

Healthcare Staffing Trends

Q3 Financials Show Earnings and Margins Holding Steady

Hollis Associates Welcomes New Financial Analyst

Deji Odesanya has joined the firm after working as an Acquisition Investment Analyst at Prudential in the equities department.

His work with Hollis Associates involves research on buyers and private equity groups, preparation of pro forma forecasts and financial statements, assisting with preparation of client profiles, and market research.

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Healthcare staffing revenues generally held steady this quarter (Figure 1). This represented a continuing trend of slow revenue growth at publicly-traded healthcare staffing firms. Benchmark companies are AMN Healthcare Services, Inc. (AHS), On Assignment, Inc. (ASGN), Cross Country Healthcare, Inc. (CCRN) and Medical Staffing Network Holdings, Inc., (MRN).

Earnings calls at these firms cited several reasons for slow revenue growth. Admissions at hospitals and other healthcare facilities

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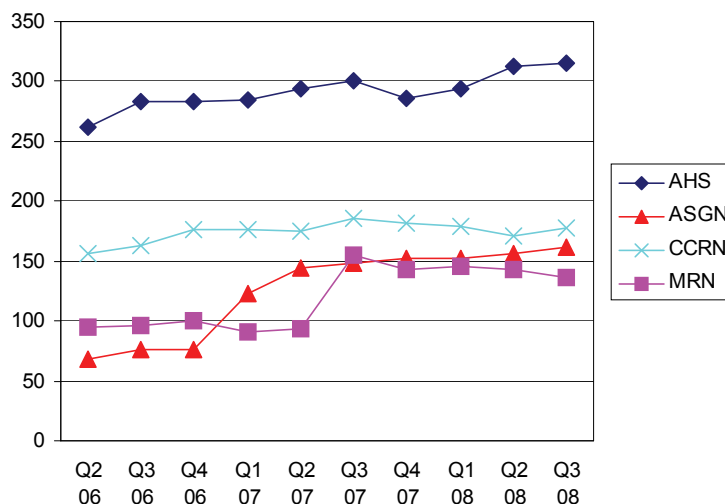


Figure 1: Net Sales (Millions USD) Sources: Thomson ONE Banker and company filings

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Healthcare Staffing To Increase Despite Tough Economy

Although temporary staffing in general has been declining in recent months, Staffing Industry Analysts' forecasts for healthcare temporary staffing now call for growth of 3.5% for 2008 and 2009.

The new President-elect's healthcare proposals could also lead to an increase in healthcare spending. PricewaterhouseCoopers projects that these proposals could lead to an increase in healthcare spending of \$75 billion in its first year. An

estimated 30 million individuals could be newly insured under the Obama plan.

Equity firms and strategic buyers also report continued interest in healthcare staffing acquisitions.

Q3 Financials Show Earnings and Margins Holding Steady *Continued*

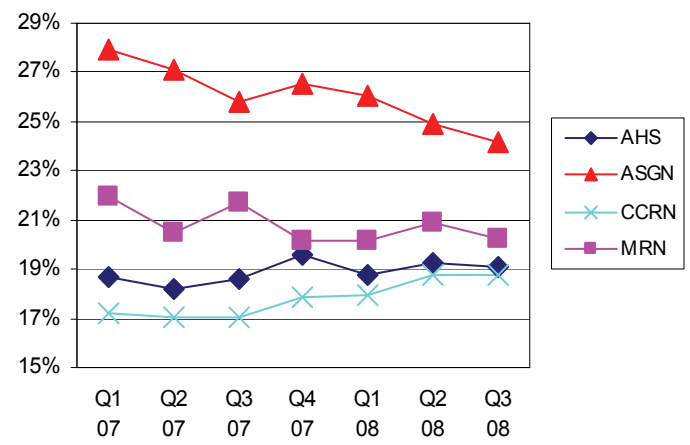
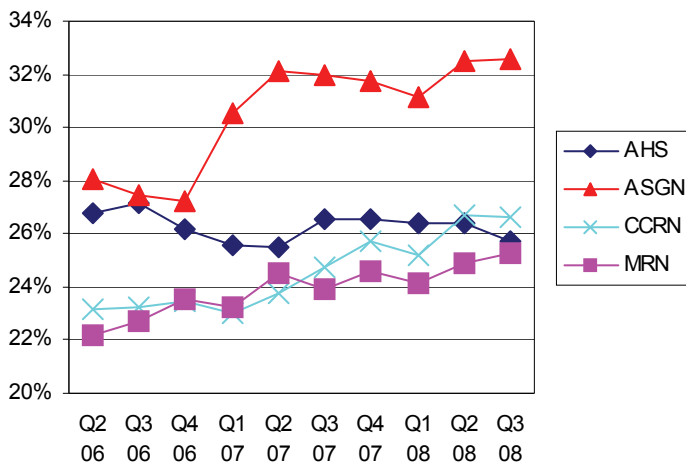


Figure 2: Gross Margin Sources: Thomson ONE Banker and company filings
 * On Assignment's unusually large increase in margin reflects in part the acquisitions it made in Jan 07, when the company acquired Oxford and VISTA.

Figure 3: Sales, General & Administrative Expenses as a Percentage of Net Sales Sources: Thomson ONE Banker and company filings

have dropped is response to the economic downturn, and fewer elective procedures are being performed. Firms say that they are having difficulty finding nursing candidates, apparently because more are taking permanent positions. They also report that some travel markets have been reluctant

to sign longer-term contracts.

Gross margin percentages have also generally not grown significantly (Figure 2). Hospitals seem to be increasingly unlikely to accept pricing increases. However, gross margin continues to be a key metric companies consider

when evaluating acquisition targets.

These companies have been generally successful at reducing sales, general and administrative expenses (SG&A) vs. sales (Figure 3) this quarter. Some staffing agencies reported leaving certain back office vacancies unfilled to sustain cost con-

trols for the last few quarters.

Despite the challenging economic conditions, a number of PEGs and staffing companies we have spoken with recently have cash in hand and are looking for complementary acquisitions to strengthen their market position.

Topics for Discussion with an M&A Advisor: Acquisitions, Expansion, Eventual Sale

Even businesses who are not looking to sell right now can benefit from consulting an M&A intermediary.

Intermediaries are constantly in contact with business owners and top execu-

tives. We discuss changes in the field and their firm's response, and whether they are looking to exit or grow their company. We have conversations about strategic planning, what areas they are looking at expand-

ing into, and what acquisitions or divestitures they are considering.

Owners are often focused on growing cash flow, although that may not translate into increasing the value of the business. Surveys have found

that 8 of 10 business owners do not have a formal exit plan. An M&A consultation is an important planning tool to evaluate and improve exit options. Call Hollis Associates to arrange a confidential consultation.