

Aeris's acquisition of Ericsson's IoT unit is ambitious in scale and making it profitable will be difficult

December 2022

Ibraheem Kasujee and Tom Rebbeck

Ericsson announced [the sale of its](#) IoT Accelerator and Connected Vehicle Cloud businesses to [Aeris](#), a USA-based connectivity provider, on 7 December 2022. The exact financial details were not disclosed, but Ericsson stated that the deal would lead to a one-off SEK1.1 billion (USD107 million) decrease in EBIT and would eliminate quarterly losses of SEK0.25 billion (USD24 million). In other words, the business that Aeris will take control of was losing around USD100 million each year.

The deal is ambitious for Aeris. The connectivity provider will go from managing around 15 million IoT connections to handling over 100 million connections. Its relationships with mobile network operators (MNOs) will also change. It will be a significant challenge for Aeris to turn Ericsson's loss-making IoT unit into a profitable one.

Aeris has acquired a business that is significantly larger than its own, and that sells to a different customer base

Figure 1 compares Ericsson's IoT unit to Aeris's business prior to the acquisition. We can see that the former has a significantly larger number of managed devices and enterprise customers.

Figure 1: Overview of Ericsson's IoT unit and Aeris's business prior to the acquisition

	Ericsson IoT	Aeris
Number of IoT devices managed	95 million (as of December 2022)	15 million (as of August 2021)
Number of enterprise customers	9000	400
Examples of enterprise customers	Globetracker, Stanley Black & Decker (via Deutsche Telekom) and Voi (via Arkessa)	Chrysler, Fiat, Honda, Mitsubishi and Volkswagon
MNO customers	35 including Bell Canada, China Mobile, Deutsche Telekom, Ooredoo, SoftBank, Telenor, Telia and Telstra	None

Source: Ericsson, Aeris and Analysys Mason

Each player also differs in what it sells and who it sells to. Aeris primarily sells IoT connectivity and connectivity management to enterprise customers, and has a strong focus on automotive vehicle manufacturers such as Chrysler and Volkswagen. Ericsson's main IoT proposition (IoT Accelerator) consists of an IoT core network combined with a [connectivity and device management platform](#). It sells this service to connectivity service providers, such as Deutsche Telekom and China Mobile, that use the platform to provide IoT services to their own enterprise customers.

Ericsson is disposing of an unprofitable part of its business, while Aeris will use the acquisition to scale up

Ericsson has dedicated considerable time and resources to IoT. Most notably, it acquired Telenor's M2M Platform in 2011, which provided the backbone of what would become the Ericsson Device Connection Platform (DCP). This was later renamed the IoT Accelerator platform.

Ericsson appears to have concluded that it cannot make its IoT unit profitable. The size of the losses and Ericsson's view of the unit's prospects suggest that the options were to either close the unit or look for a new owner. Closing the platform would upset 35 MNOs, including some of the largest in the world, so the appeal of the second option is obvious. It is not clear how much, if anything, Aeris is paying for the assets. Indeed, it is possible that Ericsson is paying Aeris to take control of them.

The acquisition represents an opportunity for Aeris to scale up and generate new revenue streams. Aeris will go from selling directly to enterprises to also selling indirectly via MNOs. It currently competes with some MNOs for IoT connectivity contracts, particularly in the automotive sector, but several of these competitors also use IoT Accelerator and will become customers of Aeris. Aeris will also acquire Ericsson's Connected Vehicle Cloud unit, which will complement its existing automotive capabilities. This unit currently connects 6 million vehicles.

Aeris will face several challenges in attempting to reverse the fortunes of a loss-making business unit

The acquisition is not without significant challenges for Aeris, including the following.

- **Size of the new business.** Aeris will go from managing 400 customers to 9400, and from around 15 million managed devices to over 100 million. It will have to adapt quickly to the increase in scale and must rapidly integrate Ericsson's resources.
- **Relationships with MNOs.** Aeris will face two challenges with MNOs. Some view Aeris as a competitor, though Aeris has tended to focus on the USA rather than compete for global connectivity contracts. Nonetheless, Aeris will need to explain how it can be both a platform provider and a connectivity provider. It could potentially formally limit its focus as a connectivity provider to the USA, or could even cease operations in this area all together. Aeris may also struggle to convince MNOs that it is a stable home for the IoT Accelerator business. It will need to demonstrate that it can run a viable platform business, even if Ericsson could not.
- **Reversing financial losses.** Ericsson enjoyed advantages over Aeris regarding its size, reputation and go-to-market channels, but it still could not make its IoT unit profitable. However, Aeris, unlike Ericsson, is fully focused on IoT (IoT accounted for just over 1% of Ericsson's total revenue). Aeris may be able to be more flexible, make investments and prioritise areas of the IoT Accelerator platform that Ericsson's IoT unit could not.

The deal repositions Aeris firmly as a IoT platform company

The acquisition is bold on Aeris's part. The largest IoT MVNOs to-date, such as KORE and Wireless Logic, manage around 10 million IoT connections each; this is an order of magnitude less than Aeris's scale post-

acquisition. However, this comparison with other IoT MVNOs may no longer be valid given the shift in Aeris's business away from selling connectivity to enterprises to providing a platform to MNOs.

Aeris will have to show its MNO customers that it is a partner, not a competitor, in order to persuade them not to switch to an alternative IoT platform, such as Cisco IoT Control Centre, Nokia WING or one from any number of smaller platform providers. More importantly, it will need to quickly demonstrate that the IoT Accelerator is a long-term, viable proposition under its ownership.

The acquisition could give Aeris an opportunity to develop an established platform with a level of flexibility and agility that was not possible while it belonged to Ericsson, despite these challenges.