

ROBOGROUP T.E.K LTD – Update Report

06.06.2022

Stock Exchange
TASESymbol
ROBOSector
TECHNOLOGYSub-sector
ROBOTICS & 3DStock price target
NIS 4.8Closing price
NIS 2.04Market cap
NIS 107.16 MnNo. of shares
52.5 MnAverage Daily
Trading Volume
149 stocksStock Performance
(since Jan. 2022)
13.6%

Stepping up efforts to increase its presence in the US market; won a tender with a South American government; received another order from a customer in Brazil for 2.6 million USD; price target remains unchanged

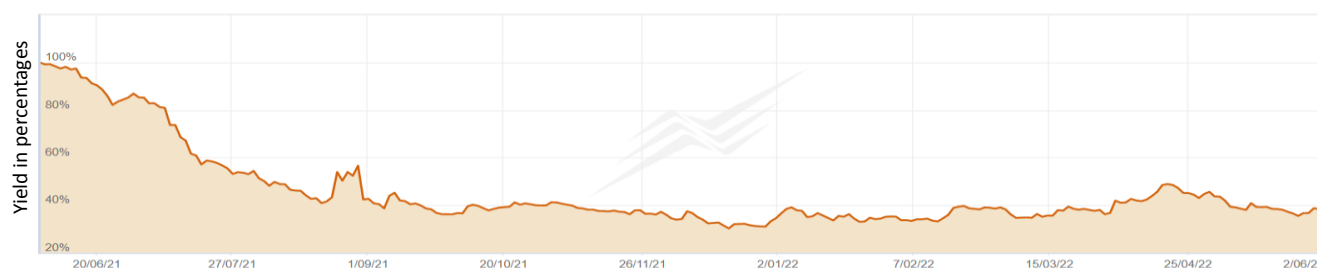
RoboGroup (TASE: ROBO) develops, manufactures, and markets training products and e-learning systems, as well as engineering and manufacturing technology training systems. It offers its products internationally under the Intellitek, Robotec, and CoderZ brands.

In Q1 2022 and recent months, the company announced the following:

- Increasing efforts to penetrate the American market by establishing sales teams, marketing and customer success.
- A change in the revenue mix indicates a strategic change in the company with a greater focus on the STEM division. This reflects the continued growing interest in the CoderZ™ platform.
- A follow-up order from a customer in Brazil for CoderZ™ licenses in SaaS format, the expected financial scope of which is approx. USD 2.6 million.
- The company was chosen to present a curriculum designed for preschoolers at the OECD International Designers' Future Designers Conference and the Israeli Innovation Fair.
- The Company has decided to reaffirm the certification of Yoram Deutsch as Chairman of the Board of Directors of the company, in parallel with his tenure as the company's CEO.

The EdTech industry is expanding exponentially, with demand rising due to COVID-19 and associated significant changes in the realms of work and labor. EdTech expenditures follow a growth trend, increasing from \$152 billion in 2018 to an expected \$404 billion by 2025¹.

The company did not meet its revenue projections in H1 2021 due to **delayed B2C activity**, the **geopolitical situation in Ghana**, and **delays in the Negev and Galilee projects**. However, the company is making concerted efforts to **expand its operations in the U.S., North America, and Africa**.



¹ "Global EdTech Market to Reach \$404B by 2025 -16.3% CAGR," HolonIQ, August 6, 2020

Key events in Q1 2022 and in recent months:

- On January 26, the Israeli Ministry of Foreign Affairs notified the company that, under the Government 2 Government (G2G) agreement signed between the governments of Israel and a Latin American country and following the customer's notification sent to the Israeli Ministry of Foreign Affairs, Robogroup was chosen to carry out a project to establish technological training centers throughout that Latin American country. The Israeli Ministry of Foreign Affairs informed the client that Robogroup complies with the terms of the G2G agreement and the parties can proceed to sign a binding commercial agreement. The expected financial scope of the project is up to a total of USD 100 million.
 - On April 3, the company received a notice from the client's embassy submitted to the Israeli Ministry of Foreign Affairs regarding the customer's consent to receive the financing offer it received from a banking corporation in Israel to finance the project and the client's request to transfer his consent to the banking corporation.
- On March 9, the company raised a total of approx. NIS 14.1 million (gross) in exchange for 7,056,735 rights exercised (as part of the issuance of rights).
- On April 11, the company received an announcement from the International Biennial of Designers of the Future of Education 2022, the OECD International Education Conference and the Israeli Innovation Fair, that Robotec's curriculum for computational thinking for preschoolers is one of the selected proposals. Approx. 1,000 proposals and requests were submitted to be presented at the OECD International Designers' Future Designers Conference and the Israeli Innovation Fair.
- On April 24, Yoram Deutsch was appointed chairman of the company's board of directors for a period of three years, in parallel with his tenure as the company's CEO.
- On May 15, the company's STEM division received a follow-up order for a third consecutive year of engagement, from a client who is one of the largest training and education bodies in Brazil, who cooperates with leading industry figures in Brazil and whose budget is approved by the Brazilian government Up to approximately 90,000 CoderZ™ platform licenses for the customer's users who are sixth- to tenth-grade students in all customer's schools across 27 countries across Brazil. In addition, as part of the contract, the company will conduct training in using the CoderZ™ system for the customer's teachers, provide pedagogical advice and support in a pedagogical report system developed by the company according to customer characterization and provide technical support for the system and API connection to the customer portal developed by the company.
 - The engagement period is for another year (15.05.22 - 15.05.23). The expected financial scope of the project is approx. USD 2.6 million.
- On May 26, Robotec, a subsidiary owned and controlled by the company, received a notice from the Tenders Committee of the Ministry of Education in Israel regarding the inclusion of 5 programs submitted by Robotec in a tender for inclusion in the education system for the 2023 school year.
 - The 5 programs approved are (a) Programming and Robotics Studies using CoderZ™ - High School, (b) Programming and Robotics Studies using CoderZ™ - Elementary, (c) Developing Life Skills Using Robotics, (d) Computational Thinking, (e) and Programming and Elementary Robotics
- On May 30, Intelitech, a subsidiary of the company in the US, entered into an agreement with Stride under which Intelitech approves and grants Stride and its affiliates to display, distribute and sell exclusively the CoderZ™ system licenses in the STEM Division and licenses for advanced industry training courses in the Industry 4.0 Division for Government Schools operated or owned by Stride, or any educational program for which Stride provides services, including graduate learners and end-user students in schools.

Investment Thesis

RoboGroup T.E.K. Ltd. (TASE: ROBO) is an Israeli company that is publicly traded on the Tel Aviv Stock Exchange. RoboGroup's vision is to disrupt the STEM (science, technology, engineering, and math) education technology market with its proprietary online virtual platform that enables students to learn coding, mathematics, and physics using virtual robots. The robots operate according to real-world physics and are controlled using unique coding techniques designed for young students.

The platform represents an accessible alternative for teachers and students lacking access to physical robots due to high costs, major logistical barriers blocking scalability, and high teacher proficiency requirements regarding robotics and coding. The platform also offers flexibility for simulating advanced technology (such as AI) and advanced environments (such as space) for students who are already engaged in STEM work. Its second business unit offers Industry 4.0 training with a range of physical and remote-learning products and services.

Global Education Technology Market

Size

- Education technology expenditures are following a growth trend, increasing from \$152 billion in 2018 to an expected \$404 billion by 2025.
- The COVID-19 pandemic has fueled a spike in growth in global e-learning for schools (K-12) that is expected to generate over \$240 billion by 2022 and \$300 billion by 2026 from various sources.
- The first investments in EdTech were made a decade ago with \$500 million in VC investments, expanding exponentially with an 32-fold increase of \$16 billion in 2020.
- The physical robotics market in education is currently valued at \$1.3 billion globally, and is positioned to grow to \$3.1 billion by 2025¹.

Current Challenges

- There is a shortage of STEM teachers.
- High costs (often reaching hundreds of USD per student for hardware, travel, etc.) create a "glass ceiling" that prevents minority populations and lower socioeconomic groups from participating in competitions, thereby reducing their chances of participating in the growing STEM economy.

¹ https://www.marketsandmarkets.com/Market-Reports/educational-robot-market-28174634.html?gclid=CjwKCAiAjeSABhAPEiwAqfxURcbM-5wdSNra26Q1yu_neulojx0GUmZumIZRI_hNGMNz3MNku0P44BoCnG4QAvD_BwE

- Learning progress is hard to measure, as it's not individual learning/robots.
- Teaching methods that inspire children's curiosity are lacking, and there is a need to shift the emphasis away from simply learning facts to enabling students to carrying out innovative and enjoyable projects using the knowledge gained, including being creative by applying their own ideas.

RoboGroup's Opportunities

- The COVID-19 pandemic has had a marked positive impact on market growth.
- STEM studies using robotics and science represent a significant pillar that is shaping the future of the economy, in addition to the well-being, security, and progress of all societies and states.
- Mid- and long-term growth is expected in the STEM education segments as governments increasingly move to support the STEM curriculum by, for example, mandating programming training in the K-12 curriculum.
- Schools around the world are facing growing demands by parents and other stakeholders to prepare students for rapid economic, environmental, and social changes, and for jobs that have not yet been created.
- CoderZ can become a leading and enabling platform for expanding STEM and robotics education through its development of individual, integrative, and fully digital learning solutions. In this way, it can penetrate new market segments.

RoboGroup's Value Offering

- **Two company divisions:** (1) STEM Professions Training and Education; and (2) Professional Training in the Industry 4.0 Domain, including Automation, Robotics, and Smart Factories.
- **Unique technology and innovative processes:** (1) highly advanced simulation of physical robots accessible from a browser; (2) modular simulative world to support wide-scale; and (3) efficient content creation mechanism that saves significant development resources, (4) multiplayer options.
- **Business model:** STEM education—user/class/school licensing. Industry—turn-key projects, equipment, and software sales.
- **Vision:** “Inspire every learner on the planet to realize their full potential and own their future.” Increase the accessibility of STEM education and robotics so that every student will have more career options in their future. Become the preferred choice for STEM and robotics education, through a gamified, competitive, and self-based learning methodology.

- **Market penetration:** Enter schools' STEM curricula through standards-aligned and integrated curricular activities and extra-curricular competitions and activities.
- **Channels:** Multiple channels to market, including distributors, partnerships with software companies (such as Amazon), robot manufacturers (such as Lego), industrial robot manufacturers (such as Yaskawa), and many others. Scaling will focus on volume/value partner development, together with strong B2C activities, when the company is ready to launch.
- **Company roadmap:** Moving toward an integrative, virtual, and fully digital platform.

The education technologies industry is expanding exponentially, with demand rising due to COVID-19 and significant changes in the world of work and labor. This so-called third education revolution involves a personalized, digitized, and decentralized education system.

In addition to expanding its traditional core activity, part of RoboGroup's strategy is investing heavily in developing new products to address the growing education technology (EdTech) market needs. RoboGroup's strategy is to become a leading integrated STEM and industry virtual education learning platform by eliminating the key barriers and challenges that exist today. The company's goal is to become the preferred choice for STEM and robotics education using a gamified, competitive and self-based learning methodology.

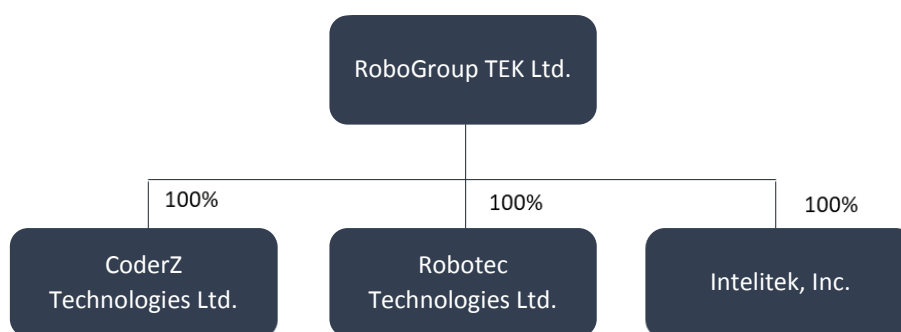
Due to RoboGroup's unique value proposition and its strategic collaborations with leading channels to market, we believe that the company will play a vital role in the growing education technologies market. We see RoboGroup as an outstanding investment opportunity. However, like any technology firm, RoboGroup needs to achieve its vision of becoming a fully digitized and automatized solution and to execute further significant sales.

Company Overview

RoboGroup T.E.K. Ltd., headquartered in Israel, is engaged in developing, manufacturing and marketing technology training and education products. It offers its products under two business units – industrial training and STEM education.

Company was incorporated in 1982 as a private company (current name is used since 2000). Company's shares are listed for trading on the Tel Aviv Stock Exchange since 1991 (TASE: ROBO).

The RoboGroup consists of three subsidiaries:



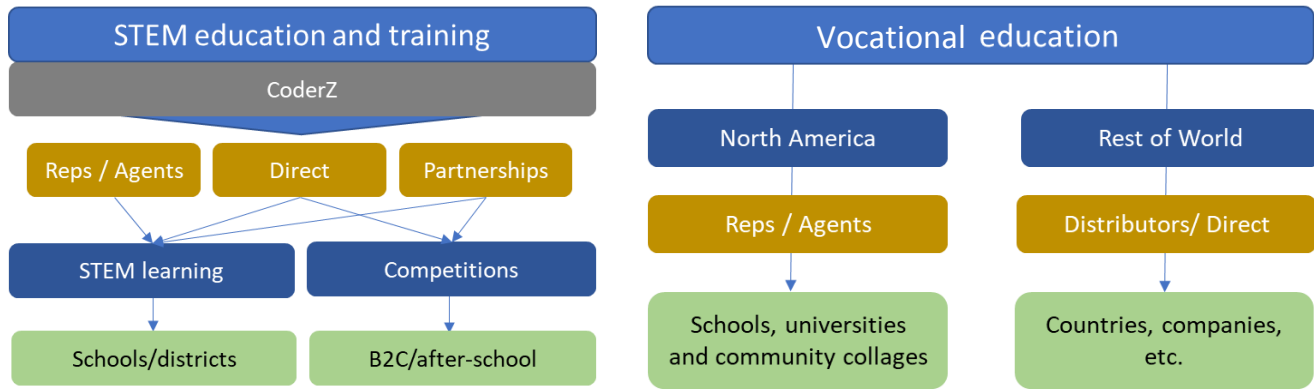
CoderZ Technologies Ltd. - a private company incorporated in Israel and engaged mainly in the development, marketing and distribution of an experiential and gamification-based STEM learning platforms via the use of virtual robots.

Intelitek - a private company incorporated in Delaware, USA and engaged mainly in marketing, sales, technical support and maintenance of the Group's products and products of third parties to the North American education market.

Robotec Technologies Ltd. - a private company incorporated in Israel and engaged in planning and implementation of technology laboratories in the education system, marketing, distribution, installation and maintenance of all the Group's products, third party products and related products in the STEM field, to the training and education markets. Robotec characterizes and develops advanced solutions, and maintains an extensive set of tutorials and advanced training courses.

Business Model

RoboGroup has two main divisions: STEM education (user/class/school licensing) and Vocational education (turn-key projects, equipment, and software sales).



2. Market Overview & Analysis

The Transformation of Education Industry

The world of work is undergoing a massive shift and as a direct impact we are also at the heart of a global revolution in education.

According to McKinsey Global Institute's report¹, 30-50% of American workers may have to change jobs by 2030 because of artificial intelligence and automation and the past promise of governments and universities that higher education equals secured jobs and income no longer apply.

The current changes in education and training are likely to be marked by continual training throughout a person's lifetime—to keep current in a career, to learn how to complement rising levels of automation, and to gain skills for new work. Workers will likely consume this lifelong learning in short spurts when they need it, rather than in lengthy blocks of time as they do now when it often takes months or years to complete certificates and degrees.

Education was already going through a significant change and a slow evolution going back 10 years or so when Covid-19 hit and turned it into a revolution. Key aspects of what is known as the 3rd education revolution² are:

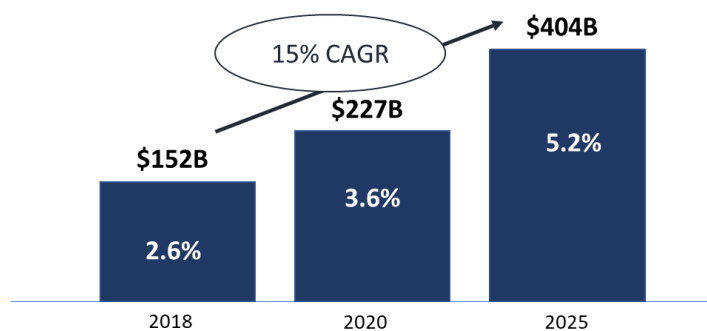
- New alternatives to a central education system
- De-centralization of budget allocation and responsibilities

- Personalized student development programs
- The decline of formalism and the rise of personal digitization
- The labor market and the education market are one

According to Wittgenstein Centre for Demography and Global Human Capital, there will be **half a billion more school and university graduates** in the world by 2025 than today, driven primarily by population growth in developing countries.³

Education technology expenditures are in a growth trend **from \$152 billion in 2018 to \$404 billion by 2025**. However, there is still a lot of growth available as it is still **5% of overall expenditure**.

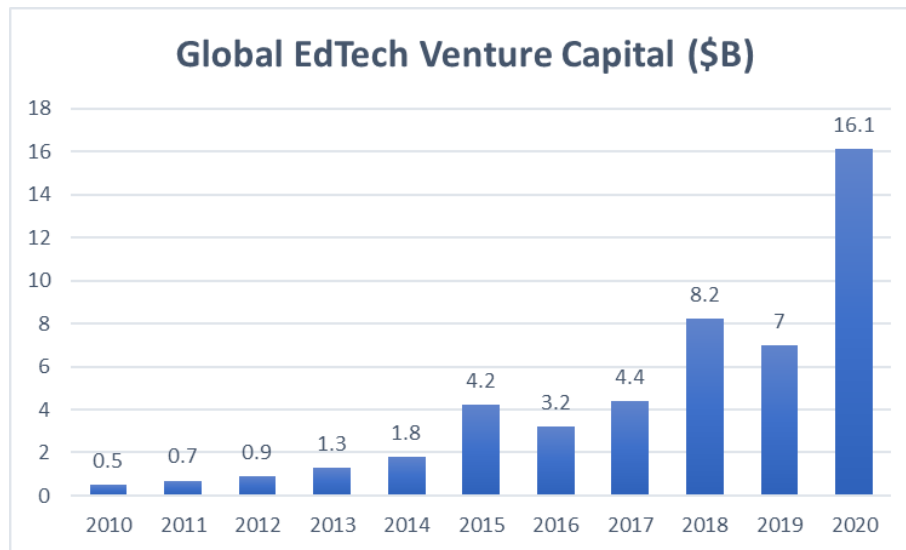
Growth in Total Global Expenditure on Education Technology in USD



Source: HolonIQ

The Covid-19 pandemic is fueling a spike growth in global e-learning for schools (known as K-12) which is expected to generate over **\$240 billion by 2022** and \$300 by 2026 by various sources⁴. About 60% of market revenues are generated from software.

Investments in Education Technology (EdTech) startups started a decade ago with \$500 million of **Venture Capital investments** exploding to 32x higher at \$16B in 2020.







Source: HolonIQ

Long Term Impact of Covid-19

Global lockdowns and schools roll out of remote learning since March/April opened up massive opportunities for EdTech companies as schools, teachers and parents look for effective remote learning solutions.

A recent report by & Co. Global Strategic Studies Institute from October 2020 stated that “...as the introduction of EdTech progresses, learning will likely be transformed significantly from being centered on group education in one-way lecture format to personalized learning. ...this could be described as a “*paradigm shift in learning*”: the mainstream of learning is moving from group education to personalized learning optimized to each individual, and a modular, lifelong form of learning is emerging in vocational education.”⁵

Many other related opportunities that arise following the COVID-19 outbreak contribute to the growth potential of the market – Demand for robotics, virtual learning and the future of remote work.

 Connected Work	 Lights-Out Operations	 Connected Living	 Technology Advancements
<p>Remote Work</p> <ul style="list-style-type: none"> • UCaaS • Consumerization of IT/Work Wearables • Real estate: Telecommuting • Digital Personal Assistants <p>Virtual Collaboration</p> <ul style="list-style-type: none"> • Synchronized (Real-time Collaboration) • Asynchronous (Offline Collaboration) <p>Hybrid Workplaces</p> <ul style="list-style-type: none"> • MicroJobs • Gig Workers • Robotic Worker 	<p>Remote Asset</p> <ul style="list-style-type: none"> • Asset Condition Monitoring • Plug-and-Play Condition Monitoring Kits • Predictive and Prescriptive Analytics <p>Digital Twins</p> <ul style="list-style-type: none"> • 3D Laser Scanning • 3D Capture • Photogrammetry <p>B2C/C eCommerce</p> <ul style="list-style-type: none"> • Voice Commerce • Social Commerce • Ambient Commerce • AR Shopping 	<p>Smart Homes</p> <ul style="list-style-type: none"> • Home Automation • Home Energy • Home Security <p>Virtual Entertainment</p> <ul style="list-style-type: none"> • Live AR/VR streaming • Online Arcades/Gaming • Virtual Tours <p>Virtual Learning</p> <ul style="list-style-type: none"> • Learning Management Systems • Flipped Classrooms • eLearning Programs 	<p>Cybersecurity</p> <ul style="list-style-type: none"> • Biometrics • AI-based Cybersecurity • Quantum--based Cybersecurity • Blockchain-based Cybersecurity <p>Robotics</p> <ul style="list-style-type: none"> • Industry Robots • Service Robots <p>AI</p> <ul style="list-style-type: none"> • Machine Learning (ML) and Deep Learning • Natural Language Processing (NLP) • Video Analytics, Computer Vision

Disclaimers, disclosures, and insights for more responsible investment decisions

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The Report shall include a description of the Participant and its business activities, which shall inter alia relate to matters such as: shareholders; management; products; relevant intellectual property; the business environment in which the Participant operates; the Participant's standing in such an environment including current and forecasted trends; a description of past and current financial positions of the Participant; and a forecast regarding future developments and any other matter which in the professional view of Frost & Sullivan (as defined below) should be addressed in a research Report (of the nature published) and which may affect the decision of a reasonable investor contemplating an investment in the Participant's securities. An equity research abstract shall accompany each Equity Research Report, describing the main points addressed. A thorough analysis and discussion will be included in Reports where the investment case has materially changed. The named lead analyst and analysts responsible for this Report certify that the views expressed in the Report accurately reflect their personal views about the Company and its securities and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation or view contained in the Report. Neither said analysts nor Frost & Sullivan trade or directly own any securities in the company. The lead analyst has a limited investment advisor license for analysis only.

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Endnotes

¹https://www.mckinsey.com/~media/mckinsey/industries/public%20and%20social%20sector/our%20insights/what%20the%20future%20of%20work%20will%20mean%20for%20jobs%20skills%20and%20wages/mgi%20jobs%20lost-jobs%20gained_report_december%202017.pdf

² https://www.nesacenter.org/uploaded/conferences/FLC/2018/handouts/DonnaOrem_ThirdEdRevolution2018.pdf

³ <http://dataexplorer.wittgensteincentre.org/wcde-v2/>

⁴ <https://e-student.org/e-learning-statistics/>

⁵ https://www.mitsui.com/mgssi/en/report/detail/___icsFiles/afieldfile/2020/12/17/2010x_sakai_e.pdf