

INDUSTRIALS

SUMMER 2024

Industrials Overview

The industrials M&A market has slowed in 2024. However, there are positive expectations for 2025 due to several significant trends.

Government regulations are providing robust support for growth. Key legislation, such as the Infrastructure Bill, the CHIPS Act, and the Inflation Reduction Act (IRA), is anticipated to rejuvenate U.S. manufacturing and stimulate job growth. The IRA offers tax incentives to companies focusing on clean energy and domestic sourcing, creating a favorable environment for reshoring initiatives.

Changing global dynamics and the rising impact of technology have led companies to rethink manufacturing strategies. Companies have begun reshoring their networks, bringing capabilities back to the U.S. The IRA supports this trend with incentives aiming to reduce foreign supply chain dependence.

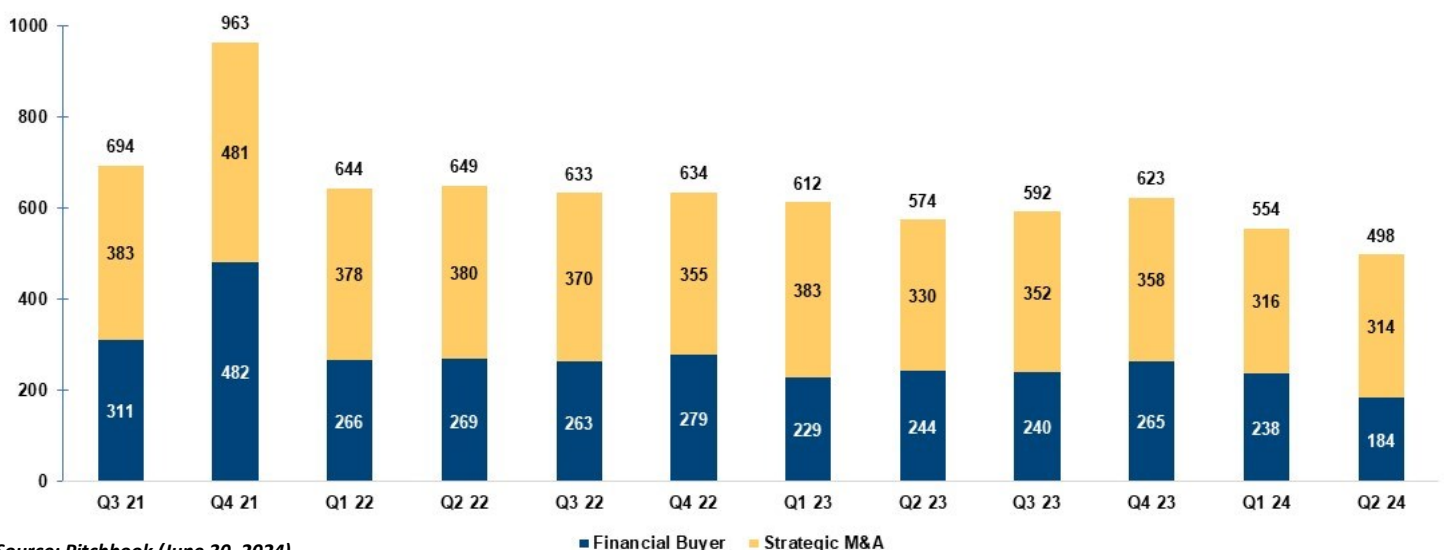
Private equity was cautious in 2023 and has remained so in 2024, with firms largely staying on the sidelines due to high financing costs and a challenging exit environment. Deal sizes contracted as borrowers sought to minimize financing needs. However, the

industrials sector, particularly segments like building products and engineered metal products, have provided pockets of opportunity. As private equity firms face pressure to deploy dry powder, a rebound in deal activity is expected in 2025 and 2026.

However, the current difficulties facing industrial companies cannot be ignored. Commodity price fluctuation has had a negative impact over the past several quarters. Companies are struggling from declines in production, new orders, and supplier deliveries. There is hesitancy to invest in capital and inventory due to current monetary policy, inflation, and election uncertainty. All these factors are negatively impacting the current M&A market.

Though current conditions are difficult, the industrials M&A market is poised to recover in 2025, driven by supportive government policies, a willing private equity market, and the expectation for commodity prices to stabilize. Once the election cycle ends in November, there will be more clarity into the direction of the economy which should give companies and buyers confidence to pursue growth activities and acquisitions.

Industrials M&A Transactions by Year



Notable Recently Announced and Closed Industrial Transactions

Date: 4/19/2024 (Closed)	Overview / Strategic Rationale:	Engineered Metal Products
<div>Target:<div></div></div>	<p>Arcline Investment Management is a growth-oriented private equity firm with \$8.9 billion in cumulative capital commitments. Arcline invests in leading, technology-driven industrial businesses.</p> <ul style="list-style-type: none"><i>Kaman produces and markets proprietary aircraft bearings and components; super-precision miniature ball bearings; proprietary spring energized seals, springs and contacts; and wheels, brakes and related hydraulic components for helicopters, fixed-wing and UAV aircraft.</i><i>Kaman also manufactures complex metallic and composite aerostructures for commercial, military, and general aviation fixed- and rotary-wing aircraft.</i>	
<div>Acquirer:<div></div></div>		
<div>Key Metrics:</div> <div><div>Implied Enterprise Value (\$M)</div><div>\$2,802</div></div> <div><div>EV/LTM EBITDA</div><div>27.9x</div></div>		
Date: 3/5/2024 (Closed)	Overview / Strategic Rationale:	Industrial Distribution
<div>Target:<div></div></div>	<p>DXP Enterprises, Inc. (NASDAQ: DXPE) is a leading provider of innovative pumping solutions, supply chain services, and maintenance, repair, operating, and production services. DXP specializes in rotating equipment, bearings, power transmission, metal working, industrial supplies, and safety products.</p> <ul style="list-style-type: none"><i>Pro-Seal is a distributor of pumping systems, fluid sealing, and related seal support systems and other industrial pumping equipment and services and lubricants.</i><i>The acquisition expands DXP's leading position as the largest distributor of rotating equipment in North America.</i>	
<div>Acquirer:<div></div></div>		
<div>Key Metrics:</div> <div><div>Implied Enterprise Value (\$M)</div><div>\$13</div></div> <div><div>EV/LTM EBITDA</div><div>8.4x</div></div>		
Date: 3/6/2024 (Closed)	Overview / Strategic Rationale:	Building Products
<div>Target:<div></div></div>	<p>Breedon Group (LON: BREE) is a \$2B supplier of construction materials located in the United Kingdom.</p> <ul style="list-style-type: none"><i>BMC Enterprises is a supplier of aggregates, ready-mixed concrete, and building products located in St. Louis, Missouri.</i><i>BMC operates 5 hardstone quarries, 7 sand and gravel facilities, 44 ready-mixed concrete plants, and 9 building products facilities. The business is primarily located in Missouri, with further operations in Illinois and Arkansas, and employs about 570 people.</i><i>The acquisition serves as a gateway for Breedon Group into the U.S. market.</i>	
<div>Acquirer:<div></div></div>		
<div>Key Metrics:</div> <div><div>Implied Enterprise Value (\$M)</div><div>\$300</div></div> <div><div>EV/LTM EBITDA</div><div>8.5x</div></div>		
Date: 5/1/2024 (Closed)	Overview / Strategic Rationale:	Flow Control
<div>Target:<div></div></div>	<p>Crane is a \$3B manufacturer of highly engineered components for challenging, mission-critical applications focused on the aerospace, defense, space, and process flow industry end markets.</p> <ul style="list-style-type: none"><i>Founded in Jurupa Valley, California, in 2009, CryoWorks is a premier provider of vacuum jacketed pipe, serving growing industries such as space launch services, alternative energy, and demanding cryogenic applications.</i><i>CryoWorks expands Crane's capabilities within its Process Flow Technologies segment.</i>	
<div>Acquirer:<div></div></div>		
<div>Key Metrics:</div> <div><div>Implied Enterprise Value (\$M)</div><div>\$61</div></div> <div><div>EV/LTM EBITDA</div><div>12.2x</div></div>		
Source: Company Filings, Pitchbook, CapIQ, News Releases, Investor Reports		

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

Date	Target	Acquirer	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
ENGINEERED METAL PRODUCTS						
6/19/2024	CAES	Honeywell (NAS: HON)	Manufacturer of advanced electronics products	\$ 1,925	-	14.0x
6/6/2024	Ametherm	Vishay Intertechnology (NYSE: VSH)	Manufacturer of electronic components			
6/6/2024	CPI	TransDigm Group (NYSE: TDG)	Manufacturer of electronic subsystems for aerospace and defense	\$ 1,385	-	-
5/28/2024	Raptor Scientific	TransDigm Group (NYSE: TDG)	Manufacturer of complex test & measurement solutions	\$ 655	-	-
BUILDING PRODUCTS						
6/18/2024	SRS Distribution	The Home Depot (NYSE: HD)	Leading residential specialty trade distribution company	\$ 18,250	1.83x	-
6/6/2024	Trachte	nVent Electric plc (NYSE: NVT)	Manufacturer of custom-engineered control building solutions	\$ 695	-	-
6/3/2024	Rytec	Nucor (NYSE: NUE)	Leader in high performance commercial doors	\$ 565	-	12.5x
3/15/2024	Masonite	Owens Corning (NYSE: OC)	Leading manufacturer of interior and exterior doors	\$ 3,900	1.38x	11.6x
INDUSTRIAL DISTRIBUTION						
6/7/2024	USA Refrigerants	Hudson Technologies (NAS: HDSN)	National refrigerant distributor	\$ 21	-	-
4/15/2024	Becnel	Transat (NAS: TRNS)	Provider of rental tools and equipment	\$ 50	-	-
4/1/2024	Climatic Comfort Products	Shearer Supply	Distributor of HVAC products	\$ 34	-	-
3/1/2024	Kamco Supply	Gypsum Management & Supply (NYSE: GMS)	Distributor of commercial and residential building materials	\$ 317	1.35x	-
FLOW CONTROL						
6/3/2024	Dynamic Sealing Technologies	Kadant (NYS: KAI)	Manufacturer of engineered fluid sealing and transfer solutions	\$ 55	2.20x	-
3/16/2024	B&P Littleford	WayPoint Capital Partners	Manufacturer of industrial processing products	\$ 41	-	-
3/12/2024	FM Stainless	Hill & Smith (LON: HILS)	Manufacturer of piping and fastener products	\$ 8	0.96x	-
2/5/2024	Kappe Associates	DXP Enterprises (NAS: DXPE)	Distributor of pumps, controls, and process equipment	\$ 19	0.77x	5.2x

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

Sub-Sector Profile: Engineered Metal Products

M&A activity in the engineered metal products sector slowed in 2023, but 2024 shows optimistic prospects for a rebound. Recent high-profile acquisitions, such as Arcline Investment Management acquiring Kaman for \$2.8 billion (27x EBITDA) and Honeywell’s \$1.9 billion (14x EBITDA) purchase of CAES, underscore this trend.






Industrial infrastructure funding and nearshoring trends have generated substantial interest in the sector and cushioned it from broader market softness. Technological advancements in manufacturing and demand for specialized solutions have encouraged engineers at large strategics to establish niche, independent businesses. While the barriers to entry are relatively high, given the skill and capital requirements necessary to launch and scale a sophisticated engineered products company, these new entrants have been undeterred and are creating a wealth of new product offerings. This has created fragmentation in the market and provided opportunity for consolidation.

The sector has undergone a shift from just-in-time (JIT) supply chain management to nearshoring and flexible production. Rising costs and the political risks associated with Asian operations have led manufacturers to relocate production closer to home.

Aging U.S. infrastructure has prompted significant government investment in redevelopment and maintenance, bolstering demand for aftermarket sales in telecommunications, pipelines, refineries, and water treatment. The sector is poised to benefit from these investments, supplying essential components like valves, regulators, pumps, and control systems.

The engineered metal products sector remains well-positioned for growth, as anticipated interest rate declines are expected to enhance capital deployment for modernization. Strategic acquisitions, supply chain adaptations, and infrastructure investments will likely stimulate M&A activity, supporting the sector's continued evolution and expansion in 2024 and into 2025.

Engineered Metal Products Activity

Select Strategic Acquisitions	Date of Transaction	Acquisition Activity
	6/03/2024	<ul style="list-style-type: none">Ultra Energy
	4/02/2024	<ul style="list-style-type: none">Western Services Corporation
	4/01/2024	<ul style="list-style-type: none">Creative Machining Technology
	6/06/2024	<ul style="list-style-type: none">CPI International
	5/28/2024	<ul style="list-style-type: none">Raptor Scientific
	5/22/2024	<ul style="list-style-type: none">SEI Industries
	5/01/2024	<ul style="list-style-type: none">CryoWorks
	1/02/2024	<ul style="list-style-type: none">Vian Enterprises
	7/23/2024	<ul style="list-style-type: none">Mott

Sector Update: Building Products

The building products M&A market has experienced a resurgence during 2024, presenting promising opportunities after over a year of uncertainty from late 2022 through 2023.

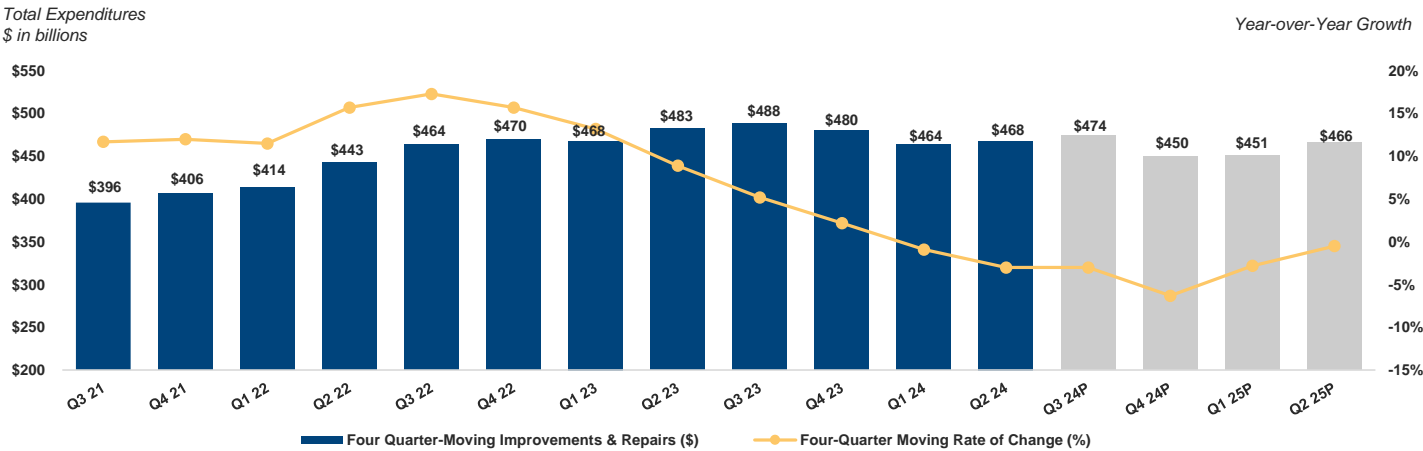
The sector has adjusted to higher interest rates, and with the potential for the Federal Reserve to lower rates, residential construction may see a boost, further driving M&A activity. Key factors influencing this market include a significant national housing deficit, estimated at a minimum of 1.5 million units, and the aging demographics of millennials entering prime homeownership years, which are expected to increase housing demand. Although interest rates have fluctuated, the potential stabilization and reduction in rates could make homeownership

more accessible, further supporting growth.

Despite a near-record level of ‘work in progress’ entering 2023, multi-family starts grew by 7% in 2024, with around 1 million units underway. This growth is driven by continued urbanization and a robust rental market. Buyers adept at navigating new construction opportunities will find significant prospects in manufacturing, distribution, and residential services.

Strategic and financial buyers are poised to leverage these trends, with companies expanding into new product categories and geographies. Sellers should anticipate a crowded M&A landscape later in the year, potentially intensified by lower interest rates.


Leading Indicator of Remodeling Activity (LIRA), 2021—2024P




Source: Joint Center for Housing Studies—Harvard University

- Repair and remodel activity is projected to remain steady and strong through 2025 due to elevated home prices, mortgage rates, and an aging housing stock.
- The long-term outlook for residential new construction is resilient, with anticipated growth in the second half of 2024 driven by demand for affordable housing.
- The building products industry is poised for long-term growth, with recent mergers indicating strong buyer and seller interest. Moderating interest rates in 2024 are expected to support growth in new construction and in repair and remodeling markets.

Notable Building Products Deals




MASONITE




OWENS CORNING

Target

Buyer



PGT INNOVATIONS



MITER BRANDS

Target

Buyer

March 2024 – Owens Corning, a manufacturer of building materials, completed its acquisition of Masonite, a leading provider of doors and door systems, for an enterprise value of \$3.9 billion (11.6x).

March 2024 – MITER, a nationwide manufacturer of windows and doors, acquired PGT Innovations, a manufacturer of premium impact-rated windows and doors, for an enterprise value of \$3.1 billion (13.1x).

Family Business — Thought Leader Interview

Question: *Can you talk about the transition from working at Fortune 500 companies to working in the family business?*

Isban: *After graduating from business school, joining the family business wasn't on my radar. Despite growing up immersed in it, I felt the need to carve my own path. The decision to gain experience at global companies like Whirlpool and SPX allowed me to do just that.*

At these companies, I led product categories, managed facilities, and oversaw teams both domestically and internationally. The fast-paced environment suited me well, seemingly pulling me further away from the idea of returning to the family fold.

However, as much as I thrived in the international arena, my personal life began to evolve. I met my wife at SPX, and with our first child on the way, the constant global travel started to lose its appeal.

Around this time, SPX underwent a spinoff transaction, which led me to reconsider my long-term career goals and the future of our family business.

My grandfather, Leonard Isban, founder of our company, passed away a few years ago. Although my father had been running the business for fifteen years, the transition to sole leadership was significant for him.

It was during this period that I decided to take a leap of faith and join the family business. Now, after several years, I'm confident that it was the right decision.

The work environment in the family business is vastly different from that of a Fortune 500 company. The pace is a major adjustment.

My father has a rhythm and cadence that has served him well over the years, while I tend to be more aggressive in my approach. This has required both of us to adapt—we are learning to balance his thoughtful deliberation with my drive for quick action.

Question: *You are the third generation of the Isban family, and the third generation has a long-standing negative stigma attached to it. How are you and the family working to ensure the business transitions effectively?*

Isban: *That question was front of mind for me prior to joining the company. I talk with my dad a lot about that.*

In my experience now, the third generation can be intelligent and driven, but still not truly understand the business. Success is determined by the level of buy-in from our team members.



Cole Isban

COO, American Containers

Cole Isban is the Chief Operating Officer of **American Containers, Inc.**, a custom packaging manufacturer headquartered in Plymouth, IN. The company specializes in corrugated and plastic packaging as well as corrugated honeycomb.

Cole is the third generation of the Isban family to work at American Containers, as his grandfather, Leonard, founded the business in 1965.

Previously, Cole was a Senior Director of Product Management at **SPX Flow**.

He holds a Bachelor's in Marketing and an MBA in Marketing from the University of Notre Dame.



Family Business — Thought Leader Interview (continued)

Isban (continued): *My grandfather was revered as the owner and founder. His employees didn't want to disappoint him because he built this business from scratch. The loyalty and love for my grandfather was evident.*

The second generation (my dad) didn't become the CEO until my grandfather passed away, despite being the president for 15 years. My grandfather was always present, but my dad was still just one of the people until recently.

When I joined, not everyone loved my drive and ideas initially. That initial transition period was important because people are skeptical of the third generation. You need to learn not only the people, but also the business.

I started out in a much lower role to demonstrate my commitment to being part of the team to help the business grow. Patience and time were key.

I'm part of the third generation, but my goal is the same as everyone else's: to see our company and our people succeed.

Question: *What advice do you have for other family businesses who are navigating a choppy economy?*

Isban: *We operate in a very competitive industry with plenty of headwinds across some of our key end-markets.*

Two factors have been critical to our success: diversification and delivery. We don't chase large, commoditized accounts.

Instead, we focus on niche markets where we can offer custom solutions that customers truly value.

Furthermore, we win on customer service. While on-time delivery percentage (OTD%) is a common metric, we don't measure it because, for us, it must be 100%—it's non-negotiable.

We're not afraid to maintain higher inventory levels if it means securing a new account. Once we win, we never want to give the customer a reason to look elsewhere.



Leonard Isban, Founder, Mike Isban, CEO, and Cole Isban, COO



EdgePoint Public Comparable Index Constituents

Engineered Metal Products

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	\$ 11,202	37.4%	22.2%	\$ 668	\$ 645	16.1x	17.4x	\$ 3,008	10.5%	7.0%	\$ 270.98	94.5%
Howmet Aerospace Inc.	35,048	29.4%	23.5%	1,665	1,767	21.9x	19.8x	7,093	14.5%	14.1%	77.63	90.8%
Illinois Tool Works Inc.	78,076	43.6%	29.1%	4,663	4,677	16.7x	16.7x	16,014	-0.4%	4.6%	236.96	87.4%
TransDigm Group Incorporated	89,605	59.3%	49.6%	3,774	4,222	24.7x	21.2x	7,606	21.8%	17.5%	1,277.61	93.3%
Median		40.5%	26.3%	2,720	2,994	19.3x	18.6x	7,350	12.5%	10.5%	253.97	92.0%
Mean		42.4%	31.1%	2,692	2,828	19.9x	18.8x	8,430	11.6%	10.8%	465.80	91.5%

Building Products

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		
Advanced Drainage Systems, Inc.	\$ 13,366	39.4%	29.5%	\$ 860	\$ 963	14.9x	13.9x	\$ 2,912	-0.8%	10.8%	\$ 160.39	87.0%
Armstrong World Industries, Inc.	5,523	39.6%	26.9%	364	477	12.2x	11.6x	1,351	6.8%	9.9%	113.24	90.2%
Builders FirstSource, Inc.	20,443	34.1%	15.0%	2,562	2,549	7.2x	8.0x	17,033	-8.1%	5.3%	138.41	64.5%
GMS Inc.	4,561	32.3%	10.5%	578	618	6.9x	7.4x	5,502	3.2%	18.6%	80.61	79.8%
Installed Building Products, Inc.	6,381	34.1%	17.1%	487	539	12.3x	11.8x	2,858	3.7%	16.9%	205.68	78.0%
Owens Corning	17,144	30.2%	23.2%	2,288	2,647	7.4x	6.5x	9,872	1.7%	7.3%	173.72	94.4%
Median		34.1%	20.1%	719	791	9.8x	9.8x	4,207	2.5%	10.3%	149.40	83.4%
Mean		34.9%	20.4%	1,190	1,299	10.2x	9.9x	6,588	1.1%	11.5%	145.34	82.3%

Industrial Distribution

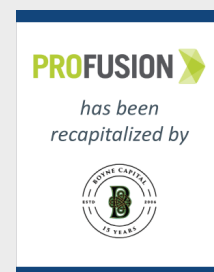
Company Name	Enterprise Value (EV)	LTM Margins		EBITDA		EV/EBITDA		Revenue LTM	Revenue Growth		Stock Price	% of 52 Wk High
		Gross	EBITDA	LTM	2024E	LTM	2024E		LTM	3-Yr. CAGR		
Applied Industrial Technologies, Inc.	\$ 7,629	29.8%	12.2%	\$ 548	\$ 562	13.1x	13.5x	\$ 4,479	1.5%	11.4%	\$ 194.00	96.2%
Core & Main, Inc.	12,115	26.9%	13.0%	895	962	12.4x	12.6x	6,869	3.7%	21.2%	48.94	78.7%
MSC Industrial Direct Co., Inc.	5,071	41.0%	13.1%	511	485	9.0x	10.5x	3,904	-2.3%	7.3%	79.31	75.0%
Median		29.8%	13.0%	548	562	12.4x	12.6x	4,479	1.5%	11.4%	79.31	78.7%
Mean		32.6%	12.8%	651	669	11.5x	12.2x	5,084	1.0%	13.3%	107.42	83.3%

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.	\$ 38,034	43.5%	26.0%	\$ 1,831	\$ 2,002	21.1x	19.0x	\$ 7,036	9.0%	14.1%	\$ 90.84	94.0%
Flowserve Corporation	7,238	30.9%	12.3%	552	605	12.0x	12.0x	4,504	13.4%	7.1%	48.10	95.3%
The Gorman-Rupp Company	1,334	30.7%	17.8%	117	121	11.3x	11.1x	657	4.0%	22.9%	36.71	91.8%
Median		30.9%	17.8%	552	605	12.0x	12.0x	4,504	9.0%	14.1%	48.10	94.0%
Mean		35.0%	18.7%	833	909	14.8x	14.0x	4,066	8.8%	14.7%	58.55	93.7%

Source: CapIQ (June 30, 2024)

Representative EdgePoint Industrials Transactions



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