



IT Services: Q3 2012 M&A Review

IT Services M&A activity experienced an upswing from Q2 2012 to Q3 2012. Deal momentum increased by 30 percent, from 120 deals closed in Q2 2012 to 156 deals closed in Q3 2012. Total enterprise value (EV) also increased, almost 32 percent, to \$8,669.1M. The size of the deals closed has also grown significantly, with the median announced deal size taking a 156 percent leap from Q2 to Q3. The median revenue multiple increased by over 50 percent, showing that acquirers were willing to take greater risks in Q3 2012. M&A trends in IT Services include investment in cloud computing services and mergers among media and communications companies.

Figure 1: Quarterly IT Services M&A Deal Analysis, Q3 2011 – Q3 2012

Source: Signal Hill					
	Q3 2011	Q4 2011	Q1 2012	Q2 2012	Q3 2012
Number of Deals	161	148	125	120	156
% change from prior quarter	-	-8.1%	-15.5%	-4.0%	30.0%
Total Enterprise Value (\$M)	\$3,433.0	\$3,232.0	\$3,255.0	\$6,577.5	\$8,669.1
% change from prior quarter	-	-5.9%	0.7%	102.1%	31.8%
Median Announced Deal Size (\$M)	\$37.8	\$30.5	\$40.0	\$29.3	\$75.0
% change from prior quarter	-	-19.3%	31.1%	-26.8%	156.0%
Median EV/TTM Revenue Multiple	1.2x	1.1x	0.9x	0.6x	1.3x
% change from prior quarter	-	-9.1%	-22.2%	-50.0%	53.8%

Figure 2: IT Services Public Company Valuation Metrics Q3 2012

IT Services	Financial Data					Valuation Data						Price/Earnings		
	% of 52	Q/Q Rev Growth		LTM Margins		EV/Revenues			EV/EBITDA			Multiples		
Pricing Date: 9/30/12	Week Hi	YoY	Seq.	Gross	EBITDA	LTM	CY12E	CY13E	LTM	CY12E	CY13E	LTM	CY12E	CY13E
Median Metrics	Week Hi	YoY	Seq.	Gross	EBITDA	LTM	CY12E	CY13E	LTM	CY12E	CY13E	LTM	CY12E	CY13E
BPO	93.0%	0.0%	0.1%	32.0%	14.4%	1.1x	1.1x	1.1x	7.0x	7.1x	5.9x	16.2x	14.7x	13.5x
Consulting	76.2%	-0.2%	2.4%	35.7%	12.5%	0.9x	0.9x	0.8x	7.4x	6.9x	6.4x	13.3x	14.9x	11.7x
Government Services	72.0%	9.7%	0.7%	22.8%	9.6%	0.5x	0.5x	0.5x	6.2x	5.8x	5.6x	15.7x	10.2x	9.8x
Managed Hosting	92.1%	20.2%	5.7%	48.2%	36.9%	7.8x	7.1x	5.9x	17.3x	15.4x	12.9x	49.5x	54.9x	46.7x
Offshore Outsourcing	85.8%	28.5%	8.6%	35.1%	18.4%	1.8x	1.7x	1.5x	11.1x	9.5x	8.0x	19.7x	14.8x	13.4x
Outsourcing	98.2%	-0.1%	0.0%	26.3%	14.8%	1.0x	1.1x	1.0x	10.0x	7.6x	7.0x	18.2x	14.3x	12.2x
IT Staffing	89.8%	0.9%	2.2%	24.2%	4.2%	0.3x	0.4x	0.4x	8.7x	7.8x	6.9x	20.1x	18.4x	15.2x
Systems Integration	88.9%	5.3%	5.9%	24.7%	9.1%	0.6x	0.6x	0.5x	7.4x	6.5x	5.8x	15.1x	14.1x	11.2x
All IT Services Companies	86.7%	7.6%	3.3%	31.0%	11.9%	1.2x	1.2x	1.0x	8.4x	7.4x	6.5x	19.2x	15.0x	12.8x



Figure 3: IT Services 1-Year Relative Stock Price Performance, Q3 2012

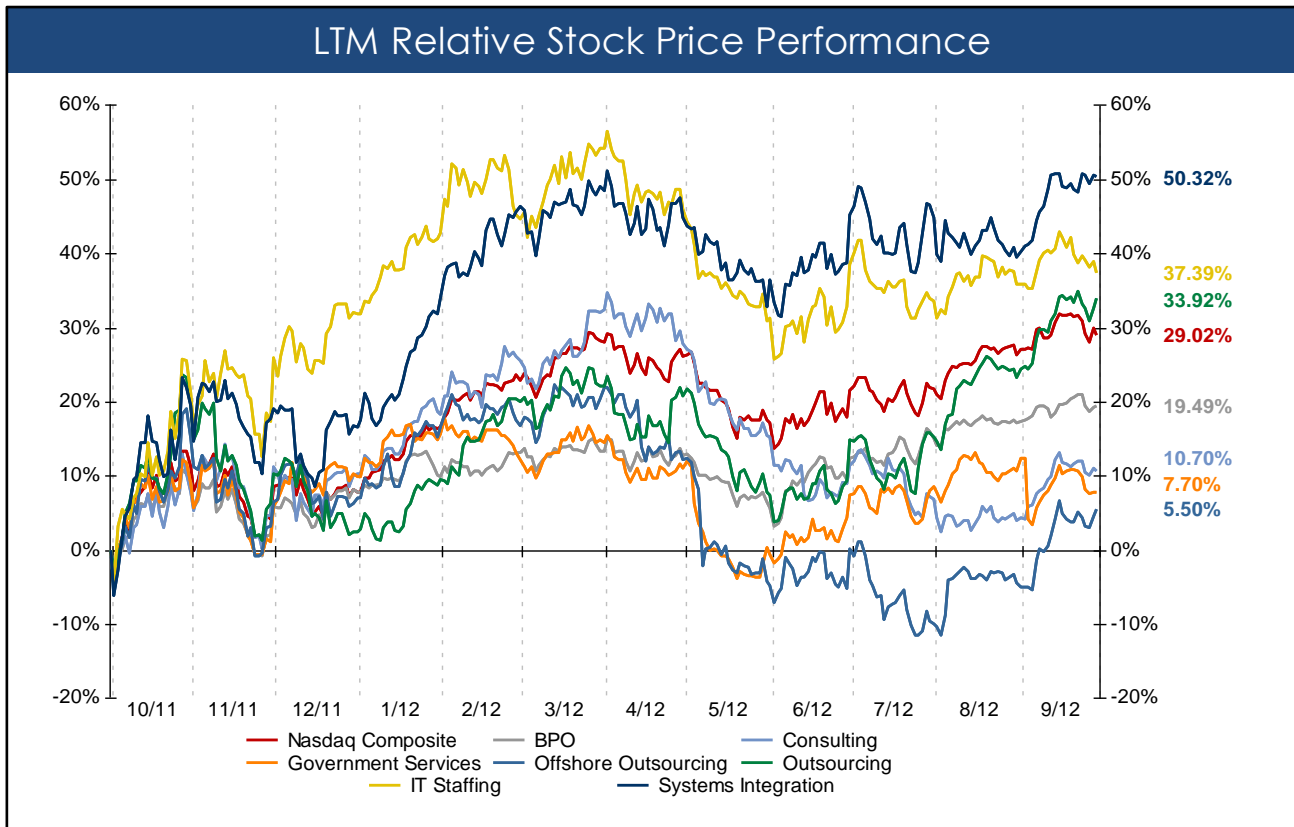


Figure 4: Largest IT Services Revenue Multiples Q3 2012

Target	Buyer	Enterprise Value	Revenue Multiple
Melbourne Server Hosting	iomart Group PLC	\$11.2M	2.5x
Aegis Group PLC	Dentsu Inc.	\$4,900.0M	2.3x
LBi International	Publicis Groupe	\$543.0M	2.1x
Lodestone Holding AG	Infosys Technologies Ltd.	\$345.5M	1.6x
Salmat Lts./BPO Division	Fujifilm Holdings Corp.	\$393.3M	1.2x
Northridge Systems Inc.	Perficient, Inc.	\$14.4M	1.2x



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Selected IT Services Transactions Q3 2012

The Gores Group Acquisitions	Idea Integration Corp. acquired by The Gores Group	Idea, a leader in technology integration solutions, was acquired by The Gores Group, a global investment firm headquartered in Los Angeles, CA. Idea will continue to provide its technology solutions in digital strategy, marketing and design, application development and management, infrastructure support and services and customer support – the company will remain a standalone entity. This was the first of three acquisitions by The Gores Group in Q3 2012.
	Glotel North America acquired by The Gores Group	Glotel, a mobile communications network services and staffing solutions provider, was acquired by The Gores Group's Small Capitalization Partners fund. Glotel was acquired from Adecco Group North America, the world's largest recruitment and workforce solutions provider.
	Astadia, Inc. acquired by The Gores Group	Astadia, a leading pure-play cloud computing consulting and systems integrator, was acquired by The Gores Group. Astadia will merge with Idea, the first of the Q3 2012 Gores Group acquisitions. The merger is expected to provide customers with the optimal expertise and scale required to address the more complex enterprise IT environments – the combined company will blend traditional business process with cloud methodologies.
	Aegis Group PLC acquired by Dentsu Inc. EV: \$4,900.0M Revenue Multiple: 2.3x	Aegis Group, a London-based media buying company, was acquired by Dentsu, the Japanese advertising powerhouse. The acquisition, one of the largest ever in the advertising industry at an EV of \$4,900M, allows Dentsu to expand internationally. The group will have a decidedly global reach, providing scale, geography, capability and investment to support clients.
	Brightpoint, Inc. acquired by Ingram Micro Inc. EV: \$840.0M	Brightpoint, a distributor of mobile devices for phone companies, was acquired by Ingram Micro, the world's largest technology distributor. Ingram Micro expects the acquisition to create a global provider of services and solutions for the mobile industry, targeting vendors and operators of wireless networks.
	LBi International acquired by Publicis Groupe EV: \$543.0M	LBi International, a global marketing and technology agency, was acquired by Publicis Groupe, one of the world's largest independent digital communications agencies.
	VancelInfo Technologies Inc. acquired by HiSoft Technology International Ltd. EV: \$456.4M	Chinese outsourced technology service companies VancelInfo Technology and HiSoft Technology will merge. The acquisition creates the largest offshore information technology services provider in China, with a combined market value of \$875M. The deal is a merger of equals – shareholders of each company will own approximately 50 percent of the combined company. HiSoft, however, is the surviving listed company.