

**June 2003**

## **Knowledge Infrastructure Consolidates as Vendors Vie for the title: “Master of the Unstructured Data Universe”**

### Introduction:

Despite the fact that mention of knowledge management to justify an infrastructure investment still draws the “B.S.” flag, demonstrable results in areas such as sales effectiveness and training have helped rationalize in recent months, the value propositions of vendors whose technology offerings fall under the “Knowledge Infrastructure” (KI) umbrella. An enterprise’s KI typically includes those technologies that enable an organization to create, capture, reuse, share, archive, classify, search, and leverage knowledge internally as well as across the extended enterprise. With many vendors shifting their end-user focus away from IT and toward the business user, more robust business use cases have resulted from more efficient collaboration, communication, training and support of employees, customers, and partners. KI vendors are also seeing a strengthening wind at their backs thanks in part to favorable cultural and business drivers that are creating additional pull through for their solutions. The efficacy of the KI sector as a tool to improve bottom and topline results is also being bolstered by consolidation, led by document management industry leaders Opentext (NASDAQ: OTEX) and Documentum, (NASDAQ: DCTM). As vendors battle to become the Oracle of the unstructured data management universe, Mirus anticipates accelerating consolidation.

### Market Trends Driving KI Sector:

We anticipate accelerating usage for KI applications based on the following trends:

- **Pull Through Associated with Accelerating Adoption of Web-based Technologies** - The growing ubiquity of web-based technologies, such as instant messaging and web and data conferencing on the business user’s desktop, has contributed to an increased comfort level with web-based applications and confirmed for businesses the tangible benefits and increased productivity possible from these web-based technologies. The

success and comfort associated with the use of these productivity tools is creating pull through for complementary KI tools and technologies.

- **Purchasing Decisions Being Pushed Closer to the Revenue Line** – Business line managers are using discretionary funds to acquire easy-to-use, cost-effective technologies that help them meet their revenues and profitability “stretch goals” with fewer resources. The trend is demonstrated by the growing success of sales training vendors, such as Outstart and Vuepoint, whose content creation and delivery solutions have accelerated time-to-proficiency and consequently improved the sales effectiveness of their Fortune 1000 customers. The success of these solutions has also attracted sales from their customer’s channel partners, creating low-cost, viral “network effect” sales.

- **Reengineering of Decisions** – In an effort to improve transactional effectiveness and squeeze more benefit out of existing technology, organizations are looking to integrate decision support and transaction management to turn static content collection and delivery into more interactive and useful customer, partner or employee user experiences. This trend is clearly demonstrated by the growth of service-oriented employee, partner and customer portals as well as FileNet’s (NASDAQ: FILE) recent acquisition of Shana Corporation. This trend only stands to accelerate, as the use of web services becomes the preferred plumbing for customer, partner and employee connectivity. In a recent Accenture poll of 100 top CIOs across a variety of industries, 80% are currently evaluating Web services and consider it a high priority.

While many KI vendors are enjoying accelerated market uptake and penetration, a significantly larger opportunity exists when knowledge captured in context, such as “what was discussed and decided”, is seamlessly and transparently embedded into a repeatable business workflow or process that is accessible on

demand. The “request for proposal” scenario discussed below illustrates how when knowledge is captured in the context of a sales process and made available on demand, captured knowledge is better leveraged.

#### Open Text leads charge to Integrated KI:

Open Text has led charge towards a fully integrated KI solution, through multiple acquisitions and in-house development. Over the course of the last nine months, the Company has completed three acquisitions. These acquisitions added critical functionality in the areas of communication (Centricity), content creation and web conferencing (Eloquent), and portal infrastructure (Corechange).

insights, that can be indexed, searched, retrieved and re-purposed. For instance, in a “request for proposals” sales scenario, users within a familiar desktop user interface will launch and archive the contents of a web conference as part of a virtual sales conversation, improving comprehension by making it easier to search and retrieve what was discussed and decided and why.

#### Other Notable KI Transactions:

In an effort to meet the markets growing demand for the next level of leverage and return on its knowledge assets, consolidation of KI players has begun to accelerate, as seen below in Exhibit 1.

### Exhibit 1: Selected Transactions from September 2002 through April 2003

Date	Target Name	Acquirer Name	Transaction Value	Target LTM Revenue	TV/Revenue
4/02/03	Shana Corporation	FileNet Corporation	8.50	NA	NA
3/26/03	Key Automation/Dispro	Hummingbird	NA	NA	NA
3/10/03	LegalKEY	Hummingbird	NA	NA	NA
2/26/03	Corechange	Open Text	4.30	5.30	0.81
01/24/03	Obtree	IXOS	5.60	NA	NA
01/24/03	PowerWork	IXOS	1.30	2.00	0.65
01/22/03	Pyra	Google	NA	NA	NA
01/21/03	PlaceWare	Microsoft	204.00	51.00	4.00
01/09/03	Eloquent	OpenText	5.70	4.50	1.27
12/19/02	Adaytum	Cognos	160.00	57.00	2.81
11/13/02	Inktomi	Verity	25.00	NA	NA
10/29/02	Epicentric	Vignette Corporation	42.00	36.00	1.17
10/03/02	eRoom	Documentum	118.40	35.90	3.30
09/19/02	Centricity	Open Text	19.00	11.23	1.69
Average			53.98	25.37	1.96
Median			19.00	23.57	1.48

Open Text’s original intentions to pursue an integrated solution were made known with the introduction of its’ Livelihood Meeting Zone solution. This integrated solution allows live synchronous web meeting participants to retrieve project related information in real-time by automatically capturing meeting information in context and making that information available for archival and reuse purposes. The meeting content then becomes knowledge objects that are associated with other related business objects, such as discussions, project tasks and other corporate

We anticipate healthy consolidation as other leading players spanning the KI universe cherry pick best-of-breed vendors that will further their own visions of an integrated KI. Likely consolidators will emerge from the portal, business intelligence, document and content management, and collaboration software spaces. Expect to see consolidators such as Macromedia, Adobe, Documentum, Stellent, Business Objects, Plumtree, FileNet, Hyperion, Autonomy, and Cognos filling the headlines.

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## Consolidation Themes:

We believe the following consolidation themes will emerge across all types of KI acquisitions:

- **Measure to Manage** – As clients demand improvements in day-to-day operational efficiencies, vendors are better utilizing existing client data to support iterative planning, analysis and decision-making. BI-leader Cognos recent acquisition of Adaytum is reflective of this theme. Moreover, as BI and Performance Management vendors look to add collaborative workflow capabilities to their analytical deployments, information process management will become a likely extension to their existing solutions. As such, expect private workflow vendors such as Lombardi and Ultimus to become popular targets.
- **Keep it Simple Stupid** – As organizations are asked to do more with less, and C-level executives demand that non-technical subject matter experts engage in the content creation process, expect those vendors that offer familiar, easy-to-use authoring and flexible content delivery solutions to emerge as popular targets. Macromedia's acquisition of Presedia provides a recent example of this theme. In short, Macromedia bought Presedia to bring the ubiquitous flash authoring environment to the non-technical business user. Expect private vendors such as Outstart and Brainshark to be likely targets.
- **Go Vertical or Go Home** – While the market's demand for out-of-the-box industry specific process and workflow solutions is not new, the sluggish IT spending environment and focus on the business user has made it even more critical. With technology functioning only as the enabler, success for vendors often relies on their ability to leverage process "best practices" and specialized business content and metrics. This has placed increased emphasis on a vendor's "Services Story." The need for this type of vertical domain expertise will continue to drive both product and services acquisitions as demonstrated by Hummingbird's recent acquisition of LegalKey. Expect private vendors such as Lextranet and Open Information Systems to be likely targets.

- **Knowledge Awareness** - With the importance of information sharing taking center stage since the US began its war on terrorism; technologies that help automate the online identification, categorization, and connection to subject matter experts are growing in relevance. Google's recent acquisition of Pyra, whose software powers Blogger.com Web site, provides a window into how knowledge awareness might be utilized in the enterprise. In theory, Google's relevance engine values documents and their authors, according to the number of links they attract. Therefore, those that share the most useful information are rewarded in terms of their relevance ranking. The relevance ranking could then be used as a proxy to help identify and connect demand for certain types of knowledge with the best supplier. Expect private vendors such as Tacit Knowledge Systems to be a likely target. Expect private vendors such as WiredRed Software and Tacit Knowledge Systems to be likely targets. Tacit's technology builds profiles of people's expertise and their collaborative relationships by analyzing the flow of email messages and other documents. The software then associates people with topics and brokers connections between knowledge demand and supply.

## Conclusion:

While KI is still an emerging industry sector, the sector has matured in part, due to the increasing robustness of business use cases, favorable cultural and business trends, and the entrance and on-going commitment of leading software vendors and industry consolidation. Mirus anticipates that, as the land grab to become the Oracle of the unstructured data management universe accelerates, it will become increasingly important for smaller, private, point-solution KI vendors to pick a horse to ride so that they are not left in the dust.

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