



Global Equity Consulting, LLC

# Fluid Handling Industry

Review of 2019 and Look to 2020  
M&A Activity and Industry  
Performance

February 26, 2020

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# OVERVIEW

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## Review of 2019

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

## A Look Ahead to 2020

- 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** Durametall Corp.

*Education:* School of Business - Western Michigan University



# About Global Equity Consulting & City Capital Advisors ....

## Investment Banking & Business Development

**In-depth fluid handling industry experience – 40 plus years**

**Extensive M&A experience** (more than 500 transactions and \$60 billion in transaction value)  
of alliance partner, City Capital Advisors

**Better outcomes:**

- Organic Growth - Revenue and Profitability
- Growth Through Acquisition
- Business Valuation
- Transition of Ownership



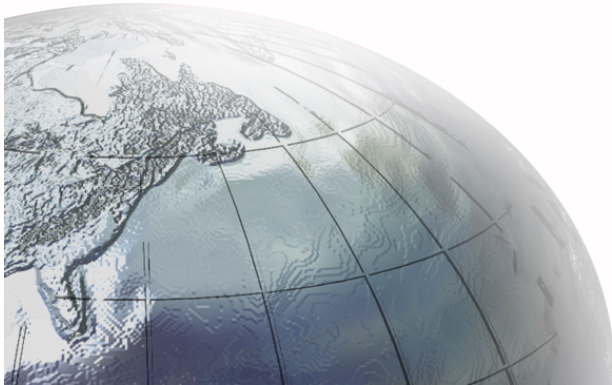
Member of FINRA and SIPC



# Review M&A Activity 2019

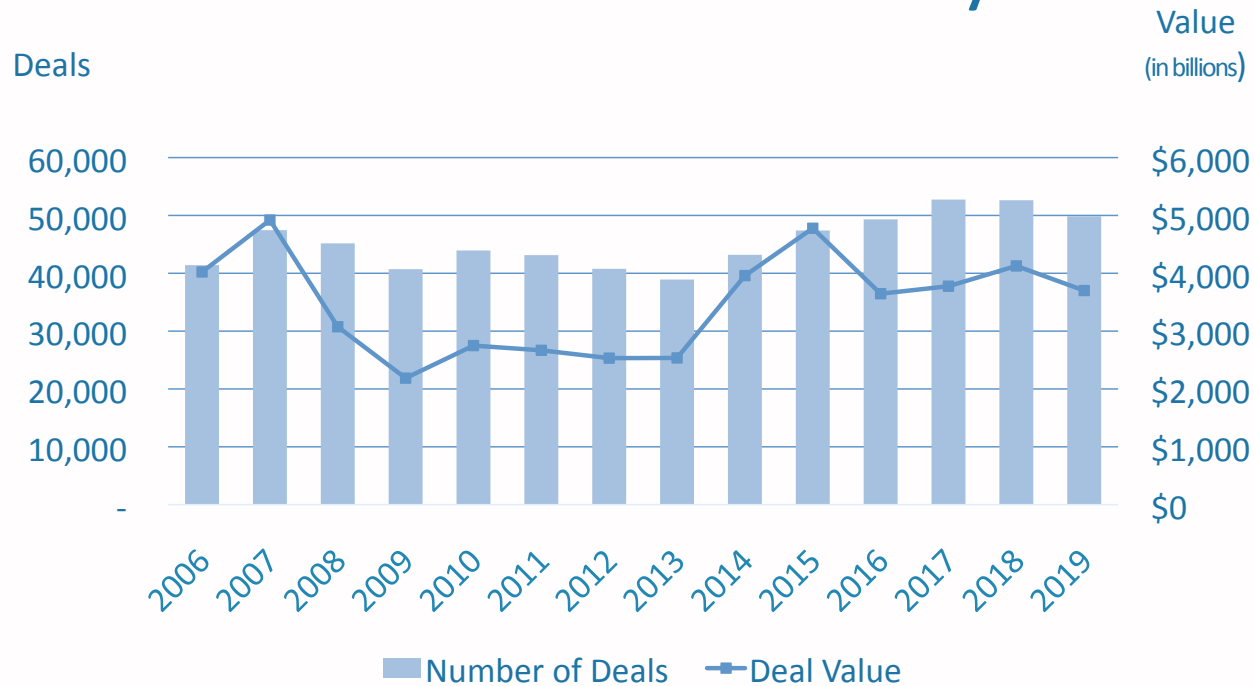
General M&A Review

Industry M&A Review





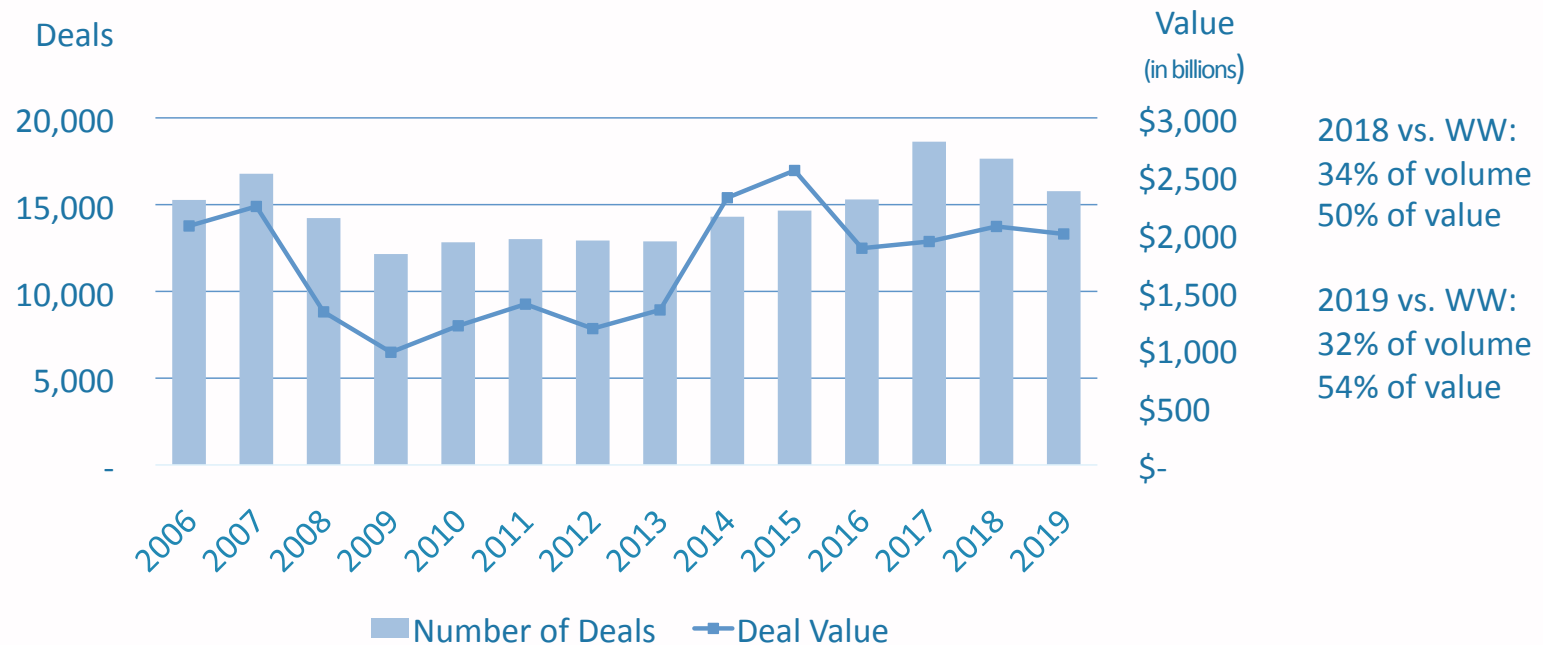
# Global M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances.



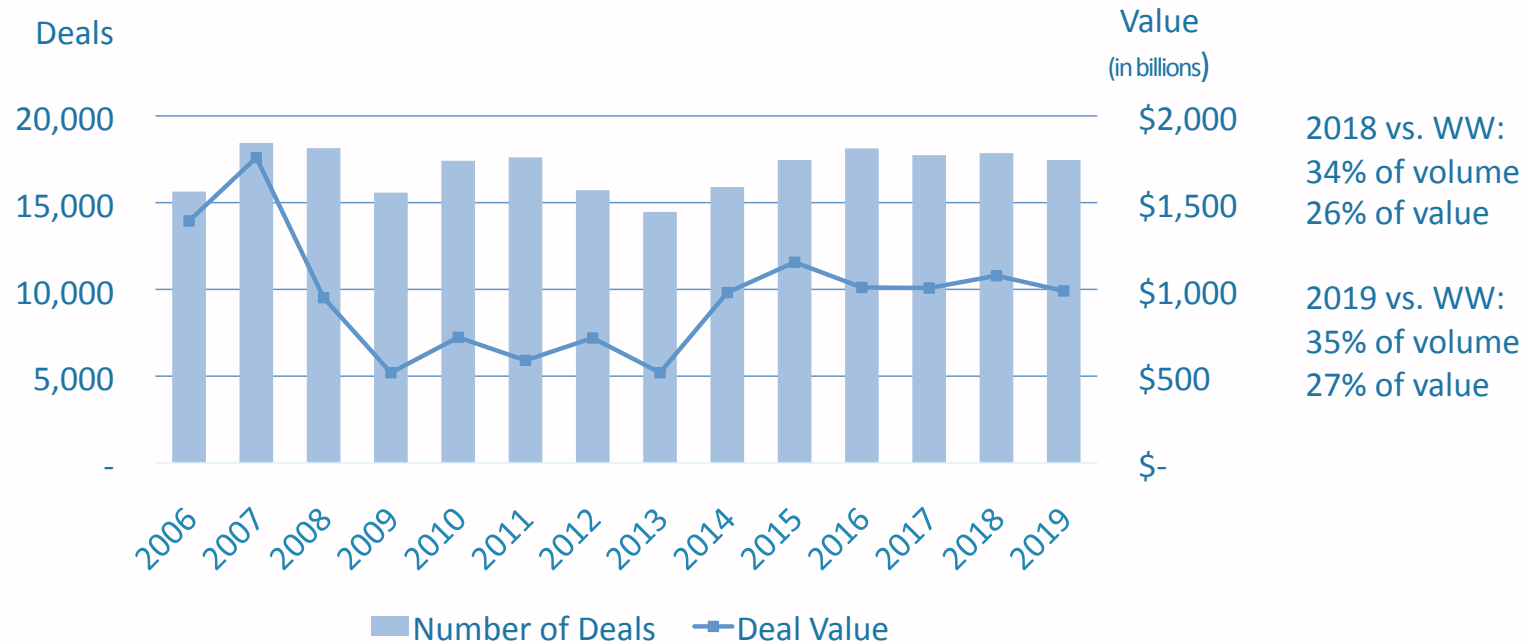
## North America M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances



# Europe M&A Activity

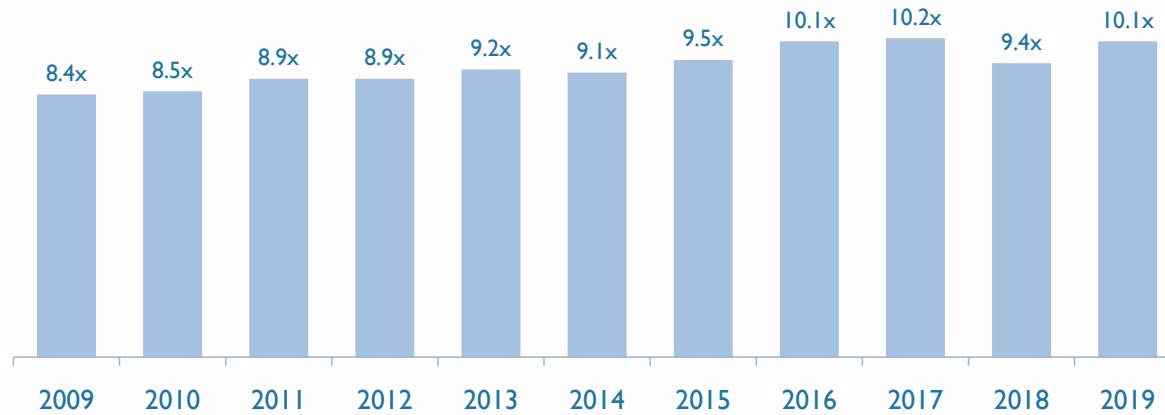


Source: Institute for Mergers, Acquisitions & Alliances





## North American EV/EBITDA Median Valuation Multiples



Source: PitchBook North American M&A Report 2019



## Middle Market Private Equity Valuations

TEV	2003 – 2014	2015	2016	2017	2018	2019	Total	Number of Transactions
\$ 10M - \$ 25M	5.5x	5.9x	5.8x	6.3x	5.9x	6.2x	5.7x	1,308
\$ 25M - \$ 50M	6.2x	6.6x	6.4x	6.6x	6.9x	6.9x	6.3x	983
\$ 50M - \$ 100M	6.7x	7.8x	7.2x	8.2x	8.9x	7.5x	7.2x	676
\$ 100M - \$ 250M	7.3x	9.0x	8.9x	9.1x	8.8x	9.6x	8.1x	343
<b>Total</b>	<b>6.1x</b>	<b>6.7x</b>	<b>6.7x</b>	<b>7.3x</b>	<b>7.2x</b>	<b>7.2x</b>	<b>6.4x</b>	
Number of Transactions	2111	245	237	255	265	197		3310

Source: GF Data November 2019 Chart 1



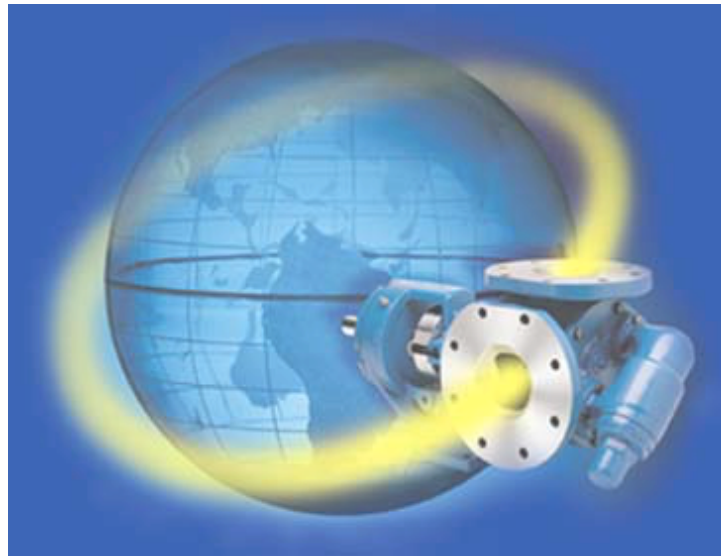
## Middle Market Quality Premium

	2003 – 2014	2015	2016	2017	2018	2019	Total
Above Average Financials	6.2	7.3	7.2	7.8	7.9	7.5	6.7
Other Buyouts	5.9	5.9	5.9	6.5	6.3	6.6	6.0
Premium / (Discount)	106%	123%	121%	121%	124%	114%	112%
Incidence	57%	55%	57%	59%	62%	53%	57%

Source: GF Data November 2019 Chart 9



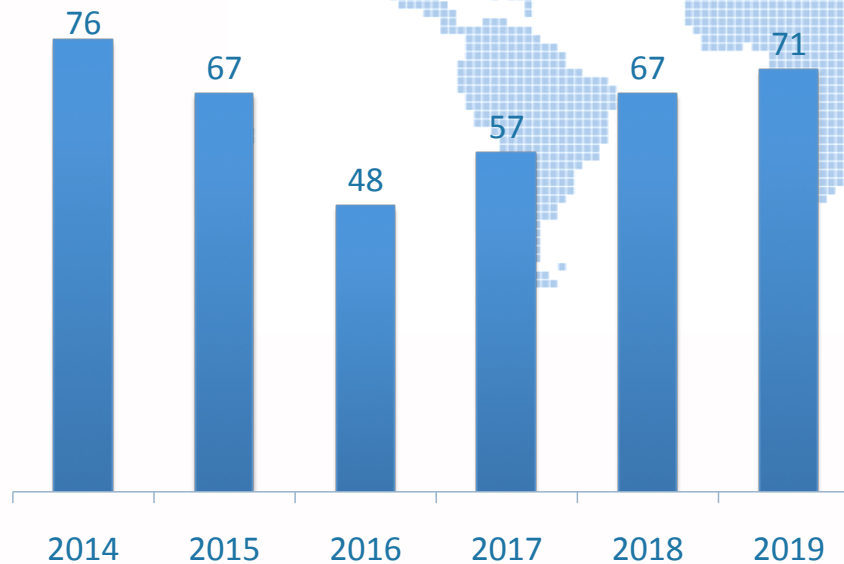
# Fluid Handling Industry M&A Review 2019





# Fluid Handling Industry M&A Activity

Number of Transactions

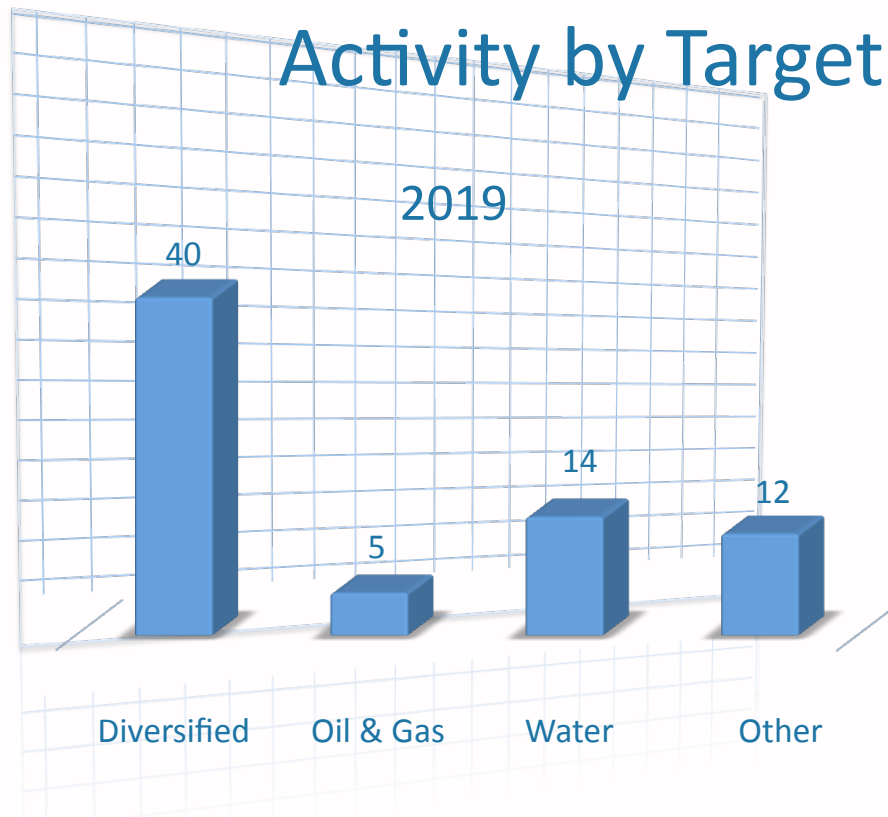


Strong activity characterized by:

- 1) Focus on water
- 2) Strategic factors – growth and realignments
- 3) Continued private equity activity



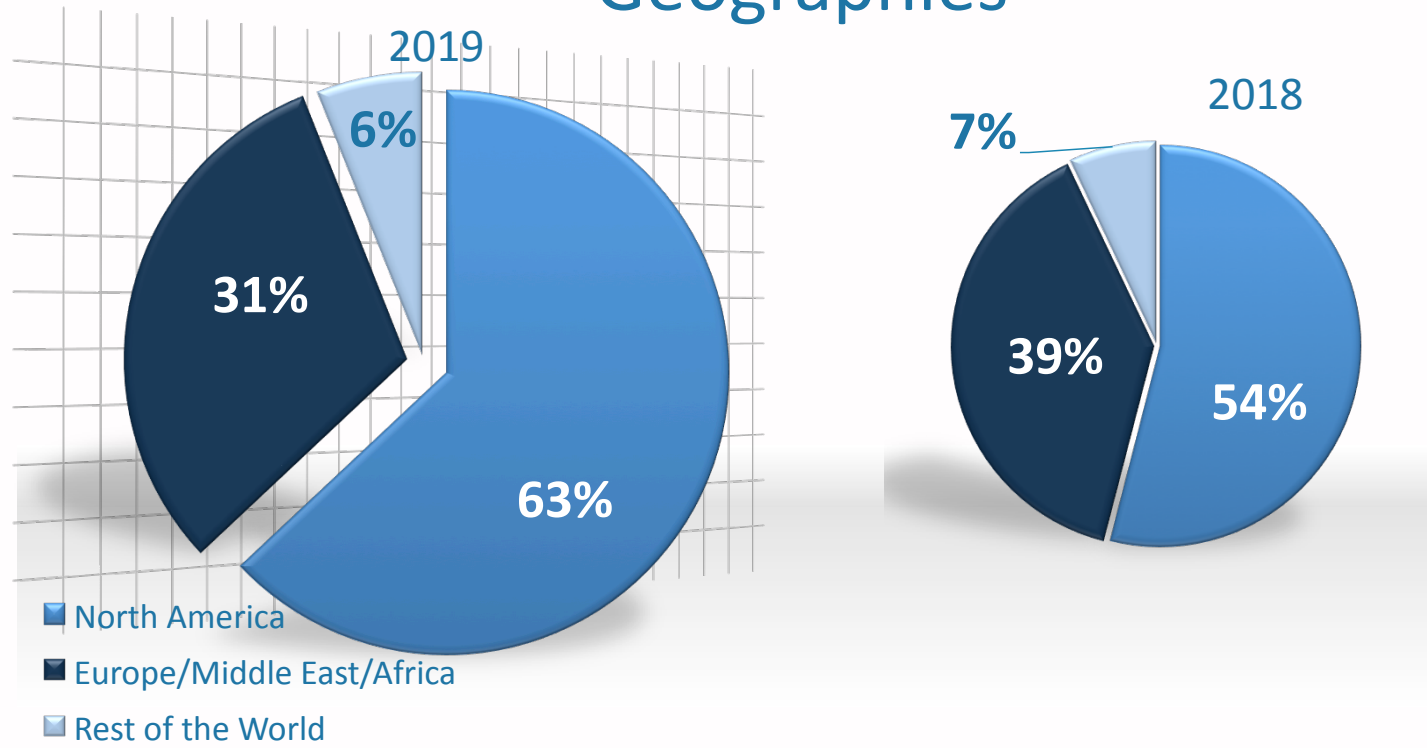
## Fluid Handling Industry M&A Activity by Target Industry



In 2019 water continued to be the predominant end-use market.



## Deal Activity by Targeted Geographies

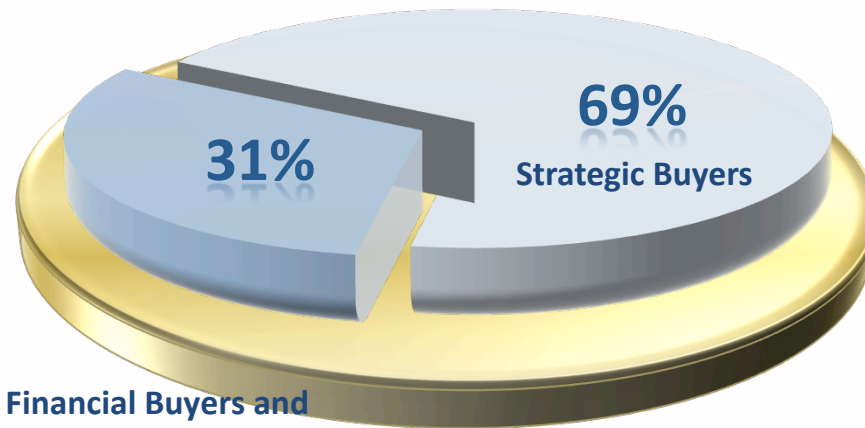




# Strategic Vs. Financial Buyers

2019

71 Transactions



**Financial Buyers and transactions by PE Backed Companies**

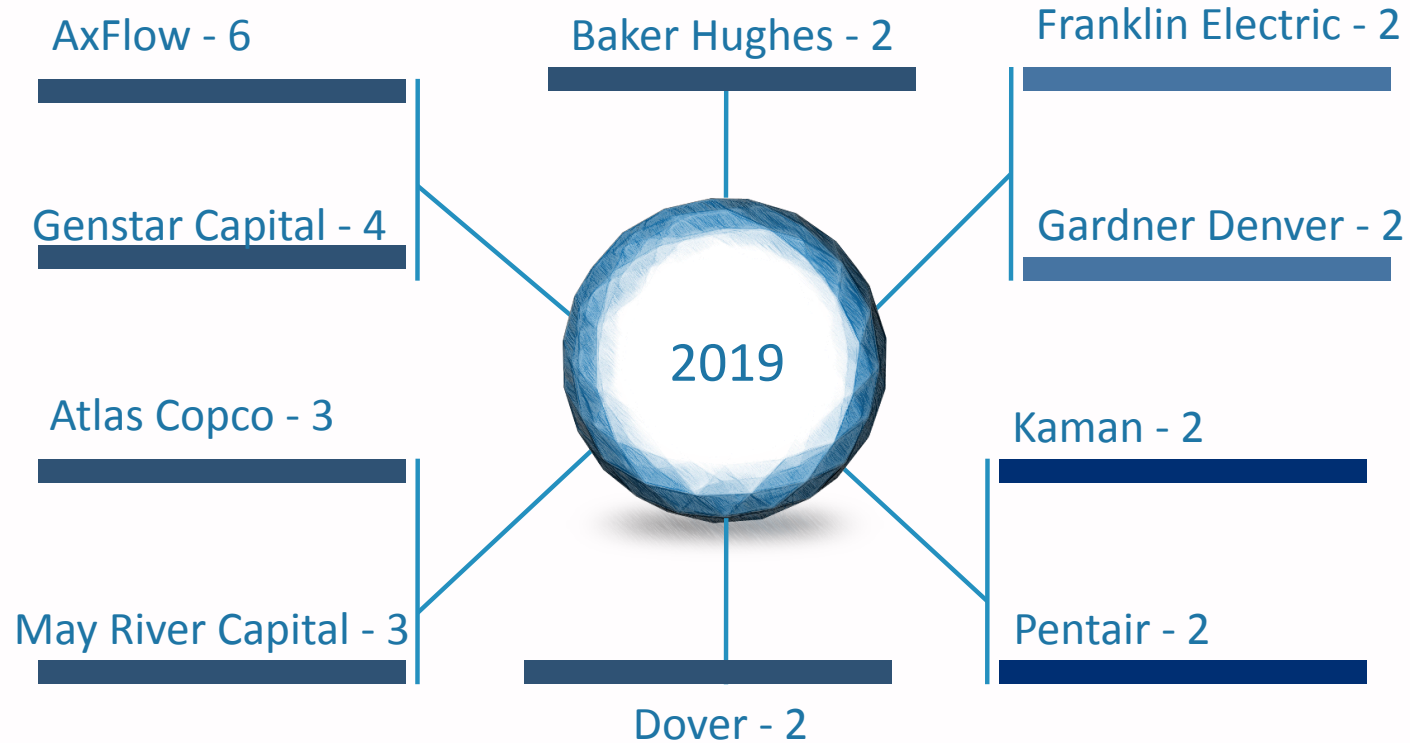
Four of the Five major strategic realignment transactions were sold to private equity buyers:

- Kaman distribution business to Littlejohn & Co.
- Weir Flow Control to First Reserve
- Colfax Air and Gas Handling to KPS Capital Partners
- SPX Flow Power and Energy to Apollo Global Management
- Jan 2020 – Sundyne to Warburg Pincus





## 2019 Most Active





## 2019 Five Largest Transactions

Buyer	Target	Value
Gardner Denver	Ingersoll-Rand Industrial Division	\$7.7 billion
KPS Capital	Colfax Gas and Air Handling	\$1.8 billion
Ingersoll-Rand	Precision Flow Systems	\$1.5 billion
Littlejohn & Co.	Kaman Industrial Distribution	\$700 million
First Reserve	Weir Flow Control	\$358 million



# Fluid Handling Industry Valuations

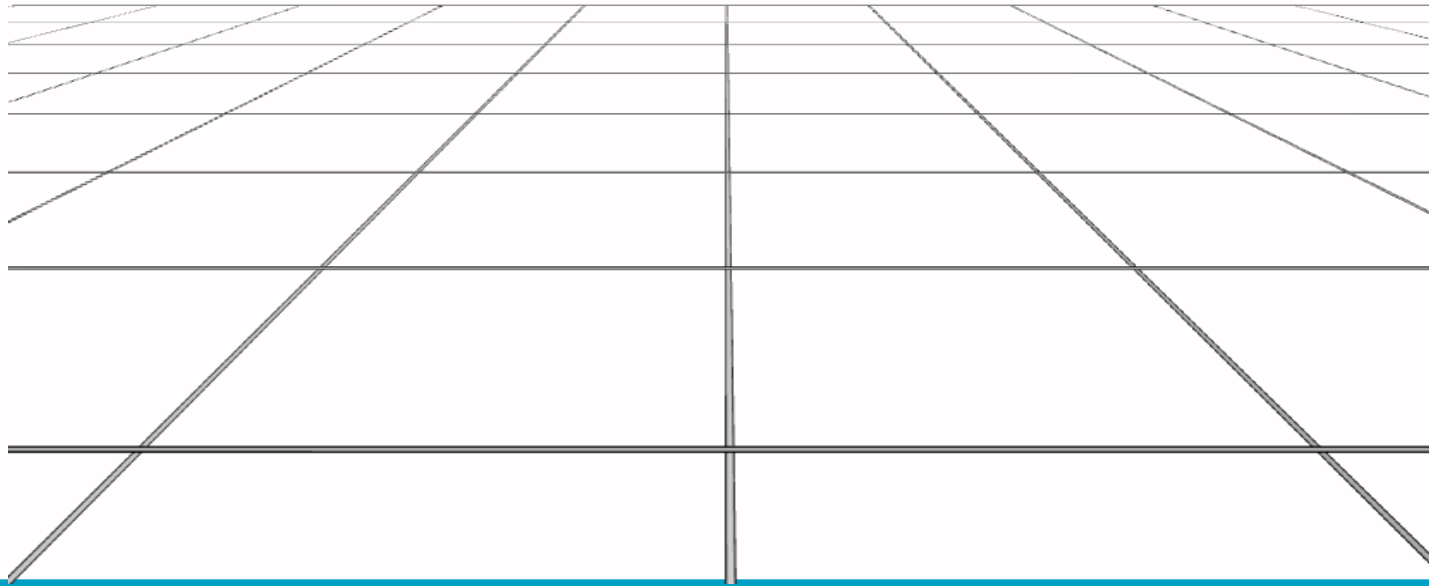
## 2019 (Disclosed Valuations)

Transaction Value	Deals	EV/Revenue Multiple Range	Deals	EV/EBITDA Multiple Range
≥ \$ 1 billion	3	1.27 – 3.63	3	9.0 – 12.95
\$500- \$999 million	1		1	10.60
\$100- \$499 million	7	0.71 – 3.81	3	10.58 - 14.99
\$50- \$99 million	1	1.39		
\$10 - \$49 million	0			
\$0 - \$9 million	2	0.27 – 0.42		
Median Values 2019	14	1.3	7	10.8
Median Values 2018	12	1.3	10	8.6
Median Values 2017	17	1.7	9	12.4



# Fluid Handling Industry Key Performance Indicators 2019

Growth • Operating Metrics • Valuation Metrics





## Fluid Handling Industry Growth Metrics

Year	Revenue	EBITDA	WW GDP
2019	3.3%	4.8%	2.9% estm'd

Source: City Capital Advisors Public Company Data Set, Capital IQ, IMF  
Median LTM (Last Twelve Months) in local currency



## Fluid Handling Industry Operating Metrics

Year	Gross Profit	EBITDA	EBIT
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%
2019	31.8%	13.1%	9.2%

Source: City Capital Advisors Data Set, Capital IQ  
Median percentage of sales LTM (Last Twelve Months)



## Fluid Handling Industry Valuation Metrics

Year	EV/Revenue	EV/EBITDA
2015	1.08	8.1
2016	1.61	12.4
2017	1.59	12.9
2018	1.36	10.7
2019	1.51	11.2

Source: City Capital Advisors Public Company Data Set, Capital IQ  
Median LTM: Last Twelve Months



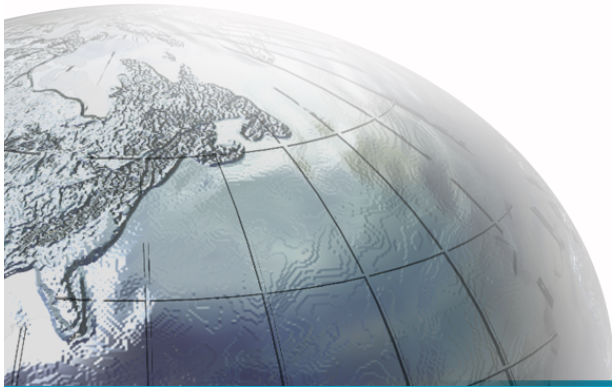
# Looking Ahead

## Industry and M&A Outlook - 2020

Representative Companies Outlook

Expected Deal Environment

Driving Forces







## Representative Companies - 2020 Outlook

Company	Symbol	Organic Revenue Growth	Adjusted EPS Growth
Applied Industrial Technologies	AIT	-4.0%	-2.5%
Dover	DOV	2.5%	6.2%
Flowserve	FLS	4.0%	8.0%
IDEX	IEX	-1.0%	N/A
Pentair	PNR	2.0%	3.5%
Timken	TKR	0.0%	-3.3%
Xylem	XYL	2.0%	3.5%
<b>Median outlook 2020</b>		<b>0.5%</b>	<b>4.8%</b>
<b>Median outlook 2019</b>		<b>4.5%</b>	<b>16.0%</b>

**General expectation is for 2020 results to accelerate in the 2<sup>nd</sup> half of the year**

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



## Market Segments Positive Outlook for 2020

Market Segments
<b>Oil &amp; Gas</b> – midstream, downstream and LNG
<b>Chemical</b> – N. America, Middle East and Asia (areas with cost advantage)
<b>Power</b> – solar, fossil and nuclear plant maintenance, fuel switching
<b>Utilities</b> – U.S. wastewater healthy, Europe steady, healthy projects in emerging markets led by China, India and Africa
<b>Commercial Construction</b> – soft 1 <sup>st</sup> half with recovery in 2 <sup>nd</sup> half, emerging market solid driven by China and India
<b>Residential Construction</b> – U.S. housing market modestly positive, continued opportunities in China and other Asia Countries

Source: Company presentations



## Looking Ahead 2020 – Driving Forces

### Primary Seller Motivations

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



# Looking Ahead 2020 - Driving Forces

## Primary Buyer Motivations

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



## Looking Ahead 2020 M&A Outlook

### Our thoughts about 2020:

The outlook for growth in 2020 appears to be softer than the expectation going into 2019 and the question will be to what extent that softer growth outlook impacts valuations – otherwise there does not appear to be any major changes on the horizon for the key factors that have sustained strong activity over the last several years:

- Low cost debt
- Capital flowing into private equity
- Companies looking to supplement organic growth

Particularly with private equity firms having acquired significant platforms in 2019 – SPX Flow Power and Energy, Weir Flow Control, Colfax Gas and Air Handling, Kaman Industrial Distribution, Ohio Transmission Corp. (OTC) and in January 2020 the acquisition of Sundyne by Warburg Pincus – it can be expected that these firms, among others, will be seeking add-on businesses for these platforms in 2020 and beyond.



## Questions & Answer Session

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