QSIGHTS

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Is the Window for Global Cloud M&A Closing or Still Open?

By Michael Quinn & Jan Ebelt / 3.13.19

Since 2010, there have been over 200 deals in the UCaaS space in Europe and United States, including contact center, hosted voice, CPaaS and other ancillary cloud communication solutions. Will 2019 bring more M&A or will the headwinds of a slowdown in the global economy, trade disputes, security issues with Chinese manufacturers and other global political tensions decelerate the consolidation in the cloud and managed services sector? Q Advisors is of the opinion that despite these headwinds and political uncertainties, 2019 and 2020 will see even greater M&A activity. The key reasons for this view are as follows:

1. Low penetration in major markets within Europe offer both US and European solutions providers a path to significant growth at attractive margins. In addition, in markets such as France, Germany and, to a lesser extent, Benelux, the incumbents do not understand how to sell cloud solutions to the mid-market.
2. Every company seems to have a “For Sale” sign on its door, making the sector attractive for both strategic and financial buyers.
3. Access to capital remains attractive as interest rates in both the US and Europe remain quite low on a historical basis.
4. Scale is required to successfully exit at an attractive valuation and the easiest way to obtain scale is through consolidation.
5. The Cisco-Broadsoft transaction has shaken up the market, making proprietary platforms more attractive.
6. The growth in CPaaS and contact center demand is also driving consolidation.

However, there are signs of tension in the marketplace such as:

1. Unrealistic valuation of certain sellers who are unable to differentiate between valuations placed on pure cloud proprietary providers and those that are simply resellers of third-party platforms and minutes.
2. Consolidation plays that are long on acquisitions, but short on strategy, are leading sellers to hesitate in joining these consolidation plays.
3. Too many sellers in the marketplace are giving buyers the ability to play off sellers and lower purchase prices.
4. Regulatory headwinds around data protection, taxes and Brexit.

The winners in these consolidating markets will have many of the same characteristics:

1. Growth in excess of 20 percent.
2. Customers that take two or more solutions.
3. ARPUs in the top quartile of service providers.
4. Some proprietary solutions or OSS/BSS systems.
5. A top-level management team with a clear organic and M&A growth strategy.

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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Michael Quinn, founding partner of Q Advisors, brings a unique and highly valuable background to telecom, media, and technology (TMT) investment banking that combines finance, hands on M&A experience, and law. With more than 25 years of international operations and investment banking experience in the telecommunications industry, Michael has originated, structured, and executed more than 100 deals totaling more than $4 billion in transaction value. Michael's deep industry expertise and extensive transaction experience has enabled him to lead M&A and debt and equity financings in a variety of TMT sectors including Cloud and managed services, competitive wireline telecom, wireless, digital media, social networking, mobile content, satellite and mobile infrastructure and solutions.

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