

Evolution of the Internet of Things – an M&A perspective

SPOT ON | INTERNET OF THINGS | JULY 2020

INTRODUCTION

The relevance and impact of the Internet of Things on the economy, but also society in general, has seen continuous growth in recent years. With better infrastructure, sophisticated devices and software solutions, IoT is deeply involved not only in industrial production processes, but also our daily life. The Oaklins' IoT team has solid expertise in the industry, not only regarding trends, but also M&A rationale and strategic drivers. In this Spot On, we would like to present some insights into the industry and valuation. We would be more than glad to discuss specific areas directly with you, so please do not hesitate to contact us.



Worldwide M&A spending on IoT

Jan P. Hatje
Managing Partner, Hamburg



Strong appetite for IoT acquisitions in the Nordics

Kim Harpøth Jespersen
Partner, Copenhagen



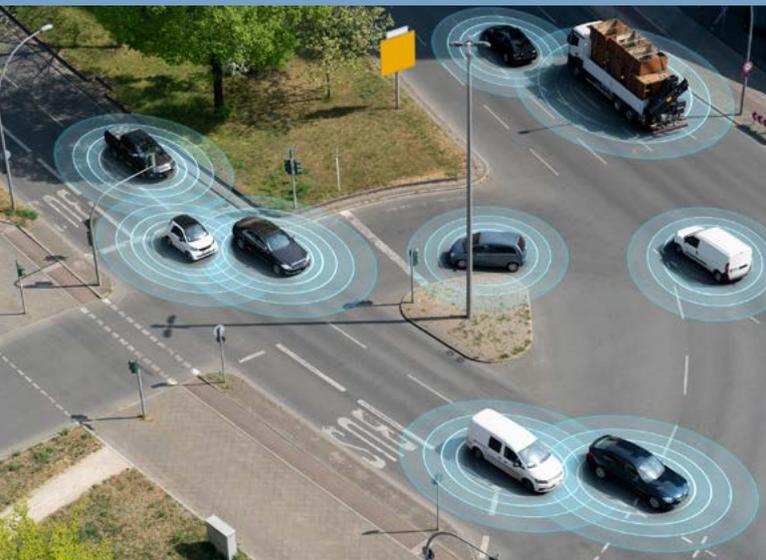
The impact of COVID-19 on IoT

Jonathan Tooth
Director, Melbourne



Food and agro sectors to fuel IoT advancements in Brazil

Frederico Toledo
Senior Associate, São Paulo



WORLDWIDE M&A SPENDING ON IOT

JAN P. HATJE, IOT SPECIALIST, OAKLINS

The spending on Internet of Things (IoT) acquisitions has been increasing in recent years.

With about US\$863 million capital invested in acquisitions between 2017 and 2019, companies in the manufacturing sector have spent by far the most on takeovers of IoT targets. In comparison, Retail and Healthcare companies have spent US\$450 million and US\$291 million on IoT-related acquisitions and rank as sector two and three, respectively. Across all sectors, companies aim to accelerate their development of IoT-related applications and to increase their level of necessary expertise by acquiring the most promising targets. What are the drivers and barriers to increasing IoT investments and what do we expect for the future?

IOT ADOPTION: DRIVERS, BARRIERS AND OUTLOOK

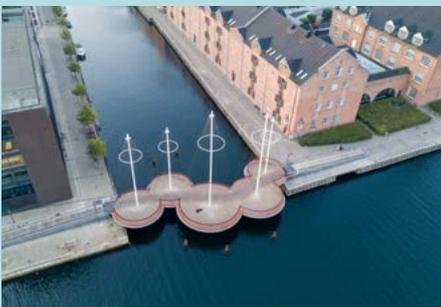
To get a better understanding of the overall market development, let's take a look at the underlying reasons for and against IoT adoption. Results of a survey analysis on the drivers of IoT adoption reveal (i) IT security improvements, (ii) reduction of operational costs, and (iii) improved internal efficiency as the top three reasons to move towards more IoT applications. In contrast, upfront costs, technological capabilities and infrastructure limits are mentioned as some of the top challenges blocking IoT adoption. These blockages, however, are predicted to increasingly disappear. For instance, as fundamental technology for IoT applications, the market share of 5G connections is predicted to reach >30% in Europe and up to 50% in North America and developed Asian countries by 2025. Overall, significant efficiency gains and decreasing barriers of IoT adoption provide further promising growth

potential. In such a dynamic and rapidly-evolving market environment, acquisitions of selected and promising targets have evidently been a successful strategy. In line with the increasing application of IoT, we expect M&A activity to further increase.



STRONG APPETITE FOR IOT ACQUISITIONS IN THE NORDICS

KIM HARPØTH JESPERSEN, PARTNER, COPENHAGEN



In the Nordics, large corporates have had their eyes on IoT solutions since the early days. This stems from a recognition that adding IoT solutions to the product range is key to be a long-term industry

leader. Despite investment of substantial funds and resources into developing their own solutions, many industrial companies are increasingly pursuing acquisitions of relevant, cutting-edge IoT technology.

Recent IoT-related add-on acquisitions made by Nordic industrial companies include **Danfoss'** acquisition of **LeanHeat**, **A.P. Moeller-Maersk's** venture investment in **Onomondo** and Sandvik's acquisition of **Newtrax**.

Private equity houses recognized a long time ago the value creation opportunity

in acquiring companies with promising IoT technologies which have not yet demonstrated the true market potential. Recent examples of such acquisitions include **Verdane's** acquisition of **Danelec Marine**, a Denmark-based developer and producer of hardware and software for data collection and safety in the maritime industry, **Adelis'** acquisition of **Nordomatic**, a Sweden-based developer of building automation systems, and **GRO Capital** and **Goldman Sachs'** joint acquisition of **Trackunit**, a Denmark-based provider of fleet management solutions.

THE IMPACT OF COVID-19 ON IOT

JONATHAN TOOTH, DIRECTOR, MELBOURNE



Global economic growth has come to an abrupt halt and the IOT sector is being impacted.

Given its rapid evolution and considerable economic benefits, the covid-19 driven slowdown of IoT will be moderate. The impact from COVID-19 together with the likely recession resulting from the halt to economic growth could force companies to adopt new technology faster. COVID-19 is likely to see a more rapid implementation in

areas of digital health, people-track and testing, whilst a recession can bring forward investment that will result in an immediate cash flow benefit. However, as the investment usually comes with an upfront capex impact, it will often be deferred as staying in business becomes a key priority as reduced profits or losses impact available cash. Of course, this can be overcome by raising additional equity or taking advantage of credit facilities. A recessionary environment impacts the equity and debt markets, but to date, equity markets have so far proven to be quite resilient and debt

markets – at least in the short term – have been very helpful.

The impact on IOT providers is similar to business in general. Some will get a lift from the crisis, such as in those areas detailed above, but many will get delays and postponements and this will exacerbate their cash flow. Those in the hotter sectors will find it easy to raise equity or debt funding, but others will struggle and will have to consider alternatives. This will create opportunities for larger/better-funded companies to acquire/merge.

FOOD AND AGRO SECTORS TO FUEL IOT ADVANCEMENTS IN BRAZIL

FREDERICO TOLEDO, SENIOR ASSOCIATE, SÃO PAULO

For the second consecutive year, IoT is the technology with the highest business transformation potential in the short term. The IoT market, together with data processing technologies and AI, have been growing extensively in Brazil, allowing for the development of scalable and dynamic solutions for different markets. In Brazil, a segment that is already evolved and a step ahead in the adoption of IoT is the manufacturing sector. Technologically advanced and filled with supervisory systems, this

sector already has a good database that can be transformed into something very useful for the development of businesses using IoT technology. Examples could be the installation sensors that would evaluate the need of different items and notify management if some metric was out of the ordinary.

The agro business is another segment that should quickly adopt the technology, since it is estimated that world demand for food will increase extensively in the

near future. Brazil will be a key player in helping meet this increasing demand, making it necessary for businesses in the sector to adapt, optimize processes and increase production through the use of IoT. Finally, solutions that would affect sustainability factors, such as saving energy and water resources, could also see a high growth in the short term.



Case study

THE PRIVATE SHAREHOLDERS OF GARZ & FRICKE GMBH HAVE SOLD THE COMPANY TO AFINUM MANAGEMENT GMBH. FINANCIAL DETAILS HAVE NOT BEEN DISCLOSED.

Founded in 1993 and based in Hamburg, Garz & Fricke is a successful provider of embedded systems and Internet of Things solutions.

The core competencies of the company are the development, design and manufacture of electronic assemblies and ARM-based embedded solutions with compatible operating systems. For their vending machines in particular,

the IoT solutions allows a predictive maintenance routine and enables the vendor, to optimise the re-fill logistic, especially for machines far away. Furthermore, the vendor can use the data additional capabilities of data collection for its big data analysis, up to inclusion of AI solutions.

AFINUM is an independent investment company owned by its management. The firm has offices in Munich, Zurich, Vienna and Hong Kong and specializes in investments in successful medium-sized companies in the DACH region.

Oaklins' team in Germany advised the shareholders of Garz & Fricke on the sale of shares. Within the scope of an internationally structured process, the buyer was selected from more than 50 prospective parties and the transaction was successfully closed.

GARZ  **FRICKE**

has been acquired by

AFINUM

M&A SELL-SIDE

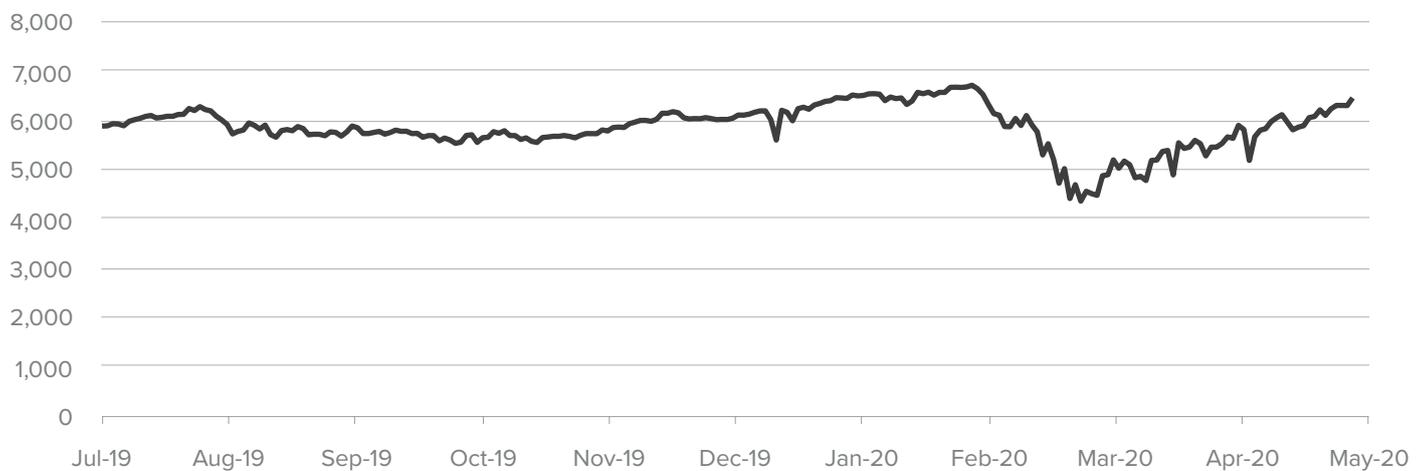
Private Equity/TMT

Valuation trends

Despite the decline in all verticals due to COVID-19, the market has recovered quickly and is expected to continue its growth path. The crisis has shown that business and supply chain transparency, with the help of big data, are key to becoming more resilient in a major crisis. The increase in people working from home will also positively influence demand for IoT applications.

For the purpose of this analysis, the market is divided into eight layers, thereby separating the different business models in the industry, such as hardware and software applications. The Oaklins IoT Index shows the sum of the market caps of all peer group companies in all layers.

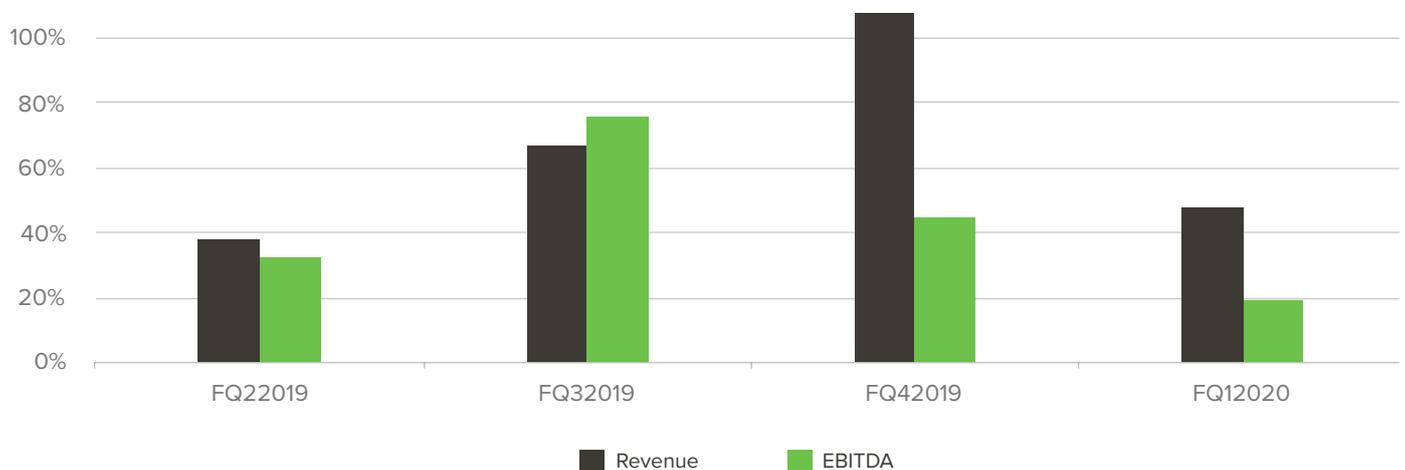
Marketcap of index



Source: Capital IQ, Oaklins

The reduction in market value mirrored the earnings reports of the first quarter of 2020, which showed the overall decline in revenue and earnings due to COVID. More positive news in Q2 2020 were followed by an upswing in market values back to post-COVID levels.

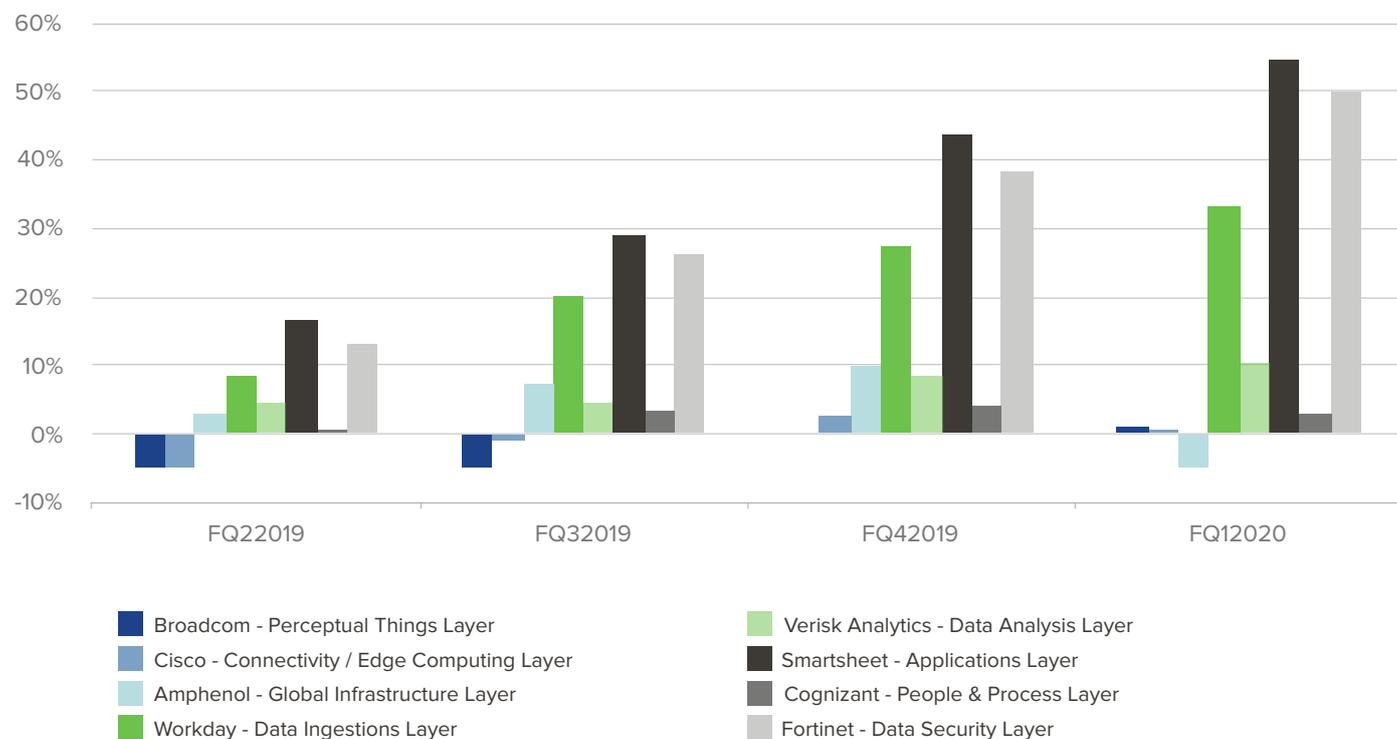
Financial development of index



Source: Capital IQ, Oaklins

The illustration below shows the development of the financial performance of sample companies from each layer in comparison to their results from Q1 2019. It is clear that the different layers of the IoT market were impacted unevenly by COVID. While software applications flourished, consulting and other services were significantly impacted.

Performance of sample companies



Source: Capital IQ, Oaklins



“While the Internet of Things (IoT) is a fundamental game-changer for the economy and our daily lives, 5G is the required accelerator! 5G will allow artificial intelligence (AI) and predictive learning to thrive from anywhere, meaning the creation of truly useful IoT. This will enhance market volume and growth and will fuel M&A activity.”

JAN P. HATJE
IOT SPECIALIST, OAKLINS

Deep local roots, global commitment

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OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

Internet of Things is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become the most experienced M&A advisor in the Internet of Things sector, with a large contact network of the most relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for IoT companies.

If mergers, acquisitions or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

✉ JAN P. HATJE

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Jan leads Oaklins' internet of things team. He is also a managing partner at Oaklins Germany. Jan has a strong network in this industry and is in regular contact with the key players. As part of his sector focus, he continuously follows developments, publishes newsletters and attends the major events. He has advised a number of clients either on M&A or on strategic development. He has a deep understanding of the market dynamics and value drivers regarding smart devices, connectivity, big data and intelligent solutions. Notable transactions Jan has completed include Garz & Fricke, vyzVoice and Höft & Wessel (now Almex).

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