Comms Reseller Report

Comms Reseller Report

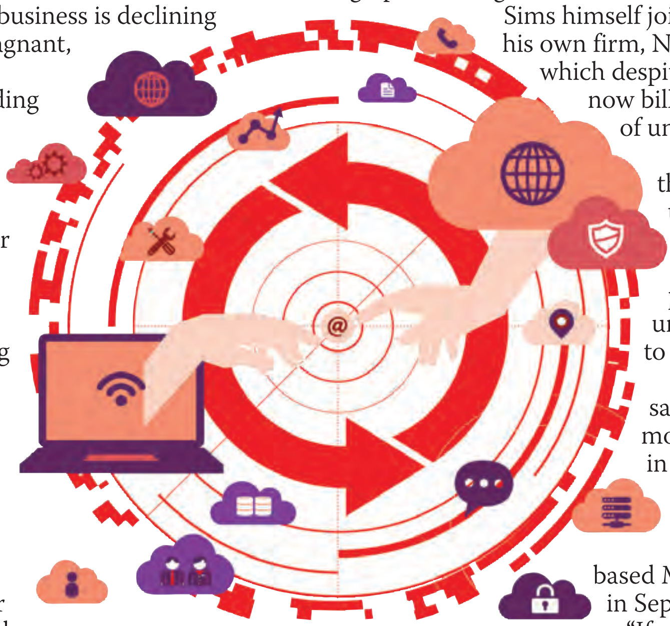
Avaya's collapse into Chapter 11 bankruptcy at the start of 2017 underlines the struggles the legacy comms space has been undergoing.

The traditional lines and minutes business is declining and the wider market is generally stagnant, with the 'communications services' segment within Gartner's ICT spending table growing just 1.3 per cent to $1.39tn (£1tn) in 2017.

And yet the 35 largest comms resellers on our radar grew revenues by a collective nearly 12 per cent in their latest financial years.

Their secret has been reinvention and acquisitive growth, with the comms channel providing the setting for a frenzy of M&A activity in recent times.

This report ranks the 35 largest specialist comms VARs on *CRN*'s radar by revenue and examines the trends affecting their businesses. Collectively, they banked operating profits of £39.3m on revenues that rose 11.6 per cent to £2.01bn in their most recent financial years on record, and saw headcount rise by over 1,000 year on year to nearly 10,500 staff (*see table on p13 for more*).



Speed of change

"Everyone has had to take a hard look at what they do as a business, and some have said 'actually, I don't want to go through the pain of evolving into a multi-service solution provider.'"

That comment from Rob Sims, director of Elite Group, gets to the heart of the mega-trend the 35 comms resellers in this report, and – more pertinently – the companies they have acquired, have been facing.

The pressure is on traditional telephony resellers to reinvent themselves as providers of unified comms, IT services and cloud as the convergence trend gathers pace.

This has driven an intense wave of consolidation across the industry, with those lacking the financial clout – or stomach – to make the necessary investments themselves often opting to sell up to someone that does.

To take the largest and third-largest providers, respectively, Daisy gobbled up Alternative Networks last year, while in 2016 Maintel added close to £100m to its top line by acquiring Azzurri, before buying £30m-revenue Avaya partner Intrinsic in 2017.

That trend is mirrored across the top 35, with Six Degrees, GCI, Sabio, Adept Telecom, Elite Group, Solar, Arrow Business Communications, Wavenet and Connect Managed Services among those making multiple acquisitions in recent years (*see p11 for more*). Number-four ranked Chess has made over 100 acquisitions during its existence.

Sims at Elite said M&A activity is being driven by the advent of more demanding customers who want to buy comms, mobile and IT/data from a single service provider.

"Acquisitions can be used to strategically build speed of change to a business, and we've certainly done that in the past, both to enhance our internal capabilities and our ability to deliver solutions to customers. It's a much more educated, joined-up, smarter buyer with greater demands, which means to compete in that sector you need to be equally high performing," he said.

Sims himself joined Elite last June when his own firm, Nexus, was acquired by Elite, which despite its heritage in telephony now bills itself as a leading provider of unified comms and IT services.

"We [Nexus] were faced with the same quandary of whether to push hard and develop a multi-service capability. From a shareholder perspective, we weren't united, and that's why we came to market," Sims explained.

John Whitty, CEO of Solar, said an influx of private-equity money is helping to drive M&A in the comms channel. Solar now brands itself as a cloud communications player, having acquired Cardiff-based Mitel partner TWL in September.

"If you look at Arrow and Wavnet and IT Lab, they all have PE money that they're spending on acquisitions, and of course in the past you've seen that with Daisy and Six Degrees. Solar are different because we are a private company with no PE at the moment. We've sourced our acquisitions from casfhlow," he said.

Profiting from comms

The figures in this report certainly reinforce the perception that the comms channel enjoys higher margins relative to IT, with its lower cost of service pinpointed as a key contributing factor.

Average (mean) operating profit margins across the 35 stood at 3.9 per cent in their last financial years on record (*see table p12 for a full breakdown*).

Although that's in line with the 3.9 per cent average margin registered by the wider *CRN* Top 250 resellers, it was adversely affected by a couple of large losses associated with acquisition sprees.

This includes Daisy, Six Degrees and GCI which racked up operating losses of £14.7m, £20m and £2.1m respectively, despite being highly profitable at an EBITDA level (Daisy had an EBITDA of £97.1m last year, Six Degrees' EBITDA stood at £18.4m, while GCI had an adjusted EBITDA of £9.1m).

Stripping out this acquisitive trio, average (mean) operating margins would have stood at a highly respectable 5.1 per cent.

That said, average operating profit margins among the top 35 comms providers fell sharply last year (from 4.7 to 3.9 per cent), which may not be a surprise given the fall in profitability across the wider *CRN* Top 250 resellers and the efforts of comms providers to diversify into lower-margin IT services.

Eight of the 35 made a loss, compared with six last year.

Sims at Elite said he felt some comms providers may have seen their margins diluted as they move beyond the profit-rich products they traditionally sold.

"In terms of traditional product sets, it's true that there are higher margins [in comms], but a lot of that is because the cost-to-serve model is lower," he said. "Some of the traditional comms products are, in a very nice way, fire and forget. You place it with a network or a carrier and the support infrastructure is relatively low. Whereas, from a more IT or solutions-driven set, it's much more of a consultative sale and it's more of a wrapped customer support, and that's where your cost to serve starts to increase.

"This is one of the challenges for the guys in the market now. It's hard work, and that's what has been fuelling the fire of acquisitions – people don't want to change, or they see it as a backwards step. We actually see it as an opportunity. You can't buck the market and we've embraced it, knowing that if we drive efficiencies, both internally and through customers, that margins erosion will be minimised."

Whitty agreed: "I think at the IT level, the cost to serve is probably higher. In UC you need fewer staff to service the business," he said.

Whitty, however, said smart comms resellers are protecting themselves against this by moving into higher-margin IT services such as security and disaster recovery, rather than just desktop support.

He harboured an alternative theory as to why margins are heading south.

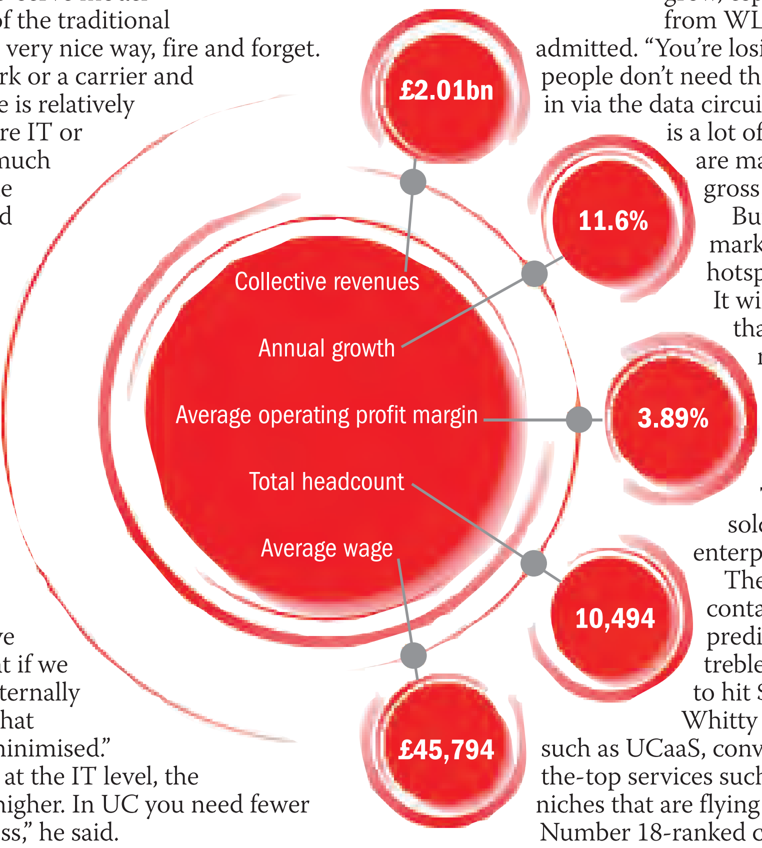
"I think the buyers are much more intelligent and they're doing a lot of investigations and are managing to obtain the best deals. This is putting price pressure on the whole of the sector," he said.

Whatever the reason for the margin crunch, wage pressure does not appear to be a major factor. Average (mean) wages across the top 35 players stood at £45,794 in their last financial years on record, a 2.8 per cent hike that is roughly in line with inflation (*see table on p13 for the full breakdown*). That's fractionally below the Top 250 reseller average of £46,140. Comparing comms with other sectors, average pay is higher than in either print (£34,433) or audiovisual (£39,561), but significantly lower than in cybersecurity, where average wages shot up 10 per cent last year to reach £60,709.

Dialling into growth

Avaya's collapse into Chapter 11 bankruptcy protection, along with the struggles Toshiba has endured in comms, is hardly a sign of a market that is thriving, and the traditional lines and minutes business that was the staple of many comms dealers appears to be in terminal decline.

Top 35 UK comms resellers



"The revenue line is very difficult to grow, especially given the conversion from WLR/CPS to SIP," Solar's Whitty admitted. "You're losing that revenue, because people don't need the lines because the calls come in via the data circuits. So at the top-line level, there is a lot of pressure. However, most of us are managing to maintain absolute gross profit."

But that's not to say the comms market is without its growth hotspots.

It will come as a shock to no one that cloud is lighting up the market, although Gartner noted in its most recent Magic Quadrant for Unified Communications that on-premise UC still accounts for 70 per cent of the solutions sold in the midsize- and large-enterprise market.

The value of the global cloud contact centre market, meanwhile, is predicted by Markets and Markets to treble in size between 2016 and 2021 to hit $15.67bn.

Whitty highlighted hosted applications such as UCaaS, conversion to SIP and other over-the-top services such as contact centre as market niches that are flying right now.

Number 18-ranked comms reseller Charterhouse, meanwhile, said in its annual commentary that it was seeing "continued success" expanding into software defined-WAN, a market IDC forecasts will grow at a compound annual growth rate (CAGR) of 70 per cent, to hit $8.05bn in 2021.

"Traditional WANs were not designed for the cloud and are also poorly suited to the security requirements associated with distributed and cloud-based applications," said Rohit Mehra, vice president, network infrastructure at IDC. "And while hybrid WAN emerged to meet some of these next-generation connectivity challenges, SD-WAN builds on hybrid WAN to offer a more complete solution."

Sims at Elite felt it is still early days for SD-WAN but agreed that it will be one to watch for the coming years.

"SD-WAN is in play. Is it flying at the minute? I don't think it is. Will it be a good product? Yes, I think it will," he said.

"Some of the lower-level connectivity products are creating opportunities for customers that perhaps they couldn't have had in the past from a cost perspective, and those products then become effective enablers: if you've got the right level of connectivity, you can then start delivering applications which can change the business in terms of hosted solutions as opposed to onsite.

"So connectivity is still a big play for us and SD-WAN and that intelligence coming into networking will form part of that. Our future direction is very much geared around the solution set – enabling customers – rather than individual single price-led products."

6,225	32,000	70%	$57bn	70%
Contact centres in UK *(Contact Babel)*	Jobs expected to be shed by UK contact centres over the next four years *(Contact Babel)*	CAGR of SD-WAN market until 2021, when it will be worth $8.05bn *(IDC)*	Size of global unified communications and collaboration market by 2024 *(Global Market Insights)*	UC solutions being sold in the mid- to large-enterprise space that are still on-premise

1 Daisy

Revenue: £602.8m

Operating loss: £14.7m

Operating profit margin: -2.4%

Having made a string of more than 50 acquisitions since it began life in 2003 as a provider of telecoms lines and calls to SMEs, Daisy now straddles the UK comms channel like a colossus.

For its year to 31 March 2017, Daisy saw revenues hike 18 per cent to £602.9m, but told us the figure would have stood at £700m if 12 months of recent acquisition Alternative Networks' revenue had been included. EBITDA for the year hit £97.1m, but after adding in costs associated with M&A, Daisy was left with an operating loss of £14.7m.

Daisy's corporate strategy was in flux as *CRN* went to press, with CEO Neil Muller leaving and founder Matthew Riley taking back control of the firm following an aborted sale process. According to Sky News, Riley has snubbed a potential deal with Bain Capital in favour of pursuing a buyout of the firm himself.

In a recent interview with *CRN*, Muller claimed the firm is now the fourth-largest B2B mobile operator in the UK behind EE, Vodafone and O2. He also said further acquisitions are unlikely at this time because Daisy has already amassed the ability to provide "converged services across telecoms, IT and cloud, genuinely at scale". Despite this, as this report went to press Daisy was set to buy TalkTalk's direct B2B business for £175m and it announced its acquisition of £10m revenue EE direct partner Voice Mobile.

2 KCOM

Revenue: £331.3m

Operating profit: £32.8m

Operating profit margin: 9.9%

This LSE-listed comms giant's enterprise arm put in a strong performance in its year ending 31 March 2017, with revenues up five per cent to £91m. This part of KCOM's business specialises in IP-related comms and IT solutions, and counts BUPA, HMRC and NFU Mutual among its customers, and recently became a Google Cloud partner.

Group revenues were down five per cent to £331.3m, however, and since year end, the LSE-listed outfit was handed a £900,000 fine relating to a failure around emergency calls in its native Hull.

In a trading update in January, KCOM signalled that its revenues and profits for its recently ended fiscal 2018 were "slightly behind" and "slightly ahead" of its expectations, respectively.

3 Maintel

Revenue: £133.1m

Operating profit: £4.4m

Operating profit margin: 3.3%

One of only five £100m-plus-revenue outfits in this report, Maintel trebled in size when it grabbed struggling rival Azzurri in 2016, before adding a further £30m in revenue last August by swallowing fellow Avaya partner Intrinsic.

In its financial year to 31 December 2017, the AIM-listed firm saw revenues rise 23 per cent to £133.1m. This included a full-year contribution from Azzurri and five months' revenue from Intrinsic, an acquisition it said boosted its prowess in LAN networking and the fast-growing network security sector.

CEO Eddie Buxton admitted Maintel had endured "challenges" in its fiscal 2017, notably prolonged delays with several large projects. Its business with Avaya, which emerged from bankruptcy protection in December, is now "recovering", Maintel added.

4 Chess

Revenue: £110.3m

Operating profit: £6.5m

Operating profit margin: 5.9%

Acquisitive Chess burst through the £100m revenue mark in its fiscal year to 30 April 2017, growing sales 25 per cent, and was recently crowned the top UK workplace by the *Sunday Times*' Best Companies to Work for in 2018.

With a heritage in fixed-line telecoms, Chess is seeking to reinvent itself as a 'unified solutions provider' and last April leapt into the cybersecurity space by acquiring Foursys, a deal it said would add £11m to its top line, which now stands at a run rate of £120m.

In a recent interview with *CRN*, CEO David Pollock attributed Chess' recent *Sunday Times* endorsement partly to its 'upside-down management' model. "We try to run this place as fast as we can and we're always engaging with our people," he said. The Alderley Edge-based firm has acquired over 100 businesses.

5 Six Degrees

Revenue: £101.6m

Operating loss: £20m

Operating profit margin: -19.7%

This Charlesbank Capital-backed Avaya Platinum partner has built its own UCaaS offering using Avaya technologies to deliver per-user, per-month hosted IP telephony and applications. Alongside its UC and mobile arm, Six Degrees also provides cloud services, data services, co-location and security, and its ultimate parent – 'CB-SDG Topco' – saw revenue rise by 25 per cent (adjusted for the fact its previous reporting period was only nine months) to £101.6m in its year to 31 March 2017 thanks to recent acquisitions. Serial entrepreneur Alastair Mills, who founded 6DG in 2011, stepped down as CEO last year and is now chairman of IP Integration (ranked 19 in this report).

6 Timico Technology Group

Revenue: £55.7m

Operating loss: £1.7m

Operating profit margin: -3.1%

This managed services provider appointed a new CEO in the shape of Ben Marham in September 2016, before undergoing a Lyceum Capital-backed MBO in February 2017. Revenues in its year to 31 December 2016 rose six per cent as 2015 acquisitions Wirebird and Coms fed into the top line, although operating losses hit £1.7m. The O2 and Vodafone partner recently announced a six-figure investment in robotics and cloud-based IT services management platform ServiceNow.

7 Focus Group

Revenue: £55m

Operating profit: £7.0m

Operating profit margin: 12.7%

Selling direct and through a reseller channel, Focus works across the voice, mobile, IT and data sectors, and has just started work on building a new 30,000 sq ft head office. This West Sussex-based outfit said in its 2017 annual report that it is looking to secure up to £25m of funding to make a series of acquisitions over the next few years. Revenues last year rose 21 per cent to £55m, with "all revenue streams" growing.

8 GCI

Revenue: £51.9m

Operating loss: £2.2m

Operating profit margin: -4.2%

This Microsoft Skype for Business partner has acquired anything that moves in recent years, with its

Q&A: Russell Sheldon, Sabio

Despite figures suggesting that the UK contact centre industry is declining in raw seat terms, opportunities still abound for comms providers specialising in this sector, according to Sabio's chief commercial officer, Russell Sheldon

You've made three acquisitions since Lyceum handed you a £30m M&A war chest in 2016. What do you look for in targets?

Two of the acquisitions we've made in the last 18 months have been around the data and insight space, with Rapport and Bright. We see that as something organisations are hungry to understand: what data can tell them from a business improvement perspective. How can they deliver a better outcome to their clients in the customer journey, or deliver things more efficiently or effectively?

What's the M&A strategy now?

We will continue to evaluate opportunities to grow geographically, similarly to when we acquired Datapoint Europe, as well as looking at additional technology or product capability that adds to our portfolio in terms of how we can help clients with their customer experience, in the way that we have done with Rapport and Insight. We are constantly scanning the market.

What other technologies are taking the contact centre space by storm?

We are seeing significant uptake and interest from our clients looking at how they can embed virtual assistants into the customer journey. Not only in terms of efficiency gains – which is often how it's looked at – but, equally, in terms of speed of response and being able to help consumers in a more effective way.

We're also seeing interest in messaging services, as organisations are trying to deal with the breadth of ways consumers want to interact with them. It's about how you deal with that, both in terms of a contact centre, but also more broadly the methods through which you provision your products and services out to the marketplace – engaging with consumers, transacting with consumers and so on. Enabling payments through those types of messaging services is where we're seeing significant interest.

The other area is compliance, and dealing with the continuing trends around the different regulatory requirements, GDPR being the most recent one. How you deal with that data in a secure way – but also how you deal with financial payments in the contact centre through the web journey – that continues to be a hot topic.

The UK contact centre industry is expected to shed over 32,000 jobs in the next four years, according to analyst Contact Babel. What does that mean for contact centre specialists such as Sabio?

The combination of markets we are operating in is certainly growing. We don't just look in terms of contact centre agents out there, which is a key measure you see written about. We're very much viewing it as far beyond what we do purely in that contact centre infrastructure space and instead what is really going on around digital transformation. For us it is also about those customer experience interactions. Before, consumers' only way to interact was via the phone or writing letters; now they have a massive choice, and those interactions are certainly not shrinking.

purchases of Outsourcery, Freedom Communications and Blue Chip Data Systems – among others – swelling its revenue run rate to around £100m. For its year to 31 December 2016, revenue rose eight per cent to £51.9m, while operating losses hit £2.2m (although EBITDA rose to £9.1m). GCI was gifted a fresh £60m M&A war chest in May 2018 by new private equity majority owner Mayfair.

Specialising in Skype for Business, contact centre and managed services, GCI claims that 225 of its 500 staff are in technical roles and to have eight Gold certifications from Microsoft.

9 4Com

Revenue: £51.2m
Operating profit: £625,000
Operating profit margin: 1.2%

This Dorset-based telephony and comms provider attributed a 24 per cent rise in revenues in its year to 30 June 2017 partly to a "continuing focus on sales conversion KPIs". Traditionally a Samsung partner, 4Com also develops its own products, including HiHi, its in-house developed IP desktop telephone. After selling 4,494 HiHi handsets last year, 4Com said it anticipates this product will be the sole solution provided by 4Com by the end of its next financial year. It targets SMEs with four to 250 staff per location.

10 Nine Telecom Group

Revenue: £43.7m (pro rata)
Operating loss: £342,000 (pro rata)
Operating profit margin: -0.8%

This Gloucestershire-based telecoms provider sells both direct to customers and through resellers. Its revenues for an extended 18-month period to 30 June hit £65.6m, compared with £46.7m for the previous 12 months – equating to a six per cent pro-rata decline, and it also slipped to a £342,000 operating loss. But Nine claimed it "maintained strong sales" during the period as it pointed to its write-off of a bad debt as one reason for its profit woes.

11 Sabio

Revenue: £43.4m
Operating profit: £1.6m
Operating profit margin: 3.8%

This contact centre specialist made two acquisitions in 2017, courtesy of a £30m M&A pot gifted to it by new private equity owner Lyceum Capital the previous July. This includes Rapport, a customer engagement analytics specialist which counts Thames Water, the BBC, ITV and British Gas among its clients. Its revenues for its year to 30 September 2016 rose four per cent, but operating profit rolled back £1m to £1.6m.

12 Elite Group

Revenue: £40.2m

Operating profit: £3.4m

Operating profit margin: 8.4%

This privately held unified comms provider has made some 16 acquisitions since it was founded in 2000 and now employs 180 staff across seven offices in Chorley, Derby, Lancaster, Leeds, London, Madrid and Stoke-on-Trent.

Recent deals, including one for £16m-revenue Nexus last May, have pushed Elite's revenue run rate to £57m, although the figure stood at £40.2m in its year to 31 July 2017. That represented a 22 per cent annual rise, with operating profit also up fractionally to £3.4m. A recent rebrand from Elitetele.com plc to Elite Group was designed to reflect its growth from a pure-play telephony business to a leading provider of unified comms and IT services.

13 Adept Telecom

Revenue: £34.4m

Operating profit: £4.3m

Operating profit margin: 12.6%

Having made four acquisitions during its year to 31 March 2017, this LSE-listed comms player laid down a further £12m to buy schools ICT specialist Atomwide in August. Its 2017 accounts showed operating profits of £4.3m on revenues that rose 19 per cent, with managed services revenues hiking from 44 to 55 per cent of the total. Tunbridge Wells-based Adept snared a new £30m credit facility from Barclays and RBS last January.

14 Excell Group

Revenue: £33.2m

Operating profit: £3.2m

Operating profit margin: 9.7%

This Cambridge-based comms reseller's revenues and profits are soaring on the back of some bumper customer wins. Its revenues rose 10 per cent in its year to 30 April 2017, with operating profits expanding even faster, from £2.1m to £3.2m. During the year it won a 38-site contract with managed workspace firm Flexspace and also acquired City Voice and Data and MacSeven Consultants.

Comms channel still feeling after-shocks of Avaya Chapter 11

The comms vendor landscape has seen several seismic shifts over the past 18 months, with Avaya spending much of last year in Chapter 11 bankruptcy protection, Toshiba winding down its UC business in North America, Mitel and ShoreTel merging and Unify being acquired by Atos.

In fact, volatility in the market is so great that Gartner took the measure of increasing the weighting for "overall viability" in the "Ability to Execute" criteria of its UC Magic Quadrant from medium to high.

"It is important for organisations that invest in premises-centric UC technologies to have a clear migration path toward cloud services with partners that are commercially and operationally viable," it reasoned.

Rivals were quick to paint Avaya's woes as evidence that the old guard is on its way out, with UC upstart RingCentral, for one, launching a marketing campaign under the header of 'The Cloud Has Won'. It claimed last year that Avaya had failed to evolve its on-premise solution to meet the needs of distributed workforces and that "only the new generation of cloud-based communications solutions can meet these needs".

Avaya exited bankruptcy protection in December before relisting on the NYSE on 17 January 2018. It announced the launch of a new cloud unit, Avaya Cloud, on the same day.

Talking to *CRN* in January as Avaya rejoined the stock market, CEO Jim Chirico (*pictured*) claimed that entering Chapter 11 was about "driving a new capital structure", adding that Avaya is "very profitable" compared with its peers, with an EBIT margin of 25 per cent. "We will be very aggressive and take full advantage of our financial strength," he said.

Despite this, some partners claim to have been adversely affected by Avaya's financial woes, with IP Integration – which counts Avaya as its largest vendor – saying its Chapter 11 had "applied pressure to margins" in the directors' report for its financial 2017.

Solar CEO John Whitty agreed, adding that things are still not back to normal six months later.

"I think there was a lot of concern around further investing in Avaya systems, and certainly we never saw many new sales during the period they were in administration," he said.

However, Rob Sims said the fall out has been minimal for his company Elite Group.

"You got more conversations with the customer in terms of 'are we comfortable about the future', and it may have delayed some sales and led to some substitutional sales, but it wasn't massively noticeable," he said.

15 Natilik

Revenue: £32.6m
Operating profit: £1.6m
Operating profit margin: 4.8%

This collaboration specialist, a Cisco Gold partner, has grown for nine years running, with revenues in its year ending 31 March 2017 leaping by a fifth. During the year it took on its first chief financial officer, chief people officer and chief digital officer. The firm, which sold off its Avaya business in 2006 to focus on Cisco and rebranded from Touchbase in 2015, now employs 110 staff across its offices in London, Sydney and New York. Operating profits for the year fell fractionally to £1.6m.

16 Olive Communications

Revenue: £28.3m
Operating loss: £2.9m
Operating profit margin: -10.4%

Vodafone and Mitel partner Olive claims it is beginning to reap the rewards of its decision to morph from a mobile reseller into a managed communications provider. The High Wycombe-based firm is now seeing "significant growth" in unified communications, offsetting a decline in its core mobile sales. In its year to 31 January 2017, revenues rose three per cent to £28.3m as operating losses widened to £2.9m.

17 Arrow Business Communications

Revenue: £21.6m
Operating profit: £1.2m
Operating profit margin: 5.5%

This acquisitive comms provider has made five purchases since the start of 2017 after taking on strategic investment from Growth Capital Partners in August 2016. This includes Pulse Business Energy, a deal which marked its diversification into the energy sector. It's a safe bet that Arrow's revenue run rate is now well ahead of the £21.6m sales it recorded for its year to 31 December 2016, down nine per cent annually.

18 Charterhouse Voice & Data

Revenue: £20.5m
Operating profit: £1.6m
Operating profit margin: 7.8%

The business review for this London-based unified communications specialist described the 12 months to 30 November 2017 as "another very good year" in a "still challenging economic environment". Revenues rose six per cent to hit a record £20.5m, while operating profits rose from £1.3m to £1.6m. Counting Avaya, Mitel, BlackBerry and EE among its key vendor partners, Charterhouse claimed it successfully expanded beyond UC and into software-defined wide-area networking and cybersecurity services in its last financial year.

19 IP Integration

Revenue: £20.3m
Operating profit: £577,000
Operating profit margin: 2.8%

With offices in Reading, Manchester and the Philippines, this Avaya Diamond partner considered itself fortunate to grow its revenues by 12 per cent in its year to 30 September 2017 given the Chapter 11 bankruptcy of its largest vendor. The contact centre specialist did, however, blame Avaya-induced margin pressure for a 23 per cent operating profit slide. Its management line-up now features several former bigwigs from fourth-ranked outfit Six Degrees, including 6DG founder Alistair Mills, who joined as chairman in March.

20 Swcomms

Revenue: £19m
Operating profit: £368,000
Operating profit margin: 1.9%

Founded in 1983 by its CEO, Tony Rowe OBE, this Exeter-based comms specialist counts Alcatel-Lucent, ShoreTel and Toshiba among its vendors. In its year to 31 December 2016, revenues rose three per cent, and operating profit doubled to £368,000. It draws roughly 30 per cent of sales from hardware and installation, and the rest from maintenance and network/hosting services.

21 G3 Comms

Revenue: £16m
Operating profit: £952,000
Operating profit margin: 6%

As well as holding the distinction of being the only UK member of the Aura Alliance of global Avaya partners, this London-based unified comms specialist is building a new practice around Microsoft Skype for Business and Office 365 aimed at accelerating its "transformation from a traditional telecoms specialist into a true IT provider".

"The board believes that this investment allows the company to differentiate itself among its peers and not only continue to deliver traditional telephony services but also assist in the transition of customers to new technologies," it said in its business review for its year to 30 April 2017, which showed revenue down three per cent and operating profits halving.

22 Bistech

Revenue: £15.4m
Operating profit: £5.4m
Operating profit margin: 35.3%

One of the most profitable firms in the entire Top 250 UK VARs, this Dorset-based comms and networking specialist has a slick website featuring video case studies from a range of clients including motor dealerships, law firms and retailers. In its year to 31 July 2017, revenues soared 13 per cent, with operating profits hitting an impressive £5.4m, up from £4m in 2016 and £3.2m in 2015.

23 Solar Communications

Revenue: £14.8m
Operating profit: £122,000
Operating profit margin: 0.8%

This Chippenham-based Mitel, Shoretel, Avaya, Silver Peak and Pure Storage partner is seeking to morph from a traditional telephony reseller into a provider of cloud communications, according to its annual accounts for the year to 31 December 2016. During the year its revenues spiked 11 per cent to £14.8m, (although CEO John Whitty told us unofficially that revenues and EBITDA for its fiscal 2017 hit £20.3m and £1.77m, respectively), with operating profits narrowing to £122,000.

In September 2017 it acquired Cardiff-based Mitel partner TWL. Its internal tech team also recently developed a solution, Solar Skype Connect, aimed at integrating Skype for Business with enterprise-grade telephony. Founded in 1988, Solar also has offices in Manchester and Marlow.

24 Wavenet

Revenue: £14.4m
Operating profit: £1.4m
Operating profit margin: 9.9%

This Solihull-based unified communications specialist embarked on an acquisition spree last year after performing a £35m MBO backed by Beech Tree Private Equity Partners the previous year. For its year to 30 April 2017, revenues pogoed 4.8 per cent to £14.4m. In its annual review of the

Q&A: Rob Sims, Elite Group

Elite Group is one of the UK's fastest-growing comms resellers, with a revenue run rate of £57m. We talk M&A trends with director Rob Sims

You joined Elite last June via its acquisition of Nexus. What is driving the rash of M&A we've seen, not only at Elite, but across the comms channel?
We all appreciate that we are in an evolving world, where the historical siloed approaches of 'I sell traditional comms,' or 'I sell mobile,' or 'I sell IT or data' have been brought together, and that's really being driven by a smarter buying cycle. Businesses are much more aware of productivity and profitably now, so they are looking at it as a business driver, as opposed to pure cost centres.

From an Elite perspective, to ensure we can compete and thrive in that world we've used acquisition activity, both strategic and tactical. The strategic element is to ensure we're bringing resource into group capability that accelerates change and performance as opposed to recruiting and building.

Although not in Elite's case, that M&A activity is often being bankrolled by private equity cash, for instance at Daisy, Six Degrees, GCI and Sabio. Why do comms providers appear to be more attractive to PE than their IT counterparts?
I have a relatively varied background in terms of the types of business I've worked at in the past – I've been on the carrier side and the private resell side. I'm not sure if this is true, but historically there has been a perception that the comms guys are maybe a little bit more aggressive and entrepreneurial than historically what has been on the IT side. That's what is driving that push and that growth. There is access to more money at the moment, and that has been true for a while. There are also lots of businesses that don't want to make that pretty tough journey of re-gearing their business to being a multi-service provider, so there are more acquisition opportunities.

Would Elite consider taking on PE investment?
We are looking at refinancing to support our acquisition growth, but we are currently 100 per cent owned by shareholders.

You said your recent rebrand from Elitetele.com to Elite Group reflects your growth from a pure-play telephony business to a leading provider of unified comms and IT services. How far through that journey are you?
I think we've got a pretty full portfolio now. We do offer hosted solutions, we do have a managed IT solution division, we are strong on mobile, on connectivity and on UC, so we've got the four core product pillars and have invested quite a lot to bring them together in a solution wrap – increasingly customers want to buy all things from one person but in a joined-up, 'give me a benefit as a business not just a cost saving' way. I think a lot of people are doing managed solutions, but I'm not convinced there are many people doing it consistently well.

How would you assess the health of comms market?
I've been in the market for 20-odd years. On my first day in comms I was buddied up with one of sales guys and he said 'you know you've joined this comms thing too late; the market's gone now' – and that was 20 years ago. Is the market growing? I think there's a reasonable degree of substitutional sales – we rob from people and people rob from us. Where the future opportunity lies is driving that solution set.

When will the concept of unified communications reach its full potential?
I think there is more to come. Historically one of the blockers has been connectivity, and access to platforms that work with it, both from a reach and cost perspective. All those things are now starting to come together and be reality – you've almost got the perfect storm of access to systems and platforms, connectivity being much more readily available and commercially available, and you've got a much smarter customer base that's demanding this productivity and profitability drive from the solution set.

Why have margins in the comms channel appeared to drop, year on year?
From our own perspective, we've been investing quite heavily in future capability from a staffing and systems point of view, so that will have had an impact on us. From a market perspective, it's a broader view than that in terms of a shift from some of the higher-margin traditional products into some of the lower percentage margin current and future product set.

Q&A: John Whitty, Solar

The Solar CEO talks through the firm's transition from a PBX reseller to a cloud UCaaS provider

What is driving the frenzied M&A activity in the comms channel?
The ability to grow quickly, the ability to improve EBITDA through synergistic savings, and then the access to cheaper cost of sale as you become a more formidable force.

PE money is certainly helping with that consolidation. Solar are different. We've made four acquisitions in the last two years but we are a private company with no PE money at the moment. We've sourced acquisitions from cashflow.

Can you summarise how Solar has reinvented itself in recent years?
We've transformed Solar from being a PBX, on-premise reseller, into now being a cloud UCaaS provider. We have been very successful in migrating our own customers to the cloud, but also the vast majority of new customers we acquire are cloud customers as well.

What hurdles have you faced along the way?
The biggest challenge is adapting the business to become a managed service provider, because in order to offer cloud services, you need to be a full managed services provider. Secondly, if you're providing services on-premise, that's normally a capex sale and therefore you receive the cash immediately. Whereas, if you're selling cloud services, you receive the benefit of the contract normally over a 36-month period and therefore that has a cash impact on the business. So you need to manage that transition carefully.

You recently launched Solar Skype Connect, which integrates Skype for Business with enterprise-grade telephony. How successful has Microsoft's assault on the comms market been?
Skype for Business is an excellent application, and Teams when it's adopted in the next year will take the product even further.

The challenge we see at the moment is the integration with an enterprise-grade telephony system, providing contact centre, call recording and analysis, but – probably more importantly – the ability to port numbers on the PSTN. That's where we believe as a VAR we can still support Skype for Business through our middleware so we can then access the enterprise-grade telephony system.

Are there any technologies you see lighting up the market in the next 12 months?
We've built a department inside Solar called the Disruptive Technologies division, and within that we are looking at those new technologies, such as SD-WAN, DR-as-a-service, Solar Connect and cloud contact centre.

Have there been any changes to your vendor allegiances, particularly given what happened with Avaya and the union of Mitel and Shoretel last year?
We have refocused on Mitel. Solar was in a very fortunate position that we were a Mitel Gold and Platinum Shoretel partner. As a result of [the merger] we have managed to become one of the very few Platinum partners for Mitel in the UK, and that puts us in the same group as Daisy, BT, TalkTalk and Maintel, a group in which we would not have been able to play in the past.

business, Wavenet's directors said they are "actively pursuing" further strategic unified comms acquisitions after buying Talk Internet, EFuse Telecom and Swains in quick succession last year. It duly added Norfolk-based comms dealer APR Telecoms to its cart this April.

25 Britannic Technologies

Revenue: £13.4m
Operating profit: £1.3m
Operating profit margin: 9.7%

This Guildford-based Avaya and Mitel partner replaced its core infrastructure with new, "leading-edge" Juniper infrastructure during its year ending 31 March 2017; technology it said it would release to its customers throughout its current year. Though broadly flat on the previous year, revenue and operating profit have risen from £10.2m to £13.4m, and from £168,000 to £1.3m, respectively, since 2013.

26 Connect Managed Services

Revenue: £13.3m
Operating profit: £478,000
Operating profit margin: 3.6%

This ambitious contact centre specialist created a £26m-revenue "powerhouse" in June 2017 when it bought rival PC-1. Headed up by serial entrepreneur Alex Tupman, Lloyds Development Capital-backed Connect saw revenues rise 39 per cent in its year to 31 December 2016. Managed services sales rose 26 per cent to £7.3m, while operating profit hit £478,000. London-based Connect began 2018 with a bang by announcing two acquisitions in the form of Amazon Connect partner CoolHarbour and the assets of US provider UVN.

27 CommsWorld

Revenue: £13.2m
Operating profit: £616,000
Operating profit margin: 4.7%

Based in Edinburgh, CommsWorld bills itself as Scotland's leading business telecom provider. The voice, data and internet provider leapt into the adjacent IT and cloud space in March by grabbing local peer ECS. The move boosted its headcount above 100 and put it on course to turn over more than £20m this year. For its year to 31

December 2016, revenues swelled by 28 per cent to £13.2m.

28 4NET Technologies

Revenue: £13m
Operating profit: £768,000
Operating profit margin: 5.9%

This Manchester-based Avaya Diamond Edge partner recently took on investment from private equity house YFM. In its year to 31 March 2017, its revenues rocketed 81 per cent on the back of some bumper wins in the utilities and government sectors, making it the fastest-growing outfit in *CRN*'s entire Top 250 UK VARs last year. Operating profit rose to £768,000, from £168,000 a year earlier. The firm, which supplies its Antenna platform to a number of central government departments, was founded in 2005 by Richard Pennington, Frank Jennings, Michael Jervis, and Steve Tyrrell.

29 JT (Global)

Revenue: £12.8m
Operating loss: £103,000
Operating profit margin: -0.8%

Having raked in an impressive £1.7m in operating profits in 2015, this Jersey-based voice, data and contact centre specialist slumped to a £103,000 loss in its year to 31 December 2016. Revenue slid 13 per cent. It blamed the downturn on a slowdown in its rollout programme with a key customer, Kraft Heinz, adding that group recharges also hit its results.

30 Bamboo Technology

Revenue: £12m
Operating profit: £224,000
Operating profit margin: 1.9%

This Cheltenham-based mobile and telecoms specialist said it was pleased with its results for the year to 30 June 2017, which saw it return to profitability, despite sales slipping six per cent. It is a service provider of O2 Services, owning contracts with 51,000 subscribers, but added Vodafone as a second network during the year. It also offers fixed-line services and telephony systems.

31 Adept4

Revenue: £10.3m
Operating profit: £11,000
Operating profit margin: 0.1%

With over 100 staff, this AIM-listed Microsoft CSP and Mitel Gold partner is headquartered in Warrington and also has offices in Leeds, Aberdeen and Brighton. Following a year of "substantial M&A activity", the fiscal year ending 30 September 2017 was a period of "integration, consolidation and rationalisation" for Adept4, whose revenues more than doubled in the period from £4.9m to £10.3m. It claims to be seeing "real success" with Anywhere 365, a Skype-native contact centre solution.

32 Pennine Telecom

Revenue: £8.5m
Operating profit: £225,000
Operating profit margin: 2.6%

Established in 1976 as a Motorola two-way radio repair specialist, this Bury-based fixed and mobile comms specialist grew revenues 16 per cent in its year to 31 December 2016, with operating profits down slightly to £225,000. Part of the Nycomm Group, it counts Avaya, Hytera, Microsoft, Polycom, EE and O2 among its vendor partners.

33 Datasharp

Revenue: £8.5m
Operating profit: £647,000
Operating profit margin: 7.6%

Based in Truro, Cornwall, Datasharp described its results for the year to 31 March 2017 as "encouraging". The Microsoft, Unify and Shoretel/Mitel partner, whose portfolio spans voice, connectivity, IT, WiFi, print and infrastructure, claims to have 30,000 customers. Following a redesign in October, Datasharp now boasts a slick website that includes a well-produced video case study with Goonhilly Earth Station.

34 Excalibur Unified Communications

Revenue: £7.7m
Operating profit: £685,000
Operating profit margin: 8.9%

This Swindon-based mobile and voice specialist has acquired a string of IT providers in quick succession as it repositions itself as a complete comms and IT partner. This includes the support services division of Ntegra in April 2017. For its year to 30 June 2017, Excalibur posted operating profits of £685,000 on revenues that rose six per cent on a pro-rated basis.

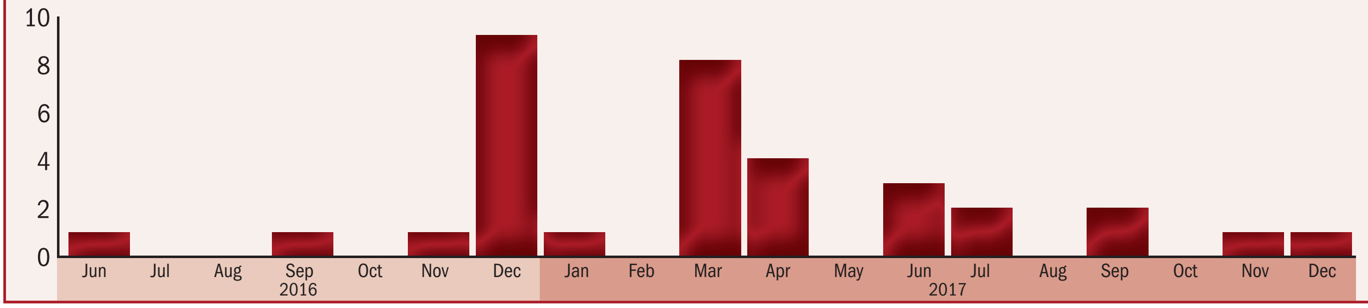
35 IP Solutions

Revenue: £7.3m
Operating loss: £715,000
Operating profit margin: -9.8%

This London-based cloud comms provider put itself up for sale in March 2017 and admitted that it would need new investment if it was to continue growing while meeting its obligations. It made a loss in its year to 30 November 2016 to the tune of £715,000 on flat revenues of £7.3m. Fortunately, LDC stepped in to buy IP Solutions in October last year and the private equity specialist has pledged to build scale by funding a series of acquisitions. IP Solutions claims to have more than 200 small and mid-sized business customers.

Year ends

The graph below shows the year end for the last sets of annual accounts filed by each of the 35 comms resellers featured in this report (with the exception of Focus Group, whose figures are drawn from an annual report on its website). Year ends vary from June 2016 (in the case of Nine Telecom Group) to December 2017 (in the case of Maintel).



Acquisition watch

The comms channel has seen a frenzy of M&A activity as the top providers move to bolster their end-to-end capabilities. Here we highlight select acquisitions made by the top 35 since the start of 2016

"We are in no rush and the funds will be focused squarely on strategic investments that provide us with speed, scale, and market share."

GCI CEO Adrian Thirkill told CRN in April that the Microsoft specialist will continue on the acquisition trail after bagging a £60m investment from private equity house Mayfair.

"We've bought something like 100 different businesses over the last five years and we've cocked some things up; we will continue to cock some things up, but we try not to do it again and again. We aspire to do a great job every time, but we don't always because that's what life is like."

Talking to CRN in March, Chess CEO David Pollock reflected on the firm's M&A track after being crowned the top UK workplace by the Sunday Times' Best Companies to Work for in 2018.

daisy
Alternative Networks (December 2016)
TalkTalk Direct B2B arm (May 2018)
Voice Mobile (June 2018)
DV02 (June 2018)

maintel
Azzurri (May 2016)
Intrinsic (August 2017)

chess
Lanway (June 2016)
Foursys (April 2017)
Frontier (May 2018)
StoneHouse (May 2018)

GCI Enabling your future
Outsourcery (June 2016)
Packet Media (September 2016)
Freedom (January 2017)
Blue Chip (July 2017)

sabio
Rapport (March 2017)
Datapoint Europe (July 2017)
Bright (March 2017)

elitegroup UNIFYING BUSINESS, DELIVERING SOLUTIONS
SystemHOST (July 2016)
NetCentrix (July 2016)
Comms Supply (April 2017
Nexus (June 2017)
Support Span (January 2018)

AdEPT
Our IT Department (February 2017)
Atomwide (August 2017)

arrow
Pulse Business Energy (March 2017)
Worksmart Technologies (July 2017)
Siebert Telecom (November 2017)
Reeves Lund (March 2018)
360 Solutions (June 2018)

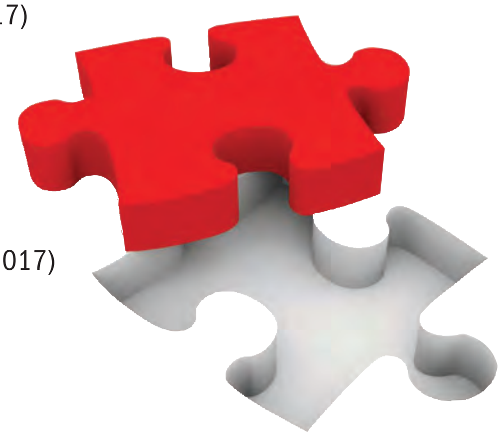
SOLAR IT SOLUTIONS (PVD) PVT LTD
RDC (July 2016)
Denwa (December 2016)
TWL Voice & Data (September 2017)

wavenet
Talk Internet (March 2017)
Swains (June 2017)
APR Telecom (April 2018)

connect MANAGED SERVICES
PC-1 (July 2017)
CoolHarbour (January 2018)
UVN (January 2018)

COMMSWORLD
ECS (May 2018)

excalibur Communications and IT for Business
Devision (February 2016)
Ntegra's support arm (April 2017)
Techs4Educations (June 2018)



Top 35 comms resellers: Revenues and profits

	Revenue	YoY growth	Operating profit	Operating profit margin
Daisy	£602.8m	17.8%	-£14.7m	-2.4%
KCOM	£331.3m	-5.1%	£32.8m	9.9%
Maintel	£133.1m	22.9%	£4.4m	3.3%
Chess	£110.3m	24.7%	£6.5m	5.9%
Six Degrees*	£101.6m	24.8%	-£20.0m	-19.7%
Timico Technology Group	£55.7m	5.6%	-£1.7m	-3.1%
Focus Group**	£55m	20.9%	£7.0m	12.7%
GCI	£51.9m	7.7%	-£2.2m	-4.2%
4Com	£51.2m	24.1%	£625,000	1.2%
Nine Telecom Group***	£43.7m	-6.4%	-£342,000	-0.8%
Sabio	£43.4m	4.1%	£1.6m	3.8%
Elite Group	£40.2m	21.6%	£3.4m	8.4%
Adept Telecom	£34.4m	19.2%	£4.3m	12.6%
Excell Group	£33.2m	10.4%	£3.2m	9.7%
Natilik	£32.6m	21.0%	£1.6m	4.8%
Olive Communications	£28.3m	2.6%	-£2.9m	-10.4%
Arrow Business Communications	£21.6m	-9.2%	£1.2m	5.5%
Charterhouse Voice & Data	£20.5m	5.6%	£1.6m	7.8%
IP Integration	£20.3m	11.6%	£577,000	2.8%
South West Communications Group	£19m	3.1%	£368,000	1.9%
G3 Comms	£16m	-2.8%	£952,000	6.0%
Bistech	£15.4m	12.6%	£5.4m	35.2%
Solar Communications	£14.8m	10.7%	£122,000	0.8%
Wavenet	£14.4m	4.8%	£1.4m	9.9%
Britannic Technologies	£13.4m	0.5%	£1.3m	9.7%
Connect Managed Services	£13.3m	38.8%	£478,000	3.6%
CommsWorld	£13.2m	27.6%	£616,000	4.7%
4NET Technologies	£13m	81.0%	£768,000	5.9%
JT (Global) Limited	£12.8m	-12.9%	-£103,000	-0.8%
Bamboo Technology	£12m	-6.1%	£224,000	1.9%
Adept4	£10.3m	108.6%	£11,000	0.1%
Pennine Telecom	£8.5m	15.7%	£225,000	2.6%
Datasharp	£8.5m	0.2%	£647,000	7.6%
Excalibur	£7.7m	5.5%	£685,000	8.9%
IP Solutions	£7.3m	1.0%	-£715,000	-9.8%
Total	**£2.011bn**	**14.6%**	**£39.3m**	**3.9%**
YoY growth	**11.6%**			

*figures for previous year pro-rated to take account of shortened period **figures taken from annual report, not Companies House data, and are approximate
***figures for current year pro-rated to take account of elongated year

Top 35 comms resellers: Headcount and average (mean) wages

Data based on 'average monthly number of employee' and 'wages and salaries' figures displayed in most recent accounts

	Headcount	Previous year		Average wage	Previous year
Daisy	3,479	3,201		£36,368	£33,657
KCOM	1,712	1,706		£42,411	£43,960
Maintel	652	548		£51,383	£52,126
Chess	528	429		£31,867	£27,699
Six Degrees	539	475		£44,985	£39,517
Timico Technology Group	357	323		£38,627	£35,607
Focus Group	200	N/A		N/A	N/A
GCI	269	228		£34,587	£34,860
4Com	319	237		£43,959	£45,844
Nine Telecom Group	107	157		£60,847	£38,943
Sabio	208	196		£60,644	£68,592
Elite Group	146	110		£40,260	£44,145
Adept Telecom	89	62		£46,528	£50,323
Excell Group	178	160		£43,287	£40,925
Natilik	110	96		£66,245	£65,479
Olive Communications	142	163		£49,127	£41,933
Arrow Business Communications	125	121		£33,536	£34,694
Charterhouse Voice & Data	122	116		£40,582	£38,845
IP Integration	99	86		£73,747	£70,895
South West Communications Group	138	130		£35,725	£34,846
G3 Comms	73	63		£36,726	£42,587
Bistech	72	64		£39,792	£42,406
Solar Communications	77	79		£46,273	£44,582
Wavenet	42	36		£59,810	£59,194
Britannic Technologies	79	78		£57,089	£57,821
Connect Managed Services	68	64		£54,956	£55,859
CommsWorld	67	56		£38,299	£39,536
4NET Technologies	48	35		£56,958	£54,000
JT (Global) Limited	55	58		£76,309	£73,845
Bamboo Technology	55	56		£30,455	£35,286
Adept4	105	77		£34,400	£24,948
Pennine Telecom	70	64		£33,714	£29,906
Datasharp	76	74		£28,553	£27,838
Excalibur	58	52		£34,966	£36,077
IP Solutions	30	22		£53,967	£48,182
Total	**10,494**	**9,422**	**Average**	**£45,794**	**£44,558**

Comms reseller report summary

The comms channel is on a journey of reinvention

Comms VARs have spent recent years transforming themselves from mobile or PBX resellers into end-to-end comms, cloud and IT services providers. This journey is best summed up by market giant Daisy, which – through a string of acquisitions including Phoenix IT and Alternative Networks – has moved rapidly beyond its roots as an SMB telecoms provider to become a £700m comms, cloud and IT services powerhouse. But the pattern is being repeated across the market, including at Elite Group, Olive, Charterhouse, G3 Comms, Solar and Excalibur.

Those who can't make the change are selling up

Not all resellers in the comms space have been willing – or able – to make the increased levels of investment needed to remain relevant in the market. This has led many owners to give up the ghost, and sell up to a more ambitious competitor. More legacy players will come to this conclusion in the coming years as the convergence trend accelerates, which will continue to drive feverish M&A activity in the sector.

Top 35's revenue growth is an illusion

The top 35 comms resellers grew their collective revenue 11.6 per cent to £2.01bn in their last financial years on record. Although that sounds pretty impressive, most – if not all – of that growth can be attributed to consolidation, with an M&A frenzy artificially boosting the top lines of about half of the companies in this report.

Comms resellers are losing their margin advantage

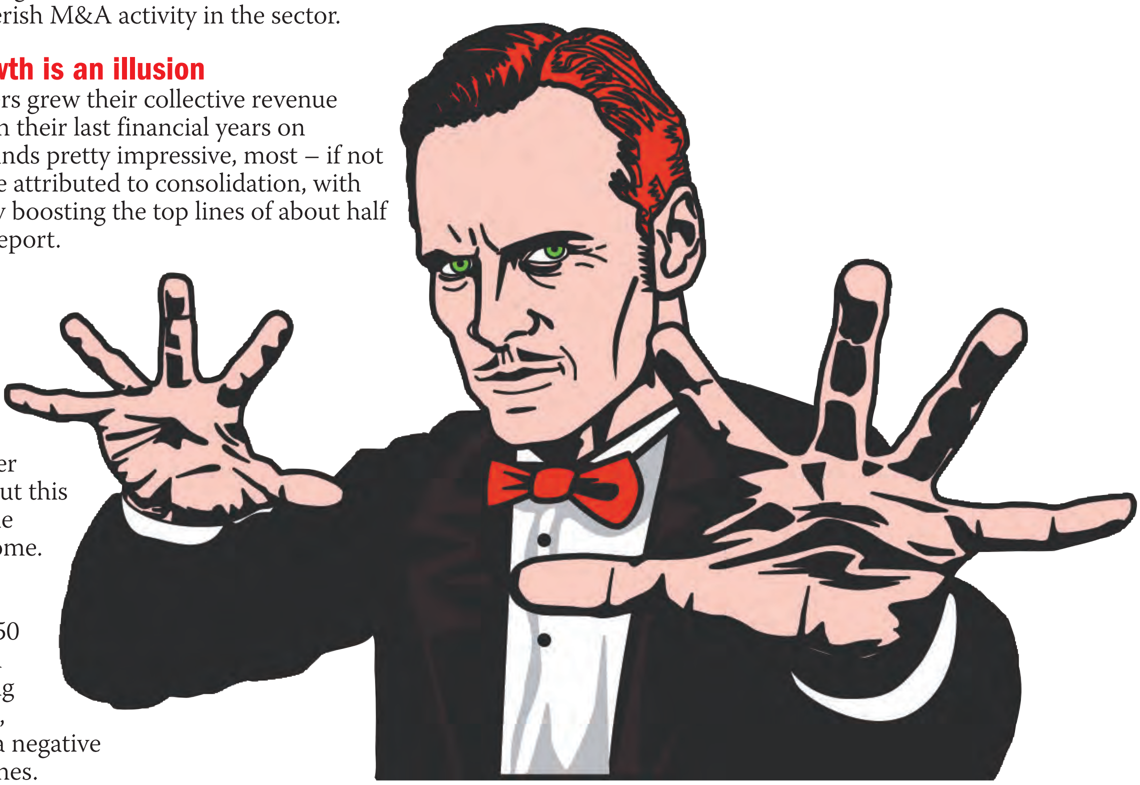
Margins associated with traditional comms products are higher than in IT, due to the lower cost of service involved, but this advantage is eroding as the convergence trend hits home. At 3.9 per cent, operating profit margins are now in line with the wider Top 250 UK IT resellers. Although comms resellers are having to broaden their offerings, this is sometimes having a negative impact on their bottom lines.

Avaya's woes have taken their toll

Many of the 35 providers in this report count Avaya as their largest technology partner. Although Avaya insists its Chapter 11 bankruptcy was about restructuring its balance sheet, rather than an issue of solvency, its partners felt considerable pain as a result of its financial woes. Some reported a slowdown in new Avaya business last year, with others complaining that it affected their margins. The vendor has a lot of work to do to win back channel hearts and minds in 2018.

Pockets of growth are emerging

The comms market may be flat, but the rise of new technologies and delivery models is providing pockets of growth for resellers. Unified-communications-as-a-service is one obvious hotspot, with SD-WAN also gathering pace. In the contact centre space, virtual assistants are currently setting the market alight.



Incisive Media, New London House, 172 Drury Lane, London WC2B 5QR Tel: (020) 7484 9000

CRN CHANNELWEB.CO.UK

Editor Doug Woodburn 9817 **Senior reporter** Tom Wright 9797 **Reporter** Marian McHugh 9883
Content editor Josh Budd 9854 **Reporter** Nima Green 9781
Senior production editor Amy Micklewright

Commercial director Matt Dalton 9896 **Head of global sales** Nina Patel 9943
Account director Jessica Feldman 9839
Group publishing director Alan Loader
Managing director, Incisive Media Jonathon Whiteley

incisivemedia