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Reliance acquires wireless company Yipes for \$300m

BY CHRIS NELSON

SAN FRANCISCO — Reliance Communications Ltd. is betting big on the future of commercial Ethernet. Reliance, India's second-largest wireless-communications provider, has purchased all of Yipes Holdings Inc., a California-based provider of Ethernet services, for approximately \$300 million in cash.



Caindec

Reliance acquired Yipes through its undersea-cable division, FLAG Telecom Group Ltd. The seller was a group of venture capital firms comprised of Norwest Venture Partners of Palo Alto, Calif.; San Francisco-based Crosslink Capital, and JPMorgan Partners LLC and the Sprout Group, both of New York City.

Yipes represents the largest-ever acquisition for Reliance Communications, according to company chairman Anil D. Ambani. In a statement issued July 16 — the day the deal was made public — he said it would enable his company to add customers and new markets to its enterprise data services business unit.

"We see enormous potential to rapidly expand Yipes' coverage in the U.S and to globalize Yipes' service by leveraging our customer relationships and network reach around the globe," Ambani said. "We confidently expect this acquisition to significantly enhance the growth rate, profitability and returns of our global data business."

Investors liked the move — Reliance's share price rose about 2.4 percent on the Bombay Stock Exchange to \$14.12 after the deal was announced.

San Francisco-based Yipes provides high-speed data services to approximately 1,000 customers concentrated in four business sectors — financial, legal, government and health care — which the company estimates account for nearly 50 percent of the Ethernet market.

Yipes also owns and operates a fiber optic network covering 13,670 miles in 14 U.S. cities, representing about 40 percent of the total U.S. data communications market, according to company figures.

Yipes also provides services via leased fiber optic cables in London, Hong Kong and Tokyo. The company counts among its customers the New York Stock Exchange, the Chicago Mercantile Exchange and the NASDAQ Stock Market Inc.

Established in 1999, Yipes pioneered carrier-Ethernet services, or high-speed Ethernet for metropolitan-area networks, in the late 1990s and into 2000, but the telecom meltdown severely impacted the company's bottom line. Yipes filed for Chapter 11 bankruptcy protection in March 2002 as Yipes Communications Inc. and emerged in July 2002 as Yipes Enterprise Services with a clean balance sheet and new investors.

Since then, Yipes has done well in the carrier-Ethernet services market, which according to data compiled by Infonetics Research Inc., was worth about \$9.4 billion in 2006, an increase of \$3.7 billion from 2005. The research group predicts the worldwide Ethernet-services market will be worth more than \$25 billion by 2010.

Yipes does not release its financials, but the company said earlier this year that its revenues increased 41 percent in 2006 and that it became "cash flow positive from recurring operations" in the second half of 2006.

As a result of the deal, the company will become a fully owned unit of FLAG Telecom, but will continue to operate independently of its parent, according to Yipes chief marketing officer Keao Caindec.

"John Scanlon, the CEO of Yipes, will remain with the company, we'll have a somewhat impartial relationship with FLAG and Reliance," Caindec said. "FLAG and Yipes are also involved in separate markets. Yipes is focused on large and midsize enterprises, while FLAG concentrates on providing international network transport and data services to content providers, network operators and Internet communities around the world."

Yipes is expected to add as much as \$100 million in revenue to Reliance's coffers over the "next few years," according to Ambani. Reliance reported its profits more than doubled during the fourth quarter of last year to a record \$248 million.

"Reliance will take the Yipes franchise forward by leveraging its network in 40 countries," Ambani said. "Particular focus will be on India, the Middle East and Asia."

FLAG Telecom will begin selling its shares to the public sometime during the current fiscal year, and the company expects to spend about \$1.5 billion over the next two years to improve its coverage in Asia and Africa and double its subscriber base, Ambani added.

"We saw long ago the impact Ethernet services would have on the telecommunications industry," Promod Haque, Yipes chairman and Norwest Venture Partners managing partner, said in a statement. "Yipes has consistently brought fresh ideas and tangible innovation to this market. This acquisition of Yipes by Reliance Communications sets the stage for a major transformation within global telecommunications."

Caindec said the deal will benefit both companies by enabling Yipes to move into "higher market services," while Reliance will be able to provide data services to customers worldwide.