

INSIGHT

GXS and Inovis to Merge — \$750 Million Private Offering to Restructure Debt

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IDC OPINION

GXS and Inovis, the second- and fifth-largest business-to-business (B2B) middleware companies, plan to merge. The combination will boost GXS' position closer to SWIFT, the market leader, put more distance between itself and Sterling Commerce, and accelerate GXS' bid to emerge as a B2B managed services leader. The move will dramatically strengthen GXS' vertical market position in its core markets. In addition:

- ☑ Both companies offer a variety of software and services to facilitate B2B transactions such as value-added networks (VANs), gateway software, integration software, managed file transfer software and services, product and pricing data synchronization, trading hub and partner management, and supply chain visibility. Both companies have extended their deployment models to the managed services and software-as-a-service (SaaS) realms over the past few years. The merged entity will aim for leadership in the fast-growing B2B managed services market.
- ☑ With significant overlap in products and services, the combined GXS and Inovis may emerge not only as a bigger but a more profitable B2B software and services company. It may also emerge as a more attractive acquisition target or candidate for an initial public offering.
- ☑ GXS, the larger of the two merging entities, will control the new company, which may be renamed. Francisco Partners, GXS' largest investor, will be the majority stockholder in the new entity. Following the merger announcement, GXS also announced and completed a \$750 million debt offering to refinance the combined debt of both companies and cover the undisclosed amount of cash it may pay Inovis' shareholders.

IN THIS INSIGHT

This IDC Insight analyzes the proposed merger of GXS and Inovis, two major players in the B2B middleware market.

SITUATION OVERVIEW

On December 8, 2009, GXS and Inovis announced their intent to merge, a move for GXS that will improve its reach in the market and profitability. If executed, the merger

would leave GXS in its current second position to SWIFT but also make it the largest for-profit provider of B2B services and the largest vendor in the traditional B2B markets of retailing, manufacturing, and distribution.

Terms of the agreement weren't disclosed, but GXS shareholders will control the new combined entity, with Francisco Partners to be the majority shareholder. Following the merger announcement, GXS announced a \$750 million private debt offering to refinance debt and cover the undisclosed amount of cash it may pay Inovis' shareholders. The debt offering includes a provision to repurchase \$230 million aggregate principal amount of the offered notes if the merger is not completed.

The companies expect the merger to be completed early in 2010.

Comparison of GXS and Inovis

Combined 2008 revenue for the two companies exceeded \$517 million. GXS will account for approximately 73% of the total. This combination provides parallel software and services offered to a similar portfolio of vertical markets — automotive, consumer packaged goods, financial services, high tech, and retail.

Table 1 shows the breakdown of revenue by market segment, while Table 2 shows revenue by region. One key difference between the merger partners is GXS' stronger international presence. GXS generates roughly 40% of its annual revenue from outside North America compared with Inovis' non-North American component, which is about 10% (most of it from the United Kingdom).

TABLE 1**GXS and Inovis Revenue by Market Segment, 2006–2008 (\$M)**

	2006	2007	2008	2008 Share (%)	2007–2008 Growth (%)
GXS					
Business-to-business middleware	380.0	380.0	378.4	100.0	-0.4
Inovis					
Business-to-business middleware	100.6	100.5	104.5	75.7	3.9
Logistics	2.8	3.1	3.2	2.3	2.5
Other back office	26.8	27.7	27.9	20.2	0.8
Other integration and process automation middleware	2.1	2.2	2.4	1.7	7.1
Total	132.2	133.6	138.1	100.0	3.3
Combined					
Business-to-business middleware	480.6	480.5	482.9	93.5	0.5
Logistics	2.8	3.1	3.2	2.3	2.5
Other back office	26.8	27.7	27.9	20.2	0.8
Other integration and process automation middleware	2.1	2.2	2.4	1.7	7.1
Total	512.2	513.6	516.5	100.0	0.6

Note: Inovis' revenue was downward revised from previously published documents due to better guidance.

Source: IDC, 2009

TABLE 2**GXS and Inovis Revenue by Region, 2006–2008 (\$M)**

	2006	2007	2008	2008 Share (%)	2007–2008 Growth (%)
GXS					
Americas	247.8	247.8	246.7	65.2	-0.4
EMEA	104.9	104.9	104.4	27.6	-0.4
Asia/Pacific	27.4	27.4	27.2	7.2	-0.4
Total	380.0	380.0	378.4	100.0	-0.4
Inovis					
Americas	119.0	120.2	124.3	90.0	3.4
EMEA	13.2	13.4	13.8	10.0	3.0
Asia/Pacific	–	–	–	–	–
Total	132.2	133.6	138.1	100.0	3.4
Combined					
Americas	366.7	368.0	371.0	71.8	0.8
EMEA	118.1	118.2	118.2	22.9	0.0
Asia/Pacific	27.4	27.4	27.2	5.3	-0.4
Total	512.2	513.6	516.4	100.0	0.6

Source: IDC, 2009

GXS has approximately 29,000 customers, and Inovis has about 16,000. With a 10–12% overlap, the companies expect the merged entity to have approximately 40,000 customers. Table 3 shows a comparison of the two companies' businesses.

TABLE 3

Comparison of GXS and Inovis

	GXS	Inovis
Annual revenue (2008)	\$378 million	\$138 million
Number of employees	1,800	600
Number of customers	29,000	16,000
Vertical strengths	Automotive	Automotive
	CPG	CPG
	Financial services	Financial services
	High tech	High tech
	Retail	Retail
		Transportation
Regional strengths	North America	North America
	EMEA	
	APAC	
Product target areas	B2B integration	B2B integration
	Synchronization	Synchronization
	Supply chain visibility	Supply chain visibility
Deployment models	Software	Software
	Network	Network
	SaaS	SaaS
Daily transactions	15 million	4 million
Key investors	Francisco Partners	Cerberus, Golden Gate Capital
Founding date	1967 (spun off from GE in 2002)	1983
Headquarter location	Gaithersburg, Maryland	Alpharetta, Georgia

Source: IDC, GXS, and Inovis, 2009

GXS processes an estimated 15 million B2B transactions daily via its value-added network. Inovis processes 4 million.

Both companies offer a variety of software and services to facilitate B2B transactions such as value-added networks, gateway software, integration software, product and pricing data synchronization, trading hub and partner management, and supply chain visibility. Both companies have also been extending their deployment models to the

managed services and SaaS realms, and "nonsoftware" delivery is now the primary deployment model for both companies. GXS has 230 enterprise managed services customers, and Inovis has 150. Table 4 lists the products of the two companies.

TABLE 4

GXS-Inovis Product Map

	GXS	Inovis
Integration software (MFT, B2B gateways, translation software)	Enterprise Gateway	TrustedLink
	GXS Application Integrator	BizManager
	Desktop EDI	Inovis MFT
Network services	GXS Trading Grid	Inovisworks
	Transact Messaging Services	
	GXS MFT	
Managed services	GXS Expert Outsourcing	Inovis Outsourcing Services
Synchronization	Product and Price Management	Multienterprise MDM
		Inovis Catalogue
Applications		BCM Platform
		Onboarding (also SaaS)
		Portfolio Management (also SaaS)
		Visibility (also SaaS)
		Exception Management (also SaaS)
		Collaboration and BPM (also SaaS)
		Analytics and BI (also SaaS)
SaaS offerings	Product and Price Management	BCM Platform
	Supply Chain Visibility	Partner Performance Management
	Invoicing and Payments	Chargeback Avoidance
		Logistics Support

Sources: GXS and Inovis, 2009

Founded in 1967 as a unit of General Electric, GXS was spun off as an independent unit in 2002. Francisco Partners led a buyout that valued GXS at \$800 million, leaving GE with a 10% minority stake, which it divested several years ago. GXS has grown

since then partly through a series of acquisitions. The company is based in Gaithersburg, Maryland.

Inovis is a descendant of Peregrine Systems, Harbinger Software, and Extricity, among others, dating back to 1983. It emerged with its current name in 2002 in connection with a \$35 million buyout by its key investors, Golden Gate Capital and Cerberus Capital Management. It has grown since then through a series of acquisitions. Table 5 shows a chronology of key acquisitions of both companies.

TABLE 5

GXS and Inovis Acquisitions Chronology

Year	Company	Target Description
GXS		
2003	Celarix	Supply chain–optimization software and services, including real-time tracking of order and shipment status, and supply chain event management
2004	HAHT Commerce	\$30 million cash and stock deal gave GXS product information and data synchronization capabilities
2004	G International (IBM)	EDI and business exchange units of IBM Global Services provided GXS with IBM's VAN and international customer base
2006	Udex	Provider of data quality services gave GXS 2,000 customers and additional data quality and synchronization capabilities
2009	Interchange Serviços SA	Brazilian EDI services provider gave GXS 450 new customers with strong financial services, retail, and utility company concentrations
Inovis		
2003	IPNet Solutions	Enabled AS2 connectivity to the Inovis TrustedLink products for iSeries (AS400), NT, Windows, and Unix; Inovis gained AS2 and UCCnet capabilities and positioned it to provide hosted and Internet-based solutions
2004	QRS	Provider of trading partner collaboration and product data synchronization services
2007	BetweenMarkets	Management applications for supply chain hubs and retailers, included order exception, deductions, and partner performance; applications for suppliers include fulfillment management, chargeback avoidance, and compliance change
2007	Freeway Commerce	British company specializing in EDI and electronic trading systems

Sources: GXS and Inovis, 2009

FUTURE OUTLOOK

Over the past few years, GXS has invested heavily to improve scalability and throughput of its datacenter as well as improve its ability to rapidly deliver new offerings. While the companies haven't completed their technology and product integration plans, we expect Inovisworks' customers to shift to the GXS Trading Grid. This should yield significant cost savings.

Meanwhile, Inovis has worked on diversifying into multi-enterprise applications. Both are investing heavily in managed services, with GXS the market leader in this fastest-growing segment of B2B integration.

Along with reduced debt service costs related to the refinancing, cost efficiencies from merging the two VANs will help improve profitability and cash flow, while increasing the breadth of offerings to existing customers promotes growth through cross-selling and upselling.

The value of being the largest player in the fast-growing managed services segment — which is rapidly evolving into a public cloud, integration-as-a-service play — will provide some opportunity for GXS to reposition itself as a highly credible player in one of the hottest areas of IT.

The migration will not be without pain, however. Both use different technologies for maintaining maps. As enterprises increase their levels of content-aware routing through VANs, mapping is more complex than simply offering storing and forwarding documents. To shift Inovisworks' and managed services' customers to GXS will require extensive automation of mapping conversions as well as testing.

GXS' challenge is in soothing customer anxiety while offering a smooth transition that yields some type of benefit to its customers. If the only beneficiary of the merger is a more profitable GXS, then customers are unlikely to take on any hardship. However, if customers are offered the promise of better service or applications richness because of the move, GXS will need to push that vision persuasively.

Given the growing importance of integration across trading partners, this combination becomes attractive to vendors looking to enter this market at a relatively large scale. As a private company, the acquisition may make GXS a far more attractive entity for potential buyers or as an IPO candidate because of the consolidation with a major direct competitor. With the pending spin-off of Axway by Sopra, and the pending SPS Commerce IPO, valuations and market positioning by larger players may have a dramatic impact on the B2B middleware market during 2010–2011.

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