



News Release: February 6, 2006, Hudson, Massachusetts

**Frontenac Acquires SMS, Hudson Massachusetts**

Frontenac Co. has announced its acquisition of SMS Systems Maintenance Services Inc., a provider of mission-critical maintenance for computer hardware. While terms of the transaction were not disclosed, Chicago-based Frontenac typically invests between \$20 million and \$40 million of equity in its platform acquisitions.

Equity for the transaction came from Frontenac VIII LP, a vintage-2000 fund that closed on \$560 million. Merrill Lynch Capital provided senior debt financing for the transaction. Typical purchase price multiples for mid-market IT services companies often fall between 8x to 10x EBITDA.

Frontenac Managing Director James Cowie told Buyouts that for the past 10 years the firm has been trying to broaden its exposure to the outsourcing and "total solutions" aspects of the IT marketplace, and that the acquisition of SMS fits the criteria for both.

SMS, headquartered in Hudson, Mass., provides fully-outsourced, "real-time" solutions to its clients on a 24/7 basis. The 25-year-old hardware maintenance provider has 22 offices and service centers across the U.S.

The deal-completed in late December-represented an exit for the company's 70-year-old founder and CEO, Tom Welch, who had been seeking strategic alternatives on an "opportunistic basis," Cowie said.

Don Doctor, an IT services veteran brought in by Frontenac to serve as SMS's executive chairman, will be replacing Welch. Steve Favory, another Frontenac-backed manager, was brought in to serve as the company's COO and CFO.

SMS is the second investment Frontenac, Doctor and Favory have been involved in together. In 1997, Frontenac partnered with the pair for its investment in Premier Systems, a provider of IT systems integration and network infrastructure solutions.

It's a good time to get into the hardware maintenance niche because businesses, more than ever before, are installing complicated networking equipment that at any time can require services ranging from disaster recovery to routine system performance analyses, Cowie said. And the fact that SMS is an independent service provider makes it an even more attractive investment within North America's \$7 billion market for hardware maintenance services, he noted.



**SMS Company Snapshot**

- Founded in 1981
- 10% CAGR since 1999
- Profitable growth since inception.
- 27 Service Centers in 2006.
- The Leader in Independent Maintenance.

**Systems Supported**

- Sun Microsystems
- Hewlett-Packard Systems
- Hewlett-Packard Classic Digital
- Hewlett-Packard Classic Compaq
- IBM P-series (RS-6000)
- IBM X Series
- Dell Systems
- Cisco Systems



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Corporate Headquarters

455 River Road • Hudson, MA 01749

Service Phone: 978.562.2442 • E-Mail: info@sysmaint.com • [www.sysmaint.com](http://www.sysmaint.com)

Doctor told Buyouts there is a trend of more businesses choosing to use independent maintenance providers instead of OEMs (which currently control most of the hardware maintenance market share) to solve their hardware glitches.

Unlike 15 years ago, when a company bought all its equipment from a single source, many of today's networks are cross-platform models, where different parts come from different OEMs. Independent maintenance providers can handle any problem. "[OEMs] raise compatibility issues," Doctor said, "and it also makes it more difficult for a person to know who to call when they have a problem needing immediate attention," such as when an email server goes down.

Doctor also noted that there is a price advantage for the end-user when they choose an independent provider. While OEM maintenance services are "top of the line," they often are only available through expensive, prepackaged plans, such as platinum, gold and silver options.

"SMS offers platinum services for non-platinum prices," Doctor said.

Cowie noted: "SMS has shown consistent growth and profitability for the past 25 years, and the opportunities we see going forward include further geographic expansion and the addition of more customers and service offerings."

Among SMS's current clients are investment bank BNP Paribas and SunGard Data Systems, which was acquired last year by seven private equity firms for \$11.3 billion. Other customers include The L.A. Times, the Internal Revenue Service (IRS), The Boston Globe, the Associated Press, CNN/AOL Time Warner and Comcast.



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