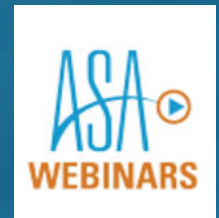


Welcome to Today's Webinar

Staffing Mergers and Acquisitions in 2022: The State of the Market

Tuesday, May 26, 2022, 2 p.m. Eastern time



Please note that the audio will be streamed through your computer—there is no dial-in number. Please make sure to have your computer speakers turned on or your headphones handy.



American Staffing Association

Closed Captions

The image displays two screenshots of a video player interface, illustrating the process of enabling and interacting with closed captions. Both screenshots feature a dark control bar with icons for Chat, Raise Hand, Q&A, and Live Transcript (marked with 'CC').

In the top screenshot, a context menu is open over the 'Live Transcript' button, listing options: Show Subtitle, View Full Transcript, and Subtitle Settings... The subtitle text, "Good afternoon I'm Emily Lawson director and certification for", is visible and circled in red.

In the bottom screenshot, the 'Show Subtitle' option is selected, and the subtitle text is now displayed directly on the video area, also circled in red. The context menu remains open, showing the other options.

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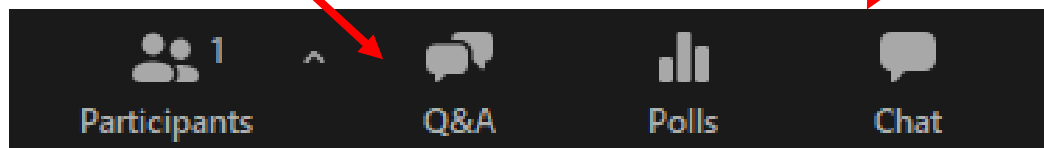
Ask a Question, Engage With Other Attendees

Q&A

Type your questions for the panel into the Q&A box

Chat

Start a conversation—say hello. Engage with panelists and other attendees.



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Today's Presenters



Paul Pincus

Partner, Head of Mergers and Acquisitions
Ortoli Rosenstadt LLP



Paul Mehring

Co-President, New Business and Underwriting
Access Capital



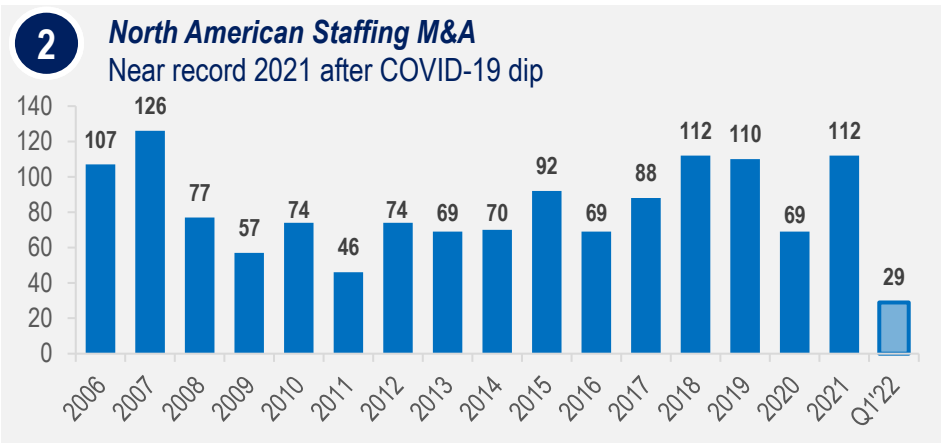
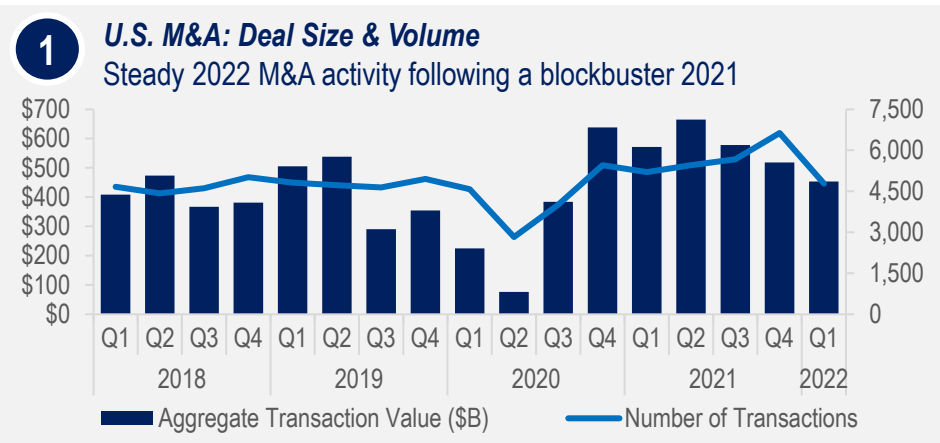
Andrew Brown

Managing Director, Consulting and Technology Services
Fairmount Partners

Agenda

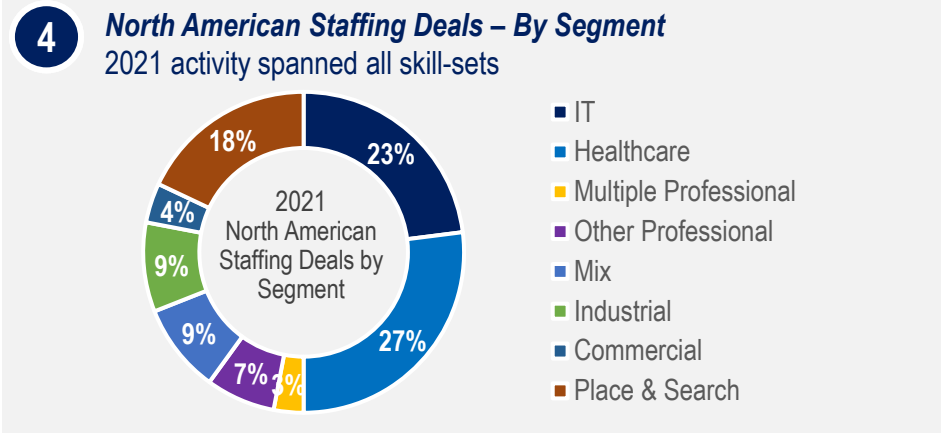
- The current M&A Landscape
- Who are the Buyers, what Sectors are Hot, and What's Driving Deals
- What is the Financing Market and How is that Impacting M&A
- Maximizing Value and Preparing for a Successful Outcome
- How are Deals being Structured and Priced
- What Financial Diligence do Lenders Undertake in Credit Underwriting
- Common Seller / Buyer Mistakes to Avoid
- Looking Ahead in 2022

The Current M&A Landscape



3 Private Equity's Emergence in the Staffing Industry
Significant uptick in PE platforms over past 5+ years

3i PARTNERS, FFL PARTNERS, Graphite Capital, H.L.G. CAPITAL, infined partners, LGP | LEONARD GREEN & PARTNERS, LITTLEJOHN & Co., MIDOCEAN Partners, MILL ROCK CAPITAL, NMS | CAPITAL, ODYSSEY PARTNERS, Olympus PARTNERS, QUILVEST, RENOVUS CAPITAL, RFE, RLH Equity Partners, SHOREVIEW, STONE POINT CAPITAL, Trilantic NORTH AMERICA, TPG, WESTVIEW CAPITAL PARTNERS

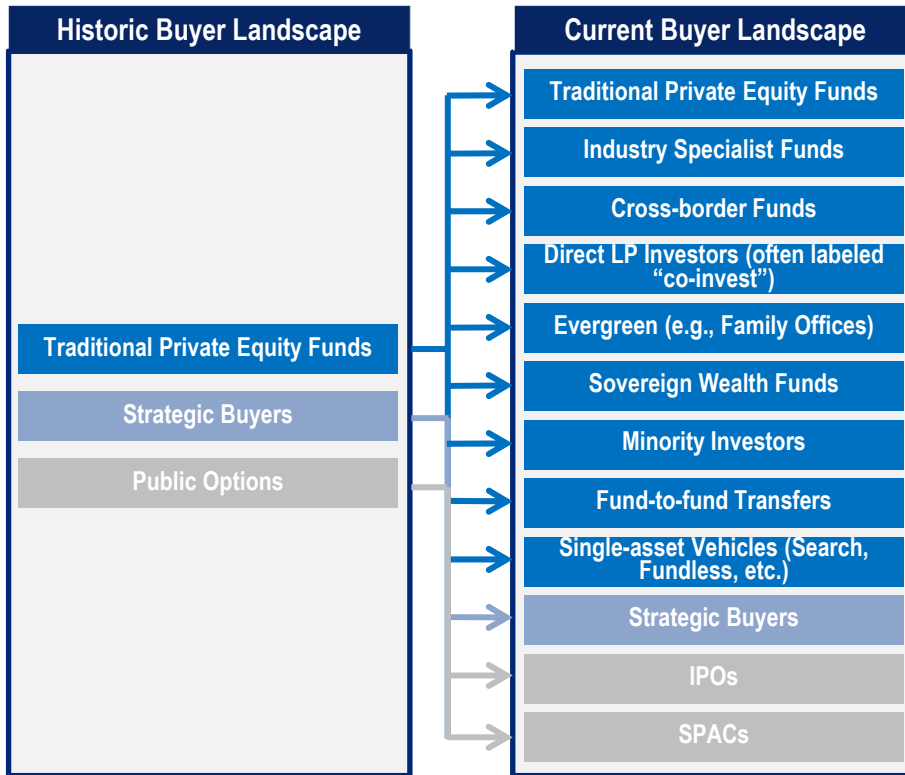


Sources: Staffing Industry Analysts, Capital IQ, Fairmount Proprietary Data.

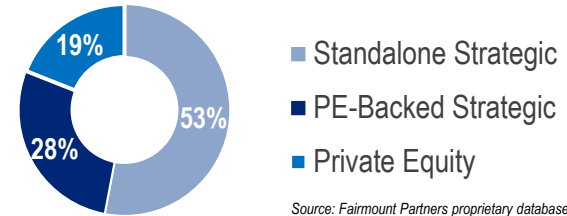
Market Participants

Increasing complexity in menu of choices, particularly from private equity

M&A market has evolved and matured in recent years and provides a multitude of options available to potential sellers – all with positives and negatives to balance



Breakdown of Staffing M&A by Buyer Type (LTM as of Mar. 2022)



Staffing M&A Highlights

Date	Target	Buyer	Transaction Type
Mar-22	VOLT	A&S SOLUTIONS	Pure strategic buys public strategic
Mar-22	rocketpower	Kelly	Pure strategic buys strategic
Feb-22	LaSalle Network	infinid partners	Private equity firm buys independent
Jan-22	Addison Group	Trilantic NORTH AMERICA	PE-backed trades to new sponsor
Jan-22	Corestaff SERVICES	swipejobs	Strategic buys from public strategic
Dec-21	OPTOMI	FFL PARTNERS	Private equity firm buys independent
Sep-21	Cella	randstad	Pure strategic buys strategic
Jul-21	OXFORD	H.I.G. CAPITAL	PE buys from public strategic

What is the Financing Market and How is that Impacting M&A?

- Strong debt markets remain with an abundance of capital at both public and private lenders
- Use of leverage (third party financing) allows for better return on equity for buyers by using less of their own capital
- Larger return on equity contributes to increased purchase prices
- Lower interest rates improve return on equity for buyers
- Leverage ratios typically range from 3:1 to 5:1, meaning using debt equal to 3-5 times EBITDA
- Financing for acquisitions is typically structured to be repaid in 5 years by either:
 1. Interest only with principal due at the maturity,
 2. Interest plus percentage of agreed upon excess cash flow reduces principal, or
 3. Interest plus straight amortization of principal

Maximizing Value and Preparing for a Successful Outcome

Key factors that impact valuation

Focus on the positives that build valuation...

Growth: good is >10%; very good is >20%; great is >30%+

Strong leadership team: strong market positioning

Absolute size: larger companies get higher multiples

Access to marquee clients: "new logos"; potential cross-selling opportunities

Hitting your projections: builds momentum and credibility

Preparation: audit, Quality of Earnings ("QoE"), double-check the details, etc.

Run a controlled auction: typically gets 20-25% more value

...while mitigating risk areas that reduce value

Client Concentration

Ongoing litigation

Buyer appetite related to revenue mix

Retention of management and key staff

Leadership / shareholder disconnect

Performance perceived to be "too good to be true" (or sustained)

How are Deals being Structured and Priced

- Deals are done on a “cash-free, debt-free” basis and generally valued as a multiple of the sellers’ trailing 12 months EBITDA
 - The purchase price includes an agreed upon normalized level of working capital that the sellers will be expected to leave in the business at closing
- Purchase price is typically a combination of cash at closing, a 1-2-year earnout and/or seller’s notes, but can be all cash at closing (in larger deals and depending on the buyer). Payment terms are no longer negatively impacted by COVID
- An increasing number of deals are with private equity buyers. They are usually structured as a combination of cash at closing and rollover/retained equity (and possibly an earnout)
- Larger deals increasingly utilize Reps and Warranties Insurance (transaction insurance)
- Deals are generally structured as a sale of stock/equity or assets
 - Deal structure is initially determined by the buyer at the outset of the transaction based on (1) the efficiency of getting the deal done, (2) liability risks, and (3) tax considerations
 - Most deals are stock/equity sales, with an IRC 338(h)(10) tax election if the sellers’ business is an S corporation and 80% or more of the sellers’ stock is being purchased
 - Note: the buyer selected deal structure may have negative liability and tax consequence for the sellers

What Financial Diligence do Lenders Undertake in Credit Underwriting?

- Lender's diligence is fairly consistent with the buyer's diligence
- Quality of Earnings
 - Revenue analysis
 - Anything non-recurring
 - Gross margin validation trends
 - Customer concentrations
 - EBITDA addbacks
 - Operating expenses
 - Working capital and balance sheet analysis
- Sensitizing forecasts
- Monthly Key Performance Indicators maintained by management to review current operating trends
- Economic outlook in the particular staffing sector and their client's industries served
- Credit rating of customers
- Quality of management
- Similar diligence on buyer if strategic buyer versus financial buyer



Common Seller / Buyer Mistakes

Common seller / buyer mistakes

Common Seller Mistakes

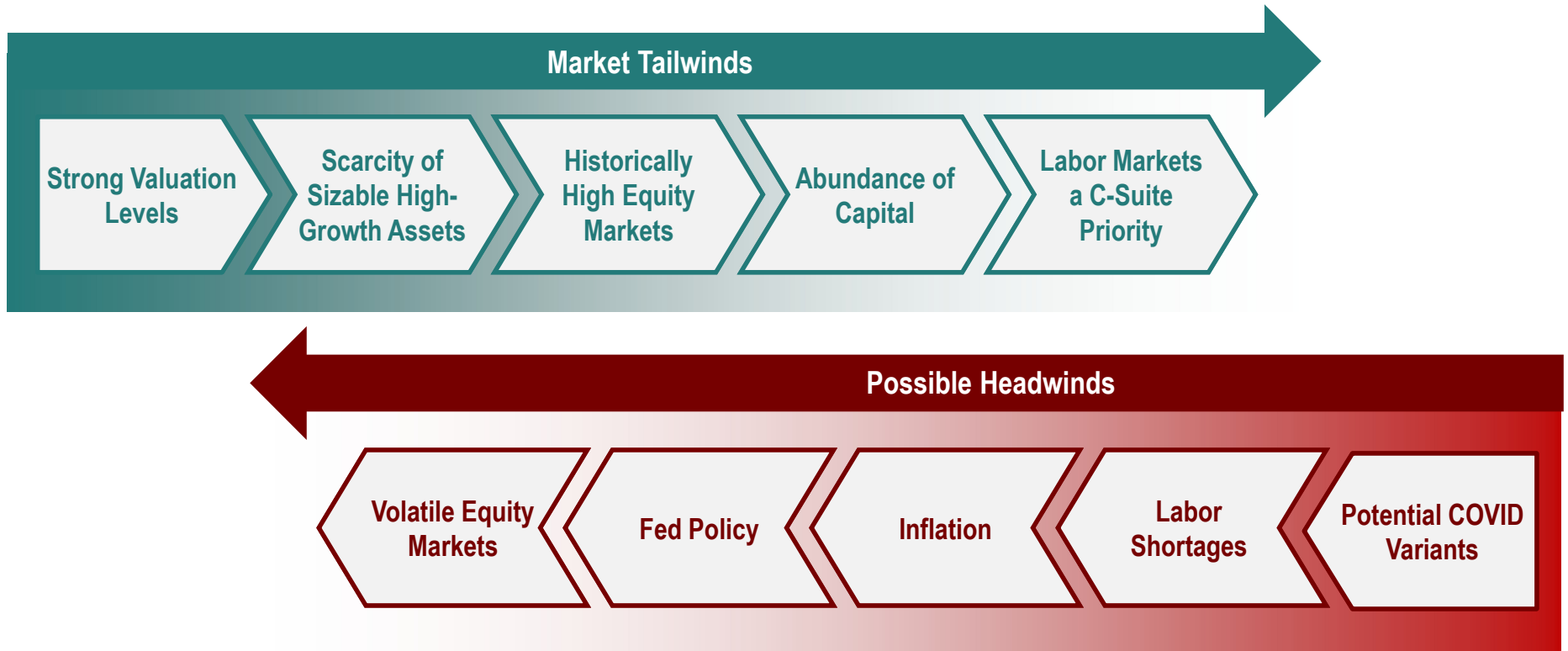
- Going to market too soon / too late
- Not building a strong management team to run the business
- Not having realistic expectations
- Negotiating only with a buyer who makes direct contact
- Not engaging the proper professionals (or engaging them too late)
- Not being sufficiently organized / having proper financials
- Not having a dedicated person to oversee the deal
- Not structuring earnouts properly
- Allowing the process to drag out

Common Buyer Mistakes

- Not engaging experienced industry professionals who know how deals should be priced / structured, and will prepare documents / negotiate consistent with market norms
- Not understanding the most tax efficient way to structure a transaction
- Not doing sufficiently thorough due diligence (sales tax, nexus issues, misclassification, etc.)
- Not doing sufficient integration planning
- Not being mindful of cultural fit / alignment of values
- Allowing the process to drag out

Balance of 2022

Continued Healthy Activity in 2022; however, headwinds exist





Questions?



Thank you!



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to a brief survey**