

Automation M&A Heats Up as Workers Push Back Across Country



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Founders and owners of privately-owned robotics integrators and parts manufacturers are starting to see consolidation in their industry as private equity sees the benefits of automation in American manufacturing.



By Huzair Latif

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As the U.S. begins to feel the effects of renewed private investment interest and federal budgets designed to proliferate domestic manufacturing, automation companies are increasingly succeeding in the implementation of robotics technology in factories and warehouses across the world, leading venture capital and private equity funds to seek opportunities within the extremely fragmented market.

Privately-owned industrial automation companies have begun to receive earnest introductory calls with both buyout offers or partnerships on the table.

Due to consolidation's nascent stage in the space, reactions toward these offers often range from eager interest to flat-out dismissals. However, most business owners agree that the industry is growing at a breakneck pace.

"I've noticed more companies that would not have previously entered the automation sector now jumping in because there's a growing demand for such solutions," said **Jeremy Wright**, the founder of Holland, Mich.-based **Hyperion Automation Inc.**, an integrator for **Fanuc Ltd.** and other robotics manufacturers.

The most intense period of growth came during and immediately after the Covid-19 pandemic, though many are still seeing elevated demand.

"In 2021 and 2022, we saw as much as 30% growth in business and revenue," said **Jason Boekamp**, founder and co-owner of San Diego, Calif.-based **Prime Heat Inc.** "Although that increase has since petered out to around 10% annually, we're still above pre-pandemic levels and expect future increases."

Early Movers Pick Their Spots

Because industrial robotics is still such a young industry with its greatest growth phase likely still ahead of it, it's difficult to pinpoint broad consolidation trends,

argued **Houlihan Lokey Inc.** managing director **Samrat Karnik**.

"Consolidation is already occurring in the industrial automation space, but it's still contained to the various subsectors such as systems integrations, warehouse components and the like," he said. "We're seeing high-single digit to low-double digit tailwinds so any M&A can be expected to continue as the industry grows."

Early movers are actively hunting for platforms across the arena.

Thomas H. Lee Partners LP was among the first private equity firms to jump in, acquiring privately-owned **Material Handling Systems Inc.** as early as April 2017 and Fortna in March 2019.

Other recent investors include Ares Management Corp. (ARES), which started Automated Industrial Robotics Inc. in January with the acquisition of Detroit-based Totally Automated Systems and Shannon, Ireland-based Modular Automation. Angeles Equity Partners LLC also jumped into the fray in January with the purchase of Council Bluffs, Iowa-based integration company Acieta LLC.

"Some end-markets we are looking at include robotics, artificial intelligence for automation software, process automation software and systems integrators," THL Partners managing director Michael Kaczmarek said. "There's a consolidation opportunity that will continue to exist across many of these automation end-markets and we expect consolidation to accelerate as companies continue to look for ways to support their customers."

Rage Against the Machines

As the industry grows, so do concerns over the potential for industrial automation technologies such as robots and so-called collaborative robots, or cobots, to take on the jobs of human beings who'll then be left behind in a rapidly digitizing workspace.

For instance, dockworkers from Maine to Texas launched a strike on Oct. 1 over issues including wages and automation as the contract between 45,000 workers of the

International Longshoremen's Association and the ports expired the night before.

Dockworkers have been photographed holding signs that read, "Machines don't feed families: support ILA workers," according to [reports from the Associated Press](#) and other outlets.

Automation proponents argue, meanwhile, that industrial automation is more effective at filling in gaps where there are labor shortages than replacing human-held positions within plentiful workforces.

"Automation is not replacing jobs, rather, it's merely making up for labor shortages caused by an aging demographic and the current economic climate," Kaczmarek said. "The severity of the labor shortage cannot be understated, which is why manufacturing companies are turning to automation as a solution."

Moreover, because companies across the globe have witnessed the productivity gains attainable via automation, politics may play a role in one situation or another, but there's no going back in time, Kaczmarek argued.

When you couple the growing e-commerce space with a lack of labor in the U.S. manufacturing and warehousing industries, "it creates a great opportunity for solutions providers to step in and ensure that the requisite production, capacity and flexibility needs are met," Karnik said of automation's ability to fill voids left by labor shortages.

Avoiding a War for Jobs

While the jury is out on whether human beings' jobs are being replaced or supplemented in various sectors by automation, there are questions over what factory-trained workers could do instead of working the assembly lines.

Job retraining is a small but growing focus among private equity firms who invest in industrial automation companies.

"There's absolutely an opportunity for job training here," Kaczmarek said. "Someone is going to have to not only manage these robots, but write software for them, so that's something that our portfolio companies manage on an industry-specific basis."

Nascent Industry Owners Wary of PE

With the increasing demand for automation comes increasing cold calls to small business owners from private equity firms.

Some founders that have spoken to The Deal are eager, or at least open, to building a business the size worthy of such attention from investors.

"I'm approached almost every day by private equity firms interested in investing or buying me out, but I haven't seriously considered anything yet because I don't think the company's size is where I want it to be," **Millibar Inc.** founder **Brian Ferri** said. "The ideal size I'd want to reach is getting \$10 million in revenue and \$2 million in Ebitda."

Other business owners in the industrial automation space are reluctant, however, to open their companies to outside investment due to perceptions garnered through industry contacts or direct dealmaking experiences, The Deal has learned.

"We've been doing well with our current setup, and I don't want to endanger the culture and the team that we've built here," Wright said of private equity investments.

Meanwhile, **Josh Clare** in 2017 bought **Hawk Technology Ltd.** back from PE owners that had purchased 80% of the business in 2012.

"When I first started working with those private equity guys, I was doing around \$20 million per year in revenue and had about 100 employees," he said. "But by the time I decided to retake ownership, the company had shrunk to \$2 million and around 10 employees."

That said, Clare remains open to the possibility of a full sale as he approaches retirement.

Nevertheless, to prevent situations like Clare's, THL Partners has a specific operating team called the Strategic Resource Group that works with founder-owned companies and helps them with their growth plans, rather than simply assuming control, Kaczmarek said.

The best way for private equity firms to invest successfully in privately-owned companies is to let them do what they are good at, Karnik explained.

"Private equity is good at institutionalizing and scaling up business while business owners know the ins and outs of the technologies at large and customer needs," he said. "So, it makes sense to let the sponsors do what they're good at and let the automation professionals do what they're good at."

In September 2022, Core Industrial Partners LLC acquired Romeoville, Ill.-based Cadrex Manufacturing Solutions and has since made over nine add-on acquisitions for the company.

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Material Handling Systems Inc.	Millibar Inc.	Prime Heat Inc.	Sapience Automation
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