

Trade and private equity are actively seeking companies in the Payroll and Human Resources market

Now, more than ever, the Payroll and HR businesses are attractive for trade buyers and private equity investors for two headline reasons. First, these sectors focus heavily on recurring (“subscription”) income which supports a highly attractive economic model with strong forward revenue visibility. Second, rapidly evolving business models are making the concept of “employment” extremely fluid and employers need high quality payroll and HR solutions to support this evolution.

This attractive positioning is why, with proper support and planning, you have the opportunity to take advantage of the value you have created. This is the first in a three part series designed to help you plan ahead to secure the personal and financial satisfaction that comes with sale of/investment in your business.

- **Part One - Understand the value of your business,**
- **Part Two - How to position your business to potential buyers/investors**
- **Part Three - Best Practice to optimize the outcome of a transaction**



PART ONE - UNDERSTAND THE VALUE OF YOUR BUSINESS

As advisors to founder owned and founder led businesses, we have seen an accelerating interest from trade buyers and private equity investors in payroll and HR and this interest has increased in the current economic climate.

SO, WHAT'S CAUGHT PE/TRADE BUYER'S INTEREST?

- **MRR (monthly recurring revenue) is the holy grail** - and employment and payment services and software are built on this foundation, managing data and payment daily, weekly, monthly.
- **Payroll and HR service and software are very “sticky”** - customers are not likely to change providers on a whim and regardless of contract length, they are proven to renew year on year with the average length of service per customer typically 5-8 years. This means that your business offers more certain future revenues and profits.
- **Secure and predictable cash generation** - just as revenues are secure, so is long term cash generation. Investors always have a choice and a stand-out attraction of this sector in these choppy economic times is the long-term visibility into cash-flow.

- **Payroll and HR businesses experience slow growth** - all the data shows that it is extremely difficult to grow businesses in the sector over 10% per year with traditional sales approaches. The easiest, quickest way to grow is to acquire large numbers of customers - to “buy growth”.
- **Investors are looking for diverse client bases** - to deliver up-sell opportunities for their other services. Payroll and HR businesses tend to be horizontal in nature, serving a wide variety of industries and business sizes, and this is increasingly attractive to investors.
- **Employee solutions are evolving** - what has historically been a relatively static offering has increasingly expanded into a variety of attractive new services - including same day pay, gig economy resourcing and payments, alternate contractor and employment models, AI driven employee engagement and recruitment platforms, and pre- and on-boarding solutions. Taken in aggregate, investors are seeing a growing ‘Per Employee Per Year’ fee potential.



This is all good news for businesses like yours. And, you'd think that there would be a significant pool of potential targets for investors/buyers to choose from. Unfortunately, that's not the case. There are simply not enough companies well positioned to stand out from the crowd and ready to maximize their value.

Look out for our next brief “How to position your business to potential buyers/investors” in which we share our experience on changes you can make over the next 12 months to maximize the value of your business. To explore more on current market dynamics and options for your business, please contact us [here](#) or you may also discover more [here](#) on our website.