

## INDUSTRIALS

WINTER 2024

### Industrials Overview

In 2023, the industrials M&A market witnessed a decline in transaction volume. In 2023, bankers put together more than \$200B worth of industrial transactions, down roughly \$70B from 2022 according to data compiled by Bloomberg. Financial buyers experienced a pronounced pullback as financing costs increased significantly, paving the way for strategic acquirers to comprise a larger share of deals than in previous years.

Private equity firms faced a challenging landscape, with elevated interest rates and valuations putting them at a disadvantage relative to strategic acquirers. Despite this, buyout firms announced deals totaling \$9 billion in 2023, though KKR's acquisitions of Circor International and Chase Corp. accounted for a significant portion of that value. The number of new platforms was down significantly from prior years, and the majority of private equity deals were add-ons to existing portfolio companies.

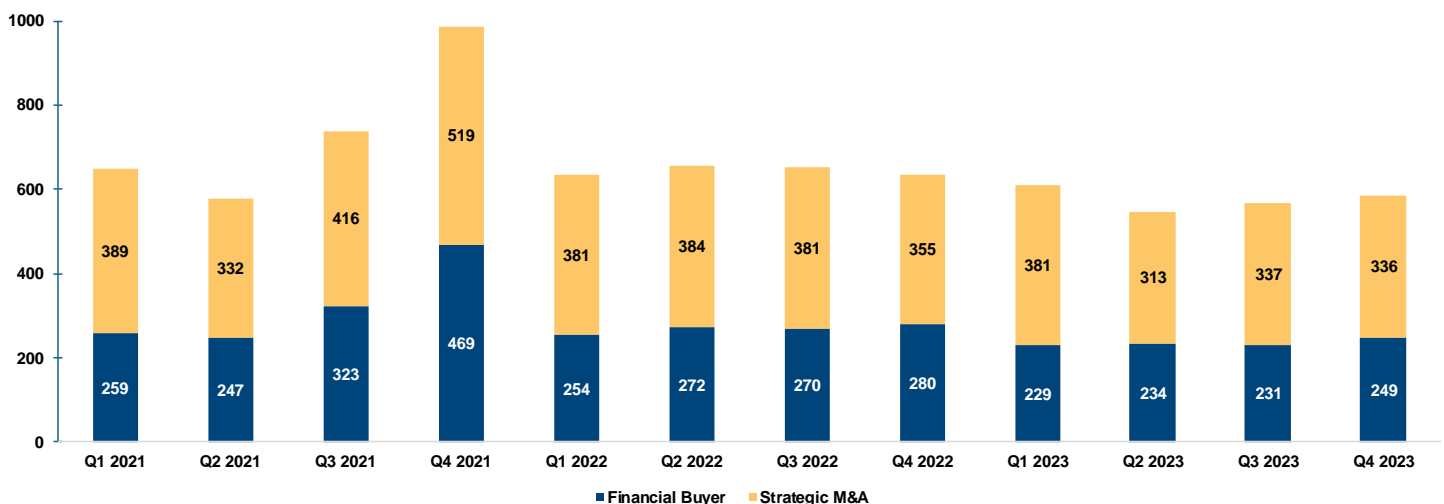
Strategic acquirers demonstrated resilience in navigating the higher borrowing cost environment. For example, Emerson used the \$14B sale of its climate technologies business to pay for its acquisition of National Instruments. Rockwell Automation used the

proceeds from the winding down of its stake in industrial software company PTC to finance its acquisitions of Verve Industrial Protection and Clearpath Robotics.

Though borrowing costs remain high, EdgePoint expects high quality assets to experience strong demand and healthy valuations in 2024. We do not expect a material change in interest rates; therefore, the cost of capital will be stable, allowing strategics to continue to increase the quantity and volume of their investments. We also expect the industrial M&A market to have pockets of rebounding demand. A few of those segments experiencing growth are industrial automation, motion control, industrial distribution, flow control, and precision manufacturing.

All industrial investors, financial or strategic, are looking for businesses with strong margin profiles and limited capital requirements. More than ever, investors and acquirors are focused on free cash flow, as it can facilitate future deals and pay off costly borrowings. Though leverage remains hampered by high interest rates, EdgePoint expects many industrial assets to be in high demand for both strategic and financial buyers in 2024.

### Industrials M&A Transactions by Year



Source: Pitchbook (December 31, 2023)

Sector Update: Industrial Distribution

Industrial distribution M&A is influenced by various factors that shape the landscape of this dynamic sector. Market consolidation continues to play a pivotal role, driven by the pursuit of economies of scale and enhanced operational efficiency. Companies seek to expand their geographic footprints and diversify product offerings through strategic acquisitions. Over the past five years, the largest publicly listed distribution companies have increased their collective market cap from \$350 billion to \$560 billion (+60%). This growth has outpaced the average for all other industries.

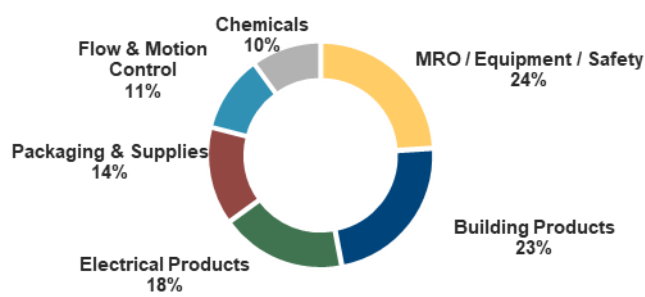
MRO/Equipment/Safety, Building Products, and Electrical Products distribution have been the most active sectors for M&A within industrial distribution recently. Buyers are attracted to the MRO space because it offers the opportunity for recurring revenue.

Mechanical devices break down and products need to be replaced or repaired on a continual basis. There is constant pressure to supply parts in the shortest amount of time to achieve maximum uptime. Therefore, distributors in this space are counted on repeatedly to supply mission-critical solutions to the MRO market. Additionally, safety products are in high demand as companies continue to prioritize worker safety and meet increasingly stringent worker safety regulations.

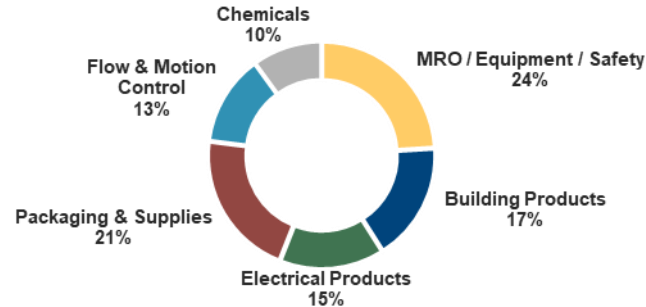
The industrial distribution sector is poised to have robust M&A activity in 2024 and beyond. The industry consolidators are gaining strength and breadth via each acquisition creating operational efficiencies that are driving margin compression and competitive disadvantages for smaller distribution companies.

M&A Deals by Segment

2023 Industrial Distribution M&A (767 Deals)



2022 Industrial Distribution M&A (899 Deals)



Sources: S&P Capital IQ , Baird/MDM Industrial Distribution Survey; Institute for Supply Management; World Bridge Partners

- The quantity of M&A deals decreased in 2023 by 15% due to elevated interest rates, margin pricing head winds, and decreased business confidence.
- The volume of M&A transactions in the electrical products sector rose, driven by the increased focus on automation in the manufacturing sector.
- Distributors of safety products remain in high demand due to increased legal obligations regarding worker safety and companies’ commitment to providing a secure work environment.

Notable Industrial Distribution Deals



Target



Buyer



Sponsor

**October 2023** – United Flow Technologies, an industrial distribution platform, has acquired Iowa Pump Works, a distributor of pumps for municipal water, wastewater, and industrial markets



Targets



Buyer

**September 2023** – Applied Industrial Technologies has acquired Bearing Distributor and Cangro Industries, providers of bearings, power transmission, and industrial motion products

Sector Update: Precision Manufacturing

Precision manufacturing companies serving the aerospace & defense end market comprised a significant portion of precision manufacturing M&A deals in 2023 because of the increased investment in aerospace and defense assets. Rising geopolitical tensions in the Middle East and Eastern Europe have led to a proposed increase of \$26B in defense spending for 2024, which will provide steady demand for precision machined components serving military applications.

The desires to achieve scale and to secure advanced machining capabilities are the two primary drivers of M&A activity in this space. The pressure felt by precision manufacturing companies

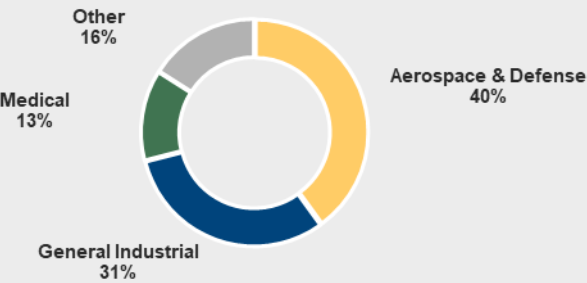
to bolster operating efficiency and the need to stay competitive in a global marketplace are ever increasing.

Buyers are attracted to the space because government contracts in the industry tend to be long-term, providing a level of stability and predictability. Buyers also look for companies providing tight tolerance parts for advanced aircraft, avionics, sensors, and defense systems. These companies command higher margins than those serving less differentiated industries.

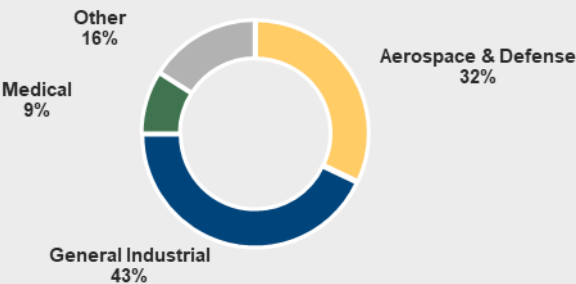
We expect precision manufacturing M&A activity to increase in 2024, particularly in the aerospace and defense segment.

M&A Deals by Segment

2023 Precision Manufacturing M&A (130 Deals)

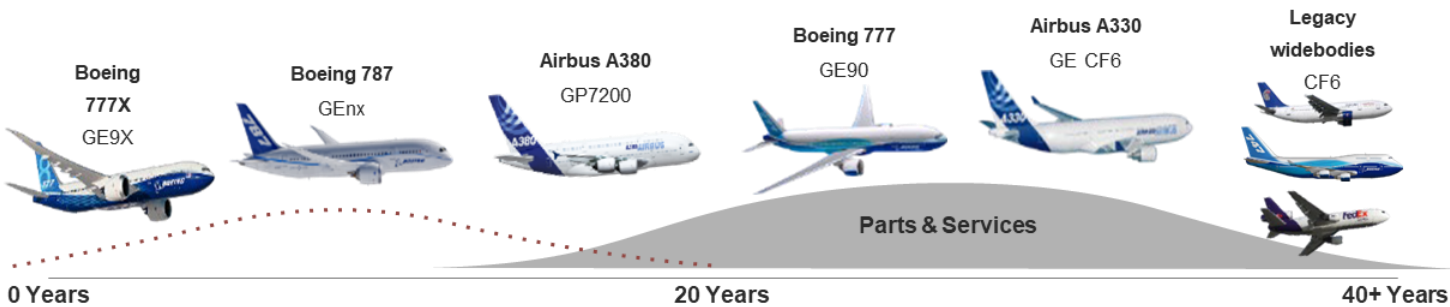


2022 Precision Manufacturing M&A (126 Deals)



Sources: S&P Capital IQ

Commercial Engines – Recurring Revenue Abound



- Recurring Revenue:** Buyers are attracted to precision manufacturing companies serving the aerospace end market because of the opportunity for recurring revenue over a 40-year lifecycle for commercial aircraft
- Growing backlogs:** Airbus set multiple industry records in 2023: backlog record (8,598 jets), Boeing set a new company all-time backlog record with 6,216 jets

Sector Update: Flow Control

The Flow Control industry has been a bright spot for industrial M&A volume in 2023. Valves (32%) and pumps (29%) comprised the vast majority of the flow control products sold. The tailwinds driving the growing investments and multiples are centered on two broad themes:

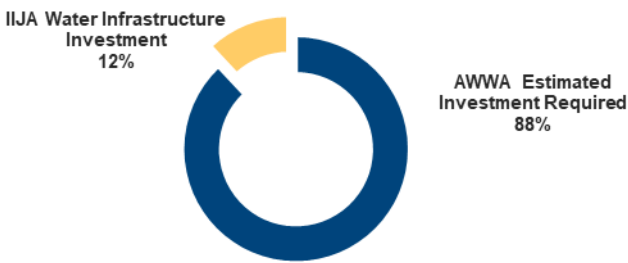
- Significant approved investments and a broad belief in the ability of future investments to improve the aging US infrastructure is driving growth
- Increased exportation of Liquefied Natural Gas (LNG) is driving further investment in the industrial Flow Control market



Infrastructure Act: \$55B for Water Infrastructure

- The recent \$1.2T Infrastructure Investment and Jobs Act (IIJA) includes a direct investment of \$55B into water, wastewater, and related resiliency projects through 2026
- These dollars will fuel projects to upgrade aging valves, pipes, pumps and other water flow control components, providing growth for manufacturers and distributors of those products
- Infrastructure law makes a historic investment in drinking water and wastewater infrastructure, to deliver clean drinking water to all American families and to help to eliminate the America’s lead service lines.
- The US has underinvested in water infrastructure for too long. The Infrastructure Law delivers more than \$50 billion to the EPA to improve our nation’s drinking water, wastewater, and stormwater infrastructure - the single largest investment in water that the federal government has ever made.

Continued Future Investments



- The American Water Works Association (AWWA) estimates that is \$1.7T of investment is needed to upgrade the US water infrastructure system fully
- The IIJA has allocated \$55B for water infrastructure, roughly 12% of what AWWA says is needed
- Once IIJA funding expires in 2026, more investment in water infrastructure is expected

U.S. LNG Exports Driving Growth for Flow Control

- The US recently became the world’s top exporter of LNG for the first time, with 2023 shipments overtaking leading suppliers Australia and Qatar
- US exports are increasing because of growing energy demand from Asia, declining supply of domestic gas, and interruption of piped supply (i.e., Russian piped gas supply to Europe)
- The increase in LNG exports has created strong demand for upgraded flow control systems capable of handling and monitoring these more complex and sensitive fuel alternatives

Sources: U.S. Energy Information Administration; CEDIGAZ; Bloomberg; The Freedonia Group; McKinsey



Sector Update: Chemical Distribution

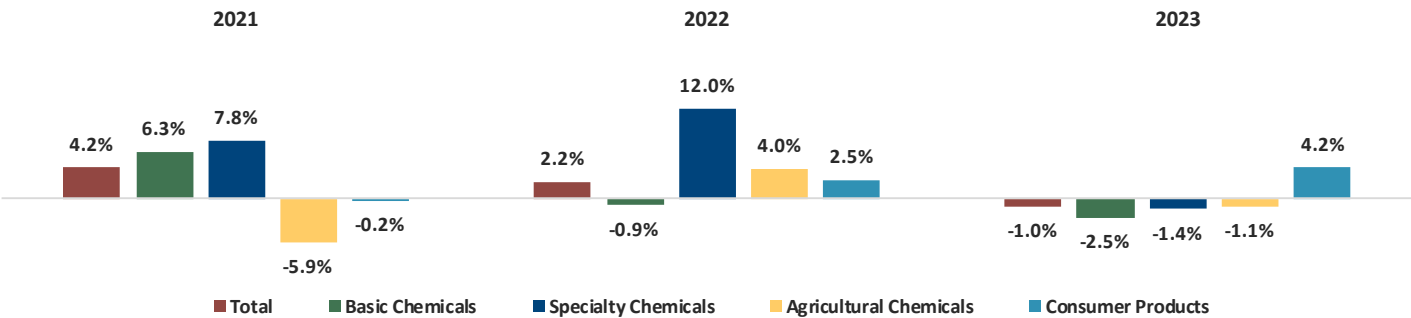
The outlook for the chemical industry is optimistic for 2024 despite tempered performance in 2023. Chemical distributors combated higher labor and input costs in 2023. Furthermore, an unprecedented destocking cycle began in late 2022 and continued into 2023, curbing sales. Inventory destocking has largely been resolved and industry revenues are projected to grow in 2024.

Water treatment chemicals, specialty polymers, and chemicals used in advanced materials are in high demand and are projected to drive growth for distributors in 2024.

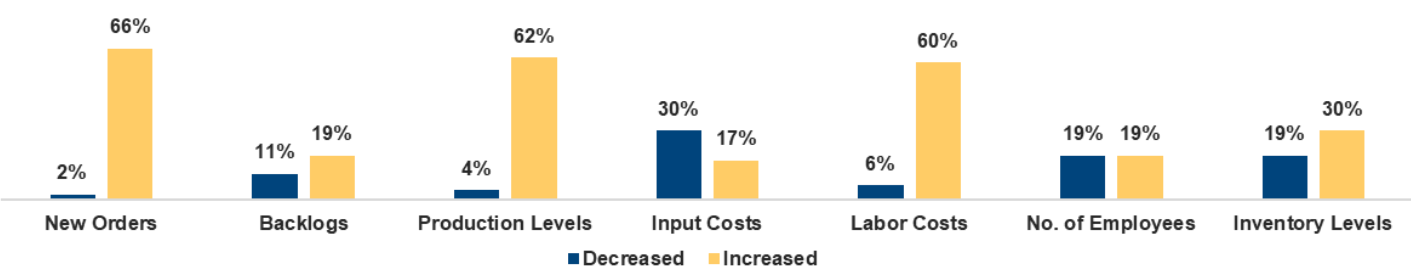
M&A continues to play a meaningful role in shaping this industry. Companies continue to expand their geographic footprint and diversify their product offerings through strategic acquisitions. Large market players continue to be the most active buyers given their strong balance sheets and significant access to lower cost capital.

We see positive momentum for chemical distributors in 2024 due to increased volumes, stable pricing, and less uncertainty in the broader economy.

Chemical Production Volume



Chemical Distributors — Comparing 2023 Results to 2024 Expectations



Sources: American Chemistry Council; S&P Global

Notable Chemical Distribution Deals



**GILBERT & JONES**  
Target



**Shrieve**  
Buyer



**GEMSPRING CAPITAL**  
Sponsor



**Univar Solutions**  
Target



**APOLLO**  
Buyer

**November 2023** – Shrieve Chemical Company, a leading chemicals distributor, has acquired Gilbert & Jones, a distributor of industrial chemicals for the aerospace and water treatment markets

**August 2023** – Apollo has acquired Univar Solutions, a global chemical and ingredients distributor and provider of value-added services

## Thought Leader Interview

**Question:** How do the growing international manufacturing landscape and recent transactions impact the future of manufacturing?

**Anton:** The globalization of manufacturing continues to drive strategic decisions of large industrial companies. The desire to sell products and solutions to varied countries is dynamic and complex. The cultures, languages, and capabilities require a blend of organic activity and acquisitions to profitably drive growth. M&A is a critical capability for any multi-national corporation. The larger and well-funded corporations are at a strategic advantage in their pursuit of acquisitions given the higher interest rates over the past year.

M&A is also helpful to access new markets and industries. The process of entering a new country is challenging given customer loyalty, language differences, and approaches to business. The ability to acquire new products, capabilities, talent, and sales channel relationships are driving forces behind a deal.

**Question:** What impact does the shortage of qualified labor have on manufacturing companies? Additionally, how is technology helping to decrease the impact of labor constraints?

**Anton:** Over the past several years, the shortage of qualified labor was magnified in all industries but most notably within the manufacturing sector. The training and experience required to produce high quality parts for mission critical applications is very high. During periods of intense competition for skilled talent, labor costs rise significantly. In response, leaders of manufacturing companies have no choice but to leverage technology and automation to decrease the labor needed to produce quality parts. This is the driving force behind technology automation advances in recent years.

**Question:** How have the elevated interest rates impacted the manufacturing industry?

**Anton:** The significant increase in interest rates during the past 18 months have impacted every industry. The tripling of cost of funds has altered investment decisions for most manufacturing companies. The interest costs on borrowed capital have lengthened pay back times and thus postponed many projects that would have been funded in the past.

The delayed investments have lowered the rate of growth of many industrial companies, which is evident in the stock market prices for industrial companies. The interest costs and labor shortages have been two of the most significant factors hampering the growth rates of manufacturers. Hopefully, we will see the Federal Reserve rate cuts in the later half of 2024, which should provide an increased confidence to invest in capital equipment.



**Art Anton**

Art Anton served as President and Chief Executive Officer of **Swagelok Company**, a major developer and manufacturer of fluid system component technology for the research, instrumentation, pharmaceutical, oil and gas, power, petrochemical, and semiconductor industries for over 25 years.

Previously, Art was a partner at the accounting and consulting firm of **Ernst & Young**.

The Swagelok logo, featuring the word "Swagelok" in a stylized, blue, sans-serif font. The letters are slightly italicized and have a registered trademark symbol (®) at the end.

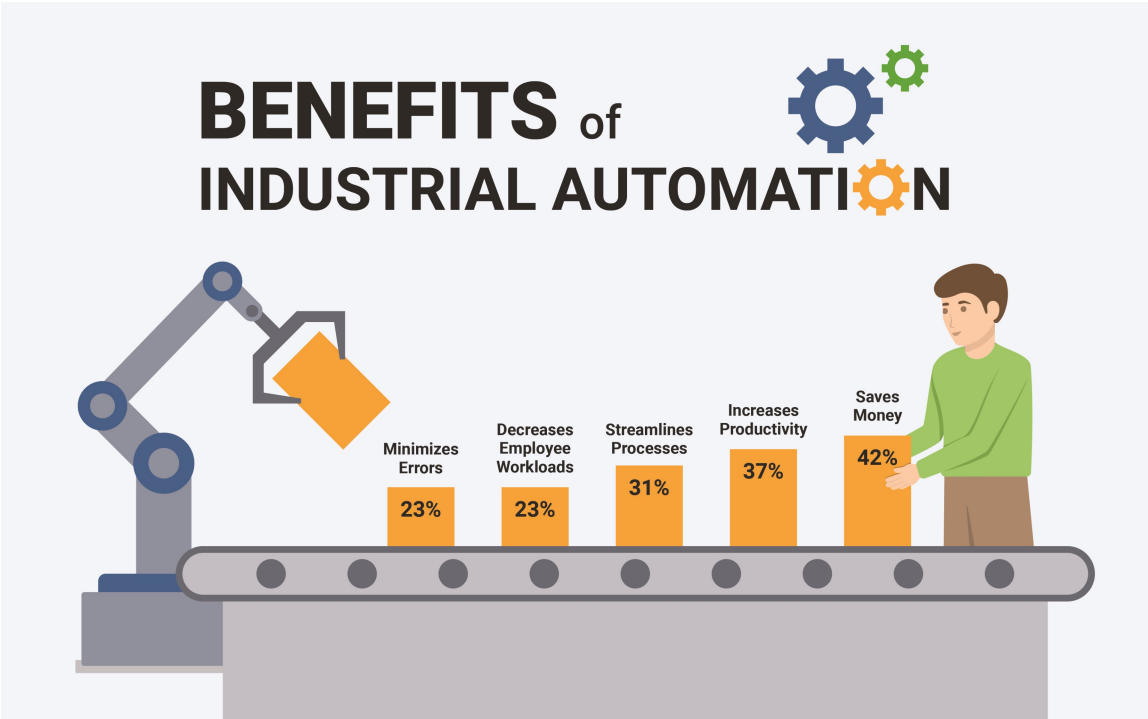
Thought Leader Interview (continued)

**Question:** How is M&A different from a strategic buyer perspective than that of a private equity buyer?

**Anton:** I have had the pleasure of seeing the M&A market from both perspectives. The large corporate buyer has the advantage of lower cost capital, cost, sales and pricing synergies, and the ability to enhance leadership gaps. Alternatively, the nimbleness of a private equity firm and the ability to shape the future of a company is very compelling. The balance of the market favors the strategic buyers today for many reasons. Today, I have the privilege of being an operating partner for a private equity fund. The ability to share past experiences and solve problems with capable management teams is a very rewarding experiences. In my opinion, each buyer group has something unique to offer a potential seller.

**Question:** How has the use of financial and operational data changed in recent years, and what future opportunities exist with this expanded access to additional information?

**Anton:** Technology is reshaping the manufacturing industry. The treasure is the vast amounts of data being captured daily, but the real opportunity is the ability to convert this data into actionable knowledge. With the advancements of AI, information is being leveraged to streamline supply chains, enhance machine processing times, and gain other operating efficiencies. It is exciting to see prior decades investments into ERP systems and data warehouses beginning to extract additional returns on their investments. Of course, this new technological advancement represents just one more strategic advantage that companies with scale and sophistication have over smaller and less well capitalized companies. It will be exciting to see the advances to manufacturing that AI and other advanced technologies will produce.



Source: Express Employment Professionals

## EdgePoint Public Comparable Index Constituents

## Industrial Distribution

Company Name	Enterprise Value (EV)	LTM Margins		EBITDA		EV/EBITDA		Revenue LTM	Revenue Growth		Stock Price	% of 52 Wk High
		Gross	EBITDA	LTM	2024E	LTM	2024E		LTM	3-Yr. CAGR		
Applied Industrial Technologies, Inc.	\$ 7,234	29.4%	12.1%	\$ 542	\$ 561	12.3x	12.9x	\$ 4,462	7.1%	13.5%	\$ 182.30	93.8%
Core & Main, Inc.	11,071	27.2%	13.6%	900	904	11.4x	12.3x	6,636	1.7%	0.0%	48.52	97.0%
MSC Industrial Direct Co., Inc.	6,176	40.9%	13.8%	553	592	10.7x	10.4x	4,006	5.4%	8.4%	99.07	93.7%
<b>Median</b>		<b>29.4%</b>	<b>13.6%</b>	<b>553</b>	<b>592</b>	<b>11.4x</b>	<b>12.3x</b>	<b>4,462</b>	<b>5.4%</b>	<b>8.4%</b>	<b>99.07</b>	<b>93.8%</b>
<b>Mean</b>		<b>32.5%</b>	<b>13.2%</b>	<b>665</b>	<b>686</b>	<b>11.5x</b>	<b>11.8x</b>	<b>5,035</b>	<b>4.8%</b>	<b>7.3%</b>	<b>109.96</b>	<b>94.8%</b>

## Precision Machining

Company Name	Enterprise Value (EV)	LTM Margins		EBITDA		EV/EBITDA		Revenue LTM	Revenue Growth		Stock Price	% of 52 Wk High
		Gross	EBITDA	LTM	2024E	LTM	2024E		LTM	3-Yr. CAGR		
Curtiss-Wright Corporation	\$ 9,931	37.5%	22.1%	\$ 630	\$ 639	14.7x	15.6x	\$ 2,845	11.3%	6.0%	\$ 238.94	98.4%
Howmet Aerospace Inc.	31,164	27.9%	21.9%	1,457	1,663	20.5x	18.7x	6,640	17.3%	8.1%	67.96	99.5%
Illinois Tool Works Inc.	84,361	42.2%	27.7%	4,468	4,622	18.6x	18.3x	16,107	1.1%	8.6%	257.88	96.5%
<b>Median</b>		<b>37.5%</b>	<b>22.1%</b>	<b>1,457</b>	<b>1,663</b>	<b>18.6x</b>	<b>18.3x</b>	<b>6,640</b>	<b>11.3%</b>	<b>8.1%</b>	<b>238.94</b>	<b>98.4%</b>
<b>Mean</b>		<b>35.9%</b>	<b>23.9%</b>	<b>2,185</b>	<b>2,308</b>	<b>18.0x</b>	<b>17.5x</b>	<b>8,531</b>	<b>9.9%</b>	<b>7.6%</b>	<b>188.26</b>	<b>98.1%</b>

## Flow Control

Company Name	Enterprise Value (EV)	LTM Margins		EBITDA		EV/EBITDA		Revenue LTM	Revenue Growth		Stock Price	% of 52 Wk High
		Gross	EBITDA	LTM	2024E	LTM	2024E		LTM	3-Yr. CAGR		
Ingersoll Rand Inc.	\$ 37,686	41.9%	24.7%	\$ 1,701	\$ 1,956	21.5x	19.3x	\$ 6,876	16.2%	20.1%	\$ 89.97	97.3%
Flowserv Corporation	6,446	30.0%	11.2%	483	583	11.4x	11.0x	4,321	19.5%	5.0%	42.28	96.9%
The Gorman-Rupp Company	1,340	29.8%	17.3%	114	119	11.5x	11.3x	660	26.6%	23.6%	36.00	93.1%
<b>Median</b>		<b>30.0%</b>	<b>17.3%</b>	<b>483</b>	<b>583</b>	<b>11.5x</b>	<b>11.3x</b>	<b>4,321</b>	<b>19.5%</b>	<b>20.1%</b>	<b>42.28</b>	<b>96.9%</b>
<b>Mean</b>		<b>33.9%</b>	<b>17.7%</b>	<b>766</b>	<b>886</b>	<b>14.8x</b>	<b>13.9x</b>	<b>3,952</b>	<b>20.8%</b>	<b>16.2%</b>	<b>56.08</b>	<b>95.8%</b>

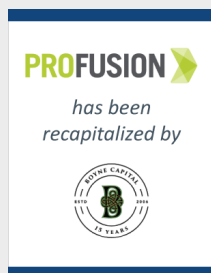
## Chemicals

Company Name	Enterprise Value (EV)	LTM Margins		EBITDA		EV/EBITDA		Revenue LTM	Revenue Growth		Stock Price	% of 52 Wk High
		Gross	EBITDA	LTM	2024E	LTM	2024E		LTM	3-Yr. CAGR		
Dow Inc.	\$ 52,754	11.3%	11.6%	\$ 5,176	\$ 6,243	7.9x	8.5x	\$ 44,622	-21.6%	5.0%	\$ 56.98	98.7%
DuPont de Nemours, Inc.	35,213	35.1%	23.7%	2,855	2,888	11.5x	12.2x	12,068	-7.3%	2.7%	69.00	87.6%
PPG Industries, Inc.	38,133	41.4%	15.4%	2,807	3,179	12.3x	12.0x	18,246	3.4%	9.7%	138.79	90.8%
<b>Median</b>		<b>35.1%</b>	<b>15.4%</b>	<b>2,855</b>	<b>3,179</b>	<b>11.5x</b>	<b>12.0x</b>	<b>18,246</b>	<b>-7.3%</b>	<b>5.0%</b>	<b>69.00</b>	<b>90.8%</b>
<b>Mean</b>		<b>29.3%</b>	<b>16.9%</b>	<b>3,613</b>	<b>4,103</b>	<b>10.6x</b>	<b>10.9x</b>	<b>24,979</b>	<b>-8.5%</b>	<b>5.8%</b>	<b>88.26</b>	<b>92.4%</b>

Source: CapIQ (March 5, 2024)

- Despite macroeconomic headwinds (inflation and high interest rates), industrial public companies have performed well over the last 12 months
- Strong revenue growth in the precision manufacturing industry is due to increased demand for tight tolerance parts in the aerospace and defense end markets
- The flow control industry is expected to continue its growth as mission-critical flow control products will continue to be in high demand, particularly in the water treatment and LNG end markets

## Representative EdgePoint Industrials Transactions



For more information and insights, please contact us:



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