



## **DETERMINATION OF MERGER NOTIFICATION M/07/032 – ALCHEMY/CALYX**

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### **Section 21 of the Competition Act 2002**

#### **Proposed acquisition of Calyx Group plc by funds managed by Alchemy Partners (Guernsey) Limited**

**Dated 11/07/07**

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### **Introduction**

1. On 13 June 2007, the Competition Authority, in accordance with Section 18(1)(a) of the Competition Act, 2002 (the "Act"), was notified on a mandatory basis of the proposed acquisition of sole control of the Calyx Group plc ("Calyx") by funds managed by Alchemy Partners (Guernsey) Limited ("Alchemy").

### **The proposed transaction**

2. The proposed transaction will take place through a number of special purpose acquisition vehicles. One of these vehicles, Stornaway Limited, will acquire 100% of the issued and to be issued share capital of Calyx, by scheme of arrangement between Calyx and Calyx shareholders under Section 201 of the Companies Act 1963 (as amended).
3. Funds managed by Alchemy will thereby acquire a 59.2% indirect interest in Calyx and certain members of the management of Calyx will acquire indirectly the remaining 40.8%. Following the proposed transaction, Alchemy will have sole control of Calyx.

### **The Undertakings Involved**

#### *The Acquirer*

4. Alchemy is the manager of the Alchemy Investment Plan (the "Plan"). The Plan comprises a collection of Guernsey limited partnerships. The Plan's objective is to make investments of an equity nature in leveraged and management buy-outs and buy-ins and to provide development capital, principally in the UK and elsewhere in Europe. Each investor/limited partner enters into a partnership agreement with Alchemy Partners GP (Guernsey) LP (the "General Partner"). The General Partner's obligation to manage the investment of each limited partnership in the Plan is delegated to Alchemy pursuant to a Management Agreement entered into by the General Partner (on behalf of each limited partnership) and Alchemy. Consequently, Alchemy has legal control of when, where and how investments are made, including the terms thereof.
5. The worldwide turnover of Alchemy's portfolio companies and Alchemy Partners LLP in the most recent financial year was approximately [ ]. The turnover in the State of Alchemy's portfolio companies and

Alchemy Partners LLP in the most recent financial year was approximately [ ].<sup>1</sup>

### *The Target*

6. Calyx is currently listed in Ireland on the Irish Enterprise Exchange Market, part of the Irish Stock Exchange, and in the UK on the Alternative Investment Market, part of the London Stock Exchange.
7. Calyx is a single-source provider of networked IT services. It provides fully managed, end-to-end solutions in data, voice, security, systems integration, applications, IP and carrier services. Its core services include the design, build, installation/integration and maintenance of IT and telephone networks for business customers. It is active in both the State and the UK, with approximately 50% of its sales being generated in the State and 50% in the UK.
8. Calyx's worldwide turnover for the year ended 31 December 2006 was approximately €88,463,000. Its turnover in the State was approximately €44,268,000 for the same period.

### **Analysis**

9. Alchemy has a controlling interest in a number of portfolio companies, one of which is Datapoint. Datapoint is a systems integrator for contact centres and online customer services. Its core services consist of consultancy, design, build and/or provision of infrastructure and support in relation to contact centres. Datapoint acts for customers in a consultancy/integration role and works with suppliers of customer relationship management ("CRM") solutions (such as Avaya, Aspect, Genesys etc.), who provide the hardware and software required to run contact centres. Datapoint is active in the UK, Spain, the Netherlands, France and the State, although the majority of its sales are to customers in the UK. Datapoint's sales in the State in 2006 were [ ].<sup>2</sup>
10. In March 2007, Datapoint acquired the subsidiaries from Touchbase Group that made up Touchbase's European Avaya business (the "Touchbase Business"). In Ireland, the Touchbase Business is involved in the installation and maintenance of voice communications hardware for business customers, mostly through the supply of Avaya IP voice technology.
11. Both Datapoint (through its Touchbase Business) and Calyx provide installation and maintenance services in respect of voice communications hardware.
12. The second area of overlap relates to services for CRM functions. CRM encompasses applications that automate customer-facing business functions, such as sales, marketing, customer service and support, call centres and processes relating to the automation of sales (i.e. order processing, contact management, information sharing, inventory

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<sup>1</sup> This figure includes the turnover of A-Wear, acquired by Alchemy in 2007. A-Wear's turnover in the State in its most recent financial year was [ ].

<sup>2</sup> This figure includes turnover for Touchbase (see paragraph 10 above). Datapoint's 2006 sales in Ireland prior to the acquisition of Touchbase were [ ] and were mostly sales to the Irish offices of UK customers as part of contracts with UK customers.

monitoring and control, order tracking, sales forecasts and analysis, etc).

13. Datapoint provides system integration services for contact centres in Ireland. Its services are restricted to call centres and do not extend to any other CRM functions.
14. Calyx provides hardware maintenance services relating to Witness voice recording solutions and Avaya equipment. The significant majority of these services do not relate to CRM functions.
15. Therefore, the overlap in CRM functions is restricted to hardware maintenance services for CRM functions and the extent of the overlap between the parties' activities is minimal.
16. The Authority does not consider it necessary to define either product or geographic markets in relation to either of the overlaps outlined above, as the proposed transaction does not raise competition concerns in relation to either of the areas of overlap.

#### *Competitive Effects*

#### **Voice Communications Hardware**

17. In relation to voice communications hardware, on the basis of information provided by the parties, it appears that Calyx has approximately [ ]% and Datapoint approximately [ ]% of this sector.<sup>3</sup>
18. The parties submitted that a three-tier structure applies to the provision of installation and maintenance of voice communications hardware. In this sector, the large tier competitors include BT, eircom, Cable & Wireless and Avaya (who sells direct to customers as well as through resellers). The mid tier (in which the parties consider themselves to belong) also includes Dimension Data and Sabio. There is also a third tier of smaller competitors.
19. The parties also submitted that installation and maintenance of voice communications hardware are normally dealt with in separate contracts. Maintenance contracts are normally concluded for one year. Often, maintenance contracts are put out to tender, and the parties submitted that this sector is very competitive. The parties also noted that there are no significant barriers to customer switching and that the sector is characterised by rapid technology changes.
20. Given the low sectoral shares of the merged entity, the presence of other strong competitors and the level of competition for contracts in the sector, the Authority considers that the proposed transaction does not raise competition concerns in relation to the installation and maintenance of voice communications hardware in the State.

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<sup>3</sup> Calyx estimated that the total value of this sector is about €15 million. Calyx had an estimated [ ] sales and Datapoint about [ ] sales in this sector in 2006.

## **Hardware Maintenance Services for CRM Functions**

21. In relation to hardware maintenance services for CRM functions, the parties provided information from IDC, which estimates that the size of the Western European CRM applications sector in 2006 was approximately €2.2 billion.<sup>4</sup> From this figure, the parties estimated that the size of the CRM applications sector in Ireland was approximately €28 million in 2006.
22. On that basis, the shares of Datapoint and Calyx of this sector in the State are estimated to be approximately [ ]% and [ ]% respectively. Further, as stated above, the majority of the Calyx sales on which this estimate is based do not relate to CRM functions.<sup>5</sup>
23. Datapoint estimates that there are three general tiers of players in the sector in the State: a first tier of large players (e.g. eircom and BT Ireland), with approximately 50-60% of sales between them; a second tier of medium size players (e.g. Colt, Sabio and Calyx) with approximately 20-30% of sales between them; and a third tier of smaller players (e.g. Datapoint, Cable & Wireless), who together have the remainder of sales.
24. The parties also submitted that the considerations applying to maintenance contracts in paragraph 19 above also apply to maintenance contracts in this sector.
25. Given the limited nature of the overlap, the low sectoral shares of the merged entity, the presence of other strong competitors and the level of competition in the sector for contracts, the Authority considers that the proposed transaction does not raise competition concerns in relation to hardware maintenance services for CRM functions in the State.

### **Determination**

The Competition Authority, in accordance with Section 21(2)(a) of the Act, has determined that, in its opinion, the result of the proposed acquisition of the Calyx Group plc by funds managed by Alchemy Partners (Guernsey) Limited will not be to substantially lessen competition in markets for goods or services in the State and, accordingly, that the acquisition may be put into effect.

### **For the Competition Authority**

Dr. Paul K. Gorecki

Member of the Competition Authority

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<sup>4</sup> IDC is a global provider of market intelligence, advisory services and events for the IT, telecommunications and consumer technology sectors. For more information go to [www.idc.com](http://www.idc.com).

<sup>5</sup> Calyx states that it is not possible to divide out its sales relating to CRM functions.