

IT Professional Services M&A Update

September 2003

UPDATA CAPITAL

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Differentiation.....

We often hear the now-rhetorical comment "there is no next big thing" to spur IT consulting spending to levels last seen in the late 90's. Among IT services managers and owners, this refrain signifies a certain resignation that, outside of a limited number of verticals, serious growth potential has been eliminated for the foreseeable future. What's really been eliminated, however, is not the viability of the domestic IT services sector, but the ease of making a profit which characterized the late 90's. Like many domestic industries (most visibly manufacturing) before, the IT services sector is in the midst of an evolution requiring re-tooling and new strategies to succeed. Rationalization of IT budgets has driven permanent change, including growing usage of easy-to-access, low-cost offshore services, and commoditization of the relationship between customer and provider. For domestic providers to survive, or better thrive, they must circumvent commoditization with differentiated offerings delivered by highly productive and cost-effective resources.

Among the IT services subsectors outlined on the following pages, several have meaningfully outperformed the NASDAQ and all are up year-over-year. The drivers of this performance vary by subsector, ranging from an upward correction for downtrodden eConsulting firms, to continued optimism for offshore (cont.)

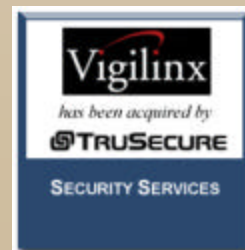
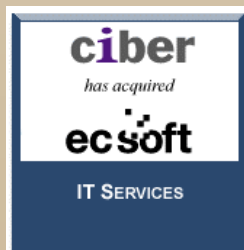
outsourcers. It is notable that almost every subsector is trading within 10% to 15% of its twelve-month high. Clearly the market has not written off the IT services sector at all.

Moreover, solid M&A activity is an optimistic sign -- M&A activity and equity prices are by definition leading indicators of expected future performance. M&A in particular is driven, with rare exception, by positive growth expectations and potential cost savings from elimination of overhead.

Certainly some of the uptick is attributable to sector rotation back into IT stocks. Investors are looking across the board for the nascent economic rebound to release some backlogged IT spending. This is based on signals from corporate IT departments that spending will grow, albeit very moderately, in the coming year as CIO's open their minds to new strategic initiatives investments while optimizing past IT investments. Restructuring initiatives create encouragement at the profit line, which will accrue economic benefits to shareholders in coming months.

Whatever the particular drivers may be, the market has now priced in a meaningful rebound in 2H'03 and beyond, which needs to come to fruition to avert another sector correction. This will be a major challenge facing management teams as they play in an ever-more-competitive market in the year ahead.

Recent Selected Updata IT Professional Services Transactions



When analyzing the number and types of M&A transactions taking place in today's market, it is clear that many buyer management teams see upside arbitrage opportunity relative to current valuations among private IT services companies. M&A is an important tool for public companies to meet investor growth targets implicit in higher P/E ratios. With public IT services sector equity valuations up substantially year-over-year, there is growing awareness that the window for buying superior private companies at market-low valuations is quickly closing. Private buyers have also been unusually active for a host of reasons, including their ability to compete with public buyers on valuation and their freedom from the hurdles of public market scrutiny. Unless the expansion stalls outright and equity values correct again, M&A multiples should see moderate expansion in coming months.

Top 10 IT Services M&A Transactions

Closing Date	Seller	Buyer	Enterprise Value	LTM Revenue	Multiple of Revenue	Consideration
02/25/03	Cognicase	CGI Group	\$ 215.5	\$ 336.2	0.6x	Cash/Stock
08/01/03	Lockheed Martin (commercial)	Affiliated Computer Svcs	107.0	300.0	0.4x	Cash
Pending	Computer Horizons	Aquent	94.2	297.1	0.3x	Cash
Pending	APAR Infotech	Ness Technologies	78.0	85.0	0.9x	Stock
01/22/03	CKS Network Systems	CSK Corp.	55.2	212.9	0.3x	Stock
02/13/03	SCT Global Energy and Utility Solutions Unit	Indus International	37.8	59.6	0.6x	Cash
08/06/03	Plaut	IDS Scheer	37.3	84.8	0.4x	Cash
01/22/03	Serviceware Corporation	CSK Corp.	36.1	145.7	0.2x	Stock
01/08/03	Underwriters Adjustment Bureau	CGI Group	33.4	62.5	0.5x	Cash
Pending	RWD Technologies	Management Buyout	33.3	111.8	0.3x	Cash

There were 34 prominent IT services transactions announced or closed during the 8 months ended August, 2003. A number of trends we see in 2003 differ from M&A patterns in 2002. For example, in 2002 several "blockbuster" deals were announced (IBM/PWC, Logica/CMG, and Alcatel/Platinum Equity, to name a few) and not one of the top 10 was worth less than \$200 million; 2003 has been characterized by smaller transaction values with only one of the top 10 deals exceeding \$200 million in consideration. In fact, the average deal size for all announced deals in 2003 was \$31 million; even the top 10 deals listed above averaged \$73 million in consideration compared with \$858 million for the top 10 of 2002. If discussion become reality, CGEY's acquisition of European competitor Transiciel for \$450 million could be the first major transaction announced in 2003.

Significantly, 9 transactions involved taking publicly-listed IT services companies private, either through a management-led buyout or through acquisition of a public company by a privately-held firm. These included proposed or completed management buyouts of Atlantic Data, Cysive, RWD Technologies, and Judge Group, and acquisitions by private firms including Aquent's pursuit of Computer Horizons, INS's successful bid for Predictive Systems, Platinum Equity's takeover of Internet integrator Tanning Technology, SBI's roll-up of Razorfish, and SOS Staffing's sale to Hire Calling Holdings. Even compared with 2001 and 2002 when many former public Internet Integrators were sold or rolled up, 2003 has been a very meaningful year in shrinking the roster of publicly-traded IT services firms.

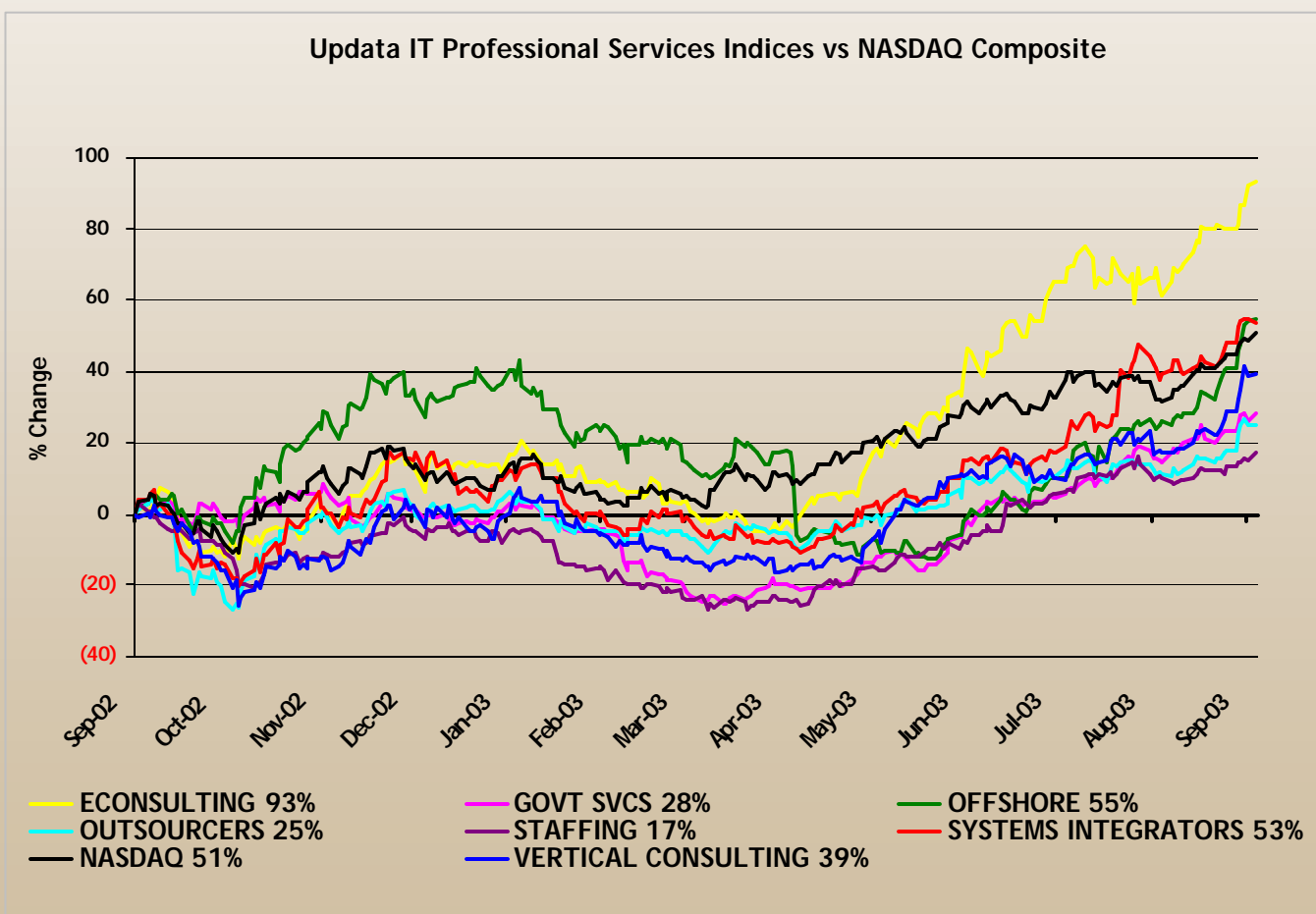
M&A interest remains reasonably strong among privately-held firms seeking to aggregate. Given the closure of the IPO market to mid-sized IT services firms, coupled with a very selective M&A environment, private companies have sought to gain critical mass and expanded customer offerings by joining forces. Size also matters when looking for an ultimate liquidity event, and investors perceive that their ability to achieve a premium valuation in a sale is improved if they are part of a larger organization. A number of these deals in 2003 have included Warburg Pincus-backed Ness Technologies acquiring Pittsburgh-based APAR; Knightsbridge's acquisition of Base Consulting, Microsoft/Accenture-backed Avanade buying G.A. Sullivan, General Atlantic-backed offshore provider Patni acquiring Massachusetts-based The Reference, and JPMorgan/Bessemer/Columbia-backed outsourcer Mindshift acquiring New Jersey-based Universal Access Consulting.

Equally interesting has been the relative lack of M&A activity coming from one of the most highly-valued sectors -- offshore outsourcers. Despite dedicated M&A teams searching for targets and share valuations trading at roughly 5x to 6x revenue, which could support aggressive buying, the offshore firms have barely scratched the surface of the acquisition landscape. In 2003 to date, the only notable deals involved publicly-traded Wipro (market cap \$5.2 billion) acquiring Thoma Cressey-backed digital consultancy Nervewire (revenue ~ \$23 million) and Patni acquiring boutique IT consultancy The Reference (discussed above, terms not disclosed). Both of these targets were known for their expertise in the financial services vertical.

In the main, buyer management teams sense that they have weathered the storm and that focused acquisitions may make sense. Historically attractive valuations motivate buyers and their boards to look for very targeted acquisition strategies, supported by guardedly favorable reaction from institutional research analysts. Buyer interest is often from “out-of-the-box” names, and while a shortage of buyers still exists, there is at last a convergence of valuation expectations between sellers and buyers which is stimulating M&A activity. As we’ve stated before, what all deals have in common today is discipline and realism.

2003 Year-to-Date Equity Performance Review:

Following poor performance in 2001 and 2002, equity valuations among IT services companies have ticked up markedly during the first 8 months of 2003 on expectations that the nascent economic rebound will flow through to IT spending. Among the sector indexes on the following pages, all have risen this year, although only two have outperformed the overall NASDAQ composite. The best-performing index in 2003 has been the eConsulting companies which have risen as a group 93%, although this group’s market valuations corrected painfully following the Internet bubble and are only just beginning to make up lost ground. The offshore outsourcers are the second best performing sector in 2003, rallying 55% on steep continued growth expectations, followed by the systems integrators which have risen 53% year-to-date.



Udata eConsulting Companies Index: BRNC, CYSV, DTAS, DTPI, INFT, MMPT, SAPE
 Udata Govt IT Services Index: AMSY, ANT, CACI, MANT, MMS, MTCT, NOC, PECS, SINT, SRX, TTN, VNX
 Udata IT Staffing Index: ALRC, ANLY, BUTL, CDI, CFS, CHRZ, CTG, HAKI, KELYA, KFRC, NTSC, OAO, RCMT, SOSS, TEAM TSRI, VOL
 Udata Offshore Consulting Index: CTSH, HCLT, INFY, SAY, SYNT, WIT
 Udata Outsourcing Index: ACN, ACS, CSC, EDS, GIB, IBM, PER
 Udata Systems Integrators Index: ANSR, BE, CAPP, CBR, CVNS, EDGW, ELOY, KEA, MPS, TSCC
 Udata Vertical Consulting Companies Index: ADSC, FCGI, NCI, SUPC, TIER, TMNG

2003 Equity Performance Review (continued)

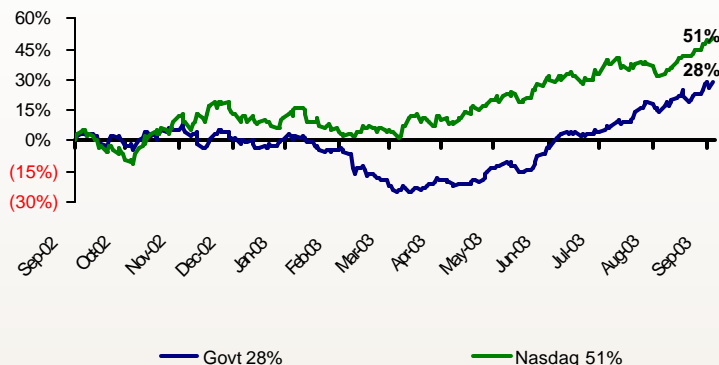
The **government**-focused IT services firms have underperformed the broader NASDAQ index by a full 23%, although as a group they have risen 28% in 2003. While most firms in the sector are trading at or near their 52-week highs, there is an increasing sense that these companies are more than fully-valued. Expectations are that non-defense/non-intelligence spending could slow in the coming year given rising Federal budget deficits. This, coupled with meaningful share price gains in 2002 and 2003, generates concern that the growth expectations built into 26x PE's are going to be tough to meet. Nonetheless, valuations of 1.5x trailing revenue and 15.1x trailing EBITDA are impressive by any measure and will provide companies in this sector with the currency to continue meaningful acquisition strategies.

The **systems integrators** rebounded sharply in 2003, in anticipation of an upturn in demand that has yet to fully materialize. Few companies in the sector grew organically during the year, and several including Ciber and Answerthink took advantage of low valuations to complete acquisitions and add new offerings for their customers. While revenue fell an average 4.5% through Q2 '03 compared to the same period in 2002, and EBITDA margins were an anemic 2.7% on average, trading multiples ticked up to a comparatively robust 11.7x trailing EBITDA and 0.8x trailing revenue as of September, 2003.

The equity performance of the large global IT **outsourcers** rebounded during the first 8 months of 2003, although not as strongly as the market. The IT outsourcers announced several prominent deals during the year, including a number of IBM wins such as P&G, Malaysian Airlines, and John Hancock, CGI wins with Bombardier and National Bank of Canada, and CSC signing with Motorola to name a few. Selling and signing of large new deals is still difficult for these giants in 2003. On the acquisition front, CSC raised its presence in the Federal sector through its acquisition of DynCorp, while ACS reduced its exposure to Federal work through a divestiture of its Federal business to Lockheed. Companies in the sector are trading at 10.2x trailing EBITDA and 1.4x trailing revenue.

The index of **eConsultancies**, otherwise known as Internet Integrators, soared in 2003 from rock-bottom levels of 2002. The shakeout in this sector has been dramatic, with fewer than 50% of the publicly-traded companies of 2001 remaining as of August 2003. During the year, Razorfish was sold to SBI, Tanning went to financial buyer Platinum Equity, and Cysive entered into a management buyout process, not yet closed. The remaining premium providers are expected to be at the forefront of any backlogged strategic IT initiatives. Arguably, those that remain are healthier and offer more depth of expertise than those that went before them, driving valuation. The companies in the sector currently trade at 1.3x trailing revenue and 10.1x trailing EBITDA.

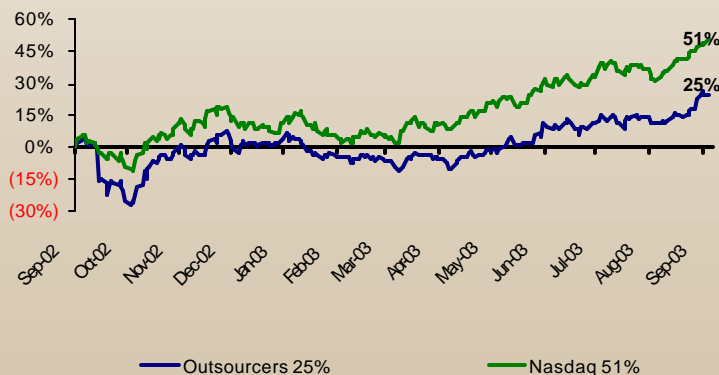
FEDERAL GOV'T SVCS vs NASDAQ COMPOSITE



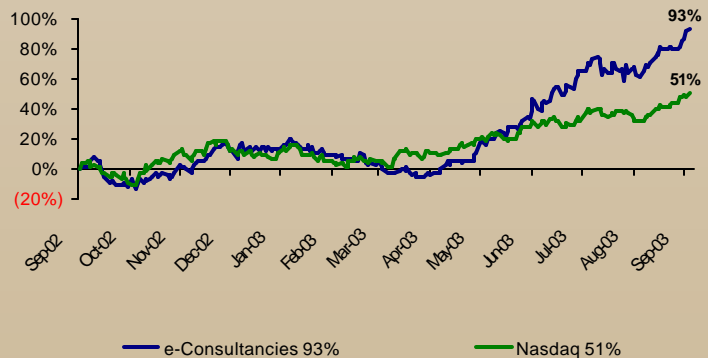
SYSTEMS INTEGRATORS vs NASDAQ COMPOSITE



IT OUTSOURCERS vs NASDAQ COMPOSITE



eCONSULTING vs NASDAQ COMPOSITE



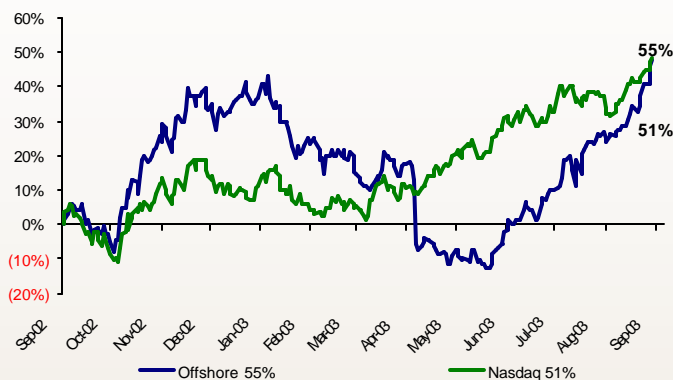
2003 Equity Performance Review (continued)

The **offshore outsourcers** continued to excel and outperform in business growth, profitability, and equity performance. Despite indications of growing margin pressure and legislative rumblings to limit outsourcing, these firms are benefiting from the drive to squeeze more profitability from IT budgets. Indeed, the appeal of these companies from an investor's perspective lies in their uniformly strong profit margins (average EBITDA of 27.6%) coupled with healthy revenue growth rates (average 30%). By their own success, these firms have set lofty performance benchmarks for themselves and their investors, and as a result trade at 22.2x trailing EBITDA and 5.5x trailing revenue. It is interesting that, with these valuations, none have made meaningful U.S. acquisitions other than Wipro's purchase of the high-end boutique consultancy Nervewire. However, at these valuations, any performance missteps would be visibly punished by the market, and conservatism prevails among the sector's active M&A teams.

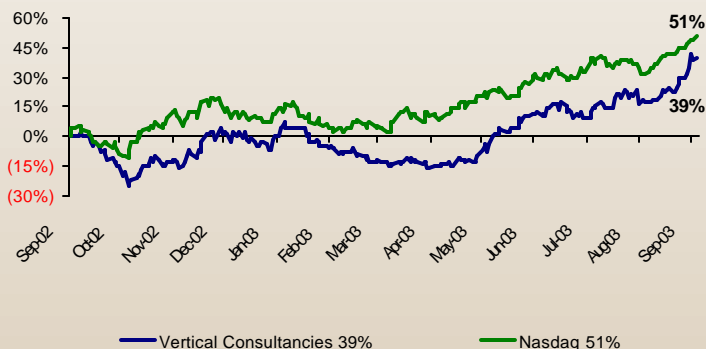
The index of IT services firms focused on specific **vertical** industries rose 39% over the last year, with trading multiples at 9.0x trailing EBITDA and 0.9x trailing revenue. Several companies in the sector focus on verticals that are growing decently, including healthcare, energy and utilities, which helps drive multiples up. But even telecommunications specialist Management Network Group is trading at 87% of its 52-week high and at 0.7x revenue, evidencing that a rising tide lifts most boats. Growth rates and profit margins have not caught up with market expectations, however, which remains a concern. The sector grew only 4.6% in Q2 '03 compared with Q2 '02, and EBITDA margins are a weak 4.1%.

The **IT staffing firms** are also benefiting from expected economic improvement, although this sector continues to trade in a narrower range than other IT services groups. The sector grew by a slight 2.3% in Q2 '03 compared with Q2 '02, although this performance was boosted by a few notable acquisitions, including National Technical Systems' purchase of Fluor Corporation's TRS Staffing Solutions division and Hall Kinion's acquisition of OnStaff. Many companies in the sector continued to incur revenue erosion through reduced demand, offshore competition and vendor/client disintermediation. Profit margins – both EBITDA of 2.8% on average and 21.6% at the gross margin level – remain weak and are not likely to tick up meaningfully without a real economic rebound.

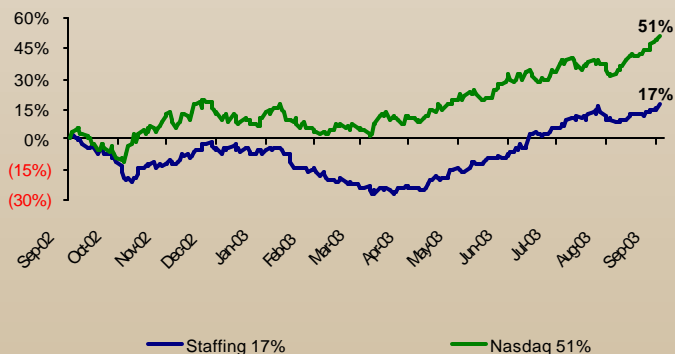
OFFSHORE CONSULTING vs NASDAQ COMPOSITE



VERTICAL CONSULTING vs NASDAQ COMPOSITE



IT STAFFING vs NASDAQ COMPOSITE



IT Services Industry News Briefs:

PARIS, August 28, 2003 – Information technology consultant Cap Gemini Ernst & Young SA (PAR: CAP) confirmed it was in talks that could lead to a takeover of its French counterpart Transiciel SA for about €400 million (\$435 million). Cap Gemini chief executive Paul Hermelin said the company will decide on whether or not to launch a takeover bid for Transiciel, a provider of technical assistance, within 2-3 months. The talks are early-stage, informal discussions which have not led to any commitment. A report in French daily Les Echos said the companies have been in discussions for eight months with a plan to merge Transiciel into professional services unit Sogeti. The aim is to create a European leader in information technology that would employ 15,000 workers and generate annual revenue of about €1 billion. The Company and its analysts believe the deal would be immediately accretive.

GREENWOOD VILLAGE, CO / BANGALORE, INDIA, July 1, 2003 – CIBER, Inc. and iGATE Global Solutions Ltd (IGS), formerly Mascot Systems Ltd, today announced their agreement to form an India-based joint venture that will offer software services, including applications development, enterprise application support and IT outsourcing services. The joint venture, named CIBER India Pvt Ltd of which CIBER will be the majority owner, will provide clients with immediate access to an enhanced, cost-effective and high-quality delivery option. The joint venture will provide CIBER with an ownership position in an offshore delivery option that it has been offering to its customers. IGS will benefit from increased business through an extended client base and access to a large-scale organization.

LOS ANGELES, June 12, 2003 – Platinum Equity, LLC today announced the completion of its acquisition of Tanning Technology Corporation, a global IT systems integrator and solutions provider, following adoption of a merger agreement by a majority of Tanning's stockholders. At a special meeting of stockholders today, a majority of the shares of Tanning Technology common stock was voted in favor of the merger agreement. Under the agreement, Tiger Merger Corporation, a subsidiary of Platinum Equity, merged with and into Tanning. As a result of the merger, former stockholders of Tanning will receive approximately \$1.15 for each share of Tanning stock held by them prior to the merger. Tanning Technology is no longer publicly held and will cease trading on the NASDAQ National Market at the close of business today. Previously, the company traded under the ticker symbol TANN. As a result of the merger, Tanning Technology is now a wholly owned subsidiary of Platinum Equity, a global organization specializing in the acquisition and strategic operation of mission-critical technology companies. Platinum will announce a new name for Tanning in the near future. The company's headquarters will remain in Denver, CO.

SANTA CLARA, CA, June 9, 2003 – International Network Services Inc. (INS), a leading provider of global network consulting and security services, announced today that it has completed its previously announced acquisition of Predictive Systems. Under the terms of the agreement, INS acquired all outstanding shares of Predictive Systems, which will operate as a wholly owned subsidiary of INS. The combined company of more than 700 employees will be headquartered in Santa Clara, Calif., and will operate in more than 30 offices in the U.S. and Europe. David Butze will continue to serve as president and CEO of INS.

SEATTLE, WA, May 23, 2003 – Avanade Inc., a premier global technology integrator for Microsoft solutions in the enterprise, today announced it has acquired G. A. Sullivan, of St. Louis, Mo. Founded in 1982, G. A. Sullivan is an information technology solutions company focused on delivering complex Microsoft enterprise solutions and strategic counsel on more than 70 active customer engagements. The acquisition significantly increases Avanade's presence in the central United States and its depth of expertise in the key vertical industries served by G. A. Sullivan, including financial services, healthcare, manufacturing and logistics, and government. Avanade will add more than 130 solution developers to its ranks as a result of the deal, increasing its global employee base by roughly ten percent and its population in the Americas by about 25 percent. Avanade and G. A. Sullivan are both privately held. Financial terms of the transaction were not disclosed.

RESTON, VA, May 13, 2003 – Cysive, Inc. (Nasdaq: CYSV) ("Cysive" or the "Company"), today announced that it has entered into an Agreement and Plan of Merger with Snowbird Holdings, Inc. ("Snowbird"), a newly formed entity owned by Nelson A. Carbonell, Jr., Chairman of the Board of Directors, President and Chief Executive Officer of the Company. (cont.)

IT Services Industry News Briefs (continued)

The merger agreement provides that, at the closing of the merger, each outstanding share of the Company's common stock (other than Company common stock owned by Snowbird) will be converted into the right to receive \$3.22 in cash. All outstanding stock options will be assumed by Snowbird. As a result of the merger, the Company will become a privately-held company. Accordingly, upon closing, the registration of the Company's common stock under the Securities Exchange Act of 1934 will terminate and the Company will cease filing reports with the SEC.

SALT LAKE CITY, UT, March 3, 2003 – SBI and Company (SBI) announced today the completion of its acquisition of Razorfish, Inc. On February 28, 2003, SBI merged its wholly-owned subsidiary, SBI Purchase Corp., into Razorfish. As a result of the merger, Razorfish is now wholly-owned by SBI. SBI had previously acquired approximately 52% of the issued and outstanding shares of Razorfish pursuant to a tender offer that was completed January 22, 2003. All Razorfish stockholders of record as of February 28, 2003 (other than SBI) are entitled to receive the merger consideration of \$1.70 per share. Razorfish has notified Nasdaq of the merger and Razorfish shares will no longer be traded from and after 9:00 a.m. Eastern Time March 3, 2003.

FAIRFAX, VA, February 26, 2003 – mindSHIFT Technologies, the premier provider of managed Information Technology infrastructure services for organizations, today announced it has acquired Universal Access Consulting (UAC), a New Jersey-based IT services firm that provides technology infrastructure consulting and managed IT outsourcing to small and medium sized businesses (SMBs). The merged companies now represent one of the strongest and fastest growing entities in the Managed Service Provider (MSP) space. Financial terms of the acquisition were not publicly disclosed.

LONDON, ENGLAND, February 11, 2003 – ECsoft Group plc announced that its business combined with CIBER, Inc. and will form the major part of CIBER's strategic plans to grow substantially in Europe. This announcement followed the cash offer made by CIBER for ECsoft shares becoming wholly unconditional. ECsoft shares ceased to be quoted on the London Stock Exchange on 28th January 2003. CIBER's European presence grew to over 700 staff through the ECSoft acquisition, providing the combined businesses with an improved competitive position to service an expanding international customer base. CIBER's combined workforce will now total around 6,000. CIBER expects ECsoft operations to add \$50-54 million to the Company's 2003 results and to be accretive to its full year results.

Upcoming IT Professional Services Events

- | | |
|---------------------|--|
| October 7, 2003 | ITAA and CIO Magazine Executive Diner Series, Atlanta, GA
For more information, call (703) 284-5353 |
| October 8-9, 2003 | Staffing Industry Analysts VMS Decision 2003, Chicago, IL
For more information, call (800) 950-9496 x200 |
| October 15-17, 2003 | 2003 NTSA Annual Conference seminar, San Francisco, CA
For more information, call (703) 684-4722 |
| October 16, 2003 | ITAA Outlook for the IT Services Sector: Opportunities in the Federal, State and Local Government Markets, Chicago, IL
For more information, contact Jeff Lande at jlande@itaa.org |
| October 19-20, 2003 | Gartner Symposium ITxpo, Orlando, FL
For more information, call (800) 778-1997 |
| October 22-25, 2003 | NACCB 16th Annual Conference, Dallas, TX
For more information, call (800) 340-2366 x110 |
| October 27-30, 2003 | ASA Staffing World 2003, Las Vegas, NV
For more information, call 703-253-2020 |

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



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