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# Industrials sector report



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# Test & measurement and industrial automation sector update

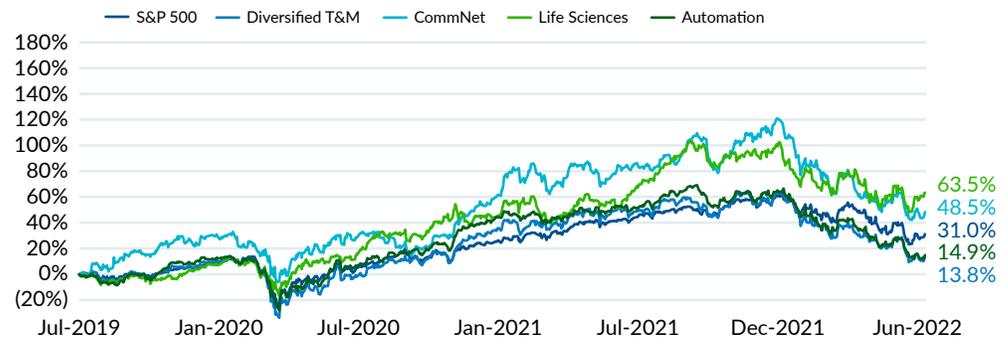
## Sector trading multiples below 3-year average

Equity returns and valuations across the test & measurement and industrial automation (TM&IA) sector have outperformed the broader market since the early-pandemic trough.

However, equity valuations across the sector had declined from late 2021 highs:

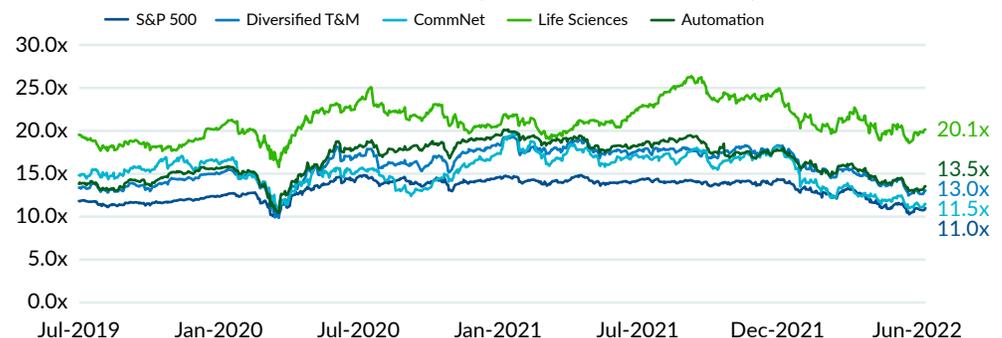
- The sector average EV/NTM\* EBITDA multiple declined 3.1x compared to the three-year average.
- The S&P 500 EV/NTM EBITDA multiple declined 2.2x compared to the three-year average.

**CHART 1: EQUITY PERFORMANCE (JULY 2018–JULY 2022)**



Source: CapIQ, as of 7.8.2022. Past performance is not indicative of future results. Please see page7 for important information.

**CHART 2: VALUATION PERFORMANCE (JULY 2019–JULY 2022)**



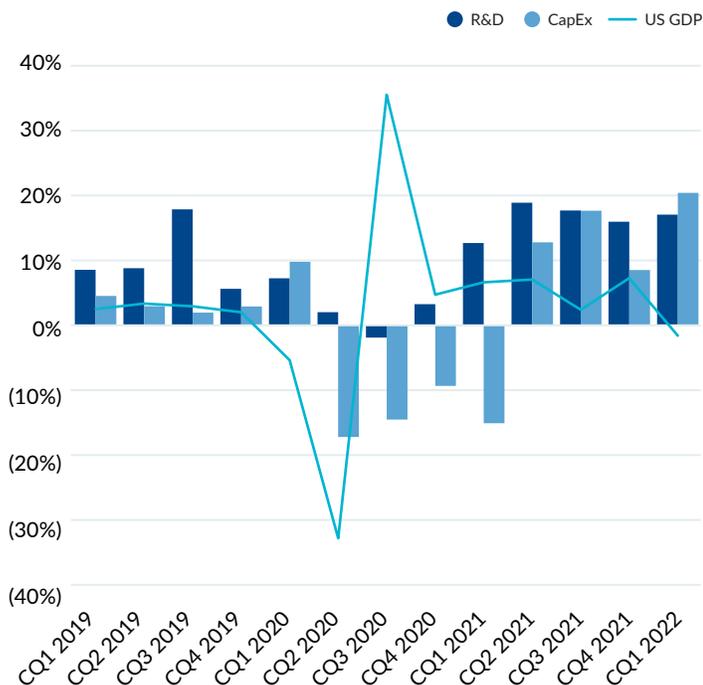
Source: CapIQ, as of 7.8.2022. Past performance is not indicative of future results. Please see page7 for important information.

\*NTM = next twelve months

## We expect more resilience for automation solutions compared to previous cycles

There is a lot of angst in the market around a potential recession, with a range of views in terms of timing and severity. As we've noted in past reviews, TM&A demand is largely tied to R&D capital expenditure across end markets and customers. Therefore, while sector earnings have been impacted by global economies over shorter periods, they tend to be driven higher in the long run by overarching secular forces. This is unlike equipment purchases, which are often pushed off as businesses prioritize mission-critical operating expenses. In contrast, companies tend to maintain their R&D spending, particularly for projects that they believe will contribute to organic growth and position them to benefit – both as demand normalizes and for the long-term.

CHART 3: S&P 500 QoQ GROWTH (2019–CURRENT)



Source: CapIQ, as of 3.31.2022. Past performance is not indicative of future results.

Automation solutions are at an inflection point and are expanding their reach and influence. Automation solutions once concentrated in highly cyclical markets like automotive are now moving into more corners of the economy, from e-commerce warehouses to food processing plants. Industries like life sciences, pharmaceutical and biomedical companies have a long-term view, and we believe they will continue to execute on plans that transcend short-term changes in the business environment.

In addition, adoption for automation solutions has accelerated in recent years, driven primarily by commercial viability, macroeconomic factors, and technology advances:

### COMMERCIAL VIABILITY

- Sharp declines in the cost of critical sensing, computing and standardized software operating systems
- Rise in functionality, accuracy, flexibility, and reliability aided by lower-cost edge and cloud computing
- Capture of big data enables machine learning, deep learning, and predictive analytics

### MACROECONOMIC FACTORS

- Labor force shortages limiting long-term sustainable economic momentum and creating wage pressures in skilled labor where productivity and better equipment must pick up the slack
- \$8 trillion dollars of additional investment could be spent on automation technologies for U.S. companies to achieve productivity gains through 2030
- In more advanced economies, labor force growth has been weakening. In the U.S., labor force hit only 0.5% growth / annum in 2020 (vs. the peak 2.6% in the 1970s)
- Localization of distribution logistics are set to enable quicker delivery and shorter order-to-delivery times

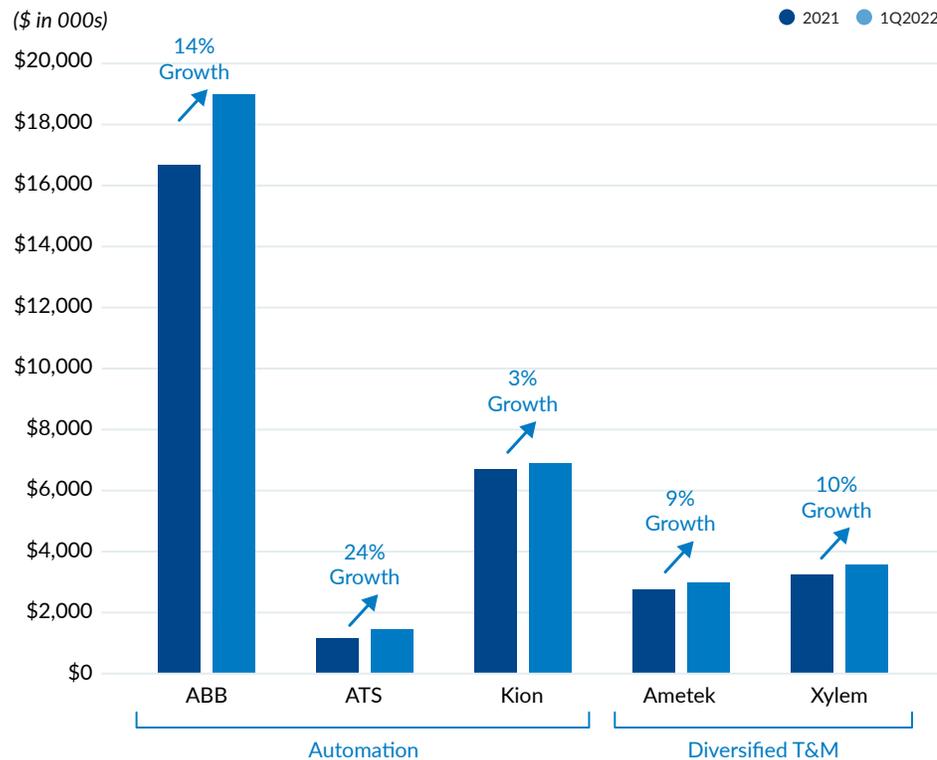
### TECHNOLOGY ADVANCES

- Emergence of advanced machine vision that use cameras, LIDAR, and infrared sensors to enable faster but safe collaborative applications
- Proliferation of 5G wireless communications that link robotic devices with real-time computing to enable fully dynamic integrated performance functionality

### Backlogs continue to grow

Through 1Q2022, backlogs in the TM&IA sector continued to increase from year end 2021. Strong order flows are a large contributor, but supply chain challenges are still impacting companies' ability to complete projects and convert backlog to revenue. Management teams remain cautiously optimistic for 2022 given secular trends, financial performance, and order momentum. However, they cite a challenging environment with supply issues, the war in Ukraine, China's COVID policy and persistent inflation that is apparent in the PPI numbers.

CHART 4: ORDER BACKLOG (2021 VS. 1Q2022)



Source: CapIQ, as of 3.31.2022.



Consensus revenue growth forecasts across the sector have decreased for 2022 compared to estimates published earlier in the year; sector revenue is expected to grow low-single digits.

A lot has transpired since the 1Q22 earnings release with increased volatility across the broader market. We will closely monitor the upcoming 2Q2022 earnings season and focus on overall demand, order flows and changes to management outlooks for the year.

CHART 5: PRODUCER PRICE INDEX

(Month-over-month % change)



Source: U.S. Bureau of Labor Statistics.

### Despite a recent slowdown in M&A, overall activity remains above historical levels

As shown in the chart below, there was a noticeable drop in overall M&A activity in 1Q2022 compared to the same period in 2021. We believe this is a reversion to a more normal level after the surge of activity – current activity remains higher than pre-COVID levels.

As mentioned above, valuations in the public sector have meaningfully adjusted downward. However, private company multiples typically lag public markets as private business owners can delay transactions until more favorable market conditions emerge, which can push M&A activity out further.

Strategic buyer acquisition pipelines remain strong across the TM&IA sector with ample balance sheet capacity and strong cash flows to support acquisition growth strategies. Strategic buyers continue to focus on long-term strategies utilizing M&A to fill “white space” across solution portfolios, geographic footprint, and end markets.

CHART 6: QUARTERLY GLOBAL M&A ACTIVITY



Source: Pitchbook. As of 3.31.2022.

## Selected Mesirow advised M&A transactions

Mesirow acted as the exclusive financial advisor to MTI Instruments, (“MTI” or the “Company”), a subsidiary of Soluna Holdings, Incorporated (“SHI” or “Soluna Holdings”), on its sale to Vitrek LLC, a strategic buyer in the test and measurement space and a portfolio company of private equity manager Branford Castle Partners, LP.

- Headquartered in Albany, NY, MTI is a US-based manufacturer of precision tools, systems and solutions for clients requiring the precise measurement and control of products and processes
- The Company services a variety of markets, including engine vibration analysis systems for military and commercial aircraft, industrial manufacturing, and production markets as well as the research, design, and process development markets
- The successful transaction highlights Mesirow’s expertise and relationships within the industrial test and measurement markets

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## Featured Mesirow transactions

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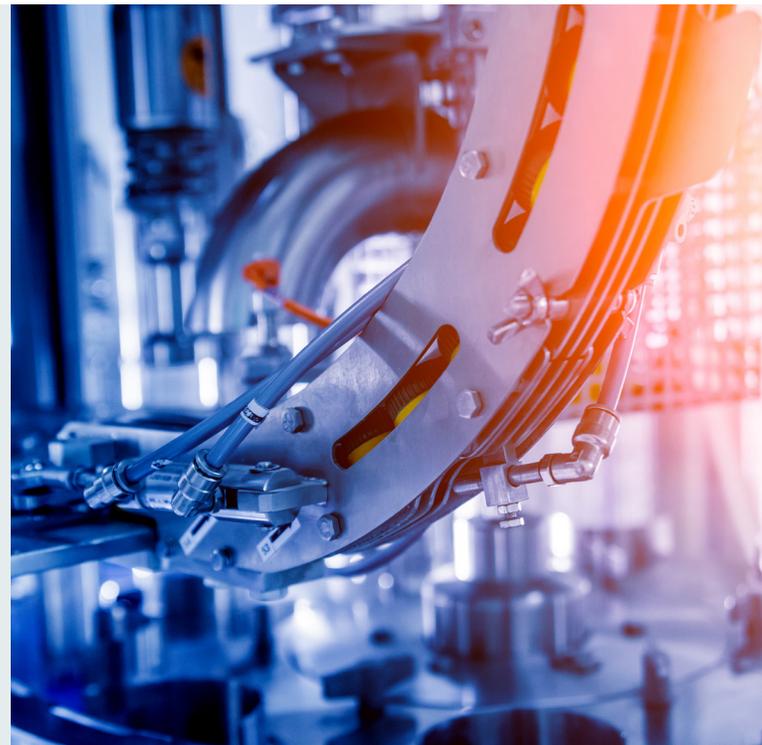
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## Dedicated advisor to the industrial technology sector

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](https://mesirow.com/investmentbanking).

## Contact us

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1. 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:VIIV).

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).

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