



CORPORATE FINANCE

Valuation Update for the Human Resources Outsourcing Sector

ADVISORY

June 30, 2010

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According to research firm Nelson Hall's recent report "HR Issues and Outsourcing Intentions," reductions in HR administrative costs ranked as the primary reason for acquiring HRO services. The report also highlighted other key issues and challenges HR departments are currently facing including the ability to provide support for organizational restructuring and retraining, standardizing HR processes, and providing improved HR information without the required internal investment in HR technology. This need for cost reduction with minimum investment is driving organizations to seek average cost reductions of approximately eight percent from their internal HR services during 2010, with significantly higher cost reductions sought from their HRO service providers. As a result, organizations will negotiate with their current HRO providers for further cost reductions and engage in additional HRO deals that focus on both process standardization and cost reduction.

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

- HR consulting and outsourcing firm **Mercer, LLC** signed a definitive agreement to acquire **ORC Worldwide, Inc.** for an undisclosed amount. New York-based ORC provides a variety of HR consulting services including designing compensation programs, conducting benchmarking research studies, and advising on best practices. The acquisition is expected to strengthen Mercer's global human resource intelligence solutions, as well as further strengthen its related international consulting, conference, and educational services. ORC's strong market position, particularly in the area of international assignment expertise, complements Mercer's worldwide research capabilities and extensive global network. (Source: Mercer, LLC Press Release, June 23, 2010)
- **Benefit Planning Services, LLC** announced it has acquired payroll solutions provider **Net Pay Solutions, Inc.** for an undisclosed amount. Pennsylvania-based Net Pay's services include online time and attendance tracking, workers' compensation payment services, and payroll solutions. The acquisition expands Benefit Planning's current payroll solutions offering and provides customers the flexibility to choose one or more services that fit their business needs. (Source: Benefit Planning Services, LLC Press Release, June 18, 2010)
- French human resources and payroll solutions provider **Cegid SA** (ENXTPA: CGD) has agreed to acquire **Vedior Front RH** from Randstad Holding NV (ENXTAM: RAND) for an undisclosed amount. France-based Vedior Front RH develops payroll and human resources software offerings and increases its cross-selling opportunities as Vedior Front maintains an installed base of nearly 19,000 customers. (Source: Cegid SA Press Release, June 16, 2010)
- Personnel management services provider **Administaff, Inc.** (NYSE: ASF) announced it has acquired **OneMind Connect, Inc.** for an undisclosed amount. California-based OneMind develops expense report management software solutions that are available either installed on users' desktops or via a software-as-a-service (SaaS) platform. The acquisition will add to Administaff's growing line of SaaS products, and brings with it a global customer base of approximately 5,000 companies. (Source: Administaff, Inc. Press Release, June 15, 2010)
- Talent management solutions provider **Drake International, Inc.**, through its subsidiary **Exponential Impact**, has acquired **DenoSys, LLC** for an undisclosed amount. West Virginia-based DenoSys provides on-demand HR and payroll solutions. Exponential Impact will leverage DenoSys' technology to offer a more robust product offering to address the key productivity and performance improvement issues that are impacted by organizations' human capital. (Source: Drake International, Inc. Press Release, June 1, 2010)

Valuation Update for the HR Outsourcing Industry

Market Snapshot											
Company	Market Cap ¹	Share Price ¹	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	Price/Earn
HUMAN RESOURCE ADMINISTRATIVE SERVICES											
ADMINISTAFF INC.	632.0	24.16	16.45	28.07	0.1%	12.5%	3.8%	0.2x	11.1x	20.7x	48.2x
AUTOMATIC DATA PROCESSING, INC.	20,250.3	40.26	26.46	45.74	-1.5%	-9.7%	13.6%	2.1x	8.3x	9.7x	16.4x
BARRETT BUSINESS SERVICES INC.	129.7	12.40	9.47	16.00	-10.9%	-8.6%	18.1%	0.4x	NM	NM	NM
PAYCHEX INC.	9,387.2	25.97	23.84	32.88	-9.0%	-16.4%	3.1%	4.5x	11.1x	12.4x	20.6x
HR Administrative Services Mean					-5.3%	-5.5%	9.6%	1.8x	10.2x	14.3x	28.4x
HR PROFESSIONAL SERVICES											
CPL RESOURCES PLC	119.9	3.22	1.64	3.59	6.2%	4.1%	90.3%	0.3x	8.8x	9.9x	22.5x
HAYS PLC	1,913.4	1.38	1.21	1.80	-9.3%	-15.3%	6.9%	0.5x	13.9x	15.9x	25.1x
HEIDRICK & STRUGGLES INTERNATIONAL INC.	398.6	22.82	15.65	32.15	-1.4%	-19.9%	25.0%	0.7x	9.5x	15.4x	26.5x
HEWITT ASSOCIATES INC.	3,207.0	34.46	27.92	43.85	-7.5%	-13.4%	15.7%	1.0x	4.9x	6.3x	11.1x
KENEXA CORP.	271.1	12.00	9.48	16.05	-15.7%	-14.2%	3.7%	1.3x	14.0x	46.8x	NM
KORN/FERRY INTERNATIONAL	631.7	13.90	9.43	18.62	-0.6%	-22.6%	30.6%	0.7x	13.8x	22.6x	NM
RESOURCES CONNECTION INC.	630.0	13.60	13.56	21.89	-15.7%	-30.0%	-20.8%	1.0x	46.5x	NM	NM
HR Professional Services Mean					-6.3%	-15.9%	21.7%	0.8x	15.9x	19.5x	21.3x
HR TECHNOLOGY SERVICES											
CALLIDUS SOFTWARE INC.	101.6	3.26	2.43	3.73	1.6%	-7.9%	14.4%	1.0x	NM	NM	NM
LAWSON SOFTWARE, INC.	1,180.5	7.30	4.95	8.45	-11.5%	8.8%	30.1%	1.6x	9.9x	15.6x	28.8x
MONSTER WORLDWIDE INC.	1,469.3	11.65	9.47	19.28	-21.2%	-31.7%	-1.4%	1.4x	32.2x	NM	NM
SABA SOFTWARE INC.	144.2	5.15	3.05	5.81	0.0%	3.4%	33.8%	1.1x	14.3x	53.3x	NM
SUCCESSFACTORS, INC.	1,505.2	20.79	8.27	23.68	-6.6%	6.8%	126.5%	7.2x	NM	NM	NM
TALEO CORPORATION	965.8	24.29	16.27	27.93	-3.0%	-6.8%	33.0%	3.6x	26.6x	NM	NM
ULTIMATE SOFTWARE GROUP INC.	819.0	32.86	20.17	37.25	-3.9%	-1.4%	35.6%	3.9x	71.4x	NM	NM
HR Technology Services Mean					-6.4%	-4.1%	38.8%	2.8x	30.9x	34.5x	28.8x
DIVERSIFIED/GENERAL STAFFING											
ADECCO SA	8,522.0	48.95	40.05	62.91	-7.9%	-13.5%	14.3%	0.5x	13.2x	17.1x	30.2x
HAYS PLC	1,913.4	1.38	1.21	1.80	-9.3%	-15.3%	6.9%	0.5x	13.9x	15.9x	25.1x
KELLY SERVICES, INC.	537.7	14.87	10.01	18.93	1.9%	-13.7%	35.8%	0.1x	NM	NM	NM
TRUEBLUE, INC.	493.2	11.19	7.55	17.23	-15.8%	-28.2%	33.2%	0.4x	10.6x	20.9x	40.9x
MANPOWER INC.	3,535.4	43.18	38.28	63.00	-5.5%	-25.4%	2.0%	0.2x	12.6x	19.7x	48.1x
RANDSTAD HOLDING NV	6,960.1	41.00	22.82	53.09	-4.8%	-7.5%	64.5%	0.5x	16.4x	44.4x	NM
SFN GROUP, INC.	283.5	5.46	3.03	9.19	-28.7%	-33.4%	32.5%	0.2x	8.3x	29.4x	NM
USG PEOPLE NV	1,142.4	14.70	8.87	19.76	2.3%	-16.5%	42.4%	0.4x	19.4x	NM	NM
Diversified/General Staffing Mean					-8.5%	-19.2%	29.0%	0.4x	13.5x	24.6x	36.1x
SPECIALTY STAFFING											
CDI CORP.	295.2	15.53	9.91	18.65	-2.8%	2.0%	39.3%	0.3x	NM	NM	NM
KFORCE INC.	503.7	12.75	8.05	16.25	-5.7%	-18.3%	54.2%	0.6x	17.8x	23.5x	38.3x
MICHAEL PAGE INTERNATIONAL PLC	1,739.4	5.63	3.30	6.97	0.5%	-6.8%	56.5%	1.4x	33.7x	50.2x	NM
ONASSIGNMENT INC.	183.2	5.03	3.53	7.89	-9.0%	-31.1%	28.6%	0.6x	10.0x	18.7x	54.0x
RESOURCES CONNECTION INC.	630.0	13.60	13.56	21.89	-15.7%	-30.0%	-20.8%	1.0x	46.5x	NM	NM
ROBERT HALF INTERNATIONAL INC.	3,533.2	23.55	20.24	32.25	-6.9%	-24.1%	-0.3%	1.1x	25.5x	51.8x	NM
Special Staffing Mean					-6.6%	-18.0%	26.2%	0.8x	26.7x	36.1x	46.2x
TOTAL HUMAN RESOURCE OUTSOURCING SERVICES MEAN					-6.6%	-12.6%	25.1%	1.3x	19.4x	25.8x	32.1x

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 June 30, 2010

- 1 Market Capitalization amounts are in US\$ millions, based on closing Share Prices as of June 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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