Capstone Headwaters

BPO & Contact Centers

M&A Executive Summary | March 2021

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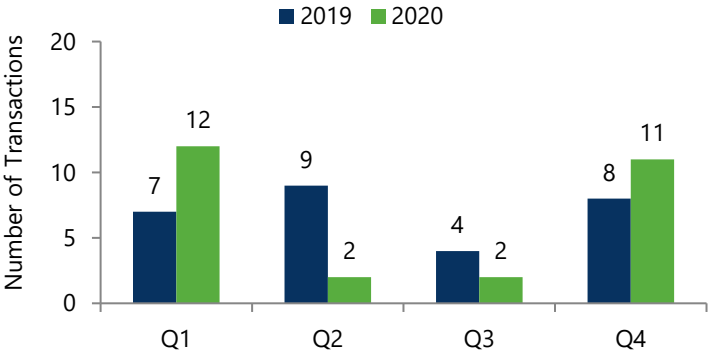
INDUSTRY OVERVIEW

The Business Process Outsourcing (BPO) & Contact Centers industry continues to serve as a key resource for companies seeking cost-effective alternatives for back-office functions. Amid COVID-19 and the decentralized workforce, BPO & contact service centers provide the flexible telemarketing and call center solutions necessary for companies to expand. Future demand for such services is expected to continue, as e-commerce sales are forecasted to rise at an annualized rate of 8.2% over the next five years, according to *IBISWorld.*[1] Although the Telemarketing and Contact Center industry market value declined by 4% in 2020, the industry is projected to experience a 2.3% compound annual growth rate to reach $27.2 billion by 2025.

Bob Balaban, Managing Director

"The outlook for BPO mergers and acquisitions in 2021 is very strong, driven by a broad trend towards outsourcing and good availability of debt and equity capital. The most sought-after targets are companies who are applying the latest technologies to increase the efficiency of their workers and optimize customer experience."

M&A ACTIVITY



Source: Capital IQ, PitchBook, FactSet, and Capstone Research

Merger and acquisition (M&A) activity in the BPO & Contact Centers industry rebounded in Q4 from depressed levels, with 11 deals announced or closed in Q4 2020 compared to eight in Q4 2019. Resilience within the industry is further exemplified by the mere 3% decrease in transaction volume on a year-over-year (YOY) basis despite economic hurdles stemming from COVID-19. Strategic buyers accounted for ~74% of total deals in 2020, with BPO & contact center service providers integrating digital customer experience tools through acquisitions. Notably, Teleperformance SE (ENXTPA:TEP) acquired consumer-focused health platform, Health Advocate Solutions, Inc., for $690 million (13.8x EBITDA) to bolster its Special Services business in the U.S. Healthcare market.

KEY TRENDS & DRIVERS

Large enterprises and small businesses alike are exploring outsourcing as a viable growth opportunity, with 50% of U.S. small businesses planning to outsource business processes, according to a recent survey highlighted by Morph Networks.[2] As remote-work continues, businesses have increasingly demanded technology-based tools to scale productivity of internal processes and inbound coverage. Outsourcing back-office functions and contact center services enables businesses to improve efficiency and drive cost savings.

BPO & contact center service providers have shifted focus to prioritize customer experience (CX) to mitigate supply-chain and delivery challenges organizations face due to COVID-19 lockdowns and social distancing. CX solutions serve as a key differentiator as companies are willing to invest in retaining their consumer-base as they weather the pandemic.[3] Solutions such as offering a more skilled workforce with multilingual employees, increased availability through flexible operating hours, and leveraging automation platforms, voice recognition software, and chatbots allow BPO & contact service providers to keep up with client demand while providing quality assurance.

Historically, demand for low-cost call center services shifted providers offshore, yet they remain industry leaders through the diversification of outsourced services. For example, Filipino call centers have expanded services to include knowledge process outsourcing such as market research and brand equity research. The Philippines, with 96.3% of it's population fluid in English, is predicted to cover 15% of the total global outsourcing market by 2022, according to Time Doctor.[4]

Mexico, the Caribbean, and Central and South America are increasingly attractive sites for nearshore call centers due to their proximity to the U.S. With automated solutions combined with a highly trained multilingual customer support staff, nearshore call centers outpace offshore call centers in terms of service quality and produce an estimated 40% cost savings compared to call centers onshore, according to CostomerServ.[5] Of note, recently public IBEX Ltd. (NAS:IBEX), an end-to-end provider of technology-enabled customer lifecycle experience solutions, recorded a 10% total revenue increase YOY in 2020, largely attributed to the expansion of sites in Nicaragua and Jamaica, as stated in their 2020 Annual Report.[6]

PUBLIC COMPANY DATA

Company	Price 03/16/21	% 52 Wk High	Market Cap	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Margin	EV / LTM Revenue	EV / LTM EBITDA
Teleperformance SE	$363.85	99.4%	$21,370.7	$23,985.5	$7,011.6	$1,334.6	19.0%	3.4x	18.0x
TELUS International (Cda) Inc.	$28.63	85.2%	$7,760.5	$9,376.7	$1,581.6	$313.2	19.8%	NM	29.9x
Concentrix Corporation	$140.24	96.7%	$7,295.8	$8,825.0	$4,719.5	$718.2	15.2%	1.9x	12.3x
SYNNEX Corporation	$104.95	63.7%	$5,415.1	$7,342.9	$24,675.6	$1,636.7	6.6%	0.3x	4.5x
TTEC Holdings, Inc.	$93.62	97.5%	$4,375.3	$4,846.4	$1,949.2	$353.5	18.1%	2.5x	13.7x
ExlService Holdings, Inc.	$88.80	98.0%	$2,972.5	$2,901.0	$958.4	$154.9	16.2%	3.0x	18.7x
Sykes Enterprises, Incorporated	$44.79	97.6%	$1,768.3	$1,910.5	$1,710.3	$252.5	14.8%	1.1x	7.6x
Firstsource Solutions Limited	$1.60	96.7%	$1,114.9	$1,207.7	$643.0	$93.7	14.6%	1.9x	12.9x
IBEX Limited	$22.28	91.9%	$394.2	$444.9	$428.0	$45.1	10.5%	1.0x	9.9x
Scicom (MSC) Berhad	$0.31	94.1%	$109.6	$102.9	$48.7	$11.5	23.7%	2.1x	8.9x
Mean							**15.9%**	**1.9x**	**13.6x**
Median							**15.9%**	**1.9x**	**12.6x**
Harmonic Mean							**15.9%**	**1.2x**	**9.9x**

EV = enterprise value; LTM = last twelve months
$ in millions, except per share data
NM = not meaningful, above 5x EV/Revenue

FIRM TRACK RECORD

CONFIDENTIAL
corporate sale
BPO Services

CONFIDENTIAL
corporate sale
Outbound Marketing

CONFIDENTIAL
corporate sale
Marketing Services

Edgewater Technical Associates has been recapitalized by ALARIS Equity Partners

QUALFON Quality Contact Services has acquired CENTER PARTNERS

QUALFON Quality Contact Services has acquired DTA Control Group

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4. Time Doctor, "Business Process Outsourcing (2021 Guide and 7 BPO Trends)," https://biz30.timedoctor.com/business-process-outsourcing-industry/ accessed February 12, 2021.
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6. IBEX Ltd. "IBEX 2020 Annual Report," https://investors.ibex.co/static-files/b3309ad7-29d7-4832-b6ce-dc8a7a305668, accessed February 12, 2021.

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