VENTUREDEAL M&A ANALYSIS

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VentureDeal

Microsoft To Acquire Cloudyn For Cloud Cost Management

Quick Take

Microsoft (NASDAQ:MSFT) has announced an agreement to acquire cost tracking software firm Cloudyn for an undisclosed amount.

Cloudyn has created software for enterprises that want to monitor and analyze their consumption of cloud resources in order to maximize ROI and get the most value from their cloud service configurations.
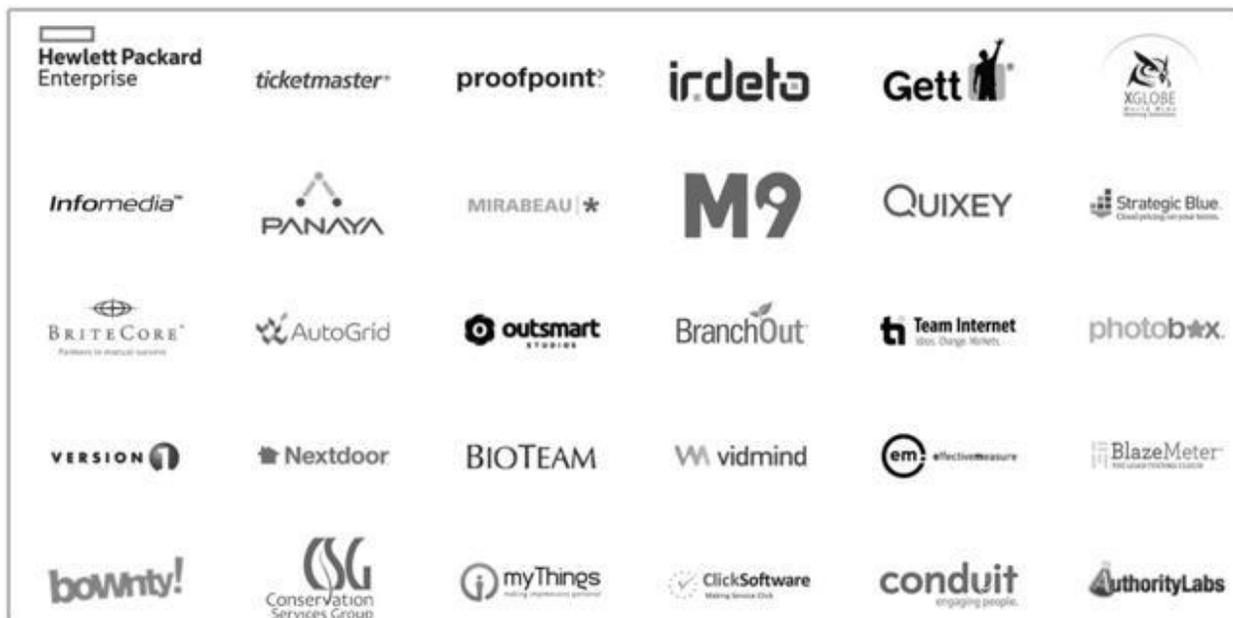
The deal creates a foundation for future services, such as machine learning-based recommendations that can highlight Microsoft Azure's offerings versus the competition.

Target Company

Tel Aviv, Israel-based Cloudyn was founded in 2012 to assist businesses in identifying and reporting their ongoing cloud-based computing costs.

Management is headed by co-founder and CEO Sharon Wagner, who was previously senior principal Cloud at CA Technologies (NASDAQ:CA) and held various senior positions at Oblicore, which was later acquired by CA.

Its customers include large companies such as Hewlett Packard Enterprise (NYSE:HPE), as well as medium and smaller firms, as a partial client list below shows:

(Source: Cloudyn)

The company raised $20.5 million in private financing from investors, including Carmel Ventures, Infosys (NASDAQ:INFY), RDseed and Titanium Investments.

Acquisition Terms and Rationale

Neither company disclosed the purchase price or terms. However, an unsubstantiated report by Israeli publication Calcalist indicated the price was previously being discussed at between $50 million and $70 million.

One advantage of the acquisition is that Cloudyn is already a partner of Microsoft, providing visibility into customer cost usage of its Azure cloud offering.

Cloudyn also interoperates with other major cloud service providers, such as Amazon Web Services (NASDAQ:AMZN) and Google Cloud Platform (GOOGL, GOOG).

As Microsoft's Jeremy Winter, Director of Program Management, Azure Security and Operations Management, stated in the deal announcement:

As a Microsoft partner, Cloudyn has supported cost management for Microsoft Azure and other public clouds, helping customers continuously improve their cloud efficiency. Cloudyn customers have been able to optimize their cloud services usage and costs through automated monitoring, analytics and cost allocation.

Microsoft stands to gain the ability to clearly communicate the cost differentiation of its services versus those of its main competitors, assuming Amazon or Google doesn't shut off access, which is not outside the realm of possibility, however unlikely.

As more middle-market and large enterprises transition to the cloud from their on-premise environments, CIOs and others have an increased need to quickly understand which cloud resources are being effectively utilized and which are not.

The acquisition of Cloudyn will enable Microsoft Azure customers to "continuously improve their cloud efficiency... through automated monitoring, analytics and cost allocation."

Under Microsoft's wing, Cloudyn will likely continue to build out its system to operate in more sophisticated environments and provide machine learning-based, cognitive recommendations for customers to optimize their cloud deployments.

Once recommendations are developed, that will provide Microsoft with a natural sales on-ramp with which to suggestive sell customers on Azure services by comparison. Microsoft will help customers understand their cost structures and potentially guide them to better decision-making for their IT operations.

Progress Acquires Kinvey For Cognitive App Backend System

Quick Take

Enterprise software firm Progress (PRGS) announced that it has acquired backend software developer Kinvey for $49 million in cash.

Kinvey has developed a BaaS system, or Backend-as-a-Service platform that simplifies cognitive mobile app developer back end creation and operations.

Progress is combining Kinvey with its recent DataRPM acquisition to move more forcefully into cognitive and IoT (Internet of Things) mobile application markets.

Target Company

Boston, Massachusetts-based Kinvey was founded in 2010 to make it easier for business software developers to set up, develop and update the cloud-based back end functionality for mobile applications.

Management is headed by founder and CEO Sravish Sridhar, who was previously co-founder and president of We Flap and cloud product manager at Red Hat (RHT).

Kinvey's service 'powers more than 31,000 apps, used by more than 100 million end-users…[making] more than 10 billion API calls per month', so the system has been market tested.

The company has raised nearly $18 million since 2011 from investors including Atlas Ventures, Verizon Ventures (VZ), NTT DOCOMO Ventures, Avalon Ventures, and others.

Notably, Verizon Ventures co-led the last funding round of $10.87 million in September 2014.

Acquisition Terms and Rationale

Progress has paid $49 million in upfront cash consideration for Kinvey. As a result, the deal was probably a 2x to 3x return for early investors – not a large outcome, but a small win in venture capital terms.

As of Progress' February 28, 2017, 10-Q, the company had $264.2 million in cash, equivalents and short-term investments, so had ample resources to complete the purchase without undue financial stress.

Furthermore, Progress posted $37.3 million in cash flow from operations, so is showing growing and positive CFFO to replenish its cash reserves.

Progress has acquired Kinvey to bolster its end-to-end development system for companies wanting to deploy 'modern, cognitive-first applications.'

In March 2017 Progress [acquired DataRPM](#) for its cognitive, predictive maintenance application in the industrial IoT market.

I previously wrote an article on that transaction, *[Progress Acquires DataRPM For Cognitive Business Software](#)*.

Progress paid $30 million for DataRPM's predictive, machine learning technologies that help Industrial IoT companies develop applications more efficiently.

As Progress CEO Yogesh Gupta stated in the deal announcement,

Kinvey was an early pioneer in the BaaS space and brought to market a leading-edge solution that enables developers to operate a serverless and compliant cloud backend for any native, hybrid, web or IoT app. By bringing together Kinvey's leading Backend as a Service with our front-end development, predictive analytics and data connectivity technologies, we are doing something unique; we are offering customers the only complete, open stack for building and deploying cognitive applications.

Concurrent with the deal announcement, the two companies also announced the integration of Kinvey with Progress' NativeScript and DataDirect data connectivity products.
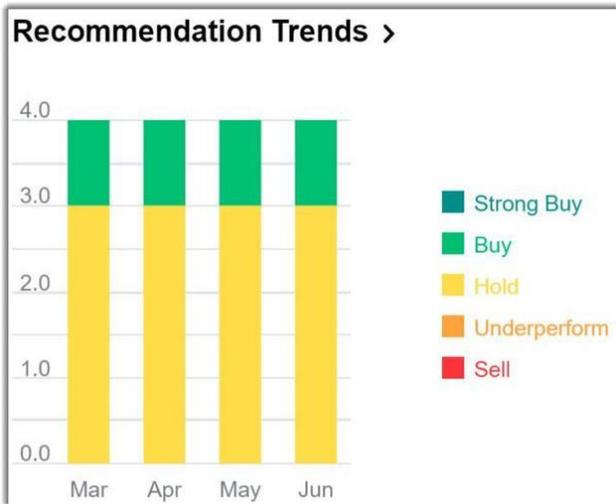
It appears that integration risk is low, as the companies have already integrated certain aspects of their operations.

Denise Lund, research director of Enterprise Mobility at market research firm IDC, said of Progress acquisition strategy,

The acquisition of Kinvey adds a key strength to Progress' app development portfolio. Together with its DataRPM assets, Progress is quickly becoming a formidable competitor in the intelligent apps development market.

Observers are therefore positive about the combination, as I am. PRGS stock is slightly down with normal volume and is currently trading is slightly lower than the average analyst price target of $31.00.

Most analysts are recommending a HOLD on the stock at its current level of nearly $31, with a few recommending a BUY. Progress just reported a 2Q 2017 EPS result of $0.42, which was a beat by $0.05 per share.

Recommendation Trends ›

Strong Buy
Buy
Hold
Underperform
Sell

(Source: [Yahoo Finance](#))

I view the deal as a positive for Progress as it is positioning itself as a mobile app development system provider for 'cognitive' mobile applications designed for a variety of markets including the nascent but potentially large IoT (Internet of Things) markets.

Roche To Acquire mySugr For Digital Diabetes Management

Quick Take

Medical products and pharmaceutical company [Roche](#) ([OTCQX:RHHBY](#)) has [announced an agreement](#) to acquire diabetes management software company [mySugr GmbH](#) for an undisclosed amount.

mySugr has developed an open-architecture diabetes control app and system that shares information between the patient and caregivers to enhance care.

The deal is a signal that Roche intends to bolster its diabetes care unit and invest in its Accu-Chek brand of blood glucose monitoring devices.

Target Company

Vienna, Austria-based mySugr was founded in 2012 to improve patient care and adherence via a diabetes 'coaching' app and service.

Management is headed by co-founder and CEO Frank Westermann, who previously held various positions in media companies in Germany and Austria.

mySugr says it has more than one million users globally and the company had previously integrated with Roche's diabetes devices, so integration risk should be minimal.

The company's platform has been device agnostic, and Roche says the company will 'remain a separate legal entity with an open platform for all diabetes devices and services.'

Notwithstanding that announcement, I would not be surprised if Roche forks the code and creates an enhanced version for its own products.

Investors in mySugr included Johann Hansmann, iSeed Ventures, and the Roche Venture Fund. The company raised at least $6.6 million in total investment since 2012.

Acquisition Terms and Rationale

Neither company disclosed the price or terms of the acquisition and Roche did not state any changes to its financial condition, so it is likely the deal was not material to Roche's financials.

I recently wrote an article on the strategic investment of Insulet ([PODD](#)) and Medtronic ([MDT](#)) in another diabetes monitoring service, [*Insulet And Medtronic Join Investment In Glooko Diabetes Management*](#).

In that article, I highlighted Medtronic's previous investment in Glooko, which has developed a similar, open-architecture app used by various glucose monitoring devices.

So, it seems clear that medical device makers are making a push into the digital monitoring space, not only for diabetes applications but as proxies for increasing their understanding of remote monitoring markets in general.

The applications for remote monitoring include cardiovascular, neurological, and general health and wellness to name just a few.

Being able to monitor patients in real-time also provides a tremendous amount of data that may be leveraged to develop more capable devices and ultimately treatments for patients at potentially lower cost by reducing the need for hospital and doctor visits.

The trend towards moving the treatment out of the hospital and doctor's office has been accelerating in recent years due to increased communications bandwidth, device and data capabilities and patient willingness to use these new devices.

The deal for mySugr is table-stakes for Roche's continued move into remote monitoring, and I view it as a positive signal that Roche management is on the ball and taking advantage of opportunities in new care delivery models.