Consolidation among IoT connectivity disruptors will have major implications for operator IoT business units

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The market for IoT connectivity continues to be characterised by the presence of many sub-scale players, thereby resulting in a fragmented supplier landscape, despite considerable M&A activity. Further consolidation seems likely because competition is intense and true differentiators are rare. However, such consolidation will lead to the creation of larger entities, which increases the threat to the operators' IoT businesses.

Further consolidation among IoT connectivity disruptors is inevitable

The market is characterised by a few large acquirers and plenty of small companies that are open to acquisition. Achieving organic growth is difficult in such an intensely competitive environment. IoT connectivity disruptors can be broadly grouped as follows.

- **Small, privately owned companies**. Many sub-scale companies in the sector are owned by their founders/management. Companies such as Com4 fall into this category (prior to its acquisition by Wireless Logic). They may be successful in one country, but tend to have few differentiators. They could be run as a going concern but have few options for revenue growth. Many will look to be acquired while they can still achieve a reasonable valuation.

- **Venture capital (VC)- and private equity (PE)-backed companies.** A few connectivity disruptors are venture capital backers (such as Eseye) and some have strategic investors (for example, Audi Electronics Venture has invested in Cubic Telecom). A limited number have attracted private equity backers (KORE and Wireless Logic). Companies with these ownership structures have ambitious plans for revenue growth, as well as the necessary funding to execute their growth plans. Their VC and PE backers will have exit strategies in place.

- **Divisions of larger companies in the IoT value chain.** Some large operators have a subsidiary that is an IoT connectivity disruptor (KDDI and Soracom) and some technology companies have an IoT connectivity business (Sierra Wireless and Telit). IoT divisions may have the resources to acquire in order to grow the business, but divestiture is equally an option, especially if the priorities of the core business change (for example, Arm has established Pelion as a separate business but has not announced any plans for divestiture).

Geographical expansion and value chain differentiation are the main reasons for consolidation

IoT connectivity disruptors need to grow and scale their businesses, but must also diversify their propositions to generate value in a commoditised connectivity market. We discuss IoT connectivity disruptors' diversification strategies in our report, *IoT connectivity disruptors: case studies and analysis (Volume IV)*. The approaches that these players take are as follows.

Geographical expansion. Wireless Logic is an example of a connectivity disruptor that has pursued geographic expansion (Figure 1). The company was acquired by private equity firm Montagu in June 2018 for a reported GBP400 million. It has since made five acquisitions, which have allowed it to expand into the European market and have also provided it with new capabilities (such as eUICC). This strategy puts Wireless Logic in a good position to win more IoT connectivity deals and multi-country contracts. The company will also have more credibility with potential customers and increased bargaining power when negotiating with suppliers (for example, for airtime contracts) as a result. We estimate that Wireless Logic's connections base has grown from around 3 million SIMs to 6 million–7 million SIMs due to its acquisitions.

Figure 1: Wireless Logic's acquisitions

Company (date)	Rationale
Com4 (January 2021)	Access to Nordic markets and an estimated 0.5 million additional connections
Arkessa (December 2020)	Access to an additional 1 million connections and eUICC capabilities and consolidation in the UK
NewLine Mobile (November 2020)	Access to the market in the Netherlands
DataMobile AG (November 2020)	Access to the markets in Germany, Austria and Switzerland
Matooma (July 2019)	Access to the market in France

Source: Analysys Mason, 2021

Value chain differentiation. IoT connectivity disruptors are diversifying their businesses to offer new products and capabilities. Acquiring new capabilities is more risky than expanding the geographical footprint alone because new capabilities are complex to integrate and manage. Private equity firm, Abry Partners, acquired a majority stake in KORE in November 2014. The number of connections managed by KORE has since grown from around 1.5 million connections to 12 million in June 2020. KORE's recent acquisitions have been partly driven by the desire to gain more capabilities (Figure 2).

Figure 2: KORE's acquisitions

Company (date)	Rationale
Integron (December 2019)	Access to the healthcare and life sciences sector
ASPIDER-NGI (December 2018)	Access to core network and eUICC capabilities
Wyless (March 2016)	Consolidation in the USA and geographic expansion
Raco Wireless (November 2014)	Access to an additional 1.5 million connections, plus consolidation in the USA and geographic expansion

Source: Analysys Mason, 2021

Acquiring parties can cut costs following acquisitions in the following ways.

- **Consolidating platforms.** IoT connectivity disruptors tend to consolidate their platforms following acquisition in order to support all SIMs on a common platform and lower operating costs.

- **Increasing bargaining power.** Consolidation increases acquirers' bargaining power when negotiating airtime deals with operators.

- **Reducing management overheads.** Acquirers can use consolidation to reduce management costs.

IoT connectivity disruptors may make acquisitions in order to achieve economies of scale and to increase their competitive edge. Smaller players must innovate or be acquired to grow. Few will be able to deliver sustained innovation to be able to grow sufficiently, and the most innovative are more likely to be subject to acquisition or investment.

Continued revenue growth is an important part of consolidators' objectives, thereby fuelling further acquisitions. Longer term, consolidators will look to sell to another private equity company or a strategic buyer, or may consider an IPO.

What does this mean for operators and smaller IoT connectivity disruptors?

IoT connectivity disruptors' threat to the operator IoT business has been growing slowly, but the emergence of larger players could pose a more serious threat. Historically, the main advantage that operators have had over connectivity disruptors is scale. Larger enterprises such as automotive OEMs have worked with operators because of their financial standings and geographical footprints, while smaller enterprises have typically worked with specialist IoT connectivity providers. This is changing.

Large IoT connectivity disruptors have both the scale and the IoT focus to deliver on enterprises' requirements. This will have serious implications for smaller connectivity providers who will be priced out of the market.

Both smaller IoT connectivity disruptors and operators need to consider how to respond to this market consolidation, either by investing in innovation of their own or by participating in M&A activity (either as a buyer or a seller).