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The staffing business is all about flexibility. Just as client companies' needs for flexibility drive demand for staffing services, staffing firms need flexibility from their own providers and strategic partners. In assessing financing options and seeking out the right financial partner for your staffing company, flexibility has to be one of the first considerations. ...

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2012 Schedule
March - Financing
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What is your Staffing Company Currently Worth?

Create a Report Card for your business to determine its value!

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By Bob Cohen and Sam Sacco

By grading the quality of your company based on the information in this article you can roughly determine what your company might sell for in today's market. Space restrictions here have limited the detail provided for each below element; however a more expanded article with additional descriptions for grades 2, 3 and 4 will be published in an upcoming RACC newsletter or can be obtained by contacting the authors.

Begin by examining the following elements used to help arrive at a fair market value for your business. Assign a point amount for each level of performance by using a scale of 1 to 5 points. Qualifications for the highest and lowest points are described and you need to estimate the points in between or access the expanded article.

1. **High Growth Rates** are always a sign of a healthy business with strong market acceptance. Ignoring 2009, if you are growing at a rate of 15% per annum or more give yourself 5 points, if your growth rate is under 5% per year give yourself 1 point.
2. **High Gross Margins** are to some degree relative to your staffing sector; certainly a buyer wouldn't expect the same margin level from a Light Industrial (LI) firm as they might for a Scientific Staffing firm; however, if your gross margin is 15% or below in any sector, give yourself 1 point, while if your gross margins are at 25% or above give yourself 5 points.
3. **Major or Growing Markets** are always in greater demand by most buyers, although some buyers do prefer secondary or tertiary markets. If you are in a top 40 market or rapidly growing market, give yourself 5 points. If you are in a town with a population fewer than 100,000 people give yourself 1 point.
4. **Strong Market Position/Reputation** is a less objective measurement than some other items; if you are a recognized market leader by customers (yours and others) in your market - 5 points, if you are under the radar serving a small group of satisfied clients-1 point.
5. **Diverse, Long-term and Stable Customer Base** is always preferred by a buyer. If you have this week's customers and you know that next week's customers are totally different, this increases buyer risk and costs; and /or if your top customer is more than 25% of your revenue, take 1 point, however if you have a stable list of long-term repeat customers especially if some or many are growing and/or your top client is under 12%, take 5 points.
6. **Multiple Offices** are preferred as they are perceived by buyers to spread risk. If you have a single office billing less than $2M, give yourself 1, point or take 5-points for an annual sales volume above $10M with 3 or more offices.
7. **Size in terms of annual sales volume** becomes more valuable with higher revenue, all things being equal like GM% and bottom-line profitability. There are no points here; the chart below takes this size into consideration.
8. **Good management depth** is extremely important and if the owner is the key to the business take 1 point; if you have solid, experienced line management operating your business that will stay on, give yourself 5 points.
9. **Good Insurance, a clean legal history and accurate record keeping** build confidence in buyers. If you have declining WC incidents and/or fewer SUTA claims, combined with books of account that add up properly take 5 points. If your WC losses or SUTA claims are increasing and if your books are not totally reliable take 1 point.
10. **More Contract/Temp Staffing vs. Perm/Search Revenue** improves value because contract and temp revenues are more stable and predictable than Search or Direct Hire revenues. If your sales in Search/Direct Hire exceed 20% of your annual business volume give yourself 1 point, if your Search/Direct Hire business is less than 5% of your annual revenues- 5 points.

Now take your total points and if you are 9 to 15 you are at the lower end of the below multiples. If you are 40 to 45 you are at the higher end.

Multiples of Adj. EBITDA	Under $5M in sales	Over $10M in sales	Over $20M in sales	Over $50M in sales
IT Staff Aug	3.25x-3.75x	3.5x-4.25x	4x-5x	5.25x-6.5x
Specialty Niche	3.25x-3.75x	3.5x-4.25x	4.5x-5.5x	4.8x-6x
Healthcare	3x-3.25x	3x-3.75x	4x-5x	4.75x-6x
Offices Services	3x-3.25x	3.25x-3.75x	3.75-4.25x	4x-5x
Light Industrial	2.75x-3x	3x-3.75x	3.5x-4x	4x-5x

Note: The chart above assumes the seller retains the Balance Sheet.

There are always exceptions to the ratings above, if you would like a confidential analysis of your market value contact:

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Finding Flexible Financing

people2.0 ENTERPRISE-LEVEL INFRASTRUCTURE

By David Van Soest

The staffing business is all about flexibility. Just as client companies' needs for flexibility drive demand for staffing services, staffing firms need flexibility from their own providers and strategic partners. In assessing financing options and seeking out the right financial partner for your staffing company, flexibility has to be one of the first considerations.

All the Options…

There are many ways a staffing company might be financed: with equity investment, fixed bank loans, lines of credit or a factoring arrangement. Within each of these general options, there are different variations and structures, each with its own pros and cons, its own limitations, risks and advantages. Some options offer great flexibility, others very little. Each one can be right for some staffing company at some stage of its growth, but none are right for every staffing company—and few will stay right forever.

It is incumbent upon the financial leadership of a staffing company to understand all the available financing options. Before seeking out a financial partner, all the general types of financing should be evaluated for "fit" and flexibility. If your company doesn't have the right financial expertise in-house, consult with your accounting firm to understand the key features of each funding option.

For sizable, well established staffing companies, the most common financing arrangement is a revolving line of credit tied to accounts receivable. With the credit limit effectively linked to sales, the ability to borrow what you need when you need it and repay when cash flow allows, a line of credit offers superb flexibility. It is typically more cost efficient too, since you only pay interest on the funds you actually need to borrow.

Some staffing companies may have difficulty obtaining a line of credit from a bank today, but there are staffing-specialized funding companies that offer similar financing plans. When considering financing options, you should look beyond today's needs and capabilities regardless. Seek out lenders that offer more than one type of financing product so there is "built in" ability to adapt as your business grows and changes. Ask about options for financing expansion, acquisitions or other special needs too.

The Real Cost

Of course the cost of financing is important as well. But keep in mind what you've probably told many of your own potential customers: it's not all about the rates. What is the true cost of a financing plan if credit limits, underwriting requirements or the lender's turnaround times prevent you from capitalizing on a key opportunity?

Whatever the financing plan, be sure you have identified all the fees and charges. Put them into a spreadsheet with your actual sales and realistic invoice payment cycles to calculate the actual effective rate on funds borrowed. You might be surprised to see that some industry-specialized lenders offer plans that can cost less than conventional bank financing.

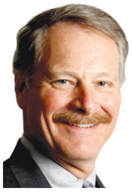
About the Contract

When it comes to a financing contract, one of the best pieces of advice you can get is simply this: read it. It's amazing how few people do. To be fair, it seems some contracts were intentionally designed to be hard to read. Those are probably the ones you should read most carefully. Most people understand the mechanics of their financing arrangement, but many fail to understand what all the terms and conditions really mean. The devil is in those details.

If nothing else, consider the termination provisions carefully. You may have a rigid and limited financing arrangement, but if you can cancel it at any time, you have flexibility. Conversely, even if your funding plan is sufficient for all your present needs, but it is not possible or practical (given onerous termination fees) to exit the contract in less than three years, you probably do not have the flexibility a growing staffing firm needs today.

Staffing is an inherently cyclical business subject to fluctuations and rapid change. It is also one with precious little flexibility in its own "supplier" (contingent employee or contractor) payment terms (weekly payroll). That's why staffing companies have unique cash flow needs and challenging financing requirements. And it's why financial flexibility is so important to a staffing firm.

When seeking out a financial services partner, look for one who understands staffing and can give your company the flexibility it needs to grow and remain competitive.



David Van Soest is a 30-year veteran of the staffing industry and CEO of People 2.0, a leading provider of flexible financing options and enterprise-level infrastructure tailored exclusively for established staffing companies. Contact David at 610-429-4111 or davidvs@people20.com.