

HCL Technologies Counters the Infosys Offer for Axon Group

Leading Offshore Firms in Bidding War for Largest Remaining Pure-Play SAP Services Provider

On September 26th, HCL Technologies Ltd. (BSE: 532281) announced that it has made an all-cash offer for Axon Group plc (LSE:AXO) of £6.50 per share, a premium of 8.3% over the £6.00 per share offer announced by Infosys Technologies Ltd. (BSE: 500209) one month ago. This counter offer, with a total transaction value of £441.1 million (\$810.8 million), creates a unique, competitive bidding scenario between two leading Indian offshore IT services firms aiming to acquire the last remaining pure-play SAP services provider of scale in the marketplace.

Competitive Situation Highlights the Value of Axon

HCL's willingness to enter a competitive bidding scenario emphasizes the strategic importance and scarcity of an asset like Axon within the IT services market. As we discussed in our last *Deal Spotlight* (www.tmcapital.com/research), SAP consultants are in very high demand and SAP-focused consultancies have been acquired at a rapid pace over the last several quarters. Axon is the largest remaining pure-play SAP services provider with over \$400 million in revenue, a level of scale more than double that of any competitor. For HCL to trump the largest offer ever put forth by one of the Indian offshore leaders for a traditional on-site consultancy speaks to the attractiveness of Axon's value proposition and the lack of similar M&A alternatives available in the market.

Important for Infosys; Transformational for HCL Technologies

As we also mentioned in the last edition of the *Deal Spotlight*, we expected that the Infosys offer for Axon would spur increased M&A activity among other leading Indian offshore firms in the near future. HCL Technologies has validated this thesis emphatically. The company has an established relationship with Axon and the two organizations have jointly collaborated on engagements that complement each other's core service offerings. Accordingly, HCL was rumored in the Indian media to be

Offer Comparison - Key Statistics		
	Infosys	HCL Tech
Price per Share	£6.00	£6.50
Total Transaction Value (in millions)	\$751.1 (£407.1)	\$810.8 (£441.1)
Announced Date	8/25/08	9/26/08
Premium Over Share Price on 7/25/08	32.4%	43.4%
Consideration	All Cash	All Cash
Implied Enterprise Value / LTM Revenue Multiple	1.7x	1.8x
Implied Enterprise Value / LTM EBITDA Multiple	10.4x	11.3x

Source: Capital IQ and company press releases
Currency conversion as of 9/26/08 - 1.845GBP : 1USD

considering this counterproposal over the last few weeks. Despite these rumors, the company has never completed a deal of this magnitude and is a somewhat surprising player to create a competitive bidding situation for a target that would create transformational change within its organization.

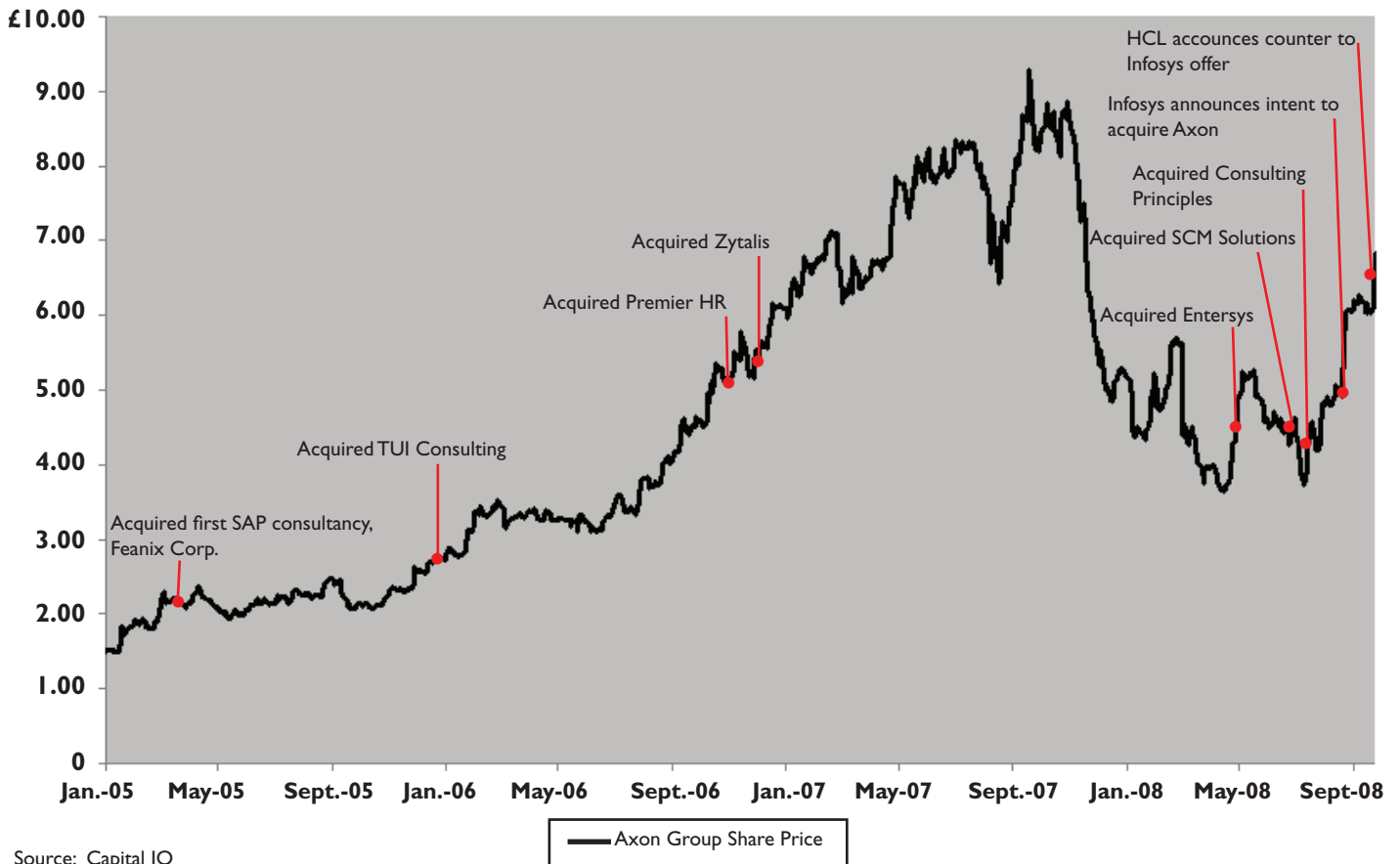
Infosys' existing SAP services practice generates \$1 billion in revenue on an annual basis and consistently receives positive reviews from analyst firms, such as Forrester Research and Gartner, for its Enterprise Resource Planning (ERP) implementation and integration services. Acquiring Axon would help the company cement its capabilities in this area and more effectively compete with global market leaders, such as Accenture and IBM Global Services. HCL, conversely, generates \$150 million from its existing SAP services practice and is more consis-

tently viewed as a "challenger" than a "leader" in the market for ERP application services. With the successful acquisition of Axon, HCL would more than triple the size of its SAP services practice and build a foundation of on-site resources in Europe that would help the company transition from its position as an Indian process-focused outsourcer to a well-rounded global consultancy. The deal represents a leap for HCL and could potentially redefine the company's place in the IT services competitive landscape.

Turmoil in the Credit Market Complicates the Transaction

Infosys carries \$1.8 billion of cash on its balance sheet, a significant portion of which would be used

Axon Group's Indexed Stock Performance Analysis



to finance the acquisition of Axon. HCL, however, does not possess a similar war chest and plans to finance this acquisition with debt. The company has secured a £400 million loan commitment from Standard Chartered Bank, a sizable loan within the context of today's unstable credit markets. While it does not appear that HCL's offer contains any financing contingencies, the company's ability to obtain this funding is a risk factor in its plan to eventually complete this transaction. Axon's shareholders will weigh this uncertainty with the ultimate purchase price as it evaluates these offers and any further counterproposals that may come in the following weeks. It is interesting to note that Axon's Board granted HCL an inducement contract that entitles it to receive 1.0% of the final transaction value if it fails to acquire Axon. It is clear that the Board wanted HCL at the table and that they believe HCL is a serious bidder that could potentially pay a higher value than Infosys.

What Happens Next

This situation is clearly fluid and we expect to see more bidding activity over the next few weeks. We believe that Infosys is likely to come back with a revised proposal that exceeds the offer most recently put forth by HCL. We also believe that this competition is likely to remain a "two horse race". Axon is an attractive target that would be desirable for many potential buyers, but we believe that Infosys and HCL are the two players which have de-

veloped an appropriate level of familiarity with the opportunity and have invested the time and money to continue pursuit. Any additional acquirors not involved in the discussions to date would be reluctant to invest themselves in a competitive process where the valuation range is beginning to push the upper bounds of what is reasonable given the strategic nature of the opportunity.

Despite reaching implied transaction multiples of more than 11x LTM EBITDA, Axon is an incredibly strategic property for which well-capitalized players should be willing to pay a premium. The winner of this bidding process will have acquired a unique asset that will significantly strengthen its competitive positioning in the SAP marketplace.

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New York

One Battery Park Plaza
24th Floor
New York, NY 10004

Boston

100 Lowder Brook Drive
Suite 1400
Westwood, MA 02090

Atlanta

Fifteen Piedmont Center NE
Suite 1010
Atlanta, GA 30305



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www.tmcapital.com