Private Equity | Public Takeovers Panel

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Growth Technology Conference 3.0

Toronto, Ontario | November 14, 2006

RBC Capital Markets

Bedford Funding

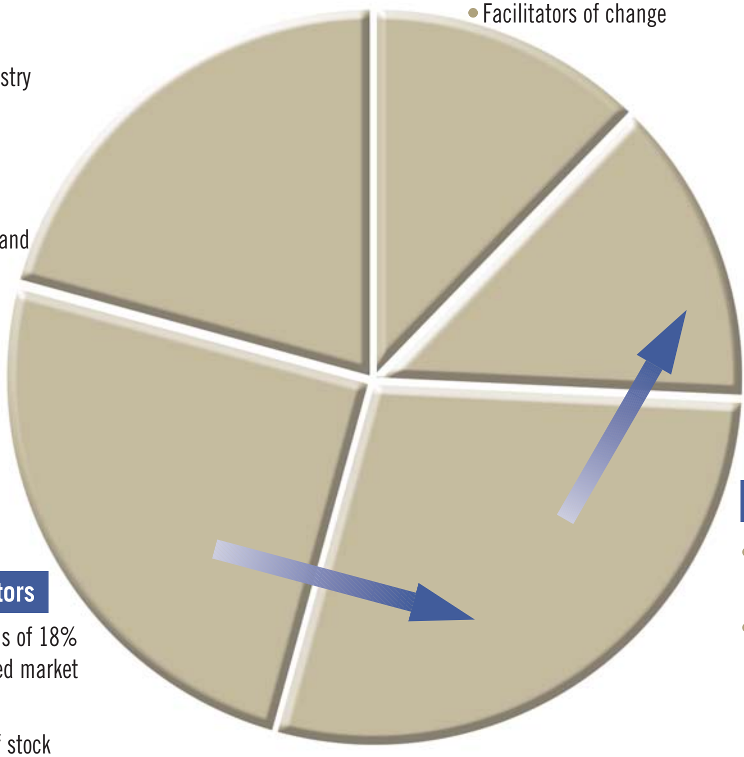
The Perfect Investment Storm?

Software Companies

- Consolidation is the biggest trend
- Classic fragmented industry
- Slowing growth
- Large cash balances and aversion to debt
- Large recurring revenue and ideal for more leverage
- Customers increasingly want fewer IT vendors

Hedge Funds

- Change for short-term profit
- Facilitators of change



Single-Source Conglomerates

- Building profit margins and economies of scale
- Offering full single source solutions
- Efficiency in development

PE Firms

- Ideal Owners: Focus on cash returns
- Double Valuation Reward for Consolidation
  - Larger Companies are able to produce higher margins
  - Larger Companies are given greater valuation multiples on earnings

Institutional Investors

- Average deal preimums of 18% exceed current expected market returns of 12%
- Renters, not owners of stock

Software Companies

The enterprise software market is currently experiencing rapid consolidation.

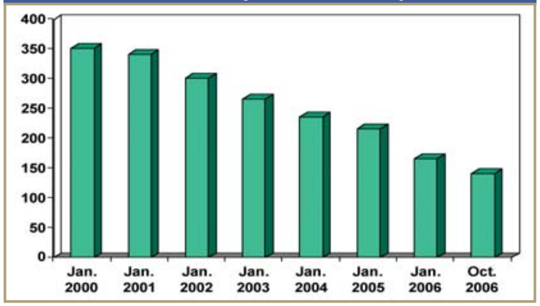
- Larger firms perform better financially than smaller firms and are rewarded with higher valuation multiples.
- Scale provides resources to enable transition to new platforms and technologies.

Hedge funds are becoming increasingly activist in nature.

- These activist tactics have largely been successful: 60% success rate in their 13D filings' demands.

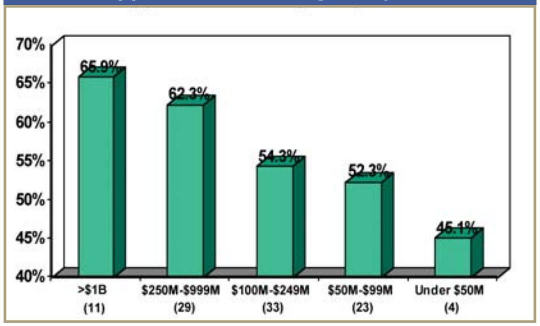
Therefore, we expect hedge funds to exert increasing pressure on small and mid-sized software companies to consolidate, in order to achieve higher margins and higher valuations. We expect Hedge Funds to exert influence on corporate finance policies of largest single-source conglomerates.

US Public Enterprise SW Companies



Source: *Jefferies & Co.*

Support/Service Margins By Size



Source: *Association of Support Professionals, 2006*

Geac: The 5-Year Score Card

Historical Earnings *US$ Millions* **and Stock Price** *US$*

Even with this performance record, hedge funds were still not satisfied!

Consolidation: The Single Biggest Trend

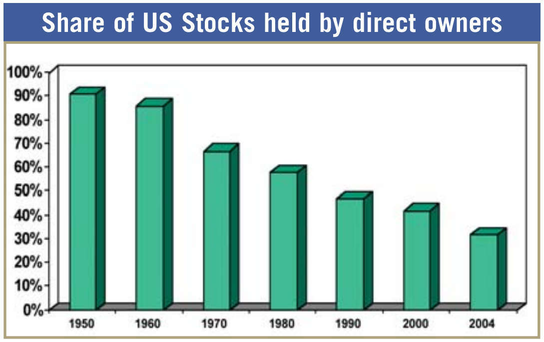
Stage 1	Stage 2	Stage 3
Point Solutions	Suite of Products	Single-Source Conglomerates

Institutions Rent Stocks, not Own Them!

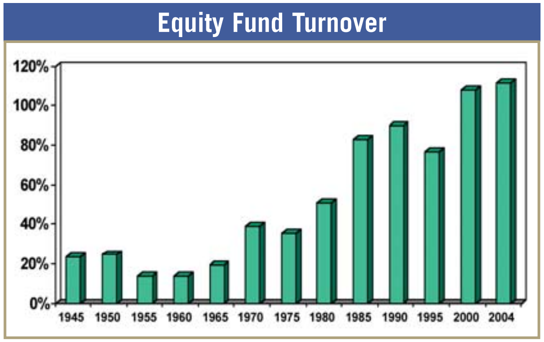
Today, investors rent stocks instead of owning them. Previously the market revolved around retail shareholders; now, it revolves around professional managers.

Institutional investment managers are compensated for short-term returns. Therefore, deal premiums paid to their portfolios are extremely attractive.

- The 100 largest money managers in the United States hold 58% of US stocks.
- Equity Funds have greatly increased their annual portfolio turnover.



Source: *Federal Reserve Board*



Source: *Investment Co. Institute, Morningstar*

The Ascent of Hedge Funds

Hedge Funds are defining the technology environment

Software companies are targets for hedge fund manipulation

- Cash on balance sheet is really prepaid maintenance
- Publicly traded software companies are averse to debt

Corporate management has not accepted hedge fund influence and role. CEOs need to start acknowledging and accepting the activism and work creatively in reaction to these new rules.

NYU Study of Hedge Fund Activism

Source: *"Hedge Fund Activism", by April Klein and Emmanuel Zur, September 2006*

Unlike mutual funds, hedge funds are not averse from owning more than 10% of a company, and can thus become activist.

Hedge funds have achieved a 60% success rate for all demands made in 13D filings.

10.3% average abnormal return earned in period surrounding the initial 13D filing (30 days before to 30 days after).

- Non hedge-fund activist investors earned only 5.2% abnormal returns when they filed 13Ds.

EPS and ROA actually declined in year following hedge fund activism. Debt capacity and dividends were increased.

Larger Software Companies Have Higher Valuations

Size does matter: the following table provides the EV/R multiples of target companies by size.

Revenue	#Cos	Median EV/R
$10 – $50 million	89	1.33x
$51 – $100 million	70	1.98x
$101 – $250 million	80	2.24x
$251 – $500 million	76	2.18x
$501 – $1 billion	60	2.56x
$1 – $2.5 billion	32	2.86x
$2.5 billion+	20	1.80x

Source: *Thomson Financial; Bedford Funding*

As the table indicates, there is a valuation premium given to larger companies (which may be due to their ability to reduce certain fixed expenses and thus generate larger profits)

The largest companies include many large IT service companies (EDS, CSC, Unisys, etc.) which have underperformed as they go through an improvement operational performance cycle, achieving in the interim lower profit margins and thus low valuations.

SOFTWARE COMPANIES INSTUTIONAL INVESTORS HEDGE FUNDS PE FIRMS

M&A Boom in Canada

In 2005, dollar value of announced Canadian M&A deals increased 85% over 2004 levels, versus a 33% increase in the United States and 38% increase worldwide.

In the first half of 2006, Canadian M&A deals (784 deals for US$93.5 billion) were nearly triple that of the first half of 2005, versus 23% growth in the US and 44% worldwide.

More than a dozen hostile takeover bids were launched in the 12 months ending June 30, 2006, including Falconbridge, Inco and Placer Dome.

Activist investors played a role with several transactions, including Fairmont Hotels, Algoma Steel, and Masonite (KKR increased bid after agitation by hedge funds).

82% of hostile bids between 1998 and 2006 resulted in a change of control, but bidder(s) were successful in only half of the transactions (remaining were completed by a “White Knight”).

In 2004, there were 190 hedge funds in Canada managing C$26.6 billion, versus 50 hedge funds with C$2.5 billion under management in 1999.

Source: *AIMA Canada*

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