



INDUSTRIAL AUTOMATION Q1 MARKET UPDATE

January to March 2022

BLUE RIVER
FINANCIAL GROUP

Table of Contents

Contents:

| | |
|-------------------------------|---|
| M&A Insight from Bryan Berent | 3 |
| M&A Activity and Trends | 5 |
| Industry Acquisitions | 7 |
| About Blue River | 9 |

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M&A INSIGHT

By: Bryan Berent
Managing Partner

M&A Activity In The Industrial Automation Space

Optimism that we had turned the corner on the worst of the COVID-19 pandemic fueled a strong resurgence in economic and M&A activity in 2021. This was especially true in the Industrial Automation sector where yearly deal volume was back up to 2018 levels. However, just as the economy was finally beginning to move on from the Covid-era, a new, yet no-less complex set of uncertainties was introduced into the markets: inflation, broken supply chains, and war in Europe triggered extreme volatility in the public markets, and dampened the pace of M&A in the private markets.

S&P Capital IQ reported North American deal volume down by over 10% compared with the same period last year. Axial, a private deal platform for lower middle market businesses, reported that global M&A deal value and volume dropped by almost 20% in Q1, compared with the same period last year. Interestingly this was not the case in the Industrial Automation sector where Q1 North American deals were still strong, surpassing deal volume for 2019, 2020 and 2021.

The industrial automation deal story wasn't all rosy in the first quarter as we saw a tick down in valuations to 6.7x EBITDA. Much of this is likely due to negative tailwinds described above, but the creeping up of interest rates is also an influencer and a concern. With a forecast of seven rate hikes in 2022, and fed funds potentially ending the year at 1.875% or higher, we should expect to see continued negative pressure on valuations.

M&A INSIGHT

By: **Bryan Berent**
Managing Partner

The outlook for growth in the Industrial Automation sector, however, remains positive. The COVID-19 pandemic demonstrated the need for companies and other M&A stakeholders to accelerate the transformation of their digital capabilities. Companies will continue to invest in additive manufacturing, digital development (including digital supply-chain solutions), and technologies supporting sustainability and mitigating deepening supply-chain risks. According to Gartner, 56% of large enterprises currently have four or more simultaneous automation initiatives.

This sustained focus on accelerating the automation adoption will lead to continued strong financial performance of automation manufacturers and service providers. It will be a major reason why investing in Industrial Automation companies will remain popular among both strategic acquirers and private equity. Major companies such as Rockwell Automation, Emerson Electric and Schneider Electric all tout acquisitive growth as a key strategy in 2022.

Overall M&A activity will likely continue its strong run into 2022, but it will be difficult to top the historic levels of deal value and deal volume on the heels of pent-up demand seen in 2021. In Industrial Automation M&A we are forecasting continued strength in deal volume, while global market uncertainties and interest rate hikes will continue to put downward pressure on valuations.



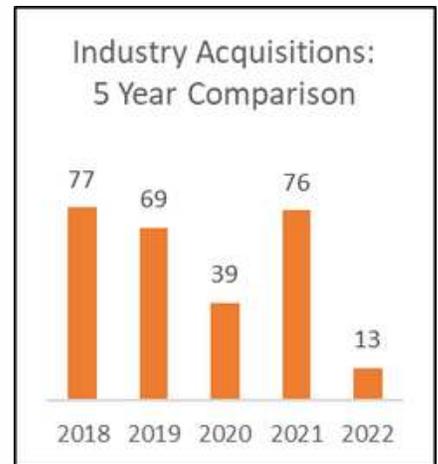
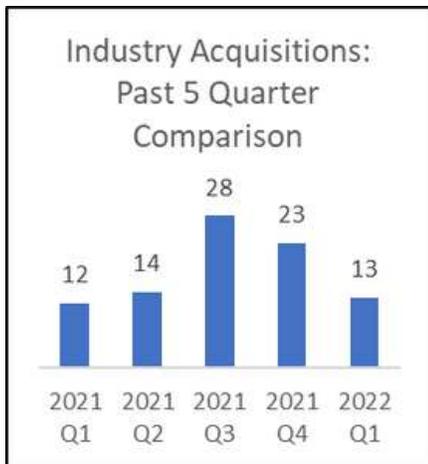
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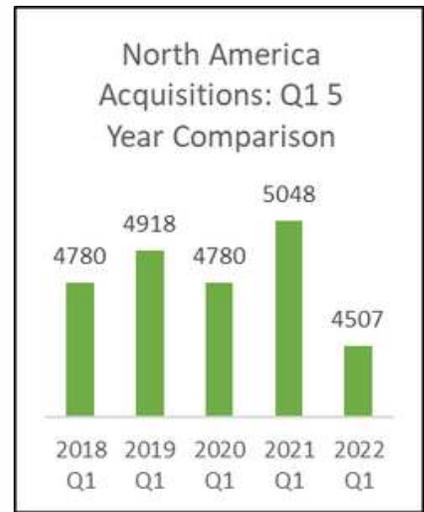
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Q1 2022 M&A Activity and Trends

Industrial Automation acquisition numbers for Q1 2022 are similar to first quarter numbers from the previous 5 years. This is a positive trend for the industry, specifically in contrast to the slight decrease in North American acquisitions overall. The trend is expected to continue in 2022, as the industry grows and adapts to changing technologies and processes, as well as increased demand.



Overall acquisition activity in North America was down some in Q1 2022. Q1 acquisition numbers have historically been lower than latter quarters each year and the growth trend is expected to continue in 2022.



Source: S&P Capital IQ and PitchBook Data

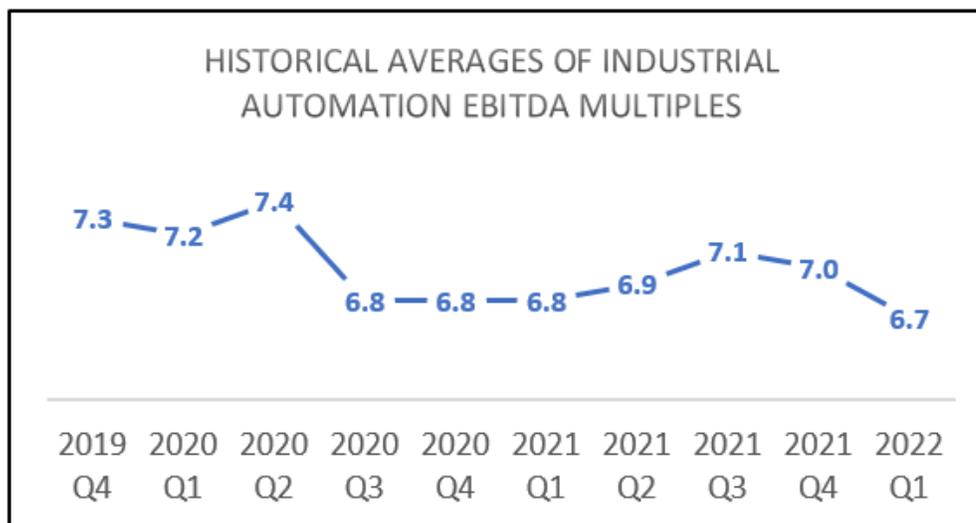
Q1 2022

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 6.7x EBITDA for companies with an average of \$35M in revenue.

| NAICS Code: | EBITDA Multiple: |
|------------------------------------|------------------|
| Industrial Controls Manufacturing | 7.6 |
| Engineering Services | 6.3 |
| Industrial Equipment Manufacturing | 5.5 |
| Industrial Machinery Manufacturing | 7.4 |
| Average | 6.7 |

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



Industry Acquisitions Q1 2022

LAWLER GEAR CORP.

KAMAN

FOGHORN



ECKHART



Industry Acquisitions

Q1 2022

- 01-03-2022** - Motion Industries, Inc. (Birmingham, AL) acquired Industrial Automation Parts and Equipment Distributor Kaman Distribution Group (Bloomfield, CT).
- 01-05-2022** - Automated Logic Contracting Services (Kennesaw, GA) acquired the business of Automated Monitoring and Controls Solutions Provider Integrated Control Systems Inc (Albuquerque, NM).
- 01-05-2022** - AMF Bakery Systems (Richmond, VA) acquired Commercial Baking Automated Solutions Manufacturer Workhorse Automation, Inc. (Kirkwood, PA).
- 01-11-2022** - Kele, Inc. (Memphis, TN) acquired Industrial and Process Automation Distributor A-Tech Inc. (Tulsa, OK).
- 01-11-2022** - Eddyfi NDT Inc. (Québec, QC) acquired Nondestructive Testing (NDT) Solutions Provider Zetec, Inc. (Snoqualmie, WA).
- 01-12-2022** - Johnson Controls International (Cork, Ireland) acquired Industrial Internet of Things (IIoT) Software Developer FogHorn Systems, Inc. (Sunnyvale, CA).
- 01-18-2022** - Arsenal Capital Partners (New York, NY) acquired Advanced Automation and Industry 4.0 Engineering and Manufacturing Solutions Provider Eckhart USA (Lansing, MI).
- 01-21-2022** - Cumulus Companies (Merriam, KS) acquired Gear Manufacturer Lawler Gear Corp. (Lee's Summit, MO).
- 02-11-2022** - Wauseon Machine and Manufacturing (Wauseon, OH) acquired Robotics and Industrial Automation System Integrator McAlister Design, Inc (Greenville, SC).
- 02-24-2022** - Viper Networks, Inc. (Troy, MI) acquired Industrial Manufacturing and Distribution Company EcoTech Solutions Inc (Sheridan, IL).
- 03-01-2022** - The Cleveland Vibrator Company (Cleveland, OH) acquired Automation Systems Parts Provider Fastfeed Corporation (Lodi, OH).
- 03-01-2022** - Crestview Partners (New York, NY) acquired Automation Design and Engineering Services Provider Classic Design, Inc. (Troy, MI).
- 03-14-2022** - Massman Automation Designs, LLC (Villard, MN) acquired Packaging and Material Handling Machinery Design and Manufacturer New England Machinery, Inc. (Bradenton, FL).
- 03-31-2022** - Inframark, LLC (Horsham, PA) acquired Instrumentation and Control System Integrator BLTI (Tomball, TX).



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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