



Sirius Gets Equity Investment from Thoma Cressey

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Well, when [Thoma Cressey Equity Partners](#) takes an interest in something, the private equity firm doesn't waste much time moving. After having acquired two high availability software makers in the System i market within the past several weeks, last Friday the company announced that it would be making an equity investment in another prominent System i vendor: [Sirius Computer Solutions](#). To many, this will be seen as another shot in the arm--or perhaps more precisely, into the balance sheet--for the System i market.

Sirius was founded in 1980 in San Antonio, Texas, and quickly grew to become one of the dominant players in the AS/400 midrange and then the RS/6000 Unix reselling business. The company used to operate three businesses: one that sold gear to resellers, one that sold gear to end users, and one that sold second-hand equipment to dealers and users. In 1997, Sirius sold its distribution and used equipment dealerships to Western Micro Technology, which was renamed shortly thereafter as Savoir Technology. In the summer of 2000, IT master distributor [Avnet](#), which wanted to grow through acquisitions to better compete against [Arrow](#), its main rival in the distribution of electronics components and IT hardware and software, acquired Savoir Technology.

The Savoir unit has been the foundation of Avnet's Partner Solutions unit within its Technology Solutions group, which, [as we reported in *The Unix Guardian* last week](#), has just shelled out \$412.5 million to buy the Access Distribution business from [General Electric](#). Access Distribution has over \$2 billion in IT product sales a year, and about 80 percent of that comes from selling gear from [Sun Microsystems](#). Today, Sirius buys a lot of the gear it resells from Avnet--but not all.

The *Wall Street Journal* broke the news of the Thoma Cressey deal with Sirius last week prior to the formal announcement on Friday, and the paper's Dow Jones news service got the details wrong. The wire said that Thoma Cressey had bought all of Sirius from Harvey Najim, the founder of Sirius and its president and chief executive officer, but in fact what has happened is that Thoma Cressey is pumping money into Sirius so it can do acquisitions of its own.

"Our industry is consolidating quite rapidly," explains Joe Mertens, executive vice president at Sirius. "We don't want to be the consolidatee. We want to be the consolidator. We think there is an opportunity to consolidate the [IBM](#) value-added reseller channel. Historically, we have grown on a blend of organic growth and acquisitions--roughly half and half--and we are looking to continue that into the future."

The problem, according to Mertens, is that the kind of deals that Sirius wants to do are bigger than it can do by itself. The company could have gone public, of course, but Sirius never took the idea of going public seriously. With the need to think in 13-week increments of time, among other issues, Wall Street can be more of a pain than the money it brings to company's that do initial public offerings get for their trouble. Which is why private equity firms have been able to invest in so many IT companies in the past several years; moreover, while Wall Street is obsessed with revenue and profit *growth*, what private equity firms most care about is *cash*. Steady cash is in many ways better than growth--particularly if you are not trying to drive up your stock price.

As it turns out, Mertens says that Sirius was looking for equity partners, and examined a number of them before choosing Thoma Cressey. Aside from having capital to invest, Thoma Cressey is attractive for a number of reasons--especially to midrange IT suppliers with long histories and their founders and early management still on board. "Thoma Cressey is not an operator of businesses, but rather an investor in businesses," explains Mertens. "They are really a financial partner. They have a lot of expertise in raising capital, doing acquisitions, and market consolidation." There are no changes in the Sirius management team related to this equity investment.

The agreement for the equity investment that Thoma Cressey is doing has been signed, and the deal is actually expected to close on November 30. Neither Sirius nor Thoma Cressey would divulge what the amount of that equity investment is. But what is clear is that Thoma Cressey would not have been interested in acquiring Sirius--at least not based on what its own founders have said it was interested in doing and the deals they have done in the past several years. Carl Thoma, one of the founders of the private equity firm, said in an interview at the end of September with the Illinois Venture Capital Association that he was interested in companies with \$10 million to \$20 million in cash flow, and that Thoma Cressey was interested in pushing them to the \$30 million to \$50 million range in a period of between three years and five years.

While Thoma Cressey has done some bigger deals, the acquisition of Sirius would have been quite large. Sirius has about 500 employees. It had sales of over \$578 million in 2005, and Mertens said that the company will probably break \$645 million in sales in 2006, which is 12 percent growth. This is very good growth in a server market that is, in aggregate, stagnating. Sirius is profitable, but Mertens was not at liberty to say by how much. It is hard to say what Sirius would be worth without seeing its full books, but acquiring Sirius would be a very substantial investment. Using the same multiple that Avnet paid for Access Distribution--which is not a scientific method considering it is comparing a master reseller to a value-added reseller--Sirius would fetch around \$135 million. In theory, it could be a lot more than this, of course, depending on the books at Sirius and how badly Wall Street or an acquirer wanted the company. The point is this is not the size of a deal that Thoma Cressey likes to do.

Sirius has over 4,900 customers in the United States, and is notable because it is the largest reseller of System i servers in that country. According to Mertens, about 28 percent of the company's sales come from System i-related products and services.

Sirius is also the largest reseller IBM has for its System p Power-based AIX and Linux servers. Sirius gets its System i and System p boxes from Avnet Partner Solutions. The company is also the second largest reseller of System z mainframes in the United States, and it gets those machines directly from IBM. The company also sells a fair amount of System x X64-based servers, and gets these from a variety of channel partners upstream.

One of the other things that Sirius also resells is high availability software made by [Lakeview Technology](#), a rival of both [Vision Solutions](#), which Thoma Cressey acquired a little more than a month ago, and [iTera](#), which the equity firm bought two weeks ago. In fact, Sirius is the largest reseller of Lakeview's MIMIX products.

Mertens wants to be clear that this will not change just because Thoma Cressey is making an investment. "We are a partner of Lakeview Technology, and we plan to continue that," he says. "No one should assume that because Thoma Cressey has acquired those two companies that we are going to make a shift." The only caveat Mertens added is that as it did in the past, Sirius will always review its partnership and technology options, and these are subject to change based on the merits of products.

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