

## A tale of six sectors

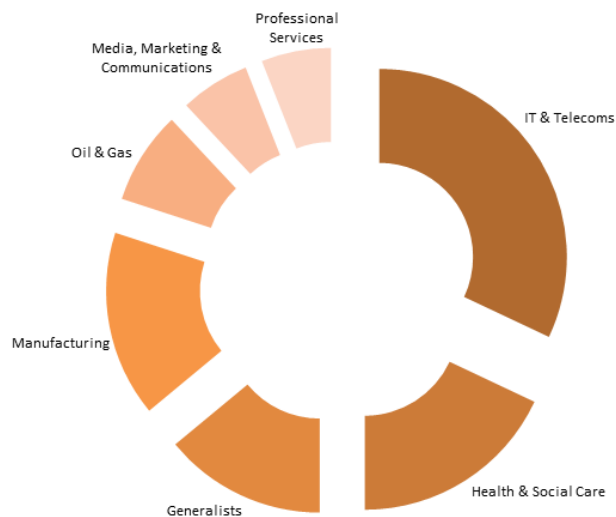
The last report we published on the recruitment industry sought to analyse trends in global employment, comparing the recent performance of some of the sector's largest firms against trends in macro-economic employment. Here we delve deeper into some of the specific areas that small and medium sized Human Capital firms serve in the UK.

The idea is simple. When thinking about their strategies, we believe businesses that offer training and recruitment services are wise not to simply look at how much money they are making but also at how much money their clients are making and importantly how much money their clients are likely to make in the coming years.

This analysis is particularly important for SMEs as they are often focused on one or two sectors and occasionally operate as specialists in one sub-sector, such as the provision of contractors for ERP systems within IT or the placement of lawyers within professional services. This sort of focus gives SMEs the opportunity to excel in a niche but it also leaves them highly leveraged to the changing fortunes of a particular part of the economy.

While this report cannot map the outlook for every niche in the various end markets served by SMEs, we have tried to help focused training and recruitment businesses by analysing the current trading for and commenting on the outlook in the sectors their clients most commonly occupy.

The Fastest Growing UK Recruitment SMEs in 2010 by Sector Focus



Source – The Recruiter 'Fast 50'

**Alastair Halcrow**  
alastair.halcrow@targetcf.com  
0117 344 5588

**Mark Harman**  
mark.harman@targetcf.com  
0117 344 5587

**Jim Shaw**  
jim.shaw@targetcf.com  
0117 344 5585

**Aaron Mcleod**  
aaron.mcleod@targetcf.com  
0117 344 5586

Important disclosures appear at the back of this report



## A focused industry

The larger recruitment firms sweep a broad range of industries, hiring both temps and perms for all levels of jobs. For example, Hays services 20 specialist areas of expertise in thirty-one countries, which enabled the business to place 60,000 permanent jobs and 190,000 temporary assignments in the last financial year. Michael Page spread themselves even wider, listing 24 sectors in the company's web-search which asks candidates to browse for jobs in:

### Browse for jobs in:

- ▶ Accounting , Actuarial , Tax & Treasury
- ▶ Buying & Merchandising
- ▶ Consultancy, Strategy & Change
- ▶ Design
- ▶ Education
- ▶ Engineering & Manufacturing
- ▶ Executive Search
- ▶ Facilities Management , Property & Construction
- ▶ Financial Services & Banking
- ▶ Health & Social Care
- ▶ Hospitality & Leisure
- ▶ Human Resources
- ▶ Insurance
- ▶ Legal
- ▶ Life Sciences
- ▶ Logistics
- ▶ Marketing & Agency
- ▶ Oil & Gas
- ▶ Policy
- ▶ Procurement & Supply Chain
- ▶ Retail Operations & Retail Banking
- ▶ Sales
- ▶ Secretarial and business support
- ▶ Technology

Source – Michael Page

These are big firms. Both have market capitalisations in excess of £1bn and a global footprint, so it is no surprise that they service a broad range of end markets. However, a wide scope of industry offerings is not common in SMEs as most businesses have been founded with a particular focus, often leveraging the experience and industry contacts of the founders and developing from this start.

Regardless of how it begins, a focused offering can be a compelling sell. Clients value the specialist input that a niche recruiter can provide and a dedicated service can be leveraged to draw business away from the larger players while specialist services can drive margins.

This is a tactic that seems to be working. Of the 50 fastest growing recruitment firms last year only seven were generalists, compared to 16 specialists serving the IT and Telecom sector and 9 with a Healthcare focus. The same dynamics are also often found in businesses that provide training and other Human Capital services to corporates, where even the larger businesses are often focused on their sectors of expertise by dint of their previous experience and the company's contacts.

With a reliance on an end market inherent in many SMEs in the Human Capital space, managements need to be aware of the likely cyclical and key drivers of profitability in their end markets. If their clients are growing and making money, budgets will be more readily deployed and more services will be required.

In fact rather than waiting to see how their end markets will fare, the sharpest SME Human Capital businesses look to get their service offering appropriately aligned with their clients well ahead of time to enable themselves to take advantage of growth or to stay protected in leaner times.

## Professional Services

Despite a limited representation in the 2010 Fast Fifty index, the recruitment for and provision of services to Professional Services clients remains a major part of the Human Capital sector. The absence of a large representation in this index can be explained as the data is compiled by measuring growth in turnover. A simple review of a few recent headlines shows exactly what a tough environment businesses servicing this area have faced in the last couple of years.

### **Lloyds confirms 15,000 job cuts**      **European Bank Job 'Bloodbath' Surpasses 40,000 as UBS Cuts**

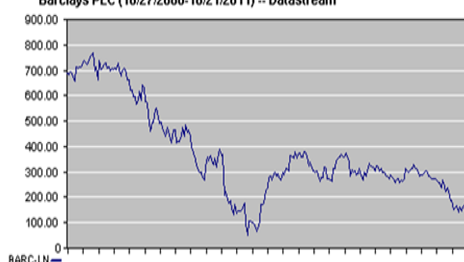
### **HSBC posts £7billion profit... and then swiftly announces it is axing 30,000 jobs**

Wave of job cuts sweeps banks, more to come

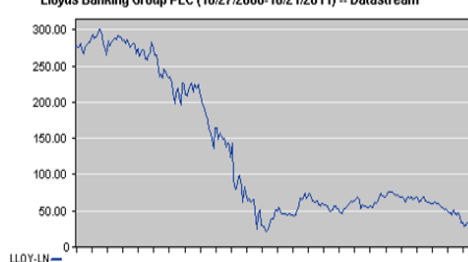
### **Governor of the Bank of England warns that world economy is in worse crisis since 1930s as he justifies latest round of quantitative easing**

Job cuts, hiring freezes and the slashing of training budgets are an inevitable part of most cyclical downturns in financial services. That said, the ongoing difficulties faced by financial institutions has resulted in a far longer and leaner period than recruitment firms suffered in the early nineties or following the collapse of the internet bubble in the noughties. With sovereign debt issues rumbling on and the share prices of some of the sector's major employers still flat on their backs, tough trading conditions seem likely to persist at least for the foreseeable future.

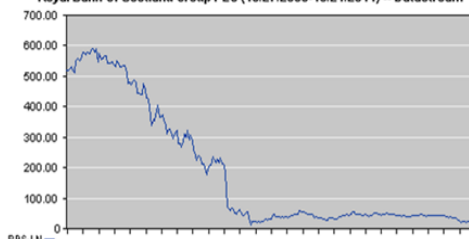
Barclays PLC (10/27/2006-10/21/2011) -- Datastream



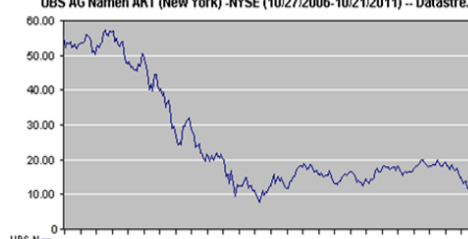
Lloyds Banking Group PLC (10/27/2006-10/21/2011) -- Datastream

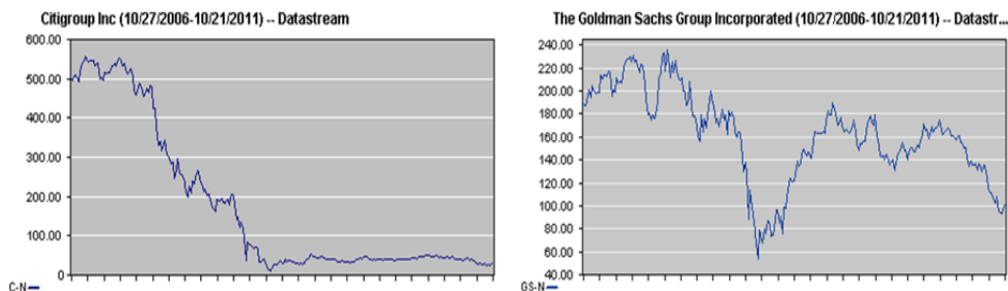


Royal Bank Of Scotland Group PLC (10/27/2006-10/21/2011) -- Datastream

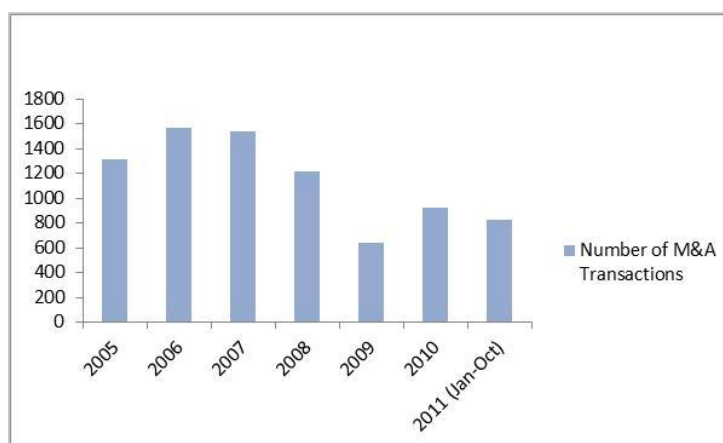


UBS AG Namen AKT (New York) -NYSE (10/27/2006-10/21/2011) -- Datastream





These and other SME clients' share prices are depressing viewing for any business that serves financial institutions, however there are some reasons for hope. One of the key revenue drivers for financial services remains mergers and acquisitions and a look at the recent trend in transactions does give some cause for cautious optimism.



Source – Mergermarket

While the level of UK deals halved in 2009 as the financial crisis took hold, they recovered in 2010 and – should the last two months of this year follow recent trends – this figure should be higher again for 2011. On top of this, corporates around the globe are regularly heralded as cash rich and some commentators expect that they will look to acquire again in 2012 in an attempt to drive profits higher despite sluggish global growth.

When considering the longer term, stock markets have also rebounded to some extent in the last two years. Should European governments be able to resolve their debt woes and the US economy manage its way back to growth, then professional services businesses are likely to return to being far more dependable clients in the next few years. The only problem is neither of these two issues appears easy to resolve.

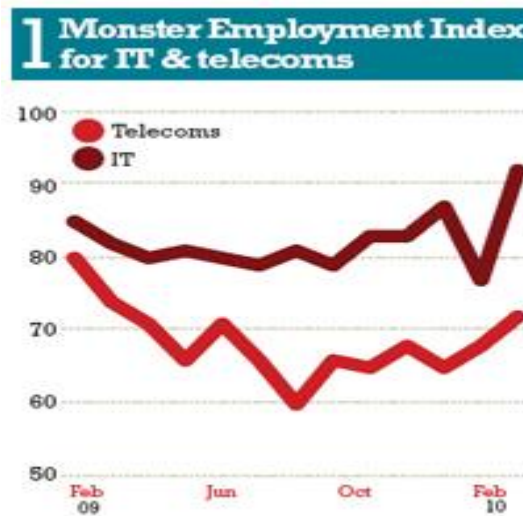
For those SMEs that want to take matters into their own hands, international diversification – particularly into Asia and Latin America – or diversification into more resilient niches within professional services are both avenues that may be worth investigating as we wait for an upswing in financial services. Two niche sub-sectors that may be worth investigating could be the recruitment of IT staff for Professional Services businesses or into the areas within professional services or recruitment for law firms.



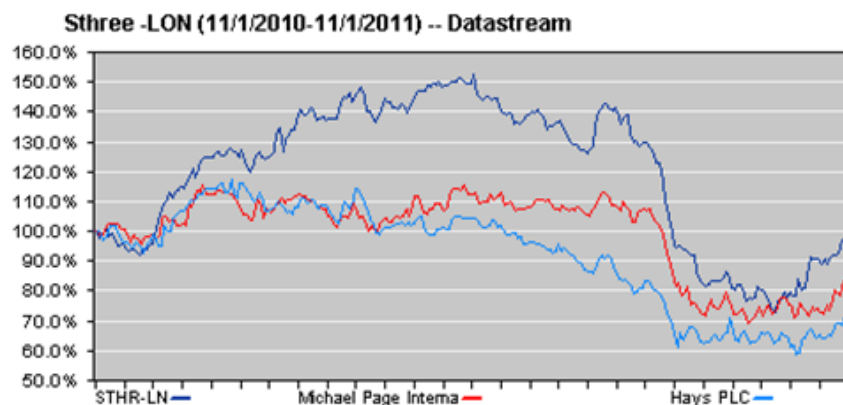
## IT and Telecoms

Today, one in eighteen people in the UK are employed in an IT or Telecoms function and for firms providing services to these end markets, the past few years have been far more stable than for the majority of Human Capital businesses.

Monster's employment index for example has held up better in technology than in any other sector over the last year. Perhaps the bigger surprise is that it has also seen the second most rapid return to growth in the last few months.



With this tailwind, it is no surprise that 40% of the fastest growing SME recruitment businesses in the last year were focused on IT and that SThree has posted a better performance than many of the listed corporates in the sector.

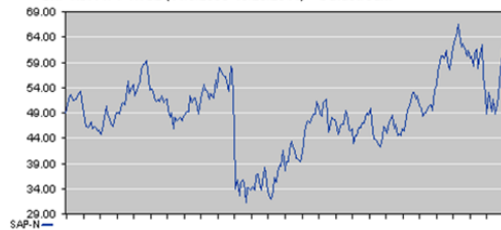


SThree has diversified over the last few years but the group still generates over 60% of its net fee income from IT related recruitment. In its recent interim report the group's CEO announced a special dividend to celebrate a recovery that is 'now evident' across all its markets. While this statement is encouraging for SMEs, it should be remembered that the business has been investing heavily outside the UK and now boasts two thirds of its business from overseas.

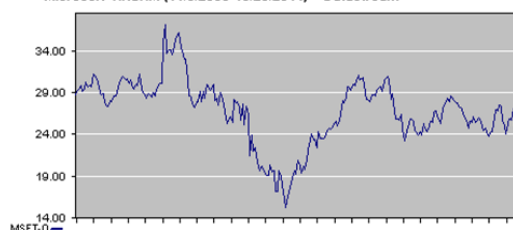


A quick look at the performance of some of the larger technology businesses during the downturn further confirms the health of this sub-sector. The below charts show businesses that are growing profits and maintaining their stock market valuations despite the macro-economic headwinds. The acquisition of Autonomy by Hewlett Packard further shows that there remains money in the sector and that businesses are still looking to grow.

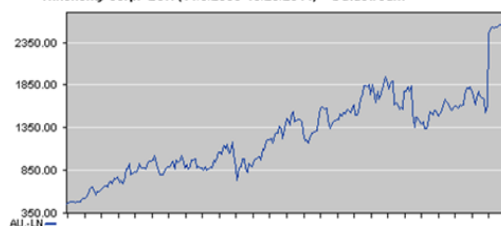
SAP ADR 1:1 -NYSE (11/3/2006-10/28/2011) -- Datastream



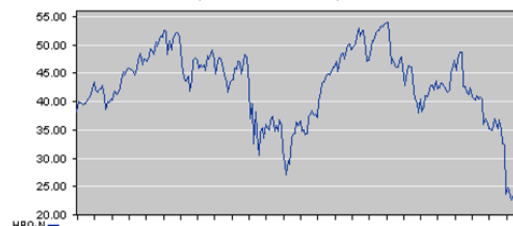
Microsoft -NASDAQ (11/3/2006-10/28/2011) -- Datastream



Autonomy Corp. -LON (11/3/2006-10/28/2011) -- Datastream



Hewlett-Packard -NYSE (11/3/2006-10/28/2011) -- Datastream



That said, much of IT and telecoms employment in the UK is not with major technology businesses but spread through a plethora of corporates that service a broad range of end markets. We see this sub-sector dynamic as a strength rather than a vulnerability. It enables IT recruitment businesses to supply high value contractors to businesses, who are often retained for long periods. Meanwhile, permanent hires in the sector are skilled workers, with widely applicable skills that are essential hires for a large number of businesses.

Some commentators have highlighted the already tight supply of skilled candidates in the IT and Telecoms sub-sector as a threat to the recruitment firms that service it. However, in reality, this tightness is likely to push up salaries and exaggerate the demand for contract workers to fill vacancies.

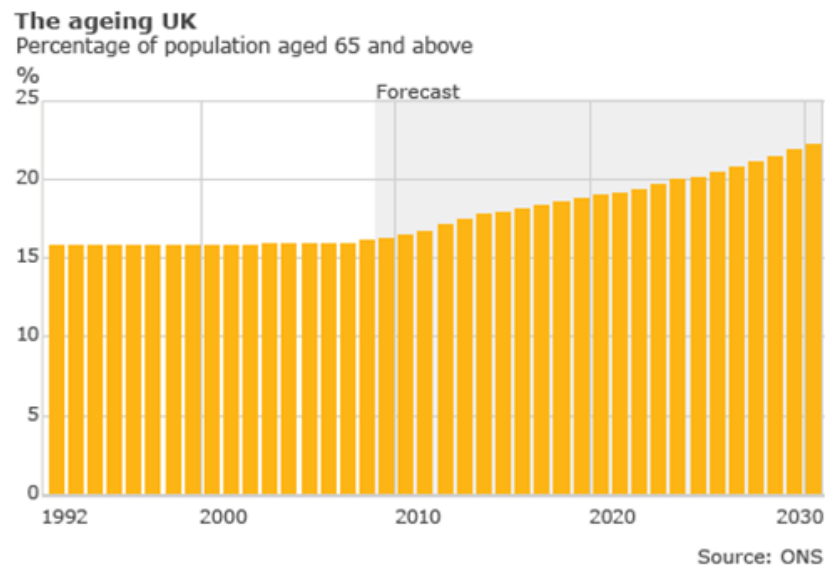
We would also note that while the sub-sector may not have suffered as others have in the last few years, that does not preclude it from being a beneficiary of any upswing in employment in the next few years. This is particularly true as many IT jobs are placed within more cyclical industries, such as professional services or the creative industries and any improving economy will further benefit firms that service this space.

Following our mantra that Human Capital firms should base their strategies on how much money their clients are currently making and are likely to make, the IT and Telecoms sub-sector looks well placed to remain the fastest growing sub-sector of recruitment and a rare area where businesses are still willing to take on training and other services. The restricted number of candidates gives the sub-sector a tightness that isn't shared across the industry and while the growth here is structural, there is also an underlying cyclicity which can further boost business.



## Health and Social Care

Another robust area during the downturn has been in Healthcare recruitment. Like IT and Telecoms there are structural drivers behind this area, particularly from an ageing population but also from a breakdown in family living and an increase in mental health related issues.



With this backdrop, the need for qualified staff is clear and rising while the pool of available candidates remains tight. If it wasn't for the cuts at the NHS, the outlook would be extremely favorable.

**More than 50,000 frontline NHS jobs to be cut, researchers warn**      **100,000 frontline staff 'may go as NHS cuts £20bn'**

### NHS faces more cuts as savings targets are missed

The sub-sector is however leveraged to the single largest employer in the country. The actual level of job cuts that will be seen in the NHS is a constant topic of speculation. 'Secret cuts' are discussed in the press and specific areas are speculated to be more likely to suffer than others. Time will tell quite how far these budget reductions go and how many frontline jobs will be lost. However, Human Capital firms that are focused on the area will undoubtedly feel the effects of such large changes to the sector's largest employer.



Meanwhile, much of the rest of the sub-sector is now in the hands of private equity firms, who have been attracted by the ageing demographics shown above as well as the opportunity for cost rationalisation and the property backing behind businesses.

A recent survey showed that 135,000 people in the UK were being cared for by private-equity backed care operators. This wouldn't usually be an attractive ownership structure for the recruitment and training businesses that serve a sub-sector but two notable events might have altered this in the last year. We believe privately owned care operators firms will have learnt from revelations earlier in the year over the standards of care at some now infamous homes and will have adjusted their financing models following the failed sale and lease back witnessed by Southern Cross.

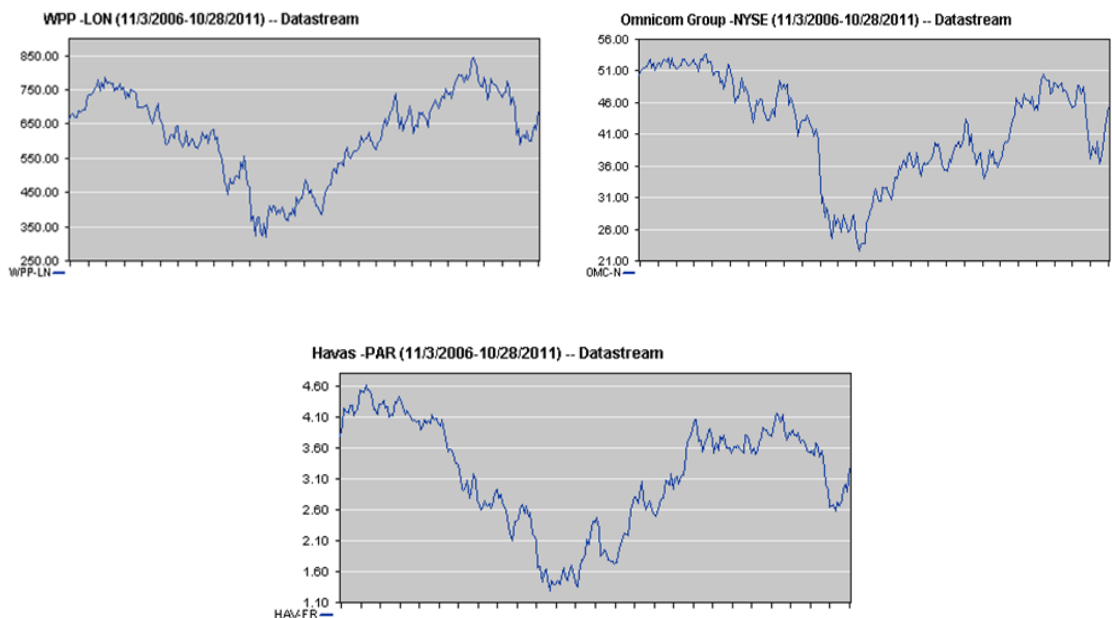
Providing satisfactory care is at the crux of the sector and any business, be it owned by private equity or managed by the government, needs good quality and trained staff. Human Capital firms in this space may not have quite the favorable tailwinds that they witnessed over the last decade but as beneficiaries of positive demographics, albeit one stepped removed, they are still well placed for growth.

## Media, Marketing and Communications

While the end markets served by Human Capital firms in media, marketing and communications stretch across a range of disciplines and include less cyclical areas such as HR, many of the key NFI generating areas for firms that service this sector are leveraged to advertising trends.

UK businesses spent £1.84bn on advertising last year, which was higher than the 2009 figure and a welcome return to the growth after two years of decline. Global advertising spend has subsequently continued to grow in the first half of 2011 but macro-economic problems have both prevented this growth coming back as fast as many commentators expected, causing discrepancies across regions and raising concerns that the 2010/2011 recovery will falter in 2012.

This debate can perhaps be best demonstrated with the recent share price performance of some of the largest listed media conglomerates.



The recent declines in these share prices are a result of the on-going Eurozone crisis and concerns over the outlook for growth in the sector, both of which are inextricably linked. The prospect of a faltering recovery was recently highlighted at the WPP third quarter results where Sir Martin Sorrell revealed a disappointing growth of 4.7% for the period and downgraded his future forecasts.

It should be noted that WPP may have faced some company specific issues in the past few months, particularly as the recent revenue growth at Omnicom, Publicis and Havas have all exceeded those posted by the group. However, Sir Martin Sorrell's caution over the outlook is understandable.

With important trends rapidly changing the way clients market their businesses, such as the continued rise of digital and mobile, there is a clear need for the recruitment and training of capable staff at all levels of media, marketing and communication roles. Yet Human capital firms servicing this sub-sector cannot bank on a guaranteed tailwind. With some 'toughing it out' still to be done, our advice to businesses in this vertical is that they need to retain a strong balance sheet and to take opportunities selectively. Growth will return but the sector is not quite out of the woods yet.

## Oil and Gas

Another area where Human Capital businesses have been able to carve out enviable niches is in providing recruitment and training for oil and gas businesses. Again this sub-sector is underpinned by attractive structural dynamics, most importantly the sustained high levels of crude.

The Price of Crude Oil (\$/barrel)



While many commentators suggested that the spike in the oil price in 2008 was driven by speculation, the current levels appear to be driven by a growing tightness in supply and a sustained outlook for demand, particularly from developing countries.

This underpinning of the sector is further helped by the increasing complexity of recovering oil from difficult fields and the requirement of highly qualified staff to do so. At the same time, Human Capital businesses may be best placed to expand into providing services for the emerging Green and Renewables sub-sector.

It is worth noting that the oil and gas client base is a smaller community than other areas, such as marketing or technology, and as a result client relationships are even more critical for Human Capital firms operating in this space. For those that have access to the larger corporates and the specialist knowledge required the outlook remains promising.



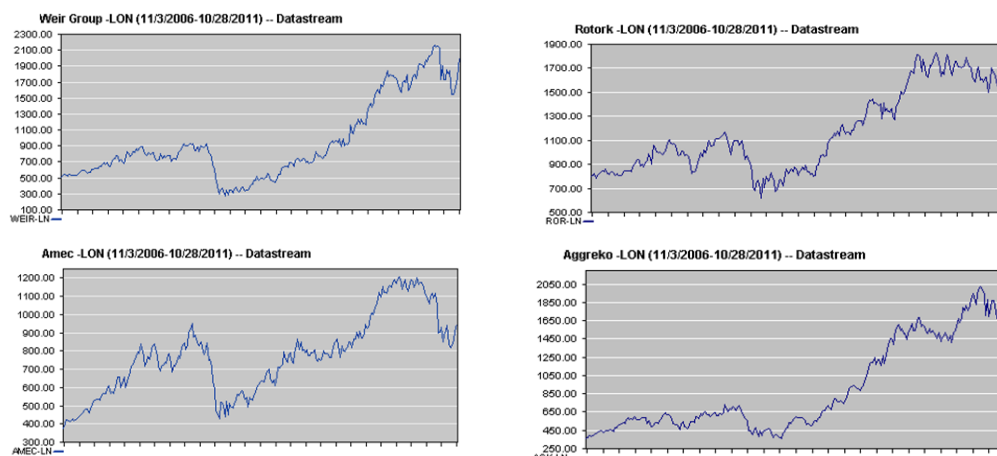
## Manufacturing

The plight of the UK manufacturing sector is well documented. Despite political rhetoric, the sector faces a broad range of challenges, particularly from low cost countries and this has been exacerbated recently with the pressure from government cuts in some areas, such as defence spending.

One support for UK manufacturing in the last few years has been currency movements. As the charts below show, the weakening of the pound against the euro, the dollar and those currencies pegged to the dollar has benefited the competitive position of UK exporters in the last few years.



This may be one factor behind some of the strong share price performances from UK based engineering firms over the last few years. Here we highlight a few UK based engineering businesses that investors believe are well placed to continue to generate increasing profits.



As the UK's widening trade gap shows, the sector remains a challenging space. Yet, there are opportunities for the Human Capital businesses that service it, particularly those that are focused on a niche where customers often display high levels of loyalty and rely on the specialist knowledge of training and recruitment businesses to find and educate their workforce.



---

## Strategic Planning

Human Capital businesses are by their nature highly dependent on their customers' fortunes. When a business or an industry is growing its profits, it is often also hiring and training its staff. When its profits are stalled or faltering, the reverse is usually true.

Of course, every Human Capital business will have its own relationships with key customers, a differing level of temp/perm split and/or other drivers that are specific to its business. However, strategic planning needs to have one eye on the context of the wider market the business serves if it is to take in the whole picture.

Human Capital firms that service sectors which are supported by structural drivers, particularly IT and Healthcare, can take more comfort in expansions or acquisitions. Those that are dependent on more cyclical end markets, particularly professional services and media, marketing and communication, should be looking at more opportunistic moves when times are hard and to position the business to benefit from growth as it comes back through in the upswing. They could also look to use the balance sheet to diversify the business across into other areas that may perhaps offer more dependable dynamics.

It is also never too early for owners to start thinking about monetising their shareholdings in Human Capital businesses. Any company that is looking for external investment or a sale to a trade buyer should consider both company specific and wider sector specific issues well ahead of starting any fundraising or sales process. This may influence the way the business positions itself several years ahead of any planned sale, perhaps widening the potential market the business serves or aligning the SMEs strategy with an area that is seen as a priority for the most likely acquirers.

Managing a Human Capital business involves a lot of work and it is often hard for owners to step back from the daily demands of the business. However, to maximise the value of the investment of both time and money, a longer term perspective is required. This needs to be formed in relation both to the individual attributes of the SME in question but should also acknowledge the prospects for the clients the business serves and the likely timing of any peaks and troughs within these end markets.

No one can predict the future but a regular dusting of the crystal ball is time seldom wasted.

## Heat maps – listed stocks performance over 3, 6 and 12 months

Three months		Six months		Twelve months	
HAS +2.4%	RAND -4.3%	IPEL -16.3%	MPI -26.9%	IPEL 32.9%	STHR -12.1%
MAN -5.7%	MPI -9.8%	HAS -31.2%	RAND -32.3%	MPI -20.3%	MAN -25.1%
STHR -17.4%	IPEL -19.1%	RWA -34.0%	MAN -34.8%	HAS -28.5%	RAND -31.8%
RWA -34.2%	EMR -49.7%	STHR -40.6%	EMR -65.4%	RWA -38.9%	EMR -66.8%

## Recent deals in the sector

Date	Company	Acquirer	Deal Size (£m)	Description
19/10/2011	TEK Personnel	Stafforce Personnel	n/a	UK based generalist recruitment agency
26/09/2011	HC Recruitment Limited	Assist Recruitment Limited	n/a	UK based company engaged in providing recruitment solutions
19/08/2011	Healthcare Locums Plc	Toscafund Asset Management LLP	59	UK based medical staffing company
15/08/2011	Protocol Education Limited		n/a	UK based provider of teachers, teaching assistants and nursery nurses to schools
01/07/2011	Red Commerce Limited	Dunedin Capital Partners Limited	44	UK based company that offers recruitment services focusing on Systems, Applications and Products in Data Processing (SAP) professionals
28/06/2011	Driver Hire Group Services Limited	Lloyds TSB Development Capital Ltd	n/a	UK based transport and logistics recruitment company engaged in provision of temporary and permanent driving jobs, non-driving work, and training services
22/06/2011	Contract Connections Limited	InterQuest Group Plc	10	UK based IT and telecommunications recruiting company
20/06/2011	Berkley Recruitment Group	The ReThink Group PlcTS	6	IT, pharma, commercial and engineering focused recruitment company based in Ireland
31/05/2011	Team24 Limited	The Capita Group Plc	26	UK based company that offers temporary placement services for doctors and specialist nurses
23/05/2011	ITN Mark Education Limited	Core Education and Consulting Solutions (UK) Ltd.	16	UK based education recruitment and consultancy services provider
15/04/2011	Draig Personnel	Acorn Group	n/a	UK based recruitment agency
13/04/2011	Swan iT Recruitment	IT Human Resources	n/a	UK based IT recruitment specialist
28/03/2011	Right4staff	GI Group SpA	n/a	Recruitment and staffing solutions company with £160m of annual sales
28/03/2011	Periscope	Aspire Global Networks	n/a	UK based recruitment agency





Alastair Halcrow  
Senior Analyst

Alastair Halcrow is a Senior Analyst at Target Corporate Finance. He has over eight years of research and valuation experience, having worked with both listed and private companies.

D: 0117 344 5588  
E: [alastair.halcrow@targetcf.com](mailto:alastair.halcrow@targetcf.com)



Mark Harman  
Managing Director

Mark Harman is the founder and Managing Director of Target Corporate Finance. He has successfully completed over £750m worth of deals, including a range of transactions in the Human Capital sector.

D: 0117 344 5587  
E: [mark.harman@targetcf.com](mailto:mark.harman@targetcf.com)



Jim Shaw  
Associate Director

Jim Shaw is an associate director at Target Corporate Finance. He has over eight years of deal experience and is highly experienced deal leader.

D: 0117 344 5585  
E: [jim.shaw@targetcf.com](mailto:jim.shaw@targetcf.com)

Target Corporate Finance is an award winning team which is experienced in acting for vendors and purchasers alike. Expertise includes mergers, acquisitions, disposals, management buy outs and sourcing development capital. For more information please visit: [www.targetcf.com](http://www.targetcf.com)

**Disclaimer:** Target Corporate Finance Limited is authorised and regulated by the Financial Services Authority. Registered in England & Wales No. 3566386. Registered office: Lawrence House, Lower Bristol Road, Bath, BA2 9ET. A list of directors is available on request. Information contained in the document does not constitute an offer to buy or sell or the solicitation of any offer to buy or sell any securities or investments in any companies. This document is made available for general information purposes only and is intended for institutional investors and business owners who have a high degree of financial sophistication and knowledge. This document and any of the products and information contained herein are not intended for the use of private investors. Although all reasonable care has been taken to ensure that the information contained in this document is accurate and current, no representation or warranty, express or implied, is made by Target Corporate Finance Limited as to its accuracy, completeness and currency. This report contains forward-looking statements, which involve risks and uncertainties. Actual results may differ significantly from the results described in the forward-looking statements. In particular, but without limiting the preceding sentences, you should be aware that statements of fact or opinion made, may not be up-to-date or may not represent the current opinion (whether public or confidential) of Target Corporate Finance Limited. In addition, opinions and estimates are subject to change without notice. This report does not constitute a specific investment recommendation or advice upon which you should rely based upon, or irrespective of, your personal circumstances. Use of this document is not a substitute for obtaining proper investment advice from an authorized investment professional. Potential investors are therefore urged to consult their own authorized investment professional before entering into any investment agreement. Past performance of securities is not necessarily a guide to future performance and the value of securities may fall as well as rise, while investing in private companies carries a significant degree of risk both due to the liquidity constraints on exit and as the companies are often at an earlier stage of development and, thus, may face risks not associated with more developed enterprises. This document has been prepared as a general guide. It is not a substitute for professional advice. Neither Target Corporate Finance Limited or its employees accept any responsibility for loss or damage incurred as a result of acting or refraining from acting upon anything contained in or omitted from this document. Target Corporate Finance Limited is also registered to carry out audit work and regulated for a range of investment business activities by the Institute of Chartered Accountants in England and Wales.