



Harvard Financial
Analysts Club



Trinet Group Inc.

NYSE: TNET

\$48.97 as of 04/30/20



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Overview

Company Overview

- TriNet is a leading provider of HR expertise, payroll services, employee benefits, and employment risk mitigation services for SMBs
- Founded in 1988 and based in California
- Ended 2019 with 18,900 clients and 340,000 worksite employees (WSEs)
- Charges flat per-employee per-month fee between \$80-\$600

Reasons Mispriced

- Sharp share price drop-off due to COVID-19-related sell-off despite strength of company's offerings during such a time
- Limited debt positions TriNet to withstand a recessionary period better than its competitors

Cap Table

NYSE: TNET	Millions (USD)
Price (as of 04/30/2020)	\$48.97
Shares Outstanding	68.75
Market Cap	3,004
(-) Cash	281
(+) Debt	392
Enterprise Value	1,940

Key Financials/Multiples

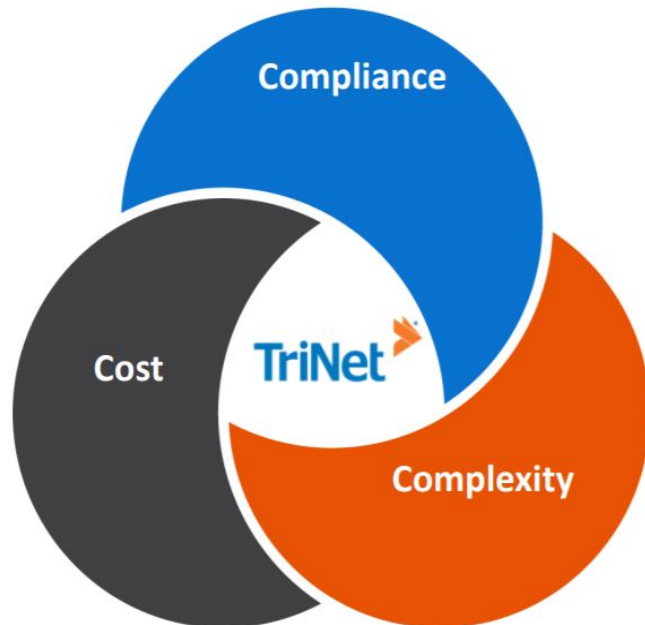
EV/EBITDA	9.12x
EV/Revenue	0.8x
Forward P/E	16.37x
Gross Margin	16.5%
EBIT Margin	7.0%
EBITDA Margin	8.1%
Diluted EPS	\$3.40

Business Overview

Providing HR solutions for small to medium-sized businesses

Targeting Key Pain Points

Challenges Facing SMBs



Net Revenue Breakdown

Professional Services (57%)

Functions as an “outsourced HR department”

- Services include HR expertise, risk mitigation, benefit options, payroll services, and a technology platform for workforce analytics

Net Insurance (43%)

Intermediary in determining and connecting clients to optimal policies

- Scale enables them to offer 300+ national and regional health offerings aligned to target verticals
- Ensures clients are appropriately priced in consideration of risk and experience

Value Proposition

“The most critical issues facing enterprises today are HR challenges such as the **scarcity of talent, the high cost of HR operations,** and providing employee experiences that are required to maintain competitive positioning”

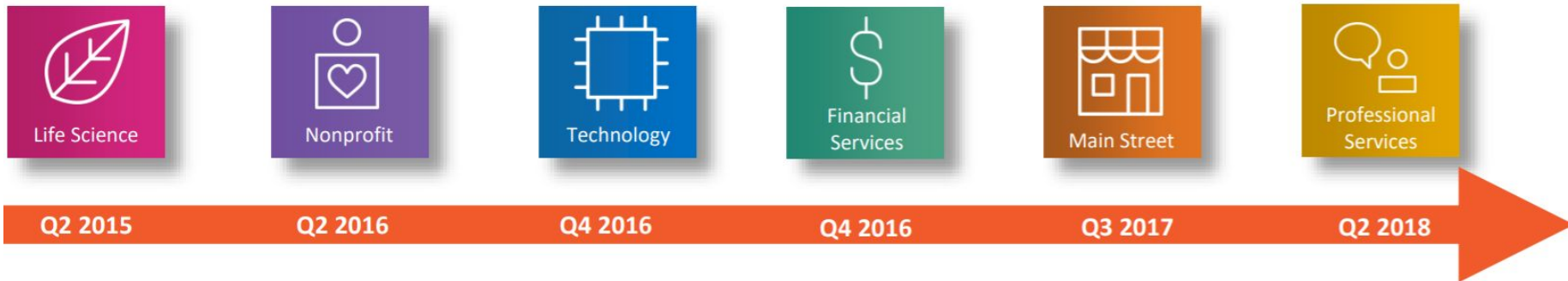
-Anil Vijayan, practice director at Everest Group

TriNet allows SMBs to **focus resources and time on their competitive advantages and retain top talent** with competitive benefits and offerings.

Business Overview

“Complete package model” attracts clients faster than bloated competitors

Vertical Strategy



Competitive Advantages

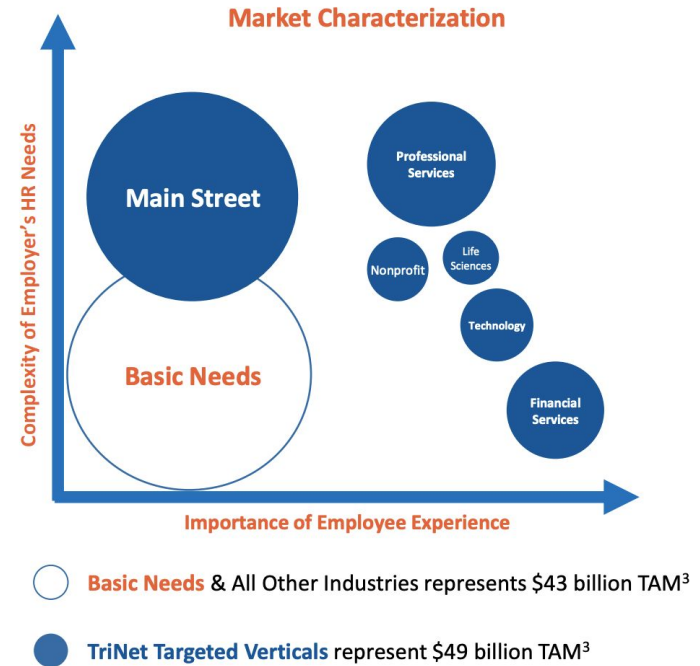
- Built-out offerings targeted by industry vertical: newest additions include Main Street, professional services
- Smaller, less complex business model matches “complete package” sought after by small businesses without resources to devote to navigating and evaluating optionality vs. customizable options like ADP
- No minimum salary required as with ADP (especially important in a business slowdown)
- Uniform services nationwide make TriNet the best option for remote or decentralized organizations
- Named one of the 100 Fastest-Growing Companies in 2017 by Fortune Magazine

Industry Overview

HR Outsourcing

- Trinet operates in the outsourced HR industry, which administers payroll and health benefits and advises small and mid-sized businesses on employment law compliance and risk reduction
- Services include HR expertise, Risk Mitigation, Benefit options, Payroll services, Technology platform for workforce analytics
- Global value of HR services was \$157.8B in 2020, with a 9% CAGR expected over the next 5 years

U.S. Market Size



Industry Drivers

- Demand for HR models where technology is leveraged to reduce costs, improve process efficiency, and integrate a seamless and intuitive employee experience
- Increase in deployment of big data and analytics presents incentives to outsource HR over in-house capabilities
- Talent is looking at technology as a requirement from their employers: 58% of respondents said they make decisions based on technology offerings of a company (HBR Analytic Services report, 31 May 2018)

I. COVID-19 is pushing small and mid-sized businesses to reorganize with a focus on streamlined labor.

II. The market overestimates the impacts of COVID-19 on TriNet's potential revenue growth and costs.

III. Investment in new services and verticals will increase client retention rates, driving long-term revenue growth and improving margins.

Thesis Point I. Optimizing Labor Costs

Benefits of Outsourced HR

- March 23rd Gartner survey to small business operations teams regarding COVID response: 49% prioritize **limiting hiring** and 41% prioritize optimizing technology
- Data suggests there will be a significant second round of cost-saving initiatives including layoffs, signaling an **industry tailwind yet to come**
- Desire to cut costs can be met with TriNet's services, and TriNet has seen a **10% increase in customer case load since the COVID-19 outbreak**



Organizations that process HR, payroll, time & attendance and benefits in house **spend 27% more than companies that outsource.**



Organizations that outsource HR and payroll tasks to a single vendor **save on average 32% more than those that don't.**



The IRS estimates **40% of medium and small businesses are fined** each year for tax-filing errors.

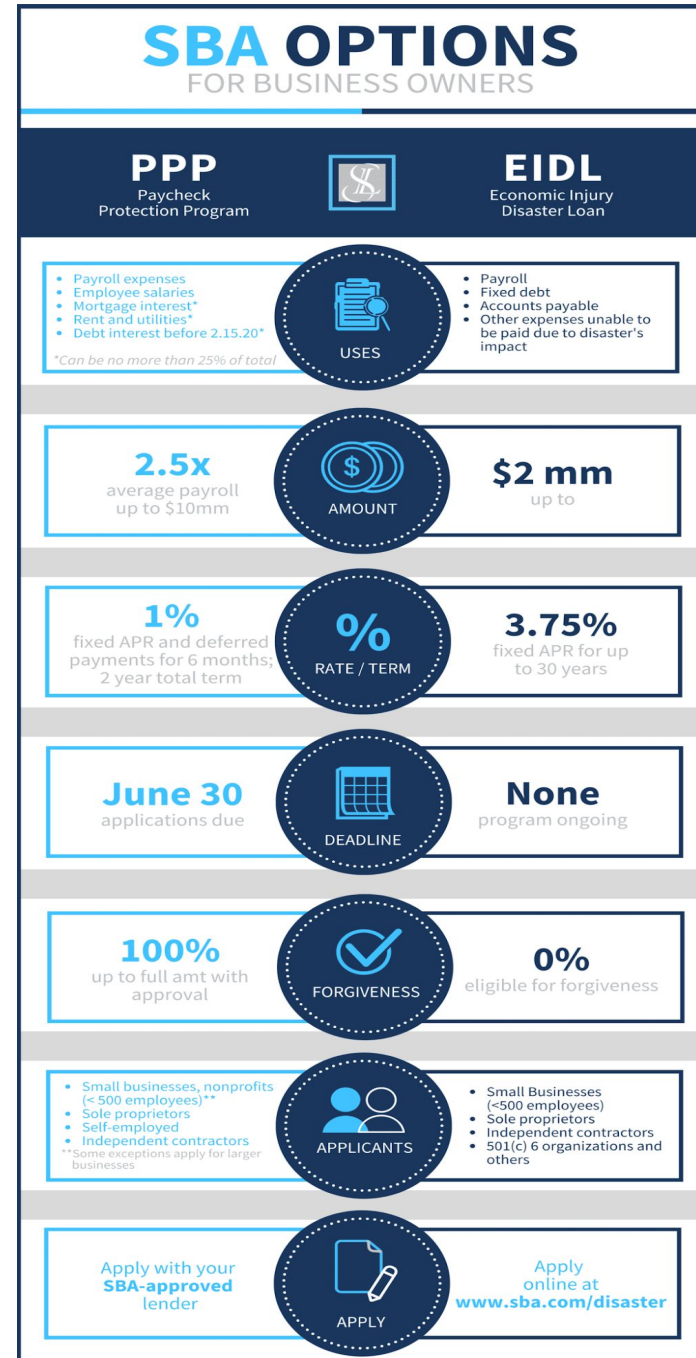
Thesis Point I. Optimizing Labor Costs

COVID-19 Related Complexities

- With the first-time institution of forgivable loans and federal aid programs, small businesses look to industry-specific consultants for best next steps
- Compliance aspect of package becomes increasingly valuable in ensuring proper payroll protocol to be eligible for specific benefits

Increasing Importance of HR services

- Increasing complexity of managing workers who have been furloughed or are on sick leave
- TriNet's scale of 19,000 clients and 300+ health offerings gives small businesses leverage in their labor benefit terms, helping retain talent



Thesis Point II. Weathering the Storm

Operational Adaptation

- Even if a firm's end demand is present, the firm must adapt and continue to work under new social distancing circumstances to capitalize on that demand
- TriNet has successfully made the switch to work from home
 - Within 1 week, TriNet was serving over 18,000 customers remotely
 - 97% of its core workforce was working remotely
- TriNet stands to benefit if demand for insurance coverage increases or there is a growing number claims; as an intermediary, they are not responsible for actually providing coverage

Commitment to Continuation of the “*People Matter*” Campaign

- “People Matter” campaign: TriNet HR solutions empower SMB's with access to human capital expertise, benefits, risk mitigation, compliance, payroll and real-time technology—so they can focus on what matters most. Their people.
- Management remains committed to investing in increasing brand recognition and customer experience
- Improving mobile app usability, and website readability

Strong Balance Sheet

- Having enough cash on hand is critical to covering short-term liabilities in case demand or revenue suffers
- TriNet has \$700 million cash on hand and \$620 million of total debt
 - Only \$24 million in interest payments expected throughout the year

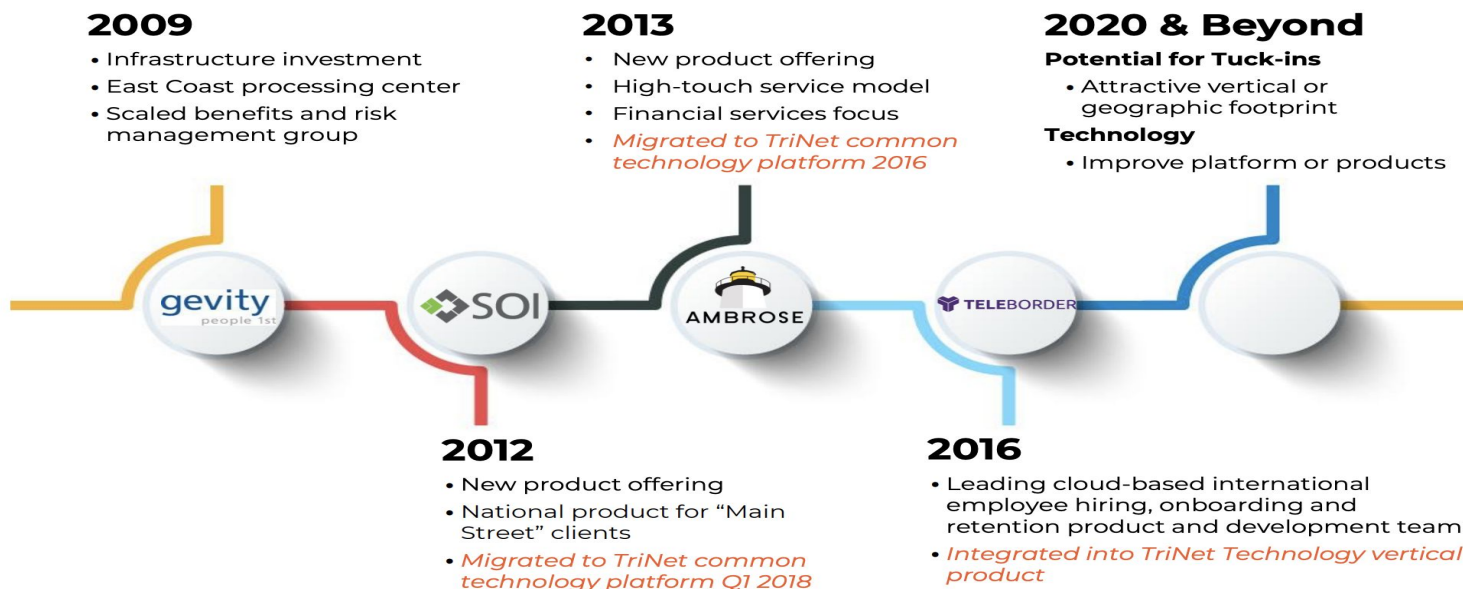
Thesis Point III. Improved Retention

New Business Verticals & Technology

- New products provide clients with services specific to their industry.
- API-first technology integrations allow customers to create custom applications on the TriNet platform; higher engagement from customers decreases the likelihood that a customer will switch to another provider
- Higher customer retention improves LTV/CAC → expected improvement in margins

Strategic Acquisitions

- Teleborder: immigration-related HR services
- Integration with existing TriNet platform to assist with processing of visa applications (easy hiring of international employees for SMBs without that expertise)



Valuation: Trading Multiples

Market Multiples Analysis of Selected Companies

EV in millions

Company	Enterprise Value	EV/Sales	EV/EBITDA	P/E
ADP	\$62,707.0	4.3x	17.5x	25.3x
Insperity	\$1,589.2	0.4x	7.4x	12.1x
Paychex	\$24,832.2	6.0x	14.7x	22.4x
BBSI	\$117.60	0.23x	3.20x	7.4x
	Mean	3.6x	13.2x	18.4x
	Median	4.3x	14.7x	22.4x
TriNet	\$2,505.0	1.01x	9.12x	13.7x

Valuation: Trading Multiples

Sales Multiple Valuation Analysis

(amounts in millions, except per share data)

	Data	Implied Reference Range			Implied Reference Range		
		Low	—	High	Low	—	High
LTM Sales	\$3,856.0	1.5x	—	2.5x			
Implied Enterprise Value Reference Range					\$5,784.0	—	\$9,640.0
(-) Net Debt					178	—	178
Implied Equity Value Reference Range					\$5,606.0	—	\$9,462.0
Fully Diluted Shares (millions)					70	—	70
Implied Share Price					\$80.09	—	\$135.17
Implied Price Premium (%) to current share price					63.5%	—	176.0%

EBITDA Multiple Valuation Analysis

(amounts in millions, except per share data)

	Data	Implied Reference Range			Implied Reference Range		
		Low	—	High	Low	—	High
LTM EBITDA	\$314.0	14.0x	—	20.0x			
Implied Enterprise Value Reference Range					\$4,396.0	—	\$6,280.0
(-) Net Debt					178.0	—	178.0
Implied Equity Value Reference Range					\$4,218.0	—	\$6,102.0
Fully Diluted Shares (millions)					70.0	—	70.0
Implied Share Price					\$60.26	—	\$87.17
Implied Price Premium (%) to current share price					23.0%	—	78.0%

Price to Earnings Multiple Valuation Analysis

(amounts in millions, except per share data)

	Data	Implied Reference Range			Implied Reference Range		
		Low	—	High	Low	—	High
Most Recent EPS	\$2.99	18.0x	—	23.0x			
Implied Enterprise Value Reference Range					\$3,945.4	—	\$4,991.9
(-) Net Debt					178.0	—	178.0
Implied Equity Value Reference Range					\$3,767.4	—	\$4,813.9
Fully Diluted Shares (millions)					70.0	—	70.0
Implied Share Price					\$53.82	—	\$68.77
Implied Price Premium (%) to current share price					9.9%	—	40.4%

Valuation: DCF

Income Statement	Year Ended December 31								
	(in millions except per share data)	2017a	2018a	2019a	2020	2021	2022	2023	2024
Worksite Employees (WSE)		324,679	317,104	324,927	331,426	338,054	344,815	351,711	358,746
% year-over-year change			-2.33%	2.47%	2.0%	2.0%	2.0%	2.0%	2.0%
ARPE (Average Revenue per employee)		841	920	989	1,058	1,132	1,212	1,296	1,387
% year-over-year change			9.39%	7.50%	7.0%	7.0%	7.0%	7.0%	7.0%
Professional service revenues		458	489	539	588	642	701	765	835
% of total revenue		13.98%	13.98%	13.98%	13.98%	13.98%	13.98%	13.98%	13.98%
Insurance service revenues		2,819	3,014	3,326	3,625	3,956	4,318	4,712	5,143
% of total revenue		86.02%	86.10%	86.25%	86.1%	86.1%	86.1%	86.1%	86.1%
Total revenues		3,277	3,501	3,856	4,209	4,593	5,013	5,471	5,971
% Change in Revenue			6.8%	10.2%	9.1%	9.1%	9.1%	9.1%	9.1%
Insurance costs		2,466	2,610	2,927	3,167	3,456	3,772	4,117	4,493
% margin of insurance revenue		87.5%	86.6%	88.0%	87.4%	87.4%	87.4%	87.4%	87.4%
Cost of providing services		213	229	245	272	297	324	354	386
% margin of professional services revenue		46.5%	46.8%	45.4%	46.2%	46.2%	46.2%	46.2%	46.2%
Sales and marketing		187	182	190	213	233	254	277	302
% of total revenue		5.7%	5.2%	4.9%	5.1%	5.1%	5.1%	5.1%	5.1%
General and administrative		114	142	137	160	175	191	208	227
% of total revenue		3.5%	4.1%	3.6%	3.8%	3.8%	3.8%	3.8%	3.8%
Total SG&A		301	324	327	373	407	445	485	530
% margin of revenue		9.2%	9.3%	8.5%	8.9%	8.9%	8.9%	8.9%	8.9%
Systems development and programming		45	49	43	55	60	65	71	77
% margin of Revenue		1.37%	1.40%	1.12%	1.30%	1.30%	1.30%	1.30%	1.30%
Depreciation and amortization of intangible assets		33	40	46	47	51	56	61	67
% margin of revenue		1.0%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
Total costs and operating expenses		3,058	3,252	3,588	3,913	4,271	4,661	5,087	5,552
Operating income (EBIT)		219	249	268	295	322	352	384	419
Operating Margin		6.7%	7.1%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

Valuation: DCF

(-) Taxes	22	49	58	62	68	74	81	88
% of EBIT	10.1%	19.7%	21.6%	21.0%	21.0%	21.0%	21.0%	21.0%
(+) D&A	33	40	46	47	51	56	61	67
% of Revenue	1.0%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%
(-) CapEx	38	43	45	50	55	59	65	71
% of Revenue	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Net Working Capital	234	221	228	236	246	256	267	279
(-) Change in Net Working Capital		(13)	7	8	9	10	11	12
% of Revenue		-0.4%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Unlevered Free Cash Flow				222	242	265	288	315
Discounted Free Cash Flow				202	200	199	197	195
Discount period				1	2	3	4	5

Exit Multiples Method

WACC	10%
Exit EV/EBITDA Multiple	13.2
EBITDA at the End of Projection	486
Terminal Value	6,411
Present Value of Terminal Value	3,981
Present Value of Cash Flows	993
Enterprise Value	4,974
Terminal Value as a % of Enterprise Value	80.04%
Enterprise Value	4,974
(+) Cash	281
(-) Debt	392
Equity Value	4,863
Shares Outstanding	69
Equity Value/Share	\$70.73
Implied ROI	44.43%

Sensitivity Analysis (WACC) vs (EV/Sales)

	\$92.05	1.1x	1.3x	1.5x	1.7x	1.9x
9.0%	\$73.58	\$84.67	\$95.76	\$106.85	\$117.93	
9.5%	\$72.20	\$83.04	\$93.88	\$104.71	\$115.55	
10.0%	\$70.86	\$81.45	\$92.05	\$102.64	\$113.23	
10.5%	\$69.55	\$79.91	\$90.27	\$100.62	\$110.98	
11.0%	\$68.28	\$78.41	\$88.53	\$98.66	\$108.78	

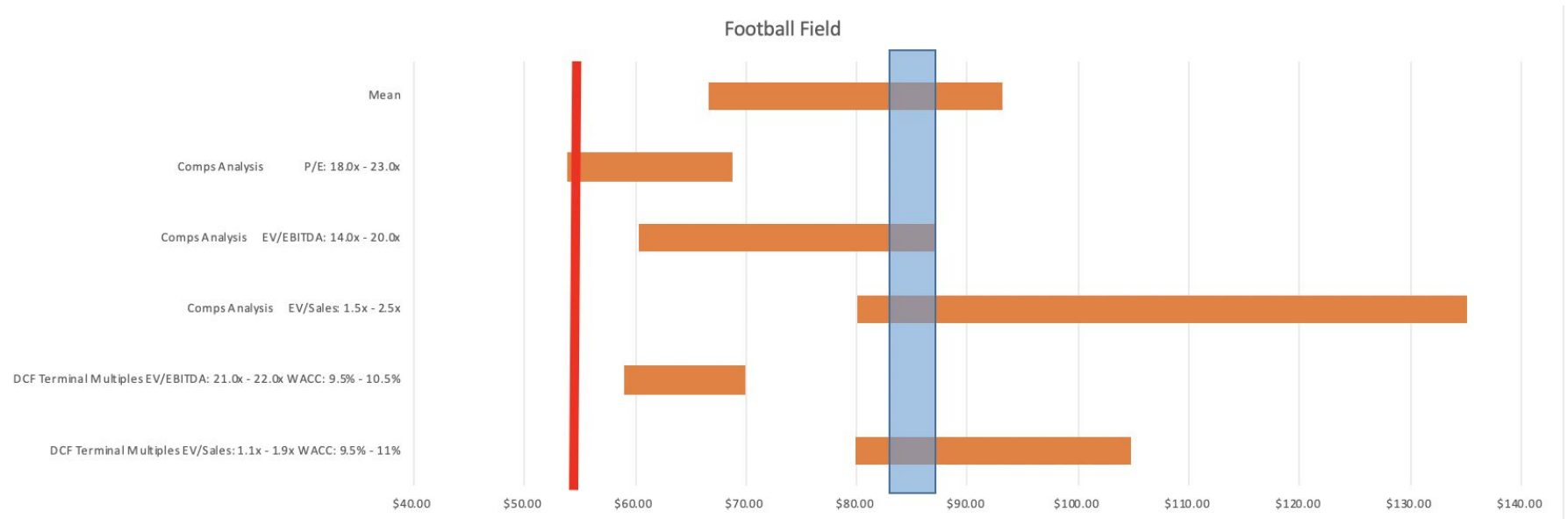
Sensitivity Analysis (WACC) vs (EV/EBITDA)

	\$57.43	10.0x	11.0x	12.0x	13.0x	14.0x
9.0%	\$57.72	\$62.24	\$66.75	\$71.26	\$75.77	
9.5%	\$56.70	\$61.11	\$65.52	\$69.93	\$74.34	
10.0%	\$55.71	\$60.02	\$64.33	\$68.64	\$72.95	
10.5%	\$54.74	\$58.96	\$63.17	\$67.39	\$71.60	
11.0%	\$53.80	\$57.92	\$62.04	\$66.16	\$70.28	

Valuation: Summary

Valuation Methodology

	Low	Spread	High
DCF Terminal Multiples EV/Sales: 1.3x - 1.7x	\$79.91	\$24.80	\$104.71
DCF Terminal Multiples EV/EBITDA: 11.0x - 14.0x	\$58.96	\$15.39	\$74.34
Comps Analysis EV/Sales: 1.5x - 2.5x	\$80.09	\$55.09	\$135.17
Comps Analysis EV/EBITDA: 14.0x - 20.0x	\$60.26	\$26.91	\$87.17
Comps Analysis P/E: 18.0x - 23.0x	\$53.82	\$14.95	\$68.77
Mean	\$66.61	\$27.43	\$94.03
Current Price	\$48.97		
Target Price	\$65.49		
Implied Upside	33.7%		



Risks and Mitigants

Risks

- COVID-19 situation worsens in a second wave as US state restrictions begin to loosen up
- SMBs stay closed or are forced to declare bankruptcy

- TriNet's customer retention rates fall if SMBs can no longer afford its services
- Management historically has decided not to disclose these rates

Mitigants

- Even more government aid has been passed (e.g. PPP) and will help small businesses in the event that rising COVID-19 infections force a second shutdown

- Trinet currently has a lot of cash on hand relative to its debt commitments (\$700 million on hand vs \$620 million in outstanding debt)
- Investment in new technology and verticals help improve retention

COVID-19 Demand

- TriNet is addressing, on average, just under 500 COVID-19 related cases per day, constituting a 10% increase in its historic customer case load
 - Main customer pain points include assistance with SBA Loan applications and understanding health coverage options, both of which are drawn-out processes that will increase client dependency
- Opportunity to demonstrate TriNet's value-add to bolster subscription renewal
 - Nearly 50% of clients have downloaded COVID-specific payroll and compliance documents made available

Market is Overly Pessimistic about Small Businesses

- SMBs are focused on staying operational
 - Nearly 80% of companies have made strategic investments to keep their businesses operational through the pandemic, according to April Harris poll of 500 small businesses
- SMBs are finding ways to take in capital and cut costs
 - 67% have reduced payroll costs: studies have shown outsourced HR is cheaper than an in-house option
 - 54% have made changes to their business model or product/service offerings since the crisis began: restructuring is an opportunity to move to outsourced HR
 - 48% have applied for financial support through the CARES Act: TriNet's services complement this process.

Allowing SMBs to attract top talent

REAL-WORLD EXAMPLE

Quality options for every employee

As a small life sciences company, hiring a chemist away from Big Pharma requires an attractive package with excellent benefits. With TriNet, our client was able to offer a choice of premium benefits to level the playing field—and help ensure that their new hire didn't have to change doctors just because she changed jobs.

Partnerships with major insurance providers

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