

OBJECTIVE

Investment Banking & Valuation

2021 Year In Review Business Services Industry Report

Value Drivers in Pharma Services, Digital Marketing, and Insurance Services

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- M&A Activity Update
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Business Services



Value Drivers in Pharma Services, Digital Advertising, and Insurance Services

Continued growth, intense competition, fragmented markets, and a high degree of specialization are among the major themes driving value creation.

As the U.S. economy emerges from the late stages of the COVID-19 pandemic, we examine three sectors that we believe will attract significant M&A attention: pharmaceutical services, digital advertising, and third-party insurance services. These sectors share common characteristics that make them particularly interesting from an M&A perspective, including continued growth, intense competition, fragmented markets, and a high degree of specialization in the products and services they provide.

We expect M&A activity to increase in these sectors as their growth and fragmentation offer strategic buyers and private equity (PE) firms the opportunity to

create meaningful economies of scale through thoughtful acquisitions. In addition, the degree of specialization that these companies provide means that acquisition is often the only viable way to gain access to long-term client relationships, which may constitute a significant portion of their respective markets.

Pharmaceutical Services

Healthcare is the largest and fastest-growing segment of the U.S. economy, and much of this economic activity eventually cycles back to large pharmaceutical companies, or so-called “big pharma”. As a result, companies that can offer ancillary services to big pharma are potentially very valuable, especially those with long-term customer relationships. Ancillary services include activities such as clinical research, diagnostics, genetic testing, and data management. The sector generated about \$53.2 billion in

2021 and is expected to achieve a CAGR of approximately 10.2% through 2026 . It is also highly fragmented, with about 3,000 participants across the U.S.

Among the most important players in this space are contract research organizations (CROs), which offer big pharma companies more efficient and less costly ways to run clinical trials and other types of research for new medications, treatments, and devices. For example, CROs are often highly skilled in managing complex clinical trials among specific demographics, such as individuals who suffer from Parkinson’s or Huntington’s disease. In these cases, CROs may offer big pharma companies the ability to source a much smaller pool of vendors than if big pharma companies had conducted the trials themselves. Outsourcing to CROs can also help big pharma companies leverage specialized staffing and navigate the complex regulatory environment in which the industry operates.

Increasing competition and rising R&D expenditures among big pharma companies have significantly

increased demand for CROs.

This is due in part to demand for COVID-19 vaccines and boosters, which may require multi-country, long-term trials. The increasing number of services offered by CROs and the rising trend of collaboration in the industry are also driving market growth. For example, in October 2020, PPD Inc. opened a new multipurpose clinical research laboratory in Suzhou, China, to offer bioanalytical, biomarker, and vaccine services for clinical trials across all phases of pharmaceutical development. Meanwhile, CROs are also developing new technologies for broader-based diagnostics and testing in preventive medicine.

What Is Driving M&A Activity in Pharma Services?

As CRO customers have sought to outsource much of their R&D in order to reduce costs and obtain new capabilities, **valuations have risen and consolidation activity has increased in the sector.** This is especially true for CROs that can offer highly specialized services, including the management of clinical trials for specific patient types and particular diseases. Multiples in the sector are above their

historical norms because of the importance of such well-managed trials.

In January of 2022, Objective served as the exclusive sell-side advisor to the Rocky Mountain Movement Disorder Center, a clinical research center for patients with movement disorders. The firm sold its clinical site operations to CenExel Clinical Research, Inc., a movement disorders-focused research facility with experience in more than 100 clinical trials. This transaction highlights the value of specializing on specific patient types and health needs.

Digital Marketing

From 2016–2021, the digital advertising industry grew at a CAGR of 11.6% as businesses in virtually every sector invested in the sector to expand their reach to potential customers. Much of this growth was the result of the broad transition from desktop PCs to smartphones and other mobile devices, which prompted marketers to push more ads to social media and other digital platforms.

As a result, many digital agencies have entered the industry to take advantage of the shift away from

traditional advertising (print/TV/radio), creating a market that is highly fragmented, with approximately 5,500 digital marketing players across the U.S.

While the industry generates about \$19.8 billion annually, its rapid growth has led to a degree of saturation in the market. In addition, online services have also approached saturation due to robust growth in internet traffic volume and slower growth in the number of mobile internet connections. Concerns over data security and privacy protection are also expected to constrain the market's growth, as data and identity theft can of course result in major losses for digital advertising firms and their clients.

Against this backdrop, digital advertising is expected to grow at a CAGR of 3.1% from 2022-2026 . We expect this slow rate of growth to result in higher wage expenses as percentage of revenue, which will likely lower profits. Large industry players are hungry for new ways to innovate, and we believe that agencies that can develop advanced tools to analyze customer behavior—including leveraging tools like artificial intelligence and data mining—will see strong demand. These include smaller, independently operated agencies that specialize in niche markets.

For example, many digital agencies have begun to emphasize location-based advertising that automatically generates messages on mobile devices to notify shoppers about various offers and discounts upon entering malls or shopping centers. Location-based advertising may also consist of using geospatial data to target customers within a certain radius of a particular location. Locally owned gyms, for example, may only advertise to customers who are less than a 10-minute drive from the gym's location. We expect that digital agencies that can meet this kind of demand will continue to do very well and see elevated M&A interest over the next several years.

What Is Driving M&A Activity in Digital Marketing?

We believe that large strategics and PE firms will be motivated to acquire digital agencies that have **strong recurring revenue and a degree of specialization, particularly in AI, data mining, and software development.** We also believe that buyers will be attracted to agencies that can navigate consumer protections and data privacy rights and still achieve a significant degree of mass personalization. Evidence of a higher degree of

professionalization in operations, such as membership in the American Association of Advertising Agencies, may boost an agency's credibility and image.

Given that there is about 10 times more PE capital in the market today than there was a decade ago, PE firms are more aggressively looking for deals among digital advertisers. In the lower middle market, many PE buyers have become competitive with strategics in terms of the multiples they will pay.

In February 2021, Objective served as the exclusive financial advisor to Myers Media Group, LLC in its sale to Resurgent Capital Partners, a leading operations-focused lower middle market private equity firm. Myers Media Group is a provider of data-driven software products for improving the visibility of eCommerce websites with clients that include large enterprise-level brands.

Insurance Services

Third-party administrator (TPA) and insurance claims adjusters play a critical role in the insurance and retirement markets by enabling businesses to outsource claims processing, administrative services, underwriting expertise,

and risk management.

Industry players address the highly specialized product development, administrative risk management, and consulting needs of professional groups, service businesses, governments, healthcare providers, and commercial organizations.

Over the past several years, insurance carriers and pension funds have increasingly relied on these service providers to cut operating costs and improve efficiency. This is especially true among larger TPAs that have been able to **use improved data analytics to offer a more diversified range of services.** From 2016–2021, the sector grew at a CAGR of 2.5%, reaching a total of about \$230 billion annually. While the COVID-19 pandemic subdued revenue growth in 2020, rising underlying business activity, declining unemployment, and improving financial markets have since benefited the industry.

With insurance policy volumes expected to rise over the next several years (particularly among corporations), we believe primary insurers will increasingly outsource claims to TPAs and claims adjusters. Much of this growth will likely come from expansion in the employer-sponsored

health coverage and benefit markets, where increasing regulation will add to the compliance burdens that primary insurers currently face. From 2021–2026, the sector is expected to grow at a CAGR of 2.2%.

The industry is highly fragmented and competitive, with even the largest TPAs representing a small fraction of the total market. Competition emanates from a large number of retail insurance brokerage and agency companies as well as individual brokers and agents, direct underwriters, and other insurance intermediaries such as banks.

What Is Driving M&A Activity in Insurance Services?

Given that the TPA market is highly fragmented, the cost of acquiring new clients is generally high, and **we expect this dynamic to drive consolidation in the space.** Broadly speaking, buyers want to add competitors' clients in order to create economies of scale, and on that basis, we expect employer enterprises to engage in strategic acquisitions in this space.

We believe that the most attractive M&A targets among TPAs will share several characteristics. TPAs

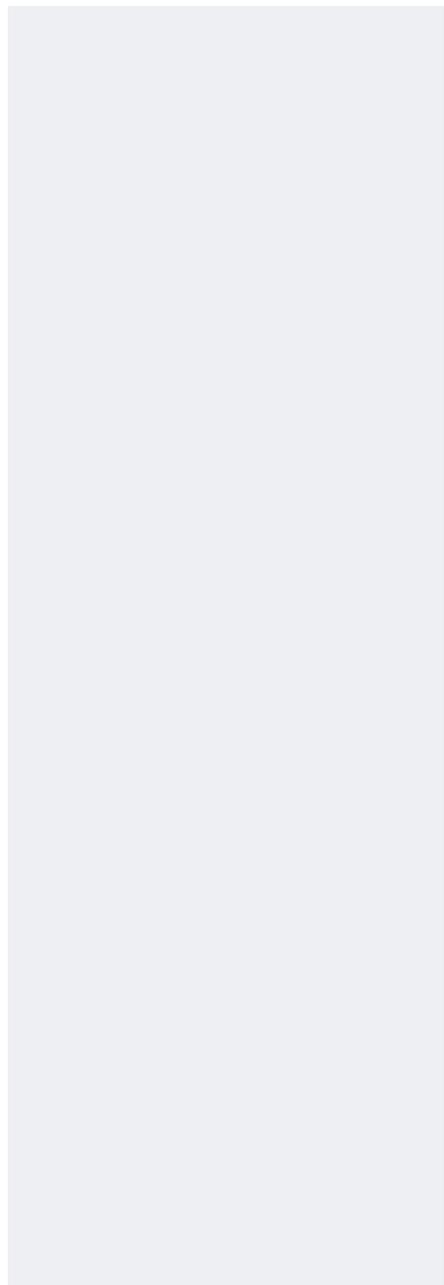
that provide their clients an R&D advantage will be especially valuable because most of the products and services offered in risk-related industries require in-depth research and modeling. Access to a highly skilled workforce will also be critical, especially in terms of risk assessment, consulting, and actuarial services. TPAs' ability to vary their services and to analyze risk from multiple perspectives will be another critical asset, as will their track record for long-term cost effectiveness and compliance.

Finally, TPAs that can offer their **clients the ability to automate many of their services will likely attract strong M&A interest.**

Automation can decrease labor costs significantly, which is especially important in labor-intensive industries such as insurance. From our perspective, the most valuable TPAs are those that develop multi-tenant technology and that can handle a large volume of claims from a broad range of clients simultaneously.

Objective recently served as the exclusive financial advisor to an insurance software provider in its sale to an undisclosed healthcare services provider. The company sold was a third-party administrator

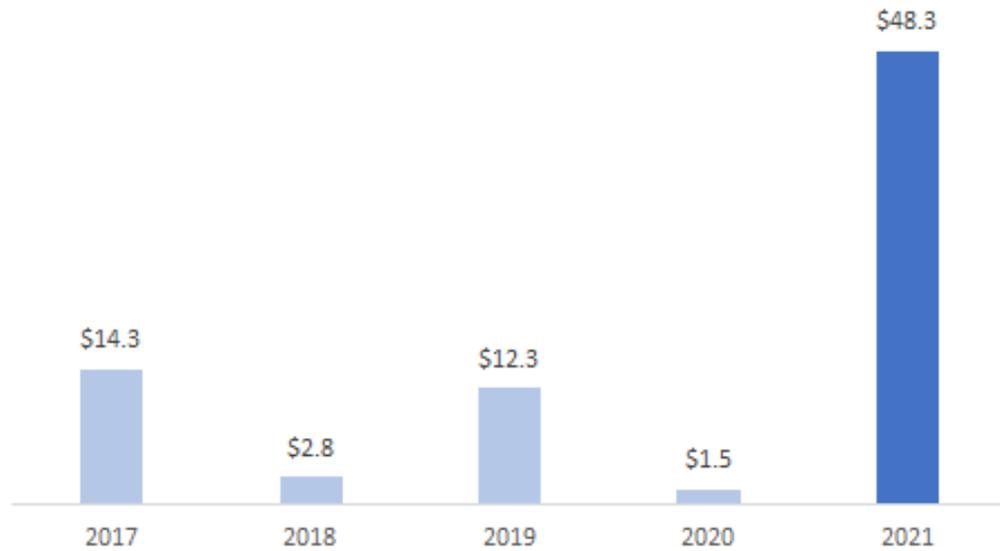
of claims management for self-insured public entities that in recent years had developed technology that passes more of the claims process to the end user, thereby streamlining the process from the administrator's perspective.



Pharma Services Deal Value (\$ billion)

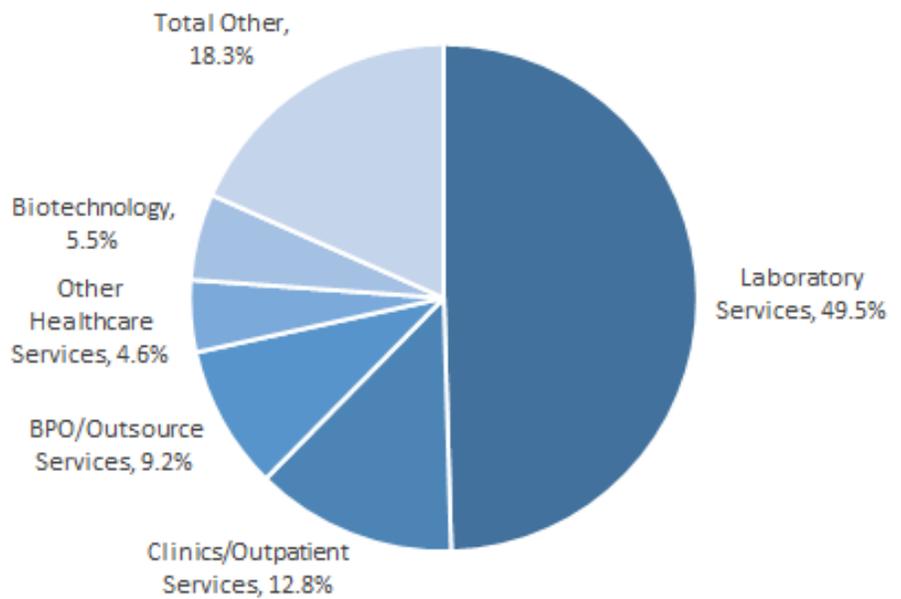
Total Value of Pharma Services Transactions by Year

Deal value in this sector has seen exponential growth in 2021 compared to the four years previous. We expect this growth to continue into 2022 and beyond.



Pharma Services Sector Distribution

Sector Distribution of 2021 Transactions



Pharma Services Top Acquirers

Most Active Acquirers of 2021

Company Name	# of Transactions in 2021
Aurora Capital Partners	5
Pace Analytical Services	5
The Cambria Group	5
Novo Holdings	4
Quest Diagnostics	3
Ampersand Capital Partners	3

Digital Marketing Deal Value (\$ billion)

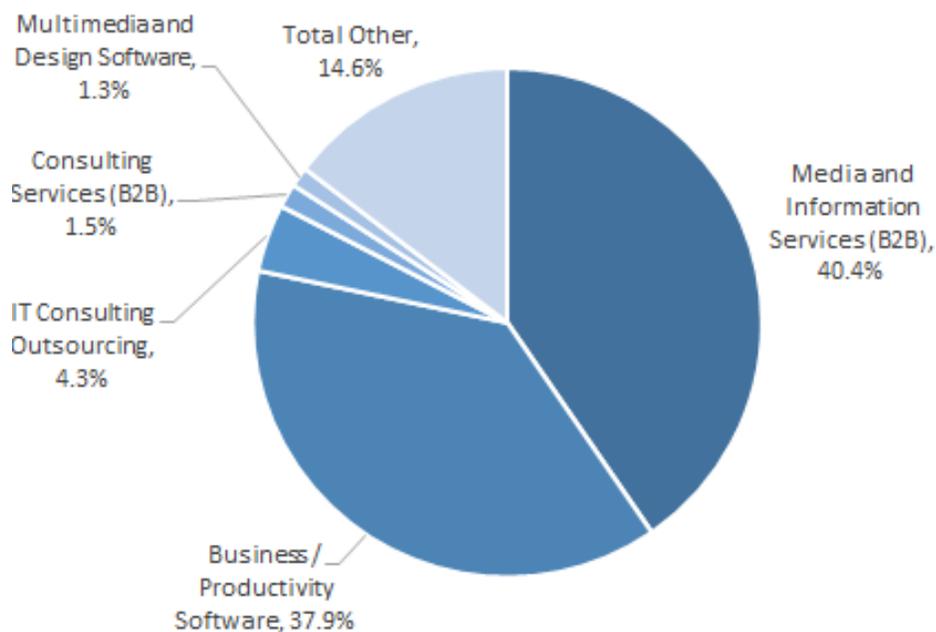
Total Value of Digital Marketing Transactions by Year

Deal value in this sector has seen exponential growth in 2021 compared to the four years previous. We expect this M&A activity to continue to grow into 2022 and beyond.



Digital Marketing Sector Distribution

Sector Distribution of 2021 Transactions



Digital Marketing Top Acquirers

Most Active Acquirers of 2021

Company Name	# of Transactions in 2021
Vista Equity Partners	6
TA Associates Management	6
Providence Strategic Growth	5
H.I.G. Capital	5
Blackstone	4
Clearlake Capital Group	3

Insurance Services Deal Value (\$ billion)

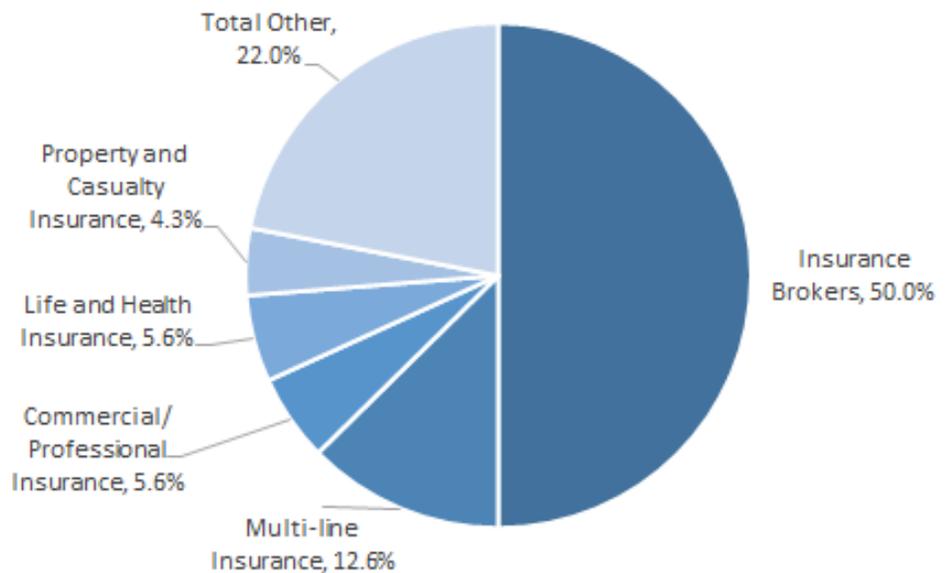
Total Value of Insurance Services Transactions by Year

Deal value in this sector has seen substantial growth in 2021 compared to the four years previous. We expect this growth to continue into 2022 and beyond.



Insurance Services Sector Distribution

Sector Distribution of 2021 Transactions



Insurance Services Top Acquirers

Most Active Acquirers of 2021

Company Name	# of Transactions in 2021
HarbourVest Partners	31
The Carlyle Group	26
ABRY Partners	25
Huron Capital	24
HGGC	23
Ares Management	21

Select Transactions



Has sold its clinical research site operations to



Sell-Side Advisor to Rocky Mountain Movement Disorders Center



Has been acquired by



a portfolio company of



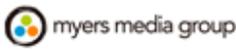
Sell-Side Advisor to Bell Canyon Consulting



Has been acquired by



Sell-Side Advisor to Grasp Technologies



Has been acquired by



Sell-Side Advisor to Myers Media Group



Has been acquired by



Sell-Side Advisor to Carl Warren & Company

Undisclosed Insurance Software Provider Company

Has been acquired by

Undisclosed Premier Healthcare Services Provider Company

Sell-Side Advisor to the Insurance Software Provider Company

Select Awards & Recognitions



Sell-Side Advisors of the Year
by M&A Advisor



Best Investment Banking & Valuation Firm - CA 2021)
by Acquisition International




Corporate / Strategic Deal of the Year (\$100-250M)
by M&A Advisor



Boutique Investment Banking Firm of the Year
by M&A Advisor



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