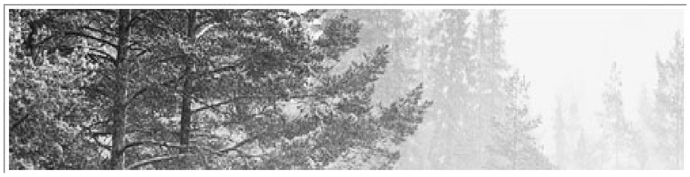

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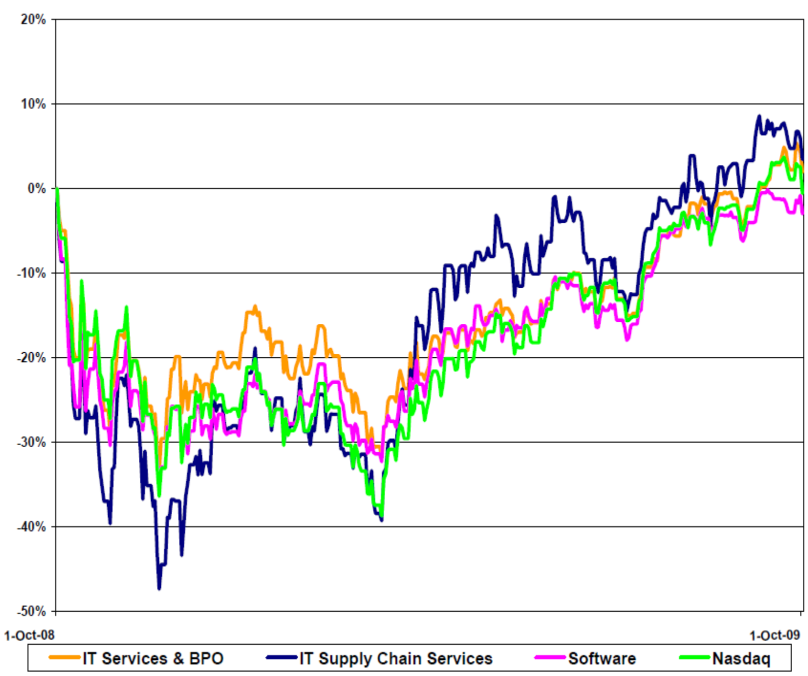
M&A The Right Way.

Valuation & Deal Insights®

Third Quarter 2009

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

MWS Index® vs. NASDAQ Composite Index



Transaction Highlights

IT Services

- **09/08/09** Cognizant Technology Solutions Corp. (NasdaqGS:CTSH) acquired Pepperweed Advisors, LLC for an undisclosed amount. Pepperweed provides IT consulting services.
- **08/11/09** Spring Group plc (LSE:SRG) announced plans to be acquired by Adecco SA (SWX:ADEN) for an implied EV of $97.19MM. The Spring Group provides recruitment, staffing, and related services in Europe, North America, and internationally. The Adecco offer represents 0.11x LTM 6/30/09 Revenue and 7.2x LTM EBITDA.
- **08/11/09** P.B. Australia Holdings Sdn Bhd acquired Peoplebank Australia Limited (ASX:PBA) for an implied Enterprise Value (EV) of $87.45MM. That represents 0.22x LTM 6/30/09 Revenue or 5.58x LTM EBITDA. Peoplebank Australia Limited IT and telecommunication staff augmentation services in Australia.

Business Process Outsourcing

- **07/30/09** Intra Call Center was acquired by French call center firm Client Center Alliance (ENXTPA:CCA) for an undisclosed amount. Intra is a customer services and telemarketing center dedicated to the aftercare and satisfaction of the customers, and increasing their awareness of products.
- **07/15/09** Delta Services (India) Private Ltd. Was acquired by 3i Infotech, Ltd. (BSE:532628) for an undisclosed amount. Delta provides business process outsourcing services to telecom, banking, insurance, mail management, FII, and market research and credit rating agency clients in India and internationally.

IT Supply Chain Services

- **09/25/09** Platinum Equity entered into a definitive agreement to acquire Pomeroy IT Solutions Inc. (NasdaqGM: PMRY) for an implied EV of $42.49MM or 0.09x LTM 7/5/09 Revenue. IT Direct Marketer Pomeroy offers a range of hardware, software, and technical staffing services, as well as infrastructure and lifecycle services. Platinum outbid other parties during the go shop period of the prior buyout offer submitted by majority owner/ ex-CEO David Pomeroy.

Viewpoint

Marty Wolf — President

The deal market has diverged in recent weeks, and the size of your firm will determine your prospective outlook. Forget uncoupling with developed markets vs. emerging markets, we now have a market that clearly differentiates between large and small enterprises. This is actually how it should be.

For larger companies, the M&A market has opened up and many large, noteworthy deals have been announced. Some are quite large; some are international; and all involve strategic acquirers. The fact that the driving force behind these larger deals is cost take outs versus marketing synergies does have significance.

Additionally the IPO market has reawakened and smaller, riskier companies have filed and issued shares. Some are mature, PE financed orphan units, but the thought of getting public is now supported by real examples. This is also good.

This market reminds me of the day when all the oil exploration in the world was taking place on the floor of the NYSE, because the low cost of oil per barrel made it cheaper to buy the entire company than to go drill in the desert or in Siberia. Quickly, many large companies, Texaco, Gulf, Conoco, were gone. No growth opportunities, but meaningful cost takeouts. Said differently, too many people, in this case oil companies, chasing too few customers.

In the IT sector, there is no question we have too much capacity based upon demand, and many companies will either be acquired or simply go out of business. When global GDP is off by 3 to 5%, depending on the country, Intel and Microsoft are growing globally in the lowest single digits, and Oracle license sales were off 14% last quarter, the only way to increase profitability is to take out expenses.

An exception to this is the Data Domain - EMC acquisition, which relies on growth and complementary markets, at a huge price. The other larger transactions either in process or closed, including the Pepsi acquisition of its two largest bottlers, Kraft and Cadbury and Pfizer acquiring Wyeth, are all cost take outs. Expect more and don't get confused with the pricing; the premium that strategic buyers are paying is cost synergies. In growing markets, buyers don't pay for it, they get growth. Not today.

Lastly, I wanted to comment on the September 21st announced Dell acquisition of Perot Systems. A little over a year ago, EDS was acquired by HP. This was before the market implosion in September and reflects "pre-crash" premiums. Clearly a company that closed before the markets declined 30-60% received premiums to today's market valuations, right? Well, actually not.

EDS had more solutions, more scale, appreciably higher margins, and revenues – 7 to 8x larger. You expect them to get a size premium and a valuation based upon the overall more favorable market at the time. However, they sold for 0.6x TTM Revenue while Perot went at 1.4x TTM Revenue. EDS sold for 5.9x TTM EBITDA, while Perot at 13.6x TTM EBITDA.

Reinforcing my father's axiom, its better to be lucky than good.

Happy selling,

Marty

Valuation Drivers

Often, as experts of M&A strategy and process, Martin Wolf Securities has been asked by our current and potential clients, what really impacts valuation in an M&A transaction? Answer: In today's market place, you can maximize your shareholder value by focusing on these three important valuation drivers: 1) Profitability, 2) Growth, and 3) Recurring Revenues.

1. Profitably—With increasing pressure from current market conditions and competition, more and more buyers are emphasizing investment return. Most buyers will demand the first signs of a ROI as early as the beginning of the second quarter after the acquisition is completed. An above average gross and EBITDA margin gives the buyer insurance that the seller has the right mindset and knows how to weather the tough market. Also, it is much easier to integrate and run a business when you have a predictable profitability steam. In reality, most IT services and Financial IT companies were not able to maintain historical profit margin in the first half of 2009. However, a strong profit rebound starting second half of 2009 will give potential buyers a compelling story.

2. Growth— More than ever before, healthy revenue growth is considered crucial for a buyer. In fact, many executives turn to M&A to achieve revenue growth goals. One way to maximize value is to sell when you can project a robust 5-year revenue growth plan. If you can realize 2 quarters of growth along with an impressive growth projection backed by a strong backlog and revenue pipeline, you can achieve great value by leveraging earn-out payments.

3. Recurring Revenue— Recurring revenue can reduce the risk of an M&A transaction but most IT services companies have project based revenue models. In this case, a long term history of repeat customers along with multi-year large projects is a highly desirable alternative. Certain IT segments have more recurring revenue streams or business models. If possible, moving a portion of your business to a recurring model will boost valuations. For example, software companies have recurring maintenance revenue. Hosting and managed services companies, database management companies, and certain back office outsourcing companies have more significant portions of recurring revenue. Those companies are more desirable M&A targets to be more popular and enjoy better valuation multiples. For the same reason, the portion of revenue that recurs is valued higher than the rest of the revenue.

In conclusion, if you can master the above three valuation drivers through strategic planning and operational implementation, you will be handsomely rewarded with a enhanced purchase package by a buyer.

Purchase Consideration Forms

In today's challenging economic times, buyers are using multiple forms of consideration in order to complete an acquisition. As discussed in previous articles a contingent based earn out is one of the most popular forms of consideration. It protects the buyer, if a business does not perform as expected. Conversely, an earn out can provide additional upside to a seller who experiences strong performance. There are other forms of consideration each with its own risk, tax, and liquidity characteristics for both buyer and seller. Below, we discuss a few of the other consideration forms and their key characteristics.

- Cash - Obviously, in a transaction, cash is king. The present value is known and there is no credit or liquidity risk. However if a buyer is offering all cash, there may be an implied valuation discount, to cover the buyers perceived risk. For example a cash buyer may be valuing a company at 4 times EBITDA, while a buyer using a mix of consideration may be offering a 6 times multiple.

- Seller Notes – These are debt instruments whereby the seller is financing a portion of the purchase price to the buyer. Seller notes are a loan between the seller and the buyer that can have many terms and conditions, customized to the deal. Some of the key terms in seller notes are interest rate, security (secured or unsecured), maturity, and covenants. In a future addition of our VDI we will discuss in more detail the aspects of seller notes and their impact on risk, taxes and overall valuation.

- Stock – Equity is often used in a transaction to not only preserve cash for the buyer, but also provide the seller with a continued interest in the combined entity. Both common stock and preferred stock may be issued. Stock as consideration, like seller notes and earn outs, brings further complexity to the transaction as well as both additional risk and reward.

When a seller is presented with several competing offers with different consideration components, they should perform an expected present value analysis. This analysis should include time value of money comparisons, and the business and credit risk of the consideration. With today's difficult credit environment sellers should expect to receive offers that have several consideration components. With these multiple consideration offers, careful analysis and guidance is required to compare and chose the one that meets the seller's objectives for risk and reward.

IT Conglomerates

Since most of our clients are affected by IT conglomerate strategies, we believe it's important to discuss key development amongst conglomerates. Oracle's $7.4 billion acquisition of Sun Microsystems Inc. (JAVA) clearly is the biggest development in the space, although the economics of the deal still rest on how fast the EU Competition Commission completes its antitrust review to the proposed combination of the hardware and software giants. Oracle Chief Executive Larry Ellison said the antitrust delay is costing Oracle $100 million a month. Clearly, the delay is causing Sun to lose business and is weakening the firm. Oracle was expecting a much faster ruling from the EU and the delay is causing some concerns over deal rationale. We believe it will ultimately be a good deal for Oracle and better position Oracle to compete with HP and IBM, who already are very strong in hardware. For small to mid-sized IT solutions companies providing Oracle services, we believe this transaction will help with an increased breath of clients and offerings. For Sun resellers, we expect some to benefit from this merger but a majority to suffer in the long term.

All of the IT majors are now expecting some growth in the next twelve months. HP sees return in IT spending growth in 2010 and expects to post revenue and profit in its next fiscal year in line with what analysts were expecting. Intel also expects PC unit sales for the year will end their declines and be "flat to slightly higher". Similarly, the much anticipated launch of Microsoft's Windows 7 in October will stimulate the market even further. We believe in the next twelve months, the IT services and solutions space will reverse the trend and start showing growth albeit at a slow pace.

Resurgence in M&A

Towards the end of the third quarter, a renaissance began in the world of M&A, especially in the IT sector. Deals began to be announced faster than Ashton Kutcher Twitter posts:

- July 27th – SPSS acquired by IBM
- July 28th – Hitachi reacquired 3 subsidiaries
- July 30th – MX Logic acquired by McAfee
- August 4th – On2 Technologies acquired by Google
- August 11th – Spring Group acquired by Adecco
- September 1st – Skype divested by EBay to PE Consortium
- September 14th – NetQoS acquired by CA
- September 15th – Omniture acquired by Adobe
- September 20th – Perot Systems acquired by Dell
- September 25th – Pomeroy acquired by Platinum Equity
- September 27th – ACS acquired by Xerox
- October 1st – Tandberg acquired by Cisco

This is all on top of the Sun/Oracle deal and the Data Domain & EMC/NetAPP price war earlier in the year. The over arching theme is strategic acquirers are ready to deploy cash that they were hoarding at the beginning of the year. Private Equity players, much more active in the beginning of the year, are, at least on this list, relegated to a distressed play in Pomeroy and a non-core divestiture in Skype. Strategic buyers are able to pay a premium to financial buyers due to cost savings from complimentary systems and back office operations. Financial buyers are not able to level the playing field and pay similar multiples with leverage like they could in the gogo days from 2006-2008. To illustrate this point, for the LTM period ending 9/30/09, Private Equity M&A activity was the lowest it had been for a 12 month period in 7 years.

With the continuing decline in the value of the dollar and the resurgence of strategic M&A, we project that M&A activity in the IT services and solutions space will be significantly higher in the next twelve months for both domestic and cross border transactions.

Selected Transactions

	09/20/09 Dell Inc. (Nasdaq:DELL) & Perot Systems Corp. (NYSE:PER)
Target	Perot Systems Corporation (NYSE:PER) provides IT services and business solutions worldwide. It offers infrastructure, applications, business process, and consulting services.
Buyer	Dell Inc. (Nasdaq:DELL)
Implied Enterprise Value	$3.77 Billion
Implied EV/Revenue	1.43x LTM 6/30/09 Revenue
Implied EV/EBITDA	13.6x LTM 6/30/09 EBITDA
Synopsis	Dell Inc. (NasdaqGS: DELL) signed a definitive agreement to acquire Perot Systems Corp. (NYSE: PER) for $3.6 billion in cash on September 20, 2009. Dell Inc. will commence a tender offer for all the outstanding common shares of Perot Systems by no later than October 2, 2009 at an offer price of $30 per share and the offer shall remain open for at least 20 business days. Dell will also pay $223.2 million for approximately 15.1 million options of Perot and $59.5 million for the Restricted Stock Units. Dell will fund the transaction with existing cash and commercial paper. On completion of the transaction Perot Systems will operate as a wholly owned subsidiary of Dell.
Transaction Highlights	On September 20, 2009, Dell agreed to acquire Perot Systems for $30/sh, in Dell's answer to recent services acquisitions by other manufacturers including HP's acquisition of EDS last year and IBM's market forerunning acquisition of PWC Consulting in 2002. Dell had been struggling to grow their services business organically and chose fellow Texan Perot as a platform to get their services business kicked into high gear, albeit at a fat (68%) premium. Dell's late arrival into the services space probably led to the higher premium paid and choice of Perot in general. Perot has a lot of strength in healthcare (~50% of revenue) and government services (~25%) which could prove to be lucrative in the long term, but this deal will only be a success if Dell can integrate the businesses properly and expand into new verticals.
	09/27/09 Xerox Corp. (NYSE:XRX) agreed to acquire Affiliated Computer Services, Inc. (NYSE:ACS)
Target	Affiliated Computer Services, Inc. (NYSE:ACS) provides business process outsourcing and information technology (IT) services to commercial and government clients in the US.
Buyer	Xerox Corp. (NYSE:XRX)
Implied Enterprise Value	$9.33 Billion
Implied EV/Revenue	1.43x LTM 6/30/09 Revenue
Implied EV/EBITDA	9.0x LTM 6/30/09 EBITDA
Synopsis	Xerox Corporation (NYSE: XRX) signed an agreement to acquire Affiliated Computer Services, Inc. (NYSE: ACS) for $7.5 billion on September 27, 2009. Under the terms of the agreement, ACS Class A common stock holders will receive a combination of $18.6 per share in cash plus 4.935 Xerox shares for each ACS share they own. . In addition, Xerox will assume ACS's debt of $2 billion.
Transaction Highlights	This deal, announced one week after the Perot & Dell deal, brings another manufacturer to the services arena. The combined entity will have over $20Bn in revenue and nearly 80% of that recurring in nature. Xerox will now be able to compete with HP to cross sell printing managed services, better cross sell solutions to their combined customer base, and have a strong introduction to ACS' international markets. In addition, Xerox expects significant cost savings in the deal to the tune of $300-400MM in the first three years. The two companies only share about 20% of customers presenting significant and compelling cross selling opportunities. ACS has grown despite the recession thanks to their work in government, healthcare, and emerging markets while increasing margins thanks to increased offshoring. With a proper integration, Xerox should be able to continue this strong, profitable growth.

MWS Scoreboard

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	-5.0%	43.2%	15.2%	18.8%	1.26	18.4	1.36	8.9
IT & IT-ENABLED OUTSOURCED SERVICES								
Financial IT Services	1.0%	49.2%	20.4%	6.4%	1.67	19.0	1.94	8.6
Offshore Outsourcing	17.0%	36.9%	19.6%	3.2%	1.46	12.3	1.37	8.2
IT Outsourcing	4.0%	33.5%	15.9%	10.0%	0.98	15.6	1.04	8.0
Governmental IT Professional Services	12.8%	20.5%	8.9%	13.6%	0.79	19.4	0.91	9.2
European IT & Business Services	4.2%	24.6%	9.0%	14.6%	0.41	12.5	0.53	5.8
Commercial IT Professional Services	-7.3%	30.1%	5.0%	1.2%	0.58	14.9	0.50	8.3
IT Staff Augmentation	-12.1%	21.8%	2.1%	4.7%	0.19	42.6	0.18	10.0
BUSINESS PROCESS OUTSOURCING								
Offshore Business Process Outsourcing	22.7%	40.1%	16.0%	20.3%	1.23	12.3	1.49	8.6
Business Process Outsourcing - Non-voice	1.5%	50.7%	24.1%	29.7%	1.11	14.8	1.31	7.5
European Business Process Outsourcing	22.9%	28.0%	12.9%	36.9%	0.78	22.2	0.75	7.9
Business Process Outsourcing - Voice	-2.3%	30.7%	11.8%	4.6%	0.58	15.6	0.73	6.0
IT SUPPLY CHAIN SERVICES								
IT Retailers	-0.9%	26.1%	4.6%	18.1%	0.23	20.3	0.35	9.6
IT Resellers	-8.6%	21.4%	0.6%	28.4%	0.16	10.7	0.27	7.5
Asian IT Supply Chain	0.0%	8.4%	2.1%	16.8%	0.18	11.6	0.21	16.5
IT Products Distributors	-9.7%	11.3%	2.2%	15.5%	0.18	14.7	0.19	7.3
European IT Supply Chain	-3.5%	8.8%	1.9%	8.6%	0.20	16.9	0.15	5.6
IT Direct Marketers	-12.4%	13.7%	2.4%	7.5%	0.12	16.1	0.12	4.8
SOFTWARE								
Business Software	10.1%	75.4%	19.8%	9.8%	3.39	31.5	3.34	15.2
IT Management Software	5.6%	85.5%	24.9%	2.7%	3.51	21.9	3.05	9.9
Middleware, Tools and Integration	3.8%	72.3%	22.0%	0.0%	2.66	20.5	2.29	8.9
Enterprise Applications	-4.4%	66.3%	13.6%	9.3%	1.74	35.1	1.63	11.6

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 69 IT and IT-Enabled Outsourced Services, 25 IT Supply Chain Services, and 38 Software companies listed in US stock market. It is based on the closing price as of October 1, 2009.
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 October 1, 2009.
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 Geoff Rhizor at (925) 355-0110 or email him at grhizor@martinwolf.com.

Martin Wolf Securities—Selected Transactions

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

softchoice

has acquired

Optimus Solutions
A Softchoice Company

$47.1 million

January 2008

softchoice

has acquired

Software Plus

$45.1 million

December 2007

ROLTA

has acquired

TUSC
The Oracle Experts

$45 million

January 2008

PC Wholesale
Your Partner in Distribution

has been acquired by

SYNNEX Corporation

$30 million

February 2007

Platinum Equity

has acquired

Canvas Systems

April 2009

SaBER

has sold majority interest to

ACCEL KKR

January 2006

ROLTA

has acquired

piocon

December 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.