



## Business Services

### Spotlight:

#### The Convergence of HR Technology

The HRO industry has undergone a significant evolution over the last decade, with the convergence of HR technology and HR service being led by emerging technology-focused companies that are dramatically changing the competitive landscape.

In our spotlight, we assembled thought leaders in the new technology environment of HR outsourcing—including founders and leaders of technology businesses that provide payroll, PEO, benefits, and benefits administration services—to share their perspective on the mission of their firms, the future of tech-enabled HR outsourcing services, recent valuation trends, and areas of future consolidation.

**February 2016**

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& Company

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# Insider

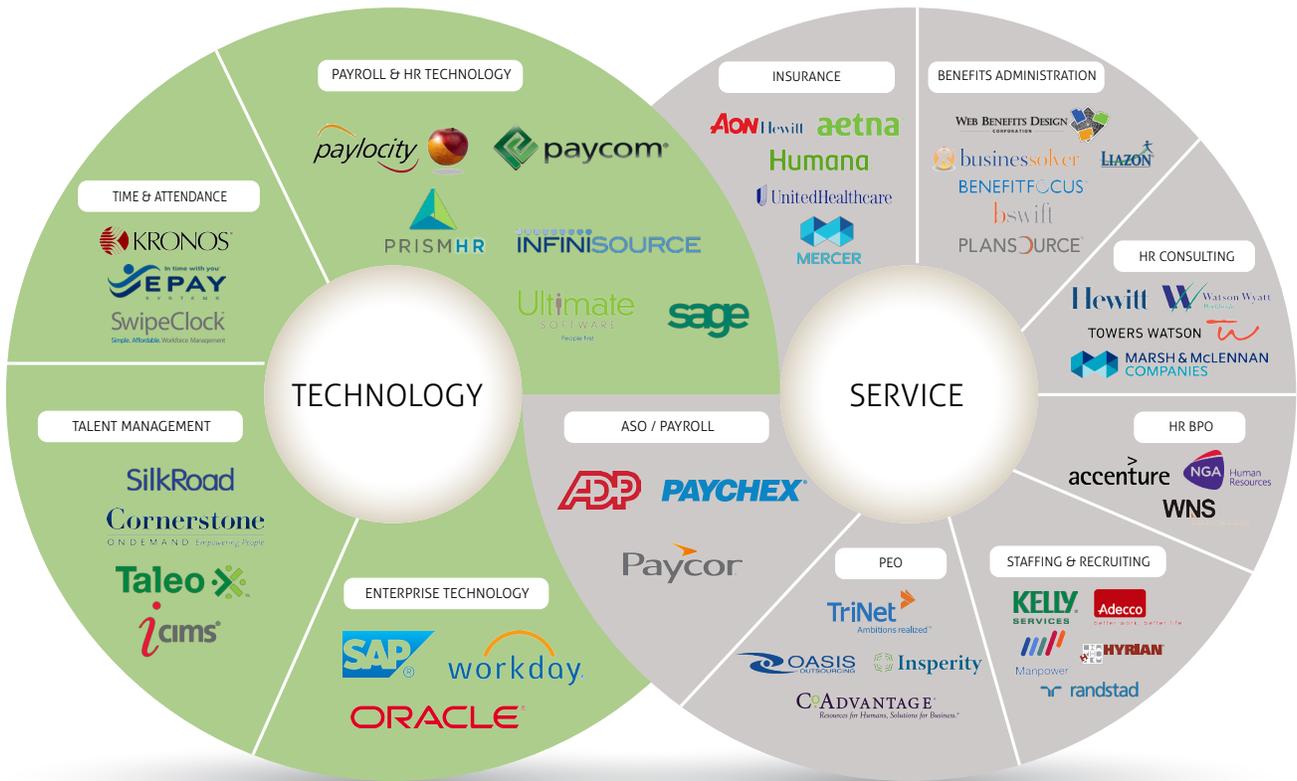




# Spotlight On:

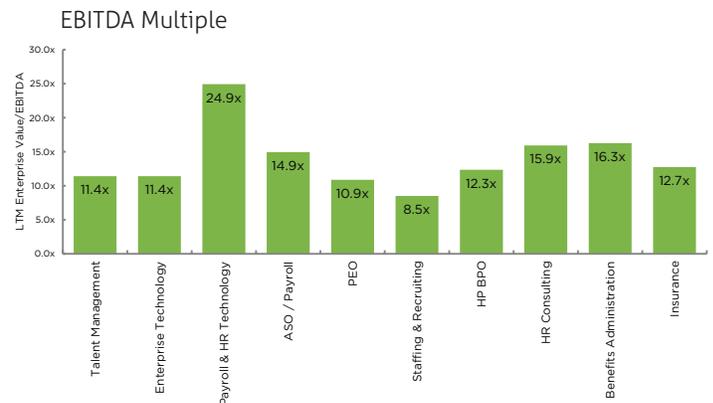
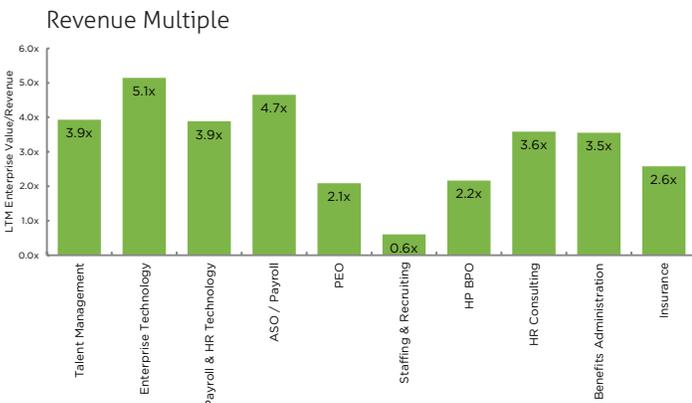
## HR Technology

Over the last decade we have witnessed a significant evolution in HR outsourcing and a convergence between HR technology and HR service. A number of technology-focused companies have emerged just in the last few years that are changing the landscape in HR outsourcing and HR technology.



### Valuations at a Premium

#### Public Market Valuations



Source: S&P Capital IQ.



## Technology M&A is Accelerating Convergence

Convergence is exhibited in M&A strategies as players leverage technology to drive business transformation, with valuations diverging as the industry moves toward integrated solutions. HCM will be integrated with the financial platform—merging payroll, HR, financial, and payment processing—into an integrated solution.

Industry players are paying premiums to expand their product and/or market footprint, enhance their solutions offerings, and gain access to the small business and middle markets.

### SELECTED STRATEGIC ACQUISITIONS

TARGET



ACQUIRER



January 2016

Human capital management suite that provide HRMS, payroll, time tracking, and talent management solutions to more than 1,000 small and mid-sized businesses. Extends Kronos' leadership in the retail industry by adding innovative retail scheduling functionalities to its portfolio.

TARGET



ACQUIRER



November 2014  
Enterprise Value: \$400M

Retail shopping technology platform for health insurance exchanges and employers which fits strategically with Aetna's private-exchange offering. The buy reflects the shift in focus in the industry toward the consumer. Bswift also provides software and services related to HR and payroll administration.



December 2015

First acquisition for Paychex since 2014. Adds payroll processing, time and attendance, and tax administration, in addition to small business lending (payroll funding, commercial credit, and working capital funding). Acquisition furthers Paychex's stated strategy to add adjacencies and expands its exposure to the temporary staffing market, which is seeing increased demand for outsourced services due to rising regulatory pressures.



TOWERS WATSON



November 2013  
Enterprise Value: \$215M

Best-in-class cloud-based employee benefit exchange technology platform bolsters capabilities in the private exchange market with an immediate entry into the fast-growing SMB and mid-market where private exchange adoption is expected to occur more rapidly. Follows the purchase of Extend Health in May 2012, solidifying Towers Watson's position as a leading player in the private exchange market through its OneExchange solution.



September 2015  
Enterprise Value: \$100M  
Revenue Multiple: ~3x+

U.S. based technology-driven career transition company extends competitive position with scalable technology platform that can be rolled out globally. Innovative technology utilizes job search aggregation, semantic search, and intelligent ranking tools for resume building and screening.



December 2011  
Enterprise Value: \$3.5B  
Revenue Multiple: 12.0x

Leading cloud-based vendor in the human capital management space. The acquisition adds one of the largest SaaS based talent/performance management vendors in the industry, solidifying SAP's competitive position as the market shifts from on-premise to cloud-based software. Acquisitive SuccessFactors completed roughly one acquisition per quarter for the two years leading up to the acquisition to build its SaaS platform.



In this spotlight, we have assembled thought leaders in the new technology environment of HR outsourcing, including founders and leaders of technology businesses that provide payroll, PEO, benefits, and benefits administration services, to provide their perspective on:

- The founding and evolution of their businesses
- The current environment in technology-enabled HR outsourcing services
- What market, client, and consumer needs still remain to be served
- The future of technology-enabled HR outsourcing



profile

# RICH CANGEMI



Mangrove Software is a benefits administration, human resources, and payroll software and services company founded in 1994 by Rich Cangemi and Paul Zugay. Rich Cangemi serves as the company's Chief Executive Officer. Mr. Cangemi's professional experience includes several years with Keane, where he oversaw business development for software development projects, targeting financial services companies in the New York metropolitan area.

## Q&A

### WHY DID YOU OPT TO BUILD A BUSINESS IN THIS INDUSTRY?

The HR and payroll industry covers a broad need spanning from small to large companies and across every industry.

**Q Why did you opt to build a business in this industry?**

**A** I liked the HR and payroll industry as it covers a broad need spanning from small to large companies and across every industry. Mangrove focused on mid-sized companies because we found a great demand for enterprise functionality that is simple to use and cost effective, in the mid-size market.

**Q What or who were your major influencers?**

**A** There are a few companies that have influenced both our strategy and product design at Mangrove. The flexibility of the Peoplesoft's People Tools definitely influenced our thought process on the system design. We wanted the ability for a power user to adapt system panels as-needed and that capability has really served us well in terms of flexibility to support client's needs. More recently, as we've moved our company to a mobile-first product line, it's been helpful to see a competitor like Workday make

similar commitments for mobile device support; it validates our strategy.

**Q Did you bring in angel or venture capital investors or did you "bootstrap" the funding of the business. Why?**

**A** Early on Paul Zugay and I decided that we would bootstrap the company as we wanted the flexibility to develop a compelling and mature product to bring to market first. We knew that investors could be a distraction to that goal; as they might place more priority on revenue growth than product readiness.

**Q What was your mission/ strategy when you founded the company?**

**A** Our mission was initially focused on technology enablement of HR and Payroll administrators. The scope of our mission has expanded.

**Q What was your biggest challenge in starting the business?**

**A** I can't name one thing that was easy being a startup that is bootstrapped. Creating a company is a ground-up effort as everything must be built from scratch. You have to build a brand presence, source employees, build vendors relationships, and ultimately sell clients. As far as the biggest challenge is concerned; I'd say acquiring the first few mid-market clients. It's tough to find a company willing to sign up their HR and payroll operation to rely on a new company with new technology without a lot of external funding.

**Q What was your biggest mistake in starting the business?**

**A** I believe that we should have gone to market earlier with a smaller product footprint.



**Q Tell us about Mangrove and the markets you serve.**

**A** Mangrove Software provides Human Capital Management Software for companies that range in size from 50-5000 employees across all industries and all verticals.

**Q How did you identify the need for your products and services?**

**A** Our clients generally recognize the need to improve their HR, Payroll, and Benefit Management processes but often lack the understanding of how technology could best support their desired business outcomes. Mangrove conducts a thorough due diligence as part of our standard sales process to best understand the requirement of our client as well as how we can best help them with measurable outcomes.

**Q What segment (SMB, middle market, or enterprise) are you targeting and why?**

**A** Mangrove focuses on the middle market, those companies with greater than 50 full-time employees up to 5,000 employees. Mangrove Software is best suited for clients that value technology and demand integration between HR, Payroll and Benefits. Mangrove Software is easy to use and easy to deploy but is best maximized by those clients that want to leverage a technology investment to best attract, retain, engage and socialize with their workforce.

**Q What is your primary distribution channel?**

**A** Direct Sales (90%) and Channel Partners (10%).

**What is the addressable market size of the segment(s) you are serving?**

**A** The middle market employs over 30 million people in the United States today and generates over \$6 trillion in annual revenue.

**Q What were the biggest challenges / surprises you have encountered since you founded the company?**

**A** I'd have to say that the adoption rate of self-service capabilities for employees is lower for our entire industry than I would have expected. It is getting better; however we still have a way to go to get to full adoption, and until we do, companies that use Employee Self Service will not get their full ROI.

**Q What is your biggest challenge currently? What keeps you up at night?**

**A** Cyber threats keep me up at night; and not just the ones directed at my company. The entire industry is threatened and it concerns me because if my competitor gets a black eye then unfortunately the industry suffers.

**Q What are your primary differentiators in the market, and why do companies choose you as their service provider?**

**A** Our service model is more flexible than a traditional service bureau like an ADP or Paychex. Mangrove's product offering provides a fuller and richer set of capabilities. Essentially we bring enterprise features and functionality to mid-market clients at affordable prices.

**Q What has been your success in attracting technology and sales talent?**

**A** I have to admit that at times we've struggled in these areas as we are very selective but we've found a few things that consistently work in our favor. We have the sunshine factor in Florida that helps us attract the best talent to our headquarters from colder climates. We strive to hire with growth opportunities in mind as those assignments are win-win where the new employee benefits with enhanced skills and capabilities and the company benefits with an

engaged and loyal employee. Also once we've identified a talented player, we are aggressive in compensation and internal opportunities to ensure we can retain that individual.

**Q Do you intend to expand your business to other related adjacencies?**

**A** Yes, we are actively adding functionality to our platforms and services to improve our value proposition to our clients. Recently, we added a social engagement feature which will assist companies in communicating, recognizing, and retaining employees.

**Q What are your long-term objectives, and what do you see as the ongoing growth potential for your business?**

**A** I'm bullish on our sector long-term. I believe that companies will continue to increase spending on Human Capital Management technology. I see the adoption of the enterprise features in mid-market companies expanding so I see this area of our business as a real future opportunity.

**Q How can access to the capital markets help you achieve your growth objectives for your business?**

**A** Capital market access is essential to achieve our growth objectives. In our industry, customer acquisition costs will range from 1 to 2 times annual revenue contribution so achieving a growth rate of 25% on an annualized basis with a 2x acquisition cost would burn 50% of gross sales—definitely requiring capital infusion to meet cash flow requirements. Clients must be retained for many years as it's too costly to sign up a customer and then lose them a few months or a year later.

## HOW DID YOU IDENTIFY THE NEED FOR YOUR PRODUCTS AND SERVICES?

Our clients generally recognize the need to improve their HR, payroll, and benefits management processes but often lack the understanding of how technology could best support their desired business outcomes.



profile

# DAVID ARONSON



David Aronson founded Peanut Butter in 2015. The Chicago-based benefits administration company helps companies provide a unique student loan benefit to attract and retain Millennial employees. Mr. Aronson has a background in new ventures, new business development, and HR outsourcing, having previously held positions at Gevity, Sears, and Dresner Partners.

## Q&A

### WHY DID YOU OPT TO BUILD A BUSINESS IN THIS INDUSTRY?

To help employers differentiate their employee value propositions, reduce turnover and hiring costs, and aid in the solution to America's student debt problem

**Q Why did you opt to build a business in this industry?**

**A** Employers would not have done this on their own. By facilitating modest company-sponsored contributions to employee student loans, we help employers differentiate their employee value propositions, reduce turnover and hiring costs, and aid in the solution to America's \$1.2 trillion student debt problem.

**Q What or who were your major influencers?**

**A** In late 2014, I read an Aon Hewitt research report that showed Millennials are not contributing to 401(k) plans even when employers are willing to match. This was a strong indication that employers could use other incentives more effectively.

**Q Did you bring in angel or venture capital investors or did you "bootstrap" the funding of the business. Why?**

**A** I chose to bootstrap because I was at a point in my life and career where I could invest meaningful dollars into something that I believe in.

**Q What was your mission/ strategy when you founded the company?**

**A** We want to make heroes out of employers as they help millions of employees avoid billions of dollars in loan costs and get out of debt years sooner than they otherwise would have.

**Q What was your biggest challenge in starting the business?**

**A** Having the courage to found a company

**Q What was your biggest mistake in starting the business?**

**A** Not starting sooner. I thought about the idea for nearly 4 months before I committed to it.

**Q Tell us about Peanut Butter and the markets you serve.**

**A** Peanut Butter makes it easy for employers of all sizes to offer student loan repayment as a benefit. Companies that employ younger workforces in roles that require college-degrees will see the most benefit from our service. I've been amazed at the range of industries but the most common are technology, healthcare, professional services, financial services, and communications.



Our technology helps employers securely create, manage, and track the impact of student loan repayment plans. Our support team handles employee enrollment, loan verification, and coordination of payments out to student loan servicers. For employees the net result is getting out of debt sooner. For companies, it's a differentiated employee value proposition and better employee retention.

**Q How did you identify the need for your products and services?**

**A** Millennials are the future leaders of America. Today, the demographic comprises 34% of the U.S. workforce and will reach 50% by 2020. Companies that complement positive corporate culture with incentives that Millennials value will be employers of choice among this generation.

Peanut Butter recently sponsored a Millennial Benefit Preferences (MBP) study which surveyed college-educated Millennials age 21-34 to analyze benefits preferences and corresponding employer implications. Student loan matching was identified as the top benefit requested by Millennials:

- When polled and given the choice between two job offers, 85 percent of Millennials said they would accept a job if the employer offered student loan repayment.
- College-educated Millennials expressed a willingness to stay 36% longer when an employer offers student loan repayment.

**Q What segment (SMB, middle market, or enterprise) are you targeting?**

**A** Enterprise and mid-market

**Q What is your primary distribution channel?**

**A** Direct Sales

**What is the addressable market size of the segment(s) you are serving?**

**A** 10-20 million employees. Today there are more than 40 million Americans with student debt. Roughly one-third of those work for companies that are in the war for talent and could benefit from offering student loan repayment.

**Q What is your biggest challenge currently? What keeps you up at night?**

**A** Being a better leader

**Q What are your primary differentiators in the market, and why do companies choose you as their service provider?**

**A** (1) Greater relevance to Millennials than other benefits/perks and (2) We are solely focused on serving employers' interests, not selling loans or advice to employees.

**Q What has been your success in attracting technology and sales talent?**

**A** Very good. Our company was founded with leadership and advisors who bring substantial experience in HR outsourcing and educational technology, and who can relate to our goals as business leaders, and their employees' goals as student loan holders.

**Q Do you intend to expand your business to other related adjacencies?**

**A** Too early to tell

**Q What are your long-term objectives, and what do you see as the ongoing growth potential for your business?**

**A** Help hundreds of thousands of employers establish greater employee loyalty by giving employees the benefits they value.

**HOW DID YOU IDENTIFY THE NEED FOR YOUR PRODUCTS AND SERVICES?**

Millennials are the future leaders of America. Today, the demographic comprises 34% of the U.S. workforce and will reach 50% by 2020. Companies that complement positive corporate culture with incentives that Millennials value will be employers of choice among this generation.



profile

# NICK IACONO



Nick Iacono is the President of Employer Solutions for HealthPlanOne. Nick has held senior management positions at Intuit, Gevity, and PayChoice. He most recently served as EVP of Business Development and Marketing at PayChoice where he led the firm’s business development, marketing, and corporate communications efforts. He spent his early career as a management consultant with Booz Allen Hamilton.

## Q&A

### WHY DID YOU OPT TO BUILD A BUSINESS IN THIS INDUSTRY?

To bring the scalability and efficiency of the internet to the inefficient process of selling individual insurance products

**Q** Why did you opt to build a business in this industry?

**A** Bill Stapleton founded the company in 2006. At that time, Bill had 15-20 years of experience in healthcare and deep knowledge of the inefficiencies that exist. He also had many contacts in the industry who could provide product, distribution partners, employees, and capital.

**Q** Did you bring in angel or venture capital investors or did you “bootstrap” the funding of the business. Why?

**A** Bill had angel investors, many of whom were former colleagues from Oxford Health Plans.

**Q** What was your mission/ strategy when you founded the company?

**A** The founding mission of HPOne was to bring the scalability and efficiency of the internet to the inefficient process of selling individual insurance products and, in so doing, yield a revenue stream of commissions that is recurring and highly profitable.

**Q** What was your biggest mistake in starting the business?

**A** In my opinion, it was not pursuing the opportunity to deliver exchange solutions to employers prior to 2013.

**Q** Tell us about HealthPlanOne and the markets you serve.

**A** HPOne operates four business units:

- Retail Exchange that delivers individual Medicare and pre-65 insurance plans directly to consumers.
- Lead Generation business that creates leads for individual insurance products from consumers via digital marketing channels. A portion of the leads generated are input to the Retail Exchange and the

balance are sold to other vendors targeting the consumer segment.

- Member Acquisition business that provides white label telesales solutions for individual insurance products to healthcare carriers.
- An Employer Exchange that delivers individual Medicare and pre-65 insurance plans to employers converting their benefits program for retirees from a traditional group plan to a defined contribution approach.



**Q How did you identify the need for your products and services?**

**A** The Retail Exchange was the first product in the company's portfolio. The need for the solution arose from the following observations:

- The market for individual insurance products is large, fragmented, and underserved.
- Consumers are increasingly purchasing goods and services via the web. A web-based technology could be deployed to reach a fragmented base of prospects economically; deliver a better consumer experience (than what was being provided by "brick and mortar" brokers); and keep cost to serve low.

**Q What segment (SMB, middle market, or enterprise) are you targeting and why?**

**A** Our Employer Exchange is primarily targeted to middle market firms that offer a defined benefit insurance plan to retirees and wish to convert to a defined contribution approach. We did not pursue the enterprise market because HPOne does not yet have capabilities to adequately serve this highly-competed market with several entrenched competitors (e.g., Extend Health, Aon, Buck Consultants). We did not pursue the SMB market because of high fragmentation, low incidence of benefits plans for retirees, and low revenue potential per client.

**Q What is your primary distribution channel?**

**A** We sell primarily through distribution partners such as benefits consultants, carriers, and third-party administrators.

**Q What is the addressable market size of the segment(s) you are serving?**

**A** There are approximately 2,000 mid-market firms with a group health insurance plan in place for retirees. A secondary market is the additional 6,000-8,000 mid-market firms who do not offer insurance to retirees but which may want to provide a (free) service to retirees to help them obtain insurance when they leave the employer's group health insurance plan for active employees.

**Q What were the biggest challenges / surprises you have encountered since you founded the company?**

**A** New competitors and ACA

**Q What is your biggest challenge currently? What keeps you up at night?**

**A** Seasonality (and the challenge it creates for staffing licensed advisors)

**Q What are your primary differentiators in the market, and why do companies choose you as their service provider?**

**A** The following are the things that make our Employer Exchange solution different:

- Superior service levels
- Surge capacity for licensed advisors (who can be redeployed from the Retail Exchange solution)
- Unique hybrid exchange solution that pairs HPOne's multi-carrier exchange for individual Medicare products side-by-side with a group Medicare exchange from UnitedHealthcare
- Willing to customize solution

**Q What has been your success in attracting technology and sales talent?**

**A** We have been blessed with being able to fill any open roles we have. It's a real benefit to have so many industry veterans on the team with broad networks of experienced individuals.

**Q Do you intend to expand your business to other related adjacencies?**

**A** Yes. We recently launched a STARS solution that helps insurance carriers increase their CMS star rating for the Medicare Advantage plans they offer. We are also considering distributing other categories of individual insurance products, such as P&C lines of coverage.

**Q What are your long-term objectives, and what do you see as the ongoing growth potential for your business?**

**A** Our objective is to continue our track record of growing revenue and profit YoY at an increasing rate. With the exception of the Lead Generation business, the markets in which we're competing are only far from fully penetrated and have positive tailwinds.

**Q How can access to the capital markets help you achieve your growth objectives for your business?**

**A** Although the company recapitalized in 4Q14 and isn't presently seeking capital, growth requires cash, and we may in the future need to secure capital to invest in distribution and ongoing product development.

**HOW DID YOU IDENTIFY THE NEED FOR YOUR PRODUCTS AND SERVICES?**

The individual insurance market is large and underserved. Consumers are increasingly purchasing goods and services via the web. We saw an opportunity leverage that trend using technology to deliver a better consumer experience.



profile

# SCOTT MILLSON



MillsonJames  
AN HR TECHNOLOGY ADVISORY FIRM



Millson James was founded in 2010 as an independent consultancy serving the HR Technology marketplace. Scott Millson serves as the company’s Chief Executive Officer. Mr. Millson’s career in the HR Technology and Outsourcing industry spans more than 25 years, with a primary emphasis on benefits administration. The majority of his career was spent with Hewitt Associates (now Aon) where he was a partner/owner and led two national businesses. Scott most recently served as an executive with PlanSource.

## Q&A

### WHY DID YOU OPT TO BUILD A BUSINESS IN THIS INDUSTRY?

To make the selection, decisions, and utilization of HR technology simple and compelling

**Q Why did you opt to build a business in this industry?**

**A** I saw a need to bring an objective voice to the industry. Benefit brokers are being overwhelmed with options. There are literally new HR/Benefit technology companies being launched each month. It has become increasingly difficult for an Agency Principal to sort the wheat from the chaff. Our intense focus is to advance HR through technology, and we offer that service through Employee Benefit Brokers to help them differentiate themselves in their market.

**Q What or who were your major influencers?**

**A** There are far too many to mention. I’ve been blessed to have worked with some of the greatest minds in our industry. Over the years, I have developed a Leadership Mosaic, pulling the best from those with whom I’ve had the privilege to work.

**Q What was your mission/ strategy when you founded the company?**

**A** Simple: To offer an objective voice to EB agencies.

**Q What was your biggest challenge in starting the business?**

**A** As with any business, it is getting at bats. We have been fortunate to have great partners that have given us the opportunity to develop deep relationships with their clients.

**Q What was your biggest mistake in starting the business?**

**A** Not launching MillsonJames sooner!

**Q Tell us about MillsonJames and the markets you serve.**

**A** MillsonJames is an independent and objective HR Technology advisory firm focused on helping organizations maximize their potential through HR technologies.

**Q How did you identify the need for your products and services?**

**A** We listen intently to the market. When we hear of a need, we laser in on solving that problem. For example, two years ago, we dug in deep with our clients around Private Exchanges. More recently, we’ve recognized the need for EB agencies to compete against new competitors such as Zenefits. In 2015, it was all we could do to help our clients (agencies) help their clients (employers) through the maze of ACA. We consistently evaluate the market and flow our products and services to serve the market where they need it, when they need it.

**Q What segment (SMB, middle market, or enterprise) are you targeting and why?**

**A** Our agency partners focus on everything from the SMB to the larger end of the middle market. We go where our clients need us to go and our background and experiences allow us to do so.



## HR Technology

roundtable

### INDUSTRY OUTLOOK

**Q** What gaps do you still see in the market for technology enabled HR outsourcing, and more specifically, the segment(s) you are servicing?

**Aronson, Peanut Butter.** Hundreds of thousands of employers will continue to lose valuable resources and incur high costs related to hiring, training, onboarding, and lost sales, because they will be slow to adjust their employee value proposition to meet the changing preferences of their workforce.

**Cangemi, Mangrove.** We see a tremendous opportunity in the mid-market for technology adoption of enterprise HCM features. We really see the most opportunity in helping our clients transition from a largely transactional HR department to a strategic HR department; where our technology enables the transition by eliminating duplication of work. The technology engages employees and managers to serve themselves. This opportunity is mostly untapped at this time as many mid-market clients have yet to adopt even basic Employee Self Service capabilities.

**Iacono, HPOne.** There is a need for better decision-making tools in the online exchange platforms to make them more akin to expert systems that enable a user to make complex decisions easily and with confidence. There are over 10,000 Baby Boomers retiring daily and most of them are technologically savvy. Current exchange solutions are technology-enabled services that still have a large dependence on human beings, i.e., the licensed advisors who counsel retirees. This is the way that many of the current retirees like it, since they're not fully comfortable with technological solutions in general and even less so for something as complex and critical as medical insurance. This will change as the Baby Boomers continue to represent an ever increasing share of the overall population of retirees.

**Millson, MillsonJames.** Consistency. We often feel we are on a Quest for the Holy Grail – to find a provider that delivers consistently. There are many service providers that do an outstanding job for their customers, but too often, there are inconsistencies with delivery.

We also would like to see a higher degree of payroll integration with the stand-alone benefits admin and HRIS providers. Too often, a response of “yes, we can integrate with your payroll provider” by a sales rep is followed up by

months of inactivity to actually make that wish become a reality. Technology via APIs is making this more of a reality, but it has been a slow go for far too long. We would like to see more of a willingness by both parties to stop using the stall-technique as a sales strategy (if we make it so difficult to integrate with a third party, maybe they will want to use us (payroll company) for their broader HCM needs).

**Q** Where do you see the status of the market(s) you are serving in five years? What do you see as the next “big thing” in your specific industry?

**Cangemi, Mangrove.** I see the HCM platform continuing to evolve and consolidate features. The convenience for the end user to have this functionality in one single platform is compelling. I believe that stand-alone HR, payroll, benefit administration, performance, social, time and attendance, and even recruiting products will become specialty niche products and that the majority of companies will find that their HCM platform will be sufficient to meet their needs for this functionality. Of course if my prediction is true then Mangrove, Workday, Ultimate will benefit but specialty providers like iCIMS or Halogen might suffer.

**Iacono, HPOne.** Very difficult to predict. Healthcare is highly regulated and it's not clear what changes future elections will bring. Technology will continue to evolve and will become increasingly important with demographic and psychographic shifts in the retiree population. I think the healthcare exchange platforms are also likely to broaden into adjacent areas such as wellness and, in so doing, transition from a once-a-year enrollment activity to being a part of an individual's daily life

**Millson, MillsonJames.** I'm not sure I could call it the “next” big thing because industry analysts have been predicting this since the late 1990s, but I believe that Consumerism will come back to the forefront of the healthcare industry. It is the single greatest weapon employers have to combat the continuation of double digit healthcare trends. It is not an overnight solution, but if we can engage the consumer in a healthcare purchase process where the user feels they are in control of that purchase and, subsequently, their health insurance, they will begin to make better decisions about their health and the care for that health. Today, healthcare is a B to B transaction and it must become more B to B to C in order for us to bend the heavy trend line in the long-run.

I have also become intrigued by the idea of introducing a new employee benefit that addresses the next big societal dilemma: Student Loans. Many of

### WHAT GAPS DO YOU STILL SEE IN THE MARKET FOR TECH-ENABLED HRO?

Hundreds of thousands of employers will continue to lose valuable resources and incur high costs related to hiring, training, onboarding, and lost sales, because they will be slow to adjust their employee value proposition to meet the changing preferences of their workforce.

- David Aronson



the Fortune 500 companies will soon begin to see the value of helping their employees rid themselves of the student loan millstone that has been tied around their neck. Employers will begin to see the value of offering student loan repayment assistance as a means to attract the Millennial employee that is burdened with this considerable debt. From our technical perspective, we envision new technologies being developed to support this new corporate benefit offering.

**Q What is the primary threat for your industry?**

**Aronson, Peanut Butter.** The status quo.

**Iacono, HPOne.** A key threat is the ACA, which is driving carriers to reduce both plans they make available as well as the commissions they provide for selling those plans. It isn't yet clear how much or whether employers, or the retirees themselves, would be willing to pay for a service that assists retirees in evaluating and enrolling in medical insurance plans.

**Millson, MillsonJames.** Commoditization. Service providers need to find ways to differentiate themselves. However, that focus need not be strictly on technological advances in terms of feature/functionality, but needs to be focused on service as well as technology. We are running the risk of the best payroll/HCM solution in the market being analogous to being the Best Surfer in Kansas – not an overly helpful moniker.

**Q Who will be the winners / losers in the market(s)?**

**Iacono, HPOne.** In the healthcare exchange market, the winner will be the firm that most effectively addresses seasonality, either by finding ways to keep licensed advisors producing revenue outside peak enrollment season and/or through technology that reduces dependence on licensed advisors.

**Millson, MillsonJames.** We believe that the winners will be the ones that focus on the customer and deliver consistently. The providers need to understand what the employer community wants: A solution that is strong technically, but one that consistently delivers on their promises.

**Q How do you think technology will change over the next five years?**

**Aronson, Peanut Butter.** We'll become smarter users of data.

**Cangemi, Mangrove.** Mobile and consumerization will be fully expected and then realized. Products that are clunky, hard-to-use or don't support mobile devices will be replaced.

**Iacono, HPOne.** Technology advances in healthcare exchanges will increasingly enable substantially more personalization and decision guidance / assistance.

**Millson, MillsonJames.** We need to see more open sharing of data and an operational acceptance and willingness to do so. Engagement will also continue to be a focal point of the providers. They must engage both end users (employers and their employees) from the onset of an on-line interaction or that employee will disengage.

**Q There is one school of thought that the overall HR technology industry will evolve away from specialty/niche companies to those that offer a fully-integrated suite of HR outsourced services. What is your view?**

**Iacono, HPOne.** It's hard to say. I think what employers really want is the combination of best-of-breed functionality for each service, a consistent and intuitive user experience, and data to flow smoothly among the various services. An integrated solution offers consistent UI and a single database, but not all of the individual service modules will offer industry-leading functionality and these systems are often very expensive. At the other end of the spectrum, securing the leading point solutions in each category will provide the best functionality, but carries the challenge of different log-in credential, differing UI, entering data multiple times, etc. With most solutions being delivered via the cloud, I think it's possible that integrating point solutions (through services such as Boomi) may become more prevalent.

**Millson, MillsonJames.** Over my career, I have seen this pendulum swing from one school of thought to the other. At various points, we have seen employers appreciate/value a best-in-breed approach to technology - employers find the best HR, Payroll, Benefits, Talent Management, etc. solution and partner with each of those companies independently. We have also seen the pendulum swing the other way and employers have found value in having all eggs in one, full-blown HCM solution basket.

At the current moment, we believe that the pendulum is swinging back towards best-in-breed solutions and away from broad HCM solutions.

**Q What changes in the health care / benefits market do you see over the next five years?**

**Aronson, Peanut Butter.** Better tools to manage individual and population outcomes.

**HOW DO YOU THINK TECHNOLOGY WILL CHANGE OVER THE NEXT FIVE YEARS?**

Mobile and consumerization will be fully expected and realized. Products that are clunky, hard-to-use, or don't support mobile devices will be replaced.

- Rich Cangemi



## HR Technology

### roundtable

**Cangemi, Mangrove.** I don't see mid-market companies dropping health benefits from their benefit package but I do see a move to higher deductible plans with a consumer-driven approach to cover the higher deductible such as an FSA, HRA, or HSAs. Dropping employer sponsored health is a more distinct possibility for companies with less than 50 employees. I do see a trend where smaller companies will partially self-insure as that is becoming more affordable than fully-insured.

**Iacono, HPOne.** Many employers would like to extract themselves from providing benefits to employees at all, as this tradition is really an anachronistic vestige of wage freezes that were in place in WWII, and, instead, simply provide a higher salary that reflects what they would have spent on benefits. Not sure if this will happen as quickly as the next five years or if at all, considering the employer mandate in the ACA. I think another emerging trend to watch are accountable care organizations (ACOs) which, in concept at least, will have the potential to cost curve to deliver medical services.

**Millson, MillsonJames.** Consumerism.

#### **Q What is your view on the future of public and private exchanges as the principal source of benefits for many consumers?**

**Aronson, Peanut Butter.** Employers will continue to move in this direction. It no longer makes sense to take risk on employee health.

**Cangemi, Mangrove.** My expertise is in the employer sponsored space so I can only comment on that aspect of our industry. I see exchanges as a tool for vendors to package benefits and market products more effectively to employees with both on and off exchange products.

**Iacono, HPOne.** I think exchanges are here to stay. Employers see them as a stepping stone toward getting out of the business of providing benefits. Individuals are becoming increasingly comfortable securing complex service products such as insurance via the web. Government exchanges provide a tailwind that reinforces these two trends.

**Millson, MillsonJames.** Over the last several years, we have held a firm belief that Private Exchanges would not set deep roots within the industry and that has proven to be true. Adoption continues to be very slow. In our opinion, the primary reason for this is inappropriate expectations. In 2014 and 2015, the marketplace was all abuzz about Private Exchanges and how

they were going to solve world hunger, among other things. Employers were able to see through this marketing and did not ultimately pull the trigger on migrating into a Private Exchange at the rates that had been predicted. Now, that said, we believe that Consumerism, which is a key underpinning of a Private Exchange, does hold a great deal of merit and should be adopted by employers. We, as an industry, just need to do a better job of setting expectations for how Consumerism will (slowly) move the needle versus the over-night/over-promising made by Private Exchanges of the past.

#### **Q What will drive future industry consolidation and which areas are likely to be more active?**

**Cangemi, Mangrove.** There's some opportunity in our space such as benefit technology companies (e.g., Benefitfocus) or ERP (e.g., Netsuite) to cross over into HCM with strategic acquisitions. Other companies like Salesforce and Cornerstone have taken the approach to build as opposed to buy. Of course, the traditional reasons for M&A activity which are about achieving scale or making a return on private equity investments will drive decisions to consolidate, and we'll have plenty of those opportunities in the near future.

**Iacono, HPOne.** Provisions within ACA that squeeze profits will drive consolidation. Consolidation will enable carriers to continue to lower commissions in an attempt to lower SG&A costs and support their own levels of profitability. It will also enable them to reduce reimbursement rates paid to providers. These actions will drive brokers to continue to consolidate to secure more leverage with carriers and reduce/leverage administrative expenses to support their profitability. Similarly, providers will continue to consolidate into larger practice groups and/or align with regional healthcare systems that include hospitals to get more leverage over payers. These counter-actions will drive more consolidation among carriers, and so on.

Consolidation will also continue in the payroll and benefits space, but for different reasons. The complementarity of these two products/services and the commonality of supporting data will continue to drive consolidation.

**Millson, MillsonJames.** We believe that a best-in-breed philosophy will drive some consolidation within payroll and benefits administration. HCM providers will recognize the need for a deeper level of expertise and will be looking to deepen that expertise via partnership/acquisition. We also believe that as technology allows for deeper and stronger integration of disparate systems and databases, you will see further consolidation.

## WHICH AREAS WILL SEE CONTINUED CONSOLIDATION?

The complementarity of payroll and benefits products and services and the commonality of supporting data will continue to drive consolidation.

- Nick Iacono



## CAPITAL MARKETS OUTLOOK

**Q** What do you think about current public market valuations in the following sub sectors: Benefits Administration (e.g., Benefitfocus); Payroll (e.g. ADP, Paychex, Paylocity); and HRMS (Ultimate).

**Aronson, Peanut Butter.** They are fair.

**Cangemi, Mangrove.** I believe that the public market valuations for Benefit Administration companies such as BenefitFocus with enterprise valuation nearing five times revenue are very bullish for the sector. It's been a hot sector and the ACA helped to put it there. There's no question that growth should be rewarded with a higher enterprise valuation but investors should be cautious as Benefit Administration solutions are much easier to displace than a Human Capital Management software especially with payroll and time and attendance functionality. I'd look carefully at these companies before investing as the lifetime value of their customer relationships has to support the higher valuation otherwise the substantial investment in growth will not be sustainable longer-term.

**Iacono, HPOne.** Benefitfocus: It's hard to justify their valuation on the basis of fundamentals. Similarly, it isn't clear they've been able to demonstrate the accelerating growth in revenue and profitability to justify their current market cap.

Ultimate: Similar story to Benefitfocus. Although a very successful and well-run company with excellent software, it's not clear they (or any company) deserve a P/E north of 200.

Payroll companies: these integrated players seem to be the best values. They are much more reasonably priced (P/E for ADP is ~25) relative to the broader market and have all the potential upside in terms of revenue growth that the point solution providers enjoy.

**Millson, MillsonJames.** The current markets recognize the need for stronger technology and service for the SMB and middle markets. HR professionals are being squeezed by being asked to do more with less. They need help and the market has responded with improved technology and services to help address this pain point. Given the intensity of this space, the capital markets are assigning an appropriate value to these solutions. That said, there needs to be some balance to growth and profitability, and I don't believe the market will continue to look the other way when it comes to profitability. Many of these organizations will need to turn their attention to building sustainable growth models.

## WHAT FUTURE ROLE WILL PRIVATE EQUITY PLAY IN THE SECTOR?

**Q** How do you view the role of private equity and venture capital in this sector?

**Aronson, Peanut Butter.** No different than in other sectors.

**Cangemi, Mangrove.** I see a private equity role primarily in facilitating M&A activity. I would expect to see venture capital investment focused more narrowly on startup technology to disrupt the status quo. These investments are hard to predict as innovation is tough to forecast, but there are opportunities abound. I'd like to see some real investment in a neural networking applied to human capital for the purpose of predictive analytics.

**Iacono, HPOne.** I think private equity will play an important role in helping firms both enhance and/or broaden their solution set as well as accelerate growth.

**Millson, MillsonJames.** Private equity and venture capital have and will continue to play a key role in the HR Technology sector. They see the growth potential and are helping fuel new and inventive technologies.

**Q** How long do you anticipate continued strength/stability in the capital markets?

**Aronson, Peanut Butter.** 6-12 months

**Cangemi, Mangrove.** I do not expect any material change in the capital markets in the next year.

**Iacono, HPOne.** The party is already beginning to end. Unicorns are becoming unicorpses. Firms that invested in high-profile start-ups at high valuations are writing down the value of their investment (e.g., Fidelity and Zenefits). Exuberance is giving way to rationality. I think the HRMS space will remain an area of great interest for investors, but the old rules (i.e., clear value proposition, established traction in market, ability to demonstrate profit when not in high-growth mode) will be enforced.

Private equity and venture capital have and will continue to play a key role in the HR Technology sector. They see the growth potential and are helping fuel new and inventive technologies.

-Scott Millson



### HR Technology Spending on the Rise

The near-term outlook for HR technology investment is bullish following record spending in 2015, according to the Sierra-Cedar 2015-2016 HR Systems Survey, with employee productivity and engagement at the core of HR technology innovation.

Key survey findings for 2016:

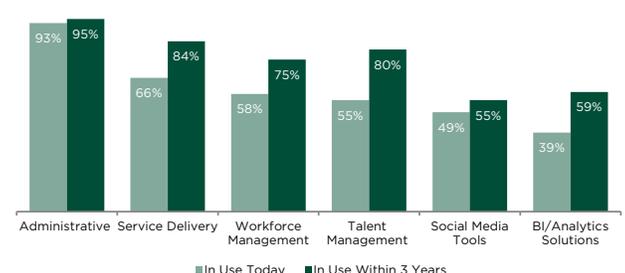
- 46 percent of organizations anticipate increases in overall HR Technology spending
- 43 percent of organizations have a major HR Systems Strategy initiative
- 50 percent of purchase core HRMSs are Software-as-a-Service solutions as opposed to 38 percent in 2014, a “tipping point” in the survey results. Smaller companies (2,500 employees or less) lead with 62 percent of all SaaS or combined SaaS and on-premise cloud implementation versus 42 percent for medium (2,500 to 10,000 employees) and 33 percent for large (10,000 and over) companies.
- HR service delivery is shifting, with mobile having a significant impact on HR technology adoption and usability and employee engagement. More than 40 percent of organizations plan to have mobile Workforce and Labor scheduling, and Recruiting and Onboarding, within the next 12 months. Overall growth for Mobile within organizations is projected at over 60 percent for the Administrative, Workforce Management, and Talent Applications, and 160 percent growth for BI/Workforce Analytics.
- Strategic HR is data-driven and talent-driven with innovation in HR analytics a tool to drive business outcomes. Talent acquisition is attracting increased funding and producing an “explosion” of new technologies.
  - 39 percent of organizations are now doing some level of HR analytics
  - 50 percent of organizations are using new Talent Acquisition tools outside of their applicant tracking systems

### HR Technology Investment

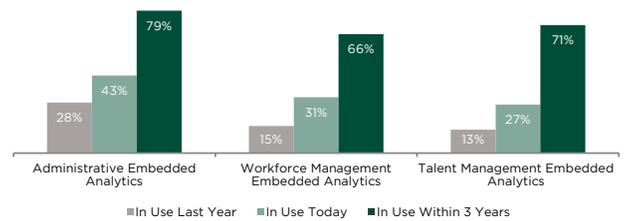
Adoption by Size



Three-Year Adoption Outlook



Embedded Analytics Solutions



Source: Sierra-Cedar 2015-2016 HR Systems Survey.



## An Insider's View: The Convergence of Technology and Service in HR

Since this publication is called the “Insider”, let me give you my inside experience with technology:

In 2007, as the Chief Administrative Officer of a publicly-traded HRO services company, I arranged a potential “break out” strategic channel partnership with an international enterprise technology provider. We chose to stay with our existing technology platform and distribution model, and as the Great Recession hit, wound up selling the company in 2009 for a fraction of our pre-crisis market capitalization. Competitors who had placed an emphasis on integrating more robust technology into their service offering fared much better. The lesson learned is clear. Highly effective technology must be coupled with superior service for HR outsourcing companies to meet marketplace demand today and thrive in the industry of tomorrow.

In my current advisory role at Brown Gibbons Lang & Company, I work with clients in the HRO industry that span technology startups to established HR service companies. The technology spectrum continues to be wide with some early adopters of HR technology (like our roundtable participants) and others that follow market trends. The efforts of these companies have created a new normal and brought enterprise level functionality to businesses of all sizes.

The convergence of technology and service has forced many industry leaders to question the steps their companies are taking to stay competitive. Should we provide best-of-breed technology in our current segment or try to provide an integrated HR solution to our clients? Should we focus on our service’s user experience or the back-end functionality? What is the right way for us to develop new technology, by acquisition or build from the ground up? These are all excellent questions and are critical to shaping the direction HR technology will take in the future.

Whether it is smartphones, self-driving cars, or HR outsourcing, technology is rapidly evolving and needs to be fully embraced in any industry. Certainly there will be those HR technology companies that stumble, but technology will continue to transform the lives of businesses and employees alike.

You have read about the visions of the HR technology leaders that have participated in our roundtable. Their challenges in establishing successful strategies and fueling growth are universally experienced in our industry. Brown Gibbons Lang is here to support the capital market needs of these HR technology leaders.

*“Highly effective technology must be coupled with superior service for HR outsourcing companies to meet marketplace demand today and thrive in the industry of tomorrow.”*



*Cliff Sladnick heads BGL's Human Capital Management Outsourcing Practice.*

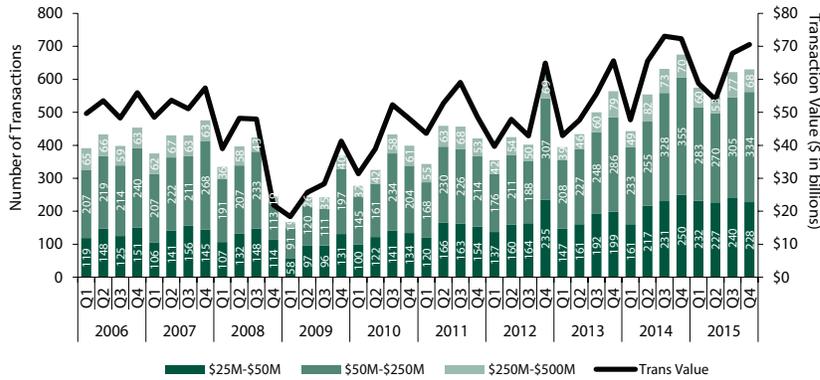


# Business Services Insider

## Overall M&A Activity

### Mergers & Acquisitions Activity

#### Middle Market M&A Activity

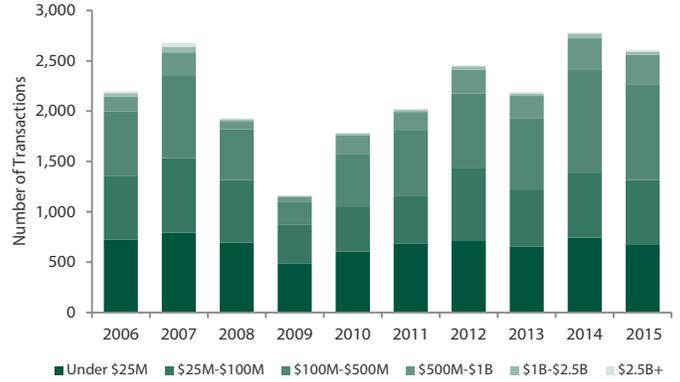


Based on announced deals, where the primary location of the target is in the United States. Middle market enterprise values between \$25 million and \$500 million.

SOURCE: S&P Capital IQ.

#### Private Equity Transaction Activity\*

Transaction Count by Deal Size

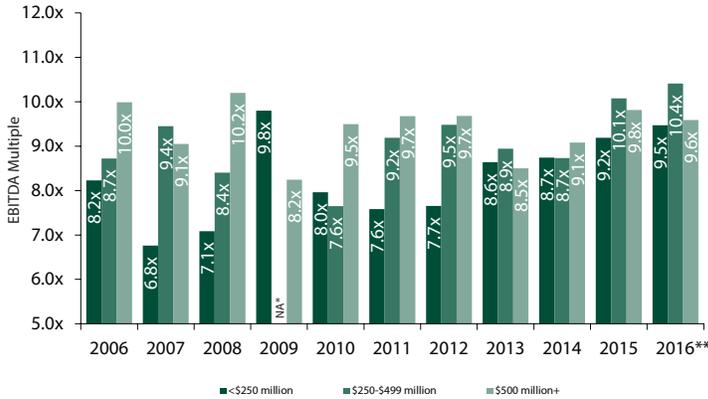


\*Buyout activity only

SOURCE: PitchBook.

### Trends in Valuation

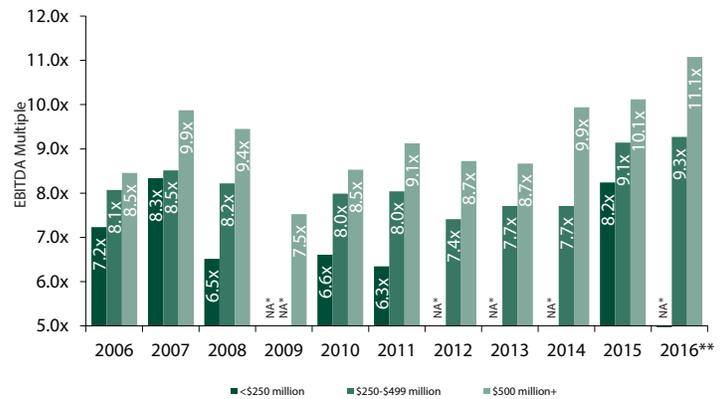
#### Transactions with Strategic Buyers



\*NA: Data not reported due to limited number of observations for period. \*\*Data reported for the three months ended January 2016.

SOURCE: Standard & Poors LCD.

#### Transactions with Financial Buyers

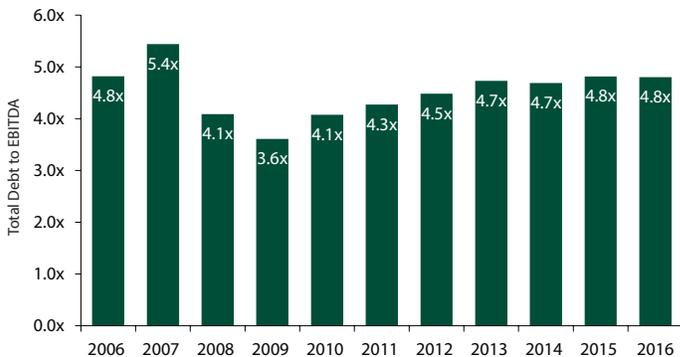


\*NA: Data not reported due to limited number of observations for period. \*\*Data reported for the three months ended January 2016.

SOURCE: Standard & Poors LCD.

### Acquisition Financing Trends

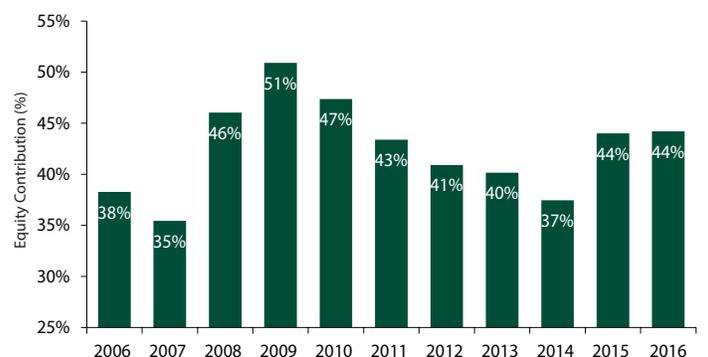
#### Total Leverage



Middle market enterprise values between \$25 million and \$500 million.

SOURCE: Standard & Poors LCD.

#### Equity Contribution



Middle market enterprise values between \$25 million and \$500 million.

SOURCE: Standard & Poors LCD.



# Business Services M&A Activity

## PAYROLL & PAYROLL PROCESSING

In December 2015, **Global Payments** (NYSE: GPN) announced it was acquiring **Heartland Payment Systems** (NYSE: HPY) in a transaction valued at approximately \$4.4 billion. The transaction significantly expands Global Payments' U.S. direct small and medium-sized enterprise distribution, merchant base, and vertical reach. The combined company will provide market-leading payments solutions to nearly 2.5 million merchants globally. On a combined basis, the businesses expect to generate in excess of \$3.0 billion of adjusted net revenue and \$1.0 billion of EBITDA annually.

Global Payments CEO Jeffrey Sloan, said, "This partnership with Heartland marks a major milestone for our company, significantly enhancing our direct presence in our largest market and transforming Global Payments into the leading provider of integrated payments technology solutions in the world." "The combination of Global Payments and Heartland will be transformative for the worldwide payments industry," said Robert Carr, CEO of Heartland. **Transaction Multiples: 1.6x Revenue and 20.3x EBITDA**

## HR TECHNOLOGY

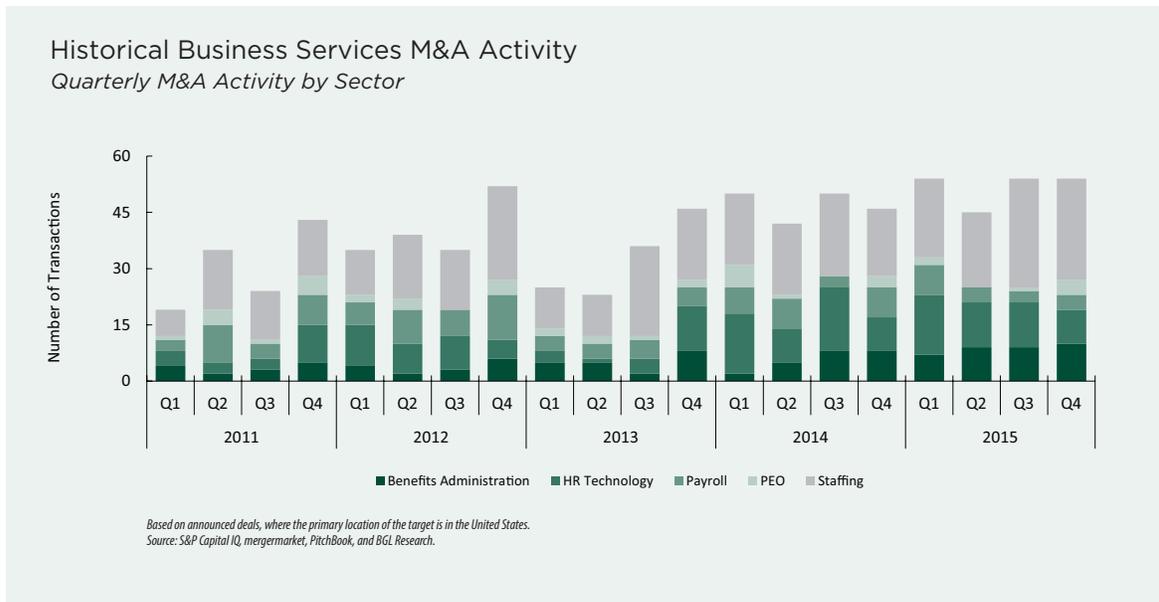
In January 2016, **Kronos Incorporated** completed the acquisition of **Empower Software Solutions**, a leading provider of human capital management and workforce management solutions. Founded in 2007 and headquartered in Orlando, Florida, Empower offers time and attendance, scheduling, payroll, HR management, and tax filing software applications and services that help

organizations effectively manage their workforces and enhance employee engagement.

The acquisition extends Kronos' leadership within the enterprise segment with some of the world's largest retailers, manufacturers, and financial services organizations, as well as within the small and midsize business (SMB) segment, adding nearly 1,000 organizations to the Kronos customer community. With the addition of Empower, Kronos will also extend its leadership in the retail industry, complementing its strength with unique and innovative retail scheduling functionality.

Bob Hughes, chief strategy officer at Kronos, said, "Empower Software shares Kronos' vision of offering solutions in the most flexible and comprehensive manner possible to engage an organization's biggest asset, the workforce, and with this acquisition, Kronos further extends its leadership in human capital management. We also gain access to unique retail scheduling functionality as well as other powerful solutions, which complement Kronos offerings to help all customers - large or small. The Empower Software customer base will benefit from the vast array of solutions that Kronos offers."

In November 2015, **Shiftgig** raised \$22 million of Series B funding from lead investor **Renren**, bringing total capital raised to date to \$35 million. **Chicago Ventures, DRW Venture Capital, GGV Capital, Garland Capital Group, KGC Capital, Pritzker Group, and Wicklow Capital** also participated. Shiftgig is a professional networking and



SOURCE: S&P Capital IQ, PitchBook, Equity Research, Company Filings, and public data.



employment website community offering job postings from restaurants, hotels, and retail industry. The company provides an online community that helps service workers find jobs by making connections between people and businesses in the service industries.

Shiftgig will use the capital to scale the business by launching in new cities across North America and investing in sales, marketing, technology, and operations. The company's growth has been exponential. In the six months leading up to the financing, Shiftgig added 270 new clients, opened in five new cities (Atlanta, Houston, Memphis, Miami, and Phoenix), and grew the number of Shiftgig Specialists more than three-fold. "We are impressed with the company's growth and driven team," said Joe Chen, CEO of Renren. "Shiftgig has become the industry leader in this massive market. We are excited to partner with them to scale their business."

"The future of work is changing" said Eddie Lou, co-founder and CEO at Shiftgig. "People want to work on their own schedules and not just by driving a car. Likewise, today's businesses require smarter options to optimize their labor force to meet their growing or seasonal business needs. With Shiftgig as the technology bridge between businesses and part-time workers, we are excited to fulfill our mission of connecting millions of workers to millions of shifts."

In April 2015, **Francisco Partners** acquired **ClickSoftware Technologies** (NasdaqGS: CKSW) in a take private transaction valued at \$376 million. ClickSoftware is a leading provider of automated mobile workforce management and optimization solutions for the service industry. "We are excited to support the continued growth of ClickSoftware," said Matt Spetzler, Partner at Francisco Partners. "ClickSoftware is a leader in the mobile workforce management space, and we look forward to combining our expertise with its talented team of professionals to further enhance its Cloud solutions, grow its customer pipeline and further advance its strategic goals." **Transaction Multiple: 3.0x Revenue**

## BENEFITS ADMINISTRATION

In November 2015, **WEX** (NYSE: WEX) completed the acquisition of **Benaissance** in an \$80 million transaction. Founded in 2006 and based in Omaha, Nebraska, Benaissance is a leading provider of integrated software-as-a-service (SaaS) technologies and services for healthcare premium billing, payment, and workflow management. Benaissance's platform offers consolidated individual and group premium billing and payments

technology and services to employers and consumers via public and private exchanges, carriers, and third party administrators. Benaissance will be integrated with WEX's existing Evolution1 platform.

Commenting on the acquisition, WEX CEO Melissa Smith, said, "The acquisition of Benaissance builds on the success we have already had in the healthcare space by allowing us to provide an expanded and differentiated payments solution. We believe this will enhance our addressable market opportunity, customer loyalty, and wallet share over time, while strengthening our overall value proposition in this attractive, high-growth vertical."

## PROFESSIONAL EMPLOYER ORGANIZATIONS

In January 2016, private equity-backed **HR Outsourcing Holdings** (HROI) completed the acquisition of **Fortune Financial** (Fortune). Founded in 1997 and based in Tampa, Florida, Fortune is a professional employer organization (PEO) and human resources outsourcing company that provides small and mid-sized companies with payroll administration, human resources administration and compliance, workers' compensation, and benefits administration solutions. The company offers PEO services in 46 states. Fortune is the first add-on acquisition for HROI since it was acquired by **Clarion Capital Partners** in March 2015.

With the acquisition, HROI will broaden its platform to accelerate growth. The combined entity will have over 25,000 worksite employees and over 750 clients. The company will have offices in Florida, Georgia, Texas, California, New York, North Carolina, Kansas, and Ohio.

## STAFFING

In December 2015, **Impellam Group plc** (AIM: IPEL) completed the acquisition of **The Bartech Group**, a leading global workforce management and staffing solutions provider to Fortune 500 companies, in a transaction valued at \$126.2 million. Founded in 1977, the Southfield, Michigan-based company manages more than 30,000 workers and consultants and over \$3 billion of spend for clients worldwide on a run rate basis through its Managed Services Programs (MSP) and Specialist Staffing business. Bartech's CEO, David Barfield, will join the Impellam Group, becoming CEO of Impellam's North American businesses including Bartech.

The acquisition will further Impellam's vision "to be the world's most trusted staffing company", bringing scale to its U.S. business and providing cross selling opportunities



for Impellam's North American Specialist Staffing businesses as well as Bartech's professional and technical specialist staffing business. Impellam CEO Julia Robertson commented on the transaction, "The acquisition of Bartech is another significant step forward for Impellam and will accelerate the achievement of our strategic goals. The combination of our leadership position in the UK MSP market and the highly respected Bartech and Guidant brands in North America will enable us to offer our MSP clients a global solution delivered by experts in our local markets." **Transaction Multiples: .46x Revenue and 9.9x EBITDA**

In October 2015, **General Employment Enterprises** (NYSE MKT: JOB) acquired **Access Data Consulting Corporation** ("Access Data"), a Denver-based provider of information technology (IT) staff augmentation and consulting services, for \$15 million.

For more than 25 years, Access Data has provided higher-end IT consulting and IT contract staffing services including project management support to businesses regionally and throughout the U.S. from its office locations in Denver and Colorado Springs. The company's IT professionals cover the entire project life cycle, including business/systems analysis, program management, project management, architecture, design, development, testing, maintenance, and operational support and have expertise in diverse industry verticals such as cable, telecom, health care, education, finance, and government.

The acquisition advances General Employment's strategic growth strategy to expand its IT staff augmentation and solutions presence into key markets where there is significant spending for IT staffing services, according to CEO Derek Dewan, who commented on the transaction, "Access Data...exemplifies the ideal information technology staffing company providing human capital solutions in a number of technical areas that are in high demand. By acquiring Access Data, the company is able to expand its geographic footprint into the mountain-west market and increase its service capability nationwide." **Transaction Multiples: .71x Revenue and 6.0x EBITDA**

In August 2015, **Patriot National** (NYSE: PN), a leading provider of technology and outsourcing solutions, acquired **Global HR Research** (GHRR), in a transaction valued at \$42.5 million. Based in Fort Myers, Florida, GHRR provides pre-employment background screening, assessment, and acquisition solutions that augment Patriot's broad employer service offerings, enabling its corporate clients to improve front-end risk management and reduce the costs of doing business.

"We are very excited to have GHRR and its outstanding management team as an integral part of the Patriot organization," said Patriot CEO Steven M. Mariano commenting on the acquisition, "With the acquisition of GHRR, we can now offer pre-employment screening that has become a mandatory requirement for employers in managing upfront employment risk, which is critical to ensuring safer and more profitable workplaces. Since our IPO, we have focused on leveraging our experience in workers' compensation to expand into other mandatory services for employers, such as self-funded health plans and now employee pre-screening. The combination of these mandatory services will allow us to sell more solutions to employers and build deeper relationships with them."

**Transaction Multiple: 6.5x 2016 EBITDA**

## INSURANCE BROKERAGE

In January 2016, **Towers Watson** (NasdaqGS: TW) and **Willis Group Holdings plc** (NYSE: WH) combined through a merger of equals in a transaction valued at \$8.6 billion. Towers Watson offers advisory services in benefits, human resources, risk, and financial services.

Management sees the P&C insurance and employee benefit business becoming more data and analytics driven, with scale increasingly important to compete in the marketplace. The combined firm (nka **Willis Towers Watson Public Limited Company** (NasdaqGS: WLTW)) will advise 80 percent of the world's top-1000 companies, as well as have a significant presence with mid-market and smaller employers around the world, according to a company statement. The merger will facilitate expanded distribution of TW's middle-market health and benefits exchange platform OneExchange, expansion of Willis' large corporate U.S. property/casualty insurance brokerage business, and further globalization of TW's Health and Group Benefits consulting business.

"Willis Towers Watson is uniquely positioned to see the connections between talent, assets and ideas and how they can lead to strong performance and growth for our clients. We intend to help our clients manage risk and engage their people in a whole new way," said Willis Towers Watson CEO John Haley. "We believe we can change our industry by delivering solutions that are driven by data and analytics, and are integrated, innovative and tailored to meet the evolving needs of our clients." **Transaction Multiples: 2.4x Revenue and 11.9x EBITDA**

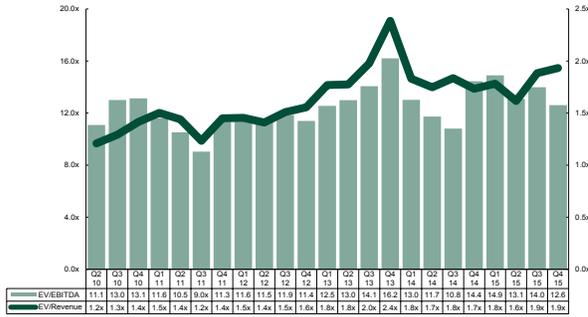
SOURCE: S&P Capital IQ, PitchBook, Equity Research, Company Filings, and public data.



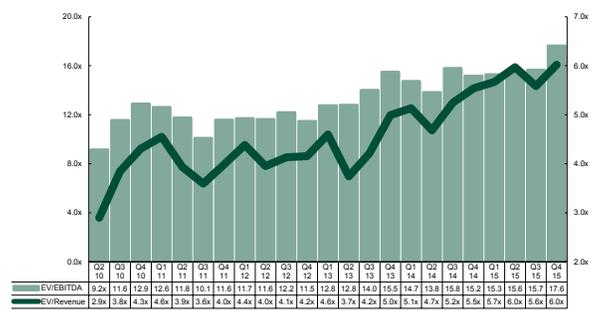
# Business Services Insider Industry Valuations

## Relative Valuation Trends

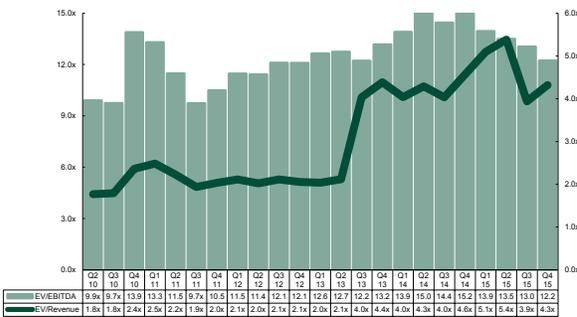
### Professional Employer Organizations



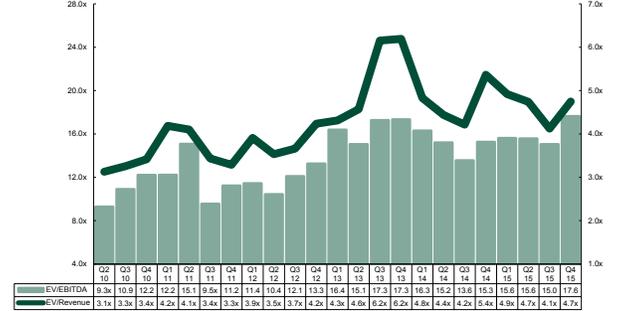
### Payroll & Payroll Processing



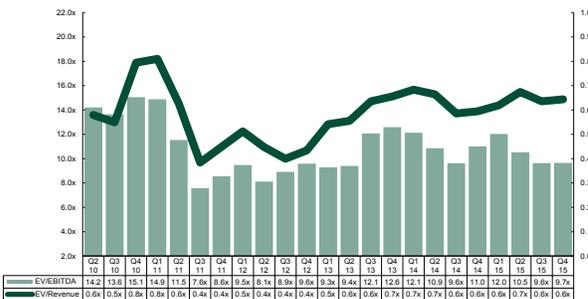
### Benefits Administration



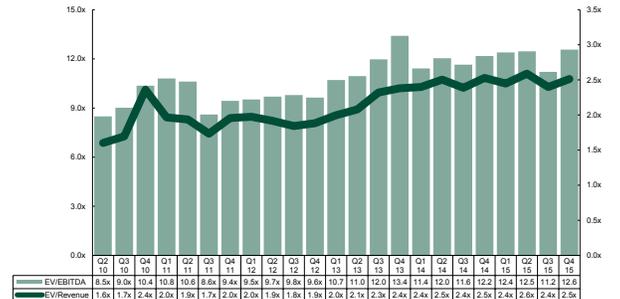
### HR Technology



### Staffing



### Insurance Brokerage



BGL Business Services indices defined on Page 22.  
SOURCE: S&P Capital IQ.



# Business Services Insider

## Industry Valuations

### Relative Valuation Trends

(\$ in millions, except per share data)

Company Name	Country	Ticker	Current Stock Price (1)	% of 52W High	Market Capitalization (2)	Enterprise Value (3)	Enterprise Value / TTM Revenue	Enterprise Value / TTM EBITDA	Total Debt/ EBITDA	TTM Revenue	TTM Margins Gross	TTM Margins EBITDA
<b>Staffing</b>												
Adecco S.A.	Switzerland	SWX: ADEN	\$54.99	64.1%	\$9,594.4	\$10,997.8	0.5x	8.6x	2.1x	\$24,005.4	18.9%	5.3%
ManpowerGroup Inc.	United States	NYSE: MAN	72.74	75.1%	5,354.8	5,547.2	0.3x	7.2x	1.1x	19,329.9	17.1%	4.0%
Robert Half International Inc.	United States	NYSE: RHI	37.34	59.0%	4,954.5	4,703.9	0.9x	7.4x	0.0x	5,094.9	41.5%	12.4%
Michael Page International plc	United Kingdom	LSE: MPI	5.39	65.6%	1,663.5	1,518.2	1.0x	11.8x	0.0x	1,674.9	51.6%	8.4%
On Assignment Inc.	United States	NYSE: ASGN	30.48	59.8%	1,609.3	2,365.2	1.1x	11.0x	3.7x	2,063.7	32.4%	10.4%
USG People NV	Netherlands	ENXTAM: USG	19.20	98.7%	1,557.5	1,784.8	0.6x	17.4x	2.5x	2,766.1	20.5%	3.7%
Korn/Ferry International	United States	NYSE: KFY	27.00	69.4%	1,384.8	1,102.0	1.0x	7.0x	0.0x	1,069.3	29.5%	14.6%
AMN Healthcare Services Inc.	United States	NYSE: AHS	23.16	61.8%	1,104.6	1,307.5	1.0x	9.7x	1.6x	1,340.2	31.5%	10.1%
TrueBlue, Inc.	United States	NYSE: TBI	21.33	67.7%	895.2	1,106.8	0.4x	7.9x	1.7x	2,695.7	23.6%	5.2%
Brunel International NV	Netherlands	ENXTAM: BRNL	16.00	68.4%	799.3	637.7	0.4x	8.5x	0.0x	1,510.5	17.9%	4.9%
Kelly Services, Inc.	United States	NasdaqGS:KELYA	16.42	90.1%	622.2	635.5	0.1x	7.1x	0.6x	5,518.2	16.7%	1.6%
Resources Connection, Inc.	United States	NASDAQ: RECN	13.90	74.3%	516.2	406.1	0.7x	7.1x	0.0x	594.9	38.5%	9.6%
Kforce Inc.	United States	NASDAQ: KFRC	15.58	53.1%	450.6	532.9	0.4x	6.6x	1.0x	1,319.2	31.4%	6.2%
Heidrick & Struggles International Inc.	United States	NASDAQ: HSII	22.36	73.0%	411.1	282.1	0.6x	5.9x	0.0x	507.9	31.0%	9.5%
CDI Corp.	United States	NYSE: CDI	4.51	23.4%	88.8	65.4	0.1x	4.1x	0.2x	1,015.6	18.6%	1.6%
<b>Median</b>			<b>\$21.33</b>	<b>67.7%</b>	<b>\$1,104.6</b>	<b>\$1,106.8</b>	<b>0.6x</b>	<b>7.4x</b>	<b>0.6x</b>	<b>\$1,674.9</b>	<b>29.5%</b>	<b>6.2%</b>
<b>Mean</b>			<b>\$25.36</b>	<b>66.9%</b>	<b>\$2,067.1</b>	<b>\$2,199.5</b>	<b>0.6x</b>	<b>8.5x</b>	<b>1.0x</b>	<b>\$4,700.4</b>	<b>28.0%</b>	<b>7.2%</b>
<b>PEO</b>												
Automatic Data Processing, Inc.	United States	NasdaqGS:ADP	\$81.74	90.2%	\$37,392.1	\$36,565.1	3.3x	15.7x	0.9x	\$11,239.9	43.0%	20.7%
Paychex, Inc.	United States	NasdaqGS:PAYX	48.94	89.3%	17,664.7	17,188.3	6.0x	14.1x	0.0x	2,841.9	71.0%	42.8%
Insperty, Inc.	United States	NYSE: NSP	45.56	82.2%	968.5	689.1	0.3x	7.5x	0.0x	2,603.6	16.8%	3.5%
TriNet Group, Inc.	United States	NYSE: TNET	12.68	33.4%	887.9	1,246.3	0.5x	10.0x	4.1x	2,537.3	15.2%	4.9%
Barrett Business Services Inc.	United States	NasdaqGS:BBSI	36.43	68.7%	262.4	275.3	0.4x	7.0x	0.9x	723.6	58.8%	5.4%
<b>Median</b>			<b>\$45.56</b>	<b>82.2%</b>	<b>\$968.5</b>	<b>\$1,246.3</b>	<b>0.5x</b>	<b>10.0x</b>	<b>0.9x</b>	<b>\$2,603.6</b>	<b>43.0%</b>	<b>5.4%</b>
<b>Mean</b>			<b>\$45.07</b>	<b>72.8%</b>	<b>\$11,435.1</b>	<b>\$11,192.8</b>	<b>2.1x</b>	<b>10.9x</b>	<b>1.2x</b>	<b>\$3,989.2</b>	<b>41.0%</b>	<b>15.5%</b>
<b>Payroll &amp; Payroll Processing</b>												
Automatic Data Processing, Inc.	United States	NasdaqGS:ADP	\$81.74	90.2%	\$37,392.1	\$36,565.1	3.3x	15.7x	0.9x	\$11,239.9	43.0%	20.7%
Intuit, Inc.	United States	NasdaqGS:INTU	94.56	86.6%	24,964.3	25,340.3	5.9x	21.7x	0.7x	4,293.0	83.6%	27.2%
Paychex, Inc.	United States	NasdaqGS:PAYX	48.94	89.3%	17,664.7	17,188.3	6.0x	14.1x	0.0x	2,841.9	71.0%	42.8%
Sage Group plc	United Kingdom	LSE:SGE	8.18	89.9%	8,829.0	9,322.7	4.5x	16.6x	1.6x	2,172.2	94.0%	27.1%
The Ultimate Software Group, Inc.	United States	NasdaqGS:ULTI	159.61	73.8%	4,573.7	4,462.2	7.2x	68.6x	0.1x	618.1	61.4%	10.5%
Paycom Software, Inc.	United States	NYSE:PAYC	24.33	52.5%	1,389.7	1,364.9	6.1x	31.1x	0.6x	224.7	85.8%	19.5%
Paylocity Holding Corporation	United States	NasdaqGS:PCTY	25.24	53.8%	1,286.1	1,207.1	6.4x	NM	0.0x	187.6	56.4%	-0.2%
<b>Median</b>			<b>\$48.94</b>	<b>86.6%</b>	<b>\$8,829.0</b>	<b>\$9,322.7</b>	<b>6.0x</b>	<b>19.1x</b>	<b>0.6x</b>	<b>\$2,172.2</b>	<b>71.0%</b>	<b>20.7%</b>
<b>Mean</b>			<b>\$63.23</b>	<b>76.6%</b>	<b>\$13,728.5</b>	<b>\$13,635.8</b>	<b>5.6x</b>	<b>28.0x</b>	<b>0.6x</b>	<b>\$3,082.5</b>	<b>70.7%</b>	<b>21.1%</b>
<b>Benefits Administration</b>												
Aon plc	United Kingdom	NYSE: AON	\$93.80	87.6%	\$25,693.4	\$30,747.4	2.6x	12.1x	2.3x	\$11,661.0	41.4%	21.8%
SS&C Technologies Holdings, Inc.	United States	NasdaqGS:SSNC	53.03	68.7%	5,402.3	7,719.5	7.7x	24.5x	8.7x	1,000.3	46.8%	31.5%
Benefitfocus, Inc.	United States	NasdaqGM:BNFT	24.65	51.9%	718.7	684.3	4.0x	NM	NM	1,710.4	43.7%	-27.5%
CBIZ, Inc.	United States	NYSE: CBZ	10.40	90.1%	543.8	742.1	1.0x	8.7x	2.3x	743.0	12.9%	11.5%
Morneau Shepell Inc.	Canada	TSX:MSI	10.44	79.5%	503.8	745.0	1.9x	12.2x	4.0x	412.7	32.3%	15.3%
Castlight Health, Inc.	United States	NYSE: CSLT	2.66	25.7%	251.8	104.6	1.5x	NM	0.0x	68.5	55.1%	-115.4%
<b>Median</b>			<b>\$17.54</b>	<b>74.1%</b>	<b>\$631.2</b>	<b>\$743.5</b>	<b>2.3x</b>	<b>12.1x</b>	<b>2.3x</b>	<b>\$577.8</b>	<b>42.5%</b>	<b>13.4%</b>
<b>Mean</b>			<b>\$32.50</b>	<b>67.2%</b>	<b>\$5,519.0</b>	<b>\$6,790.5</b>	<b>3.1x</b>	<b>14.4x</b>	<b>3.5x</b>	<b>\$2,342.7</b>	<b>38.7%</b>	<b>-10.5%</b>
<b>Insurance Brokerage</b>												
Marsh & McLennan Companies, Inc.	United States	NYSE: MMC	\$56.08	93.5%	\$29,273.8	\$32,313.8	2.5x	11.4x	1.6x	\$12,893.0	43.1%	22.0%
Aon plc	United Kingdom	NYSE: AON	93.80	87.6%	25,693.4	30,747.4	2.6x	12.1x	2.3x	\$11,661.0	41.4%	21.8%
Willis Towers Watson Public Limited Company	United Kingdom	NasdaqGS:WLTW	107.84	81.5%	14,824.9	17,744.9	4.7x	20.4x	3.8x	3,809.0	39.5%	22.5%
Arthur J Gallagher & Co.	United States	NYSE: AJG	38.49	77.6%	6,813.8	8,840.3	1.7x	10.9x	3.0x	5,301.0	29.8%	15.3%
Erie Indemnity Company	United States	NasdaqGS: ERIE	96.98	95.3%	5,071.1	11,828.1	1.9x	12.8x	0.0x	6,172.0	14.7%	15.0%
Brown & Brown Inc.	United States	NYSE: BRO	31.37	90.7%	4,360.0	5,055.9	3.1x	9.2x	2.1x	1,657.0	49.2%	33.1%
CorVel Corporation	United States	NasdaqGS: CRVL	42.09	89.7%	824.0	797.5	1.6x	12.4x	0.0x	497.5	20.3%	12.9%
<b>Median</b>			<b>\$56.08</b>	<b>89.7%</b>	<b>\$6,813.8</b>	<b>\$11,828.1</b>	<b>2.5x</b>	<b>12.1x</b>	<b>2.1x</b>	<b>\$5,301.0</b>	<b>39.5%</b>	<b>21.8%</b>
<b>Mean</b>			<b>\$66.66</b>	<b>88.0%</b>	<b>\$12,408.7</b>	<b>\$15,332.5</b>	<b>2.6x</b>	<b>12.7x</b>	<b>1.8x</b>	<b>\$5,998.6</b>	<b>34.0%</b>	<b>20.4%</b>
<b>HR Technology</b>												
Oracle Corporation	United States	ORCL	\$35.54	78.6%	\$149,311.4	\$139,324.4	3.7x	9.2x	2.8x	\$37,473.0	59.0%	40.6%
SAP SE	Germany	SAP	73.49	86.5%	87,840.0	94,328.2	4.0x	13.6x	1.5x	22,588.1	68.2%	29.6%
LinkedIn Corporation	United States	NYSE: LNKD	101.11	36.6%	13,254.2	11,288.1	3.8x	45.7x	4.6x	2,990.9	86.0%	8.3%
Workday, Inc.	United States	NYSE: WDAY	49.25	51.7%	9,554.5	8,166.2	7.7x	NM	NM	1,065.2	67.9%	-15.4%
Sage Group plc	United Kingdom	LSE:SGE	8.18	89.9%	8,829.0	9,322.7	4.5x	16.6x	1.6x	2,172.2	94.0%	27.1%
The Ultimate Software Group, Inc.	United States	ULTI	159.61	73.8%	4,573.7	4,462.2	7.2x	68.6x	0.1x	618.1	61.4%	10.5%
Heartland Payment Systems, Inc.	United States	HPY	90.60	93.9%	3,346.2	3,771.2	1.4x	18.1x	2.3x	2,682.4	16.2%	7.8%
SEEK Limited	Australia	ASX: SEK	8.77	65.1%	3,015.6	3,868.6	6.3x	15.4x	3.0x	671.5	96.7%	38.1%
CEB Inc.	United States	CEB	50.12	54.7%	1,658.6	2,106.6	2.3x	9.5x	2.5x	928.4	64.8%	24.0%
WageWorks, Inc.	United States	NYSE: WAGE	44.54	69.9%	1,600.9	1,201.9	3.6x	22.2x	1.5x	329.7	63.7%	16.4%
Cornerstone OnDemand, Inc.	United States	CSOD	25.31	62.2%	1,378.3	1,366.4	4.0x	NM	NM	339.7	67.7%	-15.1%
Benefitfocus, Inc.	United States	BNFT	24.65	51.9%	718.7	684.3	4.0x	NM	NM	1,710.4	43.7%	-27.5%
Callidus Software Inc.	United States	NasdaqGM: CALD	12.75	58.9%	715.6	618.4	3.6x	NM	0.0x	173.1	61.6%	0.1%
Healthstream Inc.	United States	NasdaqGS: HSTM	19.80	61.1%	626.6	481.8	2.4x	14.9x	0.0x	198.5	57.1%	16.3%
DHI Group, Inc.	United States	NYSE: DHX	7.38	70.4%	383.5	450.4	1.7x	7.0x	1.6x	259.8	84.9%	24.8%
Halogen Software Inc.	Canada	TSX: HGN	5.09	63.2%	111.1	72.7	1.2x	NM	0.0x	63.6	72.8%	-9.7%
<b>Median</b>			<b>\$30.43</b>	<b>64.2%</b>	<b>\$2,337.1</b>	<b>\$2,938.9</b>	<b>3.7x</b>	<b>15.4x</b>	<b>1.6x</b>	<b>644.8</b>	<b>66.2%</b>	<b>13.4%</b>
<b>Mean</b>			<b>\$44.76</b>	<b>66.8%</b>	<b>\$17,932.4</b>	<b>\$17,594.6</b>	<b>3.8x</b>	<b>21.9x</b>	<b>1.6x</b>	<b>\$4,545.3</b>	<b>66.6%</b>	<b>11.0%</b>

NOTE: Figures in bold and italic type were excluded from median and mean calculation.

(1) As of 2/12/2016.

(2) Market Capitalization is the aggregate value of a firm's outstanding common stock.

(3) Enterprise Value is the total value of a firm (including all debt and equity).

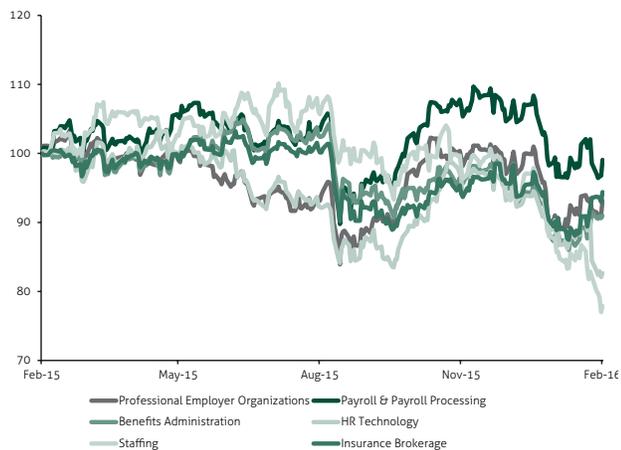
Source: S&P Capital IQ.



# Business Services Insider Industry Valuations

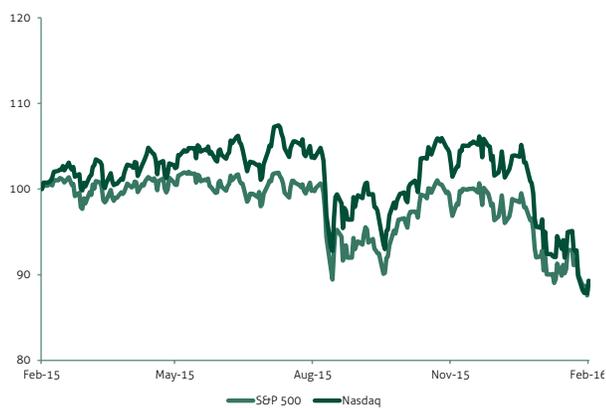
## Sector Performance

Sector



Returns	1 Year
Professional Employer Organizations	-6.9%
Payroll & Payroll Processing	-0.9%
Benefits Administration	-9.0%
HR Technology	-17.4%
Staffing	-22.1%
Insurance Brokerage	-5.6%

Market



Returns	1 Year
S&P 500	-10.7%
Nasdaq	-10.7%

Source: S&P Capital IQ.  
As of 2/12/2016.





# Global Business Services

## Unparalleled Commitment to the HR Technology Industry

### Deep & Broad Industry Knowledge and Experience

- Dedicated team of senior and junior level bankers focused on the HR Technology sector
- Deep industry knowledge and extensive transaction experience
- Middle market-focused with comprehensive suite of advisory and capital raising services tailored to clients that span technology startups to established HR service companies
- Vast network of relationships and transaction experience with strategics and private equity groups active in the industry
- Senior Advisors augment industry knowledge and extend industry network and contacts

### Relationships with Key HR Technology Industry Participants



### Dedicated Team

**CLIFFORD SLADNICK**  
Managing Director  
Group Head



#### PROFESSIONAL EXPERIENCE

- Leads BGL's Human Capital Management Outsourcing practice
- Over 37 years of corporate finance experience encompassing hundreds of M&A and capital raising transactions
- Former President of Hampton Advisors, an advisory and consulting firm focused on the HRO industry
- Former Chief Administrative Officer at Gevity HR, a large public HRO, responsible for strategy, budgeting, corporate development, legal, HR, investor relations, and compliance
- Former Managing Director at Dresner Partners
- Began career as a Corporate Partner at McDermott Will & Emery

#### EDUCATION

- B.S., University of Illinois (summa cum laude)
- J.D., Harno Fellow, University of Illinois (magna cum laude)
- M.M., Kellogg School of Management at Northwestern University (honors)

**JOHN JAMESON**  
Associate



#### PROFESSIONAL EXPERIENCE

- Supports client engagements through due diligence, financial analysis, valuation, communication, and other advisory services within BGL's Human Capital Management Outsourcing Practice
- More than five years of corporate finance and capital markets experience
- Former Associate with Rippe & Kingston Capital Advisors
- Career includes positions as Account Manager at Steel Warehouse of Ohio, and Securities Paralegal at Bear Stearns

#### EDUCATION

- B.A., Political Science, Rutgers University
- M.B.A., University of Cincinnati

**JESS HUNGER**  
Analyst



#### PROFESSIONAL EXPERIENCE

- Performs due diligence, financial analysis, valuation, and industry research within BGL's Human Capital Management Outsourcing Practice
- Experience with more than a dozen HR Technology clients over the past year
- Former Analyst with KeyBanc Capital Markets, focused on mergers and acquisitions

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# Global Business Services

## Focus Areas

- HR Technology
- Professional Employer Organizations
- Payroll & Payroll Processing
- Benefits Administration
- Human Resources Outsourcing
- Staffing / Recruiting
- Insurance Brokerage

## Representative Expertise



## Who We Are

### Leading Independent Firm

- Independent investment banking advisory firm focused on the middle market
- Senior bankers with significant experience and tenure; partners average over 20 years of experience
- Offices in Chicago and Cleveland
- Founding member and exclusive U.S. partner of Global M&A Partners, Ltd., the world's leading partnership of investment banking firms focusing on middle market transactions
- Deep industry experience across core sectors of focus, including: Business Services, Consumer, Environmental & Energy Services, Healthcare & Life Sciences, Industrials, and Real Estate

### Comprehensive Capabilities

M&A ADVISORY	PRIVATE PLACEMENTS
Sell-Side Advisory Acquisitions & Divestitures Public & Private Mergers Special Committee Advice Strategic Partnerships & Joint Ventures Fairness Opinions & Fair Value Opinions	All Tranches of Debt & Equity Capital for: Growth Acquisitions Recapitalizations Dividends
FINANCIAL ADVISORY	RESEARCH
General Financial & Strategic Advice Balance Sheet Restructurings Sales of Non-Core Assets or Businesses \$363 Auctions	Primary Research Industry Benchmarking Operating Advisor Network White Papers Industry Surveys

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