



M&A Insights Q2 2021

## AUTOMATIC IDENTIFICATION AND DATA CAPTURE INDUSTRY UPDATE

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## OVERVIEW

The COVID-19 pandemic has put a strain on industries across the world, resulting in shutdowns, supply chain disruptions, and macroeconomic challenges alike. The automatic identification and data capture (AIDC) industry fell victim to the pandemic and suffered considerable losses in the first and second quarters of 2020. For example, Zebra Technologies Corporation, a publicly traded, global manufacturer of asset intelligence solutions, posted a loss of 1.3% in net sales and further forecasted a decrease in the second quarter of approximately 17.0%. Despite this slowdown throughout most of 2020, many industry players rebounded to normal or above normal performance by year end. This swift rebound is due in part to the increasing need for data collection capabilities across a variety of end markets. The ability of AIDC technology to identify and track items across the supply chain, throughout the manufacturing process, in transportation and logistics, and importantly, to ensure health and safety in the new COVID-19 environment, is vital now more than ever.

### The State of AIDC Industry M&A

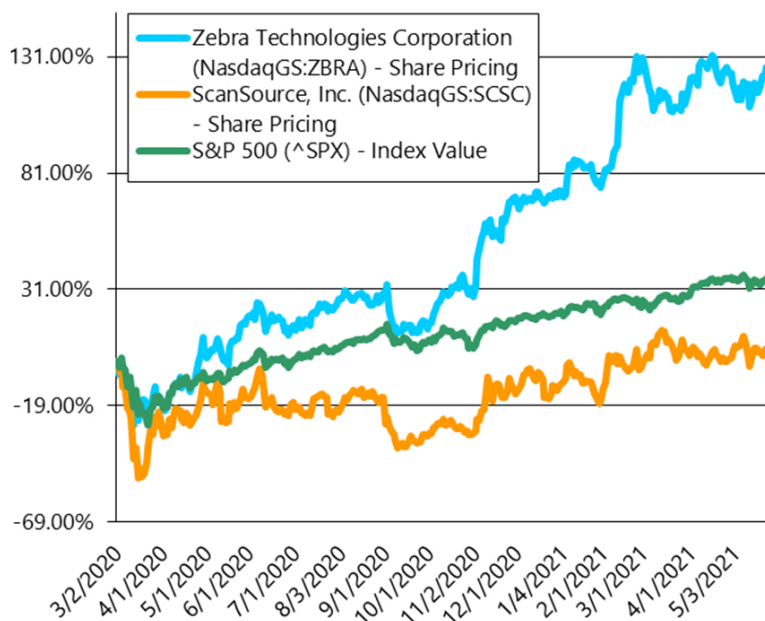
Overall, the global M&A market has rebounded at an extraordinary pace following mass shutdowns in 2020. The AIDC industry has simultaneously experienced increased customer demand driving business valuations to record highs. It is anticipated that with continued industry growth over the next several years, M&A activity will increase as new private equity firms enter the space and existing investors seek to grow through acquisition. Valuations are currently buoyed by an immense amount of capital chasing to few deals, but as more owners look to exit in the coming years, they will strive to stand apart from the crowd.

While it is difficult to point to one factor driving the increased activity, the rebound as we exited 2020 can largely be attributed to pent up demand. Buyers are back and more active than previously recorded. Other contributing factors include a consolidation strategy led by large private equity-backed organizations, other companies looking to acquire books of business and sales relationships, as well as continued geographic expansion. It is expected that the rate of M&A transactions in the AIDC industry will continue at an unprecedented pace throughout 2021.

### AIDC Industry Outlook

According to Meticulous Research, the AIDC industry is expected to grow at a compound annual growth rate of 9.8% from 2020 to 2027 surpassing \$103 billion in market value. Key characteristics fueling industry growth include increased customer demand for advanced technologies including barcode, RFID, and biometric solutions, a growing e-commerce industry globally, and continued technological advancements driving customer product refreshes. The AIDC market is also positioned to benefit from COVID-19 tailwinds as new opportunities present themselves including increased spending in healthcare solutions which will have a positive impact on industry growth. It should also be noted that industry growth may experience some volatility due to a lack of wireless infrastructure currently available needed to support these advanced technologies. This volatility can be subsided with continued implementation of a 5G network.

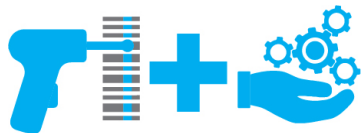
### Share Price Performance Compared to S&P 500



# ACQUIRER INSIGHTS

## Key Characteristics that Drive a Premium Valuation

Charter is a premier investment banking advisor in the AIDC industry, having advised multiple businesses through the sale process in the past two years. Our senior-level M&A professionals bring their AIDC industry insights and transaction experience to the table to ensure that our clients achieve their desired outcome while driving maximum value. In our interactions with scores of potential acquirers, we have heard firsthand the business characteristics that drive a premium business valuation:



### Hardware Plus Service Sales

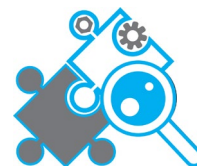
AIDC distributors typically have a revenue composition that is heavily weighted towards hardware sales. However, constantly chasing the hardware refresh cycle is a race to the bottom of profitability and will result in unpredictable revenue cycles. The shortening of the refresh cycle over the last 3-5 years has helped mitigate some of the lumpiness of the large project revenue streams, but if you are not selling services to your clients in between each hardware refresh, someone else is. Acquirers value consistency, profitability, and growth above all other attributes – attributes that can be attained via service-based income streams to create a premium valuation multiple.



### Sale of Consumables

This is the golden goose for valuations in the current M&A environment. An uneducated buyer won't see value in selling blank labels, but premium buyers recognize the more frequent purchase cycle can result in higher margin and revenue predictability. Selling consumables is admittedly different than selling hardware. A consumable sale is typically a small dollar transaction, so incentivizing a sales force compensated on gross profit can be problematic if they are accustomed to large hardware sales. In addition, it is often a sale to a different contact within each customer. Easier said than done.

However, the benefits of selling consumables can outweigh the initial hurdles. The salesperson who accumulates a book of business in consumables will have a recurring commission cycle to protect against times when customers push off a technology refresh. And the business that sells consumables will have a more predictable cash flow basis to attract acquirers, better plan annual budgets, and provide a floor to scale the business.



### Complete Solutions Provider

Selling and coordinating the distribution of hardware for your customers is the entry point to the AIDC industry. Understanding integration and the ability to create custom software and applications for customers are traits that separate best in class businesses from low margin distributors. The additional resources needed to upgrade engineering and sales support talent should lead to increased margin and valuation multiples at an exit. Further, the most aggressive and best capitalized acquirers in the industry do not just want to add scale, they are also looking to strengthen their offering in areas like mobile device management, software development, and RFID integration.



## KEY DEALS

| Company Acquired   | Deal Summary  |
|--|---|
|                             | <p><b>May 2021:</b> Sole Source Capital LLC, an industrial-focused private equity firm, announced today that its portfolio company, Supply Chain Services, a premier provider of automatic identification and data capture ("AIDC") and factory automation solutions to customers across North America, has acquired ISG Technologies. The acquisition of ISG Technologies adds to Supply Chain Service's product line and expands its geographic reach into Texas. <a href="#">Learn more</a></p>  |
|                             | <p><b>May 2021:</b> Barcodes Inc. announced the acquisition of Carlton Technologies Inc., an IT hardware solutions, professional services, and repair services for a wide range of manufacturers across North America. Barcodes, headquartered in Chicago, is a leading provider of barcode, mobile computing, RFID, and retail solutions. <a href="#">Learn more</a></p>   |
|                             | <p><b>May 2021:</b> Sole Source Capital LLC, announced that its portfolio company, Peak-Ryzex, a value-added reseller of barcoding and data collection solutions to customers across North America, has acquired Inovity Inc. Headquartered in Atlanta, Inovity is a value-added reseller of AIDC labels, media and hardware for the healthcare, manufacturing, and industrial end-markets. <a href="#">Learn more</a></p>  |
|                           | <p><b>April 2021:</b> Sole Source Capital LLC announced the acquisition of Peak-Ryzex from Keystone Capital. Peak-Ryzex delivers innovative automated data collection solutions to Fortune 500 customers along with small and medium-sized businesses, providing critical technology that allows businesses to become more efficient and responsive. The Company is a premier value-added reseller ("VAR") of barcoding, data collection, and factory automation equipment, delivering innovative digital supply chain and mobile workforce solutions across North America and Europe. <a href="#">Learn more</a></p> |
|                           | <p><b>April 2021:</b> Sole Source Capital LLC announced the acquisition of Optical Phusion. Established in 2004, OPI is a founder-owned solution provider of AIDC hardware equipment and software solutions primarily to the grocery, pharmacy, and retail end markets. OPI specializes in helping customers solve business challenges and manage the entire lifecycle of supply chain solutions such as e-commerce, click and collect, interactive kiosk, personal shopping solutions, RFID, mobility, and wireless technology projects. OPI is headquartered in Littleton, MA. <a href="#">Learn more</a></p>       |
|                            | <p><b>Dec 2020:</b> Sole Source Capital LLC announced that its portfolio company, Supply Chain Services, a premier provider of automatic identification and data capture (AIDC) and factory automation solutions to customers across North America, has acquired Coridian Technologies, Inc., a leading provider of product identification and data collection solutions for the healthcare, manufacturing, and warehouse/distribution industries. <a href="#">Learn more</a></p>   |
|                            | <p><b>Oct 2020:</b> Sole Source Capital LLC announced that its portfolio company, Supply Chain Services, a premier provider of automatic identification and data capture (AIDC) and factory automation solutions to customers across North America, has acquired Miles Data Technologies, a leading provider of barcode, RFID, and mobility solutions. <a href="#">Learn more</a></p>   |
|  <p>Source: Pitchbook</p> | <p><b>Aug 2020:</b> Sole Source Capital LLC announced that its portfolio company, Supply Chain Services, a premier provider of automatic identification and data capture (AIDC) and factory automation solutions to customers across North America, acquired Dasco Label, a leading solutions provider of custom labels, imprinting, serialization, and barcoding services. <a href="#">Learn more</a></p> <p><b>May 2020:</b> Sole Source Capital LLC announced the acquisition of Supply Chain Services.</p>  |

# CHARTER TEAM INDUSTRY EXPERTISE

Charter is a leader in the Automatic Identification Data Capture (AIDC) M&A market. Our professionals are uniquely positioned with a combination of industry-specific knowledge and M&A market access to best advise your company through a sale transaction. During our 31 years in operation, the Charter team has completed several transactions in the AIDC industry as well as facilitated conversations with some of the industry's leading value-added resellers (VARs) and original equipment manufacturers (OEMs). As one of the few investment banking firms with a practice focused on AIDC, Charter has a compelling edge in guiding businesses through buy, sell, and capital raise transactions. We leverage our proven track record, knowledge of active buyers and sellers, and awareness of current AIDC market dynamics to help generate the best outcome for businesses operating in the industry.

## Industry Practice Team



**Mike Brown**

*Partner and Managing Director*  
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Mike has 19 years of experience as a financial advisor to business owners, capital providers, and executive teams in a variety of M&A and financing transactions. He has advised both publicly and privately held businesses ranging in size from \$10 million to \$500 million of Enterprise Value. He leads Charter's AIDC practice.

Mike leads the M&A team at Charter. He has significant investment banking experience and has advised on transactions valued at \$3 billion in the aggregate. Previously, Mike worked for a bulge bracket Chicago investment bank for 10 years with a focus on large (>\$300 million revenue) privately held businesses. He earned a BS in Finance from the University of Colorado, Leeds School of Business, and an MBA with Honors, from the University of Chicago, Booth School of Business. He has attained FINRA securities registrations including the Series 7, 63, and 82.



**Justin Pinto**

*Associate*  
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Justin has been with Charter since 2016. He is responsible for managing and executing M&A client engagement projects and assists in leading Charter's AIDC practice. He is also responsible for developing deal analysis tools, including financial models and visualizations, comparable industry research, and valuation support.

Justin graduated from Hope College in 2018 with a BA in Business and a minor in Organizational Leadership with an emphasis in Finance and Entrepreneurship. While at Hope, Justin was involved in several extracurricular activities, including Founding Member of the Investments Club, Executive Member of the Round Table Society, and member of the Business Club. He is a member of ACG Western Michigan and the Van Andel Institute JBoard.

## Select Transactions Advised by Charter Team Members

  
A life-cycle, mobile managed services and repair provider located in Texas

Has been acquired by



Charter Principals are serving as the exclusive M&A advisor to this company



  
A self-service kiosk, enterprise mobility, and wireless technology integration solutions company headquartered in Littleton, Massachusetts

Has been acquired by



Charter principals served as exclusive M&A advisor to Optical Phusion, Inc.



  
A leading provider of automatic identification and data capture technology headquartered in Oakdale, Minnesota

Has been acquired by



Charter Principals served as exclusive M&A advisor to Supply Chain Services.



  
A market leader in the Automatic Identification and Data Capture Market based in Holland, Michigan

Has been acquired by

  
A portfolio company of Odyssey Investment Partners, LLC

Charter Principals served as exclusive M&A advisor to Informis.





## About Charter

Founded in 1989, Charter Capital Partners is a premier investment banking firm headquartered in Grand Rapids, Michigan. We offer a comprehensive range of investment banking advisory services, including buy-side and sell-side M&A, succession planning, business valuation, and capital raise.

Charter was named one of the top 100 most referred middle-market advisory firms in the US, according to a survey of 1,000 private equity firms, strategic acquirers, and family offices compiled by Axial, a network of middle market investors, advisors, and CEOs. Our mission is to deliver superior professional guidance throughout the complete business lifecycle.

## Advisory Services Snapshot

| Type                  | Expertise  |
|-----------------------|--|
| M&A<br>Advisory       | <ul style="list-style-type: none"><li>Go-to-market sell-side advisory</li><li>Buy-side growth strategies</li><li>Exit planning</li><li>Fairness opinions</li></ul>               |
| Capital<br>Raise      | <ul style="list-style-type: none"><li>Equity or debt capital raise</li><li>Dividend recapitalization</li><li>Solvency opinions</li><li>Minority investors</li></ul>              |
| Valuation<br>Opinions | <ul style="list-style-type: none"><li>Buy-sell agreements</li><li>Gift, estate, and income tax matters</li><li>Shareholder disputes</li><li>Purchase price allocations</li></ul> |
| Capital<br>Management | <ul style="list-style-type: none"><li>Licensed Fund Management</li><li>Registered Investment Advisers</li></ul>  |

Broker dealer services offered through M&A Securities Group, Inc., Member FINRA/SIPC, a separate entity from Charter Capital Partners.

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