

FLUID HANDLING INDUSTRY

M&A TRANSACTIONS 2018 Q3 UPDATE

Fluid Handling Industry M&A Update

October 2018

This is a report on merger and acquisition transactions announced through the third quarter of 2018 for manufacturers, distributors and service providers of dynamic (rotating or reciprocating) fluid handling equipment and related products for industrial, commercial and residential markets. The report is provided by Global Equity Consulting and City Capital Advisors. We provide merger and acquisition and strategic advisory services including buy-side and sell-side representation, debt and equity capital formation, leveraged buyouts and ownership recapitalizations with a focus on the fluid handling industry.

[Fluid Handling Industry Deal Activity On Track for a Strong Year](#)

The M&A activity in the fluid handling industry started at a near record pace in 2018 with 26 transactions in Q1. However, the activity in Q2 and Q3 reverted to more normal levels with 13 and 15 transactions respectively. With a normal level of activity in Q4, 2018 will end-up being a strong year for deal activity with 68 transactions. This would be an increase of 26% vs. 2017. In general, demand seems to remain strong for quality acquisitions with some signs of potentially softening.

| <u>Year</u> | <u>Number of Deals</u> | |
|-------------|------------------------|---|
| 2014 | 76 | |
| 2015 | 67 | <i>2018 deal activity projected to be up 26% vs. 2017 due to strong Q1 activity but there could be signs of some softening</i> |
| 2016 | 48 | |
| 2016 | Thru Q3 33 | |
| 2017 | Thru Q3 38 | |
| 2017 | 54 | |
| 2018 | Thru Q3 54 | 68 projected |

[North America Most Targeted Region](#)

The year started with the majority of the target companies being European based. However, in Q2 and Q3 North America was far and away the predominate targeted geographic location with 85% of the targeted companies being based in North America. Through October 58% of the transactions had North American targets, 38% had European targets and 4% the rest of the world.

[Water Remains Most Targeted Industrial Segment](#)

Water continues as the dominant targeted end-use segment with 31% of the transactions involving companies that are focused on moving, treating or managing water. Of course most target companies serve diverse end-user markets and those companies have accounted for 50% of the transactions so far this year. Other target industries this year include oil and gas (three transactions) and each of the following end-user segments had one transaction each: food and beverage, life science, mining, off-highway vehicles, plastics, sanitary and semi-conductor.

[Industrial Distribution and Service Continues to be a Highly Active Space](#)

Of the 54 transactions announced to date in 2018, 19% had industrial distribution and/or equipment service businesses as the targets. If we include other types of services such as equipment rental, engineering, water management, etc. the percentage is 41% of the transactions announced to date. Industrial distribution and service has been a very active space going back to Q4 2017. In November of 2017 Clayton, Dublier and Rice acquired SunSource a large flow control and fluid handling distributor and to date in 2018 SunSource has made two significant acquisitions – United Distribution Group and Ryan Herco.

In January 2018 Applied Industrial Technologies acquired FCx Performance another large flow control and fluid handling distributor. Sweden based industrial distribution company Axflow Holding AB has made six acquisitions so far in 2018. In July United Rentals acquired equipment rental company BakerCorp.

Most Active Companies

| Company | # Deals | Comments |
|---------------------------|--------------------|--|
| AxFlow AB | Six acquisitions | Expanding distribution and service locations in Europe and Australasia |
| PumpMan Holdings | Four acquisitions | Expanding pump service footprint in U.S. |
| Evoqua Water Technologies | Three acquisitions | Expanding water solutions and service capabilities in U.S. and Canada |

Companies doing two deals in the fluid handling space YTD :
Atlas Copco, Franklin Electric, Interpump Group, John Crane, SunSource

Disclosed Valuation Multiples

| Company | Deal | Enterprise Value | Revenue Multiple | EBITDA Multiple |
|---------------------------------|--|-------------------------|-------------------------|------------------------|
| Michelin | Acquired Fenner PLC | \$1.9 billion | 1.8 | 13.3 |
| Weir Group plc | Acquired ESCO Corp. | \$1.285 billion | 2.03 | 14.30 |
| Applied Industrial Technologies | Acquired FCx Performance | \$784 million | 1.43 | 11.53 |
| United Rentals Inc | Acquired BakerCorp | \$715 million | 2.42 | 9.05 |
| Granite Construction, Inc. | Acquired Layne Christensen | \$565 million | 1.22 | 8.20 |
| Lydall Inc | Acquired Interface Performance Materials | \$265 million | 1.87 | 10.19 |
| Smiths Group (John Crane) | Sold their bearings business | \$35 million | 0.63 | 5.21 |
| Interpump Group | Acquired GS-Hydro | \$11 million | 0.15 | 2.25 |
| Franklin Electric Co., Inc. | Acquired Valley Farms Supply | \$9 million | 0.32 | NA |
| Interpump Group | Acquired Ricci Engineering Srl | 0.70 million | 0.30 | 3.00 |

Notes: EBITDA - earnings before interest, taxes, depreciation and amortization; EV - enterprise value is the combined amounts of market capitalization, minority interests, preferred stock and net debt; Revenue - amount recorded as net sales for the period. EBITDA, Revenue and Value are USD millions.

Contact information

Thomas Haan, Principal Global Equity Consulting and Operating Director City Capital Advisors
269 385 5186 • thaan@globalequityconsulting.net