

The wizard stands behind the curtain, Amazon's invisible wall and the acquisition of Ring for \$1 billion

[Amazon.com \(NASDAQ: AMZN\) – market cap as of 02/03/2018: \\$726.28bn](#)

Introduction

Every time Amazon announces an acquisition, it is hard not to feel the excitement. All the more so considering that the online giant has had an uncertain relationship with M&A and has only in the recent years garnered the confidence to pull the trigger on large transactions. As a matter of fact, Amazon was an avid acquirer before the 2000s, when the dot.com bubble wiped out the value of Amazon's external acquisitions and almost brought the company on the verge of bankruptcy. In fact, after the 2000s, Jeff Bezos has been more than reluctant on performing large deals, with only small to medium sized transactions being performed in the next decade, and of which Zappos and Audible are perhaps the only moderate standouts.

However, last year the tune changed with the acquisition of Whole Foods, and Amazon looks like it is reverting to its old and original nature. In this very context we place the acquisition of Ring for \$1 billion, setting the record for Amazon's second largest acquisition to date.

About Amazon.com

Headquartered in Seattle (US), Amazon.com is the world's largest online shopping retailer, operating in 189 countries and employing ca. 341,400 people across 5 continents. The company was incorporated in the state of Washington in 1994 by Jeff Bezos, who currently is CEO and President, and then reincorporated in the state of Delaware in 1996. Amazon.com completed the first IPO in 1997 and its common stock is currently traded on the NASDAQ.

The online retailer behemoth is the largest tech giant aiming at being the world's most "customer-centric company". It offers an extremely wide array of services and products through different and innovative platforms, ranging from retail goods, consumer electronics, computer cloud services, video operations (it produced the 2017 Academy Award-winner Manchester-by-the-Sea), digital personal assistant devices (Alexa and Echo product lines), and many others. Moreover, starting last year, Amazon aggressively approached two new markets: in August 2017, through the \$13.7 billion acquisition of the US organic supermarket chain Whole Foods, the company entered the grocery segment, while in January 2018 it made its first move into the healthcare industry, through the announced plan with Berkshire Hathaway and JPMorgan Chase.

Amazon splits its operations in 3 major segments: the North America segments (including retail sales, subscriptions sold through North-America focused websites and the Whole Foods' business); the International segment (including the operations of the websites serving the international markets); and the Amazon Web Services ("AWS") segment (focused on on-demand cloud computing platforms and storage/database services offered to individuals, companies and governments).

In the last period, Amazon has been focusing heavily on external growth, running more and more acquisitions as time goes by. This approach, combined with consistent R&D efforts and increasing concerns toward the collection of information through artificial intelligence and machine learning, has allowed to seize new opportunities and deliver outstanding results.

According to the Full Year 2017 Results published on February 1, 2018, for the FY2017 Amazon net sales have increased 31% to \$177.9 billion, compared with \$136.0 billion in FY2016. Likewise, reported net income has raised

to \$3.0 billion, or \$6.15 per diluted share, compared with net income of \$2.4 billion, or \$4.90 per diluted share, in 2016.

About Ring, Inc.

Founded in 2012 by the current CEO James Siminoff, after graduating from the Babson College (MA, US), Ring – formerly known as DoorBot – is a privately held company specialized in global home security services. It is headquartered in Santa Monica (CA, US) and according to Pitchbook it employs ca. 1,300 people as of November, 2017.

The company's success came after a difficult period of financial woes in 2013 when James Siminoff and his team pitched their project on the ABC's TV program Shark Tank, asking for \$700,000 for the previously called DoorBot, in exchange for a stake in the company. Even though the Sharks did not bite, and James left disappointed, the episode was aired by ABC and this guaranteed DoorBot free publicity streams that brought a huge boost in sales and a following re-branding as Ring.

The company provides homeowners a line of preventative outdoor security doorbells and Wi-Fi enabled cameras connected to a mobile app, aimed at reducing criminality in the neighbourhoods, preventing burglaries and empowering consumers by creating a Ring of Security around homes and communities with its suite of smart home security products (e.g. Ring Video Doorbell, Ring Video Doorbell Pro, Ring Stick Up Cam, and the new Ring Floodlight Cam). In 2016, Ring partnered with the Los Angeles Police Department and installed Ring Video Doorbells on 10 percent of homes in Wilshire Park, California. The result was a 55% decrease in break-ins within the first six months of the doorbells being installed.

Being private, no relevant financial information about the company has been disclosed to the public.

Industry Overview

The smart home industry is commonly divided into the following categories: smart kitchen, security access control, lighting control, home healthcare and HVAC control. As individuals continuously aim to reduce overall electricity consumption, light control is currently regarded as the most significant product. According to Zion Market Research, the global smart home market size was valued at \$24.10bn in 2016 and is expected to reach \$53.45bn by 2022 with 14.5% annual increase by 2022. Although, the United States presently dominates the smart home market, Europe is also experiencing rapid growth. Countless firms including Siemens AG, ABB Ltd., Schneider Electric S.A., Ingersoll-Rand Plc and Tyco International Ltd. have been developing cutting-edge products and cloud-based services to improve customer experience. High installation costs and a lack of standardization have, however, hampered the exponential growth of the smart home market worldwide.

Improvements in artificial intelligence and voice control also allowed the “intelligent assistant” to play a crucial role in the management and maintenance of smart home products. Amazon, Apple, Google, Microsoft, Samsung and Alibaba already compete in this highly specialized market to gain a head start on other contestants. According to eMarketer, 35.6mil Americans used a voice-activated assistant device at least once a month in 2017. This figure represents a rise of 128.9% compared to the previous year.

In December 2017, Amazon already acquired Ring's main rival Blink, which specializes in connected cameras and smart doorbells. Moreover, Amazon launched exclusive services for Prime participants called “Cloud Cam” and “Amazon Key”, allowing individuals to remotely unlock their homes for the delivery of packages. Ring initially

raised approximately \$109mil in funding and is resultantly viewed as one of the most imperative players in the smart home industry.

Deal Structure

The exact terms of the acquisition were undisclosed, but the deal is expected to be worth approximately \$1.1bn. Nevertheless, analysts anticipate that Amazon will integrate Ring's products and services into the Alexa ecosystem, while maintaining the central business segments of the firm.

Deal Rationale

Realizing what Amazon has become in 2018, it is hard to believe that it was originally born in 1994 as just an online bookstore. Further, while it can be argued that the company's visionary founder Jeff Bezos had much broader ambitions for his company since the beginning, it is doubtful that he, or any other investor for that matter, could truly imagine the potential and reach of this once online start-up.

To understand what Ring's acquisition on behalf on Amazon truly means for the online colossus' business strategy, it might be useful to backtrack in the company's history for a bit, to see where Ring really fits in the greater picture.

Amazon first started as a bookstore, but don't let that fool you. Since its foundation, Amazon was envisioned to become an "Everything Store". Books just represented a natural starting point, a great initial product to kick things off. Books were just a low margin, replicable and simple product that could be easily shipped to customers without the danger that they could get damaged in the shaky delivery systems of the '90s. Furthermore, books also represent a perfect anecdote for the strategy of Amazon as a whole; in fact, Amazon's appeal has never been about the products, but instead Amazon's strength has always resided in a seamless and user-friendly marketplace where customers could literally find and buy everything at the guaranteed lowest price.

Since the start, it was clear that for Amazon to be successful it was going to have to focus on: a user-friendly interface, an efficient organization, a huge base of both customers (to drive up scale) and suppliers (to expand product offering), and mostly, the trust of its users. It is important to remember the role of trust for a company like Amazon, and recall that every time a customer makes a purchase, he bridges a virtual gap that divides the virtual world from the physical world. For every single purchase, bridging the gap requires trust on behalf of the consumer, the more the time between deliveries or the higher the uncertainty, the larger will be the invisible wall that separates customers from Amazon products.

Since the very beginning, Amazon's success has pegged upon the thinness of this wall. The true reason why Prime customers do not pay delivery fees, or why single day delivery is so advertised (like Amazon Prime Go), is because payments for shipping and waiting time before deliveries enlarge such very wall, which is a large detriment to online business. Once we understand that, we are ready to understand why Ring is an exciting acquisition for Amazon. Ring is the next acquisition in place to further thin the wall, and it also fits extremely well with Amazon's existing product offering.

As anticipated above, Ring is a home-security start-up whose current best-selling product is an integrated doorbell connected to the user's mobile phone and computer, able to detect movement and starts recording every time that someone is in proximity of the door. Eventually, the recorded video is sent and saved on cloud storage and the user can access his home security feed. Customers can subscribe to monthly plans which expand the available cloud storage space and grant new security features. Lastly, research does show the Ring technology to be effective and houses equipped with Ring's security systems do exhibit significantly less crimes and thieveries.

On the other hand, Amazon has three main operations: Online Retailer, Cloud Services, and Internally Developed Hardware (Kindle, Fire, Echo, etc.). While these three subdivisions may look far apart, they actually work together and present strong cross complementarities that the company leverages. Lastly, Amazon has, as of recently, pushed forward into the smart-home market, starting with the launch of its home-pod Echo in 2014. Amazon has an already declared interest in becoming a large player in every “smart-home”, in the hopes that it will be able to cross-sell you anything from Amazon-Prime Video, to two-hour delivery, directly from your home’s smart speakers, which are themselves directly connected to Amazon and can order your detergents straight from the sound of your voice. It is inside this “smart-home” ecosystem that we need to contextualize the strategic rationale behind the acquisition for Ring. However, the story doesn’t end here.

At a first glance, one would be tempted to say that Ring is only another component of any smart home, but in reality, the complementarities for Amazon run much deeper, and it is important to uncover them. The true reason is that Ring further thins the invisible wall. Amazon has two very well-kept secrets: firstly, it wants to deliver products at your doorstep without you being home, and secondly, it wants to forgo delivery systems entirely and send you your products directly (maybe through drones) without having to deal with a delivery middle man. Here, we can truly appreciate the depth and impact of the Ring acquisition.

By providing for a state-of-the-art home security system, Amazon’s ambitions are to control your doorstep and render delivery of products without you even being home. A safe, reliable, connected, and integrated home-system is the answer, and it has a specific name: Ring. While on the surface Amazon is not publicizing this deal or stating that Ring is only a home-security device, in reality, they want to avoid a public backlash against their deeper motives.

Finally, the chips are already in place, and integrating Ring in Amazon’s portfolio will be an absolute breeze. First of all, the Ring doorbell will probably be integrated with Alexa’s home ecosystem and the Ring technology will be used to improve existing Amazon home products like Amazon Key. Secondly, Ring’s recordings will be integrated with Amazon Cloud Services and the cloud storage will be employed to store all the security footages of the product at lower prices and better offerings.

Lastly, Amazon may go as far as to include a Home-Security package in the “Amazon-Prime” membership, adding delivery at your doorstep without the owner’s presence as another feature. A safe and trusted security system might be all that Amazon needs to get through everyone’s doorstep.

On a final note, Amazon has once again proven that it is the absolute king of e-commerce.

No other company has been able to interpret and anticipate customers’ demand in such a consistent and successful way. No other online company has been able to draw the invisible curtain away from virtual products and make them look so close, and so real, behind a glass screen. No screen is thinner than on Amazon.com. We wait for Amazon’s next move with excitement, and we never forget to bow to the wizard standing behind the curtain.

Market Reaction

Following the announcement, Amazon shares rose 0.64% on February 28th morning trading; this move made the company’s investors even more satisfied than before – as its shares have been going up consistently in the last year, surging nearly 30% in 2018.

Financial Advisors

JP Morgan Chase & Co. advised Ring on the sale, while no information about Amazon’s advisors is available.