INDUSTRIAL AUTOMATION Q2 MARKET UPDATE

April to June 2021

BLUE RIVER
FINANCIAL GROUP

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By: **Bryan Berent**
Managing Partner

Completed Deal Counts Near Record Levels

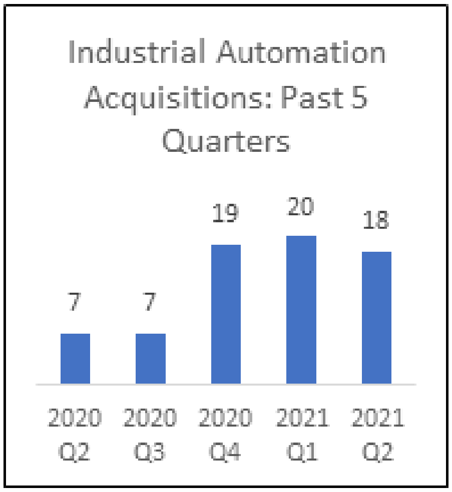
A quick vaccine rollout in the US in the first half of 2021 caused uncertainty to continue to subside. A $1 trillion infrastructure plan (with significant spending in manufacturing) and a proposed $3.5M spending package could further spur confidence in the economy. The infrastructure spending would be mostly paid for by corporate tax hikes, which could spur parties to push deals across the line in 2021. Many CEOs are feeling more confident, and consumer spending activity appears poised to rebound sharply. Combined, announced and recently completed deal counts are near record levels.

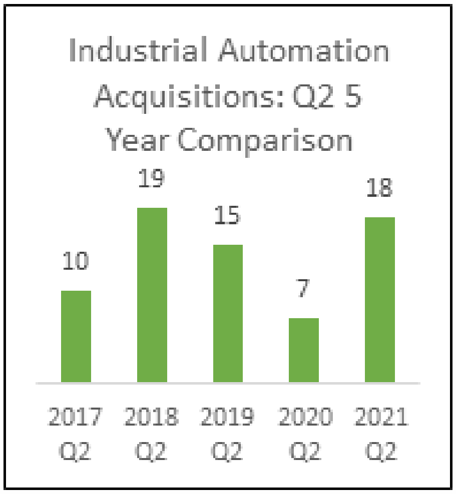
Climbing CEO confidence, $1.6 trillion in cash on corporate balance sheets, close to $1 trillion in Private Equity capital overhang, and record-low interest rates in several of the largest lending markets all suggest that M&A activity may hit record highs in 2021.

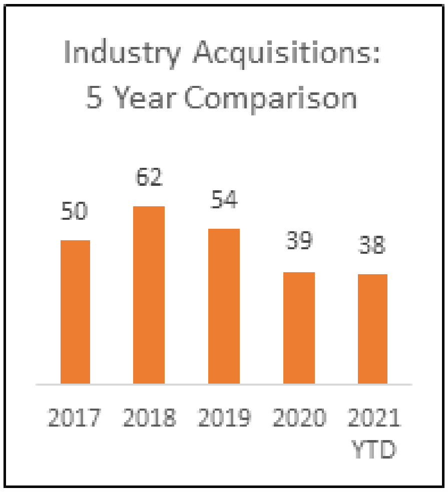
Policy changes and risk-mitigating moves continue to drive reshoring of manufacturing in North America. Already behind other industrialized nations in the implementation of automation, reshoring should lead to stronger economic performance for companies involved in factory automation along with stronger M&A activity.

Q2 2021
M&A Activity and Trends

Q2 2021 is the third quarter in a row showing strong acquisition activity after the dip in 2020. The Industrial Automation industry in North America saw 18 completed acquisitions. A review of 2nd quarter numbers for the industry shows a return to levels similar to previous years.







Acquisition activity has generally stabilized across all industries. North America saw 2,972 acquisitions in Q2. This number is up about 30% from the 2,004 North American acquisitions in Q2 2020.

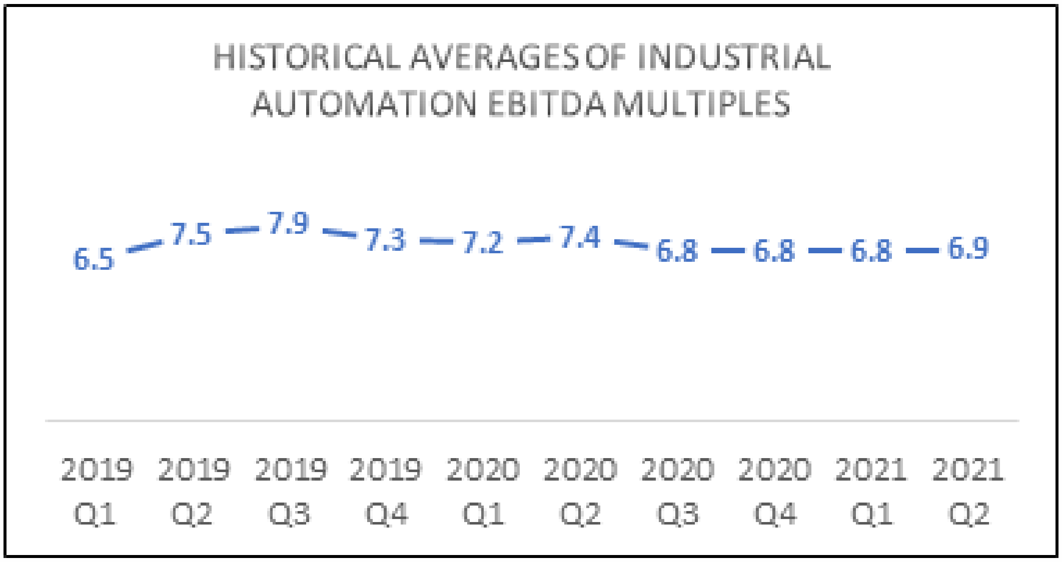
Source: PItchBook Data

Q2 2021
M&A Activity and Trends

In addition to the acquisition statistics for Q2 2021, the following list shows current average multiples for the Industrial Automation industry. These numbers are calculated based on averages over the past 3 years. The current multiples average is 6.9x EBITDA.

NAICS Code:	EBITDA Multiple:
Automation Integration Consulting	8.0
Industrial Controls Manufacturing	6.9
Engineering Services	6.7
Industrial Equipment Manufacturing	7.7
Industrial Machinery Manufacturing	6.3
Average	**6.9**

This chart shows the average EBITDA multiples for the industry over the past 10 quarters:



Source: GF Data, Business Valuation Resources.

TAX IMPLICATIONS

By: **Michael DePrima**
Tax Principal, CLA

Biden's Tax Rate Increases Could Mean Substantially Less After-Tax Proceeds for Sellers

President Biden's proposed tax increases would have far-reaching impacts for taxpayers who are still struggling to navigate the sweeping changes introduced by the Tax Cuts and Jobs Act of 2017 (TCJA) and unprecedented COVID-19 legislation.

These proposed changes have injected uncertainty into the world of mergers and acquisitions. Sellers contemplating a transaction are seriously assessing whether a deal should be accelerated before tax rate increases go into effect, how after-tax proceeds will be diminished, and how the changes could impact their succession and estate plans.

Tax Rate Increases

The most significant changes under Biden's proposal are tax rate increases for individuals and corporations. The proposal would revert the top rate for individuals back to the pre-TCJA rate of 39.6% (currently 37%). The rate on capital gains and qualified dividends would also increase to 39.6% (currently 20%) for those making over $1 million. This increase will have a major impact on business owners considering a potential sale. The proposals do not alter the additional 3.8% net investment income tax that applies to the gain from certain sales.

Example: *S corporation shareholder sells 100% of her stock with $5 million of long-term capital gain resulting from the sale. If that stock were sold today at the current capital gains rate of 20%, the shareholder would pay $1 million in tax on the sale. That same sale under Biden's plan would trigger $1.98 million in tax - nearly a $1 million dollar difference.*

The Biden plan would also increase the corporate tax rate. The current rate of 21% was a result of the TCJA (previously the rate was 35%) and received strong support across the business community. Biden has proposed moving the rate up to 28%, although the administration has signaled that it would consider a lower rate of perhaps 25%. Either way, the increase - if enacted - will leave the owners of C corporations with even less after-tax proceeds in an asset sale.

TAX IMPLICATIONS

By: **Michael DePrima**
Tax Principal, CLA

Evaluating The Impacts

The prospect of a tax increase is causing business owners to closely analyze the implications of a sale under the current and proposed rates. Although Biden has proposed making the rate increase effective retroactively to April 28, 2021 (the date his plans were announced), some Democratic lawmakers have voiced their preference to have the increase applied prospectively. There could be a benefit in accelerating a transaction, but such an acceleration is not without risk. To enhance after-tax cash flows, evaluate the timing of income and deductions while considering the potential rate changes.

Another consideration is that a higher effective tax rate at the corporate level and corresponding decrease to cash flows may have a negative impact on company valuations. This will be of particular importance within private equity, where cash flow can be a critical metric in valuing transactions, financial modeling, and benchmarking investor distributions.

With the razor-thin Democratic majority in Congress, Biden's tax plans will face negotiations and compromise amongst GOP and Democratic lawmakers. However, a tax rate increase is very possible in the near future. Work with a team of professionals to assess how your business will be impacted by these changes and plan accordingly.

For more information on potential tax changes, contact Michael DePrima at michael.deprima@CLAconnect.com or 303-439-6093.

Industry Acquisitions Q2 2021

04-07-2021 - Dorner Manufacturing was acquired by Columbus McKinnon (NAS: CMCO) for $485 million.

04-09-2021 - IBRA - RMAC Automation Systems was acquired by Tetra Tech (NAS: TTEK) for an undisclosed amount. The acquisition will facilitate Tetra Tech in strengthening its digital water system business, apart from enhancing its customer reach.

04-07-2021 - Rumsey Electric was acquired by Kendall Electric for an undisclosed amount. The combination is allowing Kendall to deliver unparalleled product and service offerings to customers.

04-30-2021 - Mission Communications was acquired by TASI Group, via its financial sponsor Berwind, through an LBO for an undisclosed sum. Mission will immediately complement TASI Flow's existing Asset Management and Wireless Connectivity Strategy, bringing a strong presence in the Water and Wastewater Market.

05-03-2021 - Javelin Technologies was acquired by TriMech, via its financial sponsors AEA Investors and The Halifax Group, through an LBO for an undisclosed sum.

05-04-2021 - Inovity was acquired by Peak-RyzexR, via its financial sponsor Sole Source Capital, through an LBO for an undisclosed sum.

05-04-2021 - NextShift Robotics was acquired by JASCI for an undisclosed amount.

05-05-2021 - RigNet was acquired by ViaSat (NAS: VSAT) for $222 million. The acquisition will bring extensive sector expertise, an established customer base, and a global communications delivery infrastructure to help further accelerate Viasat's ability to provide high-quality, ubiquitous, affordable broadband connectivity and communications to the hardest-to-reach locations around the globe.

Industry Acquisitions Q2 2021

05-25-2021 - Nebbiolo Technologies was acquired by TTTech Industrial Automation for an undisclosed amount. The acquisition will help the acquirer to get support to deliver the world's most advanced industrial edge computing platform to its customers, widen the scope of its activities to new industries such as energy, oil/gas, and auto manufacturing, strengthen the global reach of its edge computing solutions and bolster go-to-market activities in Europe.

06-01-2021 - Gerber Technology was acquired by Lectra (PAR: LSS) for EUR 300 million.

06-01-2021 - BioDot was acquired by ATS Automation Tooling Systems (TSE: ATA) for $84 million. The addition expands ATS Automation Tooling Systems' life sciences capabilities in precise, low volume fluid dispensing and enhances its position in the point-of-care and clinical diagnostics lab automation end-markets. ATS plans to fund the acquisition by drawing on its revolving credit facility.

06-01-2021 - Refirm Labs was acquired by Microsoft (NAS: MSFT) for an undisclosed amount. The acquisition will help the acquirer to enhance chip-to-cloud protection.

06-03-2021 - Processia Solutions was acquired by Atos (PAR: ATO) for an undisclosed amount. Through this acquisition, Atos will strengthen its product lifecycle management and engineering solutions franchise, while complementing its current offering of Siemens, PTC, and Dassault Systèmes services.

06-07-2021 - Innovative Electric was acquired by Shermco Industries, via its financial sponsor Gryphon Investors, through an LBO for an undisclosed sum.

07-08-2021 - Radio Bridge was acquired by Multi-Tech Systems, a subsidiary of SmartWave Technologies, for an undisclosed amount. The acquisition is a strategic consolidation of smart products and services, which expands Multi-Tech Systems' offerings to existing customers and bring on new adopters of IoT technology.

06-15-2021 - BP Controls was acquired by Hy-Tek Material Handling, via its financial sponsor Dunes Point Capital, through an LBO for an undisclosed sum. The acquisition enables Hy-Tek Material Handling to broaden its offerings in the material handling market.

06-17-2021 - GTI Predictive Technology, a subsidiary of Gtispindle, was acquired by Bearings & Drives for an undisclosed amount. The acquisition expands B&D's geographic reach and provides new services and support to customers throughout the U.S.

06-18-2021 - SJE was acquired by Audax Group through an LBO for an undisclosed sum.

Source: PitchBook Data

About Blue River

Founded in 2002, Blue River has built its practice around delivering experienced, systematic transactional guidance. Our deep involvement in the private capital marketplace enables us to bring ideal outcomes to owners transitioning out of ownership. We provide a suite of services including corporate development, private equity support, confidential sell-side representation, valuations and transaction consulting. Blue River places a premium on relationship-centered transaction counsel and client support.

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