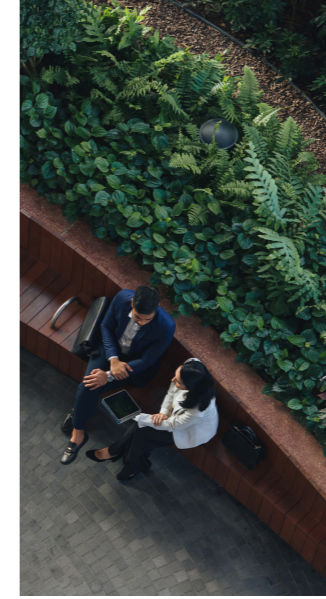
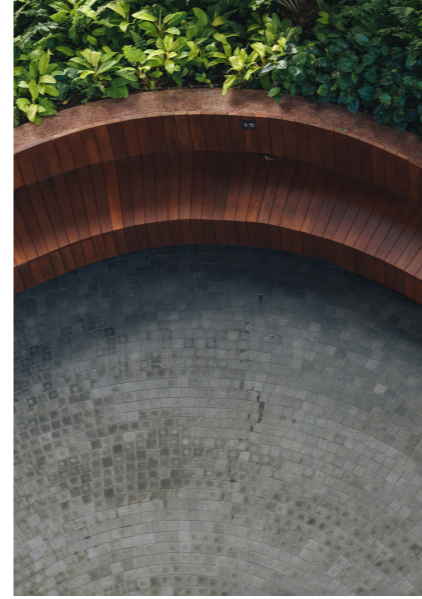




GRC Consultancy Market Insights

October 2023

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WHY US?

Contact our team to see how we can help you and your business succeed.



Introduction

The Governance, Risk and Compliance (GRC) market has been attracting significant interest from strategic buyers and investors for many years, most of them focused on companies with highly resilient, recurring revenue business models across the software, data or testing and inspection (TIC) space. M&A activity and valuations have been at unprecedented levels for the last decade.

Appetite for project-focused consultancy models has been patchier but not completely absent. However, this appears to be changing, largely due to numerous market tailwinds that are driving escalating demand for expert advice and support in mission critical areas, as well as investors getting increasingly comfortable with the risk / return profile of more project-focused, people-heavy consultancy models and the measures that can be taken to mitigate these risks.

This market update summarises recent market activity across the GRC consultancy sector (defined below), including recent private equity investments, updates on key events (including M&A) at the most relevant large corporate players, and a high level overview of prevailing market valuations and core value drivers.

What we include in GRC Consultancy



The core drivers of demand across the broad GRC consultancy sector include:



Brexit and geopolitical instability

Large corporates are grappling with the risks and uncertainties of operating in the current economic and political climate and accessing expert advice and support can be critical to navigating this environment successfully. Notably, regulators are also putting pressure on financial institutions to ensure their risks are managed accordingly and sanctions / MLD requirements are top of the agenda.



Technology advancement

The tempo of technological advancement and data proliferation is creating both opportunities and risks that the GRC community can address. The ability to access data and effectively use it to both demonstrate compliance and give clarity to complex situations augments the value of these propositions. Nevertheless, with the rise of cashless transactions, crypto and biometrics, technology is bringing new challenges to the financial services industry in particular, leaving it open to new potential threats, as well as an increasing requirement for data security and regulatory reform. These developments are driving institutions to lean more heavily on third-party experts for support.



Stakeholder pressures

High profile cases of regulatory breaches and market abuse in recent years means that stakeholders are placing ever-greater scrutiny on corporates to be able to demonstrate compliance across all areas of regulation. This appears most acute across the ESG market as a stringent pipeline of new regulations come into force to support global long-term emissions goals.



Tougher regulators

Regulators have themselves been grappling with a rapidly-changing landscape and have needed to adapt to ensure new reforms tackle the most prominent emerging risks. As these regulators grapple with the fast pace of change and enhanced enforcement powers it is likely that these institutions will start to bare their teeth.



Skills shortage

These challenges are exacerbated by skills shortages in certain pockets of the highly technical GRC advisory market. Corporates are therefore struggling to hire the right talent in-house, creating a dependency on relationships with expert, third party consultants with which they are often competing for that talent.

M&A Activity - Private Equity

The private equity (PE) model continues to lend itself well to consultancies looking to expedite growth while retaining their independence and there has been a marked escalation in investor appetite for GRC-related consultancies in recent years across all the sub-sectors covered.

Regulatory and Compliance Consulting

The mega-merger of ACA Group and Foreside in 2022 created a significant opportunity in the UK market for a new independent platform to consolidate the fragmented UK compliance consulting market. Unsurprisingly, a number of investments have been made in the last 24 months to target this opportunity, notably Bridgepoint Growth's investment in fscom, Copper Street's investment in Thistle Group and Bregal Sagemount's investment in Optima, with more likely to follow. Elsewhere, IK led the secondary buy-out of Scandinavian compliance leader FGC, while Salus GRC has raised significant funding from Charlesbank Capital Partners in the US to build a global GRC platform.

Across slight adjacencies, Growth Capital Partners has invested in financial crime consultancy Plenitude, and Phoenix have made a strategic investment in credit risk analytics consultancy 4most, both supporting large banks and addressing mission critical regulatory requirements.

Financial Services Management Consulting

Since Livingbridge exited its investment in Sionic in 2021, new PE investment into more operationally-focused FS consultancies has been more muted. Despite strategic acquirers focusing on financial services as an important sector (see next page), private equity see the less mission-critical nature of some of these services as more vulnerable in softer markets – indeed, Brexit had a marked impact on this sub-sector. Nevertheless, Dutch PE house Gimv invested in Projective Group in 2021, and continues to support a strong buy and build strategy. Delta Capita, the consulting and managed service provider, received investment from Prytek, and has since acquired JDX Consulting. Investors remain interested in this broader market, but sourcing firms with the more resilient specialities around technology or compliance is generally key to their serious interest.

Risk, Intelligence & Investigations Service

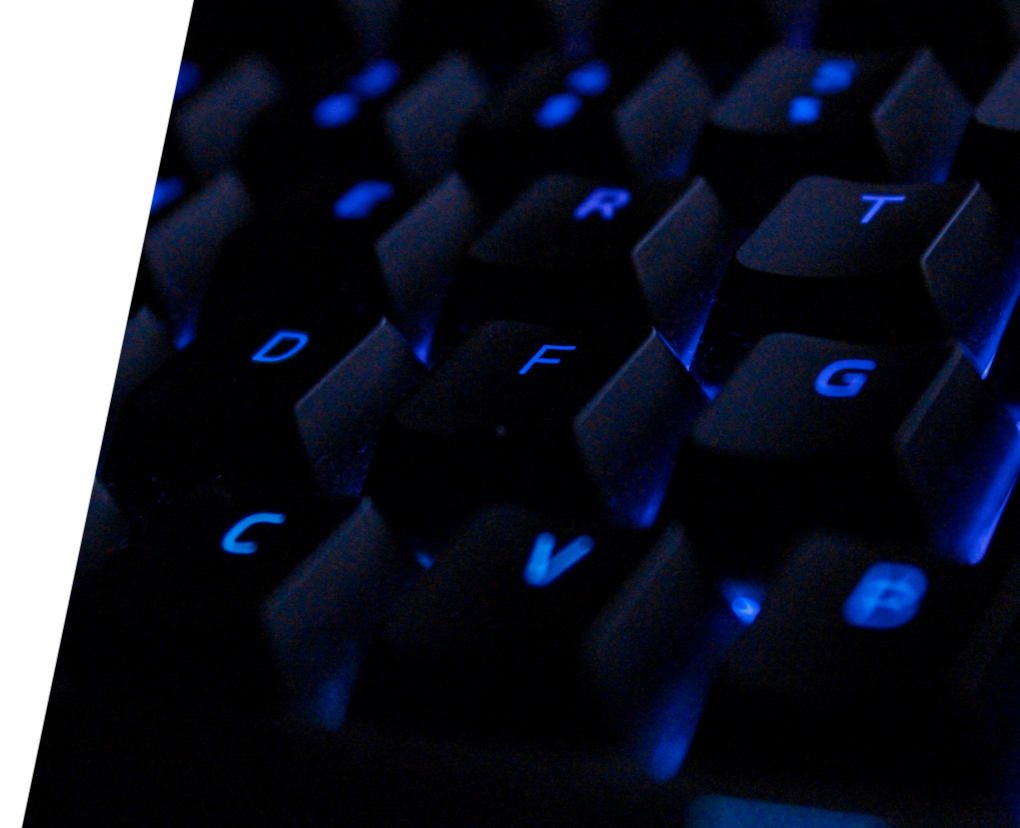
Current geopolitical challenges have led to a resurgence in investor interest in this space, most notably in the US. Kelso's investment in JS Held in 2019 was the genesis of a highly ambitious buy-and-build project, most recently entering the UK through its acquisition of GPW group. More recently, Growth Catalyst Partners has formed risk services group Sigma7 through the merger of Strategia Worldwide, Paragon and RWH Myers, while All Seas Capital has made a minority investment in UK headquartered intelligence and investigations consultancy G3.

Strategic Communications / Crisis Management

The more traditional corporate communications / PR sector has attracted less interest from investors over the last decade. However, an increasingly complex media environment, the rise of disinformation, and the importance of protecting brands and reputations, has rekindled appetite for this sector. The most notable deal has been KKR's minority interest in FGS (with WPP retaining the majority stake) in a \$1.4bn deal, whilst a number of smaller platforms continue to consolidate this highly fragmented market – notably Penta Group (backed by Falurias Capital), Farner (backed by Waterland), Berlin Rosen (backed by O2 investments) and SEC Newgate (recently subject to secondary backing from Investcorp). With increased M&A and investor focus on this space, and a long tail of independent players, we would expect to see an acceleration of M&A activity over the next 12 months.

Political and Economic Advisory

In a febrile geo-political environment, the importance of deep subject-matter expertise is critical and we have seen strong interest in consultancies that can help corporates navigate the current political, regulatory and economic climate. Notably, Growth Capital Partners made a minority investment in Flint Global, a political, policy, regulatory and competition advisory firm, in January 2022. This was followed by Mayfair Equity's investment in Access Partnership, a consultancy that supports technology companies with their complex, multi-jurisdictional regulatory and public policy requirements, in June 2022.



Private Equity Transactions

Selected private equity precedent transactions

- Regulatory and Compliance Consulting
- Financial Services Management Consulting
- Risk, Intelligence & Investigations Service
- Strategic Communications / Crisis Management
- Political and Economic Advisory

<2019

2020

2021

2022

2023

M&A Activity - Strategic Acquirers

We are seeing a marked intensification in M&A appetite across larger strategic acquirers in response to the ongoing war for talent and the proliferation of private equity investment across the GRC consulting sector.

Regulatory and Compliance Consulting

As noted previously, the ACA-Foreside merger in 2022 has created ripples across the M&A landscape's regulatory and compliance sector. In an increasingly competitive market, larger strategics have looked to ramp-up their own M&A efforts to shore up existing market share and bolster capabilities and coverage. Ankura's acquisition of 60 person Chartwell Compliance to strengthen its anti-financial crime / AML offering and ACA's acquisition of Advanced Regulatory Compliance are two such examples. Global fund and corporate services continue to take a keen interest in this space, with IQ-EQ recently acquiring Laven's compliance business, and making two similar acquisitions in Asia of ComplianceAsia and Lymon Pte Ltd. The ever increasing prevalence of technology-enabled platforms and products to automate and streamline the compliance process continues to disrupt a sector that has historically been relatively slow to adopt digitalisation. With it often far more cost effective to simply acquire these capabilities and products as opposed to developing them in house, larger companies have looked to acquire smaller scale specialists to accelerate their digitalisation efforts. A notable example would be GFT's acquisition of German financial crime specialist Targens.

Financial Services Management Consulting

In recent years, M&A across the more generalist financial services consultancies space has been focused on either adding specialist capabilities or deepening expertise in a certain sector. The first half of 2023 has been no different and has further cemented the view that being all things to all people can be a precarious strategy wrought with challenges. That being said, the financial services sector continues to support a health level of transaction activity and attract investment from larger consultancies for which M&A is a priority. By way of example, and following its acquisitions of PEN Partnership and Coeus Consulting in late 2022, Wavestone acquired French change management specialist Q Perior in Q2 2023, further strengthening its presence in the FS sector.

Risk, Intelligence & Investigations Service

Strategic acquirer activity across the risk, intelligence and investigations sector has been robust over the past few years, though acquisitions have typically focused on enhancing capabilities (notably technology-centric) as opposed to consolidating market share. Sigma7's acquisition of Intelligence Fusion in 2022 was a notable example of a technology led acquisition, whilst Kroll's acquisition of Resolver further strengthened the US giants risk intelligence software proposition.

During H1 2023, Fiscalnote's acquisition of Dragonfly was driven by the US providers' desire to bring Dragonfly's online SaaS-based proprietary security intelligence and analysis service in-house, along with the associated lucrative recurring revenues.



Strategic Communications / Crisis Management

With sustaining brand reputation remains at the top of many board room agendas, larger communications groups and strategy houses are among those looking to bolster their capabilities in this area. Given the relatively silo-ed nature of strategic communications, with many of the broader marketing services players focused on cross-selling their services across their global clients this area has increasingly been de-prioritised. WPP's recent sale of a stake in FGS Global to KKR and Chime Group's ongoing efforts to divest its communications division are just two examples of this. Conversely, existing strategic communications companies are increasingly looking to add incremental capabilities and grow through M&A as evidenced by Teneo's acquisition of FS specialist Tulchan in Q1 2023 and Kyu Collective's acquisition of Lexington Communications in late 2022.

APCO Worldwide has completed a string of acquisitions in recent months as it looks to expand its global footprint, including two specialist public affairs consultancies in the Middle-East (NGC International Advisory) and Italy (Strategic Advice) and London-based financial services specialist Camarco.

With the continued flow of private equity investment into this space to consolidate a fragmented market through the creation of buy-and-build platforms, we expect to see ongoing interest among larger corporates in carving-out their communications focused divisions.

Political and Economic Advisory

Significant volatility in socio-economic conditions on a global scale has driven public bodies and organisations to rely more and more on the expert services provided by specialist political and economic advisory firms. The larger incumbents in this space have turned to M&A to both defend existing market positions and also further develop their global presence. For example, Kantar Public's acquisition of public policy specialist PPMI adds over 100 heads to its Eastern-European presence.

Strategic Acquirer Transactions

- Regulatory and Compliance Consulting
- Financial Services Management Consulting
- Risk, Intelligence & Investigations Service
- Strategic Communications / Crisis Management
- Political and Economic Advisory

<2019

ACA | **Cordium**
ACA acquired Cordium in September 2018

IQEQ | **Lawson Conner LC**
IQEQ acquired Lawson Conner in November 2018

DUFF & PHELPS | **KROLL**
Duff & Phelps acquired Kroll in May 2018

2020

AON | **wtw**
Aon acquired Willis Towers Watson in March 2020

SOVOS | **Accordance**
Sovos Compliance acquired Accordance Technical Services in July 2020

OCORIAN | **NEWGATE COMPLIANCE**
Ocorian acquired Newgate Compliance in September 2020

DUFF & PHELPS | **KROLL** | **BLACKROCK EXPERT SERVICES GROUP**
Duff & Phelps acquired Blackrock Expert Services Group in December 2020

2022

ACA | **FORESIDE**
ACA acquired Foreside in May 2022

IQEQ | **LAVEN**
IQEQ acquired Laven Consulting in December 2022

JS|HELD | **GPW**
J.S. Held acquired Gpw Group in May 2022

SIGMA 7 | **INTELLIGENCE FUSION ALACO**
Sigma7 acquired Alaco and Intelligence Fusion in October 2022

2023

CUBE | **The Hub**
Cube governance acquired TheHub.ai in January 2022

ankura | **CHARTWELL COMPLIANCE**
Ankura acquired Chartwell Compliance in March 2023

FiscalNote | **dragonfly**
Fiscal Note acquired by dragonfly in January 2023

Anthesis | **Wallbrook.**
Anthesis acquired Wallbrook in June 2023

ACA | **ARC**
ACA acquired ARC in January 2023

projective | **Charco & Dique**
Projective Group acquired Charco & Dique in January 2023

GFT | **targens**
GFT acquired Targens in February 2023

Marsh McLennan | **SOLV**
Marsh McLennan acquired SOLV Risk Solutions in June 2023

APCO worldwide* | **CAMARCO**
Apco Worldwide acquired Camarco

2023

APCO worldwide* | **NGC International Advisory**
Apco Worldwide acquired NGC International Advisory

Teneo | **TULCHAN**
Teneo acquired Tulchan in February 2023

KANTAR PUBLIC | **PPMI**
Kantar Public acquired PPMI in June

APCO worldwide* | **STRATEGICADVICE**
Apco Worldwide acquired Strategic Advice Srl

2019

accenture | **PARKER FITZGERALD**
Accenture acquired Parker Fitzgerald in August 2019

Gallagher | **AHC**
Arthur J. Gallagher & Co acquired Anthony Hedges consulting in October 2019

Chatham FINANCIAL | **JCRA**
Chatham financial acquired JCRA in November 2019

Acuris | **blackpeak**
Acuris acquired Blackpeak in March 2019

SECNewgate | **PORTA**
SEC Newgate acquired Porta Communications in July 2019

2021

REPLY | **MHC**
Reply acquired MHC in March 2021

wipro | **CAPCO**
Wipro acquired Capco in April 2021

equisoft | **Altus**
Equisoft acquired Altus July 2021

Davies | **SIONIC**
Davies Group acquired Sionic in December 2021

WAVESTONE | **PEN**
Wavestone acquired Pen Partnership in September 2022

SECNewgate | **GSG GLOBAL STRATEGY GROUP**
SEC Newgate acquired Global Strategy Group in November 2022

HUNTSWORTH | **circle**
Huntsworth acquired Circle in April 2022

kyu | **LEXINGTON COMMUNICATIONS**
Kyu Collective acquired Lexington Communications in September 2022

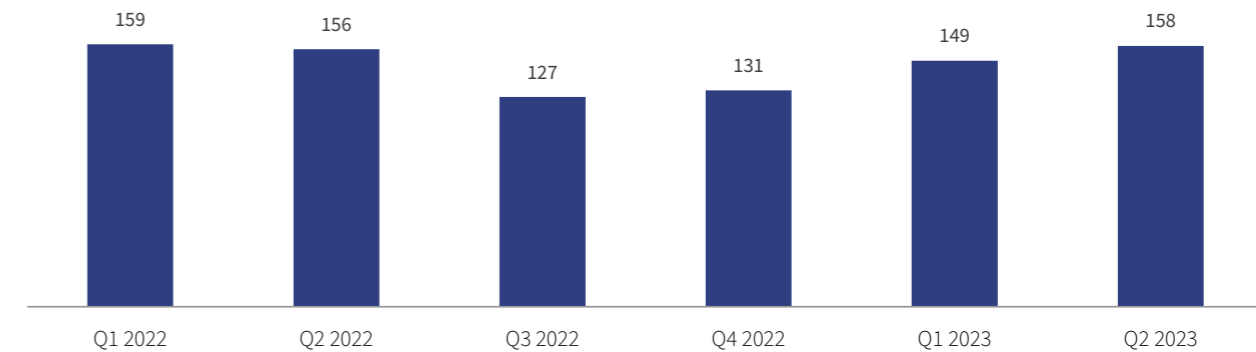
M&A Transaction Volumes

Consulting Deal Volumes (European targets)

Transaction volumes involving European-based consultancies declined over the course of 2022, with the impact of a range of macro-economic pressures (Ukraine conflict, surging interest rates, cost inflation and the threat of recession) causing acquirers and investors to pause for breath after a frenetic 2021.

However, during H1 of 2023, deal activity in the broader consultancy sector returned to the levels of the prior year as financial investors sought to deploy a backlog of capital and strategic acquirers looked to add incremental scale at more favourable valuations.

Consulting Deal Volumes (European targets)

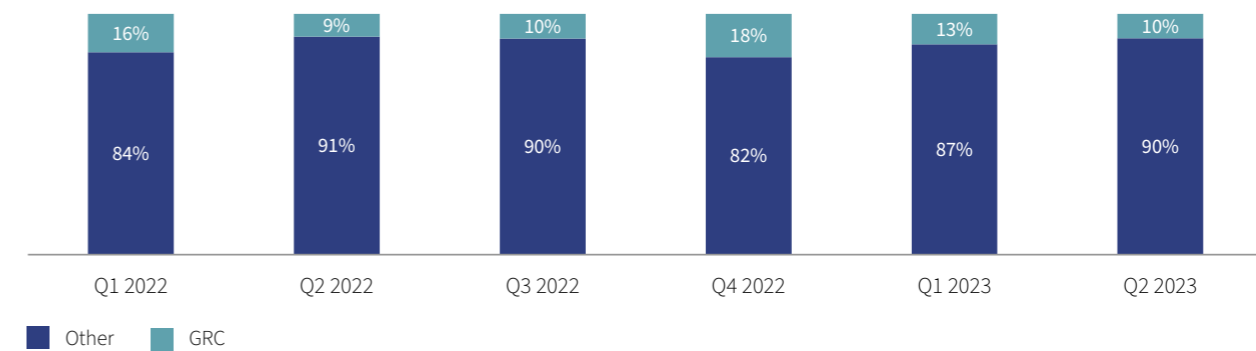


Consulting Deal Volumes (GRC Specialists vs. Other)

Transactions involving specialist Governance, Risk and Compliance consultancies made up on average 13% of total consultancies sector deal activity over the past 18 months, with notable peaks in Q1 2022 and Q4 2022.

During periods of economic volatility and uncertainty, consultancies offering services that are deemed more “mission critical” and non-discretionary in their nature are increasingly attractive to acquirers and investors. GRC focused consultancies fit this mould well, as shown from the increase in the percentage of transactions involving GRC specialists in Q4 2022 to 18%.

Consulting Deal Volumes (GRC Specialists vs. Other)

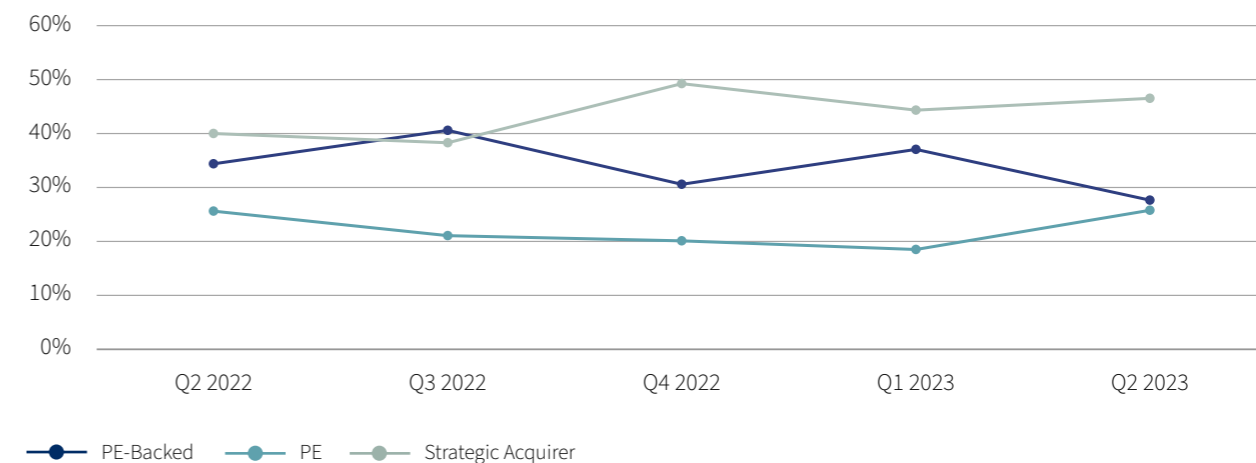


Consulting Deal Volumes (Strategic vs. Private Equity)

Strategic acquirers were involved in the majority of transactions reviewed over the last 18 months, responsible for c.50% of the transactions completed in that period.

Interest from private equity, both through new platform investments and bolt-on M&A activity by existing platforms, remained robust throughout the period. The increase in direct investments from financial investors to 25% of the transactions considered during Q2 2023 reflects the continued influx of private equity into the consultancy sector as a result of the inherent resilience and scalability of these businesses.

Consulting Deal Volumes (Strategic vs. Private Equity)



Valuation Context

Public Company Analysis

Valuations across the consultancy sector have consistently outperformed the wider market for the past five years, with listed management and technology consultancies on average trading in excess of 13x EBITDA throughout that period.

In the face of recent market instability, the sector has continued to demonstrate its resilience to wider macro-economic challenges with valuations across the Arrowpoint Advisory White Collar Consulting Index holding steady during the last 12 months at an average of 13.3x EBITDA, very close to the five year average.

The outlook for valuation across the sector remains positive as the core drivers of demand show no signs of softening in the medium term. For the more traditional strategy-led consultancy firms, the implications of a prolonged economic slowdown are forcing boardrooms to critically evaluate core strategies and turn to trusted advisors for expert counsel, identifying areas to prioritise for future growth and those to shift away from.

From a GRC perspective, the mission-critical nature of the services provided render them somewhat “recession proof” and indeed carry even greater importance during economic slowdowns. For businesses looking to navigate an already challenging market, maintaining a robust profile from a governance, risk and compliance standpoint is fundamental. So whilst the severity and length of the current downturn has yet to become evident, the GRC focused consultancy sector is widely seen as an attractively resilient part of the market to be in as this unfolds.

EV/LTM EBITDA (x)

Average through the cycle	Last twelve months	Last two years	Last three years	Last four years	Last five years
Arrowpoint Advisory White Collar Consulting Index	13.3x	13.7x	13.6x	13.3x	13.3x
FTSE 250	8.6x	11.0x	11.8x	11.2x	11.0x



White Collar Consultancies



Booz | Allen | Hamilton®



Valuation Context

Precedent Transactions

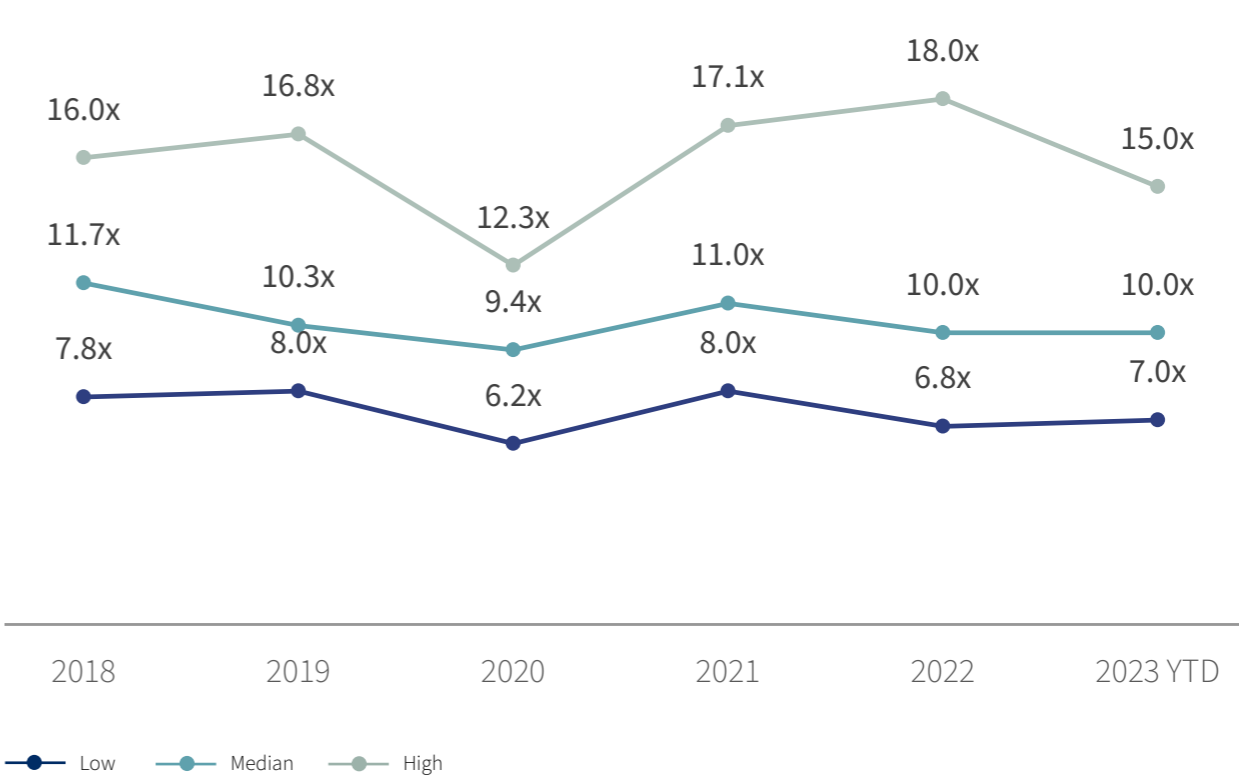
Whilst historically the availability of strategic and synergy benefits has enabled strategic acquirers to consistently out-pay private equity competitors, platform investments by private equity firms have attracted notably higher valuations in recent years. The opportunity available to private equity to pay a premium for the initial 'platform' and then consolidate smaller consultancies than strategic acquirers might be interested in buying, paying lower multiples as a result, affords the opportunity to still comfortably deliver attractive investment returns. Recent investments into Access Partnership, FCG Group, Fscm, and FGS Global are all widely-believed to have attracted double-digit EBITDA multiples.

Across the transactions reviewed, valuations during H1 2022 remained robust at an average of c.11x EBITDA. However, declining market sentiment and continued macro-economic instability during the second half of 2022 depressed valuations across the GRC consultancy space, with the average falling to 9.2x EBITDA by the end of the year.

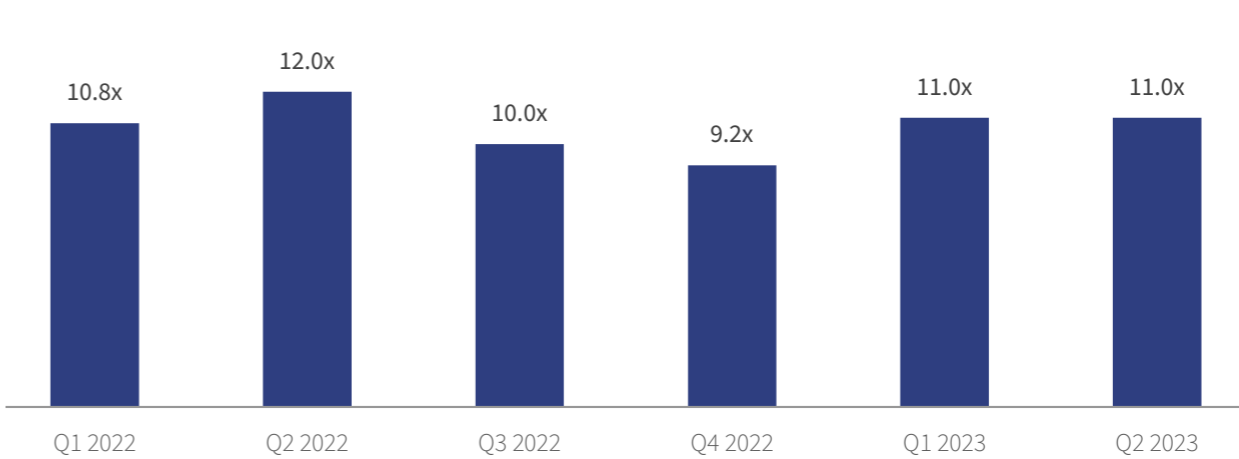
The ripples of these macro-economic issues continued to suppress valuations during Q1 2023, with rising interest rates and the constriction of debt markets having notable impacts on transaction processes. However, the GRC consultancy space provided a safe harbour for private equity firms looking to deploy capital, with the inherent resilience of the sector enabling investors to take a more robust view in the face of economic headwinds. Notable acquisitions include Anthesis's acquisition of Wallbrook and Investcorp's investment into SEC Newgate, both of which traded in excess of 10x EBITDA.

During the remainder of 2023 and into 2024, we expect to see continued strong levels of interest from strategic acquirers in well established consultancy businesses focused on the GRC space, with increasing competition for assets of this nature positively influencing valuations.

Annual GRC Consulting Deal Multiples (EV/EBITDA)



2022-2023 Quarterly GRC Consulting Deal Multiples (EV/EBITDA)



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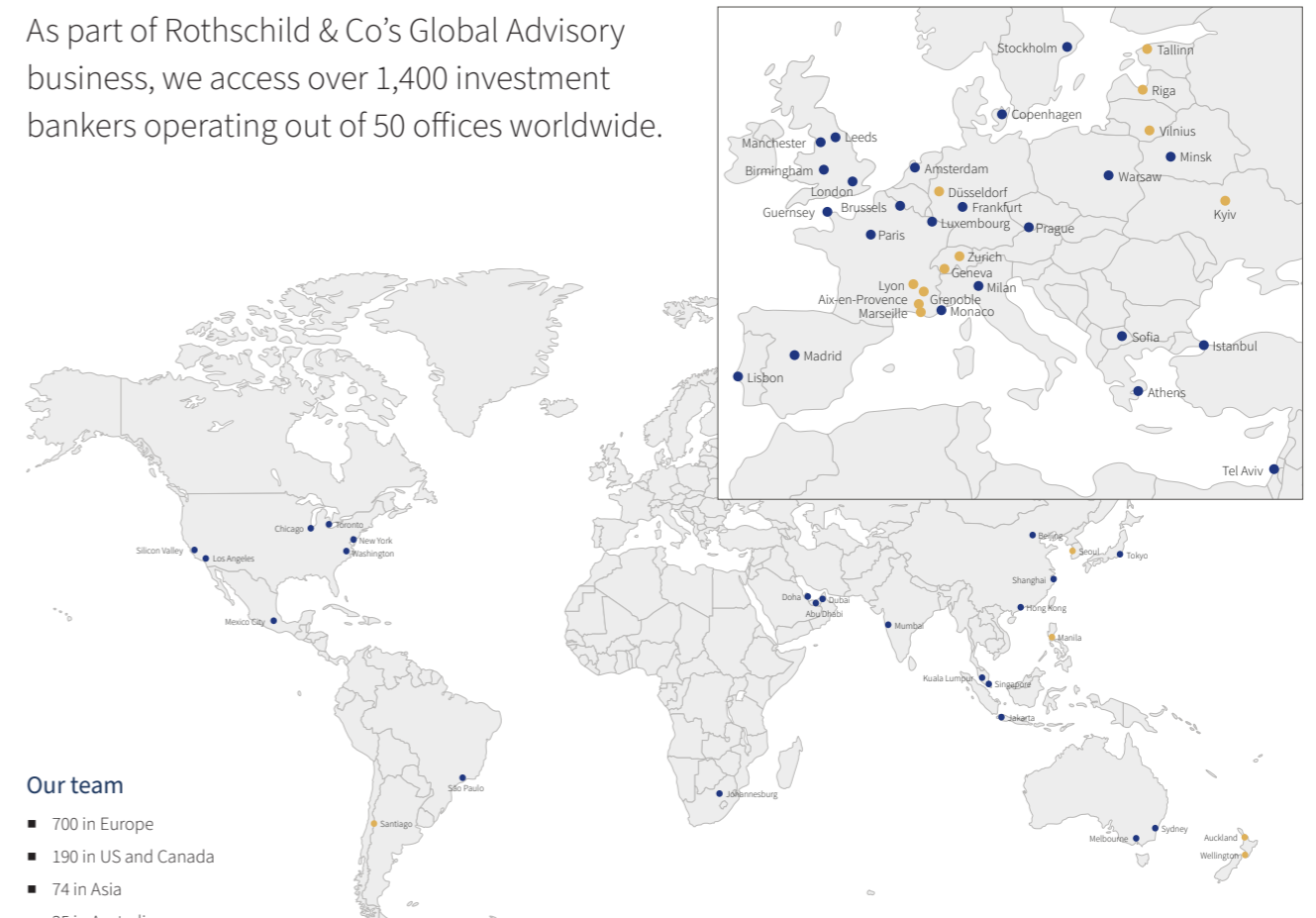
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Our recent sector experience

<p>Wavestone</p>  <p>Sale of Q-Perior, a leading IT and compliance consulting firm to Wavestone</p> <p>2023</p>	<p>Cleversoft</p>  <p>Sale of Cleversoft, a leading regulatory software provider to the financial services sector to Levine Leichtman</p> <p>2023</p>	<p>4Most</p>  <p>Advised Phoenix on investment in a specialist regulatory and compliance consultancy focused on the financial services sector</p> <p>2023</p>	<p>HKA</p>  <p>Acquisition of HKA, a professional disputes resolution consultancy, by PAI Partners from Bridgepoint</p> <p>2022</p>	<p>Catalyst Development</p>  <p>Merger of specialist financial markets consulting firm with Sionic Advisors</p> <p>2019</p>	<p>SmartSearch</p>  <p>Sale of a 30% stake in KYC platform to Marlin Equity Partners</p> <p>2019</p>	<p>Equiniti</p>  <p>£1bn EV recommended offer from Siris Capital</p> <p>2021</p>	<p>International SOS</p>  <p>Sale of minority stake in International SOS to the Peugeot family</p> <p>2021</p>
<p>Amtivo</p>  <p>Sale of certification business Amtivo to Charterhouse capital partners</p> <p>2022</p>	<p>FCG</p>  <p>Sale of Scandinavian compliance leader FCG to IK Partners</p> <p>2022</p>	<p>Kantar and Bain Capital</p>  <p>Advisor to Kantar and Bain Capital on Kantar's Public sector advisory business' carve-out and sale to Trilantic Capital</p> <p>2022</p>	<p>PEN Partnership</p>  <p>Advised management consultancy to the financial services sector on its sale to Wavestone</p> <p>2022</p>	<p>Knadel</p>  <p>Acquisition of buy side FS consultancy Knadel by Catalyst Development</p> <p>2018</p>	<p>Lawson Conner</p>  <p>Sale of regulatory infrastructure and managed compliance services provider to IQEQ</p> <p>2018</p>	<p>Catalyst Development</p>  <p>MBO of regulatory-driven transformation consultancy backed by Livingbridge</p> <p>2017</p>	<p>Cordium</p>  <p>Sale of regulatory consulting services provider to European Capital</p> <p>2014</p>



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WILL EVANS
DIRECTOR

T: +44 207 484 4737
E: will.evans@rothschildandco.com



OLLIE CHAMBERS
ASSISTANT DIRECTOR

T: +44 20 7484 4712
E: ollie.chambers@rothschildandco.com

Please contact our team directly above or visit us at arrowpointadvisory.com

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15 Adam Street
London WC2N 6RJ
United Kingdom
+44 (0)20 7484 4700

arrowpointadvisory.com
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