

# BACC/OSS Finance Newsletter

Summer, 2001

The information in this newsletter is provided strictly for informational purposes to BACC and OSS industry senior executives. Sokoloff & Co. makes no representations as to its accuracy. Sokoloff & Co. does not advise public investors; therefore this information should not be used for investing purposes.

Volume III, Issue 2

*This is a financial newsletter for CEOs and corporate development professionals in the Billing and Customer Care ("BACC") and Operations Support System ("OSS") industries. Each quarter we tackle valuation, merger and acquisition issues that affect our readers. Peter A. Sokoloff & Co. specializes in handling mergers and acquisitions in BACC and OSS. We welcome all inquiries.*

## ***Vital Signs: Upgraded from Critical to Serious?***

Using the hospital standard for evaluating the state of the patient's case, the billing and OSS industry, while experiencing a very beary Q1; can be upgraded from critical to serious in April, May and early June.

As the chart on the back page of this newsletter shows, *the industry average revenue increase for Q1 dropped to about 13%, down from almost 28% in Q4. Has the five quarter declining trend that began after the industry's 50% peak of expansion in Q4 1999 reached bottom?*

Perhaps not. Conventional wisdom holds that the stock market turns around 6-9 months before the economy. We may be able to look back to April 1st as the date the market upturn began. If the theory holds true, general economic conditions should begin to improve in the fall...But on the other hand, Q2 reports might just show that Q1 was the bottom. *We believe that telecom OSS spending has been held up by service providers concerns about the market and not necessarily because of concerns about the economy. Why is this?*

*The telecommunications industry has historically been non-cyclical. While most economists expect the general*

economy, i.e. unemployment rates, retail spending, manufacturing, etc. will continue to slow down during the next few quarters; perhaps even dragging into a recession, telecom services can expect to remain unscathed.

Telecom baby boomers will remember the recession in the early eighties. Cable systems were being built in depressed areas like Detroit, where unemployment reached 25%. Household penetration for new systems started at 50% and continued to go up throughout the recession.

People will cut down on auto purchases, stay away from restaurants, even go behind in their mortgage payments before giving up, or cutting back on, basic telephone, long distance and cable. An easy bet is

***"CLECs now own 8.5% of the approximately 194 million nationwide telephone lines, compared to a 4.4% market share reached in 1999. ..."***

that Internet service and cell phones will receive the same treatment.

But the possibility does exist that Q2 and even Q3 reports might continue to downtrend. Why then should the patient be upgraded from critical to serious? While not out of the woods yet, there is ample evidence of improving service provider and OSS company vital signs:

***The FCC released a May 21st report that shows a CLEC market that, contrary to the widely publicized reports of an "industry meltdown", managed a 93% growth in market share during 2000. CLECs now own 8.5% of the***

approximately 194 million nationwide telephone lines, compared to a 4.4% market share reached in 1999. Leading the charge were New York, with a 20% CLEC market share and Texas, with 12%. An interesting aside, these states were the only states to achieve 271 approval (RBOCs may sell long distance) in 2000.

***CLEC consolidation is really happening, portending better industry health and a return to the capital markets.*** Latest announcement on June 6th is **Cavalier Telephone's** acquisition of 50,000 line **Conectiv Communications**. Cavalier also successfully raised new private equity in March.

***Strong CLECS are getting stronger.*** CLECs like **McLeodUSA (MCLD)** and **Allegiance Telecom (ALGX)** posted strong Q1 gains. **McLeodUSA** also successfully raised \$750 million of debentures in January.

***Customer demand for new telecom services continues to be encouraging.*** As an example, broadband Internet subscriber levels during Q1 continued at about the same pace as Q4. A June 1st report from **Kinetic Strategies Inc.** estimates that, as of June 1st, 2001 there are 2,913,636 DSL subscribers and 6,450,916 Cable modem subscribers in the US. While only #2, DSL is trying harder, growing at a 77% cagr (compound annual growth rate), compared to Cable's 61%. As of June 1st, 118,941 new broadband subs are being added each week.

***The Application Service Providers market is growing at an 89% cagr.*** In early June,

*(Continued on page 2)*

The BACC/OSS Finance Newsletter is a service of Peter A. Sokoloff & Co.. It is distributed quarterly to CEOs, CFOs, corporate development executives and financial analysts in the telecommunications Billing and Customer Care and OSS industry.

The BACC/OSS Finance Newsletter is a copyright of Peter A. Sokoloff & Co. © 2001. Permission to reprint excerpts from this newsletter is granted, provided the following attribution is also printed; "Reprinted with permission. ©2001 Peter A. Sokoloff & Company, Glendale, California."



## Peter A. Sokoloff & Co.

Investment Bankers and Financial Advisory  
a limited liability organization

550 North Brand Blvd. Suite 1650 Glendale, CA 91203  
(818) 547-4500, fax (818) 547-4388, e-mail: gosoko@aol.com

IDC issued a report that projects ASP revenues will grow from \$986 million in 2000 to \$24 billion in 2004. The report highlights Western Europe, where ASP cagr is expected to be 128%, growing from just \$93 million in 2000 to \$5.7 billion in 2005.

**The IPO window is opening a crack.** While no new OSS IPOs have been announced, a few initial public offerings have hit the street. Medical sector companies like **Unilab** and **United Surgical Partners** have gone out in the last week and immediately enjoyed price surges of 48% and 29% respectively. Other public market activity, such as an oversubscribed \$1 billion bond raise (the target was just \$400 million) by **Adelphia Communications** is also encouraging.

**More than \$300 million of venture capital has been invested in over 20 OSS companies since the first of the year through April.** Gerard Klauer Mattison's May **CrOSStalk** newsletter notes that, despite a 47% decline in general VC investment in Q1, OSS is maintaining momentum. GKM cites successful raises at **Apogee Networks**, **Trendium**, **Brix Networks**, **SMARTs**, **Eftia**, **Dorado Software** and **XAACT**.

**There is a gray cloud.** Tough times like we are in tend to weed out the weaker companies much faster. Poor capitalization, management deficiencies, wrong technology and a lack of a sound strategy for the future are not long tolerated in this environment. For some, this will mean merging or being acquired. For others it will mean

**"Western Europe...ASP cagr is expected to be 128%, growing from just \$93 million in 2000 to \$5.7 billion in 2005."**

decline and bankruptcy. It is said that markets are efficient and self-correcting. So, perhaps, in a Darwinian way, the coming shakeout will be good medicine.

So, 'nuff said on the subject. We continue

to be involved in one of the most exciting growth industries on the planet. Barring major civil unrest or natural catastrophe, a bright future for the billing/OSS industry remains assured.

### **Peregrine Buying Remedy**

In a bold move June 11th, **Peregrine (PRGN)** announced it was acquiring rival **Remedy Corp. (RMDY)** for \$1.08 billion, a premium of 91% above the market price the day before the announcement.

The intelligence and strength apparent in

acquisition. The reasons are pretty clear. First, even with the big premium, **Remedy** will add earnings of about \$.06 per share. In the current market climate, an accretive transaction should be rewarded. Strategically, **RMDY's** help desk applications which principally serve small and mid-sized companies fit well with **PRGN's** product line that is directed at larger enterprises.

**Stephen Gardner**, CEO of **PRGN** told the street that there is long term value to be realized by consolidating operations and improving margins.

**PRGN** is in sound shape, with a cash horde of nearly \$300 million in the bank, raised during a time when its stock was at its early 2000 peak. The company is trading at a multiple of 6.7x trailing twelve months (ttm) revenues. They are acquiring **RMDY** at a multiple of about 3.7x ttm.

**PRGN** will pay \$9 per share in cash plus .9065 of a share for each share of **RMDY** stock. The deal is expected to close in September.

### **How Sales & Marketing Smart is your Firm?**

*Why is it that some firms can consistently post lots of contract wins and strong revenue increases quarter after quarter? Why is it that some firms can't seem to keep sales momentum going?*

Ask the latter question to a company that isn't enjoying sales success and the reasons one will hear are; "We don't have the money to hire sales guys or fund a major marketing effort," "Service providers aren't buying," "The competition cuts prices and/or makes impossible promises."

**Rarely, are these the true reasons for lack of sales.** Even in this tougher economic time.

The real why behind most failed sales and

*This notice appears as a matter of record only.*

**We are pleased to announce the appointment of**

**Bernard F. Walko, Jr.**  
**Associate**

**Bernie contributes a strong sales and marketing presence that greatly enhances the firm's mission to serve as a knowledgeable success advocate for our clients.**



**Peter A. Sokoloff & Co.**

**The Leader in OSS Mergers and Acquisitions**  
a limited liability organization

550 North Brand Blvd. Suite 1650 Glendale, CA 91203  
(818) 547-4500, fax (818) 547-4388, e-mail: gosoko@aol.com

the transaction was reflected by the fact that, despite a massive sell-off of 28.5 million shares of **PRGN** stock on the news, within two days **PRGN** had recovered most of its loss. Practically any merger or acquisition announcement will automatically set off strong selling of shares in the purchaser. If the analysts then decide they like the deal, buyers quickly swoop in to stabilize and even raise the value of the stock.

Several analysts weighed in, supporting the

(Continued from page 2)

marketing programs is there really is no program at all.

**Any basic sales and marketing program would have to include the following:**

**A clear understanding of the purpose of marketing.** For some reason, folks get marketing confused with sales. *The purpose of marketing is to make selling easier.* Every prospect development effort, market report, competitor study, corporate branding strategy, ad campaign and trade show appearance must serve to make selling easier and more efficient or it's a waste of time and money.

**A constantly improving and growing database that is used religiously by all.** THIS IS THE MOST CRITICAL COMPONENT IN A SUCCESSFUL SALES AND MARKETING PROGRAM. **NO KIDDING. ORGANIZATIONS WITH IT, SUCCEED. ORGANIZATIONS WITHOUT IT STAY SMALL.** Enemies from within who neglect the care and feeding of a database justify this by using worn excuses like rifle shooting vs. shotgun or giving each sales guy the latitude to create their own system of prospect organization. Lazy marketers will spend thousands on a questionable trade journal ad before sending out a direct mail piece to a few thousand prospects in the database...or tens of thousands on a trade show appearance before setting someone to work telephonically surveying the database for hot prospects.

It doesn't take a lot of money to constantly add new names into the database. Numerous sources are available to *collect company names, addresses and phone numbers.* Telephone calls can be made to get the names and e-mail addresses of decision makers. *Everyone in the company should be trained in the use of the database.* Use ACT, Goldmine, Seibel or other contact manager. *Outflow* every day to the database. This means surveys, cold calling, lead generation, follow-up, pipeline building. It means regular mailings and e-mailings to the entire list.

**Everyone is involved.** Sales is everyone's job. A support tech should know to listen when a customer expresses a need that

***"The real why behind most failed sales and marketing programs is there really is no program at all..."***

your company can fulfill—and he should be eager to refer that information internally and help make the sale. A receptionist should be managed to understand that he or she is the entry point for everyone who will do or does business with your

they're not the decision makers and *their recommendation will usually be IBM* (or a similar safe bet that won't risk their getting in the crosshairs of senior management).

The only person who should be trusted to make a decision based on real bottom line benefits and not CYA attitudes is the CEO.

How do you get to the CEO of a large telecom organization? The *typical* answer is to hire a high powered executive who plays golf and is "well-connected." If you don't have the bucks for that, **go spend \$12.95 on the book, "Selling to VITO," by Anthony Parinello.** VITO stands for Very

Important Top Officer. The book is an excellent primer for extremely effective selling by starting with the decision maker first.

**Be consistent and run the program every day.** A senior executive in a small billing company had an engineering background. He was surprised to learn that sales and marketing could be approached with *design, definition, process, implementation and maintenance.* He thought selling was some great master art, a magical skill granted to a precious few. Well—if you don't have a program, you'll need a magician to at least marginally succeed. **Get a real sales and marketing program going every day in your organization...** improve the program by keeping the basics in and then noticing and implementing standard actions that always get results...Then you won't need magicians to get the job done!

**Contact Sokoloff & Co.**

Please contact Pete Sokoloff for a confidential consultation about your company's merger and acquisition strategies. Mr. Sokoloff has guided numerous M&A transactions during a 21 year career as a telecommunications investment banker. **Pete Sokoloff, (818) 547-4500, psokoloff@sokoloffco.com.**

***"Always do right. This will gratify some people and astonish the rest."***

- Mark Twain (1901)

*This notice appears as a matter of record only.*

**We are pleased to announce the appointment of**

**Eileen V. King  
Associate**

**Formerly, Associate Vice President at First Union Securities, Eileen brings integrity and confidence to the process of managing accurate and timely due diligence and closing procedures.**



**Peter A. Sokoloff & Co.**

**The Leader in OSS Mergers and Acquisitions**  
a limited liability organization

550 North Brand Blvd. Suite 1650 Glendale, CA 91203  
(818) 547-4500, fax (818) 547-4388, e-mail: gosoko@aol.com

company. A friendly, helpful and professional receptionist demeanor is a great first step in any sale cycle.

If necessary, all hands can stuff mailers, make survey calls and add database entries.

**A top-down sales approach.** Probably the number one error that salespeople make is to enter an organization at a middle management layer. The billing manager and director of MIS might take your calls, give you an RFP and sit through your presentations. But at the end of the day,

**SOKOLOFF & CO. VALUATION RANKINGS OF PUBLIC BACC & OSS COMPANIES**

Sokoloff & Company compiles a quarterly review of the public BACC & OSS companies and compares how each is valued by the public marketplace. Since many of the companies on the list do not yet have earnings to report, we chose *total market capitalization divided by annual revenue (price to sales)* as a valid basis for comparison. Multiple of Revenue is based on the trailing twelve months (TTM). Note: The 1st Q 01 percentage column is the increase from 1st Q 00.

*This information is provided strictly for informational purposes to BACC/OSS industry senior executives. Sokoloff & Co. makes no representations as to its accuracy. Sokoloff & Co. does not advise public investors; therefore this information should not be used for investing purposes.*

Current Rank	Previous Rank	Company	Symbol	Stock Price 6/6/2001	Market Cap 6/6/2001	1999 Revenue	2000 Revenue	1st Q 01 Revenue	1st Q 01 % Incr. (decr)	Multiple of Revenue
1	1	Ultron	ULCM	32.75	1,326,735	25,831	47,441	17,033	93.0%	19.68
2	2	Micromuse	MUSE	45.5	3,322,956	69,573	151,022	59,300	119.0%	16.34
3	5	Siebel Systems	SEBL	51.15	23,178,111	795,882	1,762,488	588,700	84.0%	12.47
4	3	AMDOCS Ltd.	DOX	65.77	14,546,022	730,936	1,224,981	372,300	37.5%	10.96
5	4	Converse Technology	CMVT	67.32	11,174,649	847,702	1,119,094	356,000	33.0%	8.40
6	8	CSG Systems	CSGS	61.55	3,255,933	322,162	398,895	114,100	24.0%	7.95
7	9	Illuminet Holdings	ILUM	30.8	990,620	111,849	153,141	44,500	29.0%	6.67
8	7	DST Systems	DST	54.67	6,703,034	1,203,300	1,362,100	371,000	9.0%	5.14
9	11	TTI Team Telecom	TTIL	19.15	191,347	30,861	42,830	13,070	35.0%	4.77
10	12	Portal Software Inc.	PRSF	5.46	937,318	103,000	268,000	44,600	-12.0%	3.58
11	15	HNCS Software	HNCS	30.13	972,777	216,889	254,884	54,000	33.0%	3.52
12	14	Vertel Corp.	VRTL	1.61	45,676	19,815	16,398	2,598	-48.0%	3.25
13	17	Convergys Corp.	CVG	39.3	6,715,387	1,762,900	2,162,500	577,800	13.0%	2.94
14	22	Boston Comm.	BCGI	12.02	204,977	64,181	75,570	19,000	9.0%	2.77
15	20	Alltel Corp.	AT	59.08	18,495,880	6,302,271	7,066,978	1,797,882	9.0%	2.56
16	6	Mind CTI	MNDO	2.4	48,278	8,196	15,613	2,600	-18.8%	2.56
17	10	MetaSolv Software	MSLV	9.2	328,808	73,007	131,877	38,800	49.0%	2.44
18	16	Lightbridge	LTBG	18.71	538,979	89,716	121,555	49,300	16.4%	2.41
19	13	Management Network	TMNG	6.35	184,137	50,322	77,727	18,300	12.0%	2.34
20	21	Affiliated Comp Services	ACS	74.37	3,737,613	1,810,920	2,018,356	533,600	22.0%	2.03
21	19	Remedy Corp.	RMDY	17.92	473,841	228,933	288,510	64,800	4.6%	1.99
22	18	ADC Telecom	ADCT	8.31	6,495,079	2,151,800	3,287,900	652,000	-15.0%	1.87
23	23	TCSI	TCSI	1.28	29,701	32,766	18,901	3,700	-43.2%	1.55
24	27	Evolving Systems Inc	EVOL	3.95	51,200	40,487	52,843	13,594	16.0%	0.86
25	29	Astea International	ATEA	1.06	15,710	33,035	19,935	4,999	11.0%	0.80
26	26	American Mgmt. Sys.	AMSY	23.94	996,072	1,240,300	1,279,300	323,000	4.0%	0.78
27	32	Veramark Tech	VERA	1.25	10,236	29,396	16,525	3,324	-32.0%	0.68
28	24	Mobile Data Sol'ns Inc	MDSI	5	41,105	51,244	61,542	17,500	28.0%	0.63
29	25	Daleen Technologies	DALN	1.16	25,267	20,725	43,643	5,200	-42.0%	0.59
30	30	Ace Comm	ACEC	1.58	14,582	31,560	31,892	5,500	-32.0%	0.50
31	34	Cellular Tech Serv	CTSC	3.36	7,701	10,241	25,973	5,561	13.0%	0.29
32	31	DSET Corporation	DSET	0.84	9,771	44,629	47,043	3,400	-55.9%	0.26
33	33	T-Netix Inc.	TNTX	2.65	34,392	73,235	103,303	29,033	29.0%	0.18
<b>Sokoloff Index</b>				<b>756.94</b>					<b>Average</b>	<b>Average</b>
<b>All Companies</b>					<b>105,103,896</b>	<b>18,627,664</b>	<b>23,748,760</b>	<b>6,206,094</b>	<b>13.14%</b>	<b>4.05</b>
Mean Average Multiple for the Group										2.47
1999/2000 Average Revenue Increase - All Companies							27.49%			

