



Healthcare staffing growth update

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As suggested by our 2008 Buyer Survey, healthcare buyers are unique in that they primarily purchase contingent labor when a non-contingent worker is not available. In a segment driven by supply-shortages, decreases in employee turnover will bring some pain to temporary staffing. In fact, Tenet reported a 26% decline in employee turnover and a 29% decline in overtime and contract labor expense in the company's second-quarter earnings presentation. As the national unemployment rate remains above 9%, the stability of a non-temporary position has more appeal, and buyers who are averse to contingent labor are showing resolve in leveraging those trends.

The healthcare segment contracted y/y in the second quarter, but there is substantial variation among the sub-segments. Locum is roughly flat, travel nurse is cut in half, and allied and per diem nurse are in the middle. The range of revenue contraction among the companies in the table on the following page is mostly driven by their mix, with locum business driving outperformance, and travel nurse driving underperformance.

A recovery in healthcare staffing will take place when the freefall in nurse/allied ends. Orders, a leading indicator for revenue trends, were showing signs of stabilization in nurse/allied according to comments in several 1Q09 earnings calls. Those signs of stabilization have yet to manifest into more favorable revenue trends. Given the lag between orders and revenue, it was expected that companies would report lower revenue in nurse/allied staffing from Q1 to Q2, but several have now guided to substantial revenue declines from Q2 to Q3.

However, the increases in nurse/allied orders noted by firms in their 2Q09 calls seem to have more substance. Healthcare staffing revenue should bottom at last in Q3, partly driven by burn-out from non-contingents as addressed later in this report. However, we will not likely see a robust recovery until the national unemployment rate returns to normal levels, thus giving burned-out non-contingents more options. A downgrade to healthcare in our upcoming staffing industry forecast is warranted.

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Reported trends

U.S. temporary healthcare staffing revenue growth y/y

Estimated organic growth	2007	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09
AMN Healthcare (1)	n/a	n/a	n/a	n/a	<4.0%	<-15%	-36%
Cross Country - Nurse/Allied	3.9%	-2.7%	-7.4%	-12%	-14%	-27%	-42%
Medical Staffing Network	n/a	n/a	n/a	<-12.2%	-20.6%	-32%	-39%
On Assignment (2)	2.9%	7.4%	9.5%	13%	3.0%	-22%	-31%
Kforce - Healthcare (Flex)	40.2%	26.2%	22.9%	17.3%	2.7%	-12%	-24%
MPS - Soliant Health	n/a	-1.2%	1.3%	-1.7%	flat	-3.0%	<2%
Teamstaff Rx (3)	n/a	n/a	n/a	n/a	n/a	-35%	-44%
Arcadia - Medical Staffing (4)	n/a	n/a	n/a	n/a	n/a	n/a	-38%
Sun Healthcare - CareerStaff	19.3%	6.1%	5.7%	6.4%	-2%	-7.5%	-14%

(1) Excludes Physician Permanent Placement

(2) Locum tenens is excluded from 2007 growth

(3) 2Q09 represents fiscal 3Q09, revenue excludes government solutions

(4) 2Q09 represents fiscal 1Q10

Source: Staffing Industry Analysts and company reports

AMN Healthcare generated roughly \$190 million of temporary healthcare staffing revenue in 2Q09, (excluding physician permanent placement), contracting 36% y/y. On a y/y basis, the nurse/allied business contracted by 48% and the locum tenens business contracted 6%. Gross margin increased due to a larger mix of locum and lower housing costs for travel nurses.

Cross Country Healthcare generated approximately \$119 million of temporary healthcare staffing revenue (excluding clinical trial services and other human capital management), contracting roughly 10% y/y. Excluding the MDA acquisition, we estimate y/y revenue contraction of 42%. An increase in gross margin was partly driven by a larger mix of locum and lower housing costs for travel nurses.

Medical Staffing Network (MSN), a provider of nurse and allied staffing, generated revenue of \$87.6 million, a y/y decline of 39% and a sequential decline of 11%. The decline was primarily volume driven (hours worked decreased 38% y/y). Management noted that weekly average revenue was lower in each month during Q2, but the rate of decline lessened in July. Gross margin increased to 26.7% from 24.9% y/y, partly driven by actuarial valuation of accrued self-insurance liability.

On Assignment generated \$47 million of healthcare staffing revenue (excluding life sciences and it/engineering), a decline of 31% y/y. On Assignment's contraction was smaller than that of AMN, MSN, and Cross Country on an organic basis, partly due to the company's smaller mix of nurse relative to locum.

KForce's healthcare business, primarily health information management, generated \$14 million of flex (temporary staffing) revenue for the quarter, contracting 24% y/y and 8% sequentially. Hours decreased 22% y/y and 3% sequentially. Gross margin slightly decreased y/y from 36.6% to 36.3%. Management noted that travel was weaker than local in staffing of coders.

MPS Group generated roughly \$30 million of revenue from its Soliant Health business in 2Q09, contracting a bit sequentially from the \$32 million in 1Q09. The healthcare staffing business grew 2.3% y/y. Excluding the acquisition of Rph on the Go, we estimate revenue was down y/y by double-digits.

Sun Healthcare's staffing business (CareerStaff) contracted 14% to \$26.7 million of revenue. We estimate that the relatively mild contraction is partly due to a relatively high allied to travel nurse ratio. The 14%

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contraction was primarily attributed to a decline in demand for nurse staffing, a volume decline in therapy and pharmacy staffing, a decline in school business revenue, and office closures.

For its fiscal 3Q09 which ended June 30, Teamstaff reported \$1.8 million in revenue from its Rx business, down 44% y/y and 21% sequentially. The decrease in revenue was primarily volume driven as average hours billed declined 40% y/y. Gross margin increased slightly y/y from 21.2% to 21.4%. Teamstaff Rx provides travel nursing and travel allied staffing. Revenue from the Rx business does not include revenue from the company's Government Solutions business, which offers staffing in healthcare and other segments.

For its fiscal 1Q10 which ended June 30, Arcadia Resources generated roughly \$5.0 million in healthcare staffing; we estimate y/y contraction of 38%. The company reported \$3.6 million of revenue in per diem staffing and \$1.4 million in travel staffing, with y/y declines of 35% and 45%, respectively.

The Staffing Industry Monthly Pulse Survey shows y/y revenue contraction in June at 15% for staffing firms that primarily serve the healthcare industry. There is, however, considerable variation around the 15% contraction. The industry has a stronger demand for temporary physicians than for temporary nurses, for example.

Pulse survey: Healthcare industry trends

	May	June
Y/Y weighted average growth		-15%
Percent of firms reporting positive Y/Y growth	11%	25%
Staffing firms' perception of sequential M/M trend	Some deterioration	Some deterioration

*M/M = month-over-month, Source: Staffing Industry Analysts

Results from our 2008 Buyer Survey show that buyers in the healthcare industry have caught up with the pack in terms of VMS (Vendor Management System) usage. Several staffing firms have taken the "if you can't beat them, join them" approach and now offer their own VMS platforms. Now that the challenge in nurse/allied staffing has shifted from finding supply to finding demand, an interesting dynamic is taking place. Management at Cross Country noted that they used to subcontract 20% of the assignments in their VMS offering and now subcontract roughly 3%. While Medical Staffing Network did not provide such a ratio, the 10Q filing did note that gross revenue from subcontractors declined 41% y/y, slightly worse than the 39% y/y decline in company revenue.

VMS Usage by Industry 2005-2008

	2005	2006	2007	2008
Healthcare	13%	11%	13%	50%
All Buyers	24%	27%	34%	51%

Source: Staffing Industry Analysts Buyer Survey

Future outlook

For third quarter, Cross Country healthcare guided to a y/y decrease in average nurse/allied FTE's between 48% and 49% and a sequential decrease between 18% and 20%. Revenue trends should not be far from trends in the FTE count. Measuring the company's healthcare staffing business on an organic basis, we exclude Cross Country's locum business which is from its acquisition of MDA.

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AMN implied guidance of 46% y/y company-wide revenue contraction. Excluding physician permanent placement (which we estimate will be roughly flat sequentially), the temporary healthcare staffing piece should contract by approximately 47% y/y. The nurse/allied contraction, exacerbated by brand consolidation to increase profitability, should be heavier than 47%, with the locum business contracting by single digits.

Healthcare staffing (as we define it) makes up less than half of On Assignment's mix, and the company does not quantify guidance by segment. Our estimate is that the company's healthcare staffing revenue will contract between 30%-40% y/y. Management at Medical Staffing Network did not quantify guidance but noted that the recession will continue to depress demand for healthcare staffing through the second half of 2009.

Though Q3 looks bleak from a revenue perspective, it should be a bottom. Signs of stabilization in nurse/allied orders in Q1 earnings calls did not materialize into a revenue bottom in Q2, but encouraging signs from orders were more robust and convincing in the Q2 calls. Cross Country noted in its August 6 earnings call that travel nurse orders more than doubled since early June, and that nurse/allied would grow revenue from Q3 to Q4 if current trends continue. Given that management gave stronger directional guidance to locum than nurse, a Q3 bottom in nurse/allied should mean a Q3 bottom for its entire healthcare business.

AMN expects to see traveler count volume bottom in the third quarter, coupled with a flat locum trend from Q2 to Q3. On Assignment noted orders for travel nurses were "starting to gradually increase." Management is expecting no significant reduction in revenue from Q2 to Q3 beyond "normal seasonality." Given that their locum business should be fairly steady throughout 2009, a Q3 bottom in nurse-allied should mean the same for their total healthcare business. On August 14, Teamstaff noted that nurse/allied staffing orders had increased 60% over July.

Regarding momentum in orders, management at AMN suggested the trends were geographically broad, and included Florida. Management at Cross Country noted increases in orders from California and Texas as AMN did, but suggested the recovery from their perspective was yet to include Florida.

Though management at Arcadia Resources noted that they see no near-term signs of improvement in their nurse/allied revenue, they have seen signs of stabilization in their medical staffing business over the last 30-60 days (as of their August 13 earnings call). Management was optimistic that secular stabilization coupled with seasonally-driven increases from October through January could drive improvement in the business in the second half of their fiscal 2010.

Management at AMN expected that recent momentum in orders was not seasonally-driven as the seasonal bump in orders does not usually occur until September. There may in fact be a secular increase in demand occurring. Data from the Bureau of Labor Statistics (BLS) illustrated in the graph below shows a recent deceleration in y/y quits among employees in the Healthcare/Social Assistance industry sector. Though the data is choppy, the stark decreases from earlier this year appear to have abated.

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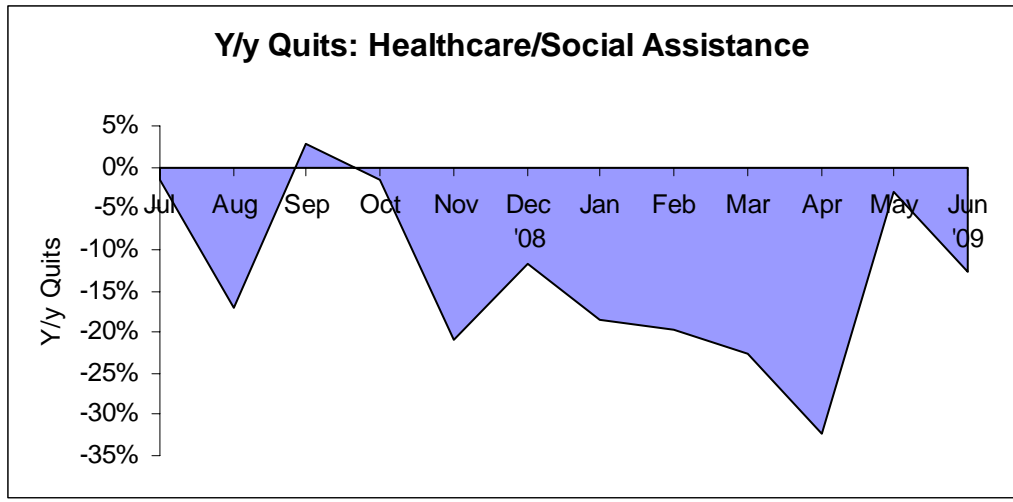
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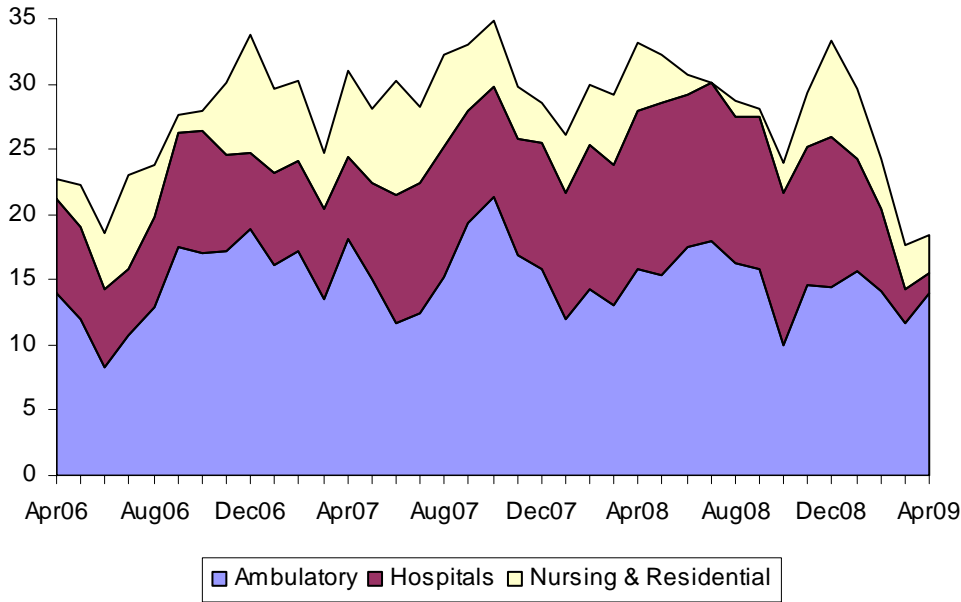
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Trends in key markets

Though temporary staffing was not invited to the party, total employment in the healthcare industry has increased every month through the recession. BLS data shown in the graph below illustrates the stability of employment trends in this industry. A closer look, however, reveals that the middle band in the graph (hospitals) has narrowed quite a bit since the fall in the economy last year. The relative stability of the industry’s employment is mostly due to the ambulatory setting.

**Monthly Change in Healthcare Employment
(3 Month Average)**



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Competitive landscape

The healthcare segment is neither highly fragmented nor highly concentrated in that the ten largest providers make up 40% of the market. There is great variation within the healthcare segment, though. Per diem nurse and allied staffing are highly fragmented; locum tenens is relatively concentrated; travel nurse is highly concentrated.

Market Concentration & 2009 Acquisition Intentions by Segment

Ranked by market share of top 5 players

Segment	Market share of top 5 players	Market share of top 10 players	Number of reported 2009 acquirers per \$billion mkt size*
Healthcare -- travel nursing	63%	80%	12.1
Clinical/Scientific	56%	n/a	n/a
Healthcare -- locum/tenens	55%	n/a	8.9
Legal	35%	n/a	7.6
Engineering/design	32%	48%	3.2
Office/clerical	31%	46%	3.4
Finance and accounting	30%	37%	4.0
Healthcare	28%	40%	4.8
Healthcare -- per diem nurse	25%	n/a	4.5
Industrial	24%	38%	1.7
Information technology	24%	35%	2.2
Healthcare -- allied/other	16%	27%	9.7

Source: Staffing Industry Analysts. *Number of acquirers reporting 2009 acquisition interest.

Market share is determined by our estimates of company revenue generated in each segment. The table below shows the largest providers of U.S. temporary staffing in healthcare, based on 2008 revenue.

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Largest Healthcare staffing firms in the U.S.

Ranked by estimated 2008 U.S. temporary staffing revenue

Rank	Company	2008 U.S. Rev. (\$M)	Market Share
1	AMN Healthcare Services Inc.	1,100	10%
2	Cross Country Healthcare Inc.	582	5%
3	CHG Healthcare Services	569	5%
4	Medical Staffing Network Holdings Inc.	535	5%
5	Maxim Healthcare Services	367	3%
6	Jackson Healthcare	366	3%
7	Medfinders	333	3%
8	On Assignment Inc.	263	2%
9	C&A Industries Inc. (Aureus)	250	2%
10	SHC Services Inc.	220	2%
11	Favorite Healthcare Staffing Inc.	125	1%
12	MPS Group (Soliant)	124	1%
13	Sun Healthcare (CareerStaff)	120	1%
14	Interim Healthcare Inc.	105	1%
15	Reliant Healthcare Professionals	100	1%
16	ATC Healthcare	85	1%
17	Randstad Holding NV*	75	1%
18	Kforce Inc.	72	1%
19	Emerald Health Services	62	1%
20	Kelly Services Inc.	50	0%
Total		5,503	48%

Source: Company reports and Staffing Industry Analysts

*Includes pre-acquisition 2008 revenue from Vedior legacy

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