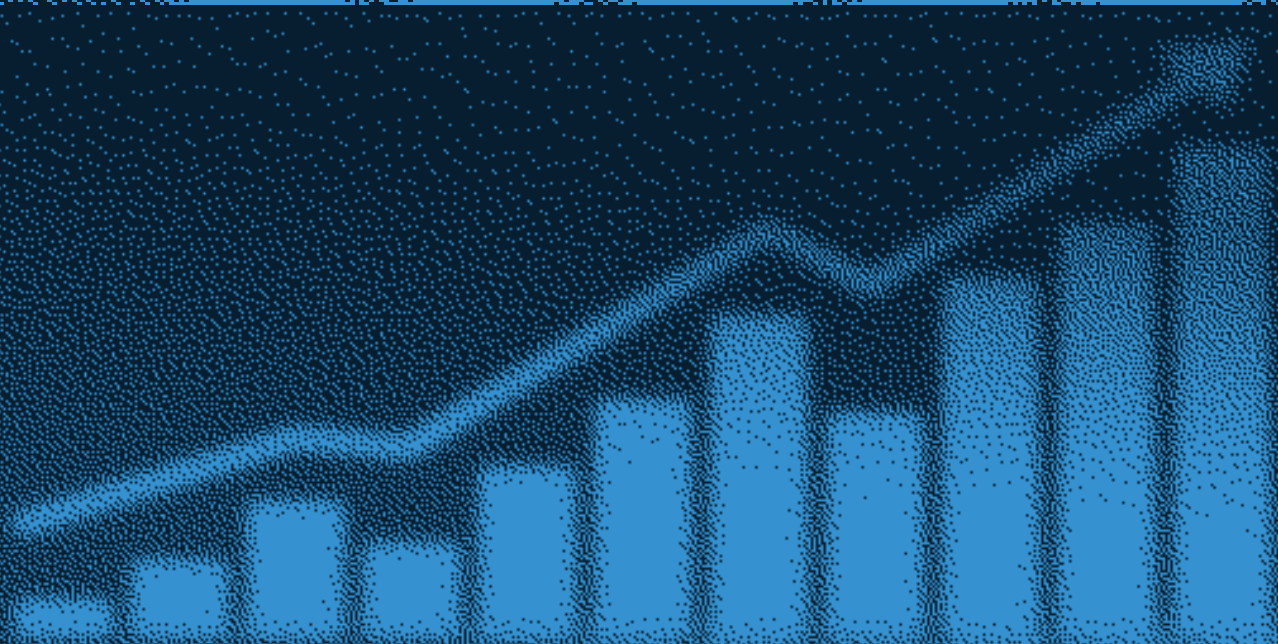




Grow  
Intelligently

# The Precision Premium:

How Business Services Firms Turn Coverage Intensity into Competitive Advantage

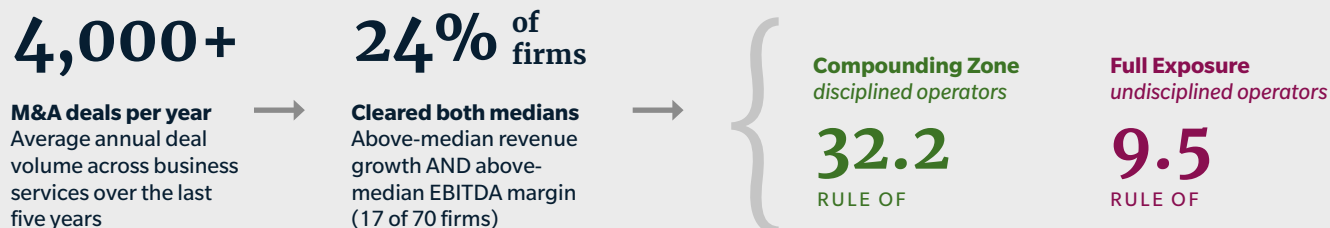


# The Precision Premium:

Most business services firms expanded their markets without expanding their returns. The difference comes down to two questions about every expansion move.

## EXECUTIVE SUMMARY

M&A activity in business services remains high but returns aren't following. The gap between disciplined and undisciplined operators is widening.

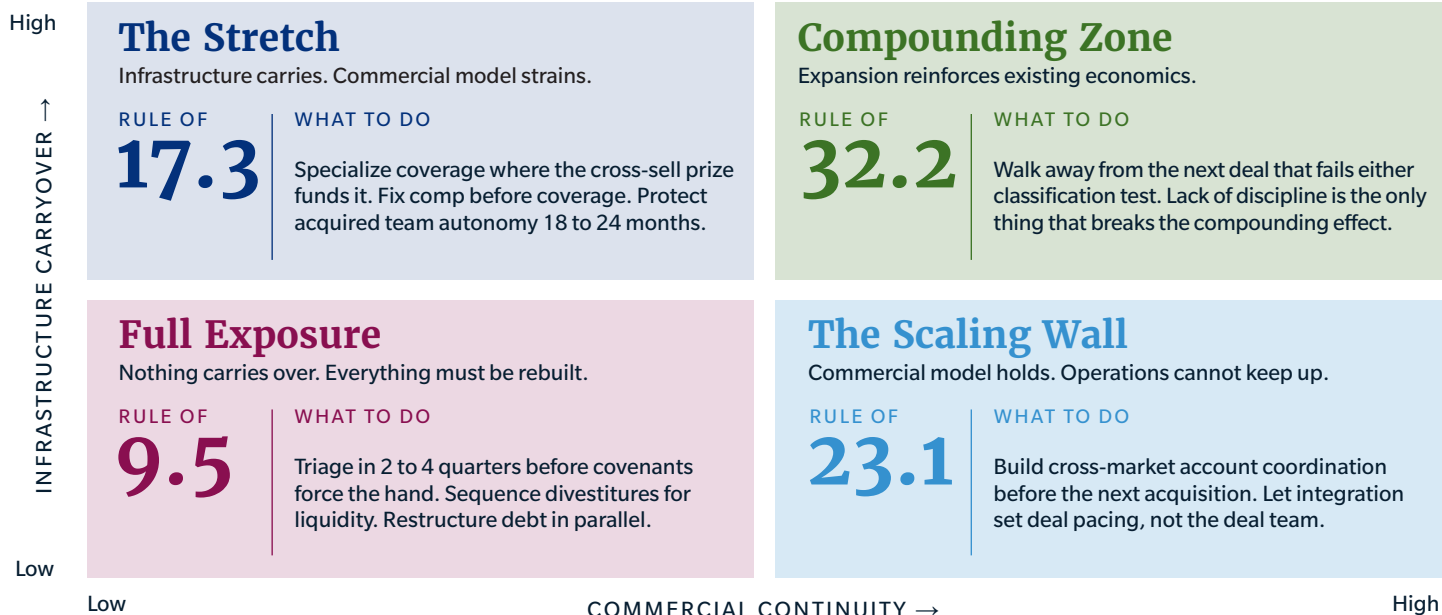


## WHAT SEPARATES SUCCESSFUL FROM UNSUCCESSFUL M&A MOVES

Two questions classify any expansion move

- 1 Infrastructure carryover**  
Could the new segment run at the same cost and quality without the shared infrastructure? If yes, the carryover is aspirational. Classify low.
- 2 Commercial continuity**  
Does the same buyer, pitch, and sales motion work in the new segment? New country or workforce of thousands is low continuity, regardless of brand carryover.

The answers place every company in one of four positions. Each position has a different next move.



### THE GAP IS WIDENING



Rule of spread between Compounding Zone and Full Exposure

### Disciplined operators pull further ahead with every deal. Undisciplined ones fall further behind.

Every density-building deal makes the next one cheaper. Every breadth expansion adds cost and incoherence that makes the next move harder. Companies that separate from the pack apply both classification tests to every expansion move and walk away from deals that fail either. Let a competitor chase the broader TAM while you dominate the narrower one.

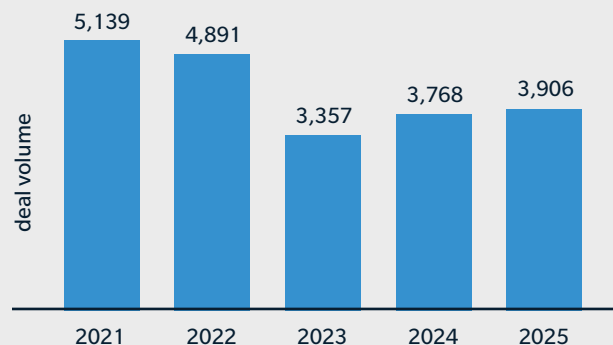
# Business Services Expanded. Returns Didn't.

Business services companies spent the last five years acquiring their way into growth, averaging over 4,000 deals a year, though volume has cooled from a 2021 high. The playbook was consistent across public and private companies alike: add an adjacent geography, service line, or vertical, stack the cost savings, and let the combined TAM justify the investment. PE firms amplified the pace, accounting for 65% of capital deployed into the sector by 2025.<sup>1</sup> The strategy was everywhere.

Despite the pace of M&A activity, overall returns fell short. When SBI looked at the performance of 70 business services firms, only 24% delivered both above-median growth and EBITDA margin. More than three out of four expanded their markets without expanding their returns.<sup>2</sup>

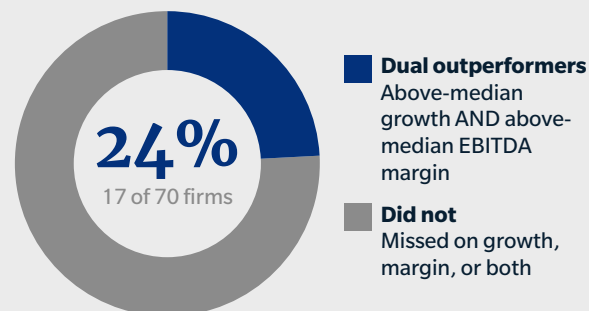
## M&A volume is high, but only 24% of firms turned expansion into returns

Business services M&A deal volume



Source: R.L. Hulett Business Services M&A Update, Q4 2025.

Firms delivering both above-median growth and profitability



Source: SBI analysis of 70 publicly traded business services firms, FY2025 10-K filings.

The staffing sector crystallizes the problem. Between Q1 2022 and Q1 2024, real GDP grew 4.7% and the private sector added nearly six million jobs. Over that same period, staffing industry revenue fell 17.2%.<sup>3</sup> Firms that had built their cost base for a bigger market watched their core revenue shrink while the economy grew around them.

Too often, companies expanded the markets they could sell into without building the teams, relationships, and sales motions to win in them. That commercial gap hits every sector, but business services firms feel it harder than most because of four structural features baked into the model.

1. R.L. Hulett Business Services M&A Update, Q4 2025, citing PitchBook data. <https://rlhulett.com/app/uploads/2026/01/Business-Services-MA-Update-Q4-2025-1.pdf>

2. SBI analysis of 70 publicly traded business services firms, FY2025 10-K filings. 17 of 70 (24.3%) cleared above-median thresholds on both revenue growth and EBITDA margin.

3. Kelly Services, "Has Staffing Decoupled from Labor Markets?" Aaron Haskins and Hugo Malan, October 2024, citing U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Staffing Industry Analysts data for the Q1 2022 to Q1 2024 period. <https://set.kellyservices.us/resource-center/a-labor-market-mystery>

# Why Business Services Firms Are Structurally Exposed

Every new geography, vertical, or service line requires proportional investment in people, licensing, and local management. Each expansion is a larger bet, not a cheaper one.

1. Thin margins leave no room for error. Most business services firms operate at single-digit to low-teens EBITDA margins. A quarter of misallocated GTM investment does not get absorbed. It shows up immediately in the P&L.
2. Your best salespeople cannot sell the new thing. Each side of the deal has reps who built credibility in their own service. Too often, neither team can credibly carry the other's bag, and the commercial infrastructure that made each business an industry standard does not translate across.
3. Labor constrains both ends of the expansion. Every deal layers a second sales team and a second delivery workforce on top of the core. Sales and delivery cannot cross over. When the expansion underperforms, the company is carrying two parallel cost structures and cannot collapse either, which makes the correction more expensive than in any other business model.
4. Switching costs evaporate when relationships thin. Loyalty in services runs through personal relationships with the account manager, the technician, the recruiter. When GTM resources stretch across more segments, those relationships thin and customers leave.

## Where You Stand Determines What You Do

Those structural exposures are present across the sector, but they do not hit every company or M&A deal equally. To understand what separates the companies that converted expansion into returns from the ones that didn't, we analyzed 70 publicly traded business services firms using 'Rule of' as the main performance metric: revenue growth rate plus EBITDA margin, calculated per company, with medians reported at the quadrant level.<sup>4</sup>

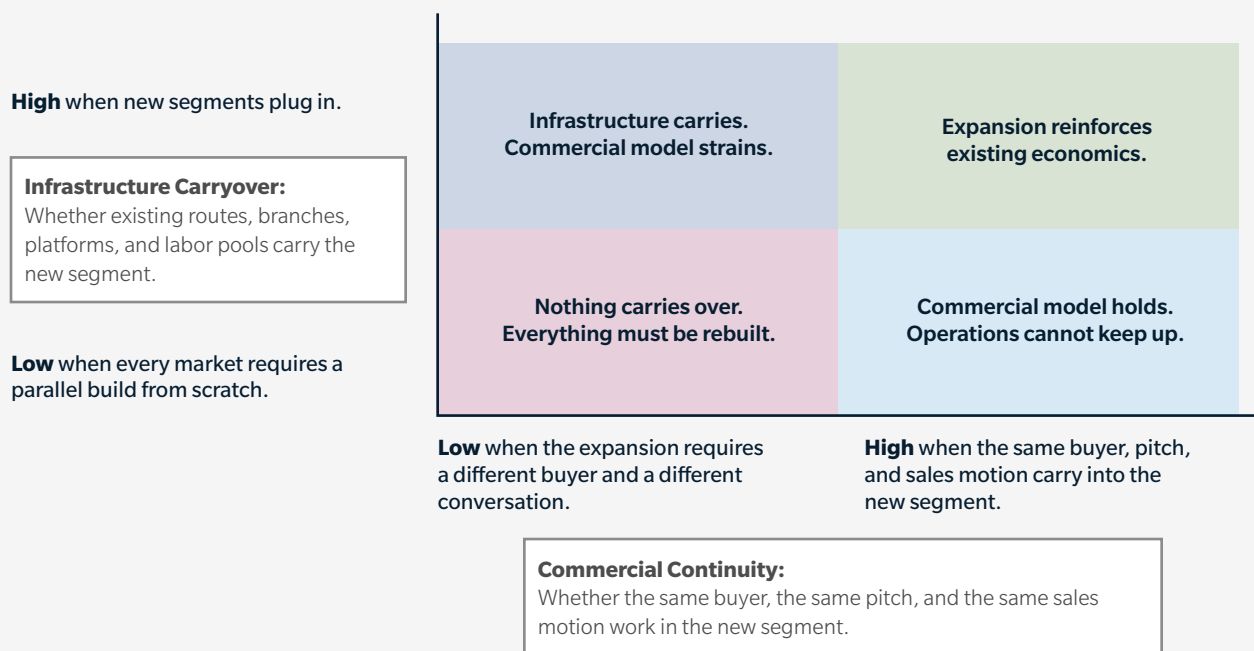
4. 'Rule of' is a composite performance metric: a company's annual revenue growth rate (%) plus its EBITDA margin (%). A company growing at 8% with a 22% EBITDA margin has a Rule of 30. All medians in this analysis are calculated at the quadrant level. Because the median of a combined score does not equal the sum of two independently calculated medians, revenue growth and EBITDA margin figures reported separately for each quadrant will not sum precisely to the Rule of shown.

Each company was classified on two dimensions based on its actual expansion activity over the prior three to five years.

1. **Infrastructure Carryover:** Whether existing routes, branches, platforms, and labor pools carry the new segment. High when new segments plug in. Low when every market requires a parallel build from scratch.
2. **Commercial Continuity:** Whether the same buyer, the same pitch, and the same sales motion work in the new segment. High when nothing changes. Low when the expansion requires a different buyer and a different conversation.

## Two dimensions of expansion risk

Each company classified on its actual expansion activity over the prior three to five years



Two tests prevent the most common misclassification errors.

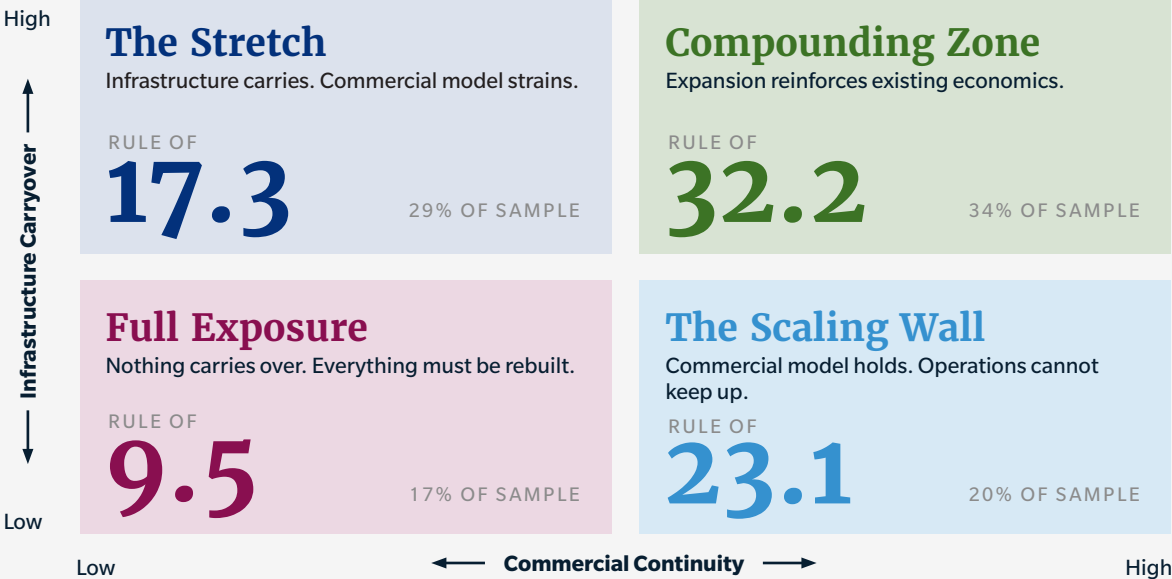
- **On infrastructure carryover:** If the new segment could run at the same cost and quality without the shared infrastructure, the carryover is aspirational. Classify it as low.
- **On commercial continuity:** How much the commercial model changes matters as much as whether it changed. Adding one adjacent market with the same buyer is high continuity. Entering a new country or integrating a workforce of thousands is low continuity.

Apply this framework to each major expansion move, not the company as a whole. Your highest-risk move determines your overall exposure, and your margin cushion determines how quickly you need to fix it.

# Four Coverage Profiles

The intersection of infrastructure carryover and commercial continuity produces four profiles. The goal is to understand where your expansion history has placed you today and what your next move requires to succeed.

Four profiles show starting points and what to fix



# COMPOUNDING ZONE

These companies ran an M&A playbook (24.2% median goodwill) for density, not breadth, and the market rewarded them for it. Every deal plugged into something that already existed: a new customer on an existing route, a new product on an existing platform, a new service sold through an existing relationship. Each acquisition made the prior investment more valuable rather than more complex.

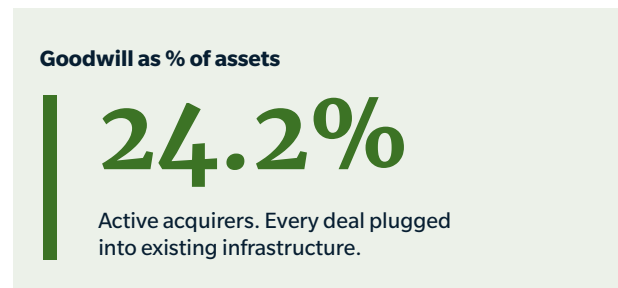
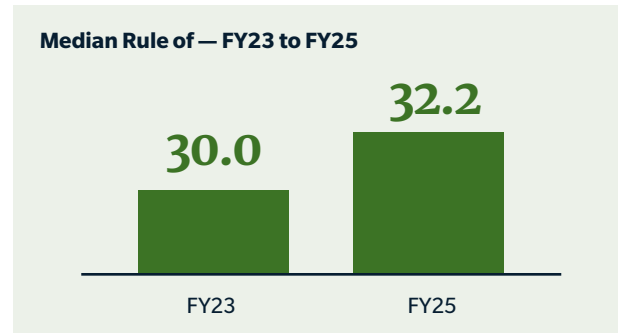
Between FY2023 and FY2025, the median Rule of improved from 30.0 to 32.2. These companies are getting stronger while most of the sector stalls.

Rollins, the pest control operator behind Orkin, delivered its 24th consecutive year of revenue growth in 2025 by acquiring competitors in adjacent zip codes and adding their customers to existing technician routes.<sup>5</sup> Every acquisition makes every prior route more profitable. Waste Connections runs the same play at larger scale, completing numerous tuck-in acquisitions in 2024 and converting them into 32.5% adjusted EBITDA margins.<sup>6</sup> Neither company entered new verticals. They added inside the commercial model they already operated.

Compounding Zone companies fail when acquisition momentum overrides acquisition discipline. Deals that look close enough but require a different sales conversation or a different delivery infrastructure start getting approved. Every proposed expansion should pass the two tests from the framework. If either answer is no, the move is not a Compounding Zone deal and should not be sized as one.

**What to watch:** Any proposed deal where the buyer, the sales motion, or the delivery model changes from what the platform already operates. The first move that fails either classification test is the one that breaks the compounding effect.

## These companies are improving while most stall



Source: SBI Analysis | FY2025 10-K filings | n=70 publicly traded business services companies

5. Rollins, Inc. (NYSE: ROL), "Reports Fourth Quarter and Full Year 2025 Financial Results," press release, February 11, 2026.

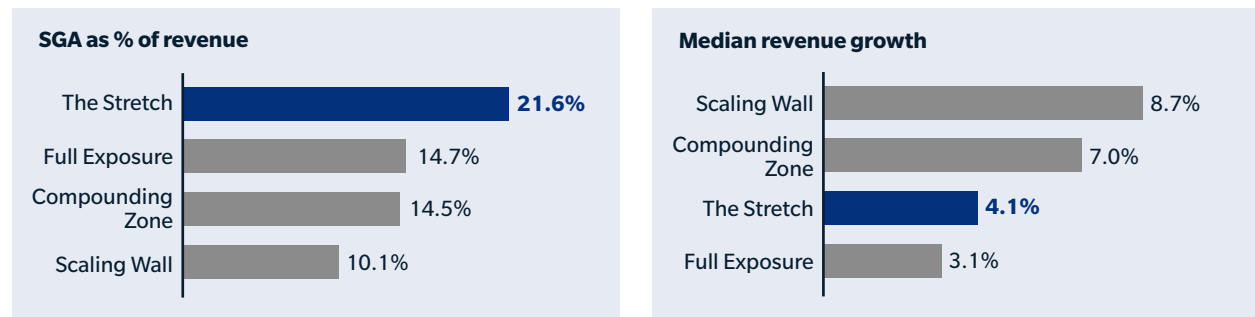
6. Waste Connections, Inc. (TSX/NYSE: WCN), "Reports Fourth Quarter 2024 Results and Provides 2025 Outlook," press release, February 12, 2025.

# THE STRETCH

In The Stretch, the infrastructure advantage is real, and leadership can see it clearly, but the returns do not follow. Median SGA in this quadrant is 21.6% of revenue, the highest of any profile and 49% above the Compounding Zone's 14.5%. Despite that commercial investment, median revenue growth is 4.1%, well below the Compounding Zone's 7.0% and the Scaling Wall's 8.7%.<sup>7</sup> The market opportunity, the infrastructure, and the sales investment all exist but the conversion is not happening.

Stretch positions develop the same way in most companies. A successful core business creates a strong brand, deep client relationships, and operational infrastructure that leadership correctly identifies as an expansion asset. The expansion logic is sound on paper. The assumption that the existing sales organization can convert that infrastructure into revenue in the adjacent market is the part that breaks.

## High commercial investment but low revenue growth



Source: SBI Analysis | FY2025 10-K filings | n=70 publicly traded business services companies

The failure point is often a credibility gap. The sales team has the access, the relationship, and the data. None of it translates: they are having a conversation the buyer does not associate with them, about a problem the buyer does not trust them to solve.

Robert Half's Protiviti subsidiary sells internal audit, risk advisory, and technology consulting to audit committees and CIOs. The core staffing business sells to hiring managers and HR leaders.<sup>8</sup> Same brand, same client logos, often the same building. The infrastructure carries but the commercial conversion does not. The reps who place accountants struggle to credibly pitch enterprise risk frameworks. The buyer knows it, even if the org chart pretends otherwise.

Most companies that fall into The Stretch inherited two sales teams from the deal. Each has credibility in its own service, but that credibility does not transfer. The trap is asking either team to pitch the other's service, or merging them into generalists. Both moves raise cost without raising conversion, which is exactly how companies land in The Stretch in the first place.

The correction has three parts.

- First, segment the cross-sell opportunity before staffing it. Dedicated specialist coverage is expensive, and not every acquired service has a cross-sell prize large enough to fund it. When the prize is there, commit to specialized coverage. When it is not, run the service as a referral offering or divest it.
- Second, change the comp plan before changing the coverage model. Reps follow the money. A coverage redesign without a comp redesign reverts inside two quarters.
- Third, protect the acquired team's operating autonomy for 18 to 24 months. Forced integration of comp, management, and CRM drives the acquired specialists out the door and takes the credibility with them.

**What to watch:** SGA rising without proportional revenue acceleration. If commercial investment is climbing and growth is flat or declining, the coverage model is stretching and the credibility gap is widening.

7. Source: SBI Analysis | FY2025 10-K filings | n=70 publicly traded business services companies

8. Robert Half Inc. (NYSE: RHI), FY2024 Form 10-K.

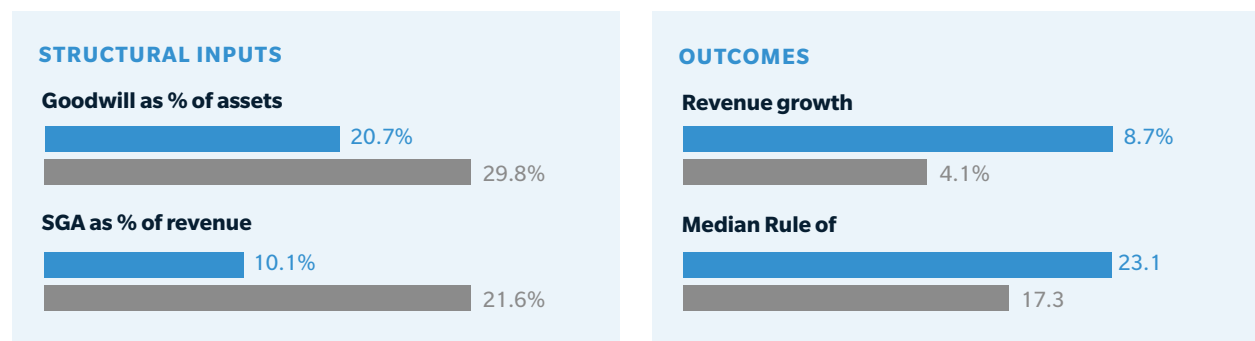
# THE SCALING WALL

The Scaling Wall spends half what The Stretch spends on SGA and delivers more than double the revenue growth. Less of every structural input, better results. Knowing how to sell the new thing matters more than having cheap infrastructure to deliver it.

Scaling Wall companies share the same operational constraint. Each new market requires a full parallel buildout of local crews, licensing, management, and compliance. There is no shortcut on the delivery side. But the commercial surface area stays narrow. The sales team walks into every new market with the same buyer, the same value proposition, and the same win pattern.

Quanta Services scaled to \$28.5 billion in revenue, completing eight acquisitions in both 2024 and 2025.<sup>9</sup> Every deal requires a local buildout because Quanta acquires craft-skilled workforces and project capabilities in specific trades and geographies. What carries is the commercial model: infrastructure services sold to utilities, energy companies, and technology customers through long-standing relationships and a reputation for execution on complex projects.

**Knowing how to sell the new thing matters more than having cheap infrastructure to deliver it.**



Source: SBI Analysis | FY2025 10-K filings | n=70 publicly traded business services companies

Scaling Wall The Stretch

When Scaling Wall companies struggle, it is usually because acquisition velocity outpaces commercial integration. The portfolio grows into a federation of independent operators sharing a corporate parent, and the cross-market pricing power and account coordination that should accrue to scale never materialize without deliberate design.

That design requires more than systems integration. Shared CRM, shared comp, and shared reporting are prerequisites, and companies that have not completed them should not attempt the harder work. But systems alone do not produce commercial coordination or delivery-side leverage. Three specific moves do.

- First, build commercial coordination across the existing portfolio before queuing the next acquisition. Cross-market account teams for top customers, a single pricing governance framework, and a shared pipeline definition. These are one-time builds. Once they exist, every future acquisition gets absorbed into them instead of bringing its own version.
- Second, consolidate the back half of delivery. Local crews, licensing, and site management stay local. Fleet, procurement, safety programs, HR, and back-office consolidate across entities.
- Third, let the integration team set deal pacing. When the deal team controls pacing, every new acquisition closes before the last one is coordinated and the platform becomes a federation of partially integrated operators. When the integration team controls pacing, deals queue up behind defined coordination milestones.

**What to watch:** Integration backlog, specifically the number of acquired entities not yet on shared CRM, shared comp, and shared reporting. Above two entities, the platform has stopped absorbing.

9. Quanta Services, Inc. (NYSE: PWR), "Reports Fourth Quarter and Full-Year 2025 Results," press release, February 19, 2026.

# FULL EXPOSURE

This is where Stretch and Scaling Wall companies land when they stop correcting. Multiple dimensions changed at once: new buyers, new services, new delivery infrastructure, and nothing from the core operation carried over commercially.

These companies also carry the heaviest debt load of any profile. They borrowed the most to fund the expansion and are generating the worst returns on it. Median Rule of fell from 16 in FY2023 to 9.5 in FY2025, a 6.5-point deterioration in two years.

The failure runs across every dimension of the business at once. Companies that ended up here did not make one bad decision; they made several, each defensible in isolation, that compounded into a commercially incoherent portfolio.

The key to escaping the Full Exposure quadrant is triage, and the clock is shorter than leadership usually realizes. Full Exposure companies can have as little as two to four quarters before the leverage ratio or a covenant forces the hand. The correction is a four-part reset, executed in parallel rather than sequence.

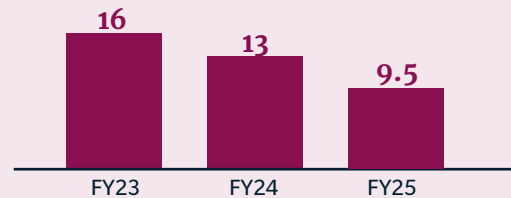
- First, segment against three criteria. Commercial defensibility, current cash generation, and capital intensity. A segment that fails any two of three is a divestment candidate regardless of what the original deal thesis said. Sunk cost is the most common reason companies hold on too long.
- Second, sequence divestitures to protect liquidity, not to maximize proceeds. The fastest-closing exits go first, even at lower multiples, because they reduce debt and buy runway. High-multiple exits require competitive processes that take two to four quarters to run, which the company may not have.
- Third, change management at the segment level, not just the top. The operators who built the expansion are usually still running it, and incremental triage under their leadership defaults to protecting optionality. Segment leadership changes are uncomfortable and often necessary.
- Fourth, run debt restructuring in parallel with the operating reset. Lenders respond to credible plans, not to completed divestitures. Engaging early preserves covenant flexibility. Waiting until divestitures close often means engaging from a weaker position.

ISS A/S ran a version of this playbook starting in late 2020, exiting multiple country operations while consolidating around its integrated facility services key account model. Operating margin moved from 0.5% in 2020 to above 5% by 2024. The recovery took four years and required decisive scope reduction.<sup>10</sup>

**What to watch:** The ratio of goodwill to enterprise value. When acquired-business goodwill exceeds the company's current enterprise value, the market is pricing in future impairments. That gap rarely closes without a structural reset of the portfolio.

## Heavy capital deployed. Performance falling every year.

### Median Rule of – Three Year Trajectory

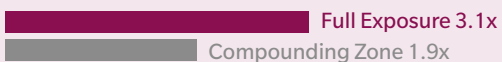


### Capital Deployed

Net Debt / EBITDA

**3.1X**

Highest leverage  
of any quadrant.



### Goodwill as % of assets

**28.0%**

Meaningful M&A activity throughout  
the expansion.

10. ISS A/S (CPH: ISS), "ISS launches OneISS strategy with new operating model," December 16, 2020; ISS A/S Annual Report 2023, February 21, 2024.

# What the Gap Is Worth

The 22.7-point Rule of spread between quadrants is an operating metric. The enterprise value implications are larger.

Business and consumer services companies currently trade at roughly 14x EV/EBITDA, according to Damodaran's January 2026 dataset covering 155 firms.<sup>11</sup> That multiple obscures a quality spread that maps directly to the quadrant framework. Companies with consistent growth and concentrated coverage models trade well above the sector median. Overleveraged, low-margin businesses trade well below it.

Run the math on a \$300 million revenue business in each quadrant. A Compounding Zone company at 22.6% EBITDA margins produces \$67.8 million in EBITDA. At 16x, reflecting the premium paid for profitable growth and integration discipline, that company is worth \$1.08 billion. A Full Exposure company at 5.9% EBITDA produces \$17.7 million. At 8x, reflecting the discount applied to elevated leverage and deteriorating trajectory, that company is worth \$142 million.<sup>12</sup>

The question for boards and investment committees is which direction the coverage strategy is pushing margins. Every quarter that question goes unasked, the gap is compounding in one direction or the other.

## The Precision Premium

The divergence will continue because the underlying strategies compound in opposite directions. Every density-building acquisition makes the next one cheaper and more effective. Every breadth expansion adds cost, complexity, and commercial incoherence that makes the next move harder. The gap was 14 points two years ago. It is 22.7 points today.

The companies that will separate from the pack over the next three years are the ones that pursue coverage intensity, apply both classification tests to every expansion move, and walk away from the ones that fail either. That requires letting a competitor chase the broader TAM while you dominate the narrower one.

11. Aswath Damodaran, "Enterprise Value Multiples by Sector (US)," January 2026 dataset, NYU Stern School of Business. [https://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/vebitda.html](https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/vebitda.html)

12. Multiple spread (16x vs 8x) is illustrative. 16x reflects the premium paid for profitable, integrated business services platforms with consistent growth, approximately 10-15% above the sector 14.3x (Damodaran, January 2026). 8x reflects the discount applied to overleveraged businesses with deteriorating trajectory, which commonly trade well below sector median. Actual transaction multiples vary meaningfully by deal size, buyer type, and market conditions. Quadrant median EBITDA margins per SBI analysis of 70 publicly traded business services firms, FY2025 10-K filings.