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Executive Perspective®

Unique Viewpoints from Industry Leaders

January 2016

Bob Cagnazzi

President and CEO, Presidio

Editor's Note: *In this month's issue of Executive Perspective,* ***martin****wolf interviews Bob Cagnazzi, President and CEO of Presidio, a $2.5 billion US-based IT solutions provider. He joined Presidio in February 2012 following the acquisition of his company, BlueWater Communications Group. Bob has led numerous technology service organizations, including Dimension Data North America and Integrated Systems Group. He has been recognized as Entrepreneur of the Year by Ernst &Young. Bob resides in Long Island, NY.*

Why don't you tell me a little bit about your background and how you ended up heading Presidio?

I've been in the industry since the mid-80s. We had a small family business focused on networking — at the time, an emerging industry. We became Cisco partners in the early 90s and ultimately sold the business to Dimension Data in 2000. I stuck around and after about a year I ended up running North America for them. We had some really solid success growing the business and taking market share and expanding it nationally.

But by 2006, I was getting tired of all the travel that was taking me away from my family. So I left and started a local, regionally-based IT Infrastructure Services Provider called BlueWater Communications Group. We had some great success growing that from zero to $270 million over 5 years before selling it to American Securities/Presidio in 2011.

Before I came aboard, I knew Presidio as a leading IT solutions provider with national scale and engineering depth. I knew their leadership and the many companies they had acquired over the years. They approached us in late 2011 and said "we're looking for a new CEO and we're looking for greater depth in the Tri-State marketplace — are you interested?"

So we listened, and we ultimately did a deal that was good for Presidio and good for BlueWater. We did that because we felt it was the right time in the market, it was a very good cultural and strategic fit, and we were focused on the same market segments. We also had the same go-to-market approach in that both companies were services-led and business value-focused for the client. Presidio prized teamwork and competitiveness and those were foundational elements that we'd built our business on as well.

I've been here at Presidio since February 2012, initially working with American Securities as our private equity partner. They were a great partner for us and helped with the acquisitions of BlueWater and INX over their tenure. American Securities reached their 5-year goals for the business in 3.5 years and looked to exit in late 2014. In February 2015, we sold the business out of American Securities to Apollo Global Management. Apollo has really injected a lot of strategic value for us. They've been terrific partners thus far. With Presidio being one of the first investments in an 18 billion dollar fund they've provided us the time and the capital to grow the business in the ways we want to grow it. They helped us think through the types of acquisitions and investments that we're going to make around growth and the business has responded. We've grown in healthy double digits on the top line and the bottom line since the acquisition.

So, in addition to providing capital and advising on acquisitions, what are some of the advantages that private equity provides? Recently, many private equity firms have become involved in the solution provider space.

There are now, that's correct. This wasn't always the case. I do think that the success of the two private equity firms that previously owned Presidio may have opened some eyes to the opportunities. Presidio was started with venture capital investments made by a group led by Columbia Capital — way before my time. And then we were sold to American Securities. We've lived and thrived in a private equity world throughout our existence. Our company was built on acquisitions with the exception of 2012 until late 2015, when we didn't do any acquisitions and instead focused on organic growth, integrating the business and solidifying the strategy.

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Having the right PE partner is critically important. We've seen many PE firms that focus too much on financial engineering and cost cutting to create a return. We're very fortunate that our partners through the years have focused on strategically growing the business to create their returns.

Most importantly, the right ones do not run your business. They help advise at the board level; they help you look at things more creatively; they help you finance deals in the right ways with the right capital structure to help you grow your business and have the liquidity you need, etc. We've been fortunate through Columbia, American and now Apollo that all of them realized that they are here not to run the business but to advise on acquisitions, advise at the board level strategically, help us bring the right board members in and help the business that way. And certainly, any connections that they have on the client level are always helpful. Apollo has a very large portfolio of businesses that they invest in and those are great opportunities for us to expand our business and bring a lot of customers.

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What's your overall thought process behind M&A? Recently, Presidio has been in the news with a series of deals. How do you identify potential transactions?

There are two paths we look at in an acquisition — two strategic initiatives we are trying to satisfy. First, as with Sequoia Cloud Solutions, where it makes sense to buy rather than build, we're looking to enhance our technology or solutions set and scale those services across the entire company. Second, as with the Netech acquisition, there's the geographic aspect to the strategy. We believe we've got a ton of market share opportunities in the Midwest and on the West Coast that we haven't tapped yet and where we've been underinvested. Netech provides us a terrific platform for growth in the upper Midwest.

One of Presidio's differentiating qualities is what we do in terms of geographical presence. We are going to be in over 60 offices once the Netech acquisition is done. I don't think anyone else in our space is close to that level of coverage.

We take what we call a very high-touch, high-value, local go-to-market approach, because we believe that for 90 percent plus of the business that gets transacted in Des Moines, IA, or New York City, or Portland, OR, it's based upon the ability of the resources that we've got on the ground in those locations. The local architectural engineering, consulting and sales talent to create value around the solutions is critically important to clients. In the mid-market — where we focus — that's what they're looking for: providers that have local resources to craft solutions that add business value.

So, when we look at an acquisition, we want a very well run business like Netech, a really solid management team, folks that understand 1) how to engineer, architect and implement solutions where there's high levels of customer satisfaction and value created for the customer, 2) how to take care of and develop their employees, and 3) how to run the business and grow the business properly. When we look at that, it does say a lot about the culture of the company in very positive ways and gives us a strong indication about how they're going to succeed within Presidio. Our value creation then is not only the additional geographic area but the ability to expand wallet share in the acquired company's accounts through our national services groups such as cyber security service, the Presidio Managed Cloud, our IoT group, and our managed services group.

These are all scalable services that are run from a corporate environment because 1) they either require CapEx that needs to be leveraged across a lot of customers, or 2) they're very valuable, rare resources that you need to scale over an entire business. Our geographic acquisitions can take advantage of the corporate assets and grow their wallet share with clients significantly. We've had scenarios where, because of these services, the sales teams that we have acquired have doubled their sales productivity within two years by being a part of Presidio.

The strategic technology or solutions value aspect of the model is exemplified by the Sequoia acquisition. We believe there is a tremendous opportunity around a hybrid cloud and ITaaS as the thin edge to the wedge. The area we felt that we really wanted to bolster was our ability to have very strategic cloud/ITaaS conversations at a very high level with the client and help them determine what their ITaaS hybrid strategy was going to be. Then, flowing down from there, we have the ability to create the orchestration and the automation and the private infrastructure environment that provides that seamless on-demand, secure ITaaS model with hybrid, seamless capabilities within public cloud as well. Sequoia really filled out those offerings for us with the additional assets that, when combined with the assets that we already had in the business, meant we could do an end-to-end hybrid cloud strategy, solution, implementation, and management for any of our clients and that was very strategic for us.

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In the end, we look for a very well run business with strong management teams that could add geographic presence, and add strategic value to Presidio. Netech and Sequoia are two great examples of that strategy.

What plans does Presidio have for 2016?

We're going to keep running the business. We're going to keep our heads down. We've had great growth, we've had two really great acquisitions, and we've disposed of an asset that was not strategic to the organization. So, we've had a lot change in the last year and we're going to continue to focus on our strategic initiatives, and growing the core infrastructure services business as we've always done. We believe that the opportunities for hybrid cloud and ITaaS are going to grow at an exponential rate. Our cyber security business has shown significant growth in the last two years. And we're ramping that up so that we can keep up with demand now and continue that growth. And within our IoT group we've had some great successes with connecting vehicles for fleets used by private organizations as well as public sector or law enforcement agencies and fire and safety agencies.

Our managed services that wrap around all those businesses have grown nicely and we have added some great assets there recently so that's going to be a hallmark for us too. We'll continue to focus on growing the business and doing the right things. What we're focused on is to have a really solid business where you're creating tremendous value for our clients and your employees and then you'll generate value for your shareholders because of that.

"The era that we are entering is one where the clients we're dealing with have so much more complexity than we've dealt with in the past."

What's your perspective on the size of solution providers now? Are small and medium sized solution providers still able to remain competitive or do companies need to approach your size to remain competitive considering today's growth?

I do think we are in an era of consolidation for a number of reasons — but that does not mean small or regional providers are going to have to disappear. The ones that have really solid niches in the market around a technology or geography that they are dealing with, or those with solid management teams that make the right investments around the technology portfolio still can do well.

The era that we are entering is one where the clients we're dealing with have so much more complexity than we've dealt with in the past. So many more of the solutions that we developed today are multi-technology, multi-vendor. If we go back 5 years and look at a network solution that we did for a client, that would have been LAN/WAN switching/routing services and probably product from Cisco. Nowadays, if we look at a networking project, it's not just a LAN/WAN and it's not just Cisco. There could be security, there could be a number of security providers. There's going to be mobility in that mix, there's going to be unified communications in that mix, there's going to be data center integration, and there's going to be some management around it.

Because of the convergence of technology and because of the real user demands for anytime, anywhere, any device access to any data, I think the rise of cloud and the expectations around scalable, on-demand services in the IT world from business units has created this environment where you really are converging all these services on the network — and the network is foundational for all of it. So it becomes very complex to design, implement and manage these types of environments for midmarket clients. I think that the regional and small and local providers would have a harder time being able to adequately invest in the depth of resources across multiple technology stacks and multiple OEM providers. It's not a scenario in which you're just going to sell the product. Presidio has always been very services led, with 30 percent of our billings in services and maintenance. 97 percent of the product we sell is attached to a service. So we are not in the fulfillment business and I think the small, regional service providers can't be in the fulfillment business either but it's difficult for them to invest across multiple stacks of technologies because they just don't that large a platform of customers to leverage that investment and get a return. Then, when you layer on top those rare and scarce resources like cyber security and IoT, the capital investments you need to make in things like managed cloud and managed services — again, you need a large customer base to leverage those investments to get a proper return.

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So I do think we are in an era of consolidation because it's going to get harder and harder for local and regional providers to play across multiple technology stacks and have services that are not only the traditional professional services and implementation services but also are high-end services provided from rare and scare resources and are services that are provided by capital investments.

What are your thoughts on Chuck Robbins taking over as CEO of Cisco? Broadly, where do you see Cisco going right now and how does that affect partners like you?

I'm a huge Chuck Robbins fan — I've known and worked with him for probably 15-16 years. He's always executed in every role that he's been in, he's always provided value to the partner community, he's always been open and listens. He really solves the issues and creates the opportunities within the roles that he has had and that's been very valuable to Cisco, the partner community and the client base.

I think that the changes that he's made to the business are exactly what the business has needed. I see a new edge to Cisco that we like in the marketplace. I think there's a bit more swagger than there has been. And there were signs of this under John as well for the last 12 months of his tenure and Chuck has picked up the mantle and expanded and accelerated the transition. They've developed much better assets around products and services today compared to what they might have had 2-3 years ago. If we go back a few years, the product portfolio and the service portfolio seemed to be a bit stale and in danger of being eroded from new startups and other providers.

But I think the investments they started under John and have accelerated with Chuck are exactly the type of investments that we need to continue to remain relevant with Cisco and with our clients. We're huge fans and very happy with what Chuck has done with the business and are very pleased with the management team that he's got in place.

As we start 2016, the markets have been rocked by the Chinese markets and by a broader uncertainty. At the same time, at the end of the year, the Fed raised interest rates and indicated that they intend to continue raising them if they feel the economy will support it. How do you gauge the health of today's economy and how does that affect large solution providers like you?

There is a bit of uncertainty in the marketplace right now. The fundamentals that people point to or continue to point to are that the US economy remains strong. And we see that in our business, our pipelines and our forecasts. The customers are still investing and they still are feeling good about where the market is going. If you're an investor, you're obviously not feeling that great right now. Some of

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these are short-term disruptions in the marketplace that will work themselves out. Some of them may linger a little bit longer. But the fundamental US economy still remains strong. We do our business domestically in the US, the largest IT market, and it has certainly been the most stable IT market for a number of years now. And we expect that to continue, we expect the business to continue to thrive.

If you look at the business of Presidio, we have continued to grow in downturns. It is because of how we go to market. We become integral to the operations and management of our client's infrastructure by providing the right types of value-added services that make us very sticky with our clients. 97 percent of our client spend is recurring clients year-over-year-over-year. When you've got that type of continuity and you've got that type of value that you are providing, in a downturn you are able to weather that storm.

We are also focused on that midmarket where we are very well diversified from the client standpoint. We're diversified geographically, from a vertical perspective and from a concentration perspective. We don't have a high concentration of revenue with any one client. Top 10 percent of our revenue comes from a vast amount of clients- and we've got over 5,000 clients producing revenue for us every single year. A diversified client base also leads to a lot of stability in a downturn. We're comfortable to thrive and grow our market share really in any economy and we have proven that in the past 7-8 years.

What is some of the advice given to you over the years that has been the most impactful in your career?

For me, what I focus on is 'You can't be afraid to make decisions — you can't be afraid to do the right thing for your business.' With that, there's got to be a real strong level of communication so that everybody is on the same page. You've got to have the right team- it's always about team. Businesses grow a lot faster when there are — and this is very important in acquisitions too — very strong management teams where people working together at high levels have no egos, and are able to make the right decisions, evaluate the business properly and very objectively and make the hard decisions to grow the business.

And that's what we've always focused on in the businesses that we've been involved in, and the results have — knock on wood — always have been good. There's no one person that knows everything and no one solution and no easy answers to a lot of things that you do. You have got to have the right team, with the right analytical perspective, and make the hard decisions, communicate well and move forward.