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SECTOR SNAPSHOT

ORBIS

INDUSTRIALS M&A ACTIVITY AND VALUATIONS FOR Q4 2017

Strong resilient industrial performance despite uncertain political times

Against a backdrop of continued political uncertainty activity levels in the Industrial sector remain high, with industry survey results and the PMI all recording higher than at this point last year.

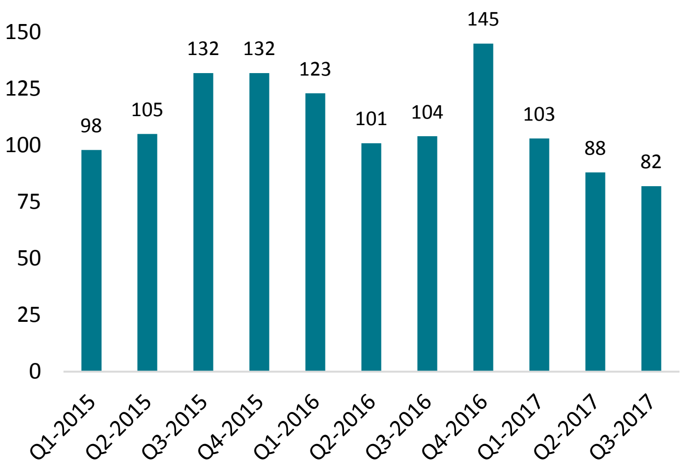
As has been the case throughout the year, a key driver for that upturn in activity remains a higher level of export orders supported by both growth in the Eurozone and Sterling depreciation.

Most encouraging are the sector's intentions to recruit and make capital investments, which have reached some of the highest levels seen since 2015, reflecting a promising degree of optimism. However, whilst firms remain confident of their current position, the EEF records a fall in confidence in relation to the expected performance of the UK economy in the coming 12 months.

Our own experience of the sector remains positive, with our clients in the sector this year attracting premium prices from both international and domestic buyers, both trade and private equity. We therefore conclude that it remains a good time to start considering the sale of your company.

UK Industrial M&A: Strong pricing, but lower deal volumes as we near the end of 2017

Total UK Industrials Deals 2015-2017



Source: Orbis/S&P Capital IQ

Whilst UK Industrial activity remains encouraging, the reduction in future economic confidence is no doubt reflected in the slowdown of Industrial M&A which averaged 91 deals per quarter in 2017 compared with 109 for the same quarters last year, a 17% reduction.

On closer inspection of the sub-sectors we find that deals in chemicals, automotive and aerospace have remained comparable to those of 2016, but a drop in general manufacturing bring the overall volumes down.

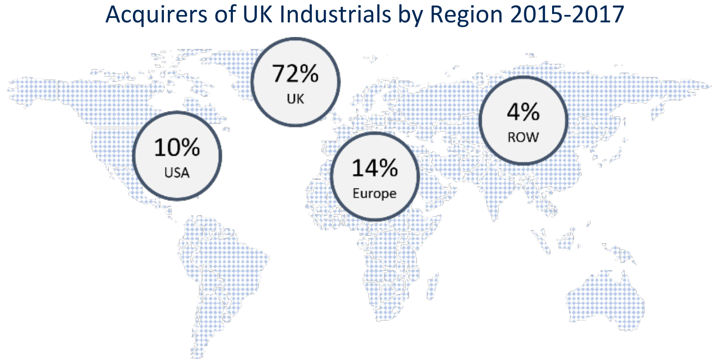
The data also suggests, contrary to our experiences in the sub-sector, deals in construction & building products have dropped in comparison to 2016. With 36 deals completed on average per quarter last year compared to 24 per quarter so far this year, representing a drop of 18% for the year to date.

Overseas buyers paying strategic prices

While UK buyers account for 72% of deals done between 2015-2017, Europe and the US still represent the largest foreign buyers of UK Industrial companies, making up 14% and 10% respectively out of the overall overseas buyers total of 28% of deals done.

Our own experience differs slightly to this, having seen over 50% of our Industrial deals completed with an overseas buyer, on average attracting a price premium of 20%.

Acquirers of UK Industrials by Region 2015-2017



Source: Orbis/S&P Capital IQ

UML
Sold to
American buyer
Drew Marine
Advisor to seller ORBIS

Plascoat
THE ART OF PROTECTION
Sold to
American buyer
AXALTA
Advisor to seller ORBIS

High Demand and Premium Pricing from Private Equity

Demand from private equity remains high, completing one in five UK Industrial transactions. A study by Invest Europe suggests that in 2016, total fundraising reached €73.8bn, the highest level for Europe since 2008 and a 37% increase on 2015.

Private Equity has benefitted from investors moving away from hedge funds. Preqin suggests that hedge funds delivered returns of -1% in the year to June 2016, compared with private equity returns of 8.5% for the same period.

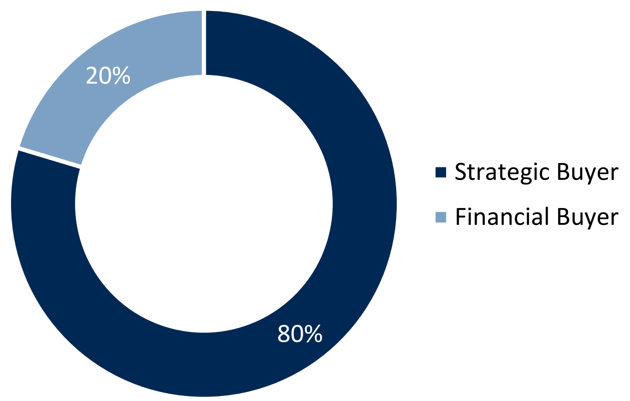
Stuart Turner — Sold to LDC — Advisor to seller Orbis

MKM Building Supplies — Sold to Bain Capital Private Equity — For undisclosed value

This increased availability of funding means higher levels of competition and in turn premium prices being paid by private equity.

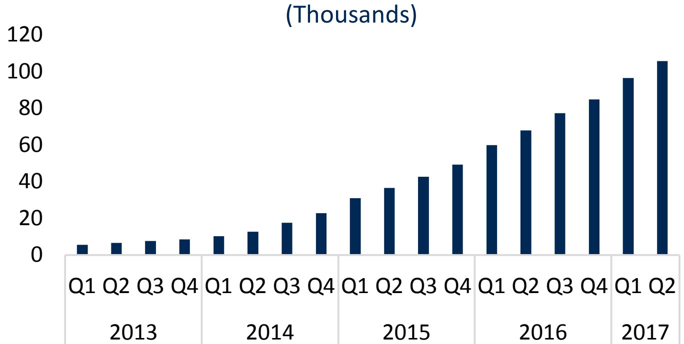
This is certainly in line with our own experience of private equity, who have demonstrated an appetite to match or exceed trade buyer pricing in a number of cases.

Strategic vs Financial Buyers of UK Industrials 2015-2017



Electric Propulsion: Powering to the Future

Plug-In Vans and Cars Registered in the UK (Thousands)



Source: Orbis/S&P Capital IQ

The rise in popularity of electric propulsion in motor vehicles has been substantial over the past four years, as highlighted by the graph, and is anticipated to continue.

After the recent diesel emission scandals and subsequent changes in government policy, a raft of automotive firms have announced plans for all electric model ranges. Volvo have announced the most ambitious plans to manufacture every car from 2019 with an electric motor, whilst JLR has stated it intends to produce only electric or hybrid cars from 2020.

Looking forward, as electric propulsion technologies become more advanced, and cheaper, more manufacturers will begin to offer affordable and efficient electric vehicles. The main powertrain components of battery powered vehicles are half the cost of combustion engine vehicles, but the high cost of batteries means electric vehicles are still generally expensive.

However, battery costs have already begun to reduce, with further reductions expected, driven by investment in battery technology being made by firms such as Tesla and Dyson.

A tipping point will soon be reached when it becomes cheaper to manufacture electric vehicles than traditionally powered vehicles. Allied to this, increasing oil prices will make electric vehicles ever more attractive, offering significant savings in running costs.

This shift in automotive technology is already driving change in M&A, with electric technology firms becoming prime targets for OEM and Tier 1 manufacturers as they develop and grow their electric capabilities.

This technology change is also promoting the use of lighter materials in vehicles, making materials technology businesses ideal targets for the automotive supply chain in the drive for ever greater vehicle efficiency.

The trend towards electric is also driving innovation in aerospace. Boeing's recent acquisition of Aurora, an autonomous and electric flight technology provider, and EasyJet's announcement that they aim to be flying short haul passengers on all electric aircraft within 10 – 20 years are both indicative of exciting market developments ahead.

JLR to make only electric and hybrid cars from 2020

Volvo to make only electric and hybrid cars from 2019

VW aims to sell 1m battery powered cars by 2025, leapfrogging Tesla

Nissan expects electric cars to make up 20% of sales by 2020

Industry 4.0: A Double Impact On Value

Technology investment in UK industry continued to grow, with high capital investment in robotics, software, and research equipment, in a move towards what has been coined 'Industry 4.0'. This fourth industrial revolution sees advanced machinery and industrial processes connected via the Internet of Things, to create highly efficient systems that require reduced levels of human input whilst providing new data streams to allow business to pursue further efficiency and operational improvements.

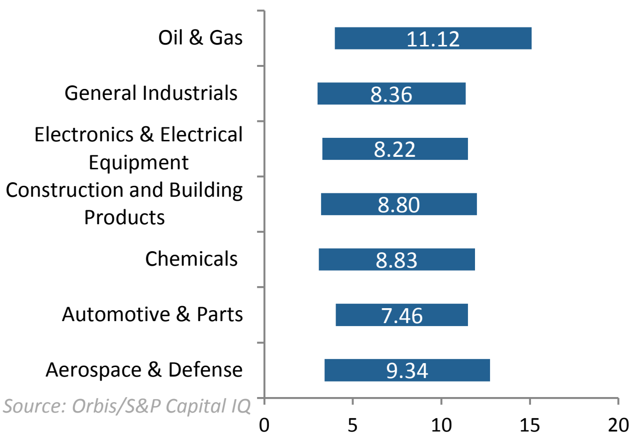
In a recent survey of UK manufacturing businesses two thirds of the respondents had invested in Industry 4.0 in the prior two years with around 75% saying they planned to make investments within the next two years. However, only 8% of businesses have a good understanding of what Industry 4.0 represents, whilst 56% of those surveyed didn't fully understand it.

This represents a significant issue - manufacturing, although already heavily roboticised in some areas, still utilises large amounts of human capital. Understanding Industry 4.0 and how it will impact the workforce is vital to improving efficiency and productivity. The significant capital investment required to implement Industry 4.0 means business leaders need to be able to make informed investment decisions in order to best utilise new technologies to enhance their business performance.

The impact of Industry 4.0, in the Industrial M&A market, is twofold. Firstly the capital investment made by businesses on high tech machinery and processes boosts efficiency and profits which naturally leads to higher valuations. Secondly, investment in Industrial technology makes businesses more attractive to potential buyers, raising deal multiples, as buyers don't have to make the capital investment themselves.

Pricing Remains Strong Despite Uncertainty

Global Average EV/EBITDA Industrial Deals (2016 – 17)



Source: Orbis/S&P Capital IQ

Pricing across all sub-sectors remains high and is in line with our current experience of the sector. Pricing in the building products and construction sector continues to remain high (8.95x average in Orbis Q1 2017) with a number of strategic acquisitions, including our own sale of CPM Group to Marshalls plc in October for an enterprise value of £48 million.

cpm
Concrete for life

Sold to

Marshalls

Advisor to seller ORBIS

Given the underlying fundamentals of the UK domestic, commercial and infrastructure/construction sectors we expect deal volumes to increase as UK consolidation, overseas appetite and private equity activity continues.

Industrial KPIs

*EEF Manufacturing Outlook Surveys

	2016 Q4	2017 Q1	2017 Q2	2017 Q3
Confidence*	5.4	5.9	5.7	5.5
Output*	13	31	26	34
UK Orders*	13	22	16	22
Export Orders*	-2	25	28	33
Employment*	9	17	21	25
Investment*	6	12	7	15
PMI	56.1	54.6	56.7	56
GBP/USD	1.2341	1.2491	1.2996	1.3089
GBP/EUR	1.172	1.1557	1.1387	1.1139
Brent Crude ($/Barrel)	49.11	53.59	49.55	52.1

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