



## Valuation & Deal Insights

First Quarter 2006

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

### Inside this Issue

#### Viewpoint

- ◆ Cross-border M&A activity accelerating

#### Selected Transactions

- ◆ Fujitsu acquired Rapidigm and Greenbrier & Russel
- ◆ Wipro acquired cMango, mPower Software & MPACT Technology

#### BPO Sector

- ◆ Three types of buyers driving M&A activity
- ◆ Valuations differ significantly, driven by EBITDA margins and IP differentiation

#### MWS Index®

- ◆ All segments outperformed the NASDAQ Composite

#### MWS Scoreboard

- ◆ Offshore outsourcing services command higher valuations
- ◆ Supply chain fundamentals continue to lag

### Transaction Highlights

#### IT Services

- ◆ **03/27/06** Logicalis, Inc. announced plans to acquire Alliance Consulting's Southwest region business ("Alliance Southwest"), based in Phoenix, Arizona, for an undisclosed amount.
- ◆ **03/08/06** Covansys Corp (NASDAQ: CVNS) sold its state and local government practice to Saber Consulting, Inc. for \$40 million (or 0.53x revenue).
- ◆ **02/22/06** Fujitsu Consulting Inc. entered into a definitive agreement to acquire Rapidigm, Inc. The financial terms of the transaction were not disclosed.
- ◆ **02/13/06** Kanbay International Inc. (NASDAQ: KBAY) signed a definitive agreement to acquire Adjoined Consulting Inc. for \$165.05 million.
- ◆ **01/24/06** Saber Consulting Inc. sold a majority interest to private equity firm Accel-KKR for an undisclosed amount.

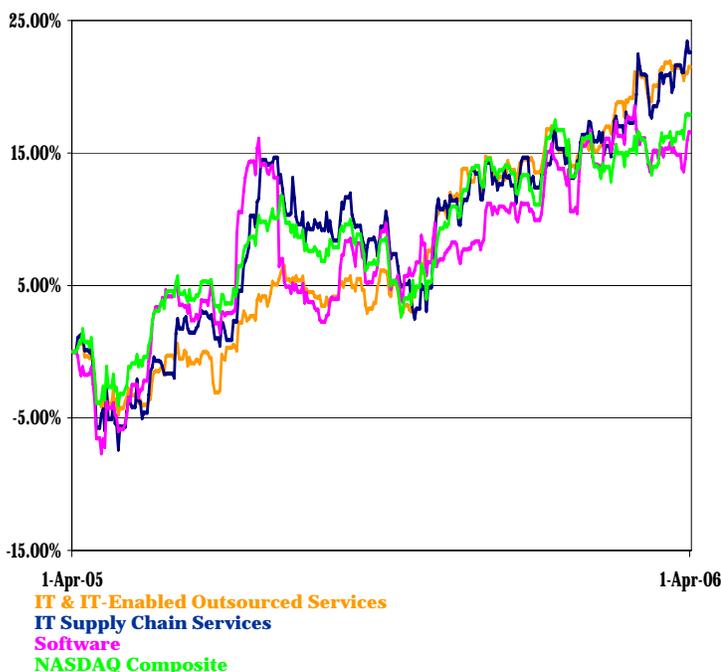
#### IT-Enabled Outsourced Services

- ◆ **03/20/06** Francisco Partners sold OfficeTiger LLC to R.R. Donnelley & Sons Company (NYSE:RRD) for \$250 million in cash.
- ◆ **03/08/06** Apollo Advisors LP bought out Sourcecorp Inc. (NASDAQ: SRCP) for \$469.72 million (or 1.14x LTM revenue as of 09/30/05).
- ◆ **02/06/06** West Corp (NASDAQ: WSTC) agreed to acquire Raindance Communications Inc.. (NASDAQ: RNDC) for \$149.26 million in cash (or 2.03x LTM revenue as of 09/30/05).
- ◆ **01/30/06** West Corp (NASDAQ : WSTC) entered into a definitive agreement to acquire Intrado Inc. (NASDAQ: TRDO) for \$469.51 million (or 3.18x LTM revenue as of 09/30/05).

#### IT Supply Chain Services

- ◆ **02/21/06** Herb Myers sold ActiveLight Inc. & CineLight Inc. to Electrograph Systems, Inc.. The financial terms of deal were not disclosed.
- ◆ **02/15/06** Arrow Electronic Inc. (NYSE:ARW) acquired Sky Data Corp for an undisclosed amount.

MWS Index® vs. NASDAQ Composite Index



## Viewpoint



*Martin Wolf — President  
& Managing Director*

Other than the French - who think an independent Danone, the yogurt maker, is a national priority and therefore protected it as a “national champion” when recently approached by Pepsico - cross border M&A, particularly in the IT space, has seen an acceleration of activity.

We believe we are entering the penultimate phase, with a good 12-18 months of increasing deal closures, not increasing valuations. This assumes oil trading in current ranges and no shocks to the U.S. economy due to terrorist attacks, another Katrina like super catastrophe or impeachment proceedings.

Demand is coming from all geographies, with the U.K. continuing to lead in numbers of announced deals - and also in all sizes. For example, Alcatel and Lucent announced in late March a \$13 billion deal to compete with the nascent Chinese telecom equipment makers. Additionally, there are many small, \$10 million “tuck” in acquisitions announced weekly in our MWS Tracker on line report. For example, our client, Logicalis, an international solution provider, recently acquired a small IT services unit from Alliance Consulting, a Safeguard Scientific subsidiary, to bolster its Western U.S. presence. What’s different now is that many foreign-based firms, which have been searching for acquisition targets over the last few years, are finally taking the plunge (e.g., Wipro, Fujitsu). Further, second tier players such as Kanbay are also getting into the mix.

The cause of this behavior is multiple fold. Organic growth is hard to come by in a mature market and buying can be faster and cheaper than building. Customers are rewarding providers of more complete solutions and the value of opportunities lost is frequently greater than the cost to buy. Most importantly, the U.S. market continues to provide the most cost effective access to what really matters, customers.

The value for aggregating customers for most solution providers, depending on the business model, is likely worth more than any other asset.

To paraphrase Jack Nicholson, this is as good as it gets.

## Selected Transactions

### **02/22/06 Fujitsu Consulting Acquired Rapidigm**

#### **Target**

Rapidigm, Inc. (a PA based company specializing in ERP platforms, business intelligence & CRM solutions)

#### **Buyer**

Fujitsu Consulting Inc.

#### **Synopsis**

Fujitsu Consulting Inc. entered into a definitive agreement to acquire Rapidigm, Inc. on February 22, 2006. The financial terms of the transaction were not disclosed. Rapidigm's senior leadership team will remain with Fujitsu Consulting in executive-level positions and will continue to provide day-to-day operational leadership. The transaction is expected to close within 45 days, subject to various closing conditions and regulatory clearance.

#### **Transaction Highlights**

Fujitsu Consulting gains the addition of Rapidigm enhanced ERP (SAP, Oracle, & PeopleSoft) consulting and integration expertise, global sourcing capabilities and extensive coverage in major U.S. markets. This acquisition added approximately 1200 US-based and 800 India-based consultants and increased Fujitsu’s North American consulting capacity by more than 75%. Fujitsu Consulting’s growth strategy is focused on enhancing its presence and capabilities in key North American markets and segments through strategic acquisitions. With the announcement of the Rapidigm transaction, Fujitsu Consulting had announced five acquisitions over a 15-month period, including Greenbrier & Russel of Chicago, IL (see below); GIM Risk Management of Montreal, QC; BORN Information Services of Minneapolis, MN and Cendera Technologies of Dallas, TX.

**02/15/06 Fujitsu Consulting Purchased Greenbrier & Russel**

|                               |  |
|-------------------------------|--|
| <b>Target</b>                 | Greenbrier & Russel (an IL based company specializing in business intelligence & enterprise solutions)   |
| <b>Buyer</b>                  | Fujitsu Consulting Inc.  |
| <b>Synopsis</b>               | Fujitsu Consulting acquired the business and capabilities of Greenbrier & Russel (G&R), a privately-held business and technology services firm based in Schaumburg, IL on February 15, 2006. The financial terms of the deal were not disclosed. G&R co-founders Howard Blietz & Eric Wasowicz to remain with Fujitsu Consulting in senior executive roles. The majority of G&R's 425 employees will continue to operate as a business unit within Fujitsu Consulting. |
| <b>Transaction Highlights</b> | The addition of G&R extended Fujitsu's capabilities in areas such as Oracle & PeopleSoft enterprise resource planning suites, business intelligence, Microsoft and Java technologies, and expanded its presence in Chicago, Dallas, Minneapolis, Wisconsin and Phoenix.  |

**02/20/06 Wipro Bought cMango**

|                                 |   |
|---------------------------------|---|
| <b>Target</b>                   | cMango Inc. (a CA based company focused on business service management solutions)   |
| <b>Buyer</b>                    | Wipro Technologies Ltd (a global IT division of Wipro Ltd)  |
| <b>Purchase Price</b>           | \$20 million  |
| <b>Purchase Price / Revenue</b> | 1.54x annualized revenue  |
| <b>Synopsis</b>                 | Wipro Technologies signed a definitive agreement to acquire cMango Inc. for a reported value of approximately \$20 million on February 20, 2006. Under the terms of the agreement, the consideration also includes an earn-out based on achieving targeted financial metrics over a two year period. cMango Inc. has annualized revenue of around \$13 million. The closing of the transaction is subject to customary closing conditions and regulatory approvals, which are expected to be concluded by April 2006. |

|                               |   |
|-------------------------------|---|
| <b>Transaction Highlights</b> | The acquisition is in line with Wipro's strategy to invest in offshore infrastructure management services where it can establish leadership through differentiated service lines and domain knowledge. Through this acquisition, Wipro Technologies added a 120-member strong team and deep domain expertise in technology infrastructure services, as well as strengthens Wipro's relationship with BMC Software Inc. (NYSE:BMC), the leading provider of business service management (BSM) solutions. |
|-------------------------------|---|

**12/22/05 Wipro Purchased mPower Software & its JV MPACT Technology**

|                       |   |
|-----------------------|---|
| <b>Target 1</b>       | mPower Software Services Inc. (a NJ based software services company serving in the financial services and payment processing space.)  |
| <b>Target 2</b>       | MPACT Technology Services Pvt., Ltd (an India based joint venture between mPower & MasterCard developing MasterCard-owned software that handles core processing functions)  |
| <b>Buyer</b>          | Wipro Ltd. (BSE:507685)   |
| <b>Combined Price</b> | <b>Purchase</b> \$28 million  |
| <b>Synopsis</b>       | Wipro Limited (NYSE:WIT) signed a definitive agreement to acquire mPower Inc. in an all cash transaction on December 22, 2005. In a related transaction it also agreed to acquire MPACT Technology Services from MasterCard International Inc. mPower has total annualized revenues of around \$18 million and an annualized EBIT of approximately \$4.6 million. The closing of the transaction is subject to customary closing conditions and regulatory approvals. |

|                               |   |
|-------------------------------|---|
| <b>Transaction Highlights</b> | Through this acquisition, Wipro Technologies added a 300 member strong team and deep domain expertise in the payment space which will enable it to expand its addressable market in the financial solutions business. As a part of this agreement, Wipro will provide MasterCard and other clients in the payment space with a wide range of services that could include application development and maintenance, infrastructure services, package implementation, BPO and testing. |
|-------------------------------|---|

## **BPO Sector**

M&A activity including BPO targets has picked up since 2005. This is driven largely by the increased demand from three major groups of acquirers: 1) India-based outsourcing providers, 2) U.S.-based BPO companies, and 3) private equity firms and their portfolio companies. Members of each of these groups have been involved in numerous deals ranging in size from tens of millions to several billion dollars. Their interest stems from the common belief that this sector is poised for growth and profitability greater than the overall market. On the supply side, the number of quality BPO targets for prospective acquirers is increasing, as the overall market segment matures. Private equity firms are now willing to exit their investments, taking advantage of attractive multiples offered by strategic buyers. Francisco Partners, for example, recently sold portfolio company OfficeTiger in a deal valued at a \$250 million, realizing a return of approximately two times its investment in less than two years.

Our research indicates that valuation multiples for acquisition targets differ significantly. This differentiation is based on sound business fundamentals and the various value propositions the targets garner in the marketplace. As a services offering, BPO business models are inherently difficult to differentiate in the market. However, those companies that are able to leverage intellectual property or deep industry knowledge to create a distinct competitive advantage command higher valuation multiples. For example, SunGard and SS&C both received exceedingly high multiples because of such differentiated offerings. Conversely, SOURCECORP, which serves a number of verticals with a variety of offerings, was recently acquired for a multiple just shy of the market median value for publicly traded BPO companies.

We believe these trends will continue throughout 2006, and possibly beyond. The dynamics supporting an active market include a maturing Indian capital market, private equity firms with abundant capital reserves, and strategic buyers aggressively looking to supplement their organic growth. Even with the bullish outlook, we do not anticipate much if any expansion in multiples.

| <b>Announced Date</b> | <b>Type</b>    | <b>Target</b>  | <b>Target Business Description</b>   | <b>Buyers</b>  | <b>Total Purchase Price (\$mm)</b> | <b>P/S</b> | <b>P/EBITDA</b> |
|-----------------------|----------------|--|--|--|------------------------------------|------------|-----------------|
| 03/20/2006            | Strategic      | OfficeTiger LLC  | Professional support services  | R. R. Donnelley & Sons Co (NYSE:RRD)   | 250.00                             | -          | -               |
| 03/08/2006            | Private Equity | Sourcecorp Inc. (NasdaqNM:SRCP)                                    | High value consulting services   | Apollo Advisors, L.P.  | 469.72                             | 1.14       | 8.00            |
| 03/06/2006            | Strategic      | Savista LLC BPO Assets   | Bundled back office processes  | Accenture Ltd. (NYSE:ACN)  | -                                  | -          | -               |
| 02/08/2006            | Strategic      | ADP Claims Services Group, Inc.                                    | Automotive claims solutions  | Solera, Inc.   | 975.00                             | 2.35       | -               |
| 01/29/2006            | Strategic      | Intrado Inc. (NasdaqNM:TRDO)                                       | Integrated data and telecommunications solutions                                   | West Corp. (NasdaqNM:WSTC)   | 469.59                             | 3.18       | 12.51           |
| 01/04/2006            | Private Equity | LYNX Medical Systems Inc.  | Integrated healthcare documentation and revenue management solutions               | Francisco Partners   | -                                  | -          | -               |
| 11/17/2005            | Strategic      | FinSource Inc.   | Back offices processes   | TeleTech Holdings Inc. (NasdaqNM:TTEC)   | -                                  | -          | -               |
| 08/26/2005            | Strategic      | NDCHealth Corp.  | Network & information management solutions   | Per-Se Technologies Inc. (NasdaqNM:PSTI)   | 976.88                             | 2.47       | 10.86           |
| 08/18/2005            | Strategic      | INCAT International plc  | Product lifecycle management service   | Tata Technologies, Inc.  | 96.63                              | 0.71       | 10.78           |
| 07/28/2005            | Private Equity | SS&C Technologies Inc.   | Investment and financial management software & services                            | Carlyle Group, The   | 940.99                             | 8.00       | 22.15           |
| 07/13/2005            | Private Equity | Axiom Corp. (NasdaqNM:ACXM)  | Customer and information management solutions                                      | ValueAct Capital   | 2548.27                            | 1.99       | 7.81            |
| 06/16/2005            | Strategic      | Deloitte Consulting Outsourcing LLC, Finance & Accounting Business | Finance & accounting processes   | Convergys Corp. (NYSE:CVG)   | -                                  | -          | -               |
| 04/07/2005            | Private Equity | Rev IT Systems Pvt. Ltd. (Sherpa Business Solutions)               | Claims processing & workflow management services                                   | ICICI OneSource Limited  | -                                  | -          | -               |
| 03/28/2005            | Private Equity | SunGard Data Systems Inc.  | Integrated software and processing solutions and information availability services | Bain Capital, Inc., Goldman Sachs Group, Merchant Banking Division, Kohlberg Kravis Roberts & Co., Providence Equity Partners, Inc., Silver Lake Partners, L.L.C., Texas Pacific Group, The Blackstone Group, Private Equity Group | 11597.06                           | 3.07       | 10.44           |
| 12/08/2004            | Private Equity | Fidelity National Information Services Inc. (NYSE:FIS)             | Bank & mortgage processing & property data services                                | Texas Pacific Group, Thomas H. Lee Partners, L.P.  | 500.00                             | -          | -               |

**Figure 1**

Our observations regarding valuations for publicly traded BPO companies indicate that companies with the best bottom line financial performance maintain the highest valuation multiples, regardless of size and recent historical growth. When evaluating comparable public companies, there are typically three main financial factors that drive value: 1) size, 2) growth, and 3) profitability. In analyzing valuations relative to growth and profitability, we have determined that EBITDA (a proxy for cash flow) is by far the most dominant factor in determining value in this group. We plotted various weightings of 1-year revenue growth and EBITDA margins with respect to value (i.e. EV/Revenue). The analysis with the best fit line was derived from a weighted percentage of 90% EBITDA and 10% annual revenue growth rate. In another analysis, we did not find much correlation between size and EBITDA margin.

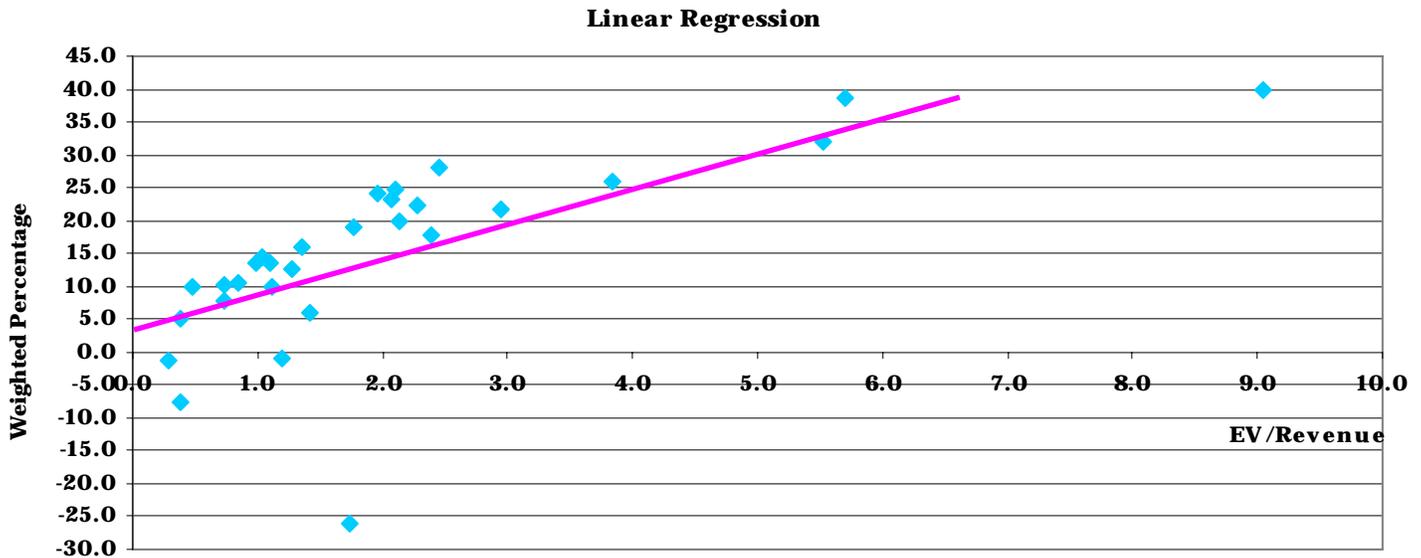


Figure 2

**MWS Index®**

In this issue, we introduce MWS Index®, which tracks the IT & IT enabled outsourced services, IT supply chain services and software segments. This market value weighted index offers insight into the equity performance of these industry segments. According to our MWS Scoreboard dated 03/31/06, the P/E ratio for these segments (average of the three median scores is 28.8) is significantly higher than that for the S&P 500 (17.9). Also, all three segments outperformed the NASDAQ Composite during the last twelve months, all rising greater than 10%. These data suggest the market is confident in the overall prospects of these segments. ([Click here](#) to see the full list of companies included in our index and index description.)

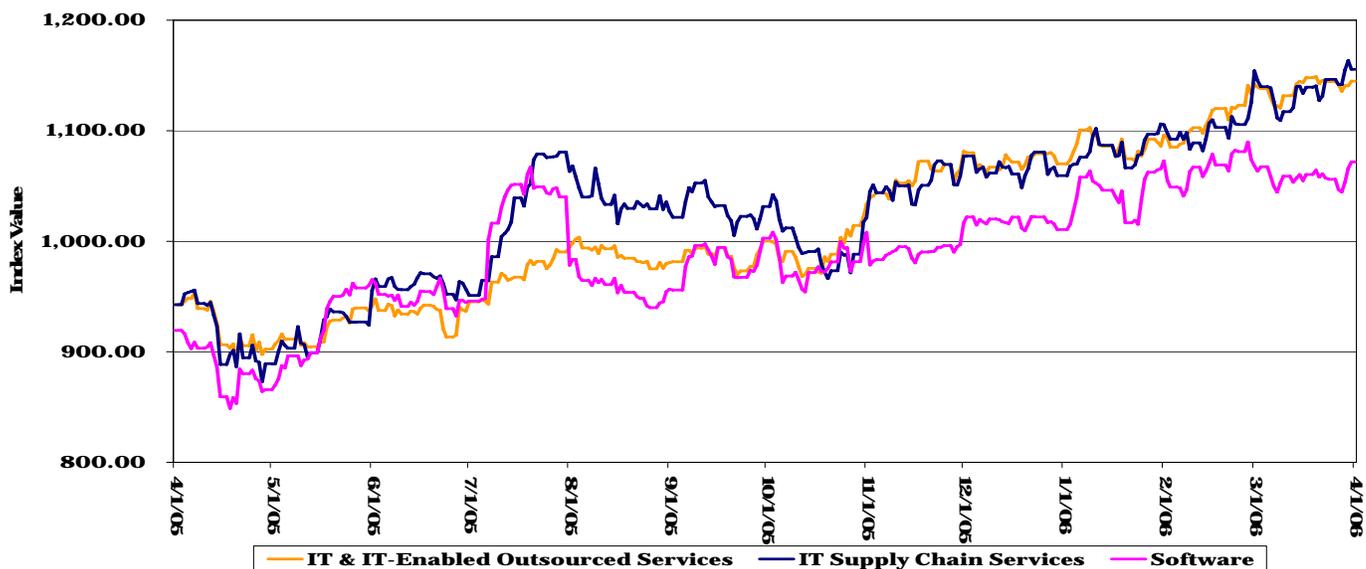


Figure 3

## MWS Scoreboard

Offshore outsourcing continues to command higher valuations due to its double-digit revenue growth rate and high profit margins. Although we believe the fundamentals of this group will continue to outpace those of its peers, its valuations leave little room for error. Pressures from increasing labor costs and growth constraints will hamper future performance. The financial IT services segment could also be getting ahead of itself, as EV/Revenue multiples for this group are significantly higher than all software segments. Valuations for IT supply chain services continue their downward trend due to less than stellar fundamentals. ([Click here](#) to download the detailed **MWS Scoreboard** that includes more than 200 public companies.)

| SECTOR   | Revenue Growth% | GM%   | EBITDA% | Debt / Asset % | P/S  | P/E  | EV/Revenue | EV/EBITDA |
|--|-----------------|-------|---------|----------------|------|------|------------|-----------|
| <b>IT Conglomerates</b>                        | 7.5%            | 42.4% | 19.0%   | 7.7%           | 1.52 | 25.3 | 1.52       | 12.8      |
| <b>IT &amp; IT-ENABLED OUTSOURCED SERVICES</b> |                 |       |         |                |      |      |            |           |
| <b>Financial IT Services</b>                   | 12.0%           | 54.0% | 22.2%   | 1.5%           | 3.24 | 27.6 | 3.29       | 12.2      |
| <b>Offshore Outsourcing</b>                    | 26.2%           | 45.8% | 22.5%   | 0.3%           | 3.42 | 25.4 | 2.89       | 17.1      |
| <b>Business Process Outsourcing</b>            | 11.5%           | 44.1% | 16.0%   | 17.0%          | 1.55 | 23.9 | 1.67       | 8.9       |
| <b>IT Outsourcing</b>                          | 5.4%            | 29.0% | 12.2%   | 20.7%          | 1.17 | 34.1 | 1.26       | 16.8      |
| <b>Governmental IT Professional Services</b>   | 18.5%           | 20.9% | 9.7%    | 18.6%          | 1.12 | 24.3 | 1.16       | 11.7      |
| <b>Commercial IT Professional Services</b>     | 10.9%           | 27.4% | 5.3%    | 0.0%           | 1.03 | 38.4 | 0.85       | 19.4      |
| <b>IT Staff Augmentation</b>                   | 18.1%           | 23.6% | 3.3%    | 12.7%          | 0.32 | 29.9 | 0.49       | 14.2      |
| <b>IT SUPPLY CHAIN SERVICES</b>                |                 |       |         |                |      |      |            |           |
| <b>IT Retailers</b>                            | 5.3%            | 28.5% | 6.5%    | 10.1%          | 0.77 | 32.9 | 0.77       | 11.9      |
| <b>IT Resellers</b>                            | 16.5%           | 15.2% | 1.9%    | 19.3%          | 0.18 | 13.0 | 0.23       | 11.1      |
| <b>IT Products Distributors</b>                | 7.3%            | 10.2% | 3.3%    | 8.6%           | 0.25 | 21.2 | 0.23       | 8.7       |
| <b>IT Direct Marketers</b>                     | 11.6%           | 12.5% | 2.8%    | 7.7%           | 0.22 | 20.0 | 0.18       | 8.6       |
| <b>SOFTWARE</b>                                |                 |       |         |                |      |      |            |           |
| <b>IT Management Software</b>                  | 12.4%           | 79.2% | 16.1%   | 0.0%           | 3.38 | 45.0 | 2.53       | 13.2      |
| <b>Middleware, Tools and Integration</b>       | 9.4%            | 78.5% | 18.2%   | 0.3%           | 2.93 | 34.4 | 2.45       | 18.9      |
| <b>Business Software</b>                       | 12.7%           | 75.2% | 18.0%   | 0.0%           | 2.69 | 29.4 | 2.27       | 11.8      |
| <b>Enterprise Applications</b>                 | 6.0%            | 64.8% | 11.9%   | 0.3%           | 2.41 | 35.9 | 1.89       | 14.9      |

Figure 4

### 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 3, 2005 with a value of 1000. It includes 91 IT and IT-Enabled Outsourced Services, 30 IT Supply Chain Services, and 73 Software companies listed in US stock market. It is based on the closing price as of March 31, 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 March 31, 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

### Contributing Team

**Martin Wolf**— President & Managing Director  
**Scott Messier**—Vice President

**Christopher Covington**—Principal  
**Gaurav Sharma**—Associate

**Anthony Lembo**—Principal  
**Hao He**—Analyst

If you have any questions, or want to be removed from the distribution list, please contact Hao He at [hhe@martinwolf.com](mailto:hhe@martinwolf.com). You can [Click here](#) to subscribe to our periodic intelligence information. You may also [Click here](#) for a .PDF version of this newsletter.

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. © 2005 Martin Wolf Securities