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SPEAKERS

Ben Wolff, CEO of Sarcos Robotics, David Drapkin

D David Drapkin 00:11

Hey, everyone, welcome to the boardroom alpha podcast today we're delighted to have with us, Ben Wolf, who's the co founder, Chairman and CEO Sarcos Robotics. Sarcos is going public via merger with rotor acquisition Corp and a $1.3 billion deal, then we're excited to talk to you about Sarcos to transaction spax. Anything else that that you'd like to you'd like folks to hear? So first of all, thank you. Thanks for taking the time. David, thanks for having me today. It's a real pleasure. Great. So you know, just to kick it off, why don't you tell us a little bit about Sarcos Robotics, you know, what do you guys do? Tell the story?

B Ben Wolff, CEO of Sarcos Robotics 00:49

Yeah, thanks. So Sarcos Robotics is an industrial robotics company. And we're focused on doing things a little differently. Instead of automating jobs where we replace humans, we augment human workers by giving them robots they can either wear or remotely control, to be able to do dangerous and difficult tasks. So most robotics companies are focused on repetitive tasks, we're focused on the hundreds of millions of workers around the world that do physically demanding work every day in dynamic or variable environments that can't be automated. So we give one human the ability to do the work of three, four, or five or more humans and to do it more safely. So it's an entirely different approach to robotics.

D David Drapkin 01:29

And if you haven't seen the two products, you'll go take a look at Sarcos, his website or investor presentations, it's pretty cool. Have you have you worn that? Have you worn the robots at all?

B Ben Wolff, CEO of Sarcos Robotics 01:40

I have, I've used both the wearable exoskeleton robot. And I've also tele operated a remotely controlled the The Guardian xt, and the remote control version, and they are, they are amazing. I'll tell you, side of them when you start using them. And it just feels like a natural extension of your body. And that's part of our secret sauce is making these machines, things that you don't have to think about when you're using them. So you can think about the job at hand instead of managing the robot.

D David Drapkin 02:04

Right, right. Super interesting. So what why is now the right time to shepherd Sarcos into the public markets, what what what sort of went into that decision making process there?

B Ben Wolff, CEO of Sarcos Robotics 02:17

Well, we're right on the cusp of commercializing our products. So we are Yes, effectively a pre revenue company, we haven't launched our two flagship products, yet. We've been working as a company on the r&d behind these technologies for more than 30 years. So you know, we've been around for a long time. But we're on the cusp now of launching our fleet of commercial robots. And this is the perfect time from a capital raising perspective to prospective to improve our balance sheet so that we have the capital on hand necessary to build the fleet of robots that will go out and do real work in the real world, when we're dealing with fortune 100. customers, they want to know that they're dealing with a vendor, that's going to be around for a while, you know that we don't have financial risk. And so whether it comes to our partners or our customers, showing that we've got financial wherewithal on our balance sheet fundamentally changes the game for us. And so that's why it's the right time to do this.

D David Drapkin 03:08

But and then when we were evaluating the various methods of capital raising going public, the obvious question, you know, why SPAC versus versus the traditional, more traditional IPO route? Or even a direct listing? You know, what were what were some of the decision factors, but behind that, behind that path.

B **Ben Wolff, CEO of Sarcos Robotics** 03:27

So I've gone the traditional IPO route, I took a company public, a wireless telecom company called Clearwire. You know, the thing that strikes me about a business that's at our stage where we are effectively kind of a late stage, venture firm that's about to go public right now is about to launch our commercial products. We can't tell our future looking story the same way. If we did a traditional IPO with traditional IPOs, as I learned from my experience is all about looking in the rearview mirror and saying, alright, what have you done historically, and then having investors make decisions about investing in you, based on your historical performance? In the case of a company, it's our stage or, you know, frankly, some of these other Evie companies or space focused companies, but for all of us, our focus is on the future. And that's what investors get excited about. And you simply can't tell the story and explain what your future vision is and roadmap the same way unless you're going to SPAC route. And so whether the SEC likes it or not, that's frankly, the way the rules are written today. And that's why you see so many companies that are at our stage doing the spec transaction.

D **David Drapkin** 04:27

Yeah. And then the draw is to get in early access to maybe for the public that may not have normal access to call it a VC, more VC type, like investment. Like you, as you said, your pre revenue, which we'll get to later, but it certainly that that makes a lot of sense. I mean,

B **Ben Wolff, CEO of Sarcos Robotics** 04:45

That's exactly right, David, because when you think about it, you know, I'm an investor personally in some in some venture funds, and, you know, you tie your money up for 10 years, you can't get liquidity, and you're investing in a whole wide range of companies by investing in a venture fund. There's no way for a typical investor like you or me to participate in the early stage of a company like Sarcos. And so going through the SPAC route, absolutely opens up a whole new universe of investing opportunities for retail investors. And that's what I get excited about.

D **David Drapkin** 05:13

Right. Right. You announced the deal in April, I believe, you know, obviously, this back Mark was a little different, you know, even five, six months ago, I'm sure you recorded by several specs, through your process, what what drove you to wrote or anything specific about the team or their history or, or the value that they've been adding during during this process?

B Ben Wolff, CEO of Sarcos Robotics 05:36

You know, the team at rotor are some of them, I've known them for a long time. So there's, you know, clearly an understanding of their credibility and their ethics and their overall stature in the finance community. But the two primary people that I work with that rotor, were in on wall street for a lot of years. One was the former president of Credit Suisse, us, and the other was the vice chairman of Bank of America. They are really experts at corporate finance. They're also really experts at m&a. And one of the things that we've talked about is that we think there was an opportunity, no commitments here, but we think there's an opportunity to roll up other robot industrial robotics companies that have a similar focus to us. In other words, not just focused on automation, but focused on human augmentation. And I think that some decent valuations can still be had even in this market, for companies that are gonna have that focus. So when I look at both their financing acumen, and also and capital markets acumen and their m&a experience, I couldn't ask for better partners,

D David Drapkin 06:39

right. or any of that any of that team going to join the board of the proforma combined company?

B Ben Wolff, CEO of Sarcos Robotics 06:45

Yeah. Brian Finn, who is the the CEO of rotor hand is the former CEO of Credit Suisse, us is joining our board.

D David Drapkin 06:54

Right. So let's shift to the deal a little bit. Can you talk a little bit about who we can think about as maybe your direct competitors? That doesn't seem to be that you have many direct competitors? So how can how can we think about you know who your competition is a little bit Besides, you know, regular humans or fully automated robots?

B

Ben Wolff, CEO of Sarcos Robotics 07:15

Well, that is the conundrum, David, because there really aren't any competitors. Nobody else in the world has a class or category of machine that has the general capability set of hours, not to mention the specific capabilities. So we really don't compete with anybody. What we do have is, you know, this, these huge labor shortages, for skilled labor across a wide variety of industries, and our customers are telling us on a regular basis, you know, we need your machines now, because we don't see any other solutions. So I think we're really uniquely situated from a competitive perspective, that can be both a blessing and a curse. When there's nothing else out there. Like what you have, you have to convince the markets, you have to convince the customers that what you have cancelled their problem in a different way than they've ever thought about. But yeah, we have, we have no competition directly. And even humans aren't competition, because, you know, whether you're an employer or an employee or a labor union, you like the idea of getting more people employed. And since what we we think of ourselves as a workforce equalizer, some of the jobs that our machines are designed to do, if you weren't built like a, you know, a college football linebacker, you couldn't do the job, your body didn't have the strength and endurance to do it. Now we can take somebody, no matter whether you're young or old, big or small, male or female, doesn't matter. You can do these jobs. So we're workforce equalizer, which means more people are able to do more high paying skill jobs. And that's, that's one of things we get really excited about. Right?

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David Drapkin 08:32

Yeah, I would definitely be out of the job market for heavy lifting. So. So but on that sense, right? So you come up to the valuation, you know, 1.3 billion, if I'm an investor, if I want to buy a share of sorrows, how am I to think about that valuation given you know, no direct comps from from a valuation standpoint? And in the large, large runway of financial projections, obviously, why why is today an attractive entry point for me?

B

Ben Wolff, CEO of Sarcos Robotics 09:04

So I think the way to look at this is our valuation was more or less kind of based on a 1.7 times multiple have are projected 2025 adjusted EBIT, da. Okay. So 1.7 times, if you look at some of the other D SPAC merger transactions that are out there, in fact, look at all of them, right? And if you look at if you look at those that are a similar stage to us, meaning commercial product hasn't launched yet. It's been in development for a long time, a lot of time and money invested, but it hasn't launched yet. And it's a hardware business. You look at their multiples, being kind of in the anywhere between eight and 15 times 2025 projected adjusted EBITDA, why are we so low? Well, we're low relative to them today, because we acknowledged we didn't have a committed customer backlog. And we hadn't launched our product yet. And to be candid, we're not in one of these sexy spaces like either Or flying cars or going to space, which are the, which seems to attract so much of the, you know, retail investor public attention. So our whole goal having been through the public company, you know, launch before my view was and my shareholders, my board board agreed, let's be more conservative on valuation today for that very reason to give investors a reason to get in now, before we've proven everything out about the business, because I'll tell you, once we've proven out everything about the business, we ought to be trading at, you know, many, many multiples returns higher than where we are today. So that's, you know, Why get in now, you're on on the ground floor, as we come out, and we publicly talk about our wins with customers are wins with commercializing the project, the products, and that they're getting out there in customers hands, you know, there's nowhere else to go, but but up save for kind of the, the typical roller coaster that you see in the capital market?

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David Drapkin 10:49

Yeah, that's a great answer. And, you know, obviously, we've seen that a little bit. He spoke like a shareholder. So while we talked about that a little bit, you know, you obviously mentioned is your investor materials, you know, 100%, equity rollover, you know, an urn out structure, you know, for some of the founders. And then pretty strong investors in the pipe. You mentioned palantir, Caterpillar ventures, you know, funds managed by BlackRock, etc. How do you envision your long term shareholder base, and some of those, you know, bigger names, at least being strategic investors in Sarcos, for years to come?

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Ben Wolff, CEO of Sarcos Robotics 11:25

Well, let me start off by saying, you know, Caterpillar, and Schlumberger and Delta Airlines and Microsoft have been great investors in our company when we were private. And obviously, some of them are participating in the pipe. I've participated in almost every financing round that we've had personally. Today, I'm the largest shareholder in the company, and I will continue to be, I also am participating in the pipe, along with palantir. And some of the others that you mentioned, I put my money where my mouth is, you know, I don't ask investors to invest at a time that I'm not willing to invest in myself. I think that we are, you know, as I talked to long only investors obviously in the, in the in the transaction day in the in the spectrums actually have a lot of ARB funds they get in because they're they like the, they like the optionality of even getting their 10 bucks back or seeing where the stock is at the time, the deal closes. And obviously, in this environment, most of them are asking for their money back these days. In my view, as I talked to one only holders, ranging from big funds down to small family offices, I think there's a general view that robotics are going to become a bigger and bigger part of our life over time. And if you believe that, and if you believe that robots that can do meaningfully work with the upper body, meaning arms and hands, that can actually do real work, instead of just carrying an item from one place to another. If you really believe that robots are going to do real work at some point in our future, there's no better company to bet on than sarcos. And so I think what we see is a significant level of interest in the long haul long term investors saying, If anybody's going to win this game, it's going to be sarcos. And while we, while there's risks about the timing, and the they take rate by customers, and all that all those normal risks when you're launching a new product, there's still no better horse to ride, if you believe in robotics of the type that we bring into market. So that's that's where I see investor focus today.

D

David Drapkin 13:13

Cool. Great. Well, one more question on the deal before we shift a little bit similar. Yeah, on sarko, specifically, and you mentioned, shareholder redemptions? In fact, so obviously, given the current state of the market, you know, no, no, it's no secret that we're seeing large redemptions for many of these stock mergers. How are you thinking through those scenarios in terms of future capitalization of the company, in the event that that you do recognize, you know, a substantial amount of redemptions?

B

Ben Wolff, CEO of Sarcos Robotics 13:45

So we got really lucky. Sometimes it's better to be lucky than good in the way we structured the transaction. And we have those things in like 270. We have 276 million sitting in the rotor trust, we also have 220 million committed in the pipe. And if you take a look at our investor presentation, we're only targeting about $140 million required to get our business to cashflow positive, with assuming we don't do any new product r&d, which we do talk a little bit of a presentation about our artificial intelligence platform development. But that has a pretty big price tag on it. And it doesn't generate any revenue in the next five years for our business. So if you just look at the revenue projections and the profitability projections, all we need, as we sit here today is about $140 million. So that means that we're fully funded for our core business with just the pipe. So even if we see 100% redemptions, there's there's there's no issue we are taking financing risk completely off the table, where would I see us potentially raise more capital in the future, you know, if we had some acquisition opportunity that required capital, maybe that's something to look at, but we're never going to be pressed against the wall, at least as I look at the future today for us where we say we have to go raise more capital and have a big dilutive event for our investors. So I couldn't be happier. You know the minimum cash requirement on hand in our merger deal is 200 million. The pipe obviously covers that with 220 million. So we're in great shape.

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David Drapkin 15:05

Right? Thank you. So let's shift to the bit to your revenue model. Thank you call robots as a service. The first time I've heard that. So can you describe a little bit about what that looks like? What what what robots as a service means and how investors can think about that.

B

Ben Wolff, CEO of Sarcos Robotics 15:23

So first of all, I encourage our customers to think of us as a next generation labor contractor, we're bringing units of labor to their workforce. And they pay us just as if we were bringing human beings to the late to the workforce, except these are robots. So we say to our customers pay us monthly, and pay us an amount for the exoskeleton, there's roughly an equivalent amount to what you'd pay a $25, an hour worker, when you've got fully burdened GMA and overhead associated with it. So in this country, that kind of the average statistics across most of the blue collar workforce that I've seen is, it's about 100 $910,000, a year for one fully burdened, fully allocated $25 an hour worker. So my exoskeleton 90 $500 a month, $100,000 a year, roughly the cost of one f t. Now, what that means is, you know, think of it, although we call it robot as a service, it's really kind of a full service lease, if customers sign up for one, two or three years, the more units they have at a single location. And for the longer duration, the lower the cost. So $100,000 a year for 10 or more units in a single location, and a three year contract a single unit for just one year, think of it more like $150,000 for that year. So roughly the cost of one FTD, we service and maintain it, if the machine doesn't work, they don't have to pay any, just like if an employee doesn't show up, a contractor doesn't show up at work, you're not going to pay me for that contractor. So we're trying to make this as pain free and analogous to hiring humans as we can. And I got to tell you, David, that just resonates with people, whether they're p&l owners, whether it's the CFOs, office, CEOs office, it really resonates because it's something they can get their head around. For the cost of one employee, they're getting the productivity of three, four, or five or more employees, and reducing the risk of on the job injuries. And what's a useful life for for these missions? How long do they last, we're expecting about six years, six years or more. So our financial model is all based on six years. So when you look at our per unit economics, one machine $100,000, a year times six years of revenue opportunity is 600,000 in revenue. And yet our cost once we get to scale production, we're expected to cost about $65,000, to make a unit about $35,000, to refurbish it after three years. So we make it shiny and new looking. And then about $75,000 over that six year period for service and maintenance. So we've got $175,000 invested in something that's going to generate 600,000 of revenue, it generates really robust margins. And because we have no competition, and wages continue to go up, we think we'll be able to continue to press on, you know, as long as we're kind of keeping keeping pace with what us wages are doing or our customers, you know, payroll is doing, we're going to be in good shape.

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David Drapkin 18:02

Right. Right. So let's talk a little bit about the path forward. Obviously, we spoke earlier that your valuation is struck at a 26 number, I think you probably knew chief profitability in 2023. So how, how can you be convinced fully that you're going to sort of reach that path? And what is the timeline to commercialization sort of ramping up ramping up to look like here.

B

Ben Wolff, CEO of Sarcos Robotics 18:31

So we had our first alpha demonstrator units out in the field, with customers beginning in early 2020, COVID hit and put a little bit of a wrinkle in our plan, because everybody shut down their operations and closed their facilities to to us and others. We took all of the data that we got from the alpha units, we're baking that into a new tournament machines, which we call our beta versions, the beta versions will be much closer to a commercial product, we expect to have our first beta units done by the end of this year. We'll test them internally first, and then we'll get them to our customers hands somewhere in the middle of next year, that should get us on a good path to get commercial production, low rate initial commercial production by the end of next year. So that's what our current timeline looks like. We don't expect in our business models see real scaling of you know, 10s, hundreds and 1000s of units going to customers until the middle of 2023. That's all baked into our financial model in our projections. What I what I encourage investors to think about is think about based on the per unit economics that we have in our investor presentation, how many units generating kind of cash flow that we've projected Do we need to have in the investors mind to justify a $1.3 billion valuation obviously at 43,000 units in the field, which is what we're projecting by the end of 2026, generating, you know, for generating two and a half billion a year in revenue when 1.9 billion of or 1.7 billion of EBITDA, you know, put any kind of a reasonable multiple on a high growth robotics technology company, and you're looking at You know, 10s of billions of dollars of value. So so so what I asked investors to think about is, what do we what target? Do we actually have to hit in the investors mind to achieve and justify a $1.3 billion valuation? And it's a small fraction, a very small fraction of what we've penciled out for the next five years. Right.

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David Drapkin 20:17

But and you mentioned some of your major partners, and investors in the likes of delta and Boeing, can you talk about who your will they be customers or potential customers?

Who are you targeting as your potential customer base going forward?

B Ben Wolff, CEO of Sarcos Robotics 20:35

So on the kind of first couple years of deployment we see are opportunities for the exoskeleton, the low hanging fruit there, if you will, being in manufacturing, warehousing and logistics, and some repair and maintenance activities for infrastructure, and for large machinery, things like Caterpillar, machines, and aircraft. So those are the target industries that were focused on initially, for the exoskeleton on the X t, which is the tele operated or remote remote control version, the initial focus is on the construction industry. And on repair and maintenance of infrastructure, things like the petroleum plants, and things like that, inspecting and repairing pipelines that are elevated, things of that nature. So power generation, plants, and construction, we have lead or lighthouse customers that we've been working with for a number of years in each of those industries, to define the product requirements and specifications. So this isn't Not me, and my engineers just sitting there, you know, throwing darts at a board to try and figure out what the customer wants. We've been in the trenches with these customers for years now talking with them about use cases, and requirements for what, what it will take for them to deploy these machines. So I have a pretty high level of confidence that when these machines launch, we've got a ready, willing and able customer base to start taking them. In fact, we got some customers that literally pound the table and say, I want the machines now. And of course we're not we're not quite there yet. Right. So that's a little frustrating. But but i think you know, we have, we have a good path into seeing that our customers want hundreds, if not 1000s of these machines, when I say that I'm talking about fortune 100 and fortune 250 customers that already employed, you know, 10s of 1000s, if not hundreds of 1000s of people. We do not to be clear, have committed backlog though, what when we think we start we will start nailing committed backlog when our baby units get in your customers hands, and they see what the machines can really do for them on their job site or in their facility.

D David Drapkin 22:32

Under set and fortune 100 companies would be great, great lighthouse customers, it sounds like you mentioned COVID. And it's actually interesting, given that you're augmenting humans, not replacing them. Some other work from home trends or less people in the field, if you'd see in other industries, this is COVID and the future of work going forward. How does that affect your business prospects?

B Ben Wolff, CEO of Sarcos Robotics 22:55

Well, one really interesting opportunity that has been clear is there's a lot of things that happen in the warehousing and logistics and manufacturing sectors where two or more humans have to get very close together to lift them manipulate something. Think about even just like an e commerce warehouse, where they're lifting and manipulating a piece of home exercise equipment, or a mattress or an 80 inch TV. These are things that all say on the side of the boxes to person lift. And yet these are these boxes are not six feet long. So by definition, you don't have people that can socially distance six feet, if that item is going to get moved. Well guess what? With our machine, which cannot either get or transmit COVID. With the human capital with the human worker, you're getting the output of a two or three or four or five person left with only having to have one human being. So So yes, COVID has actually accelerated interest in what we're doing. Customers that we've never heard from before, before COVID. Now they're reaching out to us. And it's not just about COVID. To be clear, David, it's also about what happens when the next virus comes along. It might not be COVID it might be something else. But I think so many big companies today are saying we have to be planning for these kinds of events going forward in the future. And the ability to socially distance is going to be relevant in any kind of transmissible contagious disease.

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David Drapkin 24:24

Got it? Are you sure you haven't PCR tested the robots so you don't know? Lastly, for me, so you obviously have extensive public company experience, which I think at least from this backside of the world should provide investors some comfort. Can you talk about a little bit about your history at public companies, and how you'll use your experience at Clearwire pendrell you know, through through the through sarcos as you enter the re enter the public markets as an executive.

B

Ben Wolff, CEO of Sarcos Robotics 24:57

Yeah, thanks. You know it is it is a different thing being CEO of a public company in a private company, many more things to balance many more constituents to focus on. And I think, you know, unfortunately, you've seen some of these, these facts that have first time, public company management teams get a little caught by surprise, about knowing what to say, and when to say it, how to be transparent to the market, but how to manage expectations and do all of those things that public market investors are very, very sensitive to. So I think we've seen some footfalls, frankly, along the way, they're unfortunate. And I think what you get with an experienced leadership team that has been in the public markets before his they won't always get it perfect by any stretch, but I think will minimize the, you know, some of the unfortunate things that can happen. You know, when I first took Clearwire Republic, my colleagues and I were, we're on the ground floor of a 4g Wireless opportunity. And, you know, we're the first ones across, not only the US, but seven other countries internationally to deploy next generation 4g wireless networks. And we learned that I learned a ton about that. I mean, I, I spent five years with that company, we ultimately sold it to sprint for $14 billion. And it was a, it was a good outcome for everybody. But we saw what it was like to try and run a public company through the Great Recession, particularly a tech company that was not yet profitable, you know, talk about a roller coaster ride. And so I think being an experienced executive that understands that the sky is not always falling, no matter what the markets are saying, or doing, that there's going to be whiplash, that there's going to be rollercoaster rides, there's gonna be ups and downs, and what the job of a good leadership team is to keep a heavy stamp heavy, steady hand on the tiller, and to not panic and to not freak out, and to be absolutely adamant about being transparent and clear with public investors so that they're not surprised about what's going on. And that's, those are some of the basic principles that I learned from my first two times around, and I intend to stick to that here.

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David Drapkin 26:51

Right. Totally agree. And, and obviously, with some of the DCE backs, a lot of the, you know, the negativity, I would say, from from investors stems from what they view as non transparency or frankly, even being lied to oftentimes, you know, from from some of these companies. So obviously, transparency is key from the investing world. It says a final word and anything else, you want to say you'd like investors to consider about Sarcos.

B

Ben Wolff, CEO of Sarcos Robotics 27:19

You know, I think it's just it's an incredibly exciting time, when you look at new technologies that are being enabled by the same forces that are behind us, you know, if you take a look at what we do, in our business, we have a lot in common with the EDI space, we use electric motors and electric transmissions, we use small compute power that has massive capability, we're using lithium ion batteries to power our machines, none of this would be possible that hadn't been frankly, for all the traction that we saw in technology, advancements in the Eevee space, gotta hand it to Elon Musk, and Tesla for for that. And also in kind of the smartphone space. And what we're seeing with the amount of compute power and very small size, weight and power with low cost, all of that has conspired together in a very positive way to make machines that we're bringing to market possible today that we couldn't have done five years ago. And so I think it's a super exciting time. And again, as I said before, if you believe robotics are gonna play a role in the industrial environment in the future. And you understand that automation can't do everything. Because we humans, we have the ability to make quick decisions with limited information. And that's what's needed in a lot of environments. I'd encourage you to look at us and look at what we do read our risk factors understand the challenges in the businesses, or the opportunities in the business. But ultimately, I think we're in for a great opportunity in front of us. That's second to none. So I'm more excited about this business than any business I've ever been involved with.

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David Drapkin 28:38

Certainly sounds exciting. Really appreciate you taking the time then. I believe the shareholder vote is next week. So

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Ben Wolff, CEO of Sarcos Robotics 28:46

15th

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David Drapkin 28:47

15th September 15. Look out for that. Look out for for sarcos in the public markets and their exciting journey ahead. So Ben, thank you again for taking the time. Thank you, David. Appreciate it.