

# VAR Channel

## M&A Market Update

### Update At a Glance...

- The new deal climate is one where “cash is king”. Leverage is down, equity contributions are up, and creative deal structuring is in.
- Some private business owners are keen on considering “taking some chips off the table”, i.e. selling a stake in their businesses, in what is a potentially dangerous environment in which to have heavily concentrated personal assets.
- On average, VAR Channel Index components have tracked the broader market, neither outperforming nor underperforming. (See Page 4)



### What's Hot

- Public sector business, particularly federal government work.
- Distressed investing

Freidrich Nietzsche once said...

### “That Which Does Not Kill Us, Makes Us Stronger”

As we all face the troubling economic times, we should not lose sight of these immortal words. For those of us who are agile and smart enough to take advantage of the chaos we will be stronger when the economy starts to rebuild.



The VAR Channel Index, although showing greater volatility, has closely tracked the S&P 500 over the past 12 months. An equal investment in either index would have yielded the same result through December, a return of around minus 35%. Although the index is in negative territory, the sector has fared better than others, and is at the very least seen to be giving “market” returns.

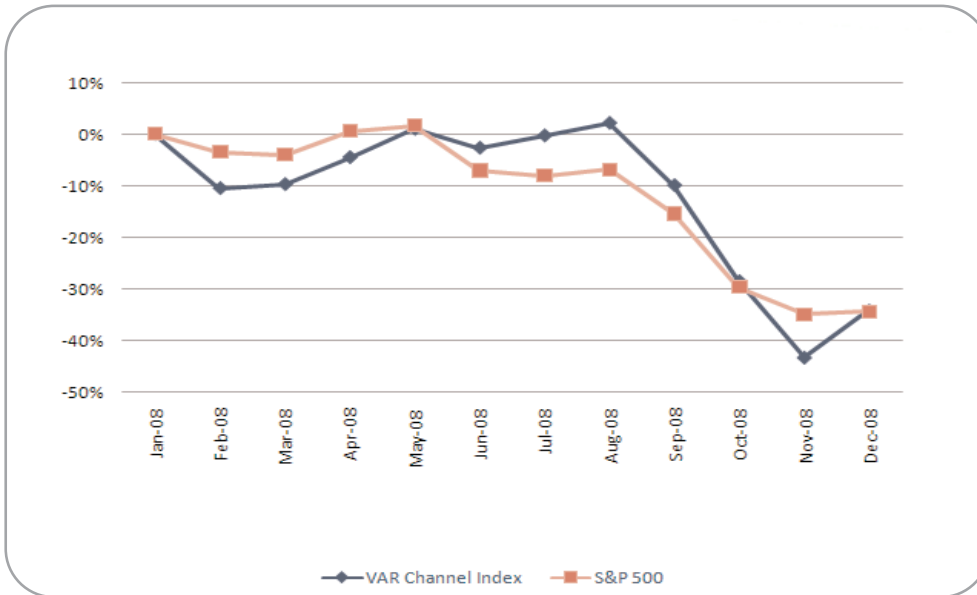
Mean and median trading multiples continue their substantial downward trajectory, as the market re-prices VAR Channel Index components factoring in the expectations of lower revenue and profits. Equity markets globally are re-pricing across the board, as no sector is spared. (See Page 3)

M&A transactions had a distinct “services” flavor in the fourth quarter as opposed to “moving iron” (see the Kratos/Digital Fusion transaction on page 3). Many investors saw value in acquiring stakes in federal government integrators, consultants and other types of solutions providers.

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HT Capital VAR Channel Index<sup>1</sup>

***“The VAR Channel Index, although showing greater volatility, has closely tracked the S&P 500 over the past 12 months, and seems to be recovering from a negative gap at the end of 2008.”***

1. Source: HT Capital Research & Yahoo Finance (Market Weighted Index compiled of BDX, BCR, MDT, BSX, SYK, ZMH, SNN)

## Market Notes

**Taking Chips Off The Table:** Some business owners we talk with are seriously considering selling a portion of their companies to diversify their assets. They realize that purchase price multiples may not rebound to “normal” levels (i.e. those of the past few years which, in fact, were historically high) for many months, if not years. One strategy worth considering is selling a stake to a private equity sponsor, investing the proceeds in a safe asset class such as treasuries, and using the sponsors’ capital to grow the business. In three to five years, if the plan is executed correctly, the owner should be able to cash out the portion of the company he retained and that which he built during the period.

**The New Deal Climate:** The old adage “cash is king” has never been more true than in today’s environment. Leveraged transactions no longer rule. Greater cash and equity levels are a must in successful deals these days, and, given the frozen credit market, alternative structures are being employed. Components such as seller paper (purchase price in the form of a debt obligation on the part of the buyer to the seller) and earn-outs (purchase price in the form of contingent payments based on post-transaction performance) are just a couple of the tools used to consummate transactions.

## Public Company Metrics

VAR Channel  
Selected Comparable Public Companies  
(\$ in millions, except per share)

Company	Stock Price <sup>1</sup>			Equity Value	Enterprise Value	Price/EPS(TTM)		Enterprise Value as a Multiple of:			
	Recent Price	As a % of High <sup>4</sup>				2007	2008	Revenue <sup>2</sup>		EBITDA <sup>3</sup>	
		LTM	AT					2007	2008	2007	2008
Bell Industries (BLI)	\$0.60	3%	0%	1.3	11.0	NM	NM	0.25x	0.13x	NM	NM
Bell Microproducts (BELM)	0.90	14%	3%	28.9	466.3	NM	NM	0.16	0.12	10.5	8.0
Black Box Corp. (BBOX)	25.61	65%	30%	483.0	668.0	19.0	14.3	0.94	0.70	8.9	6.4
CSP Inc. (CSP)	3.22	42%	20%	13.1	-3.8	10.4	8.4	0.24	0.07	8.4	1.4
En Pointe Technologies (ENPT)	0.80	15%	2%	5.7	12.7	18.6	11.4	0.12	0.08	10.4	17.1
GTSI Corp. (GTSI)	5.98	64%	39%	55.2	72.2	21.1	19.4	0.19	0.14	NM	17.1
Ingram Micro (IM)	13.22	66%	22%	2,154.8	1,887.1	13.8	9.8	0.11	0.07	7.6	5.0
MTM Technologies (MTMC)	0.68	6%	0%	0.7	121.9	NM	NM	0.40	0.50	NM	NM
Perficient (PRFT)	4.62	27%	18%	148.4	132.8	51.8	16.5	3.31	1.17	24.0	7.9
Pomeroy IT Solns. (PMRY)	3.40	48%	12%	40.8	36.3	60.4	NM	0.15	0.11	8.5	11.6
Synnex (SNX)	14.02	51%	51%	444.0	870.0	11.9	9.8	0.13	0.14	7.5	7.1
Tech Data Corp. (TECD)	19.32	51%	36%	957.0	1,002.0	30.9	14.5	0.09	0.06	8.9	5.6
<b>MEDIAN</b>		<b>45%</b>	<b>19%</b>			<b>19.0x</b>	<b>12.8x</b>	<b>0.18x</b>	<b>0.13x</b>	<b>8.8x</b>	<b>7.4x</b>
<b>MEAN</b>		<b>38%</b>	<b>19%</b>			<b>26.4x</b>	<b>13.0x</b>	<b>0.51x</b>	<b>0.27x</b>	<b>10.4x</b>	<b>8.7x</b>

Note: Multiples based on period average multiples, not recent stock price.

1. Source: Yahoo Finance & Google Finance

2. Enterprise Value (Equity+Funded Debt & Cash)/Trailing Twelve Months' Revenue

3. Enterprise Value/Trailing Twelve Months' Earnings Before Interest, Taxes, Depreciation and Amortization

4. LTM=Last 12 months/ AT=All Time

Price/EPS multiples (both median and mean) have deteriorated substantially in the period observed (-33% and -50% respectively). Most notable downward pressure in our universe are observed with Pomeroy IT Solutions and Tech Data Corporation. In 2008, the valuation range of the sample companies has also tightened.

## Recent Transactions

Highlighted are a sampling of several defense related integrators that were acquired or merged:

- **Kratos Defense & Security Solutions** (NASDAQ: KTOS) of San Diego merged with Huntsville-based **Digital Fusion** in a stock-for-stock transaction that valued Digital Fusion at 0.6x sales and 12.6x EBITDA. The value achieved is consistent with the mean public company trading multiples, as listed above. (Source: Capital IQ)
- Upper middle market private equity firm **New Mountain Capital** acquired a controlling stake in **Camber Corporation**, a Huntsville-based DoD integrator, through the purchase of stock from Camber's ESOP and senior managers.
- **EMS Technologies** (NasdaqGS: ELMG) of Georgia acquired custom defense hardware and software supplier **Formation** of New Jersey for \$40 million in cash at closing and \$15 million in earnouts.

## Industry Transactions

### VAR Channel Market Transactions (\$ in millions, except multiples)

Date	Target	Acquirer	Deal Size	Multiples of	
				Revenue	EBITDA
12/30/2008	S & T System Integration & Technology	AvW Gruppe AG, AVW Invest AG	----	----	----
12/29/2008	PIOCON Technologies, Inc.	Rolta India Ltd.	----	----	----
12/18/2008	Log.Sec Corporation	Computer Sciences Corporation	----	----	----
12/11/2008	Formation, Inc	EMS Technologies Inc.	\$55.0	----	----
12/10/2008	GeeksOnTime, Inc.	Media Awareness International, Inc.	----	----	----
12/2/2008	KMD A/S	ATP Private Equity Partners, ATP Private Equity Partners II, K/S, EQT Partners A/S, Via Venture Partners A/S, Via Venture Partners Fund I, L.P.	341.2	0.6x	----
12/2/2008	RDI Systems, Inc.	Kforce Government Solutions, Inc.	38.0	1.2x	----
12/1/2008	Camber Corporation	New Mountain Capital, LLC	----	----	----
11/24/2008	Lite Technology, Inc.	Sikich LLP	----	----	----
11/21/2008	Digital Fusion Inc.	Kratos Defense & Security Solutions, Inc.	31.3	0.6x	12.6x
11/14/2008	NetTekS Technology Consultants, Inc.	INX Inc.	4.4	0.3x	----
11/3/2008	PEQ Consulting Inc.	Zylog Systems Ltd.	----	----	----
10/29/2008	Ingena Group Limited	UXC Ltd.	21.8	2.0x	8.6x
10/29/2008	Ciena Solutions, LLC	NetSol Technologies Inc.	0.4	----	----
10/28/2008	Network Insight, LLC	CenterBeam, Inc.	----	----	----
10/28/2008	Network Communications Technologies, Inc.	Black Box Corp.	----	----	----
10/26/2008	Digital Reach, Inc.	Paranet Solutions, LLC	----	----	----
10/21/2008	Advanced Data Concepts, Ltd.	CSG	----	----	----
10/15/2008	ACS Communications, Inc.	Black Box Corp.	----	----	----
10/13/2008	A B S Network Solutions Ltd.	Capita Group plc	23.7	----	----
10/1/2008	Link Solutions, LLC	Netknowledge, Inc.	----	----	----
<b>MEDIAN</b>				<b>0.6x</b>	<b>10.6x</b>
<b>MEAN</b>				<b>0.9X</b>	<b>10.6X</b>

Note: Only disclosed data has been included.

Source: HT Capital Research, Company Records

*KMD A/S, a Denmark-based Company, was the star of the group -- as far as disclosed data goes -- this past quarter in terms of deal size with a \$341 million price tag.*

**With over half a century of experience, HT Capital stands ready to work with you to create the optimal solutions for your company.** For more information regarding the VAR transaction environment or to discuss how HT Capital might be of service, please contact our practice lead, Stephen Tardio, at (312) 920-9003 or via email: stardio@htcapital.com.

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