

Are you Ready for the Next Wave of Consolidation?

The UK IT Services & Communications sector is set for a new wave of consolidation and increased M&A activity. Market disruption at a structural level, in the wake of Covid-19, an operational level is likely to present opportunities to those looking to both cash-in and cash-out.

M&A strategies have become a key tool to those operating in the IT Services & Communications sector. Numerous businesses have employed aggressive buy-and-build programmes to accelerate growth, widen service provision, enhance capabilities and expand geographic coverage. With high levels of recurring/contracted revenue and asset-lite business models, the sector is a private equity and funder favourite, which has provided an ongoing source of capital to fund growth initiatives.

Due to the sustained level of transactional activity and the favourable sector characteristics, business owners have historically benefitted from robust valuations and interest from acquirers and investors. While many sectors have suffered during Covid-19, the key characteristics that make the IT Services & Communications sector so attractive have underpinned relative positive performance and kept valuations stable.

The likes of Six Degrees, AdEPT, GCI, Arrow, Chess, Wavenet and Southern Comms are just a few serial acquirers that have been active in sector consolidation, some within certain sub-sectors such as MSP or telecoms and others converging across the whole sector. With leading private equity investors such as LDC, Livingbridge and Bowmark invested in the sector, and many with successful outcomes, there are very few firms that do not want to participate in the sector. Public markets are just as supportive with well capitalised Plc's often competing for attractive assets.

Whilst the level of M&A activity has remained resilient over 2020, there has been a slight decline likely due to a mixture of integration following an assortment of deals during the last wave of consolidation and a period of reflection in light of Covid-19. However, the relatively strong performance of the sector compared to others during Covid-19 has provided confidence to funders who are willing to support those looking to grow and take advantage of changes to 'the norm'. This is likely to be coupled with a 'changing of the guard' for some key market participants which will spur a new wave of investment and consolidation.

Examples of this include, Growth Capital Partner's sale of Arrow to MML Capital earlier in 2020 which included a £50m acquisition facility and has already resulted in two subsequent acquisitions. August Equity's investment in Air IT (which has since doubled in size by acquiring Microtrading and Netstar), increasing its sector exposure alongside Charterhouse. LDC also orchestrated the £30m merger of Metaphor, DoubleEdge and Foehn in the creation of Kerv. This influx of new investment is set to continue with Redcentric publicly announcing it is exploring a sale and rumours that Node4, Pulsant, Wavenet, Southern Comms and Babble are all preparing for an exit event or change of ownership in the near future. Gambit Corporate Finance acted as lead adviser to the shareholders of Glamorgan Telecom on its sale to Onecom in August this year. The transactions marks the first of a number of acquisitions planned by Onecom, after it secured a £100 million funding package from LDC and Ares Management Corporation in 2019.

As with any period of change, opportunities will be available to those who are prepared to take advantage of them.

A new wave of consolidation will act as a catalyst to an already active M&A market. Funding support will remain robust with capital still at a historically low cost, private equity flush with dry powder to deploy and private debt providers actively competing to fund established businesses with strong track records. This bodes well for management teams seeking funding partners to deliver growth and value enhancement.

With an increase in M&A activity, new investment pursuing accelerated growth and competition amongst well established acquirers for high quality assets, valuations are likely to remain strong and provide options for those looking to exit and realise shareholder value.

For business owners seeking an exit, the next wave of consolidation could be well timed in order to benefit from existing Capital Gains Tax (CGT) rates and incentives such as Entrepreneurs' Relief that escaped speculation of change due to the postponement of the 2020 Autumn Budget. The CGT regime is only expected to last in its current form until the anticipated 2021 Spring Budget which is likely to result in a significant increase in CGT rates from early March 2021.

Gambit Corporate Finance LLP

Who we are

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in corporate finance advice in the IT Services & Communications sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

Gambit is the exclusive UK shareholder of Corporate Finance International (CFI), a global partnership of middle-market investment banks and corporate finance advisory firms. With over 250 professionals located in 18 offices throughout the world, CFI members specialise in cross-border acquisitions, disposals, capital raising, and related services.

What we do

- Mergers and acquisitions
- Company disposals
- Fundraising – equity and debt
- Refinancing and restructuring
- Succession planning
- Value maximisation

Recent Sector Experience

<p>Gambit Corporate Finance acted as lead advisor to the shareholders of</p>  <p>on its sale to</p> 	<p>Gambit Corporate Finance acted as lead advisor to</p>  <p>on its sale to</p> 	<p>Gambit Corporate Finance acted as lead advisor to the shareholders of</p>  <p>on its sale to</p> 	<p>Gambit Corporate Finance acted as lead advisor to the shareholders of</p>  <p>on its sale to</p> 	<p>Gambit Corporate Finance acted as lead advisor to the management of</p>  <p>on its management buy-out</p>
				
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