

M&A as a route to leadership in network performance monitoring

April 2017

Alessandro Ravagnolo

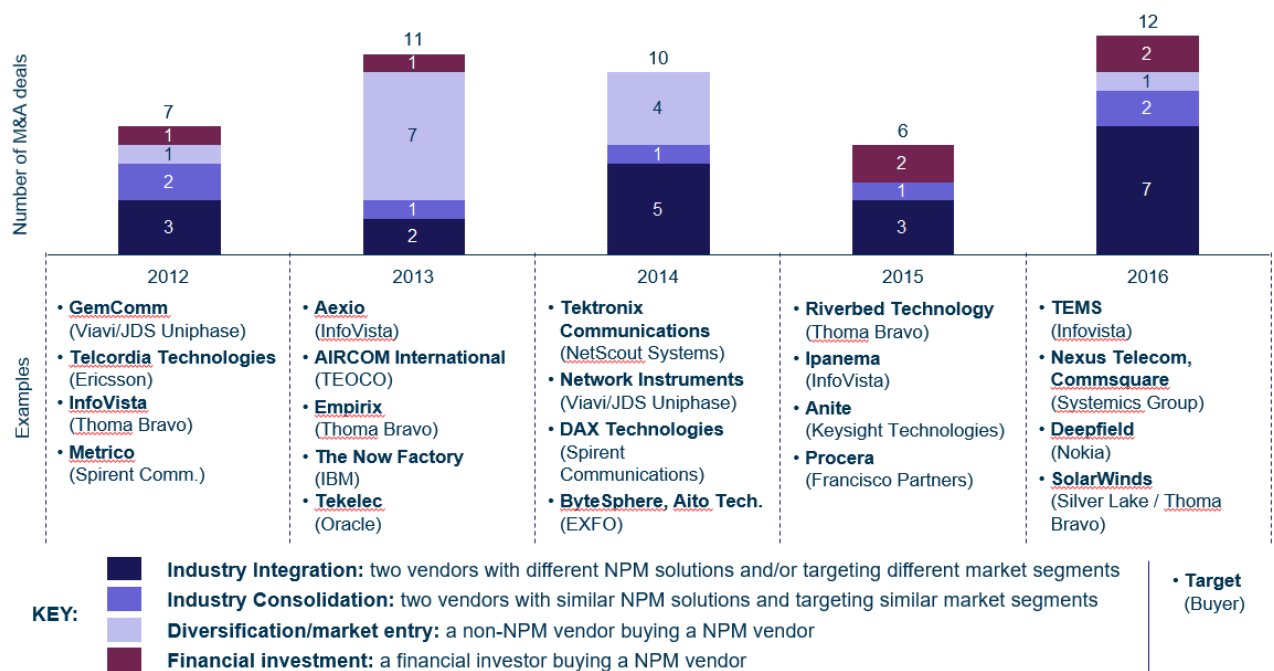
The network performance monitoring (NPM) space hit a record number of transactions in 2016

Over the last five years, the telecoms software market has been very lively from an M&A perspective, as information systems have taken on a more prominent role within networks and are attracting increased investment from operators.

Network operators now attach greater importance to network quality of service (QoS) than in the past. Meanwhile, industry dynamics are modifying the demand drivers and network virtualisation is creating opportunities for innovation that can be exploited by agile players.

In this context, it is unsurprising that the NPM systems space has been the focus of significant M&A activity, with a record number of transactions in 2016 (as shown in the figure below). This pattern seems to be continuing in 2017, with three acquisitions already completed: Keysight Technologies bought Ixia in an integration-type deal, EXFO took over Ontology and private equity firm Bridge Growth Partners took over Accedian Networks.

Figure 1: Rationale for M&A transactions in the NPM systems space, 2012–2016 [Source: Analysys Mason, 2017]



NPM leaders are starting to emerge, but the competitive landscape remains fragmented

We estimate that there are more than 50 vendors active in the NPM systems space worldwide. The fragmented nature of the industry makes it particularly interesting from an M&A perspective.

The existence of various types of performance-monitoring solution, the emergence of new services (e.g. VoLTE, VoWiFi, IoT/M2M) and the increasing complexity of telecoms networks will continue to enable the creation of niche areas of innovation. Moreover, communication service providers (CSPs) have historically bought these solutions on a standalone basis and have not yet embraced integrated NPM solutions on any major scale. As a result, a number of NPM vendors are specialist players (often with just a single product), whose strategy is to excel in fulfilling particular niche requirements of network operators.

At the same time, however, 'integration' has been the most common rationale for M&A deals during the last few years, with vendors trying to extend their product offering by adding new solutions, features and capabilities to their portfolios. In this way, some larger vendors have started expanding their presence across the spectrum of NPM systems and even beyond, into network analytics and service assurance. Of particular note are Viavi, Spirent, Infovista, Systemics Group and EXFO, which have all favoured inorganic growth strategies of this kind.

As well as independent NPM vendors, network equipment manufacturers (NEMs) also appear keen to play a role in this market, drawing on their existing relationships with CSPs and the control that they have over equipment design. Among others, Ciena, Nokia, Ericsson, Juniper and Huawei all offer NPM solutions. However, in a multi-vendor environment we believe there is growing demand for independent software solutions that meet two objectives: an internal one of validating other NEMs' equipment performance, and an external one of demonstrating that network operators meet service-level agreements.

The M&A momentum in NPM is expected to persist, as market leaders continue integrating and taking over specialist vendors

Future NPM vendors need to extend their product portfolio to cover the end-to-end NPM lifecycle of network operators. Specialist players are expected to become acquisition targets for larger vendors that wish to gain access to new products and build credibility in an industry where the first-mover advantage is significant.

The M&A trend is likely to be led by existing independent vendors, but financial investors are also showing interest in the NPM market and have concluded some important acquisitions: for example, Bridge Growth Partners bought Accedian Networks, Apex Partners bought InfoVista, Thoma Bravo bought Riverbed Technologies and Francisco Partners bought Procera.

We have identified at least six areas for investigation by an investment decision maker

It is important for strategic and financial investors to make a careful assessment of any investment opportunity, especially in a fast-changing environment like telecoms software. The market may have the potential for high returns, but it is not without risk. To reduce the risk, investors should carefully examine:

- **Market dynamics:** it is important to recognise demand and supply dynamics and to understand how well the target is positioned to benefit from them

- **Market size (today and tomorrow):** the telecoms software is a large market, but demand is fragmented; it is therefore important to understand the size of the addressable market
- **Technology:** Telecoms software is an R&D-intensive business, and technological substitution and obsolescence risks should be examined carefully before taking an investment decision
- **Competitive landscape:** investors must understand what competitors the target has, as well as their strategies and shortcomings relative to the target
- **Overlaps (for strategic investments):** the value of the target company will be affected by the extent to which it overlaps with the buyer in terms of customers, geographies and products
- **Ease of integration:** virtualised and multi-vendor environments call for IT systems compatibility, so being part of a successful ecosystem will be increasingly valuable.

Analysys Mason provides transaction advisory services to both financial institutions and industry players. Our clients benefit from Analysys Mason's unique positioning due to our:

- recognised track record in delivering transaction support projects in the TMT industry (nearly 300 assignments in the last five years)
- in-house telecoms software research practice, which actively engages industry stakeholders with insights and reports on the telecoms software space.

In the NPM space, we recently supported Infovista during its acquisition of Ascom's TEMS network testing division and advised Bridge Growth Partners during the acquisition of Accedian Networks.

Please contact Alessandro Ravagnolo, Manager, to discuss this further.