

MWS Tracker Spotlight:

OnX Enterprise Solutions to acquire Agilysys Europe Technology Solutions Limited, Agilysys Canada Inc., and Agilysys Technology Solutions Group LLC

June 1, 2011

Financial Overview:

Transaction Value (TSG): \$64M
Revenue FY 2011 (TSG): \$474M

Transaction Structure: Cash
EV / Revenue: 0.14x

MWS Analysis:

Overview

Agilysys, Inc provides information technology (IT) solutions to corporate and public-sector customers primarily in North America through three operating segments: Hospitality Solutions Group (HSG), Retail Solutions Group (RSG), and Technology Solutions Group (TSG). The HSG and RSG segments offer application software and services that streamline management of operations and improve efficiency. The TSG segment provides solutions that comprise enterprise architecture, infrastructure optimization, storage, resource and identity management, and business continuity for various industries. Agilysys' announcement to sell its TSG segment represents a strategic shift to focus on its higher margin Hospitality and Retail Solutions businesses.

History

Agilysys began to move away from its lower margin services and start to focus on core higher margin U.S. technology resale as early as four years ago with its January 2007 sale of Keylink Systems Group, a distributor of enterprise computer technology solutions, to Arrow Electronics for \$485M in cash. That was followed by the sale of its remaining 20.2% stake of Magirus AG, an IT infrastructure solutions provider, in October 2008 for €1.8M. With its recent sale of the Technology Solutions Group, Agilysys has completed its transition out of the space.

In addition, Agilysys has been strengthening its position in the Hospitality and Retail Solutions segments through a number of recent acquisitions. These include the acquisition of Stack Computer, an IT consulting and integration provider, for \$28M in April 2007; Innovativ Systems Design Inc, a business solutions integrator, for \$190M in May 2007; InfoGenesis, a provider of guest experience applications and services for the hospitality industry, for \$90M in cash in June 2007; Eatec Corporation, a provider of enterprise back-office software and services to the retail and hospitality industries, for \$23.2M in cash in February 2008; and Triangle Computer Services Ltd, an integrated hospitality solution provider, for \$2.7M in April 2008.

Strategy

Agilysys is focusing heavily on its core business segments and through the sale of its TSG segment to OnX Enterprises, has divested itself of its non-core business of technology services. TSG's fiscal year 2011 unaudited revenues of \$474M represented approximately 70% of Agilysys' sales. With unaudited revenues exceeding \$200M for the same period, the HSG and RSG groups leave Agilysys with a much smaller business, but one that will have a gross margin of approximately 38% and higher growth potential.

As Agilysys announced in the news release, its strategy going forward will focus on three key objectives:

- Improving the operating and financial performance of the core HSG and RSG businesses
- Profitably growing these core businesses
- Investing in core offerings to concentrate on growth opportunities with high returns

After the completion of the sale, Agilysys will have over \$120M in cash available to invest in improving business performance, make acquisitions, and return capital to shareholders. We anticipate it to make more acquisitions in the Hospitality and Retail Solutions spaces to continue to strengthen the core.

OnX Enterprise Solutions is using the acquisition of TSG to increase its international presence and become North America's leading IT solutions provider focused solely on providing mission-critical, multi-vendor data center solutions to medium and large enterprises with combined annualized revenues of more than \$700M according to Sheldon Pollack, co-founder and Director of OnX Enterprise Solutions.

Deal Overview:

OnX Enterprise Solutions has signed a definitive agreement to acquire Agilysys Europe Technology Solutions Limited, Agilysys Canada Inc., and Agilysys Technology Solutions Group, LLC from Agilysys Inc. (NasdaqGS: AGYS) for \$64M in cash on May 28, 2011. Under the terms of the deal, a termination fee of \$2.25M will be paid by Agilysys Inc. to OnX Enterprise Solutions in the event the deal is cancelled. Agilysys Inc. and OnX Enterprise Solutions will enter into a transition services agreement. The deal is subject to a working capital adjustment to be determined as of close, as well as certain customary closing conditions, regulatory approval, and approval by Agilysys shareholders and is expected to close by September 30, 2011.

The Technology Solutions Group (TSG) had revenues of approximately \$474M for the fiscal year ended March 31, 2011. The \$64M purchase price represents an EV/Revenue multiple of 0.14x, which represents a 40% premium to median multiple for similar large publicly traded IT Reseller companies.

IT Resellers													
Ticker	Company	Current Price (\$)	Revenue (ltm, \$M)	Revenue Growth % (ltm)	GM% (ltm)	EBITDA% (ltm)	Debt/Assets %	Market Cap (\$M)	P/S	P/E	Enterprise Value (\$M) ¹	EV/LTM Revenue	EV/LTM EBITDA
BBOX	Black Box Corp.	32.96	1,068.2	11.1	33.4	11.4	15.7	585.5	0.55	11.1	738.5	0.69	6.1
PLUS	ePlus Inc.	26.28	834.1	31.4	17.8	5.8	26.3	222.4	0.27	9.3	269.3	0.32	5.6
INXI	INX Inc.	5.75	237.1	-6.0	21.0	0.5	39.1	51.9	0.22	NM	0.0	0.00	0.0
GTSI	GTSI Corp.	4.75	635.2	-11.7	12.6	0.1	5.5	45.9	0.07	47.6	15.2	0.02	1.8
AGYS	Agilysys Inc.	6.81	673.7	3.0	23.3	-0.2	0.4	157.0	0.23	NM	113.2	0.17	NM
MTMC	MTM Technologies Inc.	0.45	174.7	-28.0	22.8	-1.4	53.3	0.4	0.00	NM	0.0	0.00	NM
Median				-1.5	21.9	0.3	21.0	104.4	0.23	11.1		0.10	3.7
High				31.4	33.4	11.4	53.3	585.5	0.55	47.6		0.69	6.1
Low				-28.0	12.6	-1.4	0.4	0.4	0.00	9.3		0.00	0.0

OnX Enterprise Solutions Ltd. designs, builds, and operates computing and data center solutions in Canada and internationally. It offers consulting, project and portfolio management, performance and load testing, project outsourcing, infrastructure, hardware, software, technology cost management, and application solutions, as well as managed services. The company was founded in 1983 and is headquartered in Thornhill, Canada with additional offices in Canada, the United States, and Europe. OnX Enterprise Solutions Ltd. is a former subsidiary of Momentum Advanced Solutions Inc.

Martin Wolf Securities was not a financial advisor in this transaction. To learn more about this transaction or Martin Wolf Securities, please contact Yousif Abudra at yabudra@martinwolf.com or (925) 215-2760.

About Martin Wolf Securities

Based in the San Francisco Bay Area, Martin Wolf Securities is a leading middle market investment bank focused on companies with services-based business models. Since 1997, our team has completed over 100 transactions in 6 countries. We are a 5 year member of the Merrill Lynch PS Referral Network, and effective June 25, 2010, have been selected as ICICI Bank's (India's leading private bank) exclusive strategic partner for acquiring U.S. IT companies. For more information, visit www.martinwolf.com.

On March 11, SS&C Technologies Holdings, Inc. (NASDAQ: SSNC) announced that it had acquired Glastonbury, Connecticut-based BenefitsXML. BenefitsXML is a leading provider of enterprise software and SAAS solutions for employee benefit service providers. Martin Wolf Securities advised the seller in this transaction. Please [click here](#) to read more.

On March 17, PC Connection, Inc. (NASDAQ: PCCC) announced that it had acquired Chicago, Illinois-based Valcom Technology. Valcom Technology delivers infrastructure management and onsite managed services utilizing its proprietary cloud-based IT service management software, WebSPOC™. Martin Wolf Securities advised the seller in this transaction. Please [click here](#) to read more.