

Increasing Market Value and Exit Opportunities in Connected Lighting/IOT (Part 1)

(Mike Gagnon, President, Alumage Advisors - January 4, 2018)

Introduction

Market values among pure-play lighting companies such as Acuity, LSI Industries, Dialight and others have declined approximately 30% during the last 12 months. No doubt, slowing growth rates in the LED lighting and controls market, compounded by oversupply of lamp, luminaire and LED suppliers are contributors. In the meantime, 2017 experienced modest M&A activity, such as [OSRAM/Digital Lumens](#), [Leviton/Birchwood](#), [Harbour Group's acquisitions of ILP and Green Creative](#), etc. at non-disclosed (i.e. modest) valuations. Consolidation trends are similar in Europe, with an excellent treatise on the subject by [LUXreview](#) earlier this year.

Going forward, one should expect the Acuitys, and Schneiders of lighting and energy management, respectively, to dominate with scale, more M&A's and improved market caps. Additionally, 1) increased participation from IOT-centric companies seeking lighting capabilities as well as 2) private equity roll-ups of complementary, differentiated small-to-mid-sized lighting companies should continue. Nonetheless, sellers will continue to exceed buyers.

The first of a 2-part article examines a subset of planning and execution processes associated with best-in-class performance and companies. Part 2 will consider partnership opportunities in connected lighting/IOT, including the integration of disruptive technologies (such as AI, analytics, cloud computing, e-commerce, security, sensors, etc.), where 500+ well-funded start-ups reside.

Differentiation in One's Niches

Increasing shareholder value in any financial climate or business cycle is the primary objective for every CEO and senior management team. With hundreds of \$10-100M lighting suppliers competing in a land of "Goliaths", it's all about consistently winning via differentiation and an unrelenting focus in one's niches, with resulting leadership in sales, profitability and value.

(As a long-time practitioner of [Porter's Competitive Positioning](#), [5-Forces](#), etc., in developing company strategies, the [adaptation](#) below, as applied to a "differentiation focused" strategy is particularly relevant.)



We must embrace the diseconomies of scale where “the focus and cohesion of small, smart teams can build better products than a larger team, in reacting quickly and nimbly to emerging trends”¹. As in every other industry, the alternative to niche market differentiation is “stuck in the middle”, where profits are minimal and slow death ultimately ensues. If one accepts that only the top 2 or 3 companies serving a market or sub-market generate 80% of the profits, the mandate is clear.

As baselines of comparison, we have profiled ~300 lighting ecosystem manufacturers across 60 business dimensions. Further, as it pertains to best-in-class smart lighting product performance, 40 product features from >5,000 “high lumen output” products have been compiled and compared since 2013.

Combining one’s own market “data” and a company’s core competencies with proven strategic and operational practices, there exist valuable nuggets of “information” from which roadmaps can be developed for smaller companies to survive and thrive via a differentiation-focused strategy.

With a focused strategy, there clearly exist roll-up opportunities for companies demonstrating >\$10M EBITDA with a solid growth path to \$25M EBITDA, or in smaller companies 25-50% CAGR at 20%+ EBITDA, as cited by others during prior SIL Investor Conferences.

Strategy Enhancement and Implementation

In addition to applying the aforementioned Porter’s Competitive Positioning or similar process of choice, key elements of one’s core strategy should be reflected in the company’s Mission, Vision, Value Proposition and Qualities & Values statements. They are meant to serve as guidelines to prevent wandering from the plan, and reviewed annually or as warranted by fundamental shifts in strategy and business conditions. These proclamations also tell our stakeholders (employees, investors, channel partners, suppliers, and the like) who we are and where we’re going.



(While originally developed for marketing gurus, [Who Are You](#), applies here as well).

Similarly, drilling down into both corporate and departmental SWOT analyses are highly recommended next steps in defining one's core competencies and opportunities for best-in-class performance. Applying the [KJ-method](#) to SWOT, for example, has proven to be a highly effective tool in highlighting fact-based strengths, weaknesses, etc., with the added benefit of achieving consensus among all participants.

Lastly, transferring all of the above into a "who, what, where, when and how" (4WH) action plan, with specific and measurable objectives, will facilitate success in achieving annual goals throughout the company.

In Summary

Identifying and executing differentiated, focused strategies with resulting leadership positions in one's chosen niches is a proven path to increased market value and success among the Goliaths in any industry. Such \$10-100M lighting ecosystem suppliers will be rewarded with growth and profitability metrics that attract acquirers in any climate, including consolidation. And the extent to which one's best-in-class capabilities or differentiating attributes can be leveraged across an acquirer's operating divisions will help propel your company to the top of the list.

(Several of these topics as well as partnership opportunities in connected lighting will also be presented during the upcoming [Strategies in Light Conference](#), February 13-15.)

Mike Gagnon serves as President of Alumage Advisors, providing Connected Lighting/IOT Strategies, Partnerships and CEO Advisory Services to executives throughout the SSL ecosystem. He has led \$1.2B in transactions and increased shareholder value by \$2.6B throughout his career as an advisor, venture capital investor, start-up CEO, and F1000 executive. Mike has an MBA, BSEE, studied strategic planning at Harvard University and is a graduate of the Venture Capital Institute. Mike can be contacted at mgagnon@alumageadvisors.com.

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