

## Recruitment sector in H1 2020 – a tale of two halves...

The recruitment sector had remained resilient and attractive to investors through 2019 despite Brexit and a turbulent political backdrop, with the UK market continuing to grow more quickly than predicted. We left 2019 with valuation multiples on an upward trend. Recruitment deal volumes globally had been up 17% on 2018, (although the UK with 25 deals had seen a lower level of volume from its peak in 2018).

The first quarter of 2020 was promising – 33 deals completed globally, a similar level to 2019, (although there were only six in the UK). Growth in M&A volumes was expected in 2020, with valuations & multiples at an all-time high due to liquidity and low inflation, and \$2.6 trillion of dry powder in the hands of investors at the start of March leading to a FOMO surge.

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But then the effects of COVID-19 hit, with the BDO Recruitment FTSE Index falling by over 40% at the end of March 2020 as the global pandemic gathered momentum. Despite the Chancellors’ efforts, including the implementation of the Coronavirus Job Retention Scheme, early indicators for June 2020 suggest that the number of employees in the UK on payrolls is down by around 650,000

compared with March 2020, and the April to June 2020 figures for vacancies are at the lowest level since the survey began in 2001, at an estimated 333,000; this is 23% lower than the previous record low in April to June 2009 (Source: ONS).

### WHAT HAS THIS MEANT FOR M&A LEVELS?

Globally there have been 44 deals to the end of June 2020, compared to 108 deals in the whole of 2019 (58 in H1 2019). In the UK we have seen nine so far this year, which represents a 50% reduction against the 18 deals we saw in the first half of 2019 (notably with a significant reduction in deal activity during the lockdown period).

In terms of trends we’ve seen the drive towards recruitment & HR technology continue, with 33% of deals so far this year in the UK falling into this sub-sector. This included the investment from Bridgepoint Development Capital into Matrix SCM, a technology-enabled managed services provider for the outsourced hiring and management of temporary local government staff in the UK. As anticipated, the drive in activity from private equity has become increasingly important as a key component of the deals in the sector transacted so far globally during 2020 (see box below). Going forward, based on recent discussions with prospective acquirers/investors, we anticipate seeing cash rich, well-capitalised recruitment groups or investment firms continuing to be acquisitive, albeit with some preferring to seek out more opportunistic acquisitions.



Whether the recovery is V-shaped, U-shaped or otherwise, we expect the recruitment industry to rise to the current challenges being faced. Indeed in the short period post lockdown we’ve already seen the BDO Recruitment FTSE Index rally – it has recovered from 42% below its value 12 months ago up to 24% behind that level at the end of June - and hope to see this recovery continue into the second half of 2020 and beyond, although the potential impact of the impending winding down of the furlough scheme requires a note of caution to be sounded.



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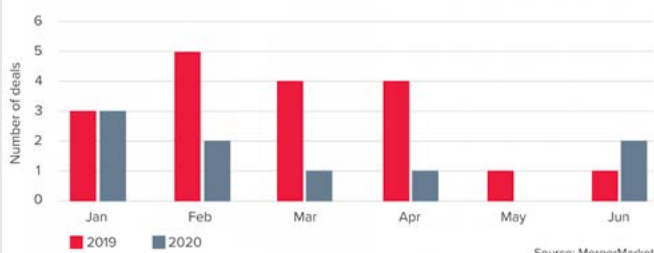


### DEAL VOLUMES

In the UK we have seen **nine deals so far in H1 2020, as against 25 in 2019** (18 in H1 2019).

2018 saw a six year peak of 32 UK deals, with a drop to a still active but lower level of 25 in 2019 (although globally deals were up 17%). Deal volumes were considerably lower in the first quarter of 2020 pre-COVID than the equivalent period in 2019.

#### DEAL VOLUMES - YEAR ON YEAR COMPARISON



### BDO RECRUITMENT FTSE INDEX

There was a **significant reduction** from March to June as the COVID-19 crisis hit the UK.

Recruitment has tended to outperform the wider market over the previous 6-7 years but, apart from a rally at the end of 2019, has now underperformed the All Share Index for much of the last 12 months.

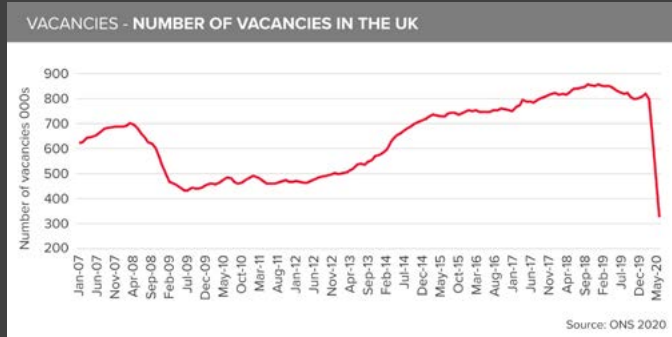
However the markets appear to have rallied over the last 2 months as the world responds to a “new normal” with the **BDO Recruitment FTSE Index and FTSE All Share Index recovering** to be 24% and 17% down against levels 12 months ago respectively at the end of June 20.

#### BDO FTSE LISTED RECRUITMENT FIRMS VS FTSE ALL-SHARE INDEX JULY 2019 TO JUNE 2020



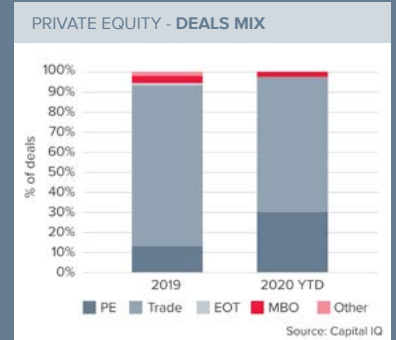
## VACANCIES

The period from March to May 2020 saw the **largest quarterly decrease** to the vacancies total since the current series started in 2001.



## PRIVATE EQUITY

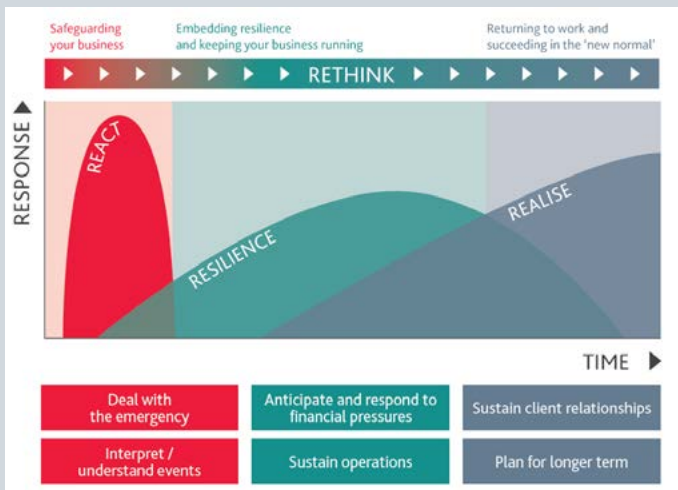
Private equity's involvement in the deals in the sector that have transacted this year globally is at c.30%, with a similar number of deals in H1 as in the whole of 2019 - this **increased activity** was anticipated given the level of capital that has been raised by institutional investors, family offices and high net worth individuals, as well as lower than expected deal volumes during 2019. We've seen a couple of examples of these in the UK both pre-lockdown (e.g. MML investment into Spencer Ogden) and also during-lockdown as we supported Bridgepoint Development Capital on their investment into Matrix SCM during June.



BDO has adopted a three stage process, which is being used across the organisation to manage business priorities, address issues and leverage thinking. These stages can be considered separately, or as a part of a roadmap to help organisations manage throughout the COVID-19 impact.

- **React**
- **Resilience, and**
- **Realise.**

You can find useful information on government support for businesses and individuals as well as a wide range of practical advice on our [COVID-19 hub](#).



## ADAPTING TO NEW MARKET CONDITIONS

The pandemic has tested the flexibility and responsiveness of the recruitment industry, with firms not only having to take decisive action around using the furlough scheme but also adapting to longer term trends which have been brought forward. These include the switch towards remote working and the proliferation of video and other mobile software to allow for remote appointments. The ongoing trend to digitalisation in the sector is sure to be accelerated by these new working practices, creating corresponding interest in deal activity, for example Adecco's recent investment in Tempo, reflecting its focus on digitising the recruitment process.

Those recruiters who have fared better have been those who have retained a level of staff/support throughout the crisis so they have been quick to mobilise as the market dynamics shift towards a post-crisis world. We have also seen recruiters local to areas where recovery from the pandemic is well underway bouncing back, with larger multi-nationals whose global operations include regions where the effects of pandemic are still working through recovering more slowly. We are optimistic that as the UK moves further along the curve, the industry's recovery will follow suit.

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