

Key Takeaways

The M&A Market Remains Soft

Deal Pipelines Skew Towards Higher Quality Companies

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 25 percent in the YTD period (through September). The down trend has persisted due to uncertainty about the economy, inflation, interest rates, availability of deal capital, consumer spending, and political friction. That said, higher performing targets with clear prospects for growth continue to trade at historically high multiples and command a lot of attention from prospective buyers, given the thinner M&A market currently.
- Valuation multiples in the EC vertical have been settling in the mid-7s, rebounding from the mid-6s in late 2022. We expect things to stay at current levels 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.
- The advance estimate of Real GDP growth in Q3 2023 was surprising at 4.9 percent, up from 2.1 percent in Q2. However, the Conference Board continues to predict a “short and shallow recession” in the next few quarters, resulting in real GDP readings of 2.2 percent and 0.8 percent, respectively, in 2023 and 2024. ISM’s Purchasing Managers Index for October 2023 suggests that our manufacturing base continues to contract, with surveyed business executives undoubtedly echoing the sentiments of the Conference Board.

Recent Transaction Announcement:

Objective served as exclusive sell-side advisor to *Fluid Components International LLC* in its sale to *Process Sensing Technologies*, a portfolio company of AEA Investors and Battery Ventures.



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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Volume

Reported YTD 2023 M&A closing volume (through September) in the Engineered Components (“EC”) vertical was down from the comparable year-earlier period by approximately 25 percent (see Chart I). Increased buyer selectivity mixed with fewer companies coming to market largely explain the decline, with *uncertainty* about the economic landscape being the root cause.

Closing volumes began to decline mid-2022, with deal makers citing an expected slowing economy, rising inflation and interest rates, less available and more expensive deal capital, concerns for the durability of consumer spending, and intractable political friction as reasons. These issues persist.

It is important to note, though, that higher performing targets with clear prospects for growth continue to trade at historically high multiples. Additionally, with fewer deals to review, good companies can receive a lot more attention from buyers than would be the case in a more broad-based deal environment.

Valuations

Valuation multiples for EC companies have held steady in the mid-7s in recent quarters (see Chart II). A “flight to quality” remains a prominent reason for the average EBITDA multiple increasing to the mid-6s registered in 2H 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 been volatile in recent quarters after rising substantially in the 2H 2020 through Q4 2021 period, 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 57.7 percent in the past five years, surpassing the performance of the Russell 2000 which is up 8.9 percent during the same time range.

Chart I | Reported M&A Volume – Engineered Components

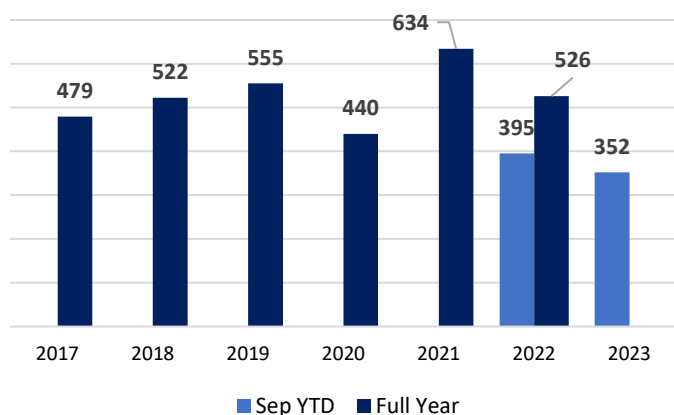


Chart II | EBITDA Multiples - Engineered Components

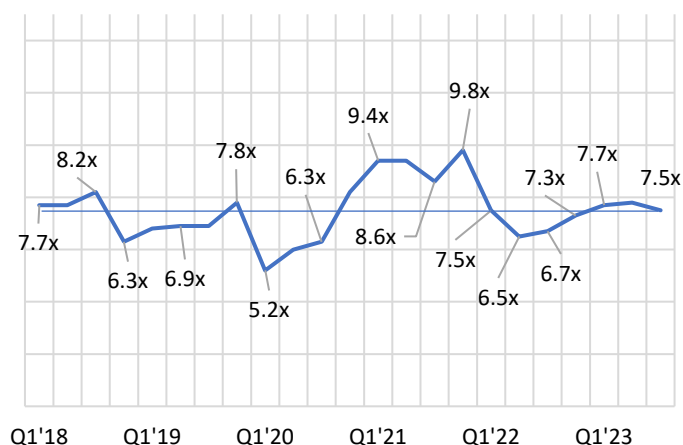
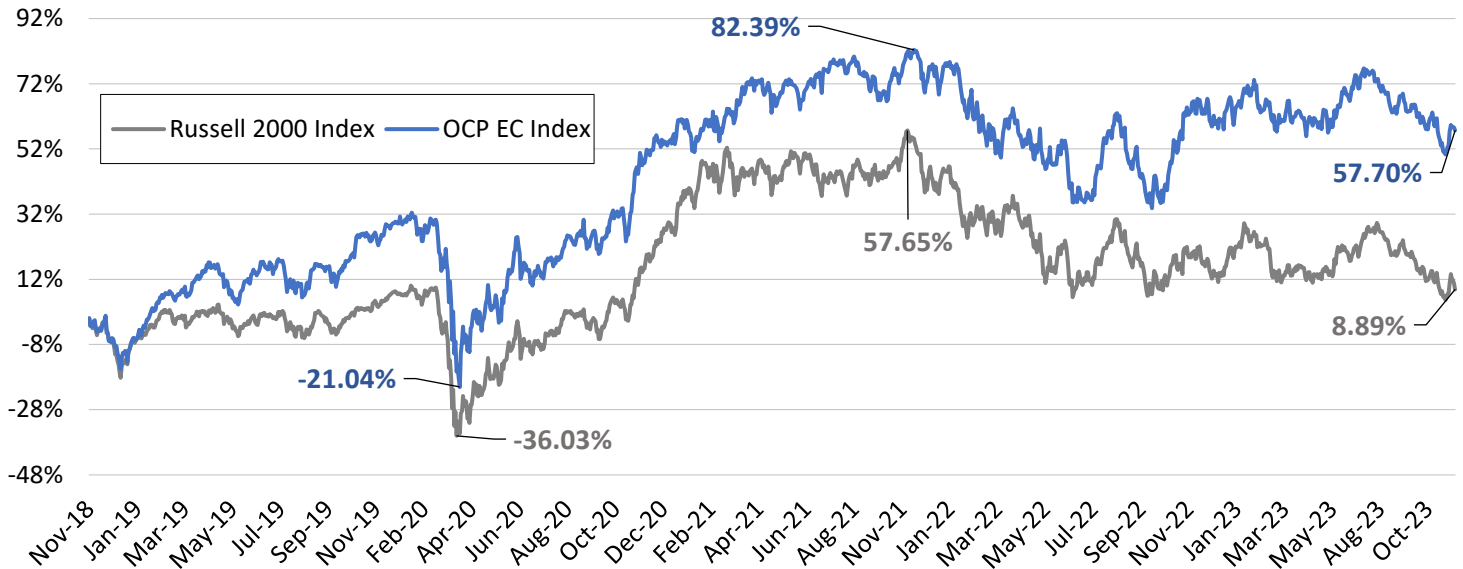


Chart III | Objective EC Index vs Russell 2000



Economic Considerations

Real gross domestic product (GDP) increased at an annual rate of 4.9 percent in Q3 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In Q2, real GDP increased 2.1 percent. Acceleration in real GDP in Q3 reflected accelerations in consumer spending, private inventory investment, and federal government spending. The consumer has surprised everyone.

The Conference Board forecasts that US economic growth will buckle under mounting headwinds early next year, leading to a very short and shallow recession. This outlook is associated with numerous factors, including elevated inflation, high interest rates, dissipating pandemic savings, rising consumer debt, lower government spending, and the resumption of mandatory student loan repayments. The Board indicates that real GDP should grow by 2.2 percent in 2023, and then fall to 0.8 percent in 2024.

According to ISM's Purchasing Manager Index ("PMI"), economic activity in the manufacturing sector contracted in October for the 12th consecutive month following a 28-month period of growth. Index data suggests that new orders, in particular, took a hit in the most recent reading lending credence to the thought that activity will remain subdued until some time in 2024.

M&A INDUSTRY UPDATE

Engineered Components | Nov 2023

Table I | Publicly-Traded Engineering Components Companies

\$ Million

	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)	\$35,522	\$6,492	\$1,977	7.7%	35.9%	30.5%	5.5x	17.3x
Amphenol Corporation (NYSE:APH)	53,532	12,466	2,962	0.5%	32.3%	23.8%	4.3x	17.4x
Analog Devices, Inc. (NasdaqGS:ADI)	89,162	12,837	6,694	15.6%	65.2%	52.1%	6.9x	13.2x
Barnes Group Inc. (NYSE:B)	2,409	1,349	267	7.1%	33.5%	19.8%	1.8x	8.5x
Crane Company (NYSE:CR)	5,728	3,379	693	42.3%	41.8%	20.5%	1.7x	7.9x
CTS Corporation (NYSE:CTS)	1,124	568	119	(1.6%)	35.7%	21.0%	2.0x	9.0x
Curtiss-Wright Corporation (NYSE:CW)	8,890	2,817	614	14.2%	37.4%	21.8%	3.2x	13.6x
Diodes Incorporated (NasdaqGS:DIOD)	2,644	1,835	462	(7.5%)	41.0%	25.2%	1.4x	5.5x
Dover Corporation (NYSE:DOV)	21,164	8,472	1,730	1.4%	36.3%	20.4%	2.5x	11.7x
Ducommun Incorporated (NYSE:DCO)	967	753	79	9.3%	21.3%	10.5%	1.3x	10.2x
Honeywell International Inc. (NasdaqGS:HON)	135,009	36,408	8,713	4.2%	34.0%	23.9%	3.7x	14.9x
ITT Inc. (NYSE:ITT)	8,173	3,229	659	11.4%	33.1%	20.4%	2.5x	11.9x
Keysight Technologies, Inc. (NYSE:KEYS)	21,098	5,596	1,655	6.2%	64.3%	29.6%	3.8x	12.2x
Methode Electronics, Inc. (NYSE:MEI)	1,035	1,187	135	2.5%	21.7%	11.4%	0.9x	7.1x
Parker-Hannifin Corporation (NYSE:PH)	64,781	19,680	4,679	20.5%	35.0%	23.8%	3.3x	13.3x
Qorvo, Inc. (NasdaqGS:QRVO)	9,853	3,131	363	(30.0%)	37.4%	11.6%	3.1x	25.1x
Skyworks Solutions, Inc. (NasdaqGS:SWKS)	14,341	4,772	1,574	(13.0%)	44.2%	33.0%	3.0x	9.1x
Standex International Corporation (NYSE:SXI)	1,662	745	143	0.7%	38.8%	19.2%	2.2x	10.8x
Teledyne Technologies Incorporated (NYSE:TDY)	20,502	5,629	1,375	3.9%	43.2%	24.4%	3.6x	14.9x
TTM Technologies, Inc. (NasdaqGS:TTMI)	1,971	2,281	267	(7.9%)	18.4%	11.7%	0.9x	7.1x

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		\$135,009	\$36,408	\$8,713	42.3%	65.2%	52.1%	6.9x	25.1x
Low		967	568	79	(30.0%)	18.4%	10.5%	0.9x	5.5x
Mean		24,978	6,681	1,758	4.4%	37.5%	22.7%	2.9x	12.0x
Median		9,372	3,304	676	4.1%	36.1%	21.4%	2.8x	11.8x

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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

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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*

 2022 Best Investment Bank & Valuation Firm – USA	 2022 Technology Deal of The Year (Between \$10MM - \$50MM)	 2022 Industrials Deal of The Year (Between \$50MM - \$100MM)	 2022 Private Equity Deal of The Year (Between \$50MM - \$100MM)
 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

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