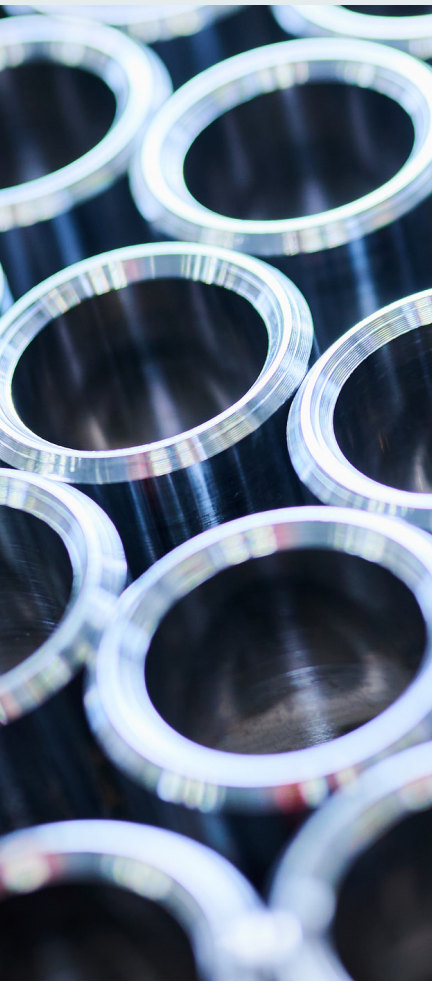
Mesirow

Industrial Technology Market Update

Nathan Moeri
Managing Director
Investment Banking

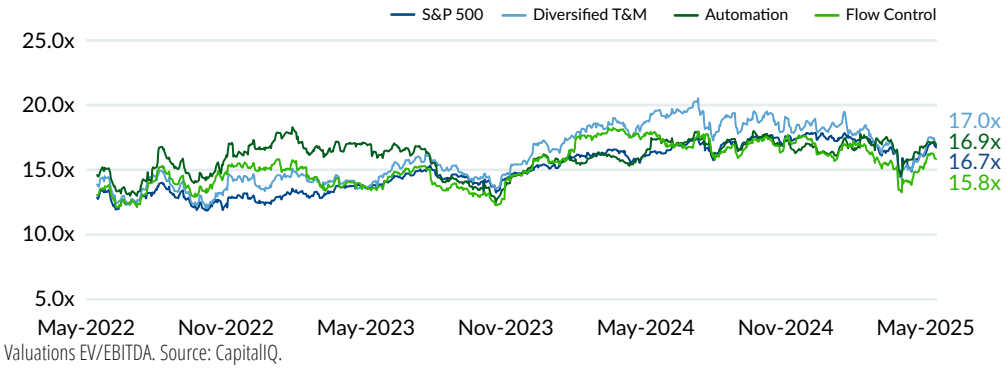


The TM&IA sector continued to outperform the broader market

Valuations in the Test & Measurement and Industrial Automation (TM&IA) sector have rebounded along with the broader market since the Liberation Day sell off. However, each of the indices are trading below the three-year average EV/EBTIDA multiple by approximately 0.5x compared to +1.7x for the S&P 500.

The TM&IA sector has held its own from a valuation standpoint

CHART 1: VALUATION PERFORMANCE (MAY 2022 – 2025)

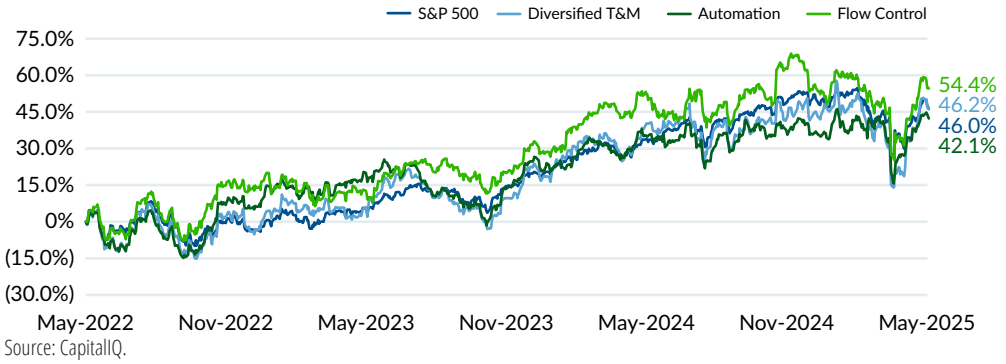


Valuations EV/EBITDA. Source: CapitalIQ.

Stock price performance for the sector has outperformed the S&P 500 over the last three years largely due to the recent correction of the "Magnificent 7" tech stocks that have regained some ground but not fully recovered from the post Liberation Day volatility (Chart 2).

Select tech names and a heavy tech weighting have driven the S&P 500's performance compared to the Industrial Tech Sector

CHART 2: SHARE PRICE PERFORMANCE (MAY 2022 – 2025)



Source: CapitalIQ.

Past performance is not indicative of future results.

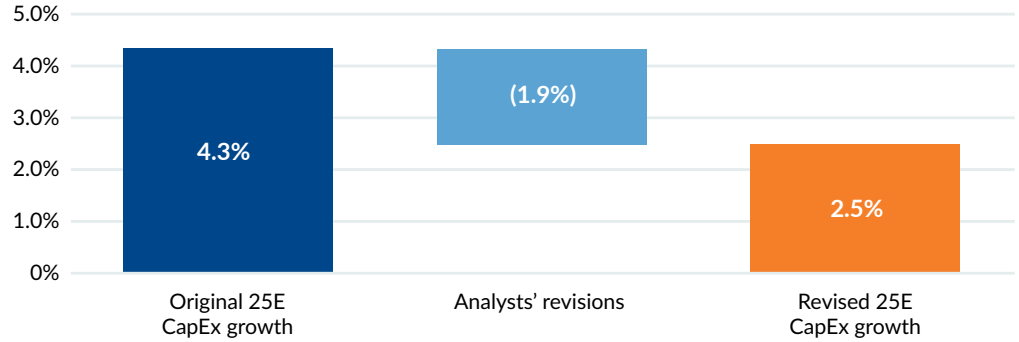
Across the majority of 1Q25 industrial technology earnings calls, management teams have underscored market uncertainty and the lack of visibility into full year earnings. Many teams have removed full year guidance entirely given the fluidity of the environment. However, some teams have offered cautiously optimistic 2Q earnings guidance, citing characteristics that are expected to drive resilience across industrial tech businesses:

- The mission critical nature of many products that make it difficult for customers to defer purchases
- Pricing power given the differentiation of the product and technology set
- Diversity in the supply chains that have been built over the last few disruptions (i.e. first Trump administration, COVID)
- Larger firms also have a global manufacturing footprint that allows them to produce where they sell in many cases.

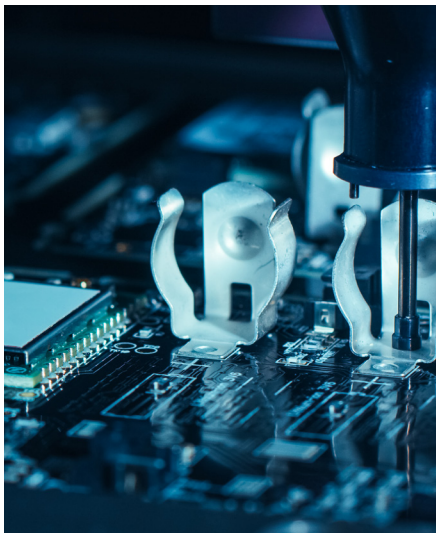
As new economic data is released, which is starting to incorporate post Liberation Day impacts, leading economists are forecasting a recession as the base case. The recent announcements of tariff de-escalation between the US and major trading partners could provide some relief to that scenario, but the stop-start nature of the policy communications makes it impossible for many to plan for the long-term.

As we've previously written, a meaningful driver of demand for industrial technology solutions is R&D spending and capital expenditures. Although many management teams have pulled full year guidance, we can gain some insight by looking at analyst estimates for 2025 R&D expense and capital expenditures, utilizing the S&P 500 Industrials index as a proxy. There is a limit to projected R&D spend data available but as you can see from the chart below, capex spend has been revised downward from the beginning of the year. Similarly, the diversified T&M index and industrial automation index revenue projections have been revised downward from the beginning of the year, pointing to a decline in revenue growth (on average) of 0.4% and 0.5%, respectively—down from already slower expected growth.

CHART 3: **S&P 500 – INDUSTRIALS GROWTH IN CAPEX SPEND**

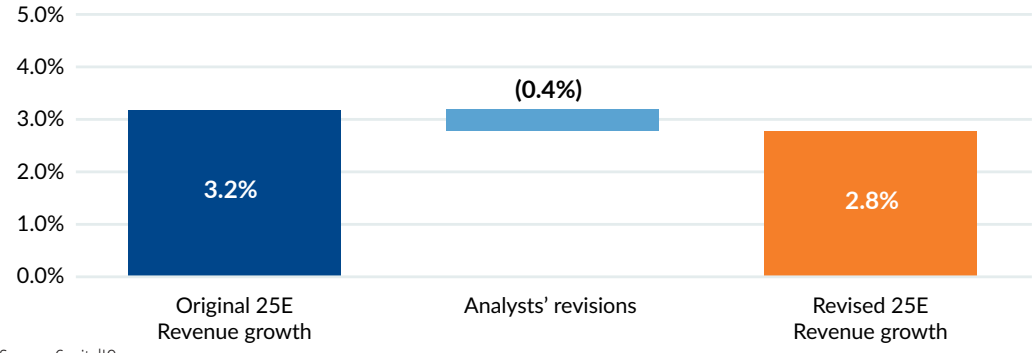


Source: CapitalIQ.



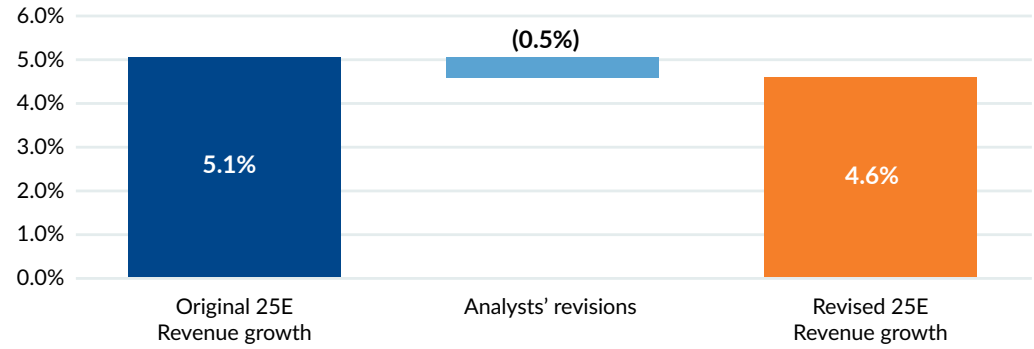
Past performance is not indicative of future results.

CHART 4: DIVERSIFIED TEST & MEASUREMENT



Source: CapitalIQ.

CHART 5: INDUSTRIAL AUTOMATION



Source: CapitalIQ.

Despite near-term uncertainty, larger macro trends underpinning growth across the industrial technology sector remain intact. Some capital investment may experience short term disruption given the broader economic environment. Other investments, such as those for onshoring, may accelerate as manufacturers increase capacity or bring certain activities to the US (i.e. Ford building new large-scale EV and battery plants).

Past performance is not indicative of future results.

Spotlight: Industrial tech "picks and shovels" vital to the data center expansion needed to fuel the AI arms race

The global data center market continues to grow rapidly, driven by multiple factors: surging demand for AI and machine learning, a broad move by enterprises to cloud computing/5G and companies' shift toward outsourcing of data storage and handling.

By 2032, global data center market value is expected to reach $585B, expanding at a CAGR of 11.7% from 2025 levels.

A big chunk of growing demand— estimated at about 70 percent — is for data centers equipped to host advanced-AI workloads. The nature of those workloads is rapidly transforming where and how data centers are being designed and operated.

Demand is also being driven by enterprise companies' desire to outsource their data center needs. Instead of owning and managing their own data center infrastructure, companies can lease space, racks, or even entire rooms within a colocation facility. Businesses get servers, space, power, cooling, and network connectivity in a cost-effective and reliable alternative to building and managing in-house operations.

The key hyperscalers are committing to huge capex budgets going forward, totaling approximately $350 billion in 2025, largely earmarked for increased data center capacity.

In addition, the Stargate Initiative aimed at improving US AI infrastructure will add $500 billion of investment over the next four years. The recently announced $600 billion commitment from Saudi Arabia to investment in the US will add another $100 billion in data centers and energy infrastructure to support advancement in AI.

Hyperscalers	2025 Capex Outlook ($B)	Long-term Capex Outlook	Commentary
Microsoft	$80	Continue investing to capture strong demand singals in FY2026	• Balancing AI training and interference workloads and other use cases such as Xbox, LinkedIn, cloud, etc. • Microsoft expected to deploy capex at slower rate than initially projected in 2025
Google	$75	Progress of capex to depend on demand signals from Google Services, Cloud and DeepMind	• Focused on technical infrastructure, primarily for servers followed by datacenters and networking • Google moving ahead with spend despite tariff policy impact on hardware imports
Amazon	$100	The faster the AWS growth, the more capex required to procure datacenters, hardware, chips and networking gear	• Vast majority of capex spend is on AI for AWS to capitalize on what they view as "one-in-a-lifetime" type of business opportunities • Amazon capex spend in Q1 was approx. $24 billion
Meta	$64–72	Meta believes investing heavily in capex and infrastructure now is going to be a strategic advantage over time	• Capex growth in 2025 reflects increased investment for gen AI and its core businesses, but largely driven by the targeted efforts in its core busiess • Meta revised it estimated 2025 capex spend from $60-$65 billion to $64 - $72 billion
Total	**>$320**		

Source: FactSet, Company reports, RBC Capital Markets. Note: 2025 Capex outlook reflects official 2025 guidance ranges from selective US hyperscalers.

More than chips and software: The data center ecosystem

The burgeoning growth of data centers augers a massive investment opportunity that goes far beyond chip manufacturers and software. The data center ecosystem relies on a vast network of products and services, among them:

- Hardware installation and maintenance
- Managed power distribution
- Perimeter security, including firewalls and virus, malware and ransomware prevention programs
- Network service and connectivity management
- Data storage, backup and archiving
- Managed load balancing to increase uptime

In this spotlight we'll touch on a few the physical, non-software "pick and shovel" areas – cabinet environment, wire/cable and power supply protection – that data centers incorporate and the types of companies that are poised to benefit. Hundreds of these data center support companies exist in a fragmented space that creates a fertile ground for consolidation.

Climate control: Serving the servers

Data center cabinet environmental services involve monitoring and managing temperature, humidity, and airflow within cabinets to ensure optimal performance and to prevent equipment damage or downtime. Cooling systems are critical and are even more so now with AI-driven higher rack densities. Companies that specialize in thermal controls/liquid cooling are likely to see demand for their products soar. Other cabinet climate control applications include those that handle airflow and humidity. In all these cases, effective monitoring relies on sensors, data collection/analysis and timely alerts and notifications.

Cabling: Webs of wire

The data center cable market is far more than just copper wire. Modern data centers require miles of cabling segmented by voltage (high, medium, low), material (optical fiber, copper, aluminum), application (power distribution unit and uninterrupted power supply, HVAC, networking and IT equipment) and function (grounding, sensors, control, etc.).

DATA CENTER WIRE AND CABLE MARKET

Market size in $B

- 2025: $20.9
- 2030: $30.6

Source: Mordor Intelligence

In addition to the variety of products in the wire and cable market, manufacturers are working to develop products that are more efficient, higher performing and more sustainable. It's a semi-consolidated market, featuring numerous global and regional vendors each holding considerable market share, offering the opportunity for partnerships and acquisitions to meaningfully change market dynamics.

Power: Data centers are energy hogs

Data centers use massive amounts of energy. In 2024, global data centers consumed approximately 415 TWh of electricity, representing about 1.5% of the world's total electricity consumption. The International Energy Agency ("IEA") estimates that global data center power demand will double by 2030, largely due to the rapid adoption of AI technologies. That energy must be uninterrupted, requiring complex power management solutions that involve intricate switching systems and backup batteries.

LITHIUM-ION BATTERIES

Valve-regulated lead acid (VRLA) batteries remain a tried-and-true solution for data center battery coverage, given their cost-effectiveness and proven safety record. However, overcharging or undercharging VRLA batteries can damage them or increase their likelihood of premature failure. These drawbacks are part of the reason that data centers are

increasingly turning to lithium-ion batteries, which offer greater energy density, long cycle life and higher efficiency.

These systems require ongoing monitoring and maintenance to ensure the health and safety of the back-up power systems. Companies like NDSL, which Mesirow recently sold to Parameter (see transaction highlight on pg 9), is a leading provider of battery monitoring systems.

POWER SUPPLY INFRASTRUCTURE

The voracious energy requirements of data centers mean they not only need robust power management systems on-site, but also a dependable surrounding infrastructure. To support both growing power demand and fast-approaching mandates for green power sources, substantial improvements are being made to the U.S. electrical grid, partially as result of the Biden-era "Investing in America" infrastructure investment agenda. Batteries will play a large role in backing up municipal power grids as well.

While the pace of investments by hyperscalers and Gen AI players remain a key driver of growth, we do not expect meaningful disruption to weigh on the sector over the next 4–5 years.

Several of the largest vendors supplying the data center markets are projecting growth in the mid-to-low teens.

Electrical OE	Organic Growth Target	Datacenter Growth Outlook	Timeline
Eaton	5–8%	25%	2025
nVent	4–6%	–	2025
Schneider	7–10%	+10%	2027
Legrand	3–5%	+HSD%	2030
Vertiv	12–14%	~10–13%	2029
Average	**6-9%**	**~14%**	

Source: Company reports, RBC Capital Markets

What investors should know

Several factors inherent to the sector can create challenges for certain investors (e.g., those with shorter time horizons), including nonlinear financial performance and the normalization of the growth trajectory after the current "super-cycle" of investment.

Orders and deployments can be large, creating lumpiness in financial performance. Although a solution's price point may vary, orders tend to be tied to new projects which can swing the relizations of earnings, depending on the overall project timeline.

Given the growth profile in the near and medium term, many data center equipment companies are commanding premium valuations. However, some question the sustainability of valuations should growth rates moderate over a longer period of time. Much will depend on a company's ability to expand products and solutions, and provide ongoing support to the expanding installed base being created now. For example, can companies provide software upgrades and preventive maintenance services to ensure uptime of these critical applications? Can they deliver continuous product innovation and better performing solutions to drive the replacement cycle of the installed base?

These are just a few of the industries that data centers rely on. The proliferation of data centers and their associated ecosystems, coupled with the fragmented network of mid-sized companies that provide integral products, creates an ideal environment for financial sponsors to build platforms and strategic buyers to further drive consolidation in the sector.

M&A update and outlook: Wait and see

Many M&A deals have been suspended in this environment, particularly for industries most likely impacted by tariffs or recessionary pressures. Some M&A processes have continued to move forward for industries that are less impacted and businesses with inelastic demand, high recurring revenue or are mission critical in nature. There is certainly a scarcity of value in the market and high quality assets are receiving significant attention from buyers.

Lenders are still supporting deals with credit funds far more active than traditional bank lenders. From an earnings guidance perspective, it is premature to receive new projections from management teams. However, as stated earlier, many management teams have pulled full year guidance during the 1Q earnings announcements.

The equity markets have responded positively to the recent tariff de-escalation announcements, U.S. court ruling to invalidate April 2 tariff announcements and progress towards negotiated deals. Many are hopeful this will reduce the risk of a material downside scenario to global economic activity. While there is still much uncertainty, reduced tensions could provide a pathway for new deals coming to market and increased deal activity in 2H25.

Featured Transaction

NDSL

Sector: Industrial Technology

Client / Target company: NDSL Group

Buyer / Investor: RLE Technologies (n.k.a Parameter)

NDSL is a UK entity with primary operations in Raleigh, North Carolina, providing mission-critical battery monitoring solutions. The Company's products are essential to high-stakes applications in the data center and utility markets, where power failures carry substantial economic, safety, and regulatory risks. NDSL's trusted brands, Cellwatch and Frontier, are well-regarded in the industry for delivering high-quality battery monitoring and power reliability solutions.

SELL-SIDE ADVISOR

NDSL

HAS BEEN ACQUIRED BY

RLE Technologies

a portfolio company of

May River Capital

Recent Industrial Technology Transactions

SELL-SIDE ADVISOR

L&J Technologies

HAS BEEN ACQUIRED BY

CogneSense

a portfolio company of

L2 Capital Partners

SELL-SIDE ADVISOR

BloApCo Since 1933 Over 90 years

a portfolio company of

GenCap America

HAS BEEN ACQUIRED BY

Valesco Industries

DEBT ADVISOR

NVT Group

a portfolio company of

Battery

HAS BEEN REFINANCED BY

Mizzen Capital

and

BridgeBank

SELL-SIDE ADVISOR

NPI

HAS BEEN ACQUIRED BY

Duravant

a portfolio company of

Warburg Pincus

and

The Carlyle Group

SELL-SIDE ADVISOR

ADCOLE

a portfolio company of

ARTEMIS

HAS BEEN ACQUIRED BY

Management and a Private Strategic Investor

SELL-SIDE ADVISOR

mtiinstruments

a division of

SOLUNA

HAS BEEN ACQUIRED BY

VITREK

a portfolio company of

Branford Castle Partners

SELL-SIDE ADVISOR

Clarion

Reducing Risk, Protecting People

a portfolio company of

PROMUS Equity Partners

HAS BEEN ACQUIRED BY

CNL Strategic Capital

sub-managed by an affiliate of

Levine Leichtman Capital Partners

SELL-SIDE ADVISOR

ENMET

a portfolio company of

B·C·P Benford Capital Partners

HAS BEEN ACQUIRED BY

Sagepeak Capital

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.

Other sector concentrations

In addition to Industrial Technology, we are a dedicated advisor to a wide array of middle-market companies and have developed an in-depth expertise in a range of industries, including:

- Aerospace & Defense
- Business Services
- Consumer & Retail
- Distribution & Supply Chain
- Diversified Industrials
- Food, Beverage & Agribusiness
- Healthcare
- Packaging
- Technology & Services

Contact us

Nathan Moeri
312.595.6502
nathan.moeri@mesirow.com

READ MORE INSIGHTS