



Houlihan  
Lokey

# Welcome

## The Redefined Role of M&A

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ASA ExecuVision





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# Why HCM is Attractive



## Company Characteristics

High Free Cash Flow

Fragmented Market / # of M&A Targets

Low Capex Requirements

Strong Growth Prospects

Sustainability of Earnings

Leveragability



## HCM Industry Trends

Shift to Total Talent Management

Tight Labor Market / Scarcity of Talent

Movement to a Variable Workforce

Gig Economy

Strong Appetite for M&A

Attractive Technology Enablement

# Considering Your Strategic Alternatives

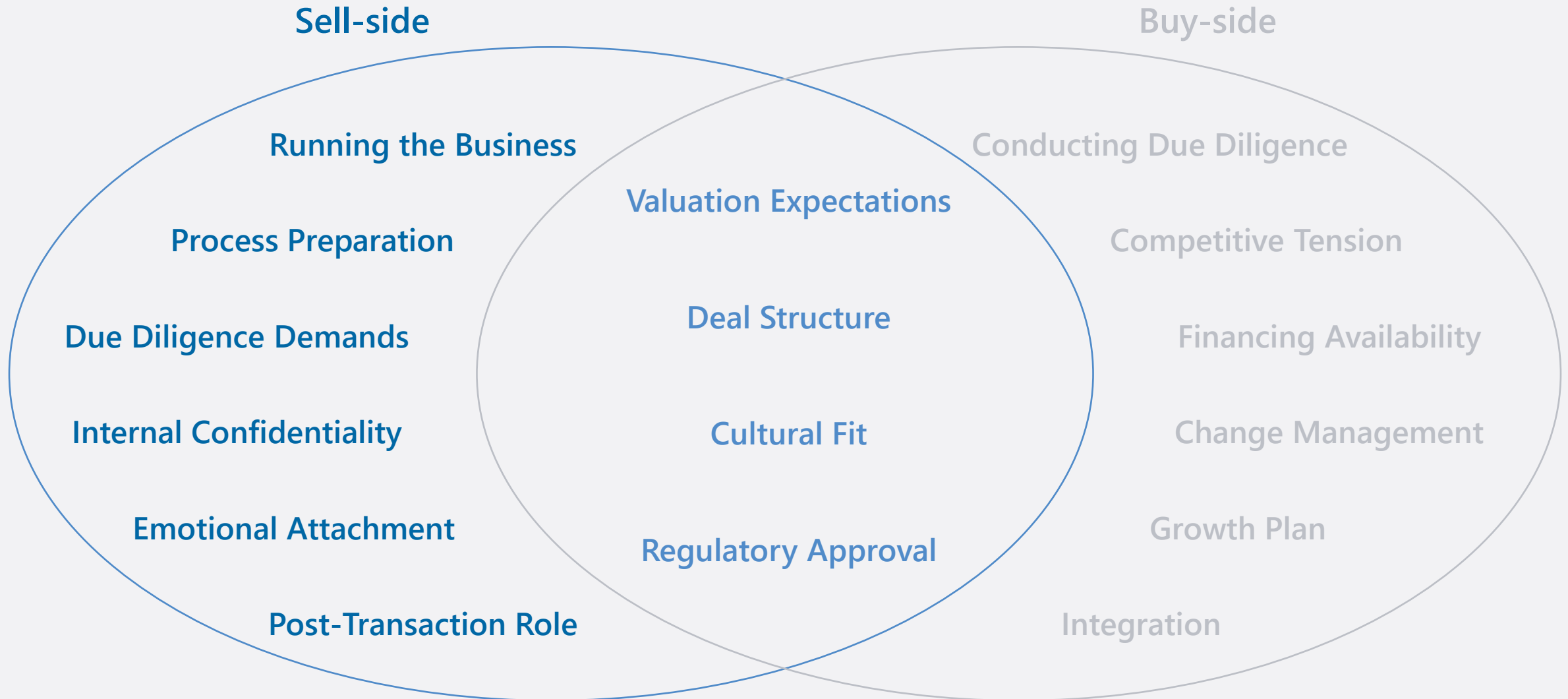
## Sell-side

- Strategic Sale
- Majority Recap (PE)
- Minority Recap (PE)
- Dividend Recap / Debt Raise
- Public / SPAC

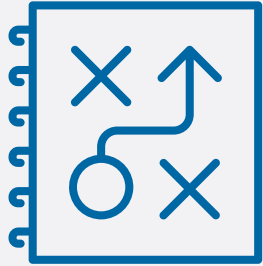
## Buy-side

- Tuck-in
  - Vertical Expansion
  - Geographic Expansion
  - New Offerings
- Transformative
  - Merger of Equals
  - Similar Size / Geography (Same Offering)
  - Similar Size / Geography (Different Offering)

# Challenges in an M&A Transaction



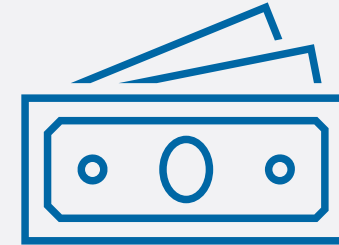
## Understand Your Options as Decisions Come Quickly



Strategic Sale



Private Equity Recap



Capital Raise

(Debt Raise, Partner Buyout  
or Dividend Recap)

Not Mutually Exclusive; Owners Can Choose a Path (Concurrent or Independent)



# A Deeper Dive into the Sell-side



## Action Items Prior to Launching a Sale Process

Preparation is critical to maintain momentum during a highly competitive sale process – there are certain key steps to increase the probability of optimizing value, speed, certainty and contract terms...





01

Quality of  
Earnings Report

02

Market Study –  
Understand /  
Estimate Market  
Sizing

03

Monitor Earnings  
Momentum

04

Modeling – Finalize  
Strategy and  
Forecast

05

Legal and Data  
Room Preparation

06

Cultivate a Small  
Group of Elite Buyers

07

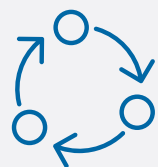
Educate Potential  
Financing Sources

08

Reps & Warranty  
Insurance

## Extensive Pre-Market Preparation Can Begin Well in Advance

Data-driven analyses – thoughtfully prepared and vetted before any buyer requests – help frame the story, inspire confidence in management and facilitate expedited results to minimize seller risks



### Operational

- ✓ Detailed Client Deep-Dive Analyses
- ✓ Revenue Analyses and Productivity Metrics
- ✓ Determine Key KPIs
- ✓ Risk Management and Collections Analysis
- ✓ Examine Potential Buyer Concerns to Mitigate



### Growth

- ✓ New Customer / Employer Growth
- ✓ New Market Opportunities
- ✓ Existing Client Penetration
- ✓ New Service Line Analyses
- ✓ New Product and Upsell Opportunities

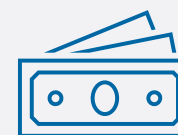
## Extensive Pre-Market Preparation Can Begin Well in Advance (Cont'd)

Data-driven analyses – thoughtfully prepared and vetted before any buyer requests – help frame the story, inspire confidence in management and facilitate expedited results to minimize seller risks



### Industry

- ✓ Analyze Market Size, Growth and Economic Resiliency
- ✓ Market Mapping (Fragmentation and Competitive Landscape)
- ✓ Evaluation of Whitespace and Adjacency Opportunities



### Financial

- ✓ Financial Forecast and Historical Drivers
- ✓ Detailed Revenue Growth Driver Analysis
- ✓ Client Pipeline
- ✓ Operating Leverage and Corporate Infrastructure
- ✓ Quality of Earnings Report (and adjustments)

# Use Your Tools to Prepare and Maximize Value



## Team

- ✓ Loop in key business leaders with ample lead time to prepare
- ✓ Align incentives and “buy-in” for next stage of growth



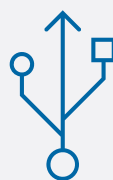
## Culture

- ✓ Highlight what differentiates your company culture and retains talent
- ✓ Initiatives for diversity, inclusion, mentoring and support



## Power Alleys

- ✓ Understand and position your strengths versus the market and align your business plan accordingly
- ✓ Articulate your key differentiators



## Technology

- ✓ Showcase any proprietary or differentiated technology and how it gives you a competitive advantage
- ✓ Prepare technology demos



## Data

- ✓ Maintain thoughtful and polished data to drive valuable insights
- ✓ Forefront dashboards and powerful analyses that drive value and support the ‘story’ (e.g., cohorts, retention, etc.)



# Nuances of M&A



# The Evolution of Staffing M&A: Rationale

Then



Geographic Expansion



Increased Scale / Vertical Integration

Now



Geographic Expansion



Increased Scale / Vertical Integration



New Technology Capabilities



Diversification of Services



Evolution of Delivery Model

# The Evolution of Staffing M&A: Buyer Universe

Then

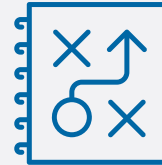


Large, Public Staffing Providers



Smaller Set of PE Buyers (<30)

Now



Large and mid-sized Strategic Acquirors

- Global Public Staffing
- Regional Public Staffing
- Global Private Staffing
- Regional Private Staffing
- PE-Backed Strategics
- Consulting / Integrators



Vastly expanded universe of PE investors (100+)

# The Evolution of Staffing M&A: Current Structural Themes in Deals

## Strategic

- Cash
- Stock
- Earnouts / deferred payments
- Retention pools

## Private Equity

- Cash
- Management incentive plans (equity participation, performance-based compensation, etc.)
- Equity rollover / re-investment
- Earnouts / deferred payments



# In Certain End-Markets and Deal Sizes, Structure Has Played a Larger Role



Traditional  
Earnout



Excess EBITDA  
Earnout



Note / Time-  
Based Deferral



Net Working  
Capital Balloon



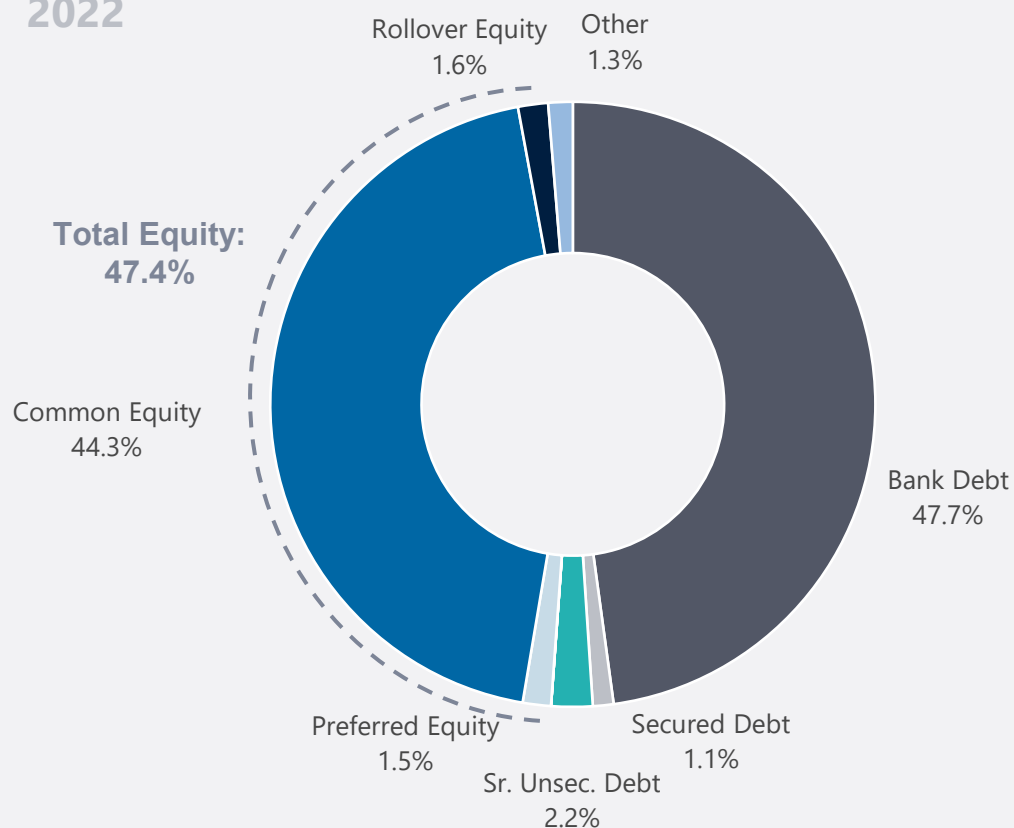
Rollover  
Equity

# Debt is Common in any Private Equity Transaction

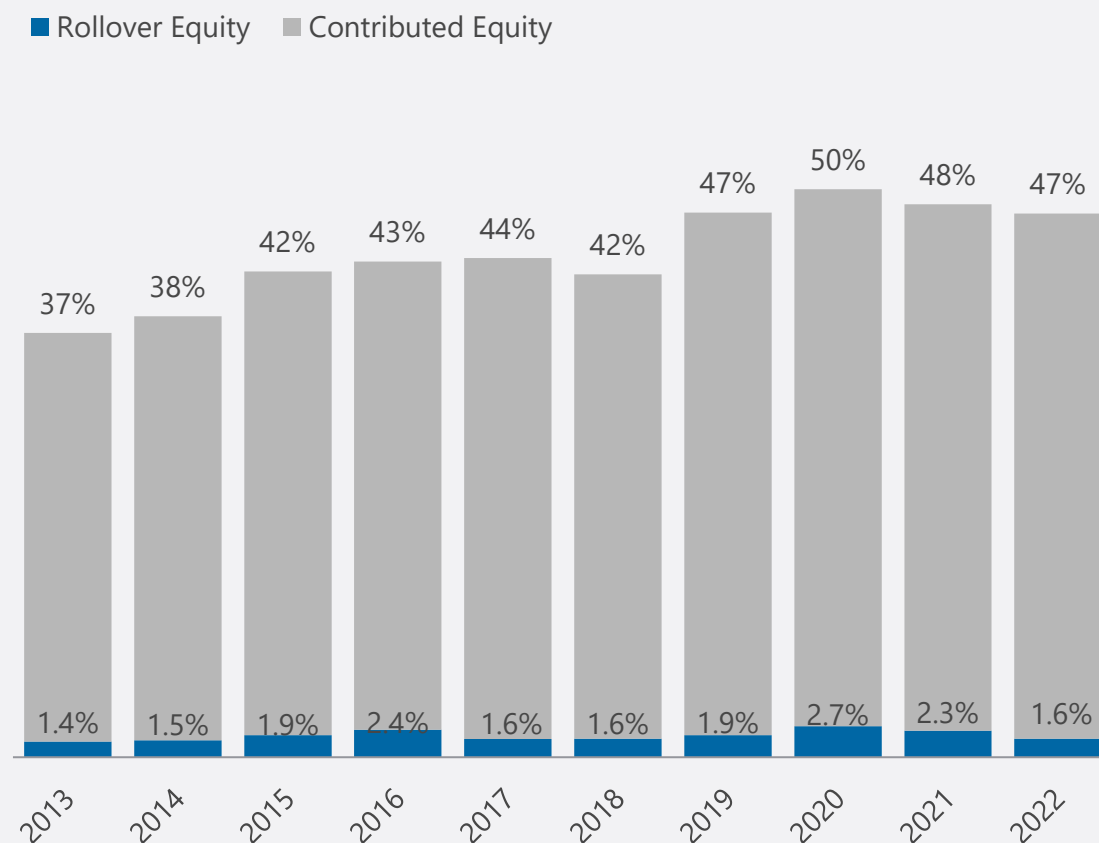
Although down from the high point in 2020, disruptions in debt financing markets are leading to higher equity contributions than the historical average, and the return of funding techniques like seller notes

## Sources of Proceeds for U.S. LBOs

2022



## Average Equity Contribution to U.S. LBOs



## M&A Can Be Part of Your Sell-side Strategy

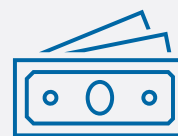
Leads to an increasingly powerful business as a result of revenue growth from more efficient customer acquisition and margin expansion from improved operational efficiencies → Creates a “Platform”



Improved Customer  
Acquisition &  
Upselling



Density Drives  
Operational  
Efficiency



Increased  
Economies of  
Scale



Competitiveness  
in Talent  
Acquisition

# Deal Case Studies: Driving Value Via Bespoke Processes

## Curating the Right Buyer Set

### Project A Prof. Staffing & Consulting

Sellside Advisor

#### Deal Overview & Key Tactics Utilized



Received Inbound Interest from Strategic Buyer



Cultivated a Larger Group of High-Likelihood Buyers to Drive Competitive Tension



Additional Competition Resulted in an Increased Bid & Seller-Favorable Concessions

## Early Access & Excitement

### Project B IT Staffing & Solutions

Sellside Advisor

#### Deal Overview & Key Tactics Utilized



Utilized "Early Look" Meetings to Stoke Pre-Process Excitement and Meet Management



Provided Data Packages to "Vetted" Buyers Who Indicated Serious Interest & Ability to Move Quickly



Launched Broad Process; Drove Early Winner to Close on Tight Timeline

# Deal Case Studies: Driving Value Via Creative Positioning

## M&A Playbook & Roll-Up Opportunity

**Project X** IT / Prof. Staffing & Consulting

Sellside Advisor

### Deal Overview & Key Tactics Utilized



Emphasized Track Record of M&A Playbook



Highlighted Benefits of Realized & Unrealized Synergies (Pro Forma)



Received Credit

## Scarcity & White Space

**Project Z** IT Staffing

Sellside Advisor

### Deal Overview & Key Tactics Utilized



Highlighted Scarcity Value of Asset; Validated with Market Mapping Exercise

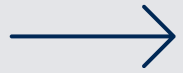


Quantified White Space Opportunity & Outlined Organic Market Expansion Gameplan



Identified Massive Revenue & Cross-Sell Potential

# Select Structural Nuances



01

Reps & Warranties Insurance  
(RWI)

02

Working Capital

03

EBITDA Adjustments  
(Standard, Aggressive, Pro  
Forma, Run-Rate)

04

Client References

05

Management Option Pools

# What Does This All Mean?

Timing the market can be tough... but you can be prepared



Put the Pieces in Place (Prepare)



Understand the M&A Landscape



Know Your Legal & Tax Ramifications



Entertain Early Discussions



Keep Your Team Informed



Develop a Core "M&A" Team



Educate Yourself on Options





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Thank you for joining.

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