Human Capital
M&A Market Review
H1 2024

Introduction

This edition of Gambit's Human Capital Market review demonstrates a resurgence in M&A deal values and volumes to their highest levels in eight years, providing optimism for the remainder of 2024 as the global economy continues to show signs of recovery. With interest rates beginning to fall, and the expectation of a continued decline into 2025, as the global macroeconomy recovers, we anticipate a persistent upward trend in Human Capital M&A deal values and volumes as international acquirors continue to seek premium assets servicing an increasingly broad range of sub-sectors.

In anticipation of further reductions in interest rates and an 'opening-up' of debt markets throughout 2024 and 2025, we can expect Private Equity acquirors to return to the Human Capital market as a high growth, resilient avenue to deploy their 'dry powder' which remains near to record levels. As strategic acquirors accelerate their acquisition strategies, we expect continued competitiveness in the market to acquire high growth assets with exceptional KPIs that can help consolidators achieve increased sub-sector diversification, maximise their geographic footprint and enhance shareholder value.

Human Capital business owners should look to capitalise on the increased appetite of multinational acquirors to acquire UK assets in advance of expected changes to Capital Gains Tax which will be announced in the Budget on 30 October 2024.

H124 Summary

- Human Capital average **deal values increased by 178.3% from H223 to H124** as acquirors continue to seek quality assets within the Human Capital sector, **servicing a broader range of end-markets** as the global economy continues to recover.
- The UK has once again solidified its position as a significant force in the Human Capital M&A market, with the **UK representing 11.5% of global M&A activity in H124.**
- EV/EBITDA multiples for publicly traded recruiters have demonstrated sustained and stable growth as **confidence in the sector from international investors increases, with multiples increasing by 5.5% from H223 to H124.**
- Although **M&A activity in the sector reached eight-year highs in H124,** anticipation of further interest rate cuts will encourage a **new wave of activity including a return of Private Equity** investing in the Human Capital sector, with the UK remaining at the forefront.
- As sectors typically exhibiting high levels of cyclicality continue to recover and exhibit growth, **acquirors are broadening their horizons and appetite is increasing for a broader range of sub-sector leaders.**
- With **expectations of an increase in Capital Gains Tax to take effect early in 2025,** Human Capital business owners should focus on enhancing KPIs and driving increased profitability to **attract multinational acquirors during the next wave of consolidation in the sector.**

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Partner, Human Capital

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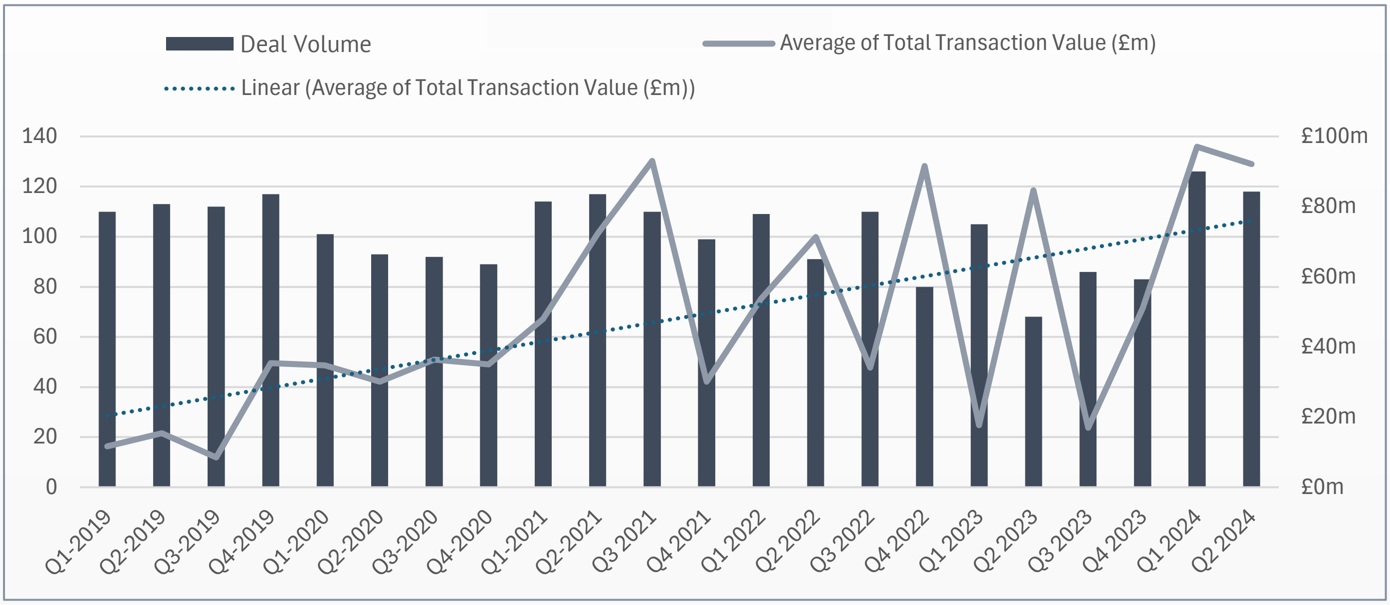
Partner, Human Capital

"Human Capital business owners looking to consider their options through the remainder of 2024 should take advantage of the current Capital Gains Tax Regime and the heightened appetite of global consolidators to acquire leading UK assets in the sector."

Global M&A: Activity



Company Name	EV / EBITDA Q3 2023	Q4 2023	Q1 2024	Q2 2024
Adecco S.A. (SIX)	9.7x	10.1x	11.1x	10.4x
Brunel International NV (ENXTAM)	8.1x	7.0x	6.4x	6.2x
Gattaca PLC (AIM)	3.1x	5.9x	2.9x	2.1x
Hays PLC (LSE)	6.6x	6.8x	6.2x	6.2x
Impellam Group PLC (AIM)	10.0x	12.8x	10.4x	10.6x
ManpowerGroup Inc (NYSE)	6.6x	7.7x	13.1x	13.7x
Page Group PLC (LSE)	6.7x	7.8x	7.8x	7.5x
Randstad Holding NV (ENXTAM)	7.2x	7.9x	8.2x	7.9x
Robert Half International Inc (NYSE)	9.9x	13.7x	11.9x	11.1x
Robert Walters PLC (LSE)	4.8x	5.1x	6.0x	6.4x
Staffline Group PLC (LSE)	3.3x	2.8x	2.5x	3.6x
SThree PLC (LSE)	4.8x	5.4x	5.6x	5.4x
Gambit Human Capital Index	**6.7x**	**7.8x**	**7.7x**	**7.6x**

- Despite a slight downtrend in deal volumes and a stagnation in average deal values from H221 to H223, deal volumes and average deal values in H124 increased by 44.4% and 178.3%, respectively, relative to H223.
- Anticipation of Capital Gains Tax rises is driving growth in Human Capital M&A deal volumes as business owners continue to seek exit strategies whilst the current tax environment remains favourable.
- The urgency for Human Capital business owners to complete exit strategies prior to potential Capital Gains Tax increases is demonstrated by H124 deal volumes in H124 reaching their highest levels since H116.
- The substantial increase in deal volumes and average deal values in H124 augurs well for sustained growth in the Human Capital M&A market throughout the remainder of 2024 and 2025, given the recent reduction in the Bank of England Base rate, which is forecast to continue reducing into H225.
- EV/EBITDA multiples in the Gambit Human Capital Index have increased by 5.5% in H124 relative to H223, enhanced by increased levels of confidence across both the Human Capital sector and the wider global market.
- Although recruiters with large active candidate pools have dominated the Human Capital M&A market since the pandemic, as open vacancy numbers continue to fall, niche recruiters will begin to come under the spotlight for domestic and international strategic and Private Equity acquirors.

Sub-Sectors in Focus

Executive Search

243% 10%

- Although the executive search staffing sector has struggled in recent periods, H124 saw a significant increase in transaction volumes, driven by an easing in geopolitical volatility, increasing employers' appetite to hire high salary senior staff.
- Despite making up a relatively small proportion of the staffing market, the high proportion of transactions completed in the sector in H124 reaffirms acquirors' appetite to capitalise on the sector's high fees for filling placements.
- One of the key objectives for Executive Search recruiters in H224 and H125 should be to maximise their active candidate pools as confidence in the wider economy increases and activity continues to accelerate.

20% **YoY increase in the median public company OTE for newly hired executives.** *(Source: Thrive, Jul 2024)*

Construction

17% 3%

- Construction M&A transaction volumes increased substantially in H124, driven by a strong recovery across both the commercial and residential construction sector in light of rising new orders and sales enquiries in the lead up to the UK General Election.
- The resurgence in the construction sector, particularly in the UK, follows a sustained period of underperformance instigated by a high interest rate environment, preventing inward investment, property sales and development.
- Anticipation of continued expansionary fiscal policy into H225 and the UK Government's housing strategy will continue to drive growth in UK construction, enhancing the attractiveness of Human Capital companies servicing the sector.

1.5m **New homes to be constructed in the UK in the next 5 years.** *(Source: BBC News, Aug 2024)*

General Staffing

39% 21%

- The general staffing Human Capital M&A market, which has typically underperformed in recent periods, has begun to respond to a levelling of the playing field in performance and growth prospects across all sectors.
- As highly cyclical sectors, including construction and manufacturing, begin to stabilise, acquirors are beginning to focus on acquiring well-diversified market leaders that can offer high growth and high defensibility.
- As job vacancies continue to fall, generalist recruiters should focus their efforts on client acquisition strategies, maintaining flows of open job roles in the increasingly competitive general staffing market.

$857k **Unfilled vacancies in the UK labour market in August 2024** *(Source: ONS, Sept 2024)*

Hospitality

67% 1%

- Despite the significant challenges faced across the hospitality sector, falling inflation and an expectation of a further 'opening-up' of debt markets augurs well for a recovery in the sector through H125.
- A 9.8% increase in the UK National Living Wage due to be implemented in April 2025 will drive increased placement fees, enhancing hospitality recruiters' KPIs which are an area of significant focus for acquirors.
- The sector's inherent high staff turnover presents an opportunity for human capital companies with large active candidate pools and an element of reoccurring revenue to attract appetite from strategic and financial acquirors.

30% **Increase in vacancies in the UK hospitality sector from pre-pandemic levels** *(Source: RSM, Feb 2024)*

% — % change in deal volume from H223 to H124

% — % total deal volume in H124

Overview of Acquirors

With significant valuations and increased acquiror appetite, 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 68% in H124, compared to 66% in H223.
- As the macroeconomic environment begins to exhibit positive signs of recovery and growth, strategic acquirors are becoming less reluctant to complete acquisitions of Human Capital companies servicing cyclical end-markets, driving higher deal volumes and transaction multiples across the sector.
- Large multinational market consolidators are continuing to focus on acquiring highly dynamic leaders within their respective sector specialisms to achieve sub-sector diversification, maximise active candidate pools, expand their geographic footprint and enhance shareholder value.

Financial

- Deals involving a financial acquiror within the Human Capital sector have slightly reduced from 34% in H223 to 32% in H124.
- The decline in Private Equity led deals comes as firms are delaying investment across all sectors in anticipation of further interest rate decreases and an opening up of debt markets, which will encourage a resurgence in capital deployment.
- With leveraged buy-outs being one of the key financing structures of Private Equity led deals, financial acquirors are highly reliant on favourable lending conditions. As current estimates point towards further falls in interest rates into 2025, Human Capital companies should prepare for increasing appetite from Private Equity acquirors.

94% **Of UK business leaders across the UK are forecasting revenue growth in 2024.** *(Firefish, Jan 2024)*

78% **Of UK CEOs report some extent of skills shortage within their organisation.** *(PwC, Jan 2024)*

32% **Of Human Capital M&A transactions in H124 involved a Private Equity acquiror.** *(Pitchbook, Sept 2024)*

$1.2T **Of capital raised across the global Private Equity market in 2023.** *(Bain & Company, Mar 2024)*

Gambit's View

- A change in government in the UK and the potential consequences of the expected changes to Capital Gains Tax are encouraging Human Capital Business owners to focus on growing their active candidate pools, enhancing KPIs and maximising profitability in an effort to increase their profile and come to the attention of potential acquirors.
- The UK economy's stable recovery in the wake of a period of economic volatility has made the UK a hotbed of activity for strategic Human Capital acquirors to achieve their geographic expansion, sub-sector diversification and value enhancement objectives, a trend that is expected to persist as market conditions continue to improve.
- Although Private Equity activity in the sector waned slightly in H124, the expectation of continued interest rate reductions throughout 2024 and into 2025 will see a resurgence of Private Equity acquirors completing leveraged buy-outs and deploying their near record levels of 'dry powder'.
- Despite continued month-on-month decreases in open job vacancies in the UK since Q222, some sectors continue to face significant candidate and skill shortages, driving high competition amongst acquirors seeking to complete acquisitions of Human Capital companies servicing affected sectors.
- Human Capital business owners looking to consider their options in 2024 should view this period as an opportune time to capitalise on the increased appetite of acquirors to acquire premium assets in the sector, and the current Capital Gains Tax regime, prior to increases expected to be implemented in April 2025.

Cross Border Activity

gamBIT CORPORATE FINANCE

Three key regions led the Human Capital M&A activity in H124; the US, UK and The Netherlands, controlling a combined 56% of global Human Capital M&A activity.

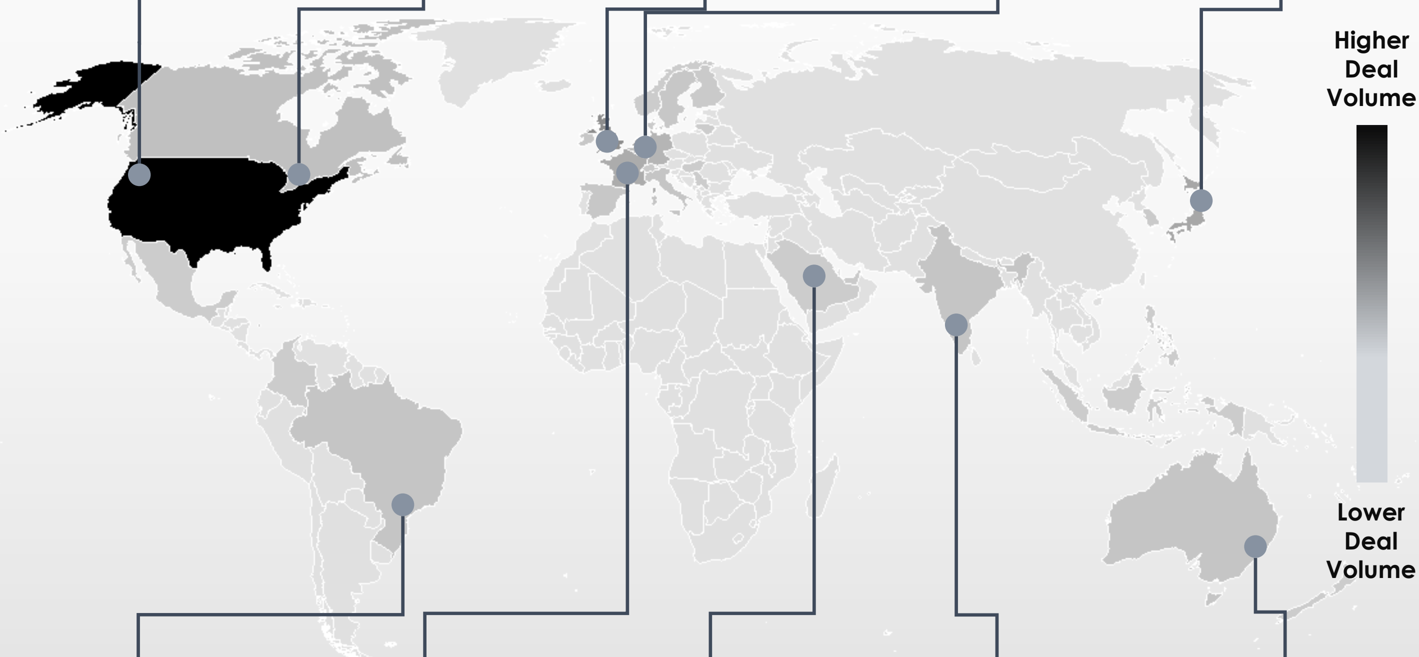
enspira
Has been acquired by
HUDDL3 group
General Staffing

GroupeX
Has been acquired by
HR Path
Your way to people success
HRO & RPO

iD Medical
Has been acquired by
Aya Healthcare
Healthcare

WORLD OF TALENTS
Has received Investment from
CVC CAPITAL PARTNERS
General Staffing

人材のソムリエ 株式会社 タスクフォース
Has been acquired by
MentalHealth Technologies
Healthcare



ahgora
Has been acquired by
TOTVS
HRO & RPO

Ad Hominem INTERNATIONAL
Has been acquired by
actual
Executive Search

Velents.ai
Has been acquired by
CORE VISION INVESTMENTS
HRO & RPO

taskmo
Has been acquired by
QUESS WINNING TOGETHER
General Staffing

EMPLOYMENT INNOVATIONS
Has been acquired by
employmenthero
HRO & RPO

Key Points in Focus

- With the UK Government's **expected upcoming announcement of an increase in Capital Gains Tax rates**, Human Capital business owners looking to consider their options should seek to **capitalise on the current favourable regime.**
- The UK Human Capital market has once again reaffirmed its position as a secure and stable location for strategic and financial acquirors to invest, with the **UK accounting for 11.5% of global M&A activity in the sector, placing second only to the US.**
- As the UK economy continues to recover and growth forecasts improve, **acquirors are beginning to seek acquisitions of Human Capital companies servicing sectors typically exhibiting increased cyclicality,** such as construction, as confidence in the wider economy improves.
- As levels of competition within the UK Human Capital market continue to increase, **business leaders in the sector should concentrate on enhancing their key KPIs, such as NFI to EBITDA conversion and fee earner productivity,** which are key to attracting premium valuations and appetite from acquirors.

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 300 professionals located in 29 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 12 in Europe and 26 globally by Thomson Reuters for transactions valued up to €200 million.
www.thecfigroup.com