



Unified Communications – Market Update

April 2021



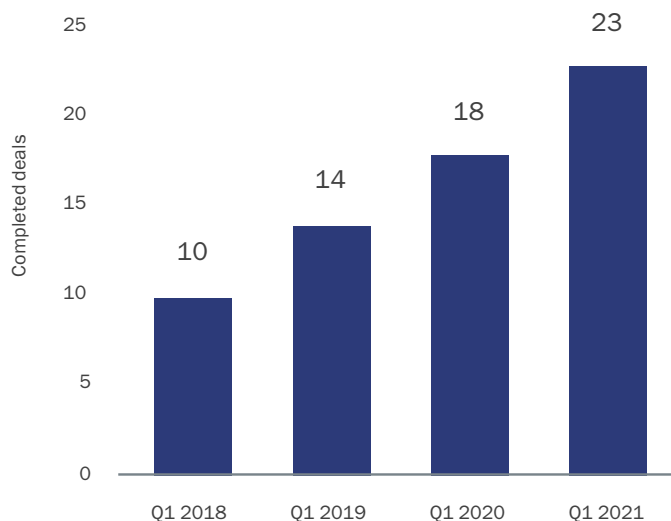
Unified Communications has experienced high levels of M&A activity in recent years with strong interest from private equity, attracted by the recurring nature of revenue, asset-light business model and in-built resiliency linked to digital transformation, contributing to price inflation.

It continues to be an active M&A market within the unified communications sector. Completed deals in Q1 2021 (23) were up 27% versus Q1 2020 (18), a recurring trend over the past several years driven by increased private equity interest in the sector.

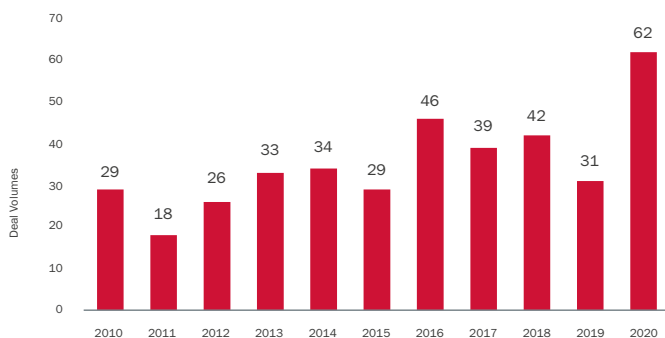
Private equity are drawn to the sector due to the recurring nature of revenue, the asset-light business model and in-built resiliency due to the mission critical nature of the offering with digital transformation impacting all industries. Through the adoption of new technologies, unified communications providers are becoming trusted partners for their customers as they seek to embrace all things digital, resulting in loyal and sticky clients.

With multiple private equity platforms implementing buy-and-build strategies, driven by the record levels of dry powder available and historically low interest rates, this is leading to price inflation as several players compete to consolidate what is a very fragmented market.

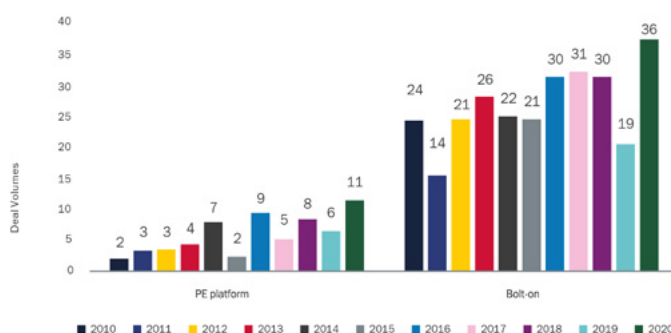
Completed Deals (Q1 2018 – Q1 2021)



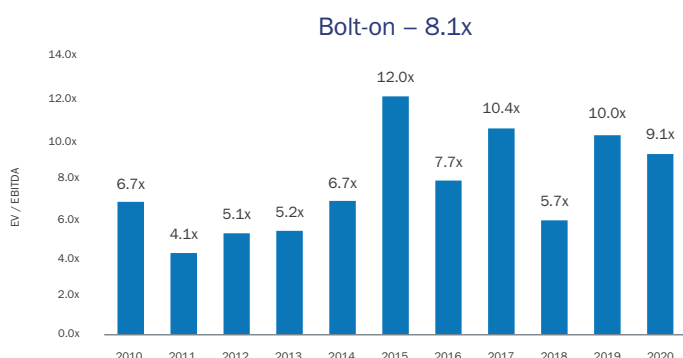
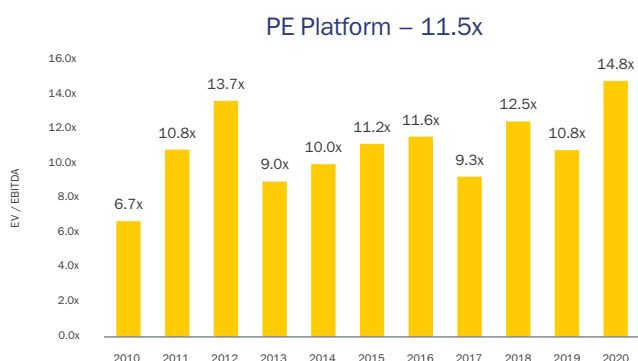
All Unified Communications Sector M&A – Over 400 deals since 2010



PE Platform and Portfolio Bolt-on M&A

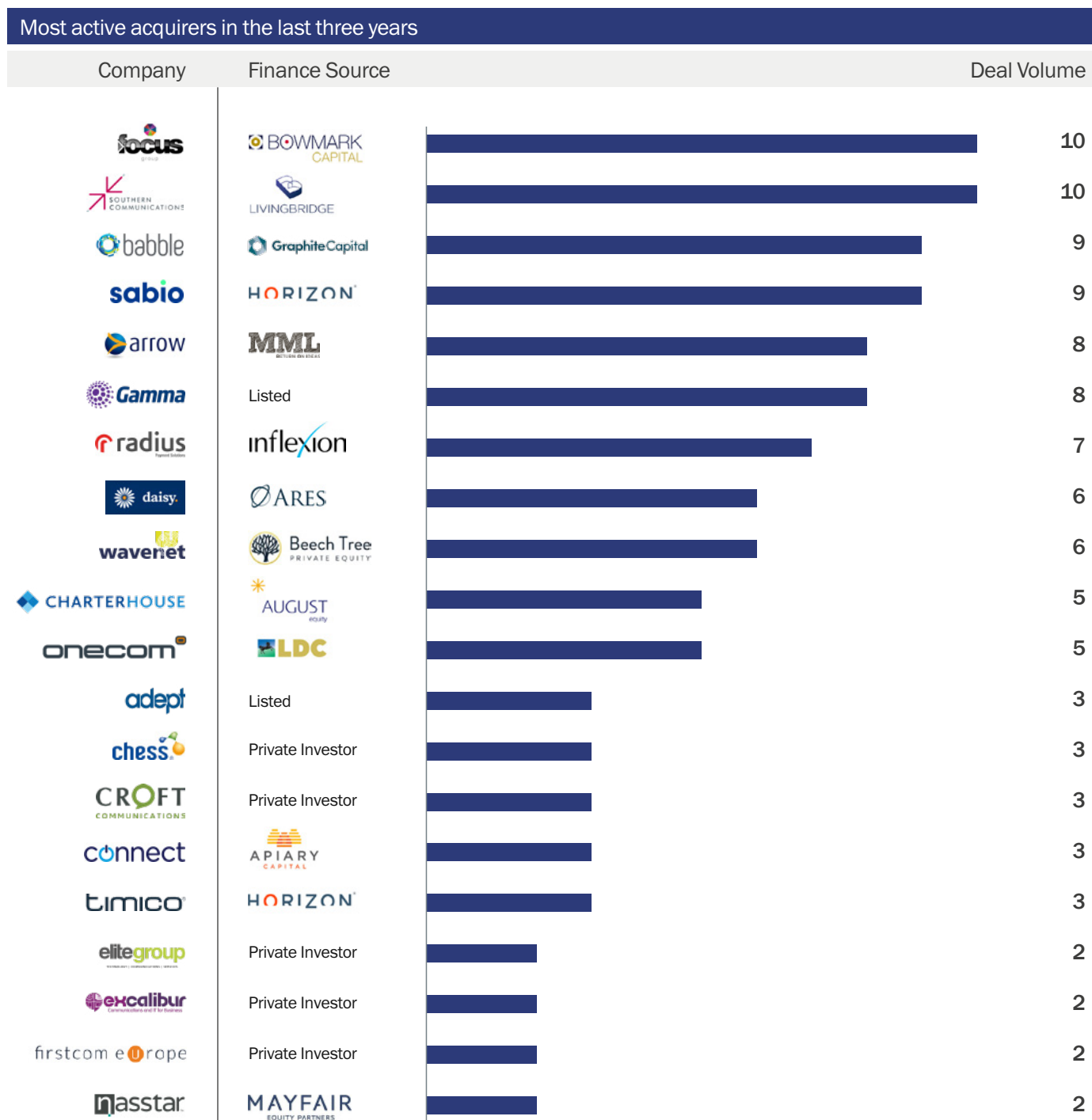


Valuation – Average EV / EBITDA multiple (2010 – 2020)



Source: Megabyte, Mergermarket, Rothschild & Co / Arrowpoint Advisory analysis

The most active buyers in the sector over the past three years have been private equity backed buy-and-build platforms seeking to consolidate the market.



Note: 'Last three years' includes transactions completed between 1 January 2018 and 31 March 2021.

In assessing the value of a business within the unified communications sector, there are certain key drivers that acquirers will focus on – organic growth, recurring revenue, next-gen products, cross-sell, churn and service quality.



Organic Growth

- Is the business growing organically? In excess of 5% is accepted as a hurdle for most investors.
- Does organic growth hold at both a revenue and gross margin level?



Recurring Revenue

- 80%+ is good; 90%+ is very strong.
- Other areas of focus will be the split between fixed and variable recurring revenue and average contract length.



Next-Gen Product Mix

- Given the structural decline in fixed lines and ARPU pressure in mobile, the focus is on < 50% exposure to legacy products.
- Track record of migrating legacy fixed line customers to hosted voice?



Cross-Selling Ability

- Although new logo wins factor into organic growth, cross-sell is an important element too.
- Do commission structures incentivise both new logo wins and cross-selling?



Churn

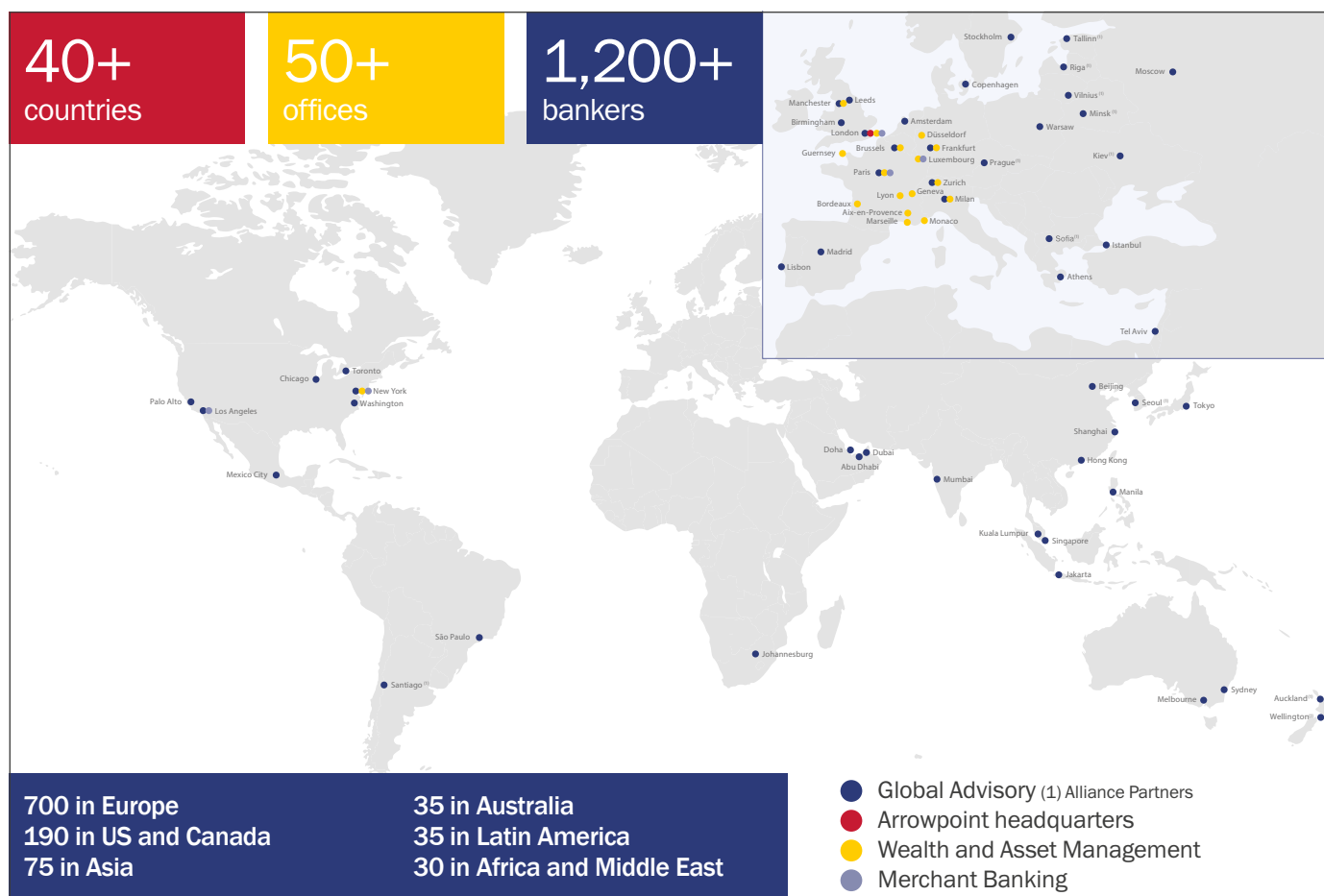
- Market leading churn is 3% - 4%.
- What strategies are implemented to managed and limit churn – e.g. cross-selling to ensure stickier customers?



Service Quality

- Focus on NPS scores (or equivalent) to evidence service quality levels.
- Does service quality reduce churn and encourage cross-selling?

As part of Rothschild & Co's Global Advisory business, Arrowpoint Advisory is the only mid-market financial adviser with a global platform of this scale and reach.



UK completed M&A deals — 2020

	No.
1 Rothschild & Co	92
2 Goldman Sachs	47
3 Bank of America	39
4 Lazard	39
5 JP Morgan	35

European completed M&A deals — 2020

	No.
1 Rothschild & Co	273
2 JP Morgan	171
3 Goldman Sachs	170
4 Morgan Stanley	117
5 Citi	96













Completed deals by number (01 Jan to 31 Dec 2020)
Source: Refinitiv

European TMT M&A deals — 2020

	No.
1 Rothschild & Co	51
2 Goldman Sachs	48
3 Morgan Stanley	31
4 Lazard	29
5 JP Morgan	29
6 Deutsche Bank	25
7 Arma Partners	21
8 BNP Paribas	19
9 Credit Suisse	18
10 Jefferies	18

Announced deals by number (01 Jan to 31 Dec 2020)
Source: Refinitiv

We have a strong track record in unified communications and converged ICT – some of our recent deals include:

 <p>US\$1.1bn sale of Inteliquent, the largest independent voice communications provider in the US, to Sinch</p>	 <p>Sale of Expereo, a leading internet, cloud connectivity and SD-WAN provider, to Vitruvian</p>	 <p>Acquisition of the Retail and Partner divisions of 9 Group Limited</p>	 <p>Company's reinvestment from Livingbridge and Ares</p>
 <p>Acquisition of Nice Network Limited</p>	 <p>Debt advice in connection with a senior facility raise to support a buy-and-build strategy</p>	 <p>Debt advice on the refinancing of its existing £150m bank facilities</p>	 <p>Buy-side for ECI's acquisition of IoT and M2M software and hardware provider CSL</p>
 <p>Sale of its German business to Tele2 Germany management</p>	 <p>Sole financial adviser to the shareholders of Global Telecom Services on its sale to Expereo</p>	 <p>Buy-side for TELUS International's acquisition of Competence Call Centre</p>	 <p>Buy-side for NTT's acquisition of cloud-based MVNO and IoT provider Transatel</p>

We would welcome the opportunity to discuss your strategic goals and requirements in confidence

Please speak to our Arrowpoint Advisory team or visit us at arrowpointadvisory.com

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