

## Inside This Issue

	<u>Page</u>
Overview	1
Top 10 M&A Deals	2
IT Staffing	2
Fed Gov't Svcs	3
Systems Integrators	3
IT Outsourcing	3
eConsulting	3
Vertical Consulting	4
News Briefs	4
Upcoming Events	5

Updata Capital, Inc.  
[www.updata.com](http://www.updata.com)

### New Jersey Office:

125 Half Mile Road  
Suite 201  
Red Bank, NJ 07701  
(732) 945-1000

\*\*\*\*\*

### Virginia Office:

2100 Reston Parkway  
Suite 430  
Reston, VA 20191  
(703) 736-0020

## Stabilization.....

In 2002 well over \$500 billion was spent on information technology services worldwide, of which the U.S. accounted for somewhat less than half or \$250+ billion. To put that in perspective, the total U.S market for air transportation is \$126 billion, and the total revenue generated by the entire legal industry is \$172 billion.<sup>(1)</sup> So despite the current pain which many IT service providers are feeling in the wake of the U.S. recession, IT services remain a vital and large part of the domestic economy. Anecdotal evidence from discussions with owners and managers of IT services companies suggests that pipelines are indeed solidifying and sales trends are up, albeit at very moderate rates. **Stabilization** is the recurring message in our current conversations: revenues are no longer dropping, even if they are flat or rising only nominally; and losses have been paired to breakeven or better by even the most hard-hit players through necessary and often dramatic right-sizing.

Last year, even in the face of depressed valuations in the sector and often shrinking revenue and profits, 2002 was a fascinating year for IT services M&A. Several prominent companies changed ownership and new beachheads were established by large services firms in new markets. One need only look at IBM's acquisition of PwC Consulting to see that providers are being driven to consolidate in tandem with consolidation among their clients. As

buyers of IT services combine and grow ever-larger, vendors feel compelled to offer one-stop technology services, from the highest-end planning and architecting, to development, deployment, and post-production support. Client engagements have become increasingly large and long-term, often requiring heft and geographic scope to perform.

Post-bubble excess capacity, the economic downturn, shrinking vendor lists, and increasing competition from offshore delivery centers are coalescing into painful pricing pressures in today's environment. This has provoked large players and a handful of opportunistic names to grab market share and squeeze out costs through M&A strategies. Even after completion of several mega-deals (IBM/PwC, CSC/DynCorp, and horse-trading among the former "Big 5"), the IT services market remains remarkably fragmented, with no vendor owning more than 10% of total industry revenue. Like many maturing industries that have come before, the sector's consolidation is natural and inevitable.

As the table on the next page shows, in 2002 a number of prominent acquirers tapped into the market to take advantage of current low valuations. Seasoned acquirers such as CGI, Logica, and IBM decided to capitalize on their financial strength and market share by buying new service offerings in anticipation of handsome payouts when the economy turns upward.

<sup>(1)</sup> © 2003 BizStats.com

For more information contact:

**Michael Parent**  
Senior Vice President  
[mparent@updata.com](mailto:mparent@updata.com)

### Selected Updata IT Professional Services Transactions



**ciber**  
*has agreed to acquire*  
**ecs:soft**  
IT SERVICES  
(pending)



**imr:global**  
*has merged with*  
**CGI**  
IT OUTSOURCING



Certain assets of  
**RICHTER FAST LANE**  
*have been acquired by*  
**GFI**  
SYSTEMS INTEGRATION



The Technology Solution Group of  
**ACS**  
*has been acquired by*  
**tmp.worldwide**  
IT STAFFING

## Top 10 IT Services MA& Transactions

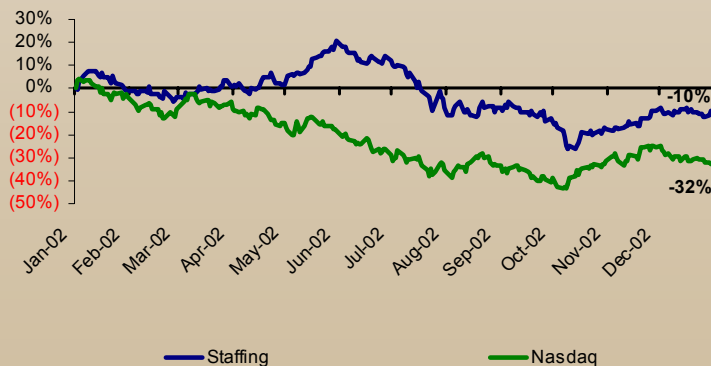
Date Closed	Seller	Buyer	Enterprise Value	LTM Revenue	Multiple of Revenue
10/02/02	PWC	IBM	3,500.0	4,900.0	0.7x
Pending	DynCorp	CSC	1,187.0	2,300.0	0.5x
12/30/02	CMG (UK)	Logica (UK)	1,147.0	1,450.4	0.8x
02/28/02	Alcatel (sub)	Platinum Equity Holdings	712.0	1,320.0	0.5x
08/20/02	KPMG Consulting Arms (UK/Dutch)	ATOS Origin	644.1	588.2	1.1x
08/23/02	Anderson Consulting	KPMG	384.0	1,400.0	0.3x
06/19/02	Thales Information Systems (France)	GFI (France)	315.5	460.7	0.7x
02/12/02	Liberata Plc	General Atlantic	240.0	174.0	1.4x
09/24/02	Signal Corp	Veridian	227.0	252.0	0.9x
09/30/02	Getronics Govt Solutions	DigitalNet/GTCR	224.0	380.0	0.6x

Many deals fell into the “platform” category, establishing or expanding the acquirer meaningfully in a new geographic market or line of business. Five of the ten largest deals above had cross-border objectives as significant drivers, a trend which is also visible among more mid-sized transactions. Premium valuations (higher than 1x revenue in today’s environment) often involved larger companies with excellent revenue and earnings visibility and/or a differentiating strategy such as an offshore delivery capacity. On the other hand, SBI set the pace for capitalizing on distressed situations by rolling up former high-flying Internet integrators Razorfish, Scient/iXL, and Lante/Luminant at tiny fractions (less than 0.2x revenue) of the valuations at which these integrators once traded.

In the main, whether at the high end or the low end, there remains a shortage of buyers as few find they have the currency or stomach to risk capital on acquisitions. Moreover, despite industry-specific drivers of consolidation, management and boards face tough challenges in persuading investors and analysts to support expenditures on acquisitions. The level of skepticism is high, and macroeconomics aside, integrating businesses where people are the key assets is a very tricky process. Many deals simply have not paid off, particularly those priced and signed during the high-flying 90’s. The ticket to premium valuation territory today is a company providing highly differentiated offerings with critical mass and proven value and a rock-solid backlog and pipeline. Commoditized providers, those with non-differentiated regional strategies, and those with weak visibility into the near future will find themselves struggling to exit, not to mention struggling for meaningful client engagements. What all deals have in common today is discipline and realism. Valuation expectations of sellers and buyers better reflect market realities, and while these expectations are still not perfectly aligned, they are more in sync today than at any time in the last two years.

**2002 Equity Performance Review:** Following poor performance in 2001, equity valuations among IT services companies continued to slide in 2002 as revenue and profit growth settled into significantly slowed ranges. Among the sector indexes on the following page, not one rose for the year, although several outperformed the NASDAQ composite. The best-performing index for the year was surprisingly the **staffing** companies which fell only 10%, although this group’s market valuations corrected painfully in the late 90’s and have failed to make up ground since then. The staffing sector shrank again in 2002 by an average 18%, although many staffing firms did manage to turn in a profit through headcount reductions. At a high level, companies in the sector are trading at 0.3x trailing revenue and 6.3x trailing EBITDA.

IT STAFFING vs NASDAQ COMPOSITE



## 2002 Equity Performance Review (continued)

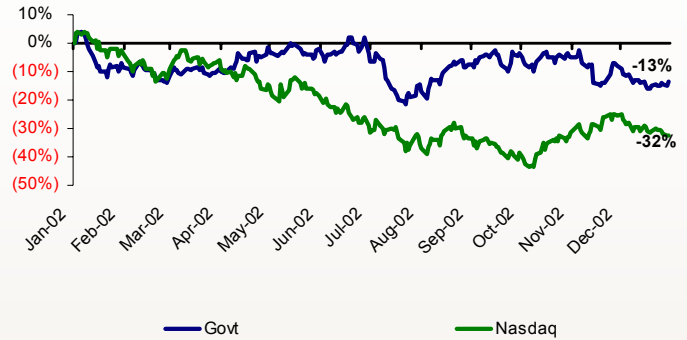
Perhaps unsurprisingly, the **government**-focused IT services firms beat the NASDAQ by a full 20%, although for the year the companies in the Updata Government Services Index fell 13% following their steep run-up of well-over 100% in 2001. Relative to their average growth rates of 20% and pre-tax margins of 10%, valuations of 1.2x revenue and 13.2x EBITDA are quite healthy by any measure and will provide companies in this sector with the currency to continue their acquisition strategies.

The **systems integrators** took a pummeling during 2002 as it became clear that the upturn awaited by many at the year's outset was not going to materialize. Sector giants BearingPoint and Cap Gemini E&Y grappled with frozen client IT budgets and project engagements which proved highly vulnerable to cost-containment among the Fortune 1000. On the other hand, more agile sector players like CIBER and Keane showed their optimism about the future through very targeted acquisitions to boost various initiatives, including their international capabilities. With revenue that fell 12% during the year, and 5% EBITDA margins, the sector's 0.5x revenue multiple and 9.1x EBITDA multiple actually looked quite robust at year-end.

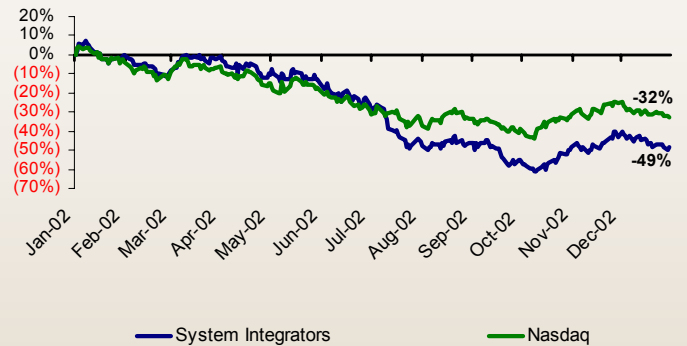
There were cracks in the facades of some of the most powerful global IT **outsourcers** during 2002, again a result of weak domestic and international economies, exacerbated by the woes of EDS's earnings missteps. Selling and signing large new deals became more difficult for these giants in 2002, and as a result the sector's equity valuations fell 21% during the year. However, performance by individual company varied dramatically, with Affiliated Computer Services, fast-growing off-shore Cognizant, and Canadian outsourcer CGI growing healthily during the year; while other like EDS, CSC and Accenture lumbered at best. While growth rates are slowing, the sector's revenue and profit visibility, and the scale of its players make it an attractive investment arena: multiples of 1.3x revenue and 8.6x EBITDA are the favorable result.

The index of eConsultancies, otherwise known as Internet Integrators, fell again in 2002 as several once-famed names hit rock bottom and sold out. Revenue among companies in the sector shrank more than 41% during 2002, while values in the sector as a whole dropped 53%. During the year, former publicly-traded players Viant, Lante, Scient, Luminant, Organic, and Razorfish/iXL all sold out, most to Salt Lake City-based SBI, for tiny fractions of their once-stratospheric multiples. The remaining companies in the sector trade at 0.5x trailing revenue and 4.9x trailing EBITDA.

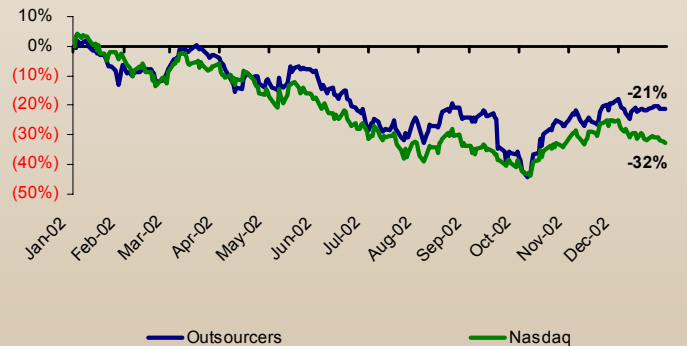
FEDERAL GOV'T SVCS vs NASDAQ COMPOSITE



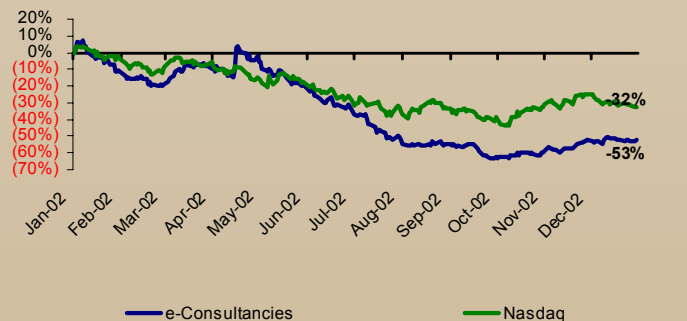
SYSTEMS INTEGRATORS vs NASDAQ COMPOSITE



IT OUTSOURCERS vs NASDAQ COMPOSITE



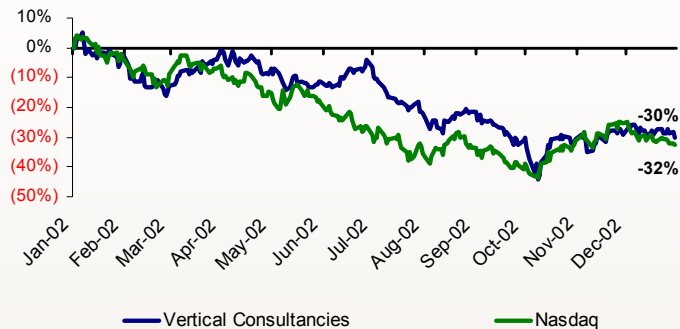
eCONSULTING vs NASDAQ COMPOSITE



## 2002 Equity Performance Review (continued)

The index of IT services consulting organizations focused on specific vertical industries dropped 30% in 2002, although with multiples at 0.9x trailing revenue and 8.4x trailing EBITDA, the sector looks well. One reason for this is that several companies in this index focus on verticals, including healthcare, energy and utilities, which are growing decently. On average, the vertically-focused consulting firms actually grew 7.6% in 2002 which is healthy by comparison to many other groups. This, coupled with solid EBITDA margins of 10%, proves that clients will pay for services of consultancies which truly understand their business models and can meld technology capabilities into that equation.

### VERTICAL CONSULTING vs NASDAQ COMPOSITE



## IT Services Industry News Briefs:

MONTREAL, January 3, 2003: **Cognicase Inc.** said it will recommend that shareholders accept an improved takeover offer from rival Montreal-based information technology services provider **CGI Group Inc.** Last December, CGI launched an unsolicited offer that, at the time, Cognicase Chief Executive Ronald Brisebois said did not reflect the company's growth potential and which Cognicase attempted to thwart. CGI's original offer was for 4.25 Canadian dollars (US\$2.70) cash or 0.5484 of a CGI Class A share -- or a combination of cash and stock -- for each Cognicase share held. CGI's improved offer is C\$4.50 a share in cash or 0.6311 of a share, or a combination of cash and stock, for each Cognicase share. Based on 63 million shares outstanding, the transaction is worth approximately \$283.5 million Canadian or US \$180 million. For the quarter ended 9/30/02, Cognicase had revenue of \$133 million, Canadian, or \$532 million Canadian on an annualized basis.

LONDON, December 30, 2002: **Logica** and **CMG** completed their merger, forming the third-largest IT services firm in Europe after Cap Gemini E&Y and Atos Origin. The transaction, which was structured as an all-stock merger, was valued at approximately £512 million (\$797 million), with Logica shareholders representing 60% of the combined equity and CMG shareholders representing 40% of the combined equity. Cor Stutterheim, the executive chairman of Anglo-Dutch firm CMG, will take up the non-executive chairman's role, with Logica chief Martin Read taking the chief executive post. The transaction, driven by efforts to gain economies of scale and cost savings, melds two large but culturally different organizations into a European powerhouse. Both companies' share prices fell significantly in 2002 as they warned of slowed sales. The new group had pro-forma revenues of £2.15 billion (\$3.35 billion) for the year ended June 30, 2002.

GREENWOOD VILLAGE, CO, December 16, 2002 – **CIBER, Inc.** today announced a cash offer for the shares of **ECsoft Group plc** that CIBER doesn't already own. CIBER's offer of 305 pence per share is a significant premium (over 100%) from where the stock was trading when CIBER announced its initial ownership position. ECsoft is an IT consultancy and systems integrator that specializes in the development and delivery of innovative mission-critical business solutions. With offices in the UK, the Netherlands and Scandinavia, ECSoft's customers include many of Europe's top 500 companies as well as government and public organizations. The business complements CIBER's Solution Partners operation in Europe and brings excellent leadership to CIBER at the country operational level, as well as very good consultants.

WAYNE, PA, December 14, 2002: **Safeguard Scientifics, Inc.**, a publicly-traded technology company that owns companies operating in software and IT services, announced the closing of its \$55 million cash acquisition of **Alliance Consulting**. Alliance, with revenue of approximately \$96 million, will serve as a platform for Safeguard's IT services business, which also includes **aligne Strategy** and **Lever8 Solutions**. The combined companies will have total revenue of \$110 million. Lever8 Solutions will merge under the Alliance banner to offer a broad range of digital intelligence services including application development, ERP implementation and integration and outsourcing services. The combined entity will boast a base of over 700 consultants and offices in eight major U.S. cities. Leveraging the Alliance platform, aligne Strategy will retain its brand and focus as a provider of IT strategy and outsourcing consulting to Fortune 500 companies.

## IT Services Industry News Briefs (continued)

EL SEGUNDO, CA, December 13, 2002: **Computer Sciences Corp.** said on Friday it would buy federal technology specialist **DynCorp** for about \$677 million to capitalize on higher government spending on computer services after the Sept. 11, 2001 attacks and to offset slow corporate technology spending. Under terms of the deal, shareholders of Reston, Virginia-based DynCorp will receive \$15 in cash and about \$43 in stock for each of their shares. CSC will also assume \$274 million in DynCorp debt. DynCorp specializes in managing computer networks on behalf of U.S. government agencies, including DoD and FBI. Almost half of DynCorp's revenues come from the day-to-day management of Army and Airforce bases, where it handles maintenance of aircraft and other logistics. Computer Sciences currently derives about 30 percent of its revenues from federal contracts, a percentage which will rise to 40% once the deal closes. CSC will have about 88,000 employees, 38,000 of which will be dedicated to serving the U.S. government.

SALT LAKE CITY, UT, November 22, 2002: Internet professional services firm **SBI** continues its roll-up of Internet integrators with a definitive agreement to acquire interactive services shop **Razorfish** for \$8.2 million in a cash tender offer. Approximately 200 Razorfish employees will join SBI's 700-member staff. In July, the company inked a \$4.2 million debtor-in-financing deal to acquire select assets of New York-based **Scient**, when the interactive consultancy was in Chapter 11. Later that month, SBI paid \$42 million to acquire another interactive services firm, Chicago-based **Lante**. SBI is backed by GE Capital and Cerberus.

ARMONK, NY, July 30, 2002: **IBM** unveiled plans to acquire **PricewaterhouseCooper's PwC Consulting** unit for \$3.5 billion in cash and stock. IBM, which was already the industry's largest IT services provider with 150,000 employees and annual revenue of \$35 billion in 2001, added PwC's 30,000 employees and estimated 2002 revenue of \$4.9 billion to its mix. IBM offered \$2.7 billion in cash, \$400 million in a convertible note, and \$400 million stock for PwC Consulting and plans to combine the operation with the Business Innovation Services unit of IBM Global Services, creating a new end-to-end global business unit. The acquisition will bolster an area of comparative weakness at IBM to date -- planning and installing ERP, supply chain and CRM software -- and give IBM a needed presence in high-end projects to compete better against the likes of EDS and Accenture.

### Upcoming IT Professional Services Events

January 24, 2003	ITAA Outlook for IT Services in the US and EU, New York, NY
January 28, 2003	ITAA The Investors Relations Forum
February 6, 2003	ITAA & CIO Magazine Executive Diner Series, New York, NY
February 20, 2003	ITAA Outlook for the IT Services Sector: Opportunities in the Federal and State Government Marketplaces, New York, NY
March 23-26, 2003	Staffing Industry Executive Forum, New York, NY
May 7-9, 2003	NACCB Lobby Day, Washington, DC
June 18-20, 2003	Health Care Staffing Business Summit, San Francisco, CA
July 7-9, 2003	IT Services Business Summit, San Jose, CA
October 22-25, 2003	NACCB 16 <sup>th</sup> Annual Conference, Dallas, TX

Update Govt IT Services Index: AMSY, ANT, CACI, MANT, MCTC, MMS, NOC, PECS, TTN, SINT, SRX, VNX

Update Systems Integrators Index: BE, CBR, CVNS, KEA, MPS, TSCC

Update IT Staffing Index: ANLY, BUTL, CHRZ, CTG, CFS, HAKI, KFRC, NTSC, OAOT, TEAM, SOSS, SYNT, TSRI

Update Outsourcing Index: ACN, ACS, GIB, CTSH, CSC, EDS, IBM, PER

Update Consulting Companies Index: ANSR, BRNC, CYSV, DTPI, DTAS, INFT, MMPT, RAZF, SAPE, TANN

Update Vertical Consulting Companies Index: ADSC, FCGI, NCI, SUPC, TIER

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 350 mergers and acquisitions for software, IT services, e commerce, infrastructure, telecommunications, e services, and security firms, representing an aggregate value over \$10 billion.

Our clients rely on our deep understanding of technology and financial expertise to assure the successful execution of their strategic initiatives.



[www.uptdata.com](http://www.uptdata.com)

*New Jersey Office:*

125 Half Mile Road  
Suite 201  
Red Bank, NJ 07701  
(732) 945-1000

Contact

Barry Goldsmith: [bgoldsmith@uptdata.com](mailto:bgoldsmith@uptdata.com)  
Ira Cohen: [icohen@uptdata.com](mailto:icohen@uptdata.com)  
John MacDonald: [jmacdonald@uptdata.com](mailto:jmacdonald@uptdata.com)  
Michael Parent: [mparent@uptdata.com](mailto:mparent@uptdata.com)

*Virginia Office:*

2100 Reston Parkway  
Suite 430  
Reston, VA 20191  
(703) 736-0020

Contact

John Burton: [jburton@uptdata.com](mailto:jburton@uptdata.com)  
Joel Kallett: [jkallett@uptdata.com](mailto:jkallett@uptdata.com)

---

© Reproduction of this information without express written permission is prohibited.

**Udata Capital, Inc. Disclaimer:**

The information and opinions in this report were prepared by Udata Capital, Inc. ("Udata"). The information herein is believed by Udata to be reliable and has been obtained from and based upon public sources believed to be reliable, but Udata makes no representation as to the accuracy or completeness of such information. Udata may provide, may have provided or may seek to provide M&A advisory services to one or more companies mentioned herein. In addition, employees of Udata may have purchased or may purchase securities in one or more companies mentioned in this report. Opinions, estimates and analyses in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Udata and are subject to change without notice. Udata has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, estimate, forecast or analysis set forth herein, changes or subsequently becomes inaccurate. This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction.