

SECTOR SNAPSHOT



UK RECRUITMENT M&A ACTIVITY AND VALUATIONS FOR 2017



Gary Ecob
Partner



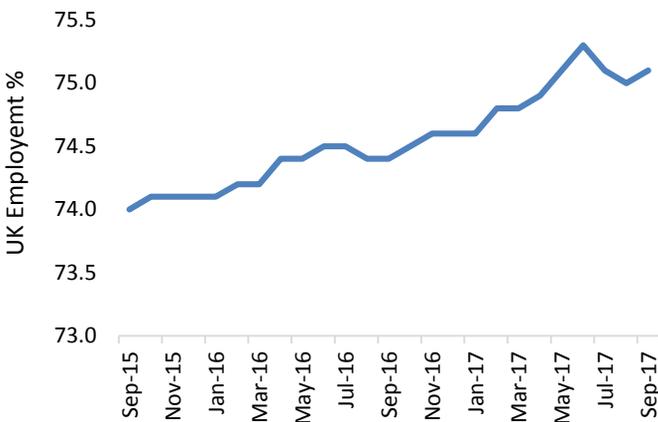
Steve Nock
Associate Director

Strong M&A activity as the UK job market tightens

M&A activity in the UK recruitment market remained healthy in FY17 with **55** deals completed involving UK and Irish target companies. This is down on the **67** deals completed in FY16 however, activity is on trend with previous years, with 2016 standing out as a bumper year for recruitment M&A despite the uncertainty created by Brexit.

2017 has seen a pattern of consolidation by both large and mid-sized recruiters as they seek to acquire new capabilities whilst private equity and overseas interest continues to remain strong. With the UK labour market tightening, we expect to see greater demands on recruitment businesses as qualified individuals become harder to find. We believe this will continue to drive M&A activity in 2018, with a potential slow down in deal volumes during Q3 and Q4 as the UK's March 2019 EU exit date nears.

UK Employment 2015 - 2017



“2017 M&A activity remains strong, with large recruiters, SMEs and private equity keen to acquire new capabilities”

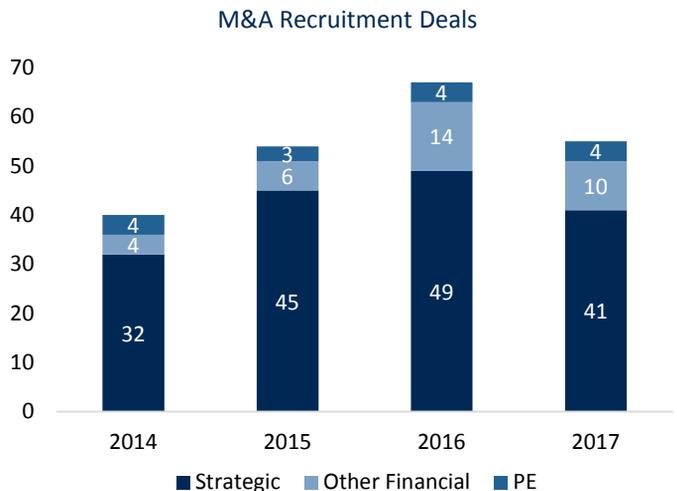
Recruitment deals split by sector have remained consistent with previous years, with broadline and engineering recruiters making up the majority of deals.

Engineering remains a hot growth recruitment market, with an ageing baby boomer generation creating a major skills shortage within the sector. This shortage has continued to drive strong M&A deal volumes, as acquirers seek to develop or grow their engineering presence in order to take advantage of strong business demand for more skilled engineering workers.

IT and technology deals nearly doubled in 2017, with the continued growth and diversification of the UK IT market making recruiters for highly-skilled roles ever more valuable.

We would expect recruiters in this sector to continue to attract interest in 2018 and beyond, with a possible post-Brexit skills shortage only likely to increase workflow for IT recruitment companies.

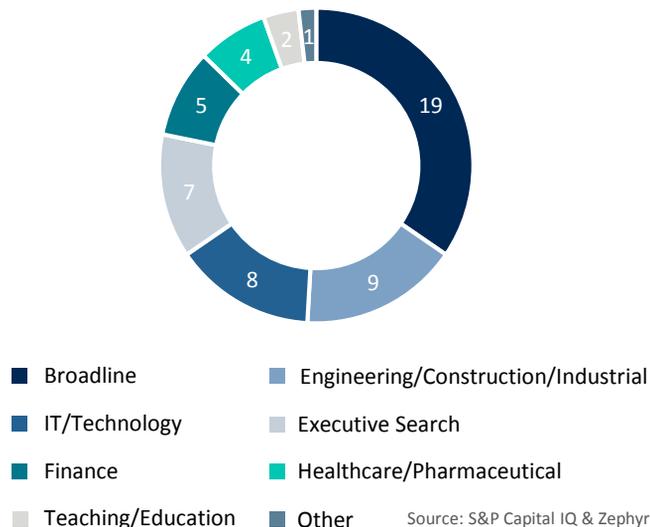
Recruitment M&A Activity



Source: S&P Capital IQ & Zephyr

Other financial primarily relates to debt funded deals with no disclosed equity investor.

Recruitment Deals by Category (YTD December 2017)



Source: S&P Capital IQ & Zephyr

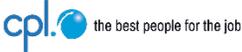
UK Market Transactions



Acquired 70% Interest



For GBP 6.9m



Acquired



For GBP 8.1m



The Power of Talent

Acquired



For GBP 15m

The Management Team

Acquired a majority stake in



For GBP 9.5m



Acquired



For Undisclosed



Acquired



For GBP 3.3m

"The UK's largest recruiters have remained active, with a focus on buying medium sized speciality recruiters to add breadth to their groups"

- In 2017 Gattaca acquired an initial 70% stake in Resourcing Solutions, a specialist construction and engineering recruiter, at a 5x trailing EBITDA valuation, with the remaining 30% to be purchased within 12 months. This represents Gattaca's first acquisition since the £69m purchase of international broadline recruiter, Networkers International in January 2015.
- Listed IT, technology and business services recruiter Interquest Group has been partially bought out by the management team and founder for £9.5m. They have acquired 58.3% of trading stock, with the company continuing to trade on AIM after completion. The deal valued Interquest at a c.5x EBITDA multiple.
- Staffline, the £895m turnover broadline recruiter, continued on a steady acquisition spree, with two purchases this year - Brightwork and Driver Labour Recruit, a specialist driver and warehouse recruiter. These two deals represent a return to its acquisitive profile in 2017, after a quiet 2016.
- Ireland's largest recruiter CPL Resources, has made a move into the healthcare recruitment market through the £8.1m acquisition of RIG Healthcare Recruit, a £54m turnover specialist locum, pharmacist and doctor recruiter for the NHS.

"Staffline, the £895m turnover broadline recruiter, continued on its steady acquisition spree, with two purchases during 2017"

Private Equity Activity

"The UK recruitment market has seen continued interest from overseas and UK private equity houses, demonstrating continued confidence in the sector"

Private equity continued to play a significant role in the recruitment M&A market this year, with five PE backed deals completed. This remains at a similar level to the previous few years, showing a stable pattern of private equity involvement.

Endless completed the largest private equity deal of the year, with the purchase of multi-brand Affinity Workforce, the healthcare and education recruiter from Capita Resourcing. The group has a combined turnover of £140m, making it one of the largest specialist healthcare recruiters in the UK.

International private equity has also been active in the sector, with Netherlands based H2 acquiring a majority stake in Search alongside the management team. Search, a £180m turnover broadline recruiter has experienced solid growth over the past five years making it an attractive investment.

In other deals, Irish based investment fund FL Partners acquired Potensis, a specialist construction and engineering recruiter.



Sold



To



For GBP 25m



Acquired Minority Stake



For Undisclosed



Building better businesses

Acquired



For Undisclosed



Backed



Specialist Recruitment

Acquired



For Undisclosed

Overseas Acquirers

So far this year we have seen steady overseas activity in the UK recruitment market, with **13** deals completed involving an overseas buyer, compared to eight in 2016. The USA has become the dominant force, with the most high-profile overseas deals this year coming from across the pond.

Whilst there has been a fall in the recorded deal values compared to last year, the £105m purchase of Penna Consulting by Adecco represented the majority of the 2016 figure. In comparison, the £18.4m acquisition of CBSbutler by Staffing 360 - at an estimated EBITDA multiple of 6x - represents the largest disclosed overseas deal during 2017.

"The rise in overseas acquirers demonstrates the attractiveness of the UK recruitment market even in the face of Brexit negotiations"

Other US recruiters acquiring in the UK include financial services specialist Options Group, with their purchase of executive search firm MCL and eTeam who acquired specialist financial recruiter Dryden Human Capital.

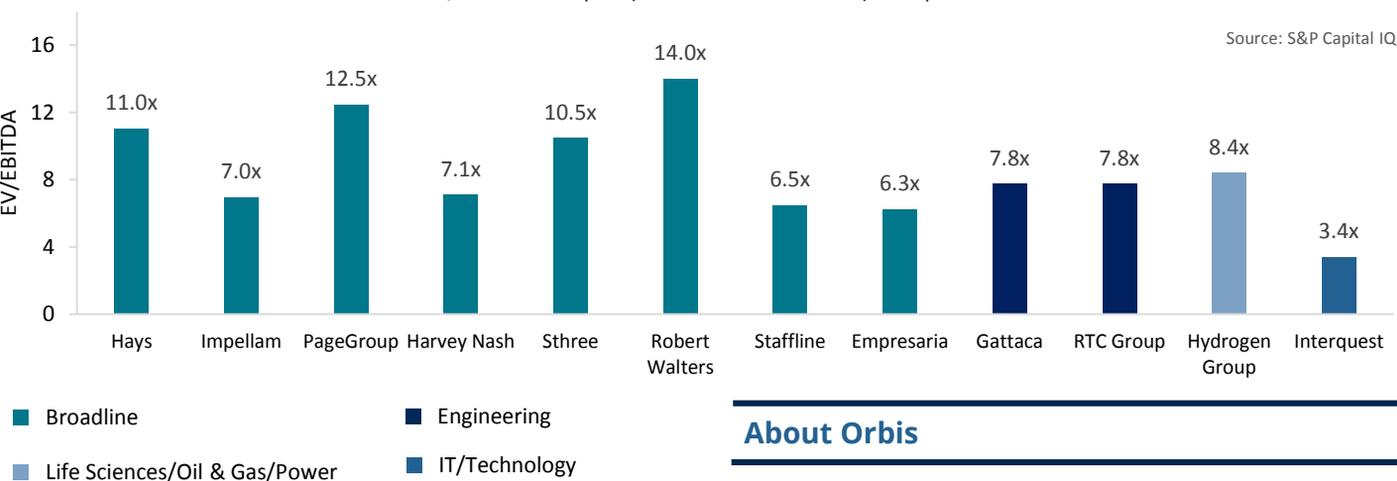
Australasia and Asian recruiters have also been acquisitive with Australia based TMT talent continuing their global expansion with the acquisition of hospitality recruitment specialist New Frontiers.

Selected Deals

ACQUIRER	TARGET	TARGET CATEGORY	DEAL VALUE
 Options Group Inc	 MCL Search	Executive search	Undisc.
 eTeam Inc	 Dryden Human Capital	Finance	Undisc.
 Quick Co	 Centre Peoples Appointment	Broadline	Undisc.
 Staffing 360 Solutions Inc	 CBSbutler	Engineering	£18.4m

Quoted Companies

EV/EBITDA Multiples (Last Available Accounts) – Prepared Dec 17



Quoted recruiters have seen a sea of change in the past year, with previous high-flyers such as life sciences specialist Hydrogen Group falling back to normal EV/EBITDA valuations.

The EV/EBITDA average across the sector has dropped slightly to 8.5x from 8.9x last year, giving private companies a multiple in a similar range to last year of 5-7x, given a 25% discount for liquidity and economies of scale. Niche, specialist recruitment businesses with a differentiated offering will likely command multiples in excess of this.

About Orbis

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering business services, in addition to food & consumer, industrials, technology, media & telecoms, and healthcare. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

If you are considering your strategic options for enhancing the value of your business or your client's business, please contact either Gary or Steve.

Contact

Gary Ecob

Partner

T: +44 (0) 121 234 6074

E: gecob@orbisfc.com

Steve Nock

Associate Director

T: +44 (0) 121 234 6083

E: snock@orbisfc.com

Orbis is an independent corporate finance advisory firm, working with business owners, management teams and investors to advise them through every aspect of corporate finance.

The partners have over 100 years of deal-making experience and combine their broad network of global relationships with deep sector knowledge and investor skills to deliver a specialist M&A experience.

Orbis is the UK partner for Clairfield International, a global investment bank, offering clients access to over 400 corporate finance professionals situated in over 20 countries across the globe.

Orbis Partners : Services

A complete range of M&A services providing a wealth of experience to our clients

Company Sales	<ul style="list-style-type: none"> Extensive mid market M&A expertise and experience across the team. International reach – over 20 countries and growing. Over 90% of all sale mandates involve an overseas party. 	Business Improvement	<ul style="list-style-type: none"> Independent advice and planning strategy led by sector insights. Turnaround and profit improvement credentials. Leading the team through uncertainty whilst developing a game plan. Co-investors and principal.
Acquisition Support	<ul style="list-style-type: none"> Listed and private clients. Research and origination - internal research team and tools. Strategic and financial assessment. Deal management. 	Capital Raising	<ul style="list-style-type: none"> Supporting existing business to fund development. Supportive investor bringing focus on value creation. Co-investors on 3 deals.
Due Diligence	<ul style="list-style-type: none"> Experienced and informed advice. Extensive experience within the UK and of international transactions. Tailored reports. Partner led. 	Management Buy Out	<ul style="list-style-type: none"> Deal leadership and fund raising. Align interests with management team. Co-investors on 15 deals.

Orbis and Clairfield International: Recruitment Deals

 <p>Sold to RG32</p> <p>Advisor to the seller</p>	 <p>Merged with toptemp</p> <p>Advisor to the seller</p>	 <p>Sold to TEAM VIKAREN.DK</p> <p>Advisor to the seller</p>	 <p>Acquired BITLIBRE</p> <p>Advisor to the buyer</p>	 <p>Sold its Spanish operations to Management through an MBO</p> <p>Advisor to the seller</p>
 <p>Acquired CORSO INFORMATICA</p> <p>Advisor to the buyer</p>	 <p>Acquired equity participation in WORK Express</p> <p>Advisor to the buyer</p>	 <p>Sold to TALENT&PRC</p> <p>Advisor to the seller</p>	 <p>Acquired ADDENDA Soluciones Integrales</p> <p>Advisor to the buyer</p>	 <p>Sold to Gilde Buy Out Partners</p> <p>Advisor to the seller</p>