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2011 Technology Outlook: A Call to Action

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Providing Technology M&A and Financing Advisory Services on a Global Scale

CedarCrestone
has been acquired by
Golden Gate Capital

Dextrys
has divested certain assets to
Eliassen Group

Navigation capital partners
has acquired
LEPService

Navigation capital partners
has acquired
TeamSTS Specialized Technical Services

Hitachi Consulting
has acquired
edenbrook

Telvent
has acquired
dtn

Okere Client Management Solutions
has been acquired by
FUJITSU CONSULTING
Fujitsu

Hitachi Consulting
has acquired
Impact Plus Business & Technology Consultants

Optura
has been acquired by
Open Text Corporation

Babel
has obtained a majority investment from
Quatrro Beyond the existing
D E Shaw & Co

cedar
has merged with
Crestone International

Palladium Executing Strategy
has divested certain assets to
Alvarez & Marsal

Hitachi Consulting
has acquired
iteration2

Telvent
has acquired
caseta

CedarCrestone
has acquired
E2E consulting

ProActivity
has been acquired by
EMC²

AEP systems
has merged with
Netilla

applabs technologies
has acquired
IS integration

MediaAmerica, Inc.
has been acquired by
Jones International Networks Ltd

Kodak
has divested certain assets to
Rohm Haas

We look forward to learning more about your business and discussing how TM Capital can help your company achieve its strategic and financial objectives. For more information about TM Capital's technology intelligence and M&A and financing capabilities, visit www.tmcapital.com or contact our Technology Practice Group.

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Introduction

Over the past 20 years, TM Capital has provided M&A and financing advice to hundreds of clients in the technology industry. We have rarely seen as many of the key pieces in place, as we see today, for investors to adjust their ownership through M&A or recapitalizations. This 2011 outlook piece is a call to action for our clients and friends of the firm. If you have been sitting on the sidelines over the past two years, we can say unequivocally that it is time to adjust your thinking and begin assessing the opportunities that we see developing in the marketplace.

In the following report, we review the trends that have brought us to this point, and then zero in on some of the key drivers that will stimulate activity throughout the upcoming year. These are the mega drivers which we believe will lead to 2011 being an incredibly active year for technology M&A and financing activity. Finally, we will explore the IT Services, Enterprise Software, Digital Media and Intelligent Infrastructure sectors - areas in which TM Capital has an inordinate amount of expertise, and where we expect robust levels of growth and deal flow to continue.

Murray Beach, Head of Technology Investment Banking

2011 Drivers

TM Capital forecasts that 2011 will be an outstanding year for technology M&A. There are five specific drivers that have emerged, all of which are priming the pipeline of potential transactions:

1. The large-cap and mid-cap strategic players in the technology industry are becoming more heavily dependent on M&A as a gateway to growth in an economy which will continue to grow modestly.
2. Traditional private equity investors are demonstrating increased interest in acquiring platform companies. While most private equity firms have historically tended to shy away from technology, we have observed a strong upswing in activity and appetite from traditional players, as well as some of the well healed, “spin-out” funds.
3. The lending market is easing considerably. Debt is readily available for funding acquisitions and recapitalizations of mature, well performing companies. Financing availability is an instrumental benefit to both strategic and financial acquirors, and is driving down the cost of capital.
4. Valuation multiples have recovered to pre-recession levels and most sellers are not requiring unreasonable premiums. Having survived the past two years, most owners are realistic with respect to their valuation expectations, thus allowing for successful processes.
5. International technology acquirors are returning to the US market. We see a strong increase in activity from Indian and Chinese buyers. We are also predicting a solid recovery in the European technology industry, which will result in more cross-border activity from that region.

In addition to these five mega drivers, which will impact all sectors of the technology industry, there are two distinct developments that will fundamentally change the business models for the larger industry incumbents. The first of these is the overwhelming proliferation of intelligent mobile devices. This phenomenon, which began several years ago, is permanently changing the manner in which corporations are connecting to their customers and employees. Ubiquitous high-speed access, and the ability for users to be completely untethered from their workplace, have fostered an explosion in demand for new user functionality. These two changes are impacting all of the subsectors of the technology market, facilitating demand for new architectures, new applications and revamped infrastructure.

Our Technology Group here at TM Capital is poised for a banner year in 2011. We have a healthy roster of active engagements spanning M&A assignments and financing work, and our pipeline has never been stronger. We can feel the momentum building in every category we actively track. It is clear that companies are thinking strategically and acting aggressively. As a result, we expect deal activity to top 2007 levels. We’re looking forward to meeting with each and every one of our industry relationships in 2011 to compare notes and find ways to capitalize on this strengthening market.

IT Services

The IT Services market has weathered the storm that wrought the industry landscape in 2009 and has now moved definitively into calmer waters with increasingly attractive fundamentals. The improved economic climate, continued globalization of businesses and the widespread call for new technology investment geared towards process efficiency, corporate regulation and data-driven decision making, have all had a positive impact on spending trends and have set the industry up for entrance into a new, sustainable growth cycle.

Sector M&A activity has also substantially accelerated and acquirors are more aggressive and forward thinking. Looking ahead, deal volumes should continue to steadily climb, outstripping the monthly tallies of 2010 by a wide margin (average monthly deal volume in 2010 was ~54 transactions).

While this rising tide should lift the broader services industry, we are expecting to see a tremendous amount of global M&A activity around several key sub-sectors in 2011. These include:

Global Delivery and Offshore Services: For a long time, global delivery capabilities have been a "nice to have" component of the technology services business model. Traditional ITO and BPO services could be driven to offshore resources, but project-based systems integration and consulting engagements were required to remain on-site. The latest recession forced companies of all profiles, and across all industries, to reconsider their position on outsourcing and offshoring in light of short budgets and long project lists.

Cloud Services: Cloud computing continues to be all the rage, and for good reason. It's hard to argue that cloud computing will not play a critical role in the evolution of technology delivery and IT infrastructure. However, before we can achieve this utopian cloud IT state, companies will need to invest a significant amount of time, capital and resources in preparing their infrastructure, network, data assets and people for this transition. This will be a complex undertaking for management teams and should create a lucrative opportunity for services players that possess the expertise necessary to shepherd platforms towards the cloud environment. Strangely, the large SIs lag behind many of their smaller competitors in cloud capabilities and, as a result, we expect a heavy amount of M&A in this arena in 2011 as the "big guys" race to create critical mass. Their attention will be focused on both cloud infrastructure services and cloud application capabilities.

Business Intelligence, CPM and Analytics Services: A third area where we expect heavy market demand and consolidation in 2011 is the business intelligence and analytics services space. Today, management teams are facing the impossible task of synthesizing terabytes of data in order to make sound strategic decisions. These decisions impact all facets of business, including profits, sales execution, supply chain efficiency and corporate compliance. As a result, harnessing voluminous information assets and delivering real-time intelligence to managers looking for enhanced, data-driven decision-making is a "top three" priority for CIO and CTOs.

TM Capital's IT Services M&A Winners

NTT Data	• Most aggressive ITS player • Made multiple strategic moves in 2010, including Intelligroup, Keane, Chelford and Dimension Data
CSC	• Active consolidator on government/defense front • Created differentiation in DoD offering, cybersecurity and C4ISR arenas
Atos Origin	• Purchase of Siemens IT Solutions platform dramatically changes the landscape in Europe
Capgemini	• Acquisitive in all geographies • Acquisition of CPM Braxis gives Cap a leading footprint in South America
PwC	• Most aggressive mover in 2010 amongst the "Big 4" • Acquisition of Diamond provides strong upstream CRM and strategy execution services

Source: TM Capital, Capital IQ

TM Capital's 2011 Predictions - ITS Movers & Shakers

Cognizant	• Has opportunity to create differentiation from other "I5" competitors with upstream capabilities
CGI	• Needs to follow up on Stanley acquisition with substantial move in the US commercial space
KPMG	• Strong 2010 campaign needs to be bolstered by M&A in 2011
hiSoft	• Has opportunity to establish China offshore business model; needs to add bulk to on-shore resources and has cash available to do it
Deloitte.	• Unusually quiet 2010; needs to continue to consolidate core markets to maintain position
Perficient	• Needs to add critical mass or it will lack the firepower to compete against its larger, more diverse peers
ciber	• Needs to more firmly establish its presence as a global SI; M&A is the only way to do this for Ciber

Source: TM Capital, Capital IQ

Enterprise Software

As the enterprise software M&A market emerged from a thawing cycle in 2010, it became clear that strategic acquirors had several areas of “pent up” acquisition interest. These technology genres included cloud infrastructure, analytical data warehousing, web content management and GRC software. Commoditization and hyper-competitive markets are forcing industry bellwethers to evolve into software conglomerates that address customer requirements across heterogeneous server, database, storage, security and application environments, as well as the front end analytics and process automation tools required to better leverage these investments. As strategies have evolved, there has been a single unwavering constant – industry incumbents continue to build out suites that encompass all of the foundational components required to create product differentiation and pricing leverage.

In the nascent phases of 2011, it is clear that M&A activity will continue to change the complexion of the industry for the foreseeable future. The notable difference, however, is that a new set of high growth software categories are emerging. These categories are characterized by lucrative growth trajectories and severe fragmentation – two traits that inevitably lead to M&A activity. We briefly describe these sectors below:

Most Active Acquirors since 2006 in Marketing Automation

Acquirer	No. of Acquisitions
Yahoo!	10
Acxiom	6
Alterian	5
Google	5
Oracle	5
Salesforce.com	5
DoubleClick	4
Omniture	4
Responsys	4
Unica	4
Adobe	3
IBM	3
Microsoft	3
Open Text	3
Autonomy	2
SAS	2
EMC	1
Teradata	1

Source: TM Capital, Capital IQ

Select 2010 M&A Activity in Marketing Automation

Target	Acquiror	Segment
aprimo	Teradata	• Marketing Automation Platform
nimblefish	RR Donnelley	• Marketing Analytics Software
loyalty lab	TIBCO	• Loyalty Management Software
atg	Oracle	• Marketing Analytics and e-Commerce
Intrepid	Alterian	• Social Media Analytics
unica	IBM	• Marketing Automation Platform
Coremetrics	IBM	• Web Analytics Software
Portrait Software	Pitney Bowes	• Marketing Analytics Software
invitemedia	Google	• Ad Optimization Software
godigital	Acxiom	• Marketing Data Quality Management
Market2Lead	Oracle	• Lead Management Software
cotweet	ExactTarget	• Social Media Marketing

Source: TM Capital, Capital IQ

SharePoint Ecosystems: SharePoint has emerged as the next frontier for unstructured data management investment. Industry analysts expect the installed bases of Microsoft Office SharePoint Server (MOSS) and Windows SharePoint Services (WSS) to grow at a CAGR of 31% and 11%, respectively, from 2010 to 2014. Fueling this explosion is the growth of file data generated directly by knowledge workers. IDC estimates that unstructured data is growing at a CAGR of 62%, vs. 22% for transactional (structured) data. The mainstream adoption of SharePoint has created an expansive ecosystem of vendors whose strategies are to leverage composite applications that extend, or enhance, the platform. We have met with dozens of vendors that provide analytics, process management, e-discovery, compliance or data movement for the SharePoint environment. From a growth perspective, these vendors are substantially outpacing the rest of the marketplace.

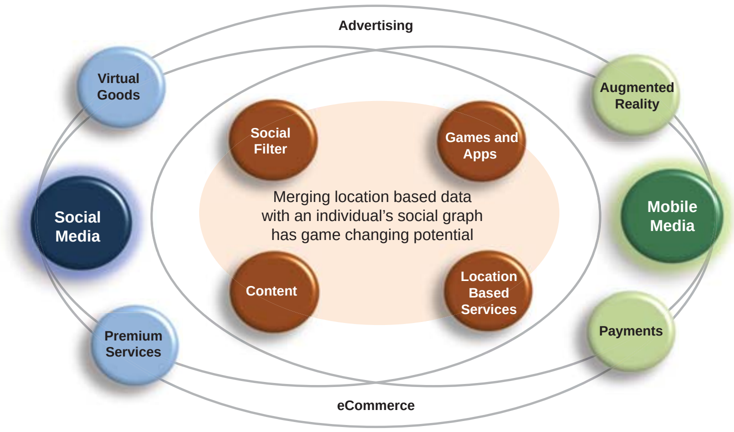
Marketing Automation: The marketing automation software sector is one of the fastest growing segments of the IT world – one that shows no signs of abatement as the global economy enters its next growth cycle. The advent of Web 2.0, cloud computing and “new media” outlets have initiated viral demand for technologies that automate marketing processes. These dynamics have created a tailwind for the space, which is growing at an annual rate of more than 20% and is forecasted to continue to do so for the next five years. These trends have attracted the attention of both the private equity community and the larger enterprise software competitors, many of whom are jockeying for position and placing their bets.

Customer Interaction, Web Analytics and Social Media Monitoring: IBM’s acquisitions of Unica and CoreMetrics, coupled with Adobe’s acquisitions of Day Software and Omniture, are indicative of a more expansive trend that we expect to unfold in 2011. Enterprise software vendors are evolving from a mindset of “make customers more efficient” to one of “help our customers grow”. As part of this initiative, we expect a surge in demand for technologies that collect actionable data in social computing environments, monitor web behavior and provide a relevant, customized web experience for prospective customers. These technology categories present natural points of synergy with the more traditional digital media world, a dynamic that we unequivocally believe will facilitate transaction activity in 2011.

Digital Media

In 2011, the digital media sector will remain among the most active technology segments for both M&A activity and for robust, outsized multiples. Strategic acquisitions are now in full force as acquirors seek to achieve scale, boost market share, build out their geographic presence and extend their product portfolios. Similarly, the volume of investment inflows into the digital media domain will outpace 2010 figures and will come from both the strategic and venture capital community. Internet bellwethers and traditional media companies alike have reinvigorated their minority investment initiatives and are regular participants in growth funding rounds. In the digital media space, we envision several themes that will characterize M&A and investment activity in 2011.

The Converging Worlds of Social and Mobile Media



Source: TM Capital

Social and Mobile Media are Converging: Perhaps the greatest potential in the digital media sector is the convergence of the social and mobile domains. As discussed in TM Capital's *Digital Media Spotlight: Monetizing Social and Mobile Media*, there is an important symbiotic relationship between the two sectors as mobile platforms displace computers as the dominant social media access point. While nascent, there are also signs of technology enablement in the social/mobile sector that will have a meaningful impact on both users and advertisers. For example, the ability to mine an individual's social data (such as biographical information, network connections, social graph/interests, tweets, etc.) and pair this with location based data provides a new level of targeted data and advertising opportunities. Leveraging the social and mobile domain will enable brands and advertisers to create a high-touch, intimately customized relationship on a very large scale. Ultimately, the pairing of mobile localization technology with social data will prove to be a game-changing evolution in the digital media sector.

Digital Media is Global: International acquisitions in the digital media sector are on the rise and will be particularly well represented in the coming year. Cross border deals yield immediate market access and provide acquirors with local talent and know-how. For example, Groupon, which spurned a $6 billion offer from Google, has focused on geographic expansion through acquisition. The company began with the purchase of German-based City Deal, Chilean-based ClanDescuento and Russian-based Darberry in order to establish beachheads in several key end user geographies. In December 2010, Groupon expanded into four more countries in Asia with the purchase of additional regional strongholds, uBuyiBuy, Beeconomic and Atlaspost, which serve Hong Kong, Singapore, the Philippines and Taiwan.

Similarly, international players are making US based acquisitions to help penetrate the attractive North American market. For example, DeNa Co., one of Japan's largest mobile social gaming companies, launched an aggressive global expansion campaign in 2010, acquiring multiple US-based game developers in an attempt to grow its platform content and translate its success overseas. This strategy was showcased in the October 2010 acquisition of US-based Ngmoco for $400 million.

Private Equity Joins the Hunt: While significant venture dollars have flowed into digital media, industry observers have questioned whether larger private equity buyout shops would follow suit. Private equity is increasingly eyeing the digital media domain, but will most likely stay focused on more established players with recurring revenue streams. For example, in September 2010, Hellman and Friedman acquired Internet Brands for $587 million, representing a 5.5x LTM revenue multiple and a 14.5x LTM EBITDA multiple. More recently, rumors have circulated that Blackstone Group and Silver Lake are contemplating a takeover of Yahoo. In this case, the private equity buyers were believed to be teaming with rival AOL. Increased partnering between the financial and strategic community on M&A transactions will likely expand in 2011, particularly on larger deals where scale is of critical importance. We believe that private equity will continue to delve deeper into the digital media space searching for established brands that generate significant cash flows.

Show Me the Data: As retailers and brands seek to navigate the digital media domain – especially the social and mobile sectors – consulting and marketing opportunities abound. While large consultancies and marketing agencies are continuing to develop social/mobile media capabilities, many niche service businesses have emerged. Similarly, analytic services, which comb through the enormous volumes of statistically rich social data, are garnering attention. As companies and brands continue to search for user-generated content and commentary around social media outlets, vendors that provide consulting, analytics and reporting will be increasingly popular M&A targets.

Intelligent Infrastructure

We believe that 2011 will be a break-out year for the Intelligent Infrastructure industry as many of the technologies and services that have been introduced across the industry during the past two years will begin to generate momentum. There will be considerable consolidation activity in the industry as some of the larger, more established players look to add capabilities and accelerate growth with acquisitions of smaller solutions providers that have proven the viability of their offerings. Specifically, we have been tracking the following three sectors:

Smart Grid Solutions and Services: Given the substantial investment required to build additional power plants, and the prohibitive costs of alternative and renewable energy, there has been a colossal focus on more efficiently managing existing energy usage. Until now, this has been daunting as the architecture and infrastructure required to efficiently manage energy usage has been extensively deployed. The stimulus funding from the American Recovery and Reinvestment Act was designed to incentivize utilities to purchase and implement smart grid related technologies. While funds were slow to trickle down to the utilities and the vendors who sell to them, the dynamics are now changing.

The big winner (so far) from a technology perspective has been the providers of Advanced Meter Infrastructure (AMI) and Automated Meter Reading (AMR) solutions and services. Most utilities have begun swapping out their legacy, mechanical meters for newer AMI/AMR solutions and, as a result, have been able to reduce the costs of meter reading by eliminating the manual component of that process and providing more accurate meter reads to their customers. Based on conversations with multiple players in the industry, we expect this adoption to accelerate well beyond 2011.

Venture capital funding in the Smart Grid sector was robust in 2010 as emerging smart grid technology companies raised almost $800 million in capital. While this level of interest is a positive sign in that it demonstrates the perceived opportunity in the sector, we believe that there has been too much funding for the space and that not all of these companies will be able to survive on their own. In many cases, the traction generated by these venture-backed smart grid technology companies has not kept pace with the capital that has been invested. We expect this trend to drive consolidation in 2011.

Intelligent Transportation Systems: The need to inject technology into the aging US transportation infrastructure is immense. As the economy improves and state budgets rebound, we expect spending to accelerate for intelligent systems designed to manage the transportation network. Globally, many of the international infrastructure development projects that are being awarded today, particularly in emerging economies, incorporate modern intelligent transportation systems. These projects offer remarkable opportunities for solution providers with global delivery capabilities and world class technologies. Overall, this sector remains extremely fragmented in the US. We believe the need to diversify solution offerings and generate growth opportunities will motivate some of the larger acquirors in this space in 2011. Moreover, private equity acquirors who believe in the macro thesis that something must be done about the antiquated infrastructure in the US will find the Intelligent Transportation Systems sector compelling.

Fleet Management Systems: The fleet management systems sector consists of a number of overlapping and competing technologies. Most fleet management systems include elements of telematics, mobile workforce and asset management technology, supply chain and logistics technology, location based services and transportation management systems. Accordingly, the sector is hyper-competitive, and differentiating solutions can be confusing for customers.

We divide the sector into two camps – commercial and public sector. The commercial camp includes vendors that sell solutions primarily to the trucking/transportation industry – "inside the cab" – while the public sector camp includes vendors that are focused on serving predominantly transit customers – buses, paratransit and municipal vehicles. In 2011, we expect to see an increase in consolidation within the Fleet Management Systems space on the commercial side with the transportation management systems providers being the primary acquirors in this area. In the public sector, we expect to see some convergence between the fleet management systems sector and the Intelligent Transportation Systems category as some of the more traffic-oriented ITS vendors look to broaden their capabilities and expand into the public transit area.

TM Capital Corp. is an independent investment banking firm based in New York, Boston and Atlanta, which has completed over 200 mergers, acquisitions and financings with a combined value of $12 billion. Since 1989, TM Capital has advised clients navigating a wide range of complex mergers, acquisitions, financings, restructurings, and other critical strategic and financial transactions. We have built deep industry expertise in key sectors and our team regularly publishes research highlighting current and emerging trends in targeted industries and markets. TM Capital is a member firm of M&A International Inc., the world's leading alliance of mid-market investment banks with over 500 professionals in 45 offices spanning 40 countries. In 2009, member firms closed 224 transactions worth more than $20.4 billion. For more information, visit www.tmcapital.com.

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