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Venture Funding In IoT Startups Continues To Go Up

Mary Ann Azevedo March 2, 2018

While the hype around IoT has slowed somewhat as smart and connected devices have become nearly mainstream, it appears that venture interest in the sector hasn't waned at all. In terms of dollars, it's growing.

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In 2017, venture capital funding into U.S.-based IoT startups alone reached its highest annual mark as investors poured $1.46 billion into startups, according to

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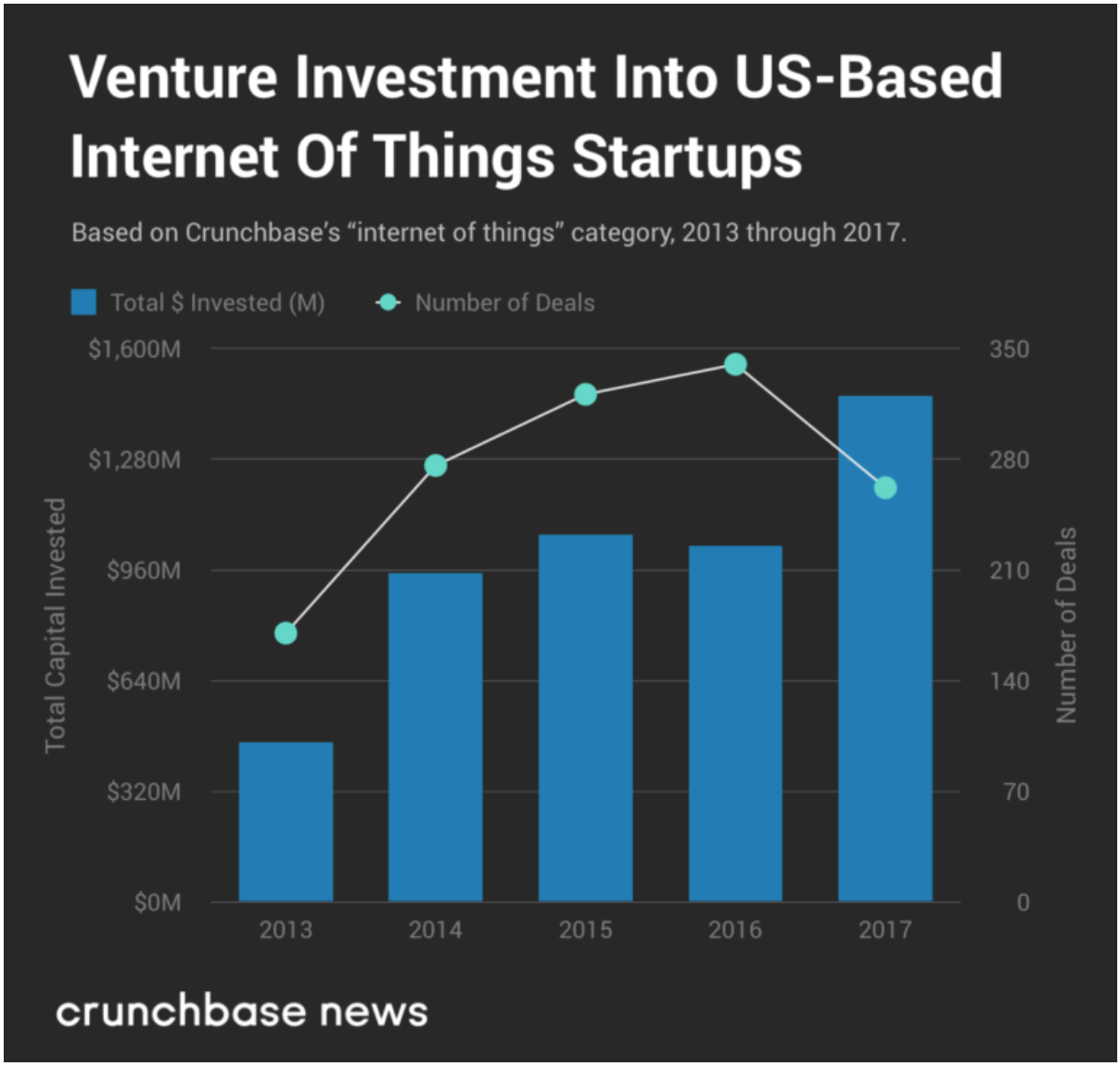
Crunchbase data. That's up 42 percent from $1.03 billion in 2016, and 216 percent more than the $461.7 million raised in 2013.



The year included a number of double-digit funding rounds. One of 2017's largest investments included TrackR's $50 million Series B round, a Santa Barbara, Calif.-based maker of devices that track your lost keys and every day carry. Revolution led the round, which included participation from Foundry Group, Amazon Alexa Fund, DoCoMo Capital, The Glenmede Trust, and Bespoke Strategies.

San Francisco-based identity management startup ForgeRock brought in $88 million in a Series D round led by Accel Partners and included participation from

Foundation Capital, Meritech Capital Partners, and KKR & Co. The startup has raised a total of $140.2 million since its inception in 2010.

In September 2017, San Francisco-based Bastille raised $27 million in a Series B round from Bessemer Ventures, Spinnaker Ventures, Keel Funds and Ballentine Capital. The company provides threat detection and security for IoT. Also in September 2017, Burlington, Mass.-based machine data analytics startup Logtrust took in $35 million in a Series B round that included participation from Insight Venture Partners and Kibo Ventures.

IoT Goes Industrial

Within the overall IoT sector, Industrial IoT (IIoT) has been particularly popular among investors because some believe the sector's potential has not yet been fully tapped, thus creating a greater opportunity.

"The key is boiling a big problem into bite-size pieces that are truly easy… to digest and act upon."

Greg Robinson, managing director at 4490 Ventures, said the sheer number of valuable or track-worthy assets in the industrial setting have made IIoT very welcomed by industrial companies.

"For so long there were islands of information in terms of tracking bits and pieces of systems, lines or assets of any sort," he told Crunchbase News. "Now people are trying to get a more holistic view of all those things. We've long been believers that there's a lot of low-hanging fruit and opportunities in IIot."

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Greg Robinson, Courtesy of 4490 Ventures

Madison, Wisconsin-based 4490 Ventures so far has two IoT portfolio investments. A 2016 investment was in Understory, which develops sensor networks that deliver ground truth data and property-level damage analytics. Last July, 4490 Ventures led an $8 million Series B round in Naperville, Ill.-based PhysIQ, which has developed a personalized physiology analytic platform (PPA) for use in both the regulated healthcare market as well as the unregulated health and fitness market.

What helped make Understory compelling, according to Robinson, is that it didn't just create a sensor.

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"They've deployed sensors to create a data network so that they can sell actual data to customers, which is what customers want in the first place," Robinson said. "They want something to tell them what needs to be done, not just a bunch of raw data. The key is boiling a big problem into bite-size pieces that are truly easy for them to digest and act upon."

Understory's first customers are large insurance, property, and casualty insurance companies as well as agricultural entities.

Investment in IIoT was initially slow to pick up for a variety of reasons, but has been gaining traction, according to Adrian Fortino, a partner who leads the IIOT practice within the Houston-based seed and early-stage venture capital firm Mercury Fund. Companies in the sector that Mercury Fund has invested in include Ambyint, Olea Edge Analytics, Sight Machine, and Meshify.

Historically, industrial adopters of technology have been "a little slow," noted Fortino. "Purchase decisions are different, proof of concepts are different,"

But the comfort level is there for the former mechanical engineer and software entrepreneur.

"We're trying to solve a couple of big challenges within industrial Internet adoption, such as inoperability and security," Fortino noted. "If those two challenges are beginning to be solved in a more scalable broader, larger way, we will start to see an even bigger explosion."

Asish Aggarwal, a principal at Grishin Robotics, agrees that the asset-heavy nature of companies the manufacturing, oil and gas, mining and agriculture industries has lent itself well to being helped by IIoT.

"There's a lot of focus on how you can increase the effectiveness or utilization of these assets," he said. "Previously, all these industrial assets were located in silos but now data can be compared and algorithms written to find anomalies to

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detect problems and identify how to implement best practices. This both saves money and increases efficiencies."

Water treatment, for example, is an area ripe for help from IoT. Electricity bills can make up 30 to 40 percent of a company's capital expenditure, Aggarwal noted.

"If companies can save $1 million per plant per year, they can save millions of dollars just by optimizing the water treatment expense on electricity bills," he said.

Natural Resources

With offices in Oslo, Houston, and Silicon Valley, Arundo Analytics is an IIoT company that recently raised $25 million in a Series A financing that took place in early January. Investors included, but were not limited to, Arctic Funds, Canica, Northgate Partners and Stanford-StartX Fund.

That still-open round may expand to $35 million, according to Arundo Analytics COO Stuart Morstead.

The upstream oil and gas industry is one of the largest generators and users of big data in the world, and these companies face a big problem, according to Amitav Misra, vice president of marketing for Arundo Analytics.

"They must make massive capital investments and operate complex physical systems in the context of massive uncertainty around their core product's long-term pricing," Misra said. "Nobody knows what oil prices will be next year, in five years, or in 10 years. This makes machine learning very attractive."

Machine learning gives companies the ability to respond more quickly in a complex environment as well as make more informed decisions about massive capital projects, according to Misra. It also enables companies to be best-cost

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producers, which is always important in uncertain commodity industries while making operations safer—something that is always a concern in heavy industrial environments.

Arundo Analytics plans to use the capital to expand its market presence in asset-heavy industries, including the oil & gas, maritime, mining, chemicals, power and manufacturing sectors, as well as to hire more software engineers and data scientists. It currently has about 60 employees. Founded in 2015, customers include Statoil, Aker BP, Carnival Maritime, and Statkraft. The company saw 100 percent revenue year-over-year revenue growth in 2017, according to Morstead, who expects the company "to more than beat that in 2018."

While the hype around IoT has calmed down, it's clear the sector is still going strong when it comes to venture investment. As the world continues to grow more connected, it doesn't appear that venture interest will be slowing anytime soon.

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