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Valuation & Deal Insights

Fourth Quarter 2005

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

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Transaction Highlights

IT Services

- **12/14/05** General Dynamics Corp (NYSE:GD) entered into a definitive agreement to acquire Anteon International Corp (NYSE:ANT) from Caxton-Iseman Capital, Inc. for approximately $2.2 billion (or 1.5x LTM revenue as of 09/30/05).

- **10/17/05** Anteon International Corp. (NYSE:ANT) acquired Milestone Group, LLC for $31.5 million (or 1.5x LTM revenue as of 09/30/05).

IT-Enabled Outsourced Services

- **11/08/05** Indian IT & Consulting company Tata Consulting Services Ltd. (BSE532540) acquired leading BPO firm Comicrom SA in Chile for $23 million (or 0.7x 2005 revenue).

- **10/25/05** Infocrossing (NASDAQ: IFOX) acquired (i)Structure LLC from Level 3 Communications Inc. (NASDAQ: LVLT) for $81.5 million (or 1.1x next twelve months revenue).

IT Supply Chain Services

- **11/29/05** Avnet Inc. (NYSE:AVT) spun off its division Avnet Enterprise Solutions and formed a $300 million VAR organization with solution provider Calence Inc.

- **11/28/05** Distribution giant Avnet Inc.(NYSE:AVT) sold its HP enterprise end-user business to HP's largest enterprise partner, Logicalis for $100 million.

- **10/24/05** MoreDirect Inc. (a subsidiary of PC Connection Inc. (NASDAQ: PCCC) entered into a definitive agreement to acquire Amherst Technology for $7.8 million.

Viewpoint

Martin Wolf
Managing Director

With buyers no longer thinking it was 1929, and sellers no longer thinking it was 1999, transaction volume and deal size were up significantly over last year, and were the highest since the internet bubble.

There are three primary reasons, all of which we expect to carry over into 2006:

- With the IPO market still closed to most companies, and the cost of Sarbanes-Oxley compliance making it cost prohibitive for most medium size firms to stay public, private equity has become the 800lb. gorilla. These firms have participated in nearly 1,200 transactions this year. Eleven of the twenty largest LBO's have taken place in '05 and their desire is so great that in March seven leading private equity firms pooled nearly $12 billion to buy Sungard Data Systems. **This means there is too much institutional money chasing too few companies and the reward is an additional premium for sellers.**

- Increasing global competition and squeezing profit margins have forced companies to re-focus their efforts on their core competencies. This has triggered a worldwide corporate trend to divest non-core assets and invest in growing core business. Recently, for instance, Volkswagen sold its non-core services arm, Gedas, to T-systems for between $473 and $532 million. **This means more M&A activities involving small and medium-sized targets that strengthen current offerings or the client base of larger players.**

- Indian companies' appetite for North American IT companies is accelerating with expectations there will be less looking and more buying in 2006. These companies are fast growers, trade at high multiples and are looking for small, sub-$50 million targets, but most importantly, they need to acquire customer facing organizations that allow for certain elements to be offshored. Topline growth coupled with cost advantages are the secret to successful firms. With the dollar cheap, U.S. companies are even more attractive. **This means a wider net will maximize shareholder value.**

- Interest rates continue to be low measured by historic terms, even though they have risen in relative terms over the past twelve months. Expect the Fed to ease the raise in the Federal Funds Rate to not more than an additional 50-75 basis points. **This means cheap money continues.**

This suggests better small businesses in selected niches will be rewarded by these positive macro factors in '06. However, those choosing to sell into this strengthening global marketplace have a narrow window in which to act.

Happy holidays and good selling.

Selected Transactions

10/05/05 TA Associates Announced $200 Million Buyout of Intuit Information Technology Solutions

Target	Information Technology Solutions (a leading provider of IT help desk and asset management software solutions)
Seller	Intuit Inc. (Nasdaq: INTU)
Buyer	TA Associates
Purchase Price	$200 million
Transaction Highlights	With the combination of TA's resources and ITS's strong recurring revenues, the new company will have greater opportunities to grow by developing and acquiring additional products, gaining additional market share among small and medium-sized companies, and broadening its international reach.

10/25/05 Infocrossing Acquired (i)Structure From Level 3 Communication

Target	(i) Structure (an IT infrastructure outsourcing company)
Seller	Level 3 Communication (LVLT)
Buyer	Infocrossing (IFOX)
Purchase Price	$81.5 million
Purchase Price/Revenue	1.1x next twelve months revenue
Transaction Highlights	The transaction combines two strong service providers with similar business models and complementary services to create one company with a national data center infrastructure, a solid base of enterprise clients, expertise across computing platforms and a full portfolio of selective outsourcing solutions.

11/28 & 29/05 Avnet Sold HP End-user Business to Logicalis & Formed a new VAR Company with Calence

Target	Avnet Inc (NYSE: AVT)
Buyer	Logicalis & Calence, Inc.
Transaction Highlights	Logicalis to acquire Avnet's U.S.-based HP enterprise end user business for $100 million and, in return, to move its HP and IBM product purchasing from Arrow to Avnet Partner Solutions for the next five years. The multiyear distribution agreement was valued at approximately $1 billion, according to both companies. The deal is to be closed in January 2006. In an unrelated deal on November 29, 2005, Avnet announced that it was spinning off its Avnet Enterprise Solutions networking business and combining it with Calence, Inc. The combination will have approximately 400 employees with 20 offices across the United States and $300 million in combined annual revenues.

Valuation Trends

IT & IT-Enabled Outsourced Services: The BPO sector has achieved a stable valuation, benefiting from increasing acceptance of the value-added role of process outsourcing. This highly fragmented sector is ripe for consolidation as leaders look to add more services, clients and economies of scale. U.S. and European based IT services companies are facing significant pressure from India based providers which will hamper their financial performance and possibly their valuation multiples. Overall, we project a narrowing of the valuation gap among these categories, converging to a tighter range.

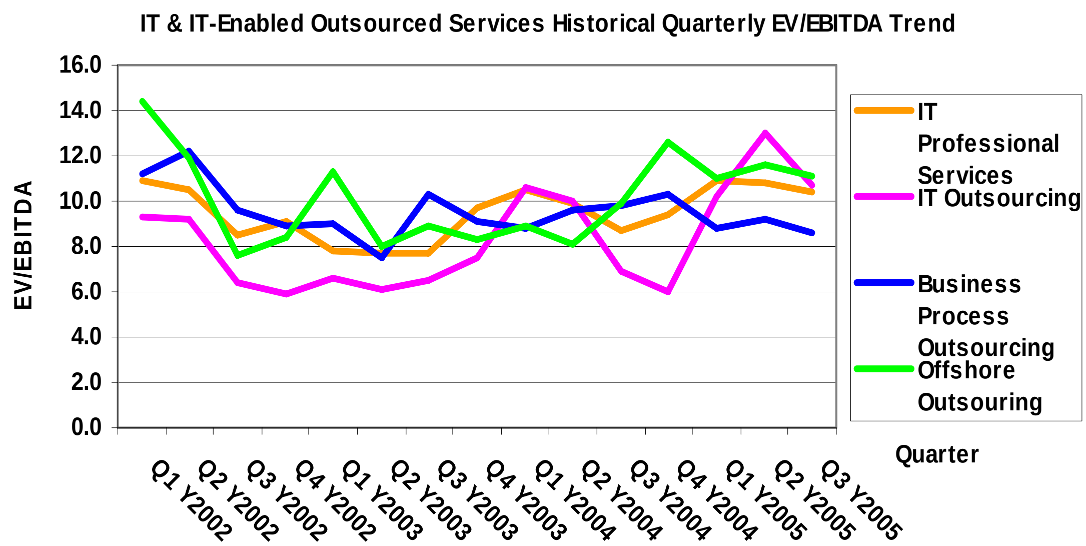

Figure 1

IT Supply Chain Services: Valuations across all segments have converged. We believe these segments will consolidate further as big players acquire second tier players to achieve growth and economies of scale. Resellers will continue to offer more services as a strategy to improve margins and strengthen client relationships.

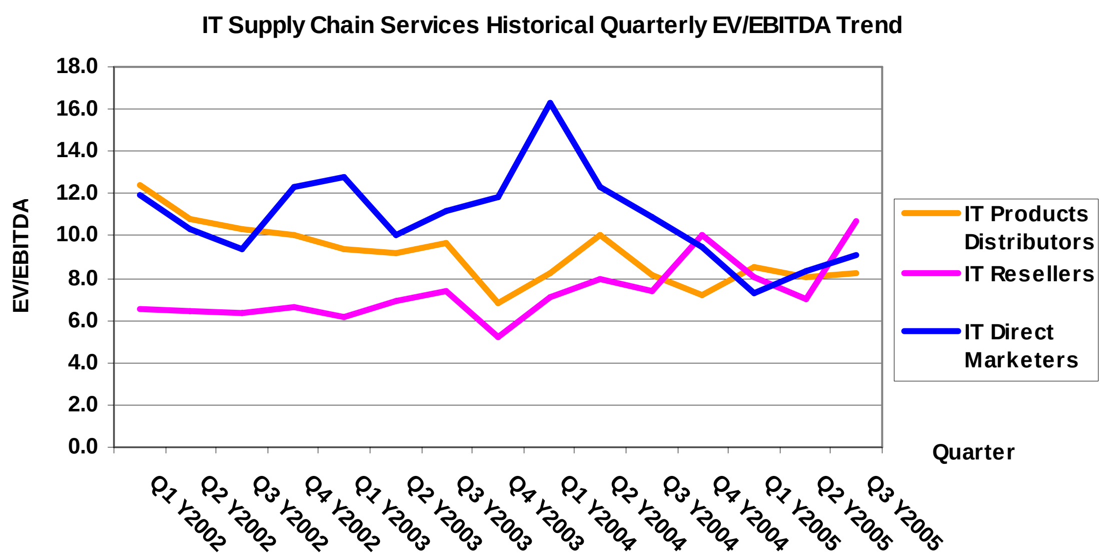

Figure 2

Transaction Statistics

In 2005, the IT and IT-enabled outsourced services industry experienced robust deal volume and values as momentum carried over from Q4 of 2004. The M&A activity is non-discriminatory, as it involves companies both big and small within all segments. Since the second half of 2004, European and Asian markets witnessed strong deal volume. We predict that this momentum will continue into 2006, driven by two main groups. Strategic buyers will continue to augment growth with acquisitions, while private equity groups will continue to deploy their capital in the technology enabled outsourcing and software segments. (Note: 2005 Q1 Deal Value spike is partially because of the $11.57 billion SunGard Data Systems acquisition.)

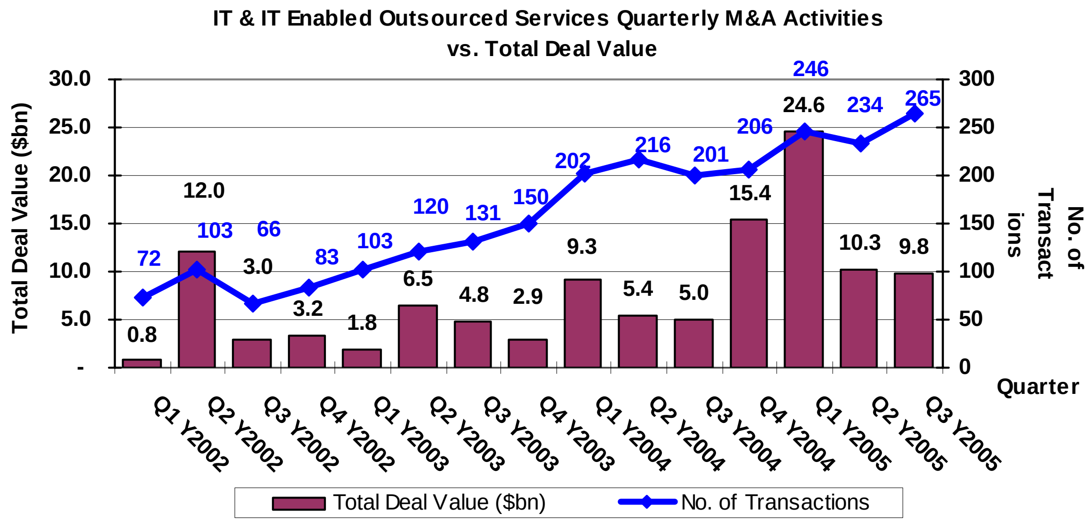

Figure 3

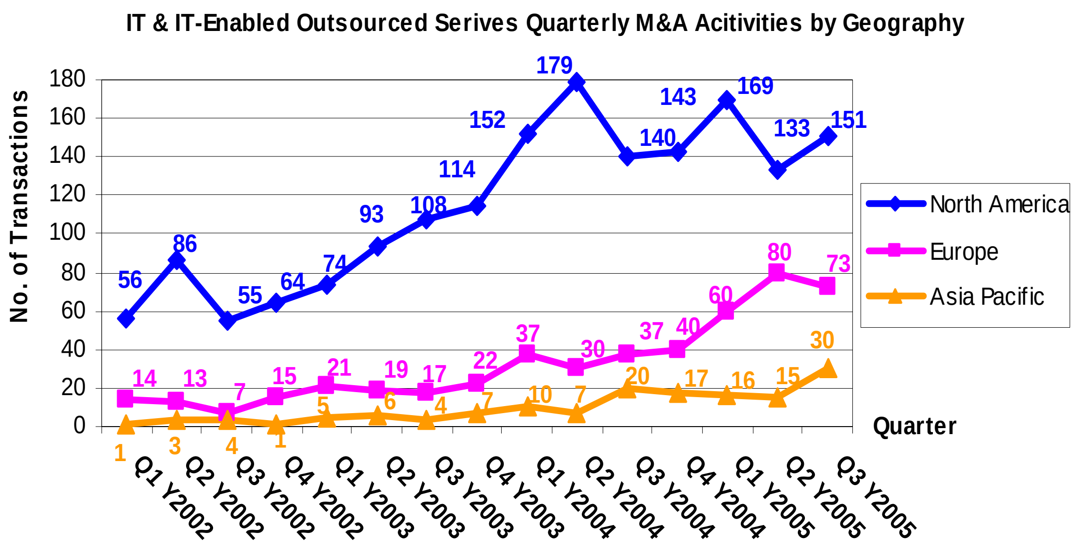

Figure 4

Performance Matrix

Offshore outsourcing continues to command the greatest valuation due to its market leading revenue growth and EBITDA margins. We remain bullish on this group, as both fundamentals and valuations will not likely deteriorate in the near term. European companies continue to lag behind their international peers. IT Supply Chain Services will likely not materially improve due to less than stellar fundamentals. Even though Software is the midst of slowing growth, it continues to command the highest valuations with high median EV/Revenue multiples. We anticipate continued consolidation within Software driven by tier 1 players looking to broaden their offerings and add functionality. (Click here to download detailed Performance Matrix that includes more than 250 public companies)

SECTOR	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	7.4%	42.2%	19.6%	6.8%	1.39	22.4	1.47	11.1
IT & IT-ENABLED OUTSOURCED SERVICES								
Offshore Outsourcing	34.2%	41.0%	22.8%	0.4%	3.47	21.5	3.08	16.1
Commercial IT Professional Services	13.5%	29.4%	6.6%	0.0%	0.95	23.7	0.78	14.4
IT Staff Augmentation	17.5%	24.1%	3.6%	8.9%	0.32	26.8	0.49	13.7
Financial IT Services	13.2%	57.4%	20.9%	1.1%	2.73	24.4	2.43	11.7
IT Outsourcing	9.7%	29.8%	12.6%	17.4%	0.91	27.1	0.99	11.1
Governmental IT Professional Services	27.6%	19.1%	9.5%	20.8%	0.99	22.0	1.06	10.9
Business Process Outsourcing	15.5%	46.9%	19.6%	17.4%	1.72	20.7	2.12	10.6
European IT & Business Services	3.0%	29.0%	8.7%	11.2%	0.72	23.0	0.80	10.4
IT SUPPLY CHAIN SERVICES								
IT Resellers	17.4%	14.9%	0.4%	16.2%	0.14	12.8	0.19	12.9
Alternative Channels	5.1%	28.5%	5.8%	9.2%	0.69	45.3	0.67	11.5
IT Products Distributors	11.7%	8.9%	2.4%	12.9%	0.16	18.6	0.22	8.6
IT Direct Marketers	12.5%	14.2%	3.7%	6.9%	0.29	20.8	0.25	8.6
European IT Supply Chain	3.3%	12.1%	3.8%	1.1%	0.26	14.3	0.33	6.2
SOFTWARE								
Enterprise Applications	6.3%	64.6%	12.2%	0.1%	2.28	34.4	1.62	17.9
Middleware, Tools and Integration	8.2%	79.4%	19.9%	0.3%	2.86	31.1	2.10	14.4
IT Management Software	14.9%	81.0%	17.2%	0.0%	3.19	33.9	2.45	12.8
Business Software	13.1%	75.2%	15.8%	0.0%	2.52	29.5	1.95	12.6

Figure 5

Key Definitions:

1. Data Source: Capital IQ
2. The defined industry categories are based on Martin Wolf Securities' in-house research
3. Enterprise value = Market Cap + Minority Interests + Preferred Stock + Outstanding Debt - Cash and Cash equivalents
4. LTM means Last Twelve Month based on last reported period
5. Historical quarterly EV/EBITDA = Average Quarterly Enterprise Value / Annualized EBITDA based on most recent quarter
6. Performance Matrix is based on the closing price as of December 22, 2005
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. Debt/Asset = LTM Total Debt / Total Assets
11. P/S = Market Cap / LTM Revenue
12. P/E = Market Cap / LTM Net Income
13. EV/Revenue = Enterprise Value / LTM Revenue
14. EV/EBITDA = Enterprise Value / LTM EBITDA

If you have any questions, or would like to receive a detailed performance matrix that includes more than 250 public companies or be removed from the distribution list, please contact Hao He (Analyst) at hhe@martinwolf.com.. You may also visit www.martinwolf.com for a .PDF version of this newsletter.