

Human Capital M&A Market in Focus December 2020



Drivers of Volumes

- The Human Capital sector has evidenced an encouraging level of Covid-19 resilience which, particularly in H20, has seen companies revisit their pre-pandemic strategic goals, including growth and diversification.
- Listed recruiters have strengthened their war chests through equity raises to support opportunistic M&A activity, in line with increased risk tolerance levels.
- Mid market Human Capital M&A activity has been sustained by unprecedented levels of capital availability, with financial acquirers particularly attracted to the sector's level of resilience.
- As a result of the polarity in fortunes, we expect to see heightened consolidation within the Human Capital sector, as assets with a defined sub-sector niche become a part of larger corporate portfolios.



The most common strategic priority for respondents in the next 12 months

Growth (Gambit Human Capital Survey 2020)

56%

Of recruiters expect activity to return to pre-pandemic levels by 2021

(Gambit Human Capital Survey 2020)

Gambit's View

- The buoyancy demonstrated by the Human Capital M&A market bodes well for 2021, and recruiters are actively targeting it as a year in which activity will revert to pre-pandemic levels.
- The envisaged changes to CGT will lead to an acceleration of sellers in the market, creating a value maximisation opportunity for sellers to benefit from tax relief and buyers to capitalise on a rise in available assets.
- Well-prepared acquirers with strongly capitalised balance sheets have an opportune moment to engage with the M&A market and take advantage of potential dislocations and any rise in distressed activity.

Drivers of Valuations

- Human Capital market valuations have remained stable, buoyed by healthy levels of capital availability and acquirer's appetite for sectors demonstrating Covid-19 resilience.
- Companies that have demonstrated readiness and implemented mitigation strategies against regulatory changes such as Brexit and IR35 have attracted premium valuations amidst varying levels of market preparedness.
- Recruiters servicing sub-sectors which have been insulated from the effects of the pandemic (e.g. IT) have attracted premium valuations as acquirers rebalance portfolios in anticipation of the next economic cycle.
- Those that have a footprint in niche, in-demand markets such as Healthcare have leveraged the current environment to their advantage, experiencing heightened appetite and enhanced valuations.

25%

Rise in EV/EBITDA multiples in the Gambit Human Capital Index in Q320

(Gambit Analysis, October 2020)

\$1.7tn

Amount of dry powder held by Private Equity firms as at July 2020

(Forbes, November 2020)

Gambit's View

- A significant level of dry powder remains undeployed by Private Equity firms and a general shortage of quality assets will sustain market valuations into 2021.
- With EV/EBITDA multiples within the Gambit Human Capital Index rebounding to pre-pandemic levels in Q320 and sentiment towards 2021 remaining positive, valuation data supports an encouraging outlook.
- With the latest lockdowns hitting hiring activity less than feared, the sector is well positioned to continue its positive trajectory, with valuations set to benefit from more stable demand in 2021.

Proactivity



- Proactive companies that have been acquisitive through all stages of economic cycles have historically out-performed their peers and this will continue to drive strategic consolidation initiatives.
- Companies that have demonstrated readiness and implemented mitigation strategies towards Brexit and IR35 will attract acquirer's attention as the realities of these issues come into view.
- Potential changes to Capital Gains Tax will alter near term shareholder objectives and motivations, creating an opportunity for buyers to capitalise on a rise in available assets.
- Companies with well-capitalised balance sheets have seized ad-hoc opportunities, enhancing prospects through proactive, pre-emptive financial and strategic preparation.
- Interest rates are set to be 'lower for longer', giving Human Capital companies the chance to fully test the debt markets and obtain funding for short or medium term strategic activity.

Growth



- As organic growth has become increasingly challenging, the M&A market's appeal has risen, offering Human Capital companies an effective means to achieve strategic goals.
- Human Capital companies' portfolios will continue to be rebalanced and the M&A market provides a gateway to access sub-sectors which are underrepresented.
- Management teams are looking to achieve operational scaling through successful acquisitions, demonstrating confidence to acquire during times of uncertainty.
- Strategic buyers are continuing to build positions for takeovers of undervalued companies by testing the debt market to secure flexible acquisition financing facilities.
- Larger companies continue to review existing business models to meet the future demand of high-growth sub-sectors, increasing the level of growth of companies with a more defined value proposition.

Focus



- Recruiters with a competency in servicing in-demand sub-sectors have intensified their level of coverage within these areas, becoming further entrenched within them by building market share through consolidation initiatives.
- As corporate identities have been stretched by the pandemic, Human Capital companies are placing greater value on cultural fit when undertaking M&A activity and those with a strong competency in this regard will attract heightened appetite and enhanced valuation prospects.
- While London based hiring activity is beginning to rebound, greater economic disbursement caused by the pandemic will broaden the focus of acquirers to review the regional mid-market for future growth opportunities.
- We anticipate a rise in sales of non-core assets which will serve to both address near term liquidity, leverage and valuation issues, facilitating greater strategic focus and driving overall M&A activity upwards.

Collaboration



- With 2.6m unemployed people in the UK expected in 2021, recruiters are preparing to cater to a significant rise in candidate availability and those that collaborate with both public and private sector initiatives will enhance their market reputation and appeal.
- The UK's productivity gap continues to feature as one of the most cited issues for recruiters, but we expect that 2021 will provide an impetus for recruiters to solve this collaboratively.
- With a "once in a generation" national infrastructure investment of £100bn pledged by the Chancellor, recruiters in the Engineering sub-sector may look to collaborate and consolidate to service the demand, boosting M&A volumes and valuations.
- Higher unemployment will require innovative retraining and reskilling initiatives from Human Capital companies, providing an impetus for recruiters to solve this collaboratively, through bilateral agreements or increased M&A activity.



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"The M&A market continues to offer Human Capital companies an effective means through which they can achieve their strategic ambitions. We have been encouraged by the sector's performance throughout 2020, despite significant exogenous headwinds and the trends that we are observing echo the market's expectation that 2021 will be a year of prosperity and opportunity."



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"M&A activity continues to be supported by favourable underlying drivers of volumes and valuations, underpinned by encouraging underlying market trends. We believe that the Human Capital sector's demonstrable level of Covid-19 resilience shown in 2020 has cemented the market's reputation as a robust and resilient performer through all stages of economic cycles."



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"Human Capital companies should ensure that they are alert to the array of opportunities that 2021 is set to offer. The trends that we are observing bode well for activity in 2021 and those that may be considering undertaking a transaction face an opportune moment to engage with the M&A market as part of a proactive approach to achieving their medium to long term strategic ambitions."

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.

www.gambitcf.com

Corporate Finance International

Gambit is the exclusive UK shareholder of CFI, a global partnership of middle-market investment banks and corporate finance advisory firms. With over 200 professionals located in 26 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI advised on in excess of 35 staffing sector deals in 2019 and was ranked number 16 in Europe and 21 globally by Thomson Reuters for transactions valued up to €200 million.

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