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SILVA CAPITAL SOLUTIONS, INC. UPDATES PEO VALUATION STUDY

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Executive Summary

In 2012, Silva Capital Solutions, Inc. conducted a review of documented mergers and acquisitions in the PEO industry during 1995-2012. Consolidation of the industry has continued, and we have updated the original study to cover mergers & acquisitions occurring through 2016.

Valuation is complex. It is not black and white. In general, PEO Valuations are based on a market multiple being multiplied by adjusted earnings or EBITDA (Earnings before interest, tax, depreciation and amortization.) The market multiple is governed by a perceived balance of risk and reward as held by the selling PEO and as deemed important to the buying entity. The transaction terms or the way the purchase price is paid, also impacts the total valuation received. For example, if part of the purchase price is tied to actual performance during an “earn out” period, the actual purchase price may be less than the maximum potential purchase price.

Specifically, we compared the sales prices and transaction structures for ESAC-accredited PEOs in comparison to non-accredited PEOs for 2013-16 to update our original study. Our internal statistics and external research continues to prove that accredited PEOs command a valuation, "worth" or sale price between 1.15 and 1.30 times higher, as a multiple of earnings, than non-accredited PEOs. This statistic continues to demonstrate one of the values of accreditation.

Based on our experience, we believe the higher valuation multiples for accredited PEOs reflect the buyers' confidence in the lower risk and greater certainty of successfully achieving a higher accretive value from an accredited PEO. Also, an accredited PEO can authorize ESAC to share its independent due diligence performed quarterly over a PEO's period of accreditation. This information provides buyers with greater certainty of the financial and operational soundness of the PEO that buyers seek.

The conclusion of our updated study is the same as our original study, ESAC accredited PEOs continue to command a valuation that is higher than non-accredited companies.