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Robotics report

An update on the M&A market

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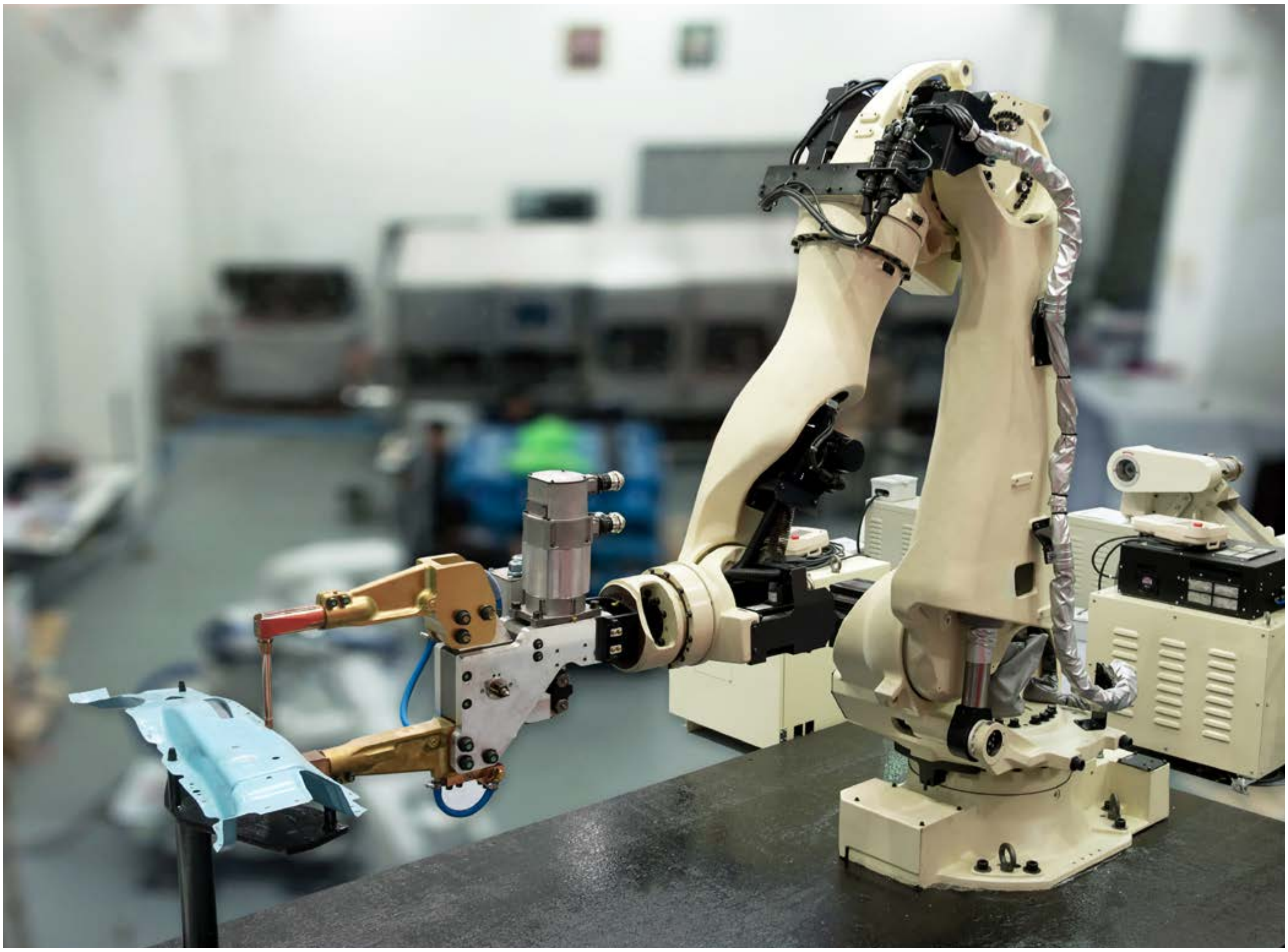


Introduction

RISING DEMAND FOR COBOTS DRIVES POST-PANDEMIC RECOVERY

After a bumpy 2020, which was marked by a series of downturns, deal activity in the robotics industry is gaining momentum again. Although the peak values of 2017 and 2018 are still some way off, the industry has shown a remarkable recovery.

While some industries, such as hospitality and events, have been severely affected by the global spread of COVID-19, others have experienced a strong upswing. If a pandemic can have any winners at all, you will find them in the industries associated with digitalization, e-commerce and consumer electronics.

Worldwide factory closures due to COVID-19 have forced company decision-makers and managers to put their money where their mouths are and push forward with digitalization and automation, given that robots don't get sick and can work around the clock, regardless of an ongoing pandemic. In addition, the rise in e-commerce sales fueled by the global pandemic has increased demand for automation in the fields of warehousing and material handling, where collaborative robots (cobots) can significantly improve productivity. Likewise, demand for consumer electronics has skyrocketed as time spent at home has increased dramatically, promoting home office, entertainment and household equipment.

The robotics M&A market:
A catbird seat during the pandemic

During the first 10 months of 2021, 166 transactions were completed, compared to 137 in the same period in 2020.

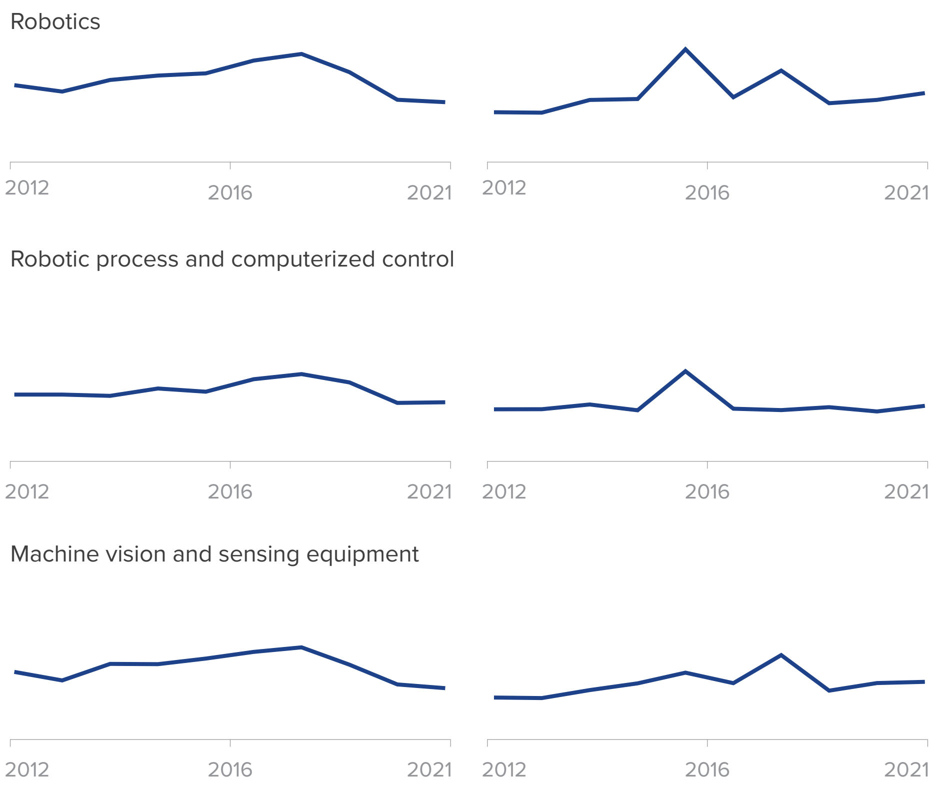
This represents an increase in transaction activity of 21%. Around 60% of the closed deals were in the sub-sector of machine vision and sensing equipment, whereas the remaining 40% were in the sub-sector of robotic process and computerized control.

The pandemic has not only increased the awareness of many companies about the need to invest more in automation, but has also boosted the demand for certain products from different industries, with consumer electronics, healthcare and e-commerce leading the way. Solutions from the robotics industry can play a major role in meeting this rapidly growing demand, whether it's robots in hospitals administering medication or disinfecting hallways to protect both staff and patients, or collaborative robots in warehousing or logistics to manage increased sales and distribution volumes.

Continued demand for automation solutions will also be boosted by trends that are independent of the pandemic, such as increased business resilience and the possibility of remote working (reduction of office space), as well as rising wages (especially in Asian countries and India).

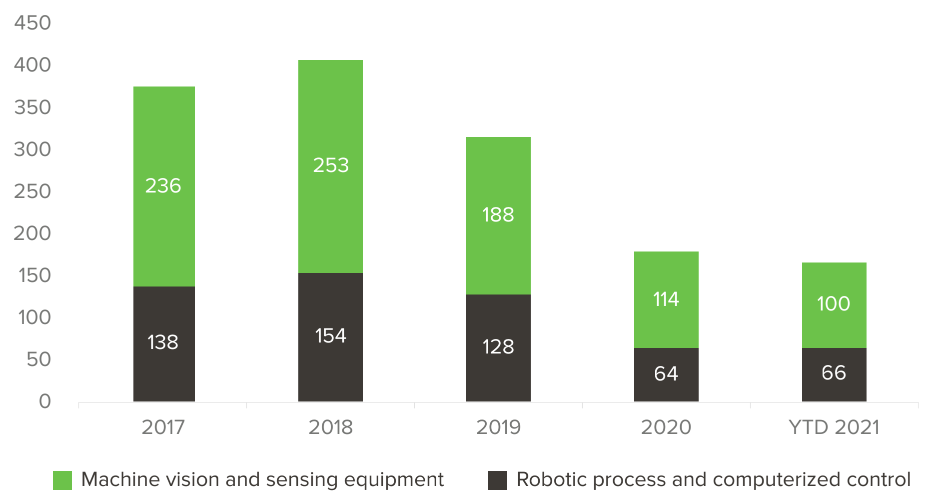
During this period, and as has happened in previous years, the largest share of M&A deals (nearly two-thirds of the total) took place in the machine vision and sensing equipment sector.

Trend transaction activity 2012–2021 | **Trend volume 2012–2021**



Sources: Mergermarket, Economist, Oaklins Analysis

Transactions per sub-sector



Source: Mergermarket

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BUYER STRUCTURE

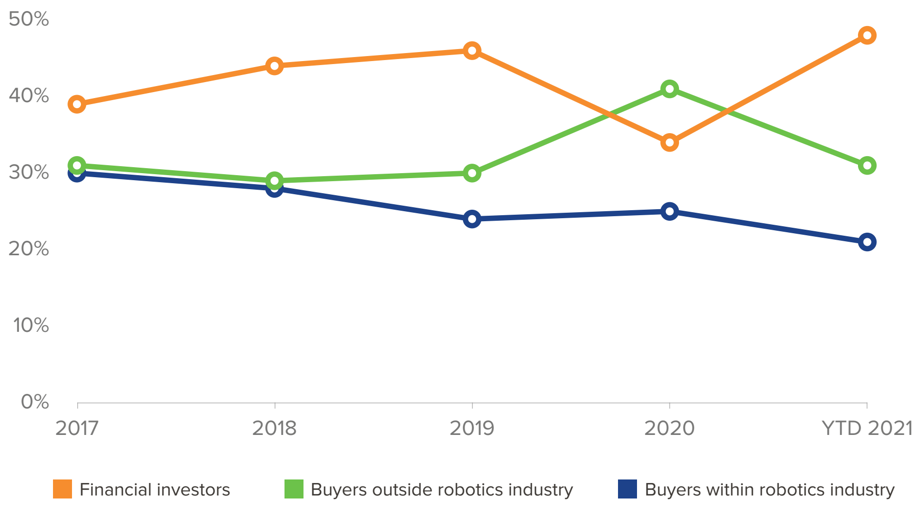
Buyers from outside the robotics industry continue to play a major role in transactions, with around 75% of deals over the last five years involving off-industry buyers, particularly from the finance sector. In 2021 this share has risen to almost 80%. After a downturn in 2020, financial investors have regained their enthusiasm for the robotics industry and were responsible for a record-breaking 48% of all transactions observed.

During the same period, buyers from within the robotics industry itself were responsible for only one out of every five transactions.

Buyers from outside the industry excluding financial investors were responsible for 31% of the deals closed during the first 10 months of 2021.

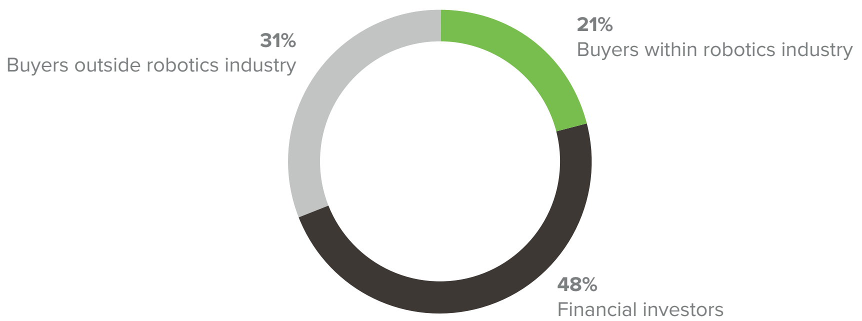
More than 600 robotics transactions have been completed by financial investors since 2017. After a dip in deal volume in 2020 due to COVID-19, and the pooling of resources to restructure existing portfolio companies, transactions in the robotics sector involving financial investors are on the rise once again.

Buyer structure in the robotics industry: the past five years



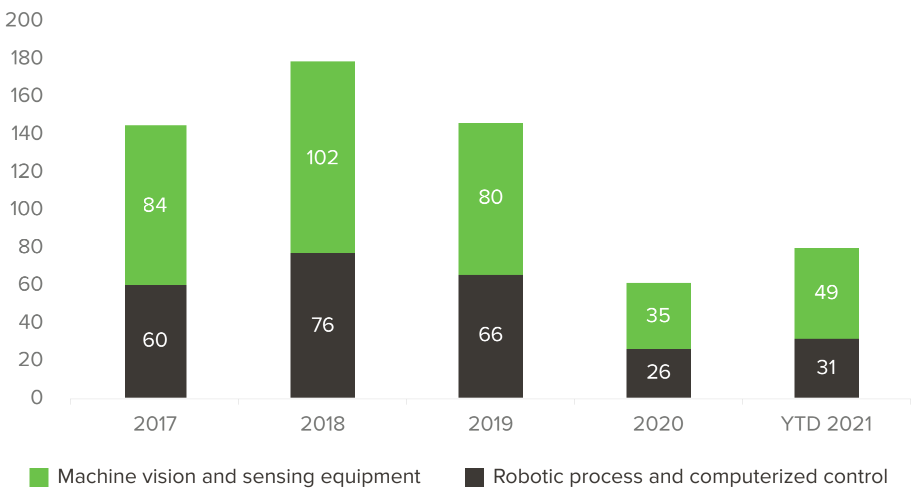
Source: Mergermarket

Buyer structure in the robotics industry in the first three quarters of 2021



Source: Mergermarket

Financial investors: transactions per sub-sector

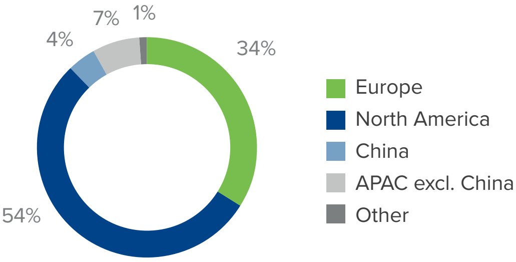


Source: Mergermarket

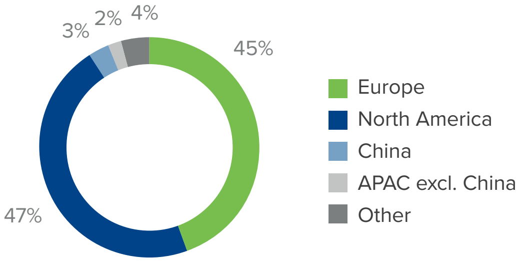
Global M&A

With customers operating in industries around the world ranging from automotive to healthcare and logistics, it is hardly surprising that between January and October 2021 around 46% of the closed transactions within the industry were cross-border, with North America being the most active market, followed by Europe. If European robotics companies are looking for overseas acquisitions, the final target is most likely to come from North America, and the same is true vice versa. Companies from the APAC region were more favored by European than North American buyers, although Asia remains popular for inbound and outbound M&A among both North Americans and Europeans.

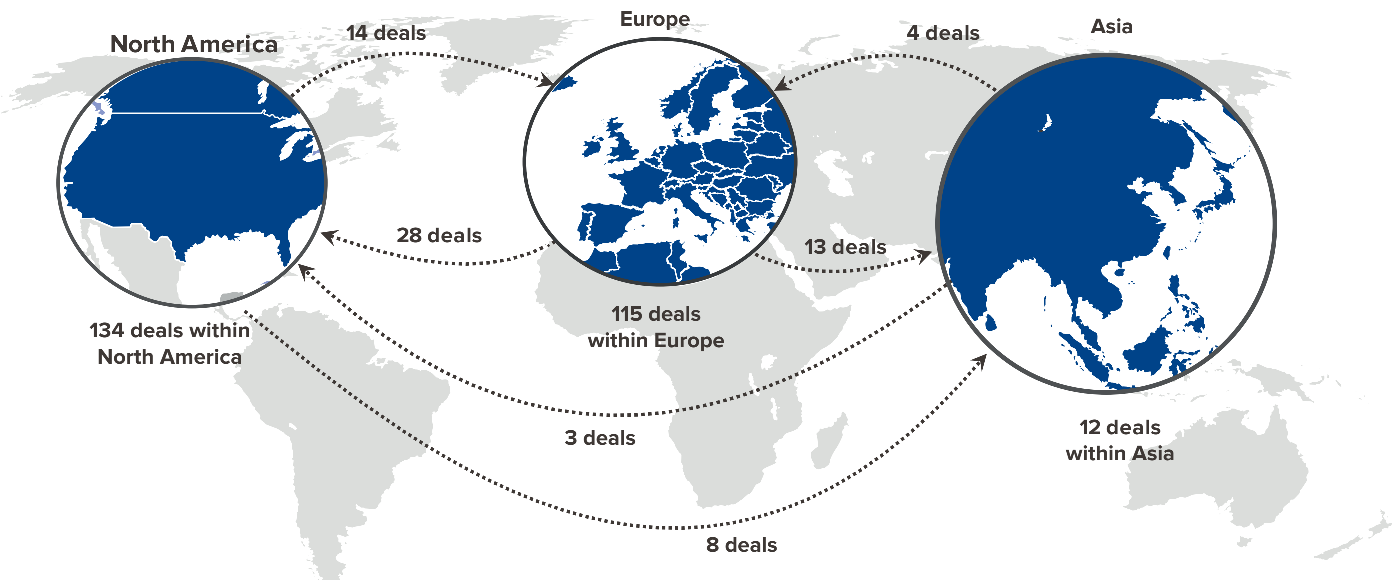
Target region 2021



Buyer region 2021



Global M&A flow since 2020



Sources: Mergermarket, Oaklins research

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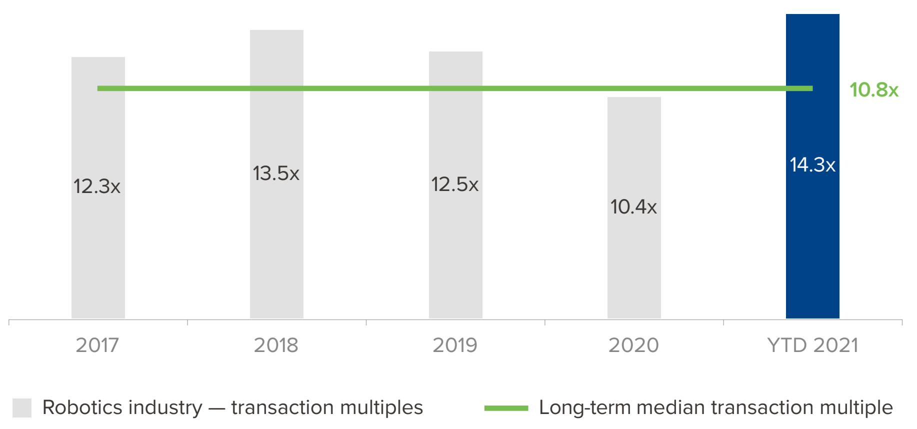
VALUATIONS ARE SKYROCKETING

Industry valuations soar

After a downturn in transaction multiples in 2019 and 2020, the prices paid for companies within the robotics industry are on the rise. Predominantly positive economic expectations, the continuation of favorable financing possibilities and the fact that a lot of companies are seeking a return on existing capital are all driving deal multiples to a record high. What's more, the following factors are also having an impact:

- **Demand picks up again:** For the first time since 1961, when the first commercially sold industry robot was installed at the GM plant in New Jersey, the automotive industry isn’t the robotics industry’s most important customer. Its place has been taken by the electrical/electronics industry, which was responsible for the purchase of nearly one in three industrial robots sold in 2020. In 2021, the number of industrial robots installed is expected to break records. (Source: International Federation of Robotics.)
- **Awareness has changed:** In the pre-pandemic days, the main expectations and goals of decision-makers regarding automation solutions were lower production costs, improved performance and quality, and increased revenue. There is no doubt that these factors still play a major role in the decision-making processes of companies and organizations, but other elements have now come into play that were not previously present, or at least not to the same extent that they are today. As well as lowering costs and improving performance and quality, the increased resilience of a company and the ease of generating business insights have become additional important decision drivers in the "post-pandemic" world.
- **Valuations hit record levels:** Up to 31 October, the paid YTD median EBITDA multiple was 14.3x — which is higher than ever before.

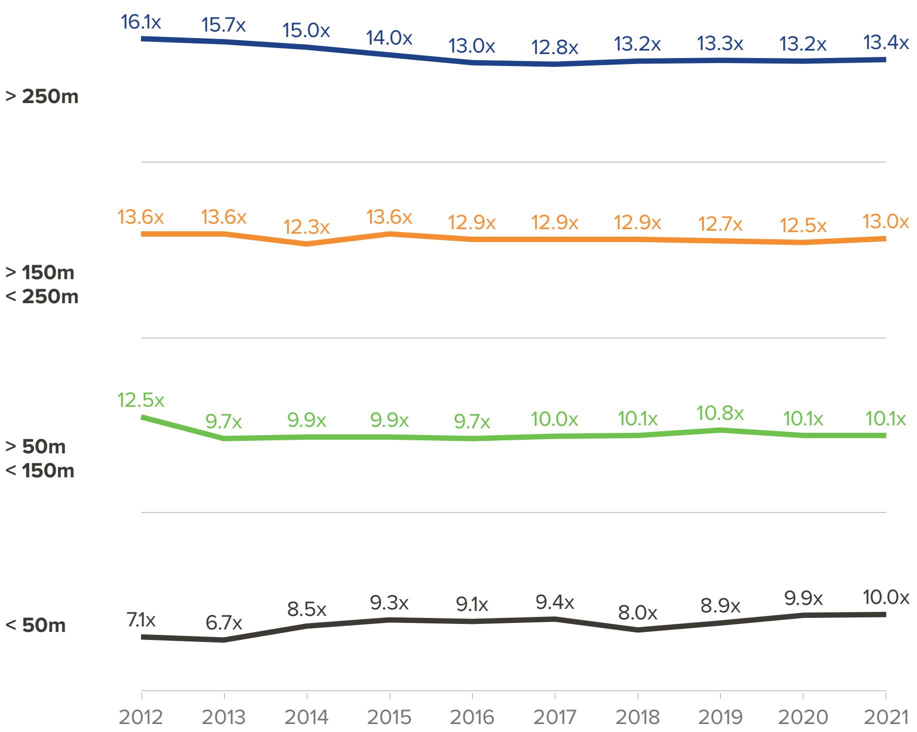
Transaction multiples in the robotics industry



Source: Mergermarket

The graph below shows that this trend also exists in the long term. An analysis of the five-year rolling transaction multiples over the past ten years show that valuation multiples on all transaction sizes are rising. The fact that lower transaction multiples are paid for smaller companies is typically attributable to a less differentiated product and service portfolio, and, associated with this, a higher level of risk, which is usually considered by buyers through a price discount.

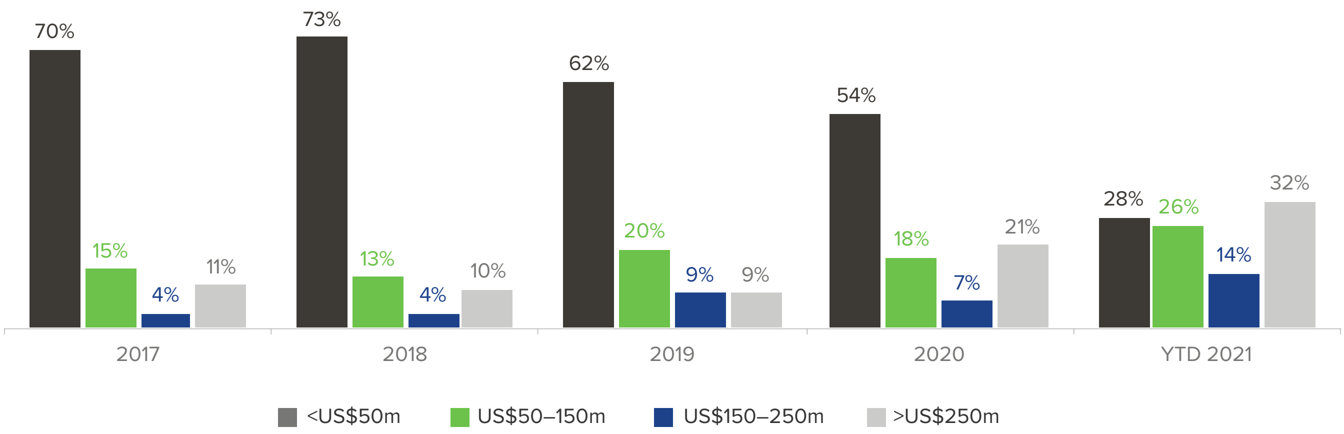
EBITDA multiples over the past ten years by transaction size



Source: Mergermarket

The total value of all transactions completed during the first 10 months of 2021 was US$26.2 billion, with an average transaction value of US$459 million. Even though there is still some time left to go in 2021, the total transaction volume has already increased by nearly 30% compared to the whole of 2020, representing the third highest volume from the last 14 years. Average transaction size grew by nearly 30%, from US$355 million in 2020 to US$459 million in 2021 — the second highest value since 2008.

Deal size per year



Source: Mergermarket

Looking ahead

Demand for industrial robots is expected to break record after record over the next few years, and company valuations will probably follow suit. Increased productivity and enhanced production quality at the same or even a lower cost as a result of more advanced hardware, combined with machine learning, better connectivity and edge computing will collectively allow more companies of all sizes and from various industries to adopt and benefit from robotics technology.

However, the market environment is still characterized by great uncertainties related to the global pandemic. Even though inoculations are making progress around the world, several European countries have once more introduced strong restrictions and measures. On the one hand, these actions continue to drive demand for robotic solutions, which, on its own, may be interpreted in a positive light. On the other, uncertainty is not encouraging for either investments or M&A, as companies prefer to hoard money in order to be able to react more flexibly to changing market environments when needed.

Notwithstanding this, the industry will continue its strong path of growth, which has actually gained momentum due to the pandemic.

"It's tough to make predictions, especially about the future and in uncertain times."

YOGI BERRA
(SLIGHTLY MODIFIED QUOTE)

Interview

ANTHONY FERNANDO

CEO Asensus Surgical

How would you describe Asensus in a few words to someone who does not yet know your company?

Asensus is a digital surgery company that enables digital laparoscopies by leveraging robotic technology. Robotic surgery has been around for quite some time, but we are taking it to the next level by providing digital surgery solutions that have not existed before, and also by serving the large number of laparoscopic surgeons in the world who have not had a dedicated solution before.

Asensus was founded 15 years ago and there is still uncertainty about whether you will be commercially successful. What makes you and your investors believe in your business?

As you know, we received FDA approval for the current platform in 2017, and we had to refresh the product as well as the CE mark in 2016. In light of this, we have actually been in the market without aiming for significant commercialization. The focus over the last two to three years has been primarily on market development, trying to understand what technology can be marketed best. That's why you see us placing only around 10 systems a year. Our focus is to really drive clinical adaption so that we understand what actually works. It's not easy to develop a robotic surgery platform, as it's a highly complex piece of technology which puts the human at the center of it.

We strongly believe that this technology has a lot more potential if you play it right and do the right things instead of rushing into where everyone else is trying to go.

What are the biggest challenges that you currently face?

The biggest challenges are related to the previous answer. We are a company that has been misunderstood by the investor and surgeon communities, because what we are doing is very different. So, when you use the phrase "robotic technology" in surgery, everybody thinks of the Da Vinci system and everybody compares you to Intuitive Surgical. The biggest challenge is to say: "Don't compare, we are different."

We are different in terms of cost, as our costs per procedure are about 50 to 70% lower than for a Da Vinci procedure. Also, from the perspective of investors, when you mention robotics in surgery, everybody just sees where Intuitive Surgical is today and their "overnight success." I think they have forgotten that it has taken 22 years for Intuitive Surgical to get to this point.

What are the most likely scenarios regarding how you could develop over the next 10 years?

In the next five years, we will be a very relevant and differentiated player in the market, considering all the technologies we currently have and the technologies that are still in development.

We truly separate ourselves from all those other companies, be it Medtronic, Intuitive Surgical or CMR Surgical, which are chasing the whole dream of robotic surgery. We are not chasing this dream. We are going after digital surgery. We have also made some significant acquisitions, such as MST Medical Surgery Technologies in Israel in 2018, and we will be building on that. We have almost doubled the size of the team in Israel, and we are moving to a new facility there by the end of the year to support that growth.

Why are you personally in this business?

If you look at any industry, for example automotive or industrials, whenever robotics was implemented in these industries, a few things happened: quality improved, productivity went up and costs came down. This was universally true for any industry when robotics was implemented.

But that didn't happen in healthcare. Productivity did not go up, quality did not increase and costs even rose. So, there is something not right in how it was implemented, and I think there is an opportunity to actually benefit from leveraging technology in surgery, which is what we are really focusing on.

"Do not compare, we are different."

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