

# PEO Mergers & Acquisitions 2013



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NAPEO

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## Why Value Your PEO??

- Business & Financial Planning
  - Shareholder/Board Review
    - Estate Planning
      - Divorce
    - Shareholder settlements
  - Exit Strategy Planning: ESOP/Sell
- 
- HOW WILL YOU KNOW YOU GET THERE IF YOU DO NOT KNOW WHERE YOU ARE GOING??



# Maximizing the Value of your PEO



## • State of the Industry – 2013

- Settled – More stable than 2012
- Economic & Government uncertainty lessens
- Labor Market – seeing improvement
- Positive but cautious optimism
- Healthcare detail delayed for 12 months
- PEO/HRO Model remains strong
- **Outsourced Business Service model solid**



# Maximizing the Value of your PEO



## • PEO Landscape 2013 – Summary

- 4 Public Companies
  - 7 PEOs – Private Equity Investors
  - 1 PEO – Insurance Company Investor
  - Remainder – Private Shareholders
- 
- 11 PEOs – 15,000 + worksite employees
  - 6 PEOs – 6,500 – 15,000 worksite employees
  - Remainder -- < 6,500 worksite employees



# Maximizing the Value of your PEO

The logo for NAPEO (National Association of Professional Employer Organizations) is located in the top right corner. It features the acronym "NAPEO" in a bold, sans-serif font, with a stylized graphic of a plant or leaf to its right. The background of the slide is a light green and yellow gradient with abstract, wavy patterns.

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## • TIER One – Premier

- Value Add HR Outsourcing Products & Services
- Excellent Technology
- PEO + ancillary products
- Sell to small and medium size employers
- Business Partner
- High touch – high quality
- Limited risk
- ESAC
- High retention
- **PROFITABLE**



# Maximizing the Value of your PEO



## • Tier TWO – Basic

- Traditional Co-Employer Services
- HR Administration/payroll/benefits
- Serve small business clients
- Take some risk
- Flat growth in today's economy



# Maximizing the Value of your PEO



## • TIER Three

- Payroll
- Very basic administration
- High Risk
- Arbitrage based – WC & SUTA
- Earnings fluctuate based on risk
- Lack of financial stability year over year





# Maximizing the Value of your PEO



- **Summary – M&A**

- Market is Active – HRO Industry is strong
- More buyers than sellers
- Buyers have knowledge to acquire well – make acquisitions accretive
- Assimilation/integration accomplished with minimal client loss – greater **profitability**



# Valuation Methodology

***Understanding how buyers determine value is essential to maximizing value in a sale***

A. EBITDA is Earnings Before Interest, Taxes, Depreciation and Amortization.

B. Adjustments are:

1. Non-Recurring Expenses
2. Expenses that would not to continue under new ownership



# IV. Valuation Methodology

C. EBITDA is to be  
“Representative”

1. Historic
2. Future
3. Current rate

D. Value ( Before Cash and Debt)  
= Multiple x Adjusted EBITDA

E. Price = Value + Cash - Debt



# IV. Valuation Methodology

## F. Terms:

1. Cash
2. Stock
3. Notes
4. Earn-out



# V. Multiples of Representative AEBITDA

## Excluding Outliers and Distressed PEO's

Estimated Percent of Transactions Captured	Multiple Range
80%	3.0x - 5.0x
20%	5.0x +