

INDUSTRY INSIGHTS

Staffing Industry M&A Landscape

Fall 2018



Q Highlights

As the staffing industry continues to benefit from a positive operating environment across most industry sectors, owners are capitalizing on their strong financial performance by realizing value through either a sale or recapitalization transaction.

Noticeably absent from the surge in M&A activity are most of the public staffing companies, as staffing industry acquisition activity remains primarily driven by lesser-known privately held buyers.

Strategic buyers accounted for 84% of the staffing industry acquisitions in the first nine months of 2018, with private equity (financial buyers) investing in a new platform acquisition accounting for the other 16% of the transactions.

– Financial investors acquired 16 new platform staffing investments in the first nine months of 2018, following the 28 new investments in 2017 and 20 in 2016.

Professional staffing companies (including IT, healthcare and life sciences, engineering and finance/accounting) continue to see the most widespread demand from buyers and investors.

Buyers continue to have very specific criteria as they evaluate acquisition targets. Acquirers desire companies with a strong blend of both recurring revenue growth and profitability, with significant attention paid to customer diversification and the gross margin impact of potential acquisitions. Proven management teams desiring to stay on post-transaction also remain highly sought after.

BY THE NUMBERS



101

101 U.S. staffing industry M&A transactions were reported in the first nine months of 2018.



92

92 unique buyers completed a staffing company acquisition in the first nine months of 2018.



9

9 of the 101 transactions announced as of YTD Sept 30, 2018 were acquired by publicly traded staffing companies.



91%

91% of the staffing transactions announced in the first nine months of 2018 were completed by either privately held buyers or financial investors.

M&A Activity – Staffing Industry ...

The third quarter of 2018 saw 30 staffing industry M&A transactions completed by 28 different buyers, a continuance of the strong M&A activity seen over the past several years. For the first nine months of 2018, 101 staffing industry M&A transactions were completed by 92 unique buyers. As the staffing industry continues to benefit from a positive operating environment across most industry sectors, staffing company owners are capitalizing on their strong financial performance by realizing value through either a sale or recapitalization transaction.

Transaction activity will likely remain robust through the end of 2018 and into 2019, as we continue to field a steady stream of inquiries from both strategic buyers and financial investors, as well as sellers positioning to complete transactions while the M&A market is still strong. This supports our observation that seller interest has noticeably risen, as improving operating results make valuation targets more achievable. In addition, many veteran staffing industry owners are increasingly mentioning the potential risk of holding their businesses too long and missing the open M&A window that currently exists for completing a transaction at favorable valuations.

Even as acquisition activity continues to flourish, buyers/investors continue to have very specific criteria as they evaluate acquisition targets. Professional staffing businesses, particularly those in the areas of IT, healthcare and life sciences staffing, continue to generate the greatest buyer demand. Acquirers continue to be most interested in companies that have a strong blend of both recurring revenue growth and profitability, with significant attention paid to customer diversification and the gross margin impact of potential acquisitions. Proven management teams desiring to continue with the business post-transaction also remain highly sought after. Conversely, companies with flat or declining growth profiles, excessive customer concentration or without management teams staying on with the business post-transaction are finding more limited buyer interest and, hence, less exciting valuation multiples.

Noticeably absent from the surge in M&A activity are most of the large public staffing companies, as staffing industry acquisition activity remains primarily driven by lesser known privately held strategic buyers (many of whom are backed by private equity). Of the 101 staffing transactions completed in the first nine months of 2018, 92 deals were completed by privately owned investors/buyers and only nine of these transactions were completed by a publicly traded staffing company.

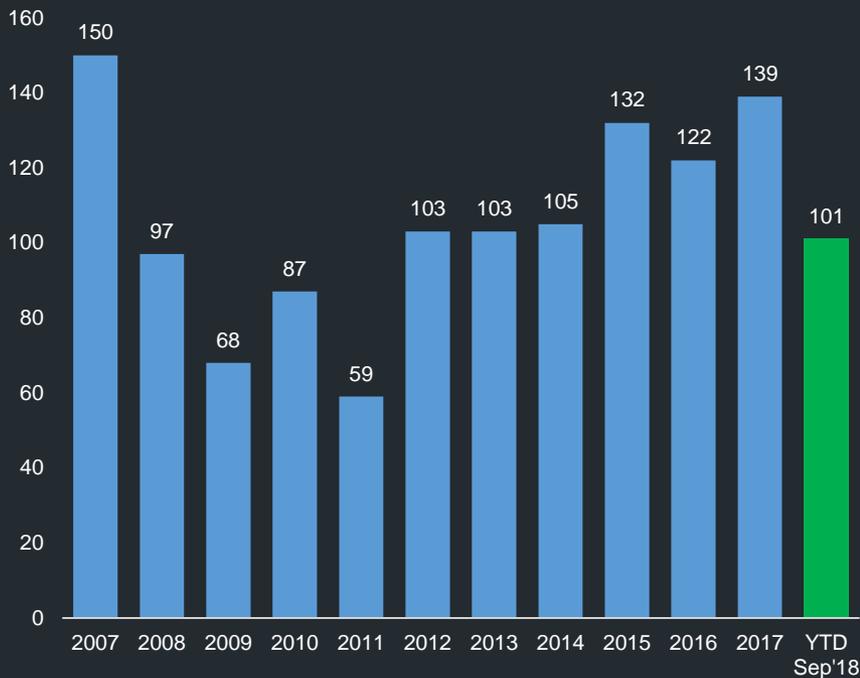
Strategic buyers (including those staffing businesses primarily owned by private equity investors) completed 84% of the staffing acquisitions in the first nine months of 2018. However, private equity continues to be an attractive option for the largest- and fastest-growing staffing companies, with 16 new platform investments made in the first nine months of 2018. This follows the 28 new platform investments made in 2017 and 20 in 2016 as reported previously by Duff & Phelps. Companies with scale, excellent historical and projected growth rates and management teams seeking to continue the growth of their businesses while taking some money off the table are proving to be very attractive investment platforms for many private equity investors interested in the business services sector.

IT staffing companies, especially those with a more relationship-oriented sales model generating higher gross margins and double-digit EBITDA margins, continue to be the most attractive staffing segment for acquirers, as 24 of the 101 transactions reported in the first nine months of 2018 involved companies whose predominant service offering was IT staffing. Healthcare staffing companies are also seeing significant buyer interest and very attractive valuation multiples, with 17 transactions completed in the first nine months of 2018. The professional staffing segments (including IT, healthcare and life sciences, engineering and finance / accounting) all continue to see the most widespread demand from buyers and, thus, the strongest valuations. The light industrial / clerical staffing segment continues to produce a healthy number of transactions, although typically at lower valuation multiples as compared to professional staffing.

M&A Activity – Staffing Industry ...

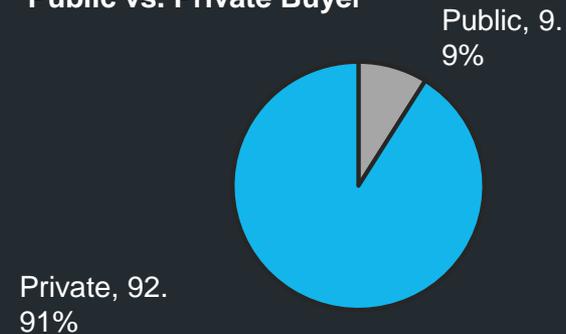
Yearly Staffing Transaction Volume – 2007 to YTD Sept 30, 2018

Number of Deals

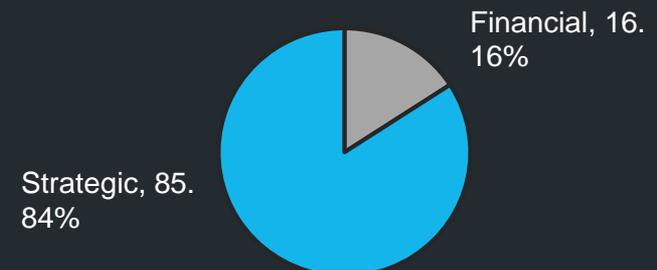


Staffing Industry Transaction Activity – YTD Sept 30, 2018

Public vs. Private Buyer

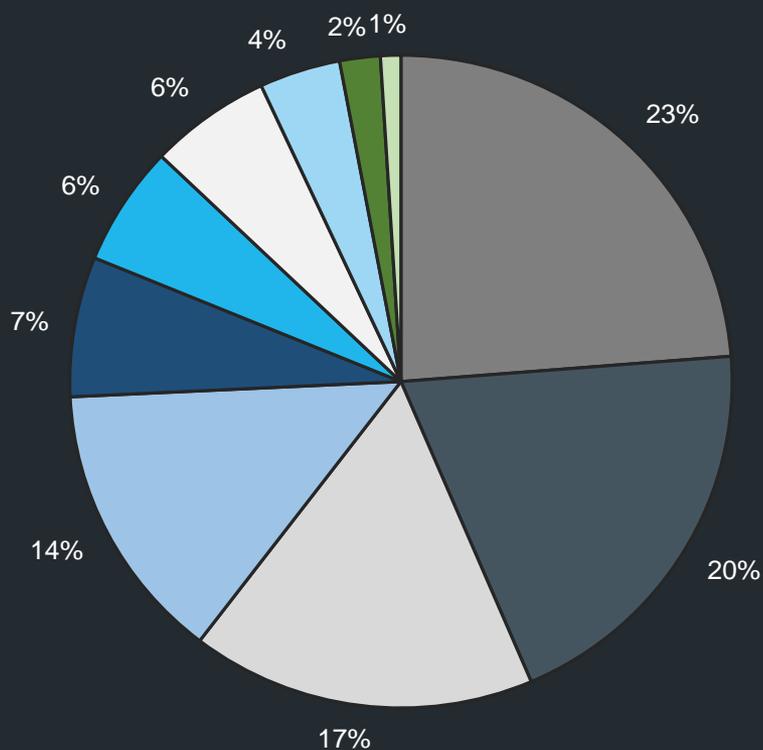


Strategic vs. Financial Buyer



M&A Activity – Staffing Industry ...

M&A Activity by Staffing Industry Sector – YTD Sept 30, 2018



Industry Sector	No. of 2018 Transactions
IT Staffing	24
Light Industrial/Clerical	20
Healthcare	17
Other	14
Executive Search	7
Technical	6
Finance and Accounting	6
Professional Employer Organization	4
Legal	2
Place and Search	1

Notable Staffing Transactions

Notable Staffing Transactions – Q3 2018



Paramount Staffing, a Northbrook, Illinois based industrial staffing firm was acquired by Proman Group. The Paramount Staffing brand will remain and its executives and team members will stay in their current positions. Terms of the transaction were not disclosed.



Private investment firm Gridiron Capital acquired The Service Companies, a provider of managed services and staffing to the hospitality industry. The Service Companies' operations include Heart of House Services, Acrobat Outsourcing, and JRS International, all serving the hospitality industry.



Union Capital Associates announced an investment in Resource Employment Solutions, a leading light industrial staffing business, in partnership with Louis Lluberes and Moises Lluberes. Resource Employment Solutions, is a leading national provider of light industrial staffing solutions to companies in the distribution, manufacturing and e-commerce end-markets.



Staffing 360 Solutions, a staffing provider operating in the U.S. and UK, acquired Key Resources Inc., a provider of distribution and supply chain personnel, from owner Pamela Whitaker. Key Resources is based in Greensboro, North Carolina, and has four offices. Key Resources generated revenue of approximately \$35 million for the 12 months ended July 2018.



DW Healthcare Partners (DWHP), a healthcare-focused private equity firm, acquired a majority stake in New Jersey-based Aequor Healthcare Services. Founded in 1998, Aequor provides clinical staffing of physicians, therapists, nurses, technologists, and allied healthcare professionals with almost 300 client companies nationwide.

Staffing M&A Transactions

Q3 2018 ...

Announced Date	Seller	Buyer	Business Description
7/2/2018	Paramount Staffing	Proman Group	Provides light industrial staffing, on-premises staffing, skilled placements, direct hire, and a certified forklift training center
7/3/2018	The Arland Group	Shaker Recruitment Marketing	Provide services to help companies attract and retain talent, such as employer branding, advertising, public relations, ad buying and creating services.
7/3/2018	MRA Global Sourcing LLC	TYGES	Provides executive search within the procurement function
7/9/2018	Clement May Limited	Staffing 360 Solutions Inc.	An IT recruitment services provider based in London with additional offices in Malaysia and South Africa.
7/9/2018	Integricon	S.i. Systems	Provides IT staffing services in transportation and logistics space.
7/10/2018	Commongood Careers	Koya Leadership Partners	Operates nationally and targets talent from the manager level up to the C-suite at smaller to midsize nonprofit organizations. Its clients include GreenLight Fund, Center for Effective Philanthropy, New Profit, Tipping Point, and others.
7/12/2018	Resource Employment Solutions, LLC	Union Capital Associates	A leading national provider of light industrial staffing solutions to companies in the distribution, manufacturing and e-commerce end-markets.
7/12/2018	Pomeroy IT	Getronics	Based in Hebron, Kentucky, and operates locations across the US targeting IT operations in the retail, healthcare, financial institutions, services, and manufacturing sectors.
7/14/2018	LandaJob	Individual Investor	Recruits temporary or contract staff for marketing and creative industry in the Kansas City, Missouri area.
7/16/2018	The Service Companies	Gridiron Capital	Operations include Heart of House Services, Acrobat Outsourcing, and JRS International, all serving the hospitality industry.

Staffing M&A Transactions Q3 2018 ...

Announced Date	Seller	Buyer	Business Description
7/19/2018	Contingent Workforce Solutions Inc.	People 2.0 Global LP	An independent contractor classification and payrolling firm.
7/17/2018	Aureon HR	Oasis Outsourcing	A Midwest-based PEO service provider focused in the senior living industry
7/20/2018	3Ci	MAU Workforce Solutions	Provides technology and IT staffing services in Atlanta
7/23/2018	Grafton Recruitment	Staffline	Multi-disciplined staffing operations based in Ireland and Northern Ireland
7/26/2018	Improving Holdings, LLC	Trinity Hunt Partners	A technology management and consulting services company, provides information technology consulting, training, recruiting, and project services.
7/30/2018	Town + Country	Care.com	Provides permanent and temporary household staffing, as well as backup care for families employed by corporate clients serviced by Care@Work, the enterprise solution of Care.com.
8/1/2018	Five Star Staffing & Accounting Recruiters	HIRE Strategies, LLC	Provides recruitment services for temporary, temporary-to-hire, and direct-hire personnel in administrative and accounting profession.
8/7/2018	Harvey Nash Group plc	The Power of Talent Ltd.	Provides IT staffing, executive recruitment and assessment, and IT outsourcing through operations in the UK, US, Europe and the Asia Pacific.
8/9/2018	HCS Healthcare	Healthcare Support Staffing Inc.	Recruits healthcare professionals in clinical and non-clinical licensed roles
8/14/2018	Pro R.E.A. Staffing, Inc.	Black29 Group Inc.	Provides staff recruitment services for the real estate industry.

Staffing M&A Transactions

Q3 2018 ...

Announced Date	Seller	Buyer	Business Description
8/15/2018	Pro-Touch Nurses Inc. dba Protouch Staffing Inc.	W3Global Inc.	Provides nurse and allied healthcare staffing in the Dallas, Houston, and Chicago markets. It counts more than 1,000 clients and provides employment to more than 500 nurses annually.
8/28/2018	Key Resources Inc.	Staffing 360 Solutions Inc.	Provider of distribution and supply chain staffing services
8/28/2018	NTP Wireless	System One	Provides site acquisition services including site identification, permitting, leasing and zoning services.
8/29/2018	easyBackgrounds	Global HR Research	Provides background screening solutions on a national basis.
9/5/2018	Aequor Healthcare Services	DW Healthcare Partners	Provides clinical staffing of physicians, therapists, nurses, technologists, and allied healthcare professionals.
9/17/2018	Core BTS, Inc.	Tailwind Capital	Provides business information technology (IT) consulting services and IT staffing services
9/19/2018	Remedy Employer Services	CoAdvantage Corp.	Provides human resources, payroll administration, employee benefits, and risk management solutions.
9/20/2018	TPGS	System One	Provides cleared teams of IT professionals to government contractors.
9/25/2018	Executemps Southwest Staffing (ESW)	Trillium Staffing	Provides hospitality and event staffing near Phoenix, Arizona.
9/30/2018	Locum Medical Group, a part of Randstad Holding NV	Health Carousel	Provides locum tenens physician staffing in the United States.

Public Trading Data for Staffing Companies .oo

(\$ in millions, except per share amounts;
average excludes highest and lowest values)

Company Name	Ticker	Price as of 9/28/2018	52 Week		% of 52 Week High	Market Cap	Enterprise Value	LTM Revenue	EBITDA		2017 EBITDA Margin	EV/EBITDA	
			Low	High					LTM	2018E		LTM	2018E
Commercial Staffing													
Adecco Group AG	ADEN	\$52.80	\$52.15	\$82.06	64.3%	\$8,795.5	\$10,651.8	\$27,653.7	\$1,316.1	\$1,348.6	4.8%	8.1x	7.9x
Barrett Business Services, Inc.	BBSI	66.78	54.41	98.76	67.6	491.5	461.5	940.4	35.1	42.6	3.7	13.1	10.8
GEE Group Inc.	JOB	2.50	2.00	3.45	72.5	27.0	125.4	171.7	10.5	11.4	6.1	12.0	11.0
Kelly Services, Inc.	KELY.A	24.03	21.44	32.31	74.4	932.5	900.3	5,507.9	104.0	108.0	1.9	8.7	8.3
ManpowerGroup Inc.	MAN	85.96	81.85	136.93	62.8	5,578.3	5,982.9	22,281.6	951.4	926.3	4.3	6.3	6.5
Randstad NV	RAND	53.42	51.88	69.18	77.2	9,781.7	11,549.9	27,482.0	1,244.8	1,417.5	4.5	9.3	8.1
Staffing 360 Solutions, Inc.	STAF	2.08	1.14	5.70	36.5	9.8	63.9	225.3	3.9	10.2	1.8	16.2	6.3
TrueBlue, Inc.	TBI	26.05	22.30	29.85	87.3	1,023.9	1,107.7	2,499.1	125.8	129.4	5.0	8.8	8.6
Average					69.8%	\$2,808.1	\$3,204.9	\$9,822.7	\$411.9	\$427.7	4.0%	10.0x	8.4x
Median					70.0%	\$978.2	\$1,004.0	\$4,003.5	\$114.9	\$118.7	4.4%	9.0x	8.2x

DEFINITIONS

EBITDA: earnings before interest, taxes, depreciation and amortization

Enterprise Value: market capitalization + total debt + preferred equity + minority interest – cash and short-term investments

LTM: publicly announced last 12 months

Note: EBITDA does not reflect adjustments for extraordinary items.

Source: S&P Global Market Intelligence as of September 28, 2018.

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Public Trading Data for Staffing Companies

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Company Name	Ticker	Price as of 9/28/2018	52 Week		% of 52 Week High	Market Cap	Enterprise Value	LTM Revenue	EBITDA		2017 EBITDA Margin	EV/EBITDA	
			Low	High					LTM	2018E		LTM	2018E
Professional Staffing													
BG Staffing, Inc.	BGSF	\$27.20	\$14.65	\$29.59	91.9%	\$274.4	\$302.0	\$284.8	\$25.4	\$28.3	8.9%	11.9x	10.7x
Hudson Global, Inc	HSO	1.59	1.29	2.44	65.2	50.9	12.3	461.5	3.0	NA	0.7	4.0	NA
Kforce Inc.	KFRC	37.60	19.10	43.51	86.4	929.5	1,031.7	1,388.6	83.0	91.5	6.0	12.4	11.3
Mastech Digital, Inc.	MHH	9.57	4.67	11.49	83.3	104.8	141.7	167.9	12.7	NA	7.6	11.1	NA
ASGN Incorporated	ASGN	78.93	53.56	94.25	83.7	4,132.2	5,328.4	2,909.8	317.9	395.6	10.9	16.8	13.5
RCM Technologies, Inc.	RCMT	4.27	4.25	7.50	56.9	52.5	81.2	197.4	8.1	8.8	4.1	10.0	9.3
Resources Connection, Inc.	RECN	16.60	13.20	17.95	92.5	522.9	529.4	654.1	51.0	56.5	7.8	10.4	9.4
Robert Half International Inc.	RHI	70.38	48.21	79.91	88.1	8,469.8	8,161.9	5,523.4	609.4	638.8	11.0	13.4	12.8
TSR, Inc.	TSRI	7.15	4.25	9.40	76.1	14.0	8.2	65.0	0.9	NA	1.4	8.9	NA
Volt Information Sciences, Inc.	VISI	3.85	2.16	4.90	78.6	81.5	97.0	1,062.8	(17.0)	NA	NM	NM	NA
Average					81.7%	\$768.6	\$940.5	\$890.9	\$62.8	\$142.9	6.7%	11.2x	11.0x
Median					83.5%	\$189.6	\$221.8	\$557.8	\$19.1	\$74.0	7.6%	11.1x	11.0x

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Public Trading Data for Staffing Companies

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			Low	High					LTM	2018E		LTM	2018E
Healthcare Staffing													
AMN Healthcare Services, Inc.	AMN	\$54.70	\$37.71	\$68.20	80.2%	\$2,597.9	\$3,050.2	\$2,084.1	\$249.2	\$267.6	12.0%	12.2x	11.4x
Cross Country Healthcare, Inc.	CCRN	8.73	7.41	14.65	59.6	316.9	381.6	863.0	39.7	35.6	4.6	9.6	10.7
Average					69.9%	\$1,457.4	\$1,715.9	\$1,473.6	\$144.5	\$151.6	8.3%	10.9x	11.1x
Median					69.9%	\$1,457.4	\$1,715.9	\$1,473.6	\$144.5	\$151.6	8.3%	10.9x	11.1x
Executive and Retained Search													
Heidrick & Struggles International, Inc.	HSII	\$33.85	\$20.55	\$45.29	74.7%	\$641.8	\$555.9	\$672.3	\$68.8	\$72.7	10.2%	8.1x	NM
Korn/Ferry International	KFY	49.24	38.53	68.98	71.4	2,803.8	2,672.3	1,831.5	248.4	295.2	13.6	10.8	9.1
Average					73.1%	\$1,722.8	\$1,614.1	\$1,251.9	\$158.6	\$184.0	11.9%	9.4x	9.1x
Median					73.1%	\$1,722.8	\$1,614.1	\$1,251.9	\$158.6	\$184.0	11.9%	9.4x	9.1x

DEFINITIONS

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Selected Duff & Phelps Staffing Transactions

<p>Sell Side Advisor</p> <hr/>  <p>BRILLIANT.</p> <p>has completed a majority recapitalization with</p>  <p>SILVER OAK SERVICES PARTNERS</p>	<p>Sell Side Advisor</p> <hr/>  <p>Maxsys SOLUTIONS</p> <p>has been acquired by</p>  <p>Yoh A DAY & ZIMMERMANN COMPANY</p>	<p>Sell Side Advisor</p> <hr/>  <p>Strategic Infusion</p> <p>has been acquired by</p>  <p>MORSON GROUP</p>	<p>Sell Side Advisor</p> <hr/>  <p>vision technology SERVICES</p> <p>has been acquired by</p>  <p>BG STAFFING, INC.</p>	<p>Sell Side Advisor</p> <hr/>  <p>Hudson IT</p> <p>has been acquired by</p>  <p>mastech</p>
<p>Sell Side Advisor</p> <hr/>  <p>Hudson LEGAL</p> <p>has been acquired by</p>  <p>DTI</p>	<p>Sell Side Advisor</p> <hr/>  <p>INSTAFF</p> <p>a portfolio company of North Texas Opportunity Fund LP, has been acquired by</p>  <p>BG Staffing</p>	<p>Sell Side Advisor</p> <hr/>  <p>PROVIDUS</p> <p>has been acquired by</p>  <p>DTI</p> <p>a portfolio company of</p>  <p>HP HARVEST PARTNERS</p>	<p>Sell Side Advisor</p> <hr/>  <p>Addison Group</p> <p>has been acquired by</p>  <p>addisonsearch</p> <p>a portfolio company of</p>  <p>LAKE CAPITAL</p>	<p>Sell Side Advisor</p> <hr/>  <p>EXTRINSIC LLC EXCEPTIONAL IT SOLUTIONS</p> <p>has been acquired by</p>  <p>BG Staffing</p> <p>a portfolio company of</p>  <p>TAGLICH PRIVATE EQUITY LLC</p>

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