

May 28<sup>th</sup>, 2010

Dear clients and colleagues,

We have seen an increase in M&A activities over the past few weeks, and the IT space was no exception. A massive pile of cash is sitting on large companies' balance sheets. To illustrate the buying power of these organisations, the ten largest technology companies now have approximately \$250B on hand. At this level, they could easily offer to bailout a few European countries.

This situation is positive for smaller companies, as it appears their mega counterparts are willing to pay extra to be first to acquire small and innovative companies that can provide positive long-term growth perspectives. What's more, big companies seem to be diversifying the types of acquisitions they make, targeting those in the database and, more recently, software spaces.

The recent acquisition of Sybase by SAP, who paid 50% premium, is a good example of this trend. This week, we saw IBM make its biggest acquisition since 2007 when it purchased Sterling Commerce, a business-to-business software company that was part of AT&T, for \$1.4B.

We see many small IT companies that could benefit from M&A trend. Not only do larger, maturing tech companies not have the same ability as small companies do to innovate, but small companies, thanks to their light corporate structure, also have the capacity to adjust, create and develop faster. With the speed at which technology evolves, having a small structure and being able to create new trendy applications is a key driver of future success.

Below is a compilation of the largest IT deals that have taken place so far this year, along with the current trading multiples of the stocks in our portfolio:

<u>Target</u>	<u>Acquirer</u>	<u>Size value</u>	<u>Announced Premium</u>	<u>Multiple</u>
Sybase	SAP	\$ 5.3B	48%	4.9x sales, 14.4x EBITDA
Riskmetrics	MSCI	\$ 1.6B	18%	5.0x sales, 15.3x EBITDA
Skillssoft	SII Investment	\$1.1 B	14%	3.5x sales, 9.6x EBITDA
Stanley inc	CGI Group	\$1.1B	20%	1.0x sales, 10.1x EBITDA
Ventyx	ABB	\$1.0B	NA	4x sales
Novell	Elliott Associate	\$ 0.8B	20%	2.3x sales
Palm	HP	\$0.65B	20%	1.7x sales
Phase Forward	Oracle	\$0.65B	29%	3.4x sales, 25.0x EBITDA

The average multiple at which these recent transactions were made was 3.2x revenues and 14.8x EBITDA. We feel comfortable with our existing technology companies, as they, on average, trade at 2.2x current revenues and 9.0x 2010 EBITDA.

Other industries, such as health care and consumer, could also stand to benefit from the increase in M&A activities. Recently, one of our portfolio holdings, Casey's, received a hostile purchase bid of \$36/share from Couche-Tard, a 17% premium on the announcement date. Casey's operates more than 1,500 convenience stores in the mid-west, and while its

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board rejected the offer, we believe Couche-Tard will return with a higher bid, or another player will show up and offer to buy it for 40\$/share or more.

Besides buyback shares and boosting dividends, we could expect M&A activities to remain very strong over the coming months.

Have a good week.

The Global Alpha Team

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