

Statement regarding acquisitions

RNS Number : 8567D
Ocado Group PLC
02 November 2020

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE REGULATION (EU) NO 596/2014

For immediate release

London, 2 November 2020

Ocado Group plc

OCADO ACQUIRES KINDRED SYSTEMS AND HADDINGTON DYNAMICS TO ENHANCE ITS ROBOTIC MANIPULATION CAPABILITIES AND ACCELERATE THE COMMERCIAL DELIVERY OF ROBOTIC PICKING FOR ITS OSP CLIENTS.

Ocado Group plc ("Ocado"), the leading online grocery platform and solutions provider, today announces the proposed acquisition of:

- Kindred Systems Inc. ("Kindred Systems") an advanced piece-picking robotics company for consideration of approximately US\$262 million (subject to closing adjustments); and
- Haddington Dynamics Inc. ("Haddington Dynamics") a robotic-arm designer and manufacturer for consideration of approximately US\$25 million (subject to closing adjustments).

Tim Steiner, CEO of Ocado, commented:

"We consider the opportunities for robotic manipulation solutions to be significant, both for Ocado Smart Platform clients and across the fast-growing online retail and logistics sectors. Ocado has made meaningful progress in developing the machine learning, computer vision and engineering systems required for the robotic picking solutions that are currently in production at our Customer Fulfilment Centre ("CFC") in Erith. Given the market opportunity we want to accelerate the development of our systems, including improving their speed, accuracy, product range and economics.

I am delighted to be welcoming Kindred Systems and Haddington Dynamics to the Ocado group, as we believe they have the capabilities to allow us to accelerate delivery, innovate more, and grow faster. I am also excited by the opportunity to enter new markets for robotic solutions outside of grocery that is demonstrated by Kindred Systems' robust growth, with existing customers such as Gap and American Eagle across the general merchandise and logistics sectors."

Marin Tchakarov, CEO of Kindred Systems, commented:

"I am proud to see Kindred Systems and our brilliant team recognised by Ocado as a leader in robotic pick and place manipulation, and we are extremely excited to realise our

next chapter as part of them. We have achieved very strong growth with our retail e-commerce fulfilment customers over the last 3 years, and the unique challenges presented in grocery fulfilment will bring an even richer learning environment, further expanding on both our technology and market solutions set. Benefitting from Ocado's excellence in research, technology, product development and partnering will give Kindred Systems the opportunity to continue to grow and stay at the forefront of AI and machine learning automation and workforce collaboration."

Todd Enerson, President of Haddington Dynamics, commented:

"Our unique approach to highly dextrous robotic arms will provide meaningful benefits to delivering robotic manipulation in complex use cases like grocery. We look forward to joining the team."

The Kindred Systems and Haddington Dynamics businesses

Kindred Systems is a robotic solutions company based in San Francisco and Toronto that designs, supplies and services sophisticated piece-picking robots for e-commerce and order fulfilment.

Founded in 2014, Kindred Systems was one of the first companies to successfully use deep reinforcement learning (a form of artificial intelligence that improves the learning process of handling disparate items like those in grocery) to develop piece-picking robots with AI-powered vision and motion control. Once a robot is installed, Kindred Systems provides teleoperation remote assistance and engineering services to ensure that the robot continues to operate at a high pick rate with limited downtime.

Kindred Systems has around 90 employees, approximately half of whom are engineers who will join Ocado's existing technology team, with the remainder of employees continuing to drive Kindred Systems' growth. Kindred Systems is expected to have approximately 180 robots installed and operating by the end of 2020 across its growing client base, and is expected to generate revenues of over US\$35 million in the calendar year 2021, the vast majority of which are recurring.

Haddington Dynamics is an advanced research and development company based in Las Vegas that specialises in the design and manufacture of low-cost, lightweight, highly dexterous, robotic arms. Haddington Dynamics' arm design and technology allows for the arm to be manufactured at a relatively low cost via 3D printing, with a corresponding positive impact on the financial returns of robot deployment. Current clients include NASA and DuPont.

Strategic rationale

When combined with Ocado's existing expertise and technologies in robotic manipulation, Kindred Systems and Haddington Dynamics are expected to accelerate the commercialisation of robotic picking and other automation tasks for OSP clients. The solution for grocery picking will fit seamlessly into our current CFC and Micro Fulfilment Centre ("MFC") footprints and will be fully-integrated into OSP. Given the significant costs associated with the decant and picking functions within CFCs - up to £7 million of annual cost per CFC^[1] - automation solutions have attractive economic potential for both Ocado and our partners. Further uses within CFCs (such as de-palletising and de-trashing) and in

other applications (such as food handling and vertical farming) may also be possible over the medium term.

Kindred Systems' existing customers are focused on robotic picking within the general merchandise and logistics sectors, and represent a large and fast-growing new segment for Ocado Solutions. Ocado will support Kindred Systems' existing sales and product development capabilities in order to expand its customer base and robot deployment within both the USA and globally as part of the structural shift towards e-commerce.

Expected financial impact for Ocado

The transaction will have no financial impact in the current financial year. Ocado expects full year 2021 revenues to increase as a result of the two acquisitions by approximately £30 million with a small negative impact on EBITDA.

Additional information on the Kindred Systems and Haddington Dynamics acquisitions

The acquisition of Kindred Systems constitutes a Class 2 transaction for Ocado under the UK Financial Conduct Authority's Listing Rules.

Ocado has entered into definitive transaction documents in connection with the acquisition of the entire issued share capital of Kindred Systems, which will be effected pursuant to a plan of arrangement under the laws of British Columbia, Canada. The completion of the acquisition is subject to the satisfaction of closing conditions including US regulatory approvals and employee retention, and is expected to close during calendar year 2020.

The acquisition consideration of approximately US\$262 million (subject to closing adjustments) for Kindred Systems is being financed using Ocado's existing cash reserves. Approximately US\$4 million will be retained by Ocado as deferred cash consideration and will be paid out to certain employee shareholders of Kindred Systems in equal tranches on the first, second and third anniversaries of closing, with payment of the deferred consideration conditional on the employee being employed by the Ocado group (except in certain limited circumstances).

Kindred Systems generated revenues of US\$0.3 million and a net loss of US\$15.8 million in the year ended 31 December 2018 and revenues of US\$1.7 million and a net loss of US\$16.2 million in the year ended 31 December 2019 (unaudited). As of 31 December 2019, Kindred Systems had gross assets of US\$29.2 million and net assets of US\$25.0 million (unaudited).

Ocado is excited to be welcoming all Kindred Systems and Haddington Dynamics employees to the group who will continue to deliver on the exciting opportunities that their technology presents. Ocado has identified Marin Tchakarov (CEO), Adrian Martin (Manager, Robotics Software), Gabriel Mahoney (VP of Engineering), James Bergstra (Co-Founder & Head of AI Research), Joe Nentwig (VP of Sales), Michael Daymond (Director of Product) as key individuals important to the Kindred Systems business (each a "Key Individual"). It is a condition to the acquisition closing that all Key Individuals remain employed by Kindred Systems immediately prior to closing.

The completion of the Haddington Dynamics acquisition is subject to the satisfaction of certain US regulatory and commercial closing conditions, and is expected to close during calendar year 2020.

Composition of the acquisition consideration of approximately \$25 million (subject to closing adjustments) for Haddington Dynamics will comprise a mixture of cash and new Ocado ordinary shares (comprising approximately US\$7 million in cash and 0.6 million ordinary shares). A proportion of the consideration will be subject to contractual restrictions that will be removed over time subject to the achievement of certain technological delivery milestones and ongoing key employee retention. In certain circumstances, at Ocado's election, the consideration may be comprised solely of cash (financed by Ocado's existing cash reserves).

Investor and Analyst Q&A Call

A Q&A call will be hosted by Tim Steiner (CEO), Duncan Tatton-Brown (CFO) and Stewart McGuire (Head of Corporate Development and Strategy) at 7:30 am GMT. Details for joining the call are provided below.

Dial in details are: +44 33 0606 1122, room number: 430685, participant pin: 6945.

A replay facility can be accessed on: +44 33 0606 1122, room number: 473442 for 90 days following the announcement.

Contacts

- Duncan Tatton-Brown, CFO, Ocado Group plc, on 01707 228 000
- David Shriver, Director of Communications, Ocado Group plc, on 01707 228 000
- Martin Robinson, Tulchan Communications, on 020 7353 4200

The person responsible for arranging the release of this announcement is:

Neill Abrams
Group General Counsel and Company Secretary
Ocado Group plc
Buildings One & Two Trident Place
Mosquito Way
Hatfield
Hertfordshire
AL10 9UL
Tel: +44 (0)1707 228 000

Email: company.secretary@ocado.com

Cautionary statement

Certain statements contained in this announcement constitute "forward-looking statements" with respect to the financial condition, performance, strategic initiatives, objectives, results of operations and business of the Ocado group. All statements other than statements of historical facts included in this announcement are, or may be deemed to be, forward-looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "anticipates", "estimates", "projects", "will", "may", "would", "could" or "should", or words or terms of similar substance or the negative thereof, are forward-looking statements. Forward-looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; and (ii) business and management strategies and the expansion and growth of the Ocado group's

operations. Such forward-looking statements involve risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results, performance or achievements to differ materially from those projected or implied in any forward-looking statements. The important factors that could cause the Ocado group's actual results, performance or achievements to differ materially from those in the forward looking statements include, among others, economic and business cycles, the terms and conditions of the Ocado group's financing arrangements, foreign currency rate fluctuations, competition in the Ocado group's principal markets, acquisitions or disposals of businesses or assets and trends in the Ocado group's principal industries. Due to such uncertainties and risks, you are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this announcement may not occur. The forward-looking statements contained in this announcement speak only as of the date of this announcement. The Ocado group and its directors, and any person acting on its or their behalf each expressly disclaim any obligation or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation.

This announcement is not an offer to sell, or a solicitation of an offer to purchase, any securities. The securities referenced above will be issued in private transactions pursuant to an exemption from the registration requirements of the US Securities Act of 1933 and may only be offered or sold pursuant to an exemption from, or in a transaction not subject to, such registration requirements.

[1] Represents 100% of total labour cost associated with picking, packing and decanting processes at a typical six module CFC, with £420 million of revenue at maturity based on Ocado Retail basket size. This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

RNS may use your IP address to confirm compliance with the terms and conditions, to analyse how you engage with the information contained in this communication, and to share such analysis on an anonymised basis with others as part of our commercial services. For further information about how RNS and the London Stock Exchange use the personal data you provide us, please see our [Privacy Policy](#).

END

STRDZMGMGZNGGZG