



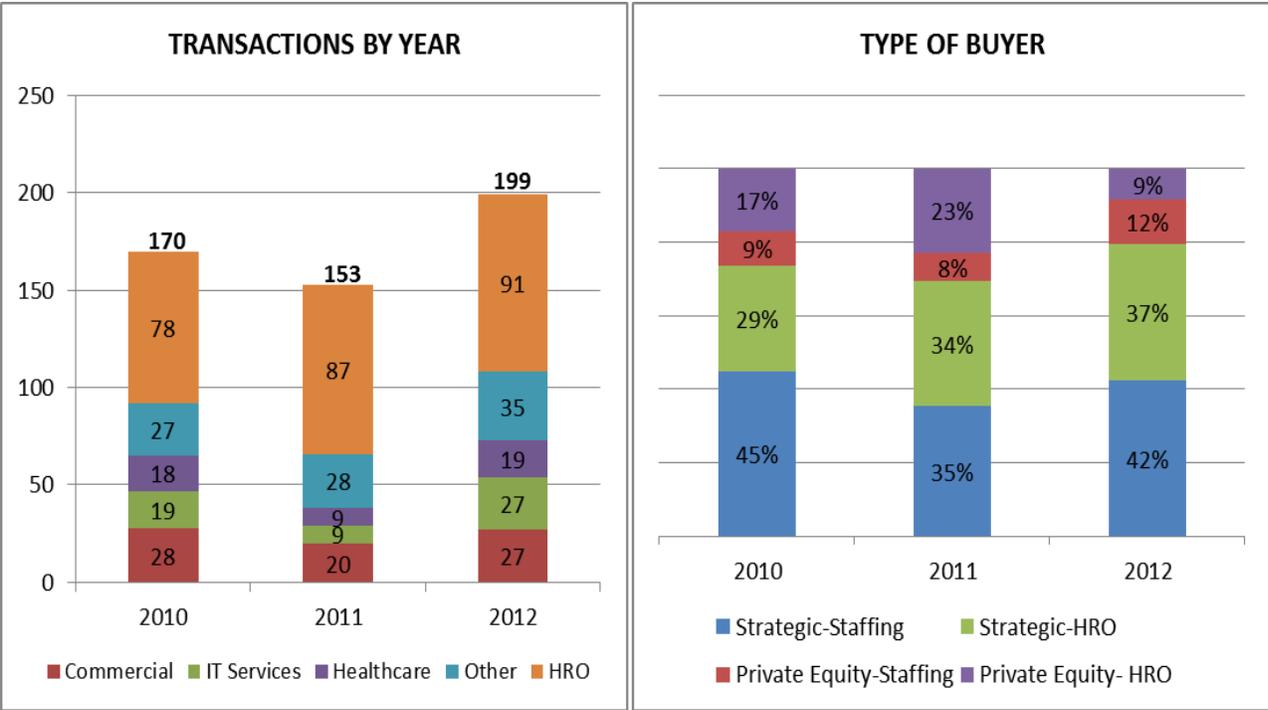
# Human Capital Services Report Winter 2013

## Human Capital Services Merger & Acquisition Activity

Human capital services (“HCS”) merger and acquisition activity increased 30% in 2012, to 199 reported transactions (see chart below). This represents the greatest number of reported HCS transactions in the last five years.

A 64% increase in staffing transaction activity was responsible for most of this gain, as human resource outsourcing (“HRO”) transaction activity increased only 5%. Staffing transaction activity was led by significant increases in IT staffing (up 200%) and healthcare staffing (up 111%).

Private equity acquisitions in HCS decreased to 21% of the 2012 transactions announced compared to 31% of the 2011 transactions (see chart below). Notably, however, private equity activity in staffing increased by 100%, while HRO activity declined by 51%.





## Notable HCS Announcements in 2012

Our notable announcement list is presented below, highlighting several HRO and staffing events. While overall HRO M&A activity was less robust than staffing, the valuation metrics were quite attractive, as indicated below (the top three HRO transactions ranged in value from 4.6 – 9.7 times revenues).

### HRO



Korn/Ferry International acquired Minneapolis-based PDI Ninth House (“PDINH”), a provider of leadership solutions. In business for over 45 years, PDINH operates out of more than 20 global locations. PDINH will be part of Korn/Ferry’s “Leadership and Talent Consulting” segment.

Korn/Ferry paid approximately \$80 million in cash for PDINH, which is on a \$90+ million revenue run-rate. Korn/Ferry will pay up to \$15 million of additional cash consideration based on the realization of synergies during an 18 month integration period.



SAP acquired Ariba Inc. at an enterprise value of \$4.3 billion. Ariba is a Sunnyvale, CA-based provider of cloud-based solutions for spend management, including a vendor management system for contingent labor. Ariba ranked as the sixth-largest VMS among reporting systems in Staffing Industry Analysts’ (“SIA”) 2011 VMS and MSP Supplier Competitive Landscape report. Founded in 1996, Ariba posted revenue of \$444 million in 2011 and has approximately 2,600 employees.



TriNet, a cloud-based provider of on-demand HR services, acquired Strategic Outsourcing, Inc. (“SOI”) from Clarion Capital Partners, LLC. SOI will operate as a business unit of TriNet, with its name and brand remaining intact. TriNet ranked #8 on SIA’s list of largest professional employer organizations (“PEO”), with estimated revenues of \$185 million; conversely SOI was ranked #4 with \$311 million of estimated revenues.



## Kenexa

IBM acquired Kenexa, a maker of recruitment software, for \$1.3 billion in cash. Kenexa is a web-based service that is part of the social business vertical. Its software is intended to help companies recruit and manage talent through online social networking, collaboration and consulting tools.

Kenexa will help IBM bolster its current suite of social enterprise tools, which includes social networking and instant messaging solutions. Kenexa has approximately 2,800 employees and 8,900 customers. The company reported a profit of \$1.9 million in 2011 on revenue of \$283 million.

## Lodestone

Infosys Ltd. bought privately held Swiss business consulting company Lodestone Holding AG for \$350 million. This represents the Indian outsourcer's largest acquisition to date. Lodestone, which advises companies on strategy and business process optimization solutions, has 850 employees and reported revenue of \$220 million in 2011.

Infosys, India's second-largest outsourcing services provider by sales, said the acquisition will strengthen its consulting business in Continental Europe and in emerging markets such as Latin America and Asia-Pacific. The company is listed on NASDAQ and in India, and has cash of more than \$4 billion.



Workday, the cloud-based financial and human capital management software vendor, went public in a \$569 million offering. Workday was founded by David Duffield, the founder and former CEO of PeopleSoft, and former PeopleSoft chief strategist Aneel Bhusri, following Oracle's hostile takeover of PeopleSoft in 2005.

Workday does not expect to be profitable for the foreseeable future. Workday's revenue more than doubled to \$120 million in the six-month period that ended July 31, 2012, while recording a net loss of \$47 million. Launched in November 2006, Workday initially was funded by Duffield and venture capitalist Greylock Partners.



Oracle purchased Taleo Corp., a company that helps businesses hire and manage their employees, for \$1.9 billion. Taleo, which has about 1,400 employees, has more than 5,000 customers, including nearly half of the Fortune 100. Through its software, people apply for jobs



and companies manage the careers of their employees. Based in Dublin, CA, Taleo lost \$14 million on revenues of \$309 million last year.

## Healthcare Staffing



Leonard Green & Partners and Ares Management acquired CHG Healthcare Services, a healthcare staffing firm based in Salt Lake City. CHG was majority-owned by J.W. Childs Associates. CHG Healthcare said that existing management would retain a significant equity interest in the company. While terms of the deal were not released, Reuters reported that the company had about \$100 million in annual earnings before interest, tax, depreciation and amortization (EBITDA) and that its owners hoped to get 11 times EBITDA in a sale.

CHG is one of the largest providers of healthcare staffing in the U.S., and is the largest locum tenens<sup>1</sup> (temporary physician) staffing firm in the nation. The company is comprised of more than 1,400 people in seven offices nationwide and is recognized as a top employer in the U.S., including being ranked 9<sup>th</sup> on FORTUNE magazine's list of "100 Best Companies to Work For" in America.



Halifax Capital Partners, the midmarket private equity firm based in Washington D.C., has teamed up with the management of home healthcare provider Interim HealthCare Inc. to acquire the company from Sentinel Capital Partners. Although terms of the transaction were not disclosed, the deal falls into the upper end of the range of Halifax's investment profile (companies with total enterprise values between \$25 and \$100 million).

Based in Sunrise, FL, Interim has two business lines. It provides home-based healthcare, including hospice care, home nursing and independent living support, and it also offers supplemental staffing to hospitals, nursing homes and other healthcare organizations, although the latter accounts for a small percentage of revenues. Interim's network of more than 300 locations in 43 states employs approximately 40,000 healthcare workers and provides care to 50,000 patients annually.

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<sup>1</sup> Locum, short for the Latin phrase locum tenens (a placeholder) is a person who temporarily fulfills the duties of another. For example, a locum doctor is a doctor who works in the place of the regular doctor when that doctor is absent, or when a hospital/practice is short-staffed.



Sun Healthcare, of Irvine, CA, was acquired and taken private by PA-based Genesis Healthcare for \$275 million. The combined firms will operate more than 420 skilled nursing centers in the U.S., employ 75,000 people and generate yearly revenues of \$4 billion. In addition to skilled nursing centers, Sun provides healthcare staffing through its CareerStaff Unlimited Inc. division, generating approximately \$89 million out of Sun's total \$1.9 billion in revenues. Last year that division was ranked as the 11<sup>th</sup> largest U.S. healthcare staffing firm by SIA.



Privately-held inVentiv Health, Inc. purchased Kforce, Inc.'s \$106 million revenue clinical research business ("CRB") for \$50 million in cash. CRB provides clinical trial resourcing solutions and offers outsourcing, contract staffing, and permanent placement services. The range of clinical services includes site management and monitoring, clinical programming and data management, clinical project and program management, biostatistical analysis and reporting, pharmacovigilance, medical writing, and regulatory affairs services.

## IT Staffing



Ares Management LLC, an alternative asset manager with \$54 billion of capital under management, made an investment in Insight Global, one of the fastest growing providers of IT staffing in North America. In 2012, Insight Global was recognized by SIA as the 8<sup>th</sup> largest IT staffing firm in the U.S. with \$551 million of revenues.

Since its founding in 2001, all of Insight Global's growth has been organic. The company now has 28 offices across the U.S. and fills approximately 18,000 IT staffing placements each year for a diverse group of clients.



On Assignment, Inc. paid \$600 million for Apex Systems, Inc., one of the largest and fastest growing providers of IT staffing and workforce solutions. Founded in 1995, Apex has 49 locations in the U.S. and generated over \$700 million of revenues in 2011. The purchase price included \$383 million in cash and \$217 million in stock. On Assignment reported revenues of approximately \$600 million in 2011 from its IT and healthcare staffing businesses.



American CyberSystems, Inc. ("ACS"), acquired substantially all of the assets of the staffing business of Comforce. SIA ranked Comforce at #71 on the list of largest staffing firms with revenues of \$170 million, while ACS ranked #76 with revenues of \$152 million. Founded in 1998, ACS is a global information technology services company offering IT consulting and staffing services.

### Multi-Service Provider



Allegis Group, the largest U.S. staffing firm, and Morgan & Banks Investments Pty Limited ("MBI") privatized Australian recruitment firm Talent2 by jointly purchasing all of the company's shares. The transaction valued the company at \$113 million.

MBI is owned by Andrew Banks and Geoff Morgan, the founders and major shareholders of Talent2. Previously, in 1985, they founded Morgan & Banks ("M&B") and grew that company to become the dominant recruitment force in Australia and Asia, with a reported 17% market share.



Cerberus Capital Management sold the Japanese operations of Advantage Resourcing to management and the London-based private equity firm CVC Capital Partners (the unit was renamed Prompt Holdings). While financial terms were not disclosed, Advantage generated global revenues of \$2.2 billion in 2010 (the U.S. and European divisions of Advantage Resourcing were sold to Japan-based Recruit Staffing in January 2012 for \$410 million).

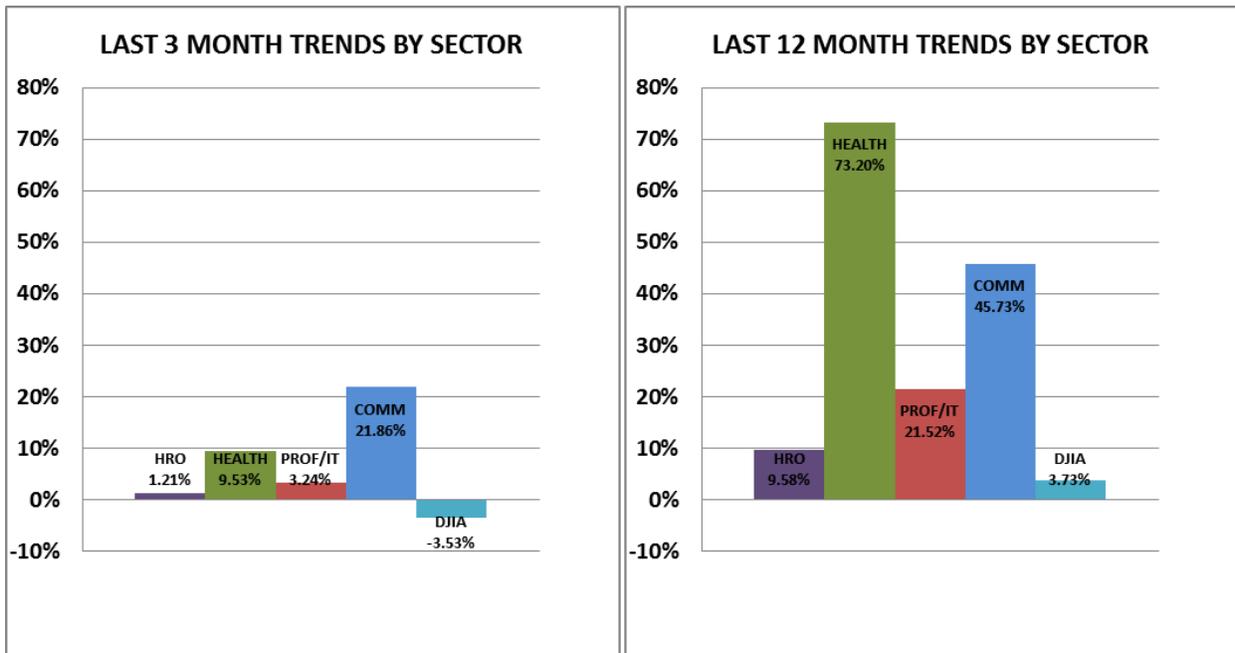


## HCS Public Market Valuation Trends

As shown in the charts below<sup>2</sup>, for both the fourth quarter of 2012 and the full year, all segments' public equity market valuations improved.

Healthcare staffing increased by 73%, but was driven entirely by one company, AMN, whose 161% increase was due to its improving financial performance and a higher valuation multiple. The only other pure healthcare staffing company, Cross Country, was down 14% for the year.

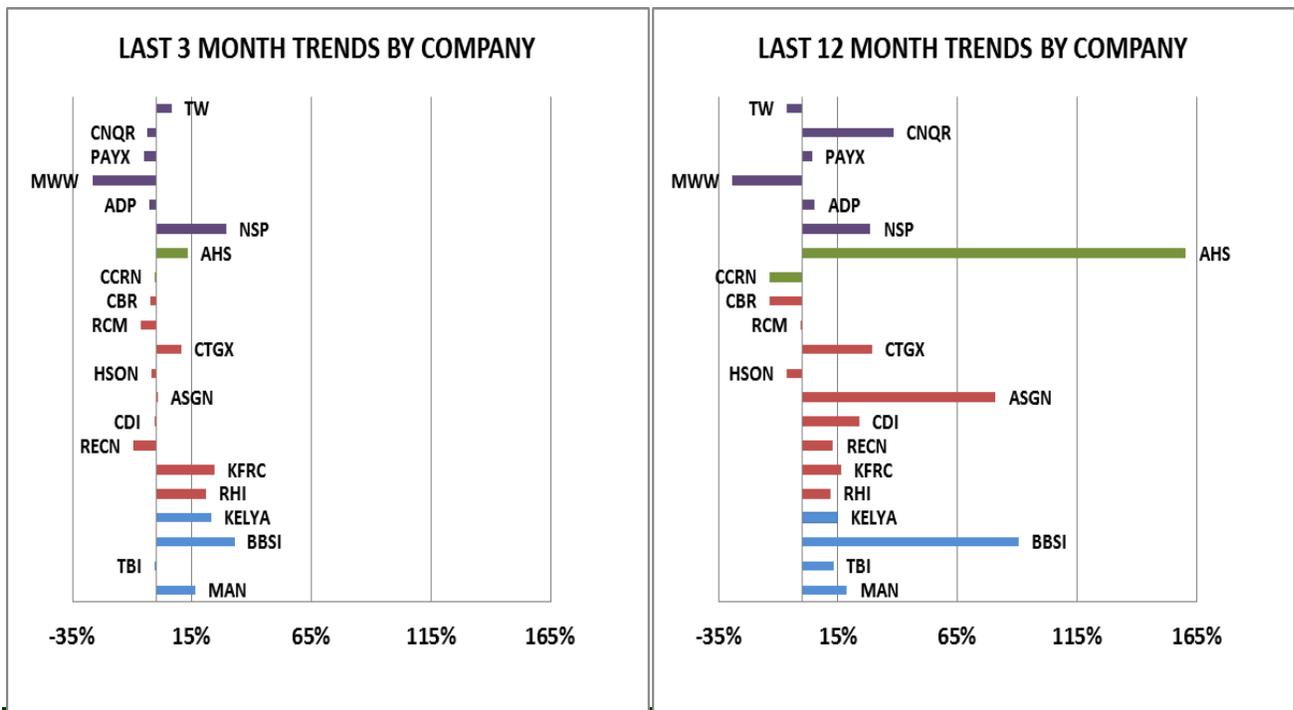
Commercial staffing posted a respectable 46% increase for the full year, after increasing 22% in the fourth quarter.



<sup>2</sup> The indices are constructed on an unweighted basis and include the following stocks: **COMM** – Manpower (MAN), True Blue (TBI), Barrett Business Services (BBSI), and Kelly (KELYA); **PROF/IT** - Robert Half (RHI), On Assignment (ASGN), Resources Connection (RECN), CDI (CDI), Hudson Global (HSON), Computer Task Group (CTGX), RCM Technologies (RCM), CIBER (CBR), and Kforce (KFRC); **HEALTH** – AMN (AHS) and Cross Country (CCRN); **HRO** – ADP (ADP), Insperty (NSP), Monster Worldwide (MWW), Paychex (PAYX), Concur Technologies (CNQR) and Towers Watson (TW).



With respect to the individual companies comprising the above indices, in addition to AMN’s (NYSE: AHS) strong performance were two others with significant gains for the year. Barret Business Services (NASDAQ-GS: BBSI) increased 91% due to a 30% annual revenue increase and an 18% increase in its quarterly dividend, and On Assignment (NYSE: ASGN) gained 81% due to its 92% revenue gain with the Apex Systems acquisition, as illustrated below. In contrast, Monster Worldwide (NYSE: MWW) suffered the greatest decline for 2012, finishing the year 29% lower due to a 14% revenue decline for the year, and its \$242 million write-off in the third quarter.





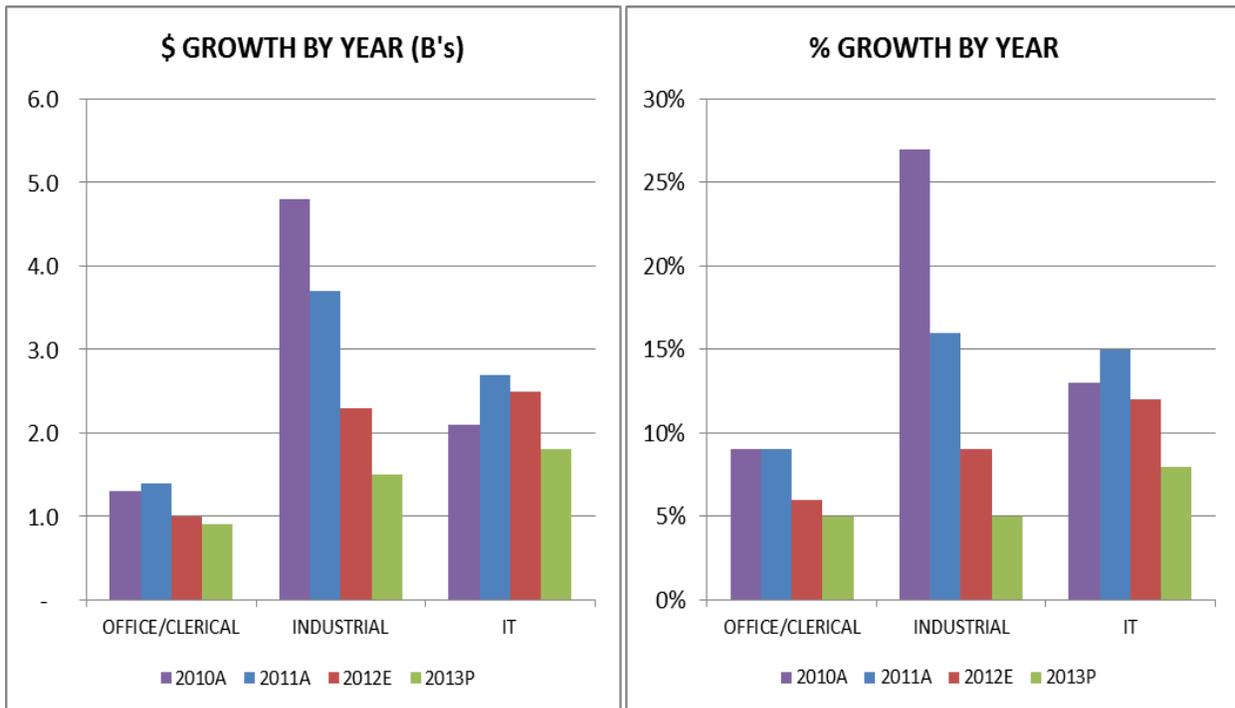
## Outlook for Staffing & HRO

### Staffing

SIA estimates 9% growth in 2012 for the staffing industry, followed by a projected 6% growth in 2013. SIA reports that the staffing industry is growing faster than historic trends after a recession due to trends in employment tax compliance and general economic uncertainty.

Regarding employment tax compliance, businesses are experiencing a higher number of IRS audits of their independent contractors, which causes businesses to shift these individuals to staffing companies. Regarding general economic uncertainty, staffing companies are experiencing a higher penetration rate in the job market as hiring companies favor temporary employment arrangements until they are more confident with the economy.

With respect to segment growth rates, SIA forecasts that the top three performing segments through 2012 and 2013 include office/clerical, light industrial, and IT staffing, which are shown below. Based on SIA's estimates and projections for 2012 and 2013, the light industrial segment exhibits the staffing industry's highest forecasted four year compound annual growth rates ("CAGR"), equal to 17% and 14%, respectively. The next highest forecasted CAGRs for 2012 and 2013 are demonstrated by IT staffing, at 14% and 12%, respectively.





Subsequent to SIA's latest forecast in September of 2012, it has noted that finance and accounting staffing and legal staffing are performing worse than expected, while engineering staffing is performing better than originally forecasted.

IT staffing is projected to grow 8% in 2013, with its traditional customer base of technology, telecom, financial services and healthcare enjoying employment gains, as well as the industry-wide trend of converting independent contractors to staffing company consultants. Demand continues for technology talent in cloud computing, mobile applications and social media. Additionally, healthcare IT is growing as the U.S. healthcare system converts from paper to electronic records, and from ICD-9 to ICD-10<sup>3</sup>.

Healthcare staffing is projected to grow 8% in 2013, with travel nursing, locum tenens, and allied staffing projected to increase 8%, 9% and 10%, respectively. SIA notes that if another demand/supply imbalance occurs, the healthcare staffing market may witness a surge like the one that began in the late 1990s.

## HRO

KPMG's most recent Sourcing Advisor Pulse survey indicates a continuing evolution of the mix of service delivery models. Some of the recent findings include:

- Demand for generic back-office outsourcing, also referred to as "horizontal" outsourcing, remains weak.
- Buyers' appetites for change remains weak in light of the uncertain economy.
- The traditional one-dimensional model of global outsourcing based purely on labor arbitrage continues to decline in demand.
- Demand for domestic shared services centers has increased over the last year, with finance and accounting and human resources the most commonly used shared services. There is an increased interest in shared services for sourcing and procurement.
- Service provider pipeline growth for outsourcing services declined to its lowest level when measured by the Pulse survey.

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<sup>3</sup> The International Classification of Diseases (ICD) promotes comparability in the collection, processing, classification, and presentation of mortality statistics.



## Summary

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The general economic uncertainty and increasing independent contractor compliance audits have contributed to staffing's higher penetration rates. The Patient Protection and Affordable Care Act is generally believed to have a positive influence on staffing companies, as the full time employment headcount is expected to be more carefully managed by their customers. Healthcare staffing companies should expect to see increased demand in future years.

SIA projects that in 2013, six staffing segments will see their revenues exceed pre-recession levels, even as the overall rate of growth in the industry is moderating. These factors bode well for continued M&A activity, even considering that 2012's much improved results were in part tax-driven.

HRO M&A activity has been slower than anticipated, but transactions have occurred at very attractive valuations. The more highly valued recruitment companies will continue to be the area of greatest interest.



## Crutchfield Capital Information

Crutchfield Capital Corporation is a private investment banking firm that provides corporate finance services to middle market companies. Services provided include arranging mergers, acquisitions and divestitures; raising private debt and equity capital; valuing companies and corporate securities; and advising on a variety of financial and business matters.

Since our founding in 1991, Crutchfield Capital has successfully closed more than \$1 billion in aggregate transaction value. Our clients have been located in over 20 states and have ranged from small private businesses to Fortune 500 public companies.

While the firm serves a number of industries, we have significant experience in human capital services, including staffing and HR outsourcing.

For additional information, please contact:

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**CELEBRATING TWENTY-TWO YEARS 1991 – 2013**



## Appendix

Deals	2012				2011				2010			
	Strategic	Financial	Total	%	Strategic	Financial	Total	%	Strategic	Financial	Total	%
<b>Staffing</b>												
Acct./Fin.	2	3	5	5%	2	0	2	3%	5	2	7	8%
Commercial	19	8	27	25%	16	4	20	30%	23	5	28	30%
IT Services	22	5	27	25%	7	2	9	14%	16	3	19	21%
Medical	15	4	19	18%	9	0	9	14%	16	2	18	20%
Search	7	0	7	6%	9	2	11	17%	9	0	9	10%
Other Staffing	19	4	23	21%	11	4	15	23%	7	4	11	12%
Staffing Subtotal	84	24	108	100%	54	12	66	100%	76	16	92	100%
	78%	22%	100%		82%	18%	100%		83%	17%	100%	
<b>HRO</b>												
PEO	3	3	6	7%	1	2	3	3%	5	2	7	9%
HRO-Ben. Admin.	19	1	20	22%	18	6	24	28%	16	2	18	23%
HRO-Payroll	10	0	10	11%	5	4	9	10%	2	1	3	4%
HRO-Recruiting	22	8	30	33%	9	20	29	33%	11	12	23	29%
HRO-Screening	2	2	4	4%	2	0	2	2%	1	3	4	5%
HRO-Other	18	3	21	23%	17	3	20	23%	14	9	23	29%
HRO Subtotal	74	17	91	100%	52	35	87	100%	49	29	78	100%
	81%	19%	100%		60%	40%	100%		63%	37%	100%	
<b>Total</b>	158	41	199		106	47	153		125	45	170	
	79%	21%	100%		69%	31%	100%		74%	26%	100%	

Source: Staffing Industry Analysts, Capital IQ and Crutchfield Capital Research