

India's Reliance acquires Yipes

By Ed Gubbins

Jul 16, 2007 9:43 AM

Reliance Communications, one of India's largest telecom carriers, has agreed to acquire San Francisco, Calif.-based Ethernet service provider Yipes Enterprise Services for nearly \$300 million in cash, the companies announced today.

Yipes claims nearly 1000 enterprise customers and more than 22,000 route kilometers of fiber spanning 14 U.S. cities. It also has a presence in London, Hong Kong and Tokyo. The privately held eight-year-old competitive carrier declared positive cash flow from operations last year as revenue grew 48%. It has historically declined to reveal revenue information but today claimed to be on track to "approach" \$100 million in revenue for the fiscal year ending in March 2008. Its revenue from overseas markets was small but fast growing, Yipes said; international revenue grew 200% last year and today accounts for about 10% of the company's total revenue.

"With the acquisition of Yipes, Reliance will accelerate its penetration into the lucrative \$100 billion global enterprise data market and will be better able to serve its international customers directly in the U.S.," the companies said in a press release issued Monday morning.

As part of Reliance, Yipes hopes to benefit from the vaunted capital and engineering resources of its soon-to-be new parent. (Reliance reported \$913 million in revenue and \$238 million in net profit for the quarter that ended in March.) It hopes to enjoy greater purchasing power from common vendors (both companies use core routing equipment from Juniper Networks, for example). And it will have more capital to fund expansion into new geographic markets.

"In the next two years, I suspect we'll double the number of markets we're in and gain access to [Reliance's] 36 international markets that we're not in today," said John Scanlon, Yipes' chief executive officer, who intends to remain with the company along with the rest of its top management after the deal closes in the fourth quarter.

In addition, Yipes may be able to bring some of Reliance's services, such as managed hosting and collocation, to its own customers for the first time.

Yipes will also be able to make use of the vast subterranean network Reliance obtained by acquiring wholesale carrier Flag Telecom a few years ago. That network connects the U.S. East Coast with 40 countries across Europe, the Middle East and Asia, including Japan. Yipes could use those assets to offer global connectivity to its enterprise customers as well as bring its services to more overseas markets.

Yipes emerged from bankruptcy in 2002, raising a total of \$106 million in new equity funding in the four years that followed. A year ago, it tapped the debt market for the first time with a \$9 million line of credit.

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