

August 27, 2010

Dear clients and colleagues,

In the past few days we have seen a growing number of companies lowering their outlook or showing more cautiousness in the near term. Friday we had Intel cutting its Q3 revenue forecast by 5% fearing a weaker than expected demand for computer. In the meantime we had Unit4, one of our IT holdings in the EAFE fund reporting strong first half result. The company reported revenue, license and EBITDA growth of 7%, 18%, and 23%. The management team even increased its 2010 EBITDA forecast by 4%. Here is a description of the company and the rationale behind this investment in our EAFE fund.

Unit4 creates, develops, markets and delivers a wide range of business software products and related services. Their solutions provide either general or specialized functional business support and benefit all types of private and public sector organizations across the globe. Their primary solutions include: Enterprise Resource Planning (ERP), Human Capital Management, Financial Management, Cash Management and On-demand applications. Its client includes mid-size companies, public sector organizations, local governments and blue chip companies.

Target market size

The global business application and analytic has a market size of \$118B at the end of 2008. Based on the total software revenue, Gartner estimated that the size of the ERP segment reached \$24.5B in 2008 and that Europe only accounted for \$8B. The top 5 companies worldwide have a combined market share of 59%. In its mid-market niche, we estimate that Unit4 has a market share of 5%

Competitive advantage

Unit4 has a resilient business model with a high content of recurring maintenance revenue which represents 45% of its total revenue. It is ranked number 6 globally in the ERP mid-market and has a dominant position especially in Scandinavia and Benelux. It is recognized as one of the lowest cost vendor in the industry, making it attractive in these tough economic times. It has the ability to defend itself extremely well against bigger competitors such as SAP, Oracle and Sage. In fact it has won 61 international deals in the past 3 years against SAP.

Growth strategy

The company will continue to grow internationally into relatively new markets such as Asia or Eastern Europe. Software as a service (SaaS) solution is starting to gain more traction and

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we estimate Unit4 to be well positioned to benefit from that trend. We just need to look at the strong performance of Salesforce to assess the huge opportunity of SaaS solution. The new partnership signed with Salesforce will allow Unit4 to potentially increase its customer base by 63 thousands new entrants. The increasing demand for accounting applications on cloud computing combining with Salesforce's platform will certainly drive Unit4's future earnings. Finally we believe it exists good cross-selling opportunity following recent acquisitions.

Risk

The industry is somewhat exposed to the cyclicity of its clients' IT budget. Since acquisitions are part of its growth strategy, there is always a risk of miscalculating the benefit of a large scale takeover.

Investment theme

The themes we have identified for Unit4 include technology enhancement and outsourcing.

Valuation

Based on a WACC of 11.0% and a terminal growth of 2%, our target price is €27 for an expected return of 56%.

www.unit4.com

Market cap: €500 million, P/E (TTM): 17.2x, P/E (forward): 16.0x, EV/EBITDA (forward): 7.3x, net debt to EBITDA: 0.8x, Expected sales growth: 7%-12%, Free cash flow yield: 13.9%

Regards,

The Global Alpha Team

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