Mergers & Acquisitions

New Developments in Technology M&A 2006

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Agenda

- M&A Activity Levels and Trends
- Deal Value Drivers
- Technology at a Crossroads

M&A Activity Levels and Trends

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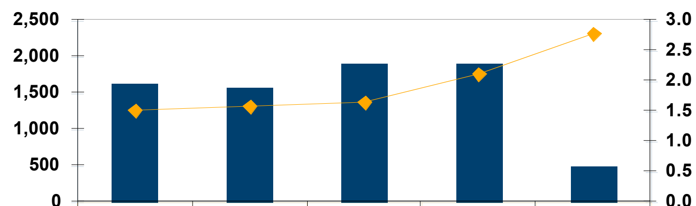
Technology M&A Volume and Values are Rising

Technology M&A Deals and Value



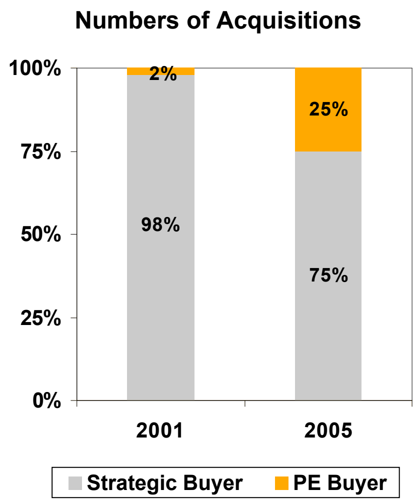
	2002	2003	2004	2005	2006 YTD
Deals	1,630	1,588	1,920	1,906	488
Total Value ($B)	$34.1	$51.2	$50.1	$78.1	$6.2
Median EV/Rev	1.52	1.58	1.65	2.11	2.79

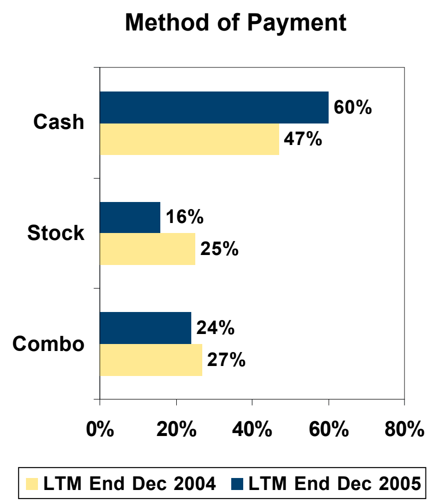
Source: FactSet, 4/06. Mergerstat Computer Software, Supplies & Services Industry, North American buyers and sellers. Total Value in Base Equity Price and Median EV/Rev for disclosed terms/metrics only.

Activity Drivers

- ***Slowing organic growth in many tech sectors***
- ***Lots of cash and strong equity values***
- ***Technology convergence***
- ***Perceived IPO barriers***
- ***Customers prefer fewer vendors***
- ***Globalization***

Private Equity and Cash Buyers Grow in Frequency





Source: FactSet 3/06.

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Note on Technology Financing Environment

BusinessWeek 3-20-06:

- “Tech companies are putting aside their longstanding aversion to debt in order to execute share buybacks, issue dividends, and make acquisitions to juice their share prices.”
- “Cisco in February obtained a credit rating for the first time and sold bonds to raise $6.5 billion in what is thought to be the biggest-ever tech debt offering. . . Oracle sold $5.75 billion worth of bonds in January to fund its takeover of rival enterprise software vendor Siebel Systems.”
- “Other tech players are thinking about following the industry leaders. Symantec just hired a new debt-savvy CFO from American Airlines for that very purpose. "Software companies need to think differently about how they use their balance sheets," says Symantec CEO John W. Thompson. "In a consolidating industry, maybe you want to have more debt so you can have more cash and do more things."
- “The trend underscores how extraordinarily easy it is to borrow right now. Investors, especially from Asia and Europe, crave yield any way they can get it. Cisco's deal was way oversubscribed, attracting offers of $20 billion, boasted CEO John T. Chambers at an investment conference on Feb. 28. Oracle, too, turned away money, executives say.”

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Deal Value Drivers

Quickening Technology Cycles Place Premium on IP

- Numbers of VoIP users in the U.S. will increase 155% yearly to 18 million in 2007.[1]
- Ringtones generated $3 billion of sales in 2005, up from zero several years ago.[2]
- Most of the world will first experience the Internet through mobile phones. In round numbers, there were a billion wireless devices sold last year and 100 million PCs.[3]
- By 2010, 30% of software will be delivered on a hosted or software-as-a-service basis.[4]
- 75% of companies are already in some stage of deploying SOA and WS.[5]
- Cable broadband and DSL subscribers increased 50% between Q2 2004 and Q2 2005 from 98 million to 147 million.[6]
- By 2010, 30% of U.S. homes will use only cellular or Internet telephony.[7]

[1] IDC 7/05
[2] Informa 5/05
[3] Jonathan Schwartz, President, Sun 10/05
[4] Gartner 10/05
[5] UBS 9/05
[6] Infonetics 7/05
[7] Gartner 9/05

Market Leaders Tend to Earn a Premium

	Market Share Rank	Enterprise Value/2006e Revenues	2006 P/E	Trading Premium of #1 Vendor vs #2: EV/Revenues	Trading Premium of #1 Vendor vs #2: P/E
Search/Online Advertising					
Google	#1	13.8x	53.2x	37%	16%
Yahoo	#2	10.1x	46.0x		
Application Lifecycle Management					
Mercury	#1	2.7x	20.3x	23%	(9)%
Compuware	#2	2.2x	22.3x		
Content Security					
Symantec	#1	3.3x	17.6x	106%	(9)%
McAfee	#2	1.6x	19.4x		
Enterprise Apps					
SAP	#1	5.7x	31.5x	36%	119%
Oracle	#2	4.2x	14.4x		
Business Intelligence					
Business Objects	#1	2.9x	27.4x	4%	26%
Cognos	#2	2.8x	21.7x		

Source: IDC, Factset 2005-06.

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Key Value Drivers

- Momentum
- Market leadership
- First to market (or at least not last)
- Ability to leverage IP and talent
- Competitive process

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Technology at a Crossroads

Simultaneous Developments Roil Tech Markets

Developments

- Architecture
- Broadband
- Wireless

Technology

- Privacy
- Integrity

Regulations

- Maturing IT
- Outsourcing
- Capital Markets

Markets

- Customer leverage

Competition

Impact

Consolidation *within* Sectors

Disruptive Sector Emergence

Convergence *across* Sectors

Disruptive Sectors	CAGR*	'05 Spend ($in billions)
Compliance	22%	$9.2
Managed Services	20%	$4.2
Open Source	26%	$18.0
SaaS	21%	$5.5
Smart Devices	21%	$6.0
Utility Computing	26%	$2.2
VoIP	27%	$7.0
Web Services	49%	$5.1
Web Dev Tools	42%	$0.3

**Sources include: Gartner, IDC, InStat*

Technology Mash-ups Are on the Rise

		Benefits	Disrupted Parties
symantec.	VERITAS	**Acquisition.** Build a full infrastructure stack spanning security, storage and management; Link functionality; Reduce exposure to commoditized antivirus	Other Infrastructure vendors like CA and EMC
EarthLink High Speed Internet	Aluria Software	**Acquisition.** Bundle security services into ISP subscriptions; Improve user experience; Platform for future services	Security vendors like Symantec and McAfee
ebY	skype	**Acquisition.** Strengthen trade/payment platform; Offer phones with Skype built-in; Develop PC-less apps; Allow developers to bundle external apps with Skype	E-commerce, Portal and telco players
Cisco Systems	Scientific Atlanta	**Acquisition.** Expand footprint to gain penetration in consumer markets and capture broadband and VoIP growth.	Enterprise and service provider equipment vendors.
Google	Sun microsystems We make the net work.	**Partnership.** Google could distribute OpenOffice; Integrate search with OpenOffice; Link Java and Google Toolbar downloads; Joint engineering	Microsoft; RedHat
Microsoft	Windows Live Ideas FRONTBRIDGE	**Build/Acquisition.** Evolve toward a SaaS offering platform	Other App vendors, eg Oracle, Salesforce
salesforce.com Success On Demand	Appexchange	**Build.** Allow customers and partners to develop applications that use the SalesForce.com platform; integrate apps	Other Applications and development vendors

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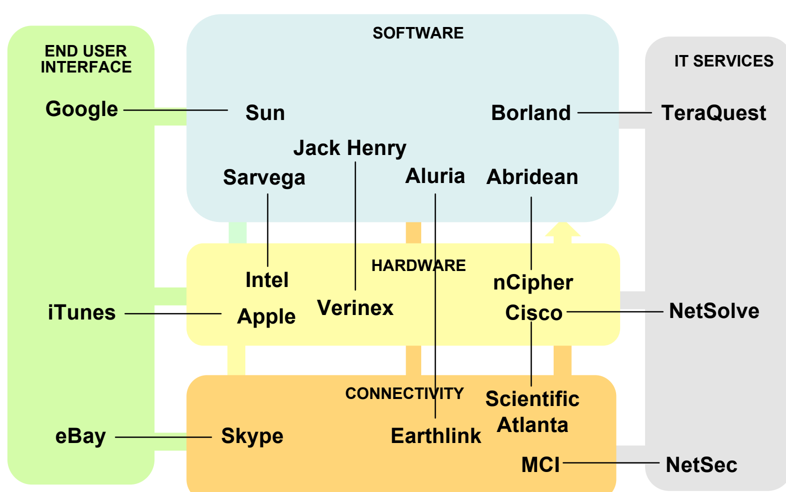
Dissolving Tech Boundaries Create New Pathways



Technical Silos are Dissolving through Cross-boundary Build, Buy and Partnering

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Conclusions

- 2006 consolidation activity will continue as companies strive to achieve vertical depth, end-to-end solutions, scale and competitive differentiation to better serve customers.
- An accelerated pace of consolidation is expected within sectors like IT security and Financial Technology to meet regulatory compliance requirements.
- M&A activity is also being driven by increased interest from financial buyers, larger technology players leveraging excess cash flow and regulatory and coverage obstacles for IPO.
- Disruptive changes within the enterprise software sector and across platforms will lead to additional high growth opportunities in M&A.

> **“In 2006, Google will increase its presence as a disrupter in the information, application, and services segments of the IT industry. The companies that can quickly adapt their business models, product and service offerings, and industry relationships to meet the industry's changing dynamics will be the ones to succeed in the long run.”**
>
> **– IDC Dec. 2005**

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