

ELEVATED INTEREST RATE ENVIRONMENT DRIVES CLIENTS TO SECTOR, BOOSTS M&A ACTIVITY

BUSINESS PROCESS OUTSOURCING & CONTACT CENTERS SECTOR UPDATE | SEPTEMBER 2023



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Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of expert investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle.

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Business Process Outsourcing & Contact Centers

Elevated Interest Rate Environment Drives Clients to Sector, Boosts M&A Activity

KEY SECTOR TAKEAWAYS

Capstone Partners' Business Services Group is pleased to share its Business Process Outsourcing (BPO) & Contact Centers report. In contrast with most sectors, the elevated interest rate environment has supported BPO & Contact Centers sector revenue and merger and acquisition (M&A) growth as organizations have increasingly outsourced functions to reduce overhead costs. Transaction volume in the sector has continued to flourish through year-to-date (YTD) 2023 and M&A valuations have remained unwavering. Several additional key takeaways are outlined below.

1. Businesses have progressively demanded higher quality outsourced services, spurring an increased level of specialization and integration with clients' operations.
2. The Healthcare end market has been instrumental to sector growth due to the extensive amount of administrative work needed to remain compliant with state and federal regulators.
3. Heightened sector M&A activity year-over-year (YOY) has been supported by a well-capitalized buyer universe as strategics' margins have weathered economic volatility.
4. Average sector M&A purchase multiples have continued to outpace the broader Business Services industry average through YTD, driven by heightened competition for quality assets.
5. Buyers in the space have demonstrated a sustained interest in middle market deals, with middle market businesses representing 65% of M&A targets from 2020 through YTD.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and BPO & Contact Centers sector knowledge, please [contact us](#).



DEMAND FOR INTEGRATED SERVICES DRIVES SECTOR REVENUE

The BPO & Contact Centers sector has showcased significant strength amid economic volatility. Driven by an elevated interest rate environment, businesses have increasingly outsourced front- and back-office functions to reduce overhead costs. Heightened demand for outsourced services has resulted in substantial M&A and revenue opportunities for sector participants, with total U.S. BPO revenue projected to rise to \$72.1 billion in 2023 through a compound annual growth rate (CAGR) of 1.9% from 2018 to 2023, according to IBISWorld.¹ Although cost-effectiveness has remained a key driver in the sector, organizations have progressively demanded higher quality outsourced services, spurring an increased level of specialization and integration with clients' operations. This trend has been evidenced by the 2023 U.S. BPO revenue breakdown, in which industry-specific, human resources, customer management, and financial and accounting BPO services are forecasted to contribute near-equal portions of total revenue, according to IBISWorld.

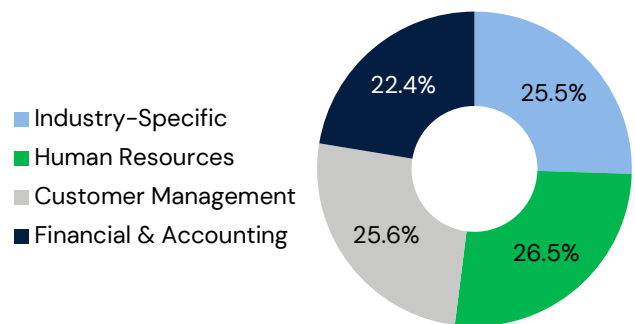


Although organizations across end markets have contributed to sector growth, the Healthcare space has been instrumental due to the extensive amount of administrative work needed to remain compliant with state and federal regulators. Of note, the Healthcare end market is forecasted to yield 11% of total BPO revenue in 2023, outperforming the Energy, Technology, and Insurance end markets (IBISWorld). In addition, healthcare providers are required by the Affordable Care Act to devote 80%-85% of spending to non-administrative costs, further necessitating industry-specific, cost-conscious outsourced solutions, according to the U.S. Department of Health & Human Services.² Capstone anticipates strong revenue gains and the emergence of specialized, integrated outsourced services to materialize in a frothy BPO & Contact Centers M&A market, propelling acquirer and investor appetite for providers serving high-growth end markets.

Total U.S. BPO Revenue Sees Steady Growth from 2018 to 2023



Specialized and Integrated Service Offerings Drive 2023 U.S. BPO Revenue

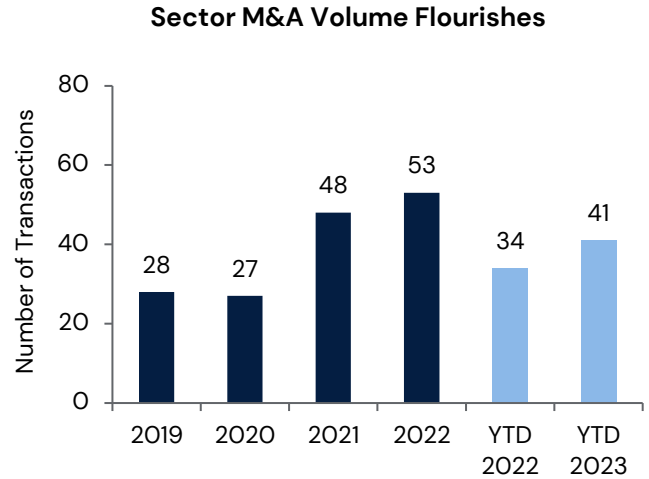


Source: IBISWorld and Capstone Partners



M&A ACTIVITY CONTINUES TO THRIVE AT STRONG VALUATIONS

M&A volume in the BPO & Contact Centers sector has continued to surge through YTD 2023 with 41 transactions announced or completed. This marks a healthy 20.6% increase YOY, especially compared to the broader M&A market which declined 24.8% YOY through Q2. Heightened transaction activity in the space has been supported by a well-capitalized buyer universe, as strategics' margins have weathered economic volatility and private equity firms have remained armed with ample levels of dry powder. In addition, the expansion of sector participants' service offerings has increasingly piqued acquirer interest, particularly in the BPO segment (see page eight for more details). Strategic acquirers have continued to account for the majority (53.7%) of sector transactions in YTD 2023, led by private strategics (41.5% of YTD deals) consolidating competitors to bolster market share and deployable workforces. Contrary to the broader M&A market, financial buyers in the BPO & Contact Centers sector have maintained their presence in the space, comprising 46.3% of deals in YTD 2023 and registering an uptick of 2.2% compared to YTD 2022. Sponsors have namely focused on add-on acquisitions (26.8% of YTD deals) due to the difficult lending environment.



Year-to-date (YTD) ended August 15
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

While there have been a number of large-scale M&A transactions in the sector, middle market deals (less than \$500 million enterprise value) have continued to account for the majority of acquisitions in the space. Middle market deals have comprised 65% of total disclosed sector transactions from 2020 through YTD 2023, demonstrating buyers' sustained interest in rolling up middle market providers with limited customer concentration, strong earnings growth, and omnichannel capabilities.

BPO & Contact Centers Valuation Analysis

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
BPO & Contact Centers Sector M&A Transactions (2020-YTD)	2.7x	9.4x
Business Services Industry M&A Transactions (2020-YTD)	1.8x	8.5x
BPO & Contact Centers Sector Public Companies (LTM)	1.3x	8.4x

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

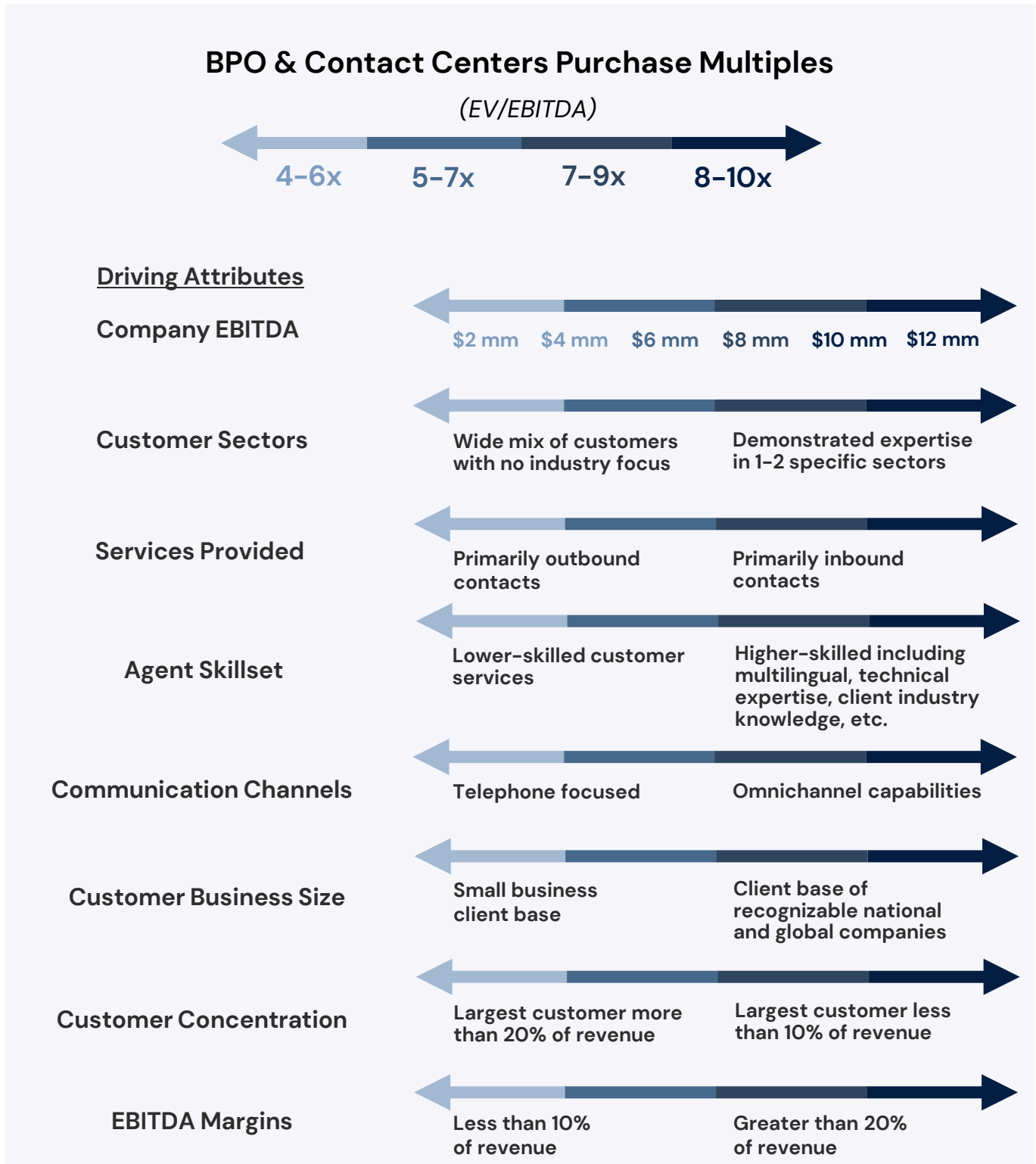
Valuation Insight

M&A transaction multiples in the BPO & Contact Centers sector have averaged a robust 2.7x EV/Revenue and 9.4x EV/EBITDA from 2020 through YTD 2023, outperforming the broader Business Services industry average of 1.8x EV/Revenue and 8.5x EV/EBITDA during the same period. Healthy M&A valuations in the space have been primarily driven by strategic and private equity acquirers engaging in competitive bid processes for quality middle market assets. Of note, Five9 (Nasdaq:FIVN) announced its acquisition of Aceyus for an enterprise value of \$82 million (August 2023). Aceyus provides contact center technology solutions and value-added contact center optimization services to enhance clients' customer experience offerings.



WHAT IS DRIVING SECTOR VALUATIONS?

Capstone has intimate knowledge of EBITDA purchase multiples for companies in the BPO & Contact Centers sector through our closed mandates, proprietary research, and database access. Below, we have identified criteria typical of companies achieving a range of EBITDA multiples in the space.

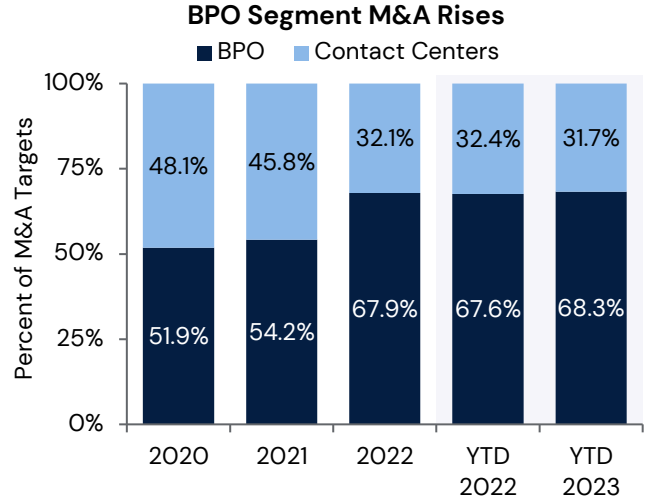


Source: Capstone Partners



BPO M&A SPIKES, CONVERGING SERVICES SPURS LARGE-SCALE DEALS

M&A activity in the BPO segment has continued to rise, with targets in this segment comprising a historic 68.3% of total transactions in YTD 2023. Heightened dealmaking in the BPO segment has been driven by participants looking to expand service offerings in conjunction with clients’ needs. Notably, buyers in the space have increasingly targeted businesses with recruitment process outsourcing (RPO), human resource outsourcing (HRO), and business process automation (BPA) services to bridge clients’ talent gap and streamline back-office functions. In addition, active public strategic acquirers in the sector have recently targeted full-service providers with both BPO and contact center capabilities at premium valuations, exemplified by Teleperformance’s (ENXTPA:TEP) and Concentrix’s (Nasdaq:CNXC) acquisitions outlined below.



Year-to-date (YTD) ended August 15
Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Notable M&A Transactions



In April 2023, Teleperformance announced its acquisition of Majorel Group Luxembourg (ENXTAM:MAJ) for an enterprise value of \$3.3 billion, equivalent to 1.4x EV/Revenue and 8.6x EV/EBITDA. Teleperformance provides outsourced customer and citizen experience services in France and internationally. Luxembourg-based Majorel provides end-to-end customer experience solutions for digitally native businesses. In addition, Majorel offers a suite of BPO services including technology support, digital consumer engagement, operations management, and vertical integration.

The acquisition is expected to add complementary capabilities to Teleperformance’s existing services, strengthen geographic reach in Europe and North America, and bolster the depth of the management bench. Upon completion of the deal, the combined entity is anticipated to generate ~\$12 billion in annual revenue, according to a press release.³ The transaction demonstrates public strategic buyers’ acquisition appetite for consolidating competitors in support of a high touch, high technology initiative, a trend witnessed across the sector.

California-based Concentrix, a leading provider of technology-driven customer experience services, announced its acquisition of France-based Webhelp in March 2023 for an enterprise value of \$4.8 billion. The transaction marks Concentrix’s thirteenth acquisition in the space since inception and the largest sector deal in YTD 2023. Webhelp offers contact center solutions including pre-sales voice services and telesales. The company cross-sells its contact center offerings with a number of BPO services such as technical support, fulfillment, crisis management, and debt collection.

The acquisition of Webhelp is forecasted to enhance Concentrix’s financial profile through substantial revenue and earnings growth. Of note, Webhelp is expected to generate ~\$3 billion in revenue and ~\$500 million in adjusted EBITDA in 2023, with Concentrix realizing gains by the second full year following the deal closing, according to a press release.⁴ The anticipated strategic benefits of the transaction include a diversified customer base, value-added digital capabilities, and a verticalized, deployable support staff for clients in Europe, North America, Latin America, and Africa.



SELECT M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	Revenue	EV/LTM EBITDA
08/15/23	ABC Amega	Bii Services	Offers outsourced debt collection and accounts receivable management services.	-	-	-
08/07/23	Aceyus	Five9 (Nasdaq:FIVN)	Provides contact center optimization services.	\$82.0	-	-
07/24/23	SmartLinx Solutions	Lone View Capital Management	Offers outsourced human resource management and payroll services.	-	-	-
07/13/23	Support.com	RealDefense	Provides customer and technical support solutions through home-based employees.	-	-	-
06/07/23	Allied Effect	The Hive Strategic Marketing	Offers outsourced data analysis services.	-	-	-
05/26/23	InTouch	Sindro	Provides BPO and other outsourced services.	-	-	-
05/15/23	Local Market Monitor	Vertical IQ	Offers outsourced data analysis and market research services to the Real Estate sector.	-	-	-
05/10/23	SunDoc Filings	Computershare Governance Services	Provides outsourced data processing services.	-	-	-
05/10/23	Thompson Consulting Group	Endeavor Business Media	Offers outsourced data analysis and market research services.	-	-	-
05/01/23	Kurtzman Carson Consultants	GCP Capital Partners	Provides administrative services to support client's critical business processes and transactions.	-	-	-
04/13/23	RYSE Communications	UPSTACK	Offers customer service solutions.	-	-	-
04/12/23	Imagex	HITS Scanning Solutions	Provides outsourced document management services for public and private sector clients.	-	-	-
04/04/23	Modus eDiscovery	Repario	Offers eDiscovery consulting and outsourced services to law firms.	-	-	-
03/21/23	Elite Reporting Services	Lexitas	Provides court reporting and outsourced transcription services to the Legal sector.	-	-	-
03/14/23	BV WASI	Marketing Alternatives	Offers contact center and non-voice call center services.	-	-	-
03/14/23	Worldwide Access Solutions	Mai Fulfillment	Provides inbound, outbound, and non-voice call center services.	-	-	-
03/01/23	A-Check America	Sterling Check (Nasdaq:STER)	Offers outsourced employee background screening and customer experience services.	\$60.0	-	-
02/08/23	Nu Echo	Waterfield Technologies	Provides call center and speech recognition solutions.	-	-	-
01/24/23	Flatworld Solutions	Boyne Capital Management	Offers BPO and BPA services.	-	-	-
01/17/23	SupportOps	Partnerhero North America	Provides customer support automation services.	-	-	-
01/04/23	Merkle Response Services	Moore	Offers remittance processing services.	-	-	-
01/03/23	Dataline Systems	CardWorks Servicing	Provides BPO and financial operations services.	-	-	-

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



BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the BPO & Contact Centers sector, particularly those that have completed notable transactions. Our sector knowledge and network provides us with unique insights into this buyer universe and industry and growth drivers for the companies within it.

Leading Strategic Buyers



Leading Financial Buyers



Source: Capstone Partners



PUBLIC COMPANY DATA

Company	Price 08/22/23	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Concentrix Corporation	\$73.39	48.3%	\$3,820.3	\$6,279.7	\$6,471.4	\$1,276.3	19.7%	1.0x	4.9x
ExlService Holdings, Inc.	\$27.92	73.0%	\$4,627.0	\$4,662.5	\$1,541.7	\$297.4	19.3%	3.0x	15.7x
Firstsource Solutions Limited	\$1.90	99.6%	\$1,303.9	\$1,445.7	\$740.8	\$113.5	15.3%	2.0x	12.7x
IBEX Limited	\$19.02	60.6%	\$347.1	\$387.7	\$522.6	\$78.5	15.0%	0.7x	4.9x
Scicom (MSC) Berhad	\$0.25	95.1%	\$89.4	\$86.6	\$57.9	\$13.6	23.5%	1.5x	6.4x
SYNNEX Corporation	\$97.66	87.5%	\$9,156.0	\$12,409.5	\$60,791.5	\$1,911.2	3.1%	0.2x	6.5x
Teleperformance SE	\$125.20	37.1%	\$7,444.7	\$10,324.4	\$8,917.6	\$1,376.0	15.4%	1.2x	7.5x
TELUS International (Cda) Inc.	\$8.23	26.7%	\$2,251.7	\$4,022.7	\$2,598.0	\$457.0	17.6%	1.5x	8.8x
TTEC Holdings, Inc.	\$28.54	50.5%	\$1,353.3	\$2,299.4	\$2,484.4	\$287.5	11.6%	0.9x	8.0x

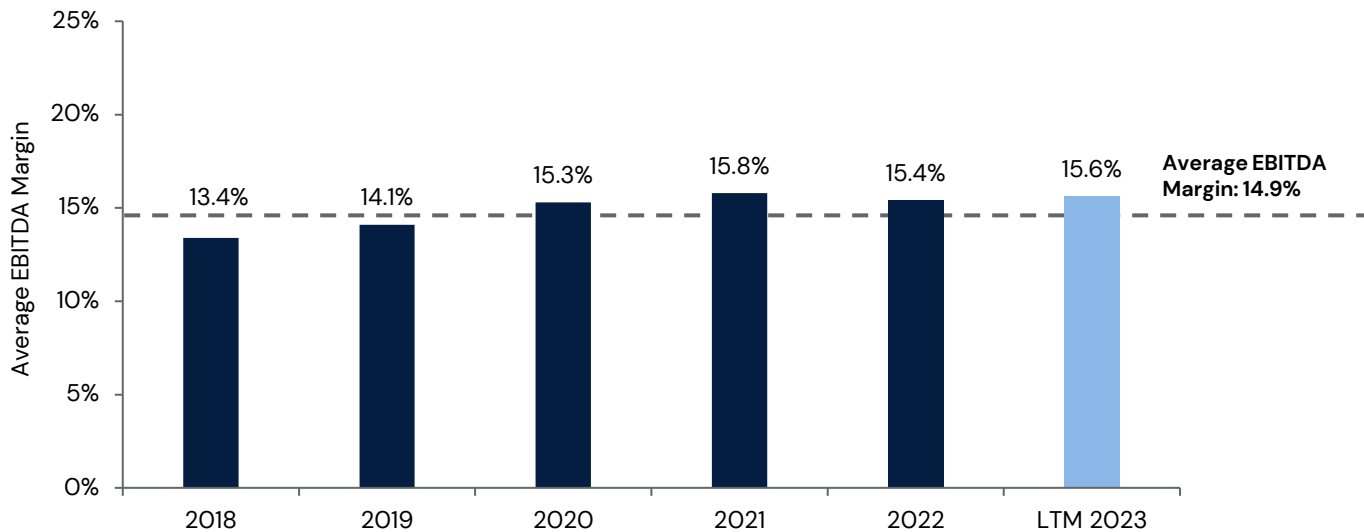
Mean	15.6%	1.3x	8.4x
Median	15.6%	1.2x	7.5x
Harmonic Mean	15.6%	0.8x	7.2x

EV = enterprise value; LTM = last twelve-month
 \$ in millions, except per share data
 NM = Not Meaningful

Source: Capital IQ and Capstone Partners as of August 22, 2023

Average EBITDA Margin Remains Strong in Capstone’s BPO & Contact Centers Index

Public companies in the BPO & Contact Centers sector have demonstrated significant margin strength throughout the economic turmoil following the height of COVID-19, with an average EBITDA margin of 15.6% over the last twelve months, rising above pre-pandemic levels.



Source: Capital IQ and Capstone Partners as of August 22, 2023

LTM = Last Twelve-Month

BPO & Contact Centers Index includes: 532809, CNXC, EXLS, IBEX, SCICOM, SNX, TEP, TIXT, TTEC



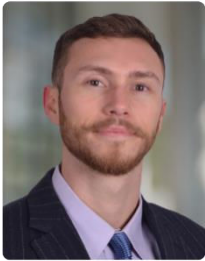
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Bob brings over 25 years of investment banking and operating experience. Bob has served as the lead banker on over 75 merger and acquisition transactions primarily in the business services marketplace. He has also been involved with over a dozen startup companies, including Great Plains Accounting Software, Inc., a software company that was ultimately acquired by Microsoft Corp. as well as InaCom Corp., a distribution company that he helped grow to several billion dollars in annual revenue before it was acquired by Hewlett Packard. He has appeared in numerous national business publications, including the Wall Street Journal and Fortune Magazine and on national television as an expert in mergers and acquisitions.



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Max serves as Manager on Capstone’s Market Intelligence Team. He provides M&A insights, proprietary research analysis, and macroeconomic trends for C-suite middle market executives, specializing in the coverage of the Business Services, Financial Technology & Services, and Technology, Media & Telecom industries. Prior to joining Capstone, Max was an analyst at Lab42 Research, a Chicago-based market research firm. During his time at Lab42 Research, he specialized in the development, implementation, and analysis of proprietary research projects for clients in the Business Services, Consumer, Financial Services, Government, and Technology industries.





FIRM TRACK RECORD

Capstone’s Business Services Investment Banking Group has represented numerous businesses in the BPO & Contact Centers sector. The Business Services Group is highly skilled in deal execution and leverages its extensive buyer and investor relationships and in-depth sector knowledge to provide a favorable outcome on behalf of its clients. Sample recent engagements are outlined below.

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 **QUALFON**
QUALITY CONTACT SERVICES

HAS ACQUIRED

 **CENTER PARTNERS**

 **QUALFON**
QUALITY CONTACT SERVICES

HAS ACQUIRED

 **DATA CONTROL**
Group

Weiss Residential Research
MAKE SMARTER REAL ESTATE DECISIONS

HAS RECEIVED A STRATEGIC INVESTMENT FROM

KBRA ANALYTICS

 **PRECISION**
OPINION

HAS ACQUIRED

the public health opinion and social sciences division of

 **SHC Universal**

 **WEBMETRO**
Unleash the Power of Digital Marketing

HAS BEEN ACQUIRED BY

 **revana**TM



ENDNOTES

1. IBISWorld, "Business Process Outsourcing in the U.S.," <https://my.ibisworld.com/us/en/industry-specialized/od4794/about>, accessed August 23, 2023.
2. U.S. Department of Health & Human Services, "Medical Loss Ratio Fact Sheet," <https://www.hhs.gov/guidance/document/medical-loss-ratio-fact-sheet>, accessed August 23, 2023.
3. Teleperformance, "Teleperformance Announces Proposed Acquisition of Majorel," <https://www.teleperformance.com/media/3azcqrn/teleperformance-press-release-teleperformance-announces-proposed-acquisition-of-majorel-ev-vdef.pdf>, accessed August 23, 2023.
4. Concentrix, "Concentrix to Combine with Webhelp, Creating a Diversified Global CX Leader, Well-Positioned for Growth," <https://ir.concentrix.com/news-releases/news-release-details/concentrix-combine-webhelp-creating-diversified-global-cx-leader>, accessed August 23, 2023.



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Disclosure

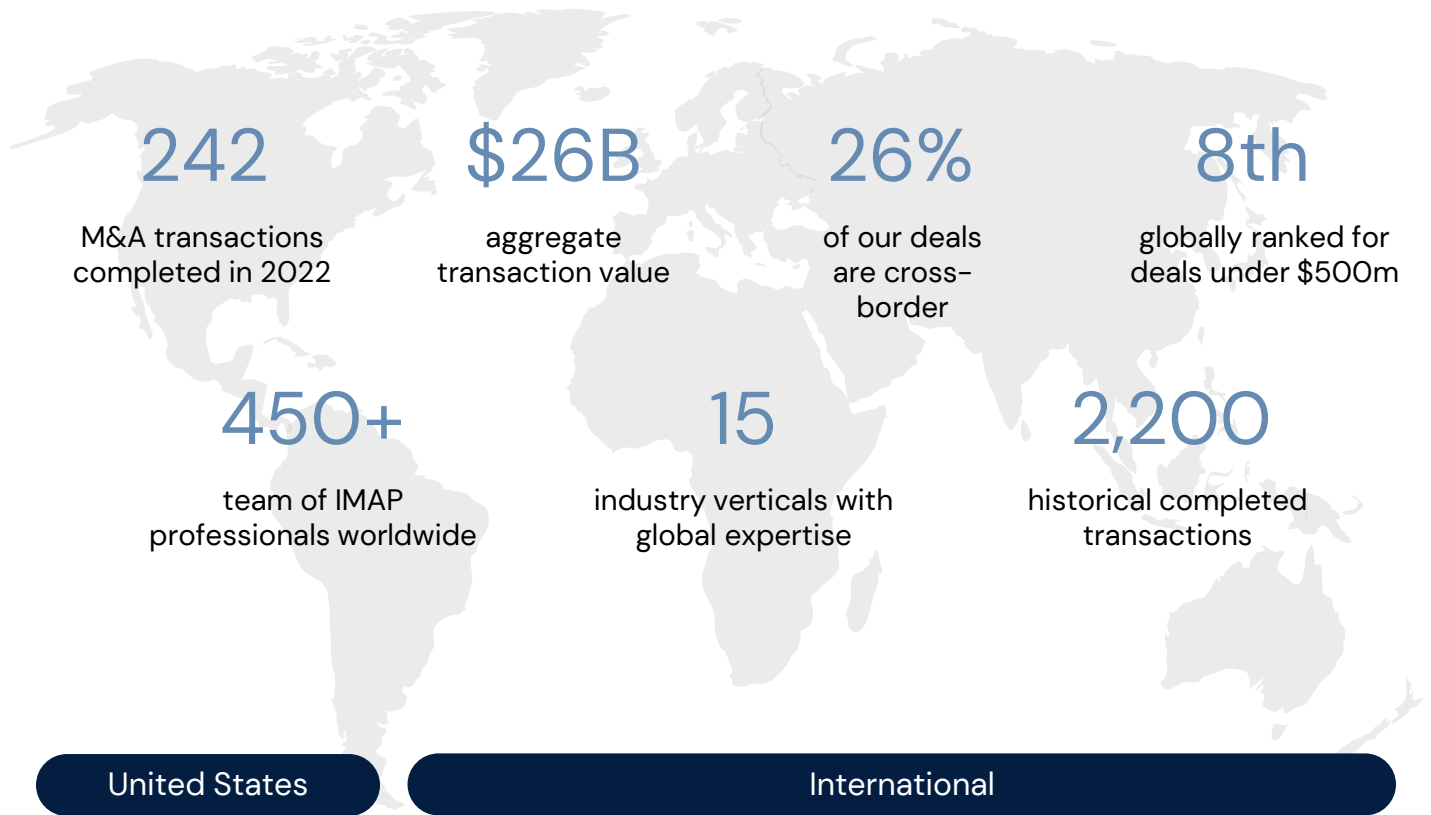
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Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 41 countries.



~200 professionals
11 offices

Boston · Chicago · Dallas · Denver · Detroit · Los Angeles · New York · Orange County · Philadelphia · San Diego · Tampa

450+ professionals
60+ offices in 43 countries

Asia: China · India · Japan · Thailand
Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa
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