

M&A REVIEW



Volume 6, Issue 3

October 2008

What to do in Times of Economic Turmoil?

As the credit crunch threatens to turn into a serious global downturn, corporate leaders have a choice: pull down their sails and ride out the storm or look for opportunities to pick up significantly undervalued assets that will help them grow and create future value for shareholders.

If history is any guide, more will follow the first course—which could be a mistake. Research by McKinsey & Company indicates that although most executives know and pay lip service to the maxim “Invest in a downturn,” few act on it. Two findings stood out from this research.

First, of potential strategic moves companies can take to grow in a downturn—divest, acquire, invest to gain share—an effective acquisition strategy (defined as growth through M&A at a rate higher than that of 75 percent of a company’s peers) created significant value for shareholders. During an upturn, on the other hand, divestments created slightly more value than acquisitions did.

Second, companies often behave in counterproductive ways. Fewer than half as many companies in the segments studied made acquisitions in downturns rather than in periods of economic growth. Significantly more divested businesses in those market segments in downturns than in upturns.

Many companies simply freeze: 60 percent of those in McKinsey’s database made no portfolio moves at all in downturns, compared with only 40 percent that made no moves in upturns. The best growth companies take a different approach. They view a downturn as a time to increase their leads and make acquisitions.

According to ZEPHYR published by BvDEP, the third quarter saw a decline in both the number of deals and total deal value. The table below reflects North American deal activity.

| Announced date, North American Targets | No. of Deals | Total Deal Value (mil USD) |
|--|--------------|----------------------------|
| Q3 2007 | 3,965 | 400,543 |
| Q4 2007 | 4,278 | 326,485 |
| Q1 2008 | 3,718 | 229,706 |
| Q2 2008 | 3,616 | 423,275 |
| Q3 2008 | 2,480 | 353,938 |

Source: ZEPHYR published by BvDEP

Gaming—Recession Resistant

At a recent panel discussion entitled “State of the Industry” held at the Flash Point Academy in Chicago, executives from Midway, Babaroga, WMS, Raw Thrills, Gamasutra and Wideload gathered to discuss the global economic crisis and its subsequent effect on the gaming industry.



With such a broad gathering of industry experience, and verticals that range from arcade and slot machine development to large console and handhelds, this panel held a lively discussion on the current and future economic impact on the gaming industry as a whole.

A general consensus quickly emerged that the market is healthy. While it is not recession proof, it is recession resistant. At the time of this writing, the current economic outlook has steered clear of a second Great Depression. However, it’s important to note that the first Great Depression gave rise to the slot machine and, in turn, fueled the gaming industry.

With unemployment rates forecast to hit 7% in the 1st quarter of 2009, gaming executives are expecting that the consumer will have more available gaming time. At an average of \$0.02 cents an hour to play games like “World of Warcraft,” they expect consumers to choose gaming as a low-cost alternative to other entertainment. Slot machine developers noted that the consumer is continuing to travel to Las Vegas to gamble - but once there they spend less.

Future Impact, Gaming and M&A

The gaming industry is ripe for consolidation. With fewer game titles like “Halo 3” and “Call of Duty 4” capturing an estimated 80% of the revenue and production costs for large console games on the rise, studios and publishers face a daunting challenge of creating a sustainable pipeline of titles. Gaming companies are forced to invest in new intellectual property which opens the door for consolidation.

IMAP—Amsterdam Fall Conference

The International Network of M&A Partners (IMAP) held its 2008 Fall Conference in Amsterdam, Netherlands. Core Capital Group attended the conference which welcomed delegates from 33 countries. The purpose of the meeting was to create even stronger working relationships among IMAP members and to share ideas and information on the M&A advisory business. IMAP’s global presence and cross border capabilities are unparalleled in the corporate finance world.

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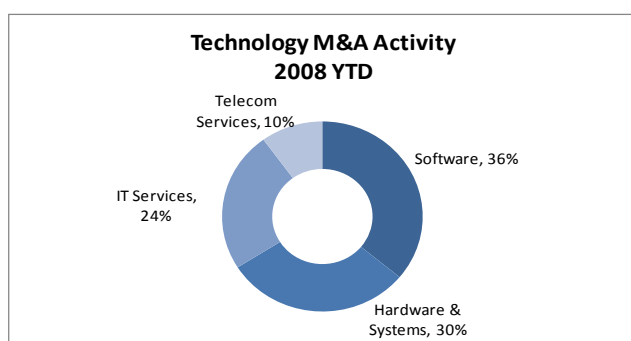


Tech M&A Spending Down in Third Quarter

Tech mergers and acquisitions took a dive in the third quarter, with spending falling by a third compared with the same period last year, as Wall Street investment banks and financial institutions were rocked to the core, according to a report recently released by The 451 Group. Tech deals fell to 691 transactions with a total value of \$37 billion in the third quarter, down from 822 deals and a value of \$58 billion a year ago. That marked the second consecutive year that third quarter M&A activity declined.

Software Continues to Dominate Technology M&A

For 2008 year-to-date, the number of merger and acquisition announcements targeting US information and communication companies totaled 1,199 compared to 1,112 for the same period in 2007. In September, the Software sector accounted for 36% of all announced transactions per the chart below.



In spite of attention given to cross-border transactions led by foreign firms, US buyers accounted for 82% of the announced transactions. Countries with two or more announced transactions include Canada (10), the United Kingdom (6), India (3) and South Korea (2).

Information Technology Demand Trends

Washington Technology recently reported on Gartner analyst comments at the firm's Symposium/ITxpo 2008 conference in Orlando, FL. The No. 1 item on Gartner's list of what IT execs have to prepare for was the worst of all, from a manager's standpoint: hiring freezes and possibly even layoffs. It was a somber message for the 6,000 attendees at the conference. "The next big thing in IT is not a technology — it is cost reduction, risk management and compliance," said Peter Sondergaard, Gartner's global head of research.

We at Core Capital believe that forward-leaning IT service providers will focus on the most basic of all value propositions: tailor your offerings to provide savings for your clients.

Recent Transactions

Cisco Systems Inc [CA] acquires Jabber Inc. [CO]

Cisco Systems Inc. (Nasdaq:CSCO), which manufactures and wholesales networking and communications products with specialization in education, government and home communications, plans to acquire Jabber Inc., a developer and retailer of web-based communications software, from Webb Interactive Services Inc.

Northrop Grumman Corp. [CA] signed a definitive merger agreement to acquire 3001, Inc. [VA]

Northrop Grumman Corp. [CA] signed a definitive merger agreement to acquire 3001, Inc. [VA] from CM Equity Partners, 3001's management and TICC Capital Corp. (NasdaqGS:TICC). 3001, Inc., a geospatial company, provides geospatial data production and analysis solutions in the United States. It offers solutions, including airborne imaging, surveying, mapping, and geographic information systems.

Infotech Enterprises America [CT] acquires Time To Market Inc. [CA]

Infotech Enterprises America Inc., which provides engineering, information technology and geospatial services in North America, planned to acquire Time To Market Inc., a provider of ASIC design and embedded software solutions services.

Red Hat Inc. [NC] acquires Qumranet Inc. [CA]

Red Hat Inc. (Nasdaq:RHT), developer of Linux and open source solutions software for Internet infrastructure, acquired Qumranet Inc., a developer of enterprise software, for an estimated USD 107.0mn in cash.

Deltek Inc. [VA] acquires Planview Inc.-MPM Solution [TX]

Deltek Inc. (Nasdaq:PROJ), which develops project management software, acquired the MPM solution and related assets of Planview Inc., a developer of enterprise software, for an estimated USD 16.0mn in cash.

Tyler Technologies Inc. [TX] acquires School Information Systems Inc [MO]

Tyler Technologies Inc. (New York:TYL), which develops information management software and government integrated software applications and services, acquired all the outstanding stock of School Information Systems Inc., a developer of educational management software.

Boeing Integrated Defense Sys [MO] acquires Tapestry Solutions Inc. [CA]

Boeing Integrated Defense Systems, which manufactures commercial aircrafts, military airplanes and helicopters, missiles, space vehicles and stations, air defense systems, computing software and communications equipment, agreed to acquire Tapestry Solutions Inc., a provider of information technology services.

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