



By Philbert Shih

The threat of big-name competition may provide some smaller hosts with both the impetus and the opportunity to sell their hosting assets.

And preparing properly can help a host to get the most out of a buyer.

Selling Your Hosting Company

Web hosting assets are bought and sold on a regular basis. And while the high-profile deals dominate the headlines, many acquisitions involve the buying and selling of small, pure-play hosts with customer bases that range from the hundreds to the low five figures.

Some hosts are struggling or overburdened and want to exit the business. Others are content with the money they have made and are looking for a healthy payday. In some cases, hosts sell off only parts of their operations, shedding unprofitable units or concentrating their resources on other areas of business.

But for some the question is whether the hosting business, particularly the small enterprise shared variety, is worth competing for anymore. The pressure on price points has been strong in recent years and telecommunications carriers and well-established Internet brands are threatening to move full-force into hosting.

Already, most carriers bundle or cross-market hosting with their ISP services. And

Yahoo! has been aggressively marketing hosting for nearly three years. EBay recently began offering hosting for online stores, and speculation about Google's imminent move into hosting has been rampant. For some smaller hosts, the powerful new competition may provide both the impetus and the opportunity to sell.

Sanjeev Aggarwal, senior analyst at the Yankee Group, believes hosts should seriously consider selling. "The local vendors need to sell while the going is good and not necessarily wait," he says.

Luckily for hosts looking to sell, the market has never been better. There certainly is no shortage of buyers. The challenge sellers face is finding them — and getting the best deal possible.

Putting your Web hosting assets up for sale can be as simple as taking out a classified ad. When Tina Peters of AxisHOST, decided to sell her company's budget hosting division, all she did was post a "for sale" message on industry forum Webhosting-talk.com. And the response, she says, was

overwhelming.

Hosts can also post ads on hosting directories or business brokerage sites where people buy and sell businesses in a variety of industries, says Eric Furlow, president of Furlow Consulting.

Hosts with deeper pockets can hire the services of management consultants to help them find a buyer. Furlow is a Web hosting mergers and acquisitions consultant who has been a part of 120 transactions. His network of contacts in the industry, he says, is extensive. In 1999, Furlow bought a list of 8,000 names in the industry. And, over a 14-month period, he called every one of them. The Heiden Group has an equally extensive set of contacts and its consultants have been a part of some of the industry's biggest deals, recently brokering Terremark's acquisition of Dedigate.

A host's own hosting provider is another potential buyer. Web host Nvidia Internet Solutions was recently purchased by uplinkearth. The smaller Nvidia was an uplinkearth customer and had previously

Luckily for hosts looking to sell, the market has never been better. There is certainly no shortage of buyers. The challenge sellers face is finding them – and getting the best deal possible.

CLASSIFIED AD

engaged in casual conversations about acquisition. When Nvidia decided it wanted to exit the market, an interested buyer was already in place.

According to Furlow, however, dealing with just one potential buyer might be a shortsighted or limiting approach to selling.

“You’ve got to find as many buyers as you can,” he says. “No question about it. The more buyers, the more likelihood the valuation is going to be much higher. Some make a mistake and try to do the deal with the first buyer they find. That’s just silly.”

AxisHOST’s Peters and uplinkearth president and CEO Michael Yablonowitz agree that a generally accepted industry standard for valuing hosting companies is anywhere from 8 to 12 months of revenue. This metric usually applies to the smaller pure-play hosts and generally values the main target – the customers. But other factors, too, can affect the value of hosting assets.

Buyers obviously look for companies with high growth rates, but customer retention is just as important, says Furlow. The last thing a host wants is to buy a customer base with expiring contracts. A strong brand and reputation, in addition to software or other value-added service capabilities, can bring value as well, says Peters. Hosts can also en-

hance their asset’s worth by finding buyers with similar niches as Nvidia did with fellow Windows host uplinkearth.

A strong overall vision and plan can make a host’s assets more attractive to prospective buyers, says Clint Heiden, a partner at the Heiden Group. A buyer wants to see that a host has outlined a pathway to success and is actively working toward achieving those goals. This gives the potential buyer a higher level of confidence in the assets it is purchasing.

“The benefit is you get a better valuation,” says Heiden. “Anything you can do as you approach an acquisition, to show that the company is doing better on a monthly and quarterly basis is simply going to put you in a better negotiating position.”

Jason Weisberger, another partner with the Heiden Group, advises hosts to avoid getting into a position where they are just selling customers. The true value in a hosting asset, he says, is the company’s ability to operate a business and its market position.

“If you can’t show that you are effectively continuing to grow in that market and people love your services, you really don’t have anything to sell,” says Weisberger. “At that point you are just selling your customers because you are trying to get out of the

business, and that’s not going to get you a very good valuation. As opposed to just selling some customers, you’ve got to position your company in a manner that lets you sell the vision.”

When it comes to selling, hosts must be organized, says Furlow. Having information ready – asset lists, financials, system designs, customer billing records – not only helps the buyer learn about a company, but speaks volumes to how a business is run. “It amazes me how many people don’t have all that stuff ready,” he says.

Another key, says Yablonowitz, is to leave emotion out of any deal. While it is understandable that a host might get sentimental after the years spent painstakingly building a business, emotion can only distract a host from finding the right deal. And, of course, a host should speak to an attorney. Hosting industry transactions can be surprisingly complex and an attorney can help clarify legal issues and make sure all details are covered.

Even those hosts uninterested in selling today will likely have the option in the future.

“I think Web hosting is probably one of the best industries I’ve ever seen to do acquisitions,” says Furlow. And even before considering selling, there is plenty a host can do to position itself in the best way possible. ■

SERVICE DIRECTORY

DEDICATED SERVERS

EV1 SERVERS ROCKS

1000+GB monthly bandwidth
Instant activation/no contract
24/7 phone/online/IRC support
20,000+ servers and counting

iPower Servers

2.4Ghz Intel Processor, Plesk7,
FreeBSD, Linux, Windows,
24x7x365 Proactive Monitoring.
\$49/mo! Do You Have The Power?

Accufind Internet

World Class Hosting
Windows-Unix
Dedicated knowledgeable staff
1-888-WEB-3371 www.accufind.com

SERVER MANAGEMENT

Green Olive Tree

Proactive server management
means no more worrying about
server security and downtime!
GOT-Management.com/800-269-6465

RESELLER HOSTING

Become a Web Host Today!

Host Unlimited Domains /\$24.95
Free Billing Software 24/7 Support,
99.9% Uptime
hostgator.com | 1-866-96-GATOR

CANADIAN HOSTING

iWEB.CA :: DEDICATED

The Canadian Alternative
Monthly transfer up to 2000GB
High quality Network
1-888-SERVER-5, www.iweb.ca

WWW.CANADIAN.NET

Since 1997, Full UNIX hosting,
Colo from 1U to rack, E-mail
Virtual and dedicated servers
800-427-8564 sales@canadian.net

AUTOMATION

SWsoft - Plesk & Beyond

#1 Control Panel, Virtuozzo
"True VPS" and Complete PEM
and HSPc solutions.
www.sw-soft.com

NGASI AppServer Manager

automates JAVA J2EE Hosting -
Servlets, JSPs, and EJBs.
Tomcat and JBoss App. Servers.
www.ngasi.com

BILLING AUTOMATION

Reseller Sales Engine

Complete web sales and system
Integration with OpenSRS and
Other reseller based products
Go to www.srsengine.com

HOSTING START-UP TOOLS

HostBizTools.com has it all.

Find the best software and the
best services to start, operate
and promote a hosting company.

SHARED HOSTING

READYHOSTING.com

\$99/Year All Inclusive
Windows Hosting Provider
#1 Reseller Hosting Program
www.READYHOSTING.com

WEB SITE BUILDERS

IRUN offers the ultimate

private label site builder.
Be current/ get new customers!
isp.irun.com / 1.866.312.IRUN
sales@irun.com

HARDWARE

Rackmount Micro Servers

Affordable Rackmount Servers.
Lease to own from \$11/mo!
1-800-673-0174
<http://www.rackmountmicro.com>

SSL CERTIFICATES

GeoTrust 128 bit SSL

Issued in only 10 minutes.
40%+ reseller discounts.
North America www.geotrust.com
Europe www.geotrusteurope.com

RESELL VOIP

www.iOnosphere.com

ION has developed one of the
only "REAL" Private Label
Reseller Solutions. Become
a VoIP provider overnight!

MANAGED SERVICES

HostMyServer.com-Servers

Managed hosting solutions
100% Uptime & 24x7x365 Support
Superior service and
outstanding features

REVENUE CREATION

The Heiden Group

Recruiting & Consulting
We have created over \$8B in
Revenue for UUNET & Exodus
703.715.4988 heidengroup.com

COLOCATION

UndergroundColocation.com

Colo 85ft underground, Secure
Dedicated, Managed
sales@undergroundcolocation.com