

Topic: Unified Communications & Collaboration**Issue:** Who are the UCC providers and how will they evolve?

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UCC Consolidation: Mitel Buys Polycom for \$1.96 Billion

Summary: Mitel announced that it is buying Polycom for US \$1.96 Billion. The deal reflects the continued consolidation in the UCC Market and the growing role of activist investor Elliot Management.

Event: On April 15th, 2016, Mitel announced that it was buying Polycom for \$1.96 Billion. The deal is expected to close in the third quarter of 2016.

Analysis

The Mitel and Polycom merger was driven by Activist Investor firm Elliot, which owned 5% of Polycom stock. Given that Polycom is larger than Mitel (by roughly \$300 Million) and had a better balance sheet, we would have thought that Polycom would have been the acquirer. That said, Elliot Management, in their merger proposal dated October 2015, had been backing the Mitel team.

This merger is a continuation of the UCC consolidation phase that is underway. The valuation of the deal – a 22% premium over Polycom's current revenues, reflects the fact that valuations for hardware-focused companies are not as significant as software firms, who often have sale premiums of 2x-6x revenues.

The combined companies will have more to offer as a combined entity but this is a roll-up of two adjacent firms. Mitel indicated that they expected \$160 million in cost savings.

Activist Investors and Hardware

The Mitel-Polycom deal follows on the heels of one of the largest tech mergers – Dell and EMC, in which Elliot also played a role (see [Aragon First Cut](#)). Hardware-based technology firms, which historically have had lower valuations than software firms, are now the targets of activist investors that see financial gain in M&A deals.

Consolidation – Cash is King

Mitel had \$91.6 Million of Cash and Cash Equivalents on hand as of December 31, 2015. By acquiring Polycom, it gets an immediate influx of \$435 Million of Cash and Equivalents and only \$274 million of long-term debt. Aragon feels that the Polycom balance sheet was one of the driving factors in the deal.

Benefits to Mitel: Better Video and Integration

Besides being more than double the size in revenues, the new Mitel, powered by Polycom, will have an industry leading Voice and Video Product Line and a great partnership with Microsoft. Mitel currently partners with Vidyo for Video, since their primary focus was on Midmarket Voice Solutions.

Polycom is very strong in HD Voice and in Video Conferencing, as evidenced by their new RealPresence Centro and RealPresence Trio offerings, which should see additional distribution impact via the Mitel Channel.

The other major boost to Mitel is Polycom's growing presence in Asia Pacific. This was a glaring hole for Mitel that is now fixed. With China

and India flexing their economic muscles, having feet on the ground there should help with growth.

Benefits to Polycom – More Cloud and a Stronger Combined Entity

For Polycom customers, the combined firm will be stronger financially and will be better positioned to weather the continued consolidation in UCC.

Mitel was messaging its Voice Cloud capabilities heavily, and having a clear and consistent Cloud Story is critical in 2016. Polycom was just getting started in Cloud via its RealPresence Clariti offering. Enterprises should look at Mitel's Cloud capabilities carefully for synergies with Polycom's product line.

The Microsoft Angle

While Microsoft could have easily picked up Polycom for \$1.96 Billion, it has been burned in its recent hardware centric acquisition of Nokia and had to write off \$3.2 Billion in 2015 (see [Aragon Blog](#)).

Polycom is one of Microsoft's flagship partners who enhances the Group Video Conferencing capabilities of Skype for Business. In March 2016, both providers announced an expansion of their relationship.

Microsoft is also competing in UCC with Skype for Business, which is bundled in Office 365. Microsoft is pushing Voice Calling capabilities as part of the E5 edition of Office 365. Microsoft's push into Voice is one of the reasons that UCC Consolidation is continuing.

UCC Consolidation Will Continue

Following Atos' purchase of Unify, and Thinking Phones' purchase of Fuze, Aragon feels that this merger will put additional pressure on other UC-centric firms to merge.

Firms who are candidates for acquisition include:

- Citrix Go-To-Meeting – currently being spun out of Citrix and has revenues of nearly US \$600 Million.
- Avaya – which is nearly the same size as Mitel – is a candidate for acquisition.
- Shortel, which has made a fast pivot to Cloud, would make an attractive acquisition candidate.

Aragon Advisory

- After the merger is complete, Enterprises should look at product roadmaps of the combined entity.
- Enterprises should expect more M&A in the UCC market in the next twelve months.
- UCC Cloud offerings are growing in popularity. Enterprises should evaluate all providers of UCC for their Cloud Roadmaps.

Bottom Line

As Voice, Video, and Collaboration converge into a full UCC Stack, investors and vendors will be looking to consolidate for both product and financial reasons. Enterprises need to be aware of the reasons for a merger and look carefully at the enterprise that emerges on the other side.

While there is no impact to Mitel or Polycom customers now, given the huge projected cost cutting of \$160 Million, careful evaluation should be given to understanding future roadmaps of the new entity over the next two years.

Related Aragon Research

- Predictions for Collaboration, 2016: Enabling People and Processes
- Innovation at Polycom: New Products Poised to Disrupt UCC Market

- Atos Acquires Unify for Greater Stake in Collaboration Platforms and Services