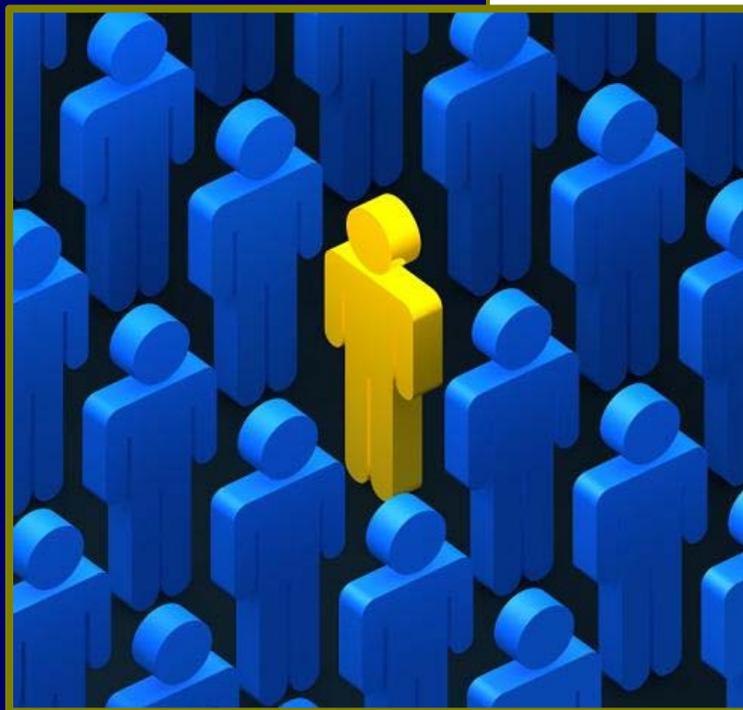


Staffing Industry

Coverage Report

“Market Intelligence for Industry Players”

Q1 2012



Capstone Partners
Investment Banking Advisors

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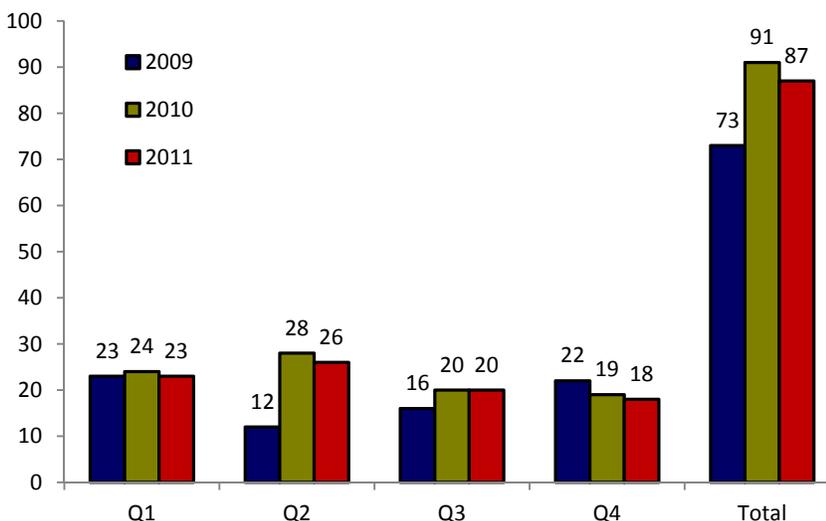
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OVERVIEW

The economic downturn took its toll on mergers & acquisitions in the industry, which slowed during the depths of the recession in 2008 and 2009. During this period, the predominance of the activity we were experiencing in the space was related to distressed situations, typically involving opportunistic buyers and depressed valuation levels. At the same time, buyers remained cautious and, while there was plenty of interest in companies that were performing well and growing despite the recession, overall activity was subdued.

Times have changed. The recent performance recovery across the staffing industry has had a positive effect on merger and acquisition activity in the sector. With the broader industry having turned a corner and beginning to expand again, the staffing M&A market is starting to gain momentum. As shown below, M&A activity increased in 2010 as the industry emerged from the recession. Activity remained strong in 2011, with year-end totals coming in on par with 2010 (the 2011 figures will increase as additional deals are recorded).

M&A Activity: Staffing Industry



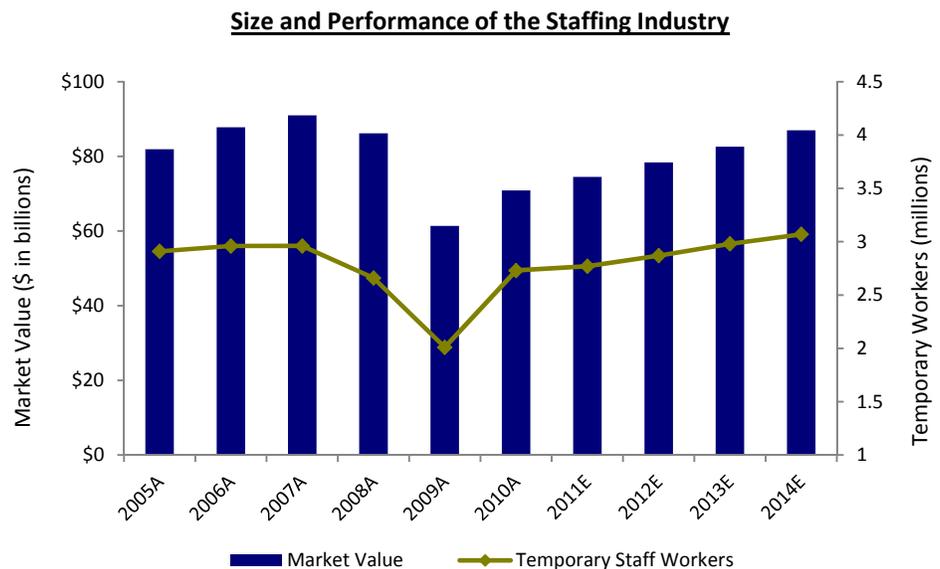
Source: Capital IQ, Capstone Partners LLC research

We expect increased M&A activity in the staffing space in 2012 as the industry's growth and earnings expectations continue to improve. With strong corporate performance and cash-rich balance sheets, we are seeing strategic acquirers more aggressive in the marketplace with substantially improved valuations. Moving forward, we expect to see an increasing number of private business owners who explore exiting their business via an M&A transaction to tap the opportunities represented in this sellers' market as well as take advantage of the current capital gains rate window.

“... the industry experienced a 15% rebound in 2010 and, despite headwinds that continue ... Growth is projected at a compound annual rate of 5.25% through 2014.”

BASELINE DYNAMICS AND THE CURRENT ECONOMIC CYCLE

The staffing industry ebbs and flows with the economy. When the economy faltered and unemployment rose dramatically in the recent recession, temporary jobs were the first to be cut and permanent staffing services were no longer needed. As a result, The market value of the staffing industry decreased sharply, falling by 5.3% in 2008 and another 28.8% in 2009 to \$61.4 billion. The importance of temporary staffing to the industry as a whole can be seen in the correlation between total industry revenues and the number of temporary workers employed. The total number of temporary workers was 2.01 million at the end of 2009, a 32% decline from the levels of 2007.



The staffing industry generally starts to improve shortly after the low-point of an economic cycle, in this case 2009. Indeed, the industry experienced a 15% rebound in 2010 and, despite headwinds that continue in the economy today, analysts forecast that the next several years will be positive for the industry. Growth is projected at a compound annual rate of 5.25% through 2014.

Following a recession, demand for temporary workers generally increases before demand for permanent workers. That is because employers, uncertain about the strength of the economic recovery, do not want to hire full-time workers only to cut back a few months later. Instead, companies use staffing firms to meet their short-term needs and, once confident that a recovery is fully underway, they then hire permanently. Other firms would rather utilize temporary-to-permanent employees on a trial basis before offering full-time positions.

One silver lining of the recent recession is that it served to emphasize the need for contingent labor and the benefits of a flexible labor force when adjusting to fluctuating market demand.

“... business owners seeking a liquidity transaction can expect multiple tender offers and premium valuations.”

MARKET OBSERVATIONS: M&A DEAL TRENDS

With a pick-up in M&A activity in the staffing industry, we have observed the following M&A market trends:

- ▶ **Growth Drives Opportunity:** Strong staffing companies, especially those that outperformed the industry during the recession, are standing out among the seller universe and are garnering much of the attention from corporate buyers. For such companies, business owners seeking a liquidity transaction can expect multiple tender offers and premium valuations.
- ▶ **Core Strategic Value:** Growth certainly drives value, but acquirers remain keenly focused on the core differentiation of the business. Among the leading indicators of deal value, we see the following factors leading the way: operating margins relative to industry norms; industry specialization; geographic coverage; a diverse stable of loyal customers and a well articulated growth strategy.
- ▶ **Variable Deal Structures:** Ultimately, the staffing industry falls under the broader “human capital” umbrella. While a fair number of transactions are purchased for cash, they can also include variable and contingent consideration such as employee retention bonus pools, senior executive stay-incentives, buyers’ stock and performance-based earn outs. Regardless, even in the highly structured transactions, cash consideration paid at closing will still come in at between 50% to 75% of the total purchase price.
- ▶ **Value-Added Staffing Solutions:** Companies that offer workforce management solutions such as independent contractor (IC) compliance, payroll, managed service providers (MSPs), vendor management systems (VMS) and other solutions are attractive to buyers who see these services as an integral part of the customer service and retention strategies.
- ▶ **Broad Segment Activity:** Buyers are active in all segments of the staffing industry, including temporary staffing, recruiting, executive search and PEOs as well as most specialties such as IT, healthcare, professional, commercial and industrial. That said, the faster growing areas of staffing, like IT staffing, industrial temporary staffing and healthcare staffing are seeing the most M&A activity.
- ▶ **Broad Acquirer Activity:** Approximately 90% of the transactions in the staffing industry are completed by corporate buyers, with private equity groups accounting for the remaining 10%. However, nearly all the transactions completed by private equity groups involve middle-market companies, whereas some corporate buyers are focused on larger and mid-sized targets alike. Looking at the transactions involving corporate buyers, we note that both public and private companies have been active buyers. In addition, global firms, including Randstad Holding, Recruit Co. and Adecco Group have also been quite active in acquiring US staffing companies in cross border M&A deals.

“New services are particularly valuable, as they represent additional cross-selling opportunities to the buyer’s organization.”

M&A DEAL VALUE DRIVERS

The strategic benefits of mergers & acquisitions in the staffing industry have been widely recognized. From an infrastructure standpoint alone, strategic combinations have generated immediate gains from the elimination of duplicate back office services as well as increased buying power for advertising, computers and various supplies and services. In addition, the combined company often enjoys additional marketing clout and can, in turn, attract a higher caliber sales team.

Most importantly, any new services or geographic territories gained in the acquisition signify instant and leveraged strategic value for the acquirer. New services are particularly valuable, as they represent additional cross-selling opportunities to the buyer’s organization. The expansion of services can also help to differentiate the staffing firm in the market, where more and more customers are looking to their providers for a full range of staffing and HR solutions.

Capstone has identified several key attributes of staffing companies that tend to be sought after by potential acquirers. To the extent that the selling company has these characteristics, these value drivers can generally result in more suitors for the target company, as well as higher offers. As summarized earlier, they include:

- ▶ **Solid Growth & Profitability:** historical financial performance reflective of healthy margins that are consistently above industry averages and direct peers. Buyers will consider financial performance on a pro forma, consolidated basis.
- ▶ **A Diverse Customer Base:** marque customer names with minimal customer concentration. The risk associated with dependence on a limited group of customers can negatively impact the value of a staffing company.
- ▶ **Customer Retention & Satisfaction:** deep and direct relationships with customers, reflected in average tenure and high satisfaction rates. This is paramount in the industry as acquirers seek stable platforms for future growth.
- ▶ **Market Differentiation:** leading competitive positions in niche or fragmented industries, geographies and/or service offerings. Acquirers will typically consider a buy-versus-build equation when assessing unique competitive capabilities.
- ▶ **Size and Scale:** having achieved a minimum scale typically denotes a real market need and more sophisticated business model. Buyers generally look for targets with at least \$10 million in revenue (representative of “staying power”).
- ▶ **Low Employee Turnover:** a stable and talented group of middle management and sales staff that can effectively transition and grow the business. As staffing is a human capital business, buyers require personnel continuity.
- ▶ **Executive Strength:** strong executive teams that are committed to remaining with the company following a sale. Especially key for private equity buyers, the leaders of the business (in most cases) should be committed to the next phase.

SELECTED STAFFING M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM		
					Revenue	EBITDA	
12/30/2011	Advantage Resourcing America/Europe B.V.	Recruit Co., Ltd.	Provides commercial and technical staffing services.	\$410.0	-	-	
12/15/2011	Alchemy Search Partners, Inc.	SOAProjects, Inc.	Provides direct hire and interim search services focusing on accounting, finance, HR and IT.	-	-	-	
11/21/2011	TS Staffing Services, Inc.	Corporate Resource Services (OTCBB:CRRS)	Offers temporary and permanent employment staffing services.	\$64.1	-	-	
10/26/2011	Compliance LP	System One Holdings, LLC	Offers temporary legal staffing and legal project outsourcing solutions.	-	-	-	
10/20/2011	Allied Healthcare International Inc.	Saga Group Ltd.	Provides healthcare staffing services to the healthcare and social care industry.	\$140.4	0.5x	7.7x	
10/17/2011	Staffmark Holdings, Inc.	Recruit Co., Ltd.	Offers light industrial, clerical and specialty staffing services.	\$295.0	0.3x	8.2x	
10/17/2011	Solvix Medical Group	Smart-Tek Solutions Inc. (OTCPK:STTN)	Provides medical staffing and physical therapy services.	-	0.2x	-	
10/03/2011	Provade, Inc.	Pinnacle Technical Resources, Inc.	Offers contingent workforce management, managed procurement and professional services.	-	-	-	
09/01/2011	Peoplelink Staffing Solutions, LLC	Groupe CRIT SA (ENXTPA:CEN)	Provides staffing solutions in administrative, light industrial, IT, engineering, finance/accounting and other specialties.	-	-	-	
09/01/2011	Drake Beam Morin, Inc.	Lee Hecht Harrison (Adecco Group)	Provides career transition and talent development solutions.	\$216.1	1.8x	-	
09/01/2011	Ashley Ellis, LLC	General Employment Enterprises (AMEX:JOB)	Operates as an information technology recruiting/staffing company.	\$0.7	-	-	
08/29/2011	SFN Group, Inc.	Randstad North America, L.P.	Operates as a strategic workforce solutions provider, offering a wide range of staffing services.	\$732.2	0.4x	10.2x	
07/19/2011	Reynolds Technical Services Inc.	NESCO, Inc.	Provides technical staffing services, such as IT, engineering and other technical specialties.	-	-	-	
06/05/2011	A1 Staffing and Recruiting Agency, Inc.	Spartan Staffing, LLC	Provides temporary staffing, temp-to-hire, direct hire and contract staffing services.	-	-	-	
05/23/2011	Employbridge Holdings Company, Inc.	Morgan Stanley Private Equity	Provides diversified staffing, training and accounting services.	-	-	-	
05/17/2011	Meridian Partners, LLC	Pearson Partners International, Inc.	Provides executive search services for global businesses.	-	-	-	
04/29/2011	Advantec, Inc.	Oasis Outsourcing, Inc.	A professional employer organization, provides human capital management solutions.	-	-	-	
04/10/2011	Cameo Personnel Systems	Diamond Staffing Services	Provides temporary staffing, direct hire placement and temporary to perm staffing services.	\$0.8	0.1x	-	
04/08/2011	Edge Professional Services	Artech Information Systems	Offers long and short term contract, contract-to-direct, direct placement and project management services.	-	-	-	
04/04/2011	BestCare Travel Staffing, LLC	Arcadia Resources Inc. (OTCPK:KADR)	Provides travel nursing and allied health staffing services.	\$0.9	-	-	
03/23/2011	American Surgical Holdings, Inc.	Great Point Partners, LLC	Operates as a healthcare professional services staffing company.	-	-	-	
02/24/2011	Code X, Inc.	Stefanini IT Solutions	Provides technical staffing and staff augmentation services.	\$16.0	0.4	-	
02/08/2011	Astra HR	Xcel HR Corporation	Provides HR management services including recruitment and selection, on-boarding, compliance and payroll.	-	-	-	
01/31/2011	Diamond Staffing Services, Inc.	Corporate Resource Services (OTCBB:CRRS)	Offers temporary and permanent employment staffing services.	\$38.2	0.4x	12.8x	
					Mean	0.4x	9.7x
					Median	0.4x	9.2x

LTM = last twelve months; EV = enterprise value

Source: Capstone Research, Capital IQ, company public filings and press releases

TRANSACTION EXPERIENCE

Capstone’s professionals have completed several transactions in the human capital and consulting sector. These transactions included business sales, the securing of debt financing, and the provision of valuation advisory services to private companies, as well as acquisition services for buyers of staffing companies. Capstone maintains an ongoing focus on the staffing and HR solutions industry. Our experience in the sector provides us with insight into the valuable attributes and valuation metrics of a target company, access to active corporate and private equity buyers in the industry and intelligence regarding the nuances of transactions in this space.



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John Ferrara, the founder and principal shareholder of Capstone, serves as the firm's President and Managing Partner. Over his extensive career in investment banking, venture capital and management consulting, John has executed over 100 related engagements representing in excess of \$6 billion in value. John was formerly a Regional Managing Partner with Andersen Corporate Finance, where he founded the Boston office and held various national and global leadership positions. He started his career in Lehman's Brothers' M&A group in New York, London and Riyadh, later becoming a founding member of Rodman & Renshaw's M&A practice in New York. He earned an MBA in Entrepreneurial Studies from The Anderson School at UCLA and the London School of Economics, during which time he founded and operated a corporate finance advisory boutique, JG Atlas Advisors, and its related investment arm, Atlantis Capital Partners. He holds dual BA degrees from Wesleyan University and is qualified as a General Securities Principal.



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Kevin has over 18 years of investment banking, syndicated bank loan and corporate finance experience. He leads Capstone's Consumer & Industrial Products practice and is a member of the Board of Directors. His transaction experience includes managing complex engagements for clients in a variety of industries including consumer products, industrial products, medical devices, biotechnology, business services, software, and distribution. Prior to joining Capstone, Kevin served as a Vice President in the Investment Banking Group at Adams Harkness. Kevin also served as an Associate in the Debt Capital Markets Group of FleetBoston Robertson Stephens, Inc. Before Fleet, Kevin was at Textron Inc. where he worked in the Strategic Planning, Internal Audit and Mergers & Acquisitions departments. He also has four years of finance experience with Oracle Corporation. Kevin received his B.A. from Brown University and his M.B.A. from the University of Pennsylvania's Wharton School. He is registered with FINRA and is qualified as a General Securities Representative.



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Eric serves as Managing Director and Head of the Eastern Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney's Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He has successfully completed over 100 transactions in a wide range of industries including health care services, medical technology outsourcing, defense, pharmaceutical services, and education and training. He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden, and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. Previously, Mr. Williams worked as a senior executive with Newport Securities Corporation. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.



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Mark is a Director in the Philadelphia office, supporting the management of the Eastern Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney's Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Mr. Surowiak's experience spans a broad range of industries, including the government and defense contracting, manufacturing, and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.

ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading national investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including business services, consumer products, education & training, government services, health & medical, manufacturing & industrial, and technology & media. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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