

## Industrial M&A Market Multiples Remain Elevated as Demand Outstrips Supply

Industrial M&A activity remained robust during 2019, with total transaction volume trending in-line with the overall deal volume experienced during 2018. While the market did not experience growth in terms of the total number of transactions, the amount of capital seeking acquisition targets (both from financial sponsors and capital on strategic buyer balance sheets) continued to outstrip the availability of quality takeover candidates.

We expect this supply/demand dynamic to remain out of balance (much to the benefit of sellers) as historically low-interest rates, the strength of corporate balance sheets, and the need to find growth will continue to act as a tailwind for industrial M&A multiples.

Consistent with trends beginning in early 2017, companies continue to turn to M&A as the most efficient path to achieve top-line growth. In addition to revenue growth, M&A has and will continue to represent the fastest route for acquirers to increase market share and expand service offerings and capabilities.

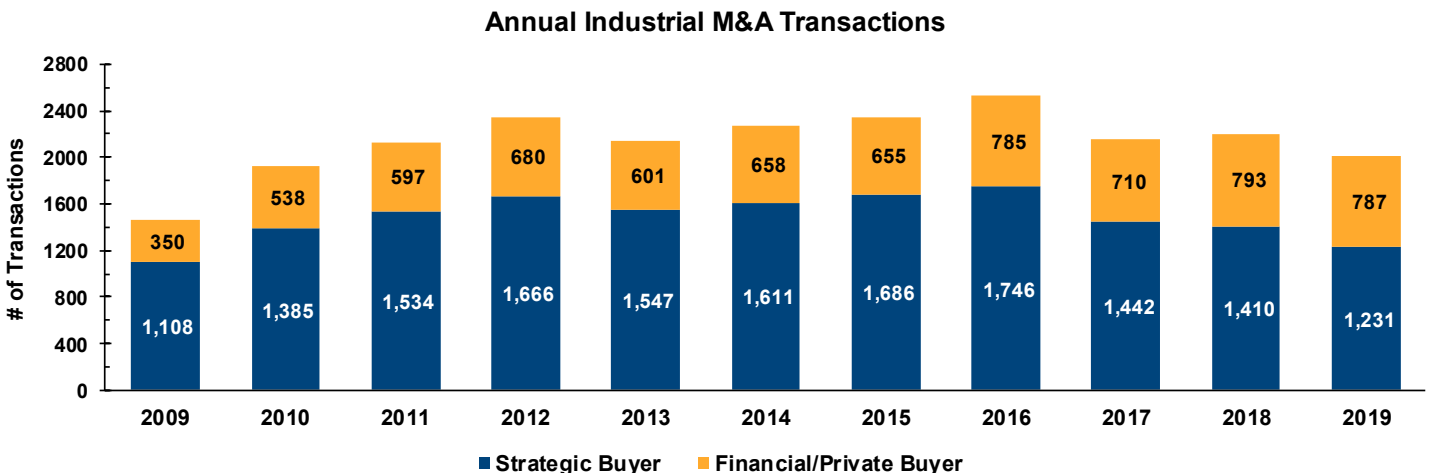
Many positive factors are impacting the deal-making landscape in 2020. A defining feature of the current M&A environment is the record level of dry powder from private equity funds. As of the end of 2019, private equity funds held approximately \$2.4 trillion of capital that must be invested in new platform investments or used to acquire add-on companies for existing platform investments.

Additionally, US corporations currently hold approximately \$2.2 trillion in cash on their balance sheets. The relatively low cost of capital due to liquidity in the equity and debt markets, as well as low borrowing rates, makes growth through M&A an attractive financial return opportunity for strategic buyers.

Despite the current media headlines warning of slowing GDP growth, impending US elections, and ongoing trade negotiations, we are confident that M&A will remain a primary tool for growth in the industrial market throughout 2020.









## Industrial M&A Transactions by Year

*(Strategic Buyers Include Private Equity Owned Companies)*



Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

## Notable Recently Announced and Closed Industrial Transactions

Date: 12/24/2019 (Announced)	Overview / Strategic Rationale:	Electrical Distribution
<b>Target:</b> 	<p>Wesco International is a leading provider of electrical, industrial, and communications maintenance, repair and operations (MRO) and original equipment manufacturer (OEM) products, construction materials, and advanced supply chain management and logistics services.</p> <ul style="list-style-type: none"> <li><i>The transformational combination of Wesco and Anixter will create a premier electrical and data communications distribution and supply chain services company. The increased scale and complementary capabilities, ideally position Wesco to digitize their business and expand their extensive services portfolio.</i></li> <li><i>The acquisition of Anixter is expected to create significant cross-selling opportunities and strengthen Wesco's supplier relationships.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)    \$4,847 EV/LTM EBITDA                        8.6x EV/LTM Revenue                        0.5x		
Date: 11/12/2019 (Announced)	Overview / Strategic Rationale:	Building Products
<b>Target:</b> 	<p>Saint-Gobain is a leading global manufacturer of materials for building, transport, and infrastructure applications. Saint-Gobain has five key business lines: flat glass, high-performance materials, interior solutions, exterior solutions, and building distribution.</p> <ul style="list-style-type: none"> <li><i>Continental Building Products manufactures gypsum wallboard and complementary finishing products for construction. The company is a highly respected plasterboard player in North America.</i></li> <li><i>The acquisition will allow customers to benefit from an enriched product portfolio supported by Saint-Gobain's global R&amp;D and product development infrastructure.</i></li> <li><i>The acquisition increases Saint-Gobain's presence in growth regions in the US.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)    \$1,564 EV/LTM EBITDA                        10.9x EV/LTM Revenue                        2.8x		
Date: 10/29/2019 (Closed)	Overview / Strategic Rationale:	Industrial, MRO & Safety
<b>Target:</b> 	<p>Parker-Hannifin provides motion and control technologies, specialty materials, and engineered components for diverse end markets. Parker operates through two segments: diversified industrial and aerospace systems.</p> <ul style="list-style-type: none"> <li><i>Lord significantly expands Parker's material science capabilities, and the combined business is expected to drive accelerated growth across aerospace, light-weighting, and electrification for Parker.</i></li> <li><i>LORD will strengthen Parker's offering of complementary products in core aerospace and defense, high-value automotive, and industrial markets.</i></li> <li><i>Following the Lord acquisition, the engineered materials group is the largest business within Parker.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)    \$3,675 EV/LTM EBITDA                        16.5x EV/LTM Revenue                        3.6x		
Date: 7/1/2019 (Closed)	Overview / Strategic Rationale:	Packaging
<b>Target:</b> 	<p>Berry Global Group, based in Evansville, Indiana, is a global supplier of a broad range of innovative rigid, flexible, and nonwoven products used every day within consumer and industrial end-markets.</p> <ul style="list-style-type: none"> <li><i>The acquisition of RPC Group creates a global player in plastic packaging and recycled solutions and a footprint that spans more than 290 locations on six continents.</i></li> <li><i>The acquisition combines Berry's concentration of business in North America with RPC's concentration in Europe and provides a global plastic packaging platform for even more expansion in the future.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)    \$5,807 EV/LTM EBITDA                        8.1x EV/LTM Revenue                        1.2x		

Source: Company Filings, Pitchbook, CapIQ, News Releases

Recent Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
<b>AEROSPACE &amp; DEFENSE</b>						
8/8/2019	Pattonair Limited	Wesco Aircraft Holdings	Wesco Aircraft Holdings is a distributor of supply chain management services to the aerospace industry.	\$ 1,949	1.1x	13.8x
7/29/2019	Parker-Hannifin	Exotic Metals Forming Company	Exotic Metals Forming Company manufactures sheet metal assemblies and components for the aerospace industry.	1,725	3.8x	12.9x
7/25/2019	Advent International Corporation	Cobham plc	Cobham plc manufactures equipment, specialized systems and components for the aerospace, defense, and homeland security.	4,488	2.1x	14.9x
<b>BUILDING PRODUCTS</b>						
12/12/2019	Arcosa	Cherry Industries	Cherry Industries provides natural and recycled aggregates.	\$ 298	1.7x	8.1x
12/5/2019	Huntsman	Icynene-Lapolla	Icynene-Lapolla manufactures spray polyurethane foam insulation products.	350	1.5x	10.0x
11/6/2019	MI Windows and Doors	Milgard Manufacturing	Milgard Manufacturing manufactures doors, windows, glass panes and related products.	725	NM	NM
<b>CHEMICALS, PLASTICS, &amp; SPECIALTY MATERIALS</b>						
12/18/2019	PolyOne	Color and Additive Masterbatches Business of Clariant	Clariant's color and additive masterbatch business includes specialty technologies and solutions for high-growth global end markets.	\$ 1,450	1.2x	11.1x
10/29/2019	Parker-Hannifin	LORD Corporation	LORD manufactures a broad array of advanced adhesives, coatings, specialty materials, and other products.	3,675	3.6x	15.1x
9/20/2019	Freudenberg	Low & Bonar	Low & Bonar manufactures innovative material solutions across diverse end-markets.	324	0.5x	6.7x
7/3/2019	Synthomer	OMNOVA Solutions	OMNOVA Solutions manufactures and sells a variety of chemicals and chemical-based products.	785	1.0x	10.6x
<b>ENERGY, POWER, &amp; INFRASTRUCTURE</b>						
1/2/2020	Tenaris S.A.	IPSCO Tubulars	IPSCO Tubulars Inc. produces seamless and welded oil country tubular goods (OCTG).	\$ 1,145	0.8x	6.9x
11/21/2019	Johnson Controls International plc	Building and Energy Management System Product Line of EasyIO	A provider of innovative products for building and energy management systems.	NM	NM	NM
7/31/2019	Advanced Drainage Systems	Infiltrator Water Technologies	Infiltrator Water Technologies manufactures products for the onsite wastewater and water industry.	1,080	3.7x	NM
<b>MINING &amp; METALS</b>						
12/2/2019	Cleveland-Cliffs	AK Steel Corporation	AK Steel Corporation produces flat-rolled carbon, and stainless and electrical steel products	\$ 3,634	0.5x	4.9x
9/30/2019	Autokinon US Holdings	Tower International	Tower International manufactures structural metal components and assemblies.	1,050	0.7x	7.7x
7/22/2019	Consolidated Precision Products	ATI's Cast Products business	ATI's Cast Products business produces titanium investment castings primarily used by aerospace and defense OEMs in commercial jet airframes and engines.	127	NM	NM
<b>SPECIALTY DISTRIBUTION</b>						
10/2/2019	MORSCO	Todd Pipe & Supply	Todd Pipe & Supply distributes plumbing products to commercial, residential and industrial sectors.	\$ 160	NM	9.8x
8/26/2019	Littlejohn & Co.	Kaman Industrial Technologies Corporation	Kaman Industrial Technologies Corporation distributes electrical components.	700	0.6x	10.6x
7/11/2019	Diploma PLC	VSP Technologies	VSP Technologies distributes gaskets and fluid-sealing products to industrial MRO.	80	1.8x	10.0x

Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

Key Metrics

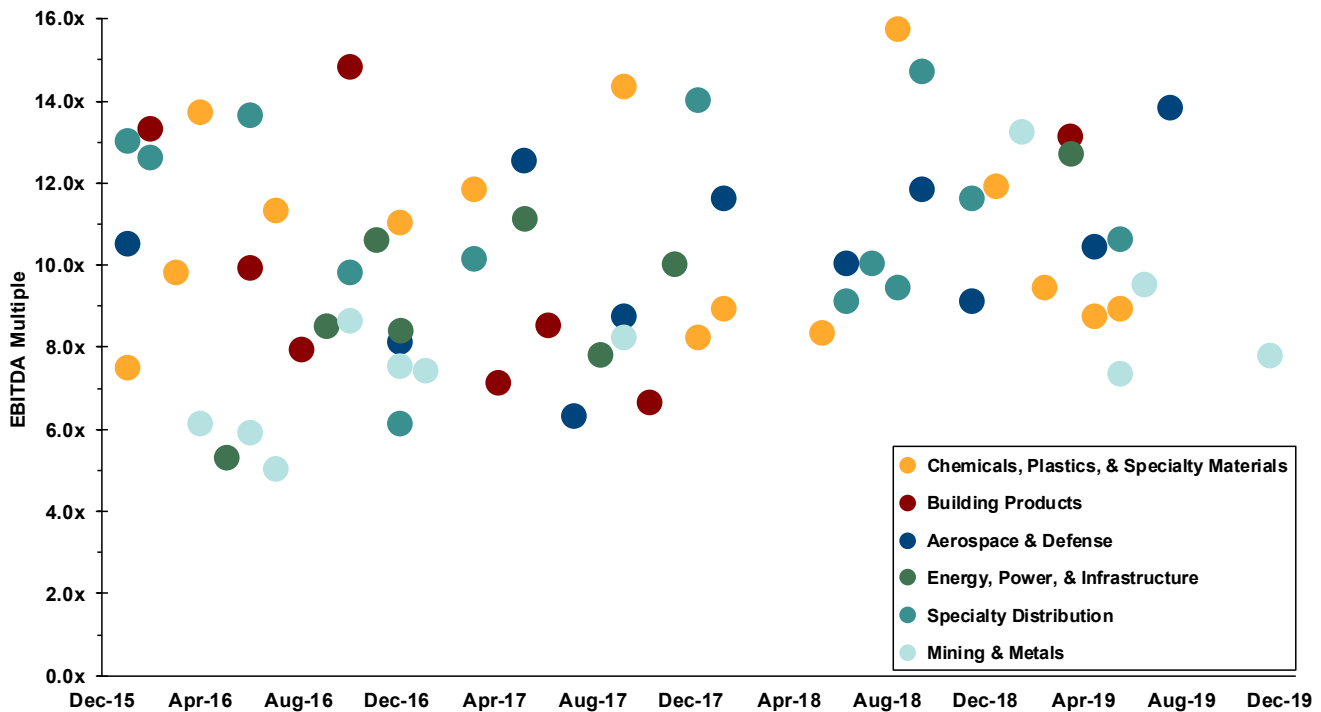
The majority of transaction activity in the industrial landscape during the last 12 months and the second half of 2019 occurred in four primary sub-sectors: chemicals, plastics, and specialty materials (27.1%); mining and metals (21.8%), aerospace and defense (15.4%), and energy, power, and infrastructure (13.5%). These sub-sectors accounted for over 75% of announced and completed transactions in the industrial industry during the last 12 months.

As evidenced in the table below (Select Transaction Multiples), transaction values across key sub-sectors of the industry continue to trend higher as strategic consolidators aggressively bid for

quality acquisition targets. These buyers frequently pay a premium when compared to historical averages. The average reported EV/EBITDA multiple paid by buyers across the industrial landscape remained relatively consistent with 2018, at nearly 10.0x (average transaction size \$250 million), further highlighting the willingness of buyers to pursue high-quality targets aggressively.

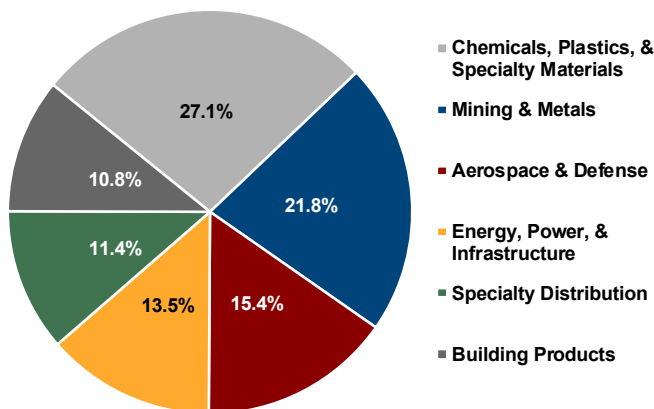
Strategic and private-equity-backed portfolio companies accounted for the majority of transaction activity during the last 12 months. These buyers continue to utilize M&A as a primary driver of value creation for shareholders by increasing operational efficiencies and scale through targeted acquisitions.

Select Transaction Multiples

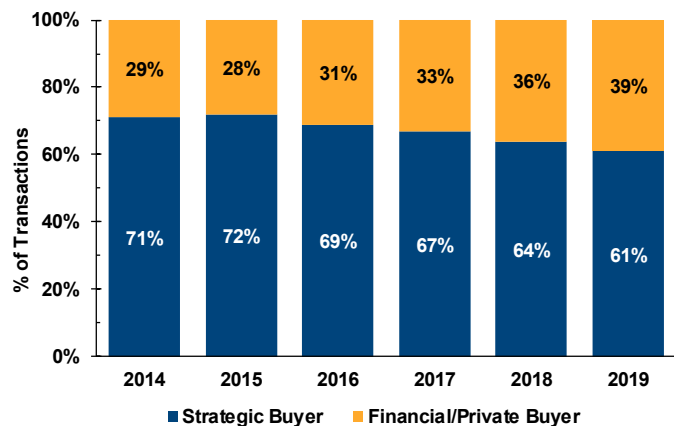


Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (LTM)



Share of Transactions by Buyer Type



## Sub-Sector Profile: Plastic Components

M&A volume in the plastics industry finished the decade strong with 337 deals in 2019, an increase of 3% year-over-year, and a sixth straight year of 300+ transactions. A substantial increase in private equity add-on activity has driven this growth, which increased 19% to reach a record number of 88 deals in 2019. Strategic buyers have also been very active in acquiring plastic companies. Strategic buyer acquisitions grew by eight deals and represented 55% of total transactions in 2019. Private equity platform transactions decreased by 12 deals, or 16%, over 2018, which highlights the continuation of a trend seen in the first half of 2019. Sellers appear to be favoring buyers that offer a strategic benefit (strategic buyer or private equity add-on) vs. a platform private equity buyer. Part of this condition is likely due to strategic buyers and private equity-backed strategic buyers paying higher valuation multiples due to potential synergies that are not available to a purely financial buyer.

The plastic components sub-sector saw several transactions from large strategic buyers as well as private equity buyers during the second half of 2019. The most active acquirers include Pexco, Trelleborg, Eptam Precision, KB Components, Datwyler,

and Westfall Technik. Buyers in this sector continue to utilize M&A to drive above-average revenue growth. These companies are actively looking to acquire niche, custom manufacturers that offer value-added services. AEA Investors acquired Pexco, a designer and fabricator of custom extruded plastics, in 2018. Since then, AEA and Pexco have completed four add-on acquisitions that have enhanced capabilities and expanded their geographic footprint. Buyers across the plastics industry continue to invest in companies complimentary to their manufacturing competencies, customers, product lines, and geography.

**Transactions by Process Type (Source: CapIQ, Pitchbook)**

Sector	2014	2015	2016	2017	2018	2019
Blow Molding	23	22	29	28	29	26
Injection Molding	95	102	91	103	83	100
Film	65	59	73	65	69	55
Resin / Color & Compounding	72	54	43	49	43	45
Sheet & Thermoforming	23	30	33	28	39	29
Specialty	68	61	67	86	64	82
<b>Total Plastics</b>	<b>346</b>	<b>328</b>	<b>336</b>	<b>359</b>	<b>327</b>	<b>337</b>

## Active Plastic Component Buyers

Select Strategic Buyers	Date of Investment	Acquisition Activity
	11/25/2019	<ul style="list-style-type: none"> <li>Tritec Seal</li> </ul>
	08/06/2018	<ul style="list-style-type: none"> <li>Sil-Pro</li> </ul>
	05/29/2019	<ul style="list-style-type: none"> <li>Micro Molding / MedConnection</li> </ul>
	12/20/2018	<ul style="list-style-type: none"> <li>Relius Medical</li> </ul>
	01/24/2019	<ul style="list-style-type: none"> <li>Post Meridiam Plastics</li> </ul>
	07/04/2018	<ul style="list-style-type: none"> <li>DKI Plast Holdings</li> </ul>
	09/03/2018	<ul style="list-style-type: none"> <li>Parco</li> </ul>
	08/24/2018	<ul style="list-style-type: none"> <li>BINS Indústria de Artefatos de Borracha</li> </ul>
Select Financial Buyers with Holdings	Date of Investment	Acquisition Activity
 	01/31/2020	<ul style="list-style-type: none"> <li>NDM Marking Systems</li> </ul>
	08/12/2019	<ul style="list-style-type: none"> <li>HPE Extrusion Solutions</li> </ul>
	11/30/2018	<ul style="list-style-type: none"> <li>Insultab</li> </ul>
	08/14/2018	<ul style="list-style-type: none"> <li>Custom Extrusion</li> </ul>
 	02/25/2019	<ul style="list-style-type: none"> <li>Precision Injection Molding</li> </ul>
	04/16/2018	<ul style="list-style-type: none"> <li>AMA Plastics</li> </ul>



## Interview with Jody Dunn, President, Quality Valve, Inc.

In 2018, Mobile, Alabama based Quality Valve was acquired by Pflingsten Partners, a Chicago based PE firm. Jody Dunn served as the CFO of Quality Valve since 2005 before becoming President in 2019.

Jody's experience as a private company CFO, who transitioned into the president role, provides him with unique insight into the issues affecting businesses in the lower middle market.



### **EdgePoint: Prior to the transaction, what was your opinion of financial buyers?**

**Jody Dunn:** It's easy to form a negative impression of PE ownership because, as an owner-operator, you only hear about the transitions that have gone badly. When things go well, it's business as usual, and all the details are generally confidential. The good news gets buried. On this side of the transaction, I've realized that ownership changes with our vendors and customers regularly, and most of the time, we never know.

### **EdgePoint: How has your new ownership partner helped to grow the business?**

**Jody Dunn:** Our partner has access to capital that was out of the question when we were a standalone company. This access has allowed us to grow inventory and plan for expansion faster. In addition, they bring expertise and a network of national-level service providers that we didn't have before.

### **EdgePoint: How receptive was the QVI team to new ownership and leadership?**

**Jody Dunn:** We kept the sale process within a tight circle until very deep in the process when we had already identified our partner and had gotten to know them leading up to closing. At that point, there was more certainty, and we could speak with confidence about how things were going to work going forward. There's a level of natural apprehension that is unavoidable, but once everyone involved performed just as promised, our response has been very positive.

### **EdgePoint: The market is strong for replacement parts in the flow control and pump and valve industry. In your opinion, what is driving this activity?**

**Jody Dunn:** Our particular niche is very stable. Plants and processes have to be routinely maintained to ensure certain levels of efficiency and safety, which leads to opportunities regardless of where we are in the economic cycle. It's up to us to execute on those opportunities.

### **EdgePoint: What are the major industry risks that you see for the remainder of 2020?**

**Jody Dunn:** Our industry is particularly sensitive to the perceived impacts of elections. The anticipation of greater regulation or policies that are unfriendly to business will impact the timing of all kinds of MRO work. In addition, China needs to be productive and soon to keep the flow of parts coming.

### **EdgePoint: What advice would you give to an owner who is considering a sale of their business?**

**Jody Dunn:** Choose a terrific investment banker. Our ownership had preconceptions about the size and structure of a potential sale, and we were blown away with the better options and valuations available that EdgePoint was able to find. Once you decide on a course, manage your lawyers, not the other way around.

## What We are Reading:

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### **U.S. Economy Heads Into 2020 With Steady Growth (*The Wall Street Journal*)**

The US economy entered 2020 on a solid footing, with growth settling back to the roughly 2% pace that has prevailed during the decade-old economic expansion. Year-over-year growth of 2.3% in 2019 was the slowest pace since 2016 but in line with the average pace that has marked the expansion that began in mid-2009. Many economists expect the US economy to grow at about the same pace in 2020, given the recent trade truce between the US and China, forecasts for a rebound in global growth, low-interest rates, and upbeat American consumers.

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### **USMCA Promotes Small Business Growth (Small Business Council)**

The new US-Mexico-Canada Agreement (USMCA) is expected to introduce tangible benefits for agriculture, technology, manufacturing, and other business sectors. USMCA lowers barriers and costs associated with doing business across borders, removes outdated requirements and red tape, creates parity concerning market access, protects the intellectual property (IP) of small businesses and entrepreneurs. The article mentions the USMCA will increase US GDP by \$68.2 billion and add 176,000 jobs, according to the United States International Trade Commission (USITC).

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### **Boeing Failures Disrupting the Aerospace Industry (Forbes)**

Two deadly plane crashes within five months have rocked Boeing and the aviation industry, forcing the worldwide grounding of the company's 737 Max airliners. A report puts Boeing's full-year 2019 lost revenue at about \$4.1 billion. Boeing's largest supplier, Spirit AeroSystems Holdings, said it is planning an initial 2,800 layoffs, the first announced job cuts since the grounding of a plane that is rippling through the broader aerospace industry. The layoffs will make it harder for Boeing to follow through with any future increases in Max production if Spirit and other suppliers shed workers, who could be tough to rehire. US approval for the 737 Max is expected by mid-year 2020, and Boeing has said it could slowly resume production before the plane is allowed back in the air.

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### **ISM Manufacturing Index Weakest in a Decade (Institute for Supply Management)**

The Institute for Supply Management (ISM) manufacturing index fell in December to 47.2, the lowest level since June 2009. December also marked the fifth straight month of contraction for the U.S. manufacturing sector. "Global trade remains the most significant cross-industry issue, but there are signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China," said Timothy R. Fiore, chair of the institute, in a statement.

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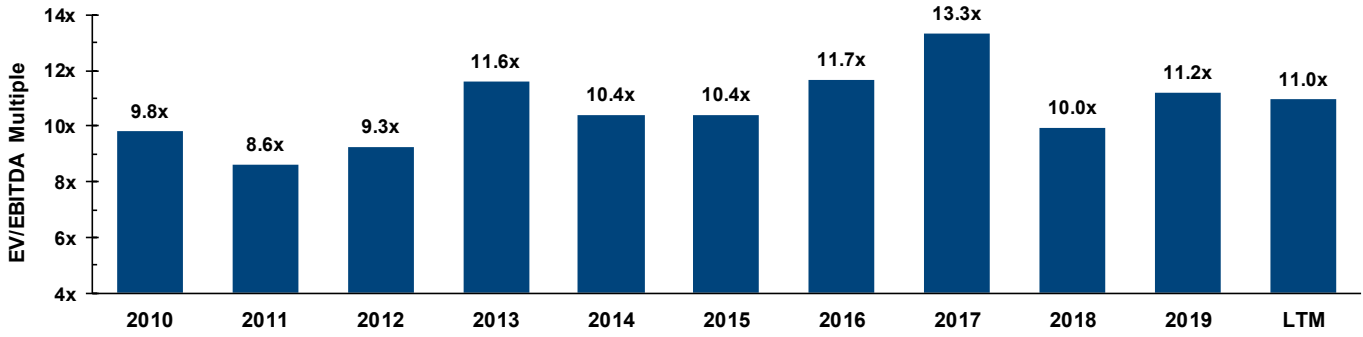
### **Big Three Automakers Prepare for a Slow Sales Year (Industry Week)**

GM, Ford, and FCA are bracing for a slower year of US sales by tapping the brakes on production. Researcher LMC Automotive projects that five of the six largest North American manufacturers will assemble fewer vehicles in the first quarter of 2020 than a year ago. Most automakers anticipate weaker demand in 2020 and are trying to trim inventory, accordingly, said Sam Fiorani, vice president at AutoForecast Solutions. "Further slowing of production—either less overtime or week-long closures—is expected in the first and second quarters to keep inventories from getting out of control," he said.

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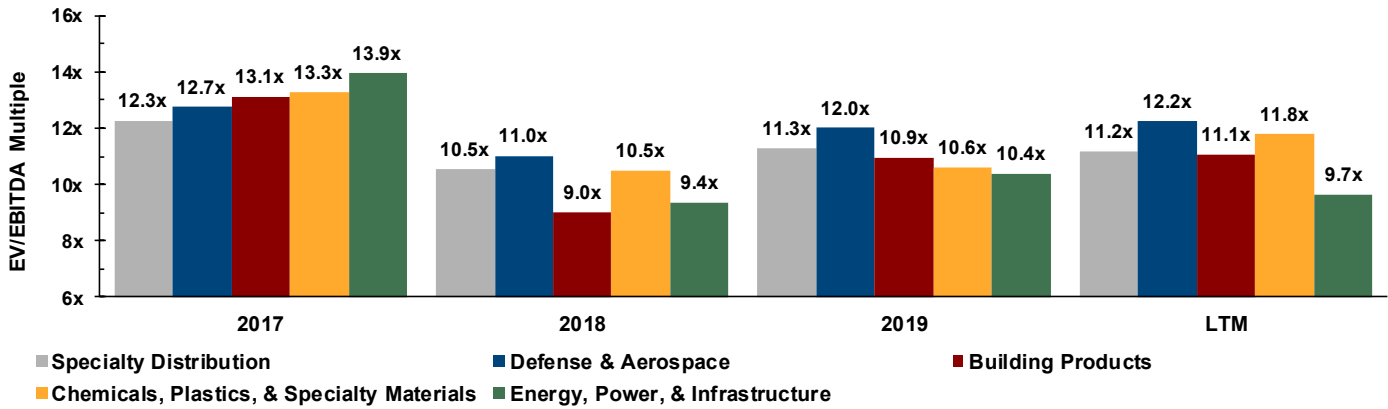
Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of February 21, 2020

Industrial Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of February 21, 2020

Representative EdgePoint Industrial Transactions

<p><b>Sell-Side Advisory</b></p> <p><b>ICC</b> International Chemical Corp. International Chemical Corp has sold to Dubois Chemicals, Inc.</p>	<p><b>Sell-Side Advisory</b></p> <p><b>EMS</b> Environmental Management Specialists, Inc. has sold to HEPACO, LLC</p>	<p><b>Sell-Side Advisory</b></p> <p><b>QVI</b> QUALITY VALVE INC. Quality Valve, Inc. has been recapitalized by Pfungsten Partners, LLC</p>	<p><b>Sell-Side Advisory</b></p> <p><b>MARLI</b> Marli Manufacturing, Inc. has sold to Auveco Products</p>	<p><b>Sell-Side Advisory</b></p> <p><b>williams</b> EQUIPMENT &amp; SUPPLY Williams Equipment &amp; Supply has sold to Construction Supply Group</p>
<p><b>Sell-Side Advisory</b></p> <p><b>EJ Thomas and AristoCraft</b> E.J. Thomas Company and AristoCraft Supply have sold to Strength Capital Partners</p>	<p><b>Sell-Side Advisory</b></p> <p><b>DRIVEKORE</b> TOOLS, SUPPLIES, &amp; SAFETY FOR THE PROFESSIONAL DriveKore, Inc. has sold to Colony Hardware Corporation</p>	<p><b>Sell-Side Advisory</b></p> <p><b>ATP</b> Aero Transportation Products, Inc. has sold to Wabtec Corporation</p>	<p><b>Sell-Side Advisory</b></p> <p><b>AMERICAN TURBOCHARGER TECHNOLOGIES</b> American Turbocharger Technologies has sold to A. Stucki Company</p>	<p><b>Sell-Side Advisory</b></p> <p><b>SCPI</b> STANDARD COMPONENTS, INC. DESIGNERS &amp; BUILDERS OF WORLD CLASS TOOLING Standard Components, Inc. has sold to Summit Equity Group, LLC</p>



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

