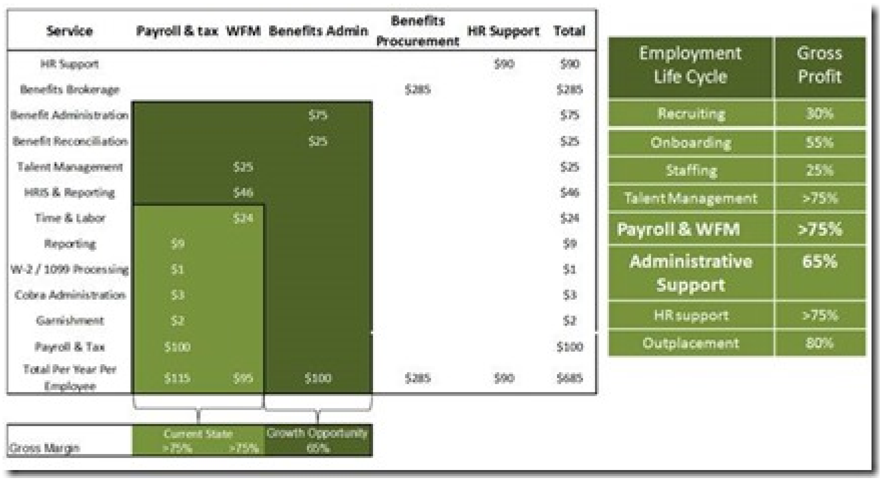
HRTech and Services for the HR Department of One

SHRM defines small businesses as those with less than 350 employees. For these small businesses with an “HR Department of One” the need for HR Services beyond payroll includes most commonly human capital management, labor costing reporting and financial management, time tracking, WFM (workforce management), and expense management. (See more at: http://www.shrm.org/publications/conference-today/articles/pages/hr-departments-of-one.aspx#sthash.yxenTA3D.dpuf).



Service	Payroll & tax	WFM	Benefits Admin	Benefits Procurement	HR Support	Total
HR Support					$90	$90
Benefits Brokerage				$285		$285
Benefit Administration			$75			$75
Benefit Reconciliation			$25			$25
Talent Management		$25				$25
HRIS & Reporting		$46				$46
Time & Labor		$24				$24
Reporting	$9					$9
W-2 / 1099 Processing	$1					$1
Cobra Administration	$3					$3
Garnishment	$2					$2
Payroll & Tax	$100					$100
Total Per Year Per Employee	$115	$95	$100	$285	$90	$685
Gross Margin	Current State >75%	>75%	Growth Opportunity 65%			

Employment Life Cycle	Gross Profit
Recruiting	30%
Onboarding	55%
Staffing	25%
Talent Management	>75%
Payroll & WFM	>75%
Administrative Support	65%
HR support	>75%
Outplacement	80%

The Beyond Payroll Market:

- The market for HR Technology in the United States is greater than 100,000 middle market companies ($10 million to $250 million, 50 to 10,000 employees), more than one (1) million SMBs (<$10 million, <100 employees), and the enterprise market, plus government entities.
- Annually more than 200,000 small businesses change their payroll provider (based on public company customer churn / lost retention turnover statistics)[1].

While the payroll market for small businesses with less than 50 employees is highly competitive (“red ocean”) between several different vendor types; there are approximately 150 payroll outsourcing players with significant, meaningful revenues ($10M or greater annual recurring non “pass-through / non-reseller revenues) in the United States. For multinationals and global organizations there are a dozen global payroll service providers with meaningful North American operations.

Based on interviews from this year's annual SHRM and IPPA conferences, the “Beyond Payroll HRTech Platform” for the 2020 Workforce Beyond Payroll has significant operating gaps. While the market is underserved, its also fragmented and the buying process is increasingly complex. While no private company has dominant market share nationwide; leaders exist regionally and by industry.

[1] Middle Market Private[1] Company North American HRO ASO Market Sector

- Beyond Payroll HRTech Market: While 1 in 5 enterprise customers consolidates on a singular HRMS platform, the majority of companies have anywhere from 3 to 9 vendors.
- HRO/ASO: Multi billion market size[1]. Focus on BPAAS with a minimum of 3+ modules/functions.
- PEO: $152 billion in gross revenues annually[1] with 3 millions worksite employees and 180,000 small business customers. On average the PEO industry according to NAPEO adds 6,000 new clients per year (100,000 new worksite employees). Approximately 900 PEOs across the United States.

Beyond Payroll HRTech Solutions for Small Business

"Beyond Payroll SaaS HRTech Platforms for the HR Department of One"

SMB Payroll with HR Technology Market Landscape[2]:

Public Market Share Leaders:	*Private Equity Sponsored Sector Participants:*	*Private fast-growth emerging leaders with $5 to $35 million in annual reve*
ADP (NASDAQ: ADP) [620,000 customers]	**Ascentis** (Catalyst & Palm) [2,500]	**EmployeeMax** [1,000]
Intuit (NASDAQ: INTU) [6 million for QuickBooks]	**Ceridian** (Thomas Lee Partners) [100,000]	**NetChex** [500]
SAGE[3] (LON: SGE) [estimate 400 to 550k worldwide]	**Zenefits** (Andreesen Horowitz, IVP, other investors) [2,500]	**Proliant** [500]
Paycheck (NASDAQ: PAYX) [554,000]	**Northgate Arinso** dba NGA HR [14,000]	**TriCore** [5,000]
Heartland Payment Systems (NYSE: HPY) [250,000]	**Infinisource** (KKR) [90,000]	**IOI Pay** Interlogic [6,000]
CompuPay (Willis Stein & Partners) [160,000]	**Paycor** (Evolution Platform, Guy Henshaw) [20,000]	**PrimePay**[4]**,** [5000]
CBIZ (NYSE: CBZ) [90,000]	**Gusto** aka Zen Payroll (General Catalyst Partners & KPCB) [9000]	**InfoSync** [3,600]
Paycom (NYSE: PAYC) [10,000]	**CheckpointHR** (Edison Venture Partners) [9500]	**Valiant** [3,00]
Paylocity (NASD: PCTY) [7,000]	**CloudPay** (formerly Pattersons, Rho Canada and Pinnacle Ventures) [10,000]	**Mangrove** [4,500]
	Namely (Sequoia)	**SafeGuard World** [2600]
	JustWorks Inc (Bain, others)	**Symmetry Software** [500]
	Inova (multiple)	**For a list of other regional and industry vertical leaders please conta* *Ephor@EphorGroup.com*

[2] **PEOs**: TriNet, Insperity, AccordHR, EmpowerHR, Emplicity, OdysseyOne, Sheakley, Discovery, Landrum, SCICompanies, SOIHoldings, Barrett, AlphaStaff, Oasis. Ambrose, Co-Advantage.

HRO ASOs[2]: Co-Advantage, Advantec, OneSourceVirtual (Workday platform), VSManagement, Basic, Ascentis, CheckPoint, Doherty, HRKnowedge, AccessPoint, Orion, Tricore, ZeroChaos, UnicornHRO, CompuPay BenefitMall, Northgate, Tag Employer Services, Co-advantage, Sheakley, Primepay, Employee Solutions, AccessPoint, Valiant Solutions, Orion, Discovery, IO Pay, Checkpoint, Pursuit of Excellence, CorbanOneSource, ZeroChaos, Infosynch, Tag, AccessPointHR, Sheakley, Qqest, IES, UnicornHRO, CPEhr

HR Services: HRAnswerLink, Inspirus, myHRSupportCenter, Payscale, Richardson, Salary.com via KeneXa-IBM, The Wiley Group ThinkHR, Training: TRGI, BizLibrary, Covey, HRSG.

[3] In 2014 SAGE acquired PayChoice [150,000] for $157.8 million. SAGE offers 230+ applications across functions in 160 countries.

[4] ($50m in annual revenues, 400 employees, 30 offices, focus on SMBs, CPAs, Franchises)

SMB Focused Payroll Platforms for Service Providers

Payroll Landscape Executive Summary Snapshot:

Payroll Software	*Payroll Service Providers and BPOs*
— Big Four Payroll Providers: ADP, Paychex, Ceridian, Intuit — ERP Providers (Top 40): Oracle, Epicor, SAP, Workday, AWS, IBM, Sage, Infor, UltiPro, Thompson Reuters, FinancialForce, Intacct — Payroll software to the payroll service bureaus / licensees: o Millennium MPay WebEntry PayEntry 100+ o Paychoice 50+ o ExecuPay PlatinumPay PlatinumHR 50+ [22,000] o iSystems Evolution 50+ o Adaptasoft's CyberPay 6+ o SynchHR 2+ o PeopleStrategy 2+ — PEO Software: Darwin, HR Pyramid, ThinkWare	*Payroll Service Bureaus* — 150 single location service bureaus with greater than $1M recurring revenues. — Professional Employer Organizations (Top 100): TriNet, Insperity, AlphaStaff, Sheakley, ZeroChaos, Coadvantage — HRO / ASOs: UnicronHRO, TriCore, CheckpointHR, TAG, Optimum, KnowledgeHR — FAO[5] Outsourcers (multiple) — Banks (Wells Fargo) — Insurance (Fidelity) — Payroll Staffing (Kelly, Manpower)

[5] Both FAO & F&A is abbreviated for "Finance and Administration" outsourcing solution providers. Scope of services vary widely among these providers.

Beyond Payroll HRTech Deal Summary Mid Year 2015

While HRTech valuation multiples remain attractive (for scaled enterprises 2 to 8X revenue multiple and 6 to 12X EBITDA multiple, for service bureaus private company valuations range: Revenue: 0.5X to 2X | EBITDA 2X to 6X.

2015 HRTech Update

- **>48** private company beyond payroll platforms.
- **21** private company acquisitions in 2014 YTD (**13** in 2013, **7** in 2012).
- **255** private payroll service providers greater than $1m in annual revenues.

Beyond Payroll HR Services

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	Current State		Growth Opportunity
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Talent Management	>75%
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HR Bundle Pricing:

~$6 to $9 PEPM for proactive HR packaged bundles[9] for companies focused on raising the minimum professional standard for all contributors (employees, contractors, etc.).

~$1,500 to $9,500 per month retainer per module and/or $9 to $99 PEPM for proactive outsourced HR support for professionals and/or managers within companies focused on developing star performers and being known as a "Best Place to Work.".

[9] Platforms are increasingly adding:
1) Core Employee Data Applications (Time, Expense, WFM, Performance, Analytics, etc.)
2) Human Capital Content (Assessments, Recognition, Compensation, Training, Wellness, Learning, etc.)
3) HR services vary by industry and company size, but may include:
   a) Tier I Level HR Support
   b) Administration (Tax, Benefits, Screening, Onboarding, etc.)
   c) eRecruiting and Staffing Support
   d) HR Content

What Should My Growth Strategy Include & Why?

For a no obligation overview discussion of your market sector comparables, contact Ephor:

Solving the Value Equation

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214.702.6427

24 E. Greenway Plaza, Ste. 400
Houston, TX 77046
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How & Where Should I Expand My Capabilities?

For a pragmatic, no obligation overview and discussion, contact

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