

M&A INDUSTRY UPDATE

Engineered Components | June 2023

OBJECTIVE

Investment Banking & Valuation

Key Takeaways

M&A Market has been Stunted by Uncertainty

Deal Pipelines Remain Low

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 22 percent in the LTM period (through April). The downtrend appears to be leveling at a support level approximating 2017/18 averages. Linger uncertainty about economic growth, inflation, interest rates, availability of deal capital, consumer spending, and political friction are all stifling transaction activity.
- Valuation multiples in the EC vertical have been on an uptick since the beginning of the year, as deal mix indicates a “flight to quality”. EC deals in the 7.0x-7.5x, on average, typify this market. We expect things to stay this way in the near and medium term.
- 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 slowed to +1.3 percent in Q1, reflecting slumping inventories and a decline in private investment. The Conference Board forecasts continued slowing with overall Real GDP of 1.0 percent and 0.0 percent in 2023 and 2024, respectively. ISM’s Purchasing Managers Index for May 2023 suggests that our manufacturing base has been contracting for the past six months, as owners work to better align output with demand.

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

Industry Practice Groups:

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

Contact Information

Please direct inquiries to:

Dan Shea* Managing Director
Los Angeles
dan.shea@objectivecp.com
(310) 903-2163

Carl Miller* Managing Director
San Diego
carl.miller@objectivecp.com
(917) 204-2441

Kai Duncan Associate
Los Angeles
kai.duncan@objectivecp.com
(321) 427-9450

Ben Hefter Analyst
San Diego
benjamin.hefter@objectivecp.com
(619) 985-3807

** Registered Representative of BA Securities, LLC*

Volume

Reported LTM 2023 M&A closing volume (through April) in the Engineered Components (“EC”) vertical was down from the comparable year-earlier period by approximately 22 percent (see Chart I). The rate of closings has remained roughly on par with 2017/18 levels for the last few months.

Uncertainty is the primary driver of the prevailing decline. While most of our clients continue to perform well, near-term concerns about economic growth, inflation, interest rates, availability of deal capital, consumer spending, and political friction have collectively stifled transaction activity. These factors will take a while to sort out. Given historical patterns, we feel that the downtrend will likely begin to reverse at the end of the year.

Notably, strategic and PE buyers continue to cold call owners, and much of our engagement activity stems from these approaches. Higher performing targets with clearer prospects for growth tend to be the ones who are transacting presently.

Valuations

Valuation multiples for EC companies have rebounded in recent quarters (see Chart II). A “flight to quality” is often seen in M&A during down markets, and it is likely the explanation for average EBITDA multiples in the EC vertical increasing from 6.5x to 7.7x since mid-2022.

The historical EBITDA multiple peaks of 2021 should not be expected anytime soon. For now, a closing multiple in the 7.0x-7.5x range should be viewed as a solid result for most manufacturers. Barring a dramatic change up or down in the economic environment, this is where the average EBITDA multiple will stay.

Public market volatility has lessened in 2023, and prices have expanded modestly, as can be seen in Chart III. Our Objective EC Index, which is a composite of twenty publicly traded EC companies in North America (see Table I), continues to outperform the broader market. Our EC Index is up 65.32 percent, surpassing the performance of the Russell 2000, which was up 8.07 percent during the same time range. Not too bad for a period that includes a pandemic, historic supply chain issues, inflation recently at a 40-year high, and general uncertainty in all markets currently.

Chart I | Reported M&A Volume – Engineered Components

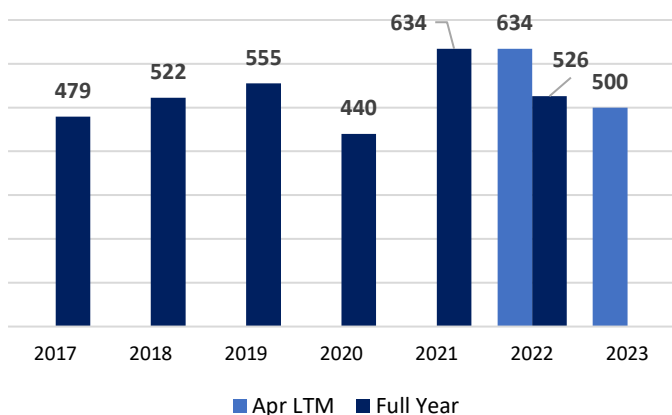


Chart II | EBITDA Multiples - Engineered Components

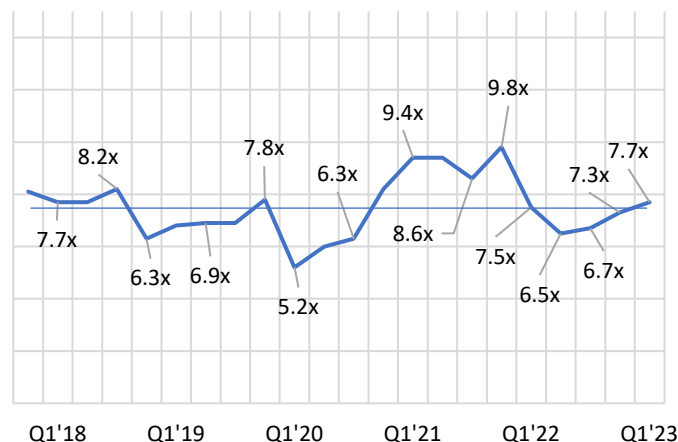
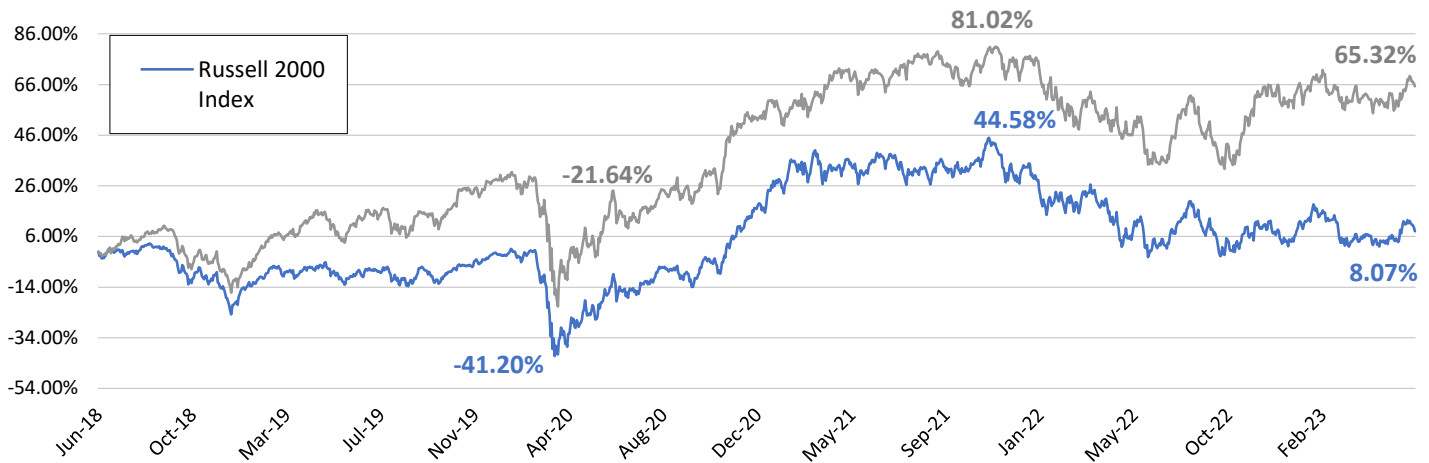


Chart III | Objective EC Index vs Russell 2000



Economic Considerations

Real gross domestic product (GDP) increased at an annual rate of 1.3 percent in the first quarter of 2023, according to the "second" estimate released by the BEA. The U.S. economy slowed from a fourth quarter 2022 GDP reading of 2.6 percent, in large part due to a deceleration in inventory and non-residential investments.

The Conference Board is forecasting further slowing due to persistent inflation, Fed hawkishness, less bank lending, and expected softening of consumer spending and business investment. Further, the Board predicts overall 2023 real GDP of 1.0 percent and 0.0 percent in 2024.

According to ISM's Purchasing Manager Index ("PMI"), economic activity in the manufacturing sector contracted again in May to register 46.9 percent, the sixth consecutive month following a 30-month period of growth. PMI survey panelists indicated that they are working to better align output with demand in the changing marketplace.

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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)	\$37,985	\$6,289	\$1,871	8.6%	35.1%	29.7%	6.0x	19.6x
Amphenol Corporation (NYSE:APH)	50,882	12,645	3,011	10.4%	32.0%	23.8%	4.0x	16.2x
Analog Devices, Inc. (NasdaqGS:ADI)	98,787	12,870	6,763	31.9%	65.7%	52.5%	7.7x	14.5x
Barnes Group Inc. (NYSE:B)	2,550	1,285	250	1.2%	33.7%	19.4%	2.0x	9.6x
Crane Company (NYSE:CR)	5,392	3,346	645	(2.9%)	40.5%	19.3%	1.6x	7.9x
CTS Corporation (NYSE:CTS)	1,264	585	127	10.0%	36.1%	21.7%	2.2x	9.5x
Curtiss-Wright Corporation (NYSE:CW)	7,856	2,628	572	6.5%	37.1%	21.8%	3.0x	12.8x
Diodes Incorporated (NasdaqGS:DIOD)	3,820	1,986	531	6.0%	41.5%	26.8%	1.9x	7.0x
Dover Corporation (NYSE:DOV)	22,941	8,535	1,743	5.5%	36.1%	20.4%	2.7x	12.6x
Ducommun Incorporated (NYSE:DCO)	905	730	80	12.1%	20.4%	10.9%	1.2x	9.9x
Honeywell International Inc. (NasdaqGS:HON)	146,620	35,954	8,382	4.8%	33.3%	23.3%	4.1x	16.8x
ITT Inc. (NYSE:ITT)	7,194	3,059	591	9.6%	31.6%	19.3%	2.4x	11.7x
Keysight Technologies, Inc. (NYSE:KEYS)	27,704	5,590	1,660	8.7%	64.0%	29.7%	5.0x	16.0x
Methode Electronics, Inc. (NYSE:MEI)	1,363	1,180	140	1.4%	22.4%	11.9%	1.2x	9.2x
Parker-Hannifin Corporation (NYSE:PH)	60,344	18,157	3,826	16.2%	28.7%	21.1%	3.3x	15.1x
Qorvo, Inc. (NasdaqGS:QRVO)	10,936	3,569	602	(23.2%)	37.6%	16.9%	3.1x	17.3x
Skyworks Solutions, Inc. (NasdaqGS:SKKS)	17,395	5,122	1,871	(2.9%)	47.2%	36.5%	3.4x	9.0x
Standex International Corporation (NYSE:SXI)	1,638	738	139	1.4%	37.8%	18.9%	2.2x	10.8x
Teledyne Technologies Incorporated (NYSE:TDY)	21,934	5,521	1,330	7.6%	42.6%	24.1%	4.0x	16.5x
TTM Technologies, Inc. (NasdaqGS:TTMI)	1,867	2,458	293	6.7%	18.4%	11.9%	0.8x	6.2x

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	\$146,620	\$35,954	\$8,382	31.9%	65.7%	52.5%	7.7x	19.6x
	Low	905	585	80	(23.2%)	18.4%	10.9%	0.8x	6.2x
	Mean	26,469	6,612	1,721	6.0%	37.1%	23.0%	3.1x	12.4x
	Median	9,396	3,458	623	6.6%	36.1%	21.4%	2.8x	12.1x

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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.

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Manufacturing & Distribution Industry Group

Dan Shea*

Managing Director

dan.shea@objectivecp.com

(310) 903-2163

Kai Duncan, CFA

Associate

kai.duncan@objectivecp.com

(321) 427-9450

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Carl Miller*

Managing Director

carl.miller@objectivecp.com

(917) 204-2441
















Ben Hefter

Analyst

benjamin.hefter@objectivecp.com

(619) 985-3807

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*
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