

## Key Takeaways

### M&A Down 6 Percent YTD

*Engineered Components M&A Remains Active Despite Economic Headwinds*

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 6 percent during 1H 2022. The pie has been skewing more towards strategic buyers versus private equity in recent periods. Given the lofty heights of 2021, a modest decline this year is not surprising. That said, many of the EC companies we work with (or simply track) remain in growth mode and strategic buyers, given potential synergies and the ever-present need for quarterly growth in revenue and EPS, have generally posted strongly in our processes.
- Valuations have likewise moderated in 2022. The current average EBITDA multiple in the EC vertical is 7x (see Chart II, p3). This level is approximately at the post-Great Recession mean but it may feel relatively low when compared with 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 nearly doubled the Russell 2000 over the last five years (see Chart III, p3 and Table I, p5), showing that EC companies can be an attractive area to invest.
- Real GDP was down in Q1 and Q2 of 2022 by -1.6 percent and -0.6 percent, respectively. The Conference Board currently forecasts a return to minimal growth in Q3 (+0.3 percent) followed by a short and somewhat mild recession starting at the end of the year. Execution risk remains high though for the Fed. Consumer confidence is above recent lows but suggests that inflation is taking its toll. Lastly, ISM’s Purchasing Managers Index continues to indicate expansion of the U.S. manufacturing base, however a contraction of booked orders is expected in the near-term.

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

#### M&A Advisory:

- Sell-Side
- Buy-Side

#### Valuation Advisory:

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

#### Industry Practice Groups:

- Business Services
- Consumer
- Healthcare & Life Sciences
- Manufacturing & Distribution
- Technology

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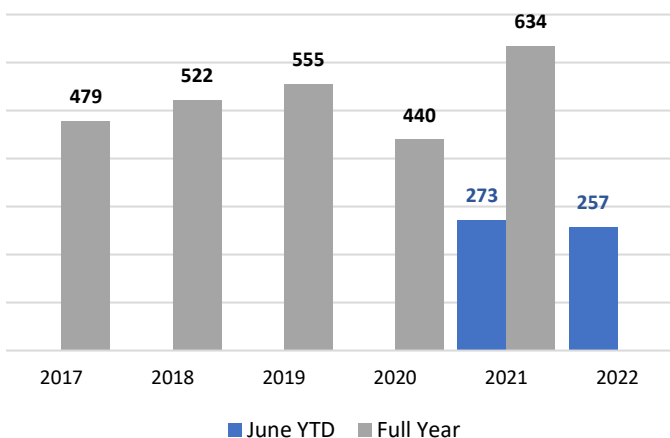
### Volume

M&A activity in the Engineered Components (“EC”) vertical, while down from historic highs in 2021, appears to be on stable footing as we finish September 2022. Following the Summer doldrums, Fall is almost always a time for stepped-up activity and 2022 is proving to be no exception.

Reported deal count in the EC vertical during 1H 2022 was down a modest 6 percent from the comparable year-earlier period (see Chart I). This rather small decline is notable given the historic highs reached last year and because of current headwinds (labor shortages, skills deficits, persisting supply issues, and general economic concerns and uncertainties). There is plenty of deal work right now and should make for a busy CY2022.

The data suggests that deal mix by buyer type continues to skew more towards strategic versus private equity in recent quarterly periods. The shift started with the arrival of Covid. That said, July and August data, while still being tabulated, may be indicating a minor reversal of this trend. The need for private equity firms to invest seems to be building.

Chart I | M&A Volume



### Valuations

Valuation multiples for EC companies rose rather quickly following the initial months of Covid, reaching historical highs in 2021. With 2022 came economic uncertainty and other challenges and led to declines in multiples (see Chart II). The average EBITDA multiple now sits at approximately 7x.

It is important to note that current multiples are now generally at the post-Great Recession mean. We expect stabilization at this level for the foreseeable future, barring dramatic changes up or down in the economic environment.

Volatility continues in the public markets and 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 market over the last five years. Specifically, our EC Index is up 58.24 percent (through September 15, 2022), surpassing the performance of the Russell 2000 which was up 29.49 percent during the same time range. Historical price performance makes EC companies worthy of investor consideration and serves as validation for the M&A activity in the space.

Chart II | EBITDA Multiples - Engineered Components

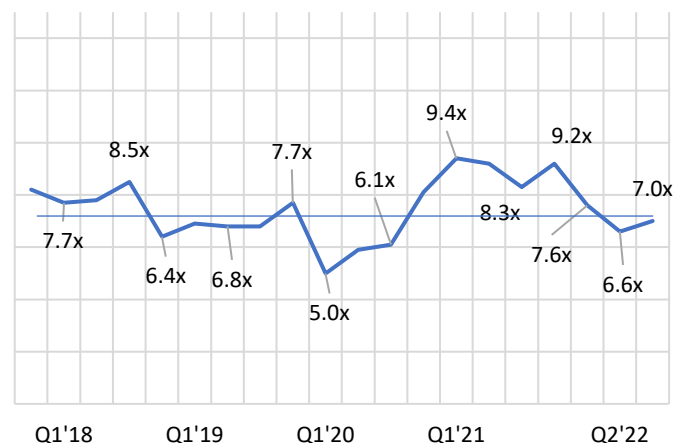
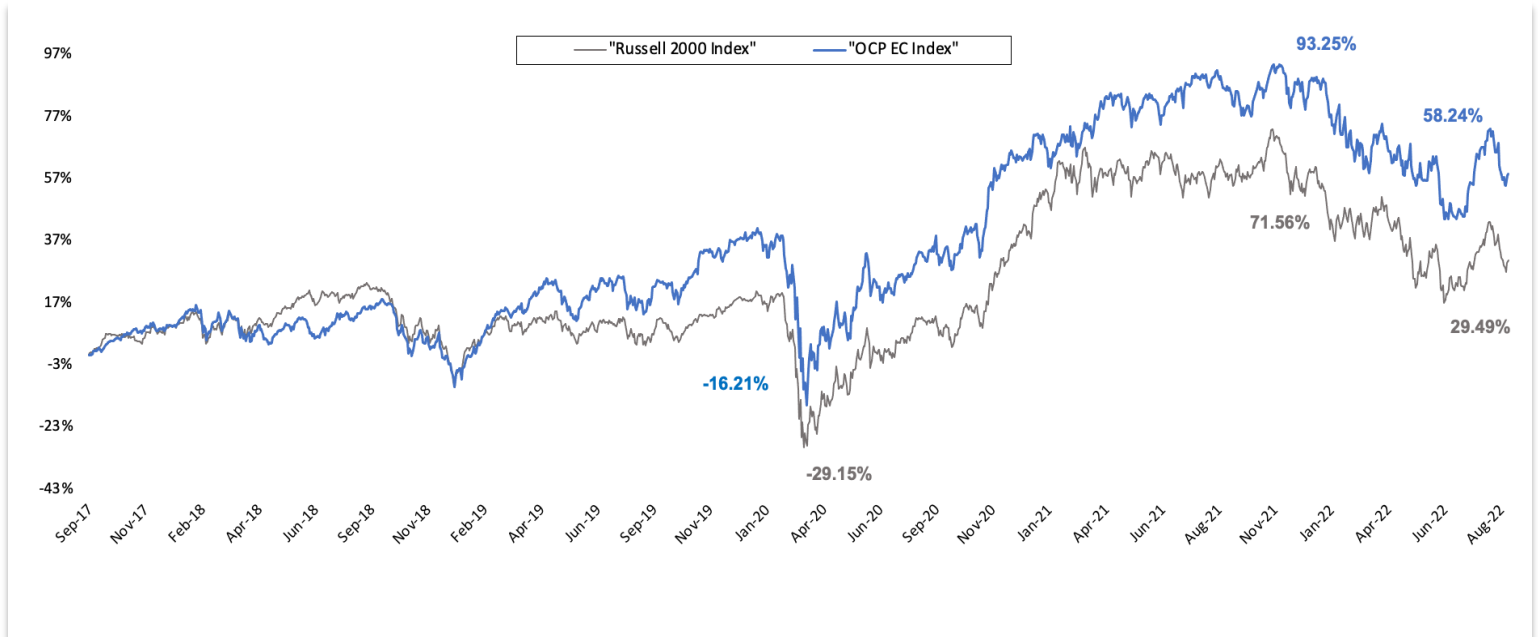


Chart III | Objective EC Index vs Russell 2000



### Economic Considerations

Real gross domestic product (GDP) decreased at an annual rate of 0.6 percent in Q2 2022, following a decrease of 1.6 percent in Q1. The decrease reflected declines in private inventory investment, residential fixed investment, federal government spending, and state and local government spending, that were partly offset by increases in exports and consumer spending.

The Conference Board forecasts that Q3 2022 real GDP will be positive at 0.3 percent, likely to be followed by a short and somewhat mild recession beginning in Q4. Further, the Board expects 0.3 percent growth in 2023.

Consumer confidence remains challenged. University of Michigan’s bellwether Index of Consumer Sentiment inched up after hitting historic lows during Summer 2022. Consumers are showing signs of uncertainty over the near-term trajectory of the economy and the impact of high inflation.

Manufacturers still report expansion. ISM’s Purchasing Managers Index (“PMI”) registered expansion for manufacturers in August 2022, the 27th straight month of growth. To be clear though, softening is noted in the survey. Panelists continue to express unease about a weakening economy, with 18 percent of comments noting concern about order book contraction.

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).

# M&A INDUSTRY UPDATE

## Engineered Components | Sep 2022

Table I | Publicly Traded Engineered Components Companies

\$ Millions									
	Enterprise Value	LTM Rev	LTM EBITDA	1 Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple	
AMETEK, Inc. (NYSE:AME)	\$30,794	\$5,918	\$1,723	20.1%	34.6%	29.1%	5.2x	17.1x	
Amphenol Corporation (NYSE:APH)	48,146	11,934	2,809	22.0%	31.5%	23.5%	4.0x	16.4x	
Analog Devices, Inc. (NasdaqGS:ADI)	82,975	11,106	5,416	70.7%	64.1%	48.8%	7.5x	15.2x	
Barnes Group Inc. (NYSE:B)	2,124	1,270	244	7.5%	35.0%	19.2%	1.7x	8.1x	
Crane Holdings, Co. (NYSE:CR)	5,685	3,227	576	5.5%	39.1%	17.8%	1.8x	9.3x	
CTS Corporation (NYSE:CTS)	1,350	548	133	10.7%	36.6%	24.3%	2.5x	9.7x	
Curtiss-Wright Corporation (NYSE:CW)	6,858	2,456	500	(0.1%)	37.8%	20.4%	2.8x	12.6x	
Diodes Incorporated (NasdaqGS:DIOD)	3,206	1,935	484	27.8%	40.1%	25.0%	1.7x	6.4x	
Dover Corporation (NYSE:DOV)	20,758	8,218	1,611	10.6%	36.6%	19.6%	2.5x	12.3x	
Ducommun Incorporated (NYSE:DCC)	783	666	75	6.4%	21.0%	11.3%	1.2x	9.8x	
Honeywell International Inc. (NasdaqGS:HON)	138,605	34,459	8,375	1.5%	32.1%	24.3%	4.0x	15.9x	
ITT Inc. (NYSE:ITT)	6,224	2,835	529	5.4%	31.3%	18.6%	2.2x	11.2x	
Keysight Technologies, Inc. (NYSE:KEYS)	31,091	5,271	1,578	8.3%	64.1%	29.9%	5.9x	18.9x	
Methode Electronics, Inc. (NYSE:MEI)	1,499	1,158	159	(2.3%)	22.1%	13.7%	1.3x	8.9x	
Parker-Hannifin Corporation (NYSE:PH)	46,345	15,862	3,478	10.6%	28.3%	21.9%	2.9x	12.8x	
Qorvo, Inc. (NasdaqGS:QRVO)	10,593	4,571	1,462	5.4%	46.4%	32.0%	2.3x	7.1x	
Skyworks Solutions, Inc. (NasdaqGS:SWKS)	17,765	5,390	2,128	13.3%	47.3%	39.5%	3.3x	8.2x	
Standex International Corporation (NYSE: SXI)	1,137	735	131	12.1%	36.9%	17.8%	1.5x	7.9x	
Teledyne Technologies Incorporated (NYSE:TDY)	21,617	5,364	1,228	53.9%	41.2%	22.9%	4.0x	17.0x	
TTM Technologies, Inc. (NasdaqGS:TTMI)	2,247	2,362	260	10.8%	16.9%	11.0%	1.0x	8.4x	
<b>Summary Statistics</b>									
High	\$138,605	\$34,459	\$8,375	70.7%	64.1%	48.8%	7.5x	18.9x	
Low	783	548	75	(2.3%)	16.9%	11.0%	1.0x	6.4x	
Mean	23,990	6,264	1,645	15.0%	37.1%	23.5%	3.0x	11.7x	
Median	8,726	3,899	902	10.6%	36.6%	22.4%	2.5x	10.5x	

### About Objective

Founded in 2006, Objective is a Middle Market M&A and Valuation Advisory firm focused on transaction and advisory services for 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

[To view a full list of accolades, visit our website](#)