

Creating Value in the Professional Services Sector

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Firm Background & Analyst Biography

Mr. Tobey Sommer is a Managing Director in Truist Securities' Research Division with 20 years of experience covering the services sector as an equity research analyst. His current coverage focuses on the commercial and government services sectors including Government Services, Human Capital Management, Consulting, Business Services and Environmental Services. He has covered the Human Capital Management sector for 20 years.

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Experience

- 2001-Present: Managing Director, Truist Securities
- 1996-1999: Director Geral, E.J. Krause do Brasil Exhibition Organizer
- 1994-1996: International Marketing Manager, E.J. Krause & Associates
- 1992-1994: Peace Corps Volunteer

Education

- MBA in Finance, Owen Graduate School of Management at Vanderbilt University
- BA in Economics, University of Richmond

Awards

- TipRanks 5-Star Analyst
- 2017 Thomson-Reuters #1 Stock Picker
- 2006 WSJ Best On The Street – Business & Industrial Services

Role of Sell Side Analyst, Public Investors' View On Sector

Our Role As Sell-Side Analysts

- 1. Generate industry and company-specific reports with earnings/cash flow forecasts. Our primary clients are mutual funds, pension funds and long/short hedge funds.**
- 2. Create/maintain historical and forward-looking financial models for all covered companies.**
- 3. Identify investment ideas with Buy/Hold/Sell ratings and target valuations.**
- 4. Facilitate institutional investor access to C-Suite executives at our covered companies.**
- 5. We strive to add value to our clients' investment processes in any additional way possible.**

Key Topics/Concerns For Investors

- 1. What is the slope of a potential recession and how will it impact labor markets.**
- 2. How significantly will margins fall at staffing companies due to negative operating leverage.**
- 3. Which staffing companies should outperform on a relative basis amid economic turbulence.**
- 4. What do 'normalized' earnings look like and how should investors approach valuation as estimates are likely to reset lower near-term.**
- 5. Will demand fall steeper than could be expected in a normal recession as many clients are now finding themselves overstaffed due to a sharp decline in employee turnover.**

Valuation Drivers In Staffing

Key Valuation Metrics & Considerations

Staffing companies within the same vertical frequently trade at widely disparate valuations. Qualitative valuation factors include: market size, growth prospects, moat and competitive differentiation.

1. Investors Prefer Growing Markets & Sizeable TAMs

- Example: IT Staffing companies have historically traded at a premium to other sectors due to a large TAM, superior industry growth rates and leverage to increasing IT services spending.
- Smart operators have more opportunities for value creation in large and expanding industries.
- Staffing companies begin competing on price to defend market share when industry revenues are falling, this is currently the case in Travel Nurse staffing.

2. Does Your Staffing Company Have A True Moat?

- Example: CHG Healthcare (Private) and Jackson Healthcare (Private) have extremely high market share in the Physician Staffing space and benefit from regulatory barriers to entry.
- Robert Half (Sell) dominates the F&A staffing market, especially with SMB customers, we think this has historically manifested in superior gross margins to the industry.
- Most staffing sectors are highly fragmented with few barriers to entry.

3. What Competitive Advantages Differentiate Your Company?

- Example: True Search (Private) fetched a premium valuation due to tech-led business model.
- Small players that dominate a niche market can be highly attractive to strategic buyers.
- We often see competitive differentiation manifest in superior gross margins.

Who Is The 'Right' Owner For This Asset?

“We will look at strategic fit, we'll look at financial fit, we look at cultural fit, quality of management. We will look at more traditional staffing assets. We also will look at and have a focus on tech-enabled solutions.”

- Carey Grace, CEO & President AMN Healthcare

“If you buy the company, everybody leaves the next day, then you don't have anything...so it has to be a strong cultural fit, it has to be strategically aligned to what we do, we're not going to buy used car dealerships or anything like that.”

- Bob Rozek, CFO Korn Ferry

“We will consider potential acquisitions where they accelerate the strategy realization, we're a better owner in other words, we can deliver cost and revenue synergies. We can achieve positive EVA within 3 years and have management capacity for integration”

- Coram Williams, CFO Adecco Group

What Is Bad Business In The Eyes Of Public Market Investors?

Staffing is a highly competitive and fragmented industry, though investors have historically favored certain business models (Temp IT, Workforce Solutions) over others (Perm, Temp Industrial/Clerical).

1. Highly cyclical demand streams

- Staffing is a cyclical industry – though certain sectors (exec search, F&A staffing, clerical) have historically seen outsized revenue declines during recessions.
- Forward visibility is limited for all staffing businesses beyond the upcoming 1-2 quarters.
- Industry management teams have historically preferred to acquire in the aftermath of a recession.

2. Small and Lower Growth TAMs

- Management teams have to work harder to create shareholder value in mature industries.
- Expanding TAMs give investors conviction to underwrite forward financial projections.
- Risk of technological disruption (i.e. AI and certain admin tasks) is another consideration.

3. Lack of opportunity for value creation within the existing footprint

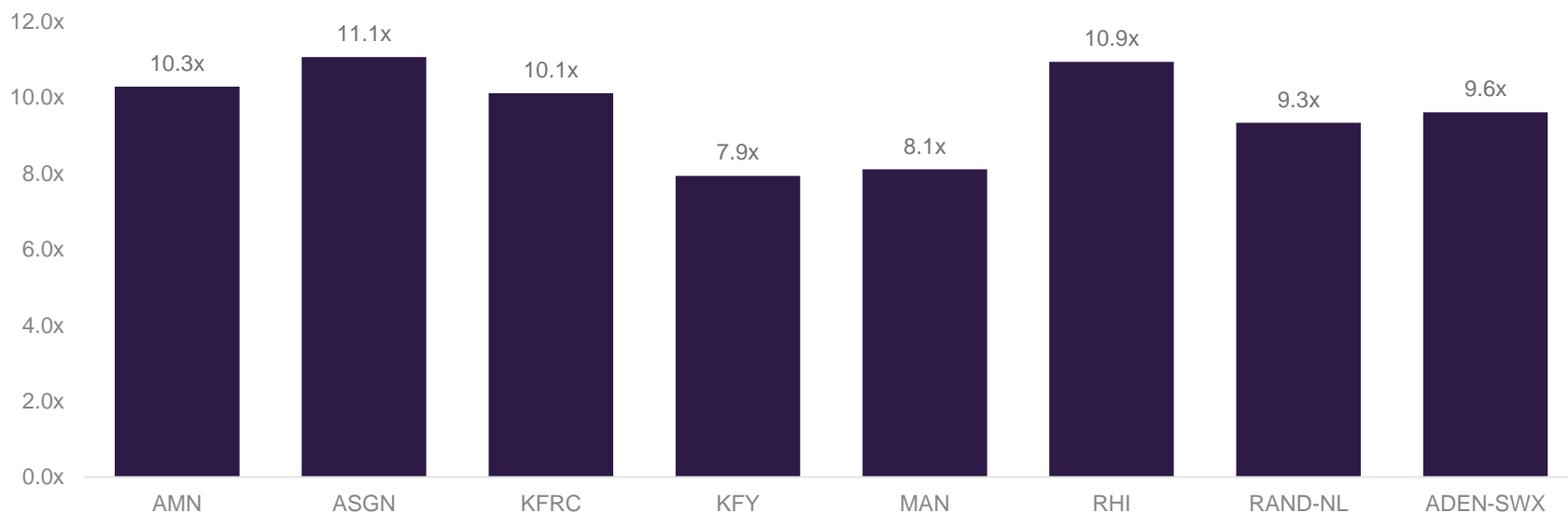
- Improved unit economics via consolidation is a lever for value creation in low growth industries.
- Is there a 'better' segment that can take a disproportionate share of growth capital?
- Low growth and poor ROIC often prompts investors to question terminal value of a company.

Industry Exposure Shapes Valuation

We think investors preferred sectors for investment in recent years have been IT Staffing, Workforce Solutions and Healthcare Staffing. These sectors have seen material multiple expansion.

- **IT has always been seen as the most attractive temp vertical.** The sector has historically outperformed in economic down turns and delivered superior revenue growth in the mid-to-late stages of an economic cycle. We view IT as a beneficiary of corporate digital transformation.
- **Investors viewing Healthcare as a more attractive sector due to structural workforce shortages.** We believe clinical workforce shortages have prompted a wave of sponsor interest in the sector. Near-term, activity levels are likely to moderate as investors contemplate decline in Travel Nurse demand.

Figure 1: Staffing Universe – 10 Year Average EV/EBITDA Multiples



Source: Factset Prices, Truist Securities Research



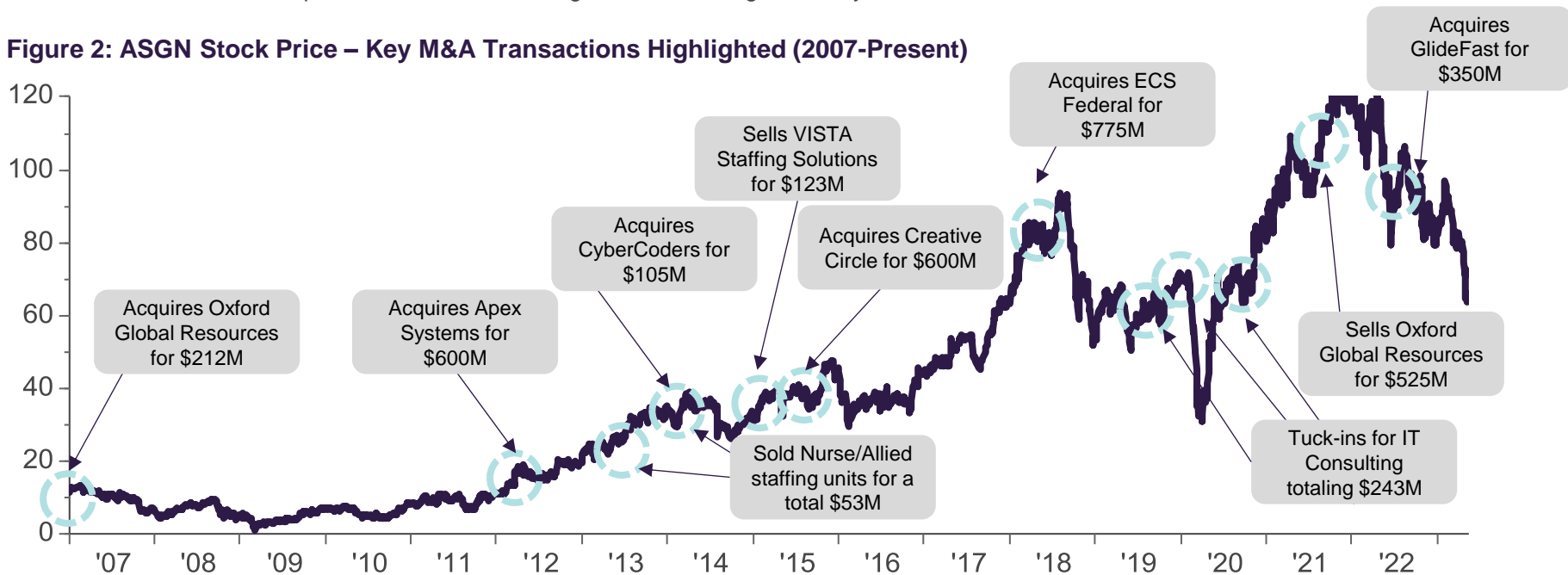
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Case Studies in Value Creation

Case Study: ASGN Incorporated (ASGN, Buy) – M&A Strategy

- We view ASGN as the most successful example of a recruiting roll-up in the public markets.** The company has made 30 acquisitions/divestitures since 2007. ASGN's stock is up 1,066% since 2009; materially outperforming the +319% return for the Russell 2000 over the same period. Management used core cash-generative staffing businesses to move the company further up-market in IT staffing, IT consulting and defense/intel contracting while shedding exposure to lower-margin professional staffing and non-core healthcare staffing.
- What did this achieve for investors?:** (1) significant equity outperformance driven by compounding earnings growth; (2) highly consistent and predictable quarterly results as ASGN has met/exceeded consensus EPS in 17/20 trailing quarters; (3) outperforming IT staffing industry organic growth by ~200-300bps historically; (4) a ~10% historical valuation premium to closest peer Kforce (KFRC, Hold).
- ASGN shed exposure to smaller TAMs (Nurse, Physician Staffing) and established a presence in larger markets (IT Consulting, Federal IT Services) potentially synergistic with the core IT staffing business.** We estimate Travel Nursing to be a \$35B TAM in 2022 and Physician Staffing at \$6B. IT Consulting and Federal IT Services represent a combined ~\$400B revenue opportunity. Peers in this space trade at 12x-16x EV/EBITDA multiples vs. Healthcare Staffing in the 6x-8x range currently.

Figure 2: ASGN Stock Price – Key M&A Transactions Highlighted (2007-Present)



Source: Factset Prices, Company Reports, Truist Securities Research

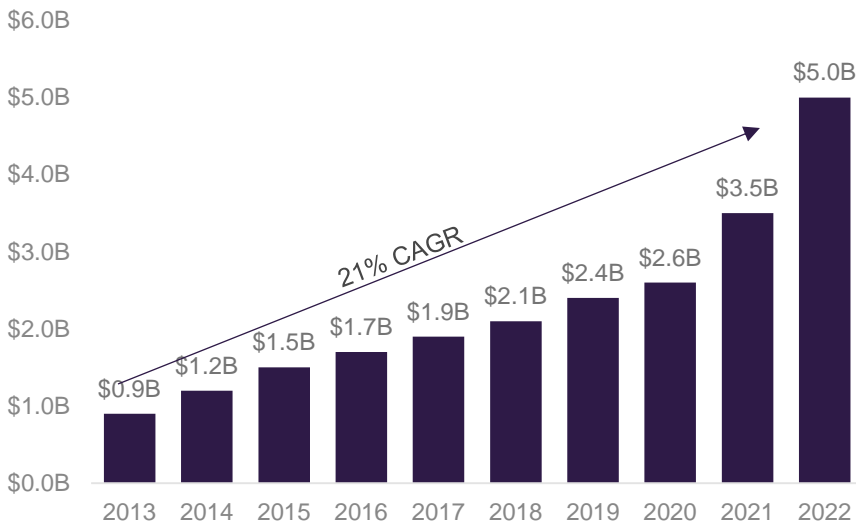


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Case Study: Insight Global (Private) – Organic Growth

- Insight Global is the most prominent example of a organic growth story in the staffing space.** Insight Global has delivered a ~21% organic revenue growth CAGR over the past decade. The company has remained private, backed by Ares Management (ARES, NR), Leonard Green (Private) and Harvest Partners (Private) twice. The company has been able to organically seed new business lines such as Healthcare and IT Managed Services that quickly hit \$100M+ in revenue and have continued to grow.
- Company benefits from a unique culture.** We think the best attribute of a Professional Services organization is the ability to consistently recruit, retain and promote staff from entry-level positions to the highest levels of the enterprise. We believe this defines the ‘best’ businesses in the space such as McKinsey (Private), Bain (Private), BCG (Private) and the elite global law firms. Insight Global aggressively recruits new talent out of local colleges and much of the company’s senior leadership, such as current CEO Bert Bean, initially started as recruiters. Internal turnover is fairly low for a staffing firm, disclosed at 19% in 2022, according to the company.
- Organic growth can drive premium valuation, impressive returns on capital.** We believe Robert Half (RHI, Sell) and Kforce (KFRC, Hold) have historically traded at elevated multiples as investors view organic-led earnings growth as more sustainable than a consistent roll-up strategy. RHI has been able to create value by reinvesting in more attractive areas of the enterprise (i.e. Protiviti) and repurchasing common stock opportunistically. RHI delivered a remarkable 45% ROIC in 2022.

Figure 3: Insight Global Annual US Staffing Revenues



Source: Insight Global, Staffing Industry Analysts

Figure 4: Insight Global Company Timeline



Questions?

Human Capital Comp Sheet

Peer Group Analysis

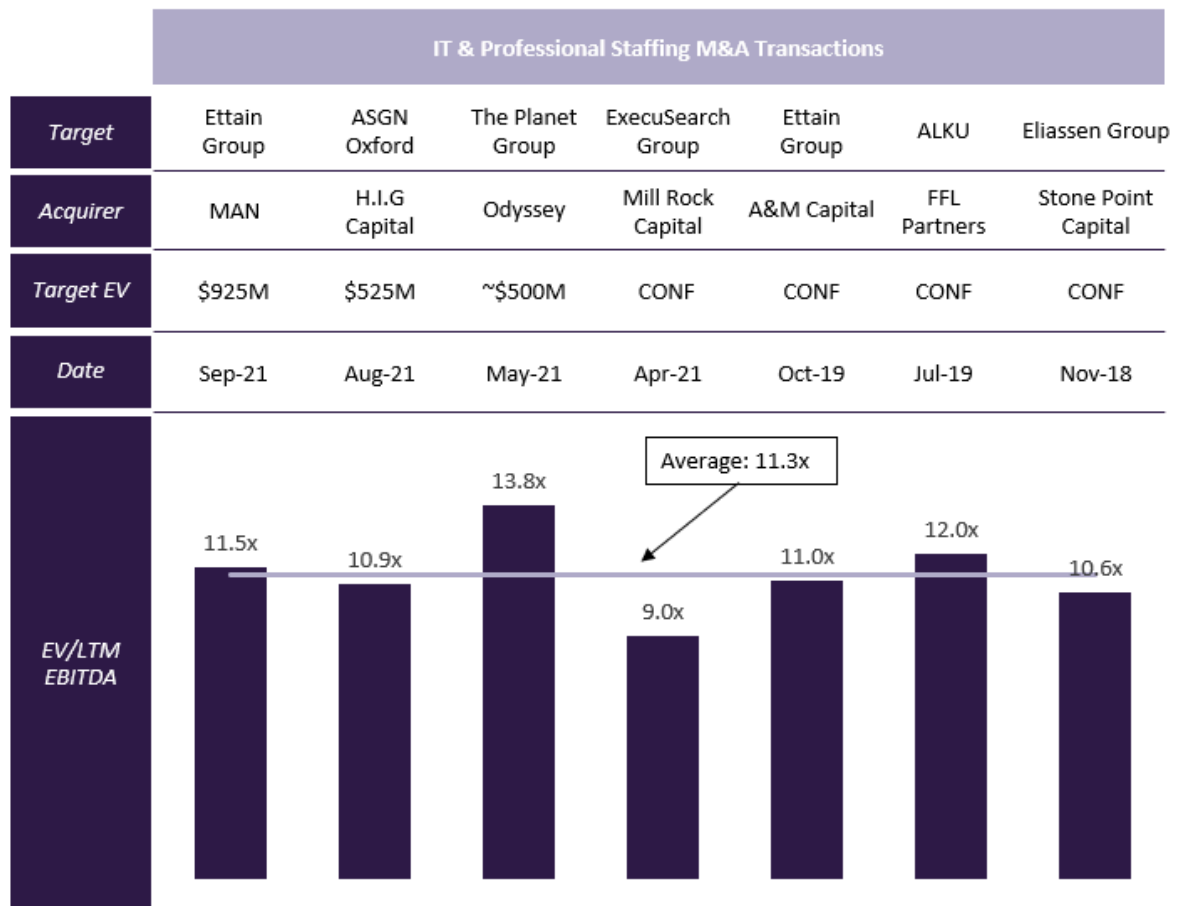
\$ millions, except per-share data
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Company	Ticker	Price 5/12/23	Shares mls	Mkt Cap	Rating	Cash	Debt	Enterprise Value	EV Multiple			P/E			Price Change YTD	EPS			Street Cons.		
									2022A EBITDA	2023E EBITDA	2024E EBITDA	2022A	2023E	2024E		2022A	2023E	2024E	2022A	2023E	2024E
Human Capital																					
Kforce Inc.	KFRC	\$55.80	20.1	\$1,120	Hold	\$0.1	\$25.6	\$1,146	8.1x	9.7x	9.1x	13.1x	16.8x	15.4x	1.8%	\$4.25	\$3.32	\$3.62	\$4.25	\$3.69	\$4.04
Robert Half International Inc.	RHI	\$67.15	107.1	\$7,194	Sell	\$546.7	\$0.0	\$6,647	7.1x	10.3x	9.7x	11.1x	16.3x	15.1x	-9.0%	\$6.02	\$4.11	\$4.43	\$6.03	\$4.54	\$5.19
ASGN Inc	ASGN	\$64.00	49.8	\$3,187	Buy	\$65.0	\$1,035.4	\$4,158	7.4x	8.2x	7.8x	9.8x	11.2x	10.2x	-21.5%	\$6.56	\$5.74	\$6.30	\$6.56	\$5.83	\$6.68
ManpowerGroup Inc.	MAN	\$70.93	51.6	\$3,660	Hold	\$706.7	\$989.0	\$3,942	5.3x	6.9x	7.0x	8.3x	11.4x	11.3x	-14.8%	\$8.52	\$6.22	\$6.26	\$8.52	\$6.36	\$7.35
AMN Healthcare Services, Inc.	AMN	\$93.64	41.6	\$3,893	Buy	\$29.0	\$990.0	\$4,854	5.7x	7.9x	8.8x	7.9x	11.4x	13.3x	-8.9%	\$11.90	\$8.25	\$7.05	\$11.90	\$8.38	\$8.06
Cross Country Healthcare, Inc.	CCRN	\$24.64	36.9	\$910	Hold	\$0.3	\$138.4	\$1,048	3.5x	6.0x	6.5x	4.7x	9.4x	10.2x	-7.3%	\$5.26	\$2.62	\$2.41	\$5.27	\$2.62	\$2.62
Heidrick & Struggles International, Inc.	HSII	\$24.57	20.6	\$505	Hold	\$45.7	\$0.0	\$460	3.4x	4.8x	4.9x	6.3x	9.2x	9.5x	-12.2%	\$3.87	\$2.66	\$2.60	\$3.84	\$2.79	\$2.91
Korn Ferry	KFY	\$47.64	51.4	\$2,450	Buy	\$531.0	\$396	\$2,315	8.9x	6.2x	5.7x	18.7x	12.1x	11.0x	-5.9%	\$2.55	\$3.93	\$4.34	\$5.40	\$4.56	\$4.84
Insperty, Inc.	NSP	\$111.42	38.6	\$4,302	Hold	\$231.4	\$369.4	\$4,440	12.6x	11.4x	11.4x	19.9x	18.3x	17.9x	-1.9%	\$5.59	\$6.09	\$6.23	\$5.59	\$5.93	\$6.38
Human Capital avg				\$3,025		\$239.5	\$438.2	\$3,223	6.9x	7.9x	7.9x	11.1x	12.9x	12.7x	-8.8%						

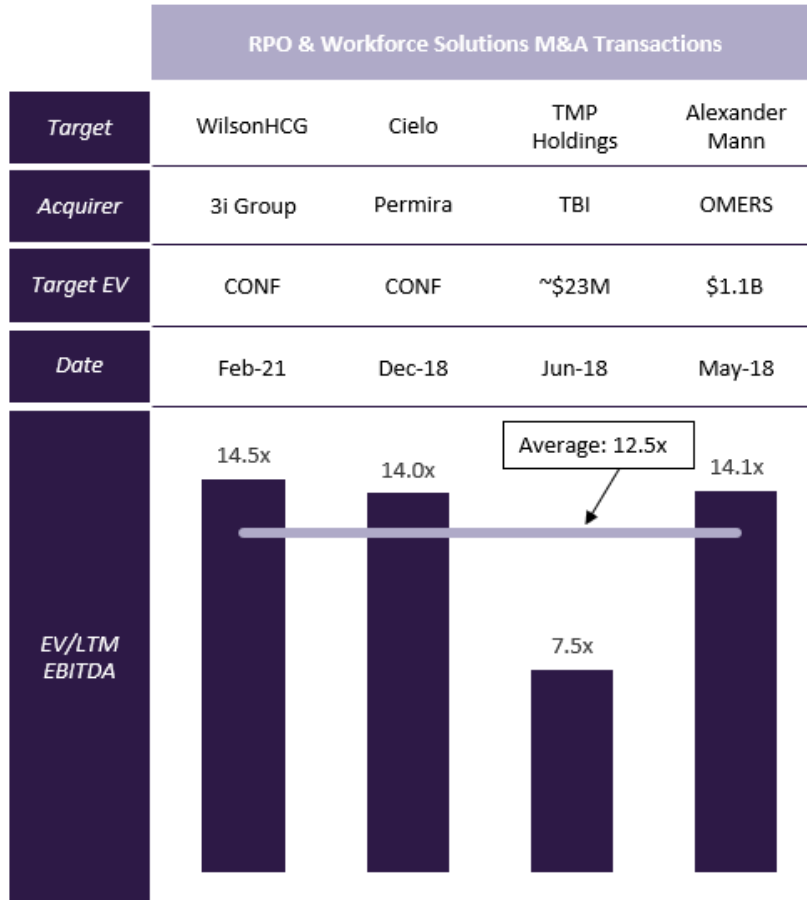
Source: Factset, Company Reports, Truist Securities Research

Human Capital M&A Comps: IT & Professional Staffing



Source: Company Reports, Press Releases, Financial Media, Dealogic, Truist Securities Research

Human Capital M&A Comps: RPO & Workforce Solutions



Source: Company Reports, Press Releases, Financial Media, Dealogic, Truist Securities Research

Companies Mentioned in This Note

AMN Healthcare Services, Inc. (AMN, \$93.64, Buy, Tobey Sommer)
ASGN Incorporated (ASGN, \$64.00, Buy, Tobey Sommer)
Cross Country Healthcare, Inc. (CCRN, \$24.64, Hold, Tobey Sommer)
Heidrick & Struggles International, Inc. (HSII, \$24.57, Hold, Tobey Sommer)
Kforce Inc. (KFRC, \$55.80, Hold, Tobey Sommer)
Korn Ferry (KFY, \$47.64, Buy, Tobey Sommer)
ManpowerGroup Inc. (MAN, \$70.93, Hold, Tobey Sommer)
Insperty, Inc. (NSP, \$111.42, Hold, Tobey Sommer)
Robert Half International Inc. (RHI, \$67.15, Sell, Tobey Sommer)
 Ares Management Corporation (ARES, Not Rated)
 Randstad NV (RAND-NL, Not Rated)
 Adecco Group AG (ADEN-SWX, Not Rated)
 CHG Healthcare (Private)
 Jackson Healthcare (Private)
 True Search (Private)
 Insight Global (Private)
 Leonard Green & Partners (Private)
 Harvest Partners (Private)
 McKinsey (Private)
 Bain (Private)
 BCG (Private)

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