

CORUM

USA Switzerland Germany France United Kingdom Canada Norway Brazil

World Financial Symposiums

San Jose – May 2009

Valuations: Trends, Metrics, Benchmarks, Strategies for today

Ward Carter, President, Corum Group

Middle Market Software M&A Specialists

- M&A specialists since 1985
- Software and IT experts – mostly former CEOs
- Offices in Europe, Canada, Latin America and United States
- 200+ transactions completed
- \$6 billion in wealth created
- 60% cross-border transactions
- Host of *Selling Up Selling Out* conferences
- Host of multi-national *Merge Briefings*
- Sponsor of World Financial Symposiums conferences
- Publisher of industry-leading M&A research

Corum's Perspective

We get to the ground truth through constant communications

- Approximately 2,500 discrete communications every month with buyers and investors on behalf of clients
- Conference and webinar speaking engagements – approximately 200 attendees each month
- Between 2 and 5 Strategic Review meetings with senior executive teams each month, and additional launch and review meetings held via WebEx

Recent Corum Transactions



Microsoft

Developer of collaborative 3D authoring technology



CALIGARI
CORPORATION

Microsoft – U.S.
Caligari – U.S.



Double-Take
Software

Provider of network booting technology



emBoot™ Inc.

Double-Take Software – U.S.
emBoot - Canada



Audax
Group

Provider of security software applications to the System i platform



PowerTech
your security expert

Help/Systems – U.S.
On behalf of Audax
PowerTech – U.S.



POLARIS
live your dream

SOA software development software to insurance, healthcare and financial services markets



SEEC

Polaris Software – India
SEEC– U.S.



NESS

IT services and solutions for finance and telecommunications



LOGOS

Ness Technologies – Israel
Logos – Czech Republic



salary.com

Provider of on-demand, learning and development software



infobasis

salary.com – U.S.
InfoBasis – U.S.

Recent Corum Transactions



Software-based training innovation firm

SilkRoad Technology – U.S.
VTN Technologies – Canada

Undisclosed

Undisclosed

Design and integration of Pliable Display Technology

U.S.
Canada



Visual analysis and presentation tools for the professional and consumer markets

Thompson Reuters – U.S.
Progeny Software – Canada

Undisclosed

Undisclosed

Digital marketing technologies

Canada
Canada



Oracle legacy migration tools

CipherSoft - Canada
Unify Corporation – U.S.

Headlines Tell the Story



Lessons from Dot-com Meltdown

- Recovery takes years, not months
- Many could have sold in 1998-2001 but held off
- Markets didn't recover until 2005 for many sectors
- Down rounds gave way to shutdowns
- Many companies failed
- Buyers eventually stopped acquiring

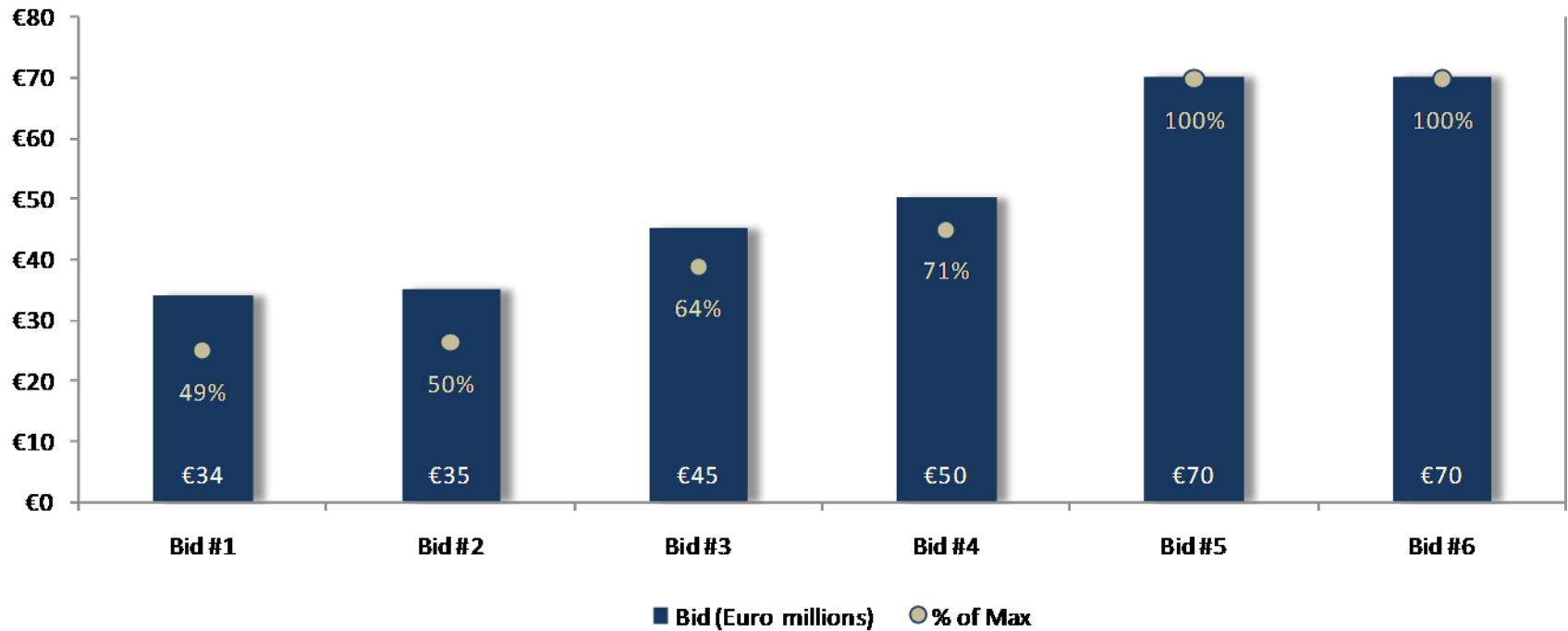
But many successful companies emerged from the carnage

Recap – Current Market Reality

- Banks are not lending
- Equity markets decimated, outlook very mixed
- Consumers MIA, household savings rate at almost 4%
- Currencies in disarray – wild fluctuations, no safe haven
- Asset deflation (multiplier effect on leverage)
- IT purchasing allocation to small companies is plummeting
- No IPOs
- No new growth capital
- VCs abandoning portfolio companies (depressing valuations)

Volatile Valuations

Corum Divestiture - Bids as of Early May



Silver Lining – Small Deals

- Less impacted by credit issues / debt not required
- Balance sheets strong for many buyers
- Attractive add-on to strategic & financial buyers
- Faster due diligence with smaller companies
- Easier to justify in make/buy/partner analysis
- Provide outsourced R&D to larger firm

... and Software as a Service (SaaS)

Support for Technology M&A Valuations

- Technology revenues resilient
- Earnings generally positive
- Strong Recurring Revenue
- Strong cash reserves
- “mini-bubble” starting in March

But...

Corum Index – M&A Statistics

	January through April	
	2008	2009
# of Transactions	1092	867
# of Mega Deals	10	4
Largest Deal	\$8,500.00	\$7,400.00
Median Deal Size	\$20.00	\$11.00
Median Seller Size	\$29.00	\$48.00
# VC backed Exits	155	99
% Terms Undisclosed	58%	73%
All Cash (announced)	45%	116
% Targets were Public	16%	18%
% Public Buyers	59%	44%

\$ values in millions

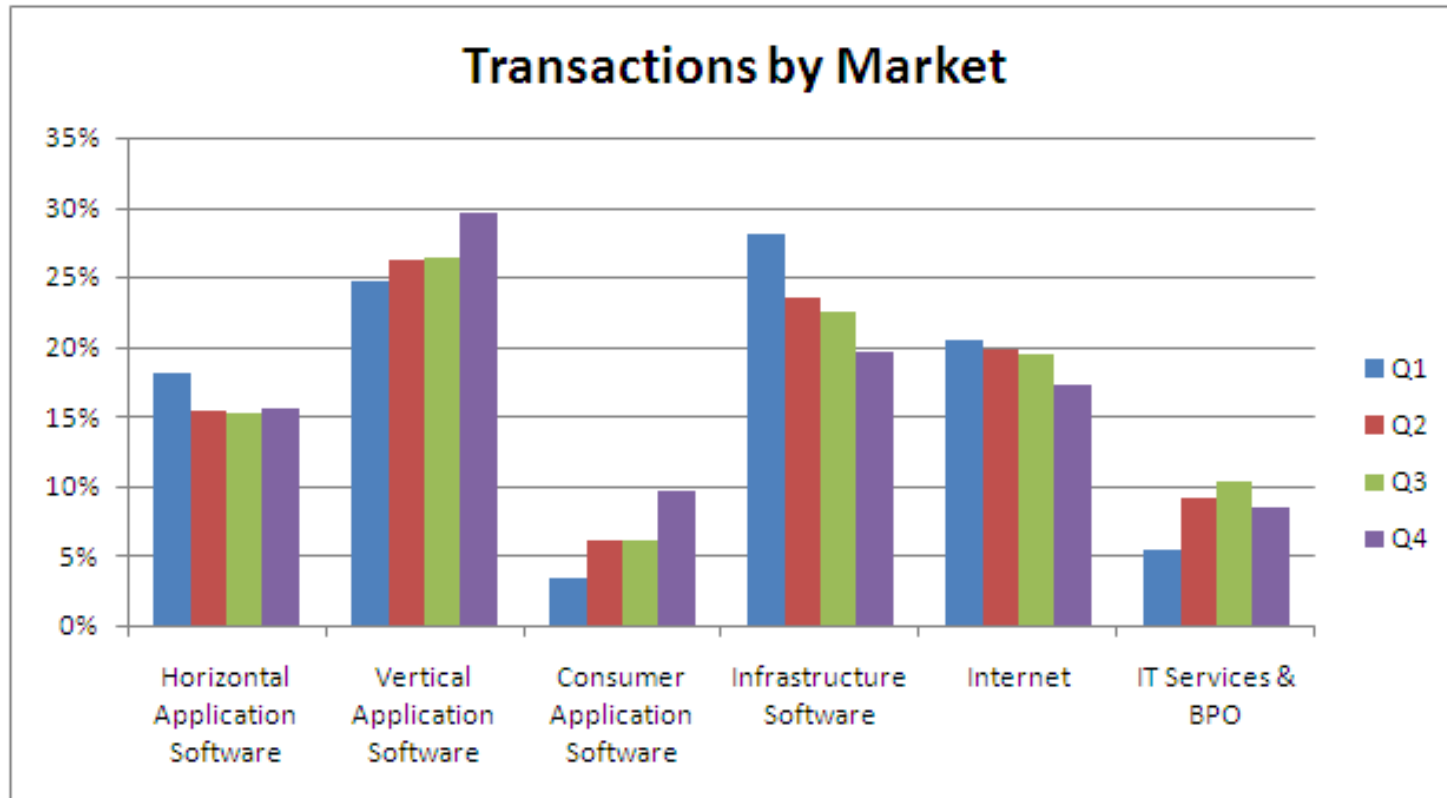
- M&A spending rising
- Private buyers remain active
- Cash still dominant form of consideration
- Struggling public companies are targets

Technology M&A Market

Year	Total Volume	Total Value	Deals worth \$1B+
2008	2,804	\$290B	32
2007	3,637	\$481B	80
2006	4,024	\$457B	74
2005	3,039	\$374B	71
2004	2,079	\$226B	28
2003	1,506	\$61B	14
2002	1,920	\$83B	12

*451 Group

Software and IT M&A Activity 2008



Valuations Up!

Company	Stock Price 03/03/2009	Stock Price 05/06/2009	% Change	
Sun	\$4.54	\$9.11	100.66%	↑
Nokia	\$9.25	\$15.18	64.11%	↑
Apple	\$87.71	\$132.50	51.07%	↑
Cisco	\$14.50	\$19.61	35.24%	↑
Symantec	\$13.15	\$17.59	33.76%	↑
HP	\$28.30	\$36.33	28.37%	↑
Oracle	\$15.06	\$19.06	26.56%	↑
EMC	\$10.13	\$12.78	26.16%	↑
Google	\$326.67	\$403.47	23.51%	↑
Microsoft	\$16.03	\$19.79	23.46%	↑
IBM	\$88.01	\$104.62	18.87%	↑
SAP	\$32.28	\$38.23	18.43%	↑
Yahoo	\$12.58	\$14.85	18.04%	↑

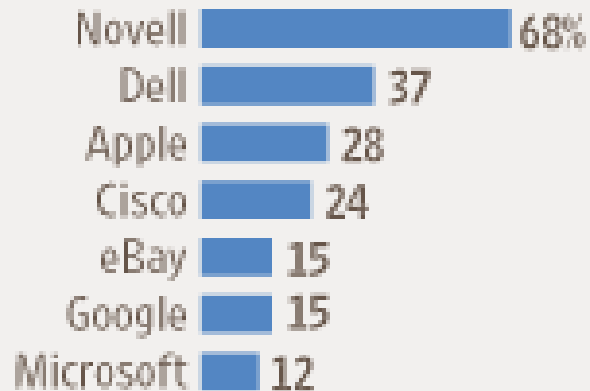
Cash Up!

Company	Year Ago Cash	Current Period Cash	
Sun	\$2,363	\$2,640	↑
Nokia	\$3,130	n/a	↔
Apple	\$9,352	\$25,650	↑
Cisco	\$5,191	\$29,530	↑
Symantec	\$1,890	\$1,530	↓
HP	\$11,591	\$11,260	↓
Oracle	\$8,409	\$11,290	↑
EMC	\$4,482	\$7,250	↑
Google	\$6,081	\$17,780	↑
Microsoft	\$10,339	\$20,300	↑
IBM	\$10,786	\$12,300	↑
SAP	\$3,151	n/a	↔
Yahoo	\$2,341	\$3,450	↑

Putting Cash to Use

□ Liquid IT

Net cash on hand as a percentage of market capitalization



Source: Banc of America Securities-Merrill Lynch (adjusted for Friday's close)

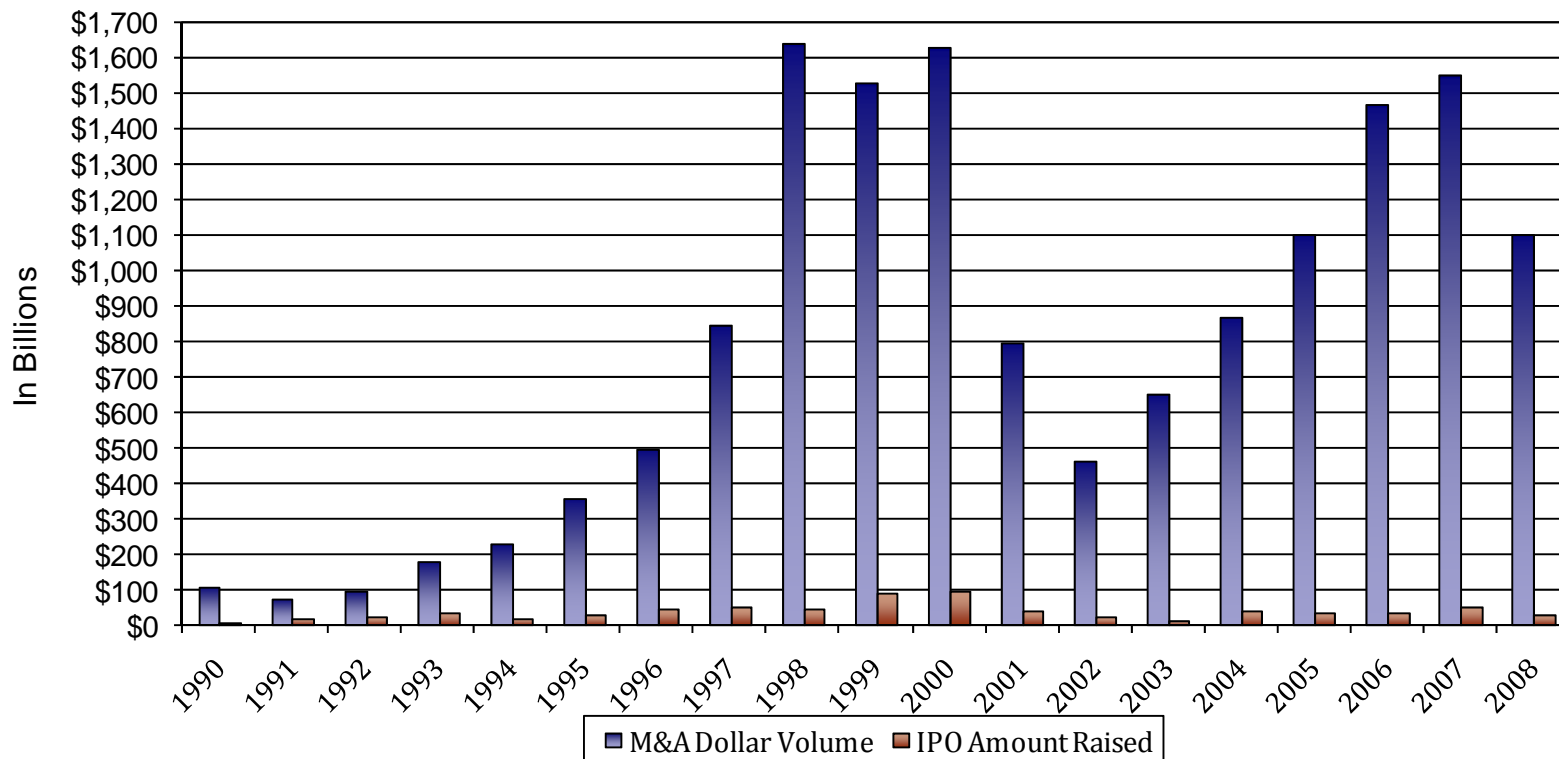
- Mature market = cash generation
- Interest rates at all time lows
- Palatable valuations
- Risk of inflation and devalued dollar

Where should companies put their cash?

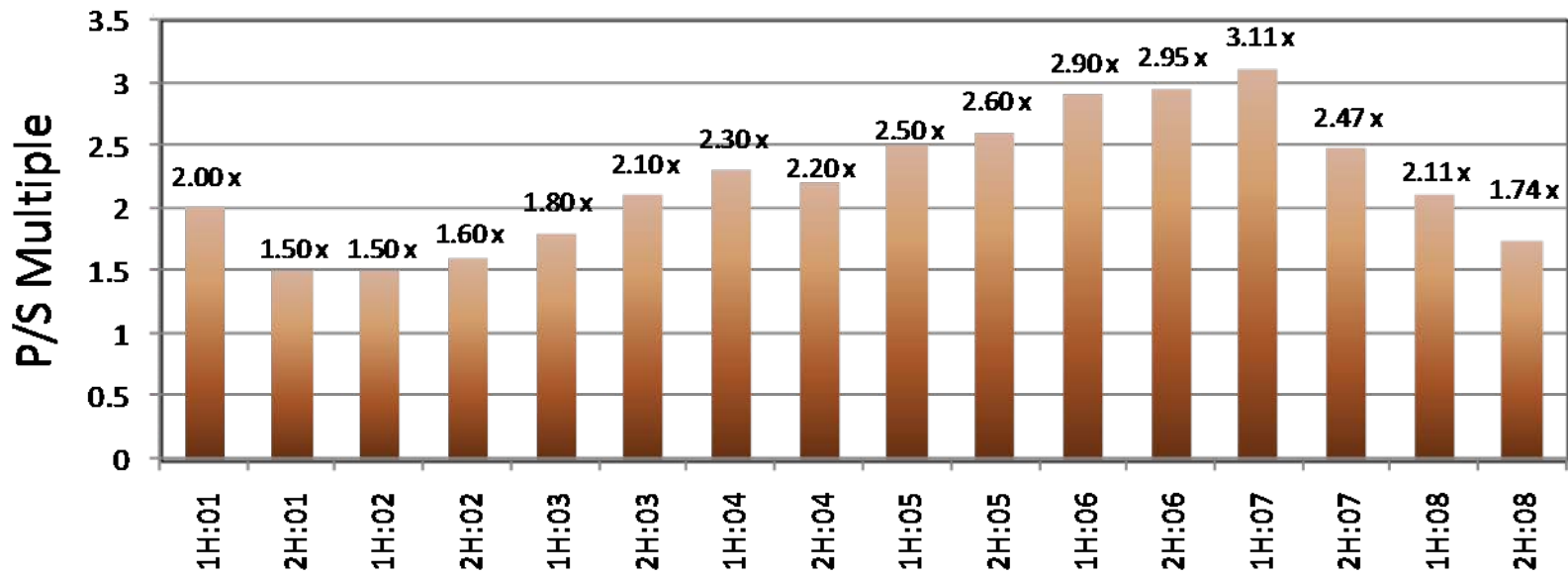
Appreciable assets (M&A)

M&A Activity vs IPOs

In Dollar Volume – U.S. dollar volume all industries



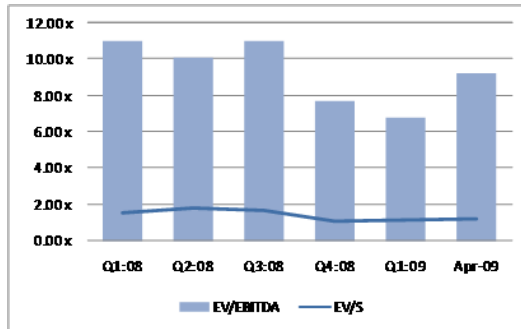
Transaction Multiples – Software & IT



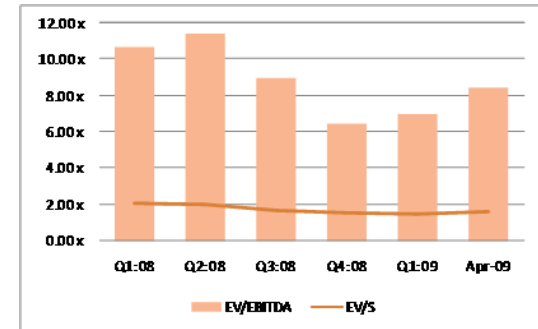
Public Valuations By Market



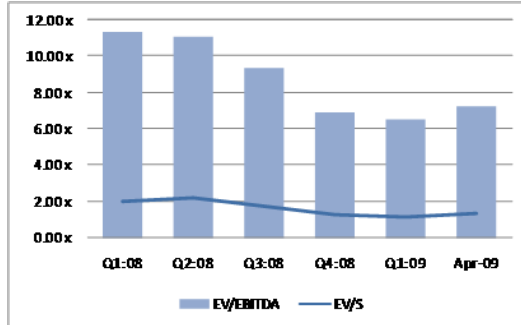
Horizontal Application Software



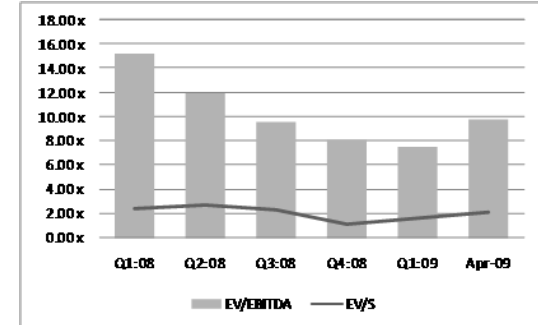
Infrastructure Software



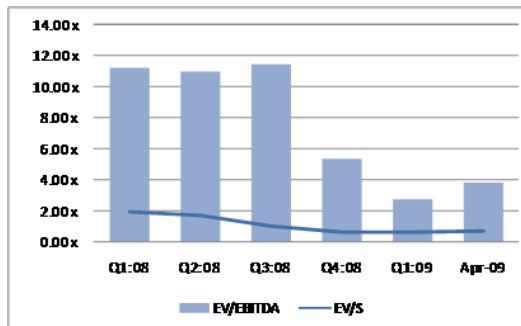
Vertical Application Software



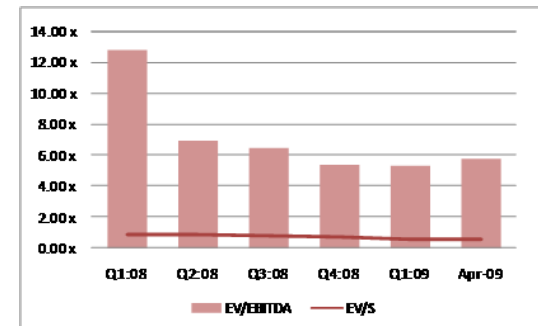
Internet



Consumer Application Software



IT Services and BPO



SaaS – Public Company Multiples

Company	TTM Multiples	
	EV/S	EV/EBITDA
Athenahealth Inc.	6.34 x	53.19 x
Blackboard Inc.	3.14 x	18.84 x
Concur Technologies, Inc.	4.18 x	18.54 x
Constant Contact, Inc	4.43 x	nm
DealerTrack Holdings, Inc.	1.62 x	9.45 x
DemandTec, Inc.	1.62 x	nm
Kenexa Corporation	0.53 x	3.06 x
LivePerson, Inc.	1.20 x	16.24 x
NetSuite, Inc.	4.08 x	nm
Omniure, Inc.	3.48 x	76.69 x
RightNow Technologies, Inc.	1.20 x	nm
Salary.com, Inc	0.35 x	nm
Salesforce.com	3.56 x	41.35 x
SuccessFactors, Inc.	2.99 x	nm
Synchronoss Technologies, I	2.83 x	12.74 x
Taleo Corporation	1.93 x	26.71 x
Ultimate Software Group, Inc.	2.52 x	95.23 x
Vocus, Inc.	2.47 x	45.24 x
Websense Inc.	2.56 x	19.13 x
Workstream, Inc.	1.47 x	nm

	TTM Multiples	
	EV/S	EV/EBITDA
Min	0.35 x	3.06 x
Max	6.34 x	95.23 x
Average	2.63 x	33.57 x
Median	2.54 x	19.13 x

SaaS Public Median Multiples	TTM Multiples	
	EV/S	EV/EBITDA
Apr-08	3.14 x	23.62 x
Feb-09	2.54 x	19.13 x
Delta (%)	-19%	-19%

SaaS – M&A Transaction Multiples

Buyer	Seller	Date Announced	Purchase Price (EV)	TTM Revenue	EV/S Multiple
Medecision, Inc	HxTechnologies Inc	Apr-09	n/a	n/a	n/a
Vista Equity Partners	SumTotal Systems Inc.	Apr-09	63.60	126.60	0.50 x
Physicians Interactive [Perseus LLC]	MedManage Systems	Apr-09	n/a	n/a	n/a
Group Business Software AG	IT Factory A/S	Feb-09	n/a	n/a	n/a
Descartes Systems Group Inc.	Oceanwide Inc	Feb-09	8.42	5.50	1.53 x
Archer Technologies	Brabeion Software Corp.	Jan-09	n/a	n/a	n/a
Xactly Corporation	Centive	Jan-09	n/a	n/a	n/a
Rally Software Development Corp	6th Sense Analytics Inc	Jan-09	n/a	n/a	n/a
Symantec Corporation	MessageLabs Ltd.	Oct-08	695.00	145.00	4.79 x
Symantec Corporation	nSuite Technologies, Inc.	Aug-08	20.00	n/a	n/a
GTCR Golder Rauner	IQNavigator	Jun-08	100.00	n/a	n/a
US Investigations Services, Inc.	HireRight, Inc.	Jun-08	148.02	71.97	2.06 x
Blackbaud, Inc.	Kintera Inc.	May-08	45.13	43.13	1.05 x
nGenera	Talisma Corporation	May-08	45.00	35.00	1.29 x
Nuance Communications, Inc.	eScription, Inc.	Apr-08	356.79	44.00	8.11 x
Netsmart Technologies, Inc.	Nightingale VantageMed Corp	Feb-08	11.00	1.40	7.86 x
SoundBite Communications, Inc	Mobile Collect, Inc.	Feb-08	0.50	n/a	n/a
Dell Inc.	MessageOne, Inc.	Feb-08	155.00	25.00	6.20 x
SDL International plc	Idiom Technologies Inc.	Feb-08	26.60	13.00	2.05 x
Callidus Software Inc.	Compensation Technologies	Jan-08	8.30	3.00	2.77 x
Omniure Inc.	Visual Sciences	Oct-07	382.08	76.04	5.02 x
Ariba, Inc.	Procuri, Inc.	Sep-07	101.00	25.00	4.04 x
Blackbaud, Inc.	eTapestry.com	Aug-07	24.80	7.00	3.54 x

TTM Revenue	EV/S Multiple
Low	0.50 x
High	8.11 x
Median	3.15 x

Trends and Drivers

- Cash deals
- More earnouts, notes, installment sales
- Tight credit washing out weaker buyers
- Smaller deals increasing – fewer transformational blockbusters
- M&A business as usual for growth minded companies
- Mid-market buyers are being acquired
- Value buyers are aggressive
- Strategic buyers are active but careful

What Buyers Are Looking For

- Tuck-ins with positive EBITDA (private equity)
- Transformational recaps (private equity)
- Small IP acquisitions with a laser focus (strategics)
- Consolidation (market leaders)
- Growth (everyone)
- Recurring revenue (everyone)

SaaS – Investor/Buyers' View - Pros

- SaaS is hot business model
- Growth potential is high (22% CAGR)
- Up to date technology
- Predictability of recurring revenue
- Cost efficiencies at scale
- Long term profitability

SaaS – Investor/Buyers' View - Cons

- Few pure-play SaaS deals available
- Technology may not be state of art
- Many opportunities are small
- Subscription model slows revenue buildup
- Valuation expectations may be high
- Will need to compete for a deal

Adapting to a Downturn

Important: Buyers will quickly establish whether your company has adapted to the market downturn

- Is your product properly positioned?
- Is your sales process appropriate for the current market?
- Is your cost structure realistic?
- Have you killed the future to make the quarter?
- Are customers weeding you out?
- Does the market perceive that you will survive or fail?

Preserving and Enhancing Value

Managing in a downturn

1. Using technology and telepresence to increase communications

- Travel budgets are cut to the bone
- Cisco exec: “I have flown 20% of the miles I flew last year, but have tripled my interaction with customers, vendors and my team.”
- Smart use of web conferencing and video conferencing results in more communications because it is efficient, with no down time.

2. Creative and flexible revenue relationships with customers

- Term licenses with mandatory renewals rather than perpetual licenses
- Higher revenue per sale, but less revenue up front
- If the customer can't get lease financing, the vendor can grant it directly

Preserving and Enhancing Value

3. Cut marginal people, hire first-class people

- Smart companies are recruiting for high profile positions
- Flight to quality; good people are seeking more than just salary

4. Establish KPIs for employees who achieve the strategic goal of maximizing profits

- Quote from local startup CEO: “We challenged the whole company to increase our profit margin. The result was web designers experimenting with the size of buttons to maximize our subscription rate.”
- One client challenged the team to pay down two million in debt over three years, and bonused them for achieving the goal.

Preserving and Enhancing Value

5. Understand your financial limitations

- Look for funding in advance of needing additional capital
- Know where your current investors stand, and what their pain level is

6. Keep your foot on the gas

- As CEO you should be actively involved in the sales process
- Expand sales and distribution reach by adding partners
- Build your marketing engine anyway you can

...Everyone's in sales

Summary

- This downturn will kill companies
 - Stress test your forecast, hoard cash and take action
- Decisive, pragmatic consolidation is good for everyone
 - Buyers set stage for growth, competitive advantage
 - Beware bargain hunting paralysis
 - Sellers position products/companies for long term success
- In a downturn, corporate development eclipses R&D in importance
- The world is flat
- Adapt... Consolidate... and (eventually) Thrive
M&A is not the end – it is a new beginning

Summation...

“If you can't survive the hard times, sell out early. Once you are in financial distress you will have no bargaining power at all.”

The McKinsey Quarterly
December 2008

Corum M&A Briefing

2008 Review / 2009 Forecast

Report Highlights

Technology market overview

Current view on economy, top buyers, active sectors

Strategic buyer spotlight

Electronic Arts

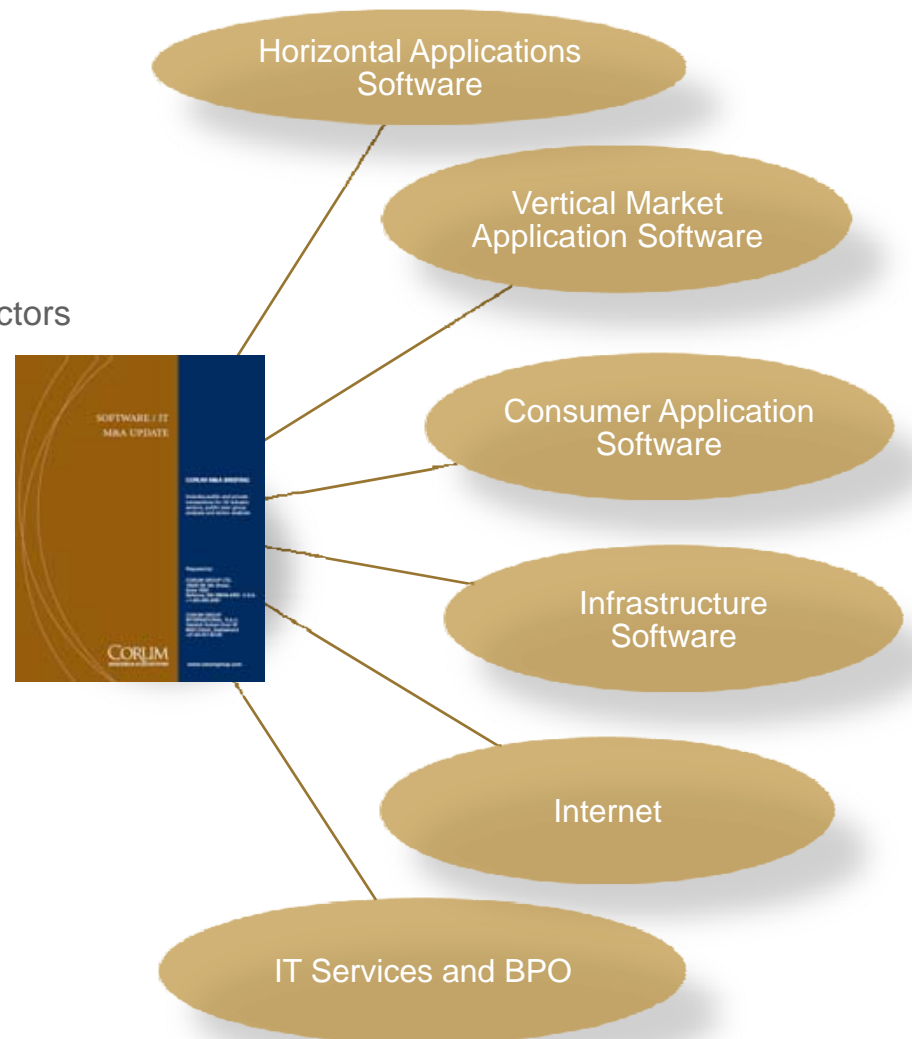
Technology Spotlight

Social Networking, Cloud Computing, Green-IT, Web-Oriented Architectures, and more

Valuation data

International perspective on M&A

In-depth sector coverage



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