

JDC CORPORATE FINANCE FOCUS ON: RECRUITMENT



JDC Corporate Finance



JDC CORPORATE FINANCE... RAISING THE BAR

At JDC we have the experience and expertise within the team to achieve the aspirations of our clients, working with them to maximise the returns from their business and its value over the medium to long term.

We believe that as a result of our knowledge and proven track record in transactions, whether acquisitions, equity investments, shareholder partial exits or full disposals, we are well placed to help shareholders achieve their objectives.

We are proud of our reputation for being hands on, for originating and then driving a transaction from start to finish. This is one of the key areas we pride ourselves on, setting us apart from our competitors.

JDC's CREDENTIALS IN THE RECRUITMENT SECTOR

Over 10 years and more than 40 recruitment deals...

The team at JDC Corporate Finance has extensive experience of successfully marketing and completing the sale of companies in the Recruitment sector. Deals have been over many sectors and in the last 10 years, members of the team have led and completed the sale mandates on over 40 UK recruitment

companies. Buyers have ranged from local competitors looking to merge and consolidate, through to market leading Plcs and international operators seeking to broaden their coverage and establish a presence within the UK market.

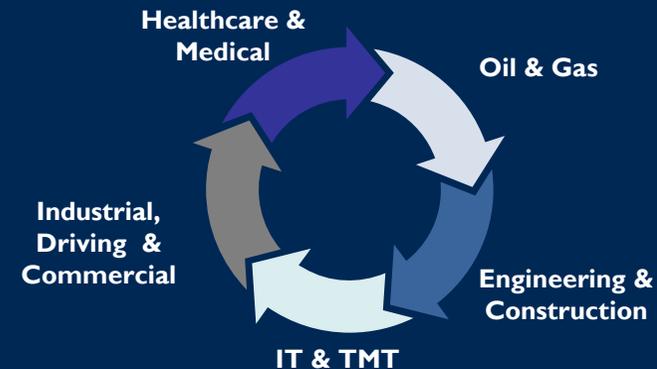
Based on this experience we understand how temp and perm recruitment companies are valued, the key elements in order to drive value and the likely deal structures, allowing us to advise shareholders on the

reality of the options open to them, and honestly assess whether now is indeed the right time to buy or sell.

We do not operate on volume, nor seek the payment of any fees upfront. Our service is highly confidential and bespoke, with payment due from our clients as and when we have delivered.

Speak with us today to understand why JDC are different, and how we can help you achieve your goals...

Some of the Recruitment sectors in which we have completed deals include:



WHAT IS YOUR RECRUITMENT COMPANY WORTH?

Base Value

- Typically companies who operate in generic white collar industries such as industrial, driving or commercial, with a small number of branches and a high reliance on either a small number of key customers or fee earning staff.
- Seen as a 'bolt-on' purchase with little additional value add, other than scale.
- Value will be suppressed due to the limited number of buyers interested, unless a provable growth curve can be demonstrated.

**<3x
EBITDA**

Proven Growth Potential

- Company with established reputation, operating either at a significant scale in temp markets or in buoyant perm sectors, with a blue chip customer base and can evidence growth in history, but are yet to fulfil their full potential.
- Value enhanced by:
 - Grooming prior to sale – understanding what drives value and protecting risks i.e. locking in key staff via EMI;
 - Understanding and implementing value enhancers, such as shareholders no longer being significant fee generators and being on 1st tier PSLs; and
 - Timing of sale to coincide with market demand in their sector.

**3-4x
EBITDA**

Market Leader

- Firmly established as one of the market leading independents either within a geographical region if predominately temp, or a niche sub sector if focused on perm placements.
- Have achieved the desired revenue mixture of perm and temp placements to demonstrate scale, whilst still achieving attractive fee income margins.
- EBITDA at c. £1million+.
- Demonstrable growth story, with detailed business plan and financial forecast models which can stand up to scrutiny.

**5x
EBITDA**

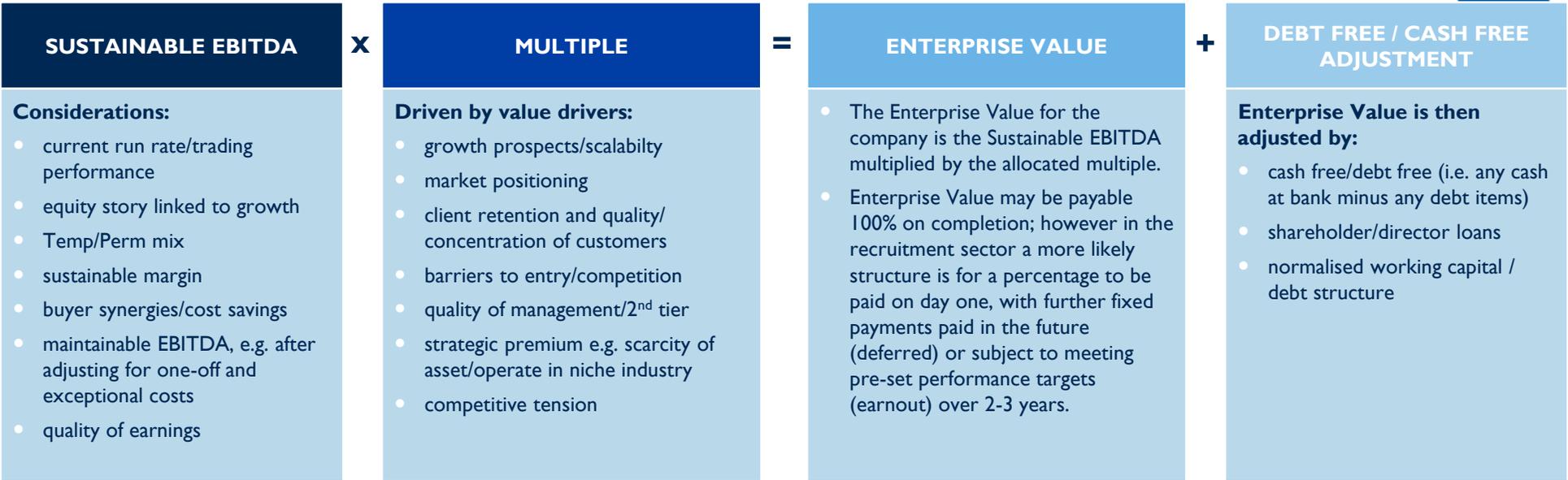
**6x +
EBITDA**

Strategic Premium

- Achieved via combination of timing, competitive tension and execution of exceptional fully managed process.
- Mixture of driven bidders comprising leading Plcs looking to expand horizontally into the chosen market; private equity investors on a 'buy and build' strategy, or a diversification purchase by an entity within the business services market who are looking to diversify.
- Requirement for detailed preparation of financial and commercial diligence in order to deliver premium multiple.

UNDERSTANDING ENTERPRISE & EQUITY VALUE

The Enterprise Valuation for Recruitment companies is typically calculated based upon a multiple of the sustainable EBITDA, which in essence is how many years worth of profits the Buyer is willing to pay. The Enterprise Value is then adjusted once any excess cash or debt has been identified from the Debt Free/Cash Free calculation to constitute the Equity Valuation for the shares.



EQUITY VALUE FOR 100% OF THE SHARE CAPITAL

PRE-SALE PLANNING – MAXIMISING VALUE...

WHAT INCREASES THE VALUATION MULTIPLE?

Owners often delay planning the sale of their Recruitment business because they are caught up in day to day operational demands. As a result, the majority of deals fail to maximise full value for owners, and a significant number of businesses fail to sell at all. An effective succession plan begins long before an actual exit. Whether the plan is to sell in six months or five years time, in order to maximise the valuation multiple that a Buyer will pay for your company you should look to:

- **Develop a solid management team which alleviates concerns that the business is dependent on the departing Sellers** - If the departing Sellers still generate revenue, meet with clients or are the face of the business, then a Buyer will rightly be concerned about the negative impact of their exit post sale. Therefore having a fully managed operation, with key staff 'locked in', is crucial.
- **Get your finances in order** - Any potential Buyer will scrutinise the financial results over the past few years in order to understand the risks and rewards associated with this potential investment. If there are discrepancies or anomalies in your accounts then a Buyer will discover these in Due Diligence and the 'goodwill' and trust built up between both parties will quickly evaporate, resulting in either the Buyer renegotiating the price, or in the worst case scenario, walking away from the deal altogether, potentially with devastating consequences.
- **Create and organise regular management reports to help a Buyer understand the key metrics and performance indicators used to manage the business** - Demonstrating how the company is run from top to bottom, with proven efficient policies and procedures, will give comfort as to the calibre of your business as an acquisition and justify any premium price.
- **Start considering who the strategic Buyers will be and their subjective value** - Understanding a Buyer's valuation drivers can position your business to highlight these points and accentuate the positive aspects further. Creating competitive tension between a number of strategic Buyers is paramount to maximising value, and the only way to do this is to take the time to reflect and identify who these will be.
- **Realistically understand the strengths and weaknesses of your business** - The better understanding you have, the better prepared you are to talk to a potential Buyer. This understanding at an early stage can be used to shore up relevant weaknesses, highlight key drivers and answer investment considerations during the sale process, presenting you as an informed and credible Seller.
- **Formulate and implement a comprehensive sell-side Due Diligence process** - Preparing yourself for the Buyer's scepticism, rigorous analysis and negotiations prior to starting the process, ensuring you are presented as professional throughout. Agreeing a price is just the start – if a Buyer discovers issues during Due Diligence, then this opens up the potential for renegotiations on price and structure.

PRESENTING YOUR BUSINESS TO GAIN INTEREST...

WHAT IS THE IM?

The Information Memorandum (IM) is the document that is designed to not only get potential Buyers interested in your business, but also importantly to ensure that every aspect has been fully explored in order to drive up value. As the IM will contain sensitive information, it should only be circulated to potential Buyers once Non Disclosure or Confidentiality Agreements have been signed.

A good quality IM will take weeks to prepare, allowing time for each and every USP or area of growth to be fully explored and to be presented in a coherent and credible manner. Most owners will only look to sell their business once, and as the IM will be the first time that a Buyer will see any detail on your business, it is vital that your business is presented in a professional manner. IMs should incorporate:

- **Background & History** – *Tell the reader the story of where the business has come from; how it has evolved and grown; the key milestones and step changes in its lifecycle; and importantly the investment that has been made (time, people, resources) by you to date.*
- **Market Position** – *Show a Buyer that you know exactly where you currently sit in your market place amongst your peers. This honest assessment should illustrate not only the strengths you have (i.e. why they should buy you rather than one of your competitors) but also the shortcomings (which if presented to the right Buyer, will be seen as opportunities and hopefully ‘easy wins’). This section, if presented correctly, will make any Buyer aware that you know exactly who all of the potential Buyers are for your business, and will start to create competitive tension.*
- **Financials** – *In order to get the highest possible price on a favourable structure, Buyers will need to be comfortable at the earliest possible stage that the financials and management information for your business are sound. This means being able to present data in a way that a Buyer can easily scrutinize, and importantly, reconciles without any discrepancies to your statutory or management accounts. Presenting data on historic and current trading, cash flow, balance sheet, seasonality of trading, revenue by customer and end market sector should all be considered. It is important to note that it is not always necessary to divulge highly sensitive data (such as customer names) so long as the key fundamentals are covered.*
- **Business Plan** – *Most companies do not have formal Business Plans, but prior to entering into dialogue with a potential Buyer it is important that a growth strategy is documented in order to try to enhance the valuation in negotiations. If credible, well thought out and presented correctly, a Business Plan should help the Buyer understand exactly how the business will be grown, and allow you to start negotiations at a far more advanced level. The Business Plan will require detailed narrative of each strand of the growth strategy, along with a financial projection model to illustrate exactly how this will affect sales, margin and profits. If CAPEX or OPEX investment is required to achieve the plan, illustrating how these investments will impact on projected balance sheets and cash flows adds important credibility. Ultimately the objective is for the Buyers to believe that the Sellers do not need to sell; that the business WILL grow, and that if they do not buy it today then either someone else will, or the business will be worth significantly more in the future.*

SOME KEY POINTS YOU NEED TO KNOW...

WHAT ARE THE HOTS?

Negotiations relating to a deal can often take a significant amount of time to finalise and agree. These negotiations not only relate to the amount of money being paid, but can be based around exactly what is being purchased; how the money will be paid (is it all on day one, spread over a period of time or contingent on future performance targets being met?); the length of time the vendors will be required post sale and the terms of any consultancy or employment; and if a property is included then the terms of the freehold purchase or the lease, comprising rent, reviews and break clauses. The Heads of Terms (HOTs) clearly record the agreed terms of the transaction in order to reduce unforeseen 'misunderstandings' as the transaction progresses and to reduce delays in the preparation of Sale and Purchase Agreements (SPA). Included within the HOTs should be an exclusivity period clause, ensuring the Buyer is incentivised to conclude the deal as quickly as possible.

WHAT IS DUE DILIGENCE?

After signing a Non Disclosure Agreement and agreeing the terms of a deal in the HOTs, the Seller will be required to provide evidence to the Buyer of how the business operates, encompassing financials, the legal structure, commercial contracts, property, insurance, taxation and many other areas. This process is known as 'Due Diligence'.

Once the Buyer has reviewed all of the information initially provided at the early stages of Due Diligence, they will assess the areas that they perceive as a 'risk', or where they believe there is potential for future liabilities to arise. This process helps to determine any specific "Warranties" to be given by the Seller.

WARRANTIES AND THE DISCLOSURE LETTER

Warranties are included in a schedule within the legal contract, known as the Sale or Business Purchase Agreement (SPA or BPA), and are basically comments stating the current standing of the business and its history, as known at the point of sale. They are there to:

- *Provide, through disclosure, additional information about the company which has not been identified through Due Diligence; and*
- *To apportion risk between the Buyer and the Seller.*

In respect of risk apportionment, it is important for shareholders to negotiate a reasonable set period of time that a claim against warranties can be brought, and also to build in other protections, which we and your lawyer can advise on. The negotiation of warranties is a key part of the contract process.

The 'Disclosure Letter' is a legal document that allows the Seller to detail matters where the warranties are accurate, except for the specific disclosed exceptions. By making the Buyer fully aware of any issues before signing the contract, this prevents the Buyer from making a claim against these disclosed points in the future. Any disclosures that are made need to be made in full, and may have significant impact on the price or, at worst, the Buyer's desire to proceed. Understanding this process, and honestly reviewing the areas that the Buyer may see as a concern very early in the process, is a vitally important consideration in managing the deal and keeping the sale on track.

OUR FEES...

HOW WE WORK

We are a boutique corporate finance firm – not a broker nor a general accountancy practice. As such we are able to offer bespoke proposals for transaction related services that suit the specific requirements of the company and its shareholders, delivered by a senior team who are significantly experienced in mergers and acquisitions.

We do not work on volume. In order to provide the highest level of service, we limit the number of mandates we are instructed on at any one time, ensuring the senior people within the JDC team retain the capacity to deliver exceptional results.

We are regulated by the Institute of Chartered Accountants in England and Wales (ICAEW) and work to the highest regulated standards of the Institute.

FEES BASIS – PRE-SALE

Should the directors/shareholders identify services that the company requires prior to proceeding with a sale, then we are able to offer them in a transparent manner, at a pre-agreed cost. Potential pre-sale services include:

- **EMI or Share Option Schemes** – to retain and incentivise key members of staff – *From £5,000*
- **Financial Forecasting** – creation of detailed P&L / cash flow projection models – *From £7,500*
- **Strategic Review** – evaluation and presentation of all the options open to shareholders – *From £10,000*
- **Pre-Sale Due Diligence** – to identify areas of risk which should be addressed prior to engaging with potential acquirers – *From £5,000*

All the above services are billable to the company.

FEE BASIS – SALE

For disposal mandates, JDC offers a tailored fee structure which is designed to result in:

- **No upfront fees** – The company is charged monthly in arrears at agreed discounted hourly rates for the work undertaken, with nothing payable on day one. This incentivises us to deliver on the promises we make from the start all the way through every stage, and keeps you in control.
- **We are incentivised to make the sale happen** – At completion we receive a success fee uplift on our previously charged discounted fees. There is no lock in.
- **We remain your trusted adviser throughout** – Unlike fully contingent fee deals, we do not become ‘fee hungry’ or conflicted, and our incentive remains solely to get the best result for you, not just any deal as quickly as possible.

WHAT OUR CLIENTS SAY...

“I worked with Adam on a number of enquiries in the pursuit of acquisitions in the recruitment sector during 2009 & 2010. Adam worked tirelessly to nurture negotiations in an articulate and professional manner. His balanced approach was undoubtedly a key factor during the purchase/sale process. I would recommend him to anyone seeking a diligent and skilled professional...”

“JDC provided quality advice and service throughout the complex process, helping to find an excellent partner in Octopus and also run an exceptional process to deliver a double digit valuation multiple to the stakeholders. Their hard work and commitment was instrumental in supporting us and we could not have secured the deal without them. It was a pleasure to work with the team and I would be happy to recommend them to anyone considering a transaction...”

“What can you say about JDC? I never appreciated quite how much effort goes into selling a business until we experienced it first-hand. Having experienced brokers etc. in the past (which JDC are definitely not) I must pat our bank manager on the back for his recommendation. It is fair to say that without JDC we would not have got through the experience, nor would we have achieved such a fantastic deal. You are worth your weight in gold – thank you from the bottom of my heart...”

“Available to me 24/7, through ups and downs and with our interests at heart throughout, JDC were the driving force to ‘clinch the deal’. There are not enough superlatives I can find to say a HUGE thank you to JDC for fulfilling our dreams...”

CONTACT US

Talk directly with any of our senior team:



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Please be assured that all discussions are held in the strictest of confidence. We welcome the opportunity to meet initially on a free, no obligation basis, so we can talk in more detail about the services we offer and how we can work with you to achieve your objectives.



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