

GREENWICH
CAPITAL GROUP

Industrials M&A Update

Q2 2017



M&A Activity Continues to Fall

Middle-market M&A activity continued its downward trend and hit a low of 6,302 reported transactions in Q2 2017. This represents a 3% decrease from the first quarter and the lowest level of activity observed since Q1 2013. It is difficult to explain the decline given the favorable underlying factors that typically impact the M&A environment (e.g., low interest rates, abundance of capital yet to be deployed, etc.). The dip in activity is likely a result of the uncertainty around potential tax, trade and regulatory changes, heightening value expectations among sellers, and the lengthy positive run in the overall M&A market. While volumes are down from their historical highs, the market remains very heated, especially for companies with strong growth potential.

Values Remain Strong as Interest in the Upper Middle Market Remains Steady

Middle-market aggregate deal value remained strong in Q2 with disclosed transactions totaling \$47.4 billion. This is in line with historical levels despite the decrease in the number of reported deals this quarter. The average disclosed deal value for the first six months of 2017 was \$74.8 million, a 50% increase from the average value in 2016. In addition to the notable increase from last year, this also represents the highest average deal size over a six-month span during any period since 2010.

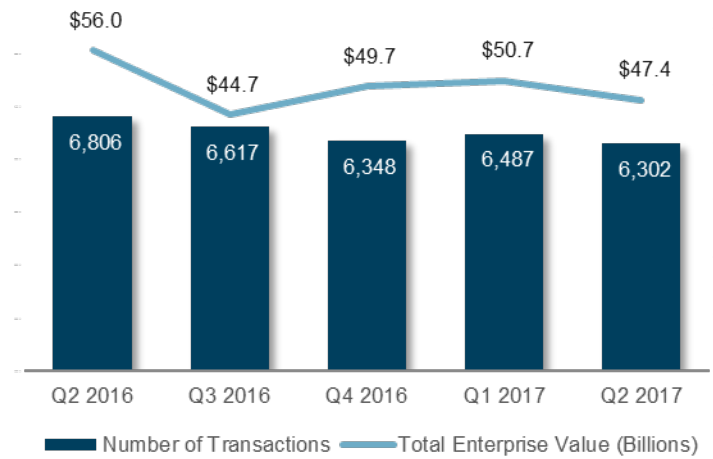
The substantial increase in average enterprise value can be attributed to sustained deal flow in the core middle market (deals valued between \$100 million and \$250 million) and the upper middle market (deals valued between \$250 million and \$500 million), coupled with a decrease in the number of lower middle market transactions (deals valued less than \$100 million). Q2 demonstrated that in this slowed M&A environment, the level of interest in core and upper middle market companies has persisted and the lower middle market, therefore, felt the impact of the weakening market.

As overall activity has continued trending downward, the lower middle market has followed suit, experiencing quarter-over-quarter declines in volume. This segment has historically represented approximately 85% of total middle-market activity until recent years, falling to a low of 78.9% of total deal flow in Q2 2017.

Foreign Buyers' Interest Continues to Grow

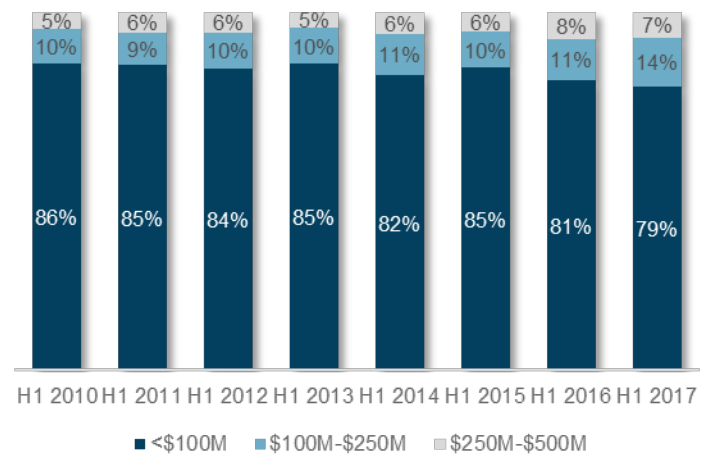
This quarter, foreign acquirers accounted for 13.3% of the overall buyer base. This is the third consecutive quarter that foreign buyers' share of U.S. M&A activity exceeded 13%. This buyer base had not exceeded 10% of deal flow until 2015 and is now reaching new post-recessionary levels. This should be viewed as a welcome addition to middle-market sellers. It provides another source for a potential exit in addition to the existing base of domestic strategic acquirers and financial investors.

Middle-Market M&A Volume and Value



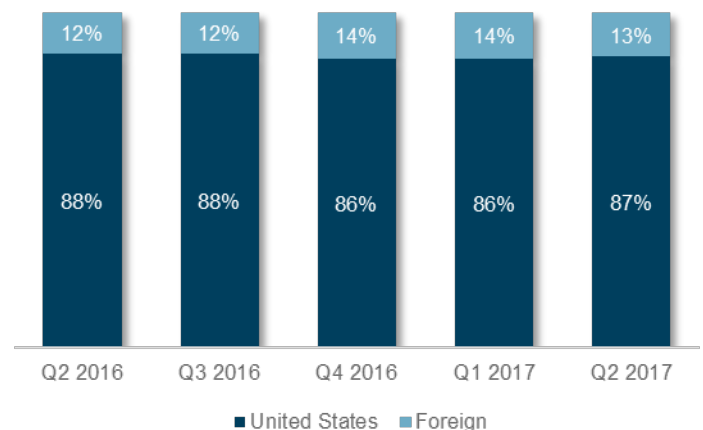
Source: Capital IQ

H1 2010 - 2017 M&A Activity by Enterprise Value



Source: Capital IQ

Middle-Market Activity by Buyer Region



Source: Capital IQ



Industrials M&A Drivers Remain Strong

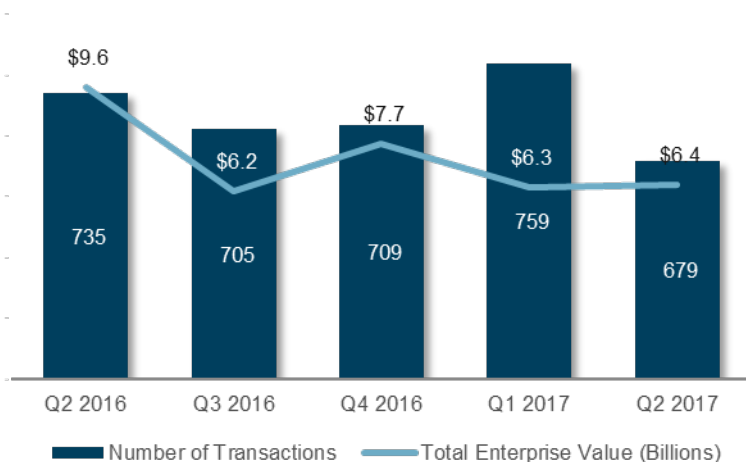
Industrials M&A activity in Q2 2017 witnessed 679 transactions, an average enterprise value of \$58.4 million, and an aggregate deal value of \$6.4 billion, representing comparisons to Q1 of -11%, +6.4% and +1%, respectively. Looking at the drivers for the M&A market as a whole, it is anticipated that meaningful tailwinds remain in place for the remainder of 2017, including strong corporate earnings results, resilient equity markets, well-positioned balance sheets, continued accommodative monetary policies, robust availability of financing and significant private equity appetite for assets. These factors extend to the majority of sectors, including Industrials, where we also continue to see strategic agendas defined by geographic and market expansion, technology advancement themes and consolidation. As a result, the decline in quarter-over-quarter activity levels are not believed to be indicative of the overall state of the Industrials M&A market.

Buyer Composition Trends

Looking deeper into the composition of acquirers, strategic buyers represented 79% of all Q2 activity in comparison to financial buyers at 21%. This is in line with historical observations, which have generally hovered around an 80/20 split. Sunbelt Rentals, a subsidiary of Ashtead Group plc, highlights one example of strategic buyer activity during the quarter, acquiring five equipment rental companies as they continue to be a consolidator in the sector. At the same time, financial buyers continue to pursue corporate divestitures, as exemplified by Arsenal Capital Partners' purchase of PolyOne Designed Structures and Solutions (nka Spartech) from PolyOne Corporation.

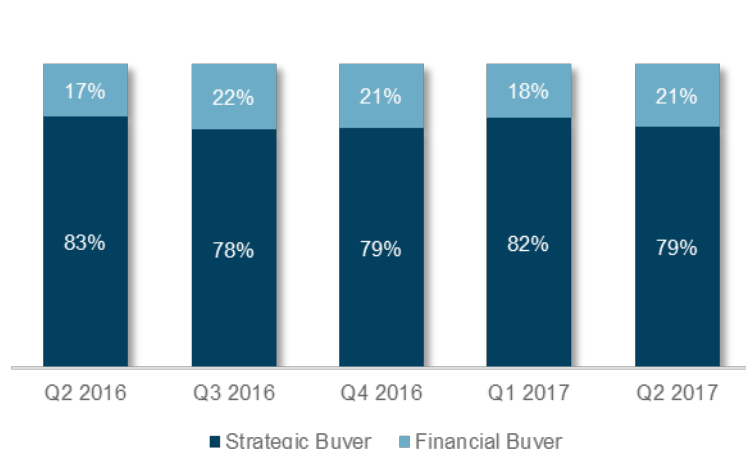
Foreign acquirers averaged 19% of M&A activity for the first half of 2017, compared to 15% in 2016 and a three-year average of 12% from 2012-2015. Interestingly, the U.S. Dollar Index (a measure of the value of the U.S. Dollar relative to a basket of foreign currencies) measured in the 80-85 range from the beginning of 2012 until approximately the third quarter of 2014 before increasing into the 90-100 range during 2015 and 2016. The index hit a 52-week high of nearly 104 in December 2016 following the U.S. election, before sliding back to the mid 90's near the end of Q2. As the strength of the U.S. Dollar represents an increased acquisition price in foreign currency, this trend stands counterintuitive to the increased activity levels and highlights the importance placed on the intended long-term strategic benefits of intended acquisitions in comparison to more near-term currency impacts. On a country-specific basis, Canadian acquirers were the most active purchasers of U.S. transactions at over 42% of all foreign buyer activity, followed by acquirers in the United Kingdom, Germany and China.

Industrials M&A Volume and Value



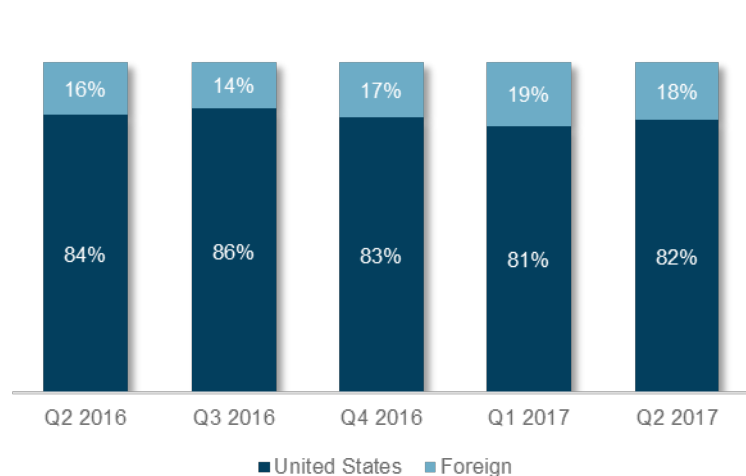
Source: Capital IQ

Industrials M&A by Buyer Type



Source: Capital IQ

Industrials M&A by Buyer Region



Source: Capital IQ

About the Report



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GCG is a middle-market focused investment bank offering a range of strategic and financial advisory services to privately held businesses, private equity investors and divisions of publicly traded companies. Our senior bankers have held leadership positions at global investment banking firms, bringing a wealth of experience to each of our clients.

Research Methodology

For the purpose of this report, GCG defines middle-market M&A as an announced and/or completed transaction in which one company purchases a minority or majority equity stake in another company that is based in the United States and has an undisclosed or disclosed enterprise value less than or equal to \$500 million. The information provided in this market overview was obtained from sources believed to be reliable, but its accuracy cannot be guaranteed. Statements provided herein reflect GCG's objective opinions and are not to be construed as legal, accounting, financial or investment advice.

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