

PRIVATE EQUITY SERVICES

Due diligence assessment of an industrial robotics company

Client: The private equity arm of a consulting firm

Objective: The private equity arm of a consulting firm and a second small to lower-middle market private equity firm were considering a co-investment in a commercial bakery automation and robotics equipment company.

The target was a systems integrator that had productized some bakery application robotic solutions. The investors sought diligence support to understand the market attractiveness for the target company's robotic products.



Deliverables: Due diligence was conducted by partnering with the consulting firm's managing director and private equity firm's managing partner. Over a six week period, background materials were reviewed, an investment thesis was formed, key diligence questions were determined, interviewees were identified, primary and secondary market research was conducted, an on-site visit was made, findings were synthesized, and an investment decision was determined.

Results: Thorough internal and external assessments were made to vet the potential investment.

- Internal assessment – Target company merits included: intellectual property that coupled 3D machine vision with bakery processes, an impressive and diversified customer base, and an experienced team. A key concern was that the company's robotic products addressed very niche applications.
- External assessment – The external assessment included gaining an understanding of industry trends, identifying and assessing competitors, evaluating the customer landscape, and probing into sales and support processes. Numerous potential challenges were discovered. For example, the target customer base was likely too small and the sales cycle for disruptive robotic technology could span years. Competition was also a concern as several bakery equipment manufacturers had formed partnerships and offered end-to-end solutions with comprehensive customer support.

Ultimately, the due diligence effort resulted in a decision to pass on the opportunity.