
Industrials sector report





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Test & measurement and industrial automation sector update

Equity returns and valuations across the test & measurement and industrial automation (TM&IA) sector extended through 2021. Demand for TM&IA solutions continue to accelerate as evidenced by revenue and earnings growth, as well as increased backlogs to support further growth into 2022. Overall, profitability for the sector improved compared to pre-pandemic levels.

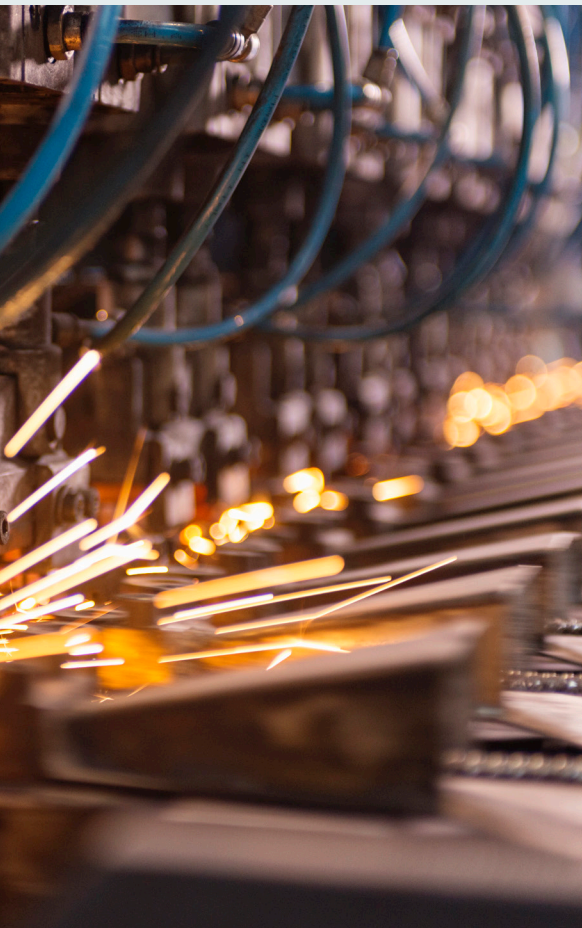
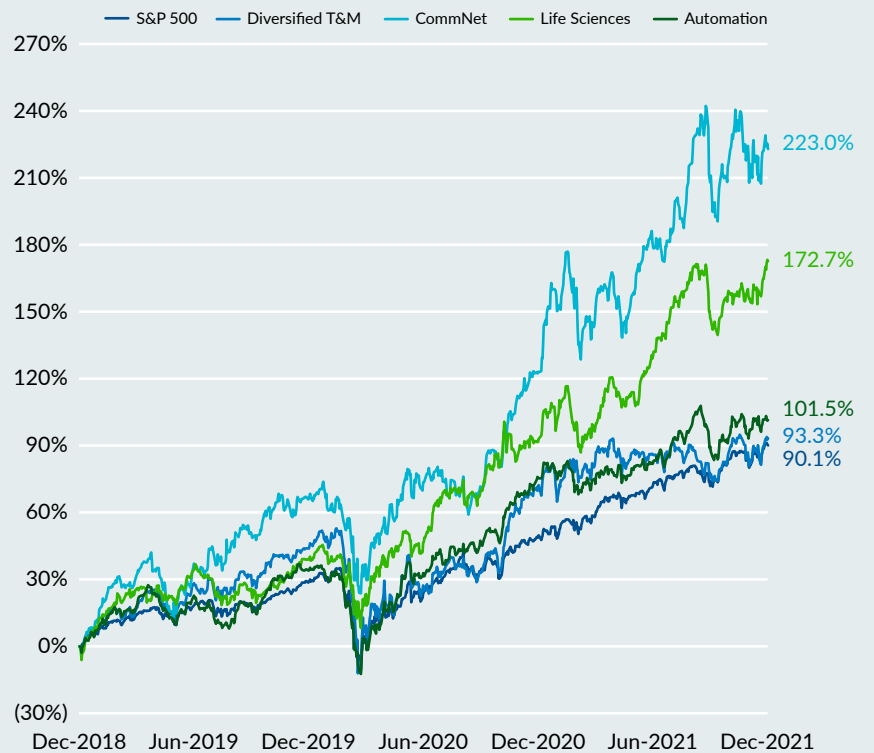


CHART 1: EQUITY PERFORMANCE (DEC. 2018–DEC. 2021)¹



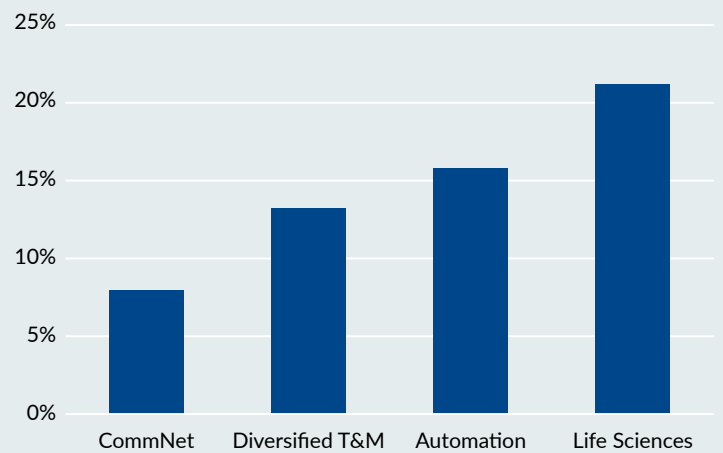
Source: CapIQ, as of 12.31.21. Past performance is not indicative of future results. Please see page10 for important information.

Indicators to watch

The common themes across the sector during the 3Q2021 earnings season were 1) continued strong demand for TM&IA solutions supporting strong revenue growth in 2021 and 2) persistent supply chain issues driving up costs and extending lead times. In 2021, each of the TM&IA subsectors are expected to end the year with significant revenue growth as customers continue to invest in new product development and production capabilities.

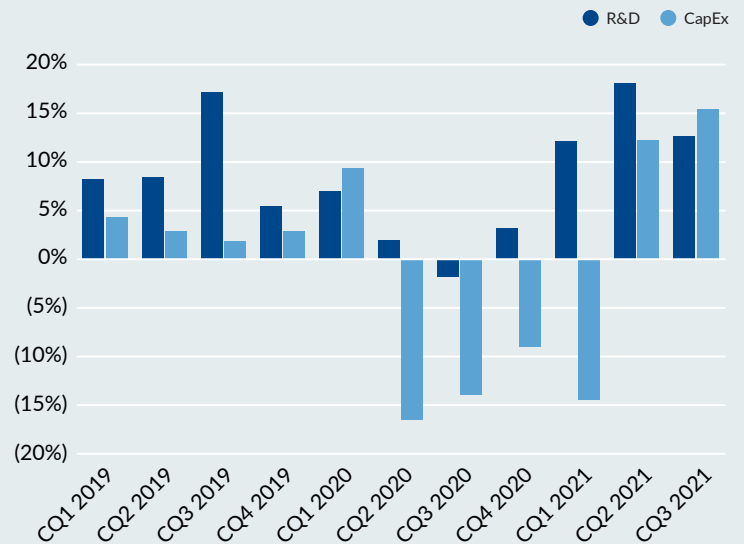
TM&IA demand is largely tied to R&D and capital expenditure spend across served end markets and customers. Customers typically maintain their R&D spending, particularly those projects that contribute to organic growth, positioning companies to benefit both as demand normalizes and for the long-term. Quarter-over-quarter R&D spend for the broader market as measured by the S&P Industrials Index remained stable through 2020 (with the exception of 3Q2020) with an acceleration of R&D spend throughout 2021. Equipment purchases on the other hand were pushed off as mission critical operating expenses were prioritized. Capital expenditures through 2020 and 1Q2021 lagged. However, in 2Q2021 and 3Q2021, capital expenditures rebounded sharply, with a quarter-over-quarter increase of 12.2% and 15.3%, respectively. More broadly, the December Manufacturing PMI registered 58.7, a decrease of 2.4 from the November reading of 61.1. A PMI above 50 indicates an expansion of the manufacturing segment of the economy compared to the previous month, while a reading below 50 suggests a contraction. This figure indicates expansion in the overall economy for the 19th month in a row after a contraction in April 2020.

CHART 2: REVENUE GROWTH (2020-2021E)



Source: Capital IQ.

CHART 3: S&P 500 QOQ GROWTH (2019 - CURRENT)



Source: Capital IQ.



Supply chain disruptions have continued to extend lead times for key components and increase the overall cost of production. The Producers Price Index, which measures the average change in selling prices received by domestic producers for their output, increased a staggering 9.6% in November 2021 when compared to November 2020. Despite the increase in costs to produce, the TM&IA sector on average improved profitability over pre-pandemic levels. This can be attributed to the sector’s ability to pass price increases to customers as many of the participants hold market leadership positions across product portfolios, and the solutions are typically mission critical that support operations and growth of the customer base. Additionally, TM&IA sector participants are able to leverage purchasing scale for key components across a broad portfolio of products.

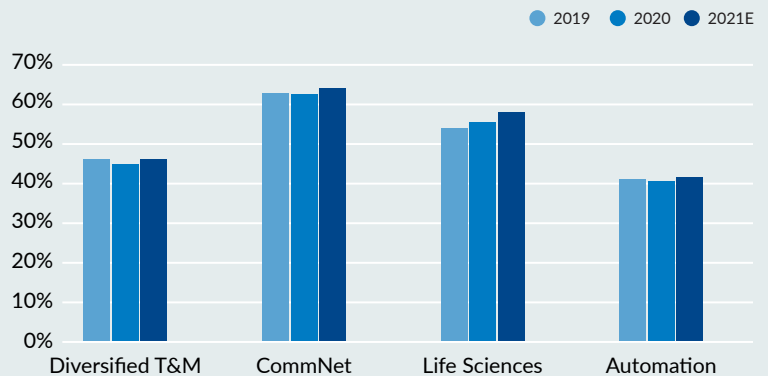
CHART 4: PRODUCER PRICE INDEX

(Month-over-month % change)



Source: U.S. Bureau of Labor Statistics.

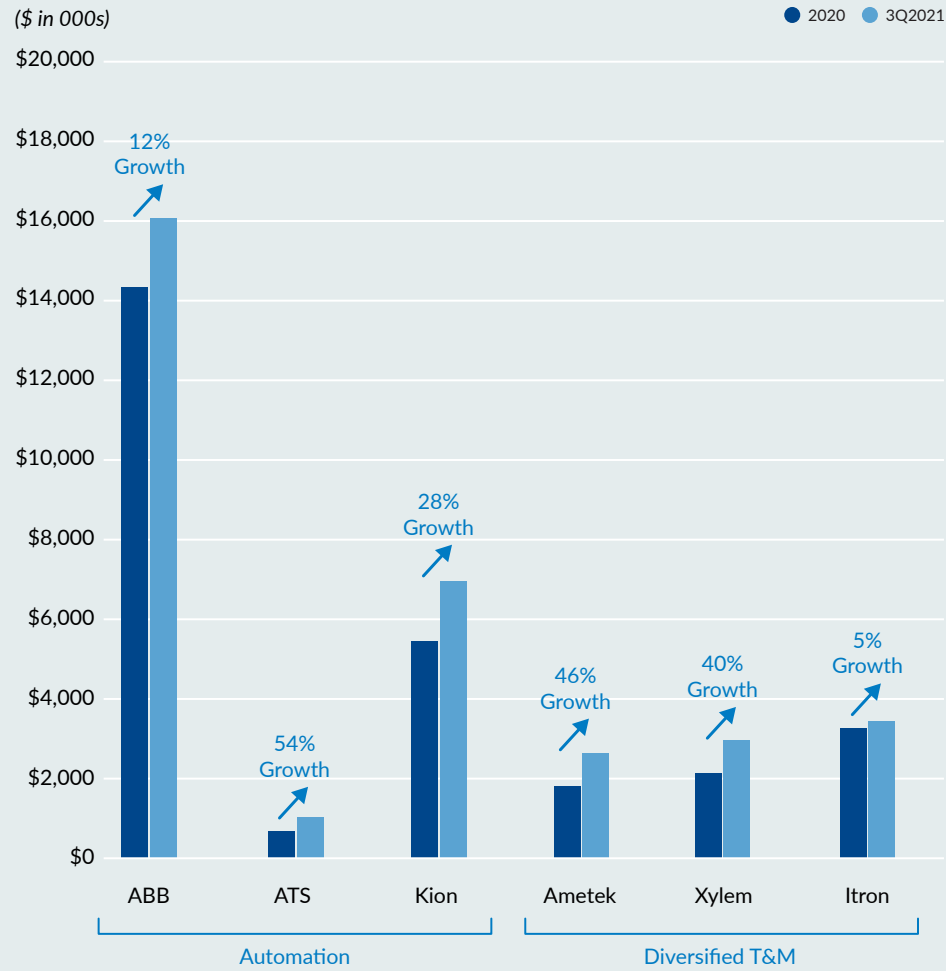
CHART 5: GROSS MARGINS (2019–2021E)



Source: Capital IQ. Past performance is not indicative of future results.

Looking ahead to 2022, the sector is building off of the momentum in 2021 with strong backlogs heading into the new year—average revenue growth expectations are in the mid-to-high single digits over the next twelve months.


CHART 6: ORDER BACKLOG (2020 VS. 3Q2021)



Source: Capital IQ.




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Selected Mesirow advised M&A transactions

Mesirow acted as the exclusive financial advisor to Clarion Safety Systems, LLC (“Clarion” or the “Company”), a portfolio company of Promus Equity Partners (“Promus Equity”), on its sale to CNL Strategic Capital, LLC which is sub-managed by Levine Leichtman Strategic Capital, LLC (“LLSC”). LLSC is an affiliate of Levine Leichtman Capital Partners (“LLCP”), a global independent investment firm that has managed approximately \$12.8 billion of institutional capital since inception.

- Clarion leverages decades of regulatory compliance and visual safety standards expertise to design and manufacture premium safety labels and workplace signage solutions for original equipment manufacturers, facility owners and employers. The Company serves a variety of markets including robotics & automation, e-commerce, military & defense, electronics and life sciences
- With more than 30 years of safety standards experience and a comprehensive portfolio of safety systems, labels, signs and services, the Company provides full-service safety expertise that plays a vital role in enhancing workplace safety and significantly reducing liability risk for its customers across all markets.








M&A Overview and outlook

The overall M&A market was incredibly active in 2021 and across the TM&IA sector. Over the course of 2Q2021 and 3Q2021, the backlog of M&A deals released and drove historic levels of activity. In the back half of 2021, the M&A market experienced its own version of supply chain issues with limited third-party vendor capacity to perform due diligence workstreams.

New deal activity moderated in 4Q2021 as buyers and sellers focused on finalizing transactions by the end of the calendar year. Financial sponsors have continued to be active in the middle market TM&IA sector, completing a number of new platforms as well as successfully exiting investments after several years of executing strategic initiatives with management teams. Below is a selected list of completed financial sponsor middle market TM&IA sectors M&A transactions.

We believe the early part of 2022 will show an increase in new deal activity over 4Q2021 as assets that showed meaningful improvement in financial performance compared to 2020 finalize full year 2021 results and develop 2022 forecasts. Macro drivers across the TM&IA sector remain strong and we believe 2022 M&A activity will continue to be robust across strategic buyers accelerating growth through M&A and financial sponsors building platform investments in the sector.












Sponsor	Transaction date	Transaction type	Transaction overview
	January 2021	Financial Sponsor Platform Investment	Renovo Capital, a Dallas-based private equity firm, completed the acquisition of Otodata Wireless Network, Inc. in partnership with its founders. Founded in 2010, Otodata is a remote monitoring and asset tracking business based in Montreal, Quebec that provides various telemetry products and services for use in industrial tank applications throughout North America. The Company also provides asset tracking and theft prevention devices and services for automobiles in Quebec under the Tag Tracking brand.
	March 2021	Financial Sponsor Platform Investment	Hamilton Robison Capital Partners, a Stamford-based private equity firm, together with management, has recapitalized Zone 4. The Company is a leader in the installation of automated storage and retrieval systems, advanced material handling and rack storage systems servicing retail, e-commerce, logistics and grocery sectors nationwide. Headquartered in Orange, CA, the Company's core base of blue-chip customers leads the world in automated warehouse logistics.
	April 2021	Financial Sponsor Exit	Spectris plc (SXS: LSE) acquired Concurrent Real-Time from Battery Ventures, a Boston-based PE firm. Headquartered in Pompano Beach, Florida, Concurrent-RT is a leading developer and supplier of real-time operating systems for hardware-in-the-loop simulation applications, especially for aerospace, defense and automotive customers.
	April 2021	Financial Sponsor Exit	HKW, an Indianapolis-based private equity firm, completed the sale of its portfolio company Xirgo Technologies, LLC to Sensata Technologies (NYSE: ST). Xirgo, headquartered in Camarillo, CA, is a provider of customized IoT solutions for various industry verticals, including insurance telematics, fleet management, asset tracking, monitoring & control, transportation logistics & mobility.
	May 2021	Financial Sponsor Platform Investment	SFW Capital, a Rye, NY-based private equity firm, completed a majority recapitalization. Based in Santa Clara, California, GRL specializes in helping product developers implement the latest connectivity and charging interfaces – such as USB, Qi wireless charging, Ethernet, and PCI Express – in a rapidly expanding universe of connected devices and applications, including consumer electronics, mobile, automotive, cloud computing, data center, medical, and industrial automation.

Sources: Company and financial sponsor press releases and websites. | Note: Mesirow did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

Sponsor	Transaction date	Transaction type	Transaction overview
ARTEMIS	June 2021	Financial Sponsor Platform Investment	Artemis Capital Partners, a Boston-based private equity firm, completed the acquisition of Maury Microwave Corporation. Maury Microwave is a pioneering leader in the design and manufacture of precision RF and Microwave calibration, test & measurement and modeling solutions.
ARTEMIS	June 2021	Financial Sponsor Exit	Artemis Capital Partners completed the successful sale of its portfolio company, BioDot, to ATS Automation Tooling Systems Inc. (TSX: ATA). BioDot is a distinguished manufacturer of high-throughput, ultra-low volume liquid dispensing technologies using lab automation to serve the global demand for a healthier and safer future.
FFL PARTNERS	July 2021	Financial Sponsor Exit	Global safety equipment manufacturer MSA Safety Incorporated (NYSE: MSA) acquired Bacharach, Inc. from FFL Partners, a San Francisco-based private equity firm. Headquartered near Pittsburgh in New Kensington, Pa., Bacharach is a leader in gas detection technologies used in the heating, ventilation, air conditioning and refrigeration markets. The company employs 200 people across four locations in the US, Canada and Ireland.
TURN SPIRE CAPITAL PARTNERS	July 2021	Financial Sponsor Platform Investment	Turnspire Capital Partners LLC, a New York-based private equity firm, completed the acquisition of the Daniel Measurement and Control business from Emerson Electric Co. (NYSE: EMR). Headquartered in Houston with a state-of-the-art, strategically located manufacturing facility in Chihuahua, Mexico, Daniel is a global leader in providing flow and energy measurement technologies and services to the natural gas and refined hydrocarbon industries.
INCLINE EQUITY PARTNERS	August 2021	Financial Sponsor Platform Investment	Incline Equity Partners, a Pittsburgh-based private equity firm, completed the acquisition of AquaPhoenix Scientific. Based in Hanover, PA, AquaPhoenix provides water testing kits, calibration reagents and feed and control equipment for companies servicing industrial boilers and cooling towers. Additionally, the Company works with curriculum developers to source, assemble and distribute chemistry, biology and physics education kits.
May River CAPITAL	September 2021	Financial Sponsor Exit	May River Capital, a Chicago-based private equity firm, completed the successful sale of its portfolio company Hunt Valve to Fairbanks Morse Defense, a portfolio company of Arcline Investment Management. Hunt Valve is a long-standing manufacturer of mission critical valves and actuators used in the highest-priority submarines, aircraft carriers, surface combatant vessels and other maritime defense platforms. The company has facilities in Ohio and Montreal, which manufacture proprietary valve and actuator technologies for prime shipbuilders and the US and Canadian Navies.
B·C·P Benford Capital Partners	November 2021	Financial Sponsor Platform Investment	Benford Capital Partners, a Chicago-based private equity firm, formed Argus Monitoring Solutions to acquire Sauls Seismic and Nomis Seismographs. Sauls Seismic provides a broad range of outsourced continuous seismic and environmental monitoring services through a "hardware-as-a-service" business model, while Nomis manufactures seismic monitoring equipment. The Company's equipment and services are relied upon by customers in the quarrying, construction/infrastructure and mining sectors to comply with regulatory requirements, provide liability protection and optimize performance.

Sources: Company and financial sponsor press releases and websites. | Note: Mesirow did not represent any of the acquirers or targets in connection with the transactions noted on this page and is not currently representing any of the listed acquirers or targets.

Featured Mesirow transactions

<p>SELL-SIDE ADVISOR</p> <p> Stationary Power a division of</p> <p> MIDTRONICS</p> <hr/> <p>HAS BEEN ACQUIRED BY</p> <p> Franklin Electric</p>	<p>SELL-SIDE ADVISOR</p> <p> ADCOLE MARYLAND AEROSPACE a portfolio company of</p> <p>ARTEMIS</p> <hr/> <p>HAS BEEN ACQUIRED BY</p> <p> ae Industrial Partners</p>	<p>SELL-SIDE ADVISOR</p> <p> ENMET a portfolio company of</p> <p>B·C·P Benford Capital Partners</p> <hr/> <p>HAS BEEN ACQUIRED BY</p> <p> Sagepeak Capital</p>	<p>SELL-SIDE ADVISOR</p> <p>Endevco assets of</p> <p>MEGGITT</p> <hr/> <p>HAVE BEEN ACQUIRED BY</p> <p> MTS</p>	<p>SELL-SIDE ADVISOR</p> <p> LRS Long Range Systems a portfolio company of</p> <p> TEAKWOOD CAPITAL Your partner in making sense together</p> <hr/> <p>HAS BEEN ACQUIRED BY</p> <p>PRIVATE INVESTORS</p>	<p>SELL-SIDE ADVISOR</p> <p> SYPRIS SOLUTIONS Cyber Security Solutions Business</p> <hr/> <p>HAS BEEN ACQUIRED BY</p> <p> ANALOG DEVICES</p>
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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.

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1. Diversified T&M Index: AMETEK, Inc. (NYSE:AME), ESCO Technologies Inc. (NYSE:ESE), FARO Technologies, Inc. (NASDAQ:FARO), Fortive Corp. (NYSE:FTV), Hexagon AB Class B (STO:HEXA-B), Itron, Inc. (NASDAQ:ITRI), Landis+Gyr Group AG (SIX:LAND), MKS Instruments, Inc. (NASDAQ:MKSI), National Instruments Corporation (NASDAQ:NATI), Oxford Instruments plc (LSE:OXIG), Sensata Technologies Holding PLC (NYSE:ST), Spectris plc (LSE:SXS), TE Connectivity Ltd. (NYSE:TEL), Teledyne Technologies Inc. (NYSE:TDY), Teradyne, Inc. (NASDAQ:TER), Xylem Inc. (NYSE:XYL).

Life Sciences T&M Index: Agilent Technologies, Inc. (NYSE:A), Becton, Dickinson and Company (NYSE:BDX), Bio-Rad Laboratories, Inc. (NYSE:BIO), Bio-Techne Corporation (NASDAQ:TECH), Bruker Corporation (NASDAQ:BRKR), Danaher Corporation (NYSE:DHR), Mesa Laboratories, Inc. (NASDAQ:MLAB), Mettler-Toledo International Inc. (NYSE:MTD), PerkinElmer, Inc. (NYSE:PKI), Sartorius AG (FWB:SRT), Thermo Fisher Scientific Inc. (NYSE:TMO), Waters Corporation (NYSE:WAT).

Communications / Network T&M Index: Advantest Corp. (TSE:6857), Anritsu Corporation (TSE:6754), Keysight Technologies Inc. (NYSE:KEYS), NetScout Systems, Inc. (NASDAQ:NTCT), Spirent Communications plc (LSE:SPT), Viavi Solutions Inc. (NASDAQ:VIIV).

Industrial Automation Index: ABB Ltd. (SIX:ABB), ATS Automation Tooling Systems Inc. (TSX:ATA), Cognex Corporation (NASDAQ:CGNX), Emerson Electric Co. (NYSE:EMR), FANUC (TSE:6954), Honeywell International Inc. (NYSE:HON), Keyence Corporation (TSE:6861), KION GROUP AG (FWB:KGX), Lincoln Electric Holdings, Inc. (NASDAQ:LECO), OMRON Corporation (TSE:6645), Rockwell Automation, Inc. (NYSE:ROK), Schneider Electric SE (Euronext:SU), Siemens AG (FWB:SIE), Yaskawa Electric Corporation (TSE:6506), Yokogawa Electric Corp. (TSE:6841).

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