



Global Equity Consulting, LLC

Fluid Handling Industry

Review of 2018 and Look to 2019 M&A Activity and Industry Performance

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OVERVIEW

Review of 2018

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

A Look Ahead to 2019

- M&A Outlook
- Industry Outlook





about Thomas Haan



Tom's 40 plus 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 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** Durametalllic Corp.

Education: School of Business - Western Michigan University



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



- 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 2018

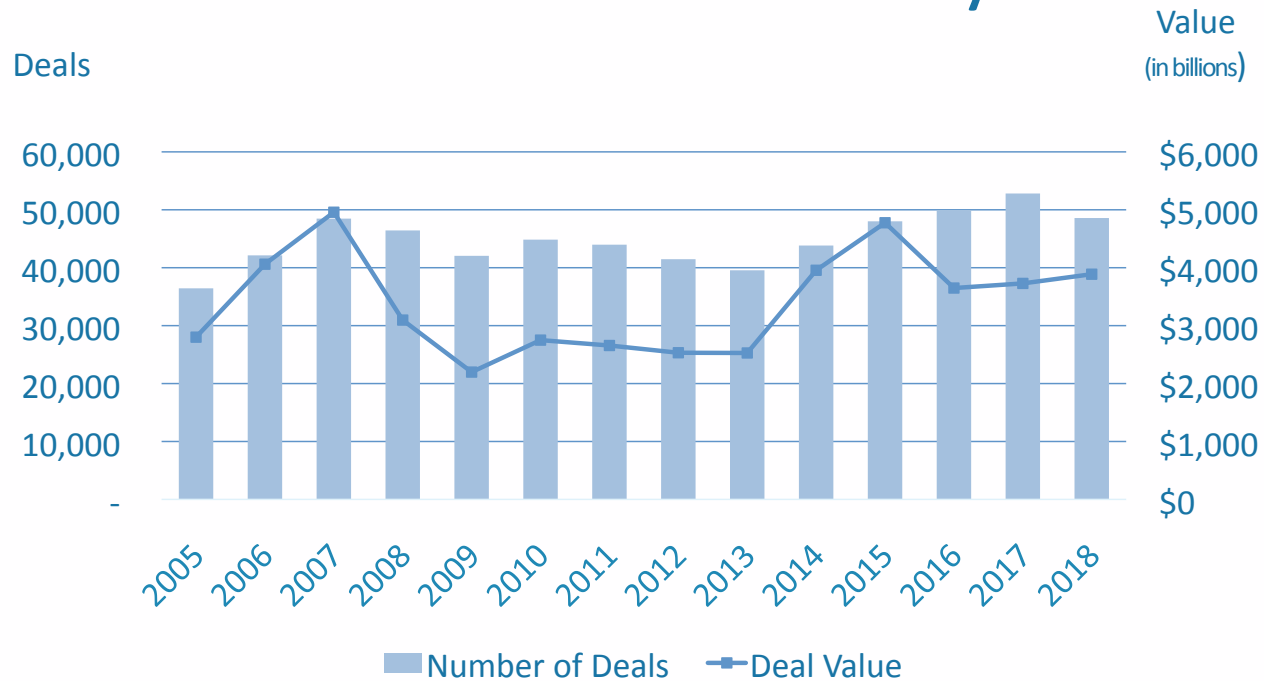
General M&A Review

Industry M&A Review





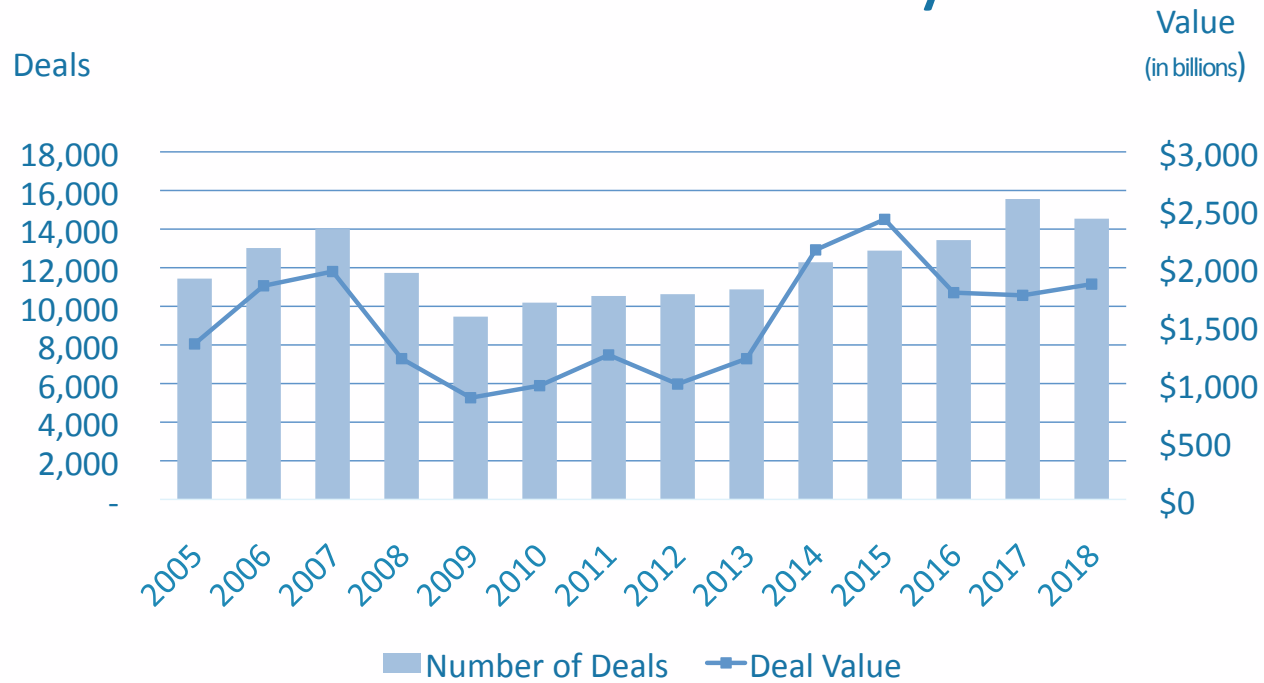
Global M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances.



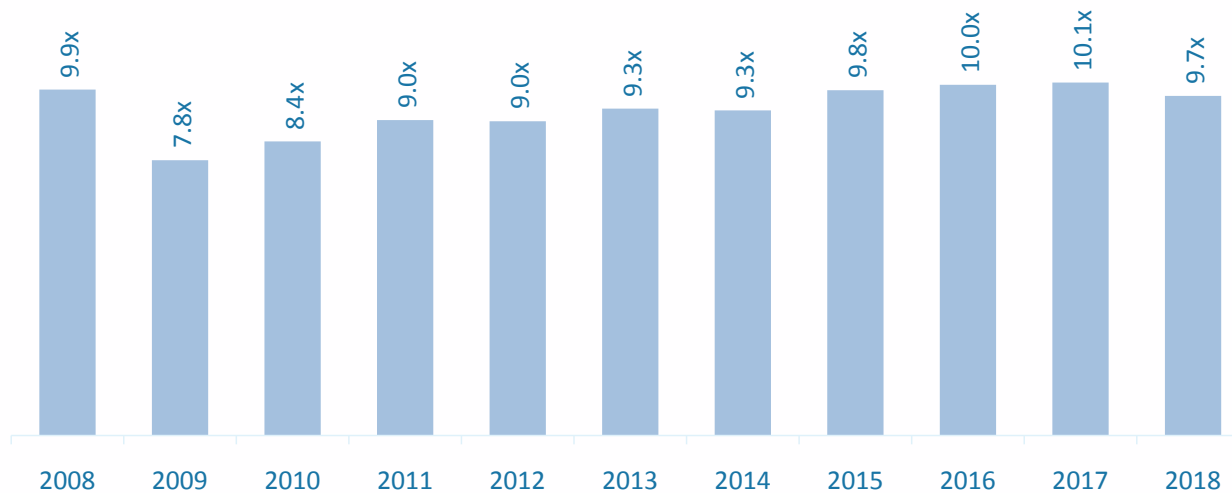
U.S. M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances.



North American EV/EBITDA Median Valuation Multiples



Source: PitchBook



Middle Market Private Equity Valuations

TEV	2003 – 2013	2014	2015	2016	2017	2018	Total	Number of Transactions
\$ 10M - \$ 25M	5.5x	5.5x	5.9x	5.8x	6.3x	5.8x	5.6x	1,227
\$ 25M - \$ 50M	6.1x	6.4x	6.6x	6.4x	6.6x	6.9x	6.3x	916
\$ 50M - \$ 100M	6.7x	7.6x	7.8x	7.2x	8.2x	9.0x	7.2x	633
\$ 100M - \$ 250M	7.2x	7.5x	9.0x	8.9x	9.1x	8.8x	8.0x	317
Total	6.1x	6.4x	6.7x	6.7x	7.3x	7.2x	6.4x	
Number of Transactions	1,897	213	244	233	249	177		3,093

Source: GF Data.



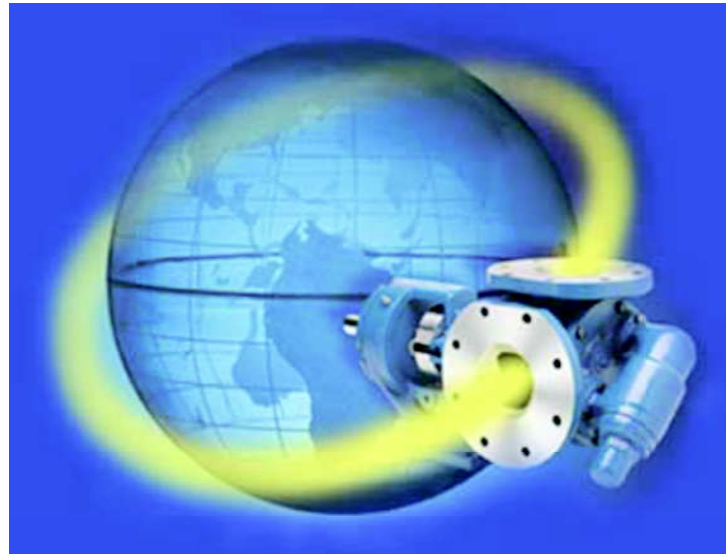
Middle Market Quality Premium

	2003 – 2013	2014	2015	2016	2017	2018	Total
Above Average Financials	6.1	6.8	7.3	7.2	7.8	7.9	6.7
Other Buyouts	5.9	5.8	5.9	6.0	6.5	6.3	6.0
Premium / (Discount)	105%	116%	123%	121%	120%	126%	112%
Incidence	57%	53%	55%	58%	59%	61%	57%

Source: GF Data.

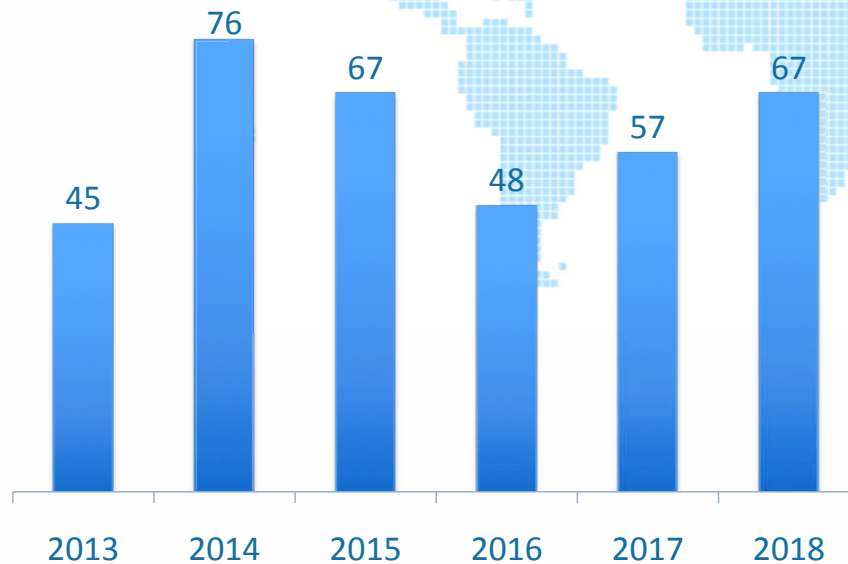


Industry M&A Review 2018





Fluid Handling Industry M&A Activity

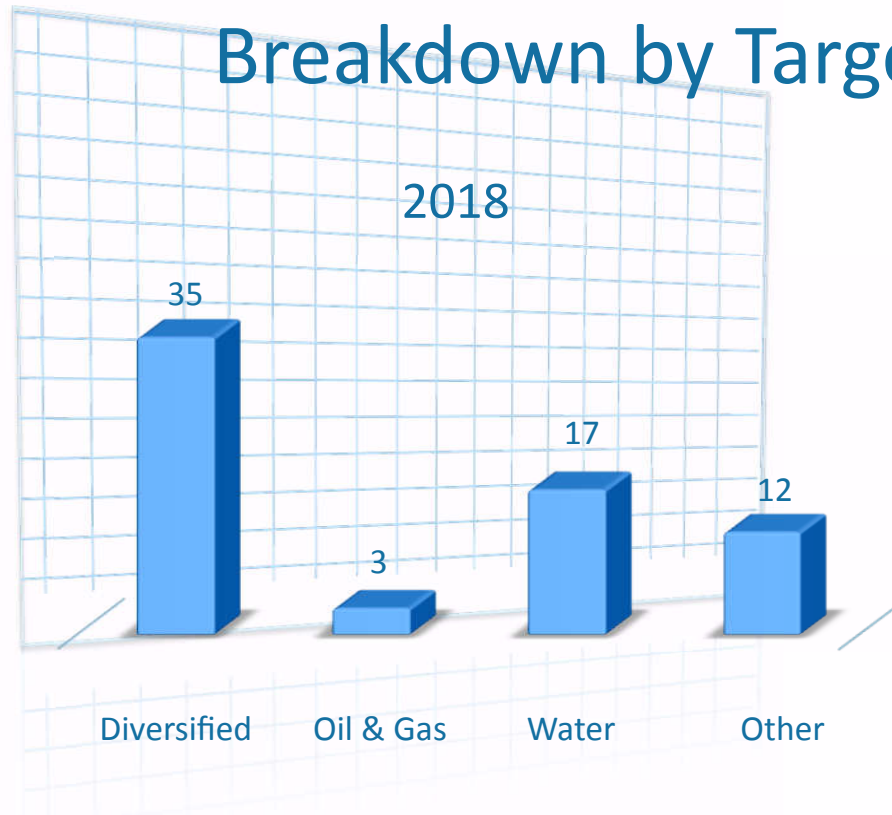


Strong activity driven by:

- 1) Focus on water
- 2) Strategic factors
- 3) Increased private equity activity



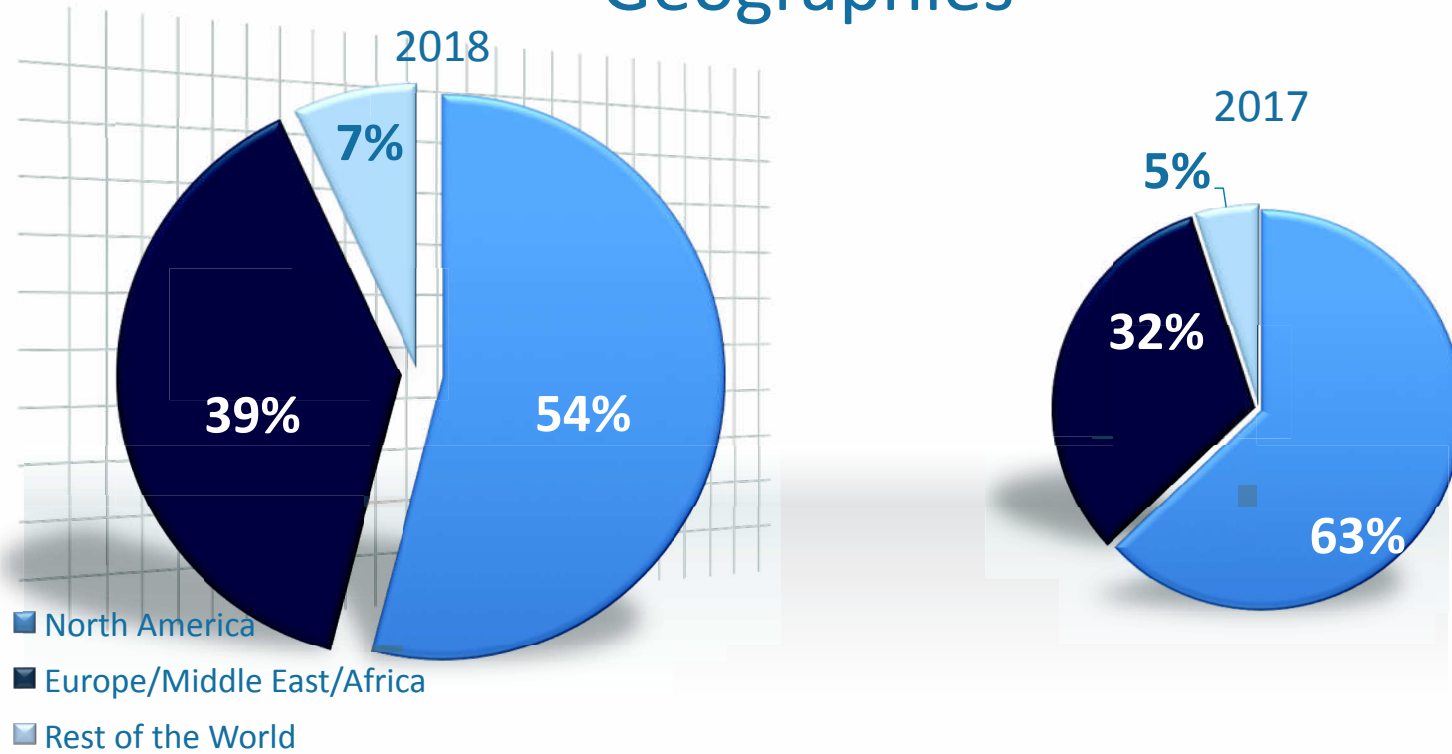
Pump Industry M&A Activity Breakdown by Target Industry



In 2018 water continued to be the predominant end-use market.



Deal Activity by Targeted Geographies

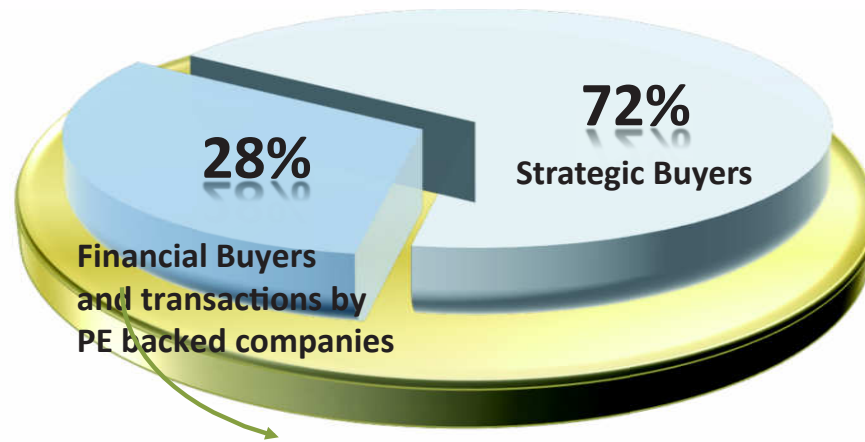




Strategic Vs. Finance Buyers

2018

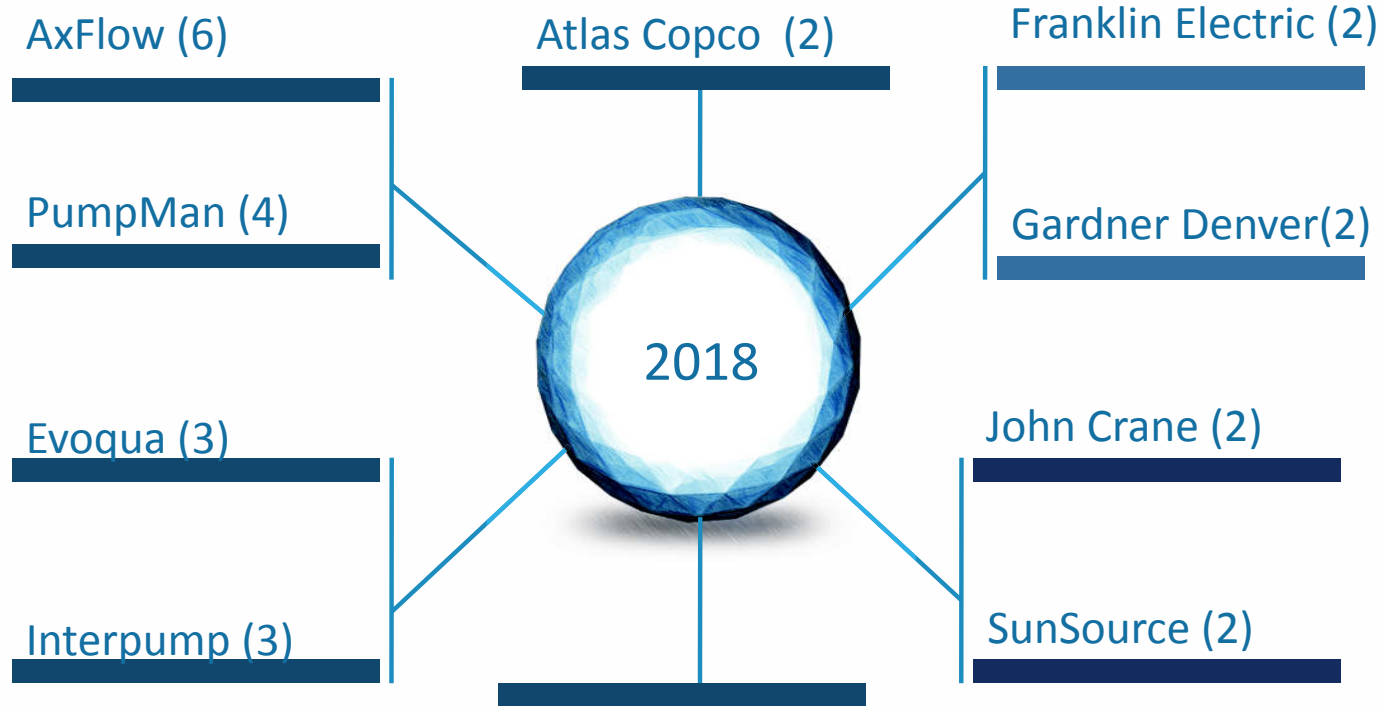
67 Transactions



Significant activity from private equity is about the same as 2017 (32%)



2018 Most Active





2018 Five Largest Transactions

Buyer	Target	Value
Michelin	Fenner plc	\$1.8 billion
Weir Group	HD Supply Waterworks	\$1.3 billion
Applied Industrial Technologies	FCx Performance	\$784 million
United Rentals	BakerCorp International	\$715 million
Atlas Copco	Brooks Automation Cryogenic Business	\$701 million



Pump Industry Valuations – 2018

(Disclosed Valuations)

Transaction Value	Deals	EV/Revenue Multiple Range		Deals	EV/EBITDA Multiple Range
≥ \$ 1 billion	2	1.8 – 2.0		2	13.3 – 14.3
\$500- \$999 million	2	1.2 - 2.4		2	8.2 – 9.0
\$100- \$499 million	1	1.9		1	10.2
\$50- \$99 million	0				
\$10 - \$49 million	3	0.15 – 1.1		3	2.3 – 6.3
\$0 - \$9 million	2	0.30 – 0.32		1	3.0



Looking Ahead

M&A Outlook - 2019

Expected Deal Environment

Driving Forces

Outlook





Looking Ahead General M&A Outlook

Our thoughts about 2019:

- Demand continues from the buy-side but with a bit more caution – willing to pay for quality but seeking to minimize risk which may result in more deals in the upper end of the middle market.
- Increased valuation alignment
- Companies see more risk to the downside – PE firms preparing to move quickly on the sell-side
- Expect corporations will increase focus on portfolio management – look to divest non-core assets



Looking Ahead M&A Outlook 2019 – FHI

Our thoughts about 2019:

- Same forces at work in general M&A will be at work in our industry
- PE activity likely to continue at least at the current level if not increase if corporate divestment activity increases
- Buyers will be seeking to acquire technology and other capabilities to address growing demand for fleet management that offers improvement in total cost of ownership (maintenance and energy costs)
- Buyers will also be seeking companies with specialty products that have competitive advantages in market niches



Looking Ahead Driving Forces

Primary Seller Motivations

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



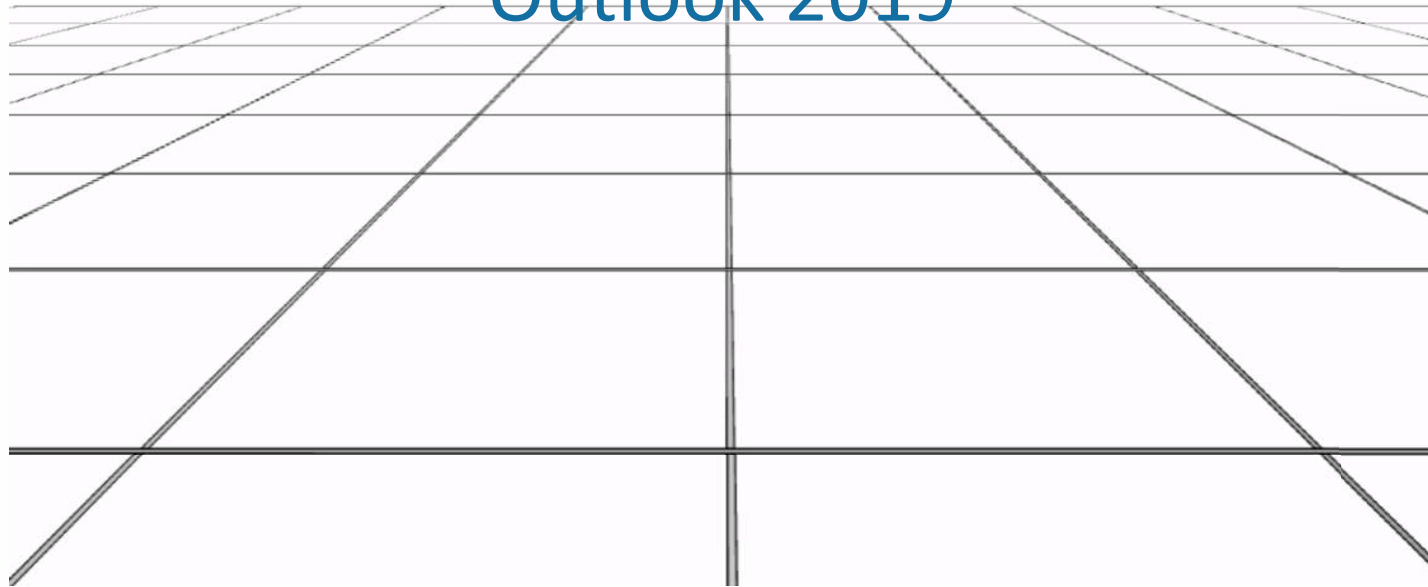
Looking Ahead Driving Forces

Primary Buyer Motivations

- Acquiring growth opportunities: technology, products, geography
- Put cash to work
- Expand international reach
- Strategic realignment



Industry Performance 2018 and Outlook 2019





Industry Growth Metrics (Median LTM)

	Revenue	EBITDA	EPS
2018	7.8%	12.8%	16.5%

Source: Capital IQ
LTM: Last Twelve Months



Industry Growth Metrics (Median 3-Year CAGR)

	Revenue	EBITDA	EPS
2015	2.1%	2.7%	1.2%
2016	0.4%	0.2%	(2.2)%
2017	(0.1)%	1.7%	0.0%
2018	2.7%	2.4%	5.7%

Source: Capital IQ



Industry Profitability Metrics Median LTM

	Gross Profit % of Sales	EBITDA % of Sales	EBIT % of Sales
2015	31.9%	13.4%	9.5%
2016	31.5%	12.7%	8.7%
2017	31.6%	12.5%	8.1%
2018	31.6%	13.3%	10.2%

Source: Capital IQ
LTM: Last Twelve Months



Industry Valuation Metrics Median LTM

	EV/REVENUE	EV/EBITDA	PE	S&P 500 Index	
2015	1.08	8.1	15.7	YE 2015	2,044
2016	1.61	12.4	25.6	YE 2016	2,239
2017	1.59	12.9	25.2	YE 2017	2,674
2018	1.36	10.7	16.1	YE 2018	2,486

Source: Capital IQ
LTM: Last Twelve Months



Industry Outlook 2019

Representative Companies - 2019 Outlook

Company	Symbol	Organic Revenue Growth	Adjusted EPS Growth
Applied Industrial Technologies	AIT	3.0%	21.7%
Dover	DOV	3.0%	19.0%
Flowserve	FLS	7.0%	17.1%
IDEX	IEX	4.5%	16.0%
ITT	ITT	4.0%	10.0%
Timken	TKR	5.0%	15.0%
Xylem	XYL	5.0%	14.5%

Note: Figures are the mid-point of the outlook range from company announcements

Source: Company presentations



Industry Outlook 2019

Company	Symbol	Comments
Applied Industrial Technologies	AIT	Guidance reflects softer fluid power sales to technology markets (electronic equipment and component manufacturers). Moderating industrial environment.
Dover	DOV	Guidance reflects constructive demand environment
Flowserve	FLS	See strong project activity in refining downstream thru petrochemical throughout 2019 Power market conditions are challenging MRO market strong thru at least first half of 2019 – cautiously optimistic for second half



Industry Outlook 2019

Company	Symbol	Comments
IDEX	IEX	Looking forward to 2019, although trade tensions persist and the geopolitical environment remains uncertain – confident in outlook and ability to execute
ITT	ITT	Chemical & Industrial Pumps + mid-single digits: + North America petrochemical and chemical projects; + short cycle & valve activity; - power pumps
Timken	TKR	Neutral (flat to +/- low single digits): Automotive, Defense, Heavy Truck Up mid-single digits: Aerospace, Heavy Industries, Industrial Services Positive (up high single digits +): General Industrial, Industrial Distribution, Wind
Xylem	XYL	Growth in all end-use markets - Utilities: up mid-single digits; Industrial: up low to mid-single digits; Commercial: up low to mid-single digits; Residential: up low single digits



Questions & Answer Session

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