



Public Sector Recruitment – Mergers and Acquisitions

This **In Focus** reviews the Public Sector Recruitment market, an area where Apex's team has an impressive track record of completed transactions.

Over the last few years, the Public Sector Recruitment market has performed much better than the wider Recruitment market with continued growth against the downturn experienced in many other areas.

This is down to favourable fundamentals such as:

- Increasing Public Sector expenditure.
- Increasing Public Sector headcount. According to Office National Statistics, Public Sector employment rose by more than 350,000 between 1998 and 2002.
- General growth of outsourcing in the Public Sector.
- Continued labour shortages in many areas.
- Changes in service delivery models – meaning a greater need for flexible labour supply.

Driven by new entrants and investment, there has been a wave of consolidation. However, these macro trends mask significant differences in the performance of sub-sectors with some areas such as Education experiencing the levelling of growth and squeezing of margins whilst other more supply constrained areas such as Social Work and Allied Health Professionals see steeper growth rates and gross margins remaining in the high 20% or low 30%. In addition, new challenges are being thrown up by the growing sophistication of Public Sector procurement, such as preferred supplier agreements, national and regional frameworks and public sector in-house agencies (such as NHS Professionals).

Education

Over the last year or two, the Education market has matured significantly. The Government has been fairly successful through its high profile marketing exercise and significant budget increases in raising teacher recruitment and improving the pay and working conditions for both new and existing teachers.

Whilst shortages persist in a number of major urban areas, in many regions, teacher shortages have declined to the extent that there is excess supply. Overall, we estimate that annual growth across the market as a whole is running at no more than 5%, in some cases significantly less. Combined with greater competition,

these labour market dynamics mean that gross margins have come under significant pressure in some areas, with many agencies imposing price freezes or cuts.

Whilst there have been several deals announced such as the acquisitions of Mark Education Limited and ASA Limited by Hot Group plc for £5.45 and £4.2 millions, consolidation has slowed significantly compared to the 2000-2002 period. Going forwards, we believe that there will be an element of defensive consolidation as existing players look to acquire greater volume and some of the privately owned smaller / medium sized businesses look to capitalise on value they have already created. Growth is unlikely to return to the heady early days of the market and margins are unlikely to rise significantly.

Health

Whilst the majority of Health markets still have a shortage of supply, conditions in the Health market vary significantly. In some areas, we are seeing some downward margin pressure, resulting not from over-supply but rather increasing costs of doing business and changes in procurement.

For example:

- In nursing, the NHS Purchasing and Supplies Agency (PASA) has been pushing for stricter compliance checks and procedures.
- The introduction of NHS Professionals. Whilst in some regions, the performance of NHS Professionals has been patchy, in other areas, it has been fairly successful, providing greater competition for private agencies. The relative success of NHS Professionals was one of the reasons cited recently by Nestor for its slight decline in revenues.
- The NHS National Contract. The jury is still out on the impact of the National Contracts for Doctors and Allied Health Professionals. Despite some limited evidence of margin pressure, there are still fundamental shortages in these markets, meaning that even those companies not on the national contract, still secure healthy gross margins where they have good quality candidates. This seems to be especially the case for specialist staff such as psychiatrists.

Apex Corporate Finance is a leading Corporate Finance House, specialising in the Recruitment, Outsourcing, HR Services and Public sectors. Our team has an impressive track record of completed deals in the Public Sector Recruitment market as both Initiators and Advisors.

As well as expert Deal Initiation services, we provide a full range of Transaction Advisory and Strategic / Business Consultancy services. We are always keen to talk to people who either now or in the future, are looking to buy or sell businesses, conduct management buyouts or raise development capital.



There has been significant consolidation in the Health Recruitment market in recent years, led by venture capital backed groups such as Corinth Healthcare Limited and Public Recruitment Group plc, pursuing buy and build strategies. In addition, factors such as the above, have encouraged some smaller and medium sized businesses to look at being acquired.

Going forwards, as well as volume led acquisition, we expect further consolidation in the buoyant Allied Health Professional (AHP) market, as some of the more generalist businesses look to acquire a presence in these higher growth higher margin niches.

Social Care

The Social Care market ranges from Qualified Social Workers through to Domiciliary Care. The Social Worker market is characterised by severe shortages and percentage gross margins often in the high 20%*s*. The premium is very clearly on the candidate and those agencies with a track record and competitive advantage in attracting candidates are making very healthy returns. With no obvious signs of improvements in Social Worker recruitment, we expect these conditions to continue.

In the Domiciliary Care market, gross margins are often thinner and volumes greater. We believe that margins will continue to come under pressure due mainly to the cost pressures of greater regulation and compliance. This market is currently highly fragmented with myriads of relatively small regionally focussed players. Given these cost pressures and in some cases larger contracts, we feel that this market will consolidate significantly in the near future, as existing players look to acquire greater critical mass over which to spread their higher cost bases.

Local / Central Government and Housing

In recent years, there has been much restructuring in areas of both Local / Central Government and Social Housing including the growth of Outsourcing and the transfer of Social Housing to Housing Associations. This is increasing the demand for temporary staff and the opportunities for private sector providers. A number of reasonably sized niche orientated privately owned businesses have developed. We believe consolidation will gather pace in these sectors as wider Public Sector Recruitment and Commercial businesses look to build a presence.

Public Recruitment Deals Completed by The Apex Team

Target	Specialism	Acquirer	Transaction Type	Maximum Value £ millions	Role
Action Medical	Allied Health Professionals	Tribal Group plc	Acquisition	£9.1	Initiated Deal
Supplydesk	Teachers	Public Recruitment Group plc	BIMBO	£5.5	Initiated Deal
Resource Management	Social Care	The Capita Group plc	Acquisition	£7.1	Initiated Deal
Recruitment Solutions Group	Allied Health Professionals & Social Care	Backed by Barclays Private Equity	MBO	£18	Advised Vendors
Educational Support Services	Teachers	The Capita Group plc	Acquisition	£12	Initiated Deal
Capstan	Teachers	The Capita Group plc	Acquisition	£13.5	Initiated Deal
LHR Education	Teachers	The Capita Group plc	Acquisition	£12	Advised Vendors

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