How Mitel Networks Corp. Is Cornering the Tech Sector

Description

Mitel Networks Corp. (TSX:MNW)(NASDAQ:MITL) has shown that if a company facing irrelevancy is willing to take a risk, it can still thrive and be competitive in a new market sector. Recently, Mitel was recognized by Synergy Research Group as the global market leader in cloud communications, with a world-wide market share of 20%.

It was also recognized as the fastest growing provider of cloud computing services, with over one million cloud seats. However, the question investors are now facing is whether this company is the “real deal” or a passing fad.

Cloudy with a chance of profits

Mitel has also recently released its fourth-quarter results, giving investors their first glance at the year end results since the Aastra merger. Revenues in the fourth quarter totaled $301 million, down from $319 million ($144 million not including Aastra). Net income, still feeling the effects of the merger, totaled $10.8 million up from a net loss of $800,000 in Q4 2013.

When it comes to EBITDA, however, Mitel is boasting about its record-setting quarter, which totaled $57.9 million, up from $23.2 million (Mitel & Aastra). In Q4 2014, Mitel alone posted an EBITDA of $47.8 million. Investors were hoping to see some cost savings with the merger, and gross margins have begun to reflect those sentiments, as gross margins in the quarter rose to 55.1% from 51.5%.

The largest selling point for the Aastra merger was the claim that Mitel would emerge with over $1 billion in annual revenues. Mitel managed to accomplish that goal, but the numbers are not as rosy as investors had hoped. Revenues in 2014 totaled $1.1 billion, which is up from the $569 million Mitel alone generated in 2013, and down from the $1.15 billion Mitel and Aastra earned combined in 2013.

Net income for the year fell to a loss of $7.3 million, while adjusted EBITDA climbed to a new record of $166 million. The next quarter will offer investors even more clarity, as there will be no more divide between Mitel and Aastra. The down side is that there will be no more large increases in the key financial segments to boost the stock price.

Kings of the cloud

As mentioned above, Mitel was recently recognized as the leader in market share in terms of cloud computing providers. In the fourth quarter alone, Mitel installed over 177,000 new cloud seats, including over 24,000 recurring cloud seats. While revenues have slipped a touch over the year, the number of cloud seats at Mitel has surged in the past year from 566,562 to 1,039,032. Recurring cloud seats in the year grew to 269,155 from 121,314 and average revenue per user also increased to $50.00 from $48.00.

Mergers over the horizon

Over the past couple years, Mitel has become increasingly aggressive in its efforts to consolidate the market with the motto “we’re always looking.” The most recent acquisition however is rather different than recent acquisitions targeting cloud computing firms. This new deal will see Mitel acquire Texas-based **Mavenir** for $560 million (cash & stock) in what has been described by management as “a growth play,” and “it is not a synergy play.”

Mavenir specialized in aiding mobile service providers with voice, video, messaging, and mobile core services over 4G-LTE cellular networks. In the deal, Mitel will add to its books a company which produced $130 million in revenues in 2014 and has a customer portfolio that includes most of the top 20 mobile carriers. While this type of business is outside of Mitel’s newly realized cloud services, Mitel CEO Rich McBee has gone as far as calling this deal a “perfect match.” Mitel believes the type of market serviced by Mavenir could be a $14 billion per year industry by 2018.

The average price target for Mitel is only $11.60, while the closing price Friday was $12.24. Mitel’s stock may only be able to generate moderate returns in the near future, but it offers a stable option for investors looking to invest in the tech sector.

CATEGORY

1. Investing
2. Tech Stocks

Category

1. Investing
2. Tech Stocks

Date
2025/08/24
Date Created
2015/03/09
Author
cameronconway