



Valuation & Deal Insights®

Fourth Quarter 2007

Industry Coverage—IT Services, BPO and IT Supply Chain Services

Inside this Issue

Viewpoint

- ◆ Three V's in 2007 M&A activities
- ◆ 2008 prediction

Transactions of the Year

- ◆ IT Services
- ◆ IT Outsourcing
- ◆ IT Supply Chain

Valuation Trends

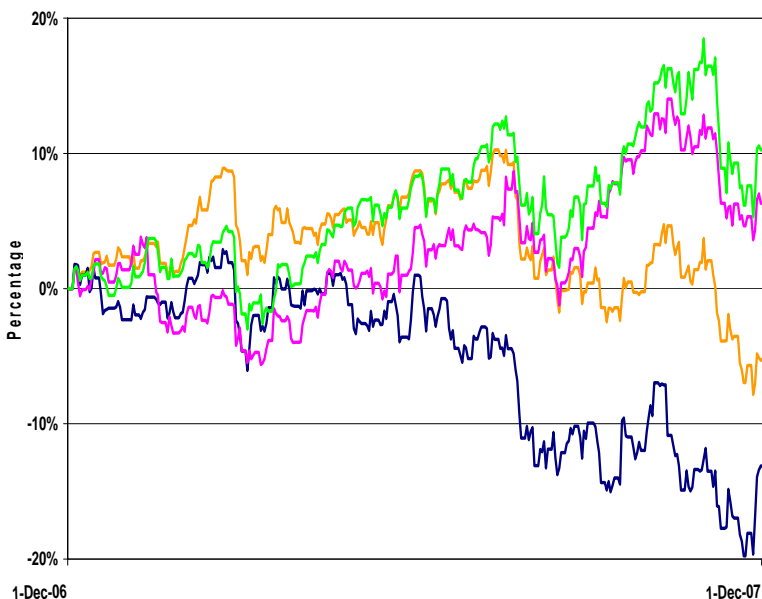
- ◆ Offshore outsourcing facing valuation pressure
- ◆ Financial IT services continue higher valuations
- ◆ IT distributors enjoy higher multiples

Transaction Statistics

- ◆ Deal volume and size started to drop
- ◆ North American and European markets had significant deal volume reductions

MWS Scoreboard

MWS Index® vs. NASDAQ Composite Index



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

Transaction Highlights

IT Services

- ◆ **12/06/07** International Business Machines Corp. (NYSE: IBM) announced acquisition of Arsenal Digital Solutions Worldwide, Inc. for an undisclosed amount.
- ◆ Edgewater Technology, Inc. (NASDAQ: EDGW) acquired Vertical Pitch, LLC for \$20 million (2.00x 2006 revenue).
- ◆ **11/15/07** ManTech International Corporation (Nasdaq:MANT) announced acquisition of McDonald Bradley, Inc. for \$76.5 million in cash.
- ◆ **11/15/07** Accenture Ltd. (NYSE: ACN) acquired MAXIM Systems, Inc for an undisclosed amount after acquiring Gestalt, LLC on 10/25/07 and Corliant, Inc on 10/04/07.
- ◆ **11/14/07** iGATE Corp. (NasdaqNM:IGTE) delisted iGate Global Solutions Ltd. (BSE:532337) from the Indian stock exchanges by acquiring the remaining 19.09% interest.
- ◆ **11/14/07** Electronic Data Systems Corp. (NYSE: EDS) acquired 93% stake in Saber Corp. for \$420 million in cash
- ◆ **10/30/07** Computer Sciences Corp. (NYSE:CSC) announced acquisition of First Consulting Group Inc. (NasdaqNM:FCGI) for \$351.85 million .
- ◆ **10/02/07** Court Square Capital Partners acquired the Managed Services Business Unit from Vanguard Managed Solutions, LLC for an undisclosed amount.

Business Process Outsourcing

- ◆ **12/19/07** Intuit Inc. (NASDAQNM: INTU) announced acquisition of Electronic Clearing House Inc. (NASDAQ: ECHO) for \$129 million (1.54x LTM revenue as of 09/30/07).
- ◆ **12/12/07** NCO Group, Inc. announced acquisition of Outsourcing Solutions Inc. for \$325 million in cash.
- ◆ **11/14/07** Aegis BPO Services, Ltd. announced acquisition of TeleTech Services India Private Limited for \$13 million.
- ◆ **10/31/07** Iron Mountain Incorporated (NYSE: IRM) announced acquisition of Stratify, Inc. for \$158 million in cash.

IT Supply Chain Services

- ◆ **12/11/07** Softchoice Corporation (TSX: SO) acquired Software Plus for \$45 million. **Martin Wolf Securities advised the buyer in this transaction.**

Viewpoint



Marty Wolf — President

In the Q2 '06 VDI, I suggested that there was an unprecedented amount of PE funding and highlighted the buying and valuation trends resulting from their recent involvement. In Q2 of '07, we took an even more aggressive posture, and advised people to sell into this strength as we did not believe it was sustainable. Geez, I wish we were wrong then, but we clearly weren't. Private equity funds, which made up 20-40% of the IT market, are now AWOL and it appears they will remain less active for at least as long as it takes to sort out the collateralized debt marketplace.

2007 M&A activity can be summarized with the three V's: valuation, volume and versatility.

Valuation trends have stopped increasing, and in certain segments, have declined. As an example, S&P said LBO valuations, which we think are a good proxy for the overall marketplace, averaged 8.5x EBITDA in '06, and through the first three quarters of '07 were at an even higher 9.9x trailing EBITDA. The fourth quarter analysis is not complete, but it will be less. Additionally, the highest valued bidders in our space, the Indian outsourcing companies, are all well off their twelve-month highs, some by as much as a third. When your best bidders are impacted, seller valuations are impaired.

Volume of deals has been like the weather for the month of April, in like a lion and out like a lamb. According to Baird, mid market announced deals are only off approximately 5% year over year. General M&A activity is off 10% year over year and European activity is off by more than 20%. Per Thomson, December is down 44% from last year in the U.S. and off 67% since the May peak. Global merger activity is down by 39% in the last half of the year. Since volume precedes price, that portends poorly in '08.

Versatility in the market place can be summed up by one of our current engagements, a U.S. company with primary assets in Latin America. In searching for a strategic partner, we had interest from China, India, Latin America, and the U.S. In buy side work today, a majority of our clients are not U.S. based and for most of our sell side work, the likeliest bidders are also international companies. Casting a wide net in '08 will be even more critical than before.

In '08 we believe the following trends will continue, with some accelerating. U.S. economic activity will continue to slow. How low we go is anyone's guess, but lower we will go. Secondly, the dollar will continue to be weak. However, this does create some opportunities for U.S. based sellers to leverage the weak dollar. Third, valuations will continue to be soft since debt is harder to come by and share prices are off their highs which makes stock deals too expensive. Fourth, private equity buyers remain on the sideline. Certain marquee PE financed deals will go bust, further dampening the mood to reengage. Fifth, and maybe most importantly, we have heard from a few very sophisticated and larger companies who have been thinking about M&A for a while. What is causing them to move forward, trumping all, is the potential of a Democrat being elected president and their promise to raise capital gains taxes. Should this occur, the increase in the capital gains tax will exceed the potential decline in year over year valuations, which we think will create a very interesting '08. If you have been thinking of selling, and believe Hillary is on deck, we suggest you start now and beat the rush.

Transactions of the Year—IT Services

Date	Target	Target Descriptions	Buyer	Purchase Price (\$mm)	Transaction Comments
11/13/2007	Saber Corp	Saber Corp. provides technology solutions and consulting services as well as software products and services that enable government to serve constituents. Approx. annual revenues 125 (\$mm) Implied Enterprise Value 451.61 (\$mm) Sold 93%, management retained 7%	Electronic Data Systems Corp. (NYSE: EDS)	420	<ul style="list-style-type: none"> Niche companies continues to get higher premium. EDS global reach will enable Saber to significantly grow revenue. Buyers value growth, Saber is one of the world's fastest-growing providers of software products and services that enable state and local governments to better serve citizens and has more than doubled its revenue each year since 2004.
2/23/2007	ThoughtDigital, LLC	ThoughtDigital, LLC, a software and consulting company, builds service-oriented architectures infrastructure for Oracle e-business suite and also offers a web messaging infrastructure providing the delivery of XML and SOAP messages. Implied Enterprise Value/LTM Total Revenues 0.9x Implied Enterprise Value/LTM EBIT 8.3x	Zensar Technologies Inc.	24.9	<ul style="list-style-type: none"> Tier 2 players in India will continue to make acquisitions to increase their offerings and increase revenue. Significant valuation gap exist between Tier 1 and Tier 2 players. Tier 2 players will be under pressure to increase profitability, and some will soon become targets.
2/6/2007	Keane Inc. (NYSE:KEA)	Keane, Inc. provides information technology and business process services primarily in the United States. Implied Enterprise Value 821.28 Implied Enterprise Value/Revenues 0.9x Implied Enterprise Value/EBITDA 9.6x	Caritor, Inc.	1006.87	<ul style="list-style-type: none"> Supports market trend toward combining IT delivery capabilities and client services with offshore IT capabilities. US based IT services companies continue to get pressure from offshore based, especially India based providers. Deal also indicates investors' confidence in the global service provider market. The transaction is financed through a combination of equity to be contributed to Caritor by Citigroup Venture Capital International and debt financing by three leading investment banks.
3/8/2006	Covansys Corp., State and Local Government Practice	Covansys Corp., State and Local Government Practice provides technology solutions and services that improve business process quality and productivity to state and local governments. Implied Enterprise Value/LTM Total Revenues 0.5x Implied Enterprise Value/LTM EBIT 14.3x	Saber Consulting, Inc.	40.00	<ul style="list-style-type: none"> Accel KKR built a platform by acquiring Saber and this subsequent acquisition provided the combined entity significant revenue growth. Sellers of growth companies should pay careful attention to the value proposition selling partial stake to investor group to maximize their returns by becoming a platform company. Global outsourcing companies are increasingly under pressure to maintain their profitability as this divestiture of underperforming asset by Covansys demonstrates.

Transactions of the Year—IT Outsourcing

Date	Target	Target Descriptions	Buyer	Purchase Price (\$mm)	Transaction Comments
8/30/2007	Zavata, Inc.	Zavata, Inc. provides business process outsourcing services and enterprise support solutions focused on the health care revenue cycle, healthcare administration, medical management and PPO network and database management.	Apollo Health Street Limited	169	<ul style="list-style-type: none"> Healthcare outsourcing will witness significant consolidation as India based players are keen on increasing breadth and depth of their service offerings. Diversifying geographic footprint and achieving economies of scale will drive acquisitions. Apollo Health Street has made four acquisitions so far and supports a trend which we believe will continue.
8/29/2007	MedAssist	MedAssist provides revenue cycle management services to the healthcare industry. It has over 800 clients, including hospitals, large physician groups and alternate site providers. Implied Enterprise Value/2006 Revenues 3.3x	Firstsource Solutions Ltd (BSE:532809)	330	<ul style="list-style-type: none"> Strengthens its position on the provider side, and provide complete offerings in the Healthcare BPO as they are already strong on the payor side. It is the second-largest acquisition by an India based outsourcing player after Wipro bought out Infocrossing for about \$600 million. Firstsource has raised debt of \$275 million for financing and suggest investors are bullish on the trend. Further supports our position on more acquisitions in healthcare BPO space.
8/6/2007	Infocrossing Inc. (NasdaqNM:IFOX)	Infocrossing provides hosted and managed IT infrastructure services and network operations centers to medium sized enterprises. Implied Enterprise Value/LTM Total Revenues 2.3x Implied Enterprise Value/LTM EBITDA 12.5x Implied Enterprise Value/LTM EBIT 20.5x	Wipro Technologies Ltd.	568.45	<ul style="list-style-type: none"> Driven by customers preference for local presence, Indian outsourcers have been setting up operations closer to their customers in the U.S. and Europe, a trend we believe will drive more acquisitions this year. Infocrossing will provide capability regarding managed data center hosting services. The largest-ever overseas acquisition by an Indian IT firm highlights changing mindset of India based providers regarding acquisitions.
4/2/2007	First Data Corp. (NYSE:FDC)	First Data Corporation provides electronic commerce and payment services for financial institutions, commercial establishments, and consumers principally in the United States. Implied Enterprise Value/LTM Total Revenues 3.7x Implied Enterprise Value/LTM EBITDA 13.2x Implied Enterprise Value/LTM EBIT 20.0x	Kohlberg Kravis Roberts & Co.	28677.85	<ul style="list-style-type: none"> Third largest LBO ever and at a valuation of 15 times 2007e operating profits demonstrates increasing appetite of PE players. Divesting geographically isolated entities and re-investing the proceeds in growing the payment firm's international business will drive value in this transaction. We doubt any such large acquisitions will be completed by a PE group this year.

Transactions of the Year—IT Supply Chain

Date	Target	Target Descriptions	Buyer	Purchase Price (\$mm)	Transaction Comments
12/11/2007	Software Plus	Software Plus, Inc. operates as a reseller of computer software, software licensing, and accessories in the Midwest. Implied Enterprise Value/LTM Total Revenue 0.23x	Softchoice Corporation (TSX: SO)	45	<ul style="list-style-type: none"> Softchoice increased its position as a growing consolidator in the North American IT solutions space. Acquired Optimus Solutions a Premier IBM partner headquartered in Atlanta on January 2, 2008. Softchoice's business model which couples a strong outside sales force with industry leading call centers provides an outstanding foundation for continued growth. Martin Wolf Securities acted as the advisor for Softchoice for both transactions.
11/12/2007	ASAP Software, Inc.	ASAP Software, Inc. offers IT products and services to businesses, educational institutions, and government organizations.	Dell Inc. (NASDAQ: DELL)	340	<ul style="list-style-type: none"> Continued Dell's strategy of expanding its role as a provider to IT products and services. ASAP provided Dell relationships with large enterprise accounts, new sales opportunities and the ability to lower overall IT management expenses Dell's direct model poses significant threats to its competitors Positioned to be a complete provider of IT products and solutions - one stop source with this acquisition and its subsequent acquisitions of EqualLogic, Everream, Silverback Technologies
10/12/2007	CDW	CDW is the industry leader in providing hardware, software and related accessories to business and public organizations in the United States.. Implied Enterprise Value 6852.44 Implied Enterprise Value/LTM Total Revenue 0.97x Implied Enterprise Value/LTM EBITDA 14.30x	Madison Dearborn Partners, LLC; Providence Equity	7332.61	<ul style="list-style-type: none"> 16% premium over the stock price on the day prior to the announcement - the bellweather transaction in the IT reseller space for 2007 - exceeded their competitors multiples by as much as 100%. CDW's industry leading operating margins and growth drove their valuation Questions remain: <ul style="list-style-type: none"> Whether CDW will be able to maintain their advantages under their new ownership group? Why there was no strategic buyer during the shop provision period? Will CDW continue its acquisition strategy in both product and solutions?
3/31/2007	Agilysys KeyLink Systems Group	The Agilysys KeyLink Systems Group distributes enterprise computer technology solutions. It offers server and storage software, hardware, and various programs and services Implied Enterprise Value/LTM Total Revenue 0.39x	Arrow Electronics, Inc. (NYSE: ARW)	485	<ul style="list-style-type: none"> Completed the change of Agilysys from a distributor to an end user solutions provider and provided the capital. Agilysys acquired Stack Computer, Inc. Innovative Systems Design and InfoGenesis as it strives to reach its stated goal of \$1.5 billion in revenue and 6% EBITDA margins within three years. Positioned Agilysys as a key player in the IT solution space for continuous acquisitions in the upcoming years.

Valuation Trends

IT Services & BPO: In Q3 of 07, we witnessed a sharp drop of valuation multiples of India based providers. The main reason is a weakening dollar put tremendous pressure on the Indian IT workers' wage advantage. However, we expect the valuation multiples start to pick up in 2008, after the market digests the negative information and looks for new growth areas in the world. Financial IT services enjoyed favorable multiples boosted by recent big M&A deals. On the other hand, U.S. players —BPO, IT Professional Services, and IT Outsourcing—continued to trade in a relatively narrow band. We predict that there will be more offshore global players taking advantage of their valuation multiple and look to acquire qualified targets in the U.S. in 2008.

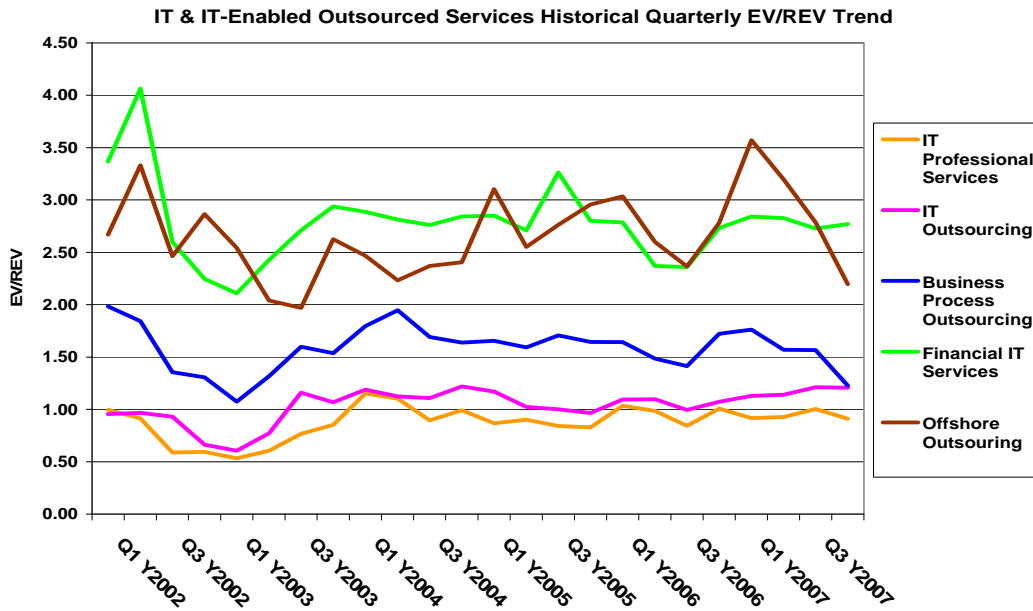


Figure 1

IT Supply Chain Services: IT distributors have enjoyed higher valuation multiples within this segment. Reseller and direct marketers witnessed converging valuation due to the increasing similarity within their business models. In 2007, there were few landscape changing transactions conducted by large players in the space. Interestingly, Madison Dearborn outbid all strategic players and took CDW private with a whopping 14x trailing LTM EBITDA. We predict that there will be a few more smaller consolidation deals in the year 2008 with less eye-dropping transaction multiples.

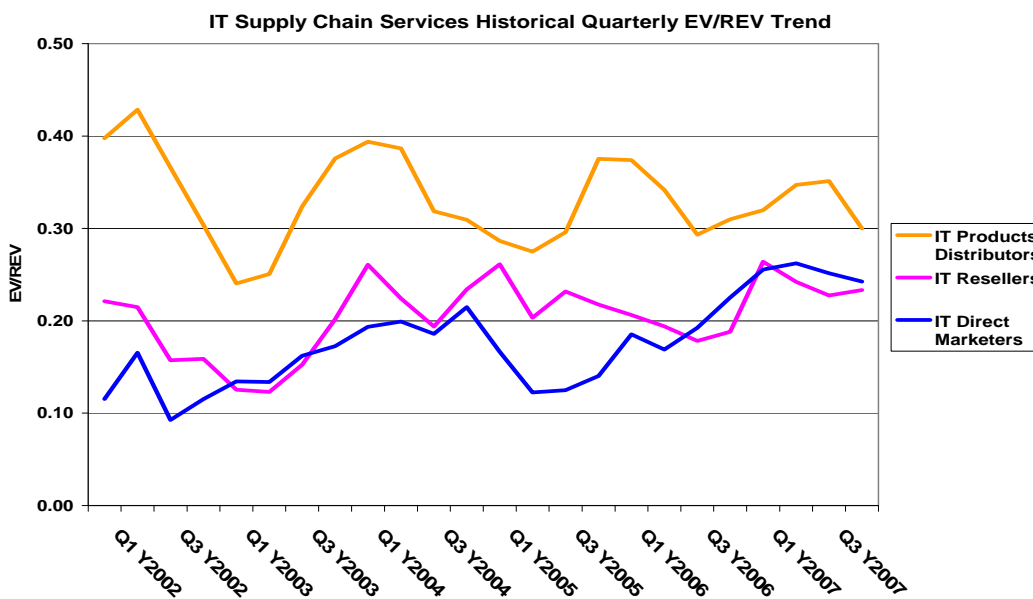


Figure 2

Transaction Statistics

As we predicted last year, IT services and the BPO industry continued to enjoy robust deal volume and valuations in 2007. However, M&A activities dropped sharply in 4Q 2007. Interestingly, Asian and other markets are less impacted. We anticipate that fewer companies will continue to be super acquisitive in 2008 due to limited capital market access and scarce high-quality assets. Transaction multiples will also be affected negatively of course. On the other hand, a few global IT companies could take advantage of the weak dollar and look to expand in the North American and European markets.

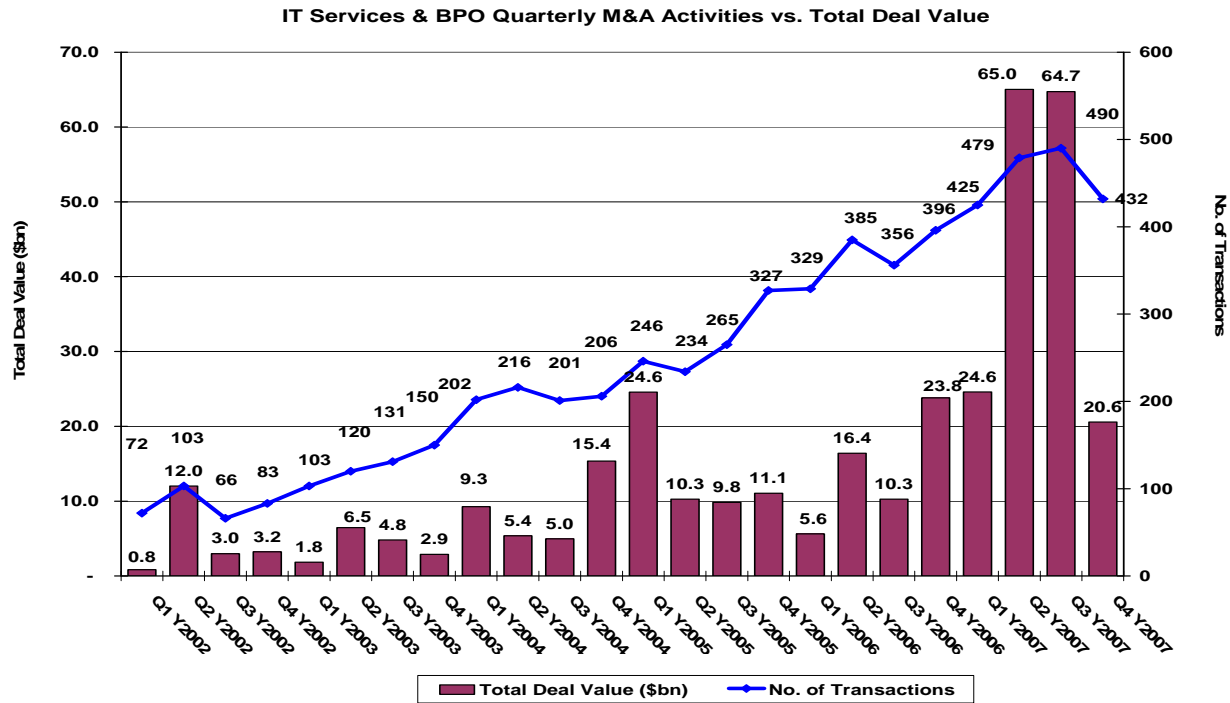


Figure 3

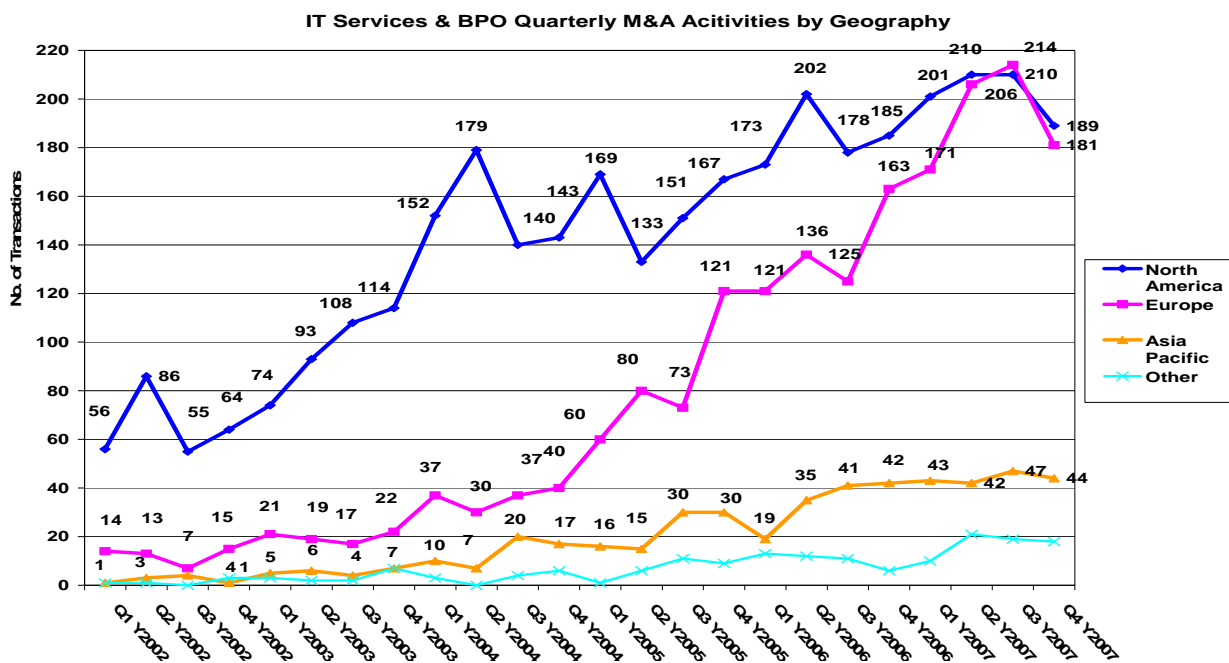


Figure 4

MWS Scoreboard

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	11.6%	44.2%	15.6%	16.8%	1.45	24.0	1.64	12.1
IT & IT-ENABLED OUTSOURCED SERVICES								
Financial IT Services	14.8%	47.1%	21.2%	4.4%	2.72	20.7	2.87	10.3
Offshore Outsourcing	37.5%	37.5%	19.4%	2.8%	2.25	21.8	2.47	13.9
Business Process Outsourcing - Non-voice	14.6%	45.9%	20.9%	18.2%	1.36	17.8	1.43	9.9
IT Outsourcing	14.9%	27.6%	12.0%	15.6%	1.30	24.4	1.23	12.9
Business Process Outsourcing - Voice	8.7%	32.4%	10.7%	7.6%	0.92	17.8	0.98	7.3
Governmental IT Professional Services	13.8%	24.2%	8.5%	9.4%	0.89	18.7	0.98	11.5
Commercial IT Professional Services	13.1%	28.2%	6.7%	0.8%	0.88	17.1	0.77	7.9
IT Staff Augmentation	3.7%	24.2%	3.5%	3.9%	0.34	13.3	0.29	6.6
IT SUPPLY CHAIN SERVICES								
IT Retailers	4.1%	25.4%	6.4%	6.4%	0.24	12.6	0.37	7.8
IT Resellers	1.4%	17.9%	0.3%	24.3%	0.13	14.2	0.36	10.4
IT Products Distributors	10.6%	10.6%	2.0%	18.8%	0.21	15.7	0.28	8.1
IT Direct Marketers	13.4%	13.3%	3.3%	7.2%	0.21	14.1	0.23	7.1
SOFTWARE								
IT Management Software	13.9%	79.8%	19.3%	0.0%	3.51	32.7	3.31	13.0
Business Software	14.3%	69.9%	18.9%	11.0%	3.56	31.8	3.01	15.9
Middleware, Tools and Integration	12.7%	73.3%	19.8%	0.5%	2.93	34.7	2.70	13.6
Enterprise Applications	13.8%	66.4%	14.9%	0.5%	2.32	40.3	2.16	18.4

Figure 5—Scoreboard

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 84 IT and IT-Enabled Outsourced Services, 27 IT Supply Chain Services, and 42 Software companies listed in US stock market. It is based on the closing price as of January 2, 2008.
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 31, 2007
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 be removed from the distribution list, please contact Hao He, CFA at (925) 355-0110 or email her at hhe@martinwolf.com.

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Martin Wolf Securities—Selected Transactions


has acquired

\$47.1 million
January 2008


has acquired

\$45.1 million
December 2007


has been acquired by

\$30 million
February 2007


has acquired

\$320.3 million
September 2006


has been acquired by

\$107.5 million
June 2006


has sold majority interest to
ACCEL  KKR
January 2006

***Exclusively focused on mid-market M&A in the IT Services,
BPO & IT Supply Chain Services segments.***