

CORUM

USA Switzerland Germany France United Kingdom Canada Norway Brazil

M&A Monthly – April 2010 **Software and IT Industry Market Update**

“How to Sell Your Company Now!”

Thursday, April 1, 2010
10:00 am PT

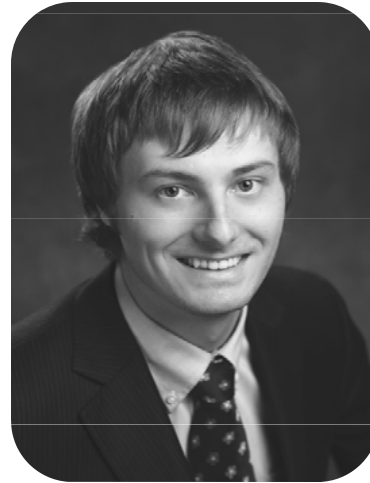
Presenters



Mark Reed
Executive Vice President
Corum Group Ltd.



Bruce Milne
CEO
Corum Group Ltd.



Dougan Milne
Director of Research
Corum Group Ltd.



Nat Burgess
President
Corum Group Ltd.

>> For today's presentation or more information, contact Pat Sultan
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Introduction



Mark Reed
Executive Vice President
Corum Group Ltd.

Mark joined Corum in 1997. During 1999 he took a sabbatical to participate in the launch of an Internet startup company, WorldStream Communications, as Vice President of Corporate Development.

Prior to Corum, Mark served as Executive Vice President of a boutique investment bank where he concentrated on providing private equity financing and arranging cross-border strategic alliances for high technology companies. He also served as Chief Operating Officer of a consulting company, advising multinational organizations such as Shell International Petroleum and the International Finance Corporation (World Bank Group) on new business development and foreign direct investment into Asia.

Before moving into the finance sector, Mark was a software developer and project manager, building application software on DEC and HP mini-computers. Mark has a B.S. in Mathematics and studied computer science at Seattle Pacific University and the University of Washington.

Agenda

- Overview of Current Global Market
- Market and Valuation Analysis
- “How to Sell Your Company Now!”
- Closing Comments - Q&A

Introduction



Bruce Milne
CEO
Corum Group Ltd.

A leader in the software industry, Bruce has founded or owned four software companies, including the largest vertical market software company, AMI, an Inc. 500 firm rated by IDC as the fastest growing computer-related company in the world.

He has served on advisory boards for Microsoft, IBM, DEC, Comdex and Apple, and as board member/founding investor in some of the most innovative firms in their field, including Blue Coat, Bright Star and Sabaki. Past advisor to two governors and a senator, a board member of the Washington Technology Center, and founder of the WTIA, the nation's most active regional technology trade association.

He worked with the Canadian government to found SoftWorld, and he was recently chosen as one of the 200 most influential individuals in the IT community in Europe. He was also the only American juror for the recent Tornado 100 Awards given to Europe's top technology firms

A graduate with Distinction from Harvard Business School, Bruce has written three books on business models for success, including *Power Planning*. He is a frequent lecturer and author.

Asia

- Japanese Business Sentiment at Pre-crisis Levels
- Yen Weaker as Economy Improves
- M&A Surge in Asia, While U.S. and Europe Suffer
- China – Australia Trade Barbs
- U.S. – China, Currency and Trade Collision Course

Euro Zone

- Iceland, Greece, Spain, Portugal, Ireland Problems
- U.K. Housing Prices Increase on Low Supply
- IMF Lowers German Growth – “Downside Risk”
- Greece Will Offer 5x Yield Spread of Spain
- Ireland Banks Need 43 Billion Euros

United States

- Corp. Bonds - Longest Winning Streak since 2004
- Chicago Purchasing Index Declines to 58.8%
- March Unexpected Job Loss in Private Sector (ADP)
- Tax Receipts of Major 15 States Rebound
- U.S. Loses AAA Rating

Real Estate

- U.S. Home Prices Unexpectedly Rise – 8th Month
- NYC Skyscrapers – Best Market Falterers
- New Home Sales Fell to Record Low
- BAC (1 million defaults) to Reduce Mortgages up to 30%
- Foreclosures Still Going to Bite Market

Technology

- iPhone for Verizon
- Google vs. China - Blocked Search
- iPad Sales Expected to Increase Sector Demand
- Q1 2009 to Q1 2010 M&A Up 300% - *451 Group*
- Tech Jump Leads Stocks Higher
- AAPL Market Cap Poised to Pass MSFT

Public Market

Top Buyers – Public Market TTM

Top Buyers	April 1, 2009	April 1, 2010	% Change
MSFT	\$19.31	\$29.77	54.2%
CSCO	\$17.46	\$26.65	52.6%
IBM	\$96.89	\$128.77	32.9%
EMC	\$11.67	\$18.04	54.6%
ORCL	\$18.58	\$25.57	37.6%
GOOG	\$348.06	\$563.18	61.8%
HPQ	\$32.88	\$53.06	61.4%
SYMC	\$14.94	\$17.05	14.1%
YHOO	\$12.81	\$16.61	29.7%
SAP	\$35.29	\$47.84	35.6%
AAPL	\$105.12	\$235.85	124.4%
		Average Change	50.8%

The highest y-o-y run-up in public valuations since the dot.com bubble

Market and Valuation Analysis

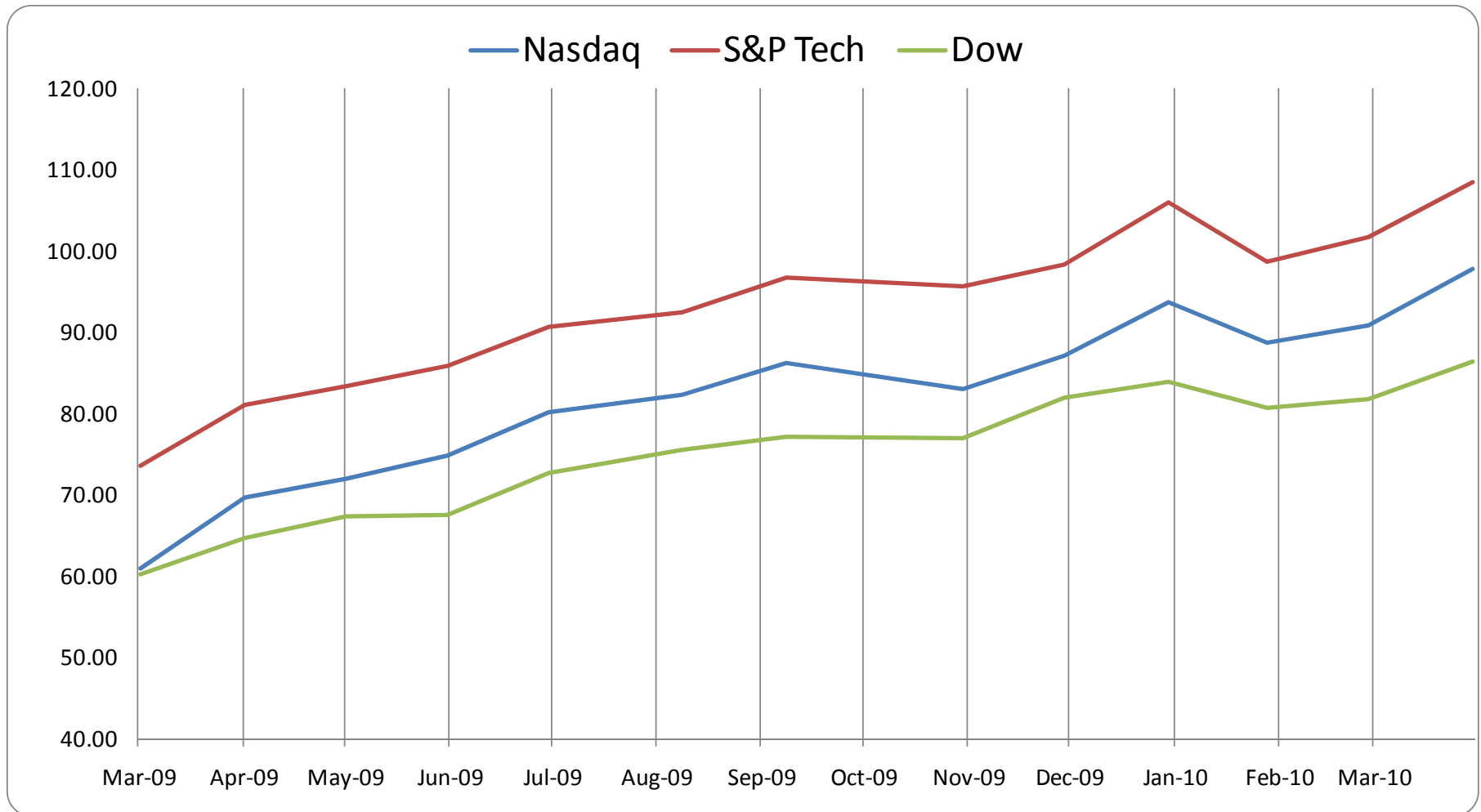


Dougan Milne
Director of Research
Corum Group Ltd.

Dougan is Director of Research at the Corum Group, Ltd in Seattle, WA. Previously, he spent 3 years based out of Corum's European headquarters in Zürich, Switzerland. Prior to joining Corum's team in 2005, Dougan spent 3 years working in the banking industry with Bank of America, and Citigroup's Private Wealth business unit.

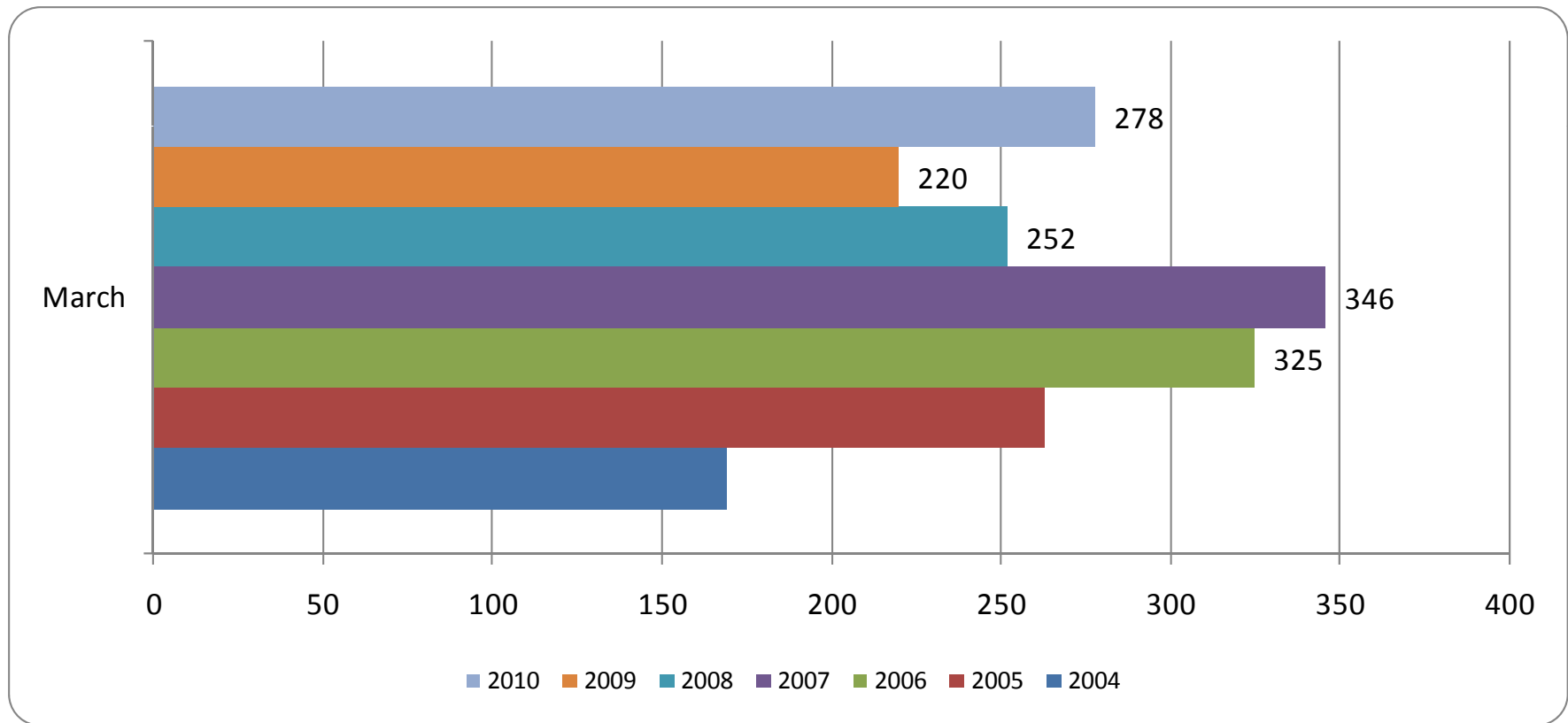
Before entering finance and investment banking, Dougan founded the successful garment distribution business, Billions Apparel. In 2006, he started an advertising company serving the motorcycle industry, Modo Marketing. Dougan has a Bachelors degree in Business Economics from the University of San Diego (USA).

Public Markets



M&A Activity – March

Number of Software and IT M&A Transactions



Corum Index – M&A Statistics

Corum Index

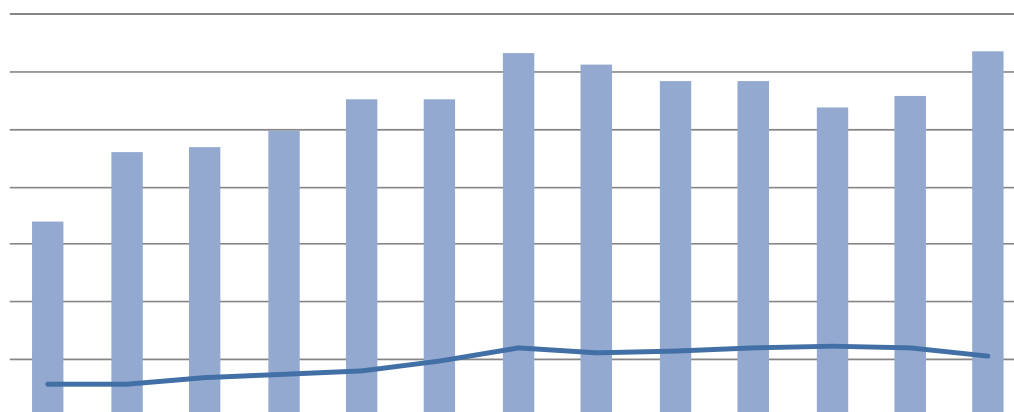
	Mar-09	Mar-10
# of Transactions	220	278
# of Mega Deals	0	4
Largest Deal	\$590	\$1,993
Average Deal Size	\$97	\$274
Median Seller Size	\$65	\$22
# VC backed Exits	25	25
% Terms Undisclosed	77%	76%
All Cash (announced)	49%	22%
% Targets were Public	18%	15%
% Public Buyers	33%	48%

Horizontal Application Software Market

Public Valuations



Horizontal Application Software



	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
EV/EBITDA	6.82 x	9.23 x	9.39 x	9.99 x	11.06 x	11.06 x	12.67 x	12.26 x	11.66 x	11.67 x	10.76 x	11.16 x	12.71 x
EV/S	1.12 x	1.16 x	1.35 x	1.50 x	1.58 x	1.93 x	2.41 x	2.21 x	2.29 x	2.41 x	2.48 x	2.42 x	2.11 x

Deal Spotlight:

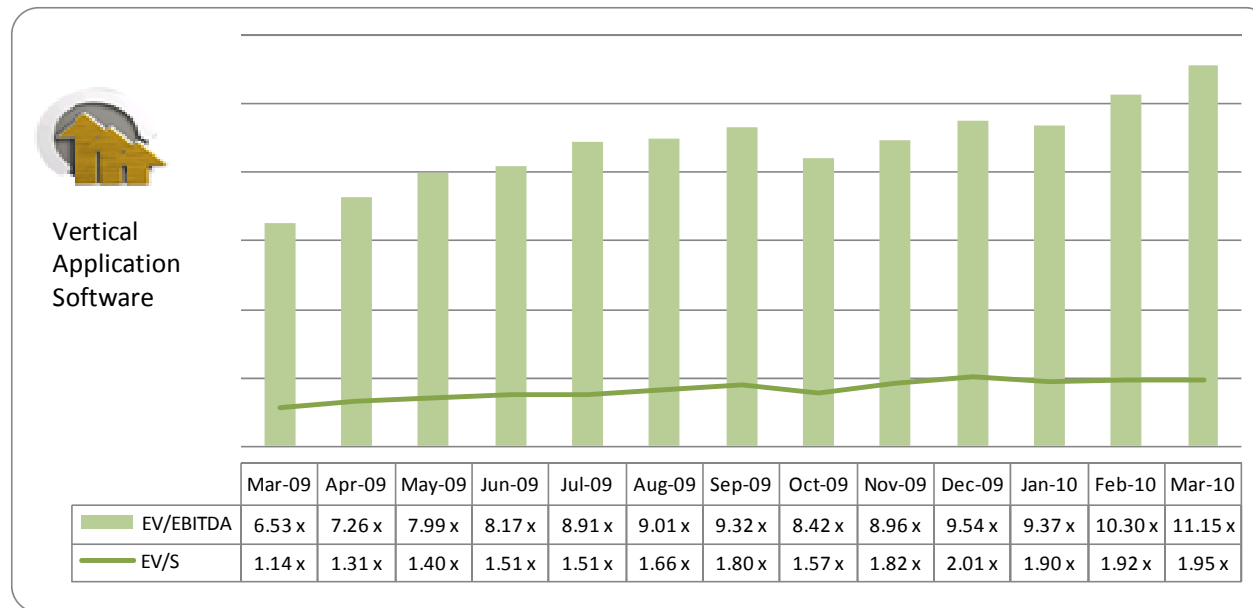
Sector: CRM
Target: Chordiant
Buyer: Pegasystems
Transaction Value:
 \$161.5 million
 1.4x revenues
Structure: Cash

Comments:

- Departure from pure BPM
- Chordiant had fall-out with CDC
- Expanded portfolio

Vertical Application Software Market

Public Valuations



Deal Spotlight:

Sector: Education

Target: PLATO

Buyer: Thoma Bravo

Transaction Value:

\$143 million

2.7x revenues

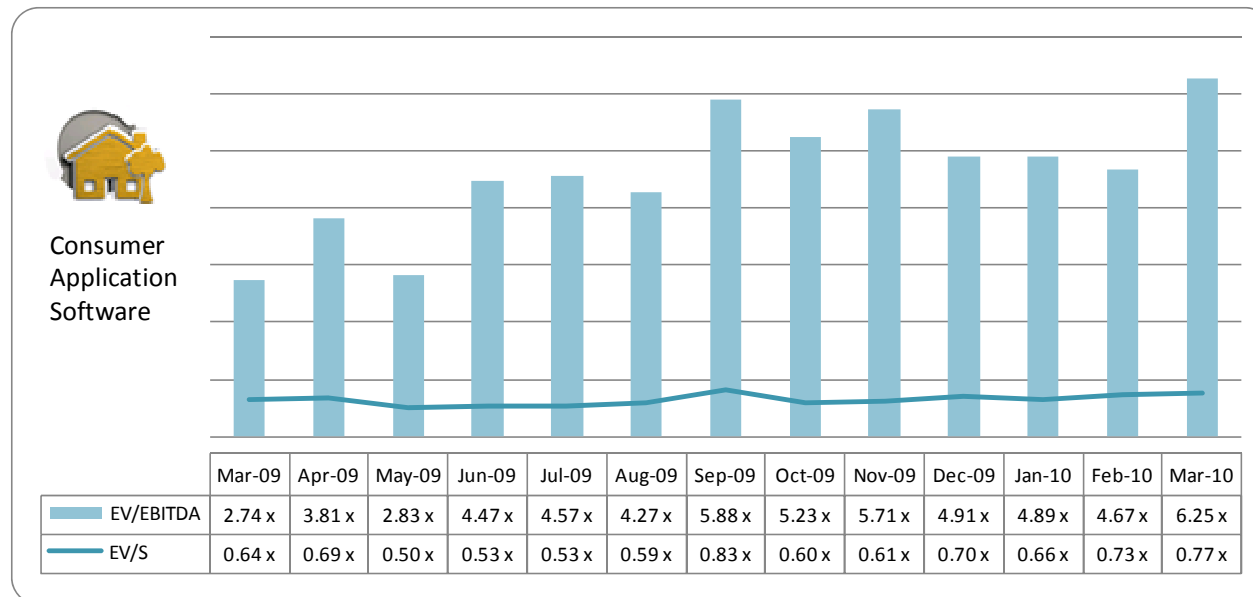
Structure: Cash

Comments:

- Adds to Education portfolio
- Software - Education
- Roll-up coming?

Consumer Application Software Market

Public Valuations



Deal Spotlight:

Sector: Information

Target: CanPages

Buyer: YellowPages

Transaction Value:

\$220.24 million

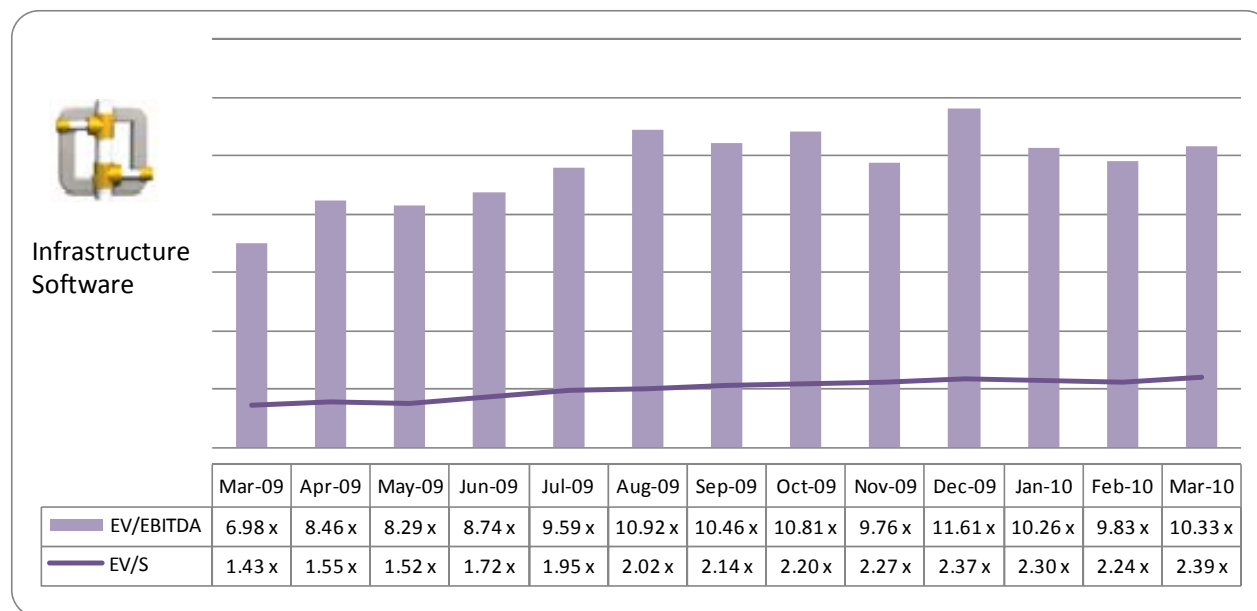
Structure: Cash + Promissory

Comments:

- Heavy acquirer
- Massive consolidation
- Market share

Infrastructure Market

Public Valuations



Deal Spotlight:

Sector: Cloud Mgmt

Target: Nimsoft

Buyer: CA

Transaction Value:

\$350 million

10.9x revenues

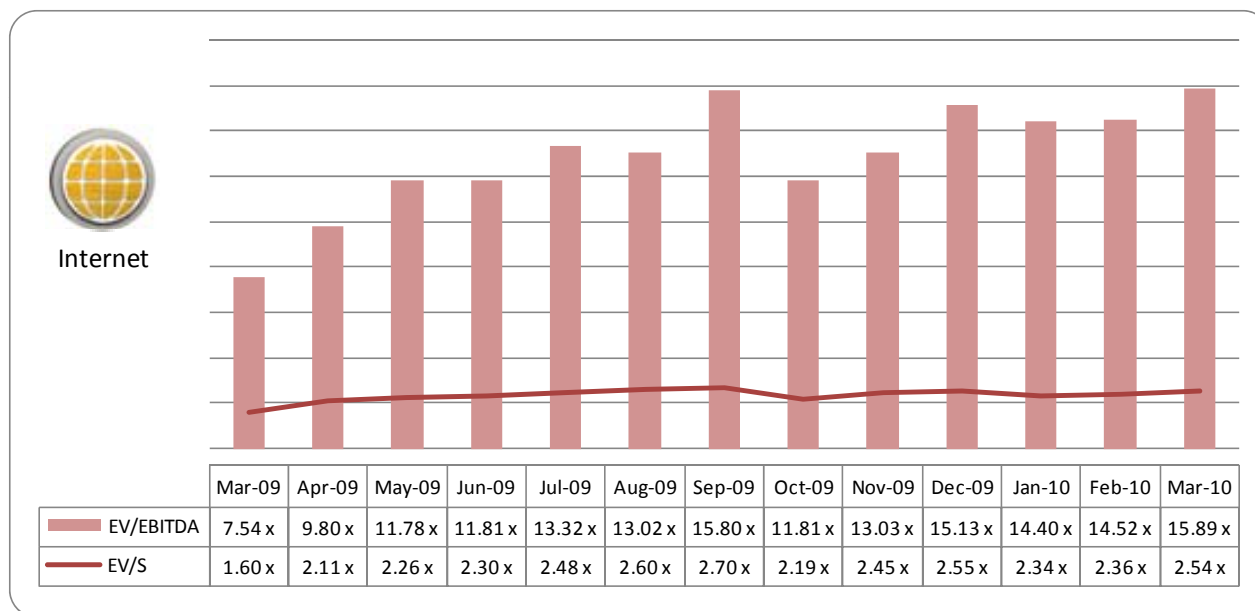
Structure: Cash

Comments:

- New market penetration
- Highly complementary

Internet Market

Public Valuations



Deal Spotlight:

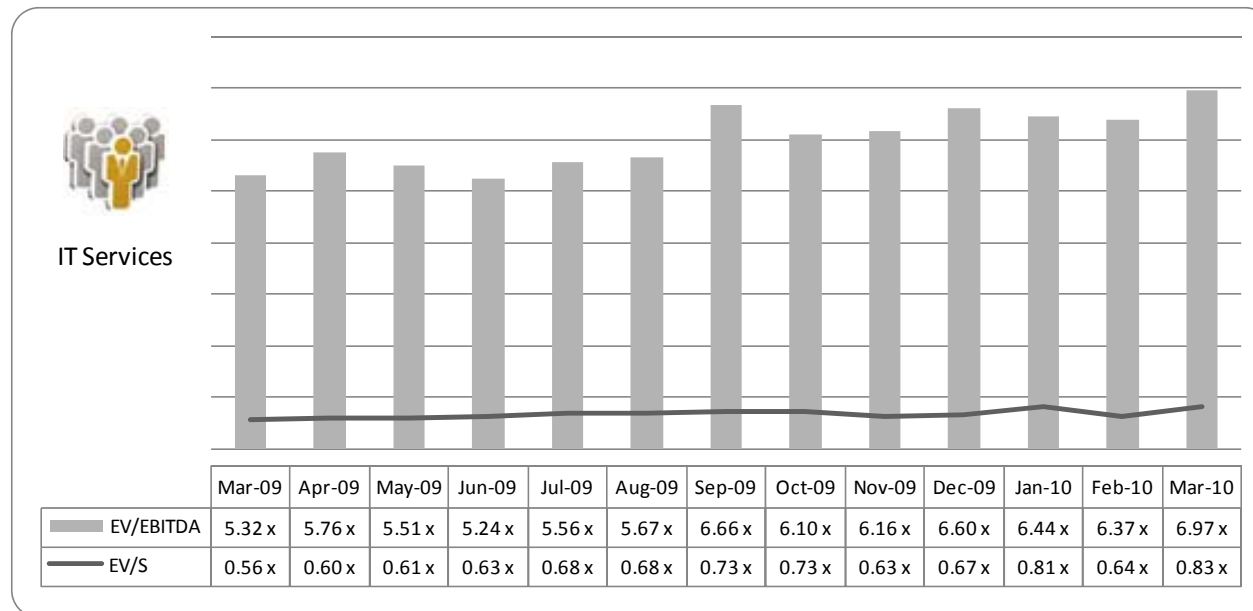
Sector: Pure Play
Target: TweepML + Qwitter
Buyer: Agora
Transaction Value: N/A
Structure: N/A

Comments:

- Social Consolidation
- New platforms – New opportunities

IT Services Market

Public Valuations



Deal Spotlight:

Sector: BPO

Target: Simmplus

Buyer: EzWim BV

Transaction Value: Undisclosed

Structure: N/A

Comments:

- First significant transaction
- Expansion through acquisition

How to Sell Your Company Now!



Nat Burgess
President
Corum Group Ltd.

Nat joined Corum in 1996 and brings a diverse background in technology M&A and law. While with the Enforcement Division of the U.S. Securities and Exchange Commission, Nat helped identify and build cases against securities fraud schemes. With the Strategic Development Division of Morgan Stanley's M&A group, Nat worked on cross-border acquisitions of U.S. and European companies by Japanese firms, and on financings by large Japanese public companies. Nat moved to Morgan Stanley's Tokyo office, where he reported directly to the President of Morgan Stanley, Japan Ltd. and focused exclusively on cross-border M&A.

After Morgan Stanley, Nat co-founded Postcard Software, a creator of advertiser-driven bilingual (English and Japanese) Internet content. At Activision, Nat led the company's on-line business development.

Nat earned an undergraduate degree in Japanese literature from Yale College and a law degree from UCLA. While in law school, Nat wrote articles for the International Forum at Yale, Tokyo Journal. Frequently quoted in industry publications and in other technology business news articles, such as Time magazine's piece analyzing the strategy behind certain Google acquisitions, Nat is also a highly sought speaker at industry conferences, and Chairman of the World Financial Symposiums.

CORUM

USA Switzerland Germany France United Kingdom Canada Norway Brazil

How to Sell Your Company Now!



Recent Corum Transactions



Rudolph is a provider of process characterization equipment and software for wafer fabs. Adventa provides Advanced Process Control technologies to semiconductor manufacturers for tool automation.

Rudolph: USA
Adventa: USA



API provides human capital management solutions to the healthcare industry. Clearview provides workflow management solutions for healthcare staffing agencies to recruit, credential, schedule and pay temporary staff.

API Healthcare: USA
Clearview Staffing: USA



Ipswitch's Network Management Division is the maker of WhatsUp Gold and innovative network management solutions. Dorian provides event log management solutions for Windows.

Ipswitch: USA
Dorian: USA



Allegiance offers next generation feedback management software to help grow customer and employee loyalty and engagement. Inquisite is a leader in Enterprise Feedback Management software that facilitates the gathering, understanding, and acting upon business-critical data.

Allegiance: USA
Inquisite: USA

Recent Corum Transactions

neopost[®]
has acquired
Satori Software

Corum Group acted as exclusive M&A advisor to Satori

CORUM
MERGERS & ACQUISITIONS

Neopost is a worldwide provider of mailing machines, postage meters, and software solutions. Satori Software is a leader in address management tools with focus on the postal delivery space.

Neopost: France
Satori Software: USA

SAI GLOBAL
has acquired
CINTELLATE
Leading EHS Software
A leader in compliance and risk management software for safety, health and the environment.

We initiated this transaction and acted as exclusive M&A advisor to Cintellate Pty, Ltd.

CORUM
MERGERS & ACQUISITIONS

SAI Global provides information services and solutions for managing risk, achieving compliance and driving business development. Cintellate does this in the areas of environment, health, safety (EHS) and risk-related performance.

SAI Global: Australia
Cintellate: Australia

Geoservices
has acquired
PETROSPEC
A leader in pore pressure and rock properties analysis

We acted as exclusive M&A advisor to Petrospec Technologies

CORUM
MERGERS & ACQUISITIONS

Geoservices is a leader in oilfield services to evaluate and optimize field exploration. Petrospec is a leader in geopressure analysis and drilling engineering software for hydrocarbon exploration and production.

Geoservices Group: France
Petrospec: USA

HITACHI
Hitachi Construction Machinery Co., Ltd.
has acquired
W Wenco
A leading vendor of mine management solutions to the global mining industry

We initiated this transaction and acted as exclusive M&A advisor to Wenco International Mining Systems, Ltd.

CORUM
MERGERS & ACQUISITIONS

Hitachi is a global vendor of mining equipment while Wenco is a leading vendor of mine management systems, enabling Hitachi to offer solutions to increase mine productivity.

Hitachi: Japan
Wenco: Canada

Recent Transaction Take-Aways

- Cross-border
- Strategic
- Quality team
- Profitable business model
- Relevant to growing market

Most importantly. . .

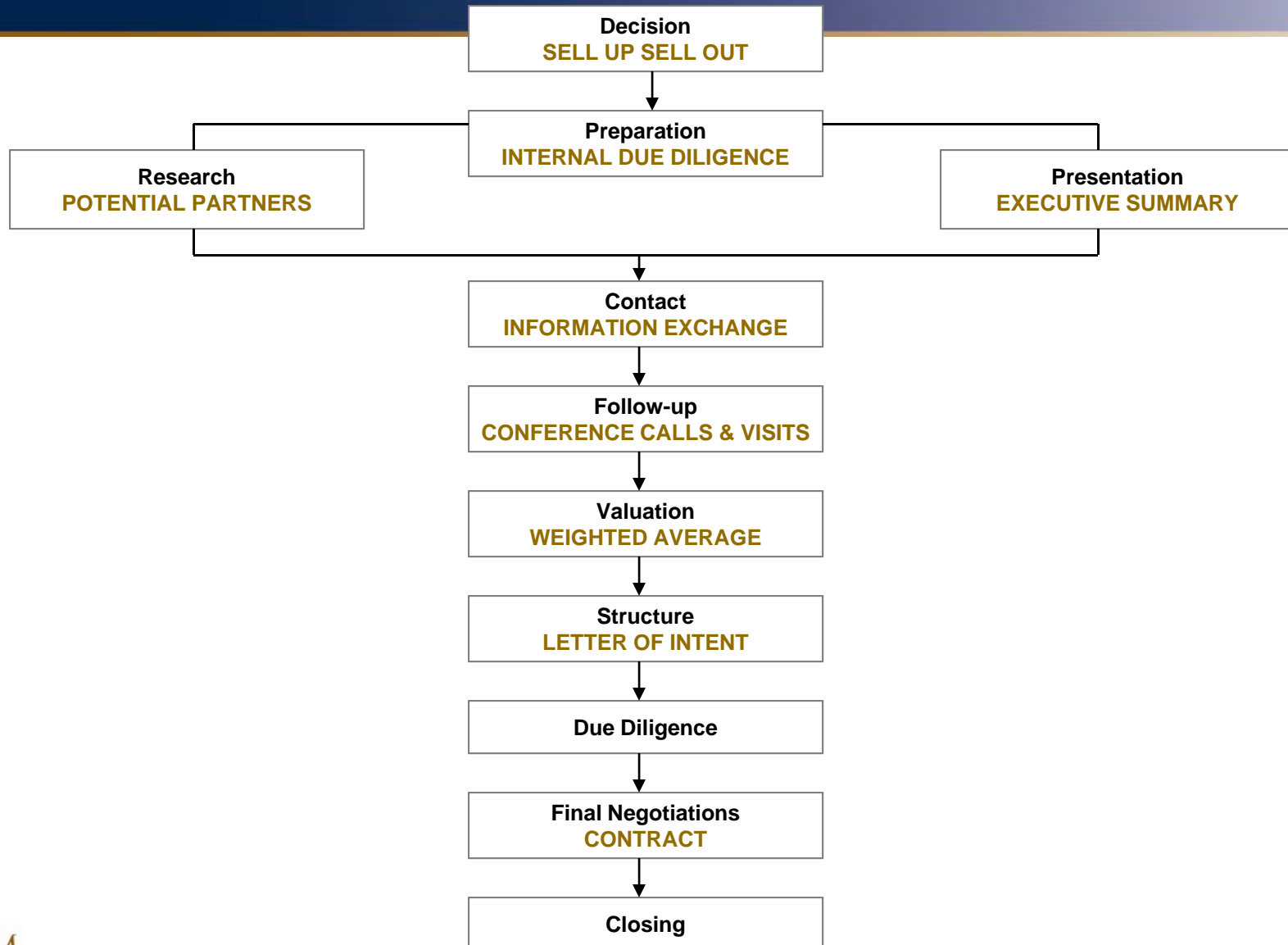
- You HAVE to run a process

Why run a process?

With a professional global search:

- First bidder offer will improve by average 48% (liquidity). In one recent case the first bidder tripled their offer to meet a competitor's bid
- 75% of time there will be better offer from another buyer
- Certainty for shareholders – not leaving money on the table

M&A Process



M&A Process and Timeline

The Goal: Maximize shareholder value and successfully execute the proposed sale

The Method: Detailed research, timely communication and time-proven sales process

The Strategy: Pro-actively conduct a controlled auction that provides your company with multiple options at the highest supportable valuation

Weeks 1 – 6 Preparation	Weeks 7 – 23 Buyer Contact	Weeks 24-28 Deal Negotiations	Weeks 28-36+ SPA
<ul style="list-style-type: none"> Complete CEO worksheet Conduct IPM with Corum team Prepare executive summary Finalize buyers list Develop synergy and contribution analysis Compile financial memorandum Valuation report 	<ul style="list-style-type: none"> Initiate dialogs with potential buyers Qualify interest Distribute executive summary, NDAs and confidential financial memorandum Organize conference calls, site visits and meetings Provide valuation guidance Initiate auction phase Qualify indications of interest 	<ul style="list-style-type: none"> Manage auction process Organize final management discussions/visits Negotiate with top bidder(s) Final due diligence process 	<ul style="list-style-type: none"> Negotiate definitive purchase agreement and related deal documentation Negotiate employment and non-compete agreements
<ul style="list-style-type: none"> Deliverable-based progress reporting 	<ul style="list-style-type: none"> Bi-weekly review, ad hoc contact with customer lead, report to/at Board meeting 	<ul style="list-style-type: none"> Ad hoc reviews, report to/at Board meetings 	<ul style="list-style-type: none"> Ad hoc reviews, report to/at Board meetings

Due Diligence Checklist

You Will Need (Minimum):

- Income Tax Returns – three years
- Financial Statements – three years
- Projections – three years
- Bank and accounting records
- Copies of leases and contracts
- Written explanation of the business model/methodologies
- Analysis of competitors/market/opportunities
- Overview of financial condition/requirements of the company
- Customer/Supplier lists/Agreements
- Copies of all sales literature
- Organization chart/key job descriptions
- List of all assets owned
- Board minutes/resolutions

Presenting Your Company

You Will Need (Minimum):

- Researched buyers list (contact names and EAs)
- Strategic analysis per buyer
- Introductory Letter(s)
- Executive Summary (Opportunity Overview)
- Transaction NDA
- Financial Memorandum
- Corporate Presentation (verbal / PPT)
- Valuation (later)

What Buyers Value (Not Just Technology)

- Vision
- Research
- Management
- Business Model (SaaS)
- Planning
- R&D Process
- Patents
- Record Keeping
- Documentation
- Pricing
- Support
- Market Share
- Staff
- International
- User Base
- Marketing
- Channels
- Alliances
- Competitive Position
- Technology
- Sales Process
- Recurring Revenue
- Growth
- Profitability
- Domain Expertise

...Want to keep you out of competitors' hands.

Target Buyers

Identify the target companies

The A List

You probably know who they are; they may have already approached you

**Strategic
Buyers**

The B List

Similar characteristics to the A list candidates, but you are not familiar with them

- Foreign firms*
- Non-technology

**Financial
Buyers**

** Don't ignore newly public international firms*

Top Strategic Buyers

For the Decade (2000 - 2010)

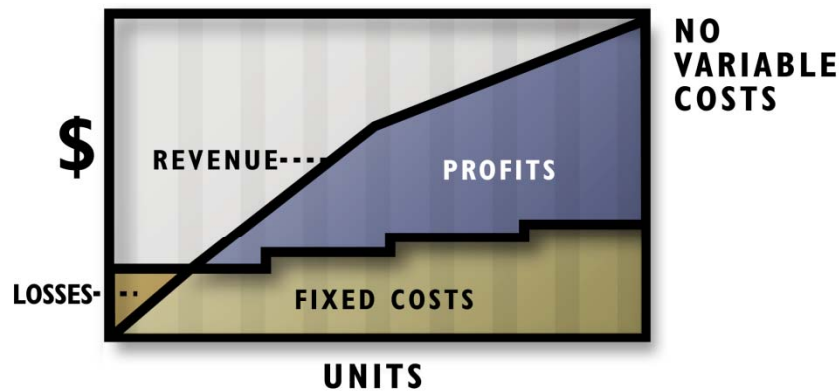
Company	# of Deals	Current Cash in Billions
Microsoft	94	\$33.5
Cisco	88	\$39.7
IBM	85	\$14
EMC	66	\$6.7
Oracle	60	\$20.8
Google	60	\$24.5
HP	56	\$13.6
Apple	52	\$24.8
Yahoo!	45	\$3.3
SAP	38	\$N/A

Don't forget the
Financial Buyers...

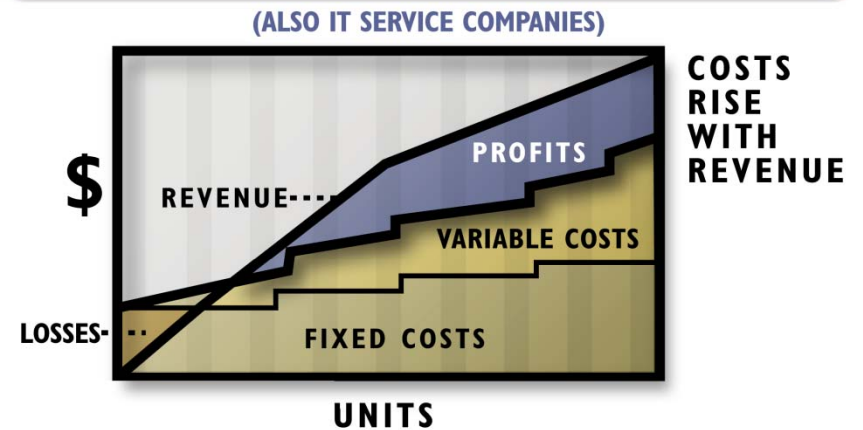
over \$500 Billion
(2x Strategic Buyers)

Why Software Companies Are So Valuable

TYPICAL SOFTWARE COMPANY



TYPICAL TRADITIONAL COMPANY
(ALSO IT SERVICE COMPANIES)



Valuation – Intangible Assets

- Balance sheets have little to do with software or IT service company valuations
 - Deal participants with a background in traditional M&A may be overly focused on balance sheet-based valuation methods

SAMPLE LOI:

“Based on your forecast...and a net book value of \$307K (Dec. 31), we would like to make an initial cash payment of \$8.0 million, with an additional \$4.5 million of stock at closing. Additional earnout of \$2.0 million will be paid over a five-year period based on a revenue target.”

Primary Ways to Value a Software Company

1

Sales Multiple (EV/S) – Public Company

2

Earnings Multiple (PE)

3

Similar Company Transaction

4

Discounted Cash Flow (DCF)

5

Replacement Value

Valuation – The Challenging Part

- Good three-year forecasts
 - Growth rates
 - Profitability
 - Discount rate
 - Terminal value
- Relevant public company peer group
- Finding M&A transaction data for comparable sales
- Recasting can change the value

Market-Based Valuations

Enterprise Value to Sales (EV/Sales):

The ratio of a public company's trailing 12-months revenue to its enterprise value

Enterprise Value to EBITDA (EV/EBITDA):

The ratio of a public company's trailing 12-months EBITDA to its enterprise value

Comparable Transactions:

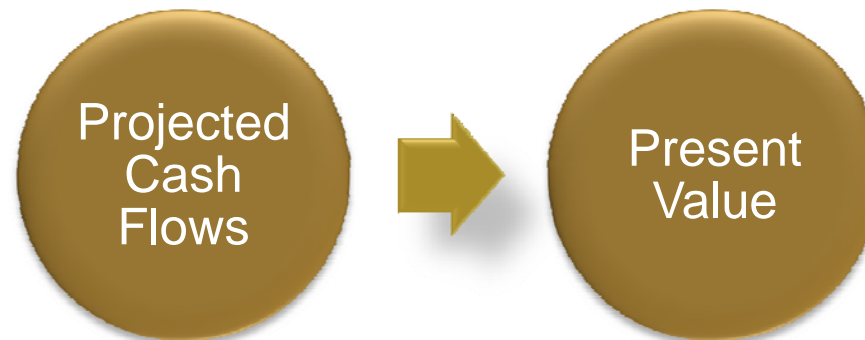
The valuation ratios of comparable companies that were acquired

Replacement Value

- This is a classic make vs. buy analysis. The value of a company can be determined by the cost of replacing the software and assets of the business.
- Once estimates of development costs are done, multiply the total costs by a “time to market” multiple.
- This quantifies the time in terms of lost momentum, market share & lost sales opportunities if a buyer decides to develop a comparable product suite.

Discounted Cash Flow

- The value is the sum of future projected cash flows discounted back to the present value



- Use three-year financial projections
- A terminal value captures the value of the cash flows after the forecast period
 - The terminal value can be calculated many ways
 - A multiple of Year 3 revenue is common for the software industry

Common Valuation Mistakes

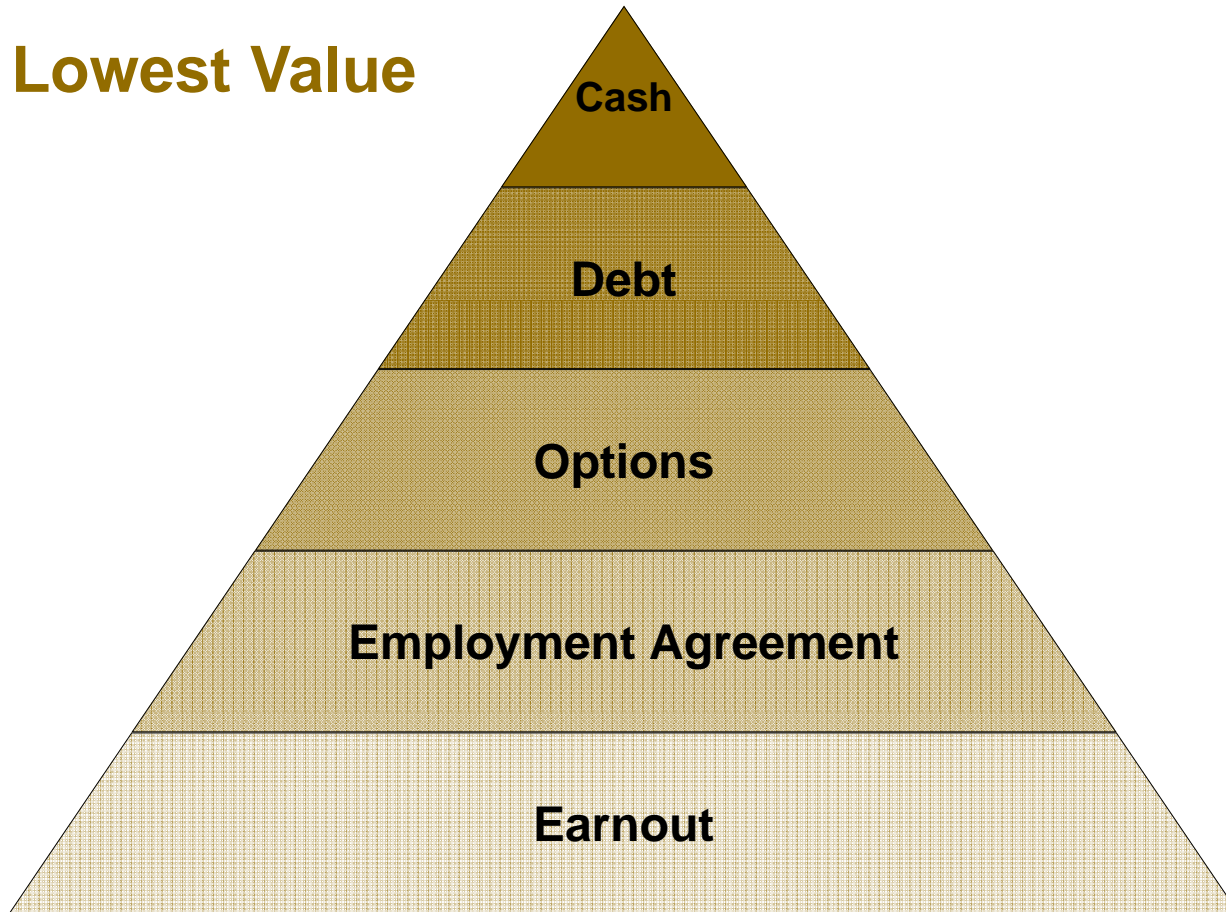
- Not providing clean financial data
- Using improper revenue recognition methods
- Overly aggressive or timid forecasts
- Using forecasts that are not based on the company going forward as a standalone entity
- Irrelevant and/or outdated comparables
- Comparing public to private companies without applying a liquidity discount
- Not using the appropriate time period (TTM, FYE, etc.)

Structure – More Important Than Price

- What is being purchased?
 - Stock or Assets
 - Sellers generally prefer to sell shares
 - Better tax benefits
 - Less liability
 - Fewer minority shareholder problems
- How and when it is paid
- The currency used
- Will involve non-competes, employment agreements, etc.

Structure

Lowest Value



Highest Value

Negotiation – Typical Flow



What Are You Negotiating?

Price

- You want the buyer to pay at least Intrinsic Value; the buyer would prefer to pay less.
- Assuming you have a strategic buyer, you want him to share the delta between Fair Market Value and his Strategic Value; the buyer would prefer to keep it all.

Risk

- You want the buyer to assume most if not all of the risk.
- He would prefer that you to take all the risk for an unlimited time.

Negotiation - Qualifying the Buyer

- Why are you interested in my company?
- Has your company done acquisitions before?
 - How did they work out?
 - Can I talk to their people?
- Do you have a preferred deal structure; if so, what is it?
- What is the approval process you must follow?
- Who is involved in the decision?
- How do you see our company fitting into yours?
- What is the process you use for integrating acquisitions?

Buyer Tactics

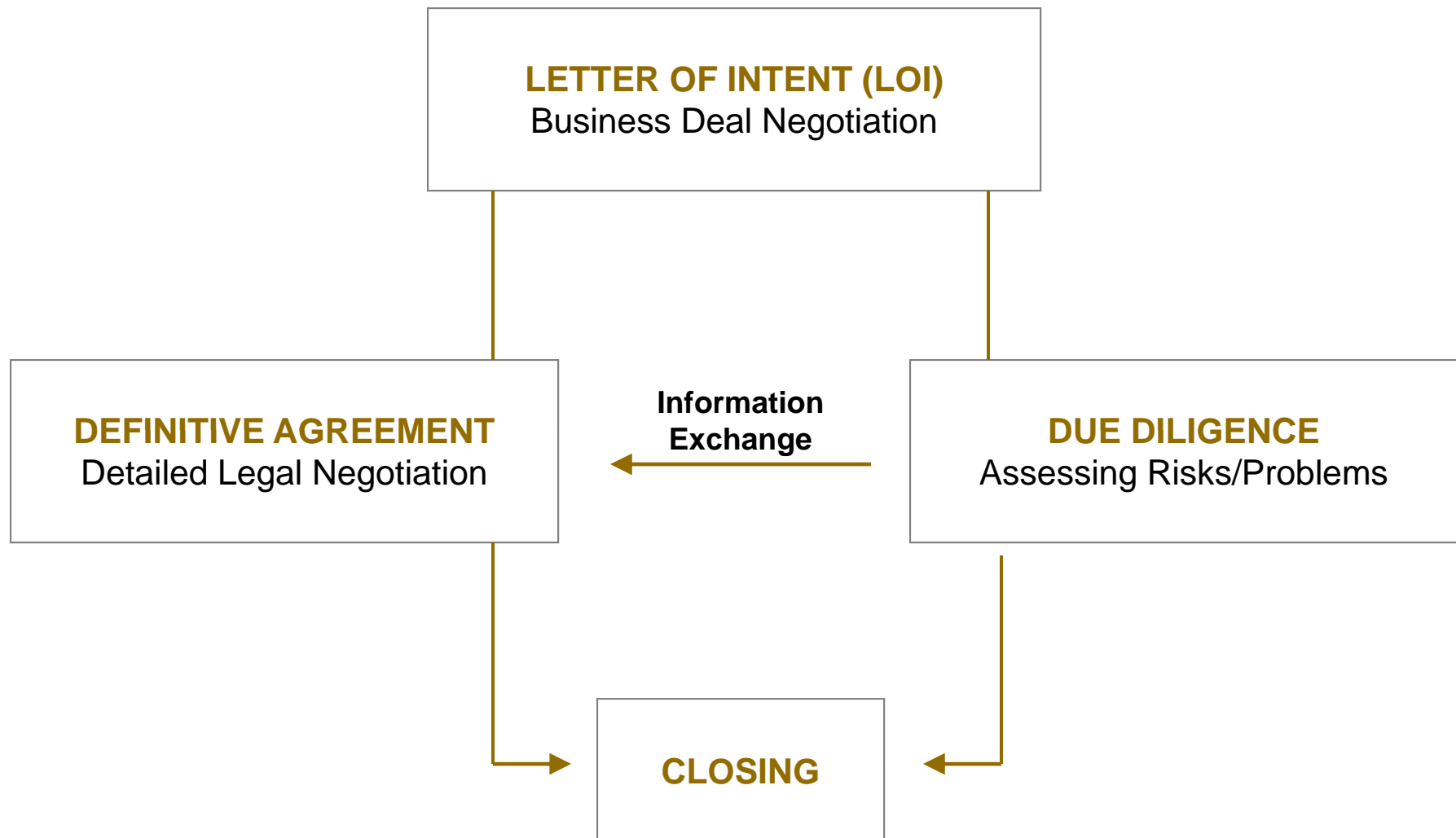


- Hide the level of interest they actually have
- Attempt to receive all the benefits of an acquisition through:
 - Exclusive License Deal
 - Distribution Agreement
 - Minority Investment
 - Specific Asset Purchase
- Dispute the quality of the valuation
 - Dismiss comparable companies used without offering “better choices”
 - Argue that the transactions cited are not relevant
 - Argue that the future profits you expect are not reasonable
- Tell you your price is unreasonable and ask you to sharpen your pencil (negotiate with yourself!)

Seller Should:

- Create competition (bidders)
- Reveal problems early while leverage is highest
- Be specific in the LOI (Letter of Intent)
- Be willing to negotiate a creative structure to close the valuation gap between buyer and seller
- Close as quickly as possible

LOI Process Timeline



The Letter of Intent (LOI)

- The agreed purchase price
- The manner of payment/structure
- Procedures for completing a definitive agreement
- Stock registration rights, obligations and restrictions
- Contingent pricing adjustments
- “No Shop” or “Stand Still” provision *
- Break-up fee and other contingencies
- “Conduct of Business”

** Try to make this for a short period of time*

Definitive Agreement

- Creates binding contractual obligation
- Allocates risk, creates liability for buyer and seller
 - Negotiation will focus on liabilities
- Will include many attachments
 - Employment Agreements, Non Compete, Assignments, Schedules, Promissory Notes, Private Placement Memorandum, Registration, Security Agreements, Opinions of Counsel, Fairness Opinions, etc.

Take-aways: Retain experienced counsel, and get a first draft of agreement early!

M&A Myths & Misperceptions

“The buyer will relocate/fire staff.”

“The buyer will let management go.”

“If the company has problems (lawsuits, etc.) it cannot be sold.”

“Smaller companies cannot sell.”

“Buyers only focus on technology.”

“The company is non-profitable/has a negative net worth, therefore it cannot sell.”

Biggest Mistakes in Partnering Process

Dealing with only one buyer

No leverage in negotiation

Improper research of potential buyers

“A,” “B,” financial, international

Not understanding buyer’s process/models

Timeline, decision-makers

Improper due diligence preparation

This will prolong the process

Not qualifying buyer properly

Ability, interest, etc.

Not orchestrating all buyers properly

This is the tough part!

A Professionally Executed M&A Transaction Will Include the Following (on Average)*:

700 to 1,000

communications of various kinds (email, voicemail, letters, conference calls, etc.)

10 to 30

expressions of interest

15 to 20

NDA's

8 to 10

qualified parties

1 to 2

offers

*Based on a global search

Five Benefits of Global Search

1. Better business model (thorough preparation)
2. Deeper competitive understanding (research)
3. Market feedback (buyer dialogue)
4. Business relationships (due diligence process)
5. Meaningful transaction (strategic or financial)

10 Things to Look for in an M&A Advisor

1. Are they centered on your industry – software/tech
2. Is there focus - sellside transaction experience
3. Are they conflicted with buyers, consulting, opinions, etc.
4. Do they have senior staff involved - no juniors allowed!
5. Is there a team assigned; this is not a one-man effort
6. Are they international - the buyers are
7. Do they have proprietary industry research/contacts
8. Are they a respected group in their field
9. Do they have a detailed global search process
10. Is there a track record of success

www.corumgroup.com

Contact Information

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