

Human Resources services during COVID-19, and what's here to stay

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“Over the past year, COVID-19 has disrupted the economy, forcing HR businesses and dealmakers to focus on the pandemic and revise their strategies. In the European HR market, we expect increasing M&A activity as the top performers are on the lookout for opportunities in areas that were hit hard by COVID-19, while generalist players are keen to expand their specialist services and digital capabilities through M&A.”

TOM VAN DE MEIRSSCHE

OAKLINS' HUMAN RESOURCES EUROPE SPECIALIST

MARKET TRENDS

Working through

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M&A ACTIVITY AND VALUATION TRENDS

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Market trends

IMPACTFUL DEVELOPMENTS IN HUMAN RESOURCES DURING THE COVID-19 CRISIS

INTRODUCTION

The COVID-19 pandemic has seriously affected Europe's labor markets and forced governments around the world to take containment measures that are unprecedented in recent history. At the same time, these governments have undertaken a range of supportive actions to limit the short-term economic impact and enable a fast recovery. Unsurprisingly, this crisis has been shown to have many faces, creating tough conditions for some HR players, while providing tailwinds and opportunities for others. Around the world, countries have set up extensive vaccination programs in order to speed up the reopening of economies. In this Spot On, we shed light on recent market developments, hear what sector leader Brunel foresees will happen in the future, and see how all of this translates into M&A activity and valuation levels in the sector.

COVID-19, A CRISIS WITH MANY FACES

1. Remote work becomes the new normal

While it's not clear what amount of work will be done remotely once the pandemic is under control, it's likely to be higher than what it was before 2020. According to McKinsey's research in "What's next for remote work: An analysis of 2,000 tasks, 800 jobs, and nine countries", four to five times as much work could be done remotely than is happening today. On the same note, Gartner estimates that 30% of all employees worldwide will work remotely, at least in part, by 2024.

2. Lockdowns boost companies' adoption of digitization tools

Whether it be on front-office tools (e.g. job board platforms, screening & selection or training) or for back-office applications (e.g. Zoom or cyber security), companies were forced to increase their pace of digitization to adapt operations to the lockdowns and reduced physical contact.

3. Reduced job mobility

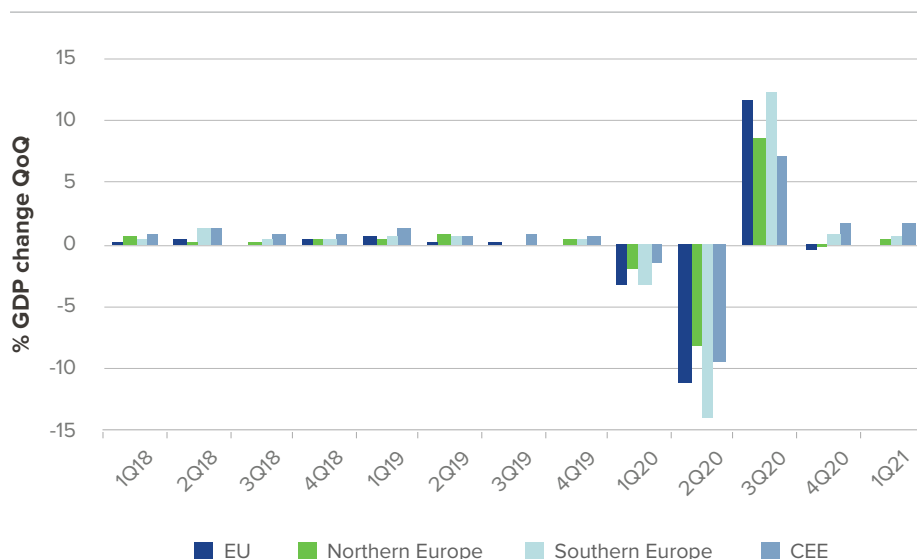
Increased uncertainty made employees less prone to switching jobs. In addition, restrictions on international travel and quarantine measures reduced the availability of foreign workers. The result is that it has become even more difficult to find workers for occupation shortages, such as those in construction. On top of this, as the leisure sector has reopened, employers have encountered difficulties attracting sufficient staff because many people reoriented towards other professions during the crisis.

4. Acceleration of the 'gig' economy

The 'gig' economy covers every type of job from freelancers to short-term workers who are paid per individual job (e.g. Deliveroo, Uber, TaskRabbit, etc.). Platforms that connect gig workers with essential (e.g. care work or food delivery) or remote work (e.g. freelance software development) have seen a further strengthening of their business throughout the pandemic. With 50% of Gen Z workers doing freelance work according to Edelman Intelligence, the gig economy is here to stay... and grow.

FAST RECOVERY OF BUSINESS CONFIDENCE AFTER THE FIRST MONTHS OF THE PANDEMIC IN EUROPE

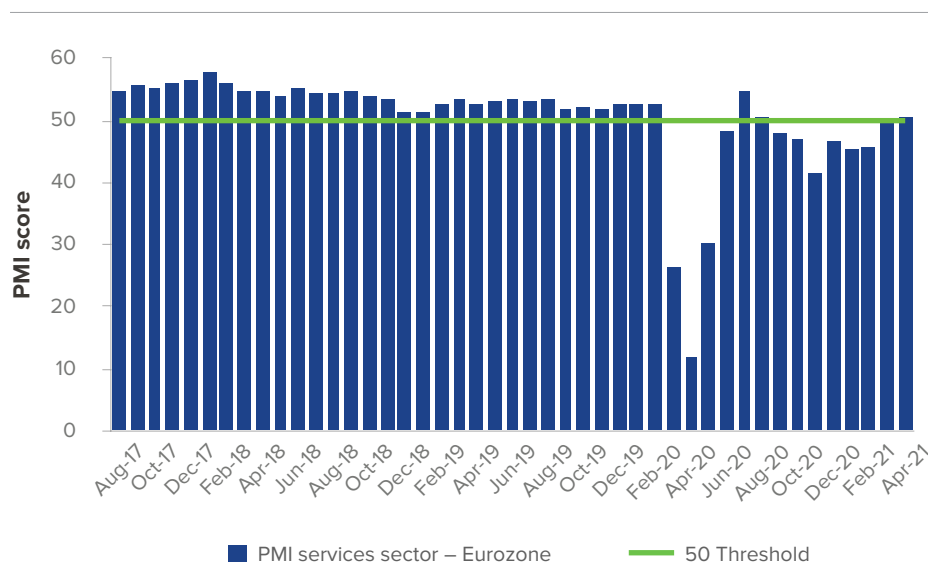
Sharp rebound of GDP across Europe in Q3 2020 shows strong economic resilience



With the outbreak of COVID-19 in most of Europe during the second half of Q1 2020, GDP decreased in Q1 and Q2 2020 by, respectively, 3.3% and 11.2% quarter-over-quarter (QoQ) in the European Union. Supportive government measures and economic resilience led to a sharp rebound in economic growth to 12.5% QoQ in the EU in Q3 2020. Q4 2020 and Q1 2021 showed slight decreases in GDP of 0.5% and 0.4% in the EU, with economies not yet fully reopened because of containment measures. As vaccination strategies gain more momentum and a subsequent normalization of the situation becomes more apparent, the IMF expects 4.4% real GDP growth in the EU in 2021 and 3.9% in 2022.

Source: Eurostat, IMF, FactSet

PMI services sector – the eurozone recovered fast but short-term uncertainty remains



Business confidence recovered quickly after the first initial drop to historic lows following the outbreak of COVID-19 in Europe. While the second half of 2020 was still a period characterized by uncertainty around the duration and economic impact of the crisis, PMI figures started to gradually increase in March and April 2021.

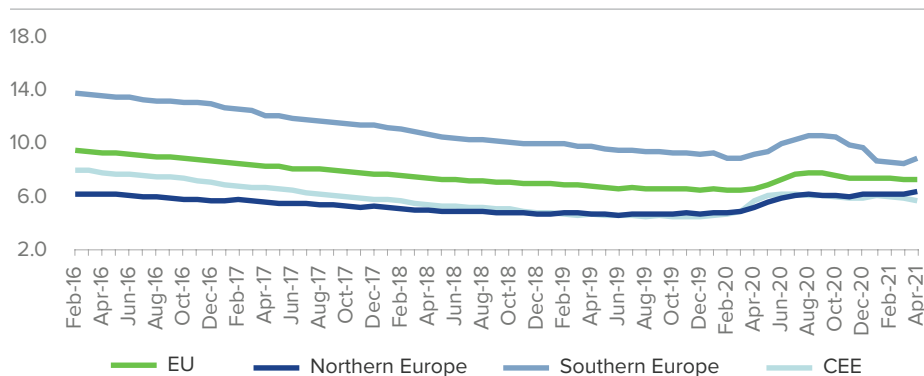
With vaccination programs up to speed and more clarity on timing, company executives were rather optimistic about the business outlook at the end of April 2021.

Source: Eurostat, IMF, FactSet

Note: Quarterly GDP change per region is calculated as the simple average of quarterly GDP growth per country compared to the previous quarter.

EXTENSIVE GOVERNMENT MEASURES HAVE LARGELY PROTECTED EMPLOYMENT

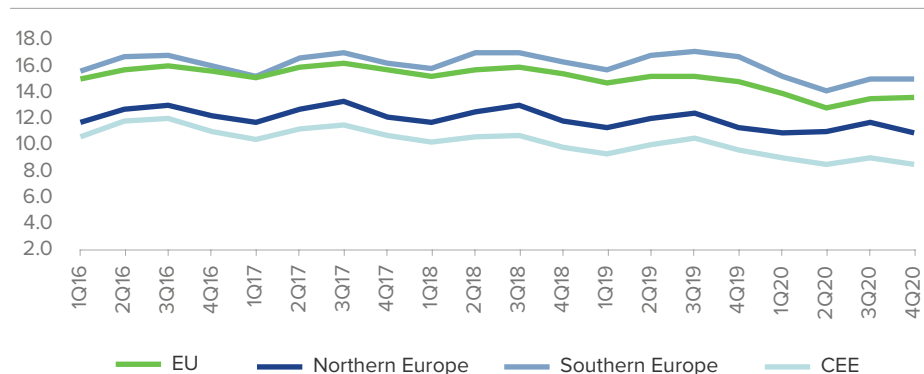
Unemployment (in percentage)



Source: Eurostat

After years of decreasing unemployment rates in Europe, COVID-19 reversed this trend over the first half of 2020. While southern Europe saw the highest increase in unemployment caused by COVID-19, it was also the region to recover the fastest, returning to pre-COVID-19 levels of 8.5% in March 2021.

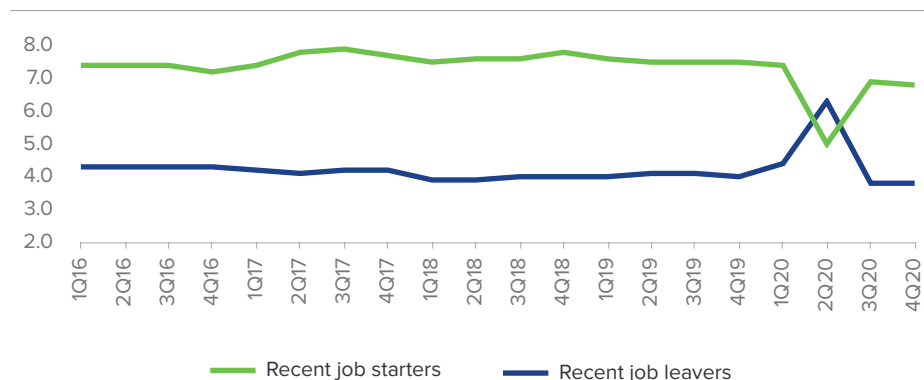
Temporary work rates (in percentage)



Source: Eurostat

In Q2 2020, 19.2 million people were employed on temporary work contracts. This represented a decline from 22.2 million in Q4 2019 and 21.5 million in Q1 2020. The decrease in temporary workers corresponded to 80.5% of the total decrease in employment. The only EU member states that saw an increase in temporary work contracts in Q2 2020 were Denmark and Lithuania.

Job starters and leavers in the European Union (in millions)



Source: Eurostat

The number of recent job starters had, up to Q2 2020, always outnumbered the recent job leavers in the EU, even during the financial crisis. During Q2 2020, we saw a sharp decrease in job starters, to a historic low of 5 million, while job leavers rose to a historic peak of 6.3 million over the quarter. During Q3 2020, the gap between job starters and job leavers once more recovered to historically normal levels of around 3 million, although both the number of starters and leavers was still approximately 500,000 lower than Q1 2020.

Note: Unemployment and temporary work rates per region are calculated as the simple average of each labor indicator per country.

Spotlight: Brunel's assessment on the impact of COVID-19 and what's to come

Brunel International N.V. is a global provider of flexible specialist workforce solutions. Brunel delivers tailor-made solutions for recruitment, global mobility, project management, secondment, consultancy and other related work required by its clients, both on a global scale and at a local level. The company connects the most talented professionals with leading clients in oil & gas, renewable energy, future mobility, mining, life sciences and infrastructure. Headquartered in the Netherlands, it operates over 100 branches in over 40 countries worldwide. In 2020 Brunel realized a turnover of US\$1,017.3 million and EBIT of US\$32.8 million.

Oaklins interviewed Peter de Laat, CFO of Brunel, to learn how COVID-19 has impacted industry leaders like them and what their expectations are for the coming years.

Q&A

How did COVID-19 impact your business the most and what actions have you taken to mitigate this impact?

Peter de Laat: Our top priorities were to protect our employees and the continuity of the business. A sizable part of our business comes from clients' investment cycles, such as R&D in automotive or asset renewal in oil & gas. Temporary freezes of these projects subsequently hit us. At the start of the

crisis, we performed scenario analyses on our cash position and found comfort in the fact that, even in a worst-case scenario, Brunel would get through this crisis thanks to its strong balance sheet. At the same time, these scenarios formed the basis for determining which cost reduction measures had to be taken in order to protect our bottom line in each case. In addition to cost containment, we identified key priority areas for investment in order to speed up growth: life sciences, renewables, oil & gas (value-add), and engineering.

International travel restrictions have caused a sharp decrease in international labor mobility. This led to clients looking to source talent locally, allowing us to tap into new talent pools. The reopening of borders and pick-up in international labor mobility will be an important driver of growth for our business.

In what ways do you expect the COVID-19 crisis to have changed your industry for the long term?

Peter de Laat: Being able to attract sufficient talent is the key constraint on growth for Brunel. Globally, there is a large discrepancy in location between where engineering and IT capabilities are in demand and the supply of talent. Sizable pools of talent are concentrated in Asian countries, like China and India, while in the regions where there is demand for these talents (Western Europe and North America), there is a



PETER DE LAAT

CFO

Brunel

structural shortage of such profiles. While COVID-19 has led to the broad adoption of remote working where possible, international labor mobility will remain essential for meeting client demand.

While clients' investment projects were put on hold at the start of the crisis, we believe they will pick up fast once the situation normalizes. In several of our client verticals, structurally increasing investment budgets are expected as a result of sector innovations (e.g. electrification in automotive, renewables) or the need for asset renewal and expansion (e.g. in oil & gas, where investments have been subdued for several years while global demand is increasing).

What are the key strategic challenges your company is facing?

Peter de Laat: Finding the right people in the right location is the most important challenge. In that context, employer branding is very important to be able to attract and retain sufficient talent. While salary is one aspect, other factors such as the quality of projects, room for personal development and training, and working environment are at least as important. For this reason, in recent years we have allowed our consultants to rotate projects faster if they wish to do so, in order to offer a continuous learning environment.

In which ways has COVID-19 impacted your M&A agenda, and do you expect a lasting effect on M&A in the sector?

Peter de Laat: Doing acquisitions on other continents, in particular Australia,

has become difficult due to travel restrictions. While our M&A agenda has not changed because of COVID-19, we do notice a lower level of M&A activity on the market nowadays.

What are your expectations in terms of M&A activity in the industry in the coming years?

Peter de Laat: The bright prospects for the specialty staffing market of highly educated talents, particularly in engineering and IT, have also attracted the interest of financial investors. The latest examples of this are the takeover bids launched on DPA Groep and ICT Groep in the Netherlands, by, respectively, Gilde Equity Management and NPM Capital. We expect this to lead to further consolidation in the market and increased competition in M&A processes.

The bright prospects of the sector have attracted interest from financial investors, which will likely lead to further consolidation and increased competition in M&A processes.



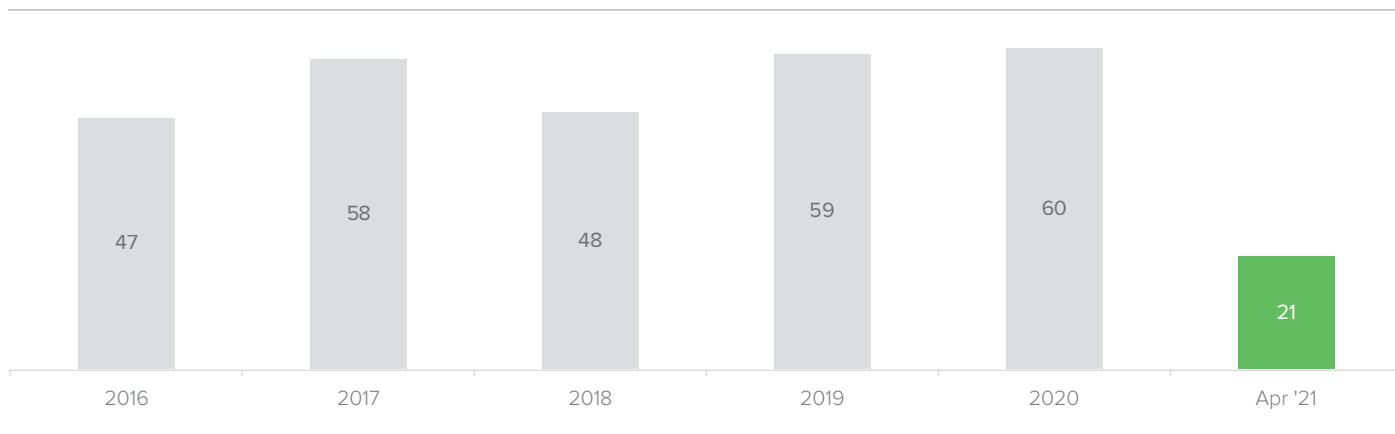
M&A activity

M&A ACTIVITY IN THE SECTOR REMAINS STRONG ACROSS EUROPE

Despite having been a difficult year for the sector, European M&A activity in the HR sector remained at high levels in 2020, with 60 transactions. Unsurprisingly, deal activity was more back-end loaded, and predominantly among targets with little to no exposure to sectors hit hard by the COVID-19 crisis (e.g. leisure and hospitality). We have seen this recovery trend continuing in 2021, with 21 transactions by the end of April.

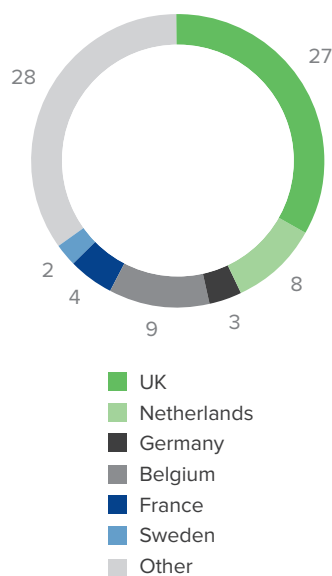
In terms of target geographies, the countries with the highest temporary work penetration rates continued to show the highest activity levels. The United Kingdom saw a high number of HR technology and software transactions in 2020, mostly in Europe. In addition, as indicated by Peter de Laat, CFO of Brunel, 2020 saw increased activity by private equity and private equity-backed companies (included in the 'Strategic' category in the Geographic & Investor type split graph below) in the HR sector.

M&A activity remained high despite economic setback



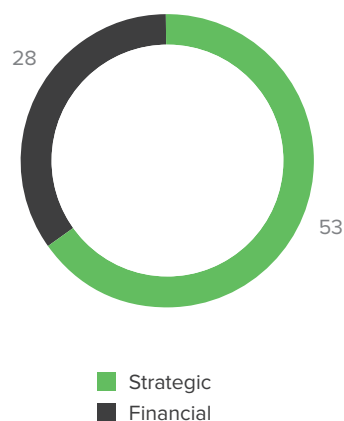
Source: Mergermarket

Geographic by target country (2020–Apr 2021)








Source: Mergermarket

Investor type split (2020–Apr 2021)



Source: Mergermarket

SELECTED M&A TRANSACTIONS

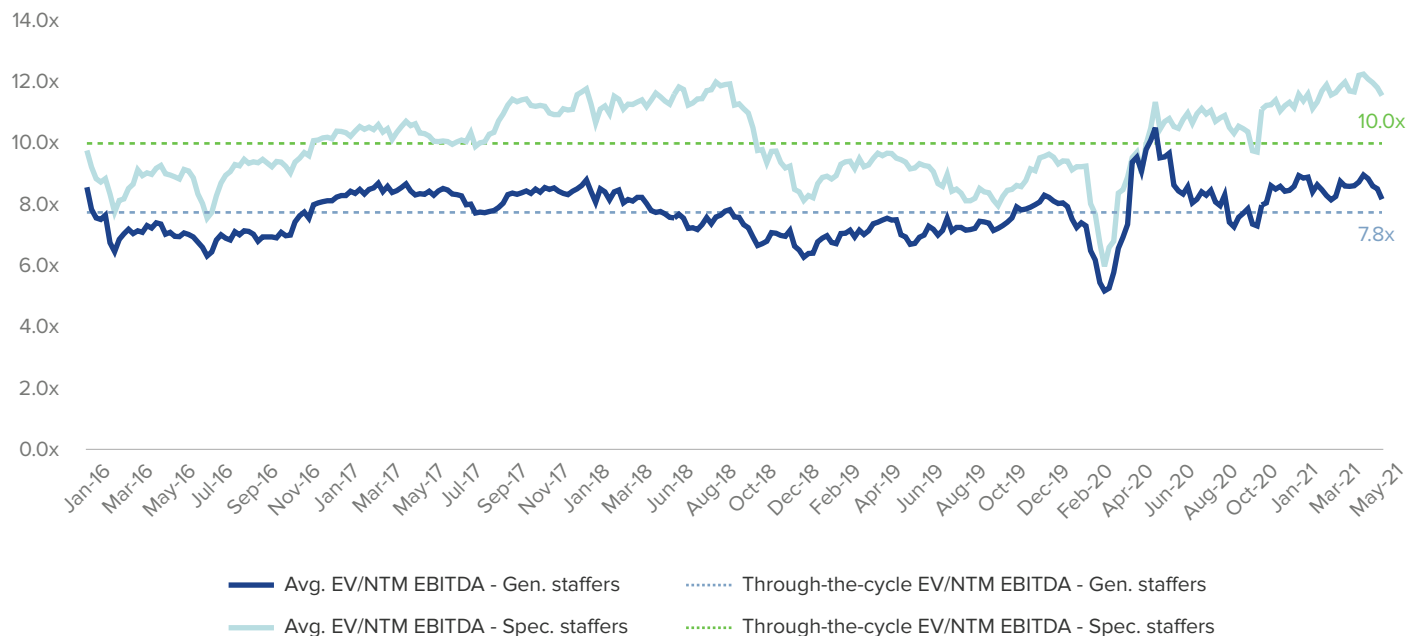
Date	Target	Buyer	Country	Description	Valuation			
					EV (€m)	EV/ Sales	EV/ EBITDA	EV/ EBIT
Apr-21	Avanti	House of HR		Germany-based company that provides healthcare staffing solutions	N/A	N/A	N/A	N/A
Mar-21	Work Service	Gi Group		Provider of a range of human resources services	154.0	N/A	N/A	N/A
Mar-21	ICT Group	NPM Capital & Teslin Capital		ICT Group is a Netherlands-based company providing project staffing and IT consulting, specializing in embedded software	159.5	1.0x	23.9x	8.3x
Mar-21	DPA Group	Gilde Equity Management		Provider of professional recruitment and selection services for companies, governments and non-profit institutions	79,8	0.6x	3.6x	13.1x
Jan-21	Quanta Group	Openjobmetis		Employment agency operating in Italy, active in general temporary work with a focus on aerospace, ICT, naval and energy sectors	26.5	0.2x	4.9x	N/A
Jan-21	Jobs and Talent	Venture capital partners, including ao. Atomico		Digital recruitment company that operates a platform to connect temporary workers with employers	88	N/A	N/A	N/A
Dec-20	Nordic Interim Executive Solutions	Valtus Transition SAS		Sweden-based company engaged in providing project management and recruitment services	N/A	N/A	N/A	N/A
Nov-20	Zarplata.ru	HeadHunter Group		Russia-based online recruitment platform for blue collar and SMA jobs	39	3.3x	N/A	N/A
Nov-20	Pacura med	Bencis Capital Partners		Founded in 2018 and based in Nuremberg, Germany, Pacura med GmbH is a personnel service provider specializing in the medical sector	N/A	N/A	N/A	N/A
Nov-20	CPL Resources	Outsourcing Inc.		Ireland-based employment placement company	254	0.4x	10.2x	9.6x
Nov-20	Between Staffing Group	HeadFirst Group (Kartesia-backed)		Temporary employment agencies, consisting of the brands Between, FastFlex, Yellow Friday and EXPR	N/A	N/A	N/A	N/A
Nov-20	Moment; TeamVikaren; PersonaleBorsen; Protemp	Axcel Management		Group of Denmark-based companies providing temporary and permanent recruitment services	N/A	N/A	N/A	N/A
Oct-20	Hallam Medical Limited	ABN AMRO Group		Company engaged in providing recruitment services to the healthcare industry	N/A	N/A	N/A	N/A
Oct-20	Clear Review Limited	Advanced Business Software and Solutions Limited		UK-based developer of corporate performance review (HR appraisal) software	29	13.9x	N/A	N/A
Oct-20	Centurion Management Systems Limited	ELMO Software		UK-based HR software company	24	N/A	N/A	N/A
Oct-20	Dot Sys	Syntegro		Company engaged in providing HR software solutions	N/A	N/A	N/A	N/A

Source: Mergermarket

Valuation trends

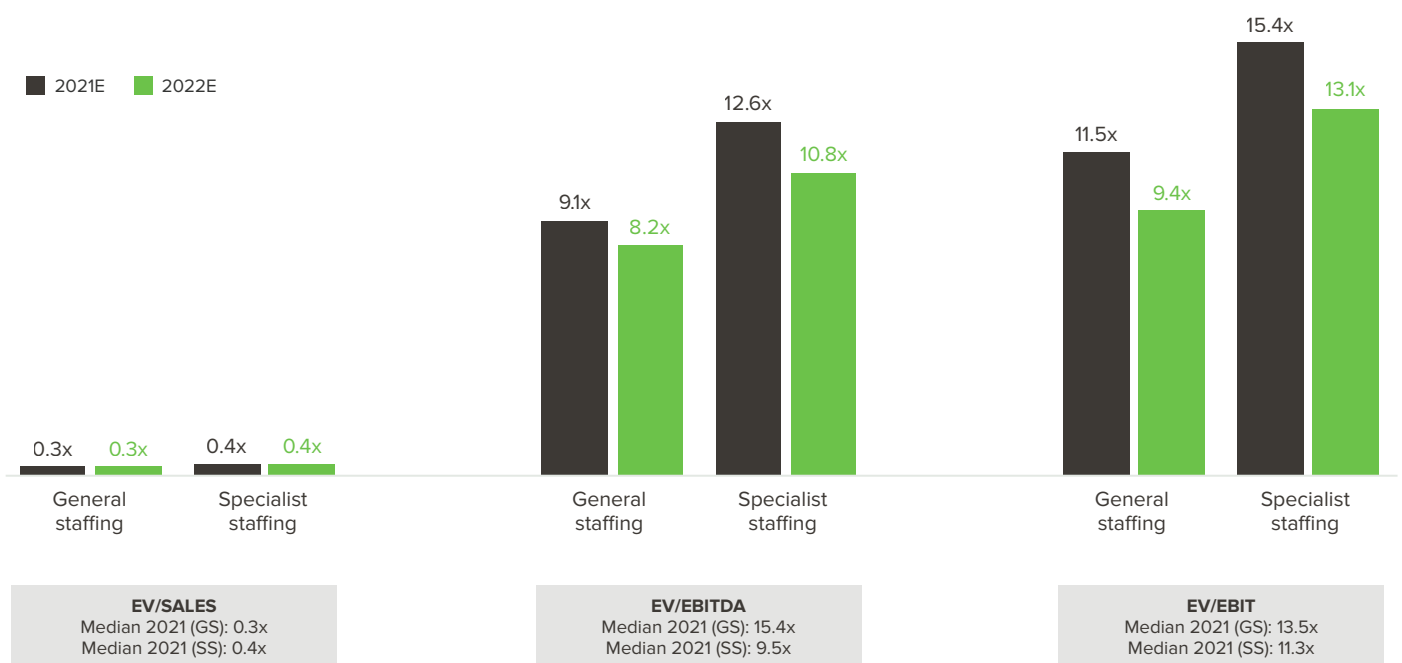
VALUATIONS HAVE RECOVERED SWIFTLY

EV/NTM EBITDA¹



Source: Thomson Reuters Eikon
Note: NTM = next 12 months

Elevated EBIT(DA) multiples for 2021E point towards an expected medium to strong recovery throughout 2021



Source: Thomson Reuters Eikon

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- Corporate finance services

Human resources Europe is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the human resources sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for human resources companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.



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Tom leads Oaklins' human resources team in Europe and is a director at Oaklins KBC Securities in Belgium. He has established high-level contacts with market consolidators, such as House of HR, Proman, Randstad and Brunel, and he advised on the sale of Arcq to House of Talents and the sale of t-groep to Gilde Buy Out.

Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

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