

Human Capital Exit Timing Considerations May 2021



A window of opportunity exists for Human Capital companies to capitalise on favourable market valuations, consolidation, hiring and demand trends to ensure optimal value realisation before anticipated changes to the Capital Gains Tax ("CGT") regime are implemented.



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"This is a crucial six month period for Human Capital business owners considering an exit to capitalise on optimal conditions for maximum value realisation. With CGT changes firmly on the agenda for the Autumn Budget, it is of paramount importance that business owners fully consider and analyse their realisation strategies with expert advisors to ensure that the window of opportunity is not missed."



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"Market fundamentals remain strong, with demonstrable buoyancy across key metrics such as deal volumes, valuations, hiring data and levels of sub-sector activity. Human Capital business owners considering an exit are in the driving seat and have six months to ensure the value in their shareholding is optimised before any changes to CGT are announced in the Autumn."



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"Whilst dealmaking has changed during the pandemic, M&A participants remain flexible and open to undertake swift transaction processes. Dealmakers have also become adept at undertaking remote due diligence and negotiations, providing Human Capital business owners with assurance that the current optimal conditions for an exit can be fully exploited."

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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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 is ranked number 24 in Europe and 32 globally by Thomson Reuters for transactions valued up to €200 million.

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Rising Valuations

- The Human Capital sector has seen a significant recovery in valuations since the initial onset of the pandemic, with valuation multiples doubling in the last twelve months as hiring market buoyancy and demonstrable Covid-19 sectoral resilience has driven significant appetite.
- Valuations have also been buoyed by interest from private equity companies who hold a record £1.7tn of dry powder and are on the look out for high quality and opportunistic deals, particularly for Human Capital companies that will bounce back quickly when restrictions fully subside.
- Human Capital sector valuations will also be supported by the continued success of the UK's vaccination programme and the removal of Covid-19 related social restrictions, which will support buoyant levels of business confidence and hiring activity.

Increasing Consolidation

- Recent quarters have seen a sharp rise in M&A volumes, driven by anticipated potential changes to rules around CGT and also an abundance in the availability of capital from a supportive and flexible debt market.
- Cash reserves of publicly listed Human Capital companies have more than doubled over the course of the last twelve months, possessing significant resource to undertake greater levels of strategic M&A as Covid-19 restrictions are further relaxed.
- Avoiding stagnation and broadening service capabilities will be paramount in the post-Covid-19 environment and a sense of urgency has been created to acquire quality 'bolt-on' assets to augment existing offerings and broaden technological capabilities,

£1.7tn

Dry powder held by private equity companies as at December 2020

(MergerMarket, December 2020)

121%

Increase in cash reserves of listed Human Capital companies over the last twelve months

(Refinitiv, April 2021)

17.5%

Increase in the value of the Thomson Reuters Employment Services Index since December 2020

(Refinitiv, May 2020)

15,000

Number of Human Capital companies in the fragmented UK market

(SIA, January 2021)

Gambit's View

- With Business Asset Disposal Relief reduced to £1m and Capital Gains tax changes firmly on the agenda for the Chancellor's Autumn budget, Human Capital company owners thinking of an exit should be planning now, to maximise the value in their shareholding and benefit from buoyant market valuations.
- **The level of sectoral attention from investors looking to deploy record levels of capital will spur an active M&A environment and provide an opportunity for those looking to exit to do so at favourable valuations.**
- Whilst buoyancy is evident in the Human Capital market, it remains vitally important to effectively negotiate Covid-19 adjustments to business performance to ensure that value realisation is both protected and optimised.

Gambit's View

- Record levels of cash held by Human Capital companies and dry powder held by financial acquirers presents an optimal environment for a sustained rise in consolidation within the sector and an opportunity exists for sellers to maximise both competitive tension and value realisation.
- **Buoyant M&A market activity is also being facilitated by a supportive debt market, which is deploying capital at record low interest rates, offering acquirers looking to undertake a transaction flexible solutions to fund deals.**
- As the service portfolios of recruiters, talent platforms and online job advertising firms increasingly overlap, competitive intensity is growing and Human Capital companies will look to broaden the channels through which they operate, driving a wave of consolidation.

Positive Hiring Outlook

- Recent hiring data shows that job vacancies in the UK rose at the fastest month-on-month rate in 23 years in April, driven by the easing of lockdown improving business confidence, skills shortages and a resurgence of permanent recruitment activity.
- Human Capital companies are increasingly positive about the hiring outlook, with Hays recently reporting that 56% of employers are hiring with 67% of these looking to hire intermediate and senior level staff to drive growth in the post-pandemic environment.
- The closely monitored Purchasing Managers' Index rose from 56.8 in March 2021 to 60.8 in the first weeks of April, the highest since October 2013, demonstrating the level of growth in the UK's private sector, which is driving record current and forecast levels of hiring activity.



Over one in two employers are currently in the process of recruiting talent

(Hays, April 2021)

67%

Of hiring employers are looking to recruit senior level staff to drive post-Covid-19 strategic growth

(Evening Standard, April 2021)

Gambit's View

- The Gambit Human Capital Index indicates that positive hiring trends are translating into enhanced valuations, as companies in the sector are faced with record levels of current and future hiring demand from clients, presenting a window of opportunity for sellers.
- **With two thirds of hiring employers looking to recruit senior level staff, the prospects of Executive Hire recruiters will be enhanced as companies increasingly look for top level talent to lead and execute post-pandemic strategies.**
- Listed recruiters such as Robert Walters, Hays and PageGroup are raising profit expectations on the back of buoyant hiring data and with share prices rallying in lockstep with growing cash balances, M&A activity is high on the strategic agenda, presenting a viable exit route.

Sectors In Demand

- Covid-19-resilient staffing sub-sectors such as healthcare continue to see robust levels of acquirer demand and technology enabled assets in these markets are attracting enhanced appetite amidst a wider 'consolidation wave' for staffing platforms.
- Share prices of listed recruiters have rallied in response to positive trends in permanent, contract and interim employment in Q1 2021, indicating market stability, which proactive sellers will leverage to undertake a sale process which maximises value before any CGT changes.
- The IT sub-sector continues to evidence hiring resilience and buoyancy, registering the steepest month on month growth rate in permanent staff vacancies in April (REC), closely followed by the Professional and Engineering sub-sectors.

400%

Increase in hospitality job postings in April 2021 when compared with the same month last year

(CV Library, April 2021)

**24
Years**

Permanent hiring activity is at its highest level since 1997

(REC – Report on Jobs, May 2021)

Gambit's View

- Acquirers have been encouraged by the sector's resilience to the pandemic and are now looking to execute targeted M&A strategies to ensure portfolios meet the demands and challenges of the post-pandemic landscape.
- **When compared with 2020, the polarity in hiring data on a sectoral basis is currently less severe, with activity levels picking up across a broad range of sectors and a resurgence of demand in Covid-19 impacted sectors is likely to drive 2021 market activity further.**
- Acquirers remain persistent, flexible and well-capitalised, with the aim of seizing opportunities for diversification into areas with high demand for effective staffing solutions, presenting an attractive window of opportunity for sellers to benefit from favourable market dynamics.