
Industrial technology sector report

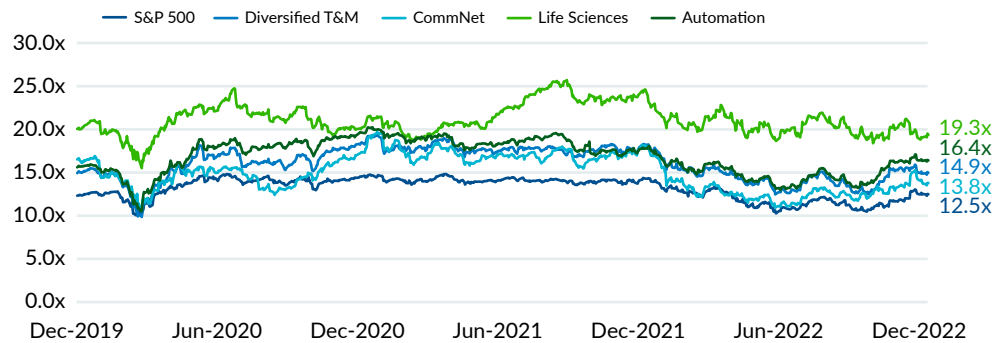


Nathan Moeri
 Managing Director
 Investment Banking

The TM&IA sector continued to outperform the broader market

The uncertain macroeconomic backdrop continues to weigh on equity performance as investors evaluate the depth and duration of a recession. Valuations for the Test & Measurement and Industrial Automation (TM&IA) sector continued to outperform the broader market. However, current valuations remaining below the trailing 3-year average (Chart 1).

CHART 1: VALUATION PERFORMANCE (3 YEARS ENDING 12.30.2022)



Source: CapIQ, as of 12.30.2022. Past performance is not indicative of future results. Please see page 6 for important information.

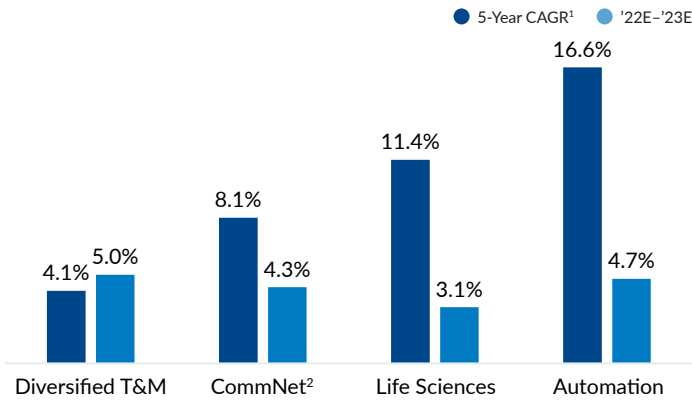
On average, supply chain challenges have modestly improved. However, end product lead times remain extended as critical components required to complete projects can still delay shipments and conversion to revenue.

Backlogs going into 2023 remain ample, partially because of lengthening delivery times. Nevertheless, order momentum supports revenue and earnings growth in 2023. Revenue across the sector is expected to grow in the mid-to-low single digits. This represents a reduced growth rate compared to the last 5-year CAGR in the double digits. The sector has been able to navigate supply chain challenges and inflationary pressures to maintain, and in most cases, improve gross margins. The critical nature of TM&IA products and solutions has allowed participants to pass most of those costs to the end customer. Looking to 2023, gross margins are expected to remain flat to slightly higher. It must be noted that any benefits expected from lower input pricing may be offset by unfavorable currency impacts as other currencies strengthen against the US dollar.

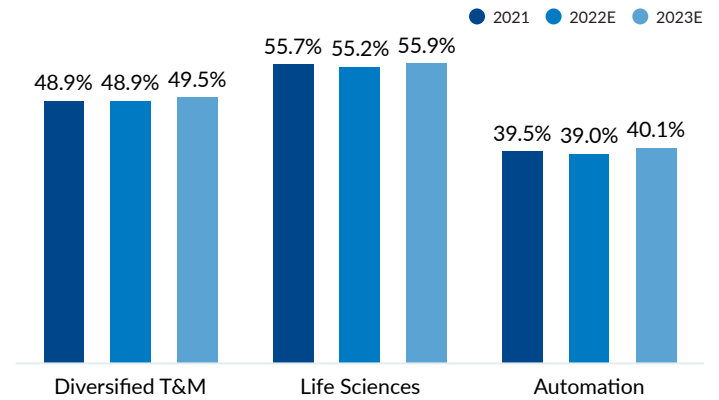


CHART 2: REVENUE GROWTH AND GROSS MARGINS

Historical and Projected Revenue Growth



Historical and Projected Gross Margins



Source: S&P Capital IQ. | 1. Compound Annual Growth Rate from 2017 - 2022E. | 2. CommNet excluded due to insufficient projected gross margin data.

While near-term economic growth may be uncertain, macro trends support continued long-term growth in the TM&IA sector

Long term macro trends within the sector remain intact. We believe end users will continue to prioritize R&D and new product development activities to position themselves for long term growth, as R&D expenditure is a primary growth driver for test and measurement equipment and services. Tailwinds from increased R&D expenditures across a variety of industries helped produce a CAGR of 5.5% per year over the last 12 years.¹

TM&IA sector macro trends and growth drivers



Continued regulatory and consumer emphasis on environmental impact, energy conservation and sustainability across all markets



Increased use of additive manufacturing and advanced materials technology across aerospace, ground transportation, energy and structures markets



Rapidly changing engineering increases product complexity and performance requirements



Labor shortages to drive increased reliance on robotics, automation and manufacturing complexity; the Industrial Automation market is expected to grow at a CAGR of 12%+ through 2026



Demand for faster and more efficient land and air transportation systems



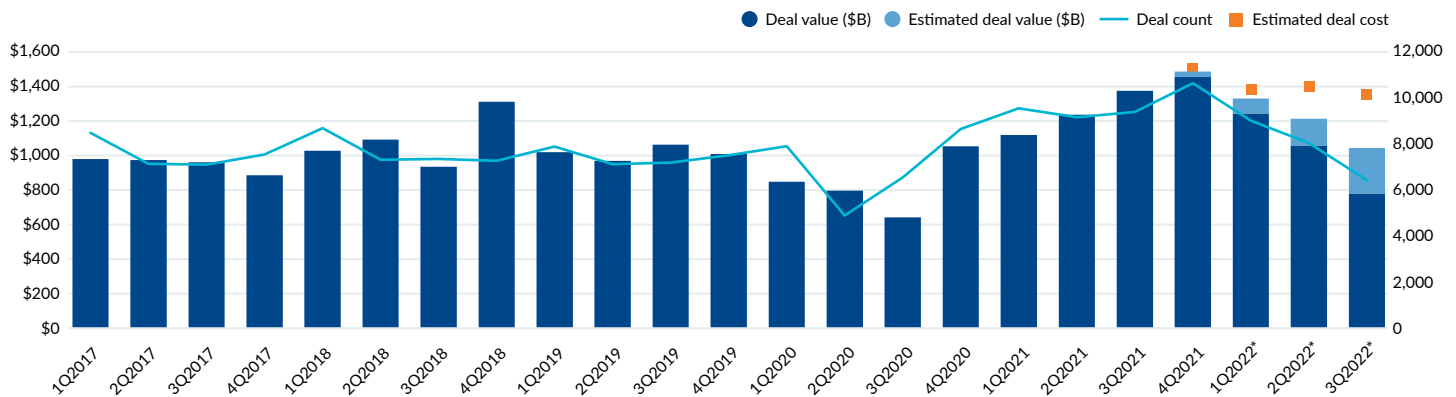
All major OEMs have announced significant new vehicle launches. Electric vehicles, on a unit basis, are projected to grow at a CAGR of 20%+ through 2027

1.PWC Strategy and Global Innovation 1000 Study

M&A overview and outlook for 2023

M&A activity has continued to trend down from the recent peak in Q4 2021 (Chart 3). The cost of debt financing has obviously been one of the biggest factors in curbing activity as investors have become accustomed to a historic low interest rate environment. Additionally, lenders tightened new loan issuance in 2H 2022 as they seek more stability in 2023. Despite that, strategic buyers have continued to remain active, focusing on add-ons and tuck-ins to existing business lines. Larger transactions have tended to be delayed as management teams focus on internal initiatives to ensure their own business and portfolios are well insulated from a potential recession in 2023.

CHART 3: GLOBAL M&A ACTIVITY BY QUARTER



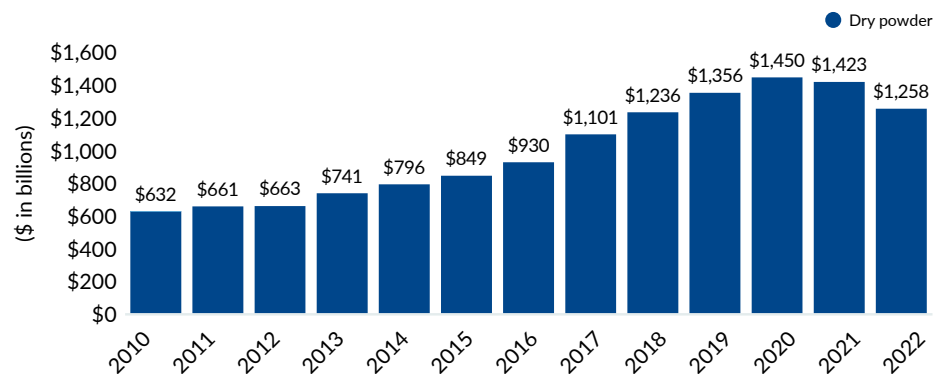
Source: Pitchbook. As of 9.30.2022.

As we look to 2023, we expect overall M&A activity to continue to normalize compared to the torrid pace of 2020 and 2021.

As strategic buyers gain visibility into the depth and duration of a potential cycle, we believe they will continue to use their strong balance sheets and M&A as tools to accelerate growth.

Financial sponsors have raised significant capital, which currently stands at \$1.2 trillion of dry powder to execute transactions (Chart 4).

CHART 4: FINANCIAL SPONSORS STILL HAVE PLENTY OF DRY POWDER IN RESERVE



Source: Pitchbook

Selected Mesirov advised M&A transactions

Mesirov Advises Adcole, LLC on its Sale to Management and a Private Strategic Partner

- Adcole, LLC is a leading designer and manufacturer of industrial metrology products that are used in high-precision, tight tolerance test and measurement applications
- Mesirov acted as Adcole's exclusive financial advisor on its sale to Management and an undisclosed strategic partner

SELL-SIDE ADVISOR

ADCOLE

a portfolio company of

ARTEMIS

HAS BEEN ACQUIRED BY

**Management and a
Private Strategic Investor**



Dedicated advisor to the industrial technology sector

Mesirow Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated Industrial Technology team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

To learn more, visit mesirow.com/investmentbanking.

Contact us

Nathan Moeri

312.595.6502

nathan.moeri@mesirow.com

1. The Standard and Poor's 500 (S&P 500), is a stock market index tracking the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices.

Diversified T&M Index: AMETEK, Inc. (NYSE:AME), ESCO Technologies Inc. (NYSE:ESE), FARO Technologies, Inc. (NASDAQ:FARO), Fortive Corp. (NYSE:FTV), Hexagon AB Class B (STO:HEXA-B), Itron, Inc. (NASDAQ:ITRI), Landis+Gyr Group AG (SIX:LAND), MKS Instruments, Inc. (NASDAQ:MKSI), National Instruments Corporation (NASDAQ:NATI), Oxford Instruments plc (LSE:OXIG), Sensata Technologies Holding PLC (NYSE:ST), Spectris plc (LSE:SXS), TE Connectivity Ltd. (NYSE:TEL), Teledyne Technologies Inc. (NYSE:TDY), Teradyne, Inc. (NASDAQ:TER), Xylem Inc. (NYSE:XYL).

Life Sciences T&M Index: Agilent Technologies, Inc. (NYSE:A), Becton, Dickinson and Company (NYSE:BDX), Bio-Rad Laboratories, Inc. (NYSE:BIO), Bio-Techne Corporation (NASDAQ:TECH), Bruker Corporation (NASDAQ:BRKR), Danaher Corporation (NYSE:DHR), Mesa Laboratories, Inc. (NASDAQ:MLAB), Mettler-Toledo International Inc. (NYSE:MTD), PerkinElmer, Inc. (NYSE:PKI), Sartorius AG (FWB:SRT), Thermo Fisher Scientific Inc. (NYSE:TMO), Waters Corporation (NYSE:WAT).

Communications / Network T&M Index: Advantest Corp. (TSE:6857), Anritsu Corporation (TSE:6754), Keysight Technologies Inc. (NYSE:KEYS), NetScout Systems, Inc. (NASDAQ:NTCT), Spirent Communications plc (LSE:SPT), Viavi Solutions Inc. (NASDAQ:VIAV).

Industrial Automation Index: ABB Ltd. (SIX:ABBN), ATS Automation Tooling Systems Inc. (TSX:ATA), Cognex Corporation (NASDAQ:CGNX), Emerson Electric Co. (NYSE:EMR), FANUC (TSE:6954), Honeywell International Inc. (NYSE:HON), Keyence Corporation (TSE:6861), KION GROUP AG (FWB:KGX), Lincoln Electric Holdings, Inc. (NASDAQ:LECO), OMRON Corporation (TSE:6645), Rockwell Automation, Inc. (NYSE:ROK), Schneider Electric SE (Euronext:SU), Siemens AG (FWB:SIE), Yaskawa Electric Corporation (TSE:6506), Yokogawa Electric Corp. (TSE:6841).

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc., © 2023, Mesirow Financial Holdings, Inc. All rights reserved. Mesirow does not provide legal or tax advice. Securities offered by Mesirow Financial, Inc. member FINRA, SIPC. Some information contained herein has been obtained from sources believed to be reliable, but is not necessarily complete and its accuracy cannot be guaranteed. Any opinions expressed are subject to change without notice. It should not be assumed that any historical market performance information discussed herein will equal such future performance. This report is for information purposes only, and should not be considered a solicitation to buy or sell any security.