

# HUMAN RESOURCES OUTSOURCING

## MARKET OVERVIEW

### MARKET DATA:

#### PUBLIC COMPARABLES

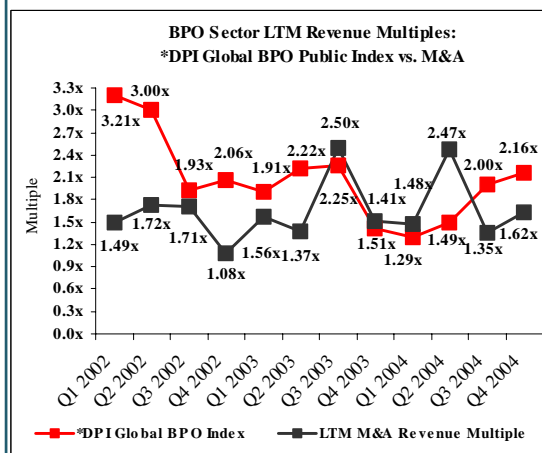
Company	Enterprise Value /	
	LTM Revenue	LTM EBITDA
<b>HRO</b>		
Administaff	0.3x	6.2x
Ceridian Corporation	2.1x	13.6x
ChoicePoint Inc.	4.1x	12.3x
First Advantage Corporation	1.2x	9.9x
Gevity HR, Inc.	0.8x	7.3x
Hewitt Associates, Inc.	1.4x	9.4x
Paychex, Inc.	6.6x	17.5x
<b>Recruiting and Staffing</b>		
Kelly Services, Inc.	0.2x	12.4x
Korn Ferry International	1.8x	12.0x
Manpower, Inc.	0.3x	9.8x
Resources Connection, Inc.	2.3x	13.2x
RemedyTemp, Inc.	0.1x	NM
Robert Half International Inc.	1.7x	16.1x
Spherion Corporation	0.3x	11.1x

### RECENT HRO TRANSACTIONS

#### Recently Announced Transactions

Date	Acquiror	Target
03/16/05	ACS	Mellon HR
01/25/05	Adecco SA	Altedia
01/05/05	RSM McGladrey	Ceridian SourceWeb
12/22/04	Secova eServices	Empact EBS
12/16/04	EDS	Towers Perrin
12/06/04	Flag Financial	Payroll Solutions
12/02/04	Jackson Staffing	InfoServices, Inc.
10/18/04	MPS Group, Inc.	Alderson Reporting
09/23/04	Pacel Corp	Rossar HR
09/23/04	Adecco SA	PeopleOne Consulting

### PUBLIC INDEX VS. M&A



### DecisionPoint Corporate Headquarters

3420 Toringdon Way, Suite 350  
Charlotte, NC 28277 U.S.A  
704.248.1111  
www.DPoint.biz

### MARKET HIGHLIGHTS

#### Market Size – estimated to be \$58.5b in 2005

- The worldwide HR outsourcing market is projected to grow from \$21.7 billion in 2000 to \$58.5 billion in 2005. (The Gartner Group)
- Comprehensive HR outsourcing is considered to be the fastest growing segment of the projected (2008) \$146 billion US BPO market.
- The current HRO industry is dominated by giants like Hewitt, IBM and Accenture; however, there are significant newcomers both large and small. Examples of these companies range from SAP to Yurcor.
- HR outsourcing is estimated to generate savings of over 30 to 40 percent for customers.
- The HRO suppliers are winning larger and longer contracts that are now running seven to ten years instead of five to seven years.
- We expect to see an increase in HRO contract RFP's as many of the early HRO adopters will be testing their long-standing HRO agreements with current market pricing and practices.
- 85% of US enterprises will outsource at least one component of HR functions. (Gartner Dataquest)
- Offshore outsourcing is a trend driving HRO. Most of the current offshore outsourcing is concentrated around processing services that involve manual operations with little added value, such as generation of employment contracts. Leading regions: India, Philippines, China, and South America.
- Reasons cited for HR outsourcing: cost effectiveness, reduced administrative costs, capitalizing on technological advances/expertise, improved customer service, redirecting HR focus toward strategy/planning, focus on core business, reduced corporate overhead, provision of "seamless" delivery of services, and insufficient staff.

#### Room for Improvement

- No supplier has devised a standard way of providing HRO around the world.
- Suppliers need to evolve new non-transactional SLA's that measure more strategic value.
- Manual process workers are now being required to demonstrate advanced expertise.

#### Fragmentation – regionalized industry with over 1,000 providers

- The number of HRO providers in the 2005 Resource Guide is 1,200.
- There are currently two tiers of HRO providers: tier 1: enterprise-level, end-to-end HR BPOs; and tier 2: niche players.
- In 2004, tier 1 providers consolidated from 28 providers to 26. We believe that the market will shrink to around 10 major providers over the next few years.
- While the number of providers will decrease, the volume of tier 1 HRO contracts in 2005 will double that of 2004.

### OPPORTUNITIES FOR CONSOLIDATION

- A growing number of companies want a full-service HR outsourcing provider. Larger HR outsourcers recognize the need to augment their existing platforms through acquisitions of companies that provide complementary services and products.
- HRO business is generally associated with long-term contracts, predictable revenue streams, and high switching costs for customers. These characteristics create a favorable environment for M&A.

### CHALLENGES FOR CONSOLIDATION

- Technology: data migration / conversion of disparate systems inherited during acquisitions.
- Regulatory environment: Companies cannot sacrifice regulatory compliance for growth.
- The overall acquisition cost of new customers is high.

### SEGMENTATION

- HR outsourcing services generally fall into four categories: PEOs, BPOs, service providers, and e-services.
- Some HRO providers successfully up-sell higher value services to customers and further reduce the burden on in-house HR departments. Examples of these value added services include core HR tasks (e.g. training and recruitment) in addition to traditional activities such as payroll, compensation, workforce management, and benefits administration.
- Most customer interest in HRO is seen from those sectors of the economy that are experiencing the greatest margin pressure: telecommunications firms, retail companies, and government organizations.

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Headquarters  
Charlotte, NC  
Voice: 704.248.1111

Regional Office  
Orange County, CA  
Voice: 949.365.5700

Regional Office  
St. Louis, MO  
Voice: 636.537.7825