

A high valuation for Vodafone IoT may be too tempting for Vodafone to ignore, despite the risks

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Vodafone announced, in its 2022 annual report, that it is in the process of splitting off Vodafone IoT.¹ This vague statement has created [speculation](#) about the operator's plans for its IoT division. Separating out Vodafone IoT may bring some potential benefits for the unit. For example, it may mean that the unit has additional funding to invest in acquisitions, and it may be easier to use connectivity from other suppliers. However, there are also risks; the unit may not have access to Vodafone's resources, such as its sales channels.

For Vodafone Group, a sale could generate funds and help to show activist investors that it is taking steps to reduce debt. However, such a move would also reduce Vodafone's exposure to a high-growth business. The balance of these benefits and disadvantages depends on the model that Vodafone Group takes for the IoT unit. A high valuation for the IoT business (it is likely that the unit will sell for multiple billion euros) may be too tempting for Vodafone to ignore, despite the downsides of selling.

Vodafone has three main options for the new unit

Vodafone has three main options for the IoT unit. The simplest is to form a **separate company that is 100% owned by Vodafone**. Some other operators have pursued this approach to ensure that their IoT businesses are treated as new growth areas and are subject to different KPIs than the core business. Vodafone IoT has always benefitted from a high degree of autonomy (as evidenced by its acquisition strategy). The benefits to Vodafone of creating a separate company for IoT are likely to be minimal. As such, we believe that it is more likely that Vodafone will look for external firms to invest in the IoT division. Vodafone has two options here.

- **Sell a minority stake in Vodafone IoT.** We believe that this is the most tangible scenario for Vodafone. It would raise some money, increase external visibility and, potentially, increase the valuation of Vodafone Group (because investors would pay more attention to the IoT business and its potential). However, Vodafone would retain control of its IoT assets, which will help to deliver longer-term revenue growth for the company.
- **Sell a majority stake in Vodafone IoT (or fully divest).** Such a sale would afford Vodafone a potentially significant short-term funding boost. The IoT division generated EUR900 million (USD940 million) in revenue in 2021. The IoT division could be worth over EUR4 billion (USD4.2 billion) if we assume that EBITDA is 33% (in line with other IoT connectivity firms) and there is a 14× EBITDA multiple (in line with other IoT connectivity transactions).

Vodafone is under pressure from [activist investors](#) to look at various options for its assets. Selling all or part of the IoT business could help, and may reduce the pressure on management to take even more-radical steps such

¹ Vodafone said, "We are currently in the process of enabling a separation of Vodafone IoT as greater independence from Vodafone will help to accelerate the platform's growth and attractiveness to both new customers and connectivity partners." Vodafone Group Plc (2022), *Annual Report 2022*. Available at: https://vodafone.gemalpha.com/view/6f0ea1d27b3d4927a472fa4780116fd1d50b8ba62ead46de9db22a6aff34b874/Vodafone%202022%20Annual%20Report_220601v2.

as selling the Italian business (it has already [rejected an EUR11 billion bid](#) (USD11.5 billion) for the Italian operation). However, selling a majority stake would mean that Vodafone would not benefit from any future growth in the IoT business. Furthermore, IoT is not just a high-growth service; it is also an important differentiator for an operator's business offer.

Vodafone published more details about its IoT business unit in an [investor](#) briefing in September 2021, possibly as a forerunner to providing greater transparency of its IoT performance to attract a higher valuation. Its IoT business was generating a contribution margin of 75–85% (from connectivity, hardware and end-to-end solutions combined). It reported double-digit ROCE for IoT in its 2022 annual report. Furthermore, its connections base grew by 21% year-on-year to reach 150 million at the end of March 2022, and its revenue grew by 12.9% during the same timeframe to reach EUR900 million (USD940 million).

Vodafone is the only non-Chinese operator to have over 100 million IoT connections. Vodafone has also recently restructured its IoT business into three separate business units (IoT connectivity, Cloud and MPN, and Solutions), possibly to provide further visibility on the performance of each. Presumably, any new company would include all three areas.

Private equity firms have been attracted by the high revenue growth potential of IoT

Several private equity firms are active in the IoT market and have made significant investments (Figure 1).² However, there are few public data points on successful valuations and exit strategies. KORE is the only IoT connectivity company to be listed. Private equity firms are interested in IoT because:

- it provides strong revenue growth potential
- there is good visibility of future revenue because IoT providers typically have a large customer base and very low churn
- there is considerable potential to offer value-added services to complement connectivity (such as security, device management and analytics) and expand into new areas of the value chain.

Figure 1: Examples of IoT investors

Company	Investor name and type	Date of investment	Comment
JTIoT (IoT division of Jersey Telecom)	Perwyn (private equity)	July 2021	Jersey Telecom sold a majority stake in JTIoT for a reported GBP200 million (USD244 million).
KORE	Public listing (NYSE)	October 2021	KORE's share price has declined since becoming a publicly traded company. Its market cap and enterprise value are USD326 million and USD721 million, respectively, at time of publication.
Wireless Logic	Montagu (acquired Wireless Logic from CVC Partners in 2021) (private equity)	2011	Wireless Logic has made at least seven acquisitions since 2019 in order to expand in terms of geography and value chain.

Source: Analysys Mason

² For more information, see Analysys Mason's [MNOs should be wary of less risk-averse, investor-backed IoT connectivity disruptors](#) and [Consolidation among IoT connectivity disruptors will have major implications for operator IoT business units](#).

Other operators in the IoT connectivity market will watch what Vodafone does with interest

Other operators will watch with interest how Vodafone separates its IoT business. If it tries to sell a stake and is successful, other operators might try to follow suit, just as they have done in other areas of the telecoms business such as the towers market.