

### Is the Water Industry Inching Towards an Investment Super-Cycle?

There has been a substantial shortfall in investment toward water infrastructure and assets for decades. This persistent lack of investment has led to water scarcity and compromised water quality. Today, the prevailing concern and media attention center around the disrepair and obsolescence of pipeline systems. However, emerging regions (especially those with a rapidly increasing urban migration) grapple with the complete lack of transportation and treatment systems.

Within the United States, approximately \$50 billion is directed toward water infrastructure annually. However, experts' evaluations reveal that the requisite investment should be over \$100 billion. Therefore, the USA has been underfunding the maintenance investment of the water infrastructure, creating an enormous investment gap.

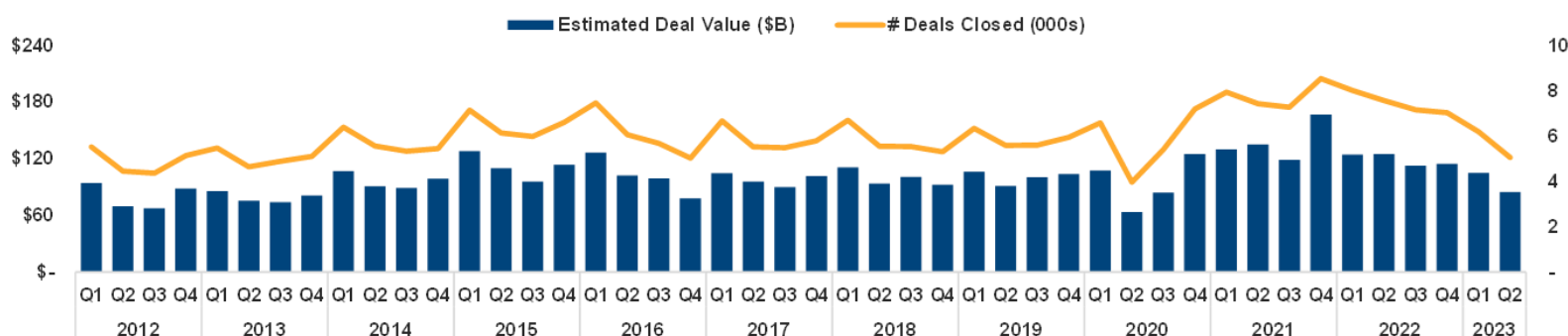
Cooperation between the private and public sectors becomes essential to narrow this investment gap adequately (and timely). From the private sector, there is growing activity around the "water industry." Over the first half of 2023 alone, more than 70 transactions have occurred within water-related

subsectors, spanning engineered solutions, specialty chemicals, infrastructure, and flow control. Key deals include Xylem Inc.'s \$7.5 billion acquisition of Evoqua Water Technologies, a water and wastewater treatment solutions leader.

The U.S. government has harnessed its legislative capacity to earmark substantial financial resources for treatment and infrastructure enhancements. For instance, the U.S. Infrastructure Investment and Jobs Act of 2021 has secured an allocation of \$80 billion for water investments, supplemented by an additional \$20 billion within the Inflation Reduction Act. Funds have also been channeled into water treatment and recycling initiatives through the CHIPS and Science Act. Hopefully, this concerted public-sector effort, coupled with private sector investment, can bridge the investment void.









While we believe water-related assets within the diversified industrial space will remain attractive M&A targets, broader M&A activity will face headwinds going into the second half of 2023. In Q2, global deal volume declined for the third consecutive quarter and is down roughly 33% year-over-year.

### Global M&A Activity by Quarter



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

## Notable Recently Announced and Closed Industrial Transactions

Date: 05/30/2023 (Announced)		Overview / Strategic Rationale:	Aerospace & Defense
Target:		<p>Oshkosh Corporation (NYSE: OSK) is an American industrial company that designs and builds specialty trucks, military vehicles, truck bodies, airport fire apparatus, and access equipment.</p> <ul style="list-style-type: none"> <li><i>JBT AeroTech is a leading provider of aviation ground support products, gate equipment, and airport services to commercial airlines, airports, air-freight carriers, ground handling, and military customers.</i></li> <li><i>The acquisition allows Oshkosh to enter the air transportation support space and enhance the financial profile of its vocational segment.</i></li> <li><i>JBT will add electric ground support systems to continue advancing Oshkosh's mission to reduce its environmental footprint while improving efficiency.</i></li> </ul>	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$817		
EV/LTM EBITDA	14.7x		
Date: 05/04/2023 (Announced)		Overview / Strategic Rationale:	Precision Manufacturing
Target:		<p>Apollo Global Management (NYSE: APO) is one of the largest asset managers serving many of the world's most prominent investors.</p> <ul style="list-style-type: none"> <li><i>Arconic Corporation manufactures and sells fabricated aluminum sheets, plates, extrusions, and architectural products and systems.</i></li> <li><i>Arconic is a major supplier to Boeing and now has the required capital to upgrade key machine centers to maximize the full potential of the company's unique production capabilities.</i></li> <li><i>The acquisition enables Apollo to expand its offerings and provide a strategic vision and infusion of capital to create a stronger, more profitable company.</i></li> </ul>	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$3,103		
EV/LTM EBITDA	8.1x		
Date: 10/27/2022 (Closed)		Overview / Strategic Rationale:	Plastics & Rubber
Target:		<p>Unipar Carbocloro (BVMF: UNIP6) is a Brazil-based holding company primarily engaged in the chemical industry. The company produces various chemicals and plastics.</p> <ul style="list-style-type: none"> <li><i>Braskem produces polyethylene, polypropylene, polyvinyl chloride (PVC) resins, and basic petrochemicals—e.g., ethylene, propylene, butadiene, chlorine, benzene, and toluene.</i></li> <li><i>The acquisition will enable Unipar to acquire a major competitor within the industry and strengthen its position as a market leader.</i></li> <li><i>Unipar will be able to realize synergies and expand product offerings to customers.</i></li> </ul>	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$2,532		
EV/LTM EBITDA	7.8x		
Date: 06/12/23 (Announced)		Overview / Strategic Rationale:	Building Products
Target:		<p>Georg Fischer (SWX: GF) provides international piping systems and casting and machining solutions. The company offers plastic and metal piping systems for the transportation of water, abrasive and aggressive liquids, and gases, and corresponding services for industrial, utilities, and building services sectors.</p> <ul style="list-style-type: none"> <li><i>Uponor provides plumbing, indoor climate, and infrastructure solutions in Europe and North America.</i></li> <li><i>The two companies have complementary products and geographical footprints, which would allow Georg Fischer to integrate the acquired company seamlessly into its operations.</i></li> </ul>	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$2,292		
EV/LTM EBITDA	11.4x		
Source: Company Filings, Pitchbook, CapIQ, News Releases, Investor Reports			

## Recently 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>						
3/14/2023	TransDigm Group Incorporated	Calspan Corporation	Calspan Corporation provides engineering design, testing, and research services to automotive and aerospace industries.	\$ 725	-	-
1/3/2023	RDCP Group Ltd	Pexion Limited	Pexion Limited, through its subsidiaries, designs, manufactures, and distributes machined and engineered components for aerospace and defense industries.	\$ 54	0.8	6.48
6/5/2023	KKR & Co.	CIRCOR International, Inc.	CIRCOR International, Inc. designs, manufactures, and distributes flow and motion control products in Europe, the Middle East, Africa, North America, and internationally.	\$ 1,680	2.1	12.81
<b>BUILDING PRODUCTS</b>						
5/4/2023	Apollo Global Management	Arconic Corporation	Arconic Corporation manufactures and sells fabricated aluminum sheets, plates, extrusions, and architectural products and systems	\$ 4,673	0.5	8.06
2/7/2023	Holcim Ltd	Duro-Last, Inc.	Duro-Last, Inc. manufactures commercial roofing systems for flat or low-sloped applications in North America.	\$ 1,293	-	-
6/12/2023	Compagnie de Saint-Gobain S.A.	Building Products of Canada Corp.	Building Products of Canada Corp. produces manufactures residential roofing shingles and wood fiber insulation panels.	\$ 991	-	11.94
2/1/2023	Builders FirstSource, Inc.	Noltex Holdings, Inc.	Noltex Holdings, Inc. operates as a truss manufacturer.	\$ 83	-	-
<b>CHEMICALS, PLASTICS, &amp; SPECIALTY MATERIALS</b>						
3/8/2023	Solenis LLC	Diversey Holdings, Ltd.	Diversey Holdings, Ltd., through its subsidiaries, provides hygiene, infection prevention, and cleaning solutions in Europe, North America, the Asia Pacific, the Middle East, Africa, and Latin America.	\$ 4,516	1.6	14.59
5/10/2023	Allkem Limited	Livent Corporation	Livent Corporation manufactures and sells performance lithium compounds primarily used in lithium-based batteries, specialty polymers, and chemical synthesis applications.	\$ 3,810	4.1	8.51
5/10/2023	FUJIFILM Holdings America Corporation	KMG Chemicals, Inc.	KMG Chemicals, Inc., through its subsidiaries, manufactures, formulates, and distributes specialty chemicals and performance materials worldwide.	\$ 700	-	-
7/1/2023	Mayville Engineering Company, Inc.	Mid-States Aluminium Corp.	Mid-States Aluminium Corp. engages in the design and manufacture of aluminum extrusions.	\$ 96	1.1	6.00
<b>PRECISION MANUFACTURING</b>						
6/5/2023	Auxo Investment Partners, LLC	Avon Machining, LLC	Avon Machining, LLC manufactures and supplies precision parts for heavy-equipment industries.	\$ -	-	-
5/25/2023	Stratasys Ltd.	Desktop Metal, Inc.	Desktop Metal, Inc. manufactures and sells additive manufacturing technologies for engineers, designers, and manufacturers.	\$ 620	3.0	NM
5/19/2023	Bridgepoint Group plc	Windar Renovables, S.A.	Windar Renovables, S.A. designs and manufactures onshore and offshore wind turbine towers.	\$ -	-	-
<b>SPECIALTY DISTRIBUTION</b>						
4/3/2023	nVent Electric plc	ECM Industries, LLC	Manufactures and distributes chemicals for potable and non-potable water treatment, waste water, municipalities, industrial, and hospitality industry.	\$ 1,092	2.6	10.53
8/1/2023	Apollo Global Management	Univar Solutions Inc.	Univar Solutions Inc. distributes commodity and specialty chemical products, and provides related services worldwide.	\$ 8,112	0.7	7.30
6/8/2023	Distribution Solutions Group, Inc.	HISCO, Inc.	Distributes and sells mission-critical materials for electronic assembly, automotive manufacturing, aerospace and defense, medical device manufacturing, oil and gas, mold making and casting, solar and HVAC manufacturing, and LED lighting assembly markets.	\$ 282	0.7	9.71

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

Key Metrics

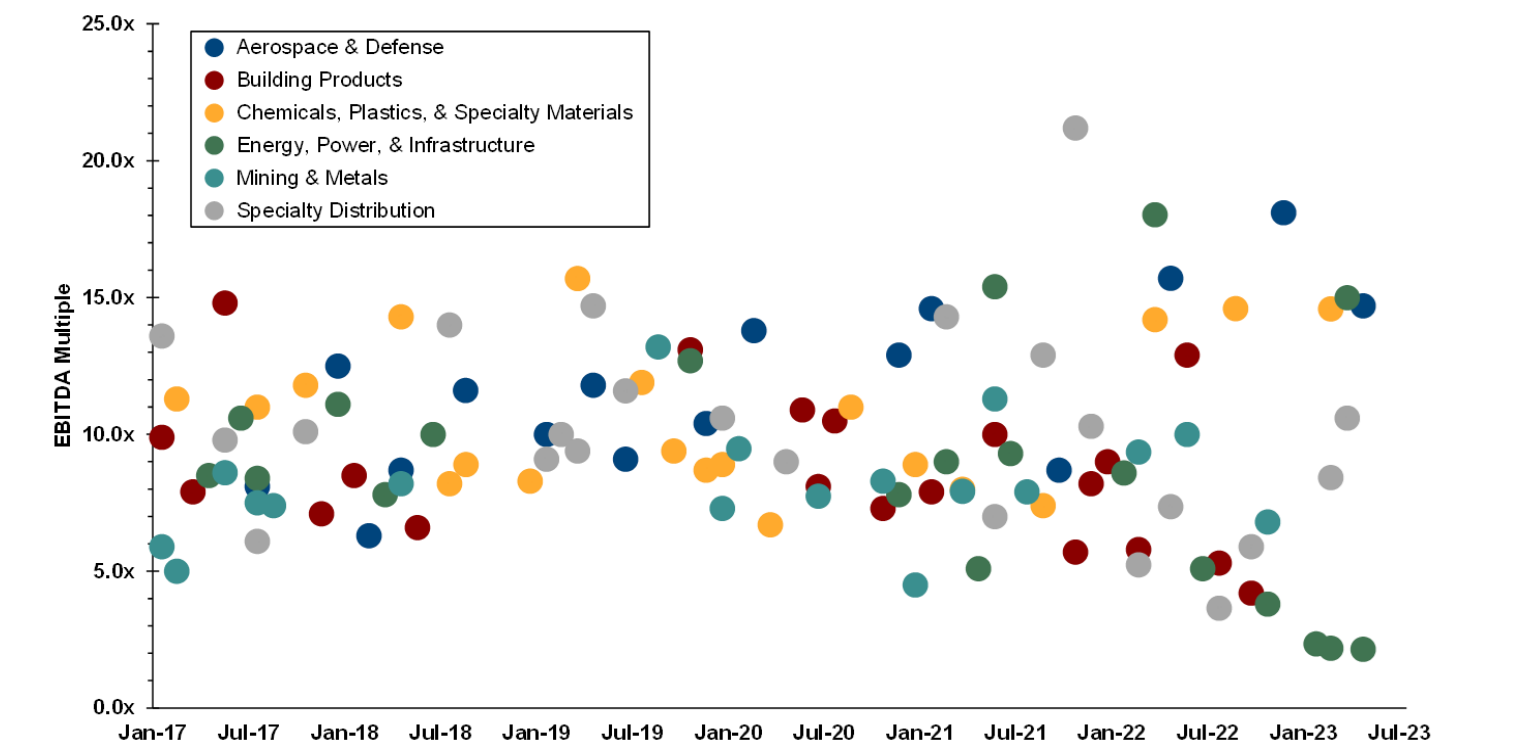
Industrial deal flow remained slow in the first quarter of 2023 as the broader market faced significant headwinds due to rising interest rates and their impact on the financial sector. Lenders found themselves in a precarious situation as regional banks active in the private equity and venture capital markets felt significant pressure from rate increases and market volatility.

Activity in the second quarter of 2023 stabilized, and there have been hopeful signs as consumer spending remained strong, unemployment rates dropped, and earnings were overwhelmingly positive. Additionally, strategic buyers with sizeable cash positions

were aided by a slowdown in M&A activity from financial buyers—as they navigated a tough lending market.

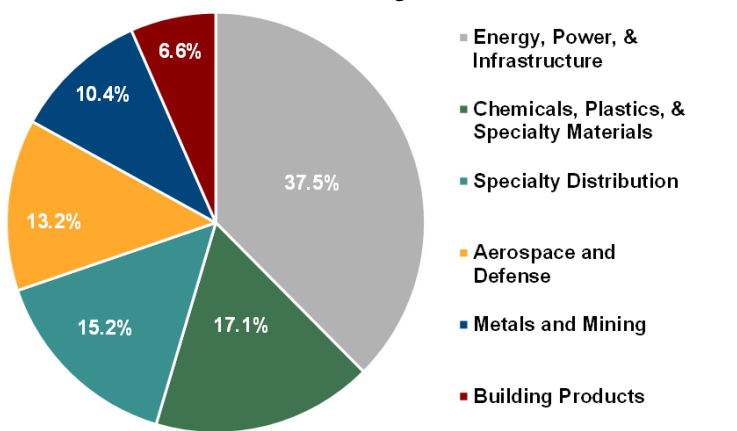
Activity in the specialty distribution space declined significantly over the second half of 2022, likely due to a shifting focus on working through destocking issues. Meanwhile, the energy, power, and infrastructure sector, as well as aerospace and defense, saw a pickup in deal volume. The building products sector remained stable after a volatile 2022. Industry participants felt ample pressure from the slowdown in the housing market but have remained positive on their outlook for the remainder of 2023.

Select Transaction Multiples



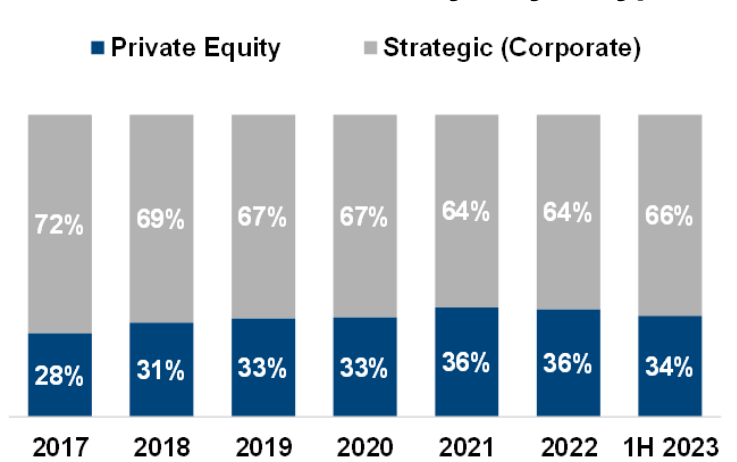
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector



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

Share of Transactions by Buyer Type



## Sub-Sector Profile: Flow Control M&A Market

Flow control products play a critical role in the movement of fluids, most commonly liquids or gases, through a system in a variety of industries and applications. These products include pumps, valves, compressors, meters, filtration products, and other related equipment. A robust flow control system can lead to increased process efficiency, reduced energy consumption, and enhanced safety measures in a manufacturing plant. Given the importance of flow control products in manufacturing plants around the world, this sub-sector has seen a substantial amount of M&A activity.






Private equity firms were the most active acquirers of flow control companies in the first half of 2023. Flow Control Holdings, a portfolio company of Audax Private Equity, has completed five add-on acquisitions to expand its product offering, enter new end markets, and improve its ability to service customers. On a much larger scale, KKR entered into a definitive agreement to acquire Circor for \$1.6 billion for 12.8x LTM EBITDA. KKR has significant experience in the flow control sector given its previous investment in Gardner Denver and

plans to use Circor to execute further acquisitions.

Strategics have been active acquirers of flow control companies albeit at a slower pace than financial buyers. Flowserve entered into a definitive agreement to acquire Velan for \$245 million for 11.7x LTM EBITDA. The acquisition of Velan adds significant value within Flowserve's existing valve portfolio and further builds upon Flowserve's existing assets through the addition of Velan's premier brands, strong heritage, and technical expertise. The CEO of Ingersoll Rand recently stated the company's M&A funnel remains strong. During the Q2 2023 earnings call, Ingersoll Rand has seven transactions at the LOI stage that are expected to deliver \$200 to \$300 million in annualized inorganic revenue to be acquired in 2023.

Despite the various macroeconomic issues in 2023, M&A activity in the flow control sector remains robust. Financial and strategic buyers are eager to invest in differentiated, high-quality assets within the flow control sector.

### Flow Control M&A Activity

Select Strategic Acquisitions		Date of Transaction	Acquisition Activity
		02/10/2023	<ul style="list-style-type: none"> <li>Velan</li> </ul>
		Date of Transaction	Acquisition Activity
		02/03/2023	<ul style="list-style-type: none"> <li>HydraForce</li> </ul>
		Date of Transaction	Acquisition Activity
		01/31/2023	<ul style="list-style-type: none"> <li>SVF Flow Controls</li> </ul>
Select Financial Acquisitions		Date of Transaction	Acquisition Activity
		06/14/2023	<ul style="list-style-type: none"> <li>Straham Group</li> </ul>
		03/14/2023	<ul style="list-style-type: none"> <li>U.S. assets of New Zealand Ultibend Industries</li> </ul>
		02/24/2023	<ul style="list-style-type: none"> <li>DSO Fluid Handling</li> </ul>
		02/24/2023	<ul style="list-style-type: none"> <li>Flowtrend</li> </ul>
		Date of Transaction	Acquisition Activity
		01/18/2023	<ul style="list-style-type: none"> <li>Andron Stainless</li> </ul>
		Date of Transaction	Acquisition Activity
		06/05/2023	<ul style="list-style-type: none"> <li>Circor</li> </ul>



## Earnings Takeaways, 1H 2023

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### Aerospace and Defense

Across the defense sector, FY23 top-line guidance has been higher, while segment margin guidance has been lower. Industry leaders such as Lockheed Martin, Northrop Grumman, L3Harris, and General Dynamics each reported Q2 earnings last week and raised their top-line growth expectations for 2023. Concurrently, segment profit margin guidance has been down across the board. One takeaway is that defense companies face lingering challenges from supply chain and labor productivity. The aerospace sector reported strong earnings as Boeing and General Electric continued their solid run. Deliveries across the industry were up in Q1 and Q2 of 2023. Although earnings estimates from management stayed in line with the previous quarter, analysts believe there is some upside to margin guidance.

*Source: CapIQ, Company filings, JPMorgan*

### Building Products

Increased activity in the first half of 2023 provided strong top line growth for the building products sector. The sector has seen significant pricing leverage as companies like Owens Corning, Martin Marietta Minerals, and Eagle Materials reported price increases while maintaining unit growth in the first and second quarters of 2023. Advanced Drainage Systems management reported seeing an improving outlook for single-family housing starts and infrastructure activity also accelerating into the back half of the year.

*Source: CapIQ, Company filings, Truist Securities, Oppenheimer*

### Chemicals & Coatings

Specialty chemicals and coatings manufacturers saw a mix in performance across the sector. DuPont reported a slight beat in Q2 but saw softness in products geared toward electronics and pricing pressures. Meanwhile, Dow Chemical revised earnings downward as pricing pressure continued to compress margins. That said, both reported inventories coming down, and are optimistic that China is showing signs of improvement, albeit slower than anticipated.

*Source: CapIQ, Company filings, Wells Fargo Securities, JPMorgan*

### Precision Manufacturing

Precision manufacturing and machinery provided a mixed bag of earnings with management themes that included improving supply chains and corresponding volume throughput while simultaneously hinting that, depending on where on the selling curve you stood, those improved supply-chain conditions have caused increased inventories as OEMs accelerated deliveries. For instance, historically, Timken's near-term channel destock would have indicated a downturn. In this case, however, it is more tied to improving supply chains resulting in increased throughput at the OE level and no longer requiring a safety stock of critical components.

*Source: CapIQ, Company filings, Jeffries*

### Specialty Distribution

Industrial distributors are subject to the effects of the multiple end markets they serve. Across the sector, earnings have shown quarter-over-quarter improvement as inventories have declined and end markets have been stable. In response to another strong quarter, W. W. Grainger noted that improving industry supply chains have also allowed for lower costs. Conversely, Wesco International found a weakness in the commercial construction end market and had issues destocking. Fastenal Company saw average daily sales increase year-over-year, but management noted that they are feeling pressure and have trimmed their outlook as industrial production continues to slow.

*Source: CapIQ, Company filings, JPMorgan*

## What We Are Reading:

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### Not All Private Equity Dealmaking Is Slowing Down

Although the overall private equity deal market has slowed over the last year and a half, the lower-middle market is seeing significant increases in deal flow. According to Tim Clarke of Pitchbook, founder-owned businesses valued under \$100 million accounted for 61.5% of global M&A in the first quarter of 2023, representing a 7.7% increase from the fourth quarter of 2020. In addition, founder-owned companies represented 43.5% of the value of all deals, up 12.2% during the same period. This abrupt increase in deal flow is representative of pent-up pandemic demand, baby-boomer founders reaching retirement age, and a soothing of rate environment fears which were prevalent at the start of 2023.

*Source: Institutional Investor (08/16/2023)*

### The Future of Wastewater Treatment: Foreseeable & Anticipatory

The wastewater treatment industry has been slow to innovate, as it has seen incremental technological and equipment improvements lagging behind other sectors. With the uncertain landscape of future water infrastructure and treatment, the sector must cultivate rapid innovations to counteract this uncertainty's associated risk. Change can be encouraged by providing pumps, systems, agitators, and vibrating fluid beds that deliver efficient, effective, and environmentally friendly performance. Focused efforts for wastewater treatment plants moving forward include nutrient removal, energy management, and sustainability. The new equipment will help support these efforts and ultimately service the demand for innovation in the wastewater treatment sector.

*Source: Pumps & Systems (08/16/2023)*

### The Fed Is Playing a Waiting Game to Try to Avoid a Recession

The Federal Reserve, in agreement with an increasing number of economists, predicts that the U.S. is capable of dodging an impending recession. Their consensus will be tested well into 2024 as Fed Chair Jerome Powell works to expand the U.S. economy while bringing inflation rates back to the 2% target. A failure to respond aggressively enough against price pressures, coupled with the risk of lagged effects from aggressive tightening, are integral risks to the Fed's hopeful success over future quarters.

*Source: Bloomberg (08/13/2023)*

### Rising Flood Risks Threaten US Water Infrastructure

Climate change has made storms more unpredictable and destructive, ultimately putting the U.S. water infrastructure at significant risk. First Street Foundation, a risk analysis firm, studied 5,500 wastewater treatment plants using a respected climate model. The analysis determined that 25% of the plants were at significant risk of climate-induced catastrophe. In efforts to offset the risk of infrastructure failure, the Biden Administration has committed \$55 billion of the recent \$1 trillion infrastructure law to water-related infrastructure upgrades.

*Source: The Columbus Telegram (08/11/2023)*

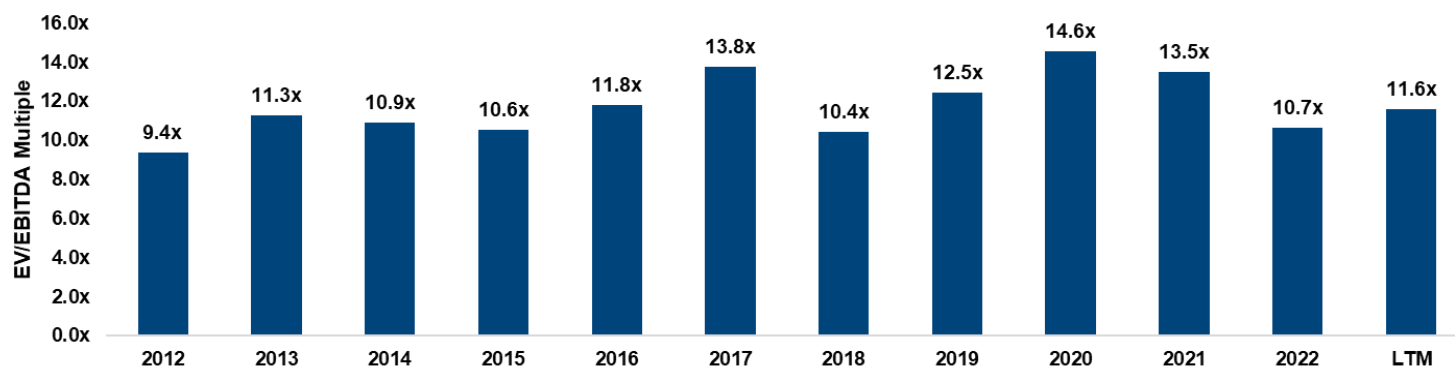
### M&A Trends in Industrial Manufacturing Q1' 2023

Q1 of 2023 saw a downward trend in industrial manufacturing deal volume and value. Compared to Q4 2022, deal volume dropped by 25% along with a 62% decrease in value. The slide in industrial M&A activity can be attributed mainly to interest rates remaining elevated and inflation remaining a concern, although falling. It is anticipated that economic conditions will begin to ease in the second half of the year, and an upturn in deal volume and value will take place. Key trends driving the upturn include (a) a swelling pipeline of sellers and private equity dry powder, (b) rising sell-side activity by PE firms, (c) carve-outs by corporates looking to exit non-core capabilities, and (d) a strong cash position of strategic buyers.

*Source: KPMG (04/21/2023)*

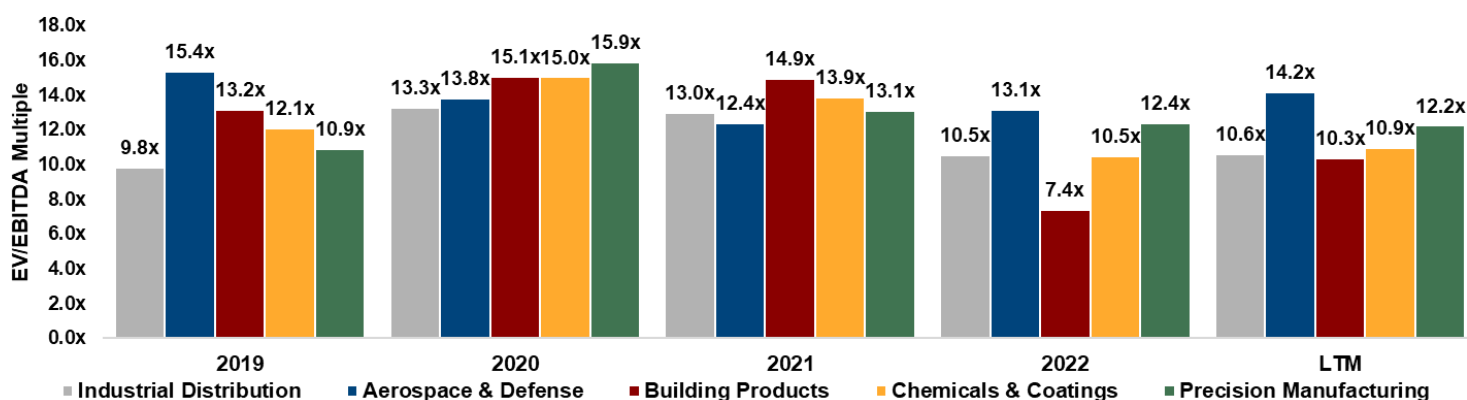
## Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 30, 2023

Industrial Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 30, 2023

## Representative EdgePoint Industrial Transactions

 <b>MPS</b> <b>MULTI PARTS</b> <i>has been recapitalized by</i>  <b>RADIAL</b>	 <b>PI</b> <b>PRINCE COMPANY</b> <i>has been recapitalized by</i> <b>INDUSTRIAL GROWTH PARTNERS</b>	 <b>JML OPTICAL</b> <i>a portfolio company of</i> <b>Five Points CAPITAL</b> <i>has been acquired by</i> <b>THORLABS</b>
 <b>SMEDE-SON STEEL &amp; Supply Company, Inc.</b> <i>has been acquired by</i>  <b>CREDO</b> <i>and</i>  <b>LEELANAU</b> <b>PRIVATE CAPITAL</b>	 <b>SURPLUS CITY</b> <b>HVAC &amp; SUPPLIES</b> <i>has been acquired by</i>  <b>FOXHOLE</b> <b>GROUP</b>	 <b>STANISCI</b> <b>DESIGN</b> <i>has been recapitalized by</i>  <b>PROVARIANT</b> <b>EQUITY PARTNERS</b>

*For more information and insight**please contact the EdgePoint**Industrials team:*

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