

Fluid Handling Industry M&A Update October 2023

Overview

The M&A activity in the fluid handling industry remained robust through Q2 2023 before slowing significantly in Q3. However, in the past when we had an exceptionally slow quarter it was followed by multiple quarters of strong activity.

M&A valuations in the fluid handling industry have remained strong so far this year as shown in figure 3 below. While financial buyers are facing headwinds with the cost and availability of debt financing, corporate buyers are having a strong year with excellent cash generation and they continue to seek quality acquisitions.

Activity Level

Year	2018	2019	2020	2021	2022	YTD 2023*
Transactions	67	71	69	102	105	68

Figure 1 - Fluid handling activity level by number of transactions in prior years and YTD 2023

Source: Global Equity Consulting, LLC research

* 8 months ending Aug 2023

Period	Q3 2022	Q4 2022	Q1 2023	Q2 2023	QTD Aug 2023
Transactions	37	21	29	29	10

Figure 2 - Fluid handling activity level by number of transactions quarterly

Source: Global Equity Consulting, LLC research

M&A activity in the fluid handling industry remained strong through Q2 before dropping off to the second lowest quarter we have experienced in the last five years. The slowest quarter for M&A activity in our industry in the last five years was Q4 2021. That quarter was preceded by three strong quarters and followed by six strong quarters of M&A activity.

Corporate buyers are having a strong year in 2023, in fact many are having record years and have raised their guidance for revenue and EPS for 2023. They continue to have an appetite for quality acquisitions and have the cash to pursue that element of their growth strategy.

Financial buyers, on the other hand, are reportedly facing more headwinds due to the cost and availability of debt. However, we have not experienced a significant decline in financial buyer activity so far in 2023 in the fluid handling industry with 28% of the buy-side activity YTD being financial buyers. In fact, this is somewhat above the norm for financial buyers, which historically account for 20% to 25% of our buy-side activity.

The activity in the fluid handling industry through the first half of the year is consistent with the overall worldwide M&A activity reported by Pitchbook in their Q2 2023 Global M&A Report. Through the first half of 2023, the fluid handling industry and the overall worldwide deal counts are tracking on par with 2022 levels, which was a record year for our industry.

However, overall worldwide deal volume measured as deal value is down substantially. This is an indication that a larger share of the transactions being done are smaller deals which are typically done at lower multiples than mega deals. YTD 2023 43% of the target businesses were manufacturing businesses - down from 62% in 2022. This seems consistent with a trend for buyers to be targeting businesses that are smaller and serving the end-user customer.

Valuations

Year	# of Transactions	EV/Revenue	# of Transactions	EV/EBITDA
2023*	6	1.9x	6	11.7x
2022	12	1.4x	5	10.0x
2021	13	1.7x	4	10.4x
2020	10	0.9x	3	10.8x

Figure 3 - Fluid handling industry revenue and EBITDA multiples

***YTD August 2023**

Source: Global Equity Consulting, LLC Research

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

It is widely reported that generally M&A valuation multiples are down significantly in Q2 2023 by various sources. However, that trend is not reflected in the YTD August data for the fluid handling industry based on disclosed valuation information. In fact, as shown above in figure 3 the YTD 2023 median revenue and EBITDA multiples are above recent years. This may change as we go through the balance of 2023 but so far valuations for sellers in the fluid handling industry have remained at a high level.

Most Active YTD 2023

Company	Number of Transactions
Atlas Copco	11
CECO Environmental	3
Ingersoll Rand	3
AESSEAL	2
DXP Enterprises	2
Flexaseal	2
Klinger Group	2
Motion Control Enterprises	2
Timken	2

Outlook

Generally, companies in the fluid handling industry started 2023 being optimistic about the first half of the year and cautious about the second half. For the most part, companies now seem to feel the second half will hold up with many companies looking to have record years. And now the cautiousness shifts to 2024.

While a slow-down in 2024 appears to be the widespread expectation there also seems to be a growing expectation that a soft landing, at least for the U.S. economy, is more likely than a hard landing. I don't think that is much of a change in outlook than there was through Q2. There is also a continuing demand for quality acquisitions and corporate buyers have strong balance sheets to pursue those opportunities, yet we saw a very significant decrease in fluid handling industry deal activity in Q3.

Heading into 2024 there is more cautiousness than there was as we headed into the first half of 2023 so I would not expect that Q3 2023 was just a blip in activity. However, I also do not see it as the beginning of an

extended change in the fluid handling industry M&A landscape. If there is a cautiousness in outlook that extends beyond the outlook for 2024 there may be a growing gap in valuation expectations that would need to be bridged in order for the deal activity to continue at the recent levels.

About the Author:

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