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Insperity

Finding HR Operational Efficiencies That Shorten Time to ROI in M&A Transactions

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Speaker Introduction

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2020 M&A Trends – Abundance of Dry Powder

- Dec. 2019: global PE had stockpiled **US\$2.5 trillion** in uncalled capital, with **US\$830 billion** earmarked for buyouts*
- H1 2020 combined M&A deal value: **US\$20.1 billion**** [- 50%]
- H1 2019 combined M&A deal value: **US\$41 billion****



*Bain&Co: *Private Equity in 2019: Strong Deal Activity Despite Worsening Macro-Conditions* ([Link](#))

** PwC: *The Numbers Behind the Collapse in M&A Deals in 2020* ([Link](#))

HR Operational Efficiencies in M&A Transactions



2020 M&A Trends – H2 Rebound Expected*

- Interest rates are at historic lows
- Banks are beginning to lend again and alternative capital sources are available
- Liquidity in bond markets has returned and new issuances have increased
- Bankruptcies and the number of distressed companies are likely to rise, especially as government support programs expire
- A strong U.S. dollar promotes international opportunities for U.S. investors

*PwC: *Global M&A Industry Trends* ([Link](#))





2020 M&A Trends – Economic Uncertainty Expected*

- COVID-19 impacts
- U.S. presidential election
- Global trade tensions (U.S. – China)
- Global megatrends (including due to COVID-19)

*PwC: *Global M&A Industry Trends* ([Link](#))

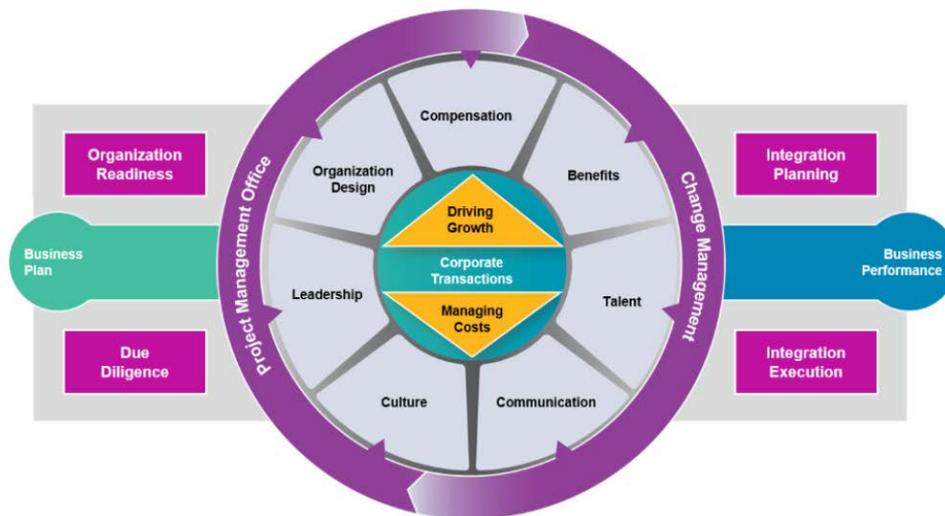


HR Operational Efficiencies in M&A Transactions



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- Constraints of deal timing
- Early planning across all dimensions is key
- Most common challenges where a PEO may be able to help:
 - Carve-out transactions
 - Non-US HQ businesses with a small US presence
- Required support needs to provide:
 - Flexibility
 - Agility
 - Compliance
 - A positive employee experience



HR Operational Efficiencies in M&A Transactions



Case Studies

Acquisition #1:

Carve out from a larger organization, asset transfer employees in countries where target did not have an employing legal entity

Acquisition #2:

Carve out from a larger organization, HR Services required in countries where a legal entity was transferring. Compliance and employee experience key considerations

Acquisition #3:

Non-US HQ organization, little experience with the complexity of ERISA, ACA, IRS tax code compliance





Domestic PEO Overview

- A PEO is a professional employer organization. The relationship is delivered thru a co-employment relationship.
 - The co-employment model takes the basic employer/ employee relationship and expands it to include the PEO. This structure allows the PEO to assume or share many of the employer-related responsibilities and risks.
 - The client company remains an employer & maintains control over managing the employees' core job functions, maintaining their organizational structure along with maintaining direction & control over their workforce.
- In 2017, there were more than 900 PEOs in operation in the United States and 175,000 companies.
- Recently, legislation passed allowing PEO's to be certified thru the IRS, our CPEO. CPEO status puts sole liability on the PEO for taxes & other areas providing the client pays their invoice to the PEO.





Why PEO's Are Relevant Now More Than Ever

- Employment Risk has never been higher
 - COVID impact on policies, work locations, operational impact-both short & long term
 - Medical trend uncertainty in 2021
 - Impact of unemployment
 - Stance & policies on diversity, inclusion, violence, return to work are critical
- Many smaller companies have minimal to no HR infrastructure nor does the PE partner to evaluate and mitigate these risks
 - Payroll vendors, brokers, and outside vendors have no liability
 - Strategic HR focus has taken a back seat even for companies that did it well historically
 - You can no longer get by with minimal HR & expect the same results





Advantages of Outsourcing and Scalable Infrastructure

- Value to buyer of not having to pay for building infrastructure
- Value to buyer of risk management (legal, financial and human resources compliance)
- Combining and integrating people, processes and systems
- Talent acquisition
- Eliminate Risk that bolt-on's will distract management from customers, day-to-day business
- Deploy specialized resources as needed to augment the portfolio company executive team





Value of a PEO Relationship

- Instant Infrastructure and scale
- HR related government compliance
- One stop shop for payroll, benefits, workers' comp, 401k, & HRIS
- Administrative expertise
- Fortune 500 level benefits plans & large group pricing
- Reduced Liability



Insperty Value to PE



Cost Containment & Certainty

- Provides budgetary certainty for two years on medical, workers comp, and administrative fees
- Provide employment cost analysis & 2-year proforma

Administrative Infrastructure

- Greater breadth and depth across HR functions
- Stand up deals quicker, with accuracy, and minimizes TSA requirements & disruption to PE firm/port co's.

Administrative Infrastructure

- Keep client in compliance with various state specific requirements. Manage COBRA, FMLA, LOA, 401k Fiduciary, ERISA compliance, Benefit Plan Sponsorship, Employee Relations
- Review existing policies, PTO, and HR processes, train managers on processes, systems, team interface, & set up decision making hierarchy





When To Bring Insperity In

- Scale and infrastructure are needed quickly
- Little-to-no competency in HR or it simply doesn't exist
- Fortune 500 benefits are needed
- Employees are coming from more sophisticated HR infrastructure
- When employee talent is the business's biggest asset
- Cost predictability is important
- Company wants to reduce risk and better predict cost
- A need to stand up a company day 1 post close



HR Operational Efficiencies in M&A Transactions



Difference Between Domestic and International PEO





International PEO Falls Under Standard Employment Law or Staffing Co. Regs.

- Arbeitsnehmerüberlassungsgesetz (AüG)
- Agenzia di Somministrazione

[Decree 276/2003 Art. 2 to Art. 28 and Decree 81/5 Art. 30 to Art. 44]

Why Governments Like Us: International PEO Provider

- Act as a tax withholding agent (ensuring governments receive due tax)
- Take on liability as employer of record
- Bridge solution to permanent establishment for FDI



HR Operational Efficiencies in M&A Transactions



TSA Alternative

- Certainty on ability to close on international acquisitions
- Alternative to restrictive/costly TSA terms
- Direct control of acquired employee populations





Operational Flexibility [for Peripheral Employee Populations]

- Maintain the status quo beyond transaction close date
- Avoid investing in permanent infrastructure on day one
- Allows for strategic approach to assets in question
- Operational flexibility in age of COVID-19



HR Operational Efficiencies in M&A Transactions



Outsource Admin-Heavy HR Functions [for Small Employee Populations]

- Impractical benefits matching requirements
- Lack of a formal HR function in country (compliance, payroll)
- Avoid cost/administrative burden of set up



Case Study: HMD Global



The Challenge:

To complete one of the most noteworthy M&As in 2016, HMD Global and its partner needed to onboard hundreds of employees across 50 countries. Since over half of those employees were located in countries where neither company had existing entities, they required a solution that enabled quick and compliant employee onboarding to complete the transaction.

The Solution:

Velocity Global's International PEO solution allowed both companies to complete the acquisition and legally onboard all employees. This took care of the employment needs and requirements necessary to maintain the employees, enabling the executive teams to focus on setting up entities in each of the countries in which their new employees were located.

The Outcome:

The companies successfully completed the acquisition with Microsoft and compliantly hired hundreds of employees in under two weeks by using Velocity Global's International PEO solution. As the companies establish their own entities, they can rely on Velocity Global to seamlessly transition employees off the International PEO model to the entities established by HMD and its partner.



“The Velocity Global team is always there to answer any questions that my employees or I have, and guide us through the next steps as we navigate this growth.”

- Tiina Topal, VP of Human Resources, HMD Global

<i>Employees onboarded</i>	140
<i>Countries involved</i>	50
<i>Onboard completion time</i>	< 2 weeks

Key Considerations When Using International PEO



Not an alternative to compliance

- Permanent Establishment Thresholds
- Acquired rights / recognition of seniority
- Restructure / termination regulations

Understand market-specific limitations of international PEO in M&A

- Matching benefits via International PEO not an option in France (Works Councils/ARD interpretation)
- International PEO is limited to a term of 18 months in Germany

Employee onboarding / communications plan

- Ensure robust employee engagement playbook to reduce attrition and ensure employee comfort



HR Operational Efficiencies in M&A Transactions



So Why Does It Matter? Why Should You Consider Using a PEO?

- Allows you and your team to stay focused on the critical areas to drive value
- Avoid cost and burden of HR set up countries with small headcount and no legal entity
- Keeps local compliance at the forefront
- Human Capital topics matter
- Ensures a positive employee experience

Company A	Company for Sale	Company B
5-7X	Valuation	5-7X
15 years old	Company age	15 Years Old
Injection molding	Product	Injection molding
\$40M	Sales	\$40M
\$4M	EBITDA	\$4M
Moderate	Market growth	Moderate
Undeveloped	Management team	Extensive and developed
None	Human capital plan	Thorough cascaded plan
Outdated	Policies and procedures	Finely tuned
Exists by default	Culture	Cultivated and owned by all
Punishment for errors	Safety	Engrained in operations
High turnover	Turnover	Minimal voluntary turnover
None	Leadership development	Structured program
Reactive, event-triggered	Training	Structured annual training plan

Company-specific risk factors:

Human capital directly impacts all of these!



About **Velocity Global**

Velocity Global is the leading provider of global employment solutions that helps companies confidently navigate the entire lifecycle of international business.

Through its end-to-end services, unmatched expertise, and best-in-class support in over 185 countries, Velocity Global has reinvented the way companies expand overseas. Its International PEO solution allows companies to enter markets quickly and efficiently to achieve their global growth goals.

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