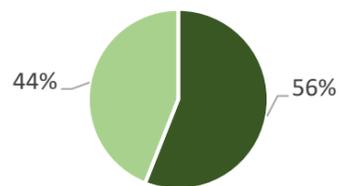


Company Overview



■ Services ■ Products

Figure 1. Revenue Breakdown FY18 Rev
Source: Avaya Investor Relations Report 2018

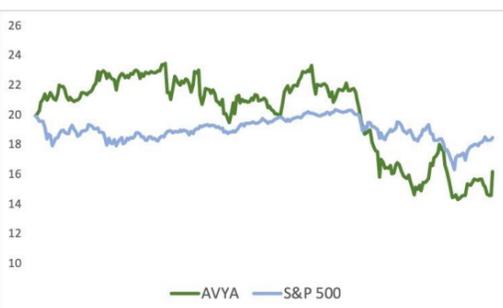


Figure 2. AVYA, S&P 500 1-year stock price chart
Source: Bloomberg

Avaya Inc. provides contact center, unified communications, and networking products and services worldwide. The two main operating segments are Product & Solutions, and Services. This would encompass conferencing, communications and messaging platforms and infrastructure, Internet protocol networking infrastructure products, professional product support and integration services. For on-premise systems, a one-time fee is charged while cloud-hosted systems are charged monthly by per user basis.

TPG Capital and Silver Lake Partners took Avaya private for \$8 billion in 2007. Burdened by its debt and inability to compete with other players, Avaya filed for Cat.11 bankruptcy in early 2017 and completed its restructuring efforts by late 2017. The firm subsequently begun trading on NYSE in Jan 2018.

In Millions of USD except Per Share	FY 2017A	FY 2018A	FY 2019F	FY 2020F
Revenue	3,272.0	2,851.0	3022.06	3203.384
Growth Rate %	-12%	-13%	6.00%	6.00%
GAAP EBITDA	370	3768	695.07	736.78
Adjusted EBITDA	866.0	746.0	695.07	736.78
Margin %	26%	26%	23%	23%
Net income	-182.0	3,264.0	383.80	406.83
Margin %	-6%	114%	12.70%	12.70%
EV/EBITDA	N.A	5.8	6.2	5.9
P/E	N.A	5.00	5.00	4.72

*FY18 EBITDA was more than Revenue due to a one-time reorganisation gain of \$3,416 million in FY18

Investment Thesis

1. On-boarding Of Mature Cloud Solution Through The Acquisition Of Spoken Communications

The market has assigned a 6.2x NTM EV/EBITDA multiple to Avaya, a significant discount to the peer group average of 9.9x due to concerns over its ability to transition customers to a cloud based offering. We believe that these fears are overblown as Avaya's management has prioritized this issue, and acquired Spoken Communications to gain cloud capabilities. They plan for a 50% increase in investments into cloud and innovation over the next 3 years, and have set a long-term target of 25% revenue from cloud products.

2. Growth Runway is in Line with their Major Customers

Avaya's core customers are large corporations, which are at least a few years away from adopting cloud solutions. We believe this aligns Avaya nicely with the cloud integration plans of their corporate customers, as the former would have the time to consolidate a robust portfolio of cloud products.

3. Further Deleveraging Plan Will Boost Shareholder Earnings Through a Bolstered Equity Value

Avaya is currently levered 3.3x net Debt/Adj. EBITDA. It aims to reduce this to 2.5x. Assuming that it takes 3 years to achieve this, given its LTM free cash flow of roughly 300m and Adjusted EBITDA of ~800m, equity value should increase by ~200m annually, which is a roughly 15% increase on the current market cap. of 1.9b. Furthermore, as Avaya recently emerged from bankruptcy, it is still not included in many indexes. We believe additions to index down the road will drive inflow of funds and increase in market cap further.

12M Industry Outlook

1. A market in transition

The contact centre market had undergone important changes since the inception of a contact centre concept. Current communications systems are beginning to realize a boost from digital transformation and many clients are transitioning to a Cloud Hosted Voice-over IP (VoIP) system. Due to the greater flexibility, reliability and improved scalability for Cloud Hosted VoIP, more organizations are adopting the new system. The industry is expected to enjoy a growth rate of 6% for the year with a CAGR of 5% over the next 4 years.

2. Rising importance in Business communications

As businesses globalize and have employees in different geographic locations, communications between employees and between business must adapt. The concept of Unified Communications (UC) seek to unify communications services like instant messaging and video conferencing on a single platform. Because of the way it streamlines communications, it is expected at an ~8% CAGR for the next 3 years.

FIGURE 5

Total Contact Center Market (\$bn)



Source: IDC Estimates, Barclays Research

Figure 5. 2017-2021 Growth in Total Contact Center Market. (USD Billions) against Year-on-Year growth (%)

Source: Barclays Research

Valuations

A +1FY EV/EBITDA of 7.5x was used for Avaya Inc. for its valuation, 20% below the median of 10.2x that its peers is currently trading at. We believe this is an appropriate multiple, similar to legacy tech peers like IBM which suffer from slow growth and fast growing SaaS competitors

With a projected EBITDA margin of 23% (provided by AVAYA) the 2019F EBITDA comes in at \$695 million. We subsequently calculated the implied equity value by using the projected FY19 debt and cash levels.

With the above assumptions, we arrive at a target price of \$23.51, presenting a 35.8% upside for investors. As such, we are initiating a BUY call for Avaya Inc.

Small-Cap Comp	Market Cap (USDmn)	EV/EBITDA	Large-Cap Comp	Market Cap (USDmn)	EV/EBITDA
Mintel Networks	1,352	7.6x	IBM	138,111	8.7x
Nuance Communications	5,052	16.6x	CISCO	221,161	10.8x
Teradata	4,429	10.4x	Microsoft	810,722	15.5x
Citrix Systems	14,716	13.9x	Oracle	187,424	9.6x
Mean	6,387	12.1x	Mean	339,355	11.2x
Median	4,741	12.2x	Median	204,293	10.2x

Comparable Universe

+1FY EV/EBITDA Implied TP	
2019E EBITDA	695.00
Target EV/EBITDA	7.5x
Implied EV	5,213
Implied Equity Value	2,587
Implied Target Price	\$23.51
Last Price as of 08-Jan-18	\$17.32
Upside/Downside	35.8%

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