



THE DEAL BROKER

HILLARY STIFF

MANAGING DIRECTOR

CHEVAL CAPITAL

BY ESTHER M BAUER

If the praise of both clients and competitors is a measure of a Web hosting deal broker's caliber – and certainly, it is – then Hillary Stiff of Cheval Capital is a broker of a very high caliber. Clients enthuse about her integrity, honesty, and consummate professionalism. One competitor says he feels reassured when Stiff is representing the other party in a merger or acquisition deal.

"I know the information flow, communication and transactional processes will be handled properly," says M. Eric Furlow of Furlow Consulting LLC, in describing Stiff's expertise as a "tough financial advisor who knows what she is doing."

Over the past decade, Cheval Capital has completed more than 150 hosting and ISP mergers and acquisitions. In the process, the boutique investment bank has represented companies including, Endurance International Group, NTT/Verio, and Rackspace.

Stiff specializes in web hosting industry mergers, acquisitions, and finance, but beyond handling transactions for clients, her expertise extends to educating hosting entrepreneurs about the importance of transferring their financials from shoeboxes into basic business tracking software. A soapbox issue of her company is educating hosts without business or accounting backgrounds on the need to track the ins and outs of their performance, not only to increase revenue but also document for future investors and buyers the actual and potential value of their companies.

Stiff's presentations at hosting conferences attempt to translate financial terms into fun educational sessions for the benefit of the non-banking audience. She encourages small hosting providers to seek her professional opinion years ahead of time on how to prepare for the sale of their companies or what to look for in a buyer. The feel-free-to-call-me approach has resulted in many transactions and long-lasting relationships for Cheval Capital.

Stiff brokered the sale of ClickHOST in early 2009, eight years after she initiated and maintained contact with its owners.

"We wanted our hosting clients to be taken care of, and Hillary helped us find the perfect buyer," says

former chief executive Stewart Reynolds, who also owns EchoArts.com of Stratford, Canada.

Nick Feinberg, president of Frontline Communications, who has been involved in multiple sales transactions with Cheval Capital over the last five years, says of Stiff, "she truly understands the business and always knows the right questions to ask for both the buyer and the seller. She follows through on all aspects and always is available."

Handling such transactions requires an immediate-availability type of lifestyle that Stiff has developed through a harmonious blend of marriage and career. In 1989, she met (and later married) her banker husband, Frank while buying telecom companies. In 1994, they formed Cheval Capital and since 1996 have micro-focused on the hosting industry.

Stiff's financial service industry expertise began at American University in Washington, DC, with a business economics degree she leveraged into a job as a community banking loan officer. That ultimately led to a chief financial officer position during the go-go days of the telecom industry at venture-capital-backed Dispatch Communications. That firm grew through approximately 35 acquisitions in two years, along with several rounds of equity and debt financing, and eventually became Nextel and then Sprint. Stiff continued to work on debt consolidations for venture capitalists, gaining expertise that she has brought to the hosting industry, says her husband, who specializes in the more technical aspects of hosting finance. The couple works as a team, interchangeably standing in for each other up during client conferences whenever scheduling conflicts occur or their seventh-grade daughter needs assistance with a science project.

"Hillary and her firm have a wealth of experience in mergers and acquisitions. I have recommended her

firm numerous times," says Jimmy Tanzil, author of the recently published book, "Getting & Managing Your First 1,000 Clients in Web Hosting."

Ali Davachi, CEO of ValueReseller.Com, considers Stiff's service invaluable in handling his purchase of that company and later LogicSupport.com.

"During our first deal together, she provided tremendous insight and helped us avoid pitfalls. I trust her point of view and advice completely. Frankly, I don't think we would be doing deals if it wasn't for her honest and open guidance," Davachi says.

Cheval Capital brokers large and small transactions and tends to give free advice to hosters regardless of whether another company ends up handling the actual deal. Primarily for the benefit of smaller hosters, Cheval also publishes a weekly opportunities listing of web hosting, ISP and related assets available for purchase and acts as advisor for buyers and sellers. Such services indicate a motivation beyond just savvy relationship building by the husband-wife team.

"Our goal is to add value for the clients, while building our business," Stiff says. "We have been at this a long time, and although the economics are important to us, we tend to gravitate toward transactions where we feel we are bringing a real added benefit and increasing the odds of getting something closed."

Handling transactions for companies without much finance experience is a blend of helping to educate them and be supportive. Advising them when it's unwise to sell, buy, invest, or consolidate not only helps maintain their financial wellbeing but also impacts the overall health of the industry.

"We provide a significant value to a variety of companies trying to affect a consolidation plan," she says. "Our knowledge of the market enables us to explain to them the pitfalls, where the market is from a pricing and valuation perspective and assists them in the identification and completion of those transactions."

Managing transactions that result in the right price and the right terms for clients has enabled Cheval Capital to grow and weather stressful economic times of major financial upheaval when everything seems to come screeching to a halt. In a normal economy, the firm handles between 20 and 30 transactions annually. So far, 2009 has seen 10, but an uptick has occurred in the last few months that likely will result in more deals concluded before year's end for tax benefits.

"We have learned patience by doing this for a long time and respecting the flows of the market," Stiff says.

A slow cycle isn't time lost for the Cheval team, which uses down time to soapbox to hosts about understanding the true economics of their operations.

The Stiffs say tracking the economics of your business doesn't have to be difficult. For example, affiliates can be a great way to add customers but a lot of hosts don't calculate the value of that customer. Knowing whether you're adding profitable customers is key for both the host and any prospective buyer or lender.

"They need to know this stuff to make better decisions right now. Many have gone into this industry at a young age, built amazing companies and are brilliant on the technical side, but are lax about the economics," she says. "This motivates us to help these people have a positive experience and that builds trust and long-term relationships." ■