

Prepare for disruption: machines with a human touch

SPOT ON | HUMAN RESOURCES | JUNE 2019

“Historically, the HR industry has been trailing behind in automation and artificial intelligence. However, lots of HR tech communities have been founded recently and a large number of startup HR tech companies are entering the market.”

SOFIE LEMMENS

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THE ENTRANCE OF MACHINES IN A PEOPLE'S BUSINESS (pg.2)

The blend of key soft skills with more analytical capabilities seems to be a winning combination.

SPOTLIGHT (pg.4)

Get Driven, a digital startup with international growth potential.

PUBLIC COMPANY VALUATIONS (pg.6)

A selection of the main players and valuation trends in the human resources sector.

US & EUROPEAN INSIGHTS (pg.8)

Quarterly review on HRM management in the US and high interest in specialist staffers in Europe.

INTRODUCTION

People skills in a people sector will remain relevant and even crucial, but the automation of repetitive and standardized tasks (such as candidate search or gathering preliminary employment data), which is often still performed manually today, will not only improve profitability but also upscale the job content of the recruiter.

Larger (often listed) staffing companies try to invest in startup HR tech companies in order to stay ahead of their competitors. For example, the Randstad Innovation Fund (a strategic venture fund to fuel innovation) has invested in AllyO (development of recruitment software using customizable AI, natural language processing and machine learning), Brazen (hosting of online recruiting and networking events, leveraging a timed many-to-one chat interaction) and GR8 People (all-in-one recruiting platform that brings customer relationship management [CRM], recruitment marketing, hiring and onboarding together). For this newsletter we interviewed the founder and CEO of Get Driven, a company that provides private drivers who are requested, mostly by businesspeople, via a smartphone app.

We're still seeing a lot of M&A activity in the sector, although there are indications that the cycle is in its late innings. Temporary staffing activity in Europe, a procyclical activity, is showing signs of a slowdown and even a decline in some countries, which will affect the interest of financial investors with a shorter-term investment horizon.

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The entrance of machines in a people's business

To paraphrase LinkedIn's CEO Jeff Weiner, AI and automation are two of the most important trends that will impact the future of work. Moreover—unlike previous technological revolutions—white-collar professions will be impacted first, then blue-collar jobs will follow.

For staffing companies, the impact is twofold: on the one hand, they must prepare their own organization for this upcoming trend and on the other hand, they must understand and anticipate the changing job requirements of their customers.

PREPARING YOUR OWN ORGANIZATION

The staffing sector has never been a real pioneer when it comes to nascent technology. However, the time has come for it to start catching up and to fully deploy and develop AI to remain competitive and responsive to customers.

According to research reports, finding the right candidate through a dense network of possibilities takes up c. 79% of a recruiter's time. The use of AI could greatly reduce this time from weeks to minutes and allow recruiters to focus on higher impact duties. Moreover, AI would do the job more thoroughly, since, in addition to assessing résumés, it can take into account a candidate's Internet presence, his or her fit with the company culture and other factors.

In general, HR specialists are not particularly technology-minded; historically, they have a people-oriented skill set. Technology not only needs to be embraced, it needs to be used wisely to achieve desired results. The winning combination is a blend of key soft skills with highly analytical and consistent capabilities. For example, if chatbots are used in recruitment processes it is important that they ask relevant questions. For this reason, chatbots will remain reliant on human input.

HR professionals might overcome any reluctance to use AI when they realize that it can eliminate repetitive tasks from their range of duties. Human capabilities in staffing will always remain vital, but AI will provide professionals with more time, capacity and budget to add their real value to the process.

CHANGING JOB REQUIREMENTS

AI and automation will dramatically change the nature and number of jobs. AI ranges in a continuum from situations where machines are repeating some of the tasks humans do today (assisted intelligence) to expanding and enhancing people's capabilities (augmented intelligence) to accomplishing tasks on their own without human intervention (autonomous intelligence) (PWC, 2017).

“Recruitment chatbots are a form of AI being widely adopted by the staffing industry, especially the generalist staffing sector. Chatbots are software applications that simulate conversations to gather information or communicate to qualify information via email, SMS, social media, or ATS applications. They can be programmed to understand written and verbal communication and respond with a high level of accuracy and consistency. Some areas where the staffing industry is utilizing chatbot AI includes collecting candidate resumes and contact details, ranking applicant qualifications, inquiring screening questions, providing information about the job opportunity, and even scheduling interviews.

The use of chatbots can reduce overhead expenses by automatically delivering completed candidate information to recruiters who then have additional time to dedicate towards making placements or client service needs. As downward margin pressure continues to affect generalist staffing companies, AI and chatbots help reduce overhead expenses while enabling recruiters to focus more time on revenue generation activities.”

NEAL ENGLAND

OAKLINS HRM PRACTISE LEADER, DALLAS, USA



TODAY
Assisted intelligence

The technology is already widely used today. It automates repetitive, standardized and often time-consuming tasks. Humans stay in charge of the decision-making process.

Example: GPS navigation



EMERGING
Augmented intelligence

Humans and machines make decisions together, resulting in actions that humans could not do without the help of machines. Human-specific characteristics, such as persuasion, emotional intelligence, creativity, etc., continue to be very important.

Example: Google Sky Map



FUTURE
Autonomous intelligence

Machines act on their own and take decisions without human intervention.

Example: self-driving cars

CHANGING STRATEGY

The international slowdown in economic growth has been challenging for general staffing companies, whose activity is procyclical.

Large temporary general staffing companies must adapt to changing labor markets in Europe. For years they were mainly volume players, who supplied a large workforce to large industrial companies. But that segment of low-skilled workers is shrinking due to robotization and digitization. These two trends (economic decline and robotization/digitization) have had an impact on their listings the past couple of months. Therefore, the world's largest players (Randstad, Adecco and Manpower) have started to focus more on higher-educated profiles and niche professions, which have less cyclical activity and higher margins. Various recent acquisitions fit this changing strategy, such as the acquisitions of

specialized project sourcing companies Ausy (France), BMC (the Netherlands) and Careo (Japan) by Randstad and the acquisition of Ciber by Manpower. On top of that they are investing heavily in AI to strengthen their online position, since, with the recruitment and selection market becoming entangled with the platform economy, they fear competition from companies like Google (Google for Jobs) and Facebook (Workplace). Large staffing companies are also looking for acquisitions that can support their technological catch-up, as demonstrated by the acquisitions of Monster and Twago by Randstad, Indeed.com and Glassdoor by Recruit and Vetterly by Adecco.

Spotlight: Get Driven



A DIGITAL STARTUP WITH INTERNATIONAL GROWTH POTENTIAL

Over the past decade customer habits have been changing, and the bar has been raised with regard to customer experience. Customers can now download an application for the fulfillment of every human need: clothing, food and drink, insurance, housing, dating, travelling and much more. They are used to being serviced ASAP (or even in real time) and when a company cannot deliver, they change supplier. This creates ideal conditions for new companies to enter the market.

The phenomenon above is referred to as “innovative disruption” and is also being observed in the staffing industry. A good example of a successful newcomer with a disruptive business model is **Get Driven**, founded in Belgium by young entrepreneur Gunther Ghysels. Since its inception in 2015, the company has experienced a yearly triple-digit growth and is currently investigating international expansion in Europe.

Get Driven employs around 400 students who act as private drivers to customers who need to be transported to and from meetings, events, dinners, etc. The student drives the customer’s car.

Gunther Ghysels explains: “The idea of **Get Driven** originates from a business model in the city of Ghent that focused on older people no longer able to drive themselves. This initial idea had a short

life, but I reworked the business model and was able to turn it into a successful concept. Customers call on our drivers in different types of situations. On the one hand, there is this category of businesspeople who use their car very frequently for professional reasons. They call on our drivers so that they can work during the length of the ride. But (business) people also call on us for recreational reasons—for example, a visit to a restaurant or a network event, since these occasions are often accompanied by alcoholic drinks. Through our services, the customer can enjoy a drink without having to take alcohol controls into account but still retains the comfort of his or her own car. For events we can also provide a team of drivers to bring guests home afterwards without having to leave their car at the venue, or we can organize a shuttle service to the car park. In this case our customer is the organizer of the event.”

Customers of **Get Driven** reserve a ride via the app or the company website. But the recruitment of new drivers is also organized through the application. This makes it a very smooth process with limited overhead costs.

Gunther continues: “Working with students offers many advantages. First of all, students are very flexible. Secondly, labor costs are low, which enables us to sharpen the price to our customers as well. Furthermore, our drivers only cost us money when they work.



GUNTHER GHYSELS

CEO

Get Driven

We carefully think about how to attract new students and how to create a company identity. We are trying to give our brand name a certain amount of prestige, which works very well. We notice that many students are proud of their job at **Get Driven**. Moreover, we recently introduced an employee-of-the-month election. The winner is provided with a BMW M2 to drive for the day. This car is completely **Get Driven** branded, which gives us publicity for recruiting other students or with potential customers.”

The fact that the drivers make use of the customer’s car has not caused any problems so far.



Gunther Ghysels: “Our customer segment often (but not necessarily) owns a luxury car. They like to keep the comfort of their own car, even if they can’t drive home after an event themselves. Of course, it requires very strict quality control, but that is one of our focus points. Our driver recruitment is a very selective and intensive process. Each driver needs to have excellent driving capacities and undergoes some tests during the selection process to prove this. Experience in driving luxury cars is also a must. We are known for our excellent drivers and quality, which is why we already have a good list of references in the business world.”

A successful HR entrepreneur supported Gunther from the start with private money, an extended network and entrepreneurial know-how. Since then, **Get Driven** has experienced an impressive growth trajectory and is ambitious for the future.

Gunther: “Indeed, we’ve already had an amazing journey so far. I am happy that someone believed in our business model from the very beginning. Since I was a recent graduate, my network in the business world was rather limited. Our partner’s extensive network and professional experience has been, and still is, an enormous added value. And, not unimportantly, we have a splendid personal fit with each other.

In the past few years we have seen a strong growth, and this will also be the case for this year. We are currently working hard to expand **Get Driven** abroad, in the neighboring countries, and currently there are even ongoing discussions in Scandinavia about launching the **Get Driven** app there. The advantage of our app is that it is very scalable. We have invested heavily in building a very high-performance app, but the extra cost to launch it abroad is relatively low. We also still see a lot of

opportunities in Belgium. To date, we have mainly focused on Flanders. We have yet to start our commercial efforts in Wallonia and increase our presence in Brussels. With the congestion problems in our capital city, we see a lot of potential for our services.

In the meantime, we have been approached by many venture capitalists who would like to join us in our growth path, but for the time being, we are still holding back a bit. We are drawing up our business plan as we speak, looking at the direction we want to take and the costs involved with these plans. Once this exercise has been carried out, we will look at whether additional external capital fits in with these plans.

Public company valuations

Most of the listed staffing and recruitment companies are highly diversified groups with a main focus on general or specialist staffing services.

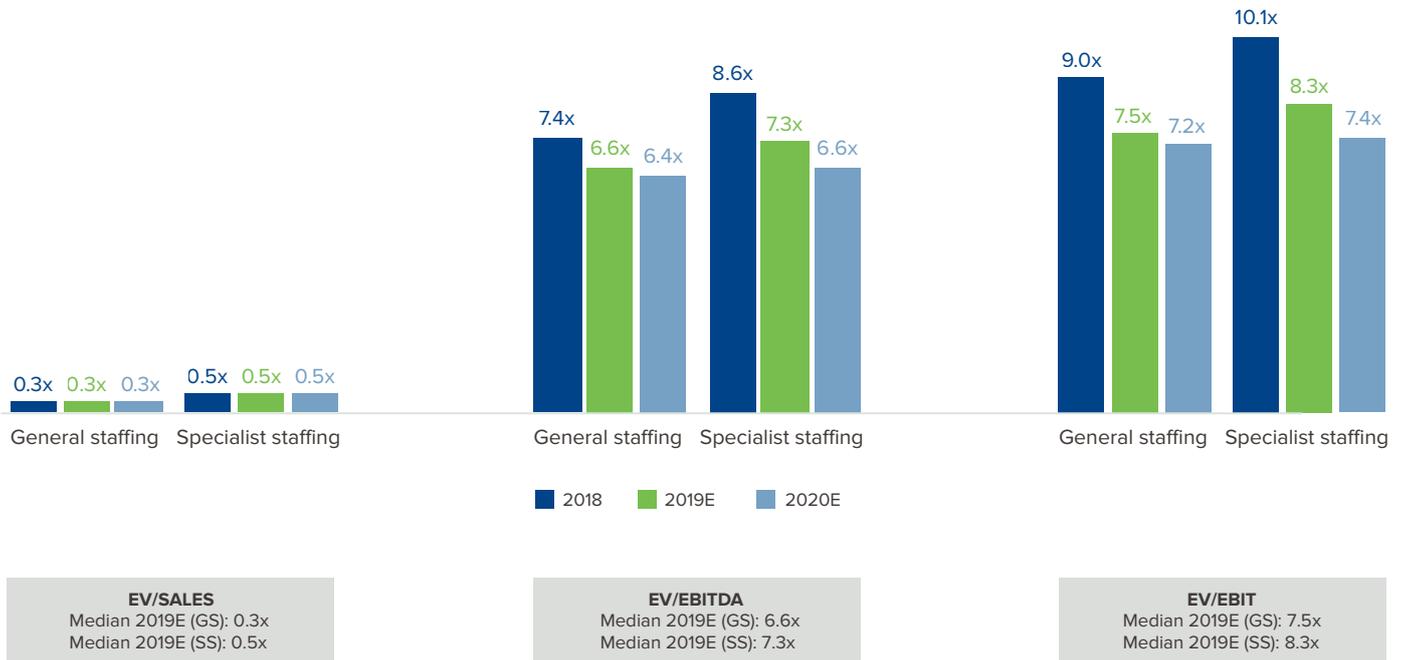
General staffers mainly focus on blue-collar and lower-educated, white-collar profiles. Specialist staffers mainly focus on higher-educated, white-collar profiles. In general, specialist staffers tend to generate higher profitability, resulting in higher valuations. However, the difference is smaller among listed players compared with private companies, as a result of the higher degree of diversification of listed players.

Company	Market cap (US\$m)	Enterprise value (US\$m)	Sales 2018 (US\$m)	Sales 2019E (US\$m)	Sales 2019E (US\$m)	EBITDA% 2018	EBITDA% 2019E	EBITDA% 2020E	EBIT% 2018	EBIT% 2019E	EBIT% 2020E
General staffers											
Adecco	8,547	9,505	23,867	24,012	24,455	4.9%	4.8%	5.0%	4.3%	4.2%	4.5%
Randstad	9,444	11,080	23,812	24,079	24,381	4.7%	5.3%	5.3%	3.9%	4.6%	4.6%
Manpower	5,138	5,731	18,641	19,121	19,675	4.2%	3.9%	4.0%	3.8%	3.6%	3.7%
Synergie	845	845	2,551	2,679	2,759	5.4%	5.2%	5.6%	4.8%	4.9%	5.1%
Groupe Crit	768	848	2,498	2,564	2,623	N/A	5.9%	6.1%	N/A	4.9%	5.1%
Staffline	290	320	1,094	1,293	1,751	4.2%	4.1%	3.4%	2.8%	3.5%	2.9%
Impellam	267	347	2,573	2,682	N/A	2.2%	2.6%	N/A	1.6%	1.9%	N/A
CPL	185	146	523	548	570	3.6%	4.0%	3.9%	3.4%	3.9%	3.8%

Specialist staffers											
Robert Half	6,628	6,629	4,917	5,460	5,714	11.3%	11.4%	11.3%	10.1%	10.3%	10.3%
Hays	2,616	2,578	6,492	6,973	7,272	4.5%	4.5%	4.6%	4.2%	4.2%	4.3%
PageGroup	2,036	1,853	1,752	1,815	1,929	10.6%	11.7%	11.8%	9.3%	10.2%	10.7%
Brunel	2,036	1,853	915	1,010	1,112	4.5%	5.5%	6.3%	3.7%	4.8%	5.5%
Sthree	724	620	1,424	1,555	1,658	4.8%	4.9%	4.9%	4.3%	4.4%	4.5%
Robert Walters	446	451	1,394	1,379	1,463	4.5%	5.0%	5.0%	4.1%	4.5%	4.6%
DPA	70	90	159	151	157	6.4%	8.3%	9.0%	4.8%	6.7%	7.4%
Empresario	41	63	415	452	453	3.6%	3.4%	3.5%	2.9%	3.2%	3.2%

Source: FactSet (6 May 2019)

Comparable trading multiples – median multiples of the above-listed peer group



Source: FactSet (6 May 2019)

EV/EBITDA LTM general staffing companies over the period 1Q09–1Q19



Source: FactSet (27 November 2018)

US insights in HRM management

OVERVIEW

The US is on track to reach its longest economic expansion in history in July. Domestic employment is full and finding and retaining talent remains a top priority for most business management. Conditions support strong valuations and a continuing sellers' market across the HRM sector. While GDP and employment growth development are encouraging, slowing growth trends are beginning to show up in the core economy within industrial production, retail and wholesale trade.

The US staffing industry is realizing ten consecutive years of growth and is projected to reach a record US\$153.5 billion this year, while maintaining a 4% growth rate. We believe widespread talent demand, combined with a tight labor supply are conditions that should enable staffing firms to raise rates, improve conversion fees, tighten up payment term and become more client selective. More than three million temporary and contract employees work for America's staffing companies during an average week. We see a broad level of M&A activity continuing in the short term as strategic acquirors supplement organic growth to expand market share and gain access to talent, while private equity acquirors deploy abundant capital into platform opportunities and add-on acquisitions.

The Professional Employer Organization (PEO) industry continues its renaissance growth as the economy fuels small business expansion, increasing workforces, wage growth and adoption of broader benefit plans to help retain employees. Small businesses struggle with resources to adequately manage compliance, so we see the

regulatory environment as an industry driver. Private equity-backed platforms competing with mid-sized operators seeking deals are maintaining consistent M&A activity, benefiting sellers and holding valuations high. The number of worksite employees employed by PEOs grew at an annual compounded rate of 8.3% from 2008 to 2017. Today, over 3.7 million worksite employees are administered by PEOs.

Growth in management consulting has been fueled by positive macroeconomic conditions and an improving business environment, which is prompting increased corporate profits and the number of businesses planning to utilize advisory services. By 2020, the industry is anticipated to reach US\$256 billion as companies grow their workforces and invest in new facilities, operations and capabilities, thus boosting demand for process, operations, organizational design and corporate strategy management consulting.

HRM SaaS is forecasted to grow at an annualized rate of 7.3% to reach US\$11 billion by 2023, driven primarily by expanding employment combined with the anticipation of SaaS demands outpacing on-premise models over the next five years. The leading industry operators are cash-rich and have been acquiring smaller niche players to fulfill product offering gaps and expanding their portfolio services. We see solid M&A activity continue to augment organic expansion with a focus on niche providers at the leading edge of their industry along with mobile applications.

QUARTERLY REVIEW

HRM M&A activity remains solid although not outperforming the strong first quarter transaction numbers of 2018. The first quarter saw 107 transactions versus 119 in the first quarter of 2018. Compared to the last quarter of 2018, activity has increased by 22 deals from 85.

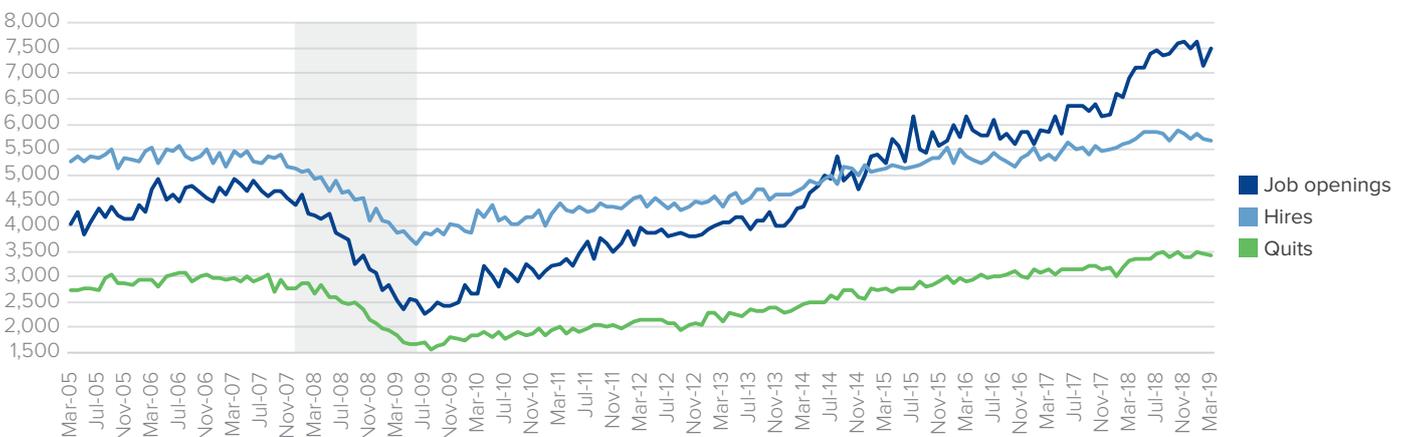
Public market multiples are slightly down compared to the same time 12 months ago, reflecting the deceleration in revenue growth reported for Q3 and Q4 of 2018. The only exception is the Outsourcing Services segment which increased from 15.6x to 16.0x. These numbers by themselves might suggest a slowing market. However, they are actually recovering from their temporary lows at the end of Q4. These market movements are largely in line with the downward stock market movement of late Q3 and Q4. (see Public Trading Valuation Data Summary page).

The latest news of a better than expected Q1 GDP of 3.2% should aid in moving the public multiples back up towards their peak in Q2 of 2018.

Real GDP seasonally adjusted (quarterly, %)



Job openings, hires and quits (monthly, in thousands)



- Job openings are currently 7.5 million, with the pre-recession peak surpassed in August 2014.
- Hires are currently 5.7 million, well above pre-recession levels.
- Quits, the number of “voluntary” separations by employees, was at 3.4 million in March, also well above pre-recession levels.

Unemployment & quits rates (monthly, %)



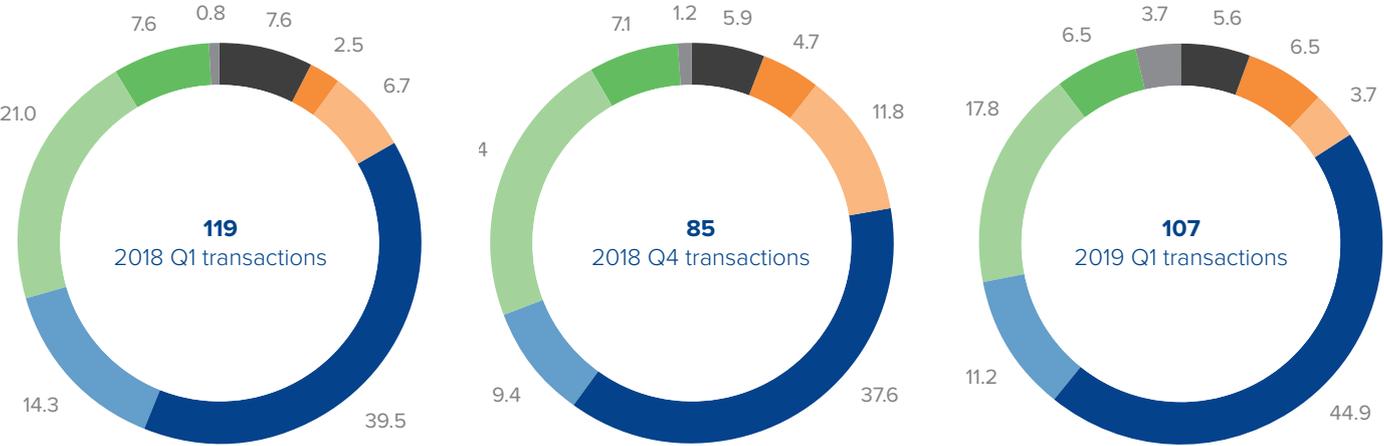
- The latest unemployment rate released for April is 3.6%, the lowest rate since 1969.
- The Quits rate is stable at 2.3% and has remained at this high level for the past ten months. The last time the Quits rate reached this current level was September 2005.

Source: Source: U.S. Bureau of Labor Statistics, FRED



Closed transactions

Number of transactions in US by segment



- Commercial Staffing
- Government IT Staffing
- Healthcare Staffing
- IT Consulting and Staffing
- Management Consulting
- Outsourcing Services
- Professional Staffing
- HRM SaaS (Software as a service)

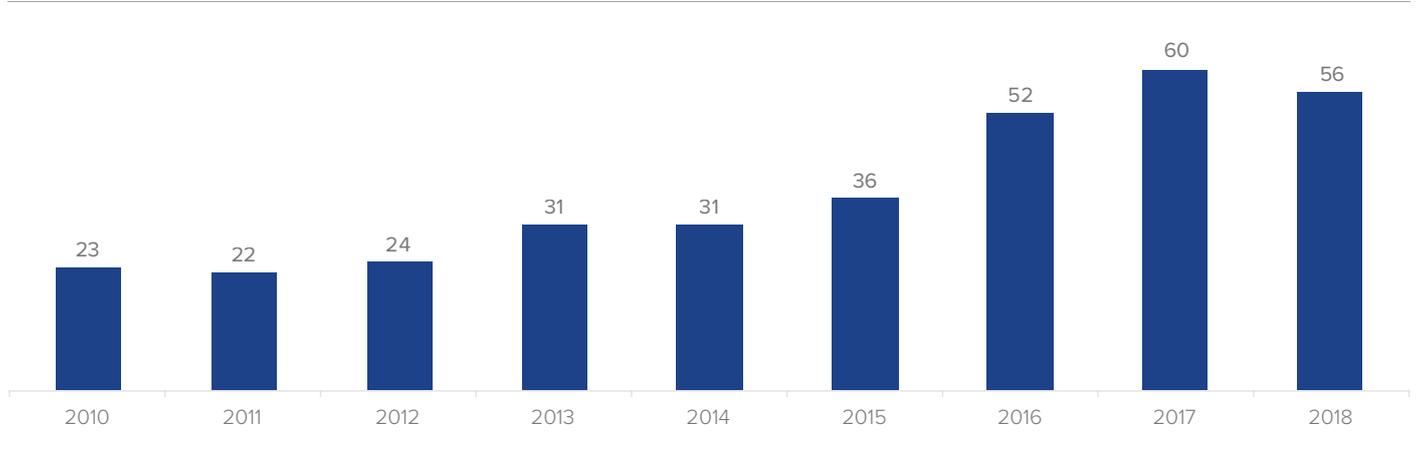
Source: S&P Capital IQ, Oaklins research; Staffing Industry Analysts

Note: Outsourcing Services includes: PEO, HRO, BPO, RPO, and ASO
 Professional Staffing includes: Finance, Accounting, Engineering, Scientific, Exec. Search, Energy, and Other Skilled Professional Staffing
 Commercial Staffing includes: Clerical/Administrative, Light Industrial

European insights in the staffing market

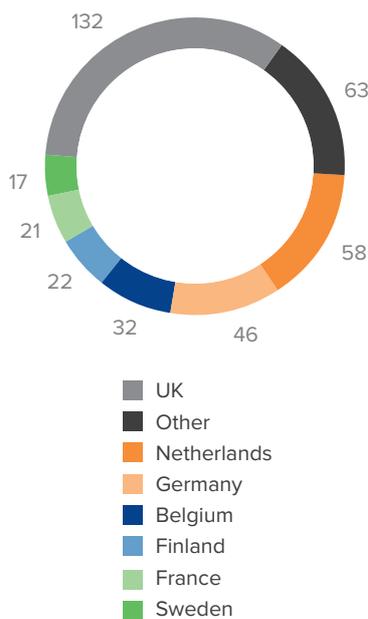
In 2018, the number of European transactions slightly dropped for the first time since 2009. The cycle seems to be in its late innings, and financial investors seem to have less interest in the pure temporary staffing players. Diversified and higher-margin players (specialized in IT, life sciences and healthcare, among others) whose operating model focuses on providing specialist consultants attract more interest and are valued at higher multiples. In this less cyclical, higher-margin segment, we expect the European market to continue to be active in 2019.

Number of transactions in Europe per year



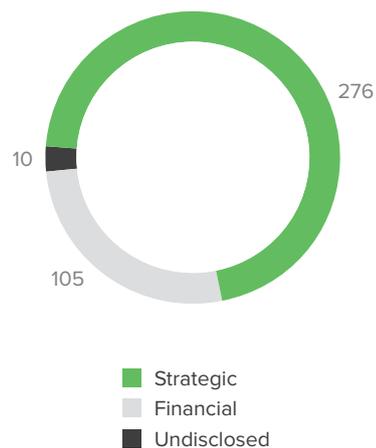
Source: Mergermarket

Geographical split 2007–2018



Source: Mergermarket

Financial versus strategic buyers 2007–2018



Source: Mergermarket



Case study

OUTSOURCING INC. HAS ACQUIRED A MAJORITY STAKE IN OTTO HOLDING B.V. FINANCIAL DETAILS HAVE NOT BEEN DISCLOSED.

Established in 1997, OUTSOURCING is a Japanese multinational company headquartered in Tokyo and engaged in providing outsourcing services, worker dispatching and employment placement, with a presence in Japan, China, Indonesia, Australia, the UK and Belgium, among others. With over 24,000 employees, the company's business focus includes engineering, manufacturing and administrative outsourcing, recruitment and placement.

Under the backdrop of the EU's characteristics of free movement of people, goods, capital and services, OTTO has carved out a certain niche position in the field of cross-border employment services, mainly in the Netherlands and Poland. Ranked eighth in the industry by net sales in the Netherlands and sixth in Poland, OTTO supplies workforce to the Netherlands and Germany through its recruitment network in Central and Eastern European countries, and has also created a channel for supplying workforces from the Ukraine and Moldova to Poland through concluding labor agreements.

The company was founded in 2000. Oaklins' team in Japan acted as the sole financial advisor to OUTSOURCING in this transaction.

A graphic with a white background and a thin green border. At the top, the text "Out-Sourcing!" is written in a large, blue, sans-serif font, with "inc." in a smaller font below it. Below this, the text "has acquired a majority stake in" is written in a smaller, grey font. In the center, the logo for "OTTO workforce.eu" is displayed, featuring the word "OTTO" in white on a red background with a blue border, and "workforce.eu" in white on a blue background below it. At the bottom, the text "M&A BUY-SIDE" is written in green, and "Business Support Services" is written in black below it. A horizontal line is positioned above the bottom text.

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