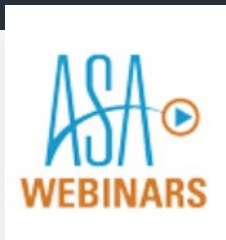


Welcome to Today's Webinar

Keys to Preparing for a Successful M&A Transaction

Thursday, Sept. 12, 2024, 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



UI control panel for a video player. It features a dark grey bar at the bottom with three icons: a hand for 'Raise Hand', two speech bubbles for 'Q&A', and a 'CC' icon for 'Live Transcript'. A mouse cursor is hovering over the 'Live Transcript' button. A dark grey menu is open above the 'Live Transcript' button, containing three options: 'Show Subtitle' (highlighted in blue), 'View Full Transcript', and 'Subtitle Settings...'.

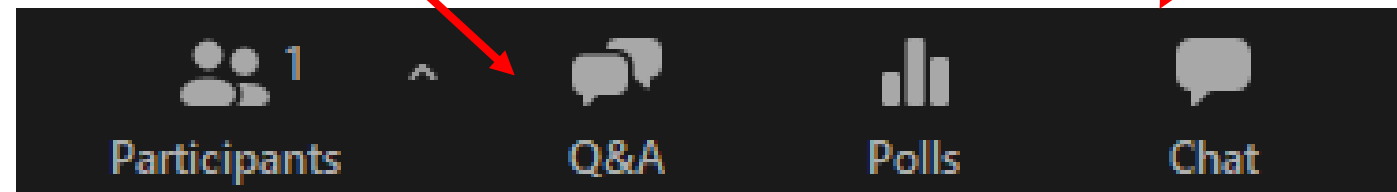
Ask a Question, Engage With Other Attendees

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.





ASA Certification Continuing Education

Today's webinar qualifies for 1.0 CE hour

- **Live webinar:** **NEW as of April 2024**—CE credits earned from attending this program are *automatically* added to your online CE Status within three business days.
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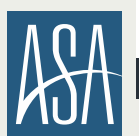
USE PROMO CODE:

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Today's Presenters



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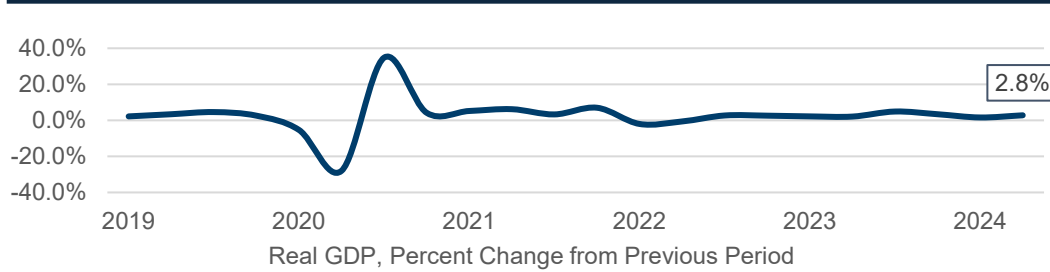
managing director
Founders Advisors
nengland@foundersadvisors.com

Agenda

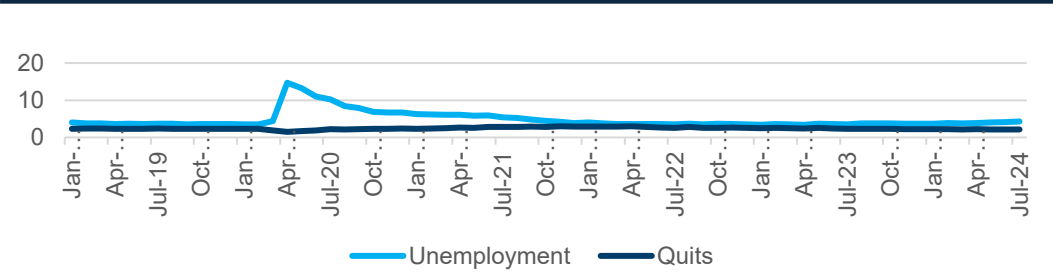
- Current Market Conditions and 2025 Outlook
- What Buyers are Looking for when Acquiring a Staffing Company
- Valuation Drivers
- Keys to Preparing your Business for a Transaction
- Common Transaction Structures
- Keys to Maximizing Earnouts and Other Deferred Payments
- Final Thoughts

Staffing Market Trends and Key Indicators

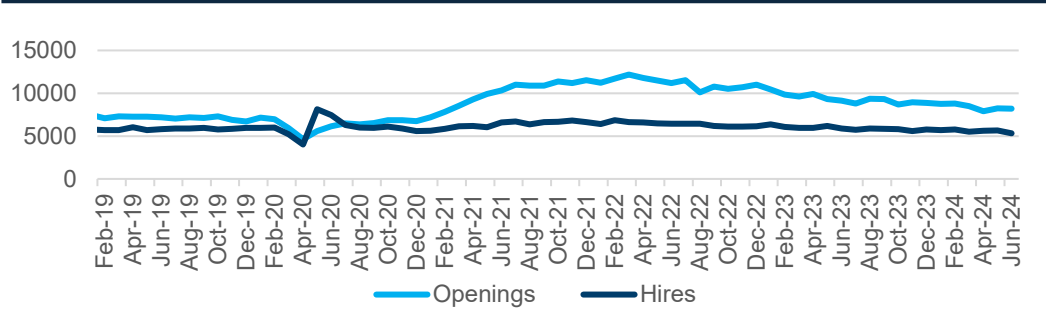
U.S. Gross Domestic Product (GDP)



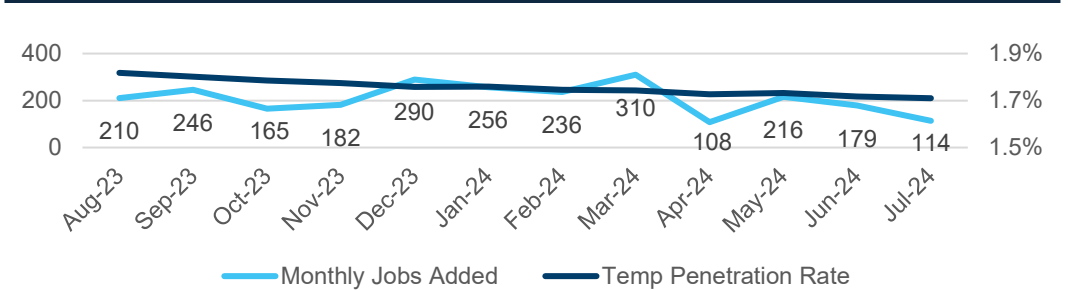
Unemployment (UE) & Quits Rates (%)



Job Openings and Hires (Thousands)



BLS Jobs Report (thousands)* and Temp Penetration Rate



Job Postings on Indeed

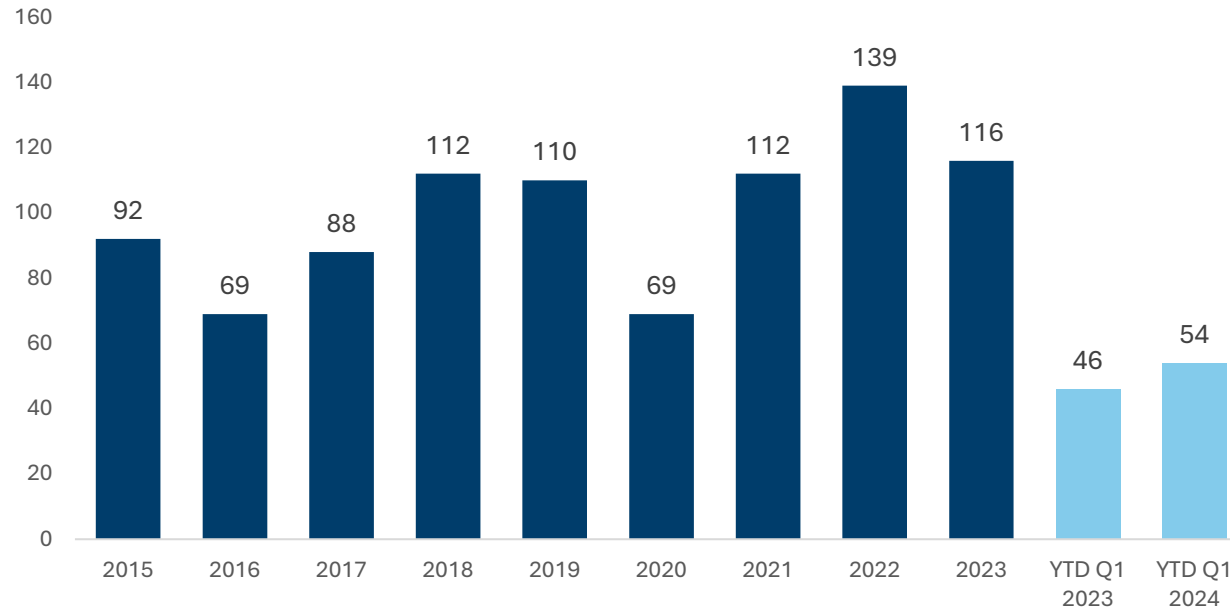


Sources: Trading Economics, BLS, FRED

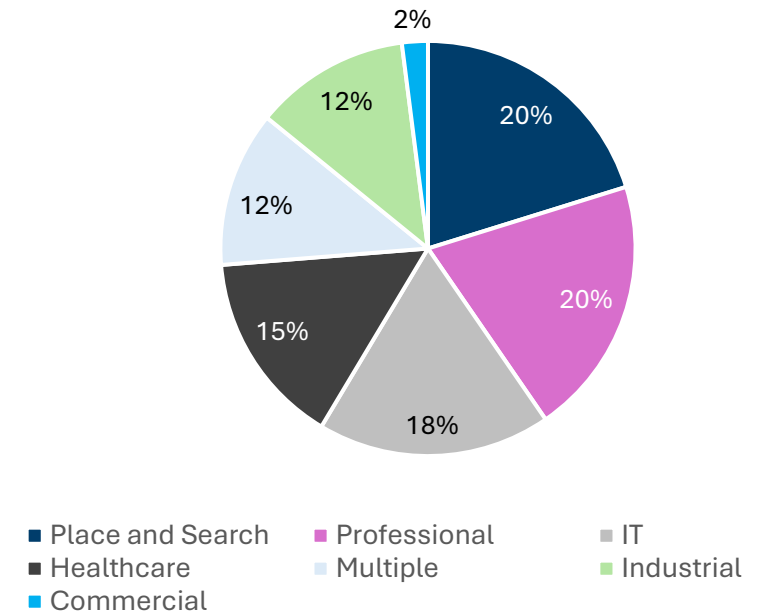
*The Labor Department issued revised figures this week showing that the U.S. added 818,000 fewer jobs than previously reported

North American Staffing M&A Transaction Activity

Staffing M&A Deal Volume



TTM Deals by Sector



Total Staffing Transactions
Recorded in Q1 2024

54

YTD 2024 Growth vs. YTD
2023

17.4%

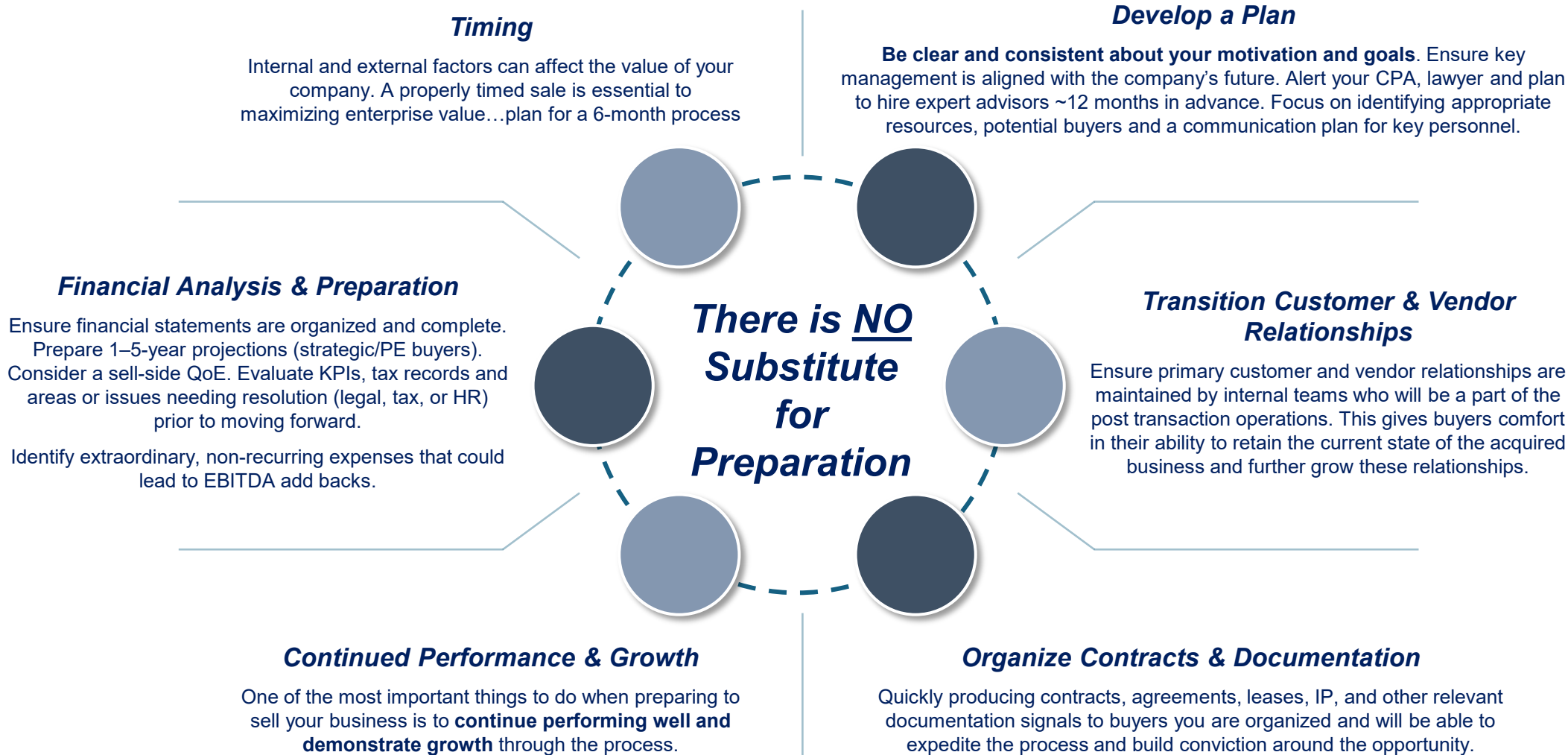
YTD Acquisitions Completed
by Strategic Acquirers

94%

Valuation Drivers for Staffing Companies

	EBITDA Multiple						Importance and Focus
	4.0x	5.0x	6.0x	7.0x	8.0x	9.0x	
Financial Preparedness	Consistent reporting, ability to analyze at the customer level, GAAP → quality of earnings + full audit is likely with investors						
Revenue Growth	< 10%			> 15%			Total Revenue Growth
Gross Margin	< 15%			> 25%			Gross Margin reflects the scalability of a company, as well as the value of its services
EBITDA Margin	< 5%			> 12%			Ability to generate free cash to continue growth in the business
Direct Hire Revenue % of Total GP	> 20%			< 20%			Too much direct hire revenue causes devaluation risk by buyers
MSP / VMS % of Revenue	> 25%			< 25%			Building relationships directly with hiring managers is sought after from buyers
Customer Concentration	> 40% for Top Customer			< 50% for Top 5 Customers			Projects will flex up; however, you still don't want to be overly concentrated with one customer
Management Team	Proven management teams willing and capable to lead the enterprise with a new buyer post transaction						
Recruiters	Industry specific experience and/or well-tenured with networked connections in the temporary candidate communities						
Sales	A proven sales model with established processes and well-tenured teams networked to prospect/client industries						
Net Promoter Score (NPS)	Company should track successes with surveys, Glassdoor, and maintain their NPS						
Other	Assignment duration, client quality and tenure, experience of management team, DSO, lack of key man risk, and W2/1099/C2C						

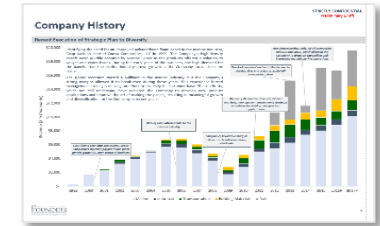
Preparation Overview



Stages of Execution (Plan for a ~6-month process)

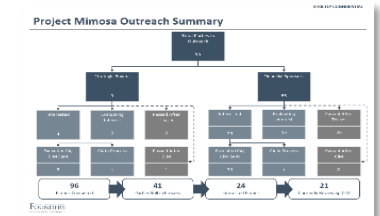
I Preparation (~6 weeks)

Preparing your business for a sale or growth capital investor requires careful planning, organization, and attention to detail. By taking the time to assess your organizational health during preparation, you can significantly enhance the value of your business, attract potential buyers, and reduce potential scrambling at the last minute.



II Marketing (~6 weeks)

Once preparation has been complete, Companies will move towards execution of a marketing process. Marketing Materials completed in the preparation phase will facilitate conversations with potential buyers and drive interested parties towards an offer on the business.



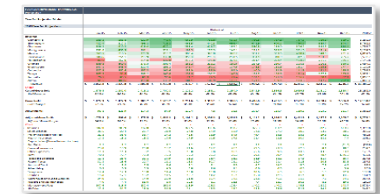
III Diligence (~6 weeks)

Front-end preparation is essential in positioning owners and businesses well to efficiently navigate and produce due diligence materials. Diligence production can impact a process very positively or negatively: (i) efficiently providing requests can build further conviction for the buyer or (ii) cause timing delays and potential skepticism for the buyer.



IV Purchase Agreement Negotiation and Closing (~8-10 weeks)

Once you have identified the preferred buyer the negotiation of a purchase agreement will be worked through in parallel with due diligence. Understanding where your risk areas are in preparation allows owners to protect themselves appropriately and limit the holdback amount on purchase price proceeds.



Presale Legal Audit (Before Going to Market)

Identifies and ameliorates legal problems and vulnerabilities that may exist within the business

- Compliance of corporate records
- Pending or threatened litigation
- Existence and quality of management retention agreements
- Enforceability of non-compete / non-solicit agreements
- Misclassification of employees and independent contractors
- Compliance of employment law practices and forms
- Non-market terms in customer and supplier contracts; anti-assignment / change of control clauses

Common Transaction Structures

1 Balance Sheet

- Cash-free, debt-free at the time of closing
- Adequate net working capital – which includes current assets minus current liabilities, less cash and debt – transferred to the buyer at closing

2 Purchase of Equity or Assets

- Deals are typically structured as a purchase of equity (stock or LLC membership interests) or assets; structure is based on:
 - Efficiency of getting the deal done
 - Liability risk
 - Tax consequences
 - Deal dynamics / competition
- Deal structure and tax elections may have negative liability and tax consequences to the either side and require early attention

3 Other Considerations

- Buyers and investors typically want sellers to sign a detailed Letter of Intent (LOI) to assure there is a meeting of the minds on all key business issues
- Buyers and investors typically want (and expect) senior leadership to stay on and drive the business forward; the required length of that commitment depends on the buyer and situation
- Transaction escrow surviving through one audit cycle (absent major issues) or Representations and Warranties insurance (commonly replacing escrows)
- Shareholders, managers and other key employees will be expected to sign non-compete and non-solicit agreements

Private Equity Recapitalizations

- Recapitalizations can be minority recaps or majority recaps (most common)
- Majority recaps generally require the owner to roll over or retain a 10 - 30% ownership interest for 3 -5 years after closing
- Not for everyone
- Greater risks and potential rewards
- Requires thorough due diligence of the buyer, including its “track record” in prior deals and management approach. The buyer will become the seller’s partner until a future exit event
- Process is more complicated, expensive and time-consuming, and requires negotiation and signing of operating/contribution agreements that will address:
 - How the seller’s business is run after closing
 - Will there be rollover equity in a holding company of the buyer or retained equity in the selling entity. How will the rollover equity or retained equity be valued at the time of a future exit by the buyer
 - Possible put and call options if the seller’s employment terminates before a future exit event
 - Control and timing of a future exit event
- Transactions must be carefully structured to defer taxes on rollover or retained equity
- Long-term employment agreements will need to be negotiated and signed that will include termination for cause provisions

Maximizing Earnouts and Other Deferred Payments

Earnouts

- Limit the duration of the earnout period (ideally 1 year vs. 2 or more years)
- Structure the earnout based on post-closing Gross Profit (rather than EBITDA over which the buyer has control)
- Do not limit the earnout only to customers with active assignments at closing and the temporary employees on those assignments (include future customers, future assignments from existing or future customers, and other current or future temporary employees on current or future assignments)
- Avoid all or nothing cliff payments
- During the earnout period, the buyer should maintain separate financial records of the seller's business
- Try to obtain protective provisions limiting how the buyer will operate the seller's business during the earnout period, such as:
 - Not terminating certain critical employees without cause
 - Requiring the buyer to operate the business in good faith and in a commercially reasonable manner
 - Limiting the buyer's ability to micro-manage the business and make fundamental changes that would negatively impact Gross Profit, without the seller's consent
 - Accelerating earnout payments upon a change of control of the buyer

Deferred Guaranteed Payments

- Should be evidenced by an interest-bearing promissory note
- Note might be guaranteed or collateralized
- Note should provide for acceleration and penalties in the event of specified defaults

Rollover or Retained Equity

- Exclude any buyer "call options" based its termination of the owner's employment without cause
- Clarify the valuation of rollover or retained equity in a future buyout
- Structure rollover or retained equity on a tax-deferred basis

Final Thoughts

- Build a strong management team that will stay with the business through the closing and afterwards. Enter into management retention agreements with key employees before going to market.
- 1-2 years before going to market, engage experienced M&A professionals with expertise in the staffing industry to do a business assessment and legal audit. Buyers want clean businesses and don't want surprises during diligence.
- Obtain a sell-side Quality of Earnings (QoE) report from a reputable independent financial firm, which will contain a deep dive into the quality and sustainability of customers and projected business. A QofE can be particularly helpful in providing visibility to buyers and should be done before contacting them.
- Thorough preparation and organized planning is your best friend. It equips you to handle challenges effectively, gives YOU leverage, de-weaponizes buyers/investors, and buys you margin to think carefully and strategically which significantly enhances the likelihood of success.
- Remain open-minded, opportunistic, and embrace change. You don't know what you don't know so be willing to adapt to new ideas and challenges to uncover ways to bridge gaps and achieve mutual and success.



Thank you!



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