

Human Capital M&A Market Review H1 2023



This edition of Gambit's Human Capital Market Review reaffirms the UK as a core focus for domestic and international investment. With inflation beginning to reduce, we expect debt markets to begin to 'open up' in the coming months, facilitating further growth in domestic and international M&A activity in the UK market throughout the remainder of 2023 and beyond.

More favourable debt markets will encourage private equity acquirors back into the market to deploy their record levels of 'dry powder'. With increased appetite we expect to see a 'flight to quality' with high quality, resilient assets with a scalable proposition attracting significant competitive tension from strategic and financial acquirors, securing premium valuations.

With favourable market conditions to crystallise value, Human Capital business owners need to be mindful that potential capital gains tax increases are on the horizon with the upcoming General Election expected in late 2024. Early preparation will pay dividends.

H123 Summary

- Human Capital average **deal values rose by 379.9% between Q123 and Q223** as acquirors seek safety and stability in their investments and focus on the most premium Human Capital assets available.
- Human Capital **acquisitions involving private equity acquirors increased from 37% to 39% in H123** as the dynamic debt landscape continues to alter the buyer landscape in the UK Human Capital market.
- **Cross border acquisitions grew to 36.4%** of all UK Human Capital transactions in H123, demonstrating the UK Human Capital market's **continued attractiveness on a global scale**.
- Recruiters servicing **high growth candidate short sub sectors, such as built environment and leisure and hospitality continue to be in the spotlight** for domestic and international strategic and financial acquirors.
- The attractiveness of the UK market was demonstrated yet again in H123, as **one of most active Human Capital M&A markets globally**, second only to the US and ahead of Japan.
- Despite a slight fall in publicly traded Human Capital EV / EBITDA multiples in H123, **private company transaction multiples remained strong**, averaging 6.8x.
- A **fall in UK CPI inflation** could signal the end of continued Bank of England base rate rises, **'opening up' the debt markets** to facilitate leveraged transactions, driving increased M&A activity.
- With anticipation of the upcoming **UK General Election set to take place in late 2024**, Human Capital business owners looking to consider their options should **seize the opportunity to capitalise on the current Capital Gains Tax regime**.

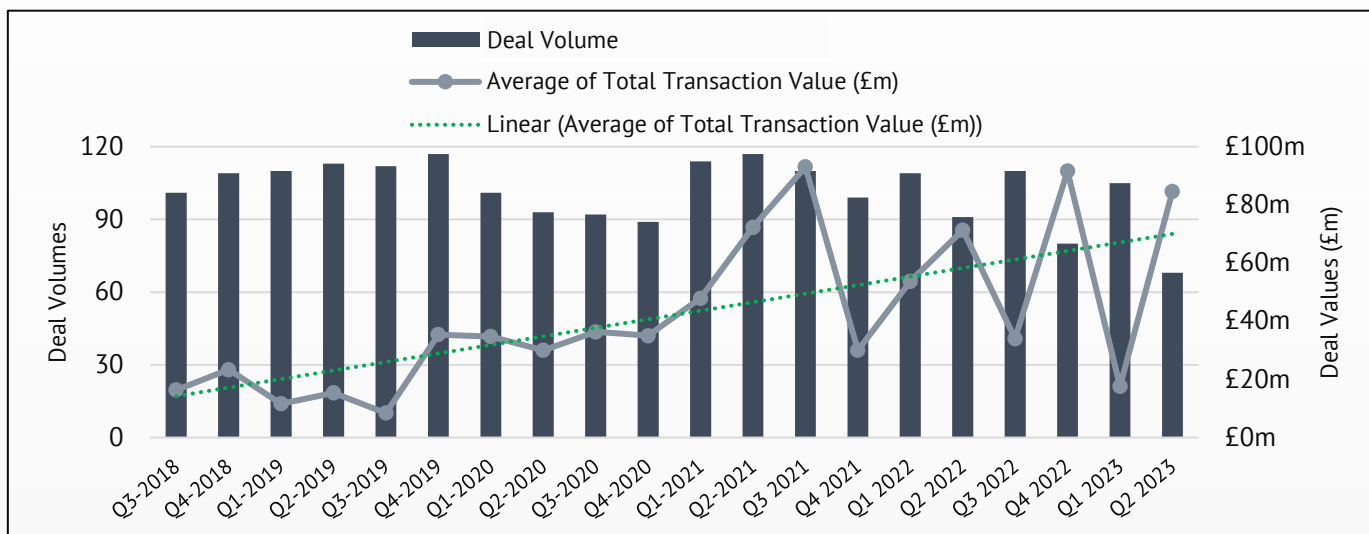


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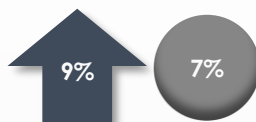
“Human Capital business owners should seek to enhance their KPI's and pursue continued penetration into high growth sub sectors throughout the remainder of 2023.”



Company Name	EV / EBITDA			
	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Adecco S.A. (SWX)	7.6x	8.3x	8.0x	7.6x
Brunel International NV (ENXTAM)	6.0x	6.6x	7.8x	7.3x
Gattaca PLC (AIM)	5.2x	8.8x	2.2x	4.4x
Hays PLC (LSE)	6.8x	6.3x	6.8x	6.2x
Impellam Group PLC (AIM)	4.7x	6.1x	7.4x	7.7x
ManpowerGroup Inc (NYSE)	5.2x	6.0x	6.2x	6.0x
Page Group PLC (LSE)	4.2x	5.3x	5.2x	5.0x
Randstad Holding NV (ENXTAM)	5.9x	7.2x	7.0x	6.3x
Robert Half International Inc (NYSE)	7.4x	7.1x	7.8x	8.4x
Robert Walters PLC (LSE)	4.2x	5.0x	4.1x	3.6x
SThree PLC (LSE)	4.5x	5.3x	5.1x	4.2x
Gambit Human Capital Index	5.6x	6.5x	6.1x	6.1x

- Despite an 8.9% decline in deal volumes from H222 to H123, average deal values grew by 379.9% between Q123 and Q223. This was impacted by two large domestic transactions in the Japanese market.
- The continued strength in average deal values could mark a 'new normal' for Human Capital company valuations as international acquirors look to secure premium Human Capital assets whilst UK market conditions remain favourable.
- A decline in deal volumes against an increase in average deal values between Q123 and Q223 can be explained by more rigorous due diligence processes and refined acquisition criteria resulting in a flight to quality.
- Despite a recovery in the strength of Sterling, UK assets still present a relative discount to global acquirors, with cross-border acquisitions representing 36.4% of all UK Human Capital sector transactions throughout H123.
- A 2.6% fall in CPI inflation in H123 could mark the end of continued interest rate hikes, signalling a potential 'opening up' of debt markets, enhancing Human Capital M&A activity.
- Cash rich public companies remain focused on pursuing aggressive acquisition strategies to diversify into high growth sub-sectors or to build market share within their existing markets.
- Although EV / EBITDA multiples amongst publicly traded Human Capital companies stagnated in H123, private company transaction multiples remained strong, averaging 6.8x in H123.

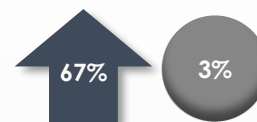
Professional



- Professional staffing M&A transaction volumes increased in H123, with volumes continuing to increase quarter-on-quarter since Q221.
- As acute skill shortages place increasing strain on many of the UK's most prominent sectors, professional services firms continue to pay increasingly higher placement fees to source top talent, boosting professional services recruiters' key KPI's, enhancing their attractiveness to acquirors.
- Professional services recruiters offering a mix of temporary and permanent staffing services will begin to experience enhanced growth in coming periods as skill shortages persist.

40% Of professional services firms placed recruiting talent as their top priority
(Source: The Access Group, March 2023)

Leisure & Hospitality



- The recovery of the hospitality sector in the UK in the aftermath of the COVID-19 pandemic has ignited confidence as demand for hospitality workers continues to outpace supply.
- Given the highly fragmented nature of the market, as well as the demographic of hospitality workers, the sector sees the highest employee turnover rates across the economy, driving a consistent demand for hospitality recruiters servicing this highly cyclical market.
- A key consideration for hospitality recruiters is to grow and maintain their active candidate pools to be in a position to respond to the continued acute shortage of talent in the sector.

46% Rise in demand for hospitality workers compared to pre-pandemic levels
(Source: SIA, March 2023)

Built Environment



- As macroeconomic confidence begins to return to global markets, expansion in the global construction market has led to significant growth in specialist built environment Human Capital company M&A transactions in H123.
- The growth in built environment recruitment M&A activity can be largely explained by sustained acute skills shortages throughout the sector, particularly across Europe.
- 20% of all built environment Human Capital deals in H123 consisted of a non Human Capital, non Private Equity acquiror, as construction companies seek to bring their recruitment processes in-house in light of margin pressures and the expectation of continued skill shortages.

225k Additional construction workers are needed in the UK by 2027
(Source: CSN, June 2023)

General staffing



- Despite an increase in general staffing transactions in H222, volumes have fallen significantly in H123 as acquirors seek Human Capital assets servicing niche high growth sub-sectors.
- Weaker UK economic forecasts have resulted in a decline in permanent placements, declining at the steepest pace for over three years.
- Overdiversified recruiters, particularly those with small candidate pools may struggle to fill positions in the near future.
- Generalist recruiters with specific diversified sub-sector specialisms will continue to attract significant attention from global strategic and financial acquirors as employers deal with expected further staff losses throughout the remainder of 2023.

58% Of employers in the UK believe that they will lose staff in the next six months
(Source: SIA, February 2023)



% change in deal volume from H222 to H123



% total deal volume in H123

With significant valuations and increased acquiror scrutiny, we set out below the key prominent acquiror groups and their current focus areas when engaging with the Human Capital M&A market.

Strategic

- Despite a slight gain in the proportion of financial acquirors engaging in Human Capital M&A transactions in H123, strategic acquirors remain the most prominent, representing 61% of all transactions, with the UK market remaining a core investment focus.
- Given the highly fragmented nature of the UK Human Capital market and the diversity of global market participants, strategic acquirors are striving to secure assets that can diversify consolidators' portfolios across a range of high growth sub-sectors.
- With reducing inflation creating more supportive debt capital markets, the attractiveness of UK Human Capital assets has maintained strong levels of M&A volume throughout H123, a trend set to continue throughout the remainder of 2023.

Financial

- Human Capital transactions involving a financial acquiror increased in H123, representing 39% of transactions compared to 37% in H222, signaling an increased focus on the UK Human Capital market as an avenue to deploy significant reserves of 'dry powder'.
- Financial acquirors continue to offer valuable guidance and ongoing strategic and financial support for Human Capital business owners seeking to de-risk their position or pivot the focus of their company into new markets.
- The dynamic debt landscape is further altering the buyer landscape within the Human Capital M&A market as strategic acquirors often using leverage to complete acquisitions are being replaced by highly liquid global private equity acquirors.

27%

Of UK business services CFOs were more optimistic about future financial performance in Q123 than in Q422

(Deloitte, March 2023)

39%

Of Human Capital M&A transactions in H123 involved a private equity acquiror

(Refinitiv, September 2023)

24%

Of C-Suite company Executives plan to carry out acquisitions in 2023 to navigate macroeconomic tailwinds

(Boston Consulting Group, April 2023)

\$1.3T

Of 'dry powder' held by private equity firms globally ready to be deployed into the M&A market

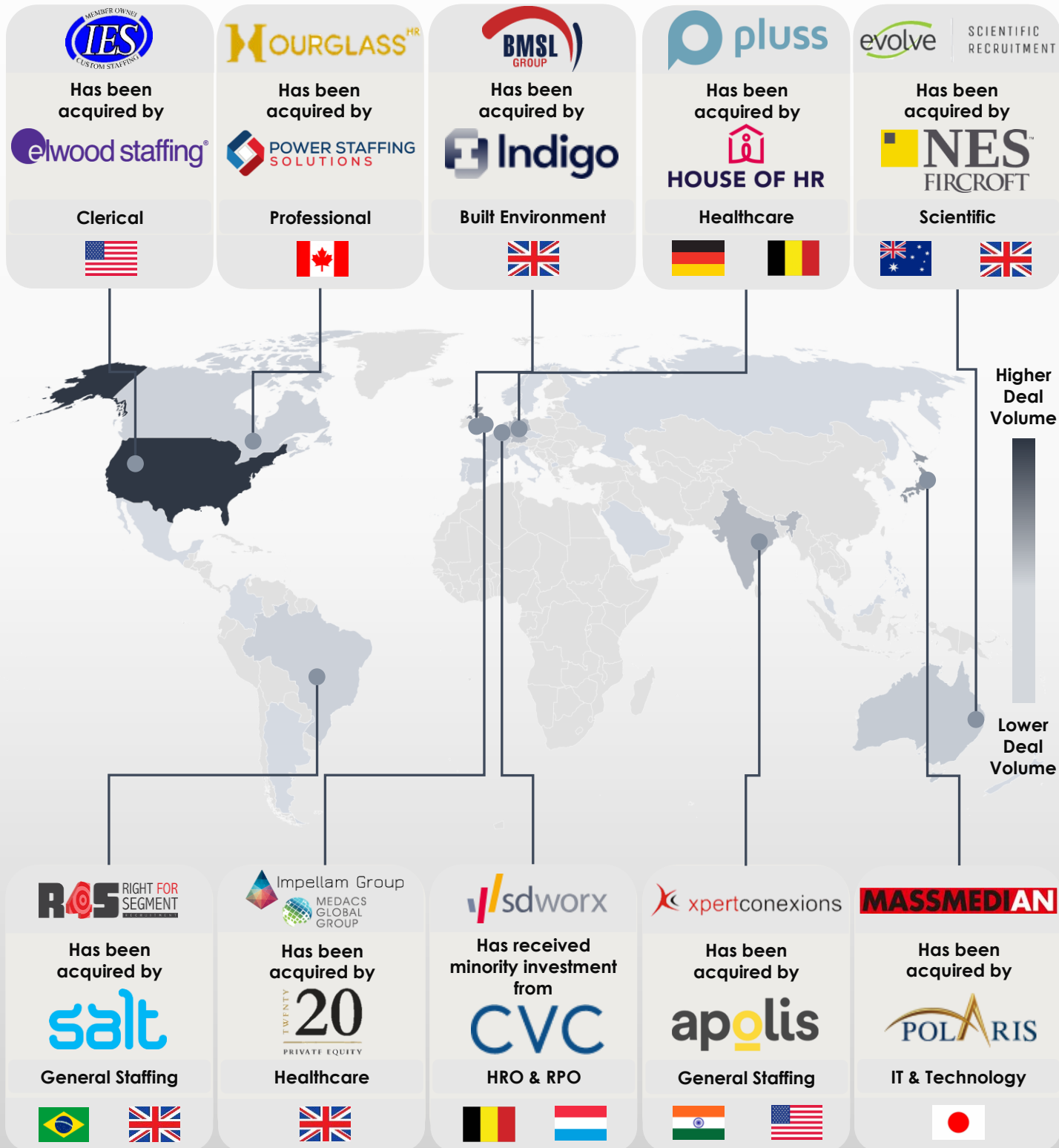
(Forbes, March 2023)

Gambit's View

- Despite continued strength in cross border Human Capital M&A activity throughout H123 and the attractiveness of the UK market to international acquirors, the rising value of Sterling relative to the Euro and US Dollar may be a catalyst for a slight reduction in cross border activity if foreign exchange trends continue.
- The upcoming General Election set to take place in late 2024 and the potential increase in Capital Gains tax is encouraging Human Capital business owners to consider their options to capitalise on the existing regime, driving buoyant Human Capital M&A activity in H223.
- A slight easing in UK inflation rates throughout H122 could mark an end to contractionary monetary policy implementation seen since December 2021, resulting in the UK market becoming increasingly attractive to acquirors throughout future periods.
- Although the UK market has experienced slight instability over recent periods, the attractiveness of the UK relative to other global markets remains high, given rising political uncertainty in the US, economic instability in China and supply chain issues hindering other sectors, encouraging acquirors to turn their attention back to the UK as a safe and stable region to invest.
- Given the relative stability of the UK market and continued acute skills shortage affecting particular sectors in the UK, premium Human Capital assets remain in the spotlight for acquirors, particularly those servicing sectors affected by skills and candidate shortages.

Cross Border Activity

Three key regions remain a focus for Human Capital M&A activity; the US, UK and Japan, controlling a combined 57% of global Human Capital M&A activity in H123.



Key Points in Focus

- The upcoming UK General Election set to take place in late 2024 and the **potential rise in Capital Gains Tax** will continue to be a key consideration for Human Capital business owners who are looking to consider their options throughout the remainder of 2023 to **capitalise on the current low rate**.
- Despite macroeconomic and political uncertainty, the **UK Human Capital M&A market remains the second most active globally**, contributing 13.3% of all transactions in H123.
- Recruiters specialising in specific **high growth, candidate short sub-sectors will continue to be in focus for acquirors**, particularly those with **large active candidate pools** who can 'bridge the gap' of the UK acute skills shortage.
- Human Capital business owners looking to consider their options should seek to **focus on enhancing key KPIs, such as NFI to EBITDA conversion and productivity per fee earner, that are increasingly under the spotlight** by market consolidators.

Gambit's Added Value Approach

- Gambit's Human Capital expertise and dedicated research function enables us to identify off-market acquisition targets and assess acquiror appetite, whilst our close-knit relationships with the private equity market affords our client base targeted exposure to financial investors.
- Gambit's detailed knowledge and insight into the Human Capital market enables us to advise on appropriate valuation metrics and present opportunities to appropriate acquirors, targets and/or funders.
- We maintain regular dialogue with our international colleagues within Corporate Finance International (CFI), sharing cross-border opportunities, sector trends and transaction insights, underpinning constructive negotiation of transactions resulting in a commercial and optimal outcome.
- Gambit acts as an extension to senior management teams, with a service that is genuinely partner-led by like-minded business owners, available 24/7 to discuss commercial issues or provide a sounding board, priding ourselves on the strong, long-lasting and collaborative relationships we build with our clients.
- In an increasingly active M&A market, Human Capital business owners should look to utilise experienced corporate finance advisors to support strategic decision making and maximise value realisation, leveraging the current buoyant level of M&A market activity.

Benefits of Gambit

- A team of highly experienced specialists
- Focussed on value creation and maximisation
- Commercial focus and attainment of shareholder objectives
- Significant cross-border capability as exclusive UK shareholder of CFI
- Deal risk minimisation
- 24/7 availability

Key Services Include

- Mergers & acquisitions
- Disposals
- Management buy-outs
- Fundraising
- Development capital
- Debt advisory
- Private Equity advisory
- Refinancing
- Value Maximisation Reviews
- Succession planning
- Strategic advice



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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 250 professionals located in 26 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services. CFI have advised on a significant number of staffing sector deals and is ranked number 13 in Europe and 20 globally by Thomson Reuters for transactions valued up to €200 million.

www.thecfigroup.com