

Industrial System Integration

The next step in industrial productivity

M&A and market trends | 2023

**M&A AT THE CROSSROAD
OF NEW STRATEGIES**



ERVIN SCHELLENBERG

Managing Director, Technology

Key (M&A) Drivers



Individual machinery has been optimized to a point, where only marginal improvements are achieved.

The next development step lays in the connection of machinery to replace human labor in factories by interconnected, adaptive systems with technical "eyes, ears and hands."

Customers continuously outsource the integration and optimization of their factories & thus increase requirements to their machinery suppliers.

Successful suppliers building such capabilities often use M&A and drive deal activity throughout all end-markets, while most industries are yet behind the level of the trailblazing automotive industry.



KEY INSIGHTS

25

€bn

ADDRESSABLE MARKET FOR SYSTEM INTEGRATORS

5.6%

CAGR

LONG-TERM MARKET GROWTH

150

Deals p.a.

HIGH M&A INTENSITY

Driven by listed market leaders, PEs with aggressive buy & build strategies and mid-cap businesses

>10x

EBITDA

ATTRACTIVE VALUATIONS

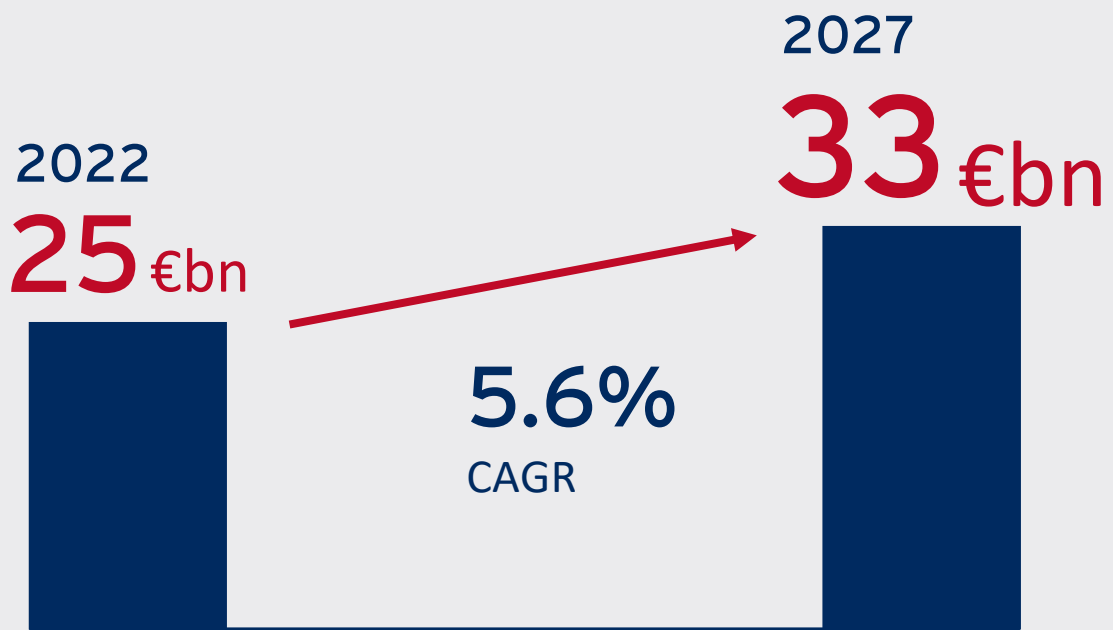


GLOBAL SYSTEM INTEGRATION MARKET

CONNECTING ALL LOOSE ENDS IN PRODUCTION & LOGISTICS PROCESSES TO AUTOMATED SYSTEMS, THROUGHOUT THE ENTIRE VALUE CHAIN OF DISCRETE PRODUCTS: MECHANICAL, ELECTRICAL AND SOFTWARE



Global market volume



MARKET DRIVERS

PRODUCTION PROCESSES IMPACTED BY SOCIAL / POLITICAL AND TECHNOLOGICAL DEVELOPMENTS



Green, automated and (digitally) connected



Governmental subsidies for sustainable & automated systems



IoT, predictive maintenance, digital twins, 3D printing, new materials, universal connectivity



Increasing competition from Asia / supply chain concerns / near-shoring despite expensive labor



Labor shortage & growing safety standards



Turnkey solutions, instead of island machinery

95% of market participants expect the ongoing trends to substantially shift profit pools

Targets for modern production processes:



Flexible:

- Many products & variations (“low vol. high mix”), size & weight

Space saving:

- Minimal space requirements in factory

Fast:

- Combine high-speed elements with “slow tasks”



Modular:

- Never replace system – adapt & expand (green & brown field)

Cobotics:

- Familiarize HR & machines (cobotics & processes)

Integrate labor:

- Design system to integrate (low-skilled) labor ergonomically



End-to-end:

- Inbound to outbound (production, intralogistics & warehouse)

Link:

- Interconnect the whole factory (from island to net)

Decentralized:

- Keep system running despite local problems



Efficient:

- Use traveling time (e.g., test in line instead of separate station)

Precise:





- Accuracy is key for “simple” automation and speed

Positioning:

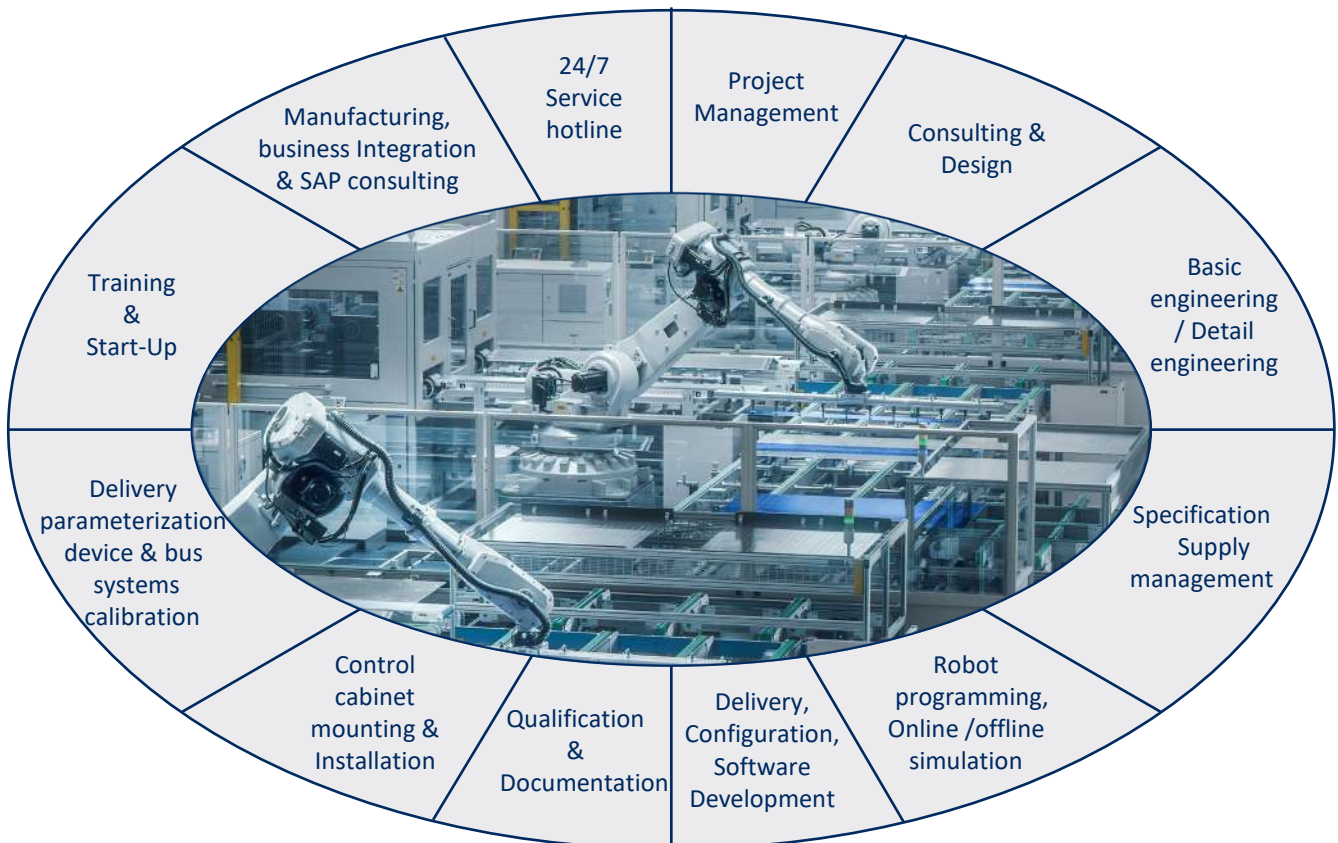
- Systems need precise “eyes & ears”

FIELD OF PLAY

SUCCESSFUL INTEGRATION PROVIDERS THRIVE THROUGH FOCUS & CLEAR STRATEGIES

Project types / size	Capabilities & discipline	Process elements	End-market
Discrete cell / process subcontractor vs. GC 	Mechanic	Control	Life sciences
	Electric / power	Measurement	Automotive
Production line / plant section 	Control / IT	Machine safety	Furniture
	Material handling	HMI	FMCG
Factory / plant 	Production	IT / Software	Electronics
	Packaging	MES	Chemicals & plastics
Corporate (multi factory / plant) 		Power	Logistics & transport
		Drives	...
	

Illustrative system integrators value chain





M&A MACRO VIEW

IN THE SYSTEM INTEGRATION MARKET

FRAGMENTED MARKET & COMMENCING CONSOLIDATION

Consolidation commences over all end-markets and service offerings. Yet today, the market remains fragmented, with only a few larger actors and a multitude of small players.

PRIVATE EQUITY PROPELS CONSOLIDATION

Financial investors pursue buy & build strategies on the back of the flourishing industry.

NEW PROFIT POOLS DRIVE M&A

Best prices for production infrastructure are paid for turn-key solutions – thus demand for system integration capabilities surges.

Especially digital capabilities are sought after, while high demands for acquisitions meet a limited number of attractive targets.

FOCUS ON CORE STRATEGY

Amplified by recent global turmoils, buyers are cautious, only acquiring what's core to their strategy and increase Due Diligence efforts.

Sellers thus need to carefully understand who the best buyer is, to optimize transaction conditions and the future of their business.

HIGH M&A INTENSITY

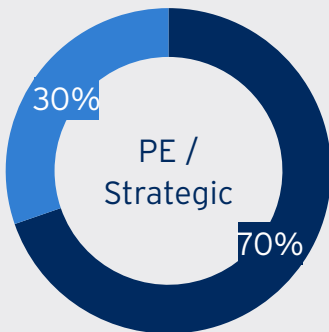
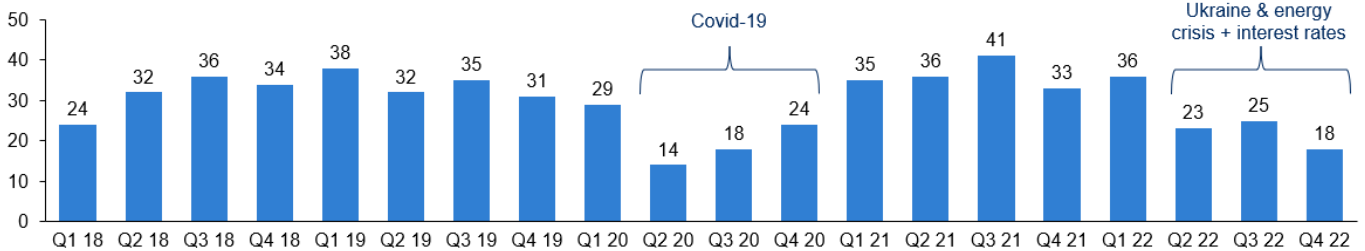
>500 DEALS OVER THE PAST 4 YEARS WITH EUROPEAN TARGETS

A fragmented market: there is a high number of local companies, most of which are specialized in end-markets. Critical size in a market segment in a single country can often be reached with €5 to €30m revenues.

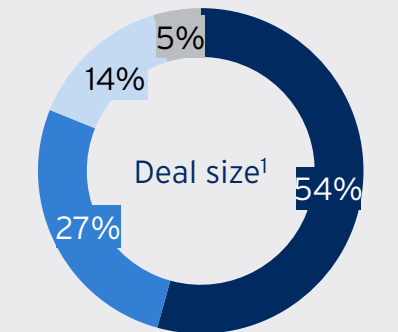
Combination of the following factors:

- Few available targets with sufficient size;
- Few pure players, while the market is still mainly insourced;
- Blue-chip clients prefer to rely on US or European service providers, with stronger brands.

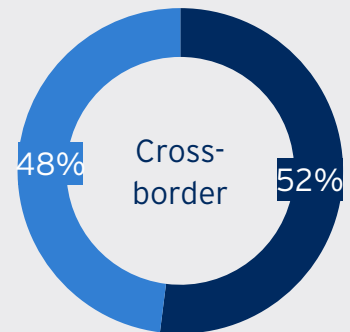
DEAL COUNT (QUARTERLY)



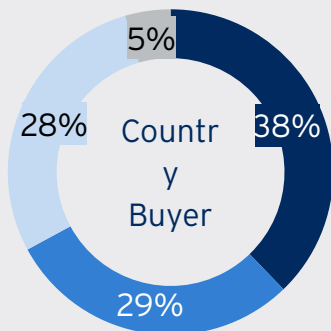
Strategic
Private Equity



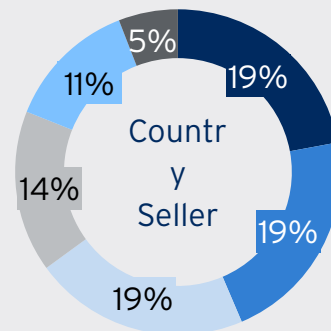
0-20m 20-100m
100-500m 500m+



Domestic
Cross-border



Europe US
Asia Rest



Germany France
UK Rest
Italy Netherlands

M&A USED TO BUILD CHAMPIONS

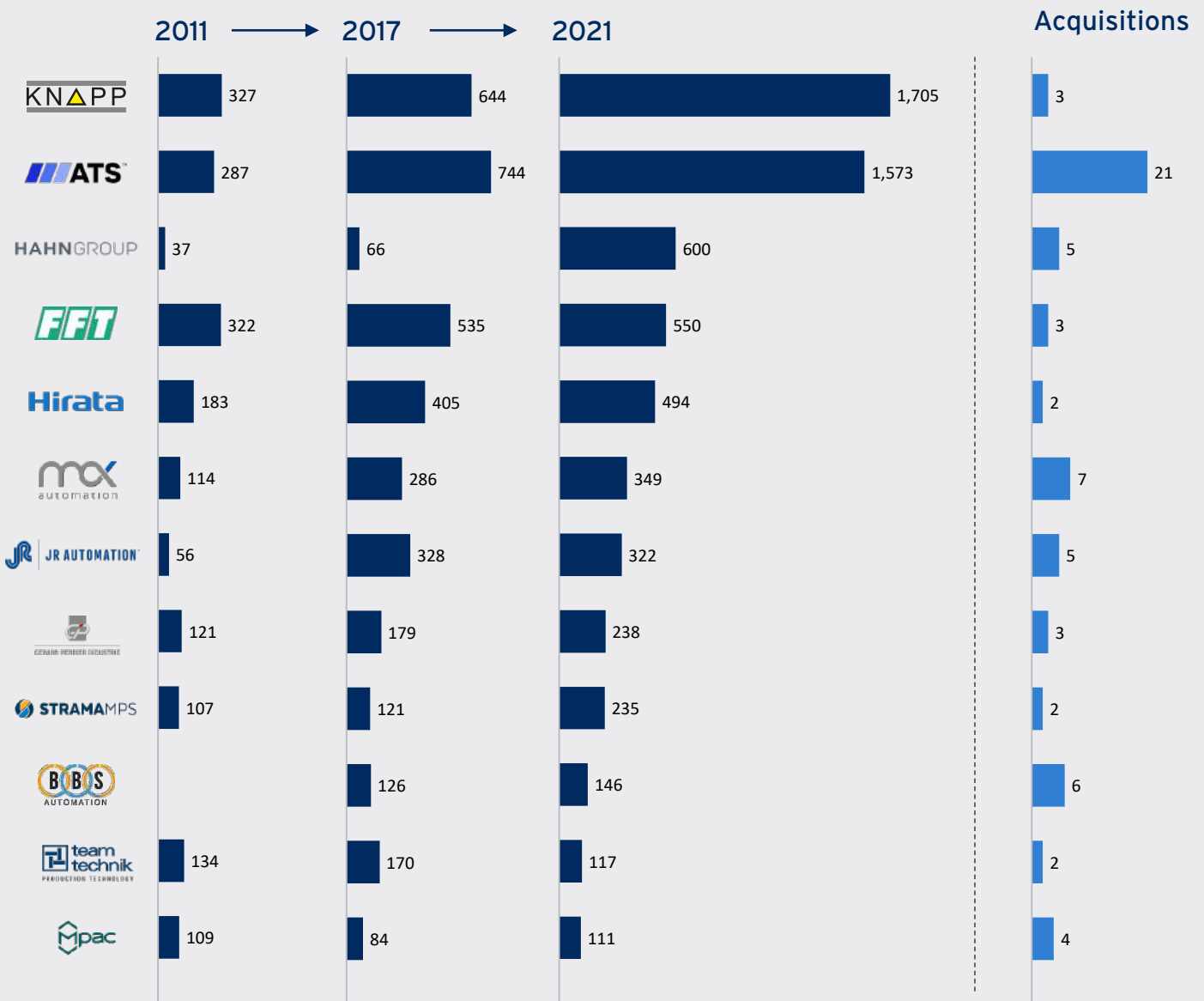
HARVESTING OPPORTUNITIES BY BUILDING OFFERINGS SUITING CUSTOMER NEEDS

Active M&A strategies help players to build offerings suited to the customers' (future) needs and thus achieve sustainable growth with appealing profitability.

The fragmented market still offers plenty of opportunities.

ATS is a good example of a consolidation driver and has emerged over the past 10 years to one of the most relevant players in the space (+18.6% sales CAGR FY2018-2021, 13% EBITDA-margin & valued at 16X EBITDA), thanks to more than 21 acquisitions. And there is substantial potential left for the years to come.

Examples of successful serial buyers



Source: Capitalmind Investec, Orbis, Capital IQ, MergerMarket, annual reports & press

TRANSACTION ANALYSIS

TRANSACTION MULTIPLES

- Served end-markets significantly impact valuation, beneficiaries are e.g., healthcare, food & electronics
- Businesses with a strong presence in the automotive sector, on the other hand, achieve lower valuations depending on their exposure to trends such as e-mobility
- Focus on new technologies (e.g., IoT, digital twins, etc.) has a positive impact on valuations

ATTRACTIVE BUSINESSES
TRADE AT >10X EBITDA

EV/Revenue **~0.9x**

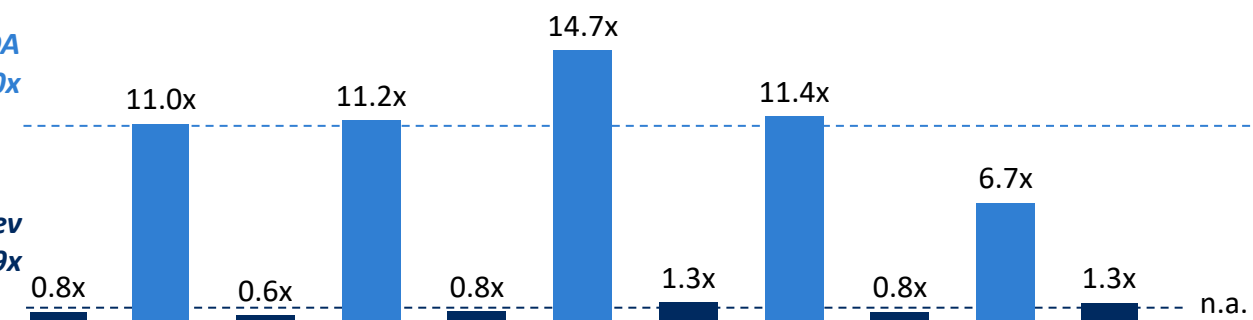
EV/EBITDA **~11.0x**












RESEARCH BASIS

- >500 transactions with European targets

Avg. EV/EBITDA
11.0x

Avg. EV/Rev
0.9x



Target	Country	Activity	Buyer	Rev (€m)	EBITDA (%)	Year
		Electrical & climatic engineering / maintenance		€260m	8%	2022
		Integrator of industrial machinery		€47m	5%	2018
		Automation solutions for healthcare markets		€20m	15%	2019
		Turnkey automation solutions		€25m	11%	2021
		Automation & robotics solutions for processing lines		€13m	11%	2018
		Solutions for shelving systems & warehouse automation		€290m	n.a.	2023

Selected Serial Acquirer

PRIVATE EQUITY BACKED

- Platform investments as basis for aggressive buy-and-build strategies in the system integration space.

LISTED COMPANIES

- Listed system integrator companies use M&A to systematically expand offering, acquire technology, access new end markets & strengthen competitive positioning.

MID MARKET

- Mid market system integration companies are mostly interested to access or secure competitive positioning in niche markets.

PE Backed

 Revenue: €938m Invested 2016 	 Revenue: €161m Invested 2019 	 Revenue: €360m Invested 2021
 Revenue: €70m Invested 2017 	 Revenue: n.a. Invested 2020 	 Revenue: €100m Invested 2019
 Revenue: €143m Invested 2018 	 Revenue: n.a. Invested 2018 	 Revenue: €20m Invested 2018

*Prepared for sale

Listed companies

 Revenue: €3,500m Invested in 	 Revenue: €349m Invested in Cisens Automation Shanghai 	 Revenue: €62,569m Invested in
 Revenue: €1,573m Invested in 	 Revenue: €187m Invested in 	 Revenue: €2,855m Invested in

Mid Market

 Revenue: €1,705m Invested in MOVING AB	 Revenue: €2,024m Invested in Qubiq	 Revenue: €87m Invested in Tech-Con Automation INCORPORATED
 Revenue: €356m Invested in 	 Revenue: €46m Invested in 	 Revenue: €56m Invested in HOFMANN & STIRNER Räuhele Automation



HERO STORY: BBS AUTOMATION & EQT

SYSTEM INTEGRATION MARKET HOLDS OPPORTUNITIES FOR SUPPLIERS AND INVESTORS TO BUILD A “WIN-WIN SUCCESS STORY”



ANDREAS FISCHER
Partner, EQT

EQT

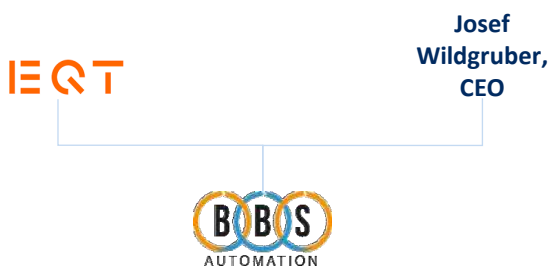
- Investment focus on Industrial Technology opportunities
- Relevant transactions ~ #40
- €73bn assets under Management



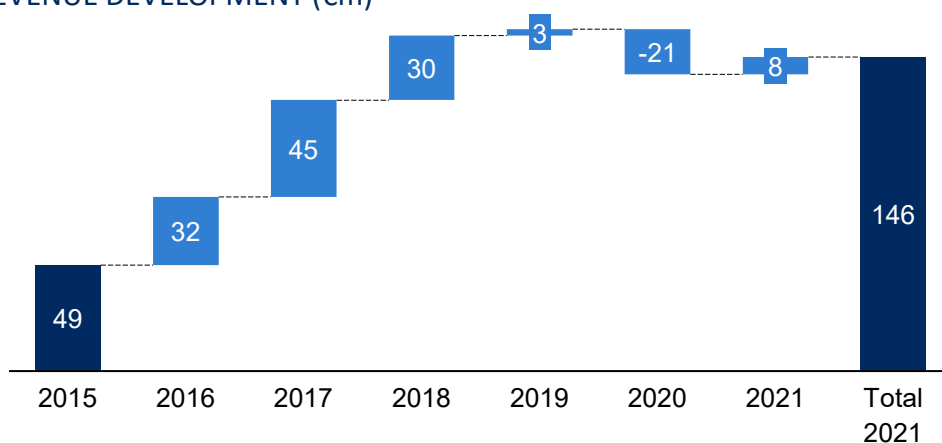
- Flexible automation solutions & testing processes
- BBS Smart Factory
- Serve the Mobility, Life Science and Consumer Goods Market

« Very rarely do we find businesses of this size that operate as a truly global platform like BBS Automation. EQT Mid Market is delighted to partner with the co-founders of BBS Automation and their team to further develop this key enabler of Industry 4.0 production systems »

TRANSACTION STRUCTURE 2018



REVENUE DEVELOPMENT (€m)



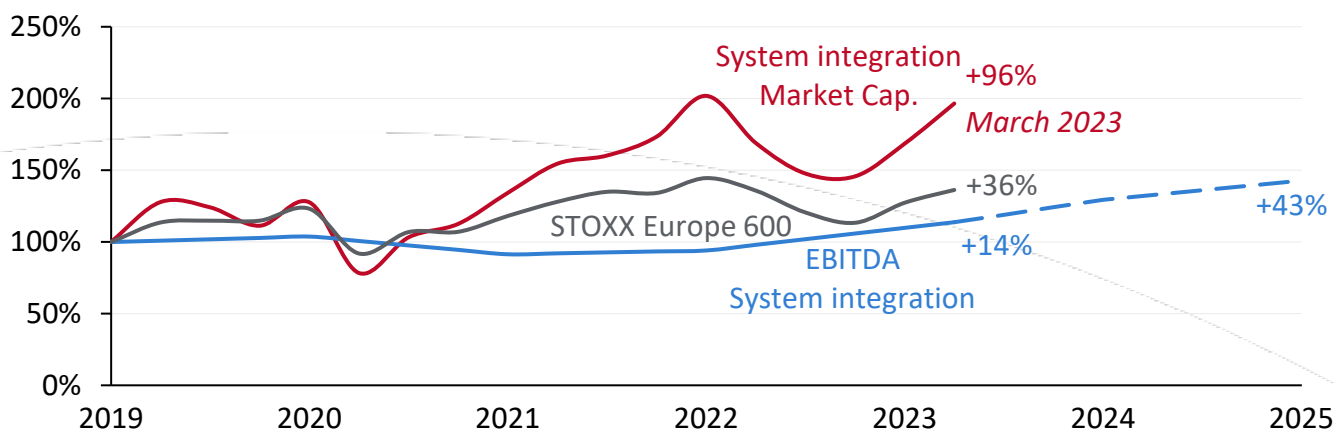
TRANSACTIONS, IN TOTAL # 6 (INCL. ONE MERGER)

Year	2014	2014	2018	2019	2019	2022
Company	Behr Systems GmbH	Automation	anb	Team S.r.l.	ReaLeaD 睿力得	KALE
Business	Automatic production systems	Industrial automation	Factory software	Winding specialist	Automation solutions China	Automation equipment



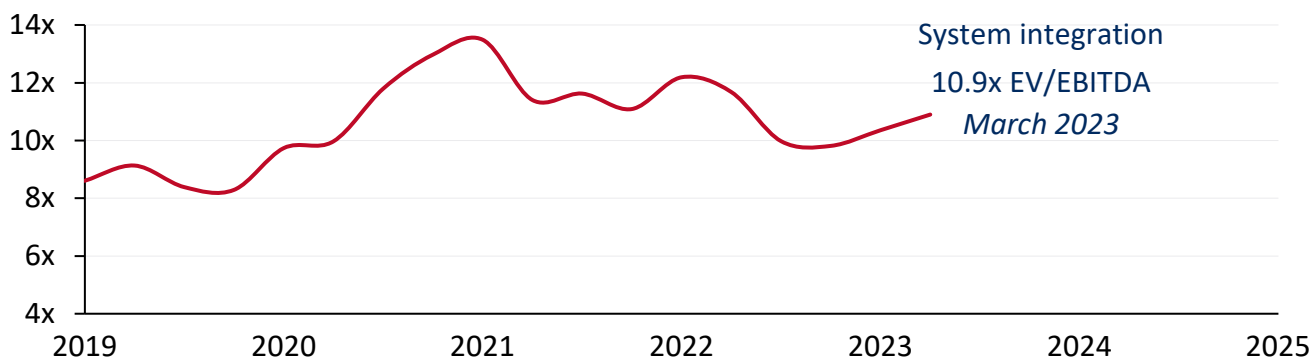
MARKET PERFORMANCE & VALUATION

MARKET CAP AND EBITDA



- Overall, the sector continues to substantially outperform the overall market
- Following the initial dip, valuations rose from mid 2020 on as Covid boosts the demand for automation and autonomous systems
- Multiples surpass market cap growth, as EBITDAs declined in 2021
- EBITDAs slowly rebound from 2022 onwards, when Covid started to become “the new normal”
- While negatively impacted by severe supply chain issues, despite full order books, companies can only partially monetize
- Negative impact of Ukraine crisis on valuation starting early 2022, reinforcing supply chain issues
- European energy crisis, inflation and thus hiking interest rates also weigh on valuations in 2022
- Early 2023, full order books and cautiously optimistic outlooks in the industry meet uncertainty in global markets overall
- Automotive industry suppliers took hardest hit, as industries such as healthcare, food, furniture etc. catch up on automation
- 2023 starts with increasing markets, & system integration again outperforming the overall market

EV/EBITDA MULTIPLE



TRADING COMPARABLES

LISTED COMPANIES VALUATION (AS OF MARCH 2023)

	EBITDA margin	EV/EBITDA		EV/EBIT	
	2022	2022	2023	2022	2023
Manz	-5%	neg.	9.3x	n.a.	20.5x
Dürr	8%	6.6x	5.7x	10.7x	7.7x
Vinci	15%	8.4x	7.8x	12.3x	11.4x
ATS	13%	11.3x	11.0x	15.2x	13.0x
Mpac	8%	7.2x	7.1x	10.9x	9.4x
Kardex	11%	17.3x	15.5x	19.1x	17.9x
Aumann	0%	neg.	8.9x	neg.	14.1x
Max Automation	7%	9.9x	8.1x	12.8x	11.6x
Gérard Perrier	9%	14.3x	10.2x	15.0x	12.8x
SPIE	6%	12.1x	8.6x	13.8x	12.0x
Median	8%	10.6x	8.8x	13.3x	12.4x
Average	7%	10.9x	9.2x	13.7x	13.0x

TRADING MULTIPLES

- 2023 multiples expected lower, due to forecasts outperforming 2022 results
- Driven by supply chains going back to normal and Covid-19 overcome
- End-market focus has an impact on the valuation of the company
- Companies with a strong focus on the automotive sector (e.g., Dürr) are outperformed by its peers
- In contrast, companies such as Kardex that offer solutions for other sectors (e.g., healthcare & food) achieve higher valuations

SELECTED TRANSACTIONS ADVISED BY OUR TEAM

Capitalmind Investec has extensive experience in advising deals in the System Integration sector. With 12 focused dealmakers across Europe, we can help you to achieve your strategic ambitions.



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Successful transactions advised by Capitalmind Investec

BLUMENBECKER
sold
BLUMENBECKER
Engineering System Technology
to
IMA SCHELLING
GROUP

Robotic System
Integration

TRAJAN
CAPITAL
sold
AB PROCESS
INDUSTRIE
to
cerea
PARTNERS

Industrial automation
and robotic systems
integrator

Lambert
sold to
Mpac

Packaging automation
solutions

HOCH REIN GROUP
THINK FUTURE
sold
BELECTRIC®
to
innogy
a company of RWE

Engineering &
Installation

GORGE
sold
CIMLEC
INDUSTRIE
to
SPiE

Electrical engineering /
Automation

has acquired
ALESA
from
Rio Tinto
Alcan

Conveyor solutions
for the aluminium
industry

AIR LIQUIDE
sold
COMMERCE
ROBOTIQUE
to
GORGE
GROUPE

Robotics and industrial
automation

Piffner
sold to
FFG
友嘉集团
FOR FINEBO GROUP

High-precision rotary
transfer machines

pneutec
sold to
Ai AALBERTS
INDUSTRIES

Industrial Technology

SAC
sold to
COGNEX

Vision system



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