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Thoma Cressey Strikes Again: Buys iTera to Merge with Vision Solutions

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The buying spree continues this week in the i5/OS and OS/400 community, as [Thoma Cressey Equity Partners](#) announced that it was acquiring System i high availability software specialist [iTera](#) to merge it with competitor [Vision Solutions](#). The merger of these two companies is something that has been on the minds of the top brass of these two companies for many years, according to sources, but it took a private equity firm's deep pockets to broker a truce between these two fiercely competitive HA software providers.

Back at the fall COMMON expo, there were some rumors around that iTera was up to something. And during the summer, Vision Solutions, which was owned by the former Idion Technology Holdings, a public company traded on the Johannesburg Stock Exchange until Thoma Cressey bought it at the end of September, warned investors a number of times that something was up. Some people had been thinking back at COMMON that maybe iTera and Vision Solutions might be merging--that was the unsubstantiated rumor at the time--and when Thoma Cressey bought up Vision Solutions, this seemed like the end of it. Rumors nonetheless persisted, and Nicolaas Vlok, the former managing director of Idion and the current chief executive officer of Vision Solutions, said after the Thoma Cressey deal was done that other acquisitions might be in the works--and ones outside of the System i5 HA market could be candidates.

What Thoma Cressey was obviously thinking at the time is that the combination of Vision Solutions and iTera would give the private equity firm a dominant position in the high availability software market for the System i platform--a market of well over 200,000 customers where only about 6,000 customers have installed high availability clustering software. With upstart status and the ability to design its products with a clean slate, iTera jumped into the OS/400 HA clustering market with gusto five years ago, forcing other established players to react with new technologies and aggressive pricing to counter iTera's moves. The company's Echo2 HA clustering software was generally available in January 2002.

Dan Neville and Kent McDonald founded iTera in 1997. Both were shareholders in an OS/400 software development company called Assist Cornerstone Technologies, which sold wholesale distribution and catalog applications for the OS/400 platform. Neville and McDonald sold their stakes in ACT to start iTera, and their experience writing applications in the healthcare industry, which has a legally mandated requirement for uptime, led them to believe that they could enter the HA software market and do

business in the midrange, even though the other HA players were long established in the OS/400 market. They took \$3 million and set up an office in Salt Lake City, Utah; they hired 20 employees, most of whom began the hard work of writing high availability clustering software. The company's first products, Upgrade While Active and Convert While Active database solutions, were introduced in December 1998 and were used by OS/400 shops as part of their Y2K conversion and validation processes.

NeVille, who is president and CEO of iTera, says that the company did \$6 million in business on these products alone in the first couple of years, and then reinvested \$2 million in profits from those sales back into the development of the Echo2 HA product. Four years ago, as it turns out, just as Echo2 was coming to market, NeVille had a meeting with Vision Solutions to explain how good its technology was and to try to work out a partnership or deal of some kind, but it didn't happen. (Vlok traveled to Salt Lake City in November 2004 for a pow-wow with NeVille, and nothing happened then, either.) "Dan and I go back a few years," joked Vlok. "And we have been exploring ways of merging the companies."

But, the talks didn't lead to a deal, so iTera competed--and competed well. The company now has about 700 customers with over 2,500 installations of its software and has grown to around 75 employees. iTera has been particularly successful in the North American OS/400 and i5 market, and has been struggling to build partnerships and operations around the globe to compete in other geographic regions.

Of course, Vision Solutions, as one of the oldest HA clustering providers in the OS/400 and i5/OS market, has a much bigger customer and installed base. According to Vlok, Vision Solutions has over 2,000 customers and over 10,000 installations of its software, and has about 200 employees. Together, Vision Solutions and iTera will have just under half of the 6,000 accounts worldwide that have installed HA software on their AS/400, iSeries, or System i5 machines. Dominant market share and the integration of technologies are part of what this deal is all about, to be sure. But both Vlok and NeVille have believed for years that there is a vast, untapped base of customers who need to acquire HA software--and now, Thoma Cressey will give them the means to test this belief.

"One of the goals we have for this merger is to show that not only has the i5 come down in price, but so has high availability," explained NeVille, who will be an executive vice president at Vision Solutions who will be focused on selling in North America. "We want to prove to companies that HA is easy to use and that it is affordable." He said that one of the reasons iTera got into the market was that HA clustering was expensive and complicated, and in the 1990s, many companies had a bad taste in their mouths after the experience. Complexity is not something that sits well with the OS/400 community, but Unix shops love this sort of thing. (And their system clustering is no less complex, either.)

Thoma Cressey will operate the combined companies under the Vision Solutions name, but the product lines of the two companies will be branded with the iTera name. The

private equity firm did not disclose what it paid for iTera, which is a privately held company. But if revenues and value scale roughly with employee count, then it would seem that iTera could have been worth as much as \$25 million. (Vision Solutions was acquired for about \$63 million.) NeVille says that all employees except for some contractors that were working in its overseas operations will be retained by Vision Solutions. NeVille has retained a stake in the combined company, as has Vlok from the prior deal, which means top management is still motivated to see Vision Solutions grow and both are committed to sticking around and growing the company. Vlok will remain chief executive officer of the new and improved Vision Solutions, and says that for now the company is going to "keep its head down, work hard, and integrate the businesses." Employees will continue to work from the Irvine, California, and Salt Lake City offices. Vlok says that the company will have an integrated organizational structure by the end of the year.

With iTera doing so well, you might be asking, why would NeVille and the other owners in iTera sell now? NeVille says that he has been approached by other venture capitalists and private equity firms over the years, and has turned all of the deals down. "This is a big opportunity to take the best technology and lay it over a worldwide sales organization," explained NeVille. "iTera is strong in North America, but we had little strength outside of that area. And Nicolaas has much more experience running a big company, while my love has always been sales and moving technology forward."

The other question the Vision Solutions-iTera merger brings up is how will the company deal with the two product catalogs? The iTera brand is strong in North America, and so the Vision Orion HA software will be rebranded with the iTera name; so will the iTera Echo2 HA product. And both product suites will be supported going forward. "Where there is product overlap, we are absolutely committed to supporting both sets of customers," said Vlok emphatically. "And we will take the best of both products to make a new, future product." NeVille said that whatever this new product ends up being, it will be something that customers of both the Orion and Echo2 products can upgrade to without any downtime and without changing any of the journals in their current HA clusters. "This future product will not be a replacement, it will just be an upgrade," said NeVille. And he said that iTera has had enough experience moving customers off of other HA solutions that it knows how to accomplish this arduous task.

Thoma Cressey has been building up its software portfolio in recent months. Just before acquiring Vision Solutions, the private equity firm shelled out \$234 million to acquire [Embarcadero Technologies](#), which sells database administration and security tools for mainframe, Windows, Unix, and Linux platforms. Thoma Cressey is also one of the investors in [JDA Software](#) and in [Attachmate](#) (which bought rival WRQ and security expert NetIQ in the past year and which is now also a private company). Many years ago, Thoma Cressey acquired an ERP company called Prophet21, which sold OS/400, Windows, and Unix applications, and after investing in it and shoring up its products and marketing, sold it off to another software house.

The way Vlok sees it, the Thoma Cressey funding behind the iTera merger is yet another vote of confidence for the System i platform, too. Which is, of course, good news.