

2023 Industrial Equipment & Technology (IE&T) PE Landscape

January 2023

These materials are intended to supplement a discussion with L.E.K. Consulting. These perspectives will, therefore, only be meaningful to those in attendance. The contents of the materials are confidential and subject to obligations of non-disclosure. Your attention is drawn to the full disclaimer contained in this document.























Our Industrial Equipment & Technology (IE&T) experience extends across multiple sectors of the industrial economy

NON-EXHAUSTIVE

Product range

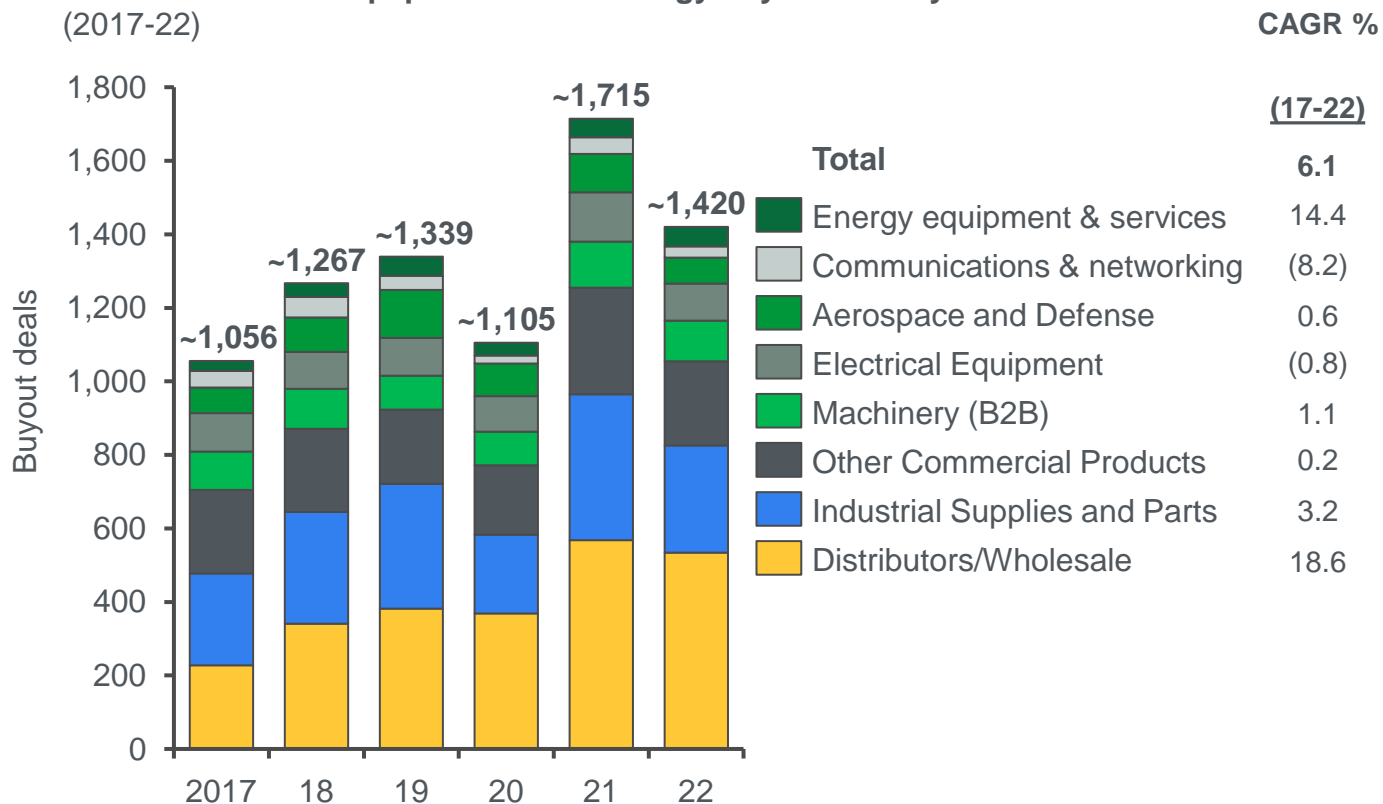
End markets

 Industrial automation	 Industrial machinery	 Aerospace and Defense	 Agribusiness	 Automotive
 Electrical/energy equipment	 Rotating equipment	 Building & construction	 Chemicals	 Environment
 Telecommunication/computer hardware	 Test and measurement	 Infrastructure	 Metals & mining	 Oil & gas
 Heavy duty and off-road vehicles	 Industrial supplies and parts	 Packaging/distribution	 Utilities	 Water and wastewater

Source: L.E.K. research and analysis

Buyout activity in IE&T has grown ~6% p.a. from 2017-22; IE&T buyout activity returned to more typical levels in 2022 after a record year in 2021

U.S. PE industrial equipment & technology buyout activity*^
(2017-22)



- Private equity IE&T deal volume has been averaging 1,200-1,400 deals annually
 - COVID displaced 300-400 deals from 2020 to 2021, resulting in a record year of activity
 - Activity in 2022 has remained strong, but has returned to more normalized levels
- A key area of investment focus each year has been on industrial distribution, where investment firms see clear opportunities for:
 - Consolidation and roll-up
 - Product line expansion
 - New value-added services proposition of leading players

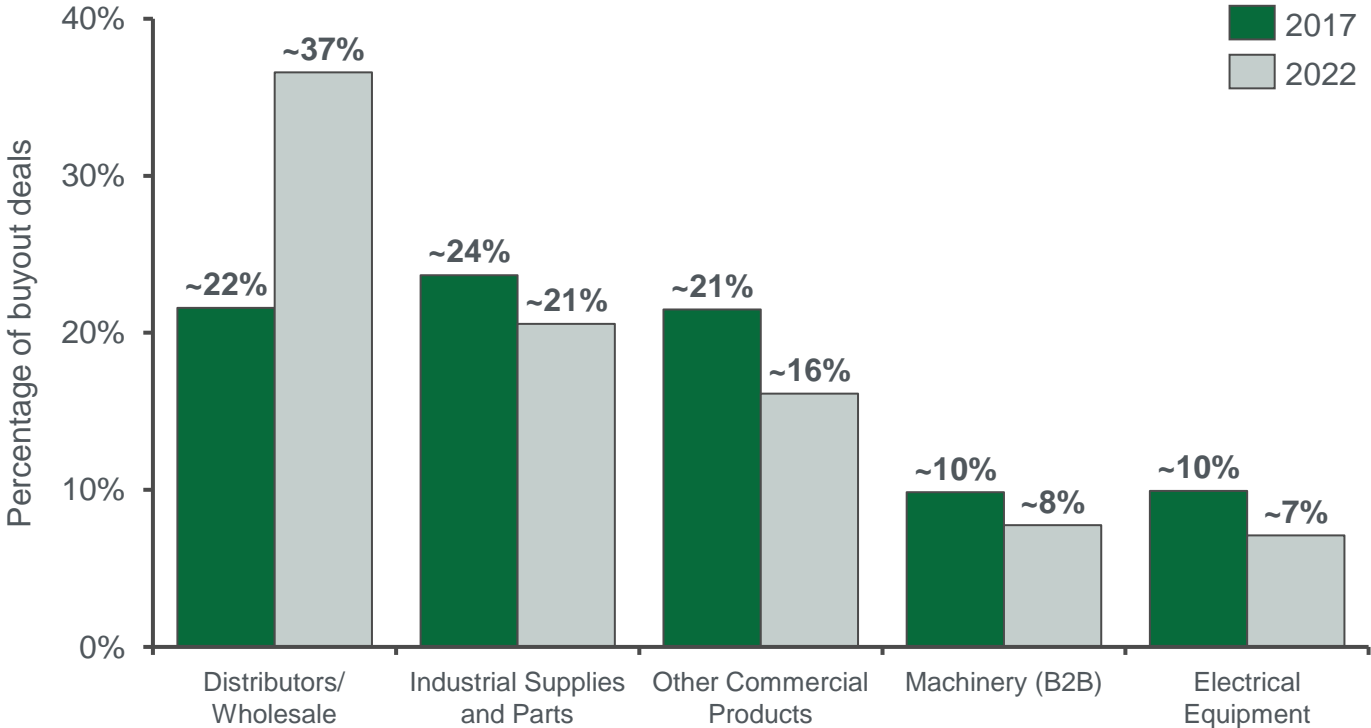
*Deal types include Buyout/LBO, Management Buyouts, Management Buy-ins, Add-ons, Public to Private, and Corporate Divestitures;

^Industries include Aerospace and defense, Alternative energy equipment, Connectivity products, Distributor/wholesale, Electrical equipment, Electronic equipment and instruments, Fiberoptic equipment, Industrial supplies and parts (i.e., manufacturers of intermediate goods, which includes industrial parts and supplies made through injection molding, extrusion, thermoforming, die casting, and metalstamping, among others), Machinery (B2B), Oil and gas equipment, Other commercial products, Other commercial energy services, Other energy equipment, Wireless communications equipment, and Energy infrastructure

Source: Pitchbook; L.E.K. research and analysis

Distributor/wholesale deals accounted for the greatest share of U.S. IE&T deals in 2022; over the past 5 years, the distributor/wholesale deals have increased by over 300 deals, the most of any sub-sector

U.S. industrial equipment & technology buyouts by top five sub-sectors*[^]
(2017-22)



- Over time, deal count share across sub-sectors shifts with the investing landscape
- Sub-sector deal count shares in 2022 moved slightly from 2017; however, distributor/wholesale deals exhibited the biggest shift at ~16% ppt change in deal count share
- Investment into the distributors/wholesale and industrial supplies and parts sub-sectors accounted for nearly 60% of IE&T deals in 2022
 - Headline deals include those like Ilion Capital Partners’ acquisition of AM Equipment, an industrial motor manufacturer for multiple industries
 - Another notable acquisition in the distributors/wholesalers sub-sector includes Granite Creek Capital Partners’ acquisition of Diamond Blade Warehouse, a wholesale supplier of industrial saw blades

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Source: Pitchbook; L.E.K. research and analysis

Top 2023 mega-trends impacting the U.S. industrial equipment & technology industry



Material cost and inflation headwinds

- Inflation is contributing to economic constraints with ~78% of companies having passed cost increases on to customers
- >50% of respondents expect prices to continue an elevated trajectory through 2025
- Expected responses to potential headwinds are to invest in price forecasting, renegotiate contracts, and explore new suppliers



Lasting supply chain impacts

- ~76% of world trade is transacted across global supply chains, which is subject to disruption given economic, geopolitical, and time constraints; nearshoring and reshoring of supplier networks is expected as companies navigate impact on the industry
- Firms are investing in inventory buffers, monitoring systems, parts commonality, and additional suppliers to ensure reliability



Persistent labor shortages

- Labor shortages are expected to continue; by 2030, as many as 2.1M manufacturing jobs will go unfulfilled, threatening growth
- >80% of companies expect compensation increases, retention incentives, and location openings are required to attract labor
- Training/upskilling programs will be employed to create requisite talent, while tech like automation will fill workforce gaps



Acceleration of automation

- >85% of companies expect to invest more in automation over the next 3 years to address core industry constraints such as labor shortages and improve manufacturing efficiency
- Over time, increased utilization of automation will benefit firms with flexibility and long-term cost advantages to transform workforces



Continued digital transformation

- Continued spending on smart manufacturing technology is expected as more companies pursue digital transformation
- Manufacturers are integrating new technologies such as IoT, cloud computing and analytics, and AI & machine learning into production facilities across all aspects of the value chain



Investment in electrification

- Companies report continued investment in electrification; ~90% plan to invest in electrification technology over the next 3 years
- Firms need to assess shifting market trends toward electrification, existing vs. expected product-market fit, and production flexibility in order to meet market demand



Continued long-term support for ESG

- Manufacturing executives acknowledge that ESG provides long-term competitive advantages, but are delaying investments into ESG in the near-term and waiting for market conditions to improve before committing to overhauling current business practices
- >80% of companies expect to increase investing into sustainable products and operations and workplace safety through 2025

While you may be most familiar with L.E.K.'s buy- and sell-side work, our growth strategy backbone enables us to support PE with enhancing portfolio value and integrating follow-on transactions



Source: L.E.K. research and analysis

Eric, Matt, and Alex bring deep relevant expertise to industrial equipment & technology initiatives



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Eric Navales is a Managing Director and Partner in L.E.K. Consulting's Industrials practice, in which he leads the Industrial Equipment and Technology practice in North America. He has more than 15 years of consulting experience working on a wide variety of projects including growth strategy, market forecasting, mergers and acquisitions, Industrial IoT, digital and ecommerce strategy.

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