

“Fueled by a global economic recession and rapidly evolving technologies, the market for IT managed services is poised to explode during the next 24 to 30 months.”

SearchCIO.com , Nov 2008

commentary

Value Proposition – Businesses are challenged by supporting thousands of users across multiple networks and increased demand from hosted software applications while also transitioning to the next generation of technology. Many enterprises are not able to afford this support and transition, making them prime candidates for managed services that minimize capital cost and investment in IT staff. The managed offerings that a Managed Service Provider (MSP) may deliver include broadband access, hosting, network management, security, unified communication and applications. A 100-employee business could save an estimated 51% with a hosted IT infrastructure service versus a DIY approach. (Sources: Insight Research, Forrester Research, Stratcast Research).

Capital Market Summary – Despite the economic slowdown and tightness in the enterprise, governmental and SMB segments, the managed hosting and service provider sector has continued to grow. MSPs have reported stronger pipelines largely as a result of increased utilization of their solutions by businesses looking to more efficiently manage IT spending during the economic downturn. In particular, SMBs are expected to increase managed services spending to \$14.3 billion in 2009 (+9.2% from 2008) and to \$15.7 billion in 2010 (+9.6% from expected 2009). As a result, private equity firms remain active investors in the MSP sector given the stickiness of the business and revenue models. Recent capital investments in companies such as Horizon Data Center Solutions, Care Factor, CyrusOne, SecureWorks, and Peak 10 represent continued votes of confidence in the MSP market. (Sources: Techaisle, Forrester Research, MSPMentor.net).

M&A Market Summary – Multiple forces drive M&A activity in the MSP market including peer consolidation, ROI potential for private equity and VAR interest. As MSPs rush to offer the most comprehensive set of services, large corporate buyers make platform and expansion acquisitions, and early-stage investors look to cash-out. In particular, the highly fragmented nature of the MSP software sector sets the stage for potential consolidation. (Sources: MSPMentor.net).

Partners:
Tripp Davis
Leroy Davis
Andy Johnston

Contact:
+1.704.899.5960
info@7mileadvisors.com
www.7mileadvisors.com

public comparables

(\$USD in millions), share price as of 01-08-10 [\(click here for interactive company valuation charts\)](#)

Company	TEV	LTM	LTM	EBITDA	TEV /	TEV /
		Revenue	EBITDA	Margin	LTM Rev	LTM EBITDA
Cisco Systems, Inc.	116,790.7	34,807.0	8,733.0	25.1%	3.4	13.4
Computer Sciences Corporation	10,611.4	16,001.9	2,453.9	15.3%	0.7	4.3
Equinix Inc.	5,062.1	830.6	327.5	39.4%	6.1	15.5
iGate Corporation	467.6	192.2	37.0	19.2%	2.4	12.6
NaviSite Inc.	229.1	149.3	30.7	20.5%	1.5	7.5
Rackspace Hosting, Inc.	2,741.8	602.6	161.8	26.8%	4.5	16.9
SAVVIS Inc.	1,200.3	877.0	192.0	21.9%	1.4	6.3
Switch & Data Facilities Co., Inc.	881.2	195.8	57.9	29.6%	4.5	15.2
Terremark Worldwide, Inc.	844.2	270.3	62.9	23.3%	3.1	13.4
Unisys Corporation	2,053.7	4,667.7	367.7	7.9%	0.4	5.6
Average	14,088.2	5,859.5	1,242.4	22.9%	2.8	11.1
Median	1,627.0	716.6	176.9	22.6%	2.8	13.0

transactions

Date	Seller	Buyer / Investor	\$m	Rev
22-Dec-09	1Vault Networks	Peak 10	NA	-
21-Dec-09	Synetrix Holdings Limited	Capita Group plc	120.5	1.8x
14-Dec-09	7ticks, LLC	Interactive Data Corporation	30.0	2.8x
9-Dec-09	MSP Services Network (rumored)	High Street Technology Ventures	NA	-
9-Dec-09	Care Factor Computer Services, Inc.	Sverica International	NA	-
8-Dec-09	DNS Limited	SecureWorks, Inc.	NA	-
25-Nov-09	Horizon Data Center Solutions	Ballast Point Ventures	7.5	-
25-Nov-09	SupportSpace, Ltd.	Emergence Capital, BRM Group	10.0	-
13-Oct-09	ABS Network Solutions Ltd.	Capita Group plc	23.7	-
1-Oct-09	TecWatch	ClearPointe	NA	-
30-Sep-09	Softlayer Technologies, Inc.	Investor Group	20.0	-
4-Aug-09	BorderWare Technologies	WatchGuard Technologies	NA	-
24-Jul-09	SecureWorks, Inc.	BNY Mellon, Noro-Moseley, et al	31.5	-
14-Jul-09	Peak 10	McCarthy Capital	NA	-
8-Jul-09	Aplus.net assets; MerchEngines	Deluxe Corp. / Hostopia.com	30.0	-
9-Jun-09	Carillion IT Services Ltd.	Capita Group PLC	58.6	-
3-Jun-09	Areti Internet Limited	Alentus Corporation	NA	-
1-Jun-09	Cervalis, LLC	Capital Source	48.0	-
28-May-09	FiberNet Telecom Group Inc.	Zayo Group	93.4	1.5x
26-May-09	VeriSign, Managed Security Svcs	SecureWorks (Frontier Capital)	42.9	-
22-May-09	Anix Group	Affiliated Computer Services, Inc	50.1	0.8x
19-May-09	Hosting.com	HostMySite.com	NA	-

* Please see notice at end of report and contact 7 Mile Advisors to further discuss this information *

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**7 Mile Advisors**

121 West Trade Street, Suite 2875

Charlotte, NC 28202

www.7mileadvisors.com**Leroy Davis, Partner**

704.899.5962

leroy@7mileadvisors.com**Tripp Davis, Partner**

704.899.5762

tripp@7mileadvisors.com**Andy Johnston, Partner**

704.899.5961

andy@7mileadvisors.com**Steve Kemmerling, Associate**

704.879.1899

steve@7mileadvisors.com*****Notice - Disclaimer*****

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