

IT Professional Services M&A Update

March 2004

UPDATE CAPITAL

IT Services 2003 Review

Udata tracks 69 commercial IT services firms grouped into 6 subsectors whose equity market performance is highlighted at right. Almost every subsector outperformed the NASDAQ in 2003, reversing a trend of several rough years. Interestingly, the sectors that performed best were those hardest hit during the recession, on belief that pent-up demand will release backlogged spending at higher rates than

IT Services						
Year-End Net Enterprise Value Mean Multiples and Revenue Growth Rates (a)						
IT Services Subsectors:	Forward Revenue (b)		Forward EBIT (b)		Y/Y Rev Growth Rate	Share Price % of 52 Week High
	2003	2004	2003	2004	2003/2002	
	Systems Integrators	1.0x	1.0x	17.6x	11.5x	3.0%
IT Outsourcers	1.4x	1.3x	10.2x	8.3x	14.7%	94.5%
IT Consultancies	2.3x	2.1x	18.9x	39.1x	14.4%	86.5%
IT Staffing	0.4x	0.4x	10.0x	12.9x	5.4%	85.8%
Vertical Consultancies	1.9x	1.9x	19.8x	12.5x	12.1%	84.8%
Offshore Consulting	8.4x	6.1x	30.5x	26.0x	61.9%	78.6%

(a) Net Enterprise Value equals market value less cash, plus debt and preferred obligations
(b) Multiples for 2003 are based on expected results

overall economic growth. Trading multiples for the systems integrators and the vertically-aligned consultancies more than doubled year-over-year, while trading multiples for the high-end IT consultancies quadrupled. What these sectors have in common are business models with the least commoditization from a client perspective, fusing technology, broad delivery capabilities and domain knowledge. The index of high-end consultancies in particular, now comprised post-shakeout of a reduced number of stronger firms, saw its market value rise 157% during the year. The index of offshore consultancies was the second-best performer, rising on average 74% during the year. The offshore firms trade at revenue multiples far in excess of most sectors, technology or otherwise, driven directly by their profit and growth. All IT services subsectors experienced year-over-year revenue growth, contrasted with 2002 when almost every sector shrank or remained flat. While recent quarters show a continuation of this important trend, recession-wizened customers continue to demand price concessions and competitive bidding, and competition is as intense as it has ever been. Furthermore, with customers continuing to pare their vendors lists, bigger remains better.

Top 2003 IT Services M&A Transactions by Deal Value						
Closing Date	Seller	Buyer	Enterprise Value (\$MM's)	LTM Revenue (\$MM's)	Multiple of Revenue	
01/30/04	IT services ops of SchlumbergerSema	ATOS Origin	\$ 1,590.0	\$ 2,680.0	0.6x	
Pending	Transciel SA	CGE&Y	523.0	616.6	0.8x	
02/25/03	Cognicase	CGI Group	215.5	336.2	0.6x	
08/01/03	Lockheed Martin (commercial)	Affiliated Computer Svcs	107.0	300.0	0.4x	
01/07/04	Patient Accounting Services Center	Affiliated Computer Svcs	94.0	68.0	1.4x	
01/12/04	Feld Group	EDS	89.0	ND	ND	
11/20/03	Ki Consulting & Solutions	TietoEnator	87.0	107.0	0.8x	
10/27/03	SCB Computer Technology	Ciber	80.4	107.6	0.7x	
07/31/03	APAR Infotech	Ness Technologies	78.0	85.0	0.9x	
Pending	Hall Kinion	Kforce	71.2	162.0	0.4x	

While sector IPO financing activity was non-existent other than few government IT services issues, the volume of M&A activity remained robust. There were 49 M&A transactions involving visible IT services names in 2003 (compared with 47

such transactions in 2002), in addition to a host of smaller deals which did not hit most radar screens. These prominent deals represented a publicly disclosed \$3.3 billion in aggregate transaction value (down from \$9.6 billion in 2002) on \$6.2 billion of revenue acquired (down from \$15.2 billion in 2002). The table above highlights some of the largest deals closed or announced during 2003. The blockbuster deal of the year was clearly Schlumberger/Sema's divestiture of its extensive international IT services business, which was itself the product of Schlumberger's and Sema's many acquisitions over the last decade. The second biggest, largely intra-European, was Cap Gemini's acquisition of French Transciel.

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2004 Outlook

As public valuations in the IT services sectors rise, there will be a dual effect on consolidation trends. Public companies' stock is for the first time in many years a viable potential currency for acquisition strategies. On

the other hand, M&A transactions by services firms will be closely scrutinized by the investment community for faultless logic and synergy, and sector liquidity is certainly not going to be flush. We may also experience a widening of the valuation gap between buyers' and sellers' expectations. This gap, which had narrowed among private sellers and public buyers -- somewhat painfully -- in the distressed markets of 2002 and 2003, now confronts much healthier public multiples. Private sellers may be less willing to accept trailing, distressed-environment M&A multiples as valid proxies for their business valuations. We also expect cross-border M&A activity to remain strong, and in particular we look for some prominent pairings between Indian and U.S. firms.

Recent Selected Update IT Professional Services Transactions

ciber
has acquired
 SCB Computer Technology, Inc.
IT SERVICES

ciber
has acquired
FULL TILT
Services Division
IT SERVICES

JOULE
has completed a managed buyout
by
JAC Acquisition Company, Inc.
IT STAFFING
(pending)

PS Printing For Systems, Inc.
has been acquired by
 Metavante
IT OUTSOURCING

workknowledge
has acquired
 ALPHANET
LEARNING SOLUTIONS
TRAINING SERVICES

AMS
has acquired
VREDENBURG
GOVERNMENT
IT SERVICES

PREDICTIVE SYSTEMS
has been acquired by
 INS
NETWORK SERVICES

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UPDATA CAPITAL

Udata Capital, Inc. is a leading investment banking firm specializing in mergers and acquisitions for the information technology industry. Since its inception in 1987, Udata has managed over 375 mergers and acquisitions for software, IT services, e-commerce, infrastructure, telecommunications, e-services, and security firms, representing an aggregate value over \$10 billion.

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