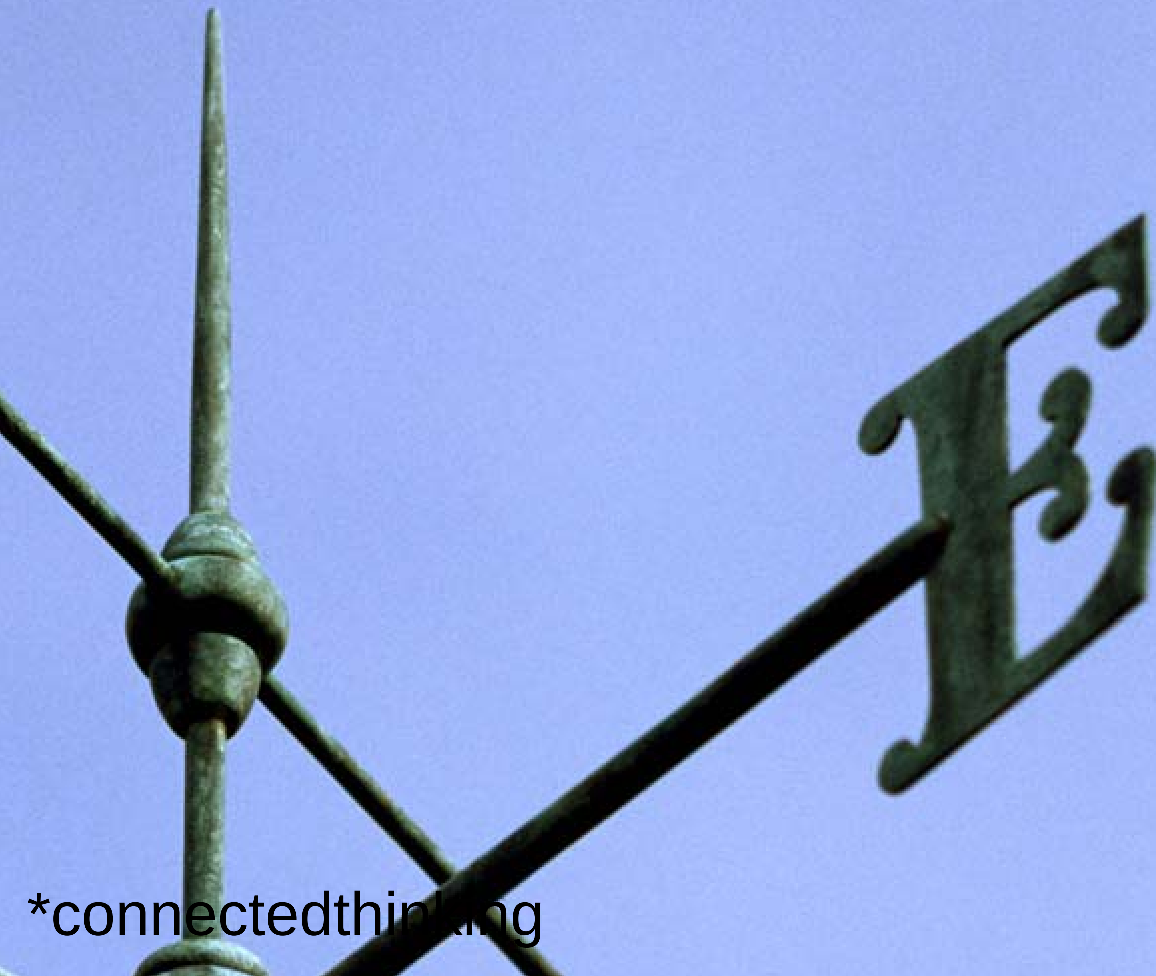
M&A Market Review (2006) & Observations on Key Activity / Value Drivers

Building Value Symposium

February 15, 2007



*connectedthinking

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Agenda

- ➢ M&A Statistics
- ➢ Key Activity Drivers
- ➢ Key Value Drivers / Key Value “Killers”

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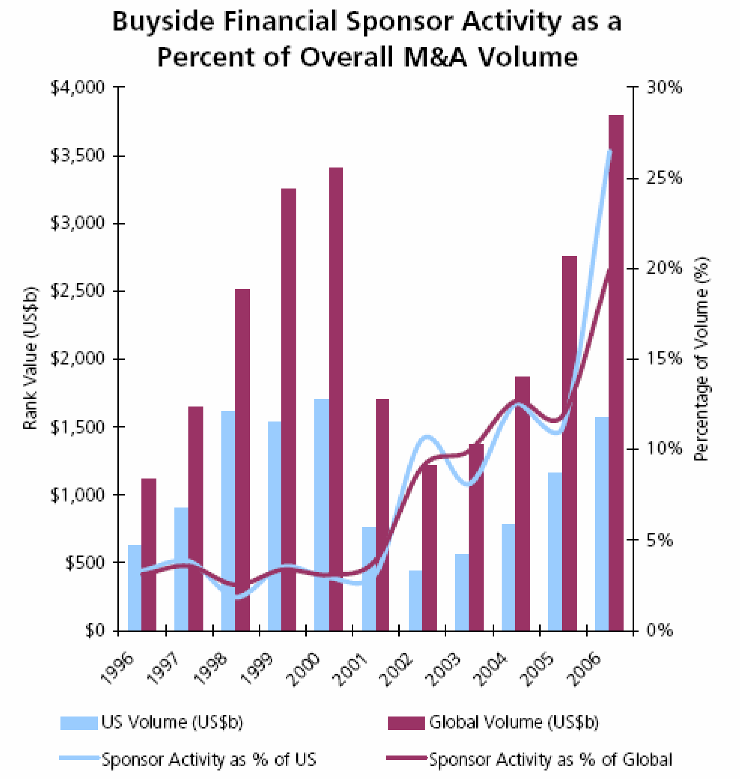
2006 Global M&A Summary

- Globally, 2006 M&A exceeded peak Boom of 2000: US$3.9 trillion (38% volume increase over 2005)
  - FY2000 was the previous record at US$3.4 trillion
  - FY2006 Deals doubled over 2005 in both volume and dollars (combined over all sectors)
- Private Equity continued to drive much of the M&A activity in 2006 at almost 20% of global M&A volume (chart)
- Globally, Energy and Power sectors were the most active, followed closely by Financials
- U.S. Transactions represented 40% of global activity (up 24% from 2005 dollar figures)
  - Private Equity represented over 25% of sponsor activity in the U.S.



Source: Thomson Financial

2006 Canadian M&A Summary

- Canadian transactions doubled in 2006 as well, CA$173.6 billion, while the volume of deals increased by 26% to 1,720
- Canadian Large-Cap M&A has been largely focused on resource industries
  - The top 4, and 6 of the top ten, are natural resource-based companies
- Canadian Private Equity experienced all time high in 2006 (funds raised & deployed)
  - Canadian Buyout funds raised $6.4B in 2006 compared to $1.4B for 2005

2006 Top 10 Canadian Deals

Acquiror	Target	Value (US$ millions)	Industry
CVRD	Inco	$20,348	Mining
Xstrata	Falconbridge	18,235	Mining
Goldcorp	Glamis	8,710	Mining
ConocoPhillips	Encana (Upstream Assets)	7,499	Oil & Gas
Brookfield Properties/ Blackstone Group	Trizec	7,435	Real Estate
Royal Dutch/Shell	Shell Canada (Minority)	6,835	Oil & Gas
AMD	ATI	4,366	Technology
Canadian Natural Resources	Anadarko	4,075	Oil & Gas
Kingdom Hotels/ Colony Capital	Fairmont Hotels	3,851	Real Estate
Rite Aid	Jean Coutu (US Assets)	3,470	Retail

Source: Globe and Mail

2006 Technology M&A

- North American technology industry saw 3,918 M&A deals, worth $412B (up from 3,020 deals worth $339B in 2005) – *source: 451 Group*
  - Some leveling off in Q4 activity, but consolidation forces / activity remain strong
- Local technology industry has been very active – a few sizeable transactions & most in the typical sub-$50 million value range (as seller or buyer)

2006 BC M&A Technology Transactions

Date	Target	Target: Business Description	Buyer	Transaction Value (C$M)
Feb-06	American Medical Instruments	Specialty medical devices	**Angiotech Pharma**	$926.3
Oct-06	**AnorMED**	Chemistry-based pharmaceutical company	Genzyme	$638.0
Apr-06	Passave	System-on-Chip Systems	**PMC-Sierra**	$330.0
Jul-06	**Convedia Corporation**	IP Media Processing	Radisys	$128.3
Oct-06	**Sierra Systems**	IT consultancy services	Golden Gate Capital	$93.2
Feb-06	First Logic	Enterprise Information Management	**Business Objects**	$75.9
Sep-06	ALG Software	Profitability management and activity based costing	**Business Objects**	$61.6
Jul-06	Debmar-Mercury LLC	Distributes television programming	**Lions Gate Entertainment Corp.**	$30.6
May-06	Surpac Minex	Mine planning and engineering software	**Gemcom Software International**	$29.0
Apr-06	Rochford Brady Group	Irish legal property and company information	**MacDonald, Dettwiler & Associates**	$28.2
Apr-06	Digital Illusions Ce (DICE)	Video game developer (remaining 27%)	**Electronic Arts**	$26.7
Apr-06	PropertyFlow Ltd.	Online conveyancing searches	**MacDonald, Dettwiler & Associates**	$25.0
May-06	xit2 Limited	UK-based home survey information exchange	**MacDonald, Dettwiler & Associates**	$21.1
Jan-06	MindBox, LLC	US financial services industry solutions	**MacDonald, Dettwiler & Associates**	$14.6
May-06	**PTL Electronics**	Manuafcturing Services	**Moventis Capital**	$14.0

*Based on 3rd party information & estimates, subject to verification. Does not include deals where values not disclosed.

Key M&A Activity Drivers (Tech)

- Many technology sectors reaching maturation
  - Organic growth becoming more difficult for established players (single digit growth)
  - Pressing need to reduce costs and improve margins
  - For many mid-market players, choice is clearly “be bigger” or “be bought”
  - Several sectors already in “Phase 2” of the consolidation wave now – driving more activity in the small-mid market (e.g. ERP-related software)
  - Customers also playing an important role – wanting to deal with fewer vendors

- Abundance of cash / higher stock values
  - Large tech companies need to do something (M&A or give back to shareholders as dividends or buybacks)
  - Private equity funds raising significant capital & debt no longer technology averse (can use leverage in tech deals!)
  - Buyers can use public stock as currency once again (high public valuations)

Key M&A Activity Drivers (cont.)

- Public markets not as accessible
  - Market for larger deals only – no real small-mid market as in Canada
  - Cost, complexity & risk of both going public and being public (SOX)
  - Less of an immediate exit strategy for investors (money stays in)
- M&A a Key Piece in the Strategic Battleground
  - Certain sectors have several large intensely competitive players trying to keep up with each other (e.g. Google / IBM / Microsoft / Oracle / EMC, Cisco / Motorola)
  - “Old World” players still dominate despite headlines given to “New World”
- Globalization
  - Foreign buyers using acquisitions to gain entry into N.A. marketplace
  - Significant and growing interest from Europe & Asia (and vice-versa)
  - India and China outbound acquisitions increasing significantly in Europe / N.A.

Key Value Drivers for Selling Companies

- Established market presence
  - Key customer accounts
  - Presence in key markets / geographies
- Access to new products
  - Filling important product line gaps for the buyer (“infilling”)
- Access to IP / patent portfolio
  - Difference between patents issued vs. patents filed
- Access to scarce talent
  - Expectations now that key individuals being acquired play major roles
  - Deal terms placing emphasis on management / key employee retention

Key Value Drivers for Selling Companies (cont.)

- Interest from multiple parties
  - Business is not tied to one industry player (e.g. through exclusive deals)
  - Ability to have an “auction” or threat of an auction
- Can the acquisition be accretive to buyer
  - Strong focus on synergies / squeezing costs
  - Valuations based primarily on ability to drive incremental revenues / earnings
- Can additional value be captured or created & then re-sold
  - Drives private equity interest (divestitures, go private transactions)
  - Can you be a “platform” for additional consolidation

Some Value "Killers" for Selling Companies

- Not profitable & under funded / running out of money
  - Buyers (if interested) will wait you out

- A big "not-so" strategic investor
  - Potentially blocks competitors from bidding
  - Look out for "call options" on the company (usually limits upside)
  - Keep below 10% or have more than one if possible

- One of the last men standing in a rapidly consolidating space
  - Perception that you've been passed over
  - Pay close attention to what is going on with your competitors

- Key talent not willing to stick around (earn-outs usually counter this)

Some Value “Killers” for Selling Companies (cont.)

- Too small to warrant effort for buyers
  - Harder to do <$5M deals (often same amount of work as bigger deals)
  - Smaller deals can present same amount of risk to buyers
- Seller not “Transaction-Ready”
  - No audited financials, record of Board / governance procedures
  - Pending litigation / disputes (IP, shareholders, former employees)
  - Don’t have experienced legal and transaction advisors
  - High expectations on quality / quantity of due diligence materials
- No competition for the sale (real or perceived)
- Limited scope on search (think globally!)

Concluding Comments

- Global M&A activity continues to run at accelerating pace across most sectors
    - Further growth in 2007, including more “mega-deals” and PE-driven activity, but strong interest in small to mid-market companies in sectors such as Technology
    - Valuations continue to be strong – balance of power still with quality sellers
    - Canada is expected to be a prime target for cross-border M&A activity
    - Technology M&A expected to be a large part of overall M&A market in 2007
- Corporates and PE competing aggressively for targets
- Cost & complexity of going / being public driving M&A activity
- Size up key value drivers and value “killers” before starting any process
- M&A / Liquidity window is clearly open – companies / Boards should all be assessing the “be bigger” or “be bought” decision

PwCCF Backgrounder

- Specialize in small to mid-market M&A transactions (CA$5M-$100M)
- Unique access to extensive global network in over 60 countries with over 800 dedicated Corporate Finance / M&A professionals
- Global network of clients and senior level access into most of the world's largest technology companies
- Proven track record of completing deals with tech industry leaders (e.g. Microsoft, Oracle, McAfee, Trimble, etc.)
- Consistently top ranked mid-market advisor
- Ability to offer integrated services (i.e. tax, cross-border, due diligence, private client services)
- Local Experienced Presence - Randy Garg (ex-VC 10+ years) leading Technology Corporate Finance practice for Western Canada

ACQUISITIONS MONTHLY awards 2007

Mid-Market Adviser of the Year

PRICEWATERHOUSECOOPERS

Selected Transaction Experience (Technology - Canada)

steltor has been acquired by ORACLE	3SOFT SOFTWARE has been acquired by softchoice	INFLAZYME has been restructured and secured a strategic investment	TRIANT TECHNOLOGIES INC. has been restructured and secured a strategic investment	DRUMS THE eCONVERSATION COMPANY has been acquired by ChannelWave Software
performancesoft has been acquired by ACTUATE	Shana Corporation has been acquired by FILENET	Internet Secure has been acquired by NOVA INFORMATION SYSTEMS	SAUTEL has been acquired by Persona COMMUNICATIONS	CGI has sold KEYFACTS CANADA to GARDA WORLD
Signal 9 Solutions has been acquired by McAfee	Visual Statement has been acquired by Trimble	CDT eMarketing has been acquired by 180solutions	allstream has sold CONTOUR, Argos TELECOM, yak	Delos technology has been acquired by siperian
ZOOMIT has been acquired by Microsoft	aube has been acquired by Honeywell	e-manage has been acquired by MOBIUS	Karthika TECHNOLOGIES has been acquired by kasten chase	INFORMATECH has been acquired by COGNICASE

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