

RECRUITMENT DEAL LEVELS SUSTAINED

Sector bucks the wider trend as private equity drives deal levels

M&A within the UK recruitment market has been resilient, with deal levels sustained. As we conclude the first six months of deal activity during 2023 it's useful to reflect upon the overall market dynamics which have had a bearing upon the deal environment. We ended 2022 in a period of economic flux following the ill-judged mini budget in Q4 (since termed "Trussonomics") which had a profound impact upon the economic health of the nation and ultimately the level of M&A activity. This has subsequently been compounded by five successive increases in the Bank of England base rate during 2023, in order to combat persistent high inflation, alongside a cost of living crisis and continuing unrest across society highlighted by various strike action across our public services.

However, against this challenging backdrop, transaction levels have held firm during 2023 against previous periods. In fact, deal activity in the first six months is marginally higher than the two previously reported half year figures, and only bettered by the second half of 2021 where we saw a well-documented "Covid bounce" within the deal markets. This strong performance also bucks the trend of the overall UK deal market, which has seen a slight decline in deal volumes as the aforementioned macro-economic influences have impacted overall activity.

A clear area of recent focus for buyers and investors alike has been the move towards technology within the sector. This segment has constituted a high proportion of deal activity for some time, typically a third of all deals, however our data shows this has increased

to 42% during the first half of 2023. There has also been interest in the healthcare and transport & logistics sectors, where well documented labour shortages continue to drive deal activity, whilst other sub-sectors experiencing increased attention in the period include energy, education and engineering.

On the subject of consistent and growing trends, we continue to see the influence of private equity upon the sector. This influence has several facets, ranging from the traditional sense of providing capital to support the growth of a company, as well as where we are increasingly seeing capital deployed into platform assets to execute a 'buy & build' strategy, or funds utilising capital in order to fund corporate carve outs from UK plc's.

During the first six months of 2023 we've also seen overseas investment return to levels consistent with historical periods. Affected by major events in recent years impacting upon the UK deal market (eg. Brexit, the pandemic), international interest slowed between 2019 and 2021, which started to reverse and then boomed during 2022 as overseas markets woke up to the prospect of UK acquisitions and investments. Thus, although this inward investment appears to have softened during 2023, the levels are more akin to those experienced prior to 2019.

Looking ahead, there are some threats to the recruitment market looming. The weak performance of the economy is starting to affect recruitment levels, which had been cushioned for some time by high demand shown in a high vacancy rate coupled with a



Transaction levels have held firm during 2023.

low level of unemployment. Although the effects of skills and labour shortages are still being felt, the tougher conditions are finally meaning the jobs market is starting to cool, with pay growth easing, vacancy numbers dropping (although remaining above pre-Covid levels) and redundancies rising, and the latest figures from the Office for National Statistics showing a rise in the rate of unemployment to 4%. The rate of permanent placements is most affected, as businesses show a preference for temporary hires.

As the larger listed recruiters announce drops in overall fees in the last few weeks, it remains to be seen what effect this has on deal activity for the latter half of 2023. However, experience would suggest that this sector will prove to be resilient and continue to provide success stories to the wider deal markets.



JAMES FIELDHOUSE
M&A MANAGING DIRECTOR,
BDO LLP

+44 (0) 7854 278 307
james.fieldhouse@bdo.co.uk

DEAL ACTIVITY CONTINUES AT A HIGH LEVEL

Deal activity was comparable with the previous two six month' periods, with a total of 19 deals in H1 2023, against 18 in H1 2022, 17 in H2 2022 and 18 in H1 2021. This is despite an overall decline in UK total M&A deal volume activity across all sectors in the period.

2021 was the highest level of sector deal activity in a decade with 40 deals, and with 19 deals so far during 2023, activity this year is at a comparable rate.

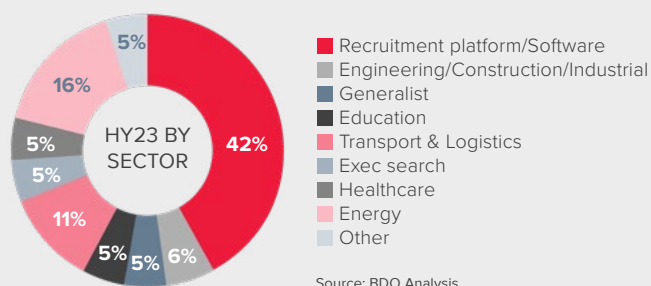


INTEREST IN RECRUITMENT TECH INTENSIFIES

Recruitment tech remains the greatest area of deal interest, as a result of the continued trend towards AI and digitisation.

In addition to the increased proliferation of recruitment platforms which continue to disrupt the traditional agency model, there has also been a notable rise in transactions for tech-enabled software. This ranges from background checks and verifications to psychometric assessments and talent screening.

We've also seen a marked rise in the quantum of energy related transactions during the period. Despite the current market trend towards more renewable sources of energy it's interesting to note that the targets involved appear to be focussed upon more traditional sources of energy including subsea drilling and exploration of oil & gas.

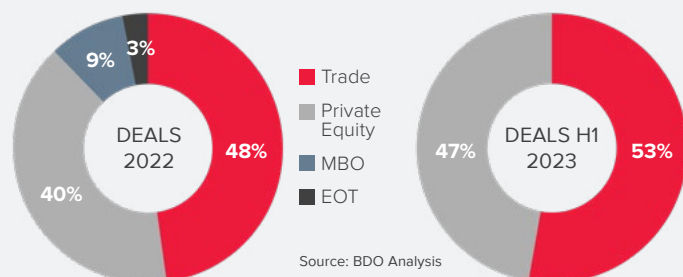


PRIVATE EQUITY INTEREST DRIVES SECTOR DEAL ACTIVITY

With deal activity stable at a relatively high level, one stand out aspect from these figures is the record levels of investment in the recruitment sector by private equity, with 47% of UK deals involving PE investment in the first half of the year; this compares to 40% during 2022. This shows the continued appetite of private equity for investing in recruitment businesses, considering PE investment typically constitutes anywhere between 20-30% of all UK deals across all sectors.

This influence is showing across the recruitment market, with deals in subsectors including recruitment tech, transport & logistics, and healthcare.

Private equity investors continue to deploy capital into the sector, and we've also seen a focus during the period on bolt-on M&A activity, as investment supports portfolio companies to drive inorganic growth, providing further scale, access to new territories or access to new service lines. Private equity's influence on the sector is demonstrated even further when this is taken into account. Examples include BGF-backed Operam Education's acquisition of Bridge Education and Training Ltd, driving market share, or for additive service provision in the case of the acquisition of Security Watchdog by Matrix SCM backed by Bridgepoint Development Capital.



RECENT EXAMPLES OF PRIVATE EQUITY INVESTMENT INCLUDE THREE DEALS [ADVISED BY BDO]

Taskmaster Resources Ltd acquired by IPE Ventures

TaskMaster is a leading industrial recruiter, headquartered in Leeds and operating nationally. **IPE Ventures** is a Mayfair-based boutique private equity firm providing specialist investment funding to the staffing and payroll sectors. TaskMaster will continue to build its brand and post-acquisition growth capital funding has been committed to facilitate further growth.

Aliter Capital's investment in Concept Resourcing

Aliter Capital LLP, the private equity investment specialist focused on small to medium-sized UK support services businesses, has announced the completion of its investment in Dudley based **Concept Resourcing** as part of its recently raised second fund. Concept Resourcing is a recruitment company with specialisms in technology, sales, procurement and field engineering.

Security Watchdog acquired by Matrix SCM (backed by Bridgepoint Development Capital)

Matrix is the leading managed service provider for the outsourced hiring and management of temporary local government staff in the UK using its technology enabled platform. It has acquired employment screening business, **Security Watchdog**, from business process services group Capita to form **Matrix Security Watchdog**.

INWARD INVESTMENT INTO THE UK CONTINUES

OVERSEAS INVESTORS REMAIN ACTIVE

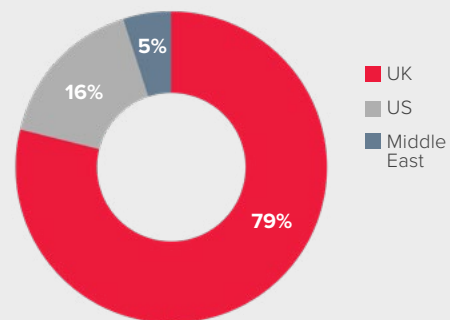
Of the deals involving a UK target, 79% of transactions were concluded with a UK acquirer or investor and 21% came from overseas. This level is down on the 28% in 2022, when there was a surge in interest from international buyers after two years of lower demand. Overseas buyers were predominantly US-based.

UK TALENT SHORTAGES

The UK is seeing sustained challenges around recruitment and retention. A highly competitive labour market is leading

businesses to look at ways to combat this challenge. One way is through greater candidate database utilisation, but also through the Hire – Train – Deploy model which is becoming increasingly popular due to the widening skills shortage in the UK talent pool.

An example deal in this space is Mercia Asset Management's acquisition of Privigo Limited, which provides a bootcamp training programme giving participant data scientists the tools they need to seek commercial roles.



Source: BDO Analysis

FURTHER SOFTENING OF THE BDO FTSE RECRUITMENT INDEX

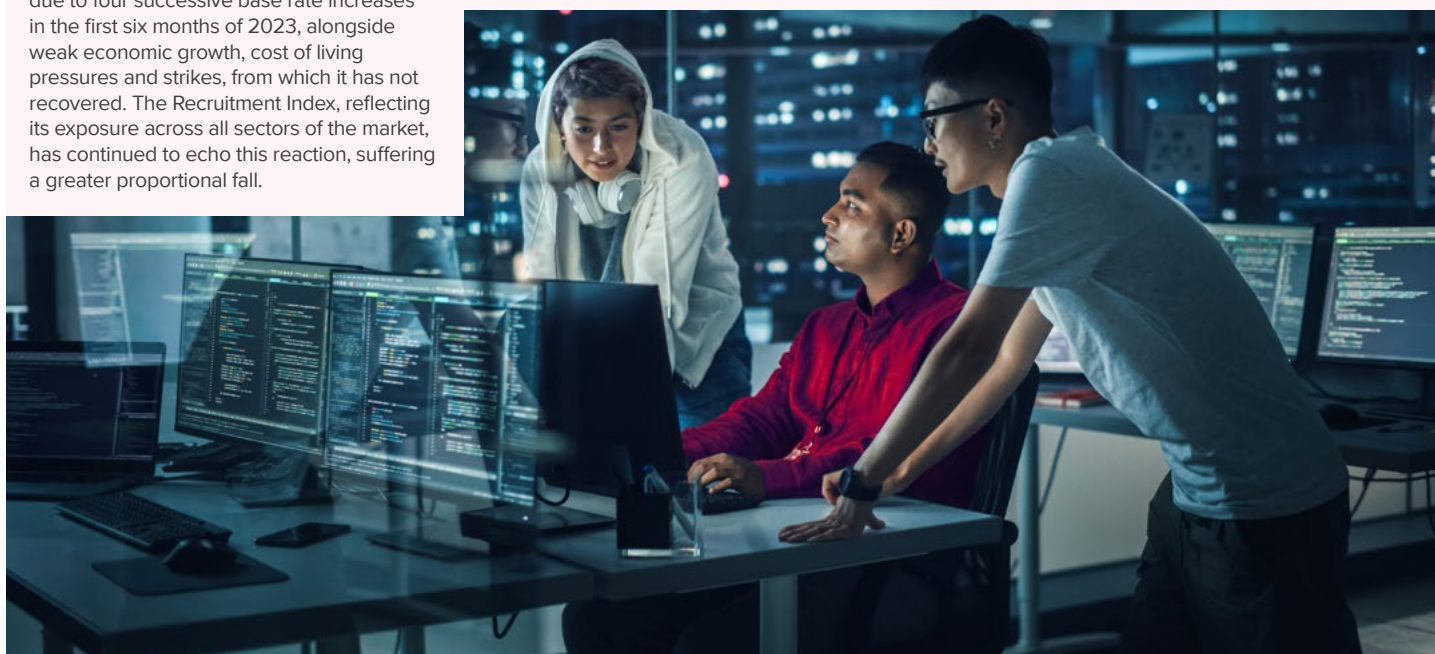
The BDO FTSE Recruitment Index ("Recruitment Index") and the FTSE 250 Index have continued to fall from 2021 levels, with the Recruitment Index falling to c.15% below Jan-23 levels, compared with the FTSE 250's c.6% drop. Over 2022 the FTSE 250 fell by over 20% while the Recruitment Index dropped almost 28%, so while the decline in the former has slowed, the recruitment index has fallen again.

The Recruitment Index has continued to follow the wider market index, but as we have seen before, tends to show greater sensitivity to market direction. There has been a steady drop in the FTSE 250 Index due to four successive base rate increases in the first six months of 2023, alongside weak economic growth, cost of living pressures and strikes, from which it has not recovered. The Recruitment Index, reflecting its exposure across all sectors of the market, has continued to echo this reaction, suffering a greater proportional fall.

BDO FTSE RECRUITMENT INDEX VS FTSE 250 INDEX



Source: Capital IQ



This publication has been carefully prepared, but it has been written in general terms and should be seen as containing broad statements only. This publication should not be used or relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained in this publication without obtaining specific professional advice. Please contact BDO LLP to discuss these matters in the context of your particular circumstances. BDO LLP, its partners, employees and agents do not accept or assume any responsibility or duty of care in respect of any use of or reliance on this publication, and will deny any liability for any loss arising from any action taken or not taken or decision made by anyone in reliance on this publication or any part of it. Any use of this publication or reliance on it for any purpose or in any context is therefore at your own risk, without any right of recourse against BDO LLP or any of its partners, employees or agents.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business. BDO is the brand name of the BDO network and for each of the BDO member firms. BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright © August 2023 BDO LLP. All rights reserved. Published in the UK.