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# Q&A

**Jason Russell**
Managing Director and Head of Industrial Technology & Software, PJ SOLOMON

*Jason Russell at PJ SOLOMON spoke to Milana Vinn about how digitization, automation and the cloud are transforming the industrial sector – and how that is driving PE M&A activity*

# "Some of the most active industrial tech verticals are asset management, construction tech, transportation tech and Infratech or smart cities"

**Q How would you characterize dealflow activity in the industrial tech space?**

You are seeing a substantial increase of industrial companies' participation in software processes. There is almost triple the amount of activity around industrial tech deals and the number of these deals is almost doubling by quarter.

In 2018 the annual market opportunity in industrial tech M&A was around $100 billion and this number is growing. We looked at the volume of industrial companies buying technology companies and vice versa. So, in 2015, industrial tech deal volume was $32 billion. In 2016, $48 billion; in 2017, $80 billion.

A lot of industrials I talk to – they want to be part of the future, meaning they need to invest in technology to allow them to future-proof their businesses.

So a lot of investment in tech that industrials are making is in response to what's happening in Silicon Valley – where tech companies are trying to disintermediate companies. Industrials invest in tech companies to prevent this disintermediation. They are acquiring software companies to help them digitize management of physical assets and connect those assets with the cloud.

The industrial sector offers investors strong growth, because the adoption of cloud-based technologies proliferates. Private equity and growth equity can fund that tech penetration growth. One way is by investing in later stage VC-backed companies to take them to the next level and help those businesses mature.

Construction, for instance, is one of the least digitized industries and is probably the largest. We are seeing substantial activity in construction technology and nearly all activity is around companies in early stages.

Last year, in July, Gordian, a Warburg Pincus-backed construction automation and software provider, was acquired by Fortive Corporation. Around the same time, publicly traded Trimble acquired Bain Capital-backed Viewpoint, which provides construction management software. In 2016, Roper Technologies bought ConstructConnect, backed by Genstar and Warburg Pincus.

You can see three crossover industrial software deals in just that space alone.

## Q&A

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**Q What are some examples of industrial tech deals that fit into digitization trend?**

Take Fortive, a Danaher Corporation spin-out. Fortive was traditionally focused on industrial metering equipment and now they are entirely focused on software M&A. In 2018, they bought Accruent, a cloud-based software company that helps organizations to manage real estate, facilities and other assets.

The idea is that if you have a machine that needs repairs and maintenance – you can see it visualized on the asset management software platform. The asset can be anything: a floor sweeper in the manufacturing facility, or it can be a robotics machine that builds tires.

The traditional process is you go around the facility, check equipment and manually enter things into a data-system. With software, you now have all information digital and you can see performance on your device screen, all this information is being housed now in the cloud. So [Fortive] did this software deal in the space that they know well. It's a transformation of a very traditional industrial business into a technology company.

We also saw Cubic Corporation, which does hardware and provides systems for mass transit and defense markets, buy a company called Trafficware, which is a tech and software provider that builds traffic management infrastructure.

The punchline is: you are going to see digitization of industrials, so you are going to see a lot more industrial companies participating in software M&A processes.

**Q How does automation change ways the companies operate?**

Automation can be completely disruptive, like with autonomous driving vehicles and in warehouses. Although, warehousing is different than auto. It's less about disintermediation and more about improvement. We are seeing new players enter the warehousing space though and investing in technology there.

The interim step to making a warehouse completely automated is enabling a worker to be more productive. You can be using technology to do the task cheaper and faster. And this trend of automation is increasing M&A activity.

In September, a commerce platform, Shopify, bought 6 River Systems, backed by multiple VC firms; 6 River Systems is a warehouse software control platform. They are effectively helping workers in warehouses to be more productive.

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**Q What will be the most active verticals within industrial tech in 2020? Which verticals see most activity from the PE clients?**

I think there is a lot of opportunity, a lot of different ways to play niche verticals. There are a lot of industrial verticals that are sizable but overlooked by traditional technology investors. And there are a lot of vertical tech opportunities to disrupt those industrial areas, too.

Some of the most active industrial tech verticals are asset management, construction tech, transportation tech and Infratech or smart cities. In the asset management vertical, tech deals are all about doing predictive maintenance for the companies' assets.

In construction, there is an evolution of smart jobsite technology that connects people and assets on-the-job at a construction site. There is a lot of innovation for the jobsite bidding process too. For instance, there are software platforms that streamline those bidding processes and help select which contractor does what job. A lot of investment is going in this technology.

In the transportation space, it's all about supply chain visibility. All trucks are connected now to the cloud through ELD (electronic logging device), which basically allows drivers to record their hours. There are 3 million or so long-haul trucks. When you know where those trucks are at – you can track them, and you can build software that would visualize when the trucks need maintenance or when the drivers pass any safety extensions.

If you are a shipper, you can also find out whether there is a truck with empty capacity driving from point A to point B, from Memphis to Cleveland, for instance. But if you don't have that visibility, this is going to be wasted space. This connection of physical assets to the cloud allow for that marketplace to be created.

**Q What is the valuations range for industrial tech companies?**

It's very company specific. It depends on where the industrial company is at the curve of adapting cloud technology licensing. Multiples can go between 2x to 10x revenue. Companies that have been around longer and are in transition from on-premise software model to cloud – those companies trade at lower valuation model, compared with a company that is cloud "native."

What drives valuations is also factors like a strategic buyer, growth rate, future profit perspective. It's a very wide range of valuations. Salesforce bought ClickSoftware for 3.5x its revenue. On the flip side, Salesforce bought Tableau for 10x revenue, and both companies do business analytics tools but are in different points of adapting technology. ■