

# CHILDS

ADVISORY PARTNERS

## Sector Update: Information Technology Staffing

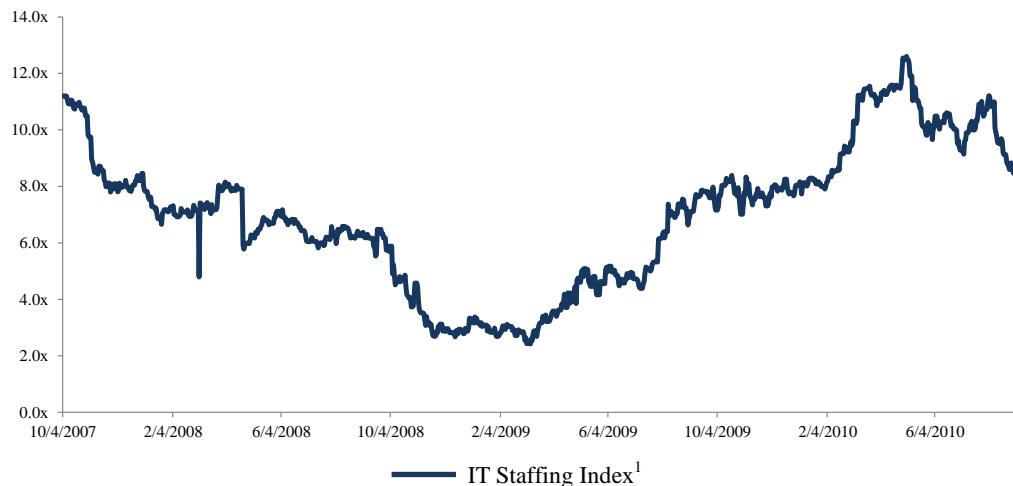
October 2010

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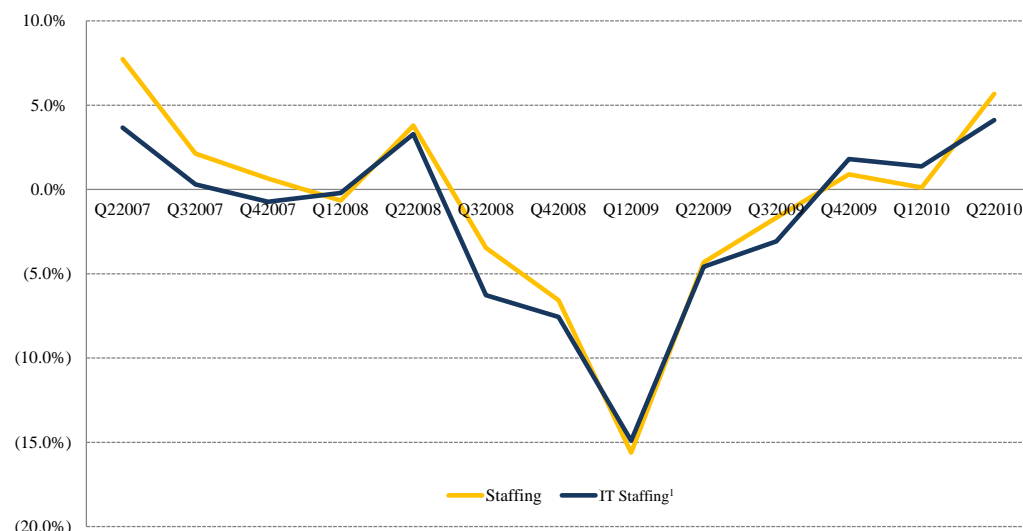
### IT Staffing Market Update

Staffing stocks as a whole and IT Staffing stocks in particular have gained value in terms of their multiples in 2010. This run-up in valuations reflects the group's relatively positive 2010 performance in comparison to its trailing twelve month results. Historically, firms with substantial exposure to temporary/contract staffing have led the market out of recessions.



The IT staffing market overall continued on an upward trajectory during the second quarter of 2010. As the below graph demonstrates, the sector appears to be in recovery mode after hitting a three year low in the first quarter of 2009.

Sequential Revenue Trends



(1) Includes ANLY, CDI, CTGX, HHGP, MHH, KFRC, ASGN, RCMT, RHI, SFN, and VOL

### CHILDS News and Events

11/4

CHILDS to host its 2<sup>nd</sup> Annual Consulting and Outsourcing Summit in Atlanta, GA

10/6 – 10/8

CHILDS is sponsoring the Techserve Alliance

10/14 – 10/16

CHILDS is sponsoring the American Staffing Association Staffing World Conferences

9/20 – 9/22

CHILDS is sponsoring the Healthcare Staffing Conference in Chicago, IL

9/19 – 9/23

CHILDS is attending Oracle Openworld

9/9

CHILDS advised CSI Companies on its sale to Recruit

7/28

CHILDS advised The Centre for High Performance Development (a subsidiary of Capital H Group LLC) on its sale to Kenexa Corporation

7/22

CHILDS presented at Capital Roundtable event on Investing in Government Services

5/25

Alan Bugler joined CHILDS as Vice President

3/31

CHILDS advised AMS Utiliserv, a subsidiary of Advantage Human Resourcing on its sale to Olameter Inc.

For additional information, please visit [www.childsadvisorypartners.com](http://www.childsadvisorypartners.com)

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## Sector Update: Information Technology Staffing

### IT Staffing Public Company Comparables

- At 8.8 EV/EBITDA, the IT Staffing group has seen a recent spike in valuation multiples. All public staffing firms have traded at historically high multiples in 2010 as their trailing twelve month results have not reflected their current run rate.
- Gross margins have climbed significantly due to improved revenues as the economy has begun to recover.
- The multiples, coupled with improving financial performance, should translate to an excellent M&A market going into the end of 2010 and early 2011.

Company Name	Stock Information and Enterprise Value						LTM Valuation Multiples			Rev. Valuation	
	Stock Price 10/5/10	52 Wk High	52 Wk Low	% of 52 Wk High	Market Cap	Ent. Value	EV/ Revenue	EV/ EBITDA	EV/ EBIT	EV/ 2009 Rev	EV/ 2010 Rev
Analysts International Corp.	\$2.30	\$7.00	\$1.62	32.9%	\$11.5	\$8.0	0.1x	NM	NM	0.1x	NA
CDI Corp.	12.78	18.65	10.86	68.5%	243.3	217.3	0.2x	NM	NM	0.2x	0.2x
Computer Task Group Inc.	7.79	9.58	6.00	81.3%	140.5	132.0	0.4x	9.9x	11.3x	0.5x	0.4x
Hudson Highland Group Inc.	3.48	6.02	2.93	57.8%	112.0	86.8	0.1x	NM	NM	0.1x	0.1x
Kforce Inc.	13.16	16.25	9.80	81.0%	520.2	560.7	0.6x	18.0x	23.5x	0.6x	0.6x
Mastech Holdings, Inc.	3.12	5.77	2.69	54.1%	11.5	5.5	0.1x	3.7x	4.1x	0.1x	0.0x
On Assignment Inc.	5.19	7.89	4.17	65.8%	189.3	236.7	0.6x	10.8x	19.3x	0.6x	0.6x
RCM Technologies Inc.	4.97	5.29	2.15	94.0%	64.6	45.7	0.2x	6.2x	7.9x	0.2x	0.2x
Robert Half International Inc.	25.38	32.25	21.16	78.7%	3,745.8	3,457.6	1.2x	25.7x	46.7x	1.1x	1.1x
SFN Group, Inc.	6.12	9.19	4.69	66.6%	322.3	361.7	0.2x	8.4x	23.0x	0.2x	0.2x
Volt Information Sciences Inc.	6.98	13.50	6.16	51.7%	145.5	118.0	0.1x	3.2x	16.3x	0.1x	0.0x
<b>Mean</b>						<b>\$475.5</b>	<b>0.3x</b>	<b>7.5x</b>	<b>19.0x</b>	<b>0.3x</b>	<b>0.3x</b>
<b>Median</b>						<b>\$132.0</b>	<b>0.2x</b>	<b>8.1x</b>	<b>17.8x</b>	<b>0.2x</b>	<b>0.2x</b>

Company Name	LTM Results					Ratio Analysis				3 Year Growth Rate	
	Revenue	Gross Margin	EBITDA	EBIT	Net Income	Gross Margin	EBITDA	EBIT	Net Income	Revenue CAGR	EPS CAGR
Analysts International Corp.	\$112.8	\$23.2	(\$5.8)	(\$6.9)	(\$9.1)	20.5%	(5.1%)	(6.1%)	(8.1%)	(31.5%)	NA
CDI Corp.	869.8	171.1	(1.6)	(12.1)	(16.6)	19.7%	(0.2%)	(1.4%)	(1.9%)	(9.2%)	NA
Computer Task Group Inc.	294.1	65.0	13.3	11.6	6.9	22.1%	4.5%	4.0%	2.4%	(2.6%)	21.7%
Hudson Highland Group Inc.	727.2	274.2	(2.1)	(12.5)	(21.3)	37.7%	(0.3%)	(1.7%)	(2.9%)	(11.9%)	NA
Mastech Holdings, Inc.	65.5	12.6	1.5	1.4	0.8	19.3%	2.3%	2.1%	1.2%	0.0%	0.0%
Kforce Inc.	925.7	288.7	31.1	23.9	13.7	31.2%	3.4%	2.6%	1.5%	(1.2%)	(26.1%)
On Assignment Inc.	398.7	132.1	22.0	12.3	3.1	33.1%	5.5%	3.1%	0.8%	(1.6%)	(39.9%)
RCM Technologies Inc.	192.3	50.2	7.4	5.8	4.6	26.1%	3.8%	3.0%	2.4%	(4.0%)	(14.2%)
Robert Half International Inc.	2,969.6	1,102.9	134.8	74.0	43.7	37.1%	4.5%	2.5%	1.5%	(11.8%)	(45.4%)
SFN Group, Inc.	1,852.9	362.5	43.2	15.7	(0.3)	19.6%	2.3%	0.8%	(0.0%)	(1.4%)	NA
Volt Information Sciences Inc.	2,187.9	134.5	36.5	7.3	52.3	6.1%	1.7%	0.3%	2.4%	(1.3%)	NA
<b>Mean</b>						<b>24.8%</b>	<b>2.0%</b>	<b>0.8%</b>	<b>(0.1%)</b>	<b>(6.9%)</b>	<b>(17.3%)</b>
<b>Median</b>						<b>22.1%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>1.2%</b>	<b>(2.6%)</b>	<b>(20.1%)</b>

Note: data obtained from Capital IQ. Numbers in millions unless otherwise noted.

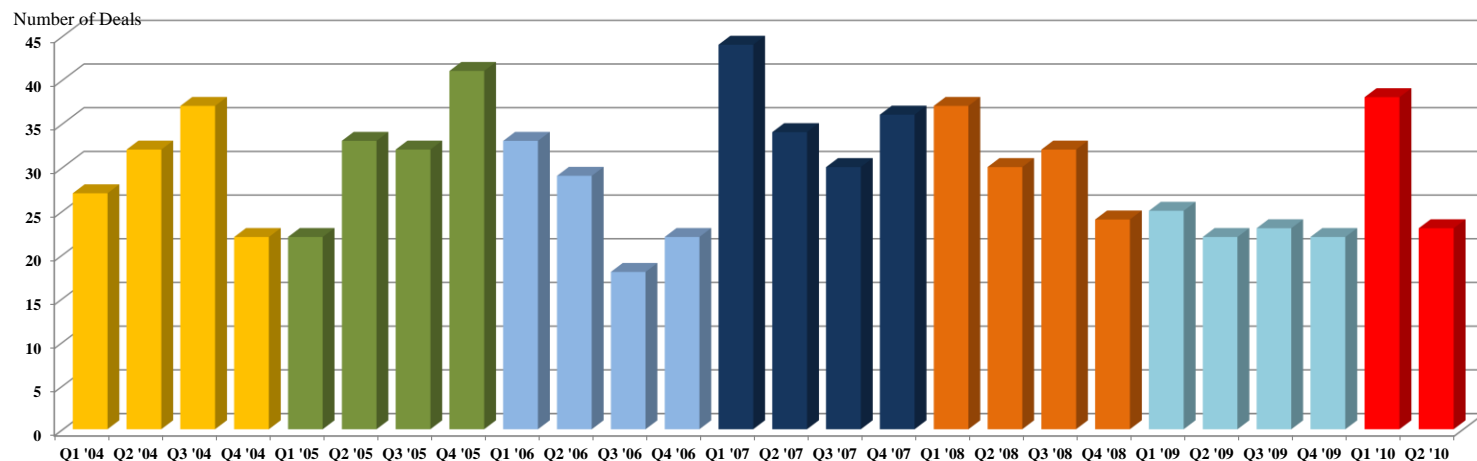
### Q2 Earnings Announcement Highlights

- CDI reported net earnings of \$2.6 million, compared to \$0.1 million in net earnings for Q2 2009
- CTG's revenue and EPS increased by 22% and 33%, respectively, over the second quarter last year
- Hudson Highland's gross margin was up 14% from \$64.9 million to \$74.2 million from Q2 2009
- Kforce increased gross profit in its technology group from \$80.8 million to \$94.2 million year-over-year, for a growth rate of 16.6% (note: includes revenue from search fees)
- On Assignment's IT and Engineering group revenue increased 30.1% from 31.8 million to \$41.2 million in the second quarter of 2009 while also increasing the gross profit for this segment by \$3.2 million
- Robert Half reported IT staffing revenue of \$81.7 million versus \$75.3 million for the second quarter last year, representing a year-over-year growth rate of 8.6%
- SFN Group reported IT staffing revenue of \$127.0 million, a 13.1% year-over-year growth rate from \$112.3 in the second quarter of 2009

# Sector Update: Information Technology Staffing

## Staffing M&A Activity

Despite the small downtick in the second quarter, M&A activity in the staffing sector as a whole is clearly trending up over the last five quarters, as demonstrated by the below graph. We expect M&A activity to continue on this upward path heading into the third and fourth quarters of this year and well into 2011. Drivers of strengthening M&A trends include: sellers' improved performance and pent-up demand to sell from 2008-2009, and buyers' belief that we are entering a new business cycle. Finally, private equity firms are sitting on a record amount of cash and are aggressively looking for deals.







## Noteworthy Deals in the Sector

Transaction	Comment	EV	EV/EBITDA	EV/REV
MPS sold to Adecco	Beeline and Modis were key assets. Deal priced off of 2011P.	\$1,158.0	19.7x	0.7x
Comsys sold to Manpower	TAPFIN was a key asset. May have been a competitive response to MPS deal.	\$434.0	16.4x	0.7x
Tatum sold to SFN Group <sup>1</sup>	SFN Group continued its push into higher-end professional.	\$46.0	20.0x	0.4x
CDI bids for RCM <sup>2</sup>	CDI's bid was not accepted by RCM.	\$48.7	6.6x	0.3x
CSI sold to Recruit	CHILDS advised CSI, a \$80 mm firm, on its sale to Recruit. This deal marks Recruit's entry into the U.S. market.	ND	ND	ND
Insight Global recapitalized by Harvest Partners	Insight Global, the most impressive story in IT staffing of the decade, replaced HIG Capital as its primary investor.	\$370.0	10.0x	1.2x

(1) EBITDA figure includes approximately \$6 million in annualized cost savings identified by SFN. EV/EBITDA multiple is 5.5x with synergies

The above deals indicate that the major firms continue to push into professional staffing and also highlight the importance of managed services. With Comsys and MPS gone, we believe that there is a significant opportunity for other "mid-market" professional staffing consolidators to emerge.

## CHILDS IT Services & Staffing Expertise

 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>July 2010</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>June 2010</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>March 2010</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>September 2009</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>September 2009</b>
 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>May 2009</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>December 2008</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>September 2008</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>July 2008</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>June 2008</b>
 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>October 2007</b>	 <i>has been recapitalized by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>July 2007</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>July 2007</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>December 2006</b>	 <i>has been acquired by</i>  <hr style="width: 20%; margin: 0 auto;"/> <b>December 2006</b>

*Note: Above deals include transactions led or group managed by our Partners in their prior firms*

### About CHILDS Advisory Partners

CHILDS Advisory Partners provides investment banking and strategic consulting services to growing IT services and staffing companies globally. We have a team of 10 experienced professionals with substantial industry and transaction advisory experience to assist company owners in creating and realizing maximum value for their businesses. Collectively, our Partners have executed over 150 transactions in the sector totaling over \$9 billion. With 36 deals closed since 2006, we are the most active firm in the sector.

**Sell-side Advisory:** When you desire to sell or merge your business we help you prepare, position and execute the process with confidentiality and speed to obtain maximum results.

**Buy-side Assistance:** CHILDS can help you source deals, qualify them and negotiate them. Our sourcing "engine", market knowledge and experience in creative deal structures will ensure that you see as many deals as possible and have the capacity to get them done.

**Debt/Equity Financing & Restructuring:** We advise companies seeking equity or debt capital for growth, recapitalization or restructuring. We can also help with buyouts of partners or other key transactions. CHILDS can help you negotiate with your existing lenders to renew or restructure debt facilities. If needed, we can tap our many banking relationships to solicit and negotiate term sheets with other potential lenders as well.

**Strategic Consulting and Valuation:** Our Roadmap Process brings an objective and disciplined methodology to help your team develop a winning plan for short-term performance and long-term value creation. Our strategic alternative assessment project provides insight to the options available for company owners to maximize value and liquidity. Finally, we provide valuations as needed for private companies.

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