

Unlocking Intelligence

IoT Software and Analytics Are Unlocking the Value of Big Data, Driving Consolidation and Competition for Leading Platforms

As digitalization has taken hold across different industries, there has been an assumption that great knowledge would come from new data being collected. But data collection and reporting in and of itself was only mildly helpful. There was still a lot of noise and not a lot of value.

Today, that challenge is beginning to fade as sophisticated software and systems connect disparate devices and collect, verify and cleanse data from these devices, facilitating analysis and application of the information into actionable intelligence. The so-called Internet of Things (IoT) revolution is quickly catching up to its hype, dramatically transforming businesses across many sectors. Whether it's a manufacturing company looking to optimize operations or a building management company looking to reduce energy usage, the value of this technology has become imperative. That demand is fueling tremendous acquisition interest from a diverse range of buyers, pushing competition higher and accelerating consolidation in the space.

PROLIFERATION OF IoT

The proliferation of the IoT has enabled more connected devices. By 2020, it is expected that there will be up to 50 billion connected units. This tremendous growth in adoption has been fueled by several factors. First, the price of sensors and controls enabling these connected devices has been falling, making them more cost-effective to implement in more places. Additionally, whether coming from shareholders, regulators or other market forces, there is increasing pressure on businesses to drive higher productivity and greater efficiency in their operations – to look for ways to reduce resources while delivering just as much, if not more, of its product or service.

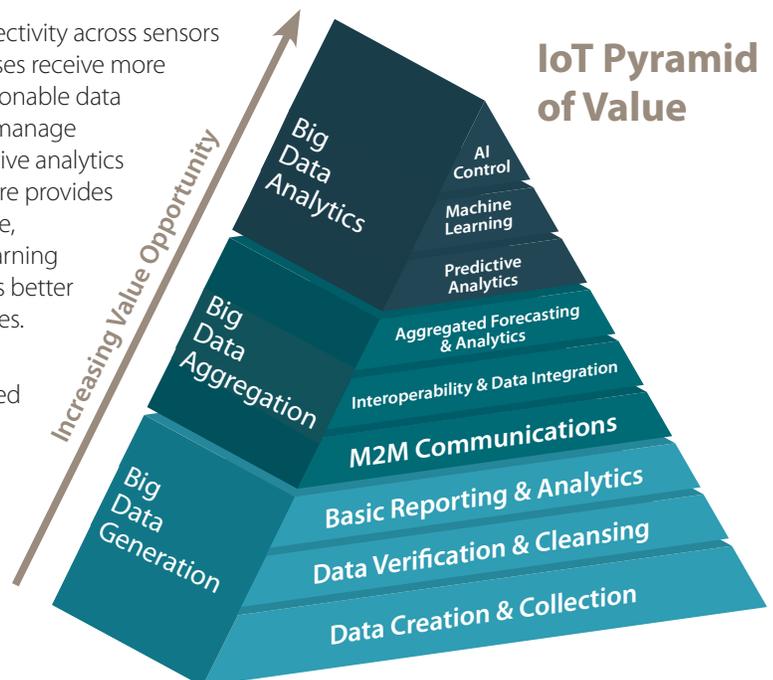
With enhanced connectivity across sensors and controls, businesses receive more transparency and actionable data to more intelligently manage resources. The predictive analytics of IoT-enabled software provides actionable intelligence, facilitates machine learning and makes businesses better consumers of resources.

Additionally, there are now many cloud-based software as a service (SaaS) platforms that go a step beyond previous offerings by providing more predictive analytics and automated control, rather than

simply data analysis, dashboards and reporting. These platforms represent scalable solutions upon which new analytics can be added over time.

CONSOLIDATION AND COMPETITION

Consolidation is accelerating as these IoT-enabled companies continue to grow. Baird is seeing strong interest from a wide variety of buyer groups. Traditional software players are often looking for strategic opportunities to add to their platforms; however, less traditional buyers, including global industrial companies, cable and telecom providers, energy products and services providers, building and facility



managers and services providers, and even energy / power suppliers, have also been active in the space.

A good example of these less traditional buyers was the recent acquisition of EFT Control Systems, a predictive analytics software as a service (SaaS) company, by Koch Industries. Koch plans to support the development and commercialization of innovative technology firms such as EFT, with an emphasis on industrial end markets.

The breadth of interest from these different buyer pools is fueling competition, which is in turn driving increased valuations. In particular, non-traditional software buyers are now frequently paying full software valuations in excess of 5x revenue. Acquiring companies are stepping outside of their traditional valuation metrics to buy high-growth, high-margin businesses

for much higher software-type valuations based on revenue multiples rather than the more traditional earnings-based valuation of their core businesses.

Another area where buyers have demonstrated more flexibility is in pursuing companies that may have previously been too small for them to consider acquiring. Very large buyers are actively paying attention to and buying much smaller companies than they have historically. For example, last year, Duke Energy, one of the largest utilities in the U.S., bought a relatively small software company in Phoenix Energy Technologies. These buyers are focusing on the best companies at earlier stages because they want first-mover advantage and the opportunity to realize even faster growth with the technology on their platform sooner rather than later.

Finally, Baird is seeing buyers act pre-emptively as a result of the high competition. These buyers identify a field they want to “own” and are going after targets on a pre-emptive basis rather than waiting for the call regarding a sale process.

THE ROAD AHEAD

M&A activity around IoT platforms is robust today and will continue to be so for the foreseeable future. The number of companies in this space continues to grow, as does the application of the technologies. Whether it's the Energy, Industrial, Services or Consumer sector, the list of end markets leveraging these systems is growing. And as technology continues to innovate and develop, there will be more companies coming into existence, with newer and more cutting-edge solutions in high demand. These drivers will continue to fuel consolidation in the space.

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RELEVANT BAIRD-ADVISED DEALS



Baird served as the exclusive financial advisor to EFT Control Systems Ltd., a leading SaaS solution provider in the fields of industrial process optimization, energy management and predictive analytics, in its sale to Koch Industries Inc., one of the largest private companies in America.



Baird served as the exclusive financial advisor to Phoenix Energy Technologies Inc., a leading provider of enterprise energy management software and services, in its sale of a majority stake to Duke Energy Corporation, the largest electric power holding company in the United States.



Baird served as the exclusive financial advisor to CenTrak Inc., a top designer and manufacturer of sensors and proprietary communication technology for healthcare facilities, in its sale to Halma plc, a leading safety, health and environmental technology group.



Baird served as the exclusive financial advisor to Gerber Technology, an industry-leading software and automation solutions provider to apparel and industrial customers, in its sale to American Industrial Partners, an operationally oriented middle-market private equity firm.