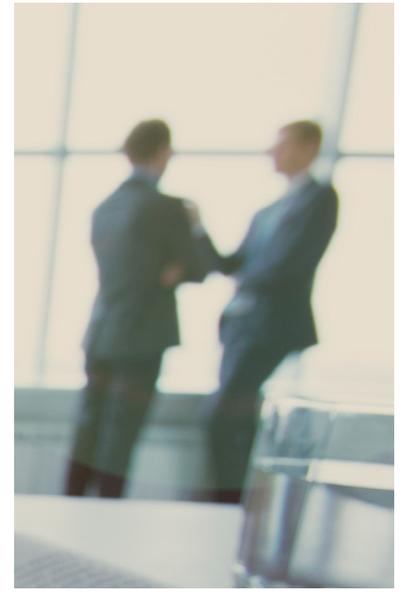


# Market Update



## Human Capital Management Services Year-End 2022



## Market Insights

Human capital management (HCM) services providers are expected to continue to see a receptive market for their offerings in 2023. While headlines of central bank-induced economic slowdowns and layoffs at large technology companies predominate, 2023 began with near record-low unemployment levels and open job listings significantly in excess of active job seekers. While growth in most industrialized economies is decelerating from a combination of tightening monetary policy, higher energy prices and geopolitical tensions, the realities of core demographic trends led by aging populations and slow-to-rebound workforce participation after the global pandemic left employers in almost every industry continuing to scramble to find enough adequately skilled employees and to manage wage inflation in order to promote revenue growth and profitability. Labor force participation rate in the U.S. has yet to recover to pre-pandemic levels, while in the European Union, the labor force participation versus rate has eclipsed its pre-pandemic peak. The U.S. Bureau of Labor Statistics suggests a combination of increased dependent care needs, higher unemployment benefits, higher wage demands and slower population growth have contributed to the lack of recovery in participation.

As a result of tight overall labor markets as well as skills gaps within those labor markets, employers continue to seek experts that can assist in the identification, assessment, hiring, skilling, administration, engagement and retention of critical employees. The need for innovative assistance in talent management has also grown with the proliferations of work relationships that employers utilize (contingent talent, off-shore / near-shore and hybrid home-office work, among others) to meet demand. Given clients' rapidly changing needs, providers of HCM services and technology are utilizing acquisitions not merely to gain scale but increasingly to strategically add critical skills, knowledge and technology to their capability sets to meet those client needs. The strategic nature of mergers and acquisitions (M&A) in the space has led to higher resilience in activity versus the M&A market overall. In particular, private equity (PE)-backed portfolio companies in the space significantly increased M&A activity year-over-year (YoY) in 2022, even in the face of more challenging financing and persistently high-value expectations among buyers.

# Lincoln International’s Human Capital Management Services Sector

Lincoln International recognizes the importance of understanding a client’s industry, value drivers, growth opportunities and challenges. Our extensive expertise provides in-depth market insights, deep relationships with the most active strategic and financial partners and superior knowledge on how to best position a business and overcome potential issues. These attributes, combined with our globally integrated resources and flawless execution, enable us to consistently deliver outstanding outcomes for our clients.

Lincoln’s dedicated HCM services team has established itself among the most active M&A advisors in the middle market.

Our senior bankers provide sector-specific expertise, global buyer access and unmatched execution within the HCM services space. This update tracks pricing and valuation metrics and transaction activity for five key HCM services subsectors:

- Human resources (HR) outsourcing
- HR professional and training
- HR technology
- Specialty consulting
- Staffing

## Human Capital Management Services Financial Performance

### Year-over-Year Price Performance

| Outperformers                   | Change |
|---------------------------------|--------|
| Huron Consulting Group Inc.     | 44.7%  |
| Barrett Business Services, Inc. | 35.0%  |
| CRA International, Inc.         | 32.5%  |
| CBIZ, Inc.                      | 19.4%  |
| FTI Consulting, Inc.            | 3.2%   |

| Underperformers            | Change  |
|----------------------------|---------|
| Upwork Inc.                | (69.7%) |
| Recruit Holdings Co., Ltd. | (47.7%) |
| Amadeus FiRe AG            | (40.0%) |
| Workday, Inc.              | (39.5%) |
| Ceridian HCM Holding Inc.  | (38.7%) |



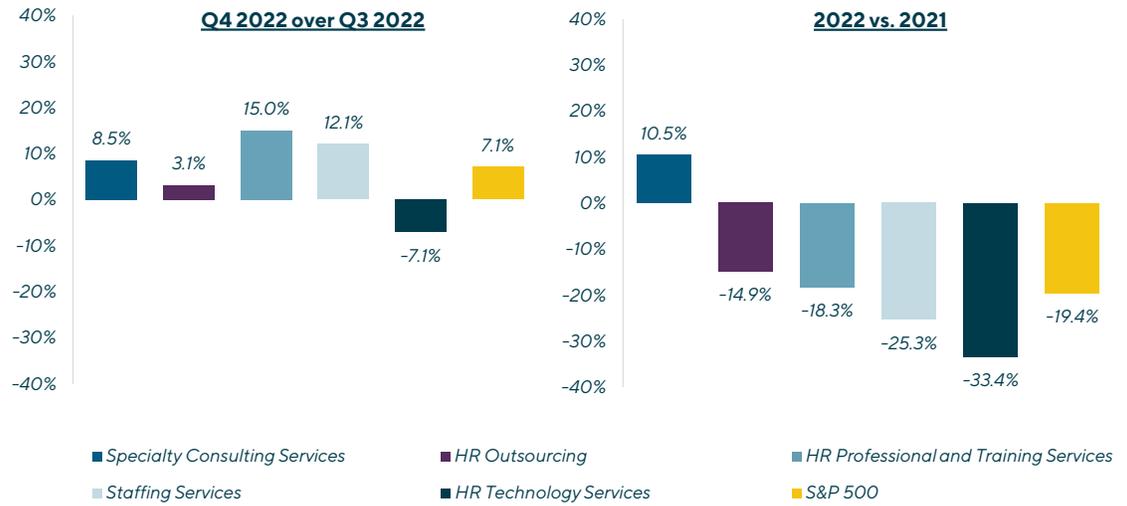
# Highlights

Public valuations for the HCM services sector declined throughout the majority of 2022, along with the rest of the broader market. While underlying fundamentals for companies within most subsectors did not deteriorate, growing recessionary fears, rising unemployment, inflation, rising interest rates, and other external factors resulted in all sectors declining YoY.

Following a volatile year, the HCM services sector finished 2022 on a strong note. Quarter-over-quarter, as of Q4 end, stock prices for the specialty consulting, HR outsourcing, HR professional and training services and staffing services indices outperformed the S&P 500. The specialty consulting services group led the sector, which ended the year trading higher at a higher stock price and EBITDA multiple than at the end of 2021.

Since peaking in late October 2021, HR technology company valuations have continued their downside and exhibited greater volatility than observed within the other HCM services subsectors. Fueled by a low interest rate environment and lofty post-pandemic growth expectations post-COVID-19, Lincoln's composite HR technology index enterprise value peaked at approximately 290% above where the index stood as of March 31, 2020. Despite persisting demand for HR technology, the subsector was not immune from investors shifting away from high-growth technology stocks across all sectors.

## Quarter-over-Quarter & Year-over-Year Stock Indices Price Change



## LTM Relative Stock Indices Price Performance



## Historical Enterprise Value / LTM EBITDA Valuation Performance

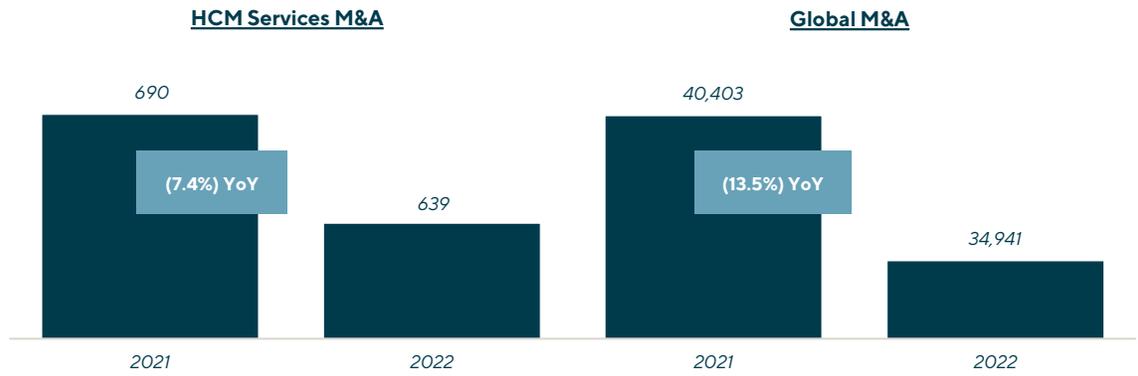


Note: Excludes HR technology, as companies within that subsector typically trade as a multiple of revenue

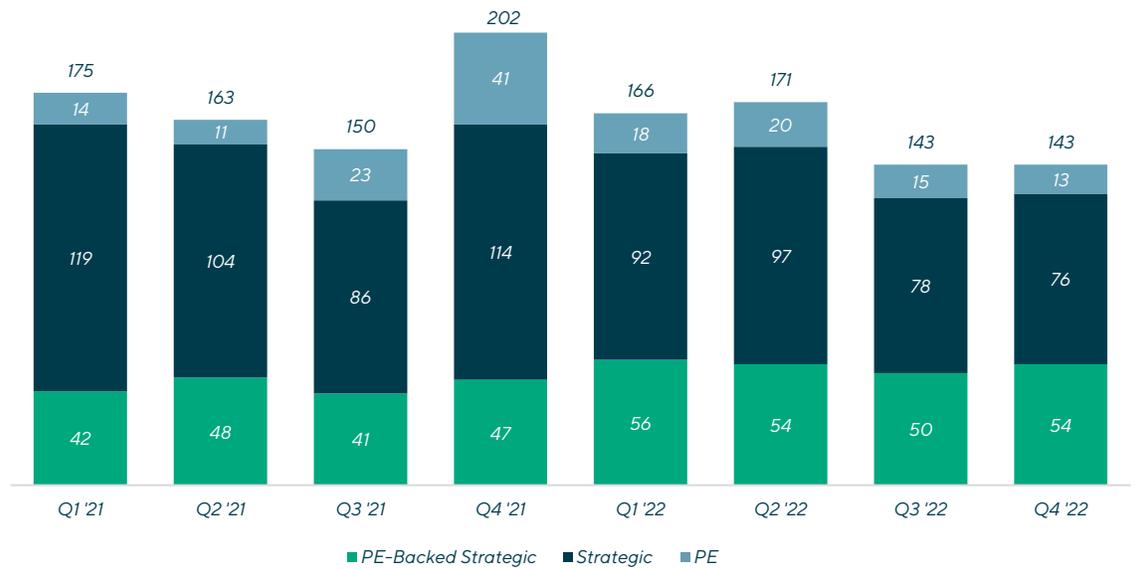
# Highlights

M&A transaction volume for the sector exhibited better resilience than the market on an overall basis. 2022 had 639 HCM services transactions, compared to 690 the year prior, representing a 7.4% YoY decline. This decline was smaller than the overall decline in global M&A market activity, which fell 13.5% in 2022. As 2022 progressed, the sector saw an accelerating deal volume decline rate; Q4 2022 transaction volume was down 26.7% YoY, but was still more resilient than the overall market which was down over 35% YoY. Among buyer categories, the largest percentage drop in activity was among PE platform buyers, which saw deal volume decline by 26%. Strategic buyers, which comprise over half of the total activity in the sector, saw a volume decline of 17%, which like PE activity, was a steeper decline than the overall M&A market. Making up a significant portion of the difference were PE-backed portfolio companies which increased deal volume by 22% to constitute about 34% of total volume. PE-backed strategics apparently leaned in on cost synergies as sponsors clearly felt more confident about adding to existing platforms in the space rather than establishing new ones. Many also had the advantage of existing delayed draw debt facilities priced in the prior market environment, while rising interest rates made new financings more expensive.

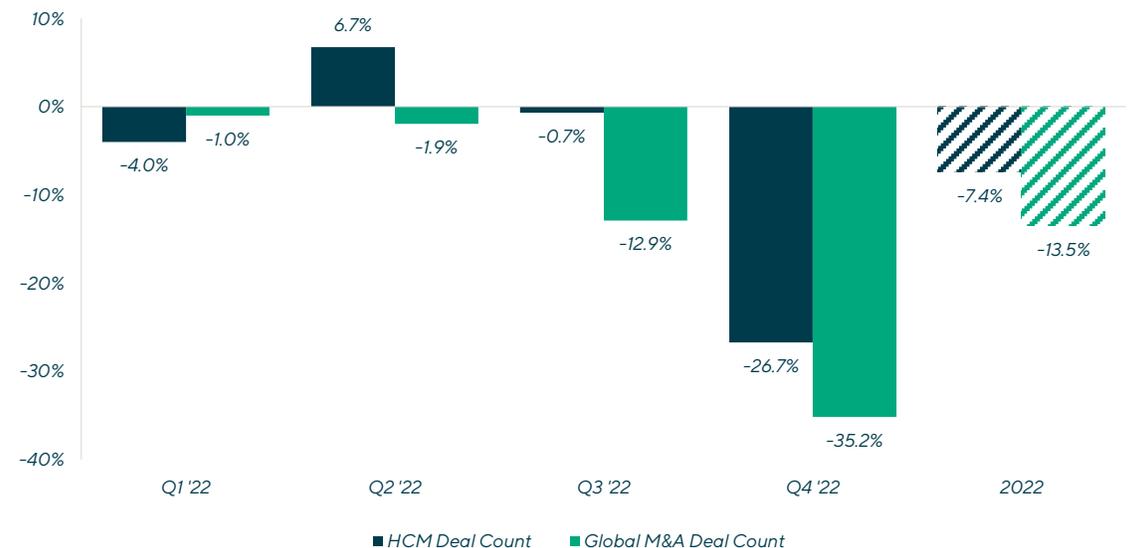
## HCM vs. Global Total M&A Transaction Volume



## Transaction Count by Acquirer Type



## Year-over-Year Change in Quarterly Deal Volume



# Transaction Spotlight

In 2022, Lincoln International advised RED Global on its sale to AEA Investors. Established in 2000 and headquartered in the UK, it has grown into a leading global talent management brand focused on sourcing and placing specialist contractors, with expertise across the SAP technology stack, directly into large corporates and systems integrators. With five offices globally, the business has full international coverage, placing 5,500 contractors in more than 55 countries since 2018. RED's projects are typically multi-year, cross-border big-budget initiatives. Customers embed RED into their resource planning, creating long-term repeat business. Its contractor assignments, on average last 11-12 months, providing excellent revenue visibility compared to most talent management businesses.

AEA Investors was keenly interested in RED for its presence within the growing information technology staffing market, which has been a focus area for them within the business services sector. Increasing the attractiveness of the asset for AEA was RED's presence within key geographies, which include Germany, the U.S., France, Switzerland and the UK; a strong organic growth track record; and the availability of add-on acquisition opportunities within a fragmented market.



# Market Intelligence

**Sept. 2022:** HR departments' core goals remained largely unchanged in 2022, but the role that they play within organizations continues to become ever more critical. In a September 2022 survey, more than 80% of respondents reported HR having some role in strategic planning and execution. This growing role of HR departments within organizations has highlighted a skill gap in the proficiency level of HR departments' relational skills compared to technical skills. Organizations have an opportunity to enhance the effectiveness of their departments through upskilling HR professionals in the areas of digital and data literacy, branding and marketing and design thinking. Technical proficiency gains in these areas enable an HR department to leverage data, tools and employee engagement content to increase retention and recruiting efficiency.

- *McLean & Company: 2023 HR Trends Report*

**Jan. 2023:** The U.S. labor market saw increased growth in December 2022, adding 223,000 jobs. As 2022 ended, the unemployment rate was 3.5%, compared to 3.9% in December 2021. Throughout 2022, the U.S. economy continued to experience wage inflation as average hourly earnings increased by 4.4%. The three sectors contributing the most to job growth in 2022 were 1) leisure and hospitality, 2) professional and business services and 3) healthcare. The average

monthly job growth in 2022 in these industries totaled 99,000, 82,000 and 47,000, respectively.

- *BLS: US Business-to-Business Labor Market Update*

**June 2022:** The HCM market is expected to grow at a CAGR of 7.6% during the forecast period until 2030. The increasing adoption of HCM solutions is driven by the digitization of business operations, which reduces manual labor required in the HR department. Artificial intelligence and machine learning are becoming increasingly important in HCM solutions, streamlining recruitment processes and providing transformative data analytics. However, the market remains highly competitive and fragmented, with dominant players frequently using M&A to expand product lines and offerings. The e-commerce sector's growth is also driving demand for HCM software, particularly due to the surge in remote work. Geographically, North America maintains the largest HCM market revenue share, although globalization has led to the rise of other regions. For example, the HCM market in the Asia Pacific is expected to have a high CAGR in the coming years due to similar market outlooks.

- *Polaris Market Research: Human Capital Management Market Share, Size, Trends, Industry Analysis Report*

## Lincoln's Experience in Human Capital Management Services

|   |   |  |  |   |
|---|---|--|--|---|
| <br>has been sold to<br><br>Sell-Side<br>   | <br>has sold<br><br>to<br><br>Sell-Side<br>                     | Founder, private shareholder and<br><br>have sold<br><br>to<br><br>a portfolio company of<br><br>Sell-Side<br> | <br>has sold<br><br>to<br><br>Sell-Side<br>                  | <br>has been sold to<br><br>Sell-Side<br>                               |
| <br>has sold<br><br>to<br><br>Sell-Side<br> | <br>has sold a majority stake of<br><br>to<br><br>Sell-Side<br> | <br>has been sold to<br><br>a portfolio company of<br><br><br><br>Sell-Side<br>                                | <br>and founders<br>have sold<br><br>to<br><br>Sell-Side<br> | <br>has been sold to<br><br>a portfolio company of<br><br>Sell-Side<br> |

# Human Capital Management Services Stock Indices Data

| Company Name                                 | Stock Price | % of 52 Week High | Market Cap | Enterprise Value | LTM      |        | YoY Revenue Growth | EBITDA Margin | Enterprise Value / LTM |              |
|--|-------------|-------------------|------------|------------------|----------|--------|--------------------|---------------|------------------------|--------------|
|  |             |                   |            |                  | Revenue  | EBITDA |                    |               | Revenue                | EBITDA       |
| <b>HR Outsourcing</b>                        |             |                   |            |                  |          |        |                    |               |                        |              |
| Alight, Inc.                                 | \$8.36      | 75.3%             | \$3,870    | \$7,305          | \$743    | \$289  | NM                 | 17.1%         | 4.3x                   | 25.3x        |
| Automatic Data Processing, Inc.              | 238.86      | 86.9%             | 99,086     | 101,448          | 5,069    | 4,504  | 9.9%               | 26.7%         | 6.0x                   | 22.5x        |
| Barrett Business Services, Inc.              | 93.28       | 92.5%             | 649        | 540              | 70       | 61     | 11.5%              | 5.9%          | 0.5x                   | 8.8x         |
| Ceridian HCM Holding Inc.                    | 64.15       | 60.7%             | 9,853      | 10,705           | 295      | 42     | 23.6%              | 3.5%          | 9.0x                   | NM           |
| First Advantage Corporation                  | 13.00       | 61.9%             | 1,975      | 2,145            | 253      | 230    | 23.4%              | 28.4%         | 2.6x                   | 9.3x         |
| Insperty, Inc.                               | 113.60      | 93.3%             | 4,309      | 4,138            | 341      | 244    | 21.2%              | 4.3%          | 0.7x                   | 16.9x        |
| Paychex, Inc.                                | 115.56      | 81.4%             | 41,656     | 41,268           | 2,477    | 2,111  | 11.2%              | 43.8%         | 8.6x                   | 19.6x        |
| Paycor HCM, Inc.                             | 24.47       | 70.0%             | 4,303      | 4,235            | 158      | -20    | 24.2%              | (4.4%)        | 9.3x                   | NM           |
| Sterling Check Corp.                         | 15.47       | 53.8%             | 1,502      | 1,926            | 214      | 130    | 29.1%              | 16.9%         | 2.5x                   | 14.8x        |
| TriNet Group, Inc.                           | 67.80       | 65.6%             | 4,097      | 4,100            | 4,891    | 599    | 11.9%              | 12.2%         | 0.8x                   | 6.8x         |
| <b>Mean</b>                                  |             | <b>74.1%</b>      |            |                  |          |        | <b>18.4%</b>       | <b>15.4%</b>  | <b>4.4x</b>            | <b>15.5x</b> |
| <b>Median</b>                                |             | <b>72.7%</b>      |            |                  |          |        | <b>21.2%</b>       | <b>14.6%</b>  | <b>3.5x</b>            | <b>15.9x</b> |
| <b>HR Professional and Training Services</b> |             |                   |            |                  |          |        |                    |               |                        |              |
| BTS Group AB                                 | \$44.55     | 68.5%             | \$541      | \$544            | \$214    | \$32   | 5.8%               | 15.0%         | 2.5x                   | 17.0x        |
| Franklin Covey Co.                           | 46.77       | 85.5%             | 650        | 615              | 271      | 34     | 14.3%              | 12.7%         | 2.3x                   | 17.9x        |
| Heidrick & Struggles International, Inc.     | 27.97       | 59.7%             | 556        | 178              | 1,127    | 122    | 27.7%              | 10.8%         | 0.2x                   | 1.5x         |
| Korn Ferry                                   | 50.62       | 64.5%             | 2,668      | 2,605            | 2,826    | 544    | 25.3%              | 19.3%         | 0.9x                   | 4.8x         |
| Marsh & McLennan Companies, Inc.             | 165.48      | 90.4%             | 82,080     | 94,788           | 20,835   | 5,706  | 9.1%               | 27.4%         | 4.5x                   | 16.6x        |
| Synergie SE                                  | 32.06       | 75.0%             | 769        | 583              | 2,976    | 147    | 1.6%               | 5.0%          | 0.2x                   | 4.0x         |
| Willis Towers Watson Public Limited Company  | 244.58      | 96.7%             | 26,473     | 30,519           | 8,850    | 2,210  | (1.2%)             | 25.0%         | 3.4x                   | 13.8x        |
| <b>Mean</b>                                  |             | <b>77.2%</b>      |            |                  |          |        | <b>11.8%</b>       | <b>16.4%</b>  | <b>2.0x</b>            | <b>10.8x</b> |
| <b>Median</b>                                |             | <b>75.0%</b>      |            |                  |          |        | <b>9.1%</b>        | <b>15.0%</b>  | <b>2.3x</b>            | <b>13.8x</b> |
| <b>HR Technology Services</b>                |             |                   |            |                  |          |        |                    |               |                        |              |
| DHI Group, Inc.                              | \$5.29      | 69.9%             | \$238      | \$272            | \$144    | \$20   | 26.9%              | 13.8%         | 1.9x                   | 13.7x        |
| Paycom Software, Inc.                        | 310.31      | 74.1%             | 17,957     | 17,668           | 1,290    | 392    | 30.1%              | 30.4%         | 13.7x                  | 45.1x        |
| Paylocity Holding Corporation                | 194.26      | 70.2%             | 10,815     | 10,825           | 924      | 109    | 35.6%              | 11.7%         | 11.7x                  | NM           |
| Upwork Inc.                                  | 10.44       | 29.8%             | 1,371      | 1,278            | 594      | (89)   | 25.8%              | (15.0%)       | 2.2x                   | NM           |
| Workday, Inc.                                | 167.33      | 60.3%             | 43,006     | 40,776           | 5,946    | 129    | 21.5%              | 2.2%          | 6.9x                   | NM           |
| ZipRecruiter, Inc.                           | 16.42       | 62.6%             | 1,809      | 1,701            | 914      | 98     | 43.9%              | 10.7%         | 1.9x                   | 17.4x        |
| <b>Mean</b>                                  |             | <b>61.1%</b>      |            |                  |          |        | <b>30.6%</b>       | <b>9.0%</b>   | <b>6.4x</b>            | <b>25.4x</b> |
| <b>Median</b>                                |             | <b>66.3%</b>      |            |                  |          |        | <b>28.5%</b>       | <b>11.2%</b>  | <b>4.5x</b>            | <b>17.4x</b> |
| <b>Specialty Consulting Services</b>         |             |                   |            |                  |          |        |                    |               |                        |              |
| CBIZ, Inc.                                   | \$46.85     | 90.7%             | \$2,369    | \$2,854          | \$1,360  | \$211  | 26.7%              | 15.5%         | 2.1x                   | 13.5x        |
| CRA International, Inc.                      | 122.43      | 97.3%             | 874        | 1,019            | 581      | 70     | 2.1%               | 12.0%         | 1.8x                   | 14.6x        |
| Exponent, Inc.                               | 99.09       | 83.3%             | 5,018      | 4,888            | 464      | 148    | 6.7%               | 31.9%         | 10.5x                  | 33.1x        |
| FTI Consulting, Inc.                         | 158.80      | 83.4%             | 5,342      | 5,577            | 2,931    | 329    | 7.5%               | 11.2%         | 1.9x                   | 16.9x        |
| The Hackett Group, Inc.                      | 20.37       | 82.2%             | 546        | 481              | 294      | 58     | 5.8%               | 19.8%         | 1.6x                   | 8.3x         |
| Huron Consulting Group Inc.                  | 72.60       | 89.9%             | 1,351      | 1,737            | 1,067    | 122    | 24.7%              | 11.4%         | 1.6x                   | 14.3x        |
| ICF International, Inc.                      | 99.05       | 81.7%             | 1,866      | 2,781            | 1,692    | 159    | 5.8%               | 9.4%          | 1.6x                   | 17.5x        |
| Resources Connection, Inc.                   | 18.38       | 79.3%             | 620        | 591              | 826      | 103    | 16.0%              | 12.5%         | 0.7x                   | 5.7x         |
| <b>Mean</b>                                  |             | <b>86.0%</b>      |            |                  |          |        | <b>11.9%</b>       | <b>15.5%</b>  | <b>2.7x</b>            | <b>15.5x</b> |
| <b>Median</b>                                |             | <b>83.4%</b>      |            |                  |          |        | <b>7.1%</b>        | <b>12.3%</b>  | <b>1.7x</b>            | <b>14.4x</b> |
| <b>Staffing Services</b>                     |             |                   |            |                  |          |        |                    |               |                        |              |
| Adecco Group AG                              | \$33.48     | 59.8%             | \$5,438    | \$8,842          | \$22,478 | \$831  | (7.0%)             | 3.7%          | 0.4x                   | 10.6x        |
| Amadeus FiRe AG                              | \$125.59    | 62.7%             | \$706      | \$808            | \$396    | \$71   | (3.2%)             | 18.1%         | 2.0x                   | 11.3x        |
| AMN Healthcare Services, Inc.                | 102.82      | 79.7%             | 4,456      | 5,162            | 5,481    | 822    | 68.5%              | 15.0%         | 0.9x                   | 6.3x         |
| ASGN Incorporated                            | 81.48       | 61.8%             | 4,066      | 4,996            | 4,485    | 502    | 16.3%              | 11.2%         | 1.1x                   | 10.0x        |
| Cross Country Healthcare, Inc.               | 26.57       | 66.2%             | 991        | 1,100            | 2,819    | 318    | 125.2%             | 11.3%         | 0.4x                   | 3.5x         |
| Hays plc                                     | 1.39        | 72.5%             | 2,238      | 2,104            | 8,006    | 283    | 2.6%               | 3.5%          | 0.3x                   | 7.4x         |
| HireQuest, Inc.                              | 15.81       | 75.8%             | 219        | 224              | 34       | 19     | 73.0%              | 57.8%         | 6.7x                   | 11.6x        |
| Kelly Services, Inc.                         | 16.90       | 73.5%             | 643        | 590              | 4,982    | 110    | 1.7%               | 2.2%          | 0.1x                   | 5.4x         |
| Kforce Inc.                                  | 54.83       | 70.2%             | 1,080      | 1,087            | 1,701    | 120    | 11.7%              | 7.1%          | 0.6x                   | 9.0x         |
| ManpowerGroup Inc.                           | 83.21       | 72.0%             | 4,207      | 4,899            | 20,401   | 773    | 0.0%               | 3.8%          | 0.2x                   | 6.3x         |
| PageGroup plc                                | 5.56        | 69.4%             | 1,767      | 1,726            | 2,254    | 286    | 15.2%              | 12.7%         | 0.8x                   | 6.0x         |
| Randstad N.V.                                | 60.87       | 84.4%             | 11,132     | 11,862           | 26,785   | 1,252  | (2.0%)             | 4.7%          | 0.4x                   | 9.5x         |
| Recruit Holdings Co., Ltd.                   | 31.67       | 58.5%             | 50,689     | 45,559           | 22,306   | 3,499  | (4.0%)             | 15.7%         | 2.0x                   | 13.0x        |
| Robert Half International Inc.               | 73.83       | 58.7%             | 7,881      | 7,519            | 7,281    | 1,049  | 21.4%              | 14.4%         | 1.0x                   | 7.2x         |
| TrueBlue, Inc.                               | 19.58       | 64.6%             | 641        | 660              | 2,254    | 98     | 3.7%               | 4.4%          | 0.3x                   | 6.7x         |
| <b>Mean</b>                                  |             | <b>68.7%</b>      |            |                  |          |        | <b>21.6%</b>       | <b>12.4%</b>  | <b>1.2x</b>            | <b>8.3x</b>  |
| <b>Median</b>                                |             | <b>69.4%</b>      |            |                  |          |        | <b>3.7%</b>        | <b>11.2%</b>  | <b>0.6x</b>            | <b>7.4x</b>  |
| <b>Total Mean</b>                            |             | <b>73.2%</b>      |            |                  |          |        | <b>18.9%</b>       | <b>13.7%</b>  | <b>3.0x</b>            | <b>12.8x</b> |
| <b>Total Median</b>                          |             | <b>72.3%</b>      |            |                  |          |        | <b>14.3%</b>       | <b>12.1%</b>  | <b>1.8x</b>            | <b>11.3x</b> |

Sources: Bloomberg, Capital IQ and company filings, as of 12/31/2022



# Lincoln's Business Services Group

## Committed to Serving Our Clients

We are immersed in the constantly evolving, rapidly growing service-based economy. Our breadth of transactional, operational and technical experience enables us to intuitively communicate the underlying dynamics in key subsectors and generate excellent outcomes for our clients' individual needs.

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## Advisory Services

Mergers & Acquisitions  
Capital Advisory  
Private Funds Advisory  
Valuations & Opinions



## About Lincoln International

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 850 employees in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at [www.lincolninternational.com](http://www.lincolninternational.com).

Connect with a professional in Lincoln International's Business Services Group at [www.lincolninternational.com/business-services](http://www.lincolninternational.com/business-services)