

Test & Measurement and Industrial Automation

2020: Fall update

Primary influencers on the sector

Subsequent to the initial impact of COVID-19 shutdowns, test & measurement and industrial automation (TM&IA) equity performance has continued to rebound through 3Q2020 and into 4Q2020 with each of the sector indices trading at or above pre-COVID-19 levels.

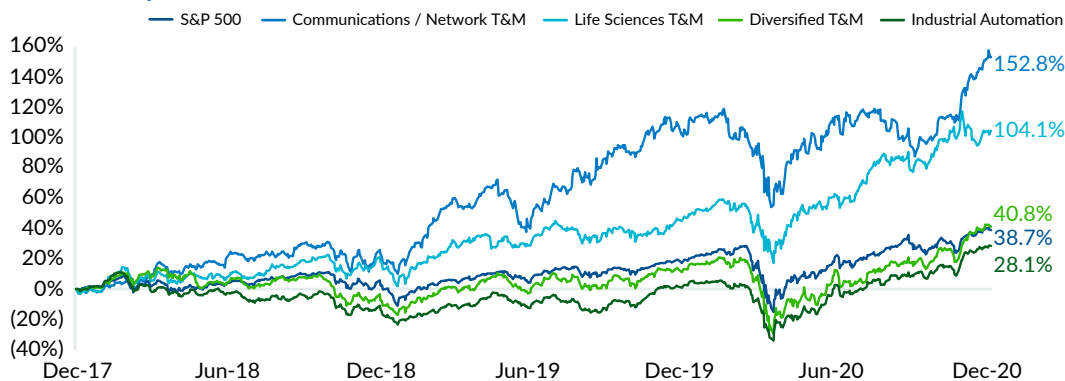


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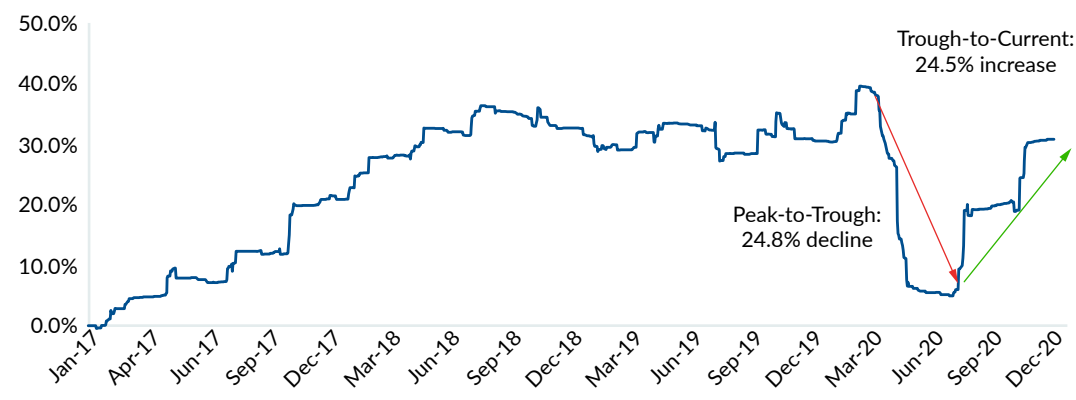
CHART 1: EQUITY PERFORMANCE (2017 - CURRENT)¹



Source: FactSet, as of 12.11.20. Past performance is not indicative of future results. Please see page five for important information.

Earnings visibility and expectations have improved across the sector. Analysts' EBITDA estimates for the Next Twelve Months (NTM) have exhibited a sharp rebound as shown below. At the outset of COVID-19 shutdowns, NTM EBITDA expectations showed a 25% decline but have recovered by 25% from the July trough. Management teams remain optimistic for a sustained recovery in 2021. However, at the time of this writing, there are concerns that the second wave of COVID-19 cases may result in another round of factory shutdowns, causing disruptions across global supply chains.






CHART 2: DIVERSIFIED T&M NTM EBITDA GROWTH



Source: Factset. Note: T&M Diversified Comp Set Indexed to 100 at January 2017 to derive NTM EBITDA Growth over the presented timeframe.

TM&IA-served markets have been impacted by COVID-19 to varying degrees—some end markets have begun to normalize while others will require a prolonged recovery. The below table highlights recent dynamics for selected TM&IA end markets.

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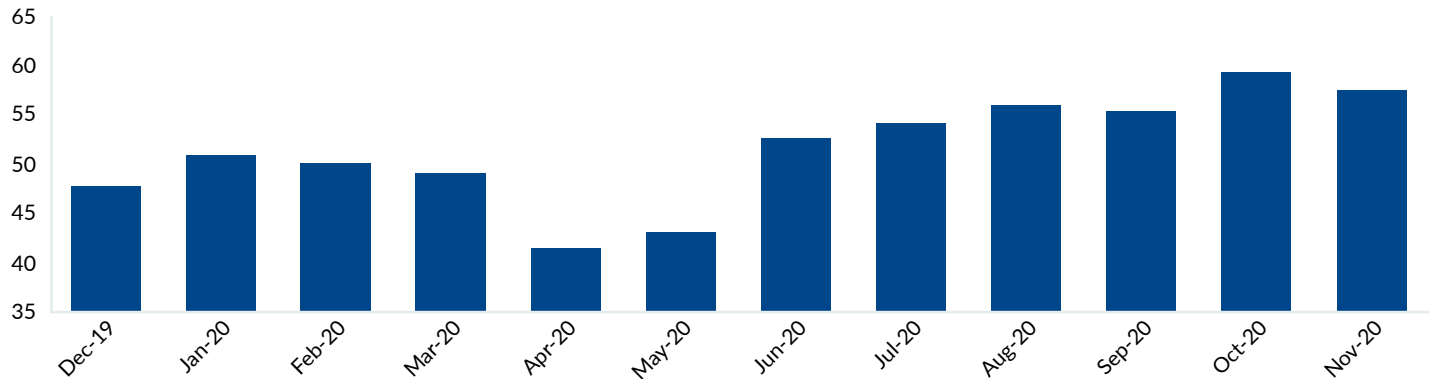
Selected End Market	Recent Dynamics
 Automotive	US passenger vehicle sales are on track for 14M units in 2020, an 18% decline compared to 2019. The original COVID-19-estimated impact on 2020 passenger vehicle sales was a 27% decline
 General Industrial	Manufacturing is showing signs of improvement as the October 2020 ISM PMI exhibited the strongest growth in factory activity since September of 2018
 Energy	O&G markets remain challenged, particularly for segments serving the downstream sector, which has reduced expenditure to preserve liquidity
 Communications	5G rollout continues to drive demand across the design cycle from development to deployment. Additionally, global aerospace & defense modernization continues to drive investment in technology and communications equipment
 Life Sciences	Demand drivers include COVID-19 testing, therapies and vaccines and a recovery in academic and research expenditure. However, elective procedures and routine doctor visits / testing remain low

Indicators to watch

The TM&IA sector is generally influenced by key macroeconomic variables. US Industrial Production increased by 1.1% in October 2020. The US ISM Manufacturing PMI for November 2020 registered 57.5, down 1.8 from October but still an indication of an expansion in the overall economy. The October reading at 59.3 was the strongest growth in factory activity since September of 2018. Manufacturing facilities continue to focus on employee safety while operating in a COVID-19 environment – each month improving efficiency and output despite reconfigured operations.

Manufacturers are evaluating current supply chains to mitigate future disruption experienced during the pandemic. Increasingly, manufacturers concentrated suppliers within few regions, specifically China, which has become more evident during the crisis. There is an increased sense of urgency over supply chain resilience; manufacturers are considering suitable alternatives, such as local sourcing or insourcing. Companies will need to focus on specific areas to make their supply chains more resilient post-pandemic. This dynamic will drive further demand for TM&IA solutions as manufacturers reconfigure operations and shift production across global footprints.

CHART 3: HISTORICAL ISM MANUFACTURING PMI




Source Manufacturing ISM®: Institute of Supply Chain Management.

Select Mesirow advised M&A transactions


Mesirow acted as exclusive financial advisor to Benford Capital Partners, LLC (“Benford Capital”) on the sale of its portfolio company, ENMET, LLC (“ENMET” or the “Company”), to Sagepeak Capital, LLC (“Sagepeak Capital”), a Boston-based private investment firm.

- ENMET is a leading manufacturer of gas detection and chemical sensing technology designed for use across diverse end markets. Equipped with unique engineering and technical capabilities, the Company’s solutions-oriented approach to providing creative gas detection solutions has garnered a diverse, longstanding customer base.
- Benford Capital acquired ENMET in 2014. In partnership with the management team, Benford Capital built the sales team, developed new products and completed the add-on acquisition of Sensora Corporation. With a successful track record of investing with small and mid-size companies, Sagepeak Capital is an ideal partner to support ENMET in the next chapter of growth.


SELL-SIDE ADVISOR



a portfolio company of



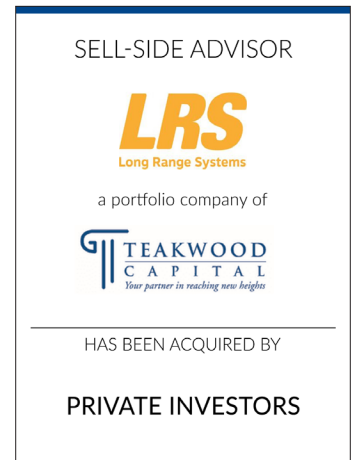
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Select Mesirow advised M&A transactions cont.

Mesirow acted as exclusive financial advisor to Long Range Systems, LLC ("LRS" or the "Company"), a portfolio company of Teakwood Capital, on the sale of substantially all of its assets to an entity formed by private investors.

- LRS is a leading provider of operations management solutions which include on-site hardware and cloud-based software solutions designed to automate, monitor and manage business operations. The Company's solutions, including paging systems, messaging, indoor location / positioning systems, track / trace systems, waiting room management and complementary software applications, are designed to improve customer workflow productivity, workplace safety, operating efficiency and enterprise visibility. LRS serves a variety of end markets, covering education, fitness, gaming, healthcare, hospitality, industrial, logistics/warehousing, retail and restaurants.
- The partnership with the Company's new investors will support LRS' next phase of growth



M&A Overview and outlook

Strategic buyers within the TM&IA sector remained active in 2020, albeit at a slower pace. The most active consolidators within the TM&IA comp universe completed 68 transactions YTD 2020 compared to 89 in 2019. Strategic buyers noted that their M&A pipelines have continued to build throughout 2020 and dialogue with targets has picked up in 3Q2020 and 4Q2020.

Financial buyers have dedicated resources and capital specifically to pursue investments in TM&IA given its attractive business and financial characteristics. However, many investors have noted that 2020 has largely been focused on add-on acquisitions to existing investments with fewer opportunities to complete a platform investment in the sector this year.

Acquirers continue to reward businesses with leadership market positions focused on mission critical applications in growing end markets. Among other factors, a scarcity of actionable, high quality TM&IA targets of meaningful scale has sustained valuation multiples at competitive levels achieved prior to COVID-19.

Despite a challenging 2020, M&A has remained a salient factor within the TM&IA sector. As the landscape improves, we believe M&A activity across the sector will accelerate in 2021.

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.

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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), MTS Systems Corporation (NASDAQ:MTSC), 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), EXFO Inc. (NASDAQ:EXFO), 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), FLIR Systems, Inc. (NASDAQ:FLIR), 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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