

Technology

Human capital management sector update

The pandemic that has gripped the US since March 2020 affected every part of the technology sector, human capital management (HCM) probably more than most. We don't believe it's overstating the case to say that the pandemic will long be regarded as a transformative event for human resources departments and the technology companies that serve them.



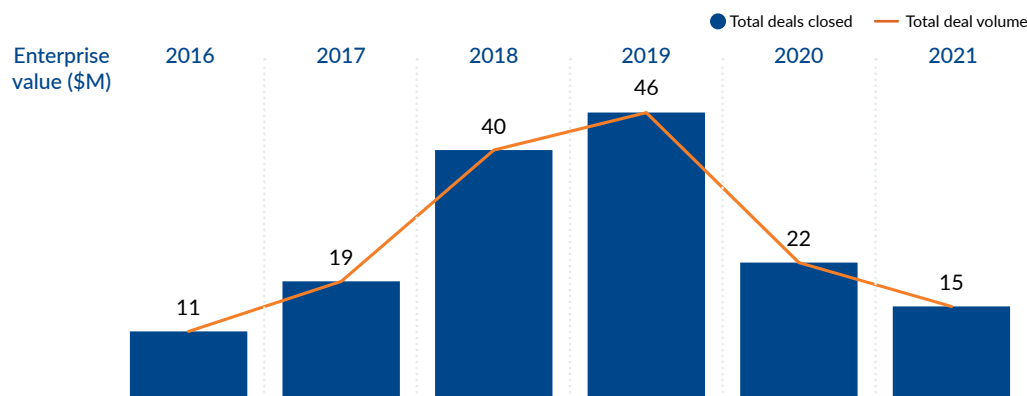
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Overview of M&A activity

That said, the underlying trends influencing buyers and sellers are largely unchanged from before the pandemic. The market remains relatively fragmented by a multitude of upstart players and numerous customized SaaS offerings. Larger software platforms are acquiring smaller firms with the goal of improving their market presence, increasing their product base and growing market share. Strategic and private equity-backed players are using acquisitions to consolidate positions, stay competitive or establish themselves as emerging leaders.

The current activity and other factors suggest that the HCM technology sector will remain a fertile ground for deal makers, and we anticipate M&A activity within the sector will remain strong as a result.

CHART 1: HCM TECHNOLOGY TRANSACTION VOLUME



Source: FactSet, company filings, 451 Research. As of 8.19.2021.

Key factors driving market growth

Up until relatively recently, the HCM market has relied on manual processes for a range of tasks. However, secular tailwinds are driving a digital transformation of outdated approaches.

HCM software undergoing a transformation

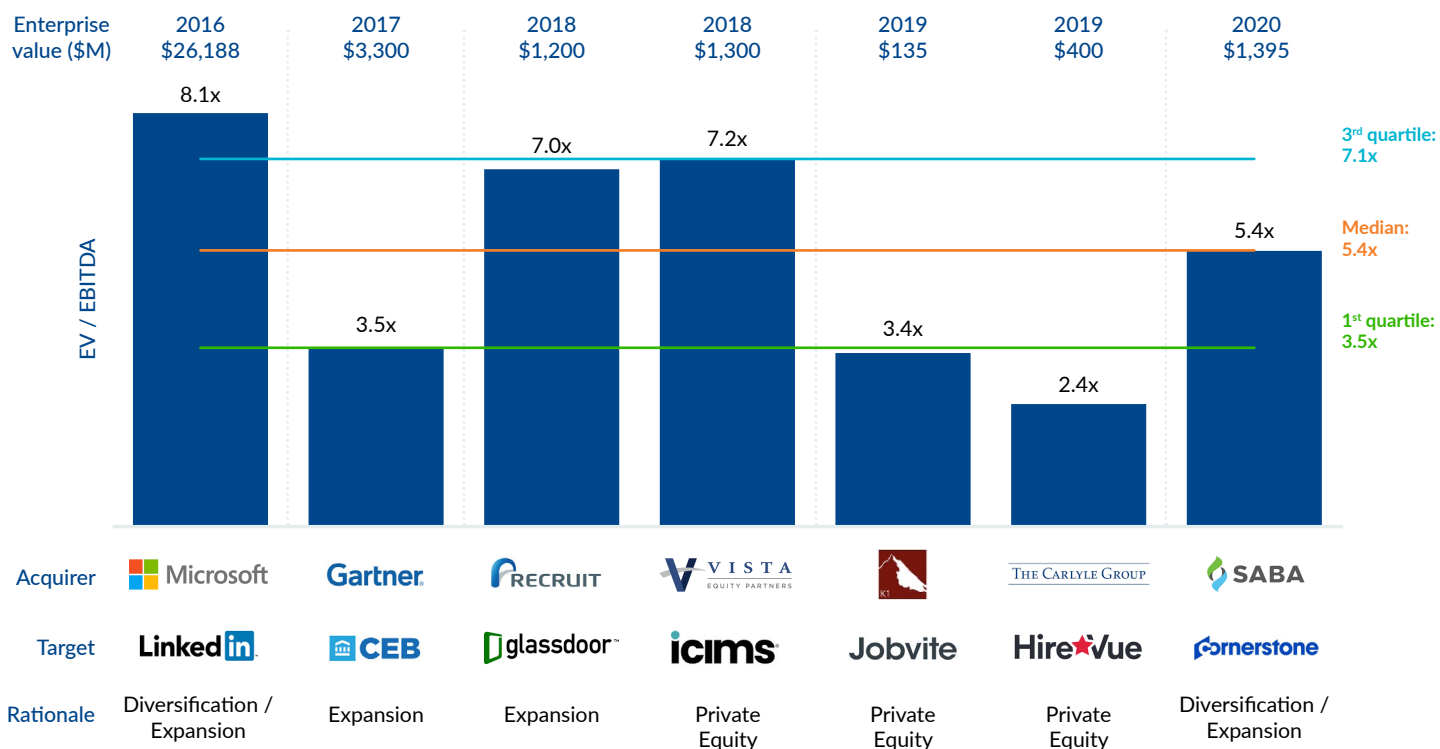
Enterprises are seeking unified HCM software suites that can help manage the entire HCM workflow to cut costs and improve efficiency. For instance, employers are leveraging software to assist with increased employee churn in the wake of the pandemic’s disruption of the workforce. In response, innovative technologies incorporating the use of artificial intelligence (“AI”) is emerging to automate HR processes, intelligently recommend candidates and streamline recruiting. Employers are especially challenged to fill highly skilled technical roles – the type of positions that are seeing the greatest growth in today’s knowledge-driven economy. Further, employers are seeking to manage increasingly complex regulatory and compliance requirements which are expensive and time consuming for businesses of all sizes.

Accelerating shift to digital

In 2020, the estimated total US HCM technology market was \$71.9 billion, with approximately 27% (\$19.6 billion) generated from software (ex-payroll). By 2023, industry analysts expect that number be nearly 30% of total US HCM market. Growth in the HCM technology sector has been primarily driven by improved functionality, adoption of automation, artificial intelligence and machine learning. Best-in-class applicant tracking systems (“ATS”) integrate collaboration tools and are increasingly intuitive to use. For smaller clients and in specific niches, SaaS technology, improved integration, increased efficiency and heightened functionality are driving growth.

“While COVID-19 may have accelerated firms’ transition to video interviewing, in many ways it simply sped up a migration that was already happening.”

CHART 2: SELECT HCM PRECEDENT M&A



Source: FactSet, S&P Capital IQ, public filings, press releases, Mesirow.

Notable sector trends and patterns



Increased cloud-based HCM solutions

Like most other enterprise technology, HCM is witnessing a transition from on-premise solutions to cloud-based delivery, a trend accelerated by COVID-19 as companies adjusted to meet the needs of dispersed teams in a quick and scalable manner. Additional drivers of cloud-based adoption include increased functionality, operational flexibility and potential cost savings compared to legacy on-premise software. According to Bloomberg, cloud-based HCM software is projected to expand 14% per annum through at least 2023. In contrast, HCM software for on-premise applications is expected to contract by 1% over the same period. Overall, approximately 65% of firms have adopted HCM cloud-based software.



Emergence of HCM analytics

Machine learning and AI technologies are emerging that harness predictive analytics, changing how data is analyzed and reported. Increased adoption of cloud HCM systems has enabled firms to invest heavily in applications that help them analyze their enormous amounts of employee data and leverage it for work force planning, talent management and operational improvements. Expect analytics and AI technologies to merge, providing companies with a clearer, more granular view of managerial and operational issues.



Demand for continuous learning and development

According to Gartner, 68% of HR leaders are now prioritizing helping employees build critical skills and competencies. Simultaneously, the pandemic has made skill enhancement a greater challenge, with many companies rethinking large gatherings. To address these requirements, advanced learning management system (“LMS”) technology helps businesses achieve their performance management and continued learning objectives by providing cloud-based remote access to dynamic live and on-demand learning courses. LMS creates new ways for employees to access high-impact, customized training courses for specific industries or workplace demands. HCM technologies are increasingly incorporating LMS, which reinforces employee training as a top priority and ensures that all employees remain engaged, focused and continually hone their skills.

Sector spotlight: Robust demand for video interviewing solutions

Uncertainty surrounding the depth and duration of the pandemic prompted many businesses to reduce staff or, at the very least, postpone hiring through the majority of 2020. However, massive federal assistance and optimism fueled by the vaccine rollout started to change the calculus late in the year. By December 2020, US job openings had grown to 4.5% of the total workforce; 2.3% of workers voluntarily quit their jobs according to the Bureau of Labor Statistics.

The resulting employee churn has increased the frequency and rate at which employers must identify, assess, recruit and onboard new employees. The stakes are significant. Hiring is expensive in terms of time required by managers to interview candidates, and the costs of making a bad hire can be prohibitive. It makes sense for firms to do everything they can to get it right the first time.

What’s more, these difficulties are magnified for small/mid-sized firms that do not have a designated HR department. Many may not even have a designated HR person to handle scheduling details and interview planning. For businesses, the solution has been a move to a digital-centric approach. While COVID-19 may have accelerated firms’ transition to video interviewing, in many ways it simply sped up a migration that was already happening.

Increased efficiency: Video interviewing solutions can increase interview efficiency by 5–7x vs. traditional methods. The process can be faster, less stressful and more rewarding for all concerned. Video interviewing platforms offer multiple advantages beyond the remote aspect: streamlined scheduling, enhanced collaboration, and more balanced assessments using integrated tools dedicated to the hiring process. For example, applicants may have the ability to pre-record answers to questions. Hirers can tick more boxes and do a more complete job.

Demographic shift in the US workforce: More than a third of the American labor force are now millennials, making them the largest generation in the US labor force, according to a Pew Research Center analysis of US Census Bureau data. Employers are

focused on attracting millennials and Gen Z applicants who prefer interaction with modern application technology. We expect employers to use enhancements such as video interviewing as strategic differentiators in recruiting and onboarding millennial and Gen Z talent.

Today, over 50% of all firms use some form of video interviewing technology, part of a broader trend as HCM software applications are increasingly considered mission critical to attract, develop, engage and retain talent. Further, 45% of employers not currently using video interviewing are considering it or have it in the works. More employers are using video interviewing to enable recruiters and hiring managers to spend more time on value-added tasks outside of screening and interview scheduling, while accelerating the hiring process and engaging candidates.

We expect hirers to continue the shift to digital and video platforms



















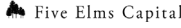























HCM software continues to undergo a transition from on-premise solutions to the cloud for increased functionality and flexibility. Video interviewing solutions will likely be viewed by employers as a strategic investment to efficiently recruit and attract premium talent. We therefore expect video interviewing applications to continue generating demand and be a prominent area of HCM technology M&A transactions in the future.

TABLE 1: SELECT HCM TECHNOLOGY TRANSACTIONS

| Acquirer | Target | Ent. value (\$MM) | Commentary |
|--|---|-------------------|---|
|  15five |  Emplify | \$50 | <ul style="list-style-type: none"> 15Five acquired Emplify for \$50 million in April 2021 Emplify is an employee engagement measurement that enables executives to ask for analyze and act on employee feedback Terms not disclosed |
|  |   NXTThing <small>The Experienced Matters</small> | ND | <ul style="list-style-type: none"> K1 Investment management acquired Jobvite, Jazzhr, and NXTThing RPO for an undisclosed sum in April 2021 Jobvite provides an applicant tracking system and recruiting software, JazzHR provides recruitment software and NXTThing RPO provides recruitment process outsourcing services Terms not disclosed |
|  VISTA |  PLURALSIGHT | \$3,800 | <ul style="list-style-type: none"> Vista Equity Partners acquired Plural Sight for \$3.8 billion in April 2021 Sells software to companies through its skills and flows product lines, which helps offer courses and analytical services EV / LTM Revenue of 5.4x |
|  Criteria |  alcam interactive | ND | <ul style="list-style-type: none"> Criteria acquired Alcam Interactive for an undisclosed sum in March 2021 Alcam Interactive is an on-demand digital video interviewing platform which replaces early stage candidate screening with video, helping enterprises gain a competitive advantage within ever-changing talent landscape Terms not disclosed |
|   |  greenhouse | \$820 | <ul style="list-style-type: none"> TPG Growth and The Rise Fund made a majority investment in Greenhouse Software in January 2021 Offers a complete suite of software and services for talent acquisition to over 4,000 businesses Terms not disclosed |
|  Hg |  benedity | \$1,100 | <ul style="list-style-type: none"> Hg acquired Benedity from General Atlantic and GMI for \$1.1 billion in December 2020 Provides cloud software for corporate uses, workplace giving and volunteer management EV / LTM Revenue of 16.0x |
|  tcp |  Humanity | ND | <ul style="list-style-type: none"> TimeClock Plus, a leader in workforce management solutions, acquired Humanity for an undisclosed sum in December 2020 Provides cloud-based employee scheduling platform to streamline the creation of dynamic schedules for staff Terms not disclosed |
|  icims |   altru <small>AN ACQUISITION COMPANY</small> | ND | <ul style="list-style-type: none"> iCIMS acquired EASYRECRUE for an undisclosed sum in November 2020, and Altru Labs to expand platform abilities. The acquisition further expands iCIMS' market innovation and leadership with interactive employee-generated content that changes career sites from static to dynamic sources of engagement and interactivity. EASYRECRUE is a video interviewing provider that allows customers to globally interview and digitally enhance the candidate, employee and recruitment experience Terms not disclosed |
|  HireVue |  AllyO | ND | <ul style="list-style-type: none"> HireVue acquired AllyO for an undisclosed sum in October 2020 AllyO develops an AI-based recruiting platform that optimizes and automates talent management and interview scheduling solutions for enterprises Terms not disclosed |
|  ZEBRA |  REFLEXYS | \$575 | <ul style="list-style-type: none"> Zebra technologies acquired Reflexis Systems, Inc for \$575 million in September 2020 Provides intelligent workforce management, execution and communication solutions for organizations in the retail, food service, hospitality and banking industries EV / LTM Revenue of 8.7x |
|  ltg <small>learning technologies group</small> |  BRIDGE | \$50 | <ul style="list-style-type: none"> Learning technologies group PLC acquired getBridge for \$50 million in July 2020 Learning, performance and skills development platform for mid-enterprise organizations EV / LTM Revenue 2.4x |
|  ICG |  workhuman* | \$1,200 | <ul style="list-style-type: none"> Intermediate Capital Group acquired Workhuman for \$1.2 billion in June 2020 Human resources and performance management technology platform EV / LTM Revenue of 2.0x |
|  THE CARLYLE GROUP |  HireVue | \$400 | <ul style="list-style-type: none"> The Carlyle Group acquired HireVue for \$400 million in September 2019 HireVue provides AI-enabled recruitment SaaS to businesses and recruiters and its software enables users to automate scheduling and record video interviews of job seekers EV / LTM Revenue of 5.7x |
|  Riverside |  Montage SHAKER | ND | <ul style="list-style-type: none"> The Riverside Partners acquired Montage and Shaker International for an undisclosed sum in May 2019 Montage is a solution to engage, interview and hire better candidates, and Shaker International is a leading provider of predictive talent intelligence and assessment software solutions Terms not disclosed |

Source: FactSet, Public Information, Capital IQ, Equity Research. | Mesirow did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

TABLE 2: SELECT HCM TECHNOLOGY PRIVATE PLACEMENTS

| Announced date | Lead investor(s) | Company | Investment amount (\$MM) | Announced date | Lead investor(s) | Company | Investment amount (\$MM) |
|----------------|---|---|--------------------------|----------------|--|---|--------------------------|
| 21-Jul |  |  | \$1,500 | 21-Mar |  |  | \$65 |
| 21-Mar |  |  | \$13 | 21-Mar |  |  | \$100 |
| 21-Mar |  |  | \$40 | 21-Feb |  |  | \$20 |
| 21-Mar |  |  | \$145 | 21-Feb |  |  | \$16 |
| 21-Mar |  |  | \$41 | 21-Jan |  |  | \$25 |
| 21-Mar |  |  | \$60 | 21-Jan |  |  | \$26 |
| 21-Mar |  |  | \$7 | 21-Jan |  |  | \$125 |
| 21-Mar |  |  | \$108 | 21-Jan |  |  | \$43 |
| 21-Mar |  |  | \$32 | 21-Jan |  |  | \$34 |
| 21-Mar |  |  | \$221 | 21-Jan |  |  | \$140 |
| 21-Mar |  |  | \$27 | | | | |

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