

Key Takeaways

M&A Down 11 Percent YTD

Current Closing Volume Level at Historical Average

- M&A deal volume in the Engineered Components (“EC”) vertical moderated during the first 5 months of 2022. Closings were down approximately 11 percent during the period versus same the timeframe in 2021 (see Chart I, p2). This trend mirrored the broader M&A market. The decline skewed towards less private equity closing.
- Valuations have likewise moderated in 2022. The Q2 2022 average EBITDA multiple in the EC vertical registered 8.2x (see Chart II, p3). This level is approximately at the post-Great Recession average but it feels relatively low relatively when compared to the historic highs reached in 2021.
- Publicly traded EC companies continue to outperform the broader market but have taken hits due to overarching market forces. Our Objective EC Index more than doubled the Russell 2000 over the last five years (see Chart III, p3 and Table I, p5).
- The biggest economic news continues to be inflation, growing at an annualized 8.6 percent in May 2022, with major price hikes to fuel, food, shelter, autos and air travel.
- Despite the decline in Real GDP during Q1 2022 (-1.6 percent) and consumer confidence at a historic low in June, purchasing managers continue to report expansion in the U.S. manufacturing sector according to the Institute for Supply Management (“ISM”). ISM’s view is the view generally shared by our Engineered Components clients who continue to innovate and expand albeit at a more moderate pace in recent months.

Objective Investment Banking & Valuation is a leading investment banking and valuation firm, advising lower middle-market companies through the following services:

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- Sell-Side
- Buy-Side

Valuation Advisory:

- Tax Compliance
- Transaction Opinions
- Financial Reporting
- Strategic Advisory

Industry Practice Groups:

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- Consumer
- Healthcare & Life Sciences
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- Technology

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Volume

M&A activity in the Engineered Components (“EC”) vertical rebounded in 2021, following a steep decline in 2020 due to the pandemic. Reported deal count was up nearly 43 percent during the period. 2021 was clearly a highwater mark for transaction activity in the space (see Chart I) despite notable persistent issues with labor shortages, factory shutdowns, and other supply disruptions. Stronger economic data and concerns of year-end tax rate hikes help to spurred on activity.

2022 brought new challenges as inflation and war in Eastern Europe, among other issues, added uncertainty to business decision making. As such, we saw a decline in the sale of EC companies during the first 5 months of the 2022, down approximately 11 percent from the comparable year-earlier period. The downward trend was true for the broader M&A market as well (all industries considered).

Further, the data suggests that the decline was disproportionately skewed towards private equity backed deals. Strategic buyers were more forward-leaning with respect to M&A during the period.

Valuations

2021 was also a highwater mark for EC company valuations. The average EBITDA multiple in the segment surpassed 11x during all four quarters of the year (see Chart II). Quite a turnaround from the depths of the pandemic when the average multiple bottomed at 6.9x.

A different storyline emerged in 2022. Faltering economies, decreasing confidence, and general instability across the globe, resulted in a decline in the average EBITDA paid for EC companies to 9.8x during the first three months of the year and even further in Q2 to 8.2x. Right now, multiples are generally on par with the longer-term historical norm of 8x on average and they appear to be stabilizing at this level.

It is important to note that these figures are averages, meaning many companies sell for multiples above as well as below these levels. Individual circumstances need to be carefully analyzed in order to estimate a given company’s appropriate multiple (or range of multiples).

Chart I | M&A Volume

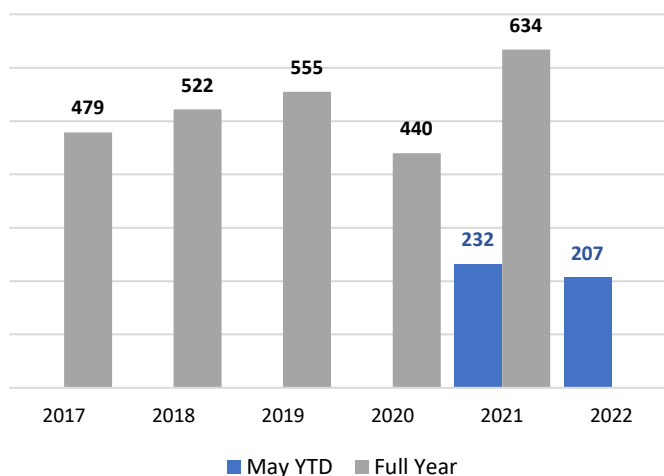
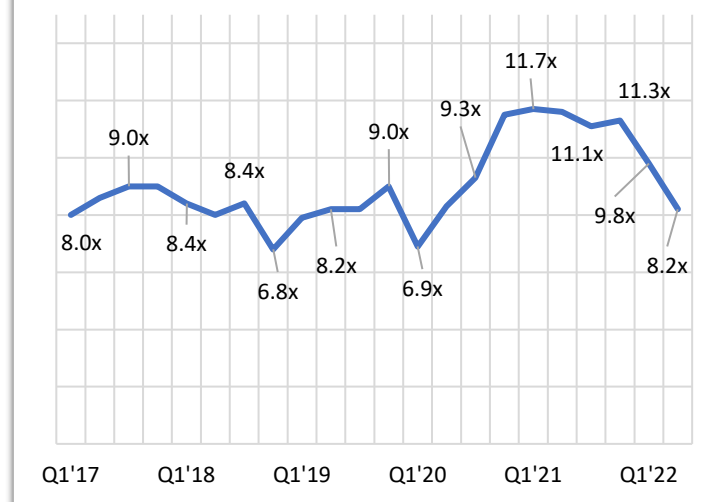


Chart II | EBITDA Multiples - Engineered Components



The public markets have been volatile and declining in recent months, accentuating the aforementioned economic uncertainties. EC companies have not been spared, as can be seen in Chart III. That said, our Objective EC Index, which is a composite of twenty publicly traded EC companies in North America (see Table I), has consistently performed better than the broader public markets over the last five years. Specifically, our EC Index is up 56.5 percent (through June 29, 2022), surpassing the performance of the Russell 2000 which was up 21.4% percent during the same time range.

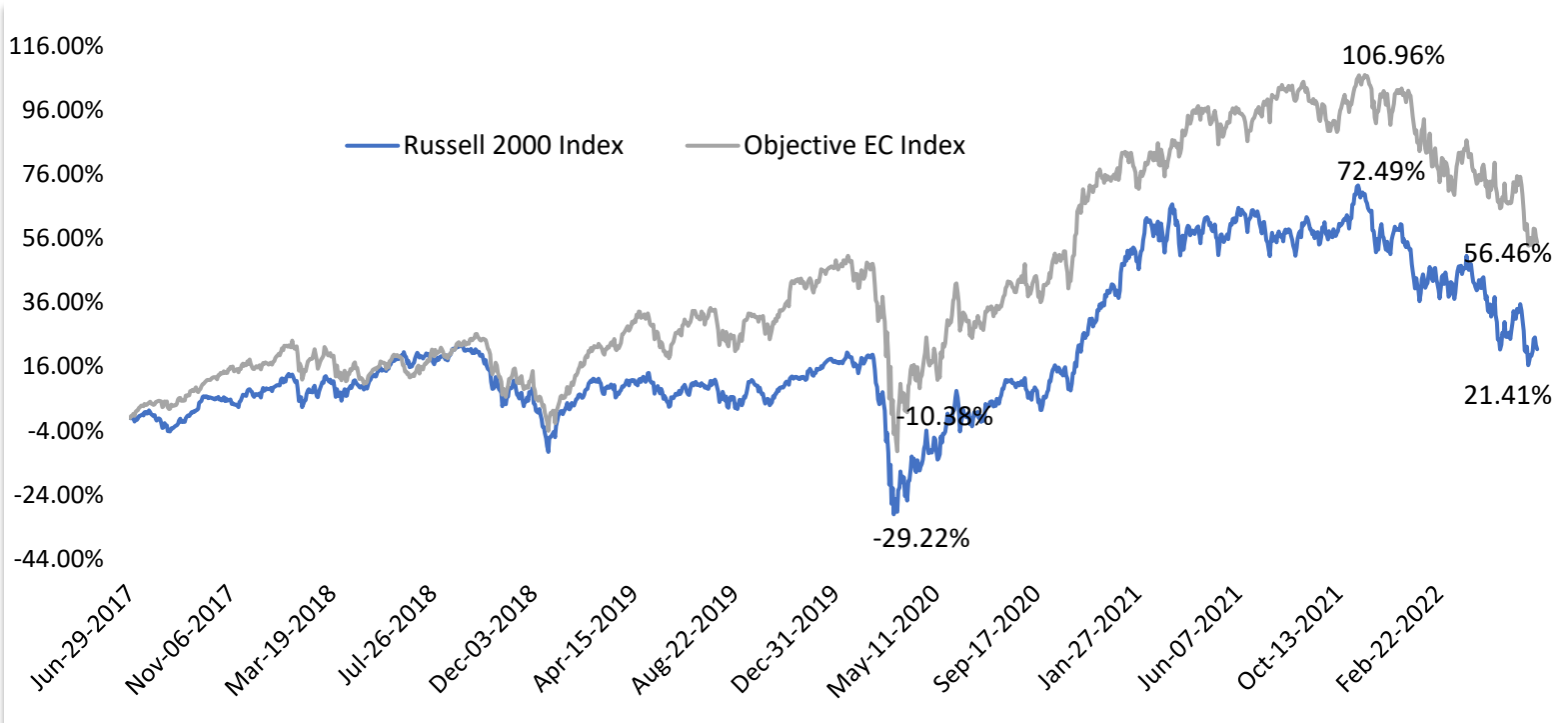
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Economic Considerations

Real GDP in the U.S. shrunk by an annualized -1.6 percent in Q1 2022. Notable declines were registered in exports, private inventory investment and non-durable goods purchases. Looking forward, The Conference Board still expects growth in 2022 overall (+2.0 percent) with a shallow recession late in the year and or in early 2023. Further, The Board expects +0.6 percent GDP growth in 2023. This is certainly a lackluster expectation for the near and medium timeframe, but it should be expected given historically high inflation and a Fed that is now aggressively raising rates.

Chart III | Objective EC Index vs Russell 2000



Consumer confidence has been problematic. University of Michigan's bellwether Index of Consumer Sentiment registered a historical low in June, down 14 percent from May 2022. This result was largely inflation driven and it was broadly shaped across the entire demographic spectrum.

On a somewhat positive note, manufacturers still report expansion. ISM's Purchasing Managers Index ("PMI") registered continued expansion for manufacturers in June, the 25th straight month of growth. To be clear though, softening was notable in the survey with the overall reading down 3.1 percent from May 2022. Specific issues cited included persistent supply constraints and the pace of new orders. The economic landscape is currently not ideal. That said, the forces playing on manufacturers continue to provide enough stability for players to successfully operate and for deals to get done (see Chart I).

Market Data Continued on Page 5

M&A INDUSTRY UPDATE

Engineered Components | July 2022

Table I | Publicly Traded Engineered Components Companies

\$ Million									
	Enterprise Value	LTM Rev	LTM EBITDA	1 Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Debt/EBITDA	LTM Rev Multiple	LTM EBITDA Multiple
AMETEK, Inc. (NYSE:AME)	\$27,896	\$5,789	\$1,672	27.1%	34.5%	28.9%	1.6x	4.8x	16.0x
Amphenol Corporation (NYSE:APH)	42,148	11,451	2,704	25.6%	31.4%	23.6%	1.7x	3.7x	14.9x
Analog Devices, Inc. (NasdaqGS:ADI)	81,067	9,755	4,271	57.3%	61.1%	43.8%	1.4x	8.3x	18.8x
Barnes Group Inc. (NYSE:B)	2,088	1,270	242	15.9%	35.7%	19.0%	2.3x	1.6x	8.1x
Crane Holdings, Co. (NYSE:CR)	5,506	3,202	588	14.6%	39.3%	18.4%	1.5x	1.7x	8.8x
CTS Corporation (NYSE:CTS)	1,030	532	109	18.4%	37.0%	20.5%	0.7x	1.9x	8.9x
Curtiss-Wright Corporation (NYSE:CW)	6,164	2,468	505	3.4%	37.5%	20.5%	2.4x	2.5x	11.3x
Diodes Incorporated (NasdaqGS:DIOD)	2,955	1,874	443	37.6%	38.9%	23.6%	0.6x	1.6x	6.4x
Dover Corporation (NYSE:DOV)	20,287	8,091	1,597	17.3%	37.1%	19.7%	1.8x	2.5x	12.1x
Ducommun Incorporated (NYSE:DCO)	775	645	77	2.6%	22.1%	12.0%	3.9x	1.2x	9.5x
Honeywell International Inc. (NasdaqGS:HON)	129,240	34,314	8,415	5.2%	31.9%	24.5%	2.4x	3.8x	14.8x
ITT Inc. (NYSE:ITT)	5,484	2,793	532	11.1%	31.8%	19.0%	1.0x	2.0x	9.8x
Keysight Technologies, Inc. (NYSE:KEYS)	25,077	5,141	1,504	11.0%	64.0%	29.3%	1.3x	4.9x	16.0x
Methode Electronics, Inc. (NYSE:MEI)	1,474	1,164	171	7.0%	22.9%	14.7%	1.3x	1.3x	8.2x
Parker-Hannifin Corporation (NYSE:PH)	39,411	15,633	3,361	15.4%	28.2%	21.5%	2.4x	2.5x	11.3x
Qorvo, Inc. (NasdaqGS:QRVO)	11,089	4,646	1,661	15.7%	49.3%	35.8%	1.3x	2.4x	6.5x
Skyworks Solutions, Inc. (NasdaqGS:SWKS)	16,733	5,273	2,076	20.5%	47.9%	39.4%	1.1x	3.2x	7.9x
Standex International Corporation (NYSE:SXI)	1,101	727	129	17.4%	37.0%	17.8%	1.7x	1.5x	7.7x
Teledyne Technologies Incorporated (NYSE:TDY)	21,400	5,130	1,174	65.1%	40.9%	22.9%	3.5x	4.2x	17.6x
TTM Technologies, Inc. (NasdaqGS:TTMI)	1,705	2,304	263	7.9%	16.6%	11.4%	3.5x	0.7x	6.3x

Summary Statistics	Enterprise Value	LTM Rev	LTM EBITDA	1 Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Debt/EBITDA	LTM Rev Multiple	LTM EBITDA Multiple
High	\$129,240	\$34,314	\$8,415	65.1%	64.0%	43.8%	3.9x	8.3x	18.8x
Low	775	532	77	2.6%	16.6%	11.4%	0.6x	0.7x	6.3x
Mean	22,132	6,110	1,575	19.8%	37.2%	23.3%	1.9x	2.8x	11.0x
Median	8,627	3,924	881	15.8%	37.0%	21.0%	1.6x	2.4x	9.7x

M&A INDUSTRY UPDATE

Engineered Components | July 2022



About Objective

Founded in 2006, Objective is a Middle Market M&A and Valuation Advisory firm focused on transaction and advisory services for lower middle market companies. Objective combines a world-class process with deep sector-specific expertise and an exceptional team of specialized professionals in an effort to consistently maximize clients' M&A and valuation advisory results. Objective is a nationally recognized M&A Advisor, including Best Company Sale Advisory Project (USA) 2021 for the sale of AEM, Inc. to Industrial Growth Partners.

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Manufacturing & Distribution Industry Group

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Select Transactions

 Has been acquired by Sell-Side Advisor to AEM, Inc.	 Has been acquired by Sell-Side Advisor to Avista Technologies*
 Has been acquired by Sell-Side Advisor to Holdrite*	 Has acquired Buy-Side Advisor to Amada America, Inc.*
Purcell Technologies Has been acquired by Sell-Side Advisor to Purcell Technologies*	 Has been acquired by Sell-Side Advisor to Catalytica Energy Systems*
 Has been acquired by Sell-Side Advisor to MWS Wire Industries*	 Has been acquired by Sell-Side Advisor to Reynolds Industry Incorporated*

 2021 Boutique Investment Banking Firm of the Year	 2021 Information Technology Deal of the Year	 2021 Consumer Discretionary Deal of the Year	 2021 Best Company Sale Advisory Project (USA)
 2021 Best Investment Banking & Valuation Firm - California	 2021 Top 10 Valuation Services Company	 2021 Leaders of Influence: Investment Bankers	 2020 Corporate/Strategic Deal of the Year
 2019 Most Innovative M&A Firm - California	 2019 Consumer Discretionary Deal of the Year	 2019 Technology Deal of the Year	 2019 Corporate/Strategic Deal of the Year

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