



# Stock watch

## Amdocs hits the acquisition trail

**Pete Sokoloff, MD, Peter A. Sokoloff & Co gives his take on the market performance of billing stock this month.**

**A**sserting its market leadership role, billing behemoth Amdocs, Inc. signaled strong confidence that the markets are approaching the bottom by circling one and perhaps two major acquisitions in October. First, on October 2nd came the announcement that Amdocs had agreed to buy troubled Nortel's Clarify CRM unit. Then, at the end of the month, the Israeli daily Maariv reported that Amdocs was in

early talks with Canadian provisioning company, Syndesis Corp.

"We intend to do more M&A in the future in order to complete our line of business," Dov Baharav, Amdocs' chief financial officer, told Reuters the day Clarify was announced. "The low prices in the market are encouraging us," he continued.

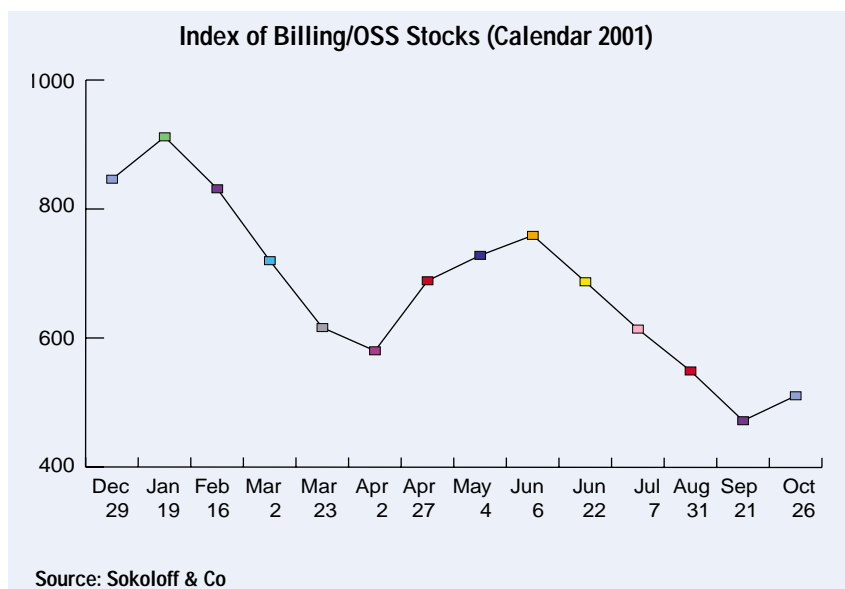
While Clarify represents the end of a long effort by Amdocs

to buy a leading CRM company, CFO Dov Baharav and CEO Avi Naor could attain legendary status if it turns out that they correctly called the bottom of the market. Nortel purchased Clarify in October 1999 for \$2.1 billion in stock. Amdocs is paying just \$200 million in cash, less than 10% of NT's original purchase price.

Here's an interesting historical analogy... Following the 1929 crash, by 1932, stocks

had lost nearly 90% of their value before an extended rally was ignited by Franklin Roosevelt's election to the US presidency. Likewise, Nortel stock was in the mid 60s in October 1999, climbing to a high of nearly \$130 by the market's peak in March 2000. On October 31, 2001 Nortel stock was under \$6. Based on Amdocs' price, the value of Clarify has marched in lockstep with the value of Nortel. An important note... Clarify's revenues have also dropped precipitously. It is believed that revenues in 2001 will have dropped by nearly 50% from 1999's high of \$230 million.

Another point in Amdocs' favour is simply its willingness to pursue an M&A strategy at all – there were at least two other companies who seriously considered buying Clarify. Both decided not to proceed with a bid because their boards were not yet ready to leave the safe sideline that many corporations have gone to while waiting for a sign from heaven that it is time to renew their commitment to fund business expansion. Reluctance on the part of larger companies to step forward has also affected the widely →



rumored attempt by Lucent to sell Kenan Software. Give them credit for showing some backbone; also heard on the street is that Lucent has rejected a few low-ball offers and is waiting for a better price.

### Turnarounds

When times are bad, companies like Clarify and Kenan, who have seen their revenues plummet, can expect to be treated poorly by buyers who face the daunting challenge of turning them

around. What about those companies who fare better as evidenced by increasing revenues derived from a successful strategy? Evidence in the market is that growing billing and OSS companies have attained a sustainable value range that should hold true for the next several years. While not the dizzying heights of 1999, healthy companies are being valued based on sound financial principals tied to realistic expectations.

Syndesis is a good example. Analysts expect VC backed,

privately held Syndesis to generate about \$70 million in revenue this year. With about 300 employees, Syndesis is funded with about \$70 million of venture capital and has had fairly good growth. At the rumored \$170 million purchase price, would be paying 2.5x revenue for the company and about 12x earnings. Accounting for adjustments, Amdocs is trading at about 16x; the transaction should be nicely accretive. And it certainly plays

well to the strategy of completing its line of business.

The transaction is also rumored to be a stock for stock transaction. This may be indicative that Syndesis's VC shareholders believe that Amdocs stock is a solid long-term hold. If one assumes that the bear market has depressed everyone's stock, why not trade the illiquid stock of a private company for liquidity in a company with strong prospects for future appreciation? ■

### Index of public billing and OSS companies

Company	Ticker	-----Price \$-----		YTD % Change	52 Week High	Mkt Cap (000s)
		'26 Oct 2001	29 Dec 2000			
Ace Comm	ACEC	1.33	2.31	-42.5%	5.37	12,321
Affiliated Comp Services	ACS	92.7	60.69	52.7%	93.2	5,460,772
ADC Telecom	ADCT	5.08	18.13	-72.0%	27.06	4,010,609
American Mgmt. Sys.	AMSY	13.23	19.81	-33.2%	25.04	551,453
Alltel Corp.	AT	59.81	62.38	-4.1%	68.68	18,555,395
Astea International	ATEA	0.95	0.88	8.6%	1.43	14,084
Boston Comm.	BCGI	9.1	27.88	-67.4%	29.87	155,273
Converse Technology Inc	CMVT	18.24	108.63	-83.2%	124.75	3,383,356
CSG Systems	CSGS	40.02	46.94	-14.7%	64.7	2,129,704
Cellular Tech Serv	CTSC	2.96	2.81	5.2%	7	6,784
Convergys Corp.	CVG	29.12	45.31	-35.7%	52.25	4,979,404
Daleen Technologies	DALN	0.48	4.00	-88.0%	11.12	10,499
AMDOCS Corp.	DOX	28.45	66.25	-57.1%	80.5	6,292,144
DSET Corporation	DSET	1	7.18	-86.1%	23.87	2,907
DST Systems	DST	43.45	67.00	-35.1%	74.93	5,344,393
Evolving Systems Inc	EVOL	1.18	2.16	-45.3%	6	15,555
HNC Software, Inc.	HNCS	18.45	29.69	-37.9%	35.37	646,101
Illuminet Holdings*	ILUM	39.63	22.94	72.8%	47.6	1,291,740
Lightbridge	LTBG	9.9	13.13	-24.6%	19.43	277,408
MDSI Mobile Data Solutions Inc	MDSI	3.4	7.88	-56.8%	13.12	29,237
Mind CTI	MNDO	1.25	6.69	-81.3%	13	25,145
MetaSolv Software	MSLV	7.27	9.13	-20.3%	24.62	267,558
Micromuse	MUSE	10.45	60.38	-82.7%	93.4	769,862
Peregrine Software	PRGN	16.47	19.75	-16.6%	33.55	3,142,674
Portal Software Inc.	PRSF	2.09	7.88	-73.5%	40	363,092
Siebel Systems	SEBL	18.74	67.63	-72.3%	119.87	8,626,959
TCSI	TCSI	0.65	1.38	-52.7%	2.12	15,084
Management Network	TMNG	5.93	11.88	-50.1%	15.62	175,481
T-Netix Inc.	TNTX	3.25	2.06	57.6%	4.37	48,854
TTI Team Telecom	TTIL	16.25	15.00	8.3%	22.12	162,370
Ulticom	ULCM	9.06	34.06	-73.4%	54.25	372,339
Veramarq Tech	VERA	0.56	0.63	-10.4%	3.06	4,645
Vertel Corp.	VRTL	0.74	2.38	-68.8%	6.25	24,340
<b>Total Index</b>		<b>511.19</b>	<b>854.77</b>	<b>-40.2%</b>		

Highlighted stocks were up for the year as of September 21, 2001.  
 \* Illuminet announced on September 24th that it is being acquired by VeriSign, Inc. (VRSN)  
 Source: Peter A. Sokoloff & Co.