



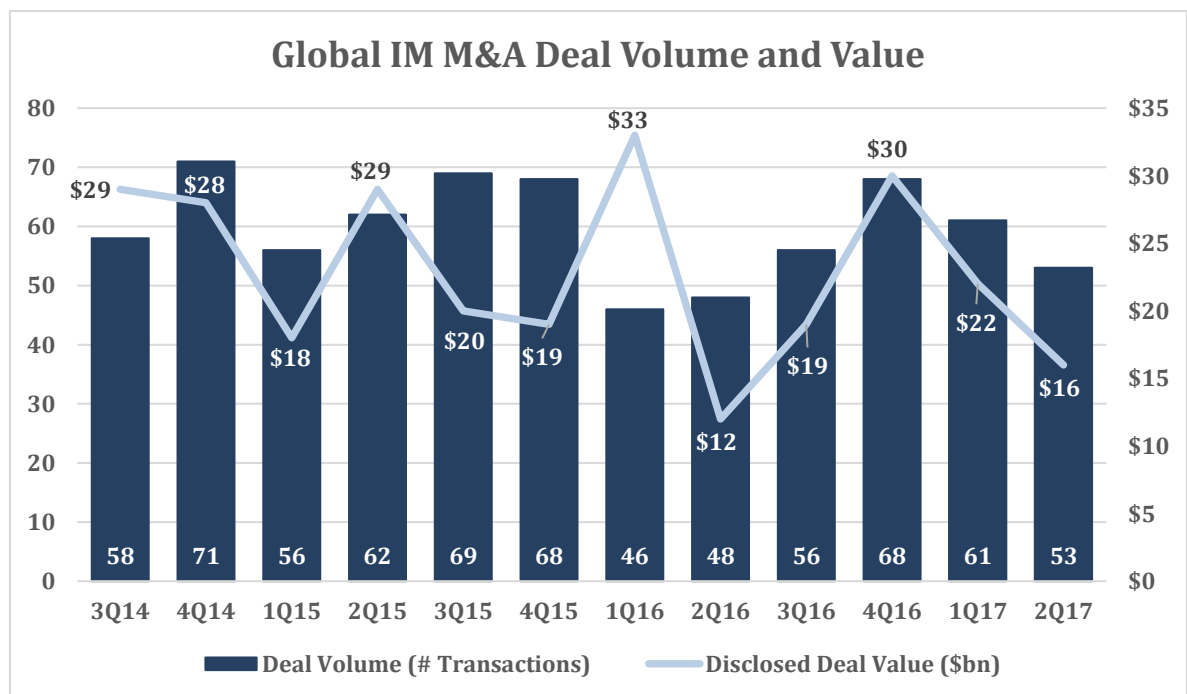
## Industrial & Manufacturing M&A Outlook Q2 2017

### About Us

Calabasas Capital is a boutique investment banking firm focused on serving lower middle-market privately-held companies. We specialize in representing and advising businesses on sell-side and buy-side mergers and acquisitions and we raise private equity and debt capital.

### Overview

- Deal Value has reached \$38.2 billion in the first half of 2017, a 15% drop from the first half of 2016. However, 114 deals are accounted for in the first half of 2017, a 21% increase from the first half of 2016.



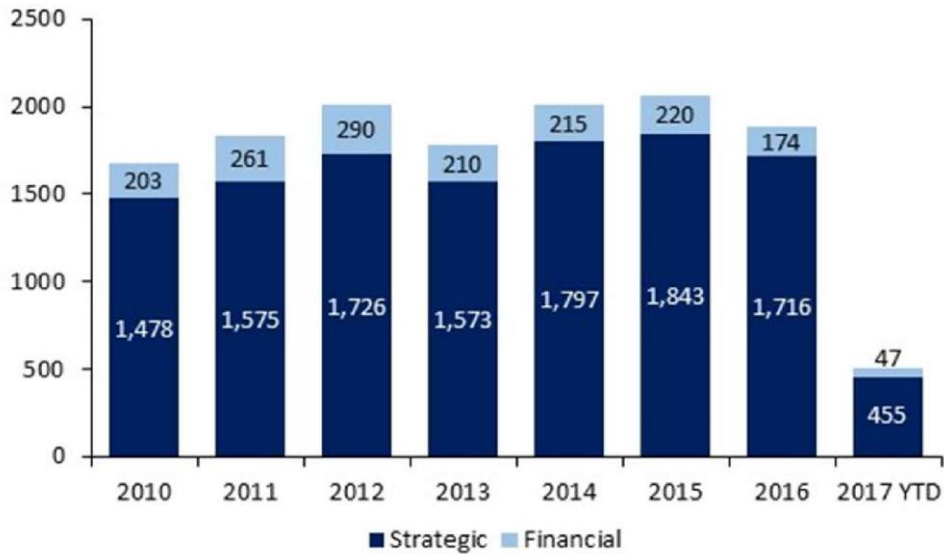
Source: PWC and Thomson Reuters

- In Q2 2017, four megadeals (greater than \$1 billion) with an aggregate value of \$5.5 billion occurred, accounting for 35% of the total deal value of Q2. In the first half of 2017, 11 megadeals closed

aggregating \$17.8 billion compared to only 5 in the first half of 2016 totaling \$28.9 billion.

- As of the end of March, strategic buyers in 2017 accounted for approximately 91% of industrial and manufacturing transactions, the same as in 2016.

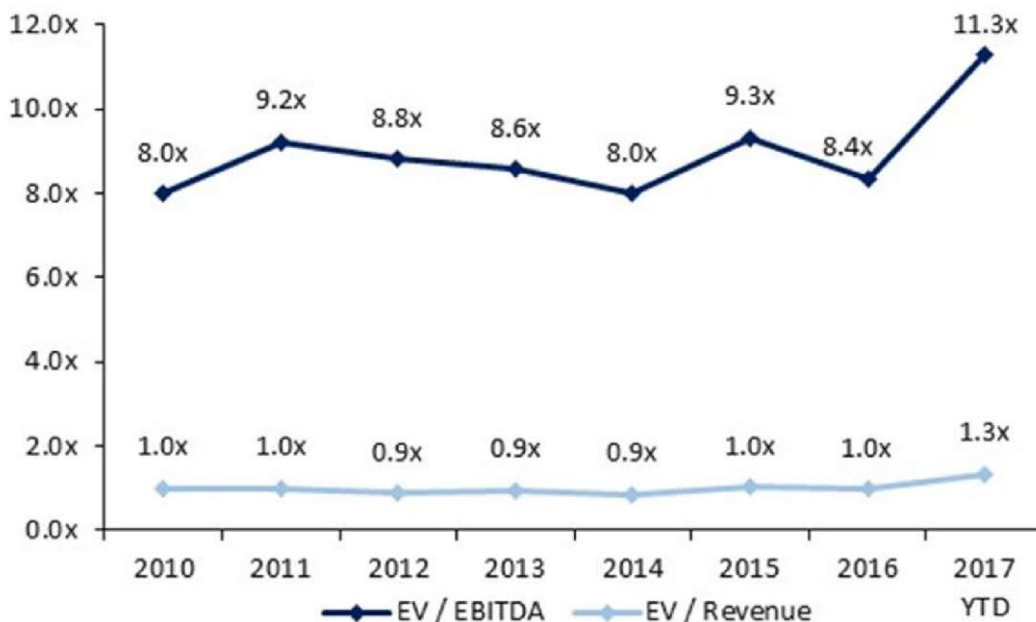
**U.S. Industrial & Manufacturing Transactions by Buyer Type**



Sources: Peakstone and Capital IQ

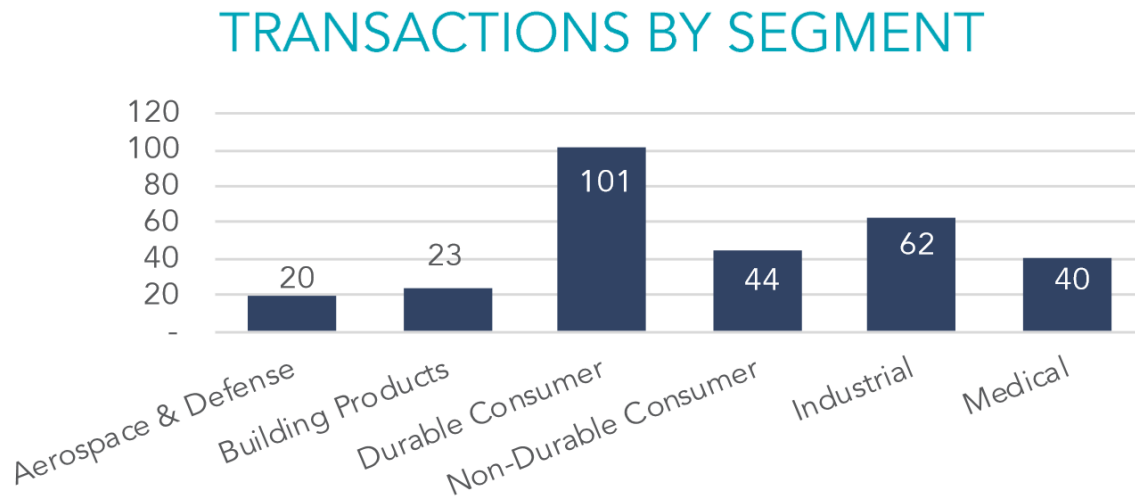
- Industrial and manufacturing transaction multiples decreased from 9.3x EBITDA and 1.0x Revenue

**U.S. Industrial & Manufacturing Transaction Multiples**



in 2015 to 8.4x EBITDA and 1.0x Revenue in 2016. As of the end of March 2017, multiples are up from the previous two years at 11.3x EBITDA and 1.3x Revenue.

- The Industrial Manufacturing segment accounted for 21.4% of total manufacturing deals for Q2 2017, the second highest among manufacturing sectors, trailing only Durable Consumer Manufacturing.



*Source: SDR Ventures and FactSet*

## Drivers of Consolidation and Profitability

The Industrial Manufacturing industry has had a remarkable opportunity to capitalize on slow but steady economic growth but thus far has remained risk averse overall. Those that have been unwilling to spend on new machinery, software, and talent during a period of slow growth may face challenges in the near term. Industrial manufacturers must figure out how to manage a superabundance of new data so that it becomes useful instead of overwhelming.

### **Leverage Data and Analytics in a New Business Model**

Industrial Manufacturers can bundle a variety of services by upgrading their technical capabilities. These new services can include condition-based maintenance, which involves ongoing real-time monitoring of equipment to determine its maintenance needs. Collaboration with customers on a day-to-day basis can help to customize asset optimization and predictive performance management for large and small projects.

### **Innovative Pricing**

As technology begins to alter the relationship between industrial manufacturers and their customers, the traditional pricing model for service contracts are changing from pay-for-product to pay-for-performance. Condition-based maintenance, driven by industrial technology, will become common. Fewer visits from repair technicians will result in customers naturally expecting more favorable terms. Industrial manufacturers will start basing their pricing structure on outcomes instead of fixed maintenance or warranty costs. Some industrial manufacturers will shift to a blended approach on their pricing structure, with fixed fees to cover some costs a variable price based on productivity gains realized by the customer.

### **Global Demand**

Global demand for manufactured products is growing at a slow pace, with output expected to increase only 3.4% in 2017. Growth is dampened by Brexit concerns and political uncertainties. Foreign trade is at low levels and although oil prices have recovered, they are not rising enough to undo the collapse in drilling and concomitant retraction in the rest of the energy supply chain. Also, manufacturers with plants in Mexico and China could see their business models decline due to the increased weight of import duties and tariffs.

### **Develop Strategic Partnerships**

Industrial manufacturers must become more active in the technology ecosystem, seeking expertise outside the industry in order to develop equipment connectivity, data analysis, and software that are beyond their current abilities, such as a dedicated cloud-based platform that can run industrial workplaces. However, these partnerships are not without risk. Given the rapid pace of technology, it is possible for partnerships to fall apart such as when two collaborating companies suddenly realize that their customer base, once distinct, has morphed and they have become direct competitors.

### **Mine Operational Data**

Industrial manufacturers will have to figure out how to manage the data coming from an abundance of sensors, integrated equipment and platforms, and faster information processing systems. There is a critical demand to hire workers who can mine bytes of information and work more closely with customers in order to use the data to improve performance and open revenue streams. By leading the digitization effort, industrial manufacturers can become more profitable.

### **Decide What Intellectual Property to Share and What to Develop**

The majority of industrial manufacturers find it difficult and costly to manage digitization and big data analytics because their internal IT systems are unwieldy. As company operations have become more complex, the old enterprise resource planning (ERP) systems that were meant to drive efficiency and coordination have proliferated into a tangled mass of disparate networks. Many large industrial manufacturers have as many as 100 different ERP systems, making it difficult for IT to respond quickly. Industrial manufacturers must start the process of overhauling their old IT systems, and create a completely new architecture that can serve as the foundation for internal and external technology initiatives. It is imperative that IT systems communicate throughout the organization with standardized protocols that can manage data from thousands of pieces of equipment in the field, support visibility into supply chains, and produce customized analytical reports to serve business needs.

### **Create Strategies for Talent Development and Retention**

In regards to digitization, industrial manufacturers are often at a disadvantage when trying to attract and retain talent. For example, many of the brightest students in STEM (science, technology, engineering, and math) prefer to work in Silicon Valley as compared to industrial manufacturing. Industrial manufacturers must purposefully map out an exciting technology strategy- and then communicate this story to job candidates. Even companies that have not yet felt the shortage of technology-savvy staffers need to take steps to prepare for it as the number of job openings in this field will continue to outpace the number of available hires for the near future. Finding hires with balanced capabilities and a diversity of skill sets will help shorten the learning curve in the organization.

## Recent Industry Transactions

Date	Acquirer	Target	Target Business Description	EV (mm)
6/30/17	Chart Industries	Hudson Products Corp	Manufacturers air coolers, axial flow fans, process heaters, etc.	\$410.0
4/11/17	Loews Corp	Consolidated Container	Provider of plastic packaging.	\$1,200.0
3/31/17	New Mountain Capital	TRC Companies, Inc.	Engineering consulting firm.	\$685.0
3/27/17	West Side Investment Management, Inc.	Boston Financial Data Services, Inc.	Consulting for financial services firms.	\$158.0
3/17/17	Oldcastle Architectural	Advanced Environmental Recycling Technologies	Manufacturer of composite building materials.	\$104.0
3/16/17	Rayonier Inc.	95,100 Acres of Industrial Timberlands Located in Florida, Georgia, and South Carolina	Timberlan	\$217.0
3/09/17	Sterling Construction Co	Tealstone Residential Concrete	Commercial and residential concrete construction.	\$102.0
3/08/17	Euromoney Institutional Investor PLC	RISI, Inc.	Source for forest products.	\$125.0
3/02/17	Electrolux Professional, Inc.	Grindmaster-Cecilware Corporation	Beverage and foodservice products.	\$108.0
2/28/17	Veritas Capital	Chicago Bridge & Iron Company N.V, Capital Services Business	Provides services as a maintenance and modification contractor.	\$755.0
2/27/17	NEL ASA	Proton OnSite, Inc.	Global leader in hydrogen generation.	\$586.0
2/24/17	SSL MDA Holdings, Inc.	DigitalGlobe, Inc.	High-resolution satellite imagery.	\$3,511.0
2/17/17	Sonaca S.A.	LMI Aerospace, Inc.	Supplier of structural components.	\$448.0
2/17/17	-	SiteOne Landscape Supply	Wholesale landscape supplies.	\$114.0
2/16/17	Sonoco Products Co	Peninsula Packaging	Thermoformed packaging for fresh	\$230.0

			fruit and vegetables.	
2/16/17	Huron Consulting Group, Inc.	Innosight LLC	Growth strategy consulting firm.	\$135.0
2/16/17	Toshiba Corporation	Westinghouse Electric Company LLC	Supplier of safe and innovative nuclear technology.	\$167.0
2/14/17	Dower Corp/Kinderhook Industries	Race Winning Brands	Manufacturer of performance and racing pistons.	\$150.0
2/13/17	Dana Incorporated	Michigan Operations	Tube manufacturing.	\$100.0
2/09/17	RPC Group Plc	Letica Corporation	Packaging and process solutions.	\$640.0
2/07/17	Ascential plc	Media Link, LLC	Strategy advisory firm.	\$207.0
2/07/17	BWAY Corp	Mauser Group NV	Rigid metal and plastic containers used to package.	\$2,300.0
2/05/17	Cie Automotive S.A.	Newcor, Inc.	Manufacture components for forging.	\$106.0
1/26/17	Dunes Point Capital, LLC	Power Distribution, Inc.	Manufacture of critical power equipment.	\$204.0
1/25/17	Johnson Controls Inc.	Tyco International PLC	Global fire and security provider.	\$22,660.0
1/24/17	WestRock Company	Multi Packaging Solutions International Limited	Packaging solutions for the branded and healthcare markets.	\$2,307.0
1/23/17	Plains Pipeline L.P.	Alpha Holding Company	Operates crude oil transportation.	\$1,215.0
1/06/17	Deluxe Corporation	First Manhattan Consulting Group	Strategic and operational consulting services.	\$200.0
1/05/17	Gartner, Inc.	CEB Inc.	Global best practice company.	\$3,448.0
12/29/16	Zoomlion Heavy Industry Science & Technology	Terex Corporation	Crane maker.	\$4,876.0
12/22/16	Atairos Group, Inc.	TriNet Group, Inc.	Provides HR solutions.	\$442.0
12/21/16	Hitachi Construction Machinery Co., Ltd.	H-E Parts International LLC and HEP Australia Holdings Pty Ltd	Manufacturers, supplies, and services aftermarket parts for surface mining equipment.	\$240.0
12/19/16	SMBC Rail Services, LLC	American Railcar Leasing LLC	Railcar leasing business.	\$2,778.0

<b>12/19/16</b>	Vitro, S.A.B. de C.V.	Pittsburgh Glass Works LLC	Automotive glass manufacturer.	\$310.0
<b>12/15/16</b>	Nucor Corporation	Republic Conduit, Inc.	Electrical Metallic Tubing.	\$335.0
<b>12/07/16</b>	Curtiss-Wright Controls Defense Solutions	Teletronics Technology Corporation	Total system solution provider for defense and commercial aerospace.	\$233.0
<b>12/01/16</b>	Parker-Hannifin Corp	CLARCOR Inc.	Air filtration systems maker.	\$4,433.0
<b>11/15/16</b>	Campbell Global	95,000 Acres of Timberlands in Western Oregon	-	\$194.0
<b>11/14/16</b>	Sangetsu Corp	Koroseal Interior Products	Contract wallcovering and interior products.	\$134.0
<b>11/08/16</b>	Dormakaba Holding AG	Mesker Openings Group	Commercial door and hardware.	\$143.0
<b>11/03/16</b>	American Axle & Manufacturing Holdings	Metaldyne Performance Group	Parts for engines & transmissions.	\$3,418.0
<b>11/02/16</b>	Huntington Ingalls Industries	Camber Corp	Defense contractor.	\$380.0
<b>11/02/16</b>	CVC Capital Partners Ltd	Anchor Glass Container	Manufactures and designs containers.	\$1,000.0
<b>11/01/16</b>	WageWorks, Inc.	Consumer Health & Spending Accounts and Consolidated Omnibus Reconciliation Act	Consumer health spending account.	\$235.0
<b>10/24/16</b>	Quikrete Holdings	Contech Holdings	Site solutions including bridges and structures, pipe and drainage, etc.	\$950.0
<b>10/23/16</b>	Rockwell Collins	B/E Aerospace	Aircraft interior maker.	\$8,354.0
<b>10/23/16</b>	LINTEC Corp	Mactac Americas	Manufacturers pressure sensitive, adhesive coated papers, and films.	\$375.0
<b>10/17/16</b>	Enviva Partners, LP	Enviva Pellets Sampson	Wood pellet facility.	\$174.0
<b>10/16/16</b>	Chongqing Sokon Industry Group, Co., Ltd.	AC Propulsion, Inc.	Manufacturer electric vehicle propulsion systems.	\$100.0
<b>10/12/16</b>	Stanley Black & Decker Inc	Newell Brands Inc-Tools Business	Industrial Machinery.	\$1,950.0

# Calabasas Capital

Our comprehensive services include:

- Sell-Side and Buy-Side Mergers & Acquisitions Advisory
- Private Equity & Debt Capital Raising
- Acquisition Financing
- Financial Restructuring
- Sales of non-core assets/divisions of larger public and private companies

## Industrial & Manufacturing Industry Transaction Experience



Buy-side M&A Advisory



Calabasas Capital served as buy-side M&A advisor for Impex Global and its private equity owner LaSalle Capital



has been acquired by



a portfolio company of



Calabasas Capital served as exclusive financial advisor to Modul Marble & Granite and initiated this transaction.

Background Images Inc.



has raised \$3.6 million in financing from



Calabasas Capital served as exclusive financial advisor to Background Images Inc. and sourced the investment.



strategic advisory & debt restructuring

Calabasas Capital served as exclusive financial advisor to Empire.



Strategic Advisory

A managing director of Calabasas Capital advised CM Automotive on its strategic and financing alternatives while at a previous firm.

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