

Q1 2018: EXTRACT

M&A TRENDS IN THE CONSULTING INDUSTRY

Poised for growth?

The number of consulting deals¹ fell in 2017, for the second successive year. Indeed, the number of deals completed was down by more than 40% from the industry's recent high-water mark in 2015. Some firms have remained very active, as have some segments of the market—notably digital and cybersecurity—but overall, 2017 was the quietest year since 2014.

Various reasons account for this: The slew of deals completed in 2015 had to be integrated; valuations had become, many thought, unreasonably high; and there was—and remain—some nervousness about future growth levels in consulting more broadly. Those same factors are now being cited to suggest that 2018 will be a much more active year. Acquisitions made two years ago are now integrated (more or less successfully), and that same generalised caution has translated into more reasonable multiples, at least outside the digital and cybersecurity space. In the familiar boom-bust cycles of M&A activity, suddenly it looks as though there are some good deals to be done.



¹ Please note that we focus on consulting-related deals only, and exclude technology-focused transactions.

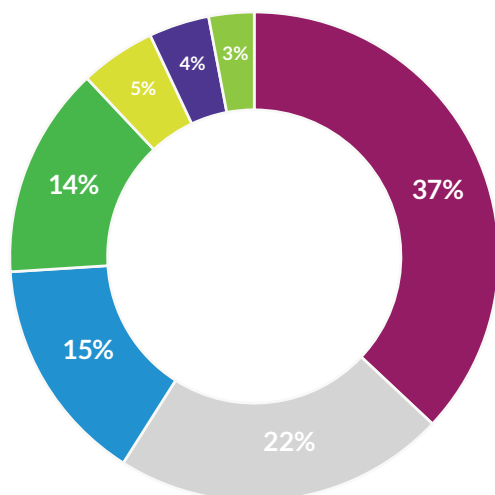
The quest for diversification?

Thirty-seven percent of acquisitions in 2017 were made by technology firms, with Accenture in particular showing absolutely no pause for breath as it expanded the scope of its services well beyond their traditional boundaries. However, Accenture's strategy is relatively unusual: Of all the acquisitions made by technology firms last year, 70% were of other technology firms. For all the talk in the technology services industry of building up their consulting practices, only 10% of their acquisitions were in this space.

The majority of tech companies, it seems, are happy to remain just that. But they can console themselves with the fact that, despite the huge growth opportunities associated with digital transformation, management consulting firms tend to buy—guess what?—other management consultancies.

Perhaps more interested in genuine diversification, audit firms continue to make up a disproportionate number of acquirers. That's not just the Big Four—in fact these firms were less active in 2017 than in the previous year: Their place is being taken by the increasingly acquisitive, second tier accounting firms.

Breakdown of acquiring company by type of business in 2017



- Technology/technology consulting
- Other
- Audit
- Management consulting
- HR consulting
- Strategy
- Digital agency

Securing a foothold in cybersecurity

Our research suggests that blockbuster consulting services share four features: they resonate in society as a whole, not just at the boardroom table; they're new issues, at least for the current generation of managers; there's hard evidence that if, as a client, you do something, you can have a concrete, even measurable, impact (otherwise, why bother?); and, finally, the types of consulting projects generated are substantial enough to generate significant fees for consulting firms (otherwise, why bother?). If your service ticks just three out of these four boxes, then it may generate some revenue in the short-term, but it won't create the long-term growth that a genuine blockbuster does.

And cybersecurity is a genuine blockbuster. It feels as though there are new incursions occurring everyday—and that's only the ones that we, as concerned consumers, hear about. It's a new issue: 10 years ago most of us had barely heard the term cybersecurity. We know that intervention can make a difference: We see daily reminders in our email inboxes. Solving these issues is big business.

And getting bigger... Although the list below isn't exhaustive, it's certainly illustrative of the types of cybersecurity firms being acquired. Some are dedicated cybersecurity firms, such as FusionX, which was bought by Accenture in 2015. But others have come to cybersecurity via defence systems or some other sector-specific heritage. Fortunately for the consulting industry, the constant appearance of new cyber threats means that there's an almost continuous stream of start-ups. Targeting the right acquisition therefore depends less on closing a deal with the one firm that everyone is after, and more on working out which of each new cohort has made the right decisions about where they focus, and on the extent to which their often fledgling software will survive the flight from the nest.

ACQUIRER	HQ	ACQUIRER MAIN BUSINESS	ACQUIREE	HQ	ACQUIREE MAIN BUSINESS
2015					
Accenture	USA	Technology consulting	FusionX	USA	Cyber security company
Atos Consulting	France	Technology consulting	Xerox ITO	USA	Outsourcing
Deloitte	USA	Audit	Herve Schauer Consultants	France	Assurance services
EY	UK	Audit	Los Alamos National Laboratory	USA	Govt agency
EY	UK	Audit	Mycroft	USA	Cyber security consulting
KPMG Australia	Netherlands	Audit	FirstPoint Global	Australia	Cyber security consulting
KPMG Finland	Netherlands	Audit	Trusteq Oy	Finland	Cyber security consulting
Solucom SA	France	Technology consulting	HAPSIS SA	France	Risk management/digital security
2016					
Accenture	Ireland	Technology consulting	Defense Point Security	USA	IT services
Accenture	Ireland	Technology consulting	Maglan	Israel	Cybersecurity advisory
Accenture	Ireland	Technology consulting	Redcore	Australia	IT management services
Aon	USA	Insurance and risk management	Stroz Friedberg	USA	Risk management firm
BDO	Belgium	Audit	SECOZ	Israel	Cybersecurity advisory
Blackberry	Canada	Smartphone manufacturer	Encription	UK	Cyber consulting
Deloitte	USA	Audit	Integrity-Paahi Solutions Inc	Canada	Cyber security firm
NCC	UK	Cyber security and risk mitigation expert group	Payment Software Company	USA	Cyber security, payment & compliance-related consulting
PwC	UK	Audit	Everett	Netherlands	Cyber security services and consulting
PwC	UK	Audit	Praxism	UK	Identify management
Quick Heal Technologies	India	IT consulting	Junco Technologies	India	Cyber security services
West Monroe Partners	USA	Business and technology consulting	Invoyent	USA	Business and technology consultancy
NCC	Manchester, UK	Cyber security and risk mitigation expert group	Virtual Security Research	USA	IT and cybersecurity services
2017					
Accenture	Ireland	Technology	Arismore	France	Cybersecurity advisory
Accenture	Ireland	Technology	iDefense Security Intelligence	USA	N/A
Altran	France	Innovation and high-tech engineering services	Information Risk Management (IRM)	UK	Technology (cyber security)
Booz Allen Hamilton		Management consulting firm	Morphick	USA	Cybersecurity firm
ECS Federal	USA	Technology consulting	InfoReliance	USA	Technology consulting
EY	UK	Audit	Open Windows IDENTITY	Australia	Technology consulting
Marsh & McLennan Agency	USA	Insurance broking and consulting	Bluefin Insurance Group	UK	Insurance broking and consulting
NXTKey Corporation	USA	Technology	Magnus Management Group	USA	Technology

Sorting the sheep from the goats

With that point in mind, we think it pays to be a bit more scientific when it comes to sifting through your potential targets. In fact, we're constantly struck by how often a discussion about a potential acquisition highlights dissension in the acquirer's ranks.

Because, in our experience, watching strategies fall apart isn't a particularly enjoyable spectator sport, we recently put together a set of eight questions we think organisations should ask themselves when weighing up what to do next.

We've included it here, not because they're perfect or definitive, but simply because we've seen them move the conversation on:

1 Growth potential

Is the target company operating in a higher than average growth market?

2 Incremental capabilities

Will the target company increase the skills/resources of the acquiring firm?

3 Incremental reputation

Will the target company strengthen the reputation of the acquiring company?

4 Intellectual property

Does the target company have special or unique IP?

5 Economic model

Does the target firm have equivalent or better economic metrics than the acquiring firm?

6 Talent model

Does the target firm have equivalent or better talent model than the acquiring firm?

7 Cultural fit

How likely is it that the people from each firm will be able to work together effectively in practice?

8 Openness to approach

Is the target firm likely to welcome an approach from the acquiring firm?

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