

Human Capital Management (HCM)

Summary Market Overview

February 2020

Growing equity, realizing value



HCM Market Overview

HCM Market Segment Descriptions

HR BPO

- Outsourcing responsibility for the management/ administration of HR processes to a third party where most of the process management is transferred to the provider
- HR BPO activities include managing employee/manager portal, administration of recruitment, payroll and benefits and vendor management

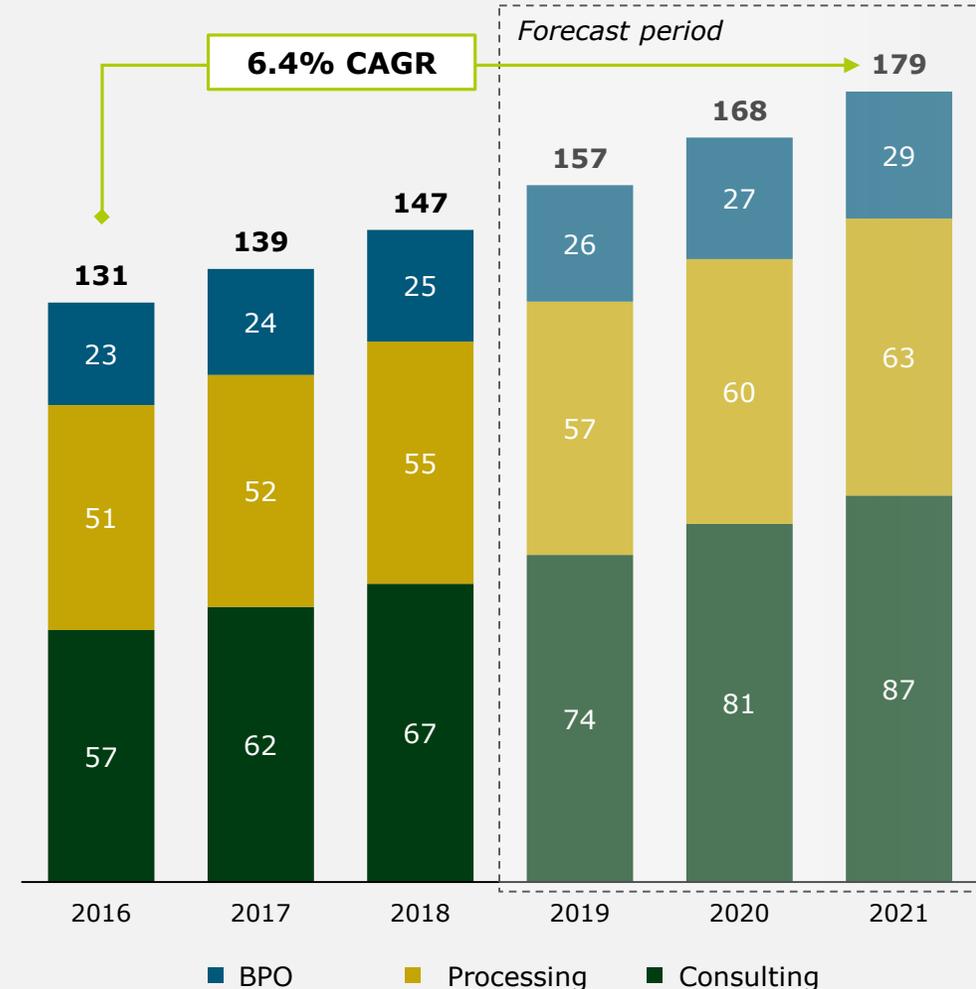
HR Processing

- Processing services include volume-based HR transaction processes such as payroll or benefits administration
- Processing services deal with the execution of a process but not with the transfer of management responsibility for that process to an external vendor

HR Consulting

- Human resources consulting services focus on the human dimension of business transformation
- These services focus on organisation-wide HR strategy and helping executives align organisational goals with the right communication, systems and processes

Global HCM Market by Segment (\$bn)



Underlying Market Drivers

Lever

Data



Global Talent Shortage

- The ongoing global skills shortage and supply/demand imbalance poses a significant challenge to companies with over 45% global employers unable to fill outstanding roles
- Finding, skilling retaining talent is becoming a major issue for HR functions and 65% of companies believe talent shortage is impacting business transformation strategy



Aging Workforce Composition

- Millennials now constitute a much larger portion of the workforce, causing a shift in career preference and contributing to the rise of the gig economy
- The labor force is increasingly opting for workplace flexibility and work-life balance over remuneration requiring organisations to re-think hiring strategy



Digital Disruption

- Increased automation and digital technologies are acting as enablers and catalysts of disruption and creating new opportunities and challenges for organizations and HR functions, in particular the emergence of AI and machine learning
- Jobs are becoming automated creating new roles requiring new skills which are difficult to fill



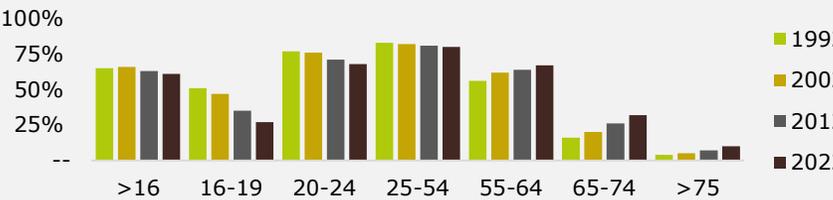
Focus on Employee Experience

- Employee experience is critical not only for the HR department but for the entire organization, driving HCM service providers to focus on providing employee engagement solutions
- HR function priority has moved from cost reduction to employee experience enhancement to retain talent

Talent shortage over time



% of population bracket working



Age category (years)

Social media: c.25% of world population uses social media, spending >15 hours a month



Mobility: 6.8 billion people have access to mobile phone

Analytics: more digital data generated than ever before

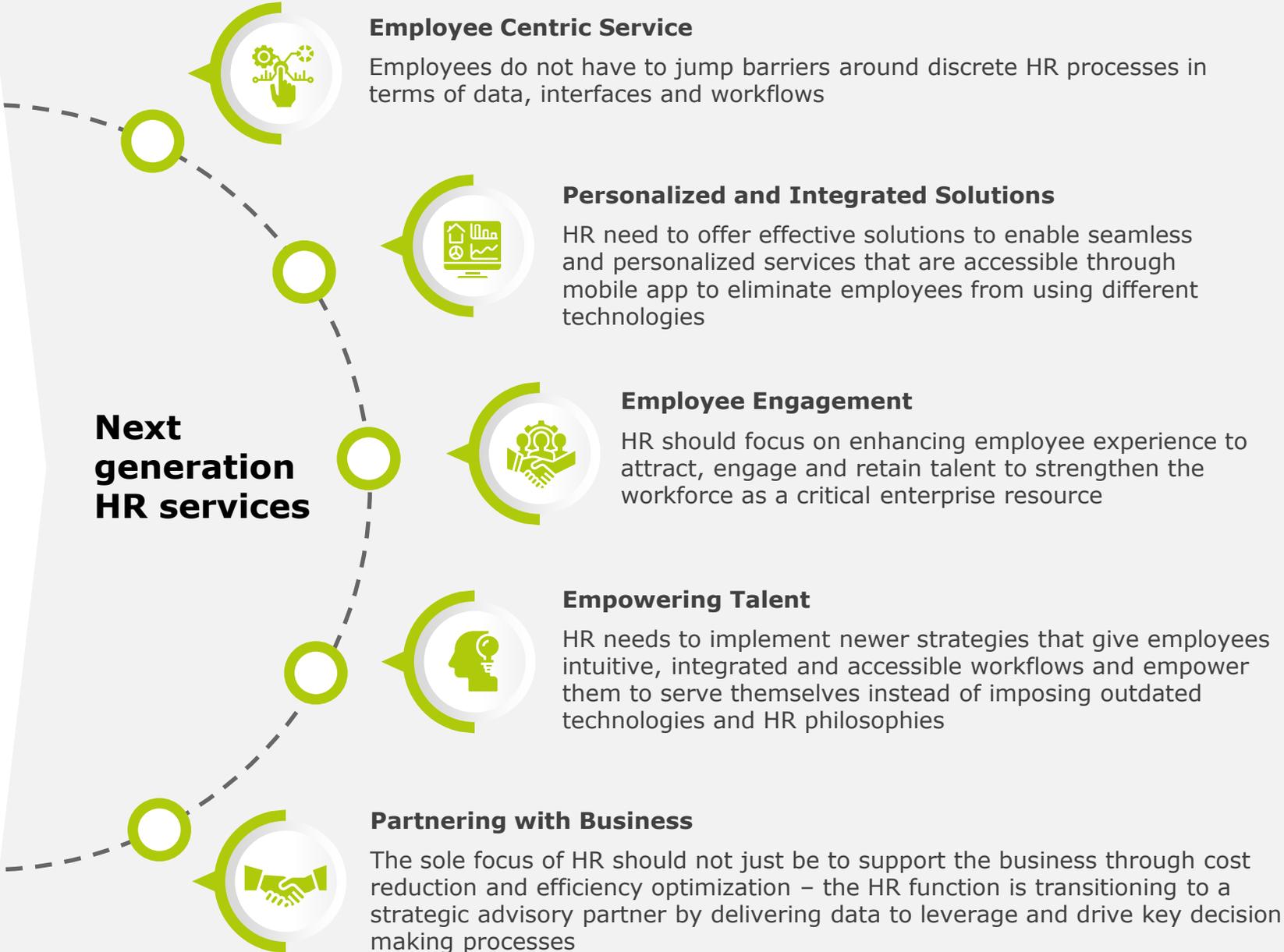


Cloud: in 2017, 35% of all data is stored in the cloud

Benefits of high employee engagement

- 2.5x** greater revenue growth
- 62%** less accidents
- 50%** less absence days
- 40%** less employee turnover
- 12%** higher customer advocacy
- 2x** annual net income
- 18%** higher productivity
- 24%** net promoter score

Evolution of HCM



Sources: Forrester, Gartner

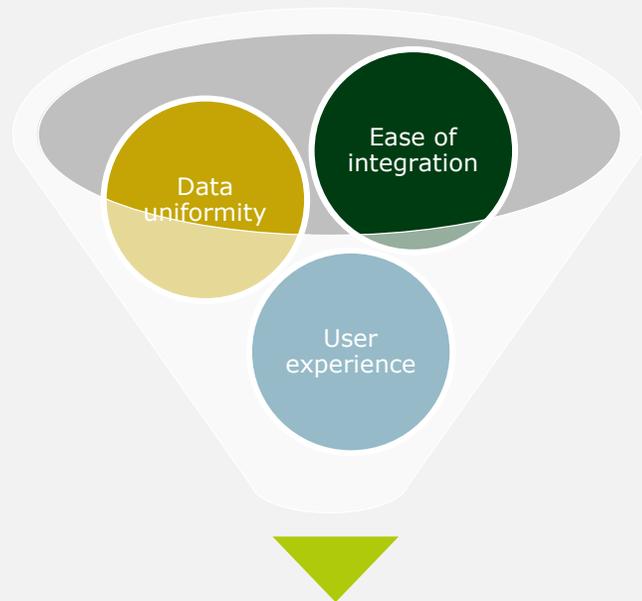
Benefits of HCM Analytics

Advanced analytics solutions can produce strategic inputs not only on an as-is state of business but also through predictive and prescriptive analytics, typically presented as intuitive data that can be used to produce deeper insights

	Workforce Planning	Talent Acquisition	Retention	Employee Satisfaction	Learning	Performance Management
Prevalence						
Efficiency Metrics	<ul style="list-style-type: none"> Employee productivity Absenteeism 	<ul style="list-style-type: none"> Hiring lead-time Cost per hire Resource requirement per hire 	<ul style="list-style-type: none"> Employee attrition Turnaround rate Performance-attrition analysis 	<ul style="list-style-type: none"> Satisfaction surveys Net-promoter scores Sentiment analysis 	<ul style="list-style-type: none"> Training uptake Cost of L&D E-learning adoption rate 	<ul style="list-style-type: none"> Timing and efficiency of appraisal Feedback impact analysis
Effectiveness Measures	<ul style="list-style-type: none"> Skill gap analysis Resource analysis 	<ul style="list-style-type: none"> New hire failure rate New joiner quality Lead time to productivity 	<ul style="list-style-type: none"> Analysis of drivers behind voluntary/involuntary separation 	<ul style="list-style-type: none"> Compensation benchmarking Remuneration satisfaction rate Reward-performance Employee engagement 	<ul style="list-style-type: none"> Effectiveness of training Self-training initiatives Upskilling success analysis 	<ul style="list-style-type: none"> Appraisal satisfaction metrics Improvement analysis
Strategic Benefit Metrics	<ul style="list-style-type: none"> Aging workforce and ways to address the issue Managing workplace absenteeism Supply/demand workforce projection Career planning projection for optimal succession planning 	<ul style="list-style-type: none"> Predicting requisition aging Assigning application fitment score by analyzing CV Assessing new-hire attrition probability and performance Addressing new hire productivity through learning initiatives 	<ul style="list-style-type: none"> Attrition-profitability correlation analysis Leaver probability assessment Reduction of future attrition through data-driven hiring decisions 	<ul style="list-style-type: none"> Preventable retention addressed through targeted learning programs or increased benefits Leveraging structured and unstructured data to create, improve or re-design initiatives to deliver robust business insights 	<ul style="list-style-type: none"> Targeted training to reduce errors Training initiatives driven by insights and performance scores Analysis of correlation between participation and business performance 	<ul style="list-style-type: none"> Profiling of promotions Planning for succession Top performer identification and fast track for leadership roles

Key HCM Software Market Trends

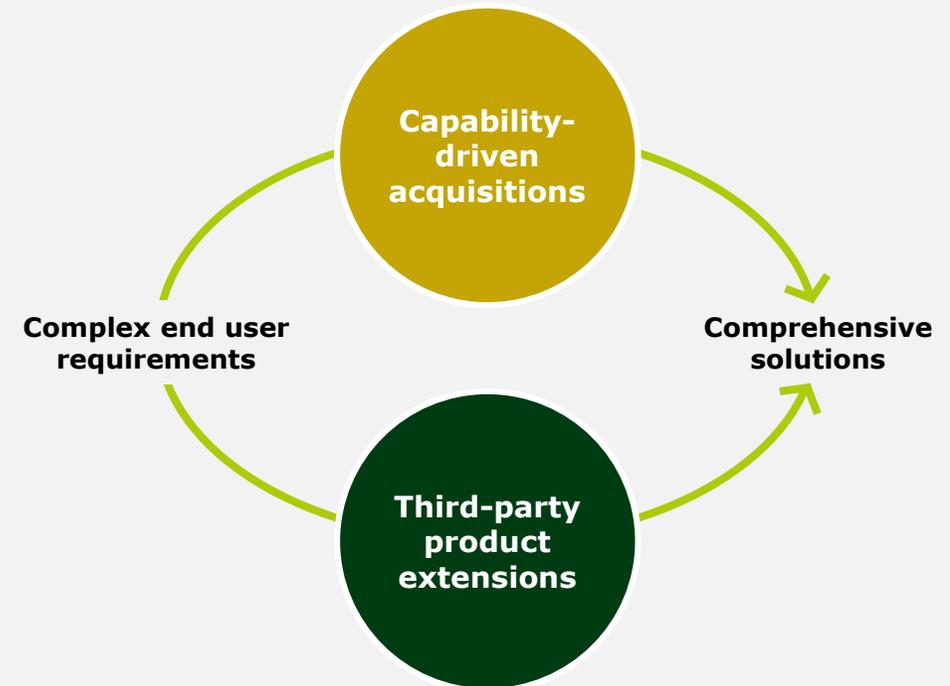
End user preferences have driven vendors to develop software solutions covering the entirety of the HCM cycle...



Demand for broad software suites

... but users with advanced requirements will still integrate modules from other vendors, for example those that cater to industry-specific needs...

...these high expectations have led vendors to seek alternative ways of developing specific expertise...



... increasing the need for vendor partners to assist companies in optimizing their use of the evolving software landscape

HCM Delivery Model Ecosystem

HCM Software Vendor-Partner Relationship Drivers

As with other highly competitive software markets, partners provide an important route to market for the vendors

Vendor partners provide a third-party source of innovation, such as specialist software vendors

Services partners can also provide an indirect form of innovation for vendors that provide customizable PaaS software that allows users to create bespoke modules

Data privacy law and payment technological complexity has led to payroll provision being heavily outsourced to partners

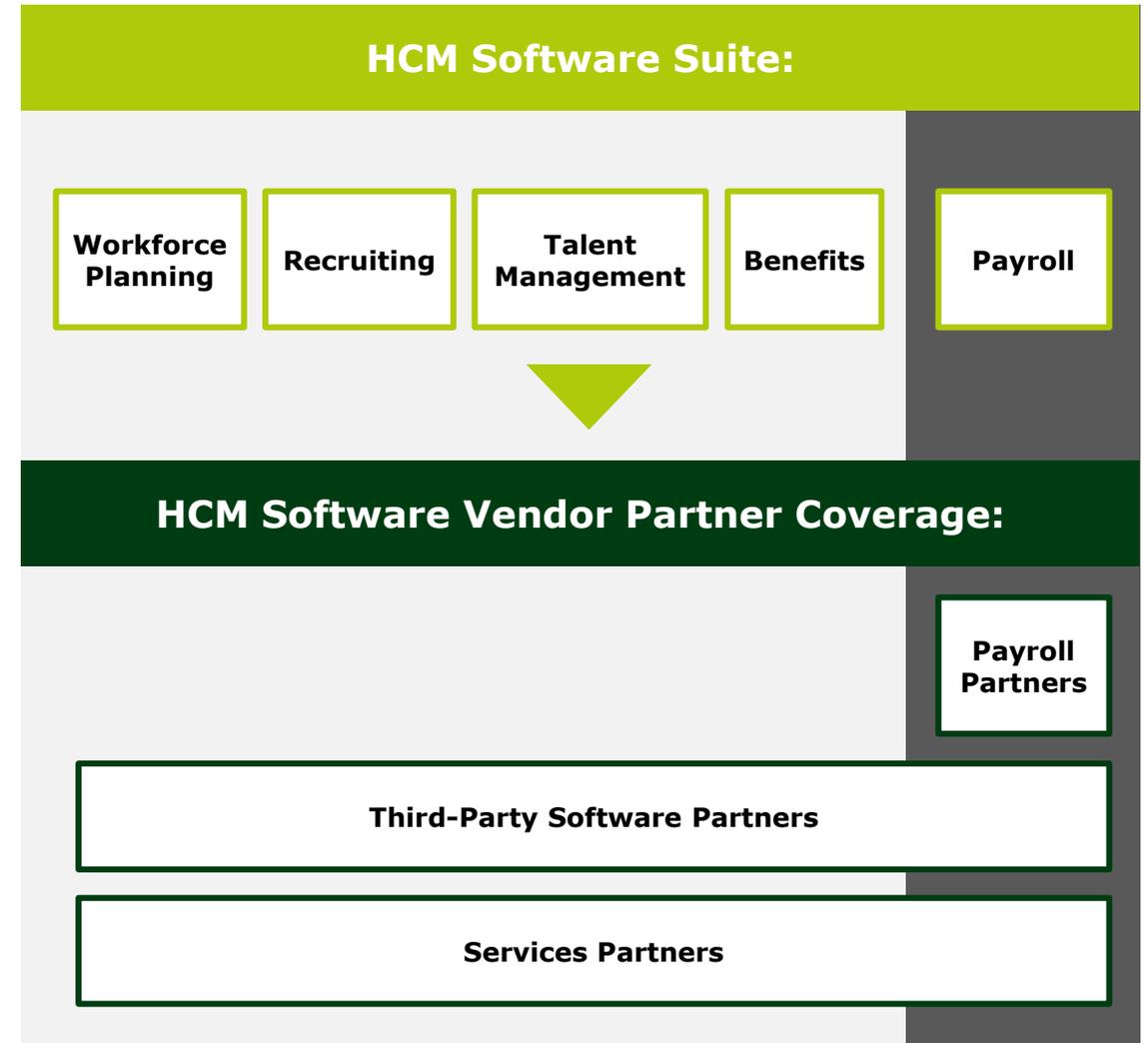
In order to provide increasing value to clients, services partners are delivering analytical consultancy to end users, leveraging those HCM software packages that produce adequate contemporary data

As the HCM software market has grown rapidly in recent years, service partners are often newer, smaller-scale companies seeking to develop a competitive advantage in a fragmented sector

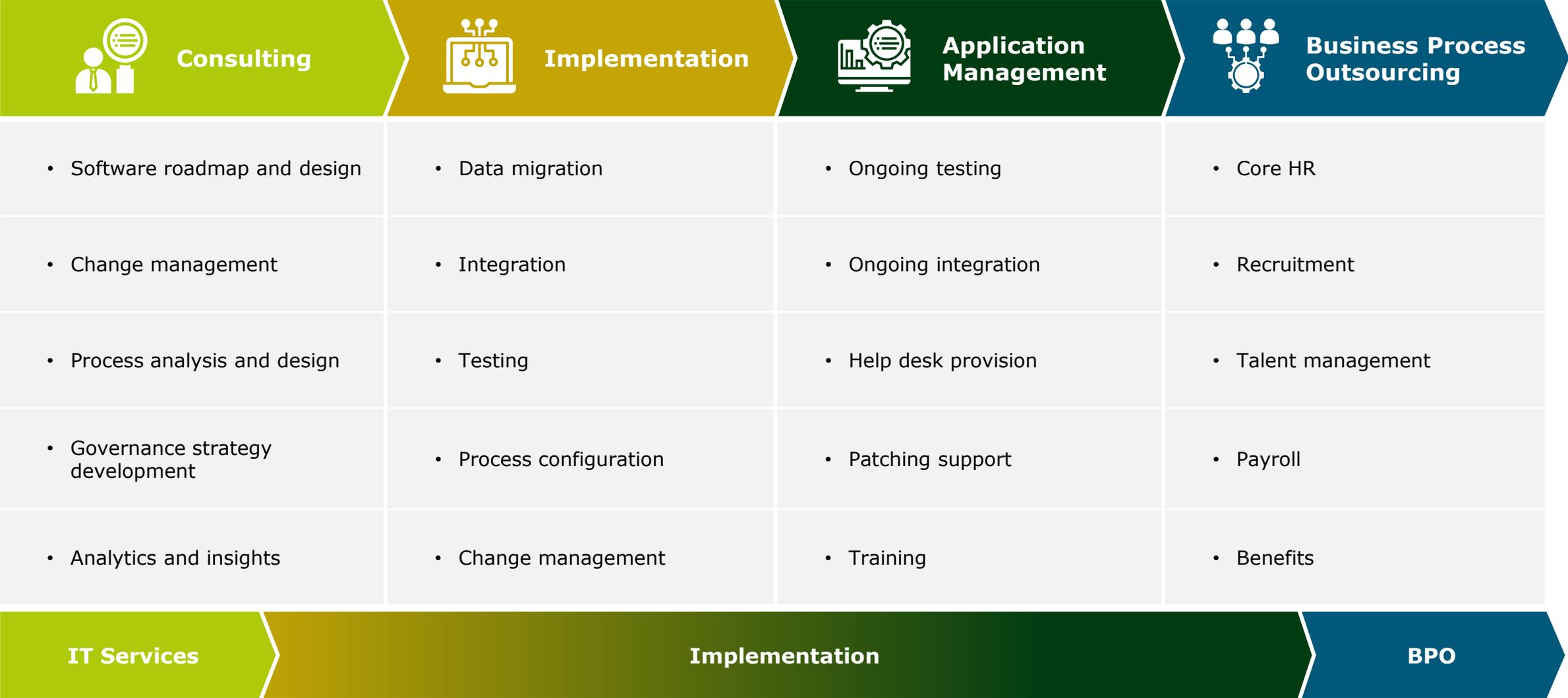
Service partners, like third-party software partners, cover the entirety of the HCM software suite spectrum

These partners can provide a variety of functions, primarily implementation, integration and application management

Vendor-specialized partners also seek to perform higher-margin strategic advisory work for HCM software-related decisions



HCM Services Partners Value Chain



HCM Software Vendor Partners – Competitor Overview

Professional Services Providers

Large professional services providers have global scale and sophisticated services capability to deliver new, complex HR solutions and the associated change management

Accenture **Deloitte** **KPMG**
pwc HURON

HR Consultancies

HR consultancies have the capability to offer an outsourced function that can operate alongside vendor technologies that they are highly familiar with and provide expertise that more generic providers cannot match

KORN FERRY **AON** MERCER

Technology Consultancies

Global technology consultancies are able to combine their various capabilities in implementing, integrating and managing new HR software packages at a large scale

Capgemini **IBM** **tieto**
DXC.technology **HEXAWARE**

Specialist HCM Partners

Specialist HCM partners will often focus on a single technology or range of technologies and leverage their expertise to optimise end user experience

AXSIUM COREHCM **alight**
aasonn[™] COVALENCE
A Rizing Company CONSULTING INC.

HCM Software Vendor Partners – Competitor Overview

Capability-Driven Acquisitions

Vendor coverage and analytics capabilities both present an attractive rationale for cash-rich or sponsor-backed incumbents to provide a more comprehensive set of services to clients

<p>May 2019</p> <p>alight / wipro Workday Services</p>	<p>January 2019</p> <p>ATKearney / Cervello</p>	<p>October 2018</p> <p>COLLABORATIVE SOLUTIONS / Theory of Mind</p>
---	---	---

Financial Sponsorship

For many software vendor partners, particularly those of newer vendors such as Workday, there are a number of smaller 'boutique' firms competing in a fast growing market that is attractive for investors

<p>May 2019</p> <p>LIGHTYEAR / ENGAGE P E O</p>	<p>May 2019</p> <p>AKKR ACCEL-KKR / SAFEGUARD GLOBAL</p>	<p>June 2018</p> <p>OMERS CAPITAL / alexander mann solutions</p>
--	---	--

Historic Consolidation

Despite the relative nascence of the sector, there have already been several transactions in the market which have involved consolidation, with large professional services firms often making the acquisitions

<p>November 2016</p> <p>accenture / DayNine</p>	<p>October 2012</p> <p>alight / OmniPOINT STAFFING</p>	<p>March 2012</p> <p>Deloitte / AGGRESSOR</p>
---	---	--

Vertical Integration

The trend of vertical integration is a feature of inbound M&A in the HCM software vendor partner sector; software vendors trade at higher EV/EBITDA multiples, making services acquisitions economically feasible

<p>October 2019</p> <p>KRONOS / Optimum Solutions empowering business with technology</p>	<p>July 2019</p> <p>toast / stratex</p>	<p>January 2019</p> <p>ASURE SOFTWARE / Payroll MAXX SM</p>
--	---	--

Disclaimers and Important Information

This document is being furnished to you by Equiteq Advisors Ltd for itself and its affiliates strictly on a confidential basis. The document is for informational purposes only and should not be regarded as an offer to sell, or offer for subscription, or as a solicitation of an offer to buy the securities or other investments mentioned in it. This information profile has been provided to its recipient upon the express understanding that the information contained herein, or made available in connection with any further investigation, is strictly confidential and is intended for the exclusive use of its recipient. It shall not be photocopied, reproduced and/or distributed to others at any time without prior written consent.

This document is neither a prospectus nor an invitation to subscribe to securities or other investments. Nothing in this document is intended to constitute legal, tax, securities or investment advice, or opinion regarding the appropriateness of any investment, or a solicitation for any product or service. The information herein is subject to change without notice. Equiteq Advisors Ltd does not represent that any information, including any third party information, is accurate or complete and it should not be relied upon without proper investigation on the part of the investor/s.

Neither Equiteq Advisors Ltd nor its affiliates nor any of its officers or employees accept any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents. The recipient of the material should rely on their own investigations and take their own professional advice. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

Investments in securities/equity related instruments are subject to market risk. These risks could be security specific or market specific and arising from company, industry, political, economic (both domestic and global), etc., factors. Investor/s should carefully read all disclosure documents before investing and shall not make Equiteq Advisors Ltd and/or its associates/employees liable for any risks/losses pertaining to any product/scheme offered by them from time to time.

Past performance does not indicate the future performance of any current or strategies advised or managed by Equiteq Advisors Ltd.

Distribution of this document in some jurisdictions may be restricted or prohibited by law and regulation, and accordingly recipients of this document represent that they are able to receive it without contravention of any unfulfilled registration requirements or any other legal or regulatory restrictions. Recipients of this document in such jurisdiction should fully inform themselves about and observe all applicable legal or regulatory requirements and Equiteq Advisors Ltd and its affiliates, directors, shareholders, managers, officers, employees, agents and advisors, do not accept any liability to any person in relation thereto.

For the purposes of distribution within the United Kingdom, this communication is exempt from the financial promotion restriction in Section 21 of the Financial Services and Markets Act, 2000 relating to the communication of an invitation or inducement to engage in investment activity on the grounds that it is made to those persons falling within the following Articles of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended: Article 19 (Investment Professionals) and Article 49 (High Net Worth Companies). Any investment to which this communication relates is only available to investment professionals and high net worth companies.

If you have received this document and you are not the person for whom it is intended, you should not rely on this communication or act on it.



Growing equity, realizing value

New York – Boston – London – Paris – Singapore – Sydney

www.equiteq.com

