



GREENWICH  
CAPITAL GROUP



# INDUSTRY UPDATE

## Industrials

# Q4 2017

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

## Middle-Market M&A Remains Strong Despite a Dip in Transaction Volume

Deal flow in Q4 2017 remained consistent with prior quarters and concluded another strong year for middle-market M&A. Transaction volume totaled 25,561 at an aggregate value of \$168.2 billion for the year. While this represents a 3.3% decline from 2016 levels, 2017 still demonstrated a relatively strong M&A market. M&A activity has been on a modest decline since hitting its peak in 2014 with deal flow totaling 28,804 transactions. While 2017 represents an 11.3% decrease from this high, which may signal a weakening market, all of the underlying trends are quite strong.

One clear sign of the strength of this M&A market is the reported average valuation multiple, as measured by Enterprise Value / EBITDA, of 10.7x EBITDA, which represents the highest multiple witnessed over the past six years. Similarly, the average deal value for middle-market transactions has continued to rise over the same time period, reaching a high of nearly \$66 million in both 2016 and 2017. Additional indications of the strength of this market include the greater level of activity resulting from foreign investors, as well as the increased activity among strategic investors. Overall, this is a broad-based market with strong demand from both domestic and global buyers.

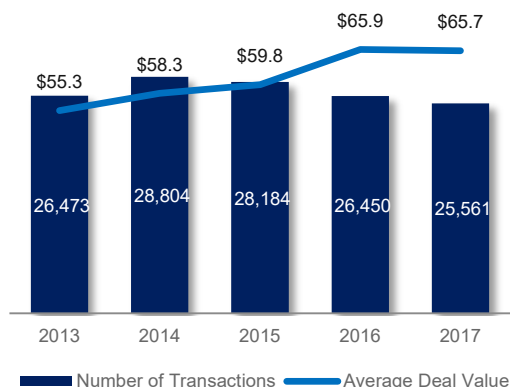
## Strategic Buyers Make a Push

One of the more noticeable trends witnessed in 2017 was the continued strengthening of strategic acquirers. During 2017, strategic buyers accounted for 68% of the buyer base for middle-market transactions. This is the highest percentage we have seen from strategic buyers since 2010, a year where this percentage was heavily influenced by a lack of private equity activity due to the financial crisis. The level of activity from strategic buyers has shown continuous growth from the 2014 lows of 62% to the recent high observed in 2017. This trend is anticipated to accelerate even more aggressively in 2018 due to the tax reform taking effect. The corporate tax cuts have primed the pump for strategic buyers to use tax savings on acquisitions and other growth initiatives. The tax bill also provides additional advantages that should allow strategic buyers to pay a higher value for middle-market deals, making them more competitive in the hot M&A market. With lower tax rates and escalating public market multiples, it is expected that middle-market companies will continue to see a growing interest from strategic acquirers.

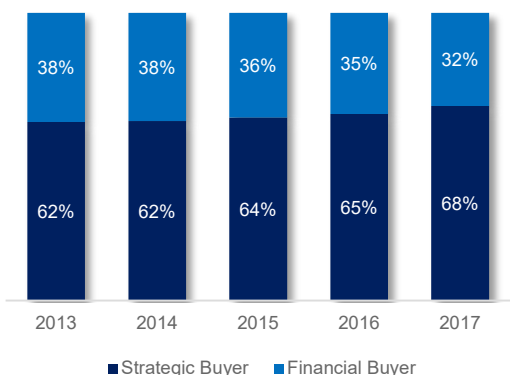
## Foreign Buyers Focused on the U.S. Middle Market

Foreign acquirers continue to enhance their focus on the U.S. middle market. During 2017, foreign buyers accounted for 13.4% of the buyer base for middle-market M&A. This is a continuation of the increase in the foreign buyer impact from its low in 2013 of 9.1% of the M&A buyer base. Foreign buyers continue to show interest in U.S. assets given the relative strength of the U.S. economy and the low interest rate environment. This trend picked up considerably in the fourth quarter of 2017 where this percentage jumped to 14.6%. This trend is expected to continue into 2018 as tax reform takes effect and the resulting corporate tax cuts make this business environment more attractive to foreign buyers.

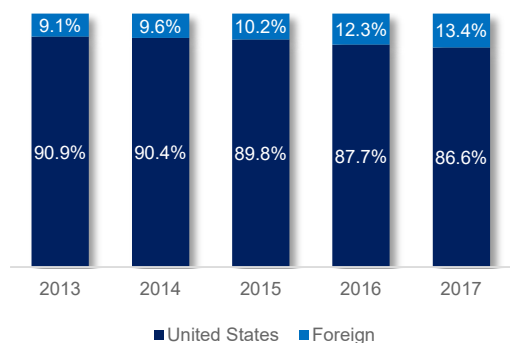
### Middle-Market M&A Volume and Value



### M&A Activity by Buyer Type



### M&A Activity by Buyer Region



Source: Capital IQ



# INDUSTRY UPDATE | Industrials

## M&A Statistics in the Industrials Sector Remain Stable

Industrials M&A activity in Q4 2017 yielded 648 transactions and an aggregate value of \$5.7 billion, representing comparisons to Q3 of +2.9% and -2.5%, respectively. On an annual basis, 2017 ended with 2,716 industrials transactions valued at \$24.3 billion, representing decreases in both volume and value of 6% and 21%, respectively.

The buyer base in the fourth quarter was relatively consistent with recent historical observations in the sector. Strategic buyers continue to dominate deal flow, representing 77% of all Q4 activity. Similarly, domestic buyers remained active in the fourth quarter, with U.S.-based acquirers accounting for 81% of activity, versus 19% for foreign acquirers. While this level of interest among foreign acquirers is on par with results earlier in the year, it is notably higher than historical levels. Accounting for 18% of deal flow in 2017, foreign buyers' share of U.S. Industrials M&A activity is up substantially from the levels observed in the last five years, which hovered between 10-15%.

Valuation multiples averaged 10.4x EBITDA in the fourth quarter and concluded the year with an average multiple of 9.7x, albeit on a relatively limited set of publicly disclosed data points. This represents a 17% increase from 2016 and the highest level for the Industrials sector since the high of 10.3x in 2011.

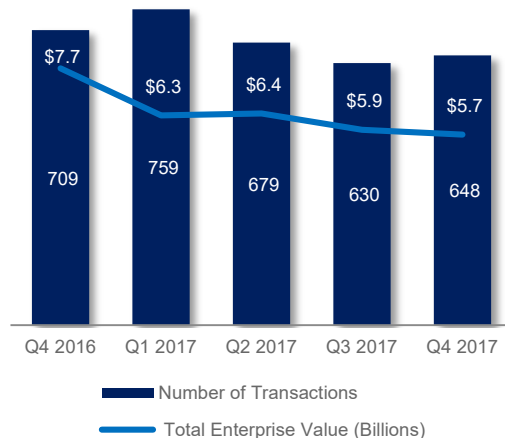
## Sub-Sector Activity

Breaking down Industrials activity in the quarter, 16% fell into the sub-category of Industrial Machinery, one of the higher overall readings in recent quarters, followed by construction (13%), metals and mining (11%), chemicals (10%) and distributors (10%). While such breakdowns don't reveal the intricacies, opportunities and challenges likely inherent across each individual business, when viewed in aggregate the flourishing M&A activity in these core areas suggest that interest in U.S. industrial manufacturing continues to be alive and well. With respect to recent tax reform, accelerated expensing of equipment and repatriation of overseas earnings should both serve as an additional boost to near-term industrials growth.

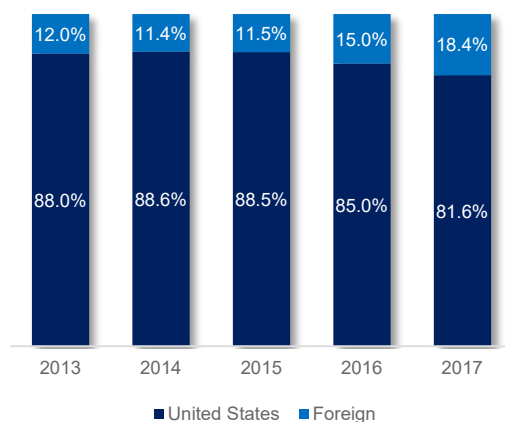
Select transactions of interest in the fourth quarter included the following:

- Lindsay Goldberg's acquisition of Delta T LLC, doing business as Big Ass Solutions and Big Ass Fans.
- Berry Global Group's acquisition of Clopay Plastic Products Company, a manufacturer of specialty films, extrusion coatings, and custom-printing and engineered laminations.
- Sulzer Pumps' acquisition of JWC Environmental, a manufacturer of shredders and screens for wastewater, recycling, food waste, and green technology applications.
- HBD Industries acquisition of True Position Technologies, a manufacturer of precision machined parts and assemblies for aerospace and others markets.

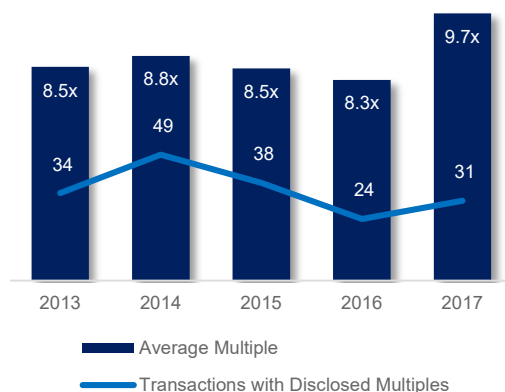
## Industrials M&A Volume and Value



## Industrials M&A by Buyer Region



## 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 Peter Frankfort. For more information, please visit [www.greenwichgp.com](http://www.greenwichgp.com).



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