

Staffing M&A: Top 10 KPIs to Maximize Marketability and Valuation



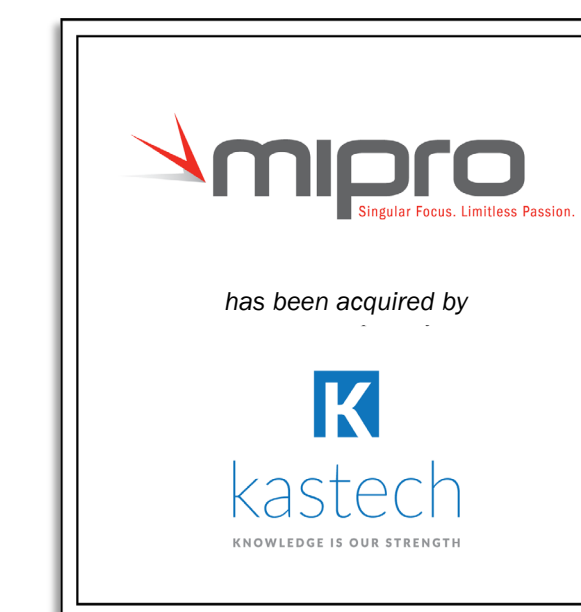
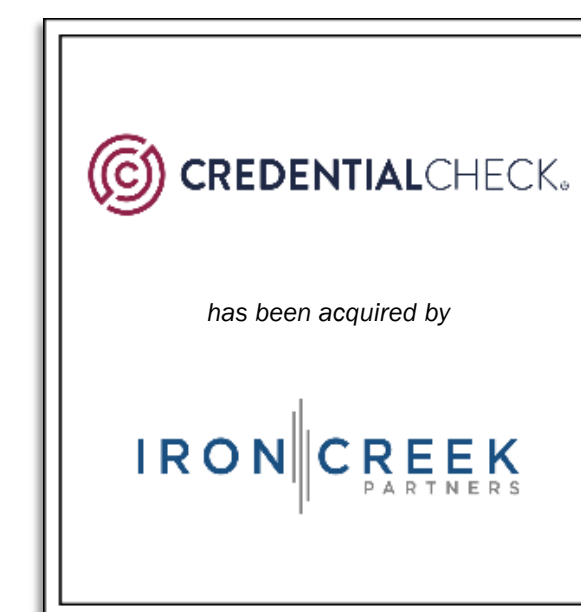
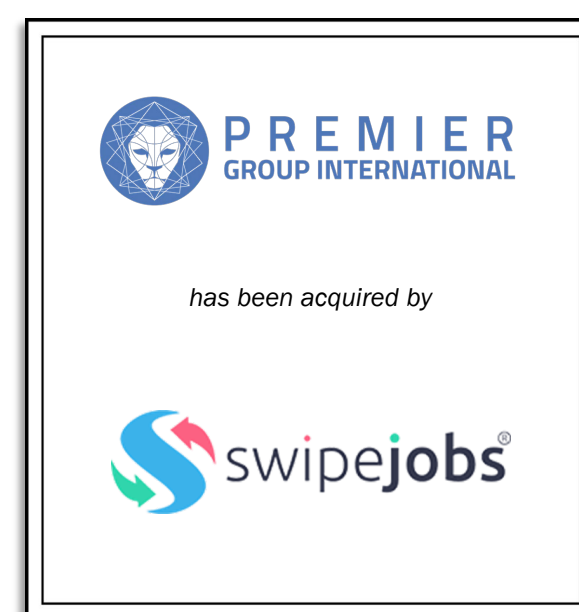
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Matt Rupprecht | Director

Matt Rupprecht is a Director of PMCF and co-leads the firm's Business Services & Technology team. He has more than 15 years of experience advising clients with their buy side and sell side M&A transactions, leveraged buyouts, and the placement of senior and subordinated debt. In addition, Matt has extensive experience across multiple segments, including human capital management, advertising, facilities management services, managed services, and business process outsourcing. Matt earned a BBA with high distinction with an emphasis in finance and accounting from the Stephen M. Ross School of Business at the University of Michigan. He is a licensed securities representative holding his Series 7 and 63 registrations and a Chartered Financial Analyst.

Human Capital Management Transaction Experience



Introduction

Focusing on the most influential key performance indicators (KPIs) may have a substantial impact on valuation

Following several years of headwinds, optimism has resurfaced across the staffing landscape...

“Volatile labor market conditions weighed down on staffing employment in 2024, but the industry adapted by focusing on new business segments and productivity enhancements. Easing headwinds in 2025 will allow the industry to see further stabilization and growth.”

American Staffing Association (ASA), December 2024

“After a two-year decline, the global staffing market is set to rebound. With a projected growth of 5% in 2025, the industry is expected to reach an impressive \$650 billion, opening doors for business worldwide.”

QX Global Group, December 2024

“Looking forward to 2025, the staffing industry is on the cusp of a major evolution. The introduction of cutting-edge technologies such as AI and blockchain is set to revolutionize the way recruitment is conducted.”

Staffing Hub, September 2024

“According to our base case projection, the Americas staffing industry will grow 5% in 2025 and 4% in 2026, potentially reaching a market size of 217.8 billion and 226.6 billion, respectively.”

Staffing Industry Analysts (SIA), November 2024

“General M&A outlook is positive for 2025; staffing industry activity will depend on business performance returning to growth.”

Ortoli | Rosenstadt LLP, December 2024

“Staffing leaders are entering 2025 with a renewed sense of optimism. After navigating three years of high inflation, rising interest rates, and overall economic uncertainty, many staffing businesses are preparing for a promising year ahead.”

Sense, December 2024

Amidst an anticipated resurgence in demand for staffing & outsourcing services, prioritizing KPIs that draw buyer interest will position sellers to optimize market perception and value in a dynamic M&A environment

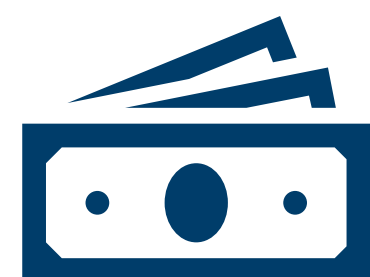
1) LTM Adjusted EBITDA

Historical EBITDA represents a critical component of the most popular valuation methodologies

EBITDA

Earnings before interest, taxes, depreciation & amortization; a widely used measure of profitability

**Last Twelve
Months (“LTM”)
Adjusted EBITDA**



Nearly all staffing transactions are priced off an EBITDA multiple, with the LTM value being a common starting point

Buyers' key focus will be on the sustainability of an EBITDA metric based on performance over the past twelve months

EBITDA should be adjusted for one-time / unusual events to ensure the adjusted value may be perceived as sustainable and replicable

2) Forecasted Revenue & Adjusted EBITDA

Visibility into the next 6-12 months' performance is key in a notoriously volatile staffing industry

Forecasted Revenue & Adjusted EBITDA (6-12 Months)



Buyers are hyper-focused on supportable, short-term forecasts due to historical difficulties in accurately projecting performance in a volatile staffing market

Forecasted performance over the next 6-12 months will be compared to projected growth for the overall industry as a means of identifying quality investment opportunities

Buyers are skeptical as to whether businesses have “hit their peak”; a supportable short-term forecast demonstrating above average growth helps mitigate concerns

3) Monthly Hours Growth

A clear indicator of increasing demand includes looking beyond bill rates into total monthly staffing hours

Monthly Staffing Hours Growth



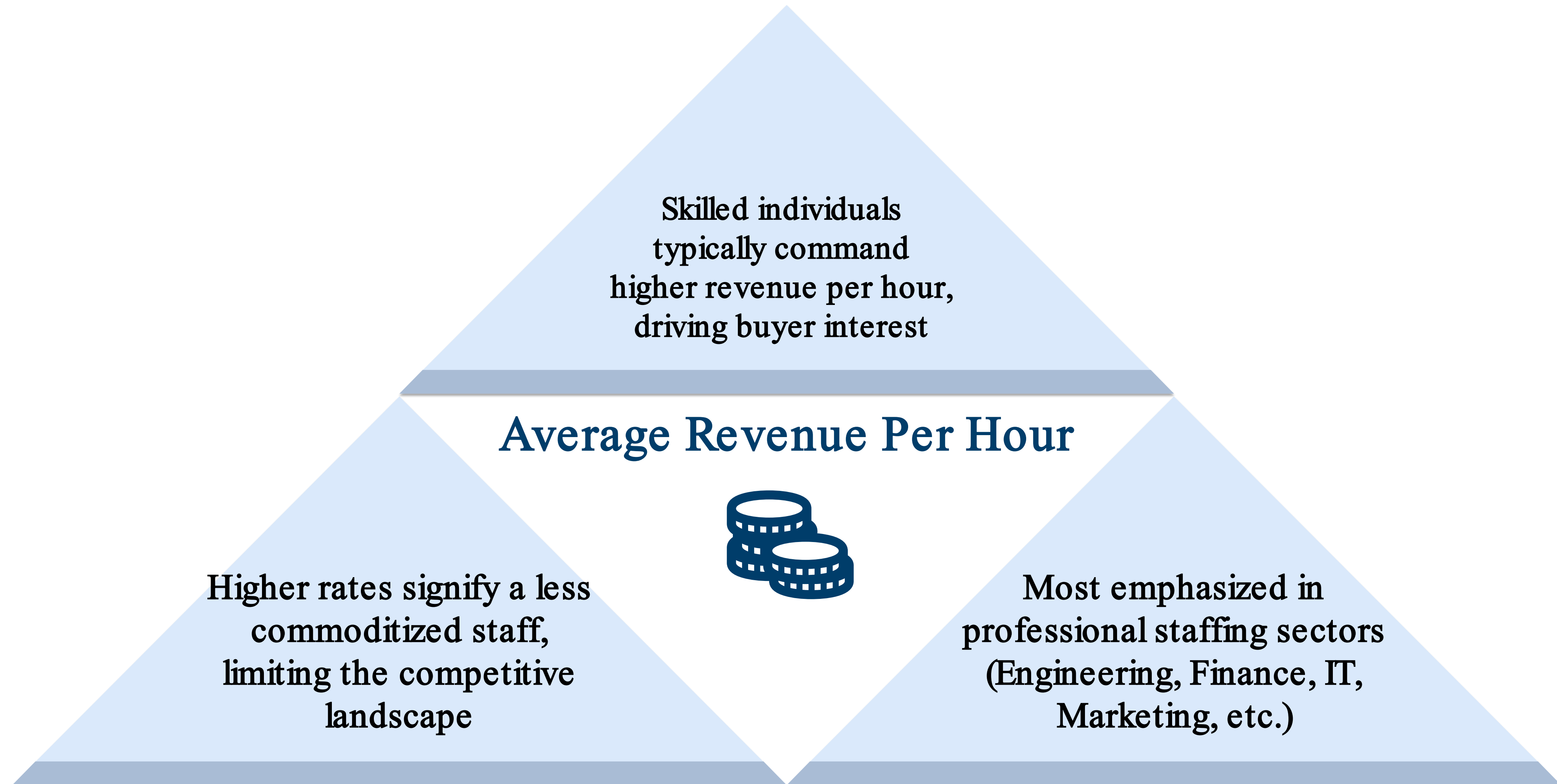
Buyers will seek to verify that the quantity of staffing hours is growing in tandem with revenue

A critical metric in an inflationary environment, as revenue growth may not accurately depict true business growth when bill rates are increasing

Looking at total staffing hours over time removes the variable of wage inflation to give buyers a clear picture of current and historical revenue, including trends in demand driven by seasonality or customer churn

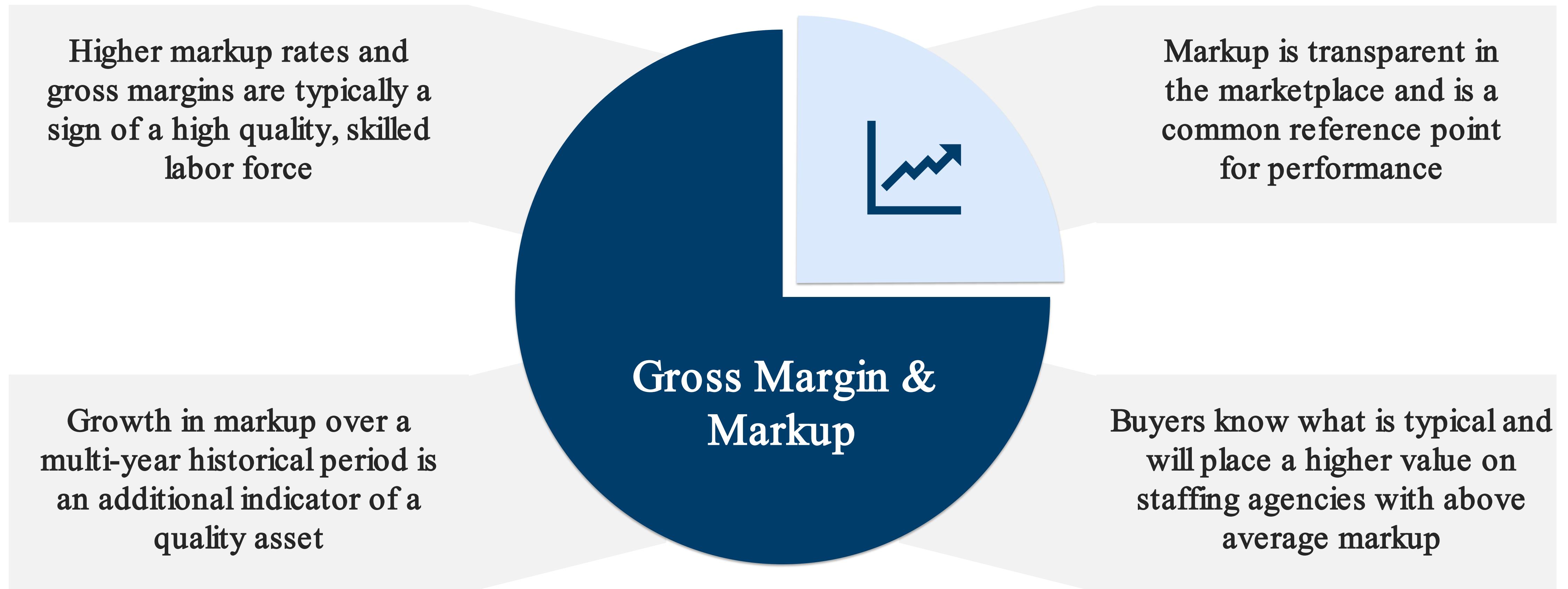
4) Average Revenue Per Hour

Skilled labor forces have a strong influence on buyers' perception of value



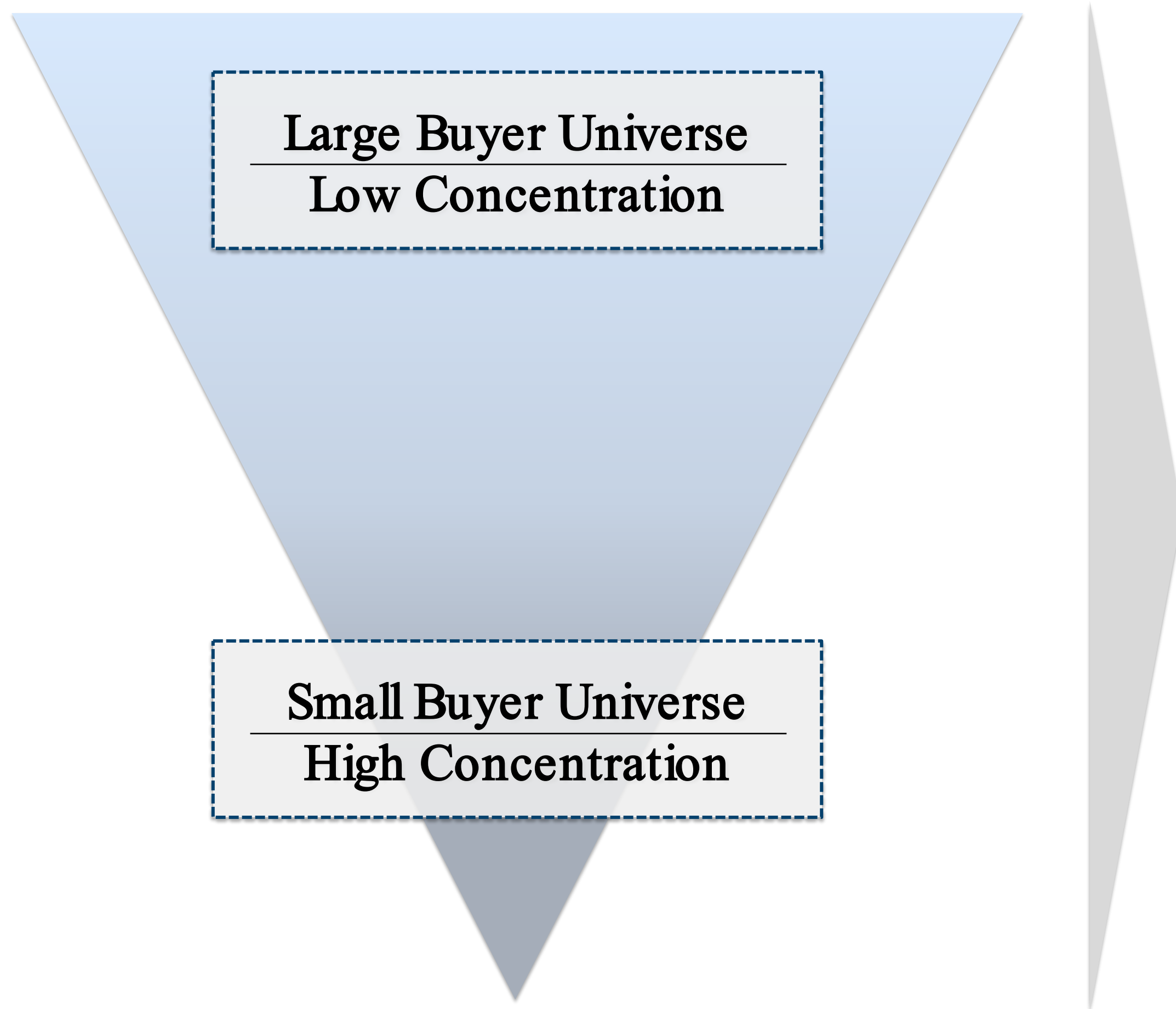
5) Gross Margin & Average Markup

Premium assets command high markup rates, driving a healthy gross margin



6) Customer Diversification

High concentration is often a deterrent for buyers, while a diverse customer base is a value driver



Risk of Customer Concentration

Lack of customer diversification is viewed with heightened risk, especially in the services industry, due to low switching costs for customers, providing little contractual protection for top accounts

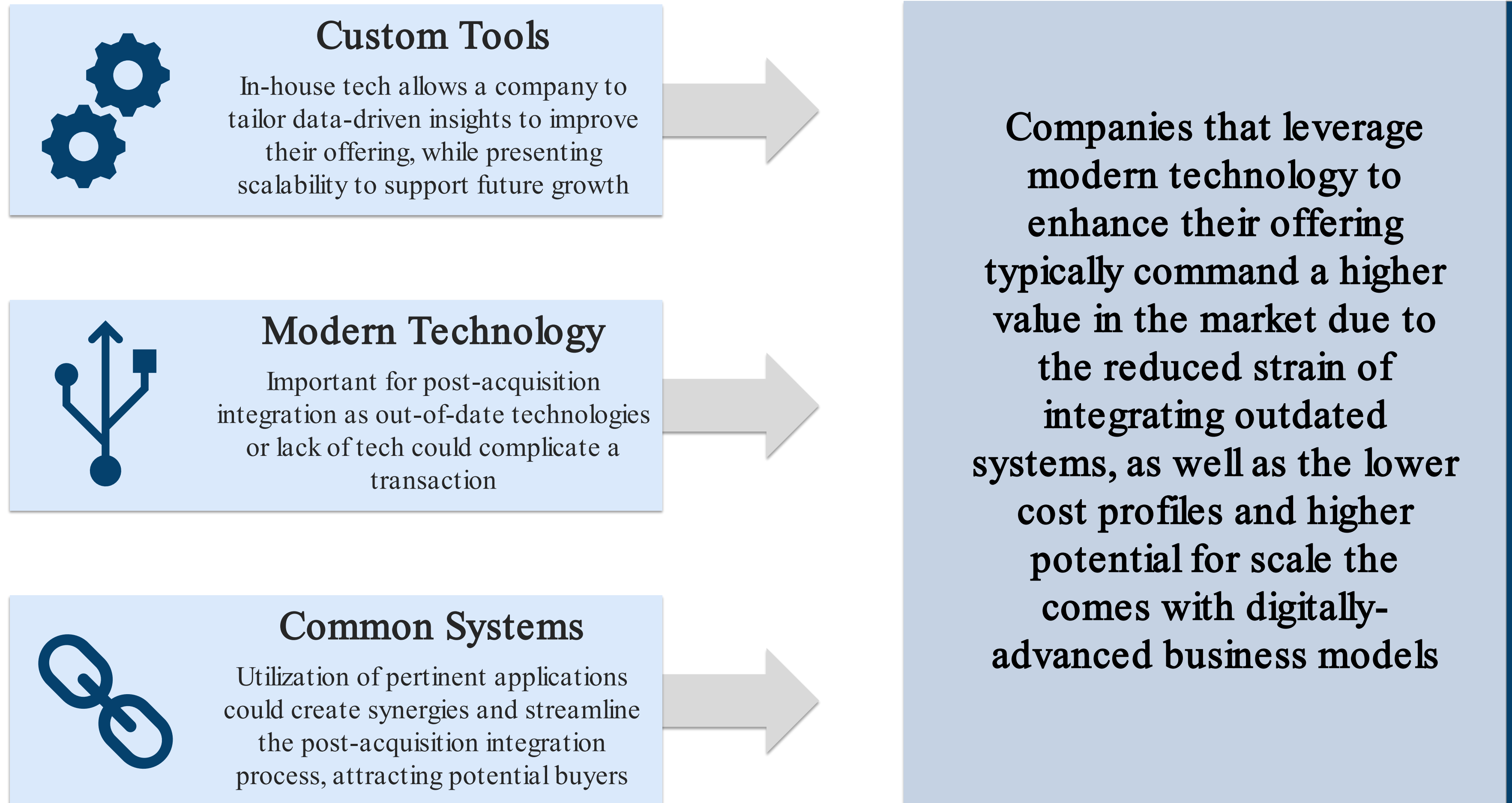


Any customer accounting for >10% of sales is considered moderate customer concentration

One customer accounting for >30% of sales or the top 3 customers accounting for >50% of sales is considered high concentration

7) Proprietary Technologies

Deployment of proprietary technology often signals a high-quality asset in the marketplace

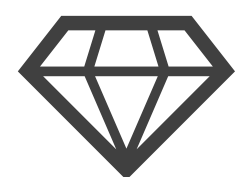


8) Internal Headcount & Recruiter Bench Strength

Buyers will look for efficiencies within the organizational structure when evaluating a potential target



Internal Headcount



Retention of top talent signals a high-performing company



Understanding of a target's internal workforce allows for detection of redundancies and overlap



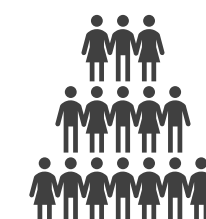
Analysis of organizational structure facilitates the identification of synergies between buyer and seller



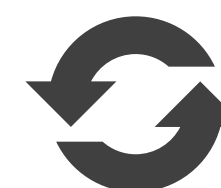
Number of Recruiters



Similar to customer concentration, a reliance on one or a few recruiters to generate business is a red flag for buyers



While founders and CEOs of staffing companies tend to come from a recruiting background, buyers do not want to see a reliance on them



High turnover in the staffing recruiter job market means targets with a deep bench of strong recruiters are viewed as safer investments

9) Ownership Involvement

Buyers value businesses that demonstrate success without heavy ownership involvement

Ownership Involvement



Active Employees

Buyers question whether the business can operate separate from current ownership post-transaction, and must dedicate resources to implement a succession plan



Exhibiting operational excellence separate from ownership is especially important to strategic buyers, who will likely minimize ownership carryover post-transaction

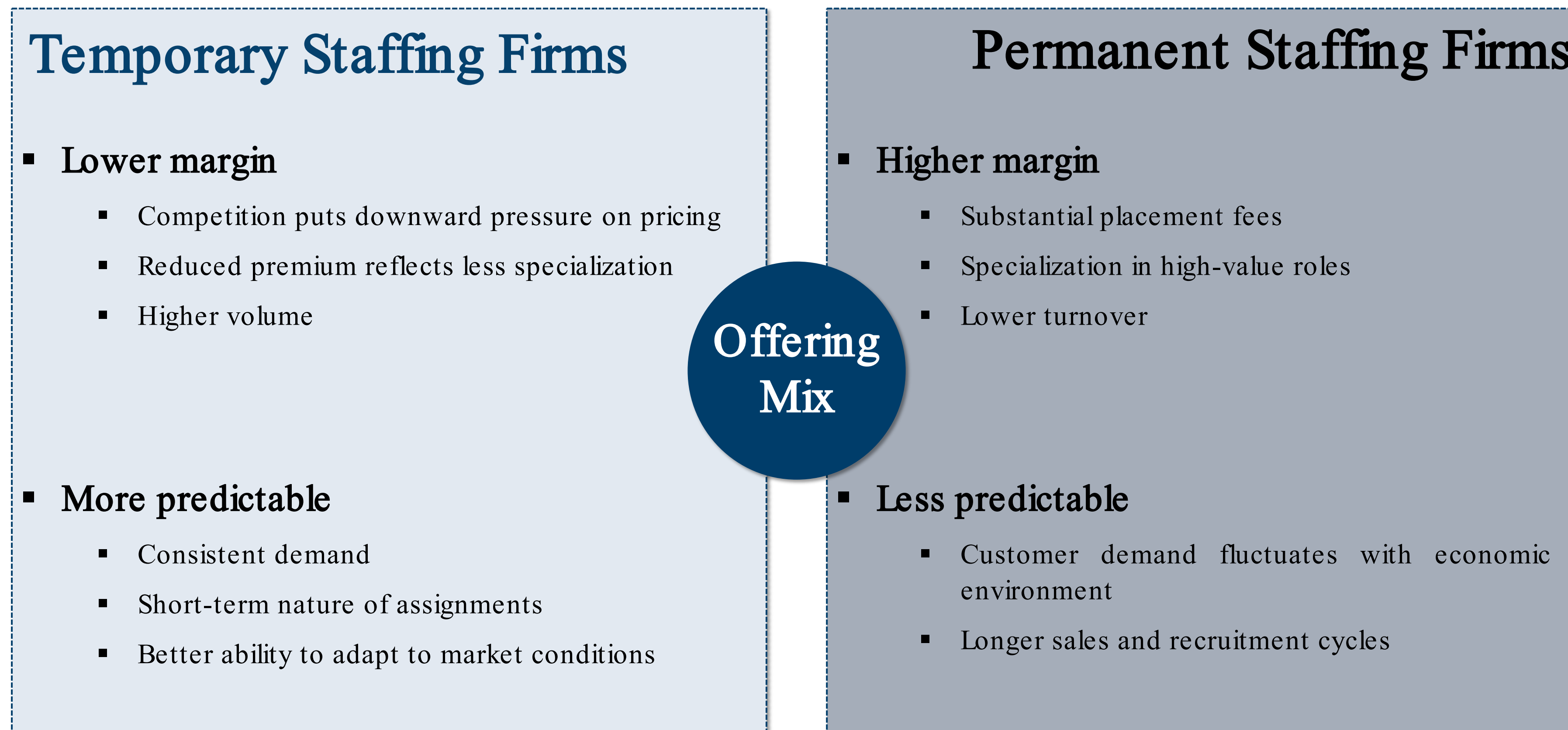


Board Presence

Indicates a talented workforce and deep management bench, while demonstrating that the business is free-standing and mitigating concerns over management succession

10) Temporary vs. Permanent Hire Focus

Buyers tend to be more cautious with permanent staffing agencies, which are more susceptible to cyclicality

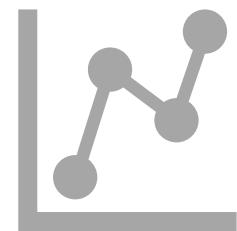


Temporary staffing companies tend to attract more interest from buyers, so it is important for permanent staffing agencies to maintain a healthy balance of temporary aspects

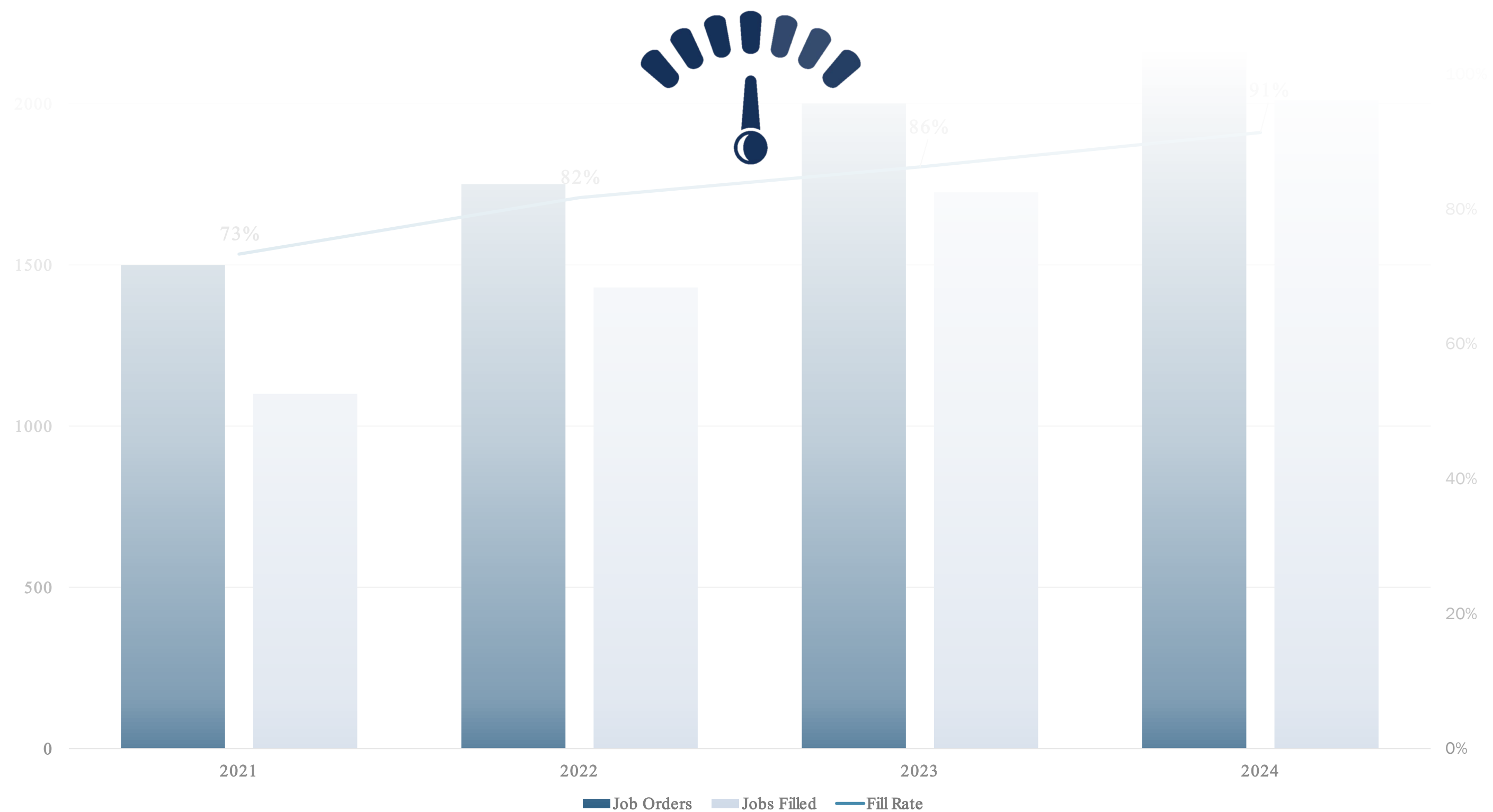
11) BONUS: Fill Rate

Reliable data to support strong fill rates functions as a key differentiator in a competitive industry

Fill Rate as an Efficiency Measure



Fill rates are difficult to track and are easily manipulated, resulting in increased interest from buyers when a company can reliably track this metric



Buyers are frequently interested in performing due diligence on a potential target's fill rates to ensure their target demonstrates strong results

In today's market, fill rates exceeding 90% are considered very attractive

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