

## Key Takeaways

### Market Uncertainty has Lifted a Bit

#### *Deal Pipelines and Closings are Increasing*

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 20 percent in the LTM period (through June). The down trend appears to be reversing despite lingering uncertainty about economic growth, inflation, interest rates, availability of deal capital, consumer spending, and political friction.
- Valuation multiples in the EC vertical have been on an uptick since mid-2022 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 for quite a while.
- Publicly traded EC companies continue to outperform the broader market. Our Objective EC Index has far surpassed 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 growth is lower than hoped for and has been essentially flat on an annualized basis from Q1 to Q2 2023, at 2.0 percent and 2.1 percent, respectively. The Conference Board predicts that the headwinds mentioned in the first bullet above will lead to a “short and shallow recession” in the next few quarters and result in real GDP readings of 1.9 percent and 0.5 percent, respectively, in 2023 and 2024. ISM’s Purchasing Managers Index for August 2023 suggests that our manufacturing base has been contracting for the past ten month however improvement was noted in this latest reading.

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
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- Transaction Opinions
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### Volume

Reported LTM 2023 M&A closing volume (through June) in the Engineered Components (“EC”) vertical was down from the comparable year-earlier period by approximately 20 percent (see Chart I). The rate of closings has remained roughly on par with the three-year average volume just prior to the Covid pandemic.

*Uncertainty* began to negatively impact closing volumes in mid-2022, driven primarily by a slowing economy, rising inflation and interest rates, less available and more expensive deal capital, concerns that consumer spending would decline, and intractable political friction. However, based on a rise in recent closing in late Summer 2023 as well as a growing pipeline of deals in process, it appears that uncertainty is lessening.

It is notable that 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 trade at historically high multiples.

### Valuations

Valuation multiples for EC companies have rebounded in recent quarters (see Chart II). A “flight to quality” remains a prominent reason for the average EBITDA multiple increasing from 6.5x to 7.7x since mid-2022.

To reiterate our view in earlier EC reports, 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 moving averages in the EC vertical have trended upward in recent quarters, 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 50.15 percent in the past five years, surpassing the performance of the Russell 2000, which was up 8.24 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

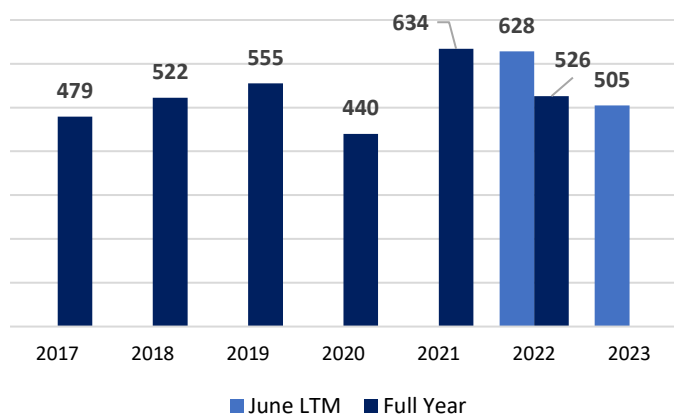


Chart II | EBITDA Multiples - Engineered Components

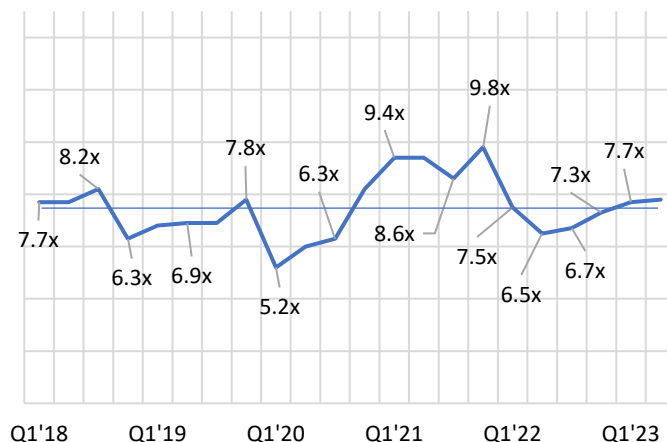
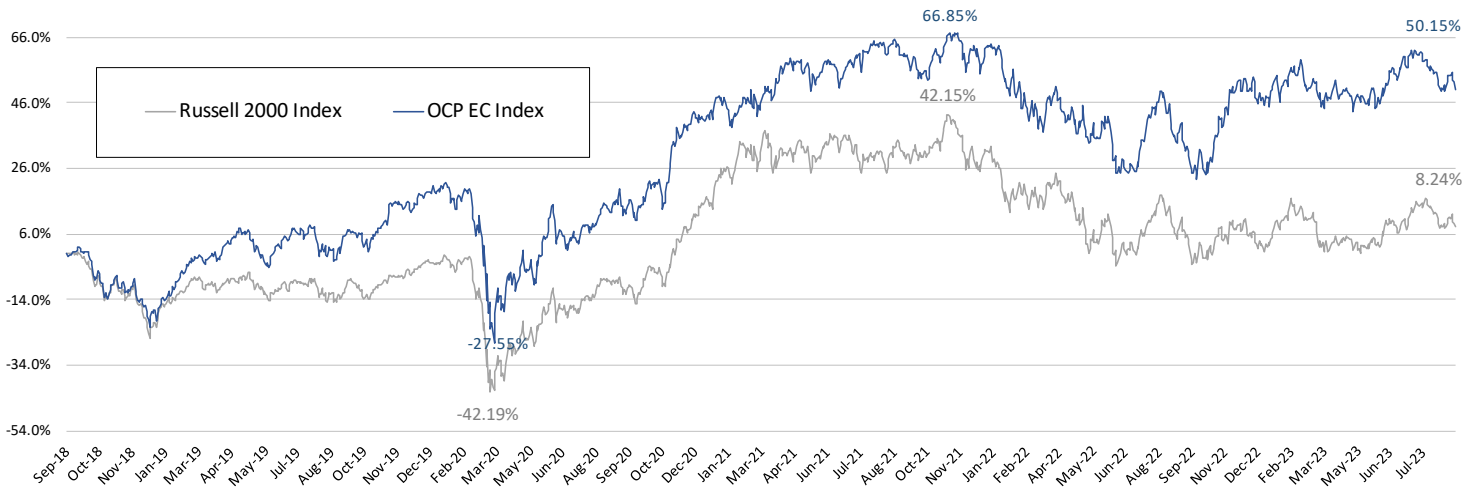


Chart III | Objective EC Index vs Russell 2000



### Economic Considerations

Real gross domestic product (GDP) increased at an annualized 2.1 percent in Q2 2023, while Q1 2023 increased by 2.0 percent. Q2 reflected increases in consumer spending and business investment which were partly offset by a decrease in exports. Imports decreased as well.

The Conference Board forecasts that the growth across the U.S. economy will yield to notable headwinds later this year, leading to a “short and shallow recession”. These headwinds include elevated inflation, high interest rates, dissipating pandemic savings, lower government spending, and the resumption of mandatory student loan repayments. The Board currently forecasts that real GDP growth will slow to 1.9 percent in 2023, and then fall to 0.5 percent in 2024.

According to ISM’s Purchasing Manager Index (“PMI”), Economic activity in the manufacturing sector contracted in August for the 10th consecutive month following a 28-month period of growth. The August report registered 47.6 percent, 1.2 percentage points higher than the 46.4 percent recorded in July. Despite the increase, a reading below 50.0 percent indicates a contracting sector. Demand remains soft, but production execution is now better aligned with reduced order levels and pricing is generally stable.

# M&A INDUSTRY UPDATE

## Engineered Components | Sept 2023

**Table I | Publicly-Traded Engineering 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)	\$37,901	\$6,421	\$1,923	8.5%	35.5%	30.0%	5.9x	19.0x
Amphenol Corporation (NYSE:APH)	54,637	12,562	2,989	5.3%	32.1%	23.8%	4.3x	17.6x
Analog Devices, Inc. (NasdaqGS:ADI)	94,808	12,837	6,694	15.6%	65.2%	52.1%	7.4x	14.0x
Barnes Group Inc. (NYSE:B)	2,366	1,303	245	2.6%	33.6%	18.8%	1.8x	9.0x
Crane Company (NYSE:CR)	4,951	3,329	680	19.4%	41.4%	20.4%	1.5x	7.3x
CTS Corporation (NYSE:CTS)	1,260	585	124	6.9%	35.8%	21.1%	2.2x	9.7x
Curtiss-Wright Corporation (NYSE:CW)	8,858	2,724	594	10.9%	36.9%	21.8%	3.3x	13.9x
Diodes Incorporated (NasdaqGS:DIOD)	3,471	1,952	518	0.9%	41.7%	26.5%	1.8x	6.5x
Dover Corporation (NYSE:DOV)	22,960	8,477	1,726	3.2%	36.1%	20.4%	2.7x	12.7x
Ducommun Incorporated (NYSE:DCO)	941	743	81	11.7%	20.9%	10.9%	1.3x	10.0x
Honeywell International Inc. (NasdaqGS:HON)	136,446	36,147	8,656	4.9%	33.7%	23.9%	3.8x	15.2x
ITT Inc. (NYSE:ITT)	8,273	3,160	634	11.5%	32.4%	20.1%	2.6x	12.5x
Keysight Technologies, Inc. (NYSE:KEYS)	22,819	5,596	1,655	6.2%	64.3%	29.6%	4.1x	13.2x
Methode Electronics, Inc. (NYSE:MEI)	1,061	1,187	135	2.5%	21.6%	11.4%	0.9x	7.3x
Parker-Hannifin Corporation (NYSE:PH)	64,973	19,065	4,308	20.2%	34.5%	22.6%	3.4x	14.4x
Qorvo, Inc. (NasdaqGS:QRVO)	10,970	3,185	470	(30.3%)	38.2%	14.8%	3.4x	21.9x
Skyworks Solutions, Inc. (NasdaqGS:SWKS)	16,654	4,961	1,771	(8.0%)	46.3%	35.7%	3.4x	9.0x
Standex International Corporation (NYSE:SXI)	1,777	741	141	0.8%	38.5%	19.0%	2.4x	11.6x
Teledyne Technologies Incorporated (NYSE:TDY)	22,294	5,590	1,354	4.2%	43.0%	24.2%	4.0x	16.5x
TTM Technologies, Inc. (NasdaqGS:TTMI)	1,902	2,379	277	0.7%	18.3%	11.7%	0.8x	6.6x

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	\$136,446	\$36,147	\$8,656	20.2%	65.2%	52.1%	7.4x	21.9x
Low	941	585	81	(30.3%)	18.3%	10.9%	0.8x	6.5x
Mean	25,966	6,647	1,749	4.9%	37.5%	22.9%	3.0x	12.4x
Median	9,914	3,257	657	5.1%	36.0%	21.5%	3.0x	12.6x

### 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

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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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