



***Staffing M&A Market Update:
Buyer and Seller Strategies in Today's M&A Market***

September 19, 2023

Your Presenters:



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Who is UHY Corporate Finance?

What does the general M&A market look like today?

Is now a good time to sell or buy a Staffing company?

What do the process and key deal terms look like today?

What are some tips for Staffing company buyers and sellers?

A Full-Service Investment Banking Group

UHY CORPORATE FINANCE

U.S. Team of IB Professionals

International Reach

\$10+ Billion of Deals Since 2009

Industry agnostic, with a Staffing Focus

“Wall Street” Experience

Middle-market focus



Backed by a Global Attest, Tax, Consulting Firm

UHY LLP

35+ U.S. Offices

1,600+ professionals nationally

100+ Countries

8,100+ international professionals

“Big 4” Experience

Middle-market focus



NATIONAL STAFFING PRACTICE

Cross-functional team of specialists dedicated to the Staffing industry

M&A / Investment Banking, Accounting & Attest Services, Tax Services, Consulting Services

Significant Industry Expertise, Serving 225+ Staffing Clients Across the U.S.

Committee/Board Positions: ASA, SIA, OSSA, CSA, NYSA, ISSA, NJSA, MKSSA, MSA, MNRSA, TechServe Alliance

20+ Staffing Sell-Side & Buy-Side Transactions Closed in the Past 3 Years Alone!

Multiple Sell-Side and Buy-Side Engagements Currently Underway – we have our pulse on the market

Full Suite of Investment Banking Services – STAFFING FOCUSED!

SELL-SIDE ADVISORY

Strategic Sales

Private Equity Sales

Carve-Outs

Pre-Sale Preparation / Valuations

DUE DILIGENCE

Quality of Earnings

- Sell-Side & Buy-Side

Buy-Side Due Diligence

Sell-Side Due Diligence

Financial Modeling

BUY-SIDE ADVISORY

Buy-Side Search

- Target Criteria
- Target Identification
- Target Assessment

Acquisition Advisory

Post-Close Integration

CAPITAL RAISING

Equity Capital

- Minority Investment
- Private Equity
- Venture Capital

Senior / Mezzanine Debt

Other Debt Capital

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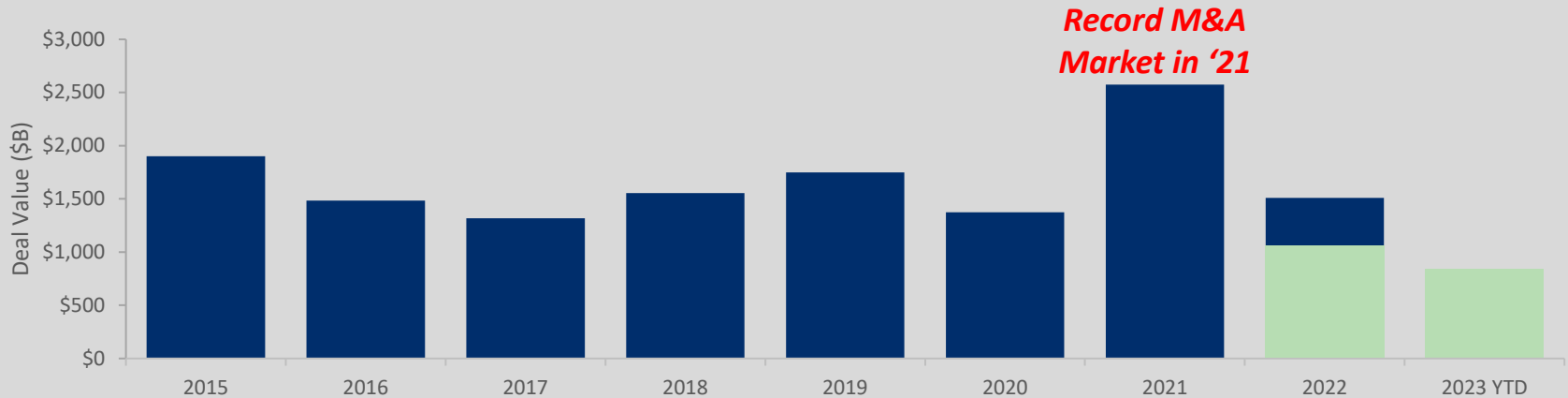
What are some tips for Staffing company buyers and sellers?

Warning Signs Starting to Thaw...Risks Remain

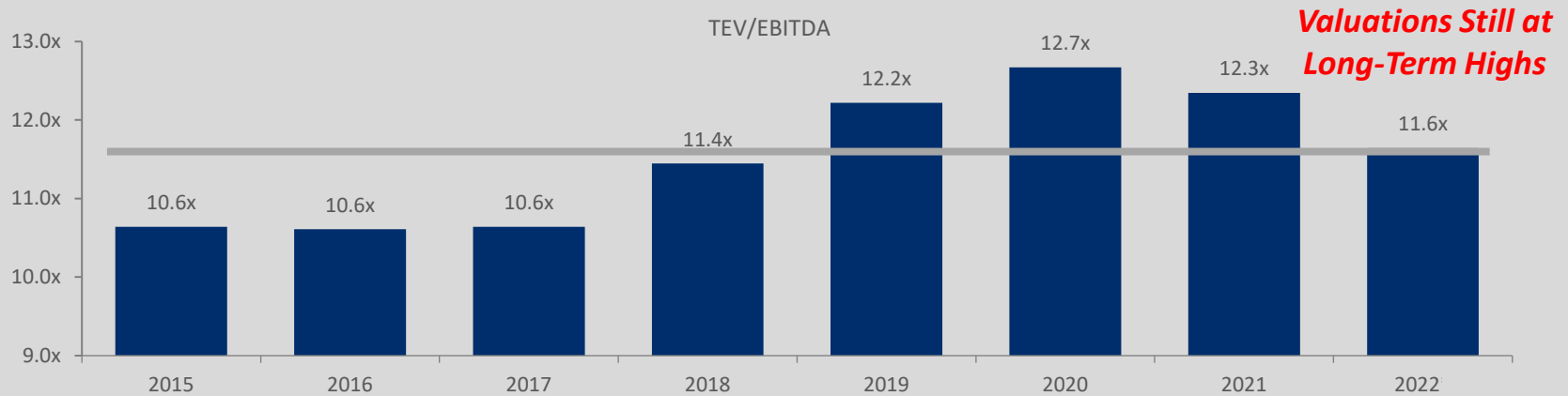
- **Market uncertainty in the months/year ahead (abating?)**
 - Fed tightening/holding, still-high inflation, talk of a recession abating, recent bank failures
- **U.S. M&A was down ~40% in '22; down ~29% in '23 to date as well**
 - Middle-Market M&A outperforming: down closer to ~20% in '22 and ~20% in '23 to date
 - Staffing M&A actually increased ~24% in '22! Steady in YTD '23 vs. '22 (Strategics & smaller deals dominate)
- **Fewer large M&A deals are getting pulled**
 - ...IPO markets opening up, suggesting that access to capital is becoming easier in the current market
- **Credit / loan markets remain somewhat challenged in '23**
 - Interest rates remain elevated, with the 10-year hovering at ~4.3%
- **Valuations have recovered from '22, with the S&P +17% in '23 YTD**
 - Sellers want yesterday's prices...buyers want today's prices ("The Value Gap")
 - Thawing in '23 to date

Robust M&A Activity Continues

U.S. Deal Activity Coming Off All-Time Highs

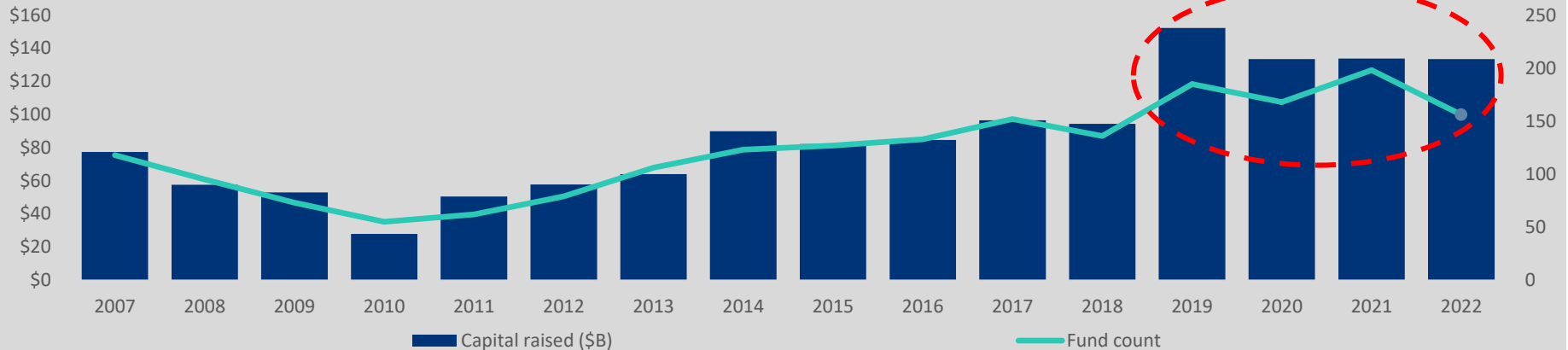


U.S. Private Equity Valuation Multiples Returning to Normalized Levels

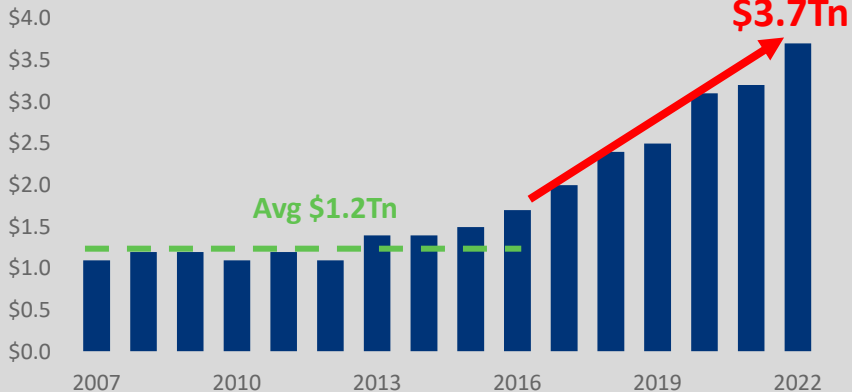


Drivers of M&A Remain Intact

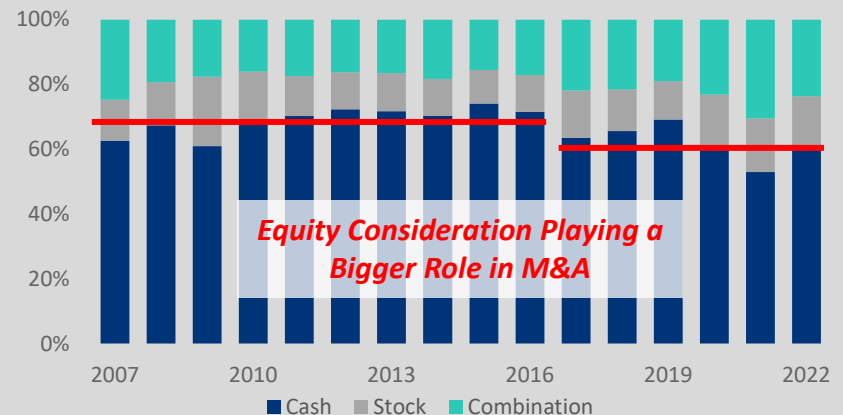
U.S. Private Equity Capital Raised (\$Bn)



PE “Dry Powder” Steadily Rising (\$Tn)



Deal Structure Composition



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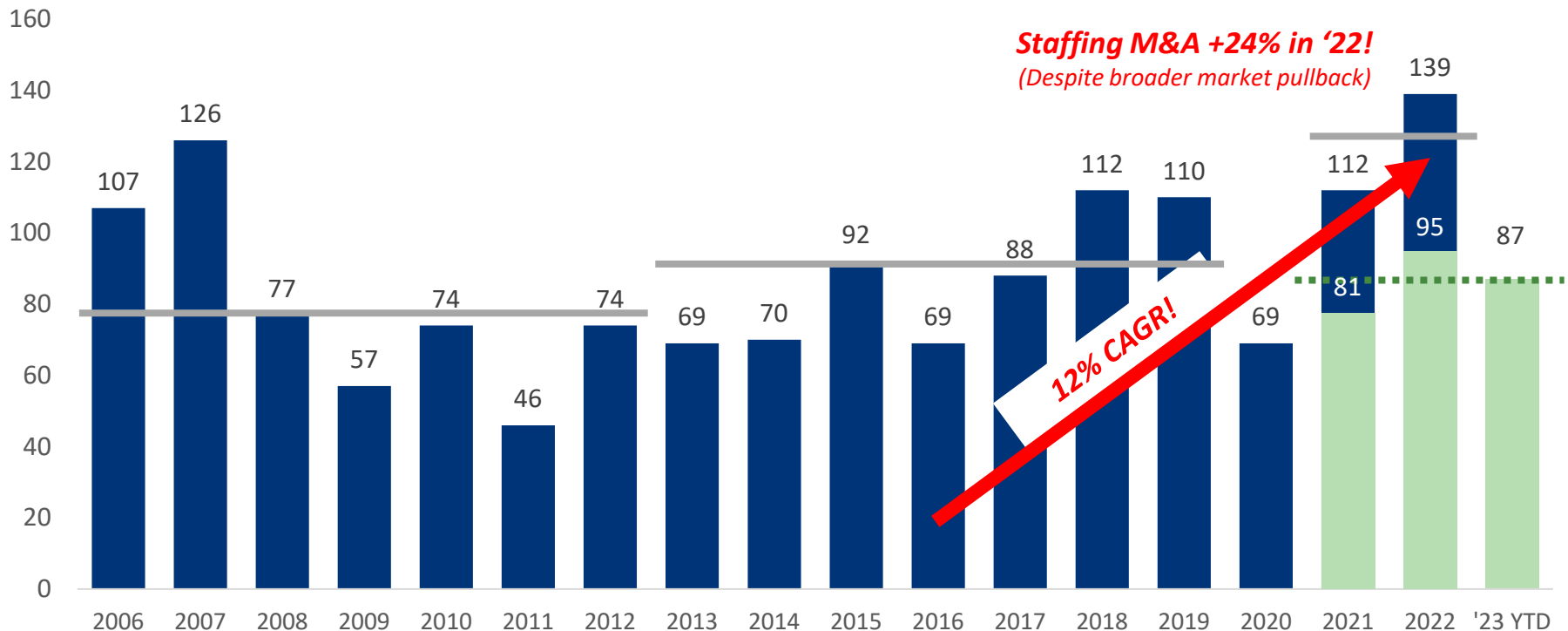
What are some tips for Staffing company buyers and sellers?

Staffing Companies Remain in High Demand!

■ Acquisition momentum continues in Staffing M&A

- Continued “step function” of increasing sector M&A activity (12% CAGR since ‘16):
Avg. M&A volume +45% in ‘21-’22 vs. 7-yr. avg in ‘13-’19 (itself +10% vs. 7-yr. avg in ‘06-’12)
- While broader M&A activity declined in ‘22, Staffing M&A accelerated to record levels in ‘22 (+24%)
- ‘23 YTD deal volume trailing only slightly behind the same period in 2022 (and ahead of 2021)

N.A. Staffing M&A Activity (# of Transactions)

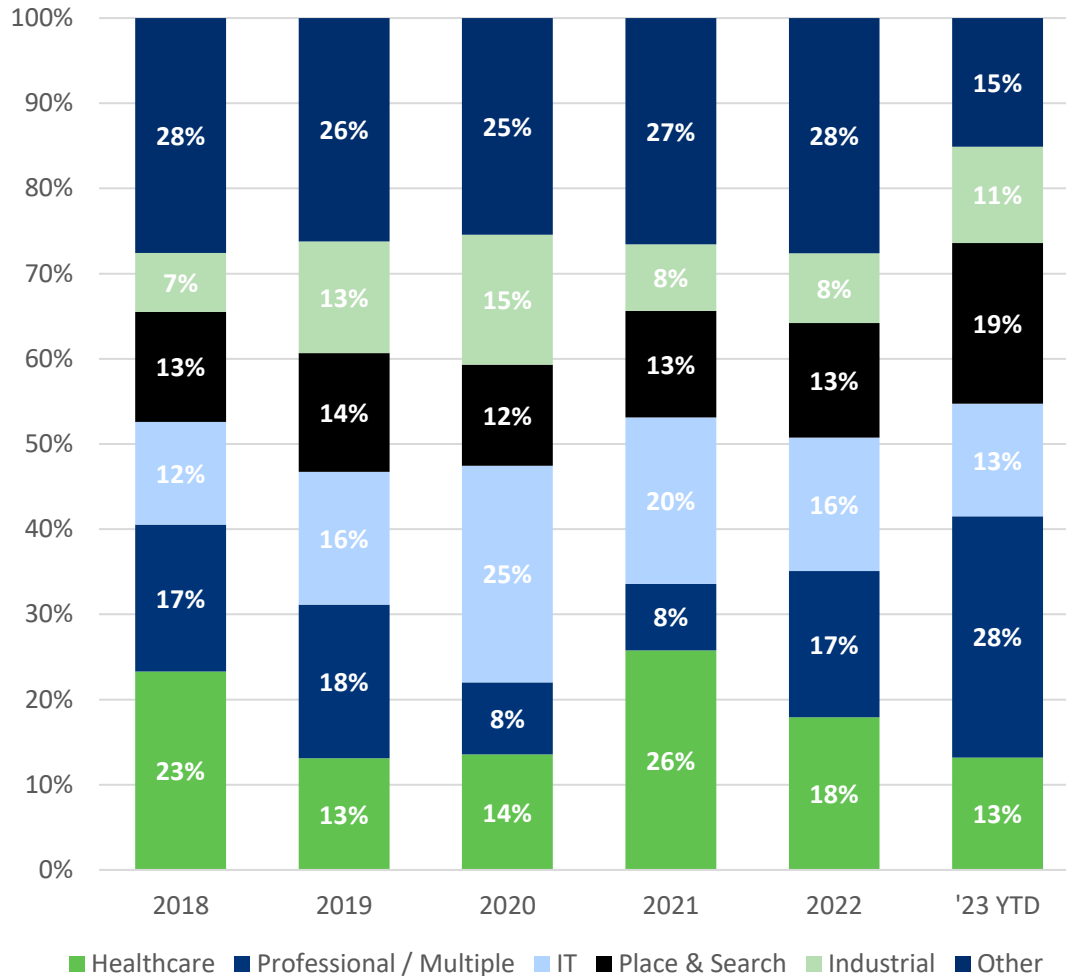


Primary Drivers of Staffing M&A Momentum

- **Buyers remain highly active / interested in growth via acquisition**
 - Organic growth remains challenged
 - Buy-side mandates in high demand (\$100MM Staffing companies are on the hunt!)
 - \$500MM+ firms looking for \$100MM+ firms; \$100MM+ firms looking for \$10MM-\$25MM firms
- **Sellers are picking up the phone**
 - Much higher response rate in “Buy-Side Search” engagements
 - Great time for buyers to be reaching out!
 - Strong Staffing M&A pipeline for next 1-2 years
- **Staffing remains on the radar for PE groups – Strong Labor Market**
 - Strategic buyers continue to dominate, but Private Equity has picked up the pace
 - “Value of Talent” (post-pandemic) has attracted a lot of attention / investment into Staffing M&A
- **Continued future growth expected in Staffing market**
 - 28% of U.S. workforce expected to be contingent in 10 years vs. 21% today (SIA)
 - U.S. Staffing industry revenue grew +17% in '22 (SIA)
+4% growth expected in '24 following slight decline of -3% in '23 (SIA)
+15% CAGR since '20

Know Your Sub-Sector and What it Means for M&A

U.S. Staffing Sub-Sector Breakdown



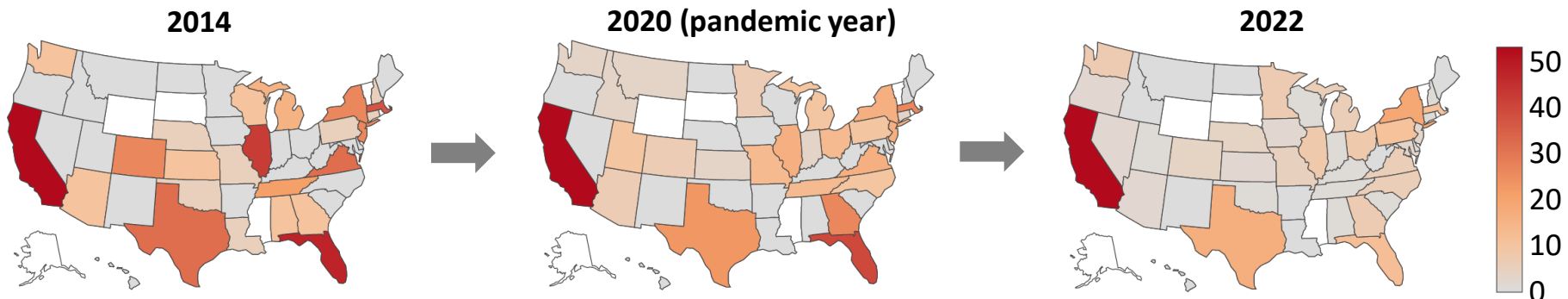
- Healthcare represented ~13% of deals in '23 to date**
 - Down meaningfully vs. '21 levels
 - Largest sub-segment by revenue today at \$55Bn in '22 (SIA)
- IT represented ~13% of activity**
 - 4th straight annual decline
 - Vs. avg. of 18% in past 2 & 5 years
- Light Industrial (LI)**
 - Slight uptick to 11% in '23 to date
 - Vs. 5-year avg. of ~10%
 - Tends to be more cyclical
- Talent Acquisition Technology**
 - Buyers continue to target tech!
 - # of deals > all core Staffing sub-sectors in the past 5 years



Local Dynamics Continue to Drive Staffing M&A Across Regions

- **Labor regulations generating concern among operators and buyers**
 - August '23 Updates:
 - NJ: *Enactment of the **Temporary Workers' Bill of Rights** in NJ*
 - IL: *Signing of amendments to the **Day and Temporary Labor Services Act** in IL*
 - Staffing companies are looking to shed assets/offices in certain regions
 - May present highly attractive opportunities for buyers – seeing more carve-out opps in '23 to date
Cautious planning and strategy will be important here
Valuation and deal structure should reflect the associated risks/costs
 - Regional dynamics need to be monitored closely for potential impact on M&A dynamics relative to buyer/seller interest and valuations

U.S. Staffing (& Related) M&A Heatmap (# of Transactions)



What does the Buyer Landscape Look Like Today?

- **Private, Strategic Staffing companies remain the primary acquirers**

- Private Staffing company acquirers represented ~76% of unique buyers in '22
- Public Staffing companies remain highly selective, representing only ~12% of buyers

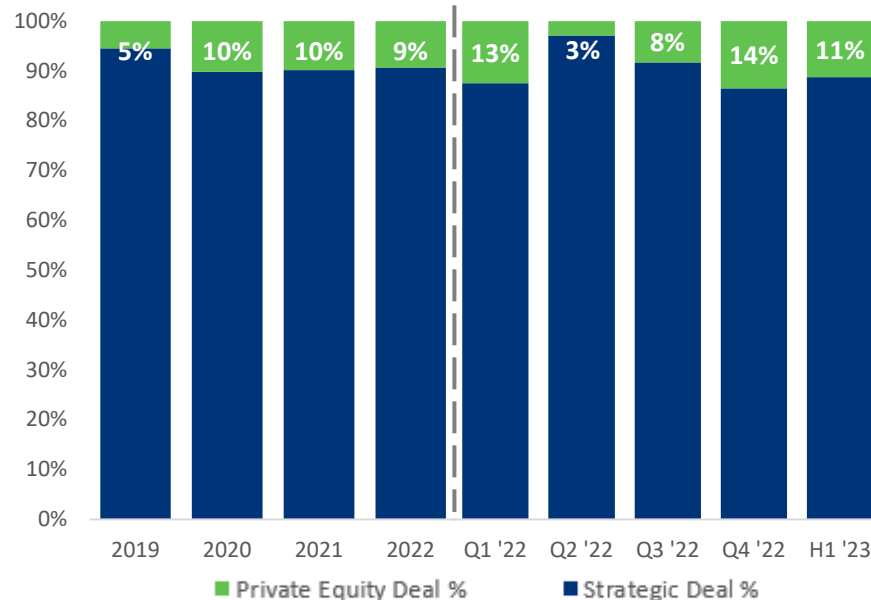
- **Private Equity buyers became active buyers again post-pandemic**

- Post-pandemic “Value of Talent” became hot topic/theme among the PE community
- Active PE buyers more than doubled from 6 in '19 (pre-pandemic) to 13 in '22
- Similarly, the % of Staffing deals with PE buyers has hovered at ~10% in '20-'22, vs. ~5% in '19 (pre-pandemic)

- **PE still putting capital to work**

- **PE built momentum throughout '22...**
5 (14%) PE-backed deals were announced in Q4 '22 vs. 2.5 (8%)/qtr. in the Q1-Q3 period
- **...And remain active in '23**
11% of deals in H1 '23

Buyer Composition: PE vs. Strategic

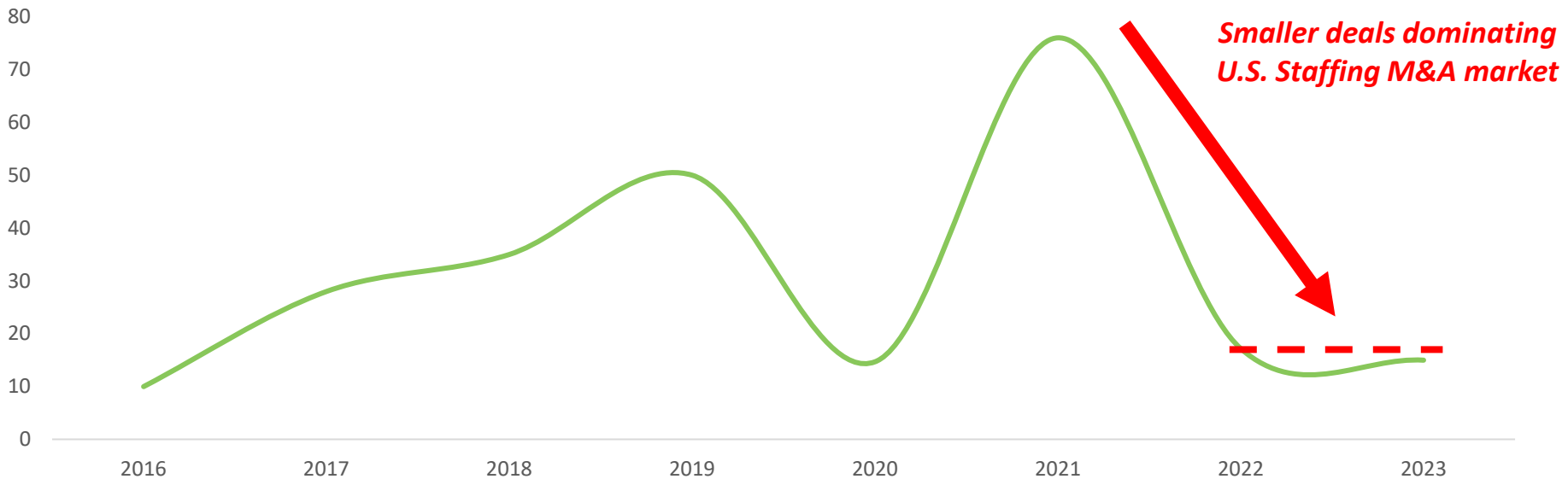


A Renewed Focus on Smaller Deals in Staffing M&A

■ Buyers continue to target smaller acquisition targets

- Reversing a shift to larger deals in '21, the median deal size declined in each of '22 and '23 to date
 - \$10MM-\$25MM targets are in high demand
 - Middle-market acquisitions tend to be less reliant on external financing
 - Opportunities available for platforms to pursue meaningful bolt-ons in the current environment
 - Larger acquirors moving down market, making smaller acquisitions more competitive for buyers
- We are seeing surprisingly strong interest/competition in smaller sale transactions*

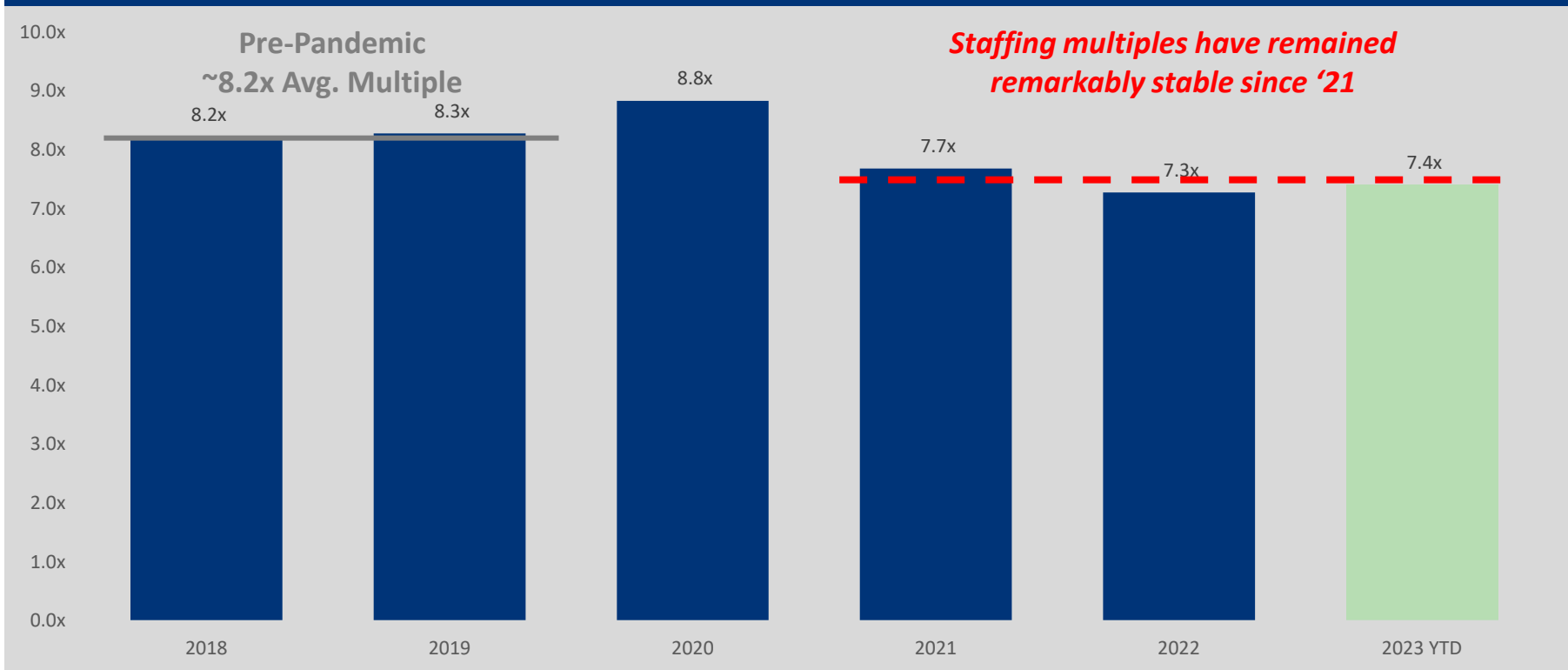
U.S. Staffing Companies Sold: Median Rev. (\$MM)



What do Valuations look like in the Staffing sector today?

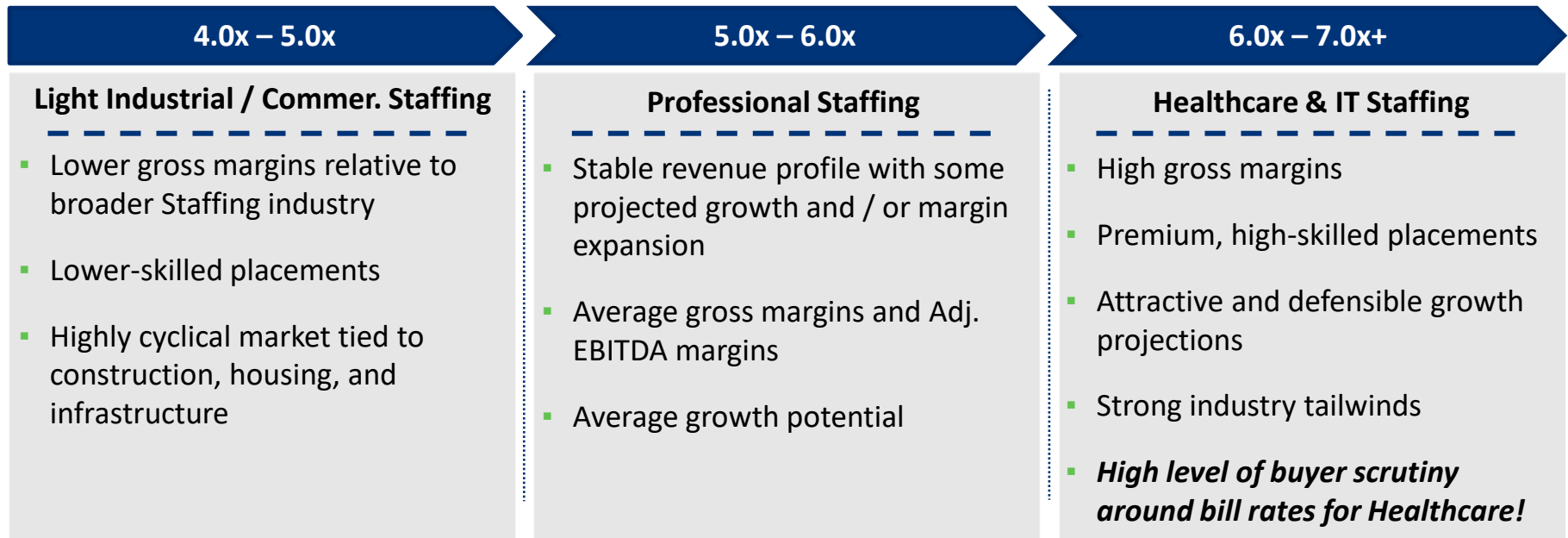
- **Staffing valuation multiples remain remarkably stable since '21**
 - Strong M&A valuations exist today, particularly for well-positioned Staffing companies
 - Valuations have remained highly durable and consistent since '21
 - Held steady despite broader S&P decline of ~20% in '22, and increase of ~17% in '23 to date

Public Staffing Company EV/EBITDA Multiples Over Time



What is my Staffing Company Worth Today?

- Valuations for Staffing companies vary widely
- That said, certain sub-sectors tend to trade in ranges (“starting points” for buyers/sellers)
- Of course, stretch values (above the ranges below) are possible for high-performing companies with near-term growth opportunities and strong performance metrics



- **Do you want to know the answer?**
 - UHY is completing more Valuations and Pre-Sale Preparation Processes than ever before!
 - A detailed assessment of each company’s scorecard informs ultimate values in the market

What is my Staffing Company Worth Today?

- “It Depends”
- What does your Staffing company’s scorecard look like?

Value Drivers

- Large Size / Geo. Diverse (Rev., EBITDA)
- Strong Growth (Outperforming Sub-Sector)
- Updated Tech. (Investment Already Made)
- Strong / Continuing Management Team
- Diverse Customer Base
- Strong Access to Talent / Recruiting Team
- Robust, Sustainable Profit and EBITDA Margins

Value Considerations

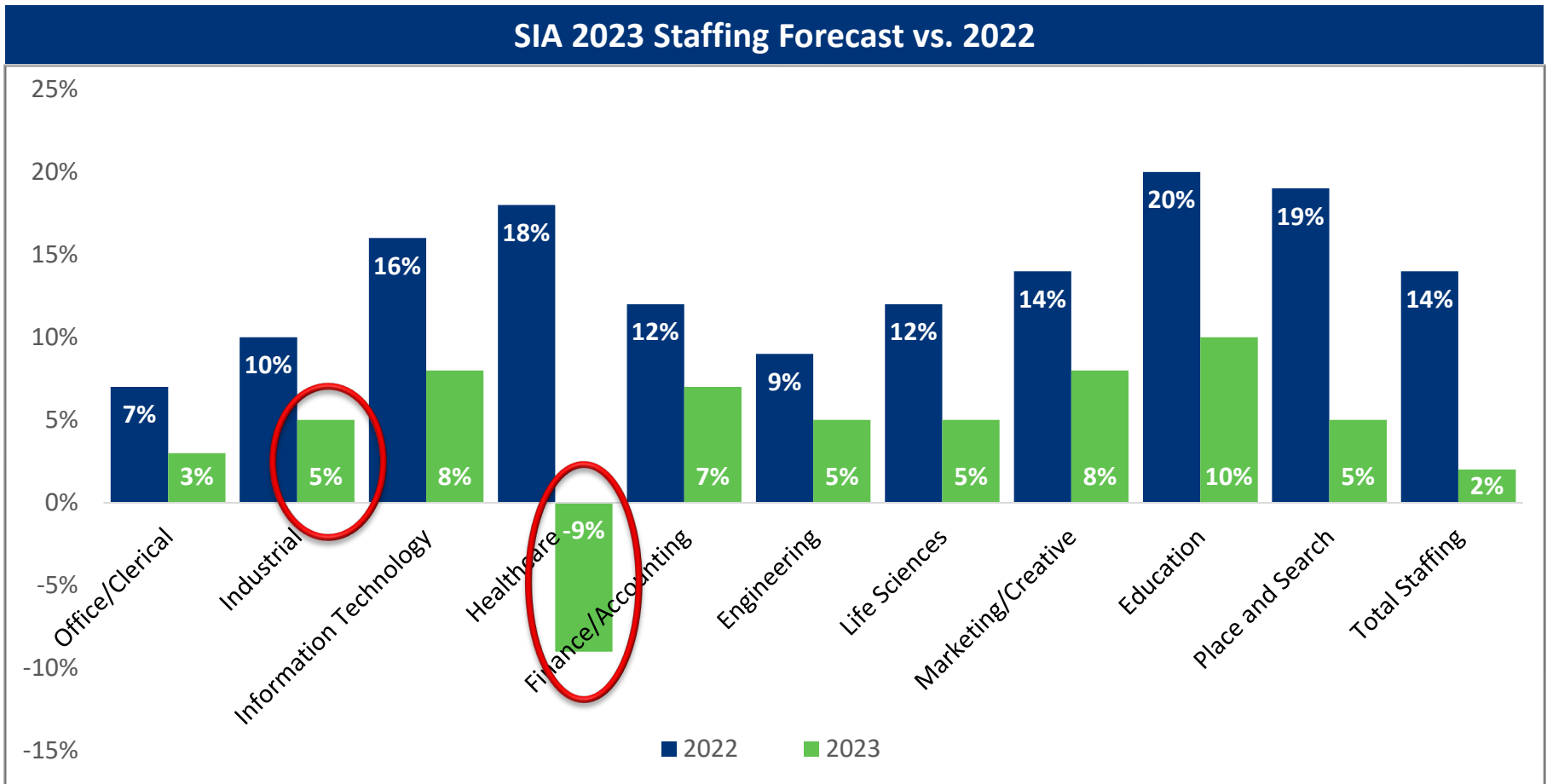
- Small Size / Geographic Concentration
- Flat / Declining Revenue (Underperforming Peers)
- Behind on Tech. (Investment Required)
- Owner / Management Departing Post-Close
- Customer Concentration (Single Cust. @ 30%+ Rev.)
- Challenges Finding Labor; Internal Turnover
- Below-Sub-Sector, Volatile EBITDA Margins

- Effectively positioning your company’s key value drivers (and mitigating value considerations) is essential to maximizing value
- Can you and your advisors articulate what makes your company unique?

SIA Projects U.S. Staffing Revenue to Increase 2% in '23

- **Staffing industry expecting continued growth in '23**

- IT and LI/Industrial segments showing strength, with 5%+ growth forecasted in '23
- Key Question: How are you performing **vs. your sub-sector peers?**



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Pre-Sale Preparation

Sale Process

Key Terms

- **Detailed assessment of historical financials**
 - Transparency is important
 - Sell-Side Quality of Earnings assessment (Understand your financials from an M&A perspective)
- **Detailed, “bottom up” forecast more critical than ever**
 - “10% growth” no longer sufficient for buyers
 - Monthly and next-twelve months minimum (annual estimates further out)
 - By customer, end-market, service line, etc.
 - Provide buyers with a thoughtful roadmap for growth
- **Valuation Assessment**
 - Set realistic expectations
 - Discover the key value drivers for your industry and, by extension, your company
 - Not ready to sell? Devise a roadmap to value creation in the years ahead

Assembling the right team is critical to achieving maximum value!

Pre-Sale Preparation

Sale Process

Key Terms

- **Be ready...this is a long process!**
 - A “value maximizing” sale processes can take 6-9 months from start to finish
 - The right Investment Banking partner will take a lot off your plate
- **A deadline-driven process is critical**
 - A milestone-driven timeline maintains competitive tension, which drives value
 - Limits exposure on the open market
- **Illustrative Timeline:**
 - Preparation
 - Launch transaction to buyers
 - Initial offers in 4-5 weeks (hard deadline)
 - Final offers in 4-5 weeks (hard deadline)
 - Closing in ~3 months

Buyers look for deviations from “value maximizing” process (my first buy-side questions!)

Assembling the right team is critical to achieving maximum value!

Pre-Sale Preparation

Sale Process

Key Terms

■ **Cash-at-Close**

- Well above historical 50% levels; down from 90%+ seen in '21-'22 (**Buyers, write that down!**)
- Great news for sellers, but buyers are taking on more risk

■ **Structure (e.g., earn-outs, seller notes, etc.)**

- Sellers look to minimize...buyers look to maximize

■ **Working Capital**

- Purchase price **INCLUDES** a normalized level of working capital (**Sellers, write that down!**)
- Determining the normalized level of working capital is a **CRITICAL** deal point
- Can result in million-dollar value shift between buyer and seller if not done well

■ **Asset vs. Stock Purchase**

- Stock transactions are often beneficial to sellers, while buyers often prefer asset deals

■ **Representation and Warrant Insurance & Indemnifications**

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Tips from the Investment Banker's Playbook

Tips for Buyers

- **Assemble the right team**
 - Don't try a buy-side search on your own (thank me later); distraction + back-burner
 - "Staffing-focused" Investment Bankers, M&A Attorneys, CPAs, Financial Due Diligence (QofE) providers a (BIG) plus
 - Be ready to execute (get financing lined up!)
- **Know the current market**
 - Many frustrated buyers offering stretch values...and still losing (50% cash at close)
- **Play the game**

Sell-side Investment Bankers hate this, but oh well

 - "Light touch LOIs" (dig in later)
 - Strategic bid ranges
 - Feel out the process (e.g., miss deadlines)

Tips for Sellers

- **Assemble the right team**
 - Get the team together (VERY) early
 - "Staffing-focused" professionals (only ~35%)
 - Investment Banker vs. Brokers vs. DIY models
- **Complete a Pre-Sale Prep.**
 - Get informed!
 - Sell now or grow into value w/ a plan
 - 1, 3, 5 years before a sale is optimal
- **Pick the "low hanging fruit" now**
 - Make sure you get paid for "easy fixes"
- **Know what to expect**
 - Sale process (a lot of work lies ahead!)
 - And beyond (how long will you stay on?)
 - **Avoid the tempting "one-off negotiation"**

Q&A

Feel Free to Reach Out to Today's Presenters:



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