



Was Mitel's Merger With Aastra a Win for Investors?

Description

The big talk in the tech sector last fall was the upcoming merger of **Mitel** (TSX: MNW)(NASDAQ: MITL) and Aastra. This \$392 million amalgamation of the country's two leading business communication and cloud computing companies instantly created a \$1 billion tech giant.

With the deal finally completed on January 31, 2014, investors have been waiting to see how this merger would play out. The first quarterly report since the merger has just been released, and now we get to see the power of this unified company.

Accessing results from the cloud

With the merger we really have to look at two separate sets of numbers. First, the numbers of just Mitel's year over year performance and second, the numbers with both companies combined. Mitel's year-over-year numbers look quite impressive, with revenues of \$241 million up from \$143 million in Q1 2013. But when you compare the combined books of both companies, the difference is less stellar. Combined revenues were \$277 million up from \$273 million in Q1 2013 — note that Astra was only part of Mitel for two months in Q1.

Adjusted EBITDA for Mitel was \$35.6 million up from \$23 million, and the combined EBITDA was \$32.8 million, up from \$27.7 million. This looks quite satisfactory until the cost of the merger, or rather the financing of the merger, comes into play. Mitel posted a net loss of \$13.6 million up from a \$1.7 million loss last year, and the combined net loss is \$16.9 million up from \$14 million loss in last year's quarter.

Debt renegotiation leading Q1 losses

The driving force behind this quarter's net loss stems from the \$15 million the company had to pay in penalties and fees to renegotiate its debt to accommodate the purchase of Aastra. As part of the renegotiation, Mitel was able to secure a lower interest rate and is expecting to save more than enough to cancel out the \$15 million charge. Mitel is not acting lackadaisical toward its debt, as it is preparing to make a \$25 million pre-payment towards its \$357 million debt later this month.

Some good news for the company comes in the form of supply chain synergies between the two

companies. At the onset of the merger Mitel was expecting to cut \$45 million in annual expenses, but revised numbers have come out showing the company could bring that number up to \$75 million annually by 2016. Gross margins have also been tweaked with a range of 50.5- 52% expected throughout 2014.

We all end up in the cloud

The largest factor that led Mitel to pursue Aastra was its cloud services division. The growth of cloud storage and computing is a major shift for the industry, and Mitel targeted it as a way to stem potential losses from its core business. Mitel managed to add 21,000 recurring cloud revenue seats in the quarter at 73% increase over Q1 2013. This brings the total to 142,600 cloud recurring seats, cloud-based sales now make up 10% of Mitel's revenues.

Following the Q1 results being released the company's stock hit a 52-week high of \$12.31 on Thursday, before falling to \$11.81 on Friday. Analysts still see some growth potential in the stock, as they have set a \$14.00 price target on Mitel. These stock prices are a far cry from the \$3.30 the stock was sitting at one year ago.

CATEGORY

1. Investing

Category

1. Investing

Date

2025/08/25

Date Created

2014/05/12

Author

cameronconway

default watermark

default watermark