



Solganick & Co.



IT Services, Cloud and Managed Services M&A Update

Q1 2016

April 25, 2016

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Solganick & Co. is an independent investment banking and M&A advisory firm focused exclusively on the global Software, IT Services and Digital Media industry sectors. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

Sources for our research and data include: Dealogic, Thomson Reuters, Company Websites, SEC Filings, MergerMarket, Pitchbook

M&A Market Brief

Despite Global Slump, Technology M&A Remains Robust

Worldwide

- According to MergerMarket, worldwide M&A activity during the first quarter of 2016 slowed significantly following a record year. Deals are re-balancing towards a more sustainable level with Q1 2016 deal value amounting to \$597.4 bn, down 24% from Q1 2015. It also represents a significant decline from the previous three quarters that all posted more than \$1 tn in deal activity.
- Amid greater global uncertainty, the mega-deal frenzy that started in 2014 is also beginning to wind down as companies look towards less sizeable deals. During Q1 2016, 8 mega-deals (>\$10 bn) were recorded at \$158.5 bn, down from 13 worth \$259.4 bn in Q1 2015. Despite this, it is still the second highest Q1 value since 2009.
- In sharp contrast to 2015, when the United States and Asia exhibited a greater appetite for deals, the two regions saw a slowdown in deal activity of over 30%. Meanwhile, in Europe, deal value amounted to \$174.6 bn as the region has attracted a lot of Chinese interest this year, keeping activity on par with a slight 2.6% decrease compared to Q1 2015.
- Despite signs of a broader cooling down, China scaled up its search for foreign targets in Q1 2016. Its outbound activity accounted for 26.3% of total cross-border deals, a steep increase considering no full year has ever surpassed 7.6%. Total deal value amounted to US\$ 81.7bn in the first quarter, already a record annual total.

United States

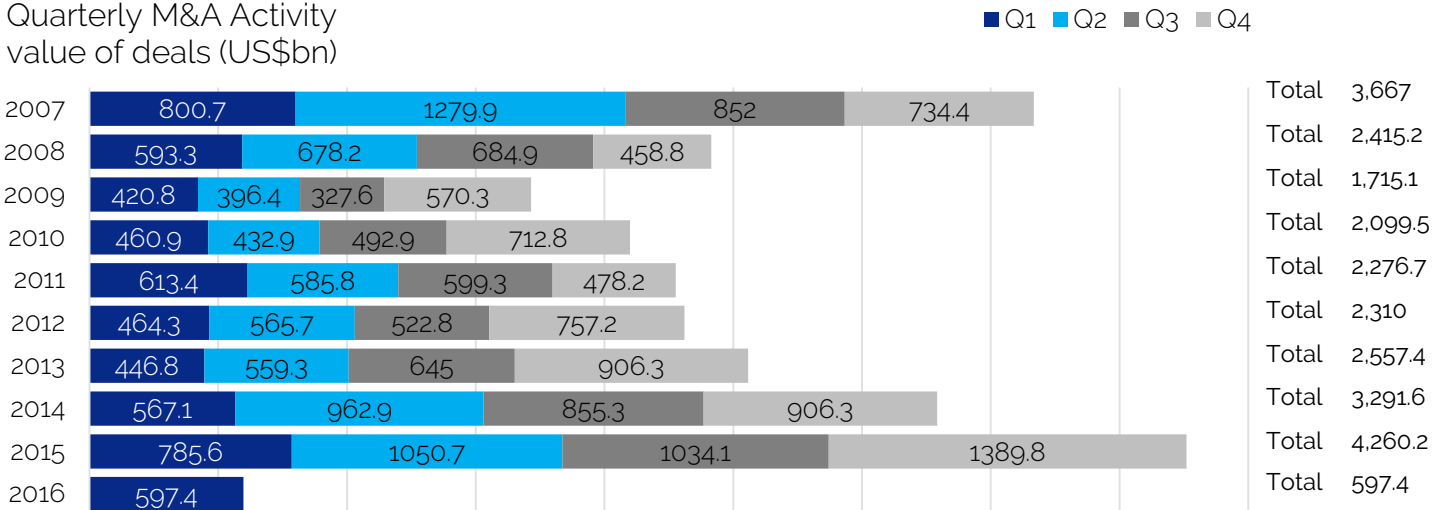
- Within the United States, deal activity also showed signs of cooling down in the first quarter of 2016. 1,007 deals worth a total of \$241.5 bn was recorded during the period, down 33% compared to Q1 2015's 1,250 deals worth \$361.3 bn. The US share in global M&A activity stood at 40.5%, down from 46.2% during the record year of 2015.
- According to Dealogic, US targeted cross-border M&A volume so far in 2016 stands at \$48.3bn, the highest YTD level since 1999, which had a total of \$80.9bn. China and Canada lead in US cross-border acquisitions, which so far stand at \$23.5bn and \$18.3bn respectively. Combined, the two nations account for 87% of US targeted cross-border volume in 2016 YTD, compared with a 49% share in 2015 YTD.
- Pharmaceuticals, Medical & Biotech led US M&A activity entering 2016, with \$55.9 bn recorded in Q1, followed by Energy, Mining & Utilities (\$48.2 bn) and Industrials & Chemicals (\$42.8 bn). Technology came in fourth, with \$24.1 bn of deals recorded during the three months.
- Tax inversion targets, traditionally coming from the Pharma, Medical & Biotech sector, now appear to be shifting toward other sectors such as Industrials & Chemicals, in a bid to scale up to >\$100 bn conglomerates.

IT Services & Cloud

- Healthcare IT has led the charge in IT services and cloud M&A in Q1 2016 as healthcare providers look for IT solutions. Venture capital and private equity funding in healthcare information technology reached \$1.4 bn in the first quarter, an increase of 27% from Q4 2015. The top funded areas were wearables, data analytics, telemedicine, mHealth applications and consumer health education.
- Cloud services and managed services were also tops for buyers in Q1 as traditional IT services firms and VAR's moved to increase their market share of recurring revenues.
- Marketing services and technology was also active, with 187 transactions in Q1 2016 at a total value of \$8.1 bn.
- Notable IT services acquisitions were IBM's acquisition of Truven and Bluewolf, TSYS's acquisition of TransFirst, and NTT Data's acquisition of Dell's Perot Systems for \$3B.
- The median Implied Enterprise Value/Revenue (EV/R) and Implied Enterprise Value/EBITDA (EV/EBITDA) for the US IT Services, Cloud/Managed Services sectors were as follows:
 - Systems Integrators and IT Consulting: 1.1x and 10.2x
 - Cloud and Managed Services: 1.9x and 7.4x
 - IT Staffing: 0.3x and 9.0x
 - VAR's: 0.2x and 7.0x

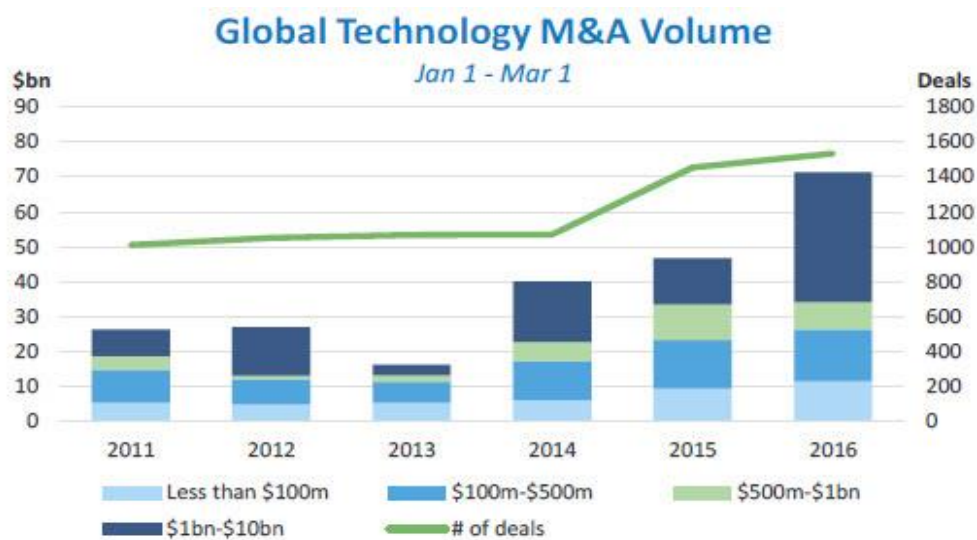
Global M&A Deal Volume – Quarterly Comparison

Quarterly M&A Activity
value of deals (US\$bn)



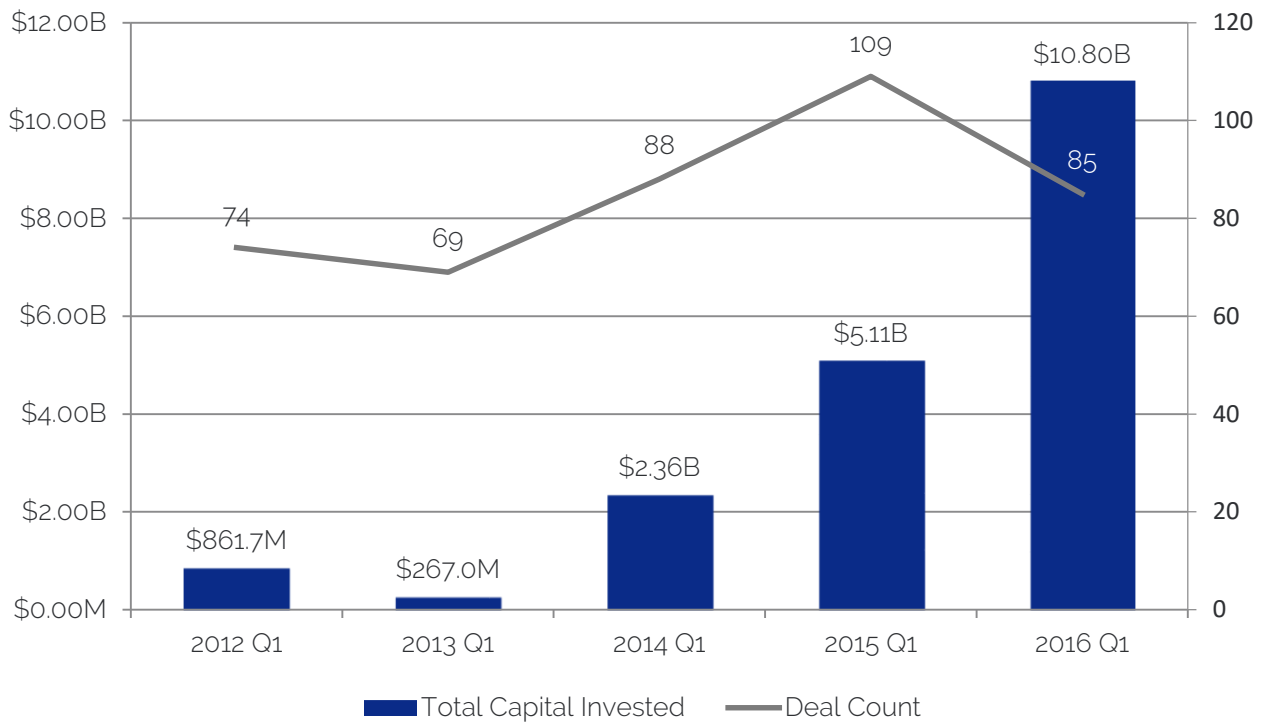
Source: MergerMarket

Technology M&A Deal Volume – Quarterly Comparison



Source: Dealogic

US IT Services M&A Activity Quarterly Data



Source: Solganick & Co. Analysis, PitchBook

Key Trends in Technology and IT Services M&A

As predicted in our 2016 outlook in the last report, technology M&A activity remains robust. The Internet of Things (IoT), cloud migration, the need to acquire innovations and strong corporate earnings are driving acquisitions and this year is poised to be at par with, if not better than, 2015 which saw record deals closed overall globally. So far in Q1 2016, global technology M&A stands at \$71.4 billion with a total of 1,535 deals, the highest YTD level since the dotcom era, and an increase of 53% from 2015.

Healthcare IT Leads the Charge in Acquisitions

Leading the charge in the IT sector M&A in first quarter 2016 has been the Healthcare IT vertical, as healthcare providers search for information technology solutions and adopt cloud capabilities. According to data from Mercom Capital Group, a global communications and consulting firm, venture capital, private equity and corporate venture funding for Healthcare IT reached \$1.4 billion at 146 deals closed, compared to 145 deals in fourth quarter 2015 with a value of \$1.1 billion. This represents a 27% increase from fourth quarter 2015, and a 74% increase compared to a similar period in first quarter 2015.

The areas with the most funding were wearables/sensors (part of the IoT) at \$260 million, Data Analytics at \$197 million, Telemedicine at \$171 million, mHealth applications at \$120 million, and Consumer Health Information/Education at \$100 million.

IT Services Companies Expand into Digital

IT Services companies are buying up digital agencies. The increase in mobile devices and social media by both companies and consumers has boosted the value and the need for digital marketing agencies. While traditional agencies produce marketing and advertising campaigns for print, radio and television, digital agencies develop campaigns for websites, social media and mobile devices. The IT services and digital agency sub-sectors have been active on the M&A front, with several strategic buyers on the prowl for targets.

Among the strategic acquirers buying digital agencies are: IBM (NYSE: IBM), Web.com Group Inc. (Nasdaq: WEB), Accenture (NYSE: CAN), and Perficient (NASDAQ: PRFT). Buyers have been looking both in the U.S. and internationally for deals.

In February, IBM announced plans to acquire digital marketing agency Ecx.io, headquartered in Dusseldorf, Germany. The two companies say the deal comes during a time when customer service in e-commerce is crucial. Ecx.io serves clients such as fabrics distributor JAB Anstoetz. The

move follows IBM's pending purchases of digital marketers Aperto, based in Berlin, Germany, along with Resource/Ammirati in Columbus, Ohio. IBM has also been investing to grow its digital business organically. In 2016, the company opened design offices in Dubai, Prague and Warsaw.

Web.com has recently completed its purchase of Yodle Inc. for up to \$342 million in cash. Yodle, based in New York, provides social media and search engine assistance to small businesses. Web.com in Jacksonville, Florida, offers website and online marketing services to businesses. The company says the purchase of Yodle will give it additional products, such as cloud-based software. "This market segment has been a strategic focus for us for several years," says Web.com CEO David Brown.

Perficient Inc. (Nasdaq: PRFT) launched a full-service, 200-person digital agency division to better meet the growing technology demands of chief marketing officers. It recently acquired digital marketing agencies Enlighten in December and Zeon Solutions the previous year. As online shopping and e-commerce keeps making gains with consumers and companies, M&A in digital advertising will rise along with it.

Table 1. Notable IT Services, Cloud and Managed Services M&A Transactions in Q1 2016

Date	Target	Acquirer	Target Industry Sub-sector	Description	Deal Value (US \$M)	Enterprise Value/ Revenue	Enterprise Value/ EBITDA
01/04/2016	CRMWaypoint	Accenture	Cloud Services and IT Consulting	Provider of cloud advisory and technology services. The company is a supplier of cloud advisory and technology services in the Netherlands, specializing in salesforce cloud solutions for sales, service and marketing.			
01/13/2016	ac2 Solutions	inContact	IT Consulting and Outsourcing; Hosting	Provider of IT hosting and outsourcing services. The company offers web hosting, workforce management outsourcing, database management and IT support services.	18.90		
01/16/2016	PCC Technology Group	Clearview Capital, GCR Inc.	IT Consulting and Outsourcing	Provider of cloud based applications and components for targeted industries and system integration, strategic planning and contract staffing.	130.00		
01/16/2016	Lockheed Martin (Information Systems & Global Solutions Business)	Leidos Holdings	IT Services	Provider of information systems and technology services, including air traffic management, technical services, government information technology, commercial cyber and government healthcare IT.	5,000.00		
01/27/2016	Point to Point	HCL Technologies	IT Consulting and Outsourcing	Provider of cloud engineering and enterprise workplace transformation services. The company offers virtualization, monitoring and reporting, information technology strategy implementations, mobile device management and cloud computing services.	11.54	0.90x	
02/01/2016	Red Cloud IT Solutions	First Class Technologies	IT Services: Cloud Services	Provider of information technology services. The company provides IT and cloud services to small medium enterprises in United Kingdom.			
02/03/2016	Cloud9-IT	Absolute Logic	IT Consulting and Outsourcing	Developer of business information technology services. The company offers updating and installing, data recovery, data protection, data backup, computer repairing and other related services.			

02/09/2016	PacketDrivers IT Outsourcing	Aldridge	IT Consulting and Outsourcing	Provider of information technology services. The company offers technology consulting, computer support, network and outsourcing services in United States.			
02/15/2016	CloudMas	Itconic, The Carlyle Group	IT Consulting and Outsourcing; Cloud Services	Provider of cloud consulting services. The company specializes in consulting and distribution of public cloud and offers services and professional tools to manage and control the infrastructure of customers.			
02/29/2016	Stratix	Tailwind Capital	IT Consulting and Outsourcing	Provider of enterprise mobile management services. The company offers consulting, deployment, software, 24*7 support and asset management services for the enterprise mobile workforce within the retail, manufacturing, transportation and field service industries.			
02/29/2016	UXC	Computer Sciences	IT Consulting and Outsourcing	Provider of IT consultancy services. The company offers consulting and advisory, IT infrastructure and enterprise applications services.	291.71	0.50x	9.40x
03/02/2016	Onyx Payments	Amadeus IT Group, FleetCor Technologi es, Sabre Corporation , WEX	Other IT Services; Payment Processing and Outsourcing	Provider of payment financial services outsourcing to hotels and travel agencies, including commissions receipt and disbursement, foreign currency exchange and reconciliation and tracking services.	300.00		
03-28-2016	Dell Systems	NTT Data	IT Consulting and Outsourcing	Provider of information technology and business services, including infrastructure services, applications services, business process and consulting services.	3,050.00	1.0x	
03-30-2016	netAura	CenturyLin k	IT Security Services	Provider of cyber security services. The company specializes in engineering, developing and consulting on managed security technologies.			
03-30-2016	Bluewolf Group	Internationa l Business Machines	IT Consulting and Outsourcing	Provider of cloud-enabled consulting and implementation services primarily for Salesforce.com solutions. It offers IT staffing services under contract, contract-to-hire and permanent placement. It also offers services in application management and remote database administration.	200.00	2.0x	

Source: PitchBook

Table 2. Ten Most Active IT, Managed & Cloud Services Acquirers in Q1 2016

Acquirer	Headquarters Location	Number of Acquisitions	Target Industry Subsectors
Y Combinator	Mountain View, CA	4	IT Consulting and Outsourcing
EOH Holdings	Bedfordview, South Africa	4	IT Consulting and Outsourcing, Systems and Information Management
PriceWaterhouseCoopers	New York, NY	3	IT Legal Services Consulting and Outsourcing, Systems and Information Management
Aldridge	Houston, TX	2	IT Consulting and Outsourcing
Amadeus IT Group	Madrid Spain	2	Other IT Services -financial and booking
Accenture	Chicago, IL	2	Systems and Information Management, Financial Software
Etteplan	Vantaa, Finland	2	IT Consulting and Outsourcing, Systems and Information Management
Pinnacle Technology Group	London, United Kingdom	2	Systems and Information Management, Telecommunication Service Providers
Apax Partners	London, United Kingdom	2	IT Consulting and Outsourcing, Telecommunications Service Providers
Ares Capital	Los Angeles, CA	2	Systems and Information Management

Source: PitchBook

Table 3. Publicly Traded IT Services Valuation Table – Q1 2016

Consulting	Ticker	Stock price	Market cap	EV/revenue	EV/EBITDA
Charles River Associates Intl	CRAI	19.62	177M	0.50	7.50
FTI Consulting	FCN	35.51	1.45B	1.00	8.80
Hackett Group	HCKT	15.12	448M	1.80	17.20
Huron Consulting Group	HURN	58.19	1.3B	2.00	9.70
Information Services Group	III	3.93	146M	0.90	11.10
Navigant Consulting	NCI	15.81	757M	1.00	7.50
Resources Connection	RECN	15.56	579M	0.80	8.90
			Average	1.14	10.10

Systems integrators	Ticker	Stock price	Market cap	EV/revenue	EV/ EBITDA
Accenture	ACN	115.4	72.23B	2.30	14.70
Cap Gemini	CAP.PA	91.75	15.46B	1.40	13.20
CIBER	CBR	2.11	166.9M	0.20	10.30
CGI Group	GIB	40.86	14.56B	2.10	12.40
Edgewater Technology	EDGW	7.79	89.6M	0.70	25.90
Hackett Group	HCKT	15.12	447M	1.80	17.20
Perficient	PRFT	21.72	725.6M	1.70	14.80
			Average	1.45	15.50

Outsourcing	Ticker	Stock price	Market cap	EV/revenue	EV/ EBITDA
Accenture	ACN	115.4	75.23B	2.30	14.70
ATOS	ATO.PA	79.53	8.05B	0.70	6.60
Computer Services Corp.	CSC	34.39	4.78B	0.50	6.70
Hewlett-Packard Co.	HPQ	12.32	22.18B	0.30	3.20
IBM	IBM	151.45	148.23B	2.20	9.20
Unisys	UIS	7.7	384M	0.10	2.70

Average **1.02** **7.18**

Offshore	Ticker	Stock price	Market cap	EV/revenue	EV/ EBITDA
Cognizant Technology Solutions	CTSH	62.7	34.79B	2.80	14.10
Infosys Technologies	INFY	18.27	37.023B	4.20	15.00
Syntel	SYNT	49.93	4.19B	3.40	11.00
Virtusa	VRTU	37.46	1.09B	1.90	13.50
Wipro	WIT	8.41	20.63B	2.50	10.70

Average **2.96** **12.86**

Var	Ticker	Stock price	Market cap	EV/revenue	EV/ EBITDA
CDW	CDW	41.5	7.07B	0.80	10.70
ePlus	PLUS	80.51	571.9M	0.50	6.70
Insight Enterprises	NSIT	28.64	1.09BM	0.20	6.10

Average **0.50** **7.83**

Source: Solganick & Co. Analysis, PitchBook (All data provided as of March 31st, 2016)

M&A Spotlight



IBM Acquires Bluewolf to Accelerate Cloud-based Salesforce Customer Experiences

ARMONK, N.Y. – March 31, 2016: IBM announced plans to acquire Bluewolf Group LLC, one of Salesforce's top partners and a globally recognized leader in cloud consulting and implementation services. Bluewolf was majority owned by private equity firm Riordan, Lewis and Hayden. Acquisition of global strategic Salesforce consulting partner uniquely pairs cloud services and strategic consulting with innovation in experience design, mobility and cognitive solutions. Together, Bluewolf and IBM will extend IBM's analytics, experience design and industry consulting leadership with one of the world's leading Salesforce consulting practices to deliver differentiated, consumer-grade experiences via the cloud.

Upon completion of this transaction, Bluewolf will join the existing Interactive Experience (iX) practice of IBM Global Business Services to form a deeper consulting capability for clients adopting the innovative Salesforce solutions that transform relationships with their customers. IBM iX's deep proficiency in experience design and data integration, combined with the cloud consulting and implementation capabilities of Bluewolf, will uniquely position IBM for both midmarket and enterprise clients in the Salesforce professional services industry, projected at \$111 billion.

"There is no question that the consumer-grade experience has emerged as a fundamental element in modern business strategy," said Bridget van Kralingen, senior vice president, IBM Global Business Services. "Meeting that expectation defines next-generation differentiation and competitive position, and with Bluewolf, we add expertise to scale that capability to the cloud-based capabilities of Salesforce."

Businesses are evolving to meet rising consumer expectations for sophisticated experiences. Eighty-one percent of C-suite leaders anticipate more digital and virtual engagement by 2020 and 66 percent anticipate a stronger focus on customers as individuals. To deliver, companies are transitioning from legacy CRM platforms to cloud-based solutions that enable the agility and

innovation required. Upon close of the transaction, as part of IBM iX, Bluewolf will continue to develop solutions around Salesforce industry implementations, with a strong foundation based on Bluewolf's library of industry-specific assets, accelerators and mutual expertise in the financial services, healthcare, manufacturing, higher education, public sector and new media industries, among others.

IBM iX is a next-generation hybrid consultancy and digital agency dedicated to creating experiences that connect data with design and develop personalized customer experiences that change how companies do business. iX services span industry strategy, creative and design, to scalable digital, commerce, mobile and wearable platforms. iX specialists work side-by-side with clients including Nationwide, Qantas, Jaguar and Wimbledon to co-create experiences that transform brands and result in greater business outcomes.

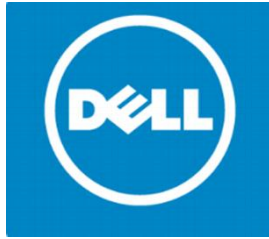
The planned acquisition is expected to close in the second quarter of 2016. Financial details were not disclosed, however, media reported the deal to be approximately \$200m.

News link: <http://www-03.ibm.com/press/us/en/pressrelease/49434.wss>

EV/Revenue*: 2.0x

*Media estimated the transaction to be approximately \$200m of which BlueWolf generated approximately \$100m of revenues.

NTT Data



Dell Sells its IT Services Unit, Perot Systems, to NTT Data

Tokyo, Japan – March 28, 2016: Dell has agreed to sell its IT services subsidiary, Dell Services, to NTT Data for \$3.06 billion. Dell Services is the former Perot Systems, a company founded by Ross Perot. Dell purchased the company toward the end of 2009 for \$3.9 billion. Dell, which went private in 2013, is trying to raise money as it prepares to complete a \$67 billion acquisition of EMC. NTT Data, is the systems integration unit of Tokyo-based Nippon Telegraph and Telephone.

NTT praised Dell Services as being "an IT services provider recognized for its depth in vertical industries and for its offerings around infrastructure services, cloud services, application services, and business process outsourcing." But under NTT, Dell Services will benefit from "expanded technology resources" and a network of 230 data centers operated by NTT worldwide, the announcement said. The combined company will give NTT Data a greater presence in North America and focus on customers in health care, financial services, insurance, and government.

NTT Data, which has made numerous acquisitions, "has more than doubled in market value since 2011 on rising sales to financial and healthcare businesses using the company's data centers and software," according to Bloomberg. NTT Data is expected to hire the 28,000 Dell Services employees located mainly in North America and India.

News Link: <http://arstechnica.com/business/2016/03/dell-to-sell-perot-systems-unit-to-ntt-data-at-loss-of-800-million/>

EV/Revenue*: 1.0x

*Estimate from media sources: Perot Systems Corp. was generating \$3B in revenues.



CenturyLink Acquires Managed IT Security Services Firm netAura

MONROE, Louisiana - March 30, 2016: CenturyLink, LLC today announced it has acquired netAura LLC, a security services firm that specializes in engineering, developing and consulting on managed security technologies. The acquisition strengthens and enhances CenturyLink's managed security services available to business and government customers.

Herndon, Va.-based netAura has deep expertise, having worked extensively with U.S. government agencies and corporations on cybersecurity, security information and event management (SIEM), analytics and vulnerability management since it was founded in 2011.

"The combination of CenturyLink's powerful IT solutions and netAura's strengths in implementation services will enable our customers to continue to meet their security challenges head-on," said Girish Varma, president, Global IT Services and New Market Development, CenturyLink. "This acquisition helps us continue to deliver comprehensive security architectures to existing and future customers."

The acquisition further validates CenturyLink's commitment to IT services. Last month the company announced its enhanced Managed Security Services Suite, which helps organizations ease the burden of having to manage security in-house. The fully managed platform is designed to be the backbone for an organization's security services, including preventing, mitigating and responding to cyberattacks.

CenturyLink provides market-leading network, IT services and cloud solutions. The company's growing Global IT Services and New Market Development organization focuses on IT strategy and systems consulting, application services development and management, quality assurance and testing, as well as remote infrastructure management.

News Link: <http://news.centurylink.com/news/centurylink-acquires-it-security-services-firm-netaura>

About Solganick & Co.

Solganick & Co., Inc. is an independent investment banking and M&A advisory firm focused exclusively on the global Software, IT Services and Digital Media industry sectors. We advise buyers and sellers of companies and efficiently execute M&A transactions that help increase shareholder value. Our professionals have advised on \$20+ billion in M&A transactions to date and have current clients and relationships globally with entrepreneurs, companies and leading private equity firms within the sectors we cover.

Please contact us for information regarding this report or to inquire about an M&A transaction.



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