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Human Capital
M&A Market Review
H2 2023

Introduction

This edition of Gambit's Human Capital Market Review demonstrates the continued resilience of the UK's human capital market in the face of a challenging macroeconomic environment, providing optimism for the year ahead. As inflation begins to moderate and interest rates stabilise, we anticipate a more favorable landscape for the Human Capital M&A market in 2024, driven by an opening up of debt capital markets and a resurgence of investment, particularly among high growth niche recruiters and private equity investors.

In anticipation of a more accommodating debt market in 2024, we can expect private equity acquirors to deploy their record levels of 'dry powder'. A resurgence of M&A activity seems imminent, with strategic investors poised to pursue premium UK assets in an effort to achieve geographic expansion, service offering diversification and candidate pool expansion.

Human Capital business owners seeking to consider their exit options in 2024 should remain vigilant to a potential rise in capital gains tax, with a UK General Election expected in late 2024.

H223 Summary

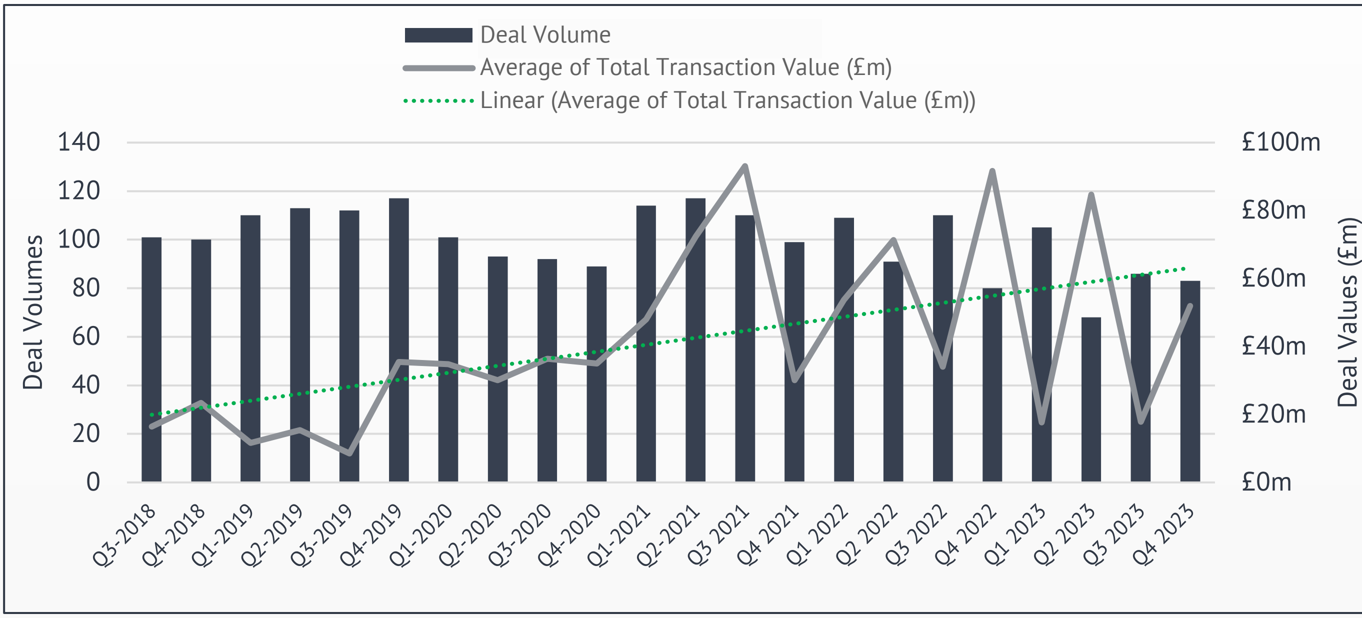
- Human Capital average **deal values increased by 190.8% between Q323 and Q423** as acquirors pursued a flight to quality, seeking to acquire the most premium assets in the UK Human Capital market.
- **$2.6 trillion of 'dry powder'** is currently held by **global private equity firms** and is **ready to be deployed into acquisitions** of UK Human Capital assets with a **scrupulous focus on productivity and KPIs.**
- The UK has once again reaffirmed its position as a **frontier in the global Human Capital Market M&A,** rivalled only by Japan and the USA.
- Recruiters servicing sub-sectors displaying **growth and resilience** through recent macroeconomic and geopolitical uncertainty continue to be in the spotlight for **global strategic and financial acquirors.**
- **EV/EBITDA multiples for publicly traded recruiters** have demonstrated **significant growth, rising from 5.8x in Q2 2023 to 7.8x in Q4 2023**, indicating heightened confidence within the market.
- **The recent softening in the UK's inflation rate**, coupled with a **pause in interest rate hikes**, suggests potential base rate reductions by mid 2024. This forecast is poised to enhance M&A activity as **a reduction in the cost of capital drives an increase in leveraged transactions** and investment throughout the UK economy.
- With expectations of a **UK general election set to take place at the end of 2024**, it is an opportune time for Human Capital business owners looking to consider their exit options to **capitalise on the current capital gains tax regime**.

Geraint Rowe
Partner, Human Capital

Simon Marsden
Director, Human Capital

"Human Capital business owners should look to take advantage of the current capital gains tax regime prior to the upcoming election in late 2024, particularly given the current positive economic outlook."

Global M&A: Activity



Company Name	EV / EBITDA Q1 2023	Q2 2023	Q3 2023	Q4 2023
Adecco S.A. (SIX)	8.0x	7.6x	9.7x	10.1x
Brunel International NV (ENXTAM)	7.8x	7.3x	8.1x	7.0x
Gattaca PLC (AIM)	2.2x	4.4x	3.1x	5.9x
Hays PLC (LSE)	6.8x	6.2x	6.6x	6.8x
Impellam Group PLC (AIM)	7.4x	7.7x	10.0x	12.8x
ManpowerGroup Inc (NYSE)	6.2x	6.0x	6.6x	7.7x
Page Group PLC (LSE)	5.2x	5.0x	6.7x	7.8x
Randstad Holding NV (ENXTAM)	7.0x	6.3x	7.2x	7.9x
Robert Half International Inc (NYSE)	7.8x	8.4x	9.9x	13.7x
Robert Walters PLC (LSE)	4.1x	3.6x	4.8x	5.1x
Staffline Group PLC	4.1x	2.5x	3.3x	2.8x
SThree PLC (LSE)	5.1x	4.2x	4.8x	5.4x
Gambit Human Capital Index	**6.0x**	**5.8x**	**6.7x**	**7.8x**

- Despite a 2.3% decrease in deal volumes from H123 to H223, average deal values grew by 190.8% between Q323 and Q423 as large global consolidators continued to seek high value premium assets.
- Despite a 31.8% reduction in average deal values from H123 to H223, valuations remain significantly higher than pre-pandemic levels, indicating a potential 'new normal' for Human Capital valuations that is set to continue throughout 2024 and beyond.
- Sustained increases in interest rates have undoubtedly been a significant factor contributing to the reduced deal volumes throughout H223.
- A stabilisation in interest rates since August 2023 augurs well for a gradual decline in rates throughout 2024 as UK inflation eases, prompting an upcoming uptick in deal volumes as multinational acquirors take advantage of a more favorable lending environment.
- EV/EBITDA multiples in the Gambit Human Capital Index have increased by 34.5% in H223 relative to H123, fuelled by increased levels of confidence across both the Human Capital sector and the wider UK market.
- Despite a slight easing of acute skill shortages throughout 2023, job openings in H223 remained at one million, enabling well prepared recruiters with large active candidate pools to benefit from enhanced margins and continued appetite from large multinational consolidators.

Sub-Sectors in Focus

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IT

300% 14%

- IT M&A transaction volumes increased substantially in H223, driven by the sector's consistent and unwavering expansion as the global economy becomes increasingly more reliant on IT systems and technology.
- Acute skills shortages are exerting increased pressure on the IT sector, leading IT services companies to pay enhanced fees to secure highly skilled professionals. This trend is improving the key performance indicators of specialist IT recruiters and increasing their attractiveness in the M&A market.
- The IT recruitment sector's success is bolstered by the drive for companies to integrate advanced digital solutions into their processes, enhancing the demand for highly skilled IT experts.

64% **Of global tech leaders say candidates for their IT and tech jobs lack necessary skills or experience.** *(Source: MIT Technology Review, Sept 2023)*

Construction

20% 4%

- One of the most prominent challenges faced by the construction sector is the ongoing acute skills shortage. Specialist construction recruiters with large active candidate pools are continuing to attract appetite from acquirors.
- The construction sector is inherently cyclical, responding to macroeconomic and geopolitical shocks. Growth in deal volumes in H223, coupled with a positive economic outlook, point towards a continued expansion of the sector and construction recruitment M&A activity in 2024.
- The construction sector's shift towards sustainable and efficient building practices has led to a surge in demand for professionals skilled in specialist construction disciplines, driving growth amongst niche construction recruiters.

790k **New jobs expected to be added within 2024. The largest amongst all sectors.** *(Source: esub, Dec 2023)*

Education

300% 5%

- The education sector continues to demonstrate significant resilience, with M&A activity in H223 markedly increasing relative to H123, driven largely by education recruiter's appeal to private equity acquirors.
- Although the Human Capital sector has seen a slight reduction in Private Equity M&A activity in H223, education recruiters remain in high demand, offering stability and resilience to wider market forces.
- Persistent acute skills shortages across the education sector has maintained strong demand amongst recruiters servicing the sector. Educational institutions are increasingly reliant on recruiters to fill the skills gap.

38% **Less postgraduate teacher recruitment than targeted in the 2023/24 academic year.** *(Source: UK Parliament, Dec 2023)*

Executive Search

53% 4%

- The executive search staffing market has struggled in recent periods, particularly in maintaining strong permanent candidate pools as job cyclicality is typically low amongst executive staff.
- Although uncertainty surrounding the UK economy has started to ease, companies remain hesitant to hire permanent executive high salary staff in fear of the potential impacts of heightened geopolitical tensions, particularly in relation to the Russo-Ukraine conflict.
- Despite a decline in the number of executive search roles filled by recruiters in H223, well prepared recruiters with substantial candidate pools have benefitted from enhanced fees for filling placements.

75% **Of employers globally report difficulty in filling roles.** *(Source: ManPowerGroup, Dec 2023)*

% — % change in deal volume from H123 to H223

% — % total deal volume in H223

Overview of Acquirors

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

- Human Capital M&A transactions involving a strategic acquiror increased to 66% in H223, compared to 61% in H123.
- Large multinational strategic acquirors continue to seek premium high value assets to achieve sub-sector diversification, maximise their active candidate pools and expand their geographic footprint, particularly within the UK market as the economic outlook improves.
- In light of changing working styles having a large impact on recruiters across the globe, large multinational market consolidators continue to seek premium assets that can service the highly dynamic market and take a forward-looking approach to the sub-sectors that they service.

Financial

- Deals involving a financial acquiror within the Human Capital sector have slightly reduced from 39% in H123 to 34% in H223.
- The decline in private equity led deals has been influenced by tighter debt capital markets and increased capital restraints, mounting increased pressure on leveraged buy-outs, which are one of the key methods used by global private equity companies when engaging in M&A transactions.
- Private equity firms have slowed their investments across all sectors in H223 in response to economic uncertainty. This has driven an increase in reserves of 'dry powder', encouraging anticipation of a surge in private equity activity in 2024 as the macroeconomic outlook improves.

60% **Of recruitment leaders were either 'optimistic' or 'very optimistic' about the year ahead** (Firefish, Dec 2023)

57% **Of corporate executives and advisors anticipate a stronger market in 2024.** (Crains Grand Rapids Business, Nov 2023)

34% **Of Human Capital M&A transactions in H223 involved a private equity acquiror** (Refinitiv, Jan 2024)

$2.59T **Of 'dry powder' held by private equity firms globally.** (S&P Global Market Intelligence, Dec 2023)

Gambit's View

- Anticipation of a potential change of government in Q4 2024, along with possible hikes in Capital Gains Tax, is prompting Human Capital business owners to re-evaluate their exit strategies and timeframes in 2024.
- As the UK moves towards a more stable economic environment, the UK Human Capital sector is becoming increasingly appealing to international acquirors. This is in stark contrast to other major global economies such as China, which is grappling with deflation and declining exports, providing the UK with a competitive advantage in attracting increased inward investment to the Human Capital sector.
- The ongoing acute skills shortage continuing to have a significant effect on the UK economy is likely to prompt an increase in large corporates acquiring niche UK Human Capital companies in a bid to bring their recruitment processes in-house and gain access to an active candidate pool of skilled workers.
- After a year of uncertainty in 2023, the UK looks towards 2024 with increased optimism. Easing inflation and the likelihood of falling interest rates are setting the stage for a strong year in the Human Capital sector across operational performance, key performance indicators and Human Capital M&A activity.
- Human Capital business owners looking to consider their options in 2024 should continue to focus on enhancing their KPIs, maximising their involvement in high growth technology driven sub-sectors and growing their active candidate pools.

Cross Border Activity

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Three key regions remain leaders for Human Capital M&A activity; the US, UK and Japan, controlling a combined 61% of global Human Capital M&A activity in H223.

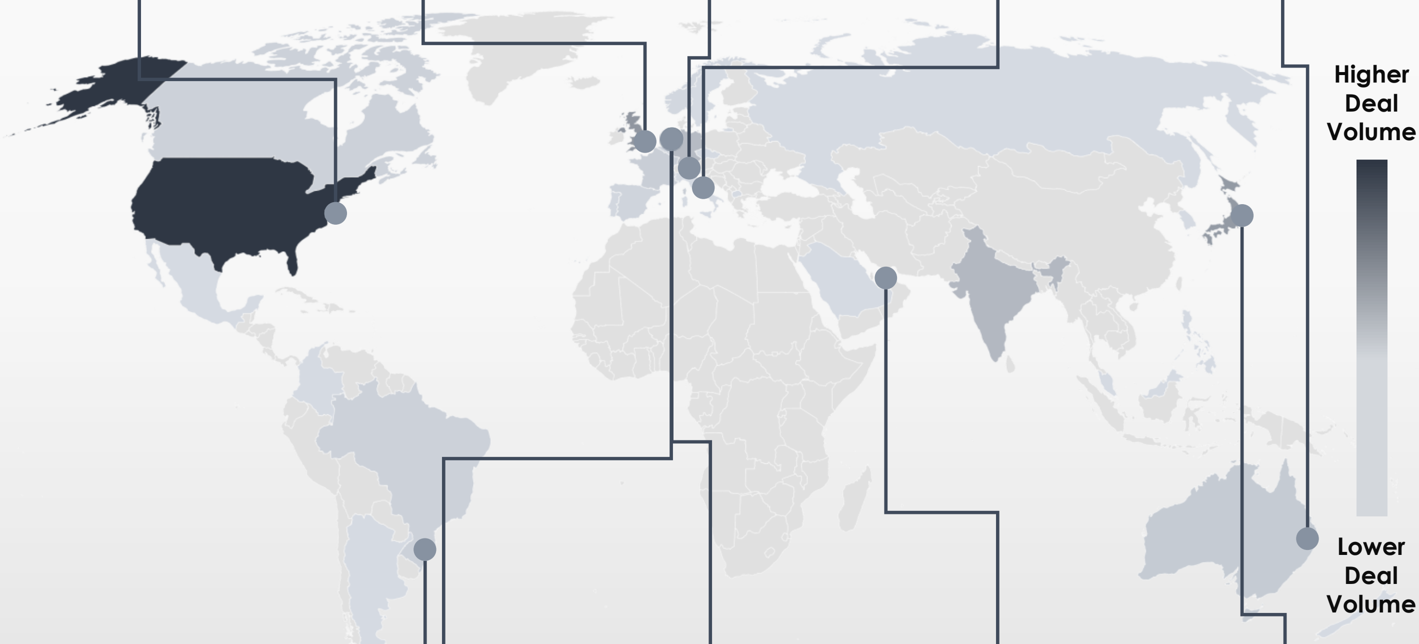
Medical Search DRW
Has been acquired by
AMN Healthcare
Healthcare

Impellam Group
Has been acquired by
HeadFirst
General Staffing

Kelly
Has been acquired by
Gi Group Holding
Professional

openjobmetis
Has been acquired by
Groupe crit
Healthcare

SILVERDROP
Has been acquired by
atturra
HRO & RPO



geekhunter
Has been acquired by
Howdy
IT & Technology

wiver
Uitzendbureau voor Transport & Logistiek
Has been acquired by
Logistic Force
Transportation

BLUETRAIL
Has been acquired by
NORDIAN
Professional

THE TALENT ENTERPRISE
Has been acquired by
Mercer
HRO & RPO

GreenSupportSystems
Has been acquired by
戸田建設
General Staffing

Key Points in Focus

- As the UK **General Election is predicted to take place at the end of 2024**, and potential changes to the Capital Gains Tax regime are on the horizon, Human Capital business owners looking to consider their options in 2024 should seek to capitalise on the current favourable regime.
- The **UK Human Capital M&A market is the third most active globally behind the USA and Japan**, contributing 8.6% of all transactions in H223.
- Acquirors will likely continue to target recruitment firms that concentrate on **high-growth, candidate scarce sub-sector niches,** particularly those boasting **sizeable, engaged candidate networks** capable of mitigating the UK's acute skills shortage.
- With the **2024 economic outlook improving**, Human Capital business leaders should concentrate on **enhancing their KPIs, such as NFI to EBITDA margins and fee earner productivity**, which are key to attracting premium valuations and maximising appetite from large global 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

Gambit Corporate Finance

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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 260 professionals located in 27 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 17 in Europe and 25 globally by Thomson Reuters for transactions valued up to €200 million.
www.thecfigroup.com