



U.S. Contact Centers

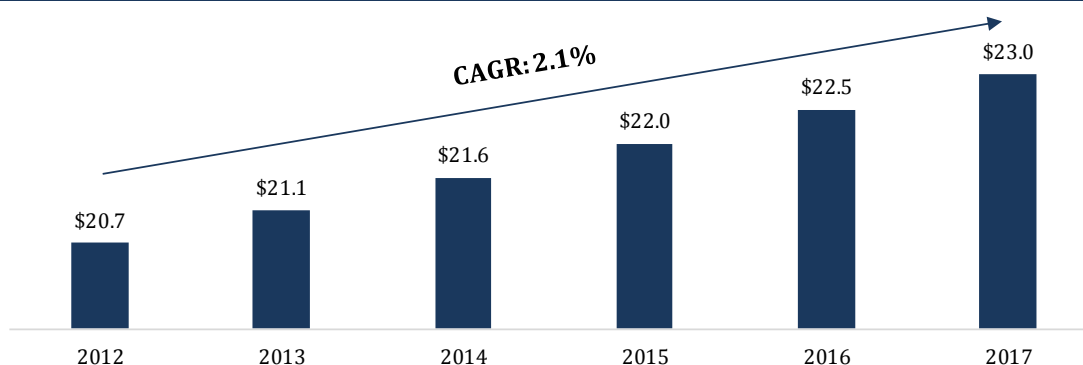


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U.S. Contact Center Industry

Contact center operations (“CCO”) are an integral operational component of service companies. CCOs handle a range of critical functions, including customer service, telemarketing, technical support, and debt collection. CCOs are utilized across several industries, from insurance and financial services to technology and telecommunications. Some business models, such as direct-to-consumer vehicle service contract (“VSC”) sales, are entirely dependent on contact center operations to originate sales and provide customer service. Players in the VSC sector, as well as several other industry verticals, currently “in-house” their contact center activities, presenting a compelling growth opportunity for the already large and expanding \$23.0 billion U.S.-based outsourced CCO market.

U.S. OUTSOURCED CONTACT CENTER MARKET SIZE (\$ in billions)



Source: Telemarketing & Call Centers - US Market Research Report, August 2017 (IBISWorld)

The U.S.-based outsourced CCO industry is growing due to several macro-level changes, from shifts in the U.S. economy to advances in technology and rising global labor rates. More companies are selecting onshore CCO solutions over offshore service providers as global labor rates continue to rise. Driven by geopolitical and socioeconomic dynamics, rising global labor rates continue to make offshore alternatives less economically attractive than in prior decades. In addition, advances in CCO technology allow agents to work remotely, placing additional downward pressure on real estate expenses associated with traditional brick-and-mortar contact centers. Finally, digitally-enabled consumers demanding multi-channel service options continue to push companies to recruit higher-skilled onshore agents capable of delivering complex customer service experiences through technology-driven solutions. The costs of installing and maintaining “higher -tech” CCOs are more predictable onshore versus offshore.

Colonnade has advised clients on the sale of businesses which include significant contact center operations. Several companies in the VSC industry are dependent upon CCOs, but do not currently outsource this function due to the complexity of VSC sales and customer service processes. Complex customer service issues are not limited to the VSC industry but span across sectors including: general insurance, financial services, technology and telecommunications, and health insurance. Several players in these industries continue to employ in-house CCO solutions, as illustrated below:

TOP 20 LARGEST INHOUSE CONTACT CENTERS IN THE U.S. (2016)

Company	Industry	Location	Estimated # of Employees
State Farm Insurance	General Insurance	Atlanta, GA	10,000
State Farm Insurance	General Insurance	Richardson, TX	8,000
State Farm Insurance	General Insurance	Tempe, AZ	8,000
Geico	General Insurance	Macon, GA	5,600
Fidelity Investments	Financial Services	Westlake, TX	4,400
Humana	Health Insurance	Louisville	4,000
Citibank	Financial Services	Irving, TX	3,500
Verizon	Telecommunications	Alpharetta, GA	3,500
Progressive Insurance	General Insurance	Tampa, FL	3,500
JP Morgan Chase	Financial Services	Phoenix, AZ	3,325
Bank of America	Financial Services	Phoenix, AZ	3,317
Blue Cross Blue Shield	Health Insurance	Richardson, TX	3,100
Liberty Mutual	General Insurance	Plano, TX	3,000
Florida Blue	Health Insurance	Jacksonville, FL	3,000
Citigroup	Financial Services	Tampa, FL	3,000
UnitedHealth Group	Health Insurance	Greensboro, NC	3,000
Citigroup	Financial Services	Jacksonville, FL	2,500
PayPal	Financial Services	Omaha, NE	2,250
USAA	Financial Services	Tampa, FL	2,000
T-Mobile	Telecommunications	Albuquerque, NM	1,529

Source: Site Selection Group, 2017

This segment of in-house contact centers presents a compelling growth opportunity for the U.S.-based outsourced CCO market. In addition, advances in technology will further enable U.S.-based CCOs to present a cost-effective option for large corporations that includes higher-skilled agents capable of addressing a variety of complex customer service issues. The result is a momentum shift toward U.S.-based outsourced CCOs, providing opportunities for continued growth, new entrants, and consolidation in this high-demand market.

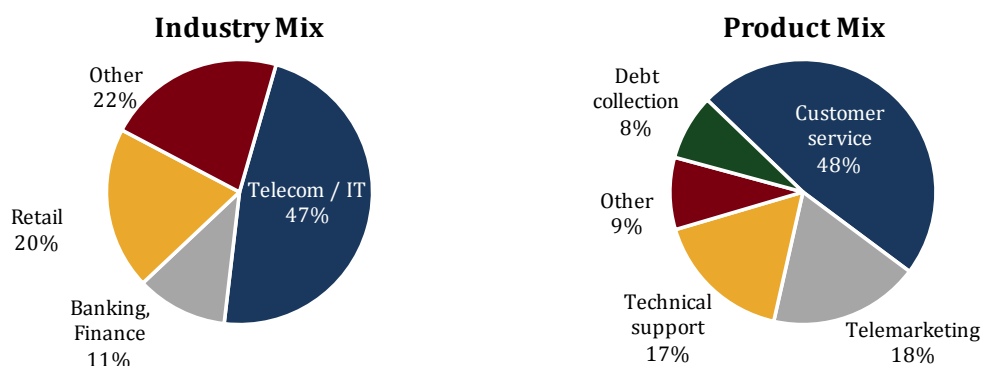
U.S.-based outsourced CCOs specialize in recruiting, training, and equipping agents to stay ahead of technological advances and changing consumer demands. This allows the companies using an onshore CCO to optimize the use of direct sales channels and enhance customer retention strategies. Growth of the U.S. CCO

industry has resulted from several macro-level shifts. We believe this growth, when coupled with economies of scale inherent in contact center operations and high levels of available capital, will drive further consolidation in the CCO sector.

MARKET OVERVIEW

The \$23.0 billion U.S.-based outsourced CCO market serves several industries. Telecommunications, banking, and retail are leading users, while other industries such as hospitality, healthcare, and insurance continue to grow. From a product mix perspective, customer service dominates the CCO market, followed by technical support and outbound telemarketing. Growth has been modest at 2.1% per annum from 2012 through 2017, but the CCO market is poised for continued expansion. Strong macro-economic indicators coupled with growth in the underlying fundamentals of end-consumer markets will drive demand for U.S.-based outsourced CCOs. This will create more job opportunities for higher-skilled agents as technological advances enable consumers to interact with companies through multiple channels to resolve complex issues.

U.S. OUTSOURCED CONTACT CENTER MARKET SIZE: \$23 billion



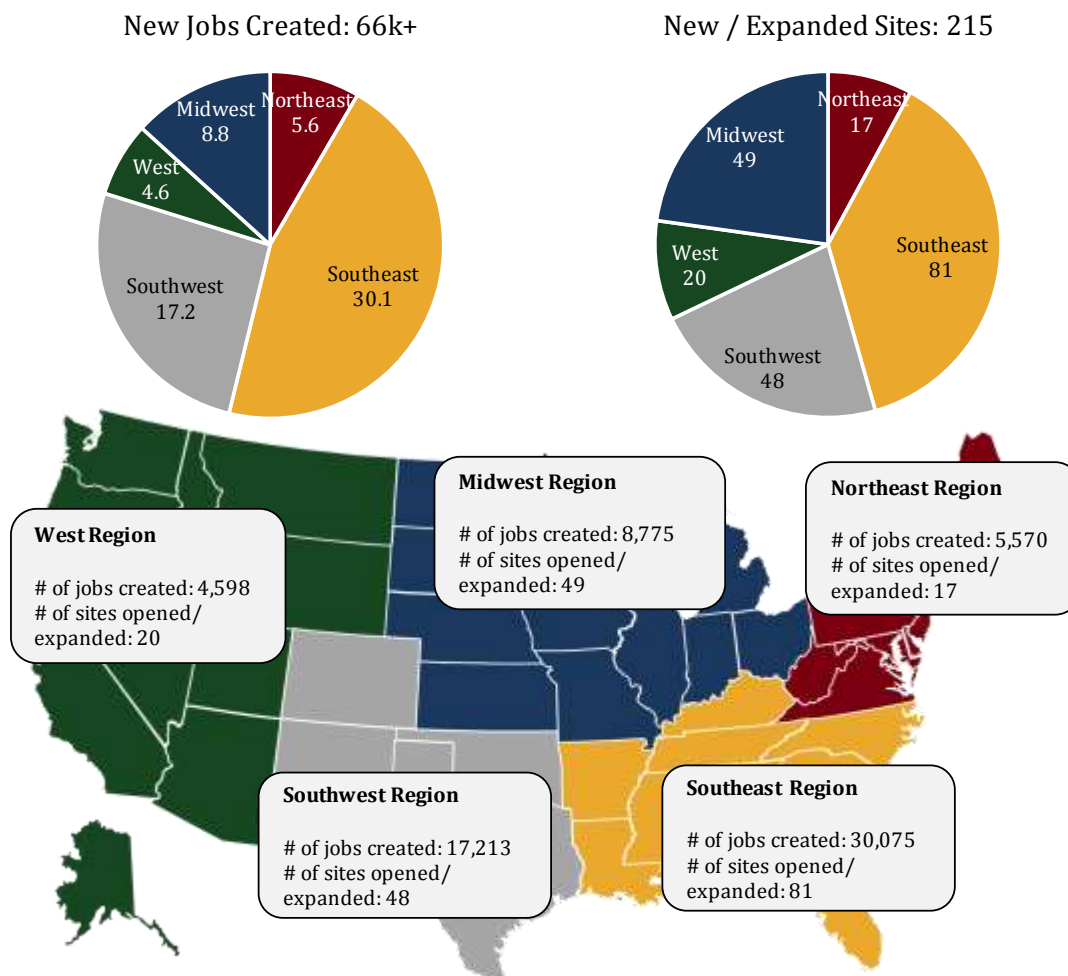
Source: IBISWorld research report, October 2016

INDUSTRY TRENDS

After decades of offshoring contact center operations to reduce operating expenses, several companies have been bringing CCO jobs back to the United States. This has occurred for a variety of reasons, including a renewed focus on customer retention strategies, advances in technology and changes in consumer demand for multi-channel customer service options. The “reshoring” of contact center operations has created tens of thousands of jobs and expanded hundreds of contact center sites across the country. According to location analytics expert *Site Selection Group*, the U.S. CCO industry created over 66.2 thousand jobs in 2017, up slightly from 66.1 thousand jobs the prior year. In addition, an estimated 215 sites opened or

expanded in 2017, down slightly from 223 new or expanded sites the prior year. Accounting for layoffs and site closures in 2017, net new jobs created increased 1.6% and net new sites declined 1.4%, suggesting a growing trend toward more remote agents working offsite. Geographically, the Southern states accounted for most of the growth in both number of new jobs and new sites opened or expanded.

NEW JOBS AND NEW / EXPANDED SITES BY REGION (2017)



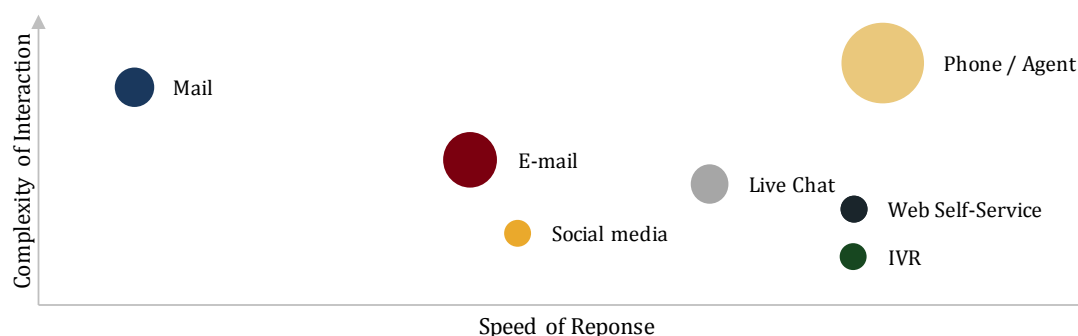
Source: Global Call Center Location Trend Report 2018 (Site Selection Group)

Several interrelated market dynamics continue to drive the resurgence of contact center operations in the United States, from changing consumer demands due to multi-channel service options to higher-skilled onshore agents capable of leveraging technological advances to drive operational efficiencies.

MULTI-CHANNEL COMMUNICATIONS AND THE CUSTOMER EXPERIENCE

As technology enables the diversification of communication channels between customers and corporations, multi-channel customer support options (including two-way social media) require higher-skilled U.S.-based agents capable of adapting to and fully addressing complex customer service demands. *Forrester* research indicates that 95% of customers use more than one channel to communicate with companies, and the digital shift in consumer contact methods, as well as the availability of multi-channel delivery and service options, will push companies to seek support from CCO service providers specialized in training higher-skilled agents. These agents are versed in a variety of technological resources that help resolve customer support issues, enhance customer retention efforts, and drive sales optimization strategies through cross-selling and up-selling opportunities.

MULTI-CHANNEL SERVICE EXPECTATIONS



Source: *The US Contact Center Decision-Makers' Guide 2016* (ContactBabel)

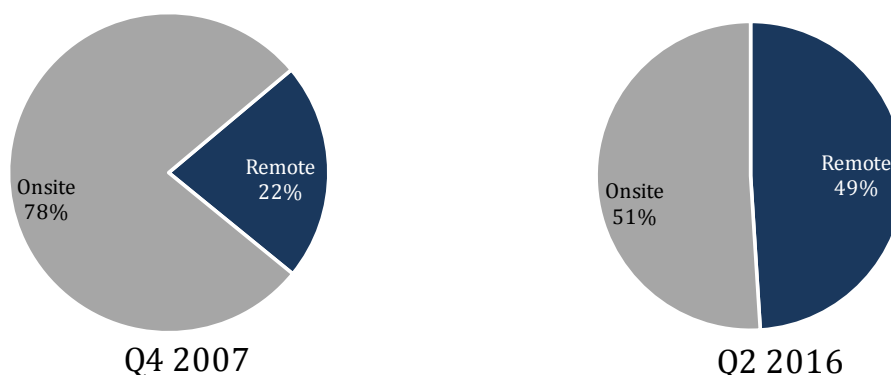
The chart above illustrates inbound contact channels based on relative importance measured by volume. Each channel is capable of handling interactions at different levels of complexity, and some channels have quicker response times than others. As the complexities of balancing multiple contact channels create strains on traditional in-house contact center operations, corporations seek the support of U.S.-based outsourced CCO service providers to increase effectiveness and reduce costs. Quality of customer service is increasingly crucial. *Accenture* reports 65% of customers are frustrated by inconsistent experiences across channels, and industry estimates report up to 85% of customers stop doing business with a company immediately following a poor customer service experience. As consumers demand and expect higher levels of service, CCO service providers will continue to provide a cost-effective option for companies looking to leverage higher-skilled agents capable of addressing the growing complexities of customer service issues.

TECHNOLOGICAL ADVANCES DRIVE OPERATING EFFICIENCIES

Technological advances in both CCO hardware and software will continue to lower the cost of contact center operations in the United States while costs related to implementing and maintaining these technologies in overseas locations continue to grow. In addition to increasing labor costs associated with offshore markets (some as much as 20% per year), advances in data analytics, voice recognition, call routing software and automation, continue to drive efficiencies of onshore CCOs. In addition, Voice over Internet Protocol (VoIP) technology has eliminated costs associated with pay-per-minute telecommunication plans, further reducing expenses related to contact center operations.

In addition, mobile and cloud-based solutions allow more domestic CCO agents to work remotely, streamlining the new agent hiring and onboarding process while reducing call center real estate expenses. *Forrester* research indicates 34% of U.S. corporations plan to invest in more remote agents, and the percentage of contact centers with remote employees has more than doubled over the last decade:

PERCENTAGE OF CONTACT CENTERS WITH REMOTE EMPLOYEES

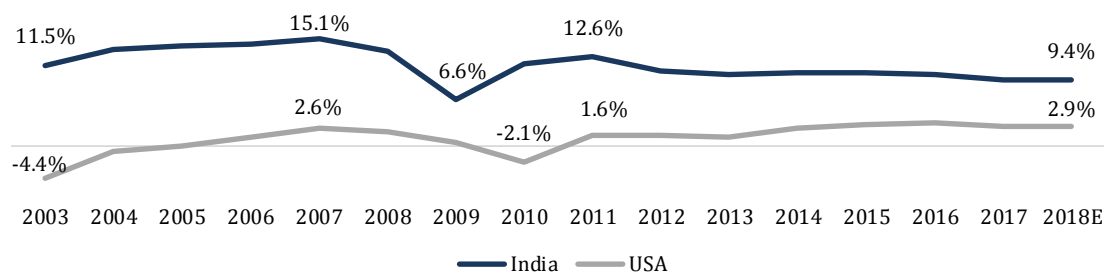


Source: *The US Contact Center Decision-Makers' Guide 2016 (ContactBabel)*

U.S.-BASED THIRD-PARTY CCO: A COST-EFFECTIVE SOLUTION

As technological advances drive multi-channel service options and operating efficiency of U.S.-based CCO agents, third-party CCOs provide a cost-effective option for companies that need call center services. Rising global labor rates, coupled with less stable geopolitical and socioeconomic dynamics in some overseas locations, continue to make onshore U.S.-based options more predictable and appealing.

YEAR-OVER-YEAR WAGE INCREASES, INDIA VS. U.S.



Source: Salary Increase Survey, Aon Hewitt (2018); National Association of Colleges and Employers

Companies that need call center services can gain access to state-of-the-art systems and a committed, experienced team of professionals by outsourcing this function to a qualified firm that specializes in recruiting, training, and equipping agents to stay ahead of technological advances and changing consumer demands. This allows the companies using an onshore CCO to optimize the use of direct sales channels and enhance customer retention strategies. Since contact centers are subject to economies of scale, the cost of outsourcing can be substantially lower than a company's in-house costs. We believe these economies of scale, coupled with high levels of available capital, will drive further consolidation in the already large and growing \$23.0 billion U.S.-based outsourced CCO market.

INDUSTRY PARTICIPANTS

The \$23.0 billion U.S.-based outsourced CCO market is fragmented and growing, creating room for new tech-enabled entrants. Some CCOs specialize exclusively in inbound or outbound services, while a majority of companies provide both services.

Inbound or Outbound	Both Inbound & Outbound		

RECENT TRANSACTIONS AND M&A OUTLOOK

Consolidation in the industry is accelerating, as the largest players continue to acquire well-performing, high quality regional and national players. Valuations range from 3.0x to 8.0x EBITDA, depending on size and industry niche. We also expect to see continued financial sponsor interest in the broader CCO sector due to compelling industry fundamentals and growth prospects.

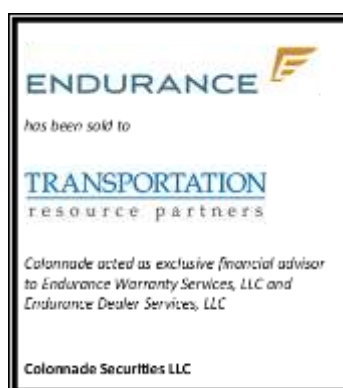
DATE	BUYER	SELLER	SELLER DESCRIPTION
Jan-18	Amazon	25% of StarTek's common stock	Customer engagement business process outsourcing company
Jan-18	West Corporation	PhoneTree	Automated appointment reminder services and patient communication software
May-17	Apollo Global Management	West Corporation	Global provider of communication and network infrastructure
Jun-17	GTCR	GreatCall	Mobile health and safety solutions for older adults and their family caregivers
Apr-17	TeleTech / TTEC Holdings	Connexions	Technology and business process outsourcing company
Jan-16	Owner Resource Group	GC Services	Accounts receivable solutions and customer care solutions to both public and private sector organizations
Aug-17	The Results Companies / One Equity Partners	USA800	Offers multi-channel call center services (voice, chat, email, text, social)
Nov-16	TeleTech / TTEC Holdings	Atelka	Comprehensive multilingual omni-channel contact solutions in addition to a complete line of business process outsourcing (BPO) services
Jun-16	Alorica	Expert Global Solutions	Global customer service organization, delivering leading outsourced solutions, for customer and financial care
Jun-16	The Results Companies / One Equity Partners	Corporate Call Center (Guardian Capital Partners)	Teleservices and call center company; provides business process outsourcing services
Jun-16	NewSpring Capital	Advanced Call Center Technologies, LLC ("ACT")	Contact center and back office support services
Apr-16	Sykes Enterprises	Clear Link Holdings	Provides marketing, sales, and technology services for various brands
Apr-16	Qualfon	Center Partners; Culture.Service.Growth (CSG)	Customer interaction company that specializes in providing complex, high-touch services
Jul-16	Concentrix (SYNNEX Corporation)	Minacs	Outsourcing business solutions partner to global corporations
Aug-16	Zeta Interactive	Acxiom Impact	Data-driven, one-to-one email, and cross-channel marketing solutions for enterprise marketers
Aug-15	Send Word Now	One Call Now	Mass messaging services
Nov-15	The Results Companies / One Equity Partners	TLK Group (merger)	Provides call center services focusing on cable telecommunications industry
Sep-15	DealNet Capital Corp	Gemma Communications	Provides outbound and inbound sales, e-commerce support, customer care and many other services to US and Canada
Nov-15	One Equity Partners	The Results Companies	Provides contact center customer service and sales solutions to Fortune 500 companies
Nov-15	Zeta Interactive	CRM division of eBay	Customer relationship management services for eBay customers
May-15	StarTek	ACCENT Marketing Services	Performance marketing services, contact center services, and customer engagement solutions
Jan-15	Alorica	West Corporation's Agent Services Businesses	Provides communication and network infrastructure
Jan-14	Convergys Corporation	Stream Global Services	Provides business process outsourcing services
Sep-13	SYNNEX Corporation	IBM's CRM BPO Business	Customer relationship management services for IBM customers
Sep-13	Enhanced Recovery Co. (ERC) / RLJ Equity, Carlyle Group	TMone LLC	Call-center specializing in assisting companies with outsourcing database and customer relationship management
Mar-13	Qualfon	Data Control Group (DCG)	Specializes in back-office processing for the title, mortgage, banking, insurance, and a variety of other industries
Jul-13	TeleTech / TTEC Holdings	WebMetro; Technology Solutions Group	Designs and implements custom communication solutions and systems for large enterprises, and small and medium-sized businesses
Jul-12	Sykes Enterprises	Alpine Access	Provides virtual and home based call center services
Sep-10	Hunstanton Gay	iQor	Provides business process outsourcing in five countries
Feb-10	Sykes Enterprises	ICT Group	Provides outsourced customer management and business process outsourcing (BPO) solutions worldwide

Source: SEC filings, press releases

CONCLUSION

The U.S. contact center operations market is experiencing steady growth as a combination of cost shifts, technology advances and drive for quality service alters the decision-making equation for firms that need CCO services. The domestic CCO outsourcing market is populated with dozens of firms that are segmented by a combination of function (customer service, direct marketing, debt collection, etc.) and/or industry (health services, non-profit fundraising, education services, insurance, etc.). This fragmentation provides private investors with multiple opportunities to participate in the sector and presents inorganic growth opportunities for existing industry participants. We expect robust acquisition activity over the next eighteen months as financial and strategic buyers seek out opportunities to benefit from the favorable dynamics of the U.S. CCO market.

COLONNADE TRANSACTIONS



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