Productivity and user experience are driving the adoption of cloud-based solutions and artificial intelligence in unified communications

The last few years have seen a growing adoption of cloud-based communication platforms due to ease of its use and benefits associated with costs, scalability and integration. The US$500 million investment by RingCentral in Avaya in early October is representative of this shift. At the time of this acquisition, RingCentral had roughly two million endpoints, one-fiftieth the number of endpoints Avaya had. However, RingCentral had a market capitalization of US$10 billion which was roughly ten times that of Avaya.

Adoption of cloud-first approach in unified communications

The move reflects consolidation and collaboration due to the acceleration of a key trend in unified communications - the cloud-first approach. Strategic acquisitions of BroadSoft by Cisco, ShoreTel by Mitel and Polycom by Plantronics to mid-market roll ups like GTT’s acquisition of Accelerated Connections, Inc., reflect this trend of competitors coming together to provide next-generation, cloud solutions to the marketplace. This consolidation is taking place in the backdrop of organizations increasingly opting for cloud-based, enterprise communication solutions. Earlier this year, Gartner reported that by 2023, nearly 40% of new enterprise telephony purchases will be made based on a cloud office suite. Additionally, Gartner has noted that current Unified Communication as a Service (UCaaS) solutions appear to offer better functionality than on-premise systems. This means that Google and Microsoft are poised to gain market share unless other players step up to provide end-to-end, cloud-based solutions. These trends reflect the rapidly evolving and extremely fluid nature of the UCaaS environment.

This market also continues to witness new players like RingCentral, Fuze, 8x8 and Vonage making significant investments into integrating collaboration, communication and contact center workflows with business applications. This is a key differentiator versus traditional PBX players, when it comes to integration of communication features into existing apps or creating new customized applications.

Increasing use of AI to transform customer experience

Another trend disrupting the unified communications space is the increasing use of artificial intelligence (AI) to transform customer experiences. Customers not only expect a seamless experience across various communication channels (voice, text, webchat and email) but also need contextual answers to their queries providing as little information as possible. This has led to growing demands from organizations to invest in a contact center solution with enhanced customer experience management features, better reporting, employee onboarding and workforce optimization.

Data proliferation creates security risks across the ecosystem

The impact of building an end-to-end communication, collaboration and contact center offering is most underestimated when it comes to the need for security across the unified communication ecosystem. With data proliferation across several endpoints of the communications network, the risk of data being accessed or misused by nefarious actors has increased exponentially. According to the EY Global Information Security Survey 2018, 64% of Canadian respondents confirmed they do not have a data protection program, or they have an informal one. This would mean enterprises often rely on their provider while deciding on security investments needed to protect their unified communications systems.

In this rapidly evolving and competitive unified communications space, the two biggest priorities remain productivity and user experience. The larger players will continue to evaluate M&A opportunities as the means to broaden their service offerings, while the smaller players will seek options to expand their endpoint presence to ensure the scale they need to compete. However, its not only M&A that is affecting this dynamic marketplace as new entrants like Amazon Web Services disrupt this market with the promise of providing an end-to-end communication platform deeply integrated with its cloud infrastructure, creating a new set of challenges for the current ecosystem of service providers.
Deal volume decreased 3% in Q3’19 from Q2’19; total M&A deal value dropped due to a decline in higher value transactions by strategic acquirers (as compared to Q2’19)

Financial services providers made targeted, capability acquisitions in payments in Q3’19; Private Equity continued to be active in technology infrastructure and digital consulting by focusing on platform and bolt-on acquisitions in these areas

Although deal volumes were fairly consistent quarter-over-quarter, lower deal values for strategic acquirers caused a decrease in total deal value for Q3’19. Strategic buyers participated in smaller deals in the quarter while focusing on making targeted acquisitions to improve their capabilities across digital and cloud.

Microsoft (NasdaqGS:MSFT) acquired Movere, Inc., a provider of data and insights to plan cloud migrations and optimize, monitor and analyze IT environments. The acquisition complements Microsoft’s Azure Migrate and integrated partner solutions to make cloud migration easier for its customers.


These acquisitions by Microsoft, American Express and RBC were relatively small as compared to the larger deals seen in previous quarters by strategic buyers. Capability improvement through targeted acquisitions by strategic acquirers continues to be a trend in the M&A market. Acquiring the latest technological advancements through smaller M&A deals allows strategic buyers to stay ahead technologically while avoiding costly in-house development.

Fragmentation of the IT services industry has attracted PE buyers looking to build scale and scope. Presidio, Inc. (NasdaqGS:PSDO), an IT infrastructure solutions provider, announced that it will be acquired by BC Partners for $2.4 billion. BC Partners cited Presidio’s leadership position in a fragmented industry combined with the potential to corner market share as a reason for the acquisition.

PE firms are also looking to build scale within their existing portfolios through bolt-on acquisitions. Navigant Consulting (NYSE:NCI), a digital consulting firm, announced that it will acquired by Guidehouse LLP, a consulting firm backed by Veritas Capital, for $1.2 billion. Veritas Capital cited the enhanced expertise and scale offered by the combined entity as a competitive advantage.

Financial acquirers remained active in technology infrastructure in the quarter. Colony Capital, Inc. (NYSE:CLNY) acquired Digital Bridge Holdings, a company which manages cellular and broadcasting towers, distributed antenna systems and wireless communications infrastructure, for $329 million.

EY’s Capital Confidence Barometer\(^{(a)}\) suggests that competition between strategic and private equity acquirers is driving demand for recurring revenue business models. Technology companies are using the divestment of non-core businesses as a way of refocusing priorities. These factors are expected to contribute to robust activity in the sector.

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All $ values in this newsletter are in USD, unless otherwise stated
Public Comparables: Highest valuation multiples were for companies in Data Processing & Outsourced Services as well as IT Consulting; valuation multiples for Internet Services & Infrastructure continued to witness a decline.

Transaction Comparables*: Valuation multiples were highest for companies in Data Processing & Outsourced Services and IT Consulting.

M&A deal multiples - TEV/Revenues (median)

CHS: 1.2x
DPOS: 0.3x
IS&I: 0.5x
IT Cons: 1.7x
TDV: 0.3x
THSP: 1.0x

Median: 1.2x

M&A deal multiples - TEV/EBITDA (median)

CHS: NM
DPOS: 3.4x
IS&I: 6.3x
IT Cons: 13.5x
TDV: 10.9x
THSP: 6.7x

Median: 12.5x

* Sample size for M&A deal multiples has been sourced from S&P Capital IQ and comprises transactions completed between Oct 1, 2018 and Sep 30, 2019 in Canada and the US. The sample has been compiled by EY Orenda Corporate Finance Inc. based on a subjective assessment of transactions in the IT & Tech-Enabled Services sector. Furthermore, the categorization of the sample across various sub-sectors and any analysis thereof by EY Orenda Corporate Finance Inc. is solely for illustrative purposes and were not created to serve as benchmarks. Every transaction has specific characteristics that impact value and corresponding multiples. It is necessary to understand the background and circumstances surrounding each transaction to extract meaningful insights.
Select transactions in Q3 2019

28 Aug 2019
Computer Task Group, Incorporated (NasdaqGS:CTG), a provider of information technology solutions including staffing and application management outsourcing, announced that it will be acquired by Assurance Global Services LLC for a transaction value of $126 million. The acquisition represents an enterprise value of 0.3x revenues and 12.8x EBITDA.*

14 Aug 2019
Presidio, Inc. (NasdaqGS:PSDO), an IT solutions provider for middle market in North America, announced that it will be acquired by BC Partners for a transaction value of $2.4 billion. The acquisition represents an enterprise value of 0.8x revenues and 10.5x EBITDA.*

14 Aug 2019
TriSource Solutions, LLC, a processor of electronic payment services, was acquired by Repay Holdings, LLC for a transaction value of $65 million.

07 Aug 2019
Esterline Interface Technologies Limited, a designer and manufacturer of touch, sensing and control human interface systems for OEMs, was acquired by KPS Capital Partners, LP for a transaction value of $190 million. The acquisition represents an enterprise value of 1.0x revenues.

02 Aug 2019
Navigant Consulting, Inc. (NYSE:NCI), a consulting firm providing litigation, financial, restructuring, strategic and operational consulting services, announced that it will be acquired by Guidehouse LLP for a transaction value of $1.2 billion. The acquisition represents an enterprise value of 1.6x revenues and 16.2x EBITDA.*

31 Jul 2019
East Valley Data Center, a data center in the United States, was acquired by CBRE Global Investors, LLC from Principal Real Estate Investors, LLC and Lincoln Rackhouse for a transaction value of $73 million.

25 Jul 2019
Stratos Management Systems, Inc. (DBA: Computex Technology Solutions), a computer technology solutions provider, has signed a definitive agreement to be acquired by Pensare Acquisition Corp. (NasdaqCM:WRLS) for a transaction value of $65 million.

25 Jul 2019
Digital Bridge Holdings LLC, a mobile and internet connectivity holding company, was acquired by Colony Capital, Inc. (NYSE:CLNY) for a transaction value of $329 million.

19 Jul 2019
WGroup, a US-based IT management consultancy, was acquired by Wavestone SA (ENXTPA:WAVE) for a transaction value of $31 million.

07 Jul 2019
Artesyn Embedded Computing, the embedded computing business of Artesyn Embedded Technologies, was acquired by SMART Global Holdings, Inc. (NasdaqGS:SGH) for a transaction value of $90 million.

03 Jul 2019
Nordisk Systems, Inc., a provider of infrastructure, cloud, security, analytics, business continuity and managed services solutions, was acquired by Converge Technology Solutions Corp. (TSXV:CTS) for $9.5 million. The acquisition represents an enterprise value of 0.5x revenues and 6.3x EBITDA.

Deals indicated are Canadian deals.

Note: Selected US and Canada based transactions
* Deal signed but not closed Data sources: S&P Capital IQ, Mergermarket