Hunting growth

New ways to create value in B2B information and data services

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> Some far-sighted B2B companies have recognized the potential to deliver greater value by providing targeted, sophisticated, technology-enabled insights that empower clients to be more productive and win new business.

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Introduction

"This enhanced business model has the potential to significantly increase valuation multiples of B2B businesses, which should sustain investment returns for the longer term."

The B2B information and data services sector ('B2B') has produced impressive returns in recent years, but forecasts suggest further revenue growth will be harder to achieve.

In this paper we consider what B2B companies should do to find new revenue growth and achieve premium valuations.

We highlight the potential to deliver greater value by providing targeted, sophisticated, technology-enabled insights that empower clients to be more productive and win new business.

Such an approach blurs the line between provider and buyer. B2B providers can become a more integral and indispensable part of their clients' decision-making processes, rather than just purveyors of 'useful' information.

This enhanced business model has the potential to significantly increase valuation multiples of B2B businesses, which should sustain investment returns for the longer term.

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An attractive asset class

For some time, B2B information, data and media companies have remained attractive to institutional investors in public equities, as well as private equity funds eager to back primary, secondary and even tertiary buyouts. In an environment disrupted by digital technology, the sector has been one of the most resilient asset classes within the wider technology, media and telecommunications (TMT) space.

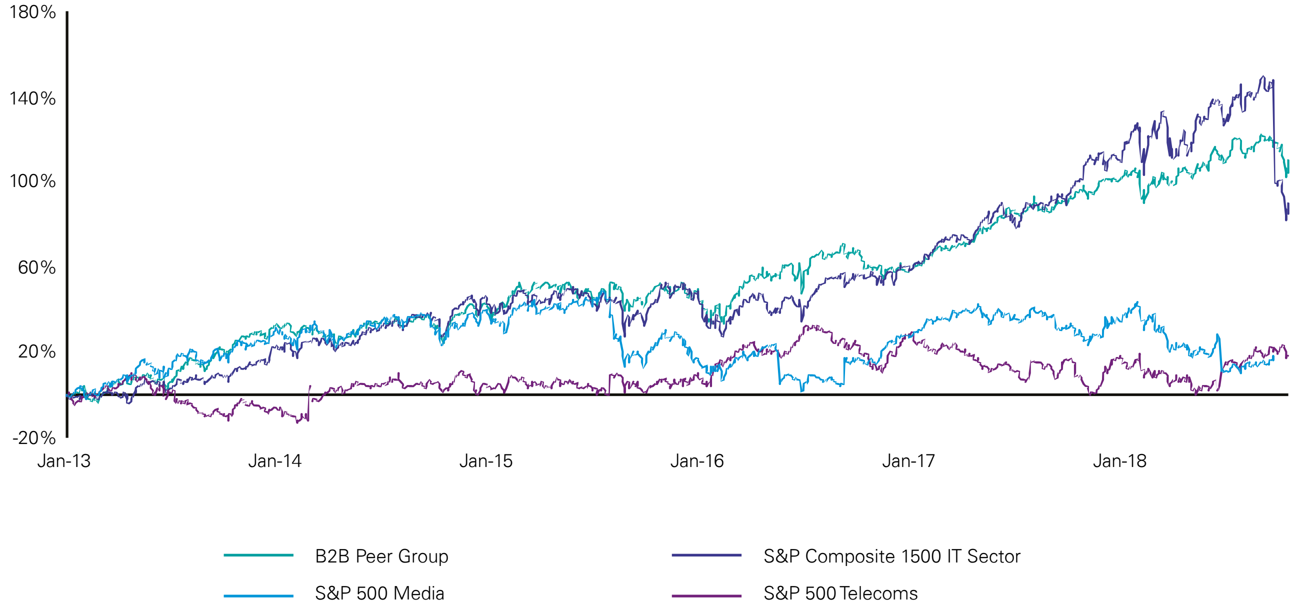
B2B services play a vital role in supporting both day-to-day and strategic decision-making in industries like banking and capital markets, asset management, energy and natural resources, infrastructure, life sciences, and automotive among others. Business services typically include macroeconomic and industry analysis, business intelligence, market forecasting, pricing databases, indices, rankings, risk reports, as well as exhibitions, conferences and industry awards.

The past five years have seen investors in the B2B sector enjoy particularly strong returns thanks to the very attractive economics of this asset class.

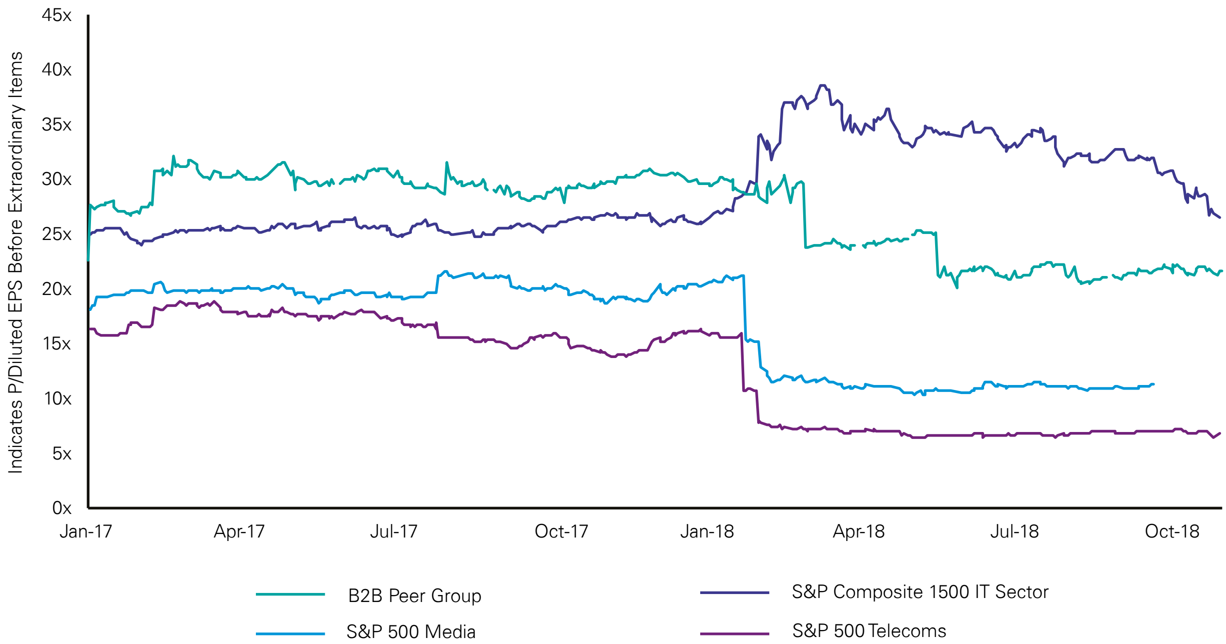
Private Equity (PE) houses in particular are keen on the recurring revenue streams, high operating margins (often as much as 40-45 percent of revenues), low capital intensity, and strong cash conversion (typically 90-110 percent of EBITDA). Furthermore, there has been an abundance of smaller players – valued at less than US$50 million each – which are typically acquired via ‘bolt-on’ M&A deals to build scale and drive inorganic growth.

Valuations have soared as a result, with price/earnings (P/E) ratios of B2B companies consistently higher than the average for the TMT sector as a whole. Indeed in the past two years P/E levels have been closer to those of the high-growth technology sector.

Market Capitalisation of B2B Information Services vs TMT Sector[i]
(Jan-13 to Oct-18)



P/E multiples of B2B Information Services vs TMT sector[ii]
(Jan-13 to Oct-18)



B2B Peer Group comprises Thomson Reuters, RELX Group, Informa, UBM (pre-Informa acquisition), Euromoney, Wolters Kluwer, Ascential, S&P Global, Centaur Media, Wilmington, IHS Markit and Verisk Analytics

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Dealing with the growth-headwinds

Future B2B sector growth is predicted to be low single-digit in aggregate, especially in Western markets. This could lead to an increasing polarization of valuations between 'growth firms' – those with healthy organic revenue progression – and 'yield plays', where the revenue upside is limited and profitability rests mainly on controlling costs.

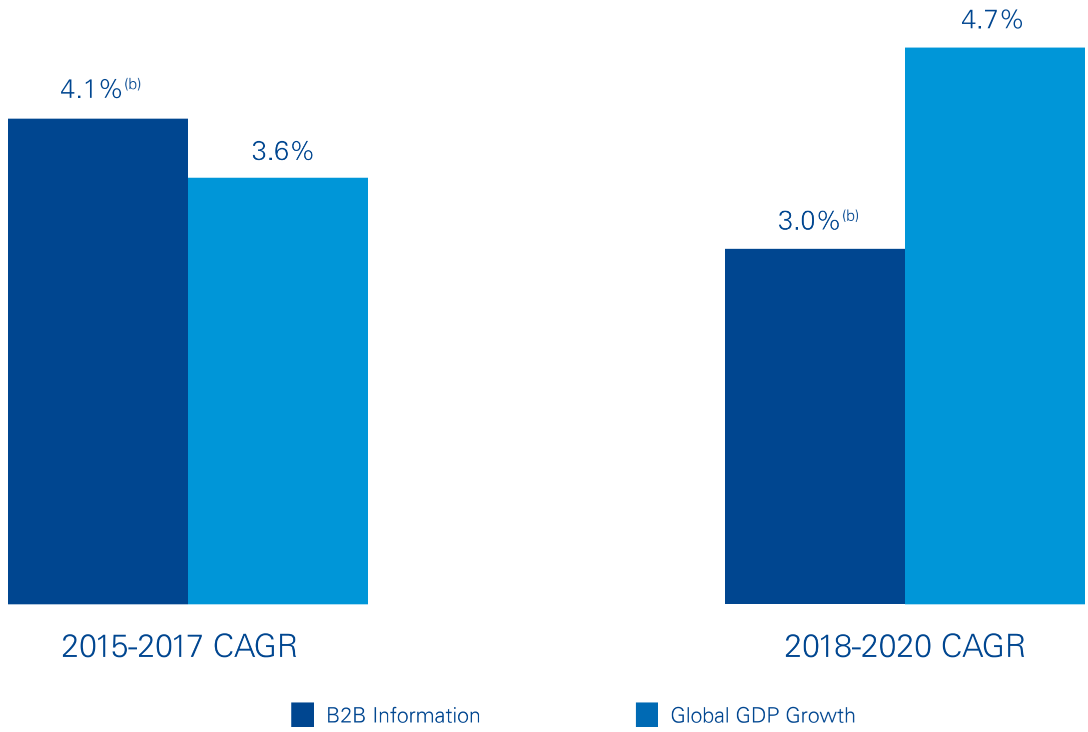
At a micro level, opportunities in some sectors are less certain than before: new regulations like MiFID II in financial services and asset management could affect customers' spend in B2B services; while pronounced market cyclicality in metals, commodities and oil and gas may limit the budgets available to buy B2B services, especially those of a more discretionary nature.

By its sheer nature, B2B information is designed to serve niche communities and sooner or later the addressable market is likely to be exhausted. For example, in the information market for infrastructure investing, there are only an estimated 10,000 practitioners potentially interested in relevant news, insights and conferences.

This suggests that simply doing more of the same is unlikely to bring organic revenue growth. Market saturation may indeed occur if B2B firms fail to sufficiently embrace digitization and product innovation. Overall, there is still a strict boundary between the (traditional) information industry and its customers. As we discuss in the next section, such a state of affairs is not inevitable, and some players are already developing exciting new business models.

> "By harnessing the latest digital technologies, there is an opportunity to reposition themselves in clients' value chains, offering more insightful information solutions to bring competitive advantage."

B2B Information sector growth is slowing down to below GDP[a] levels [iii,iv,v]



Note: (a) Nominal growth rates

(b) Growth rate taken as an average of estimates from Burton-Taylor International Consulting and Outsell

The 'Golden Iceberg' opportunity to unlock new revenue

The B2B market as we know it may be facing growth-headwinds, but there is an untapped opportunity.

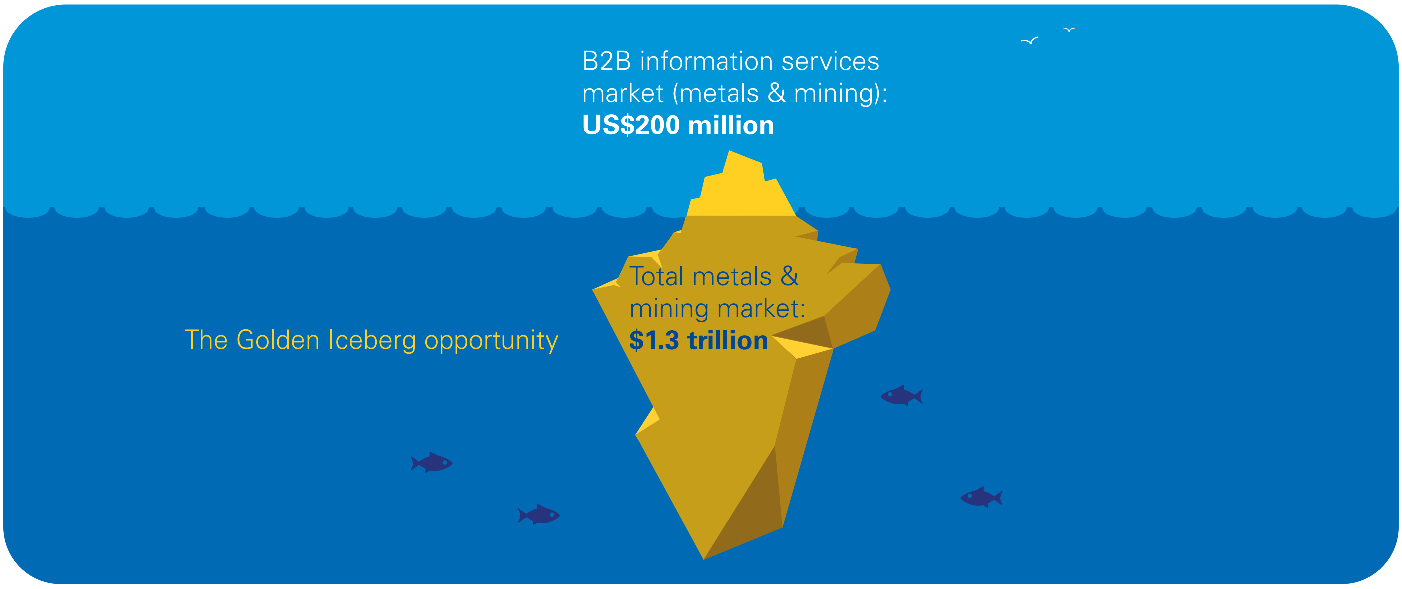
Consider the addressable market for traditional business information companies, which is only a small fraction of the size of the various industries it serves. The information market for metals and mining, for example, is worth about US$200 million, but the total metals and mining industry is estimated at close to US$1.3 trillion.[vi, vii]

We call this the Golden Iceberg opportunity: redefining the B2B business model and innovating the service offering to capture a piece of the wider revenue pool. To achieve this, B2B companies should intensify their digital transition and rethink their role in the customer's value chain, evolving their services to become a more integral part of the decision-making process.

New content navigation technologies such as semantic search, machine learning and artificial intelligence (AI) enable better user experience (UX/UI), higher customer productivity and lower cost of delivery. The development of sophisticated digital products that can save costs and help customers spot and win profitable business should translate to new, bigger revenue pools where B2B providers enjoy high 'stickiness' and super-premium pricing power.

This means adopting analytical new product development (NPD) frameworks that combine sector insight with digital technology savvy.

The type of solutions offered should depend upon the starting asset base (i.e. brands and industry recognition, market access to buyers and sellers within an industry, customer data, transaction data, etc.) and the extent to which the B2B business is subscription-based (i.e. customer funded) or largely advertising/sponsorship funded. For each starting point, the ability to develop differentiated solutions and charge customers premium rates for new services may vary.



To innovate the B2B offering and address this exciting market opportunity, we recommend a four-step approach:

1. **Study the end-markets:** (i.e. commodities, asset management, life sciences, automotive, etc.) with an analytical strategic lens. This should help to develop a point of view on the sector's outlook, the regulatory developments, the nature and level of fragmentation of buyers and sellers, the degree of technology adoption and value chain digitization, and the expected flows of capital
2. **Identify the micro-workflows in the supply chain:** by understanding the day-to-day activities of the customers and zooming in on their current and prospective pain points (e.g. recent regulations in certain industries are creating entirely new business information and analytics needs)
3. **Define clear use cases:** that can be addressed more efficiently and more holistically. This involves integrating and augmenting existing assets (e.g. sector-focused brands, access to buyers and sellers, static information databases) with digital technology for information sourcing, sorting and visualization, and with external expertise (from financial, legal and technical analysts)
4. **Develop a 'minimum viable product':** launch, develop and continuously improve, and pursue co-development initiatives with influential, cutting edge customers.

Such an approach could yield significant financial rewards by increasing the value of next-generation B2B companies vis-à-vis traditional B2B providers.

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Creating value through digital 2.0

Transforming B2B businesses through digital & business model innovation

	Traditional	Digital 1.0	SAAS information publisher
Profitablity	15-18%	20-25%	>40%
Core products	**News stories**	**Analysis & data**	**Workflow solutions**
Subscription revenues	**0-10%**	**30-60%**	**>75%**
Contract value	**<$2,000**	**$2,000-$20,000**	**>$30,000**
Sales growth	**-5/0%**	**+1/4%**	**+15/20%**
Trading multiple (EBITDA)	**5-7x**	**8-13x**	**>17x**

Source: KPMG analysis

The information-hungry financial services sector has been an early adopter of sophisticated digital workflow solutions, with many 'B2B 2.0' information providers taking their business information provision to the next level, as the following examples demonstrate:

- **Reorg Research,** a US-based firm providing real-time information and actionable insights on the leveraged-finance markets and distressed debt situations. Through an innovative combination of skilled financial journalists, credit analysts and covenant lawyers, augmented by AI and machine learning technology, the company delivers money-making insights through an efficient and scalable operating model. In 2018, Warburg Pincus acquired the business for approximately US$400 million – 20 times its earnings.[viii]
- **Macrobond,** a Swedish company offering macroeconomic time series to central bankers, chief economists and academic researchers. Although other B2B businesses provide similar data, Macrobond goes considerably further by enhancing the user experience and customer productivity. Its digital platform enables dynamic 'what if?' scenario analysis and highly visual charts that can be viewed in PowerPoint and easily integrated with forecasting models. As a Software-as-a-Service platform ('SaaS'), this kind of business model promises attractive stable revenues and loyal customers, hence the 2018 acquisition by PE group Nordic Capital for an undisclosed sum.[ix]
- **eVestment,** an Atlanta-based company delivering a broad range of performance indicators to benchmark different asset managers across regions and asset classes, for use by pension funds, pension consultants and asset managers. The datasets are uploaded by asset managers via automated software tools, and subsequently accessed by pension funds whose navigation becomes a dataset in itself, which can be sold back to the asset managers to help develop new funds offerings. In this virtuous cycle of contributing information, different communities retrieve relevant components of data from the same database. In 2017, NASDAQ acquired this business for US$705 million – a multiple of more than 20 times earnings.[x]

Leading the drive for value: closing thoughts for CEOs

The B2B information services sector has been a source of high returns for financial investors, but to continue rewarding its shareholders it should open up new revenue pools in an otherwise maturing industry. This involves transforming from essentially news and storytelling organizations into technology-enabled workflow data businesses that play more integrated roles in the daily lives of their users.

As the case studies show, value no longer comes from simply producing information. Indeed, Macrobond, to name just one, often gathers data from publicly available sources like economic research centers and government agencies, but it adds great value to its users by dramatically increasing their productivity.

To become a future winner in a dynamic sector, B2B companies need to consider the following:

- Take a highly analytical approach to the end markets served, to better understand the key current and upcoming business challenges. Build closer relationships with actual and potential clients to get under the skin of their businesses and come up with bespoke solutions
- Develop a capability to gather, manipulate, enrich and visualize data and analysis from a variety of structured and unstructured sources. This is likely to involve significant investment in AI and machine learning, along with data science experts that understand traditional as well as alternative data, and can work with technology
- Shift the culture from information provision to problem-solving, introducing measures that link the solutions provided directly to clients' business performance – and rewarding staff for achieving such targets. This is quite a leap from existing cultures based primarily on sales, and requires strong, focused leadership
- Evaluate the role of venture partnerships to extend the in-house digital capabilities. The world of Info-Tech ventures is full of 'solutions in search of a problem'. B2B executives can use this to their advantage; once they have developed deep insights into what problems they are trying to solve for their clients, they can harness those external capabilities through smart commercial and financial partnerships. These are often preferable to outright acquisitions of early-stage businesses, which can be risky and expensive.

For those that get it right, enterprise valuations approaching 20x EBITDA will be the well-deserved reward.

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Notes

Notes

About the author

Alfonso Marone is an Advisory Partner with over 20 years of experience in deals and value creation in the global Technology, Media, and Communications sectors. He works with investors and executives to shape complex value creation programmes based on buyouts, M&A, digital innovation, operational improvement, and international expansion. Prior to KPMG, Alfonso served as Chief Development Officer and Executive Committee member of Euromoney Institutional Investor PLC and as Board Director of Dealogic, a SaaS platform for the investment banking sector. Earlier on, he held senior roles at major TMT companies including NBCUniversal (Comcast Corp) and O2, was a Partner & Head of Private Equity at Spectrum Strategy Consultants and advised PE houses on TMT deals of over $10 billion. He holds an MBA from INSEAD and a Master's degree in Electronics & Communications Engineering from the University of Rome.

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[vi] World's largest mining companies deliver impressive 2017 financial performance, Global Mining Review, 6 June 2018. https://www.globalminingreview.com/finance-business/06062018/worlds-largest-mining-companies-deliver-impressive-2017-financial-performance/

[vii] The oil market is bigger than all metal markets combined, Mining.com, 10 September 2017. http://www.mining.com/web/oil-market-bigger-metal-markets-combined/

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[ix] Nordic Capital Buys Data Platform Macrobond, Private Equity News, 10 August 2018. https://www.penews.com/articles/nordic-capital-buys-data-platform-macrobond-20180810

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