

Key Takeaways

A “Higher Ground” for Buyers

Flight to Quality Shifts Investment Focus to Engineered Components Companies

- M&A deal volume in the Engineered Components (“EC”) vertical was down approximately 9 percent in the YTD 2023 period (through November). While down, this trend compares favorably with overall M&A volume which was down over 20 percent during the same timeframe. As they always do in times of uncertainty, investors seek investment in the more stable segments of our economy and EC companies fit the bill.
- Valuation multiples in the EC vertical expanded in Q4 2023, reaching 8.6x EBITDA during the period. It will be interesting to see if multiples hold up similarly in 2024 – the Q4 result was materially higher than the long-term average of 7.5x.
- 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 are generally an attractive vertical in which to invest.
- The advance estimate of Real GDP growth in Q4 2023 was 3.3 percent, down from 4.9 percent in Q3 but still strong, bringing talk of any contraction into question. The Conference Board predicts GDP growth in 2024 at a more tepid rate of 2 percent, including potentially two quarters of slightly negative growth in Q2 and Q3.
- ISM’s Purchasing Managers Index for December 2023 suggests that our manufacturing base continues to contract, but to a lesser extent than in the preceding month. Surveyed business executives continue to tightly control business investment, material inputs, labor costs, and output.

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Featured Transaction



The Sale of Fluid Components International (FCI) to Process Sensing Technologies (PST)

Objective served as the exclusive sell-side advisor to FCI. This acquisition marks a significant expansion for PST into the flow meters segment of the industry, leveraging FCI’s reputation for high-quality, dependable products used in chemical, water and wastewater, oil and gas, power, aerospace, and nuclear power applications.

Deal Volume

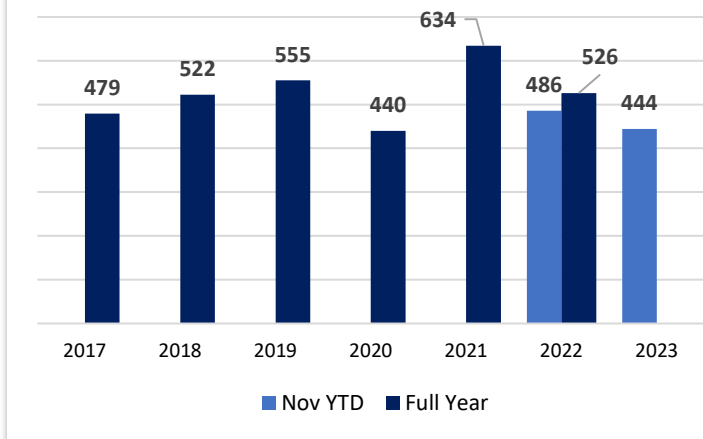
Reported YTD 2023 M&A volume (through November) in the Engineered Components (“EC”) vertical was down from the comparable year-earlier period by approximately 9 percent (see Chart I). While down, the EC vertical was materially more active on a relative basis than the broader M&A market, which was off by over 20 percent during the same period. How can this be?

Onshoring and nearshoring provide a partial answer. Supply chain challenges and geopolitical friction have contributed to a resurgence in manufacturing in North America. Capital inflows, including M&A, into the space have been facilitating this shift.

Economic uncertainty has also been a contributor. In times like these, investors are known for shifting focus to “higher ground” opportunities and EC companies generally qualify. While the staying power of the American consumer is in question (and represents two-thirds of U.S. GDP), the demand for complex manufactured componentry for use in a wide variety of end-markets – aerospace, defense, electronics, energy – green and otherwise, infrastructure, med-devices, specialty chemicals, etc. – is believed to be more stable and therefore a safer area for investors.

We saw this theory in practice in our deals in 2023. Our EC clients with market leading positions and proprietary aspects – patents, know-how, reputation, longevity, etc. – benefited from greater buyer interest and ultimately higher valuations than expected.

Chart I | Reported M&A Volume – Engineered Components

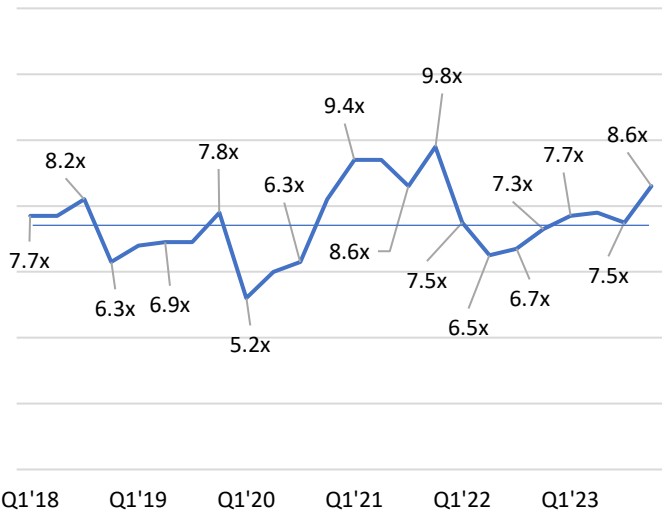


Valuations

Valuation multiples for EC companies expanded in Q4 2023 (see Chart II). As mentioned, the higher ground concept was evident, moving the average EBITDA transaction multiple up from 7.5x in Q3 2023 to 8.6x in Q4 2023. This movement was a deal mix phenomenon; it is likely the 5-year average EBITDA multiple of 7.5x will remain the standard over the long haul.

Public market moving averages in the EC vertical continue to be volatile 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 was up 89.6 percent in the past five years, surpassing the performance of the Russell 2000 which was up 33.4 percent during the same time range.

Chart II | EBITDA Multiples - Engineered Components

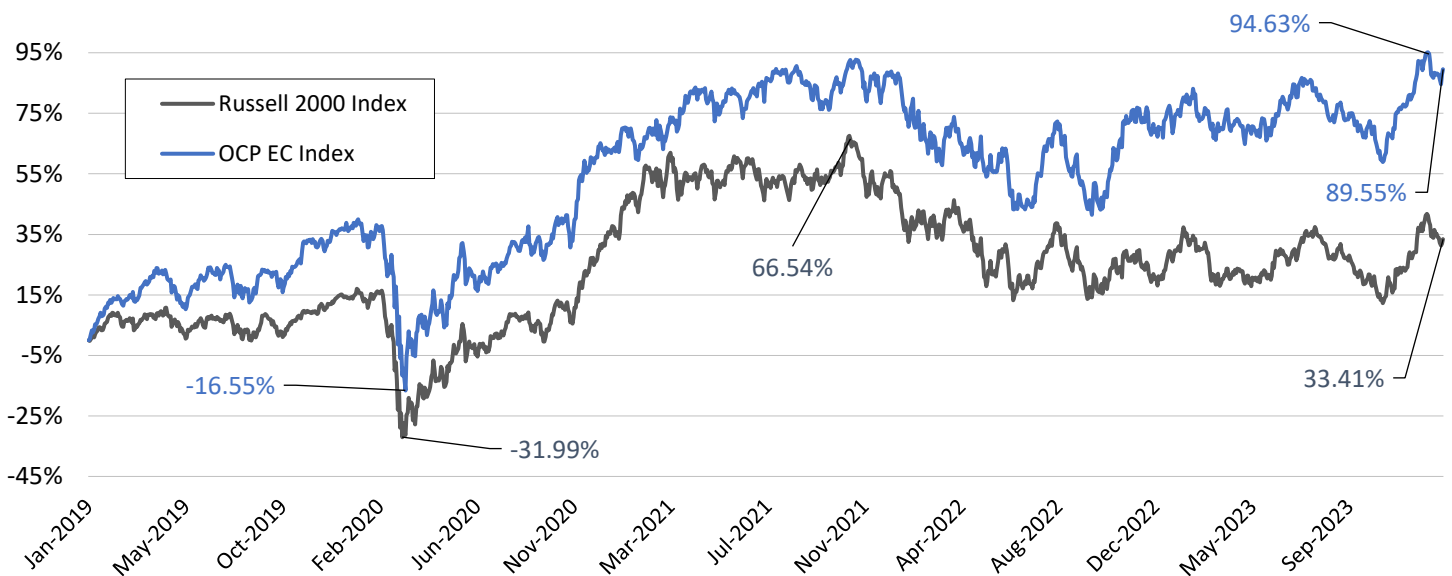


Economic Considerations

Real gross domestic product (GDP) increased at an annual rate of 3.3 percent in Q4 2023, according to the "advance" estimate released by the Bureau of Economic Analysis. In Q3, real GDP increased 4.9 percent, reflected increases in consumer spending, exports, state and local government spending, nonresidential fixed investment, federal government spending, private inventory investment, and residential fixed investment. The consumer continues to surprise many economists.

The Conference Board anticipates a tepid start to 2024. While the prospects for a soft landing have risen, the Board continues to believe that volatility awaits the US economy this year. They currently forecast two quarters of slightly negative GDP growth in Q2 and Q3 2024 that will be broadly felt across the economy. However, late 2024 and 2025 should usher in a period of lower volatility and greater predictability. Inflation and interest rates should normalize and GDP growth should converge at just under 2 percent. By comparison, Real GDP for all of 2023 was 2.5 percent.

Chart III | Objective EC Index vs Russell 2000



According to ISM's Purchasing Manager Index ("PMI"), economic activity in the manufacturing sector contracted in December for the 14th consecutive month following a 28-month period of growth. However, the December reading improved relative to November modestly. Manufacturers continue to be cautious and are tightly managing business investment, output, material inputs, and labor costs.

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)	\$38,884	\$6,492	\$1,977	7.7%	35.9%	30.5%	6.0x	19.0x
Amphenol Corporation (NYSE:APH)	61,041	12,466	2,962	0.5%	32.3%	23.8%	4.9x	19.8x
Analog Devices, Inc. (NasdaqGS:ADI)	103,154	12,306	6,272	2.4%	64.0%	51.0%	8.4x	16.3x
Barnes Group Inc. (NYSE:B)	2,784	1,349	267	7.1%	33.5%	19.8%	2.1x	9.8x
Crane Company (NYSE:CR)	6,700	3,379	693	42.3%	41.8%	20.5%	2.0x	9.2x
CTS Corporation (NYSE:CTS)	1,254	568	119	-1.6%	35.7%	21.0%	2.2x	10.0x
Curtiss-Wright Corporation (NYSE:CW)	9,538	2,817	622	14.2%	37.4%	22.1%	3.4x	14.4x
Diodes Incorporated (NasdaqGS:DIOD)	3,027	1,835	462	-7.5%	41.0%	25.2%	1.6x	6.3x
Dover Corporation (NYSE:DOV)	23,584	8,472	1,730	1.4%	36.3%	20.4%	2.8x	13.0x
Ducommun Incorporated (NYSE:DCO)	995	753	79	9.3%	21.3%	10.5%	1.3x	10.5x
Honeywell International Inc. (NasdaqGS:HON)	146,282	36,408	8,713	4.2%	34.0%	23.9%	4.0x	16.2x
ITT Inc. (NYSE:ITT)	9,711	3,229	659	11.4%	33.1%	20.4%	3.0x	14.2x
Keysight Technologies, Inc. (NYSE:KEYS)	26,446	5,464	1,591	0.8%	64.6%	29.1%	4.8x	15.9x
Methode Electronics, Inc. (NYSE:MEI)	981	1,159	111	-1.7%	20.3%	9.6%	0.8x	8.1x
Parker-Hannifin Corporation (NYSE:PH)	72,174	19,680	4,679	20.5%	35.0%	23.8%	3.7x	14.8x
Qorvo, Inc. (NasdaqGS:QRVO)	11,618	3,131	363	-30.0%	37.4%	11.6%	3.7x	29.6x
Skyworks Solutions, Inc. (NasdaqGS:SWKS)	17,732	4,772	1,574	-13.0%	44.2%	33.0%	3.7x	10.9x
Standex International Corporation (NYSE:SXI)	1,838	745	143	0.7%	38.8%	19.2%	2.5x	11.9x
Teledyne Technologies Incorporated (NYSE:TDY)	23,295	5,629	1,375	3.9%	43.2%	24.4%	4.1x	16.9x
TTM Technologies, Inc. (NasdaqGS:TTMI)	2,043	2,281	278	-7.9%	18.4%	12.2%	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		\$146,282	\$36,408	\$8,713	42.3%	64.6%	51.0%	8.4x	29.6x
Low		981	568	79	-30.0%	18.4%	9.6%	0.8x	6.3x
Mean		28,154	6,647	1,734	3.2%	37.4%	22.6%	3.3x	13.7x
Median		10,664	3,304	676	1.9%	36.1%	21.5%	3.2x	13.6x

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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 a portfolio company of AEA Investors and Battery Ventures Sell-Side Advisor to Fluid Components International, LLC
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