

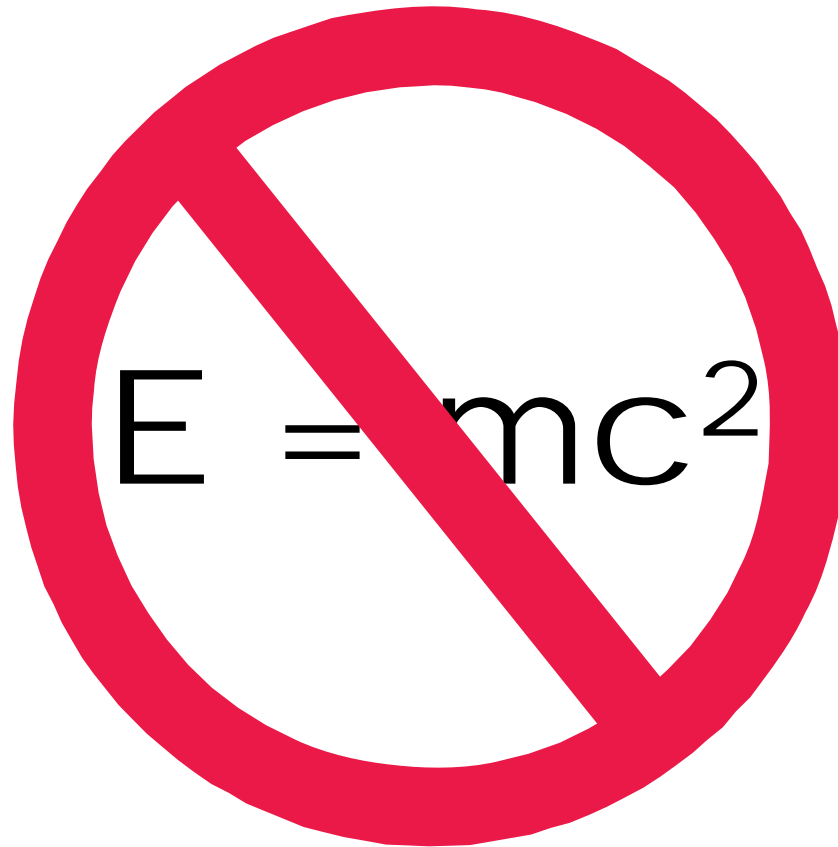
---

# Valuing Companies at Exit

February 22, 2007

# No Simple Formula

---



# Valuation Methodologies Vary

---

- Type of Company**

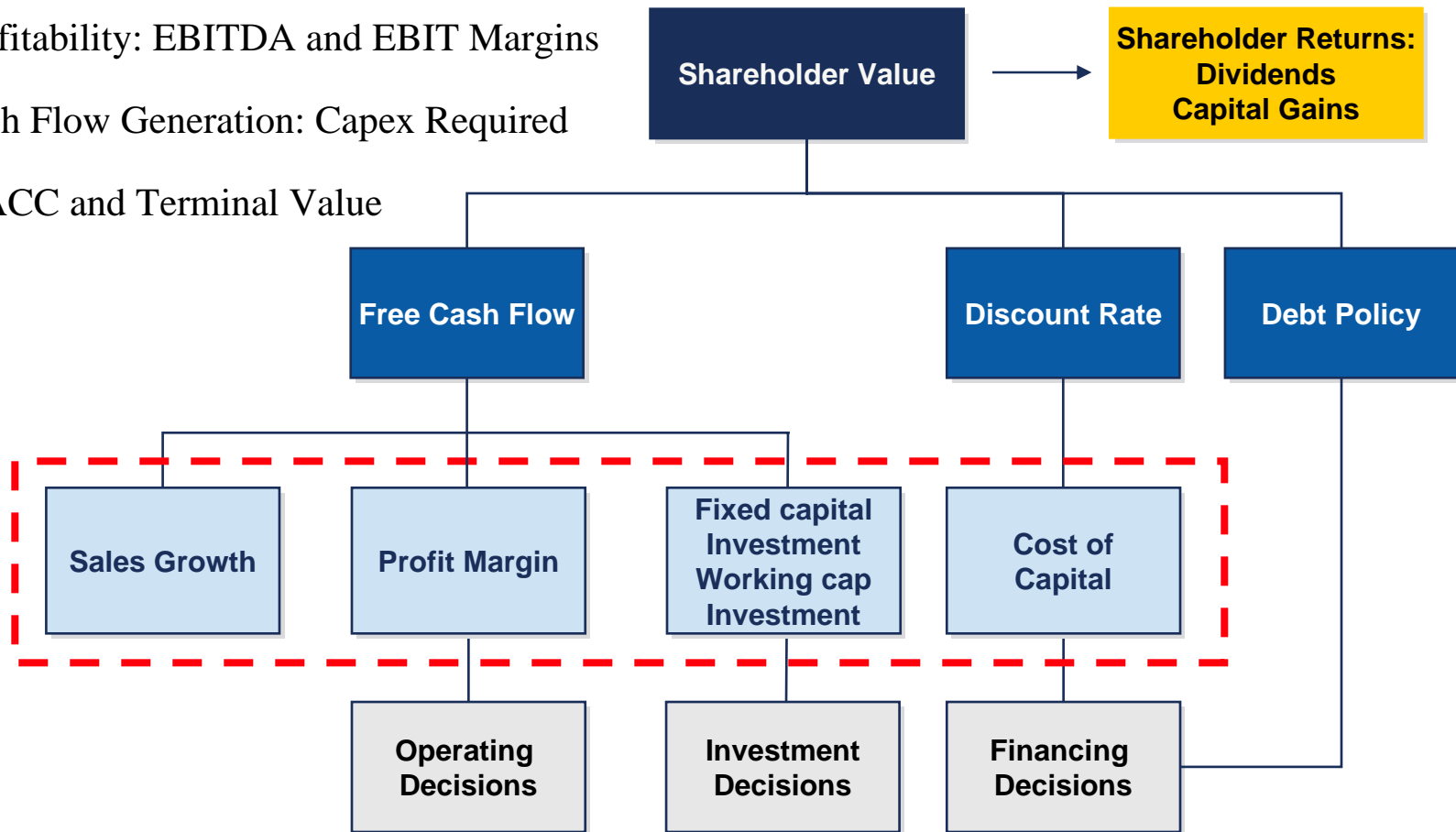
- Stages in the Market Cycle

- M&A Exit

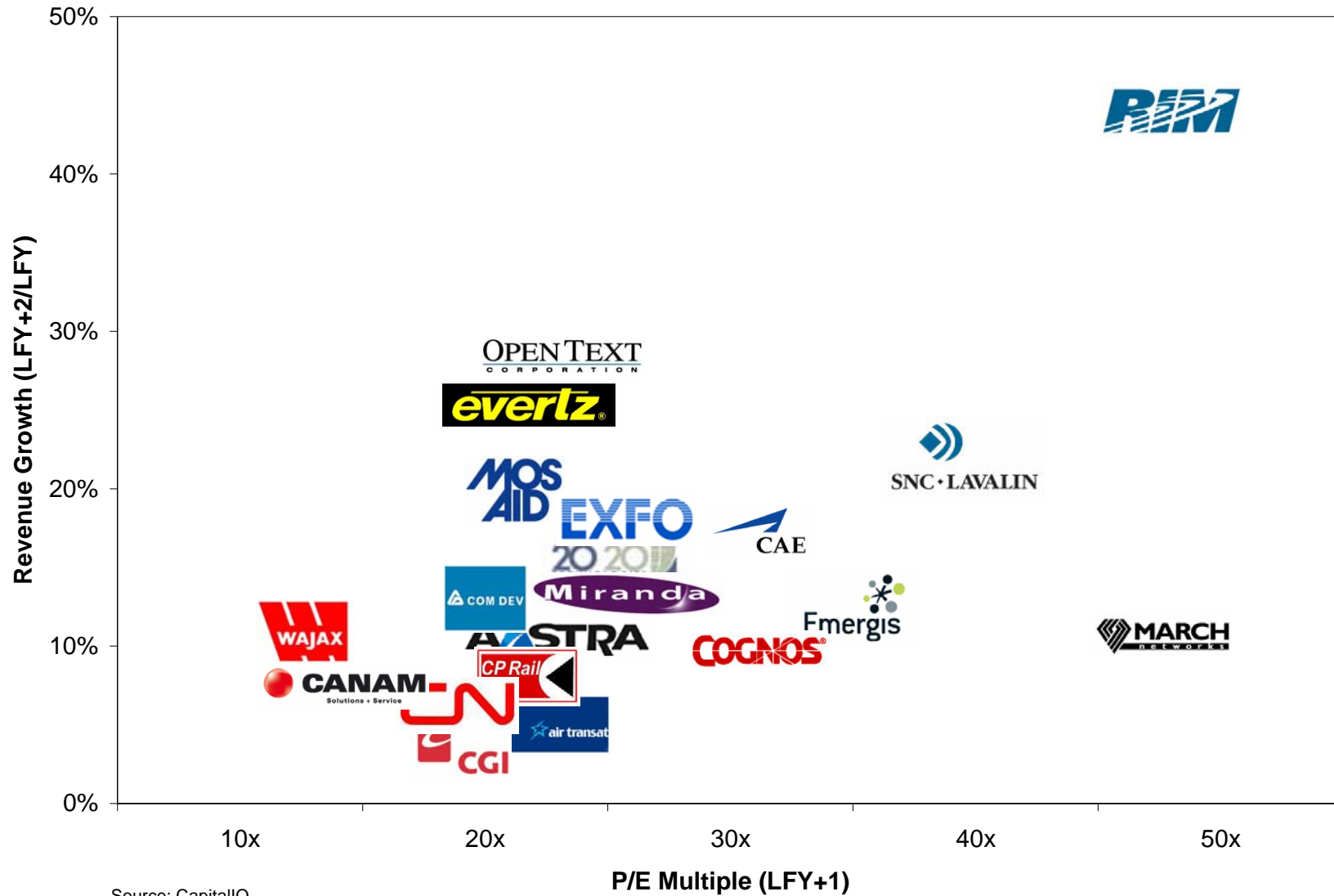
- IPO Exit

# Drivers of Shareholder Value

- Sales Growth
- Profitability: EBITDA and EBIT Margins
- Cash Flow Generation: Capex Required
- WACC and Terminal Value

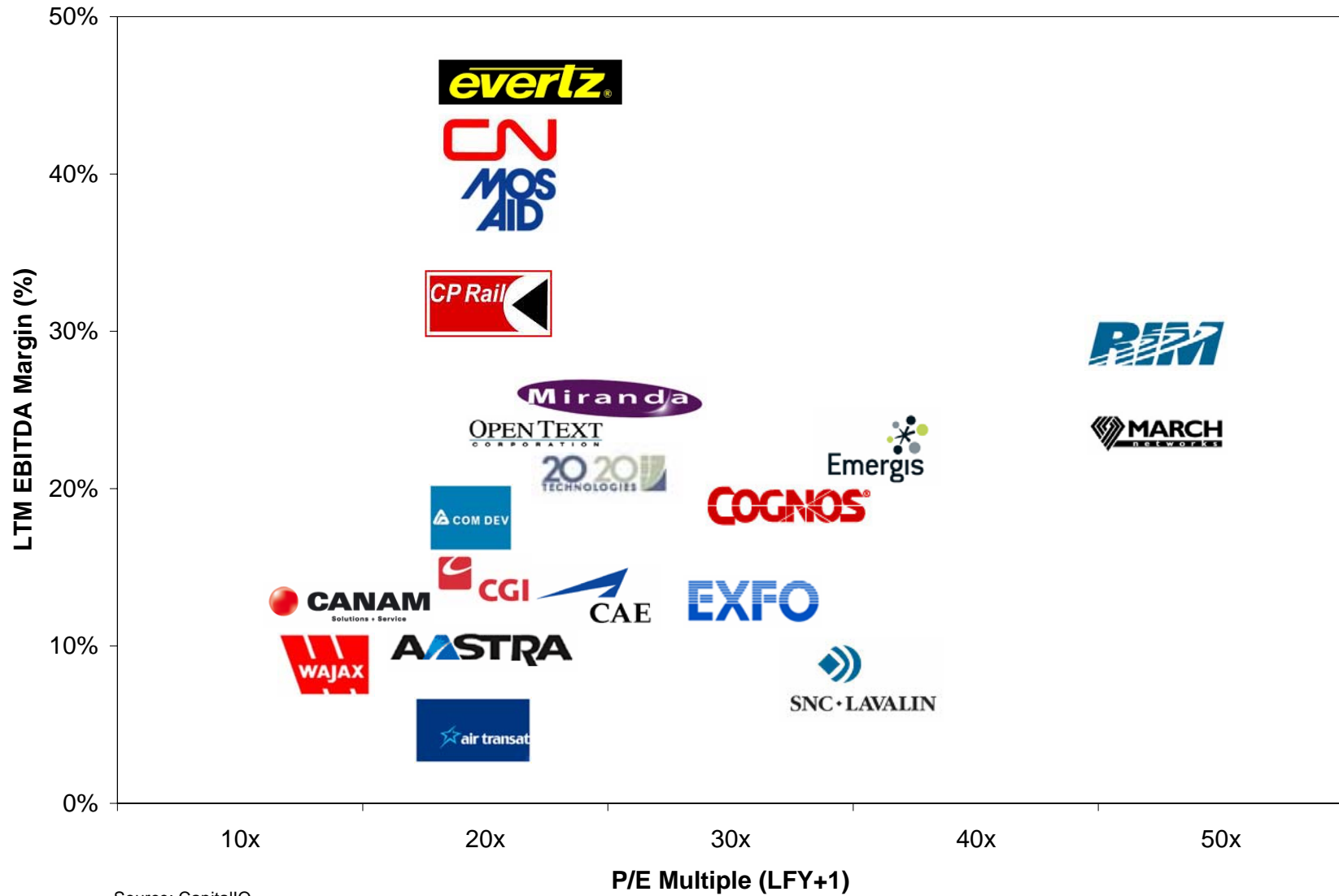


# Industrials vs. Information Technology



Source: CapitalIQ

# Industrials vs. Information Technology



Source: CapitalIQ

# Information Technology

---

- Higher value multiples because:
  - IP represents competitive barrier to entry
  - Increased scale with lower capital investment
  - Matures to higher levels of profitability
  - High margin recurring revenue base possible

# Valuation Methodologies Vary

---




Type of Company

**Stages in the Market Cycle**

M&A Exit

IPO Exit

# P/E vs. EV/EBITDA vs. EV/Sales

	<u>FY - End 31-Dec-06</u>	
<b>Income Statement Data:</b>		
<b>Revenue</b>	\$100.0	
Cost of revenue	50.0	
Gross margin	<u>50.0</u>	
<b>Operating Expenses</b>		
Research and development - net	15.0	
Selling and administrative	10.0	
<b>EBITDA</b>	<u>25.0</u>	
Depreciation	10.0	
Interest income - net	(0.0)	
Taxes	<u>5.0</u>	
<b>Net Income</b>	10.0	
Net income per common share basic and diluted	\$0.50	

## EV/Sales Multiple

- Sales
- + Less subject to distortion
- + More stable
- Fails to take into account different cost structures

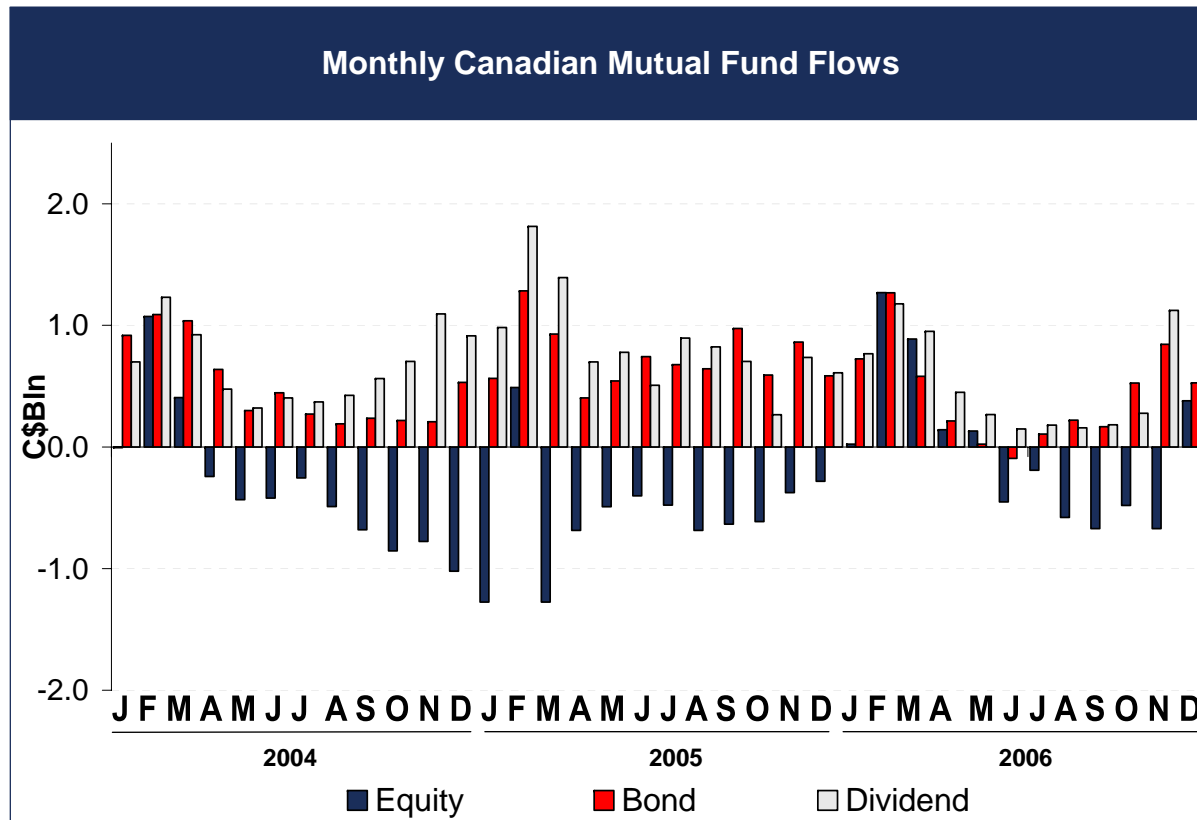
## EV/EBITDA Multiple

- Measures total company value
- + Independent of capital structure or tax rate
- No common standard for calculating

## P/E Multiple

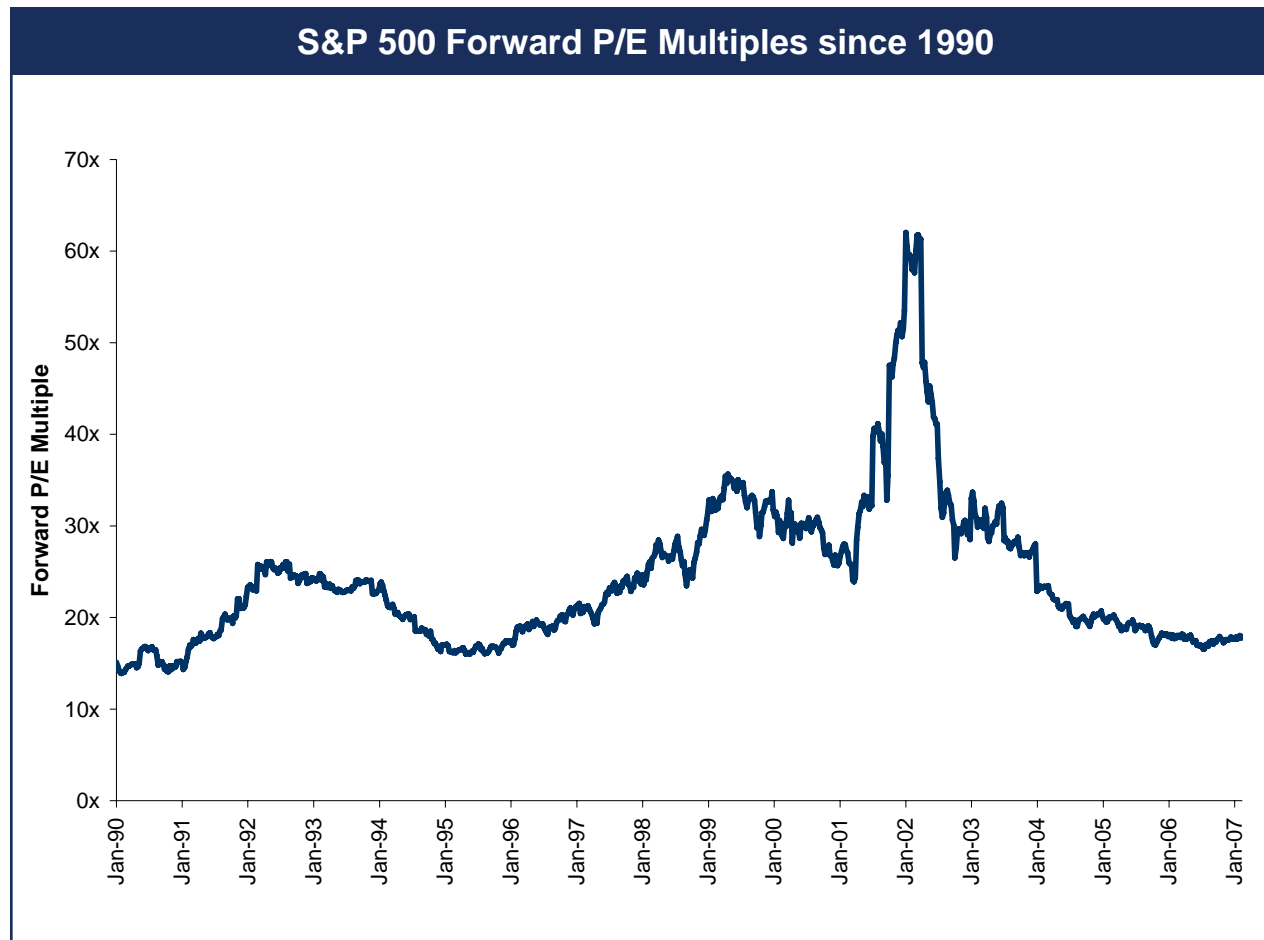
- EPS: chief driver of equity value
- Often volatile
- Can be negative

# Return Expectations



- 50 consecutive months of positive flows into Canadian income oriented funds

# Large Cap Performance Leads IPO Activity



Comparable Trading Statistics		
		EV/ Sales
	Equity Market Cap. (US\$ MM)	LQA
Aether Systems	\$2,427.00	406.2X
Inktomi	\$11,341.40	105.3X
Interwoven	\$4,742.30	277.3X
Liberate Technologies	\$9,722.40	395.0X
Phone.com	\$8,016.50	231.1X
RealNetworks	\$10,406.70	72.2X
Verisign	\$18,631.20	202.7X
Vitria technology	\$7,461.10	236.0X
Mean		209.7X
Median		233.5X
<b>724 Solutions</b>	<b>\$389.40</b>	<b>72.5X</b>
	<b>\$460.20</b>	<b>85.6X</b>

# Valuation Methodologies Vary

---

- Type of Company
- Stages in the Market Cycle
- M&A Exit**
- IPO Exit

# M&A Exit Values

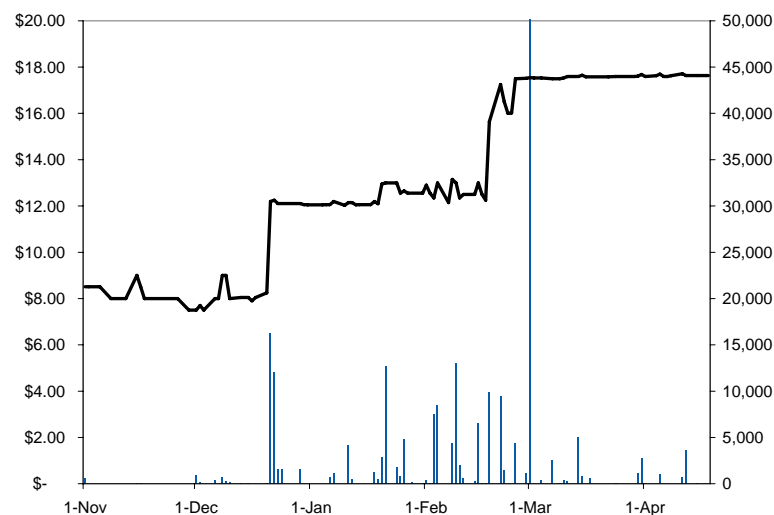
---

- Fair value is what someone is willing to pay
- Buyers focus on EBITDA potential
- To maximize takeout value
  - Multiple buyers
  - Buyers have high valuations
  - Strategic value / synergies exist

# Auction Tension

  
**C\$212,000,000**  
 Advised on  
 Sale to  
  
 April 2005

## Trading Analysis

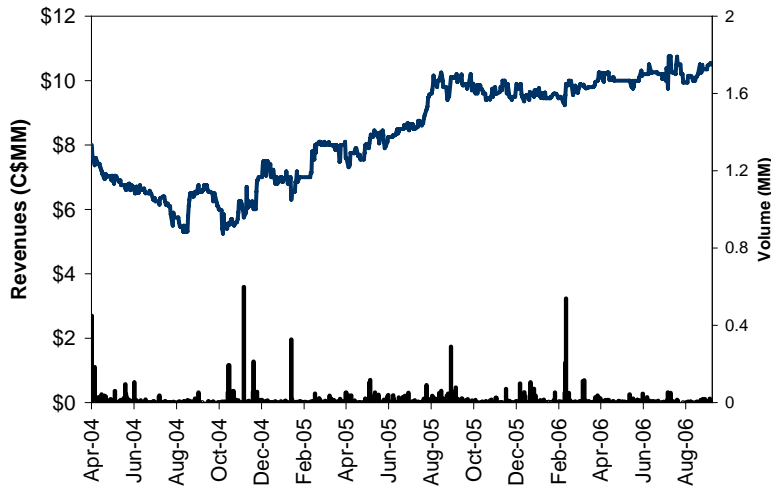


Valuation			
	Line data - Dec 21 Offer	Line data - Jan 20 Offer	SS&C
Share Price	\$12.20	\$14.67	\$17.70
EV/EBITDA	11.1x	13.2x	16.5x
P/E	32.6x	37.6x	45.4x
Premium over unaffected price	59%	83%	121%

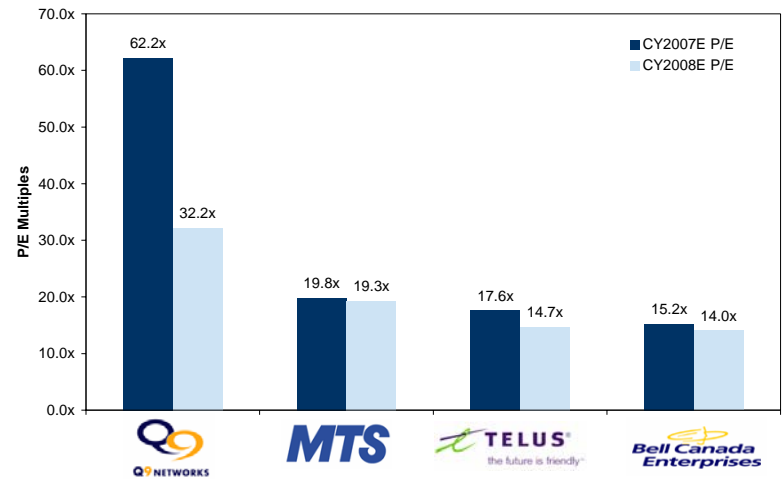
# Buyer Universe Valuations



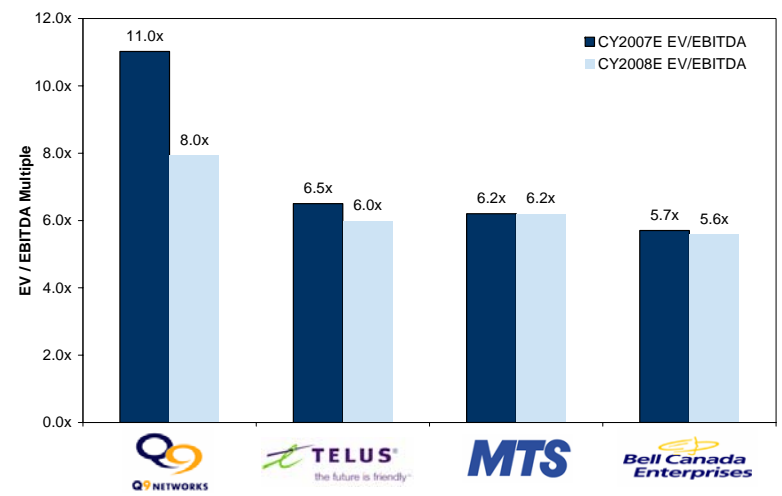
## Q9 - Share Price / Volume Since IPO



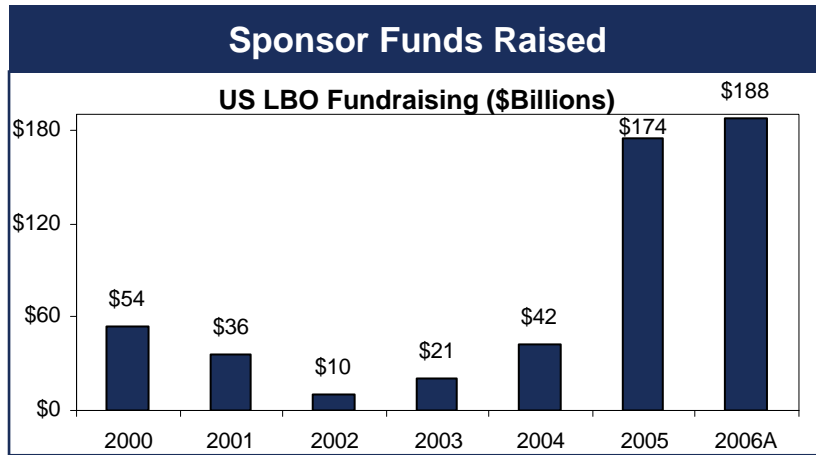
## P/E Multiples



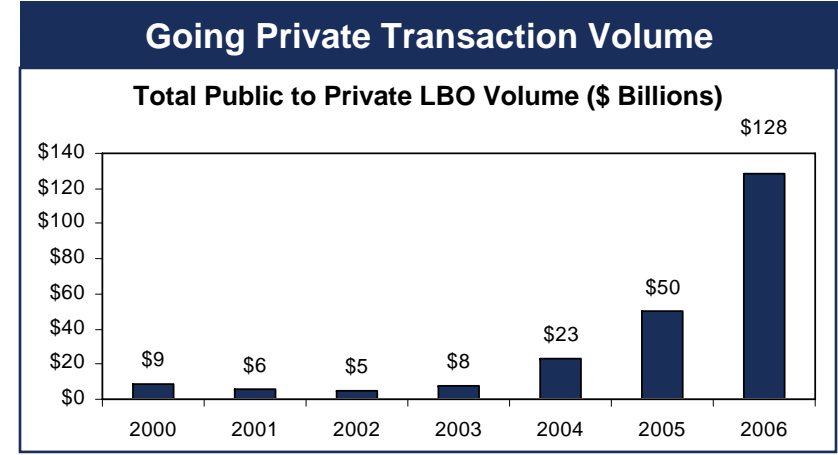
## EV / EBITDA Multiples



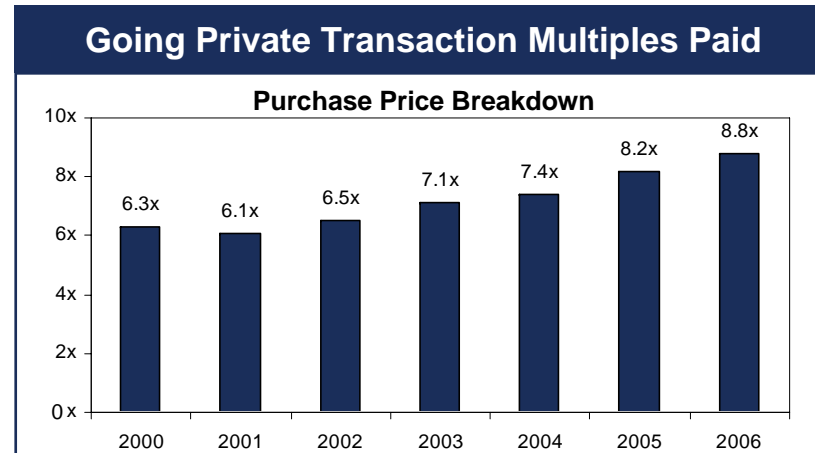
# Financial Sponsor Activity



Source: Buyouts, p3. (2006 annualized based on Buyouts11/06).



Source: S&P LCD Report



Source: S&P LCD Report, Q4 LBO Review, p58

# Consolidation



- US\$2.6 Billion in capital under management

## Product Offering

## Selected Acquisition Metrics



Provides enterprise software for business performance management. It offers ERP solutions geared toward a number of different vertical markets, including manufacturing, government, financial services, health care and retail.

Announced: November 7, 2005  
 EV / LTM Sales: 1.8x  
 EV / LTM EBITDA: 7.7x  
<http://www.extensity.com>



Provides technology and business consulting services in North America. The company offers its services primarily in justice, health, government, telecommunications, and financial services and insurance markets.

Announced: October 16, 2006  
 EV / LTM Sales: 0.5x  
 EV / LTM EBITDA: 6.2x  
<http://www.sierrasystems.com>

# Valuation Methodologies Vary

---

- Type of Company
- Stages in the Market Cycle
- M&A Exit
- IPO Exit**

# IPO Exit Values

---

- IPOs as an exit strategy require patience
  - Lack of liquidity
  - Lock-up agreements
  - Control position disclosure
- A great way to raise capital but ....

# Discount to Market

P/E Multiples		
C\$ MM	LFY <sup>1</sup> + 1	LFY <sup>1</sup> + 2
Comparable Trading Average	19x	15x
Fully Seasoned Trading Multiple	18x - 20x	14x - 16x
IPO Discount	15%	15%
IPO Marketing Range	15x - 17x	12x - 14x
Forecast:		
• Earnings	\$24.0	\$31.0
IPO Equity Marketing Value	\$360 - \$410	\$370 - \$430
Fully Seasoned Trading Valuation	\$430 - \$480	\$430 - \$500

1. Last fiscal year

**Exiting on the IPO will be done at a discount to fair value**

# Listing Considerations

---

## Listing Considerations

### AIM

- + Acceptance of early stage companies
- + Can attract a premium multiple/valuation
- Investment dealer support transactional – risk being “orphaned”
- + No minimum size

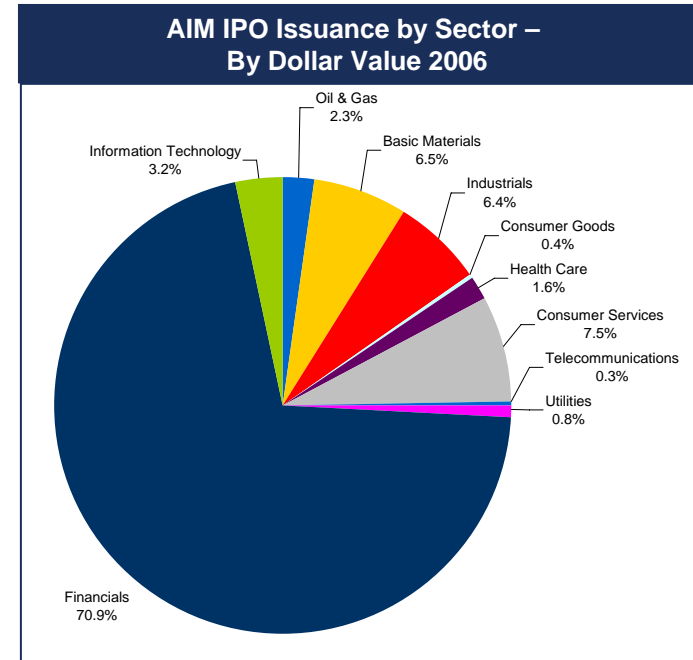
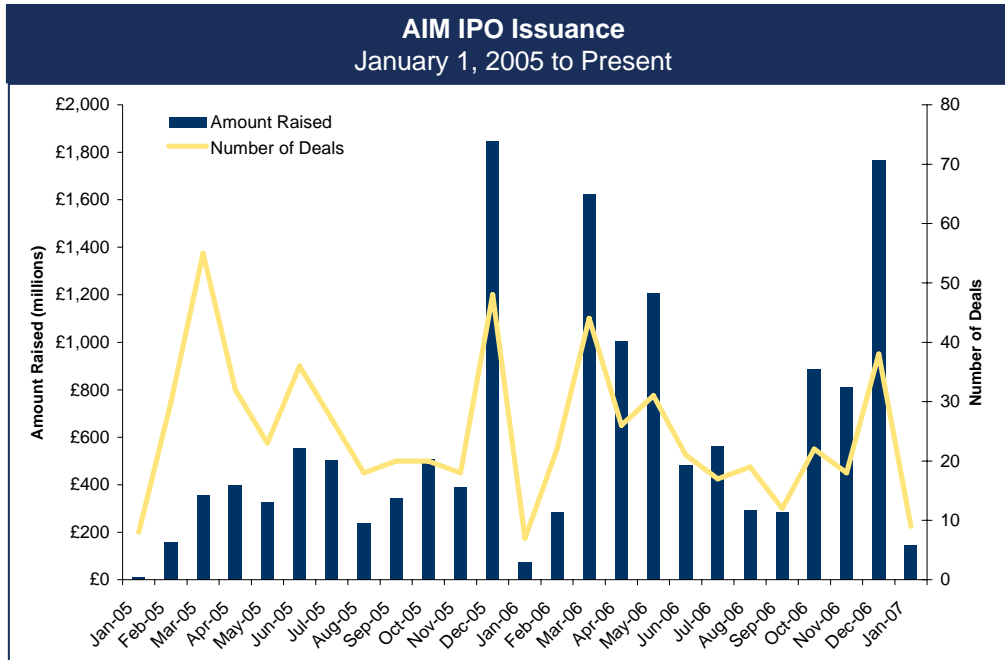
### TSX

- + Access to Canadian investors and core US institutional investors
- + Strong investment dealer support
- + Addresses employee/shareholder liquidity and trading issues
- + Favored route for recent Canadian technology IPOs
- Minimum recommended float - C\$50 million on C\$150 million value

### NASDAQ

- + Senior technology exchange
- + Broadens access to institutional investors
- Sarbanes-Oxley
- Minimum recommended float – US\$75 million on US\$250 million value

# AIM IPO Activity

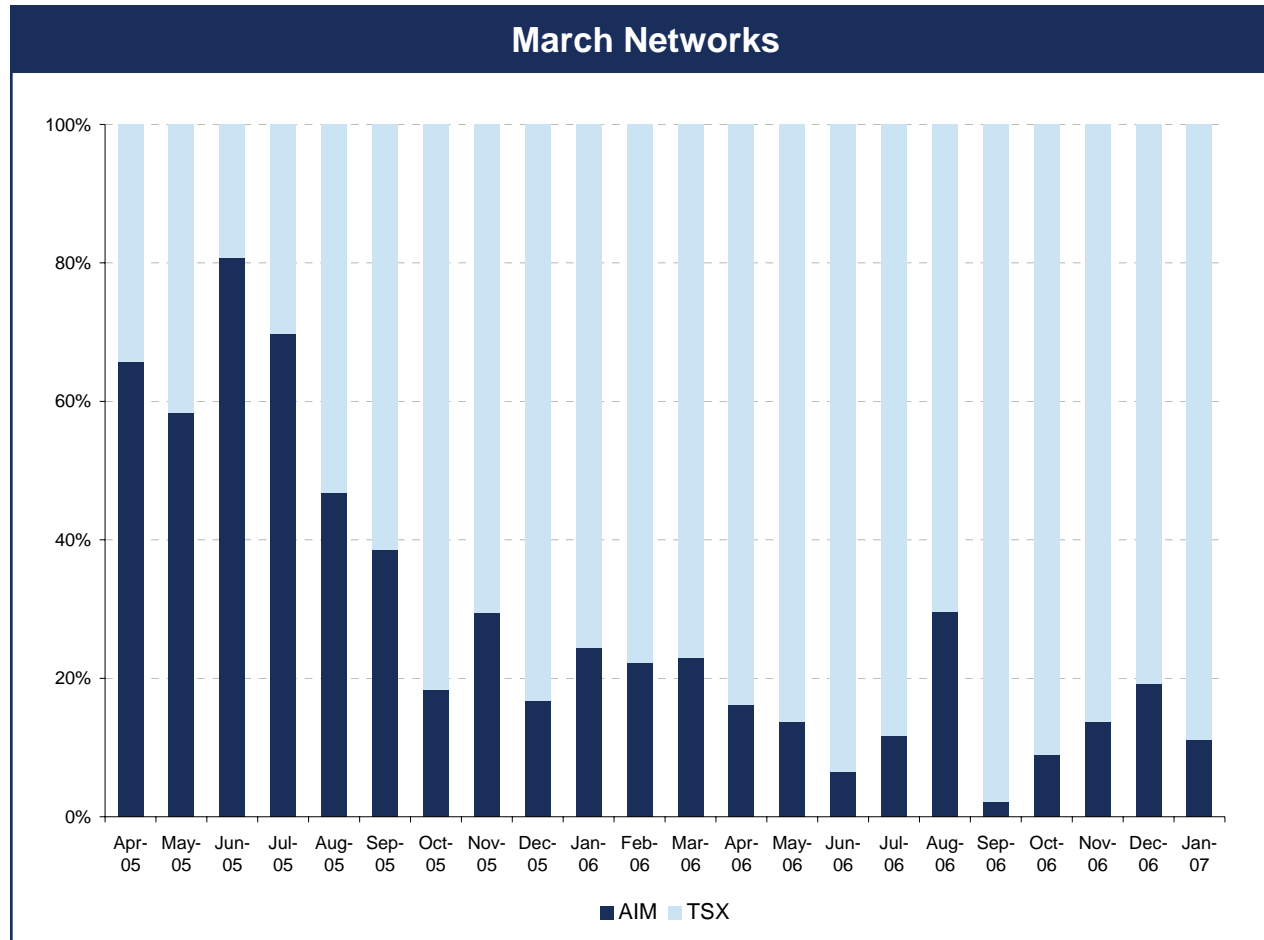


# AIM vs. TSX Technology IPO

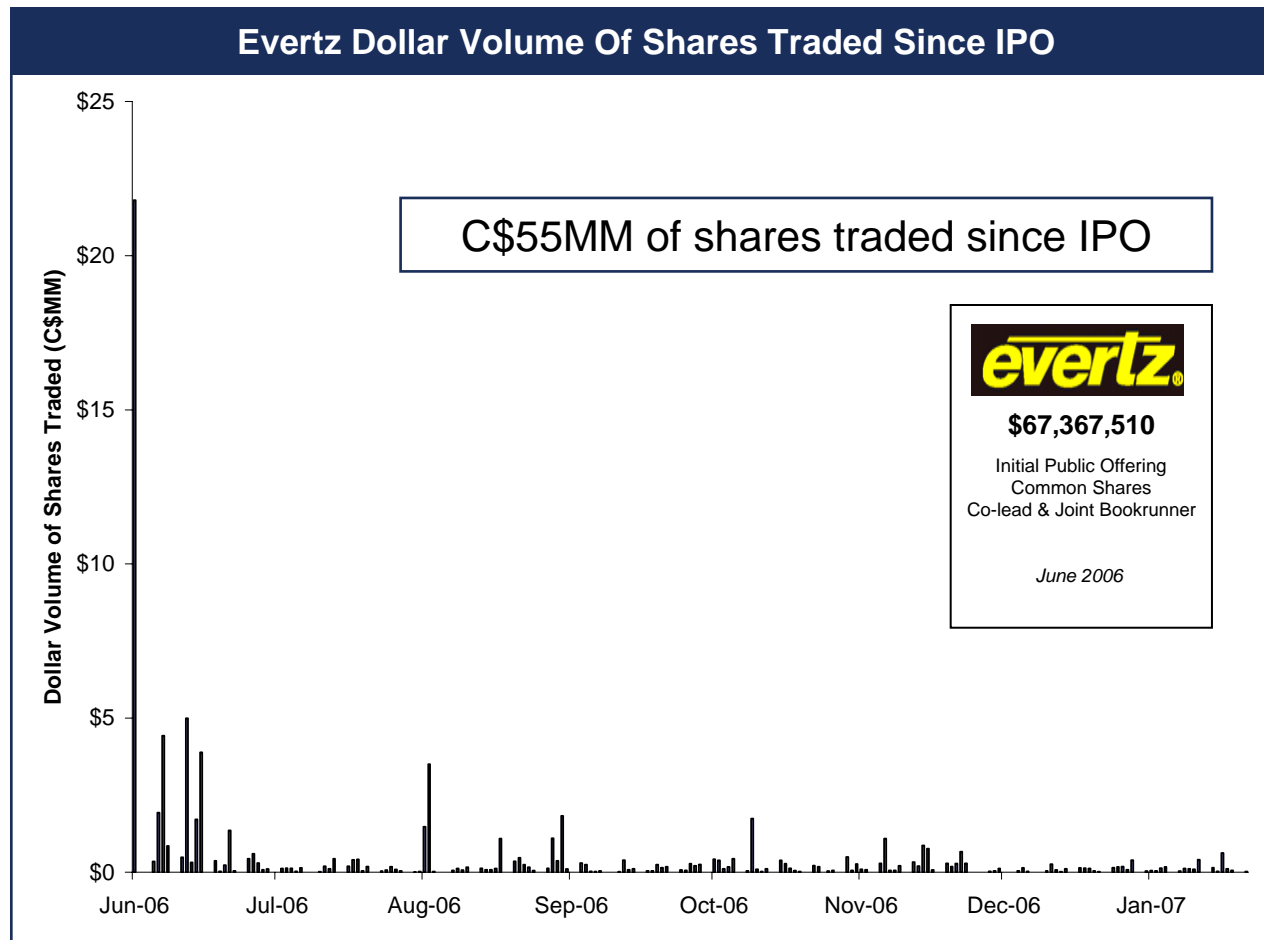
---

Technology IPOs > C\$30MM Since January 2005				
<u>Exchange</u>	<u># of Deals</u>	<u>Avg. Market Cap</u>	<u>Mean # of Profitable Quarters</u>	<u>Avg. Post IPO Share Performance</u>
AIM	18	C\$137.1	3	(7%)
TSX	11	C\$245.6	7	13%

# Canadian Listing Trading Performance



# Lack of Liquidity Stretches Exit



# Summary

---

- M&A is the best way to maximize value
- IPO is a better piece of a growth strategy
- Focus on cash flow generation
- Cultivate relationships with highly valued buyers