

RECRUITMENT  
**SECTOR INSIGHTS**

2017 | BDO MERGERS & ACQUISITIONS



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# INTRODUCTION



## JAMES FIELDHOUSE

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### The recruitment sector showed continued growth in the UK for 2016 showing why it still remains an attractive sector for M&A activity.

The demand for talent was particularly evident in a post-recession Britain with companies looking to make up for their lack of investment during the uncertainty that came with the financial crisis, with 2015 showing a 144% increase in the number of new recruitment agencies launched when compared to 2010. This growth continued in 2016 with the market now estimated to be worth £35.7bn.

This has been put down to several factors, including record employment levels and vacancies in core sectors showing consistent growth.

However there is a word of caution surrounding what impact Brexit will have on the recruitment sector in the long term. At the moment it is showing signs of resilience but it is not yet clear what the full consequences will be.

Brexit may well be seen as a threat to the sector dependant on the long term economic reaction to the decision to leave the EU. However those that react positively to the challenge may well find it to be an ideal opportunity to provide recruitment services to those industries that are unclear how they will respond if changes to immigration policy make it more difficult to recruit EU nationals in the future.

We take a look at Brexit and other 'Mega Trends' impacting the recruitment sector further in this paper. Additionally we also point a spotlight on the global M&A environment and the deal activity that has taken place over the last 5 years, including the key M&A trends prevalent in the sector.

It is clear that the UK remains a strong investment hub for successful recruitment businesses and we consider which sectors are fairing better than others in terms of deal activity.

#### UK RANKED NO.2 GLOBALLY

for M&A transactions in the recruitment industry consistently since 2012

#### HEALTHCARE SECTOR

accounted for 18% of worldwide M&A transactions in 2016

#### 70% INCREASE

in the number of M&A deals since 2012 with a total of 119 during 2016

#### PRIVATE EQUITY ("PE")

were responsible for 24% of transactions in 2016 as privately managed investment funds targeted attractive sectors to deploy capital

#### SUSTAINED INVESTMENT INTO THE UK

with over 25% of UK transactions involving an overseas buyer since 2012

#### VERTICAL INTEGRATION

Trend evident with over 10% of deals since 2012 involving a same sector non-recruitment buyer or vendor

# UK RECRUITMENT MARKET

## INDUSTRY STRUCTURE

### THE MARKET

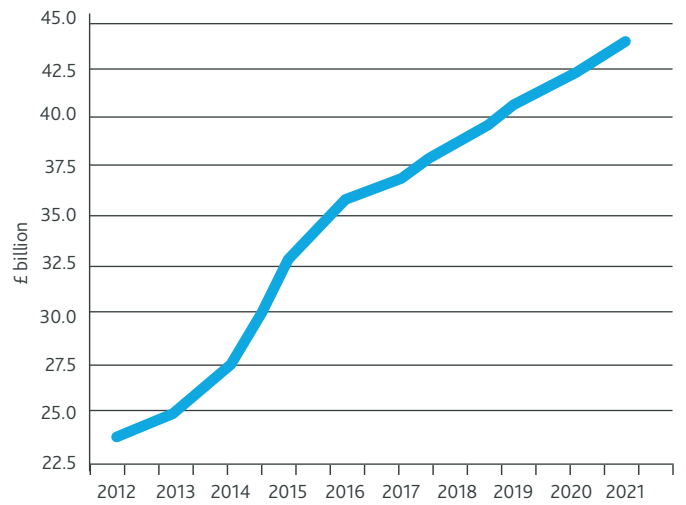
The UK recruitment market has continued its impressive expansion in 2016, rising by 8.8% to an estimated market value of £35.7bn.

The significant growth mirrors the continued recovery and development of the UK economy, driven by factors such as increasing business confidence and investment in people by UK businesses, increasing significance of SME's to the UK's economic performance and the cultural shifts in attitudes towards employment.

These factors have been considered in the mega trends of the recruitment market and coupled with the general trend of growing employment levels in the UK from 29.7m in 2012 to 31.8m in 2016, begin to explain the growing M&A activity within the industry.

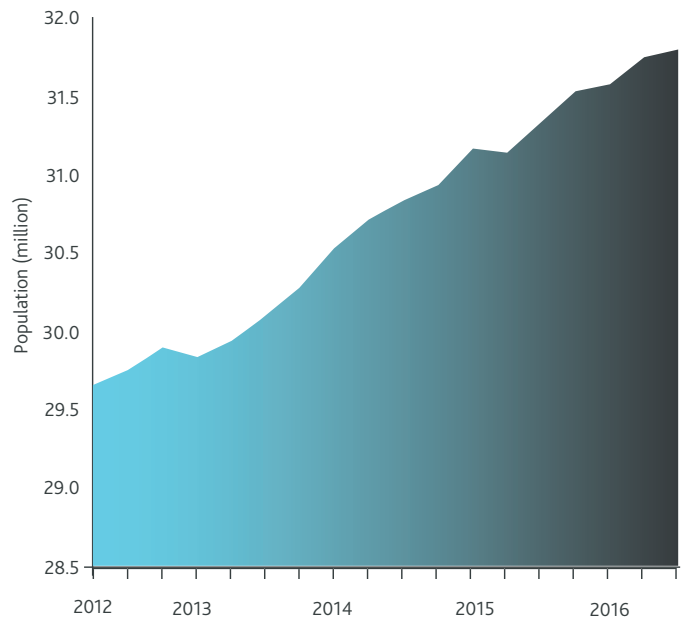
Strong underlying growth over the last five years is forecast to continue at an estimated rate of 4.2% per annum

Figure A - UK Market for recruitment 2012-2021e



Source: Mintel market report, Recruitment - UK September 2016

Figure B - UK employment



Source: Office of National Statistics



# MEGA TRENDS

## MACROECONOMIC FACTORS IMPACTING THE UK RECRUITMENT MARKET

There are several key macroeconomic factors that are shaping the current recruitment market. These mega trends have impacted the growth of the industry significantly and ultimately have had a knock-on affect on M&A activity.

### SHARING ECONOMY

The emergence of the sharing economy is more important than ever across many sectors, driven by rapid technological developments, increasing online penetration and resource scarcity. It's beginning to become clear that the sharing economy has one universal trait and that is connecting demand to spare resource or capacity.

This fundamental shift in connectivity within society and reallocation of resources has the potential to have a profound impact on the recruitment sector.

The challenge for recruitment firms is to develop strategies to capitalise on utilising the availability of relevant, timely and revealing data.

### MILLENNIALS

The Millennials generation born between 1980 and 2000 now entering the work place in vast numbers will likely shape the world of work for years to come. Bringing with them a new perception of work place expectations, redefining the relationship between employers and employees.

The characteristics of the new working generation presents both opportunities and challenges to organisations and recruitment firms alike. Their ambition and desire to keep learning and to move upwards quickly through an organisation, as well as their willingness to change jobs if their expectations are not being met, requires an ever increasing focus and understanding from recruiters.

### BREXIT

The full impact of the UK's decision to leave the European Union remains to be seen and will only become clearer when the sector has visibility over the country's future relationship with Europe.

However, uncertainty within the short term has the potential to reduce the number of candidates within the market as many remain cautious to change roles.

Furthermore, decline in business confidence could further compound the problem with organisations freezing recruitment drives in favour of frugality until the future business environment becomes more certain.

### TECHNOLOGY

The growing impact of technology has been prevalent in most industries since the beginning of the century and recruitment is no different. Availability of information through the internet and social media has made the connection between candidate and recruiter much more straightforward with recruiters being able to automatically link roles with a candidate's profile based on uploaded information.

The importance of this in the market place has been reflected through high growth recruitment software developers and online job portals which have also seen plenty of M&A activity.

### UK SKILLS SHORTAGE

Almost a quarter of job vacancies last year were caused by the widening skills crisis across the UK, whilst 14 per cent of employers reported skills gaps in their existing workforce, according to a report by the UK Commission for Employment and Skills (UKCES).

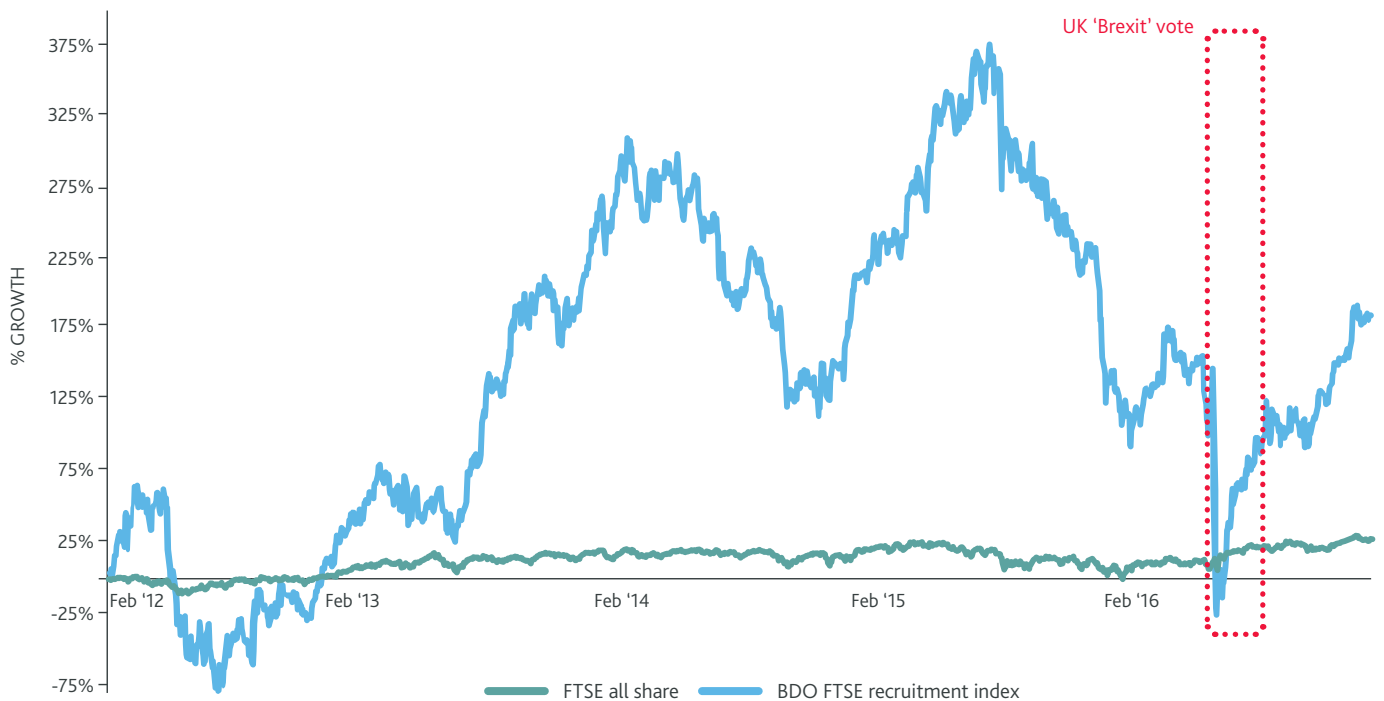
The role of future recruitment firms is likely to change from attracting top talent via a scattergun advertising approach, to sourcing the right candidate with the right skills through detailed insights.



# CAPITAL MARKETS

Strong performance in the recruitment market with the UK listed recruitment firms generally outperforming the market

Figure C – BDO FTSE listed recruitment firms vs. FTSE All-Share over the last five years



Source: Capital IQ and BDO analysis

Capital Markets provide a window into the broader investment sentiment around key industry sectors. The BDO FTSE-listed recruitment index has performed well over the last five years with UK listed recruiters generally outperforming the FTSE All-Share Index.

The BDO FTSE recruitment index comprises of global recruitment firms with a strong presence in the UK that we believe represent the UK recruitment market. We have aggregated and rebased the share price of these entities over the last five years to highlight their performance relative to the market as a whole.

The share price performance of listed recruitment firms is cyclical and correlated to the UK economy. On the backdrop of increasing economic growth, increasing business confidence and declining

unemployment rates, the BDO FTSE recruitment index reached increases of 370% during 2015, against 31% from the FTSE All Share Index.

Due to the uncertainty surrounding the EU referendum decision and the UK's relationship with Europe post Article 50, the indexed gains declined significantly during the summer of 2016. However, the recruitment FTSE-listed companies recovered substantially, reaching a strong 180% indexed gain from their position five years ago against the overall FTSE's gain of 28% towards the end of January 2017.

This strong performance has provided a conducive environment for M&A activity during the last five years.

# M&A ACTIVITY

## KEY M&A TRENDS IN THE RECRUITMENT SECTOR

From a review of the recruitment industry, its structure and the trends affecting how companies now operate we can build an understanding of how this has impacted M&A trends within the industry and the implications this will have on driving value within the market.

PE is attracted by the growth in the sector and continued consolidation in what remains a fragmented market.

### SIGNIFICANT PE INTEREST

90 of the 500 targets acquired from 2012 to 2016 were done so by Private Equity growing from 18 in 2012 to 29 in 2016.

### LARGER NON-TRADITIONAL DEBT FUNDS DEPLOYING CAPITAL

This represents another opportunity for shareholders looking to de-risk or realise capital value. There are a number of funders seeking to deploy capital into high growth sectors such as recruitment.

The majority of investment continues to be into generalist recruitment providers, showing overall strong demand for labour across the economy.

### SHIFT IN SECTOR FOCUS TOWARDS HEALTHCARE

Increasing M&A activity in the healthcare sector which has grown from 13 transactions in 2012 to 22 during 2016 worldwide.

## M&A TRENDS IN THE RECRUITMENT SECTOR

Sustained investment into the UK from overseas buyers during the last 5 years representing 31% of all UK company sales.

### INCREASED CROSS-BORDER ACTIVITY

16% of acquisitions made by UK companies were investments into overseas companies during the last 5 years.

### NON-RECRUITMENT BUYERS REPRESENT AN EXIT OPPORTUNITY

Through vertical integration companies that operate in the same sector as a recruitment company specialism are being targeted.

This gives an additional buyer pool opportunity for those looking to sell and may also help drive a strategic premium.

Diversification of the recruitment offering continues to expand both organically and strategically through acquisition.

### VALUE-ADDED SERVICES SUCH AS TALENT MANAGEMENT ARE ATTRACTIVE TO BUYERS

Other examples of value-added services are interview/open day management for larger corporations, targeted advertising management, and talent management.

# M&A ACTIVITY

## GLOBAL DEAL REVIEW 2016

M&A activity within the recruitment sector continues to thrive with a significant proportion of the worldwide activity coming from the UK. This is due to the fragmented nature of the market with a plethora of buyers and sellers operating in a mature industry.

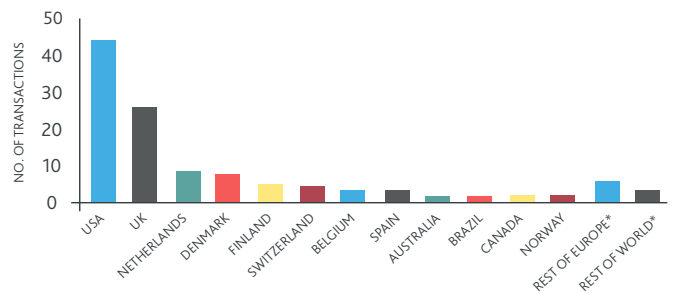
We identified 119 transactions worldwide during 2016 of which 26 were in the UK, being the most active territory after the US which had 44 transactions. In contrast the second most active country in Europe was the Netherlands, which at only 9 completed transactions demonstrates the gulf in transactional activity between the UK and the rest of Europe.

Of the 26 UK transactions, 4 were purchased by PE and 6 were MBOs. One of the MBOs was in relation to the acquisition of a majority stake in De Poel UK Limited, the UK-based provider of temporary staffing management and solutions. Manchester-based Tosca Debt Capital provided a facility to support the deal along with Santander who also supported the transaction.

This has been a familiar story in the UK over the last few years following increased confidence in the economy. As such companies are continuing to step up their recruitment strategy following growth opportunities which has led to the attractiveness of their assets to potential buyers. The UK continues to have the largest activity in Europe however the absolute figures across the board have slowed down in 2016 which is likely to be due to key decisions being deferred given the uncertainty around the post-Brexit economy.

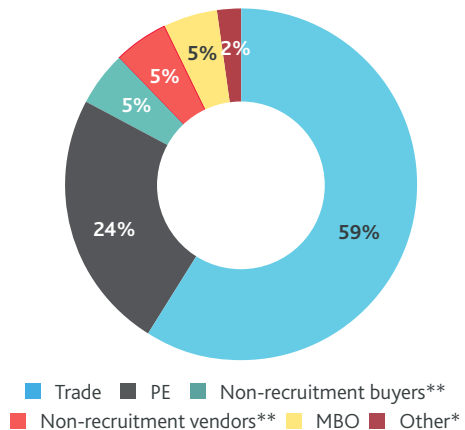
From a review of the buyer type in 2016 it is clear that there is still plenty of interest from PE in the industry, with 29 transactions worldwide in the year equating to 24% of total transactions. Specific deals in the UK include Growth Capital Partners acquisition of Shorterm Group and US-based TPG's purchase of Frank Recruitment Group (FRG), the latter also representing a good example of overseas PE investing into the UK recruitment sector.

Figure D - Vendor location of recruitment transactions in 2016



Source: Mergermarket and BDO analysis  
 \* Rest of Europe and Rest of World include all other countries in which there was only one vendor from that country

Figure E - Buyer type of recruitment transactions in 2016



Source: Mergermarket and BDO analysis  
 \*Other buyer types are one undisclosed buyer and one Venture Capitalist buyer  
 \*\*Non-recruitment buyer is a trade transaction in which the buyer was not a recruitment company but the vendor was.  
 Non-recruitment vendor is a trade transaction in which the vendor was not a recruitment company but the buyer was.

### DEAL HIGHLIGHTS

#### MBO OF DE POEL UK

MBO of a majority stake in De Poel UK Limited, provider of temporary staffing solutions with specific divisions for healthcare and education, from Ultium Business Outsourcing Group. Tosca Debt Capital provided a facility to fund the deal along with Santander providing on-going working capital.

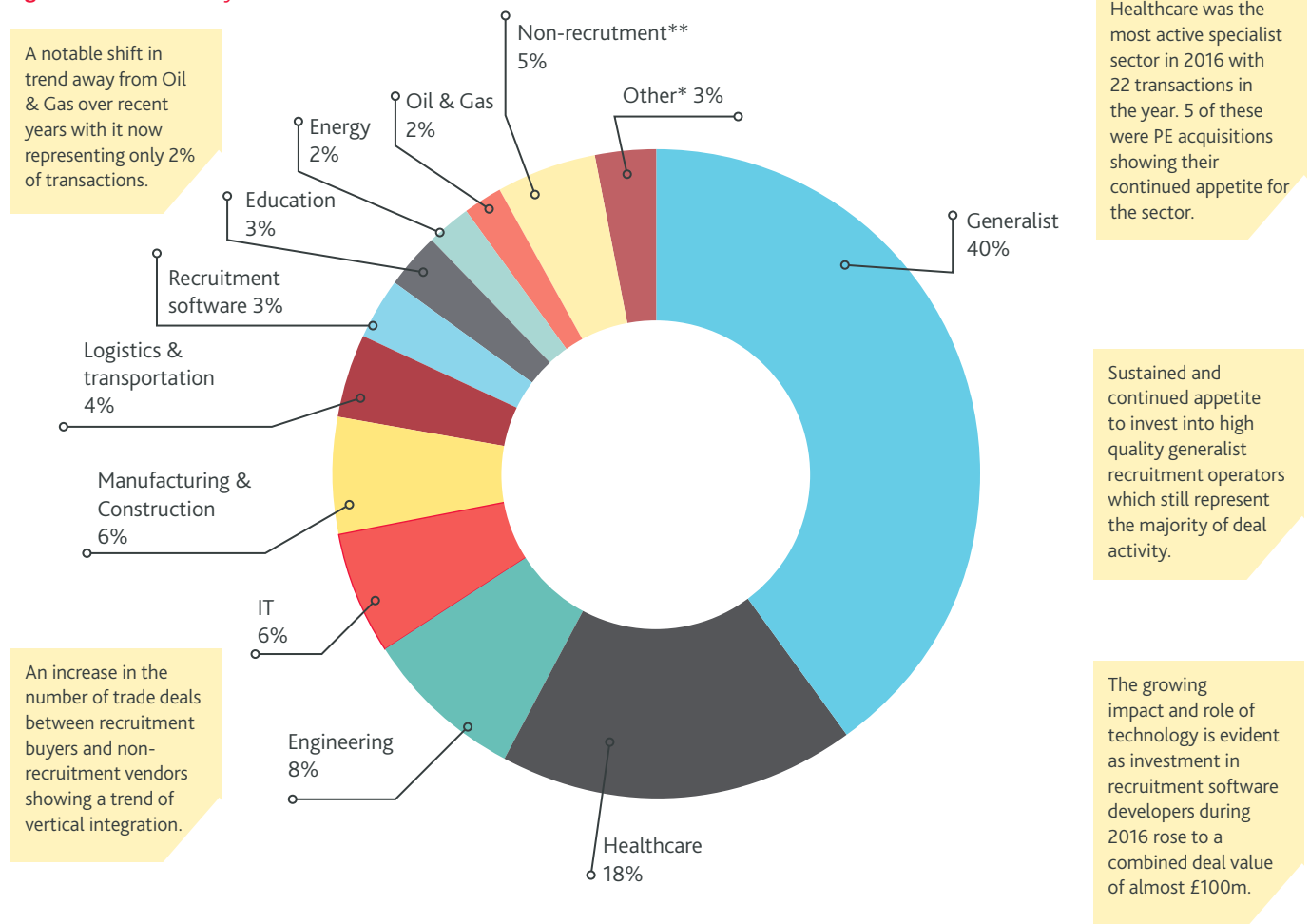
#### GROWTH CAPITAL PARTNERS ACQUISITION OF SHORTERM GROUP

Growth Capital Partners LLP, the UK-based private equity firm along with the management of Shorterm Group Limited, engaged in the recruitment of technical and skilled staff, has acquired the company from Chamonix Private Equity LLP, the UK-based private equity firm, in a management buyout transaction, for an undisclosed consideration.

# M&A ACTIVITY

## GLOBAL DEAL REVIEW 2016

**Figure F - 2016 Deals by sector**



Source: Mergermarket and BDO analysis

\* Other sector represents those which had 3 or fewer transactions in 2016

\*\* Non-recruitment sector represents an acquisition of a non-recruitment company by a recruitment company

### MBO OF CDI ANDERSELITE

The management and employees of AndersElite have acquired the company from its NYSE Listed US Parent CDI Cooperation with Lloyds Commercial banking providing a £10m facility to complete the deal. AndersElite provide staffing solutions across a wide variety of sectors.

### FRANK RECRUITMENT GROUP ("FRG") ACQUIRED BY TPG GROWTH

Acquired from Living Bridge and other private shareholders. HSBC provided debt financing for the transaction. Through the transaction, FRG will target new segments in cloud technology, launch new brands and strengthen its existing brands.

In July 2013, Living Bridge acquired an undisclosed stake in FRG for a consideration of £22m.

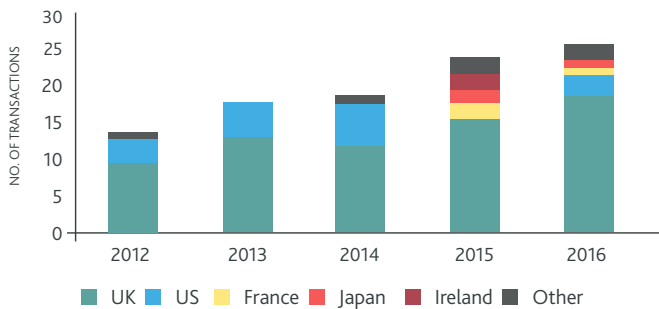
# M&A ACTIVITY

## SUSTAINED INVESTMENT INTO THE UK

Looking specifically at the UK market we begin to see a pattern of sustained investment into the UK.

Although the majority of the transactions are domestic, there are clear signs that there is strong and growing interest in the UK market from overseas buyers, in particular from the US in which the buyer was resident in 17% of UK deals from 2012 to 2016.

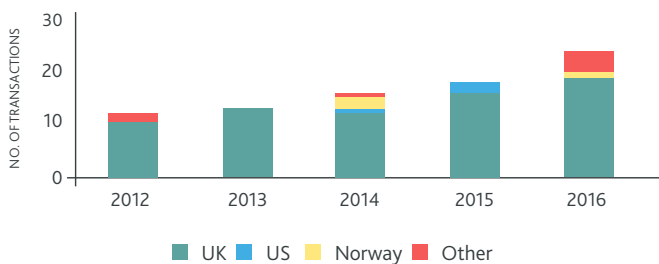
**Figure G - Buyer location of UK recruitment companies**



Source: Mergermarket and BDO analysis

When looking at the recruitment targets for parties in the UK it is clear that the majority of UK companies investing in recruitment assets are doing so within the UK, with only 13 of the 83 transactions over the 5 year period being cross border.

**Figure H - Vendor location of UK investments**



Source: Mergermarket and BDO analysis

2016 saw the cross-border merger of UK-based Air Energi and US-based Swift Worldwide Resources, creating the new company, Airswift Holdings Limited. Both parties are private equity backed, Air Energi by LGV Capital and Swift by Wellspring Capital. This is a prime example of cross-border activity in an attempt to create a global recruitment company that can capitalise on future recovery and growth in the industry.

Investment into the UK has also come from Japan with 3 transactions since 2015 with a cumulative deal value of £48m showing that UK recruitment companies have a worldwide M&A market.

Japanese listed company Trust Tech Inc's acquisition of an 85% stake in Newcastle based MTrec for £17m, which serves the manufacturing, engineering and industrial sectors, is a key indicator that overseas firms are still willing to invest in opportunities in the UK post Brexit. The deal, which was completed in August 2016, is Trust Tech's first significant acquisition outside of Japan and signals their intent to establish a presence in the European market place.



### DEAL HIGHLIGHTS

#### AIRSWIFT MERGER

The two specialist energy sector recruiters, UK-based Air Energi and US-Based Swift Worldwide Resources, merged in January 2016 to form Airswift. It has a combined turnover of over \$1.2bn and 800 employees across 57 locations.

#### TRUST TECH ACQUISITION OF MTREC

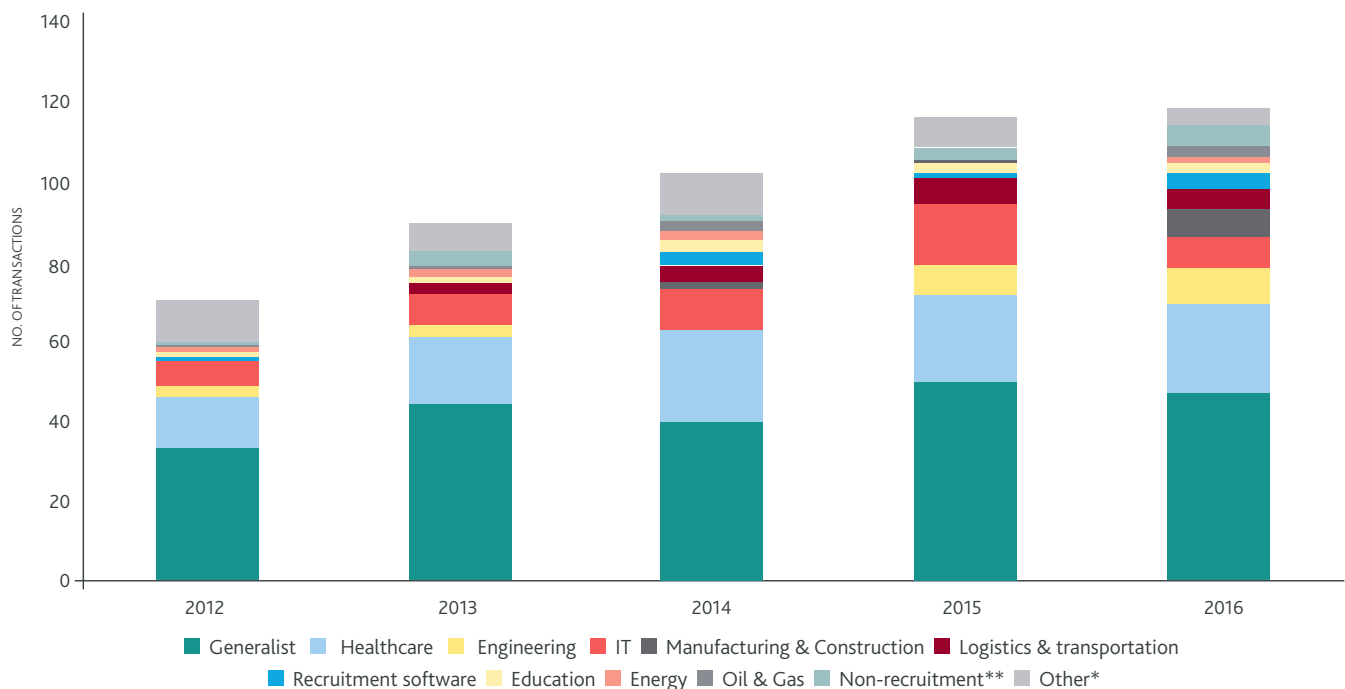
In August 2016, Japanese-listed Trust Tech acquired an 85% stake in Newcastle based MTrec for £17m. MTrec specialises in manufacturing, engineering and industrial sectors. This is Trust Tech's first significant acquisition outside of Japan.

# M&A ACTIVITY

## SECTOR FOCUS

The following data shows global recruitment deals over the five year period from 2012 to 2016 by sector.

**Figure I – Worldwide recruitment deals by sector**



Source: Mergermarket and BDO analysis

\*Other sector represents those which had 6 or fewer transactions across the period

\*\* Non-recruitment sector represents an acquisition of a non-recruitment company by a recruitment company

The fragmented nature of the recruitment industry is reflected in the number of transactions across a variety of sectors. After taking into account the generalist recruitment companies, who provide an offering to employers across several different industries and sectors, the key M&A activity can be seen to lie within the Healthcare, IT and Engineering sectors, reflecting the skills shortage in all of these areas, on both a UK and global scale.

Naturally, due to these known skill shortages, recruitment companies operating in these sectors are able to charge a premium for their services, and the increased demand for this from employers is generating a fast, high growth and mobile market which is ideal for investors looking to generate a high return on their investment.

### NES GLOBAL TALENT

The UK based firm, with its specialisms including the oil & gas sector, backed by US-based AEA Investors LP has made several acquisitions of energy consultancy and recruitment firms since 2014 including the purchase of Frontica Advantage AS from Akastor ASA in December 2016.

### DIGITAL GURUS RECRUITMENT ACQUIRED BY THE RETHINK GROUP

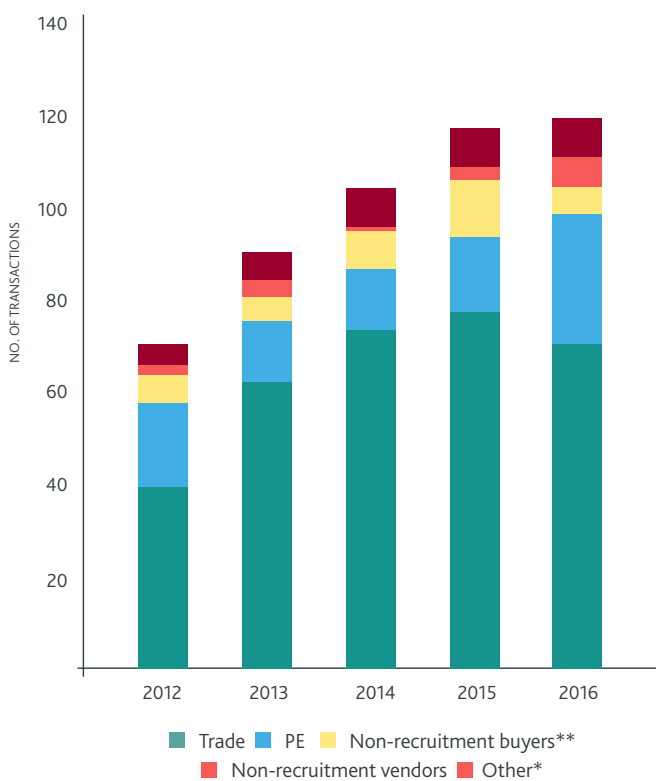
This is the second acquisition made by The Rethink Group since their BGF backing in 2015 and underlines their appetite for specialist recruiters operating in specific sectors.

# M&A ACTIVITY

## BUYER FOCUS

The following data shows global recruitment deals over the five year period from 2012 to 2016 by buyer type.

**Figure J – Worldwide recruitment deals by buyer type**



\*Other includes transactions involving either an MBO, a Venture Capitalist, an Investment Company or if the buyer was undisclosed. The figures are shown in the table opposite.

\*\*Non-recruitment buyer is a trade transaction in which the buyer was not a recruitment company but the vendor was. Non-recruitment vendor is a trade transaction in which the vendor was not a recruitment company but the buyer was.

The amount of M&A activity in terms of absolute volume of transactions has increased by 70% from 2012 to 2016 showing the growing level of acquisition opportunities in the current environment.

Up until 2016 the amount of PE activity was relatively consistent with around 15 transactions per year. However, 2016 saw this jump to 29, primarily due to US-based Private Equity firms investing heavily. The largest disclosed deal in 2016 was Blackstone Group's acquisition of Team Health, a US listed hospital staffing provider, in a deal worth approximately £4.6bn. This is another example of the skills shortage in the healthcare sector, driving growth in recruitment firms in this sector and increasing the attractiveness of their assets.

There is also an ongoing trend of non-recruitment companies acquiring recruitment firms. The majority of these transactions are same sector deals such as the French listed Assystem's acquisition of UK-based specialist recruitment company, Edison Technical in November 2016. This trend represents an additional exit opportunity for vendors, showing that those strong performing, specialist recruitment companies may have a wider buyer pool in the form of other non-recruitment companies in their sector.

The data continues to show that trade related deals form the majority of the transactions each year however PE are now beginning to take away trade's share of the transactions in the year showing they have a keen appetite in the market and are able to compete in negotiations for the best assets.

**Figure K - Other\* worldwide recruitment deals**

Buyer	2012	2013	2014	2015	2016
Investment company	2	3	2	4	-
Undisclosed	1	1	1	1	1
VC Firm	1	-	3	-	1
MBO	-	-	2	3	6

### DEAL HIGHLIGHTS

#### TEAM HEALTH HOLDINGS SOLD TO BLACKSTONE GROUP

NYSE-listed Team Health Holdings has been acquired by Blackstone Group for £2.6bn with the deal expected to complete in Q1 of 2017. The deal has been funded by several providers including JPMorgan Chase and Barclays.

#### ASSYSTEM'S ACQUISITION OF EDISON TECHNICAL

The French listed Group acquired the UK-based specialist engineering recruitment company in November 2016. Assystem provide engineering consultancy services and have a recruitment agency business which they hope to strengthen with this acquisition.

# BDO MERGERS & ACQUISITIONS

## BDO UK

**18** Offices **250** Partners  
**1** Office **3,500** Staff

FOR THE **THIRD YEAR RUNNING**  
MORE OF **86%**  
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WOULD RECOMMEND US  
THAN **ANY OTHER FIRM**

**2015/2016 RESULTS:**  
REVENUES  
UP **3.8%** TO **£405m**

1. Independent research (Mid Market Monitor 2013-2016) undertaken by Meridian West shows that BDO, for the third year running, have the highest proportion of clients who would recommend their advisers among its peer group



FOR FURTHER  
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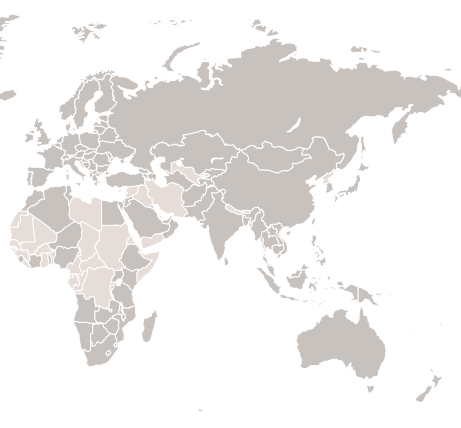
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## BDO INTERNATIONAL

**US\$7.6** billion  
2016 REVENUE

**158** Countries **1,400** Offices  
**68,000** Staff



■ BDO presence

### INGAGE SPECIALIST RECRUITMENT

Acquisition of Setsquare Recruitment in February 2016. In November 2014 Graphite Capital Partners along with the management team acquired the company in a management buyout transaction.

### BOND INTERNATIONAL ANNOUNCES SALE OF RECRUITMENT SOFTWARE BUSINESS

In September 2016 Bond International PLC announced it had entered into an agreement with Hockliffe UK and Bond US for the sale of its Recruitment Software subsidiaries for £17.25m.



**DEAL HIGHLIGHTS**

**PE BACKED INDEPENDENT CLINICAL SERVICES ACQUIRED LIQUID PERSONNEL**

Independent Clinical Services, owned by TowerBrook Capital Partners, acquired Manchester based social work recruitment business Liquid Personnel for an undisclosed fee in July 2016.

**S&J CONSULTANTS LIMITED MBO**

The management of S&J (Alexander Associates), the UK-based specialist engineering recruitment firm, has acquired the company. Reported turnover of £32.6m with an EBIT of £1.16m for the year ended 31 March 2016.



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