

# ANNUAL SHAW REPORT: *Professional Services*

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

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# FOREWORD



Welcome to our second annual market analysis 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 3,295 Professional Services businesses with earnings of over £1m by size and 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 not only helps you benchmark your performance relative to the industry, it also provides 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 hemes that resonate with you, please feel free to get in touch.

**Oliver Roper**  
Executive, Shaw & Co



# AT A GLANCE

## Data Sources

- Companies House.
- Zephyr.

## Businesses Analysed

- 3,295 UK SMEs with profit (Ebitda) of £1m+.

## Data Points

- Last available financials as filed up to 31 January 2023.

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## A RESILIENT INDUSTRY

Professional Services businesses weathered the Covid pandemic in impressive fashion, adapting swiftly to new technologies to continue servicing clients (Page 9).



## 181 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).



## 84% UK BUYERS

The majority of buyers of Professional Services businesses in the past year came from the UK. This is one of the highest UK buyer percentages within the industries we are tracking. However, the recent weakening of the pound is likely to make this ratio with overseas buyers more even over time (Page 23).

# HOW DOES MY BUSINESS PERFORMANCE COMPARE TO THE INDUSTRY?

# TURNOVER BY SIZE OF BUSINESS



## What is the data showing?

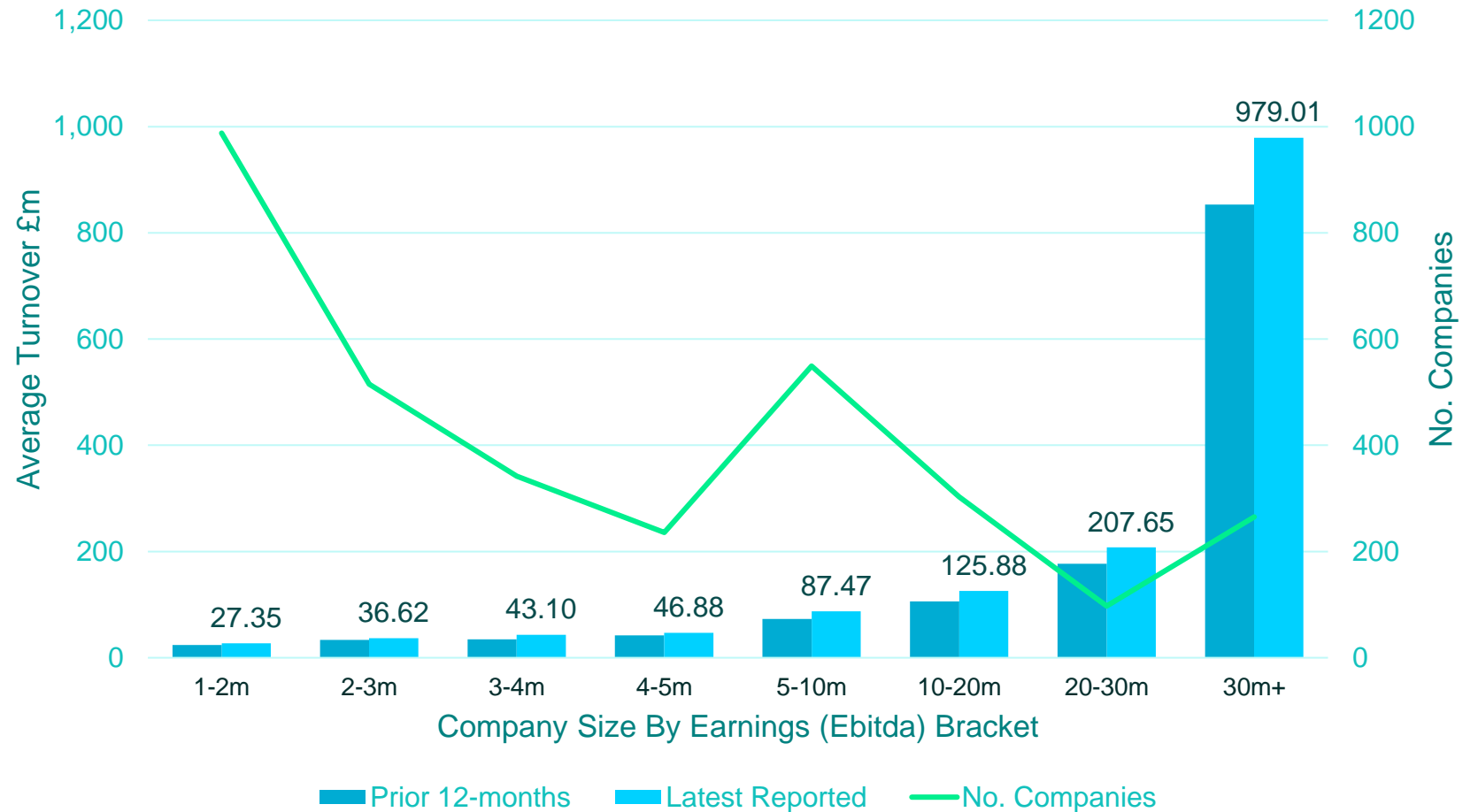
Thanks to the relative ease with which their services can be delivered remotely, Professional Services firms have been able to weather the twin storms of Covid and economic uncertainty. The move to an online delivery model also enabled companies to take full advantage of the increased number of businesses and individuals requiring support and advice during those challenging times.

## What does this mean for me?

The industry has proven its resilience in the face of the pandemic lockdowns and economic downturns. In a tumultuous year, its steady turnover growth should provide a good platform for the coming year.

## 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?

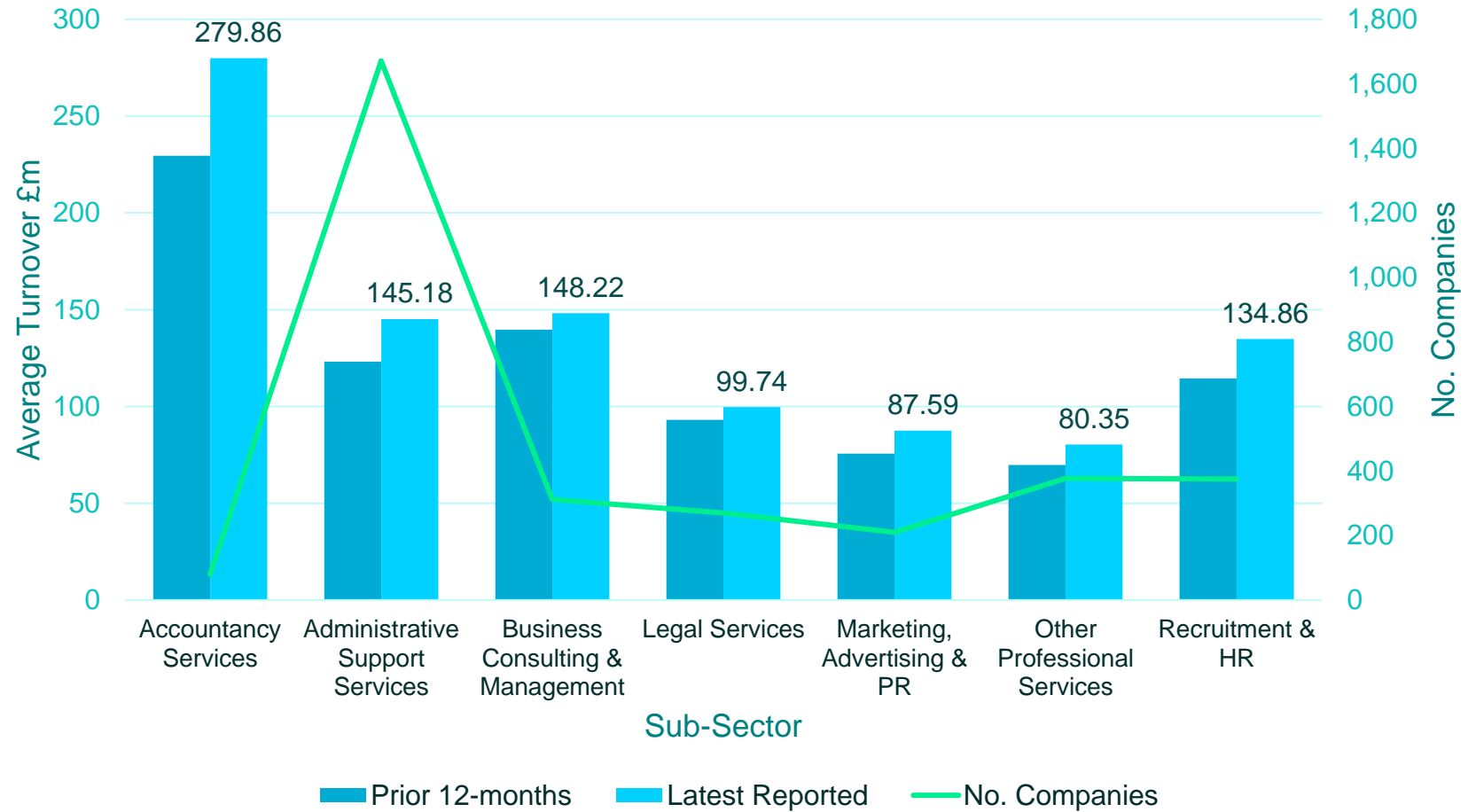
All sectors have seen an uplift in performance over the past year. This is unsurprising given that the previous year was disrupted with Covid and the associated lockdowns. Nevertheless, recovery within the sector has been swift and turnover growth looks set to continue.

## What does this mean for me?

All sectors appear to be experiencing a post-pandemic bounce back. The return to relative normality means that demand for business services has started to increase once again.

## 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. For example, 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 have seen a small uplift, with the exception of 'Other Professional Services' which includes services such as private investigations and security. Gross margins in the Professional Services industry tend to be higher than in other industries since the largest cost is people, and this is usually accounted for below gross profit.

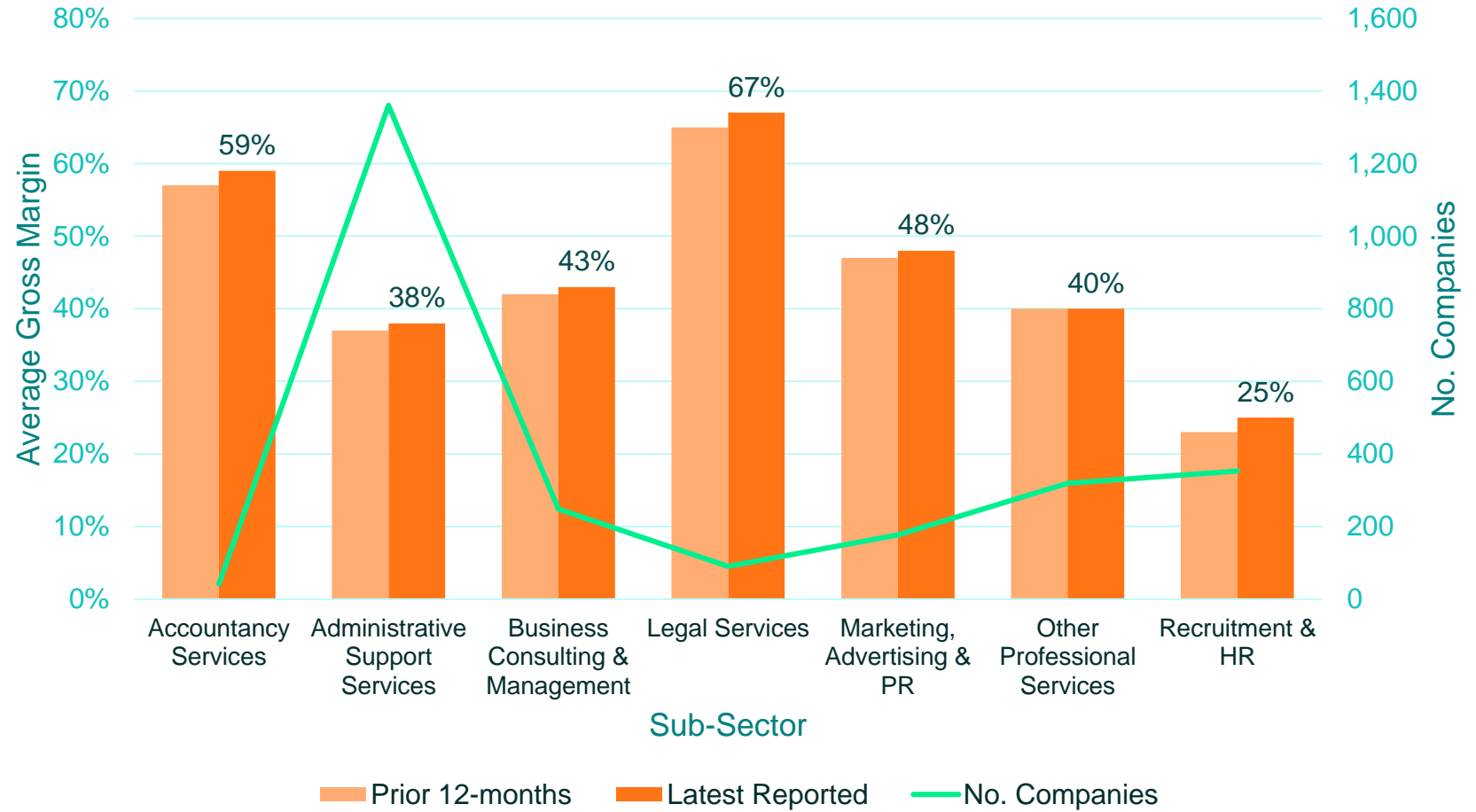
The main outlier is the Recruitment & HR sector, which has margins much lower than others. This is due to the fact that staffing agencies include the wage cost of their placed staff within cost of sales, resulting in a lower gross margin percentage.

## 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?

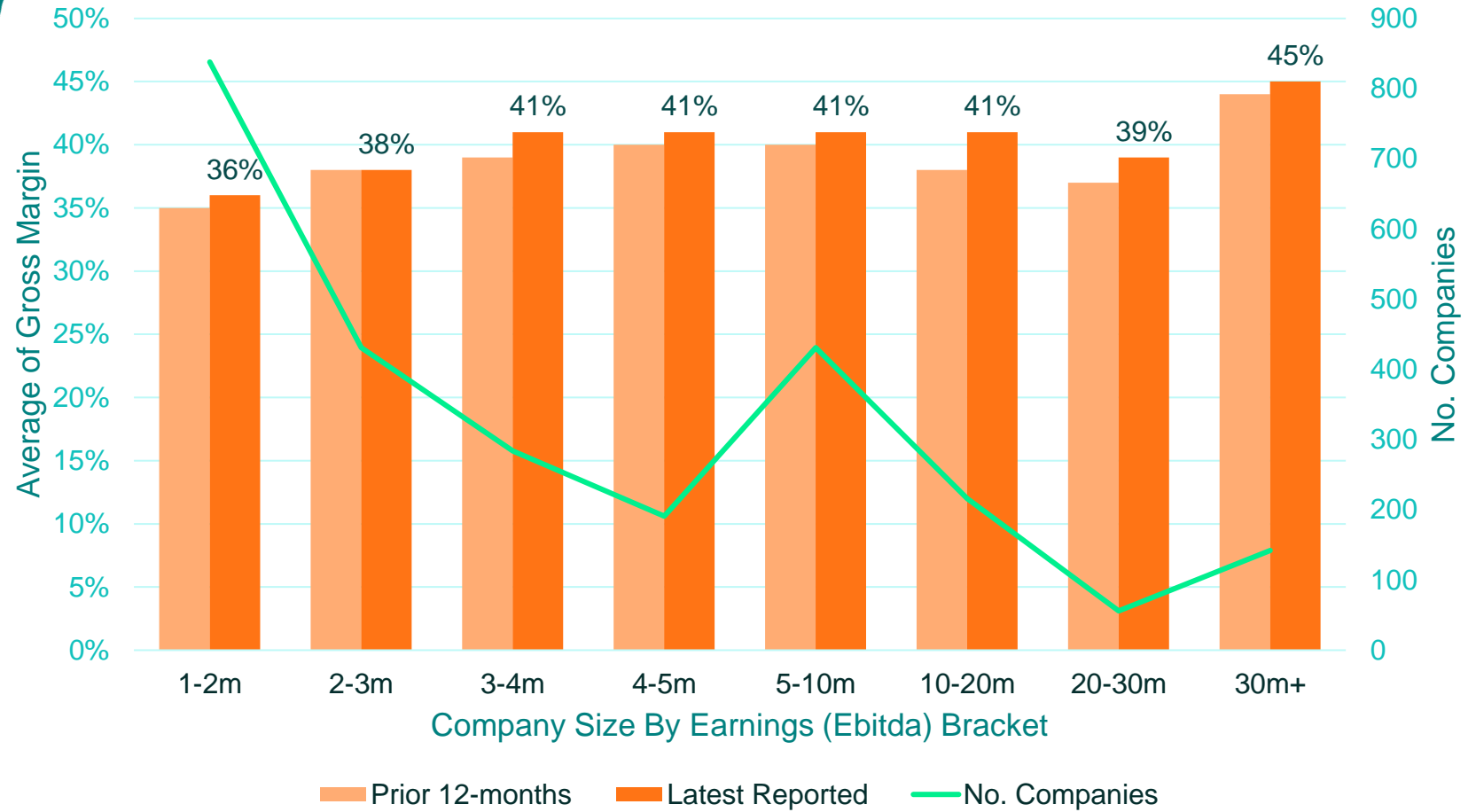
The data suggests organisations in the Professional Services industry can achieve a 40% gross margin once they break £2m Ebitda barrier.

## 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?

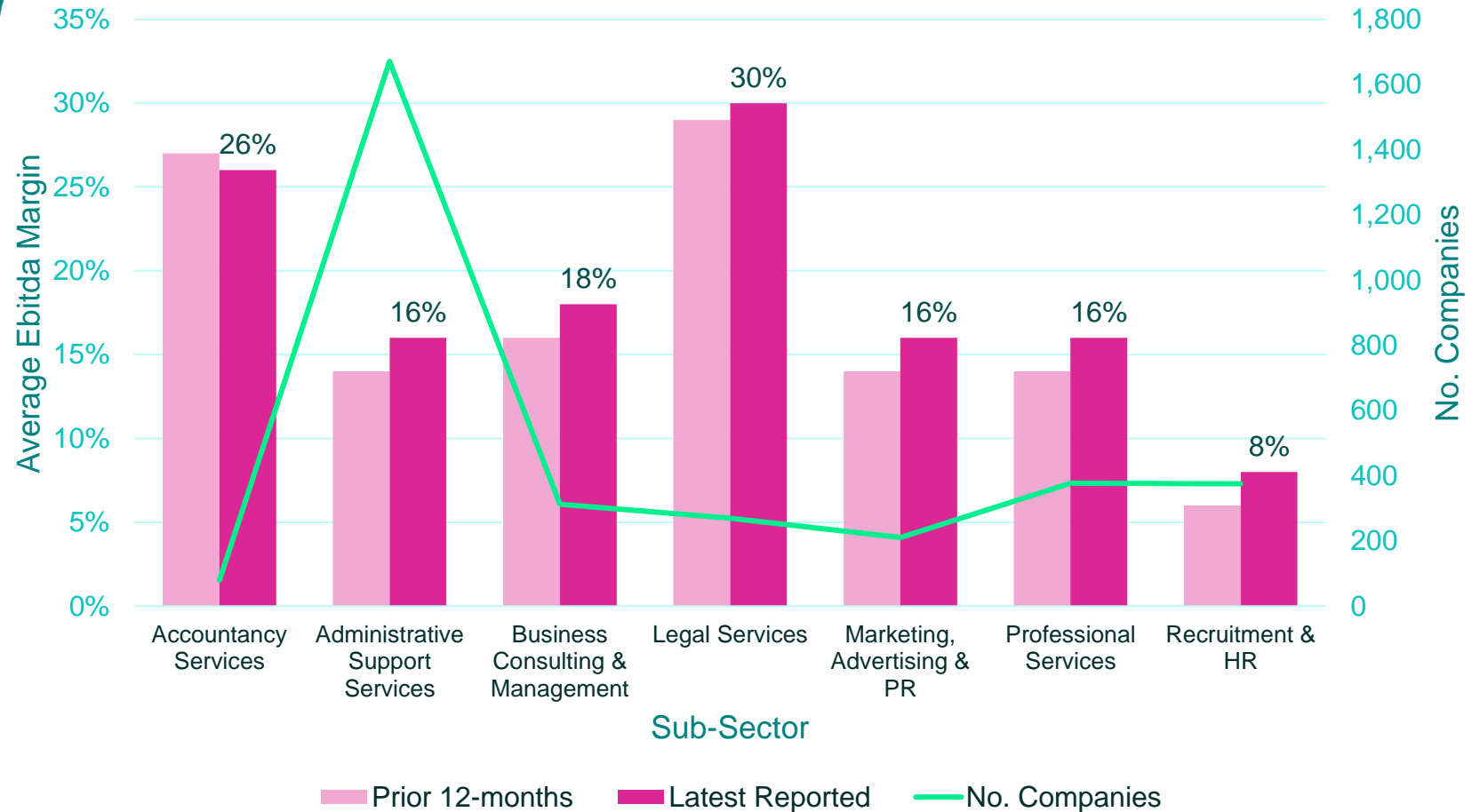
All sub-sectors within the Professional Services industry have seen an increase in average Ebitda margin regardless of company size, with the exception of Accountancy Services. In other words, most businesses have been able to maintain their top line whilst reducing costs.

## 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?

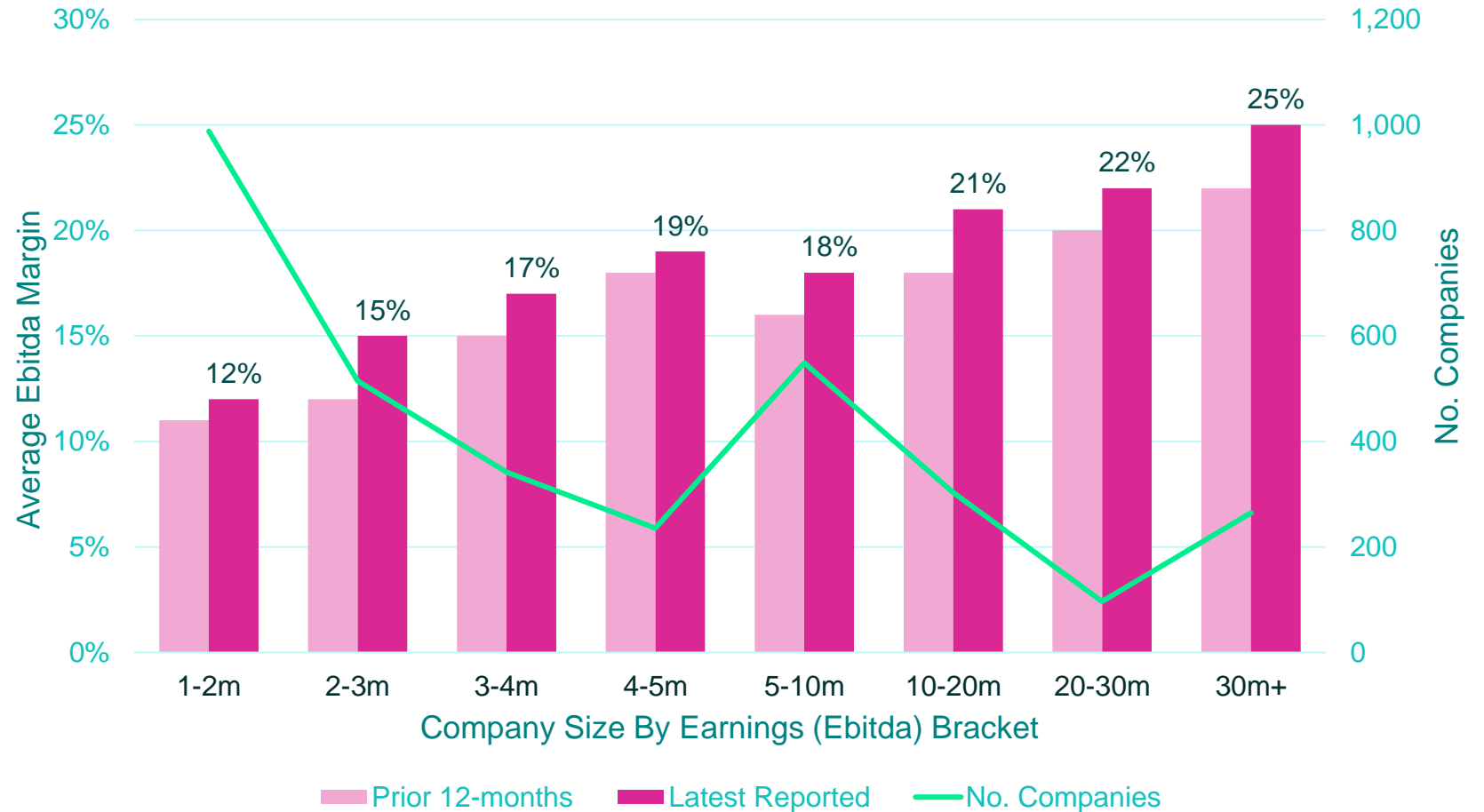
Economies of scale are very pronounced in the Professional Services industry – it is more efficient and profitable to be big.

## 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.
- All sub-sectors have experienced a rebound in income and M&A activity as demand for professional business services rebounds following the pandemic.
- 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?

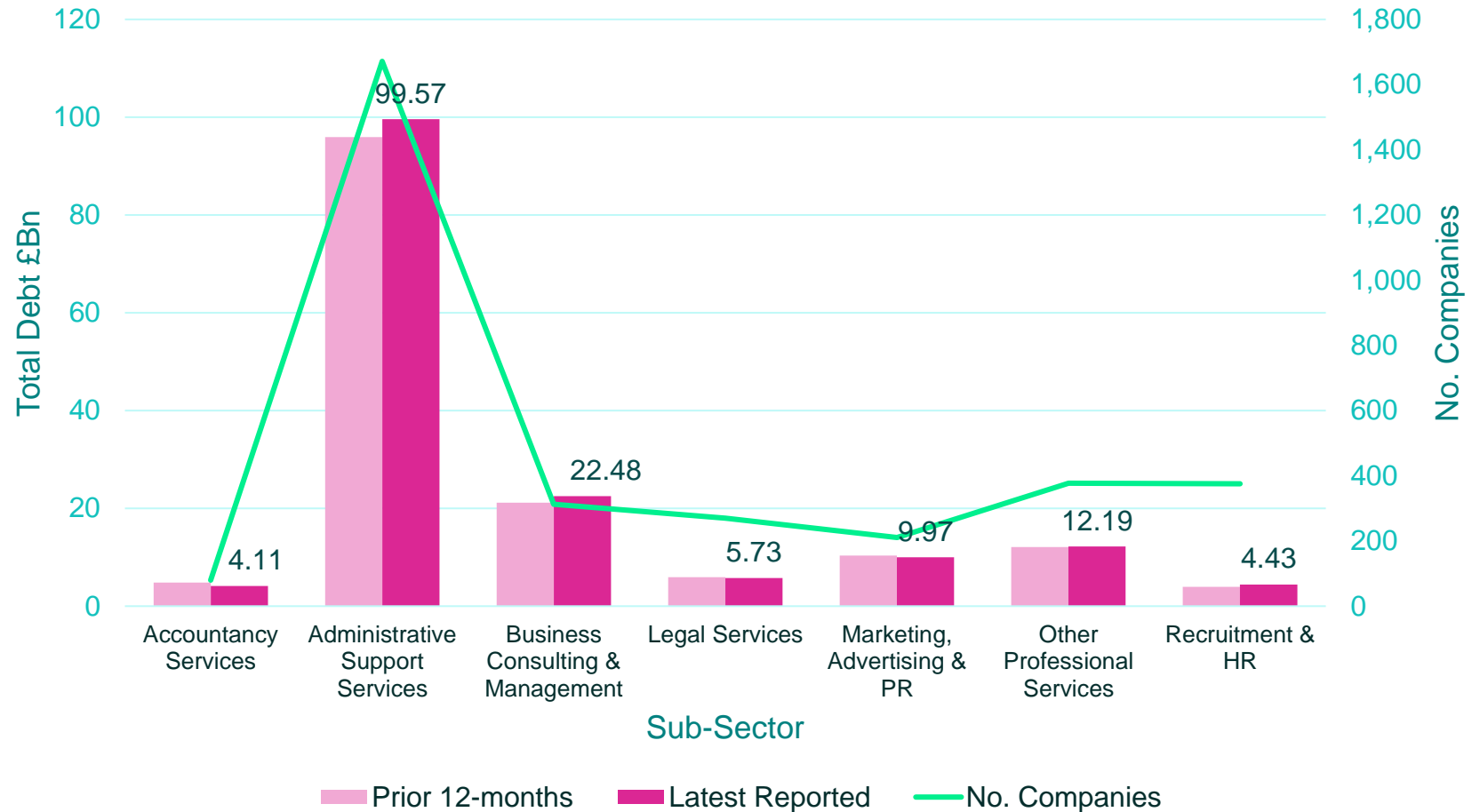
The debt picture is constant year-on-year, with not much movement across the sectors. The only exception being Administrative Support Services (businesses such as call centres and building maintenance companies), which is marginally higher.

## 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 explore alternative funding options to fund growth or acquisitions. Given the rapid increase in bank base rate lenders are still adjusting their risk appetite and securing loan facilities is more challenging across all industries. However, for profitable businesses opportunities remain.



# SHORT-TERM BORROWING

## What is the data showing?

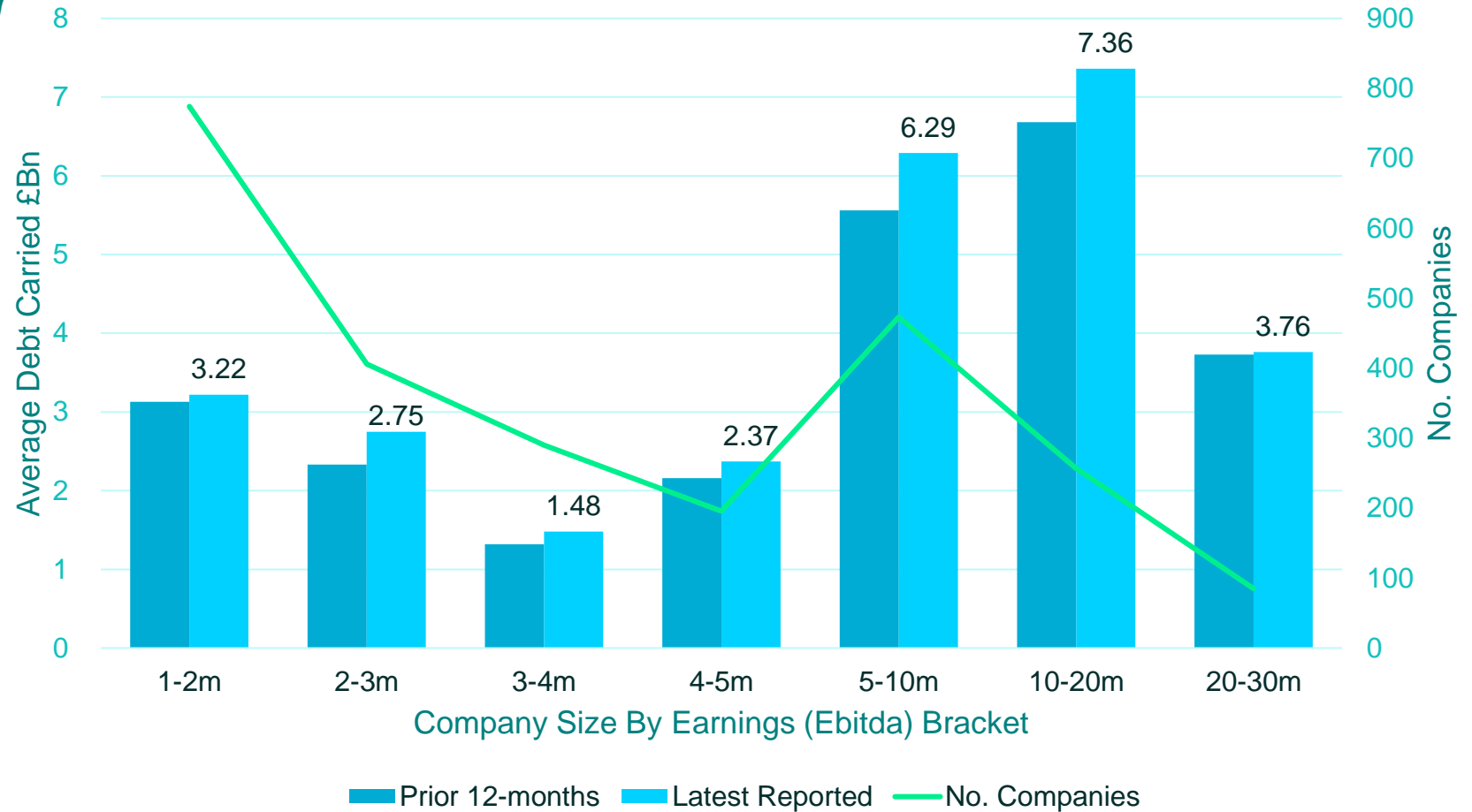
Short-term borrowing is higher across businesses of all sizes. The most pronounced increase is in the £5-20m Ebitda bracket.

## What does this mean for me?

Higher short-term borrowing is likely a consequence of the challenge of securing longer-term facilities. Typically, it is taking longer to secure longer dated facilities, this is leading companies to secure shorter dated facilities. We would always advise companies to obtain the correct mix of long and short dated lending from its lenders.

## What are my options?

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.

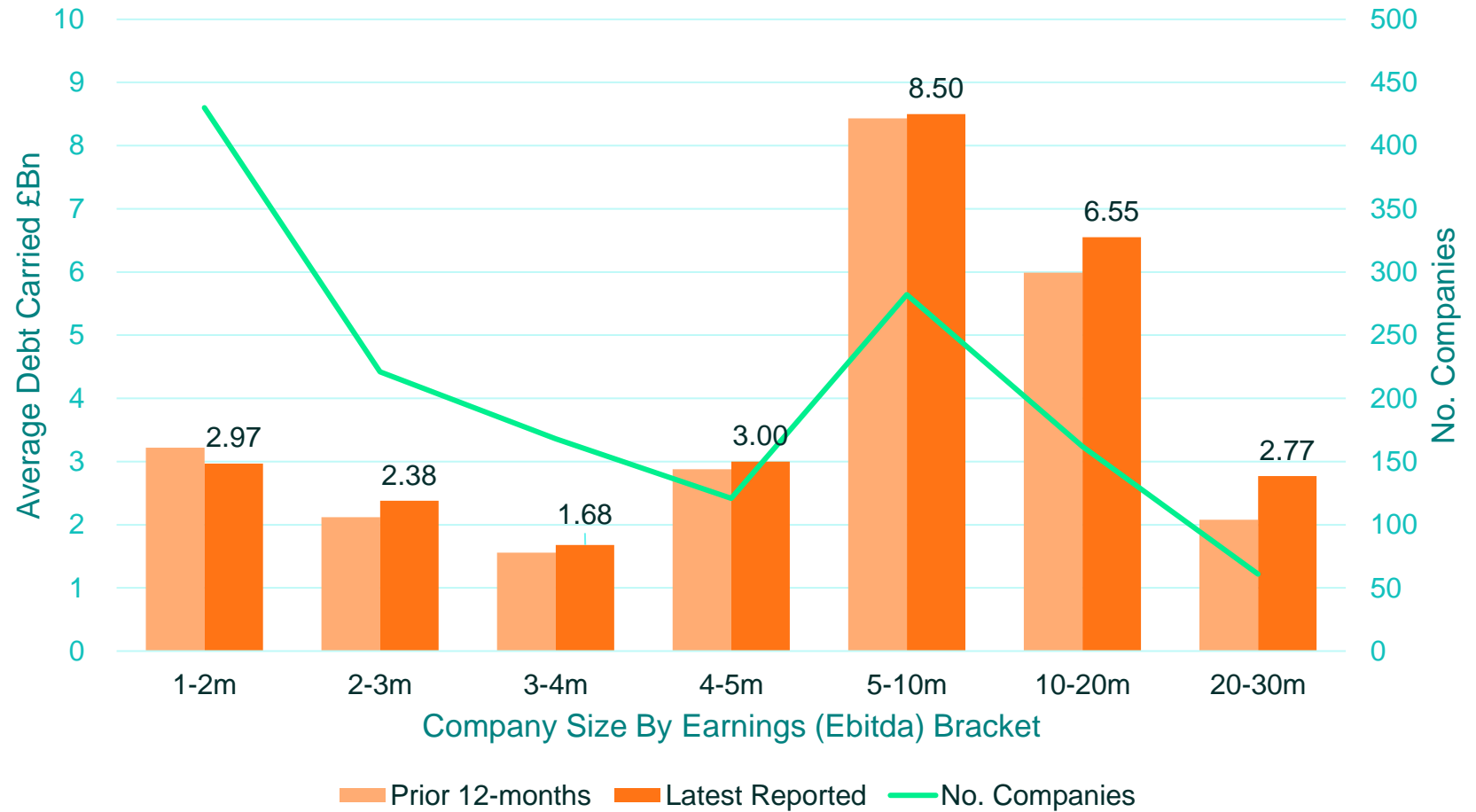
## What does this mean for me?

Economies of scale in the Professional Services industry are very pronounced and scaling your business is a very worthwhile pursuit.

SMEs in the sector should search alternative lending markets in addition to traditional funding routes, 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 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?

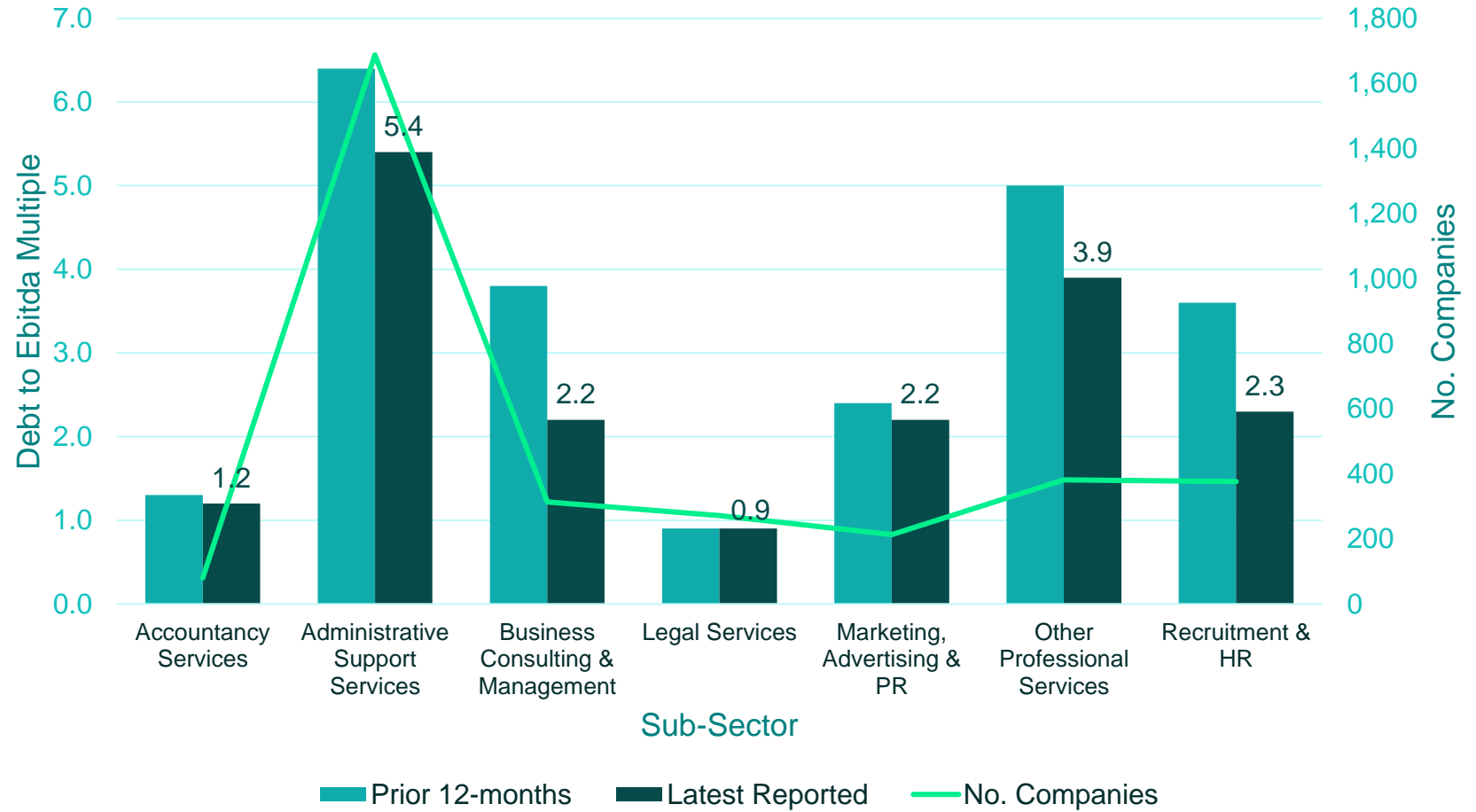
Average debt to Ebitda across all sub-sectors fell across the year. The Professional Services industry is reducing indebtedness relative to earnings.

## What does this mean for me?

Relative to other industries, we see Professional Services as having low leverage with further capacity remaining should business owners seek capital to grow or acquire.

## What are my options?

Businesses across the Professional Services industry has funding capacity to execute growth, acquisition or develop buy-and-build strategies. Ambitious owners should develop banking relationships and consider being multi-banked to achieve their ambitions in a evolving lending landscape.



# BORROWING CAPACITY BY SIZE



## What is the data showing?

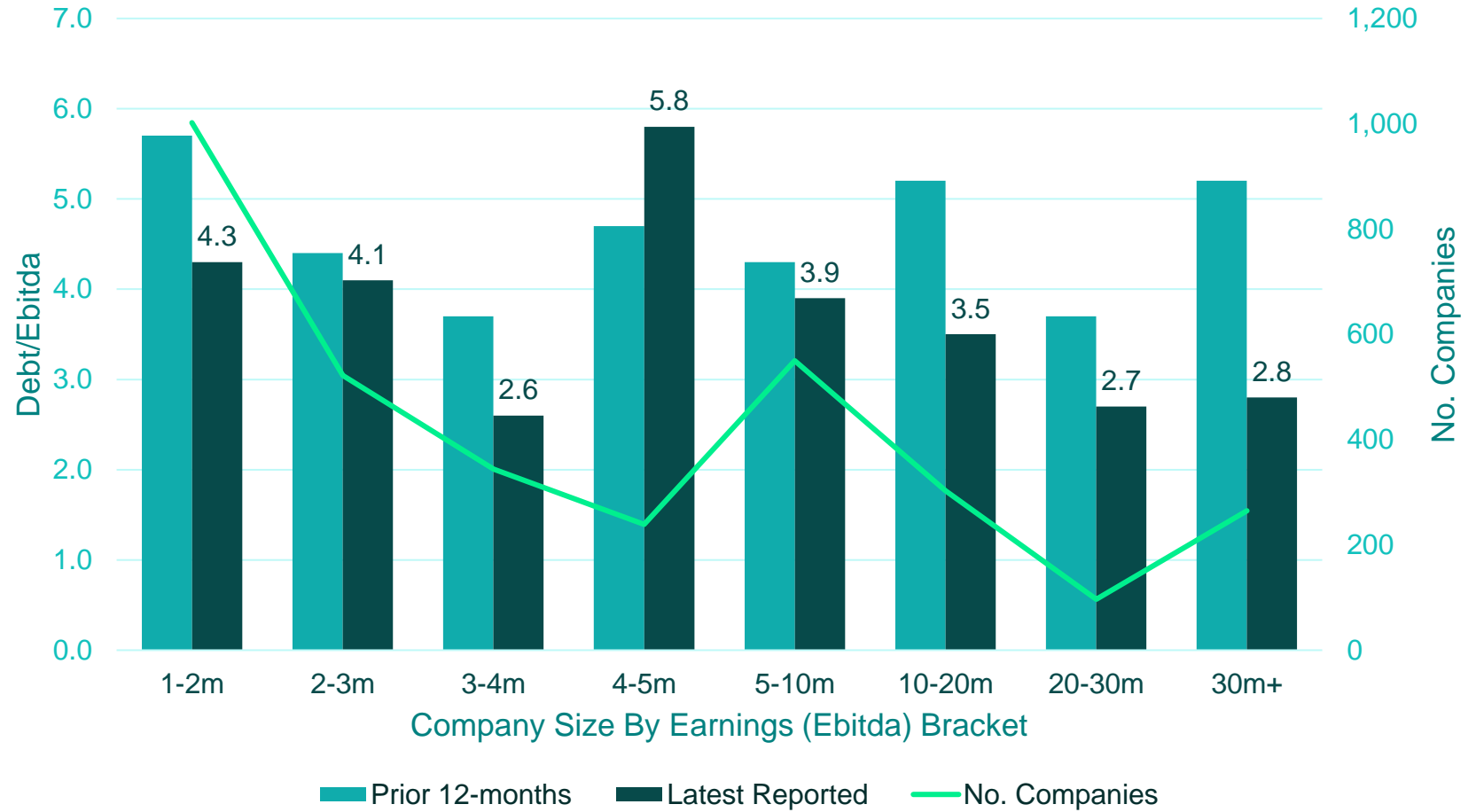
The Professional Services industry has generally reduced its leverage during the period, except in the £4-5m bracket. One factor could be the repayment of government Covid loans as the economy has reopened.

## What does this mean for me?

If your total debt to Ebitda is substantially below 3x, you have additional funding capacity. Beyond those ratios, your borrowing capacity may 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 credit capacity should they need external funding.
- The lending landscape is constantly evolving and ambitious companies in the sector should explore the alternative lending options. The lending markets are currently supportive with funding available for strongly performing businesses.
- Given that achieving economies of scale can be a competitive advantage in the Professional Services industry, business leaders would be well advised to consider organic and acquisitive growth strategies.



# 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 and activity is higher than in most other sectors we are tracking.

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 such as rising inflation and the cost-of-living crisis are starting to show signs of squeezing the consumer economy which is likely to affect activity in this sector over the coming months. If an exit is on your agenda and your business is trading well, now might be a good time to seize the initiative and begin the preparations to take your business to market. Before these headwinds fully take hold.

However, if your business is performing well and you have a plan to take this forward, now is also a good time to be considering an acquisition. Growth by acquisition is a good way to help consolidate your market and help protect against any oncoming headwinds. This can be combined with, or an alternative to, inorganic growth, depending on your business needs.

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M&A DEALS

# WHEN ARE THE M&A DEALS HAPPENING?



## What is the data showing?

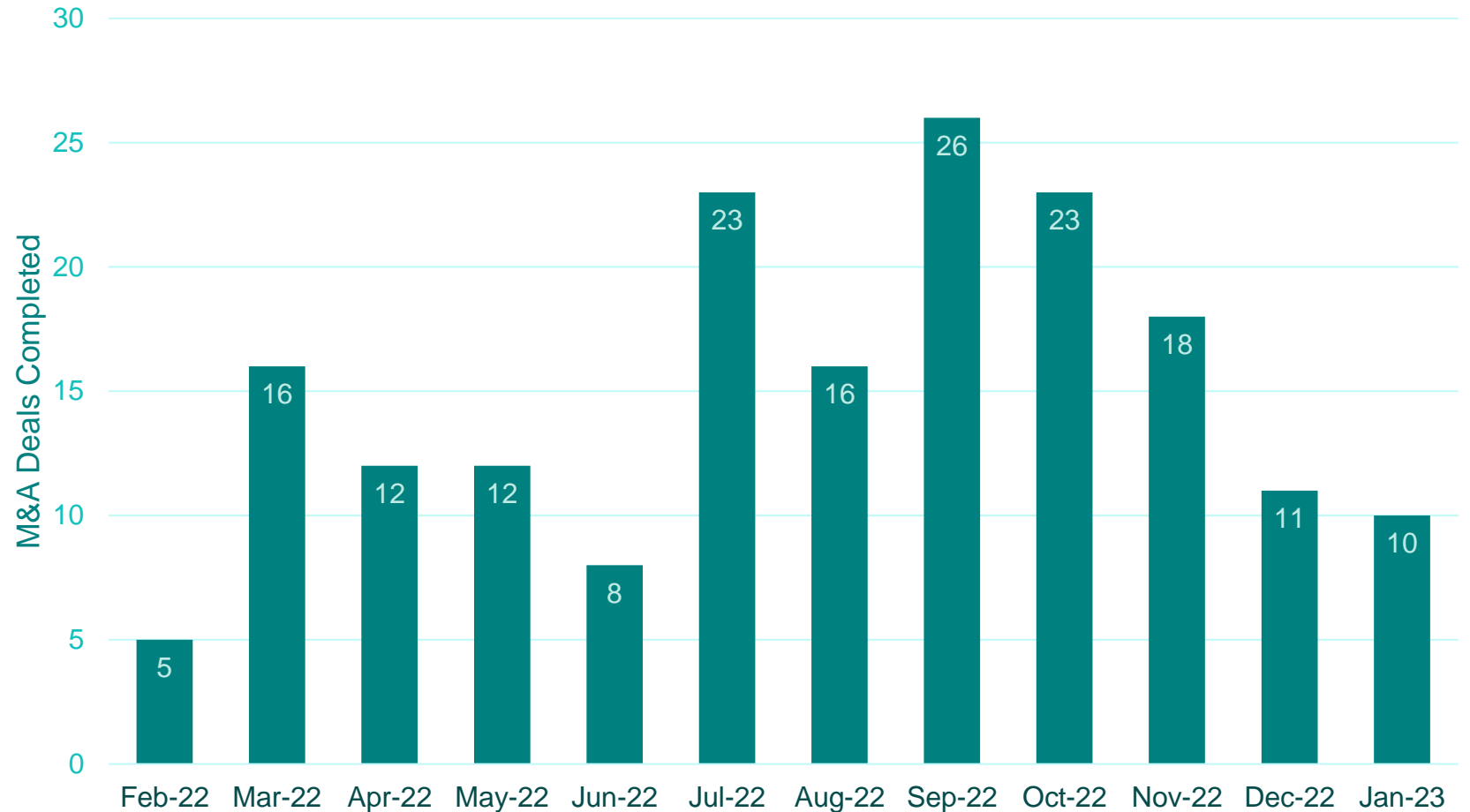
The summer appears to be the most popular times for deals to be completed. This is likely due to the fact that professional service firms tend to be quieter during these months, avoiding the busy Christmas and tax seasons.

## 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?

Whether you decide that an exit or an acquisition is the right strategic route, diligent planning is key. A sale processes typically take between 6-9 months, so it is important to factor this into any near-term business plans. Given that summer is a good time for business sales and the time period required, now is a good time to begin planning an exit.



# 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, particularly for the smaller deals. The proportion of UK buyers is higher than the other sectors we are tracking.

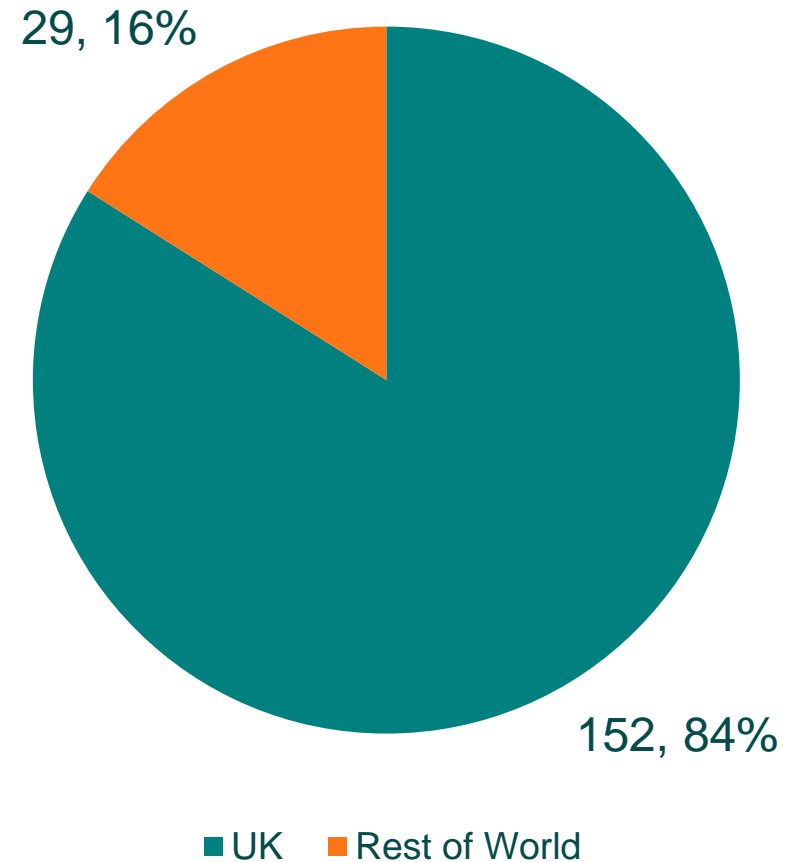
Outside the UK, US and European buyers are the most prominent.

## 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. On the sell side, efforts should be focused on your main competitors within the UK as this is the mostly likely source of a buyer



# 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 given that London is well known as the hub for professional services. However, as these are more people based business, locations are not as important as in other sectors. This is shown by the fact the mix of regions for deal activity is much better spread than in other industries we are tracking.

## 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. M&A activity in general across all sectors is performing well, which is increasing the need for advice across all professional firms and advisers.

Of note is the recovery of M&A activity in the recruitment sector. Fueled by the great resign and the well documented demand for workers, private equity in particular has taken a keen interest in this sector.

## What does this mean for me?

If your firm is in the 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 a large number of acquisitions in the professional services especially within the legal sector, as demand for these services increases. Of note is Knights Group making a couple of sizeable bolt-on acquisitions in the legal space.

Trade deals were much more popular than institutional investments from private equity. However, there were sectors, such as recruitment, where private equity have shown more interest in taking smaller minority stakes. This is due to the fact that private equity likes to back a management team invested in a people-based business.

## What price is being paid?

The majority of disclosed deal values ranged between £1m to £69m with an average disclosed deal value of £13.7m

## What's the typical Ebitda multiple?

In this period only two transactions disclosed their Ebitda multiples. These transactions were Knights Group's acquisitions of Coffin Mew and Langleys Solicitors, who's multiples were 4.0x and 5.3x, respectively.

| ACQUIROR                | TARGET NAME               | BUSINESS DESCRIPTION                   | DEAL TYPE        | DEAL VALUE<br>£m | TARGET<br>EBITDA<br>£m |
|-------------------------|---------------------------|--|------------------|------------------|------------------------|
| WSP Global              | GL Hearn Ltd              | Property consultancy services provider | Acquisition 100% | 69               | n.a.                   |
| SourceBio International | LDPATH Ltd                | Pathology reporting services provider  | Acquisition 100% | 33.5             | n.a.                   |
| Knights Group           | Coffin Mew LLP            | Law firm                               | Acquisition 100% | 11.5             | 2.86                   |
| Frenkel Topping Group   | N-Able Services Ltd       | Specialist case management services    | Acquisition 100% | 8.1              | n.a.                   |
| Quantuma Advisory       | Chamberlain & Company Ltd | Insolvency Practitioner Services       | Acquisition 100% | 4.4              | n.a.                   |
| Gateley                 | Symbiosis IP Ltd          | Patent attorney law firm operator      | Acquisition 100% | 2.5              | n.a.                   |
| Knights Group           | Langleys Solicitors LLP   | Law firm                               | Acquisition 100% | 11.5             | 2.1                    |

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

# M&A SUMMARY

## KEY POINTS & PREDICTIONS

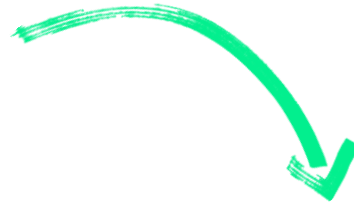
- Deal activity has been buoyant in the professional services sector in the last year, partly as a result of increased demand for these services over the past year.
- Several headwinds – rising inflation and the worsening geopolitical situation – mean that the level of M&A activity that has been seen in the last year may not continue. However, confidence is key to dealmaking and the continued demand for professional services means this industry is fairly well placed to ride out these headwinds.
- The recent weakening of the pound is likely to make UK businesses more affordable to foreign buyers. Therefore, in the next period we would expect to see the ratio of UK to overseas buyers become slightly more equal.
- If an exit is desired and your business is performing well, we recommend giving consideration to launching the preparation for a sale process as soon as possible, before current events flow through to the wider economy.
- Alternatively, you may consider the opportunity to grow by acquiring a competitor or an organisation that complements and strengthens your existing value proposition.



# OUR CREDENTIALS.



# OUR SECTOR EXPERTS



**OLIVER ROPER**  
Executive

Ollie is an executive and supports M&A and business funding transactions. He joined Shaw & Co in September 2021 having trained and qualified as an ACA chartered accountant with Smith & Williamson. Ollie brings 4-years' experience of advising and auditing SME clients across a range of sectors. With a particular focus on the recruitment sector, Ollie has experience across the professional services industry.

At Shaw & Co, Ollie's M&A support focuses on buying and selling businesses and helps with the preparation of investment papers, reviewing and building accompanying financial models and conducting market research to identify buyers, sellers and comparable transactions. Ollie's business funding support includes preparing funding proposals and financial modelling.



**ALEXEI GARAN**  
Director

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.

# 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.

We have easily accessible locations to support clients from across the UK. You can find us in these cities:

- **BIRMINGHAM** 20 Colmore Circus, Birmingham B4 6AT **0121 314 9410**
- **BRISTOL** Generator Building, Counterslip, BS1 6BX **0117 325 8510**
- **GLASGOW** 9 George Square, Glasgow G2 1QQ **0141 280 0410**
- **LONDON** 33 St James' Square, London SW1Y 4JS **0207 183 5010**
- **MANCHESTER** 3 Hardman Square, Manchester M3 3EB **0161 505 2010**



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**Make it happen**

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