



Enterprise Risk Management Services

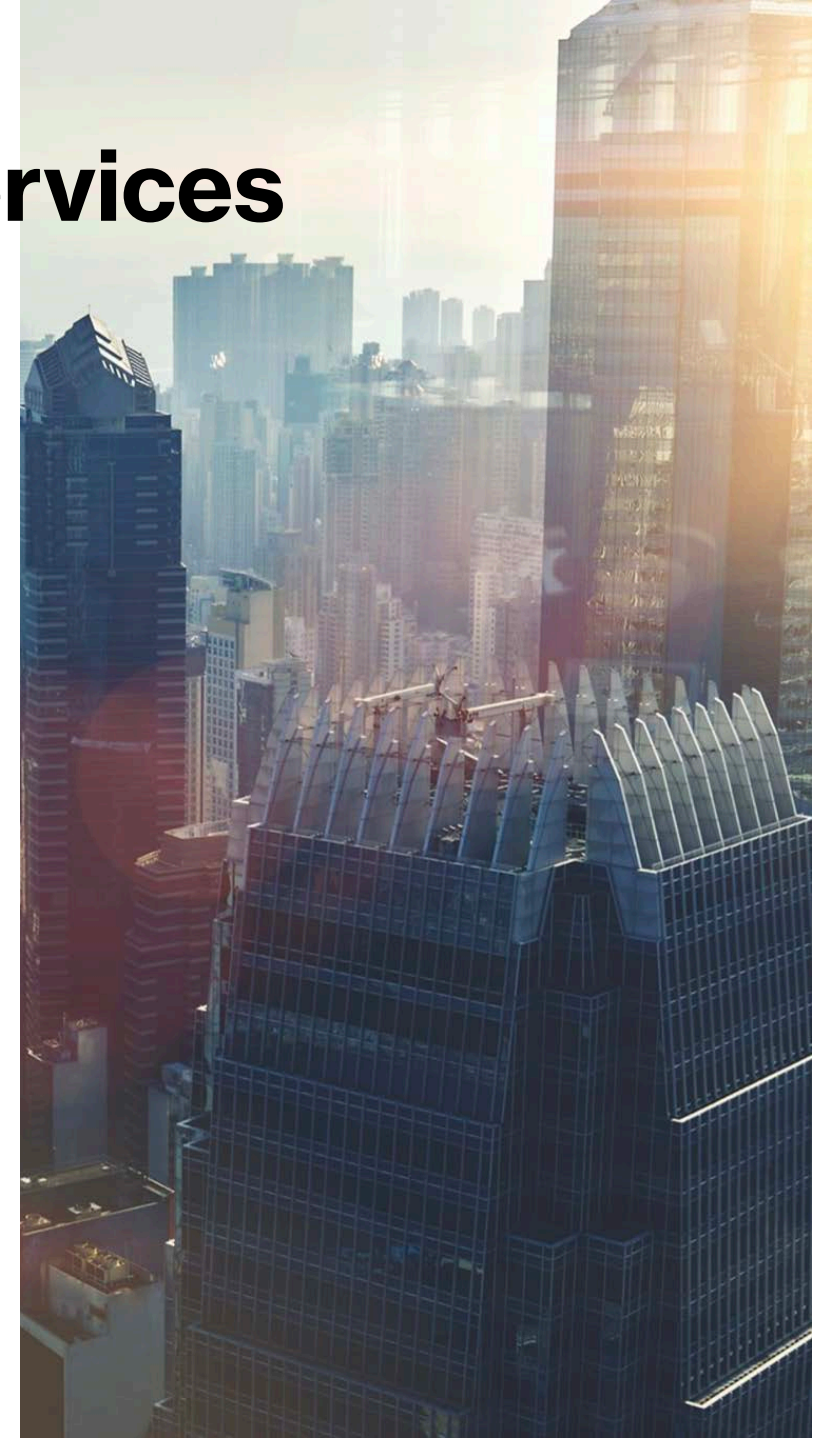
Market Update

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NOVEMBER 2020 EDITION

Enterprise Risk Management Services Market Update

- The enterprise risk management services (ERMS) market consisting of companies providing services ranging from investigations, business intelligence, due diligence, background checking and pre-employment screening to security and cyber consulting
- The ERMS market continues to grow as clients require support in complying with increasingly strict regulations, cyber attacks, and other risks arising from global expansion
- While the ERMS market experienced considerable setbacks as a result of the COVID-19 related lockdown, the demand certain services has returned, and some segments of the sector are now recovering
- The whole sector is undergoing a transformation due to the increasingly complex and global requirements of clients, the ever more prominent role of technology and other factors,
- Despite the COVID related challenges, M&A activity in the ERMS sector is continuing at a robust pace
- The medium-to-large end of the sector is consolidating as new companies from adjacent sectors enter the sector though acquisitions and private equity funded companies pursue M&A strategies to accelerate growth, expand globally, broaden their service offering and to access new clients
- In this note, we provide an update on the sector M&A activity, discuss recent developments and offer our view of the outlook for 2021-2022



How We Look at the Enterprise Risk Management Market

Diversified Consultancies	Investigations, Due Diligence & Compliance	Background Checking	Risk Research	Security (Physical, Cyber, Travel Risk)
				

Business Models Converging:



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Market Drivers

Rapidly Growing Need to Manage Non-Financial Risks

The key drivers of growth of the Enterprise Risk Management market include:

Globalization increasing the need for risk management. Multinational operations, extended supply chains, outsourcing, cross-border M&A, operating in less-transparent markets have significantly increased companies risk exposure

Increasingly powerful regulatory regimes. Regulators globally acting with renewed vigor, and there has been an increase in investigations into bribery and corruption. Severe financial penalties and reputational damage associated with regulatory breaches have resulted in companies taking proactive steps to avoid regulatory breaches

Duty of care. Global companies expected to ensure the well being of their employees

High profile, costly cyber attacks. The cost of vulnerability is becoming obvious, and cyber security is increasingly a Board level concern

Budgets for risk mitigation. Increasingly companies have budgets for risk management and invest pre-emptively in mitigation



The Market in Transformation

- Clients' needs are increasingly complex and global, and, as a result, there is pressure for ERMS companies to establish a global footprint and broaden service offering
- ERMS companies are increasingly utilizing technology to enhance workflows, and integrating data and technology to provide clients a more complete picture of risk
- Some new entrants have also introduced new business models, including Ground Truth Intelligence with its online technology platform to match service providers with clients to provide transparency and more competitive pricing
- M&A activity and the entry of new, well-funded companies is changing the industry landscape: Access to capital has become a key competitive differentiator
- As a result, the competitive landscape and the relative strength of the companies is changing, forcing companies to rethink and adjust their strategies



COVID-19 and Its Impact on the ERMS Market

The impact of COVID-19 has impacted companies in very different ways:

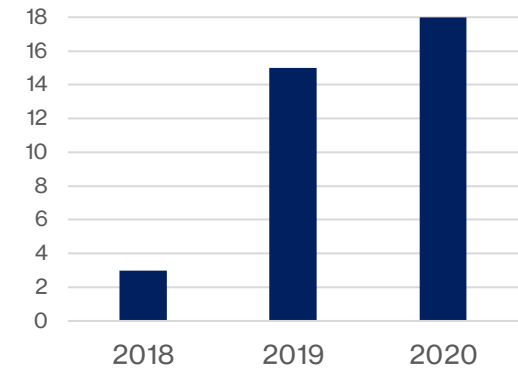
- Companies across the industry suffered at the outset of the lockdowns, but the demand is returning and many segments of the sector are recovering
- The worst hit companies were those exposed to transactional due diligence, pre-employment screening and background checking
- However, transaction driven due diligence work started to pick up in the summer and many companies report high levels of activity
- While the high-end litigation support and investigations focused firms also suffered a temporary downturn, demand for those services has recovered rapidly and continues to accelerate
- Finally, we have also seen new demand for strategic intelligence advice by multinational corporate clients
- Overall, the industry appears to have adjusted well to the working-from-home model, which most major companies continue to support
- All companies had to manage their cost structure aggressively as a result of the slowdown. Those with leaner overhead burdens had an advantage, and, unlike many who had to lay off staff, were able to retain talent and are coming out of the slowdown in a strong position



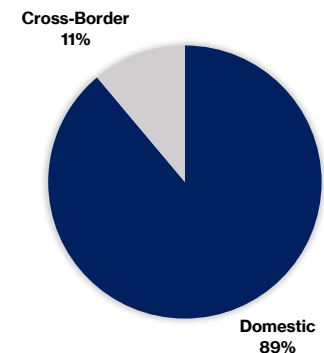
M&A Activity in the Enterprise Risk Management Services Market

- We have observed a high level of interest in enterprise risk management services: investors see this as an industry that will rebound strongly from COVID related slowdown, and continue to grow driven by a multitude of factors
- Despite COVID-19 the level of M&A activity is high and increasing: this year, 18 deals have already been completed – more than in 2019, which was a very active year
- Investors are interested in companies with services across the ERMS spectrum, but are particularly focused on:
 - High end litigation support companies
 - Recurring revenue (Subscription) models
 - Due diligence companies that are either large and scalable or have highly specialized expertise like financial crime or Environmental, Social and Governance (“ESG”) risks
- Most of the completed transactions in the last two years involved small or medium sized targets. Only three deals were in excess of \$100 million – however, GardaWorld has made a \$3bn unsolicited offer for G4S, which has so far been rejected by the G4S board
- In nearly all transactions buyers acquired the entire share capital or a majority control. Only one of the transactions, MML Capital investing in StoneTurn, was a minority transaction

No of Transactions 2018 - 2020



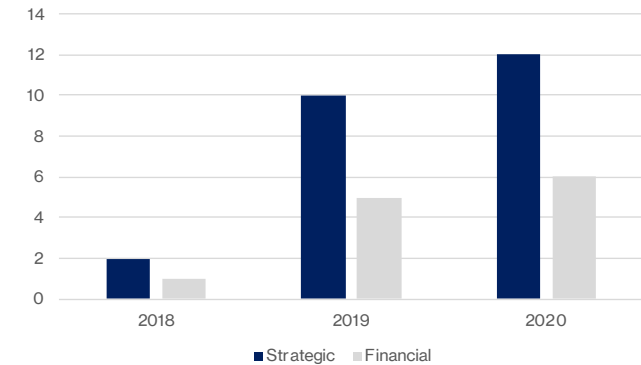
Domestic vs. Cross-Border 2020



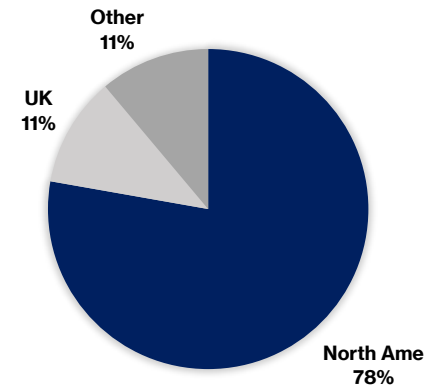
Broad Range of Buyers

- Both strategic and financial buyers have been active, but strategic acquirors have accounted for twice as many deals as financial buyers
- However, this understates the influence of PE investors: Some of the strategic buyers are backed by Private Equity firms that are well capitalized and have access to inexpensive debt
- Acquirers seek to create value by building scale, expanding into new markets, broadening the service offering, or diversifying the business model (higher margins, more scalable, technology enabled services or recurring revenues)
- Many of the acquisitions were made by buyers from adjacent sectors entering the investigations/diligence/cyber market, i.e. financial data firms (Refinitiv, Acuris); diversified consulting (Alix Partners, Duff & Phelps, Guidehouse); and security companies (Garda)
- The number of cross-border deals has declined from 5 in 2019 to 2 in 2020 to a large extent as a result of COVID lockdown and travel restrictions
- North American (US + Canada) buyers have dominated activity: 73% of all transactions involved North American buyers. US targets accounted for two-thirds of the deals
- There are few serial acquirers: GardaWorld was the most active buyer having completed three transactions in the sector in 2019 - 2020

Strategic vs. Financial Buyers

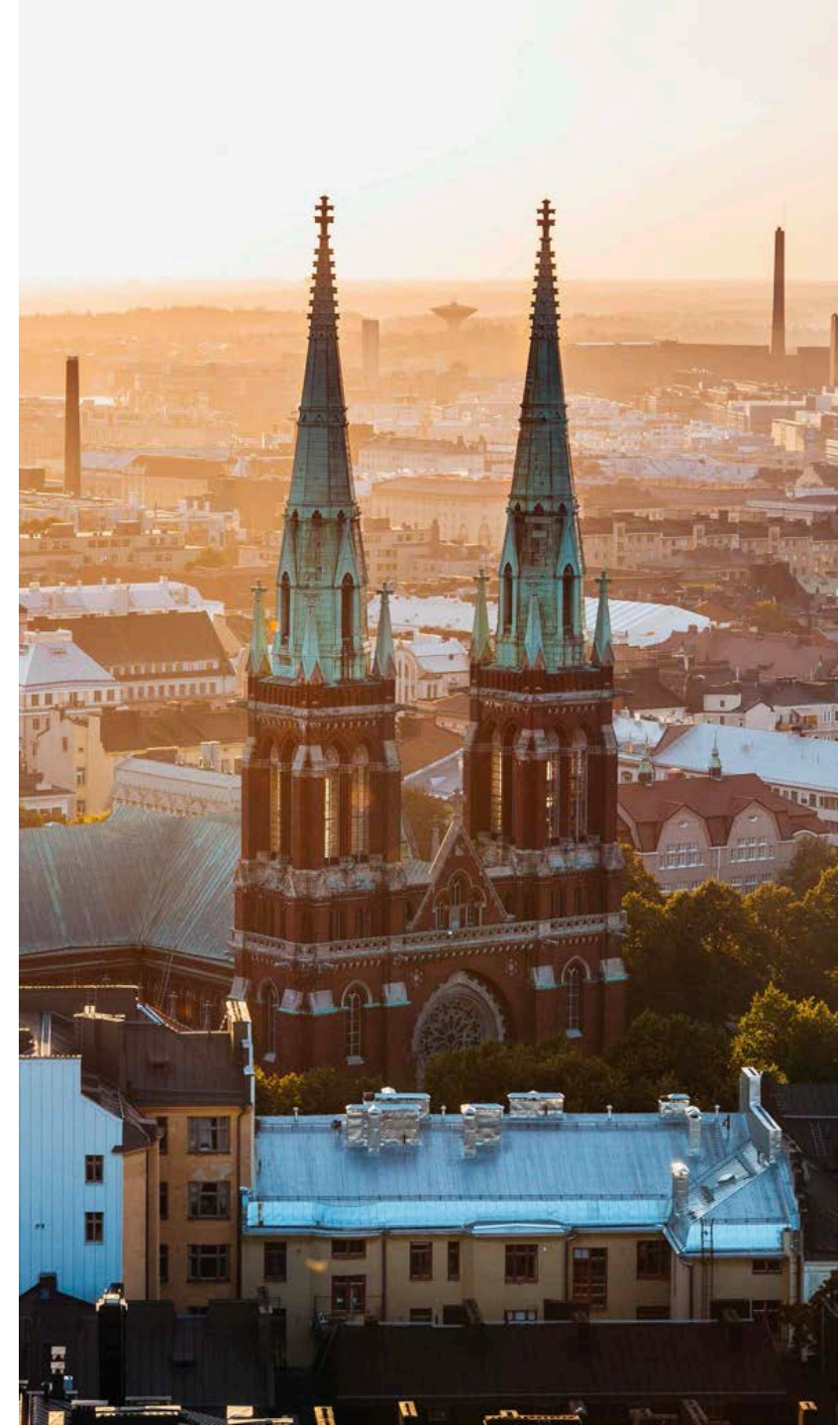


Acquirers by Country/Region



Valuations, Due Diligence and Transaction Structures

- We have seen robust transaction valuations in the last twelve months as buyers have been prepared to pay for strategically important targets, and large private equity backed companies from adjacent industries have been able to take advantage of their low cost of capital
- In the current COVID environment, we have seen buyers willing to overlook short-term slowdown in targets' performance but carefully manage their risk exposure through highly structured deals. This has resulted in offers/deal structures with smaller upfront cash portions and larger earnouts and equity rollovers
- We have seen buyers increasingly focus on the sustainability and resilience of business - including recurring revenues and the leadership team's ability to manage costs - as part of their due diligence
- Buyers have figured out how to conduct their deal due diligence remotely, yet most deals post-lockdown have involved parties that already knew each other well
- However, the healthy transaction valuations obscure the deals that did not happen: Companies that lack differentiation, scale, diversified revenue sources and client base have generally not been successful in finding investors or buyers



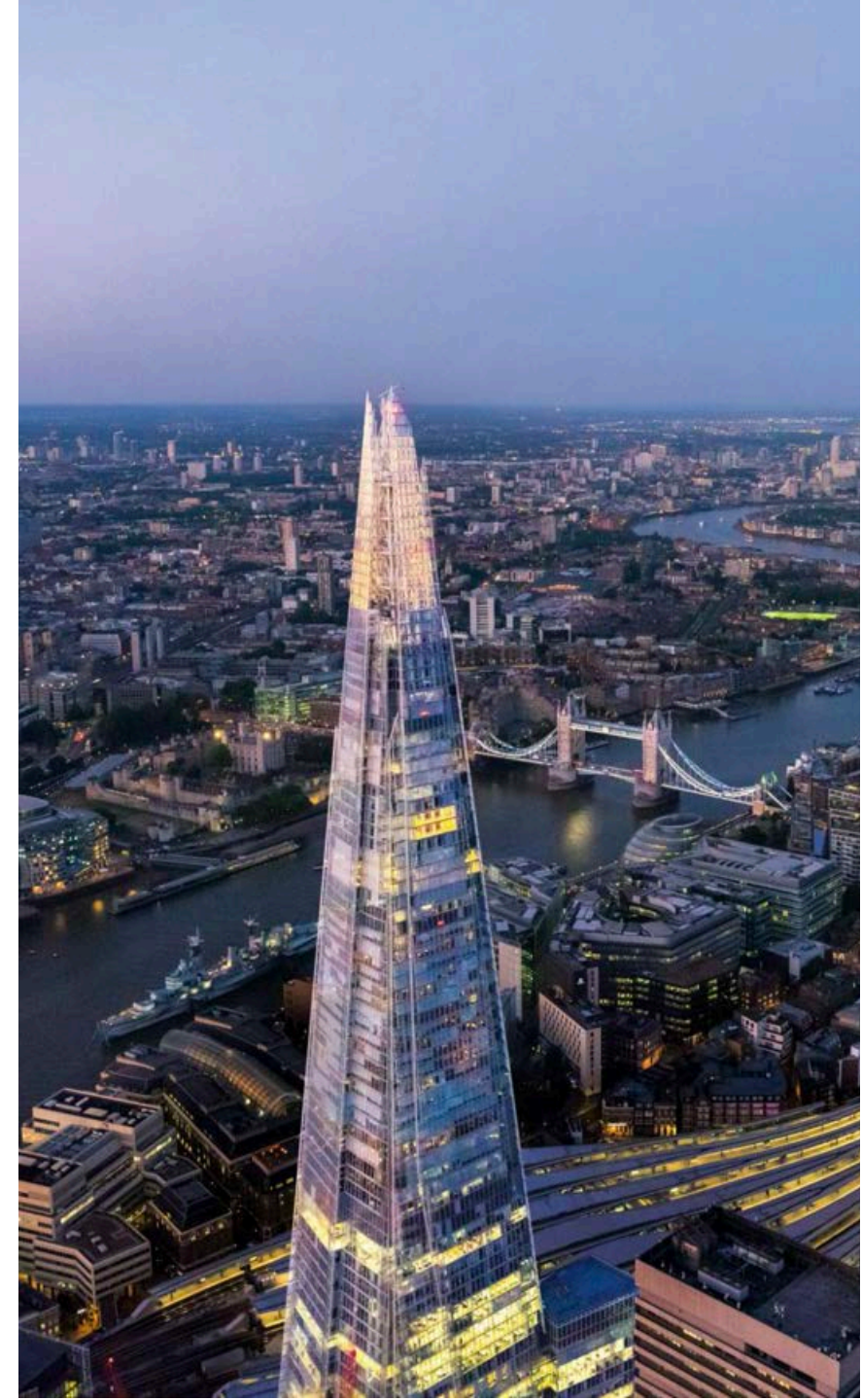
Deal Activity Summary

M&A Activity 2019 - 2020

Buyer/Investor	Target	Date	Target Business
Cowater International	Transtec	2020	Capacity Building
Refinitiv	The Red Flag Group	2020	Diligence, Background Checks
Amentum	DynCorp International	2020	Training, Intelligence, Security, Logistics, Aviation Support
Alix Partners	Freeh Group	2020	Investigations, Compliance & Cyber
Limerston Capital	Axiom Intl/Forensic Access	2020	Forensics, Capacity Building
Loomis	Nokas Vårdehantering	2020	Security/Cash-in-Transit
GardaWorld	WorldAware (Jet)	2020	Travel Risk Management, Risk Intelligence
GardaWorld	Titan Global	2020	BI&I
The Kreller Group	Smith Brandon International	2020	BI&I
Stone Point Capital + Further Global	Duff & Phelps	2020	Diversified Consulting
ICV Partners	The Mintz Group	2020	BI&I
Dexis Consulting	New Century US	2020	Security
Kroll	RP Digital Security	2020	Digital Forensics
RANE	Sratfor	2020	Political Risk Platform
Teakwood capital	RANE	2020	Risk Research Platform
Ankura	UnitedLex Managed Detection & Respon:	2020	Cyber
American Securities/Lindsay Goldberg	Amentum	2020	Logistics, Security
DG Risk Consultants	PVI	2020	Security
GardaWorld	Drum Cussac	2019	Travel Risk Management, Risk Intelligence
HireRight	J-Screen	2019	Pre-Employment Screening
HireRight	PeopleCheck	2019	Pre-Employment Screening
MML Capital	StoneTurn	2019	BI&I
Anticip	Risk&Co	2019	BI&I
Guidehouse	Navigant	2019	Diversified Consulting
Silver Lake Partners	First Advantage	2019	Background Screening'
Insight Partners	Recorded Future	2019	Risk Intelligence
Duff Phelps	Kroll	2019	Diversified Consulting
Georgian Partners, Greycroft Partners, Tec	Flashpoint	2019	Risk Intelligence
Acuris	Blackpeak	2019	BI&I
Guidepost Solutions	Custom Information Services	2019	BI&I
K2	Financial Integrity Network	2019	BI&I
Nixu	Vesper Cyber Security	2019	Cyber
CVC Capital Partners	Teneo	2019	Diversified Consulting

M&A Outlook for 2021-22

- We expect interest and M&A activity in the ERMS market to remain robust in the next 18 to 24 months, as financial investors focus on the sector that is expected to rebound strongly from the COVID related slowdown and continue to grow as a result of the need for regulatory compliance, cyber attacks, and other risks arising from global expansion
- Various strategic buyers, often backed by private equity, are pursuing acquisition-led growth strategies to expand their global presence, broaden their service offering, access new client groups, and achieve scale to challenge the incumbent market leaders
- As the ERMS market recovers, we also expect more companies to try to take advantage of the strong market demand and seek a sale or a recapitalization in 2021
- Most of the interest is likely to be focused on differentiated high-end fraud investigations and litigation support companies, due diligence firms that are either large and scalable or have highly specialized expertise, and companies with proven recurring revenue/subscription models
- We expect overall valuations in the sector are to remain healthy for targets that constitute a strategic priority for buyers. Companies with an undifferentiated offering and limited scale are likely to struggle to attract much interest
- Buyers will continue to carefully manage longer term risk exposure, resulting in deal structures with relatively smaller upfront cash portions and larger contingent components. Private equity acquirers will continue to expect rollovers by management teams to ensure alignment of interests



ERG Partners

Enterprise Risk Management Advisory Leadership

ERG Partners, founded in 2005, is an independent financial and strategic advisory firm with unrivalled Enterprise Risk Management Services sector expertise owned by its partners. ERG Partners offers the highest quality, independent advice to its clients across a broad range of corporate finance and strategic matters, including mergers & acquisitions, strategy development, scenario planning and restructurings

Over the years, ERG Partners has worked with a full spectrum of ERMS companies including investigations, business intelligence, risk research, background screening, cyber and security companies helping them build and realize shareholder value

ERG Partners combines in-depth industry expertise with market leading advisory skills, and prides itself on its excellent reputation, execution capability and experience in cross-border transactions



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