

# clearthought

## Hosting

The European hosting sector has rapidly consolidated as leading players capitalise on the move to the cloud

## The right platform

It is imperative for businesses today to maintain an effective and responsive IT infrastructure. To achieve these goals they are increasingly outsourcing IT services to third party hosting providers, and it is estimated that within five years<sup>1</sup> companies will have outsourced up to 70% of their IT infrastructure.

### The hosting market splits as follows:

**Mass hosting:** includes standardised domain and webhosting services;

**Managed hosting:** A customer rents a physical or virtual server managed by the hosting company, while complex software solutions are specifically built for the customer. Services include: server hosting, virtual datacentres, and cloud servicing.

Hosting solutions are increasingly being offered through cloud platforms. Demand appears to have reached something of a tipping point with forecasts that cloud hosting, especially as part of the hybrid cloud, could achieve annual growth rates of up to 40% in coming years<sup>2</sup>.

### Privacy

As infrastructure platforms become increasingly global, the privacy and security-related legal restraints around data become ever more significant.

Legislation governing the protection of data and intellectual property has become a huge issue for governments and is driving strict compliance and robust security measures in the hosting services market. For instance, in spring 2016 the EU adopted new regulations aimed at unifying Europe's rules on data protection to make it simpler for companies to manage their data.

In today's 24/7 world companies are heavily dependent on IT infrastructure without disruption, and data processed in

connection with hosting is often extremely important and confidential. As such, demand for increased security is one of the key drivers in the development of new and more complex hosting solutions.

### Quality of service

This remains the key differentiator in the hosting industry with surveys consistently showing that price is not as important a purchasing factor as quality and trust. That means players need to show an overriding commitment to maintaining proper data

security in an era when cyber threats are all too common.

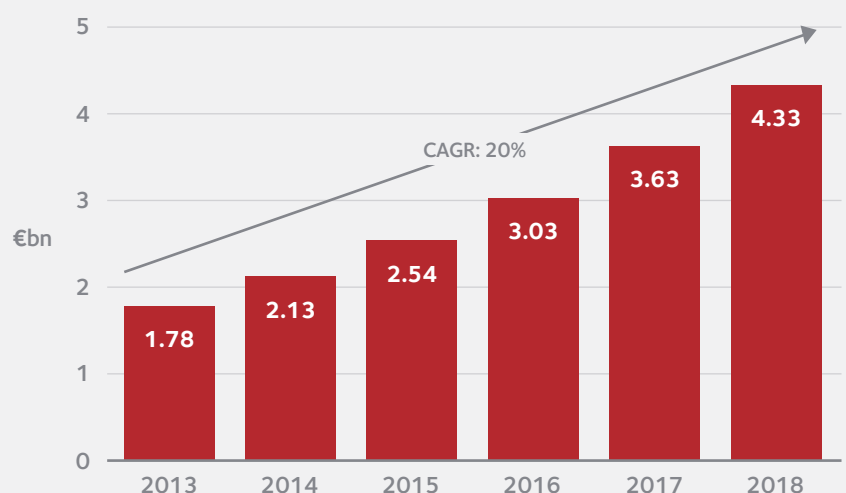
### M&A environment

Given these dynamics we have seen significant consolidation among hosting providers across Europe, driven by both Private Equity and trade players, with strong multiples also proving a major incentive for vendors.

<sup>1</sup> CenturyLink: Global IT trends

<sup>2</sup> Frost & Sullivan

### Forecast growth in European managed hosting market



SOURCE: Frost & Sullivan



# M&A Activity

## Private Equity

Private Equity investors have been at the forefront of the consolidation trend within the industry across Europe.

In recent years a number of PE groups have built up significant buy-and-build operations. Among the most active has been the Host Europe Group (see right) which has been subject to a number of buyouts.

Another prominent PE player is HgCapital which over the past year has acquired Zitcom and ScanNet in Denmark. The Danish hosting market is particularly fast-growing, benefiting from very high broadband penetration and a thriving e-commerce market.

In France, the Ardian group acquired a 20% stake in Ikoula, a specialist in web and cloud hosting, while Isatis Capital and NextStage invested in French hosting company Ecritel in order to develop its business further in the US.

Another deal saw Carlyle Group acquire Spanish firm Telvent Global Services (TGS) which provides IT infrastructure management services, including the provision of hosting across five data centres in Iberia. The company also offers advanced hybrid cloud platform capabilities in addition to broader solutions for industrial cyber security.

Carlyle has previously partnered with a number of similar technology companies including Telecab, Equinix, Numericable, Coresite, Expereo and Completel.

The UK has continued to be a hotbed of activity. Pulsant, a provider of managed, hosted data centre and IT infrastructure services to the mid-market, was acquired by Oak Hill Capital from another PE firm Bridgepoint Development Capital (BDC).

Pulsant was formed in 2010 when BDC acquired Lumison, a provider of connectivity, hosting and managed IT services, and was part of the first step in a strategy to create a 'one stop shop' managed and hosted IT services supplier in the UK mid-market. Pulsant went on to acquire Blue Square Data, Dedipower and Scolocate, and very recently acquired Onyx, an IT infrastructure services provider.

Oak Hill has a record of investing in the data centre services market. Its current IT services investments include ViaWest, Inc., a provider of colocation and hybrid cloud services, and Intermedia.net, Inc., a provider of cloud-based, hosted services.

## Future deals

Market-watchers expect strong M&A activity among PE groups this year as the market continues to thrive. The UK sector is seen as a particularly hot market as, behind the US, it has one of the most advanced hosting industries in the world.

For instance, players such as The Six Degrees Technology Group, backed by Charlesbank Capital Partners, is continuing its fervent acquisition drive, having recently bought cloud service provider Carrenza. Other UK PE-backed companies tipped to be sold in the near future include Node4 (LDC), Attenda (Darwin) and Adapt (Lyceum Capital).

## Host Europe

The German Host Europe Group has been one of the standout successes of the hosting industry, playing a big part in encouraging further PE investment in the sector. Its brands today include 123reg, WebFusion and DomainFactory.

Host Europe, which was previously known as GX Networks, was first acquired in 2008 by Oakley Capital, then by Montagu Private Equity in 2011, and most recently by Cinven in a tertiary buyout worth €555m in 2013.

Through a mixture of organic growth and a buy-and-build strategy, the company claims to be Europe's largest privately owned hosting provider with data centre facilities across Europe and the US.

Over the past year the business has gone on to acquire Paragon Internet in the UK, and Intergeria in Germany, adding to its previous acquisitions of Telefonica Germany Online Services and DomainFactory.

"Market-watchers expect continued M&A activity among PE groups this year as the market continues to thrive."

The Danish market has also been driven by the strong revenue performance of both shared hosting and managed hosting players such as One.com and IT Relation, whilst the landscape remains highly fragmented as even smaller players are very profitable. PE groups are very interested in high growing hosting companies, evident by the recent acquisition of IT Relation by Adelis Equity, and One.com by Accel-KKR and the Danish Pension Fund ATP.

## Trade activity

Strategic purchasers have also been attracted to the strong expansion potential in the hosting market and buyers are emerging from a variety of backgrounds.

IT solutions providers have been developing their web hosting businesses and looking for acquisition opportunities in order to achieve economies of scale, diversify their offerings and support their international expansion.

Telecoms players are also developing their web hosting services through acquisitions, and actively participating in the wider consolidation drive throughout the hosting industry. For instance, Orange recently acquired Cloudwatt, a move which strengthens its enterprise cloud services offering.

In France OVH has become one of Europe's largest web hosting companies following huge investment in its data centre and network infrastructure. It plans to invest a further €400m over the next few years in order to compete with US rivals.

In the UK cloud computing company Iomart acquired United Communications, which trades as United Hosting. Previous acquisitions have included SystemsUp, ServerSpace and Backup Technology.

Last year United Internet subsidiary 1&1 Internet acquired home.pl S.A, a leading player in the Polish webhosting market. 1&1 has been operating in Poland since 2010 and its aim is to gain further ground in the Polish market which has grown significantly in recent years. The deal follows United Internet's earlier acquisition of German firm Versatel.

"IT solutions providers have been developing their web hosting businesses and looking for acquisition opportunities..."



# Case study: Zitcom

The Danish Zitcom group has built up a highly differentiated hosting business. We caught up with CEO Stefan Rosenlund.

In 2015 HgCapital invested in Zitcom and ScanNet, two leading Danish hosting and cloud solutions providers. The investment was made from HgCapital's Mercury Fund, which focuses on growth buyouts in the technology sector across Europe. Clearwater International acted as exclusive financial advisors to Zitcom on the sale.

Zitcom, which operates under the Wannafind, UnoEuro, Curanet and Zitcom brands, has built up a highly differentiated hosting business addressing attractive growth segments of the cloud solutions market. Today it provides cloud services to more than 100,000 business and private customers, while ScanNet has a further 13,000 customers.

## Dotcom roots

Like so many hosting companies today, Zitcom's roots are in the dotcom era at the turn of the millennium. As co-founder and CEO Stefan Rosenlund explains: "A group of us first got together while still at school and the business started life in a basement. Our original plan was to launch an online search engine so we went out and bought some servers and an internet connection. But we then realised that there was some interesting stuff going on in the hosting industry so we changed our approach."

"I would love to say that we had a fantastic business plan, but to be honest this started out as a hobby. Looking back today there were two key things that made it all possible for us. Firstly, it was the relaxing of rules around the release of domain names. And secondly, it was the fact that we arrived just after the dotcom bubble happened. That meant funding was out of the question for us so we had to build the company from the bottom up."

Zitcom would go on to build up a subscription revenue business with a mix of consumers and small businesses as customers. "We just loved what we were doing and still do to this day. That is our DNA. We are very passionate about what we do and passionate about what we offer our customers."



## Growth story

Today the business is split between mass hosting and managed hosting divisions. Rosenlund puts the success of the business down to this personal approach. "We are fanatical about how we treat our customers and I think our success goes back to how we started. I have been right at the sharp end of the business from the very start, picking up phones to customers. I know exactly how the platforms are built, how the products are built. I have been involved in all aspects and functions of the company and that is crucial for a CEO in our industry."

Another key to success has been keeping up with the customer. "Today customers no longer accept manual processes. They want to be able to switch products themselves, do things online. This move towards self-care will become a must in the industry."

Rosenlund says the evolution of hosting has also helped the company evolve. "It has meant that we have created more managed products and that has helped us increase our pool and create more sticky relationships with customers. Providing that local presence is key too."

It is for this reason that he doesn't believe that the rise of the 'mega-cloud' players will kill off specific country providers. "Over the next five to 10 years we will still have country specific providers, but within countries I do see more consolidation as

the costs associated with running hosting businesses continue to increase. Personally, I think the mega clouds will always need local partners to do local customer service and play that local adviser role."

## Investment

Rosenlund says Private Equity groups (PEGs) started looking closely at possibilities in the Danish market when TDC Hosting was put up for sale in early 2015. "PEGs began looking at the market and realised there were a number of smaller players which were growing nicely and they saw the opportunities for a buy-and-build. That is precisely what happened to us and we are now part of HgCapital's strategy which I find very attractive. We will grow both organically and through acquisitions."

Will that strategy extend beyond Denmark? Adds Rosenlund: "Hg see Denmark as part of the Nordic region, so it would be obvious for us to look at expansion across the Nordics, especially as Visma – another HgCapital investment – is one of the largest Norwegian players. But right now we are focused 100% on Denmark and there is much to do here."

He adds that the biggest challenge for the business will be to keep a local presence and maintain its agility. "It's all about keeping a very close eye on all your competitors, wherever they may come from."



## A selection of recent European M&amp;A transactions

Date	Target	Country	Acquirer	EV €m
Jun-16	IT Relation	Denmark	Adelis Equity Partners	n.a
Jun-16	Onyx Group Ltd	UK	Pulsant	n.a
Apr-16	MCS Moorbek Computer GmbH	Germany	PlusServer GmbH	n.a
Apr-16	Carrenza Ltd	UK	Six Degrees Technology Group Limited	n.a
Mar-16	Netic A/S	Denmark	Trifork A/S	n.a
Feb-16	SystemHosting A/S	Denmark	Colombus A/S	n.a
Jan-16	NBS System Ltd	France	Oceanet Technology SAS	n.a
Jan-16	TeleComputing ASA	Norway	IK Investment Partners	n.a
Dec-15	Aspaway	France	Claranet Ltd	n.a
Dec-15	Zitcom A/S	Denmark	HgCapital	n.a
Dec-15	A/S Scan Net	Denmark	HgCapital	n.a
Dec-15	United Communications Ltd	UK	Iomart Group Plc	16
Nov-15	Paragon Internet Group	UK	Host Europe Group	n.a
Nov-15	COLT Group S.A. (Managed Cloud business)	UK	Aurelius AG	n.a
Jul-15	RedeVF Lda.	Portugal	Claranet Ltd	n.a
Jul-15	home.pl sp. z oo	Poland	1&1 Internet AG	122
Jun-15	Intelligent Group (50%)	Belgium	Waterland Private Equity Investments B.V.	n.a
Jun-15	T26 A/S	Denmark	GlobalConnect	n.a
May-15	Itconic S.A.	Spain	The Carlyle Group	n.a
Apr-15	One.com	Denmark	Accel KKR	n.a
Mar-15	Cloudwatt SAS	France	Orange S.A.	n.a
Dec-14	Intergen Holding GmbH	Germany	Host Europe Group	166
Nov-14	Ecritel SARL	France	Isatis Capital/NextStage	n.a
Sep-14	Versatel AG (74.9% Stake)	Germany	United Internet AG	947
Jul-14	ASP4all Hosting B.V	Netherlands	Vitruvian Partners	n.a
Jul-14	Mainlab GmbH	Germany	Host Europe Group	n.a
Jun-14	Pulsant Ltd	UK	Oak Hill Capital	250
Jun-14	Ikoula (20% minority stake)	France	Ardian Group	n.a
Apr-14	TDC OY	Finland	DNA Ltd	154
Jan-14	ControlCircle	UK	Alternative Networks Plc	48

# Conclusion

The hosting market has been through a period of major consolidation, driven by the increasing take-up for managed hosting services as companies see the full benefits of running their data and IT operations in the cloud. As data security concerns become ever more pressing, these leading players will need to put quality and trust at the forefront of their business operations in order to emerge the winners in this fiercely competitive M&A market.

## Deal highlights

### Some of our recent deals

#### Zitcom

##### Leading hosting business based in Denmark

Clearwater International advised Zitcom on the sale to UK-based HgCapital

#### IT Relation

##### Fast-growing IT outsourcing company

Clearwater International advised IT Relation on the sale to Nordic-based Adelis Equity

#### Hostnordic

##### Hosting and IT outsourcing company

Clearwater International advised Hostnordic on the sale to Private Equity Group Via Venture Partners

#### 4Com

##### Provider of tailored business telecommunications services

Clearwater International advised on the debt raise from HSBC in order to fund the roll out of new products

#### Electranet

##### UK's leading supplier for the design, delivery and support of highly secure network and communication infrastructure

Clearwater International advised Electranet on its sale to Capita plc

#### Metronet (UK) LTD

##### Provides business critical data infrastructure to over 500 UK companies

Clearwater International advised the shareholders on its multi-million euro sale to LDC

## Meet the team



**Per Surland**  
**Partner, Denmark**  
+45 51 90 40 19  
per.surland@cwicf.com



**Axel Oltmann**  
**Partner, Germany**  
+49 611 360 39 22  
axel.oltmann@cwicf.com



**Thomas Gaucher**  
**Partner, France**  
+33 1 53 89 0505  
thomas.gaucher@cwicf.com



**John Sheridan**  
**Partner, Ireland**  
+353 1 517 58 41  
john.sheridan@cwicf.com



**José Lemos**  
**Partner, Portugal**  
+351 917 529 764  
jose.lemos@cwicf.com



**Carl Houghton**  
**Partner, UK**  
+44 845 052 0344  
carl.houghton@cwicf.com



**Emma Rodgers**  
**Director, UK**  
+44 845 052 0359  
emma.rodgers@cwicf.com



**Casper Norre Christensen**  
**Associate, Denmark**  
+45 22 95 33 00  
casper.norre@cwicf.com

[www.clearwaterinternational.com](http://www.clearwaterinternational.com)



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