

MERGER & ACQUISITION REPORT FOR CLOUD AND MANAGED SERVICES
INDUSTRY

PREPARED BY



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Introduction

MSPAlliance has been tracking Managed Service Providers (MSPs) for over a decade. This report is intended to serve as a resource for merger and acquisition, as well as investment transactions taking place in the managed services profession. The Managed Services industry is a very broad one and can include many different subset elements or verticals. Vertical markets like cloud computing, online storage, data backup and recover, security, hosting, virtualization, and others all represent segments that fall within the overall managed services profession.

The report is global in nature encompasses a wide variety verticals and company sizes. This report is not exhaustive but does aim to cover the more noteworthy and important deals that have meaning in the managed services industry. If you are aware of a deal that was not covered in the report or have information you believe should be included in this or future reports, please let us know.

January

mindSHIFT Acquires Alpheon

Terms: Undisclosed

Analysis: The terms of the mindSHIFT acquisition of Alpheon was not disclosed so we don't know what the total valuation was but we are guessing that it was not a pressured sale by Alpheon. The acquisition continues mindSHIFT's expansion of its domestic operations. Alpheon's focus on small and medium sized business, particularly health care clients, will compliment mindSHIFT's existing service capabilities as mindSHIFT did not have a strong presence in health care until this deal. The deal also brings mindSHIFT into the south eastern region of the US. Alpheon senior management will be remaining. The combined entity mindSHIFT will have an annual revenue run rate of approximately \$100 million.

The transaction marks the second time mindSHIFT did a deal with an Accredited MSP; the first was a merger with Long Island based MSP Invision back in 2007.

Konica Minolta Acquires All Covered

Terms: Undisclosed

Analysis: This was perhaps the biggest surprise of 2011. All Covered has been on an acquisition spree for the last few years and had capped off a busy 2010 by acquiring Accredited MSP The IT Pros based in San Diego, CA. Known mostly for buying smaller sized MSPs and break/fix companies, All Covered was an undisputed M&A force in the managed services industry for many years.

Konica Minolta Business Technologies, on the other hand, has had relatively little exposure or fanfare in the managed services profession. No doubt Konica hopes the All Covered acquisition will change that perception. Not only is Konica planning on allowing All Covered to continue its M&A purchasing practices but All Covered will undoubtedly play an integral role in helping sell Konica business hardware and services to its branch offices in 37 states. The real question is will the Konica acquisition affect (positively or negatively) All Covered's ability to attract sellers. While All Covered had previously offered a very well structured M&A methodology and process, smaller IT providers may find the end game of becoming a conduit for Konica Minolta business products and solutions less appealing. All Covered, at the time of this writing, has not announced a M&A transaction since their deal with Konica.

Compushare Acquires Virtual Empowerment

Terms: Undisclosed

Analysis: Compushare, a MSP for the financial services sector is based in California. While not an MSP, Virtual Empowerment developed technology to take legacy financial applications and web enable them. The probable conclusion is Compushare is going to take financials services core applications and offer clients the opportunity to host them in the cloud along with management of the application.

The acquisition makes sense when viewed in comparison with last year's acquisition of Simpler-Webb by Accredited Master MSP HEIT. That transaction accomplished roughly the same objective for HEIT as this one did for Compushare. A competitive race is taking place between Compushare and HEIT for the SMB version of the financial services sector. While much larger institutions are having clear dominance in this vertical, MSPs like HEIT and Compushare are clearly dominating this lower to mid part of the market with no real competition in their wake.

Dell Acquires SecureWorks

Terms: Approximately \$500-\$550M

Analysis: In what may be the largest deal in January, PC and server manufacturer Dell bought managed security service provider SecureWorks. While the terms of the deal were undisclosed, it is estimated that the total valuation of the transaction was between \$500M and \$550M; based on a multiple of roughly 4 times SecureWorks' 2010 revenues of \$120M. If this valuation multiple is accurate, it is most likely not an indicator of SecureWorks' recurring managed services revenue solely but rather an aggregate of total size, market presence, scalability, and service capabilities.

The objective of the transaction seems, on the surface, pretty straightforward; SecureWorks' managed security offerings should compliment Dell's existing end-user base of mid-sized and large enterprise customers. What is not known is whether the SecureWorks offerings will be delivered to Dell's smaller clients or even sold through the channel. Dell has raised many eyebrows in recent years by making acquisitions that could only be viewed as competitive in nature by its channel. Starting first with the purchase of MSP remote monitoring and management software manufacturer SilverBack Technologies, followed by desktop management company Everdream, and a few other acquisitions that have positioned Dell as a MSP itself instead of the PC and server manufacturer it has always been.

While nobody in the channel would begrudge Dell getting into the managed services profession, many have been angered by Dell's approach of having both direct end-user marketing and sales as well as channel. It remains to be seen if the SecureWorks transaction will further exacerbate Dell's relations with the channel, particularly MSPs.

February

Paetec Acquires XETA Technologies

Terms: \$61M

Analysis: Legacy managed services provider Paetec acquired XETA Technologies, primarily for its communications capabilities. Founded in 1981, XETA Technologies sells, installs and services advanced communication technologies for enterprise customers. XETA is among the largest full-service, providers of advanced communications solutions with 32 locations and redundant 24/7 customer contact and data network operating centers.

Perhaps the most notable aspect of this deal was a MSP buying a telecom reseller whose revenues were over \$80M and whose 2011 revenues were forecasted to be in excess of \$100M. With a sale price of \$61M it is safe to say XETA did not have a very high valuation. It begs the

question of why Paetec did the transaction and what they hope to achieve from it. On the face of it Paetec has added gross revenues but may not have added a lot of recurring revenue value.

[mindSHIFT Acquires ORBIT](#)

Terms: Undisclosed

mindSHIFT, fresh from its acquisition of accredited MSP Alpheon in January of this year, has just announced its latest deal with ORBIT. Founded in 1999, the Minneapolis based MSP acts as a virtual IT department, providing a total outsource solution at an enterprise-level IT capability, in order to make technology a strategic asset for businesses, instead of a distraction or point of frustration.

Financial terms of the acquisition were not disclosed but the objective of the deal appears to be the somewhat mature cloud based offerings ORBIT had cultivated. ORBIT had 54 employees, all of whom will be staying on, bringing the total number of employees for mindSHIFT to 492.

[Time Warner Cable Buys Navisite](#)

Terms: \$230M

Cable operator Time Warner purchased pioneer MSP Navisite for \$230M. There are two interesting aspects to this transaction. First, Time Warner has added managed hosting, application hosting, and other cloud services through this deal. Perhaps as compelling to Time Warner as adding the managed hosting and cloud services capabilities is the tax advantage Time Warner will achieve as a result of Navisite's net operating losses, which should be approximately \$40 million in savings.

NaviSite employs approximately 570 people worldwide. It operates ten data centers in the United States and the United Kingdom, including two SAS 70 Type II certified data centers, and network operations centers in Gurgaon, India and Andover, Massachusetts.

[nGenX Closes Funding Round](#)

Terms: \$5.2M

Cloud services provider, nGenX closed a funding round of \$5.2 million from a private equity group comprised of former stockholders of Q-Comm Corporation, the company that owned nGenx through December 2, 2010. The company plans to use the funds for growth activities, including expansion of its sales and marketing presence.

nGenx operates a network of three autonomous data centers, each approximately 100 miles apart, all connected by a highly available fiber-optic network. From these data centers, the company provides cloud computing and Infrastructure as a Service (IaaS) solutions with inherent geographical diversity of data storage for its customers' data, applications, servers and backup.

[Rackspace Acquires Anso Labs](#)

Terms: Undisclosed

In a deal that moves a major web hosting provider even further into the cloud, Rackspace bought cloud consulting and services firm Anso Labs in February for an undisclosed amount. Mimicking the Time Warner/Navisite deal, Rackspace is clearly making a move to solidify its cloud credibility through this deal.

Speculation is that Rackspace is building its cloud services capabilities in an effort to become more attractive to a potential enterprise buyer in the future. Reporting 2009 revenues of \$629 million Rackspace, which co-founded OpenStack, an open source cloud project backed by NASA and 50 other parties, purchased Anso Labs because of its own expertise and support of OpenStack.

[Peak UpTime Acquires eMonarch & NexWave Technologies](#)

Terms: Undisclosed

MSP Peak UpTime, based in Tulsa, OK, made two acquisitions in February. The first was MSPAlliance member eMonarch, another Tulsa based MSP. The second, Oklahoma City based NexWave Technologies, a unified communications provider. Terms of the both transactions were not disclosed.

Peak UpTime appears to be consolidating its regional power with these two deals as well as adding to its portfolio of service offerings.

Voda Computer Systems Merges with Graycon Group

Terms: Undisclosed

Two Western Canadian MSPs merged this month to form a new entity calling itself Voda/Graycon. The transaction, one of the first true mergers of the year, will strengthen the Western Canadian managed services marketplace. The combined managed services organization will offer the client base a comprehensive suite of services including network security, VoIP, storage, and virtualized solutions.

While the deal terms were undisclosed merger represents one of the first pure managed services mergers. Most of the deals these days involve acquisitions and to see two companies combine forces in what is likely a combination of equals. It will be interesting to see if this deal sparks any future mergers of equals.

March

Carousel Industries Acquires Juma Technology

Terms: Undisclosed

Analysis: Carousel Industries, a provider of data networking and unified communications, acquired Farmingdale, NY-based Juma Technology Corp., an Avaya Business Partner. It is unknown what terms or valuation was used in the deal but it is known that the acquisition has significantly expanded Carousel's footprint in the northeastern US, adding a seasoned sales and engineering support staff.

Juma is well known for having a focus on enterprise clients but they also had a well established vertical expertise in the financial, health care, retail, and education markets. Carousel has been on an acquisition spree having completed 6 deals in the last 2 years.

Capita Group Acquires Talis Information

Terms: \$30M-\$34M (£18.5m)

In what is a transaction in a precise vertical market, that of managed services and SaaS offerings for libraries in the UK, Talis Information Ltd was acquired by Capita Group for roughly \$30M.

The transaction represents a multiple of roughly 5-6 times the net profit for Talis which was just short of \$6M (based on gross revenues of roughly \$11M). Alternatively, a multiple of roughly 3 times gross revenues could also be applied, signifying how complex and imprecise valuations can be when only using 1 multiplier.

This deal should be viewed in the context of both a regional transaction as well as a specific vertical market.

Voxel Receives Funding from Seaport Capital

Terms: \$5.5M

Voxel, a provider of [hybrid cloud hosting](#) and managed services, completed a "Series A" \$5.5 million capital led by Seaport Capital, a private equity firm focused on growth and buyout opportunities in the communications, information technology and business services sectors.

According to a press announcement issued by the company, the funding round will provide Voxel with additional growth capital to support increased sales activities and accelerate the deployment of its innovative automated infrastructure services, including physical and virtual servers, [content delivery](#), application hosting and private cloud solutions in North America, Europe and Asia.

This deal clearly underscores the important role Infrastructure as a Service, cloud, and managed services is playing both amongst service providers but also with investors.

White Glove Acquires Primus Networks

Terms: Undisclosed

Two Texas based MSPs joined forces as White Glove bought Primus Networks, a provider of managed IT support and hosted services to law firms throughout Texas, for an undisclosed amount. Austin based White Glove, will extend its on-site service capabilities to Houston and Dallas, while also enhancing their Cloud delivery platform and hosted data center operations.

The combined entity will boast over 9,000 end-points under management and roughly 90 employees across the state of Texas. The deal should be viewed as a regional expansion within the state of Texas, but also enhancing White Glove's service capability into the legal services vertical.

April

CenturyLink Acquires Savvis

Deal Terms: \$2.5B

Analysis: CenturyLink, the third largest US based telecommunications provider acquired managed hosting and cloud services provider Savvis for \$2.5B. The deal signals the continuing convergence of telecommunications providers and IT services and cloud providers. According to press statements CenturyLink will be leaving Savvis as a separate operating division, similar to how CA Technologies has treated the Nimsoft acquisition last year.

The reason for the acquisition seems clear. CenturyLink wanted to get into the cloud quickly and decided to acquire its way in rather than develop an in-house strategy. CenturyLink also expands its reach beyond the 16 US data centers it has into Europe and Asia. Savvis had 32 data centers world wide.

TSG Acquires Concentrix

Terms: Undisclosed

In a UK only based transaction, TSG (over 500 employees) bought Concentrix (61 employees) in order to bolster its CRM strengths. Although Concentrix also provided other IT infrastructure solutions, it appears the primary motivation behind the acquisition was to access Concentrix's clients, which consisted of Royal Mail, Thomas Cook, E.ON UK, and others.

TSG has acquired 24 companies since 2003. TSG currently offers a full suite of IT solutions and business software to its clients, represented throughout UK.

Spacenet Acquires CICAT Networks

Terms: Undisclosed

Spacenet Inc., a wholly owned subsidiary of Gilat Satellite Networks Ltd. (Nasdaq: GILT), and a leading provider of broadband network solutions, announced that it has acquired CICAT Networks, Inc., a nationwide provider of broadband network solutions based in Chantilly, Virginia. CICAT Networks uses a network deployment approach, which is vendor neutral and thus optimized for the customer. Its methodology has a long and proven track record delivering value added services for businesses with multi-site locations. The acquisition of CICAT Networks represents a milestone in Spacenet's strategy to expand its business in the broadband managed network services market.

CA Technologies Buys Base Technologies

Terms: Undisclosed

CA Technologies (NASDAQ: CA) today announced the acquisition of Base Technologies, a privately-held consulting firm focused on the management of IT assets, with leading practices in virtualization management, mainframe technology, security and managed IT infrastructure

BEAR Data Solutions buys LiquidIT

Terms: Undisclosed

BEAR Data Solutions, Inc, a San Francisco headquartered global provider of information technology solutions and services, today announced the acquisition of LiquidIT, a managed services provider to enterprises of all sizes.

May

Momentum Telecom Acquires CommPartners

Terms: Undisclosed

Momentum Telecom, the leading provider of private label digital voice services and broadband management to cable operators, municipalities, and managed services providers throughout the U.S., has announced today that it has acquired CommPartners – a VoIP services provider based in Las Vegas – through an asset liquidation process resulting from Chapter 11 bankruptcy. Momentum was the highest bidder of several companies considering the acquisition of CommPartners' assets.

CDI buys Radical Support

Terms: Undisclosed

Computer Design & Integration LLC (CDI) has acquired Atlanta-based IT services provider Radical Support dramatically expanding its capabilities in delivering both managed and cloud computing services.

This most recent addition to CDI is the result of a two-year search process identifying the best managed services companies on the east coast. The acquisition will enable CDI to deliver a complete suite of proactive support and maintenance for its clients through public, private, and hybrid cloud service models.

Xerox Buys NewField IT

Terms: Undisclosed

Xerox Corporation acquires NewField IT, a U.K.-based print consultancy and software solution provider. The acquisition expands Xerox's market-leading managed print services (MPS) portfolio that serves workplaces of any size.

NewField IT's consulting and software services help companies implement MPS more quickly. For example, its Asset DB™ software suite creates visual maps of a floor plan to show how assets – like printers and copiers – are used throughout an office. By combining this visual mapping with a database that tracks usage patterns of document devices, workplaces small to large are better able to monitor and manage the use of the devices and their overall print-related costs.

HP Acquires Printelligent

Terms: Undisclosed

HP today announced that it has signed a definitive agreement to acquire substantially all of the assets of Printelligent, a closely held provider of managed print services (MPS). Financial terms of the deal were not disclosed.

The infrastructure, software and trained workforce of Printelligent, combined with HP's channel relationships, experience and broad base of services and solutions will strengthen HP's leadership in MPS. This acquisition, combined with HP's current assets, also will help HP's channel partners extend their customer relationships while recognizing new revenue streams.

June

TDS buys OneNeck IT Services

Terms: \$37 million

Telephone and Data Systems, Inc., (NYSE: TDS, TDS.S) parent company to TDS Telecommunications Corp., announces it will acquire OneNeck® IT Services headquartered in Scottsdale, Ariz. for a purchase price of \$95 million. OneNeck, which generated annual revenues of \$37 million in 2010, will be a subsidiary of TDS Hosted & Managed Services, LLC (TDS HMS).

OneNeck is a premier provider of hosted application management and managed IT hosting services to middle market businesses. The firm specializes in supporting Enterprise Resource Planning (ERP) applications. OneNeck's managed hosting services include management and monitoring of client IT infrastructure, both client-owned and OneNeck provided. The firm offers network management, disaster recovery, security administration, and end-user support on a 24/7 basis.

July

Logicalis Acquires Netarx

Terms: \$34 million

Logicalis Group, the international IT and Communications solutions integrator, has acquired Netarx, an Auburn Hills, Michigan-based solution provider. Netarx provides IT professional services including managed services, data center, collaboration, and infrastructure design solutions to customers throughout the Great Lakes and Arizona.

September

Terms: Undisclosed

All Covered, a division of Konica Minolta Business Solutions U.S.A. (Konica Minolta) focused on delivering high-performance Managed IT Services to small- and medium-sized businesses, is pleased to announce that LAN Associates, a premier provider of networked computing solutions for legal and corporate customers in the Northeast and Mid-Atlantic States, has joined All Covered.

Cogeco Cable Buys MTO Telecom

Terms: Undisclosed

Cogeco Cable Inc. has acquired Montreal-based MTO Telecom, to be included under the company's business communications subsidiary, **Cogeco Data Services (CDS)**, in an attempt to improve the quality of its managed service offerings.

Lumison Buys DediPower

Terms: Undisclosed

Lumison has today strengthened its position in the IT Managed Services sector by acquiring DediPower Managed Hosting Ltd, a Reading-based managed hosting and colocation provider. The acquisition brings Lumison's combined turnover to £27.5million, and continues its business expansion strategy, which has seen the company's revenues grow from £6.4m to £27.5m over the last three years.

December

North State Communications Buys Data Chambers

Terms: Undisclosed

North State Communications has entered into an acquisition agreement with Winston Salem-based DataChambers, an information technology company, to get rights to develop products and services owned by the company.

DataChambers offers managed services and secure colocation facilities for mission-critical IT infrastructure.

Contact

If you are interested in scheduling a private and confidential consultation to discuss the contents of this report please contact info@mspalliance.com (530-891-1340).