

# Childs Company Sector Update: Healthcare Staffing

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### Special Report: Top 5 Strategic Items That Build Value in Your Healthcare Staffing Business

By Jim Childs

I have been involved with the staffing industry as both an investment banker and as a CEO for the past 15 years. During this time, I have worked on well over \$2 billion in transactions involving staffing firms, including the sale of my own firm in 2004. This perspective has allowed me to see dozens of different companies in the industry and draw some conclusions about strategies that create value for staffing owners.

First, let me caveat this theme with the fact that there are no "silver bullets". The art of creating value is certainly in the details and execution of every day actions that you as an owner take. However, there are some strategic ideas that may provide you with a framework to help build even greater value in your business.

Second, the simple mathematical formula of value in your business involves multiplying your annual earnings by a multiple. Thus, the game is to increase earnings through revenue growth and margins and to increase the multiple through being a desirable target to someone else. In essence, a buyer pays a premium for something he or she wants but can't replicate easily. This backdrop is important for staffing owners as they develop strategies for maximizing value.

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## Healthcare Staffing Overview

Historically, the healthcare staffing growth cycle seems to substantially lag that of the economy, performing better during bad times than good. Thus, the market had high growth expectations for this segment in response to the recent market turmoil. From the recent financial performance and M&A activity perspective, the outlook of the healthcare staffing market, while still promising, has been sending somewhat a mixed signal.

Staffing Industry Analysts initially projected the healthcare staffing segment to grow around 7.0% in 2008, but later adjusted the expectation to around 5.0% and then again to 3.5%. Although the overall healthcare staffing market (estimated to be a \$12.6 billion business by the end of 2009 or a CAGR of 8.2%) has not performed up to expectation, performance of the sub-sectors within this segment varied significantly.

**1. Per Diem Nursing:** Temporary placement of nurses on a short-term basis. This sub-sector continues to be the largest player in healthcare staffing with estimated 2008 revenue of \$4.1 billion, or 34% of the total healthcare staffing revenue. However, growth has historically been weak and is expected to remain slow going forward. This is a relatively more mature business with smaller firms generate most of the business.

**2. Travel Nursing:** Temporary placement of nurses on a long-term basis, typically 13 weeks or more. This sub-sector, which slowed during 2004-2005, has rebounded and stabilized. Compared to per diem nursing, travel nursing is a relatively more concentrated (due to its competitive nature) and profitable (gross margin of 8%-12% vs. per diem nursing of 6%-10%) business. This sub-sector is viewed more favorable by staffing buyers than per diem as a result of its long-term assignment nature which allows for more continuity of care. Travel Nursing now accounts for approximately \$2.5 billion, or 21% of the total healthcare staffing revenue.

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### Healthcare Staffing Revenue Growth Year over Year & Market Size

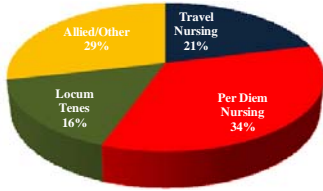
(\$Billions)	2004	2005	2006	2007	2008E	2009E
Travel Nursing	\$2.1	\$2.1	\$2.3	\$2.4	\$2.5	\$2.5
Per Diem Nursing	\$4.2	\$4.1	\$4.1	\$4.1	\$4.1	\$4.1
Locum Tenens	\$1.1	\$1.2	\$1.4	\$1.6	\$1.9	\$2.2
Allied/Other	\$2.4	\$2.6	\$2.9	\$3.2	\$3.4	\$3.7
<b>Total Healthcare</b>	<b>\$9.8</b>	<b>\$10.0</b>	<b>\$10.7</b>	<b>\$11.3</b>	<b>\$11.9</b>	<b>\$12.5</b>
(% Change)	2004	2005	2006	2007	2008E	2009E
Travel Nursing	na	1.0%	8.0%	3.5%	3.5%	3.5%
Per Diem Nursing	na	(3.0%)	0.0%	0.0%	0.0%	0.0%
Locum Tenens	na	12.0%	13.5%	16.0%	16.0%	16.0%
Allied/Other	na	9.0%	10.0%	10.5%	7.0%	8.5%
<b>Total Healthcare</b>	<b>na</b>	<b>2.5%</b>	<b>6.0%</b>	<b>6.0%</b>	<b>5.0%</b>	<b>6.0%</b>

Source: Staffing Industry Analysts

# Sector Update: Healthcare Staffing

## Chart A:

2008E Healthcare Staffing Revenue by Segment

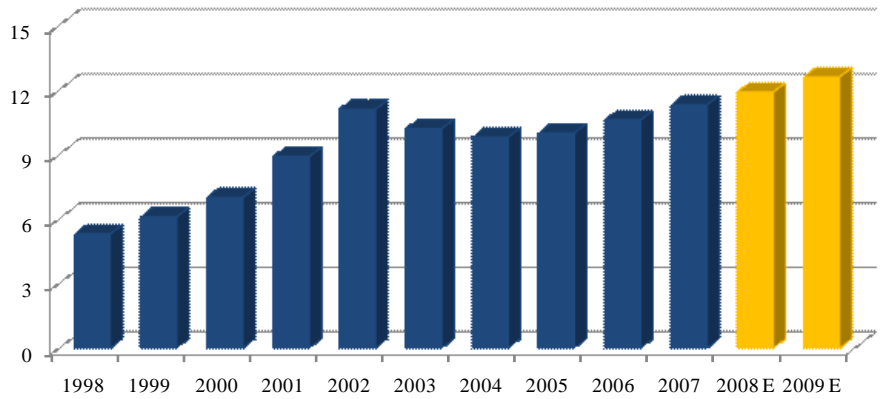


Source: Staffing Industry Analysts

According to Bureau of Labor Statistic's report on top ten fastest-growing professions in any industry for period of 2001-2014, seven of the top ten professions are healthcare related, both on a percentage and volume basis.

## Chart B:

US Healthcare Revenue Growth




Source: Staffing Industry Analysts

**3. Locum Tenens:** Temporary placement of physicians. This the fastest growing sub-sector in healthcare staffing, with estimated 2008 revenue of \$1.9 billion, or 16% of the total healthcare staffing revenue. This business requires a great deal of product knowledge and has relatively low penetration rate, which are considered advantages as far as potential growth. The outlook for this sub-sector is strong.

**4. Allied/Other:** Temporary placement of everything that belongs in the healthcare segment other than per dim nursing, traveling nursing and locum tenens. This is the second largest and the second fastest growing sub-sector in healthcare staffing, with estimated 2008 revenue of \$3.4 billion. Demand for this sub-sector is partly stimulated by the low unemployment rates for professionals in this line of work. Low concentration rate and high historical growth rate make this sub-sector an attractive segment for new entrants.


Despite the lower than expected financial performance, healthcare staffing market remains positive compared to other staffing segments. Key drivers such as aging population and shortage in healthcare professionals continue to make this an attractive market.

## Transaction Highlight



**Medical Doctor Associates**

*has been acquired by*



**Transaction Details:** On July 23, 2008, Medical Doctor Associates announced its sales to Cross Country Healthcare Inc for \$112.3 million cash plus earn-out payments in 2008 and 2009. Cross County entered into a \$125.0 million five-year loan to pay for the acquisition and for general corporate purposes in addition to its \$75.0 million revolving credit line. Deal value is estimated at 8.4x EBITDA.

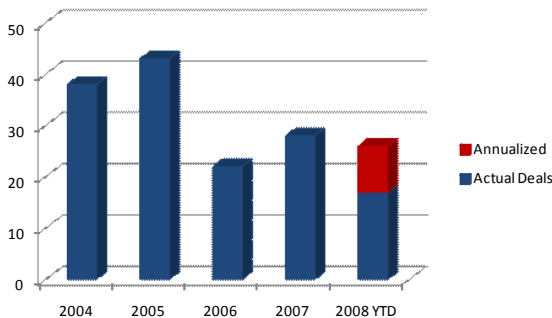
**About Medical Doctor Associates (MDA):** MDA, based in Norcross GA, primarily provides locum tenens staffing as well as some allied health staffing. MDA is the only national multi-specialty locum tenens organization that offers Occurrence Form Medical Liability Insurance to contracted providers. It is owned through an employee stock ownership plan.

**About Cross Country Healthcare:** Cross Country is one of the largest providers of healthcare staffing services in the United States. In addition to its core business, travel staffing, the company also provides per diem nurse staffing, allied health staffing and clinical research trails staffing.

## Mergers and Acquisitions Overview

Chart C:

Healthcare Staffing M&A Deal Volume



As seen in Chart C, after achieving record transaction volume in 2005, healthcare staffing deals dropped significantly in 2006 and somewhat stabilized in 2007 and 2008. Year to date through August 31, 2008, Childs Company noted a total of 17 healthcare staffing deals, the most active segment compared to other staffing segments. The annualized 2008 deals is estimated to be around 26, fairly consistent compared to 28 announced deals in 2007.

Of the 17 announced deals, 8 were in per diem and travel nursing (2 of 8 deals involved companies that provide both nursing and allied/other services), 6 were in allied/other, 1 were in locum tenens, and 2 deals involved companies that provide various healthcare staffing services. As margins continue to be squeezed in per-diem nursing (which used to account for a majority of the healthcare staffing M&A deals), we begin to note deal volume shifting from per-diem nursing to other sub-sectors such as allied/other and locum tenens. This is consistent with sub-sector market growth discussed above.

(continued from page 1)

### Special Report: Top 5 Strategic Items That Build Value in Your Healthcare Staffing Business

The top five strategic items that I believe create value in your business are:

**1. Niche leadership is huge:** Niche companies are always more valuable than generalist companies, especially when they can become leaders in their chosen segment. From an acquirer's perspective the top reason to do an acquisition is to gain access to skills or customers. A niche model also allows for a clear marketing pitch and most times the niche is far wider than people think, thus there is usually ample opportunity for a player in that space. A good example of this may be Vista Solutions. Vista became one of the larger locum tenens providers in the business and sold to On Assignment for a very healthy price. Robert Half has executed this strategy in the finance sector to perfection.

**2. Higher Gross Margin Focus:** The world's largest traditional staffing companies have publicly announced that they need to transform themselves into higher margin organizations by getting into higher margin staffing. This signals additional competition on one hand but it also validates that that specialist segments represent clear growth opportunities at better margins than the traditional per diem nursing business. Today, allied health is getting a lot of attention as is offshore as possible avenues for higher margin business.

Gross margin is an important driver of value as public companies are often valued based on their gross profit margins. The world's largest staffing companies operate around 18% gross profit while the public healthcare staffing firms operate with gross margins in the mid-20%'s. Within healthcare, per diem nursing is often at the bottom end of the margin chain while allied and locum tenens tend to be higher margin. Also, don't overlook the value of perm for increasing margins and providing additional value to your clients.

**3. Avoid customer concentration:** One of the biggest detractors of value for smaller staffing companies is customer concentration. If a single customer accounts for a large portion (more than 15%) of your overall business most buyers will shy away from the company as an acquisition target or pay a significant discount. Because the company owner is often making money and the organization is "ringing the bell" it feels good internally when you can have significant growth at an account and it is indeed a high class problem to have. The trick is to create urgency in the organization to build around this "anchor account". Not only does it protect you as the owner from the downside of the large account but it adds tremendous value to your business.

**4. Having a deep management team:** Another large detractor of value for smaller companies is that the management team and the sales force are composed of one or two key people which often include the owner. Again, a buyer is risking too much if that key salesperson leaves the organization or the owner checks out after making some money. It is in your best interest as an owner to build a deep team that can drive the business and is not overly dependent on one person, including you. This also gives you as the owner significantly more flexibility at the time of exit. Owners of "owner-dependent businesses" will almost always have a significant earnout and long-term employment agreement when they sell.

**5. Deep client relationships are key!** Many staffing firms will do "indirect business". It often makes good cash flow sense for the owner to do indirect business. However, just realize that the indirect business is simply present cash flow and represents no real future equity value in the company. Using the cash flow to build an organization that builds long-term relationships with customers is very smart. Over time, your deep long-term client relationships will allow your firm to fetch a premium in the marketplace.

## Sector Update: Healthcare Staffing

On the buyer side, 9 (or 52.9%) of 17 announced deals involved public buyers, 7 involved private buyers, and 1 involved private a equity group. We noted an increasing interest from non-public buyers compared to prior years.

### Healthcare Staffing Public Company Comparables are Trading at 8x-9x EBITDA

(\$ in millions, except for per share data)

Company Name	% of 52				Latest Twelve Months (a)				As a % of Revenue			Enterprise Value /				
	Stock Price	Wk High	Market Cap	Enterprise Value (1)	Rev.	GM	EBITD A	EBIT	GM	EBITD A	EBIT	LTM Rev.	2008 Rev. Est.	2009 Rev. Est.	LTM EBITD A	LTM EBIT
Allied Healthcare International Inc.	\$1.9	60.0	\$86.4	\$65.9	\$292.3	\$88.3	\$14.9	\$9.8	30.2	5.1	3.4	0.2x	0.2x	0.2x	4.4x	6.7x
AMN Healthcare Services Inc.	\$16.6	70.9	\$561.6	\$706.9	\$1,173.7	\$308.1	\$87.8	\$75.4	26.3	7.5	6.4	0.6x	0.6x	0.6x	8.0x	9.4x
ATC Healthcare Inc.	\$0.1	13.4	\$2.6	\$18.5	\$94.4	\$19.9	\$1.2	\$0.7	21.1	1.3	0.8	0.2x	NA *	NA *	14.8x	24.8x
Cross Country Healthcare Inc.	\$14.5	74.8	\$443.6	\$482.2	\$721.4	\$179.4	\$52.4	\$43.8	24.9	7.3	6.1	0.7x	0.7x	0.7x	9.2x	11.0x
Medical Staffing Network Holdings	\$4.0	61.8	\$122.2	\$250.0	\$537.0	\$130.3	\$25.0	\$19.8	24.3	4.7	3.7	0.5x	0.4x	0.4x	10.0x	12.6x
On Assignment Inc.	\$7.8	66.8	\$275.2	\$373.3	\$597.0	\$189.5	\$53.5	\$32.1	31.7	9.0	5.4	0.6x	0.6x	0.6x	7.0x	11.6x
Sun Healthcare Group Inc.	\$14.0	74.5	\$602.3	\$1,266.3	\$1,783.0	\$723.4	\$149.2	\$113.3	40.6	8.4	6.4	0.7x	0.7x	0.6x	8.5x	11.2x
TeamStaff, Inc.	\$2.2	52.9	\$10.7	\$11.9	\$65.6	\$11.3	(\$0.0)	(\$0.4)	17.2	(0.1)	(0.6)	0.2x	NA *	NA *	NM *	NM *
<b>Mean:</b>	<b>\$7.6</b>	<b>59.4</b>	<b>\$263.1</b>	<b>\$396.9</b>	<b>\$658.0</b>	<b>\$206.3</b>	<b>\$48.0</b>	<b>\$36.8</b>	<b>27.0</b>	<b>5.4</b>	<b>3.9</b>	<b>0.5x</b>	<b>0.5x</b>	<b>0.5x</b>	<b>8.9x</b>	<b>12.5x</b>
<b>Median:</b>	<b>\$5.9</b>	<b>64.3</b>	<b>\$198.7</b>	<b>\$311.7</b>	<b>\$567.0</b>	<b>\$154.8</b>	<b>\$38.7</b>	<b>\$26.0</b>	<b>25.6</b>	<b>6.2</b>	<b>4.5</b>	<b>0.5x</b>	<b>0.6x</b>	<b>0.6x</b>	<b>8.5x</b>	<b>11.2x</b>

Notes:

\* Has not been included in Mean or Median.

LTM: Latest Twelve Months.

(1) Enterprise Value equals Equity Value + Net Debt (Total Debt less Cash and Cash Equivalents) + Preferred Stock + Minority Investments.

### Healthcare Staffing M&A Comparables: Private Firms are “Trading” at 6x-10x EBITDA Depending on Segment, Growth, and Margins

Target	Buyer	Close Date	EV (a)	EV/ Rev	EV/ EBITD A	Rev (a)	EBITDA (a)
Medical Doctor Associates	Cross Country Healthcare Inc	Q3 08	\$ 112.3	0.7x	8.4x	\$ 160.4	\$ 13.4
MDI Medical LLC (part of MDI Group)	Cirrus Medical Staffing Inc (part of Anscor)	Q3 08	\$ 2.0	0.2x	NA	\$ 9.1	NA
Pharmacy Co	MPS Group Inc	Q2 08	\$ 30.4	0.8x	8.0x	\$ 38.0	\$ 3.8
Cirrus Medical Staffing	Soriano Corp (Anscor)	Q1 08	\$ 14.0	0.7x	NA	\$ 20.0	NA
Platinum Select	AMN Healthcare Services Inc	Q1 08	\$ 50.1	0.9x	12.5x	\$ 55.7	\$ 4.0
Averion International Corp	Company Management	Q4 07	\$ 2.3	0.2x	NA	\$ 12.7	NA
Assent Consulting	Cross Country Healthcare Inc.	Q3 07	\$ 24.5	1.9x	9.4x	\$ 12.9	\$ 2.6
AMR ProNurse	Medical Staffing Network Holdings	Q3 07	\$ 11.5	0.8x	NA	\$ 14.4	NA
Akos	Cross Country Healthcare Inc.	Q2 07	\$ 14.0	2.5x	NA	\$ 5.6	NA
PrairieStone Pharmacy	Arcadia Resources	Q1 07	\$ 24.7	0.6x	NA	\$ 41.2	NA
<b>Mean</b>	<b>\$ 28.6</b>	<b>0.9x</b>	<b>9.6x</b>	<b>\$ 37.0</b>	<b>\$ 5.9</b>		
<b>Median</b>	<b>\$ 19.3</b>	<b>0.8x</b>	<b>8.9x</b>	<b>\$ 17.2</b>	<b>\$ 3.9</b>		

(a) Dollars in millions

# Sector Update: Healthcare Staffing

## About Childs Company

Childs Company provides investment banking and advisory services to companies with \$20 million to \$200 million in revenues with an emphasis on the staffing sector. Childs Company has assembled a team of experienced professionals that has both industry and transaction advisory experience to assist company owners in creating and realizing maximum value for their businesses. Collectively, our Partners have executed over \$4 billion in M&A and financing transactions. In the past 18 months we have closed 12 transactions with over \$250 million in transaction value.

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