

# MNOs should be wary of less risk-averse, investor-backed IoT connectivity disruptors

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IoT connectivity disruptors that are backed by private equity and venture capital investors are often prepared to take more risks to deliver revenue growth than their MNO counterparts. They do not solely innovate and build new services internally to differentiate; they often also demonstrate more readiness to acquire companies to deliver new solutions than MNOs. Such activity is often driven by ambitious plans to deliver on the growth expectations (and exit strategies) of their financial backers. The result is a buoyant IoT connectivity market and a wide choice of innovative solutions from disruptors that can complement, but also pose a risk to, MNOs' IoT businesses.

This article highlights some of the findings from the fifth report in our IoT connectivity disruptors series, [IoT connectivity disruptors: case studies and analysis \(volume V\)](#). It also builds on our previous [article](#) on merger and acquisition (M&A) activity in the IoT connectivity market.

## IoT connectivity disruptors have more of an appetite for risk than their MNO counterparts

IoT connectivity disruptors are far more likely than MNOs to invest in new projects that could significantly increase their revenue (but may also put them out of business). Indeed, 6 of the 15 connectivity disruptors analysed in the report have made acquisitions or have been acquired at some point, and at least 5 have signalled their intentions to continue to grow inorganically. Figure 1 summarises the acquisition activity for selected players.

**Figure 1: Acquisition activity for selected IoT connectivity disruptors**

Company	Ownership	Acquisition activity
CSL Group	ECI Partners	CSL Group's acquisitions include Gestion de Comunicaciones Alternativas (GCA) in January 2020, WebwayOne (software solution provider) in 2018 and Emizon (telemetry communications devices supplier) and IQIP (provider of IP-based security solutions) in 2017.
KORE	KORE listed on the NYSE in October 2021.	KORE's acquisitions include Integron in December 2019, aspider in December 2018, Wyles in 2016 and Raco Wireless in 2014. Acquisition is a central part of its strategy to grow its capabilities and its has a long list of target firms.
Pelion	Arm established Pelion as a wholly owned subsidiary in 2020.	Arm has made several acquisitions to grow Pelion's capabilities, including Stream Technologies in 2018.
Sierra Wireless	Sierra Wireless is listed on the Toronto Stock Exchange and Nasdaq.	Sierra Wireless has acquired Wireless Maingate, Accel Networks, MobiquiThings and Numerex since 2015. It also acquired M2M Group in Australia and M2M One in New Zealand in 2020.

Company	Ownership	Acquisition activity
Telit	Telit is listed on the AIM market of the London Stock Exchange.	Telit made several acquisitions early on to grow its capabilities. Its acquisition of ILS Technology in 2013 formed the foundation for its deviceWise platform.
Wireless Logic	Montagu Private Equity and Wireless Logic's management bought out CVC Partner's minority stake in June 2021.	Wireless Logic has acquired M2M Blue (February 2019), Matooma (July 2019), DataMobile AG (November 2020), NewLine Mobile (November 2020), Arkessa (December 2020), Com4 (January 2021) and ThingsMobile (July 2021).

Source: Analysys Mason, 2021

Venture capital (VC) and private equity (PE) companies are prepared to take a high level of risk for greater rewards. They do not expect every investment to be a success, but investments that are successful will more than compensate for those that underperform.

Other strategies that IoT connectivity disruptors are pursuing to ensure the future of their business include the following.

- **Acquisition as an exit strategy.** Acquisition forms part of some connectivity disruptors' exit strategies; they differentiate their services and innovate to ensure that the company is attractive to potential buyers. Companies that have recently been acquired include the following.
  - **Pod group.** G+D's acquisition of Pod Group in 2021 will allow both companies to provide integrated solutions across the value chain.
  - **Transatel.** NTT acquired Transatel in 2019. NTT provides Transatel with greater financial backing and credibility, particularly among large enterprises, as well as the ability to sell a full stack of IT solutions.
- **Divest the IoT business unit.** IoT business units can be divisions of larger companies; for example, OV is the IoT unit of Manx Telecom. Acquisition is a key way to grow revenue, but divestiture is equally an option. Private equity companies will acquire IoT business units if the market indicates that there is a growth opportunity, and the parent company will take advantage of the resulting higher valuations of the IoT connectivity companies. For example, JT divested its IoT connectivity business earlier in 2021; it sold it to Perwyn for a reported GBP200 million (USD273 million).

The significant amount of M&A activity illustrates that there is strong investor interest in IoT connectivity. Such activity can pose a risk to MNOs, but can also offer some important opportunities.

## IoT connectivity disruptors' appetite for risk increases the challenge for MNOs

MNOs are less likely to take risks than IoT connectivity disruptors to innovate and grow their IoT revenue. Instead, they rely more on organic growth. The implications of this difference in approach between MNOs and connectivity disruptors are that:

- a few disruptors are building advantages of scale that only the larger MNOs have enjoyed until now
- disruptors will acquire capabilities in verticals such as security and health (where the ARPC is typically 3–4 times higher than the market average), which could thwart MNO ambitions in such verticals
- only one or two of the ten or more disruptors that have PE or VC backing need to be very successful to push MNOs into a wholesale-only position. Software markets are often dominated by two or three large players;

a similar structure could emerge for the IoT connectivity market. Many of the investor-backed disruptors will fail to find the winning formula for rapid, sustainable revenue growth, but if only one or two become dominant, MNOs could lose out.

However, there is also an opportunity for MNOs to benefit more from their partnerships with IoT connectivity disruptors. Indeed, some MNOs resell a connectivity disruptor's services in specific verticals. CSL Group partners with MNOs that provide its managed connectivity services to the security sector, for example, and Wireless Logic is reselling Vodafone's edge solution. Disruptors can also be a useful channel to market for MNOs' new products. Furthermore, MNOs could invest more in IoT connectivity disruptors to take advantage of their innovations, as discussed in our [previous article](#).

There is generally a more conservative attitude to risk among MNOs when it comes to building their IoT businesses, but lessons could be learned from the disruptors, many of which are delivering innovative services through organic and inorganic growth.