



Valuation & Deal Insights®

Second Quarter 2007

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

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Selected Transactions

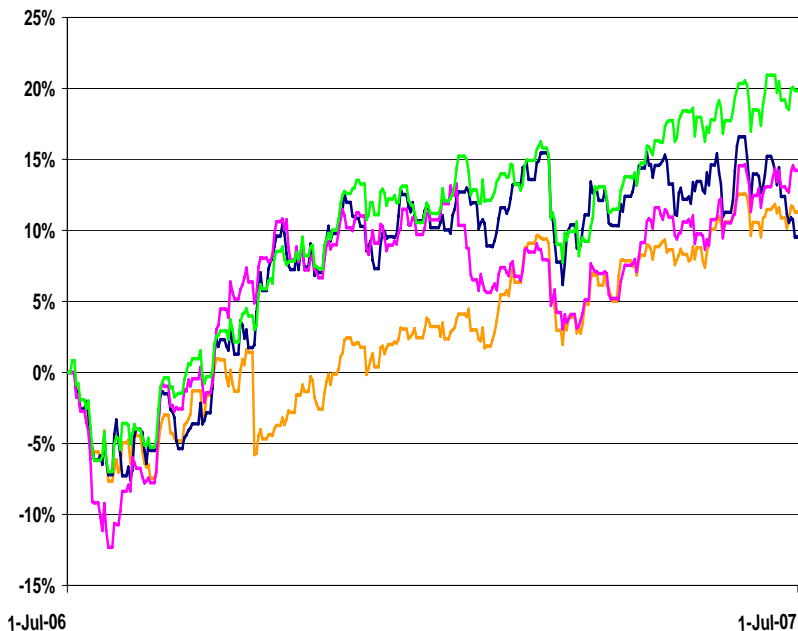
- ◆ CDW & Madison Dearborn Partners
- ◆ Alliance Data Systems & Blackstone
- ◆ First Data & Kohlberg Kravis Roberts & Co

IT Services Sector

- ◆ Fragmented market
- ◆ Increasing need for a global delivery network
- ◆ Limited future deal flow due to asset scarcity

MWS Scoreboard

MWS Index® vs. NASDAQ Composite Index



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

Transaction Highlights

IT Services

- ◆ **06/29/07** Microsoft (Nasdaq: MSFT) acquired two adjacent data centers from SAVVIS, Inc. (Nasdaq: SVVS) for \$200 million (6.06x annualized first six months of 2007 revenue)
- ◆ **06/28/07** Sonda S.A. (SNSE: SONDA) announced acquisition of SAP consultancy Grupo Procwork for \$118 million (0.89x 2006 revenue).
- ◆ **06/27/07** Equinix, Inc. (Nasdaq:EQIX) announced acquisition of IXEurope Plc for £226.48 million (6.40x 2006 revenue).
- ◆ **05/25/07** Tata Consultancy Services Limited (BSE:532540) acquired the remaining 49% stake in Tata Consultancy Services Do Brasil S.A. for \$33.4 million in cash.
- ◆ **05/14/07** Terremark Worldwide, Inc. (Nasdaq: TMRK) announced acquisition of MSFT managed hosting services provider Data Return, LLC for \$85 million (1.55x 2006 revenue).
- ◆ **04/25/07** Computer Sciences Corporation (NYSE: CSC) announced acquisition of Covansys Corporation (NasdaqNM: CVNS) for a total transaction value of \$1.1Billion (2.40x LTM revenue as of 03/31/07).
- ◆ **04/20/07** SunGard Data Systems Inc. acquired ecommerce and software solution provider Energy Softworx, Inc. from 3i Infotech, Ltd. (BSE: 3IINFOTECH) for an undisclosed amount.

Business Process Outsourcing

- ◆ **06/18/07** The Blackstone Group and the Management announced acquisition of Intelenet Global Services Ltd. from HDFC Bank Ltd. (BSE: 500180) and Barclays Bank, plc for \$200 million (2.32x 2006 revenue).
- ◆ **05/14/07** Welsh, Carson, Anderson & Stowe announced acquisition of transaction processing firm TransFirst, Inc. for \$683 million.

IT Supply Chain Services

- ◆ **05/25/07** Agilysys, Inc. (Nasdaq: AGYS) announced acquisition of Innovativ Systems Design, Inc. for \$190 million (0.74x LTM revenue as of 03/31/07).
- ◆ **04/02/07** Agilysys, Inc. (Nasdaq: AGYS) acquired Stack Computer for \$28 million in cash (0.51x 2006 revenue).
- ◆ **04/01/07** Xerox Corp. (NYSE: XRX) acquired Global Imaging Systems, Inc. (NASDAQ: GISX) for a total transaction value of \$1.7 billion (1.56x 2006 revenue).

Viewpoint



Marty Wolf — President

Do trees really grow to the sky?

Another bubble has formed. The vast sea of capital, which appears unending, has created a liquidity bubble. Access to cheap capital, however, has had varying impact on company valuations. In analyzing the S&P 500, for example, no such increases have occurred. In fact, its price-to-earnings ratio, which is now hovering around 15.6, has actually been trending back to the historic norm ever since the Internet/telecom equity bubble in 2000. Then, you ask, where is the asset bubble? Like in real estate, it is isolated to certain segments.

According to Thompson Financial, EBITDA multiples in the technology industry have reached a recent all-time high, averaging 14.6 across the industry in 2006. This represents a 90% increase from the average multiple in 2002 and even exceeds the high-water mark of 12.9 in 1999. Other areas such as the financial and healthcare sectors have also seen increases. In the segments we cover in the middle market, we have witnessed heavy interest in quality companies. Buyers are running in packs all looking for the same things, which drives up prices.

Private equity clearly has influenced deal activity and valuations. In healthy economic times, for example, there is usually a material spread between the multiples awarded by strategic buyers versus financial buyers. This is obviously justified by the strategic entity's ability to capture synergies, which is often not available to a financial buyer. The combination of the favorable financing markets as well as the significant up-tick in the funds raised by private equity groups, however, has drastically altered the market dynamics, albeit temporarily. For example, according to Thompson Financial, the spread in EBITDA multiples between strategic acquisitions and leveraged buyout deals in the sub-\$250 million range was actually inverted in 2006 — meaning that financial buyers paid a higher multiple than strategic acquirers, on average.

If you want an example of market exuberance from the private equity world and its impact on valuations, you need not look further than the pending buyout of CDW. Madison Dearborn's deal values CDW at 13.1 times trailing EBITDA. Dell, on the other hand, which is a much larger company garnering higher margins is currently trading at 12.9. Although there is a premium being awarded to CDW, this private equity group will not have the luxury of cost takeouts or marketing synergies. Any capable strategic buyer did not step in, possibly implying they could not justify the price. Another telling sign is KKR's buyout announcement for First Data for \$27 billion, while simultaneously negotiating their percent carry due to investor "issues." Both are canaries in the coal mine.

What should this mean to our 29,000 readers? I suggest you consider the Omaha oracle, Warren Buffet. While not investing in IT, he claims not to get it. He does maintain when everyone is buying you should sell, and when everyone is selling, you should be buying. When non-industry smart money trumps industry pros on such a grand scale, there is clearly a market imbalance that will prove ephemeral.

Our firm's advice: sell into strength.

Selected Transactions

	05/29/07 Madison Dearborn Partners to buyout CDW Corp.
Target	CDW Corp. (Nasdaq: CDWC) (An IT reseller in North America)
Buyer	Madison Dearborn Partners, LLC
Total Transaction Value	\$6,467.09M
Transaction Value/Revenue	0.92x LTM revenue as of 03/31/07
Transaction Value/EBITDA	13.1x LTM EBITDA as of 03/31/07
Synopsis	Madison Dearborn Partners, LLC entered into a definitive merger agreement to acquire CDW Corporation (NASDAQ:CDWC) for \$7.31 billion. Under the terms of the agreement, CDW shareholders will receive \$87.75 in cash for each share of CDW common stock they hold, representing a premium of approximately 16.1 percent over CDW's closing share price of \$75.56 on May 25, 2007. The transaction is expected to close by the end of the third quarter of 2007 or early in the fourth quarter of 2007.
Transaction Highlights	This transaction provides a compelling opportunity to immediately maximize value for its shareholders.
	05/17/07 Blackstone to buyout Alliance Data Systems Corp.
Target	Alliance Data Systems Corporation (NYSE:ADS) (A transaction, marketing, and credit services provider based in Texas)
Buyer	Blackstone Capital Partners V, L.P. , The Blackstone Group, Private Equity Group
Total Transaction Value	\$7,933.78M
Transaction Value/Revenue	3.83x LTM revenue as of 03/31/07
Transaction Value/EBITDA	14.8x LTM revenue as of 03/31/07
Synopsis	The Blackstone Group signed a definitive agreement to acquire Alliance Data Systems Corp. (NYSE: ADS) for \$6.68 billion. Blackstone will acquire all of the outstanding common stock of Alliance Data for \$81.75 per share in cash, a premium of approximately 30% over Alliance Data's closing share price of \$62.96 on May 16, 2007.
Transaction Highlights	This agreement is clearly in the best interests of its stockholders by maximizing the value of their investment.
	04/01/07 Kohlberg Kravis Roberts to buyout First Data Corp.
Target	First Data Corp. (NYSE:FDC) (An electronic commerce and payment services provider in Colorado)
Buyer	Kohlberg Kravis Roberts & Co.
Total Transaction Value	\$27,673.55M
Transaction Value/Revenue	3.80x LTM revenue as of 03/31/07
Transaction Value/EBITDA	13.4x LTM EBITDA as of 03/31/07
Synopsis	Kohlberg Kravis Roberts & Co. (KKR) signed an agreement to acquire First Data Corp. (FDC) in a transaction valued at \$26.3 billion. As reported, First Data shareholders would receive \$34 per share in cash, representing a premium of approximately 26% over First Data's closing share price of \$26.90 on March 30, 2007. The agreement was unanimously approved by the First Data Board of Directors
Transaction Highlights	Current market conditions present an exceptional opportunity to maximize the value of First Data by delivering an immediate cash premium to its shareholders.

IT Services Sector

With top 50 players getting 49% of the overall market (DataMonitor, ComputerWire), IT Services continues to be a highly fragmented space with key players based in the U.S, Europe and India. Despite this, the segment has been slow to consolidate, as the deals to date have been largely strategic, tactical and small to modest in size. However, there are signs this could be changing.

Recent acquisitions by CSC, Cap Gemini and EDS suggest that both the U.S and European players are being very aggressive with regard to increasing their offshore capabilities. Further, these companies were willing to pay a premium (see Figure 1). The quest is driven by the desire to quickly ramp up their global delivery network. Accenture, on the other hand, has been able to accomplish worldwide growth organically. It is on track to reach 35,000 or 22% of its employee base in India and another 11,000 in the Philippines by mid-year. We will not be surprised by another major acquisition of an India-based provider by a large U.S or European company.

Figure 1— Comparative Deal Analysis

	Computer Sciences ac- quired Covansys	Cap Gemini SA acquired Kanbay	EDS acquired Mphasis BFL
Total Transaction Value (SMM)	1,114	1,291	146
Price Premium 1-Day Before Announcement	30.8%	15.9%	-0.7%
Price/LTM Revenue	2.40	3.63	3.31
Price/LTMEBITDA	16.7	19.6	17.2
Target LTM Revenue (SMM)	464	355	228
Target LTM EBITDA (SMM)	67	66	46
Target Employees	9,000	6,500	12,000
Target Employees in India	7,000	5,000	11,000
Revenue Per Employee (SMM/Person)	0.05	0.05	0.02
Buyer LTM Revenue (SMM)	14,682	9,481	20,292
Buyer LTM EBITDA (SMM)	2,211	725	1,974
Buyer Employees	79,000	68,000	131,000
Buyer Employees in India	7,000	7,000	5,000
Revenue Per Employee (SMM/Person)	0.19	0.14	0.15

As we have outlined previously, offshore providers have been busy making small to mid-sized acquisitions (i.e., typically less than \$100 million) in global markets to gain clients, enter local markets, and gain both vertical and service line expertise. This trend is not isolated to offshore providers; domestic players also have interest in fortifying their expertise through acquisitions. Further, this trend also includes BPO acquisition targets. This segment could be considered the greatest in demand as demonstrated by the diverse group of acquirers. Buyers include strategic buyers of all sizes and geographies, as well as private equity groups with their vast financial resources. Although we continue to see deal flow in this area, it will be limited based on the scarcity of quality, differentiated pure-play assets.

Figure 2— Representative Transactions

Date	Buyer	Target	Target Description	Price (\$mm)	Implied EV/Rev
4/23/2007	Siemens AG (DB:SIE)	IBS AG (DB:IBB)	software solutions and services for industrial enterprises	EUR33.8 (\$46.94)	1.74
4/16/2007	SPI Technologies, Inc.	Springfield Service Corporation	Physician billing and accounts receivable management solutions	44	-
2/26/2007	Electronic Data Systems Corp. (NYSE:EDS)	RelQ Software Pvt. Ltd.	Software testing, validation and verification, and quality assurance services	40	1.82
2/13/2007	CheckFree Corp. (NasdaqNM:CKFR)	Corillian Corp. (NasdaqNM:CORI)	Online banking, payment and security solutions to the financial services industry	245.35	3.79
2/10/2007	Aegis Communications Group Inc.	Global Vantage, Inc.	Credit and receivables management services for telecommunications and financial services industries	INR1000 (\$22.72)	0.91
1/4/2007	Firstsource Solutions Ltd	BPM, Inc	Healthcare claims outsourcing	30.00	-
12/12/2006	Hewlett-Packard Co. (NYSE:HPQ)	Knightsbridge Solutions LLC	Business intelligence and data warehousing solutions	-	-
10/31/2006	Tata Consultancy Services Limited (BSE:TCS)	TKS Group	Application development and maintenance solutions for banking, financial services, and insurance sectors	CHF100.5 (\$80.8)	1.87
9/12/2006	TriZetto Group Inc. (NasdaqNM:TZIX)	Quality Care Solutions Inc.	Healthcare software development IT consulting services to healthcare organizations	146.2	2.58
6/15/2006	TeleTech Holdings Inc. (NasdaqNM:TTEC)	Direct Alliance Corp.	Direct marketing & direct sale	107.50	1.40
6/1/2006	Wipro Technologies, Ltd.	Enabler Informatica SA	Oracle Retail solution and Retail consulting services for global retailers	EUR41 (\$52.55)	1.37
5/24/2006	Reynolds & Reynolds Co. (NYSE:REY)	DCS Group plc (AIM:DCS)	International IT solutions and services for the automotive and distribution industries	£24.05 (\$76.4)	0.90
5/18/2006	Affiliated Computer Services Inc. (NYSE:ACS)	Intellinex, LLC	Learning business process outsourcing	75.0	0.94

MWS Scoreboard

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	14.8%	43.3%	15.9%	19.7%	1.52	24.7	1.50	12.6
IT & IT-ENABLED OUTSOURCED SERVICES								
Offshore Outsourcing	35.6%	36.0%	22.0%	0.2%	3.38	25.7	3.27	15.4
Financial IT Services	12.5%	47.9%	24.1%	2.7%	2.92	26.4	2.94	11.2
Business Process Outsourcing - Non-voice	10.8%	43.5%	23.5%	18.9%	1.90	22.5	2.28	11.9
Business Process Outsourcing - Voice	10.6%	35.4%	13.1%	7.7%	1.22	19.8	1.30	8.7
IT Outsourcing	10.4%	28.0%	15.0%	13.6%	1.46	35.8	1.24	11.8
Governmental IT Professional Services	11.2%	16.7%	8.7%	1.0%	0.94	22.0	1.01	10.6
Commercial IT Professional Services	12.6%	28.3%	7.0%	1.5%	0.99	26.4	0.99	11.3
European IT & Business Services	15.8%	30.2%	9.9%	15.7%	0.94	22.8	0.96	10.5
IT Staff Augmentation	5.3%	23.7%	3.6%	2.3%	0.39	19.1	0.36	8.7
IT SUPPLY CHAIN SERVICES								
IT Retailers	6.2%	25.7%	7.0%	6.3%	0.54	17.3	0.55	8.0
IT Products Distributors	10.9%	11.8%	2.6%	18.0%	0.31	16.7	0.34	9.6
IT Direct Marketers	10.2%	12.7%	3.2%	12.0%	0.26	22.2	0.27	9.5
IT Resellers	7.2%	15.0%	2.2%	24.7%	0.14	20.5	0.26	9.0
European IT Supply Chain	2.2%	8.9%	2.8%	7.1%	0.28	19.9	0.25	11.1
SOFTWARE								
IT Management Software	21.5%	82.1%	17.7%	0.7%	3.48	40.0	3.37	15.3
Business Software	12.8%	73.9%	19.7%	4.0%	3.08	33.0	2.83	13.9
Middleware, Tools and Integration	11.7%	74.5%	21.1%	0.0%	3.51	31.7	2.72	15.1
Enterprise Applications	14.0%	66.4%	16.8%	0.1%	2.72	31.5	2.41	14.7

Figure 3—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 97 IT and IT-Enabled Outsourced Services, 30 IT Supply Chain Services, and 60 Software companies listed in US stock market. It is based on the closing price as of July 2, 2007.
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 June 29, 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


PC
WHOLESALE
Your Partner in Distribution

has been acquired by


SYNNEX
CORPORATION

\$30 million
February 2007


HTMT
Inspiring Integration

has acquired


AFFINA
THE CUSTOMER RELATIONSHIP COMPANY

October 2006


Insight

has acquired


Software Spectrum

\$320.3 million
September 2006


DIRECT
ALLIANCE

has been acquired by


TeleTech
The Science of Customer Management™

\$107.5 million
June 2006


LOGICALIS

has acquired
s/w region of


ALLIANCE
CONSULTING

May 2006


SÄBER

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.***

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