

BDO CAPITAL TECHNOLOGY NEWSLETTER

Q1 2010 Industry Update



DESPITE A TURBULENT YEAR, THE TECHNOLOGY INDUSTRY FACED THE ECONOMIC HEADWINDS WITH RESILIENCE.

Frozen credit markets, persistently high unemployment and four consecutive quarters of GDP declines put a strangle hold on first half '09 M&A activity and created an economic environment filled with uncertainty. Despite the most unfavorable of conditions, the technology sector has reasons to be optimistic. The announcement of billion dollar combinations between software and services providers and fervent investment activity from the Private Equity ("PE") community restored confidence in the marketplace setting the stage for 2010.

In this newsletter we'll look back at 2009 and review some emerging trends, while also discussing the following areas of interest:

- 2009 Deal Activity and Valuations
- The Middle Market Comes Through with a Soft Landing
- An Overview of the Software and IT Services Sectors
- Private Equity – In or Out?
- Our 2010 Outlook – Are we on the Way Up or in Limbo?

►REST ASSURED, WE "HIT THE BOTTOM"

Strategic buyers went on a hiatus from the deal market in the first half of 2009, putting off acquisitions that otherwise would have extended their business lines, both vertically and horizontally, to retreat to the comforts of their own core competencies. Private Equity Groups ("PEGs") grappled with the lack of credit to complete buyouts and focused on helping their portfolio companies navigate the economic quagmire facing them. Technology deals showed a precipitous decline, tumbling nearly 25 percent or \$50 billion YOY from 2008 to 2009. Notwithstanding the historic decline, some buyers demonstrated their business agility seeking out opportunistic transactions to strengthen and diversify their businesses through a "buy" versus "build" strategy including Fidelity's \$2.9 billion acquisition of Metavante Technologies, a provider of banking and payment technologies and Adobe System's \$1.9 billion acquisition of Omniture, a provider of website analysis software to businesses.

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ABOUT BDO CAPITAL ADVISORS

BDO Capital Advisors, LLC is a middle market boutique investment bank that focuses on four product areas: mergers and acquisition advisory, corporate finance capital raising, special situations advisory, and board advisory. Through its highly experienced investment bankers, the firm has raised hundreds of millions of dollars in capital, been involved in the financial restructuring of hundreds of companies and generated over a billion dollars of shareholder transaction value in industries such as healthcare services, specialty manufacturing, software and information technology, specialty chemicals, and retail and consumer products.

BDO Capital Advisors, LLC is a separate legal entity and is an affiliated company of BDO USA, LLP, a New York limited liability partnership and national professional services firm. Through their affiliation with BDO's international network, BDO Capital has access to more than 300 corporate finance professionals domiciled in over 40 countries. BDO is regularly ranked in the top ten in M&A advisory based on number of transactions with values up to \$100 million by Thomson Reuters' league table ranking, and in the top ten of special situation banks by number of active bankruptcy engagements by The Deal.com. BDO Capital Advisors, LLC is a FINRA member firm.

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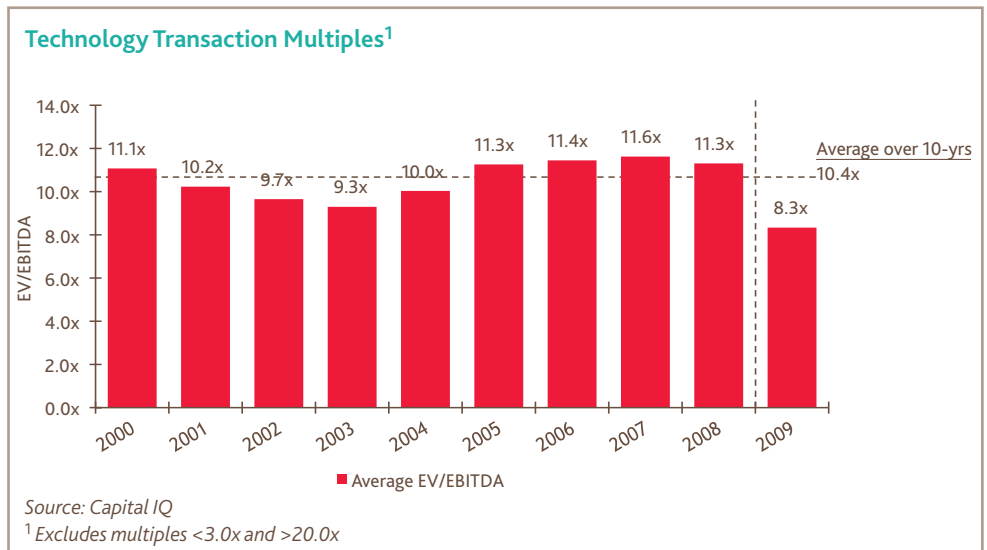
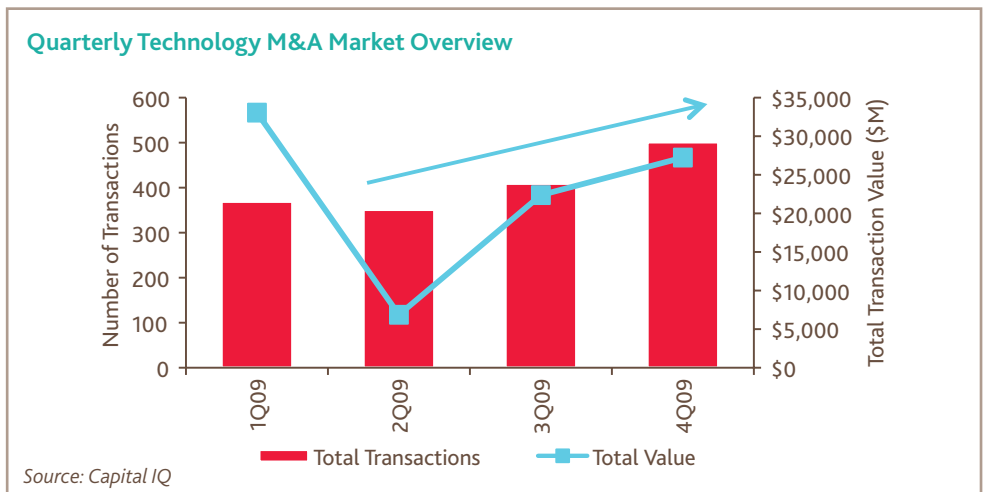
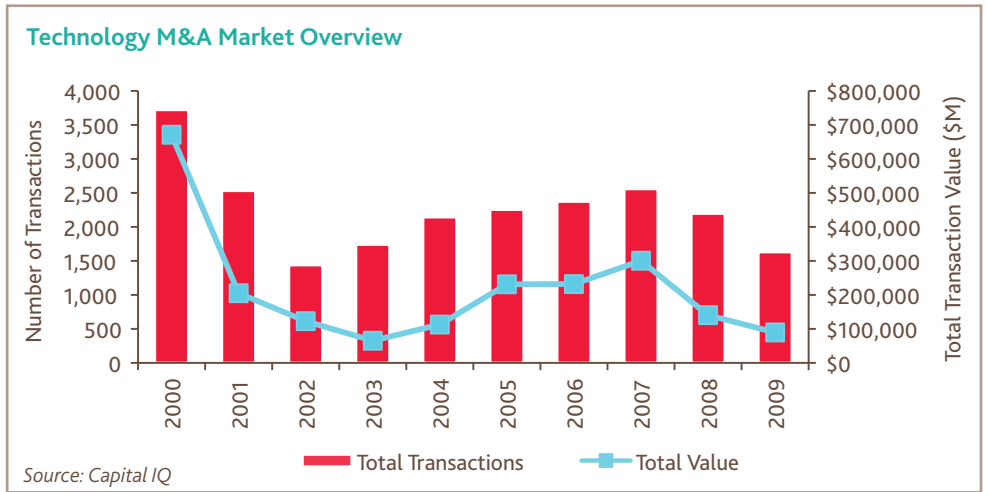
The easing of the credit markets, consecutive quarters of GDP growth and renewed consumer confidence set the stage for an active first quarter of 2010.

The second half of the year welcomed a resurgence of M&A activity. Bolstered by the easing of the credit markets, consecutive quarters of GDP growth and renewed consumer confidence, deal activity climbed nearly 50 percent YOY from 1Q'09 to 1Q'10 and set the stage for an active first quarter of 2010. According to Capital IQ, of the total deals closed during the year, more than 55 percent of the volume and value occurred in the second half of the year.

Equally interesting, is the fact that nearly 50 percent of the total deal value occurred in the last two months of the year. Leading this exuberance were over \$20 billion worth of technology deal announcements including Dell/Perot Systems, Oracle/Sun Microsystems, HP/3Com, Xerox/ACS and Cisco/Tandberg. Despite the uptick in activity, valuations in the tech space were off 36 percent from the prior year and 25 percent off from the 10 year average of 10.4x, suggesting that many of these deals were opportunistic in nature and driven by lower valuations.

► THE MIDDLE MARKET COMES THROUGH WITH A SOFT LANDING

The middle M&A market fared better than the rest of the Technology industry. Lower middle market deals valued at less than \$50 million attracted the highest level of interest from buyers comprising 48 deals or 45 percent of the 2009 volume up from 43 percent in 2008. Meanwhile deals valued at between \$50 million and up to \$100 million were down slightly, accounting for 17 percent of the 2009 volume, a modest decline of 4 percent from the prior year. Larger deals (greater than \$100 million), characteristic of higher leverage and corresponding risk, saw the most dramatic effects of the downturn. The shift to the lower to middle market was also seen in the average disclosed deal value which dropped to approximately \$335 million, 15 percent off from 2008.



We expect to see 2010 activity pick up significantly as strategics, who built up significant stores of cash, put their money to work.

► **SOFTWARE AND IT SERVICES**

Software

The software industry saw a significant drop off in deal activity throughout 2009 with deal volumes off more than 40 percent YOY. Buyers found comfort in the lower middle market (<\$50M) where the number of deals declined a modest 19 percent. Additionally, the average deal size declined from \$524 million in 2008 to \$193 million in 2009 as strategics and PEG's moved downstream in search of less risky deals.

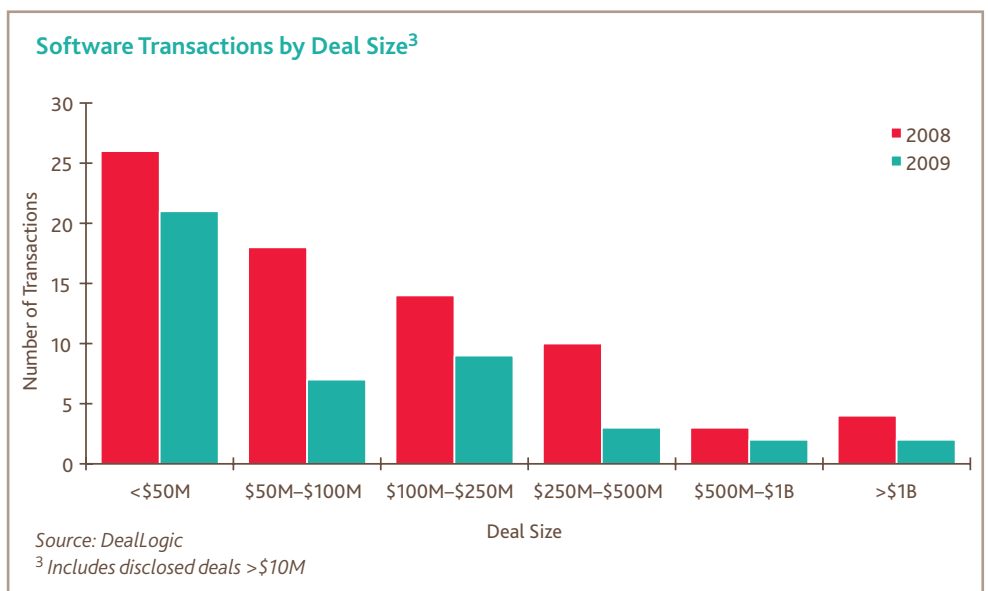
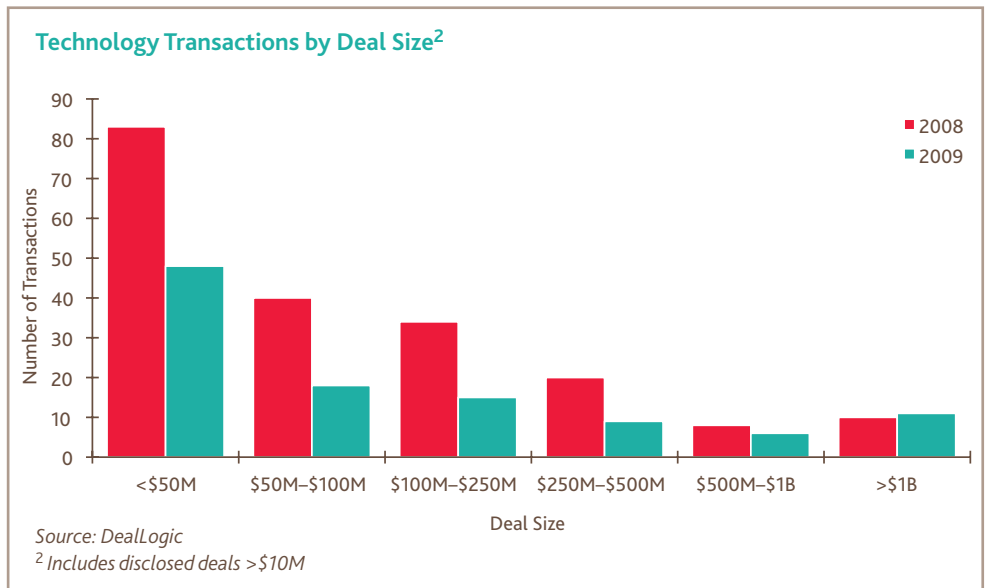
The middle market picked up steam in Q2 and Q3 with the \$884 million acquisition of Wind River Systems by Intel and VMwares' \$420 million acquisition of SpringSource, a provider of open source software for mission-critical enterprise applications. Foreign buyers also found opportunities in the U.S. with Autonomy's \$778 million acquisition of Interwoven, a provider of Web content management solutions. We expect to see 2010 activity pick up significantly as strategics, who built up significant stores of cash, put their money to work.

IT Services

The IT Services sector was glad to see 2009 pass and is looking forward to better times in 2010. Despite an increase in large, multi-billion transactions led by Dell's \$3.9 billion acquisition of Perot Systems, volume in the sector decreased by more than 50 percent YOY with transactions declining from a total of 50 deals in 2008 to only 21 deals throughout all of 2009. Larger deals, transactions valued at greater than \$1 billion, accounted for 92 percent of total transaction value that occurred in the second half of the year. The late year mega-deals increased the average deal size to \$440 million, representing a 20 percent increase compared with 2008.

► **PRIVATE EQUITY IS POISED TO "STEP IT UP" IN THE TECHNOLOGY SECTOR**

While strategic buyers were navigating the turbulent tides throughout 2009, PEGs had



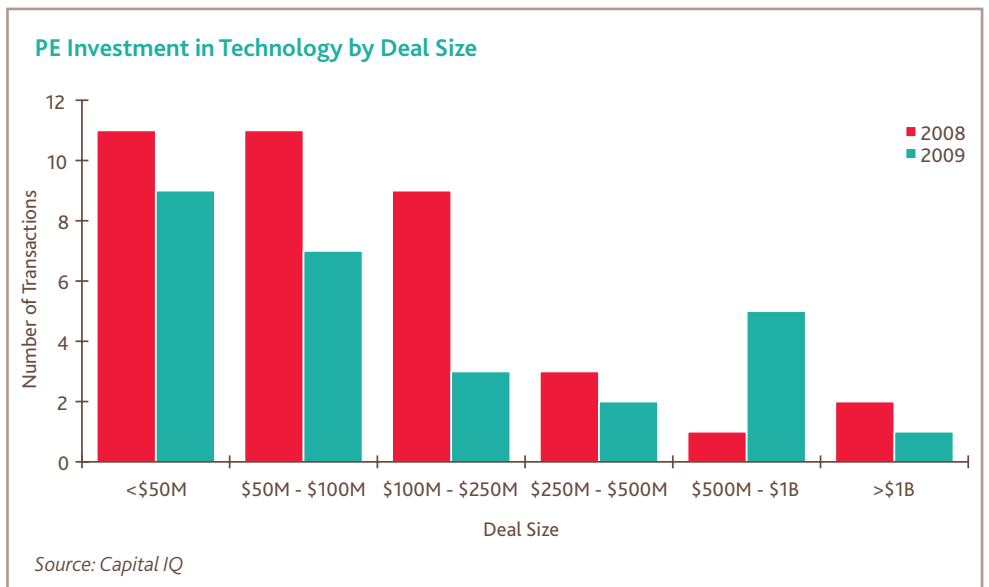
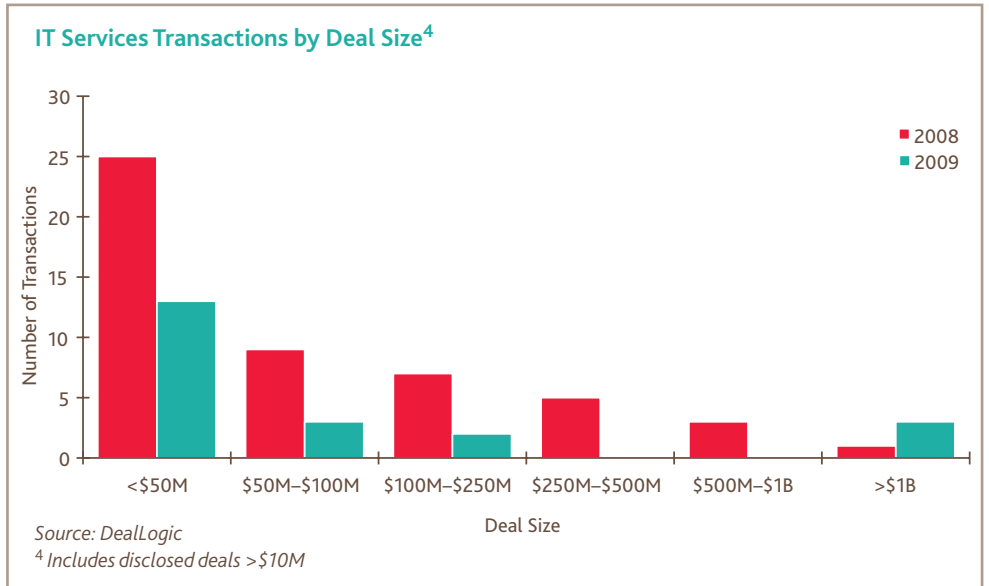
With strategics' balance sheets reflecting record cash levels, the easing of the credit markets and improving valuations, the market is turning in favor of a healthy revival of tech M&A for 2010.

already raised their sails and were riding a tailwind last year. According to Pitchbook Platform, PEGs invested over \$4.5 billion into 90 software companies in 2009, representing 10 more software-related deals than 2008. More surprisingly, these investments accounted for 7 percent of all PEG deals, up from its high of 5 percent in 2006. Notwithstanding this impressive activity, the software industry also saw a fundamental realignment in its playing field. Multi-billion dollar PEGs including The Carlyle Group and Warburg Pincus emerged at the head of the pack with 4 deals a piece, suggesting the software industry has matured from an investment perspective and could offer investors a lower risk investment vehicle.

The turbulent economic events of 2009 set in motion changes to the PE world's approach to technology investments. Difficult credit markets forced PE firms to sit on the sidelines for most of the year and focus on portfolio companies in need of financial engineering. Others, trying to buy companies and deploy fresh capital faced increasingly stringent lending requirements and resultant "busted" deals. As a result equity contribution in deals valued below \$50 million rose to an average of 46 percent in 2009, representing a historic high. These investment structures showed evidence of PEGs' confidence in a credit market rebound and ability to refinance investments under more favorable terms in 2010. PEGs responded to the tidal shift in risk by turning to investments at the lower end of the valuation spectrum and a focus on less risky, add-on acquisitions.

► 2010 OUTLOOK

With strategics' balance sheets reflecting record cash levels, the easing of the credit markets and improving valuations, the market is turning in favor of a healthy revival of tech M&A for 2010. Q1'10 has already shown signs of improving markets, with deal volume and deal value both increasing by nearly 10 percent since Q4'09, and over 50 percent and more than 300 percent, respectively, since bottoming out in Q2'09. Tech IPO activity in the first quarter of 2010 has also raised levels of optimism. In March five of the 13 companies that launched IPOs in the US were



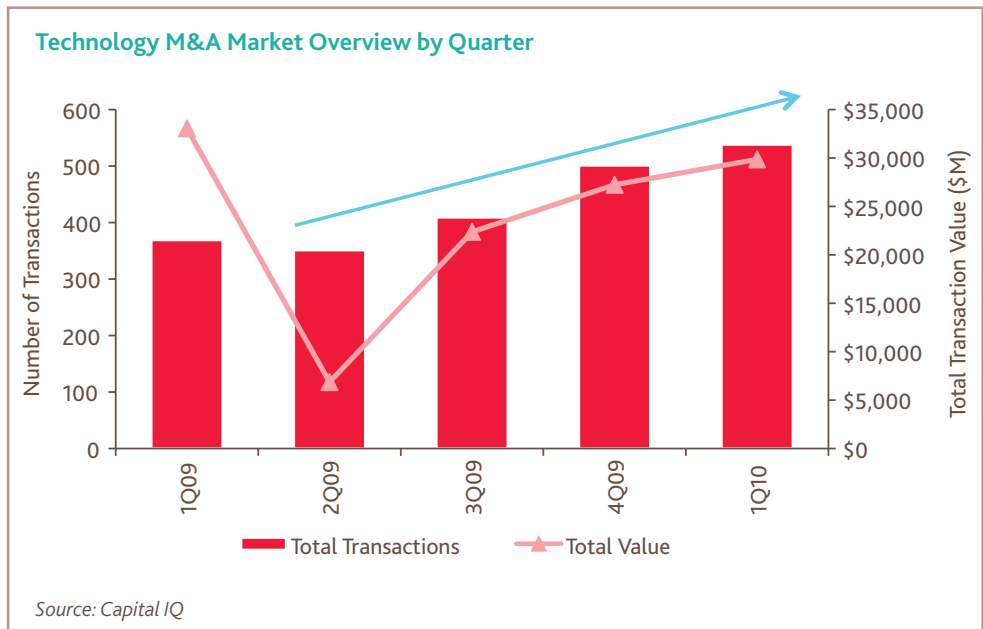
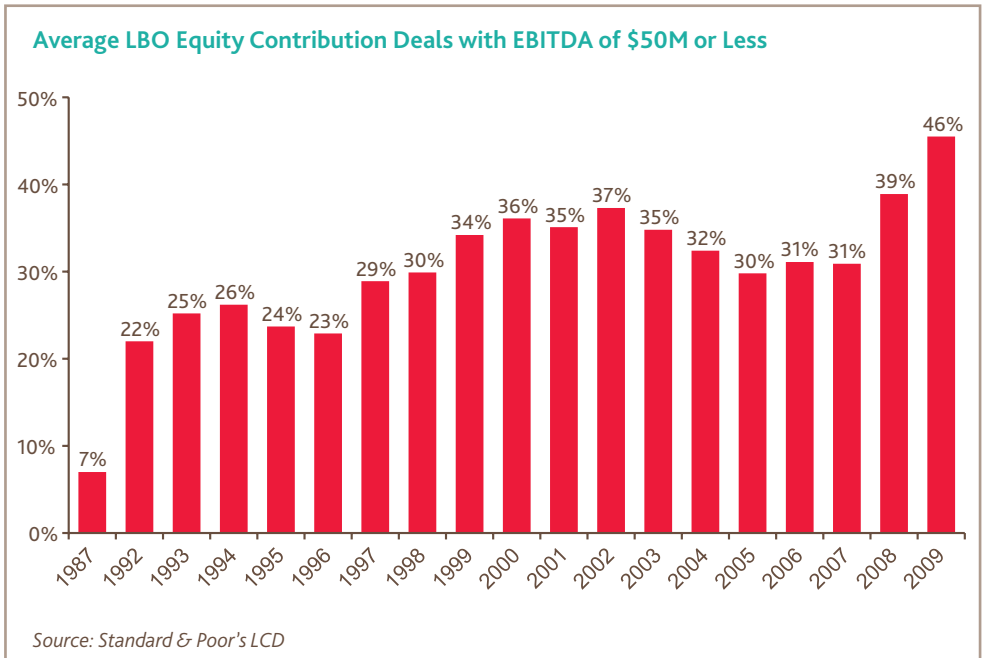
As the industry landscape evolves, we expect to see technology powerhouses stake their claims with new technologies and offerings including Software as a Service (“SaaS”) and Cloud Computing.

tech companies. Looking ahead, of the 79 deals that have filed with the SEC over the past 12 months, 26 are technology-related companies.

While most sellers delayed their M&A activity in 2009 because of the markets, the economy or in some cases, their own business performance, these quality assets will be first to market in 2010. The middle market is expected to offer the greatest options for buyers looking to fill gaps in their technology solutions and drive cost synergies. Deals that boost cash flow and underlying earnings will be able to bridge the gap of price expectations between buyers and sellers.

As the industry landscape evolves, we expect to see technology powerhouses stake their claims with new technologies and offerings including Software as a Service (“SaaS”) and Cloud Computing. SaaS models can be hosted by the software vendor or managed as part of a customer’s IT infrastructure. In either case, SaaS models offer customers reduced upfront capital expenditures and boosted profitability. While SaaS will continue to be tested and adopted throughout 2010, vendors without this offering will face increased competition. Early adopters of this revenue model will benefit from increased cash streams and forward visibility. The annuity-like business models will attract PE firms into this arena and satisfy their appetite for predictability of cash flows and forward visibility. In addition to SaaS models, Cloud computing has emerged as the next stage of evolution of the Internet, enabling computing infrastructure, applications, business processes and personal collaboration to be delivered as a service over the Web. As the adoption of cloud computing proliferates, security companies that offer new solutions to manage a corporation’s security infrastructure will benefit from increased sales and value enhancement.

We believe these trends, coupled with the improving economy and increased credit making its way back into the market, will set the stage for a robust year of technology M&A in 2010.



► RECENT NOTABLE TECHNOLOGY TRANSACTIONS

Close Date	Acquirer(s)	Target	Target Description	Enterprise Value (\$M)	EV/Revenue	EV/EBITDA
03/29/10	Harbinger Capital Partners LLC	SkyTerra Communications, Inc.	Provides mobile satellite communications services	\$1,496	–	–
03/8/10	Broadcom Corp.	Teknovus, Inc.	Operates as a fabless semiconductor and software solutions company	\$123	–	–
02/08/10	Xerox Corp.	Affiliated Computer Services, Inc.	Provides business process outsourcing (BPO) and information technology (IT) services	\$8,072	1.2x	7.8x
01/26/10	Oracle Corp.	Sun Microsystems Inc.	Engages in designing, manufacturing, marketing, and servicing network computing infrastructure solutions worldwide	\$5,638	0.5x	8.2x
12/18/09	General Atlantic; KKR	TASC, Inc.	Provides information technology solutions for government and businesses internationally	\$1,650	1.0x	–
12/11/09	Emerson Electric Co.	Avocent Corporation	Designs, manufactures, licenses, and sells software and hardware products and technologies that provide connectivity and centralized management of information technology infrastructure	\$1,194	2.1x	14.8x
12/10/09	Hellman & Friedman; JMI Equity	Datatel, Inc.	Provides administrative and academic software systems	\$570	–	–
11/03/09	Dell Inc.	Perot Systems Corporation	Provides information technology services and business solutions worldwide	\$3,772	1.4x	13.6x
10/22/09	Adobe Systems Inc.	Omniture Inc.	Provides online business optimization products and services	\$1,558	–	–
10/02/09	IBM Corp.	SPSS Inc.	Provides predictive analytics software and solutions	\$784	2.7x	10.0x
10/01/09	Fidelity National Information Services Inc.	Metavante Technologies, Inc.	Delivers banking and payments technologies	\$4,617	2.7x	10.9x
9/15/09	VMware, Inc.	SpringSource, Inc.	Designs, develops, and delivers software products to build, run, and manage Java applications	\$446	–	–
07/28/09	Thoma Bravo, LLC	Entrust, Inc.	Develops, markets, and sells solutions for securing digital identities	\$96	1.0x	13.4x
07/21/09	Vista Equity Partners	SumTotal Systems, Inc.	Engages in the development, marketing, distribution, and support of learning, performance, and talent development software solutions	\$108	0.9x	36.8x
07/15/09	Intel Corporation	Wind River Systems, Inc.	Develops and offers device software optimization solutions	\$793	2.2x	20.8x



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Valentina is the head of BDO Capital Advisors' Technology Industry practice and has more than 13 years of investment banking experience. In addition to overseeing this industry vertical for BDO Capital Advisors, she also is primarily responsible for maintaining BDO Capital Advisors' relationships with the private equity community. Valentina is a specialist in numerous transaction structures and processes including leveraged recapitalizations, the "auction sale" and a variety of other going to market techniques and deal structures. Valentina has authored numerous industry and process related articles and routinely participates in speaking engagements, presentations and industry symposiums. Her transaction resume includes the successful sale of over 30 companies with total client consideration value approaching \$1 billion.

Prior to joining BDO Capital Advisors, LLC (formerly Trenwith Securities, LLC), Valentina served as a Director in the investment banking division of Andersen Global Corporate Finance, LLP, joining that group in 1998. While at Andersen's Boston office she was a key architect in the firm's investment banking technology go to market strategy and a contributor to the firm's growth across a variety of technology sectors including software, hardware and IT services. In addition to technology, Valentina specializes in analyzing and processing value-enhancing liquidity alternatives for companies across a wide range of industries including manufacturing, healthcare, distribution, consumer products and business services.

Valentina began her career with Andersen, LLP providing global business consulting and regulatory advisory services to companies within the public and private sectors. Valentina holds a Bachelor of Science from the Whittemore School of Business at the University of New Hampshire, is qualified as a General Securities Representative, is a Certified Public Accountant and a member of the Massachusetts Society of CPAs and AICPA.