

VG to be acquired by Ericsson for ~\$6.2 billion or \$21 per share in cash

- ✓ Today, Vonage announced that its Board had unanimously approved an agreement to be acquired by Swedish-based Ericsson (NASDAQ: ERIC) for ~\$6.2 billion or \$21 per share in cash (compared with our initial fair value estimate of \$20 per share).
- ✓ The purchase price represents a premium of 28% to Friday's closing price and a ~35% boost on a 3-month VWAP basis. By our calculation, the transaction values VG at 4.45x 2021E sales and 31.5x 2021E EBITDA, which seems fair. [For context, our valuation framework valued VG's Consumer business at 1.0x 2023E EBITDA and applied a blended multiple of 3.4x to VCP 2023E sales, which reflected multiples of 4.0x and 2.5x on the API and UC/CC business; see Exhibit #2 on page 2.]
- ✓ The deal, which still requires shareholder and regulatory approvals, is expected to close in 1H 2022.
- ✓ Anecdotally, VG indicates that as part of its strategic review the company reached out to "a number of potential strategic and financial partners"; to that end, along with our view that the valuation is adequate, it is our initial inclination that the transaction is unlikely to face any additional competition.
- ✓ Ericsson will hold a conference call this morning at 9:30 a.m. (ET) to discuss the acquisition; call-in at (631) 913-1422 (with pin code 89920727#).

Vonage Holdings Corp.

(NASDAQ: VG)

Date (11/22/21)

Price \$16.37/share

Market capitalization ~\$4.13B

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(See the report dated 9/14/2021 and updates from 11/4/2021 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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HIDDEN OPPORTUNITIES

“Valuing possible breakups by providing sum-of-the-parts analysis.”

Exhibit #1 Vonage: 2021E Financial Guidance Progression

(\$ in millions, except per share figures)

	<u>2021E</u> <u>Initial</u>	<u>2021E</u> <u>Previous</u>	<u>2021E</u> <u>Previous</u>	<u>2021E</u> <u>Current</u>
Total VCP revenue	\$1.038 - \$1.054 billion	\$1.062 - \$1.071 billion	\$1.095 - \$1.106 billion	\$1.113 - \$1.121 billion
VCP Service revenue	\$986 million - \$1.003 billion	\$1.010 - \$1.02 billion	\$1.038 - \$1.049 billion	\$1.055 - \$1.063
Y-o-Y growth	15% - 17%	18% - 19%	20% - 22%	23% - 24%
Total Consumer revenue	~\$285 million	~\$285 million	~\$288 million	\$293 - \$301 million
Total consolidated sales	\$1.323 - \$1.339 billion	\$1.347 - \$1.356 billion	\$1.383 - \$1.394 billion	\$1.400 - \$1.409 billion
VCP adjusted EBITDA	\$5.0 - \$9.0 million	\$0.0 - \$5.0 million	\$4.0 - \$9.0 million	\$8.0 - \$12.0 million
Consumer adjusted EBITDA	\$185 - \$189 million	\$185 - \$194 million	~\$185 million	~\$186 million
Total adjusted EBITDA	\$190 - \$200 million	\$185 - \$194 million	\$189 - \$194 million	\$194 - \$198 million
Capex	~\$60 million	~\$65 million	~\$65 million	~\$60 million

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

Exhibit #2 Vonage: Sum-of-the-Parts Fair Value

(\$ in millions, except per share figures)

	<u>Consumer</u>	<u>VCP</u>	<u>Enterprise</u> <u>Value</u>	<u>Net Cash</u>	<u>Market Cap</u>
2022E Revenue	\$251.1	\$1,319.7			
2023E Revenue	\$219.3	\$1,625.0			
2023E EBITDA	\$136.0	-		(\$475.5)	
Applied multiple	1.0x	3.4x		1.0x	
Enterprise value	\$136.0	\$5,492.2	\$5,628.2	(\$475.5)	\$5,152.7
Diluted shares	<u>260.0</u>	<u>260.0</u>		<u>260.0</u>	<u>260.0</u>
Per share basis	\$0.52	\$21.12		(\$1.83)	\$19.82
Bull	\$1.05	\$27.37		(\$1.83)	\$26.59
Base	\$0.52	\$21.12		(\$1.83)	\$19.82
Bear	\$0.00	\$14.87		(\$1.83)	\$13.04

Source: Company reports, Bloomberg, and Institutional Research Group estimates.

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