



Global Equity Consulting, LLC

Fluid Handling Industry

Review of 2016 and Look to 2017 M&A Activity and Industry Performance

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Hydraulic Institute Annual Meeting 2017

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OVERVIEW

Review of 2016

- Overall M&A Activity
- Fluid Handling Industry M&A
- Industry Performance

A Look Ahead to 2017

- M&A Outlook
- Industry Outlook





about Thomas Haan



Global Equity Consulting, LLC



Tom's 40 year career has been in the Fluid Handling Industry as a senior executive and advisor for both public and privately held companies. He has extensive international experience helping businesses achieve enhanced profitable growth.

Tom has served on the Board of Directors of the Hydraulic Institute and as chairman of its Associate Member Council. He is a past president of the Fluid Sealing Association.

FINRA Registered Investment Banking Representative

Operating Director, City Capital Advisors, LLC
Principal, Global Equity Consulting, LLC

Previous Experience: **President** EagleBurgmann Industries; **President** Flowserve Corporation Flow Solutions (Mechanical Seal) Division, **COO** Durametallic Corp.

Education: School of Business - Western Michigan University



about Global Equity Consulting

Business Development

- *StrategicAction*® Planning – team based strategy development and execution
- Business Valuations -
- Execution support for organic growth initiatives and enhancing value
 - Marketing and Market Coverage Development
 - Sales Channel Development
 - Sales Force Effectiveness PAWNFAB
 - Team Effectiveness –
 - Kepner Tregoe Problem Solving



about City Capital Advisors

Member of FINRA and SIPC

Mission: to provide senior level corporate finance advice and unparalleled execution services to leading middle market companies and their owners.

- Buy-side – inorganic growth through acquisitions
- Sell-side – plan and execute the sale of a business
- Capital raise - for growth or owner liquidity





about City Capital Advisors

Member of FINRA and SIPC

Mission: to provide senior level corporate finance advice and unparalleled execution services to leading middle market companies and their owners.

- Each Managing Director has 20+ years experience; collectively they have completed 500+ transactions totaling \$60+ billion in value.
- Provides M&A advisory and other investment banking services to private and publically held middle market companies valued between \$50 and \$500 million.





Review M&A Activity 2016

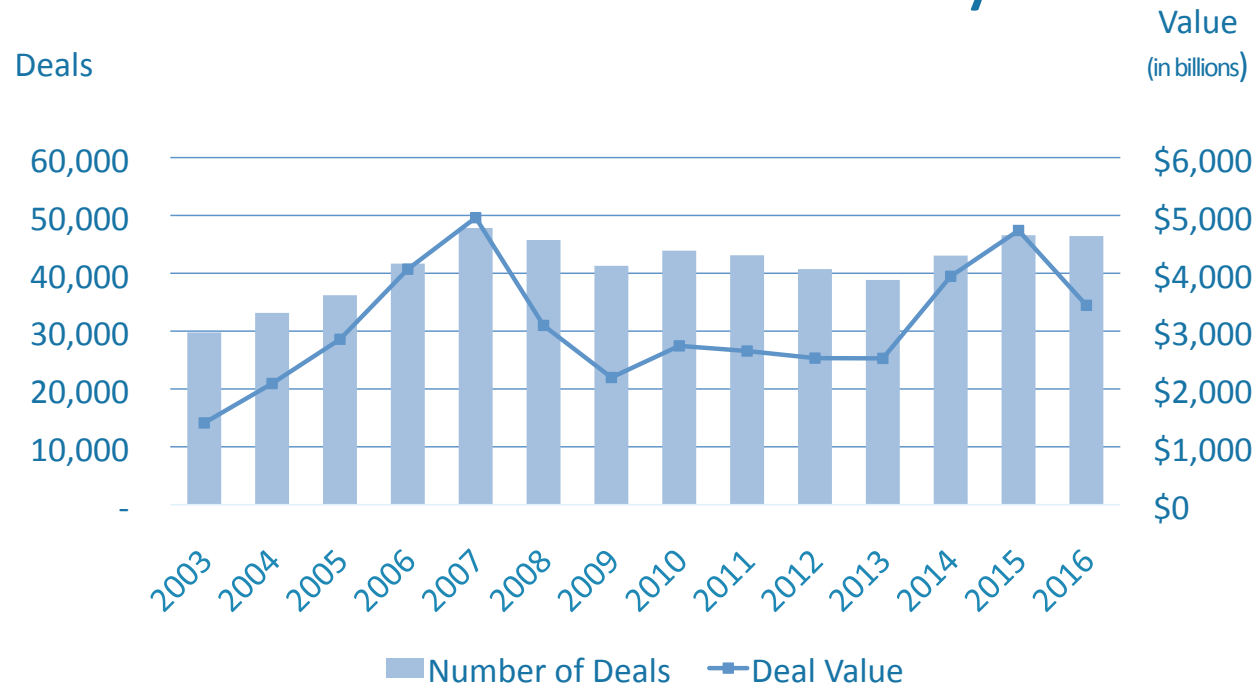
General M&A Review

Industry M&A Review





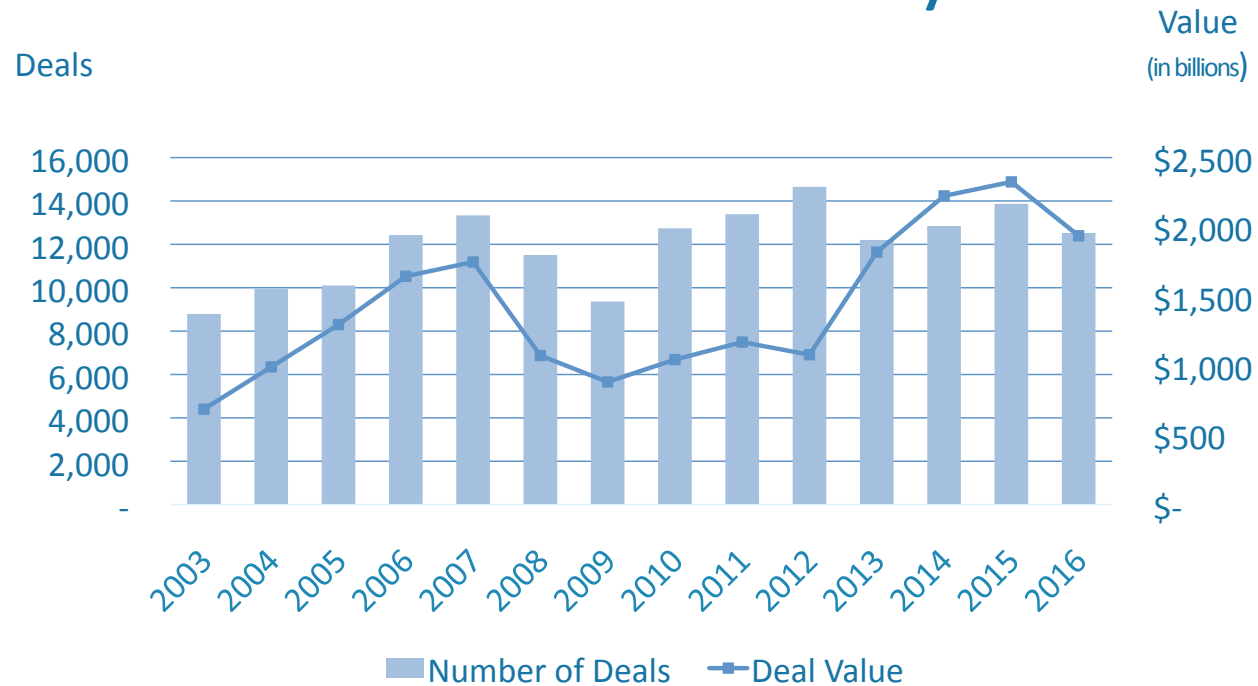
Global M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances.



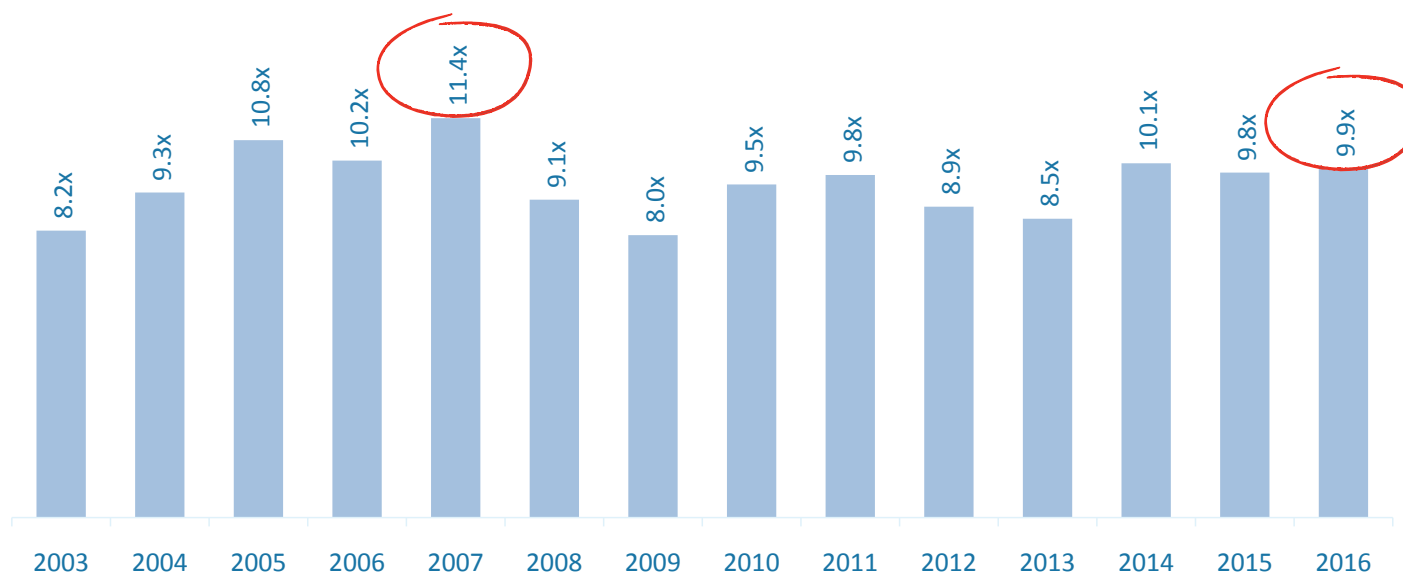
U.S. M&A Activity



Source: Dealogic and FactSet.



U.S. EV/EBITDA Median Valuation Multiples



Source: S&P Capital IQ.



Middle Market Private Equity Valuations

TEV	2003 – 2011	2012	2013	2014	2015	2016	Total	Number of Transactions
\$ 10M - \$ 25M	5.6x	5.8x	6.0x	5.6x	5.9x	6.0x	5.7x	1015
\$ 25M - \$ 50M	6.2x	6.2x	6.8x	6.6x	6.7x	6.4x	6.3x	764
\$ 50M - \$ 100M	6.8x	6.7x	6.8x	8.4x	7.8x	7.3x	7.0x	525
\$ 100M - \$ 250M	7.3x	7.4x	7.5x	7.8x	9.0x	9.0x	7.6x	248
Total	6.2x	6.3x	6.5x	6.7x	6.7x	6.9x	6.4x	
Number of Transactions	1,484	247	162	215	235	209		2,552

Source: GF Data.



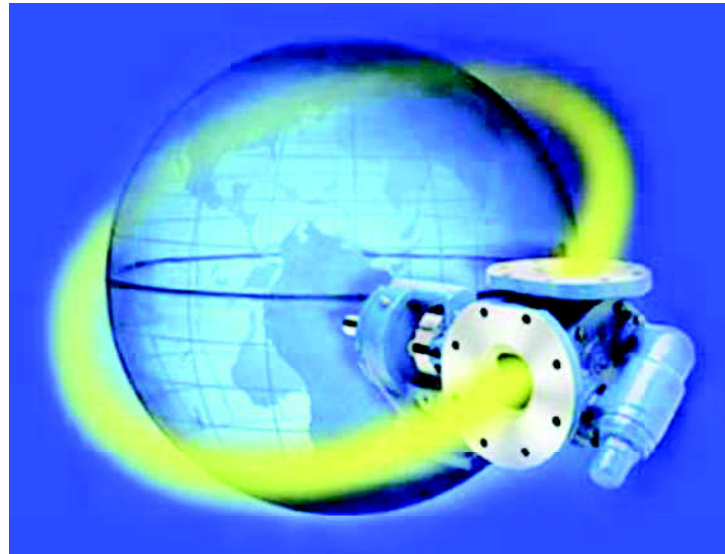
Middle Market Quality Premium

TEV	2003 – 2011	2012	2013	2014	2015	2016	Total
Above Average Financials	6.1	6.3	6.8	6.9	7.3	7.3	6.4
Other Buyouts	6.0	6.1	6.0	6.2	5.9	6.1	6.0
Premium / (Discount)	102%	103%	114%	111%	124%	119%	106%
Incidence	55%	66%	59%	53%	55%	59%	57%

Source: GF Data.

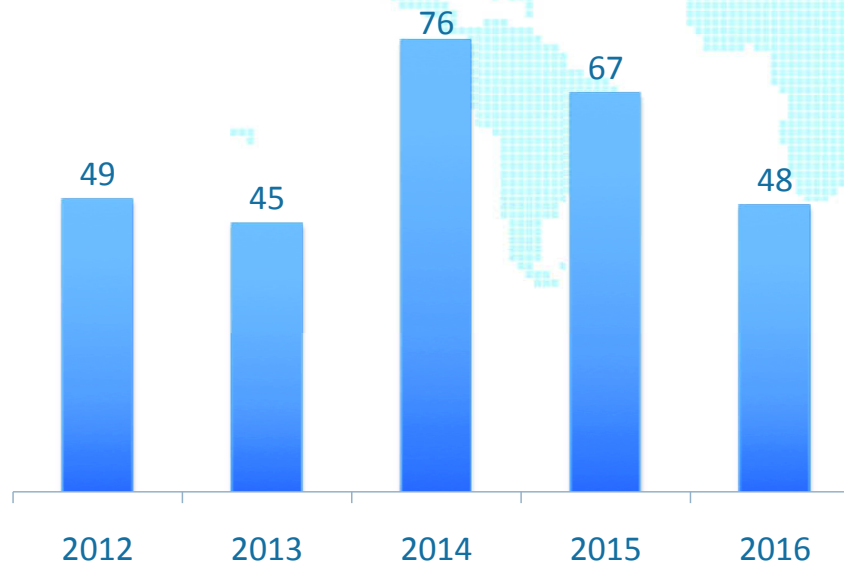


Industry M&A Review 2016





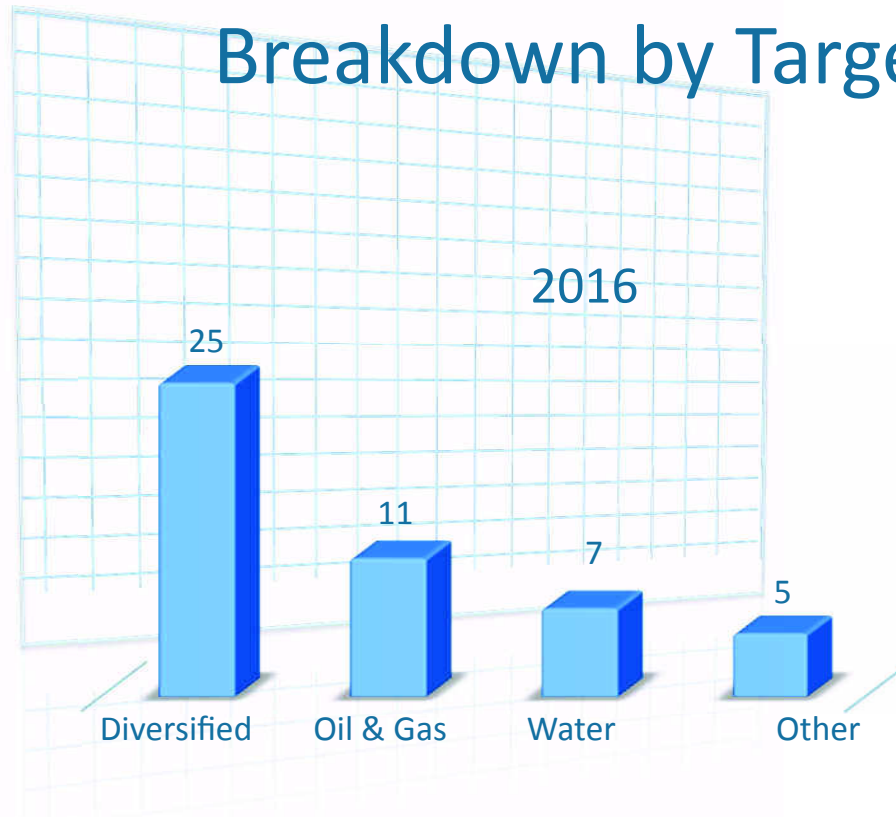
Pump Industry M&A Activity



Transaction activity returned to more normal levels in 2016. However, there is still strong buy-side interest.



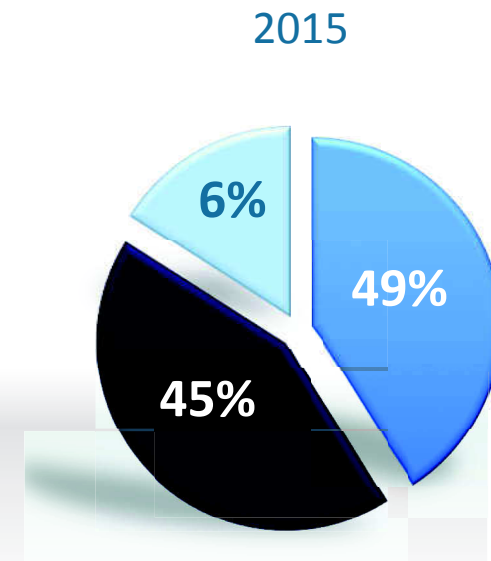
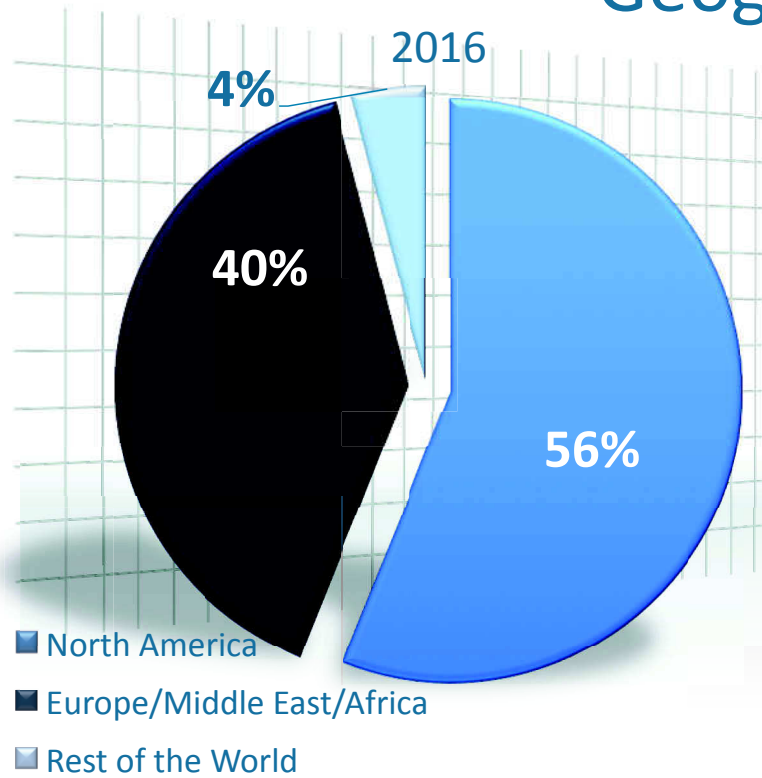
Pump Industry M&A Activity Breakdown by Target Industry



In 2016 there was a return to a more typical mix of end use markets serviced by target companies.



Deal Activity by Targeted Geographies





Strategic Vs. Financial Buyers

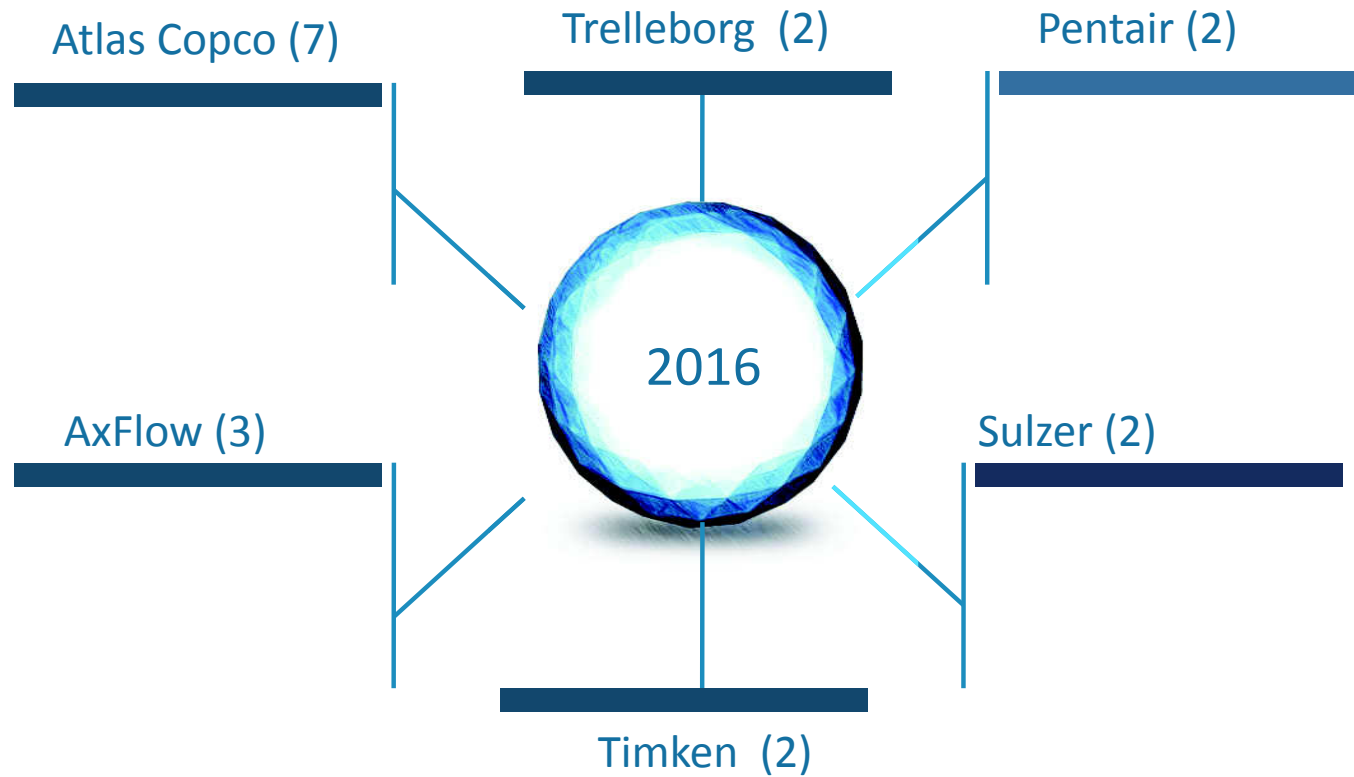
2016

48 Transactions

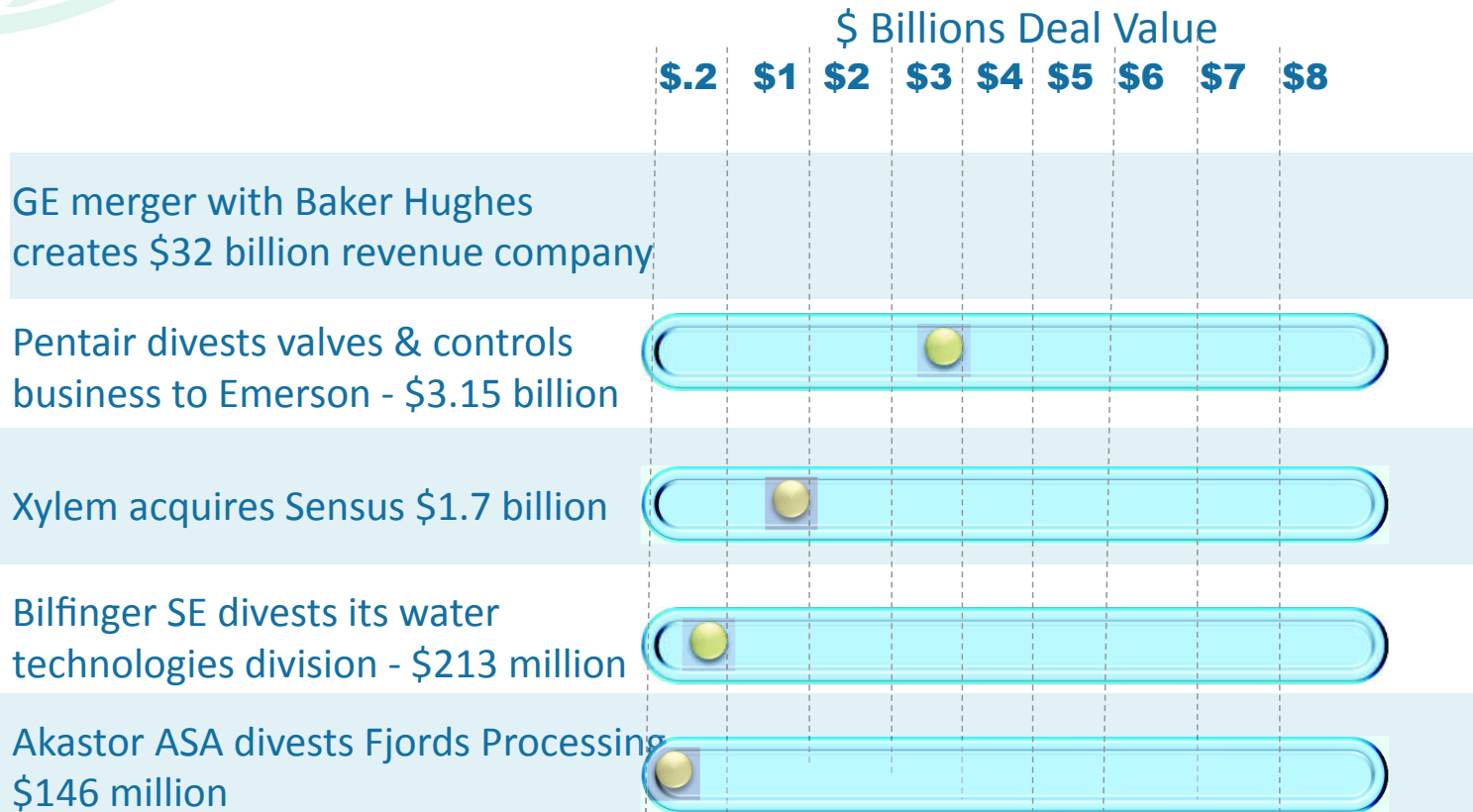




2016 Most Active



2016 Largest Deals





Pump Industry Valuations - 2016

Transaction Value	Number of Transactions	EV/Revenue Multiple Range	EV/Revenue Multiple Median	EV/EBITDA Multiple Range	EV/EBITDA Multiple Median
≥ \$1 billion	2	1.2 to 1.9	1.6	10.7*	10.7*
\$500 - \$999 million	0				
\$100 – \$499 million	2		0.67*		11.0*
\$50 - \$99 million	2	1.2 to 1.4	1.3		
\$10 – 49 million	0				
\$0 - \$9 million	1		0.83*		
*One transaction					



Looking Forward

M&A Outlook - 2017

Expected Deal Environment

Driving Forces

Outlook





Looking Forward General M&A Outlook

Our thoughts about 2017:

- Market is likely to be more balanced with more sellers willing to consider a transaction.
- Valuations are likely to remain strong as both strategic and private equity buyers compete for quality businesses. Interest rate increases are likely to be modest and not have a major impact on valuations.
- Outlook for the U.S. business climate is mostly positive – reduced taxes and regulations with an increase in infrastructure spending.



Looking Forward Driving Forces

Primary Seller Motivations

- Provide liquidity to owners
- Take advantage of current strong valuations
- Alleviate owner fatigue
- Strategic realignment



Looking Forward Driving Forces

Primary Buyer Motivations

- Acquiring growth opportunities: technology, products, geography
- Strategic realignments – driven by opportunity or market realities

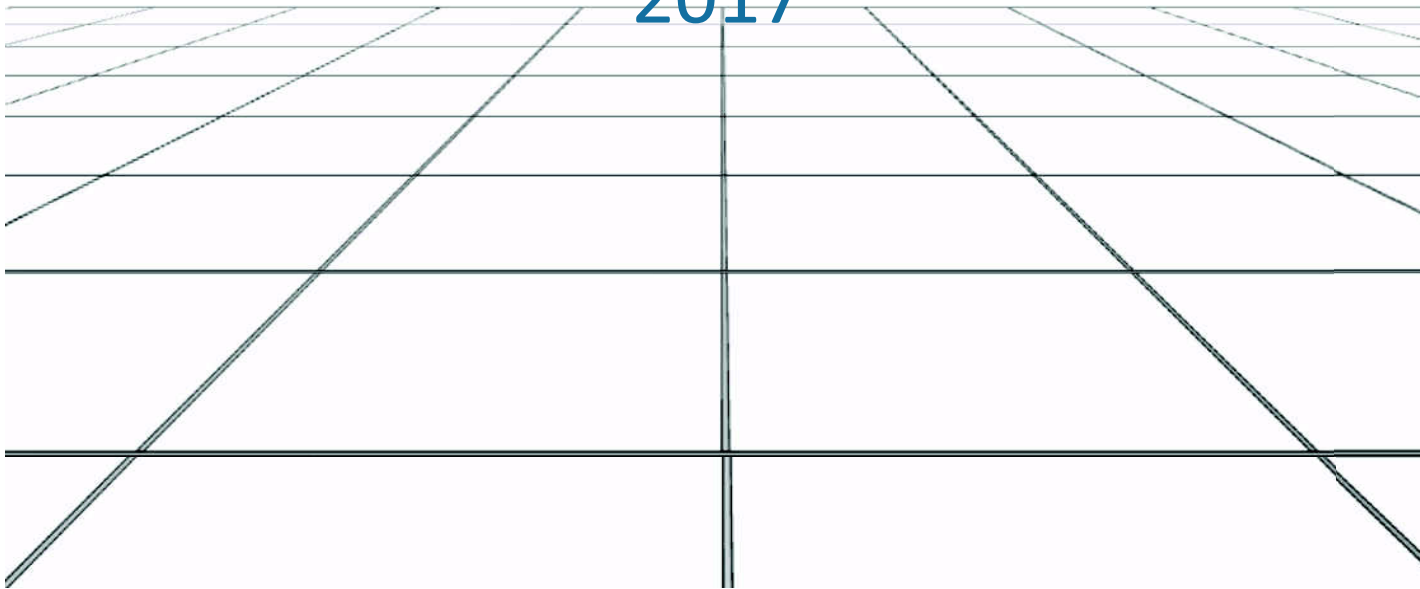


Looking Forward M&A Outlook 2017 – FHI

- The forcing that are driving the general M&A activity will also be motivating buyers and sellers in the fluid handling industry so we see the current level of activity continuing in 2017.
- Whether or not we see a continuation in strengthening of valuations or a flattening is more likely to be driven by the outlook for growth than by interest rates.
- Consolidation of distribution and service companies is likely to continue to increase.
- Target companies will not only be ones serving end-use market niches with above average growth outlooks but also companies that have technologies and/or service capabilities that are focused on enhancing customer efficiencies by improving equipment reliability and energy efficiency, which may include some vertical integration of supply chains.



Industry Performance and Outlook 2017





Industry Profitability Metrics (Median LTM)

Gross Profit % of Sales	EBITDA % of Sales	EBIT % of Sales
31.5%	12.7%	8.7%



Industry Growth Metrics (Median 3-Year CAGR)

Revenue	EBITDA	EPS
0.4%	0.2%	-2.2%



Industry Outlook 2017

Representative Companies - 2017 Outlook

Company	Revenue Outlook	EPS Outlook
Applied Industrial Technologies	0%	7.6%
Colfax	-1.0%	7.0%
Dover	11%	7.7%
Flowserve	-8.5%	-21.6%
IDEX	1.5%	10.8%
Xylem	23%	12%



Industry Outlook 2016

U.S. Pump and Compressor Industry Outlook

NACIS Code 33391

Annual Revenue Growth (CAGR real growth) 2016 – 2021

2.8% (up from 1.7%)

- Industrial production index (output of mining, manufacturing, electric and gas utilities expected to rise from 104.0 in 2016 to 112.6 in 2021
- Expected recovery in the world price of crude oil
- The value of utilities construction expected to increase at an annual rate of 11.2% over the period
- Increase in housing starts is expected to increase at an annual rate of 2.9% over the next five years

Source: IBIS World



Industry Outlook 2017

The Opportunities

- Superior insights to evolving needs and wants
- Superior execution
- Innovation to gain share – buy it or build it
- Change the scope of the industry
 - Systems vs. products
 - Service fleets and systems vs. products



Questions & Answer Session

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