M&A and the IP rich target in IoT

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5G is expected to be a spur for significant innovation across the telecommunications industry and especially within the IoT sub-sector. Indeed, commentators have variously referred to 5G as the third internet age (after fixed and mobile) and the fourth industrial revolution.

Gartner anticipates that there may be as many as 20 billion connected devices in the world by 2020. Current wireless capability simply cannot accommodate hardware to that scale and ensure efficient exchange of information without latency issues.

As the global telecommunications industry has seen its revenues diluted, IoT therefore presents an opportunity to deliver data-rich services that integrate seamlessly with people's lives.

It is crucial that service providers capitalise on this opportunity and, as such, they will need a corporate development strategy encompassing both M&A and partnerships to enable them to develop and exploit the next generation of IoT networks.

M&A activity within the IoT to date

M&A activity is one indicator of underlying tech trends generally. Indeed, deal numbers and volumes often tell us something about the stage of maturity of an emerging technology.

The first wave of significant consolidation within IoT took place in the US, with new entrants in the home security space being acquired by tech giants. Established companies in industries such as automotive, healthcare and financial services, in addition to telecoms, are looking to acquire targets at the forefront of IoT.

Industrial IoT is currently a particular focus, driven by analytics solutions, nano apps and field services software with growing interest from traditional corporates, especially those in the transport, construction and energy sectors.

Corporate venture capital

A significant theme within M&A in recent years has been the rise of corporate venture capital.

Operators around the world have formed corporate venture arms to invest in startups and scale up business across sectors including ad-tech, fin-tech and IoT.

In doing so, they are usually looking to achieve one or more objectives. For example:

- to deploy capital quickly to establish footholds in adjacent markets that will enable them to dominate in the future
- buy in capability, technology or teams to build out what they already have
- to safeguard their core businesses or, more dramatically, to deal with an existential threat from the OTT players or the blockchain

An alternative - strategic telecoms partnerships

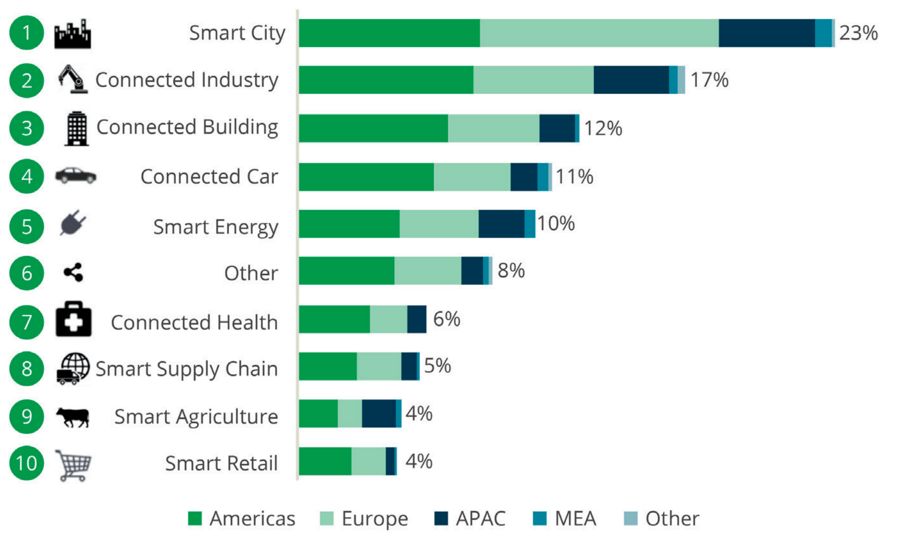
It is often said that the majority of M&A deals fail to achieve their strategic objectives. According to research by the Harvard Business Review, the failure rate may be as high as 70%.

What is beyond doubt is that M&A involves material risks for management and can take a toll in terms of cost, time and the distraction of skilled resources. It is also difficult, if not impossible, to unravel without resorting to further M&A.

An alternative structure is the strategic collaboration, partnership or alliance.

This is a model which is well understood in certain industries, such as automotive. It is also proving especially popular in the IoT sector with the tech giants already claiming to have thousands of IoT partners supporting their IoT products.

Ranking of top IoT segments



Source: *IoT Analytics*

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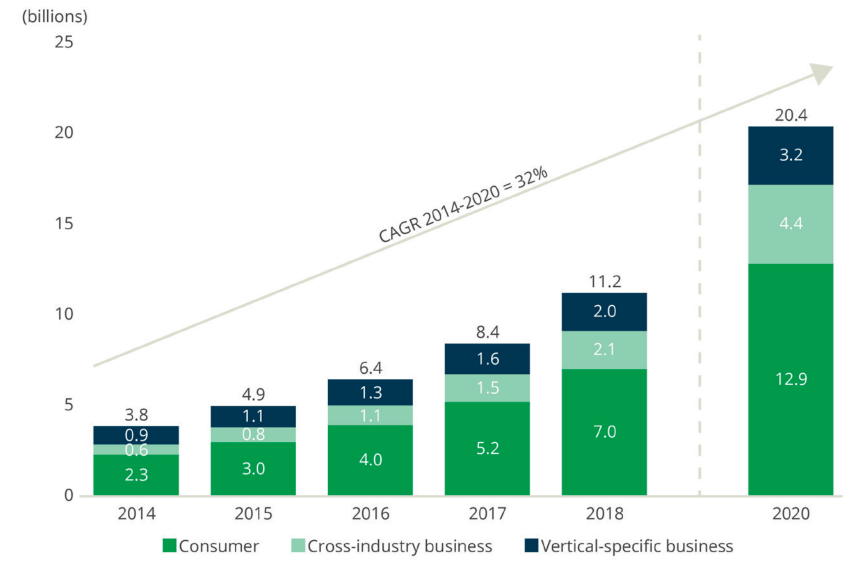
Advantages in the partnering model

There are significant advantages in strategic collaborations for strategic or trade players. Unlike M&A, strategic partnerships involve parties working together where (if the arrangement is structured correctly) each party benefits from the other's success.

Partnerships are also more iterative in nature than M&A. They can be developed as a particular technology unfolds. Indeed, more than one partnership, alliance or agreement may well be required to get from the R&D phase to the marketplace.

For the emerging players which have chosen to partner with operators, a collaboration is an indicator of proof of concept and signifies a level of maturity which can appeal to potential investors.

IoT units installed base by category



Source: *Statista*

It is crucial that operators entering into strategic collaborations take time to protect their intellectual property (IP) rights. Each such arrangement should clearly allocate the rights and responsibilities of the participants. Particular emphasis needs to be given to ownership, obtaining and managing patents, prosecution of infringements and unwinding the arrangements on termination.

Talent

Buying in new teams or technologies is not without its challenges. The conditions that go hand in hand with the startup culture (e.g. lack of failure stigma and ad hoc reporting practices) may not conform within working practices in a more conventional telco environment. IP rights arising out of work produced by employees usually belong to the employer as a matter of law.

However, this is not always the case. If there is little or no connection between an employee's designated work duties and the IP that has been created, ownership of the IP could vest in the employee. This may still be the case even if the IP was created using workplace resources.

Using freelancers is a popular way of accessing specialist skills on a flexible and cost-effective basis. Buyers should be particularly mindful that any IP created by a freelancer will generally vest in the contractor, unless otherwise expressly agreed.

As regards IP ownership generally, early stage companies tend to present particular challenges. Sufficient time and resources may not have been devoted to protect the key target's IP.

Problems may still be latent, with the seller oblivious to potential problems and therefore unable to provide adequate disclosure to the buyer.

Aligning interests

Well drafted employment contracts are therefore essential in order to ensure legal protection for employers.

Where the objective of a deal is to acquire the talent driving the target business this raises further challenges.

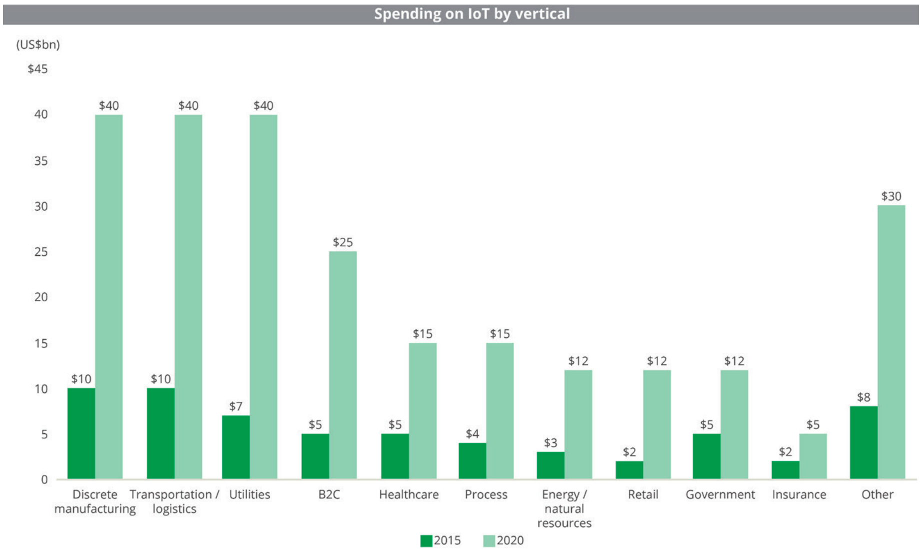
A buyer will need the target to focus on minimising employee flight risk by offering retention bonuses or equity that aligns employee interests with the economic interests of the wider group going forward.

Final word

As long as interest rates remain low and cash is on hand, M&A is likely to be the first port of call for operators looking to achieve an immediate presence within the IoT.

Strategic partnerships provide an attractive "slow burn" alternative for and a preparatory step to exit for emerging companies in the IoT space.

Spending on IoT by vertical



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