

Analysis of Caritor Acquisition of Keane

Deal Information*

Buyer: Caritor (backed by CVCI)
 Seller: Keane, Inc.
 Price per share: \$14.30 / share
 Deal Value: \$854 million
 Enterprise Value: \$851 million

Revenue Multiples
 EV / LTM Rev: 0.9x
 EV / 2007 Rev: 0.9x

EBITDA Multiples
 EV / LTM EBITDA: 9.6x
 EV / 2007 EBITDA: 9.2x

Premiums
 1-Day: 19.2%
 30-Day: 19.7%
 60-Day: 23.0%

*Updata Advisors did not advise on this transaction.

(\$ in millions)	FY 2003	FY 2004	FY 2005	LTM Sep-06	FY 2007*
Revenue	\$805.0	\$911.5	\$955.9	\$964.4	\$980.8
Gross profit	250.4	274.3	285.9	283.0	279.5
Gross margin	31.1%	30.1%	29.9%	29.3%	28.5%
Operating income	42.2	51.4	51.0	54.6	71.9
EBITDA	\$68.6	\$80.1	\$79.9	\$88.4	\$96.7
EBITDA margin	8.5%	8.8%	8.4%	9.2%	9.9%



Transaction Overview

Announced on February 7, 2007, this transaction is expected to close in Q207. A transformational deal for the sub \$200 million Caritor (backed by Citigroup Venture Capital International), the combined entity, which will keep the Keane name, will have revenue north of \$1B, over 14,000 service professionals and will be a significant global provider of IT services. Keane will provide Caritor access to more than 2,500 offshore employees in three development centers in India, an attractive portfolio of Fortune 500 clients and an established local sales and delivery model in the U.S.

Caritor has experienced significant growth in recent years, increasing from \$58M in revenue in 2003 to \$113M in 2005. In contrast, Keane was on a steadier growth path, growing in the low- to mid-single digits quarter-over-quarter Y/Y, until its most recent reporting period, Q306. The two companies overlap in terms of their service offerings – development, integration and outsourcing – and vertical market focus – Financial Services, Public Sector, Healthcare, Retail and Transportation.

Commenting on the transaction, Mani Subramanian, founder, chairman and CEO of Caritor, “Today, it is clear that clients require strong, locally-based consulting and client service combined with the flexibility and cost-effectiveness of a broad range of global IT services. The combination of Caritor and Keane will offer clients these comprehensive services.”

Updata’s Perspective

This transaction is notable on several fronts. Notwithstanding the buyer is an operating entity, the deal is essentially a leveraged buyout of an IT Professional Services company. We have not seen many leveraged deals in the IT services sector over the past several years; perhaps an indicator of the generous lending environment and Private Equity interest in this sector.

Next, the transaction multiples are strong on both a revenue and EBITDA basis particularly in light of Keane’s recent struggles to grow it’s top line by more than a few percent annually. At nearly 1x trailing revenue, the deal multiple is much higher than the 2006 median multiple for Systems Integration deals tracked by Updata (0.7x trailing revenues). Furthermore, at almost 10x trailing EBITDA, Caritor seems to be paying a full price for sub-industry revenue growth.

Finally, the timing of the transaction is odd in light of the recent appointment of Kirk Arnold as CEO. Presumably, Ms. Arnold was aware of the likelihood of this transaction when she accepted the position on January 22nd, just 16 days earlier.

This deal highlights certain trends we are seeing in the IT Services sector: (i) valuations are trending up in all sub sectors (except Federal IT Services), (ii) consolidation is gaining steam as traditional providers search for the right balance of onshore and offshore delivery capabilities, and (iii) financial sponsors are increasingly looking to the IT Services market.