



CORPORATE FINANCE

Valuation Update for the HR Outsourcing Industry

ADVISORY

May 31, 2010

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The May 2010 unemployment rate declined slightly to 9.7 percent, as total nonfarm payroll employment increased by 431,000, reflecting the hiring of 411,000 temporary employees to work on Census 2010. Approximately 15 million people remained unemployed throughout the United States. Analysts estimate that state and local government jobs, which have increased to 15 percent of U.S. employment, will decline an additional one to two million over the next 12 months. This increases the burden on the private sector to create new jobs as states approach their June fiscal year-end. Small businesses, which represent half of the private sector and the most important part in terms of job creation, have been heavily impacted by the current credit crisis. These small businesses created 64 percent of new jobs over the past 15 years, but have cut five million jobs since the onset of the credit crisis. By comparison, large businesses have cut three million jobs in the past two years. (Source: Bureau of Labor Statistics)

Small businesses continue to struggle to gain access to credit and cannot easily hire in the current environment. Thus, a majority of the job creation falls upon large businesses, which would have to rehire all of the three million workers laid off over the past two years to make a substantial change in jobless numbers. Given the productivity gains enjoyed recently, it is unlikely that large businesses will significantly increase hiring in the short term.

Similar to the trend in the U.S. job market, HRO providers are still anticipating a pending recovery, as opposed to experiencing a strong increase in HRO service demand. Pricing remains competitive for HRO services, and although pipelines remain relatively strong, buy-side executive decision making remains cautious and slow. Other factors contributing to a nascent recovery include lower client employee headcounts, reduced spending on discretionary projects, and confusion in regards to healthcare reform. According to research firm IDC, the global HRO market in 2009 was estimated at approximately US\$19 billion, representing a 5 percent increase from the prior year.

The table below highlights the first quarter 2010 results for two publicly traded companies that separately report their background screening revenue.

Company	2008 Revenue Growth	2009 Revenue Growth	Q1 2010 Revenue Growth*
Kroll, Inc.**	-11%	-11%	-16%
Intersections, Inc.**	-6%	-34%	15%
Mean	-9%	-23%	-1%

* Revenue growth calculated on a year-over-year basis

** Background screening revenue from company SEC filing notes

Intersections, Inc. reported a 15 percent increase in revenue due to higher screening volume, while Kroll, Inc. (Kroll) reported a decline of 16 percent compared with the first quarter of 2009. Given the stronger deal pipelines in the broader HRO market and the fact that Kroll's Q1 2009 results were down 13 percent compared with the first quarter of 2008, the lower 2010 results highlight the ongoing challenges in the background screening market. Marsh & McLennan Companies, Inc. (Marsh) (NYSE: MMC) announced it has reached a deal to divest its corporate-intelligence unit Kroll, Inc. to security firm Altagrity, Inc. (Altagrity) for approximately US\$1.13 billion. Altagrity made the acquisition to expand its existing background screening and corporate risk mitigation services. In 2004, Marsh paid US\$1.9 billion in cash for Kroll but has already written off US\$855 million of goodwill. Marsh made the divestiture to focus on its insurance and consulting businesses.

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
HR ADMINISTRATIVE SERVICES											
ADMINISTAFF INC.	631.2	24.13	16.45	28.07	7.8%	35.5%	10.7%	0.2x	11.1x	20.6x	48.1x
AUTOMATIC DATA PROCESSING, INC.	20,562.1	40.88	26.46	45.74	-8.0%	-2.0%	7.6%	2.1x	8.5x	9.9x	16.6x
BARRETT BUSINESS SERVICES INC.	145.5	13.91	9.47	16.00	-8.2%	15.0%	38.8%	0.4x	NM	NM	NM
PAYCHEX INC.	10,315.0	28.54	23.84	32.88	-8.7%	-4.2%	5.0%	5.0x	12.2x	13.7x	22.6x
HR Administrative Services Mean					-4.3%	11.1%	15.5%	1.9x	10.6x	14.7x	29.1x
HR PROFESSIONAL SERVICES											
CPL RESOURCES PLC	107.2	2.88	1.44	3.41	-12.7%	4.3%	96.7%	0.3x	7.9x	8.9x	21.2x
HAYS PLC	2,028.1	1.47	1.13	1.73	-10.0%	-3.0%	24.8%	0.6x	15.3x	17.5x	27.7x
HEIDRICK & STRUGGLES INTERNATIONAL INC.	404.4	23.15	15.65	32.15	-15.0%	-15.7%	28.4%	0.7x	9.6x	15.7x	26.8x
HEWITT ASSOCIATES INC.	3,466.6	37.25	27.92	43.85	-9.4%	-2.7%	27.1%	1.1x	5.3x	6.8x	12.0x
KENEXA CORP.	321.5	14.23	9.20	16.05	-5.4%	42.2%	52.7%	1.6x	17.4x	NM	NM
KORN/FERRY INTERNATIONAL	643.2	13.98	9.43	18.62	-17.9%	-18.5%	21.7%	0.9x	41.6x	NM	NM
RESOURCES CONNECTION INC.	747.7	16.14	14.48	21.89	-14.1%	-5.6%	-10.9%	1.2x	NM	NM	NM
HR Professional Services Mean					-12.1%	0.1%	34.4%	0.9x	16.2x	12.2x	21.9x
HR TECHNOLOGY SERVICES											
CALLIDUS SOFTWARE INC.	100.1	3.21	2.43	3.73	-5.9%	-5.6%	10.7%	1.0x	NM	NM	NM
LAWSON SOFTWARE, INC.	1,333.3	8.25	4.90	8.34	4.5%	37.9%	56.5%	1.8x	11.2x	17.6x	32.6x
MONSTER WORLDWIDE INC.	1,865.3	14.79	9.47	19.28	-14.4%	4.8%	26.6%	1.9x	42.7x	NM	NM
SABA SOFTWARE INC.	144.2	5.15	3.05	5.81	1.0%	3.2%	52.4%	1.1x	14.3x	53.3x	NM
SUCCESSFACTORS, INC.	1,611.7	22.26	7.60	23.68	-2.5%	23.1%	184.3%	NM	NM	NM	NM
TALEO CORPORATION	996.0	25.05	15.11	27.93	-5.8%	6.1%	62.5%	3.7x	27.7x	NM	NM
ULTIMATE SOFTWARE GROUP INC.	852.7	34.21	19.47	37.25	-5.9%	9.5%	69.6%	4.0x	NM	NM	NM
HR Technology Services Mean					-4.1%	11.3%	66.1%	2.3x	24.0x	35.5x	32.6x
DIVERSIFIED/GENERAL STAFFING											
ADECCO SA	8,430.2	48.43	36.48	57.30	-12.7%	6.5%	21.3%	0.5x	13.4x	17.7x	33.9x
HAYS PLC	2,028.1	1.47	1.13	1.73	-10.0%	-3.0%	24.8%	0.6x	15.3x	17.5x	27.7x
KELLY SERVICES, INC.	534.8	14.59	10.01	18.93	-19.4%	-8.9%	36.7%	0.1x	NM	NM	NM
TRUEBLUE, INC.	585.8	13.29	7.55	17.23	-18.7%	-1.0%	55.4%	0.4x	13.3x	26.2x	48.6x
MANPOWER INC.	3,742.5	45.71	38.28	63.00	-22.3%	-11.8%	7.7%	0.2x	13.4x	20.9x	50.9x
RANDSTAD HOLDING NV	6,945.3	40.92	21.68	50.44	-15.3%	11.2%	57.2%	0.5x	17.1x	46.3x	NM
SFN GROUP, INC.	397.7	7.66	3.03	9.19	-12.4%	-3.8%	100.0%	0.2x	11.4x	40.0x	NM
USG PEOPLE NV	1,060.6	13.65	8.43	18.77	-17.5%	-5.3%	31.5%	0.4x	19.1x	NM	NM
Diversified/General Staffing Mean					-16.0%	-2.0%	41.8%	0.4x	14.7x	28.1x	40.3x
SPECIALTY STAFFING											
CDI CORP.	303.5	15.97	9.66	18.65	-4.4%	8.3%	41.2%	0.3x	NM	NM	NM
KFORCE INC.	534.1	13.52	8.05	16.25	-11.9%	0.1%	46.8%	0.6x	18.8x	24.8x	40.6x
MICHAEL PAGE INTERNATIONAL PLC	1,641.5	5.38	3.17	6.70	-14.8%	1.8%	46.2%	1.4x	33.0x	49.2x	NM
ON ASSIGNMENT INC.	201.4	5.53	3.21	7.89	-21.7%	-18.7%	68.1%	0.6x	10.7x	20.1x	59.4x
RESOURCES CONNECTION INC.	747.7	16.14	14.48	21.89	-14.1%	-5.6%	-10.9%	1.2x	NM	NM	NM
ROBERT HALF INTERNATIONAL INC.	3,794.2	25.29	20.24	32.25	-19.5%	-8.7%	19.8%	1.2x	27.6x	56.1x	NM
Special Staffing Mean					-14.4%	-3.8%	35.2%	0.9x	22.5x	37.6x	50.0x
TOTAL HUMAN RESOURCE OUTSOURCING SERVICES MEAN					-10.2%	3.3%	38.6%	1.3x	17.6x	25.6x	34.8x

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 May 31, 2010

- 1 Market Capitalization amounts are in US\$ millions, based on closing Share Prices as of May 31, 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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