Merger and Acquisition Outlook for the Staffing Industry in 2019 and forward

By: Martin L. Borosko, Staffing Practice Leader of Becker LLC

The past year marked another active year for mergers and acquisitions in the staffing industry. The number of transactions rose from 2017 and valuations held fairly steady across the industry. The question is what can we expect in 2019? We surveyed a number of the leading investment bankers and private equity firms in the industry about their expectations for the upcoming year.

Overall Market

The consensus is that the market will remain strong through at least the first half of 2019 with a potential cooling of the market in the second half of the year. All sources expected a strong first quarter in terms of activity. Simply put, there remains a healthy number of sellers and buyers who entered the market in the second half of 2018 and are still looking to close deals. This overflow from 2018 combined with new entrants into the market should ensure that activity will remain at a pretty consistent pace with 2017 and 2018. An active market along with the fear of an economic downturn having been pushed out until 2020, should protect valuations through the first half of the year as well.

The big “if” for the second half of the year is, of course, the economic outlook for 2020. A number of the experts surveyed for this article indicated that they anticipate some buyers heading to the sideline in the second half of the year based on their belief that the economy will slow in 2020.

While activity and valuations will remain strong, buyers/PE investors are continuing to narrow their focus and refine their criteria for acquisitions targets. Professional staffing businesses in high growth and niche areas will remain in highest demand, and correspondingly, will continue to reap higher valuation multiples. Businesses with flat or declining growth profiles and/or in lower margin markets will find limited buyer interest and less attractive valuations.

Commercial and Light Industrial Staffing

Valuations in the commercial and light industrial staffing market dipped slightly in the late second quarter and early third quarter of 2018. Activity, however, remained strong. The consensus is that valuations will hold where they are now and activity will remain steady in this sector for the first half of 2019.

Private equity has cooled a bit in terms of interest in this sector of the staffing market and that development is one of the factors that led to the slight dip in valuations. Without strong interest from private equity, it might be hard for valuations to rise in this sector in the near term. On the other hand, foreign and middle market strategic buyers entered the market in the second half of 2018. This group of buyers along with the private equity buyers still in the market, should be sufficient to carry the market where it is through the first half of the year. The consensus is that there may be another slight dip in valuations in the third quarter if there are any signs of an economic slowdown in 2020.

Healthcare

Valuations and activity should stay robust in the healthcare staffing industry throughout 2019. This sector continues to garner strong interest from buyers and PE investors. The only constraint on the market is the tight supply of healthcare professionals and the question of whether healthcare staffing firms have sufficient pricing power to improve margins given rising wages in the sector. Healthcare staffing firms with demonstrated growth profiles, robust technology platforms and a strong management team that desires to remain with the company post transaction will continue to receive attractive valuations throughout 2019. Geographical penetration will continue to serve as a catalyst for many strategic acquisitions.

IT

The IT staffing sector will continue to see the highest valuations and greatest activity in the industry in 2019. In particular, IT staffing businesses in strong niche markets will demand the highest multiples within the IT staffing industry. Multiples will continue to range from six to eight times EBITDA for middle market IT staffing firms (EBITDA $3M $7M) with a proven track record of growth in the first half of 2019 and should carry through until the end of the year assuming that there is not a major economic downtown in the forecast.

Finance and Accounting

The US finance and accounting staffing merger and acquisition market should remain steady in the first half of 2019. Growth in private equity market, business spending and new regulations will continue to fuel demand and drive revenue slightly upward in the sector. Human cloud staffing will continue to pose a threat to traditional finance and accounting staffing. Businesses offering a combination of traditional staffing and technology driven staffing, such as human cloud staffing, that show solid growth will be the most attractive sellers. Overall, valuation multiples and activity should remain at 2018 levels.

Niche Sciences and Engineering

Life sciences, robotics and other staffing business participating in higher bill rate technology or scientific sectors will continue to be highly sought after acquisition targets.

Conclusion

Favorable economic conditions and a stable of active buyers/investors and willing sellers should fuel the M & A market in staffing for the first half of the year and into the second half of the year. We expect buyers/investors and sellers to be motivated to get deals done this year before the uncertainty of the economy and next year’s election factor into the market for 2020.

Martin L. Borosko is the Managing Member of Becker LLC and co-chair of the firm's staffing practice group. Martin, Kent Schwarz and their team at Becker have represented an industry leading sixteen buyers and sellers in M & A transactions in the staffing industry over the past three years. They offer comprehensive services to help guide staffing firms through transactions starting from target identification and acquisition strategy, LOI negotiation and continuing through diligence, tax planning, and definitive document drafting to closing. Their staffing industry knowledge separates Becker from other law firms and is an invaluable asset that allows Martin and Kent to navigate difficult diligence and deal structuring issues and help clients find solutions to close deals.

Martin L. Borosko, Esq.
mborosko@becker.legal
(973) 422-1100