

JULY 2018

# M&A MARKET SNAPSHOT

## Recruitment Sector



## LIQUIDITY IN THE MARKET CONTINUES TO GROW PROVIDING RECRUITMENT COMPANIES WITH ADDITIONAL FUNDING OPTIONS

During the last decade there has been an exponential rise in the level of debt and equity funding available to companies.

For example, in the case of equity, there are now over 800 fund managers operating in the UK, with 'dry powder' (raised and committed funds that need to be invested, usually within a short timeframe) c. £1 trillion globally. At the other end of the spectrum the debt markets continue to evolve, providing companies with an increasing list of providers from which they can source capital. The recruitment sector specifically continues to be widely supported by Asset Based Lenders (ABL), a funding option which has reflected the overall market trend in terms of growth, access, availability and increasing flexibility. This is borne out in UK Finance's Invoice Finance and Asset Based Lending data which showed continued year on year growth of 4% in advances to in excess of £21bn in the first quarter of 2018, with growth being driven by both new entrants and also increasing deployment of capital from existing funders. It is possibly this increasingly competitive environment which has led to increased flexibility with respect to assets that funders will advance against. For example, historically recruitment companies will have used ABL to support their growth through advances against their temp book, however many lenders will now take a more pragmatic approach to invoices raised in respect of permanent placements.

### RECENT DEAL ACTIVITY — THE RISE OF UNITRANCHE

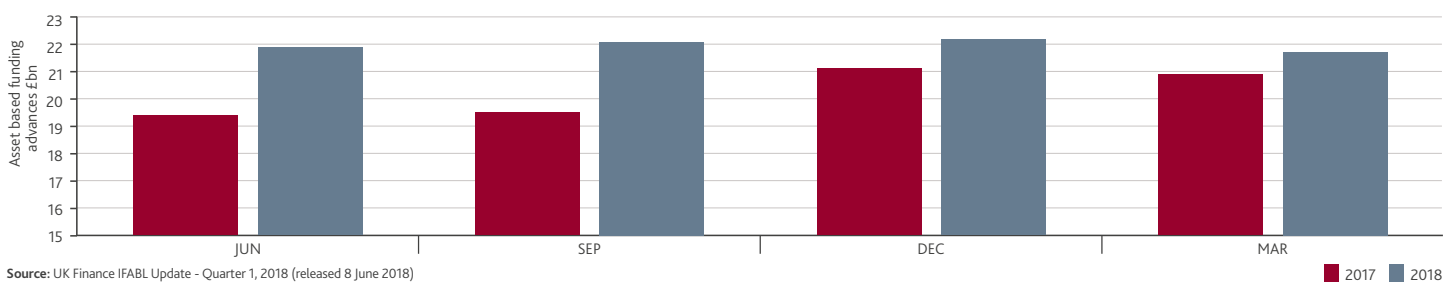
In addition to traditional debt packages the market has evolved to provide alternative options. One such innovation in the UK debt market has been the rise of Unitranche Debt, which started in the US in 2005 and has gained popularity as a financing option in Europe since 2012. A Unitranche Debt is a hybrid loan structure that combines senior and subordinated debt into one debt instrument, or, to put into English, a combination of debt & equity rolled into one loan product designed to make debt-financing more flexible and help increase access to capital for companies. This increased access has been particularly prevalent over the last few years as Unitranche Debt has moved from the highly competitive UK 'mid-market' (companies raising £15/20m+) to the 'lower mid-market' (companies raising £5m+).

The use of Unitranche Debt has been evident in the recruitment and staffing sector during the first six months of 2018. Firstly in March 2018 we saw Beechbrook Capital (specialist UK fund manager) provide a Unitranche loan to Leathwaite, the global human capital specialist with offices in London, New York, Hong Kong and Zurich.

The investment will help Leathwaite to accelerate its worldwide expansion, launch new business streams and invest in proprietary technology, while also providing equity to develop and attract talent.

A month later we then saw Phaidon International acquired by Quilvest Private Equity. Notably this 'equity' acquisition follows a hybrid debt/equity investment made by Muzinich & Co (UK Private Debt Fund) into Phaidon two years earlier (alongside debt financing provided by HSBC). Founded in 2004, Phaidon International operates globally across offices in 10 locations and has grown organically since its inception to over 500 employees and, through its portfolio brands (including DSJ Global, EPM Scientific, Glocomms, LVI Associates and Selby Jennings), identifies talent to place in the science, technology, engineering and mathematics (STEM) sectors. Quilvest's investment will continue the development of Phaidon International which will remain focused on expanding its five brands into existing office locations, while maintaining its high standards of delivering hard-to-find talent and building long-term partnerships.

### YEAR-ON-YEAR GROWTH IN TOTAL ASSET BASED LENDING | QUARTER END BALANCES



Source: UK Finance IFABL Update - Quarter 1, 2018 (released 8 June 2018)

■ 2017 ■ 2018



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