



CORPORATE FINANCE

## Valuation Update for the HR Outsourcing Industry

ADVISORY

April 30, 2010

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According to the results from research firm Nelson Hall's quarterly HR Outsourcing Confidence Index, which is based on input from a wide range of HRO service providers, the confidence in the HRO industry which began to improve in the third quarter of 2009 has continued into the first quarter of 2010. Approximately 27 percent of HRO service providers are much more confident in the growth of their business over the next twelve months as compared with the previous year, while 40 percent are slightly more confident, and 33 percent are as confident. None of the respondents were less confident in the growth of their business over the next twelve months. The HRO service providers also stated that average HRO revenue growth was 16 percent in the fourth quarter of 2009 compared with prior year period and sales pipelines increased 40 percent during the same 12 month period. While the HRO industry seems to be experiencing some short term improvement, given the overall economy and labor market, it is still difficult to predict how the industry will fare at year end.

Merger and acquisition activity in the HRO industry remained active in April. The following are among the notable transactions announced:

- Engineering services firm **M+W Zander U.S., Inc.** announced it has acquired technical staffing services firm **Nstar Global Services, Inc.** for an undisclosed amount. North Carolina-based Nstar provides staffing solutions for the semiconductor, manufacturing, and capital equipment industries as well as ancillary services including workforce development and implementation, project support, and training. M+W Zander made the acquisition as part of its strategy to provide full life-cycle service and support to the semiconductor and manufacturing industries. (Source: M+W Zander U.S. Inc. press release, April 21, 2010)
- Staffing services firm **On Assignment, Inc.** (NASDAQ: ASGN) announced it has acquired **The Cambridge Group, Ltd.** for US\$5.5 million in cash and additional consideration based on a two year earn-out provision. The deal implies a valuation of 0.5x revenue based on The Cambridge Group's 2009 results. Connecticut-based The Cambridge Group provides professional staffing services to the healthcare, pharmaceutical, and information technology sectors. On Assignment made the acquisition to strengthen its current professional staffing services. (Source: On Assignment, Inc. press release, April 19, 2010)
- Background research services provider **County House Research, Inc.** announced it has acquired **Security Consultants, Inc.** for an undisclosed amount. Washington, D.C.-based Security Consultants provides technology-enabled public record research services to consumer reporting agencies, the legal sector, and employee background screening companies. County House made the acquisition to strengthen its existing background research offerings as well as expand geographically. (Source: County House Research, Inc. press release, April 9, 2010)
- Talent management solutions provider **Zapoint, Inc.** announced it has acquired the **Jobster** division of **Recruiting.com** for an undisclosed amount. Jobster offers an online social networking job search platform. Zapoint expects that Jobster's talent profiling capabilities will be complementary to its existing technology that helps employers identify potential skill gaps in the organization. The deal will also increase the number of users for Zapoint's technologies as Jobster has approximately 800,000 current users on its social job search platform. (Source: Zapoint, Inc. press release, April 5, 2010)

Valuation Update for the HR Outsourcing Industry

Market Snapshot											
Company	Market Cap <sup>1</sup>	Share Price <sup>1</sup>	52-Week Low	52-Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1 Yr	EV <sup>2</sup> /Sales	EV <sup>2</sup> /EBITDA <sup>3</sup>	EV <sup>2</sup> /EBIT	Price/Earn
<b>HR ADMINISTRATIVE SERVICES</b>											
ADMINISTAFF INC.	575.1	22.14	16.45	30.65	3.1%	-2.9%	-17.0%	0.2x	7.8x	12.6x	31.0x
AUTOMATIC DATA PROCESSING, INC.	21,894.6	43.37	33.26	45.74	-2.7%	6.6%	23.2%	2.3x	9.1x	10.6x	17.6x
BARRETT BUSINESS SERVICES INC.	161.2	15.40	9.47	15.73	13.6%	18.3%	54.0%	0.5x	NM	NM	NM
PAYCHEX INC.	11,048.6	30.57	23.84	32.88	-1.6%	5.9%	13.2%	5.3x	13.1x	14.7x	24.2x
<b>HR Administrative Services Mean</b>					<b>3.1%</b>	<b>7.0%</b>	<b>18.4%</b>	<b>2.1x</b>	<b>10.0x</b>	<b>12.6x</b>	<b>24.3x</b>
<b>HR PROFESSIONAL SERVICES</b>											
CPL RESOURCES PLC	133.4	3.59	1.34	3.72	10.2%	22.7%	157.1%	0.3x	9.7x	10.9x	23.8x
HAYS PLC	2,364.6	1.71	1.19	1.82	3.2%	2.2%	23.9%	0.6x	16.8x	19.3x	30.6x
HEIDRICK & STRUGGLES INTERNATIONAL INC.	461.9	26.44	15.65	32.15	-7.2%	5.2%	56.4%	0.8x	27.2x	NM	NM
HEWITT ASSOCIATES INC.	3,853.7	40.99	27.92	43.85	3.0%	3.4%	30.7%	1.2x	6.3x	8.2x	13.8x
KENEXA CORP.	339.1	15.01	6.59	15.67	7.3%	45.3%	128.8%	1.8x	18.9x	NM	NM
KORN/FERRY INTERNATIONAL	745.7	16.21	9.43	18.62	-9.8%	10.9%	53.1%	1.1x	NM	NM	NM
RESOURCES CONNECTION INC.	812.5	17.54	14.48	21.89	-9.7%	-2.9%	-10.3%	1.4x	NM	NM	NM
<b>HR Professional Services Mean</b>					<b>-0.4%</b>	<b>12.4%</b>	<b>62.8%</b>	<b>1.0x</b>	<b>15.8x</b>	<b>12.8x</b>	<b>22.7x</b>
<b>HR TECHNOLOGY SERVICES</b>											
CALLIDUS SOFTWARE INC.	98.8	3.17	2.43	3.73	-10.5%	3.9%	-1.9%	0.8x	NM	NM	NM
LAWSON SOFTWARE, INC.	1,254.9	7.76	4.89	8.17	15.6%	27.6%	44.0%	1.7x	10.5x	16.6x	30.6x
MONSTER WORLDWIDE INC.	2,198.3	17.43	9.47	19.28	2.2%	11.7%	26.3%	2.2x	28.8x	NM	NM
SABA SOFTWARE INC.	142.8	5.10	2.24	5.81	2.4%	6.0%	120.8%	1.1x	14.2x	52.7x	NM
SUCCESSFACTORS, INC.	1,514.1	20.92	7.15	23.65	7.4%	25.9%	140.2%	7.8x	NM	NM	NM
TALEO CORPORATION	1,028.7	25.94	11.97	27.93	-0.5%	23.9%	116.0%	4.0x	30.4x	NM	NM
ULTIMATE SOFTWARE GROUP INC.	830.4	33.45	17.44	37.25	0.4%	11.2%	78.6%	4.1x	NM	NM	NM
<b>HR Technology Services Mean</b>					<b>2.4%</b>	<b>15.8%</b>	<b>74.9%</b>	<b>3.1x</b>	<b>21.0x</b>	<b>34.7x</b>	<b>30.6x</b>
<b>DIVERSIFIED/GENERAL STAFFING</b>											
ADECCO SA	10,248.5	58.87	38.57	61.65	6.1%	11.2%	40.4%	0.5x	15.1x	20.0x	37.8x
HAYS PLC	2,364.6	1.71	1.19	1.82	3.2%	2.2%	23.9%	0.6x	16.8x	19.3x	30.6x
KELLY SERVICES, INC.	565.1	16.06	10.01	18.93	-6.8%	21.8%	41.4%	0.1x	NM	NM	NM
TRUEBLUE, INC.	696.0	15.79	7.55	17.23	1.3%	11.9%	62.6%	0.5x	16.5x	32.5x	57.7x
MANPOWER INC.	4,593.2	56.10	38.28	63.00	-3.0%	10.8%	30.2%	0.3x	16.6x	26.1x	62.8x
RANDSTAD HOLDING NV	8,635.1	50.93	23.26	55.80	9.4%	10.9%	119.8%	0.6x	23.7x	NM	NM
SFN GROUP, INC.	443.5	8.55	3.03	9.19	4.3%	54.3%	138.2%	0.3x	14.0x	NM	NM
USG PEOPLE NV	1,379.1	17.75	9.01	20.76	-4.1%	-3.2%	86.4%	0.5x	21.5x	NM	NM
<b>Diversified/General Staffing Mean</b>					<b>1.3%</b>	<b>15.0%</b>	<b>67.9%</b>	<b>0.4x</b>	<b>17.7x</b>	<b>24.5x</b>	<b>47.2x</b>
<b>SPECIALTY STAFFING</b>											
CDI CORP.	331.1	17.43	9.66	18.20	14.5%	33.9%	45.9%	0.3x	NM	NM	NM
KFORCE INC.	547.1	13.91	8.05	16.25	-10.9%	0.0%	27.5%	0.6x	15.5x	23.0x	38.5x
MICHAEL PAGE INTERNATIONAL PLC	2,030.6	6.54	3.34	7.06	6.9%	9.9%	54.9%	1.7x	37.8x	58.9x	NM
ON ASSIGNMENT INC.	255.9	7.03	2.76	7.89	-3.7%	1.4%	99.7%	0.7x	11.4x	20.2x	46.5x
RESOURCES CONNECTION INC.	812.5	17.54	14.48	21.89	-9.7%	-2.9%	-10.3%	1.4x	NM	NM	NM
ROBERT HALF INTERNATIONAL INC.	4,105.3	27.38	20.24	32.25	-11.7%	2.0%	14.0%	1.2x	28.7x	57.3x	NM
<b>Special Staffing Mean</b>					<b>-2.4%</b>	<b>7.4%</b>	<b>38.6%</b>	<b>1.0x</b>	<b>23.3x</b>	<b>39.9x</b>	<b>42.5x</b>
<b>TOTAL HUMAN RESOURCE OUTSOURCING SERVICES MEAN</b>					<b>0.8%</b>	<b>11.5%</b>	<b>52.5%</b>	<b>1.5x</b>	<b>17.6x</b>	<b>24.9x</b>	<b>33.5x</b>

KPMG Corporate Finance LLC regularly monitors performance of a select group of publicly traded companies within the human resource outsourcing industry.

Source: Capital IQ and company filings as of April 30, 2010

- 1 Market Capitalization amounts are in US\$ millions, based on closing Share Prices as of April 30, 2010.
- 2 Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents.
- 3 EBITDA equals Earnings Before Interest, Taxes, Depreciation, and Amortization.

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