M&A REVIEW

RECRUITMENT

FEBRUARY 2020

IDEAS | PEOPLE | TRUST

BDO

INTRODUCTION	2
UK RECRUITMENT MARKET	4
M&A ACTIVITY	9
IR35	11
RECRUITMENT INSIGHTS	13
INCENTIVISATION	17
REVOLUTIONISING RECRUITMENT IN 2020	19
LISTED RECRUITMENT COMPANIES	21
SELECTION OF RECENT UK DEALS	23
BDO MERGERS & ACQUISITIONS	25
BDO GLOBAL	26

HIGHLIGHTS

GLOBAL DEALS UP **17%** IN 2019 FROM 2018

WITH A TOTAL OF **108 deals** completed

THERE WERE **25 UK deals** in 2019

DOWN FROM A SIX-YEAR-HIGH OF **32** in 2018

THE MARKET GREW **5.5%** IN 2019 TO A TOTAL VALUE OF **13.9bn**

DOWN ON THE 6.5% OF 2018, BUT DEFYING PREDICTIONS OF AN EVEN GREATER SLOWDOWN IN GROWTH

23% OF ALL **recruitment sector deals** IN 2019 WERE IN RECRUITMENT **SOFTWARE AND PLATFORMS**

AVERAGE EV/EBITDA MULTIPLE IN 2019 WAS **7.8X**

A MARKED **DECREASE FROM** THE 2018 AVERAGE OF **10.4X**

INTRODUCTION
M&A in the recruitment sector

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Welcome to our annual review of mergers and acquisitions activity in the Recruitment sector.

It has once again been an interesting year in terms of the political backdrop, with two missed Brexit deadlines, a new Prime Minister, prorogation declared illegal and a general election. Yet, the sector has remained resilient and attractive to investors despite the economic uncertainty.

The market grew at an impressive compound annual rate of 7.4% over the five years through 2020 to £13.9bn. In 2018 it was 6.5%, in 2019 it grew by 5.5%; a gradual deceleration, but bearing in mind the growth forecast was 2.8% for the year this shows some resilience. The forecast for the near future is for revenue expected to grow marginally at 4.4% in 2020, and over the next five years at a compound rate of 1.1%.

The number of global M&A deals has increased by 17%, with the US being an attractive market to many investors, witnessing an increase in deal numbers from 17 in 2018 to 41 in 2019. Against this, the number of UK deals declined from its six year high of 32 in 2018 to 25 in 2019 – still active, but less so. The UK remains an attractive market for investment, albeit we have seen a softening in overseas investment during 2019, with overseas buyers represented in 16% of UK deals in the year (2018: 25%).

Private equity involvement has declined in 2019, however there is certainly lots of dry powder available in the UK market and a return to more certainty in 2020 should spark investment, following a relatively quiet period of deal activity.

Unsurprisingly, a high number of deals in 2019 relate to recruitment software and platforms, accounting for 23% of all deals, and a continued interest in upgrading and streamlining processes is a theme seen throughout this report.

In the UK, unemployment rates reached a 44 year low in March 2019. However, it seemed over the summer months that the impending departure of the UK from the European Union muted business confidence and unemployment began to rise.

Yet in a post-Brexit world, the war for talent may become even more ferocious if businesses find it harder to recruit from overseas. Businesses need to have a clear plan for recruitment and retention, and be supportive as employees navigate their way through the EU Settlement Scheme, updated Visa requirements and the evolving Immigration Reform landscape.

It is also important for recruitment firms to retain their own staff in such a highly results-driven, demanding and consistently evolving workplace. As such, there are a wide variety of remuneration and recognition schemes in place, and we have explored a few later in the report.

As a result of impending reform in IR35, we have seen buyers exercise more caution towards UK opportunities in the past few months, and we expect this to continue beyond the reform's implementation in April 2020, as the sector adapts to the new rules. I welcome the contribution of Nick Duffin, Tax Principal at BDO, who has set out the potential impact of the revised regulations.

I am also grateful to a number of industry leaders who have shared their views as to the key issues that have impacted their businesses in 2019 and their outlook for the coming year and beyond. There is some real alignment in key themes and messages, including the importance of employee remuneration and performance against a difficult backdrop.

The recruitment sector remains closely reactive to the direction of travel of the wider economy at any point in time, making it an exciting sector to work in. Should you wish to discuss any of the areas covered in further detail, I would be delighted to hear from you.

UK RECRUITMENT MARKET

The industry in 2019

The UK recruitment market continues to grow against a backdrop of economic and political uncertainty.

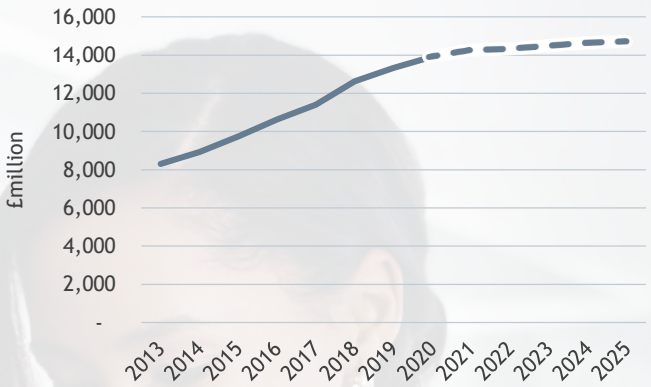
THE MARKET

The UK recruitment market has benefitted from high demand over the last five years as the economy has expanded and unemployment has fallen year-on-year. This has resulted in strong revenue growth, with revenue rising at a compound annual rate of 7.4% over the five years through 2020 to £13.9bn.

However, falling business confidence in the last two years has affected performance, with revenue growth expected to slow in the current year. In addition, the period between April and June actually saw an increase in unemployment levels from a 44 year low in March 2019, suggesting that worries about the UK's upcoming exit from the European Union was starting to take its toll on the labour market.

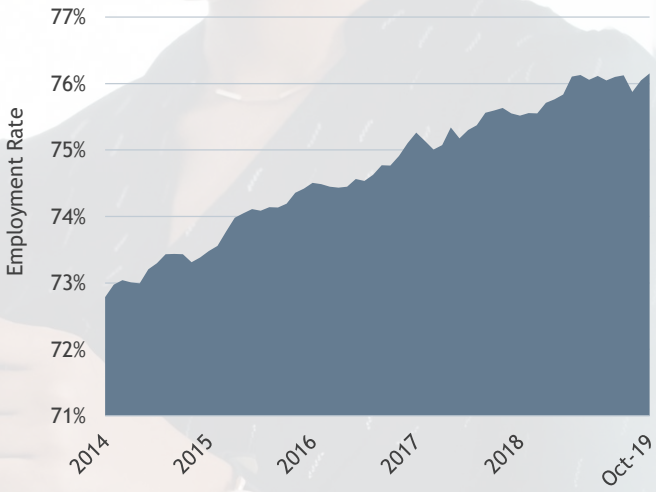
In 2020, industry revenue is expected to expand at a much slower rate of 4.4%, and to grow marginally over the next five years by 1.1%. The main growth drivers include people seeking to switch roles to advance their careers and an increase in demand from the public sector. However, the level of demand is constrained due to the uncertainties surrounding the terms of Brexit which is delaying business expansion, the reduction in demand from the financial services sector, and overall muted business confidence.

Figure 1: UK industry revenue



Source: IbisWorld 2020
Dashed line represents forecast figures

Figure 2: UK employment rate



Source: ONS 2020

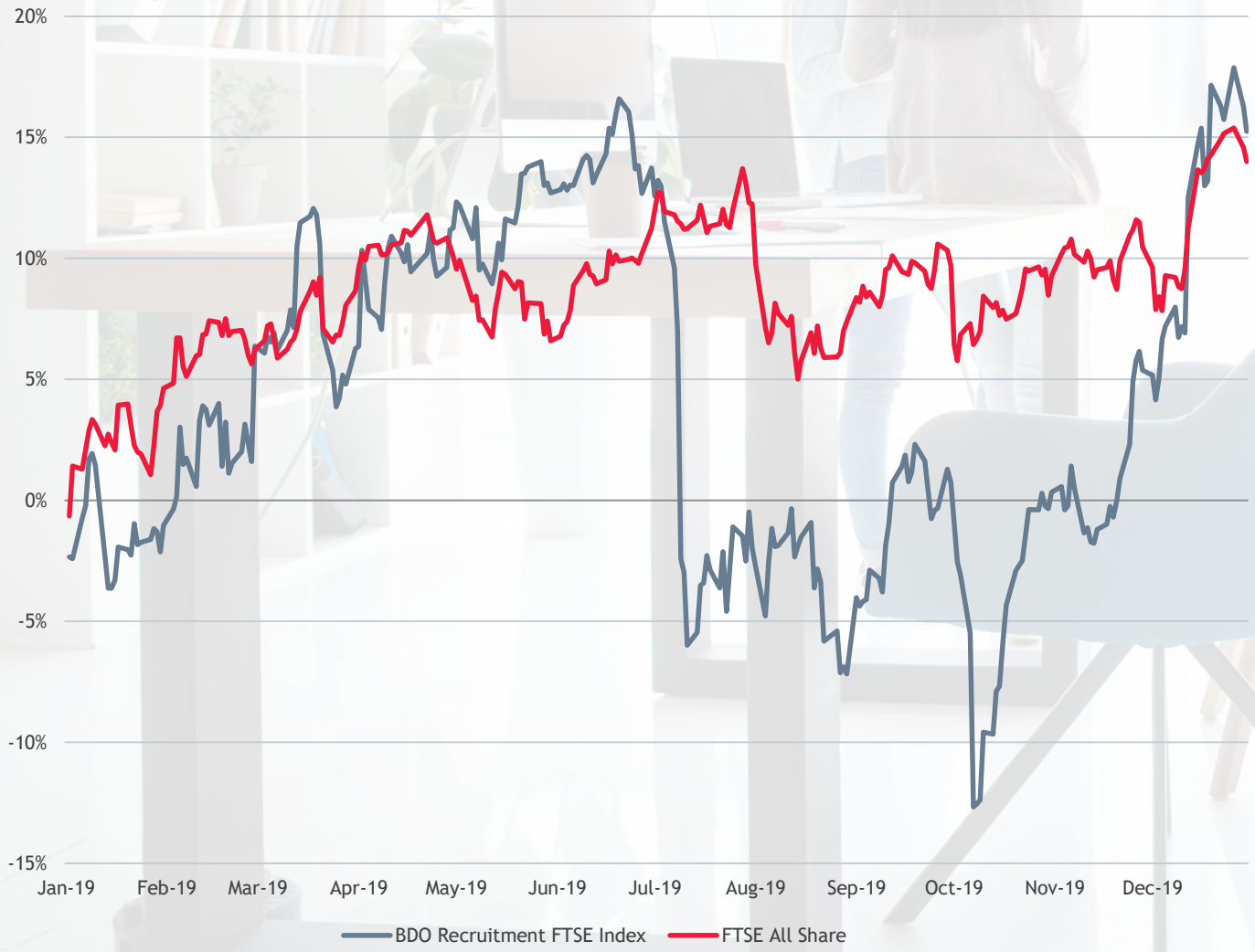
UK RECRUITMENT MARKET
Capital markets

The BDO Recruitment FTSE Index* comprises listed recruitment firms in the UK. Tracking the behaviour of these companies on the capital markets can give an indication of the general investment sentiment around the recruitment sector.

Over the previous six years, the BDO Recruitment FTSE has consistently outperformed the wider market in terms of capital growth. 2019 was the exception to this, as the FTSE has outpaced the BDO Recruitment FTSE Index for most of the year.

However, despite the fluctuations in the year, including the BDO Recruitment FTSE Index contracting by as much as 13% in October, the year closed on a positive, with both the FTSE and the BDO Recruitment FTSE Index finishing up by 14% and 15% respectively against the end of 2018.

Figure 3: BDO FTSE listed recruitment firms vs FTSE All-share index in 2019



Source: Capital IQ

* This includes Hays Plc, Robert Walters Plc, Sthree Plc and PageGroup Plc. Major news from non-FTSE listed companies has been included for information purposes.

2019 TIMELINE OF NOTABLE INDUSTRY EVENTS AFFECTING SHARE VALUE

The peaks and troughs in both share price growth and multiples over the year highlight the volatility of the recruitment sector to macro-economic factors.

JAN

- Staffline share price reduced by a third followed by the suspension of shares, due to allegations from a third party regarding invoicing and payroll practices within the recruitment division
- SThree UK restructuring complete with the move of support functions from London to Glasgow and onshore delivery model. (UK only accounting for 17% of Group Gross Profit).

MAR

- Staffline announced initial provision of £7.9m for non-compliance with NMW regulations
- Hays Plc reported solid growth of 3% in the UK & Ireland
- UK unemployment reached a 44 year low
- **31 March**: Brexit deadline missed.

APR

- Page Group reported third consecutive quarter of growth in the UK
- Hydrogen Group announced UK market represents 46% of NFI during 2018 and is the largest geographical area for the Group.

MAY

- UK political and economic uncertainty affecting SThree as permanent net fees declining 25% YOY.

JUN

- Staffline announces plans to raise £41m of funds to cut debt and provision increased to £15m for remediation and expected fines
- Robert Walters announced UK net income up 1%, operating profit down 1%, with financial services being surprisingly active and the technology market continuing to be active and candidate short. Birmingham and Milton Keynes cited as bright spots driven by commerce finance and technology hiring
- Hays Plc reported net fees down 2% in the UK & Ireland but on an underlying basis its 25th consecutive quarter of year-on-year growth.

JUL

- **24 July**: Boris Johnson becomes the UK's new Prime Minister
- US & China trade war alongside US companies underperforming and the US market signals a recession in the flash bonds market
- Staffline raises £36m of equity
- Page Group noted Brexit weighing on market sentiment, particularly with senior candidates, and the market being challenging.

AUG

- HRnetGroup acquired 25.02% of Staffline.

SEP

- **9 September**: UK Parliament prorogued
- **24 September**: Supreme Court found prorogation illegal
- Hays Plc reported net fees down 4% in UK & Ireland linked to tougher global macroeconomic conditions and reduced business confidence.

OCT

- Page Group cited increased reluctance in the UK by candidates to accept new jobs, along with clients taking longer to make decisions and some jobs cancelled or put on hold, for decline in revenues by 4% in the UK
- **28 October**: Brexit agreed to be delayed until January 31st 2020
- **31 October**: Brexit deadline missed.

DEC

- **12 December**: UK election resulting in a conservative majority Government.

UK RECRUITMENT MARKET
Capital markets

The average Enterprise Value (EV)/ Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple overall for the year 2019 averaged at 7.8x, which unsurprisingly is below the 2018 average of 10.4x.

In the last quarter of 2018 there was a steep decline of over 25% in the average multiple, and it remained at that level for much of 2019. It was affected again most noticeably in July 19, against the backdrop of a change in Prime Minister and with the US and China engaged in a trade war. Other notable dips occurred in September, when Boris Johnson's suspension of Parliament was declared unlawful, and finally when the Brexit deadline of 31 October was missed.

2019 finished on an upward trend however, suggesting more certainty post election will bring a return to higher EV/EBITDA multiples.

Figure 4: BDO FTSE listed recruitment firms average EV/EBITDA multiple

Source: Capital IQ

UK RECRUITMENT MARKET

In the spotlight: value drivers

There are many things a buyer may be looking for in a recruitment sector acquisition - scale, geographical location, end sector… the list goes on!

How many boxes you tick on their shopping list will ultimately impact how desirable your business is to the buyer and the price you will get. Here are a few value drivers to think about.

CUSTOMER NUMBERS AND CONCENTRATION

Not over-reliant on a small number of customers.

MANAGEMENT TEAM

Quality, experience and integrity of the management team, including strength of second tier.

STRENGTH OF CUSTOMER RELATIONSHIP

Longstanding and well-developed relationships, underpinned by framework agreements or other contractual obligation.

WHITE V BLUE COLLAR

Differentiated targeting and consideration of mix alongside the general economic cycle. More recruiters moving “up-market” to avoid liabilities around National Minimum Wage.

SCALE

Resources and scale sufficient to service targeted markets effectively and also withstand one-off events such as client losses or adverse market movements.

NFI TO EBITDA

Achieving targeted and sustainable conversion levels of net fee income to EBITDA.

SECTOR

Operate in attractive end markets that are resilient to the economic cycle.

GROWTH AND STRATEGIC DIRECTION

Demonstrable track record of growth and clear strategic direction.

TEMP V PERM

Consideration of mix between temporary and permanent placements, which may be influenced by the end sector or economic climate.

QUALITY OF EARNINGS

Sustainable, visible earnings that are maintainable.

DOMESTIC V INTERNATIONAL

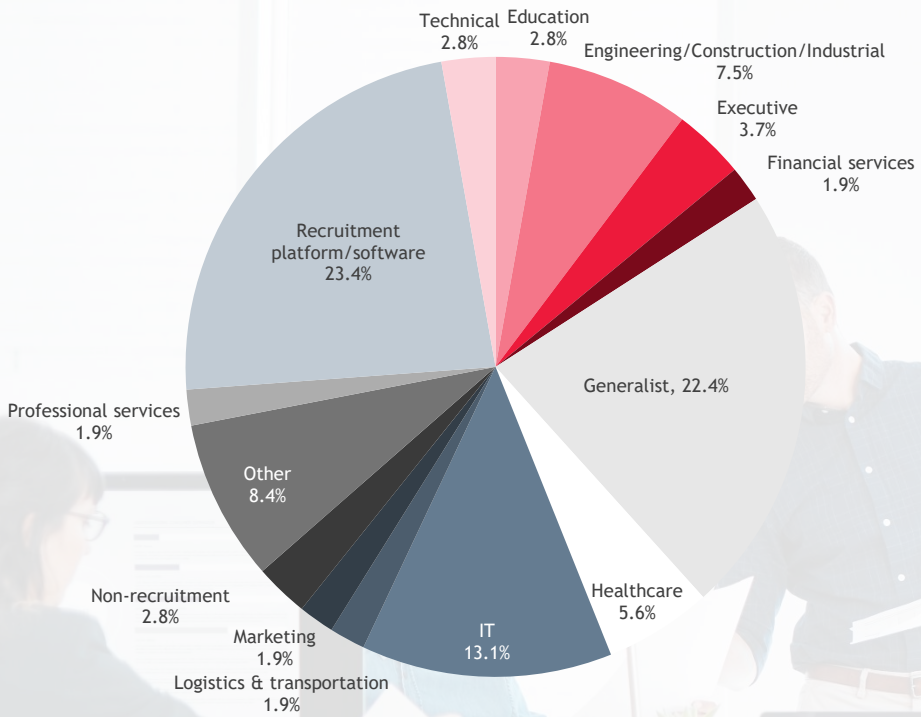
Presence in key geographic markets in line with end sector expertise.

INFRASTRUCTURE AND TECHNOLOGY

Investment into quality infrastructure and latest technologies to respond to evolving demands of clients, and deliver efficient solutions.

M&A ACTIVITY
Global deal review 2019

Figure 5: 2019 Worldwide recruitment deals by vendor sector



Source: MergerMarket
*Other relates to sectors with only one transaction in the year

TRANSACTIONS BY COUNTRY

The US and UK continue to be the most active regions for mergers and acquisitions in the recruitment market, with 41 and 25 transactions respectively for 2019. The US has increased the number of transactions from 17 in 2018, whilst the UK is slightly down on the 32 transactions recorded in 2018.

The US has continued to see significant activity in the healthcare sector with six deals in this area. However, there has been a noticeable increase in transactions in the recruitment software/platform space, the number more than doubling from four to eleven transactions, representing 27% of US deals. This highlights the continued and growing importance of technology for recruitment firms to increase their effectiveness and maintain a competitive advantage.

The UK has seen a decline in deal activity in the engineering/construction/industrial sectors, a reflection of the sentiment in those industries around Brexit. As in the US, deal activity in recruitment software and platforms has increased.

PRIVATE EQUITY AND ALTERNATIVE FUNDERS

Private equity involvement has gradually declined from its exceptionally high levels in 2017, and is now at its lowest point in the last eight years. The availability of debt in the market, and the evolution of more sophisticated packages such as unitranche debt has impacted the investor landscape.

Furthermore, some private equity are cautious to invest in the right business given the economic and political landscape, particularly as the recruitment sector tends to represent the bellwether for the economy. Coupled with anticipation around the IR35 regulation changes, the actual or perceived challenges the sector itself faces have been met with a degree of hesitation to invest.

That said, private equity certainly have lots of dry powder (i.e. committed funds which they need to spend within a specified time frame) available and a return to more certainty in 2020 might spark investment following a relatively quiet period of deal activity.

M&A ACTIVITY
Investment patterns

UK MARKET

In 2018, the number of transactions in the UK reached a five year high of 32. In 2019, this has declined by 22% to 25 transactions.

The UK remains an attractive location to investors, albeit we've seen activity levels softening during 2019 with overseas investment, with overseas buyers represented in 16% of UK deals in the year (2018: 25%).

There is a continuing diversity of exit options available to owners in the sector, including the use of Employee Ownership Trusts which are growing in popularity. For example, in November 2019 GPW Recruitment established an EOT, and its staff now own 74% of the business.

We have also seen interest in the sector from non-recruitment firms, such as the acquisition of Sellick Partnership Limited, financial services recruitment provider, by the France based service company, Samsic Group. Another example was Challenge Group, specialising in distribution, which acquired TRG Logistics, providing temporary, contract and permanent HGV drivers and logistics staff.

The buy and build strategy is also still very much alive in the sector, and 2019 saw the acquisition of three teacher staffing recruitment companies by BGF-backed Operam Education Group Limited.

GLOBAL MARKET

The global market has performed much more strongly in 2019, with an increase of 15% in the total number of deals, with 108 deals completed overall.

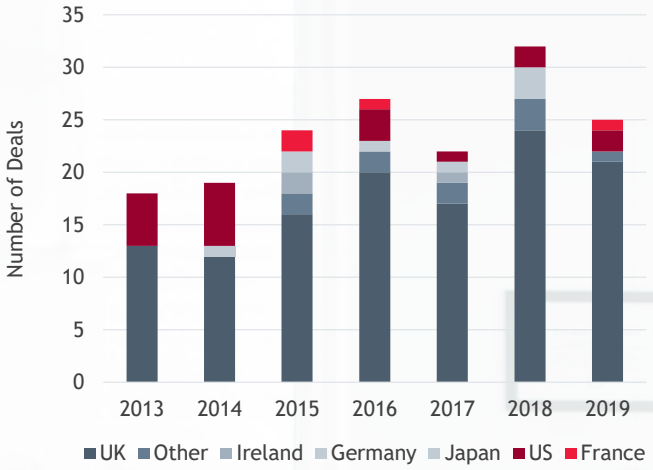
The US in particular has been extremely active with a total of 41 transactions, versus 17 in 2018. The vast majority of these deals have been domestic at c.93%.

TECHNOLOGY

Firms have continued to invest in technology and place high importance on keeping up to date with the latest digital platforms.

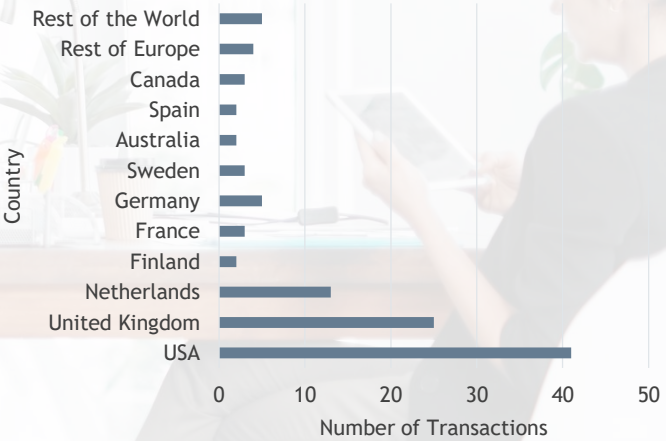
Deals in the US market have focused in this sector with 44% of all transactions involving a tech-related angle - IT recruitment businesses, as well as an increasing number in recruitment software and platforms. This reflects their profile of mostly domestic deals; it is likely that "local" software may be more easily integrated.

Figure 6: Investment into the UK by country



Source: MergerMarket

Figure 7: Global deals by country



Source: MergerMarket

The UK has also been strong in technological investment accounting for 15% of all transactions in this space. Transactions include the acquisition of Flexy by Impellam, which uses psychometrics, machine learning, and nudge theory (a concept in behavioral science) to unlock local talent and streamline the casual labour market.

Recruitment International recently reported that artificial intelligence is being adopted by more recruitment companies into their processes, and we will likely see more transactions to develop companies' capabilities and increase efficiencies.

IR35

Just an HMRC abbreviation or a real threat?

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Off-payroll working and IR35 (non-payroll worker tax regulation) is an area that creates a lot of discussion and confusion.

These rules are anti-avoidance measures, specifically designed to combat tax avoidance by workers supplying their services to clients via an intermediary, commonly a Personal Service Company ('PSC'), but who would actually be an employee if the worker was directly engaged by their end client.

Where the employment status of the worker who is supplied via a PSC is 'employed', the IR35 rules classify the worker as a 'disguised employee'. If outside the public sector, currently the PSC itself is required to assess the employment status of the worker it provides to the end client, and where a disguised employment exists, any potential tax/NIC liabilities fall on the PSC.

WHAT IS CHANGING IN APRIL 2020?

From April 2020, the proposed IR35 private sector reform rules will pass the responsibility to assess the employment status to the end client/fee-payer, in other words the organisation who wishes to use the services of the individual worker.

HMRC expect end clients to have undertaken an employment status review on any potential IR35 engagements, to ascertain if that engagement is one of employment or genuine self-employment.

Whilst the Treasury announced a review of the proposed IR35 legislation changes from 6 April (to be concluded by mid-Feb 2020), this is in fact focused on ensuring the transition happens as smoothly and problem free as possible. Clearly anything which will aid the implementation of new rules is to be welcomed, but what is clear is that there has been no change in policy and the new rules are still scheduled to start on 6 April 2020.

COULD YOU BE EXEMPT FROM IR35 CHANGES?

HMRC have confirmed that there will be an exemption from the new IR35 rules from April 2020, for 'small employers'. The definitions around what constitutes a 'small employer' are complex and have been drafted with several anti-avoidance measures to stop any potential abuse of the new rules. Generally speaking, a 'small employer' will be one that is independent from any other organisation and has less than 50 employees, turnover below £10.2m, and net assets of £5.1m or less on its balance sheet.

DETERMINING IF ARRANGEMENTS FALL WITHIN IR35

Employment status is a hugely complex area, which relies on case law to provide the relevant key points that need to be reviewed to assess whether an individual is an employee or not. However, whilst we look to case law for guidance, the ever evolving interpretation of the legislation following recent IR35 Tribunal case decisions (and subsequent appeals), means the complexity becomes potentially even harder to manage.

However, notwithstanding these challenges all medium and large private client businesses will still be required to undertake an IR35/employment status assessment for all workers they engage via a PSC, directly or indirectly.

There is no statutory employment status test, therefore it is down to the end client to identify a suitable, robust process to complete the employment status assessment. HMRC have a Check Employment Status for Tax ('CEST') online tool available, however as with any tool there are certain elements which do not necessarily meet with universal agreement, so care should be taken before placing complete reliance on any decisions provided by CEST.

Whatever the outcome of the employment status assessment, the end client must provide the worker and the next party in the supply chain a copy of a Status Determination Statement ('SDS'), which must set out the basis behind the decision.

WHAT ARE MY OBLIGATIONS IF I HAVE AN ENGAGEMENT CAUGHT WITHIN IR35?

Where you as the end client ascertain the engagement falls within IR35, all payments made under the engagement post 6 April 2020 must be subject to PAYE/NIC deductions. The party liable to make the deductions is the 'fee payer', being the organisation which directly engages with the worker's PSC – this could be the end client or another third party in the supply chain such as an employment agency.

Whichever party is the fee payer will need to process payments through the payroll as 'deemed employment' subjecting all payments to PAYE/NIC deductions, after excluding any allowable expenses and VAT. If applicable, the Apprenticeship Levy should be accounted for and remitted to HMRC.

IS THERE A POTENTIAL TO TRANSFER THE IR35 DEBT?

The draft secondary legislation has provisions to enable HMRC to seek recovery of unpaid tax/NIC from any 'relevant person'. A relevant person is simply any party to the arrangements under which a relevant payment to the PSC is made.

Whilst currently in draft and under consultation, the over-riding message is that even if you are not the end-user/fee-payer, HMRC could come to you for recompense if there has been a failure to collect appropriate taxes within the supply chain.

HOW IS THE IR35 LANDSCAPE EVOLVING PRIOR TO APRIL 2020?

The complex nature of IR35 and the threat of fee-payers falling foul of the new IR35 rules is likely to encourage many organisations to apply blanket bans on 'outside IR35' contracts, in the first instance. We have already seen some financial institutions that stating that contractors will no longer be engaged via PSCs from April 2020, and this mirrors similar positions taken with the public sector IR35 reforms of April 2017.

End clients taking such a strategic position to only use contractors within a PAYE/NIC paid solution, such as agency payroll, umbrella working and Professional Employment Organisation models, may find themselves under financial pressure as contractors seek to increase their rates to counter the tax increase.

In addition, there may be challenges in retaining key skills and talent as contractors move towards end clients/hirers that are prepared to engage contractors outside of IR35.

To avoid a complete breakdown of the supply chain, end clients, agencies and other related parties in the supply chain will need to engage with each other to correctly identify those arrangements which genuinely sit outside IR35 and enable the end client to communicate this outcome as efficiently as possible.

At the same time, all relevant parties will need to work together to ensure any positions which are within the scope of IR35 are identified, and any alternative working arrangements, such as an umbrella model, are introduced in sufficient time to reduce any impact on resource in the supply chain.

NEXT STEPS

It is important for any business which uses PSC workers to have robust procedures in place to manage their compliance obligations under the IR35 reform rules, with effect from 6 April 2020. Any process must be able to clearly identify any affected workers, assess the employment status of those workers, issue and manage the communication flow of the SDS, manage any appeals received from workers and if relevant account for PAYE/NIC deductions for a deemed employee (where a fee-payer).

Failure to have suitable processes in place could not only lead to financial costs for the business, but also runs the risk of damaging important relationships with contractors and agencies as well as potentially leading to delays in meeting key deliverables.

CONCLUSION

The IR35 private sector reforms are a significant change in the application of this anti-avoidance legislation and HMRC believe there will be a large increase in tax/NIC receipts by introducing these new rules.

There is no question that the sooner affected parties start to review the potential impact of the IR35 private sector reforms the better, and it is certainly a case of '**fail to prepare, prepare to fail**'.

RECRUITMENT INSIGHTS
2019 – How was it for you?

We spoke to business leaders in the recruitment sector and asked them for a snapshot of their experiences of 2019.

DONNA MEDWAY
Managing Director - Vector Resourcing

Vector Resourcing is a leading provider of IT and technology recruitment services, placing high value roles into blue chip companies.

Temp v Perm Split: 95:5

Sectors: All sectors supplying IT, business systems and change professionals

UK v ROW Split: Mainly the UK

GREG LATHAM
CEO - Encore Personnel

Encore specialises in providing a flexible workforce particularly in drivers, logistics and engineering. They are able to support clients with payroll and staffing, as well as online induction videos, timesheets and biometric time & attendance systems.

Temp v Perm Split: 90:10

Sectors: Blue collar engineers, driver and logistics

UK v ROW Split: 100% UK

JOHN HUNTER
Group COO & CFO - Hydrogen Group Plc

Hydrogen is an international recruitment company specialising in a number of sectors across both permanent and contract. Each year, its specialist teams fill around 4,000 roles across 67 countries.

Temp v Perm Split: 42:58

Sectors: STEM markets and professional services

UK v ROW Split: 43:57

How has trading been over the last 6-12 months?

It has been very mixed and unpredictable, with some good months and some less so.

We've been successful in increasing permanent placements which was a focus for 2019.

DONNA MEDWAY

It's certainly been an unusual year and trading has been different across each division. Manufacturing in particular had a great start to 2019, whilst the Driving division was difficult. This proves the general economists' view that products were being stockpiled as a cautionary measure prior to Brexit but they weren't being transported outside the factory gates.

Having said that, due to contract wins and margin improvements, 2019 was our best year to date!

GREG LATHAM

For much of the year, we performed very well, with significant growth in our US, Middle Eastern and Emerging Asia markets. Market conditions in Q4, however, proved very tough. Uncertainty surrounding IR35 reform saw demand for new contractors, and contract extension rates, significantly drop in the UK.

This difficulty was compounded by the UK General Election, and Hong Kong trade was hit hard by the political situation there.

JOHN HUNTER

How have you remained resilient to the challenges posed by Brexit, including two delays and a general election in 2019?

The business had performed strongly despite the challenges surrounding Brexit. Vector has the ability to supply both contract and permanent resources successfully which is key to meeting our client needs. Our resourcing team is very agile and responsive, providing a quick turnaround and a suitable candidate in a matter of hours.

Our clients are across a variety of sectors and some have particularly needed to bolster their staff during this uncertain time to respond to changes on the horizon. For example, companies in the transport sector have implemented changes to take effect when the UK leaves the EU.

Our general 'technology' provision has also meant a number of projects businesses have budgeted for have gone ahead and remained unaffected as this is a key focus for many companies.

We also deal with a lot of BAU work, which remains unchanged whatever the political landscape. In addition, continued work with the Channel Islands and general offshore clients who are not affected by mainland UK pressures has yielded some good results and solid foundations for the future.

DONNA MEDWAY

The two delays and election only served to exacerbate a difficult year. However, as soon as the result was announced in December, we have since seen general positive client hiring intentions for the first quarter of 2020.

There has been much uncertainty in the market and when much of this is outside of your control you can only strive to be better at what you can control.

GREG LATHAM

Year on year, we have improved profitability in the UK which has continued during 2019. This was achieved by recognising the challenges Brexit posed in advance, and creating a short-term profitability driven model rather than investing in an uncertain market.

This has proved successful and allowed the group to channel investment into other geographic locations which have experienced stronger growth during the period.

JOHN HUNTER

RECRUITMENT INSIGHTS
2019 – How was it for you?

Have there been any key highlights or success stories to take from 2019?

Our Jersey office had a great year as we were given the opportunity through competitive tender to supply a new team under a newly created Head of Modernisation and Digital. After much searching and headhunting from Jersey only, we successfully filled three of the four initial positions with the fourth being filled internally.

Also, to top off the year, we came third in the Recruiter Mag's **Hot 100 for 2019!**

DONNA MEDWAY

Our managed services division (where we support customers with our staff on site) has had it's best year. We have now built a great reputation with clients but most interestingly because we have a service offering which is industry distinct.

This has been supported in the main with a central worker resource function which is very clever at candidate attraction using social media.

GREG LATHAM

We are very happy with our performance in the US, where we achieved 240% growth in the first half of the year, have opened three new offices, and invested well in a very capable leadership team. Likewise we have done well in the Middle East and Emerging Asia.

We are excited for the future in these markets, where there exists further opportunities for growth. We are pleased to have made the correct strategy calls in the UK this year amidst the uncertainty.

JOHN HUNTER

We are seeing more and more inventive ways of remunerating recruitment staff in the market. How do you view this and how do you ensure you are appropriately remunerating and retaining your workforce?

We believe our bonus and commission schemes are amongst the best in the industry. But more importantly, our staff are given the authority to make their own decisions and, coupled with our relaxed environment outside of London or any major city, this means that we have excellent staff retention both in sales and the back office function.

DONNA MEDWAY

We are only as good as the people we employ so we provide an award-winning benefits package. However, we have a staff Enterprise Management Incentive (EMI).

This ensures that staff will be recompensed at a future point as and when the Company achieves a sale. Not only does this ensure staff engagement and retention but it singularly empowers a greater sense of ownership.

GREG LATHAM

Remuneration schemes should be all about aligning the goals of the individuals to those of the shareholders. We have focused on providing a low barrier to early-stage incentivisation, so that employees quickly get used to early performance-based remuneration.

Further up the ladder, remuneration comes through different avenues, such as share schemes, that remain competitive by industry standards whilst incentivising employees in a manner that encourages long-term business cultivation to the benefit of the group as a whole.

JOHN HUNTER

How has the upcoming implementation of IR35 impacted your business to date, or how do you think it will post April?

This is a big administration exercise which we started in October 2019. We have spent time with our clients to evaluate their position and help to introduce them to the new rules, the changes that will take effect and their required actions to ensure they are fully compliant.

Having implemented IR35 contracts 20 years ago we are very experienced in compliance and have a huge amount of in house expertise to ensure that we are helping clients to utilise contractors correctly and within the tax rules.

We have incorporated a new company specifically to deal with these changes and make any transition as straightforward as possible for our clients.

DONNA MEDWAY

We are not hugely affected by IR35 except in the Driving Division where we don't expect a big take up of drivers moving to Umbrella Companies.

We believe some will stay Limited Company and the rest will go PAYE.

GREG LATHAM

The key date for us was the 5th September 2019, which marked six months to go until implementation. Since this date we've seen a marked drop in new contract positions and contact renewals. We have yet to see a recovery, but both our clients and ourselves have dedicated an enormous amount of resource to preparation and compliance.

There lies ahead a massive structural realignment in the contracting operating model following IR35 reforms, and it will take months for the industry to settle after 5th April. The key question is how long exactly will it take before the disruption subsides? IR35 reform is the biggest headwind we face in the UK at the present time.

JOHN HUNTER

What are your priorities for 2020?

To ensure all contracts are successfully evaluated and consulted upon for IR35 status and educate clients in the 'proper' use of contractors to everyone's benefit.

We will continue to drive growth in the permanent division and support this with careful recruitment for both divisions to facilitate continued steady growth within our structured training framework.

Our own systems (Vector Live) will keep being developed and upgraded to support the business and our clients needs.

DONNA MEDWAY

We have approved a huge investment to upgrade our IT system by introducing new front and back office software.

This single investment will transform our working lives, making us more efficient and exploiting the opportunities of a changing world of recruitment.

GREG LATHAM

Our major challenges in 2019 were due to market, rather than organisational, factors. Our leadership teams have worked incredibly hard and shown remarkable stability.

We anticipate a challenging global space in 2020, but, no matter what the market throws at us, we will focus on how our business can operate more effectively, so as to maximise opportunities presented to clients and candidates in the year ahead.

JOHN HUNTER

INCENTIVISATION

How recruitment companies are rewarding their staff

The recruitment industry is a highly results-driven, demanding and continuously evolving workplace. As such, recruitment firms need to ensure that their own employees feel appreciated and are appropriately rewarded for exceeding targets.

Employee incentive schemes are a powerful way to improve employee engagement and company culture whilst retaining top talent. Highly motivated and engaged teams are a key attribute sought by acquirers in the recruitment market, so thinking around team incentivisation is critical.

In order for recruitment companies to keep their workforce incentivised, we have come across a variety of methods ranging in ingenuity…

84% of businesses say that offering staff perks help with retention

Source: Agency Central, Matt Atkinson

72% of people believe that employee benefits improve wellbeing

Source: Agency Central, Matt Atkinson

MONEY

- Uncapped commission where consultants can earn 40% of billings
- Reward lunches at the finest restaurants
- Company cars
- Holiday vouchers
- Spa and golf breaks
- Company ski trip to Chamonix
- Monthly achievers champagne breakfast
- Five star international company trips away including Miami, South Africa, Ibiza and Las Vegas
- Win a Ferrari
- Christmas trips to Dubai, Las Vegas and New York

CREATIVITY

- Sports day
- International exchange programme
- Sabbatical
- FIFA tournaments
- Sonos sound system in the office

REVOLUTIONISING RECRUITMENT IN 2020

Key trends to watch out for

In a post-Brexit world, the war for talent may become even more ferocious if businesses find it harder to recruit from overseas. Businesses need to have a clear plan for recruitment and retention. And their strategies will need to be imaginative and broad based.

Here's a rundown of the latest trends set to revolutionise the recruitment process in 2020.

MAXIMISING THE USE OF SOCIAL MEDIA

The likes of Facebook and Twitter offer so much more than just connecting recruiters and job seekers. Companies use their social networks to look proactively for potential candidates. Examples of this include posting job advertisements on relevant Facebook groups or using hashtags so candidates can find them.

Candidates also use their profile and social media engagement as their own self-marketing medium, utilising social media as a microsite or a portfolio for job seeking. This also allows a relationship to form between the candidate and the company or recruiter, which may encourage them to apply.

IT'S A CANDIDATE DRIVEN MARKET

The power in the job search process has shifted from the recruiter to the candidate as candidates are more aware of the time, costs and difficulty involved in a company finding the right candidate with the correct skill set.

The candidate is now treated as a customer, instead of an applicant asking for employment.

A FLEXIBLE WORKFORCE

The traditional 9-5 work practice has both pros and cons. But the opportunity for project based, temporary and freelance work brings benefits for companies as they are able to cut costs and hire skilled labour on a project specific basis.

This may also appeal to a candidate who can apply for project work based on their current situation.

VIRTUAL REALITY

Whilst this is not new to the recruitment process, the use of VR will become even more prevalent in industries where simulation is required to assess a candidate's skillset. It may also be used to give virtual tours of the working environment, enabling the candidate to get a sense of the firm's culture, which is becoming increasingly important.

EMPLOYER BRANDING & CULTURE

Candidates are no longer willing to just be a number in a firm that has no identity. When attracting top talent, they want to know more than just the job description and salary details. The employer brand is becoming increasingly important and it needs to be sold to job applicants and the wider talent pool through regular engagement.

Millennial and Generation Z employees may also be focused on softer attributes such as company culture and employee wellbeing. Companies are increasingly expected to support an employee's mental health, and initiatives such as wellbeing apps as part of its employee benefits package are being viewed attractively.

MORE TRANSIENT WORKFORCE

Employees are more willing to change industries and jobs than in the past as they adopt a more varied approach to work. Recruiters need to be more open to a candidate's potential and ensure the culture fits and facilitates growth not only up the career ladder, but into new areas.

AUTOMATION

Technology has stepped up to help transform the process of wading through large numbers of CVs. Algorithm assisted selection allows a shortlist to be generated without having to read every CV, and systems allow for tracking of progress and candidate engagement.
This means access to real-time data and HR metrics.

TEXTING AS AN APPROPRIATE WAY TO COMMUNICATE

Texting is not new on the scene, but now texting with candidates is enthusing recruiters, as it is immediate and generates a much quicker response. For a candidate the advantage is that they can reply from anywhere and it is acceptable for the response to be short. As a recruiter it is easier to connect with candidates and ensures a candidate remains engaged.

CHATBOTS

Chatbots are able to use AI to answer people's questions, providing a timely response and avoiding them sifting through lots of data. In the recruitment process, often candidates have the same questions so it is much more efficient for bots to keep the candidate engaged.

RESKILLING

Reskilling is an effective way to meet the challenge of a skill shortage and widens the scope of a recruitment agency. Candidates may be willing to learn another skill more appropriate to the industry or economy's needs. Companies that are prepared to invest in training or apprenticeships which target candidates with potential in the long term, will have access to a wider pool of labour, and may have a more dedicated workforce as they are bought into the company culture.

WIDENING THE TALENT POOL

Companies don't need to hire from their area. Think further afield – different town, different country even. This is key in hard to fill roles to ensure the company isn't missing out on top talent. Remote employees have a lot to offer, but companies may need convincing of this.

RAPIDLY EVOLVING TECHNICAL SKILLS REQUIREMENTS

Not every industry is experiencing a skills shortage at the same rate. However, every industry will ultimately embrace technology such as AI, big data and data analytics. The recruitment sector needs to stay ahead of industry developments, especially in technology due to its accelerated pace of change.

COLLABORATIVE HIRING

Companies are beginning to recognise that having a wider team engaged with hiring a candidate to join it is much more beneficial and likely to lead to a successful hire. Staff are motivated to find the right candidate and it effectively eliminates many of the pitfalls that lead to bad hires and early fall-outs.

RECRUITMENT DOESN'T END WITH A SUCCESSFUL PLACEMENT

Recruiters are no longer just expected to find a candidate who then accepts an offer. They are expected to provide a long term approach to finding talent to ensure the candidate stays at the company and adds value. Therefore, the task is much more than simply assessing skills and education, but is about ensuring a cultural fit which will guarantee lasting employee tenure.

LISTED RECRUITMENT COMPANIES

COMPANY NAME	DESCRIPTION	MARKET CAP	NET DEBT	EV	REVENUE	EBITDA	EV/REVENUE	EV/EBITDA
Adecco Group AG (SWX:ADEN)	Switzerland-based company that provides human resource solutions to businesses and organizations	7,965.4	1,467.8	9,457.5	20,204.6	966.0	0.5x	9.6x
ASGN Incorporated (NYSE:ASGN)	US-based diversified professional staffing firm providing flexible and permanent staffing solutions in specialty skills	2,834.0	774.8	3,608.8	2,938.9	312.4	1.2x	11.6x
Trust Tech Inc. (TSE:2154)	Listed Japan-based company engaged in providing engineering staffing , subcontracting and outsourcing services	388.1	(30.2)	360.4	581.1	49.1	0.6x	7.3x
Cpl Resources plc (ISE:DQ5)	Ireland-based employment placement company	188.0	(34.3)	154.0	483.7	22.0	0.3x	7.0x
Empresaria Group plc (AIM:EMR)	UK-based international specialist staffing group	29.3	30.5	68.5	364.0	15.9	0.2x	4.3x
Gattaca plc (AIM:GATC)	UK-based engineering recruitment firm	36.7	24.8	61.5	635.8	14.6	0.1x	4.2x
Harvey Nash Group plc	UK-based company engaged in providing recruitment and outsourcing services	-	34.7	-	595.1	16.5	-	-
Hays plc (LSE:HAS)	UK-based provider of recruitment consultancy services	2,532.4	(129.7)	2,402.7	6,070.5	263.3	0.4x	9.1x
Hydrogen Group Plc (AIM:HYDG)	UK based recruitment specialist and provider of talent management, outsourcing and consulting services	15.7	0.6	16.4	131.1	3.5	0.1x	4.5x
Impellam Group PLC (AIM:IPEL)	UK-based company providing staffing solutions and outsourced people-related services	170.7	99.9	270.6	2,304.0	28.5	0.1x	9.5x
InterQuest Group plc	UK-based company engaged in the staffing businesses in the information and communications technology sector	-	4.5	-	136.0	2.9	-	-
Kellan Group plc	UK based recruitment services provider to the hospitality, leisure and service industries	-	3.1	-	22.6	0.9	-	-
Kelly Services, Inc. (NasdaqGS:KELY.A)	US-based provider of staffing solutions that include temporary staffing services, staff leasing, outsourcing, vendor on-site and full-time placement	657.8	47.7	705.6	4,170.3	96.4	0.2x	7.3x

Source: Capital IQ January 2020

LISTED RECRUITMENT COMPANIES

COMPANY NAME	DESCRIPTION	MARKET CAP	NET DEBT	EV	REVENUE	EBITDA	EV/REVENUE	EV/EBITDA
ManpowerGroup Inc. (NYSE:MAN)	US-based company engaged in providing workforce solutions and services such as recruitment and assessment, career management, outsourcing, workforce consulting, and training and development, including training courses and leadership development solutions	4,493.2	491.8	4,998.9	16,167.0	631.6	0.3x	7.9x
PageGroup plc (LSE:PAGE)	UK-based company operating under four key brands: Page Executive, Michael Page, Page Personnel and Page Outsourcing. Focus is on specialist areas of the market, including industry sectors and job functions	1,552.3	56.8	1,609.1	1,618.9	161.0	1.0x	10.0x
Prime People Plc (AIM:PRP)	UK based provider of recruitment and training services	17.6	(1.6)	16.9	25.3	3.1	0.7x	5.5x
Randstad NV (ENXTAM:RAND)	Netherlands-based provider of staffing services	8,698.7	1,365.9	10,071.9	20,366.5	888.1	0.5x	11.3x
Robert Walters plc (LSE:RWA)	UK-based recruitment group	422.8	28.3	451.1	1,241.8	56.1	0.4x	8.0x
RTC Group plc (AIM:RTC)	UK-based company focussing on white and blue collar recruitment providing temporary, permanent and contingent staff to a broad range of industries and clients in both domestic and international markets	8.7	7.3	16.0	92.7	2.3	0.2x	6.8x
Servoca Plc	UK based provider of specialist outsourcing solutions to police forces, local and national government, law firms and corporate	-	6.2	-	74.9	3.6	-	-
Staffline Group plc (AIM:STAF)	UK-based company engaged in providing services in staffing, outsourcing, training and employability	54.0	98.4	152.4	1,181.1	26.7	0.1x	5.7x
SThree plc (LSE:STHR)	UK-based recruitment company	451.4	8.0	459.4	1,325.5	61.2	0.3x	7.5x

Source: Capital IQ January 2020

SELECTION OF RECENT UK DEALS

DATE	TARGET	BIDDER	INDUSTRY CLASSIFICATION	TARGET BUSINESS DESCRIPTION
Jan-19	BRL Limited	Atlas Professionals B.V.	Technical	UK-based technical recruitment company
Feb-19	Sitec Design Ltd.; Sitec Recruitment Ltd.	Belcan LLC	Engineering/ Construction/ Industrial	UK-based provider of engineering services; UK-based provider of technical recruitment services
Feb-19	Sussex Recruitment Ltd	HR Go Plc	Other	Provides recruitment services
Feb-19	Blue Octopus HR & Recruitment Ltd	Private Group Led by Tas Javed and Jennifer Riley	Generalist	Provides employee recruitment services
Feb-19	Red Recruitment Group Ltd	Red Recruitment Group Holdings Ltd	Logistics & transportation	Provides recruitment services, specialising in commercial, industrial, warehousing, transport and logistics
Feb-19	MRN Recruitment Ltd	Jarell Ltd	Generalist	Provides recruitment services
Mar-19	Group GTI Ltd	Private Group Led By Mark Blythe	Recruitment platform/software	Operates a multi-channel graduate recruitment media company in the United Kingdom
Mar-19	Tiro Talent Services Ltd	Glu Recruit Ltd	Generalist	Provides recruitment services
Mar-19	TeachersUK Ltd	Operam Education Group Ltd	Education	Provides specialist education recruitment services
Mar-19	Education Specialists Ltd	Operam Education Group Ltd	Education	Provides recruitment services to the education sector
Apr-19	Amberjack Global Ltd	LDC (Managers) Limited	IT	UK-based recruitment technology firm
Apr-19	RZ Group	Outsource UK Limited	Engineering/ Construction/ Industrial	UK-based recruitment consultancy specializing in the finance, technology, oil and gas and engineering sectors
Apr-19	Sellick Partnership Limited	Samsic Group	Financial services	UK-based company engaged in providing recruitment services
Apr-19	TRG Logistics Ltd.	Challenge Group	Other	UK-based company that provides temporary, contract and permanent HGV drivers and logistics staff
Apr-19	Breezy HR Inc	Learning Technologies Group Plc	Recruitment platform/software	US-based developer of recruitment software & applicant tracking system
May-19	Syft	Indeed	Recruitment platform/software	Recruiting and shift management platform for part-time and flexible work for the hospitality, event, and light industrial sectors in the UK; company founded in 2015

Source: Capital IQ

SELECTION OF RECENT UK DEALS

DATE	TARGET	BIDDER	INDUSTRY CLASSIFICATION	TARGET BUSINESS DESCRIPTION
Jun-19	Sopra Steria Recruitment Limited	Resource Solutions Group Plc	Generalist	UK-based recruitment services company
Jun-19	Karen HR	Alexander Mann Solutions	Recruitment platform/software	Toronto-based AI company with a recruiting software tool for human resources workers
Jul-19	Concilium Search Ltd	Management Vehicle	Other	UK-based company engaged in life sciences, industrial, IT and management consulting recruitment
Jul-19	Flexy	Impellam	Recruitment platform/software	Flexy uses psychometrics, machine learning, and nudge theory to unlock local talent. It was designed and built by a team of psychologists, recruitment experts, and digital architects to streamline the casual labour market.
Nov-19	GPW Recruitment	EOT	Engineering/Construction/ Industrial	It covers multiple sectors including manufacturing, engineering, energy and construction.
Dec-19	Key Stage Teacher Supply	Operam Education Group	Education	North West-based education recruitment agency
Dec-19	Northern Recruitment Group	Galago Group	Executive	NRG is a leading staffing business, specialising in executive search and selection and the provision of temporary, contract and permanent recruitment services.

Source: Capital IQ

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2. Gross Revenues for BDO LLP.

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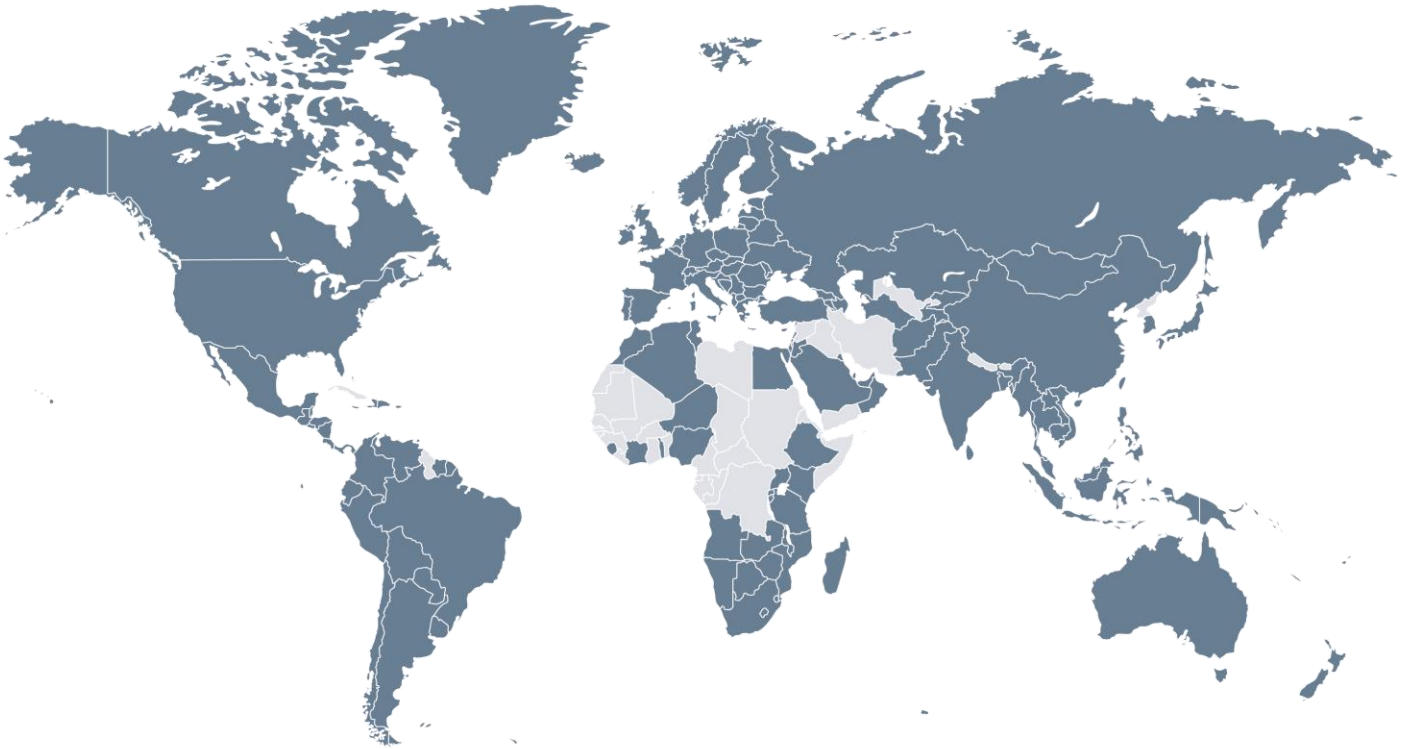

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