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Chicago private-equity firm buys leading HR outsourcer

Westchester-based Tandem, Illinois' largest professional employer organization, will serve as Shore Capital Partners' platform to consolidate the industry in the Midwest.

STEVE DANIELS

Bruce Leon

Illinois' largest human-resources outsourcing firm, Tandem HR, has sold to a Chicago-based private-equity firm that wants to build the Midwest's biggest player in the growing field.

Shore Capital Partners' acquisition values Tandem at more than $60 million. Shore is pumping more than $30 million of equity into the company, making it a platform to tack on privately held firms in other Midwestern markets. Founder and CEO Bruce Leon, 59, who owned 100 percent of Tandem, is staying on and will play an important role in striking deals with smaller firms.

Already, Shore has acquired professional employer organizations (PEOs) in Detroit and St. Louis.

“We've got a pipeline of six or seven others,” Leon said.

Tandem, founded in 1998, handles human resources for midsize, often family-owned companies throughout Illinois, as well as other Midwestern states. It has a significant partnership with Blue Cross & Blue Shield of Illinois in which it's able to offer health insurance to employees of those companies for which it runs benefits and HR.

Leon said his company had been barraged with offers from publicly traded giants in its industry and other private-equity firms. The Shore Capital deal will keep Tandem in west suburban Westchester. Tandem employs 127 and hopes to grow to up to 300 in the Chicago area, he said. Companies that have hired Tandem to run HR and other functions like payroll collectively employ 14,200.

The HR outsourcing industry, Leon said, remains highly fragmented in the Midwest while dealmaking has been active elsewhere. "We're way behind places like California, the Southeast and Texas," he said. "We've got to get the Midwest going."

The lack of consolidation so far in the middle of the country provides opportunity for Tandem and Shore Capital. For entrepreneurs like Leon who are ready to cash out, Shore Capital is positioning Tandem as a softer-touch acquirer than bigger-money players—the same sales pitch that appealed to Leon.

"We loved this idea of a Chicago company" that would consolidate PEOs in the Midwest, Leon said.

For Shore Capital, the acquisition of Tandem is from its third and largest fund, totaling $290 million. "It's one of our larger investments to date," said Ryan Kelley, a founding partner of Shore Capital. Shore has amassed more than $1 billion in assets under management since its 2009 launch.

COVID has proven to be a boon for HR outsourcing firms, Leon said. Tandem's revenue was up 30 percent in 2020; fees it collected for its work totaled about $25 million.

Privately held companies that previously wanted to keep human resources in-house now are far more open to outsourcing, with offices largely empty and employees working from home, Leon said. He expects that trend to continue at least through 2021.

Leon already had handed off much of the day-to-day management of Tandem to President Salo Doko and Chief Financial Officer Tanya Yakhnis before the Shore Capital deal. He intends to focus on strategy and dealmaking and will transition to a vice chairman role in a year, he said.