Hunt Scanlon | Media
Leadership Intelligence

Executive Recruiting State of the Industry Report

Merger & Acquisition Activity

A steady wave of M&A activity has swept across the executive search sector. We take you inside the latest deals to show you how search firms are funding growth, raising capital, seeking out PE growth partners, and acquiring rivals to stay competitive.

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ABOUT HUNT SCANLON MEDIA

Hunt Scanlon Media is the most widely referenced, single source for information in the human capital sector. Our mission is to inform, engage, and connect you — the most avid members of the talent management community — with daily news and expert commentary. We have assembled a team of trusted, experienced reporters and editors to track who is making news and what's driving the market around the clock. And we have one of the best management teams in the field.

Hunt Scanlon Media has been defining and informing the senior talent management sector for over 30 years. Our global staffing intelligence data comes in many forms: daily newswires, annual leadership and state of the industry reports, market intelligence sector briefings, industry rankings and our flagship newsletter Executive Search Review. Our exclusive news briefings, interviews, industry trends reports and rankings, forecasts and expert commentary offer unique insight and market intelligence as we track global talent management developments. Since our inception, talent management professionals worldwide have turned to Hunt Scanlon Media.

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FOREWORD

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As much as some would have you believe otherwise, there's a somewhat cyclical, if not altogether predictable nature to M&A activity. In the simplest terms, industries come into favor as market dynamics and atmospherics create arbitrage gaps in valuation, and they fall out of favor when value-added opportunities become difficult to find. Clearly, this is somewhat of an over generalization, and exceptions do exist, but it serves as a valuable pretext to explaining the state of M&A in the executive search industry.

Historical Perspective:

There's nothing new about mergers and acquisitions activity in the executive search space, but the underpinning drivers have certainly changed over the last 18 months. Prior to the last couple of years, most executive search M&A activity centered around a small handful of large firms picking off niche players to bolster existing competencies or to gain new ones, to expand geographic footprint, or to buy access to new clients. There also existed the occasional role-up attempts from the usual suspects, but with limited private equity, venture capital, or investment banking interest, there just wasn't a lot of transactional momentum that search firms could lean into.

On the sell-side, low valuations on executive search firms have always been an issue for those seeking an exit via sale. Clearly, not every search firm has a desire to sell. However, those that do have that desire, had a rough road to hoe over the years. In most cases, wanting to sell has been anything but synonymous with being able to sell – at least at a decent valuation.

On the buy-side, with anemic growth rates, and lack of industry innovation / intellectual property, there just wasn't much institutional interest in buying search firms.

As much is this is going to bruise some egos, it also merits mentioning that with only a handful of executive search firms operating at scale, most of our industry is comprised of "smaller-ish" firms, led by HR and executive search refugees wanting to become entrepreneurs. These firms have no corp-dev function, and very little sophistication in positioning a firm for sale to begin with. When it comes to professional services, the harsh truth is that executive search has simply been regarded as the red-headed stepchild for decades.

Current State:

So, what's changed? A perfect storm of sorts… A global pandemic creating a seismic shift in demand side pull for talent, creating a corresponding increase in demand for executive search services, which in turn has driven up both growth rates and valuations - there's a mouth full:). All kidding aside, the interesting thing is that while valuations are clearly going-up, there is a perception from the buy-side that they are still undervalued if modernity can overcome a legacy-based mindset.

An industry that was trading around a 1x multiple on an earn out, is now seeing all cash deals trading at 2-4x. What institutional investors are betting on is that a reasonable business thesis can be made for a value engineering play. Investors are hoping that firms acquired at less than 4x multiples can be spun-off at premiums beyond 4x with increased demand, with more switched-on leadership, positive impact of emerging technologies, new product and service offer development, and business model innovation. Oh, how times have changed.

New Players:

In addition to the value-added institutional plays, and organic synergy acquisitions within industry, we're also beginning to see corporate buyers emerge from

adjacent and non-adjacent spaces as well. The long hyped "war for talent" has finally arrived at everyone's doorstep with extreme prejudice.

This phenomenon, along with the bite-sized nature of most search firms at relatively low valuations, has created buyers from every corner of industry and across geographies. These buyers are not looking to acquire revenue at scale with executive search acquisitions, but rather to better manage talent risk/opportunities. Among the new mandates being given to corp-dev is to build more strategic emphasis in evaluating executive search firms as buy-side opportunities.

Think about it like this; executive search firms as a value-added bolt on to payroll and HRIS firms, or to consulting firms like PwC, Deloitte, McKinsey, etc., looking for new and interesting ways to engage current clients or develop new ones, or to corporations with over-burdened and under-resourced talent acquisition groups who are desperately falling behind on filling critical roles ceding competitive advantage to those who mobilize more quickly to find tier-one talent.

The Path Forward:

The bad news is the buy-side interest in executive search firms will be relatively short-lived unless the industry gets its act together. Search firms being led by ex-search partners just running a bigger book of business doesn't serve as an attraction magnet for the buy-side, and the same holds true for ex-HR types just looking to flex their people acumen.

To be clear, size alone will provide no quarter either. Larger firms still embracing outdated industry norms and processes will feel even greater pain ahead as bloat and operating inefficiencies become even more obvious to all. It's not uncommon to hear huge growth numbers currently being touted by some of the larger firms. However, these numbers are in comparison to the prior year, same quarter results – code for comparing their growth to COVID year results – code for inflated and misleading. The same large search firms, some of whom laid-off 30 to 40% of their global workforce during the pandemic, are now hiring again, only to face the same fate during the next downturn.

The search firms being rewarded (and that will continue to be rewarded) are those who refuse to embrace to legacy-based mentality of an industry in dire need of modernization. Search firms must transition into real companies, sustainable companies, companies with offer management, innovation and IP, companies with real leadership teams and succession plans, companies who demonstrate business model innovation, companies that treat their teammates well, companies who build things to serve their clients more than serve themselves, companies that have real revenue, and companies that are scalable.

However, the good news is this; progress is being made on all fronts. New leaders, better leaders, younger leaders are making their mark on the executive search industry. I'm seeing new thinking, better thinking, and better outcomes (internal and external). The executive search industry is finally starting to mature in its approach to building viable, scalable, and sustainable business models worthy of investment attention. While long overdue, I welcome the innovation and wildly embrace the change.

– *Mike Myatt*
Founder and Chairman
N2Growth

EXECUTIVE SUMMARY

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Financial Transformation Underway in Executive Recruiting

There was a time in the not-too-distant past in which private equity firms showed little interest in acquiring executive search firms. Investors preferred entities that they felt held up better under the economic winds and provided more dependable, predictable financial outcomes. But that outlook, and the times, have changed—to put it mildly.

In the past few years, an ever-growing number of private equity firms have entered into funding partnerships with search firms looking to scale their businesses, provide new and improved levels of service, and to fortify themselves against hard times. Among them, **ZRG Partners**, **Diversified Search Group**, **Riviera Partners**, **True Search**, among others, have made headlines for joining with PE firms to acquire both recruitment firms and tangential consulting operations. One by one, these moves are transforming both their individual enterprises, and the search industry.

Nor have the biggest executive recruitment firms stayed on the sidelines: All of the SHREK firms to some degree have expanded their operations through strategic acquisitions in recent years. In October, in fact, **Korn Ferry** announced that it had entered into a definitive agreement to acquire Lucas Group, an Atlanta-headquartered professional search and contract staffing firm, which provides services in direct hire search, retained search and contract solutions to mid-market companies. The firm helps clients fill roles in the areas of accounting and finance, sales and marketing, IT, HR, legal, and manufacturing operations. "This combination is the right move at the right time," says Gary D. Burnison, CEO of Korn Ferry. "Today's workscape is being transformed before our eyes – people working anywhere, everywhere and at any time. Professionals are on the move, Boomers are retiring and career nomads are looking for change – early and often. We are seizing this opportunity to help clients find the right talent who are highly agile with specialized skills and expertise to help them drive superior performance."

In April, meanwhile, **Heidrick & Struggles** acquired Business Talent Group, a leading marketplace for high-end independent talent on demand. The purchase made the Chicago-based firm "the first global leadership advisory firm to enter the on-demand, independent talent space and partner with BTG, a leader and pioneer of the high-end independent talent marketplace," says Krishnan

IN THE NEWS

Cielo Acquires Talent Function to Expand Service Offerings

Brookfield, WI-based **Cielo**, a strategic recruitment process outsourcing firm, has acquired **Talent Function** to strengthen its market leadership and expand its service offerings. Financial terms of the deal were not disclosed. The acquisition formalizes the strategic partnership between Cielo and Talent Function that was announced in October.

"Talent Function boasts impressive capabilities and expertise in consulting," said Sue Marks, founder and CEO of Cielo. "We're excited to have them join our team to further enhance our practices. Our clients, and the market, are looking for more support in creating and delivering on their TA transformation vision. This strategic acquisition is one of the ways we will keep empowering our forward-leaning HR and talent acquisition partners."

Elaine Orler, CEO and founder of San Diego, CA-based Talent Function, has helped global companies transform their recruiting organizations with actionable strategies and technology implementations since 1993. She is also the co-founder of Talent Board, the organization which leads the CandE award program. Ms. Orler will assume the role of senior vice president – technology consulting at Cielo. She will collaborate with Cielo's technology team to help craft the organization's digitization and this vision will shape the path of RPO and talent acquisition.

"We admire Cielo's business success and their passion for meaningful client partnerships," said Ms. Orler. "The synergy between the organizations establishes a path to continue to elevate talent acquisition strategies and recruiting efforts globally."

The acquisition reinforces Cielo's investment in innovation to ensure clients stay ahead of the curve, the company said. "To retain our position as the leading RPO provider, we know we need to continually invest and grow our capabilities in the consulting space," said Marissa Geist, COO of Cielo. "This is an important way to add value for our clients and help them achieve their talent acquisition vision and business goals in this dynamic environment."

"This is an important acquisition for Cielo as it allows the firm to strengthen its market leadership position while expanding an already solid platform of service offerings," said Scott A. Scanlon, CEO of Greenwich, Conn-based **Hunt Scanlon Media**. "With Talent Function, Cielo will go deeper into assisting its clients with comprehensive talent strategies and tech solutions to deliver return on investment and improved business performance."

According to Hunt Scanlon, more merger and acquisition activity is expected across the RPO space in 2021. "The transferal of permanent recruitment solutions to external providers has been accelerating," said Mr. Scanlon. "RPO providers have proven to be essential extensions of a company's HR or resourcing function, and for talent solutions providers and executive search firms this is a big opportunity to provide clients with a more significant and much needed holistic hiring solution."

Rajagopalan, Heidrick & Struggles' president and CEO. "The high-end independent talent market continues to grow, and that growth will only increase as demand for speed, agility and flexibility in closing critical leadership gaps rises."

Data from **Hyde Park Capital**, a middle market investment bank based in Tampa, FL, reveal notable executive search M&A activity over the last four years, in both the U.S. and Europe, with 13 acquisitions playing out in 2018, 19 in 2019, 10 last year, and what could be as many as 13 this year.

The acquisition of search firms is part of a broader trend of PE's growing appetite for professional services firms in general. Global law firm **Mayer Brown** recently reported that the number of M&A deals for professional services firms rose from 76 in 2019 to 89 in 2020, including 19 acquisitions backed by private equity funds, with interest in the sector only growing. The recent sales of the restructuring arms of Big Four accountancy firms KPMG and Deloitte have highlighted the trend. While PE funds have long seen the appeal of the reliable, recurring revenues delivered by the traditional parts of the professions such as accountancy firms, says Mayer Brown, recent years have seen them target acquisitions of firms in other areas of professional services such as advertising and public relations—and recruitment. Other PE-backed deals for professional services firms in 2020 included two advertising agencies, two marketing consultancies, an economics consultancy and a social impact consultancy. Improved revenue modelling by PE firms, says Mayer Brown, has given them increased confidence to invest in subsectors of professional services that are seen as riskier than accountancy and consultancy.

"Some PE firms have developed a real taste for the professional services sector over the last couple of years as they look further afield to deploy capital,"

says Perry Yam, partner and co-leader of Mayer Brown's global corporate and securities practice. "Reliable streams of recurring work make consultancy firms an appealing acquisition for a lot of PE houses. What we've seen over the last couple of years is that rationale being applied to newer subsectors of professional services like PR."

"Building 'platform' businesses is one way for PE funds to scale their professional services investee companies quickly, says Mr. Yam. "Adding another PR or advertising agency to an existing group is likely to be relatively simple and repeatable."

"Some PE houses are also building diversified businesses in professional services," he adds. "There are clear synergies between different areas of professional services like restructuring, consultancy, PR and recruitment – some firms are betting on being able to deliver profitable growth that way."

Nor should anyone expect PE's interest in executive recruitment, and staffing, to fall off anytime soon. "The executive search industry continues to benefit from strong business sentiment and the increasing necessity of these firms in a historically tight labor market," says Hyde Park Capital. "Expected M&A activity is supported by forecasted corporate profit growth with increased corporate restructuring activity that promotes demand for permanent and executive placement services." The investment bank also pointed to challenges confronting the search industry itself: "Over the past five years, executive search firms have contended with increasing competition from in-house hiring and HR departments—thus enabling the need for consolidation among industry operators."

The past couple years have only helped to make the search industry more attractive to investors: The pandemic, of course, upended life as we knew it. Jobs were shed when COVID-19 blew in, but even among those executives who remained

employed, many chose to hold off on considering new opportunities until the dust settled, be it out of loyalty or personal caution. In the meantime, the crisis left companies wanting to replace senior leaders who performed well enough when the waters were calm but came up lacking in the storm. Now, pent-up demand is being released. Throw in, for good measure, the long-percolating and still intensifying shortage of talent, and the result has been an executive search industry that is running full throttle. Many firms are enjoying record revenue numbers. Nor does anyone's crystal ball seem to be showing a slowdown anytime soon.

"The PE space is currently hyper-competitive on many levels: remarkable levels of liquidity exist, the investor appetite for risk is high and a huge number of different investment vehicles are competing for the same deals," says a recent report by Lee Brantingham and Jonathan Nosal of **NGS Global**. "As a consequence, there is an unprecedented demand for leading talent. Establishing a good cultural fit, creating a performance-based compensation structure and ensuring you pick the right executive search partner are crucial elements for success."

PE firms tend to be particularly attracted if a search firm has a technology or AI component aimed at boosting recruiting efficiency and speed, while reducing hiring costs. Early this year, for example, **SeekOut**, an AI-powered Talent 360 platform which helps talent acquisition teams recruit hard-to-find diverse talent, received $65 million in Series B funding led by **Tiger Global Management**, with participation from existing investors **Madrona Venture Group** and **Mayfield**. This capital raise brought SeekOut's total funding to $73 million and reflected 10X growth in the 21 months between rounds, while still being profitable. The Series B round valued SeekOut at close to half a billion dollars. The funding was

IN THE NEWS

Teneo Acquires Ridgeway Partners

Global CEO advisory firm **Teneo** has acquired U.K.-based **Ridgeway Partners**, an advisory firm specializing in executive search, board appointments and succession planning for a wide range of companies. The acquisition follows a string of mergers that have taken place since the global pandemic began nearly one year ago.

"We are truly delighted to be welcoming the Ridgeway team," said Declan Kelly, chairman and CEO of Teneo. "CEOs and leading companies today demand integrated services to help address their biggest challenges and opportunities. We believe talent advisory is a critical component of those services and are deeply committed to further building out our global capabilities in this area to best serve Teneo's clients."

Ridgeway, headquartered in London, has been built from a small, affiliated business into a sizeable independent partnership. And it has been seeking growth and expansion opportunities in the face of the pandemic. The firm has expertise in board appointments and advisory services to both public and private companies, including a special focus on the appointment of diverse directors. Ridgeway's functional expertise include executive committee roles in finance, IT/digital, risk and HR, operating across all sectors. In addition, Ridgeway has industry experience in retail financial services, investment banking, asset and wealth management, insurance, consumer markets, oil and gas, and technology.

Sue O'Brien OBE, previous managing partner, will become chairman of Ridgeway and continue to lead the Ridgeway team as part of Teneo, reporting to Chris Wearing, the chairman of Teneo International. The Ridgeway team will also work closely with Nick Claydon, CEO of Teneo UK, and the firm's more than 300 U.K.-based professionals providing Teneo clients with integrated advisory services.

"Our clients will benefit greatly from Teneo's global network and broad set of CEO advisory capabilities," said Ms. O'Brien. "Ridgeway is a market leader in board-level search and shares a passion for promoting diversity in the boardroom with Teneo. Together, through our combined CEO and board relationships, we can significantly expand our talent strategy and advisory services."

"Sue and her colleagues bring deep expertise in leadership talent strategy and have built long term partnerships with their clients across many industries and geographies," said Mr. Wearing. "Their strong history and track record on diversity is especially important to us and our clients."

expected to be used to expand the operation's Talent 360 platform to encompass internal and external talent – helping companies better retain employees, enable development and growth through internal mobility, and improve diversity and inclusion efforts—among other uses.

This spring, meanwhile, Philadelphia-based PE firm **LLR Partners** invested in **True**, a global executive talent management platform. In outlining the purchase at the time, LLR partner David Reuter inadvertently described many of the very ingredients that PE firms are looking for in a search firm acquisition: "True is building a future where data will help companies make better-informed talent decisions, even beyond hiring and developing executives. Couple this vision with True's incredible culture, strong brand, and impressive growth, and we became very excited about the company."

Put all the factors together and it is clear that the executive search industry has taken on an attractive luster for private equity investors, who have plenty of capital to deploy. In its recently released Q3 2021 "US PE Breakdown," financial research group **Pitchbook** reports that year-to-date, 6,004 U.S. private equity deals have closed for a breathtaking $787 billion. Dry powder stores, meanwhile, continue to soar to record heights. As of March 31, $829 billion sat waiting to be deployed. (Global dry powder, for its part, is at a record $2.286 trillion, as of Aug.18, according to data analysis firm **Preqin**.)

"Deal count and value totals for 2021 are already above the highest-ever full-year numbers, and we predict Q4 2021 will continue apace as bankers and PE firms work through the backlog of deals in their pipelines," says Pitchbook. "The PE dealmaking climate continues to be extremely bullish across the board, from smaller add-ons to mega-deals (deals sized $1 billion or more). One of the key drivers of

this activity is the continued—for now—low-rate environment resulting in insatiable investor demand for high-yield debt. PE firms are taking full advantage of markets awash with liquidity."

In an earlier interview, Jeff Becker, managing director, head of M&A, North America, for global M&A advisory firm **Equiteq**, said this all these currents spell good news for search firms looking to scale. "These trends have led to a perfect storm where newer, entrepreneurial entrants are seriously disrupting what had been a pretty mature and established industry pecking order," he says "And as private equity firms continue to raise larger funds and look for more opportunities in this strong market, they have been more aggressive in funding these emerging platforms."

Many search firms, Mr. Becker said, survived the "downside case" of the pandemic and are now growing at even faster rates as the economy snaps back and the industry grapples with the strong demand. "Search firms also have been successfully diversifying into adjacent areas such as professional interim staffing and leadership consulting," he says, as well as outplacement, culture transformation, coaching, HR advisory, DE&I consulting and assessment. Each adjacency can be its own standalone, multimillion platform.

Mr. Becker also says that further acquisition and consolidation opportunities are plentiful "as the game of musical chairs among industry players" gets fully underway. "We expect private equity firms to continue to be interested in the sector for years to come," he predicts.

Tobey Sommer, managing director of **Truist Securities**, says that a key attraction has been that search firms are capital efficient businesses. "Their strong brands can create a platform for diversification into other adjacencies," he says. "What's more,

valuations are cheap – cyclical contractions in revenue growth create buying opportunities. There's also a potential valuation upside from increasingly ESG-friendly business models and a margin upside from opportunities to take out real estate and travel-related costs." It is, he said, "a highly fragmented global market with significant room for consolidation."

Diversified Search Group in Philadelphia is among the more prominent executive recruitment firms in recent years to accept private equity funding. The firm is now in its third year of backing from ShoreView Industries, a Minneapolis-based private equity firm, which was behind the firm's 2019 acquisition of **Koya Leadership Partners**, one of the nation's top non-profit and higher education search firms. Later that year, DSG purchased **Grant Cooper**, a leading national healthcare executive search firm. And in 2020, **Storbeck Search & Associates**, a higher education focused recruiter, joined the DSG fold. (DSG had previously acquired BioQuest, a San Francisco-based search firm specializing in the life sciences industry, in 2017.) Judith von Seldeneck, the search firm's founder and chair, says this trend has been a positive one for her firm, and executive search in general. "While we were having really great organic growth, for us to get to scale we needed access to capital," she says. "Other firms are in the same position. Especially in today's market you really

IN THE NEWS

ZRG Acquires Turnkey Search

ZRG has made a major move into the sports, entertainment & media sectors by acquiring **Turnkey Search**. Financial terms of the transaction were not disclosed. Renamed TurnkeyZRG, all Turnkey staff and assets merge into ZRG and the firm will continue to be led by Len Perna, the founder, chairman, and CEO of Turnkey. Turnkey will now adopt ZRG's tech-enabled, data-driven approach to the search process which it says will give the newly merged firm a competitive edge in the hunt for sports, media, and entertainment talent. Larry Hartmann, CEO of ZRG, called the deal a "blockbuster acquisition."

Hunt Scanlon Ventures facilitated the introduction and transaction between ZRG and Turnkey, both perennial leaders in Hunt Scanlon's rankings of executive search firms. "Len Perna built Turnkey into the most formidable sports recruiting brand in the nation," said Scott A. Scanlon, CEO of **Hunt Scanlon Media**. "This combination allows ZRG to deliver its 'Moneyball' approach to sports and entertainment, using a proprietary Z Score 'scorecard' to leverage data and analytics into better hiring decisions," he said. "Unlocking hidden value in talent and skills makes this the ultimate Moneyball team. It is a game-changer in sports & entertainment recruiting," Mr. Scanlon said.

"We landed the best sports executive search firm, and the No. 1 talent recruiter in Len Perna," said Mr. Hartmann. "Len started Turnkey 25 years ago, and consistently won gold-standard clients from billion-dollar competitors. Along the way, Turnkey cemented a reputation for integrity, accountability, and prioritizing diversity long before others."

"Selling to ZRG is about synergy," Mr. Perna said. "Synergy going both ways. ZRG has already brought us business from their private equity practice. PE has come into sports in a big way. That helps us. ZRG's higher ed relationships will help us in college sports. Going the other way, Turnkey has many sports clients that own other businesses," he said. "So, they need recruiting specialists in PE, tech, life sciences, retail/consumer, and a host of other verticals and ZRG brings that." Mr. Perna said that TurnkeyZRG will remain highly specialized, "but will now be able to leverage more reach, and more scale to enjoy reciprocal synergies."

"I did this deal to win championships," said Mr. Perna. "The way I look at it, Turnkey is always a playoff team – a small-market, perennial playoff team. We've been under-resourced, up against the Yankees and yet, somehow, we still win our share. The ZRG deal gives us the tech tools, analytics, reach and resources to be the undisputed champ of the space. I shared that goal with CEO Larry Hartmann and he instantly got it."

In 2020, Turnkey Search handled some 56 searches in the sports, entertainment, and media space – a record for the firm in one year. Among them: searches for NFL clubs, including the Atlanta Falcons, Dolphins, Panthers, Rams, Texans, and 49ers; searches for NBA clubs, including the Bulls, Magic, Pistons and Trailblazers; searches for MLS clubs, including the Atlanta United, Cincinnati FC and three new MLS teams; searches for NHL clubs, including the Flyers, Penguins, and expansion Seattle Kraken; and four executive placements at the USA Olympic program (USOPC).

do have to have scale to compete and be viable. And you've got to have the global piece, too. That takes cash and capital. And so for our industry, private equity involvement has really been a welcome event."

"Heretofore private equity had never really been interested in search or professional services," she says, "but Shoreview told us that it was an industry sector that maybe had been overlooked and they decided to take a look and decided that there was decent potential opportunity. The reason that they picked us was they liked our larger sectors—healthcare, education and not-for-profit—and because they saw those as being recession proof. They thought the margins were good and it was an interesting business to invest in."

Unlike many businesses that PE firms traditionally acquire, executive search firms tend to come into the deal in a stronger position in terms of how their business is run day to day, and to whom it is ultimately sold, says Ms. von Seldeneck. "Private equity firms obviously make acquisitions through their funds and after a period of time they sell them to give their investors the return they're expecting," she says. "But if you own assets that go up and down the elevator every day it's a different kettle of fish, and search firms have a little more say about who they're going to sell us to. If they're going to sell us to another search firm that we don't particularly want to be involved with, there's nothing that keeps our people from leaving. I think you have a lot more power in situations like this, which is a real positive."

Larry Hartmann, chief executive officer of ZRG Partners in Rochelle Park, NJ, heads the fastest growing global executive. Backed by RFE Investment Partners, ZRG has achieved sustained double-digit growth through strategic acquisitions, key hires and building out several interconnected and highly synergistic business lines – among them: executive search, interim talent

solutions, and culture transformation consulting. This year alone—a pandemic year, no less—ZRG acquired Turnkey Search, a leading sports, media and entertainment firm; Sucherman Group, a media and entertainment-focused search firm; and Walking the Talk, a consulting and advisory firm focused on culture transformation.

Mr. Hartmann says that after the Great Recession of 2008-2009, many search firms needed four or five years to get back to the revenue baselines they were seeing before the crisis. That, in turn, caused investors who might have been considering the space to back off, perceiving executive search as too highly cyclical for their tastes. "But if we fast forward to the last five or seven years, that perception has changed," Mr. Hartmann says. "I think what companies learned in that '08-'09 period was that you can't be sitting there with a high level of fixed overhead that you can't flex on—high rents in class A office buildings can be anchors in a downturn—and that you need a more flexible cost structure; you have got to be ready for what happens next."

"And I think what happened in the pandemic proved that out. The more nimble the company, the better

IN THE NEWS

Riviera Partners Acquires Arete Partners, Creates Riviera Ventures

Riviera PARTNERS

Acquisitions and consolidations continue to make news in the recruiting industry, with a number of notable purchases in recent months. **Riviera Partners**, a recruitment provider specializing in C-level engineering, product and design leader placements, has acquired **Arete Partners**. Financial terms of the deal were not disclosed. The Arete Partners team will form the foundation of Riviera Ventures and build upon its focus on Seed-to-B stage VC-backed startups. Eóin O' Toole, co-founder and CEO of Arete Partners, will lead the new Riviera Ventures unit. Over the course of the past six years, Arete Partners has placed executive talent for Seed-to-B stage companies with "an understanding that the earliest leadership hires are of critical importance if startups are to reach their full potential," Riviera Partners said in a statement.

"The focus and specialization our companies share makes us highly compatible and will help us meet the existing and increasing demand for tech leadership recruiting," said Will Hunsinger, CEO of Riviera Partners. "With this acquisition and Arete's expertise, we significantly enhance our market coverage of earlier-stage companies while bringing our proprietary service-meets-tech offering to our combined clientele." Riviera Partners is "synonymous with startup recruiting, a position earned through a relentless focus on quality and specialization," said Mr. O'Toole. "The Arete team has become the leader in identifying emerging executive talent at a startup's earliest stages," he said. "I am both excited and confident that the combined entity – leveraging Riviera Partners' proprietary ML-enabled platform – will deliver even greater value creation for our VC partners, clients, and candidates."

Riviera Partners started 20 years ago with a vision to connect technology talent with leading emerging businesses. The company now specializes in placing technology leaders in start-ups and enterprises in the U.S. Over the years, the firm leveraged its specialization in executive technology recruiting by building a proprietary platform that uses machine learning to score, predict and match the best candidate for a company's specific needs and stage. "Data-driven search has become something of a Holy Grail for executive search firms, with a number of solutions that have gone live or are now in the development cycle," said Scott A. Scanlon, CEO and co-founder of Hunt Scanlon Media. The next phase of Riviera's growth will now come with the acquisition of Arete Partners, he said.

Riviera Partners is a global recruiting firm specializing in the technology industry. The firm provides clients with optimal placements by combining recruiter interactions and experience with data-driven findings about candidates. The firm has recruited for key executive roles at Pinterest, Postmates, Tinder, Twilio, Uber, Asana, Dropbox, GitHub, DoorDash, Hulu, and partnered with venture-backed concerns, including Andreessen Horowitz, Sequoia, Benchmark, Accel, Menlo Ventures, KPCB, Greylock and General Catalyst.

Through machine learning algorithms, Riviera Partners identifies specialized, highly qualified candidates that fit an organization's needs from 600,000 professionals across tech geographies. Riviera can often provide a short list of candidates in 30 days and has a track record of over 95 percent success rate. "Speed and efficiency are what clients now want, and demand, of their talent providers," said Mr. Scanlon, "especially in the PE and VC world where time is short and value creation has to happen at lightning speed." Leadership talent, he said, is more often that not the key lever driving it all.

they were able to take advantage of that. Heidrick & Struggles and Korn Ferry, if you look at them, they adjusted and they had a downturn. It wasn't as bad as '08-'09, but in reality the boutiques did significantly better because of the factors of flexible cost structure and just being a little bit more ready for it. So it's changed the view now that the downturns can be opportunities."

In 2008-2009, there were no private equity-backed search firms. "There were the big giant public companies, the partnerships, the Spencer Stuarts, the Russell Reynolds, and then there were boutiques who didn't have capital," says Mr. Hartmann. "So there wasn't that ability to capitalize on the acquisition side. What's happened over the last three, four or five years now is that you have a handful of search firms that have capital, and with that capital, acquisitions are part of the strategy. Now there is private equity backing of a number of search platforms. And there are other private equity backed businesses and adjacencies of staffing, consulting, RPO that are looking at executive search as add-ons to what they do. So it's certainly changed the playing field to where there's a lot more desire for a well-run executive search platform."

Mr. Hartmann believes that the big five firms have largely reached the end of the line in terms of growth. "There's not much more room they can look at to grow in sectors and areas," he says. "Their growth is coming through wage inflation, which drives up the cost, but if you look at the core business of the big five, it hasn't really been growing. What's happening now is that market share is being eaten away and now it's being eaten away by the mid-tier ZRGs and True Searches of the world that are coming in and being able to attract talent and start to pull share away."

Mike Myatt, founder and chairman of **N2Growth**, a Philadelphia-based management consulting and

SPOTLIGHT

Creating a Formidable, Tech Driven Search Firm

Two years ago, when **Caldwell** and **IQTalent Partners** first started working together, it was nothing particularly out of the ordinary. Toronto-based Caldwell was looking for research support when one of the firm's partners recommended the technology-driven talent acquisition solutions firm in Nashville, TN. So it was that Caldwell enlisted IQTalent Partners to help augment its Caldwell Advance business, which focuses on emerging leaders, and for strategic assistance with some of its executive search teams. "We had a great experience," remembers Chris Beck, Caldwell's president. "The quality of work and responsiveness was fantastic. Six months after that introduction we started talking with founders Chris Murdock and Tom Milic, and then David Windley, the president, and one thing led to another."

Caldwell had been looking to expand and diversify and saw in IQTalent Partners the potential to broaden its services for clients, particularly when it came to technological advancements for search. As fate would have it, IQTalent Partners had been rapidly growing and was looking for investment. "That's initially when Chris Beck was introduced to me," says Mr. Windley, a former head of human resources at Yahoo! "And, so, we started a discussion from that perspective. But then as we were working together and seeing the synergies, it made more and more sense to ultimately just merge."

A Complete Solution

"If you look at the combination of Caldwell and IQTalent Partners, we can go to a company now and say we really have a complete solution for your talent acquisition/recruiting needs, from the entry-level professional all the way up through the C-suite and the board," said Mr. Windley. "From a talent acquisition recruiting perspective, we can be a partner for anyone that's responsible for talent acquisition: We can augment their team; we can do executive search; we can provide IQTalent Exchange for passive-talent research. So any of their needs."

Or, as CEO John Wallace puts it: "IQTalent partners does everything that Caldwell doesn't do and Caldwell does everything that IQTalent partners doesn't do, which is a rare circumstance."

"In some ways we feel we are developing a new category," said Mr. Wallace. "I've been in the business for 25 years, and I've never seen a firm like IQTalent Partners. The delivery mechanism, the amount of professionalism, the work they do is extraordinary. There's an incredible alignment of our two firms – both cultures are wholly focused on excellent client service and quality execution, which will translate to extraordinary results for our clients."

Caldwell's 2021 second quarter financial results, released in early April, provide an early indication of just how savvy the move is proving to be: Quarterly revenue climbed to $24 million, a 33 percent jump over the prior quarter – and this was during a pandemic, no less. Meanwhile, year-over-year revenue for the quarter grew 39 percent, the highest in the firm's history. And year-over-year revenue for the fiscal year-to-date saw an increase of 19 percent. New business booking activity has been steadily rising this fiscal year, the firm says, and that growth has continued into the third quarter.

executive search firm, has boosted his firm through acquisitions as well. In 2018, N2Growth acquired an interest in South Africa-based Landelahni Group, an executive search and leadership development firm and one of the largest and most successful diversified professional services firms on the continent. Soon after, Mr. Myatt's firm acquired an interest in Indiana-based predictive data and analytics firm Q5 Division, which has a global reputation for unlocking hidden value and providing new consumer/market insights through intelligent data modeling and predictive analytics.

"Lots of people can write checks, but it's important to know that closing the investment is the beginning of a relationship, not the end," says Mr. Myatt. "You received an investment, you also now have a partner – the two are inexorably linked. The calculus behind the investment is easy, but the calculus behind the humans making the investment can be infinitely more complex. You have choices when seeking an investment partner, and just because you receive a term-sheet or LOI doesn't mean you have to accept it. Assuming there's alignment around valuation, deal structure, event horizons and return hurdles, distribution rights, control or non-control issues, passive or active participation, board structure, decision making rights / delegation of authority, operating goals, etc., you probably have a deal."

"Now the fun begins," says Mr. Myatt. "Can you work with them? Can you live up to or exceed expectations set during negotiations? Is there value and vision alignment between deal principals? Does the

investment partner add value after the investment? Do they bring industry acumen, relationships, and other synergies or is their value solely limited to the investment received? My firm has outside investors and it was the character and quality of the people who made the investment that I valued more than the funds received. I wanted the investors involved in my business because of the non-financial value adds they brought to the table. It hasn't been a problem living with them – it's been a pleasure."

Like Ms. von Seldeneck, of Diversified Search Group, Mr. Myatt points to the value of people as key to the acquisition process. "Most buyers tend to focus on valuation for obvious reasons, and while the numbers clearly have to pencil, it's the people that matter most," he says. "When all is said and done, it's the people that will actually create a truly accretive deal… or not. Put another way, good financial engineering can overcome distressed financials, but people issues are not so easy to overcome. You can't simply price people problems into a deal in the same way that you do with non-human challenges. This is especially true for problems you're not even aware of. We're in the people business first and that applies to acquisitions as well. Fact: People either create/un-lock value or they erode value."

They also are the key to successful integration, and more, after the deal is done. "Any idiot can close a deal, but it's the post-acquisition integration that makes or breaks any buy-side transaction," says Mr. Myatt. "It's the people that will cause integration of brand, culture, communications, clients, systems, processes, technology, finance, etc. to succeed or fail. Understanding the people issues pre-transaction and having your PMO process post transaction focused on the people is the 100 percent key to success. Every buyer says, they have a 'do no harm' approach and that they will allow sell-side autonomy in post-close

Q&A

Hunt Scanlon Media Launches M&A Advisory Network for Recruiters


Chris Hunt


Scott Scanlon

*Behind the scenes, this has been an active year for executive recruitment firms. To meet their advisory needs, **Hunt Scanlon Media** earlier this year launched a new set of solutions to assist search firms and talent solutions providers seeking mergers, acquisitions, or funding connections. In this interview, Scott Scanlon, CEO, and Chris Hunt, president discuss their new ventures business and explain the reasoning behind all of the calls they are fielding.*

Hunt Scanlon Media pivoted into M&A advisory work this year. What led to that shift?

Scanlon: Our business has been aligning search firms for a long time. But increasingly we noted the need to create a singular platform dedicated to helping search firms buy, sell, or fund their businesses. The first acquisition we were behind occurred close to three decades ago when Lester Korn asked us at the end of a meeting in New York to help him identify acquisition targets in the tech space. The next day Hunt Scanlon suggested a small boutique called Deane Howard & Simon which was based up here in Connecticut. Howard Deane, the firm's founder, had a distinct focus on technology searches and Apple was a key client. A few weeks later Korn Ferry acquired the firm. So, we have done this work for years. Last year, we designated a small team around M&A as our workload intensified and that led to the formation of Hunt Scanlon Ventures. Then the pandemic struck in March and by June the advisory business took off. Our team has now migrated the platform to include professional services firms in adjunct talent solutions verticals in addition to executive search. We are fielding calls from across the country as well as the U.K., Europe, and Asia. We are creating a dynamic new marketplace for our client base and we are far and away the best placed advisory firm to do this work. And it dovetails nicely with our brand management and integrated solutions-based media business.

Hunt: As Scott mentioned we have been active in this area for any number of years. There were several acquisitions that we managed following the Deane, Howard & Simon transaction but the work was sporadic and on an 'as requested' basis. A more formal structure here was created this past spring. Part of our expansion into this advisory work reflects some significant shifts taking place in the search industry itself. This is no longer a pure-play recruitment environment for one thing – search firms, wisely, have expanded their service offerings and that has made them generally much more interesting to private equity firms that see bigger potential in broader platforms.

What is the primary catalyst behind the calls you are fielding?

Hunt: In a word, survival. The pandemic hit the professional services sector like a tsunami back in March. It rushed in fast, created untold havoc, and now it is expected to slowly retreat out to sea. In its wake, there has been plenty of devastation. Many search firms are down 30 percent on the year and of course the large, public recruiting firms have taken a beating. But no matter the size, expense structures were not prepared for any of these businesses to be cut in half in the short time frame it happened in – and that is, more or less, what's happened. Employees are being shed and those remaining are working remotely. Long term office lease payments have been the biggest challenge – and all this unwinding cost money. Search firms have come to us looking for merger solutions, acquisition consulting, growth planning, and re-capitalization. There is a mad scramble underway to find new pathways forward to survive.

How does Hunt Scanlon Ventures assist recruiting firms and talent solutions providers specifically?

Scanlon: Our role in the past was to make simple introductions. Now, the work is much more intensive, with most of our team focused on basic, but important deal due diligence. Acquirors are requesting much more information up front – well beyond the financial data requirements. Buyers want detailed analysis on the leadership teams they are potentially buying. They want historical data on consultant productivity. They want insight on compensation plans and culture fit. They want us to advise on additional growth and expansion opportunities. They want information on key rivals. In some cases, they have requested warm introductions to potential clients and talent leaders who could support the new verticals they are acquiring. But before that, they might need us to help build out those verticals. And, of course, many buyers and sellers are seeking an entrée to funding sources. Hunt Scanlon sits at the nexus of buyer, seller, private equity firm or investment bank, and client. We are busier than we have ever been in three decades.

For acquirors, what types of targets look most attractive?

Hunt: Targets that are likely to be most attractive are the ones deemed leaders in their space. And if they have a diversified platform that goes beyond traditional recruiting, that will add interest and value. Any search firm that has carved out a technology niche – anything tied to AI, for example – will add multiples to their value, especially if the technology has proven to accelerate the search process while reaching wider pools of candidates. Speed and efficiency reign supreme.

Scanlon: We are looking for well-run businesses, first and foremost. Well-managed, with consistent books of business and long-standing clients. And if you have done well during this pandemic year, even better. We like to identify sellers who own their markets, where little competition exists as possible. We also look at specializations that can withstand shocks to the system – for example, search firms focused on private equity and venture capital are booming; life sciences is muscling through COVID-19 – and that sector needs talent around the world.

Will M&A activity peak soon in the talent space or will it continue into 2022 and beyond?

Scanlon: We believe the pandemic will be seen as having been the strong stimulant that motivated search firms across the sector to start a dialogue. We are already involved in multi-year deal flows through at least 2023 and we expect that activity to keep us very busy. Before the pandemic, middle bracket firms were already beginning to line up financing to expand their footprint and to compete more effectively for business via M&A activity. Size matters, heft is important, especially for search firms in just one or two highly focused markets. Outside of the SHREK firms, we see at least a dozen search firms emerging in the $100 million-plus revenue range. That is a big shift. And it is happening now. That growth will be partly organic-driven, partly driven through M&A activity – and partly driven through roll ups that will be coordinated from entities outside of the executive recruiting space. PE firms have been circling this business for a while and so have talent solutions providers seeking access to the C-suite. They both will leave an indelible mark on this sector in the coming years.

operations, and for the most part, this rarely plays out in the way the sell-side believes it should. An absence of people understanding/awareness and expectation alignment will kill just about any deal."

John Beauclair, senior principal at **New State Capital Partners** in Larchmont, NY, says that building relationships and rapport between the investor and search firm is critical. Late last year, his firm made a significant equity investment in Horsham, PA-based Klein Hersh, an executive search firm focused on delivering strategic leadership placement solutions for the life sciences and healthcare industry. But the deal for this family-run business didn't happen overnight. After initial discussions, founders Robert Klein and his wife Fern decided that weren't ready to sell. Some might have taken that as a setback, but for Mr. Beauclair and company, that delay was a blessing that gave them time to develop an investment thesis. "We really liked the company, but we hadn't done as much before around retained search," he says. "And so over that time period we really not only developed our thesis but our point of view became that much more entrenched, that if we were going to get into the executive search world, we wanted it to be, first of all, very targeted to a particular industry, and it also had to be a part of the world where being the subject matter expert really matters."

"And in that being able to differentiate amongst talent, and understand the industry, and understand all the people who are relevant in that industry, we realized that this was the kind of business that could trade for a very high multiple eventually," says Mr. Beauclair. "We found that the more generalist a firm was the less likely it was going to be able to trade for that kind of a high multiple. There's certain areas within technology, healthcare, life sciences, financial services, for example, where really understanding a niche in a way that you're way ahead of everyone else,

NEW PLATFORM LAUNCH

Odgers Berndtson Launches Proprietary Intelligence Platform OBDynamics

Odgers Berndtson launched a proprietary intelligence platform, OBDynamics, which uses big-data and machine learning to deliver data-informed talent intelligence and recruitment services rapidly and accurately. Built on a continually updated data lake of 1.1 billion personal and corporate records, all of which are gathered in accordance with the most stringent international privacy regulations, OBDynamics' AI-powered platform augments Odgers Berndtson's traditional offerings, allowing consultants to provide highly detailed talent mapping and analytic services alongside top-end executive and middle market search.

"As the most extensive talent intelligence tool in the search industry, OBDynamics allows us to separate meaning from the vast web of digital noise, and enables our partners to find talent and analyze trends with heretofore unimaginable precision," said Steve Potter, CEO of Odgers Berndtson U.S. "For our clients, OBDynamics breaks down into three primary utilities," Mr. Potter said. "The first is our Talent Intelligence offering, in which we use OBDynamics to build custom analytical maps of things like skills and talent distributions, compensation variation, career progressions and pipeline analyses. The second is a product we call Talent Streams, which is often used in tandem with our Talent Intelligence service. Essentially, it is a highly customized name-generation product in which we provide tailored shortlists of ready-to-hire mid-level candidates to our clients."

"The third product," Mr. Potter said, "is something we're calling Augmented Search Intelligence, and it is baked into every search that we do now. Essentially, OBDynamics' research capabilities help us execute traditional executive searches faster and more accurately than before, generate more diverse fields of candidates, and find the proverbial unicorn candidates that no one else can find."

"This is, by far, the very best talent intelligence mapping platform we have seen," said Scott A. Scanlon, CEO of **Hunt Scanlon Media**. "Steve invited our team in for beta testing over the winter and our analysts were blown away by the capacity this new system has for finding candidates with accuracy and precision." Mr. Scanlon said that while OBDyanmics will be an unequivocal game-changer for corporate clients, it is likely to gather a strong following with private equity talent leaders who have the added pressure point of speed when recruiting for their C-suites, mid-ranks, and teams.

"Getting talent decisions right is one of the stiffest challenges PE firms and their portfolios face today," said Mr. Scanlon. "This new offering from Odgers is a highly disciplined, data-driven approach to recruiting talent and it moves the ball forward and raises the bar for the entire search industry," he added. "OBDyanmics gives Odgers a substantial toe-hold in the talent AI space, and it speeds up an outmoded process."

PE investors, he said, who have been heavily courting executive search firms of late, "will eat this up." Odgers recently worked with an international electronics company to find a data scientist who had recent experience as a Silicon Valley-based streaming company, spoke Hindi, had professional and business connections in Western India, was willing to relocate to the company's offices in Mumbai, and had the mixture of technical and leadership expertise to build and manage a new team from scratch. "Talk about a needle in a haystack," Mr. Potter said. "Before OBDynamics, this search might have taken a year; we completed it in six weeks."

and that you're truly the subject matter expert, you're building all those relationships, and that's what drives value. And so when they came back to us and said, 'Okay, now we're ready to have that conversation,' we were ready to hit the ground running and get the investment closed."

New State Capital Partners entered discussions with Klein Hersh knowing that there could be risks in such an acquisition. "We recognized that it's a people-oriented business, and that there's risk to having what's known as 'elevator assets,' that the best assets in the company get up at the end of every day and take the elevator down to the ground floor and go home. If you lose those key people, you're going to be in trouble. But I would say that private equity in general seems to have a lot of interest in business services; those tend to be people-driven type companies. And so in this case, we just had to make sure that the key owners in the company still maintained enough equity that they would they would still be committed to the business."

"By the way, even with all the structure and all the rollover equity in the world, it still comes down to building that relationship," says Mr. Beauclair. "And so we did the right things in the way we structured the transaction, the way we kept CEO Jason Hersh, COO Jesse Klein and chief development officer Josh Albert very much involved as owners and leaders of the business. They're absolutely running that company and doing a phenomenal job doing it. But we also knew that we had to build a strong relationship with them. And that's what we've done."

"Across every different kind of private equity business you might invest in, you need to build that relationship and show that you're worthy of their trust," he adds. "That took time with the team at Klein Hersh because they built a great business, they love that business, and to bring in an outsider as their partner, it was going to take time to make sure that they were comfortable and that we were comfortable. And so during that year in which they decided to pull the company off the market, and then ultimately came back, not only did we spend that time solidifying our investment thesis, but we also spent that time getting to know that team more and building that rapport. We've got a great relationship with them today, and it's one that's been built over a relatively long period of time."

Tempting Ventures, a recruitment investment firm based in London, also emphasizes the importance of relationships. Yet unlike many firms, the London-based investor is unusually blunt upfront with its would-be partners. On its website, Tempting Ventures minces no words: "Unlike some other recruitment investors that will sell their services until they are blue in the face, whilst telling you that you'll keep complete independence and exclusively run the show; we prefer a no bullsh*t discussion about how our partnerships work," it reads. "We have a market and investment strategy that is devised to create value; therefore, it's important that investees are bought into our strategy from the outset. We need to be a good fit for each other."

"When you're acquiring a search firm you're acquiring is a collection of relationships," says Ryan Cleland-Bogle, the firm's CEO and founder. "And in that lies a lot of risk. The bigger risk is actually your relationship with the management team, because a search business is a collection of people. They go up and down in the lift every day. And so having been an

ambassador for a number of years, and having run the seed capital side of staffing at a private equity firm in London, I think that really honest conversation with management on the way in is important: Are our goals aligned? Are we happy to operate in this way? Do we understand that we're going to be ideally married to each other until a successful divorce? Do we understand that it won't always be a bed of roses, and we'll have differing opinions?"

"You should have absolute honesty about what the operating model is going to look like, what the relationship's going to look like, what the positives are going to be, what the pitfalls are going to be," he says. "That gives you a much better chance of success. In investing, we try to take a really open approach to working with management teams about what it's like to work with an investor because if you look at the track record of staffing deals over the last number of years some of them just don't work because the management team thought they were getting into one relationship and realized they were in a different one. It's really important to have sort of clarity of what the relationship will look like, on the way into the deal."

In certain ways, recruitment firms create unique challenges for an investment firm. Search firms tend to develop strong relationships with their clients, both in terms of working with their leadership but as part of their business model as well. "As an investor that's really exciting," says Mr. Cleland-Bogle. "You have that opportunity to really partner with clients. But naturally, because that of the space you're operating in, it's very relationship dependent. So there are keyman risks whenever you're requiring a search firm. You may have a 50-person search firm and find that 60 percent of the revenue is in the hands of 10 percent or 20 percent of the people. That can be something that investors need to be able to get over

or have contingency plans around, I think that's one of the biggest challenges, but equally, it's the biggest opportunity because of the strength and depth of those relationships."

Another critical ingredient is culture. Mr. Sommer, of Truist, says that culture matters in every type and size of merger or acquisition. "Culture is a big deal," he says. "For example, culture is a significant factor when you buy something that is in an adjacent market but isn't something that your existing staff is working on a day-to-day basis. One would argue that it's less so because there's less risk of conflict with employees of your business or employees of the target feeling like they might be at risk of being displaced as a result of an acquisition. That's less likely to be an issue when you're expanding into a new line of business."

"Culture is something that all good acquisitions start out with. Things can get sprawling, and you can have misalignment of incentives, whether it's at the executive or board level," he says. "You can have empire building, where management teams can simply make more money because they're managing more EBITDA than they've grown the income statement, even though over a long stretch of time the collection of acquisitions that end up being assembled don't end up creating a lot of value. A CEO who's managing $100 million EBITDA will command a certain degree of compensation. But if you're managing $500 million in EBITDA, you're going to make more. The good thing about that is that over time, something like that kind of risk will reveal itself. We look at driving returns higher, whether it's return on investment capital, as significant. And I think investors want to see things that are additive to an addressable market, to a company's organic growth prospects, and provide opportunity for margin expansion. So there are a lot of boxes to check.

IN THE NEWS

Caldwell Acquires IQTalent Partners

Caldwell has signed an agreement to acquire **IQTalent Partners**. Financial terms of the deal were not disclosed.

"For 50 years, Caldwell has been connecting clients with transformational talent. With this merger, we are setting our sights on transforming the world of talent," said John Wallace, chief executive officer. "IQTalent Partners' unique service model and innovative use of technology, paired with Caldwell's expertise, network and resources will allow us to serve our clients in a more integrated fashion and allow us to have a greater impact on their long-term success, which remains our primary mandate."

Founded in 2009, IQTalent Partners provides talent acquisition solutions to 300 corporations from Fortune 500s to startups across a wide range of industries and functions throughout North America, Europe, Australia, Asia, and South America. The firm recently launched IQTalent Xchange, a market concept using advanced artificial intelligence (AI) combined with human expertise to create a passive candidate marketplace. The proprietary platform includes more than 300 million global professionals, offering its customers unprecedented access to the most qualified candidates.

"At IQTalent Partners our mission is to find a better way for companies and candidates to find a match," said CEO David Windley. "The merger with Caldwell strengthens our offerings to our clients at the executive search level and expands our access to a wider range of industry expertise, giving our clients one trusted go-to partner for their professional level recruiting needs, all the way through to the C-suite and boardroom."

"IQTalent Partners has seen explosive growth in the last six years, with a CAGR of 45 percent per year," Mr. Windley said. "Coupled with the power, network and resources of Caldwell, we expect to see accelerated growth. Operating as two distinct brands with two different service offerings and pricing models, the two firms will take a collaborative approach to provide a unified and seamless client experience." The firm ranked No. 30 on the most recent Hunt Scanlon Media roster of the 50 largest search firms, reporting revenue of $15.5 million, a 25 percent rise over the previous year. At the time the firm reported 56 consultants in two offices.

Not every deal does it. And those are some of the risks because if you don't check enough boxes, then investors may not embrace an acquisition and potentially with good reason."

Jim Zaniello, president and founder of **Vetted Solutions**, a Washington, D.C.-based executive

search firm specializing in association and non-profit recruiting and consulting, says the short answer to why executive search firm acquisitions are on the rise is simple: "M&A activity in executive search is so robust because we are a growth industry," he says. "There is enormous demand for what the executive search industry provides as organizations look to a post-COVID world. They need exceptional individuals capable of dealing with a brave new world and all the leadership challenges that come with it."

"Clients look to us for more than just a roster of names," says Mr. Zaniello. "They want leadership solutions right for a changing world. Our industry is responding to that by a relentless effort not just to meet that demand but just as important to get even better at what we do. That often means we must grow and expand in all sorts of ways – in the size and diversity of our staffs, in our market reach, in our operational efficiency and more. M&A is an obvious way to speed that process – and keep our industry responsive to increasingly demanding client expectations for efficient, successful searches."

Also looming large is the talent shortage. "The resurgence in demand for our services means we need more talented search professionals than ever before," says Mr. Zaniello. "I suspect the desire to build bench strength may be a larger factor in some M&A decisions than we may realize. M&A is a fast way to scale up for today and for the future."

Others, however, have their doubts that the recent M&A activity is of any great significance. "I do not believe we are seeing an increase in acquisitions in the world of search, but rather an interest from a lot of small boutiques to monetize their own positions in the marketplace," says David Nosal, chief executive officer and managing partner of Wilmington, DE-based NGS Global. "In this hot market, many search firms often try to find ways to monetize so that they can

find that ultimate exit. Over the past three decades I have seen this scenario play out many times and do not personally believe that it is any more prevalent today than it was some years ago. There appears to be a significant number of private equity firms today that have an interest in investing in different types of professional services companies. Executive search is just one vehicle that they are looking at to create bigger platforms within a very robust industry."

"The bottom line for me is that there are very few search firms that are worth investing in, because a platform is only as good as the owners of the business," says Mr. Nosal. "I have rarely seen owners sell to another executive search firm and make long-term commitments to the acquiring firm. Once those assets walk out the door, the full value of that acquisition diminishes significantly."

Eric Frickel, managing director of executive search firm **BrainWorks** in Providence, NJ, says that although PR firms have been rolling up executive search firms with the traditional buy and build model, it remains to be seen if this will result in positive returns. "Culture and compensation issues can sometimes be prevalent and retaining key search leaders will be critical in such a competitive market we are currently in," he says.

IN THE NEWS

Mill Rock Capital Takes Investment Stake in The Execu|Search Group

Mill Rock Capital, a growth and operations oriented private investment firm, has taken an investment stake in **The Execu|Search Group (TESG)** in partnership with Intermediate Capital Group plc (ICG). Execu|Search Group founder Ed Fleischman will maintain a minority investment in the business and remain on the board of directors. Mill Rock's investment will support the continued growth and expansion of the search firm. Financial terms of the transaction were not disclosed.

"This is an exciting development for TESG's clients and dedicated team members. We are eager to build upon our strong momentum and continue to grow as a leading specialty staffing firm," said CEO Larry Dolinko. "This transaction will facilitate the achievement of our growth objectives, continued geographic expansion, and enhancement of our service capabilities with new and existing clients," said firm president Kyle Mattice. "We are delighted to partner with Larry, Kyle and the entire TESG team as they continue to build upon the company's strong and technologically advanced platform," said Charles Heskett, incoming executive chairman and senior partner of Mill Rock. "We have been impressed by TESG's long term performance, most recently amidst the pandemic, during which the company rapidly scaled to meet critical healthcare requirements in more than a dozen states."

"TESG is a client-centric firm with a differentiated business model, and we are thrilled to partner with Mill Rock and management to support the next stage of growth and national expansion," said Justin McDougall, ICG principal on the strategic equity team and incoming member of TESG's board of directors.

Thomas Staudt, ICG operating partner, will also join the board of directors and focus on helping the search firm drive growth and commercial excellence. In addition, Blair Johnson, Jeffrey Long, Adi Pekmezovic and Christopher Whalen have joined TESG's newly formed board of directors.

William Blair & Company, Houlihan Lokey, Credit Suisse Securities (USA) LLC and Covington & Burling LLP advised Mill Rock Capital on the transaction. Weil, Gotshal & Manges LLP advised ICG. Houlihan Lokey, Latham & Watkins, Citrin Cooperman, Kelley Drye & Warren LLP and Zukerman Gore Brandeis & Crossman, LLP advised the company.

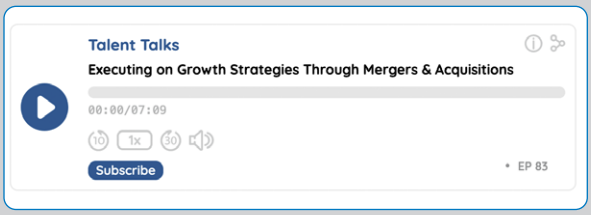
Founded in 1985 and headquartered in New York City, The Execu|Search Group is an executive search firm that provides direct hire recruitment, contract and staff augmentation, and workforce solutions. It provides high-demand, short-supply professional skill sets across a diverse range of market segments, including healthcare, technology, pharmaceutical, and professional services. The firm has filled more than 100,000 open positions on behalf of over 35,000 clients and has a nationwide presence.

Last year, Execu|Search Group named Mr. Dolinko, current president of the professional services temporary division, to succeed Mr. Fleischman as CEO. With over 20 years at Execu|Search, Mr. Dolinko has extensive experience in client management, relationship building, negotiation and sales. Believing that employee development is critical to stronger teams and continued business success, he has also spearheaded many career advancement initiatives at Execu|Search. Mr. Fleischman has remained with the firm in an advisory capacity as executive chairman.

PODCAST

Executing Growth Strategies Through Mergers & Acquisitions

In this episode of 'Talent Talks,' **Hunt Scanlon Media** host, Rob Adams, is joined by Larry Hartmann, CEO of **ZRG**. Mr. Hartmann discusses increasing M&A activity in executive recruiting. He also shares ZRG's approach to deal making and gives additional insight to his presentation at Hunt Scanlon's M&A recruiting conference. Listen Now!



Having come from an investment banking background and private equity earlier in his career, Mr. Frickel believes that developing and implementing cutting edge executive search solutions and disrupting traditional executive search is a better way to grow in this market. "Companies are seeking better and more sustainable search firm alternatives and know they are out there," he says. "Search firms that are removing barriers to success, have the most cutting edge technology solutions, and foster great culture and team oriented environments are going to lure away the industries best search leaders. After all, it's a people business first and foremost and we are seeking top performers vs. buying revenue."

While many firm are pursuing the acquisition strategy to build capabilities and drive growth, BrainWorks has taken a different path. "Our rapid growth has been a result of disrupting the way traditional retained search has been executed," says Mr. Frickel. "We feel that creating true partnerships with sponsors and middle market companies has been a better way to grow while building deeper relationships with our

partners. Our focus first and foremost will always be on quality search execution driven by senior search professionals and dedicated search teams providing continuity to the client. We expect and our results show that C-suite search can be done with precise execution in 60 days or less. We also feel it's critical that we remain as performance based as possible. One of our biggest differentiators is driving talent acquisition down town the talent stack where this is typically a void in capabilities and 'A' players. This has allowed us to create a team-building search product that is very unique to the market."

Nicholas MacDonald, managing principal and head of the New York office of consultancy firm **Tempting Talent**, says that COVID-19, its global impacts and the response of the U.S. federal government, have played a big part in the recent surge of acquisitions. "On one hand we've seen an incredible resurgence in national hiring due to federal government impacts and push to get the U.S. economy moving," he says. "Only some and not all search firms survived the 2020 pandemic and so the firms that have survived – mostly well-established or large search entities - are bearing the fruit of their stability by taking advantage of this incredible velocity of hiring occurring right now. This time last year was a blood-bath for unprepared search firms who lacked proper strategy to navigate significant crisis or had the infrastructure to do so. They have either folded or have sought investment – either through investor(s) or acquisition."

"This has made it an opportune time for large search firms – predominantly multi-sector— to expand into traditional areas or new areas given their existing internal strategy and infrastructure," says Mr. MacDonald. "What is accelerating this beyond measure is of course the current demand for hiring. Search firms are expanding not only to hire more qualified people, but to take over new search

technologies, databases and access to niche human capital – whatever will make them competitive enough to win new business and close searches. There has never been a more in-demand time to do so."

Ruben Moreno, founder and HR and higher education practice leader of **Blue Rock Search**, with offices in Sarasota, FL and Knoxville, TN, also points to the impact of the pandemic. "It created massive change for the clients of executive search firms and affected HR functions at every level, including talent acquisition," he says. "Coupled with this, candidates for make-or-break leadership positions began to look at work differently, and they started evaluating opportunities using a different set of criteria. Best-in-class talent asked more questions about corporate culture, DEI initiatives, environmental sustainability, and a company's stand on greater issues affecting society. For executive search firms, this created more need for our type of specialized expertise. An acquisition is the fastest way to leapfrog over labor constraints because it brings you people resources and an expanded contact base."

"Everyone in executive search has recognized recruiting in 2021 and beyond will be different than it was in the past," says Mr. Moreno. "Some owners felt they had made their money. Instead of going up another pressure-packed learning curve, they decided to enjoy the fruits of their success and sought buyers for their firms. Other companies looked at what it takes to compete and win in the market. An investment in marketing is required if you want to expand beyond your circle. It's important to map a positive experience for clients and candidates, leading them to the right intersection between both sets of goals and cultural expectations. And if you need the people resources to execute in a timely manner. The right merger allows you to expand competencies faster than when you rely on organic

growth. When you have many search firms looking for buyers and many search firms interested in buying, the result is increased M&A activity."

Several emerging industries look like they will provide great opportunities for executive search, which will only boost the attraction of would-be suitors, says Mr. Moreno. "Renewable and alternative energies will see growth as more climate change evidence is brought to light," he says. "Cybersecurity is huge – and there is more demand for both skills and products after recent ransomware attacks made the news. We expect growth in CBD products and the cannabis industry. And after the events of 2020, technology products that support hybrid work and telehealth will get a boost. A track record in any of these industries could make a search firm a target for M&A."

Geoff Hoffman, CEO of Chicago-based **DHR International**, says that the rapidly changing dynamics of the labor markets has created opportunities and needs for firms to scale rapidly to meet the client demand. "In such a competitive marketplace it's more critical than ever to service clients quickly and with deep industry expertise," he says. "A pure organic strategy is usually more deliberate and time consuming but also reduces integration risk which is clearly an off-set."

Every acquisition requires thorough deliberation, with any number of key factors to keep in mind. "For DHR, first and foremost would be the cultural alignment and post-merger integration plan," says Mr. Hoffman. "A business can look a certain way on paper and through a financial lens but if the people don't easily see the benefit in the newly combined company the resulting performance will almost certainly fall short of expectations."

"We always look for firms with industry experts that are highly regarded by their client base and peers in the search industry," he says. "Second, we like to

IN THE NEWS

Corsica Partners Acquires Benz International Group

Acquisitions and consolidations continue to make news in the recruiting industry, with a number of notable purchases in recent months. Recently, Sarasota, FL-based executive search firm **Corsica Partners** acquired **Benz International Group**. Financial terms of the deal were not disclosed. Founding partner Chris Benz was named managing director and search-for-search professionals practice lead. "We are delighted to have Chris and the Benz International team join our Corsica family," said managing partner and CEO Dan Veitkus. "As a full-service, talent acquisition and advisory firm, we are uniquely qualified and deeply committed to extend versatile options to our private equity, venture and family office backed companies," he said. "We understand there are times when the preferred solution for our clients may be to scale up their internal recruiting capabilities by adding exceptional recruiters to their team and by leveraging our RPO capabilities. Our investment in the search-for-search professionals practice underscores our commitment to deliver agile solutions that provide our clients with optionality and flexible choices."

The search-for-search professionals practice will offer investors and growth clients additional specialized services, including recruiting in-house, search professionals to scale internal teams as well as recruiting executive search professionals for search firms.

"The search-for-search professionals practice demonstrates Corsica's commitment to clients extends well beyond the short-term vacancies to be filled," said Mr. Benz. "Our focus is to provide long-term, sustainable growth capabilities that can scale and modulate based on the client's requirements. Corsica has been serving customers with innovative talent acquisition solutions for more than 15 years and I'm excited to join the firm and to lead the Search-for-search practice to continue the tradition of delivering measurable value to clients and candidates."

Founded in 2006, Corsica Partners is an executive search, recruitment process outsourcing (RPO) and growth advisory firm. The firm serves Fortune 500 brands and privately backed technology companies across the globe. Its partners are all former technology executives who spent decades building, growing and leading businesses. Corsica Partners' search expertise extends from the boardroom to the back office, encompassing roles in the C-suite to building and scaling across business functions, including sales, marketing, finance, human resources, engineering and product teams.

find people that value a team-oriented and long-term view of both client and internal relationships. Search consultants and leadership consulting experts that are involved in their communities philanthropically and take a balanced approach to meet the demands of their work and family are highly valued at DHR."

Steve Hochberg, founder and CEO of life sciences focused recruiting firm **Caliber Associates**, says that to make sure the new business fits with your overall strategy, it is critically important to have a keen appreciation of what you are looking to achieve: "Is the primary driving factor to expand your business into new industry sectors? Is it to expand your organization's reach into new geographic regions? Is it to expand the level of strategic searches your organization takes on? Is it to expand your search firm's execution capabilities? Or is the primary focus to expand revenue stream? Based on clearly defining your strategic objectives you are in a much better place to assess and evaluate the fit with a possible partner to acquire. Engaging the senior leadership of the firm to be acquired and understanding their reasons for seeking a merger or acquisition will go a long way to defining if their strategy is aligned with yours."

"Factors such as understanding client base overlap, financial contributions to revenue numbers, partner production, and overall company philosophy are all key items to evaluate in accessing the fit of merging companies. One other key area to evaluate is the retention strategy of key partners to make sure it is aligned with the overall leadership structure of the newly merged firm."

A deep understanding of the capabilities of the organization at each level of the search process is critical in evaluating an M&A opportunity, says Mr. Hochberg. "Additionally, a clear understanding and appreciation of the specific focus of the firm in terms of level of searches, search approach, success rates,

etc.," he says. "There should be a clear expectation of the financial performance/ contribution the partner company will bring to the table. Other factors to consider would include the reputation of the firm in the marketplace, taking into account relationships established with their clients, a thorough evaluation of repeat business, and a keen understanding of the duration of client relationships is critically important. Another metric that should be considered is the reputation the firm has with candidates, identifying issues of responsiveness, professionalism, integrity, etc. are all vitally important."

Mr. Hochberg says it is critical that the strategic leaders/partners of the firm can work well together and can embrace a shared philosophy with respect to a myriad of issues. These include key steps in the search process, investment in technology, training and development of colleagues, performance metrics, and business development/ marketing/ branding strategies. "Perhaps the single most important consideration is to ensure that there is an alignment of goals and expectations of both parties and a clear definition of integration strategy," he says.

Juan Gaitan, founder and chief experience officer of **Talento Human Capital Management**, headquartered in Coral Gables, FL, points to "culture, commitment to recruitment excellence, account management process, customer satisfaction metrix, EBITDA," as key factors to consider when evaluating a merger or acquisition. If his own firm was considering a merger, he would want it to be with a business that had "a strong emphasis on people development, and a customer base that doesn't see life without them." An acquisition, he says, would require "recruiting horsepower with a business mindset and great customer relationships."

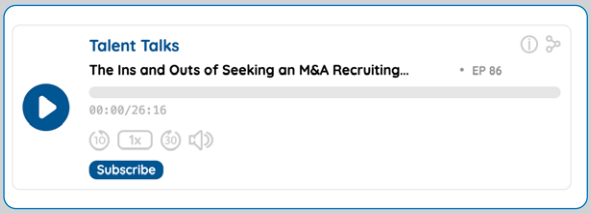
Tim Tolan, founder and managing partner of **The Tolan Group** in St. Augustine, FL, says that several

PODCAST

The Ins and Outs of Seeking an M&A Recruiting Partner

TALENTO

In this episode of 'Talent Talks,' **Hunt Scanlon Media** host, Rob Adams, is joined by Juan Gaitan, CEO of **Talento Human Capital Management**. In this episode, Mr. Gaitan discusses the process an executive search firm should follow when looking for an investor or M&A partner. Mr. Gaitan then shares what Talento seeks in a target firm and shares his views on how culture impacts the merger & acquisition process. Listen Now!



factors must be considered when evaluating an acquisition strategy. "First and foremost, the firm must have the underlying infrastructure to allow them to scale through acquisition," he says. "The targets must be synergistic to the acquiring firm and allow them to grow while providing built-in scalability through having an acquisition strategy. Each acquisition should have a solid (and active) client base and a brand to leverage. Lasty, the firm must have an owner or owners that plan to stay and continue to grow, and a layer of management that plans to stay post acquisition or the acquirer should walk away."

Due diligence is critical for any acquisition, and search firms are no exception, says Mr. Tolan. "There are several areas of concern but some of the biggest are the underpayment of compensation to the owners to highlight an over-inflated profitability representation," he says. " Often the owner will underpay themselves in salary/bonus and opt instead to take shareholder distributions instead of W-2 income. A market-based salary must be considered

when evaluating a company because someone will eventually have to occupy the leadership chair and be paid a market rate to lead a firm to its next level of growth."

"Some firms have minimal infrastructure or the next layer of leadership since many of these mom-and-pop firms are comprised of flat organizations," says Mr. Tolan. "While being flat saves on overall costs, an acquirer will have to bear the cost of adding this layer of leadership and this cost will certainly have an impact on valuation."

Other obstacles can also emerge. "The other thing that can cause problems are the way accounting is done and how different costs are calculated and allocated," says Mr. Tolan. "Non-compete is another deal killer if the owner did not have their key producers sign non-compete agreements. Finally, who owns the relationship with the client? Often times that could also be a key producer and the acquirer needs to make sure there are non-solicitation agreements in place to prevent an employee from starting a new firm and poaching their clients and employees which could be a real disaster for both parties."

David Nosal, of NGS Global, also stresses the importance of due diligence. "I have been part of search firms with an aggressive acquisition strategy and can only think of only a few transactions that were truly successful," he says. " One of the biggest challenges in search firm acquisitions is retaining the partners who made the acquired firm successful beyond the lock-up period. A significant number of search firm owners who benefitted monetarily from the acquisition will either leave after the lock-up period to start another search firm or will retire. The due diligence process is therefore not just about the transaction itself, but about finding the stickiness that will keep all the high-performing partners together for

IN THE NEWS

Madison MacArthur Merges with The ExeQFind Group & The Qualifind Group

MADISON MACARTHUR

The ExeQfind Group, based in Atlanta and San Diego-based **The Qualifind Group** have merged Toronto-based executive search firm **Madison MacArthur Incorporated** into its search and recruitment platform.

The dual practices, according to Sylvia MacArthur, president of Madison MacArthur, are now better positioned to provide expanded sector expertise, consultant depth, cultural fluency, and geographic reach while retaining a boutique approach to client engagement.

At the core of the dual practice model, she said, is the ability to serve the talent needs for multinational and SME organizations at both the mid-management to senior executive level as well as at the functional specialist tier.

The ExeQfind Group, led by Warren Carter, has had an established footprint across the Americas for more than 21 years. The firm's sister practice, The QualiFind Group and led by Carlos Acosta, shares a similar track record in technical and professional recruitment. Both firm's core areas of expertise have been strong in the broader agribusiness, ag technology and industrial/manufacturing sectors across the U.S. and Mexico. Madison MacArthur adds expertise in consumer goods, retail, energy, healthcare, financial services, and real estate.

"This merger will enhance The ExeQfind Group's ability to grow and expand into previously untapped markets," said Scott A. Scanlon, CEO of Greenwich-based **Hunt Scanlon Media**.

"The 2020 merger with a Sao Paulo firm owned and led by Hamilton Teixeira was integrated to add to the bench strength of our existing resources and expertise in Mexico," said Mr. Carter. "Since then, we sought to further expand our ability to serve all of the Americas and the Madison MacArthur merger accomplishes this for us. As with our earlier merger with our Brazilian partner, we knew from prior collaborations with Madison MacArthur, that there were strong synergies between our firms."

the long term. I am personally not a fan of acquiring search firms because there is absolutely no guarantee that the same team will be in place within one year after their required contract terms."

"Other due diligence issues include understanding who is bringing what expertise and relationships to the new organization, what partners are truly successful in the business, and making sure you

don't burden yourself with incremental operating costs by acquiring assets that are over-leveraged in their current environment."

Matt Peterson, managing director of hospitality-focused executive search firm **AETHOS Consulting Group**, says that the biggest obstacle to an acquisition is valuation. "There is not a one-size-fits-all model to evaluate an executive search firm," he says. "The approach, and the due diligence, needs to align with the size, scope and structure of the firm that is being sought. As an example, a valuation of a 'mom and pop shop' will be heavily weighted on goodwill, network and relationships; whereas a firm that focuses on the use of technology and transactions will be more heavily weighted on process, closes and overall EBITDA."

"Goodwill and relationships are the most challenging to understand, evaluate and ultimately value," says Mr. Peterson. " It is in these cases where the nuisance of executive search comes in to play. It is not just about merging or acquiring the principles and individuals. You must dig a layer deeper to the clients, and the clients' goodwill to truly understand and value the long-term gain."

Due Diligence, says AETHOS, cannot be overemphasized: "Like many courtships, it's easy to focus on the positive, synergistic benefits that will result from entering into a marriage," says managing director Juliette Boone. "However, it's critically important to invest in extensive due diligence when entertaining an acquisition or merger; this investment will uncover where alignment exists and where potential conflicts may arise. Many companies are tempted to avoid or gloss over the more difficult questions such as: A) what are our company's values, and how do we live by those values each day with partners, employees and customers. B) What does our IT infrastructure look like and how is it employed

in our practice. C) What is our financial structure, who are our most valuable clients and where are there overlapping interests? D) How do we engage with clients, employees and each other as partners? Some companies fail because due diligence requires a great deal of time and a solid plan."

"Furthermore, it can be tempting to engage in due diligence-type conversations across the partnership level only; however, investment in a 360 degree engagement can be revealing," says Ms. Boone. "Such a process can reveal where both consistencies as well as discrepancies lie from the perspective of employees, partners, and clients. Companies may avoid this type of deeper exploration for myriad reasons: 1.) They do not want to reveal to employees or customers that they are in merger discussions because they don't want to create an appearance of instability or impending transition; they may want to avoid starting a rumor mill; 2.) They may be concerned about unfavorable information or mis-information about their organization being shared with the organizations their courting; 3.) They do not want to disclose financial or proprietary data in fear that this may be leaked or used against them competitively should the merger not close; 4.) they simply may be unaware of what questions to delve into (despite being master interviewers for their clients)."

Looking to the future, Mr. Sommer, of Truist, says that diversification is quite likely to continue, at least amongst the largest players. "It's difficult to speak to small- to mid-sized players that are more boutique in nature, because they're substantially more diverse," he says. "I do think that diversification can help the executive search consultant earn more money, if they're able to have a cup of coffee with the CEO that they placed in a job six weeks ago, or play around a golf or do a Zoom call if we're in the middle of a

surge in coronavirus cases, and ask that CEO, 'How's the new gig?' And that CEO may say, 'I'm glad I took the job, but boy do I need to revamp my sales force.' And if you're involved in organizational design and recruitment process outsourcing, if you have consulting capabilities to understand and identify and frame what good looks like, then that executive search consultant may say, 'Hey, we can help you with this; it won't be me, but if you're game I'll connect us with Sally and Bob, in another line of business, and we can do this for you.'"

"This is an example of something that Korn Ferry, for example, could entertain," says Mr. Sommer. "Search consultants can earn money with that reference and that cross sell, not in fact selling it but sort of listening for those kinds of opportunities for the services they provide. It's a good example that I think could be replicated in other search firms. And then, in the staffing space, I think you're going to see more investments in technology, software related businesses, higher margins, outsourced services, rather than just providing contingent labor. And that will help drive up gross margins, EBITDA margins, the degree of profitability, that I think investors will embrace and find appealing."

Ms. von Seldeneck, of Diversified Search Group, says she looks forward to how the partnership between private equity and the search industry plays out in the years ahead. "It will be interesting to see if private equity continues to remain interested in our industry sector," she says. "Some firms have put the toe in the water to see. I hope they do stay engaged because we really need access to capital to be able to grow firms to scale in this complex world."

"But it's not just doing the acquisitions," she points out. "Our PE partners tap us going to the market to recruit really good people that are out there in our industry, and we put together packages that can attract

those people. It will be interesting over the long haul. There's huge demand, and there's huge opportunity right now in our industry. But it's all about talent and that's a dwindling pot, which is becoming very difficult for employers; our ability to help them think of creative ways to resolve some of the human capital requirements and demands that they have creates value. A lot of these companies aren't quite sure what to do or how to handle all of this, and I think that our industry is uniquely positioned to really add value."

INDUSTRY VIEWPOINTS

VIEWPOINTS

Hunt Scanlon keeps tabs on an ever-expanding executive search and talent management sector that far exceeds where the industry was just a decade ago. Today, Hunt Scanlon tracks some 17,000 executive search consultants at more than 4,000 recruiting firms in North America and another 4,500 overseas, spanning Europe, Asia, Africa and the Middle East, and everywhere else in between.

To round out our study this year, we invited leadership advisory specialists and executive recruiters to bring us their market insights. These timely Viewpoints examine the leadership and talent landscape as we emerge from COVID-19.

So, if you're interested in hearing from the industry's most trusted and respected leadership advisory professionals, we encourage you to take the time to read these outstanding Viewpoints.

POST-PANDEMIC: MARKET FORCING LONG OVERDUE CHANGES

Mike Myatt, Founder & Chairman of N2Growth, Shares His Thoughts on How the Executive Search Industry Has Been Impacted by the Pandemic

Mike Myatt is founder of N2Growth, an executive search firm which companies often call upon to find world-class talent. Mr. Myatt is recognized as one of the world's best known authorities on leadership. At the 2013 Thinkers50 Awards sponsored by Harvard Business Review, he was recognized as one of the top 10 leadership thinkers globally, and Inc. Magazine recognized him as one of the top 50 leadership and management experts in the world.Specializing in complex CEO succession assignments, he has worked directly with hundreds of public company CEOs and board members globally, and his representative corporate clients include Accenture, AIG, Apollo Global Management, Baidu, Bridgewater Associates, Deloitte, Dell/EMC, Enersys, Humana, HTC, Hyundai, IBM, Lincoln Financial Group, McGraw-Hill, PepsiCo, Ryder, Samsung, Sany, Transamerica, Union Pacific, Verizon and other leading global brands.

In this viewpoint, Mr. Myatt shares his thoughts on how the executive search industry has been impacted by the pandemic. He also discusses the shift away from the larger search firms and shares his advice on how to survive the current market.

My view on the executive search industry is clearly not static, but the evolution in my thinking sadly points to a troubling conclusion. Our industry is broken and desperately needs change. The good news is, I'm not alone in my thinking, and there are indications that the sparks of change are flashing more brightly in recent times. But questions remain; will the changes be big enough, bold enough, and will they stick?

There is no doubt that COVID and all the emerging talent trends coming out of the pandemic have forever changed the landscape of executive search. The problem is that many in our industry still live in a world that no longer exists. They have failed to adapt, failed to change, and failed to serve their clients. The world has passed them by, and they don't even realize it.

The opinions that follow are not going to sit well with a number of those in my profession, but as hard as this might be for some to hear, the data backs me up. While there's plenty of anecdotal evidence to support my instincts, there's also no shortage of hard empirical data. Industry wide, executive search firms fail in excess of 40 percent of the time. How is this even remotely acceptable to anyone? It's certainly not acceptable at my firm, and perhaps that's why we're resonating in the market, but I digress.

It's bad enough that the industry average "time to interview" is ridiculously slow and inefficient, but if anyone believes it's acceptable to be in the market for 6, 9, 12, or 18 months in search of finding the right candidate they should immediately find another industry to pollute with their flawed thinking and business practices.

What about pricing, process, methodology, and don't even get me started on stick rate - according to a new Korn Ferry survey, "not only did 82 percent of professionals say they plan to quit their job over the next six months, but 31% of them say they'd quit even if they didn't have another job lined up." Firms are failing in completing assignments and candidate aren't sticking as long. This trend does not bode well for legacy-based search firms.

During a recent interview, I was asked how I felt about the executive search profession – I jokingly referred to myself as a search heretic and went on to say that while our profession is made up of many talented individuals, it is curiously broken at its core. This juxtaposition is nothing new, which make it all the more troubling.

The truth is that while I absolutely love what I do for a living, I'm not overly enamored with industry norms and status quo. With that said, I decided to devote my thoughts on the topic to providing a bit of context to the soundbites noted above. In the text that follows I'm going to share my perspective on why I believe our industry needs to reinvent itself.

I think it's a healthy thing for all of us to take stock of our profession from time-to-time. Each and every one of us needs to do a gut check on whether the industry we choose to be a part of is moving in the right or wrong direction, whether our personal efforts are contributing to

the advance or decline of our profession, and in the case of executive search, the advance of the decline of our clients.

Fact: professional services firms need to evolve at a faster rate than their clients in order to continue to unlock hidden value and provide ROI for those they serve. So, I have a question for you, and I want you to be brutally honest with your answer – are you innovating your search practice at a rate of velocity greater than your clients are innovating their businesses?

Reality check: the executive search industry has little to show in the way of business model innovation, much less advances in pricing, teaming, process, methodology, delivery, technology / IP, etc. Contrast this with our clients who are innovating all of the aforementioned areas in real time and at scale. Starting to see the problem?

The harsh reality being felt by legacy-based search firms is that clients are not blind to what I'm espousing. When talking to new clients about why they're leaving current agency partners to engage our firm, I often hear things like; "we had begun to view search as a necessary evil rather than value add", or "we felt like our agendas were not aligned", or "our partners were more concerned about their fees than their performance or our outcomes".

The dirty little secret that most of our industry hopes clients don't uncover is that many firms haven't innovated anything of significance in years, if not decades. This is the eight ball that most firms find themselves standing behind as a new group of industry innovators are beginning to erode the long-standing toe hold of legacy-based search firms.

For the past several years, long before the pandemic, our firm has been reinventing and reimagining every aspect of the practice of executive search. We have been doing it in real-time, and at scale. Nothing we do is "industry standard" and we abhor the term "best practices". Our pricing is different, as is our process, methodology, teaming structures, delivery and deployment capabilities, we have innovated our business model, developed our own IP/Technology, and we're outperforming our legacy-based competitors in virtually every meaningful category of success metric this industry measures, and we're doing so by more than a few standard deviations.

The good news for the industry, is that my firm is not alone. While large, legacy-based firms are still pumping out white papers and surveys that attempt to spin outdated thinking as best practices, other newer, next generation search firms are starting to understand the problem and beginning to react as well.

But the problem, even for those firms who get it, is that change is not easy. It's expensive, rigorous, gut-wrenching work. Large legacy-based firms are generally change adverse and make business model transformations very slowly. And typically, only when forced to do so by the market. I believe this is where we find ourselves today. Larger firms are not only losing clients at record pace to more innovative firms, but their losing their best talent as well. Smaller, more agile firms have their own set of hurdles to overcome as they often struggle with having the necessary resources to scale. The large firms are struggling to remain relevant and the smaller firms are struggling to become relevant.

The market is forcing long overdue change, but it's still coming far too slowly for the consumers of our services. The market is moving fast. Our clients are moving faster. As an industry, we are at a crossroads. We can throw inefficient, ineffective, legacy-based thinking out the window, and serve our client's by providing the future oriented, relevant, value added services they require, or we can continue on a path of irrelevance and obsolescence.

My advice; begin to cannibalize yourself before the market does. Forget virtually everything about how you've done business in the past and focus all of your energy on understanding how your clients want to do business going forward. Business model innovation is a funny thing, you can only ignore it for as long as the market will accept it. The market will no longer tolerate paying premium fees for sub-standard performance. Up your game or you'll be forced from the field of play.

M&A AND THE STATE OF EXECUTIVE SEARCH

Dominic Levesque, President of Tatum by Randstad, Takes a Look Back on the Search Industry and Shares His Thoughts on the Latest Trends in M&A

Dominic Lévesque is the president of Tatum by Randstad. Mr. Lévesque brings more than 15 years of experience to the role, having most recently served as group president, Randstad Canada. He holds a dual role leading both Tatum in the U.S. and his Canadian team. Since joining Randstad as a staffing consultant in 2006, Mr. Lévesque has held several management positions within the company. His extensive team building skills propelled him to group president of Professionals in 2016 where he oversaw the finance & accounting, HR and sales & marketing specialties.

In the following viewpoint, Mr. Levesque takes a look back on the changes in the industry over the last year and shares his thoughts on the latest trends in M&A activity in the search industry. He then discusses his outlook for M&A in the industry moving forward, including thoughts on PE investment, the impact of diversity, a talent shortage and much more.

First things first: Before we try to understand what's in store for executive search in connection with the latest trends in M&A, we might do best not by gazing outward at the external environment, but rather by looking in.

What's new and different about the executive search industry compared to where we were just a year ago? What, if anything, has changed for the better? And what, if we're being honest, appears to have gotten harder or worse for the wear?

In seeking to answer questions like these, we may reveal a lot about the high-level readiness of our industry to serve PE firms and other organizations looking to spearhead broad-based change and unlock growth through M&A activity. Subjecting ourselves to such an inquiry, too, should be a route to discovery — to finding not only potential weaknesses but unseen opportunities, as well.

Hopefully, there will be more of the latter than the former in what follows. But where even to begin?

Without disclosing our own evolving internal benchmarks for filling key executive roles, we can certainly attest to having new goal posts for speed-to-hire at Tatum these days. Specifically, those timelines have moved up considerably. We've found — as many of our competitors likely have as well — that all-virtual interviews confer a range of surprising benefits. They can shave off valuable time when you're vetting and interviewing candidates, for example. They come with fewer, and far less complex, logistics to manage. And removing time-intensive trips has undoubtedly increased our MPH as well.

Of course, the type of changes that we're seeing — and the changes that probably are reverberating across the industry — can't be encompassed in a singular metric like speed-to-hire alone. In many cases, we're finding that the candidates in our pipelines are far more diverse (which is a very good thing, as well as a topic we'll fully unpack in connection with M&A later on in this report). It has also been our experience that newly all-virtual processes tend to give more stakeholders on the client's side a chance to interface with candidates, to do so earlier on in the process and to offer more feedback when they do, as well.

These are profoundly good things — and with a bit more strategically directed guidance going forward, based on the things we're learning, they might even be applied to yield still more value for our clients down the line. But there have been and will continue to be challenges. Building relationships and effectively pipelining executive candidates in the total absence of in-person networking opportunities is a case in point.

All of this has led to some highly important soul-searching at Tatum. Frankly, we've been hard at work innovating, exploring and thinking more critically about many aspects of our traditional executive search practice in order to better rise to the occasion — to meet these new challenges head on, and to better capitalize on new opportunities as well. Not all of our experimentation and tinkering has proven to be successful, of course. But with the idea that these might be constructive models for others to iterate on in due course, we've tried to pull out examples from our own work in greater detail wherever applicable in the following report.

Hopefully, those examples and the quantitative analysis that accompanies them will help point the way to success for your practice — in 2021 and beyond.

The Explosive M&A Outlook

Private equity (PE) firms, drivers of so much M&A activity, appear to have passed a critical inflection point for growth at this point. They've picked up some terrific momentum — and that momentum shows no signs of slowing down. Three predictions from Pitchbook really drive the point home:

- PE fundraising could surpass $330 billion, an all-time high, by the end of the year.
- Overall deal value for carveouts, too, is poised reach the highest level on record.
- Special purpose acquisition companies (SPACs) continue to boom, with at least 20

PE-backed companies expected to enter public markets in the U.S. through reverse mergers with SPACs in 2021.

Plus, there are any number of other factors too potent to be ignored. Most PE firms still house huge reserves of dry powder, for one. Meanwhile, we're continuing to see sky-high valuations across the board. And when you add to that the fact that SPACs themselves raised $83 billion in fresh capital in 2020 — more than six times the previous record — the whole situation starts to look like a lit powderkeg. So watch out: PE is primed with a charge, and the results could be explosive.

What's underpinning this historic growth? More than anything else, three factors:

- a thriving IPO market, ensuring that investors had a healthy supply of cash in hand
- ongoing demand for innovation
- the accelerated pace of digital transformation initiatives, largely fueled by the pandemic

And there's also good reason at this point to believe PE's already well-stocked coffers could see even greater capital injection during the remainder of the year. Why? Two words: regulatory change.

Notably, last June the U.S. Labor Department indicated that it would allow "defined-contribution retirement plans" — think: 401(k)s — to indirectly invest in PE funds, at least under certain circumstances. Plus, in August the U.S. Securities and Exchange Commission (SEC) amended how it defines an "accredited investor" in such a way that provides greater latitude around who can legally invest in venture capital. And finally, an amendment to the so-called "Volcker Rule" ratified by the Federal Reserve Board, CFTC, FDIC, OCC and SEC means that banks will also have greater flexibility in investing in venture-capital funds going forward.

All of this is great news for the overall M&A outlook through year-end 2021 and beyond. But what can executive search firms do right now to take advantage? Let's take a deep dive into a few key leadership roles before turning to pinpoint higher-level opportunities.

Finance Leadership in Focus: Talent Shortages on the Horizon

There are specific areas in which the global pandemic appears to have dried up once-robust talent pipelines. Take finance leadership, for example. Right now, we're seeing a huge push to pair experienced, knowledgeable finance leaders — those who have successful track records of success navigating change, in particular — with under-resourced executive leadership teams at nascent companies from coast to coast. And the underlying cause can be clearly traced back to a specific source.

That source? Drum roll, please: the tech sector.

Yup, among tech startups, the sheer volume of new CFO appointments in the past year has been mind-boggling to contemplate, increasing 95 percent on the figure from the year previous. Flush with cash to invest in human capital — and eager to mature their operations, processes and capabilities — it seems that these companies have spent a good chunk of the past 12 months gobbling up the best available candidates just as fast as they can.

The ripple-effects of all this could be huge for executive search firms working to support PE companies with upcoming M&A deals.

How so? For one thing, some of these candidates appear to have been lured by salary offerings extravagant to a degree

that few of our clients will be able to match. (PE, after all, despite being capital-rich, is also bottom-line conscious in a way that tech often is not.) And the cumulative degree of overall upward pressure that could place on expectations around compensation for finance executives going forward is anyone's guess.

What is clear at this point, in any event, is that in several key areas where talent shortages are being felt right now — as in the case of seasoned finance executives — the already acute shortage very well might be intensifying. That's something PE firms themselves should be on high alert about. Ditto those of us in the executive search space.

The key takeaway, then, both for executive search firms and for those eyeing M&A opportunities is the following: Before PE companies can begin zeroing in on their next opportunities to invest, carveout or otherwise unlock value, they'd better have the right talent partners in tow. If not, they just might find themselves trapped in an absolute worst-case scenario: locked in to a heated competition with a wide array of cross-sector players while simultaneously locked out of access to the experienced finance pros they need at the helm.

Pent Up Demand (and a Surprising Asymmetry Around CEOs)

Pipelining seasoned finance leadership, as we have seen, ought to be a clear focus area for executive search firms looking to cash in on the latest crop of M&A opportunities. But that's not the only C-level suite where change is afoot. Far from it.

In fact, among the most interesting high-level trends we observed during the long course of the pandemic centers on CEOs and involves a surprising kind of asymmetry. That is, on the one hand, COVID-19 induced unprecedented volatility in global markets and the business environment at large. On the other, it appeared to inaugurate quite the opposite for CEOs and others in the executive suite — a period characterized by uncharacteristic calm, restraint and stability.

The numbers illustrate this clearly: The overall rate of CEO turnover declined steadily from one quarter to the next throughout 2020 — from a high in Q1 to a low in Q4 — and fell a full 42 percent between the first and the second halves of the year alone.

Surprising? In many ways, it shouldn't be. Zooming out to frame the stakes surrounding organizational decision-making will help set the stage for understanding why. After all, companies were operating in an environment of overwhelming uncertainty, and they faced the prospect of navigating it indefinitely, with no end in sight. Did it make sense, in that context, for them to incur additional risks — of the kind that invariably accompany leadership successions?

No, it didn't. Meanwhile, things like institutional knowledge — the "known-knowns" of the classic Rumsfeldian schema — assumed outsized value. The leader you know trumps one you don't when you're dealing in the realm of broad-based uncertainty.

All of this connects to trends emerging in M&A, as well as what's happening in executive search, in several ways. For one, this backdrop — a backdrop we might broadly label "pent-up demand" — is a key part of the legacy of the pandemic. As such, it's a defining feature of where and how executive search firms should look to capitalize on opportunities in the near future.

That said, it must also be emphasized that the timetable for high-velocity action remains only thinly sketched out at present. Many of the succession trends we're seeing begin to take shape right now may not fully come to fruition until somewhat later, say, Q1 or Q2 2022. And executive search firms would be wise to operate accordingly. As a recent report from Bain and Spencer Stuart makes clear, for example, while rising CEO turnover is expected through year-end 2021, the accelerated-takeoff phase probably won't hit until some point in 2022 — at which time the report forecasts CEO turnover could go up by as much as 30 percent.

So stay tuned. We'll all have to keep our eyes and ears open. The reality is, we're still fundamentally rebounding from a prolonged period of repressed action and dormancy. At Tatum, to be sure, we're optimistic about the upswing. But the depth and length of the trough on this eventual J-curve will only be known in hindsight — as with all J-curves, of course.

The M&A-DEI Connection

Given how much of M&A activity is being fueled by PE these days, it's worth taking the pulse on diversity, equity and inclusion (DEI) in the PE space as well — because that's absolutely going to be an opportunity for strategic players in the executive search space going forward.

With that in mind, how are things looking in terms of DEI at PE companies right now? The answer is, unfortunately, pretty abysmal. A few representative stats will help flesh that out.

- Gender diversity: Women comprise around 18 percent of the employees at PE firms globally, which sounds pretty good. But the numbers drop off dramatically when you get to the ranks of senior-level partners and board members: just 9.9 and 5.2 percent, respectively.
- Ethnic and racial diversity: Things look stil worse here — if that's even possible. Less than two percent of managerial roles in PE are currently held by Blacks, for example, a group representing roughly 13 percent of the U.S. population as a whole.

For executive search firms, it's worth reflecting on all of this — even if it might be a somewhat touchy subject for some in the PE space. But let's not shy away from this conversation for that reason. Indeed, the magnitude of the problem is also the magnitude of the opportunity for all of us.

Clearly, though, changing top-line numbers around representation like the above is going to be a top priority for companies in PE (as well as companies in every other industry, for that matter). More crucially, M&A activity, as a demonstrated catalyst for far-reaching organizational change, is increasingly being viewed as a springboard for increasing DEI — and has become a locus for conversations around DEI as well. In fact, Deloitte has called DEI the "new mandate for M&A" for this very reason.

So how can executive search firms take advantage of all of this? By supporting the end-to-end process, most obviously, whether that entails simply sourcing a more diverse slate of candidates or serving in a consultative capacity from the outset.

But there are other ways as well. At Tatum, for example, we're going the extra mile by much more consciously role-modeling DEI within our own executive search practice these days. That means, among other things, "walking the walk": diversifying our own internal executive search teams, too. We're doing it for a lot of reasons, but we think it fundamentally sends the right message to clients — and to our executive candidates as well.

So far, so good, on that front, in any case: The clients we're working with all certainly seem to agree. After all, the business case for moving the needle on DEI is pretty airtight at this point. That's something we both explicitly and implicitly recognize the value of at Tatum, and it's clear that our clients do, as well.

Going forward, then, we expect DEI to be an increasingly baked-in part of the conversation with our clients from day one. It's simply going to be integral to the executive search process, and that's why we're leaning into it. Frankly, executive search firms across the board will have a hard time staying relevant if they don't do the same.

Next Steps for M&A-Readiness: 5 Focus Areas for Executive Search Firms Going Forward

Looking ahead, M&A activity looks set to rapidly pick up pace, as we have seen. Meanwhile, overall deal value remains extraordinarily high. Both of these things stand to directly benefit PE firms eager to get in and out — and see multiples at time of exit. And for executive search firms that want to get in on the action as well, paying particularly close attention to the following action-items and focus areas will be crucial. Here's what to do, why you should do it and how to get started today.

1. Forming Connections Executive search has always been a relationship-driven business, perhaps most of all so in the high-stakes context of M&A. And make no mistake, this hasn't changed: Building connections with VC and PE firms (and SPACs, too) will remain an important differentiator — and those who do so the most effectively will be able to gather key evidence and insights about priorities, plans, timelines and more. If you know a firm is actively fundraising, for example, then where and when does it plan on investing? Executive search companies that get the inside scoop, and plan and prepare accordingly, will be much better positioned to provide strategic guidance,

shape the composition of leadership teams at portfolio companies and contribute bottom-line value.

2. Tracking In-depth understanding of the dominant fundraising cycles associated with M&A activity in PE can be a crucial part of the value proposition executive search firms can bring to the table. Why? For one, if you know when a given company is looking to, say, lock down a bit of additional funding, there's a lot for you to effectively surmise from there in terms of what's next on the horizon — when that company is going to be expanding, hiring, growing and more. It simply goes without saying that when PE firms (and other companies) have significant quantities of capital on hand to spend, significant action is likely to soon follow. Prepped with this kind of inside knowledge, you should be able to consistently get in on the action and add value.

3. Establishing Long-Term, Value-Adding Partnerships At Tatum, we've built some pretty amazing relationships with VC and PE firms over the years — loyal, trusting partnerships that have evolved over time. And guess what? We didn't do it simply because these clients were so great to work with (although truy they were). Rather, it has proven to be the perfect recipe for a steady stream of return business. Now, if one of the portfolio companies at these firms needs to bring a new executive on board, who do you think they're going to turn to first?

4. Getting in Early It's difficult to stress this one enough, particularly in light of the glut of VC investment recently being channeled to relatively early-stage tech startups. If you see a promising startup, try to get in early. Start building relationships even before the organizational framework is built. If you can deliver highly impactful consultative guidance early on, you'll be sought out to support the company at every stage of their growth down the line.

5. Networking Colleagues from competing executive search firms might feel like they are effectively rivals, first and foremost, But it shouldn't be that way — and such nearsightedness can just as often prove to be a hindrance as an asset. (In that vein, the sheer fact that you're reading this right now speaks volumes. It's a good example of all the different ways we can unlock value and insights when we work together and share ideas.) So try connecting not only with clients, but with other advisors, too, whether they're positioned internally or operate outside of your firm. Anyone who works on the same kinds of deals as you will probably have a whole lot to say about your shared area of expertise.

A SPOTLIGHT ON INVESTMENT ACTIVITY IN EXECUTIVE SEARCH

Timothy J. Tolan, CEO and Managing Partner of The Tolan Group, Discusses Launching the Tolan Group and His Growth Strategy

Timothy J. Tolan is CEO and managing partner of The Tolan Group (a Hunt Scanlon Top 50 Healthcare Search Firm) based in St Augustine, FL with satellite offices in Atlanta, Philadelphia, Tampa and Appleton WI. Mr. Tolan has been in the healthcare field for over 25 years holding executive-level positions for companies both public and private. His broad healthcare experience allows him to focus his firm on healthcare services, behavioral health and healthcare technology companies with a heavy focus on PE backed portfolio companies.

In this viewpoint, Mr. Tolan discusses launching the Tolan Group and his growth strategy. He then discusses the increased demand for talent and its impact on search firms. He then shares his thoughts on the post-covid hiring surge, retirement tsunami, and the shift from internal hiring to search.

The market focus and valuations of executive search firms has changed in the last couple of years and there are a variety of reasons for the uptick in both market focus and value. The market size, measured by revenue, of the executive search recruiters industry is $5.2bn in 2021 and expected to grow at just under four percent over the next year according to IBIS World. The changes over the last 18-24 months have positively impacted the human capital business. These changes have caught the attention of investors that are paying close attention to this sector to capitalize on the opportunities that have been created.

I launched The Tolan Group in 2005 after working for publicly traded companies running sales, business development and M&A in the healthcare industry. Because of my background I naturally wanted to understand the end game of what the value would be over time for an executive search firm. Every entrepreneur wants to eventually have a successful exit after building and scaling a profitable business. I began to look for information early in the life of my firm to determine how the value of search firms were being assessed and found the data was nearly non-existent. I heard from multiple sources that valuation multiples were all over the map, but the consensus data kept pointing to a multiple of .5 to 1.0 times revenue - which was not very appealing to me just having started my firm. What I did learn was that staffing companies with recurring revenues were far more attractive to a suitor mainly because of the predictability of revenue and a host of other reasons.

We put our head down and began growing the firm and I had great hopes that as we grew the market dynamics would shift and valuations would eventually improve. And improve – they have. The surge in demand for executive search is being felt across nearly all industries. Even the sectors most impacted by Covid are once again beginning to see a demand for talent.

There are several reasons for the increase in demand including:

Impact on Search Firms – The executive search business is made up of firms that are run by solo practitioners (producer/recruiter) that work both sides of their desk to multi-national firms with global offices around the world with hundreds of employees and everything in between. During Covid, our industry was severely impacted and many of the smaller firms without access to capital were unable to survive and PPP dollars were not significant enough to provide pandemic relief for a one-person operation for very long. Many folded and were quickly forced into a "lights-off" business wind-down. Online platforms were also impacted by Covid. In March of last year, ZipRecruiter laid off approximately 40 percent of its workforce in a cost-saving move that affected more than 490 people. This phenomenon while daunting for those that could not sustain the downturn fueled growth for those firms able to survive the downturn through implementing layoffs, austerity measures and other cost cutting measures while securing PPP loans and other grants allowing them to survive until things improved. 18 months later, many of these firms have exploded in terms of growth in both unit volume and fees. With fewer search firms in the market coupled with the pent-up demand for talent the perfect hiring storm is brewing.

Post Covid Surge in Hiring – Once the pandemic began to show signs of improvement and the vaccination rollout

started, companies that were forced to sit on the sidelines and send all their employees home began to peek their heads outside of the foxhole and gauge where they were regarding human capital. Many discovered that to remain competitive they had to recall their employees back to work (albeit mostly remotely) to ensure they would remain competitive once the pandemic dust began to settle. What they discovered were some employees refused to return to a pre-Covid work environment. They had adjusted to working remotely and adapted quickly to Zoom video calls, conference calls while achieving greater overall productivity and better work-life balance by working from home. The things they thought they could only do by being in a brick-and-mortar office were no longer impossible. In fact, many employees that had never worked from home fell in love with their new work environment. Blended virtual work environments are here to stay. Companies are getting their arms around where they stand in terms of leadership and front-line management and the need for hiring has never been greater.

Retirement Tsunami – Despite the impact that Covid had on families and businesses, retirement was still taking place just before the pandemic - and even today the numbers are staggering. According to AARP, more than a quarter of all workers say COVID prompted them to move up their retirement date. Nearly two million older workers have left the labor force for good since the start of the pandemic, the Schwartz Center says. That means the number of older workers still employed is down by about five percent, compared to less than two percent for workers ages 35 to 54. In September 2020, 3.2 million more baby boomers were retired than a year earlier, according to a Pew Research Center report. In each of the previous four years, the number of retirees increased on average by fewer than two million people annually. So, there was more than a 50 percent increase in retirements in 2020. This added to the other dynamics in the shortage of human capital and increased demand for search firms to fill those vacancies. The retirement stream will linger for years as will the need to find and replace lost talent.

Internal Hiring Shift to Executive Search – Companies HR and talent acquisition departments historically used job boards and social media to find candidates. Recently, they have found that those strategies simply no longer work - especially at the senior level. Passive candidates are the main source for filling open positions and many internal recruiting teams and corporate recruiters don't make cold calls into companies to find passive candidates. It just does not happen. Search firms have always used the phone to actively call or email passive candidates to have an open discussion about new opportunities. They are discovering many of the candidates they speak with are more than happy to listen and learn about new opportunities in 2021. If a company needs a new CEO, CFO, VP of IT or needs to rebuild their entire sales and marketing team, chances are that gainfully employed professionals that hold those jobs in a company have never looked at a job board (and never will) and would never post their resume on the Internet. The talent acquisition departments of many companies without a robust recruiting strategy are experiencing a huge downturn in passive candidate procurement. This will only get worse over time as the candidate market tightens. Again, search firms earn their fees by picking up the phone and contacting passive candidates who are not actively looking for a new job. It's no surprise those hard-working search practitioners are experiencing a big uptick in new assignments.

Combined, these changes along with a shift to bring back employees has created a tsunami in hiring and there is no end in sight. In our case the dry powder of PE firms needing to fill critical roles for existing portfolio companies and leadership for new platforms kept us extremely busy during Covid and we continue to get assignment after assignment while hiring new personnel internally to keep up with the demand.

The challenge of hiring is music to the ears of those in executive search and both top line revenues and EBITDA are growing at a pace we have not seen in our sector. PE firms are data driven and look at trends and data analytics far into the future. PE firms make calculated bets based on an investment thesis and human capital is getting a lot of airplay these days. Like us, I have friends running search firms that are doubling and tripling revenues since last year and the trend lines for the demand for talent we hear about

are felt every single day by those same firms that can deliver great talent and value to their clients. Historically human capital deals were mainly done for those firms that had a robust staffing component to their business. That is no longer the case. There are several high-profile search firms that have been acquired by both strategic buyers that want to add a new vertical market to their existing firms or by PE firms that want to build a human capital platform by making an investment in a search firm and their brand and have plans to bolt-on, add-on or tuck in additional acquisitions to create more value in the platform downstream.

The new multiples being floated for executive search firms are based on a multiple of EBIDTA as they should be. For well-run search firms, a five to six range in market multiples seems to be the new normal assuming the owner has built a solid leadership team, has multiple defined market segments, a solid annual growth rate and a low concentration of revenue. Traditionally, search firms have reported net income ranges in the 10 to 20 percent range of top line revenues. However, new models are emerging that push profit margins well above 20 percent and search firm owners are starting to take notice and listen. Full desk models are being replaced with dedicated sales development reps (SDR's) supporting a dedicated business development team while client delivery is handled by a different group of dedicated candidate focused team members. This split desk model allows firms to scale and grow much faster and handle higher search volume.

Today, there are a handful of large multi-national search firms with phenomenal brands that are now being challenged by these smaller boutique firms that are suddenly not that small any longer. The future of our industry is very bright - and many outsiders are taking note. That includes both strategic buyers and PE firms. The landscape of our industry will see big shifts over the next few years - and it should be a fun ride for us all.