



INDUSTRIAL AUTOMATION Q3 MARKET UPDATE

July to October 2022

BLUE RIVER
FINANCIAL GROUP

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Firm Overview



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About Blue River

Founded in 2002, Blue River Financial Group is a middle market merger and acquisition advisory firm headquartered in Bloomfield Hills, MI. It assists corporations, private equity groups and individuals in the sale and acquisition of businesses, and has completed assignments in multiple business segments. With over 20 years of experience spanning across 50 global industries, Blue River provides a suite of services to middle market clients including corporate development, private equity support, valuations and transaction consulting, placing a premium on relationship-centered transaction counsel and client focus.

Our Services

- [Sell Side M&A Advisory Services](#)
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M&A INSIGHT

By: **Bryan Berent**
Managing Partner

M&A Activity In The Industrial Automation Space

In last quarter's edition I discussed the impact of rising interest rates on valuations and investments, demonstrating the impact rates have on the cost of capital, which in turn impact returns, which impacts entry valuations for M&A. In September, the US Federal Reserve raised interest rates for the fifth time this year, as inflation continued to run near its highest levels since the 1980s. The third interest rate hike of 75 basis points so far this year caused more ripples in the stock markets. Increased interest rates led to expectations of lower economic growth, as future earnings of companies are discounted at higher rates and decline as a result. The interest rate hikes, among other factors, also produced a challenging quarter for overall M&A activity. Valuations adjusted across many sectors, and M&A activity slowed as investors paused to reassess potential acquisition targets.

Interestingly, the M&A market for Industrial Automation remained fairly strong. As you can see in the charts below, normalizing for wild swings in 2020 and 2021, we see growth in the number of deals completed in the 3rd quarter of 2022. In addition, valuations remained consistent with pre-Covid levels and actually showed upward movement (again from pre-Covid levels) among public Industrial Automation companies. One possible explanation is the continued high degree of acquisitive interest in the space, coming from acquirers from different communities, as evidenced by the transactions highlighted below. We see strategic acquirers, but also acquirers from Private Equity and Consulting (see AEA Investors acquisition of Burke Porter Group and Accenture's acquisition of Eclipse Automation).

M&A INSIGHT

By: **Bryan Berent**
Managing Partner

Market uncertainty surrounding deals will persist in the M&A market overall, including the Industrial Automation sector. Many macroeconomic factors will continue to play havoc with deal flow and valuations including: 1) rising interest rates (the futures market currently is pricing in a terminal Fed Funds rate of 4.8% in March of 2023); 2) the recent tumble in oil prices (WTI crude oil now sitting at its lowest level since December of last year after falling over 36% from its June peak); 3) mounting concerns of slowing global economic growth; 4) the recent rise in Covid concerns and policy response out of China; and 5) core inflation, which excludes volatile food and energy prices (data released in October showed this continuing to rise, up 6.6% from a year prior).

Even with all the all the doom and gloom in macroeconomic factors, 2022 still has the potential to finish strong by historic standards. Fundamentals still exist for healthy M&A activity. According to Pitchbook, PE investors are well-equipped with \$1.2 trillion in dry powder to execute deals, and large businesses with strong cash flows and balance sheets have not shied away from strategic acquisitions. While deals can slow down further as investors become conservative in the current market downturn, M&A activity remains strong and comparable to historic levels, which is especially notable during this time of intense volatility. However, the second half of 2022 will certainly not be as impressive as the first half, and it will likely be a similar story going into the first six months of 2023.



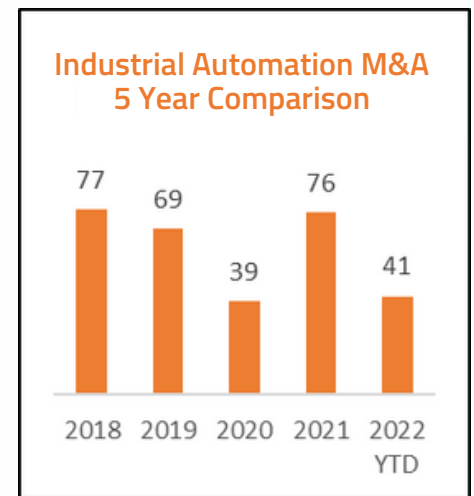
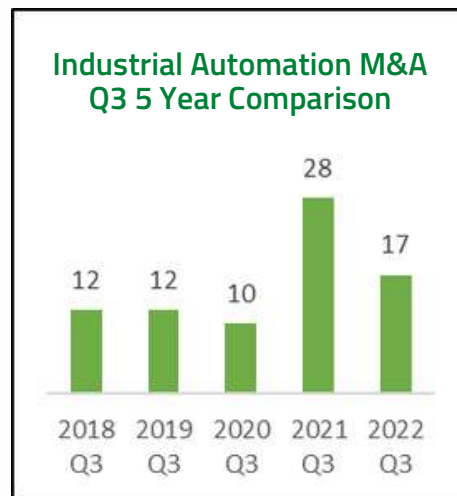
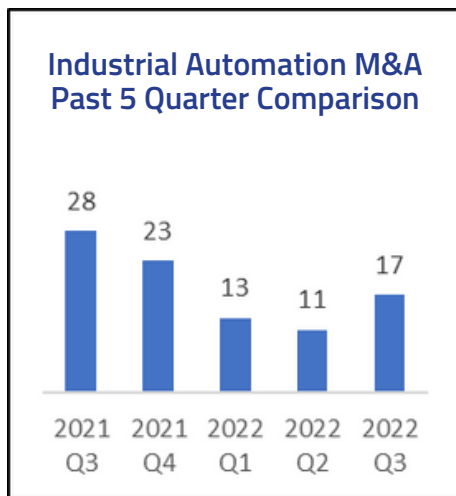
[Bryan Berent](#) is Managing Partner and co-founder of Blue River. Berent brings over 40 years of expertise to small to mid-size business clients. He has deep experience in analyzing the financial, operational and investment components of businesses. He holds an MBA, with honors, in Corporate Finance and Corporate Strategy from the University of Michigan and a B.A. in Accounting and Statistics also from the University of Michigan.

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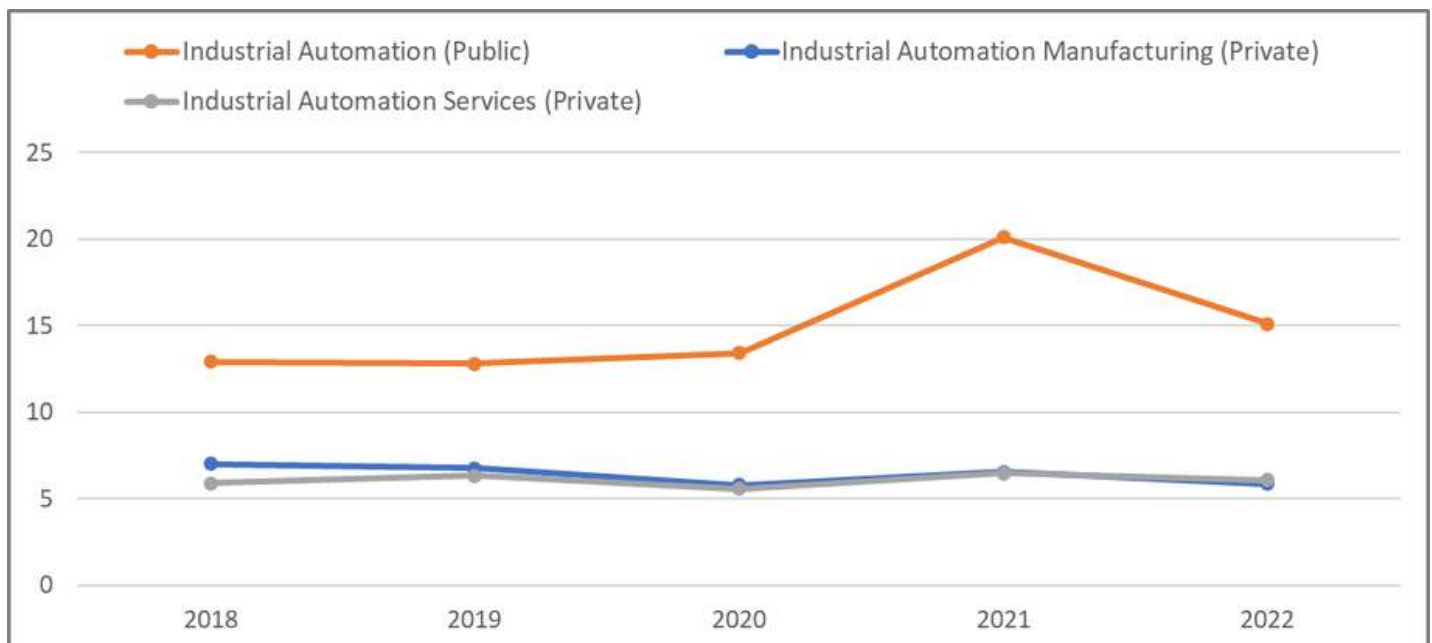
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Q3 2022 Industrial Automation Market Performance

Industrial Automation acquisition numbers for Q3 2022 were down significantly from the same quarter in 2021. However, a review of Q3 trends from the past 5 years shows growth for this quarter overall. This represents the balancing of acquisitive activity for the industry from the past 3 years with a dip in 2020, heightened activity in 2021 from market recovery, and a return to conservative growth in 2022.



The following chart shows a 5-year comparison of average multiples for sectors associated with the Industrial Automation industry. This view presents both public and private multiples for reference. The private sector numbers are calculated based on companies with medium revenue of approximately \$35M.



Source: GF Data, S&P Capital IQ, Pitchbook Data

Q3 2022

Publicly Traded Automation Companies

The following is a list of publicly traded automation companies, used to calculate our public IA valuation index listed in the table above.

Public Company	Ticker	Q3 Starting Share Price	Q3 Ending Share Price	Q3 Performance	Market Cap
ABB	ABBN	\$26.61	\$27.19	2.18%	\$58,261
Cognex Corporation	CGNX	\$43.47	\$41.45	-4.65%	\$8,394
Eaton Corporation	ETN	\$127.37	\$133.36	4.70%	\$64,646
Emerson Electric	EMR	\$80.36	\$73.22	-8.89%	\$55,722
Honeywell International	HON	\$175.11	\$166.97	-4.65%	\$145,067
National Instruments Corporation	NATI	\$31.02	\$37.74	21.66%	\$5,224
Rockwell Automation	ROK	\$198.71	\$215.11	8.25%	\$29,941
Schneider Electric	SU	\$115.11	\$120.99	5.11%	\$81,027
Siemens	SIE	\$99.32	\$104.70	5.42%	\$107,456
TE Connectivity	TEL	\$111.00	\$110.36	-0.58%	\$39,533
AVERAGE:		\$100.81	\$103.11	2.86%	\$59,527
MEDIAN:		\$105.16	\$107.53	3.44%	\$56,992

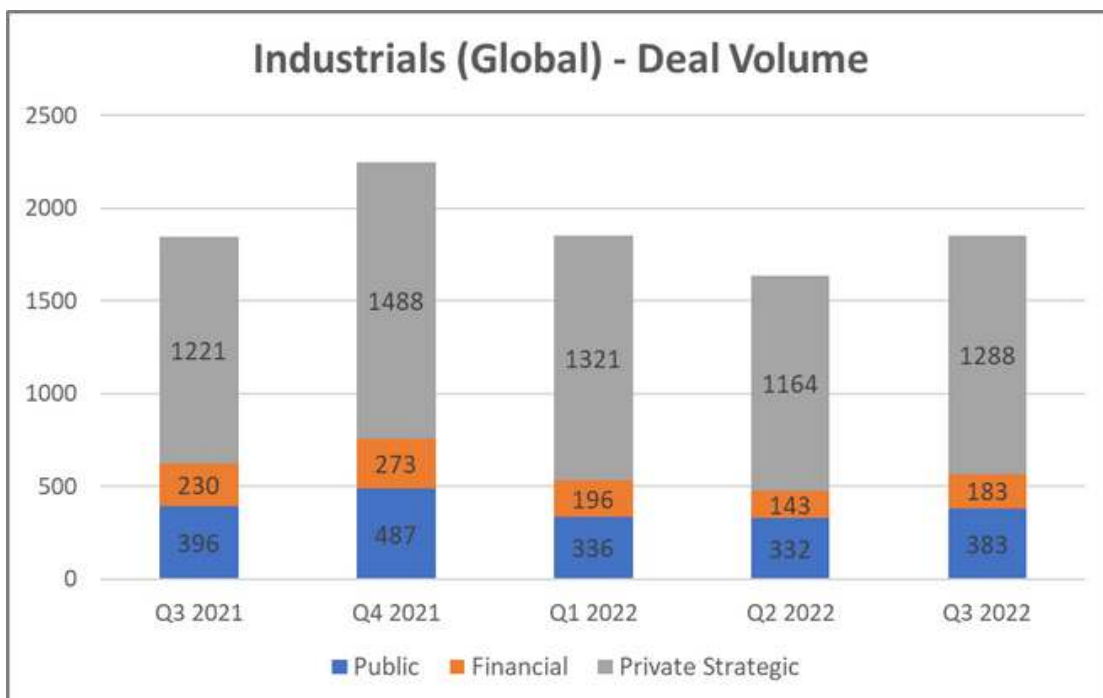
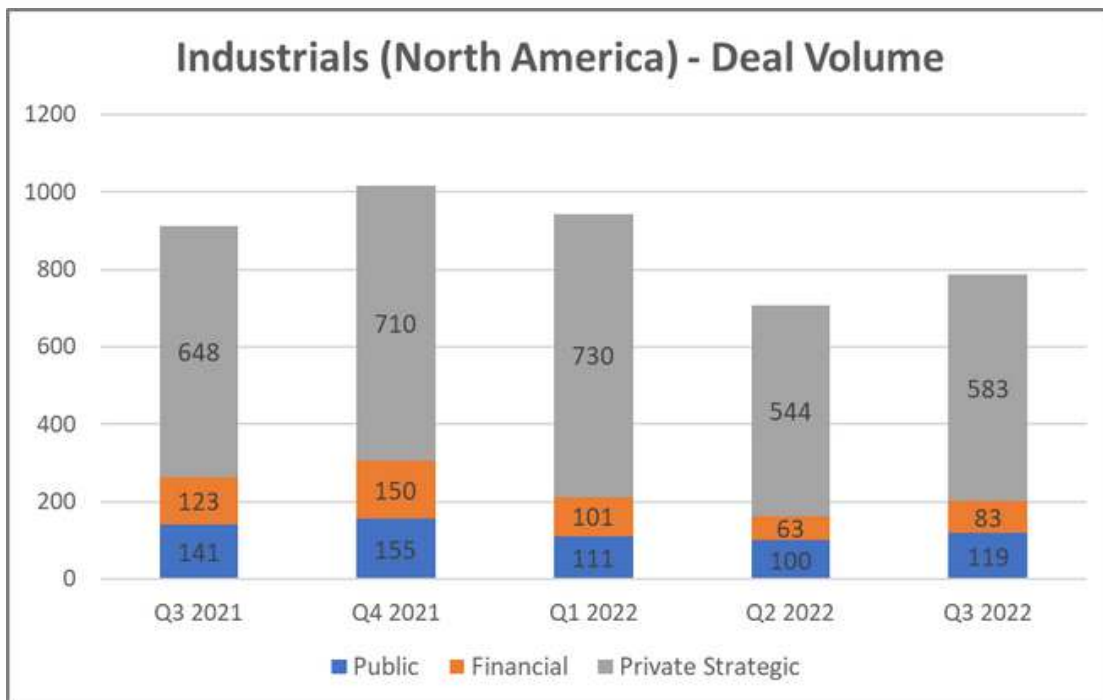
Public Company	Revenue	EBITDA	TEV	TEV / EBITDA	Debt / EBITDA
ABB	\$29,135	\$4,517	\$65,493	14x	1.9x
Cognex Corporation	\$1,011	\$288	\$8,022	27x	0.1x
Eaton Corporation	\$20,166	\$3,787	\$75,034	18.9x	2.4x
Emerson Electric	\$19,629	\$4,590	\$71,859	15x	2.3x
Honeywell International	\$34,937	\$8,499	\$158,557	18x	2x
National Instruments Corporation	\$1,629	\$252	\$5,821	21.5x	2.2x
Rockwell Automation	\$7,760	\$1,561	\$34,414	20.5x	2.5x
Schneider Electric	\$32,288	\$6,010	\$95,171	14.9x	2x
Siemens	\$74,468	\$13,291	\$155,557	14x	3.9x
TE Connectivity	\$16,281	\$3,749	\$44,249	11.3x	1.2x
AVERAGE:	\$23,730	\$4,654	\$71,418	17.5x	2.1x
MEDIAN:	\$19,898	\$4,152	\$68,676	17x	2.1x

Source: S&P Capital IQ

Q3 2022

Industrials Performance

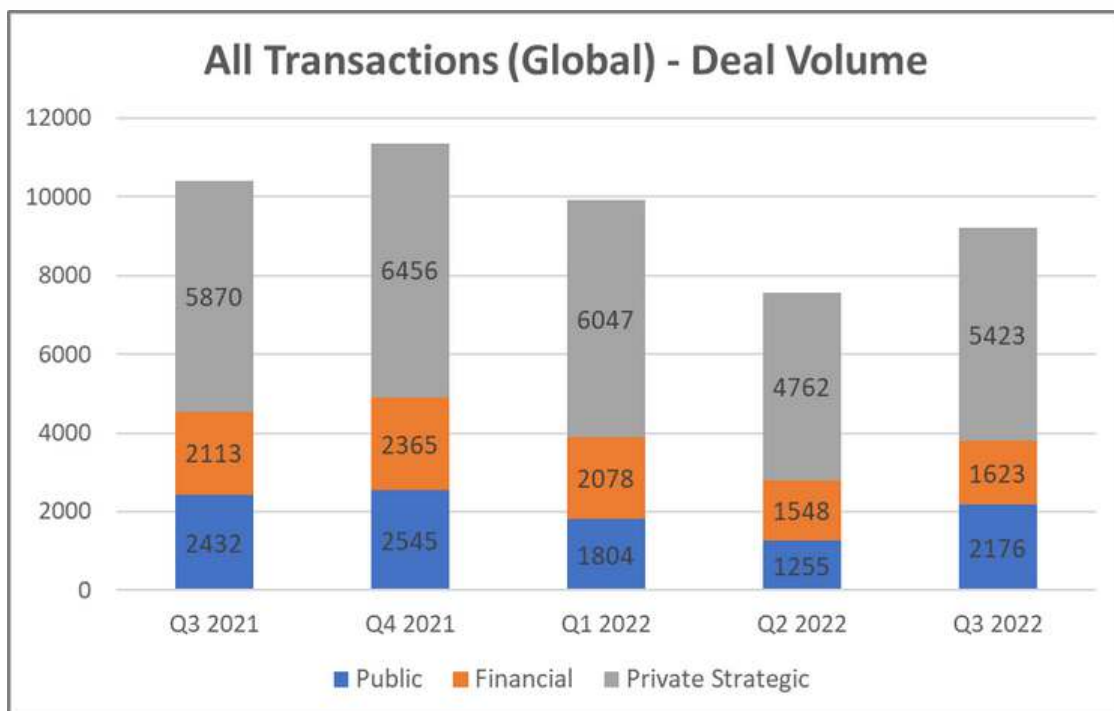
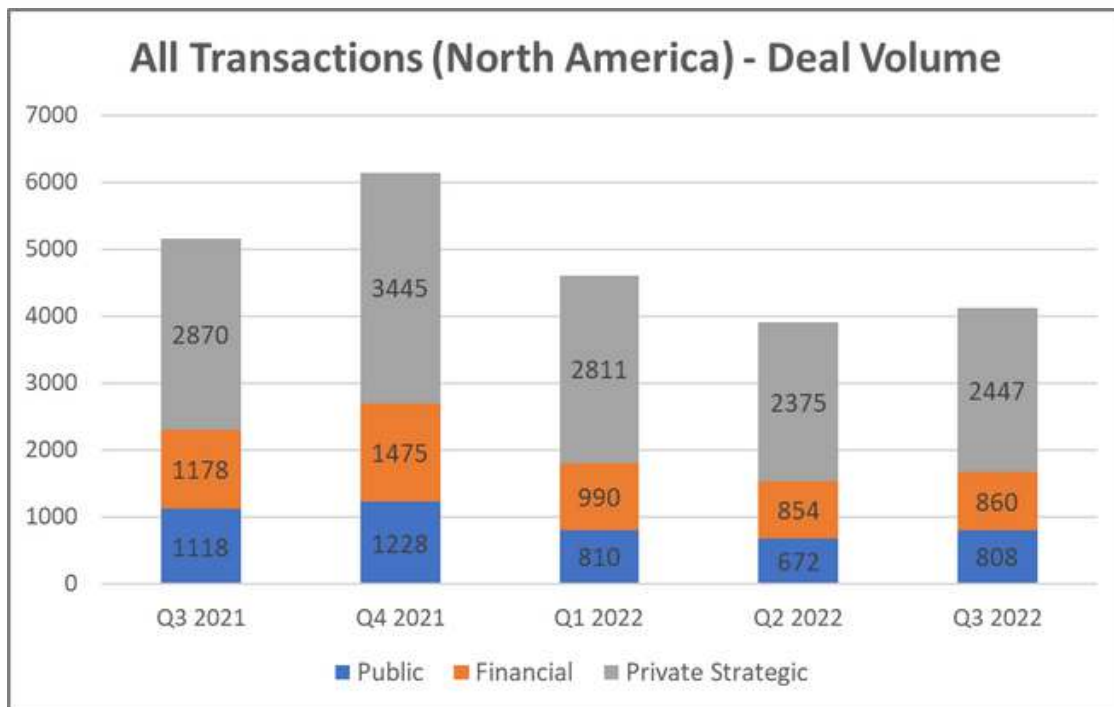
The following charts show acquisitive activity for the last 5 quarters for the broader Industrial sector.



Source: S&P Capital IQ

Q3 2022 M&A Performance

The following charts show M&A acquisitive activity for the last 5 quarters across all industries.



Source: S&P Capital IQ

Industry Acquisitions

Q3 2022



has acquired



Dwyer Instruments has acquired **OMEGA Engineering**. This acquisition will allow Dwyer to provide their customers with additional testing and automation products and services.

- **Date:** July 2022
- **Subsector:** Distribution/Automation Services
- **EV:** \$525M



has acquired



Tetra Tech has acquired **The Integration Group of Americas (TIGA)**. This acquisition allows Tetra Tech to offer additional automation and integration services to their customers.

- **Date:** July 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



US Natural Resources has acquired **Timber Automation**. This acquisition will allow US Natural Resources to expand into the wood processing industry.

- **Date:** July 2022
- **Subsector:** Automation Services/Manufacturing
- **EV:** Not Disclosed

Intrinsic Innovations

has acquired



Intrinsic Innovations has acquired **Vicarous**. This acquisition will allow Intrinsic Innovations to better offer Robotics as a Service to the Industrials Industry.

- **Date:** July 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



Eastern Controls has acquired **Andrews Industrial Controls**.

- **Date:** July 2022
- **Subsector:** Distribution
- **EV:** Not Disclosed



has acquired



AEA Investors has acquired **Burke Porter Group**. This partnership will allow Burke Porter Group to achieve their goals with support from AEA's extensive experience in the Industrial Automation industry.

- **Date:** August 2022
- **Subsector:** Manufacturing
- **EV:** Not Disclosed

Industry Acquisitions

Q3 2022



has acquired



Graybar Electric Company has acquired Walker Industrial Products and New England Drives & Controls. These acquisitions expand Graybar's Industrial Automation product offering.

- **Date:** August 2022
- **Subsector:** Distribution
- **EV:** Not Disclosed

International Tooling Solutions

has acquired



International Tooling Solutions has acquired ArtiFlex Manufacturing.

- **Date:** August 2022
- **Subsector:** Manufacturing
- **EV:** \$47.5M



has acquired



GrayMatter has acquired HTSE, Inc. This acquisition will allow GrayMatter to provide Industrial Intelligence solutions to their client base.

- **Date:** August 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



Storage Solutions has acquired EMIT, Inc. This acquisition will allow Storage Solutions to provide additional system integration and material handling services and solutions.

- **Date:** August 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



Accenture has acquired Eclipse Automation. This acquisition will allow Accenture to provide new Industry 4.0 options to their factory/plant customers.

- **Date:** August 2022
- **Subsector:** Manufacturing
- **EV:** Not Disclosed



has acquired



RMH Systems has acquired Dak Equipment Company. This acquisition will allow RMH to strengthen its presence in the Midwest.

- **Date:** August 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed

Industry Acquisitions

Q3 2022



has acquired



New Yorker Electronics Company has acquired **Switches Unlimited**.

- **Date:** August 2022
- **Subsector:** Distribution
- **EV:** Not Disclosed



has acquired



Hitachi has acquired **Flexware Innovation**. This acquisition will allow Hitachi to provide key Industry 4.0 services that were previously missing from their solutions portfolio.

- **Date:** August 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



Trackunit A/S has acquired **ZTR IIOT Division**.

- **Date:** September 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



has acquired



Hudson Street Solutions has acquired **Nexus Automation**. This acquisition will allow Hudson Street Solutions to provide new automation services and products for manufacturers.

- **Date:** September 2022
- **Subsector:** Manufacturing / Automation Services
- **EV:** Not Disclosed



has acquired



CloudEnablers has acquired **Optio3**.

- **Date:** September 2022
- **Subsector:** Automation Services
- **EV:** Not Disclosed



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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