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The Shift from UCaaS to “Integrated Enterprise Collaboration”

By Hayley Hughes & Wes Faulkenberry / 9.12.2019

Broad Technologies vs. Narrow Term

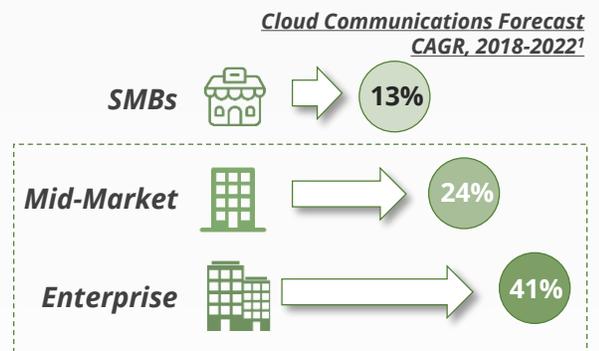
Unified communications-as-a-service (“UCaaS”) has outlived its usefulness as a term in defining the ever-evolving cloud communications and collaboration space. With the acceleration of API integrations, CPaaS, customer engagement, and collaboration tools, what was once generally referred to as “UCaaS” has evolved into “Integrated Enterprise Collaboration.”

Enterprise Product Evolution Drives the Broader Market

Cloud communications adoption, initially limited to single-office small businesses, now spans all entity sizes, as robust capabilities and improved security measures allow for the seamless installation of UCaaS solutions in even the largest enterprises. Enterprises transitioning to the cloud now demand full-spectrum, integrated solutions, causing a shift in the priorities of cloud communications providers. Standalone voice-centric communications technologies no longer entice prospective customers. Instead, high-growth offerings such as cloud contact center with embedded customer engagement tools, integrated enterprise-grade communications platforms, AI / analytics, and workforce optimization drive customer adoption. Gartner’s UCaaS Magic Quadrant key market trends highlight this shift to Integrated Enterprise Collaboration.

Mid-Market & enterprise organizations are the fastest-growing and highest-valued segments undergoing digital transformation¹

- Highest demand for complex, multi-location, full-spectrum cloud solutions
- Lowest penetrated market (2-12%)



Gartner’s Key Market Trends²

- 1 Improved Dashboards, Portals & Tools**
For onboarding, analytics, & IT self-admin
- 2 Workstream Collaboration**
Facilitating conversational workspaces, sharing & search
- 3 Globalization**
Beyond English-speaking countries
- 4 Video-Centric User Experience**
Enhanced interface & video capabilities

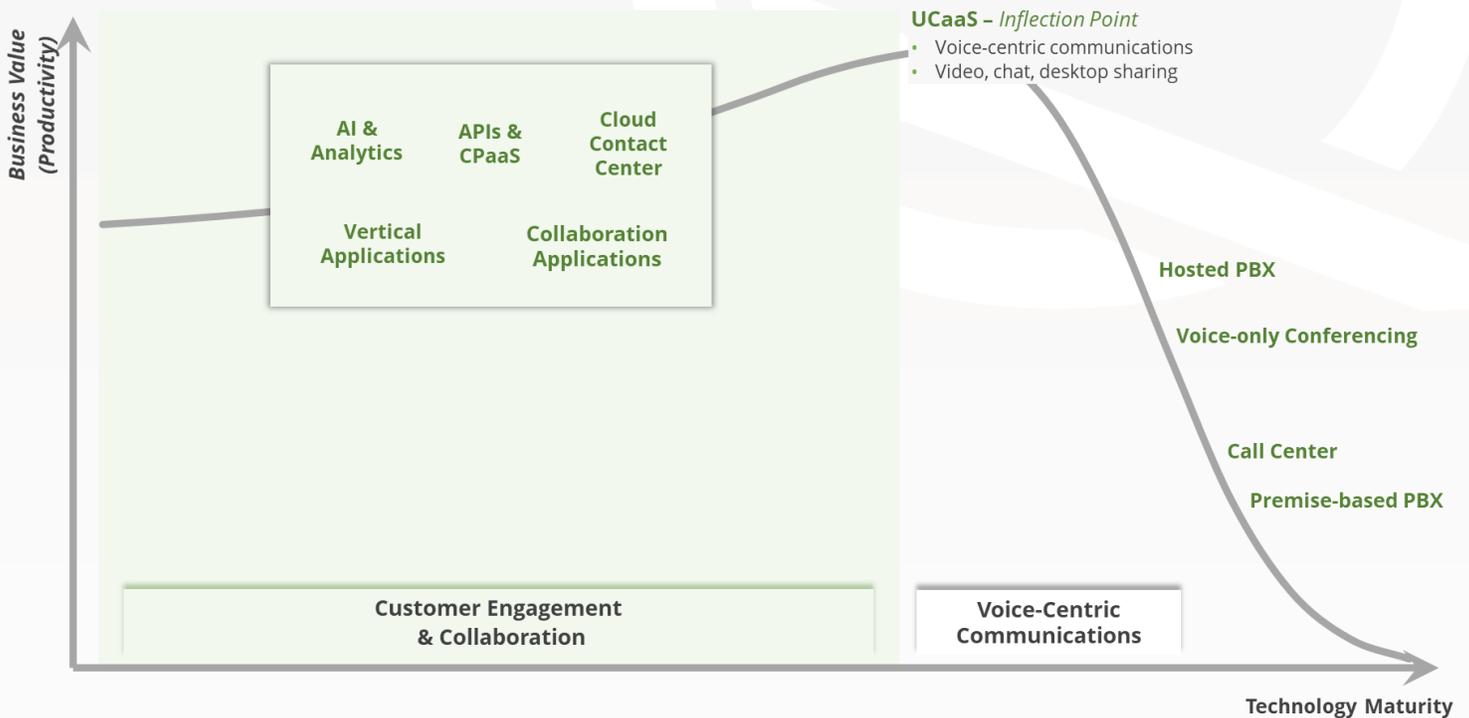
Market shift from discrete tools to integrated solutions due to emerging technologies such as virtual assistants, AI, conversational user interfaces, and IoT as well as greater use of platform environments

(1) Gartner, Forecast: Unified Communications, Worldwide, 3Q18 Update (2) Gartner Magic Quadrant for UCaaS, Worldwide; October 2018

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Collectively labeled as “Customer Engagement and Collaboration,” these newer, productivity-focused solutions are at the front of mind for M&A and R&D teams alike. Though UCaaS maintains high value in terms of business productivity and widespread use, it is no longer the key driver of transformative growth. Bridging the gap between voice-centric communications and customer engagement / collaboration tools, UCaaS sits at an inflection point, as illustrated in the following “Integrated Enterprise Collaboration Technology Curve.”

Integrated Enterprise Collaboration Technology Curve



Observations

Quality voice, chat and video solutions are no longer differentiators — they are the standard

- APIs improve workflow integration and automation, empowering companies to capture unprecedented amounts of enterprise data and analytics

Recent M&A activity and strategic growth initiatives emphasize highly differentiated customer engagement and collaboration tools to the left of UCaaS on the curve

- Notable uptick in enterprise collaboration acquisitions over the last 24 months

“While sophisticated, feature-rich UCaaS solutions are critical for service provider success, the future is programmable communications”

Elka Popova

Director, Frost & Sullivan
UC & Collaboration Program

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Creating Value by Appropriately Positioning

The shift to Integrated Enterprise Collaboration, and its effect on perceived value, is clearly evident in the way multiple industry players have altered their messaging over the last 5-10 years:

	8x8	RingCentral	Vonage
"Then"			
Key Identifiers: 2010 – 2015	"Telecommunications services for IP telephony and video applications, as well as web-based conferencing and UC services"	"Software-as-a-Service, or SaaS, solutions for business communications "	"Low-cost communications services connecting people through broadband devices "
Valuation: 2015 Rev. Multiple ¹	3.8x	4.6x	1.3x
Acquisitions: 2010 – 2015	 DXI  Voicenet Solutions  contactual	None	    vocalocity powering small business
Areas of Emphasis: IP Telephony, UCaaS, Call Center, Conferencing, Connectivity			
"Now"			
Key Identifiers: 2019	"Enterprise SaaS communications solutions that transform both employee and customer experiences "	"SaaS solutions that enable businesses to communicate, collaborate, and connect "	"Embracing technology to transform how businesses communicate to create better business outcomes"
Valuation: 2019 Rev. Multiple ¹	6.2x	14.2x	3.3x
Recent Acquisitions:	 MARIANA  Sameroom  Wavecell	 Connect First  dimelo	 nexmo a Vonage Company  NewVoiceMedia Vonage  Over.ai
Areas of Emphasis: Customer Engagement, CPaaS, Full-Service Collaboration, Analytics / AI			

Premium valuations garnered by large, broad "Collaborative Communications" providers that competitively span all categories with enterprise-grade solutions

(1) Capital IQ – Mid-year (June-September) 2015 and 2019 revenue multiples

Conclusions

1. Voice is necessary, but no longer the primary sales pitch	<ul style="list-style-type: none">• Clear shift from voice-only to voice-enabled solutions• Voice-first communications are key to layering on additional technologies, though commoditized from a new-sales perspective
2. Clear focus on Customer Engagement & Collaboration	<ul style="list-style-type: none">• Providing diversified, integrated solutions increases value to the end-user, resulting in higher ARPU, a stickier customer base, and cross-sell opportunities
3. Leverage best-of-breed integrations through APIs	<ul style="list-style-type: none">• Offering a full communications and collaboration suite is necessary to stay competitive, but integrating with other best-of-breed technologies, rather than starting from scratch, is often the best path
4. Technology, positioning, and valuation are intertwined	<ul style="list-style-type: none">• Market perception as a full-service collaborative software provider, with a demonstrable emphasis on new technologies, generates a valuation premium

About Q Advisors

Q Advisors LLC (www.qllc.com) is a world-class global boutique investment bank formed in 2001 serving public and private companies, PE firms, entrepreneurs and large multi-nationals in the telecom, media, and technology (TMT) sectors. The firm has extensive, global reach, while also providing the personalized service of a boutique advisory firm. Thanks to our partners and senior staff, who come from leading investment banks and operating companies, we leverage extensive industry knowledge and analytical insights to help our clients achieve successful M&A and capital markets transactions.

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