

IT 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.

Contact Us:



Brooke Hollis, President
Cell: 860-985-6223



Phil Heyde, Managing Director
Cell: 480-213-3871



Steve Newman, Managing Director
Cell: 860-748-1523

Revenues of publicly-traded information technology staffing revenues generally remained fairly constant this quarter (Figure 1). This represented a continuing trend of slow revenue growth at these firms. Benchmark companies are Comsys IT Partners Inc. (CITP), Ciber Inc.(CBR), CDI Corp (CDI), and Computer Task Group (CTGX).

Earnings calls at these firms cited several reasons for slow revenue growth. Firms reported strong competition for contracts, including challenges posed by offshore outsourcing.

Continued on back...

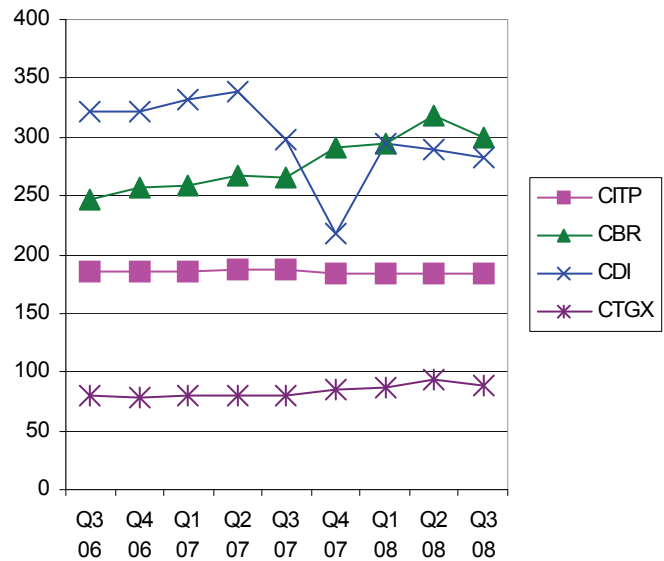



Figure 1: Net Sales (Millions USD) Source: Thomson ONE Banker.

*Would you rather receive this newsletter by e-mail?
Go to hollisassoc.com, click on "Contact Us", and
complete the registration form.*



Obama Proposals Could Impact IT Staffing Firms

President-elect Barack Obama's campaign platform and other writings include proposals that could lead to increased demand for IT staffing firms.

Obama called on the US government to focus on

delivering broadband to areas of the country where it is not yet available.

He also questioned the need for increasing H-1B visas, which many technology companies use for recruiting foreign job candidates.

He called for ending corporate tax breaks for firms that outsource jobs overseas.

Staffing firms may benefit by positioning themselves to take advantage of these opportunities.

IT Staffing Trends *page 2*

Q3 Financials Show Earnings and Margins Holding Steady *Continued*

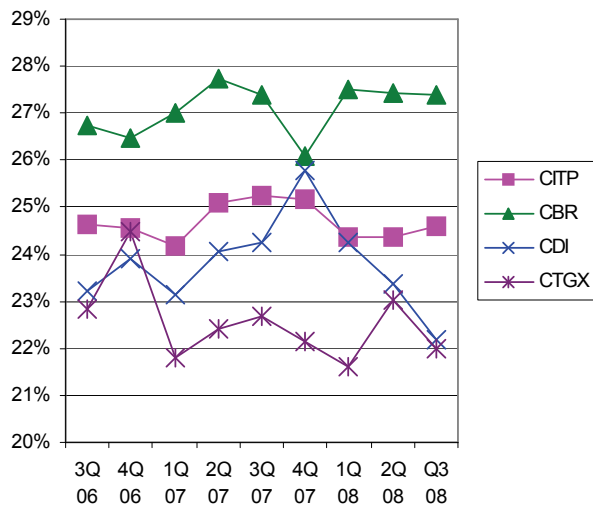


Figure 2: Gross Margin *Source: Thomson ONE Banker*

Companies also noted a decline in average billable headcount and permanent placements due to current economic conditions. However, one firm saw the economic downturn as an opportunity to consolidate market share.

Gross margin percentages have also generally not grown significantly this

quarter (Figure 2). Some companies are reporting a decline in higher-margin professional placements. Gross margin continues to be a key metric companies consider when evaluating acquisition targets, as buyers do not want to dilute their margin levels.

These companies have been generally successful at re-

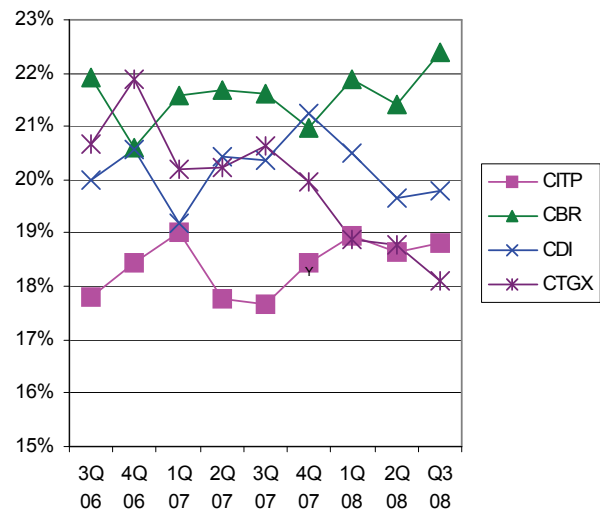


Figure 3: Sales, General & Administrative Expenses as a Percentage of Net Sales *Source: Thomson ONE Banker.*

ducing sales, general and administrative expenses (SG&A) vs. sales (Figure 3) this quarter. One company reported an increase attributed to recent acquisitions, and another noted that bidding on larger contracts had resulted in a longer sales cycle. All companies cited a strong focus on cost controls, including efficiency

improvements and reduced back-office wages.

Despite the challenging economic conditions, a number of 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 now can benefit from consulting an M&A intermediary.

Intermediaries are constantly in contact with business owners and top executives. We can discuss

changes in the field, 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 expanding into,

and potential acquisitions or divestitures.

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.

"Hollis Associates—charting the course to successful M&A transactions for 20 years"