Mergers and acquisition (M&A) trends in the Document Solutions (i.e. Document Imaging & Management) market segment

April 2004: We have significant experience and work extensively in the Document Solutions market segment. The Document Solutions market segment, by our definition, covers a broad range of companies from hard copy print, fax, scan and copy, to web-based content management software and services. What is common about all of the companies that operate in the Document Solutions market is that, they in some way or form create, process, manage, distribute or store *information* contained in the form of an electronic and/or hard copy *document*. This can range from the simple reproduction (copy) of a paper document on a traditional copier, to the use of electronic XML pages on the web. No matter the segment(s) of the Document Solutions market in which a company operates, our current experience and view is that this market is undergoing extensive consolidation and evolution in terms of M&A activities.

Market Drivers

Virtually all segments of the Document Solutions market have begun to experience much-needed consolidation. Driving the need for consolidation is the large number of firms in all sectors including software, hardware resell/maintenance and software-based services, coupled with strategic market evolution. Examples of strategic market evolutions include:

- Convergence of traditional copiers with traditional printers, e.g. the network enabled *Multi-Function Printer* ("MFP")
- Impact of increased regulatory and compliance requirements such as the *Sarbanes-Oxley Act of 2002* in the US
- Realization of the strategic value of *unstructured information* (data not traditionally stored in relational data bases) in the overall IT business model
- Improved cash position and market valuations of acquirers

MA& activity in this market has been brisk since 2002 and we believe it has accelerated over the past year. However, valuations, with a few exceptions, seem to have remained relatively stable during this period. Despite the increasing rate of activity, our view is that valuations in the Document Solutions market have remained relatively stable and are not comparable with those of the "dot com" era.

Market Consolidation

We outlined above several examples of key drivers of consolidation in the Document Solutions market. Segments of the Document Solutions market have long been in experiencing consolidation (such is the Office Equipment Reseller or "Dealer" segment or the Document Imaging/Workflow software segment). However, continued market evolution in and outside of Document Solutions has driven a new round of market consolidation. Due to its board market characteristics (copiers and printers to web-based services) with many small, mid-size and large players, covering IT and Office products and services in commercial, education, non-profit and public sectors, the Document Solutions industry continually spawns new companies and attracts new players from other sectors.

A perfect example of new players entering the Document Solutions market from adjacent sectors is **EMC,** a storage product provider, recently acquiring **Documentum**, a premier provider of Electronic Content Management software solutions. Or on smaller scale, leading web search engine technology provider **Verity's** very recent acquisition of **Cardiff Software**, a private company but leading provider of document capture, forms recognition and workflow software technology.

In addition to consolidation of the Document Solutions market by new players acquiring existing companies in the market, we see an increased level of activity by players within the market. Typically, these are transactions whereby larger companies are acquiring smaller, often private companies for various reasons; market share growth, technology or know-how, or movement into complementary segments (such as a software solutions firm acquiring a professional services firm). These consolidation moves by players within the Document Solutions market range from Office Equipment resellers and service providers further consolidating their market position (such as **Global Imaging Systems** acquiring additional regional Dealers in the US market), to the acquisition by **Vignette** of **Tower Technology**, the acquisition of **Optika** by **Stellent,** of **iManage** by **Interwoven**, and of Germany's **XIOS** by Canada's **Open Text**, most of these earlier this year, to numerous smaller transactions by public and private companies in the sector, all reinforce the trend of market consolidation.

There are also several excellent examples of recent trans-Atlantic, private company M&A transactions in this sector. Examples include the acquisition by UK-based **Emtex Ltd**., a private company, of **Opserver, Inc**., a US-based provider of Enterprise Output Management systems. Opserver was formerly a subsidiary of **Fidelity Capital**. In addition, recently there was the acquisition of a UK-based, private company, **CDC Solutions**, a leading provider of regulatory publishing solutions for the life sciences industry, by US-based **Liquent, Inc**., a subsidiary of Information Holdings Inc. (NYSE: IHI).

Market Analysis

At Westchester, we work with a number of firms in the Document Solutions market, both private and public companies in the UK and US. As a result of our work with these companies and our active participation in this market, we see an increasing trend towards consolidation. This is taking the form of larger public companies acquiring smaller, private companies as a key element of meeting their strategic imperatives, to private companies opportunistically acquiring other private companies to growth, add know-how and cash flow. We work on both the buy side and sell side of such transactions (depending on the client) and have seen an "unleashing" of buy side demand after the difficult period of 2001 & 2002 and a "pent-up demand" to sell by private companies that have weathered the lower valuations and stagnant M&A market of the same period.

We anticipate a further increase in M&A activity in the Document Solutions segment buyers continue to look for good strategic acquisitions and sellers see a robust market, yet still rational in terms of valuations.

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