

Cigniti Elaborates on Gallop Acquisition

Mergers and Acquisitions by **Dominique Raviart**
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Cigniti has briefed NelsonHall on its recent acquisition of U.S. headquartered software testing vendor Gallop Solutions Inc.

Gallop had FY 2012 revenues of ~\$9.5m and a headcount of ~200, of which 80 in the U.S. and 120 in India. The company was profitable.

The company provides HP testing tools-related services including:

- Test automation e.g. test script design and execution
- Maintenance of test scripts
- IP-led testing tools-migration services, based on two proprietary tools: WinQuick and RoboQuick
 - WinQuick: a HP WinRunner to QTP migration service
 - RoboQuick: an IBM Rational Robot to HP QTP migration tool that converts scripts, libraries and run-time linkers
 - Both tools are sold as part of the service and not as a separate license.

IP was core to the strategy of Gallop: the company is currently developing similar migration tools around the software testing applications of other ISVs. Gallop derived a large share of revenues from its IPs.

Given its centrality around HP testing tools, Gallop had taken a horizontal view to software testing, focusing on large enterprises. Key clients include HP, NCR, JC Penney, PayChex and Bank of America as well as Delphi.

Gallop operates under two models:

- An onshore onsite model, which represents ~65 personnel in the U.S. Services provided include the full HP-centric test design and automation work
 - The company also has ~15 personnel based in its Irving, TX office and providing IP-related services e.g. helping on migrations.
- An offshore model, providing functional testing services based on HP tools. The company has also set up in India a performance testing center of excellence, which is used by several clients.

Gallop brings an HP-centric service, which Cigniti had not developed to the same extent. In particular, Cigniti is to integrate Gallop's two IPs in its Smart Tools assets.

It is also counting on Gallop's IP and service to break into new accounts and contracts in Europe, of which the U.K., Switzerland, and Denmark, and in Asia Pacific. The company is hoping to finalize contracts in the next two to three quarters.

Cigniti views Gallop as largely complementary to its service portfolio and client base, with no overlap in terms of clients. It therefore intends to take a light touch integration on Gallop, moving over time personnel in the same facilities and sunsetting the Gallop brand in the mid-term, rather than immediately. Cigniti is highlighting that both Cigniti and Gallop have not only centers in the same cities i.e. Hyderabad and Irving, but also are close by. This should help the integration process.

Analyst comments:

Cigniti Technologies is wasting no time on its M&A strategy: this follows its acquisition of Cigniti Inc. in Q3 2012. Cigniti Inc. has a different profile from Gallop; is mostly an onshore business, primarily onsite (two thirds of headcount), and to a lesser extent from testing factories.

Cigniti Technologies is planning to over time to transition services delivery from the former Cigniti Inc. business to a higher offshore leverage. The company indicates good progress but has not quantified its progress level. Increase in offshore personnel will be therefore a key KPI to monitor as well as attrition in the U.S.

The acquisition changes further the scale of Cigniti, which is, on a proforma basis, will reach revenues in the \$35m-\$40m (NelsonHall estimate) and be the third-largest software testing pure-play behind SQS and QualiTest Group, and on a par with Spain's MTP.

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