

MergerTech Intelligence Report, Vol. I Issue VII: IT Supply Chain Consolidation Grows

SOLUTION PROVIDER INTEGRATION A LONG TERM TREND

While the credit crisis put the brakes on IT Channel M&A activity from 2009-2010, solution provider consolidation has made its return as a long term trend. The primary driver of this new paradigm is growing margin pressure as solution providers take on increasing managed services elements into their revenue matrix. Channel consolidation has been further kindled as large vendor mergers frequently result in changes to existing partner relationships. In the next twelve months the M&A market should see increased horizontal and vertical integration, particularly in vendors acquiring one or more of their suppliers or resellers and greater diversification of service offerings to include cloud and security related technologies. We profile one such recent transaction in our seventh MergerTech Intelligence Report.



8x8 Inc (NasdaqCM: EGHT) Acquires Contactual Inc

Transaction Value:
\$27.5 Million

Transaction Structure:
Stock

8x8 Inc (NasdaqCM: EGHT) has acquired Contactual Inc from Leapfrog Ventures and other investors for \$27.5 million at 3.3x 2010 revenue. The acquisition, completed on September 15, 2011, includes an all stock consideration with 15% of the transaction settlement deposited into escrow at closing. The agreement provides a portion of acquisition consideration allocated to members of Contactual's management with the remaining portion distributed amongst Contactual's shareholders. The purchase of Contactual is expected to be immediately accretive to 8x8's fiscal year net income, and thirty-two former employees of Contactual have joined 8x8 as part of the transaction.

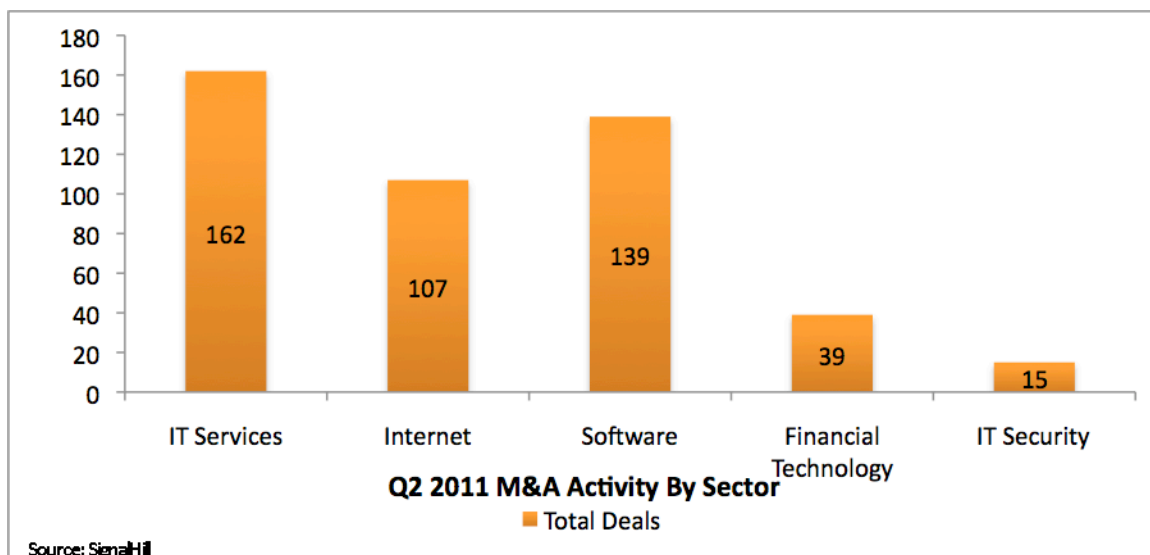
8x8 is a developer of cloud based VoIP, video, mobile, and unified communications solutions for both SMB and enterprise clients. The company offers a diversity of hosting and communications solutions, including an integrated call center suite that consists of monitoring, voice recording, CRM integration, and case management tools. 8x8 also markets its products to 25,000 end users through its own direct sales force and third party resellers in the United States. The company, founded in 1987 and headquartered in Sunnyvale, California, posted \$70m in revenue in 2010 has a current market cap of \$254m.

Contactual provides call routing, IVR, remote access, case management, and call recording software for call centers worldwide. It is best known for its 'OnDemand Contact Center,' delivered via SaaS model, which provides disaster recovery and backup datacenter services for call centers. Contactual also offers IT solutions related to staff training and call center configuration. Contactual, founded in 2000 as White PJ Inc, is headquartered in Redwood City, California with additional offices in Australia, Japan, and England.

The acquisition provides three direct benefits to 8x8:

- **8x8, a reseller of Contactual’s technology and responsible for 10% of its revenue, gains access to a supplier and may cross-sell its products to Contactual’s existing customers**
- **Strengthening of 8x8's technical proficiency and service offerings in the hosted SaaS call center market**
- **Establishes 8x8 as a premier provider of both cloud based communications and Infrastructure as a Service solutions**

Increasing presence of SaaS and Cloud technologies in all aspects of consumer and business activities signal a need for vendors to address a market demand for a greater breadth of solution offerings—a certain indicator for increased M&A activity in the solution provider space over the long term. While there are demand pressures driving consolidation, the combining of existing technologies from adjacent markets will likely result in greater process optimization, innovation, and lower development costs. IT services firms with a wish list of product offerings for their largest vendors can seize upon this trend to encourage M&A deals to improve margins and drive revenue growth.



About MergerTech:

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