

HUMAN CAPITAL SERVICES

# Market Update



YEAR-END  
2023



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**LINCOLN  
INTERNATIONAL'S  
HUMAN CAPITAL  
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 HCS 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 HCS space. This update tracks pricing and valuation metrics and transaction activity for five key HC services subsectors:

- Human Resources (HR) Outsourcing
- HR Professional and Training
- HR Technology
- Specialty Consulting
- Staffing

## Market Insights

Recession fears resulting from tightening monetary policy focused on reducing inflation created uncertainty for companies within the human capital services (HCS) sector in 2023 that led to a decline in mergers and acquisitions (M&A) activity as compared to 2021 and 2022. Ultimately, the actual economic data generally outperformed expectations. The labor market in the U.S. remained resilient, with unemployment remaining consistently below the forecasted numbers throughout the year despite stubbornly high-interest rates. Unemployment finished the year below 4%. However, while job creation continued throughout the year, the rate of that growth did decline as the year progressed, and this became the object of some concern for buyers of many companies within the sector that thrive via employment growth. As a result of the persistent concerns, public market price appreciation generally lagged the overall markets during the year.

While slowing, the decline in M&A activity in the HCS space was less steep than the overall market in 2023, declining 13%. By comparison, total M&A volume for all industries declined 18% in 2023. Private equity (PE)-backed strategic acquirers of HCS businesses exhibited the greatest decline in acquisition activity in 2023, completing 177 total acquisitions, a 19% decline from 2022. Interestingly, platform acquisitions by financial acquirers remained relatively unchanged year-over-year (+1%) as PE buyers stayed committed to making new investments in the sector given the longer-term demand drivers which remain in place. From a subsector standpoint, the decline in staffing deals was most pronounced, accounting for over 70% of the total decrease in completed HCS M&A last year (which represents a 19% decline on staffing transactions year over year) as temporary job growth was significantly weaker than full-time job growth in the U.S. throughout 2023. Meanwhile both HR technology (flat) and specialty consulting subsectors up 7.2% showed superior volume trends to both the average in HCS and the overall M&A market.

The year ended with an increasingly optimistic tone as investor confidence built in the "soft landing" scenario in the U.S. late in 2023. All the subsectors within HCS tracked by Lincoln had noticeable "stock price" recoveries similar to that of the market overall in Q4. The firming in forward expectations for continued job growth should bode well for asset values and accelerated dealmaking activity in 2024.

*The year ended with a more optimistic tone as confidence built in the "soft landing" scenario in the U.S. late in 2023. All the subsectors within HCS tracked by Lincoln had noticeable recoveries similar to that of the market overall in Q4.*

## Human Capital Services Financial Performance

### YEAR-OVER-YEAR PRICE PERFORMANCE

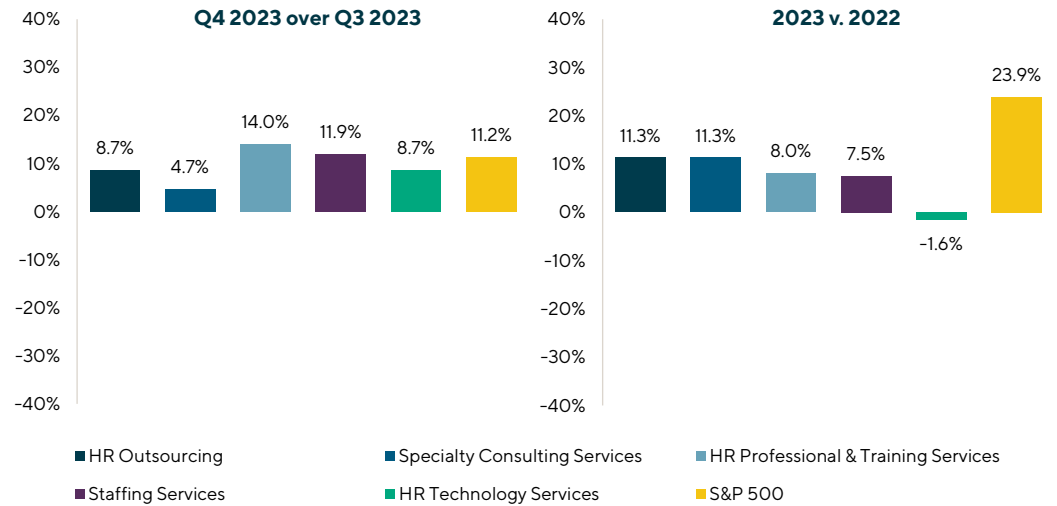
Overperformers	Change	Underperformers	Change
TriNet Group, Inc.	75.4%	DHI Group, Inc.	(51.0%)
Workday, Inc.	65.0%	Paycom Software, Inc.	(33.4%)
Adecco Group AG	48.8%	AMN Healthcare Services, Inc.	(27.2%)
Upwork Inc.	42.4%	Resources Connection, Inc.	(22.9%)
Huron Consulting Group Inc.	41.6%	TrueBlue, Inc.	(21.7%)

## INDICES HIGHLIGHTS

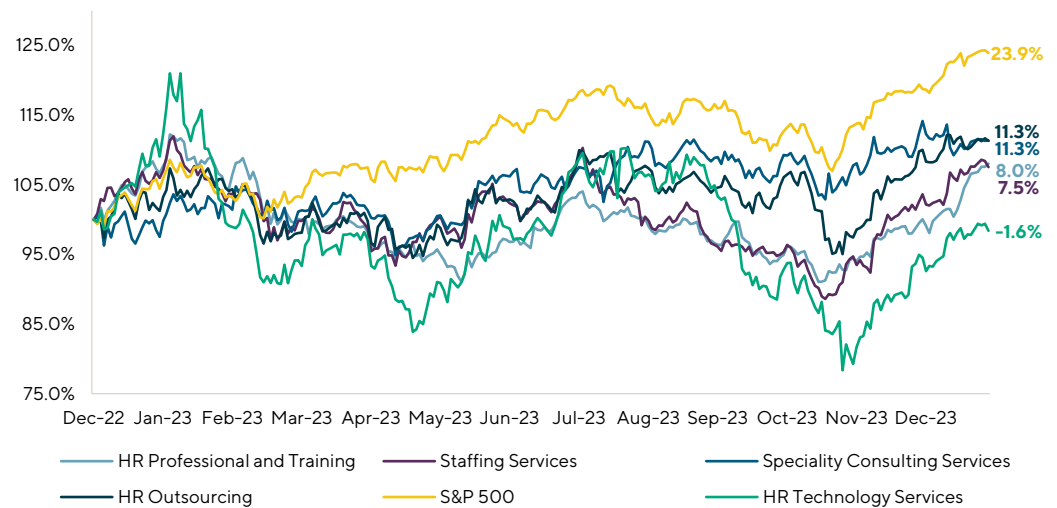
The fourth quarter of 2023 represented a strong rebound for the HCS sector, with all subsectors growing quarter-over-quarter, and the HR professional and training services and staffing services subsectors outperforming the S&P 500. HR technology also rebounded in Q4, but was negative for the year over concerns over technology spending in HR organizations.

EV/ EBITDA valuation multiples rose throughout the year, with all HCS subsectors ending Q4 2023 trading higher than Q4 2022. After material declines in 2022, the staffing services sector had the largest increase in valuation multiple. Staffing companies typically see multiple expansion with expectations of increased economic growth as the market anticipates improved volumes and revenue. Specialty consulting services continue to trade for the highest EV / EBITDA multiple (HR technology companies typically trade as a multiple of revenue).

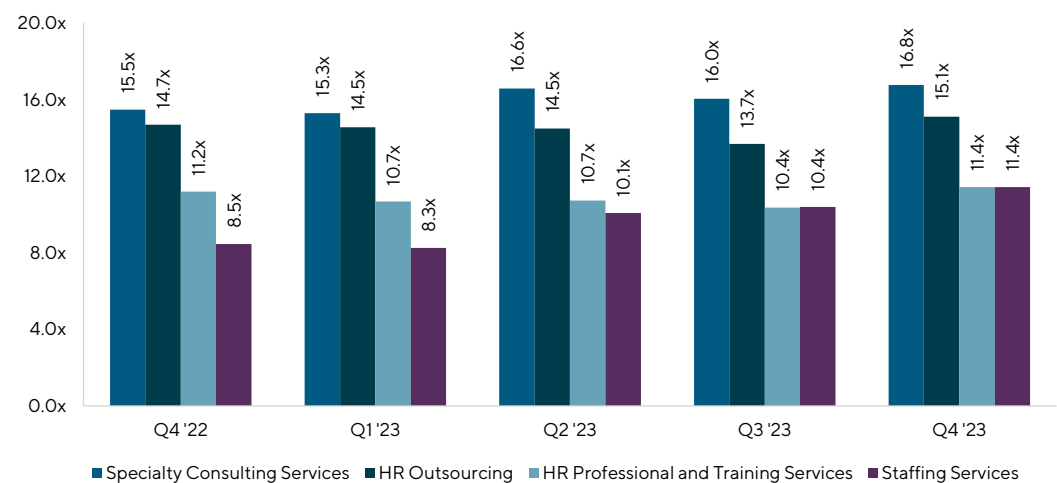
## QUARTER-OVER-QUARTER AND YEAR-OVER-YEAR STOCK INDICES PRICE CHANGE



## LTM RELATIVE STOCK INDICES PRICE PERFORMANCE

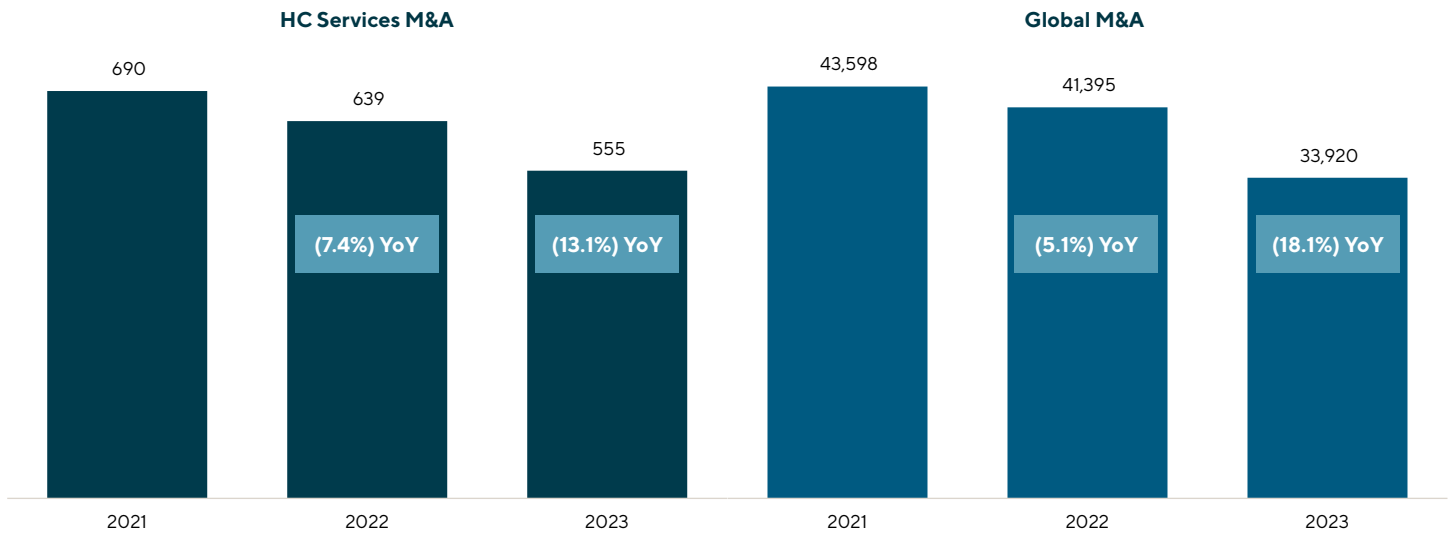


## HISTORICAL ENTERPRISE VALUE / LTM EBITDA VALUATION PERFORMANCE

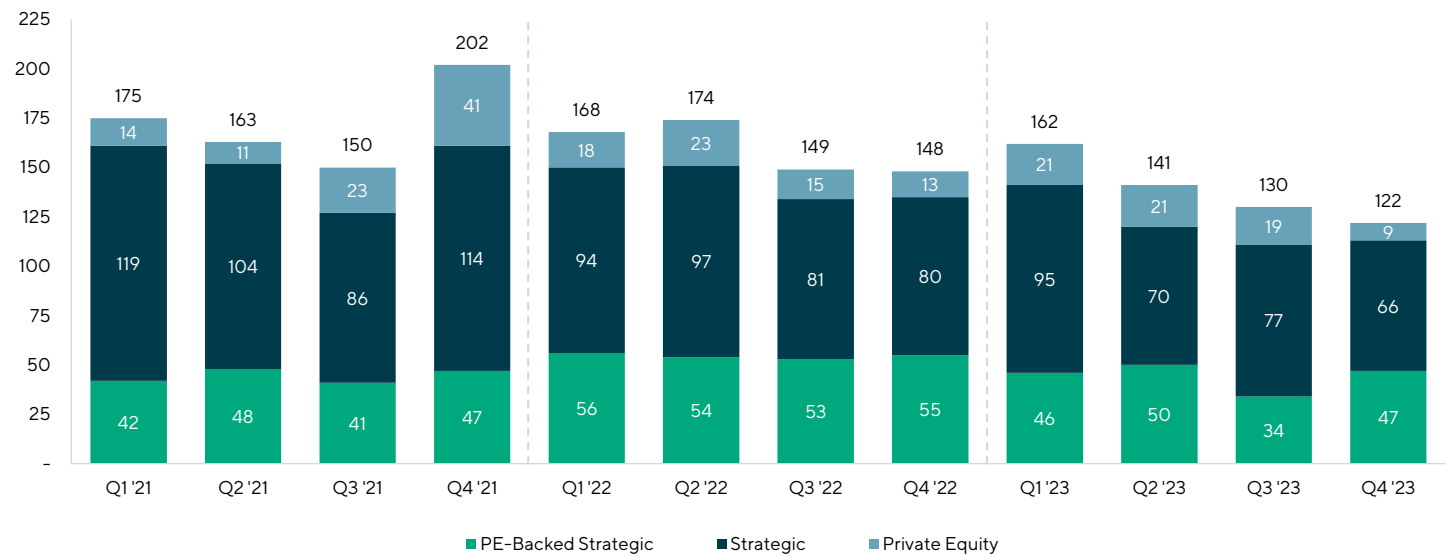


Note: Excludes HR technology, as companies within that subsector typically trade as a multiple of revenue

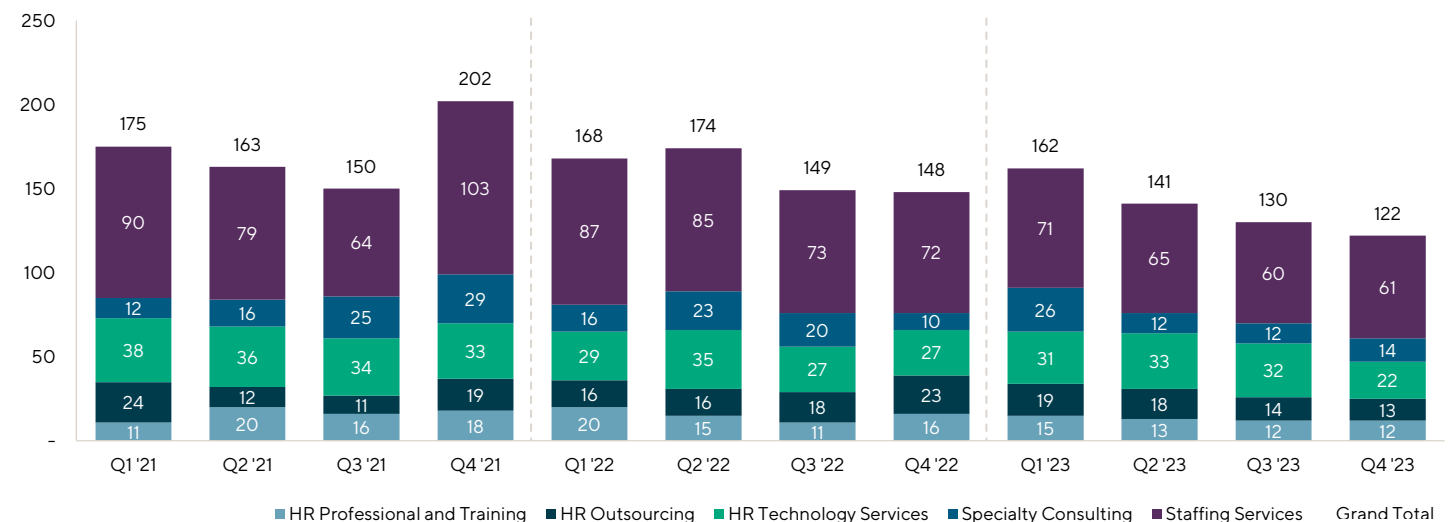
## HC SERVICES VERSUS GLOBAL TOTAL M&A TRANSACTION VOLUME



## TRANSACTION COUNT BY ACQUIRER TYPE

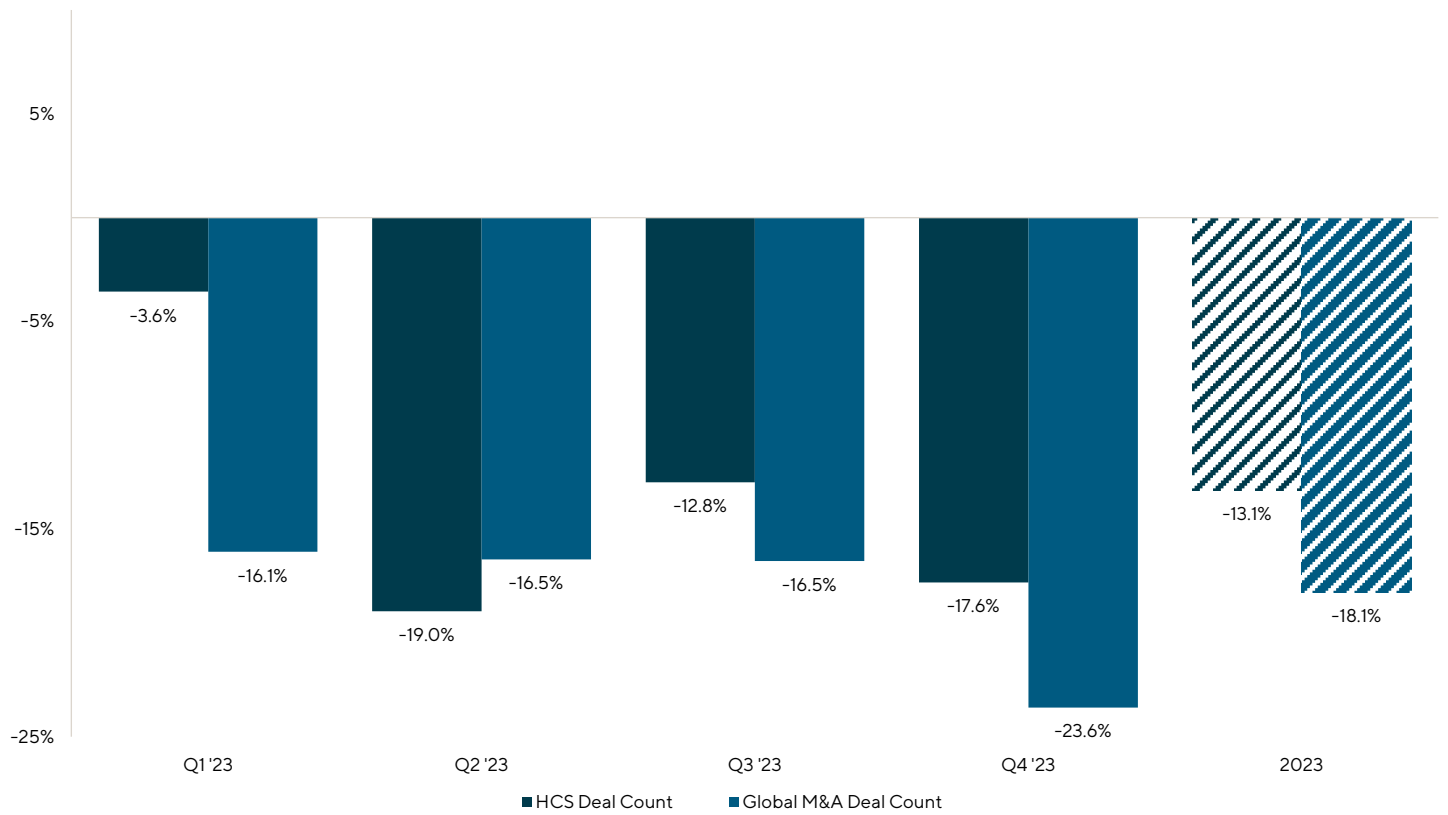


## TRANSACTION COUNT BY SUBSECTOR



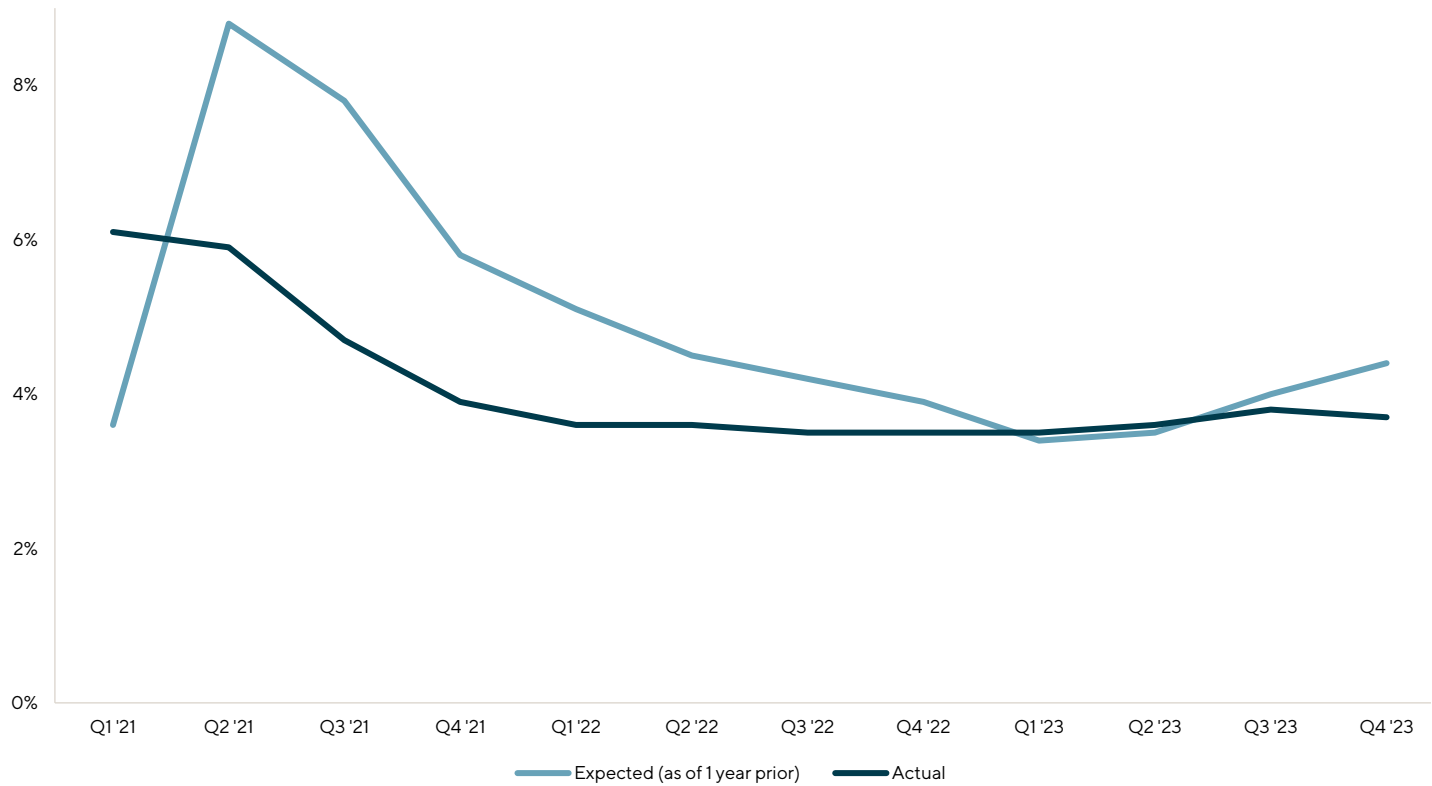
Sources: Pitchbook 2023 Annual Global M&A Report, Pitchbook data

## YEAR-OVER-YEAR CHANGE IN QUARTERLY DEAL VOLUME



Sources: Pitchbook 2023 Annual Global M&A Report, Pitchbook data

## UNEMPLOYMENT RATE



Sources: Bureau of Labor Statistics, Philadelphia Fed Survey of Professional Forecasters

# Market Intelligence

**Feb-2023:** Professional employer organizations (PEO) allow small companies to save on administration costs by outsourcing some workforce management tasks. In a challenging labor environment where it costs employers an average of over \$4,500 to fill an open position, PEOs have demonstrated their ability to increase employee engagement, retention and profitability. 66% of National Association of Professional Employer Organizations (NAPEO) members report that profitability has increased since becoming a PEO client. PEO clients also report higher scores in key employee satisfaction metrics, including confidence in the employer’s approach to growth and belief in the employer’s competitiveness. A separate survey by the NAPEO showed that awareness of PEOs has risen by 44% since 2018 as more companies realize the benefits they can bring.<sup>1</sup>

PEO’s strong outsourcing value proposition has shown itself to be relevant in virtually all economic environments. As such, PEO providers remained in high demand from investors despite the uncertain market environment. Two of the larger industry consolidators changed hands among PE owners in 2023. In May, Pro Service Hawaii took on a controlling investment by Silver Lake after having been partnered with FFL for several years. In August, Florida-based Engage PEO announced a deal with Kohlberg & Co as its new partner after a successful hold period with Lightyear capital. The following month, Engage completed an add-on for Utah-based Zamp HR. Similarly on the add-on front, Stone Point-backed Vensure Employer Solutions continued to be active with the acquisition of Canadian Payroll Services near year-end.

**Sept-2023:** HR departments’ core goals shifted in 2023, with supporting change rising in priority to number five as transformational technologies such as artificial intelligence (AI) inspire businesses to rethink how they operate. Over two-thirds of HR respondents cited capacity constraints

as a primary obstacle to achieving their targets. Industry insiders see leveraging data as the key to alleviating capacity stresses. Demand for automation and technology tools is expected to continue to rise as companies employ innovative solutions to combat capacity challenges. HR departments that can successfully use data to inform their decisions are 2.3 times as likely to be perceived as highly effective. Expect to see significant investment in these areas as companies seek to improve efficiency and better utilize analytics to maximize the effectiveness of strategic initiatives.<sup>2</sup>

**Dec-2023:** The credit outlook for the U.S. staffing services sector is expected to remain stable despite lighter earnings and softening demand. Temporary hiring, which makes up two-thirds of the staffing sector’s revenues, has experienced a slowdown as companies attempt to balance their staffing needs against employee retention. Businesses have been increasingly selective in the roles they choose to fill as growing wages have driven up labor costs yet are reluctant to reduce their workforce due to challenging hiring conditions. The outlook for 2024 is positive as staffing shortages should continue to improve and the adoption of AI and data analytics technologies allows for increased efficiency.<sup>3</sup>

**Jan-2024:** The U.S. labor market saw increased growth in December 2023, adding 216,000 jobs. The unemployment rate to the end of the year was 3.7%, remaining unchanged month over month but marginally higher than a year prior, with December 2022 coming in at 3.5%. The three sectors contributing the most to job growth in 2023 were 1) government, 2) health care and 3) social assistance. The average monthly job growth in 2023 in these industries totaled 56k, 55k and 22k, respectively. Employment in professional and business services added an average of 22k jobs per month in 2023, compared to an average monthly gain of 41k in 2022.<sup>4</sup>

# Lincoln’s Experience in Human Capital Services

<p>Shareholders have sold a stake in</p>  <p>to</p>  <p>Sell-Side</p> 	<p><b>INTELLUM</b></p> <p>has received a strategic growth investment from</p>  <p>Sell-Side</p> 	<p>gate+</p> <p>has sold</p>  <p>to</p>  <p>Sell-Side</p> 	<p><b>Legal digital</b></p> <p>has raised capital from</p>     <p>Capital Raise</p> 	<p>Private shareholders and</p>  <p>have sold</p>  <p>to</p>  <p>Sell-Side</p> 
<p><b>Alcedo</b> sgr</p> <p>has sold</p>  <p>to</p>  <p>Sell-Side</p> 	<p><b>eca</b> INTERNATIONAL</p> <p>has received an investment from</p>  <p>Sell-Side</p> 	<p>Founders have sold a majority stake in</p>  <p>to</p>  <p>Sell-Side</p> 	<p><b>TIS</b> TIS INTEC Group</p> <p>has acquired a minority stake in</p>  <p>Buy-Side</p> 	

1. ADP: How Small Businesses Use PEO Services to Boost Employee Engagement and Satisfaction  
 2. McLean & Company: 2024 HR Trends Report  
 3. Fitch Ratings: U.S. Staffing Services Demand, Revenue to Stabilize Amid Tight Labor Market  
 4. BLS: The Employment Situation – December 2023



## HUMAN CAPITAL SERVICES STOCK INDICES DATA

Company Name	Stock Price	% of 52 Week High	Market Cap	Enterprise Value	LTM		YoY Revenue Growth	EBITDA Margin	Gross Margin	Revenue	EBITDA	Enterprise Value/LTM	
					Revenue	EBITDA						Revenue	EBITDA
<b>HR Outsourcing</b>													
Alight, Inc.	\$8.53	83.8%	\$4,665	\$7,692	\$819	\$470	NM	13.9%	35.1%	2.3x	16.4x	2.1x	9.4x
Automatic Data Processing, Inc.	232.97	90.7%	95,822	98,132	5,806	5,207	8.5%	28.4%	47.5%	5.4x	18.8x	5.0x	16.9x
Barrett Business Services, Inc.	115.80	97.0%	766	657	69	61	2.5%	5.8%	22.3%	0.6x	10.7x	0.6x	9.5x
Ceridian HCM Holding Inc.	67.12	84.3%	10,347	11,083	491	211	21.6%	14.5%	48.4%	7.6x	NM	6.4x	NM
First Advantage Corporation	16.57	99.0%	2,405	2,798	263	212	(4.5%)	27.4%	49.2%	3.6x	13.2x	3.4x	10.6x
Insperty, Inc.	117.22	89.4%	4,370	4,099	366	276	11.4%	4.3%	16.5%	0.6x	14.8x	0.6x	11.2x
Paychex, Inc.	119.11	91.8%	42,858	42,326	2,566	2,282	7.0%	44.3%	71.5%	8.2x	18.5x	7.3x	16.5x
Paycor HCM, Inc.	21.59	78.5%	3,834	3,795	221	16	27.0%	2.8%	66.2%	6.6x	NM	5.4x	NM
Sterling Check Corp.	13.92	82.7%	1,312	1,769	204	113	(6.5%)	15.8%	46.5%	2.5x	15.6x	2.3x	NM
TriNet Group, Inc.	118.93	96.2%	6,007	6,755	4,903	530	0.2%	10.8%	22.1%	1.4x	12.7x	5.0x	12.0x
<b>Mean</b>		<b>89.3%</b>					<b>7.5%</b>	<b>16.8%</b>	<b>42.5%</b>	<b>3.9x</b>	<b>15.1x</b>	<b>3.8x</b>	<b>12.3x</b>
<b>Median</b>		<b>90.1%</b>					<b>7.0%</b>	<b>14.2%</b>	<b>47.0%</b>	<b>3.0x</b>	<b>15.2x</b>	<b>4.2x</b>	<b>11.2x</b>
<b>HR Professional and Training Services</b>													
BTS Group AB	\$27.92	78.9%	\$569	\$530	\$242	\$31	13.2%	12.8%	41.9%	2.2x	17.1x	1.8x	10.8x
Franklin Covey Co.	43.53	87.5%	578	556	280	34	3.2%	12.3%	76.2%	2.0x	16.2x	1.6x	NM
Heidrick & Struggles International, Inc.	29.53	84.0%	594	337	1,009	97	(10.1%)	9.6%	24.9%	0.3x	3.5x	0.3x	2.8x
Korn Ferry	59.35	98.6%	3,118	3,016	2,815	325	(0.4%)	11.5%	21.7%	1.1x	9.3x	1.1x	7.4x
Marsh & McLennan Companies, Inc.	189.47	93.4%	93,422	106,296	22,204	5,936	6.6%	26.7%	43.3%	4.8x	17.9x	4.4x	15.8x
Synergie SE	38.91	100.0%	920	669	3,271	148	9.9%	4.5%	10.9%	0.2x	4.5x	0.2x	3.8x
Willis Towers Watson Public Limited Company	241.20	93.2%	24,906	29,644	9,291	2,568	5.0%	27.6%	47.4%	3.2x	11.5x	3.0x	11.4x
<b>Mean</b>		<b>90.8%</b>					<b>3.9%</b>	<b>15.0%</b>	<b>38.0%</b>	<b>2.0x</b>	<b>11.4x</b>	<b>1.8x</b>	<b>8.7x</b>
<b>Median</b>		<b>93.2%</b>					<b>5.0%</b>	<b>12.3%</b>	<b>41.9%</b>	<b>2.0x</b>	<b>11.5x</b>	<b>1.6x</b>	<b>9.1x</b>
<b>HR Technology Services</b>													
DHI Group, Inc.	\$2.59	41.0%	\$115	\$160	\$154	\$23	7.4%	15.2%	87.3%	1.0x	6.8x	1.1x	4.6x
Paycom Software, Inc.	206.72	55.3%	11,928	11,473	1,630	511	26.4%	31.4%	87.1%	7.0x	22.5x	6.1x	14.9x
Paylocity Holding Corporation	164.85	70.1%	9,261	9,025	1,239	219	34.0%	17.7%	69.1%	7.3x	41.2x	5.9x	17.9x
Upwork Inc.	14.87	93.2%	2,024	1,838	667	(35)	12.3%	(5.2%)	75.1%	2.8x	NM	2.4x	NM
Workday, Inc.	276.06	98.7%	72,604	69,000	6,983	316	17.4%	4.5%	74.7%	9.9x	NM	8.2x	NM
ZipRecruiter, Inc.	13.90	57.8%	1,374	1,433	720	106	(21.2%)	14.7%	90.0%	2.0x	13.6x	2.5x	NM
<b>Mean</b>		<b>69.4%</b>					<b>12.7%</b>	<b>13.0%</b>	<b>80.6%</b>	<b>5.0x</b>	<b>21.0x</b>	<b>4.4x</b>	<b>12.5x</b>
<b>Median</b>		<b>64.0%</b>					<b>14.9%</b>	<b>14.9%</b>	<b>81.1%</b>	<b>4.9x</b>	<b>18.0x</b>	<b>4.2x</b>	<b>14.9x</b>
<b>Specialty Consulting Services</b>													
CBIZ, Inc.	\$62.59	99.2%	\$3,106	\$3,716	\$1,559	\$201	14.6%	12.9%	14.3%	2.4x	18.5x	2.3x	15.6x
CRA International, Inc.	98.85	77.2%	692	808	607	66	4.6%	10.9%	29.7%	1.3x	12.2x	1.3x	11.5x
Exponent, Inc.	88.04	78.1%	4,457	4,347	496	123	8.9%	24.9%	36.4%	8.8x	35.2x	8.1x	28.6x
FTI Consulting, Inc.	199.15	85.8%	6,936	7,270	3,339	395	13.9%	11.8%	32.1%	2.2x	18.4x	2.0x	16.3x
The Hackett Group, Inc.	22.77	91.7%	620	656	289	59	(0.6%)	20.4%	40.4%	2.3x	11.2x	2.1x	9.6x
Huron Consulting Group Inc.	102.80	90.7%	1,776	2,167	1,337	155	25.3%	11.6%	30.8%	1.6x	14.0x	1.5x	11.3x
ICF International, Inc.	134.09	92.2%	2,523	3,263	1,960	189	15.8%	9.6%	35.7%	1.7x	17.3x	1.6x	14.4x
Resources Connection, Inc.	14.17	75.6%	477	382	705	52	(14.7%)	7.4%	39.4%	0.5x	7.3x	0.5x	NM
<b>Mean</b>		<b>86.3%</b>					<b>8.5%</b>	<b>13.7%</b>	<b>32.4%</b>	<b>2.6x</b>	<b>16.8x</b>	<b>2.4x</b>	<b>15.3x</b>
<b>Median</b>		<b>88.3%</b>					<b>11.4%</b>	<b>11.7%</b>	<b>33.9%</b>	<b>1.9x</b>	<b>15.6x</b>	<b>1.8x</b>	<b>14.4x</b>
<b>Staffing Services</b>													
Adecco Group AG	\$49.20	97.7%	\$8,191	\$12,007	\$25,466	\$936	13.3%	3.7%	20.9%	0.5x	12.8x	0.4x	10.3x
Amadeus FiRe AG	136.02	88.0%	739	839	458	83	15.7%	18.2%	54.7%	1.8x	10.1x	1.7x	7.3x
AMN Healthcare Services, Inc.	74.88	65.8%	2,830	3,740	4,096	580	(25.3%)	14.2%	33.3%	0.9x	6.4x	1.1x	9.3x
ASGN Incorporated	96.17	98.3%	4,539	5,495	4,527	472	0.9%	10.4%	29.1%	1.2x	11.6x	1.3x	11.1x
Cross Country Healthcare, Inc.	22.64	71.2%	796	787	2,234	172	(20.8%)	7.7%	22.3%	0.4x	4.6x	0.5x	7.8x
Hays plc	1.39	83.4%	2,204	2,273	9,637	278	20.4%	2.9%	5.6%	0.2x	8.2x	0.2x	7.0x
HireQuest, Inc.	15.35	52.2%	214	228	36	14	22.9%	37.5%	100.0%	6.3x	16.8x	6.2x	11.3x
Kelly Services, Inc.	21.62	97.8%	763	710	4,837	95	(2.9%)	2.0%	20.1%	0.1x	7.5x	0.2x	5.4x
Kforce Inc.	67.56	94.9%	1,278	1,316	1,588	96	(6.7%)	6.1%	28.2%	0.8x	13.7x	0.9x	12.1x
ManpowerGroup Inc.	79.47	86.0%	3,879	4,689	19,093	584	(6.4%)	3.1%	17.9%	0.2x	8.0x	0.3x	8.5x
PageGroup plc	6.20	96.9%	1,962	1,970	2,601	196	15.4%	7.5%	52.0%	0.8x	10.0x	0.8x	7.5x
Randstad N.V.	62.69	90.4%	11,304	12,426	27,784	1,130	3.7%	4.1%	20.8%	0.4x	11.0x	0.4x	8.0x
Recruit Holdings Co., Ltd.	42.30	99.2%	65,793	59,829	22,856	2,958	2.5%	12.9%	57.8%	2.6x	20.2x	2.4x	15.0x
Robert Half Inc.	87.92	97.9%	9,156	8,642	6,647	624	(8.7%)	9.4%	40.8%	1.3x	13.8x	1.4x	14.0x
TrueBlue, Inc.	15.34	73.6%	478	495	1,972	30	(15.0%)	1.5%	26.7%	0.3x	16.5x	0.3x	16.9x
<b>Mean</b>		<b>86.2%</b>					<b>0.6%</b>	<b>9.4%</b>	<b>35.3%</b>	<b>1.2x</b>	<b>11.4x</b>	<b>1.2x</b>	<b>10.1x</b>
<b>Median</b>		<b>90.4%</b>					<b>0.9%</b>	<b>7.5%</b>	<b>28.2%</b>	<b>0.8x</b>	<b>11.0x</b>	<b>0.8x</b>	<b>9.3x</b>
<b>Total Mean</b>		<b>85.4%</b>					<b>5.5%</b>	<b>13.1%</b>	<b>42.7%</b>	<b>2.6x</b>	<b>14.1x</b>	<b>2.5x</b>	<b>11.4x</b>
<b>Total Median</b>		<b>89.9%</b>					<b>6.6%</b>	<b>11.6%</b>	<b>37.9%</b>	<b>1.7x</b>	<b>13.4x</b>	<b>1.6x</b>	<b>11.2x</b>

Sources: Bloomberg, Capital IQ and company filings, as of 12/29/2023

## 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 950 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).

## 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.



## Advisory Services

Mergers & Acquisitions  
Capital Advisory  
Private Funds Advisory  
Valuations & Opinions

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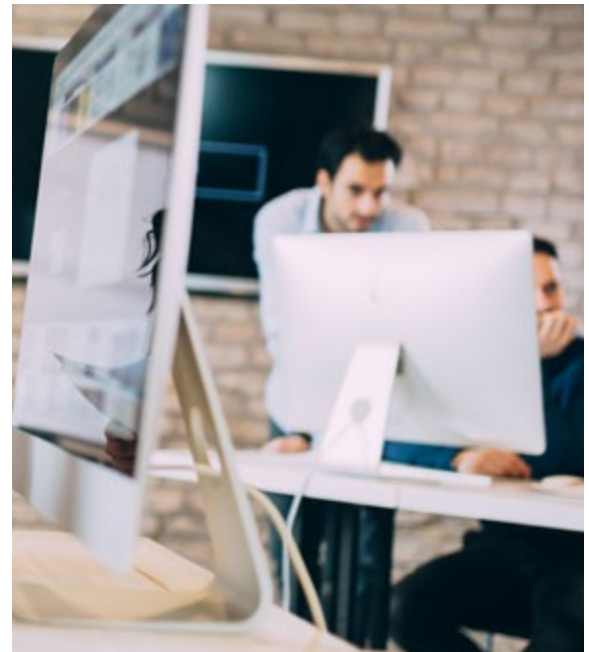
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