

**Business Services
Sector****May 2004**

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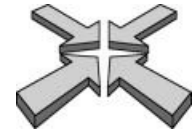
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Business Services: May 2004**Coming together – Private Equity fuels consolidation**

The good times keep on rolling! In April, U.S. services-sector activity carved out another record month of expansion amid improving employment and rising prices according to the Institute for Supply Management. The ISM's non-manufacturing business index came in at a robust 68.4 up from 65.8 in March, the highest-ever reading for the poll which the ISM began taking in 1997.

Business activity has grown every month but one since February 2002.

Employment in the sector is growing – the ISM's employment index rose from 53.9 to 54.5, the seventh consecutive monthly gain.

"Overall it was a very robust report," said ISM non-manufacturing survey director Ralph Kauffman in a conference call. He added, "It seems that both manufacturing and non-manufacturing have hit their stride."

In keeping with ISM's report, the Labor Department reported that job growth in April was "widespread for the second consecutive month." The service-producing industry added 246,000 jobs and of those, 123,000 jobs were in the professional and business services industry.

Private Equity Catalyzes Industry

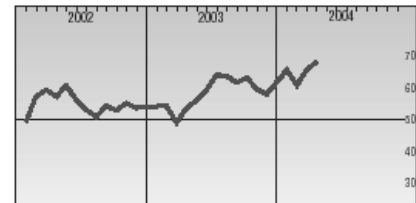
The highly fragmented business services industry is undergoing a wave of consolidation from two fronts: private equity sponsors and strategic buyers.

Financial buyers are aggressively seeking business services investments in particular niches. Attracted by the industry's recurring revenue from long-term contracts, strong growth, positive cash flow, and low degree of penetration, private equity groups continue to invest in business services providers. Using their initial investments as platforms, financial sponsors execute a dual-pronged organic and acquisition growth strategy to gain economies of scale, client acquisition, enhanced services and domain expertise.

Business Services Overtakes IT Services

According to market research firm NelsonHall, the value of business services outsourcing contracts awarded in the U.S. overtook the value of IT outsourcing contracts in Q1 2004. Business services outsourcing contracts now account for 52% of U.S. outsourcing contract value, as compared to 39% in Q1 2003.

**Non-Manufacturing Business Index
at all-time high in April**



What's driving growth? A key driver of the growth in outsourcing projects is the increased focus by corporate level executives to better manage the SG&A portion of their cost structures leading to the decision to outsource the transactional components of non-core corporate functions. In addition, large clients are increasingly expecting seamless delivery of global capability to encompass their worldwide operations.

Financing Environment

The easing credit markets have also contributed to increased activity in the business services market. Cash flow lending has improved considerably, further fueling consolidation. With debt to EBITDA multiples back over 4.0x in the middle market, expanding availability will continue to stimulate acquisitions by financial buyers.

These factors can lead to competitive bidding situations where private equity sponsors pay top-dollar for business services outsourcing companies.

A few examples of private equity investments in the industry:

- H.I.G. Capital acquired Oasis Outsourcing for \$30 million from Group 4 Falck.
- Berkshire Partners and Summit Partners recapitalized Bartlett Nuclear, a \$200 million industrial services provider.
- Warburg Pincus acquired WNS, a leader in the business services outsourcing industry.
- Consortium of Bain Capital, Silver Lake Partners and Warburg Pincus agreed to acquire the UGS PLM Solutions group of EDS for \$2 billion.
- Oak Investment Partners provided \$30 million in growth financing to Sutherland Global Services, a private off-shore business services outsourcing company.

Outsourcing Leads the Way in Consolidation

Many of the large consulting companies such as Accenture, ACS and IBM Global Services have been incorporating more business services outsourcing. Additionally, large offshore outsourcing companies, including Wipro and ICICI OneSource are pursuing acquisitions to scale up their own operations. As a result, many of the outsourcing sectors that are currently fragmented are seeing entry by large strategic players, forcing consolidation, driving down prices and increasing competition.

Driven by efforts to build scale; to gain multinational presence, offshore capabilities, and enhanced services; and to acquire client accounts and/or vertical specialization, M&A activity in the sector continues to increase.

A number of IT services companies have added niche outsourcing units as "tuck-in" acquisitions to exploit synergies between business services and IT service offerings. A few examples are:

- IBM Global Services agreed to acquire Daksh e-Services Ltd., India's third largest business services outsourcing company for a purchase price between \$150-\$200 million.
- Perot Systems acquired Healthsource India for \$10 million.
- Exult acquired PwC's Human Resources business services outsourcing operations for \$17 million.
- Affiliated Computer Services acquired Trucking Mgt Services for \$28 million.
- CGI acquired American Mgt Systems commercial and non-defense assets for \$858 million.

In addition, successful Indian companies continue to acquire U.S.-based business services companies operating in niche areas to gain domain expertise.

- Datamatics Technologies acquired Detroit-based Corpay Solutions for \$13 million.

The confluence of large customers seeking vendors who can provide end-to-end business outsourcing services, the influx of private equity to an attractive but highly fragmented sector, and the entry of large IT services and consulting companies is driving the consolidation of the business services outsourcing industry. The effect of consolidation is resulting in exit opportunities for many middle-market providers with established domain expertise, a critical mass of customers, and vertical focus.

Note: Newbury, Piret & Co., Inc. acted as exclusive financial advisor to Bartlett Nuclear, Inc.

Newbury, Piret is a leading private investment bank to growth companies in business services, manufacturing healthcare, and technology.