

# TECHNICAL STAFFING SEGMENT SUPPORTS HEALTHY SECTOR M&A ACTIVITY

HUMAN RESOURCES & STAFFING SERVICES SECTOR UPDATE | DECEMBER 2023



**CAPSTONE  
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# TABLE OF CONTENTS

- 4 Key Sector Takeaways
- 5 U.S. Labor Market Cools, Technical Areas Witness Growth
- 6 M&A Valuations Moderate, Buyers Seize Opportunities
- 7 Projected Technical Staffing Revenue Gains Spur M&A Activity
- 8 Select Transactions
- 9 Buyer Universe
- 10 Public Company Data
- 11 Report Contributors
- 12 Firm Track Record
- 13 Capstone's Proprietary Research Reveals Top Services in Demand
- 14 Endnotes



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Capstone Partners, a subsidiary of Huntington Bancshares Incorporated (NASDAQ:HBAN), has been a trusted advisor to leading middle market companies for over 20 years, offering a fully integrated range of expert investment banking and financial advisory services uniquely tailored to help owners, investors, and creditors through each stage of the company's lifecycle.

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# Human Resources & Staffing Services

## Technical Staffing Segment Supports Healthy Sector M&A Activity

### KEY SECTOR TAKEAWAYS

Capstone Partners' Business Services Group is pleased to share its Human Resources (HR) & Staffing Services report. Despite a cooling U.S. labor market, merger and acquisition (M&A) activity in the HR & Staffing Services sector has demonstrated significant strength through year-to-date (YTD) 2023. Healthy sector deal flow has been primarily supported by the Technical Staffing segment, in which participants have enjoyed increased employment rates, robust projected revenue gains, and heightened acquirer interest year-over-year (YOY). Several additional report takeaways are outlined below.

1. While the U.S. labor market remained insulated from economic headwinds for much of the period following COVID-19, recent employment trends have indicated a slowdown in hiring.
2. Employment in highly-technical areas has trended upwards, especially in the Engineering, Healthcare, and Technical Services industries.
3. Sellers in the space have remained cautious of entering the M&A market, with many business owners opting to postpone liquidity events until early 2024 with the expectation of a more favorable valuation environment in Q1.
4. Through year-end 2023, sector deal volume will likely remain on pace with the prior year, supported by strategic and private equity acquirers looking to capitalize on moderated valuations.
5. Acquirers have continued to prioritize middle market M&A targets in the space, with middle market targets comprising 91.1% of disclosed deals from 2020 through YTD.
6. Sector participants with technical staffing capabilities and a healthy pool of available candidates with appropriate certifications, advanced degrees, and years of experience have been well-positioned to capture acquirer interest.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and HR & Staffing Services sector knowledge, please [contact us](#).



## U.S. LABOR MARKET COOLS, TECHNICAL AREAS WITNESS GROWTH

The HR & Staffing Services sector has showcased significant defensibility amid an elevated interest rate environment and a cooling U.S. labor market, evidenced by healthy levels of M&A through YTD. Although sector deal flow to-date has eased compared to prior years, transaction volume has continued to outperform the broader M&A market, which experienced a 24.8% decline YOY through Q2 2023, as reported in Capstone’s [Capital Markets Update](#). While the U.S. labor market remained insulated from economic headwinds for much of the period following COVID-19, recent employment trends have indicated a slowdown in hiring, demonstrated by the U.S. employment rate rising to 3.8% in August 2023, according to the U.S. Bureau of Labor Statistics (BLS).<sup>1</sup> The recent increase in unemployed persons has been primarily driven by layoffs (76.7% of total unemployed), followed by workers reentering the job market and new entrants seeking first time employment, according to the BLS.

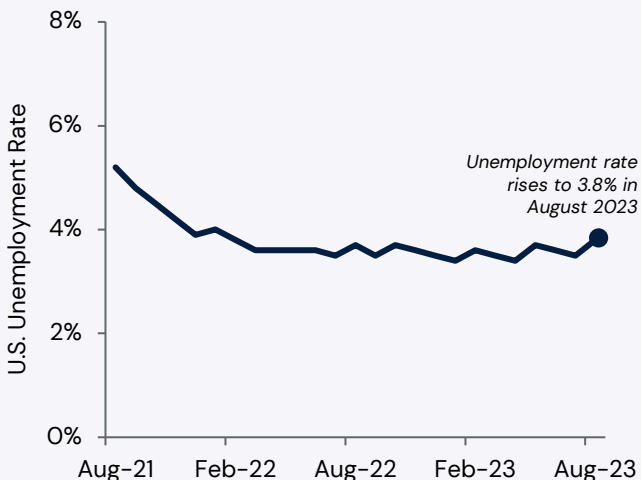


**Bob Balaban,  
Head of Business Services**

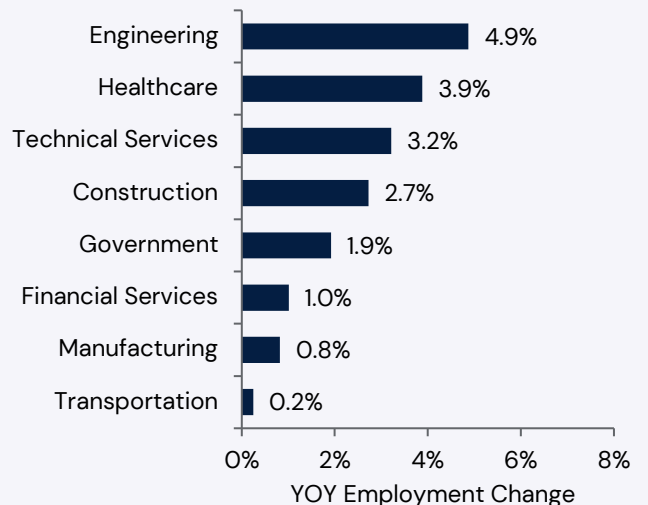
*“Although the broader HR & Staffing marketplace has cooled compared to 2022, certain pockets of the market have remained frothy. Businesses operating in technical segments such as IT Services, Life Sciences, and Engineering have continued to command buyer attention and strong valuations, while transaction activity in the Industrial segment has slowed.”*

Although the U.S. labor market has been hindered overall, employment in highly-technical areas has trended upwards. Of note, total employment in the Engineering, Healthcare, and Technical Services industries has risen 4.9%, 3.9%, and 3.2%, respectively, YOY in August 2023, according to the BLS. This has provided a strong backdrop for M&A and earnings opportunities in the segment. In a recent example, Kelly Services (Nasdaq:KELLY A) reported a 22.6% gross margin in its Science, Engineering, & Technology division in Q2 2023, the second-highest behind its Outsourcing & Consulting division (36.4%), according to the company’s Q2 2023 earnings release.<sup>2</sup> Kelly Services has attributed the health of this division to its acquisition of Softworld in April 2021 (\$217 million), with Softworld’s information technology (IT), life sciences, and engineering staffing capabilities providing long-term synergies and earnings potential for Kelly Services.

**U.S. Unemployment Rate Rises**



**Technical Areas See Employment Growth**



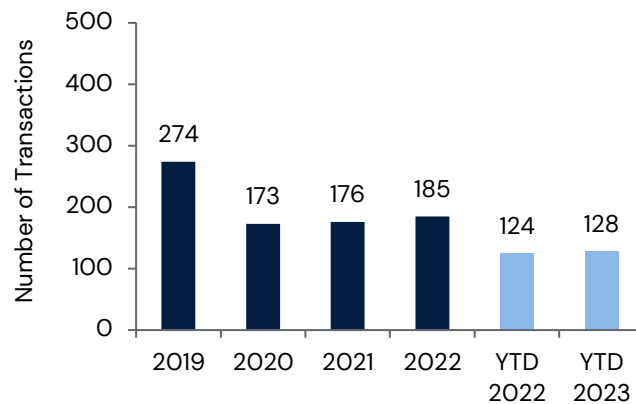
Source: U.S. Bureau of Labor Statistics and Capstone Partners as of August 2023



## M&A VALUATIONS MODERATE, BUYERS SEIZE OPPORTUNITIES

M&A volume in the HR & Staffing Services sector has continued at a healthy pace in YTD 2023, with 128 transactions announced or completed. This marks a modest increase of 3.2% (two deals) compared to YTD 2022 levels, indicating a resilience in sector deal flow. Sellers in the space have remained cautious of entering the M&A market, with many business owners opting to postpone liquidity events until early 2024 with the expectation of a more favorable valuation environment in Q1. This trend will likely result in an influx of sellers entering the M&A market in early 2024 and Capstone anticipates sector transaction volume to rise accordingly. Through year-end 2023, deal volume will likely remain on pace with the prior year, supported by strategic and private equity acquirers looking to capitalize on moderated valuations.

**HR & Staffing Services M&A Volume Moderates in Year-To-Date 2023**



Year-to-date (YTD) ended September 8

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

Led by private businesses, strategic buyers have accounted for the majority (61.7%) of YTD 2023 transactions. Acquisition strategies among privately-held acquirers have often pertained to vertical expansion in high-growth, specialized areas such as Technical Staffing (see page seven for more details). Private equity activity in the sector has cooled through YTD 2023, representing 38.3% of total deals, a 6.9% decline compared to the prior year period. Sponsors have namely focused on bolstering portfolio businesses' service lines, client bases, and geographic presence through add-on engagements (28.9% of deals to-date). Both strategic and private equity acquirers have continued to prioritize middle market (less than \$500 million enterprise value) M&A targets in the space, with middle market targets comprising 91.1% of disclosed deals from 2020 through YTD.

### HR & Staffing Services Valuation Analysis

Valuation Method	Average Revenue Multiple	Average EBITDA Multiple
HR & Staffing Services Sector M&A Transactions (2020-YTD)	1.6x	7.8x
HR & Staffing Services Sector Public Company Trading Multiples (LTM)	0.6x	6.9x
Business Services Industry M&A Transactions (2020-YTD)	1.6x	8.4x

Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

### Valuation Insight

HR & Staffing Services sector M&A transaction multiples have averaged 1.6x EV/Revenue and 7.8x EV/EBITDA from 2020 through YTD, slightly trailing the broader Business Services industry EBITDA multiple average of 8.4x during the same period. M&A valuation compression in the sector has largely been driven by declining revenues and EBITDA margins among many sector participants, induced by a cooling U.S. labor market. However, HR and staffing businesses serving high-growth, in-demand areas have continued to garner premium valuations from acquirers, demonstrated by Korn Ferry's (NYSE:KFY) acquisition of Salo for an enterprise value of \$155.4 million (completed February 2023). Salo provides recruitment and placement services for consultants, data and IT specialists, and C-level business advisors.



## PROJECTED TECHNICAL STAFFING REVENUE GAINS SPUR M&A ACTIVITY

Driven by macroeconomic hurdles and other sector headwinds such as labor hoarding, U.S. Staffing revenue is anticipated to be challenged throughout the remainder of 2023. Specifically, U.S. Staffing revenue is forecasted to decline 10% YOY to \$201.7 billion by year-end 2023, according to Staffing Industry Analysts.<sup>3</sup> However, certain pockets of the market including Technical Staffing are not only projected to weather headwinds, but to thrive amid the ongoing labor shortage in areas such as Locum Tenens and Engineering. By year-end 2023, Locum Tenens and Engineering Staffing revenues are anticipated to increase YOY by 12% and 5%, respectively, with IT Staffing projected to experience a modest decline of 3%, according to Staffing Industry Analysts.

Sector participants with technical staffing capabilities and a healthy pool of available candidates with appropriate certifications, advanced degrees, and years of experience have been well-positioned to capture acquirer interest. Of note, the Technical Staffing segment has comprised 20.1% of sector M&A targets in YTD 2023, marking an increase from 12.4% in YTD 2022. Buyer interest in the Technical Staffing segment has increasingly broadened to include participants catering to technical sales professionals, evidenced by Hirewell’s acquisition of Search Group Collective, a software sales talent agency, in August 2023 (undisclosed).

### Notable Technical Staffing M&A Deals

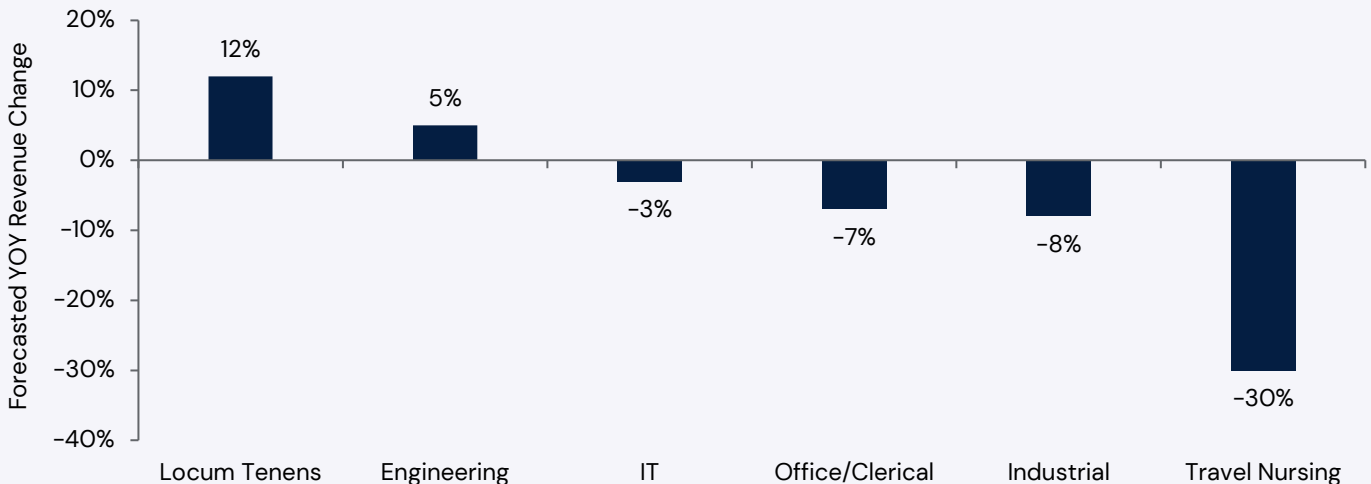


In August 2023, 24 Seven acquired IT staffing firm The Cydio Group for an undisclosed sum. Founded in 2006, The Cydio Group provides permanent placement, contract, and contract-to-hire recruitment services for professional IT roles including data analytics and application development. 24 Seven plans to leverage The Cydio Group’s specialization to expand its market presence in the Artificial Intelligence space.



ZRG Partners acquired Helbling & Associates in June 2023. Terms of the transaction were undisclosed. Helbling & Associates operates as an executive search and recruitment firm with a focus on the Engineering, Architecture, and Real Estate Development segments. The transaction is expected to bolster ZRG Partners’ Real Estate practice and expand its geographic reach to 43 U.S. states, according to a press release.<sup>4</sup>

Forecasted 2023 Year-Over-Year Staffing Revenue Change by Segment



Source: Staffing Industry Analysts and Capstone Partners



## SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Buyer Type
09/08/23	Sumo Medical Staffing	Acacium Group	Offers healthcare staffing and recruitment services.	Private Strategic
08/28/23	Tower Legal Solutions	Surge Private Equity	Provides law firms and corporate legal departments with staffing and managed solutions.	PE Platform
08/22/23	Innovative Career Consulting	Keystone Partners	Offers outplacement and executive coaching services.	Private Strategic
08/22/23	The Cydio Group	24 Seven	Provides IT staffing services.	Private Strategic
08/19/23	Satincorp Technologies	Mindpool Technologies (NSE:MINDPOOL)	Offers IT staffing and other HR services.	Public Strategic
08/09/23	Engage PEO	Kohlberg & Company	Provides outsourced benefits, worker compensation, payroll, and risk management services.	PE Platform
08/08/23	Search Group Collective	Hirewell	Engages in hiring sales talent for venture-backed software companies.	Private Strategic
08/07/23	A.S.G. Staffing	TERRA Services	Operates as a human resource and employment services company for industrials businesses.	PE Add-On
08/07/23	Alta Benefits Agency	HighStreet Partners	Provides outsourced employee benefits and HR services.	PE Platform
08/02/23	Kobor MedSearch	Cunningham Elite Staffing	Offers healthcare staffing services.	Private Strategic
08/01/23	Gecko Hospitality	Triumph Talent Solutions	Provides recruitment services for restaurants, hotels, casinos, country clubs, and resorts.	Private Strategic
08/01/23	ProVision IT Resources	Agilus Work Solutions	Offers IT staffing solutions that include intermediate to senior technical recruiting solutions.	Private Strategic
07/25/23	Priority PICC Solutions	Dynamic Access	Operates as a nurse staffing agency.	PE Add-On
07/11/23	Central Standard Talent	Metova	Provides talent acquisition and human resources services.	Private Strategic
07/10/23	Collab Infotech	Aequor Technologies	Offers clinical, scientific, healthcare, and IT staffing solutions.	Private Strategic
07/06/23	Integrity HR	Marsh & McLennan Agency	Provides human resource outsourcing, professional recruiting, and human resource consulting services.	Public Strategic
07/03/23	Fort Washington Corporate Benefit Services	Keystone Agency Partners	Offers employee benefits consulting services.	PE Add-On
06/20/23	James & Co.	United Talent Agency	Provides executive search, performance management, and organizational design services.	Private Strategic
06/14/23	Helbling & Associates	ZRG Partners	Offers recruitment services to architecture, engineering, construction, and real estate firms.	Private Strategic
06/13/23	Q.E.D.	Seneca Resources	Provides IT staffing and management services.	PE Add-On
06/13/23	Midtown HR	employEZ	Offers HR consulting and compliance management services.	Private Strategic
06/13/23	Flexwise Health	Aya Healthcare	Provides healthcare staffing and recruitment solutions.	Private Strategic
06/12/23	Community Staffing Agency	Adapt Staffing Group	Offers staffing solutions for schools.	Private Strategic

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners





## BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the Human Resources & Staffing Services sector, particularly those that have completed notable transactions. Our sector knowledge and network provides us with unique insights into this buyer universe and the growth drivers for the companies within it. For more information on relevant buyers in your sector, please reach out to Managing Director and Head of Business Services Investment Banking [Bob Balaban](#).

### Leading Strategic Buyers



### Leading Financial Buyers



Source: Capstone Partners



## PUBLIC COMPANY DATA

### PROFESSIONAL & COMMERCIAL

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	09/18/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Adecco Group AG	\$41.80	97.1%	\$6,986.1	\$10,997.0	\$26,360.3	\$1,289.3	4.9%	0.4x	8.5x
ASGN Incorporated	\$77.70	77.9%	\$3,760.7	\$4,759.7	\$4,608.0	\$519.3	11.3%	1.0x	9.2x
Kelly Services, Inc.	\$18.25	93.9%	\$648.3	\$590.0	\$4,887.2	\$118.3	2.4%	0.1x	5.0x
Kforce Inc.	\$58.34	87.4%	\$1,120.5	\$1,159.6	\$1,652.5	\$113.4	6.9%	0.7x	10.2x
ManpowerGroup Inc.	\$75.02	81.2%	\$3,719.6	\$4,736.0	\$19,218.5	\$787.1	4.1%	0.2x	6.0x
Randstad N.V.	\$55.31	82.6%	\$10,058.5	\$11,356.5	\$29,524.0	\$1,441.0	4.9%	0.4x	7.9x
Resources Connection, Inc.	\$15.09	76.1%	\$508.5	\$409.4	\$775.6	\$83.9	10.8%	0.5x	4.9x
Robert Half International Inc.	\$75.10	83.6%	\$7,909.9	\$7,405.4	\$6,916.3	\$718.4	10.4%	1.1x	10.3x
TrueBlue, Inc.	\$13.98	62.7%	\$433.4	\$448.5	\$2,074.3	\$52.1	2.5%	0.2x	8.6x
<b>Mean</b>							<b>6.5%</b>	<b>0.5x</b>	<b>7.8x</b>
<b>Median</b>							<b>4.9%</b>	<b>0.4x</b>	<b>8.5x</b>
<b>Harmonic Mean</b>							<b>4.8%</b>	<b>0.3x</b>	<b>7.3x</b>

EV = enterprise value; LTM = last twelve months  
\$ in millions, except per share data  
NM = Not Meaningful

### HEALTHCARE

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	09/18/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
AMN Healthcare Services, Inc.	\$88.07	68.3%	\$3,345.6	\$4,411.5	\$4,381.6	\$643.3	14.7%	1.0x	6.9x
Cross Country Healthcare, Inc.	\$24.12	60.1%	\$863.6	\$900.3	\$2,427.7	\$217.8	9.0%	0.4x	4.1x
<b>Mean</b>							<b>11.8%</b>	<b>0.7x</b>	<b>5.5x</b>
<b>Median</b>							<b>11.8%</b>	<b>0.7x</b>	<b>5.5x</b>
<b>Harmonic Mean</b>							<b>11.1%</b>	<b>0.5x</b>	<b>5.2x</b>

### EXECUTIVE & RETAINED SEARCH

Company	Price	% 52 Wk	Market	Enterprise	LTM			EV / LTM	
	09/18/23	High	Cap	Value	Revenue	EBITDA	Margin	Revenue	EBITDA
Heidrick & Struggles International	\$24.88	70.8%	\$497.8	\$340.3	\$1,001.4	\$127.0	12.7%	0.3x	2.7x
Korn Ferry	\$47.08	78.6%	\$2,481.3	\$2,461.5	\$2,838.7	\$412.0	14.5%	0.9x	6.0x
<b>Mean</b>							<b>13.6%</b>	<b>0.6x</b>	<b>4.3x</b>
<b>Median</b>							<b>13.6%</b>	<b>0.6x</b>	<b>4.3x</b>
<b>Harmonic Mean</b>							<b>13.5%</b>	<b>0.5x</b>	<b>3.7x</b>

Source: Capital IQ and Capstone Partners as of September 18, 2023



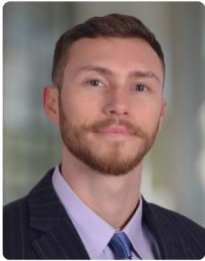
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Bob brings over 25 years of investment banking and operating experience. Bob has served as the lead banker on over 75 merger and acquisition transactions primarily in the business services marketplace. He has also been involved with over a dozen startup companies, including Great Plains Accounting Software, Inc., a software company that was ultimately acquired by Microsoft Corp. as well as InaCom Corp., a distribution company that he helped grow to several billion dollars in annual revenue before it was acquired by Hewlett Packard. He has appeared in numerous national business publications, including the Wall Street Journal and Fortune Magazine and on national television as an expert in mergers and acquisitions.



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## FIRM TRACK RECORD

Capstone's Business Services Investment Banking Group has represented numerous businesses in the HR & Staffing Services sector. The Business Services Group is highly skilled in deal execution and leverages its extensive buyer and investor relationships and in-depth sector knowledge to provide a favorable outcome on behalf of its clients. Sample recent engagements are outlined below.

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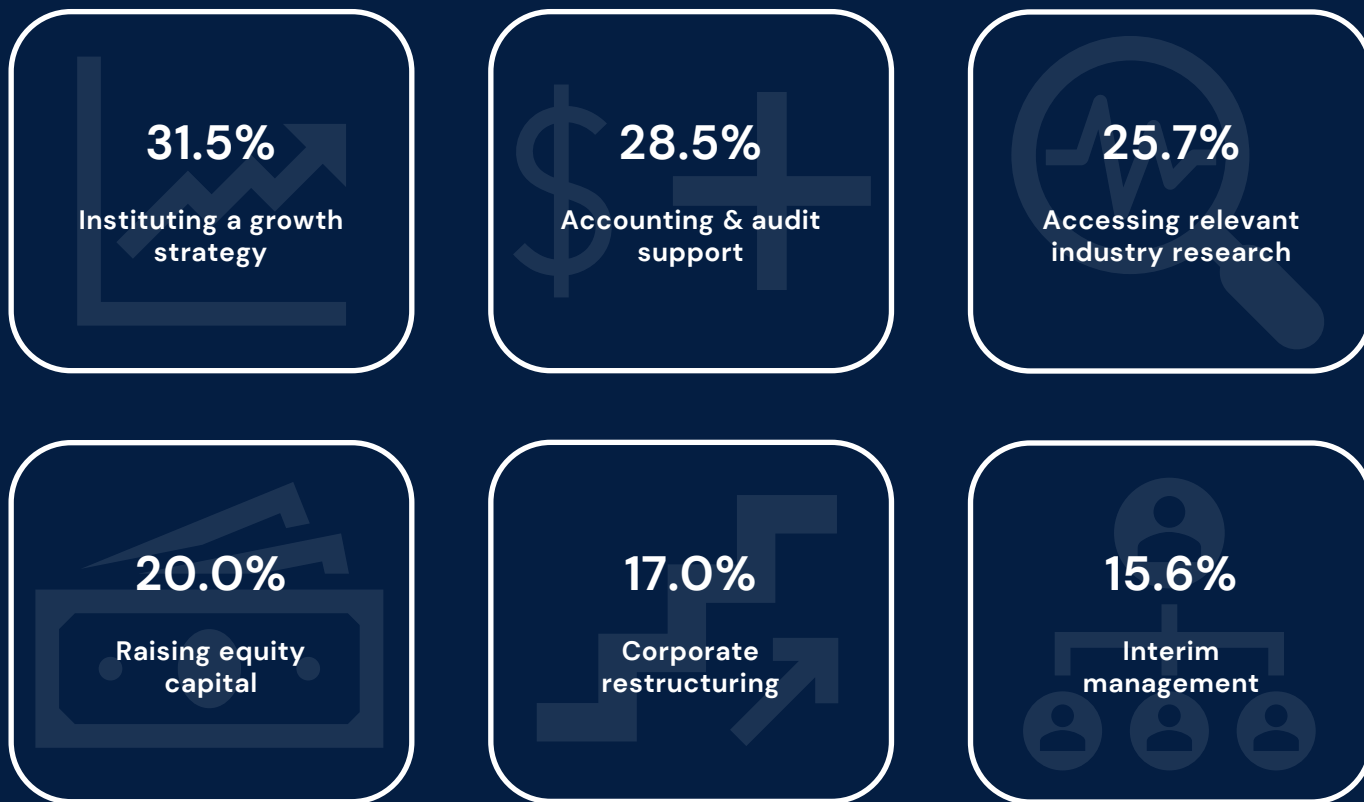


## CAPSTONE'S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone's 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion's share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) to help privately owned businesses and private equity firms through each stage of the company's lifecycle, ranging from growth to an ultimate exit transaction. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

### Top Financial Services Required by Business Owners in 2024



Question: Have you ever had, or do you anticipate having, a need for any of the following services?  
Source: Capstone Partners' Middle Market Business Owner Survey, Total Sample Size (N): 435



## ENDNOTES

1. U.S. Bureau of Labor Statistics, "The Employment Situation – August 2023," <https://www.bls.gov/news.release/pdf/empsit.pdf>, accessed September 20, 2023.
2. Kelly Services, "Kelly Reports Second-Quarter 2023 Earnings, Substantial Progress on Business Transformation," <https://ir.kellyservices.com/news-releases/news-release-details/kelly-reports-second-quarter-2023-earnings-substantial-progress>, accessed September 20, 2023.
3. Staffing Industry Analysts, "U.S. Staffing Revenue Forecast to Decline 10% This Year," <https://www2.staffingindustry.com/Editorial/Daily-News/US-staffing-revenue-forecast-to-decline-10-this-year-66802>, accessed September 20, 2023.
4. ZRG Partners, "ZRG Expands Real Estate Practice with Acquisition of Helbling & Associates," <https://www.zrgpartners.com/press-releases/helbling-acquisition/>, accessed September 20, 2023.



Common Goals. Uncommon Results.

### Disclosure

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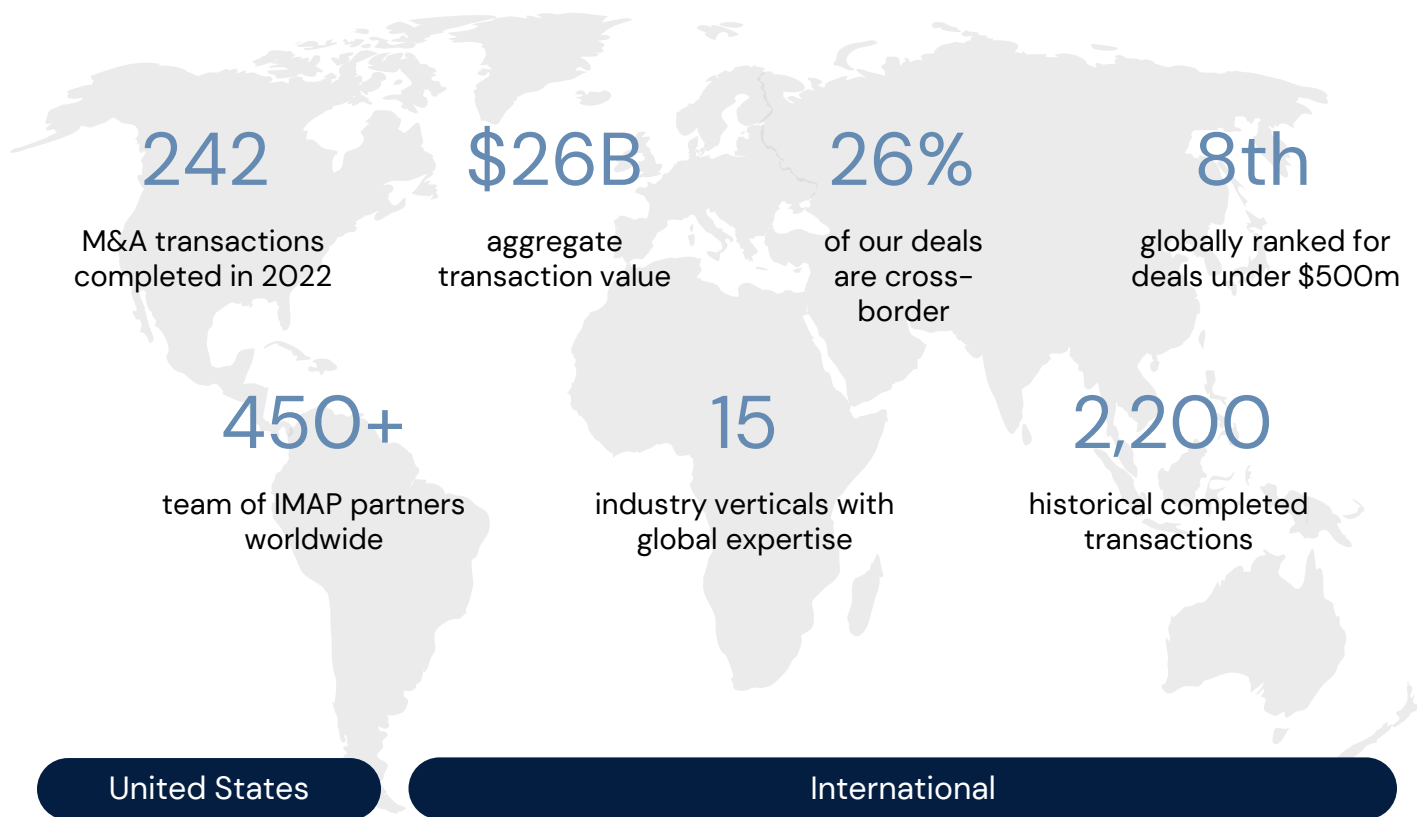




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## Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ partners across 41 countries.



~200 professionals  
8 offices

Boston · Chicago · Dallas ·  
Denver · Detroit · Irvine ·  
New York · Tampa

450+ partners  
60+ offices in 41 countries

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