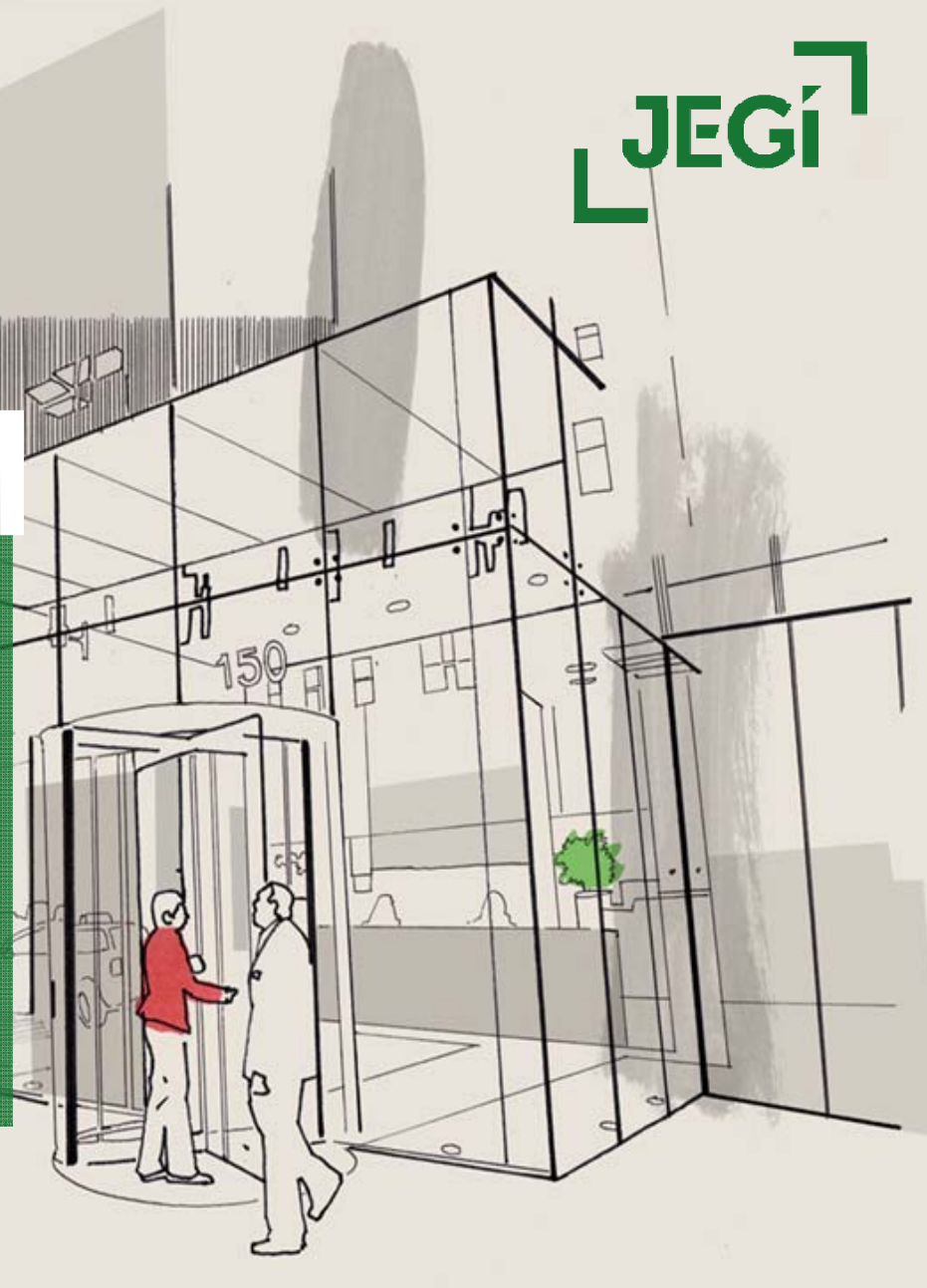




# KEY M&A CONSIDERATIONS: HCM COMPLIANCE & RISK MANAGEMENT

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## ABOUT JEGI

### Market Leader

- Leading independent investment bank for the global software, tech-enabled services, information, media and marketing sectors

### Track Record

- 600+ completed M&A transactions in 28 years of operation

### Domain Expertise

- Actively involved in HCM Compliance and Risk Management sectors; deep relationships with 150+ strategic and financial buyers focused on space

### Creative Solutions

- Strive to identify and transact with “out-of-the-box” buyers, driving premium valuations

### Goal Oriented

- We are entrepreneurs and highly motivated by success

## RECENT RELEVANT CASE STUDY

### INDUSTRY

- Background screening is a \$2 billion segment within the HCM industry, growing at 3% CAGR
- Top 4 companies control 40% of market; remaining 60% is very fragmented (2,000+ competitors)
- Complex and continually evolving regulations; privacy and identity considerations intensifying
- Formerly overlooked as routine part of hiring workflow; now critical (C-Suite often manages)
- Technology revolutionizing industry; intensified focus on cost management driving consolidation
- Pendulum swinging back toward high-quality vendors, due to asymmetric risk from vendor error

### CARCO

- Provider of background screening, HCM compliance, and risk management workflow solutions
- Unique, independent asset at scale
- High quality offering with accurate, proprietary data, and cutting-edge, scalable technology
- Highly “re-occurring” revenue from long-term customer relationships
- Strong international position and proprietary vendor network

### OUR ROLE

- JEGI crafted a competitive process with significant strategic and sponsor interest
- Financial sponsor selected due in part to management’s confidence in significant upside from “second bite at the apple”
- Successful outcome with valuation that exceeded client’s expectations

Source: IBISWorld



“Having almost 40 years in the background screening business and a stellar reputation for quality, we were looking to find an investor that shared our commitment to quality and fully appreciated our differentiation from the other companies in the space. Not having experience in choosing an investment banker, we faced a number of choices. A close confidant recommended JEGI to help us navigate the process and that recommendation was spot-on. JEGI had a stellar team and relentless focus. They were invaluable throughout the process, providing critical contributions in every stage. I wholeheartedly recommend JEGI to any prospective seller, and would use them again in a heartbeat.”

**James Owens**  
President & CEO, CARCO Group

# OVERVIEW OF HCM COMPLIANCE & RISK MANAGEMENT SEGMENTS

## HIGH GROWTH SECTORS

The HCM Compliance and Risk Management sectors are expected to grow at 13%+ annually over the next five years, to more than \$8 billion by 2020. Leaders in this market have strong technology and data-enabled services with vertically-focused platforms and international expertise.

## ATTRACTIVE TAILWINDS

- Security threats to public and private sectors are on the rise
- “War for Talent” driving demand for hiring, recruiting and retention capabilities
- Increasing regulatory environments
- Large and growing bad hire costs
- Cross-border workforces growing due to labor supply and demand imbalances in developed economies

## MARKET INNOVATION

As the HCM sector has evolved, concentration and competition at the top of the market has grown (e.g., top 10 assessments firms control 35%+ market share, top 10 recruiting/staffing firms have 30%+ market share). Smaller, more agile companies in the fragmented middle market (10,000+ companies in HCM Compliance and Risk Management segments under \$50 million revenue), have focused on blending technology and data with services to maximize quality in areas where pure-play models face challenges.

## CAPABILITIES “ARMS RACE” IS UNDERWAY

Technology-first platforms have been pitted against legacy services platforms in a competition to own proprietary, technology and data-enabled services capabilities. Significant convergence among legacy providers and new entrants is underway, as companies look to find the right balance between service quality and efficiency.

## REVERSION TO QUALITY

While technology has been a key driver of pricing pressures for services companies, quality and speed have more recently become more important in today’s environment. Premium vendors are regaining pricing power as “total cost of ownership” has increased (e.g., large legal expenses, brand degradation and opportunity costs from bad hires).

## COMPETITIVE DYNAMICS

Primarily “Red Ocean” markets: most new client wins are result of displacing a competitor

Technology revolutionizing formerly manual processes (e.g., employee onboarding) that companies didn’t offload

These capabilities are merging into the front-end and post-hire segments

## HIGH INTEREST LEVEL FROM STRATEGIC AND FINANCIAL BUYERS

Strategic buyers are starved for new or additive capabilities to shore up their growth mandates. Financial buyers are extremely active due to industry tailwinds, unique competitive dynamics at the top of the market and large cash stockpiles that must be put to work.

Sources: IBISWorld, Rocket Hire, Smart & Associates

## BUYER LANDSCAPE

If positioned properly, HCM Compliance and Risk Management businesses should attract the following buyers in a sale process:

| BUYER TYPE                             | DYNAMICS INFLUENCING ACQUISITIONS  |
|--|--|
| <b>Vertically-Focused Strategics</b>   | <ul style="list-style-type: none"> <li>• These buyers focus on acquisition targets with established customer relationships and proprietary technology or data that can be integrated relatively quickly</li> <li>• Often highly levered or publicly traded, these acquirers look for deals that are either immediately accretive or have differentiated technology with clear proof of concept</li> <li>• Buyers value domain expertise and ability to leverage target’s capabilities into specific workflows to improve expense structure, client experience and/or quality</li> <li>• Horizontal capabilities are less valuable if they lack immediately recognizable synergies</li> </ul>   |
| <b>Horizontally-Focused Strategics</b> | <ul style="list-style-type: none"> <li>• Many of these buyers are endeavoring to build end-to-end solutions across the HCM value chain as end-markets increasingly require fully integrated solutions</li> <li>• Acquire proprietary technology and data-enabled solutions fitting with strategic roadmaps</li> <li>• Capable of paying premium prices for targets that complement their existing suite, or that have scalable, capital-light models that can be distributed quickly at low cost</li> </ul>  |
| <b>Financial Sponsors</b>              | <ul style="list-style-type: none"> <li>• Sponsors find these sectors attractive due to the large number of reoccurring revenue models with high cash flow, fragmentation below top competitors, and sustainable industry tailwinds</li> <li>• Look to buy established businesses with proprietary data, technology, or service quality advantages, and that regularly win business from the largest competitors</li> <li>• Have experienced varying degrees of success in the sector; many weathered early technological disruption and consolidation in a range of portfolio companies</li> <li>• Can pay premium prices for businesses with scalable offerings and that can serve as a platform to buy and integrate other similar businesses to gain scale</li> </ul> |



# KEY VALUATION CONSIDERATIONS

## FACTORS DRIVING OUTSIZED VALUATIONS

### Quality

- Typically demonstrated via pricing power, gross margins, high customer renewal rates and low litigation costs
- End-markets increasingly opting for premium priced providers to minimize the total cost of ownership

### Proprietary Technology

- Seamless integrations with other HCM systems, and high efficiency offerings and processes typify technology advantages
- Scalable technology with single-instance architecture enabling rapid, headache-free growth, after integration

### Proprietary Data

- Enables prior work to be perfected and leveraged to maximize accuracy and minimize costs
- Co-opetition is common in HCM Compliance and Risk Management; proprietary data and vertically-focused databases are valuable and often used within other providers' services

### International Capabilities

- Cross-border personnel management has become more important as the "war for talent" expands overseas
- Vendors with international infrastructure and proprietary partnerships command premium valuations, as building this infrastructure is complex and often costly to replicate

## COMMONLY USED VALUATION METRICS

### Enterprise Value/Revenue Multiples

- Used by vertically-focused strategics that will tuck-in a target and normalize its cost structure
- Early-stage tech companies also trade off revenue multiples, if not yet "at-scale" with normalized profitability profiles



Technology and data-enabled services platforms growing at 10%+ per year command anywhere from 1.5x-2.5x revenue, while pure technology platforms with annual growth rates exceeding 15-20% can command revenue multiples of 3-4x or higher.

### Enterprise Value/EBITDA Multiples

- Used by horizontally-focused strategics and financial buyers without clear opportunities to realize synergies
- Buyers may fund purchases primarily with financial leverage
- Sellers must demonstrate highly recurring revenues, manageable economic cycle exposure, consistent margins and organic growth



High-quality, technology and data-enabled services businesses growing 10%+ per year with consistent 20%+ margins will command 10-12x EBITDA, while assets with strategic and/or scarcity value can be valued at 15x+ EBITDA.

# ADDITIONAL RELEVANT JEGI TRANSACTIONS

| Transaction                     | <p>THOMSON REUTERS<br/><b>HAS SOLD ITS</b><br/>FIDUCIARY SERVICES AND<br/>COMPETITIVE INTELLIGENCE<br/>BUSINESS<br/>TO<br/> <b>Broadridge</b></p>  | <p><b>Evanta</b><sup>®</sup><br/>A PORTFOLIO<br/>COMPANY OF<br/>LEEDS   Equity Partners<br/><b>HAS BEEN SOLD TO</b><br/> <b>CEB</b></p>  | <p><b>Covenant</b><br/><i>Review</i><br/><b>HAS RECEIVED<br/>A CONTROL EQUITY<br/>INVESTMENT FROM</b><br/>LEEDS   Equity Partners</p>   |
|---------------------------------|--|--|---|
| Business                        | <ul style="list-style-type: none"> <li>Compliance and competitive intelligence services</li> </ul>   | <ul style="list-style-type: none"> <li>Peer-to-peer leadership and talent development platform</li> </ul>  | <ul style="list-style-type: none"> <li>Proprietary data and tech-enabled information services platform</li> </ul>   |
| Process                         | <ul style="list-style-type: none"> <li>Targeted</li> </ul>   | <ul style="list-style-type: none"> <li>Targeted</li> </ul>   | <ul style="list-style-type: none"> <li>Broad</li> </ul>   |
| Our Role and Process Highlights | <ul style="list-style-type: none"> <li>Carve-out of Thomson Reuters' Lipper division; client centralizing assets around limited core data platforms</li> <li>Through new growth initiatives and successful repositioning, attracted significant strategic and PE interest</li> <li>Auction involving targeted strategic and financial sponsor pools</li> <li>Greatly exceeded valuation expectations and managed complicated carve-out, all while closing on schedule</li> </ul> | <ul style="list-style-type: none"> <li>JEGI managed preemptive inbound interest ahead of a planned wider marketing process</li> <li>Specter of scarcity and competition drove initial interested strategic party to place strategic value on business</li> <li>Efficient process – under four months from engagement letter to signing definitive agreements</li> <li>Strategic buyer enables Evanta to accelerate its growth opportunities and new lines of business</li> </ul> | <ul style="list-style-type: none"> <li>Leading independent credit research and analytics firm that pioneered bond and loan covenant research and analysis</li> <li>JEGI engineered a highly competitive and disciplined auction process with strategics and private equity</li> <li>Found ideal growth-equity partner, enabling management to maximize their opportunity to accelerate growth and position the business for a complete exit</li> <li>Achieved outsized valuation and desired founder liquidity</li> </ul> |

## JEGI MARKET POSITIONING



### AT THE CENTER OF THE MARKET

- Serving entrepreneurs, founders, investors and global corporations
- Deep experience in GRC, technology and data-enabled services, and Human Capital Management sectors
- Operational history of senior leadership keeps JEGI closer to market trends than competitors
- Long track record of success in a wide spectrum of transactions from software to business intelligence
- Deep knowledge of markets served, providing unexpected acquisition and investment opportunities
- Track record of surpassing client expectations



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