

Staffing and PE: A Match Made in Heaven

Moelis & Company global business services franchise

The Moelis logo is centered within a white circle that is part of a larger graphic design. The design consists of a dark blue horizontal bar with two white circular shapes cut out from it, one on the left and one on the right. The word "Moelis" is written in a dark blue, serif font within the right-hand white circle.

Moelis

Moelis' business services team



There are pros and cons to a PE partnership...and risks *known* and *unknown*. Here is the reality

Advantages and Benefits	Risks
Immediate monetization e.g., cash today	Short-term focus
Incremental capital to pursue expansion, hires and acquisitions	Loss of control...to varying degrees
Access to cheaper financing, a network of advisory professionals	The line between “support” and “interference” can become not so fine
Operational, technology, sourcing and M&A support teams	Operating under leverage
Potentially, preferred access as client or vendor to “sister” portfolio companies	Prepare for some degree of change
Potentially, “halo effect” of marquee investor	Increased financial reporting burdens
Opportunity for “sweat equity” in the form of Management Incentive Plan (MIP)	Plan on another exit and process in 3 to 5 years

What drives different valuation outcomes for staffing companies?

The Value Paradigm Ranges Considerably – WHY?

How We Help

The *Spend / TAM* of Your End Market

The *Cyclical* of Spend

Industry Expertise

Diversification by Industry/Customer

Customer Retention

Leveraging our Relationships: Thoughtful Counterparty Selection and Evaluation

Project Duration

Bill Rate Trends

Tactical Sequencing of Management Access and Information Disclosure

Necessity of Positions

Recruiter Retention

Articulate Advocacy of the Company's Merits, Prospects and Strengths....

Competitive Landscape

Consistency of *Organic Growth*

Technical Navigation of the Process to Optimize Value and Terms

Margin and Cashflows

Culture

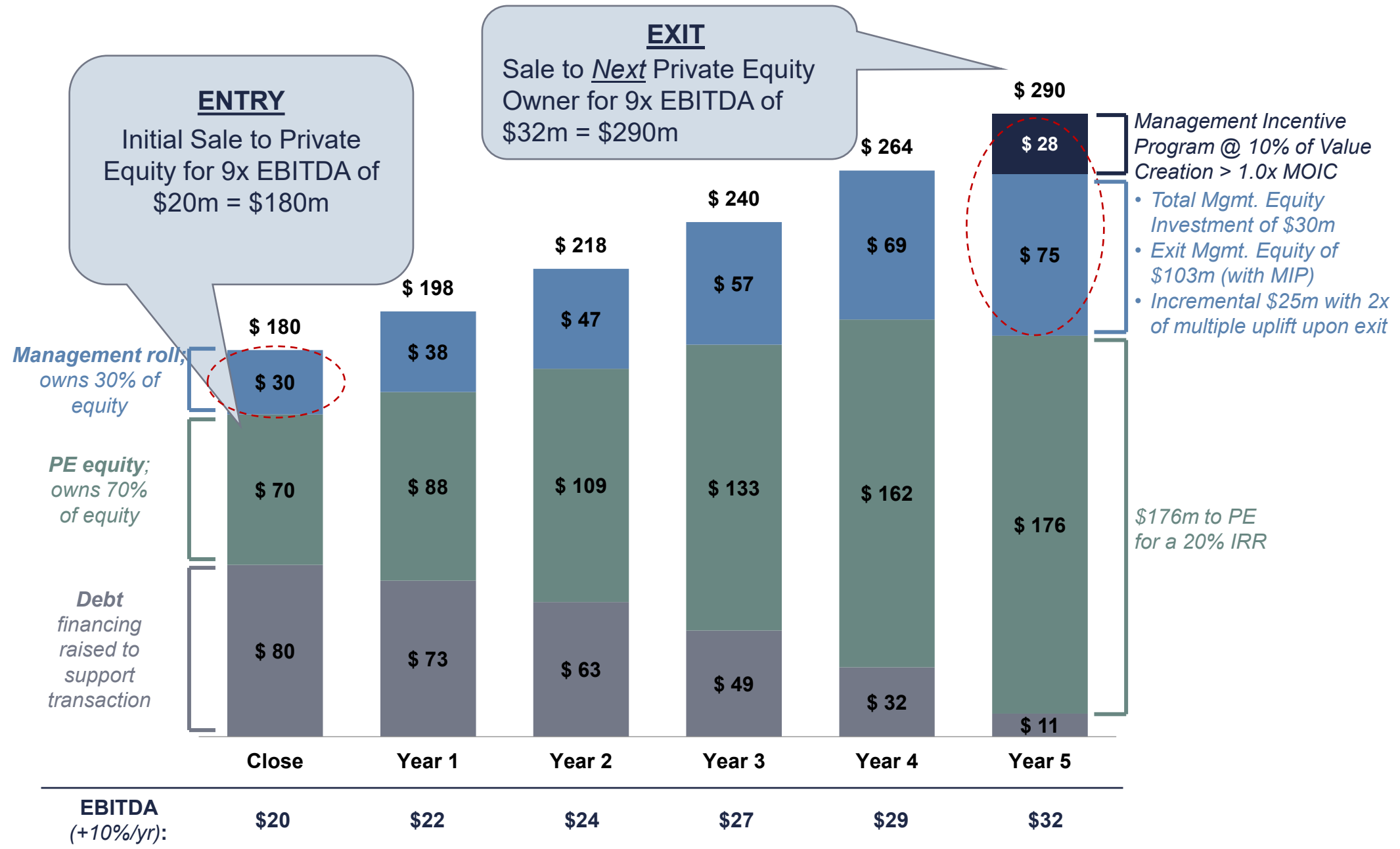
Thoughtful No B/S Advice Based on Years of Experience

M&A Prospects

Quality of Management

Judgement from Hundreds of Transactions and Two Decades

Wealth creation for founders and management teams can take several forms



What to expect before preparing for a private equity deal?

- 1 Revenue composition by placement type, client, duration, bill rate, pay rate
- 2 Revenue diversification by skillset or tech ecosystem
- 3 KPIs over time: # of clients, jobs posted, candidates
- 4 Schedule of recruiter build, retention and \$ generation
- 5 Schedule of candidate acquisition by channel (and ROIC)
- 6 Volatility in average bill rates by skill/ecosystem & end market
- 7 Recruiter training costs
- 8 Investment required to scale LMS learning platform
- 9 Competitor assessment
- 10 Schedule of candidate KPIs: placements, location, utilization, pay rate, churn, lifetime value
- 11 Schedule of Employer KPIs: Open reqs, days to hire, # of fills, bill rate, churn, CLTV
- 12 Revenue composition by geography
- 13 Tech roadmap: AI and data tools for screening, scheduling
- 14 Branch office function and stats
- 15 Quality of earnings report (A&M, E&Y, KPMG, etc.)
- 16 Bridge to forward financials
- 17 History and forward M&A pipeline (Deal multiples, integration, synergy capture)

What to expect before preparing for a private equity deal? (cont'd)

Investment Bank-Led Work Streams

Executive Summary

- 20 - 25 page book
- Used to guide bank-led investor education sessions, highlighting Company story and transaction opportunity

Financial Forecast Model

- Detailed 5-year financial model
- Detailed historical and projected financials that includes build up of key operating and financial assumptions

Confidential Information Presentation (“CIP”)

- 40 - 60 page book
- Detailed description of Company's history, organization, markets, operations, historical and projected financial trends, business and growth strategy

Diligence Modules

- Multiple 2-3 page documents
- Details likely areas of investor diligence (i.e., project duration, bill rates over time, revenue by service, etc.) and regular business updates throughout process

Management Presentation (“MP”)

- 40 - 50 page slide presentation
- Presentation delivered by Management including Company strategy and discussion of recent performance, areas of strength and Management's growth and operational initiatives

Virtual Data Room (“VDR”)

- Electronic data room
- All information necessary for final due diligence including all legal, operational and financial documentation

Third-Party Led Work Streams

Confidentiality Agreement

- Legal agreement to send and negotiate with buyers outlining confidentiality provisions and requirements prior to sending Executive Summary

Third Party Market Report

- 30+ page report
- Third party market study highlighting Company's market sizing, competitors and fragmentation

Quality of Earnings (“QofE”) Report

- Financial statements and diligence report
- Detailed analysis of financial results and EBITDA adjustments

Draft Purchase Agreement

- Draft purchase agreement indicating desired terms and conditions for transaction to be included in initial launch of VDR

What to expect during a PE hold?

- 1 Active Involvement** PE firms are active partners, often taking board positions to influence strategy
- 2 Performance Improvement** PE partners work to improve operational efficiency and financial performance – *whether you asked for help or not*
- 3 Capital Investment** Standardize sales and recruiting ‘motions’ into tech-enabled systems, procedures and protocols (e.g., digital migration to the cloud)
- 4 Regular Reporting** Increased financial reporting and accountability to meet PE firm’s requirements--*in part also driven by covenants associated with an increased debt burden*
- 5 Effecting M&A** Executing multiple add-ons to grow candidate pool, access large customers, acquire new geographies
- 6 Strategic Initiatives** Creation and implementation of key initiatives, such as market expansion or brand incubation
- 7 Preparing for Exit** PE firms will plan for an eventual exit, which could be a sale, IPO, or other transaction