

# VALUE FOCUS

## Professional Services Industry



Mid-Year 2014

### Executive Summary

The professional services industry includes consultancies, research firms, staffing and employment businesses, engineering, architecture, accounting, legal, and specialty professional practices. Many professional services firms are privately held, though two sectors include multiple public companies: consulting and staffing. This publication emphasizes market and transaction activity for these two sectors, but the economic trends and valuation drivers discussed could apply to any professional services firm.

Macroeconomic factors have been increasingly favorable for the professional services industry since the recession, and the first half of 2014 has seen a continuation of these trends. Unemployment dropped to 6.2% while corporate profits and private investment continue to grow in the U.S. These indicators suggest a favorable outlook for the professional services industry. According to IBISWorld, five-year annual growth for 2014 to 2019 is expected to be between 3.0% and 3.6%.

The staffing sector outpaced the S&P 500 over the past twelve months, while the consulting sector lagged

the index. The staffing sector has seen median stock price performance of -1.2% during the first six months of 2014 and +33.1% over the last twelve months. Current and forward EV/EBITDA multiples for the staffing sector are 9.5x and 7.8x, respectively. The consulting sector has seen a median stock price decline of 4.7% in the first half of 2014, although the sector is up 21.0% over the last twelve months. Current and forward EV/EBITDA multiples for the consulting sector are 10.3x and 10.4x, respectively, which implies weaker growth relative to the staffing companies. Overall, firms in the professional services industry have seen positive growth over the last year, but that growth may be more tempered going forward.

M&A deal volume is on the rise for both sectors. Annualized volume for 2014 is expected to reach five-year highs in each sector. Strategic buyers continue to be the driving force behind increased volume. Both sectors have experienced growth in the post-recession era, have high cash reserves, and continue to look for expansion opportunities.

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## Macroeconomic Trends

The professional services industry is closely tied to macroeconomic trends. Three key economic indicators include the unemployment rate, corporate profit levels, and non-residential private investment expenditures. In sum, these indicators shed light on the general health of business in the U.S. As these indicators become increasingly optimistic, the outlook for companies in this sector improves. From mid-2008 to mid-2011, the professional services industry experienced challenging circumstances. Currently, positive economic news and outlook have created opportunities for growth.

### Unemployment and Corporate Profits

The staffing sector saw severe decline in 2008 as companies had to cut staff and reduce costs. Corporate profits rebounded in 2010, but a lack of economic optimism caused companies to remain conservative with staffing expenditures. Furthermore, private investment, a proxy for confidence, did not improve until mid-2011. In 2011, as unemployment continued to decline from recession highs, companies began to increase staffing levels. Initial growth occurred in the firms that specialized in temporary staffing solutions. As unemployment continued to fall, long term hires and HR expenditures grew. Since 2011, the industry has continued to strengthen and is expected to grow between 3.3% and 3.6% annually through 2019, according to IBISWorld.

The consulting sector experienced a negative shock at the outset of the economic downturn. However, during 2010 when corporate profits returned to prerecession levels, this industry recovered and expanded with growth of around 5% annually. The massive reduction in corporate profits in 2008 caused companies to cut costs, including those deemed unnecessary to the core business. Upon recovery, companies resumed spending on consulting and research services. According to IBISWorld, the sector is expected to grow over 3% annually over the next five years.

The first six months of 2014 has shown continued signs of improvement in the macroeconomic landscape. Unemployment continued to fall from 6.6% on January 1, 2014 to 6.2% on June 30, 2014. In comparison, the unemployment rate dropped by 0.6 percentage points over the same period in 2013. Corporate profits have continued their expansion as well with a 6.2% increase in profits from first quarter to second quarter, while the same period in 2013 experienced 3.9% growth. Despite modest volatility, corporate profits continue to increase.

Historical Trends in Unemployment & Corporate Profits

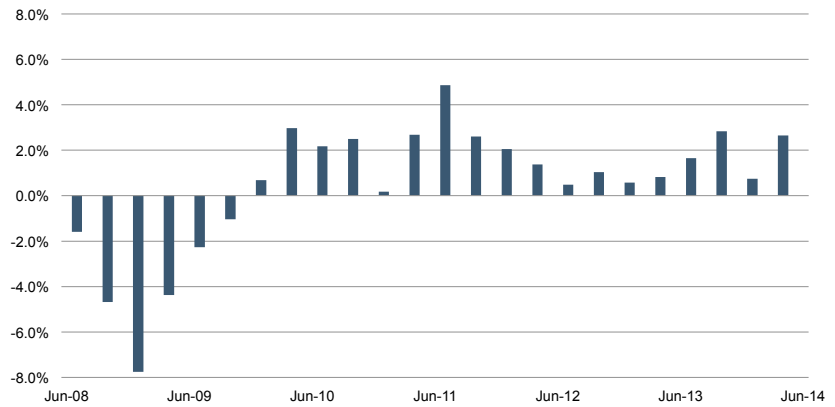


## Macroeconomic Trends

### Non-Residential Private Investment

Non-residential private investment has continued to climb, experiencing positive growth since 2010. Between first quarter and second quarter, private investment increased 2.7% compared to 0.8% in the same period in 2013. As profits continue to rise and private investment increases, revenues and profits are expected to increase for the professional services industry. Growing employment optimism will also push growth, especially amongst staffing firms that will be utilized for recruiting in an increasingly competitive marketplace. However, current growth is expected to continue at a more conservative pace, compared to recent quarters that exceeded expectations.

Quarterly Change in Private Non-Residential Fixed Investment



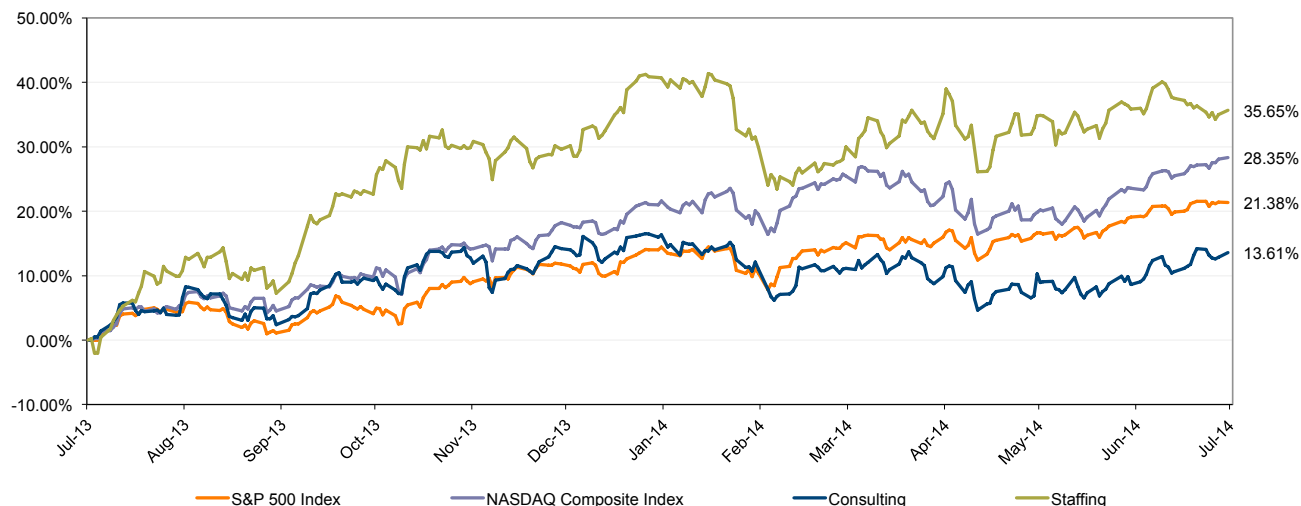
Source: Federal Reserve Economic Data

## Market Performance

The staffing sector has outpaced the S&P 500 over the last twelve months with growth of 35.6%, relative to 21.4% for the index. However, the last six months have seen tempered expectations in the staffing sector, which resulted in a pullback in stock prices.

The consulting sector lagged the S&P 500 over the last twelve months with growth of 13.6%. Stock price performance in recent months has been tempered relative to the success of previous quarters. The indexed performance for the consulting sector (which is weighted by equity market capitalization) has also been pulled down by Verisk Analytics, the largest company in the group, which has experienced flat growth over the last twelve months after reducing guidance and reporting weaker than expected results in early 2014. The table below presents median valuation multiples and stock price changes for the two groups.

### Index Performance



Source: Capital IQ. Sector Indices are weighted by market capitalization.

### Summary Performance and Valuation

Segment	Number of Companies	Median % Change		EV / Rev. LTM	EV / EBITDA	
		YTD	LTM		LTM	2014E
Staffing	19	-1.18%	33.12%	0.58x	9.5x	7.8x
Consulting	18	-4.73%	20.96%	1.58x	10.3x	10.4x

Source: Capital IQ

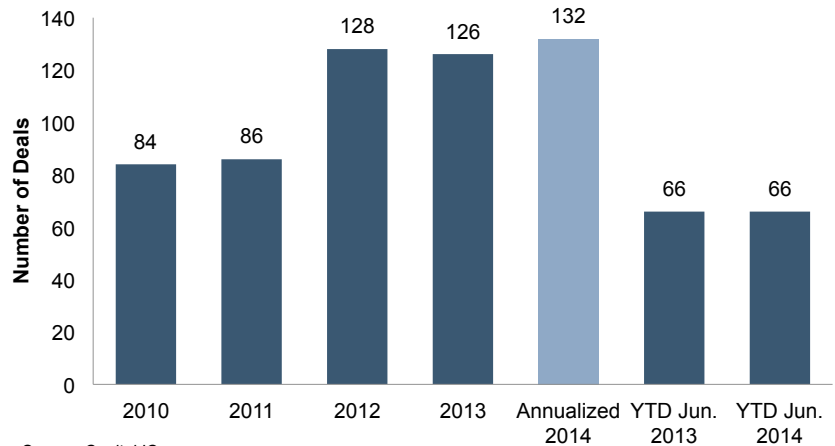
## Professional Services M&A Activity // Staffing Sector

The first six months of 2014 saw 66 staffing transaction announcements by 58 different buyers. This volume is flat when compared to the first six months of 2013.

The sector has seen a general trend upward in the number of transactions being completed since 2010. The economic downturn lowered cash reserves and depressed deal volume. Volume levels lagged behind the initial recovery because companies remained conservative on HR and staffing expenditures until 2011. Increased sector strength caused deal volume to increase 48.8% from 2011 to 2012.

If the last six months of 2014 maintain current pace, volume will exceed 100 deals for a third straight year and reach a five-year high of 132 announced deals. Increasing activity has been propelled primarily by private, strategic buyers.

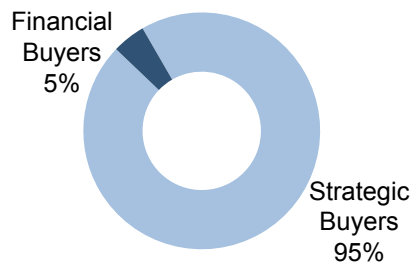
Annual Transaction Volume



Source: Capital IQ

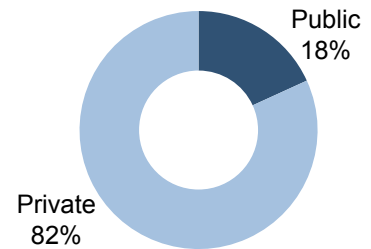
Strategic vs. Financial Buyer

YTD June 2014



Public vs. Private Buyer

YTD June 2014



## Professional Services M&A Activity // Staffing Sector (cont.)

### Notable Transactions in the Staffing Sector

Closing Date	Target	Acquirer	EV (\$Mil.)	LTM Rev.	LTM EBITDA	EV / Rev.	EV / EBITDA
06/30/2014	Seaton L.L.C.	TrueBlue, Inc.	452.1	622.5	20.4	0.73x	22.12x
02/10/2014	Alar Staffing Corp.	Corporate Resource Services, Inc.	2.8	30.0	nm	0.09x	nm
01/31/2014	Staff Management Group, LLC	Diamond Staffing Services, Inc.	10.0	85.0	nm	0.12x	nm

Source: Capital IQ

TrueBlue, Inc. (NYSE: TBI) completed its acquisition of Seaton, LLC. on June 30, 2014. Seaton, a Chicago-based firm, provides outsourcing and recruiting services in the U.S. and internationally through its subsidiaries. TrueBlue has assumed ownership of all service lines including PeopleScout, Staff Management | SMX, HRX, and StudentScout in an effort to broaden company competency across the staffing industry. "The addition of Staff Management | SMX allows us to address the complex needs of customers with large, industrial workforces. Similarly, just as we've helped customers increase the productivity of their workforces through access to specialized staffing services, the addition of PeopleScout means customers can now rely on TrueBlue to do the same for recruiting their full-time workforce," said TrueBlue CEO Steve Cooper in a press release. This acquisition makes TrueBlue the largest industrial staffing provider in the U.S. with pro forma 2013 revenues of \$2.3 billion.

Diamond Staffing Services, Inc. (Private) finalized their acquisition of Staff Management Group, LLC on January 31, 2014. Staff Management Group is a New Jersey based LLC. that engages in the

recruitment and placement of temporary light industrial and clerical personnel. Diamond Staffing Services is a wholly owned subsidiary of Corporate Resources Solutions, and this acquisition is a continuation of CRS's overall diversification strategy. Staff Management Group held considerable market share in New Jersey and Pennsylvania and CRS's plan is to incorporate that network into their global presence.

Corporate Resource Services, Inc. (NASDAQ: CRRS) completed its acquisition of Alar Staffing Corporation on February 10, 2014. Alar Staffing, a California staffing firm, provides staffing solutions for light industrial distribution and manufacturing companies primarily in California. "The Alar Staffing client base fits nicely into our existing business throughout our national footprint. Alar has three locations that generate over \$30 million in business and brings CRS marquee customers that are national recognized brands," said CRS CEO John Messina. Alar Staffing will remain under its branded name for a period of time. This marks CRS's second transaction of 2014 and affirms their diversification strategy and growing quickly into a large player in the staffing industry.

## Professional Services M&A Activity // Consulting Sector

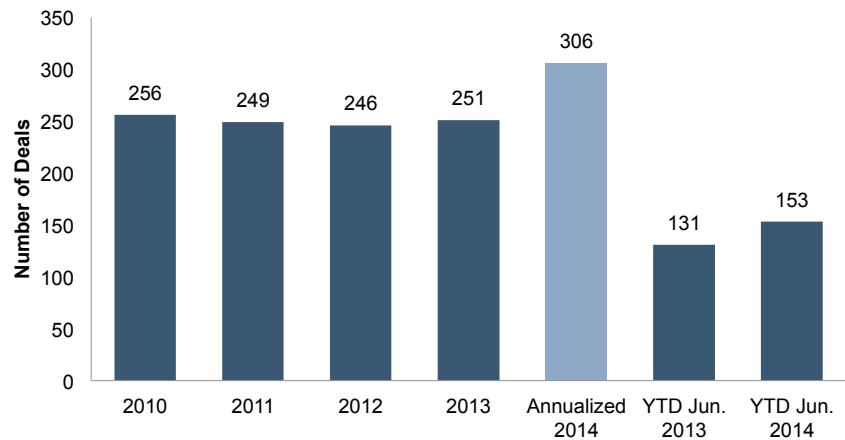
The consulting sector has experienced high deal volume since 2010. The economic downturn provided an opportunity for large firms to adsorb smaller, disressed companies. Large consulting companies experienced growth after an uptick in corporate profits following 2009.

Volume for the six months ended June 30, 2014 has reached 153 transactions, which is a 16.8% increase from the same period in 2013.

The consulting sector is a highly fragmented industry with many small firms specializing in certain niches. It appears that positive economic trends are continuing to drive consolidation.

If the last six months of 2014 continue at the current pace, sector deal volume could reach a five-year high with over 300 deals announced. Increased activity in 2014 appears to be driven primarily by private, strategic buyers.

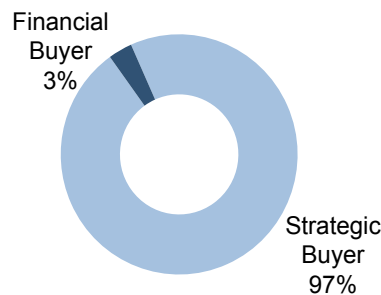
Annual Transaction Volume



Source: Capital IQ

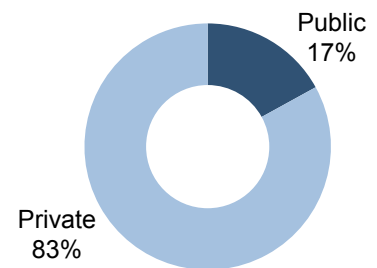
Strategic vs. Financial Buyer

YTD June 2014



Public vs. Private Buyer

YTD June 2014



## Professional Services M&A Activity // Consulting Sector (cont.)

### Notable Transactions in the Consulting Sector

Closing Date	Target	Acquirer	EV (\$Mil.)	LTM Rev.	LTM EBITDA	EV / Rev.	EV / EBITDA
06/30/2014	Clayton Holdings LLC	Radian Group Inc.	312.0	135.0	nm	2.31x	nm
06/11/2014	Ecova, Inc.	Cofely USA Inc.	335.0	176.8	nm	1.90x	nm
02/10/2014	Forwardthink Group, Inc.	Perficient Inc.	46.0	30.0	nm	1.53x	nm
02/04/2014	Gould & Lamb, LLC	ExamWorks Group, Inc.	93.0	27.0	9.5	3.44x	9.79x

Source: Capital IQ

Cofely USA, Inc. (Private) completed its purchase of Ecova, Inc. on June 11, 2014. Ecova, an energy and sustainability management company, provides technology-optimized solutions. Ecova was sold by Avista Corporation, a Spokane, Washington based energy firm, for \$335 million in cash less customary closing adjustments. Cofely gains a well-known brand which it expects can be incorporated into their global presence in the energy services industry.

Radian Group, Inc. (NYSE: RDN) finalized its acquisition of Clayton Holdings, LLC. on June 30, 2014. Clayton Holding is a Shelton, Connecticut based provider of information and services for financial institutions, investors, and government entities to evaluate, acquire, securitize, service, and monitor loans and asset-backed securities in the United States. Radian purchased the company in order to strategically grow, diversify, and pursue alternative strategies for providing mortgage risk-related products and services. Radian CEO S.A. Ibrahim stated, "the mortgage solutions and capabilities they bring will help diversify our revenue stream and expand our core competencies, positioning Radian for new opportunities as the U.S. housing market evolves."

Perficient, Inc. (NASDAQ: PFRT) closed its purchase of Forwardthink Group, Inc. on February 10, 2014. Forwardthink Group is a \$30 million annual revenue management and technology consulting firm focused on the financial services industry. Perficient's purchase of Forwardthink Group allows them to strengthen their consulting work within the financial field. The CEO of Forwardthink Group, Robert Shinbrot, will join Perficient in a key role which is representative of Perficient's desire to leverage expertise from their purchase. Kathy Henely, COO of Perficient stated that "with the addition of ForwardThink Group, Perficient can further help clients effectively address market changes associated with business processes, performance optimization and risk mitigation services."

ExamWorks Group, Inc. (NYSE: EXAM) finalized its purchase of Gould & Lamb, LLC. on February 4th of this year. Gould & Lamb provides Medicare compliance services for insurance and self-insurance markets worldwide. As a leading provider of medical exams and peer reviews, ExamWorks hopes to assist their customers in managing costs and compliance. ExamWorks intends to take the expertise of Gould and Lamb and expand it within ExamWorks' national reach.



## Guideline Company Pricing

### Staffing Sector

(\$ Millions, except per share data. Sorted by equity market capitalization)

Company Name	Ticker	Price 6/30/14	Price 12/31/13	Price 6/30/13	Stock Price Change		Market Cap	Ent. Value	LTM Rev.	EBITDA		LTM EBITDA Margin	EV / Rev. LTM	EV / EBITDA	
					YTD	LTM				LTM	2014E			LTM	2014E
Towers Watson & Co.	TW	\$104.23	\$127.61	\$81.94	-18.32%	27.20%	\$7,327.3	\$6,907.3	\$3,481.9	\$627.3	\$720.3	18.0%	1.98x	11.0x	9.6x
ManpowerGroup Inc.	MAN	84.85	85.86	54.80	-1.18%	54.84%	6,756.0	6,589.2	20,666.6	791.2	844.2	3.8%	0.32x	8.3x	7.8x
Robert Half International Inc.	RHI	47.74	41.99	33.23	13.69%	43.67%	6,563.6	6,297.2	4,408.2	481.5	541.2	10.9%	1.43x	13.1x	11.6x
On Assignment Inc.	ASGN	35.57	34.92	26.72	1.86%	33.12%	1,932.4	2,302.8	1,753.0	170.1	210.4	9.7%	1.31x	13.5x	10.9x
TriNet Group, Inc.	TNET	24.07	0.00	0.00	NM	NM	1,661.9	2,141.6	1,963.7	158.1	171.2	8.1%	1.09x	13.5x	12.5x
Korn/Ferry International	KFY	29.37	26.12	18.74	12.44%	56.72%	1,464.3	1,121.0	960.3	120.4	146.1	12.5%	1.17x	9.3x	7.7x
TrueBlue, Inc.	TBI	27.57	25.78	21.05	6.94%	30.97%	1,135.1	1,005.9	1,749.4	93.5	120.4	5.3%	0.57x	10.8x	8.4x
Insperty, Inc.	NSP	33.00	36.13	30.30	-8.66%	8.91%	842.7	582.2	2,298.6	67.4	74.3	2.9%	0.25x	8.6x	7.8x
Kforce Inc.	KFRC	21.65	20.46	14.60	5.82%	48.29%	729.6	791.1	1,225.0	61.5	81.6	5.0%	0.65x	12.9x	9.7x
Kelly Services, Inc.	KELY.A	17.17	24.94	17.47	-31.15%	-1.72%	643.1	640.0	5,472.7	68.3	87.6	1.2%	0.12x	9.4x	7.3x
GP Strategies Corp.	GPX	25.88	29.79	23.82	-13.13%	8.65%	495.9	493.4	483.2	51.1	48.7	10.6%	1.02x	9.7x	10.1x
Corporate Resource Services, Inc.	CRRS	2.98	2.63	2.00	13.31%	49.00%	470.1	487.0	843.9	11.6	NM	1.4%	0.58x	41.8x	NM
Barrett Business Services Inc.	BBSI	47.00	92.74	52.21	-49.32%	-9.98%	337.3	245.2	578.7	27.6	37.8	4.8%	0.42x	8.9x	6.5x
Heidrick & Struggles International Inc.	HSII	18.50	20.14	16.72	-8.14%	10.65%	336.8	269.2	484.2	42.5	43.8	8.8%	0.56x	6.3x	6.1x
CDI Corp.	CDI	14.41	18.53	14.16	-22.23%	1.77%	281.5	286.5	1,115.6	34.4	40.2	3.1%	0.26x	8.3x	7.1x
Hudson Global, Inc	HSON	3.93	4.02	2.48	-2.24%	58.47%	129.2	107.8	652.3	(7.7)	0.6	NM	0.17x	NM	NM
CTPartners Executive Search Inc.	CTP	9.35	5.60	4.38	66.96%	113.47%	67.1	87.6	151.9	13.6	13.4	8.9%	0.58x	6.4x	6.5x
Mastech Holdings, Inc.	MHH	15.21	13.99	6.16	8.72%	146.79%	65.37	66.50	113.11	6.14	NM	5.4%	0.59x	10.8x	NM
BG Staffing, Inc.	BGSF	7.40	NM	NM	NM	NM	41.4	73.5	173.5	11.5	NM	6.6%	0.42x	6.4x	NM
<b>Median</b>					<b>-1.18%</b>	<b>33.12%</b>	<b>\$643.1</b>	<b>\$582.2</b>	<b>\$1,115.6</b>	<b>\$61.5</b>	<b>\$84.6</b>	<b>6.0%</b>	<b>0.58x</b>	<b>9.5x</b>	<b>7.8x</b>
<b>Average</b>					<b>-1.45%</b>	<b>40.05%</b>	<b>\$1,646.3</b>	<b>\$1,605.0</b>	<b>\$2,556.6</b>	<b>\$149.0</b>	<b>\$198.9</b>	<b>7.1%</b>	<b>0.71x</b>	<b>11.6x</b>	<b>8.7x</b>

## Guideline Company Pricing

### Consulting Sector

(\$ Millions, except per share data. Sorted by equity market capitalization)

Company Name	Ticker	Price 6/30/14	Price 12/31/13	Price 6/30/13	Stock Price Change		Market Cap	Ent. Value	LTM Rev.	EBITDA		LTM EBITDA Margin	EV / Rev. LTM	EV / EBITDA	
					YTD	LTM				LTM	2014E			LTM	2014E
Verisk Analytics, Inc.	VRSK	\$60.02	\$65.72	\$59.70	-8.67%	0.54%	\$9,986.9	\$10,830.9	\$1,661.8	\$755.2	\$845.5	45.4%	6.52x	14.3x	12.8x
IHS Inc.	HIS	135.67	119.70	104.38	13.34%	29.98%	9,242.3	10,889.2	2,132.4	462.8	698.9	21.7%	5.11x	23.5x	15.6x
Dun & Bradstreet Corp.	DNB	110.20	122.75	97.45	-10.22%	13.08%	4,079.2	5,331.6	1,662.7	495.1	529.5	29.8%	3.21x	10.8x	10.1x
Corporate Executive Board Co.	CEB	68.22	77.43	63.22	-11.89%	7.91%	2,305.8	2,667.4	865.0	180.1	230.4	20.8%	3.08x	14.8x	11.6x
The Advisory Board Company	ABCO	51.85	63.67	54.65	-18.56%	-5.12%	1,897.8	1,872.1	539.2	61.9	98.4	11.5%	3.47x	30.3x	19.0x
Huron Consulting Group Inc.	HURN	70.82	62.67	46.24	13.00%	53.16%	1,596.6	1,738.5	806.2	167.1	142.7	20.7%	2.16x	10.4x	12.2x
FTI Consulting, Inc.	FCN	37.82	41.14	32.89	-8.07%	14.99%	1,545.1	2,205.0	1,710.5	226.7	204.0	13.3%	1.29x	9.7x	10.8x
Exponent Inc.	EXPO	74.11	77.27	59.11	-4.09%	25.38%	971.1	833.6	284.0	64.3	73.0	22.6%	2.94x	13.0x	11.4x
Navigant Consulting Inc.	NCI	17.45	19.20	12.00	-9.11%	45.42%	857.6	975.7	725.8	111.3	127.4	15.3%	1.34x	8.8x	7.7x
ICF International Inc.	ECFI	35.36	34.71	31.51	1.87%	12.22%	705.2	812.2	982.7	87.6	106.4	8.9%	0.83x	9.3x	7.6x
Resources Connection Inc.	RECN	13.11	14.33	11.60	-8.51%	13.02%	508.1	400.7	567.2	43.3	54.9	7.6%	0.71x	9.3x	7.3x
Quest Resource Holding Corporation	QRHC	5.21	2.10	2.94	148.10%	77.21%	505.5	527.0	147.5	(1.5)	2.6	NM	3.57x	NM	NM
CBIZ, Inc.	CBZ	9.03	9.12	6.71	-0.99%	34.58%	446.6	660.3	708.4	65.4	NM	9.2%	0.93x	10.1x	NM
Franklin Covey Co.	FC	20.13	19.88	13.46	1.26%	49.55%	337.3	362.1	198.6	25.8	40.5	13.0%	1.82x	14.1x	8.9x
Hill International, Inc.	HIL	6.23	3.95	2.74	57.72%	127.37%	252.2	374.1	542.9	36.7	48.5	6.8%	0.69x	10.2x	7.7x
CRA International Inc.	CRAI	23.05	19.80	18.47	16.41%	24.80%	229.9	199.2	304.5	30.1	30.5	9.9%	0.65x	6.6x	6.5x
RCM Technologies Inc.	RCMT	6.36	6.98	5.43	-8.88%	17.13%	79.5	73.9	185.2	10.3	NM	5.6%	0.40x	7.1x	NM
Ecology & Environment, Inc.	EEL	10.41	11.00	10.50	-5.36%	-0.86%	44.7	42.5	125.1	(2.6)	NM	NM	0.34x	NM	NM
<b>Median</b>					<b>-4.73%</b>	<b>20.96%</b>	<b>\$781.4</b>	<b>\$822.9</b>	<b>\$637.8</b>	<b>\$64.8</b>	<b>\$106.4</b>	<b>13.1%</b>	<b>1.58x</b>	<b>10.3x</b>	<b>10.4x</b>
<b>Average</b>					<b>8.74%</b>	<b>30.02%</b>	<b>\$1,977.3</b>	<b>\$2,266.5</b>	<b>\$786.1</b>	<b>\$156.6</b>	<b>\$215.6</b>	<b>16.4%</b>	<b>2.17x</b>	<b>12.6x</b>	<b>10.7x</b>

# Mercer Capital

## Professional Services Industry

Mercer Capital has expertise providing business valuation and financial advisory services to companies in the professional services industry.

Mercer Capital provides business valuation and financial advisory services to professional services firms throughout the nation. We provide valuation services for tax purposes, buy-sell agreements, partner buyouts, and other corporate planning purposes. Mercer Capital also works with owners who are considering the sale of their firm or the acquisition of other professional services firms.

### Services Provided

- Valuation of professional services companies
- Transaction advisory for mergers, acquisitions and divestitures
- Valuations for purchase accounting, impairment testing, and other fair value measurement
- Fairness and solvency opinions
- Litigation support for economic damages and valuation and shareholder disputes

Contact a Mercer Capital professional to discuss your needs in confidence.

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