

# HR Software





M&A Insight | 2022

## THE FAST-GROWING HR SOFTWARE MARKET AND ITS RAPID CONSOLIDATION

# HIGH GROWTH AND CONSOLIDATION OF THE HR SOFTWARE MARKET

## Key market drivers

The HR Software market is continuously growing, further accelerated by the boost in **digitalization** that the Covid-19 pandemic initiated. The key market drivers underlying the growth are:

-  Increased need of tracking and improving employee engagements and efficiency
-  Increasing demand for labor and cost saving automation software
-  Strong growth in the number of SMEs that require (scalable) HR solutions
-  Increasing adoption of cloud technologies such as Software as a Service (SaaS)

The global HR Software market is projected to grow from **~€24.0 billion** in 2021 to **~€35.4 billion** in 2028 by a CAGR of 5.7%.

- North America was the largest HR Software market in 2021, with a total market value of €8.6 billion.
- The Chinese market is still relatively small with a market value of €1.4 billion. It is estimated to exhibit the largest growth over the foreseeable future due to its growing economy and the modernization of businesses.
- The Dutch market was estimated at €130.6 million in 2021 and is expected to reach €148.1 million in 2022. The market is expected to grow at a **CAGR of 13.1%** and reach €274.1 million by 2027. In the Netherlands, the continuous economic growth, along with relatively low unemployment rates has led to huge skill shortage, forcing employers to refocus investments in order to attract, retain and develop talent.

## Increasing M&A Activity and consolidation

Over the last years there has been **increasing M&A activity and consolidation** in the HR Software market.

The HR Software market has some large players but remains relatively fragmented globally. Financial buyers are also picking up on the interesting characteristics of the market and are diving into it:

- **Venture Capital** - In 2021, Venture Capital funds poured more than €13 billion into the HR technology market, with the volume of investment more than tripling from 2020 to 2021.
- **Private Equity** - A growth strategy often used by Private Equity is Buy & Build. The HR Software market is very interesting for Private Equity due to the high projected growth of the market; the scalability of the software, the recurring revenues and because the market is still fragmented.
- A few landmark deals closed in the last couple of years:
  - **Personio**, a leading HR software company for small and mid-sized businesses from Germany, announced a Series E round from new investors, adding \$200 million to the initial financing raised in October 2021. The new funding brings the total capital raised through its Series E to \$470 million, valuing the company at \$8.5 billion, making it one of the fastest growing and most valuable software startups worldwide.
  - **Alight Solutions**, a leading cloud-based provider of integrated digital human capital and business solutions, went public in 2021 at the NYSE after a \$7.3 billion SPAC merger with Foley. Blackstone sold Alight to the SPAC vehicle.
  - **Ultimate Software**, a cloud-based provider and developer of human capital management software systems merged with Kronos, which also provides cloud solutions for work force and human capital management in 2020. The merged company, the Ultimate Kronos Group (UKG) was valued at \$22 billion after the merger.

# GROWING INTEREST FROM PRIVATE EQUITY BUYERS

Over the last years, Private Equity buyers are becoming more active in the HR Software market and many players have initiated a Buy & Build strategy in the sector.

A few examples of Private Equity buyers looking for add-on acquisitions in the Benelux HR Software market:

- **Main Capital** - acquired Dutch HR & Payroll software specialist BCS in April '22. First add-on acquisition took place in July '22 by acquiring Applodyed and second add-on in October '22 by acquiring Tasper.
- **HG Capital** - acquired Visma, a leading provider of business-critical software to SMBs in the Nordic and Benelux region for \$5.3 billion in 2020. Visma has been one of the top acquirers in the Benelux and Nordic regions over the last years, as illustrated by previous acquisitions of Raet, Nmbrs, DBS and Davilex.

- **Tenzing** - acquired PSSG, a leading UK Payroll Software with connectivity to HR & ATS providing end to end employee engagement. Tenzing has already acquired several add-ons in the UK market and is actively looking to further expand to the Benelux HR software market.
- **Maguar** - acquired HRworks, a leading HR software provider among German SMEs. Maguar is focusing on further expanding its business to the Benelux HR Software market.
- Furthermore, there are numerous Private Equity buyers highly interested in acquiring a platform company in the Benelux HR Software market due to attractiveness of the market:
  - Growing and fragmented market ready for consolidation
  - Scalability and business-critical nature of the software & services
  - High share of recurring revenues and attractive margins

## SELECTION OF POTENTIAL PRIVATE EQUITY BUYERS FOR IN THE HR SOFTWARE MARKET

Private Equity			
<p><i>Capitalmind has an extensive track-record and numerous connections to PE firms, both in Europe, USA as well as worldwide.</i></p>			
<p><b>Benelux</b></p>	<p><b>United Kingdom</b></p>	<p><b>North-America</b></p>	<p><b>Other</b></p>

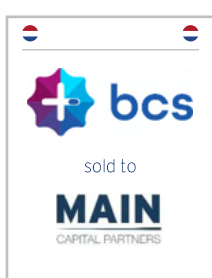
Sources: Capitalmind desk research

# HIGH VALUATIONS IN THE HR SOFTWARE MARKET

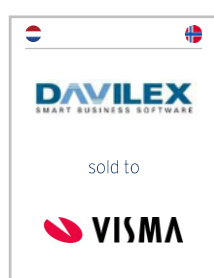
The average multiple of the selected HR Software companies below (including Payroll services) based on the LTM is 26.4x for EBITDA and 5.6x for revenue. The average multiples on basis of the NTM is 17.8x for EBITDA and 4.7x for revenue. The revenues of the listed parties are expected to grow rapidly in the next years with an average CAGR of 17.9%.

(in EURm)	Country	Enterprise value	Revenue LTM	Operating metrics				Valuation multiples			
				Revenue CAGR		EBITDA margin		EV / Revenue		EV / EBITDA	
				FY19-20	FY21-23E	LTM	NTM	LTM	NTM	LTM	NTM
<b>HR Software</b>											
		101,215	15,782	(2.4%)	20.2%	26.5%	27.3%	6.4x	5.5x	24.2x	20.3x
		40,700	4,701	(8.7%)	23.8%	44.0%	44.3%	8.7x	7.8x	19.7x	17.7x
		18,702	1,159	34.9%	35.2%	29.3%	40.7%	16.1x	12.1x	55.1x	29.8x
		9,807	1,085	30.8%	27.6%	2.4%	17.6%	9.0x	7.2x	n.m.	41.2x
		8,931	2,181	2.6%	6.3%	26.1%	23.8%	4.1x	3.8x	15.7x	16.1x
		7,150	1,562	n.a.	58.6%	22.7%	21.8%	4.6x	2.2x	20.2x	10.0x
		4,845	4,590	21.1%	(41.5%)	12.4%	35.2%	1.1x	3.5x	8.5x	9.8x
		4,189	5,272	24.8%	23.6%	4.2%	5.3%	0.8x	0.6x	18.9x	12.1x
		136	80	24.9%	21.5%	3.0%	11.0%	1.7x	1.4x	56.8x	13.0x
		76	23	21.6%	3.4%	18.1%	36.2%	3.3x	3.1x	18.0x	8.5x
Average		19,575	3,644	16.6%	17.9%	18.9%	26.3%	5.6x	4.7x	26.4x	17.8x
Median		8,041	1,871	21.6%	22.5%	20.4%	25.5%	4.3x	3.6x	19.7x	14.6x

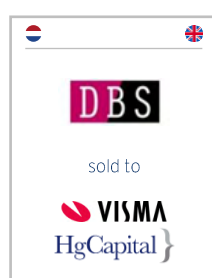
## A SELECTION OF OUR TRANSACTIONS IN THIS SECTOR



HR and Payroll Software



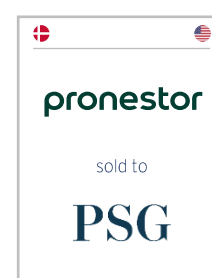
HR and Accounting Software



Payroll / HR and financial Software

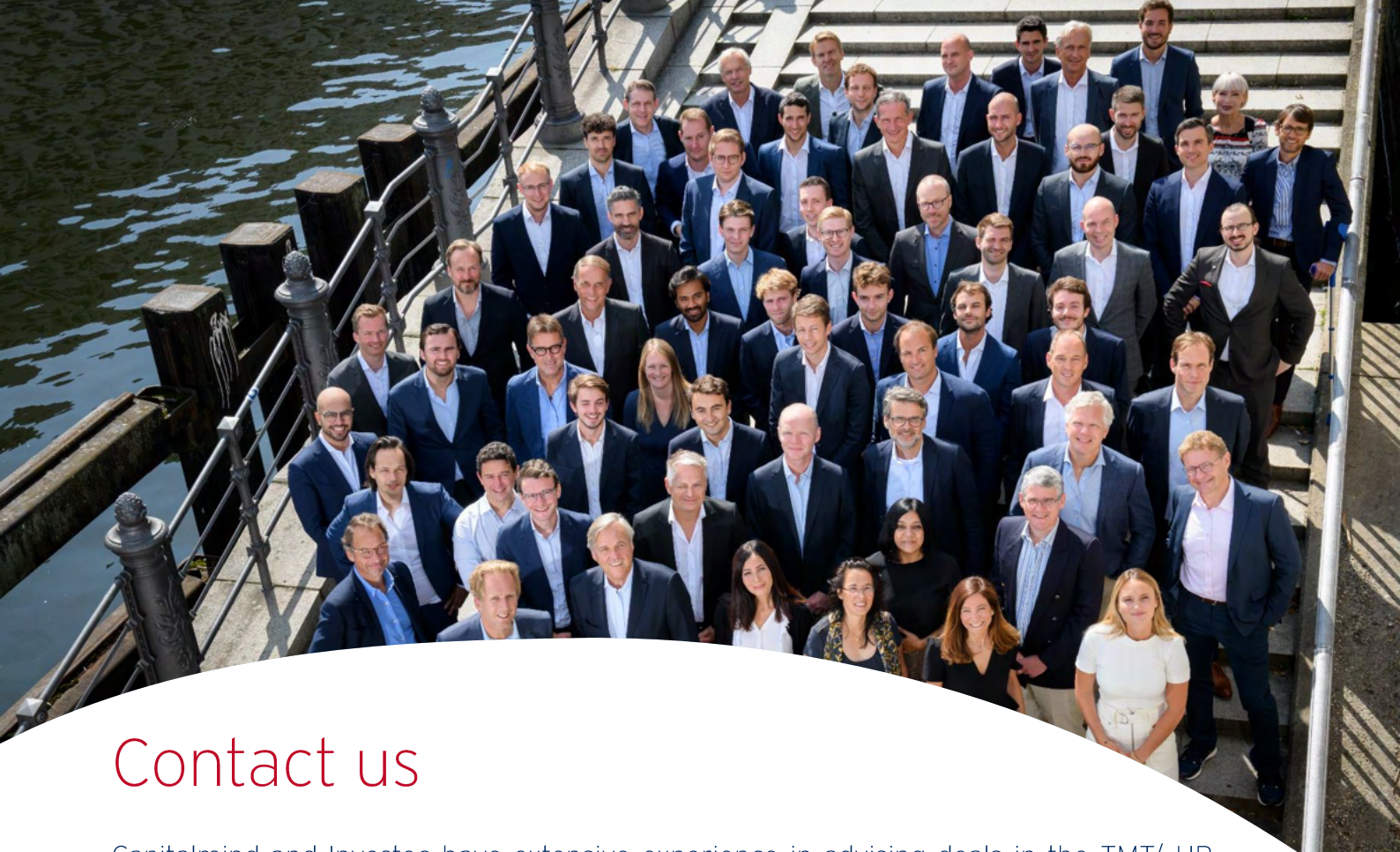


Staffing Software



Workspace management software

Source: S&P Capital IQ, as per 2022-10-20



## Contact us

Capitalmind and Investec have extensive experience in advising deals in the TMT/ HR Software sectors. With 160+ dealmakers across Europe and 310+ dealmakers worldwide, we can help you to achieve your strategic ambitions.



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