

Human Capital Market Survey Findings 2020

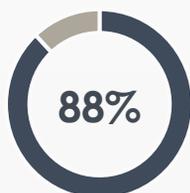


Gambit is pleased to publish the key findings of its 2020 Human Capital Market Survey. As the sector continues to show its demonstrable Covid-19 resilience, our findings reaffirm the level of optimism and positive sentiment that surrounds the market as we near the turn of the year. Below, we have set out some headline statistics, with the pages overleaf illustrating the key themes of our findings and analysing the potential implications for the prospects of Human Capital companies.



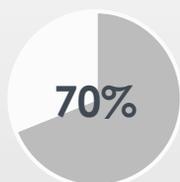
2 in 3

Respondents held a positive view towards the sector's prospects over the next 12-18 months



Support

Of respondents received financial support, with most opting to utilise the Job Retention Scheme, CBILS / CLBILS / BILS and the deferral of VAT



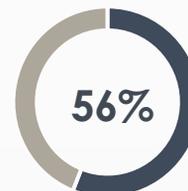
Robust

Of respondents reported only moderate or negligible financial impact of Covid-19 on their business



Buoyant

Expect to grow the size of their team in the next 12 months



Optimism

Of all surveyed expect activity in the sector to return to pre-pandemic levels by 2021



Growth

The most common strategic priority for respondents in the next 12 months (both organic and inorganic)



Positivity

When asked to describe the prospects for their business in one word, 63% used a word that indicates a positive sentiment



Resilience

One third of respondents did not make redundancies and none made redundancies at a level above 20% of their workforce

Covid-19 Response

Strategic Focus

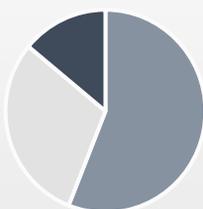
Key Findings

- 70% of respondents indicated a moderate or negligible impact of the pandemic on their business, further illustrating the sector's encouraging level of Covid-19 resilience.
- Utilisation of the Coronavirus Job Retention Scheme (CJRS) was high, with four in five respondents opting to utilise the scheme, with an average of 35% of workforces furloughed at its peak.
- VAT deferral was equally popular, with 80% of respondents opting to take advantage of the opportunity to delay repayment until March 2021 or paying in installments until March 2022.
- Just a quarter of respondents indicated that they had utilised loan schemes such as CBILS and 75% of those reporting a severe Covid-19 impact had not yet accessed the scheme.

Key Findings:

- Growth initiatives were most chosen as a strategic priority within the next 12 months, including overseas expansion, increasing headcount and, mainly, undertaking strategic M&A.
- Respondents with turnover of £0-60m were most likely to express a desire to undertake M&A activity in the next few months, while larger businesses tended to opt to improve and accelerate digitisation initiatives.
- In addition to growth, respondents were particularly focused on increasing operational efficiency by growing and intensifying their presence in Covid-19 resilient subsectors.
- Significant importance was also placed upon talent management, with key themes such as the development, strengthening and growth of companies' talent bases, despite Covid-19.

Financial Impact of Covid-19 on Respondents



■ Moderate □ Severe ■ Negligible

Implications

- Most respondents experiencing only a moderate or negligible financial impact reinforces the level of confidence that exists around the sector's Covid-19 resilience, which has served to maintain M&A market activity.
- With a high utilisation of VAT deferrals, businesses should ensure that they manage working capital replenishment effectively in the run-up to their new deferred repayment dates and ensure sufficient liquidity is in place.
- With the recent extension of CBILS to January 2021, those that have not yet accessed Covid-19 related loan schemes should explore the potential benefits, particularly those that have experienced a severe financial impact.

Key Strategic Priorities for Next 12 Months



1st
Growth



2nd
Increase
Efficiency



3rd
Talent
Management

Implications

- The sector's demonstrable Covid-19 resilience continues to give cause for optimism, with many of our respondents expediting their growth initiatives, boding well for future M&A activity levels.
- Clear appetite exists to undertake a transaction in the mid-market as businesses become less risk averse having evidenced an ability to navigate pandemic related uncertainty.
- Talent management is now considered best practice by the market, with respondents clearly prioritising the growth and maintenance of successful and profitable teams to offset the effects of exogenous headwinds outside of their control.

Sector Outlook

Key Findings

- Three in four respondents expect to increase their headcount in line with heightened current and forecasted demand, particularly prominent in companies with £0-60m in turnover or a temp staffing focus.
- Over half of respondents expect sector activity to return to pre-pandemic levels by 2021, in line with recent staffing sector forecasts from Onrec, as noted in our recent Q320 review.
- Nearly two thirds of participants were positive about the next 12-18 months, citing buoyant subsector demand, capital availability and an ability to service the UK's significant, impending, retooling and reskilling initiatives.
- When asked to describe prospects for the next 12-18 months in a word, 63% of respondents opted for words with positive sentiment such as "optimistic", "opportunity" and "confident".



Of all surveyed expect activity in the sector to return to pre-pandemic levels by 2021

9 in 10

Of respondents expect to increase or maintain headcount in the next 12 months

Implications

- The Human Capital sector is a barometer for wider UK economic confidence, therefore, the optimism surrounding 2021 bodes well for near-term sectoral and macroeconomic prospects.
- With the majority of respondents preparing to increase headcount, those that can establish and nurture competent, talented teams can grow and entrench market share, improving valuation prospects.
- The market's positive outlook is consistent with the recent uptick in valuation data in the Gambit Human Capital Index, as both strategic and financial acquirers look to pre-empt a lucrative 2021.

Challenges & Opportunities

Key Findings:

- While overriding sentiment is high, Brexit and IR35 continue to be prominent causes for concern, with both issues most commonly highlighted as the main near-term challenges faced by respondents.
- Despite featuring as the most commonly cited strategic priority, nearly one in two respondents referred to the achievement of organic growth as being a challenge in the next 12-18 months.
- Although demand for temporary staffing solutions is currently high, 100% of those with a permanent placement focus stated that they held a positive view of their prospects in the next 12-18 months.
- Three in five respondents with turnover above £60m stated that enhancing and transforming their technological capabilities is an area of focus to improve client servicing capabilities.

Key Challenges in Next 12 Months



1st

Brexit & IR35



2nd

Organic Growth



3rd

Digitisation

Implications

- As the uncertainty surrounding Brexit and IR35 intensifies in the coming months, affected companies will need to ensure that technical issues are understood and factored into strategic plans, liaising with their wider advisory network to ensure a best practice approach.
- With a significant level of apprehension surrounding the achievability of organic growth targets, the M&A market offers an effective means to achieve strategic ambitions.
- As larger companies look to adapt through digitisation initiatives, those with robust technological solutions already in place will attract heightened acquirer appetite.



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“In a highly challenging year for Human Capital companies, our findings are a clear endorsement of the sector’s ability to adjust and adapt to the challenging economic conditions. The level of optimism as we head into a crucial Q420 bodes well from both a sectoral and macroeconomic perspective, with respondents targeting 2021 as a year of great promise and opportunity.”



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“The positivity indicated by respondents corresponds with the robust level of appetite for Human Capital companies, as reflected in Gambit’s latest M&A market data. Our findings echo and reinforce the positive sentiment that surrounds the sector following its successful navigation of one of the most challenging economic periods on record.”



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“It is encouraging to see our findings reaffirm the Human Capital sector’s demonstrable level of Covid-19 resilience and portray a positive outlook for the year ahead. It is also very positive to see the market’s strong level of engagement with our survey, enabling us to provide insight and analysis based on representative viewpoints from across the sector.”

Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the Human Capital sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

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