

ANNUAL SHAW REPORT:

Professional Services



A BENCHMARKING REPORT FOR OWNERS TO COMPARE DEBT CAPACITY AND M&A ACTIVITY

Prepared by:
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Date:
March 2022

FOREWORD



Welcome to our first ever ‘Shaw Report’ into the Professional Services industry which provides SME business leaders with a powerful benchmarking tool to aid their decision making.

In this report we have segmented 1,445 Professional Services businesses with earnings of over £1m by size and sub-sector (we have excluded the administration sub-sector) to track their performance, profitability, debt levels and M&A activity. To analyse the trends, we have compared their performance in the latest published financials to those of the prior year.

Larger blue-chip corporates have regular access to this type of analysis from investment banking advisers. However, it is our mission to provide SME business leaders with free access to the same market intelligence in a clear, concise and easy-to-use way.

This report will help you benchmark your performance relative to the sector. It will also provide you with valuable insight regarding your relative creditworthiness and attractiveness from a M&A point of view.

We hope you find this a useful tool. If there are any emerging themes that resonate with you, please feel free to get in touch.

Myles Hamilton
Director, Shaw & Co



AT A GLANCE

Data Sources

- Companies House.
- Zephyr.
- Mark-to-Market.

Businesses Analysed

- 1,445 UK SMEs with profit (Ebitda) of £1m+.

Data Points

- Last available financials as filed up to 31 January 2022.

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A RESILIENT INDUSTRY

Professional Services businesses have weathered the Covid lockdowns well, adapting to new technologies to service clients throughout the pandemic (Page 9).



167 M&A DEALS

Deal activity has been buoyant in the last year but headwinds are emerging including rising inflation and the worsening geopolitical situation (Page 21).



HEADROOM TO BORROW

SMEs in the industry generally have plentiful debt capacity to pursue organic or acquisitive growth and valuable economies of scale (Page 17).



83% UK BUYERS

The majority of buyers of Professional Services businesses in the past year came from the UK. There have been a significant number of deals across the legal and accounting sub-sectors, while there are likely to be a series of recruitment deals lining up as that sub-sector has been relatively quiet (Page 25).

HOW DOES MY BUSINESS PERFORMANCE COMPARE TO THE INDUSTRY?

TURNOVER BY SIZE OF BUSINESS

What is the data showing?

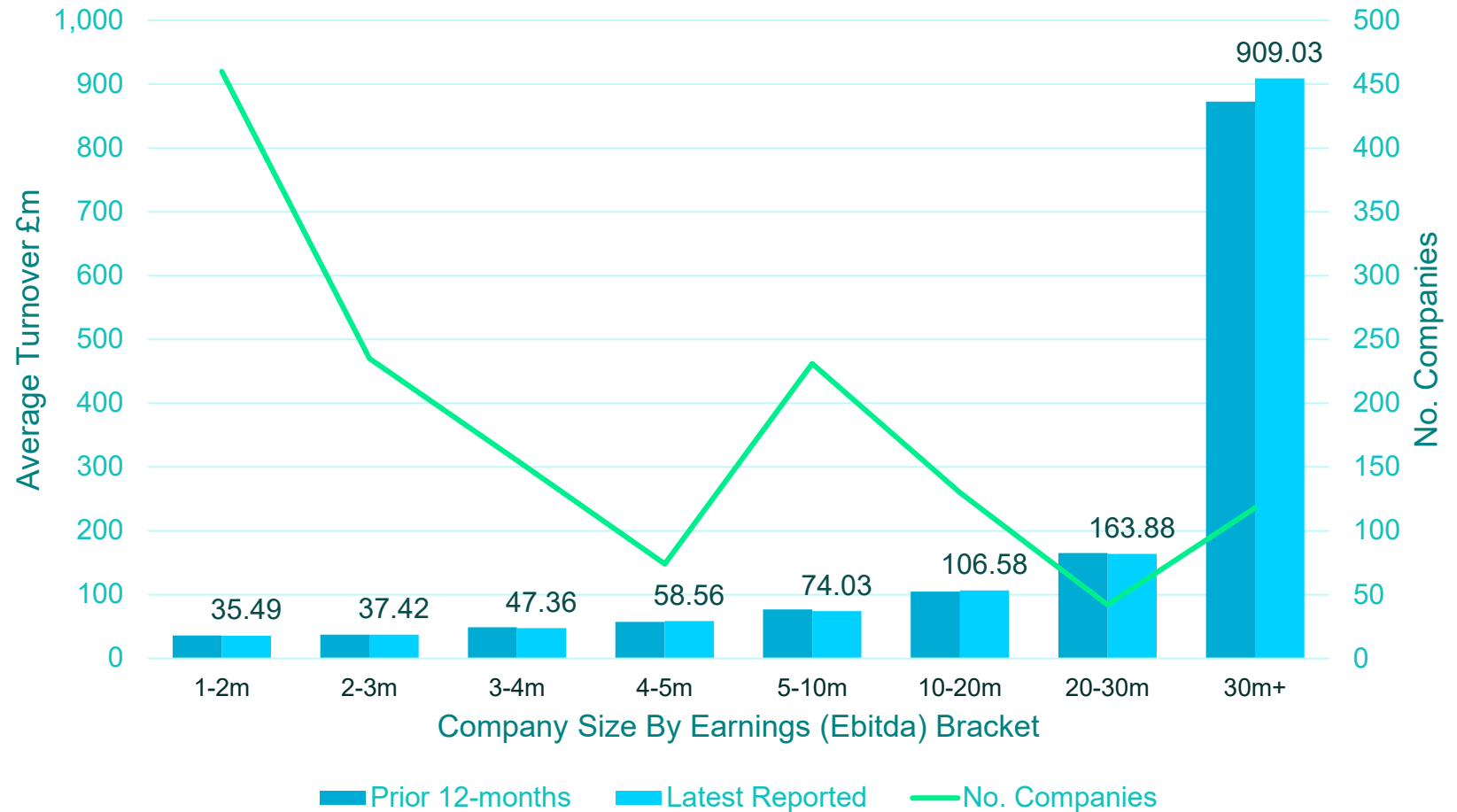
Thanks to the relative ease with which their services can be delivered remotely, Professional Services firms were able to maintain their turnover despite Covid and the various lockdowns. The move to a more online delivery model also enabled companies to take full advantage of the increased number of businesses and individuals requiring support and advice during the pandemic.

What does this mean for me?

The sector has proven its resilience in the face of the pandemic lockdowns. In a tumultuous year, delivering steady turnover should be considered a good foundation for a return to growth.

What are my options?

Look at emerging trends such as the move of services online. By adapting your strategy in response, you will be able to take advantage of these opportunities and generate further growth.



TURNOVER BY SUB-SECTOR



What is the data showing?

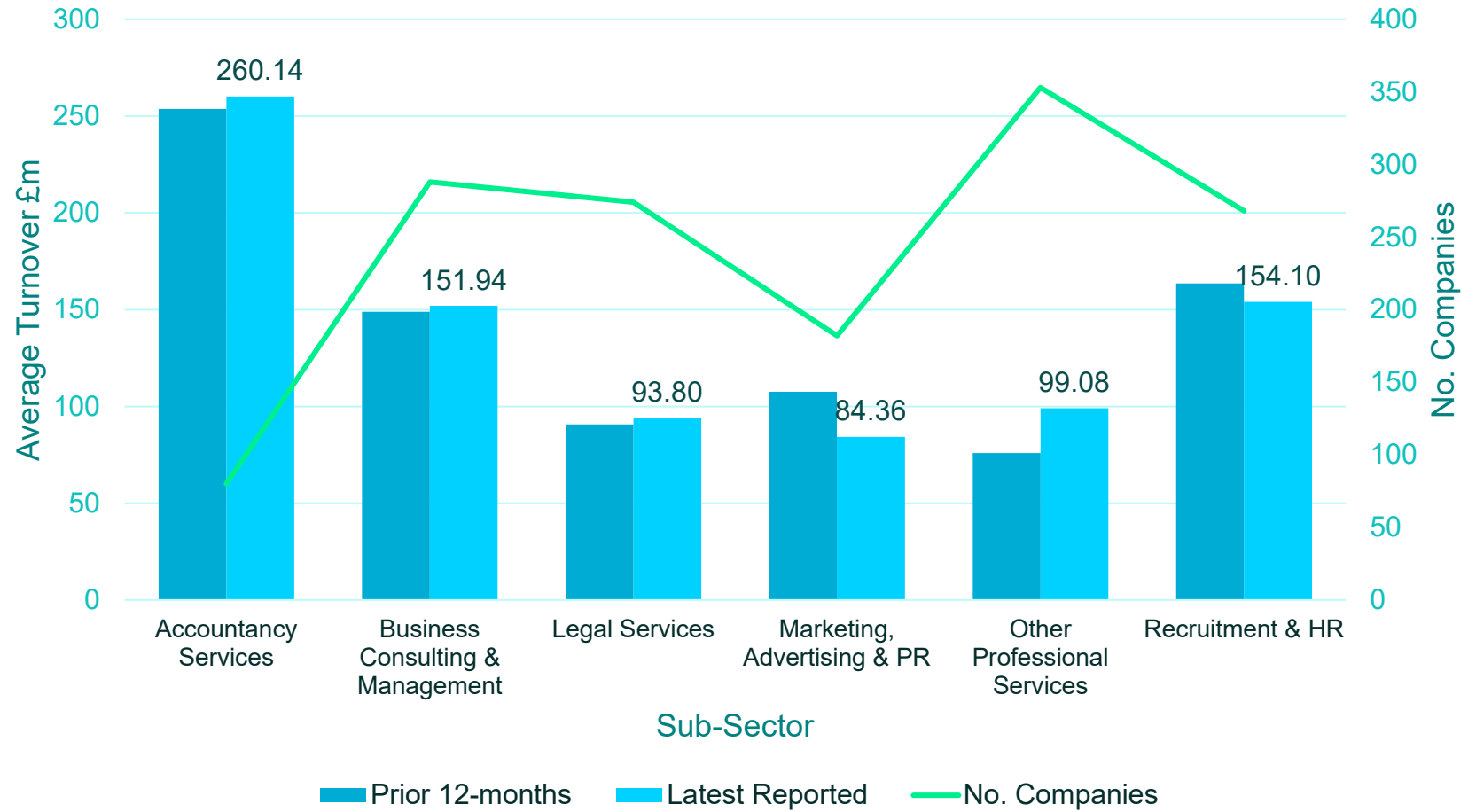
The Marketing, Advertising and PR sub-sector saw a decline in turnover with 'Other Professional Services' (which includes, for example, mailing services) seeing an increase. The Recruitment sub-sector was also down. These are unsurprising trends as unprecedented interruption drove the need for more advice, while squeezing spend on major marketing campaigns and the hiring of new employees.

What does this mean for me?

For recruitment and marketing businesses there is pent-up demand post-pandemic and trading is already rebounding.

What are my options?

The move to digital is as relevant to Professional Services as to any other industry and your overall strategy should continue to take this into account. If you are a relatively small legal practice or marketing agency then merging with other similar sized businesses is one option to bolster growth.



BENCHMARKING AVERAGE GROSS PROFIT MARGIN

What is the data showing?

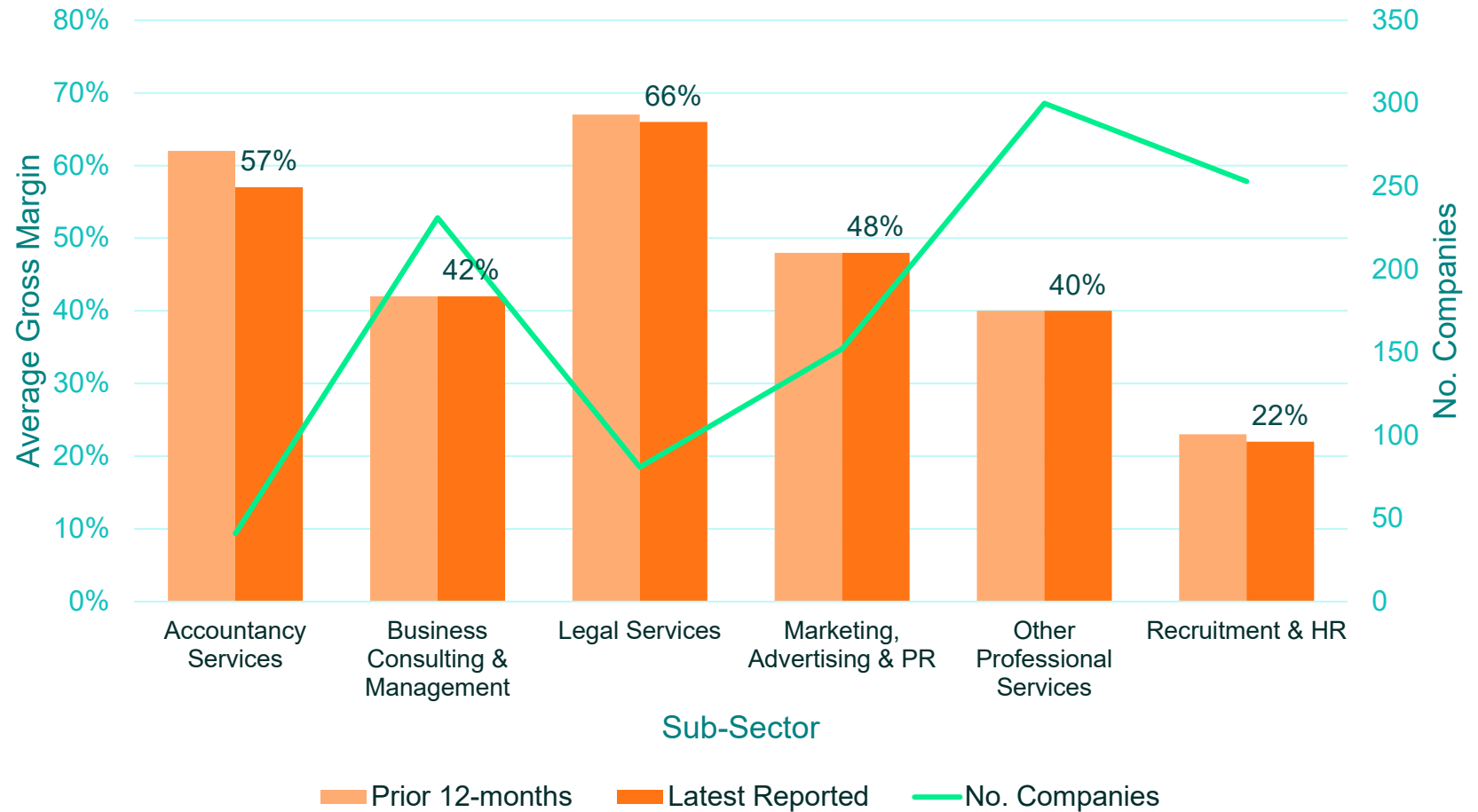
All sub-sectors' average gross profit margins remain constant except Accountancy Services which saw a 5% reduction. In the Professional Services industry, the largest cost is people and this is usually accounted for below gross profit.

What does this mean for me?

If your gross profit margin is lower than the average for your sub-sector, you may need to review your pricing against your peers. Service differentiation supports improved margins through higher pricing.

What are my options?

Raise your prices to bring your margin in line with your peer group – we can help with a more specific benchmarking exercise if needed. If you are at or above the average, consider how you can differentiate yourself against your competitors.



AVERAGE GROSS MARGIN & SCALE



What is the data showing?

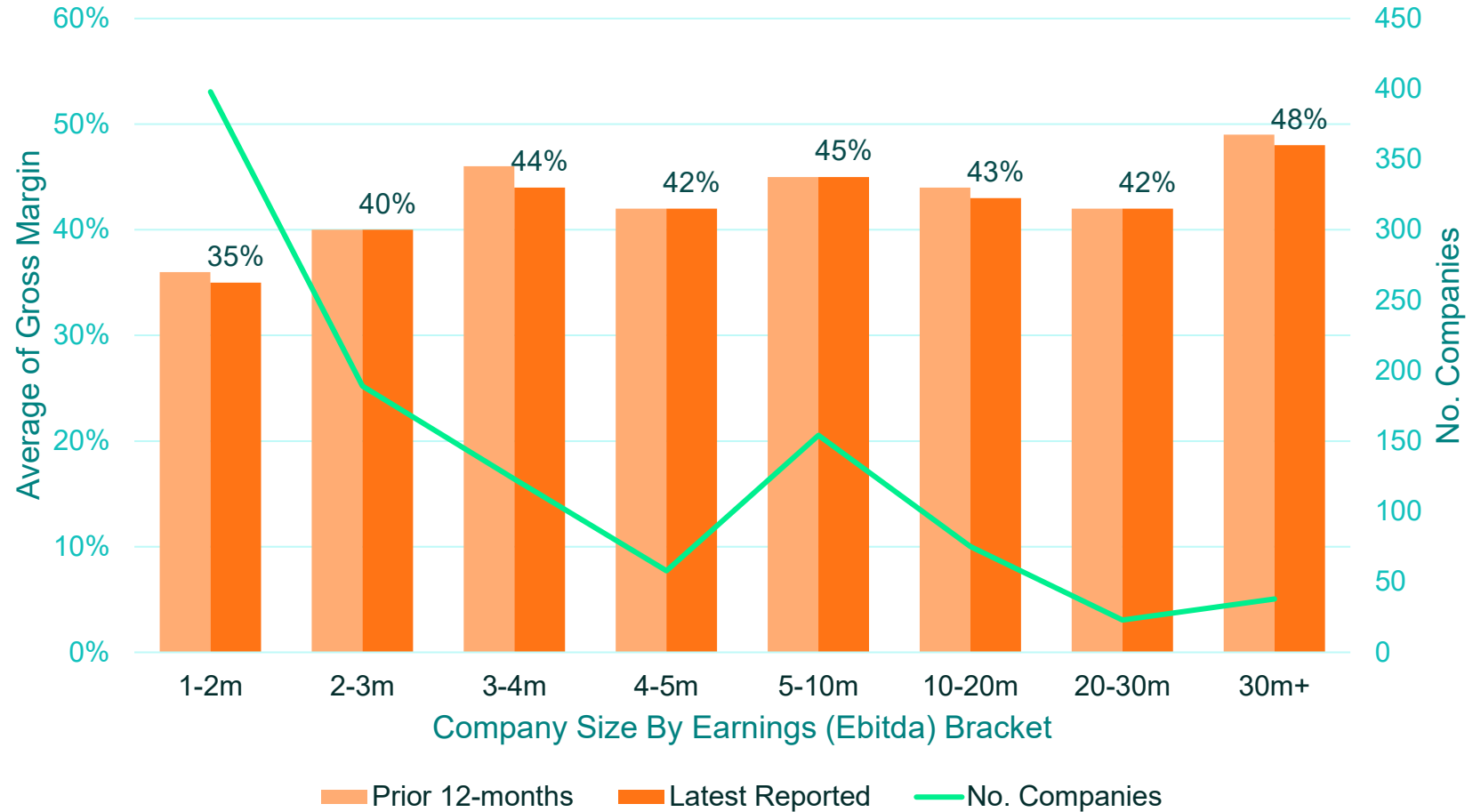
The data suggests organisations in the Professional Services industry can achieve a 40% gross margin once they break £2m Ebitda barrier.

What does this mean for me?

Brand equity is particularly important in this industry as it enables companies to charge more for their services. Size and scale can also be key when it comes to winning the largest contracts.

What are my options?

Investing in your brand equity will translate into higher prices and higher profit. An acquisition or merger with another firm could also help to deliver the necessary size and is often a quicker way to scale than through organic growth alone.



PROFITABILITY & GROWTH



What is the data showing?

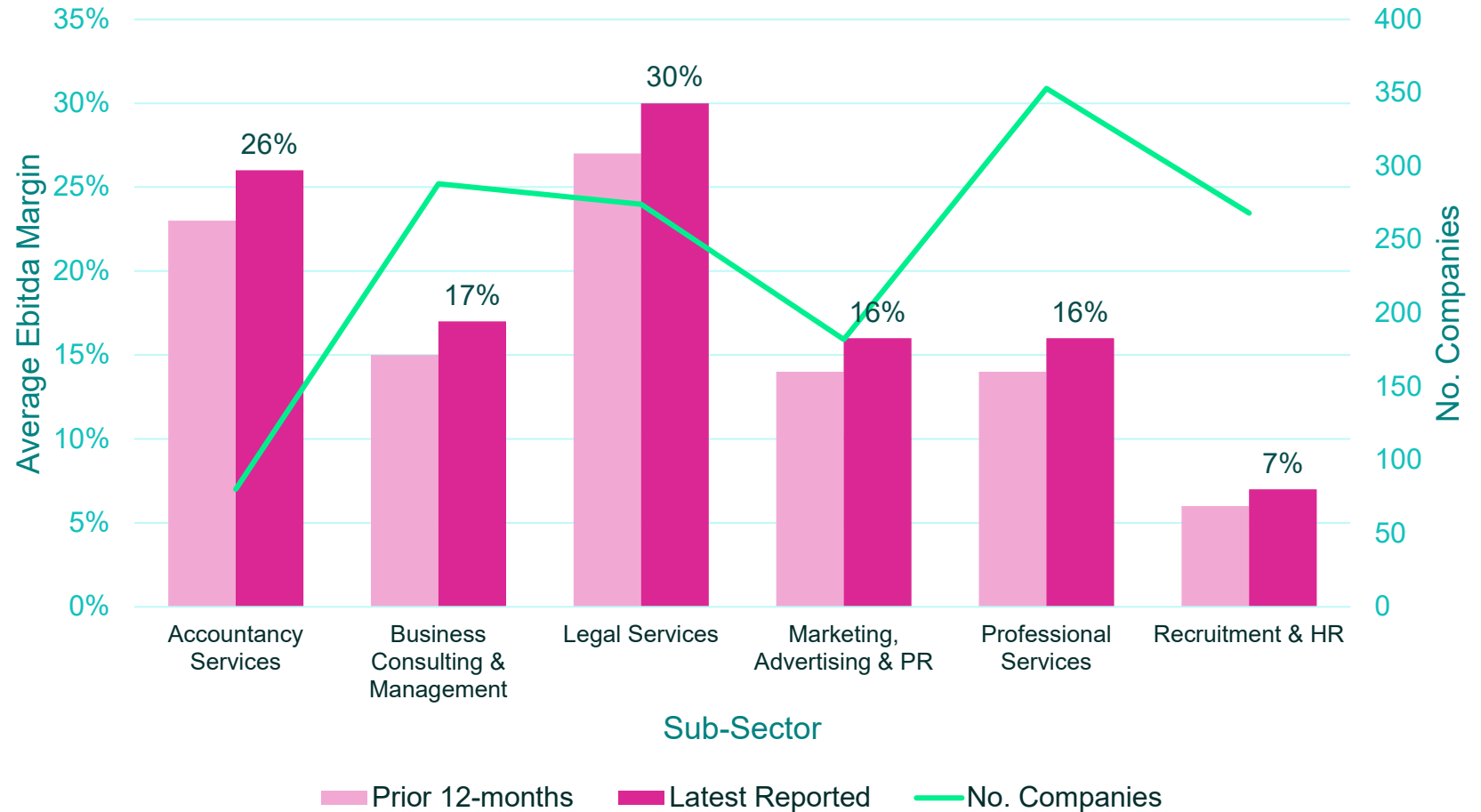
All sub-sectors within the Professional Services industry have seen an increase in average Ebitda margin regardless of company size. In other words, most businesses have been able to maintain their top line whilst reducing costs. For example, Accountancy and Legal have performed well at the profit level.

What does this mean for me?

You are likely to be leaner as a business than you were pre-pandemic. Recruitment margins appear lower than other segments as turnover often includes the wages of the temporary staff or contractors they place. At a Gross Profit to Ebitda level, their profitability is more in line with the rest of the sector.

What are my options?

Your growth strategy should be focused on at least retaining the Ebitda margin performance and efficiency achieved in the last year. Further improvements may be available through digitisation, select outsourcing, and scaling up organically or by acquisition.



ECONOMIES OF SCALE

What is the data showing?

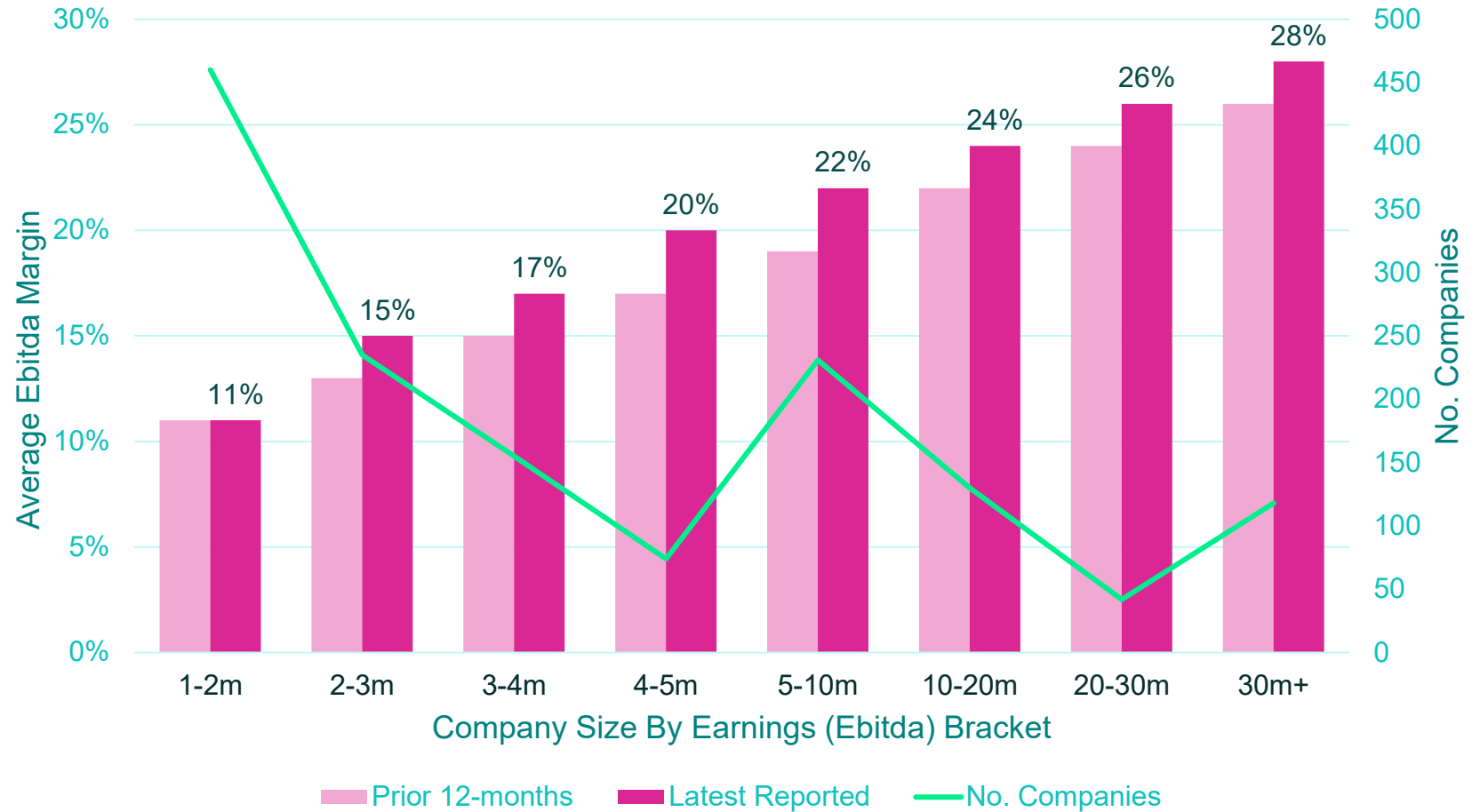
Economies of scale are very pronounced in the Professional Services industry – it is more efficient and profitable to be big.

What does this mean for me?

If you are an SME without a growth plan, then you urgently need to write one. Growth and scale are both key factors in achieving a successful exit.

What are my options?

Funding is plentiful to help drive organic growth and so your plan need not be constrained by your current resources. Alternatively, or in combination, you can look at buy-and-build strategies, which are already a well-trodden path in the sector. If driving growth is not appealing to you as the business owner, then perhaps it is time to consider a sale of the business especially as M&A activity is buoyant.



INDUSTRY PERFORMANCE SUMMARY

KEY POINTS

- The move online has been accelerated by the pandemic and businesses should take this into account when adapting their strategies to respond to emerging opportunities.
- Some sub-sectors have experienced a rebound in income and M&A activity as Covid-related restrictions have been eased. If you are in one of these sub-sectors - such as Accountancy Services - but have not yet seen this benefit it is important to understand why. The rebound in other sub-sectors such as Recruitment and Marketing is yet to show through in the data in this report, but there is pent-up demand that is already starting to show itself. We are likely to see more deals in the recruitment sector this year.
- Pricing may need a review to ensure profitability is in line with the peer group. This will become particularly important as inflation starts to have an impact.
- Investing in brand equity will pay dividends in the longer term as, if done well, it will translate into a higher level of revenue and profit than might be achieved otherwise, while also bringing the business to the attention of potential acquirors.



WHAT IS THE LEVEL OF BORROWING IN THE INDUSTRY?

INDUSTRY DEBT BY SUB-SECTOR

What is the data showing?

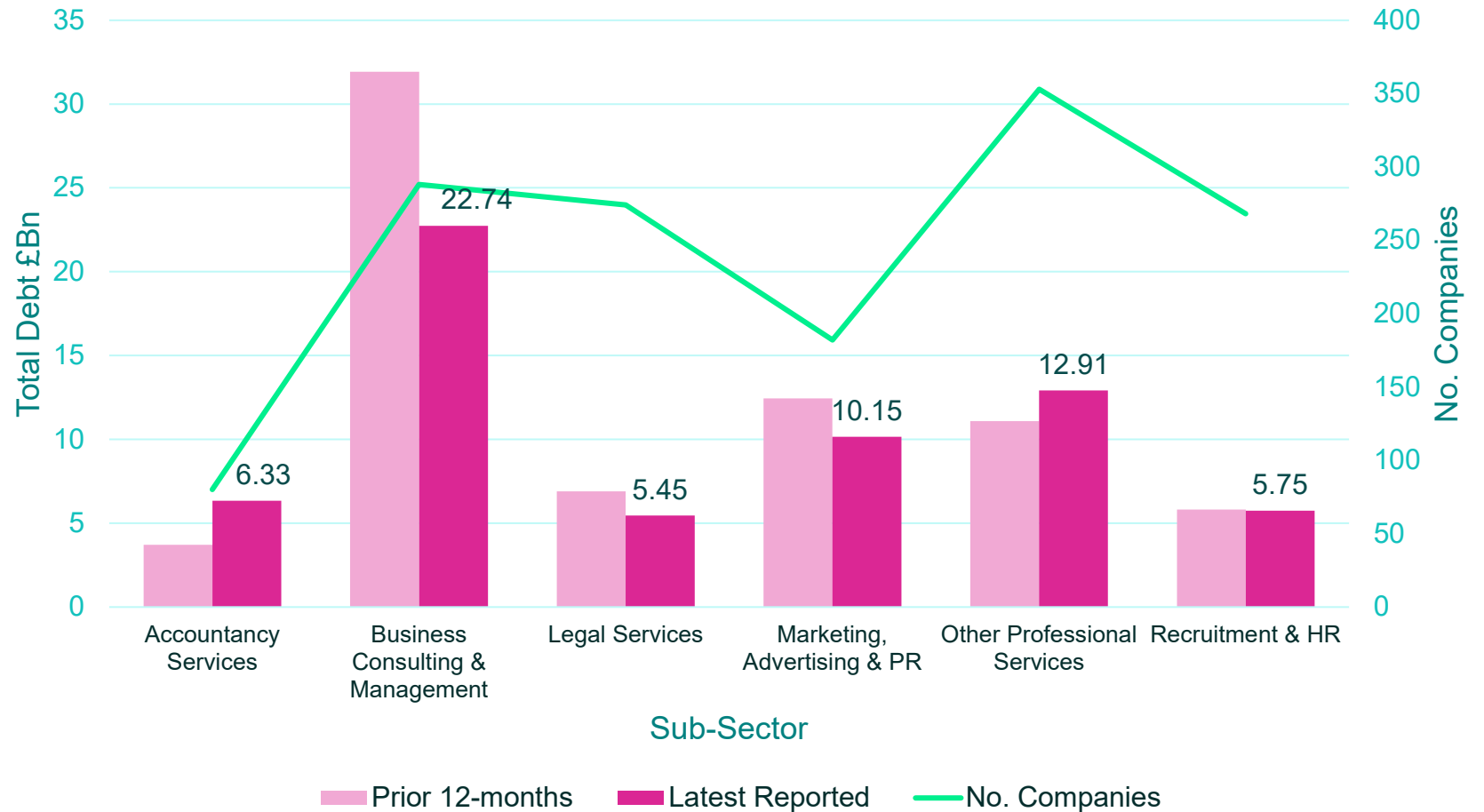
The debt picture is mixed with higher borrowing in Accountancy and Other Professional Services contrasted against debt reduction in Legal, Business Consulting and Marketing segments.

What does this mean for me?

We see this as a stable picture for SME borrowing across the sector, without any significant changes in borrowing or lending appetite.

What are my options?

Given the pronounced scale advantages highlighted in the previous section, ambitious SMEs in the sector should feel confident in being able to borrow in order to fund their growth plans. Lending appetite to support organic growth or acquisitions across the sector is generally healthy.



SHORT-TERM BORROWING



What is the data showing?

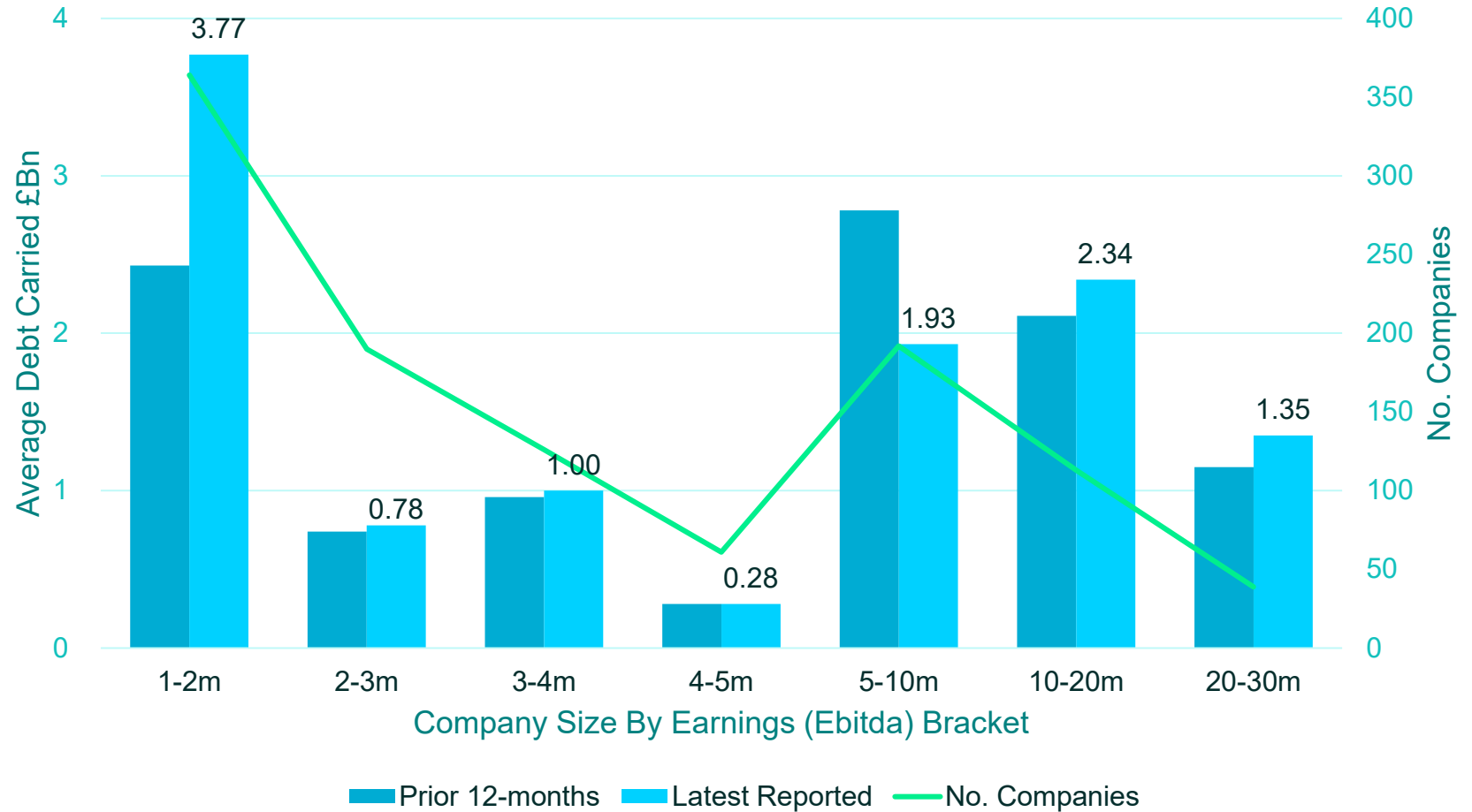
Short term borrowing is marginally higher across businesses of all sizes. The most pronounced increase is in the £1-2m Ebitda bracket.

What does this mean for me?

Higher short-term borrowing is likely a consequence of the CBILS type funding to cope with the lockdown interruptions. We would also expect companies with existing overdraft and invoice discounting facilities to make larger drawings on those at the time of stress, especially at the more vulnerable smaller end of the spectrum.

What are my options?

Outside of coping with the cashflow pressures of the pandemic, we continue to advocate that businesses fund growth and acquisition strategies through long-term debt. This will better match the nature of investments being funded and ultimately enable better ROI on capital deployed, despite higher interest cost.



LONG-TERM BORROWING



What is the data showing?

A mixed picture with long-term debt increasing for some size brackets whilst reducing for others.

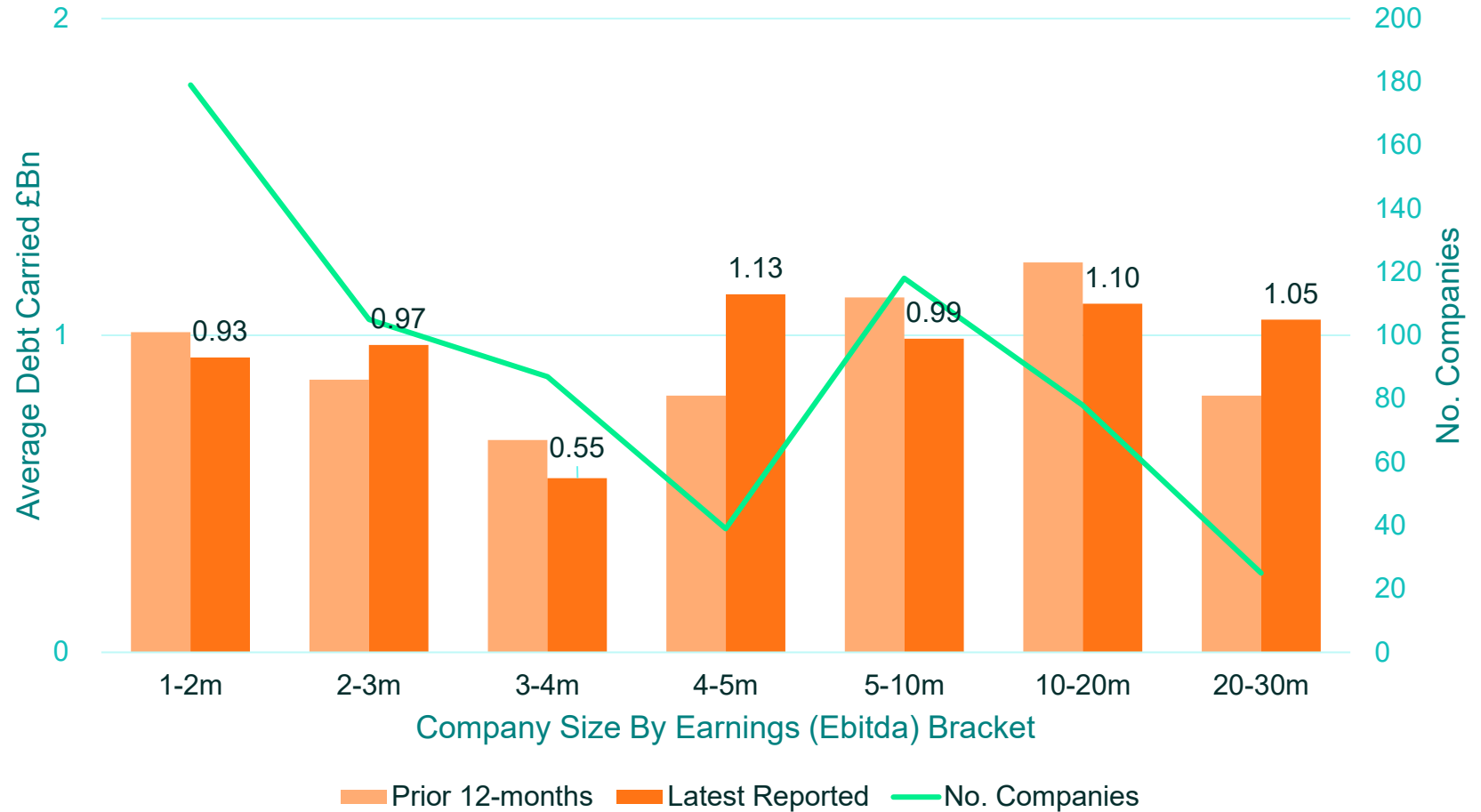
What does this mean for me?

As seen from the performance section, economies of scale in the Professional Services industry are very pronounced and scaling your business is a very worthwhile pursuit.

With a very accommodating funding market, SMEs in the sector should have confidence in being able to fund their organic growth or acquisition plans.

What are my options?

We would strongly advocate funding growth or acquisitions with long-term debt instruments. The available debt products, especially from the alternative lenders, present strong funding propositions for well thought out strategies in this sector.



WHAT IS MY BORROWING CAPACITY?

BORROWING CAPACITY BY SUB-SECTOR

What is the data showing?

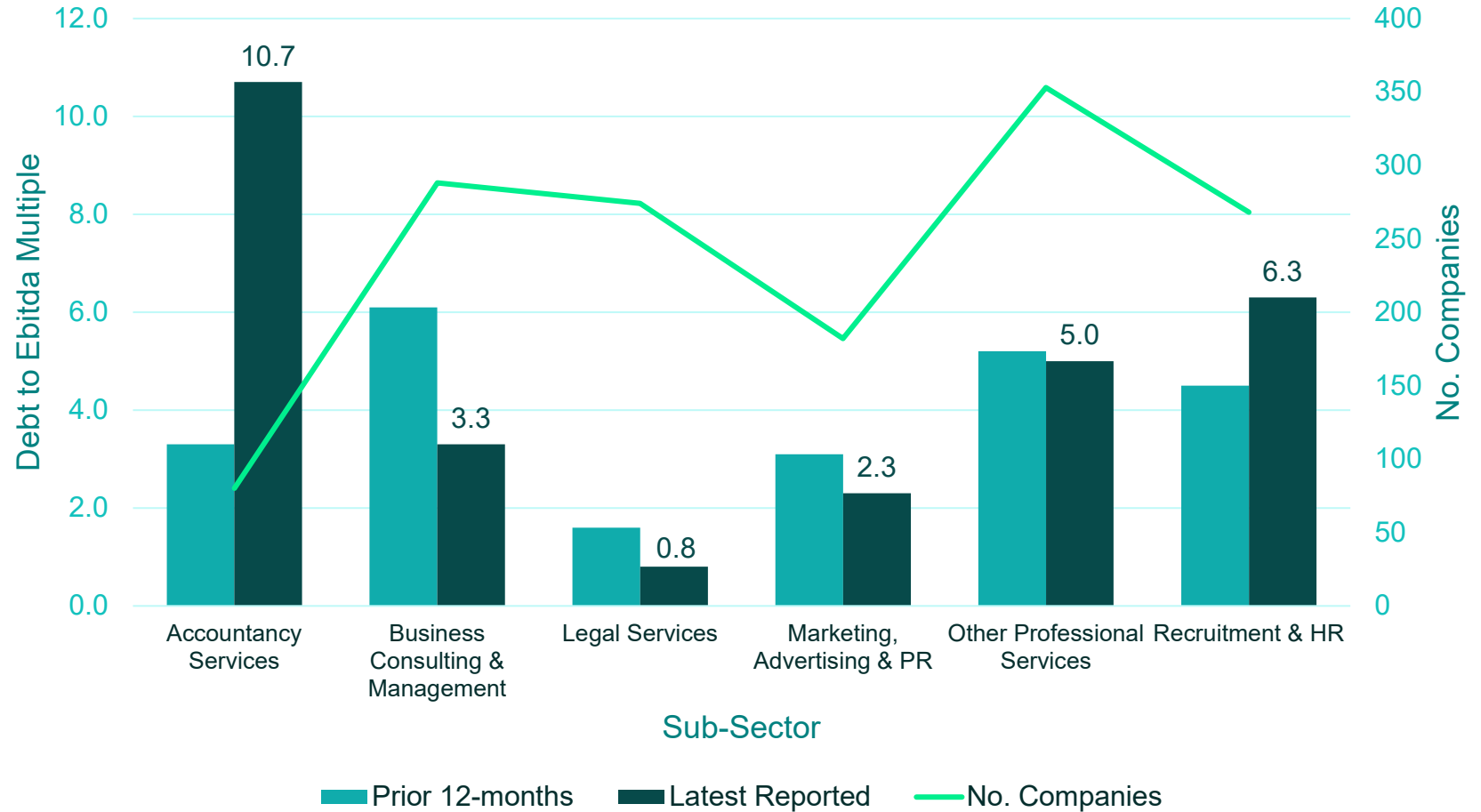
Data in Accountancy is skewed by two purely anomalous structuring subsidiaries in the EY Group. Stripping those out, the average debt to Ebitda across Accountancy fell from 1.8x to 1.3x. Similarly in Recruitment, stripping out three purely anomalous structuring subsidiaries, the average fell from 4x to 3x. This puts these sub-sectors in line with the rest of the Professional Services industry reducing indebtedness relative to earnings.

What does this mean for me?

Relative to other industries, we see Professional Services as lowly levered with further capacity remaining should business owners require funding.

What are my options?

Businesses across the Professional Services industry have plenty of funding capacity to execute growth, acquisition or even buy-and-build strategies. Lenders are favorable on the sector with numerous options for ambitious SMEs.



BORROWING CAPACITY BY SIZE

What is the data showing?

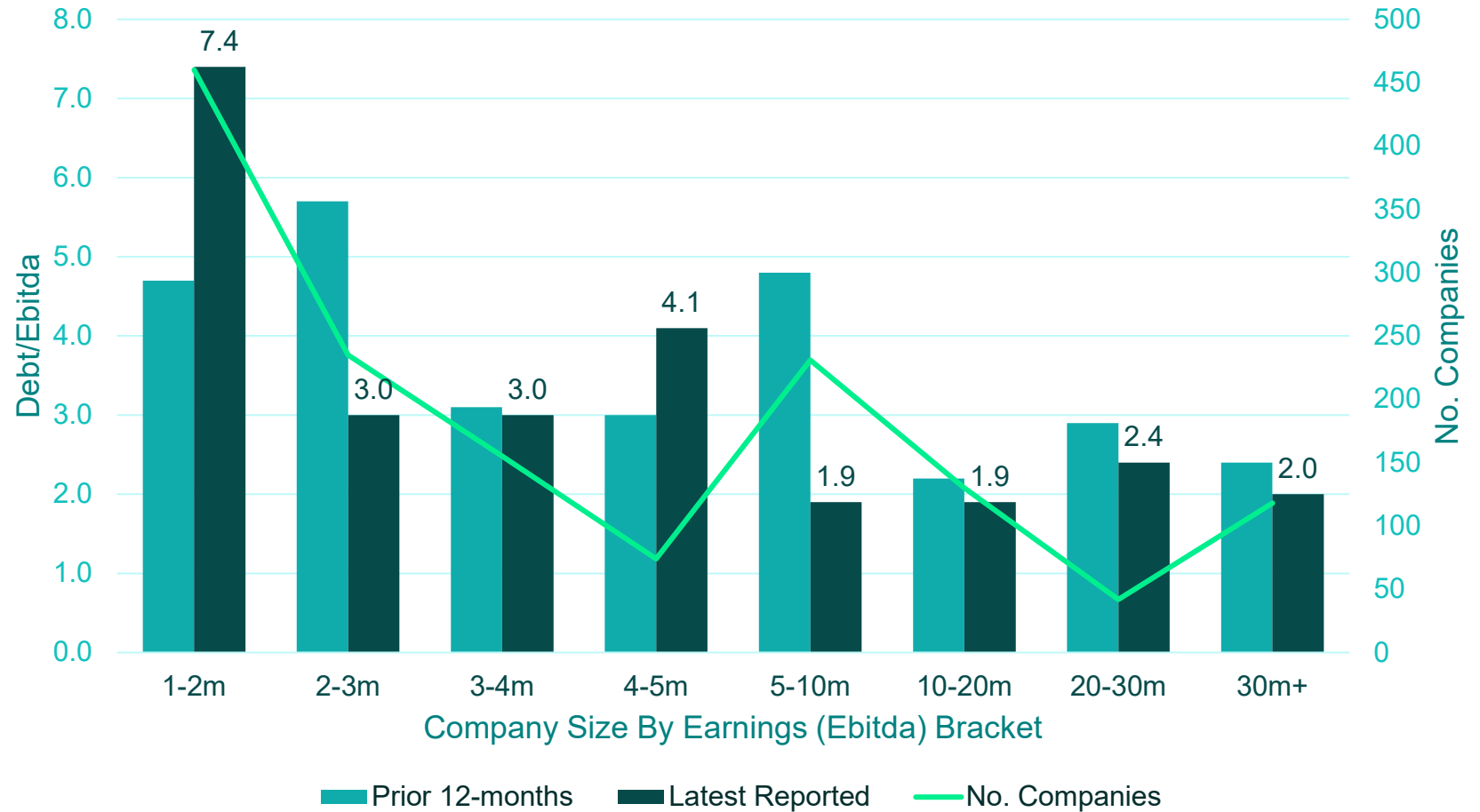
Stripping out anomalous service subsidiaries' debt, the Professional Services industry has generally reduced its leverage during the period which mostly covered Covid lockdowns.

What does this mean for me?

If your total debt to Ebitda is substantially below 4-5x, you have additional funding capacity. Beyond those ratios, your borrowing capacity will be full.

What are my options?

For a smaller SME in the Professional Services industry, the conditions remain benign for debt-backed growth strategies, whether organic or acquisition-related.



INDUSTRY BORROWING SUMMARY

KEY POINTS

- Overall, the professional services industry deleveraged during the period, which mostly covers national Covid lockdowns.
- Relative to other industries of the economy, Professional Services businesses are modestly levered and have significant credit capacity should they need external funding.
- Given that achieving economies of scale can a competitive advantage in the Professional Services industry, business leaders would be well advised to consider organic and acquisitive growth strategies. The lending markets are currently supportive with funding available for strongly performing businesses.



M&A ACTIVITY - ARE BUSINESSES LIKE MINE IN DEMAND?

HOW MANY M&A DEALS HAVE COMPLETED IN MY INDUSTRY?

How attractive is my industry to buyers?

There has been a lot of M&A activity in the last year in the Professional Services industry. This is driven by a rebound following the pandemic when deal activity came to a halt for a period but the longer-term commercial rationale for deals remained intact.

Professional Services is a strong sector in the UK economy and once a business reaches sufficient scale to make a difference to the bigger players in the sector, it is likely to come onto the radar as a potential acquisition target.

How does this compare to other sectors?

M&A activity in general has been buoyant with similar levels of deals being seen across the other industries we are tracking.

What should I be thinking?

Although the market is currently buoyant, headwinds are already manifesting themselves with the return of inflation and significant geopolitical uncertainty. If an exit is on your agenda and your business is trading well, now might be a good time to seize the initiative and take your business to market.

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M&A DEALS

WHEN ARE THE M&A DEALS HAPPENING?



What is the data showing?

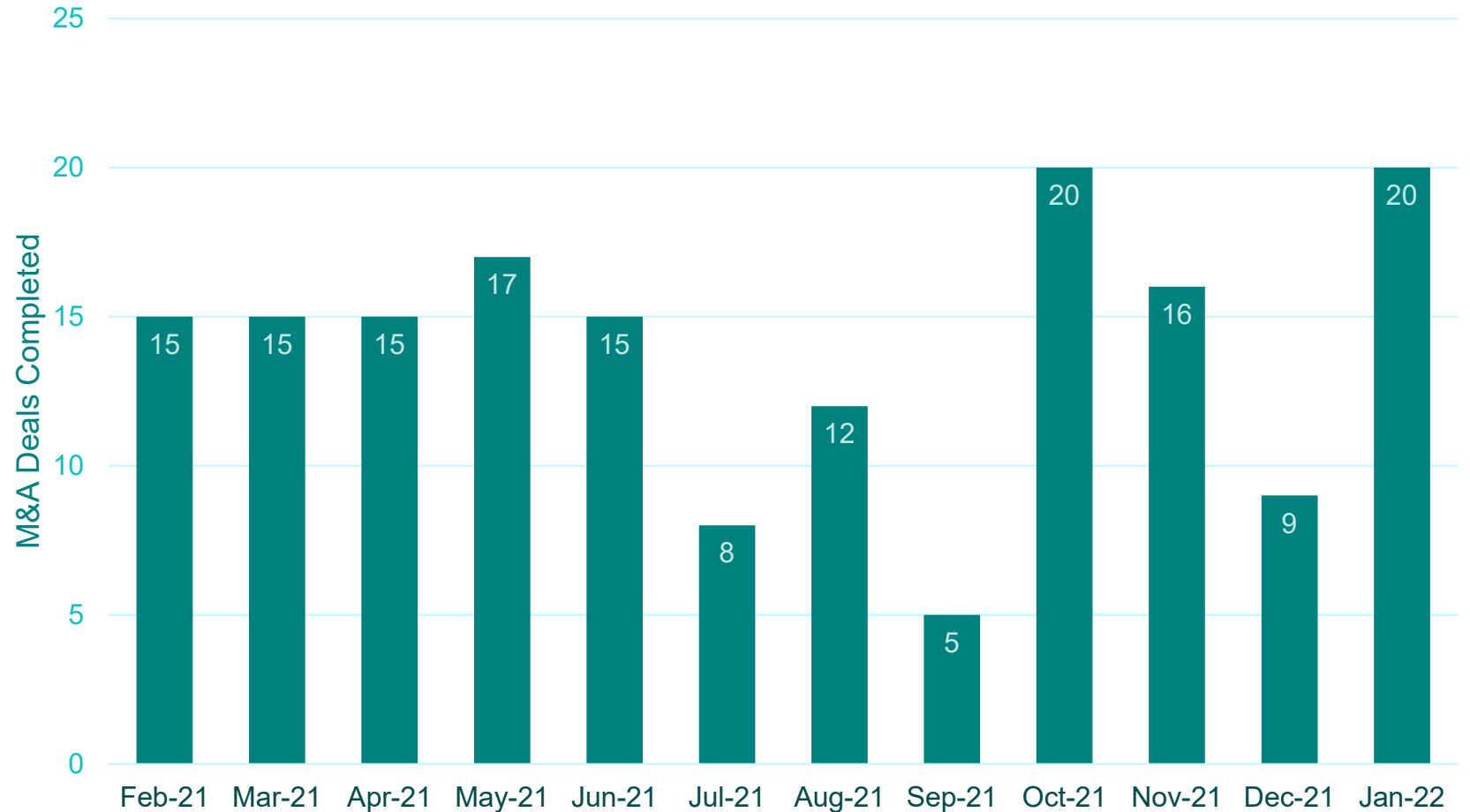
There are two times of year when deal completions are less likely to happen – the Summer holidays in July and August and the Christmas holiday in December. The volume data overall follows this rule although August has somewhat bucked the trend.

What does this mean for me?

A sale process can typically be divided into three phases – preparation, marketing and execution. Each phase can take 2-3 months and in planning the process it is important to avoid the execution phase landing in the Summer or Christmas holiday periods.

What are my options?

Planning your exit early is important as it takes time. The window for completing a deal in 2022 is already closing at the time of writing this report (March 2022).



WHERE ARE THE BUYERS LOCATED?

What is the data showing?

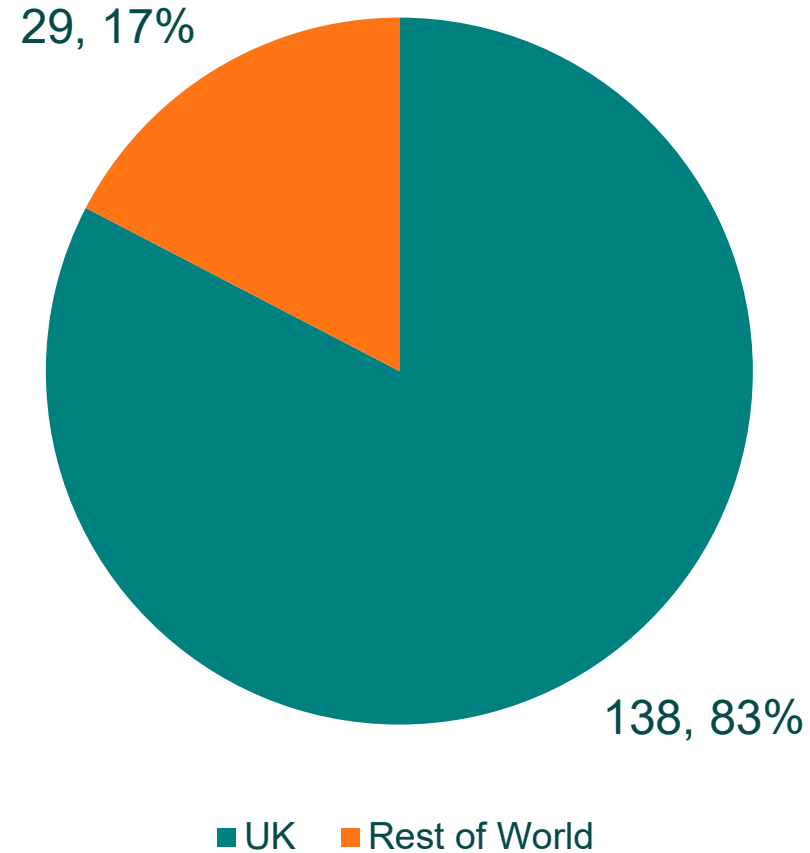
UK buyers – or at least companies with an existing UK presence – make the most acquisitions of UK companies in this industry. This is particularly true for smaller deals. Outside the UK, US and European buyers are the most prominent.

What does this mean for me?

In many cases you will already know the companies that are most likely to acquire your business as they will already be key players in the UK market.

What are my options?

Starting to prepare early and engaging with a corporate finance adviser will allow you to identify potential buyers both in the UK and internationally. If not already on their radar, it is often advisable to direct your PR and marketing efforts to raise your profile with potential buyers.



COMPANIES ACQUIRED BY LOCATION

Where are the M&A deals happening?

The highest volume of deals was in the South East of England which is unsurprising. The North of England also had a high volume of deals relative to other regions.

What are the M&A trends in my sector?

What has been notable is the number of acquisitions of professional services firms such as lawyers and accountants which are concentrated in London and the South East. The pandemic has driven a mini-boom in the need for advice and this has helped support larger firms to buy their smaller competitors.

Of note is the relatively small number of deals in the recruitment sector with the pandemic having had a negative impact on the bigger players and thereby stifling M&A activity for the time being.

What does this mean for me?

If your firm is in the accountancy or legal services sub-sector and has seen a boost in fee income, then it is likely to be of interest to bigger players in the space. The same logic will apply to other parts of the professional services industry.



EXAMPLES OF M&A DEALS IN THIS INDUSTRY

What companies are making the acquisitions?

There have been quite a few acquisitions in the professional services space – both legal and accounting – as demand for these services increases. Of note is Begbies Traynor making a couple of sizeable bolt-on acquisitions in the accountancy space.

What price is being paid?

Aside from the exceptionally sized takeover of G4S for £3.8bn, most deals of note were in the value range £10m to £30m which is at a scale which is affordable whilst also moving the dial for the buyer.

What's the typical Ebitda multiple?

Ebitda multiples for the deals listed opposite range from 3.4x to 9.4x with an average of 6.5x.

ACQUIROR	TARGET NAME	BUSINESS	DEAL TYPE	DEAL VALUE £m	TARGET EBITDA £m
Atlas UK Bidco	G4S plc	Security services	Acquisition 100%	3,800	534
RBG Holdings	Memery Crystal LLP	Legal adviser	Acquisition 100%	30.0	8.8
Begbies Traynor	CVR Global LLP	Accountants	Acquisition 100%	20.8	2.4
Begbies Traynor	David Rubin & Partners Ltd	Accountants	Acquisition 100%	25.0	4.7
Strat7 Group	Incite Marketing Planning Ltd	Market research	Acquisition 100%	18.0	1.9
Zignsec AB	Web Shield Ltd	Business protection	Acquisition 100%	24.0	n/a
Craven Street Wealth	Kreston Reeves Financial Planning	Financial advisory	Acquisition 100%	9.5	1.8

(This table provides a hand-picked selection of the deals that took place during the reported period.)

M&A SUMMARY

KEY POINTS & PREDICTIONS

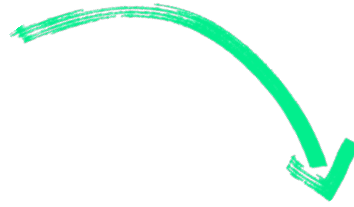
- Deal activity has been buoyant in the professional services sector in the last year, partly as a result of deals being put on hold early in the pandemic.
- Several headwinds – rising inflation and the worsening geopolitical situation – mean that the level of M&A activity that has been seen in the last year may not continue. Confidence is key to dealmaking, and we are aware of at least one deal that has been pulled given events.
- If an exit is desired and your business is performing well, we recommend giving consideration to launching a sale process this year rather than waiting until 2023 before current events flow through to the wider economy.



OUR CREDENTIALS.



OUR SECTOR EXPERTS



Alexei is a funding specialist and leads Shaw & Co's Business Funding team. He provides funding advice to UK SME clients across a range of sectors including energy & natural resources, food & drink, professional services and public sector.

His typical mandates include all types of growth funding, acquisition, MBI or MBO financing with facilities ranging from £2m to £100m.

ALEXEI GARAN

Director

[Click for bio & contact details](#)



Myles is a mergers and acquisitions specialist in our M&A team and is a Member of the Chartered Institute for Securities and Investment.

At Shaw & Co Myles' corporate finance advisory and transactional support includes business valuations, exit planning, buying or selling a business, mergers, MBIs and MBOs. His clients typically come from a range of sectors including professional services, public sector, food & drink and energy & natural resources.

MYLES HAMILTON

Director

[Click for bio & contact details](#)

SOME OF OUR DEALS IN THIS SECTOR

people
source

PEOPLE SOURCE

Professional Services

£ UNDISCLOSED

Selling a business

MANPOWER PLC

Buyer

The owner of People Source, a Sunday Times Fast Track 100 business, wanted to diversify his asset portfolio. Jason came to us to help sell his business to a new owner.

"IF I WERE GOING TO GO THROUGH THE PROCESS AGAIN, I WOULDN'T EVEN CONSIDER ANYONE ELSE."

Jason Baker

Founder & CEO, People Source



P
PASSIONATE
ABOUT PEOPLE

PASSIONATE ABOUT PEOPLE

Professional Services

£ UNDISCLOSED

Selling a business

STAFFLINE GROUP PLC

Buyer

When a specialist recruitment business grew to £103m turnover, its owners asked us to sell the business to a new owner.

"JIM & MYLES YOU SHOULD BE PROUD OF WHAT YOU HAVE ACHIEVED, AND ARE ACHIEVING, IN THE CORPORATE ADVISORY SECTOR. A MASSIVE THANK YOU TO YOU ALL FOR MAXIMISING SHAREHOLDER VALUE."

James Strickland

Group CEO, Passionate About People



NATIONAL REACH

FIVE UK LOCATIONS

We help the business leaders of UK privately-owned SMEs to achieve their greatest ambitions. Whether it's buying or selling a business, funding growth, or understanding the funding landscape, we make it happen.

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