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| RESIDENTIAL TECHNOLOGY |

Disruptive Innovation Is Driving Investments

A spate of successful startups are fueling M&A activity and capital investment

Did you know that Wi-Fi is more important than sex? Well it seems to be according to a recent consumer survey¹ that found that Wi-Fi's importance at home ranked second only behind food, but ahead of sex. Is online access really that important? Maybe not for everyone, but Wi-Fi has emerged as a critical communications protocol for the Internet of Things (IOT) movement, which is rapidly growing and becoming an integral part of our everyday lives in residential technology. Today especially, residential technology is much more than novel tech gimmicks to show off and compare with your buddies. Technology has not only changed the way we communicate but it has made us think about what future technological paths we will take to power the world we live in.

Technology companies and venture capitalists are investing billions of dollars in the sector to bring solutions that improve our lives and address real-world challenges in the home. Innovation is disrupting stagnant legacy players with new and exciting technology solutions that are drawing investment and M&A activity to the sector. Specifically, many IOT technologies are helping consumers lead safer, more convenient and environmentally friendly lives. The following is a list of some disruptors in

the residential technology sector that have taken advantage of the capital markets to drive their growth.

Technology "Answers" the Doorbell

Headquartered in Santa Monica, Calif., RING developed a doorbell with video monitoring that enables consumers to answer their door from anywhere in the world. Offering a real world solution with significant value, RING's technology provides consumers with a powerful tool to prevent burglaries before they happen. You may recall RING from its appearance on the popular TV show, *Shark Tank*, where the founder turned down the sharks' offer. It seems he made the right call: investors are betting big on its growth prospects with Sir Richard Branson, American Family Insurance, True Ventures, Upfront, and Shea Ventures investing \$37.5M to fuel its innovation roadmap and expansion. RING's disruptive solution is shaking up an industry slow to innovate by delivering a differentiated and straightforward user experience that improves safety. Expect more exciting innovation as RING continues its mission to make communities safer.

No "Drought" of Innovation Here

Launched in 2013, Rachio brings IOT technology to the landscaping and

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water conservation arenas. Through its IRO smart irrigation controller, Rachio substantially improves a consumer's ability to control and monitor their sprinkler systems through greater data and insights. With the power of smart, connected capabilities and localized weather/precipitation knowledge, Rachio's systems help consumers conserve water, save money, and customize their irrigation programs. This is a prime example of IOT technology improving an everyday task by delivering a simple, elegant solution where consumers quickly realize meaningful benefits. Rachio recently raised venture capital funding to support its continued roll-out and innovation pipeline while capitalizing on the positive theme of resource conservation.

Big Retail Does Not Want to Miss Out

Struggling mass merchant retailer Sears Holdings (NASDAQ: SHLD) is betting on connected technologies with the recent acquisition of WallyHome, a start-up sensor technology that provides consumers with peace of mind by offering real-time leak, flood and temperature change alerts. WallyHome's intelligent sensors enable homeowners to quickly address the problem and mitigate damage. Sears hopes that WallyHome's simple and dedicated solution will help bring consumers back to its stores with a proprietary technology offering that integrates with its core appliance business. Look for Sears to expand the WallyHome technology platform with additional complementary solutions to support its appliance and consumer electronics retail business.

Home Automation and Entertainment Is a Snap

The growing complexity of interconnected residential technology is increasing the importance of professional integrators in the Custom Electronics Design & Installation Association (CEDIA) channel. SnapAV is a rapidly growing company disrupting the CEDIA channel by blurring the lines of a distributor and technology innovator as it now directly serves thousands of integrators with a broad line of proprietary branded integrator-friendly technology products.

General Atlantic, a global growth equity fund, invested in SnapAV in 2013 to help fuel its growth and innovation. Recently, SnapAV hired a new CEO to expand through acquisitions by leveraging its well-established channel relationships and product management capabilities. In October 2015, SnapAV acquired Intrepid client SunBriteTV, a manufacturer and pioneer of premium outdoor TV displays and digital signage solutions for residential and commercial applications. SunBriteTV was highly complementary for SnapAV as a result of its market-leading brand, proprietary and proven all-weather technologies, and synergistic fit providing SnapAV a lynchpin product for the outdoors.

M&A Outlook for the Residential Technology Sector

Which companies will garner the attention and capital of acquirers and investors? The winners and recipients of premium valuations will be those disruptive innovators who can deliver cost-effective solutions that truly help consumers with real world problems.

This is clearly evidenced by RING and Rachio's success in their recent capital raises along with SunBriteTV's sale to SnapAV.

Investors and acquirers seek residential technologies with sustainable competitive advantages that are defensible with intellectual property. Without such barriers, a company may be penalized with a lower valuation or even the extreme outcome of no interested suitors. Further to this point, businesses that simply source "white label" goods may generate attractive profit in the short-term, but have limited strategic M&A and capital markets options in the long term.

Another major factor driving M&A and investment is the potential addressable market. Niche markets with high margins can be solid cash cows, but valuations will be tempered compared to those residential technology solutions that cater to broad and high growth markets. Expect continued investor and acquirer interest in large segments such as security, resource conservation, home automation, and entertainment as these are cornerstones of a homeowner's experience with broad appeal and the ability to improve the consumer's life.

We are in the midst of an exciting time in the residential technology arena with fast-growing disruptors racing to raise capital and capture new markets and market share. As these emerging players mature, larger strategic buyers will "circle the wagons" to consolidate so they can fuel their own growth and augment their existing technology portfolios.

¹ "The Home Network, Our Neglected Workhorse," an IDC InfoBrief, May-15.