

The PEO Revolution

Transformation Through Tech and Innovation



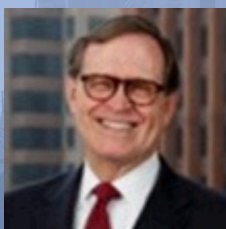
B2B SERVICES

Carleton McKenna & Co

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KEY TAKEAWAYS

Carleton McKenna & Co is pleased to share its 4Q 2024 Professional Employer Organization Report. In this report, Carleton McKenna explores marketplace trends, consolidation activity and noteworthy transactions. We also review what the future deal-making landscape may look like for HR and other administrative service businesses to help sector participants shape their strategies for the near- to medium-term.

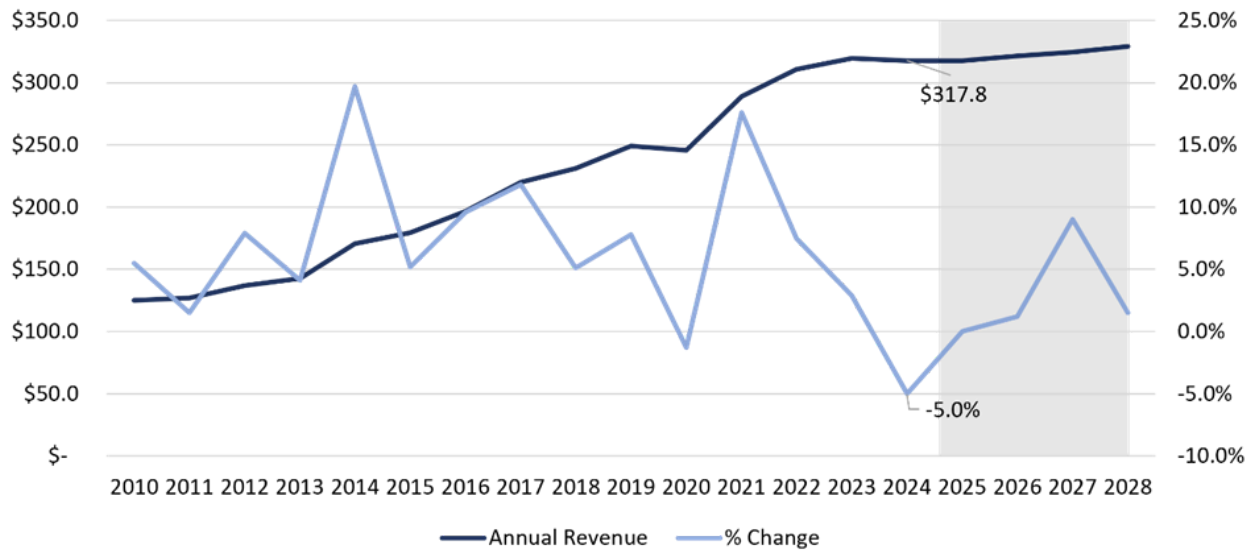
1. **Labor Market and Regulatory Pressures:** The tight labor market and evolving regulations are pushing businesses to seek PEO services for HR compliance and workforce management. PEOs that can quickly adapt to regulatory changes and workforce demands will have a competitive advantage.
2. **Challenges from Rising Interest Rates:** Rising interest rates have constrained demand for PEO services as businesses face tighter profit margins. This has caused hesitation in outsourcing HR services, potentially slowing the overall growth of the industry despite technological advancements.
3. **Opportunities from the Chevron Doctrine Overturn:** The Supreme Court's decision to overturn the *Chevron* doctrine provides PEOs with more leeway to challenge burdensome federal regulations. This regulatory shift offers PEOs the chance to reduce compliance risks and stabilize business operations in a complex legal landscape.

Carleton McKenna has substantive experience in the Professional Employer Organization industry, with further focus in tech-enabled HR and administrative solutions. To learn more about Carleton McKenna's wide range of transaction experiences, strategies for growth or exit, and current PEO industry trends, please [contact us](#).

INDUSTRY GROWTH AND OPPORTUNITIES^{1,2}

The Professional Employer Organization (“PEO”) industry is experiencing significant growth and evolution through 2024 with top PEOs surpassing several billion dollars in revenues. Analysts predict a steady revenue increase of 8-12% annually. This growth will be driven by several factors including i) small businesses seeking cost and burden reduction, ii) tight labor markets increasing retirement and retention needs, iii) complex regulations necessitating HR expertise, and iv) a strong economic outlook enabling greater outsourcing budgets. Given these factors, total revenues are forecasted to reach more than \$338 billion by 2028.

Figure 1: Total Value (\$B) and Annual Change (%)¹



With a surge in revenues across the industry, merger and acquisition activity has increased as the four largest PEO firms in the US control over 50% of total market share, absorbing small regional PEOs into national giants. This consolidation is driven by the need for scale to deliver comprehensive, cost-effective HR services and technology.

Technology

Many PEOs are transitioning towards “PEO 2.0” models with robust self-service portals, AI chatbots and advanced analytics for seamless integration with client digital tools. This reduces manual processes while providing on-demand access and enables large-scale delivery of cost-effective services. In addition, expansion of mobile HR apps, more workflow automation capabilities, and purely online “digital PEOs” with comprehensive tech platforms remain critical investments to keep PEOs competitive and attractive.

Dynamic Compliance

HR compliance remains crucial for PEO clients, but evolving regulations pose challenges and opportunities. The tight labor market and "Great Resignation" have increased demand for enhanced compensation, diversity programs, and benefits. PEOs that adapt to regulatory changes and workforce needs will gain a competitive advantage, while those lagging may face difficulties. How can PEOs strategize growth ahead of the curve?

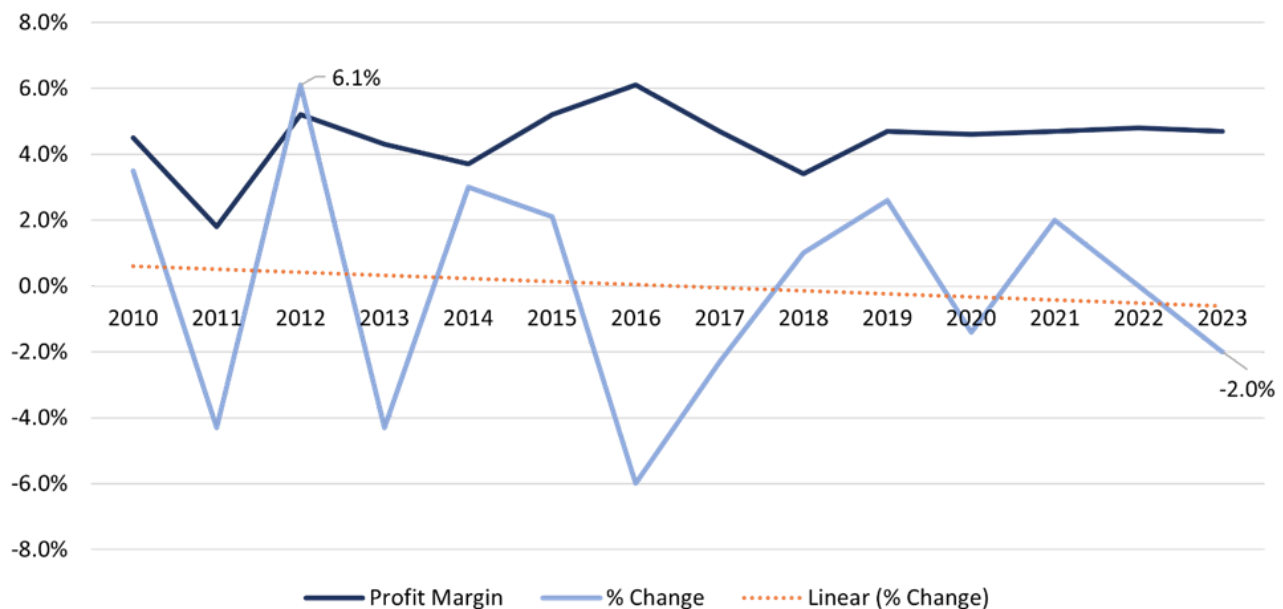
1. **Stay Informed and Proactive** - Keep the legal team or external counsel updated, and expect updates in on regulatory changes and court decisions to anticipate potential impacts and prepare effectively.

2. **Strengthen Compliance and Adaptability** – Regularly review compliance policies with customers, update training materials, and adjust the business model to quickly adapt to regulatory shifts. Consider using compliance management tools and engaging in scenario planning to prepare for different regulatory outcomes.
3. **Advocate and Collaborate for Regulatory Clarity** – Actively participate in industry advocacy through [NAPEO](#) to engage with policymakers, support fair regulatory frameworks, and help shape favorable conditions for the PEO industry's growth.

Continued Challenges Disrupting Growth^{2,3}

Interest rates have reduced demand for PEO services as a result of constrained corporate profits. As businesses face tighter profit margins, they remain hesitant to invest in outsourced HR services that PEOs can provide. This can lead to slower growth or even contraction in the PEO client base, further limiting growth regardless of technology.

Figure 2: Total Profit Margin (%) and Annual Change (%)¹



Regulatory Uncertainty

The United States Supreme Court's recent decision to overturn the Chevron doctrine has created significant regulatory changes for PEOs. The Chevron doctrine held that courts may not defer to an agency's interpretation of the law just because it might be ambiguous. Instead, from now on, the Supreme Court stated that judges "must exercise their independent judgement" when ruling on cases involving agency rules, regulations, guidance, or other actions.

What Does This Mean For PEOs?

Financial sponsors have shown increased interest in PEOs versus strategic sponsor acquisitions. Several noteworthy transactions from 2024 highlight the impact of financial acquisitions compared to those by strategics.

LIGHTBAY CAPITAL

has acquired



LightBay Capital's acquisition of Questco through an LBO on July 29, 2024

Questco is a human resource management and administrative services company servicing small to mid-sized businesses. Following LightBay Capital's acquisition, Questco will continue to provide a comprehensive set of technology-based HR and administrative solutions.



has acquired



via its financial sponsor



NEW MOUNTAIN CAPITAL

OneDigital's acquisition of Lyons HR via its financial sponsor, New Mountain Capital, through an LBO on April 23, 2024

Lyons HR is a provider of PEO services designed to streamline HR functions for small- and medium-sized businesses. This strategic acquisition allows OneDigital to extend its OneDigital Resourcing Edge PEO solution to its Southeast Region, which excels in its employee benefits, retirement plan services, wealth management and property and casualty insurance offerings.



has acquired



TPG's acquisition of G&A Partners through an LBO on March 1, 2024

G&A Partners ("G&A") provides HR outsourcing solutions related to risk management, employee benefits, recruitment process outsourcing and payroll. TPG's acquisition will allow for the continued support of G&A's clients, enabling them to focus on their core business. This transaction was supported by \$355.8 million in debt financing.



has acquired



via its financial sponsor

STONE POINT CAPITAL

Vensure Employer Solution's acquisition of MarathonHR Services through an LBO via its financial sponsor, Stone Point Capital, on February 7, 2024

MarathonHR Services specializes as a PEO, administrative services organization ("ASO"), and payroll provider and offers payroll processing, benefits administration, HR administration, risk management, and retirement planning. Vensure's strategic acquisition will bolster the reach of PEOs, ASOs, and payroll services throughout Georgia and surrounding states.

M&A ACTIVITY REMAINS PERSISTENT^{2,4}

The mixture of 2024's strategic and financial acquisitions demonstrate the continued interest in PEOs moving forward. Regional providers can expect interest from local or regional financial sponsors in addition to heightened strategic interest by the US's top four firms: ADP, Paychex, TriNet and Insperity.

Based on transaction multiples from 2003 to present, Administrative and Support Services businesses within the \$10-\$25M Total Enterprise Value ("TEV") will see a surge in M&A activity as historically self-reported figures depict an increased interest from PE firms.

Figure 3: Administrative and Support Services – Industry Multiples by TEV Range, All Years⁵

TEV Range	TEV \$	Revenue \$	TTM Rev Growth %	EBITDA Margin %	TEV / Rev	TEV / EBITDA	N =
\$10-\$25M	\$ 16.6	\$ 20.0	14.2%	20.3%	1.2x	5.9x	1,923
\$25-\$50M	\$ 35.3	\$ 36.0	16.5%	21.2%	1.4x	6.6x	1,561
\$50-\$100M	\$ 69.4	\$ 64.0	17.6%	21.4%	1.7x	7.7x	1,076
\$100-\$250M	\$ 144.5	\$ 120.2	17.9%	22.6%	2.0x	8.6x	609
\$250-\$500M	\$ 342.3	\$ 267.0	15.1%	21.3%	2.1x	9.9x	91
Total	\$ 53.4	\$ 49.6	16.0%	21.1%	1.5x	6.8x	5,260

Figure 4: Administrative and Support Services – Industry Multiples by TEV Range, 2020 to Present⁵

TEV Range	TEV \$	Revenue \$	TTM Rev Growth %	EBITDA Margin %	TEV / Rev	TEV / EBITDA	N=
\$10-\$25M	\$ 15.7	\$ 21.4	10.4%	20.2%	1.2x	5.8x	50
\$25-\$50M	\$ 33.2	\$ 31.8	13.2%	20.1%	1.5x	7.3x	38
\$50-\$100M	\$ 74.3	\$ 51.3	15.7%	21.3%	1.9x	8.9x	21
\$100-\$250M	\$ 141.9	\$ 108.2	12.0%	16.7%	1.6x	9.7x	15
\$250-\$500M	\$ 349.7	\$ 115.8	24.6%	26.4%	3.3x	12.9x	3
Total	\$ 53.4	\$ 41.9	12.7%	20.1%	1.5x	7.4x	127

This data suggests that companies within the \$10-\$25M TEV range often attract attention due to their scalable service models and potential for regional or niche dominance—as prescribed by recent acquisition strategies via financial and strategic sponsors as identified prior.

From 2020 onward, shown in Figure 5, there is a clear trend in increasing multiples. This uptick in multiples signals the growing demand for PEO services, as businesses seek cost-effective management strategies. The increasing multiples also suggest that potential acquirers will need to pay a premium for high-performing PEOs, particularly those that have already adopted advanced HR technology or cater to niche markets with high growth potential.

Figure 5: Professional Employer Organizations – Industry Multiples by TEV Range, All Years⁵

TEV Range	TEV \$	Revenue \$	TTM Rev Growth %	EBITDA Margin %	TEV / Rev	TEV / EBITDA	N =
\$10-\$50M	\$ 23.4	\$ 51.9	10.0%	11.8%	0.7x	5.8x	3

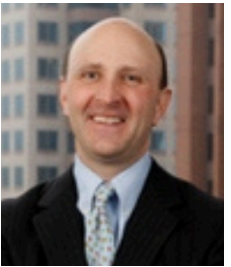
Historically, the PEO industry has seen higher-than-average multiples compared to other Administrative and Support Services subsectors, reflecting a strong value proposition. Financial sponsors in particular may see opportunities to invest in smaller firms that are ripe for scaling, aiming to improve operational efficiency and drive long-term value creation through similar regional acquisitions. Given current market trends, future industry activity will likely involve a greater mix of financial and strategic buyers competing for the most attractive assets in the market.



Paul H. Carleton
Managing Partner

Paul is founder and Managing Partner of Carleton McKenna & Company. He has more than 40 years of experience in corporate and investment banking focusing on mergers and acquisitions and capital raising activities for both private and public corporations. Prior to establishing Carleton McKenna, Paul was founder and Senior Managing Director of Carleton, McCreary, Holmes & Company, which was acquired by KeyCorp. Paul was previously Senior Managing Director and Head of Corporate Finance at the regional investment banking firm of McDonald & Company.

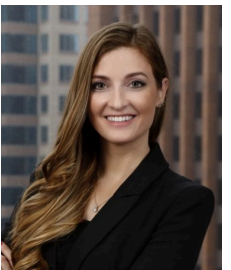
Paul has extensive corporate governance experience serving on corporate boards and not-for-profit boards. He has served on over 15 private company boards and currently sits on the Boards of E & H Family Group, Inc. and Breuer Premium Pet Food, Inc. Paul earned his bachelor's degree from Baldwin Wallace University and his master's in business administration from Northwestern University. He also received an honorary doctorate degree from Baldwin Wallace University.



Christopher J. McKenna
Managing Partner

Christopher McKenna is Managing Partner at Carleton McKenna & Company. Before joining Carleton McKenna, Chris partnered with a private equity firm to buy a Cleveland manufacturing business where he was President and CEO. Previously, Chris was the Director of Financial Analysis with the MacLean-Fogg Company in Chicago where he executed on financial transactions and acquisitions and also managed a business unit.

Chris was an Associate with the investment banking firm of Rodman & Renshaw in New York, where he was involved with private and public transactions to raise equity, subordinated and senior debt. He began his career in commercial banking in New York with Manufacturers Hanover Trust and Security Pacific Business Credit. Chris received his B.A. in Economics from Dartmouth College and his M.B.A. with High Distinction from the University of Michigan Business School.

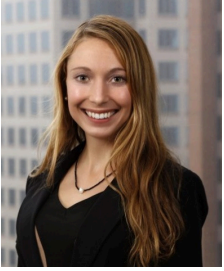


Nora T. Mahoney
Managing Director

Nora T. Mahoney has experience with securities regulation, corporate governance, commercial litigation and broker dealer registrations. Nora is primarily responsible for the execution of capital raisings and private placement assignments across a variety of industries, as well as M&A advisory for business owners, specifically focused in B2B Services, Manufacturing & Industrials.

Prior to joining Carleton McKenna, Nora worked for Attorney General Mike DeWine and then practiced Commercial Litigation with a national law firm where she was involved in pre-trial practice for securities litigation.

Nora was awarded her Juris Doctor and Masters from Vermont Law School and serves as a Board Member for First Federal of Lakewood and as an executive Board Member for the Union Club of Cleveland. She also serves on the Board of Trustees for Baldwin Wallace University, from which she received her Bachelors in Biology and Sustainability.



Alexis M. Becker

Vice President

Alexis is a Vice President at Carleton McKenna & Company. As part of Carleton McKenna's senior management team, Alexis manages M&A and capital raise transactions, guiding clients from preparation and marketing stages through negotiation and close. As part of transaction processing, Alexis reviews and develops marketing materials, conducts financial and valuation analysis, identifies strategic and financial partners for clients and facilitates due diligence processes. Alexis is also actively involved in building and maintaining client and partner relationships for Carleton McKenna.

Alexis completed her M.B.A. in Business Administration from Baldwin Wallace University in May 2018. She received her B.S. in Business Administration with a concentration in Marketing and a minor in Spanish from the Honors Program at Edinboro University of Pennsylvania, where she graduated top of her class.



David T. Jeziorowski

Analyst

David is an Analyst at Carleton McKenna & Company. His current job responsibilities include industry and sell-side flow research, as well as creation of buyers lists, pitches and other transaction documents.

Before joining Carleton McKenna, David worked as a research and investment intern at Praetorian Holdings Group, a Cleveland-based private equity firm. During his internship, David performed extensive research on Industrial and Renewable Energy industries, communicated directly with sell-side M&A advisors and executed business and financial analysis utilized by members of the firm's investment committee.

David graduated from the University of Dayton in May 2022 where he received his B.S. in Business Administration with a concentration in Finance.



Emily A. Kuznik

Marketing Analyst

Emily is a Marketing Analyst at Carleton McKenna & Company. Her primary responsibilities include researching and developing marketing content and industry reports, enacting website development, maintaining a social media strategy and regulating web-based management services.

Prior to joining Carleton McKenna, Emily worked as a Leadership Development Fellow for Baldwin Wallace University's Carmel Boyer School of Business. As a member of the pilot program, she coordinated a variety of marketing initiatives for both graduate and undergraduate programs including social media and email marketing campaigns, advertising, event planning, and recruiting.

She graduated magna cum laude from Baldwin Wallace University in 2021 where she earned a B.A. in Digital Marketing and again in 2022 with an M.B.A. in Management.

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ENDNOTES

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