



Is Mitel Networks Corporation's \$2 Billion Purchase Good for Mitel Stock?

Description

A couple of weeks has passed since **Mitel Networks Corporation** (TSX:MNW)(NASDAQ:MITL) announced it was buying California video-conferencing expert **Polycom Inc.** (NASDAQ:PLCM) for \$2 billion.

The combined company will have \$2.5 billion in annual revenue.

The merger brings Mitel's strength in voice technology together with Polycom's video capabilities. More importantly, it gives the combined business greater scale—an important component of competing on the global stage.

That's the company line, anyway.

But what's really going on here and should investors care?

Anytime you make an acquisition, there's a better than 50/50 chance it's not going to work out nearly as well as you would like. Call it the best-laid plans of mice and men. That's a reality investors need to factor in to any decision to buy Mitel stock.

Light Reading is an online publication dedicated to covering the communications industry. Mitch Wagner, its West Coast bureau chief, recently interviewed Sandra O'Boyle, an analyst with its marketing research sister company, Heavy Reading, about the combination.

Boyle sees Mitel getting very distracted by the integration process and, even if it goes off without any major glitches, the combined business will still be much smaller than many of its competitors.

"Mitel [could be] looking internally while the unified comms and collaboration market moves speedily ahead," O'Boyle told Wagner. "Even combined, Mitel/Polycom face much bigger players such as **Cisco** and **Microsoft** with deeper pockets and broader market share."

However, there's a counter-argument to be made that since CEO Rich McBee took the reins of Mitel in 2011, it's completed or announced a total of six acquisitions (including Polycom) with two of

them—Aastra Networks and Mavenir—costing the company almost \$1 billion. It's no stranger to doling out the big bucks. Integration for Mitel has become a competency.

I'll be the first to admit that I'm not an expert when it comes to technology. However, I'm more than capable of analyzing income statements, balance sheets, valuations, etc.

So, here's what I know.

The two companies have very similar top lines—\$1.2 billion and \$1.3 billion for Mitel and Polycom, respectively—but when you go further down the income statement, you see that Polycom wipes the floor with Mitel, delivering operating income of \$87.8 million in 2015, far better than the \$10.2 million operating loss Mitel racked up in the past year.

At \$2.5 billion in annual revenue, Mitel has grown by more than 300% since McBee joined the company. It's definitely a work in progress. However, if it's able to deliver on the \$160 million in annual estimated synergy savings, its pro forma EBITDA would be \$513 million. Cisco currently trades at 10 times EBITDA. If Mitel/Polycom did the same, the potential market cap by 2018 could be north of \$5 billion.

It's a big if, mind you, but one investors should consider taking.

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1. Tech Stocks

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