy to increase domestic market share, enter new markets and expand into new verticals.
- In 2013, IPG acquired SNT Belgium to become the largest contact centre in Belgium. This transaction, along with the acquisitions of BizzXsell (outbound services with a focus on the media industry) and Call Center Benelux (the Netherlands-based contact centre specializing in technical service and multi-channel support) are part of IPG's growth strategy and the development of its international operations.
- IPG's strategy includes onshore, nearshoring and offshoring, with locations in the Netherlands, Belgium and Morocco and active in France. Germany is also a potential new market. Added value is delivered by adding new technologies, like social customer care tools, voice analytics, further automation and a multi-channel approach to service clients with the highest quality.
- In 2013, IPG doubled its revenues to €100 million and attributed 85% of the revenue growth to acquisitions.

CASE STUDY 2: SYNTESYS

Capitalmind advises the shareholders of Syntesys, a European leading SWIFT services provider to financial institutions and large corporates, through its different development stages up to the sale to US-based Sungard



- Syntesys is a European leading SWIFT services provider to financial institutions and large corporates. Founded in Paris (France) in 2005 further to a MBO, Syntesys developed in Switzerland by merging with a local player in 2007. The group then completed a fundraising underwritten by a French Private Equity fund in 2009 (CM-CIC Capital Privé) to finance the development of a payment messaging application. In 2011, while developing well on its key markets (France, Switzerland and Germany) thanks to a unique positioning on a booming niche market, the shareholders of Syntesys wanted to find a strategic buyer able to speed up the development of their company globally.
- Despite its relatively small size compared to potential buyers, Syntesys attracted strong interest from large international strategic counterparts, in the USA and in Europe. To manage this sales process, the shareholders appointed Capitalmind to initiate and conduct discussions, organize a swift and fruitful auction process and manage different exit options for the shareholders. While enabling to reach a high financial value, this process allowed the management team to choose SunGard, their preferred partner, who would provide very good business opportunities for both the company and employees.
- Capitalmind's long term relationships with the shareholders of Syntesys and strong understanding of the business played a key role all along the various stages of Syntesys' development.

Contact Us

Capitalmind has built a strong reputation on the Business Services, and a proven track-record on the Business Process Outsourcing segment. The team of experts focusing on Business Services is co-led by Jan Willem Jonkman and Michel Degryck. If you would like to discuss this report in more detail or opportunities for your business, call +31 73 623 87 74 for the Netherlands or +33 148 24 63 00 for France.



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Selected Capitalmind Business Services deals

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Managed services

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Application IT services

SWIFT service provider

Document capture Solutions provider

Logistics solutions

Award winning international corporate finance advice



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The Netherlands
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Poland
Russia
Singapore

South Africa
Sweden
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Turkey
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Capitalmind advises mid-market companies, corporates, entrepreneurs and (PE) investors on selling and buying businesses, MBO, growth capital and debt finance.

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