



# Signal Hill

**Michael Parent**  
*Managing Director*  
 mparent@signalhill.com

**Matt Fiore**  
*Vice President*  
 mfiore@signalhill.com

**Ahmed Mirza**  
*Analyst*  
 amirza@signalhill.com

**John Gannon**  
*Analyst*  
 jgannon@signalhill.com

## IT Services: Q2 2012 M&A Review

The IT Services sector has seen a significant increase in M&A activity, over 100 percent as measured by Total Enterprise Value from Q1 to Q2 2012. This can be attributed to four “mega” deals – CGI’s acquisition of Logica (EV: \$3,176.6M), WPP’s acquisition of AKQA (EV: \$540.0M), Digital Realty Trust’s acquisition of the Sentrum/Data Center Portfolio (EV: \$1,100.0M) and Ontario Teachers’ Pension Fund’s acquisition of Q9 Networks (EV: \$1,067.7M). Without these deals, however, the aggregate M&A EV would have declined substantially; this is evident in the lower median announced deal size for the quarter. The total number of deals has remained relatively consistent from Q1 to Q2, 125 versus 120. This is congruent with the industry’s slow downward trend in deal activity and lower revenue multiples from quarter to quarter. With no particular concentrations, overall deals were spread across technologies, service models and industries.

**Figure 1:** Quarterly IT Services M&A Deal Analysis, Q2 2011 – Q2 2012

| <i>Source: Signal Hill</i>         |            |           |           |           |           |
|------------------------------------|------------|-----------|-----------|-----------|-----------|
|                                    | Q2 2011    | Q3 2011   | Q4 2011   | Q1 2012   | Q2 2012   |
| Number of Deals                    | 162        | 161       | 148       | 125       | 120       |
| <i>% change from prior quarter</i> | -          | -0.6%     | -8.1%     | -15.5%    | -4.0%     |
| Total Enterprise Value (\$M)       | \$11,136.0 | \$3,433.0 | \$3,232.0 | \$3,255.0 | \$6,577.5 |
| <i>% change from prior quarter</i> | -          | -69.2%    | -5.9%     | 0.7%      | 102.1%    |
| Median Announced Deal Size (\$M)   | \$64.0     | \$37.8    | \$30.5    | \$40.0    | \$29.3    |
| <i>% change from prior quarter</i> | -          | -40.9%    | -19.3%    | 31.1%     | -26.8%    |
| Median EV/TTM Revenue Multiple     | 1.1x       | 1.2x      | 1.1x      | 0.9x      | 0.6x      |
| <i>% change from prior quarter</i> | -          | 8.3%      | -9.1%     | -22.2%    | -50.0%    |

**Figure 2:** IT Services Public Company Valuation Metrics Q2 2012

| <i>Source: Signal Hill</i>   |               | Financial Data |              |               |               | Valuation Data |             |             |               |             |             | Price/Earnings |              |              |
|------------------------------|---------------|----------------|--------------|---------------|---------------|----------------|-------------|-------------|---------------|-------------|-------------|----------------|--------------|--------------|
| <i>Pricing Date: 6/30/12</i> | % of 52       | Q/Q Rev Growth |              | LTM Margins   |               | EV/Revenues    |             |             | EV/EBITDA (1) |             |             | Multiples      |              |              |
| Median Metrics               | Week Hi       | YoY            | Seq.         | Gross         | EBITDA        | LTM            | CY12E       | CY13E       | LTM           | CY12E       | CY13E       | LTM            | CY12E        | CY13E        |
| BPO                          | 85.00%        | 2.60%          | -0.20%       | 31.90%        | 11.80%        | 1.0x           | 1.0x        | 1.0x        | 6.8x          | 6.5x        | 6.0x        | 16.4x          | 13.4x        | 11.9x        |
| Consulting                   | 73.90%        | 7.80%          | -0.10%       | 33.80%        | 12.20%        | 1.1x           | 1.1x        | 1.0x        | 8.3x          | 7.5x        | 6.8x        | 13.1x          | 13.1x        | 11.1x        |
| Government Services          | 76.00%        | 7.20%          | -0.80%       | 22.80%        | 9.40%         | 0.5x           | 0.5x        | 0.5x        | 6.3x          | 5.8x        | 5.7x        | 13.2x          | 9.1x         | 9.1x         |
| Managed Hosting              | 97.80%        | 24.40%         | 5.10%        | 45.70%        | 36.50%        | 7.2x           | 6.4x        | 5.5x        | 16.8x         | 13.9x       | 11.7x       | 55.6x          | 48.9x        | 38.5x        |
| Offshore Outsourcing         | 87.20%        | 27.40%         | 1.20%        | 35.10%        | 19.20%        | 1.9x           | 1.6x        | 1.4x        | 10.6x         | 8.3x        | 7.3x        | 16.9x          | 13.8x        | 11.3x        |
| Outsourcing                  | 87.90%        | 4.00%          | 4.50%        | 26.00%        | 14.20%        | 0.9x           | 0.9x        | 0.9x        | 8.8x          | 6.8x        | 6.1x        | 15.5x          | 12.8x        | 11.4x        |
| IT Staffing                  | 87.40%        | 2.30%          | 2.40%        | 24.20%        | 4.30%         | 0.3x           | 0.4x        | 0.4x        | 7.2x          | 7.4x        | 6.2x        | 17.6x          | 16.4x        | 13.5x        |
| Systems Integration          | 80.10%        | 0.60%          | 3.40%        | 23.70%        | 9.00%         | 0.4x           | 0.4x        | 0.4x        | 7.7x          | 5.9x        | 5.1x        | 15.4x          | 13.1x        | 10.3x        |
| <b>All IT Services</b>       | <b>84.60%</b> | <b>8.50%</b>   | <b>1.50%</b> | <b>30.50%</b> | <b>11.80%</b> | <b>1.1x</b>    | <b>1.1x</b> | <b>1.0x</b> | <b>9.0x</b>   | <b>7.6x</b> | <b>6.4x</b> | <b>17.2x</b>   | <b>13.5x</b> | <b>11.8x</b> |



# Signal Hill

**Michael Parent**  
*Managing Director*  
 mparent@signalhill.com

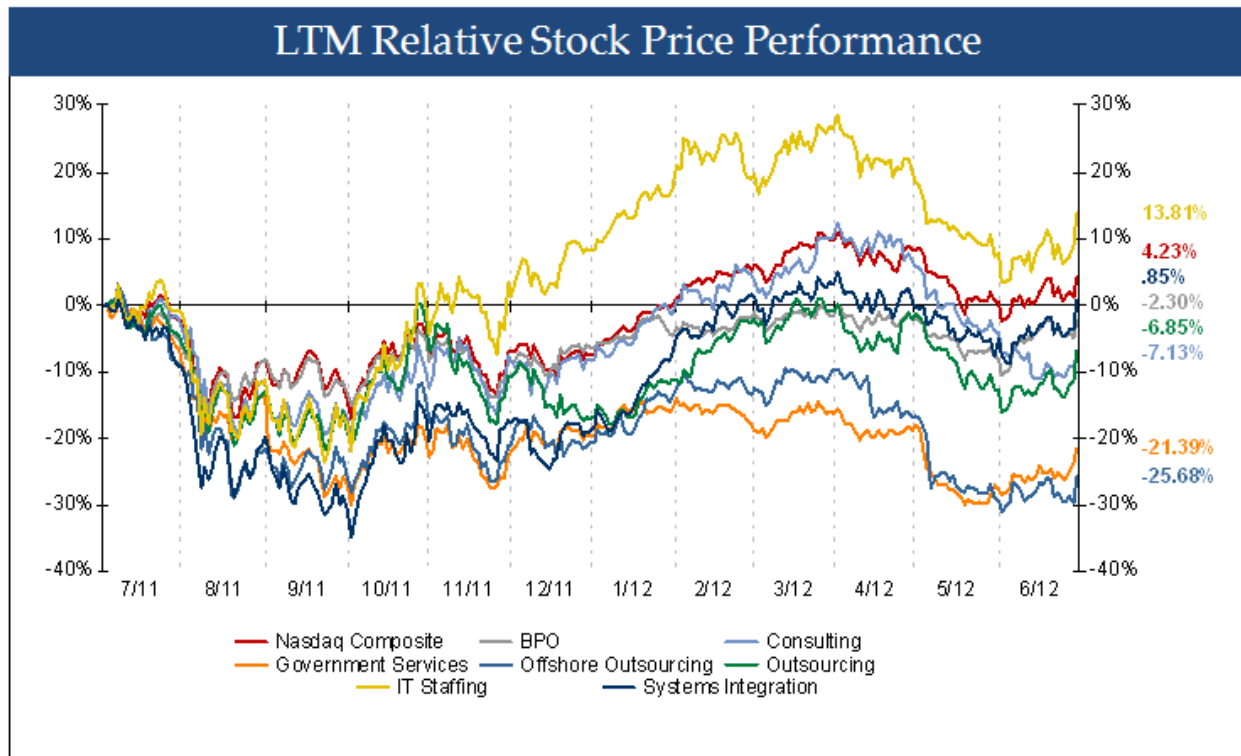
**Matt Fiore**  
*Vice President*  
 mfiore@signalhill.com

**Ahmed Mirza**  
*Analyst*  
 amirza@signalhill.com

**John Gannon**  
*Analyst*  
 jgannon@signalhill.com

## IT Services: Q2 2012 M&A Review

**Figure 3:** IT Services 1-Year Relative Stock Price Performance, Q2 2012



**Figure 4:** Largest IT Services Revenue Multiples Q2 2012

| Target                  | Buyer                            | Revenue Multiple |
|-------------------------|----------------------------------|------------------|
| NetBenefit (UK) Limited | PEER 1 Network Enterprises, Inc. | 3.1x             |
| AKQA                    | WPP Group plc                    | 2.9x             |
| Burnbank Systems LP     | Sectra AB                        | 2.1x             |
| Nascent Systems LP      | Perficient, Inc.                 | 1.1x             |
| Zeacom Ltd              | Enghouse Systems Limited         | 1.1x             |
| Elucid                  | Sonda SA                         | 1.1x             |



# Signal Hill

**Michael Parent**  
Managing Director  
mparent@signalhill.com

**Matt Fiore**  
Vice President  
mfiore@signalhill.com

**Ahmed Mirza**  
Analyst  
amirza@signalhill.com

**John Gannon**  
Analyst  
jgannon@signalhill.com

## IT Services: Q2 2012 M&A Review

### Selected IT Services Transactions Q2 2012

|  |  |
|--|--|
| <p><b>Logica PLC acquired by CGI Group</b></p> <p>EV: \$3,176.7M<br/>Revenue Multiple: 0.5x</p>                                    | <p>In the sector's largest deal of the quarter, Logica PLC, a British-based IT services firm focused on business consulting, systems integration and outsourcing, was acquired by CGI Group, an independent IT and business process service firm. Logica, a larger firm in terms of revenue and employee headcount than CGI, faced serious headwinds from its 70 percent business concentration in recession-strapped Europe; comparatively little outsourcing revenue also was a factor in the company's valuation – cash flow was more susceptible to project-based revenue ebbs and flows than that of CGI.</p> |
| <p><b>Sentrum/Data Center Portfolio acquired by Digital Realty Trust, Inc.</b></p> <p>EV: \$1,100.0M<br/>Revenue Multiple: n/a</p> | <p>Digital Realty Trust, a global provider of data center solutions, acquired the Sentrum/Data Center Portfolio, a three-property data center portfolio located in the greater London area. The acquisition is an addition to Digital Realty Trust's five existing data center facilities in the greater London metropolitan area; the eight properties now represent over 50 percent of the firm's European portfolio.</p>  |
| <p><b>Q9 Networks acquired by Ontario Teachers' Pension Plan</b></p> <p>EV: \$1,067.7M<br/>Revenue Multiple: n/a</p>               | <p>An investor group, led by Ontario Teachers' Pension Plan, along with BCI Inc (Bell), acquired Q9 Networks, Canada's leading provider of outsourced data center solutions for organizations with mission-critical IT operations. The investor group, which is comprised of three private equity firms, has partnered with Canada's largest communications company, Bell. Q9 Networks' acquisition is expected to grow Bell's hosting and cloud-based business.</p>   |
| <p><b>AKQA acquired by WPP Group plc</b></p> <p>EV: \$540.0M<br/>Revenue Multiple: 2.9x</p>  | <p>AKQA, a digital agency which provides integrated digital communications campaigns, spanning social media, mobile, interactive, gaming and content creation, has been an acquisition target for many firms as TV and radio-based advertising spending has decreased in favor of Internet-based advertising and branding. WPP Group, the world's largest advertising company by revenue, acquired AKQA at significant revenue and EBITDA multiples, 2.9x and 15.4x, respectively, making this deal a bright spot in the IT Services sector for Q2 2012.</p>   |