

Sector Insight: UK Managed Print Services

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Sector Highlights

“THE NEXT 18-24 MONTHS ARE LIKELY TO SEE AN EXCITING LEVEL OF M&A ACTIVITY AS THE DRIVE TO CONSOLIDATION CONTINUES”

David Browne
Partner

UK MPS is currently a **hotspot** for M&A activity

Significant **private equity interest** attracted by recurring revenue streams, a growing market together with significant benefits of scale and cross/up selling

Highly fragmented market with an estimated **300** MPS businesses in the UK

Most MPS businesses are privately owned, generating **£1m to £10m** turnover and operating across one or two regions

Expected sector growth (in value terms) of **5% - 6%** per annum reflecting a reduction in overall volume but a move to higher quality colour

UK market estimated to be worth over **£1.7bn**

HP's acquisition of PE backed Apogee has proved to be a **catalyst for M&A activity**

Current trend of businesses moving away from in-house printing and adopting MPS

New entrants into MPS from managed services businesses

Market Overview

The UK MPS market is estimated to be worth £1.7bn with significant room for growth as businesses move away from the in-house printing market estimated at £4bn. The market is significantly fragmented with around 300 regional privately-owned business generating revenues of between £1m-£10m

The market is forecast growth of 5% per annum which is driven by the increased adoption of MPS. Whilst MPS businesses are seeing a reduction in revenues attached to spend on hardware sales, this is offset by the increased adoption of MPS

Typically business spend on printing services is fairly small (less than £10k per year) and not a primary target for cost cutting in businesses, in fact, businesses are attracted to MPS as costs are spread

The MPS business model is usually built on upselling further services to customers

UK MPS: Consolidator or Consolidated?

THE APOGEE EFFECT

The announcement in August 2018 of **the acquisition of Apogee**, the UK's largest managed print and document services provider, by HP has been a **catalyst for increased M&A activity** in the UK MPS sector

This also serves as an example of a successful private equity play as Equistone acquired Apogee in September 2016 for £185m and following 6 acquisitions (including Danwood in 2017), they exited two years later selling to HP for £380m. This has **validated the buy and build strategy, being explored by many PE funds looking at the sector**

Apogee currently have thousands of clients in the UK with a significant number of Canon, Ricoh, Kyocera and Xerox "machines in field" and the **acquisition by an OEM of such a large "multi-vendor" dealer network could lead other OEM's to follow suit** or be left behind. This is compounded by the possible move by HP to replace those machines with their own brand of devices sooner rather than later. This is contributing to increasing speculation that, as well as the dealer network, there will be further consolidation within the OEM market too - as an example, in September 2016, HP acquired Samsung's global printer business

CONSOLIDATION DRIVERS

In addition to the backdrop of a **fragmented market** and the significant benefits of scale, especially in maintenance and servicing, there are a number of other features of the sector which are now proving attractive to buyers

For a number of years, the sector has been overshadowed by fundamental concerns over the future of printers and the move towards a paperless office. Whilst there is less volume of paper, it is not going away and the reduction has been partly offset by **high quality, colour and differing sizing demands** and also a move to multi-function printers ("MFP")

High and growing profit margins (40% to 50% gross margins and 15%-20% EBITDA margins) are often **underpinned by 3-5 year service agreements** and high retention rates, providing strong visibility of future profitability and cash generation

In addition, often long standing and strong relationships with customers **could open the door to other managed office services opportunities** such as IT managed services, document management and telephony, leading to a more integrated offering. An increasing number of IT managed services businesses are either providing or seeking to provide a printer / document management service offering



UK MPS: Consolidator or Consolidated?

BUYER POOL

The active buyer pool includes:

- ▼ OEM's as they seek to protect and grow their route to market
- ▼ strong independent dealers looking to consolidate their position in terms of scale, geographical coverage and sector specialisms
- ▼ private equity attracted by the buy and build opportunity and potential future exit
- ▼ other office managed services businesses such as IT and telephony seeking access to relationships and to provide an integrated offering

Whilst most buyer categories are UK based there is some evidence of interest from European managed services providers, notably private equity backed businesses such as from France and The Netherlands although Brexit uncertainty will clearly be a drag on actual activity

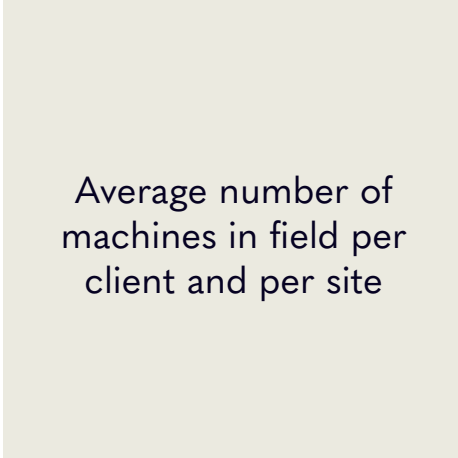
Business Features Attractive to Buyers



Recurring revenue



Number of clients and contract terms



Average number of machines in field per client and per site

Geographical coverage and dominance in that region



OEM - single or multi-vendor



Software solutions

Recent Transactions

PRIVATE EQUITY INTEREST

Recent private equity platform transactions in the sector such as Primary Capital's investment in ASL in June 2019, Connection Capital's investment in Mode in August 2018 and Horizon's investment in DMC Canotec in July 2018 are strong evidence of recent PE interest. These platforms have made further acquisitions in the last six months such as DMC Canotec acquiring United Carlton, CSL Business Machines, Condor Office Solutions and Systems Technology, and Corona acquiring BBT and Workflow

Until Equistone's investment in Apogee in 2016, there had not been many PE transactions in the sector for a number of years. This was partly driven by concerns over the future of printers and the drive to a paperless office, which has not been as extensive as originally expected

A number of further announcements of PE investment in the sector are highly likely in the short term

This activity has led a number of the larger dealer networks to seriously consider an exit as there are only a relatively small number of operators of a size to represent a meaningful platform business for a PE buy and build strategy

CORONA ACQUIRES



Supply and service of a range of print/copy solutions



Supply and service of a range of print/copy solutions



Hardware supply and document based software solutions



Hardware supply and document based software solutions

HORIZON PE BACKS



Managed print services and document management systems



Print managed software and audio equipment solutions



Supply and service of a range of print/copy solutions



Supply and service of a range of print/copy & bespoke IT solutions



Supply and service of a range of print/copy solutions

PARTNER COLLECTIVE INVESTS IN



Provider of managed print service and IT solutions

CONNECTIONS PE BACK MBO OF



Provision of hardware, software, remote and on-site support

HP ACQUIRES



Office equipment dealer, managed print services and document solutions

PRIMARY CAPITAL BACKS



Reprographic, print and document management solutions

Thinking of a corporate transaction within the next five years or simply want to know more?
Our specialist team are keen to hear from you



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