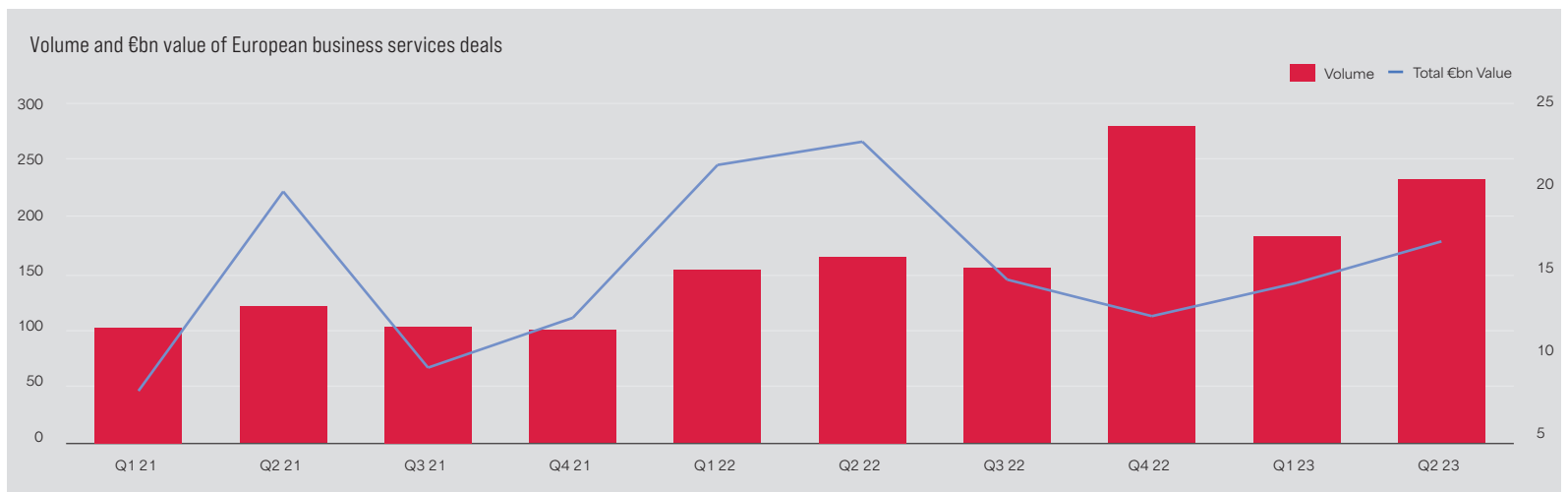


Business services sector: Digitalisation drives PE/VC dealflow

As companies across the industrial spectrum increasingly go down the path of digitalisation, dealflow in the business services space has grown, driven by outsourcers and tech enablers, as *Julian Longhurst* reports



According to the latest data from *Real Deals'* Data Hub, 1,642 investments worth more than €148bn have been recorded involving European business services-related companies between Q1 2021 and the end of Q2 2023. In volume terms, this equates to 22.4% of all European dealflow, second only to companies in traditional tech sectors. In value terms, at 23.2% of the total, the business services grouping produces the highest share of market value across Europe – well ahead of the healthcare, industrial and tech sectors.

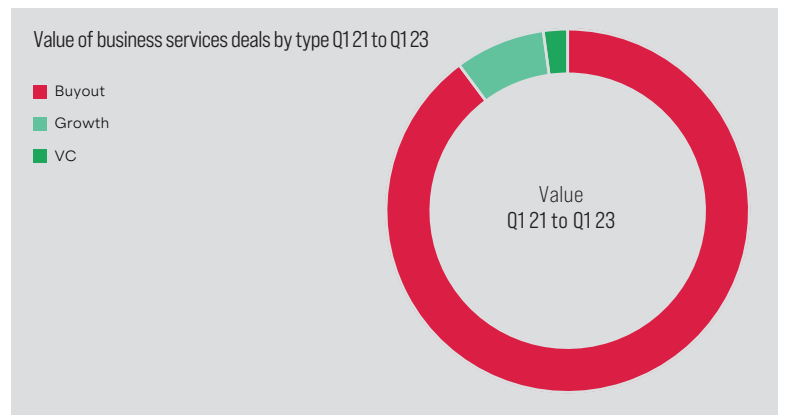
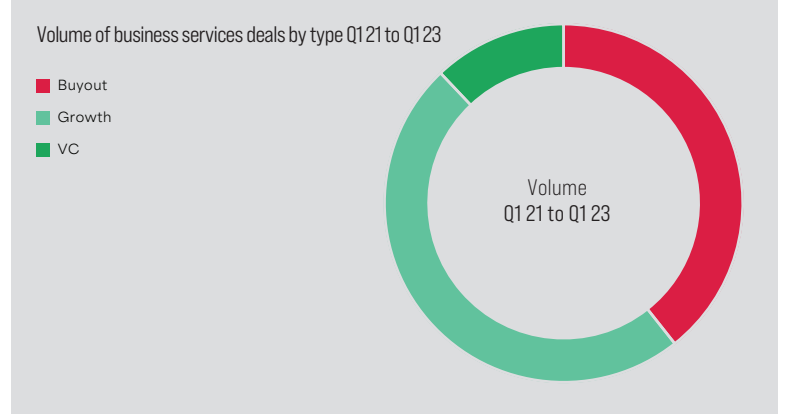
During the period, the average number of deals recorded in the sector has risen incrementally, with volumes spiking at the end of 2022 and remaining high in the first half of 2023. While part of this spike can be explained by increased research capacity in our data team, which specifically added to the breadth of VC coverage, stripping out VC deals still reveals strong growth in later-stage growth and buyout deals.

Although activity in more traditional business services areas (facilities management, logistics, construction and environmental services) has remained strong, by far the most important driver of growth in this area in recent years has been the push towards digitalisation right across the industrial landscape, which has been supported by a new wave of tech-enabled services providers and software-as-a-service (SaaS) developers.

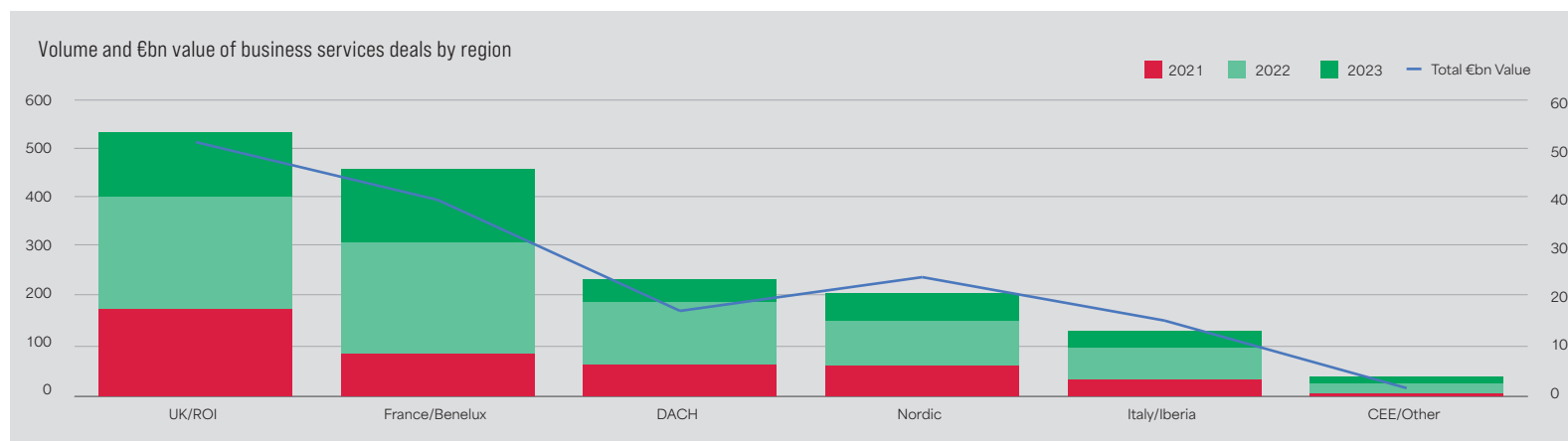
In fact, as part of the process to curate the data for this report, the Data Hub team revisited more than 7,000 European PE-backed deals to assess whether companies would be more correctly classified as falling into the business services area, and one thing became abundantly clear: the boundary between tech businesses and service providers has become much more blurred. For the purposes of this analysis, the Data Hub team sought to separate pure software developers – including SaaS publishers – from those that also deliver some element of 'outsourced' service to users of their products.

Another significant driver of activity in the space is the volume of bolt-on activity recorded during the period, as backers seek to create scale in a number of fragmented subsectors that are characterised by a large population of small businesses providing the same – or similar – services. Buy-and-build specialists such as Waterland and Main Capital figure prominently in the league table of the top business services investors (*see page 17*).

In an economic landscape beset by inflationary pressure, supply chain issues and high cost of capital, the need for businesses to maximise cost and process efficiencies is paramount, and is likely to continue to drive dealflow in this key sector. ●



1. Business services activity by European region



1.1. The UK/ROI has been home to the largest number of business services deals in the period covered, with 547 deals recorded equating to almost exactly a third of all European activity in the sector. It is also the leading region in value terms, with the €51.8bn of deals in the business services sector equating to 34% of the European total. Since the beginning of 2021, the region has produced well over 30 deals in the €250m+ value brackets, with 11 €1bn+ transactions providing the bulk of the market's value. The most significant deals in the space were the €6bn+ secondary buyout of Element Materials

Technologies by Temasek, with other major deals including Wood Mackenzie (Veritas Capital), OCS Group/Atalian Servest (Clayton Dubilier) and ERM (KKR).

1.2. Despite lagging behind the UK/ROI in overall terms, the France and Benelux markets have closed the gap, recording more business services deals than the UK in both 2022 and 2023 to date. Overall though, the region recorded 470 deals in the space (28.6% of the European total) valued at €39.8bn. The three largest deals (all in the first half of 2022) were the buyouts of House of HR

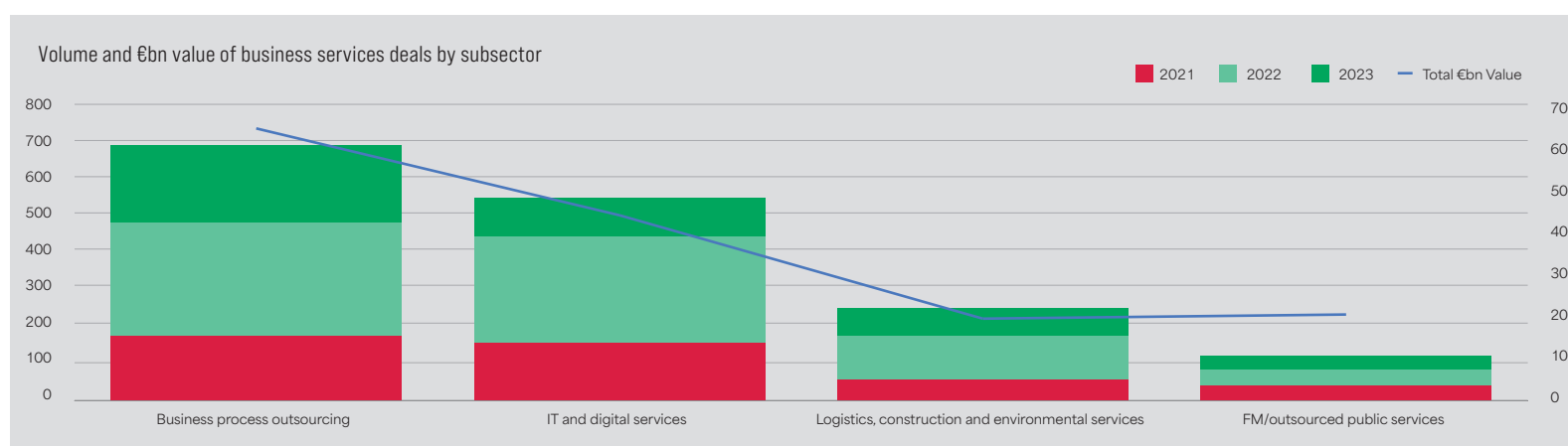
and Inetum (both backed by Bain Capital), and Worldline Terminals (Apollo Global); together they added more than €7bn to the regional total. The region also recorded a further 14 deals in the €250m-1bn brackets.

1.3. In volume terms there is a steep drop to the levels seen in the DACH and Nordic regions, with the former recording 241 business services deals and the latter 212. In value terms, the order is reversed, with the Nordic region coming out ahead thanks largely to the SBO of pest control business Anticimex by EQT, which added almost €6bn to the

regional total. Other large Nordic deals (Envirotainer and Scan Global Logistics) added to the total, while the acquisitions of companies including Software AG, VFS Global, and PWC Global Mobility Tax and Immigration Services in the DACH region boosted its value.

1.4. The Southern European markets of Italy and Iberia recorded 133 transactions in the sector (8% of the total), with just two €1bn+ deals in Spain (Urbaser and KronosNet) providing the bulk of the region's total. Meanwhile, the CEE region added just 39 deals worth a little over €500m to the total. ●

2. Business services deals by subsector



2.1. Of the four subsectors designated for the purposes of this report, the business process outsourcing space has been the most active, with a 40%+ market share. In total, 705 deals worth about €65bn were recorded in this area. Furthermore, activity in the space has been rising sharply, with 178 deals seen in 2021 rising to 313 in 2022 and 214 in the first half of 2023. It also produced many of the largest deals including Wood Mackenzie, ERM, Pharma Intelligence and House of HR.

2.2. While the IT and digital services space has not seen the same sort of growth in H1 2023, it did grow exponentially between 2021 and 2022, almost doubling to 294 deals. In total, this subsector produced 558 European deals in the 10-quarter period, worth a total of €44.2bn. As mentioned above, the boundary between some IT and digital services companies and more pure tech players is increasingly blurred but, among the sample, the standout deals included Element

Materials Technologies, Inetum and Valtech.

2.3. Of the more industrially-focused areas, the logistics, construction and environmental service space has also seen steady growth, rising from 57 deals in 2021 to 119 in 2022, and has already recorded 79 transactions in H1 2023. In all, these deals contributed €18.9bn to the total, with the most notable deals being the buyout by Platinum Equity of Urbaser in Spain, and the SBO of Danish logistics

business Scan Global Logistics by CVC Capital Partners.

2.4. The facilities management and outsourced public services subsectors (here combined) produced about 40 deals in both 2021 and 2022, but have already matched that in 2023. In addition, the presence of several large deals in the sample (Anticimex, OCS Group/Atalian Servest, Biffa plc and Phenna/CTS Group), means that this space contributed almost €20bn to the European pot. ●