

A photograph of an industrial facility, likely a water treatment plant, featuring large grey pipes, blue structural beams, and various valves and machinery.

Industry Report

Manufacturing & Distribution
Engineered Components

Industry Update | Manufacturing & Distribution Practices
August 2024

OBJECTIVE

Investment Banking & Valuation

Market Overview

Key Takeaways

- M&A deal volume in the Engineered Components ("EC") vertical was down by 8.9 percent in the LTM 2024 period (through June). While down, this trend compares favorably with overall M&A volume which was down 17.5 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. Manufacturing M&A is certainly being encouraged by near- and on-shoring as well as advancements in manufacturing technologies.
- Valuation multiples in the EC vertical held steady, averaging 8.5x EBITDA during the last several quarters. We expect similar results in the near and medium term.
- 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 for real GDP in Q2 2024 registered 2.8 percent. Many economists expect the economy to slow from here but remain positive, at least in the near-term.

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

Valuation Advisory:

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

Industry Practice Groups:

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

Contact Information

Please direct inquiries to:

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

Cody McPherson* | Vice President
Los Angeles
cody.mcpherson@objectiveibv.com
(604) 816-1010

Kai Duncan* | Associate
Orange County
kai.duncan@objectiveibv.com
(321) 427-9450

*Registered Representative of BA Securities LLC, Member FINRA SIPC.

Market Overview

Deal Volume

Reported LTM 2024 M&A volume (through June) in the Engineered Components (“EC”) vertical was down from the comparable year-earlier period by approximately 8.9 percent (see Chart I). While down, the EC vertical continues to be materially more active on a relative basis than the broader M&A market, which was off by almost 17.5 percent during the same period.

Onshoring and nearshoring continue to gain steam and are driving some of the M&A activity in the EC space. Supplier proximity to U.S.-based customers is proving to be of growing importance in the manufacturing ecosystem. Our supplier clients recognize this and are aligning operations accordingly. Further, advancements in manufacturing technology are lessening pressure on margins making U.S. manufacturing more economically palatable on a relative basis.

Our clients who provide industry-leading components and serve end-markets such as aerospace, defense, electronics, energy, infrastructure, med-devices, and specialty chemicals are enjoying the greatest amount of buyer interest in our sale processes.

Chart I | Total M&A Volume⁽¹⁾



Valuations

The average valuation multiple for EC companies has been steady at approximately 8.5x for the last three quarters (see Chart II).

These recent averages are a bit surprising given that the 5-year average is closer 7.7x. As mentioned in earlier EC updates, there is a “higher ground” concept wherein generally higher performing companies go to market in less active M&A markets (with low performers staying home) thereby pushing up average multiples. We think this has been the case for much of the past year. As always, we expect the average multiple will go down as volume returns, with less attractive companies coming to market along with higher performers.

Public market moving averages in the EC vertical continue to move up in somewhat volatile fashion, as can be seen in Chart III (next page). 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 68.4 percent in the past five years, surpassing the performance of the Russell 2000 which was up 35.9 percent during the same time range.

Chart II | TEV / EBITDA⁽²⁾



Market Overview

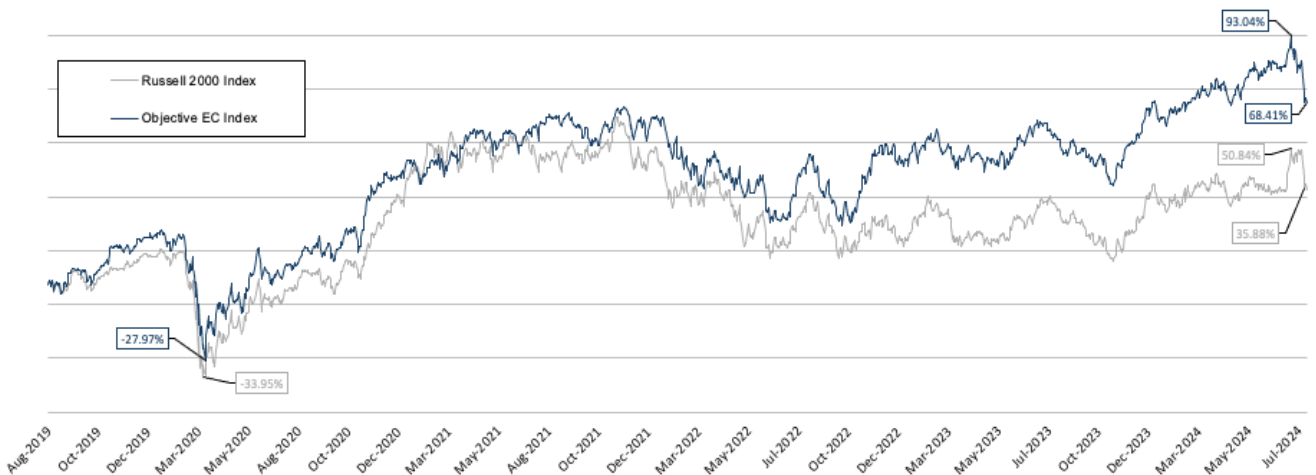
Economic Indicators

Real gross domestic product (GDP) increased at an annual rate of 2.8 percent in the second quarter of 2024, according to the "advance" estimate. In the first quarter, real GDP increased 1.4 percent. The increase in the second quarter primarily reflected increases in consumer spending, inventory investment, and business investment. Imports, which are a subtraction in the calculation of GDP, increased.

The U.S. economy is expected to continue to lose momentum near-term due to higher prices and elevated interest rates. The Conference Board currently expects real GDP growth to decelerate to an annualized 1 percent in Q3 2024.

Economic activity in the manufacturing sector contracted in July for the fourth consecutive month according to ISM Purchasing Managers Index (PMI). The PMI registered 46.8 for the month, down 1.7 points from the 48.5 recorded in June. A reading below 50 indicates contraction in the sector. The July report indicates that companies have been less willing to invest in capital goods and inventory. As a positive, less demand has meant more available capacity, improving lead times, and a lessening of shortages.

Chart III | Objective EC Index vs Russell 2000



Market Overview

Public Comps

Table I | Publicly-Traded Engineered Components Companies

(\$ Millions)	Enterprise Value	LTM Rev	LTM EBITDA	1-yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	Rev Mult	EBITDA Mult
AMETEK	\$38,798	\$6,825	\$2,121	6.3%	35.6%	31.1%	5.7x	17.6x
Amphenol Corporation	76,513	13,393	3,270	6.6%	33.2%	24.4%	5.7x	22.5x
Analog Devices	105,649	10,465	4,868	-18.7%	59.8%	46.5%	10.1x	21.4x
Barnes Group	2,978	1,589	337	22.0%	30.8%	21.2%	1.9x	8.4x
Crane Company	8,276	2,210	400	11.1%	38.1%	18.1%	3.7x	19.6x
CTS Corporation	1,287	515	103	-12.0%	34.9%	20.0%	2.5x	11.7x
Curtiss-Wright Corporation	11,061	3,008	666	10.5%	37.4%	22.1%	3.7x	15.5x
Diodes Incorporated	2,632	1,497	310	-24.6%	37.6%	20.7%	1.8x	8.0x
Dover Corporation	26,554	8,531	1,774	0.6%	37.4%	20.8%	3.1x	14.3x
Ducommun Incorporated	1,134	776	85	4.4%	23.7%	11.0%	1.5x	11.2x
Honeywell International	148,376	37,334	9,048	3.3%	37.6%	24.2%	4.0x	15.8x
ITT	10,640	3,468	692	9.7%	33.9%	20.0%	3.1x	14.7x
Keysight Technologies	21,302	5,168	1,338	-7.6%	64.2%	25.9%	4.1x	15.0x
Methode Electronics	560	1,115	59	-5.5%	16.2%	5.2%	0.5x	7.9x
Parker-Hannifin	76,842	19,839	5,061	9.3%	36.5%	25.5%	3.9x	14.5x
Qorvo	10,422	4,005	761	25.7%	39.9%	19.0%	2.6x	13.2x
Skyworks Solutions	15,317	4,372	1,136	-11.9%	40.5%	26.0%	3.5x	12.8x
Standex International	2,001	721	140	-2.8%	39.1%	19.5%	2.8x	13.1x
Teledyne Technologies	21,289	5,552	1,342	-0.7%	43.2%	24.2%	3.8x	15.4x
TTM Technologies	2,321	2,317	293	-2.6%	19.4%	12.7%	1.0x	7.6x
Summary Statistics	Enterprise Value	LTM Rev	LTM EBITDA	1-yr Rev Growth %	LTM Gross Margin %	LTM EBITDA Margin %	Rev Mult	EBITDA Mult
High	\$148,376	\$37,334	\$9,048	25.7%	64.2%	46.5%	10.1x	22.5x
Low	560	515	59	-24.6%	16.2%	5.2%	0.5x	7.6x
Mean	29,198	6,635	1,690	1.2%	37.0%	21.9%	3.4x	14.0x
Median	10,850	3,736	727	2.0%	37.4%	21.0%	3.3x	14.4x

About Objective

Manufacturing & Distribution Practice

OBJECTIVE

Investment Banking & Valuation

At Objective's Manufacturing & Distribution Practice, we recognize the unique demands of this industry and provide tailored solutions that optimize manufacturing operations, streamline supply chains, and capitalize on global market opportunities. Our expertise empowers manufacturing and distribution companies to achieve excellence in a rapidly evolving landscape.

The M&D industries complexities necessitate a comprehensive approach when preparing for an M&A transaction. We specialize in guiding M&D companies through this process, leveraging our expertise to help them achieve their objectives and secure favorable outcomes in their M&A endeavors.

Dedicated Industry Knowledge & Expertise



















*Denotes engagements completed by an Objective principal prior to joining Objective

Award & Recognition	Forum	Year	Type
Best Investment Banking & Valuation Company – West Coast, USA	Acquisition International	2024	Winner
Dan Shea – Finance Visionary	Los Angeles Times B2B Publishing	2021-2024	Winner
Best M&A Investment Banking Firm - California	Acquisition International	2023	Winner
Industrials Deal of the Year (Over \$100MM)	M&A Advisor 15th Annual International M&A Awards	2024	Finalist
Private Equity Deal of the Year (Between \$75MM - \$100MM)	M&A Advisor 22nd Annual M&A Awards	2023	Finalist
M&A Deal of the Year (Between \$75MM - \$100MM)	M&A Advisor 22nd Annual M&A Awards	2023	Finalist
Industrials Deal of the Year (Between \$50MM - \$100MM)	M&A Advisor 21st Annual M&A Awards	2022	Finalist

Objective, Investment Banking & Valuation is a leading investment banking and valuation firm serving middle-market companies across five industry practice groups in an effort to maximize our clients' M&A and valuation advisory results. Our team uses a highly engineered, structured process combined with our industry expertise designed to consistently achieve maximum results.

500+ M&A Transactions Completed*

 Has been acquired by  Sell-side Advisor to Supreme Optimization	 Has been acquired by  a portfolio company of AEA Investors and Battery Ventures Sell-Side Advisor to Fluid Components International, LLC	 Has been acquired by  Sell-Side Advisor to Kindred Bravely	 Has sold its clinical research site operations to  Sell-Side Advisor to Rocky Mountain Movement Disorders Center
 Has been acquired by  Sell-Side Advisor to AEM, Inc.	 Has been acquired by  a portfolio company of Sell-Side Advisor to Bell Canyon Consulting	 Has been acquired by  a portfolio company of Sell-Side Advisor to Toft Group	 Has been acquired by  Sell-Side Advisor to Beacon Mobile, LLC

* This figure includes projects completed by Objective principals while at Objective and at previous firms.

Contributors



Dan Shea*

Managing Director, Manufacturing &
Distribution Practice Leader
(310) 903-2163
dan.shea@objectiveibv.com



Cody McPherson*

Vice President
(604) 816-1010
cody.mcpherson@objectiveibv.com



Kai Duncan*

Associate
(321) 427-9450
kai.duncan@objectiveibv.com

* Registered Representative of BA Securities LLC, Member FINRA SIPC.