

# CHILDS

## ADVISORY PARTNERS

### QUARTERLY UPDATE

3Q 2015

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#### CHILDS NEWS AND EVENTS

##### 11/12/15 - 11/14/15

CHILDS attends TechServe Alliance in Palm Springs, CA

##### 10/30/15

CHILDS advises Channelinsight in its sale to Model N

##### 10/27/15 - 10/29/15

CHILDS attends ASA Staffing World in Nashville, TN

##### 10/27/15 - 10/28/15

CHILDS attends Facility Services NFMT Conference in Orlando, FL

##### 10/20/15 - 10/23/15

CHILDS attends ISSA/INTERCLEAN Convention in Las Vegas, NV

##### 10/1/15

CHILDS advises Sagacious Consultants in its sale to Accenture

##### 9/28/15

CHILDS advises The Stowe Group in its sale to Experis, a ManpowerGroup subsidiary

##### 9/24/15

CHILDS advises Veritaaq in its sale to ManpowerGroup

##### 9/1/15

CHILDS advises Group Basis in its sale to TriCore

##### 8/25/15

CHILDS advises TAOS in its majority recapitalization by Bunker Hill Capital

##### 8/19/15

CHILDS advises Halo Group in its sale to Highlands Ventures Holdings, LLC

#### CHILDS ADVISORY PARTNERS

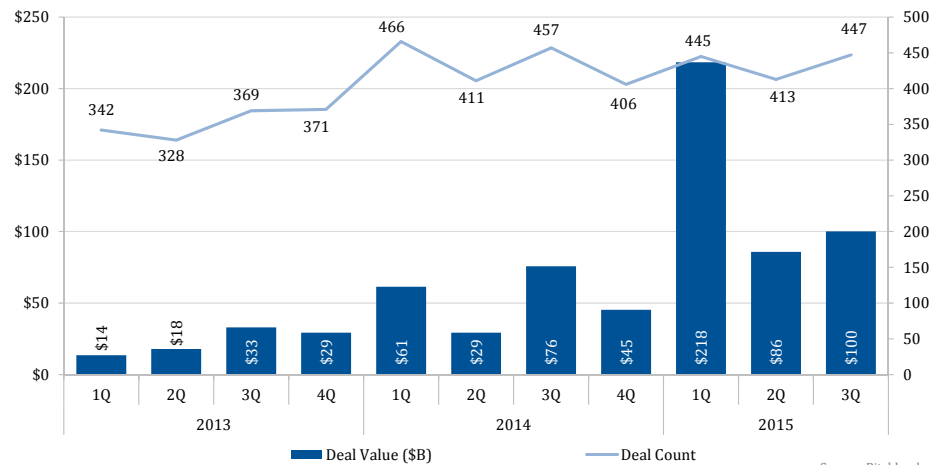
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#### The First Word: Healthcare is Healthy

The healthcare vertical has been one of the hottest and most desirable sectors over the past 24 months. Deal counts and values continue to accelerate as buyers, both strategic and financial, seek to acquire healthcare assets.

CHILDS has witnessed the healthcare boom in all of our core focus areas including human capital management, IT services, business process outsourcing, software, and industrial services. In the past 24 months CHILDS has advised on 9 transactions across multiple sectors providing services to the healthcare industry, with another 6 transactions currently in market.

Healthcare M&A by Quarter



Service providers to the healthcare industry are benefiting from favorable secular trends and regulatory demand drivers. Healthcare providers are experiencing a surge in patient volumes driven by an aging Baby Boomer population, an increased insured population due to Obamacare, and an increase in patients with chronic conditions (obesity, diabetes, heart disease, etc.). Total healthcare spending accounts for nearly 18% of U.S. GDP, and is expected to reach 20% of U.S. GDP by 2020.

Designed to ultimately reduce healthcare costs, providers have been required to undergo major electronic health record ("EHR") technology implementations/upgrades to comply with the ACA, HITECH Act, and facilitate a transition to ICD-10. This has driven demand for software, consulting, staffing, and other professional services to support this huge technological transition. The ACA also legislated that federal healthcare reimbursements will transition from a "fee for service" model to "outcomes based." This has providers utilizing Big Data and Population Health Management to predict/improve patient care and looking for other ways to gain administrative and logistical efficiencies (staff augmentation, outsourcing, etc.).

We see the healthcare industry to be an area of tremendous opportunity and deal activity for the foreseeable future, even as whispers of economic cycle concerns grow louder.

We hope that everyone finishes the year strong and has the opportunity to relax over the holidays.

Jim Childs

# CHILDS Quarterly Update: 3Q 2015

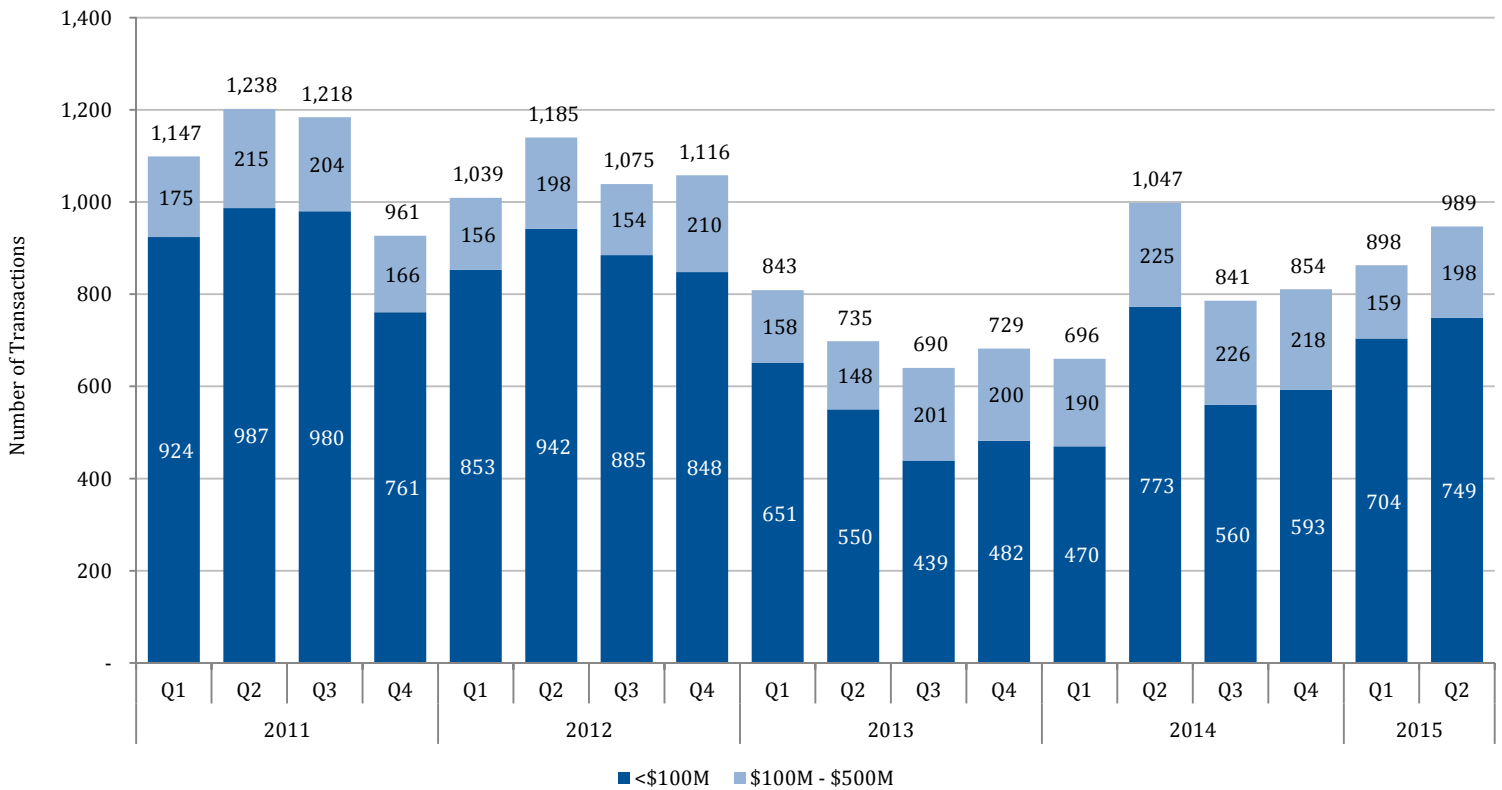
## RECENT CHILDS TRANSACTIONS

 <i>has been acquired by</i>  October 2015	 <i>has been acquired by</i>  October 2015	 <i>has been acquired by</i>  September 2015	 <i>has been acquired by</i>  September 2015	 <i>has been acquired by</i>  September 2015
 <i>has been acquired by</i> Highlands Ventures Holdings, LLC September 2015	 <i>has been recapitalized by</i>  August 2015	 <i>has been acquired by</i>  August 2015	 <i>has been acquired by</i>  July 2015	 <i>has been acquired by</i>  July 2015
 <i>has been recapitalized by</i>  July 2015	 <i>has acquired</i>  May 2015	 <i>has been recapitalized by</i>  March 2015	 <i>has been acquired by</i>  March 2015	 <i>has been acquired by</i>  A portfolio company of RLH November 2014
 <i>has been acquired by</i>  October 2014	 <i>has been recapitalized by</i>  October 2014	 <i>has acquired</i>  September 2014	 <i>has acquired</i>  August 2014	 A portfolio company of Gryphon Investors <i>has acquired</i>  August 2014
 <i>has been acquired by</i> Alderson Group A portfolio company of Trilantic Capital August 2014	 <i>has been recapitalized by</i>  July 2014	 <i>has been acquired by</i>  July 2014	 A portfolio company of Gryphon Investors <i>has acquired</i>  July 2014	 A portfolio company of Gryphon Investors <i>debt recapitalization with</i>  July 2014
 <i>has acquired</i>  June 2014	 <i>has been acquired by</i>  June 2014	 <i>has been acquired by</i>  May 2014	 <i>has been acquired by</i>  May 2014	 <i>has been recapitalized by</i>  April 2014

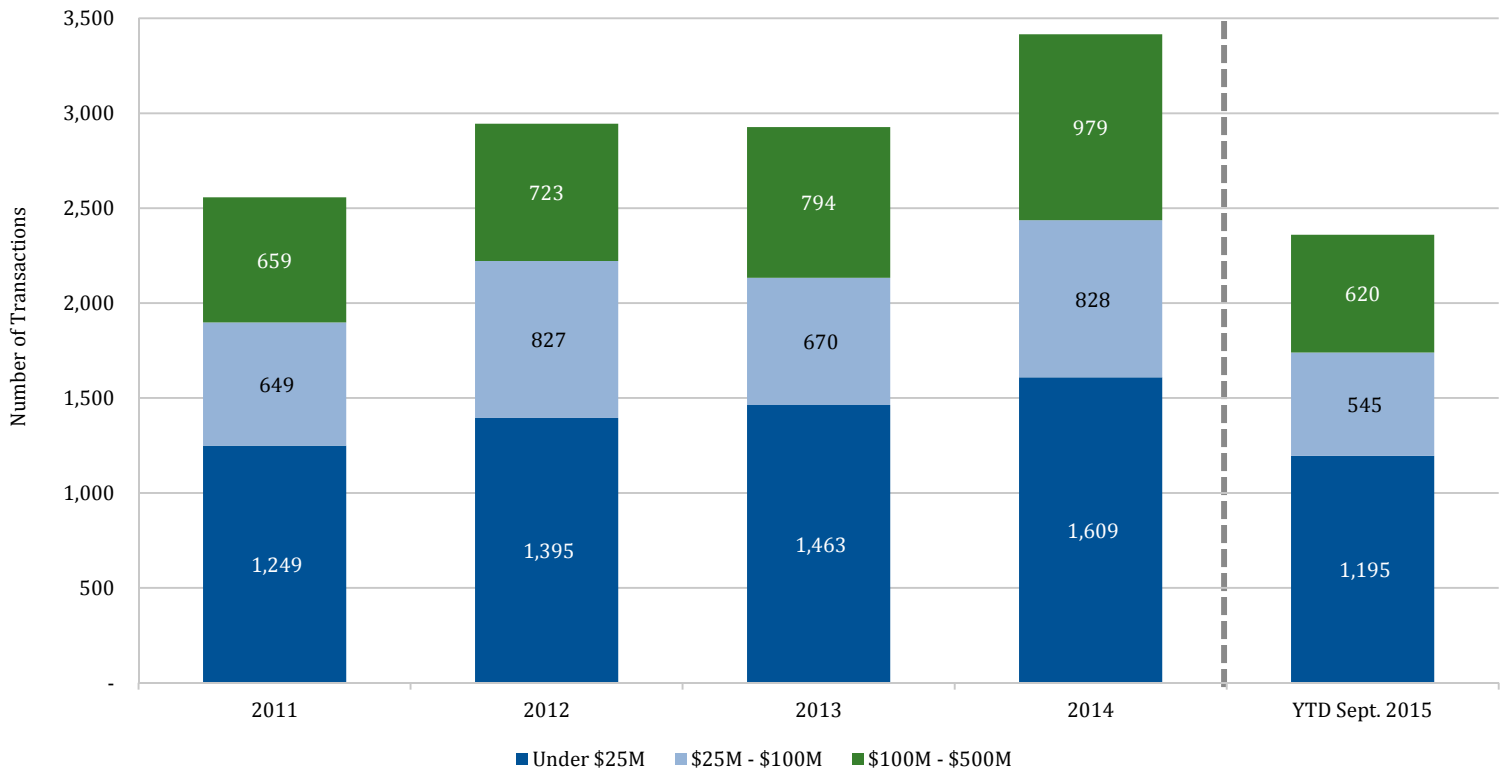
Note: CHILDS represented company listed on top half of tombstone

# CHILDS Quarterly Update: 3Q 2015

## LOWER MIDDLE-MARKET M&A UPDATE



## LOWER MIDDLE-MARKET PRIVATE EQUITY DEAL FLOW



Sources: Capital IQ, Dealogic, Pitchbook

# CHILDS Quarterly Update: 3Q 2015

## INDUSTRIAL SERVICES SECTOR UPDATE

Industrial Services M&A activity in North America was dominated by headline deals involving category leaders in various subsectors. Strategic buyers pushed up valuations for assets with substantial strategic value and synergy potential, and large strategics and PE owners took advantage of market conditions to divest non-core businesses or exit portfolio company investments at compelling valuations.

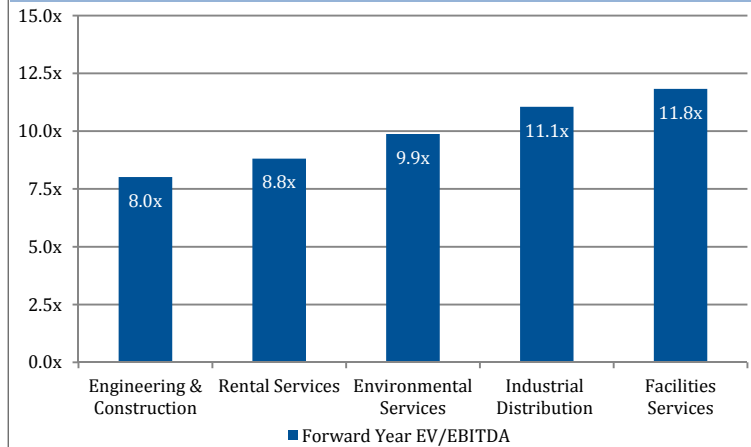
### Key 3Q Takeaways:

- **Scale and density:** where top-line growth is constrained at a macro level, increasing scale in existing customer verticals and leveraging geographic and route density drives most investment rationale discussions
- **Strategic reviews and strategic divestitures:** competitive pressures, required investments in technology, and infrastructure are compelling management teams to undertake strategic organization reviews and restructuring initiatives including divestitures of non-core operations
- **UK | Europe to North America cross-border:** high strategic interest in North American assets from UK and Europe buyers
- **Private Equity activity:** active on both sides, with growth companies “graduating” to larger funds and large companies changing owners
- **Private and family owners:** multi-generation family owners and other owner-operators contemplating sales (especially in consolidating subsectors) or recapitalizations to fund further growth and achieve partial liquidity

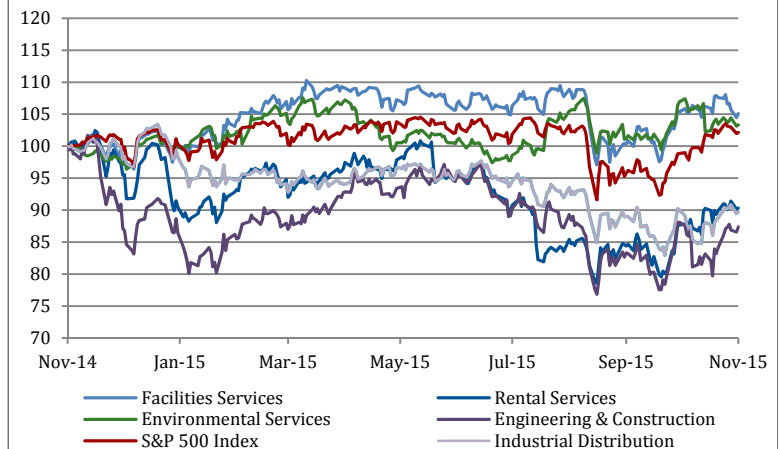
Strategic and liquidity alternatives discussions are accelerating heading into 2016, though headline deal multiples may put a damper on lower middle market and middle market volumes where bid-ask spreads have widened. Still, M&A market conditions remain strong and competitive pressures create an opportunity for well-capitalized platforms that offer a superior, differentiated value proposition.

### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



#### Last Twelve Months Indexed Stock Price Performance



## RECENT M&A TRANSACTIONS

Date Announced	Buyer	Target	Target Description
10/26/15	Universal Services	ABM Security Division	Security guarding with guard workforce of 13,500 in the U.S.
10/25/15	Securitas	Diebold North America Electronic Security Division	Portfolio of electronic security systems integration and monitoring services for commercial and financial customers
9/23/15	BBA Aviation	Landmark Aviation	Fixed-based operator (FBO), charter, aircraft management, and MRO services in the U.S., Canada, and Western Europe
9/1/15	Rentokil	The Steritech Group	Commercial pest control services and auditing and consulting for food safety, quality assurance, and customer experience
8/10/15	Tailwind Capital	Premier Store Fixtures	Design, manufacturing, support, and logistics for retail store fixtures and displays
8/4/15	Novacap	Hallcon   Loop Transportation	Outsourced services for railway and transit customers including employee transportation, customer service, and cleaning services
7/15/15	Stericycle	Shred-It	Document shredding, media destruction, and compliance training

Note: Public company data as of November 10, 2015

# CHILDS Quarterly Update: 3Q 2015

## HUMAN CAPITAL MANAGEMENT SECTOR UPDATE

In our 2Q 2015 Human Capital Management sector update, we addressed the positive economic and industry tailwinds currently influencing the market, and discussed the probability of a near-term recession as the primary risk to continued growth in the industry. The current economic expansion in the U.S. has lasted over six years, and thus the rising probability of a recession in the coming one to three years cannot be ignored.

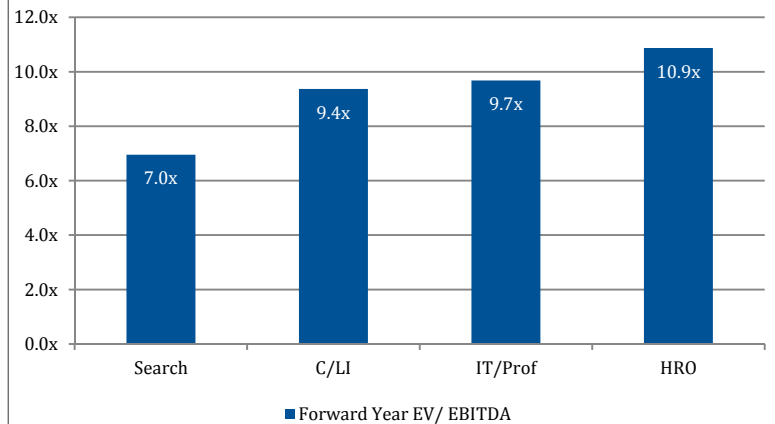
Even as the possibility of the end of the current economic cycle nears, the temporary staffing industry continues to grow. Analysts anticipate growth of 7% and 6% in 2015 and 2016, respectively, and this increase is expected to be primarily driven by growth in the healthcare and education segments.

Additionally, the impact of recent regulatory and economic developments in the healthcare industry on other staffing segments continues, with reports forecasting that the Affordable Care Act ("ACA") will contribute an incremental 1% to 2% of revenue growth for the C/LI segment in 2015, and an additional 1% in 2016. Furthermore, the pass-through of ACA insurance and administrative costs, and the surging pay rates for certain high demand occupations in professional segments, have resulted in the staffing industry's bill rate growth outpacing the lethargic wage growth in the broader economy.

The legal and engineering staffing segments are expected to be the lagging segments with the lowest forecasted growth rates, with the latter being impacted by recent declines in the oil and gas sector. These market forecasts are based on broader economic expectations which are consistent with the consensus view of leading economists.

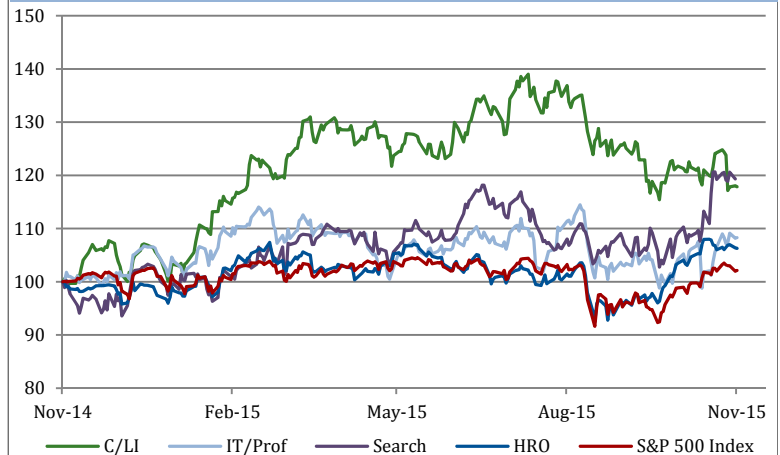
### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



\*C/LI = Clerical/Light Industrial

#### Last Twelve Months Indexed Stock Price Performance



### RECENT M&A TRANSACTIONS

Date Closed	Buyer	Target	Target Description
10/30/15	ettain Group	Timberhorn IT Solutions	Provides permanent and temporary staffing solutions to the information technology (IT) industry
10/8/15	Morgan Stanley Private Equity	CoAdvantage	Provides integrated human resource (HR) solutions for small and medium-sized businesses
10/6/2015	CDI	EdgeRock Technology Partners	Provides business intelligence (BI) and enterprise resource planning (ERP) consultants
9/25/2015	Randstad Holding	RiseSmart	Provides career transition, management, and outplacement services
9/23/2015	Thomas H. Lee Partners	Healthcare Staffing Services	Provides healthcare staffing services
8/31/2015	Beecken Petty O'Keefe & Company	Medical Solutions	Operates as an interim clinical staffing company

Note: Public company data as of November 10, 2015

# CHILDS Quarterly Update: 3Q 2015

## BUSINESS PROCESS OUTSOURCING SECTOR UPDATE

Last quarter, our update addressed BPO providers catering to business outcome based requirements and building more comprehensive end-to-end solutions and capabilities. This shift to higher value services is having an interesting impact on the BPO landscape, not only from the perspective of industry participants' service offerings, but also in terms of geographic presence.

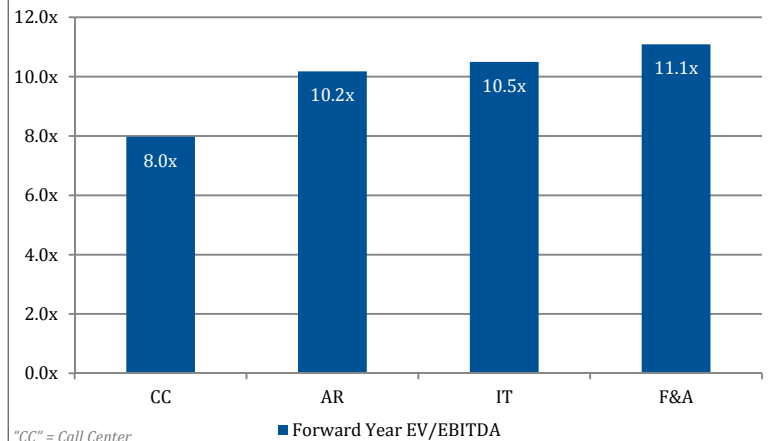
The Philippines BPO industry has seen tremendous growth over the last decade plus, with revenues and employment expanding tenfold since 2004, average annual growth rates of 20%, and all time high employment levels in the sector. The Philippines has attracted significant investment from a number of companies including Accenture and Convergys due to a large base of employees that are fluent in Western-accented English, government sponsored training programs, and a wide array of financial and tax incentives. As a result, the country's booming BPO industry has flourished while India's has reported to have lost over 50% of its industry to foreign competitors. Despite these attractive dynamics, the Philippines is facing challenges moving away from pure voice to multi-channel delivery models that are becoming more prevalent with the shift to more sophisticated offerings.

The Philippines, where call centers and voice operations make up about two-thirds of the BPO sector, is struggling to meet demand for more sophisticated end-to-end solutions and Knowledge Process Outsourcing (KPO) that often requires non-voice services. As a result, the KPO industry is seeing strong growth in Europe and India, where it is easier to find more highly qualified individuals. Globally, the KPO market is expected to grow at a CAGR of 23% from 2013-2018 and is therefore an extremely important area for the country to address. The government has already acknowledged this trend and the skillset gap and is partnering with companies to identify areas of specialization and training needed to create a competitive workforce.

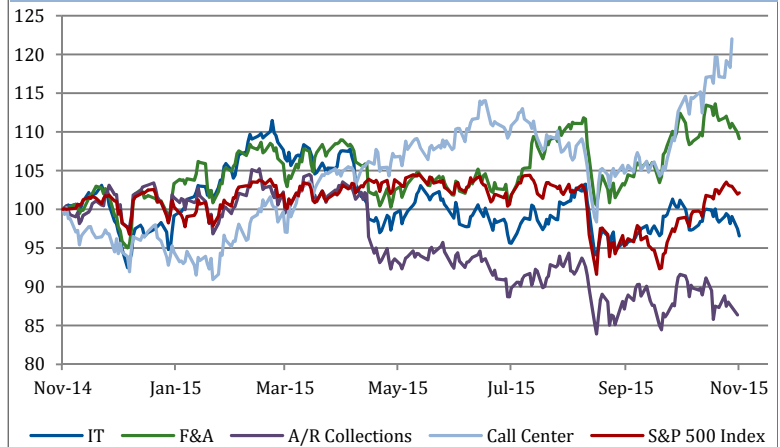
Given this recognition and apparent government support to train the Country's workforce, time will tell if the Philippines will be able to maintain the global BPO market share gains it has achieved over the last decade.

### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



#### Last Twelve Months Indexed Stock Price Performance



### RECENT M&A TRANSACTIONS

Date Closed	Buyer	Target	Target Description
11/4/15	ACI Worldwide	PAY.ON AG	Develops online payment and risk management technologies
10/21/15	Roper Technologies	Aderant Holdings	Provides legal software that offers practice and financial management solutions
10/4/15	General Employment Enterprises	Access Data Consulting	Provides systems outsourcing and information systems professionals to Fortune 500 clients
9/29/15	Encore Capital Group	Baycorp Group Finance Pty	Provides debt management services in Australia and New Zealand
9/18/15	Groupe Acticall	Sitel Worldwide	Provides customer care outsourcing services
8/10/15	Netinvest	Skrill Holdings	Provides digital payment and electronic money transfer solutions

Note: Public company data as of November 10, 2015

# CHILDS Quarterly Update: 3Q 2015

## HEALTHCARE SERVICES SECTOR UPDATE

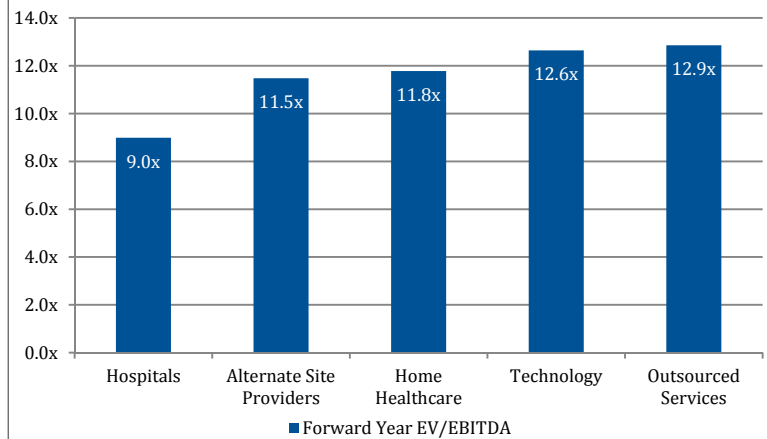
M&A activity in the healthcare sector is still barreling onward. 447 transactions worth \$100.2 billion combined were closed in 3Q 2015; the former just barely exceeds the 445 deals finalized in 1Q, while the latter is easily the second-highest total deal value of any quarter since 2010 began. In a telling sign of how much things have accelerated throughout 2015, the median healthcare deal size came in at \$86.4 million in 3Q, close to tripling the comparative \$30.7 million of 1Q. Summing up the year through 3Q illustrates the sheer scale of healthcare M&A this year: 1,305 deals worth over \$400 billion in aggregate have closed.

These colossal sums—which don't even account for transactions still in the works—speak to not only the general M&A environment but also the ongoing evolution of the healthcare & pharmaceutical industries. Beyond the search for acquisitive rather than organic growth, healthcare is seeing plenty of vertical integration and consolidation. Providers cutting deals nowadays are looking for administrative and logistic efficiencies as the healthcare model shifts from volume-based to value-based.

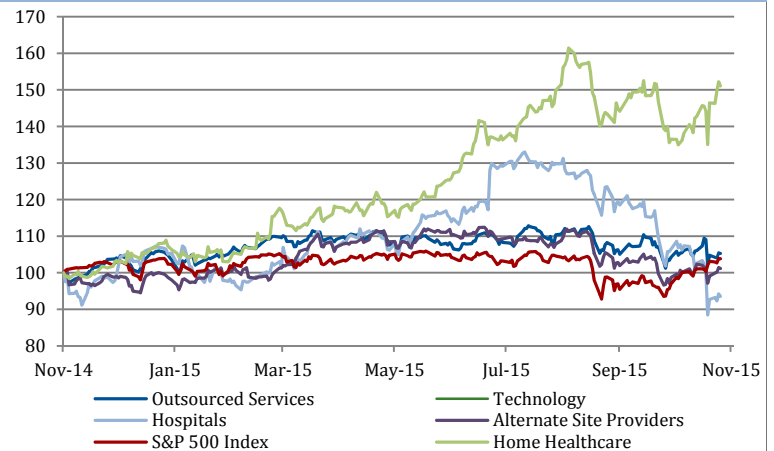
Roll-ups of providers in fragmented segments are continuing unabated as they serve a twofold purpose: more efficient outpatient care and potential long-term cost reductions by incorporating pretreatment screenings and post-treatment checks in-house. As such expansion only renders care more convenient and accessible, it aligns neatly with the “consumerization” of healthcare. Both consumerization and convergence of types of care seem set to drive substantial M&A numbers going forward, although a natural dip after so much activity is to be anticipated, so it is possible deal counts could subside somewhat over the next few quarters.

### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



#### Last Twelve Months Indexed Stock Price Performance



### NOTABLE M&A TRANSACTIONS

Date Closed	Buyer	Target	Target Description/Comment
8/28/2015	Madison Dearborn Partners	Patterson Medical Supply	Provider of rehabilitation, assistive, and splitting products
8/13/2015	Blackstone; Hellman & Friedman	Altegra Health	Provides technology-enabled business and consulting solutions to the healthcare industry
8/4/2015	Onex Corporation	Schumacher Group	Healthcare management resource that offers a range of services partnering with providers to help treat patients
06/22/15*	Anthem (NYSE: ANTM)	Cigna (NYSE: CI)	One of the largest health insurers in the U.S. (15 million members), with a focus on self-insured employer groups
06/15/15*	CVS Pharmacy (NYSE: CVS)	Target Pharmacy and Clinic Business	Pharmacy and in-store clinic operations to be re-branded as CVS and CVS Minute Clinic

Note: Public company data as of November 10, 2015

Source: Pitchbook ; Capital IQ

\*Announced date

# CHILDS Quarterly Update: 3Q 2015

## IT SERVICES SECTOR UPDATE

M&A activity in the IT Services sector remained strong in Q3 2015, with both private equity firms and strategics continuing to be active acquirers. 232 IT services M&A transactions were completed or announced in Q3 2015 versus 213 in Q3 2014. We believe that tailwinds created by the momentum in technology trends such as HR technology, Cloud computing (especially Amazon Web Services), and healthcare IT will continue to drive IT Services M&A activity in Q4 2015 and into 2016.

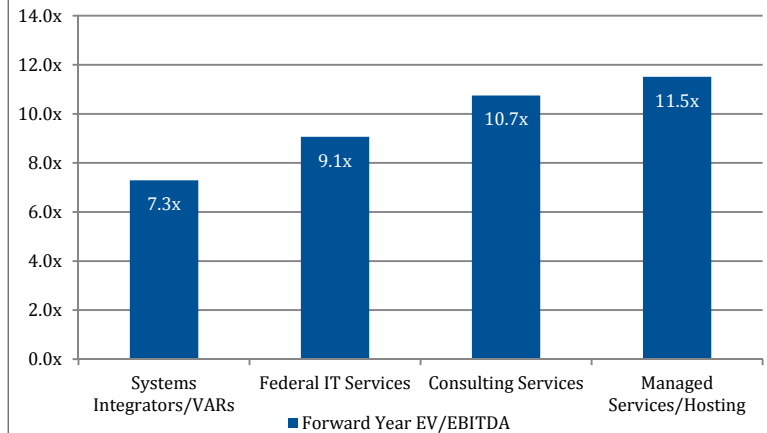
Private equity firms raised \$31 billion in Q3 2015, a 10% increase over Q2. If Q4 sees the same pace, 2014 and 2015 will be the most lucrative fund raising years since 2007 and 2008. Private equity firms put capital to work in Q3 as well with \$82 billion of capital invested in Q3 across 499 transactions. Middle-market private equity firms including Bunker Hill Capital, MTS Health Investors, and Frontier Capital all completed IT Services acquisitions in Q3 2015.

Strategic buyers remained active in Q3 2015, especially the large consulting firms including Accenture, Ernst & Young, and Deloitte. A major theme was acquiring smaller assets to fill skill gaps:

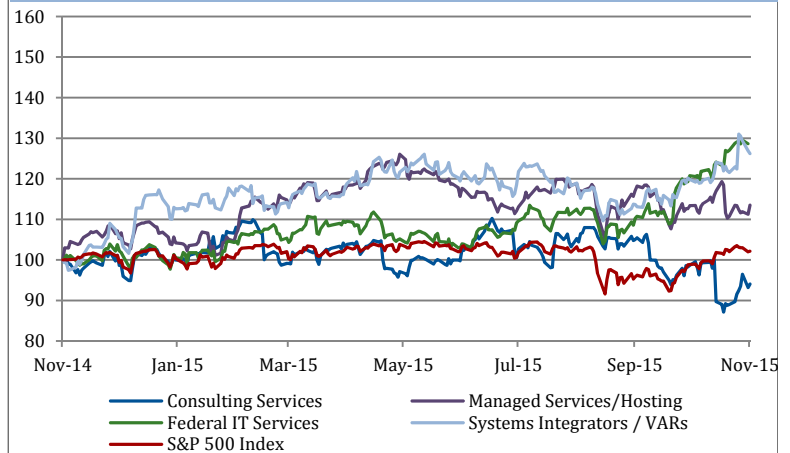
- **Accenture:** acquired *Sagacious* to increase its EHR system capabilities, especially around Epic
- **Ernst & Young:** acquired *Mycroft* to expand its cybersecurity capabilities through identity and access management
- **Deloitte:** acquired *Compliance Implementation Services*, a leader in integrated compliance and revenue optimization for the healthcare industry

### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



#### Last Twelve Months Indexed Stock Price Performance



### RECENT M&A TRANSACTIONS

Date Closed	Buyer	Target	Target Description/Comment
10/30/15	Sverica	Synoptek	Provides IT management and support services
10/01/15	Accenture	Sagacious	Epic EHR consulting firm
9/28/15	Experis (ManpowerGroup)	Stowe Group	Healthcare IT consulting firm
9/01/15	TriCore Solutions	Group Basis	Provides cloud and managed services solutions for SAP Basis
8/25/15	Bunker Hill Capital	Taos Mountain	IT infrastructure consulting and managed services firm
7/14/15	Emtec	Intelenex	IT consulting services with a focus on Oracle

Note: Public company data as of November 10, 2015



# CHILDS Quarterly Update: 3Q 2015

## SOFTWARE SECTOR UPDATE

In the United States, 315 software transactions closed in the 3Q of 2015. Compared to the number of transactions in the previous quarter and 3Q 2014, volume decreased by 11% and 19%, respectively. Despite a lighter quarter, interest from both strategic buyers and financial sponsors remains strong with valuations averaging over 3.3x revenue.

### Industry Trends:

#### Auto Dealership Automation Software:

- Two significant deals, DealerTrak and PureCars, in the past several weeks demonstrate the continuing shift of automotive dealerships towards intelligent digital marketing as auto sale figures surge to all time highs
  - o Projected record high 17.5MM new vehicle sales in 2015
- Buyers' shopping behaviors are transitioning to socially generated content delivered through mobile devices; we expect more investments and M&A within this sector going forward

#### HR Technology:

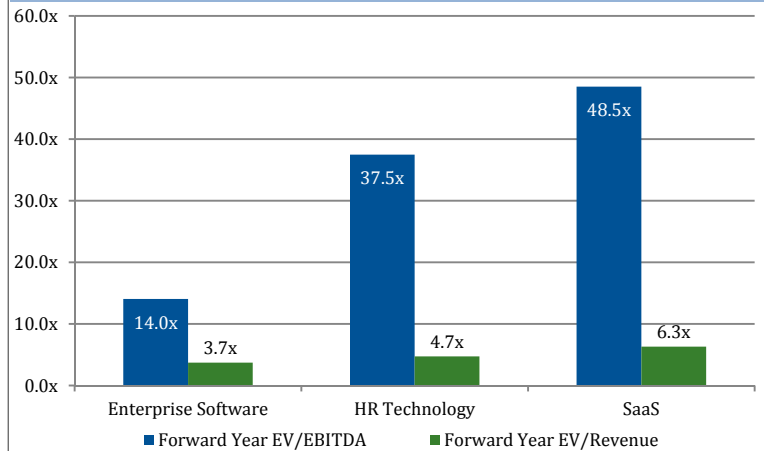
- Active M&A within this sector over the last several years illustrates the obvious interest in HR Tech
- From discussions at the HR Tech Conference, it is apparent that there are multiple trends driving rapid growth for emerging businesses:
  - o Shift in workforce from permanent to contingent labor
  - o Market's ability to afford talent management
  - o Role of compliance underscoring the importance of Learning Management Systems

#### Acquisition of Constant Contact by Endurance:

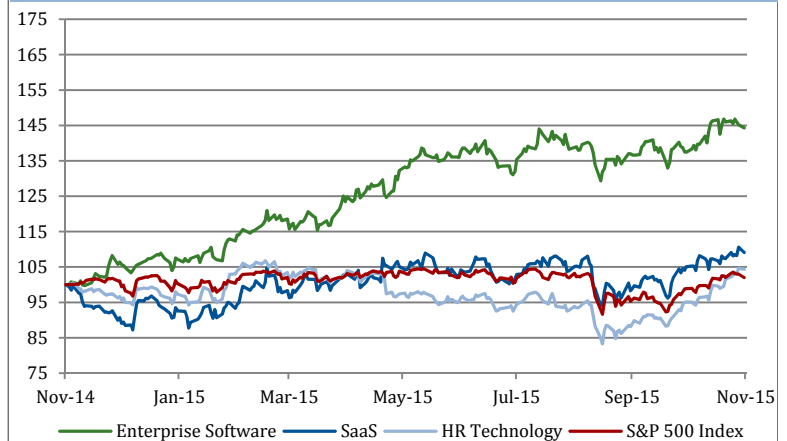
- Signifies that it is difficult to compete with Salesforce.com
- For SaaS companies to achieve maximum valuation (~10x Revenue), it requires the company to have triple digit growth and truly unique IP
  - o Constant Contact take-out valuation ~2.6x EV/Revenue
  - o Angie's List (on the precipice of being acquired) ~1.7x EV/LTM Revenue

### PUBLIC COMPANY ANALYSIS

#### Valuation Multiples



#### Last Twelve Months Indexed Stock Price Performance



### RECENT M&A TRANSACTIONS

Date Closed	Buyer	Target	Target Description/Comment
11/6/15*	Endurance International Group	Constant Contact	SaaS/Strategic
10/27/15	Raycom Media	PureCars	Auto retail software/ Strategic
8/11/15	Infor, Inc.	GT Nexus	SCM and logistics/Strategic
7/14/15	Francisco Partners	ClickSoftware	SaaS WFM software/Financial Sponsor
6/17/15	Vista Equity Partners	PowerSchool (formerly owned by Pearson plc)	Web-based student information software/Financial Sponsor
6/15/15	Cox Automotive	Dealertrack	Auto retail software/Strategic

Note: Public company data as of November 10, 2015  
\*Announced date

# CHILDS Quarterly Update: 3Q 2015

## ABOUT CHILDS ADVISORY PARTNERS

CHILDS Advisory Partners provides exceptional investment banking services to high-performing business services and tech-enabled companies. Our unique combination of sector focused coverage, process excellence, and strength of team allow us to maximize value – and achieve successful outcomes for our clients. Collectively, our senior bankers have executed over 450 M&A and financing transactions. CHILDS is a member of FINRA and SIPC and is a registered broker-dealer.

### OUR SERVICES

#### MERGERS & ACQUISITIONS

- Sales and Recapitalizations – CHILDS works with management teams, financial sponsors, and special committees to provide crucial insights into the intricacies and nuances of sale processes
- Strategic Acquisitions - Our disciplined methodology coupled with our industry relationships makes CHILDS an ideal buy-side partner

#### CAPITAL RAISES

- CHILDS proprietary knowledge database consists of active debt and equity investors focused on service businesses (senior debt through mezzanine and growth equity)
- CHILDS is continuously in the market assisting its clients raise capital for a multitude of purposes including organic growth, acquisitions, and one-time owner dividends

#### FINANCIAL & STRATEGIC ADVISORY

- CHILDS can act as a strategic consultant to help leadership teams develop their strategic road map in order to create and enhance shareholder value
- CHILDS can undertake a detailed analysis of a company's tangible and intangible valuation drivers as a separate undertaking or as a precursor to an M&A assignment

### SECTOR FOCUS

#### BUSINESS SERVICES AND TECHNOLOGY

INDUSTRIAL SERVICES

HUMAN CAPITAL MANAGEMENT

BUSINESS PROCESS OUTSOURCING

HEALTHCARE SERVICES

IT SERVICES

SOFTWARE

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