



WEBINARS



Staffing M&A in Transition - What to Expect in 2023

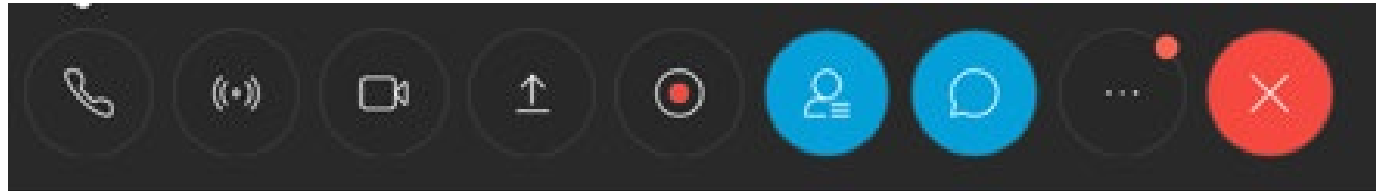
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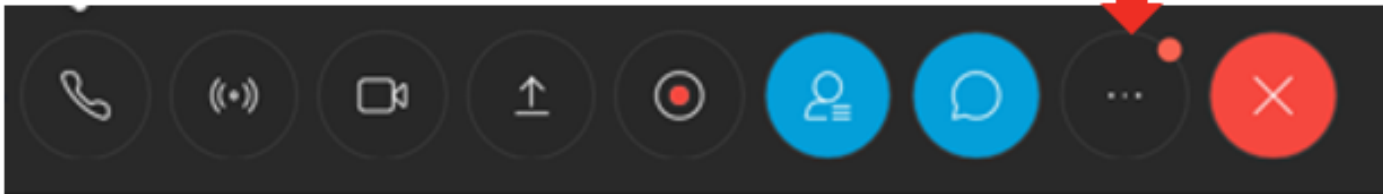
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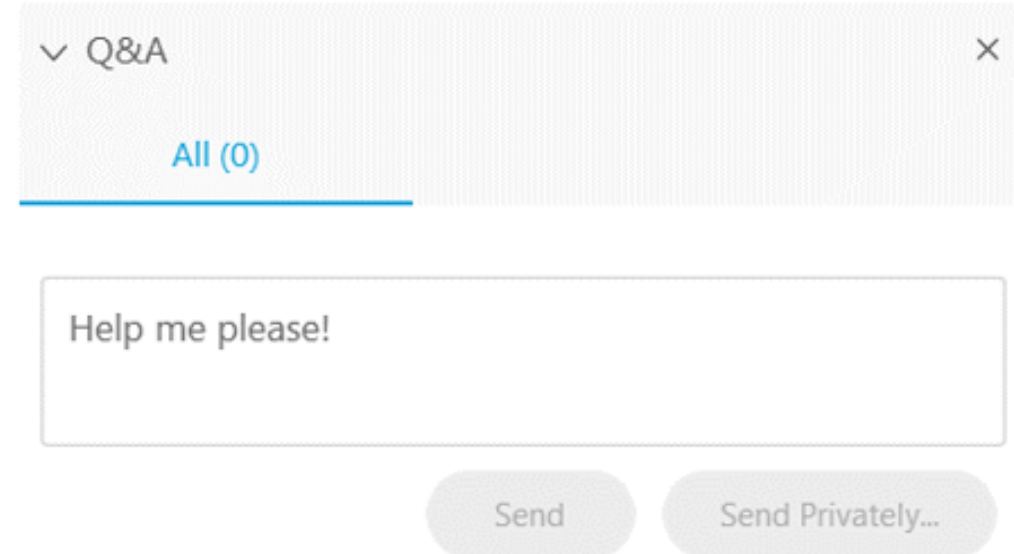
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Questions?

- Questions may be submitted at any time.
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- Type your question into the small dialog box and click the Send Button.
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Our speakers today...



- **Paul Pincus**, Partner,
Ortoli Rosenstadt



- **Andrew D. Brown**,
Managing Director,
Fairmount Partners



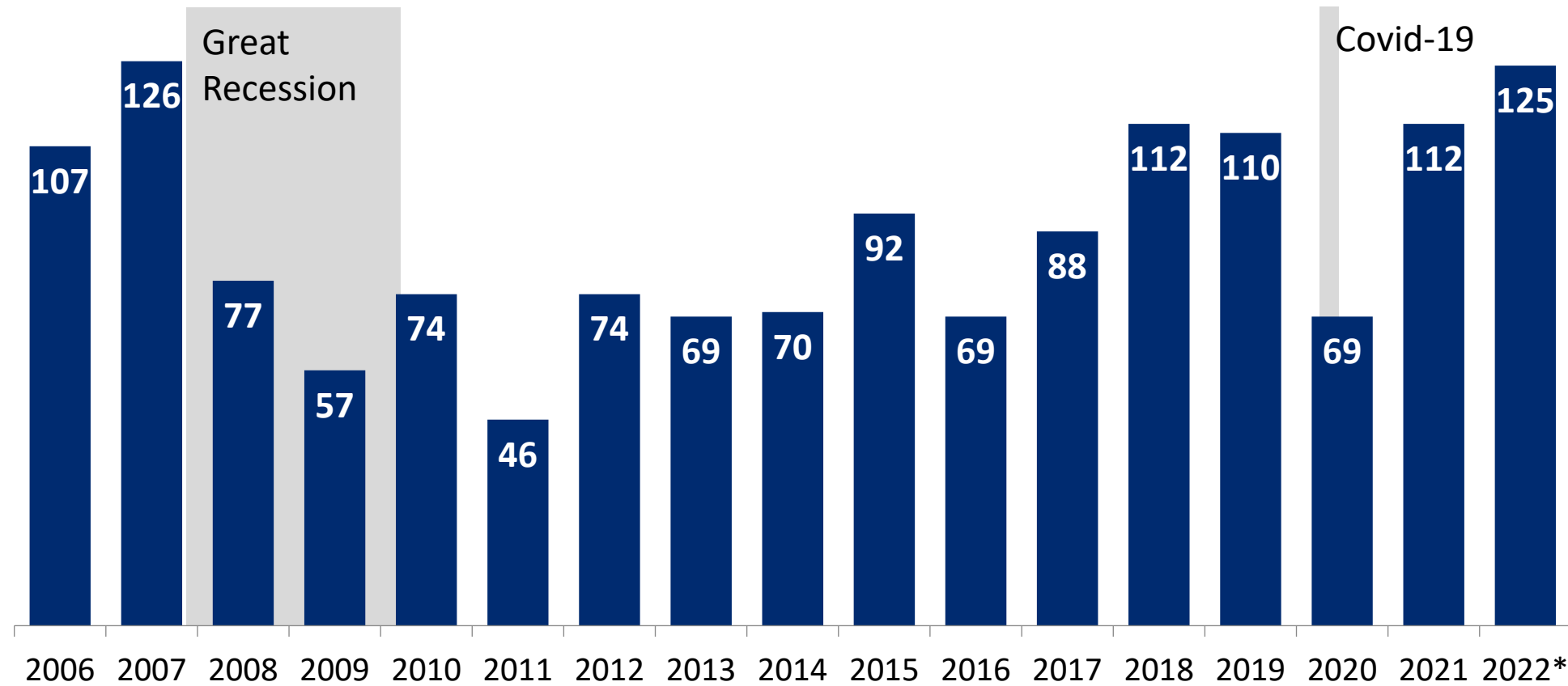
Moderator:

- **Brian Wallins**, Research
Director, SIA



Staffing M&A - Pacing Toward a Record

North American staffing M&A transactions



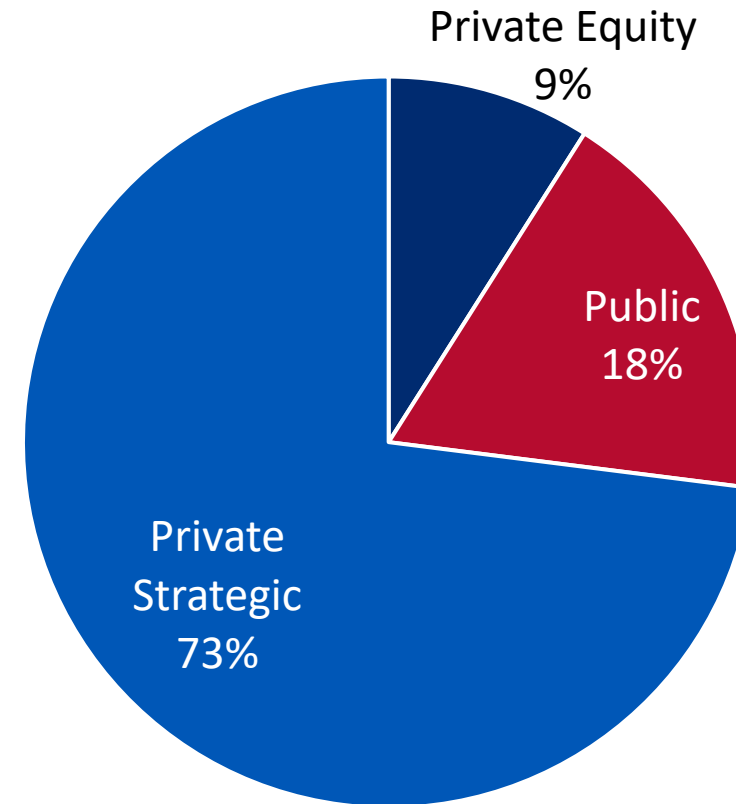
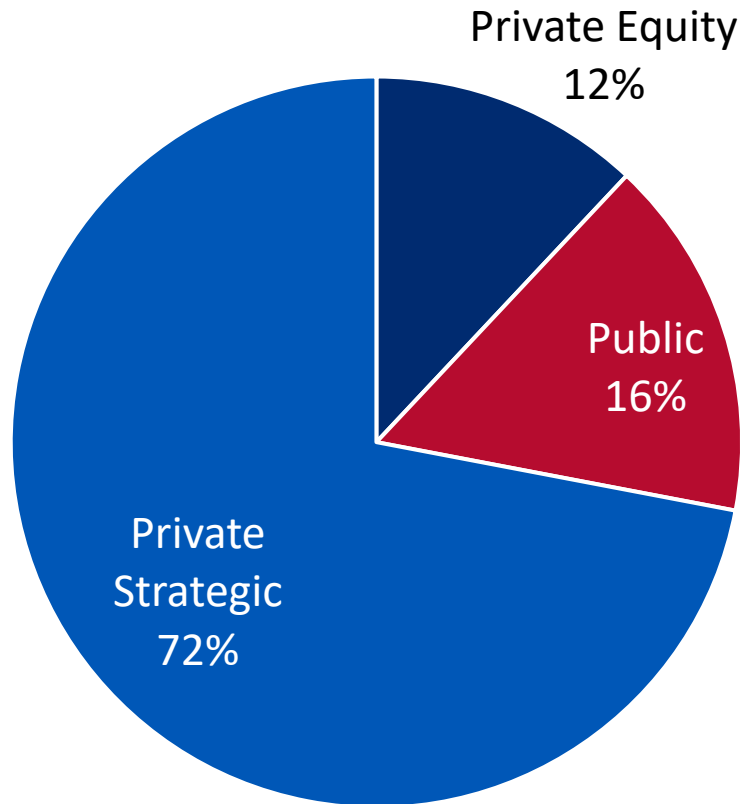
*As of November 4, 2022

Source: SIA [Merger & Acquisition Trends: North America 2022 Update](#)

Composition of Buyers

Year-to-date as of November 4, 2022

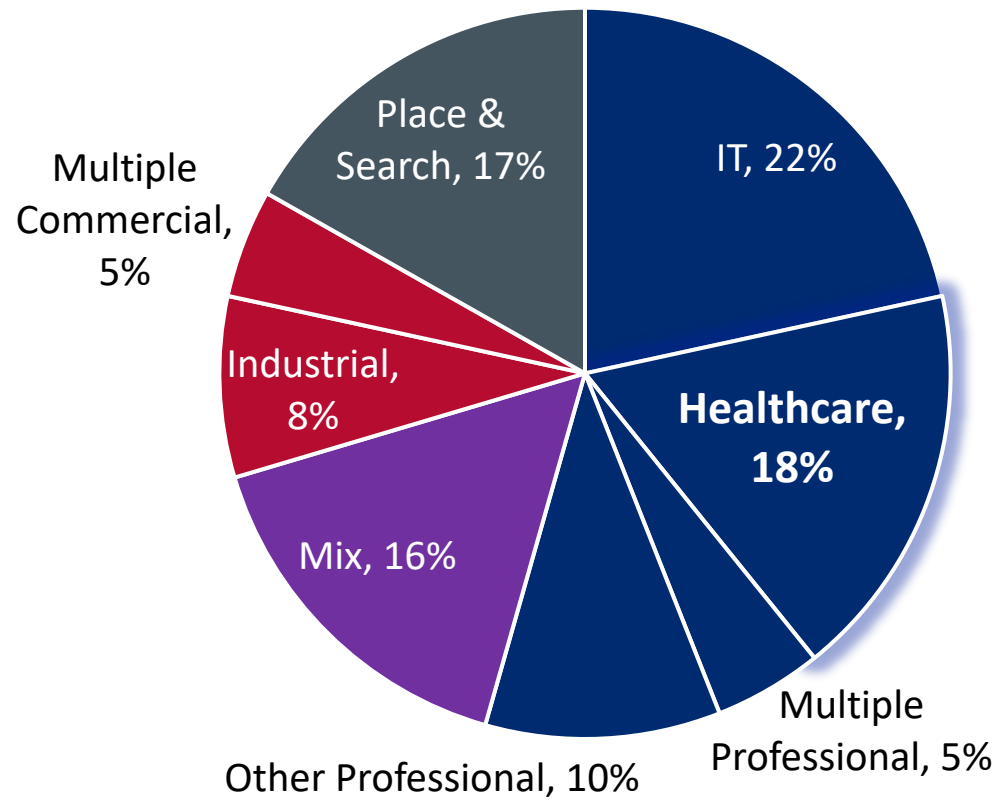
2021



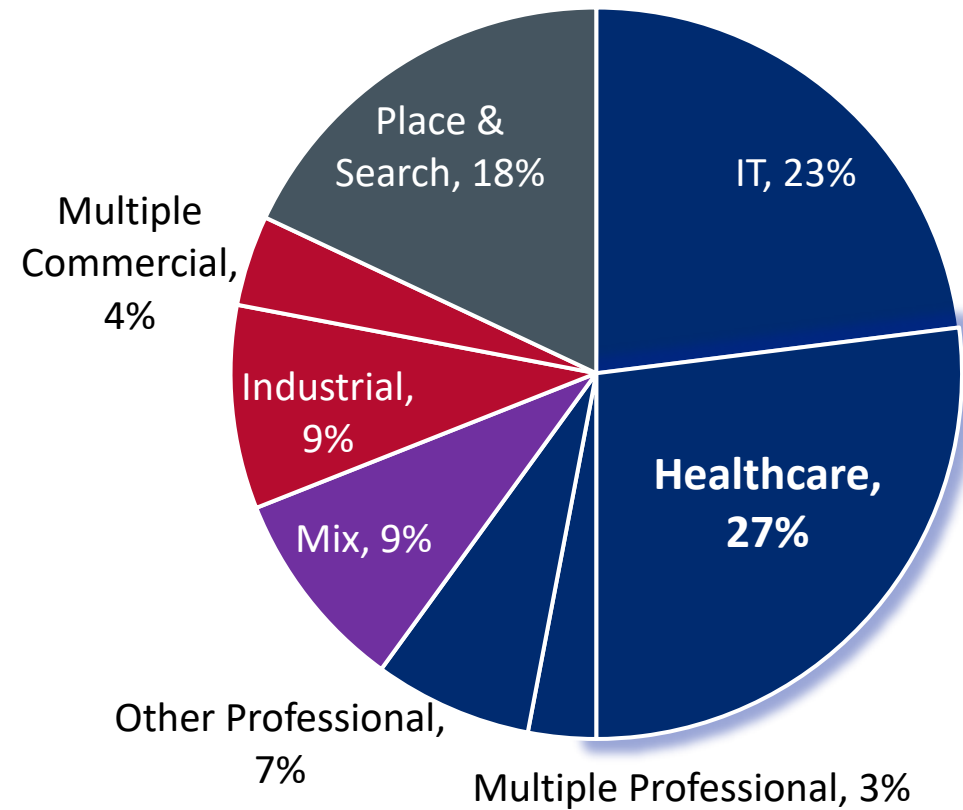
Source: [SIA Mergers and Acquisitions Database](#)

Deals by Staffing Segment

Year-to-date as of November 4, 2022



2021



Source: [SIA Mergers and Acquisitions Database](#)

STAFFING M&A IN TRANSITION

HOW HAS THE MARKETPLACE CHANGED IN 2022
AND WHAT CAN WE EXPECT IN 2023?

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Agenda

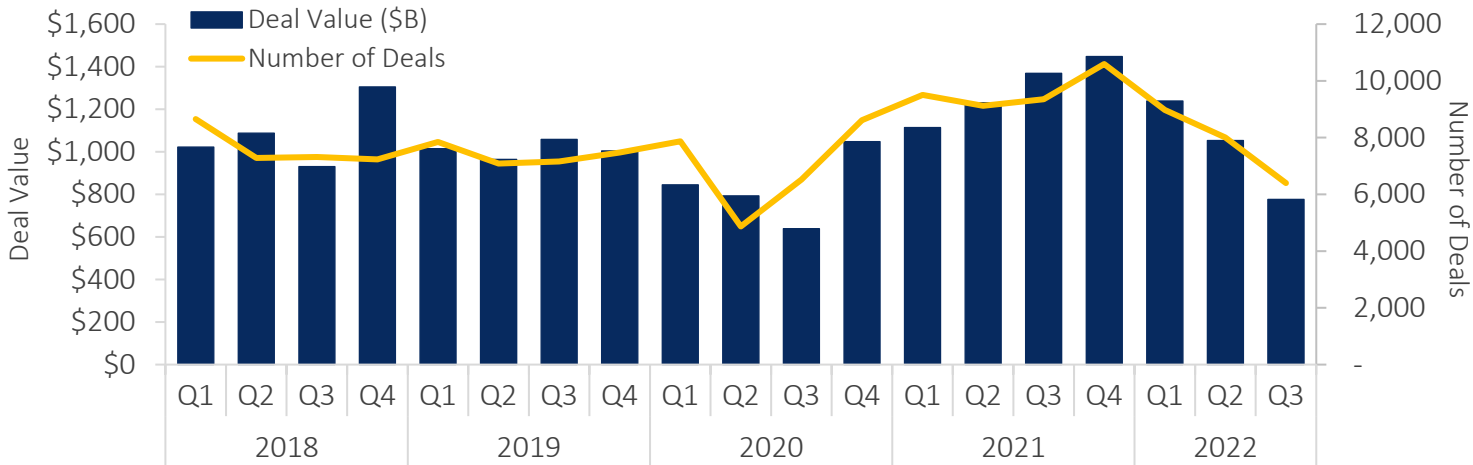
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- ✓ The Importance of “Non-Binding” Letters of Intent
- ✓ Timing the Market and 2023 Outlook
- ✓ Closing Thoughts for Sellers Before Going to Market

Current Market Overview: Global M&A & Public Market Performance

Global M&A and public stock markets slowed in 2022 following record performance in 2021

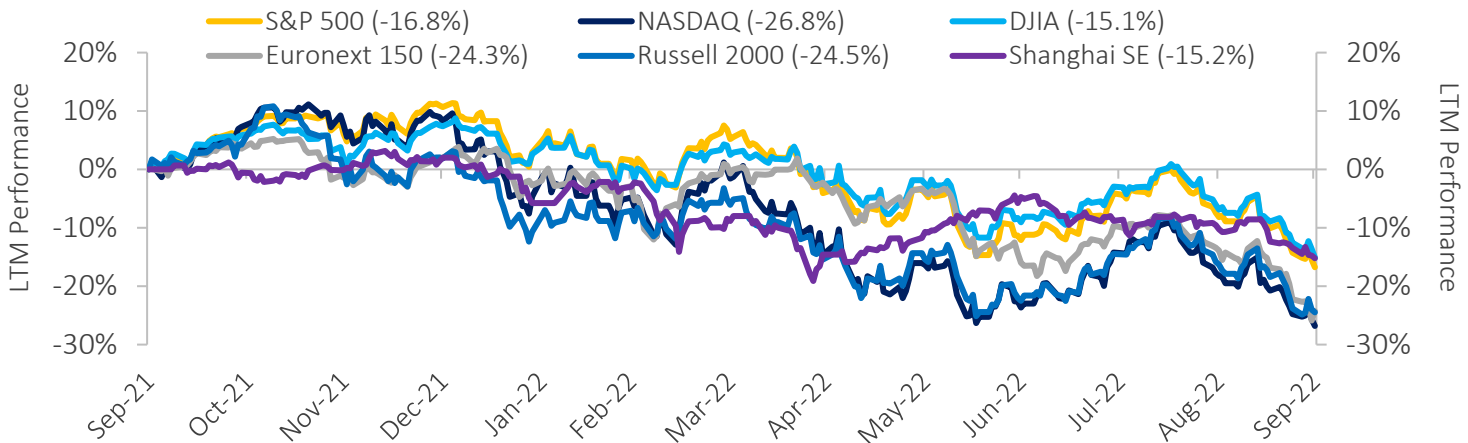
Global M&A Activity by Quarter



Commentary

- YTD 2022 M&A activity has declined relative to the record performance in 2021, but remains relatively consistent with pre-pandemic levels
- M&A activity and global markets have faced several major headwinds so far in 2022, including:
 - Geopolitical tension
 - Inflationary pressures
 - Rising interest rates
 - Pandemic-related supply chain issues
 - Ongoing COVID-19 impact
 - Volatility in energy prices

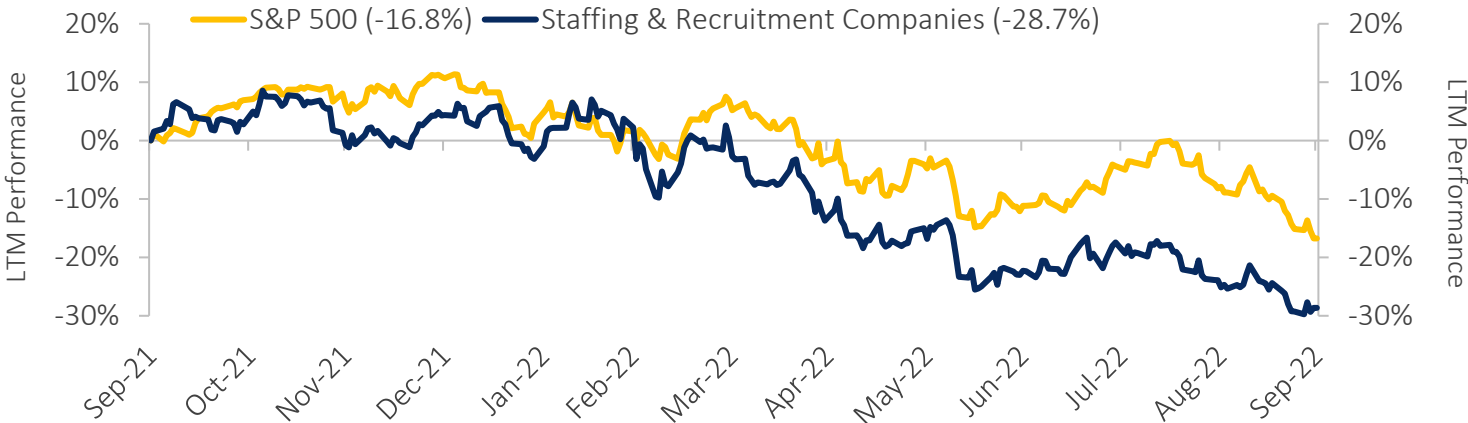
LTM Stock Performance: Global Indices



Current Market Overview: Staffing Sector Performance

Staffing M&A activity is expected to reach an all-time high in 2022 despite the decline in public market performance

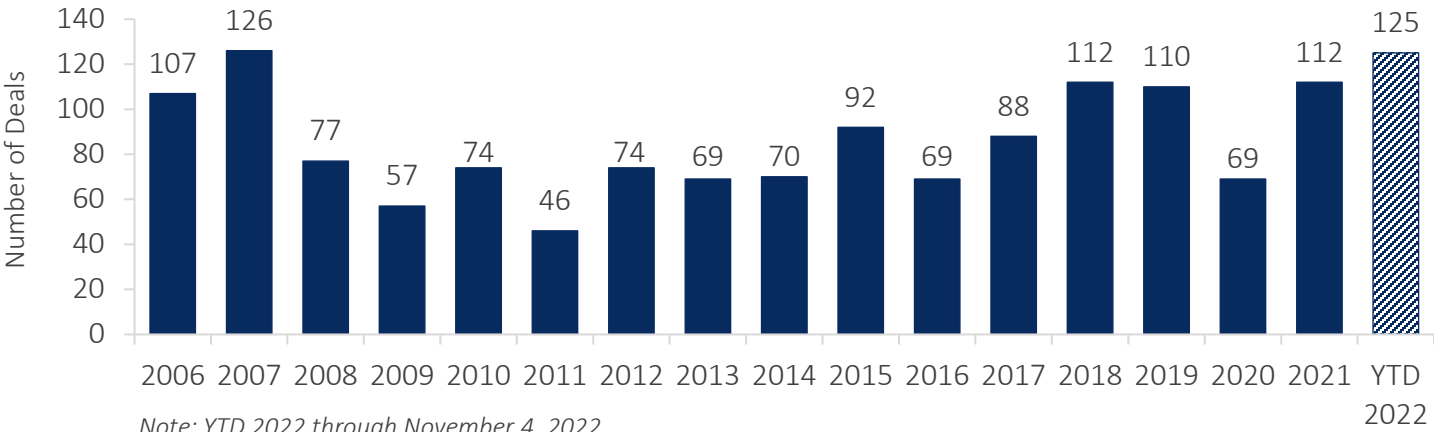
LTM Stock Performance: S&P v. Publicly Traded Staffing & Recruitment Companies



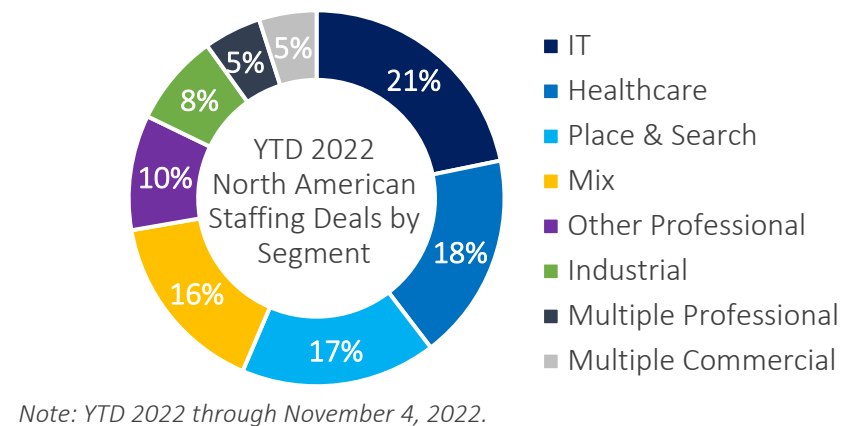
Commentary

- Despite lackluster performance in the stock market for publicly traded staffing firms, staffing and recruitment M&A activity is on pace to hit record levels in 2022
- Strong staffing & recruitment M&A activity is driven by:
 - Demand for IT and healthcare skillsets
 - Steady investment from private equity
 - Strong labor market environment

Announced North American Staffing & Recruitment M&A Deals



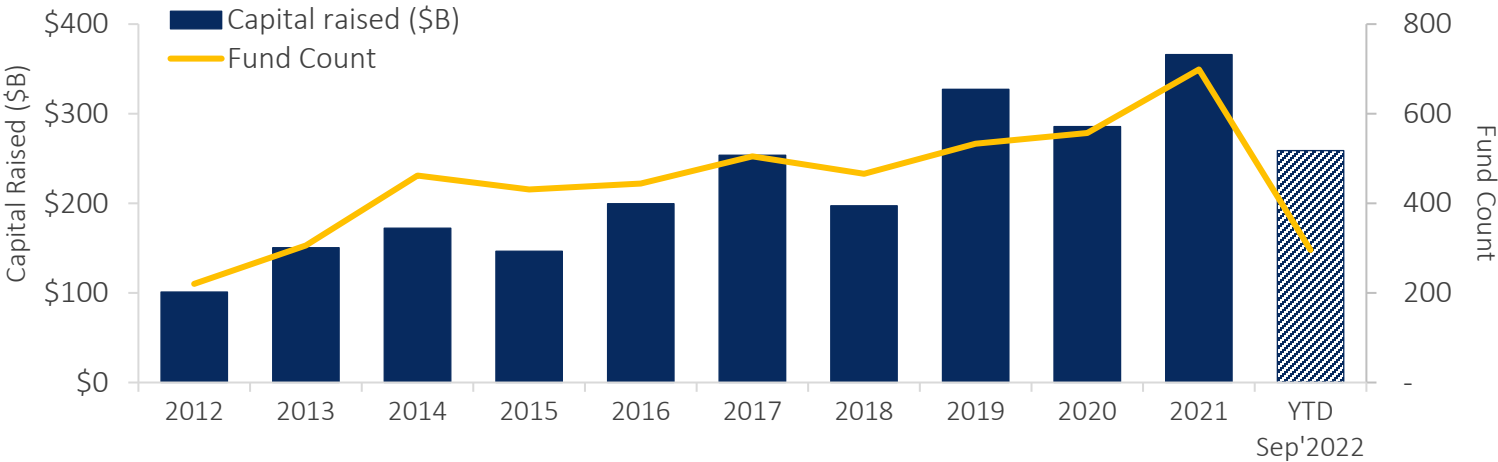
North American Staffing Deals By Segment



Current Market Overview: Private Equity Market

Record levels of private equity fundraising and dry powder supporting M&A and investment activity

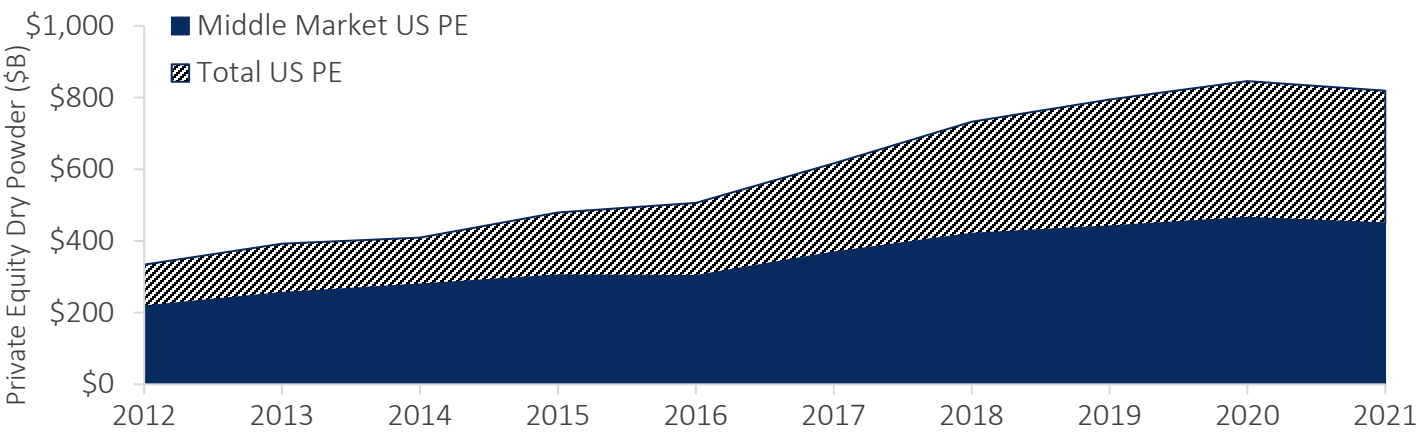
U.S. Private Equity Fundraising Activity



Commentary

- Private equity resilience and investors' dry powder supporting dealmaking in 2022 despite macroeconomic headwinds
- U.S. PE fundraising totaled \$259 billion for YTD September 2022 (on pace with 2021)
- However, fundraising may begin to slow in the last quarter of 2022 as with many LPs having hit allocation targets for 2022
- Total U.S. private equity dry powder totaled \$800+ billion at the end of 2021

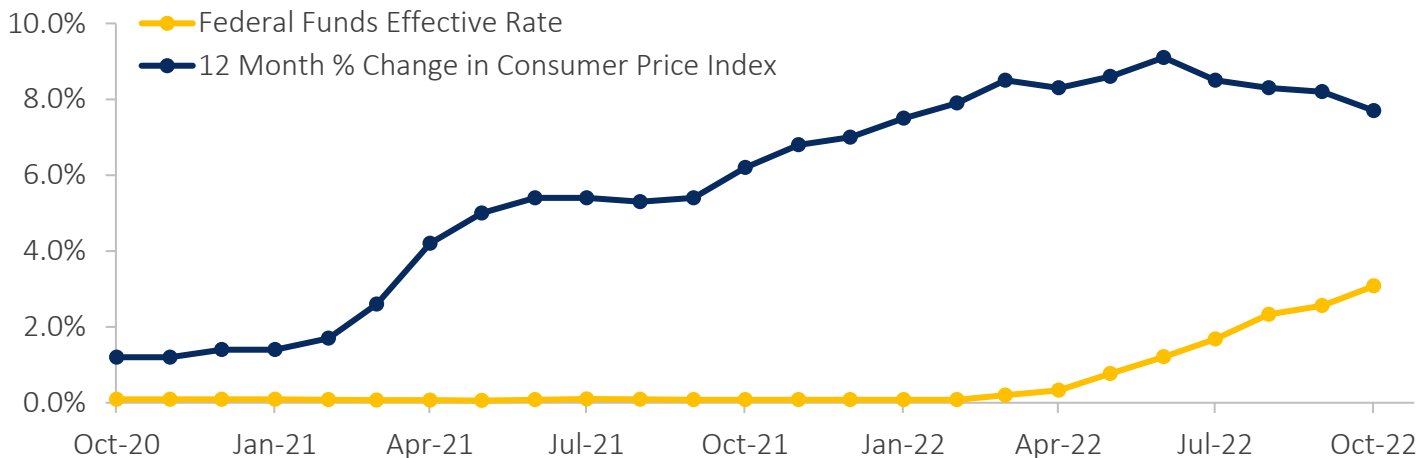
U.S. Private Equity Dry Powder (\$B)



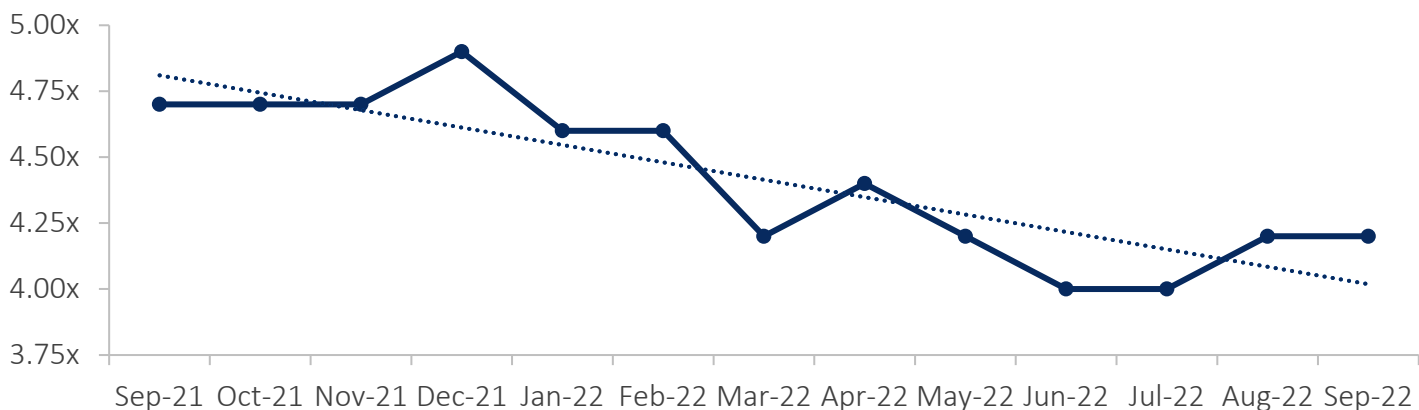
Effects of Rising Interest Rates and Stock Market Performance on Buyer Financing

Buyer financing becoming more difficult given recent interest rates hikes

Inflation v. Interest Rates



Senior Debt Leverage Multiples for Private Deals



Commentary

- The use of leverage (third party financing) allows for better return on equity for buyers by using less of their own capital
- However, the Federal Reserve has implemented multiple interest rate hikes in 2022 to combat high inflation – rising interest rates make deal financing more challenging
- PE firms are now faced with a higher cost of capital for leveraged buyouts
 - Average leverage multiples for private LBOs have retreated slightly in over the past few months
 - PE firms have increased their equity contributions to keep interest costs in check
- Similarly, equity financing becomes more costly for public strategics faced with lower equity valuations

Current State of Deal Pricing and Terms

Several positive trends continue to support deal pricing and terms, but caution is developing

Market Trends

Commentary

Impact

Negative

Positive

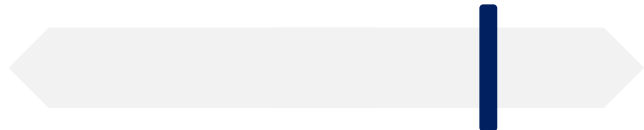
Valuations

- Top human capital services assets still demand premium valuations and quality terms
- However, concerns regarding near-term inflation, public market performance, and rising interest rates generate a lot of 'noise' in the market



Capital Availability

- Record amounts of capital available for investment between corporate cash and private equity dry powder
- However, lenders are beginning to show caution for certain cyclical businesses and cost of capital is becoming more expensive for buyers



Deal Structure

- In 'choppy' M&A environments, buyers may incorporate more structure in deal pricing – earnouts/contingent payments, retention, seller notes, etc. versus cash at close



Ancillary Terms / Negotiations

- Other ancillary deal terms (i.e., reps and warranty insurance, net working capital, indebtedness, etc.) can be more difficult to negotiate and win in challenging M&A markets



Seller Strategies Around Earnouts and Other Forms of Contingent Consideration

Earnouts

- Limit the duration of the earnout period (ideally 1 year vs. 2 or more years)
- Structure the earnout based on post-closing Gross Profit (rather than EBITDA over which the buyer has control)
- Do not limit the earnout only to customers with active assignments at closing and the temporary employees on those assignments (include future customers, future assignments from existing or future customers, and other current or future temporary employees on current or future assignments)
- Avoid all or nothing cliff payments
- During the earnout period, the buyer should maintain separate financial records of the seller's business
- Try to obtain protective provisions limiting how the buyer will operate the seller's business during the earnout period, such as:
 - Not terminating certain critical employees without cause
 - Requiring the buyer to operate the business in good faith and in a commercially reasonable manner
 - Limiting the buyer's ability to micro-manage the business and make fundamental changes that would negatively impact Gross Profit, without the seller's consent

Deferred Guaranteed Payments

- Should be evidenced by an interest-bearing promissory note
- Note might be guaranteed or collateralized
- Note should provide for acceleration and penalties in the event of specified defaults

Rollover or Retained Equity

- Exclude any buyer "call options" based its termination of the owner's employment without cause
- Clarify the valuation of any rollover or retained equity in a future buyout

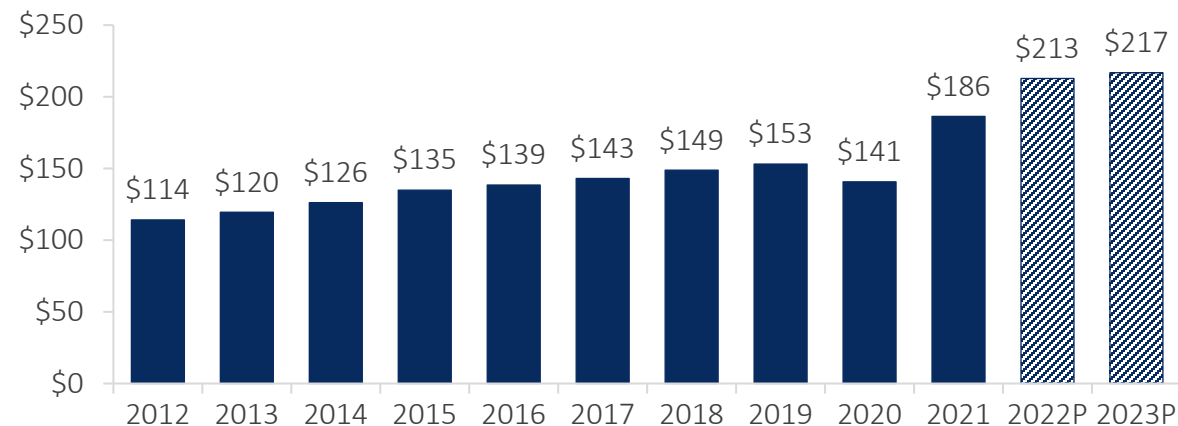
The Importance of “Non-Binding” Letters of Intent

- A Letter of Intent (“LOI”) is a critically important deal document that must be reviewed by transaction legal counsel and carefully negotiated by the buyer and seller (and their financial advisors)
- The LOI provides a framework of the transaction so that the buyer and seller know they are in agreement on the key business terms. From the buyer’s and seller’s perspective, it is wise to be thorough and not leave any important business issues for future negotiation and possible disagreement
- Although the LOI will state that it is “non-binding” (except regarding a few incidental matters), the parties consider a signed LOI to create a “moral” commitment to its terms. As a practical matter, its terms become non-negotiable
- Typical terms include:
 - That the transaction will be cash-free, debt free (but with a requirement that the seller leave in the business or transfer to the buyer at closing a normalized level of working capital)
 - Structure of the deal (purchase of stock vs. assets) and any rollover or retained equity
 - Purchase price
 - Payment terms (how much cash at closing, terms of any seller notes and any security for them, length and structure of any earnout payments) and any escrow provisions
 - Any tax elections to which the seller must agree (such as under IRC Section 338(h)(10) or IRC Section 754)
 - Terms of any employment agreements with the owners
 - Purchase of Reps and Warranties Insurance (if applicable)
 - Expected time for the buyer to complete due diligence and close the transaction
 - Closing conditions
 - Confidentiality and a “no-shopping (non-negotiation) clause” for 60-90 days

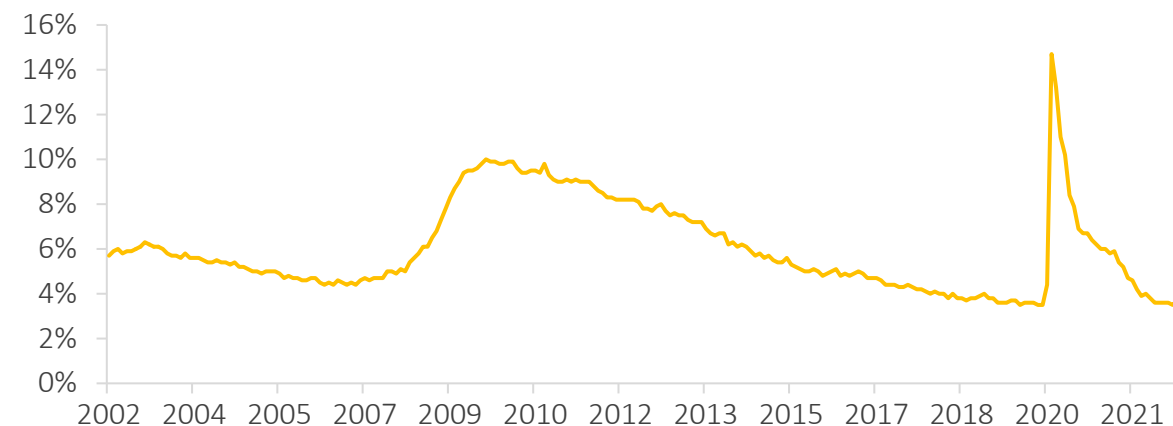
Timing the Market and 2023 Outlook

Weighing strong U.S. staffing industry market and positive labor market trends with potential recession concerns

U.S. Staffing Industry Forecast (\$B)



U.S. Unemployment Rates, Seasonally Adjusted



Probability of a U.S. Recession

Wall Street Journal



"On average, economists put the probability of a recession in the next 12 months at **63%**, up from 49% in July's survey"

Bloomberg



"Forecast for US recession within year hits **100%**"

Goldman Sachs



"Goldman Sachs told clients on Monday it still sees a **35%** chance of a US recession in the next 12 months"

J.P. Morgan

JPMORGAN CHASE & CO.

"As the economy confronts these challenges, it is likely to see very weak real GDP growth with a greater than **50/50** probability of tipping into a recession by the end of 2023"

Citigroup



"Citigroup is forecasting a near **50%** probability of a global recession"

Morgan Stanley

Morgan Stanley

"The Global Multi-Asset (GMA) team recently increased its estimated probability of a recession to **55%**"

Closing Thoughts for Sellers Before Going to Market

Build and Retain a Strong Management Team	<ul style="list-style-type: none">• Build a strong management team that will stay with the business through the closing and afterwards – enter into management retention agreements with key employees• Consider early communications / organization plan – get key team members ready for, and enthusiastic about, next stage of company evolution – create backup plans for employees where issues may arise
Assemble a Team of Third-Party Advisors	<ul style="list-style-type: none">• Hire an experienced investment banker / broker and M&A attorney with expertise in the staffing industry sooner rather than later• Allows for early identification of issues (e.g., organized record-keeping, financial and KPI analyses, employment agreements, etc.)
Consider Audit or Quality of Earnings Report	<ul style="list-style-type: none">• Get your financial books and records in order – consider engaging a reputable outside accounting firm to review your financial statements and possibly prepare a Quality of Earnings Report• Adds credibility to the financial controls and/or normalized profitability in the business• Provides comfort to buyers around the numbers (at the time of bidding and throughout diligence)
Revise and Pressure-Test Projections	<ul style="list-style-type: none">• Buyers will expect to receive a fully detailed P&L forecast for the upcoming 12-18 months; 5-year model helpful for private equity• Hitting projections during a process is essential to build credibility and maintain momentum; have defined methodologies/processes
Think About Strategic Positioning	<ul style="list-style-type: none">• Accentuate the positives; be transparent around risk areas• Begin to identify synergies for prospective buyer categories – shows strong command of your business and the landscape
Perform Due Diligence on the Buyer	<ul style="list-style-type: none">• Unless you are receiving all cash at closing, do due diligence on the buyer• This is particularly important in deals with rollover or retained equity, since the buyer will be your “partner” for 3 to 5 years after closing
Other Preparation – “Double Check the Details”	<ul style="list-style-type: none">• Get your legal matters in order – consider engaging a reputable outside law firm to do a pre-sale legal audit• Assemble and upload to a cloud server the due diligence records that will be requested by a buyer, in order to proceed rapidly once an LOI is signed• Tax considerations – cash- vs. accrual-basis taxpayer, registered and filing in all jurisdictions, etc.• Consultants are actually consultants – 1099 issues, worker classification, exempt/non-exempt, etc.

Time for your questions...



Thank you for your sponsorship



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SIA Resources (members only)



- [MA Funders and Advisors Directory 2022](#)
- [Merger and Acquisition Trends: North America 2022 Update](#)
- [Staffing and Workforce Solutions Mergers and Acquisitions Database](#)
- [Deal flow forecasts for 2022](#)

- **The SIA Lexicon of Terms (complimentary)**

Need access? Contact memberservices@staffingindustry.com

About Staffing Industry Analysts (SIA)








Founded in 1989, SIA is the global advisor on staffing and workforce solutions. Our proprietary research covers all categories of employed and non-employed work including temporary staffing, independent contracting and other types of contingent labor. SIA's independent and objective analysis provides insights into the services and suppliers operating in the workforce solutions ecosystem including staffing firms, managed service providers, recruitment process outsourcers, payrolling/compliance firms and talent acquisition technology specialists such as vendor management systems, online staffing platforms, crowdsourcing and online work services. We also provide training and accreditation with our unique Certified Contingent Workforce Professional (CCWP) program.

Known for our award-winning content, data, support tools, publications, executive conferences and events, we help both suppliers and buyers of workforce solutions make better-informed decisions that improve business results and minimize risk.

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