



INDUSTRIAL AUTOMATION Q4 MARKET UPDATE

October to December 2021

BLUE RIVER
FINANCIAL GROUP

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M&A INSIGHT

By: Bryan Berent
Managing Partner

M&A Activity In The Industrial Automation Space

M&A activity in the Industrial Automation ("IA") sector continued its upward trajectory in the 4th quarter of 2021, when twice as many transactions closed as the same period from the year before. In fact, the 4th quarter in 2021 was stronger than the same quarter in the previous 5 years. The average multiple of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") on 4th quarter transactions was a healthy 7X.

What is fueling acquisition demand for middle market companies in the IA sector? IA companies exist to provide automated solutions to manufacturers. When manufacturers encounter production or efficiency snags, they look to IA companies to fix problems.

In 2021, manufacturers faced two enormous challenges. First, according to IoT Analytics, the topic of supply chain disruptions was the most widely discussed theme among CEOs of middle market companies in the fourth quarter of 2021. Disrupted supply chains lead to higher product costs and typically result in lost or delayed income. This loss or delay increases the cash-to-cash cycle, particularly for those companies that have a heavy reliance on overseas materials, regardless of the country of origin. This disruption is a big reason for the increase in inflation we saw in the 4th quarter of 2021.

Doug Del Grosso, President and Chief Executive Officer of Adient, a large automotive seat manufacturer, noted that *"Supply chain disruptions directly caused production delays, operating inefficiencies, premium freight costs, and other profit eroding consequences. Supply factors drove Adient's 2021 revenues and EBITDA down by roughly \$1.9 billion and \$450 million, respectively."* This disruption is not expected to start to ease until 2023.

By: **Bryan Berent**
Managing Partner

IoT Analytics also cited labor shortages as an acute crisis for manufacturers. People left the workforce because of the pandemic, and many never returned. This loss of labor resulted in higher labor costs for manufacturing companies. Salaries, wages, and other benefits are growing at an unprecedented rate as manufacturers compete for the remaining talent. Lack of essential labor is also disruptive to production processes causing lead times to lengthen and again, cash-to-cash cycles to increase.

Labor and supply chain disruption have decimated production efficiencies and exposed domestic manufacturing weaknesses. These are two primary reasons why manufacturers are increasingly looking for ways to apply industrial automation solutions in their factories. Manufacturers cannot long endure pandemic driven cash-to-cash cycle increases. Competition compels them to find more efficient ways to produce their products.

IoT solutions are decreasing downtime by solving issues at the source or providing early identification of issues. Virtual monitoring and control solutions allow workers to manage processes remotely, increasing flexibility and helping companies manage through the pandemic.

What does all of this have to do with the IA M&A industry? These factors are opening the eyes of middle market companies to the benefits of driving down the automation path at a pace far greater that they might have envisioned just a couple years ago. The strong financial performance and outlook for IA companies has also caught the attention of institutional middle market investors and strategic acquirers alike. Many are now seeking to deploy capital in the IA sector, which is fueling strong M&A activity. Private company valuations have risen in response. All of this has opened up the buyer community far wider than ever before.

Re:Build Manufacturing, a holding company dedicated to rebuilding America's manufacturing base, acquired Optimization Technology, an IA services company, not only to provide IA solutions to its existing customer base but also to bring IA internally to make its own manufacturing base more efficient.

M&A INSIGHT

By: **Bryan Berent**
Managing Partner

Sverica Capital, a Boston based private equity firm, acquired system integrator Automated Control Concepts to create a market leading platform provider of Industry 4.0 solutions in the life sciences sector.

However, even with all of the positive momentum, readers are cautioned that M&A activity is also affected by systematic risks. These are capital availability, interest rates, inflation, economic uncertainty, global unrest, government regulations, pandemic, over which a company has no control. As risks increase, M&A activity decreases, and vice versa. We do see gathering storm clouds on the systematic risk front from inflation, increasing interest rates, geopolitical threats to the economy from Russia and China, and the ongoing pandemic. Still, Blue River believes the M&A market for IA companies in North America will remain strong, supporting strong valuations throughout 2022.

When is the right time to sell? When three things align: 1) the owner is ready, 2) the business is ready, and 3) the market is ready. We can say the market is certainly hot in the IA sector today. For those interested in selling, NOW may be the watchword of the wise.



[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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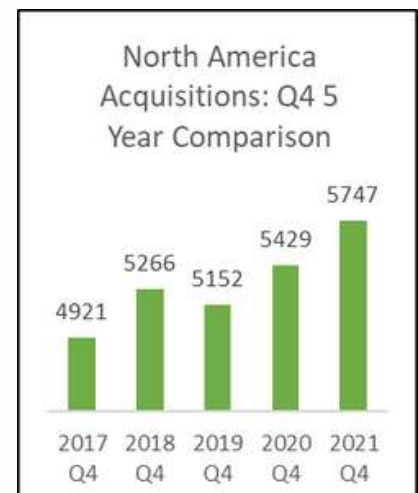
Q4 2021

M&A Activity and Trends

Although Industrial Automation acquisition numbers for Q4 2021 are a little lower than Q3 2021, the 5 Year Q4 comparison shows that acquisition activity in the industry continues to grow. This trend is expected to continue in 2022 as more companies utilize acquisitive strategies to grow their businesses in the face of rising costs and supply challenges.



Overall acquisition activity in North America has continued to grow quarter over quarter throughout 2021. A Q4 comparison of the past 5 years shows a healthy increase in completed transactions.



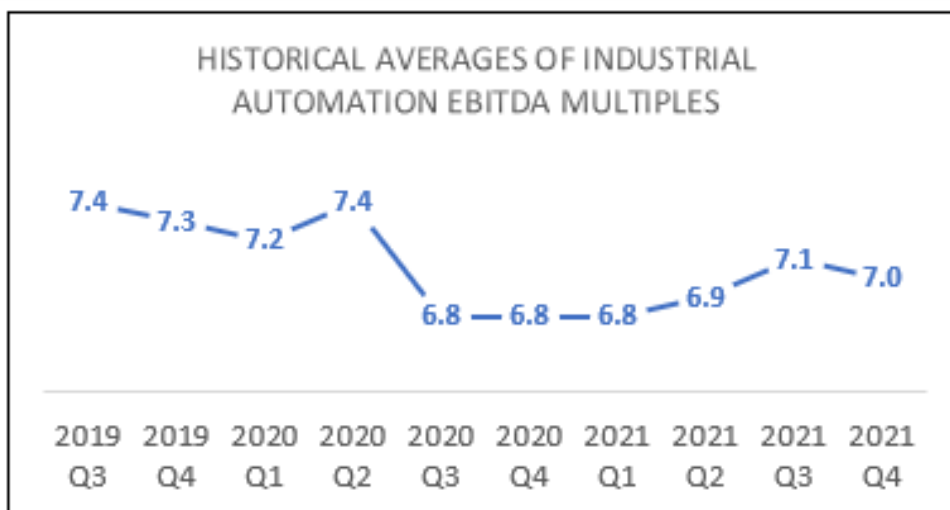
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M&A Activity and Trends

The following list shows current average multiples for sectors associated with the Industrial Automation industry. These numbers are calculated based on averages over the past 3 years for companies with an average of \$35M in revenue. The current multiples average is 7.0x EBITDA for companies with an average of \$35M in revenue.

NAICS Code:	EBITDA Multiple:
Industrial Controls Manufacturing	7.7
Engineering Services	5.9
Industrial Equipment Manufacturing	7.3
Industrial Machinery Manufacturing	7.3
Average	7.0

This chart shows the average EBITDA multiples for the industry over the past 10 quarters for companies with an average of \$35M in revenue:



Reshoring U.S. Manufacturing And Its Impact On The Industrial Automation Market

Reshoring U.S. manufacturing has been a topic for debate over the past 20 years, while manufacturing value add as a share of GDP has been steadily dropping. The drive has been to offshore to low cost countries, mainly focused on lower labor costs and fewer regulations.

The pandemic has provided a new reality in most areas of manufacturing. The benefits of product availability today often outweigh the additional cost of the goods. The reassessment of global supply chain business models will likely accelerate industrial automation, leading to a renaissance of industrial production in some regions - and bringing back jobs.

Labor Availability and Cost

A shift to reshoring manufacturing in the U.S. will require an investment in both capital equipment and skilled labor. The U.S. already experiences significant issues in the skilled labor market, as there is more demand than supply. Developing talent for skilled labor will take years and will likely require government intervention and support.

As we've also seen recently, the labor shortage continues to put pressure on hourly wages. The costs associated with higher wages, as well as training and development programs, could make outsourcing even more attractive.

Industrial robots were initially focused on repeatable operations and ergonomic improvements. For example, they relieved humans of tasks such as exercising monotonous routines or lifting heavy weights, which can create psychic and physical stress, resulting in sick days or accidents. Today, artificial intelligence software combined with vision and other sensing systems allows robots to master difficult tasks that were only feasible by humans in the past. When productivity is leveled through automation, manufacturers have increased flexibility that may not have been available in a high-wage region like North America. At the same time, robots are driving demand for skilled workers because automation does not necessarily replace jobs. It automates tasks, augments roles and creates new positions.

Robots and Smart Manufacturing

While the use of robots has increased significantly, it is far from mainstream in U.S. manufacturing today. According to the International Federation of Robotics (IFR), the United States currently ranks seventh globally with a robot density of 255 units per 10,000 employees in 2020.

US MANUFACTURING

By: Don Morsch, Director M&A

However, the modernization of domestic production facilities and the pandemic situation have boosted robot sales in the United States. Today's advanced robots are consistently used in smart manufacturing operations. The use of collaborative and mobile robots, along with human labor, promotes a safer and more efficient manufacturing environment. It also aids to achieve decarbonization goals e.g. in the cost-efficient production of solar panels and in the continued transition towards electric vehicles. These major projects will create demand for industrial robots in the next few years. The automotive industry has pioneered smart factory solutions, but we also see an increased robot adoption in manufacturing sectors that have only recently turned to automation, such as food and beverage, textiles, wood products and plastics.

Industrial Automation

With the rising need for industrial robots, the control systems and industrial automation sector will continue to grow, according to Precedence Research. They estimate that the global Industrial Automation market will increase over 9% annually through 2030, creating a market size of almost \$350 billion.

The amount of industrial automation and digitization continues to push smart manufacturing forward at a very brisk pace. The connectivity of devices with massive amount of data, along with Artificial Intelligence, Big Data and IoT will continue to push the industrial automation sector. Ongoing digital transformation will lead to completely new business models, because producers can diversify easier than ever. OECD research shows that companies employing technology effectively are ten times more productive compared to those that do not. The employment of computing technologies and AI in the field of IoT, for example, reduces the chance of human error, leads to better decision-making because of solid data collection. Consequently, new business models emerge, such as preventive or condition-based maintenance in contrast to standard time-based maintenance.

Summary

Will we see a resurgence of manufacturing in the U.S. GDP as the perceived value shifts from "low-cost only" to availability (of production capacities) and efficiency? Reshoring of manufacturing in the U.S. will not be fast or cheap. Still, a well-developed plan increasing skilled labor availability, and the use of robotics and automation, will be required. Automation will be key to staying competitive in a global economy in the near term and in the future.

Leadec is an internationally renowned and respected service specialist with approximately \$1 billion in sales, 18,000+ employees and operations in 14 countries serving over 300 plant sites worldwide. To learn more about Leadec, visit usa.leadec-services.com. M&A Director Don Morsch can be reached @ Donald.Morsch@leadec-services.com and via [LinkedIn](#).

Industry Acquisitions

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Industry Acquisitions

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- 10-01-2021** – Graybar Canada Limited (Halifax, NS) acquired Industrial Technology Distributor Electromag (Saint-Laurent, QC).
- 10-04-2021** – Sandvik AB (Stockholm, Sweden) acquired Precision Metrology, Inspection, and Assembly Solutions Provider DWFritz Automation (Wilsonville, OR).
- 10-04-2021** – Regal Beloit Corporation (Beloit, WI) acquired the Process & Motion Control Segment of Rexnord Corporation (Milwaukee, WI) for \$3.8 billion.
- 10-06-2021** – Re:Build Manufacturing (Framingham, MA) acquired Engineering, Design, Fabrication and Automation Services Provider Optimization Technology (Rush, NY).
- 10-13-2021** – Kaman Automation (Plainville, CT) acquired Machine Vision and Logistics Solutions Provider Integro Technologies (Salisbury, NC).
- 10-22-2021** – Sverica Capital Management (Boston, MA) acquired System Integrator Automated Control Concepts (Neptune, NJ).
- 10-27-2021** – Tetra Tech (Pasadena, CA) acquired Control Systems Integrator Enterprise Automation (Irvine, CA).
- 10-29-2021** – United Flow Technologies (Foothill Ranch, CA) acquired Electrical and Control Systems Equipment Manufacturer and System Integrator Tesco Controls (Sacramento, CA).
- 11-01-2021** – 3D Systems Corporation (Rock Hill, SC) acquired Manufacturing Automation Software Developer Oqton (San Francisco, CA).
- 11-01-2021** – BlueCrest (Danbury, CT) acquired Material Handling Solutions Provider Fluence Automation (Arlington Heights, IL).
- 11-01-2021** – Graybar Electric Company, Inc. (St. Louis, MO) acquired Industrial Controls and Components Distributor Steven Engineering (San Francisco, CA).
- 11-02-2021** – Allied Motion Technologies (Amherst, NY) acquired Motion Control Systems Manufacturer ORMEC Systems Corp. (Rochester, NY).
- 11-04-2021** – Allied Motion Technologies (Amherst, NY) acquired Precision Motion Control Engineering and Manufacturing Group ALIO Industries, Inc. (Arvada, CO).
- 11-04-2021** – Inframark (Horsham, PA) acquired Control System Integrator MR Systems (Norcross, GA).
- 11-05-2021** – Thoma Bravo (Chicago, IL) acquired Manufacturing Automation Software Developer QAD (Santa Barbara, CA).
- 12-01-2021** – CDN Controls (Grande Prairie, AB) acquired Automated Control Systems Provider Exile Automation (Calgary, AB).

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12-02-2021 - John Henry Foster Minnesota (Eagan, MN) acquired Industrial Sensing Products and Systems Distributor/Integrator Sensors Incorporated (Delano, MN).

12-02-2021 – EN Engineering (Warrenville, IL) acquired Electrical engineering Consulting Firm ESC Engineering (Fort Collins, CO).

12-16-2021 – Ohio Transmission Corporation (Columbus, OH) acquired Machine Automation and Control Solutions Distributor AAP Automation (Englewood, CO).

12-21-2021 – Tri-State Equipment Company (Bridgeton, MO) acquired Robotics and Automation Solutions Provider EP Robotics & Automation (Hanna City, IL).

12-21-2021 – Hy-Tek Material Handling (Columbus, OH) acquired Material Handling System Integrator Advanced Handling Systems (Cincinnati, OH).

12-29-2021 – Sandvik AB (Stockholm, Sweden) acquired Design for Manufacture and Assembly (DFMA) and Quality Management Developer Dimensional Control Systems (Troy, MI).

12-30-2021 – Allied Motion Technologies (Amherst, NY) acquired Industrial Controls Manufacturer Spectrum Controls (Bellevue, WA).



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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