Saba acquisition of THINQ Initial Thoughts.mmap - 11/04/2005 - David Wilson

Saba acquisition of THINQ Initial Thoughts

THINQ Viewpoint (June 04)

- Positive
  - An experienced niche LMS vendor with a strong core product used by some major companies
    - Top 5 LMS candidate for large corporate deals (in UK)
    - Not too distracted by non-core Suite components
  - Good understanding of enterprise LMS market place and requirements
    - Good track record
    - Experience of Enterprise requirements and integration
  - Some excellent major corporate and government customers
    - Strong US Government/Public usage and good US customer base
    - PwC, HMCE, Legal & General in UK
  - Already (largely) made the shift to web services architecture with v5 release 2+ years ago
- Negative
  - Too weak financially to survive as an independent vendor without significant additional capital
    - In current market conditions and company performance, unlikely to raise further capital at a level or value acceptable
      - Raised significant capital historically, but then retrenched to TrainingServer business
    - Therefore likely acquisition target
  - Weak outside core US market
    - Limited presence in UK
    - None significant elsewhere
  - Product very much best of breed LMS, weak outside core capabilities
    - Tendency for alliances to provide other capabilities
  - Concerns over in-house technical resources following outsource of development function and loss of some historic expertise
    - Lack of consulting / implementation resource outside US
      - Limited 3rd party expertise as well
    - Particular concerns over Support capabilities
    - Stability issues with initial 5.x releases

View of the deal

- Overall
  - Solid play for Saba if the deal price is acceptable
    - Further consolidates large corporate base
    - Significantly extends US Government footprint
  - Primary motivation is to buy customer base
    - Particularly US government and related
  - Expect phasing out of THINQ platform
  - Some consolidation of organisation but limited
    - THINQ already outsourced development to India
- Financially
  - Approx. $10m
    - 1.7m shares plus $500K cash plus 100K share earn-out
      - @ Saba stock price of around $5.00
    - Debt currently undeclared
- Other analyst
  - Gartner view that THINQ customers will replace their current THINQ platform by end 2007
    - Either through Saba or 3rd Party
  - Forrester sees it as positive for Saba, but potential issues with actually migrating the customer base

12 month recommendations for THINQ customers

- Dependent on current state of implementation and satisfaction with current THINQ offering
  - Other major considerations including HRS strategy and HR/Learning Outsource decisions
- V4 Customers should plan to change platform and should reevaluate market options
  - Some reasons to transition to THINQ V5 if
    - a) advanced commitment/plan to upgrade already, or
    - b) harmonisation of platform if are running V5 elsewhere
  - Straight migration to Saba may be attractive if functionally and organisationally appropriate
    - Including "no licence fee" migration option
  - Will inevitably see loss of THINQ customers to 3rd party alternatives
    - May have already rejected Saba in decision process
    - May downscale commitment given overall market uncertainty
      - Could adopt lower risk LSP route at non-Enterprise level
- V5 Customers should sit tight unless have a compelling reason to move to Saba now
  - Saba itself has strategic risks
  - Alternative options may carry similar risks
    - SumTotal yet to prove transition to single platform and customer base
    - ERP/HR alternatives are weak

Longer term perspectives

- THINQ customers have no long term option but to change
  - But most are likely to sit tight now and wait to see how successful Saba is over the next 2+ years
- Saba needs to consolidate its own position to ensure long term survival
  - Financially weak compared with mainstream ERP/HR providers
  - But if purchased, is likely to be for the platform as well as the customer base and market position
    - (Unlike THINQ acquisition by Saba)
- Continued weakness of ERP/HR LMS offering likely to push large corporates towards a specialist LMS / HCMS product over next 2-3 years
  - Even more so since the implications for LMS from the Oracle acquisition of PeopleSoft

Direct Implications

- For Saba Customers
  - No significant impact assuming absorbable acquisition cost
    - Do not expect significant challenges integrating organisations
    - No likely impact on Saba platform or R&D
  - Strengthens overall customer footprint
    - US Govt sector acceptance is particularly valuable
- For THINQ Customers
  - V4 customers have extended lifeline but maybe unlikely to transition to V5 now
    - Unless rest of organisation has already moved
    - But need to move from V4
    - Expect to see reenter the market to fully evaluate their options
      - Saba may be as good a bet as anyone in the niche LMS space
        - None of the Enterprise LMS players is relatively that strong
  - V5 customers are guaranteed a 3 year support window and are likely to sit tight
    - Unless believe Saba is a better immediate option
      - Will take advantage of the "no licence fee" migration option
    - Are likely to have rejected Saba in historic buying process
    - Saba has yet migrate most of its own customers to the next generation V5 platform
    - May also consider market and Saba to be too risky to make an immediate decision on future path

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