

# The Deal

## MegaPath Offloads Managed Services Division, Examines Acquisitions

*The Deal Pipeline* – February 23, 2105 – Private equity-backed telecom services company [MegaPath Inc.](#) has decided to sell its managed services division to [GTT Communications Inc.](#) ([GTT](#)) after a divestiture of MegaPath's network services business sparked discussions between the parties.

MegaPath and GTT said in separate announcements after markets closed Thursday that GTT has agreed to buy MegaPath's managed services business for \$144.8 million in cash and \$7.5 million in GTT shares. The parties expected the transaction to close on April 1. The managed services segment generated recurring revenue of about \$124 million and Adjusted EBITDA of about \$20 million in 2014.

MegaPath retained [Richard Lukaj](#) and [James Henry](#) of Bank Street Group LLC last year to solicit offers for the entire company, MegaPath CEO [Craig Young](#) told The Deal Friday. Young added that MegaPath was looking to bring in an outside investor for additional cash and wanted to put itself in a position to grow and acquire other companies.

During this process, the Pleasanton, Calif., portfolio company of [Platinum Equity LLC](#) came close to sealing a deal with some players, but it ultimately decided that spinning off the network services division to [Pivotal Group Inc.](#)-backed [Global Capacity Holdco LLC](#) was the best option for the company, Young added. He went on to explain that in this process, a few players also expressed interest not in the entire business but in one unit of MegaPath.

"We basically kept going down the process. When we made the announcement, a couple of parties one of them being the guys at GTT called back," Young explained.

In October, a month after announcing the Global Capacity deal, GTT and MegaPath started discussing a potential transaction involving the managed services unit.

"This transaction allows us to fund the company's growth for a couple of years" and puts MegaPath in position to look at other acquisitions, Young said. In fact, with the sale MegaPath is positioning itself as a pure-play cloud communications company and could pursue a roll-up of smaller players in the space.

"One thing we see is a lot of small players. There are quite a few regional [voice over Internet protocol] players out there," he said, explaining that coupled with acquisitions, MegaPath could grow 15% to 20% every year and start looking for exit possibilities in the next 24 months. Young said he is equally as open to pursuing an initial public offering as a sale or a merger.

Platinum Equity acquired MegaPath on Sept. 1, 2010, when it merged with portfolio holding [Covad Communications Co.](#) and [Best Buy Co.](#) (BBY)'s Speakeasy.

As for GTT, the latest acquisition of the McLean, Va., cloud networking services provider comes less than five months after it purchased communications company [UNSi](#).

GTT president and chief executive Rick Calder said MegaPath's divestiture of its network services division created "an opportunity to buy a piece of business [GTT] liked."

"We've made one big deal a year over the past six years," Calder said of the company's M&A strategies, adding GTT looks to acquire companies that are focused

on providing cloud networking services with clients that have worldwide demand. He said GTT also looks at whether acquired businesses can be integrated into the company's systems within one or two quarters.

GTT, which has a market capitalization of about \$422 million, continues to view acquisitions as an important key to its growth, according to Calder, who added the company is always examining strategic acquisition opportunities.

"We like the space we play in and continue to see relatively small companies that would make good acquisition targets," he added.

Shares of GTT closed up 14.4% Friday at \$14.12. The stock is up about 7% year-to-date.

GTT is working with [KeyBanc Capital Markets](#) Inc. and [Webster Bank NA](#) to arrange debt financing for the acquisition. GTT did not retain an investment bank for the transaction but hired [Goodwin Procter LLP](#) as its legal counsel.

MegaPath received legal counsel from Tim Rupp and Jennifer Coupland of Morgan, Lewis & Bockius LLP.