

April 2010: Business Services Quarterly

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First Quarter Highlights

- Middle market M&A deal volume increased by 34% in Q1 2010 on a year-over-year basis. Aggregate deal value rose by 63% during the same period.
- As of March 31, 2010 the S&P 500 and Dow Jones Industrial Average were up 5% and 4% YTD.
- The national unemployment rate fell to 9.7% in Q1 2010.
- According to the Bureau of Labor Statistics, Business Services employment levels increased by 74,000 in Q1 2010.

Not So Fast

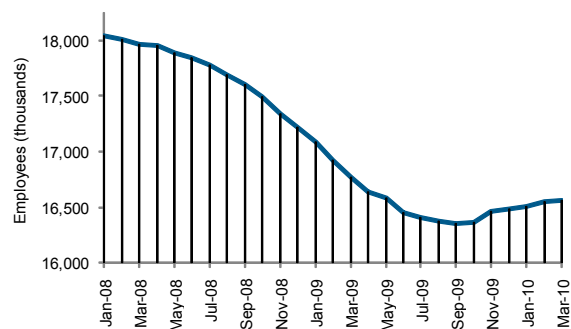
In the first quarter of 2010, M&A activity in Business Services continued momentum that started in the latter half of 2009. As a necessary component of any viable Business Services company, an effective acquisition strategy is vital to continued growth and keeping one's service offerings relevant. With that said, activity levels are encouraging, but still far removed from peak activity observed in 2006 and 2007. We believe these levels will not be reached for several quarters, as the global economy continues to recover.

Employment vs. Productivity

Themes that are playing well in the Business Services sector revolve around employment recovery versus productivity. It is pretty clear that as the recovery takes hold, companies are not jumping to replenish their workforce, but are first driving any productivity options that can be found. This is one of the reasons why unemployment rates have stabilized, but have yet to recover. Generally, areas that benefit from this trends such as this are Business Process Outsourcing, IT Services, and Staffing. All three sectors have seen a good uptick in M&A activity, as well as increased valuations.

The market continues to be dominated by strategic acquirers, who are taking advantage of reasonable prices and lack of competition from financial buyers. There have been sign

Business Services Employment



Source: Bureau of Labor Statistics

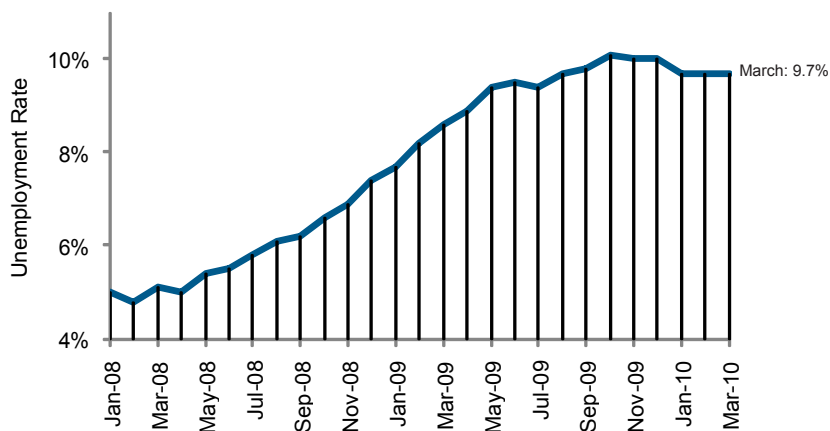
of the reemergence of financial buyers, but their full-fledged return has yet to materialize. The key here is the thawing of the debt markets, an important factor to the overall M&A market, but particularly important to Business Services, where balance sheets are not asset rich and cash flow lending is a requirement. This recent thawing can be seen in several announced deals by financial buyers, as well as an increase in go-private deals, which are traditionally dominated by mid-market financial buyers.

IT & Research

We note particular activity in IT Services. As markets continue to recover, technology spending is at the forefront, as companies need to update systems and automate processes in order to drive productivity. Areas around BPM, Business Intelligence, and Data Management all seem to be strong areas of M&A interest. One additional area of note is Research Services, which saw a notable uptick in M&A activity in the first quarter of 2010. Our view is that this trend is directly correlated to the uptick in IT Services M&A activity. As companies increase spending for newly automated support systems, research firms provide information and insight needed to make educated decisions during the selection process. In short, we expect M&A activity in the Business Services area to steadily improve over the remainder of 2010 with BPO, IT Services, and Staffing continuing to outperform. If stock market valuations and debt markets continue to perform well, M&A activity will be strong for the remainder of 2010.

Macroeconomic Factors

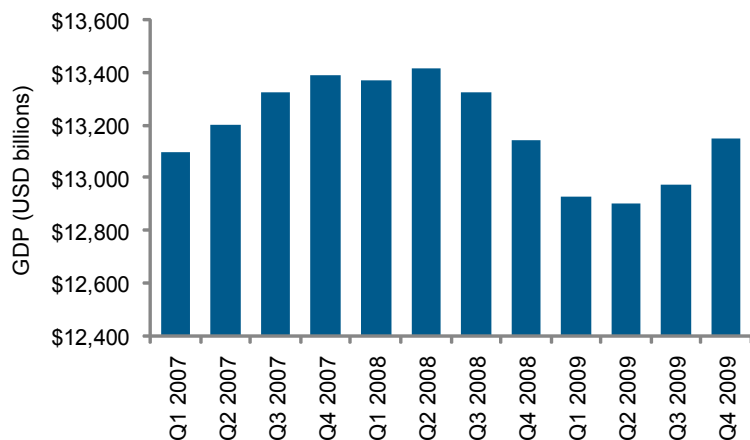
US Unemployment



Source: Bureau of Labor Statistics

After breaching the 10% threshold in October 2009, national unemployment fell to 9.7% in January 2010 and has remained unchanged into March. According to the Bureau of Labor Statistics, nonfarm employment added 162,000 jobs in March, driven primarily by temporary help services and the Healthcare sector. The federal government was a key contributor, as Census 2010 has demanded an increase in the hiring of temporary employees. Manufacturing employment also closed out a strong first quarter, adding 17,000 jobs in March and 45,000 for the quarter.

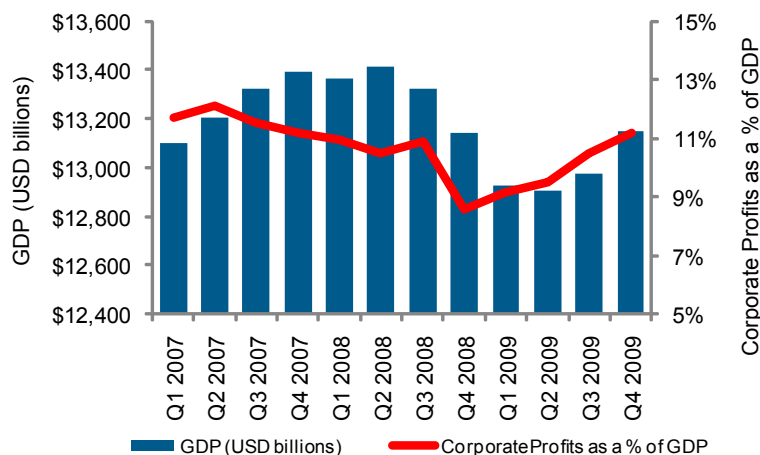
US Real GDP



Source: Bureau of Economic Analysis

Beginning in Q3 2008, Real GDP contracted for four consecutive quarters. In Q3 and Q4 2009, GDP rebounded with moderate growth. According to the Bureau of Economic Analysis, this recovery in the latter part of 2009 was fueled primarily by private inventory investment, an upturn in nonresidential fixed investment, and an acceleration of exports. With the money supply at historic levels, private investment will continue to drive GDP growth, as the economy continues to recover.

Corporate Profits vs. GDP



Source: Bureau of Economic Analysis

Corporate profits increased by \$108.7 billion to nearly \$1.5 trillion in Q4 2009, compared to an increase of \$132 billion in Q3 2009. Year-over-year growth of nearly 31% from Q4 2008 to Q4 2009 further emphasized the recovery of the overall economy from a year ago. After hitting a low of 8.5% in Q4 2008, corporate profits reached 11.2% of GDP in Q4 2009, the highest level since Q4 2007. As capital becomes more accessible and businesses resume expansion, GDP and corporate profits will continue to trend upwards.

Business Services M&A Activity

	Deal Volume	Transaction Value (\$mm)	Median EV / Revenue	Median EV / EBITDA
BPO	7	\$3,465	2.8x	6.6x
IT Services - Corporate	23	1,400	0.8	11.7
IT Services - Government	2	135	1.2	NM
IT Services - Offshore	5	481	0.7	NM
Management Consulting	5	104	0.8	NM
Payment & Transaction Processing	4	209	3.2	NM
Research Services	10	794	1.3	7.5
Staffing	11	678	1.2	NM
Total	67	\$7,266	1.1x	9.2x

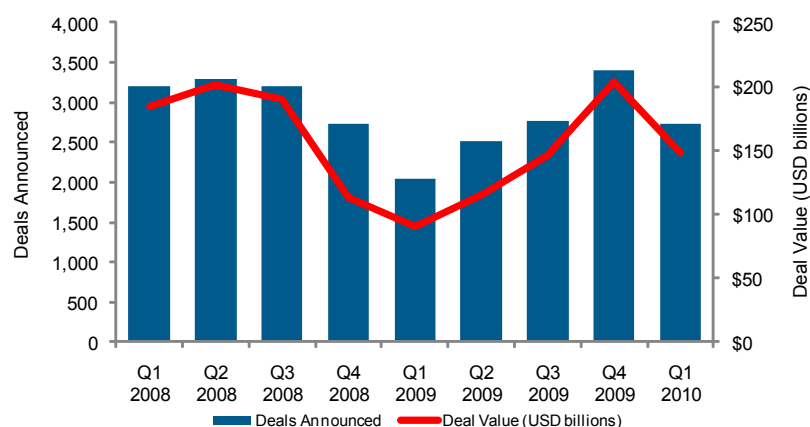
Sources: Capital IQ and 451 Group

Selected Business Services Transactions

Category	Announcement Date	Target	Acquirer	Enterprise Value (\$mm)	Enterprise Value to LTM Revenue	Enterprise Value to LTM EBITDA
BPO	Feb-10	SkillSoft <i>E-learning and performance support solutions</i>	SSI Investments (Advent, Bain, Berkshire) <i>Private Equity</i>	\$1,071	3.4x	9.2x
IT Services - Corporate	Feb-10	ConVista Consulting <i>SAP consulting and systems integration</i>	Virtusa <i>IT implementation and outsourcing services</i>	27	NA	NA
IT Services - Corporate	Jan-10	Xafinity <i>Consulting, software, and outsourcing services</i>	Advent International <i>Private Equity</i>	308	1.4	7.3
IT Services - Corporate	Jan-10	Burton Group <i>IT research, advisory, and consulting services</i>	Gartner <i>IT, software, and communications research</i>	56	1.9	NA
IT Services - Government	Jan-10	Unisys, Health Information Management Business <i>Medicaid information management systems</i>	Molina Healthcare <i>Managed healthcare services</i>	135	1.2	NA
Research Services	Mar-10	Realpoint <i>Credit-ratings, research, and analytical services</i>	Morningstar <i>Independent investment research firm</i>	52	4.3	NA
Research Services	Mar-10	infoGROUP <i>Business and consumer research and databases</i>	CCMP Capital Advisors <i>Private Equity</i>	637	1.3	7.5
Staffing	Mar-10	Stepstone Solutions (UK) <i>Hosted and managed e-recruitment solutions</i>	HgCapital <i>Private Equity</i>	148	NA	NA
Staffing	Feb-10	Xerxis Consulting <i>Temporary staffing solutions</i>	Royal Style Design (Diversified Global Holdings) <i>Custom tile and stone installation</i>	-	NA	NA
Staffing	Feb-10	HotJobs.com <i>Recruiting services for employers and recruiters</i>	Monster Worldwide <i>Online employment solutions</i>	225	NA	NA

Sources: Capital IQ and 451 Group

Overall Middle Market M&A Activity



In the Q1 2010, there was a concentration of activity in the Corporate IT Services, Research, and Staffing sectors. Business Process Outsourcing only accounted for seven deals, but led the way in terms of deal value.

2009 was capped off with a strong fourth quarter, as middle market deal volume increased by nearly 25% on a year-over-year basis. Deal volume and aggregate deal value in Q1 2010 increased by 34% and 63% on a year-over-year basis.

Sources: Capital IQ and 451 Group

Note: Statistics include announced mergers and acquisitions with disclosed value of less than \$1 billion

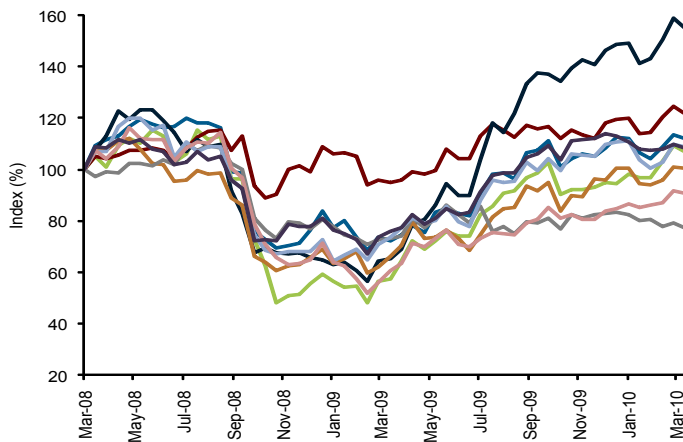
Public Trading Comparables

	Stock Price Change			EV / Revenue		EV / EBITDA		P / E	
	3 months	6 months	12 months	2009E	2010E	2009E	2010E	2009E	2010E
Business Process Outsourcing	(7.0%)	8.1%	51.7%	1.5x	1.4x	7.8x	6.8x	15.1x	14.8x
IT Services - Corporate (Large Cap)	9.9	7.4	73.6	1.1	1.0	6.8	6.5	16.5	15.3
IT Services - Corporate (Mid Cap)	14.0	9.8	108.7	0.6	0.6	11.6	7.5	22.6	15.7
IT Services - Government	1.0	3.5	33.9	0.8	0.7	8.9	7.7	18.0	15.7
IT Services - Offshore	3.7	19.4	172.5	3.9	3.2	19.4	15.5	26.3	21.3
Management Consulting	(2.0)	(4.8)	17.3	1.0	0.9	7.8	5.7	16.5	12.9
Payment & Transaction Processing	(0.8)	5.1	41.1	2.5	2.4	8.7	8.0	15.6	16.6
Research Services	11.5	18.6	46.5	2.9	2.8	11.0	11.3	21.7	21.2
Staffing	3.2	14.4	94.8	0.3	0.2	15.5	14.7	15.8	25.1
Overall Median	3.2%	8.1%	51.7%	1.1x	1.0x	8.9x	7.7x	16.5x	15.7x

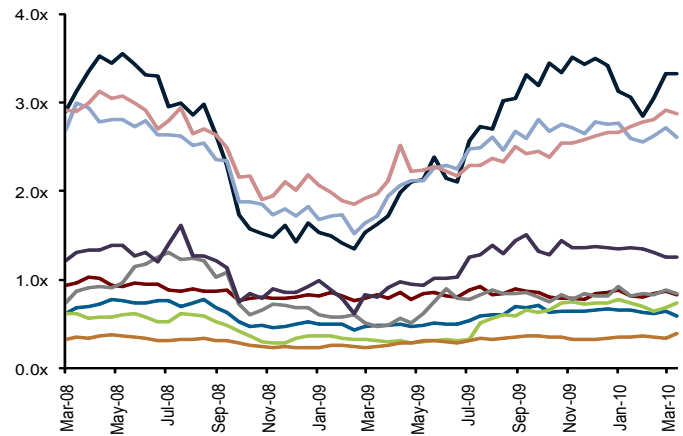
	Index Price Change		
	3 months	6 months	12 months
NASDAQ Composite Index	5.7%	17.1%	56.9%
Dow Jones Industrial Average	4.1	14.4	42.7
S&P 500 Index	4.9	14.1	46.6

Note: Large Cap defined as market capitalization of more than \$1 billion as of March 31, 2010

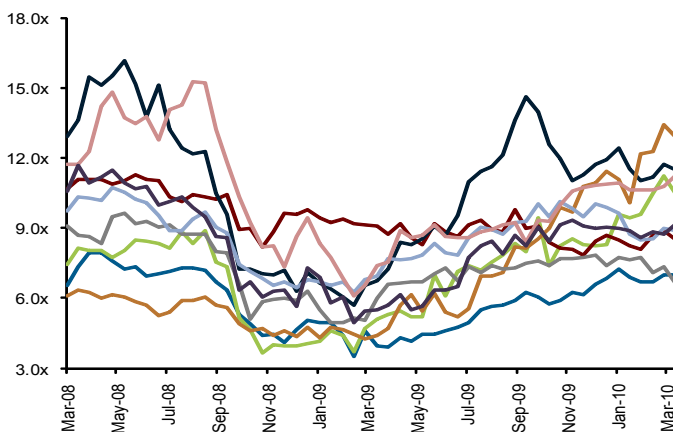
Stock Performance



EV/Revenue Multiples



EV/EBITDA Multiples



Legend

- BPO
- IT Services - Corporate (Large Cap)
- IT Services - Corporate (Mid Cap)
- IT Services - Government
- IT Services - Offshore
- Management Consulting
- Payment & Transaction Processing
- Research Services
- Staffing

Sources: Capital IQ and company filings

Covington Associates

Recent Transactions

 <p>acquired by</p>  <p>\$133,000,000</p>	 <p>entered into a development partnership with</p> 	 <p>acquired by</p> 	 <p>acquired by</p>  <p>\$63,400,000</p>
 <p>acquired by</p>  <p>\$12,500,000</p>	 <p>acquired by</p> 	 <p>acquired by</p>  <p>\$6,500,000</p>	 <p>acquired by</p>  <p>\$78,400,000</p>

Industry Expertise

Business Services

- Consulting
- Government
- Payment & Transaction Processing
- Real Estate Services
- Research

Healthcare

- Clinical Trial Services
- Diagnostics
- Disease Management
- Healthcare Information Technology
- Medical Product Outsourcing
- Medical Devices
- Tools and Reagents
- Therapeutics

Consumer and Industrial

- Analytical Instrumentation
- Consumer Products
- Energy
- Manufacturing & Distribution
- Transportation & Logistics

Technology

- Communications
- Digital Media Technologies
- Enterprise Software
- Hardware
- IT Services
- Reseller/Distribution

About Covington

Covington Associates is a specialty investment banking firm founded in 1991 serving business services, consumer & industrial, healthcare, and technology companies throughout the country.

Focused on mergers and acquisitions, debt and equity capital raising, debt and equity restructuring, and strategic advisory assignments for middle market companies, Covington Associates has completed transactions ranging in value from \$10 million to close to \$2 billion for both private and publicly traded companies.

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