



Industrial Automation

Introduction to a dynamic market with numerous investment opportunities

May 2021

 Harris Williams



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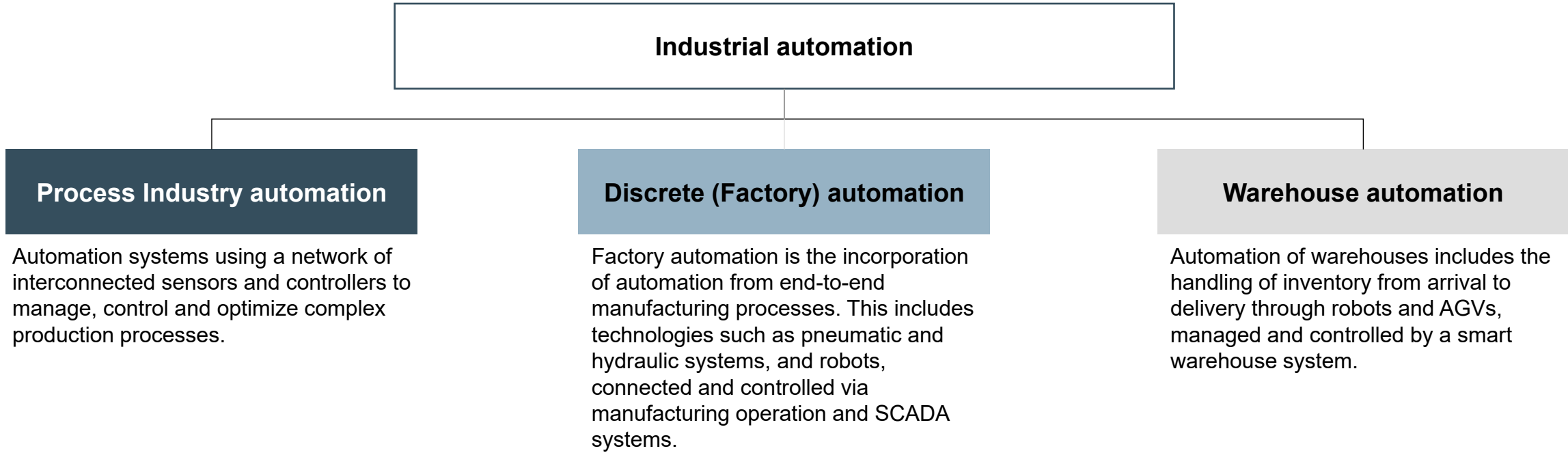
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Executive Summary

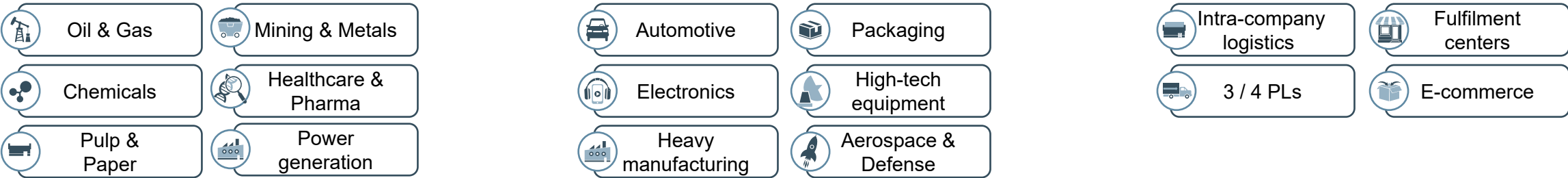
- Composed of **three distinct subsectors** — i. process, ii. discrete (factory) and iii. warehouse automation — industrial automation plays a **key role for modern businesses** in almost every industry imaginable. Industrial automation has seen a spike in popularity, as it enables a broad range of companies to **decrease costs and increase productivity**. Overall, this market has shown impressive strength for a variety of reasons, and based on current trends, industrial automation should see **substantial growth in the coming decade**.
- Industrial automation offers many investment opportunities but requires a **deep understanding of the entire technology stack**, from **enterprise level** with design and control solutions, over the **process level** with control systems like SCADA, PLC or DCS, the **system integration level** down to the **instrument level** with sensors, robots, drives or AGVs. On each level there are **specialized solution providers**, as well as competitors which are **integrated across two or more levels**.
- Successful industrial automation businesses have several **similar characteristics** – high intellectual property levels, innovation leadership, “plug and play” functionalities, software-enabled offerings, excellent data protection, synergistic software and aftermarket services, partnerships to access new capabilities and a more customer-centric solution mindset.
- Overall **M&A activity has been strong** over the last five years with over 1,000 transactions in total. In the process automation subsector alone, there have been more than 500 deals over the period, while discrete and warehouse automation, respectively, saw more than 370 and 290 deals being completed. Investors are valuing the vast market and application areas with **excellent growth perspectives**. To illustrate where the market is now and where it is going, consider that the global automation market was worth roughly \$175 billion last year. **By 2025, the market is expected to be worth around \$265 billion**.
- When it comes to industrial automation’s growth and potential, there are many factors at play. For instance, there is a reported 51 percent **increase in interest** in automated solutions among business leaders in the wake of the COVID-19 pandemic. Additionally, an **increased level of investment** by original equipment manufacturers is expected to lead to **increased M&A activity** over the next five years. Ultimately, industrial automation and its ever-increasing popularity represent an **appealing option for investors**. In the coming years, industrial automation should continue building on its impressive performance across these sectors, cementing itself as a strong and sustainable market.

Source: L.E.K. research and analysis, Pitchbook, Mergermarket, S&P Capital IQ

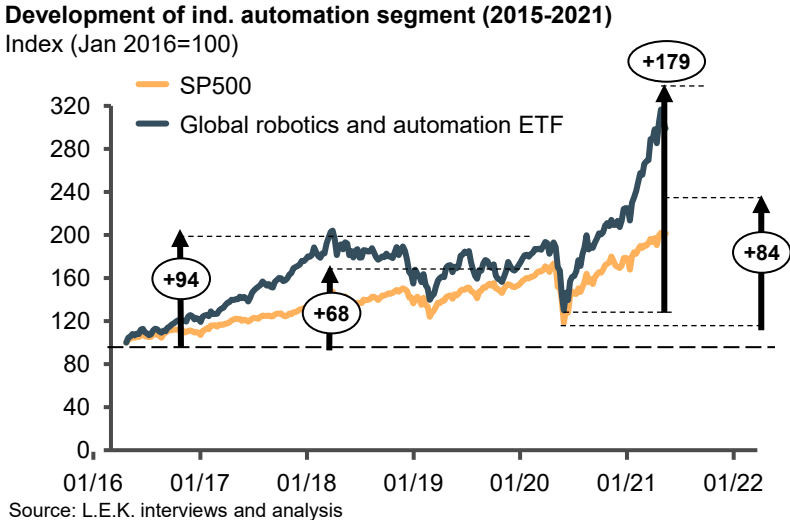
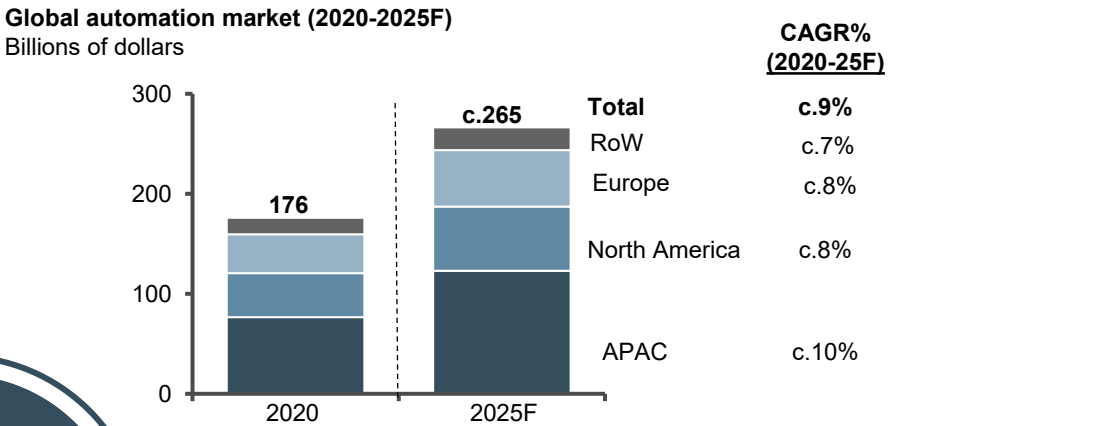
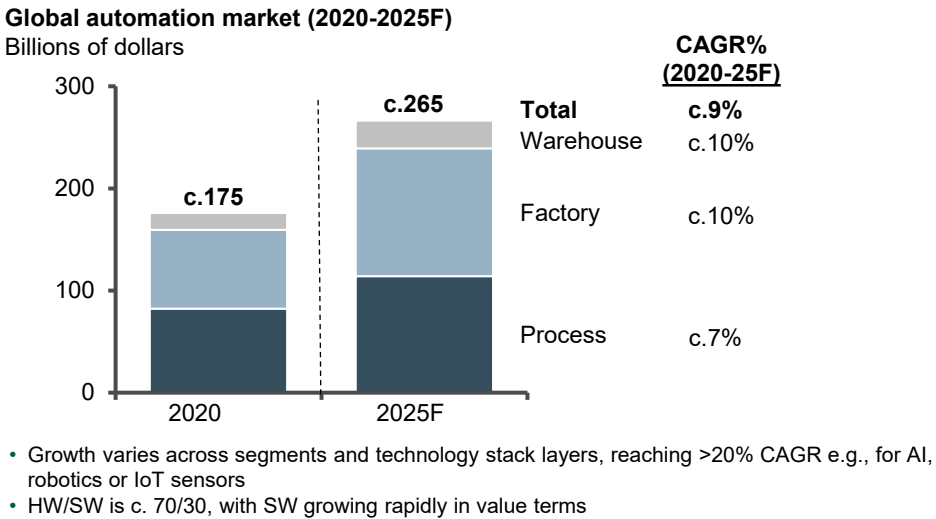
The growing industrial automation sector comprises 3 key subsectors that cover multiple industrial end-industries



Relevant end industries



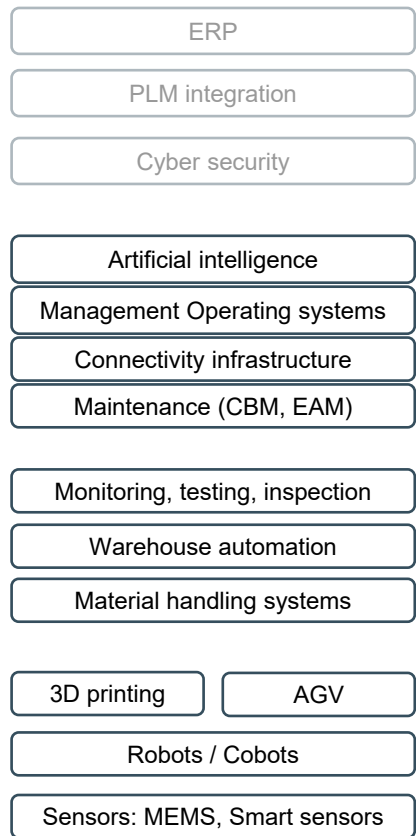
The global industrial automation market is growing rapidly across segments and geographies, driven by a range of structural drivers and boosted by COVID



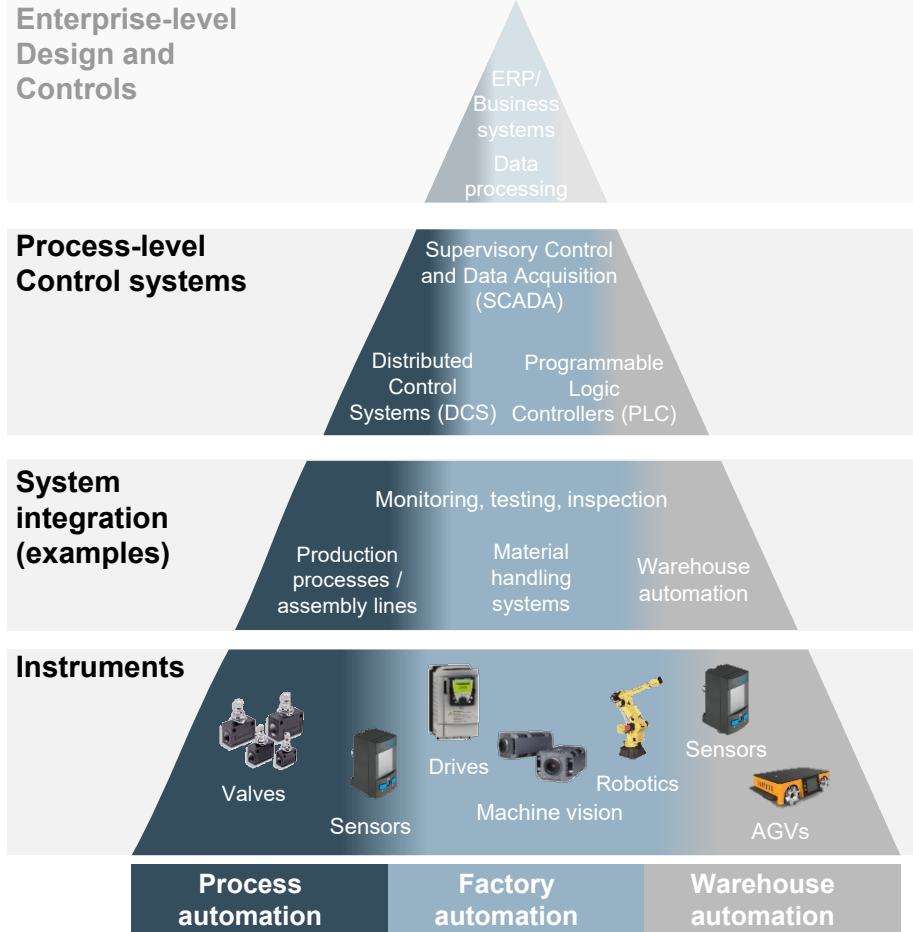
- Fast-evolving **regulation** and **corporate standards** around **environmental, health and safety** issues
- Improvement of product quality and reliability**
 - Increasing complexity in manufacturing
- Efficiency** improvement
 - Reduction of **labor costs**
 - Reduction of **maintenance cost**
- Advance in technologies**
 - Increased connection of devices and machineries
 - Mass customization (batch size one)
- Accelerated investments** in
 - warehousing, logistics, e-commerce
 - automation of production lines – to reduce labor-level health risks and reshore supply chains

There are currently several constituent groups participating in the industrial technology stack

Hot topics (examples)



Illustrative industrial technology stack

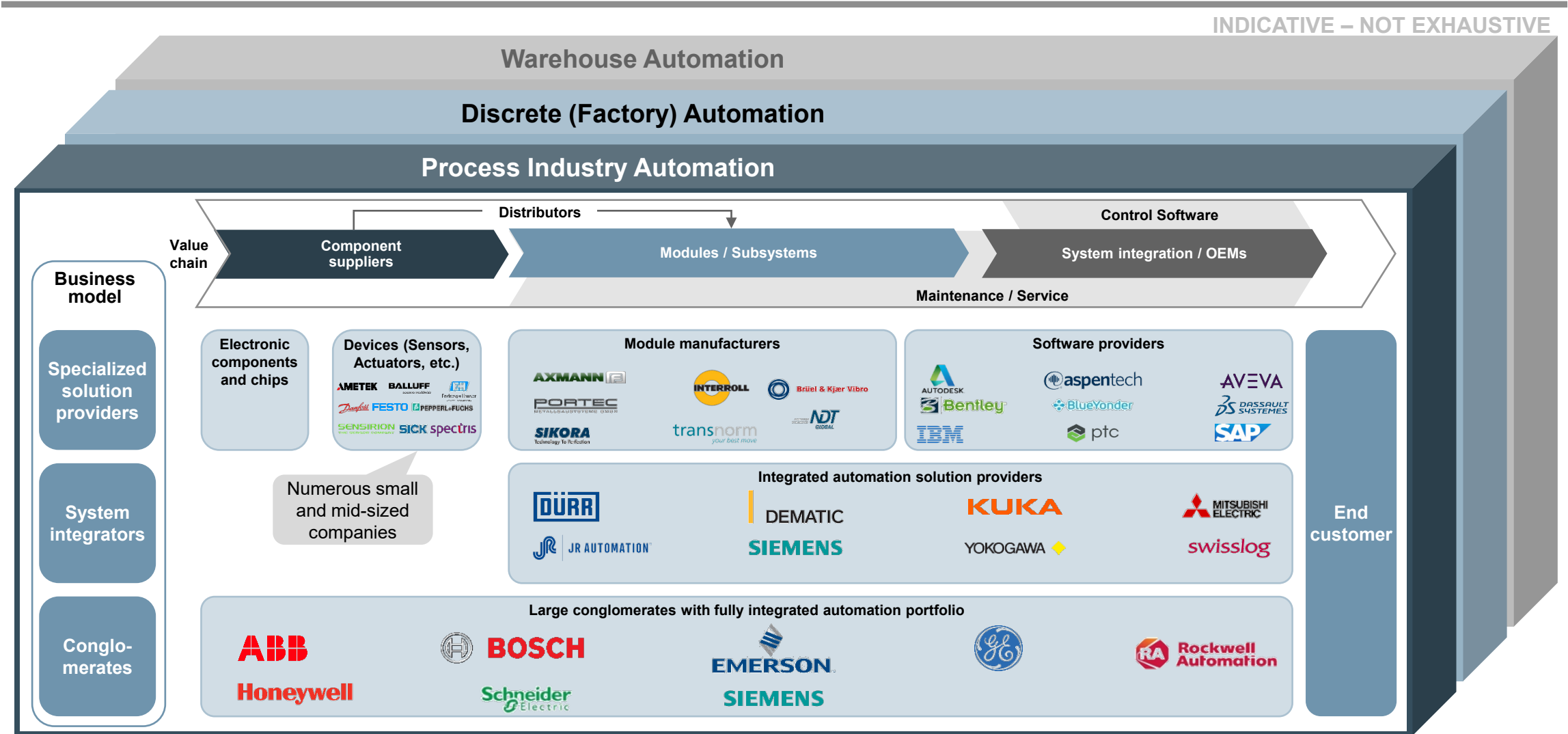


Sample companies



Source: L.E.K. interviews and analysis

Business models vary from specialized component / module manufacturer to fully integrated conglomerates; growth and margin profiles vary across the value chain



Source: L.E.K. interviews and analysis

Common themes and strengths in leading companies across all segments of the industrial automation space



Which ones make money and why?



High levels of IP (either product- or process-related know-how) typically command higher margins, as they are able to protect and grow market positions



Innovation leaders, observable through the high level of **annual R&D spend** and regular **new product offerings** or upgrades, ensure market leading positions are maintained



Companies with **leading market positions** in their respective sectors and subsectors, due to technology and unique product offering, **command higher prices**



Software-enabled / connected products for monitoring and productivity improvements are highly sought after as long as security protocols ensure **data protection**



Extension into **synergistic software and aftermarket services** can generate higher margins and more predictable revenue streams



Partnerships to develop new propositions as a cost-effective and faster way of **accessing new capabilities**



Customers increasingly asking for “**global turnkey solutions**” to simplify their production and supply chains “**plug and play**,” incl. **local service offering**. As such, they become an integral part of the customer’s value chain with high levels of customer stickiness



While **Europe and North America** combined comprise the largest share of the market, the **Asian Pacific** share of the overall market will grow rapidly over the next five years; from an end-market perspective, **food, logistics, and pharma** are growing the fastest

~51%

Increased interest in automation solutions among business leaders post-COVID-19

~11.5%

Logistics automation market annual growth 2020-2027

30+%

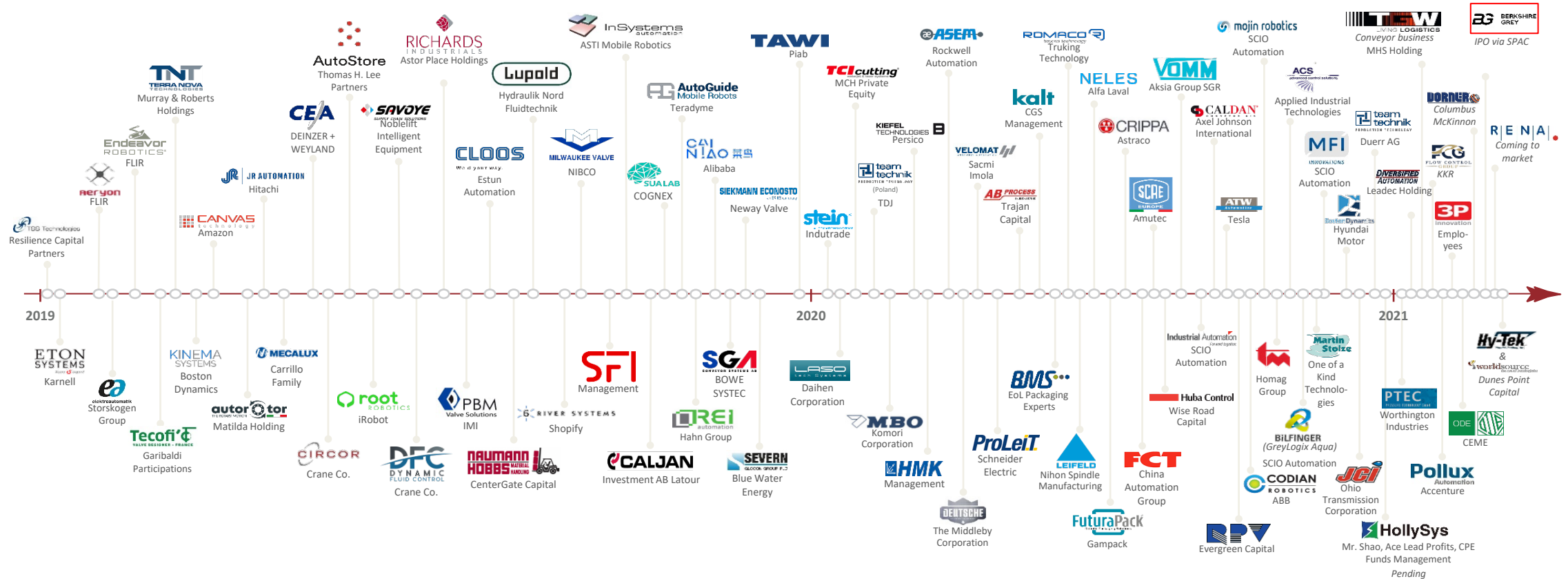
Industrial software market annual growth 2020-2024

~11%

Asia-Pacific factory automation market annual growth 2021-2026

Source: 2020 Honeywell Integrated Automation Investment Study, Research and Markets, Mordor Intelligence, HW Intelligence

Strong M&A activity across the industrial automation space despite COVID-19-related lockdowns, travel restrictions and liquidity concerns



Process industry automation

- > 500 deals in the last five years and a total disclosed deal value of > € 85bn
- Median revenue multiple of 1.7x and EBITDA multiple of 12.5x

Discrete (factory) automation

- > 370 deals in the last five years and a total disclosed deal value of > € 52bn
- Median revenue multiple of 2.2x and EBITDA multiple of 14.3x

Warehouse automation

- > 290 deals in the last five years and a total disclosed deal value of > € 26bn
- Median revenue multiple of 1.8x and EBITDA multiple of 14.3x

Sources: Pitchbook, Mergermarket, S&P Capital IQ, Note: Logos are representative of M&A participants and not comprehensive

Increased M&A activity expected in industrial automation over the next 12-24 months

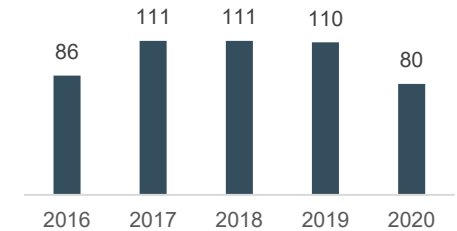


M&A Trends

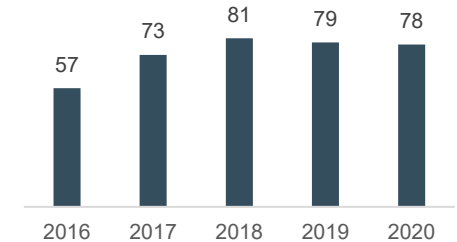
- Each end market and sub sector is different, but excellent automation solutions make it possible to achieve **consistently high-quality throughput**, while **lower production costs** enable users to lead their respective markets and **remain highly competitive** irrespective of geographic location
- Correspondingly, companies that develop software and produce components or systems, which **increase productivity** while **maintaining / enhancing quality for end customers**, are in high demand
- **Digitalization**, i.e., virtual production twins, remote monitoring and maintenance, and connectivity, is becoming more **prevalent throughout product offerings**, which will separate the innovators from the followers
- **Recurring revenues**, from software, services, spare parts, or upselling, drive **margin and valuation potential**
- Despite reduced M&A activity in 2020, due to the impact of COVID-19-related lockdowns and travel restrictions, **COVID-19** has caused a **rethink regarding automation investments**, especially with regard to the use of robots and cobots, i.e., no masks or social distancing necessary
- **Pay-back periods** are typically less than 12 months with most investments and tend to be much lower than the number of employees previously performing the task
- We expect an **increased level of M&A activity** in the industrial automation space over the next 12-24 months driven by the **increased investment by OEMs** across multiple end markets
- Although stating the obvious, **valuation levels** for high-growth (20+%) and high-margin (30%) companies are currently valued in the **mid-teens EBITDA multiples and climbing**

Source: HW Intelligence; Mergermarket

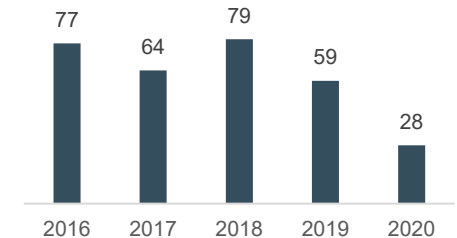
Process Industry automation



Discrete (Factory) automation



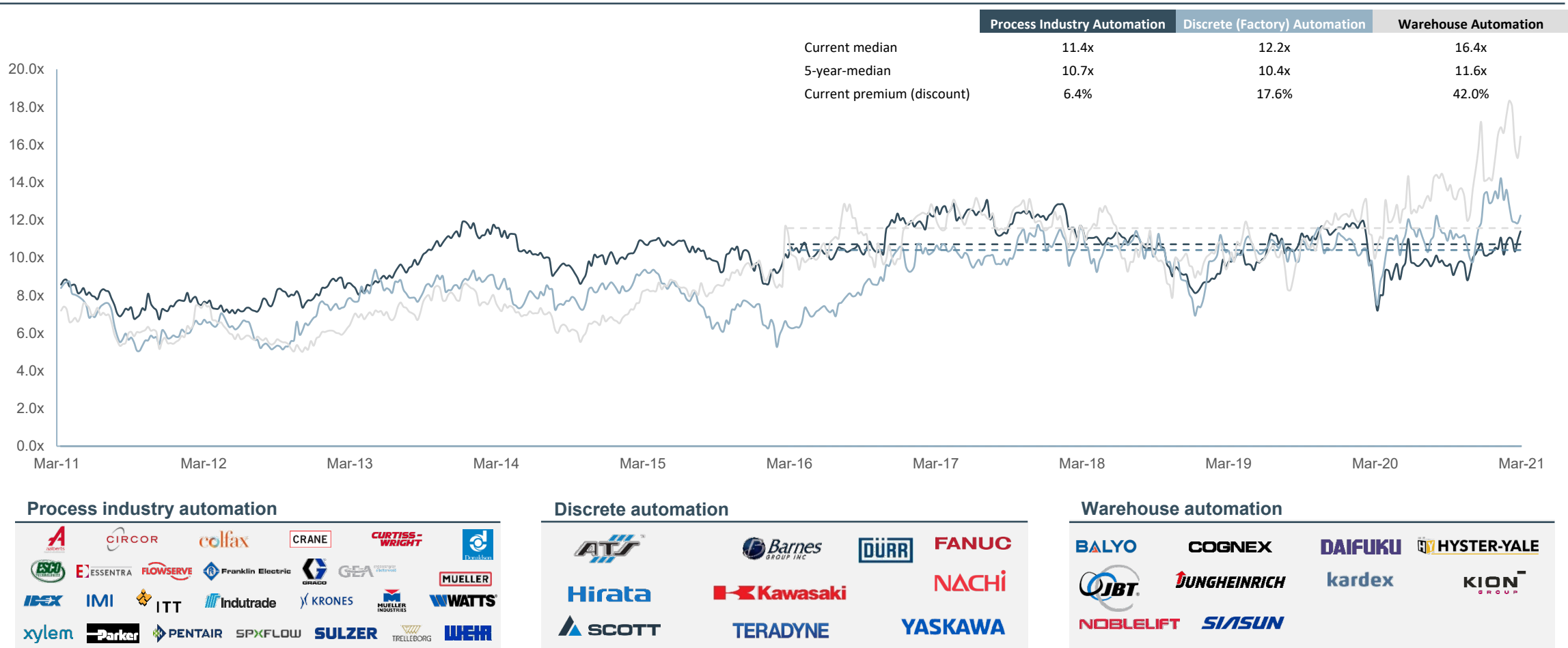
Warehouse automation



■ Number of Deals

Publicly traded automation companies currently trade between 11.4x and 16.4x EBITDA

Automation companies public comparable market performance



Source: CapIQ as of 18 March 2021

In the coming months, look for additional detailed reports on industrial automation subsectors



We span a global network of experts and look forward to connecting with you to share our experience in the Industrial Technology Sector



10 INDUSTRY GROUPS

With Robust Experience
Across the Globe

3 DECADES

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1 UNIFIED TEAM

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