



The Catalyst Group Newsletter

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 Ericsson	 SSA Global Technologies Inc	 Exchange Systems Technology Ltd	 VAI BV
has acquired	has acquired	has been acquired by	has been acquired by
Groupe Audilog	Baan Corporation	FFastFill Plc (AIM: FFA)	Brain Force Holding AG
 Telescope Technologies Inc	 Management and new investors	 Tenison Technology EDA Ltd	 The assets of Pentland Systems Ltd
has been acquired by	have completed a MBI/MBO of	has been acquired by	have been acquired by
Las Cumbres Observatories Inc	Artisan Software Tools Ltd	ARC International plc (LSE: ARK)	Curtiss-Wright Corporation (NYSE: CW)



Plan, Prepare, Control: How to Increase Your Company Value

Wolfgang Fieger

Company value plays an important role in every M&A transaction. It may not be the first priority in selecting the best acquirer – the fit in products, corporate culture, or strategy may matter more – but it certainly is a deal breaker if the price offered does not come close to market value and your aspirations.

There are a number of factors influencing the market value of a company. It depends on the individual position of the organisation, and which of those influencing factors can be changed to have the highest impact on company value. An individual acquirer may also have a different set of priorities to other interested parties, which will lead to different views of the valuation. In the end, it comes down to being better and more attractive compared with the competition, and whenever possible creating a unique selling proposition.

Of course, company value cannot be increased over night. It requires careful development of many factors, building value over time, perhaps over a couple of years. Growing a company to maximize its value is the first step to achieving a high sales price. To then fully realize that value, the transaction must be organized professionally.

Here are six factors which particularly influence technology company values.

Product and service offering

Your product and service offering should meet the most important requirements of customers, and should cope with the changes to these requirements over time.

So your products should be based on a technology platform that can be taken forward, and should be capable of efficient continuous development. No acquirer will pay for past high profits if there is not sufficient investment in product development to bring future high profits.

Services can be productized as well, by using, documenting, and branding clear processes so that a service practice based around the processes can be replicated and scaled.

Avoid one-off products

And the really essential point: never deliver one-off versions to each customer. Functionality requested by individual customers should be either left out or made available to all customers to avoid different product versions and high complexity in maintaining and designing new releases.

People

People are a key element of every company. Continuous training programs and an open-



mindful company culture, as well as positive atmosphere are essential to keep the best

employees and to reduce staff turnover.

A happy team increases company value

A company's internal corporate

climate is not measurable, but your customers and partners will sense whether your staff enjoy working in the company and so perform well. Potential acquirers will receive an impression even when only visiting your company, so it is essential that that the impression be a positive one.

Market position

A clear view on which markets or market segments to address is important not just for the future development of your company but also for a buyer to appreciate.

Beacon customers in focus areas need looking after well – they are your best references. Long lasting customer relationships generating recurring revenues are an asset, but you also need to prove that your company can win new customers.

A clear market position attracts buyers strongly

Entering a foreign market is a difficult exercise. It is easier to grow in your home

market as long as market size allows. If you do go outside your home market, try to follow your customers abroad.

Above all, be exactly something rather than a collection of different offerings. The latter might make sense in a lifestyle business to balance risks, but it's much harder to sell.

Organisation and structure

Keep the company organisation and structure as simple as possible, and stable. It is helpful if the organisation is not significantly changed within the last

Keep the structure simple...

two years before a planned sale so that comparable figures can be used to understand the development of the company.

Small and numerous subsidiaries should be avoided: they not only increase organisational complexity and administrative costs but can also discourage potential acquirers.

Accounting practices

There are countries where the tax system encourages the 'hiding' of profits, but a buyer from another country may misunderstand the motive to do so. Managing owners in particular sometimes shape the balance sheet to meet their personal requirements. It is possible, of course, to replace most of the 'extraordinary' items by figures normalized to the industry,



...and the accounts simple

but the number and extent of such items should be reduced as much as possible at least in the last two years before a planned sale. It is difficult for a

potential acquirer to calculate value from figures differing from the audited reports.

Ownership

The fewer decision makers involved on the sellers' side, the easier it is to negotiate. It weakens the sellers' position considerably, and may cause potential acquirers to

withdraw, if the shareholders do not speak 'with one voice' during the sales process.

The shareholder documentation should include drag-along rights specifying not only that all shareholders must sell under particular conditions, but also defining an efficient process to enforce the drag-along if necessary.

Get written agreement among shareholders under which conditions they must sell before starting a sales process

Three rules of thumb for avoiding banana skins John Scholes

A chicken sliding on a banana skin will not lay an egg

Or to put it another way, beware the buyer 'with backing to make an acquisition'. Almost always, a buyer who hasn't already got the funding in place will have backing 'in principle' lined up, but in practice the specific transaction will need to be pitched to the potential investors, leading to a position where neither buyer nor seller can commit firmly: the seller can't accept a 'contingent on funding' buyer, and the buyer can't commit to the seller because in truth the investor calls the shots.

You don't want the blood out of a stone – it's poisonous

Know when to stop negotiating. Certain principals in deals always want to score that last point, usually souring what have been good relations with the other side.

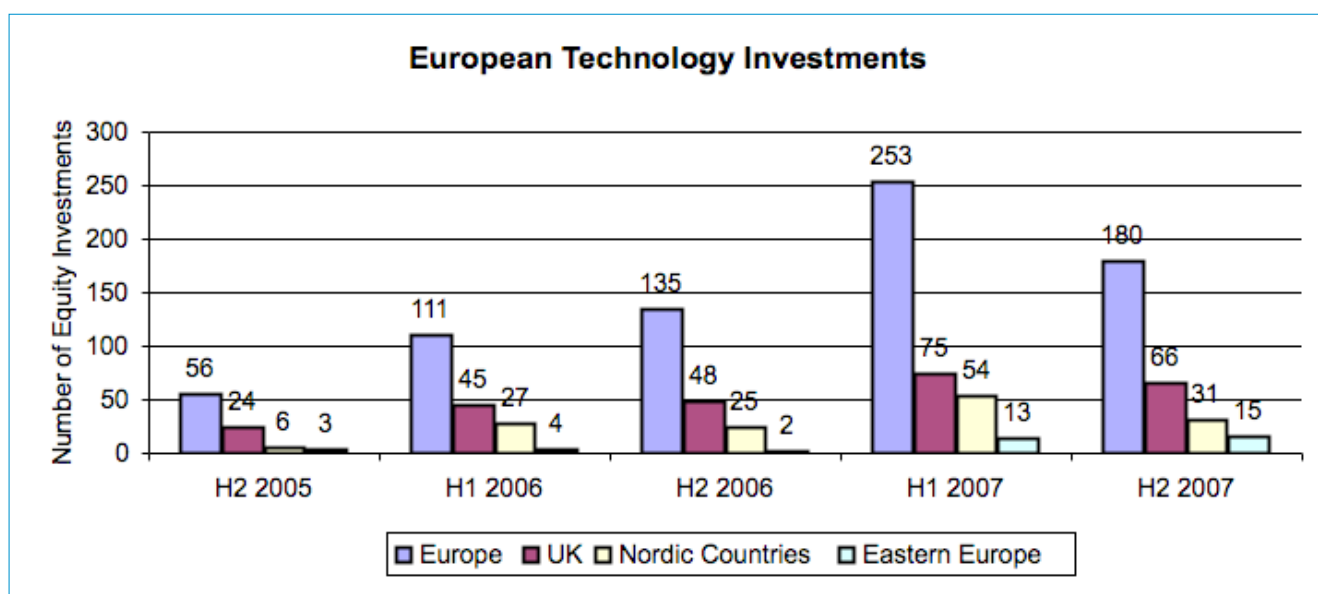
Avoid excessive packaging – it's bad for your green footprint

Overwrought hyping of a deal proposition, or concealment of the true properties of a business until late in the process, is almost always self-defeating. Better by far to sell strongly but honestly – let them sniff and feel the fruit!



European VC funding snapshot Natalia Fetherston-Dilke

2007 was a year of two halves. The H1 2007 saw more equity investments in European technology companies than during the whole of 2006. H2 2007, whilst still considerably busier than the same period in the previous year, showed a marked slow down not unlike that experienced in the M&A market and the very large, debt-driven, buyout market. Venture capital activity appears to have been influenced by the same plummet in confidence evident in the 'credit crunch'.



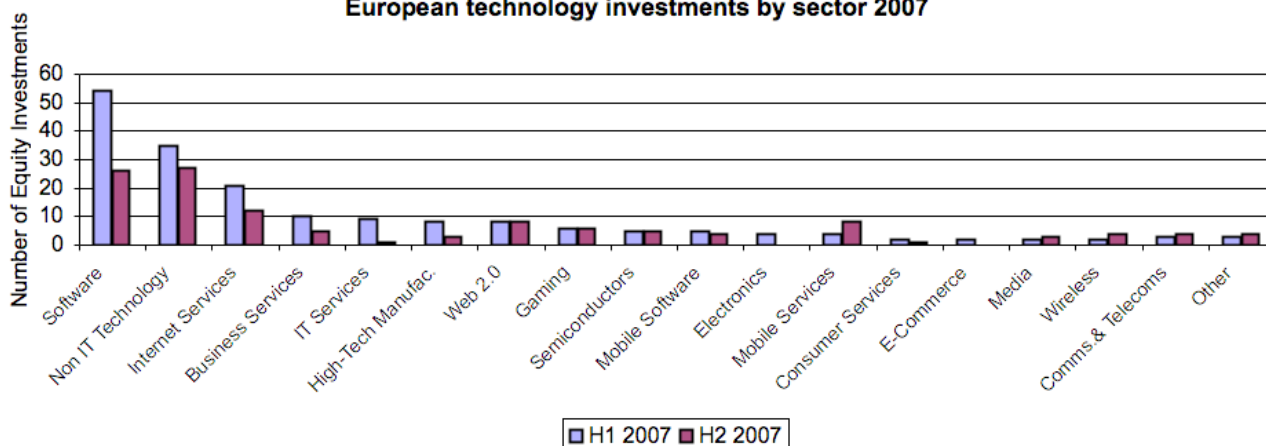
The only geographical area to buck the trend was Eastern Europe (including Turkey and Greece), which has showed a modest growth over the last two and half years to become a significant emerging market. Russia, in particular, has gone from no investments in the second half of 2005, only one in 2006, to nine in 2007.

Investments in UK technology companies during 2007 has increased by more than half to 141, despite a gentle tail off in the second half of the year.

One major European country is notably absent: Italy. We didn't spot a single VC investment reported in an Italian technology company during 2007. Why does Italy not have any venture capital active in technology? We'll give a prize of a case of (Italian) wine for the best (= most interesting or amusing, rather than necessarily correct) reason submitted.



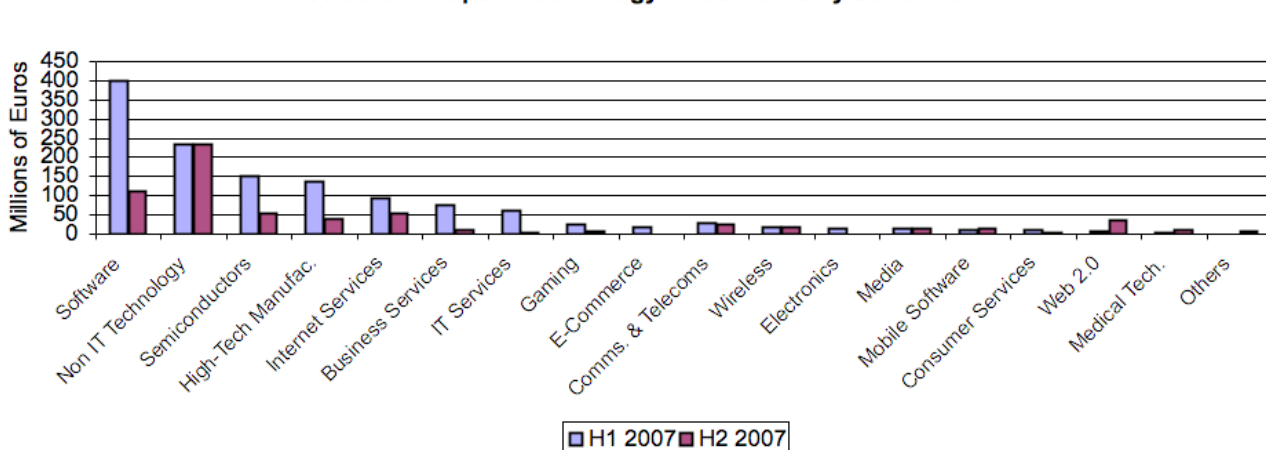
European technology investments by sector 2007



The slow down in deals during the second half of 2007 was seen in virtually all the technology sectors. The exceptions were mobile services where the number of investments doubled from four to eight in the second half of the year. The media and wireless sectors also doubled their modest number of deals, while Web 2.0 and gaming investments were constant in the two halves of 2007.

The disclosed deal values in each sector show a particularly steep drop in the software sector. Non IT technology (including optics, lasers and RFID technologies), wireless, mobile software and Web 2.0 are the only sectors where the amount invested in disclosed deals has increased from the first half of 2007. The sharp fall in the disclosed amount invested in the software sector shows a similar decline to the number of deals during the year.

Disclosed European technology investments by sector 2007



Tables drawn up from deals published in *RealDeals* magazine July 2005 to December 2007



Top 10 European VC investments 2007

Date	Target	Sector	Country	Investors	Amount
May-07	Panda Software	Software	Spain	Investindustrial, Gala Capital	€ 133m
Jun-07	Memory Company	Semiconductors	Netherlands	Francisco Partners, STMicroelectronics, Intel	€ 111m
Jan-07	Plastic Logic	High-Tech Manufacturing	UK	Oak Investment Partners, Tudor Investment Corporation, Amadeus, Intel Capital, Bank of America, BASF Venture Capital, Quest for Growth, Merfin Capital	€ 77m
Mar-07	Obstacle Collision Avoidance System	Business Services	Norway	BKK, Viking Ventures, Teknoinvest, Start-Fondet, Follum Invest	€ 62m
May-07	Cordys Holding	Software	Netherlands	Argonaut Private Equity	€ 60m
Jun-07	RedMere Technology	Semiconductors	Ireland	Edgestone Capital Partners, Celtic House Venture Partners	€ 37m
Nov-07	FastBooking	Online Services	France	Edmond de Rothschild Investment Partners, 3i	€ 35m
May-07	Joost	Internet Services	France	Index Ventures, Sequoia Capital, Li Ka Shing Foundation, CBS, Viacom	€ 33m
Apr-07	Verysell	IT Services	Russia	Mint Capital, RP Explorer Fund	€ 30m
Jan-07	Artimi	High-Tech Manufacturing	UK	Amadeus Capita Partners, Index Ventures, Accel Partners, Oak Investment Partners, Bank of Scotland Growth Equity	€ 26m



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