

Valuation update for the HR outsourcing industry

NelsonHall's HRO Confidence Index, which reached a low of 115 in the second quarter of 2009, increased to 164 in the first quarter of 2011. Contract renewals and increases in scale and scope are expanding with existing clients, while total contract values continue to increase as geographic coverage expands. Multicountry coverage is included in approximately 30 percent of current contract activity, and growth is expected to increase for multiprocess HRO providers. Clients are growing in sophistication and understanding of outsourcing options, and fewer buyers want heavily customized technology solutions. They are also cautious about vendors with only a single offshore delivery center. This should ease the way for HRO vendors with multi-shore delivery options, and business is expected to increase for hybrid and platform HR technology system providers.

Merger and acquisition activity in the HRO industry remains steady. The following are among the notable transactions announced in February:

- Technical outsourcing solutions provider **System One Holdings, LLC** announced it has acquired **Link2Consult, Inc.** for an undisclosed amount. New Jersey-based Link2Consult provides Web-based workforce management software solutions used to provide automation and efficiencies to the employee procurement process. The acquisition will better position System One to offer a comprehensive and configurable suite of contingent workforce management solutions to the middle market. (Source: System One Holdings, LLC press release, February 16, 2011)
- Recruitment software provider **Safe Computing Ltd.** announced it has acquired **InterSoftware Recruitment Solutions Ltd.** for an undisclosed amount. U.K.-based InterSoftware develops recruitment software solutions for the recruitment industry that enables users to manage



the recruitment process from registration to payment of temporary workers' wages. Safe Computing made the acquisition to strengthen its solutions tailored to small businesses, which has historically been InterSoftware's target market. (Source: Safe Computing Ltd. press release, February 10, 2011)

- HR services provider **Xcel HR Corporation** announced the acquisition of **Astra HR** for an undisclosed amount. Maryland-based Astra provides HR management solutions including payroll and HR administration, employee record management, and risk management services. The acquisition expands Xcel HR's position in the mid-Atlantic market and strengthens its payroll/HRIS Web platform. (Source: Xcel HR Corporation press release, February 8, 2011)
- Application software provider **Kronos Incorporated** announced it has signed a definitive agreement to acquire **API Healthcare Corporation** for an undisclosed amount. Wisconsin-based API develops labor resource management software solutions for healthcare organizations. It offers time and attendance, staffing/scheduling, payroll, workflow, and productivity management software solutions. The acquisition complements Kronos' existing human capital management solutions for the healthcare industry and will strengthen its patient classification software. (Source: Kronos Incorporated press release, February 7, 2011)
- Staffing firm **Allegis Group, Inc.** announced it has acquired **Aston Carter International Limited** for an undisclosed amount. U.K.-based Aston Carter is a global IT recruitment business specializing in the banking and financial services sectors with offices throughout Europe and Asia. The acquisition expands Allegis' international footprint and complements its existing IT recruitment capabilities. (Source: Allegis Group, Inc. press release, February 1, 2011)

KPMG Corporate Finance LLC – Valuation Update for the HR Outsourcing Industry

Market Snapshot												
Company	Market Cap ¹	Share Price	52-Week Low	52-Week High	Price % Change 1 Mo	Price % Change 3 Mo	Price % Change 1 Yr	EV ² /Sales	EV ² /EBITDA ³	EV ² /EBIT	Stock Price/Earnings	
HR Administrative Services												
Administaff Inc.	781.7	29.93	18.07	30.42	5.8%	4.0%	66.1%	0.3x	9.7x	13.6x	32.0x	
Automatic Data Processing, Inc.	24,820.9	50.00	26.46	50.03	4.4%	9.9%	20.2%	2.5x	11.3x	13.4x	21.6x	
Barrett Business Services Inc.	148.8	14.59	12.18	17.14	1.6%	-1.8%	20.1%	0.3x	10.0x	11.7x	24.3x	
Paychex Inc.	12,163.4	33.63	24.65	33.69	6.1%	17.3%	12.3%	5.8x	14.1x	15.7x	25.9x	
HR Administrative Services Mean					4.5%	7.4%	29.7%	2.2x	11.3x	13.6x	25.9x	
HR Professional Services												
CPL Resources plc	146.3	3.93	2.82	4.28	-6.9%	23.9%	25.2%	0.3x	12.5x	15.9x	32.1x	
Hays plc	2,809.2	2.03	1.34	2.18	4.4%	15.8%	27.7%	0.7x	39.3x	57.6x	93.2x	
Heidrick & Struggles International Inc.	477.5	27.23	16.29	30.95	1.5%	27.2%	1.0%	0.6x	9.6x	15.5x	41.9x	
Kenexa Corp.	531.1	23.19	9.93	25.08	13.6%	23.0%	135.0%	2.8x	28.0x	NM	NM	
Korn/Ferry International	1,060.8	22.86	12.78	24.77	0.5%	31.2%	33.8%	1.3x	12.1x	14.5x	29.7x	
Resources Connection Inc.	888.5	19.29	11.00	21.94	-2.9%	17.8%	13.2%	1.4x	20.0x	31.0x	58.5x	
HR Professional Services Mean					1.7%	23.2%	39.3%	1.2x	20.3x	26.9x	51.1x	
HR Technology Services												
Callidus Software Inc.	191.2	5.93	2.84	6.61	-3.3%	24.8%	76.5%	2.3x	NM	NM	NM	
Lawson Software, Inc.	1,659.1	10.14	6.07	10.78	5.6%	16.3%	68.4%	2.1x	12.9x	22.8x	49.3x	
Monster Worldwide, Inc.	2,233.0	17.15	10.01	25.90	7.5%	-26.0%	22.9%	2.4x	472x	NM	NM	
Saba Software Inc.	200.9	7.07	4.58	7.43	8.6%	15.1%	39.7%	1.6x	33.5x	NM	NM	
SuccessFactors, Inc.	2,727.5	35.91	17.80	37.69	25.3%	17.5%	98.3%	11.5x	NM	NM	NM	
Taleo Corporation	1,306.7	32.29	21.97	34.05	9.8%	2.7%	37.2%	4.9x	51.6x	NM	NM	
Ultimate Software Group Inc.	1,351.8	53.44	30.90	57.23	10.8%	20.1%	72.8%	5.7x	NM	NM	NM	
Human Resource Technology Services Mean					9.2%	10.1%	59.4%	4.4x	36.3x	22.8x	49.3x	
Diversified/General Staffing												
Adecco SA	11,715.8	67.30	48.89	72.09	2.3%	15.3%	35.1%	0.5x	11.3x	13.6x	24.3x	
Hays plc	2,809.2	2.03	1.34	2.18	4.4%	15.8%	27.7%	0.7x	39.3x	57.6x	93.2x	
Kelly Services, Inc.	774.9	21.02	10.07	22.99	7.9%	17.6%	33.6%	0.2x	9.5x	16.6x	29.0x	
Manpower Inc.	5,199.7	63.50	39.94	69.67	-0.7%	11.2%	23.3%	0.3x	11.1x	14.5x	26.5x	
Randstad Holding NV	9,169.7	53.92	37.96	59.49	-1.8%	12.5%	28.4%	0.5x	12.6x	22.2x	33.5x	
SFN Group, Inc.	731.6	13.83	4.89	13.91	44.2%	58.2%	75.7%	0.3x	11.4x	20.1x	40.4x	
TrueBlue, Inc.	712.3	16.15	9.97	19.48	-5.2%	-3.6%	21.7%	0.5x	12.3x	19.4x	38.6x	
USG People NV	1,588.5	20.44	13.50	22.46	-3.1%	9.1%	25.7%	0.5x	14.2x	33.2x	NM	
Diversified/General Staffing Mean					6.0%	17.0%	33.9%	0.4x	15.2x	24.7x	40.8x	
Specialty Staffing												
CDI Corp.	283.3	14.88	10.86	20.34	-6.2%	-10.7%	4.1%	0.3x	15.6x	44.6x	87.6x	
Kforce Inc.	706.5	17.86	9.80	19.23	1.5%	16.3%	34.1%	0.7x	17.0x	20.7x	34.7x	
Michael Page International plc	2,567.5	8.37	5.53	9.22	-2.8%	10.8%	48.0%	2.0x	26.8x	32.1x	56.5x	
On Assignment Inc.	383.9	10.50	4.17	10.87	35.1%	46.4%	59.3%	1.0x	16.2x	23.2x	58.5x	
Resources Connection Inc.	888.5	19.29	11.00	21.94	-2.9%	17.8%	13.2%	1.4x	20.0x	31.0x	58.5x	
Robert Half International Inc.	4,667.0	31.90	21.16	34.26	3.7%	14.5%	14.3%	1.4x	25.5x	38.0x	63.8x	
Specialty Staffing Mean					4.7%	15.9%	28.8%	1.1x	20.2x	31.6x	59.9x	
Total HR Outsourcing Services Mean					5.2%	14.7%	38.2%	1.9x	20.6x	23.9x	45.4x	

Source: Capital IQ and company filings as of February 28, 2011

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

¹ Market Capitalization amounts are in US\$ millions, based on closing Share Prices as of February 28, 2011.

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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