



May 4, 2012

**Dear clients and colleagues,**

Robots have revolutionized the industrial workplace. Thousands of manufacturers rely on the productivity, high-performance and savings provided by modern-day industrial automation. But six-axis manipulator-style robots, equipped with a controller and teach pendant, took time to evolve. The first modern industrial robots, called Unimates, were developed in the late 50's and early 60's.

The modern-day industrial robot is the product of many minds and numerous experiments. The development of the computer directly influenced the advancement of industrial robotics. Ten years ago, nine out of ten robots were bought by auto companies. Now, only 50% are bought by car manufacturers. Robots are slowly finding their way into warehouses, laboratories, research and exploration sites, energy plants and hospitals.

Over the decades, robotic technologies have undergone sea changes, propelled forward by a desire to automate the workforce and achieve zero-error tasks/operations. A record of more than 150,000 new industrial robots were sold all over the world in 2011.

When it comes to automating the manufacturing sector in the EU, industrial sentiment currently remains torn between optimism and uncertainty given the mixed signals emanating from volatile manufacturing data in Spain and Italy, and encouraging industrial performance in Germany. While lethargy in industrial automation, particularly in the U.S., Europe and Japan, continues to stabilize growth patterns in these countries, increased adoption of robotics will drive strong gains in the developing countries. China in particular is expected to experience maximum growth.

Wage inflation in China has raised questions about the country's future as the preferred outsourcing destination for multinationals in search of cheap labor. Rising labor costs, lower productivity, the rapid turnover of workers, a push for quality and demands for faster production could prompt Chinese manufacturers to buy more robots. Another compelling incentive would be reduced idle time for factories during traditional holidays.

According to the World Robotics Foundation, China's "robot density," a measure of the total number of robots in use relative to manufacturing workers, stands at less than one third of Japan's and less than half of Germany's. China's historic reliance on human labor for manufacturing means it is an under-penetrated market for robot manufacturers, with plenty of room for growth.

In 2011, China bought 19,500 (+30% YoY) robots, accounting for 13% of total global demand for robots. It is expected to need more than 32,000 robots by 2014. So far, the demand from China has been driven by automobile production. However, according to the International Federation of Robots, future growth may come from sectors such as manufacturers of semiconductors, electronic devices, renewable energy, food products and beverages. In fact, the same data predicts that China will surpass South Korea and Japan as the largest robot market next year.

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The value of the global industrial robot-system market is expected to double to \$41B by 2020. According to the International Federation of Robotics, global unit sales last year jumped about 30 percent to a record 150,000 units. Units in operation worldwide are expected to top 1.3 million by 2014.

In the portfolio Nabtesco should benefit from this trend

**Nabtesco Corporation (6268 JP - ¥1690):** a Japanese manufacturer highly regarded for its unique motion control technology. It is the world's number one player with 60% world market share for the precision reduction gears in joints of industrial robots. It supplies to all the top robot makers (Fanuc, Yaskawa, ABB and KUKA). The strong recovery of industrial robot demand worldwide bodes well for the company in the long term.

Have a nice weekend.

The Global Alpha team

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