



INTRODUCTION	2
UK RECRUITMENT MARKET	3
M&A ACTIVITY	7
DO RECRUITERS WORK BEST IN THE OFFICE?	9
RECRUITMENT TECH & R&D TAX CREDITS	11
WHAT IS ON THE CEO'S AGENDA	13
A FRAMEWORK FOR THE FUTURE	17
LISTED RECRUITMENT COMPANIES	19
SELECTION OF RECENT UK DEALS	21
BDO MERGERS & ACQUISITIONS	23
BDO GLOBAL	24

### **HIGHLIGHTS**

GLOBAL DEALS DOWN 20% IN 2020 FROM 2019

8 2 deals completed

器 21 UK deals in 2020

DOWN FROM 25 IN 2019 AND THE PEAK OF  $32\ in\ 2018$  10 of these were in the last three months of the year

### **BDO FTSE RECRUITMENT INDEX**

FELL TO A LOW OF OVER 50% BUT RECOVERED TO THE TO THE OF 20

UK RECRUITMENT REVENUE FELL 35% TO £9.2BN
WITH GROWTH OF 6.6% FORECAST OVER NEXT 5 YEARS

AVERAGE EV/EBITDA MULTIPLE IN 2020

FINISHED THE YEAR AT 10.8X

SUSTAINED INVESTMENT 3 3% OF ALL ACTIVITY WITH PE ACCOUNTING FOR 3 1 UK DEALS

# INTRODUCTION M&A in the recruitment sector



JAMES FIELDHOUSE
M&A Managing Director, BDO LLP

+44 (0)785 427 8307 james.fieldhouse@bdo.co.uk

### Welcome to the 2021 edition of our annual M&A recruitment report.

As we started to pull together this year's annual review we reflected upon last year's report, which highlighted several macro-economic challenges during 2019 which we had successfully navigated: Conservative leadership contest, Brexit deadlines consistently missed, prorogation of Parliament etc. As such we entered 2020 with a degree of optimism, with the appointment of a new Prime Minister following conclusion of the Conservative leadership contest and having successfully agreed a withdrawal agreement with the EU. Little did Boris Johnson or the rest of the UK know what we were to encounter over the coming months...

As you might expect the global pandemic has had a profound impact upon the M&A landscape both in the UK and globally. However it's also apparent how resilient the M&A market has been, with clear signs of recovery during the latter half of the year. The strength and speed of recovery is such that overall transactions volumes in the UK recruitment market ended the year almost in line with 2019 levels. Furthermore it is notable that activity levels (and notably valuations) in other sectors are actually tracking ahead of previous years, with TMT and life sciences in particular proving to be the most active.

Over the last few years we've commented about the growing and increased importance of private equity within the global transaction environment. Alongside the various support packages provided by the government, there is currently a record \$1.7tn of private equity 'dry powder' according to current estimates, and the presence of this 'wall of money' within the wider economy has certainly provided much needed liquidity. Indeed when comparing this downturn to other recessions of the past (e.g. the Global Financial Crisis in 2008) the availability of liquidity has been a distinct difference which we're hoping will assist the overall recovery.

Technology continues to play an important role within the recruitment sector and the wider economy as a whole. Following the onset of the pandemic we not only saw domestic gatherings restricted but we also saw international travel severely curtailed, forcing companies to utilise technology available to ensure a smooth transition towards remote working and video interviews. The M&A deal environment was no different as both domestic transactions and overseas deals continued in earnest, with large late night gatherings in a lawyer's office replaced by cross-border remote completions via Teams and Zoom. As such we saw overseas investment into the UK remain consistent with prior years, with early signs in 2021 suggesting this will continue albeit with a note of caution with respect to the impact of Brexit.

In recent years we have been noting the growth of recruitment tech as an area which has proved popular for acquirers, and this has been the case once more in 2020. However, contrary to popular belief that R&D activities relate only to developments undertaken by hi-tech businesses, there is the potential for recruitment firms to have technical design, build and testing activities which will qualify for R&D tax credits, such as improvements to make back office processes more tech-enabled. We have included in this report a contribution from Vince Walker and Richard Johnstone, who have been advising recruiters on this area at BDO.

I was asked earlier this week to get my crystal ball out and give a prediction for M&A activity in the recruitment sector during the next 12 months (growth, decline or flat). I think the next 12 months is a particularly tricky one to predict given the uncertainty caused by the recent global pandemic. In the UK we saw a surge in deals towards the end of 2020 following a period of inactivity during the middle of the year. On that basis we're entering 2021 with a degree of cautious optimism, so would hope for increased deal activity during 2021. The roll-out of a vaccine certainly gives us plenty of reasons to be hopeful, although this has to be balanced with the switching off of Government support which is likely to impact adversely upon unemployment. My prediction therefore is for deal activity to remain flat in the UK for 2021, whilst hoping for some green shoots of growth as the economy returns to a form of normality post lockdown and following the vaccine roll out...but don't hold me to that!

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 2020

#### THE MARKET

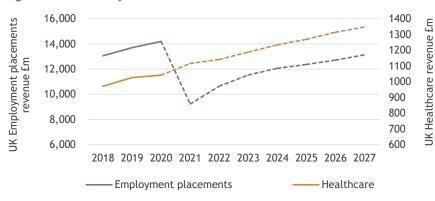
In what has been a challenging year for all businesses and sectors, the recruitment sector has had its fair share of uncertainty.

Following growth at an impressive 7.4% over the previous five years benefitting from an expanding economy and falling unemployment, the COVID-19 outbreak is expected to have resulted in a sharp fall in annual revenue for the sector of 35% in 2020, with demand affected particularly in areas like hospitality and tourism.

The story is not as pessimistic for recruitment across all industry sectors however, with some key sectors showing steady growth. As you might expect, healthcare, technology and logistics have been resilient or even surge areas and are anticipating growth, and hence those with a diversified recruitment sector portfolio have been better placed to weather the current economic storm.

Industry revenues are not expected to immediately bounce back to pre COVID-19 levels but to gradually recover. Growth for the next five years is forecast at 6.6%, a lower rate than in previous years, against the background of economic recession.

Figure 1: UK industry revenue



Source: IbisWorld 2020

Our package of support for businesses and workers continues to be one of the most generous and effective in the world - helping our economy recover and protecting livelihoods across the country. We know the premium businesses place on certainty, so it is right that we enable them to plan ahead regardless of the path the virus takes, which is why we're providing certainty and clarity by extending this support.

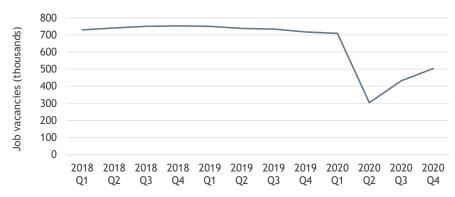
RISHI SUNAK, CHANCELLOR, JAN 2021



## UK RECRUITMENT MARKET

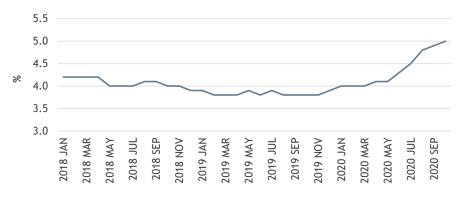
The industry in 2020

Figure 2. UK job vacancies (thousands) - Total Services



Source:ONS

Figure 3. Unemployment rate (aged 16 and over, seasonally adjusted)



Source: ONS 2020



#### **BUSINESS CONFIDENCE**

The recruitment sector benefits when businesses become more confident.

The contraction in demand created by business closures, lockdowns and eventual withdrawing of government support initiatives will likely lead to delayed expansion for many businesses, restricting recruitment revenue growth to some extent. Brexit is also likely to be suppressing forecast growth for many sectors as uncertainty around the EU trading relationship remains. The impact of the latest lockdown in 2021 Q1 is yet to be seen in the data.

Some of the other key factors on the horizon will be:

- Financial security: How long will government support continue in the form of schemes such as CBILS and BBLS?
- Capacity: Has demand significantly increased to create capacity issues?

The risk versus reward of making strategic growth decisions will be under constant review as businesses anticipate and react to the effects of the pandemic receding, as to whether companies take on extra projects, carry out product development or undertake geographic expansion. These growth initiatives require extra staff, driving demand for recruitment services.

The current number of vacancies listed is indicative of the level of business confidence - ONS data shows a steep drop in the first half of 2020. Green shoots are appearing with a significant uptick in Q3 and Q4.

However, the impact of the drop in vacancies, together with the start of wind down for the furlough scheme is starting to affect the unemployment rate which- after reaching a 44 year low during 2019 - is starting to rise.

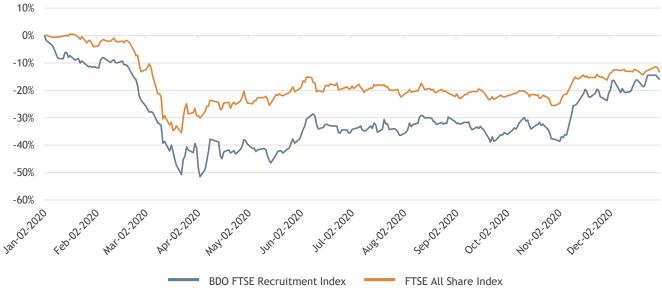
### **UK RECRUITMENT MARKET**

### 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 - however it has taken a significant hit in the post COVID-19 environment. The index recovery has been slow and lagged behind the overall UK FTSE All Share Index. In the final quarter significant gains were made, narrowing the gap, though the share price is still over 15% lower than at the start of the year.

Figure 4: BDO FTSE listed recruitment firms vs FTSE all-share index in 2020



Source: Capital IQ

<sup>\*</sup> This includes Hays Plc, Robert Walters Plc, Sthree Plc and PageGroup Plc (weighted based on market capitalisation).



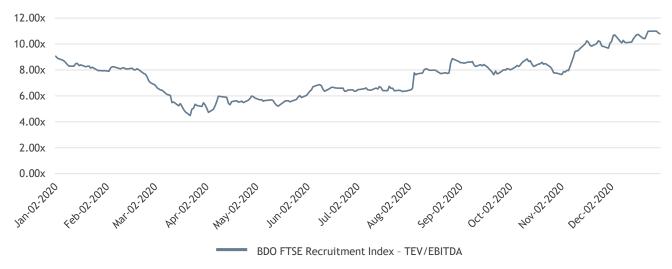
# UK RECRUITMENT MARKET The industry in 2020

The average Enterprise Value (EV) to Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) multiple overall rose slightly during the year 2020.

There will be no surprise that valuations fell during the early part of 2020 as the world went into lockdown to tackle the pandemic. However, since summer, multiples have been steadily rising and actually finished the year in excess of 10x and interestingly ahead of the start of the year.

It is important to sound a note of caution here, however; this trend shouldn't be considered in isolation, given we've seen the BDO FTSE Recruitment Index finish 2020 more than 15% lower compared to the start of the year. Thus, although we are starting to see a recovery in share pricing and valuations, the reduced financial performance during 2020 to which the multiples are being applied is on the whole leading to lower gross company valuations.

Figure 5: BDO FTSE listed recruitment firms average EV/EBITDA multiple



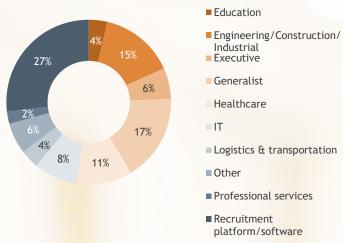
Source: Capital IQ



# M&A ACTIVITY Global deal review 2020

#### TRANSACTIONS BY SECTOR

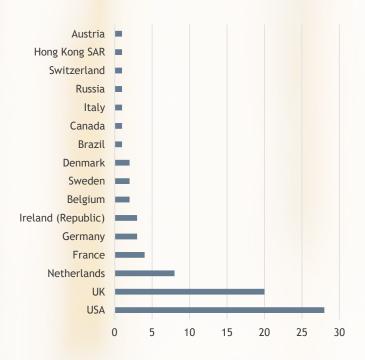
Figure 6: 2020 Worldwide recruitment deals by vendor sector



\*Other relates to sectors with only one transaction in the year

#### TRANSACTIONS BY COUNTRY

Figure 7: Global deals by bidder country



Source: BDO analysis

#### **FALL IN DEAL ACTIVITY VERSUS PRIOR YEAR**

Though the quantum of global deals has fallen by over 24% from 2019 levels, there are a number of resilient sectors which have seen strong levels of deal activity.

Global healthcare recruitment deals are up versus last year by 50% from six to nine. The majority of these deals were concluded in the second half of the year. This demonstrates that where business sectors are doing well in the current situation, this is feeding through into acquisition appetite in recruitment sectors.

Again recruitment platforms and software have proved popular for acquirers. There has been significant interest in recruitment technology that can help companies through the challenges of recruiting during a pandemic. An example is US video platform Altru Labs acquisition by iCMIS Inc. Altru is a video platform that enables content creation for use in personalising candidates' recruitment experiences - increasingly important in processes where face to face interviews and onboarding is not possible.

Although the shift to a more digitalised recruitment process was already underway, the global adoption of remote working will have certainly accelerated it. We expect to see many more similar tech-focused deals in the coming months.

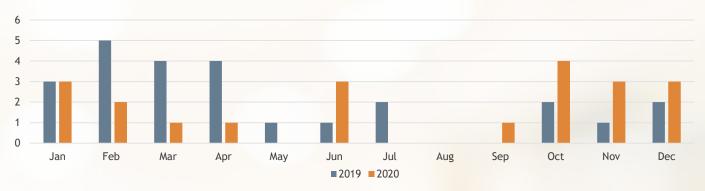
### US IS THE MOST ACTIVE GLOBAL ACQUIRER FOR THE SECOND YEAR RUNNING

The US were not only the most active acquirer - though the deal volume was significantly down from the prior year - but also the most active outside of their region, with four deals completed with European targets Overall however, there was little cross border activity - a pattern we saw in 2019.

Overall global deal volume was down 20%, which can be attributed to the need to protect balance sheets in uncertain times. Recruitment companies are likely to be prioritising stability ahead of acquisitions. This was demonstrated by Hay's fundraise in April, where it raised £200m from its shareholders to protect the business during the turbulent early months of COVID-19.

# M&A ACTIVITY UK deal review 2020

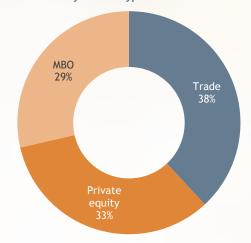
Figure 8: 2020 UK recruitment deals 2020 v. 2019



UK deal activity has been a real rollercoaster ride. Deal volumes tailed off from a promising start in January as the seriousness of the COVID-19 crisis became apparent. The uncertainty put many deals on hold across all sectors (not just recruitment) while businesses waited for more clarity on the likely impact and extent of government support. June saw significant activity, likely driven by deals delayed from earlier in the year and then activity again dropped.

Recruitment sector deal volumes then began to pick up towards the back end of the year, with Q4 returning to levels seen in January and even outstripping 2019.

Figure 9: UK Deals by bidder type



Source: BDO analysis

This recovery in M&A activity in Q4 is mirrored across the UK market as a whole, where we saw 717 transactions completed in Q4 across all sectors, up from 408 in Q3, representing a 76% increase. Moreover Q4 volumes represented the highest levels recorded for two years and four years for trade and private equity respectively. Driving this level of activity, as well as pent-up demand due to the pandemic, are the anticipated potential changes to rules around capital gains tax.

The healthcare sector recruitment deals were particularly resilient, with three nursing and healthcare deals in the final quarter of the year (Poppy Nursing Care, Filed Health & Hallam Medical).

Overall the year ended with just four fewer deals than the prior year and with significant momentum heading into 2021.

### SUSTAINED INVESTMENT AND AVAILABILITY OF LIQUIDITY IN A TIME OF CRISIS

Private equity investment has played an active role in UK recruitment deals this year and accounted for a third of all deals. Private equity dry powder currently stands at a record \$1.7tn (Mergermarket and Dechert, Dec 2020) - with all this capital that needs deploying, PE will be on the lookout for opportunistic deals, and in particular for companies well positioned to bounce back quickly once markets fully reopen.

The availability of liquidity in the UK economy being provided via both PE and government funding packages has been a distinct difference to recessions of the past and one which we hope will assist the overall recovery.

There was a drop in acquisition activity by trade buyers which can be attributed to businesses being cautious with reserves, the priority for most being to ensure the platform is sufficiently capitalised to weather any future uncertainty. This was demonstrated by Hay's £200m fundraise in April, which however has resulted in a formidable balance sheet which could finance investment plans going forwards.

### DO RECRUITERS WORK BEST IN THE OFFICE?

In the spotlight: the productivity debate

The pandemic has brought to the fore new ways of working, accelerating existing trends towards flexible working, working from home and the use of enabling technology.

Employees have performed in the most challenging of circumstances, attitudes of employers have evolved, and new ways of working have emerged, leaving many querying the rationale of a return to full time office-based working. This has been a lively topic for discussion at our round table events in the past year, with the debaters largely falling into two camps...

Many myths and fears regarding flexibility and home-working and its effect on management methods and productivity have been disproven over recent months. As a result of life experiences of COVID-19, people's behaviours and expectations have changed, and understanding this will help to recruit more widely and to retain the best people.

The productivity of people working in different ways has generally improved and efficiencies realised, as the benefits of workers spending less time commuting and able to work in ways and at times that suit them best have become clearer - should we be measuring output rather than input?

66 Greater productivity with remote working 99

There is still a need to reeducate management teams,
line managers and whole
workforces about new
changes to ways of working,
and finding innovative ways
to drive productivity and
maintain the sales culture,
and trust will be key.

May be able to realise savings in the real-estate footprint - although this will be balanced by investment in tech to support more agile working.

It seems certain that more employers are assessing where remote working is a good fit for certain areas of the business.

### DO RECRUITERS WORK BEST IN THE OFFICE?

In the spotlight: the productivity debate

Recruitment consultants typically enjoy the office environment and it's important for enthusiasm and team ethic. In some cases the office environment is vital to maintaining a sales culture, keeping up the focus and work rate.

We have seen that it suits some people to be at home, but others who thrive in the office have needed support and motivation, and some employees have less than ideal home working environments - employee engagement and wellbeing is a large area of concern currently.

66 Let's get back to the office 99

It provides an environment where junior recruiters can observe and learn from more experienced team members.

On-boarding new hires presents challenges for remote working.

The return to the office comes with a need to address the practicalities and anxieties around returning to the workplace.

### RECRUITMENT TECH & R&D TAX CREDITS

#### R&D Tax credits and allowances



VINCE WALKER
Tax Principal
R&D team

+44 (0)797 619 8802 vincent.walker@bdo.co.uk

### R&D TAX CREDITS AND ALLOWANCES AND INNOVATION GRANTS

Making the most of the UK Government's incentives and grants for research and development should be a priority for all companies. A company in any sector (including recruitment) and at any stage of its life cycle may be investing in projects, products or processes that qualify for R&D support. The incentives can either provide a welcome cash injection to the company or reduce its tax burden.

Any investment or project that results in improvements may qualify for some form of incentive. The outcome does not have to be a completely new product or process. Simply investing in a product or service to make it more efficient, cheaper or more sustainable may be enough to qualify for some R&D support. The activity may be central to your business model or it could be an investment in your back office functions.

Depending on the size of the company the relief can be worth up to:

- ► For SME companies, c.£33 for every £100 spent on R&D activities
- ► For large companies, c.£10 for every £100 spent on R&D qualifying activities

and can reduce a company's tax liability or even provide a cash rebate from HMRC in the right circumstances.



RICHARD JOHNSTONE Senior Tax Manager R&D team

+44 (0)787 055 5130 richard.johnstone@bdo.co.uk

#### SO WHAT IS R&D?

A company needs to be seeking to make an advance in science or technology, and overcoming scientific or technological uncertainty. This can be in any sector and can be in the creation or improvement of knowledge, product or process within the trade. The R&D can also relate to internal operations, for example the development of software for inward facing processes or linking together multiple applications within a company.

#### WHAT DOES THAT ACTUALLY MEAN?

The key questions to find out if R&D is relevant for your company are:

- ▶ Are you creating something new or different?
- Are you changing the way that you make things or do things?
- Are you trying to improve what you've done before?
- Has the company spent time trying to work out how to do things better?

If the answer to any of these questions is yes then R&D Tax relief is likely to be an opportunity for your company.

#### **R&D TAX RELIEF IN A NUTSHELL**



Worth up to 33% of the qualifying R&D spend, and repayable in cash where the company is loss making.



R&D claims must be made within two years from the end of the accounting period.



Designed to incentivise companies to undertake innovative and complex development works.



R&D claims can be made even when the outcome of a project is unsuccessful.

### RECRUITMENT TECH & R&D TAX CREDITS

#### R&D Tax credits and allowances

#### **R&D IN RECRUITMENT**

Contrary to popular belief that qualifying R&D activities relate to developments undertaken by hi-tech scientific or technological firms, there is the potential for recruitment firms to have examples or scenarios where there are technical design, build and testing activities which will fulfil HMRC's definition of R&D. BDO has helped prepare claims for companies in various recruitment sectors.

An example where it was necessary to provide new specialist recruitment services both UK and internationally, involved a business required to scale up to work with thousands of providers, handling thousands of jobs serving millions of registered candidates. Legacy systems may be unable to provide the requisite performance and data security to cope with client demands, needing the business to create new technology-based solutions including greater data capabilities, better performance, scalability, stability, resilience and more importantly, the security of Personally Identifiable Information (PII).

Typically, developing a recruitment platform means that a company's competent professionals, in unison with providers of software/technology systems, experiment with a wide variety of legacy, commercial off the shelf and open-source technologies. In doing so, a systematic approach to development is followed to create new techniques and mechanisms allowing data to be better managed and processed without compromising the performance and security of the recruitment platform being built. Success often is not immediately achieved, as it takes a significant amount of time building and trialling different things in order to achieve the overarching goal.

The key to accessing these incentives is understanding the full range of R&D activities and projects that can qualify for government support. This requires a deep knowledge of the respective criteria and understanding of the science and technology that is driving innovation; BDO utilises a team of engineers, scientists, software developers and financial consultants to provide the expertise to access all of the available incentives.



R&D estimates can also help you approach challenging tenders with much more assurance. BDO HELPS CLIENTS CLAIM BACK MILLIONS OF POUNDS OF R&D TAX CREDITS EVERY YEAR

#### RECENT DEVELOPMENTS IN R&D

As with all parts of the UK's tax legislation, the R&D regime evolves over time and there are further changes coming in the next few months.

#### Impact of COVID-19 pandemic

The pandemic's impact on business can hardly be understated. There are two obvious areas which companies should be aware of for R&D purposes:

- Any time during which staff have been furloughed cannot be included in an R&D claim as furloughed staff by definition could not be undertaking qualifying activities
- Where companies have claimed CBIL or Bounce Back Loans it will be necessary to consider whether these have funded qualifying R&D activities, as they are considered to be notified state aid, so can restrict any possible SME claim.

#### PAYE Cap

HMRC is seeking to introduce a cap on the payable credit which is drawn under the SME scheme, at three times the total expenditure on PAYE and NIC by a company on its R&D qualifying workers, although the legislation has yet to be finalised. This measure is likely to affect those companies whose qualifying expenditure is on qualifying costs other than staff costs.

#### Hadee Engineering case

A recent first tier tribunal decision finding in favour of HMRC highlighted the need for robust record keeping when preparing a claim, in particular the importance of understanding the contractual relationship between engaging parties to determine where R&D expenditure is subcontracted or subsidised.

#### MAKING THE MOST OF R&D INCENTIVES

R&D as a tax relief has been available since 2000 but in recent years its value has been increased to ensure that the UK remains an attractive location to develop and retain intellectual property. In this current climate, where more scrutiny is being placed on tax planning, it is important to remember that R&D tax relief is actively intended by the government to provide benefits to companies investing in research and development in the UK.

Potential tax relief (and possible cash generation) is an important additional factor for a wide range of businesses considering the benefit of investing in R&D activities. And with a two year deadline for an R&D claim, there is a window of opportunity to review recent projects or activities with a potential innovation or R&D aspect.

### WHAT IS ON THE CEO'S AGENDA

The issues on the mind of a leader of a recruitment business

In recent months BDO has been conducting regular surveys of medium-sized businesses across various sectors and geographies, to understand the changing experiences and outlook of UK businesses. We have also listened to the senior management of a wide range of recruitment businesses, from PLC's to smaller businesses, listed and PE backed to owner managed, temporary or permanent specialists, and across sectors and regions. We have been able to draw out some common themes from those discussions.



\* Source: IMF World Economic Outlook Update Jan 2021



#### **ECONOMIC UNCERTAINTY**

The pandemic has affected nearly every country in the world. Vaccine roll-out has begun, but economies are still affected by the impact of lockdowns and other restrictions. Despite a significant recovery since March 2020, when it was a third lower than now, the FTSE still dropped 14.3% in 2020, its worst performance since 2008. The recruitment industry typically tracks GDP and therefore has good reason to fear recession - leading to questions such as: how far is it going to fall; how long will it go on for; and how quickly are we going to come out of it?

The International Monetary Fund (IMF) estimates that the global economy shrunk by 3.9% in 2020\*, originally described as the worst decline since the Great Depression of the 1930s but recently revised upwards after stronger than expected growth at the end of 2020. The majority of countries are currently in recession, while the only major economy to grow in 2020 was China, a growth of 2.3%.

The IMF is, however, predicting global growth of 5.5% in 2021. That will be driven primarily by countries such as India and China, forecast to grow by 11.5% and 8.1% respectively. The major Asian and US stock markets have recovered following the announcement of the first vaccine in November 2020. Yet recovery in big, services-reliant economies that have been hit hard by the outbreak, such as the UK or Italy, is expected to be slow, even though the pressures of 2020 - Brexit, as well as the pandemic - will start to fade into the background.

### What can we learn from previous recessions for the recruitment sector?

Prior to the global financial crisis in 2008 - the recruitment industry's turnover was £27bn. By 2009/10 - following a 20 month FTSE 100 bear market - this had decreased by approximately 25%. There was a strong bounce back in 2010/11 - UK unemployment peaked at 2.7m in 2011 - and by early 2014, turnover had returned to pre-crisis levels.

The impact of the recession was not uniform however, with temporary and contractor work falling 13% and permanent placements falling by up to 40%.

As mentioned above, the availability of liquidity in the UK economy via both PE and government funding packages has been a distinct difference to recessions of the past and one which we hope will assist the overall recovery.

And as an observation, competition boomed post 2008/09 as there was a surge in recruitment start-ups - 33,000 agencies entered the market.

WHAT IS ON THE CEO'S AGENDA
The issues on the mind of a leader of a recruitment business



#### TALENT MANAGEMENT

There has been a wide range of fortunes for recruitment businesses this year, following the shifts in the economy due to COVID-19 - anecdotally, many recruitment firms haven't felt the impact of COVID-19 as significantly as they expected. As with professional services generally, impact has varied according to the performance of the sector serviced. Permanent recruitment has generally been impacted more than temporary placements in the past year.

Against these different experiences, attitudes to staffing recruitment teams range from going through some restructuring processes and letting people go - an ongoing question as furlough schemes wind down, - a focus on staff retention, and also some businesses looking at key strategic hires.

In the circumstances there is of course caution about hiring, as one of the biggest expenses of the business representing a shift from the prior paradigm that 'a good recruiter will deliver revenue' to now hiring only against client demand. However, business growth is linked to the number of recruiters, thus decisions taken today regarding hiring will impact upon future fortunes, due to the lead times of training staff to become effective in their roles.

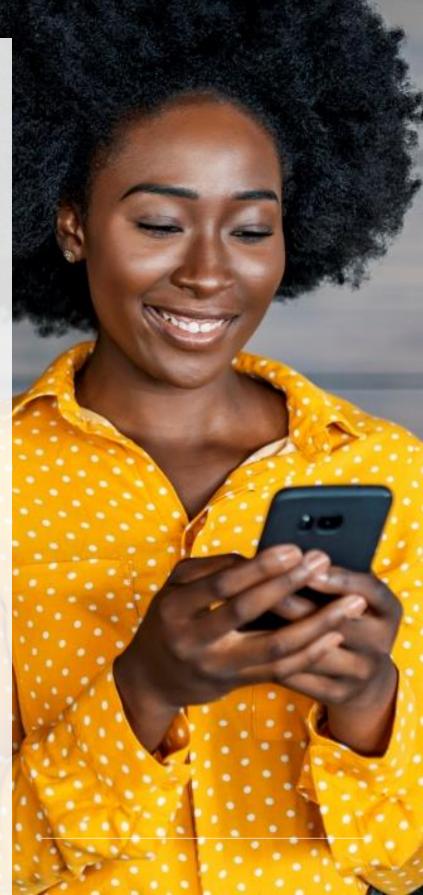
In this context retention of existing teams is important, and businesses are still thinking about rewarding people in new ways, such as discretionary incentive schemes for high-performers.



#### **CANDIDATES**

#### Current issues affecting the pool of candidates include:

- A shortage of candidates seeking new roles, with candidates in stable jobs reluctant to move
- Due to strategic decision making based on the changing economy, Boards are taking stock of their senior people, leading to talent becoming available for executive search
- The lack of graduate programmes across the economy providing access to high talent pools
- An increased acceptance of remote working, meaning that geographic location is less of a bar for applicants, widening the talent pool available
- Challenges getting overseas candidates given high uncertainty/VISA & travel restrictions.



### WHAT IS ON THE CEO'S AGENDA

The issues on the mind of a leader of a recruitment business



#### CLIENTS

From the floor of a recession, hiring can remain a relative laggard - job recovery is more complex than economic recovery.

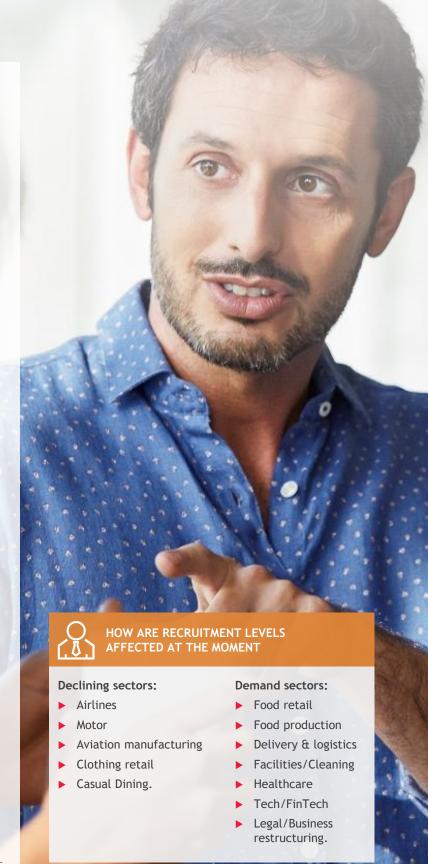
Yet BDO research\* conducted in Q4 with medium-sized businesses across UK sectors and regions painted a positive picture of the expected sizes of workforces next year, in that 70% or more of most sectors were thinking of increasing their workforce. The hiring outlook from our survey was strong for most sectors other than Hospitality and Leisure. Financial Services and Professional Services in particular showed resilience, with Professional Services showing the greatest expected increase in workforce. The regions with the greatest intention to increase by over 50% were Greater London, Central South and Northern Ireland.

But whilst vacancy numbers recover, they are often not for the same jobs. The pandemic has speeded up trends in the economy, such as the switch to ecommerce and home delivery, as well as having extreme immediate effects on industries such as hospitality and travel or food retail, which may affect the shape and extent of the industry in the long term. The 2008/09 recession, for example, led to key structural changes in areas such as financial services, construction and business services, so we're seeing history repeat itself as underlying trends are accelerated.

We also asked businesses what type of person they would be hiring - temporary staff, permanent hires, or apprentice/graduate hires. This gave a mixed picture across sectors, with manufacturing and professional services rating new roles with strategic permanent hires as most priority, and shipping/transport and logistics looking to hire more people on a temporary/contract basis. Retail/wholesale and real estate/construction were prioritising graduate/apprentice recruitment.

But against the current backdrop, recruiters who are widely diversified, both geographically and by sector, are likely to have been more robust in the face of the economic upheaval, with the ability to move resources to growth sectors and regions - UK regional teams having shown early recovery compared to London regions. The fate of niche players will have been and continue to be dependent on the fortunes of their specific sector or key client. In any event, a focus on strong and valued relationships that deliver recurring work will be vital.

Based on data from a monthly survey to medium-sized businesses (defined as businesses with revenue between £50m-£350m) across UK sectors and regions, and conducted by Censuswide on behalf of BDO



### WHAT IS ON THE CEO'S AGENDA

#### The issues on the mind of a leader of a recruitment business



**IR35** 

Immense amounts of effort went into preparing for IR35 previously (see our last report\* for details of its effects), and given the last minute decision last spring to delay its implementation for a year, processes are already largely in place for most recruiters. In recent months, HMRC have restarted their programme of education and support for those affected by the IR35 reforms, whilst any questions about any potential further postponement of the new rules were answered on 18 January 2021 when Jesse Norman (Financial Secretary to the Treasury) confirmed that the legislation would take effect from 6 April 2021.

However, continued uncertainty over the impact the IR35 reforms may have on the appetite to use Personal Service Companies (PSC) workers is still affecting some parts of the recruitment market. Customers are still cautious, both in terms of understanding how they can manage their obligations under the new rules and what alternatives are available that will not compromise their requirements and so is proving a significant factor in client buying patterns.

Some clients are seeking to put the responsibility, and liability, onto recruiters for IR35 compliance despite the fact the clear requirement for the end client to undertake the status assessment of any PSC workers used - HMRC have stated they expect all end users (clients) to take reasonable care in relation to the engagement of any PSC workers, and passing the responsibility to another party in the supply

chain will not be sufficient to meet HMRC's requirements. Based on the experiences of the implementation of the public sector IR35 reforms in April 2017, there is a likely shift of workers moving away from limited companies to an umbrella or other payroll solution, in other words the worker is paid under deduction of income tax and NIC via PAYE. In addition, there are some firms who are developing advisory and/or consultancy brands seeking to offer an alternative method of supplying workers, which are gaining traction and are to be expected in response to this significant change.



#### INTERNATIONAL

For international firms, the benefit of geographical diversity has helped overall revenues. US and Asia-Pacific regions have been a 'natural hedge' to the comparatively weaker UK and wider European market.

Meanwhile an increase in regulation and political uncertainty in certain markets (e.g. Singapore and Hong Kong) has been a headwind to growth in previously strong markets.

Although the eleventh hour signing of the Free Trade Agreement with the EU was a relief in many quarters, the impact Brexit will have on cross-border recruitment is still an unknown and difficult to plan for, particularly with the pandemic already affecting candidate mobility.



#### **BUSINESS MANAGEMENT**

As the dynamics shift towards a post-crisis world, planning in the current market is very difficult, and for many recruitment firms currently budgeting for the year ahead it's the toughest ever, UK and globally. Reshaping business priorities and achieving sustainable growth may require flexibility and decisive action. For some, planning for 'flat growth' to get through the year ahead will

be sufficient - a challenge to the relentless growth mind-set.



Managing the business cash burn is still a key focus. This will impact on the ability to invest in new people or diversification into new sectors proving to be most resilient to the pandemic. Other considerations will be the ongoing need in the industry to invest in technologies, as the drive to digitalisation is accelerated by new remote working practices.

\*www.bdo.co.uk/en-gb/insights/industries/professionalservices/m-and-a-market-reviews-recruitment-sector

### **RECRUITMENT - A FRAMEWORK FOR THE FUTURE**

Re-thinking the recruitment market, to bounce back stronger

BDO's Rethink model is a framework to help businesses anticipate and plan for the journey ahead. The simple three stage process has been used by many businesses as part of a roadmap to help them adapt and emerge in a position of strength.

Once businesses have dealt with immediate requirements to safeguard their business, it is essential to move on from the 'React' phase to anticipate critical changes that will impact business operations and value chain, embedding 'Resilience', with a view to maximising opportunities as market conditions improve - 'Realise'.

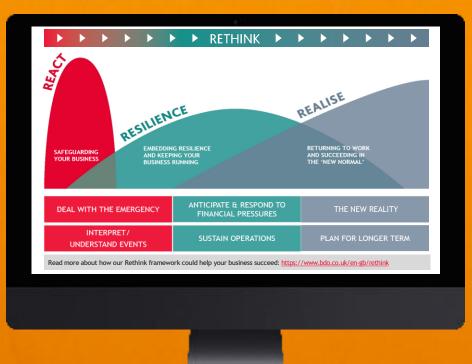
It is accepted that the world will change as a consequence of COVID-19, therefore businesses need to imagine this 'new world' as early as possible and 'Rethink' how they will be positioned in it.

#### OPERATORS ACROSS THE RECRUITMENT SECTOR HAVE FACED CHALLENGING TRADING CONDITIONS

During the first lockdown phase in March/April, recruiters were faced with a new business landscape. Characterising the React phase, businesses were decoding government requirements for safe working and furlough around disrupted demand and supply levels. Lockdown forced professional services firms to support remote-working virtually overnight. Business leaders were busy simply getting a firm operational grip on their business, and perhaps scenario planning, gearing up for the worst case outcomes.

After the initial shocks of lockdown and with more familiarity with the new constraints, there has been an opportunity to plan for business Resilience, to ensure the business' long term survival. This may have entailed a focus on cash-flow and liquidity, engaging with lenders and shareholders. Resourcing has been reviewed, with people retained, furloughed or made redundant, as well as different models to get productivity back in teams. Perhaps there has been some leverage with landlords to be had or an immediate benefit for an investment in IT. This re-shaping of businesses should mean companies have become 'leaner, meaner, more profitable machines'.

As part of our Rethink agenda, BDO has been capturing this mood through regular polls and surveys of around 500 C-suite executives across all sectors and regions of the UK, providing a useful picture of the changing view of UK business. Our impression is that until recently business was becoming more ready to 'get on with it' - and Realise their potential for growth. However the impact of the lockdown at the end of 2020 has been a further set back for growth plans.



# RECRUITMENT - A FRAMEWORK FOR THE FUTURE

Re-thinking the recruitment market, to bounce back stronger



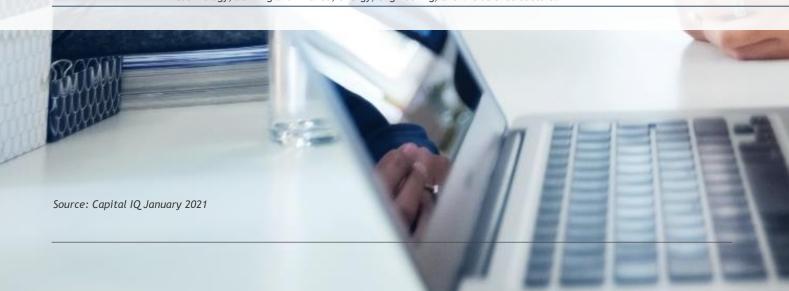


### WHAT ARE THE ISSUES WEIGHING IN THE BALANCE FOR RECRUITERS?

- ▶ Is this still the time to focus on core markets, particularly when the core market is strong. In a growing/rebounding market, there are plenty of opportunities for growth - or is there a need to diversify or choose a stronger sector
- ➤ Should geographical diversification be a consideration with the international market stronger now than the UK organically or by acquisition
- Diversification might be distracting?
- ► Recent focus in the short term on reducing head count and motivating high performers has shown good metrics, but isn't a long-term solution
- ▶ An opportunity exists to reshape business models and workplaces for the future (with implications for real estate costs) - where is remote working a good fit or enabler for the business, and where is a return to the office needed, where productivity and training is affected
- ► How to remain more agile, able to change and adapt as the effects on the economy work through.

# LISTED RECRUITMENT COMPANIES

COMPANY NAME	DESCRIPTION
Adecco Group AG (SWX:ADEN)	Adecco Group AG and subsidiaries provide worldwide human resource services.
ASGN Incorporated (NYSE:ASGN)	Provides professional staffing and IT solutions in technology, digital, creative, engineering and life sciences fields across commercial and government sectors, United States and international.
BeNEXT Group Inc. (TSE:2154)	BeNEXT Group Inc. engages in engineer dispatching, subcontracting, outsourcing, and recruiting business for the technology and manufacturing fields, Japan and international.
Empresaria Group plc (AIM:EMR)	Empresaria Group plc provides staffing and recruitment services, United Kingdom, Continental Europe, the Asia Pacific, and the Americas.
Gattaca plc (AIM:GATC)	Gattaca plc provides contract and permanent recruitment services in the private and public sectors.
Hays plc (LSE:HAS)	Hays plc, a recruitment company, Australia, New Zealand, Germany, the United Kingdom, Ireland, and international.
Impellam Group plc (AIM:IPEL)	Impellam Group Plc provides staffing, human capital management, and outsourced people-related services, United Kingdom, Ireland, North America, mainland Europe, Australasia, New Zealand, Singapore, and the Middle East.
Kelly Services, Inc. (NasdaqGS:KELY.A)	Kelly Services, Inc. and subsidiaries, provides workforce solutions to various industries, international.
ManpowerGroup Inc. (NYSE:MAN)	ManpowerGroup Inc. provides workforce solutions and services, Americas, Southern Europe, Northern Europe, and the Asia Pacific Middle East region.
PageGroup plc (LSE:PAGE)	PageGroup plc provides recruitment consultancy and support services.
Prime People plc (AIM:PRP)	Prime People Plc provides permanent and contract recruitment services, United Kingdom, Asia, and international.
Randstad N.V. (ENXTAM:RAND)	Randstad N.V. provides solutions in the field of work and human resources services.
Robert Walters plc (LSE:RWA)	Robert Walters plc provides professional recruitment consultancy services, international.
RTC Group plc (AIM:RTC)	RTC Group PLC, provides recruitment services, United Kingdom and international.
Staffline Group plc (AIM:STAF)	Staffline Group plc provides recruitment and outsourced human resource services, and skills training and probationary services, United Kingdom.
SThree plc (LSE:STEM)	SThree plc provides permanent and contract specialist staffing services to information and communication technology, banking and finance, energy, engineering, and life science sectors.



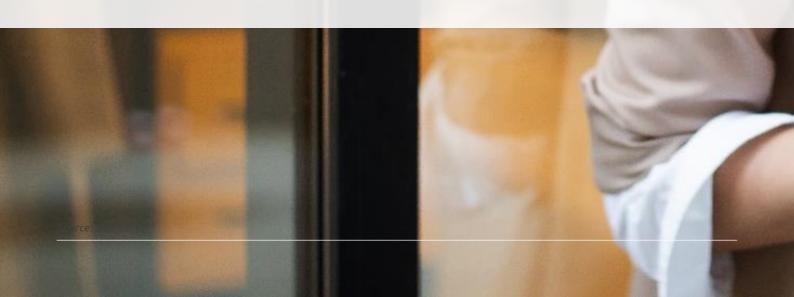
# LISTED RECRUITMENT COMPANIES

MARKET CAP (£M)	NET DEBT (£M)	EV (£M)	REVENUE (£M)	EBITDA (£M)	EV/REVENUE	EV/EBITDA
7,772	793	8,569	17,636	617	0.5x	10.1x
3,235	662	3,897	2,902	296	1.3x	12.8x
381	- 42	339	549	38	0.6x	8.9x
22	16	44	319	10	0.1x	2.6x
26	- 20	6	539	7	0.0x	0.7x
2,397	- 256	2,141	5,930	150	0.4x	10.9x
108	42	150	2,144	16	0.1x	6.0x
591	- 117	474	3,377	55	0.1x	6.0x
3,798	- 88	3,762	13,178	242	0.3x	7.6x
1,426	- 41	1,386	1,488	82	0.9x	11.7x
8	5 5-1	8	20	- 0	0.3x	2.8x
8,556	343	8,905	18,429	586	0.5x	11.9x
342	- 47	295	1,078	38	0.3x	5.5x
6	2	8	89	2	0.1x	3.8x
30	43	73	988	- 3	0.1x	NM
396	- 14	405	1,203	43	0.3x	6.3x



# SELECTION OF RECENT UK DEALS

DATE	TARGET	BIDDER
Jan-20	On-Site London Ltd.	1st Step Solutions Limited
Jan-20	Xcede Recruitment Solutions Limited; Etonwood Limited	Techstream Group Holdings Limited
Feb-20	Spencer Ogden Limited	MML Capital Partners LLP
Feb-20	Cordant Group PLC	Twenty20 Capital
Mar-20	Venturi Ltd.	Management Vehicle
Apr-20	Independent Clinical Services Group Limited	Onex Corporation; TowerBrook Capital Partners L.P.
Jun-20	Тетро	Adecco
Jun-20	Smartsourcing Limited	Management Vehicle
Jun-20	Matrix SCM Limited	Bridgepoint Development Capital Limited
Sep-20	Fircroft Group	NES Global Talent
Oct-20	Nigel Wright Consultancy Limited	Management Vehicle
Oct-20	TeacherActive Limited	Management Vehicle
Oct-20	Hallam Medical Limited	ABN AMRO Group N.V.
Nov-20	Field Health Limited	Premier Healthcare Professionals, Inc.
Nov-20	Artemis Human Capital	Whiterock
Nov-20	Poppy Nursing and Care	The MCG Group
Dec-20	Serocor	BREAL Zeta
Dec-20	The Up Group Limited	Alexander Mann Solutions Limited
Dec-20	Tes Global's Supply Agencies	LDC (Managers) Limited



# SELECTION OF RECENT UK DEALS

INDUSTRY CLASSIFICATION	UK BASED TARGET - BUSINESS DESCRIPTION
Engineering/Construction/Industrial	Provider of contract and permanent personnel, Infrastructure, Mechanical & Electrical and Construction sectors
Marketing	Digital/infrastructure technology recruitment company
Engineering/Construction/Industrial	Energy and infrastructure recruitment agency, international
Generalist	Company providing recruitment, security, cleaning and support services
П	Technology recruitment
Healthcare	Company providing staffing, managed services and innovative delivery models to health and social care systems and the life sciences industry
Recruitment platform/Software	Software company - technology to simplify the recruitment process
IT	Company providing specialist recruitment services and consultancy solutions
Recruitment platform/Software	Managed services provider for the outsourced hiring and management of temporary UK local government staff
Engineering/Construction/Industrial	Provider of technical recruitment services
Generalist	Recruitment and management consulting firm
Education	Recruitment firm providing teachers, education support staff and nursery nurses
Healthcare	Company engaged in providing recruitment services to the healthcare industry
Healthcare	Recruiting firm for nurses
Executive	Executive recruitment business
Healthcare	Supplier of nurses and carers to UK hospital trusts and care homes
Engineering/Construction/Industrial	£100m+ STEM recruitment group
Executive	Executive search firm in digital transformation and technology sectors
Education	Supplier of teaching staff



### **BDO MERGERS & ACQUISITIONS**

#### **OUR LEAD** RECRUITMENT CONTACTS

#### **M&A**

#### **JAMES FIELDHOUSE**

M&A Managing Director

- +44 (0)161 817 7691 +44 (0)785 427 8307

james.fieldhouse@bdo.co.uk

#### **CHRIS CUMBER**

M&A Assistant Director

- +44 (0)161 833 8275
- +44 (0)786 643 1506

chris.cumber@bdo.co.uk

#### JOSEPH POWELL

M&A Senior Manager

- +44 (0)161 817 7620

joseph.powell@bdo.co.uk

#### **HELEN CHARLESWORTH**

M&A Assistant Manager

- +44 (0)161 833 8259 +44 (0)792 905 7920

helen.charlesworth@bdo.co.uk

#### **AUDIT**

#### MARK CARDIFF

- +44 (0)207 893 2015

+44 (0)796 842 9503 mark.cardiff@bdo.co.uk

#### TAX

#### **ANNA JARROLD**

Partner and Head of Professional

- +44 (0)207 893 3987 +44 (0)781 469 2834

anna.jarrold@bdo.co.uk

#### STEPHANIE WILSON

Tax Partner - Employment Tax

- +44 (0)207 893 2897
- +44 (0)787 056 8614

stephanie.wilson@bdo.co.uk

#### **NICK DUFFIN**

Principal - Employment Tax

- +44 (0)161 817 7591 +44 (0)787 055 5101
- nick.duffin@bdo.co.uk

**BDO UK** 



#### **BDO CORPORATE FINANCE UK**



### THE UK'S MOST **ACTIVE** ADVISER AN AWARD WINNING

CORPORATE FINANCE **PROFESSIONALS** IN THE UK

**CORPORATE FINANCE BUSINESS** 

\*#1 Financial Due Diligence provider in the UK -Mergermaket UK accountant league tables 2020 #1 Financial adviser by deal volume in the UK and Ireland -Experian 2020 UK M&A and adviser league tables

### **BDO GLOBAL**

**BDO INTERNATIONAL** 

US\$10.3 billion 2019/2020 REVENUE A YEAR ON YEAR INCREASE OF 7.8%1

167 1,600 Offices Countries 91,000 Staff

**BDO CORPORATE FINANCE INTERNATIONAL** 

1,546 COMPLETED DEALS IN 2020

WITH A TOTAL \$83.5bn

PRIVATE SOF OUR DEALS ARE DEALS ARE DEAL CROSS BORDER

ONE OF THE MOST ACTIVE ADVISERS GLOBALLY\*

2,500 CORPORATE FINANCE PROVIDING DEDICATED INVOLVEMENT

DEAL VALUE OF \$83.5bn

\*2nd leading Financial Due Diligence provider globally – Mergermarket global accountant league tables 2020 2nd most active globally, 2019 M&A Advisors by deal location – Pitchbook



#### FOR MORE INFORMATION:

#### **JAMES FIELDHOUSE**

+44 (0)161 817 7691 +44 (0)785 427 8307 james.fieldhouse@bdo.co.uk 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 © February 2021 BDO LLP. All rights reserved. Published in the UK.

www.bdo.co.uk