

How to Position a Software Company for a Strategic Acquisition

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Current M&A Environment

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Technology Market Overview

COMMENTARY

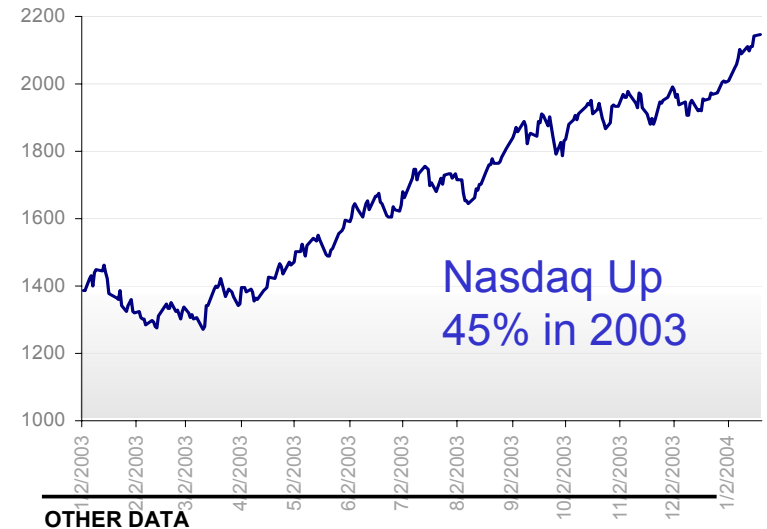
Public market valuations have rebounded

- High IPO standards suggest M&A will remain the dominant form of liquidity

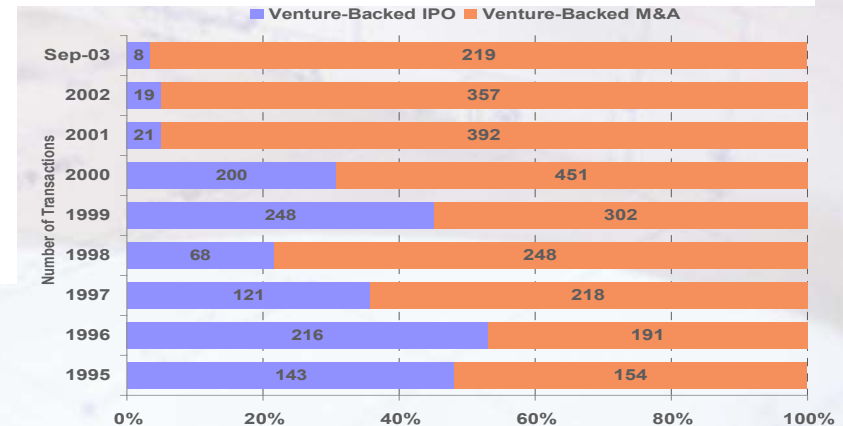
Clear preference for performance over promise

- Premium valuation for economically viable business models
- Scale economies: “acquire or be acquired”
- Hot sectors: Security, ECM, utility computing, Information Lifecycle Mgt. (ILM)

NASDAQ PERFORMANCE 2003



OTHER DATA



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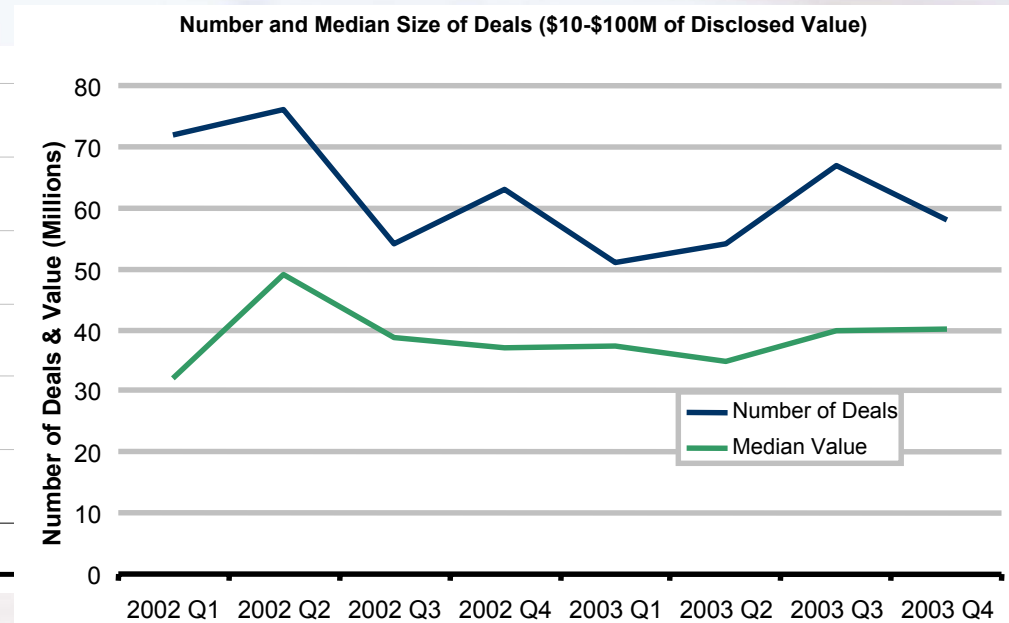
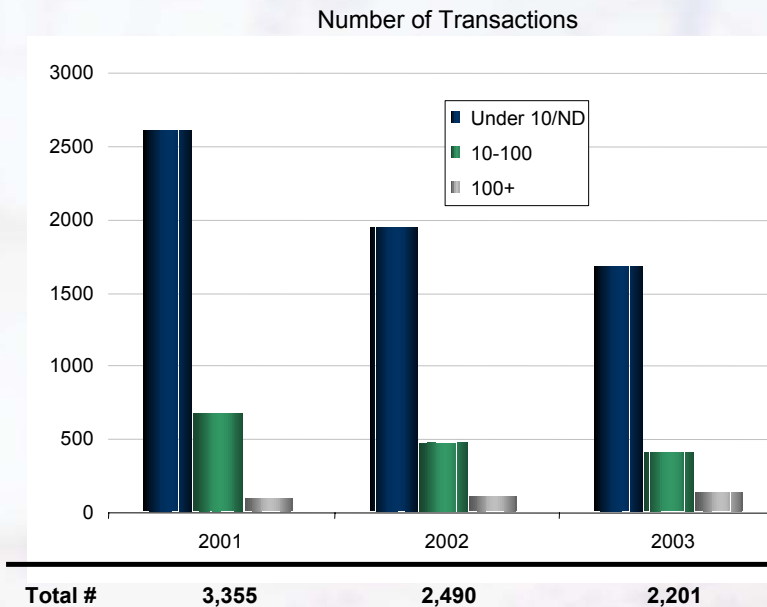
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Global Software M&A volume

- Majority of transactions under \$10M
- Some strengthening in over \$100M transactions in past year



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Hot sector: Enterprise Content Management

- Content Management consolidating rapidly
> 22 transactions since January of 2002
- Defining transactions–EMC/Documentum
(6.0x revenues)
- Defining Transactions–OpenText/Ixos/Gauss
- Indications are this sector consolidation will be completed in the next 6-12 months as the bigger ERP players complete their acquisitions

Acquirer	Target
Vignette	Tower
Stellent	Optika
IBM	Apatrix
OpenText	IXOS
OpenText	Gauss
Interwoven	iManage
EMC	Documentum
iManage	Component Insights
IBM	CrossAccess
Stellent	Ancept
OpenText	Eloquent
IBM	Presence Online
Oracle	FileFish
Interwoven	MediaBin
FileNet	Shana
IBM	Tarian
Documentum	TrueArc
Documentum	eRoom
Stellent	Kinecta
FileNet	eGrail
Interwoven	XYZFind
Documentum	Boxcar Software

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Hot sector: Security

- Consolidating rapidly >28 transactions since January of 2002
- Defining Transactions – Symantec acquired 10 companies for average consideration of ~ \$80M per transaction and maintains cash balances of ~ \$2B
- Defining Transactions – Juniper Networks acquiring NetScreen for \$3.4B (9.4X Rev)
- Likely to spark a number of deals in load balancing, caching, ASICS and other performance enhancements

Acquirer	Target
Secure Computing	N2H2
F5	uRoam
Tumbleweed	Valicert
Microsoft	GeCAD
Network Associates	IntruVert
Symantec	Nexland
Network Associates	Entercept
Cisco	Okena
BEA	CrossLogix
Network Associates	Deersoft
Cisco	Psionic
NetIQ	Marshal
Internet Security Sys	vCIS Tech
SafeNet	Cylink
Network Associates	Bysupport
NetIQ	PentaSafe Security
Netscreen	OneSecure
Symantec	Riptech
Symantec	Recourse
Symantec	Security Focus
Symantec	Mountain Wave
WatchGuard	RapidStream
Clearswift	Baltimore Tech Sub.

Hot sector: Utility Computing

- Rapid pace of transactions > 30 since 01/02
- Sun has acquired 5 companies since 01/02 for over \$50M (avg./txn.) to fill out its N-1 strategy. N-1 has yet to produce revenues.
- VERITAS acquired 3 companies for \$60M (avg./txn) for IP and ~8X multiple for Precise
- IBM, first to announce a \$10Bn investment in autonomic computing has since acquired ThinkDynamics into its Tivoli Orchestrator Group for bare metal Infrastructure management and server provisioning
- HP acquired ExtremeLogic, Persist, Novadigm and Consera – Adaptive Enterprise initiative built around OpenView

Acquirer	Target
Sun	Clustra Systems
CA	Intraware
Micromuse	RiverSoft PLC
Altiris	Previo
IBM	Access360
Microsoft	Xdegrees
Sun	Pirus Networks
Quest Software	Sitraka
Sun	Terraspring
VERITAS	Precise
VERITAS	Jareva
Microsoft	Connectix Corp
IBM	Think Dynamics
Mercury Interactive	Kintana
Oracle Corp	FileFish
Concord Comm.s	netViz Corp
Sun	CenterRun
Mercury Interactive	Allerez
HP	Extreme Logic
Symantec	ON Technology
HP	Persist
Sun	Waveset
Altiris	Wise Solutions Inc
Opware	Tangram
EMC	VMWare
RedHat	Sistina
VERITAS	Ejasent
HP	Novadigm
HP	Consera

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Largest companies - more acquisitive

These buyers - 26% more deals 2003 than 2002, and 33% more than in 2001

Many large buyers have articulated acquisition growth strategies, increasing their appetite for deals

Improving public equity values raises confidence and provides an additional resource to support acquisition activity

M&A for 20 Largest Software Vendors

	2001	2002	2003	Total
IBM Corp.	5	10	7	22
Microsoft Corp.	4	4	3	11
Hewlett-Packard ^	4	0	7	11
Oracle Corp.	2	4	2	8
SAP AG	6	2	3	11
Sun Microsystems	4	3	3	10
Computer Associates Int'l	0	3	6	9
PeopleSoft **	2	4	1	7
SunGard Data Systems	4	6	8	18
Fiserv	11	5	12	28
EMC Corp.	2	1	3	6
Convergys Corp.	1	2	3	6
LogicaCMG plc	1	3	1	5
Siebel Systems	1	0	3	4
Amdocs Management	2	0	3	5
Misys plc	2	1	2	5
VERITAS Software	2	3	0	5
Compuware Corp.	0	0	0	0
Intuit Inc.	4	5	3	12
Symantec Corp.	0	4	6	10
Total	57	60	76	193
		5.3%	26.7%	
			33.3%	

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“Serial” acquirers are varied

Over 60 companies acquired at least 3 companies each in 2003

Acquirers included software vendors, BPOs, conglomerates and publishing concerns along with international concerns.

Activision Inc	First American Corp (California)	Novo Group Oyj
Agile Software Corp	First Data Corp	Open Text Corp
Apple Computer Inc	Fiserv Inc	Oracle Corp
Auto Data Network Inc	General Electric Co	PeopleSoft Inc
Autodesk Inc	Gores Technology Group	Reuters Group PLC
Automatic Data Processing	Harland (John H) Co	Reynolds & Reynolds Co
Biofarm Inc	Harcourt Cos Inc (The)	Sage Group PLC
BMC Software Inc	Hewlett-Packard Co	SAS Institute Inc
Borland Software Corp	Index Corp	Siemens AG
Brime Technologies	iNET Interactive LLC	Sony Corp
Business & Decision	Interland Inc	SSA Global Technologies
Cadence Design Systems	IBM Corp	Sun Microsystems Inc
Cendant Corp	Intuit Inc	SunGard Data Systems Inc
CGI Group Inc	Jupitermedia Corp	Symantec Corp
Chinadotcom Corp	Kronos Inc	Thomson Corp (The)
Cisco Systems Inc	Lawson Software Inc	Torex PLC
COGNICASE Inc	MetaSource Group Inc	USA Interactive
Computer Associates Int'l	Microsoft Corp	Visma ASA
Deutsche Telekom AG	Motorola Inc	Wipro Ltd
EMC Corp	NIIT Ltd	Wolters Kluwer NV
Fidelity National Financial	Northgate Information Solutions plc	Yahoo! Inc

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Transaction Spotlight

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Transaction Spotlight

Acquisition of Ejasant by VERITAS



Ejasant

has been acquired by



VERITAS™

January 2004

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Ejasent Business Background

- Founded in 1999, focused on utility computing cornerstone technologies
- Modest headcount of 28; 20 in engineering
- Venture-funded with \$53.6M in financing
- Two primary products: *UpScale* and *MicroMeasure*
- Three business solutions:
 - Business Accountability*
 - On-Demand Services*
 - Infrastructure optimization*
- 14 patents pending, for innovative, visionary technology
- 2003 revenues – nominal
- 2004 Forecast revenues \$12M
- World class partnerships: IBM, Sun, EDS

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Ejasent Business Background

- **Leadership issues throughout, mitigated by great engineers**
 - 6 CEOS
 - Strong, very focused engineering team with low staff turnover
 - IP was diligently patented yielding 14 pending patents
- **2003 Focus – going to market through channel partners**
 - new CEO – Jason Donahue August 2003
 - hires Alliant Partners as an advisor (partnering focus)
 - MicroMeasure becomes important
 - EDS partnership yields results
 - VERITAS, Oracle, Sun, IBM and CA all show strong interest
 - UpScale – Connection Filter component in GA November 2003
 - sales focus on production and strategic pilot installations

VERITAS Background

- Company founded in 1989, IPO 1993,
- High availability storage management for enterprises
- 1997 Merged with Openvision to add backup/recovery and hierarchical storage management
- 1999 Acquired Seagate Network Storage Management
- 2003 New Utility Computing vision launched
 - Acquired Precise Software, application performance management
 - Acquired Jareva, server utilization and automation
 - Acquired Ejasent, application virtualization and measurement
- \$1.7Bn Revenues, \$2.5Bn Cash, 6,500 people, 40 countries

Basic Principles

- **Build value in your company**
 - Solve business problems that are real, identifiable and important
- **Evaluate all strategic growth options**
 - Additional capital, debt, organic only, corporate partnering, sale
 - The mission of the company and the employees continues
- **In this case timing required going to market**
 - Cash was low
 - Risk tolerance of investors had declined
 - Technology was such that a partnering approach made sense

Basic Principles

- **“Companies are bought not sold!”**
 - However - process can be encouraged
 - Valuation is the function of a rational buyer and rational seller negotiating a mutually agreeable price and is art not science
- **Successful negotiations depend on alternatives**
 - strong “go it alone” strategy
 - cash in the bank, profitable, cash flow positive
 - optimism in business validated by revenue growth or customers
 - OR other potential acquirers
- **Know objectives of each of your constituents**

The Process and The Deal

- **Key constituents**

- Board / Investors
- CEO / Management
- Founders
- Employees

- **Key advisors**

- Banking (Alliant) and Legal (Wilson Sonsini) Teams

- **Key customers**

- Validation in strategic accounts
- Collaboration with partners signaled other acquirers

The Process and The Deal

- Identify partners and focus on the top 10 first
- Create compelling partnering presentations
- Develop strategic value propositions for each prospective partner
- Approach the line side of their business
 - Customer opportunity
 - Complimentary technology
 - Build relationships
- Gentle approach to staff side of their business

The Process and The Deal

- **Ejasent / Alliant team effort**
 - Deal team meetings weekly to assess progress with each partner
 - Extremely detailed management of relationships
 - Partner plans, organizations, communications, activity
 - Strong CEO and CFO involvement critical
 - No blame, no shame, open and honest attitude
 - Aggressive schedules and accountability
 - Transparency within Ejasent and at the board
 - Focus, focus, focus...

The Process and The Deal

- **Getting to know each of the likely partners**
 - Mutual customers – “Signature” account
 - Ad hoc sales team discussions
 - Joint marketing discussions
 - Technical evaluation in parallel
- **Positioning the Business**
 - Informal executive level discussions
 - Reviewing the business strategy and business model
 - Common understanding of Vision and Strategic Fit

The Process and The Deal

- **Once interest established, strong relationship management is paramount to the outcome**
- **Managing five simultaneously interested acquirers**
 - Disciplined process of relationship management
 - Scheduling and executing pre-term sheet technical due diligence
 - Creating a cliff situation around a board meeting Dec 17th 2003
 - First offer was a pre-emptive strike
 - Negotiated term sheet while deciding whether to accept
 - Term sheet signed Sunday December 14th
- **Challenge...re-engage other parties if it falls apart**

The Process and The Deal

- **Negotiate multiple term sheet revisions**
 - A good term sheet flushes out many downstream problems
 - Cash/stock, escrow, reps & warranties
 - Exclusivity provision – keep as short as possible
 - Agree on schedule for definitive documents; due diligence; parallel activities
 - Keep constituents in the loop
- **Continue to manage the business “As Usual”**
- **Negotiate definitive merger agreement**
 - Board Approvals/Legal and Banking Opinions
 - Announcing the Deal: WSJ, Analyst Calls

The Process and The Deal

- **The Deal**
 - \$59M plus other considerations
 - 100% cash
 - employee and management carve out
 - escrow
- **Selling the Deal/Signing up the employees**
- **Approvals – Regulatory and Shareholder**
- **Integration Planning**
- **Finalizing the Transaction – January 22, 2004**

VERITAS Today

- **Continues to build “Utility Computing” platform**
- **Ejasent transaction financially immaterial, but**
 - Strategic technology
 - Strong customer interest
 - Engineering team integration
 - Product integration
- **FY2004 revenue impact not expected**
- **Veritas market capitalization up**

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Summary Conclusions

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Position a Company for Strategic Sale

- Recognize that liquidity path most realized is M&A, not IPO
- Focus on the business, not the M&A process; too distracting and difficult to time the markets
- Solve hard, real business problems
- As appropriate, establish revenue generating partnerships with leading vendors around important customers – one key customer can establish relevance

Position a Company for Strategic Sale

- Once starting a process, keep management and employees focused on sales execution and the business – a process takes 6 – 9 months and quarterly performance matters
- Hire the best help you can – get counsel engaged early to clean up any lingering issues
- Financial advisor should manage process and timetable
- Important to get multiple bidders
- Culture matters – while for investors it is a liquidity event, for the key employees it is a new working environment

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About Alliant Partners

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Alliant Partners Recent Software and IT Services Transactions

 **Ejasent**
has agreed to be acquired by
 **VERITAS™**
January 2004

S e u r a t
has been acquired by
 **Fair Isaac®**
October 2003

MOTIVA™
has been acquired by
 **SIEBEL.**
October 2003

 **SPONTANEOUS TECHNOLOGY**
has been acquired by
 **PUMATECH**
September 2003


has sold a majority equity interest
to
 **VISTA EQUITY PARTNERS**
July 2003

 **ORINCON**
has been acquired by
 **LOCKHEED MARTIN**
June 2003

 **AvantGo**
has been acquired by
 **SYBASE®**
February 2003

 **CrossLogix**
has been acquired by
 **bea™**
February 2003

 **keylime SOFTWARE**
has been acquired by
 **overture™**
January 2003

 **SYNTELLECT**
has been acquired by
 **EngHOUSE**
December 2002

macrovision™
has acquired the assets of
 **MIDBAR**
November 2002

 **teamOn systems**
has been acquired by
 **RIM**
August 2002

XDegrees
has been acquired by
 **Microsoft**
June 2002

 **EGRAIL®**
sold its assets to
 **FILENET™**
April 2002

 **on demand**
has been acquired by
 **Chordiant.**
April 2002

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