

## IoT One Podcast: Clint Bundy Interview (March 2018)

Clint Bundy, Managing Director with Bundy Group, was invited to speak on a podcast for IoT One, a globally recognized industry platform devoted to accelerating the adoption of industrial internet solutions. Erik Walenza, the Shanghai, China-based CEO of IoT ONE, facilitated the discussion with Clint Bundy.

The topics addressed were comprehensive and focused on key areas related to the Controls & Automation and Internet of Things (IoT) markets. Erik, a recognized IoT industry expert, and Clint, an investment banking advisor who is an active expert in the Controls and IoT markets, were able to fill the hour with a great deal of energy and information.

### Key areas addressed included:

- The conversation started with a conversation about Bundy Group's experience in the Controls and IoT space over the past decade. Clint discussed his regular invitations to speak at Controls and IoT conferences, including the upcoming Control System Integrators Association conference in San Francisco. Clint also highlighted several Bundy Group client and transaction case studies, and he provided an overview of typical Bundy Group client profiles in regards to both business sale and capital raise situations.
- Erik and Clint discussed at length the various valuation methodologies that can be used for companies in the Controls and IoT markets. The valuation methodologies highlighted ranged from software and recurring revenue companies trading off a Transaction Value / Revenue multiple to a control system integrator firm typically being valued off a Transaction Value / EBITDA<sup>1</sup> multiple. While the final value of any controls or IoT firm is determined by the marketing and sales process, Clint was able to offer valuation methodology guidance to the IoT One listeners.

For the IoT market, Clint mentioned that valuations can be more difficult to ascertain due to the earlier stage, high growth nature of the segment. One common methodology for IoT company valuation is using the Discounted Cash Flow methodology, which values a company's performance based on future cash flows.

- Erik asked Clint about his thoughts on drivers of growth in the IoT market as well as aspects that could slow growth. Clint began with mentioning that the global industrial automation market is expected to reach \$352 billion in 2024 relative to a 2015 market size of \$183 billion (i.e. a 6.6% Compounded Annual Growth Rate)<sup>2</sup>. This rapidly growing, enormous market has a number of key drivers and a few challenges that are inherit within it.

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<sup>1</sup> Earnings before Interest expense, Taxes, Depreciation and Amortization expense. This is the equivalent of operating cash flow for a company

<sup>2</sup> "Industrial Automation Market Report," *Transparency Market Research (Sept 2017)*

### **Drivers of IoT Growth:**

- Customer demand for more information and control on all aspects of their equipment, machines and systems.
- Market emphasis on using technology to create productivity improvements within an organization.
- Government and regulatory pressures (example – meeting environmental or OSHA standards), which require more monitoring and oversight by companies.

### **Potential Challenges for the IoT Market:**

- Potential customer challenges in understanding IoT technology and its application in a work environment.
  - Difficulty in finding the technical and engineering talent that can develop and maintain the IoT technology.
  - Cybersecurity violations that can occur due to IoT systems lacking sufficient safeguards and protections.
- Erik and Clint further discussed cybersecurity as relates to the IoT market, a widely publicized topic in media and business circles. During the podcast, there were some key conversation points supporting the critical nature of cybersecurity as relates to the Controls and IoT markets.
- The Industrial Control Systems (ICS) security market is estimated to grow from \$9.0 billion in 2016 to \$12.6 billion by 2021, which is equal to a Compounded Annual Growth (CAGR) of 7.0% <sup>(3)</sup>.
  - A recent Accenture study indicated that corporations are spending on average \$11.2MM a year on cybersecurity protective measures.
  - The 2018 Cyber Security Trends report by Security Boulevard indicated that approximately one million new cyber warriors are needed to combat the rapid growth in cyber crime. Until that technical talent has been developed, “detection and monitoring software are trying to pick up the slack from these missing humans by leveraging machine learning.”

Erik and Clint agreed that cybersecurity challenges and solutions would be a major determinant of growth and risk in the Controls and IoT markets for the foreseeable future.

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<sup>3</sup> “Industrial Control Systems Security Market by Solution – Global Forecast to 2022,” *Markets and Markets (June 2017)*

- The last topic addressed related to initiatives that owners and companies can take to prepare for a sale or capital raise. Clint advised owners to focus on building value in their companies over a three to seven year period, regardless if they planned on selling within that timeframe or not. Value building efforts could include
  - o Creating a recurring revenue model
  - o Increasing EBITDA margins
  - o Strengthening product and service offerings
  - o Solidifying the key management team
  - o Segregating a company's software division from a manufacturing or system integration/engineering division

The conversation was filled with informative conversation on the exciting trends within the Controls and IoT markets. Both Erik and Clint agreed that the Controls and IoT markets are outstanding sectors to be embedded in over the next decade, as these industries will be critical to the evolution of the global economy.