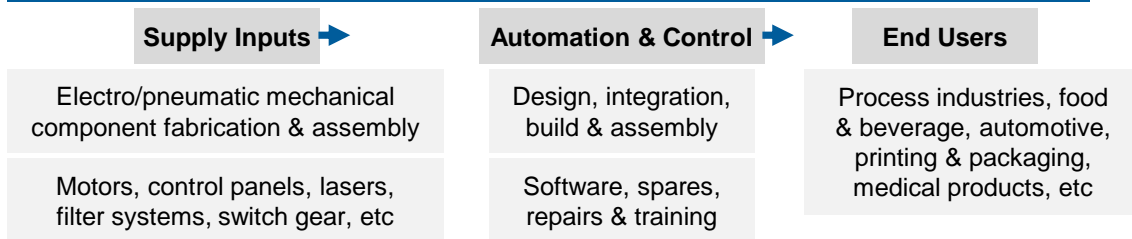


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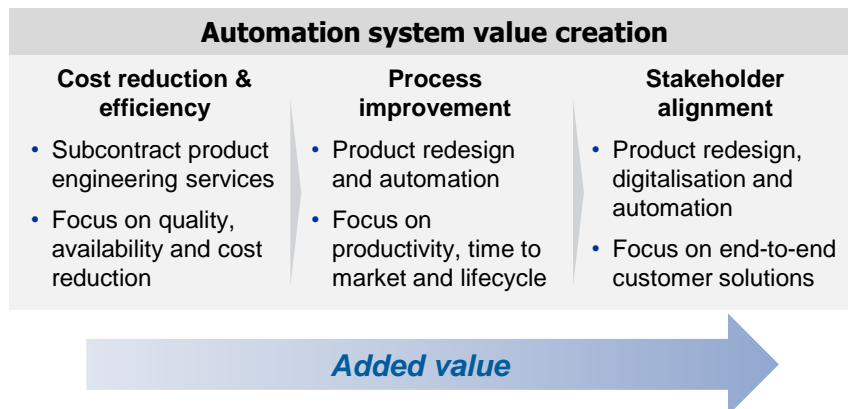
The factory automation and control sector

Supply chains became more complex when manufacturing moved offshore to cheaper, far-flung parts of the world. That model is less clear now; sterling has rendered imports less attractive and, most importantly, developments in the area of advanced automation are making domestic manufacturing production more competitive. *Carlton Strategy Advisors highlights the growing automation and control market - and its appeal to private equity investors and debt lenders:*

Industrial control and factory automation supply chain schematic



A \$135bn global market, manufacturing automation and control engineering services find application in almost all categories of industry. Packaging machinery, for example, represents a market valued at \$40bn. It is expected to experience growth of 7% CAGR over the coming years led by sustained demand in the food, beverage and personal care product manufacturing sectors. The UK industrial control and factory automation sector alone represents a c.£4bn market.



Automation and control engineering businesses can be differentiated between those who offer their customers a bespoke process engineering solution or an otherwise standardised machinery and equipment installation service. The attractiveness of the one business model versus the other to an investor rests in the level of the customer value that can be created by the respective business offerings.

Business added value tends to be lowest for 'build to print' engineering services, where installation designs are to a customer's given specifications and delivered outputs measured in terms of basic process efficiency and cost reduction objectives. Value improves where the emphasis of the automation and control system is towards manufacturing process redesign and outputs measured across productivity, product time-to-market and lifecycle extension. However, greatest value is created where there is full stakeholder alignment and the focus of the service is on an offered end-to-end customer solution across needs identification, design, build, installation and after care.



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High volume, high value and often tightly regulated products such as pharmaceuticals, medical equipment and consumer electronics lend themselves to high-end manufacturing automation and control where a system's design, installation and operation is more about its whole of life cost and value to the customer, rather than the initial price. Under these circumstances, customers see their supplier as more of a strategic partner and this, in turn, generates secure earnings streams from a loyal and 'sticky' customer base.

Full-service automation and control projects are often able to generate predictable, stage-gate patterns of primary payments from customers across initial concept design, manufacturing build and assembly, installation and commissioning. There is likely to be demand for aftermarket staff and operatives training, and sales of consumable product items associated with daily operations. Furthermore, a life before replacement of several years generates recurring requirements for software upgrades, spares and repairs. These are all important sources of secondary revenues, which ameliorate the often cyclical nature of a high value, primary sale.

Top-end automation and control engineering services businesses are characterised by their strong IP, although this tends to be tacit in nature rather than patented and based on the technical skill and experience of the company's workforce and management. Core competences include precision engineering design and build, quality control, short lead times and repetitive build roll-outs.

The market is something of an 'engineer to engineer' or technical specification sell. Lead times on sales are long with high barriers to entry; meaning that although customer acquisition costs are high, the cost to the customer of swapping out a supplier is also high which tends to engender the long-term business relationship.

CSA has undertaken a number of commercial due diligence assignments in the automation and control sector. For further information on our work in this area, and others, please contact: carlton-advisors.co.uk.