

## VAR Channel M&A Market Update First Quarter 2008

VOLUME I, ISSUE II

### **Update At A Glance...**

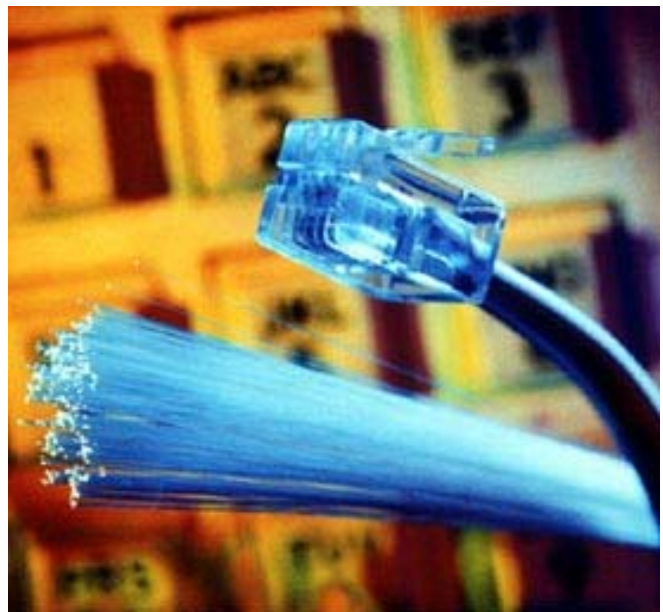
- **VAR channel multiples remain healthy** compared to the broad M&A market.
- We predict a **step-up in M&A activity** as a hedge against a general economic slowdown.
- **Foreign acquirers**, trading on the weak dollar, could be **particularly active**.

### RECESSION MAY STEP-UP VAR M&A ACTIVITY THIS YEAR

Overview: Year to date, publicly-held VAR channel stocks are down slightly more than the general S&P 500 Index (-13% vs. -11%), reflecting the sector's vulnerability in a recessionary economy. But we believe a recession might actually fuel a step-up in VAR M&A activity, as acquirers move to counteract slowing economic growth and lower IT capital expenditures.

#### **What's hot:**

- **"Recession-resistant" channel verticals** - e.g., healthcare and consumer staples.
- Takeover targets with **significant and recurring revenue streams**, along with a service component.



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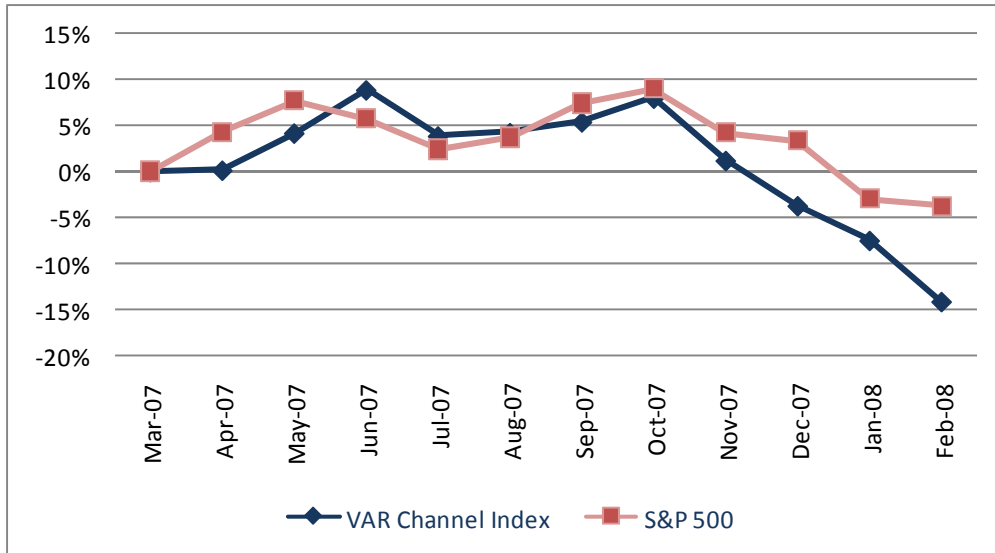
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### HT CAPITAL VAR CHANNEL WEIGHTED STOCK PRICE



*“VARs slightly underperforming S&P 500 YTD, reflecting perceived vulnerability in a recession.”*

### DEAL ENVIRONMENT/CHANNEL TRANSACTIONS

**Foreign Intrigue:** The weak dollar is drawing foreign acquirers looking for attractive greenfield investments and acquisitions in the U.S. Look for increased cross-border activity this year.

**Strategic Trumps Financial:** The credit crunch in the leveraged finance markets has put financial buyers at a distinct disadvantage versus strategic buyers, particularly at the upper end of the middle market. Increasingly, financial buyers are having difficulty finding banks and private lenders willing to lend money out at terms that result in adequate returns for equity investors. Strategic buyers, many of whom had been priced out of the market, are now becoming more attractive.



<sup>1</sup> Source: HT Capital research & Yahoo Finance (Market Weighted Index composed of BI, BELM, BBOX, CSPI, ENPT, GTSI, IM, MTMC, PRFT, PMRY, SNX, TECD)

## PUBLIC COMPANY METRICS

VAR Channel  
Selected Comparable Public Companies

(\$ in millions, except per share)

Company	Stock Price <sup>2</sup>			Equity Value	Total Value	Price/EPS <sup>(TTM)</sup>		Total Value as a Multiple of:			
	Date	As a % of High				2007	2008	Revenue <sup>3</sup>		EBITDA <sup>4</sup>	
	3/4/2008	LTM	AT					2007	2008	2007	2008
Bell Industries (BI)	\$0.73	14%	4%	6.4	29.0	NM	NM	0.21x	0.16x	NM	NM
Bell Microproducts (BELM)	2.91	40%	9%	100.0	380.0	NM	NM	0.15x	0.15x	10.14x	9.70x
Black Box Corp. (BBOX)	30.39	65%	34%	540.2	739.4	18.89	15.70	0.88x	0.74x	8.84x	7.51x
CSP Inc. (CSPI)	6.07	51%	46%	23.0	3.0	7.57	7.5	0.24x	0.05x	2.38x	0.79x
En Pointe Technologies (ENPT)	2.47	47%	5%	17.7	27.5	10.32	10.56	0.12x	0.11x	9.63x	10.88x
GTSI Corp. (GTSI)	8.74	63%	57%	85.1	120.5	21.11	19.37	0.18x	0.17x	NM	NM
Ingram Micro (IM)	15.42	69%	29%	2.8	2.8	13.88	11.63	0.10x	0.09x	7.35x	6.15x
MTM Technologies (MTMC)	0.50	36%	3%	6.7	122.0	NM	NM	0.43x	0.45x	NM	NM
Perficient (PRFT)	7.63	30%	30%	226.5	240.9	38.40	26.04	2.68x	1.90x	18.30x	12.66x
Pomeroy IT Solns. (PMRY)	6.34	57%	22%	77.1	71.5	NM	NM	0.13x	0.12x	10.02x	11.88x
Synnex (SNX)	20.55	86%	84%	659.9	983.0	11.94	11.01	0.13x	0.14x	7.46x	7.61x
Tech Data Corp. (TECD)	34.24	83%	65%	1,900.0	1,740.0	30.88	19.90	0.09x	0.08x	8.89x	6.73x
<b>MEDIAN</b>		<b>54%</b>	<b>29%</b>			<b>16.4x</b>	<b>13.7x</b>	<b>0.17x</b>	<b>0.15x</b>	<b>8.9x</b>	<b>7.6x</b>
<b>MEAN</b>		<b>53%</b>	<b>32%</b>			<b>19.12x</b>	<b>15.21x</b>	<b>0.45x</b>	<b>0.35x</b>	<b>9.22x</b>	<b>8.21x</b>

## DEAL ENVIRONMENT/CHANNEL TRANSACTIONS (con't.)

**Compressed Pricing, But Still Better Than Average:**

Transaction pricing in the upper middle market (>\$250 million enterprise value) has dropped from year-ago levels. Nevertheless, VAR channel transaction multiples are still nominally better than the broad M&A market; recent VAR channel transactions averaged 0.5x revenue and 12.0x EBITDA, almost double that of the general M&A market. (However, note that most VAR transactions were negotiated and closed before the market downturn; we expect further compression.)

**Bigger is Better:** Recent transactions showed a large spread in acquisition multiples between the lower middle market and the upper middle market. Acquisitions of companies who lack scale traded at a significant discount to those who have scale - 0.36x revenue vs. 0.5x for the sample as a whole.

**Noteworthy recent transactions:**

- Softchoice Corporation's acquisition of reseller Optimus Solutions for **\$47.1 million**
- Computer Sciences Corporation's acquisition of healthcare VAR First Consulting Group for **\$369 million**
- SDSC's investment in Net Direct Systems



*"VAR Channel multiples are still nominally better than the broad M&A market"*

<sup>2</sup> Source: Yahoo Finance & Google Finance

<sup>3</sup> Enterprise Value (Equity + Funded Debt - Cash) / Trailing Twelve Months Revenue

<sup>4</sup> Enterprise Value / Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization

## RECENT DEALS

VAR Channel  
Market Transactions<sup>5</sup>  
(\$ in millions)

Date	Target	Acquirer	Deal Size	Multiples of	
				Revenue	EBITDA
01/02/08	Optimus Solutions, LLC	Softchoice Corporation	\$47.1	0.3x	-
12/11/07	Atos Origin SpA	Engineering Ingegneria Informatica SpA	\$45.0	-	-
11/13/07	Saber Corp.	Electronic Data System's Corp.	\$420.0	-	-
10/30/07	First Consulting Group	Computer Sciences Corp.	\$369.0	1.0x	10.5x
10/25/07	Gestalt, LLC	Accenture Ltd.	-	-	-
10/23/07	Itelligence AG	NTT Data Corp	\$197.0	0.7x	8.4x
10/18/07	MarketRx, Inc.	Cognizant Technology Solutions Corp.	\$135.0	-	-
10/16/07	B&C Telecom, Inc.	Black Box Corporation	\$10.7	0.6x	-
10/03/07	Dragon Development Corp.	CACI International Inc.	\$38.4	-	-
10/02/07	Net Direct Systems, LLC	Secured Digital Storage Corp.	-	-	-
09/19/07	Athena Innovative Solutions, Inc.	CACI International Inc.	\$190.0	-	-
09/13/07	Datalinx Corporation	Apricent, Inc.	\$30.0	0.3x	-
08/31/07	Sales Strategies, Inc.	Incentra Solutions, Inc.	\$9.0	0.2x	-
08/17/07	SARCOM, Inc.	PC Mall	\$142.1	0.5x	17.1x
08/17/07	Helio Solutions	Incentra Solutions, Inc.	\$28.4	0.4x	-
<b>MEDIAN</b>				<b>0.5x</b>	<b>10.5x</b>
<b>MEAN</b>				<b>0.5x</b>	<b>12.0x</b>

With history dating back over a half century, HT Capital stands ready to work with you to arrive at the optimal solutions for you and your company. For more information regarding the current VAR Channel transaction environment, or to discuss how HT Capital might be of service, please contact our practice lead,

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If you prefer to receive subsequent issues of the VAR Channel Market Update electronically, please supply your e-mail address at [info@htcapital.com](mailto:info@htcapital.com).



### Investment Banking Services

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>* Mergers and Acquisitions</li> <li>* Divestitures</li> <li>* LBOs and Management Buyouts</li> <li>* Recapitalizations and Restructurings</li> </ul> | <ul style="list-style-type: none"> <li>* Strategic Partnerships</li> <li>* Capital Raising</li> <li>* Valuations and Fairness Opinions</li> <li>* Private Equity</li> </ul> |
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<sup>5</sup> Source: HT Capital Research, company records