



CORPORATE FINANCE

Valuation Update for the HR Outsourcing Industry

ADVISORY

September 30, 2010

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If you have additional colleagues who would like to be added to this monthly distribution or if you would like to be removed from this distribution, please contact the professional listed above.

The Q3 2010 NelsonHall HR Outsourcing Confidence Index, a scale in which 100 means no change and 200 implies all participants are very confident, is at a high of 168. This quarter's index rating shows a significant increase when compared to the Q2 2009 figure of 115. Nearly 41 percent of HRO vendors surveyed by NelsonHall stated they are more confident in their HR outsourcing businesses, up from only 10 percent in the second quarter 2009. This increased level of optimism is driven by an upswing in contract value, increased new contract activity, scope expansion with existing clients, and volume in existing contracts.

The following are among the notable transactions announced in the HRO industry in September:

- Talent management software provider **SumTotal Systems, Inc.** announced it has acquired **Softscape Staffing, Inc.** for an undisclosed amount. Massachusetts-based Softscape develops integrated talent management software and was one of the first companies to incorporate integrated talent management into its business strategy. With the acquisition, SumTotal will be better positioned to offer a complete talent management solution that covers all strategic HR functions including learning, performance, compensation, succession, hiring, analytics, and a core HR system of record. *(Source: SumTotal Systems, Inc. press release, September 20, 2010)*
- Therapy staffing provider **Medrec, Inc.** announced it has acquired **Complete Medical Staffing LP** and California Medical Staffing LP (collectively, CMS) for an undisclosed amount. California-based CMS provides complementary therapy staffing services to the healthcare industry. The acquisition strengthens Medrec's highly specialized recruitment, staffing, and consulting services for physical, occupational, and speech therapists. Medrec was also attracted to CMS's experience in recruiting and placing travel therapists, along with its experience in geographic expansion, which is in line with Medrec's nationwide expansion plans. *(Source: Medrec, Inc. press release, September 7, 2010)*
- HR services provider **Towers Watson & Co.** (NYSE: TW) announced it has acquired **Human Resource Services AB** (HRS) for an undisclosed amount. Sweden-based HRS provides HR consulting services and specializes in executive compensation and employee rewards. The acquisition complements Towers Watson's broader set of services in the talent, reward, and benefits areas and strengthens its presence in the Nordic region. *(Source: Towers Watson & Co. press release, September 6, 2010)*
- **Recruiter.com** announced it has entered into a definitive merger agreement to acquire **RecruitingBlogs.com, Inc.** for an undisclosed amount. RecruitingBlogs.com owns and operates a social network and community for recruiters and HR professionals and offers online content such as HR jobs, recruiting articles and videos, HR software resources, and professional networking. The new organization will leverage leading social media properties and technology to enable communication across the fragmented recruitment and HR industry. *(Source: Recruiter.com press release, September 2, 2010)*
- On-demand talent management solutions provider **Taleo, Inc.** (NASDAQ: TLEO) announced it has acquired **Learn.com, Inc.** for approximately US\$125 million in cash. Florida-based Learn.com provides on-demand workforce development and productivity solutions, allowing businesses to more seamlessly develop, deliver, and manage education and training. The acquisition strengthens Taleo's existing talent management suite and allows it to offer solution across recruitment and performance, compensation, and learning management. *(Source: Taleo, Inc. press release, September 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
HR ADMINISTRATIVE SERVICES											
ADMINISTAFF INC.	705.0	26.93	16.45	29.37	25.3%	11.5%	2.5%	0.3x	14.5x	27.7x	57.6x
AUTOMATIC DATA PROCESSING, INC.	20,699.0	42.03	26.46	45.74	8.2%	4.4%	6.9%	2.1x	9.1x	10.7x	18.1x
BARRETT BUSINESS SERVICES INC.	155.2	15.19	10.07	16.00	16.7%	22.5%	43.6%	0.4x	15.1x	19.1x	36.8x
PAYCHEX INC.	9,942.3	27.49	24.65	32.88	10.0%	5.9%	-5.4%	4.7x	11.6x	12.9x	21.5x
HR Administrative Services Mean					15.1%	11.1%	11.9%	1.9x	12.6x	17.6x	33.5x
HR PROFESSIONAL SERVICES											
CPL RESOURCES PLC	114.7	3.08	2.62	3.86	5.6%	-1.5%	7.6%	0.2x	8.2x	10.4x	25.5x
HAYS PLC	2,458.4	1.78	1.30	1.87	26.4%	29.4%	6.8%	0.6x	18.8x	22.6x	35.3x
HEIDRICK & STRUGGLES INTERNATIONAL INC.	341.3	19.48	16.29	32.15	12.8%	-14.6%	-16.3%	0.5x	6.0x	8.8x	18.0x
HEWITT ASSOCIATES INC.	4,637.4	50.43	33.71	51.08	4.1%	46.3%	38.4%	1.5x	7.2x	9.4x	17.3x
KENEXA CORP.	396.5	17.52	9.58	18.52	56.8%	46.0%	30.0%	2.0x	19.3x	74.9x	NM
KORN/FERRY INTERNATIONAL	765.6	16.54	12.78	18.62	27.0%	19.0%	13.4%	0.9x	10.8x	13.6x	29.8x
RESOURCES CONNECTION INC.	633.6	13.76	11.00	21.89	23.4%	1.2%	-19.3%	1.0x	25.6x	68.4x	NM
HR Professional Services Mean					22.3%	18.0%	8.7%	1.0x	13.7x	29.7x	25.2x
HR TECHNOLOGY SERVICES											
CALLIDUS SOFTWARE INC.	133.9	4.27	2.60	4.40	27.1%	31.0%	41.9%	1.6x	NM	NM	NM
LAWSON SOFTWARE, INC.	1,380.4	8.47	5.69	8.48	10.1%	16.0%	35.7%	1.7x	10.6x	18.3x	41.2x
MONSTER WORLDWIDE INC.	1,682.4	12.96	10.01	19.10	17.2%	11.2%	-25.9%	1.7x	NM	NM	NM
SABA SOFTWARE INC.	152.5	5.44	3.85	5.81	4.0%	5.6%	29.2%	1.1x	12.6x	35.4x	73.0x
SUCCESSFACTORS, INC.	1,851.5	25.11	13.61	26.51	20.0%	20.8%	78.5%	8.8x	NM	NM	NM
TALEO CORPORATION	1,160.0	28.99	19.17	30.43	14.1%	19.3%	28.0%	4.3x	33.3x	NM	NM
ULTIMATE SOFTWARE GROUP INC.	969.7	38.64	24.73	39.23	16.5%	17.6%	34.5%	4.5x	NM	NM	NM
HR Technology Services Mean					15.6%	17.4%	31.7%	3.4x	18.8x	26.9x	57.1x
DIVERSIFIED/GENERAL STAFFING											
ADECCO SA	9,113.0	52.35	46.12	67.79	12.8%	9.0%	-1.4%	0.5x	12.7x	15.9x	27.8x
HAYS PLC	2,458.4	1.78	1.30	1.87	26.4%	29.4%	6.8%	0.6x	18.8x	22.6x	35.3x
KELLY SERVICES, INC.	426.6	11.73	10.01	18.93	13.7%	-21.1%	-4.6%	0.1x	14.4x	NM	NM
TRUEBLUE, INC.	601.2	13.65	9.97	17.23	26.9%	22.0%	-3.0%	0.4x	11.6x	20.1x	39.7x
MANPOWER INC.	4,292.7	52.20	39.94	63.00	20.6%	20.9%	-8.0%	0.3x	13.0x	18.6x	37.1x
RANDSTAD HOLDING NV	7,697.2	45.28	33.58	57.06	21.4%	13.7%	4.9%	0.5x	14.7x	31.3x	47.8x
SFN GROUP, INC.	316.5	6.01	4.69	9.19	12.3%	10.1%	-3.2%	0.2x	8.2x	22.6x	49.4x
USG PEOPLE NV	1,217.7	15.67	13.29	21.23	23.5%	9.7%	-24.4%	0.4x	15.7x	47.7x	NM
Diversified/General Staffing Mean					19.7%	11.7%	-4.1%	0.4x	13.7x	25.5x	39.5x
SPECIALTY STAFFING											
CDI CORP.	245.9	12.92	10.86	18.65	12.8%	-16.8%	-8.0%	0.3x	NM	NM	NM
KFORCE INC.	542.3	13.72	9.80	16.25	28.8%	7.6%	14.1%	0.6x	18.7x	24.4x	38.8x
MICHAEL PAGE INTERNATIONAL PLC	2,214.4	7.24	4.94	7.39	18.8%	29.7%	35.3%	1.8x	23.8x	28.5x	50.6x
ON ASSIGNMENT INC.	191.5	5.25	4.17	7.89	22.1%	4.4%	-10.3%	0.6x	10.9x	19.4x	53.5x
RESOURCES CONNECTION INC.	633.6	13.76	11.00	21.89	23.4%	1.2%	-19.3%	1.0x	25.6x	NM	NM
ROBERT HALF INTERNATIONAL INC.	3,837.3	26.00	21.16	32.25	19.5%	10.4%	3.9%	1.2x	26.3x	48.0x	81.3x
Special Staffing Mean					20.9%	6.1%	2.6%	0.9x	21.1x	30.1x	56.0x
TOTAL HUMAN RESOURCE OUTSOURCING SERVICES MEAN					18.7%	12.8%	10.2%	1.5x	16.0x	26.0x	42.3x

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 September 30, 2010

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

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