



The Changing Value of Your Company

HOW TO VALUE AND SELL YOUR
HUMAN CAPITAL MANAGEMENT BUSINESS

BRIGGS

HRmarketer
publicity. traffic. leads.
Services →

CONTENTS

Contents	1
Abstract	2
Growth? Investment? Exit? Selecting the Right Investment Banker.....	2
Human Capital Management Landscape	3
The Changing Value of Your Company – Death of the Hockey Stick	4
A Never Ending Cycle: Raise Money, Spend, Invest in Product Development, Raise More Money.....	4
Rising Tide and Resurgence – 2010 And Beyond	4
A Field Day for Buyers	5
What is the Best Way to get the Most Value for Your Firm?.....	6
Should I sell? Shoulda, Woulda, Coulda	7
Drivers of Valuation.....	8
A Paradigm Shift in Valuations	8
What to do Now – The Tipping Point.....	9
About Briggs Capital	12
About HRmarketer.....	12

ABSTRACT

The Human Capital Management (HCM) industry has experienced unprecedented growth over the last decade and this unprecedented trend will continue for the foreseeable future during economic good times and bad. Consolidation continues to be considerable due to the fragmentation of the businesses serving this enormous community of buyers and sellers. With the industry continuing to consolidate, sellers and buyers need guidance from professionals who understand how to position & value human capital firms and take them to market. Even in these challenging economic times, professionals who understand how to position and sell the value of what their clients have created, are able to secure lucrative payouts for sellers that can take many forms. Cash, stock swaps, options, earn outs, sub debt, recapitalizations and a host of other tools can be creatively applied to get the business owner and shareholders strong returns, that are often are staggered over time.

A Few Important Terms:

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization. A measure of a company's cash-generation. AKA "cash flow."

Adjusted EBITDA: EBITDA that has been adjusted by adding back non-recurring expenses and/or expenses that "go away" once the company changes hands.

Free Cash-flow: Normally, EBITDA minus capital expenditures. Important in capital equipment-intensive industries.

Discounted Cash-flow ("DCF"): Widely used valuation technique.

Multiples: The ratio of the price paid for a company to some measure of cash flow.

Most commonly used is the Adjusted EBITDA multiple.

Financial Buyers: Buyout firms, hedge funds, and other financial institutions buying companies as investment vehicles.

Strategic Buyers: Operating companies that acquire other companies to integrate into their own operations.

Middle Market Deals: Deals valued at \$25-500 million.

GROWTH? INVESTMENT? EXIT? SELECTING THE RIGHT INVESTMENT BANKER

Many CEOs, Founders, and senior managers with equity stakes in the company are unfamiliar with the options and methods for raising investment capital, seeking a buyer and/or planning for their exit. They've never dealt with this issue because they have been focused on building their businesses.

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

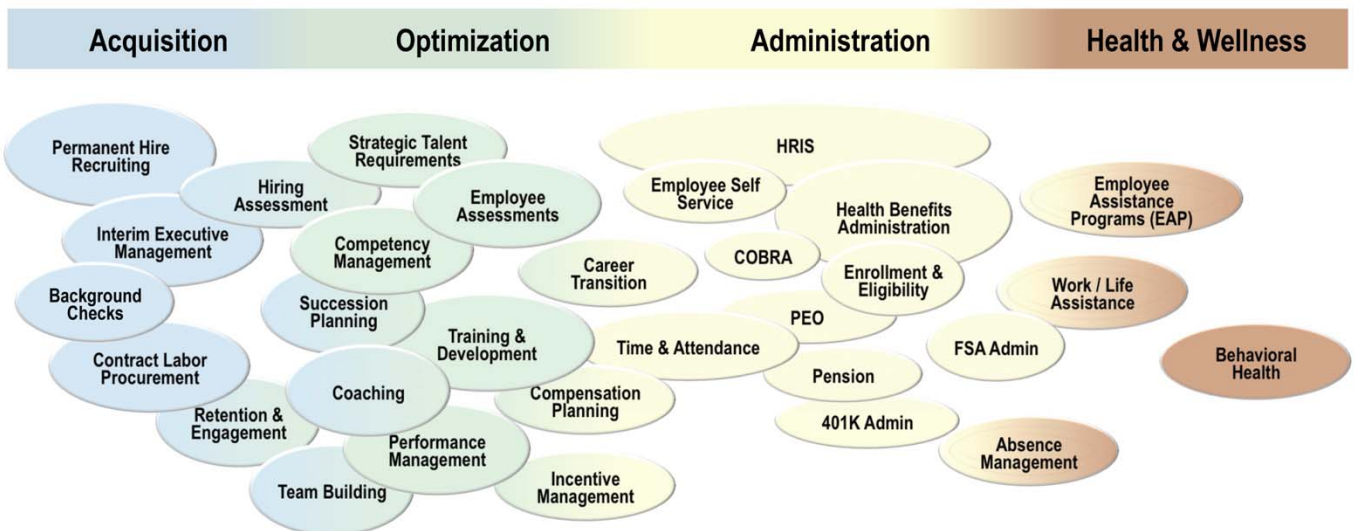
Tel 831 685-9700

Firms that have considered exiting this fast growing segment are often frustrated by their inability to expand. A well articulated and executable growth strategy to secure growth capital is a major step to a lucrative exit. In many cases this requires access to strategic investors and capital to bring both the financing and the expertise to take the strategy from the blackboard into the field. hamstrung Lacking the resources for expansion is an issue that confronts a majority of operators, and overcoming this hurdle can set up shareholders for the big pay day that they deserve.

When facing these crossroads it is appropriate and highly recommended to seek the help of an investment banking intermediary to assist you in reviewing your options and in positioning your business for investment or exit. It is imperative that the firm you select understands the fine points of the HCM / HR industry and how best to position your firm for growth, investment or exit. The end goal of capitalizing and selling out has become blurred by a blizzard of exit options. Shareholders now have the ability to craft multiple “buckets” of receiving cash for their holdings that can have them pushing ahead with the business and ensuring their personal wealth. Being a thought leader and seeing your dream materialize is a brilliant way to exit.

HUMAN CAPITAL MANAGEMENT LANDSCAPE

The HCM market is segmented by how companies purchase and employ Talent Management. However, interdependence has grown vertically and across sectors due to a flurry of acquisitions and sector consolidation.



© 2007, Piermont Advisors

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements
www.briggscapital.com
 ellen@briggscapital.com Tel 732 282-9596



www.hrmarketer.com
 Tel 831 685-9700

THE CHANGING VALUE OF YOUR COMPANY – DEATH OF THE HOCKEY STICK

The underpinning FCF (free cash flow) of so many companies in the human capital management sector was irrelevant, as many valuations of the companies were based on future synergies of acquirers and not their current bottom line.

Financial hard times came to roost in late 2007, and the fall out has brought valuations of companies back to earth. The dawn of a new age has begun due to a confluence of bank lending restrictions and the malaise of the economy. The days of hockey stick projections set forth by principals and management teams of small to medium sized businesses in the Human Resource, HCM and Technology sectors are over.

Over the past decade, sellers and buyers (as well as companies seeking growth capital) were drinking the same Kool-Aid as they examined tools, technology, content and solutions that once “bolted on” to larger sales-driven companies, which would make for new revenue streams and depended on future performance for valuation. This unbridled enthusiasm led to high sales prices for firms that did not reflect the seller’s actual earnings. The underpinning FCF (free cash flow) of so many companies became irrelevant, as many valuations of the companies were based on future synergies of acquirers and not their current bottom line.

A NEVER ENDING CYCLE: RAISE MONEY, SPEND, INVEST IN PRODUCT DEVELOPMENT, RAISE MORE MONEY

In the years from 2003 thru 2nd quarter 2007 many HCM firms with revenues ranging up to \$30M were not breaking even or were still pumping money into product development at the cost of profitability. The majority of these firms were constantly raising cash in tranches of \$250,000 to B rounds of \$5M. Management of most every firm suffered the indignities of the continual pitch to raise funds from fiscal angels to venture capital firms. This mad treadmill’s goal was and still is to increase the company’s valuation despite no jump in the bottom line in the hopes of becoming a MUST HAVE acquisition for a larger player in their space.

RISING TIDE AND RESURGENCE – 2010 AND BEYOND

According to a recent analysis from *the 451 Group*, deal making in the HCM market surged in the last quarter of 2010, pushing spending to near-record levels. They tallied 36 HCM transactions up to the last quarter of 2010, with an aggregate value of \$1.9bn. That basically matches the high-water mark of \$2.1bn in the sector set during the first three quarters of 2007. It should be noted however; nearly all of the HCM spending three years ago came from the \$1.8bn take-private of Kronos by Hellman & Friedman in March 2007.

The number of HCM transactions up to the last quarter of 2010 (36) matches exactly the number during the same period in 2007. Another similarity between the two years is that

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

Tel 831 685-9700

strategic and financial buyers have both been active in the sector. Consider this: In the four deals announced, buyout shops have been behind two while corporate buyers have inked the other two. ***Valuations as of September 2010 transactions – and most other recent HCM deals, for that matter – have ranged from just below 2 times trailing sales to around 4x trailing sales.***

In September 2010, a private equity firm took a majority stake in a transaction that valued a HCM vendor at more than \$220m. This HCM firm focuses on the contingent market, which covers project-based contractors, and offshore workers. According to reports, the HCM firm generated nearly \$30m in revenue and \$5m in EBITDA in 2009 and was tracking to nearly \$40m in sales and \$10m in EBITDA for 2010. That means the private equity firm's stake gave the company an overall valuation of about 6x trailing sales, according to calculations.¹

The knockdown wave that paralyzed merger & acquisition activity in the lower-and middle-HCM and general markets since September 2008 has rapidly receded, promising a continued rising tide of deal making in 2011. All the components for an active M&A market are in place:

- pent-up deal supply, as frustrated sellers adjust valuation expectations and private equity funds seek to realize long-held portfolio investments;
- pent-up buyer demand, as corporations replace their recent fixation on cost cutting and liquidity preservation with an increased focus on top-line revenue growth
- private equity groups put uninvested funds to work;
- increased capital availability, as credit is once again available at favorable rates and companies once again have healthy balance sheets and cash to invest.

Sellers today have reconciled to the fact that valuations have rebounded to sustainably sensible levels, and they are no longer sitting on the sidelines in hope of higher returns. Many HCM companies that plowed ahead funding losses, counting on an economic rebound for rescue, now see economic forecasts for slow growth at best. Aging owners who postponed retirement are now ready to sell. Private equity owners who held portfolio companies beyond planned time horizons are now rushing to realize their investments, especially those who will be fundraising in 2011 and 2012. Thus, we foresee a steady flow of HCM sellers and buyers coming into the M&A market this year.

A FIELD DAY FOR BUYERS

Well-capitalized strategic buyers remained active acquiring distressed competitors throughout the recession and, armed with inexpensive credit and abundant cash, continue to be opportunistic. Other companies are entering the fray as confidence returns and leaders shift their focus from

¹ The 451 Group – September 2010 “HCM deal flow nears high-water mark”

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

Tel 831 685-9700

preservation to acquisition. Others, faced with a sluggish recovery and prospects for slow growth, seek acquisitions to drive growth. The combined impact of these motivations will be substantial, as a recent mergermarket.com survey showed that **82% of US business executives expect increased M&A activity over the next 6 to 12 months.**

Private equity buyers are equally motivated to do deals. With the “overhang” of uninvested private equity funds reaching a reported \$500 Billion, there is urgency to put those funds to work. PE managers are also cognizant that acquisitions done during and after economic downturns historically yield higher returns than those completed during boom years. As a result, according to GF Data Resources, “private equity groups are becoming less discriminating in their choice of targets given the pressure on them to invest funds. There are more B and B+ properties on the market now and sponsors are willing to pay a little more for them.”

Entrepreneurial buyers, driven to the sidelines in the boom years by larger and better-financed financial and strategic buyers paying high valuations, are now re-entering the game. The recession flushed many senior- and middle-management executives into the job market through downsizing and corporate closures. Many of these talented executives are taking matters into their own hands, using their strategic skills to identify and acquire companies with favorable investment characteristics. However, many entrepreneurs find that they must rely on seller financing or private equity backing in order to credibly pursue and close acquisitions of even modest size. In summary, successful HCM companies have multiple options today if they are interested in pursuing growth capital or an outright sale. Strategic buyers, entrepreneurs, private equity and wealthy family funds, are all back in the game and seeking attractive growth or bolt-on opportunities.

WHAT IS THE BEST WAY TO GET THE MOST VALUE FOR YOUR FIRM?

You are ready to find an investor, either strategic [larger firm in your industry to take you to the next level] or financial [private equity firms that will evaluate your company based upon its current and future cash flows and expect a handsome return on their investment] or entrepreneur [serial entrepreneur or senior executive from an industry with private equity backing]. You find the right financial intermediary to represent you because they are knowledgeable about your industry and understand how to position the firm for sale, merger or investment. Now what? Hire a professional to pull together an investment memorandum to represent your firm to prospective buyers. The steps that most intermediary investment bankers should use to represent your firm for investment, sale or merger are depicted in the figure below.

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

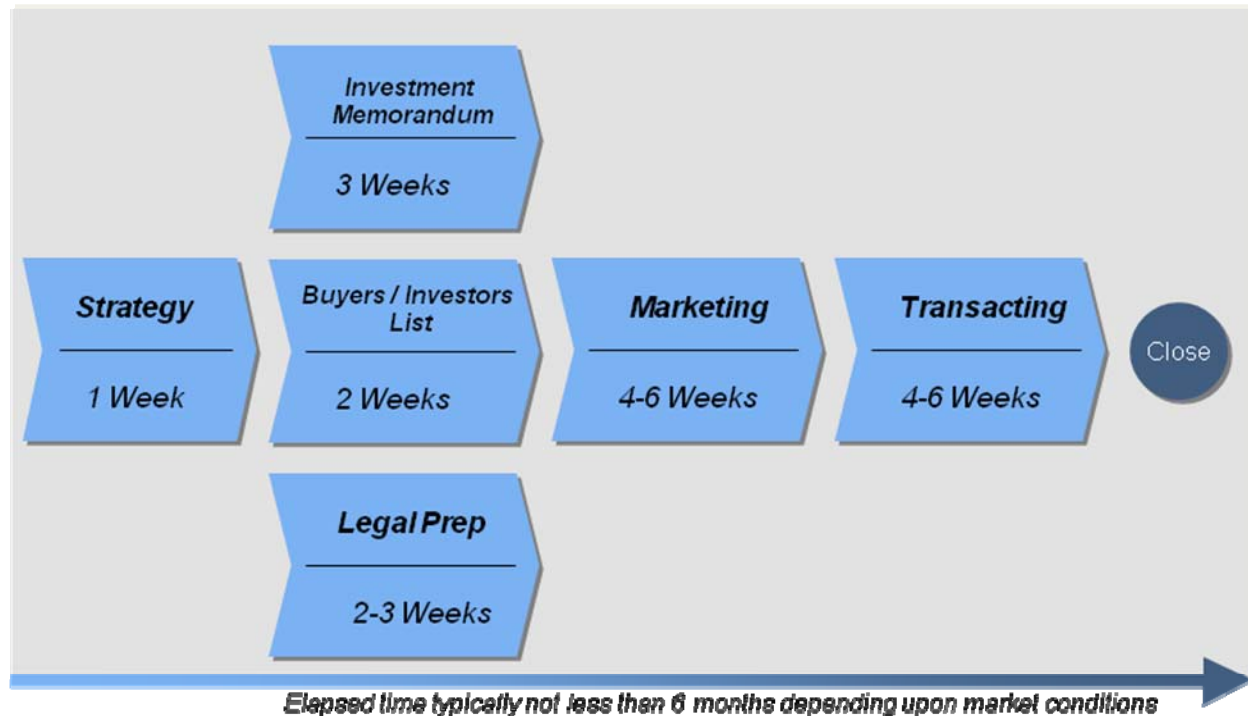
ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

Tel 831 685-9700

Overview of the Process



SHOULD I SELL? SHOULD A, WOULD A, COULD A

During boom times many companies are reluctant to sell as their valuations continue to rise and they are turning a profit. Conversely, during a down market the firm is very reluctant to sell their company at a low multiple, despite having cash flow issues. Today, and in the foreseeable future, there will be choppy times. Yet, opportunities will abound as both buyers and sellers are seeking opportunities to capitalize on the turbulence. Both buyers and sellers must seek the “perfect fit” and not stretch to do a transaction based upon post integration sales 'projections'; in fact, deals will not get financed based on projections. Any new debt on the acquirers balance sheet from a non-cash flowing target could make this a risky endeavor for both parties.

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements
www.briggscapital.com
 ellen@briggscapital.com Tel 732 282-9596

HRmarketer
 publicity. traffic. leads.
 Services

www.hrmarketer.com
 Tel 831 685-9700

DRIVERS OF VALUATION

All Buyers	Financial Buyers
<ul style="list-style-type: none"> • Profitability • Growth rates • Fragmentation • Industry • Competition • Management • Comparables • Financial markets • Customer concentration • Regulatory landscape • Technical obsolescence • Transaction process 	<ul style="list-style-type: none"> • Fund culture • Fund charter • Exit mechanism • Financing • Chemistry • Existing portfolio
	Strategic Buyers
	<ul style="list-style-type: none"> • Operational synergies • Market, sales and distribution overlap • Customer list • Capacity

A PARADIGM SHIFT IN VALUATIONS

In the first part of 2010 a firm with a strong 25% growth trajectory year over year and topping \$35M in 2009 revenues was engaged in a prospective sale. They had aggressive projections going forward and the belief that the company would sell off of multiples of revenues (the old world) versus the interest in the company from new world players, which led to a time consuming and eventually aborted process. Over 140 firms were contacted and there were many interested parties in this prestigious company but in the end EBIT ruled over multiples of revenue and the company is moving ahead to sell another day.

Over the last few years there was a paradigm shift in valuations away from multiples of revenues to multiples of FCF or Free Cash Flow or EBITDA. The multiples of revenue method of valuation favors sellers and is a strategy that is frequently employed by organizations with weak bottom lines. EBITDA is often used as a traditional benchmark, but companies in services and technology sectors do not have large depreciation or amortization, so EBIT or FCF are more proper valuation benchmarks.

As we have discovered recently, the tides are turning again and multiples of revenues are becoming the benchmark once again. However, unlike the recent boom years, sellers need to show at least a minimum level of profitability, a unique solution a strategic buyer finds compelling, or a vertical / horizontal integration that can enhance the buyer's revenues quickly, in order to command multiples of revenue.

As an example, we often hear of companies doing \$10M in revenues seeking 1x revenues or a sale price of \$10M. More often than not these companies have a \$1M EBIT or FCF and thus the

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements
www.briggscapital.com
 ellen@briggscapital.com Tel 732 282-9596

HRmarketer
 publicity. traffic. leads.
 Services

www.hrmarketer.com
 Tel 831 685-9700

valuation battle begins. The seller is ignoring the bottom line and the buyer is looking at multiples no higher than 8X EBIT or \$8M Enterprise Value. There is now a discrepancy of \$2M or 20% on valuation. How do buyers and sellers bridge the gap? In most cases they don't. Sellers cling to the old world and the buyers wait them out in the new world order. Many discussions are built around "earn outs" of the seller's lofty goals and tying that 20% delta to revenue benchmarks associated with bold projections set forth by the seller.

As the pendulum has swung to more pragmatic deals based on projected upside (buttressed by positive cash flows) of acquisition targets, the sellers are having to curb their visions of multitudes of buyers jacking the price up and receiving princely fortunes as in internet days of yore. The old boxing adage "the tail of the tape" in our world is now known as the TTM or the Trailing Twelve Months of performance of the seller on both the top and bottom line.

WHAT TO DO NOW – THE TIPPING POINT

We believe that this confluence of events will continue to lead a resurgence of M&A activity in 2011. Orphaned companies and firms mortally stricken during the recession have been purchased, cannibalized or are seeking buyers. Sellers realize that if they want to exit, now is the time as the economy rebounds and as favorable tax rates have been extended for another two-year window. Strategic, private equity and entrepreneurial buyers have returned to the market and enterprise valuations have rebounded to pre-recession levels. Commercial banks and mezzanine lenders are permitting buyers to place more debt on pragmatic deals. In sum, sellers, buyers and lenders have all returned to the M&A market and are converging on common ground where excesses have been curbed and sensibility should reign once again, permitting deal flow to flourish in 2011.

So, what is the best way to sell your business and maximize your shareholders returns? Many turn to the auction block. This is a high stakes game for the supremely confident who have no trepidation about employee fallout and the growing embarrassment of an aborted auction many sellers are confronted with. This process is for larger companies with multiple suitors or the prospects of such. Banker fees are high, and the deluge of calls and distractions can bring a siege mentality to a company and affect its operations. As the selling climate has changed the results, more often than not, are below the expectations of the sellers. But once you go public with your intentions often times there is no turning back. Besides the time and wasted energy, often times the firm is viewed as a "troubled company" that could not land a suitor.

A more pragmatic campaign that can be undertaken is a targeted approach called the discreet auction. This is the search for the MUST HAVE buyer. In this case, the company can control the process and time it with the release of new products or excellent financial news.

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

Tel 831 685-9700

Slowing or accelerating a process with five horses on the track is much better than stopping a stampede as in a general auction. In this controlled process where the seller can direct information dissemination to prospective synergistic buyers and competitors alike via a banker that can manage a well-controlled process, a prospective seller can get their value proposition across more clearly and build the “yellow brick road” for both buyer and seller. This often leads to building a bridge to close the delta in valuation that is growing between buyers and sellers in today’s market. The seller also can run this process without all their employees in the know and close the deal **without** fallout in the marketplace from customers and competitors.

The third option is to troll over time for a buyer and custom make an approach each time. All industry leaders are swamped with industry data and hear the rumors of sales that have been transacted. The sellers should always be gathering data and keeping an ear to the ground to understand industry trends and scope out possible acquirers for a later date. The days of the seventy page business plan are over. The seller should always have on hand a teaser (two pages) and a strong executive summary (now a twenty to thirty page deck) of the company that can be easily updated and sent to prospects with information that is pertinent and tailor made for each prospective buyer. Going thru the pain and expense of having audited statements is also certainly recommended.

Understanding the buyer and its goals are key to a successful union. What are the goals of the seller down the road? Does the buyer have the cash on hand? Are they going to renegotiate or “re-trade” the deal as it moves to the close using due diligence as an excuse real or imagined? Unfortunately re-trades are a fact of life in the new world as industry bankers estimate that up to 60% of deals are likely to be re-traded in the buyers favor up from approximately 35% in 2007. Understanding the due diligence process, which can be invasive and often downright insulting, as background checks and deep dives by buyers can be the source of killing a deal. earn outs are more and more of a bridge to get to an agreement on enterprise value between buyers and sellers. But one must be careful about blurring the lines when a seller’s company is rolled operationally into a buyer; sellers need to have the ability to control earn out criteria or else they risk seeing a drastic reduction in the annual payout tied to the earn out.

These are the realities of the mergers and acquisitions world, and with those in mind companies are selling at a brisk clip and many industry experts see more transactions in 2011 – 2012 than 2010. ***In fact, sales volume in the low to mid market in 2nd quarter 2010 is reported to have recorded more sales than any quarter since 2005.***

Sellers must be prepared to assist their bankers in analyzing the prospective buyers for synergies and the operational fit post closing that could affect payouts over time. Sellers must ratchet down their overly optimistic sales projections or beware that their sales consideration will be pegged to them up to five years post closing as part of their earn out compensation. Stock taken in an acquirer as consideration must be thoroughly reviewed and become a central role in a seller’s due diligence; what if the buyer destroys value through its actions and the seller’s stock

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
publicity. traffic. leads.
Services

www.hrmarketer.com

Tel 831 685-9700

drops precipitously? Earn outs may be a necessity in today's world, but sellers need to negotiate terms that make sense.

RODERICK ROBERTSON

Managing Partner – Briggs Capital, Boston
Direct Line: 781.493.6581
rod@briggscapital.com



As the Managing Partner of Briggs Capital for a decade, Rod has focused on maximizing value for sellers through a variety of innovative exit strategies. Rod enjoys positioning sellers to receive the maximum valuation for their companies in a creative fashion that often goes well beyond the seller's expectations. Rod Robertson brings over 20 years of transaction experience and entrepreneurial accomplishments to Briggs Capital. During his career, Rod has served as President and CEO for distribution, real estate, consumer products and software companies. Rod serves as a strategic advisor and M&A consultant to over twenty Private Equity firms and their diverse portfolios of holdings. Rod personally leads the sales process and often works with executives post closing to develop their strategy going forward.

ELLEN M. STEINLAUF

Managing Director – Briggs Capital, New York
Direct Line: 732.282.9596
ellen@briggscapital.com



Ms. Steinlauf manages Briggs New York office and is an experienced consultant, entrepreneur, and business leader whose expertise has been used to successfully formulate and implement corporate business strategies for maximum market valuation. Ms. Steinlauf has created successful business plans and go-to-market strategies for middle market firms, resulting in significant value creation.

She has deep expertise in the areas of strategy, business development, sales, marketing, technology and professional services. She is also the founder and Managing Partner of Piermont Advisors, a strategic consulting and small to medium size business advisory firm.

Ellen has over 20 years of experience in the Financial Services and Professional Services industries. During her career she has held various executive level positions in investment banking organizations including Director – Morgan Stanley; VP -Goldman Sachs, London where she ran

BRIGGS

M&A ▲ Growth Strategy ▲ Investment Placements

www.briggscapital.com

ellen@briggscapital.com Tel 732 282-9596

HRmarketer
 publicity. traffic. leads.
 Services

www.hrmarketer.com

Tel 831 685-9700

the technology organization throughout Europe for the firm; and as MD – Bankers Trust where she was part of the Executive team that managed Retirement Services. As an Associate Partner with the NY Financial Services practice of Accenture (Andersen Consulting), she established and grew a highly successful Investment Management practice.

Ellen currently works with Private Equity firms, CEOs and Boards in the Business Services & Technology sectors and has deep experience within the sub-sector of **Human Capital Management**. In her role at Briggs, she represents industry players as an intermediary in Merger and Acquisition transactions, including raising growth capital and searching for funding as part of the growth strategy. She earned an MBA in Finance from Rutgers Graduate School of Management.

ABOUT BRIGGS CAPITAL

Briggs Capital, LLC is a mergers & acquisitions, growth advisory firm providing value creation for small to mid-market size companies in the business services, technology and manufacturing sectors. As proven operating professionals we apply these areas of expertise to industry. Briggs has offices in both metro New York and Boston.

ABOUT HRMARKETER

HRmarketer.com is a product of Fisher Vista LLC, a marketing software and services firm focusing exclusively on the human capital and healthcare markets. HRmarketer provides vendors with the tools and resources they need to manage and execute stellar marketing and PR strategies that increase visibility, grow business and provide ROI. HRmarketer's suite of resources includes: full marketing and PR services, SaaS based marketing software, rich informational databases and HR specific advertising channels. Since 2000, the company has worked with nearly 1,000 human resource and healthcare providers, helping them generate publicity, website traffic, sales leads and improved SEO. For information call 831-685-9700 or visit www.HRmarketer.com