



Gary Ecob
Partner



Steve Nock
Manager

SECTOR SNAPSHOT



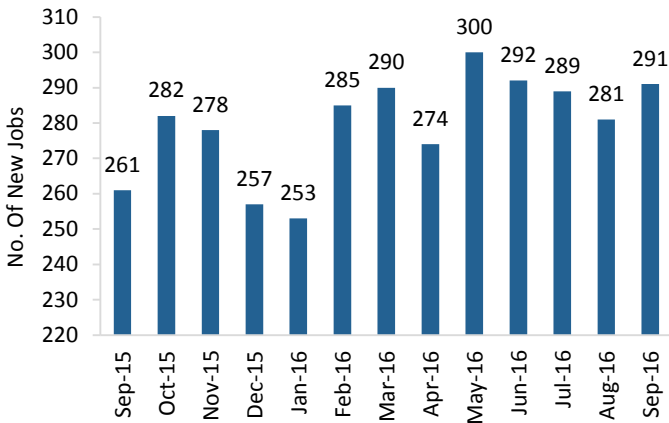
UK RECRUITMENT M&A ACTIVITY AND VALUATIONS FOR 2016

An increase in M&A activity despite Brexit uncertainty

M&A activity in the UK recruitment sector increased in 2016 with **55** deals completed involving UK and Irish target companies. The sector has remained extremely resilient, both in the lead up to and post Brexit with **31** and **24** deals completed in H1 and H2 (YTD October) respectively. Deal activity was particularly strong in the sub £50m space with small and medium sized companies seeking to add scale and new capabilities to their existing services.

Strong deal activity in the sector is reflective of the wider job market. The UK appears to have shaken off the immediate impact of Brexit with the number of new jobs advertised in the period July – Sept 16 comparable to Q1 and Q2.

Reed National Job Index



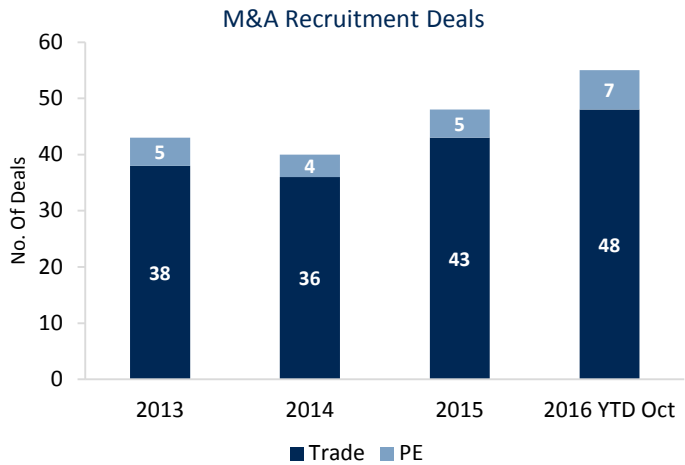
“Deal activity in 2016 has been particularly strong in the sub £50m space with SMEs seeking to add scale and new capabilities.”

Professional services and technology recruiters are perhaps the most at risk from a Brexit ‘talent block’ due to their reliance on professional migration from the EU. However, whilst the longer-term impacts remain uncertain, it is our view that M&A activity will remain resilient with quality recruitment businesses continuing to attract interest from both strategic buyers and private equity.

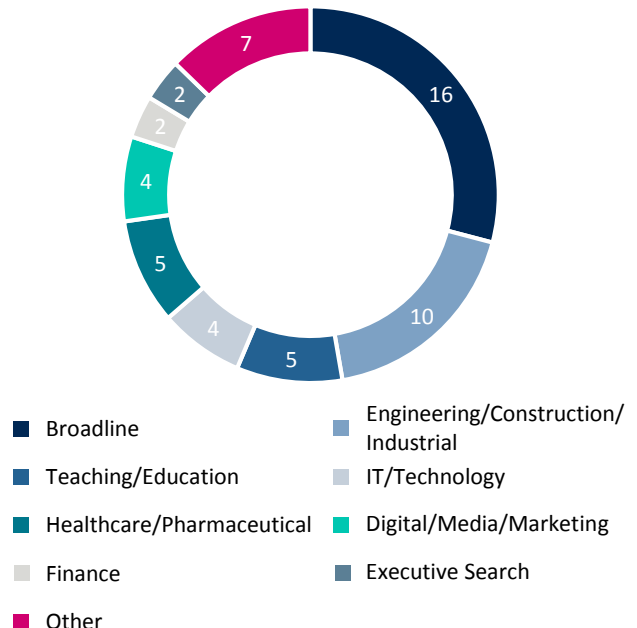
This will be aided by the fact:

- Quoted recruitment companies continue to benefit from the weak sterling with the majority exporting a bigger proportion of their services to the US.
- Private equity has significant capital to deploy and will remain interested in specialist companies in high-growth sectors.
- The established UK recruitment market will remain attractive to overseas acquirers as a result of its stability and friendly regulatory requirements.

Recruitment M&A Activity



Recruitment Deals by Category (YTD October 2016)



UK Market Transactions

Empresaria Group plc

Acquired 65%
Interest

ConSol

Partners
Connecting the Next Generation

For GBP 9.4m

teso
GLOBAL

Acquired

abc
teachers & **smart.**
TEACHERS

For Undisclosed

"The fragmented UK recruitment market has seen continued consolidation in 2016 with a number of large corporates adding specialist providers to their portfolio's."

- Empresaria Group continued to implement their strategy of acquiring start-ups and SMEs by purchasing a 65% interest in IT recruitment specialist ConSol for a reported £9.4m. This adds to Empresaria's existing portfolio of 20+ brands and strengthens their presence in the IT sector. In addition, Empresaria further expanded their international operations with the purchase of 73% of New Zealand based aviation specialist Rishworth for £7.5m.
- Diversified education company TES Global continued to expand their recruitment capabilities with the purchase of ABC Teachers and Smart Teachers for undisclosed deal values. These acquisitions are in-line with the company's strategy to expand its footprint in the supply teaching market and adds valuable expertise across the Midlands and London regions.
- Servoca Plc continued on the acquisition trail with the purchase of Classic Education for £3.1m, a move which strengthens the company's education presence in the London region. This is Servoca's 9th acquisition in the last 10 years and continues their policy of supplementing organic growth with bolt-on acquisitions.
- The existing management team acquired De Poel, a broadline recruiter with turnover in excess of £700m. Debt funding to support the buy-out was provided by Santander and Tosca Debt Capital.

SERVOCA
plc
trusted people

Acquired

CLASSIC
EDUCATION

For GBP 3.1m

The Management Team

Acquired

de Poel

For Undisclosed

The Management Team

Acquired

primestaff

For Undisclosed

The Management Team

Acquired

LINSCO
recruitment

For Undisclosed

"FY16 has seen the completion of 11 MBO's within the sector, reflecting the continued desire of banks to lend post-Brexit."

Private Equity Activity

"Completed deals in 2016 reflect the fact PE are increasingly interested in recruitment companies with a differentiated offering, sector specific focus, or those with sufficient scale."

This year has seen **7** private equity backed transactions in the UK recruitment sector. Interest in the sector remains with PE encouraged by the returns made by the likes of Graphite Capital on the disposal of Alexander Mann (3.5x) and Education Personnel (6x) and Livingbridge on the disposal of Frank Recruitment.

The importance of scale was evident in US based TPG's investment in leading IT recruitment firm Frank Recruitment (t/o c. £40m), whose international profile and growing US business provides significant growth opportunities.

Following the sale of Frank Recruitment, Livingbridge continued their track record of investing in the sector by acquiring a minority stake in leading digital executive search company Up Group for £8m.

In other deals, Vespa Capital acquired a minority stake in pharmaceutical business Chase Search and PE backed Ngage acquired construction recruitment specialist Setsquare.

LIVING BRIDGE

Sold

FRANK
RECRUITMENT GROUP

To

TPG

For Undisclosed

Vespa Capital

Acquired Minority
Stake

chase

For Undisclosed

NGAGE
Specialist Recruitment

Acquired

setsquare

For Undisclosed

LIVING BRIDGE

Acquired Stake

Up
The Up Group

For GBP 8m

Overseas Acquirers

“We believe the established UK recruitment market will continue to attract overseas investment as a result of its level of sophistication, friendly regulatory environment and established links with international corporates.”

This year has seen continued overseas investment into the established UK recruitment sector. US and Asia investment continues to dominate and may be further aided by the weak pound providing opportunities to acquire cheaper assets in the UK.

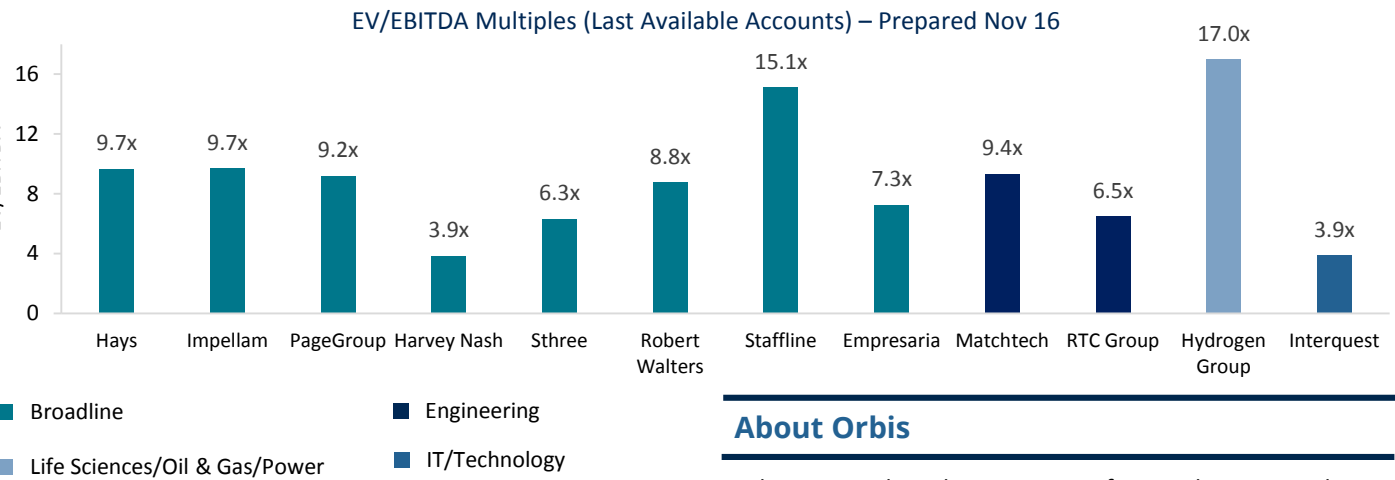
Selected Deals

Acquirer	Target	Target Category	Deal Value
 Adecco	 Penna Consulting	Executive search	£105m
 Heidrick & Struggles	 JCA Group	Executive search	£14m
 Trust Tech Inc.	 Mrtec	Engineering/Construction/Industrial	Undisc.
 Outsourcing Inc.	 Allen Lane Consultancy	Broadline	Undisc.
 Runtime Services	 KMB Recruitment	Broadline	Undisc.

The largest reported overseas deal in 2016 saw the acquisition of executive search and consultancy company Penna Consulting by fortune 500 company Adecco in a move that will enable Penna to expand its service lines beyond the UK.

Another significant deal saw Japanese based Trust Tech Inc. make its first acquisition in Europe with the purchase of North East based Mrtec (£46m t/o). Trust Tec is currently pursuing an aggressive acquisition strategy and, as such, we expect them to make additional UK acquisitions in the near future.

Quoted Companies



Turnover and EBITDA continues to grow amongst UK quoted recruitment companies, driven by earning enhancing acquisitions and the stability of the UK recruitment market.

The EV/EBITDA average across the sector based on the last available accounts was 8.9x. At a discount of 25% for private companies to reflect smaller scale and reduced liquidity, this would suggest typical EBITDA multiples in the 6-7x range. 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 Manager T: +44 (0) 121 234 6083 E: snock@orbisfc.com
--	---