

GTT'S DEALMAKING PLAYBOOK

CEO Rick Calder discussed competing with the incumbent telecoms, buying up ankle biters and his three criteria for acquisitions, with The Deal.

BY CHRIS NOLTER

Cloud networking services provider GTT Communications Inc. (GTT) has rolled up 10 companies in the last two years.

"Given the fact that there wasn't a natural consolidator out there, we chose to take that role," GTT CEO Rick Calder told The Deal. The most recent were the October purchase of Access Point, Inc. for about \$40 million in cash and stock, and the €1.9 billion (\$2.3 billion) cash acquisition of Interoute Communications Holdings S.A.

"In 2017 and 2018 we almost quadrupled the size of the business," Calder said, noting that revenues were about \$500 million at the end of 2016 and now approach \$2 billion. The pace of deals will slow but not likely stop this year. "We're very focused this year on demonstrating organic growth, and we'll continue to do selective acquisitions," he said.

McLean, Va.-based GTT competes for large corporate and enterprise clients against incumbent telecoms such as AT&T Inc. (T), Verizon Communications Inc. (VZ) and CenturyLink Inc. (CTL) in the U.S., and BT Group plc, Deutsche Telecom AG and Orange S.A. in Europe. Wall Street expects about \$1.9 billion in 2019 sales, according to FactSet.

"If it's a \$200 billion market and we're under a \$2 billion company," he said of the large telecoms. "We have less than 1% market share and they own the majority of the market share."

Many of the large telecom are not emphasizing the corporate networking business. AT&T, for instance, has shifted to media with the purchases of Time Warner Inc. and DirectTV. Verizon, meanwhile, emphasizes its mobile phone business. "Is the intensity of the competition higher or lower? I'd say it's lower mainly because the incumbents aren't as focused," Calder said. "The biggest thing we fight against is brand recognition."

Calder has three criteria for acquisitions.

First is business alignment. "It has to actually be implementing our strategy of providing cloud networking services to large multinational clients," he said. "We're



GTT CEO Rick Calder

not looking for a business that is serving the consumer market or predominantly small and midsize businesses that have one or two locations in a specific geography."

Second, he said, GTT has to be able to integrate the business in one to two quarters.

Lastly, the deal should be accretive in two to three quarters. "We're not looking for accretion two years out," he said. With the small deals, GTT is looking to multiples under five times Ebitda after synergies. "Given that we trade for close to a double-digit multiple, we want to make it very highly accretive," he said.

Even though GTT will prioritize organic growth this year, Calder said there are "probably 70 to 80" acquisition opportunities in its funnel.

Many of the attractive targets are what he termed "ankle biters."

"You have seen a lot of small firms emerge that can do a credible job, on a sub-scale basis, of serving a set of clients," Calder said. "And as we look at acquisition opportunities, we really see the opportunity to add client bases to our platform very accretively."