



## Yipes! Here Comes a Spending Spree

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John Scanlon, CEO of Ethernet services specialist [Yipes Enterprise Services Inc.](#), has a new "to do" list. In addition to his existing "sign up more Ethernet services customers," he can now add, "spend tens of millions on network expansion" and "scope out potential acquisitions."

That's because ambitious Indian carrier [Reliance Communications Ltd.](#), which is acquiring Yipes for \$300 million, is set to invest another \$200 million in the Ethernet services pioneer once the takeover is completed, which should be some time in the fourth quarter. (See [Reliance Bags Yipes for \\$300M.](#))

Talking to *Light Reading* late Monday, Scanlon said the plan is to double the number of U.S. markets in which Yipes has its own infrastructure to 28 during the next 24 months, and begin marketing his company's services in the 36 global territories in which Reliance's international network operator, [FLAG Telecom Ltd.](#), already has a presence.

And that will take money. "We will get a significant capital injection... \$200 million from Reliance," says Scanlon, who says the money will go a long way. "Ours isn't a particularly capital-intensive business, and given the purchasing power of Reliance, that \$200 million will go a lot further than if we were spending it as a standalone company."

To put that figure into perspective, Scanlon says the current Yipes annual capex budget is "between \$10 million and \$15 million," so the new investment will likely excite some account managers at Yipes's gear suppliers, [Cisco Systems Inc.](#) (Nasdaq: [CSCO](#) - [message board](#)), [Extreme Networks Inc.](#) (Nasdaq: [EXTR](#) - [message board](#)), [Juniper Networks Inc.](#) (Nasdaq: [JNPR](#) - [message board](#)), and [Nortel Networks Ltd.](#) (NYSE/Toronto: [NT](#) - [message board](#)).

Yipes will also be expanding its team. Scanlon says the current 140 staff will stay post-acquisition to continue running the business as normal, and new staff will be taken on in the U.S. and overseas. "Yipes will be a wholly owned subsidiary that can leverage the network resources of Flag Telecom, which is growing all the time, and Reliance, with its experience in project management and engineering and its access to capital."

### **Aiming for \$500M revenues**

Naturally, Reliance will be expecting a return on its investment (acquisition and growth capital), and that's something Scanlon believes Yipes, which says it turned cashflow positive in 2006, can deliver. (See [Yipes Revenues Climb.](#))

Although he says he can't discuss financial details, Scanlon says that, at the current run of business, Yipes is on course to increase its revenues by 40 percent year on year and generate \$100 million in fiscal year 2008, which begins April 1 next year.

Back-of-the-envelope calculations suggest that revenues in the current fiscal year are expected to be in the region of \$70 million.

But that's a fraction of what Yipes can achieve as part of the Reliance group, says Scanlon. "There's a lot of growth in this market -- this is an explosive sector." So explosive that [Infonetics Research Inc.](#) believes Ethernet services revenues will total \$25 billion in 2010, up from \$9.4 billion in 2006.

"We have hardly touched the international services market, and that's something we can do with Flag. In four to five years' time this could be a \$400-500 million-a-year business."

Not all of that growth will necessarily be organic. Scanlon says growth through the acquisition of regional Ethernet services firms is something "we are going to talk about as we have access to Reliance capital. There are possibly other companies out there, globally, that look like Yipes that could be part of a rollup."

Scanlon declined to identify any particular service providers but agreed that U.K. Ethernet services player [Exponential-e Ltd.](#) is an example of a focused regional Ethernet operator.

But Reliance/Yipes may not be alone in looking to snap up some Ethernet services talent. As the market grows bigger and more enterprises turn to Ethernet services, so established specialists will likely attract the attention of other acquisitive carriers.

Did Scanlon talk with any other potential buyers? He says the M&A talks sprang up after Yipes and Flag signed an interconnect deal. "We didn't shop the company -- we weren't out to be acquired. It was an opportunistic deal, and \$300 million was an attractive option for our investors. It's a fair price."

Graham Finnie, chief analyst at [Heavy Reading](#), thinks Yipes did well to get that money. "They got a decent price -- it's a lot of money, but this is a big growth market."

Finnie says this sort of consolidation is to be expected in a market that is approaching maturity, and that this deal will be good for the enterprise users that Yipes targets. "A big issue in the enterprise data services market is ubiquity; that is, customers want to deal with suppliers that have a good set of partners or extensive network reach. Clearly this move is beneficial for Yipes," says Finnie. He notes, too, that Flag Telecom will give Yipes greater direct control over the management and delivery of its services on an international basis.

And will this deal likely spur on other similar deals? "The carrier Ethernet services market is no longer a startup market. As it grows you can expect to see the smaller players get acquired," says Finnie.

That puts the M&A focus on players such as Exponential-e and [Masergy Communications Inc.](#), a firm with revenues of more than \$50 million. Neither company had returned calls as this article was published. (See [Masergy Gets Positive](#) and [Exponential-e Provides Access](#).)

— Ray Le Maistre, International News Editor, [Light Reading](#)