



USA Switzerland Germany France United Kingdom Canada Norway Brazil

M&A Flash Report – March 2009

Software and IT Industry Valuation Update

How is the current stimulus and market chaos affecting merger opportunities?

Thursday, March 5, 2009
10:00 am PT



Bruce Milne
CEO & Chairman
Corum Group Ltd.

[Bruce Milne](#), the founder of Corum, is one of the true leaders in the software industry. He built the largest vertical market software company in the world before founding Corum, where he has overseen more mergers than anyone in history, generating over \$6 Billion in wealth for the owners of privately held firms. Along the way, in addition to publishing extensively, he has owned three other software companies (Rosesoft, Dataword, Insider Edition) and been a seed investor in some of the leaders in our industry (Blue Coat, Bright Star, Sabaki). He founded the largest regional tech association (Washington Software Association), and, as a recognized leader, has served on numerous advisory boards including Comdex, DEC, Apple, IBM, and personally advised Bill Gates at Microsoft. He has been a tech cabinet advisor to two Governors, a Congressman and U.S. Senator on issues related to the future of the software industry. For his expertise, he was commissioned by the U.S. government to write the definitive high tech business guide for the SBA. The Canadian Government had him conduct research which led to the establishment of SoftWorld, and he was recently voted one of the most influential people in the European software community for his work during the last market decline.



Mark Reed
Executive Vice President
Corum Group Ltd.



Ryan Blakely
Vice President, Research
Corum Group Ltd.

>> For today's presentation or more information, contact Jessica Eastman (jessicae@corumgroup.com, +1 425-455-8281)

Agenda

- Overview of market
- Profile of current deals
- Process benefits
- Overview of stimulus / tax programs
- Their effect on M&A
- Cautions!

Market Overview

- Deals continue to happen
Several firms in LOI
- Still no IPO's
Won't be for a while
- Currently working with 314 buyers
- Financial buyers still out
But maybe not for long
- Strategic buyers have large cash hoards

Valuations Down (cash up?)

Company	Stock Price 03/03/2008	Stock Price 03/03/2009	% Change		Year Ago Cash	Current Period Cash	
Oracle	\$18.95	\$15.06	-20.53%	↓	\$8,409	\$10,650	↑
IBM	\$112.08	\$88.01	-21.48%	↓	\$10,786	\$12,910	↑
Symantec	\$16.85	\$13.15	-21.96%	↓	\$1,890	\$1,530	↓
Apple	\$121.73	\$87.71	-27.95%	↓	\$9,352	\$25,650	↑
Google	\$457.02	\$326.67	-28.52%	↓	\$6,081	\$15,850	↑
SAP	\$47.39	\$32.28	-31.88%	↓	\$3,151	\$2,040	↓
EMC	\$15.53	\$10.13	-34.77%	↓	\$4,482	\$6,810	↑
Microsoft	\$26.42	\$16.03	-39.33%	↓	\$10,339	\$20,300	↑
HP	\$47.25	\$28.30	-40.11%	↓	\$11,591	\$11,260	↑
Cisco	\$24.40	\$14.50	-40.57%	↓	\$5,191	\$29,530	↑
Yahoo	\$27.77	\$12.58	-54.70%	↓	\$2,341	\$3,450	↑
Sun	\$16.38	\$4.54	-72.28%	↓	\$2,363	\$2,640	↑
Nokia	\$34.76	\$9.25	-73.39%	↓	\$3,130	n/a	↔

The Good News for Software/IT Firms

1. Tech is doing relatively well
2. Banks are not required to run the business (generally)
3. Banks are not required in a merger
4. Most deals are still dominantly cash
5. Relative valuations are still high
 - Relative to other businesses
 - Relative to other investments (Wealth Effect)

Profile of Current LOI's

Profile 1

Enterprise application software, Web-based SaaS solution, 70% recurring revenue, Modest revenue growth, 12-15% EBITDA, U.S. Buyer & Seller
Buyer strengthens their product offering with best-in-class brand name
Acquisition to be integrated quickly into seller's business

Profile 2

Specialty Vertical Market solution, Energy Sector – Upstream, exploration and production, US Seller / European buyer, 20% YOY Revenue growth, Strong engineering technology solution. Buyer adds global reach and scalability to sellers business, Acquisition to be run stand alone through EO period

Profile 3

Vertical market, commodities, Strong market position, Highly strategic, Japanese buyer

Pending

Vertical Market

Infrastructure Management

Communications

Benefit of Buyer Discussions Now

If you do a professional global search....

M Model – You will develop a better model from the process

M Market Feedback – You gain immeasurably from buyer feedback

R Research – You learn a great deal from these proprietary databases

R Relationships – Not everyone is a buyer, but you open many doors

S Sale of your company, or significant recapitalization

Other transactions

Exclusive license agreement - Security

OEM agreement – Systems Management

Investment agreement – Financial Services

Stimulus Program Overview

Over \$400 Billion
Get your share

Stimulus Program Overview

- Energy
- Science
- Infrastructure
- Education
- Healthcare
- Business Benefits
- Tax Impact

Stimulus Program - Energy

\$32 billion

Funding for "smart electricity grid" to reduce waste

\$20 billion+

Renewable energy tax cuts and a tax credit for research and development on energy-related work, and a multiyear extension of renewable energy production tax credit

\$6 billion

Funding to weatherize modest-income homes

Stimulus Program - Science

\$10 billion

Science facilities

\$6 billion

High-speed Internet access for rural and underserved areas

Stimulus Program - Infrastructure

\$32 billion

Transportation projects

\$31 billion

Construction and repair of federal buildings and other public infrastructure

\$19 billion

Water projects

\$10 billion

Rail and mass transit projects

Stimulus Program - Education

\$41 billion

Grants to local school districts

\$79 billion

State fiscal relief to prevent cuts in state aid

\$21 billion

School modernization

Stimulus Program - Healthcare

\$39 billion

Subsidies to health insurance for unemployed; providing coverage through Medicaid

\$90 billion

Help to states with Medicaid

\$20 billion

Modernization of health-information technology systems

\$4 billion

Preventative care

Stimulus Program – Riding the wave!

Is your marketing properly positioned?

1. We are a culture of buzzwords, sound bites, trends and waves
2. Nearly 40 major waves of opportunity in last 35 years
3. This is how you create value – first or best positioned in a sector.
4. Remember Y2K!

Are you buzzword compliant?

1. Examples - “Web-enabled”, “EAI”, “Content Management”, “Data Mining”, “Object Oriented”, “Compliance”, “ASP”, “SaaS”, “Cloud Computing”, etc.
2. Some of the new words that you have to include – “Green”, “Carbon Footprint”, “TARP”, “Stimulus Management”, etc.

Stimulus Program – Business Benefits

- An infusion of cash into money-losing companies by allowing them to claim tax credits on past profits dating back five years instead of two
- Bonus depreciation for businesses investing in new plants and equipment
- Doubling of the amount small businesses can write off for capital investments and new equipment purchases
- Allowing businesses to claim a tax credit for hiring disconnected youth and veterans

Stimulus Program – Tax Impact

- Raising capital gains to 20%
- Ordinary income tax will rise to 39%
- Dividends will increase to 20%
- PE firms will be taxed primarily at ordinary income rates
 - They may want to exit investments now
 - Will consider shuttering the fund

Caution – what can change overnight!

- Banks pulling LOC's abruptly
- Loss of key customers
- Major non-payment
- Investor pulling out / needing to liquidate
- Competitor quick sale

Stay Lean and Mean

1. Act now
2. Protect the vital core of the business - use a scalpel not an axe
3. Get 18 months+ of cash in the business against conservative forecasts
4. Reprioritize and defer development projects
5. Renegotiate all agreements with vendors and suppliers
6. Everyone in the company should be selling, to maximize revenue
7. Offer equity rather than cash bonuses
8. Put cash in the most secure place possible (T-bills, not money markets)
9. Establish leading indicators for revenue so you know if it will come
10. Over communicate with everyone, including employees, investors, etc.

Valuation Update



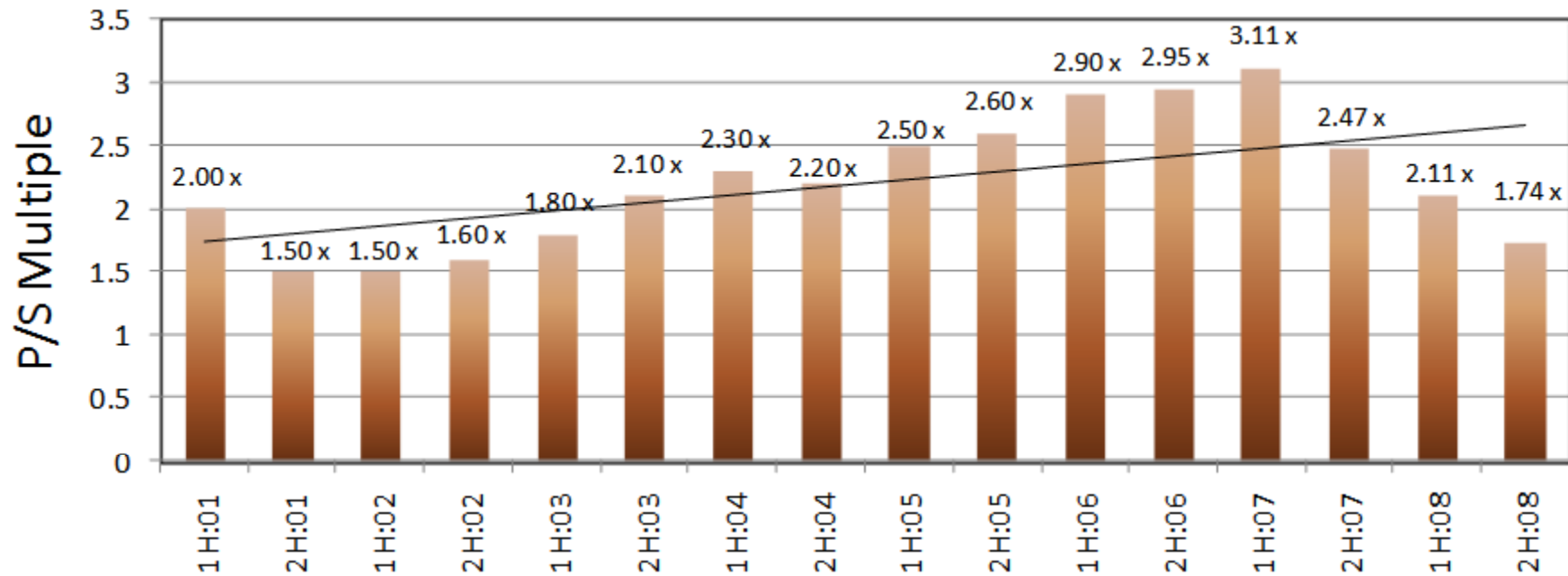
Ryan Blakely
Vice President, Research
Corum Group Ltd.

Ryan joined Corum in 1998 and has held a number of roles central to research and market analysis in the software and technology space. With eight years experience in the software M&A environment, Ryan has an intimate understanding of the software industry as a whole, especially as it relates to mergers and acquisitions. As the Vice President of Research, Ryan directs Corum's research group in both North America and Europe, and has played a direct role in developing buyer relationships during his tenure with Corum. He also is a major contributor to Corum's research reports. Ryan graduated from Washington State University with a B.A. in Business Management with a focus on Entrepreneurial Studies.

[Read](#) a recently published article written by Ryan.

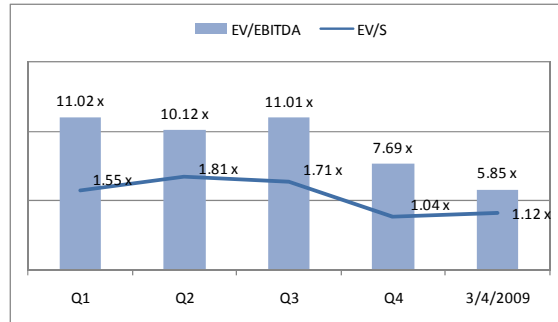
Transaction Multiples

Software & IT Valuations

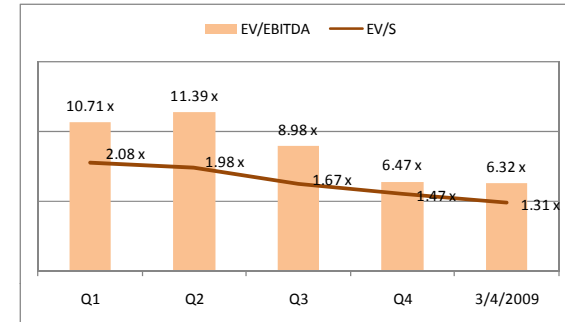


Public Valuations by Market

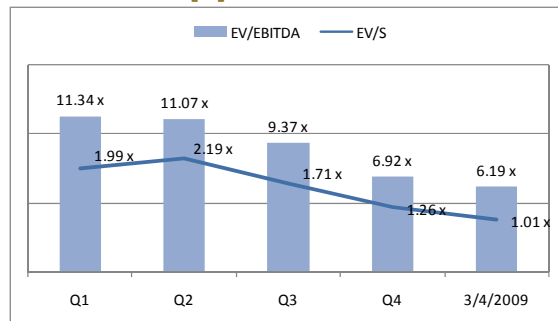
Horizontal Application Software



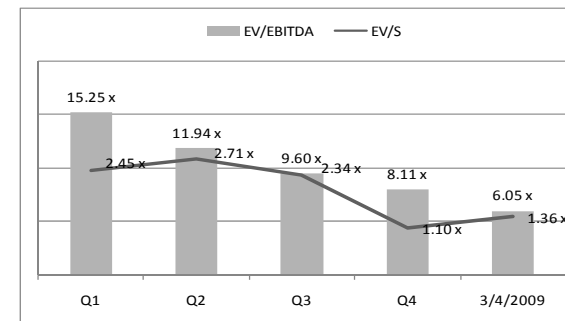
Infrastructure Software



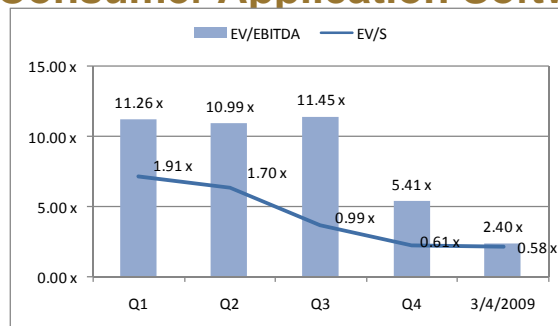
Vertical Application Software



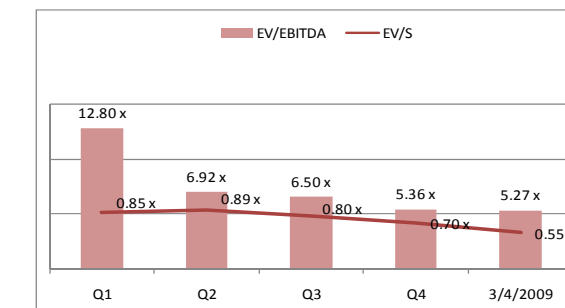
Internet



Consumer Application Software



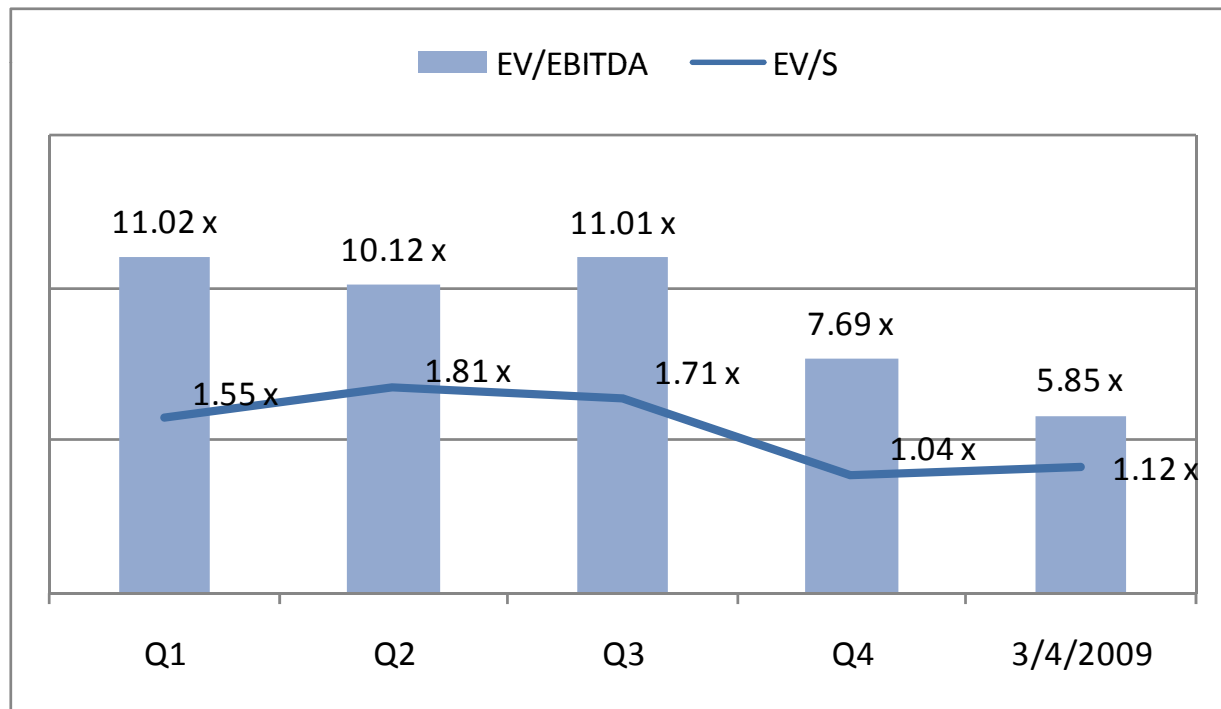
IT Services and BPO



Public Valuations by Market



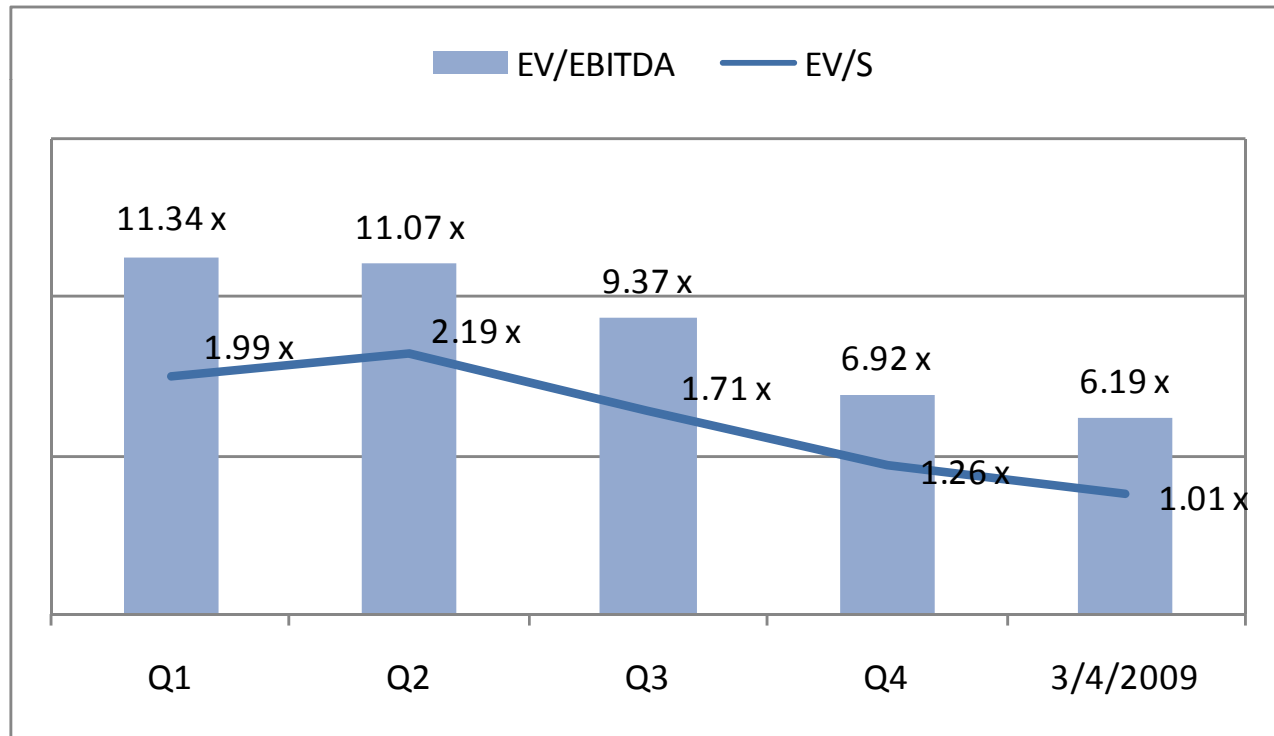
Horizontal Application Software



Public Valuations by Market



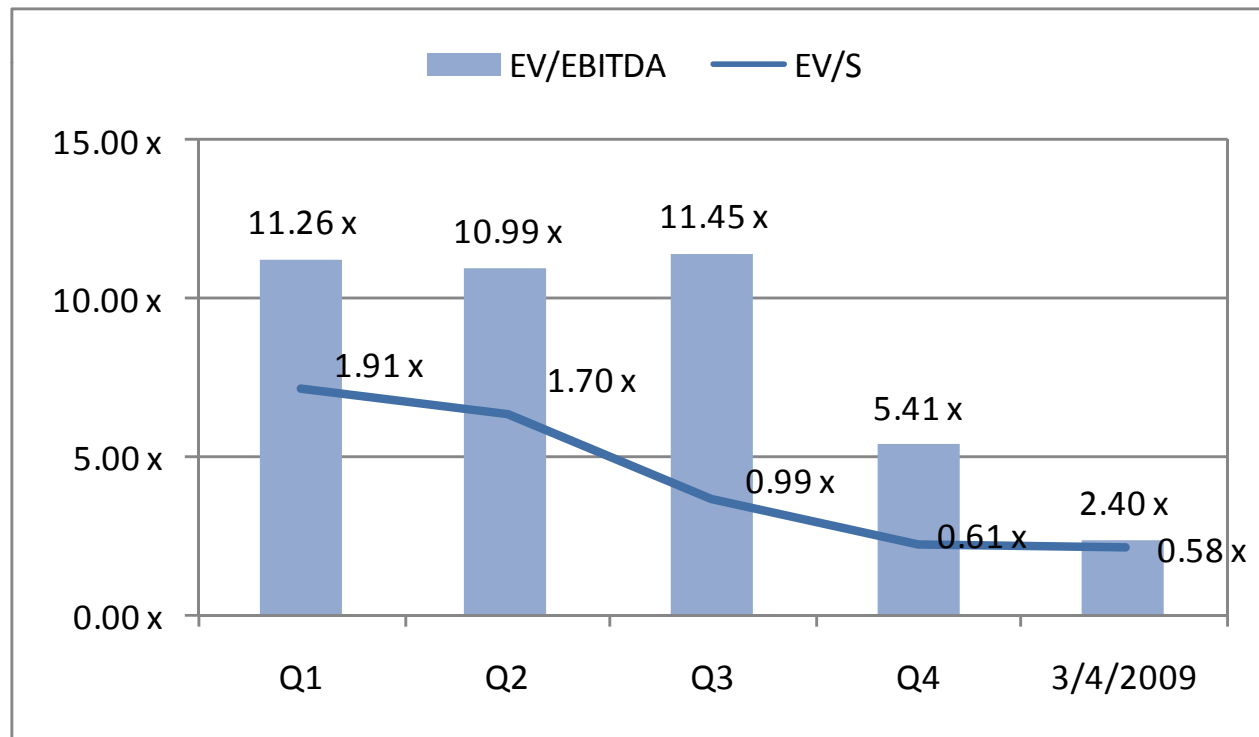
Vertical Application Software



Public Valuations by Market



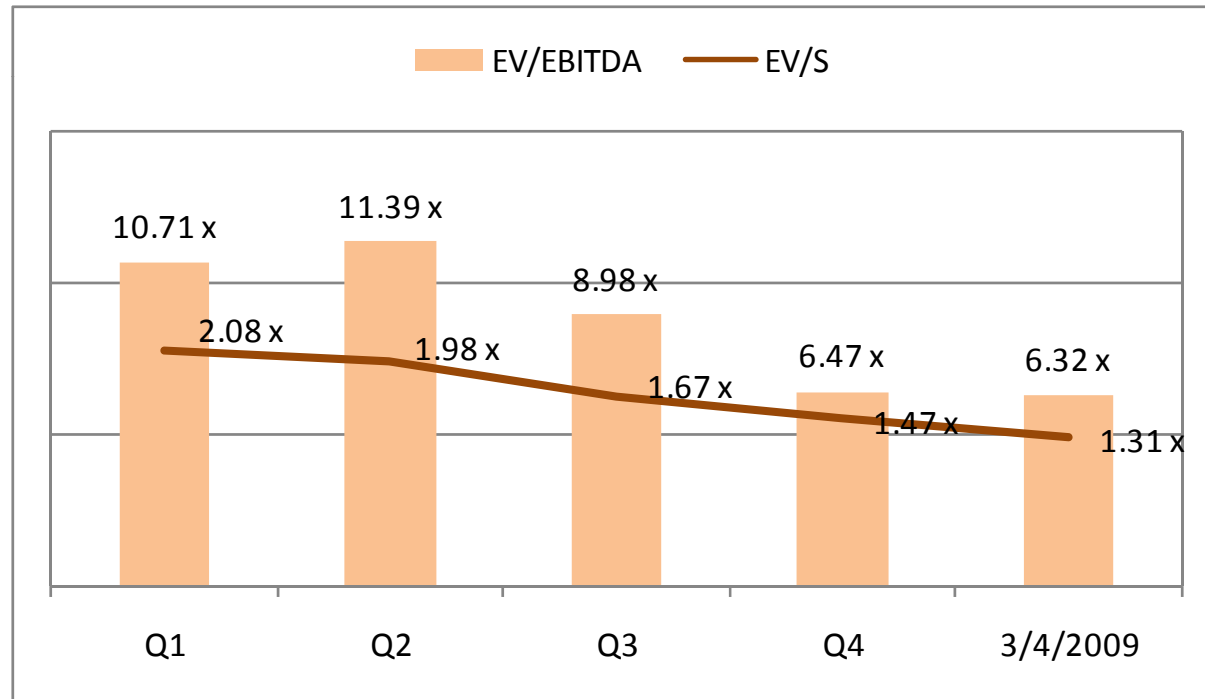
Consumer Application Software



Public Valuations by Market



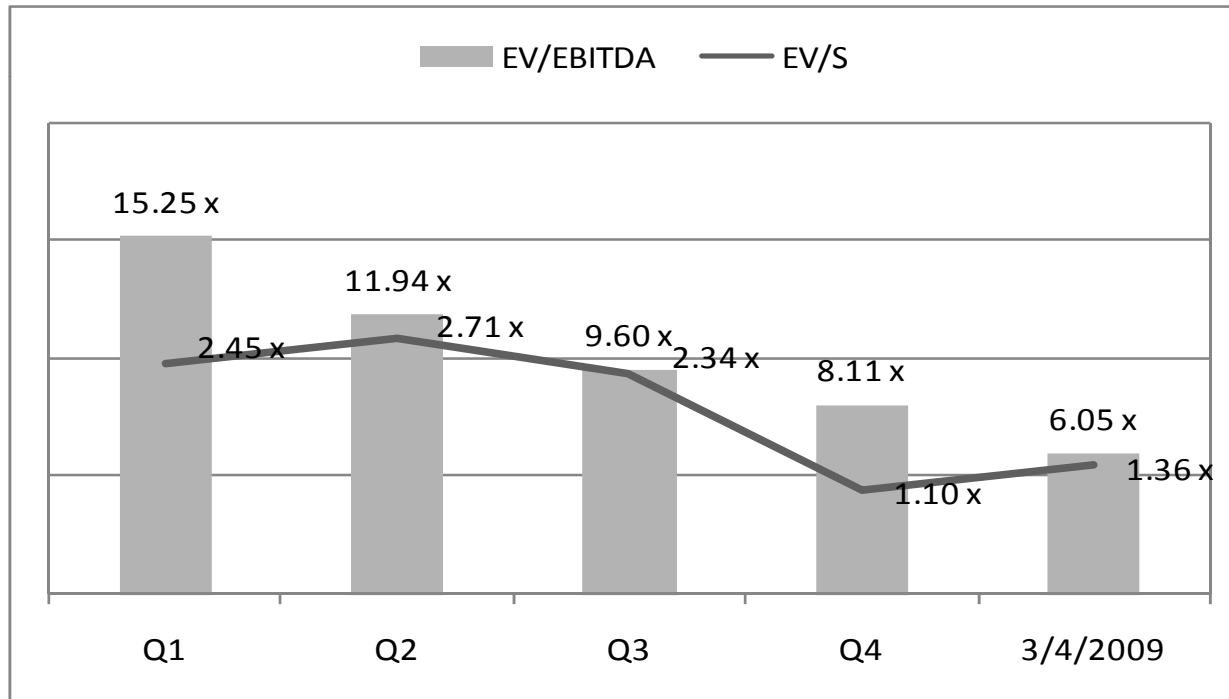
Infrastructure Software



Public Valuations by Market



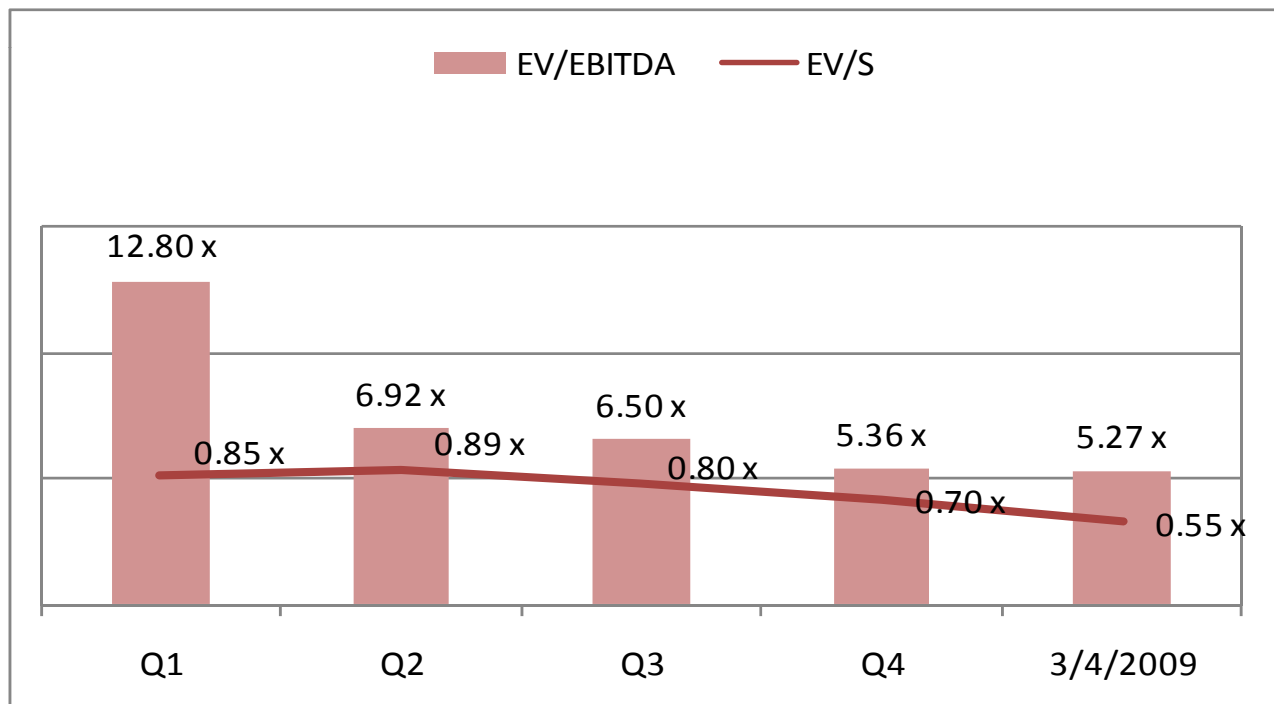
Internet



Public Valuations by Market



IT Services and BPO

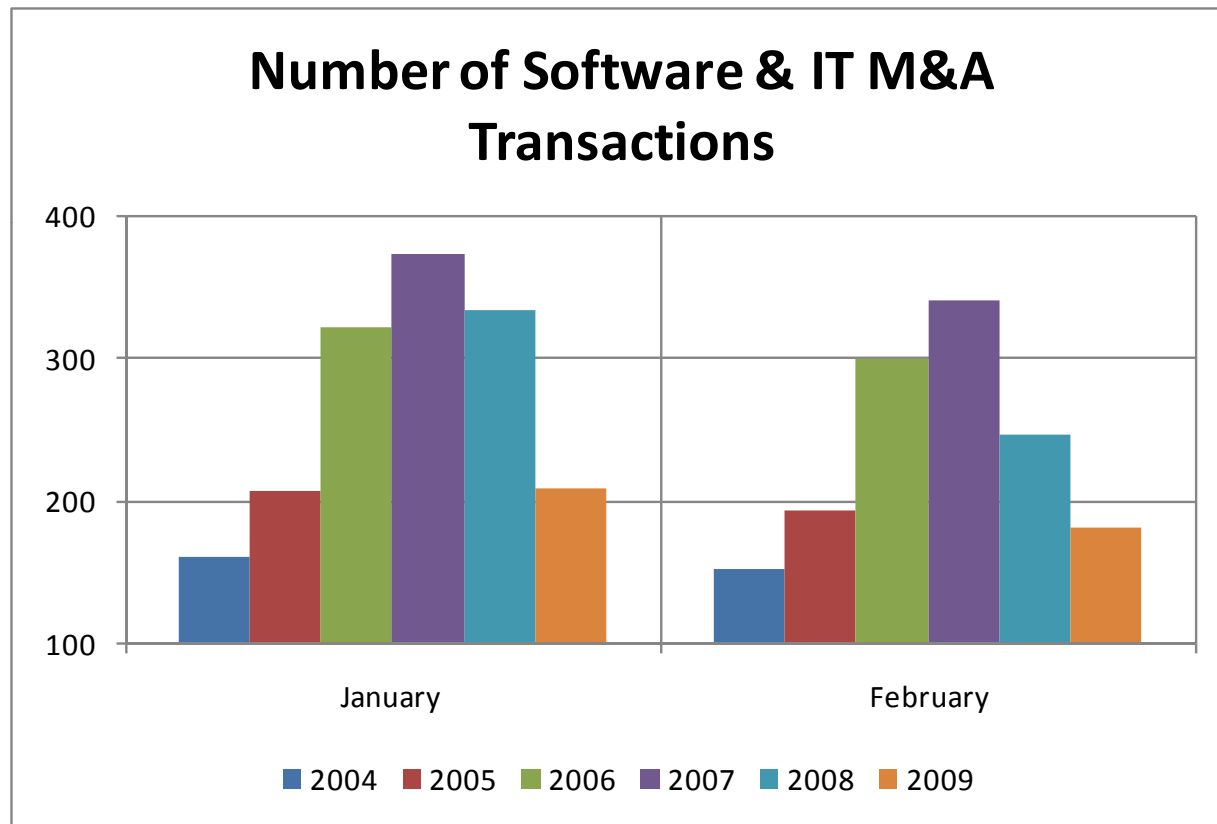


Reality Check

	January & February	
	2008	2009
# of Transactions	581	390
Transaction Value High	\$8,500.00	\$775.00
Average Transaction Value	\$130.00	\$54.00
# of Mega Deals	5	0
% Terms Undisclosed	57%	79%
All Cash	43%	55%

- Mega deals gone
- Increased focus on the smaller transaction
- Use of cash increasing

M&A Activity



*Source: 451 Group

Notable Transactions

Market: Horizontal Applications

Sector: Content Management

Target: Interwoven (IWOV)

Buyer: Autonomy (AU)

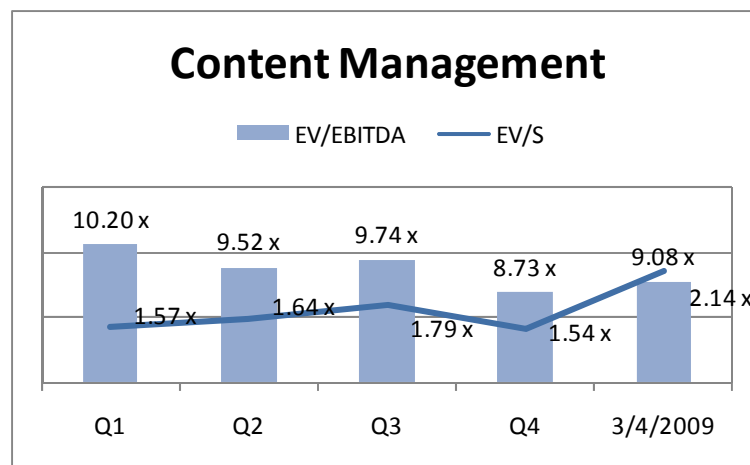
Date: January 2009

Transaction Value: \$775 million

“The combination of Autonomy and Interwoven, industry leaders in Meaning Based Computing and document and content management respectively, will continue the extension of Autonomy's IDOL as a key element of the regulatory, legal and compliance industries.”

Dr. Mike Lynch, Group CEO Autonomy

Public Valuation vs. Transaction Valuation



Transaction Details

EV/S 2.8 x

EV/EBITDA 18.6 x

Cash 100%

Notable Transactions

Market: Vertical Market Applications

Sector: Financial Services

Target: Thinkorswim, Inc. (SWIM)

Buyer: TD Ameritrade (AMTD)

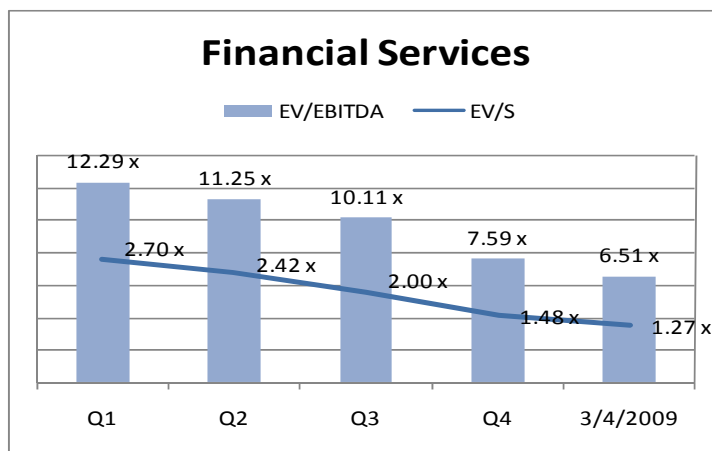
Date: January 2009

Transaction Value: \$606 million

“This transaction is directly aligned with our growth strategy, creating scale for the trading side of our business and, more importantly, advancing our trading strategy by several years”

Fred Tomczyk, President and CEO TD Ameritrade

Public Valuation vs. Transaction Valuation



Transaction Details

EV/S	1.7 x
EV/EBITDA	5.2 x
Cash	37%
Stock	63%

Notable Transactions

Market: Infrastructure

Sector: Security

Target: Orchestra Corp. (private)

Buyer: CA, Inc. (CA)

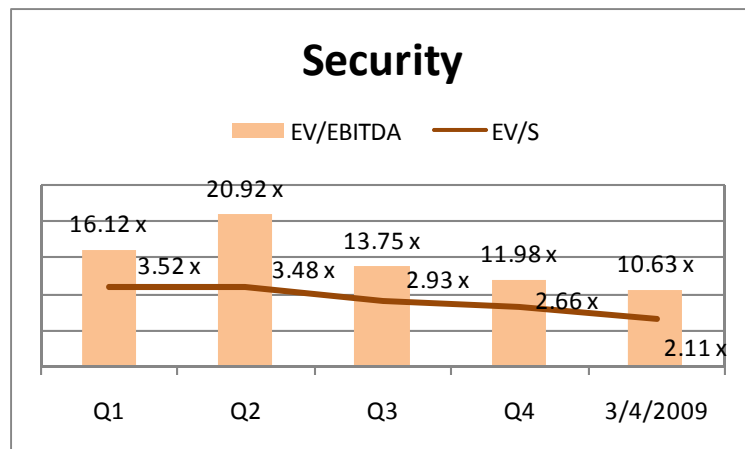
Date: January 2009

Transaction Value: \$50 million*

“With this acquisition, CA will deliver one of the broadest and most advanced information security solutions in the market today and address the demand for a new generation of identity and access management”

Dave Hansen Corp SVP & GM, CA Security Management

Public Valuation vs. Transaction Valuation



Transaction Details

EV/S	2.3 x
EV/EBITDA	n/a

Other Notable Transactions

Novell acquires two

- Fortefi Corporation
- Actividetinty

HighJump acquires Insight Distribution

- Private equity owned strategic buyer

Contact Information

Corum Group Ltd.

Bruce Milne, CEO and Chairman

Ryan Blakely, VP Research
ryanb@corumgroup.com

**10500 NE 8th Street, Suite 1500
Bellevue, WA 98004
USA**

+1 425-455-8281

Corum Group International S.à.r.l.

**Beim Paradeplatz
Basteiplatz 7
8001 Zürich
Switzerland**

+41 44 251 82 65

Research and Conferences:

www.corumgroup.com