William Blair has recently completed two transactions for leading, independent cloud services providers that resulted in attractive revenue-based multiples for the companies. In June, OneSource Virtual, an innovative business-process-as-a-service (BPaaS) provider and Workday services partner, received a $150 million minority equity investment from Technology Crossover Ventures. On September 17, Fruition Partners, one of only four ServiceNow Master Solutions Partners dedicated to the ServiceNow platform, was acquired by CSC.

In this article, we explore the key themes and value drivers that allowed OneSource and Fruition to generate such strong interest from strategic acquirers and financial sponsors.

Value Drivers for OneSource and Fruition

OneSource and Fruition have business models and large, scalable teams of proven consulting talent that made the companies highly attractive to strategic acquirers and financial sponsors alike. Throughout the transaction processes, the following themes played a large role in driving value for OneSource and Fruition:

Talent at scale:
As two of the largest independent cloud services providers for their respective applications in terms of number of consultants, OneSource and Fruition have deep pools of a very scarce asset: application- and project-specific expertise. Creating a Workday or ServiceNow practice of scale from scratch or even expanding an existing team would be extremely difficult for a global services firm to accomplish given the tight market for consultants with experience in these applications.

The attractiveness of OneSource's and Fruition's human capital is further enhanced by the companies' proven training programs. OneSource's and Fruition's training curriculum allow the companies to hire smart, IT-savvy “athletes” and quickly train them in the nuances of the respective applications and project types.

Financial sponsors view these training capabilities as an important part of the growth and scale road map. Strategic acquirers also view training as a tool.
for converting existing personnel into Workday or ServiceNow experts with higher bill rates.

**Focus on single-application ecosystem:**
Unlike cloud services firms that work across multiple SaaS applications, OneSource and ServiceNow focus on just one application. This narrow focus helps drive value for strategic acquirers because it allows them to make highly targeted acquisitions that do not overlap with the existing portfolio. When evaluating a multi-application provider, a global services firm knows that the target company’s expertise, people, client base, and assets likely represent some degree of redundancy with the acquirer’s existing practices. Single-application firms like OneSource and Fruition, however, allow acquirers to address directly any holes in the acquirers’ lineup. This makes for a compelling value proposition for the buyer.

**Client relationships and project referenceability:**
When acquiring a cloud services provider like OneSource or Fruition, a global services firm is buying more than just people and expertise. The acquirer is also buying the target’s client relationships, a portfolio of completed projects, and all the other intangibles that are necessary to continue growing the practice. By instantly becoming a top service provider for a specific application, the acquirer also gains enhanced clout with the application provider, which sets the stage for expanding the relationship.

**Transition to managed services:**
OneSource and Fruition have experienced impressive growth in their managed services offerings. Providing ongoing support of the applications on an outsourced basis creates a recurring revenue stream out of what would otherwise be a one-time implementation project. In addition to offering high margins and lessening the pressure to constantly rebuild the customer pipeline, managed services provide enhanced visibility and strategic integration with the client’s workflow environment.

An effective managed services offering is also critical to the application providers like Workday and ServiceNow. Given the rapid growth of SaaS solutions, talent is scarce and new clients often struggle to hire and retain talent with experience in these new solutions. A managed services offering from a trusted partner ensures that new clients of application providers will be able to use, customize, and maintain the application effectively and efficiently, leading to satisfied clients and high retention.

**Access to broader, transformational projects:**
A Workday or ServiceNow implementation is often part of a larger project or enterprise initiative that involves significant transition and disruption within the client’s IT or overall business environment. Part of the reason why acquirers, particularly strategic acquirers, are able to justify such high multiples for companies like OneSource and Fruition is because being able to handle a Workday or ServiceNow implementation provides a valuable foundation for the client relationship. From this foundation, a global services firm can gain awareness of and access to the larger transformational spending.

**Margin-enhancing intellectual property:**
Traditionally focused on delivering multiyear ERP or CRM implementations that often generate millions in revenue and high consultant utilization, some global services firms have struggled in

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**The Buy-vs.-Build Sweet Spot**

When global services firms evaluate opportunities to expand their cloud services offerings, deal size plays a large role in influencing the company’s buy-vs.-build decision. For strategic acquirers, the target needs to be large enough that it moves the needle but the transaction size must be within a range that acquiring the capability still makes more sense than building it internally.

For fast-growing cloud services firms that have not yet achieved profitability, we believe that this sweet spot generally ranges from $75 million to $250 million of enterprise value. For more mature companies where profitability and margin enhancement are part of the acquirer’s investment thesis, the upper range of this sweet spot can be significantly higher.
cloud services projects related to applications such as Workday or ServiceNow, which often are much shorter in duration and frequently generate less than $1.0 million in fees. These projects of diminished scale require more efficient deployment and utilization of consulting resources as well as IP to enhance per project margins.

OneSource and Fruition have developed proprietary “accelerators” that allow the companies to streamline the implementation process by productizing many of the common, initial project elements. These accelerators provide important efficiencies and margin enhancement for projects of this size.

OneSource and Fruition are also at the forefront of delivering solutions that allow clients to integrate applications with other pieces of their IT and operating environment. OneSource’s proprietary technology, Atmosphere, provides Workday clients with real-time, in-application service delivery of outsourced human resources functions. Fruition has focused on helping clients fully unlock the value of ServiceNow by linking the platform to other applications.

M&A Interest Beyond the Usual Suspects

Traditionally, when a cloud services company went on the market, the pool of potential buyers was composed primarily of global IT and outsourced services firms. Lately, however, the sources of interest in cloud services opportunities have broadened, and this has made M&A processes in the industry even more competitive and dynamic.

Faced with increased competition and shifting market conditions in their traditional business lines, companies with a legacy focus on infrastructure or telecommunications are thinking about adding cloud and other IT services to their business offerings. Value-added resellers of IT solutions are also looking to establish more strategic relationships with clients through cloud and other services. Lastly, large staffing firms, particularly those with a focus on and competency in IT, are becoming more active in processes as they look to expand the scope of their client relationships.

To learn more about the evolving M&A and financing market dynamics in cloud services, we invite you to contact us.

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Workday and ServiceNow: Large, Rapidly Growing Cloud Ecosystems

OneSource Virtual’s and Fruition Partners’ focus on single application ecosystems that are experiencing rapid growth, Workday and ServiceNow, respectively, was a significant value driver for OneSource and Fruition.

<table>
<thead>
<tr>
<th>Annual Revenue (Millions)</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
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<tbody>
<tr>
<td>ServiceNow</td>
<td>$100</td>
<td>$250</td>
<td>$500</td>
</tr>
<tr>
<td>WorkDay</td>
<td>$250</td>
<td>$500</td>
<td>$750</td>
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</tbody>
</table>

Source: Workday and ServiceNow 10-K reports. Note: Workday’s fiscal year ends on Jan. 31; the 2014 figure represents revenue for the 12 months ending on Jan. 31, 2015.