



Gary Ecob
Partner



Tom McCarthy
Director



Pete Waplington
Associate Director

SECTOR SNAPSHOT



A COMMENTARY ON COVID-19 PLUS A REVIEW OF UK RECRUITMENT M&A ACTIVITY AND VALUATIONS FOR 2019

Looking back on 2019, the headwinds that the recruitment industry faced – Brexit, IR35, candidate shortage, margin pressure – seem relatively benign in comparison to the effects of COVID-19. Billions of pounds have been wiped off public markets, business and investor confidence is low and recruitment plans in numerous sectors are on hold. In March 2020, permanent placements and temp billings both fell at the steepest rates since 2009 (*REC Jobs Report*).

Within the gloom, there are subsectors that are performing strongly, with their main concern being the ability to source candidates. These include health & social care, supply chain and logistics for the food sector (retail, not foodservice) and IT (bolstered by the demand to move to remote working solutions).

From an M&A perspective, the pandemic will create some opportunities for the strongest industry players and cash-rich private equity firms who will be able to take advantage of low valuations and opportunistic purchases. However, many businesses who were considering M&A as part of their growth strategy will shelve plans, hunker down, conserve cash and focus on getting through the coming months. Numerous exit processes have been put on ice, slowing deal activity.

Normally, our sector snapshots summarise recent trends, market valuations and deal activity thereby giving an indication of what the current and near-future market trends will be. At the time of writing, all bets are off and the 2019 data should be viewed as historical document. The pandemic has rapidly altered the market, but it is as yet unclear how long it will take to return to some form of normality.

2019 Market & Trends

Despite the uncertainty generated by Brexit and IR35, the recruitment industry grew in 2019 according to REC's annual *Recruitment Industry Trends* report. The UK market was £38.9bn, comprising temporary & Contract revenues of £33.4bn and permanent revenues of £5.5bn. The number of recruitment enterprises grew by 2% and the number of people working in the recruitment sector grew by 3%.

Employment rates in the UK reached all time highs in November and December 2019 despite muted business confidence as a result of Brexit and wider concerns for the global economy.

The recruitment market was candidate-driven, with the best performing agencies being those that have strong resourcing capabilities. The lack of quality, available candidates pushed up wages and resulted in hiring firms needing to offer creative, attractive packages in order to entice new recruits.

Niche recruiters enjoyed the strongest growth, with IT having a particularly strong year. Almost 40% of Recruiter's 2019 Fast 50 were IT recruiters, with Industrial also performing well.



Main Market Challenges in 2019

Candidate shortage

Brexit

Legislation change

Client confidence

Margin pressure

Staff shortage

2019 M&A Summary

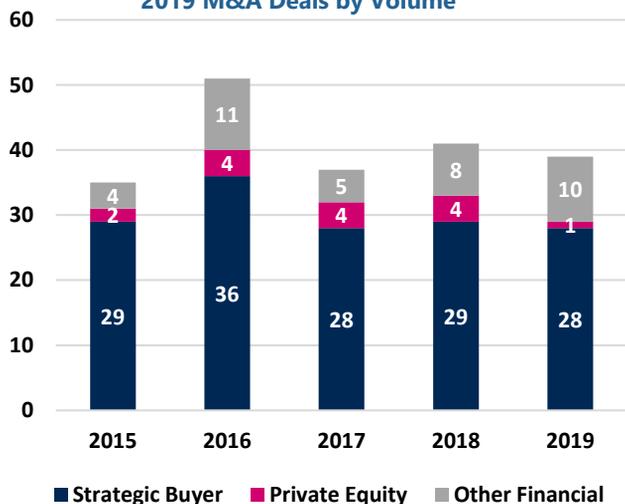
Overall M&A activity was slightly down on 2018 and almost 25% lower than the bumper year of 2016.

Private Equity deals were muted in comparison to previous years. Excluding growth capital deals or bolt-ons by private equity backed recruitment businesses (covered later in this document), there was just one disclosed private equity transaction. With plenty of debt options available, there were 10 debt-backed MBOs in 2019.

International buyers were quieter in this year, with the uncertainty surrounding Brexit being a factor. Overseas buyers accounted for 10% of transactions, down from 17% in 2018 and 27% in 2017.

Interestingly, IT's strong performance as a subsector did not translate into M&A activity, although Industrial's did, with 28% of M&A transactions occurring in this subsector. Generalists led the way again, with one third of 2019's deals being in this group.

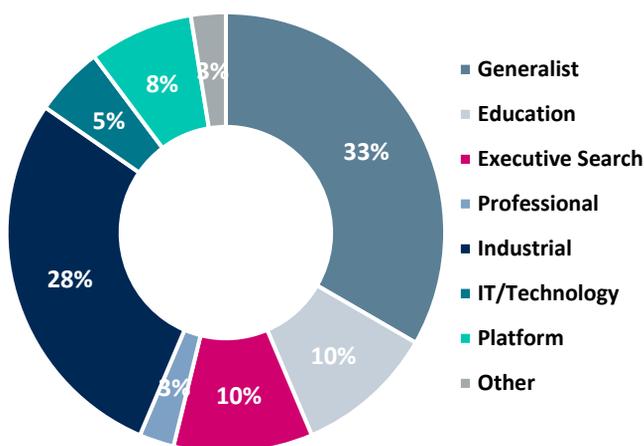
2019 M&A Deals by Volume



Source: S&P Capital IQ

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

2019 M&A Deals by Subsector



Source: S&P Capital IQ

UK Market Deals

HRnetGroup

Acquired a minority stake in

Staffline+
Group plc
People Skills Jobs

For £21m

Impellam Group

Acquired

Flexy

For £3m

Staffline Group PLC received a £21m equity investment from its largest shareholder, HRnetGroup. The transaction brings the Asia-based recruitment agency's holdings to 24.9% and cements HRnetGroup's position as its leading shareholder. The proceeds of Staffline's fundraise were used to reduce debt and to stabilise the business after a series of accounting issues sent the share price tumbling.

Impellam Group acquired flexible staffing platform Flexy for £3m in an all-cash deal. The deal seeks to leverage Flexy's tech-led approach within Impellam to drive efficiencies and to improve user experience.

Galago
group

Acquired

nr9

For an undisclosed sum

INVESTIGO
Recruiting talent.

Acquired

CARAFFI

For Undisclosed Sum

Galago Group, a UK-based generalist recruiter, acquired Northern Recruitment Group (NRG) and its recruitment process outsourcing (RPO) service known as Greenbean. NRG specialises in executive search services and launched Greenbean in 2017. Galago plans to work alongside the management to support the firm's continued growth.

Investigo acquired talent management consultancy Caraffi. Recruitment is a highly commoditised market with corresponding pressure on margin. The Investigo/ Caraffi deal highlights the drive to differentiate through complementary services which position it in a strategic, partnership role rather than a transactional role.

Private Equity Activity & Debt Funded Deals

Private Equity backed buy-out activity was very quiet in 2019. The likely reasons are the highly competitive, commoditised nature of the market making hard to pick winners, Brexit worries and the availability of debt rather than equity to fund transactions. 26% of all deals in 2019 were debt funded buy-outs, the highest percentage for the last 5 years. There is a wider choice of types of debt than ever before, ranging from the well known high-street banks through to specialist asset backed lenders and newer entrants such as Caple who provide unsecured, long-term loans alongside incumbent lenders.

A notable private equity deal was the Management-Buy-Out (“MBO”) of Amberjack, supported by a £17.6m investment by LDC. Following on from the MBO, the funding will be used to invest further in technology and for complementary acquisitions.

Despite the small number of private equity backed MBOs, there was still a healthy level of private equity activity, comprising growth capital plus buy-and-build deals.

Operam Education Group made three bolt-on acquisitions following BGF’s initial investment in March 2019. The acquisitions enable Operam to strengthen its regional presence.

In 2018 Dartmouth Partners, a financial and legal recruiter, received investment from Literacy Capital and debt from Oaknorth Bank to support its continued domestic and international growth. The growth plans included M&A, with Dartmouth acquiring Pure, a consultancy specialising in tax, legal, risk & compliance, in September 2019.

Sixty percent of growth capital deals across the recruitment sector in 2019 saw investment in platforms and tech staffing solutions. This is broadly in line with the preceding four years. Exceptions included Alcuin’s investment in professional recruitment firm Gravitas and Gresham House’s minority stake in energy and rail specialist Samuel Knight International.



Backed the MBO of



Investment of £17.6m

Operam Education

Acquired



Teacher Supply

For Undisclosed Sum

DARTMOUTH

Acquired



For Undisclosed Sum



Acquired a minority stake

SAMUEL KNIGHT INTERNATIONAL

ENERGY & RAIL SPECIALISTS

For an undisclosed sum



Backed the MBO of



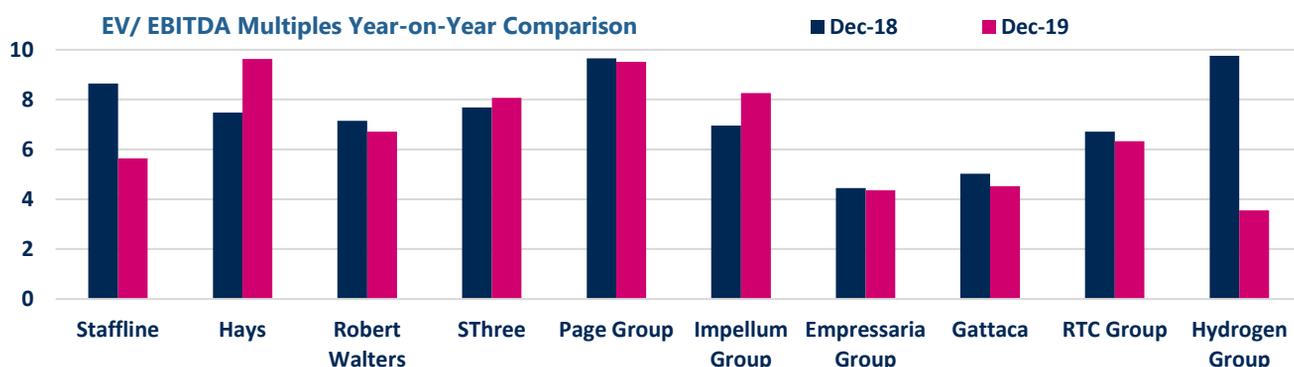
For an undisclosed sum



Backed the MBO of



Valuations



The 2019 average EBITDA multiple for disclosed private transactions was 5.4x compared to the prior three year average of just over 6x.

Market Capitalisation of our recruitment sector index experienced greater highs and lows than the FTSE Index. It reached its lowest point during the autumn months when political uncertainty was at its greatest but rallied towards the end of the year when the Conservative party won a majority, ending the year 13% up on December 2018. The average EBITDA multiple across our Recruitment Index was 6.7x as at the end of 2019 compared to 7.3 as at December 2018. Applying a private company discount of 30% to this generates an indicative multiple of 4.7x, still within the ‘standard’ range of 4-6x as a EBITDA multiple, but lower than previous years.

Since that time, the world has changed and confidence in the recruitment sector has decreased (barring the subsectors mentioned previously in this report). The combined value of the businesses included in our index declined by 34% from December 2019 to the time of writing as at 20th April 2020.

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

Company Sales

- Extensive mid market M&A expertise and experience across the team.
- International reach – over 20 countries and growing, with 90% of all sale mandates involving an overseas party.

Business Improvement

- Independent advice and planning strategy led by sector insights.
- Turnaround and profit improvement credentials.
- Leading the team through uncertainty.

Management Buy Out

- Deal leadership and fund raising.
- Align interests with management team.
- Co-investors on 15 deals.

Acquisition Support

- Listed and private clients.
- Research and origination - internal research team and tools.
- Strategic and financial assessment.

Capital Raising

- Supporting existing business to fund development.
- Supportive investor bringing focus on value creation.

Due Diligence

- Experienced and informed advice.
- Extensive experience within the UK and of international transactions.
- Tailored reports.

Orbis and Clairfield International: Recruitment Deals

December 18 Deal Completion

The Management Team

With backing from Clydesdale Bank

Acquired



Business Overview

Siamo Group provides temporary and permanent recruitment services combined with training, HR, payroll and IT services.

Our Role:

Orbis provided financial due diligence for Clydesdale Bank, who backed the MBO, providing an exit for private equity firm Key Capital Partners.

Contact

Gary Ecob

Partner

T: +44 (0) 121 234 6074

E: gecob@orbiscf.com

Tom McCarthy

Director

T: +44 (0) 121 234 6093

E: tmccarthy@orbiscf.com



Sold to

Herkules Capital

Advisor to the seller



Acquired



Advisor to the buyer



Was acquired by



Advisor to the buyer



Sold to

RG32

Advisor to the seller



Merged with



ET AMESTO-SLSKAP

Advisor to the seller



Sold to



Advisor to the seller



Acquired



Advisor to the buyer



Sold its Spanish operations to Management through an MBO

Advisor to the seller



Acquired



Advisor to the buyer



Acquired equity participation in



Advisor to the buyer