

Industrial Technology Update | Q1 2020



► Introduction and Overview

In this edition of Founders' Industrial Technology Update, we share insights gathered from our relationships with industrial technology strategic players. We've had a number of conversations with groups over the last weeks to discuss their current M&A perspective as businesses and the economy continue to muddle through the COVID-19 pandemic. This issue also highlights notable transactions in the last quarter and provides aggregated information on industrial technology public company performance.

What We're Reading

► [Coronavirus: Industrial IoT in challenging times – McKinsey](#)

Off-the-shelf IIoT solutions can be implemented in five days allowing for continuation of operations by leveraging positioning data to minimize employee contact and using infrared imaging to detect fevers. Additionally these solutions can reduce waste by 20%, maintenance costs by 15%, service costs by 40% and inventory by 35%. Coming out of this pandemic, companies may thrive by investing in three key IIoT areas: connectivity and cybersecurity, mid-term cost improvement and flexibility, and revenue stability.

► [Implementing the Smart Factory – Deloitte](#)

Despite 86% of US manufacturers surveyed stating that smart factories will be the main driver of competition by 2025, 65% report no progress on factory transition initiatives. A study with 40 smart factory transformation leaders highlights the integral role of change management in converting to a smart factory. These leaders also advise focusing on quality connectivity, confronting challenges in diversity devices, and bridging the IT/OT divide. Once converted smart factories provide a flood of data which AI may leverage to increase production processes, machine utilization, and throughput.

► [Empathy Starts with Curiosity – HBS](#)

Instead of quickly assuming we understand the emotions of others, sincere connection forms when we slow down and expresses humble curiosity to truly understand the experiences of others. This equally applies to curiosity about oneself. Pausing to reflect allows us the necessary reprieve to disentangle dissonant thoughts and emotions and to learn about oneself.

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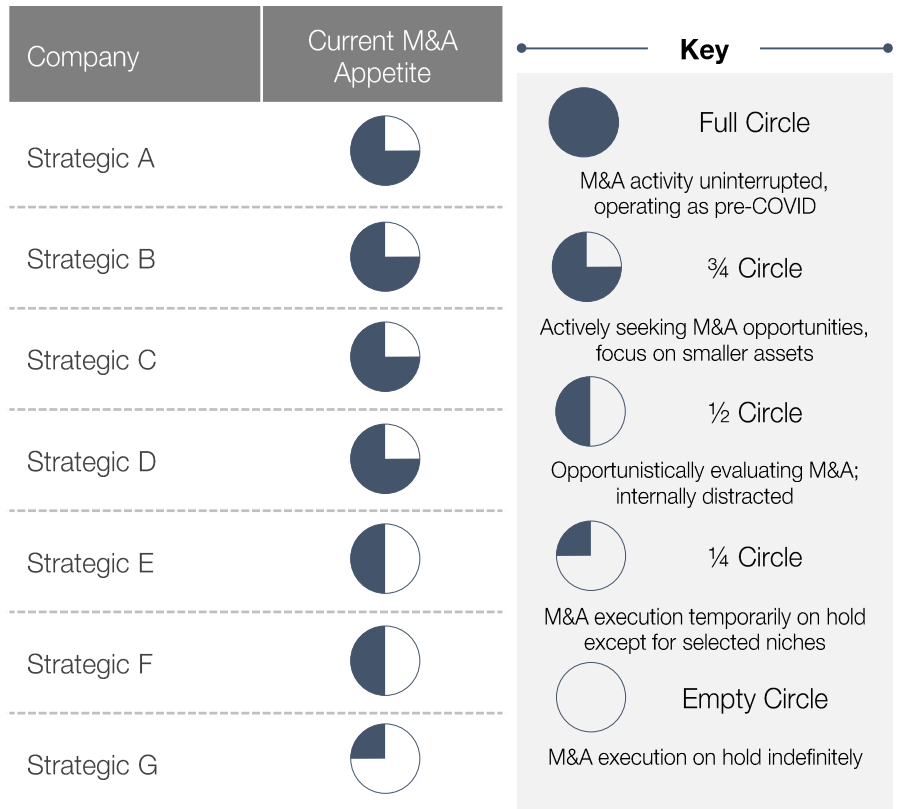
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Strategic Perspective on 2020 M&A Activity

Overview

- As trusted advisors to our clients, we are committed to providing the most current and up to date information, reflective of evolving market conditions
- In early May, we had a number of conversations with strategic relationships in corporate development, M&A, and strategy at large public industrial technology companies to discuss their current priorities and M&A perspective in the midst of this unprecedented COVID-19 outbreak
- Groups we spoke with showed a range of perspectives and attitudes toward current M&A opportunities
- The most aggressive group explained they were operating “business as usual” with the exclusion of larger opportunities (\$250mm+)
- The most conservative group was in “wait and see” mode; unlikely to move forward in a process except for highly selective strategic fits

Current M&A Appetite



Key Takeaways

Small deals (<\$100mm) will rule short-term deal volume while businesses protect balance sheets

Businesses with operations benefiting from or less affected by COVID are best positioned to be aggressively acquisitive in this time

Valuing assets in this environment continues to be a question for strategic acquirors; competitive processes will test the limits of willingness to pay

High quality assets with strong technology are likely to receive significant attention from strategic buyers given the relatively barren M&A market

Deals will continue to get done in this environment; understanding strategic fit and ability to converse with key decision makers will be key

Many businesses are seeking opportunistic acquisitions given the market climate

Q1 2020 Notable Industrial Technology Transactions

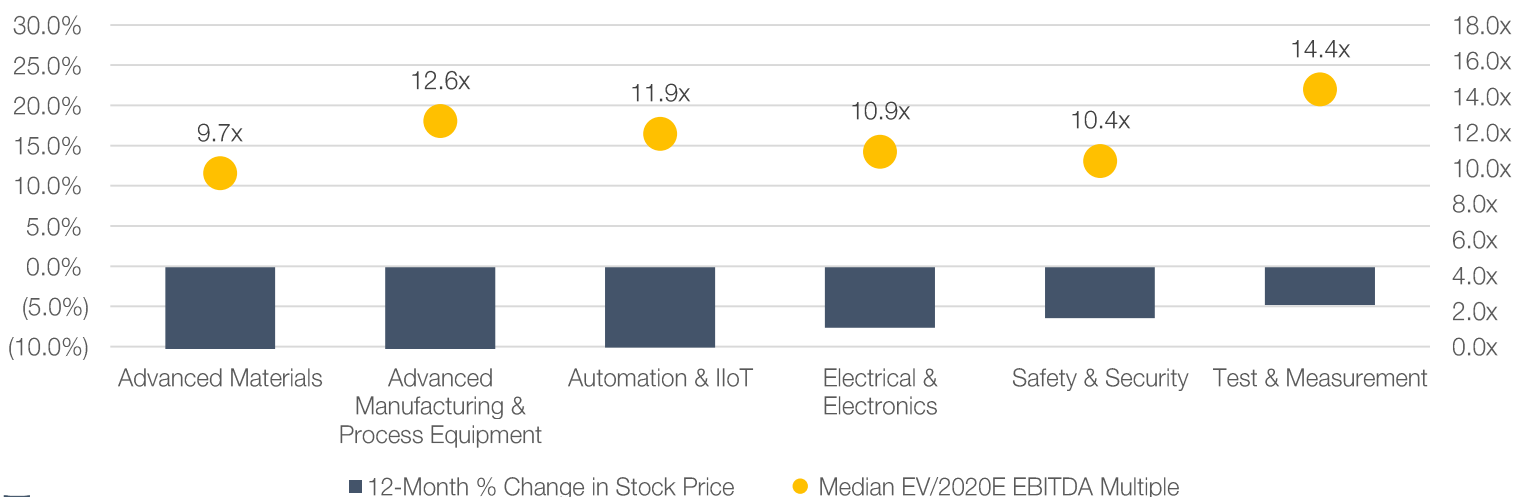
(\$ in millions)					Valuation Multiple	
Announced Date	Acquirer	Target	Target Vertical	Enterprise Value (\$mm)	EV / Revenue	EV / EBITDA
2/20/2020	 dialog SEMICONDUCTOR	 Adesto	IIoT	\$474	4.0x	NM
2/10/2020	 Atlas Copco	 ISRA VISION	IIoT	\$1,107	7.2x	31.9x
2/3/2020	 leidos	 L3HARRIS™ Security Detection & Automation	Safety & Security / Automation	\$1,000	2.0x	N/A
1/31/2020	 AMETEK	 INTELLICORE High Reliability in Harsh Environments	Electrical & Electronics	\$115	2.9x	N/A
1/30/2020	 Triton	 RENK (Volkswagen)	Automation	\$563	1.0x	6.5x
1/24/2020	 SIEMENS	 C&S electric	Electrical & Electronics	\$294	1.7x	N/A
1/21/2020	 Danfoss	 EATON Hydraulics Business	Automation	\$3,000	1.5x	13.2x
1/7/2020	 Kymera INTERNATIONAL	 ReadingAlloys Advanced Engineering Materials (Ametek)	Advanced Materials	\$250	1.6x	N/A

Public Market Snapshot

Key Trading Statistics									
Sector	Number of Companies	Market Capitalization	Median Enterprise Value	Change in Stock Price		2019E		2020E	
				12 mos.	3 years	EV/Rev	EV/EBITDA	EV/Rev	EV/EBITDA
Advanced Materials									
Large Cap	4	\$ 14,777	\$ 25,070	(25.5%)	(30.0%)	2.1x	7.4x	2.5x	9.7x
Mid Cap	10	1,868	1,972	(37.7%)	(29.8%)	1.3x	7.6x	1.3x	9.7x
Small Cap	5	399	938	(42.6%)	(26.4%)	0.8x	6.8x	0.9x	8.5x
Advanced Manufacturing & Process Equipment									
Large Cap	6	\$ 28,425	\$ 34,810	(2.1%)	32.1%	3.4x	14.3x	3.8x	20.6x
Mid Cap	16	2,810	3,715	(19.1%)	(11.8%)	1.6x	9.2x	1.8x	11.2x
Small Cap	3	232	796	(50.4%)	(62.7%)	0.8x	6.6x	1.0x	6.4x
Automation & IIoT									
Large Cap	19	\$ 28,983	\$ 37,594	(8.0%)	21.6%	2.1x	13.8x	2.1x	14.4x
Mid Cap	12	4,455	4,442	(11.9%)	42.3%	3.1x	12.6x	2.7x	9.8x
Small Cap	6	254	387	(37.5%)	(2.6%)	1.0x	7.2x	0.2x	2.7x
Electrical & Electronics									
Large Cap	14	\$ 24,245	\$ 27,695	3.9%	43.4%	2.1x	14.6x	2.3x	15.6x
Mid Cap	17	3,078	3,339	(15.5%)	(18.2%)	1.6x	8.9x	1.8x	10.7x
Small Cap	4	252	261	(45.2%)	(32.8%)	0.9x	7.0x	0.6x	5.1x
Safety & Security									
Large Cap	7	\$ 21,841	\$ 28,922	(5.9%)	(1.1%)	3.0x	12.3x	3.1x	12.5x
Mid Cap	3	4,528	5,871	(5.7%)	(0.7%)	2.3x	8.7x	2.4x	9.9x
Small Cap	3	110	98	(11.3%)	112.5%	0.8x	8.7x	0.0x	0.0x
Test & Measurement									
Large Cap	20	\$ 24,830	\$ 27,695	(2.0%)	24.5%	3.5x	14.6x	3.7x	16.9x
Mid Cap	19	3,718	3,753	(5.9%)	4.1%	2.4x	11.8x	2.6x	13.7x
Small Cap	6	487	731	(22.1%)	18.0%	1.2x	7.0x	1.5x	11.4x
Industrial Tech Index									
Mean	174	\$ 16,024	\$ 20,537	(9.8%)	10.0%	2.9x	13.0x	2.6x	13.2x
Median	174	\$ 5,332	\$ 6,073	(13.7%)	(0.9%)	1.8x	10.5x	2.0x	12.1x

Note: Multiples listed above are median values and are current as of 5/14

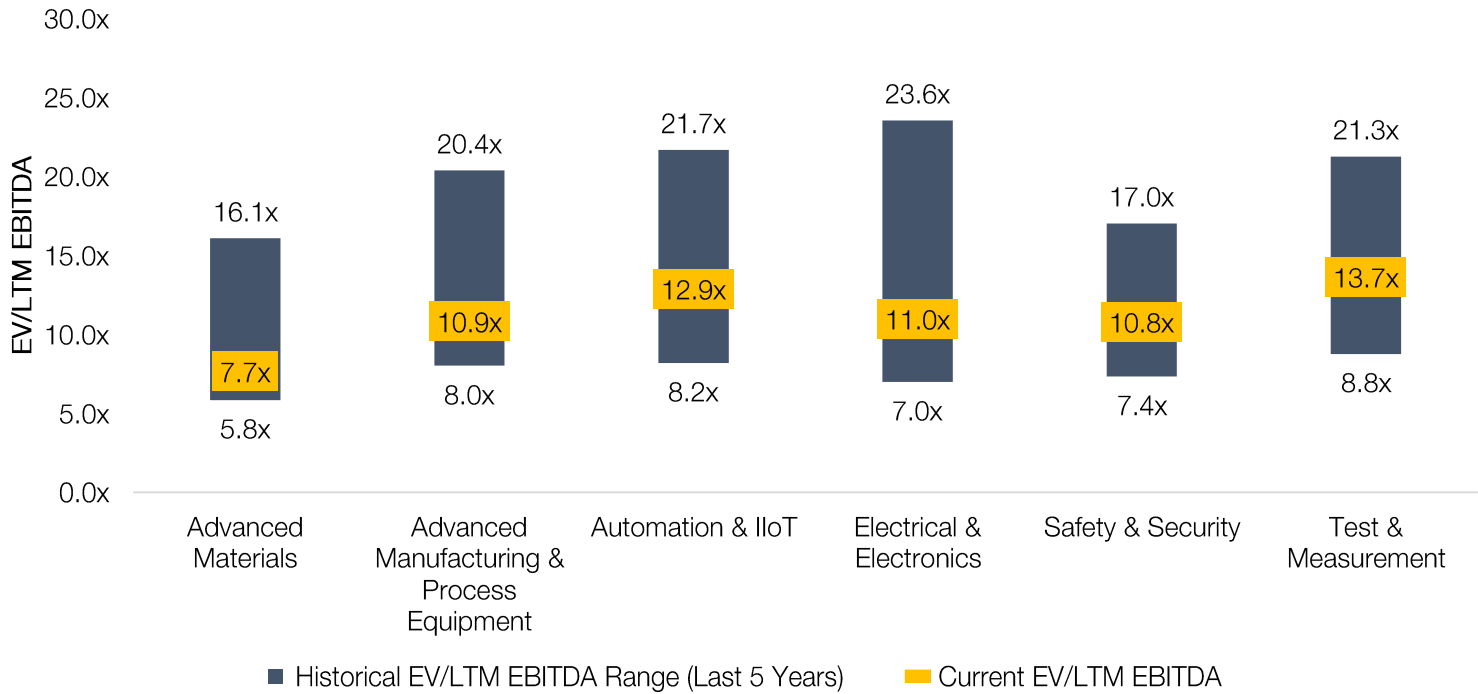
Valuations and Stock Performance



Historical Trading Multiple Ranges

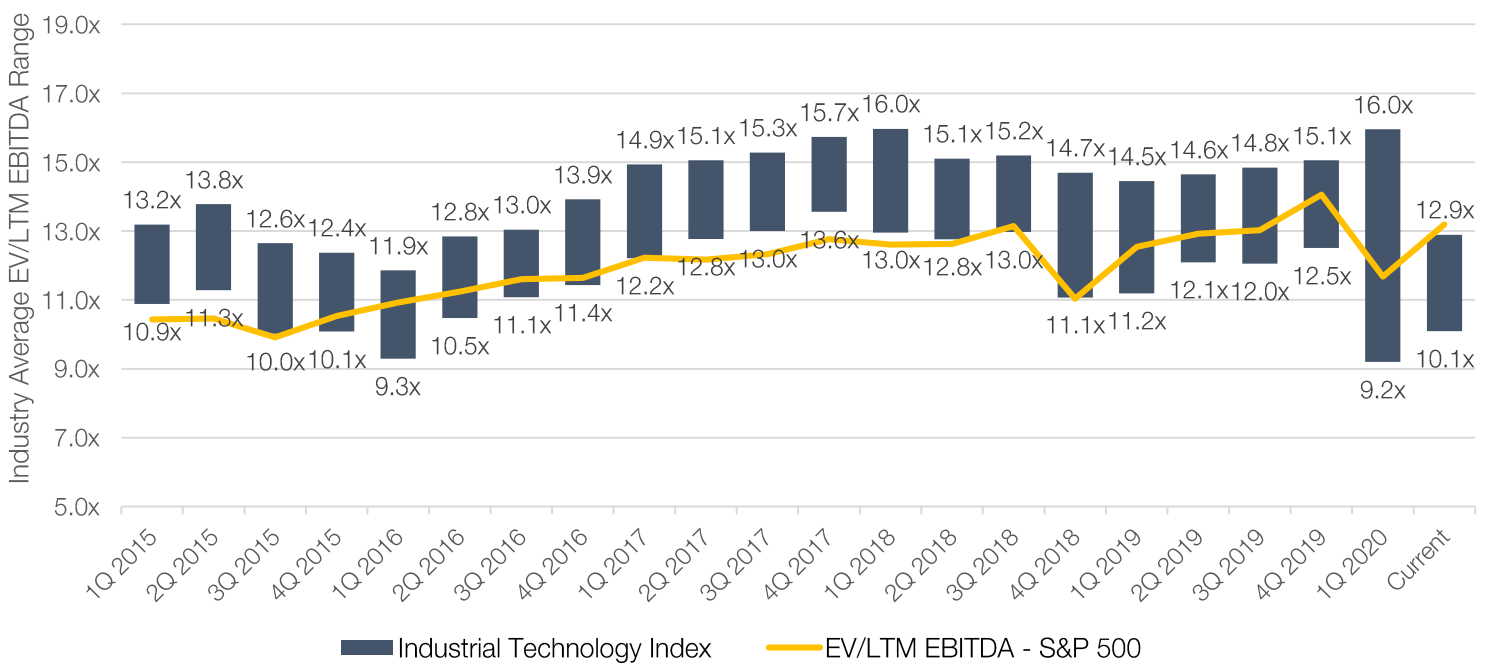
Industrial technology companies consistently trade above the S&P 500

Trading Comparables by Vertical – Historical Ranges vs Current Multiples



Note: Multiples listed above are median values and are current as of 5/14

Historical Trading Comparables – Industrial Technology Index vs S&P 500



Note: Multiples listed above are median values and are current as of 5/14

Index Key

Advanced Material	Advanced Manufacturing & Process Equipment	Automation & IIoT	Electrical & Electronics	Safety & Security	Test & Measurement
Large Cap					
3M Co. Celanese Corp. Compagnie de Saint-Corning, Inc. Gobain S.A.	Danaher Corp. Dover Corp. General Electric IDEX Corp. Parker-Hannifin Roper Technologies	ABB Ltd AMETEK, Inc. Eaton Corp. Emerson Electric Co. Fortive Corp. General Electric Hexagon AB Hitachi Honeywell Keyence Corp. Parker-Hannifin Rockwell Automation Roper Technologies Schneider Electric Siemens SKF Splunk, Inc. TransDigm Group YASKAWA Electric	ABB Ltd AMETEK, Inc. Amphenol Corning, Inc. Eaton Corp. plc General Electric HEICO Corp. Hitachi, Ltd. IDEX Corp. Keyence Corp. Mitsubishi Corp. TE Connectivity, Ltd. Teledyne Technologies Toshiba Corp.	3M Co. Halma plc Honeywell Johnson Controls Kimberly-Clark Corp. OMRON Corp. Rockwell Automation	3M Co. ABB, Ltd. Agilent Technologies AMETEK, Inc. Amphenol Emerson Electric Co. Fortive Corp. General Electric Halma plc Hexagon AB Honeywell IDEX Corp. Mettler-Toledo Rockwell Automation Roper Technologies Schneider Electric Siemens TE Connectivity, Ltd. Teledyne Thermo Fisher
Mid Cap					
GCP H.B. Fuller Co. Hexcel Corp. Kaman Corp. Morgan Adv. Material PolyOne Corp. Rogers Corp. RPM International Teijin, Ltd. Trinseo S.A.	Colfax Corp. Crane Co. Curtiss-Wright Donaldson Co. Enerpac Tool Group EnPro Industries ESCO Technologies Flowserve Franklin Electric Co. Graco, Inc. Hillenbrand, Inc. ITT, Inc. Mueller Water Nordson Corp. Regal Beloit SPX FLOW, Inc.	Alteryx, Inc. Aspen Technology Cloudera, Inc. Cognex Corp. Curtiss-Wright Elastic N.V. ITT, Inc. Meggitt PLC National Instruments PTC, Inc. Regal Beloit Yokogawa Electric	Acuity Brands, Inc. Advanced Energy Belden, Inc. Carlisle Companies Coherent, Inc. Crane Co. Curtiss-Wright Generac Holdings Hubbell, Inc. II-VI, Inc. IPG Photonics Knowles Corp. Littelfuse, Inc. Materion Corp. Meggitt PLC SPX Corp. Vishay Intertech	ADT, Inc. Autoliv, Inc. Brady Corp. MSA Safety	AB SKF Advanced Energy Badger Meter, Inc. Bruker Corp. Curtiss-Wright ESCO Technologies FLIR Systems, Inc. II-VI, Inc. Itron, Inc. Littelfuse, Inc. Meggitt PLC MKS Instruments MSA Safety, Inc. National Instruments Oxford Instruments Sensata Technologies Spectris plc SPX Corp. Yokogawa Electric
Small Cap					
Ducommun, Inc. Ferro Corp. Kraton Corp. Materion Corp. SGL Carbon SE	CIRCOR Columbus McKinnon Perceptron, Inc.	Allied Motion Tech. CalAmp Corp. Columbus McKinnon Domo, Inc. Perceptron, Inc. Servotronics, Inc.	American Superconductor CalAmp Corp. Ducommun Powell Industries	JOST Werke AG Lakeland Industries Saftec Co., Ltd.	CTS Corp. FARO Technologies Mesa Laboratories Mistras Group, Inc. MTS Systems Vishay Precision

About Founders Advisors

Who We Are

Serving Founders and Business Owners in the Lower-Middle Market

- Independent investment banking advisory firm focused on founder-owned lower middle market businesses since 2003
- Senior bankers with decades of experience in banking, private equity, business development, industry, and entrepreneurship
- Headquartered in Birmingham, AL, with offices in Dallas and Houston
- Industry expertise across five focus industries of Consumer, Energy & Industrial Services, Healthcare, Industrial Technology, and Technology
- Founders has been a trusted advisor to hundreds of lower middle market business owners, supporting growth and transitions through tailored financing, recapitalization, and transaction solutions

Industry Groups

Consumer

- Franchising
- Restaurants
- Education
- Fitness
- Retail & Entertainment

Energy & Industrial Services

- Engineering & Construction
- Chemicals
- Industrial Services
- Midstream & Downstream
- OFS & Equipment

Healthcare

- Biopharmaceuticals
- Healthcare IT
- Healthcare Services
- Medical Technology
- Tools & Diagnostics

Industrial Technology

- Adv. Mfg & Process Equip.
- Automation & IIoT
- Electrical & Electronics
- Safety & Security
- Test & Measurement

Technology

- Digital Media
- eCommerce
- SaaS
- Software
- Tech-enabled Services

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