

Screening Compliance Industry Landscape

CorpDev Deal Briefing

Deal topics and supporting materials for review include

- ❖ Deal Multiples
- ❖ Industry Comps
- ❖ Private Company Star Performers
- ❖ Deal Briefing Strategy & Options
- ❖ Review industry deal trends, options and opportunities

Deal Investment Profiles

- Average Private Company Revenues <\$10m
- Profitability Margins >75% post-close
- EBITDA Impact > Double digit contribution
- EV Multiple Arbitrage

Deals Snapshot

Rankings & Solutions

Portfolio & Deal Options

Deal Briefing

→ For a complete list of opportunities, & a detailed review of your deal options, contact ERGO to schedule your complimentary deal briefing.

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Employment Screening Industry Snapshot

| | |
|--|----------------------------|
| | Associations & Communities |
| | CRA Software |
| | |
| | Direct |
| | |
| | Wholesale / Channel |
| | Funded |
| | Global |
| | Partners |

ATS, eRecruiting, HR Tech, Recruiting & Staffing, Insurance, Credit, Real Estate Screening, Tenant Screening, Consumer Reporting

The above list is not intended to be exhaustive but merely illustrative.

Industry Trends Summary Briefing

- Consolidation** of small and big companies both within the screening industry, but also by private equity firms, as well as strategic buyers
- Bifurcation** between legacy screening service firms and modern platforms which have made significant investments in proprietary technologies to provide customers with alternative pricing models, transparency, and additional confidence in the quality and accuracy of the reporting.
- Litigation** due to accuracy, reporting, privacy and identity management
- Commoditization** of the public records search pricing and service model
- Tech-enabled sourcing** of data at lower costs is a never-ending requirement.

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Employment Screening Industry Deals

Snapshot of industry deals range from **0.1x to 3.3x** EV/Rev multiple.

-
- 2019 – **First Advantage** acquired by PE firm Silver Lake for more than **\$1.5B**.
 - 2018 – **Dbay Advisors** acquires Harvey Nash for \$159m, **0.1x** EV/ sales, 8.3x EV/ EBITDA.
 - 2017 - Global HR Research LLC, FL HQ, a provider of pre-hire intelligence, screening, and employee onboarding solutions acquired by **Renovo Capital** for **\$30m** (~6.5x EV/EBITDA).
 - 2015 – **ClearStar** background screening acquires SingleSource for \$4m (2.9x LTM /revenue and **1.38x** EV/Revenue).
 - 2012 – **Alere** acquires eScreen (health toxicology screening and employee health) for \$270m, at **2.3x** rev multiple.
 - 2008 – **Reed Elsevier** acquires ChoicePoint for \$3.6b to combine with LexisNexis.
 - 2008 – **USIS** acquires HireRight for \$249m, **2.8x** sales multiple
 - 2008 – **VanElla** acquired HR Plus for **1.6x** sales, 9x EBITDA at \$9.7m, \$2m EBITDA.,
 - 2007 – **IPAT** (now 16pf) acquired Hilson Research for **3.3x** EV/Rev at \$1.2m sales.
 - 2006 – **Merchants Information Solutions** purchases American Tesco preemployment screening for 2.4x EV/sales, also ID Advocates, & Personnel Profiles Employment Screening
 - 2004 – **Intersections** (NASD: INTX) acquires American Background for \$15m, **0.6x** EV/Sales.
 - 2003 – **Kroll** acquired Intellifacts for \$2.2m, **1.69x** EV/ sales.
-

Human Resources Industry private company subscale deals North America

| | | |
|--------------|-----------|------------|
| HRTech | 7 | 3.8 |
| HRV | 18 | 1.6 |
| Insurance | 3 | 3.8 |
| Payroll | 12 | 2.5 |
| Staffing | 11 | 0.8 |
| TOTAL | 51 | 2.1 |

EV/Revenue Multiple

- HRTech & Insurance command a premium multiple compared to the overall Human Resources staffing and services industry.
 - HR Services & Vendors (“HRV”) vary from **<0.5x to 3.3x** EV/Revenue multiple based on the model, size, and quality of earnings.
-

Snapshot of Industry Buyers



M&A Deals Snapshot

EV Revenues Multiples by Industry Category Sector for Private Companies

| Human Capital Management | | | Administrative | | | |
|--------------------------|--------------------------|--------------------|--------------------|--------------------|----------------|------------------|
| HR Vendors & Services | Talent Dev. & Management | Talent Acquisition | Staffing | Payroll | Benefits | Compliance |
| 0.2 to 2.5x | 0.5 to 4x | 0.5 to 4x | 0.2 to 1.0x | 1.5 to 2.5x | 1 to 8x | 0.5 to 2x |

EV Revenue Multiples based on private small businesses with recurring services, but without proprietary tech based on top 100 private company deals less than \$20m since 2000.

Summary

→ Increase your EV by offering end-to-end compliance solutions which command a premium multiple.

End-to-End Compliance Model

Customer and Solutions Model Portfolio

| Screening Compliance | Industry Compliance | Benefits Compliance | Alliance Partners |
|---|---|---|--|
| <ul style="list-style-type: none"> + Background [multiple] + Verifications [multiple] + Credit, Risk + Databases [multiple] | <ul style="list-style-type: none"> + Motor Vehicle, Driver, CDLIs, FACIS + Volunteer / Nonprofit + Professional License | <ul style="list-style-type: none"> COBRA ACA FMLA | <ul style="list-style-type: none"> Health Screening Drug Testing Compensation eRecruiting |
| <ul style="list-style-type: none"> + I-9, eVerify + Worker's Comp + EEOC + Testing & Assessments | <ul style="list-style-type: none"> + F&I + Due Dilligence + Security + Government, Federal Contactor + Internaitnal / Global | <ul style="list-style-type: none"> Health Wellness Financial Wellness | <ul style="list-style-type: none"> Tenant Screening Real Estate, Property Tax Compliance, Credits, Incentives FinTech InsurTech LegalTech Procurement |

→ Revenue impact of \$1.3x lift for every \$1 in FY revenues creates 5x NLTV

Deal Landscape

→ In summary, hundreds of private companies with \$1m to \$10m in revenues.

| Count ¹ | Functional Solution (Reseller) | Private w/ Revenues >\$9M |
|--------------------|---|---------------------------|
| 215 | Compliance Administration w/ Fractional HR Services | 15 |
| 106 | Industry vertical centric solution | 41 |
| 350 | Payrolling (Contractor, Vendor managed payroll, HR, compliance) | 99 |
| 600 | Screening, Testing & Compliance Reseller (non proprietary tech) | 60 |
| 70 | Screening, Testing & Compliance with Proprietary Tech Platform | 46 |
| 55 | Wholesaler suppliers of data, records | 5 |
| 108 | Workforce Compliance w/ proprietary technology | 9 |

**Overlap exists*

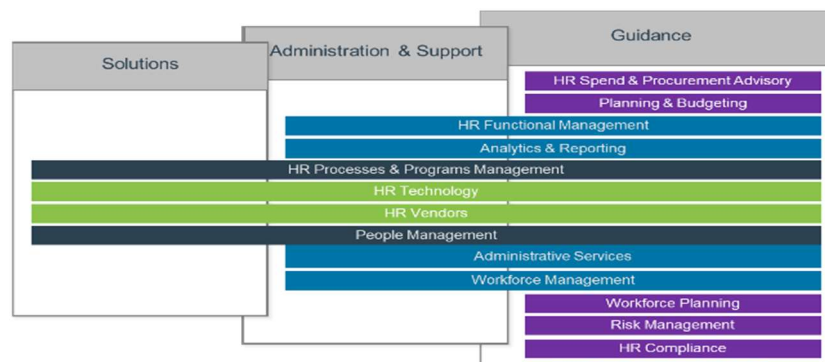
Deal Multiple Drivers & Considerations

Deal multiples vary by size and industry model.

- By size, **30%** premium for scaled entities with recurring revenue models.
- By industry, **30%** premium applies for industry centric focused solutions.
- By model, **150%** premium paid for scalable proprietary technology.

Consolidation Strategies

- Buyers looking for an alternative to consultants, payroll, PEOs, brokers; desiring a partner-centric and industry-centric solution
- Concierge model for delivering end-to-end compliance increases profitability and satisfaction
- Industry centric solutions command a premium



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¹ North America operations

The Big Idea.

As consumers become Internet savvy, **tech-enabled solutions** far outperform service vendors.



| | | | |
|--|--|--|--|
| Compliance As-a-Service AaS includes: | Analytics & Reporting (AaaS) | Data/Record Sourcing & Vendor Management (BPaaS) | Intelligent Automation (AI, bots, Big Data, ML, Omnichannel) |
|--|--|--|--|

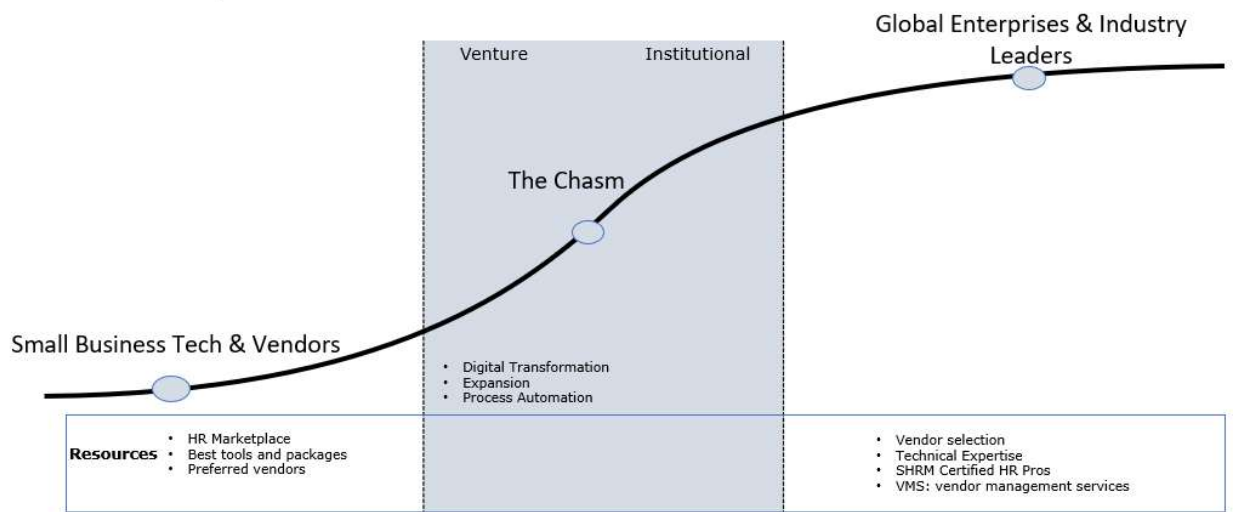
→ The value-chain components and benefits of the impact go beyond moving services to a subscription solution:

- **150%** higher FY revenues per customer
- **2X** more profitable
- **4X** more solutions delivered per customer

Industry centric End-to-End Compliance Solutions Portfolio Summary

| Compliance Solutions | Backoffice Services | Marketplace Partners | Advisory Solution |
|---|--|---|---|
| + HR Compliance & Reporting + 1099 Management & Compliance + Workforce Compliance | + Administration + Cloud Solutions + Virtual Support | + By Industry + Workforce eRecruiting, Hiring, Screening, Management | + Procurement + Insurance + Legal |

HR Subscription Access



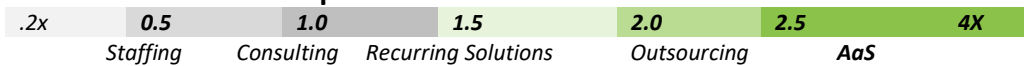
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Know the Value of Your Practice

The value of your practice depends on your internal capabilities, financial measures (*size, scalability and profitability, and Quality of Earnings, Customers, & Assets*), as well as your industry comparables; and it also depends on your external options to *Grow, Buy, Sell, License, or Divest*.

M&A Subscale Deal Multiples Revenue Valuation



| Firm Type | Firm Attributes | Firm Valuation |
|--------------------|---|---|
| Staffing | Project based Low margins (<35%) | <ul style="list-style-type: none"> 0.5X industry average with premium paid for industry centric and scaled assets. |
| Services | Labor/Staff dependent Billable hours driven Services model | <ul style="list-style-type: none"> More than 251 consulting M&A deals between 2017 to 2019 with the majority of subscaled average deal size between \$7m to \$14m at 0.5X revenue multiple with 6.8X EBITDA multiple with 65% of deal paid upfront with remainder over 3 years earnout |
| Outsourcing | 1 to 3 year contracts "Lift & Shift" model built on cost savings and shared services | <ul style="list-style-type: none"> 293 BPO acquisitions since 2010 range 0.3X to 4X EV/Rev. Premium paid for industry centric, scaled asset (>\$25M) with recurring managed solutions |
| AaS | "Everything as a Service" such as Finance-As-Service ("FaaS") and Analytics as a Service (AaaS) i.e. a portfolio of recurring solutions 65% gross profit margin based on a "Tech-heavy services model" | <ul style="list-style-type: none"> 1.3X to 2.5X for private companies based on size, scalability, quality of earnings and financial comparables 3.1 to 6.1x for SaaS |

Valuation Impact Analysis Based on Size

- Impact of subscale versus **scaled** status on EV: 30% discount for scaled private versus public comparables, with **40%** discount for subscaled with significant earnout and terms differences
- Impact of **recurring solutions** on EV at scale: <1X EV/Revenue multiple for project non-recurring versus >2X for recurring outsourcing/subscription with 12 month contract at scale
- Impact of scaled **acquisitions** on EV: EV lift of 1.3X for acquisition of recurring solutions beyond acquired revenues plus the valuation arbitrage impact



Employment Screening Industry Partners

| HR Compliance | Regulatory | WFM |
|--|--|---|
| | | |
| <p>Corporate HR & Employee Compliance Tax Compliance Credits and Incentives Employee Compliance, Employer Compliance, Contractor, Gig, Freelancer Compliance Employment Screening Background Checks, Employment Verifications, Reference Checks, ACA, i9, everify, EEOC, Tax credits and incentives, FCRA reporting, esafety, LMS, Training, CPE, HIPPA</p> | <p>Governance, GRC, Monitoring RegTech, SOX, ERM, EHS, Blockchain, Data reporting, Data management Professional Licenses Insurance, Fraud, Privacy Vendor Management Contract Management Audit, Hotline, ISO, Global</p> | <p>Contractors, Marketplaces Workforce Management</p> |

This snapshot is merely illustrative based on publicly available information, excludes Globals and holding companies, and is not exhaustive. Overlap exists. More than 500 companies funded since 2012. For a complete list contact ERGO.

Employee Compliance Portfolio

| HR Compliance | Workforce | Benefits | Industry |
|--|---|---|--|
| <ul style="list-style-type: none"> + HR Compliance Policies, Procedures, Handbooks + Safety & Risk Management + Legal & Insurance + Compliance Reporting | <ul style="list-style-type: none"> + Contractor, Gig, Freelancer, 1099 Management & Compliance + Vendor Management + eRecruiting + Screening: Criminal, Database, Professional, Health + Testing + Verification | <ul style="list-style-type: none"> + Insurance + Healthcare + Wellness + Financial Wellness | <ul style="list-style-type: none"> + GDPR, Digital, Privacy, Identity + GovTech, GovCon, Contractors + Healthcare, Medical, HIPPA |

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Human Resources Deals Funded

HR Industry Funding Compared to related Industry Categories for 2019

| Industry Category | # of Firms | |
|-------------------------------|------------|-------------------|
| | Funded | Capital Funded \$ |
| Information Technology | 751 | \$19,717,718,590 |
| Internet | 555 | \$13,137,611,213 |
| SaaS | 504 | \$8,936,745,564 |
| Human Resources | 132 | \$2,208,268,613 |
| Insurance | 83 | \$2,851,523,682 |
| Recruiting | 70 | \$1,188,390,206 |
| Staffing Agency | 15 | \$90,937,485 |
| Outsourcing | 2 | \$770,000,000 |

- Traditional "Human Resources" trails "HR Tech" in number and amount of capital deployed.

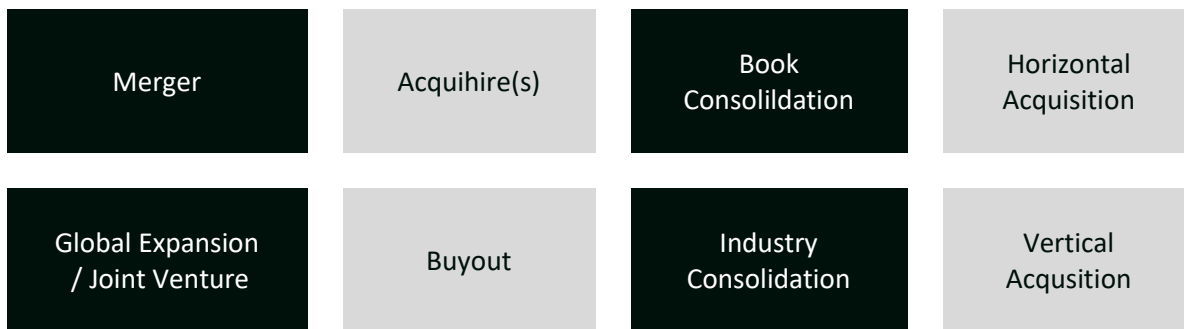
HR Industry Funding Compared to previous years

| Category Groups | Capital # | Capital \$ | Avg # Capital Deal per Year | No of Capital Deals | Capital Amount 2010 to date |
|-----------------|-----------|-----------------|-----------------------------|---------------------|-----------------------------|
| | 2019 | 2019 | 2010 to 2019 | 2010 to 2019 | 2010 to 2019 |
| Insurance | 83 | \$2,851,523,682 | 41 | 411 | \$10,679,257,689 |
| Human Resources | 132 | \$2,208,268,613 | 60 | 602 | \$9,808,853,107 |
| Recruiting | 70 | \$1,188,390,206 | 38 | 380 | \$3,780,815,467 |
| Staffing Agency | 15 | \$90,937,485 | 7 | 65 | \$576,026,686 |

- # of capital deals and amount funded trending up compared to the previous years average

CorpDev Deal Landscape

Deal Structure Options



2019 B2B Industry M&A CorpDev Deals by Structure Option

| M&A Deals since 2010 | 4,909 | 38,910 | 4,323 |
|-------------------------|-------|--------|--------------|
| M&A By Type | 2019* | total | Avg Per year |
| MBO (Management Buyout) | 4 | 58 | 6 |
| Acquire | 15 | 253 | 28 |
| LBO | 421 | 2,800 | 311 |
| M&A | 4,428 | 31,737 | 3,526 |

- Multiple alternatives to traditional M&A acquisitions exist, but still represent a minority of deal transactions.

ERGO Delivers the 411 on What You Need to Know to Acquire

- + Market & Industry Options, Deal Multiples & Terms
- + Deal Strategy & Documentation Prep
- + Deal Sourcing Origination
- + Deal Enablement Post-Close

The Big Idea.

Acquire books and capabilities to complement expansion and boost profitability.

| | | | |
|--|---|-----------------------------------|---|
| CorpDev Trending Priorities include: | Analytics & Reporting (AaaS) | Stack & Vendor Management (BPaaS) | Intelligent Automation (AI, bots, Big Data, etc.) |
| | → The value-chain components and benefits of the impact go beyond moving services to a subscription solution: | | |

- **150%** higher FY revenues per customer
- **2X** more profitable
- **4X** more solutions delivered per customer

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HR Tech

The market for HR technology has evolved beyond modules, point solutions and platforms to include marketplaces, ecosystem of partnerships, and industry configured solutions. Growth opportunities include

- WFM
- Talent Analytics
- HRTech platforms by industry

→ HR technology that wins creates market and industry leadership position.

Backoffice Administration Solutions

Backoffice administrative services have grown beyond startup/small business software supported by a local service provider to robust midmarket & industry solutions. Backoffice Industry growth segments include:

- *Unbundled PEOs and ASOs*
- *Payrolling, Contractor and Gig Economy providers*
- *Aas- "As-a-Service"*
- *BPO outsourced backoffice administrative services*
- *Outsourced technical services and solutions*

→ Consolidation opportunity to create solutions with both recurring managed services as well as advisory consulting capabilities.

Human Capital Management

The market for Human Capital Management extends across the employee lifecycle and is underserved across the middle market as well as for industry preconfigured solutions.

Partner and consolidation opportunities include:

- The rise of "HCM as a Service"
- "Solving the Needs of the HR Department"
- More than 100,000 SHRM professionals searching for support
- More than 200,000 middle market companies annually switch vendors
- Lack of industry pre-configured solutions for the middle-market

Supporting materials available upon request.