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# Industrial technology market update



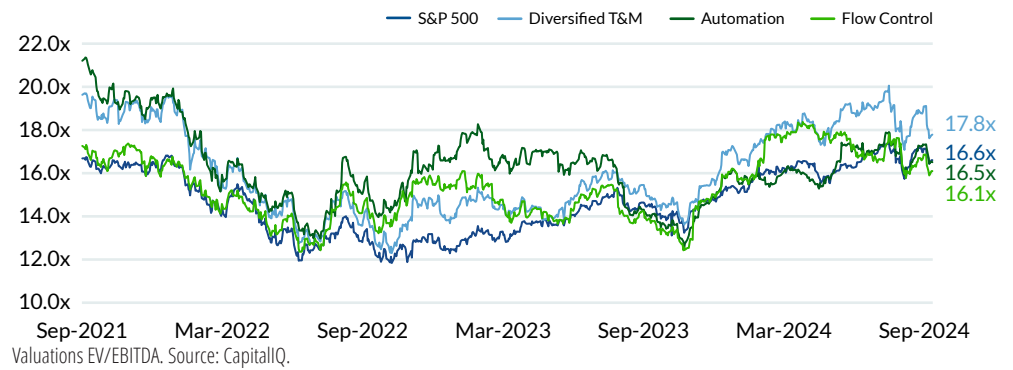
**Nathan Moeri**  
 Managing Director  
 Investment Banking



## The TM&IA sector continues to track the broader market

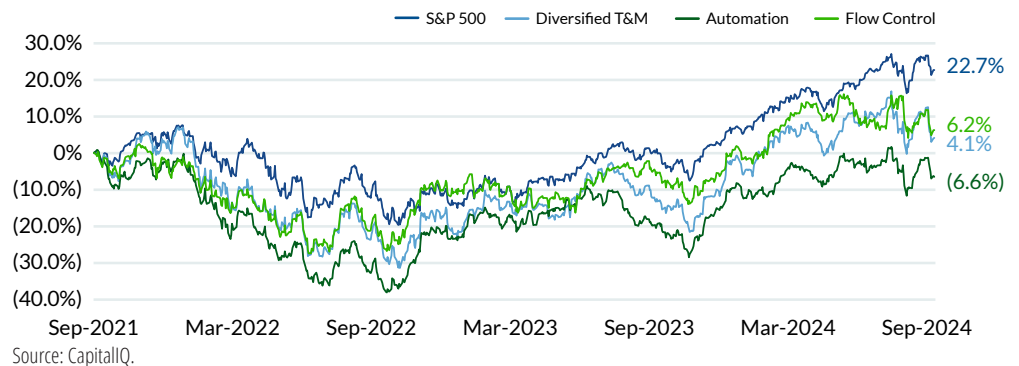
Valuations in the Test & Measurement and Industrial Automation (TM&IA) sector continue to track the broader market with current valuations above the trailing 3-Year average (Chart 1).

**CHART 1: VALUATION PERFORMANCE (SEPTEMBER 2021-SEPTEMBER 2024)**



However, stock price performance for the broader market has consistently outperformed each of the industrial technology indices. This is largely due to the technology sector's heavy weighting within the S&P 500 and skyrocketing valuations of a select group of tech names (Chart 2).

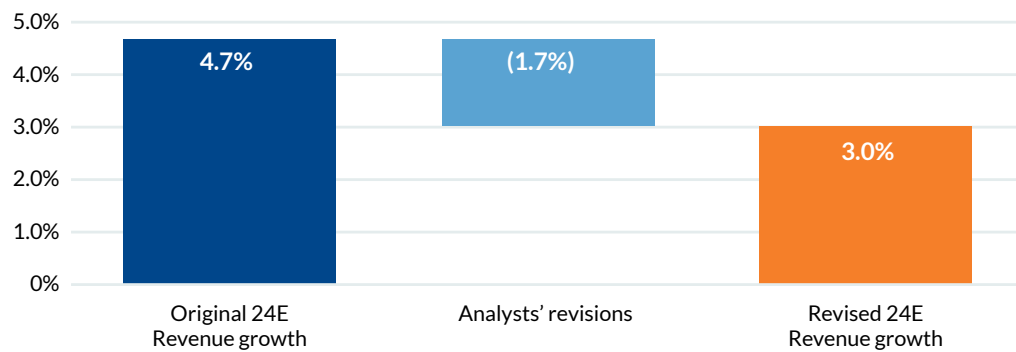
**CHART 2: SHARE PRICE PERFORMANCE (SEPTEMBER 2021-SEPTEMBER 2024)**



Past performance is not indicative of future results.

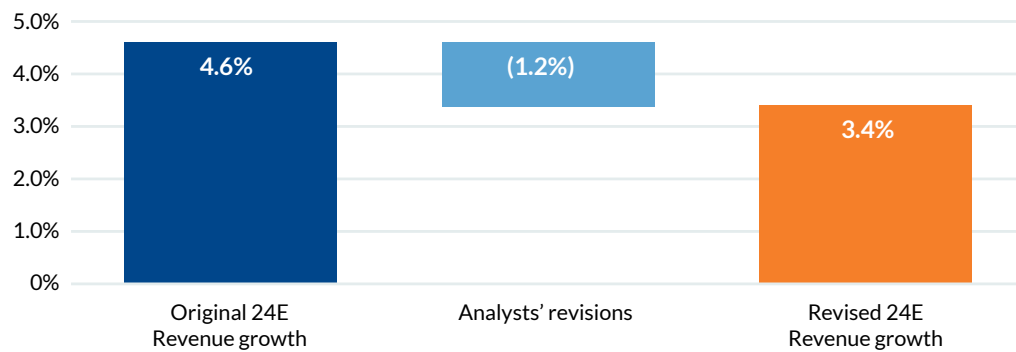
Revenue growth expectations for 2024 have continued to be revised down from original estimates at the beginning of the year (Chart 3). Although macro trends within the sector remain intact, end users for industrial technology solutions remain cautious about making purchasing decisions largely driven by concerns over slowing economic growth as well as the outcome of this year’s election and potential changes in policy. However, there are several industrial technology platforms that have continued to perform through the cycle due to diverse solutions and end market exposure.

**CHART 3: DIVERSIFIED TEST & MEASUREMENT**

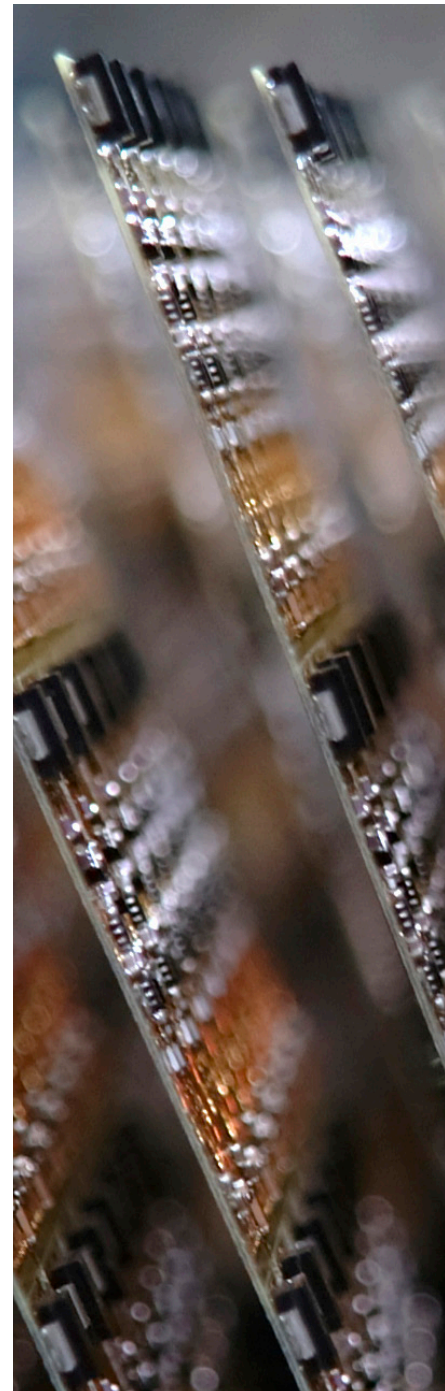


Source: CapitalIQ.

**CHART 4: INDUSTRIAL AUTOMATION**



Source: CapitalIQ.



## Industrial technology spotlight: Flow control in wastewater and sustainability initiatives

Stated simply, flow control involves the management, movement and measurement of fluid or gas in a manufacturing or processing environment. That's a vast oversimplification for a complex engineering discipline that is vital to a wide range of industrial applications.

Flow control has long been primarily associated with oil and gas supply chains. Within today's flow control sector, however, strategic buyers and investors are not only focused on solutions that maintain and optimize the energy infrastructure but are also prioritizing opportunities around preserving the world's most precious resource: water.

In this report, we spotlight two critical flow control applications focused on the anaerobic and wastewater segments. The flow control sector provides critical solutions and service to support both of these markets. Equipment includes waste gas burners, safety equipment, flame arrestors, control valves, vents and more.

### ANAEROBIC DIGESTION

Anaerobic Digestion (AD) is the natural process by which microorganisms break down organic materials in a closed, controlled environment without air/oxygen. It produces:

- a methane-rich biogas that can act as a renewable energy resource
- digestate, a nutrient-rich slurry which can be applied to agricultural land as a natural fertilizer

While AD is effectively the same process that takes place when organic materials wind up in landfills, the key distinction is that this process takes place in dedicated anaerobic digesters that control and harness methane and greenhouse gas emissions. Air-tight anaerobic digesters contain methane emissions at the site, helping to solve the problem of leaks and venting.

### Market drivers

- Government legislation
- Efforts to create a circular economy for waste management
- Rising awareness of methane emission reduction
- Growth of agro-industrial activities
- Energy security and diversification
- Rural electrification and decentralized energy systems
- Technological advancements in anaerobic digestion
- Growth in the market for biomethane production
- Increasing adoption of organic feedstock for biogas generation

According to the American Biogas Council, there are 15,000+ new sites ready for development in the U.S.

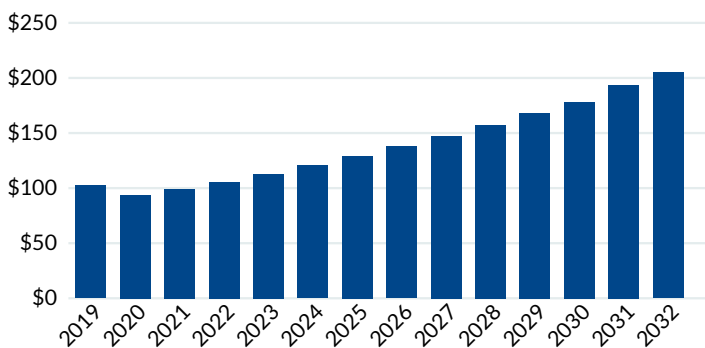
- 8,600 dairy, poultry and swine farms; 4,000 water resource recovery facilities; 2,000 food scrap-only systems; 470 landfills which are currently emitting gas into the environment that can be harnessed for energy generation
- If fully realized, these new biogas systems could reduce the emissions equivalent to removing 117 million passenger vehicles from the road

According to Organic Waste Market: Global Industry Analysis and Forecast (2023-2029), the organic waste market is anticipated to reach \$51B by 2029 from \$37B in 2022 at a CAGR of 4.6%.

## WASTEWATER TREATMENT

The US water and wastewater treatment market was valued at \$106B in 2022 and is projected to grow to \$172B by 2030, a CAGR of 6.8%.<sup>1</sup>

CHART 5: US WATER AND WASTEWATER TREATMENT MARKET SIZE | 2019-2030 (USD BILLION)



Source: Fortune Business Insights and LinkedIn.com.

Growing environmental health concerns and stringent wastewater and EPA regulations are expected to fuel industry growth. That's partly because of the vast amounts of methane that municipal wastewater treatment plants (WWTPs) emit. Methane warms the environment ~80x more than carbon dioxide.

## Market drivers

- WWTPs are designed with an average lifespan of 40-50 years, so the domestic systems that were constructed after the Clean Water Act in 1972 are reaching the end of their useful life
- The bipartisan Infrastructure Bill (2021) included a transformational investment in the water sector: \$50B to the EPA to strengthen the nation's drinking and wastewater systems, the largest single water investment by the federal government
- Most of the EPA funds (\$43.4B) will flow through Clean Water and Drinking Water State Revolving Funds, federal-state programs that provide funding and financing to wastewater, storm water and public water systems

In conclusion, strategic buyers across the flow control sector continue to expand their product portfolios to fill gaps and diversify offerings to customers. Investors have identified the sector as highly attractive and are exploring platforms to capitalize on these powerful macro trends. Although large portfolios exist in the market, a high level of fragmentation remains that should create opportunities to execute a buy-and-build strategy to expand a platform of scale.



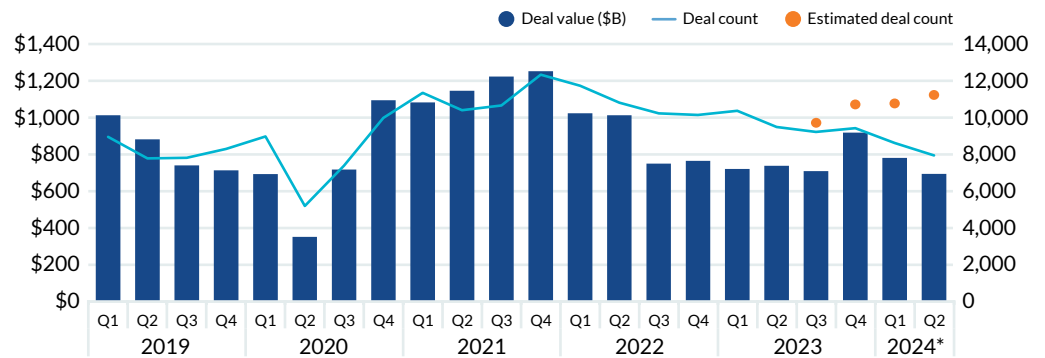


## M&A update and outlook

Overall, the M&A market has improved over the last year. Several notable transactions just within the industrial technology sector include L Squared’s sale of Raptor Scientific to Transdigm, SFW’s sale of Micromeritics to Spectris and Harbour Group’s sale of Marshall Excelsior to Dover’s OPW business.

In the industrial technology sector, overall M&A activity has been stable but the back half of the summer has seen a decline in new deals to market (Chart 6).

CHART 6: GLOBAL M&A ACTIVITY BY QUARTER



Source: Pitchbook | \*As of 6.30.2024

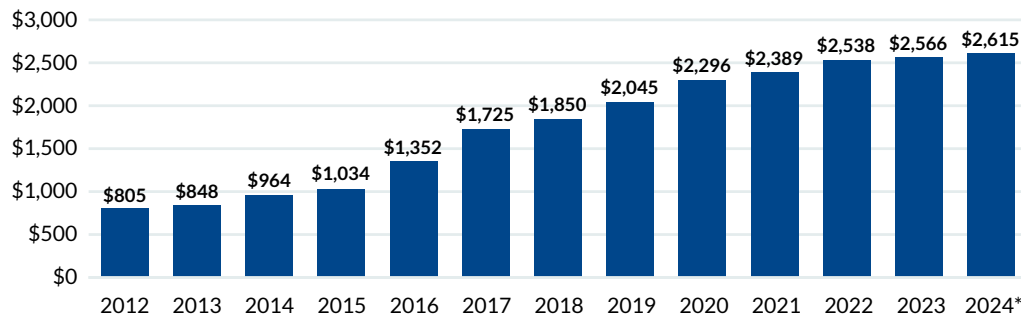
The sellers’ decision to bring an asset to market continues to be driven by individual circumstance. Businesses that have shown strong growth and increases in backlog have garnered significant interest from buyers and have supported strong valuations, particularly given the dearth of deals in the current market.

Other deals will require additional time to allow current initiatives to develop before sellers engage with buyers, such as allowing a new product to gain traction in the market or a new market to mature to accelerate orders.

As we look to the remainder of 2024, we expect overall M&A activity to track 1H 2024 levels, which have been slightly above 2023 activity. Assets will continue to come to market based on business-specific circumstances. While interest rates are expected to decrease, it’s unlikely a decline will be enough to materially move the needle in the M&A market.

Today's muted deal activity has little to do with the capital available. On the demand side, both strategic and financial buyers have sufficient capital to fuel M&A. Financial sponsors have raised significant capital, which currently stands at \$2.6 trillion of dry powder to execute transactions (Chart 7).

CHART 7: AVAILABLE DRY POWDER EQUITY (USD BILLION)



Source: Pitchbook | \*As of 6.30.2024

As organic growth moderates, strategic buyers will continue to supplement growth through M&A. Financial sponsors are ascribing a premium to assets with durable revenue and earnings growth. As strategic buyers gain visibility into the depth and duration of a potential cycle, we believe they will continue to use their strong balance sheets and M&A as tools to accelerate growth.



## Featured Transaction

### Mesirow Advises L&J Technologies

**Sector:** Industrial Technology

**Client / Target company:** L&J Technologies

**Buyer / Investor:** CogneSense, a portfolio company of L Squared Capital Partners

Based in Hillside, IL, L&J Technologies has 50+ years expertise in developing precision level gauging, testing and connectivity systems for industrial tank applications. L & J services customers in the wastewater, oil & gas, chemical, food and other industries.

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## Recent Industrial Technology Transactions

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To learn more, visit [mesirov.com/investmentbanking](https://mesirov.com/investmentbanking).

## Contact us

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## Other sector concentrations

In addition to diversified industrials, we are a dedicated advisor to a wide array of middle-market companies and have developed an in-depth expertise in a range of industries, including:

- Aerospace & Defense
- Business Services
- Consumer & Retail
- Distribution & Supply Chain
- Diversified Industrials
- Food, Beverage & Agribusiness
- Healthcare
- Packaging
- Technology & Services

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1. Source: World Population Review. | 2. Source: Carnegie Endowment for International Peace. | 3. Source: National Association of Manufacturers. | 4. Source: China Briefing, "Reshoring from China to Mexico – How prevalent is it really?" | 5. Source: Globe Newswire. | 6. Source: Mordor Intelligence. | 7. Source: ManufacturingDive.com. | 8. Source: Supplychaindigital.com, Gartner, Capterra: <https://supplychaindigital.com/supply-chain-risk-management/nearshoring-happening-faster-than-expected-says-gartner>. | 9. Protiviti, "The Future of Work": [https://images.learnmore.protiviti.com/Web/Protiviti/%7B-52816f0c-811e-4197-881f-83d52bd94318%7D\\_VISION\\_by\\_Protiviti\\_Future\\_of\\_work\\_highlights.pdf](https://images.learnmore.protiviti.com/Web/Protiviti/%7B-52816f0c-811e-4197-881f-83d52bd94318%7D_VISION_by_Protiviti_Future_of_work_highlights.pdf)

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