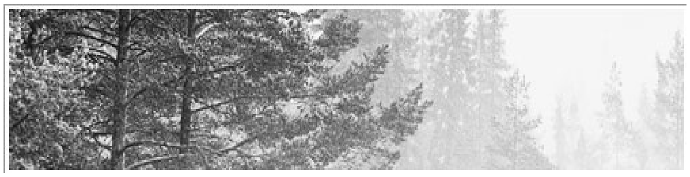

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M&A The Right Way.

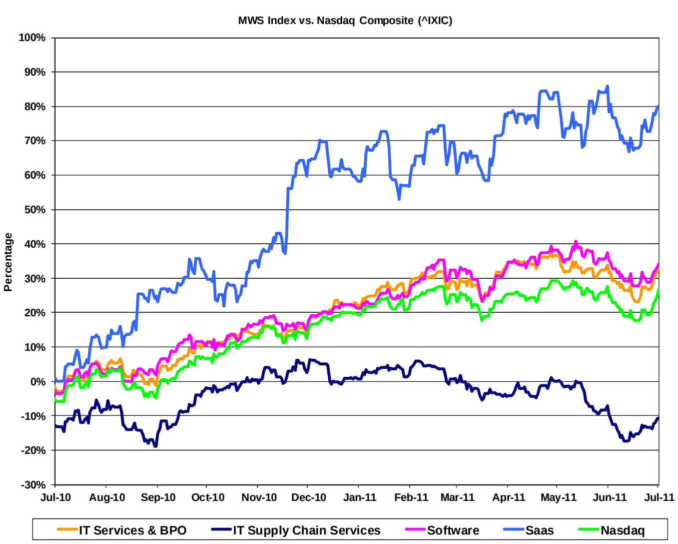
Valuation & Deal Insights®

Second Quarter 2011

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

Inside this Issue

MWS Index® vs. NASDAQ Composite Index



Transaction Highlights

IT Services

- **6/28/11** TDS Hosted & Managed Services, LLC agreed to acquire OneNeck IT Services, Corporation from WestView Capital Partners and others for $95 million. OneNeck after the transaction will become a subsidiary of TDS Hosted & Managed Services, LLC.
- **6/10/11** Citi Venture Capital International signed a definitive agreement to acquire Ness Technologies, Inc. (NASDAQ: NSTC) for approximately $270 million.
- **6/3/11** Dynamics Research Corporation (Nasdaq:DRCO) signed a definitive agreement to acquire High Performance Technologies, Inc for approximately $140 million.
- **6/1/11** Trillium Capital, LLC signed a non binding proposal to acquire remaining 95.36% stake in Stream Global Services, Inc. (AMEX: SGS) from Providence Equity Partners LLC, Ayala Corp. (PSE: AC), Ares Private Equity Group, Ares Corporate Opportunities Fund II, L.P. and other shareholders for approximately $360 million in cash.
- **5/24/2011** GlobalLogic, Inc. acquired Rofous Software on May 24, 2011 for an undisclosed amount.
- **5/16/11** Northern Trust (Nasdaq: NTRS) signed an agreement to acquire Omnium LLC from Citadel Investment Group, L.L.C. for $100 million in cash.

Supply Chain

- **7/1/11** An investor group led by Providence Equity Partners LLC through its fund, Providence Equity Partners VI, L.P. signed a definitive agreement to acquire Blackboard Inc. (NasdaqGS: BBBB) from ICG Group, Inc. (NasdaqGS: ICGE), W Capital Partners and other shareholders for $1.6 billion in cash.
- **7/1/11** Logicalis Group Limited acquired Netarx, Inc. for $34 million in cash and stock.
- **5/2/11** Shared Technologies Inc. acquired Cross Telecom Corporation. Financial details of the acquisition were not disclosed.
- **4/8/11** Globecomm Systems Inc. (NasdaqGS: GCOM acquired Comsource, Inc. for $41 million in cash and earn out.

Viewpoint

Marty Wolf — President

The July 1st Wall Street Journal article, "Deals Declining as Worries Weigh," had a myriad of valuable deal data. The snapshot: strong start to the year and a slowing second quarter, high U.S. unemployment, European debt crisis; Asian inflation and moderating GDP growth were all highlighted.

Global M&A volume was $741 billion, down 7% from Q1 2011, but still up 23% from the same quarter a year ago. U.S. deal volume was $255 billion or 35% of global volume, off 11% from the previous quarter.

BRIC countries deal volume was $180 billion or 25% of global volume, and off 9% from the previous quarter, and European volume $293 billion or 40% of global volume was actually up 33% from the previous quarter. The increase here speaks more to the weakness in European M&A volume in 2010 vs. strength in 2011 and also to the fact that some companies were weaker and needed to be taken out. Certain buyers were more predatory and leveraged others' respective weakness.

Moreover, while many are aware corporations are holding huge cash balances – the S&P 500 U.S. companies are currently holding $1.1 trillion with Apple Inc. holding nearly $80 billion by itself – don't expect any increase in deal volume as most will continue to husband cash. Much of this cash is offshore and needs to be repatriated at a huge double tax, and the political environment continues to concern business leaders. Consequently, these available resources won't directly impact mid-market M&A.

What will affect mid-market M&A is private equity. About 15% of the global M&A volume, down from 20% last year, was from private equity. Bain and Company recently published an excellent report, "Global Private Equity Report 2011." It is very lengthy, but very insightful and worth a read.

2010 Key takeaways:

- Buyout volume $180b, up 150%
- Number of private equity firms doubled in last 10 years to 4,100. However, amount raised even with more firms was $228 billion, off 23% from 2009, itself a depressed year.
- 55% of dry powder was at risk of being returned. Funds typically have an investment horizon of 4 to 7 years, and only 1/3 of 2005-2007 funds have been invested. This means either they use the funds in time, some expiring next year, or return it to the investor. No 2% and 20%.
- It will take over 3.5 years to burn through the dry powder if you assume a high year volume like 2004.
- 80% of funds took longer than 12 months to close, raise funds.
- More than half closed at less than target.
- Capital calls outpaced distributions.
- Private equity groups were looking to pay 5-7x EBITDA, and were forced to pay more than they wanted as larger deals sold for more, 7.7x-8.4x EBITDA.
- The strongest investment preference, and also the biggest increase in money invested, was small / mid-market buyout.
- Lastly, 2011 private equity dry powder is $1 trillion, $500 billion of which is allocated for leveraged buyouts.

This means more groups are chasing the same amount of mid-market deals. It is the hottest segment. It's taking them longer to raise funds, they are being forced to pay more than they want, and if they come in second place too many times, they have to return the money. Use it or lose it. Finally, sellers have an advantage.

Happy selling.

What does Normal Working Capital mean?

A common element in an offer to acquire a company is the amount of working capital to be delivered at closing. The amount required directly impacts the net proceeds received by the seller as the purchase price is adjusted positively or negatively based on the amount of required working capital. The buyer usually expects the company to be delivered with a balance sheet that has "normal" working capital, where working capital is defined as current assets minus current liabilities. The buyer's expectation is the company has enough working capital following the closing so that no additional cash is required. This issue can become a point of confusion and contention as the deal progresses if the buyer and seller do not agree on what "normal" means.

The contention occurs when the seller does not fully understand that the buyer's offer assumes a level of working capital, and the seller's proceeds are reduced. For example the seller may believe that his company is worth a multiple of EBITDA. Assume a 4 times EBITDA for a $2,000,000 EBITDA company, and the seller believes his value is $8,000,000. However, the valuation also assumes that a certain balance sheet is delivered. To the extent the balance sheet is lower, the proceeds will be reduced by the shortfall. It is critical for the seller to understand all the components of the offer prior to signing the LOI and incurring costs in due diligence.

Determining "normal" working capital can also be a point of disagreement. Buyers may look at average working capital balances over a period of one or more years and require that average balance be maintained. The average balance is not an appropriate measure. An overly conservative owner may carry higher balances than required and would be unfairly penalized in that situation. Another method is to review public comparables and determine their working capital balance as a percentage of sales. Again the results can be skewed and do not represent the true working capital requirement of the selling company. Fortunately the working capital requirements can be determined by analysis of the company's accounts receivable and accounts payable terms and their average days outstanding. By calculating the net of the AR and AP days outstanding and multiplying that result by the average daily sales you can arrive at a working capital balance that is supported by actual receipts and payments in the business. For example if the AR days outstanding are 45 days, and the AP payments days outstanding are 30 days, the net of 15 days multiplied by the average daily sales amount would be the net working capital required. Once the seller and buyer agree on the formula the actual results can be quantified. The above example reflects a simplified working capital structure. Your actual working capital structure may be more complex. The actual calculation should be done be your accounting professionals to ensure that all your unique requirements are considered.

In summary, the "normal" working capital requirement often catches a seller unaware with its impact on his net proceeds. As a prospective seller, you should be aware of what your working capital requirements are, and how they will impact your net proceeds from the sale of your business.

Escrows - "known unknowns" and "unknown unknowns"

Escrows are common to most all of our transactions, and they sometimes give rise to post closing disputes. Some private equity buyers recently commented to us on how much they disliked escrows, and that they tried to avoid them because they put their (the private equity buyer's) interests at odds with those of the seller. Of course the easy response to that concern is to eliminate the escrow, but that simply ignores a host of real issues.

The key to an effective escrow, and one that minimizes post-closing disputes, is to tailor it carefully to each transaction. Each transaction really is different, but following are some key considerations to keep in mind:

Not every transaction requires an escrow. It is common, for example, for sellers to have rights to a substantial payment subsequent to the closing. If the seller is entitled to a payment, it may be sufficient to permit any post closing claim to be asserted – or offset – against that payment. (And if the seller receives a promissory note, the buyer should make sure that the right of offset is noted in that promissory note.) Is the seller entitled to an earn out? Most earn-out structures result in some payout, even if the seller had underperformed, and a seller may be able to persuade a buyer that an offset against that payment is sufficient (and a seller should expect the buyer to assert an offset – regardless of any specific language - if the claim has not otherwise been satisfied). Has the seller retained an equity interest? That is common in many private equity transactions, and the private equity buyer may be content to assert its claim against the sellers' interest (essentially a lien), and/or against any distribution of profits during the term of co-ownership. The chief constraint in each of the aforementioned situations is often related to cash flow considerations: Will the company have sufficient cash flow to deal with the third party claim until it can assert its right of offset?

- Escrows address multiple issues, but most of them fall within two categories (liberally stealing from Donald Rumsfeld here): "known unknowns" and "unknown unknowns". Where both the buyer and the seller agree that there is a financial adjustment that must be made – a post closing working capital true-up, for example – it is what can be considered a "known unknown." (Other examples could be, for example, claims of third parties – a landlord with a right to reimbursement for certain common area charges, or a lawsuit that is expected to result in a settlement – that have not yet been quantified.) Where escrows are used for the purpose of distributing funds after the calculation of the known unknown, disputes and hard feelings are less common. When, however, there is an "unknown unknown" – for example, where the seller makes a representation in good faith,

Escrows - "known unknowns" and "unknown unknowns" (con't)

but it is subsequently determined to be untrue and gives rise to a third party claim – hard feelings frequently result. As it gives rise to a claim that the seller has not anticipated, it results in money being taken from the seller unexpectedly, and sellers frequently believe – rightly or wrongly – that they could have some how better managed the liability than did the buyer. There are several ways to try to minimize those hard feelings, and most result in some negotiations during the transactions. Typically, for example, there is a cap on such liability, and sometimes the cap is tied to the escrow. Moreover, it is common to have a minimum threshold – no claim is to be asserted against the escrow for such unknown unknown – typically a breach of warranty – until and unless the claim(s) total a specified amount.

- Escrows can, in fact, be beneficial for the controlling shareholder of a seller, as it is made up, in effect, of pro-rata contributions from each of the selling shareholders. Assume, for example, that one shareholder owns 50% of the company, and ten other shareholders each own 5%. While the buyer may in fact insist that all the shareholders agree to joint and several liability, it will, in almost all instances, insist that the 50% shareholder's liability be joint and several - meaning the buyer can assert 100% of its claim solely against the 50% seller if the buyer so chooses, and simply force that 50% shareholder to seek "contribution" from each of the 5% shareholders. In other words, absent an escrow, the 50% shareholder may be forced to pay the entire claim, and then incur the time and expense of tracking down each of the 5% shareholders (including the one who retired to Brazil). Accordingly, if the 50% seller believes there may be claims are likely to be asserted, it may be in his interest to have an escrow sufficient in size to satisfy those claims.

- Escrows terms are a matter of contract between the parties, and are therefore almost unlimited in their flexibility (subject to practical and other limitations imposed by the third party escrow holder). Consider tying portions of the escrow to specific claims or types of claims, so that if and when they are resolved that portion of the escrow will be released. And consider reducing the size of the escrow over time. Seller may insist, for example, that there be a multiyear escrow, but most all claims will be asserted within months of the closing. Will be buyer agree to a release of 50% or 80% of the escrow after six months?

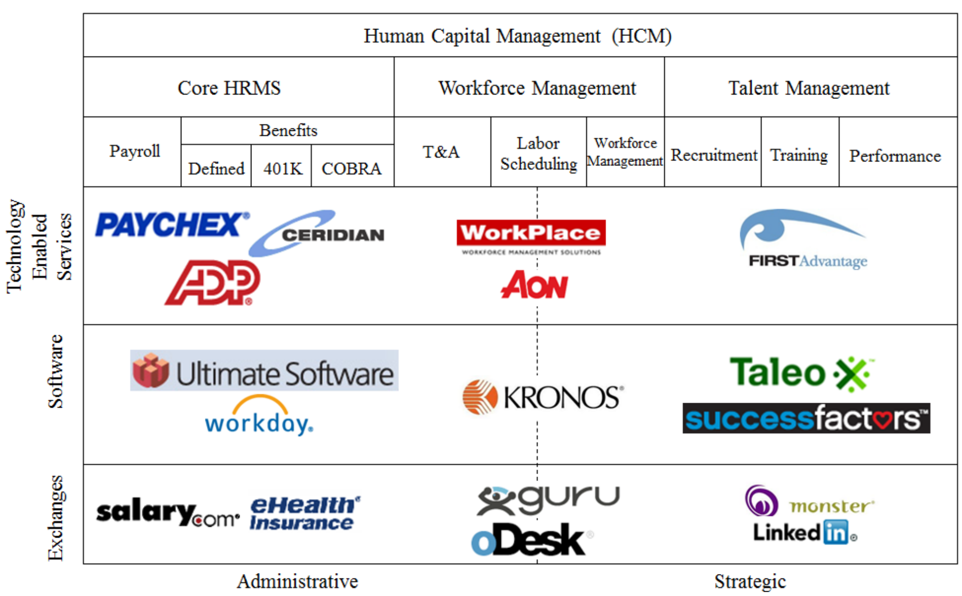
While escrows do sometimes lead to disputes, their use is both common and practical. Whether you are a buyer of a seller, make sure you spend the time on escrow issues when negotiating the purchase agreement.

Mid-market M&A trends in Human Capital Management (HCM)

HCM marketplace

The HCM marketplace covers the strategic and administrative roles of the Human Resource (HR) department in an enterprise. Various business processes within HCM are either automated using software solutions or outsourced to third party service providers. Over the last decade, numerous internet-based exchanges and portals have also emerged and provide valuable information and resources within HCM.

The HCM marketplace is schematically represented below.



Mid-market M&A trends in Human Capital Management (HCM) - (con't)

SaaS to enter new markets

The SaaS based delivery model has enabled many small to mid-sized organizations to adopt software technology to automate workflow and to improve productivity.

Technology-enabled services companies are acquiring SaaS based technology platforms to capture new markets. Some recent examples of these include Ceridian acquisition of Dayforce, SS&C Technologies (NASDAQ: SSNC) acquisition of BenefitsXML*, Insperity (NYSE: NSP) acquisition of Galaxy, Mercer (NYSE: MMA) acquisition of IPA* etc.

Expansion of platform

Enterprise software companies and SaaS companies operating in the HCM space are acquiring SaaS based point solutions to fill voids within their solution offering or to enter new markets. Lawson acquisition of Enwisen is an example of enterprise application company acquiring a SaaS platform, and Taleo's recent acquisition in June 2011 of Job Partners was an example of M&A by a domestic SaaS company to expand overseas.

Similarly, large services companies are acquiring niche players with similar business models to broaden their offerings and reach. Ceridian's recent acquisition of Versult after its acquisition of Dayforce is such an example for establishing its presence in workforce management, and Towers Watson's acquisition of Aliquant is another example of the same trend.

Private equity is back

With the market recovering over the last two years from its lows in Q1 2009, many private equity firms have been able to realize exits and to have dry powder available to deploy. That combined with low interest rates, readily available debt financing, and an optimistic mid to long term outlook means that they are getting more aggressive in the space. While big deals like Golden Gate and Infor acquisition of Lawson make it to front page headlines, numerous transactions in the mid-market such as Lake Capital acquisition Empower Solutions and few in the pipeline* are picking up steam.

To get a more comprehensive review of recent mid-market M&A transactions and valuations in HCM space, look out for our upcoming whitepaper on the topic.

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Note *an MWS transaction

Fallout of the "Chinese Enron"

With Satyam's 2009 financial scandal fresh in recent memory, once again the cream of the global financial elite has been humiliated. This time, it happened in China.

The story starts shining and golden. In 2007 Longtop Financial Technologies Ltd. (LFT), a Hong Kong-based maker of financial software, filed for initial public offering. The deal was underwritten by Goldman Sachs and Deutsche Bank. In 2009, Morgan Stanley acted as a lead manager for their second offering. Majority owners of the stock included hedge funds run by people known as "tiger cubs". By then, the stock had generated more than 100% returns for its investors since the IPO.

On April 26, 2011, Citron Research issued a report raising serious issues with Longtop's reported financial results, accounting practices, and operations. Following this publication, Longtop hosted a conference call denying the allegations. On May 17, 2011, NYSE Regulation, Inc. halted trading in Longtop shares. Two days later, Longtop issued a press release to delay announcement of its fourth quarter and fiscal year 2011 results. On May 23, 2011, they announced the resignation of its independent auditor (Deloitte) and its CFO (Derek Palaschuk). On its last day of trading, Longtop's stock closed at $18.93 – its IPO level. Since the fallout, the Chinese offshore outsourcing category has lost 20% of its valuation.

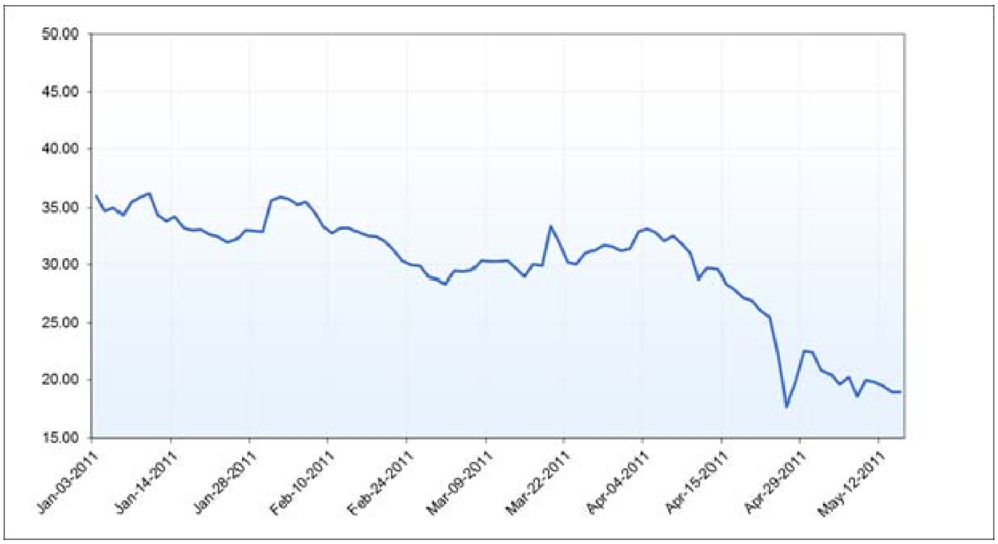
Deloitte said in its resignation letter from May 22 that it found falsehoods in the company's financial statements and experienced "deliberate interference by certain members of Longtop management" in the audit process, including "unlawful detention" of audit files, according to the statement from Longtop.

Fallout of the "Chinese Enron" - (con't)

The $1.08 billion company is the largest in the maelstrom of US-listed Chinese scams. The SEC has revoked the registrations of eight China-based companies since December, and more than 24 firms have disclosed auditor resignations or accounting problems to the agency since March.

Fraud in Chinese stocks is not new, but historically it had been connected (only) to small companies without Wall Street pedigrees. The gaps in international regulations and reverse mergers make it easier for Chinese companies that list their shares in America to falsify financial reports. Since the U.S. economy has been looking sluggish, investors have been blindly flashing money to China, one of the world's fastest growing economies. Investors need to look beyond the stamp of approval (Big 4 auditors, bulge bracket banks...) and do due diligence at the source. Additionally, there is no need to panic and throw the baby out with the bath water. The recent value depreciation does create attractive buy-side opportunities with the right Chinese assets.

Longtop YTD Stock Chart



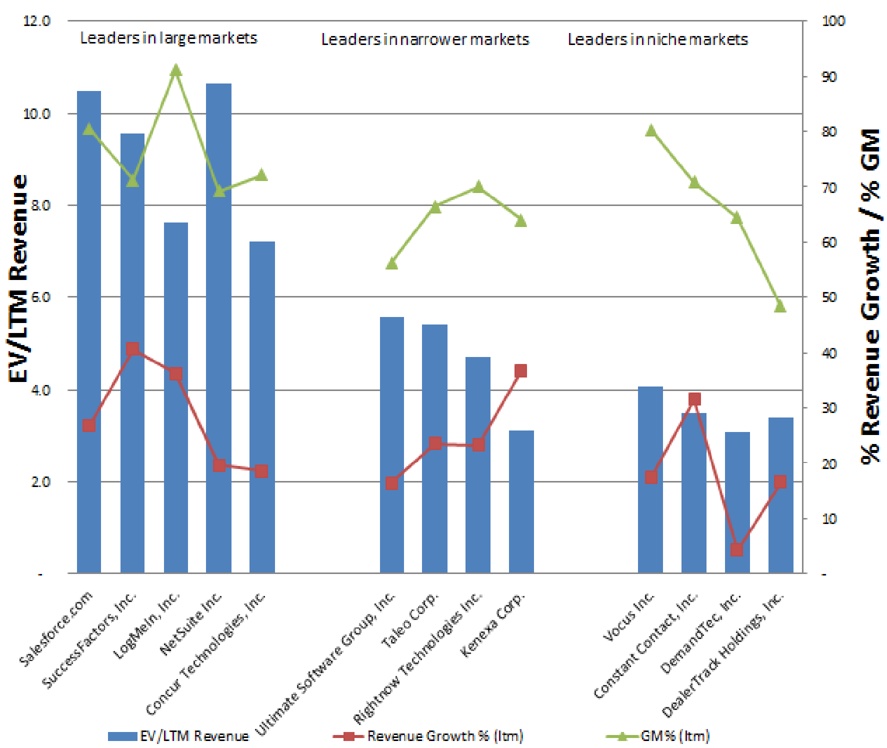
	Jun-28-11	Mar-31-11		Jun-28-11	Mar-31-11	
Company	EV/LTM Revenue	EV/LTM Revenue	Change %	EV/LTM EBITDA	EV/LTM EBITDA	Change %
Shandong Inspur Software Co. Ltd.	4.95	4.88	-1%	215.7	219.2	0%
VanceInfo Technologies Inc.	5.76	3.78	-34%	32.5	21.0	-35%
Inspur Group	4.45	3.38	-24%	166.1	80.6	-51%
iSoftStone Holdings Limited	4.16	3.00	-28%	NA	NA	NA
Camelot Information Systems Inc.	3.13	2.66	-15%	NA	NA	NA
Longtop Financial Technologies Limited	6.02	2.91	-52%	222.3	107.5	-52%
Neusoft Corporation	3.59	2.66	-26%	28.0	24.6	-12%
hiSoft Technology International Ltd.	2.74	2.07	-24%	24.3	19.3	-21%
Beijing Teamsun Technology Co., Ltd.	1.85	1.76	-5%	27.5	26.1	-5%
Chinasoft International Ltd.	1.34	1.92	43%	13.3	19.1	43%
Yucheng Technologies Limited	1.09	0.90	-18%	7.0	6.0	-15%
Stark Technology Inc.	0.72	0.79	9%	8.8	9.5	8%
CDC Corporation	0.32	0.23	-28%	6.1	3.5	-42%
Inspur International Limited	0.31	0.18	-41%	3.3	1.9	-41%
Median	2.94	2.36	-24%	25.9	19.2	-18%

Better, Faster, Stronger: SaaS

Buyers and sellers are showing signs of renewed interest in the North American M&A market. A 2 year survey conducted by Firmex revealed a 43% rise in M&A activity for 200 advisory firms based in NA. The driving force seen behind better deal volumes and valuations is due to the following:

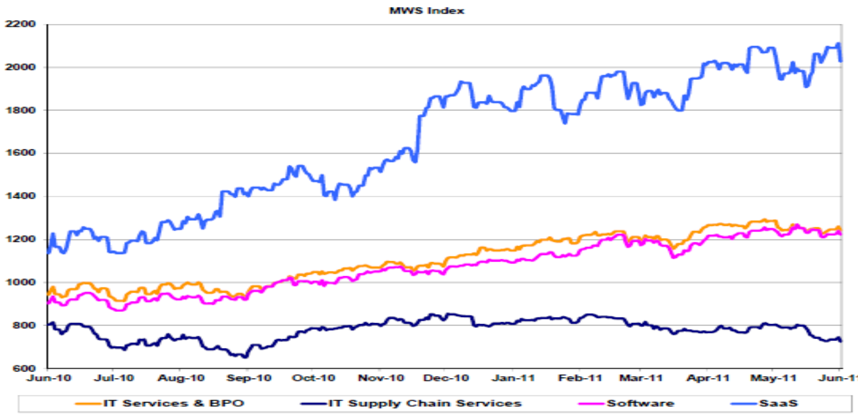
- Optimistic views on the market from the CEOs
- Support by Credit & Equity Markets
- Expansion of SaaS offerings by Software Companies

SaaS deal momentum has been steadily growing as compared to recent years where businesses were a little slower to use and to trust cloud services. A study by Gartner shows that software company business models are being challenged at many levels. In order to position themselves better in the market place, many companies are using SaaS as a tool to emerge by placing importance on integrating their service and software capabilities along with relationship alignment (i.e. degree to which an enterprise and a vendor establish a contractual, financial and risk distribution). According to our research there are 3 types of SaaS players currently in the market place: Leaders in Large Markets (players who command the market- early movers), Leaders in Narrower Markets(players with scalable offerings-visionaries), and Leaders in Niche Markets (players concentrated in particular market segment-challengers).



According to MWS Index, the SaaS valuation premium against the traditional on premise software companies stands at about 75%. The expansion in the valuation premium is most likely attributed to higher TTM revenue growth of public SaaS providers (19.8%) vs. pulic on-premise software companies (13.3%). SaaS valuation multiples of 4-10x LTM revenue justify this bullish broader market outlook as compared to traditional on premise software companies with multiples of 2-3x LTM revenue. The reason as mentioned above is incorporation of SaaS by vendors such as MSPs/VARs is likely to grow. According to Gartner, SaaS is forecasted to have a 16.3% CAGR through 2015. This increase reflects low R&D and support costs associated with SaaS. As more and more companies start to adopt the SaaS model, better margins and recurring revenues will be reported. Computer manufacturing giant, Dell sees a strong trend towards greater SaaS adoption.

Better, Faster, Stronger: SaaS—(con't)



Of the few notable SaaS acquisitions in 2010-YTD 2011, some reported EV/Rev of more than 4.0 TTM revenue such as RightNow Technologies acquiring Q-go.com for a 4.3x EV/Revenue multiple; Davis + Henderson's acquisition of Mortgagebot LLC for a record 6.2x EV/Revenue multiple . Other notable acquisitions include Jigsaw acquisition by Salesforce for $162.9M in EV. As customers start to acknowledge that Integration and composition, along with increasing demand of leaner alternatives are the tools to perform better in the market place, SaaS delivery model is growing and will continue to grow.

Recovery of the M&A market in Europe

Since last year, the possibility of Europe's sovereign debt crisis triggered by Greece's debt issue is a concern to investors. Greek debts reach €347 bn (US $500 bn), or 150% of GDP, according to the Telegraph, and Standard & Poor's has downgraded Greek debt to CCC. Markets in this region are characterized by lack of confidence and volatility. Europe's sovereign debt issue afflicted the M& A activity in this region during 2010, as it was largely influenced by the confidence in the market of potential players, both buyers or sellers. This resulted in a decrease in the confidence of corporate dealmakers in this market during 2010 and a subsequent decline in the already decreasing M&A activity.

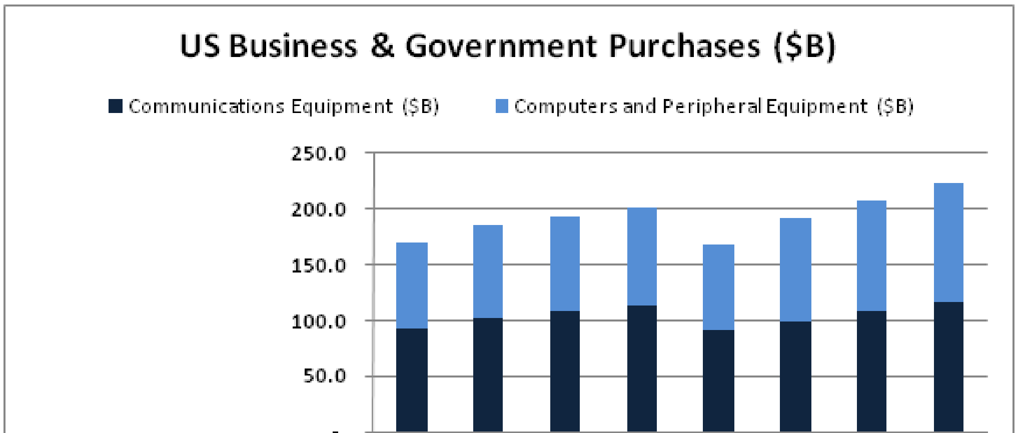
Surprisingly, a recent study of Thomson Reuters show a recovery in the M&A market in the first half of 2011 that predicts a higher number of deals during the second half of this year. According to this data, the M&A market in Europe has growth 87% YoY to $366.6 bn YTD with a total of 6,268 deals. Italy (374% change YoY with a total of 298 deals), Germany (226% change YoY with a total of 645 deals), and Spain (149 % change YoY with a total of 378 deals) are the markets with the most growth. Italian and Spanish markets have attracted higher interest from acquirers despite having the zone's weaker credit-ratings. After three years of inactivity, companies are starting to merge as a result of the necessity to increase profit in an environment of low economic growth. According to the study, deal-making in other countries such as France and UK is also growing considerably.

Why is M&A activity growing in this depressed market situation? From a buyer's perspective, Private Equity funds are seeing a slow but growing availability of debt financing and are getting more confidence when evaluating risk. After two years of conservatism, they are starting to invest. Strategic buyers are taking more initiative because they can create synergies with sellers for a reasonable price. EBITDA of companies has declined, and this has translated into lower valuations of companies, making them more attractive. From a seller's perspective, companies are divesting in order to strengthen their margins, restructure their balance sheets, and offset the market volatility through cash injection.

Taking everything into consideration, although there are some concerns about the Eurozone's future, this growth trend in the M&A activity tells us that Europe currently offers good opportunities for investors. According to data from London Stock Exchange, FTSE 100 has earned 0.5 % during the last 5 years. The European Stock market is definitely down, but investors are taking advantage of this, as they hope to cash out once the crisis is over.

Competing as a Hardware Vendor to Increase Enterprise Value

The chart below represents the US Department of Commerce estimates of purchases by US businesses and government for Computers and Peripheral Equipment as well as Communications Equipment from 2005 through 2010. The estimates for 2011 and 2012 are forecasts provided by Forrester research. As could be expected, the general spending increases from 2005-2008 were drastically reduced as firms cut back heavily in 2009. As a result of the pent up demand, 2010 experienced growth rates of 19.9% for Computers and Peripheral Equipment and 7.9% for Communications Equipment. Looking to 2011 and 2012, growth rates for Computers and Peripheral Equipment are expected to remain in the mid-single digit range as virtualization, information-as-a-service, and tablets continue to be seen as cheaper alternatives to purchasing hardware equipment. However, Communications Equipment is expected to see increasing growth rates of up to 8.5% in 2012 in order to support the increasingly widespread use of unified communications, videoconferencing, and mobile devices.



	2005	2006	2007	2008	2009	2010	2011e	2012e
Computers and Peripheral Equipment ($B)	77.0	83.0	85.0	88.0	77.0	93.0	100.0	106.0
Communications Equipment ($B)	93.0	102.0	109.0	113.0	92.0	99.0	108.0	117.0

% Change from Prior Year	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011e	Q2 2011e	Q3 2011e	Q4 2011e
Computers & Peripheral Equip.	-21%	-22%	-13%	10%	19%	28%	24%	14%	12%	7%	6%	8%
Communications Equip.	-19%	-15%	-9%	2%	10%	9%	7%	6%	11%	15%	8%	3%

In light of the previous forecasts, and declining growth rates, it is becoming more and more necessary for vendors to focus on market niches in order to gain advantages over competitors. Over the next 1-2 years, vendors will need to develop and improve upon their vertical expertise in serving specific industries in order to gain an advantage. Manufacturers are expected to see the strongest growth in 2011 as a result of benefitting from strong exports, increased business investment, and the return of consumer buying. Following manufacturing, financial services, transportation, utilities, and telecommunications are also expected to experience growth as the economy emerges out of the recession. By contrast, industries such as construction, education, and government are expected to grow much slower or even experience reductions in IT spending in the near-term. Developing relationships ahead of time in specific industries will prove fruitful in outpacing the competition and gaining new accounts.

To compete as a vendor, particularly in times of slower growth, you can also improve your competitiveness by reducing your margins or increasing the types of services that you offer. A reduction in margins may provide for a larger market share, at least in the short term, but may erode your ability to invest for future growth. In addition, it will also reduce your potential enterprise value since the EV/EBITDA multiple is widely used to value companies, and if EBITDA falls due to tighter margins, enterprise value is reduced. By contrast, increasing your services mix, particularly with managed services, not only allows for a higher EBITDA through higher margins, but it also establishes a recurring revenue stream and as a result, increases your valuation. In addition, you will be in line with larger industry trends away from capital-intensive outlays and towards virtualization.

In summary, the key to obtaining a higher valuation rests with improving EBITDA. In industries experiencing lower growth rates, it may be easy to fall into the trap of increasing the top line numbers while sacrificing the bottom line, particularly for hardware resellers. Our Scoreboard, where we track multiples in every IT solutions market niche for publicly traded companies, shows the most recent median EV/EBITDA multiple for IT Resellers at 5.0x, while the median multiple for Managed Services companies is more than twice that at 12.9x. If you are able to shift your focus away from strict reselling, you will win two-fold: higher EBITDA and a higher EV/EBITDA multiple to work with.

MWS Scoreboard

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Valuation Summary

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT & IT-ENABLED OUTSOURCED SERVICES								
Managed Services	15.9%	47.3%	27.9%	45.7%	3.57	99.4	4.82	12.9
Healthcare IT	20.5%	48.8%	21.7%	11.3%	3.53	39.8	4.00	19.0
Financial IT Services	4.8%	45.1%	26.3%	17.3%	2.19	19.7	2.53	9.2
Chinese Outsourcing	20.7%	31.9%	7.5%	8.3%	2.74	32.3	2.13	17.9
Offshore Outsourcing > $500MM	24.3%	34.2%	19.6%	14.2%	2.04	19.5	2.05	14.5
IT Outsourcing	11.7%	35.2%	14.3%	14.9%	1.46	17.8	1.57	9.8
Offshore Outsourcing < $500MM	18.3%	30.0%	14.7%	1.3%	0.62	6.4	0.71	4.8
Governmental IT Professional Services	11.9%	24.2%	9.3%	10.1%	0.62	13.3	0.65	7.8
European IT & Business Services	3.9%	21.7%	8.3%	12.5%	0.51	15.2	0.56	6.5
Commercial IT Professional Services	12.6%	29.9%	5.8%	0.3%	0.43	19.5	0.42	10.2
IT Staff Augmentation	17.4%	21.3%	3.5%	4.1%	0.46	25.4	0.28	11.5
IT SUPPLY CHAIN SERVICES								
Asian IT Supply Chain	9.6%	10.0%	2.6%	15.9%	0.24	13.0	0.26	9.7
IT Retailers	-0.8%	27.2%	4.8%	16.0%	0.16	11.5	0.26	6.2
IT Products Distributors	19.5%	10.2%	4.1%	16.1%	0.19	10.6	0.24	6.2
IT Resellers	8.8%	22.0%	0.9%	19.8%	0.24	11.8	0.24	5.0
European IT Supply Chain	4.2%	13.8%	2.7%	6.7%	0.22	19.4	0.20	9.5
IT Direct Marketers	21.0%	13.3%	2.4%	3.0%	0.16	11.0	0.14	4.6
BUSINESS PROCESS OUTSOURCING								
Business Process Outsourcing - Non-voice	5.7%	34.7%	21.4%	29.4%	1.56	21.8	1.96	9.1
Offshore Business Process Outsourcing	15.8%	35.2%	14.2%	7.2%	0.63	8.2	0.87	7.9
European Business Process Outsourcing	4.6%	21.3%	12.2%	30.1%	0.58	17.2	0.75	8.0
Business Process Outsourcing - Voice	2.1%	28.1%	11.3%	8.7%	0.63	22.0	0.66	7.4
SaaS								
SaaS	23.3%	70.5%	9.7%	0.2%	6.13	65.5	5.67	43.8

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, 2007 with a value of 1000. It includes 69 IT and IT-Enabled Outsourced Services, 25 IT Supply Chain Services, and 38 Software companies listed in US stock market.
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 July 1, 2011.
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 Yousif Abudra at (925) 215-2760 or e-mail him at yabudra@martinwolf.com.

Martin Wolf Securities—Selected Transactions

VALCOM Technology Management Solutions *has been acquired by* PC Connection 1.800.800.0014 March 2011	BenefitsXML enabling e-benefits *has been acquired by* SS&C March 2011	GA GLOBAL ANALYTICS *has been acquired by* ERNST & YOUNG Quality In Everything We Do August 2010
Innovative Process Administration, LLC *has been acquired by* MERCER MMC MARSH MERCER KROLL GUY CARPENTER OLIVER WYMAN June 2010	valtech *has accepted a tender offer from* SiegCo December 2009	DLT SOLUTIONS *has been acquired by* TZP GROUP October 2009
CANVAS SYSTEMS *has been acquired by* Platinum Equity April 2009	ROLTA *has acquired* piocon December 2008	softchoice *has acquired* OPTIMUS SOLUTIONS A Softchoice Company $47.1 million January 2008

Martin Wolf Securities is a leading middle market Investment Bank exclusively focused on M&A in the IT Services, BPO & IT Supply Chain Services segments.