

Robotics report

An update on the M&A market

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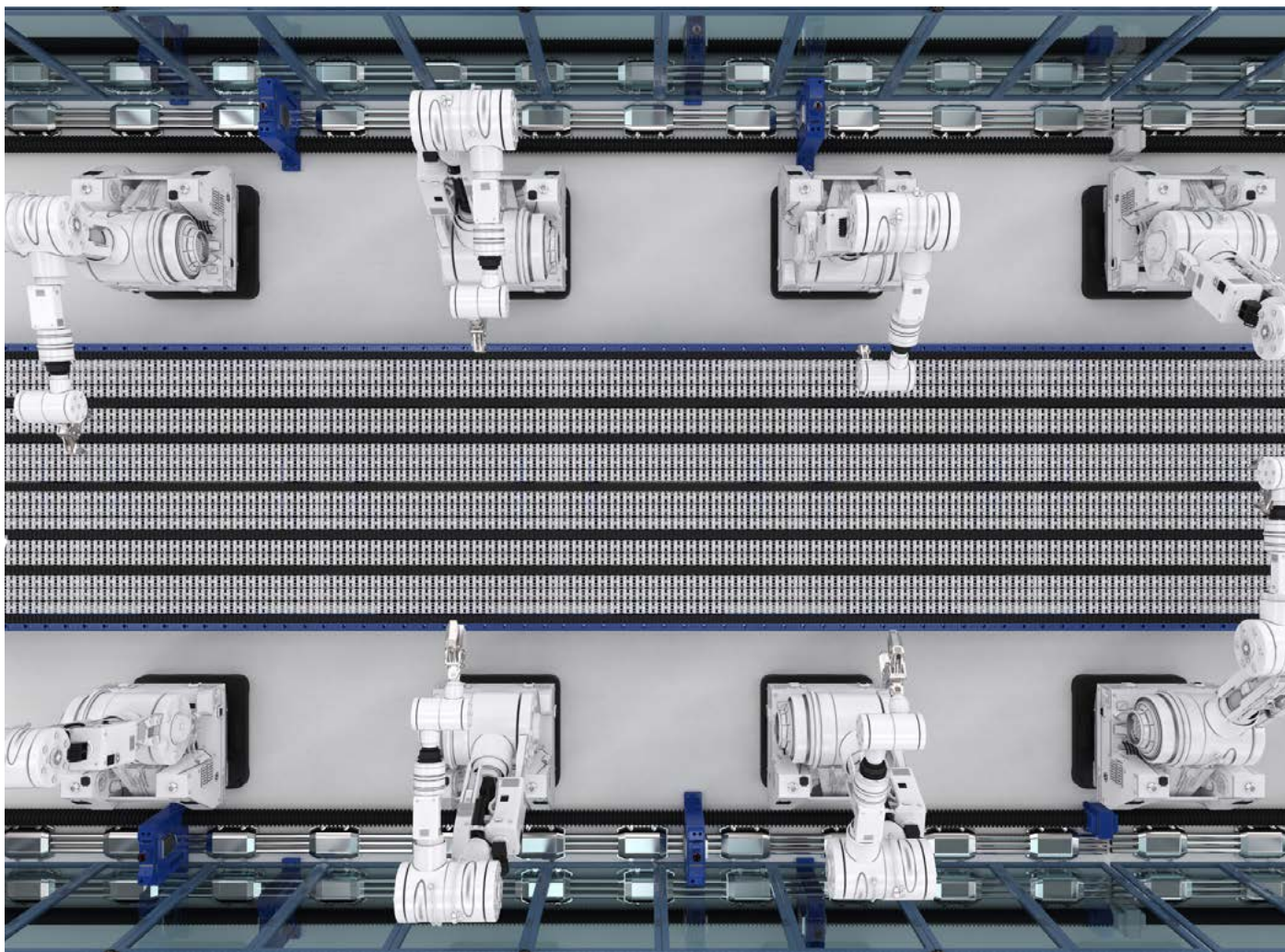
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Introduction

Economic uncertainty is not good for dealmaking, so it is hardly a surprise that — after reaching record highs and peak values in recent years — M&A activity has declined significantly during the pandemic.

With respect to the robotics industry, the market was already beginning to cool in 2019, but this year it's become positively frosty as the number of M&A transactions has fallen sharply.

Although robots are used widely by many industries today, the robotics industry is still largely dependent on the

automotive industry, its largest market by far. The auto sector, however, is engaged in a major transition from combustion engines to electric drives and is caught up in the trade conflict between the USA and China. This has caused it to lose its footing, and the fallout has shaken the industrial robots sector, which is experiencing its first downturn following six years of peak values. With COVID-19 exacerbating the situation, recovery will probably take some time.

These are interesting times we're living in, and everyone has become more risk averse. Along with the apparent

dangers, however, there are also quite a few opportunities, and forward-looking market players can gain traction and position themselves for the future with a well-chosen acquisition or merger.

So while there may be some rough sledding ahead, long term the robotics industry will remain a growth market and is likely to emerge from the current crisis a good bit sooner than many other industries.

The robotics M&A market:

A sharp falloff in transactions

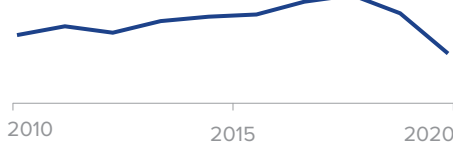
During the first three quarters of 2020 the robotics sector completed a total of 115 M&A transactions, compared with 316 for all of 2019.

Two thirds of these deals were for machine vision and sensing equipment companies, while the remainder involved companies active in process and computerized control. This decline in M&A activity actually began in the second half of 2019, when the number of deals fell by 36% compared with the first six months of the year. The last time the robotics industry experienced such a sharp decline was during 2009, in the aftermath of the financial crisis, when only 115 deals closed for the entire year.

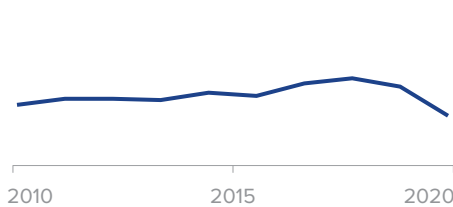
Given another quarter remaining and the tendency for more transactions to close during the second half of the year than the first, the total number of deals completed during 2020 will almost certainly exceed those in 2009. Yet in other respects, 2020 may fare more poorly. Following the 2008 financial crisis, annual demand for industrial robots dropped by nearly 50%, while M&A activity declined 37%. In terms of deal activity, 2020 is experiencing an even sharper drop, as transaction volume has plummeted by 55% year-to-date versus the year before. Also, by 2010, both demand and M&A activity had recovered and even surpassed their pre-crisis levels, just one year after the drop-off. With the global pandemic still underway, we can't predict precisely how long the current downturn will last, and it may not end as quickly. Still, the continuing trend towards greater automation bodes well and is likely to support a swift rebound — especially once COVID-19 is brought to heel.

Trend transaction activity 2010–2020

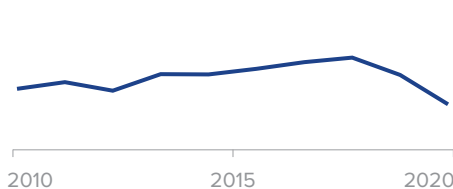
Robotics



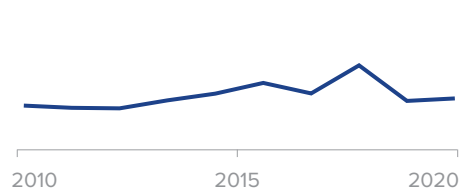
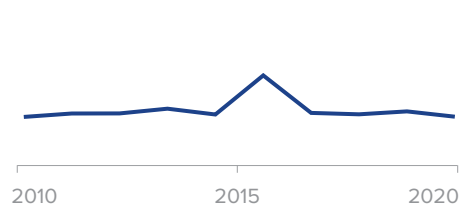
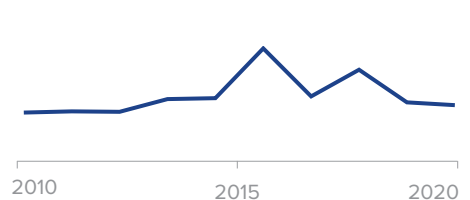
Robotic, process and computerized control



Machine vision and sensing equipment

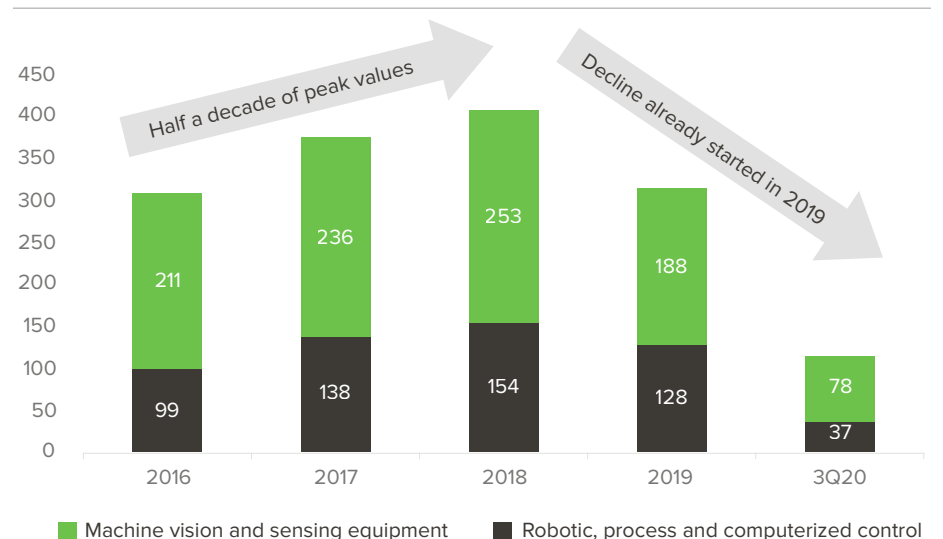


Trend volume 2010–2020



Source: Mergermarket, Oaklins research

Transactions per sub-sector



Source: Mergermarket

BUYER STRUCTURE

Buyers from outside of the robotics sector continue to play an outsized role in the industry's future. During the past five years, more than 70% of robotics transactions involved outside buyers — including those from the financial sector. But while, on average, financial investors accounted for more than 40% of all transactions in recent years, their share dropped to just over 35% during the first three quarters of 2020.

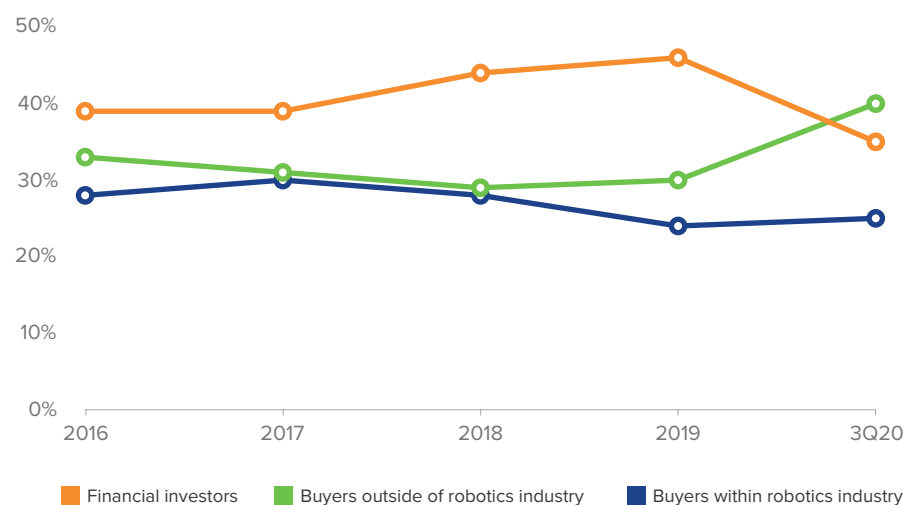
During the same period, buyers from within the robotics industry itself were responsible for only one out of four transactions. Given that the number of industrial robots sold in 2020 has plunged by 12%, the industry's diminished appetite for acquisitions is not surprising.

Excluding financial investors, buyers from outside the industry were responsible for 40% of the deals closed during the first three quarters of 2020. But while their share of all transactions has peaked, their total number of transactions has shriveled by more than 50% compared with last year.

Since 2015, financial investors have completed nearly 750 robotics transactions. But after five years of ever-increasing activity, the number of deals undertaken by this group is expected to fall dramatically this year.

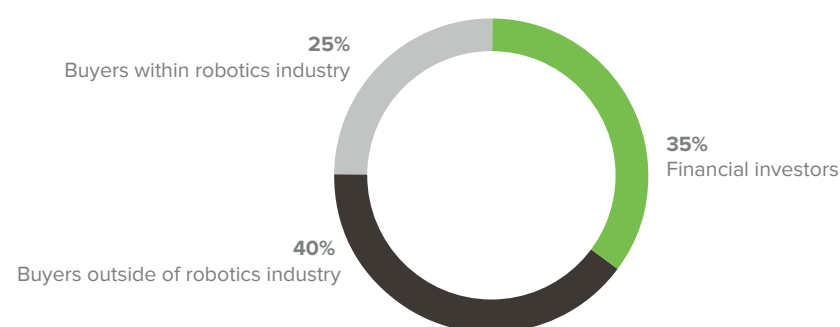
Much of this decline can be attributed to COVID-19, since the resources and activity of financial investors are likely to be consumed by their efforts to restructure their existing portfolio companies to cope with the crisis. Nonetheless, this will weigh heavily on the robotics sector, which is quite dependent on these investors to help finance product development.

Buyer structure in the robotics industry: the past five years



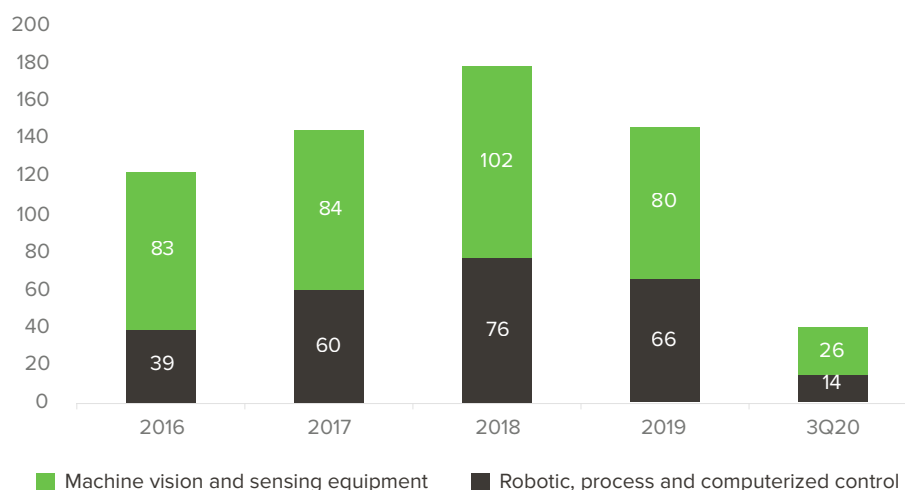
Source: Mergermarket

Buyer structure in the robotics industry in the first three quarters of 2020



Source: Mergermarket

Financial investors: transactions per sub-sector



Source: Mergermarket



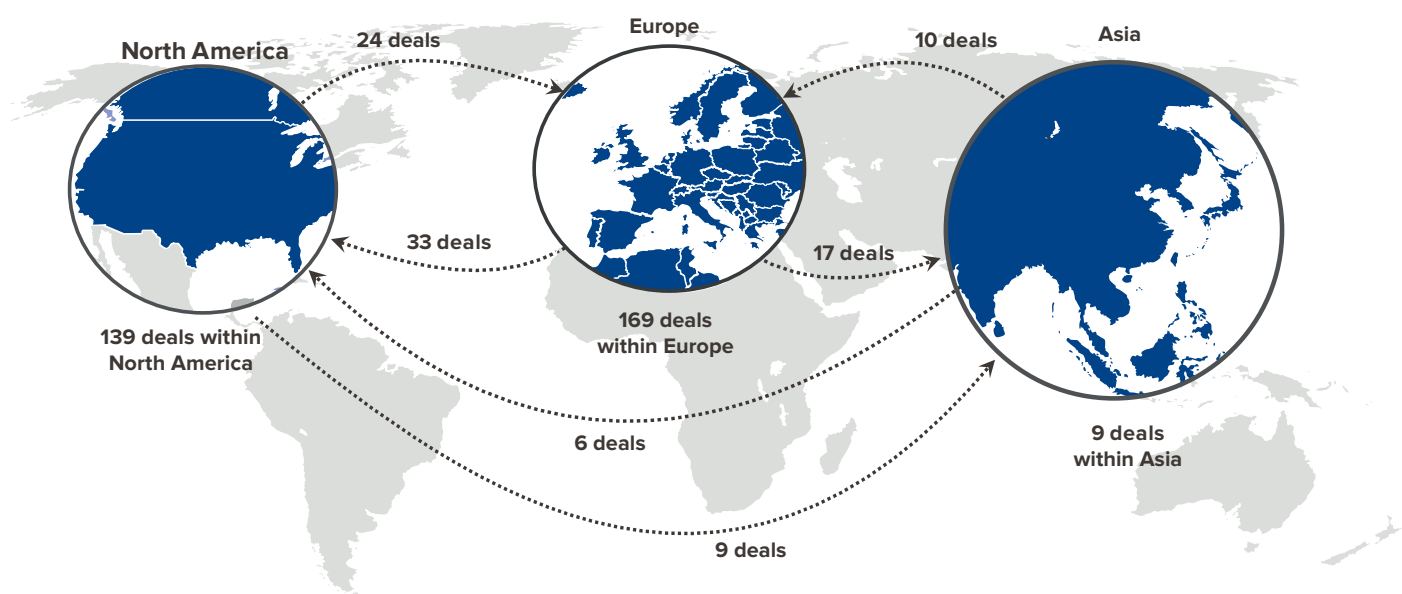
Global M&A

Between January and September 2020, more than 55% of the industry transactions that took place were cross-border. As in previous years, Europe was the most active market, followed by North America. Together, they accounted

for more than 70% of the deals during this period. Cross-border transactions between these two regions surpassed those between them and Asia, and while Asian targets continued to find favor with buyers from Europe, this was not

the case with buyers from North America — yet another unfortunate result of the trade conflict between the USA and China.

Global M&A flow



Source: Mergermarket, Oaklins research

VALUATIONS REMAIN SLIGHTLY BELOW THEIR 2018 PEAK

Industry valuations have softened

In our last report, we observed that deal valuations during the first half of 2019 were lower than the year before, and by year-end our prediction that transaction multiples would decline for the first time in three years proved to be correct. In the meantime...

- **Demand is lagging:** The automotive industry together with the electrical and electronics industries were responsible for more than 60% of industrial robot installations in 2017. Two years later, demand from these two industries fell to 51% of the market total, and during the first three

quarters of 2020, total demand for industrial robots slid by more than 21% to 193,000 total units installed versus 245,000 in 2017.

- **And trading multiples have followed suit:** It is noteworthy that the median trading EBITDA multiple for a group of key industry players — including FANUC, KUKA, ABB and DENSO, among others — dropped to 10.9x in 2019, compared with 11.2x in 2018 and 12x in 2017.

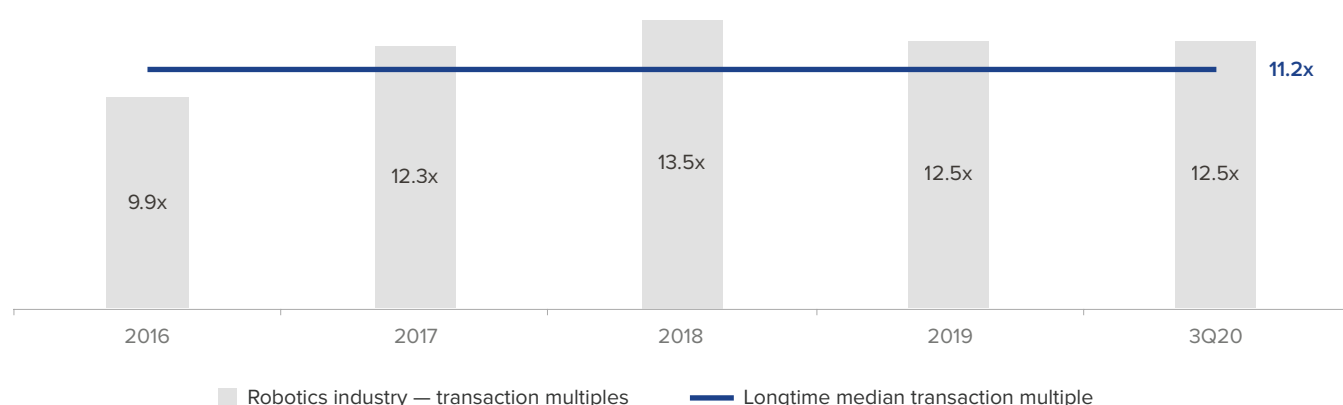
But while multiples have fallen, they remain high

Yet overall, despite the downturn and break in M&A activity, transaction prices

remain relatively high. For the period ending 30 September, the paid median EBITDA multiple for the preceding 12 months was 12.5x — the same as all of 2019. Also, the median EBITDA price multiple for all industry transactions from 2008 through Q3 2020 is 11.2x.

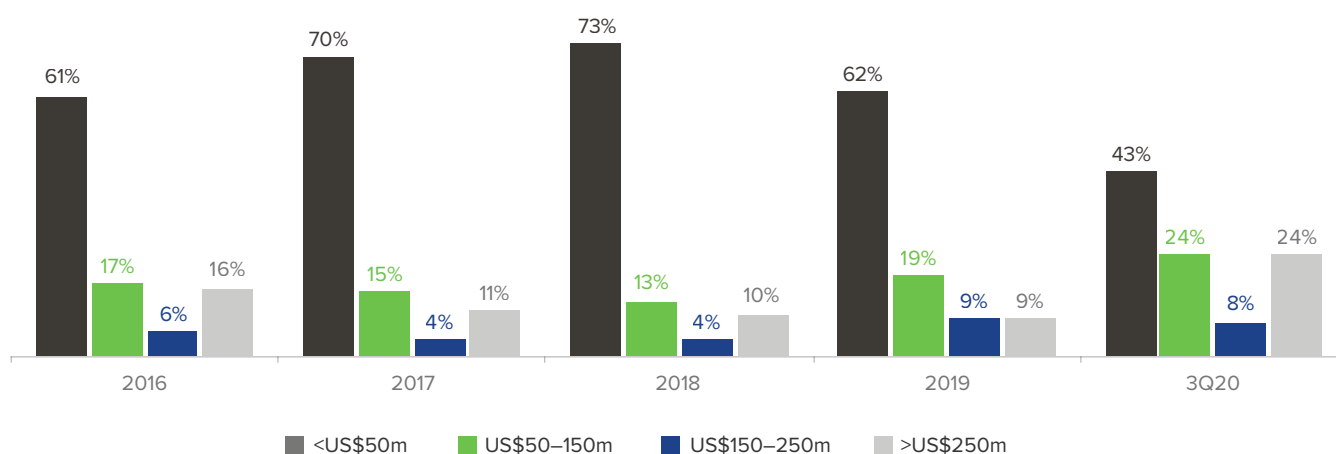
So, even though prices have fallen from their peak value of 13.5x in 2018, they are still 11% higher than they have been over the past 12 years.

Transaction multiples in the robotics industry



Source: Mergermarket

Deal size per year



Source: Mergermarket

Looking ahead

Following years of deal growth and peak values, the industrial robotics market softened in 2019 and especially in 2020. For the remainder of the year, it appears likely that the COVID-19 pandemic will continue to depress the global economy, and demand for industrial robots, along with M&A activity, will remain considerably subdued. We expect the

industry's contraction, however, to be short-lived, and it is liable to emerge from this crisis even stronger than before. One example of how this could play out is in the electronics industry, one of the robotics industry's two major customers. The electronics sector is benefiting from social distancing and the increased use of electronic devices

— and this may soon lead to new robot installations. Increased demand may also come from new robotics applications in agriculture, healthcare and for the production of personal protective equipment.

“Despite all the risks and uncertainties, the current environment offers strategic investors the opportunity to acquire attractive targets at favorable terms. In many industries, the underlying trend towards greater automation has not changed. For the robotics industry, this will eventually lead to a rising volume of M&A transactions at higher valuations.”

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OAKLINS HEAD OF ROBOTICS TEAM



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