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SECTOR SNAPSHOT

INDUSTRIALS M&A ACTIVITY AND VALUATIONS FOR Q1 2017

Increasing industrial M&A activity from overseas acquirers

A better than expected 2016 and a strong start to 2017 provides a degree of confidence for the unknown path ahead following the invoking of Article 50 last Wednesday.

2017 gets off to a great start

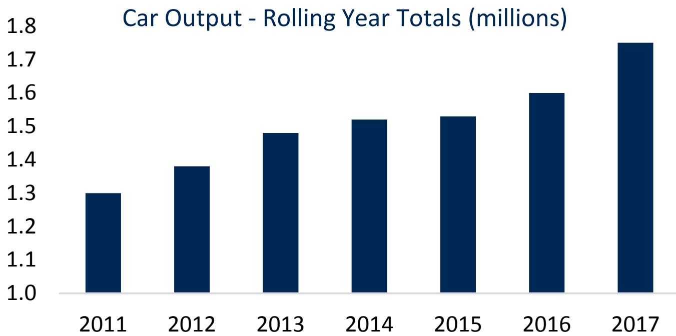
Overall performance for the sector was better than expected in 2016 with output expanding some 0.7%, although growth was far from linear given the result of the EU referendum in June. Encouragingly, many of the indicators tracked by the EEF show that growth has continued into the first quarter of 2017 across all sectors, a trend seen by a number of our own clients who have seen rising order books, higher levels of investment and increasing recruitment activity. Much of that growth can be attributed to (i) a continued weaker sterling exchange rate boosting sales for exporters (ii) domestic consumer confidence holding up, and (iii) underlying improvements seen in the UK's major export markets towards the end of 2016, including GDP growth of the EU19 which saw a 1.8% uplift in both 2016 Q3 and Q4 compared with the same quarters in 2015 (Eurostat). On the flip side however, we have now invoked Article 50 with limited visibility of the implications and US politics continue to be unpredictable at best, it's therefore fair to say that whilst there is a higher degree of confidence, 2017 still remains a bit of an unknown.

Automotive: What happens next?

The UK automotive sector, which turns over £70bn a year and accounts for 12% of UK goods exported, has experienced significant growth over the last few years. The sector saw 1.75 million cars produced over the last 12 months compared with around 1.3 million back in 2011. Since 2015, production has risen from around 1.5 million, delivering exceptional year on year growth of 8% per annum between 2015 and 2017.

Jaguar Land Rover (JLR) remains the largest producer, with around 0.55 million cars produced last year compared with 0.5 million from Nissan. Growth at JLR has primarily been driven by Jaguar's new F-Pace and the Land Rover Evoque, with the new Discovery, Defender and further revised Range Rovers continuing to drive growth looking forward.

However, the sector is not without it's challenges; half of UK produced cars are sold to the EU, meaning that unless a free trade agreement can be reached, it may be hit with stringent trade tariffs. In addition, according to the Society of Motor Manufacturers and Traders (SMMT), British made cars currently contain around 40% of domestically sourced parts, however, the industry would need that to be closer to 55% to avoid tariffs under conventional free trade agreements. That is both a challenge and significant opportunity for the sector, supply chains have substantially decreased over the years meaning high levels of investment would be required. That said, if that investment were to be made, the Automotive Council estimates that around £4bn of business could be returned to the UK.



Oil & Gas: Further frustration for the supply chain

The oil & gas supply chain could have been forgiven for feeling a degree of optimism in 2016 with Brent crude rising from just over $30 per barrel at the start of the year to over $55 by December. Add to that the agreement Opec reached alongside it's allies to cut production in November and 2017 could have been a year of further rises. That optimistic outlook has now however been called into question with Brent crude falling below $50 per barrel for the first time this year as a result of a higher than expected increase of 5 million barrels a day compared to a forecasted rise of 1.8 million barrels.

The significant influence the US are having over the price suggests Opec may have to extend it's cuts into the second half of 2017, an action that would have limited impact unless allies such as Russia and Iraq fully comply with what they agreed to.

Across the wider UK industrial sector, it's understandable that companies are relieved Opec's influence on price has been tampered given the high degree of dependency on the commodity and it's impact on pricing throughout so many supply chains.

Industrial KPI's

**EEF Manufacturing Outlook Surveys*

	2016 Q2	2016 Q3	2016 Q4	2017 Q1
Confidence*	5.7	4.7	5.4	5.9
Output*	-4	-7	13	31
UK Orders*	-8	-9	13	22
Export Orders*	-4	2	-2	25
Employment*	5	-5	9	17
Investment*	-9	-10	6	12
PMI	52.1	55.4	56.1	54.6
GBP/USD	1.3316	1.2975	1.2341	1.2491
GBP/EUR	1.1996	1.1542	1.172	1.1557
Brent Crude ($/Barrel)	48.05	48.24	53.93	48.01

Global Deal Activity & Multiples

Substantial uplift in overseas acquirers in Q1 2017

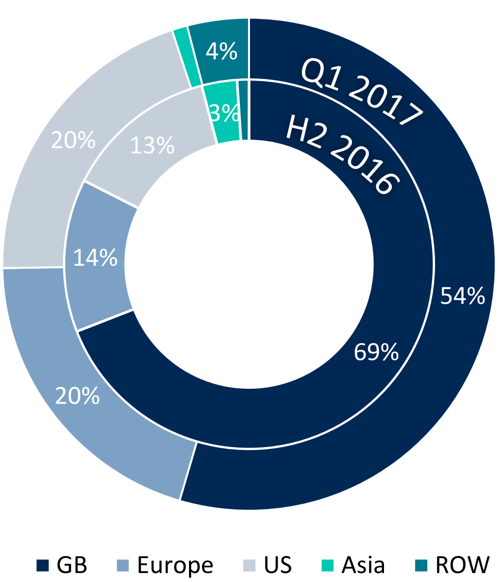
With recent events in the UK, the weakening of the pound has attracted more international acquirers of UK industrial companies. International buyers accounted for 46% of deals completed in Q1 2017, up 15% on H2 2016. Of those international buyers, European and American companies remain the dominant force.

Looking at valuations on a global level, all subsectors have held up well throughout the early part of 2017 with an overall average EBITDA multiple of 9.15x.

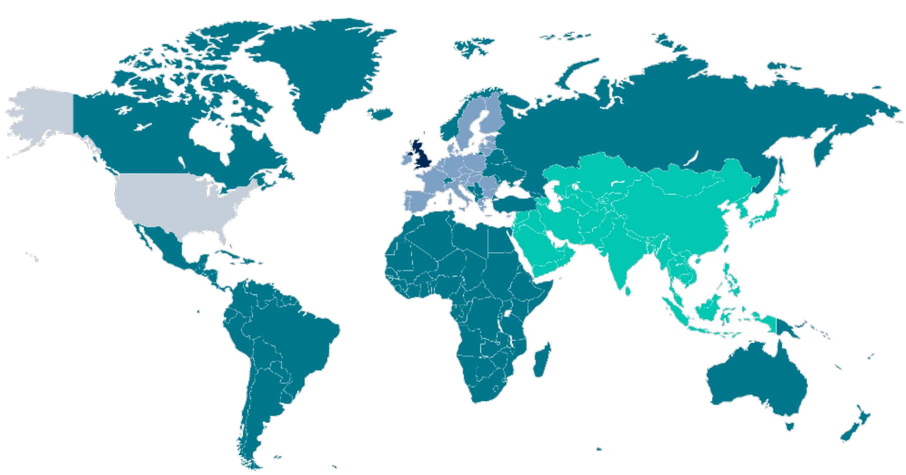
Much like the latter part of 2016, aerospace and defence companies continue to attract strong prices with an average EBITDA multiple of 11.2x. Given the slow to improve oil price, oil and gas transactions were few and far between, however, of those that did complete a strong price of 8.19x EBITDA was still paid, reflecting the longer-term value of those assets.

Overall, we are continuing to see an active global buyers' market and premium prices being paid for our clients and across the market. If you are considering your options for a sale then it continues to be a good time to start discussions, please do get in touch.

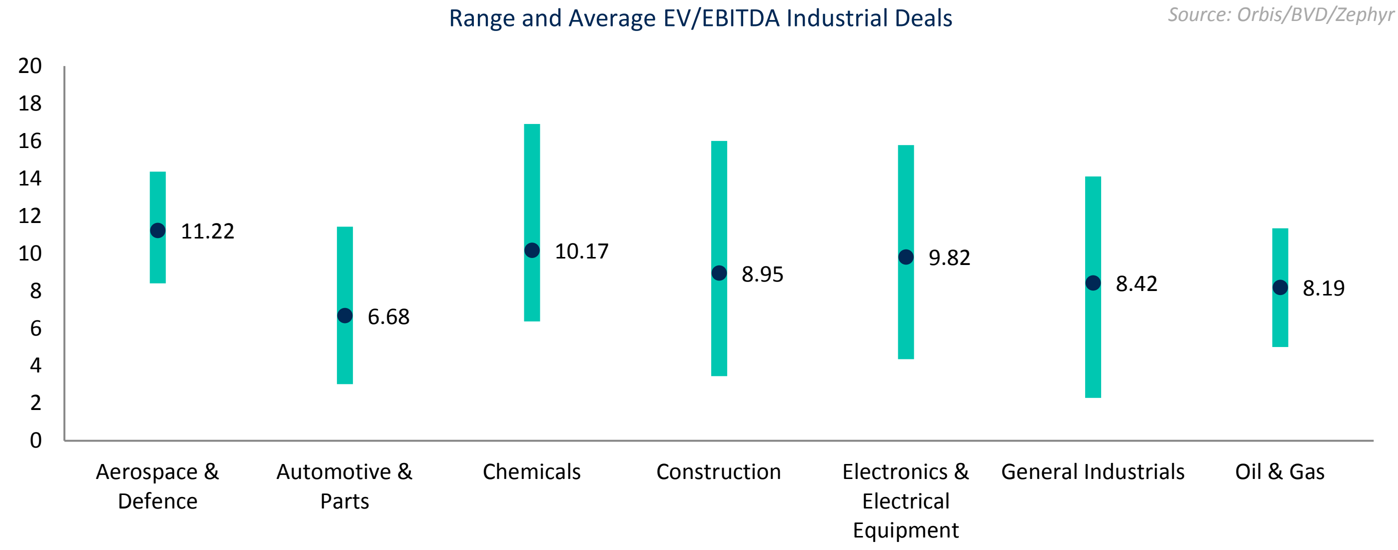
Acquirers Of UK Industrials By Location



Source: BVD/Zephyr



Global Deal Multiples (2015 – 2017)



Recent Orbis Industrial Transactions

The MBO Team

Acquired

SWP GROUP PLC

Advisor to the buyer

Orbis advise on taking SWP private in £18 million deal

Orbis acted as lead advisors to the management team who recently launched a recommended offer to acquire AIM-listed SWP in order to return the business to private ownership.

SWP designs, manufactures and installs a range of industrial engineered products and systems, serving international markets in the oil, gas & petrochemical, construction and water utilities sectors.

SWP's management team set up Friars 716 Ltd in July this year for the purposes of making the offer to take SWP private. The newly established business is wholly owned by the management team. Under the terms of the deal, shareholders will receive 9p for each SWP share, valuing the business at about £18.3 million.

Harris®

Sold to

Orkla

Advisor to the seller

Orbis advise on £55 million sale of LG Harris & Co

Orbis acted as lead advisors to the shareholders of LG Harris & Co Ltd (“Harris”) who recently disposed of the Bromsgrove paint tools business to a wholly owned subsidiary of Oslo-headquartered Orkla for £55 million.

Orbis were engaged in 2013 to deliver a profit improvement plan and subsequently orchestrate a sales process to maximise consideration for shareholders. In 2013 the business had revenues of £49m and EBITDA of £1.4m. For the 12 months to March 2016 Harris achieved revenues of £61m and EBITDA of £5.7m.

Harris is a market leader for painting tools in the UK Do-It-Yourself (DIY) market, with well-known brands such as Harris, Lynwood, Harris Victory and T-Class.

About Orbis

Orbis is a mid-market corporate finance boutique advising on a wide range of M&A transactions covering the industrials sector in addition to food & consumer, technology, media & telecoms, and healthcare. Orbis also has an active investment portfolio held through its investment vehicle Intrinsic Equity.

If you are considering your strategic options for enhancing the value of your business or your client’s business, please contact either Chris or Simon.

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