



Global Equity Consulting, LLC

# Fluid Handling Industry

## M&A Activity and Industry Performance Review of 2020 and Look Ahead to 2021

March 29, 2021

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Hydraulic Institute Annual Meeting 2021

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# OVERVIEW

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## **Review of 2020**

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

## **A Look Ahead to 2021**

- Industry Outlook
- M&A Outlook





## about Thomas Haan



Global Equity Consulting, LLC

Forty plus year career in the Fluid Handling Industry as a senior executive and advisor for both public and privately held companies.

Extensive experience helping businesses achieve enhanced profitable growth.

Served on the Board of Directors of the Hydraulic Institute and as chairman of its Associate Member Council. 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 & City Capital Advisors ....

## Investment Banking & Business Development

**In-depth fluid handling industry experience**

**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



Global Equity Consulting, LLC



Member of FINRA and SIPC



# Review M&A Activity 2020

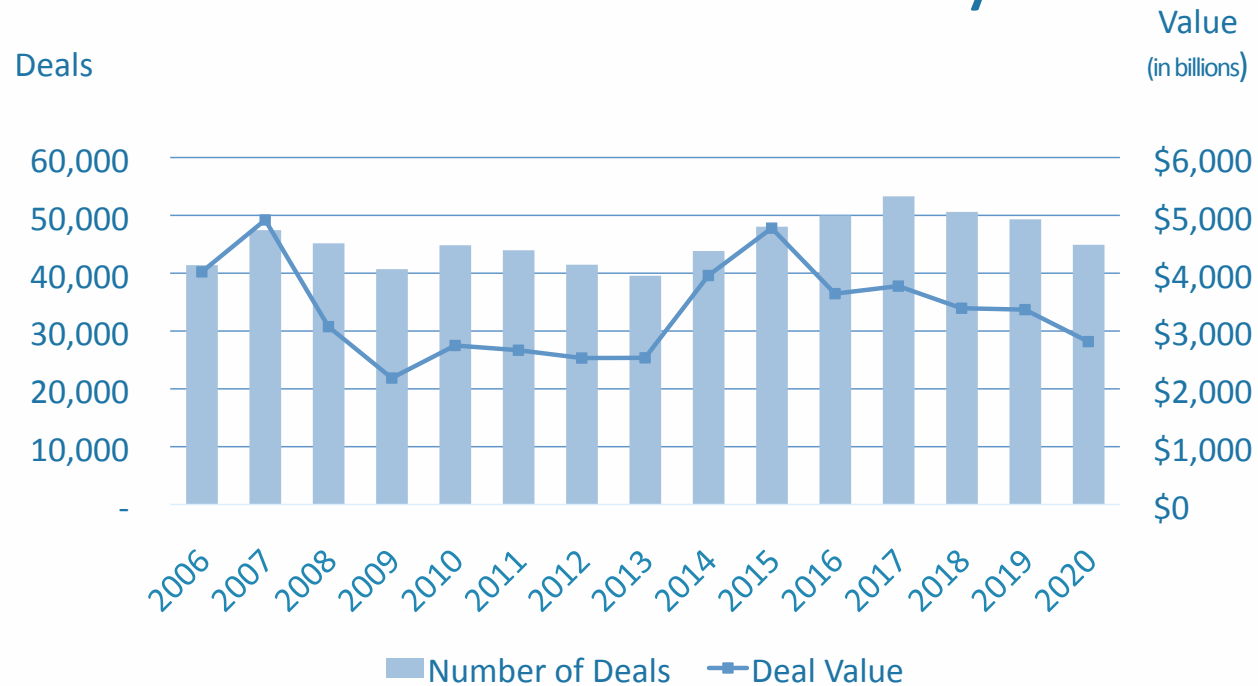
General M&A Review

Industry M&A Review





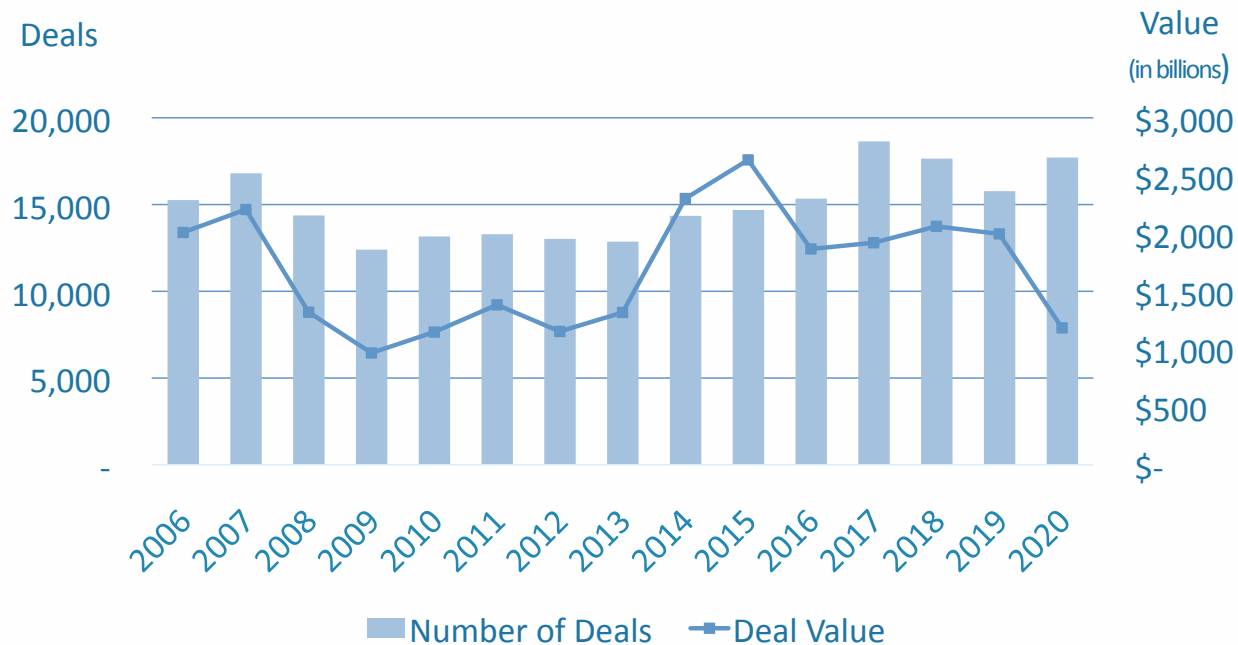
# Global M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances.



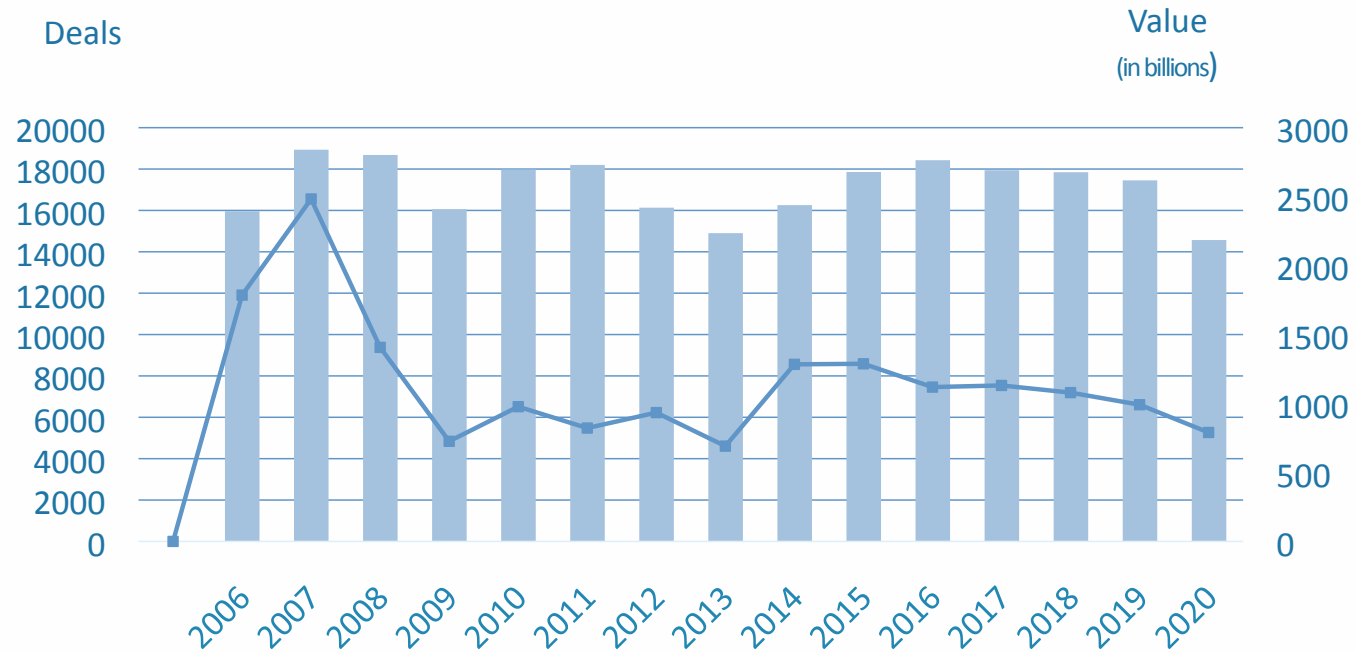
## North America M&A Activity



Source: Institute for Mergers, Acquisitions & Alliances



## Europe M&A Activity

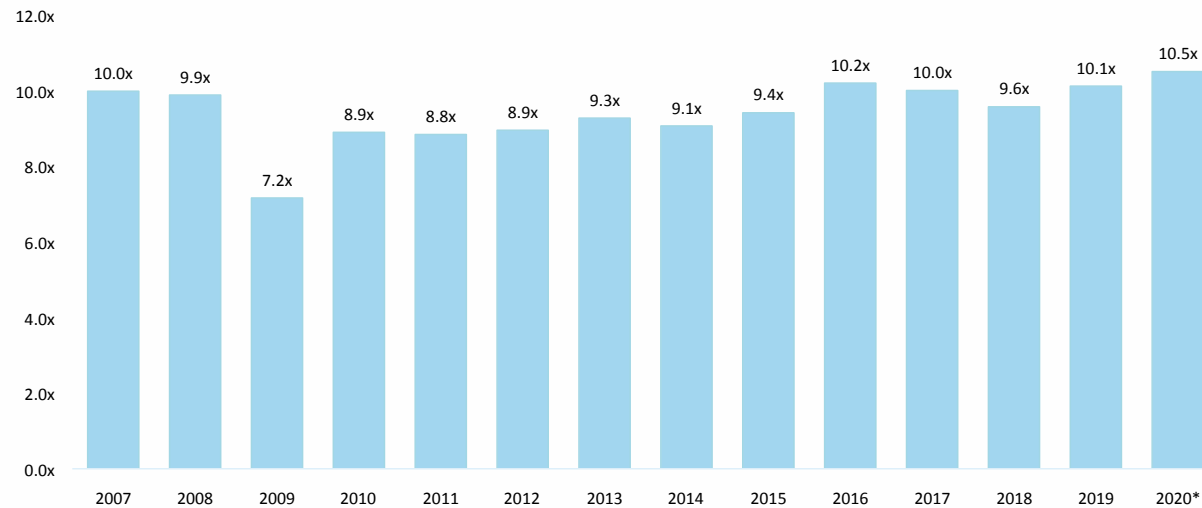


Source: Institute for Mergers, Acquisitions & Alliances





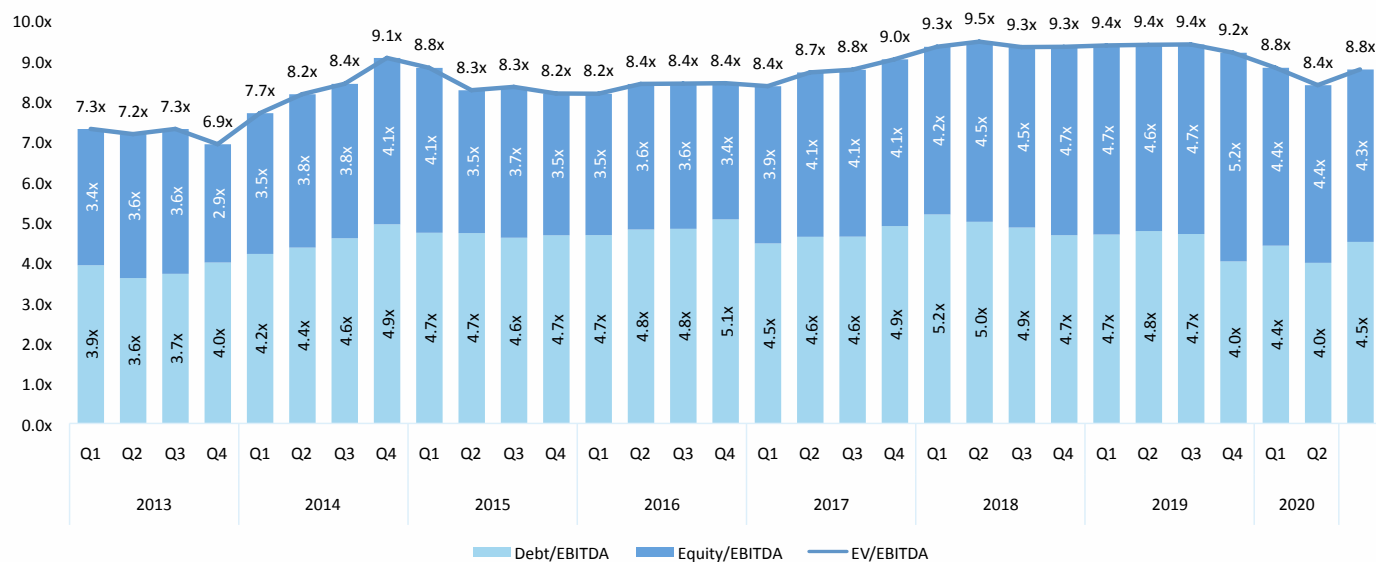
## North America EV/EBITDA Median Valuation Multiples



Source: PitchBook North American M&A Report 9/30/2020



# Europe EV/EBITDA Median Valuation Multiples



Source: PitchBook European M&A Report 9/30/2020



## Middle Market Private Equity Valuations

TEV	2003 – 2015	2016	2017	2018	2019	2020	Total	Number of Transactions
\$ 10M - \$ 25M	5.6x	5.8x	6.3x	5.9x	6.2x	6.0x	5.7x	1,475
\$ 25M - \$ 50M	6.2x	6.4x	6.6x	6.9x	6.9x	6.9x	6.4x	1,118
\$ 50M - \$ 100M	6.8x	7.2x	8.2x	8.8x	7.5x	7.3x	7.3x	769
\$ 100M - \$ 250M	7.4x	8.8x	9.1x	8.7x	9.4x	8.2x	8.2x	403
<b>Total</b>	<b>6.2x</b>	<b>6.7x</b>	<b>7.2x</b>	<b>7.2x</b>	<b>7.1x</b>	<b>6.5x</b>	<b>6.5x</b>	
Number of Transactions	2361	243	267	289	308	297		3765

Source: GF Data Spring 2021 Key Deal Terms Report Chart 2



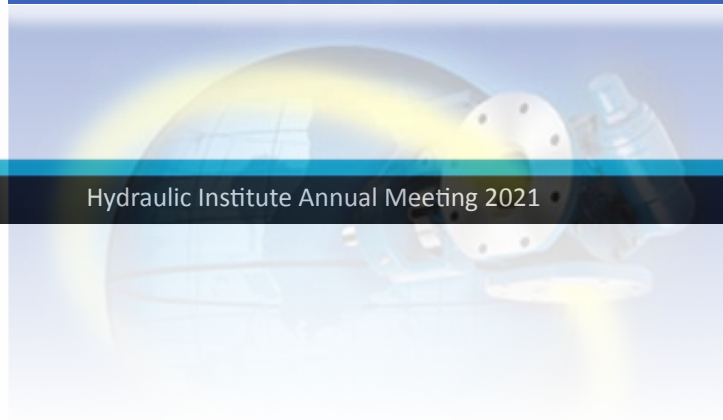
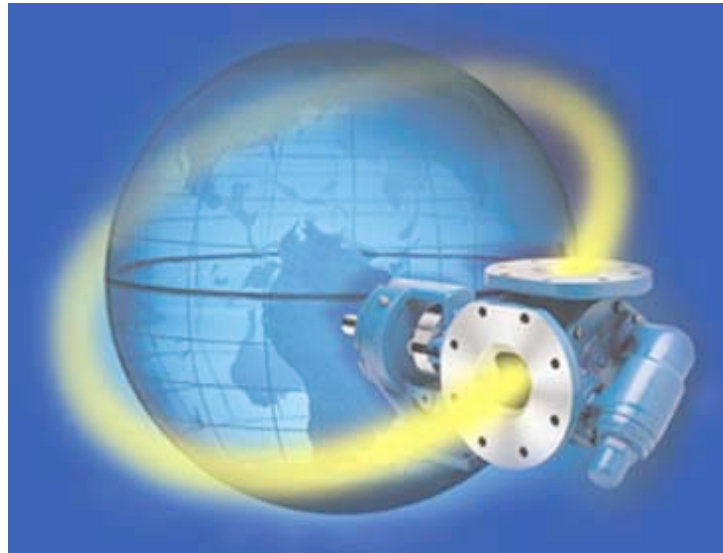
## Middle Market Quality Premium

	2003 – 2015	2016	2017	2018	2019	2020	Total
Above Average Financials	6.3	7.2	7.8	7.8	7.6	7.9	6.8
Other Buyouts	5.9	5.9	6.4	6.3	6.3	6.3	6.0
Premium / (Discount)	108%	122%	122%	124%	121%	125%	113%
Incidence	56%	56%	57%	59%	53%	55%	56%

Source: GF Data November 2020 Chart 9



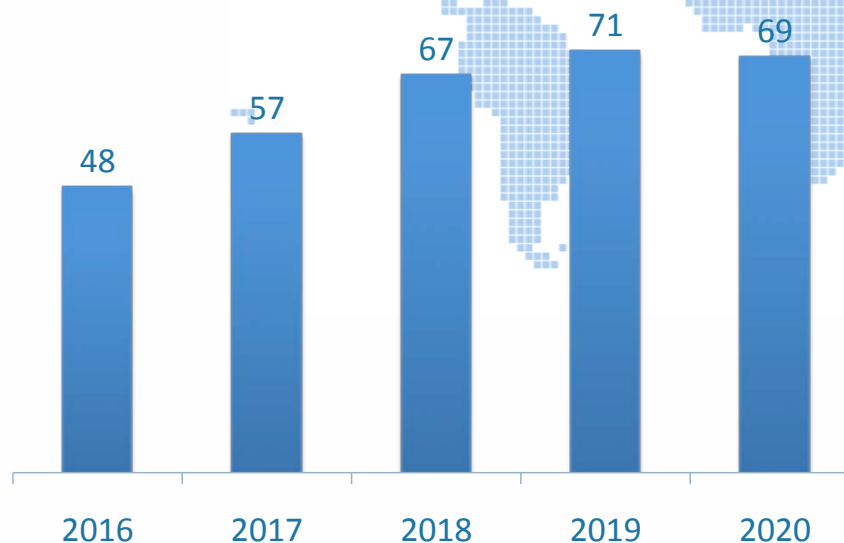
# Fluid Handling Industry M&A Review 2020





# Fluid Handling Industry M&A Activity

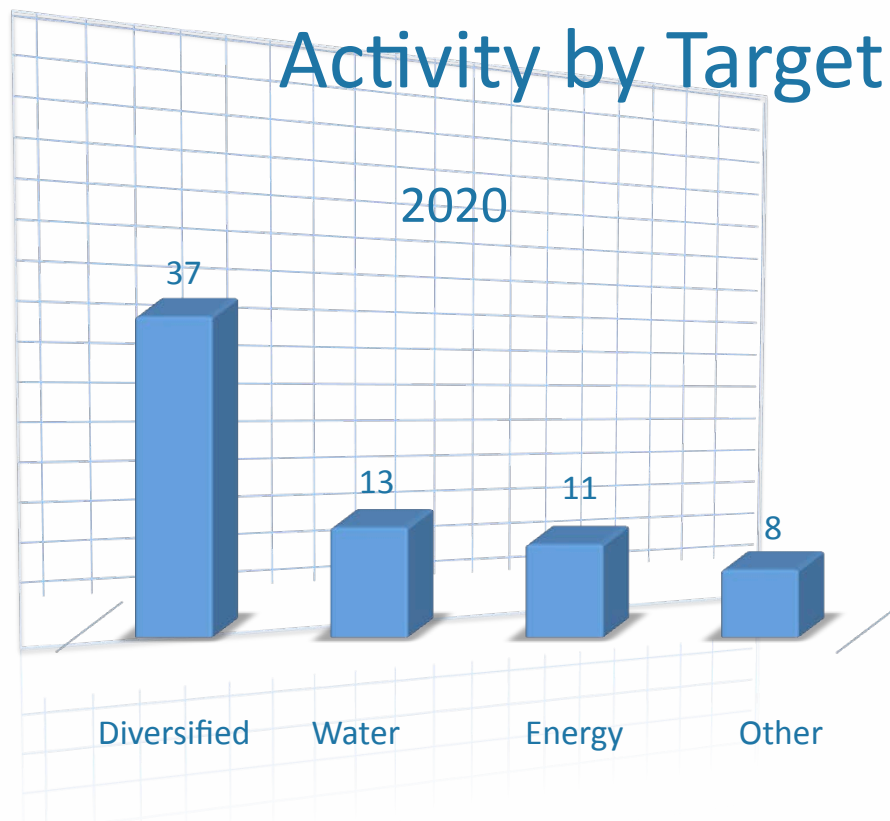
Number of Transactions



2020 started and ended strong with 64% of the activity in Q1 and Q4. It appears the slow down in Q2 and Q3 was a pause and not a trend.

Source: Global Equity Consulting, LLC Research

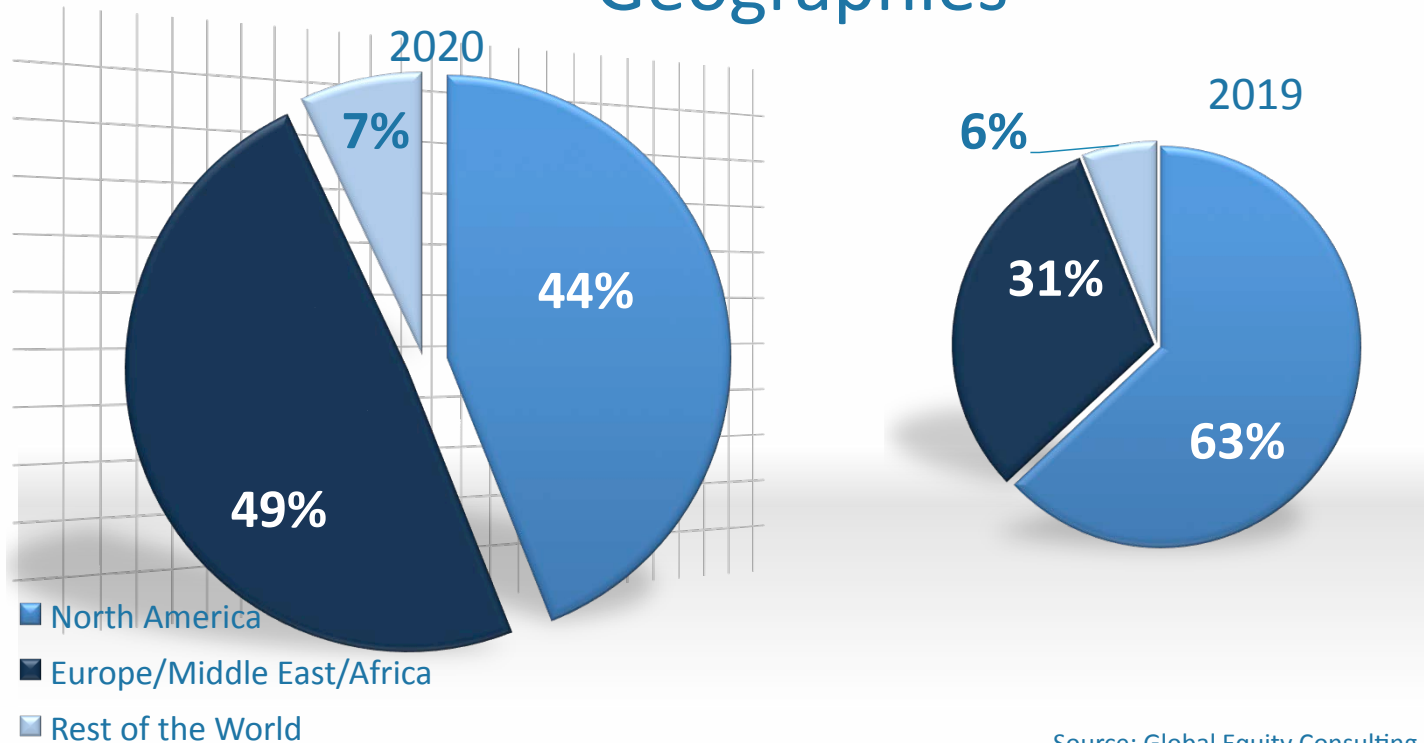
## Fluid Handling Industry M&A Activity by Target Industry



Energy (O&G and Power) was a more targeted end-market in 2020 vs. recent years.

Source: Global Equity Consulting, LLC Research

## Deal Activity by Targeted Geographies



Source: Global Equity Consulting, LLC Research

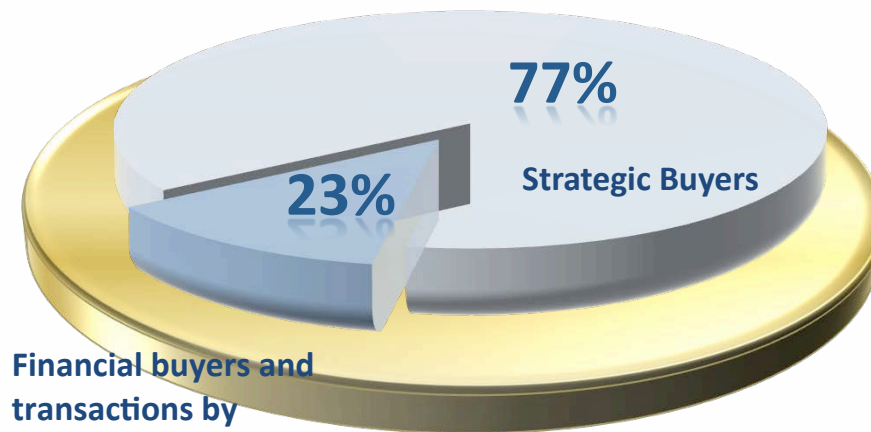




# Strategic Vs. Financial Sponsors

2020

69 Transactions



Financial buyers and transactions by financial sponsor backed Companies

Financial sponsor activity was somewhat lighter in 2020 vs. recent years when financial sponsors accounted for approximately 30% of deal activity.

Source: Global Equity Consulting, LLC Research



## 2020 Most Active

Company	Transactions	Company	Transactions
Atlas Copco	7	FLSmidth	2
AxFlow	3	Fluidra S.A.	2
Ingersoll Rand	3	Franklin Electric	2
Integrated Power Services	3	Klinger Holding	2
KSB	3	Ohio Transmission (OTP)	2
Evoqua Water Technologies	2	PCM S.A.	2

Source: Global Equity Consulting, LLC Research



## 2020 Five Largest Transactions

Company	Target	Value
Valmet Oyj	14.88% of Neles Corp.	\$1.37 billion
Warburg Pincus	Sundyne	\$1.05 billion
Caterpillar	Weir Oil & Gas	\$405 million
Ingersoll-Rand	Secondary Offering	\$371 million
NSK	Brüel & Kjær Vibro GmbH	\$218 million

Source: Global Equity Consulting, LLC Research



# Fluid Handling Industry Valuations

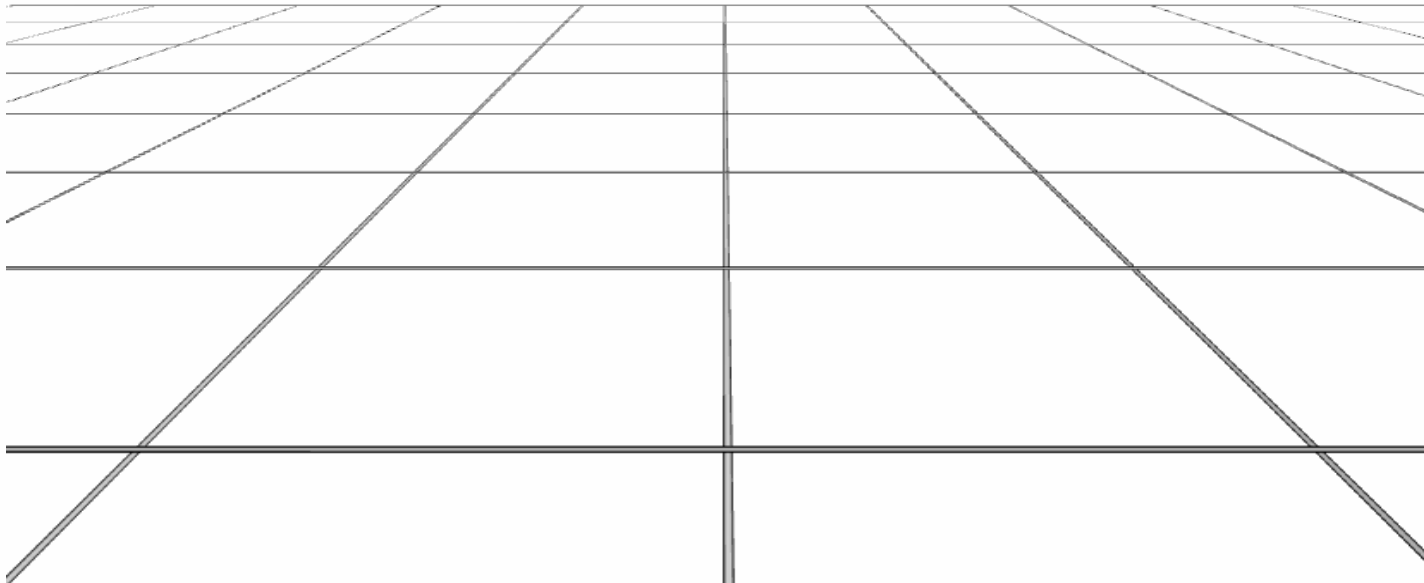
## 2020 (Disclosed Valuations)

Transaction Value	Deals	EV/Revenue Multiple Range		Deals	EV/EBITDA Multiple Range
≥ \$ 1 billion	1	3.5x		1	10.0x
\$500- \$999 million	0				
\$100- \$499 million	3	1.7 – 3.0x		0	
\$50- \$99 million	0				
\$10 - \$49 million	4	0.37 – 1.04x		1	3.1x
\$0 - \$9 million	2	0.69x		1	5.3x
Median Values 2020	10	0.9x		3	5.3x
Median Values 2019	14	1.3x		7	10.8x
Median Values 2018	12	1.3x		10	8.6x

Source: Global Equity Consulting, LLC Research



# Fluid Handling Industry Key Metrics 2020





## Fluid Handling Industry 2020 Metrics

Industry		
	Revenue	Market Value
Median	\$2.5 billion	\$4.8 billion
		93% of 52 week High
Revenue - amount recorded as net sales for the period		
Market Value – share price x shares outstanding		
Revenue: Trailing Twelve Months (TTM)		
Market Value as of 24 March 2021		

Source: City Capital Advisors Worldwide Public Company Data Set, PitchBook



## Fluid Handling Industry 2020 Metrics

Industry Median Revenue	World GDP*	Advanced Economies GDP*
-5.4%	-3.5%	- 4.9%
*IMF estimate January 2021		

Industry Median Metrics		
EBITDA Margin (adjusted)	EPS (reported)	ROIC
13.2%	\$0.80	6.2%

Source: City Capital Advisors Worldwide Public Company Data Set, PitchBook, IMF World Economic Outlook Update January 2021  
Industry metrics: TTM median



## Fluid Handling Industry 2020 Metrics

Industry Median Valuations	
EV/Revenue	EV/EBITDA
1.8x	14.0x
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;	

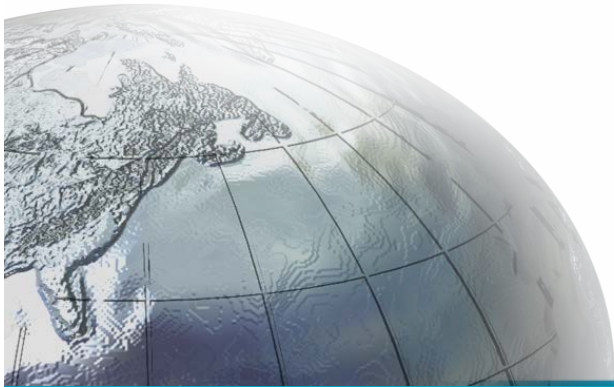
Source: City Capital Advisors Worldwide Public Company Data Set, PitchBook





# Looking Ahead

## Industry and M&A Outlook - 2021





## Fluid Handling Industry 2021 Outlook

	Revenue	EBITDA	EPS
Growth	6.2%	13.5%	20.2%
Median Analyst Projections			

	Worldwide GDP	Advanced Economies
Growth	5.5%	4.3%
IMF Projections January 2021		

Source: City Capital Advisors Worldwide Public Company Data Set, PitchBook, IMF World Economic Outlook Update January 2021



## Representative Companies - 2021 Outlook

Company	Symbol	Revenue Growth	EPS Growth
Applied Industrial Technologies	AIT	Guidance Not Provided for 2021	
Dover	DOV	4.0%	12%
Flowserve	FLS	-5.5%	-18.1%
IDEX	IEX	7.0%	17.4%
Pentair	PNR	4.0%	7.2%
Timken	TKR	12.0%	19.5%
Xylem	XYL	4.0%	20.1%
<b>Median Outlook 2021</b>		<b>4.0%</b>	<b>14.7%</b>

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



## End-Markets Outlook 2021

**Oil and Gas** – Demand constrained due limited travel; expect MRO spend to increase in 2021; increasing project activity in Asia; Middle East and Latin America

**Chemical** – Global output continues to increase; CAPEX spend expected to increase; biopharma strong

**Power** – Global investment in renewables continues; ongoing opportunities to serve installed fossil and nuclear fleet

**Utilities** – Wastewater, desalination and flood control activities increasing

**Mining** – Macro trends driving long term demand

**Construction** – U.S. construction starts to rebound modestly in 2021 led by single family housing and industrial construction (gas plants and wind farms)

Source: Company presentations; Dodge Outlook 2021 10 November 2020.



## Looking Ahead 2021 – Driving Forces

### Primary Seller Motivations

- Increased awareness of the ongoing risk of ownership
- Take advantage of current strong valuations
- Expected changes in capital gains tax
- Strategic realignment



# Looking Ahead 2021 - Driving Forces

## Primary Buyer Motivations

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



## Looking Ahead 2021 M&A Outlook

### Thoughts about 2021:

#### **Strong Demand Expected to Continue**

It appears the impact of the pandemic in regard to M&A activity was a pause not a trend, so without the intervention of some other unforeseen outside disruption we expect the factors that have been driving buyers for the last several years will continue to create strong buyer demand. We would also expect that other favorable factors such as, the availability of low cost debt and a generally positive growth outlook, will continue to be in place for 2020. Consequently we expect the demand side to remain strong.

#### **Private Business Owners More Open to Discussions**

The change in the M&A market is likely to be on the supply side. As we mentioned in a prior slide, strategic realignments contributed about 10% of the supply in 2020 and we see that continuing to be a factor in Q1 2021. What has changed is that private business owners have an increased awareness of the risk of ongoing ownership and they have an expectation there will be a significant change in the capital gains tax. Consequently we expect an increase in business owners willing to discuss the sale of their business.

#### **Valuations Expected to Remain Strong**

In regard to valuations, we do not expect a significant change as the competition for quality acquisitions will continue to be strong and we do not see sellers, strategic and private owners, to be sufficiently motivated without strong valuations.



## Questions & Answer Session

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