

Industry Consolidation, Outsourcing, and Capital Supports Strong Activity & Valuations

Q4 & Q1 Overview:

M&A activity for the broad Business Services industry strengthened in the fourth quarter of 2018, with a 14% increase in deal activity compared to the third quarter. The first quarter of 2019 maintained an almost identical increase in deal activity to the previous quarter. The recently improved deal volume is driven largely by industry consolidation and strategic acquisitions, where strategic acquisitions have accounted for 91% of M&A activity over the last twelve months—some strategic buyers are private equity-owned. Deal values remain high as a result of several major deals. Three transactions in the first quarter of 2019, with valuations exceeding \$10 billion each, have already been announced or closed, compared to three in the previous two quarters.

Private equity buyers remain active in their own efforts to acquire platforms and further consolidate fragmented markets within the Business Services Industry. Private equity firms have completed more transactions in the last twelve months than in any single year of the past decade.

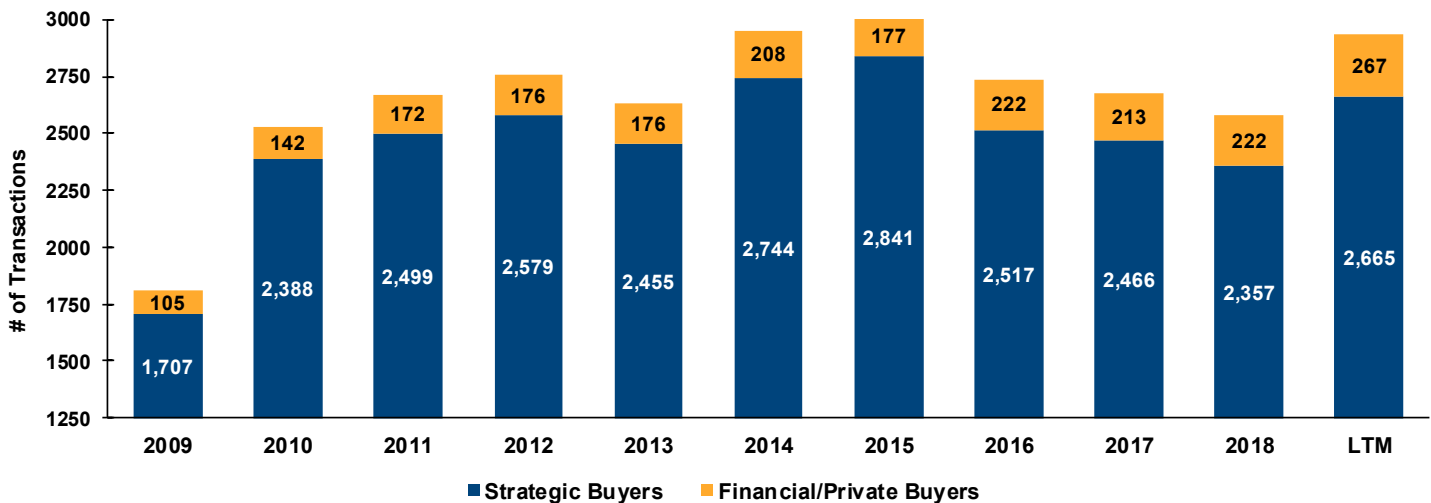
IT Services & Software, Commercial & Industrial Services, and Business Process Outsourcing (BPO) sub-sectors have been notably strong in terms of M&A activity in over the last two quarters, accounting for 41.6%, 21.8%, and 18.4% of transaction volume, respectively.

As businesses in general seek to outsource more activities and simplify their supply chain (vendor consolidation), service businesses are increasingly active in M&A, diversifying their offerings. Also, because of industry-wide consolidations, smaller firms are using M&A to acquire scale and remain competitive. With the abundance of available debt and equity, strategic and private equity buyers should continue to drive strong demand and premium valuations for service providers.

Active buyers and favorable market dynamics provide business owners seeking liquidity in 2019 an ideal opportunity to obtain favorable valuations.

Business Services M&A Transactions by Year

(Financial/Private Buyers represent platform investments)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases. LTM as of March 31, 2019

Key Metrics

Most of the transaction activity in the Business Services industry over the last twelve months has occurred in three primary sub-sectors: IT Services & Software (50.3%), Commercial & Industrial Services (25.7%), and Business Process Outsourcing (19.6%). IT Services & Software and Commercial & Industrial Services have experienced the most recent notable increases in transactions.

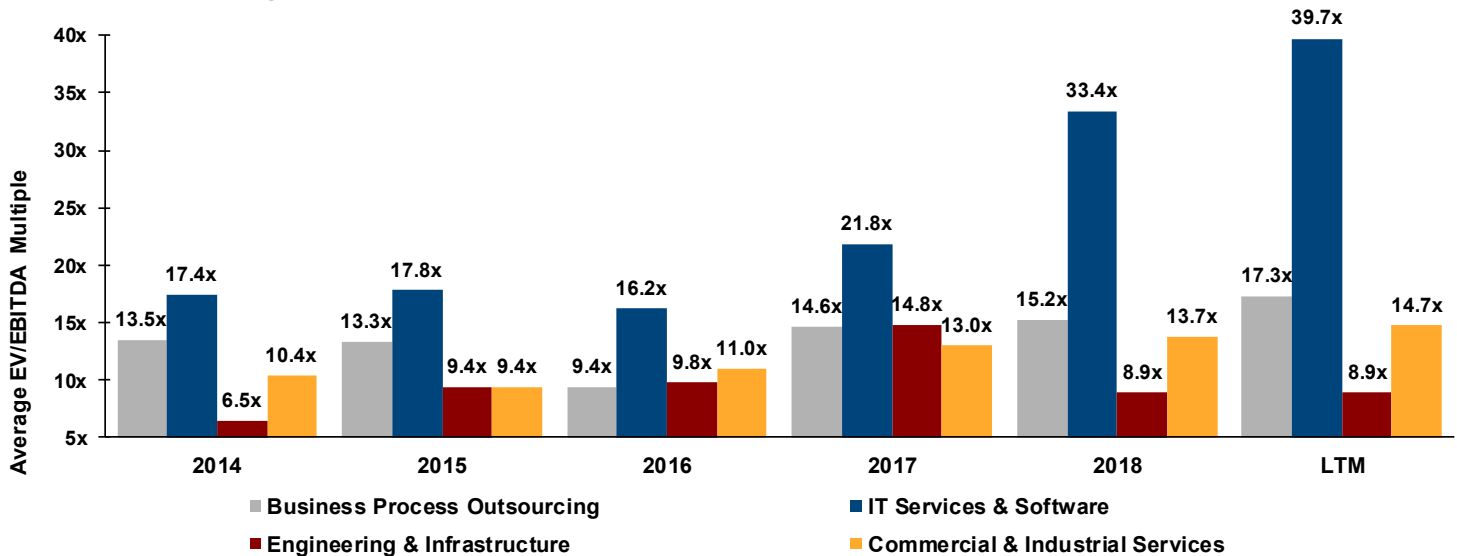
Valuations remain high, especially in the IT Services & Software and Business Process Outsourcing sub-sectors. Higher transaction multiples (such as Morgan Stanley paying 80.5x EBITDA for Shareworks) in these markets are increasingly associated with targets whose proprietary software or unique systems represent key opportunities for strategic buyers. Given the synergy values, strategic buyers are able to realize and price-in to an acquisition and are often able to out-bid private equity buyers. As a result, financial buyers accounted for only 8.2% of Business

Process Outsourcing transactions and 9.2% of IT Services & Software transactions over the last twelve months.

While IT Service & Software is its own sub-sector, many other sub-sector transactions feature some level of IT strategy, such as the Mastercard purchase of Trans-Fast (see page 3) or JLL’s acquisition of HFF (see page six). While increasing efficiencies and finding synergies are important, sometimes the technological profile of a target can cause a bidder to provide a premium value. The recent client Exacta was acquired by a private equity firm (see tombstones on back cover) in part because proprietary software provided a competitive advantage over competitors and it was a great platform for acquisitions.

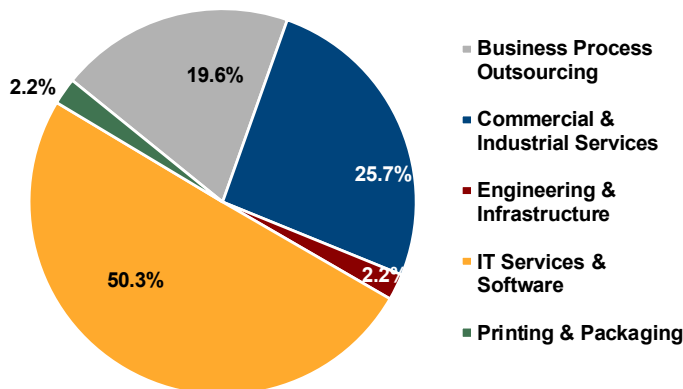
This is a very active M&A environment for tech-enabled service/BPO providers.

Historical Average Transaction Multiples



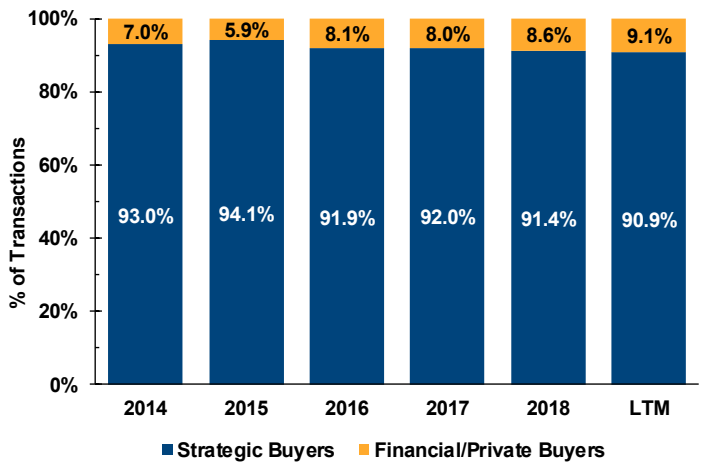
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (LTM)











Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Share of Transactions by Buyer Type



Notable Recently Announced and Closed Business Services Transactions

Date: 2/6/2019	Overview / Strategic Rationale:	IT Services & Software						
<p>Targets: </p> <hr/> <p>Acquirer: </p> <hr/> <p>Key Metrics:</p> <table border="0"> <tr> <td>Combined Enterprise Value (\$M)</td> <td>\$340</td> </tr> <tr> <td>EV/LTM EBITDA</td> <td>NM</td> </tr> </table>	Combined Enterprise Value (\$M)	\$340	EV/LTM EBITDA	NM	<p>Gimlet Media, Inc. is a digital media company focused on production of narrative podcasts. Anchor FM, Inc. develops applications and provides a website to broadcast audio clips. Anchor’s tools facilitate the easy production of podcasts.</p> <ul style="list-style-type: none"> <i>The acquisitions represent Spotify’s focus on expanding beyond music entertainment. Spotify’s CEO specified that “audio—not just music—would be the future of Spotify.” The podcast investments represent a desire to provide education and alternative forms of entertainment.</i> <i>Spotify plans to spend up to \$500 million in 2019 on multiple acquisitions to further its position in the podcasting production industry.</i> 			
Combined Enterprise Value (\$M)	\$340							
EV/LTM EBITDA	NM							
Date: 10/31/2018 (Announced)	Overview / Strategic Rationale:	Printing & Packaging						
<p>Target: </p> <hr/> <p>Acquirer: </p> <hr/> <p>Key Metrics:</p> <table border="0"> <tr> <td>Enterprise Value (\$M)</td> <td>\$1,425</td> </tr> <tr> <td>EV/LTM EBITDA</td> <td>4.8x</td> </tr> <tr> <td>EV/LTM Revenue</td> <td>0.4x</td> </tr> </table>	Enterprise Value (\$M)	\$1,425	EV/LTM EBITDA	4.8x	EV/LTM Revenue	0.4x	<p>LSC Communications, Inc., provides traditional and digital print services, packaging, labeling, and private label office products. Quad Graphics, Inc., and LSC Communications represent the nation’s two largest magazine printers. The transaction represents the largest acquisition in an industry that has faced significant consolidation in the last ten years.</p> <ul style="list-style-type: none"> <i>The combined entity would generate a combined \$8 billion in revenue, and planned plant shutdowns and other synergies are expected to create \$135 million in annual cost savings over the next two years.</i> <i>Quad Graphics acquired LSC with stock, which will allow it to maintain a strong, healthy balance sheet and leave ample capital for future deployment to advance organic and inorganic growth.</i> 	
Enterprise Value (\$M)	\$1,425							
EV/LTM EBITDA	4.8x							
EV/LTM Revenue	0.4x							
Date: 3/8/2019 (Announced)	Overview / Strategic Rationale:	Business Process Outsourcing						
<p>Target: </p> <hr/> <p>Acquirer: </p> <hr/> <p>Key Metrics:</p> <table border="0"> <tr> <td>Enterprise Value (\$M)</td> <td>\$450</td> </tr> <tr> <td>EV/LTM EBITDA</td> <td>NM</td> </tr> <tr> <td>EV/LTM Revenue</td> <td>NM</td> </tr> </table>	Enterprise Value (\$M)	\$450	EV/LTM EBITDA	NM	EV/LTM Revenue	NM	<p>Trans-Fast Remittance LLC provides payment network solutions to banks, financial institutions, e-commerce companies, small businesses, and consumers internationally. Its applications provide risk management, currency conversion, compliance, and multi-format messaging.</p> <ul style="list-style-type: none"> <i>Mastercard’s acquisition of Trans-Fast complements their current payment solutions by increasing worldwide connectivity in account-to-account transactions and compliance capabilities and strengthening foreign exchange tools.</i> <i>Mastercard will provide cross-border users with lowered costs, adherence to compliance requirements, and greater payment transmission and receipt assurance. It will serve users in over 100 markets.</i> 	
Enterprise Value (\$M)	\$450							
EV/LTM EBITDA	NM							
EV/LTM Revenue	NM							
Date: 3/20/2019 (Announced)	Overview / Strategic Rationale:	Commercial and Industrial Services						
<p>Target: </p> <hr/> <p>Acquirer: </p> <hr/> <p>Key Metrics:</p> <table border="0"> <tr> <td>Enterprise Value (\$M)</td> <td>\$551</td> </tr> <tr> <td>EV/LTM EBITDA</td> <td>NM</td> </tr> </table>	Enterprise Value (\$M)	\$551	EV/LTM EBITDA	NM	<p>Outdoor Home Services Holdings is the lawn care division of Scotts Miracle-Gro. The lawn service division recorded a record revenue of \$289 million in 2018.</p> <ul style="list-style-type: none"> <i>The combination of TruGreen Companies LLC and Outdoor Home Services will serve over 2.3 million residential and commercial clients in the U.S. and Canada, and is expected to generate over \$1.3 billion in revenue.</i> <i>David Alexander, the CEO of TruGreen, has executed seven mergers since becoming the CEO in 2012 and is expected to continue acquisitions. The combined companies also plan to expand service offerings, such as sprinkler maintenance, to increase organic growth.</i> 			
Enterprise Value (\$M)	\$551							
EV/LTM EBITDA	NM							

Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Recent Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
BUSINESS PROCESS OUTSOURCING						
10/4/2018	Cognizant Technology Solutions Corporation	Softvision, LLC	Softvision, LLC provides information technology services and solutions for retailers worldwide.	\$ 541	NM	NM
11/6/2018	CVC Capital Partners Limited	ConvergeOne Holdings, Inc.	ConvergeOne Holdings, Inc. provides collaboration and technology solutions for large and medium enterprises in the United States.	1,640	1.2x	14.7x
12/10/2018	Fiserv, Inc.	First Data Corporation	First Data Corporation provides commerce enabled technology and solutions for merchants, financial institutions, and card issuers globally.	44,079	5.1x	13.1x
3/17/2019	Fidelity National Information Services, Inc.	Worldpay, Inc.	Worldpay, Inc., through its subsidiary, Worldpay Holding, LLC, provides electronic payment processing services globally.	45,353	11.2x	28.1x
PRINTING & PACKAGING						
10/30/2018	Quad/Graphics, Inc.	LSC Communications, Inc.	LSC Communications, Inc. provides various traditional and digital print services, print-related services, and office products in the United States and internationally.	\$ 1,326	0.4x	11.1x
11/1/2018	Fortis Solutions Group, LLC	Oakwood Premier Printing, Inc.	Oakwood Premier Printing, Inc. provides labels, packaging, folding carton, offset and flat sheet printing services.	NM	NM	NM
8/31/2018	HCI Equity Partners	Express Packaging, Inc.	Express Packaging, Inc. provides printing and contract manufacturing services.	NM	NM	NM
2/24/2019	WS Packaging Group, Inc.	Multi-Color Corporation	Multi-Color Corporation provides various label solutions in the United States, Australia, Germany, and internationally.	2,523	1.5x	8.3x
COMMERCIAL & INDUSTRIAL SERVICES						
1/30/2019	Shutterfly, Inc.	Lifetouch Inc.	Lifetouch Inc. and subsidiaries provide professional photography services for schools and families.	\$ 708	0.7x	10.4x
10/10/2018	GFL Environmental Inc.	Waste Industries USA, Inc.	Waste Industries USA, Inc. provides solid waste and recycling collection services to commercial, industrial, and residential customers in the United States.	2,825	NM	NM
10/24/2018	ADT Inc.	Red Hawk Fire & Security, LLC	Red Hawk Fire & Security, LLC designs, installs, tests, integrates, monitors, and services fire and life safety solutions in the United States.	318	NM	NM
11/14/2018	US Ecology, Inc.	Ecoserv Industrial Disposal, LLC	Ecoserv Industrial Disposal, LLC provides non-hazardous industrial wastewater disposal services.	87	NM	NM
IT SERVICES & SOFTWARE						
10/8/2018	Bain Capital Private Equity, LP	Rocket Software, Inc.	Rocket Software, Inc. develops enterprise software solutions.	\$ 2,000	4.4x	0.0x
10/15/2018	Twilio Inc.	SendGrid, Inc.	SendGrid, Inc. operates as a digital communication platform in the United States and internationally.	2,676	19.5x	NM
10/28/2018	International Business Machines Corporation	Red Hat, Inc.	Red Hat, Inc. provides open source software solutions to develop and offer operating system, virtualization, middleware, cloud, and storage technologies.	33,299	9.9x	50.8x
11/16/2018	BlackBerry Limited	Cylance Inc.	Cylance Inc. develops artificial intelligence based prevention-first and predictive security solutions.	1,500	11.5x	NM
ENGINEERING & INFRASTRUCTURE						
10/18/2018	Oaktree Capital Management, L.P.	MWH Global, Inc.	MWH Global, Inc. engages in the engineering, construction, and management of water, hydropower, mining, and transportation projects.	\$ 103	NM	NM
11/21/2018	Wind Point Partners	The Kleinfelder Group, Inc.	The Kleinfelder Group, Inc. provides engineering, architecture, and scientific solutions for transportation, water, energy, and private infrastructure.	NM	NM	NM
2/15/2019	GSE Power Systems, Inc.	DP Engineering Ltd. Co.	DP Engineering Ltd. Co. provides engineering and consulting services to the energy and power industries.	19	0.8x	NM

Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Sub-Sector Profile: Real Estate Services

Many assume Real Estate Service companies only provide brokerage services, but today’s Real Estate Service companies market a diverse, impressive set of offerings to clients. Services include appraisals, debt and equity related services, leasing, advisory, litigation support, sales, infrastructure advisory, legal compliance, facilities management, energy management, and many others. Properties in the United States managed by Real Estate Service companies can range from single bedroom apartments to sports stadiums.

Commercial real estate sales in the United States totaled a record high of \$562 billion in 2018, according to Real Capital Analytics. Multi-family transaction value was up 12% year-over-year at \$176 billion. Retail transaction value accounted for \$84 million, an increase of 32% year-over-year. Office transaction value had a 1% growth from 2017, with \$134 billion in revenue. With a 5% growth rate over 2017, hotel transaction value grew to \$42 billion, and industrial transaction value recorded an all-time record of \$92 billion.

Several factors led to the growth in the Real Estate Service industry and accompanying M&A activity. The most prominent factors in the fourth quarter of 2018 and the first quarter of

2019 were interest rates, cross-border investments, and availability of debt and equity. Low interest rates helped fuel this growth through the first part of the fourth quarter of 2018, but as the Federal Reserve increased interest rates past 3.2% on the 10-year U.S. Treasury, market uncertainty also increased. Determining the Federal Reserve’s intentions moving forward will be a factor in the M&A trends for the remainder of 2019.

Cross-border transactions and investments accounted for \$94 billion of deal value in 2018, fueling acquisitions of property and service providers. Canada was the largest investor, accounting for 50% of deal value, followed by France, Singapore, and China.

Increased competition in the debt markets and ample availability of equity from strategic and private equity investors continue to fuel M&A transactions. In the U.S., across all industries, McKinsey estimates that there is \$1.8 trillion in capital earmarked for investment.

With the number of participants and capital available, the Real Estate Services market should remain strong and potentially historic in 2019.

Recent Transactions in the Real Estate Services Industry

	Date of Investment	Acquisition Activity
	<ul style="list-style-type: none"> • 03/12/2019 • 02/15/2019 • 02/14/2019 • 02/14/2019 • 02/14/2019 • 02/05/2019 	<ul style="list-style-type: none"> • Philadelphia 201 Hotel, US • Oberbaum City Office Complex, Germany • Westlake Apartment Complex, US • 210,000 ft² Building, US • CityOn Shopping Center, China • 5 Industrial Warehouses, Spain
	<ul style="list-style-type: none"> • 12/21/2018 • 10/22/2018 • 10/16/2018 	<ul style="list-style-type: none"> • 51 Sleeper Street, US • The Highland Dallas, US • The Desmond, 11-Story Office Building, US
	<ul style="list-style-type: none"> • 10/14/2018 • 10/03/2018 • 10/02/2018 	<ul style="list-style-type: none"> • Continental Real Estate Companies • Niora Real Estate, SL • GMP Management Pty Ltd
	<ul style="list-style-type: none"> • 03/19/2019 • 03/18/2019 • 12/10/2019 • 10/03/2018 	<ul style="list-style-type: none"> • HFF, Inc. • Corporate Concierge Services, Inc. • Cite Partners, LLC • ValuD Consulting, LLC

Source: CapIQ and News Releases

Jones Lang LaSalle Poised to Acquire HFF to Expand Service Offerings

HFF, based in Dallas, Texas, is one of the largest and most prolific commercial real estate capital market intermediaries in the United States. Founded in 1998, HFF provides commercial real estate and capital market services to consumers and industry lenders. HFF has completed over 27,000 transactions representing more than \$800 billion in transaction value. The company employs over 1,000 people across 26 office locations, and has generated over \$650 million in revenue on 2,587 transactions in 2018, a company record.

The acquisition of HFF is expected to bolster JLL's Capital Markets unit and build scale in the United States and debt advisory in Europe and Asia. Additional drivers of the transaction are efforts to:

- expand JLL's goal for a full-service Capital Markets platform;
- enhance and reinforce JLL's position as a digital leader;
- provide HFF's clients with JLL's global platform and other Real Estate Services; and
- bolster employee recruitment, development, and retention.

The acquisition is valued at \$2 billion and is a continuation of three major trends for Real Estate Service companies. First, thousands of new firms were established during the recovery from the Great Recession, leading to widespread consolidation of the fragmented industry. Second, the combination of firms demonstrated the need for firms to expand product and service offerings for clients—to be a one-stop solution provider. Third, because talent recruitment and retention are key to Real Estate Service companies, there is fierce competition for high performing talent and a need to provide attractive compensation and incentive packages to employees. A large, diversified platform provides JLL an advantage.

JLL has outlined its strategy for continued growth and profitability, and believe the combination of clients, brand, digital capabilities, talent, and shared values are the key to achieving that vision.

As a result of the combination, JLL will become a platform and leader for complementary services for its current business, including debt placement, loan servicing, equity placement, M&A and corporate advisory, funds marketing, investment advisory, and loan sales.



Christian Ulbrich

Global CEO of JLL

THOUGHTS ON THE ACQUISITION:

"Increasing the scale of our Capital Markets business is one of the key priorities in our Beyond strategic vision to drive long-term sustainable and profitable growth. The combination with HFF provides a unique opportunity to accelerate growth and establish JLL as a leading capital markets intermediary, with outstanding capabilities."

"We have long admired HFF for its expertise and leading reputation in the industry, as well as its client-first culture of teamwork, ethics and excellence, which aligns with our own. I believe that combining our organizations will deliver a range of compelling benefits for our clients, employees and shareholders."

Business Services Growth Drivers

According to Real Capital Analytics, deal activity for commercial properties in the United States was the third-highest annual level on record. Although potentially slowing, residential real estate remained strong throughout 2018, especially in attractive metropolitan areas. These sales have allowed Real Estate Service providers to grow and expand their services. Across commercial and residential real estate providers, the M & A strategy has led to an active deal market in the fourth quarter of 2018 and the first quarter of 2019.

The key factors driving M&A activity for real estate providers are geographic expansion, service diversification, talent acquisition, and competitive dynamics between different size firms.

Geographic expansion is most easily accomplished through acquisition of an existing firm because offices, management, talent, and customer bases are all preexisting. Firms are entering different regions domestically, and foreign service buyers are investing in the United States. Integration and cultural fit are always factors to consider during an acquisition, but risks can be mitigated with proper diligence.

Service expansion is one of the main reasons for M&A activity.

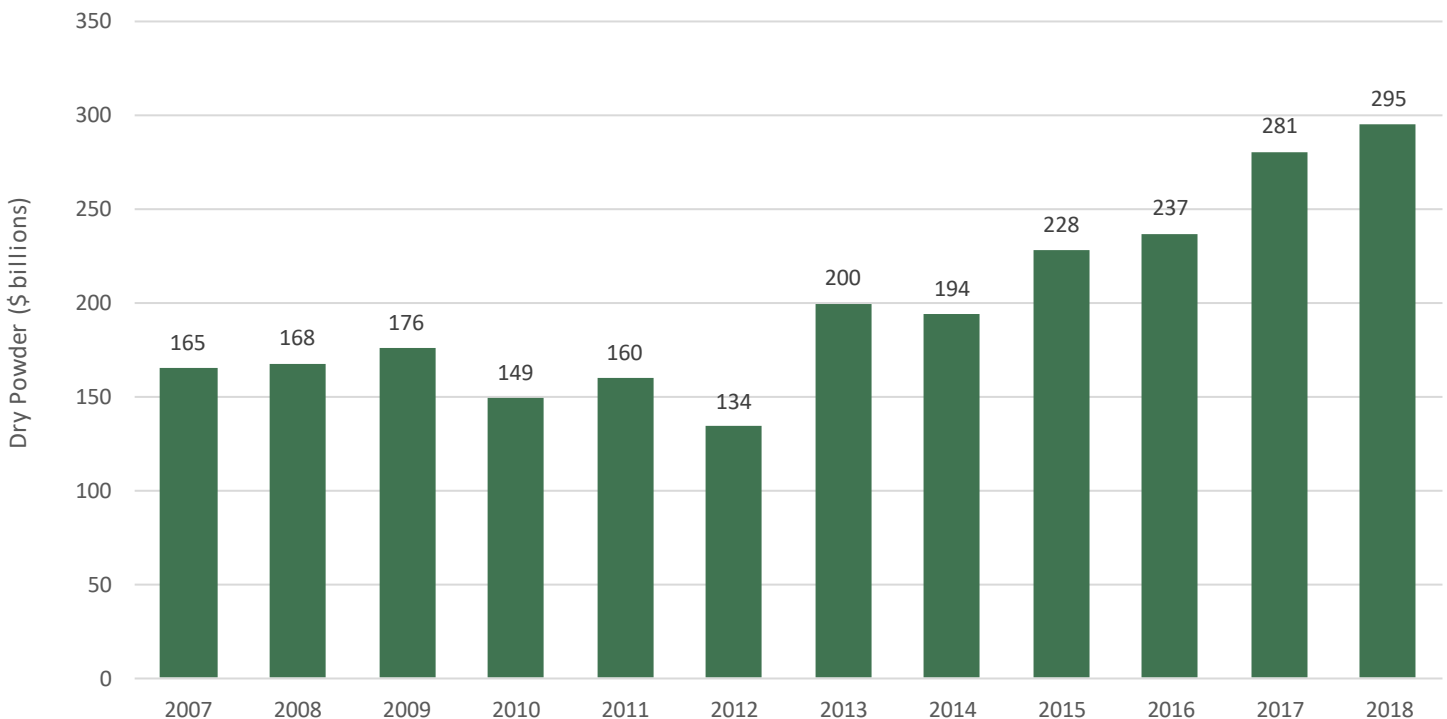
Customers are increasingly demanding a simpler transaction process, and a full-service provider is the most effective way to simplify the real estate transaction process. Service providers want to attract customers and provide the best experience while also capturing additional fees outside of a standard commission, such as debt origination, title fees, etc.

Talent acquisition drives real estate provider M&A for two reasons. First, onboarding talent from a competitor hurts the competitor and brings high-performers with existing customer bases. Second, using M&A to acquire scale allows firms to provide better compensation and incentive packages, which attract and retain talent. Larger, more diversified firms can better afford paying premiums for talent.

Competitive dynamics are driving M&A in many ways. Larger firms are using M&A for the reasons listed above and to compete against similarly sized competitors. Smaller firms are using M&A to gain scale to better compete against large service providers.

With these drivers and the global availability of capital, experts predict an active M&A market for Real Estate Services in 2019.

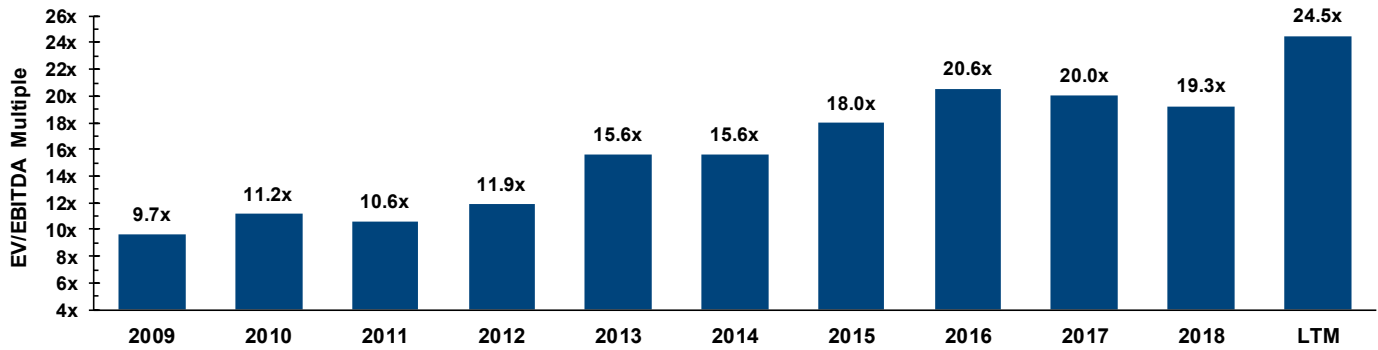
Global Committed Private Equity Dry Powder



Source: Prequin Fund Raising Update 2018

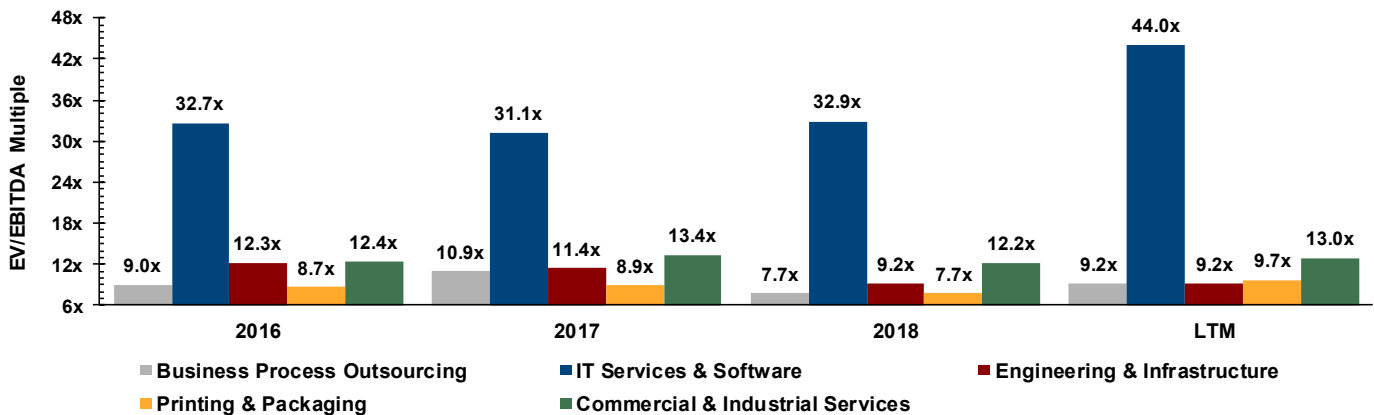
Public Company Comparison Trading Multiples

Business Services: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of November 23, 2018

Business Services Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of March 31, 2019

Representative EdgePoint Business Services Transactions

<p>Sell-Side Advisory</p> <p>OnSight Industries, LLC has sold to Copeley Capital</p>	<p>Sell-Side Advisory</p> <p>Barrow-Agee Laboratories, LLC has sold to Align Capital Partners</p>	<p>Sell-Side Advisory</p> <p>InfoAccess.net LLC has sold to Corcentric</p>	<p>Sell-Side Advisory</p> <p>DocuSphere has sold to Tungsten Corporation</p>	<p>Sell-Side Advisory</p> <p>Smart Solutions has sold to Blue Technologies, Inc.</p>
<p>Sell-Side Advisory</p> <p>Exacta Land Surveyors has been recapitalized by Summit Park</p>	<p>Sell-Side Advisory</p> <p>Express Packaging has been recapitalized by HCI Equity Partners</p>	<p>Sell-Side Advisory</p> <p>Nationwide Property & Appraisal Services, LLC has been recapitalized by Corridor Capital, LLC</p>	<p>Sell-Side Advisory</p> <p>Live Technologies, LLC has been recapitalized by Capital Alignment Partners</p>	<p>Sell-Side Advisory</p> <p>MC Sign Company has sold to Sverica International</p>



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

