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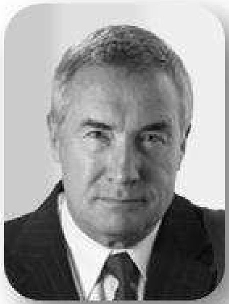
USA Switzerland Germany France United Kingdom Canada Norway Brazil

M&A Flash Report – April 2009

Software and IT Industry Market Update

Preserving and Enhancing Your Value

Thursday, April 2, 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)

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Agenda

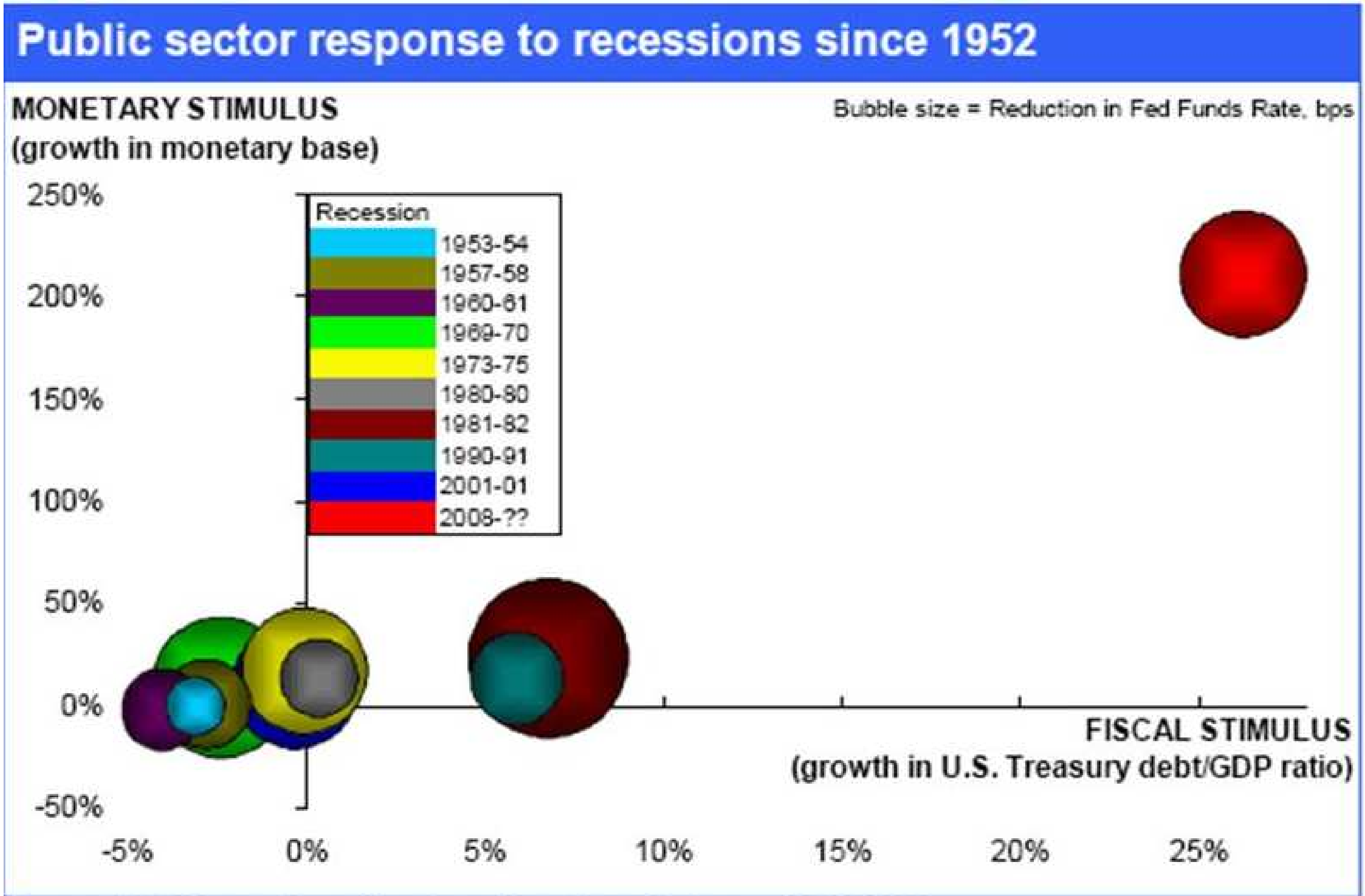
- Overview of market
- Profile of current LOIs
- Major trends that affect you
- Preserving and enhancing your value
- Valuation and structure analysis
- Closing comments - Q&A

Market Overview

March stock market impact

- Deals continue to happen
  Several firms in LOI
- Still no IPO's…but!
- Currently working with 300+ buyers (March)
- Financial buyers out…but!
- Buyers cash hoards needs to be invested
- Everyone is jockeying for position (IBM/Sun, FNIS/Metavante)

Stimulus Update



Source: J.P. Morgan Securities, Inc., Bloomberg. Data as of 3/30/2009.

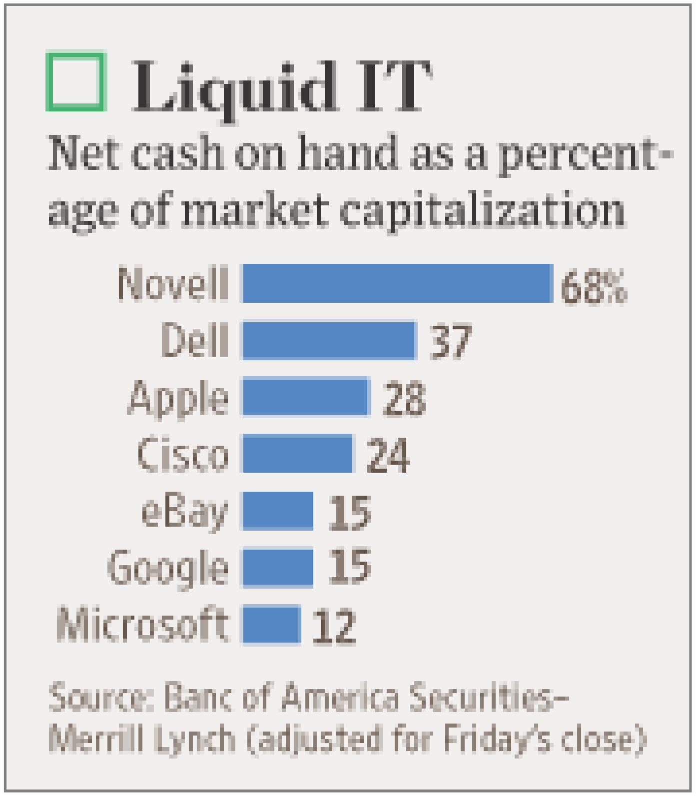
Valuations Up!

Company	Stock Price 03/03/2009	Stock Price 03/31/2009	% Change
Sun	$4.54	$7.32	61.23%
Nokia	$9.25	$11.67	26.16%
Oracle	$15.06	$18.07	19.99%
Apple	$87.71	$105.12	19.85%
Cisco	$14.50	$16.72	15.31%
Microsoft	$16.03	$18.37	14.60%
Symantec	$13.15	$14.94	13.61%
HP	$28.30	$32.06	13.29%
EMC	$10.13	$11.40	12.54%
IBM	$88.01	$96.89	10.09%
SAP	$32.28	$35.29	9.32%
Google	$326.67	$348.06	6.55%
Yahoo	$12.58	$12.81	1.83%

Cash Up!

Company	Year Ago Cash	Current Period Cash	
Sun	$2,363	$2,640	⬆
Nokia	$3,130	n/a	⬄
Oracle	$8,409	$11,290	⬆
Apple	$9,352	$25,650	⬆
Cisco	$5,191	$29,530	⬆
Microsoft	$10,339	$20,300	⬆
Symantec	$1,890	$1,530	⬇
HP	$11,591	$11,260	⬇
EMC	$4,482	$6,810	⬆
IBM	$10,786	$12,910	⬆
SAP	$3,151	$2,040	⬇
Google	$6,081	$15,850	⬆
Yahoo	$2,341	$3,450	⬆

Putting Cash To Use



- Mature market = cash generation
- Interest rates at all time lows
- Palatable valuations
- Risk of inflation and devalued dollar

Where should companies put their cash?

Appreciable assets (M&A)

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The Good News for Software/IT Firms

1. Tech is doing relatively well
2. Banks are picking up
3. Most deals are still dominantly cash
4. 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, U.S. Buyer & Seller

Profile 2

Specialty Vertical Market solution, Energy Sector , U.S. Seller / European Buyer

Profile 3

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

Profile 4

Infrastructure management, security, Tier 1 U.S. buyer

Pending

Vertical Market (1)	Vertical Market (2)
Mobile	Communications

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Now is the time for a wartime mentality…

"The wartime CEO prepares for the worst so that his or her company can take market share away from players who haven't."

Six Principles in a Downturn…

1. When in doubt – lead
2. Focus, focus, focus
3. Improve productivity – challenge model
4. Look after key employees
5. Get financial house in order – cash for worst case
6. Look after customers more than ever

Protect Existing Business

1. Old vs. new is the focus now
2. New customers hard to acquire
3. Will you be a project on hold?
4. Survey users now if needed
5. Can you expand offerings
6. Reinforce the value proposition
7. Service, service, service

The Next Cuts are Tougher!

- People shouldn’t be surprised (why me?)
- Don’t debate – just listen
- Don’t do serial layoffs
- Remember the new Cobra rules
- Careful when you announce – not Friday
- Be supportive – these are friends

Preserving & Enhancing Value

Managing in a downturn

1. Using technology and telepresence to increase communications

- Travel budgets are cut to the bone
- Cisco exec: "I have flown 20% of the miles I flew last year, but have tripled my interaction with customers, vendors and my team."
- Smart use of web conferencing and video conferencing results in more communications because it is efficient, with no down time.

2. Creative and flexible revenue relationships with customers

- Term licenses with mandatory renewals rather than perpetual licenses
- Higher revenue per sale, but less revenue up front
- If the customer can't get lease financing, the vendor can grant it directly

Preserving & Enhancing Value

3. **Cut marginal people, hire first class people**
    - Smart companies are recruiting for high profile positions
    - Flight to quality; good people are seeking more than just salary

4. **Establish KPIs for employees that achieve the strategic goal of maximizing profits**
    - Quote from local startup CEO: "We challenged the whole company to increase our profit margin. The result was web designers experimenting with the size of buttons to maximize our subscription rate."
    - One client challenged the team to pay down two million in debt over three years, and bonused them for achieving the goal.

Preserving & Enhancing Value

5. Understand your financial limitations

- Look for funding in advance of needing additional capital
- Know where your current investors stand, and what their pain level is

6. Keep your foot on the gas

- As CEO you should be actively involved in the sales process
- Expand sales and distribution reach by adding partners
- Build your marketing engine anyway you can

…Everyone’s in sales

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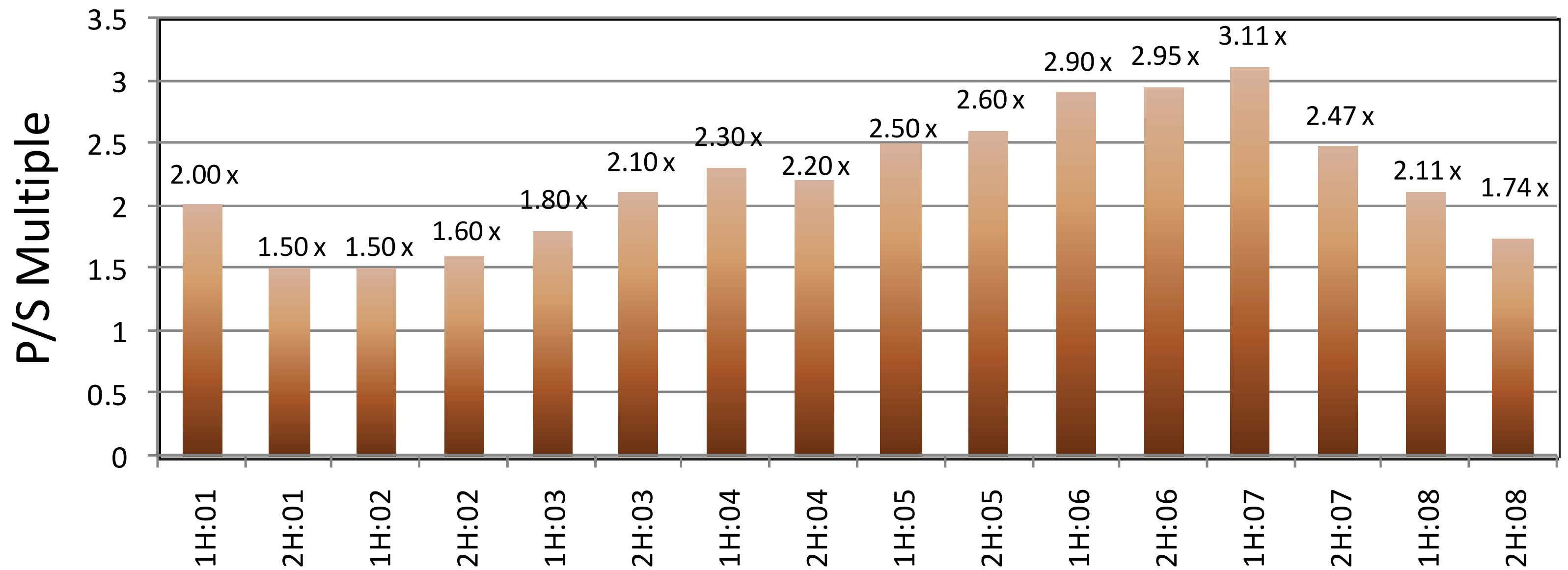
Valuation & Transaction Update

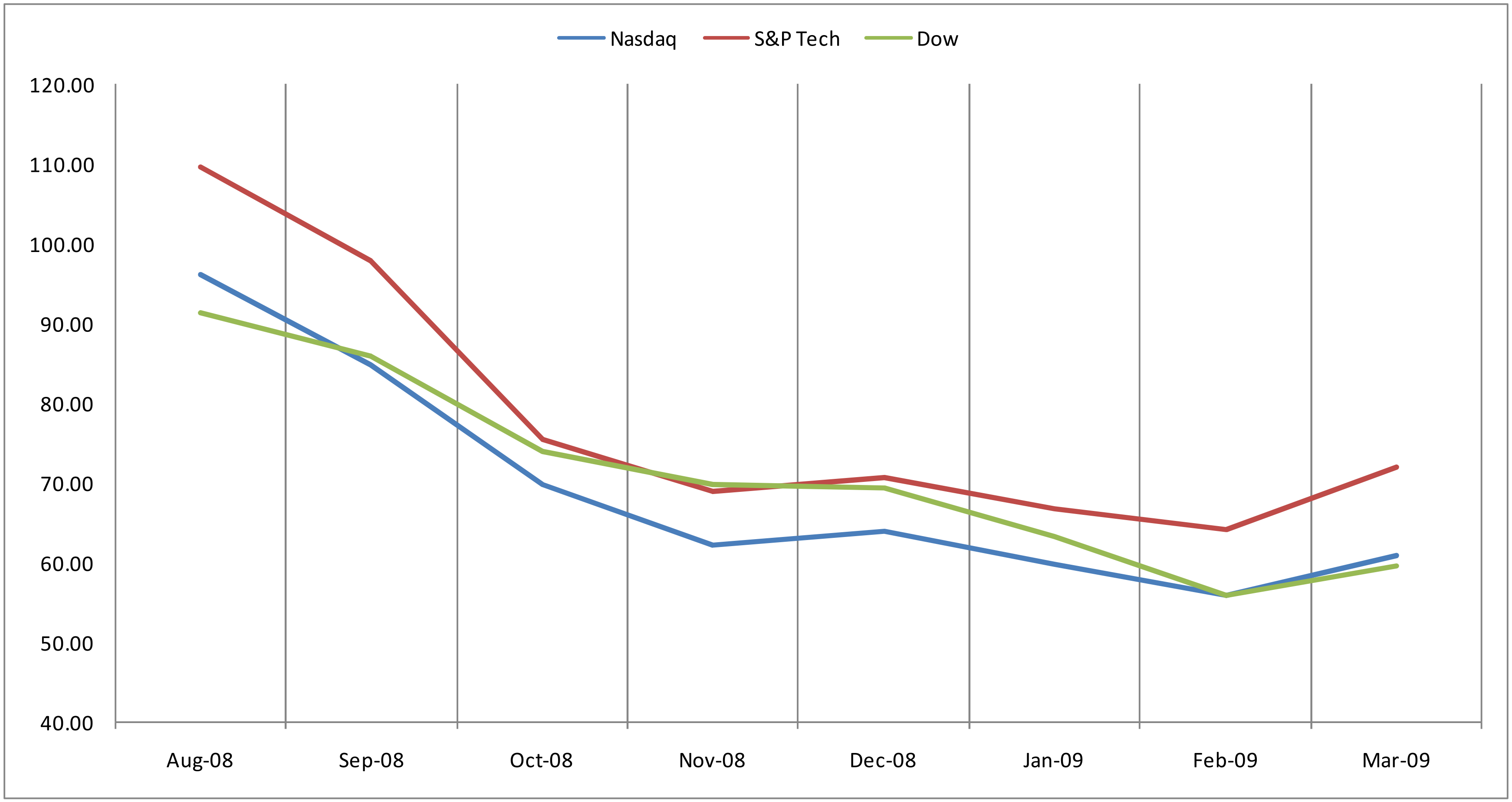
Ryan Blakely
Vice President, Research
Corum Group Ltd.

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.

Transaction Multiples – Software & IT



Public Markets



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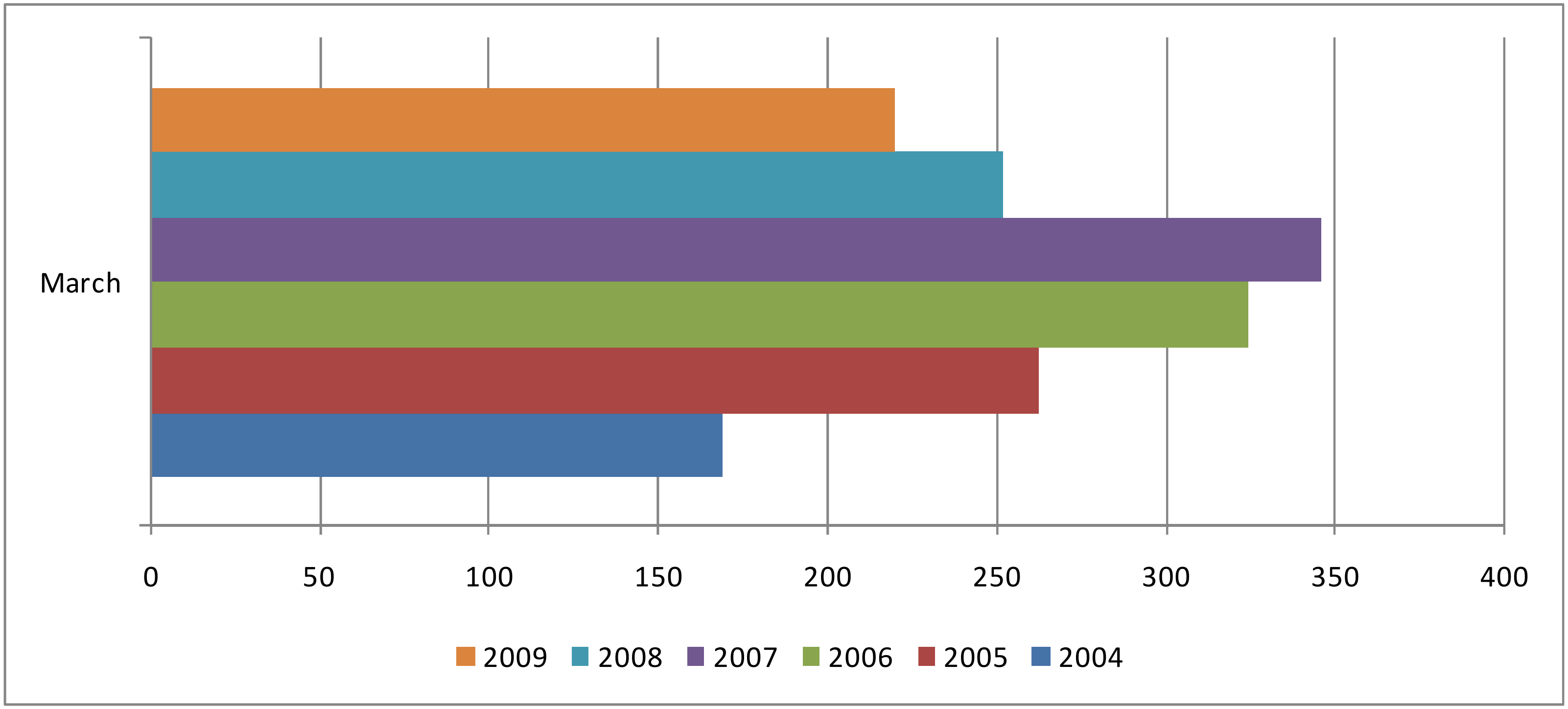
M&A Activity

Number of Software and IT M&A Transactions



Corum Index – M&A Statistics

	Q1:08	Q1:09
# of Transactions	833	615
# of Mega Deals	7	0
Largest Deal	$8,500.00	$775.00
Average Deal Size	$170.67	$66.50
Median Seller Size	$28.00	$25.00
# VC backed Exits	118	70
% Terms Undisclosed	60%	77%
All Cash (announced)	42%	55%
% Targets were Public	13%	18%
% Public Buyers	57%	43%

- Mega deals gone
- Cash remains king
- Increase in the number of private buyers
- Increased focus on the smaller transaction

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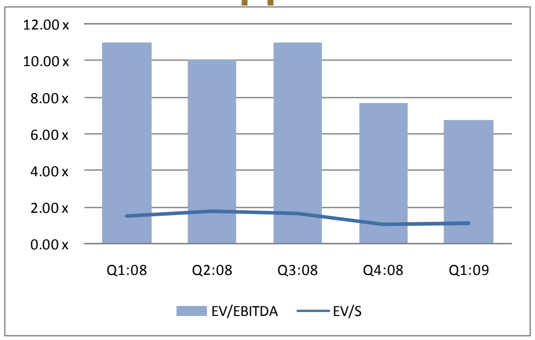
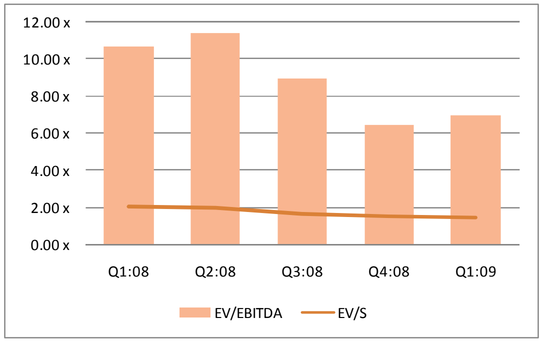
Public Valuations By Market

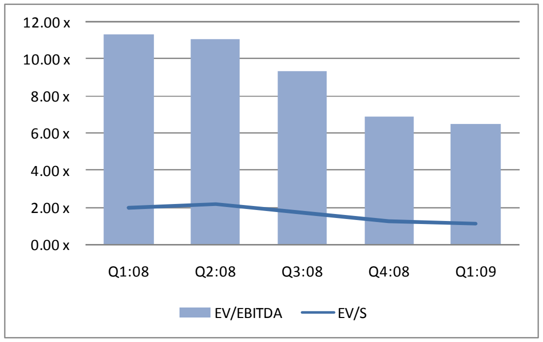
Horizontal Application Software



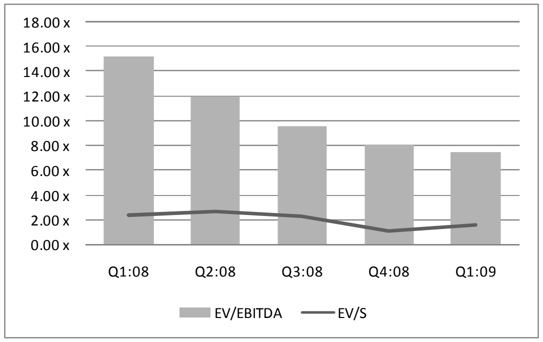
Infrastructure Software



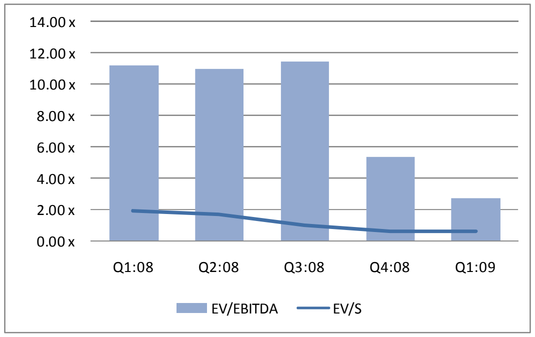
Vertical Application Software



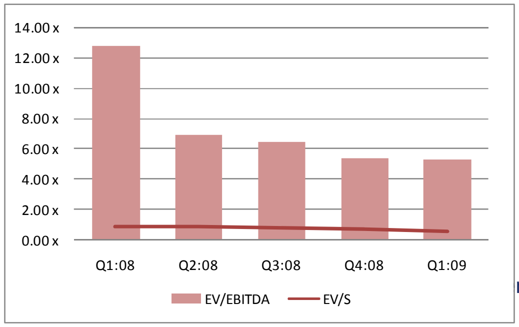
Internet



Consumer Application Software

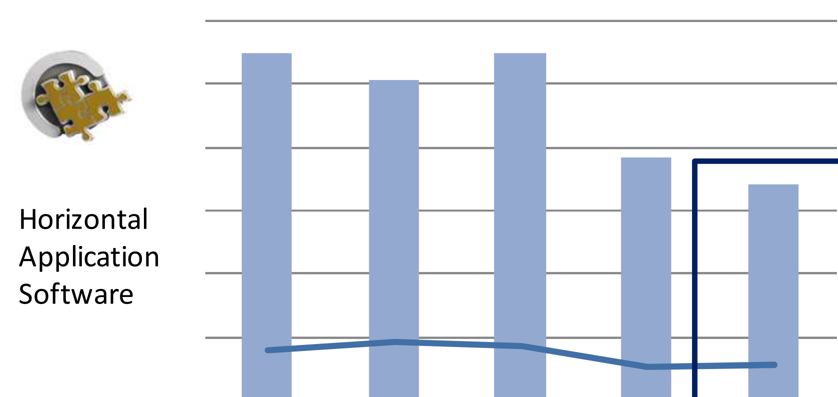


IT Services and BPO



Horizontal Application Software Market

Public Valuations



	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	11.02 x	10.12 x	11.01 x	7.69 x	6.82 x
EV/S	1.55 x	1.81 x	1.71 x	1.04 x	1.12 x

Notable Transaction

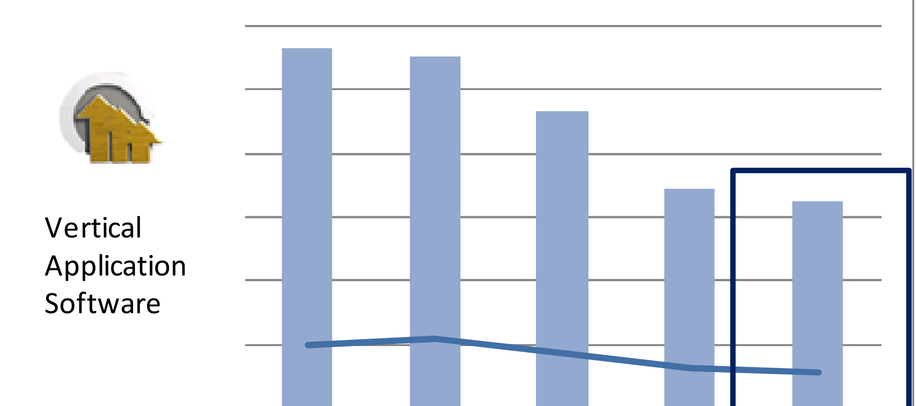
Sector: BI/Content Management
Target: Arvato AG (Empolis unit)
Buyer: Attensity Empolis Europe
Date: March 2009
Transaction Value: Undisclosed

Comments:

- Divestiture
- Financial Buyer
- Cross Border

Vertical Application Software Market

Public Valuations



	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	11.34 x	11.07 x	9.37 x	6.92 x	6.53 x
EV/S	1.99 x	2.19 x	1.71 x	1.26 x	1.14 x

Notable Transaction

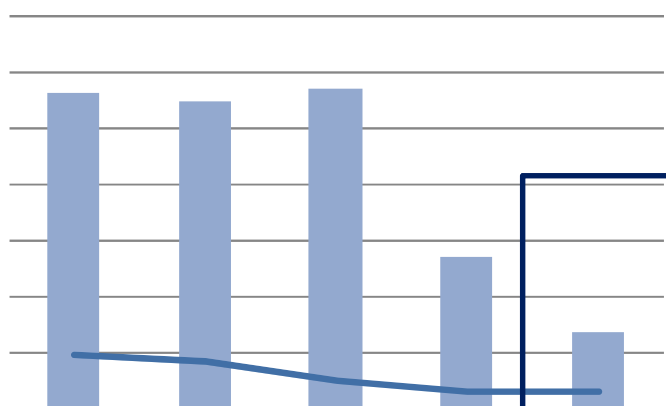
Sector: Government
Target: Visiphor Corporation (VISRF)
Buyer: Knowledge Computing Corp
Date: March 2009
Transaction Value: Undisclosed

Comments:

- Private buyer
- Public seller
- Hot sector
- Terms undisclosed
- Cross border

Consumer Application Software Market

Public Valuations



Consumer Application Software

	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	11.26 x	10.99 x	11.45 x	5.41 x	2.74 x
EV/S	1.91 x	1.70 x	0.99 x	0.61 x	0.64 x

Notable Transaction

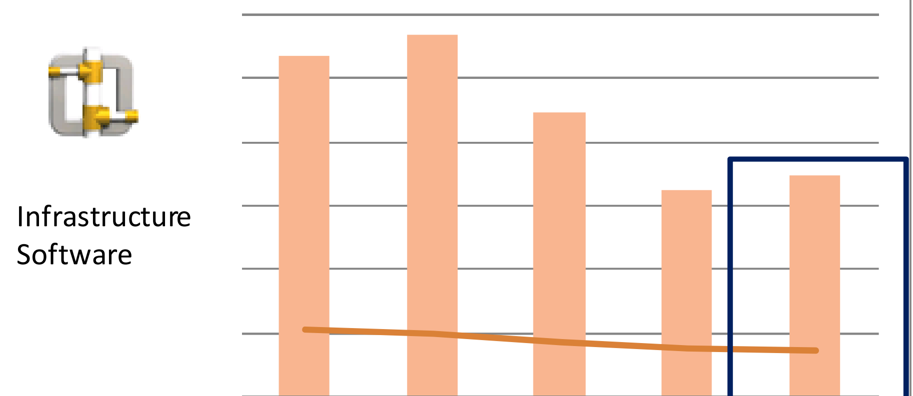
Sector: Managed storage
Target: Caleido AG
Buyer: LaCie
Date: March 2009
Transaction Value: Undisclosed

Comments:

- Market convergence
- Social networking
- Managed services
- Cross border

Infrastructure Market

Public Valuations



	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	10.71 x	11.39 x	8.98 x	6.47 x	6.98 x
EV/S	2.08 x	1.98 x	1.67 x	1.47 x	1.43 x

Notable Transaction

Sector: Security
Target: Chronicle Solutions Inc.
Buyer: NitroSecurity, Inc.
Date: March 2009
Transaction Value: $1M
Structure: Stock
Multiple: Pre-revenue

Comments:
- Small transaction value
- Broad sector hype

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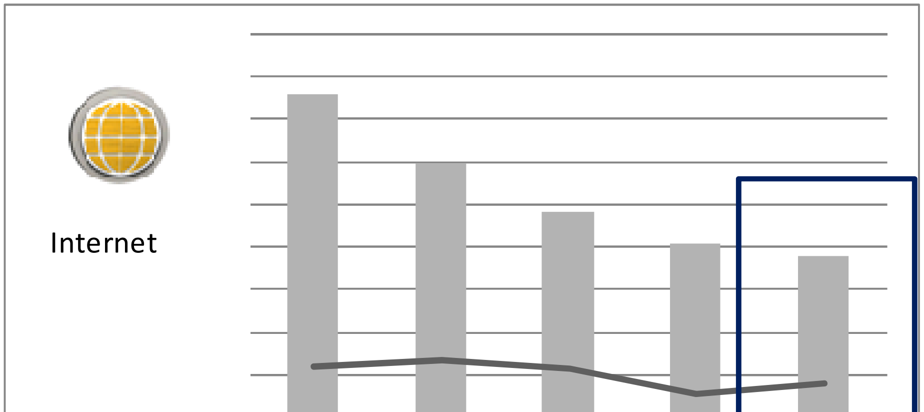
Internet Market

Public Valuations



	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	15.25 x	11.94 x	9.60 x	8.11 x	7.54 x
EV/S	2.45 x	2.71 x	2.34 x	1.10 x	1.60 x

Notable Transaction

Sector: Pure Play / ecommerce
Target: Fictionwise.com
Buyer: Barnes and Noble
Date: March 2009
Transaction Value: $15.7
Structure: Cash + earnout

Comments:

- Market convergence
- Business model maturity
- Content delivery shift
- Advances in hardware
- Competitive threats

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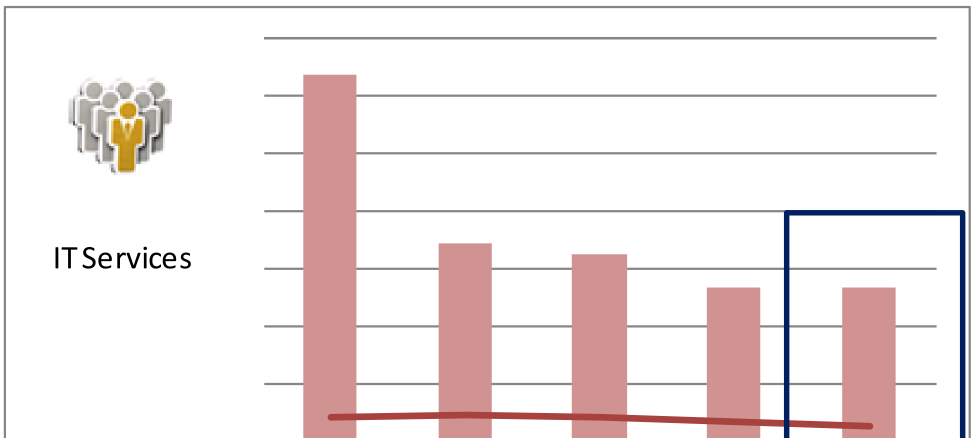
IT Services Market

Public Valuations



	Q1:08	Q2:08	Q3:08	Q4:08	Q1:09
EV/EBITDA	12.80 x	6.92 x	6.50 x	5.36 x	5.32 x
EV/S	0.85 x	0.89 x	0.80 x	0.70 x	0.56 x

Notable Transaction

Sector: IT Services
Target: BearingPoint
Buyer: Deloitte
PricewaterhouseCoopers
Date: March 2009
Transaction Value: $25M - $350M
Structure: Cash
Transaction Multiples:
Deloitte-EV/S 0.2x, EV/EBITDA 1.5x
PwC-EV/S 0.1x, EV/EBITDA 0.4x

Comments:

- Bankruptcy
- Consolidation

March – A Further Look

How many of these companies do you know?

March – A Further Look

These are:

- Major private companies
- Companies with global presence
- Some of the most active buyers

Most of you have never heard of them

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March – A Further Look

Outsourcing/BPO vendor acquires SMB HR and payroll firm

Paid 13x EBITDA for complementary firm based in London

Expand product footprint

Concentia Digital

Strengthening position in growing core market

Indian outsourcer adds U.S. presence

I-WRAP

Non-core divestiture

That is why you should do a global partner search

March – A Further Look

Deals "Outside The Box"

- Cisco's acquisition of Pure Digital

  compact video cameras

  EV/S: 3.9x

- Victory Acquisition Corp's acquisition of TouchTunes Music

  Digital music distribution

  EV/S: 4.7x

Still Good Prices for Good Companies

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

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Conference Schedule

April		
21	Vienna	Merge Briefing
28	Frankfurt	Marge Briefing
28	London	Merge Briefing
28	Austin	SUSO
29	Hamburg	Merge Briefing
30	San Antonio	Merge Briefing
May		
5	Houston	SUSO
7	Dallas	Merge Briefing
7	Web	M&A Flash Report
12	Atlanta	SUSO
14	San Jose	World Financial Symposiums: Growth & Exit Strategies
19	Dublin	Merge Briefing

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