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# Industrial technology market update





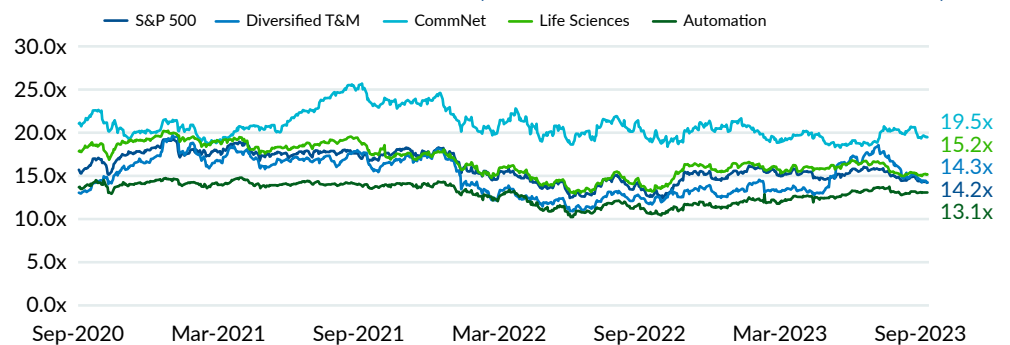
**Nathan Moeri**  
 Managing Director  
 Investment Banking



## Test & measurement and industrial automation sector update

Valuations across the Test & Measurement and Industrial Automation (TM&IA) sector remain under pressure. Currently, the sector is trading below the 5-year average in terms of EV/EBITDA and well below 1Q2021 highs.

**CHART 1: VALUATION PERFORMANCE (SEPTEMBER 2020–SEPTEMBER 2023)**

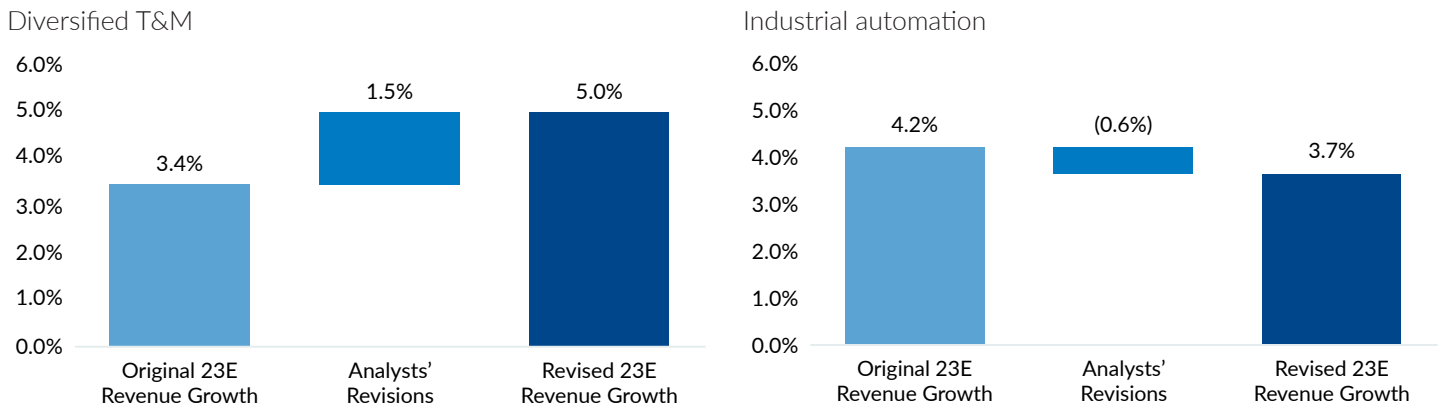


Source: CapitalIQ. Past performance is not indicative of future results. Please see page 6 for important information.

That said, analysts' growth expectations have revised up for the Test & Measurement sector compared to growth targets set at the beginning of the year. Revenue growth for 2023E at the beginning of the year was expected to be 3.4% on average. Analysts have revised growth expectations up to 5.0% for the year, in line with the long-term average. Growth expectations for the Industrial Automation sector, however, have continued to be revised downward from 4.2% at the beginning of the year to 3.7% going into Q4. Backlogs for system integrators and OEMs remain challenged compared to last year due to more conservative capital expenditure activity. This has put more of an emphasis on complementary revenue streams such as parts, service and software. Long-term, macro trends remain intact across the automation sector, which will accelerate a rebound once the economic backdrop begins to improve.



CHART 2: SECTOR GROWTH RATES AND ANALYST REVISIONS



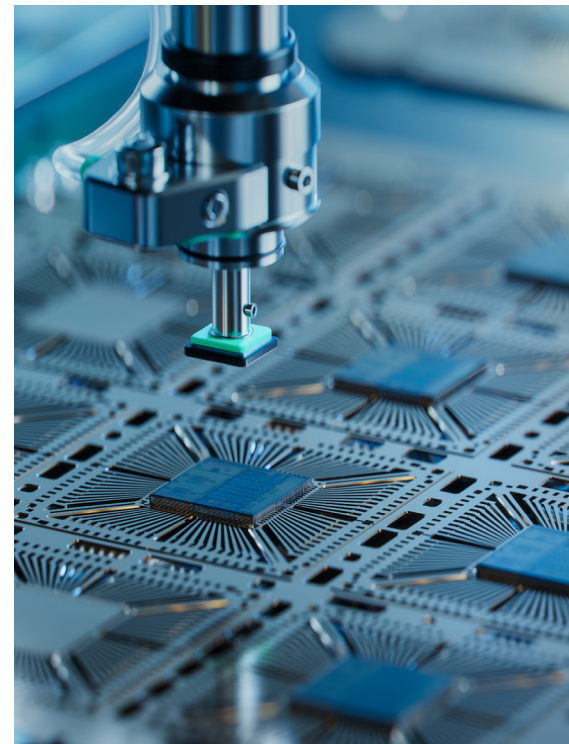
Source: S&P Capital IQ.

## Spotlight: Industrial automation and nearshoring

The COVID pandemic exposed the risk of supply chain concentration, particularly offshore. While offshoring has buttressed company profits and shareholder value for more than half a century, many firms are now wondering if there's a better way – one that allows them to shorten supply chains and reduce the potential for major interruptions caused by political strife, global weather events or other exogenous factors.

The challenge is how to bring manufacturing closer to home while maintaining the profitability that cheaper overseas labor has underpinned for many years. Is industrial automation a realistic solution? Are firms using industrial automation to bring manufacturing nearshore and shorten supply lines while maintaining profitability? In this spotlight, we ask three central questions to explore the topic:

- How much manufacturing still occurs in the US?
- Is there enough affordable labor available locally to bring more manufacturing nearshore?
- In the absence of available labor, how can firms achieve the benefit of nearshoring while hitting productivity and profitability targets?



## 1. How much manufacturing still occurs in the US?

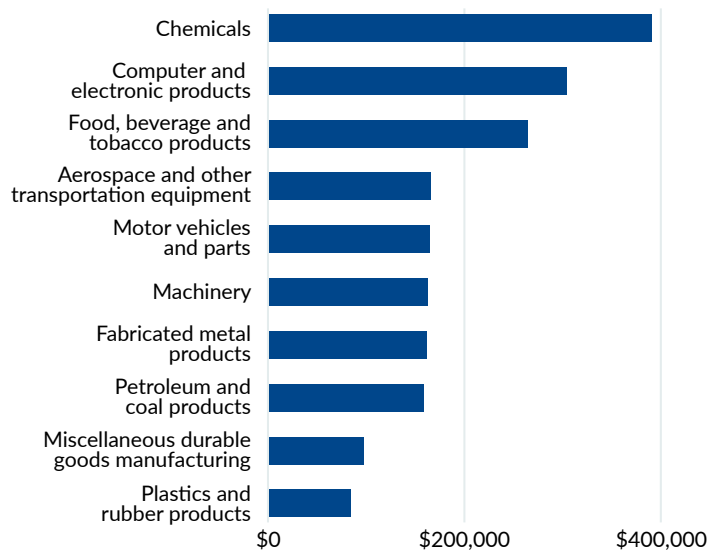
Quite a bit. Although overtaken as the world’s most prolific manufacturer by China in 2010, the US remains a global manufacturing powerhouse. It accounts for 16.6% of the global manufacturing economy, more than the next three countries combined:<sup>1</sup>

- China: 28.4%
- United States: 16.6%
- Japan: 7.2%
- Germany: 5.8%
- India: 3.3%

In addition, the US’s manufacturing base is extremely diverse:

**CHART 3: TOP 10 UNITED STATES MANUFACTURING SECTORS | 2021**

(in millions of dollars)



Source: National Association of Manufacturers.

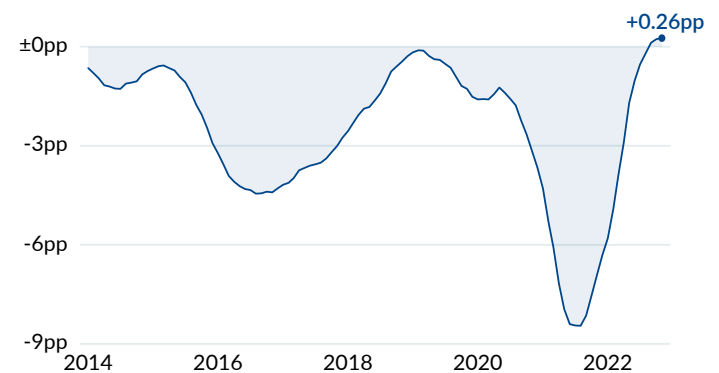
The recently passed CHIPS and Science Act (CHIPS Act) signed into law by President Biden last August is set to inject another \$52.7 billion in domestic semiconductor manufacturing:

Program	Appropriation <sup>2</sup>
Manufacturing Incentives	\$39 billion
R&D	\$11 billion
Other	\$2.7 billion
<b>Total</b>	<b>\$52.7 billion</b>

The total manufacturing output for the US in 2021 was \$2.5 trillion,<sup>3</sup> and US manufacturing growth recently outpaced rest of world. Much of the rebound is related to energy and COVID (i.e., production of renewable energy equipment and domestic production of medical supplies and pharmaceuticals). Industries with supply chains stretching to the other side of the world remain vulnerable to global disruption, particularly those importing critical components such as semiconductors. For many, nearshoring may be a necessary alternative assuming they can find a way to do so while maintaining revenue growth and productivity.

**CHART 4: DIFFERENCE BETWEEN US AND GLOBAL YOY MANUFACTURING GROWTH**

12-month moving average, in percentage points  
Monthly | January 2014–November 2022

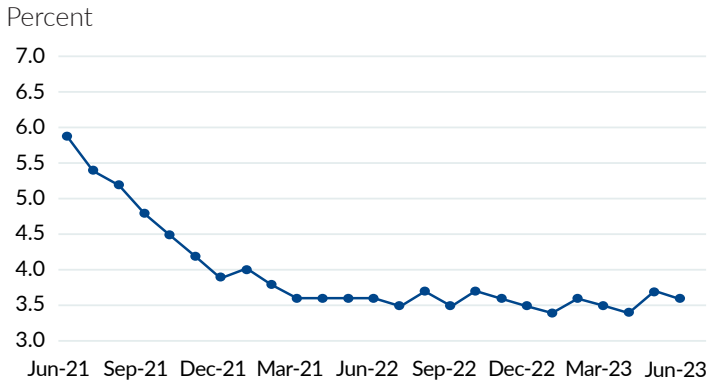


Source: Atlantic Council GeoEconomics Center | Chart: Madison Dong/Axios Visuals.

## 2. Is there enough labor available locally to bring more manufacturing nearshore?

It seems unlikely. Unemployment in the US has consistently fallen since June 2021. A slow recovery from COVID is only part of the story. Labor force participation has been on a downward trend for decades due to an aging population, among other factors.

**CHART 5: UNEMPLOYMENT RATE, SEASONALLY ADJUSTED | JUNE 2021-JUNE 2023**



Source: Bureau of Labor Statistics.

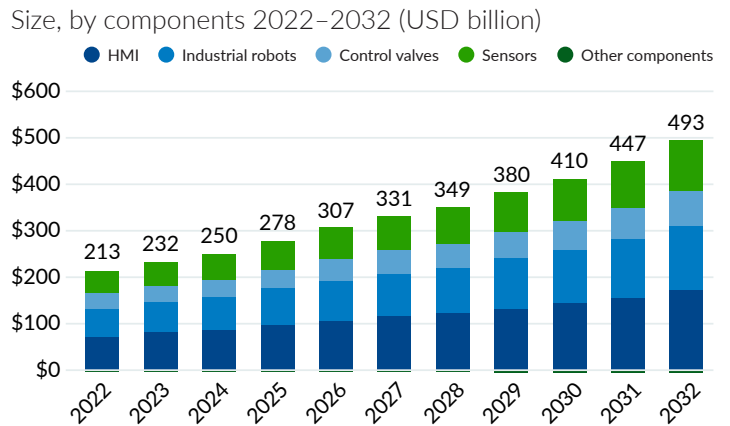
From a purely hourly wage standpoint, Mexican labor could supplant labor from overseas. For example:

- China: US \$6.50/hour in 2020, a growth rate of over 12 percent from 2019.
- Mexico: US \$4.82/hour, a growth rate of just over 3 percent from a year prior.<sup>4</sup>

## 3. In the absence of available labor, how can firms achieve the benefit of nearshoring while hitting productivity and profitability targets?

Industrial automation appears poised to fill the labor void for US firms that want to bring manufacturing closer to home. Investment continues to be a major contributor to achieving productivity goals and providing greater supply chain resilience. The global industrial automation market was valued at around \$212.6 billion in 2022 and is projected to reach approximately \$493 billion in 2032, growing at a CAGR of slightly above 9.0% between 2023 and 2032.<sup>5</sup>

**CHART 6: GLOBAL INDUSTRIAL AUTOMATION MARKET**



Source: Bureau of Labor Statistics.

The Robotic Process Automation (RPA) market is expected to grow from \$3.10B in 2023 to \$11.37B by 2028, at a CAGR of 29.7% during the forecast period (2023–2028).<sup>6</sup> RPA adoption is increasing across organizations of all sizes in pursuit of increased ROI and productivity.



## Summary: A balance of pitfalls and opportunities

The wakeup call that the pandemic delivered to companies regarding their tenuous global supply chains will certainly cause more businesses to at least consider bringing operations closer to home. By automating processes whenever possible, companies have the opportunity make that happen without sacrificing profitability.

With labor shortages and wage rates increasing, the ROI and payback metrics for automation equipment becomes more compelling. In some cases, available labor is not sufficient to maintain operations and automation is required to support critical functions.

However, dismantling long-standing supply chains and reforming them nearshore is a time- and capital-intensive process that firms will have to carefully plan to avoid disruptions. Most likely, the most efficient business model will be a hybrid of nearshoring and offshoring. That process seems to have already begun.<sup>7</sup>

- Taiwan Semiconductor Manufacturing Co is building two new plants in Phoenix, AZ expected to start production in 2024 and 2026
- Intel has broken ground on a massive new semiconductor facility in Ohio, with production scheduled for 2025
- Samsung is building a new semiconductor plant in Taylor, Texas, the company's largest investment in the US to date

It may take time, but nearshoring continues to gain momentum, and industrial automation will play a big part in it.

Mexico also has the benefit of proximity to the US. But China offers hard-to-replace advantages, including manufacturing expertise, infrastructure and well-developed upstream and

downstream supply chains.

Additionally, a Gartner survey of 300 supply chain SME professionals in the US showed that 88% of small to medium-sized enterprises have switched to suppliers closer to home. "Tech investments are up: 90% report plans to increase or maintain their investment in emerging technologies," says the report.<sup>8</sup>

Over 80% of executives believe emerging technologies — AI, machine learning, system integration, autonomous robots and the cloud — will transform their business over the next decade.<sup>9</sup>

## M&A Outlook


Overall, the M&A environment has improved compared to 1H23. M&A pipelines for strategic buyers remain active as they continue to utilize M&A as a strategic growth driver. Given the lower M&A activity YTD in 2023, expectations are high for the 2024 M&A climate. The exits that many believe would have come to market in 2023 are now expected to come to market in early 2024.


Transaction activity in the automation sector will be dictated by the rebound in performance measured by improved backlogs and near-term demand for new automation projects.

We believe M&A activity across the T&M sector will remain consistent. Financial performance has largely remained stable as T&M solutions tend to be mission critical in nature and are prioritized through cycles. Some T&M end markets will experience headwinds but overall we expect the sector will exhibit continued resilience.

## Selected Mesirow advised M&A transactions


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## Mesirow Advises National Presort, L.P. on its Sale to Duravant

### Mesirow acted as the exclusive financial advisor to National Presort, L.P. on its sale to Duravant LLC.

NPI, based in Dallas-Fort Worth, Texas and founded in 1977, has a 45-year history of innovating automated sortation solutions. In 2007, NPI leveraged decades of industry expertise to engineer new automated sortation solutions for difficult-to-handle polybags and irregularly shaped parcels, ideally positioning the Company for the global rise of e-commerce and the increasing demand for rapid fulfillment services. NPI's third generation Xstream sortation system is widely recognized in the automation sector for its industry-leading processing speed and accuracy and is installed globally in e-commerce fulfillment centers, retail distribution warehouses, and courier and postal facilities.

Nathan Moeri, Managing Director of Mesirow Investment Banking, said, "We were honored to work with NPI on this transformational transaction. NPI is a leader in automated mail and parcel sortation solutions. The Company's innovative portfolio of solutions serve as an excellent complement to Duravant's material handling portfolio. We look forward to NPI's continued growth in the e-commerce and distribution space under Duravant's leadership."

"NPI has a long history of innovation in letter sortation and has seen tremendous growth in the e-commerce and distribution space with the development of our highly differentiated parcel sortation systems," said Brent Daboub, President of NPI. "Mesirow identified the ideal buyer for NPI in Duravant, and this partnership will enhance our ability to deliver value-added solutions to our growing list of customers."

SELL-SIDE ADVISOR

**NPI**

HAS BEEN ACQUIRED BY

**DURAVANT**  
INNOVATION THAT WORKS.

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To learn more, visit [mesirow.com/investmentbanking](https://mesirow.com/investmentbanking).

## Contact us

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1. Source: World Population Review. | 2. Source: Carnegie Endowment for International Peace. | 3. Source: National Association of Manufacturers. | 4. Source: China Briefing, "Reshoring from China to Mexico – How prevalent is it really?" | 5. Source: Globe Newswire. | 6. Source: Mordor Intelligence. | 7. Source: ManufacturingDive.com. | 8: Source: Supplychaindigital.com, Gartner, Capterra: <https://supplychaindigital.com/supply-chain-risk-management/nearshoring-happening-faster-than-expected-says-gartner>. | 9. Protiviti, "The Future of Work": [https://images.learnmore.protiviti.com/Web/Protiviti/%7B-52816f0c-811e-4197-881f-83d52bd94318%7D\\_VISION\\_by\\_Protiviti\\_Future\\_of\\_work\\_highlights.pdf](https://images.learnmore.protiviti.com/Web/Protiviti/%7B-52816f0c-811e-4197-881f-83d52bd94318%7D_VISION_by_Protiviti_Future_of_work_highlights.pdf)

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