

COMMENT

Investment hotspots

John Clarke, from leading mid-market private equity investor LDC, highlights business services subsectors that are growing with the support of private equity

The economic contribution of the business services sector is not talked about enough. According to the UK's Business Services Association (BSA), the industry's £263bn turnover accounts for 8% of UK output and it employs more than three million people, based in every part of the country.

The sheer breadth of the sector may be why it sometimes is not viewed in the same way as other pillars of the UK economy. But while it is diverse, companies that operate in business services all serve a similar purpose. They support organisations with critical, often complex or non-core functions, creating efficiencies and freeing them up to focus on what they do best.

Based on our experience and the activity of our regional teams across the UK, we've identified two sub-sectors of business services as investment hotspots – professional advisory, and asset management and logistics.

Businesses in these sub-sectors are growing and driving M&A activity. They also tend to be more resilient, especially those that are tech-enabled. And we know, from experience, that private equity investment can significantly increase their value

25+

Business services investments completed by LDC

£2bn

Combined enterprise value of business services investments

138%

Average revenue growth for exited business services companies

£880m

Proceeds generated by exited business services companies

All figures since 2012

and deliver excellent returns for shareholders, even amid uncertain economic conditions.

Across the sector, we've invested in more than 25 business



John Clarke, LDC

services companies since 2012, with a combined enterprise value of more than £2bn. The businesses we've exited during the same period grew revenue by 138% on average and generated proceeds of £880m. We also helped these businesses to complete 40 bolt-on acquisitions during our partnerships.

We see buy and build as an increasingly attractive growth strategy in business services, given the opportunity created by the pace of tech advancement, including the adoption of AI and IoT.

As well as improving processes and efficiency, technology is

PROFESSIONAL ADVISORY

Professional advisory businesses are pursuing M&A activity to scale quickly and combine their capabilities, technology and people to offer a more comprehensive range of services to customers.

Independent Governance Group (IGG) is a great example. LDC's Birmingham team invested in the business in November 2020, when it was still known as Ross Trustees, to help the management team to expand their range of professional trustee and governance services.

In the last six months, the business completed a merger to become the UK's leading professional pensions and governance services provider, and made two acquisitions: Clarity Trustees, a professional pensions trusteeship and governance services firm; and Like Minds, a creative communications agency. This allowed IGG to significantly expand its network of regional hubs across the UK and offer new services to pension schemes and employers.

Speaking about LDC's investment, Andrew Bradshaw, CEO of IGG, says: "LDC's knowledge of our sector and presence across the UK has helped us to grow our business in a way that allows us to both take advantage of current increased demand for our services and achieve our long-term objectives."

making it easier to integrate businesses once acquired.

We also know that PE-backed businesses that demonstrate their ability to make and successfully integrate acquisitions, alongside delivering underlying organic growth, attract a higher premium at exit. ●

LDC is actively looking to invest in more business services companies and back ambitious management teams who are driving the sector forward. Read more at: ldc.co.uk/RDbusinessservices

IN ASSOCIATION WITH



ASSET MANAGEMENT AND LOGISTICS

Companies that provide equipment-as-a-service have a real opportunity to invest in the latest technology, and many are working with PE to access the funding and strategic support they need.

Cheshire-headquartered SRL Traffic Systems (SRL) invested heavily in innovation during a successful partnership with LDC. The firm's Manchester team worked closely with the business, which specialises in portable and temporary traffic equipment, to develop a targeted organic growth strategy.

Over the course of a two-year partnership, SRL opened a new innovation and technical centre of excellence, increased its manufacturing capability and moved to a new combined manufacturing base and head office. It also welcomed new senior hires and technical teams to drive new product development and the rollout of new technologies.

These steps helped SRL's management team to grow the business's revenue by 72% in two years, from £18.4m in FY19 to £31.6m in FY21. LDC exited the business in 2021, generating a 5.7x money multiple for LDC and an internal rate of return of 124%.

Richard Tredwin, former CEO of SRL Traffic Systems, says: "Our partnership with LDC helped us to achieve our ambitions and become a market leader in smart traffic technology. It was great to work with an investor with such a strong heritage in the North West and a deep understanding of the issues affecting our industry."

