

Hellman & Friedman Acquisition of Kronos Will Fund Further Growth

James Holincheck

This is the first major purchase by a private equity firm in the human capital management arena. Kronos will gain access to more resources to support its global expansion and movement into talent management applications.

NEWS ANALYSIS

Event

On 23 March 2007, Kronos announced that it has signed a definitive agreement to be acquired by the private equity firm Hellman & Friedman Capital Partners and its related funds in a transaction valued at approximately \$1.8 billion. Under the terms of the agreement, Kronos shareholders will receive \$55 in cash for each share of Kronos common stock. The deal is expected to be completed in the fourth quarter of fiscal year 2007.

Analysis

Kronos is a leading provider of time and labor management and human resource management system (HRMS) applications. By acquiring Unicru, Kronos has also begun to enter the market for talent management suites (that is, suites of strategic HR applications that support executive, IT, HR and vendor needs; see "Talent Management Application Suites Emerge to Support Strategic HR Capabilities" and "Kronos Reaches Beyond Workforce Management With Unicru Buy").

This is the first major acquisition by a private equity firm in the human capital management (HCM) market, though such firms have previously purchased enterprise resource planning (ERP) vendors. Golden Gate Capital is well-known for its investment in Infor, which rolled up SSA Global and Geac into a single entity. Hellman & Friedman's investment approach has been different. Typically, the firm buys market leaders with predictable revenue and earnings growth which generate high levels of free cash flow or attractive returns on capital investments. It has not been focused on a roll-up strategy.

Since, generally speaking, Hellman & Friedman's practice has been to back strong existing management teams, we do not expect major changes in the leadership of Kronos in the short term. However, it is unclear how the acquisition will impact Kronos' strategy in the future. Kronos is active in many highly competitive markets: it has offerings in time and labor applications in different industries, as well as globally (most of Kronos' revenue comes from North America), and in midmarket HRMS. In addition, while Kronos has made an initial foray into talent management, it does not yet offer a complete set of applications. We believe that the acquisition will provide additional capital that enables Kronos to grow its talent management application offerings — most likely through acquisition — and expand globally.

RECOMMENDATIONS

- **Kronos customers and prospects:** Continue with your investments in the company's products and services. We do not expect any disruptions in the business, nor do we expect a major change in strategic direction. However, customers should press Kronos to confirm this after the acquisition closes.

RECOMMENDED READING

- "MarketScope for Retail Time and Labor Applications, 2006" — Industry investment in retail workforce management continues to grow as Web-based solutions mature and leading retailers seek to improve store productivity. **By Gale Daikoku and James Holincheck**

- "Magic Quadrant for U.S. Midmarket Human Resource Management Systems, 2006" — Leaders have emerged in the HRMS market for midsize companies. **By James Holincheck and Kirsten Recknagel**

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