Oaklins

OAKLINS M&A ROBOTICS REPORT 2018

AN UPDATE ON THE STATE OF THE MARKET

Dr. Jürg Stucker
Oaklins Robotics Specialist
j.stucker@ch.oaklins.com

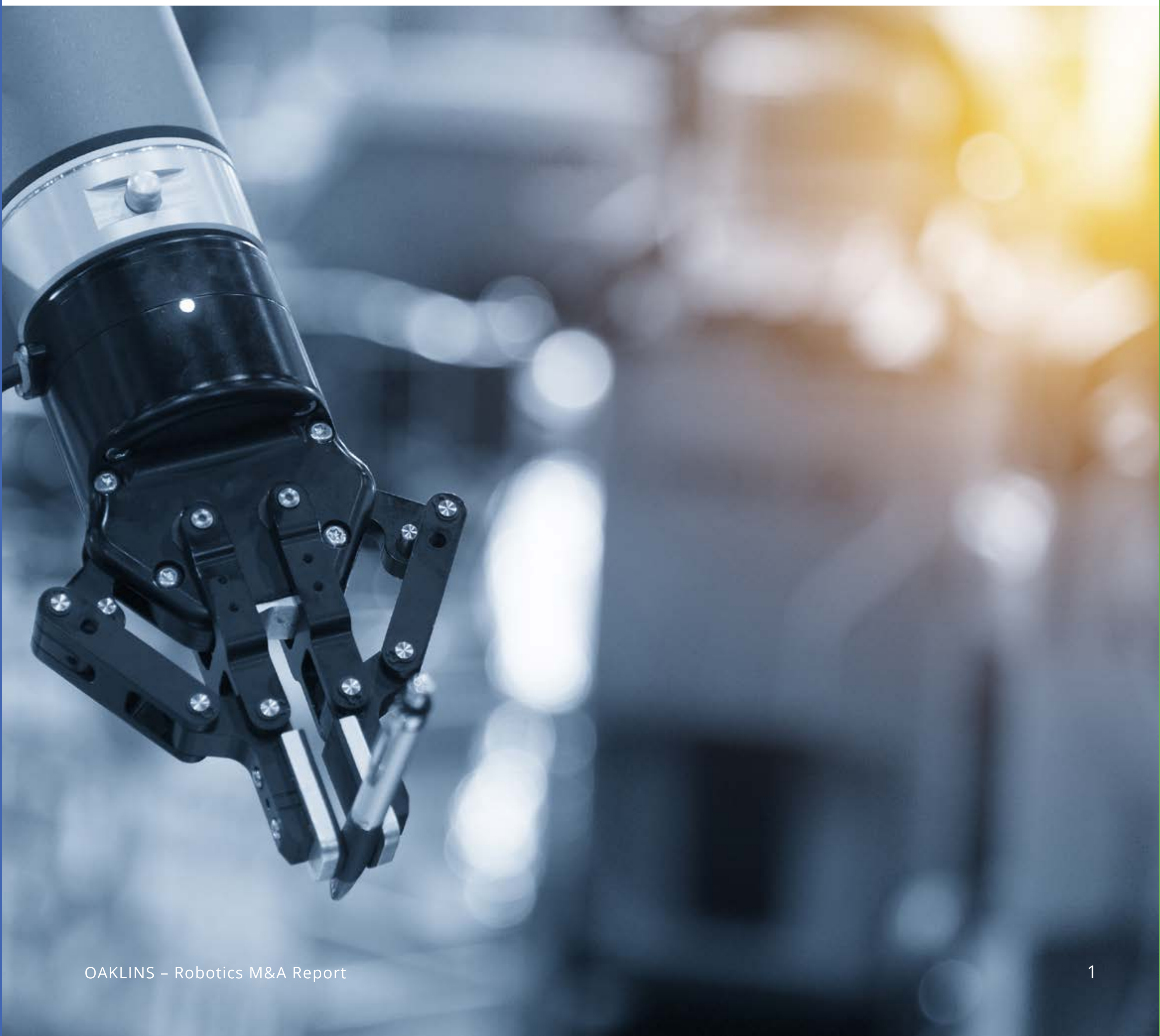
David Zürrer
Oaklins Robotics Specialist
d.zuerrer@ch.oaklins.com

Oaklins

INTRODUCTION

As more industries deploy more robots, the pace of M&A in the robotics industry is accelerating. The technology is no longer confined to large manufacturing facilities, but has become increasingly commonplace among different size companies and an ever-expanding range of industries. Across the business world, companies are investigating how robotics can be deployed to improve processes and increase efficiencies, as they strive for a competitive advantage.

Game-changing technologies with the potential to disrupt existing business models have always had an outsized impact on the M&A market. As you will see throughout this report, for the robotics industry these dynamics are in full force.

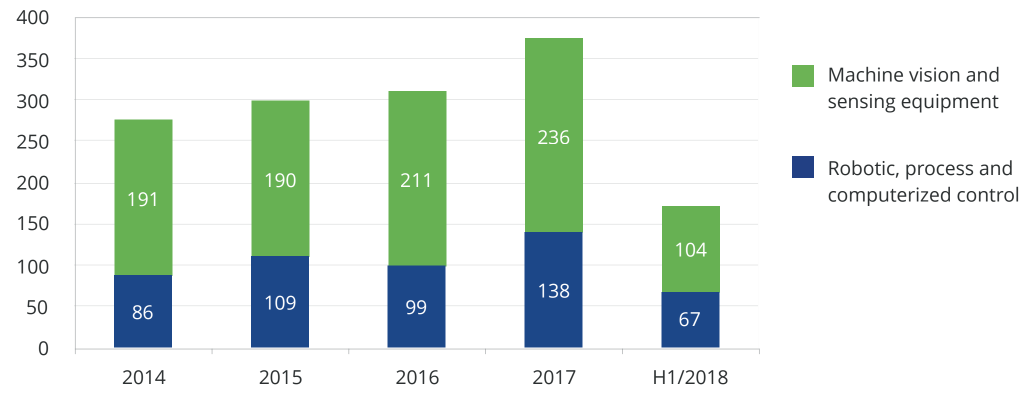


THE ROBOTICS M&A MARKET
THE NUMBER OF TRANSACTIONS IS GROWING

During the first half of 2018, a total of 171 robotics industry mergers and acquisitions were completed in the European and North American markets. Of these, 104 involved developers of machine vision and sensing equipment, and 67 concerned companies active in robotic, process and computerized controls. Given that more deals are generally completed during the second half of the year, the number of deals to close in 2018 is likely to exceed 350 — and may surpass 374, which was the total number of deals that closed in 2017.

Over the past four years, the number of transactions with European and North American participation has steadily risen. This has been driven by the major market players, which are constantly on the lookout for new technologies that will increase the autonomy and intelligence of their products. As in previous years, nearly two thirds of 2018's transactions to date have taken place in the machine vision and sensing equipment sector.

Transactions per subsector

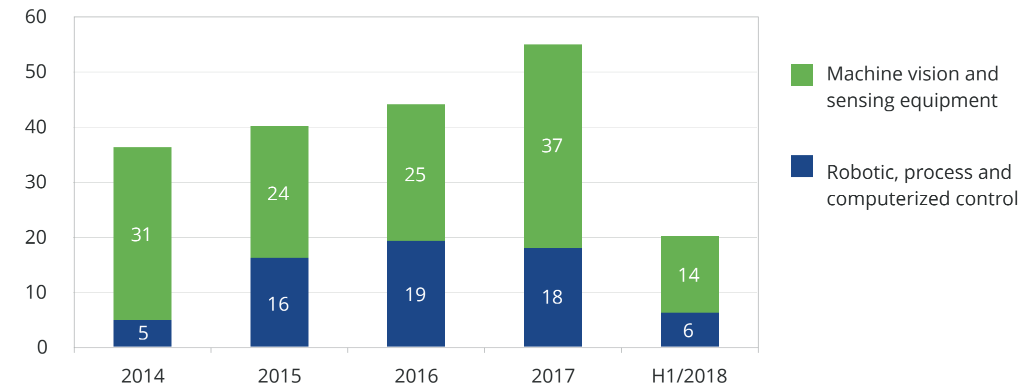


Source: Mergermarket

INVESTOR INTEREST IS ON THE RISE

Financial investors are increasingly targeting robotic companies, and in 2017 they completed a record 55 deals. Since 2014, financial investors have participated in a total of 195 industry transactions, accounting for 13% to 15% — or roughly one in seven — of all deals completed.

Financial investors: transactions per subsector



Source: Mergermarket

PRICE MULTIPLES ARE INCREASING

The growing number of transactions and increased investor interest are pushing prices higher. These are the key factors driving this trend:

- **A rapidly growing market**: According to recent projections[1], the global market for robots will soar from US$59 billion in 2018 to US$237 billion in 2022 at a CAGR of 41.5%.

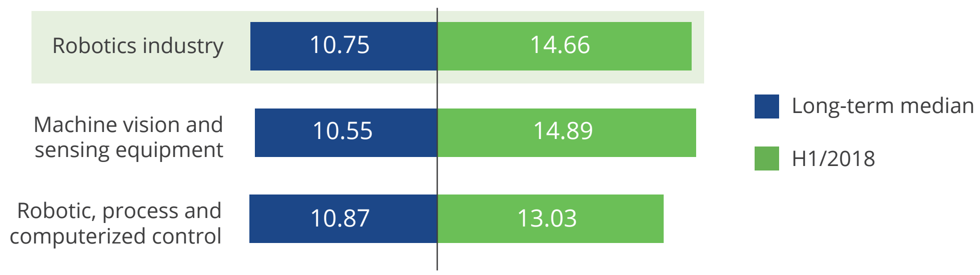
- **Technological advances and new innovations**: Further strides in machine vision, artificial Intelligence and sensing equipment are allowing robots to take on more tasks in a growing range of fields. At the same time, prices for robots and robotic technology continue to fall.

- **Increased competition among buyers**: Afraid of missing out on the next big thing, major market players have stepped up their acquisitions of startups as well as established players. In addition to financial investors, companies at the periphery of the industry are also becoming more acquisitive, as they look to improve their products' autonomy and intelligence.

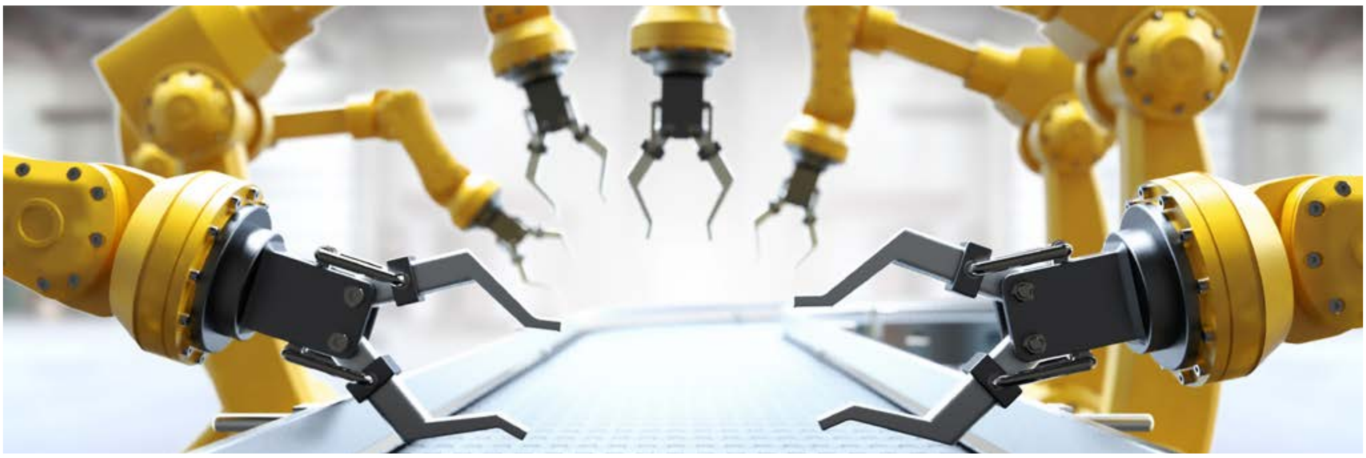
- **A favorable business climate**: Interest rates remain low and many companies have full order books, creating an environment conducive to new investment in high yielding technologies, such as robots.

As a result of these factors, the prices that buyers are willing to pay are rising. Since 2009, the long-term median transaction price has ranged between 10 and 11 times EBITDA, but during the first half of 2018 those multiples rose to between 13 and 14 times EBITDA.

Transaction price multiples

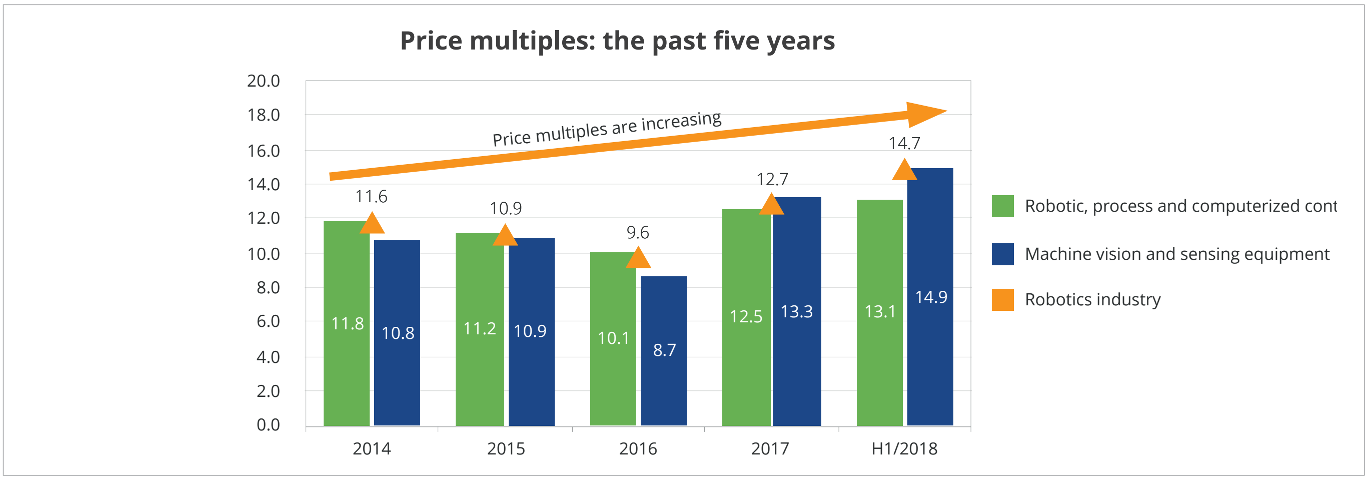


Source: Mergermarket



[1] https://www.statista.com/statistics/760190/worldwide-robotics-market-revenue/

Comparing the multiples over the past five years highlights this trend and makes it appear unlikely that prices will weaken during the second half of 2018.



Source: Mergermarket

It should be noted that the substantial jump in prices between 2016 and 2017 went hand-in-hand with a significantly greater number of transactions. Deal volume rose from 310 in 2016 to 374 in 2017 at an average transaction value of US$ 161 million.

Apart from a few mega deals, such as the sale of KUKA AG for US$ 5.1 billion in 2016, most transactions have been for much smaller companies. This suggests that the higher multiples paid have been for early stage companies whose valuations were based on their market potential as opposed to their actual sales, and this would appear to continue to be the case during the first six months of 2018.

MARKET INSIGHTS FROM AUTOMATICA

Here are some insights from Automatica, the leading trade fair for the robotics and automation industries. At the 2018 event in June, the decision-makers we spoke with were excited about the state of the industry and the accelerating pace of its development. These are some of the key trends they identified:

New software developments are making robots smarter, faster, safer and more precise. New machines can be programmed to perform multiple tasks rather than only one specific function, making them more versatile and cost-effective.

New interfaces for non-technical employees are making it easier for small and medium-sized companies to invest in robotics. By avoiding the need for specially-trained operators, reducing the total cost of ownership and increasing robot versatility, these interfaces are creating opportunities for automation technology to move downstream. Robotics deployments are still concentrated in the manufacturing and logistics sectors, but other industries such as agriculture are increasingly making use of the technology.

Cobots are making rapid headway. Though these collaborative robots have not yet developed all the requisite fine motor skills to perform more delicate tasks, they are becoming increasingly sophisticated. Improved sensor technology, in particular, is providing these robots with the broader range of functions they need to serve a much larger market that includes businesses of all sizes.

Chinese companies are moving quickly, making large investments in robotics, automation and AI. Germany, meanwhile, is focused on deploying highly specialized hardware, while the US remains at the forefront of artificial intelligence and software development.

Stäubli Holding Germany GmbH has acquired a 70% stake in WFT Beteiligungs GmbH (WFT).

Stäubli is a global mechatronics solution provider serving customers in many industrial sectors who want to increase their productivity. Stäubli operates in 29 countries with agents in 50 countries on four continents and a global workforce of 5,000 people. Originally founded in 1892 as a small workshop, today Stäubli is an international group headquartered in Pfäffikon, Switzerland.

Based in Germany, the range of services provided by WFT include the design and construction of special purpose machines, innovative mobility and transport solutions and heat and surface treatments as well as project-related production and contract manufacturing of single parts or modules.

Oaklins' team in Switzerland advised the buyer in this transaction.

INTERVIEW

Dr. Gery Colombo
President Rehab Division DIH
CEO Hocoma

How would you describe Hocoma to someone who is unfamiliar with the company?

Since 1996, we at HOCOMA have been pioneering robot-assisted human movement therapy across the entire rehabilitation continuum. Our solutions provide more intensive therapy, helping patients to recover faster.

What are the most important trends in rehabilitation affecting your business?

There are two in particular. First, there are still areas where the mechanical support provided by robots is not as good as it should be. In the field of hand rehabilitation, for instance, there is a need for smaller and smarter robots.

The second has to do with software. Keeping the patient motivated is key for successful rehabilitation. Software, including artificial intelligence and big data analysis, can help us develop individual programs for each patient. It allows our robots to provide enhanced performance feedback and gamification.

How do you remain innovative in such a fast-moving environment?

The key factor is our view that our products must continually evolve and should never be set in stone. This mindset is part of our DNA and has helped us succeed in the market. Another important element is our close collaboration with all stakeholders throughout the product development process. This ensures that we recognize, understand, and address everyone's needs.

In future, what role will M&A play for Hocoma?

While organic growth was and still is important for Hocoma, we regard M&A as a strategic option in our dynamic environment. For example, we would consider an acquisition if it allowed us to accelerate our overall strategy by giving us specific software skills or some complementary technologies.

Do you see a lot of attractive targets in the market?

Our industry is still very young and will become a multibillion-dollar market in the near future. There are a lot of startup companies which are interesting in terms of technology. Many startups lack marketing power and resources. To access the market, they need to meet various regulatory requirements and obtain certifications such as CE, CFDA, FDCA, and so on. That is why a lot of these companies are looking for strong strategic partners with a global distribution network.

What are the difficulties involved in completing an acquisition?

Looking at some of the latest acquisitions in the industry, the price multiples are quite high and paid based on expected potential. This means there's a high level of uncertainty with these acquisitions and for them to be successful you need to have a very clear idea of where the market is headed and how you want to strategically position your company. At current prices, a bad fit can quickly lead to losses.

You merged with DIH International in 2016. How has Hocoma benefited from this partnership?

Last year, we achieved an annual growth rate of over 25% – a figure that wouldn't have been possible before the merger. And we haven't even completed the integration phase yet. More specifically, we are benefitting from skill sharing and greater distribution and we anticipate that our stronger market position will help us expand. Clearly, the partnership with DIH International was a good decision.

SUMMARY AND OUTLOOK

We expect the robotics industry to continue to grow rapidly amidst intensifying competition. Despite high company valuations, this will lead to more M&A activity. Although price multiples have risen and may increase further, attractive targets featuring innovative technology are in high demand. This bodes well for vendors: they stand a good chance of finding a strong partner at an attractive valuation.

MEET OAKLINS, THE WORLD'S MOST EXPERIENCED MID-MARKET M&A ADVISOR

Oaklins International offers the unparalleled resources of **700 merger & acquisition professionals** in **40 countries**. For over **30 years** we have seamlessly advised private shareholders, financial investors and corporate clients on acquisitions, divestitures and financing transactions. In the last five years Oaklins' member firms have closed more than **5,000 transactions**. We combine local market knowledge with our highly talented global industry specialists in **15 sectors**.

700 professionals

60 offices

40 countries

5,000+ transactions

15 sectors

Oaklins

Oaklins – our offices around the world

Oaklins

www.oaklins.com