M&A Remote Services M&A Expected to Accelerate as Covid-19 Impacts R&D Timelines, Advisors Say

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Takeaways

- Telehealth companies and remote contact center software firms might draw interest from large network providers such as Verizon and cash-laden tech monoliths such as Amazon, several advisors said.
- Shifts in societal norms combined with the disruptive nature of telemedicine will also be a factor that drives interest in these types of assets, one advisor said.
- Companies such as contact center software provider Five9, which has a market cap of $6.5 billion, could also be seen as an attractive asset by the likes of Oracle or IBM, according to several advisors.

Remote services firms are expected to see M&A activity step up a gear as many established companies are pressured to keep pace with new business trends triggered by Covid-19, and internal R&D timelines may be too slow, sector advisors said.

As the global pandemic restricts mobility, video communication and remote communication offerings will be attractive assets to suitors looking to stay ahead of disruptive trends. Telehealth companies and remote contact center software firms might draw heightened interest from large network providers such as Verizon and cash-laden tech monoliths such as Amazon, the advisors said.

"While you could have done a lot of these transformations through R&D before Covid, the virus has accelerated it and closed your window so you must be looking to make deals in order to stay ahead of the curve," Q Advisors Managing Director Dmitry Netis said.

This need to stay ahead of the curve through acquisitions was exemplified by Zoom's acquisition of encryption and security service Keybase for an undisclosed amount, Netis said. Zoom's importance has skyrocketed since mid-March when the U.S. entered into lockdown; the company's shares have risen 58.6% since March 16, but its share price stumbled in early April after security breaches.

Another such deal is Verizon's April acquisition of enterprise-grade video conferencing platform BlueJeans Network for an undisclosed amount, said Joseph Valenti, managing director at M&A advisory firm PJ Solomon, and Saikat Chaudhuri, executive director of the Mack Institute for Innovation Management and a professor at the Wharton School. In its announcement, Verizon said the platform "has played a significant part" in "the ongoing work-from-home surge" and will be deeply integrated into the company's product road map, which will focus on telemedicine, distance learning and field service work.

Pressure to Refine Telemedicine

Telemedicine is an industry that will see an uptick in usage as Covid-19 has pushed more healthcare professionals and patients to remote doctor appointments in order to reduce stress on the healthcare system and abide by shelter-in-place measures, Valenti and Chaudhuri said.

Having a highly reliable network partner that can deliver secure, high-quality connectivity is "table-stakes" for services like this, Valenti said. Shifts in societal norms combined with the disruptive nature of telemedicine will also be a factor that drives interest in these types of assets, said Kevin Jackson, managing director at KPMG.

Telemedicine company Teladoc, which has a $12.3 billion market cap, was already growing through

M&A prior to the virus with the January acquisition of telehealth platform InTouch Health for $600 million in cash and stock.

Teladoc itself could also draw interest from healthcare providers or medical networks, although telehealth companies would command a high price, Chaudhuri said. Teladoc currently trades at 21x LTM revenue. One entity that might be interested and willing to pay up for such a service is Haven Healthcare, an organization founded by Amazon, Berkshire Hathaway and JPMorgan Chase, Chaudhuri said, noting that despite high valuations, the changes brought by Covid-19 may force existing players to invest in new technology.

Verizon also acknowledged at the time of its BlueJeans acquisition that telemedicine is a component of its product road map for its unified communications network.

CCaaS Sees Uptick in Deal Activity

Contact center software as a service, or CCaaS, has been the focus of several deals in recent years, said Valenti and Jackson. Jeff Bistrong, a partner at private equity firm HKW, agreed, noting that Microsoft partnered with Dubai-based tech company Avaya to create a cloud contact center offering.

Companies such as contact center software provider Five9, which has a market cap of $6.5 billion, could also be seen as an attractive asset by the likes of Oracle or IBM, according to several advisors. The company’s stock price has increased by 43% since the lockdown and trades at 17x LTM revenue. Bigger technology platforms also might be more open to making a big-ticket acquisition as they have large cash reserves and are well positioned to take risk, said Marlin & Associates founder Ken Marlin. Oracle said in a March filing that it had $23.8 billion in cash, while IBM disclosed $11.2 billion in cash.

In September 2018, $2.4 billion market cap Vonage acquired cloud contact center provider NewVoiceMedia for $350 million, and $26.7 billion market cap Twilio bought SendGrid in October 2018 for roughly $2 billion at the time of announcement.

Valenti, Jackson and Bistrong noted that this software solution is expected to be even more important going forward as enterprises look to gain efficiencies and manage costs as the economy recovers. Recently, Five9 has seen an uptick in interest evidenced by partnerships with Zoom and AT&T in early May. At that time, AT&T cited increased work-from-home policies as a reason for the cloud-based contact center platform.

“The most important criteria is a willingness to take risk in an uncertain environment, and that includes the risk that the company you are acquiring will have less revenue in 2021 than you might otherwise expect,” Marlin said.

While companies always must determine where an asset can be positioned down the road, changing societal norms and consumer trends mean that companies must take on greater risk in order to come out ahead in the post-Covid-19 world, Netis said, noting that “the best companies are always born out of recessions.”

--Darcy Reddan