



# Recruitment Industry

## A Summary Report of UK M&A Activity

June 2023

Report undertaken by The Corporate Finance Network in association with member firm TWP Accounting LLP

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# Sector Overview

## Key Industry Statistics

The information in Table 1 below comes from a report on Employment Placement Agencies in the United Kingdom, updated by IbisWorld in February 2023.

**Table 1 – Recruitment industry key statistics**

Category	Figure
2023 Industry Value	£18.3 billion
Industry Value Growth on Previous Year	3.7%
Annualised Market Size Growth (2018-2023)	4.4%

## Market Overview

The employment service market, which is defined as temporary and contract staffing services, is largely driven by the hiring patterns of public and private sector companies. This is in addition to the macroeconomic environment of the economy generally. Despite the Brexit-induced low growth rates and business confidence of 2016 to 2019, a tight labour market enabled the UK recruitment sector to remain resilient.

The COVID-19 pandemic significantly impacted the demand for employment, with companies making staff redundant and reducing hiring rates to ensure financial resilience. These impacts were felt particularly severely in the tourism and hospitality industry, where COVID-19 restrictions curtailed demand. However, government intervention in the form of a furlough scheme helped to support the UK labour market – especially when compared to other markets – resulting in it remaining relatively robust in this period.

## Market Outlook

Although demand for recruitment sector is somewhat contingent on strong macroeconomic conditions, an impending recession will likely not be as detrimental as it may seem to the recruitment sector. Despite UK GDP projected to fall by 0.3% in 2023, there is cause to remain bullish about the UK recruitment industry.

The tight labour market, which remains so despite evidence of cooling, will likely support recruitment firms. In January to March 2023, the number of unemployed people per vacancy



remains at just 1.2 - this sits just above the historic low of 0.9 in June to August 2022. This will drive up demand for employment services and lessen the rivalry between firms, although this depends on the number of new entrants. This hypothesis is corroborated by recruitment firms themselves – of which 59% are actively trying to recruit staff (British Chambers of Commerce, 2023).

Furthermore, attitudes in a post-COVID recovery phase will also boost recruitment firms. Recruitment Accountants cite research which suggests workers felt unable to change jobs during lockdown, whereas they are now interested in new opportunities.

Additionally, there are abundant opportunities for recruitment firms that are willing to embrace new working patterns. Remote working has led to firms being able to recruit increasingly on an international level, leading to opportunities for recruitment firms offering a complete package of tax and contract solutions. Firms that can take advantage of this will also be increasingly resilient against external shocks in local markets. This sentiment was echoed by Ann Swain, Founder and Global CEO, Apsco, who said, “recruitment companies will be thinking more about global expansion and where they want to be next.”

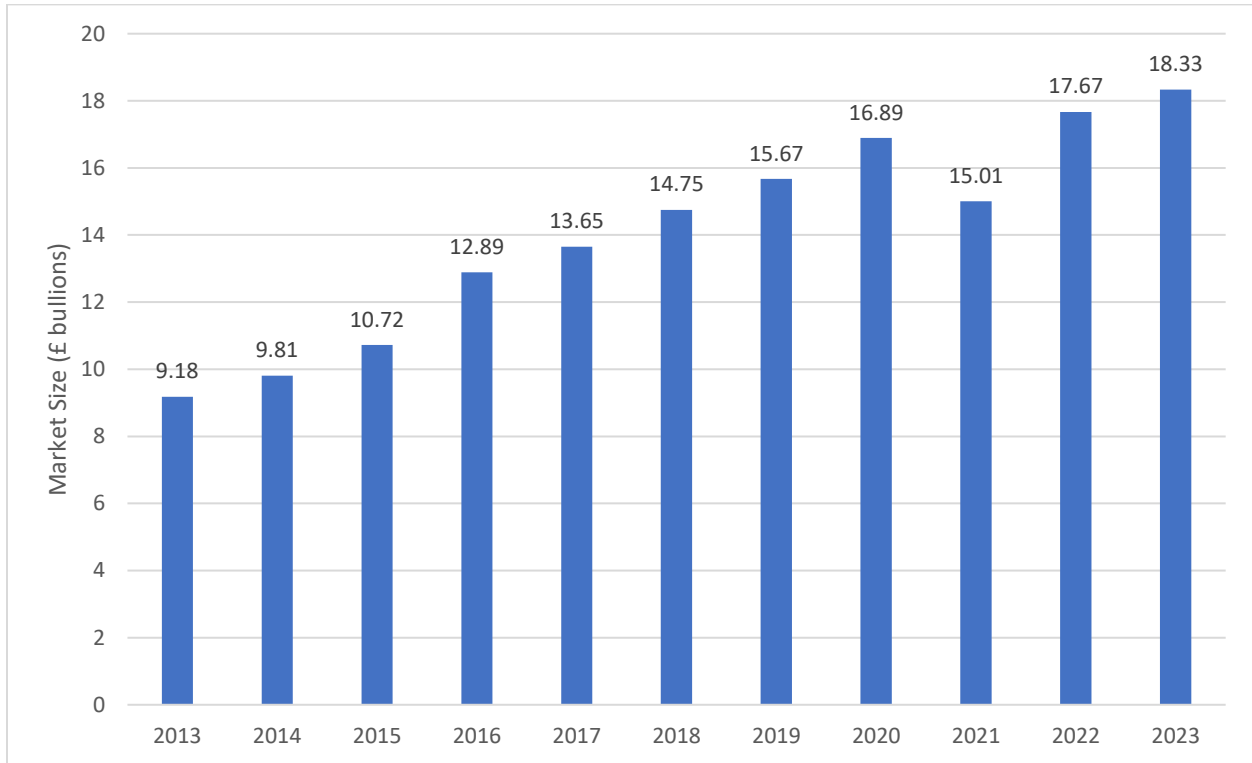
More generally, advances in digitisation - when coupled with a dynamic UK job market - have reduced the barriers to entry for a start-up in the recruitment industry, helping to fuel future growth in the market.

Recruitment technologies will increasingly allow firms to differentiate themselves, particularly where they are able to achieve personalisation through AI software. With technology, also comes scalability and the opportunity for increased market share in what is an increasingly competitive industry.

With opportunity within the sector for innovative technologies and global expansion, a continually tight labour market suppressing competition, the market is projected to grow over subsequent years. This is demonstrated in Chart 1 below.



**Chart 1 – Market Size (£ billions)**



*Chart 1 - data taken from IbisWorld*

## **Market Competition**

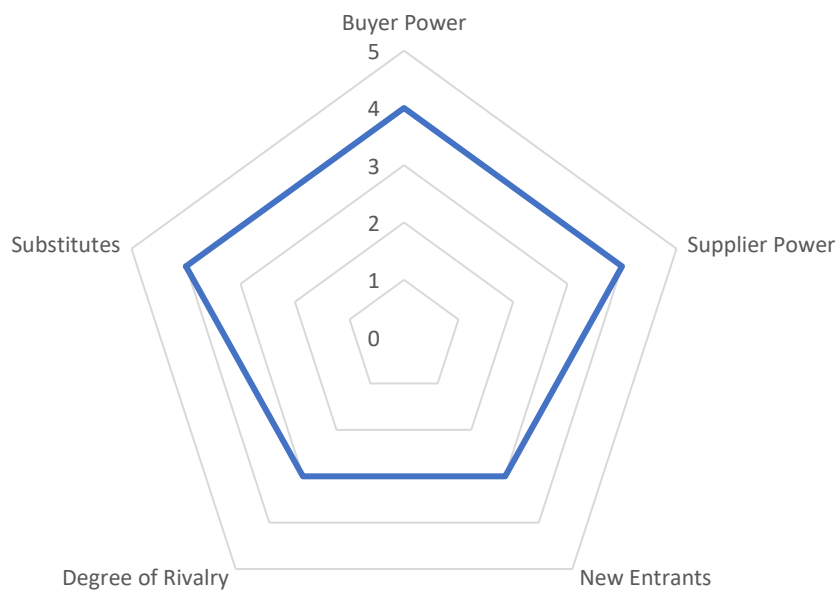
The MarketLine 2022 Employment Services in the UK Report identifies the top five forces driving competition within the sector. Overall, the assessment is that competition within the sector is moderate.

1. **Buyer Power** – buyers within the market differ greatly in size, from SMEs to MNCs. Buyer power is strengthened by the ability to switch between recruiters at relatively low cost and the large revenue streams that multinational corporations can offer.



2. **Supplier Power** – key inputs into the sector include IT software systems and the pool of prospective employers, that is essential to business function. Market players generally have an exclusive IT provider and would experience high switching costs, boosting supplier power.
3. **Degree of Rivalry** – rivalry in the UK market is moderate. Whilst there are large international players present, individuals markets remain fragmented with relatively low service differentiation to date. The low costs of switching may enhance rivalry, but the growing trend of businesses specialising their services will help to alleviate this.
4. **New Entrants** – whilst the UK market consists of many highly reputable companies with strong brand names, new entrants may be able to benefit from opportunities provided by high levels of technological adoption. The strong growth of the UK market in recent years also provides opportunities for new entrants.
5. **Substitutes** – the threat of substitutes is strong for firms in the industry, primarily driven by the low cost of switching between rival firms. Additionally, there is the prospect of – particularly in the case of larger firms – clients taking their recruitment in-house.

**Chart 2 – Forces driving competition in the UK Employment Services market**

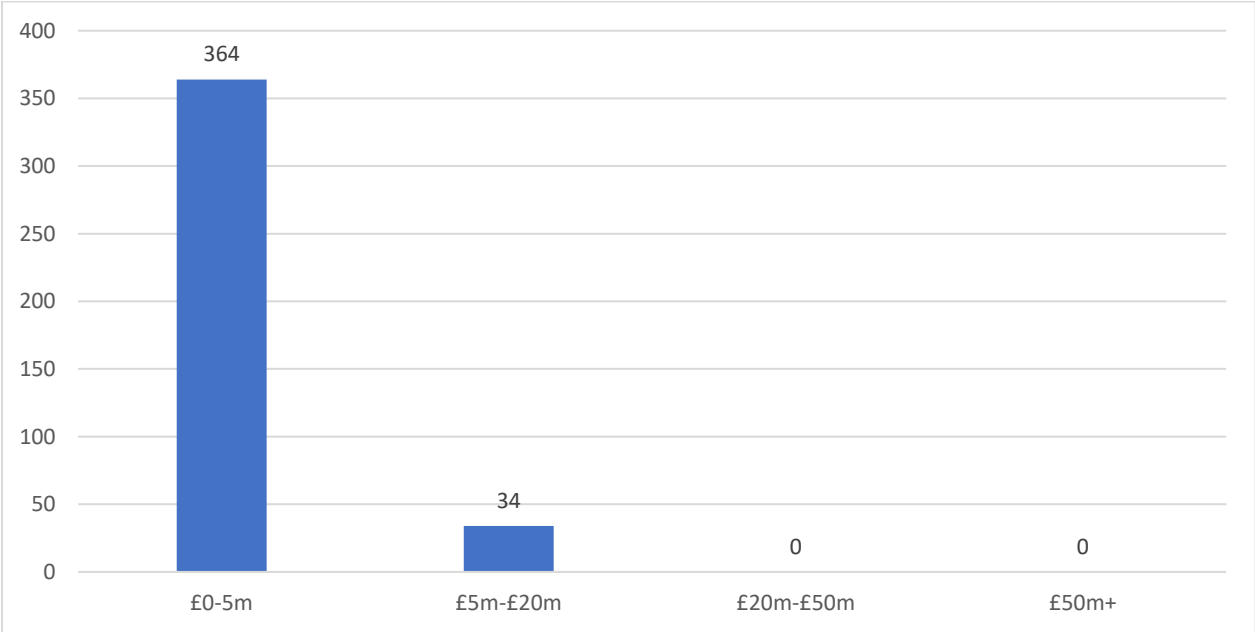


Plimsoll, a provider of industry analysis, has recently published a report on Recruitment Agencies. The report analyses 2,400 UK-based companies within the sector. The analysis covers five areas:

- 1. Takeover targets;
- 2. Profitability analysis;
- 3. Sales growth;
- 4. Financial Position;
- 5. Change in value over previous year.

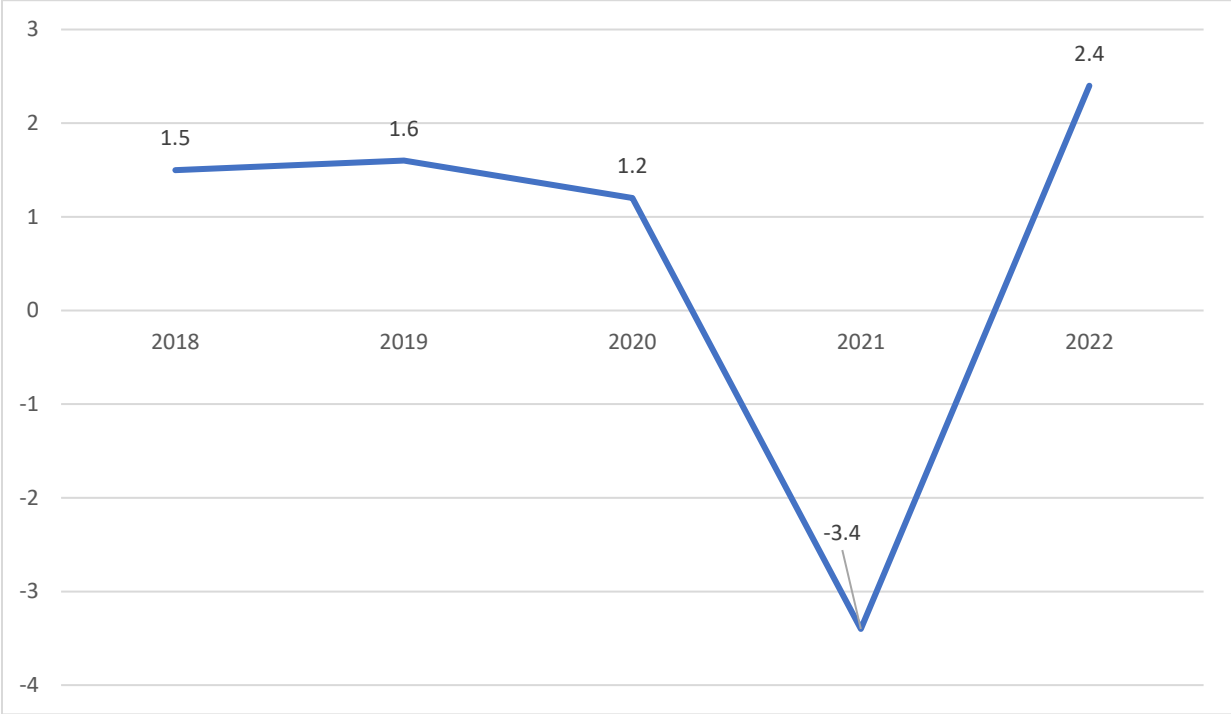
There have been 364 companies highlights as “highly attractive” potential takeover prospects in the lower band of £0m to £5m revenue. It should be noted that there is a relatively scare number, 34, of companies with a revenue of over £5m, and no prospects in the mid-market range. This suggests that the UK market is characterised by a number of SME players.

**Chart 3 – Plimsoll Recruitment Agencies analysis, takeover prospects (sorted by revenue £m)**



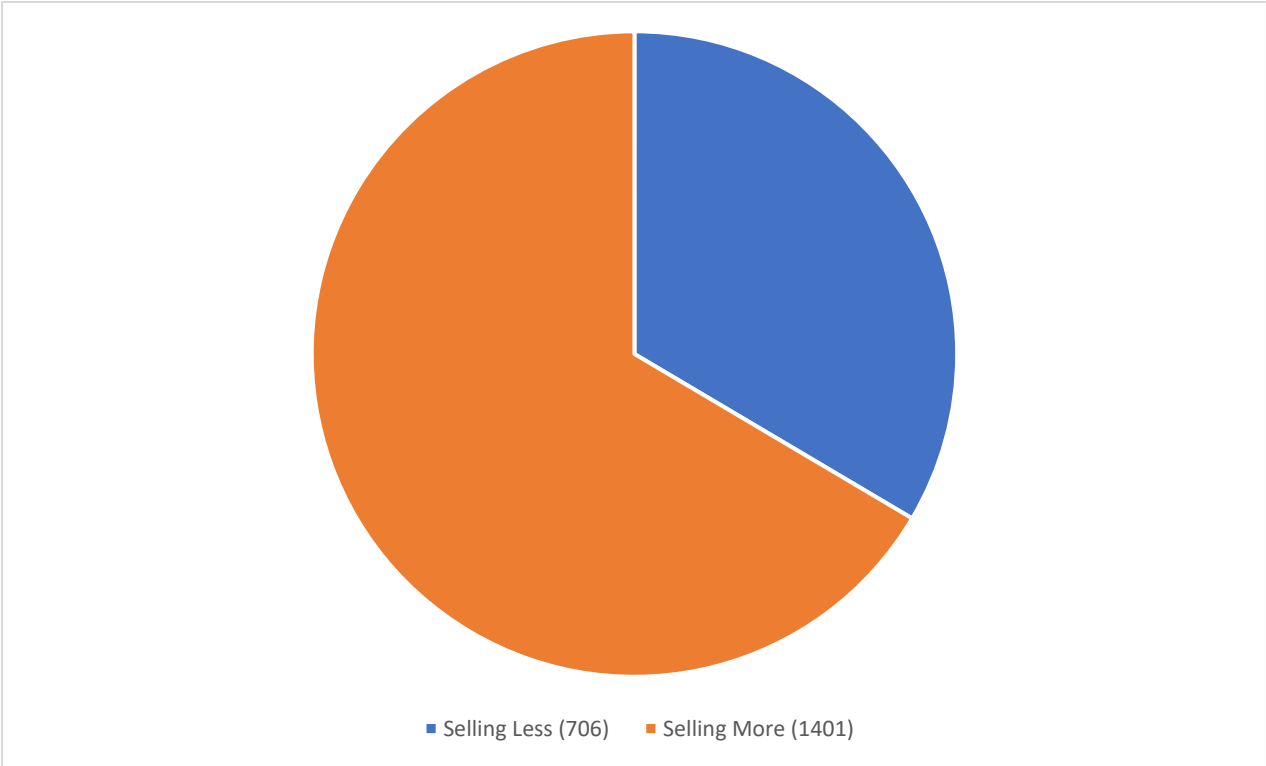
Profit margins in the Recruitment industry have traditionally been relatively low and somewhat stable -with the exception of 2021 - hovering at 1.4%  $\pm$ 0.2% between 2018 and 2020. Profitability fell in 2021, to -3.4%, which is likely a lagged impact of clients' concerns over long-term business health after the COVID-19 pandemic

**Chart 4 – Plimsoll Recruitment Agencies analysis, average profit margins (%)**



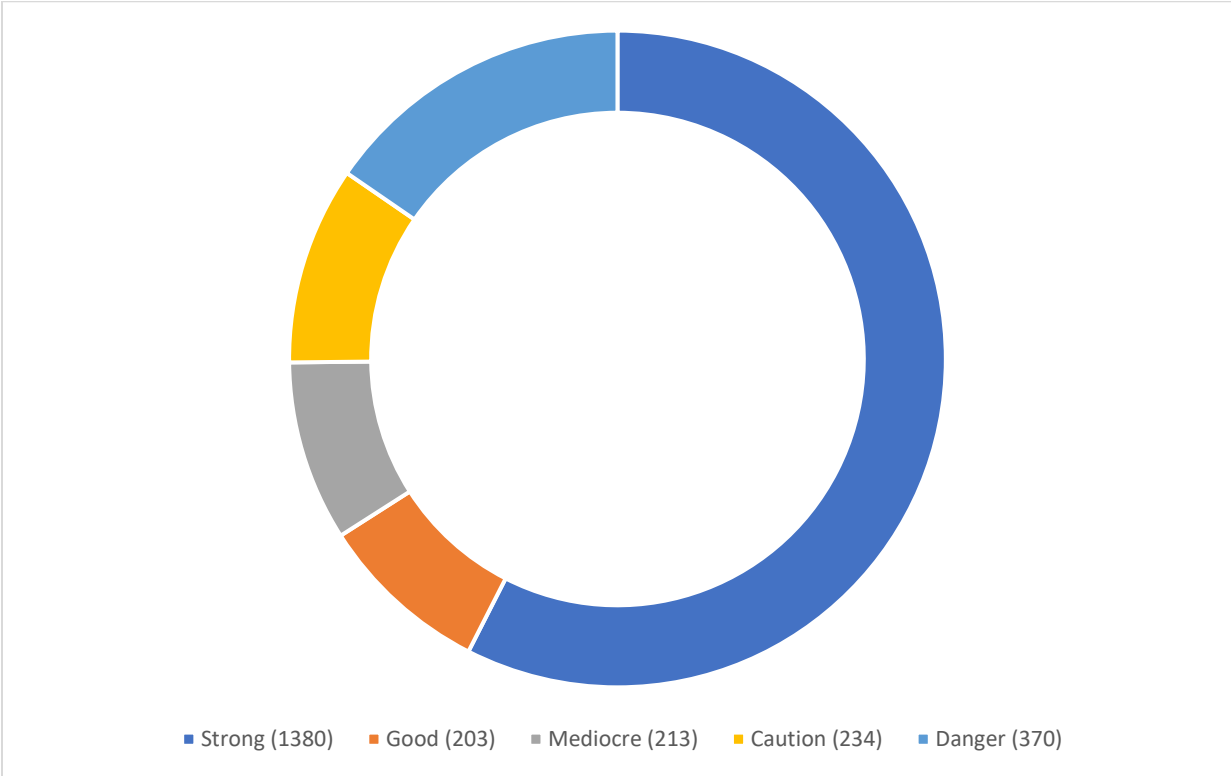
Of the recruitment companies analysed by Plimsoll, 66% of companies have increased their sales on the previous year. This suggests that, on aggregate, sales in the recruitment Industry have been growing and revenues expanding. In addition, some firms have been experiencing rapid growth: 346 companies have been reported as growing by more than 10% in the latest year.

**Chart 5 – Plimsoll Recruitment Agencies analysis, sales growth**



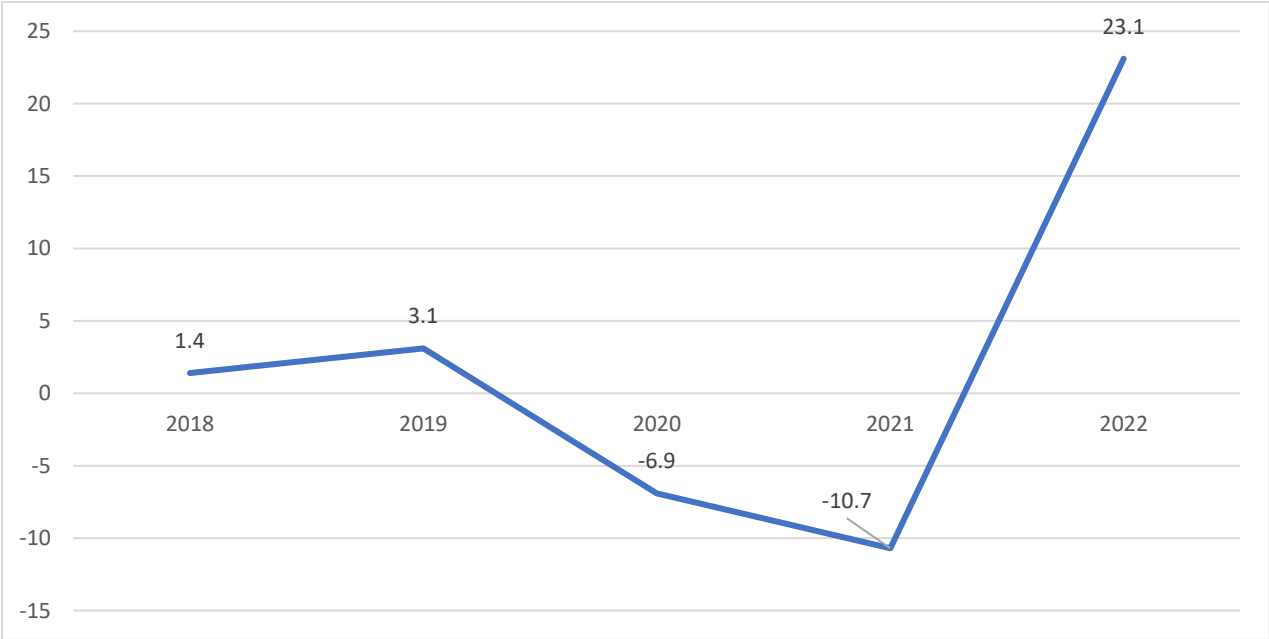
Based on the companies analysed, 1380 (58%) have been rated as 'strong', the highest category. The lowest category, 'danger', accounts for 370 (15%) of the companies in the industry. One indication of competition within the sector is that 258 companies continued to sell at a loss for a second consecutive year.

**Chart 6 – Plimsoll Recruitment Agencies analysis, company ratings**



The final part of the Plimsoll analysis identifies change in value year on year. Over the past 5 years, valuations have been somewhat volatile from year-to-year. After valuation increases in 2018 and 2019, average change in value was -6.9% and -10.7% in 2020. As discussed, this is likely to be due to a combination of factors including low confidence amongst clients surrounding COVID-19 recovery. Despite a 2.2% rise in value on average, 372 companies have lost more than a quarter of their value in the latest year. This indicates that, although the overall outlook is positive, there is a divergence in valuation across the recruitment industry.

**Chart 7 – Plimsoll Recruitment Agencies analysis, average change in value across industry (%)**

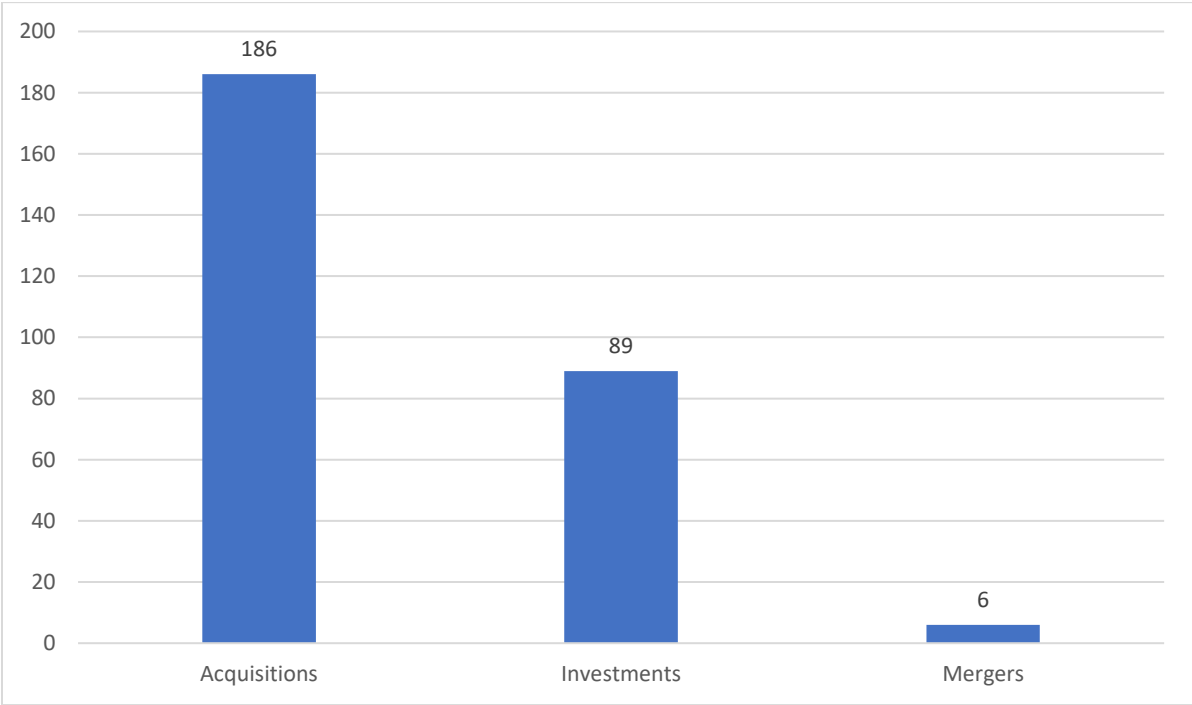


# Summary of M&A Activity in the Sector

## Deal Type

- Statistics from Experian MarketIQ indicate that - in the UK - from January 2018 to June 2023, there were 281 significant deals in the Recruitment Agencies industry. Experian only reports deals over a certain threshold; therefore it is likely that not all deals are captured.
- Chart 8 shows how the deals breakdown by type. Note that investments include management buy-outs, secondary management buy-outs and management buy-ins.
- The relative lack of mergers in overall M&A transactions, highlighted in Chart 8 below, suggests that the Recruitment sector is dominated by trade buyers acquiring counterparties as bolt-on opportunities.

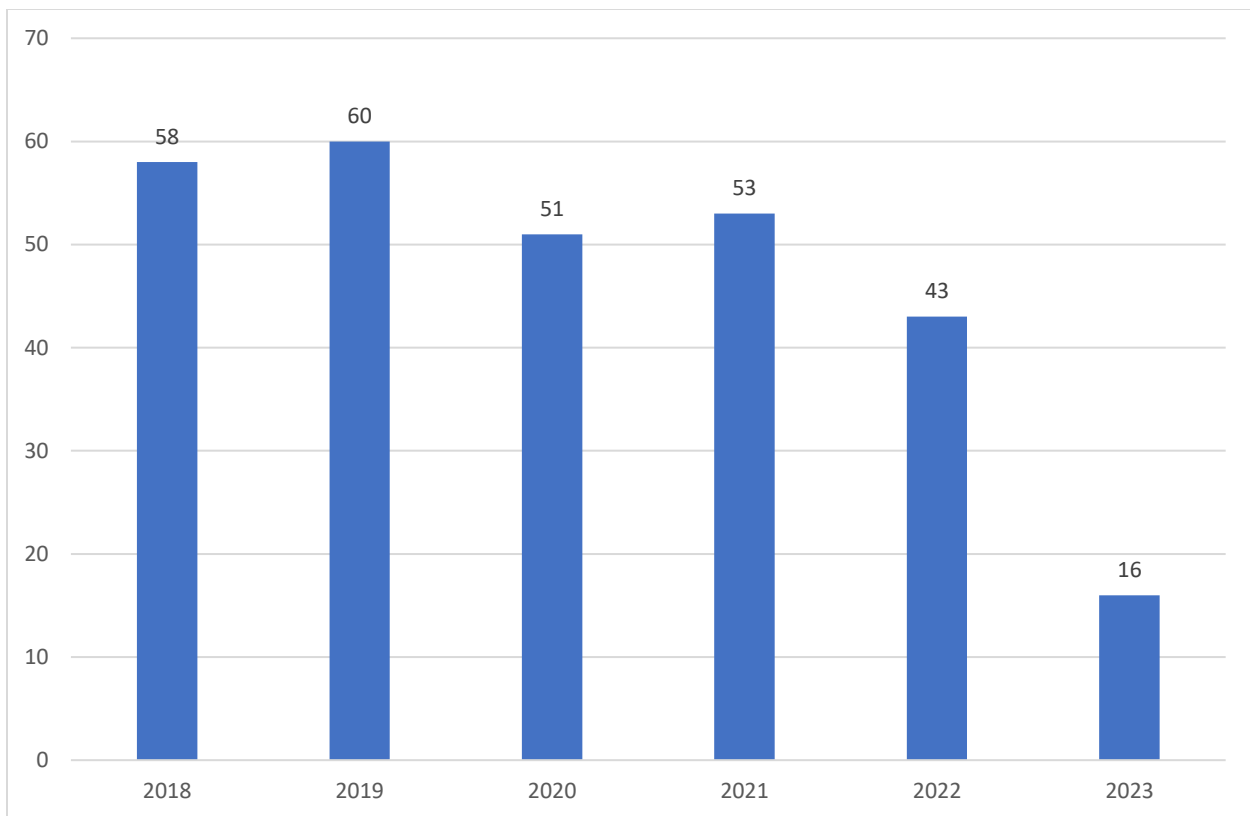
**Chart 8 – Recruitment Agencies deals by type, January 2018 to June 2023**



## Deals by year

- The spread of the 281 deals across the six years is specified in Chart 9.
- Note that the number of deals per year has remained broadly consistent, at between 50 and 60, except for the slight decline in 2022 (excluding 2023 as it only contains YTD information).
- There was, however, a relative drop in M&A transactions in from 2020 onwards. As discussed in the Sector Overview, this is likely to be caused by businesses lacking confidence to engage in M&A activity as their financial and operational resilience was being tested by the COVID-19 Pandemic.

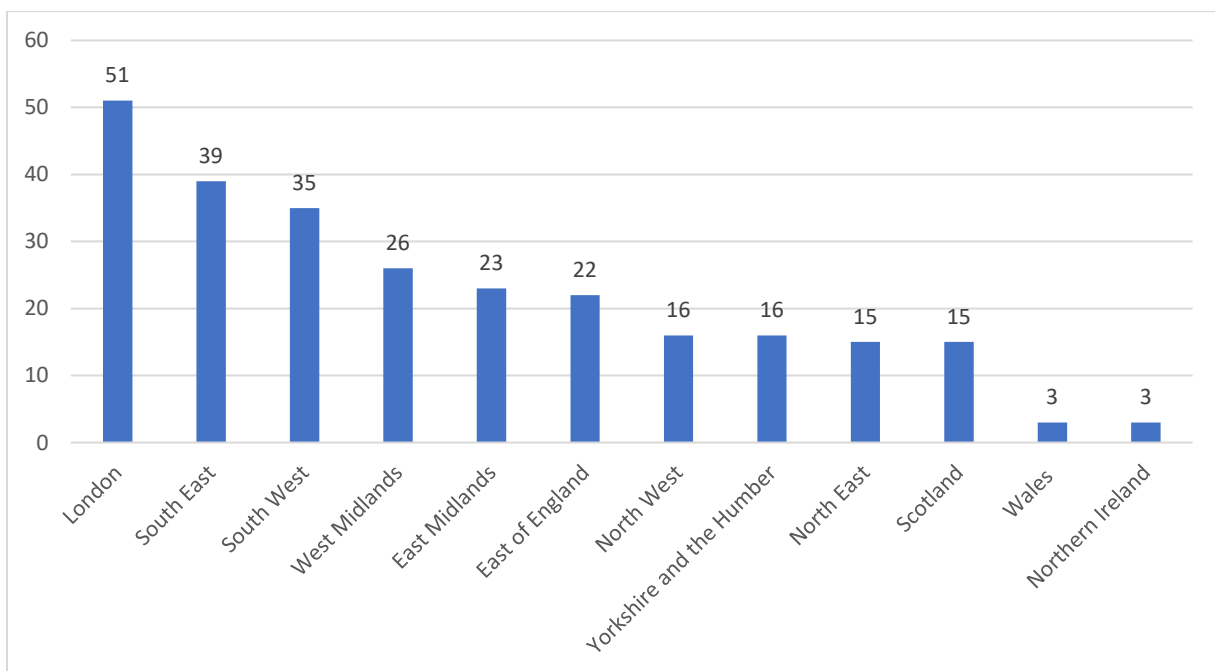
**Chart 9 – Recruitment Agencies deals by year, January 2018 to June 2023.**



## Geographical Breakdown

- A geographical breakdown of M&A activity, by target company, is specified in Chart 10 below (deals without target company location were excluded from this analysis).
- M&A activity was low in the devolved nations of Scotland, Wales and Northern Ireland. England appears to be the hub of M&A activity.
- The chart illustrates that target companies are mostly based in London and the South-East, indicating a capital-centric bias to deal activity in the Recruitment industry.
- However, the relatively high level of activity in the South West, and to a lesser extent the Midlands and East of England, suggest that there is a regional presence to M&A activity in this industry.

**Chart 10 – Recruitment Agencies deals by location, January 2018 to June 2023**



## Precedent Transaction Analysis

- Table 2 shows significant deals that have occurred in the sector during the last 5 years
- Note: anomalous multiples (marked red) are not included when calculating multiples and negative multiples are designated “NM”.

**Table 2 – Recruitment Agencies precedent transactions, January 2018 to June 2023**

Date	Bidder	Target	Enterprise Value (EV £m)	EV / Revenue	EV / EBIT	EV / EBITDA
May-23	Fusion Holdco Ltd	FDU Group Ltd	3.2	N/A	N/A	N/A
Sep-22	Dedicare AB	Optimal Medicare Ltd	1.8	N/A	N/A	N/A
Dec-21	Redgrave Bidco Ltd	Redgrave Holdings Ltd	32.5	2.6x	18.8x	8.2x
Dec-21	Brunel International NV	Taylor Hopkinson Ltd	37.3	1.4x	22.8x	22.2x
May-21	Fawkes & Reece Ltd	Bromak Ltd	1.6	0.1x	4.2x	3.9x
Oct-20	TA Education Group Ltd	Teacheractive Ltd	14.2	0.4x	4.1x	4.0x
Dec-19	Galago Ltd	Northern Recruitment Group Ltd	5.3	0.3x	14.9x	13.1x
Apr-19	Private Group Led by private individuals	Amberjack Global Ltd	17.0	2.8x	11.5x	9.5x
Oct-18	McGinley CEP Ltd	First Choice Recruitment Ltd	14.1	0.3x	4.6x	4.5x
Oct-18	Private Group	Acton Banks Ltd	4.2	1.2x	7.8x	7.7x
Oct-18	First Technical Recruitment Ltd	Lema Holdings Ltd	22.7	0.2x	NM	NM
Sep-18	Private Group	Arctics Ltd	2.6	0.1x	1.3x	1.2x
Jul-18	Private Group	Alexander Mann Solutions Ltd	106.7	5.9x	32.0x	28.1x
			<b>Mean</b>	<b>0.6x</b>	<b>7.8x</b>	<b>7.3x</b>
			<b>Median</b>	<b>0.4x</b>	<b>6.2x</b>	<b>7.7x</b>
			<b>Min</b>	<b>0.2x</b>	<b>4.1x</b>	<b>3.9x</b>
			<b>Max</b>	<b>1.4x</b>	<b>14.9x</b>	<b>13.1x</b>

## Companies Currently for Sale in the Sector

1.

Company Type	Asking Price	Location	Turnover	Other Financials
IT Recruitment Services Firm	On request	London	£25m	-
<p>The business is a recruitment agency that is technology-focussed, providing staffing services in IT. Over the last 10 years, they have developed a strong network of clients and cross-functional and specialised candidates.</p> <p>It provides a variety of solutions aimed at automating and streamlining recruitment processes through innovative technologies such as Artificial Intelligence and Machine Learning.</p>				

2.

Company Type	Asking Price	Location	Turnover	Other Financials
Training and Recruitment Company	£150k	South East	On request	-
<p>The business is a training and recruitment company, established in 2015. Initially offering an innovative workplace evaluation platform for the travel and leisure industry, the company grew into additional industries and has pivoted into recruitment and training services.</p> <p>With a strong reputation – built over 10 years - and impressive loyalty amongst clients, 70% of their clientele is generated from repeat business. Clients are both private and public sector, including the Department for Work and Pensions.</p>				

3.

<b>Company Type</b>	<b>Asking Price</b>	<b>Location</b>	<b>Turnover</b>	<b>Other Financials</b>
Healthcare Recruitment Agency	On request	UK	£2.5m	Net Profit: c. £250k
<p>Founded in 2015, the business has developed a strong reputation in recruitment of care sector staff, in the UK.</p> <p>Clients include both public and private sector employers, with NHS contracts accounting for 5% of annual net fee income. Importantly, client retention rates are high – which results in stable cash flows.</p>				

4.

<b>Company Type</b>	<b>Asking Price</b>	<b>Location</b>	<b>Turnover</b>	<b>Other Financials</b>
Boutique FMCG Recruitment Firm	On request	London	£0.5m	Profitability: 66%.
<p>The business is a boutique specialist recruitment firm, with a strong reputation in the FMCG Sector. They specialise in the provision of senior executives, within sales and marketing divisions. The firm services a range of clients, including pet food, soft drink suppliers, food and nutrition and UK distillers.</p> <p>Business is for sale to facilitate retirement plans for current owners.</p>				

## Benchmarking Information

A search on Experian Market IQ identified all companies in England with the SIC Code starting 781 – *Activities of employment placement agencies*, or 782 – *Temporary employment agency activities*, which had filed full accounts for the last two years. Key benchmarking information is summarised in Table 3.

**Table 3 – Recruitment Agencies Benchmarking Information**

	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/ <b>Decline</b> (%)	8.1	1.6	<b>-17.4</b>	20.9
EBIT Margin (%)	4.3	2.6	0.8	5.9
EBIT Growth/ <b>Decline</b> (%)	<b>-1.1</b>	<b>-3.2</b>	<b>-40.9</b>	37.3
EBITDA Margin (%)	5.1	3.5	1.2	6.7
EBITDA Growth/ <b>Decline</b> (%)	<b>-0.5</b>	0.36	<b>-41.7</b>	37.4
Total Net Assets Growth/ <b>Decline</b> (%)	8.4	8.1	<b>-6.1</b>	29.4
Current Ratio	2.1	1.3	1.1	1.9

# Appendices

**Appendix A** – MarketLine Advantage – UK Employment Services Report, 2022

<https://advantage-marketline-com.ezphost.dur.ac.uk/Analysis/ViewasPDF/united-kingdom-employment-services-155711>

**Appendix B** – Signature Recruitment: Market Update

<https://www.signaturerecruitment.co.uk/recruitment-market-update-2/>

**Appendix C** – British Chambers of Commerce: Quarterly Recruitment Update

<https://www.britishchambers.org.uk/news/2023/04/quarterly-recruitment-outlook-no-sign-of-hiring-difficulties-easing>

**Appendix D** – Grant Thornton: Recruitment Review 2022

<https://www.grantthornton.co.uk/insights/recruitment-review-q1-2022/>

**Appendix E** – Business Leader: Recruitment Industry 2022

<https://www.businessleader.co.uk/whats-in-store-for-the-recruitment-industry-in-2022/>

**Appendix F** – Recruitment Accountants: UK Recession and the Recruitment industry

<https://recruitmentaccountants.com/uk-recession-and-the-recruitment-industry/>

**Appendix G** – ONS: Employment, 2022

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/september2022>

**Appendix H** – Plimsoll: Recruitment Agencies Industry Report

[https://www.plimsoll.co.uk/market-reports/recruitment\\_agencies](https://www.plimsoll.co.uk/market-reports/recruitment_agencies)

**Appendix I** – Experian MarketIQ

<https://www.experian.co.uk/business-products/market-iq>

