

# VAR Channel M&A Market Update Fall 2007

VOLUME I, ISSUE 1

## INDUSTRY SNAPSHOT

### Special points of interest:

- The highly fragmented VAR channel is undergoing a significant round of consolidation
- Financing availability in the lower half of the middle market remains favorable for both public and private companies.
- Auction attributes continue to favor sellers.

### Inside this issue:

Industry Snapshot	1
HT Capital VAR Channel Index	2
Industry Transactions	2
Public Company Metrics	3
Deal Environment	3-4
Recent Deals	4
HT Capital Services	5

The highly fragmented VAR channel is undergoing a significant round of consolidation, driven by industry participants' desire to add the customers, technological expertise, vertical reach, and scale to remain competitive. The vendor consolidation that began after the dot-com bubble is also a contributing factor to the current activity.

Many consolidation strategies are being employed, including:

- Industry vertical
- Managed and professional service up-sell
- Geographic roll-up
- Voice and data convergence/Unified communications
- Equipment lifecycle
- Data/Security/Disaster Recovery

Resale is still characterized by thin equipment margins, solution-driven selling, dynamic vendor partnership

programs, and rapid technological changes. Recurring revenue streams are of utmost importance to the long-term success of industry participants.



**Stephen C. Tardio**

Managing Director

(312) 920-9003

**Steven M. Rathbone**

Vice President

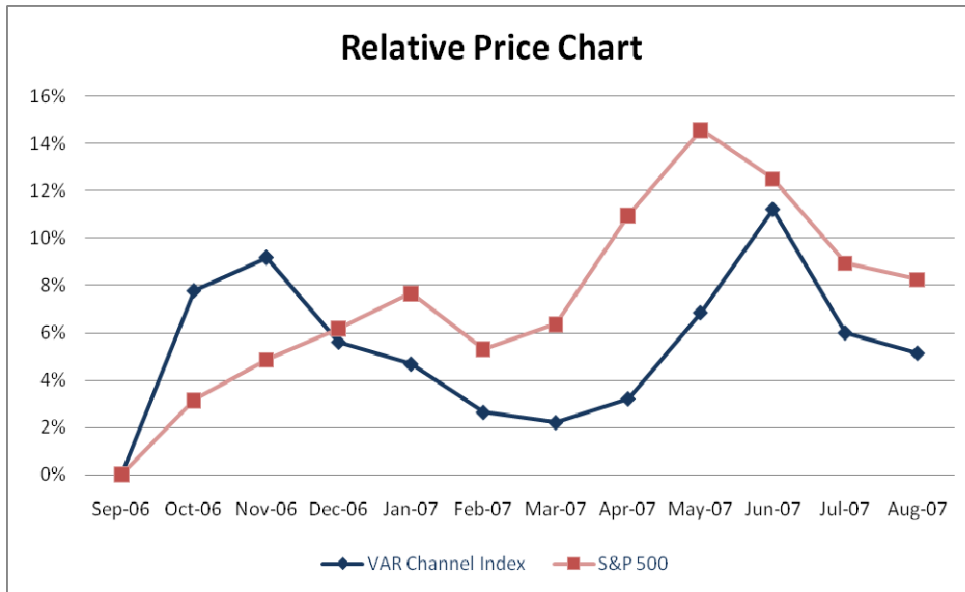
(212) 759-9080

**Thomas J. Albanese**

Analyst

(212) 759-9080

## HT CAPITAL VAR CHANNEL INDEX <sup>1</sup>



## INDUSTRY TRANSACTIONS

In the lower half of the middle market (transactions valued less than \$200 million), strategic and financial buyers continue to compete head-to-head for VAR businesses. For strategic buyers, an acquisition candidate that fits a build-up strategy can often justify a price in excess of 6x to 7x times trailing EBITDA. For financial buyers, the pressure to put to work committed funds, still favorable credit markets (relative to historical benchmarks), and a fragmented industry that allows for additional accretive acquisitions can warrant similar pricing. Increasingly, private equity-backed consolidators are taking on as many of the characteristics of a strategic buyer as those of a financial buyer.



<sup>1</sup> Source: HT Capital research & Yahoo Finance (Market Weighted Index composed of BI, BELM, BBOX, CSPI, ENPT, GTSI, IM, MTMC, PRFT, PMRY, SNX, TECD)

## PUBLIC COMPANY METRICS <sup>2</sup>

	Share Price 08/29/07	Price % of 52 week high	Revenue Multiple (EV / TTM Revenue) <sup>3</sup>	EBITDA multiple (EV / TTM EBITDA) <sup>4</sup>
Bell Industries (AMEX: BI)	\$2.10	40.61%	.23x	N/A
Bell Microproducts (NASDAQ: BELM)	\$6.40	79.01%	.16x	10.33x
Black Box Corp. (NASDAQ: BBOX)	\$40.17	86.20%	.89x	8.33x
CSP Inc. (NASDAQ: CSPI)	\$7.59	63.89%	.18x	2.96x
En Pointe Technologies (NASDAQ: ENPT)	\$2.97	38.37%	.11x	7.62x
GTSI Corp. (NASDAQ: GTSI)	\$10.90	78.41%	.17x	N/A
Ingram Micro (NYSE: IM)	\$19.26	85.60%	.10x	6.85x
MTM Technologies (NASDAQ: MTMC)	\$.94	24.10%	.43x	N/A
Perficient (NASDAQ: PRFT)	\$22.47	89.20%	3.41x	21.56x
Pomeroy IT Solns. (NASDAQ: PMRY)	\$8.33	75.25%	.15x	7.11x
Synnex (NYSE: SNX)	\$19.74	80.76%	.13x	7.23x
Tech Data Corp. (NASDAQ: TECD)	\$38.43	87.86%	.08x	7.36x

## DEAL ENVIRONMENT

Sellers are still calling the shots. Financing availability in the lower half of the middle market remains favorable for both public and private companies. Typically, buyers can borrow in the range of 4x EBITDA or more in most cases, which when added to 2x-4x EBITDA of common equity financing and/or mezzanine funds, can make for an attractive multiple for sellers to consider. At the upper reaches of the lower middle market, debt financing multiples are undergoing some pressure as fallout from aborted, large, syndicated deals reach into the realm of the smaller deal. A full turn of

EBITDA may be sacrificed from what was available earlier in the year.

**“FINANCING AVAILABILITY  
IN THE LOWER HALF OF  
THE MIDDLE MARKET  
REMAINS FAVORABLE FOR  
BOTH PUBLIC AND PRIVATE  
COMPANIES.”**

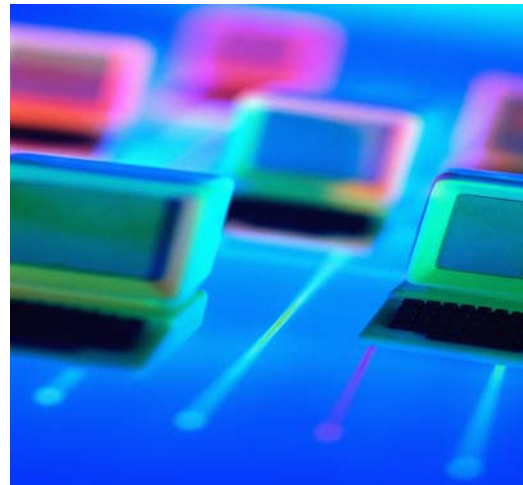
<sup>2</sup> Source: Yahoo Finance

<sup>3</sup> Enterprise Value (Equity + Funded Debt – Cash) / Trailing Twelve Months Revenue

<sup>4</sup> Enterprise Value / Trailing Twelve Months Earnings Before Interest, Taxes, Depreciation and Amortization

## DEAL ENVIRONMENT (cont.)

Auction attributes also continue to favor sellers. Transaction covenants are still less restrictive than historical benchmarks, though the days of so-called “covenant lite” are probably over. Many buyers come to due diligence with fully financed commitments, and to back out of a deal can be expensive for a buyer. In summary, while we have probably seen the top of the market this past spring and summer in terms of multiples and seller-favorable transaction terms, the environment is still very good for sellers into the VAR M&A market.



## RECENT DEALS <sup>5</sup>

Date	Target	Acquirer	Deal Size (\$ Millions)	Multiples	
				Revenue	EBITDA
8/14/07	Rand A Technology Corp	Ampersand Ventures	\$42.52	0.3x	N/A
8/10/07	Technology Services and Integration (TSI)	FusionStorm	N/A	N/A	N/A
8/7/07	ECS Holdings Ltd.	VST Holdings Ltd.	\$214.8	0.2x	10.4x
8/6/07	Infocrossing Inc.	Wipro Ltd.	\$600.0	2.52x	13.0x
7/24/07	Actebis	ARQUES	\$143.0 *	N/A	N/A
7/20/07	Data Systems Consulting Co. Ltd.	Whitesun Equity Partners	\$175.8	2.0x	N/A
7/16/07	Lifecycle Partners	Intechra	N/A	N/A	N/A
7/16/07	BCS Logistics	Intechra	N/A	N/A	N/A
7/12/07	DPV Inc.	QSGI Inc.	N/A	N/A	N/A
7/9/07	CompuCom	Court Square Capital Partners	\$628.0	1.09x	19.6x
6/25/07	Magnum Mac	Tribune Co.	\$2.7	0.13x	3.4x
5/29/07	CDW Corp.	Madison Dearborn Partners	\$6,783.0	0.96x	12.7x
5/25/07	Innovativ Systems Design, Inc.	Agilisys, Inc.	\$100.0	0.39x	N/A
3/1/07	PC Wholesale	Synnex	\$30	0.13x	N/A
3/21/07	Solarcom Capital	Presidio Networked Solutions	N/A	N/A	N/A
3/21/07	Atlantix Global Systems	Presidio Networked Solutions	N/A	N/A	N/A
2/14/07	Wuhan Huaruan Software Co. Ltd.	Wuhan Humanwell Hi-Tech Industry Co. Ltd.	\$37.3	N/A	N/A

<sup>5</sup> Source: HT Capital Research, company records

**HT****CAPITAL ADVISORS, LLC**

437 Madison Avenue  
New York, New York 10022  
Tel: (212) 759-9080  
Fax: (212) 759-0299

70 W. Madison St.  
Chicago, Illinois 60602  
Tel: (312) 920-9003  
Fax: (312) 920-8925

**For more information regarding the current transaction environment, or to discuss your company and how HT Capital might be of service, please contact Steve Tardio in our Chicago office, or Steve Rathbone and Tom Albanese in our New York office.**

### **Investment Banking Services**

- Mergers and Acquisitions
- Divestitures
- LBOs and Management Buyouts
- Recapitalizations and Restructurings
- Strategic Partnerships
- Capital Raising
- Valuations and Fairness Opinions
- Private Equity