

**May 13, 2016**

**Dear clients and colleagues,**

The “Internet of Things” (IoT) has arrived. It is being fed by trillions of sensors on millions of applications and will help drive new consumer and business behavior. This presents trillions of dollars of opportunities for IT vendors as companies demand increasingly intelligent solutions for analyzing all of this incoming “big data”.

According to Cisco, there were approximately 15 billion devices connected to the Internet in 2015, and there will be close to 40 billion by 2020. Yet, even with all these connections, it is estimated that barely 1% of all physical objects are connected. Cisco believes the remaining 99% represents more than \$400 billion of business opportunity.

The advent of this concept has opened up exciting new prospects for one of the IoT’s main components, machine-to-machine (M2M) solutions. M2M uses point-to-point communications to provide remote access to machine data. M2M, however, is in no way new. It was first used during World War II by pilots to identify friendly aircraft in an attempt to prevent crossfire. Today, it has become a transformative technology that can fundamentally alter business processes and tactics.

This brings us to a leader in the M2M space, Orbcomm, a company we have owned since 4Q/2015.

**Orbcomm (ORBC US – \$9.25)**

<http://www.orbcomm.com/>

### ***Business Overview***

Headquartered in Rochelle Park, New Jersey, Orbcomm was founded in 2001. The company’s infrastructure and M2M solutions include network connectivity, devices and web-reporting applications that enable businesses and government agencies to track, monitor, control and communicate with fixed mobile assets. They pride themselves on being the only player in the industry with a commercial satellite network 100% dedicated to M2M.

### ***What does that mean?***

Orbcomm makes businesses as smart and connected as the world in which we live. Its products are used in a variety of vertical markets, from energy pipelines to military vehicles. For example, its CargoWatch system monitors cargo shipments. It tells you when a ship’s door is open or closed and when a ship is en route. Orbcomm’s StarTrak application manages temperature ranges, sending an alarm signal if temperatures reach critical. These applications generate huge amounts of data, giving incredible insight into how things work and helping users understand how to make their businesses more efficient.

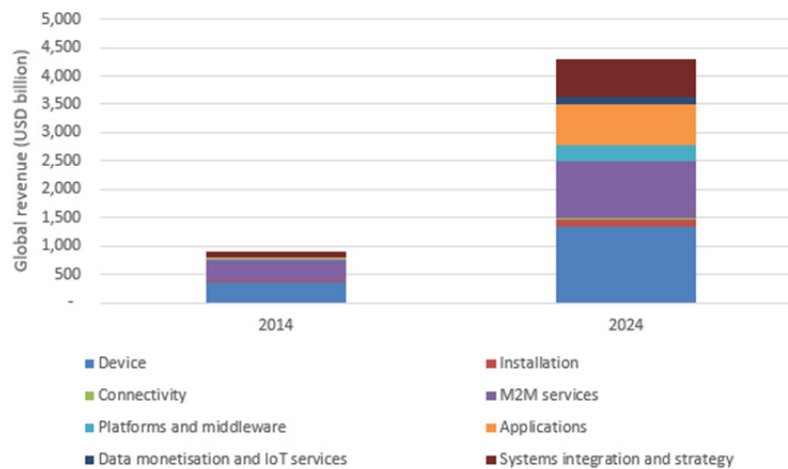
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**Target Market**

- M2M TAM is estimated to be \$1.6T in 2024 versus \$500B in 2014
- Total number of M2M connections is expected to be 27B in 2024 versus 5B in 2014 (CAGR 18%)
- Cellular connections are anticipated to reach 2.2B in 2024 versus 256M in 2014
- Companies are seeking to improve their visibility and management of fixed and mobile assets

*Global IoT opportunity, 2014 and 2024 [Source: Machina Research, 2015]*



**Orbcomm’s Competitive Advantages**

- Its new OG2 satellite constellation
- Unparalleled cost advantages and technology: 39 patents
- One of the industry’s largest technical team (nearly 300 engineers worldwide)

**Growth Strategy**

- M&A
- Partnerships
- Organic: introduction of new M2M applications and entering into additional vertical markets

**Management**

- Insiders own 3.2% of the company
- CEO Marc Eisenberg has been with the company since 2002

**Risks**

- Satellite failures
- Highly capital-intensive

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**Market Data**

Market Cap \$674.7M, EV/Sales (2017) 3.6x, EV/EBITDA (2017) 13.5x, 5-year average sales growth 48.8%

The concept of IoT is changing how we interact with the physical world. Just think about how far speech recognition technology has come over the years. We live in a world where talking to your phone, laptop or even your car has been made possible thanks to embedded sensors and voice-processing chips. Gartner research has projected that within the next five years the number of connected devices will outnumber the number of people on the planet by a factor of more than 3 to 1. Companies with an M2M mindset will be best positioned for growth in a world where connectivity will redefine ecosystems and shatter old business models.

Have a good weekend.

The Global Alpha Team

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