

# M&A INDUSTRY UPDATE

## Engineered Components | Feb 2023

# OBJECTIVE

Investment Banking & Valuation

### Key Takeaways

#### Deal Volume and Valuation Multiples Return to 2017/18 Levels

*Patient Sellers and Cautious Buyers Continue to get Deals Done*

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 20 percent in 2022 and is now on par with 2017/18 levels. It is also on par with the longer-term post-Great Recession average. Deal count decelerated as the year progressed.
- More now than in recent periods it pays for owners to assess in detail the strength of their company’s value-add capabilities, end-products, end-markets, and customer mix in advance of deciding to sell. Heightened buyer cautiousness is causing the valuation spread to widen between strategically fortified targets versus those that are at risk in some meaningful way.
- Valuation multiples also moderated in 2022. The current average EBITDA multiple in the EC vertical is approximately 7x (see Chart II, p2). There was a slight uptick in Q4 suggesting a possible lower bound has formed or it could be due to a shift in deal mix.
- Publicly traded EC companies continue to outperform the broader market. Our Objective EC Index more than doubled the Russell 2000 over the last five years (see Chart III, p3 and Table I, p4), showing that EC companies can be an attractive vertical in which to invest.
- Real GDP was resilient in Q3 and Q4 after negative readings in Q1 and Q2. Q4 growth was led by the manufacturing sector and particularly growth in petroleum, coal, chemicals, utilities, mining and construction verticals. In contrast, ISM’s Purchasing Managers Index for January 2023 indicates that U.S. manufacturing has been contracting for the last three months after 28 months of consistent expansion. All of this is to say – proceed with caution!

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

Reported 2022 M&A activity in the Engineered Components (“EC”) vertical was down from highwater mark 2021 by approximately 20 percent (see Chart I). It now sits at 2017/18 levels. All of the uncertainties highlighted in the daily news for the past year played the main role in this decline, a decline that extended well beyond the EC vertical.

Deal decline accelerated as 2022 progressed. We have been advising most of our EC clients to “hold” for a quarter or two instead of racing to market.

As of mid-February 2023, the situation is mixed. The “go/no go” decision remains muddled and dependent on the value-add attributes of the would-be seller as well as the end-products and end-markets they serve. For instance, a highly efficient company with proprietary capabilities serving the medical device industry is likely to generate a lot of buyer interest and may still command a higher multiple. Conversely, a build-to-print maker of basic components for challenged end-markets such as automotive will surely face valuation pressure and probably less buyer interest overall. It pays to think deeply at this point and to remain patient while market conditions clear up.

### Valuations

Similar to deal volumes, valuation multiples for EC companies have been trending downward in recent quarters (see Chart II). Peaks in average multiples were part of the 2021 story but the uncertainties that followed in 2022 meant EBITDA multiples returning to the post-Great Recession mean of approximately 7.0x. 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 66.05 percent (through February 10, 2023), surpassing the performance of the Russell 2000 which was up 26.06 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 I | Reported M&A Volume

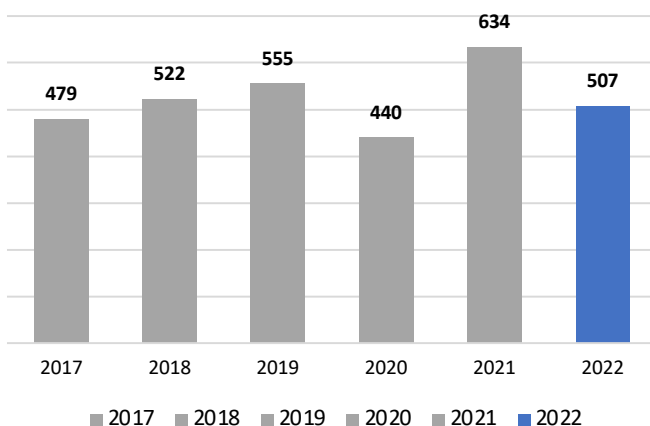
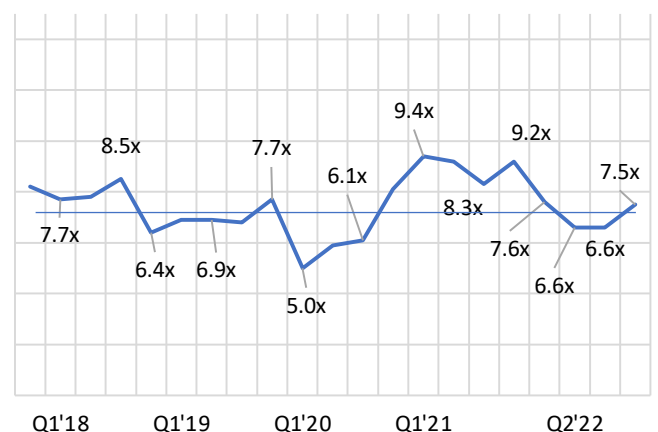


Chart II | EBITDA Multiples - Engineered Components



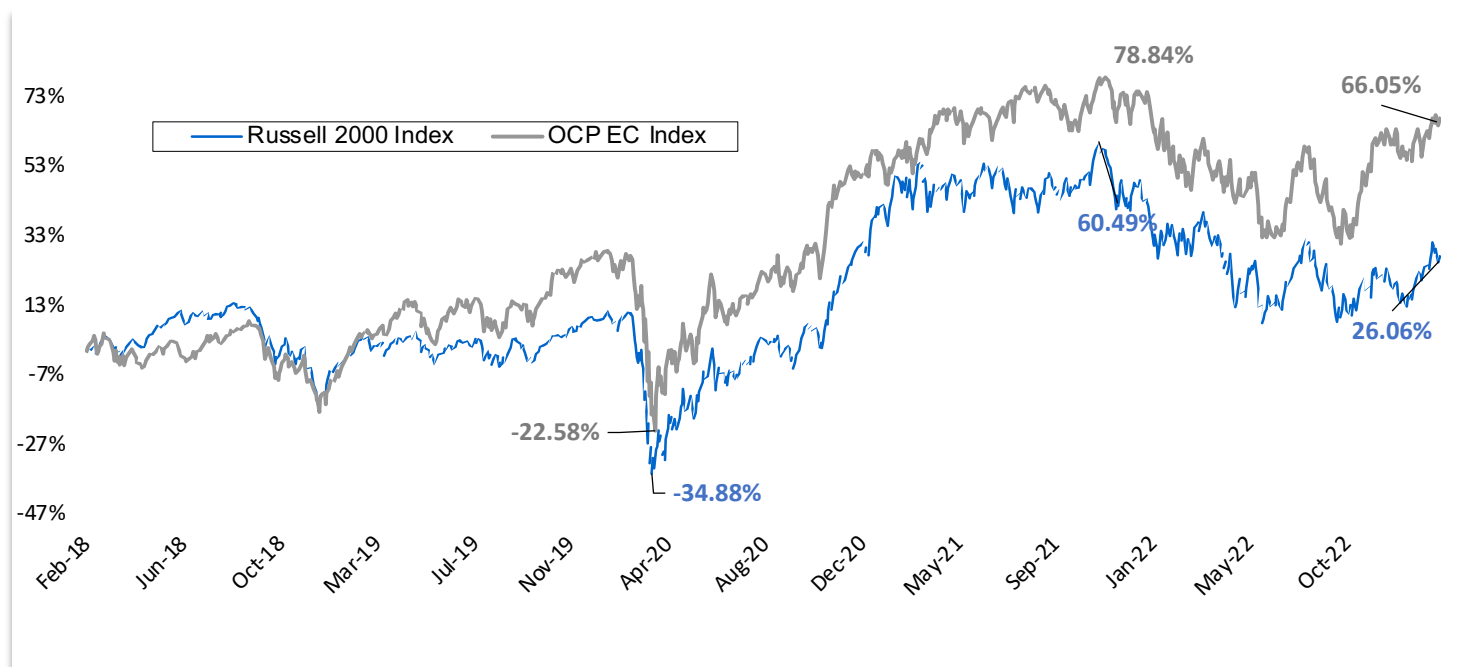
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Chart III | Objective EC Index vs Russell 2000



### Economic Considerations

Real gross domestic product (GDP) increased at an annual rate of 2.9 percent in the fourth quarter of 2022, according to the "advance" estimate released by the BEA. In the third quarter, real GDP increased 3.2 percent. The increase in real GDP reflected increases in inventory investment, which was led by manufacturing (namely the petroleum, coal, chemicals, utilities, mining and construction verticals).

However, the Conference Board forecasts a weaker economy in the coming months, leading to a recession this year. Persistent inflation and expected Fed policy are driving this view. The Board expects GDP growth will slow to 0.3 percent in 2023 overall, and then rebound to 1.6 percent in 2024.

Consumer confidence remains challenged. University of Michigan's bellwether Index of Consumer Sentiment inched up in January but is still below the year-ago reading by 4 percent.

According to ISM's Purchasing Manager Index ("PMI"), economic activity in the manufacturing sector contracted in January for the third consecutive month, following a 28-month period of growth. PMI survey panelists reported softening new order rates and companies slowing outputs to better match demand in the first half of 2023 and plans for expected growth in the second half of the year.

The economic landscape is currently not ideal. Case-specific circumstances should dictate a seller's "go/no go" decision. While transaction volumes are down, the market remains fluid. Let's talk about your specific circumstances and determine the best course of action.

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## Engineered Components | Feb 2023

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)	\$35,530	\$6,151	\$1,809	10.9%	34.9%	29.4%	5.8x	19.6x
Amphenol Corporation (NYSE:APH)	51,744	12,623	2,999	16.1%	31.9%	23.8%	4.1x	16.6x
Analog Devices, Inc. (NasdaqGS:ADI)	96,843	12,014	6,118	64.2%	65.0%	50.9%	8.1x	15.7x
Barnes Group Inc. (NYSE:B)	2,756	1,259	240	1.8%	34.3%	19.0%	2.2x	10.7x
Crane Holdings, Co. (NYSE:CR)	7,358	3,375	651	6.1%	39.7%	19.3%	2.2x	11.3x
CTS Corporation (NYSE:CTS)	1,410	587	124	14.4%	35.9%	21.1%	2.4x	10.8x
Curtiss-Wright Corporation (NYSE:CW)	7,921	2,466	498	-1.7%	37.5%	20.2%	3.2x	14.7x
Diodes Incorporated (NasdaqGS:DIOD)	4,291	2,001	533	10.8%	41.3%	26.6%	2.1x	7.8x
Dover Corporation (NYSE:DOV)	25,268	8,508	1,725	7.6%	36.1%	20.3%	3.0x	14.0x
Ducommun Incorporated (NYSE:DCO)	958	689	76	8.0%	20.8%	11.1%	1.4x	11.9x
Honeywell International Inc. (NasdaqGS:HON)	146,936	35,466	8,274	3.1%	32.8%	23.3%	4.1x	17.1x
ITT Inc. (NYSE:ITT)	7,600	2,988	564	8.1%	30.9%	18.9%	2.5x	13.5x
Keysight Technologies, Inc. (NYSE:KEYS)	32,791	5,420	1,603	9.7%	63.7%	29.6%	6.1x	19.6x
Methode Electronics, Inc. (NYSE:MEI)	1,882	1,179	155	-0.1%	22.2%	13.2%	1.6x	11.5x
Parker-Hannifin Corporation (NYSE:PH)	58,409	17,182	3,657	12.4%	28.2%	21.3%	3.4x	15.3x
Qorvo, Inc. (NasdaqGS:QROV)	11,660	4,103	1,093	-9.9%	42.9%	26.6%	2.8x	10.4x
Skyworks Solutions, Inc. (NasdaqGS:SKWS)	20,633	5,304	1,964	3.8%	47.6%	37.0%	3.9x	10.2x
Standex International Corporation (NYSE:SXI)	1,505	742	137	4.6%	37.3%	18.4%	2.0x	10.1x
Teledyne Technologies Incorporated (NYSE:TDY)	24,117	5,459	1,317	18.3%	42.7%	24.1%	4.4x	18.3x
TTM Technologies, Inc. (NasdaqGS:TTMI)	2,269	2,495	294	11.0%	18.4%	11.8%	0.9x	7.7x

Summary Statistics	Enterprise Value	LTM Rev	LTM EBITDA	1-Yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	LTM Rev Multiple	LTM EBITDA Multiple
High	\$146,936	\$35,466	\$8,274	64.2%	65.0%	50.9%	8.1x	19.6x
Low	958	587	76	-9.9%	18.4%	11.1%	0.9x	7.7x
Mean	27,094	6,501	1,692	10.0%	37.2%	23.3%	3.3x	13.3x
Median	9,791	3,739	872	8.0%	36.0%	21.2%	2.9x	12.7x

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### 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.

### Services

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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.*
 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*



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