



Introducing an Annualized Contract Value (ACV) View of the Broader Market

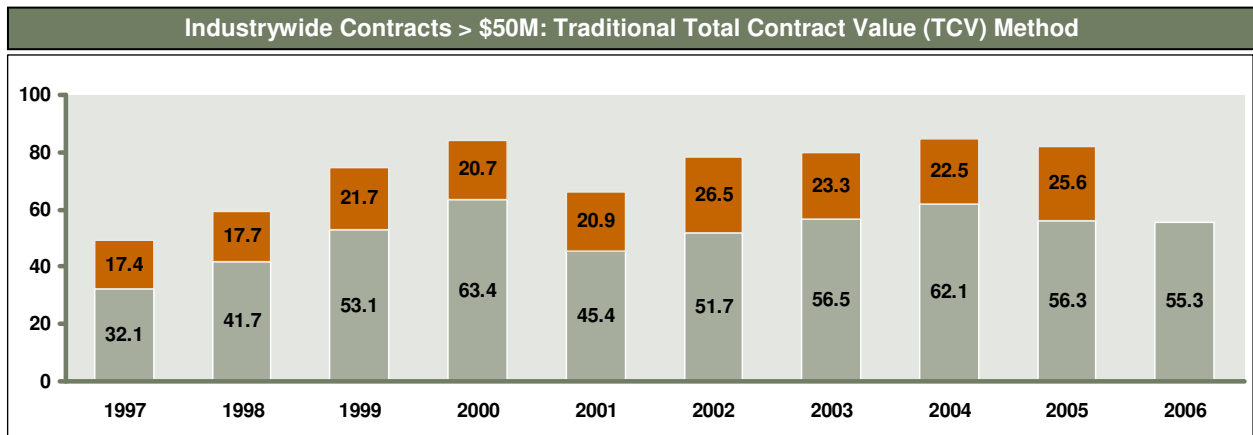
Kathy El-Messidi, Market Intelligence Specialist, TPI

There are some limitations in looking at the market only from a total bookings, or TCV, perspective — the aggregate contract value in the year in which it is announced. An alternative approach, the annualized bookings perspective, accounts for Annualized Contract Value, or ACV — the value of a contract divided by its duration. The Total ACV would be the aggregation of all ACV for contracts signed in that year. Simply put, to derive ACV for the annualized bookings method, we divide the TCV of an awarded contract at a point in time by the number of years it is expected to endure. This differs from the total bookings view in our Broader Market (contracts > US\$50 million) discussion in that total bookings look at the entire contract value as a lump sum. The annualized bookings view represents the typical average-year value of the transaction — it removes the element of the number of years.

For example, consider a US\$1 billion contract with a ten-year duration. Its annualized contract value is US\$100 million, the same as a US\$500 million contract with five-year duration. Essentially, the average annual run-rate would be the same, US\$100 million/year in annualized contract value for each.

We examined annualized contract value for the past ten years. We found that there *is* bookings growth in the market by this measure. We determined that more annualized contract revenue is coming online each year, and more has been realized at this point in time in 2006 compared with any third-quarter close.

The chart below offers our traditional TCV view of the market:



The following chart shows that the annualized value of contracts signed so far in 2006 is US\$9.8 billion. This amount is up three percent over 2005's total through three quarters and up over any other year during the past ten years. In short, YTD, more ACV has been signed than in any other year. Clearly, from a traditional view of aggregate contract value awarded, the market this year is smaller than in prior years. But from an annualized contract value perspective, which factors in shorter contract duration, the annual potential is as good as it has ever been.

