

Growth & Exit Strategies

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Together we'll go far



Agenda

- Overview/Introduction
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 - Technology Finance Capabilities
- Market Landscape
 - Availability of Capital/ Market conditions
- Tech Lending Market Summary
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 - Leveraged Lending in Tech Buyouts
- Current Borrowing Opportunities for SaaS Providers
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Overview/Introduction

Wells Fargo Foothill

- Senior secured lender providing private equity sponsors and middle market companies with financing solutions for working capital, acquisitions, leveraged buyouts, dividend recapitalizations and turnarounds
- Founded in 1970 and part of Wells Fargo & Company (NYSE: WFC), one of the strongest and best capitalized U.S. banks, with capital ratios and credit ratings among the strongest of our industry peers
- Proven track record of more than 35 years of service, highlighted by quick turnaround times and certainty of execution
- Over 600 credit relationships with over \$14 billion in owned commitments (pre-Wachovia merger)
- Headquartered in Santa Monica, with offices in Atlanta, Boston, Chicago, Dallas, New York and San Francisco, Toronto

Technology Finance

- Wells Fargo Foothill – Technology Finance offers flexible, innovative senior secured financing solutions tailored to the unique needs of companies operating within the software and technology industries.
- Our success stems from our ability to understand, value and lend against the recurring revenue streams associated with a technology company's maintenance contracts and subscription revenue.

Knowledge and Experience

- Completed over 200 financings for private and public software and technology companies over the last 8 years
- \$2.5 billion in funded obligations and \$3.5 billion in commitments to 115 software and technology companies
- Experienced lender in “M&A” and non-traditional situations

Relationship Focus

- National reputation as a strong agent. Agent ~70% of our technology relationships
- Capable of holding larger positions than many of our peers. Typical hold position ranges between \$30-100 million
- Focused on holding debt to maturity

Industry Sectors

- Enterprise Software – Business Intelligence, Customer Relationship Management, Content Management, Development tools, Education, eLearning, Engineering, Enterprise Resource Planning, Financial Services, Infrastructure management, Security, Supply Chain Management, Web Analytics, and Workforce Management
- Data centers - Co-location, Managed Services
- Technology enabled business services - Credit, debit and ATM processors, Electronic Data Transmission, Healthcare Claims Processing

Preferred Revenue Models

- Perpetual License
- Term License with Annual Payment
- Software as a Service (SaaS)
- ASP Hosted
- Managed Services
- Transactional (High Volume)

Market Landscape

Where are the banks today?



Capital has become scarce and expensive

January 1, 2007

Market Value (in Billions): \$2,001



April 23, 2009

Market Value (in Billions): \$649



Source: CapitalIQ. Area represents market cap relative to largest bank (Citi) as of 1/1/2007.

General Bank Market Conditions

As a result of the lack of liquidity in the bank market, there is little new loan activity

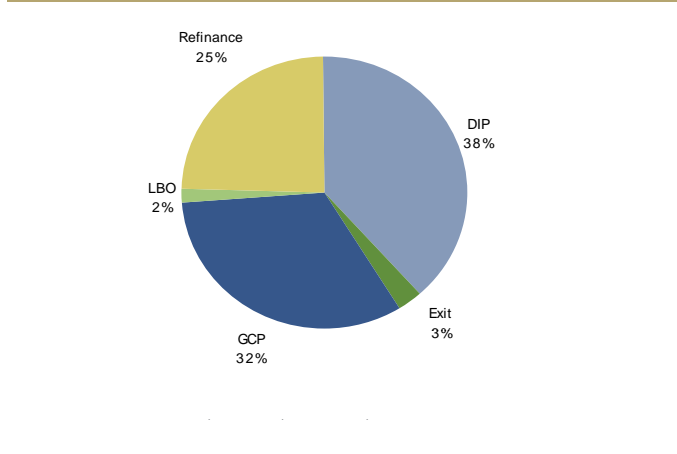
Recent market activity has been concentrated amongst Debtor-In-Possession (DIP) lending, amendments and loan workouts

Leverage multiples have decreased from 2007 peak levels

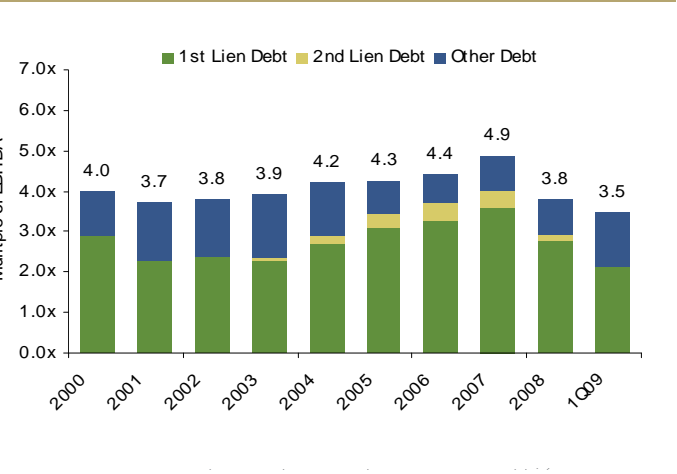
Lending environment remains tough as evident by Federal Reserve's Senior Loan Officer Survey which is based on responses from 55 domestic banks and 21 U.S. branches and agencies of foreign banks.

- Further upward pressure on pricing
- Capital constraints will continue to lead to inconsistent lending behavior
- Threat of continued recessionary economic conditions to result in continued tightening of credit standards.
- Relationship lending to drive pricing and maximum facility size

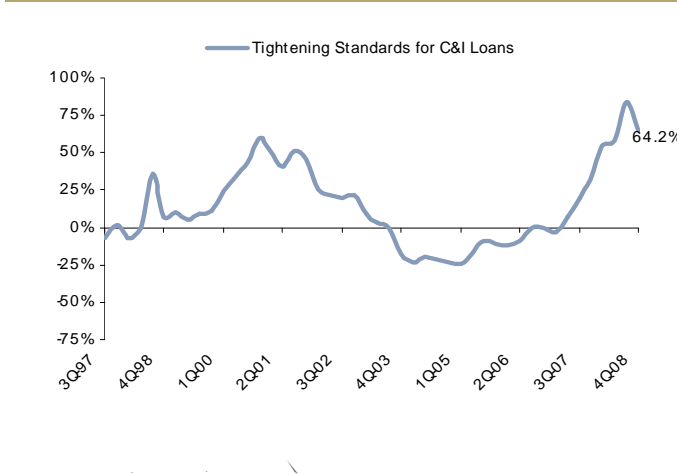
YTD Market Activity



Average Market Debt Multiples



Senior Loan Officer Survey



Tech Lending Market Summary

Normal Operations & Organic Growth Vs.
Leveraged Lending & Buyout Growth

What role should debt play in the normal operations & growth of a tech company?

Hopefully, a meaningful role...

- The current macroeconomic uncertainty has led to a growing need for capital, especially for tech companies.
- But historical sources of capital such as venture capital investors, venture debt lenders and the IPO market have significantly pulled back.
 - According to Dow Jones VentureSource, there were 68 venture-backed M&A deals announced for a total of \$3.2B during the first quarter of 2009 – represents the lowest total since the fourth quarter of 2001 which saw 69 deals.
 - Only one company went public in the first quarter (Mead Johnson Nutrition), and three so far in Q2 (Changyou, Bridgepoint Education and Rosetta Stone), and zero VC-backed IPO's since Rackspace in August of last year.
- The natural conclusion is that traditional bank financing/working capital financing should play a more meaningful role in your capital structure.

What role should debt play in the normal operations & growth of a tech company? (continued)

- So the question becomes, how do you reconcile the need for more traditional bank financing with the headlines (and previous slides) that suggest there is limited new lending taking place?
- In general, what's taking place in the broader middle market has as much to do with capacity constraints on large syndicated credits, as it does with the financial health of lenders and borrowers
- For technology companies with good management teams and that are performing and are seeking debt, there is still good appetite from banks to lend money. We're seeing increases in the following types of activity:
 - General working capital financing (new loans)
 - Increases to existing credit facilities (for investment in organic growth)
 - Refinancing Venture Debt
 - Debt Financing requests in lieu of late stage VC and/or private equity rounds
 - And although not considered "normal operations", we are seeing an increase in requests to use senior debt to effect stock buybacks and to repurchase convertible notes trading at a discount
- Cash Flow Loans vs. Asset Based Loans
 - Cash Flow lending is still heavily reliant on a history of well-established cash flows
 - Leverage has come down significantly....in the range of 1-2X Debt to EBITDA
 - Shorter maturities: Revolving credit line expirations are being limited to 364 days, in order to maximize regulatory capital requirements.
 - Higher pricing: anticipate paying a spread of 100-200 basis points more (over Libor)

What role should debt play in the normal operations & growth of a tech company? (continued)

- Cash Flow Loans vs. Asset Based Loans (continued)
 - Asset-Based Loans are margined against receivables and inventory, and to a lesser extent fixed assets such as owned real estate and machinery & equipment
 - Collateral availability and liquidity are far more important than EBITDA
 - The negative stigma around Asset-Based Lending (ABL) continues to wear off
 - ABL is far less impacted by the capacity constraints previously referenced
 - Covenants on Asset-Based Loans tend to be more user-friendly
 - Interest rates (spread over Libor) are lower than for cash flow loans
 - In a declining macroeconomic environment, lenders place more emphasis on collateral

Leveraged Lending in Tech Buyouts

- Despite the lower lending multiples and scarcity of capital, debt is still being actively used in Tech Buyouts
 - Leverage multiples are down, but so are valuation multiples
 - In some cases, we are still seeing close to 50/50 debt to equity splits
 - Buyers are starting to see “value”
 - Strategic Acquirers are showing up more and more and competing effectively against Private Equity buyers
 - Despite the carnage in leveraged buyouts from the last two to three years (over leveraged companies, busted covenants, and even Chapter 11 filings), the tech sector, and in particular software buyouts, seems to be immune so far.....
 - Much of the LBO activity in technology was focused on software and tech-enabled services companies, and to a large extent these buyouts were financed on the strength of their recurring revenue streams (maintenance and subscription revenue)
 - Which so far are holding up fairly well
 - The fact that these buyouts are performing well means lenders should continue to support the sector

Current Borrowing Opportunities for SaaS Providers

- Debt Financing in a Credit Crisis??? What does the Credit Crisis really refer to? It is a shortage of credit or liquidity. That is certainly the case affecting the broader middle market and large cap market.
- But mostly what we're seeing is that it is also a Debt Crisis, or more appropriately, an over-leveraging crisis. Companies have borrowed way too much money. Companies cannot roll or refi their debt because they have borrowed more than their collateral or cash flow can support.
- But Software Companies have not been historical borrowers; they are typically starting with a clean slate
- Furthermore, there are many characteristics that SaaS companies possess that should be attractive to lenders:
 - Lumpy license sales have given way to predictable monthly revenue
 - Deferred Revenue, the result of collecting annual maintenance all up front, was seen as a significant liability by lenders.....the SaaS model has inherently reduced that liability
 - To the extent lenders start seeing the predictable revenue stream as an "asset", SaaS providers should be able to leverage their future cash collections into a borrowing base

Closing Comments

- Outlook
 - On an Enterprise Value to EBITDA basis, public software companies are being valued at historic lows. As such, we believe that take-privates will continue to be attractive
 - We will continue to seek new buy-out financing opportunities, albeit at lower leverage multiples, and will favor working with experienced management teams
 - In general, we believe software companies are uniquely positioned from a revenue and cost structure to better weather economic downturns than other sectors/industries
 - With mostly variable expenses and virtually no inventory and PP&E, software companies should be well positioned to reduce operating expenses as warranted in this environment
 - We believe that buyers of middle market software companies will continue to have access to the debt capital markets, and with improved capital structures and lower leverage, we are excited about pursuing new financing opportunities

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