

## **Tier 1 Research: Infrastructure Insider for 12/07/05**

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- \* [Epicor makes a play in retail by acquiring CRS Retail Systems](#)
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### **SUMMARIES AND INSIGHTS**

#### Epicor makes a play in retail by acquiring CRS Retail Systems

Epicor [EPIC] made a play in retail, acquiring CRS Retail Systems (with 360 employees and revenue of about \$70mn run rate for 2005) of Newburgh, NY for \$121mn, an apparent move to bolster its skill set and assets in the retail market. CRS was purchased from Accel – KKR, a private investment firm. Retail software is HOT – this deal follows on the heels of Oracle + Retek and SAP + Khimetrics. Granted, Epicor competes in a much different mid market, this move is another data point on the importance of having assets and skills around the retail sector. The deal will be financed using existing credit facilities and cash-on-hand. CRS provides merchandising and point-of-sale (POS) software solutions to the retail industry and serves about 140 customers including Coach, J.Crew, GNC, Chico's, Barnes & Noble, Inc., Cache and Foot Locker, Inc. CRS will be operated as a separate division of Epicor led by former CEO Kathy Frommer. Richard Nance, CIO of Tuesday Morning was quoted in the release. Epicor expects the acquisition to be accretive to its EPS in 2006 its estimated total revenue to be \$384mn. FY06 adjusted EPS is expected to be \$0.77 to \$0.79, which includes \$0.02 to \$0.04 contributed from the CRS. Epicor also expects to save approximately \$1mn due to synergies in 2006.

#### Time Warner Cable crosses 1mn VoIP subs threshold

Time Warner Cable's [TWX] VoIP deployment crossed the 1mn sub mark. They continue to close the gap on Vonage and out distance cable peers. Comcast has 2x the video subscribers of Time Warner, but Comcast only managed to sell 20k subs in 3Q05. Skype makes much of their 150k daily download haul, but turning up a single broadband phone subscriber is easily 100 times more work and 100 times more valuable. Vonage's 1.2mn subscribers and Time Warner's 1mn represent enormous accomplishments in the scheme of things. The facility based CLEC's never managed 1mn customers. AT&T and MCI UNE resale of RBOC circuits crossed 1mn subscribers, but only with the Bells doing all of the provisioning. Sun Rocket's \$73mn in VC funding has only produced 50k subscribers. Sun Rocket announced a \$10/mo pricing model, but the distance between 50k and 1mn is even larger than the 20x multiple. There remains a significant learning curve for all of the players before VoIP really cracks into the mainstream. Total subscribers in the 5mn range in the US still leaves this a niche business by the end of 2005. Any of the players can get tripped up by remaining obstacles. Vonage will need to navigate an increasingly complicated regulatory landscape in 2006. The cable companies pitch their offer as a direct replacement, but they will find their infrastructure does not allow them to offer the same reliability as traditional telephone service.

#### Comcast et al losing grip on video; iPod deal with NBC just the start

Apple [APPL] announced an iPod content deal with NBC [GE] giving content the ability to bypass cable companies via the Internet. Apple previously announced a deal with ABC/Disney. These are tentative steps with limited

offers, but they will increasingly undermine the traditional cable business model. The Internet as a distribution platform and the proliferation of video enabled devices represents great news for content companies and bad news for cable. The Comcasts [CMCSA] of the world did not get much time to benefit from their insurgent status in the traditional voice business before the facing an insurgent attack on their core business. Fiber deployments of the Bells represents the least of their worries. The traditional cable business model depends on maintaining their status as the preferred vehicle for distribution of the content. The advent of various non-TV consumer electronics devices as video platforms reduces the cable co's buying power with content companies and pricing power with end users.

The TV may remain the center of the universe for years to come, but the living room viewing experience will become less and less important. This will show up in higher Capex expenses as cable co's upgrade their networks and services to compete with the Internet video distribution. Comcast's announced 6% rate increase at the end of 2005 might mark the last of the annual increases as the presently static subscriber counts could easily start to decrease. Shrinking subscriber count risks the promised 10% annual growth rate used to justify the relatively rich 3x price-sales multiple. Happily for the cable companies, TIR expects piracy fears to cause significantly friction for the movement of content to the Internet.

#### Opsource opens incubator for ISVs

Opsource, a privately held SaaS enabler, announced an initiative to help start up ISVs (defined as companies with less than \$1mn in revenue) to become SaaS providers with its incubator program. Through this six month program, Opsource will provide infrastructure services, an uptime guarantee and system monitoring. Opsource cited two companies already participating in the program –Business Resource Software, a provider of marketing and business planning software, and Citizen Image, an online marketplace for digital images. Kylon Gustin, vice president of sales, Business Resource Software and Joe Bransom, president, Citizen Image were quoted in the release. The application must run on either Windows Server 2003 or Red Hat Enterprise Linux. The payoff - after the six month period, Opsource will help clients adapt to the full fledged Opsource model with its success based pricing model which helps customer#s pay as you go as they develop their SaaS offerings. This is the second move this year that Opsource has made to help ISVs migrate to SaaS delivery. Back in April, Opsource announced the SaaS Enablement Program - a consulting blueprint designed with speed to market and cost effectiveness in mind. The program includes three components designed to analyze the predictability of SaaS, map a workable SaaS model and validate application readiness with a testing environment.

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