



GREENWICH
CAPITAL GROUP



INDUSTRY UPDATE

Industrials

Q3 2017

INDUSTRY UPDATE | U.S. Middle-Market M&A

M&A Activity Rebounds in Q3 2017

Middle-market M&A activity rebounded from the recent low in Q2 2017, with deal flow increasing 2.3% from Q2 2017. While that is positive news for the middle-market deal environment, this level of activity remains 2.7% lower than Q3 2016 and much lower than the run rate observed from 2014 through Q3 2016. While there was still uncertainty around potential tax, trade, healthcare and regulatory changes, these uncertainties are becoming clearer as we move further past the presidential election. It is also anticipated that the recent strong showing by the public markets, as well as the improving earnings numbers, will enhance the M&A appetite of the buyer base in the fourth quarter and into 2018.

Values Remain Strong as Interest in the Upper Middle Market Continues to Climb

While M&A volumes have been lower in recent quarters than they have been historically, deal values are improving. Enterprise values in Q3 2017 averaged \$66.8 million, representing the strongest quarter this year in terms of deal value and a 6.7% increase from the first quarter. This is a natural outcome as companies continue to improve earnings as the economic expansion continues and the M&A market remains strong.

The healthy deal values can also be observed through the amount of middle-market deals that are valued over \$100 million versus those valued below \$100 million. In Q3, 22.7% of all middle-market transactions were valued between \$100 million and \$500 million. This is higher than the first two quarters of 2017 and significantly higher than the percentage historically, which hovered between 13% and 16% until 2014 and has continued to climb from the 16% observed in Q1 2014 to where it is today.

Foreign Buyers Increase Their Presence and Financial Buyers' Interest Remains in the Middle Market

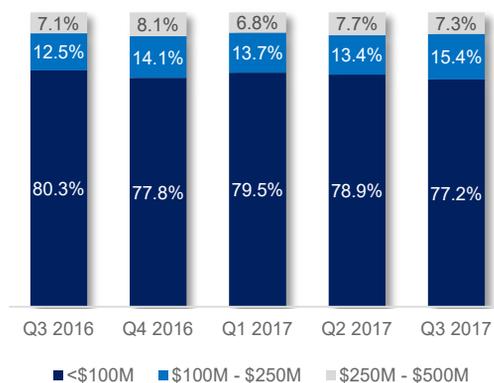
Foreign acquirers continue to grow their presence in the middle market, accounting for 12.2% of the overall middle-market buyer base in Q3 2017. While this is a slight decrease from the prior quarter, this level of activity from foreign buyers remains much higher than the five years prior to 2016. During this period from 2011 through 2015, the percentage of deals completed by foreign acquirers ranged from 9.1% and 10.4% annually.

While foreign acquirers have become more active in the middle market, financial investors have shown continued interest in the sector as well. In Q3 2017, 35% of middle-market transactions were completed by financial buyers, an increase from the 31% observed over the first two quarters of 2017. That said, financial investors' share of middle-market deal flow has maintained a steady level between 35% and 38% over the past five years.

Middle-Market M&A Volume and Value



M&A Activity by Enterprise Value



M&A Activity by Buyer Region



Source: Capital IQ



INDUSTRY UPDATE | Industrials

Industrial Market Trends Remain Favorable

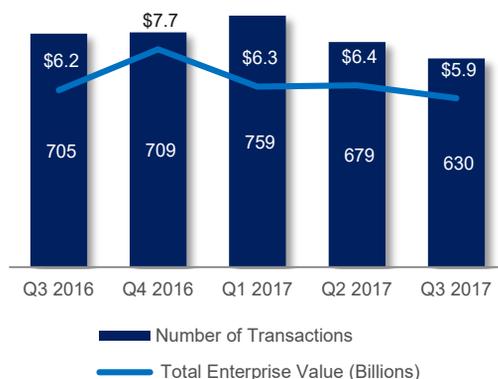
Industrials middle-market M&A activity in Q3 2017 remained active with 630 transactions totaling \$5.9 billion. This is a slight decrease from Q3 2016, with declines of 11.9% and 5.3% in volume and value, respectively. At the same time, the average enterprise value of \$74.3 million in Q3 was a 27.4% increase over the same period last year, indicating that while buyers are pursuing less deals, the average deal size is growing. The slight slowdown in activity is likely the result of concern around tax reform and general political uncertainty; however, the market dynamics that propel middle-market M&A activity continue to be favorable and point to strong activity in coming quarters. More specifically, the third quarter saw record-breaking performance in the public equity markets, strong GDP and consumer confidence statistics, continued positive results in durable goods orders, low unemployment and consumer confidence statistics, all while enduring two hurricanes.

Strategic Buyers Continue to Dominate in Industrials

Strategic buyers have been buoyed by strong balance sheets, favorable economic trends and positive public equity market dynamics. Strategic buyers continued to outpace financial buyers in Q3 transaction activity, comprising 82% of the transactions in the quarter. This comes as strategic buyers continue to hone their own business portfolio by divesting non-core or underperforming assets and while feeling the pressure to grow beyond their organic capabilities and look to inorganic methods – specifically M&A – to fuel this growth. NN, Inc.'s sale of its Precision Bearing Components Group to Tsubaki Nakashima Co., Ltd. is an example of this phenomenon. NN shed the non-core business in order to focus the proceeds on future strategic acquisitions that should drive further growth and diversification for the company. Likewise, Heartland Express' acquisition of Interstate Distributor Co. provided a strong strategic fit in terms of end markets and culture and was expected to have a reasonable path to achieving synergies.

Not to be counted out, private equity investors continue to enjoy favorable credit markets that are equating to historically high debt to EBITDA levels and enabling this buyer group to maximize leverage on their transactions, albeit at a slower pace than the strategic buyers. All of these factors taken together resulted in average transactions multiples reaching levels not seen since before the economic downturn. The average middle-market industrial transaction multiple in Q3 2017 was 10.8x EBITDA, which represents a significant increase from last quarter's 7.1x and the 8.4x in Q3 2016. The good news for sellers is that strong tailwinds are expected to continue into the foreseeable quarters.

Industrials M&A Volume and Value



Industrials M&A by Buyer Type



Observed Industrials EBITDA Multiples



Source: Capital IQ



ABOUT THE REPORT

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.

Industrials Expertise

GCG has extensive operations and transaction experience with a variety of industrial products and services companies. Having worked with companies throughout the industrial supply chain, GCG's understanding of the unique challenges and opportunities within the sector enables us to provide objective advice and world-class transaction execution for clients.

More about Greenwich Capital Group

Greenwich Capital Group ("GCG") is a middle market focused advisory firm offering a range of investment banking and consulting services to private companies, public companies and private equity investors. For additional perspective or to discuss M&A related opportunities in the industrials sector, please reach out to GCG's practice leaders, Ellen Clark and Pete Frankfort. For more information, please visit www.greenwichgp.com.



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