

Fluid Handling Industry M&A Report – Year-End 2019

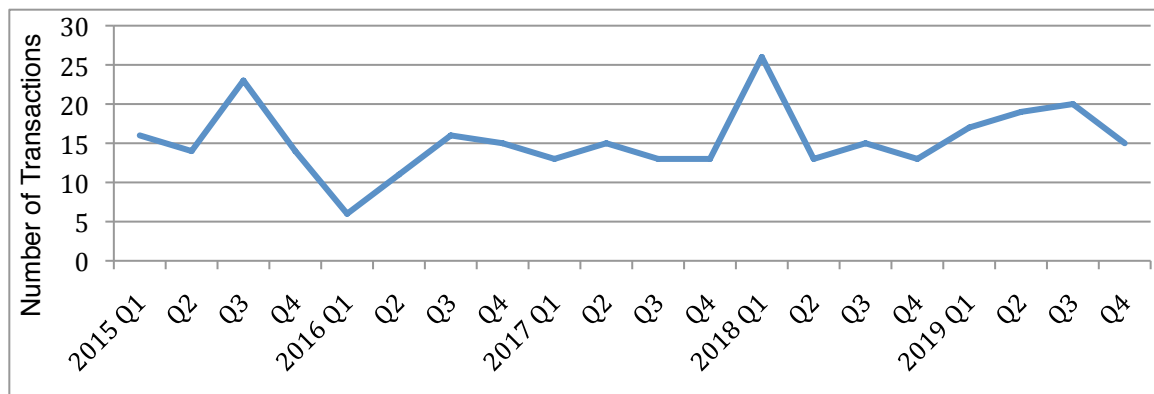
2019 Highlights

2019 deal activity – was strong with 71 announced transactions.

Key Factors: Strategic realignments, expanding geographic footprint and channel integration are among the key factors driving deal activity.

2019 Valuations - remain very deal specific but at a high level.

Deal activity



Annual Transactions

2015	2016	2017	2018	2019
67	48	54	67	71

The deal activity in Q4 was average following three quarters of above average activity, making 2019 the strongest year for fluid handling industry M&A activity in the last five years.

Some of the activity, such as strategic realignments, is at least partially driven by companies taking advantage of the strong valuations to divest non-core assets or create additional focus by spinning off strong businesses that can stand-alone. As well as, private business owners deciding to sell now rather than risk having to ride out another full business cycle.

On the other hand, some of the activity is happening despite the strong valuation environment. Private equity firms have more and more cash they need to put to work while strategic buyers are looking for growth opportunities in the form of capabilities expansion, geographic expansion, channel integration and acquiring new technologies.

These factors plus the availability of low cost debt seem to be overcoming macro factors such as economic and geopolitical uncertainty to create a strong year for M&A activity in the fluid handling industry.

Valuations

The disclosed transaction valuations remain strong with 2019 median EV/EBITDA multiple of 11.0 vs. the full year 2018 multiple of 8.6. The median EV/Revenue multiple 2019 is 1.33 vs. 1.32 for the full year 2018.

Demand remains strong for quality acquisitions with a continuation of favorable M&A conditions despite the slow down in growth as we progressed through the year.

YTD Disclosed Valuations

Transaction	Revenue*	EBITDA*	Value *	EV/Rev ¹	EV/EBITDA ¹
Colfax Corp divests Air and Gas Handling	\$1,414	\$200	\$1,800	1.3	9.0
Dover Corp divests FINDER Pompe	\$30		\$24	0.8	
De.mem acquires Pumptech	\$1.7		\$0.7	0.42	
Ebara minority investment in Ridge-I			\$0.8		
Franklin Electric acquires Milan Supply	\$22		\$5.9	0.3	
Gardner Denver acquires I-R Industrial Div	\$3,800	\$700	\$7,700	2.0	11.0
Gardner Denver acquires Oina VV			\$10		
IDEX acquires Velcora Holdings (Roplan and Steridose)	\$35	\$8.8	\$133	3.8	14.9
Ingersoll-Rand acquires Precision Flow Systems	\$400		\$1,450	3.6	
ITT acquires Rheinhütte Pumpen Group	\$66		\$92	1.4	
Kaman divest industrial distribution business		\$66	\$700		10.6
Kaman acquires Bal Seal Engineering	\$95		\$335	3.5	12.5 After synergies
Pentair acquires Aquion	\$72		\$160	2.2	
Pentair acquires Pelican Water Systems	\$38		\$120	3.2	
Valmet Oyj acquires GL&V Inc.	\$182		\$128	0.7	
Weir Group divests Flow Control Division	\$446	\$33.8	\$358	0.8	10.6

* Millions USD

¹ 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 - earnings before interest, taxes, depreciation and amortization

Notable Transactions – 2019

Kaman Corporation sold their industrial distribution business to **Littlejohn & Co.** for \$700 million to take advantage of the current favorable market conditions and to focus on their aerospace business.

IDEX Corporation acquired **Velcora Holdings AB**. The business consists of mechanical seal manufacturer **Roplan** and hygienic mixer and valve manufacturer **Steridose**. The companies complement the IDEX sealing solutions as well as their Health and Science platforms.

Ingersoll-Rand entered an agreement to acquire **Precision Flow Systems** from **BC Partners Advisors and the Carlyle Group** in a transaction valued at \$1.45 billion and then sold their Industrial division, including the pending PFS transaction to **Gardner Denver** in a transaction valued at \$7.7 billion, creating an increased focus as a pure play climate solutions company while Gardner Denver becomes a \$6.6 billion (pro forma) revenue flow creation and industrial business.

Weir Group is selling their flow control business, which serves the power and downstream oil and gas markets, to private equity firm **First Reserve** for \$358 million. This will enable Weir to increase their focus on the after-market dominated end-use markets of mining and upstream oil and gas production.

Colfax Corporation announced they are selling their **Air and Gas Handling business** to **KPS Capital Partners**. This transaction follows the sale of the Colfax Fluid Handling business in 2018 and the acquisition of DJO Global (medical technology) in Q1 2019. According to the company this completes their strategic realignment to diversify their end-market exposure, reduce cyclicity, and increase profitability. It will also enable Colfax to pursue bolt on acquisitions to their Medical Technology and Fabrication Technology segments.

Genstar Capital acquired major industrial distributor **Ohio Transmission Corporation (OTC)** from **Irving Capital**. OTC serves over 13,000 customers in a variety of end-use markets including transportation, industrial machinery, metals, chemicals and food and beverage from 38 branch locations. OTC has completed 16 acquisitions since 2010.

SPX Flow has entered into a definitive agreement to sell a substantial portion of its former Power and Energy reportable segment ("the P&E business") to an affiliate of funds managed by **Apollo Global Management, Inc.** Under the terms of the purchase agreement, the Apollo fund affiliate will purchase the P&E business in an all-cash transaction with an enterprise value of \$475 million.

Target Industries

In 2019 water was once again the predominate industry served by target companies that have a specific industry focus.

Industry	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total	%
Water	7	3	2	2	14	20%
Energy / Power	1	0	0	1	2	3%
Oil & Gas	1	2	2	0	5	7%
Mining & Minerals	0	0	1	0	1	2%
Pulp & Paper	1	0	1	0	2	3%

Industry	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total	%
Hygienic / Pharma	1	0	2	0	3	4%
Cryogenic	0	1	0	0	1	2%
Other	0	0	1	1	1	2%
Diversified	6	12	11	11	40	56%
Total	17	19	20	15	71	100%

Target Geographies

North American based businesses have been the predominate targets in 2019, accounting for 63% of the transactions.

Geography	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total	%
North America	13	14	7	11	45	63%
Europe/MEA	3	4	12	3	22	31%
Asia	0	1	0	0	1	2%
Australia / NZ	1	0	1	1	3	4%
Total	17	19	20	15	71	100%

Outlook 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.

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