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Nervous investors dial down hopes for UK 'IoT' champions

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Telit Communications is not a household name. But it is one of the UK's hottest technology stocks and part of one of the most keenly watched trends in the sector.

It started life 15 years ago as an Israeli importer of Korean mobile phones. Today it is listed on the Aim, London's junior stock market, and has been transformed into a components maker for the much-hyped "internet of things" — whereby cars, electricity meters and even refrigerators will be fitted with sensors and transmitting data.

Some analysts say billions of connected devices will be used to perform such diverse tasks as spotting signs of disrepair in industrial equipment and tracking patients' health.

No one knows how far the IoT market will extend, but most agree it will be very big. Gartner, the research group, has said the market will be worth \$1.9tn; IDC, a financial information company, says \$7.1tn; and US tech multinational Cisco predicts it will hit \$19tn in the

coming years.

Investor appetite in IoT companies is strong, and Telit is one of the main beneficiaries. Over the past three years, its share price has risen almost 350 per cent. The company, which has a market capitalisation of £328m, says about half of its shareholders are based in the UK. Analysts at Morgan Stanley describe the stock as its “top internet of things play in Europe.”

But last week the company issued a trading update, revising down 2015 revenues to between \$330m and \$340m from previous guidance of \$347m- \$354m. The share price fell nearly 20 per cent on the news.

“I think there has been an overreaction,” says Oozi Cats, Telit chief executive. “We guided 19 per cent growth for this year and unfortunately it will only be 15 per cent. I looked at [the share price fall] and I couldn’t believe my eyes . . . It’s a completely manic-depressive scenario.”

Analysts say the ups — and sudden downs — endured by Telit stem from UK investors who want to back local IoT champions but are nervous about those companies’ chances against global tech behemoths.

“There is clear scope for some UK-based winners in this space,” says Paul Miller, a senior analyst at Forrester Research. “Yes, we should back homegrown successes, but we have to actively engage with global efforts. At the moment there is a danger that we could end up backing a Betamax.”

Industry observers say it is unlikely the UK will produce a really big IoT manufacturer. Last year Google paid \$3.2bn to acquire Nest, a Californian maker of smart thermostats. Soon after Nest bought Dropcam, a San Francisco-based makers of internet-connected cameras, for \$555m, while Samsung acquired US group SmartThings, a manufacturer of connected home devices, for a reported \$200m.

But there is growing confidence that the UK can produce some of the leading suppliers. Hope rest on companies such as Arm Holdings and Imagination Technologies, chip designers that have benefited from the boom in smartphone sales and are moving to create offerings for connected products.

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- Oozi Cats, Telit chief executive

During the past year Arm has launched a low-power chip for IoT devices and software for connected products. It has secured partnerships with Microsoft, IBM, Salesforce.com and other big digital companies to connect products.

Gary Atkinson, director of emerging technologies at Arm, says its efforts are aimed at ensuring that IoT makers build devices that are “interoperable”, all operating on the same standards and able to communicate with one another smoothly.

“What we don’t need is a lot of internet of things companies reinventing the wheel and building their own infrastructure.”

Arm stands to gain most if companies build connected devices on the back of its standards and infrastructure.

There is also interest in dozens of privately held tech start-ups emerging across the country. Cisco has said it will spend \$1bn on the UK tech industry, and this year pledged to make venture investments and acquisitions focused on the IoT market.

One place of interest is Cambridge, the university city with a rich engineering history, where a cluster of companies are trying to capitalise on the trend. Local prospects include Neul, a maker of telecommunications equipment for connected devices, and IntelliSense.io, whose technology connects wireless sensors to industrial equipment.

However, Martin Garner, an analyst at CCS Insight, says large tech companies in the US and China are better placed to succeed. They have big research and development budgets to create the products, services and components that will form the foundation on which the IoT will be built.

UK groups need to think globally, he says. “If you’re an English company, you don’t just think about Arm or Imagination Technologies,” says Mr Garner. “You can go to [Intel](#) or [Qualcomm](#). You don’t need to wait.”

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