



## Valuation & Deal Insights

Fourth Quarter 2006

Industry Coverage—IT & IT-Enabled Outsourced Services and IT Supply Chain Services

### Inside this Issue

#### Viewpoint

- ◆ 2007 M&A Outlook

#### Selected Transactions

- ◆ RR Donnelley & Sons to acquire Banta
- ◆ Hinduja TMT acquired AFFINA
- ◆ ClientLogic to acquire SITEL
- ◆ West Corp. acquired InPulse

#### Focused IT Services Transactions

- ◆ Global multi-billion dollar organizations led the charge
- ◆ Hot areas of interest: SAP, BI & Offshore capabilities

#### Valuation Trends

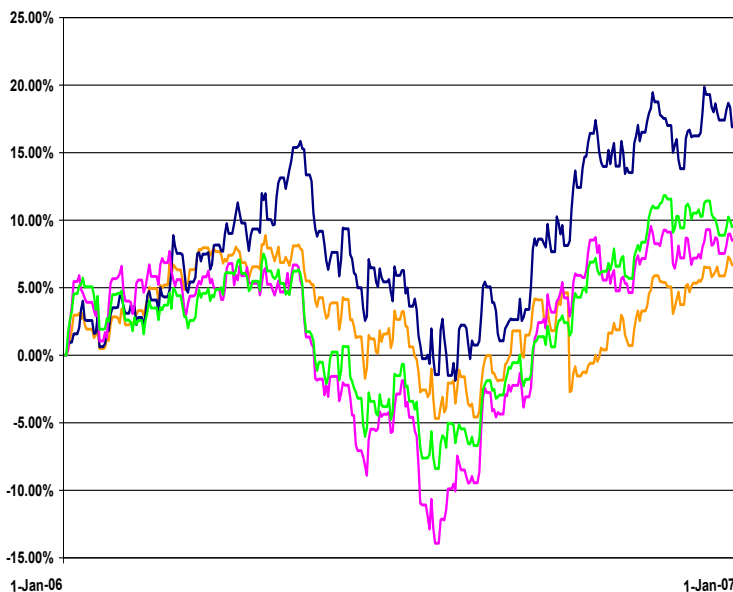
- ◆ Offshore outsourcing continue to lead within the IT Services group
- ◆ IT supply chain valuation continue to converge

#### Transaction Statistics

- ◆ Robust deal volume continues
- ◆ Asian and European represented significant deal volume

#### MWS Scoreboard

MWS Index® vs. NASDAQ Composite Index



IT & IT-Enabled Outsourced Services  
IT Supply Chain Services  
Software  
NASDAQ Composite

### Transaction Highlights

#### IT Services

- ◆ **12/12/06** Hewlett-Packard Co. (NYSE: HPQ) signed a definitive agreement to acquire Business Intelligence solutions provider Knightsbridge Solutions, LLC for an undisclosed amount.
- ◆ **11/08/06** Tata Consultancy Services Ltd. (BSE:TCS) acquired TCS Management Pty Ltd. in Australia for AUD15 (\$11.5) million (2.73x annual revenue as of 06/30/06).
- ◆ **10/31/06** Tata Consultancy Services Ltd. (BSE:TCS) acquired TKS Group in Switzerland for CHF100.5 (\$80.5) million (1.87x 2005 annual revenue).
- ◆ **10/26/06** Cap Gemini SA (ENXTPA: CAP) entered into a definitive agreement to acquire Kanbay International Inc. (NasdaqNM: KBAY) for \$1.3 billion (3.63x LTM revenue as of 09/30/06).

#### IT-Enabled Outsourced Services

- ◆ **11/05/06** McKesson Corp. (NYSE:MCK) entered into a definitive agreement to acquire Per-Se Technologies, Inc. (Nasdaq: PSTI) for a total transaction value of \$1.6 billion (3.04x LTM revenue as of 09/30/06)
- ◆ **10/31/06** R.R. Donnelley & Sons Co. (NYSE: RRD) signed a definitive agreement to acquire Banta Corp. (NYSE: BN) for a total transaction value of \$790.23 million (0.51x LTM revenue as of 09/30/06).
- ◆ **10/25/06** Hinduja TMT Ltd. (BSE:HTMT) acquired US call center operator AFFINA for an undisclosed amount. **Martin Wolf Securities LLC. advised buyer in the transaction.**
- ◆ **10/19/06** Electronic Data Systems Corp. (NYSE: EDS) made an open offer to acquire an additional 20% of Mphasis BFL Limited for Rupees 6.6 billion (3.37x LTM revenue as of 06/30/06).
- ◆ **10/12/06** ClientLogic Corp. entered into a definitive agreement to acquire SITEL Corp. (NYSE: SWW) for \$446.76 million (0.40x LTM revenue as of 09/30/06). On 10/25/06, SITEL received an unsolicited offer from the Gores Group & the Calgary Group for \$4.5 per share.
- ◆ **10/02/06** West Corporation (Nasdaq: WSTC) acquired call center InPulse Response Group, Inc. for \$44.5 million (1.18x 2005 annual revenue).

#### IT Supply Chain Services

- ◆ **11/06/06** Avnet, Inc. entered into a definitive agreement to acquire GE Access Distribution from Middle River Aircraft Systems for \$412.5 million.
- ◆ **10/04/06** Bell Microproducts (Nasdaq: BELM) acquired certain assets of ProSys Information Systems Inc. to form a wholly-owned subsidiary, ProSys Information Solutions for \$41 million.

## Viewpoint



*Martin Wolf – President & Managing Director*

The most relevant data point when looking at 2006, in my opinion, is while the increase in announced M&A transactions was in the mid single digits globally and high single digits for the U.S., dollar volume for both was up four to five times as much in the mid to high 30's. Bigger might not be better, but bigger deals were done in '06 and the most confident forecast we have for '07 is an acceleration of that trend. This works well if you are already a larger company, but what does it mean if you are not?

If you are in software, it means your valuations are going to be a lot leaner, and the universe of buyers is quite small and its getting smaller every quarter. It allows an argument to use a well connected software banker because those in the know, actually know. Moreover, expect some larger ones themselves to get acquired in '07.

If you are a solution provider that provides products and services, the window has opened some, with a few private equity financed roll-ups aggressively acquiring companies. Those with experience have seen this process before and that's an argument to be first, take a large percentage of cash, and hope for a quick exit. Since the IPO market for these types of businesses is closed, look to the logical strategic end-game acquirers for the exit. We are aware of a couple handfuls of these players and for many, this creates the best opportunity to cash-out in years.

For those in the services space, where we spend an inordinate amount of time, we think the market will continue to be healthy in '07, but asset quality will be more critical than the factors of speed, availability and first mover were last year. Of particular benefit is the continuing interest by international acquirers and if there is enough IP, or the story is compelling for growth plus EBITDA with recurring revenue, PE investors exist.

A personal note; as we celebrate our 10th anniversary this week, I offer our gratitude for those individuals at firms who have placed confidence in us and retained us. Our first deal in 1997 was a \$2.5 million VAR in the Midwest. Now, with over 70 IT deals completed in six countries, our transactions in 2006 averaged close to \$100 million in consideration with clients headquartered in Canada, Holland, the UK and India. I would also like to thank the MWS team. They prove every day that we do M&A the right way. If we can be of any help, please let us know. Until then, happy selling.

## Selected Transactions

### **Target**

Banta Corp. (NYSE:BN) (A printing & supply chain management BPO firm in Menasha, Wisconsin)

### **Buyer**

RR Donnelley & Sons Co. (NYSE:RRD)

### **Total Transaction Value**

\$790.23M

### **Transaction Value/Revenue**

0.51x LTM revenue as of 09/30/06

### **Transaction Value/EBITDA**

5.18x LTM EBITDA as of 09/30/06

### **Synopsis**

R.R. Donnelley & Sons Co. (NYSE: RRD) signed a definitive agreement to acquire Banta Corp. (NYSE: BN) for \$790 million in total enterprise value. The acquisition is expected to be accretive to RR Donnelley's earnings in the first full year after the closing of the transaction. In the event of termination, Banta Corp. will pay a fee of \$34.2 million, while R.R. Donnelley is subject to a termination fee of \$17.1 million.

### **Transaction Highlights**

The combination will enable RR Donnelley to expand its products and services offerings, enhance its services to the magazine, catalog, book and direct marketing segments, extend its geographic footprint, and create additional sales opportunities.

### **10/25/06 Hinduja TMT to acquired AFFINA**

<b>Target</b>	AFFINA ( A in-bound call center in Peoria, Illinois)
<b>Buyer</b>	Hinduja TMT Ltd. (BSE:HTMT)
<b>Synopsis</b>	Hinduja TMT Ltd. (BSE:HTMT) entered into a definitive agreement to acquire AFFINA for an undisclosed amount. AFFINA generated revenues of \$60 million for the year ending December 31, 2005. AFFINA will become a wholly owned subsidiary of Hinduja TMT. <b>Martin Wolf Securities advised buyer in this transaction.</b>

#### **Transaction Highlights**

This acquisition will enable HTMT to access a large and high quality client base, while enhancing HTMT's onshore delivery capabilities in the US in specialized domains like Consumer Electronics, FMCG, Retail, Government and Telecom. HTMT will now be operating from 14 cities. The integrated entity would have a customer base of over 65 customers and a total headcount of over 9,000 employees. This acquisition will nearly double HTMT's combined revenues to over USD 130 million and catapult HTMT into the top five pure-play BPO companies in India.

### **10/12/06 ClientLogic Corp to acquire SITEL Corp**

<b>Target</b>	SITEL Corp. (NYSE:SWW) (a BPO firm based in Omaha, Nebraska)
<b>Buyer</b>	ClientLogic Corp.
<b>Total Transaction Value</b>	\$426.98M
<b>Transaction Value/Revenue</b>	0.39x LTM revenue as of 09/30/06
<b>Synopsis</b>	ClientLogic Corp. entered into a definitive agreement to acquire SITEL Corp. (NYSE: SWW) for about \$450 million. SITEL has agreed to pay a termination fee to ClientLogic should the transaction not close due to certain circumstances. On 10/25/06, the Gores Group and the Calgary Group made a bid offer to acquire SITEL Corp. (NYSE: SWW) for \$4.5 per share in cash or, at the SITEL's election, \$3.25 per share in cash and retain ownership of stock in SITEL. SITEL's Board of Directors has not changed its approval or recommendation of the merger agreement with ClientLogic Corp. However, the Board has authorized the Company to explore the newly received proposal

#### **Transaction Highlights**

The combination of ClientLogic and Sitel will create a large service provider with increased geographic presence, capacity and complex customer-care BPO solutions. The combined entity will continue to be named ClientLogic Corporation, and will have 65,000 employees across 28 countries and \$1.7 billion in revenue.

### **10/02/06 West Corp acquired InPulse Response Group**

<b>Target</b>	InPulse Response Group, Inc ( a telemarketing firm in Phoenix, Arizona)
<b>Buyer</b>	West Corp. (NasdaqNM:WSTC)
<b>Total Transaction Value</b>	\$44.5M
<b>Transaction Value/Revenue</b>	1.18x 2005 annual revenue
<b>Synopsis</b>	InPulse Response Group, Inc. was acquired by West Corporation (Nasdaq: WSTC) for \$44.5 million. The transaction was funded with a combination of cash and West's existing bank credit facility. West expects the transaction to have no impact on 2006 earnings per share and to be slightly accretive to net income in 2007.

#### **Transaction Highlights**

InPulse will operate as part of West's Communications Services segment. According to west, this acquisition reflects its commitment to better serve the Direct Response market by combining InPulse's strength in the soft offer market and West's strengths in the hard offer and IVR markets.

## Focused IT Services Transactions

We witnessed several deals in the IT services sector this year. The global multi-billion dollar organizations led the charge. Participants included most of the conglomerates including IBM, HP, Fujitsu and EMC. Also, many of the global IT services organizations—such as Accenture, Cap Gemini, EDS, Wipro and Cognizant—made a splash. Clearly, buyers view these move as strategic either serving as a platform or a practice area.

Among the hot areas of interest were SAP, Business Intelligence (BI) and Offshore capabilities. ERP focused companies, especially with strong SAP practiced remained particularly attractive. Based on the activity this past year, leading companies in the sector are looking to bolster their services offerings through acquisition rather than relying on organic growth. With SAP and Oracle as clear leaders, IT service providers are busy strengthening their ERP practices. However, with all of the uncertainty around Oracle application as a result of many transactions, the market appears to be waiting for more clarity within Oracle. Therefore, we have not witnessed correspondingly high deal flow involving Oracle based solution provides. We anticipate even more transactions in 2007 involving SAP services companies, while Oracle based targets will be next on global companies' wish lists.

The targets involving transactions are the leading pure play provider in the segment they serve. At this pace, the supply of the leading niche solution provider is dwindling. Therefore, for deal flow to continue at its current pace, buyers will have to alter their acquisition standards to include business model with lower concentration of niche offerings. However, there is no evidence to date to suggest that buyers are willing to do this. We will have a better idea much later this year.

Date	Target	Target Business Description	Buyers	Total Transaction Value (\$mm)	Transaction Value / Revenue	Transaction Value / EBITDA
12/12/2006	Knightsbridge Solutions LLC	Business intelligence and data warehousing	Hewlett-Packard Co. (NYSE:HPQ)	Not disclosed	Not disclosed	Not disclosed
12/11/2006	TDS Informationstechnologie AG (DB:TDS)	SAP consulting services	Fujitsu Services Holdings PLC	EUR77.59 (\$102.65)	1.16	6.74
12/07/2006	Ementor Danmark A/S, SAP Business	SAP solutions and application management services	IBM Danmark A/S	Not disclosed	Not disclosed	Not disclosed
12/07/2006	Ementor Danmark A/S, Oracle Division	Oracle solutions and application management services	Consit A/S	Not disclosed	Not disclosed	Not disclosed
11/13/2006	Global Enterprise Management Solutions, Inc.	Enterprise management and CRM & SAP solutions	Electronic Data Systems Corp. (NYSE:EDS)	Not disclosed	Not disclosed	Not disclosed
11/06/2006	FocusFrame, Inc.	Business technology optimization consulting services, SAP solutions, Siebel applications, Oracle applications	Hexaware Technologies Ltd. (BSE:HEXWARE)	34.3	Not disclosed	Not disclosed
10/26/2006	Kanbay International Inc. (NasdaqNM:KBAY)	Management consulting, technology integration and development, and outsourcing solutions	Cap Gemini SA (ENXTPA:CAP)	1290.7	3.63	19.65
10/04/2006	Headwater Technology Solutions, Inc.	Supply chain management software and consulting, SAP, Microsoft and Oracle technologies	Accellos, Inc.	Not disclosed	Not disclosed	Not disclosed
10/03/2006	Ebydos AG	Automation of invoice processing in SAP environments	ReadSoft AB (OM:RSOF B)	EUR8.15 (\$10.39)	1.852272727	Not disclosed
10/02/2006	Systech Integrators Inc.	EPR & SAP solutions	Affiliated Computer Services Inc. (NYSE:ACS)	65	Not disclosed	Not disclosed
09/12/2006	USinternetworking, Inc. (OTCPK:USIX.Q)	Enterprise application services	AT&T Inc. (NYSE:T)	300	2.18	Not Material
09/05/2006	AimNet Solutions, Inc.	Managed network and professional services	Cognizant Technology Solutions Corp. (NasdaqNM:CTSH)	15	0.80	Not disclosed
06/12/2006	Nexplicit Inc.	SAP service focus in the Entertainment and Hi-tech manufacturing industries	Scandent Group, Inc.	12	0.923076923	Not disclosed
06/01/2006	Enabler Informatica SA	Oracle Retail (Retek) solutions	Wipro Technologies, Ltd.	EUR41 (\$52.55)	1.37	Not disclosed
05/11/2006	Interlink Group, Inc.	e-business and network solutions	EMC Corp. (NYSE:EMC)	Not disclosed	Not disclosed	Not disclosed
02/22/2006	Rapidigm, Inc.	SAP R/3 services	Fujitsu Consulting, Inc.	Not disclosed	Not disclosed	Not disclosed
02/20/2006	cMango, Inc.	Business service management solutions.	Wipro Technologies, Ltd.	20	1.538461538	Not disclosed
02/13/2006	Adjoined Consulting, Inc.	Enterprise resource management, CRM and business intelligence services	Kanbay International Inc. (NasdaqNM:KBAY)	207.3	2.05	18.93
01/09/2006	Internosis Incorporated	IT services for Microsoft technologies	EMC Corp. (NYSE:EMC)	Not disclosed	Not disclosed	Not disclosed

**Figure 1**

## Valuation Trends

**IT & IT-Enabled Outsourced Services:** In the second half of 2006, we witnessed for the first time valuations of India based providers diverge from the pack. The financial performance of India based providers during 2006 had changed very little compared with 2005, as revenue growth and margins remained relatively constant, albeit at healthy rates. During the second half of 2006, investors apparently gained more confidence in the sustainability of these businesses, as valuation multiples expanded over 25%. Meanwhile, the other groups—BPO, IT Professional Services and IT Outsourcing—continued to trade in a relatively narrow band. The impact from India based service companies on valuation multiples was felt most by IT Professional services companies. We expect outsourcing business models to be impacted in next wave as India based service companies gain prominence.

**IT & IT-Enabled Outsourced Services Historical Quarterly EV/REV Trend**

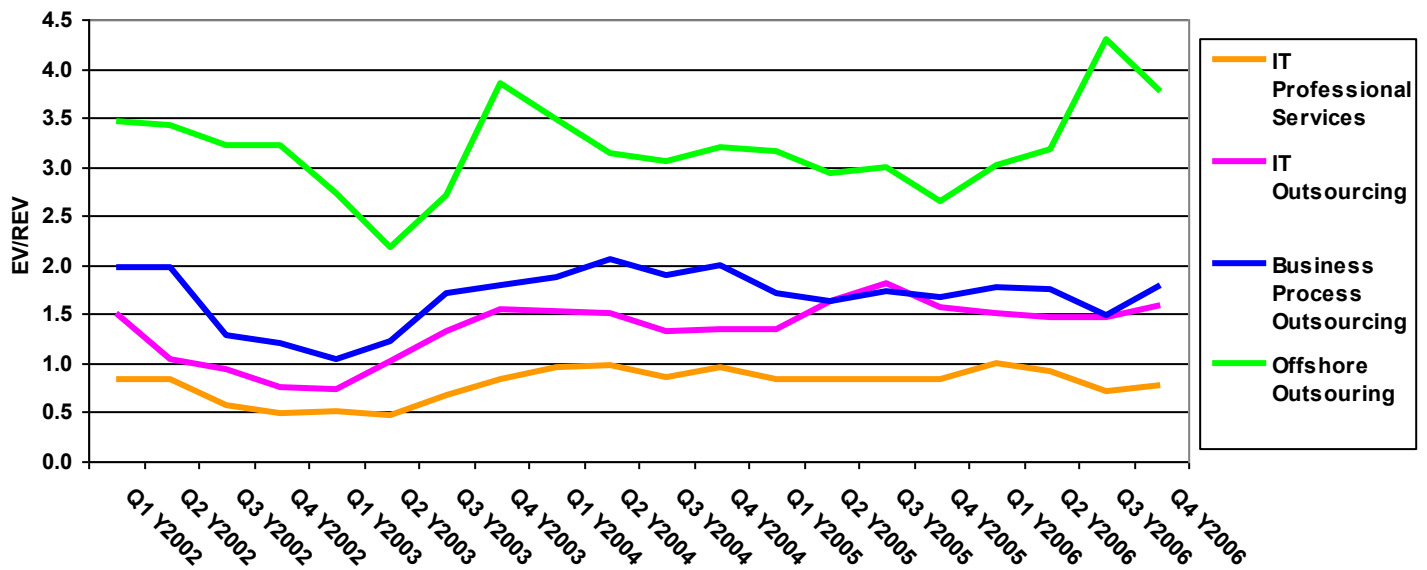


Figure 2

**IT Supply Chain Services:** As we reported last year, valuations of the various business model in this sector had converged. During 2006, we again witnessed a continuation of this trend, as valuations among the segments moved in unison. As we predicted, this sector witnessed consolidation driven by the larger players. Interestingly, platform targets received premium valuations because buyers placed high strategic value on these deals.

**IT Supply Chain Services Historical Quarterly EV/REV Trend**

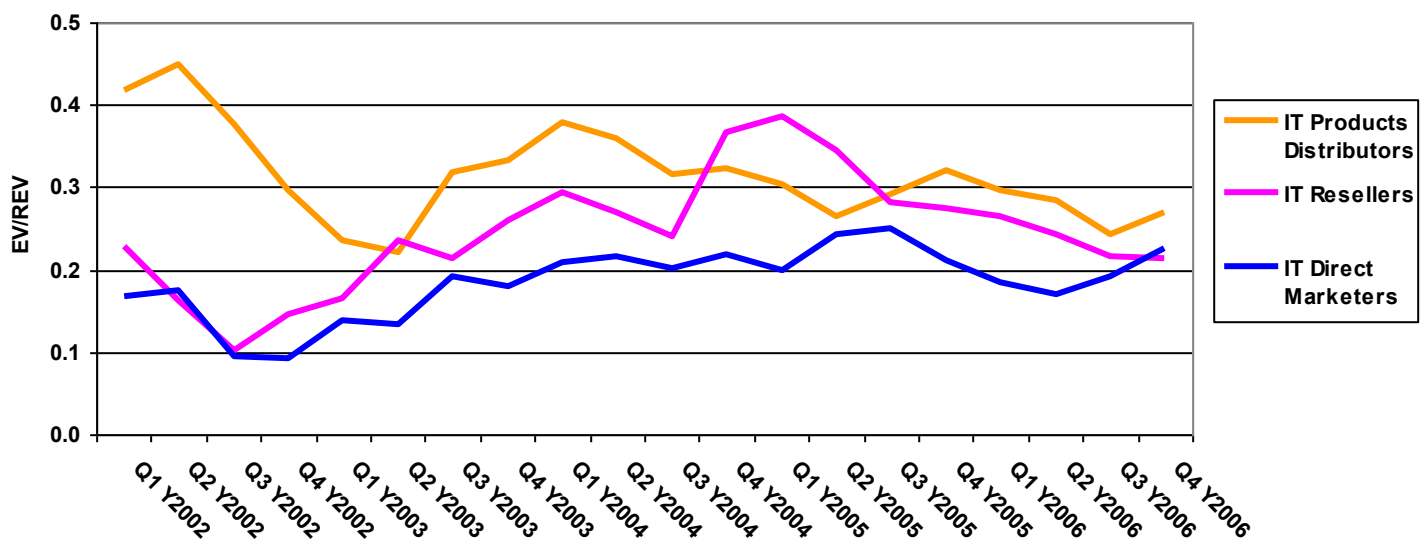


Figure 3



## Transaction Statistics

As we predicted last year, IT and IT-enabled outsourced services industry witnessed robust deal volume and values in 2006. Interestingly, Asian and European markets represented significant deal volume. We project IT companies will continue to be acquisitive in 2007 with large, global organizations leading the way. We anticipate a few landscape changing transactions within the IT Supply Chain segment. We expect valuations to continue at their healthy rate without witnessing any material change in multiples. (Note: 2005 Q1 deal value spike due to \$11.6 billion SunGard Data Systems acquisition.)

**IT & IT Enabled Outsourced Services Quarterly M&A Activities vs. Total Deal Value**

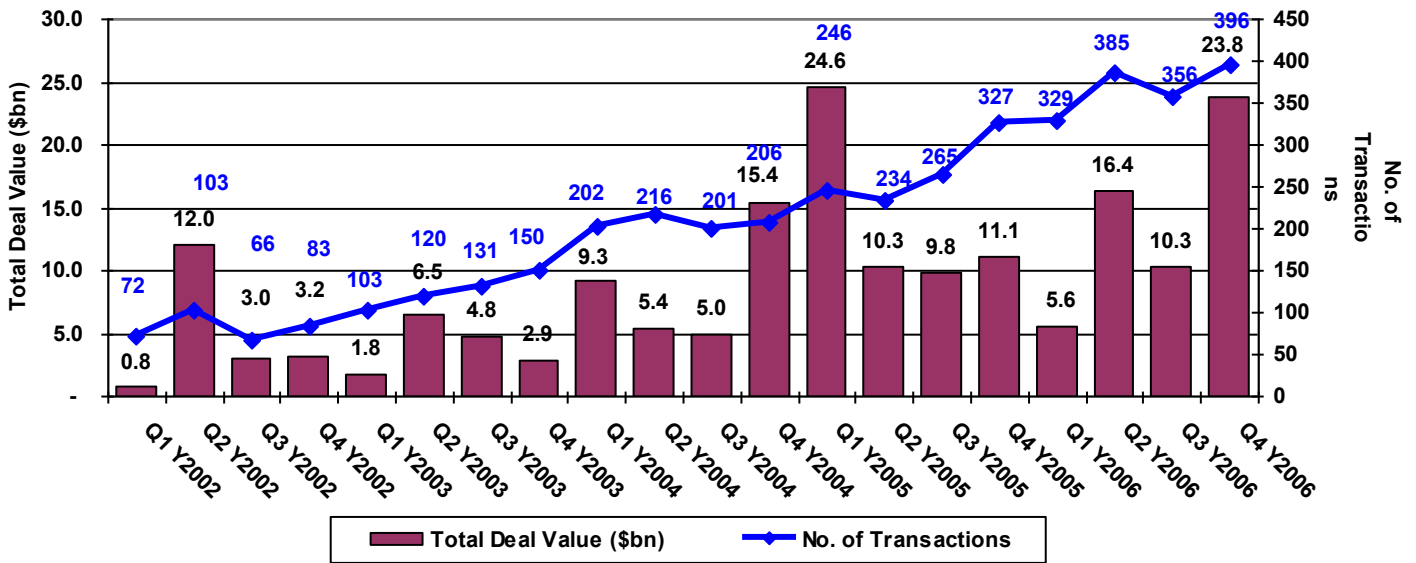


Figure 4

**IT & IT-Enabled Outsourced Services Quarterly M&A Activities by Geography**

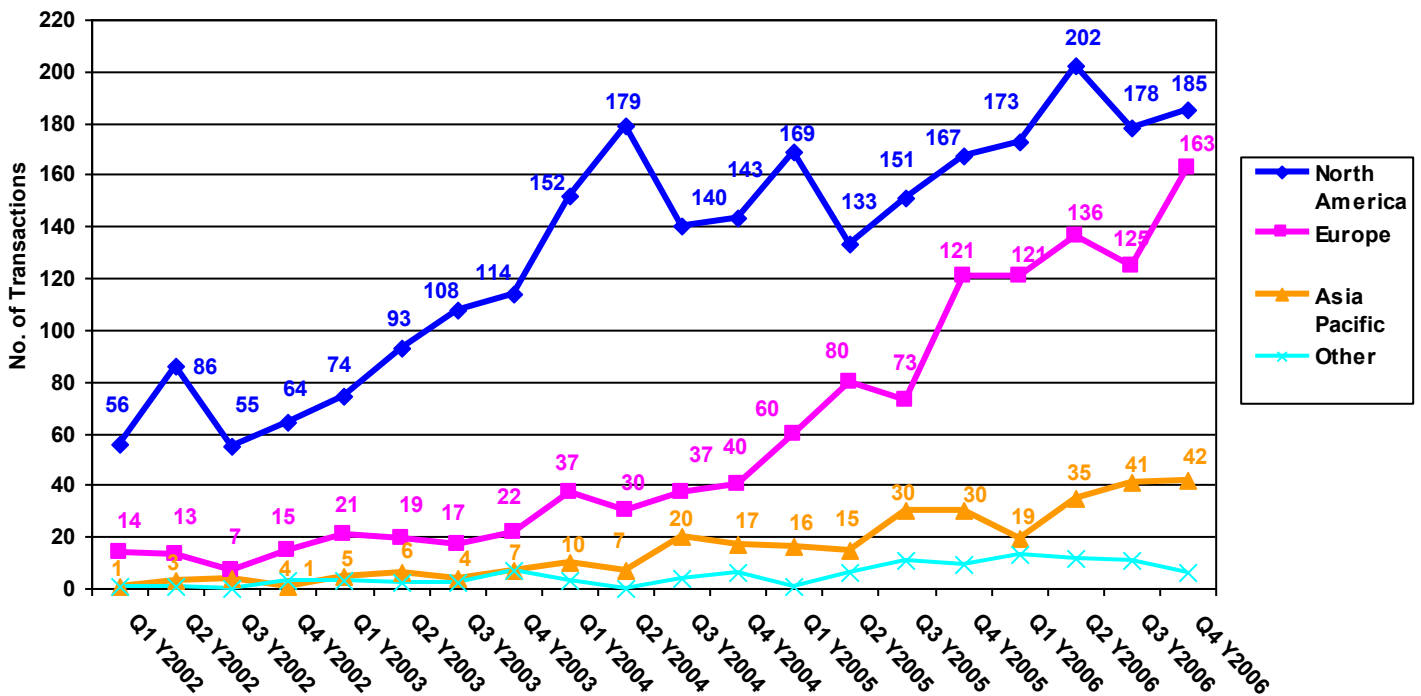


Figure 5

**MWS Scoreboard**

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
<b>IT Conglomerates</b>	14.4%	43.3%	19.5%	14.4%	1.61	24.8	1.74	11.7
<b>IT &amp; IT-ENABLED OUTSOURCED SERVICES</b>								
<b>Offshore Outsourcing</b>	31.4%	38.4%	21.0%	0.2%	4.23	33.1	4.29	22.2
<b>Financial IT Services</b>	15.5%	50.1%	22.0%	1.3%	2.73	25.2	2.88	11.9
<b>Business Process Outsourcing - Non-voice</b>	11.7%	48.1%	21.1%	14.7%	1.73	24.3	2.12	10.5
<b>Business Process Outsourcing - Voice</b>	13.0%	37.9%	12.0%	4.7%	1.24	23.5	1.25	9.1
<b>IT Outsourcing</b>	5.1%	29.3%	13.8%	19.5%	1.27	42.7	1.05	13.0
<b>Governmental IT Professional Services</b>	13.0%	18.4%	7.2%	14.5%	0.89	21.6	0.85	10.8
<b>Commercial IT Professional Services</b>	7.5%	29.2%	6.1%	3.2%	0.81	25.3	0.72	12.4
<b>IT Staff Augmentation</b>	10.7%	24.2%	3.6%	6.4%	0.39	23.0	0.38	10.5
<b>IT SUPPLY CHAIN SERVICES</b>								
<b>IT Retailers</b>	6.1%	28.6%	7.1%	9.8%	0.74	23.9	0.76	10.7
<b>IT Products Distributors</b>	10.4%	11.5%	3.6%	17.6%	0.24	14.8	0.28	8.4
<b>IT Direct Marketers</b>	8.0%	12.8%	3.5%	9.8%	0.23	18.4	0.22	9.9
<b>IT Resellers</b>	3.9%	17.1%	0.0%	22.3%	0.15	18.2	0.17	9.3
<b>SOFTWARE</b>								
<b>IT Management Software</b>	12.7%	78.7%	17.6%	0.6%	3.38	36.6	3.06	14.4
<b>Business Software</b>	11.2%	76.4%	20.0%	0.0%	3.20	32.4	2.77	15.4
<b>Middleware, Tools and Integration</b>	10.3%	76.0%	18.2%	0.0%	2.65	29.9	1.96	14.3
<b>Enterprise Applications</b>	13.2%	66.7%	13.3%	0.1%	2.45	44.0	2.05	14.6

**Figure 6**

**Key Definitions:**

1. Data Source: Capital IQ
2. The defined industry categories are based on Martin Wolf Securities' in-house research
3. The MWS Index® is market-value-weighted. It starts on January 1, 2005 with a value of 1000. It includes 101 IT and IT-Enabled Outsourced Services, 30 IT Supply Chain Services, and 59 Software companies listed in US stock market. It is based on the closing price as of December 29, 2006.
4. Enterprise value = Market Cap + Minority Interests + Preferred Stock + Outstanding Debt - Cash and Cash equivalents
5. LTM means Last Twelve Months based on last reported period
6. MWS Scoreboard is based on the closing price as of December 29, 2006
7. Revenue Growth is growth in LTM revenue compared with previous period
8. Gross Margin = LTM Gross Profit \* 100 / Revenue
9. EBITDA % = LTM EBITDA \* 100 / Revenue
10. Net Income % = LTM Net Income \* 100 / Revenue
11. Debt/Asset = LTM Total Debt / Total Assets
12. P/S = Market Cap / LTM Revenue
13. P/E = Market Cap / LTM Net Income
14. EV/Revenue = Enterprise Value / LTM Revenue
15. EV/EBITDA = Enterprise Value / LTM EBITDA

If you have any questions, or want to subscribe to our periodic intelligence information, or to be removed from the distribution list, please contact Hao He at [hhe@martinwolf.com](mailto:hhe@martinwolf.com).

The information contained herein is obtained from sources we believe to be reliable, but its accuracy and completeness, and that of the opinions based thereon, are not guaranteed. Nothing contained in this publication is intended to be a recommendation of a specific security or company nor is any of the information obtained herein intended to constitute an offer to buy or sell or the solicitation of an offer to buy or sell any security. Martin Wolf Securities LLC may have an interest in any of the securities or companies discussed herein. All rights reserved by Martin Wolf Securities. May not be reproduced in whole or in part without prior written authorization. ©2007 Martin Wolf Securities LLC.

***Martin Wolf Securities—Selected Transactions***

  
Inspiring Integration

*has acquired*

  
THE CUSTOMER RELATIONSHIP COMPANY

October 2006



*has acquired*



\$320.3 million  
September 2006



*has been acquired by*

  
The Science of Customer Management™

\$107.5 million  
June 2006



*has acquired*  
*s/w region of*



May 2006



*has sold majority interest to*

ACCEL  KKR

December 2005



*has been acquired by*

CAXTON - ISEMAN

\$66.5 million  
August 2005

***The only firm focused exclusively on mid-market M&A in the IT solutions and IT-enabled outsourced services segments.***