Healthcare Staffing
Coverage Report

MERGER AND ACQUISITION ACTIVITY

The staffing industry has experienced a particularly active M&A market thus far in 2013, reflecting an improving economy and a healthy operating environment for many staffing businesses. Capstone’s research indicates that 89 transactions were completed in the industry through mid-September, suggesting M&A activity in the sector is on-track to substantially out-perform recent years.

Acquisition activity in the healthcare staffing sector as well as the broader M&A market initially experienced a lackluster start in 2013, as a flurry of tax driven deals in the 4th quarter of 2012 (impending increase in capital gains tax rate) depleted the number of companies available for sale. Through mid-September 2013, however, 21 transactions were closed in healthcare staffing, indicating continued strong interest in the industry.

Current acquisitions in healthcare staffing show that all types of buyers are active in the sector. There have been recent acquisitions by large, publicly traded companies such as IPC The Hospitalist Company, Team Health Holdings and others as well as several acquisitions by private equity groups and their healthcare staffing platforms. The fragmented nature of the industry is appealing to private equity groups, several of which are building market leaders from the combination of multiple smaller firms. It is not surprising that such groups are interested in healthcare staffing, given its strong fundamentals and attractive consolidation and growth opportunities.

Looking ahead, Capstone expects further consolidation in the healthcare staffing sector based on the following factors: increased demand for healthcare services resulting from a growing and aging population as well as the Affordable Care Act, projected shortages of clinicians over the next five to 10 years, acquisition oriented publicly traded staffing companies trading at attractive multiples, highly fragmented industry composition, and proliferation of Managed Service Provider contracts. Full implementation of the Affordable Care Act (ACA) is advancing, calling for sweeping reform of the U.S. healthcare system, which in turn is expected to drive consolidation in all sectors of healthcare, including staffing. Added to this is the fact that both corporate and private equity buyers have plenty of capital, with corporate cash estimated at a collective $1.8 trillion and uninvested private equity funds standing at about $328 billion. Furthermore, credit markets remain favorable, accommodating acquisition financing at attractive terms. All of these factors point to a favorable environment for healthcare staffing M&A.
MARKET POTENTIAL & FUNDAMENTALS ATTRACT BUYERS

The implementation of the Affordable Care Act (ACA), which includes providing health insurance to 32 million more Americans in 2014, is anticipated to create increased demand for healthcare services overall and thus drive the need for healthcare workers. As a result, the healthcare staffing industry is projected to grow 6% annually through 2016 and the U.S. Department of Labor projects that 10 of the 20 fastest-growing occupations through 2020 will be in the healthcare industry.

Physicians and nurses are expected to be in high demand, as are CNAs, LVNs, nurse practitioners and physician assistants, billing and coding specialists, healthcare administrators, facility directors, elder care providers, home health nurses and aides, physical and occupational therapists, healthcare IT enablers, and other allied health personnel. Contingent staffing such as contract, temporary and per diem workers are also expected to remain key, as providers struggle through this new era of substantial system changes.

The need for an expanding healthcare staff is expected to put a huge strain on providers who, for each open position, spend a substantial amount of time sifting through hundreds of online resumes to identify potential candidates and screen applicants for the appropriate educational background, experience, certifications and credentials. Such pressures, as well as additional demand drivers that include an aging population coupled with a growing shortage of primary care physicians and other healthcare specialists, should all serve to boost the need for healthcare staffing services.

The industry is not without its issues. While healthcare reform will result in demand increases, it also poses potential challenges for temporary staffing firms. The Federal government continues to put downward pressure on escalating healthcare costs, which has made its way to staffing. Nevertheless, because of the overall demand increases and the widespread reliance on temporary and contingent staffing, this sector represents an attractive, long-term growth opportunity for buyers.
MARKET OBSERVATIONS: KEY VALUE DRIVERS

Over the past six to nine months, we have been approached by an increasing number of private business owners in the healthcare staffing industry that are beginning to plan for an M&A exit. Many of these owners sat on the sidelines during the recession and are now ready to explore their exit options. With that in mind, owners appear to be more keenly focused on tapping the opportunistic window to either pursue a full exit from the business or merely take some “chips off the table” to diversify their concentrated wealth management risk.

Buyers are interested in healthcare staffing companies if the acquisition improves the overall organization and aligns with their long-term strategic growth plan vis-à-vis the addition of a new geographic market, service line, customers or management talent. The better the “strategic fit,” the more attractive the valuation. Our process involves marketing the business to multiple buyers, so as to uncover those with the highest strategic need who may in-turn pay a premium for the company. However, shareholders can also take steps to improve their relative market position to ultimately help maximize value. The leading factors that we see driving current market value premiums include: (1) attractive growth; (2) value-added solutions and hence healthy operating margins; (3) a strong local or regional market position; and (4) a diversified, loyal base of attractive customers. That said, our scorecard for the healthcare staffing industry includes the following attributes.
### SELECTED HEALTHCARE STAFFING M&A TRANSACTIONS

<table>
<thead>
<tr>
<th>Date</th>
<th>Target (Healthcare Staffing)</th>
<th>Acquirer</th>
<th>Target Business Description</th>
<th>Enterprise Value (mm)</th>
<th>EV / LTM</th>
<th>Revenue</th>
<th>EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aug-13</td>
<td>Mastech Holdings, Inc.</td>
<td>Accountable Healthcare Staffing, LLC</td>
<td>Provides healthcare staffing services.</td>
<td>$1.2</td>
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<tr>
<td>Jul-13</td>
<td>Tri-county Emergency Physicians, Inc.</td>
<td>Team Health Holdings, Inc. (NYSE:TMH)</td>
<td>Provides recruiting services for hospital emergency room departments.</td>
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<td>Jul-13</td>
<td>Baldwin Physician Services, Inc.</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Offers post-acute hospitalist services.</td>
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<tr>
<td>Jul-13</td>
<td>HGI Healthcare, Inc.</td>
<td>Accountable Healthcare Staffing, LLC</td>
<td>Provides rehabilitation therapy and nurse staffing in clinical settings.</td>
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<tr>
<td>Jul-13</td>
<td>Cape Coral Hospitalists (Select Operations)</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Provides hospitalist services to hospitals.</td>
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<tr>
<td>Jul-13</td>
<td>South Jersey Emergency Physicians</td>
<td>Team Health Holdings, Inc. (NYSE:TMH)</td>
<td>Manages and staffs the emergency room department for hospitals.</td>
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<tr>
<td>Jul-13</td>
<td>MedTel Solutions, LLC</td>
<td>Net Medical Xpress Solutions (OTCPK:NMXS)</td>
<td>Operates as a healthcare staffing and recruitment company.</td>
<td>$0.3</td>
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<tr>
<td>May-13</td>
<td>Locum Leaders, LLC</td>
<td>OGH, LLC</td>
<td>Provides locum tenens/temporary physician staffing services to healthcare facilities.</td>
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<tr>
<td>Mar-13</td>
<td>Kansas Inpatient/Long Term Care Physicians</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Provides hospitalist services.</td>
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<tr>
<td>Feb-13</td>
<td>Axiom Management, Inc.</td>
<td>Axiom Management, Inc. (OTCPK:AXMA)</td>
<td>Recruits permanent, temporary and contract healthcare employees.</td>
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<tr>
<td>Feb-13</td>
<td>Internal Medicine Consultants, P.A.</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Offers hospitalist physician group practice services.</td>
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<tr>
<td>Feb-13</td>
<td>OA Nurse Travel, LLC</td>
<td>Medical Solutions L.L.C.</td>
<td>Operates as a travel nursing company.</td>
<td>$31.0</td>
<td>-</td>
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<tr>
<td>Jan-13</td>
<td>Invo Healthcare Associates, Inc.</td>
<td>Post Capital Partners</td>
<td>Provides outsourced clinical services to schools, districts &amp; early intervention agencies.</td>
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<tr>
<td>Dec-12</td>
<td>HCTec, LLC</td>
<td>Snow Phipps Group, LLC</td>
<td>Recruits and places technology personnel in healthcare organizations.</td>
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<tr>
<td>Dec-12</td>
<td>The Corridor Group, Inc.</td>
<td>HealthEdge Investment Partners</td>
<td>Provides consulting, executive search and training to the home care industry.</td>
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<tr>
<td>Dec-12</td>
<td>Midwest Acute Care Consultants, P.C.</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Provides critical care/intensivist, pulmonary and sleep medicine outsourced services.</td>
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<tr>
<td>Dec-12</td>
<td>Alliance of Home Care Physicians LLC</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Provides in-home patient care services.</td>
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<tr>
<td>Dec-12</td>
<td>Martin, Fletcher, &amp; Associates, LP</td>
<td>Parallon Business Solutions, LLC</td>
<td>Operates as a healthcare recruiting company in the United States.</td>
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<tr>
<td>Dec-12</td>
<td>Horton International, LLC</td>
<td>Marcum Search LLC</td>
<td>An executive search company serving a variety of industries including healthcare and pharma.</td>
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<tr>
<td>Nov-12</td>
<td>CHG Healthcare Services, Inc.</td>
<td>Ares Management LLC; Leonard Green &amp; Partners, L.P.</td>
<td>Provides healthcare staffing services to healthcare facilities in the United States.</td>
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<tr>
<td>Nov-12</td>
<td>GLT Medical Services, Ltd.</td>
<td>IPC The Hospitalist Company (NasdaqGS:IPCM)</td>
<td>Offers post-acute hospitalist practice services.</td>
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<tr>
<td>Oct-12</td>
<td>Interim HealthCare Inc.</td>
<td>The Halifax Group</td>
<td>Provides home care and medical staffing services in the United States.</td>
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<tr>
<td>Oct-12</td>
<td>Medrec, Inc.</td>
<td>Accountable Healthcare Holdings Corp.</td>
<td>Operates as a staffing &amp; recruitment firm for physical, occupational and speech therapists.</td>
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<tr>
<td>Sep-12</td>
<td>Pathway Medical Staffing, LLC</td>
<td>Medical Staffing Network Healthcare, LLC</td>
<td>Provides nurse case management and non-clinical nursing recruitment services.</td>
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<tr>
<td>Sep-12</td>
<td>Elite Personnel, Inc.</td>
<td>PeopleLink Staffing Solutions, LLC</td>
<td>Provides staffing solutions for a variety of industries including medical offices.</td>
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<tr>
<td>Aug-12</td>
<td>Conmed Healthcare Management, Inc.</td>
<td>Correct Care Solutions, LLC</td>
<td>Provides outsourced correctional healthcare services.</td>
<td>$39.5</td>
<td>0.6x</td>
<td>9.2x</td>
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<tr>
<td>Aug-12</td>
<td>Delphi Healthcare Partners, Inc.</td>
<td>Team Health Holdings, Inc. (NYSE:TMH)</td>
<td>Provides contract physician staffing and management for hospitals &amp; physician groups.</td>
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**LTM = last twelve months; EV = enterprise value**

**Source:** Capstone Partners LLC research, Capital IQ, company public filings and press releases
Capstone Partners recently completed a transaction in which it successfully advised Invo HealthCare Associates, Inc. in its sale to Post Capital Partners. Invo HealthCare is a premier provider of clinical staffing services to schools, school districts and early intervention agencies throughout the U.S. The Company’s experienced staff of speech-language pathologists, occupational therapists, physical therapists, special instructors and school psychologists play a vital role in improving educational outcomes for special needs children and students. Post Capital was attracted to Invo HealthCare’s solid fundamentals and attractive growth prospects. Invo Healthcare was acquired as a platform investment, with plans to make future add-on acquisitions in the sector. Capstone Partners has successfully advised on a number of transactions related to the sale of healthcare staffing and talent management firms. These and other health & medical transactions are shown below.

**CONFIDENTIAL**

strategic positioning prior to a corporate sale

**PEDICATRIC NURSE STAFFING**

has been acquired by

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**CERTIFIED IT & ITRICITY FREEDOM DATA**

has acquired

---

**AGCU-MET LASER, inc.**

has been acquired by

**Riverside Partners**

---

**the ame group**

has divested assets to

---

**Tricare**

has been acquired by

**Tricare**

has been acquired by

**AGCU-MET LASER, inc.**

has been acquired by

**Riverside Partners**

---

**Radius Medical Technologies**

has divested assets to

---

**Tricare**

has been acquired by

**Novascience**

has been acquired by

**BHG Behavioral Health Group**

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**Catalyston-line**

has been acquired by

---

**angioLINK**

has been acquired by

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**Interleukin Genetics**

has acquired

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**Medtronic**

has been acquired by

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**Clinical Innovations**

has been acquired by

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**R**

has been acquired by

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**Binax**

has been acquired by

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**Radius Medical Technologies**

has divested assets to

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**Riverside Partners**

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**Respironics**

has been acquired by

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**Greys Healthcare Group**

has been acquired by

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**Riverside Partners**

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**Storm Capital Partners, LP**

has secured financing from

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**Ohio Medical Corporation**

has been acquired by

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**Riverside Partners**

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**Inverness Medical Innovations**

has been acquired by

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**Riverside Partners**

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**Medtronic**

has been acquired by

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**Riverside Partners**

---

**Roundtable**

has been acquired by

---

**Riverside Partners**

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Eric Williams, Managing Director
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Eric serves as Managing Director and Head of the Eastern Region for Capstone, based out of Philadelphia. Prior to Capstone, Eric was responsible for managing the Eastern region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. Eric has 20 years of experience managing strategic sale assignments and leveraged recapitalizations for owners of privately held companies. He is head of Capstone’s Health and Medical practice and has successfully completed over 100 transactions in a wide range of industries including health care services, medical technology outsourcing, defense, pharmaceutical services, and education and training. He has also executed complex cross-border transactions with foreign buyers based in London, Germany, Sweden, and Switzerland and has structured deals with leading private equity groups and strategic corporate buyers. Previously, Mr. Williams worked as a senior executive with Newport Securities Corporation. He graduated cum laude from the University of California and is a Series 7 and 63 Registered Securities Representative as well as a Series 24 Registered Securities Principal.

Ted Polk, Managing Director
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Ted is Managing Director and Head of the Central Region at Capstone, based out of Chicago. Prior to Capstone, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of experience, having completed strategic sale and recapitalization transactions across a variety of industries. Ted is a frequent public speaker on the topic of business exits and recapitalizations of privately owned businesses. In 2008, Ted was recognized by The M&A Advisor for the Cross-Border Middle-Market Deal of the Year. In 2009, another of his transactions was recognized as the Middle-Market M&A Financing Deal of the Year and in 2011 he was recognized for lead-managing the Middle-Market Deal of the Year. Previously, Mr. Polk worked at Valuemetrics, Inc. and in the Corporate Banking Group at The Bank of New York. Ted received his BSBA degree from Georgetown University and MBA from the University of Chicago. He is a Chartered Financial Analyst (CFA), a Series 7 and 63 Registered Securities Representative, and a Series 24 Registered Securities Principal.

Mark Surowiak, Director
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Mark is a Director in the Philadelphia office, supporting the management of the Eastern Region. Previously, Mark served over 10 years as a senior investment banking professional in Morgan Stanley Smith Barney’s Capital Strategies Group. Over his career, Mark has focused on developing deep credentials and expertise in the sale and recapitalization of privately held businesses. Mr. Surowiak’s experience spans a broad range of industries, including the government and defense contracting, manufacturing, and outsourced business services sectors. Prior to investment banking, Mark enjoyed a career in the social services field. Mark is a graduate of Illinois State University with a BS in Business Administration. He is a Series 7 and 63 Registered Securities Representative.

Lisa Tolliver, Director
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Lisa has 15 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone’s Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within the technology, manufacturing, consumer products and outsourced business services industries. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.
ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a leading international investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. Capstone maintains various industry specialties including one in the Healthcare Staffing and Outsourced Clinical Services industry. The firm also possesses merchant banking capabilities to actively co-invest in transactions.

Additional information about Capstone Partners can be found at www.capstonellc.com.

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