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SECTOR SNAPSHOT



INDUSTRIALS M&A ACTIVITY AND VALUATIONS FOR Q1 2019

Strong industrial performance despite mixed economic news

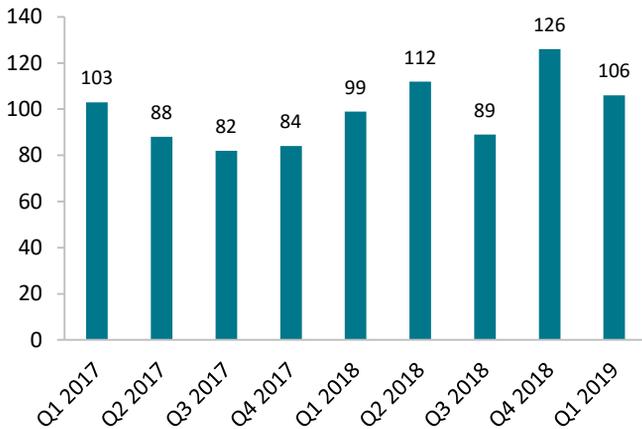
The overall picture for industrial M&A activity during 2018 and Q1 2019 remained broadly positive, despite the UK as a whole delivering a mixed economic and industrial performance. EEF manufacturing reports showed negative trends across a number of performance indicators, with investment, output and the export balance all showing negative growth trends compared with the previous year.

However, such trading conditions have not affected UK industrial M&A activity, with **426** deals being completed during the course of 2018, a significant increase on 2017 which saw **357** completed deals, approaching the record highs seen in 2016.

Our own experience within the sector remains positive, with clients continuing to attract premium prices, particularly from international strategic buyers looking to develop or consolidate their position in the UK. Financial buyers have also continued to drive market activity in a range of sub sectors. We therefore conclude that it remains a good time to start considering the sale of your company.

UK Industrial M&A: Deal volume rebounds

Total UK Industrials Deals 2017-2019



Source: Orbis/S&P Capital IQ

Despite the continuing uncertainty created by Brexit and recent slowdowns in economic indicators, M&A activity remained strong through 2018, with an average per quarter of **107** deals completed, representing a 17% increase in activity over 2017. Quarters 2 and 4 performed the strongest producing **112** and **126** deals each respectively.

On closer inspection of sub-sectors notable performers included Construction & Building Products sector. Despite the struggles seen in quarter 1 due to poor weather and Carillion's collapse, there were a total of **146** deals completed in 2018, a 28% increase compared to 2017. Other strong performers included the Aerospace, Automotive and General Industrial sub-sectors, all of which showed increased deal volume compared to 2017. Meanwhile despite a mid year rebound in crude oil prices, Oil and Gas deal volume did not increase, remaining comparable to previous years. Q1 of 2019 has demonstrated a level of resistance with the trailing four quarter deal numbers continuing to increase.

International buyers still paying strategic prices

The UK ranked third globally in industrial deal volume for 2018, whilst ranking fourth in terms of disclosed deal value. Despite the uncertainty surrounding Brexit, subdued global growth and mounting global trade tensions the depressed pound is helping drive international interest, with international buyers accounting for **33%** of deals by volume. Europe and the US still represent the largest foreign buyers. Within Europe, German, French and Swedish buyers lead the way.

Our own experience is that 50% of our completed industrial deals have involved international buyers, averaging a price premium of 20%.

Acquirers of UK Industrials by Region 2018



Source: Orbis/S&P Capital IQ

Have acquired

For GBP 1.35bn

Sold to

ORBIS Lead advisor to seller

Private Equity Continues To Drive Deal Volumes And Premium Pricing

Demand from private equity remains high, completing **99** UK industrial transactions during 2018, representing **23%** of total deals. This level of interest follows a global trend, with private equity activity increasing compared with 2017 and deal value representing an eleven-year global high.

The Midlands are leading the way in terms of deal volume with the West Midlands alone accounting for **22%** of industrial private equity deals during 2018, with Yorkshire and Humber (21%) and the East Midlands (11%) completing the top 3 most active regions.

The booming private equity sector is being driven by record levels of capital raising, continuing low interest rates and intense competition, driving up asset prices. A BVCA report showed buyout fundraising reaching £33bn for 2017, with equity invested in portfolio companies increasing 4% to £22.23bn, despite global uncertainty in relation to the UK and Brexit, trade wars between the US and China and continued instability within the Eurozone.

Financial buyers were most active in the Construction, Automotive and Electronics sub sectors, with 30% of Construction deals involving private equity. Whilst activity in Oil and Gas remained flat in volume terms, 21% of deals involved a private equity buyer, with some \$12bn being invested in assets over the last two years.

Notable transactions included the **Carlyle Group** acquisition of **EnerMech** for £450m from Lime Rock Partners. EnerMech provides mechanical engineering services to the energy services sector. Another deal was **Strategic Value Partners** agreement to acquire the £625m turnover flooring product manufacturer **Vita Holdings Limited** from TPG Partners for an undisclosed price. Electronics components manufacturer **Laird PLC** was also acquired in a buyout by **Advent International** for £1bn. Advent International, will seek to grow Laird through a series of bolt on acquisitions creating synergies within the group.

Strategic vs Financial Buyers of UK Industrials 2018

THE CARLYLE GROUP

Have acquired

Safer • Smarter • Solutions

For GBP 450m

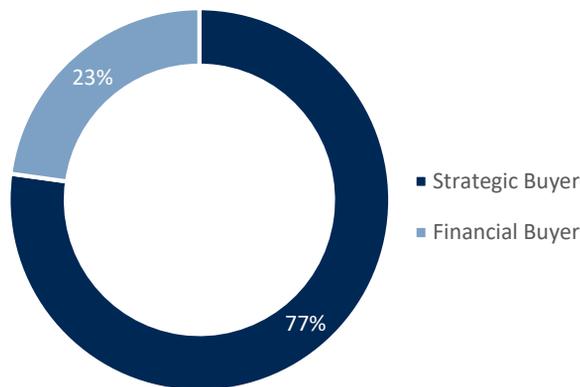
STUART TURNER

ENGINEERED TO EXCEL

Sold to

LDC

ORBIS Lead advisor to seller



Q1 2019 Defies Expectations

The impact of Brexit has continued to dominate the headlines throughout Q1 of 2019, yet UK industrial M&A continues to defy expectations completing **106** deals, down compared to Q4 of 2018 but still at a higher level seen in Q1 for 2017 and 2018.

The quarter has also seen a number of transatlantic deals including the **£3.34bn** deal to acquire **RPC Group PLC** by US rival **Berry Global**. The deal has not been without controversy with RPC abandoning a previous agreed deal with private equity group Apollo (Berry's former owner), which marks an embarrassing blow for the private equity group. RPC, the plastic packaging products manufacturer, has grown rapidly through a series of strategic acquisitions to reach an annual turnover of £3.75bn, although concerns over plastic packaging regulation and the level of debt used to fund acquisitions had dampened the companies share price in recent years.

The quarter also saw the sale of **DS Smith's** plastics division to US private equity firm **Olympus Partners**, through its holding in Liqui-Box Corporation, for £450m. The division consists of flexible plastics, rigid plastics and foam products. The deal comes after DS Smith announced their intentions to sell in December, highlighting a focus to shift towards sustainable

packaging and accelerating their financial deleverage.

Deals for **Weir Flow Control** and the pipe protection division of **Essentra PLC** ensured 4 out of the top 5 deals by transaction value involved US buyers. The US also accounted for 15% of deals by volume completing **14** deals, the highest amongst international acquirers. American activity was partially driven by the continued appreciation of the US dollar against the pound making deals more attractive despite the continued political and economic uncertainty. This uncertainty is likely the drive behind a decline in European deals with Europe collectively accounting for **14%** of deal volume compared to 19% over the course of 2018.

Meanwhile private equity has seen a strong start to 2019, completing **29** deals within the industrial sector. Notable transactions include the sale of **Weir Flow Control** to US private equity **First Reserve Corporation** for £275m. The sale comes as the engineering group **Weir** continues to focus on mining and upstream oil and gas markets. **Morgan Motor Company** was also acquired by Italian Investment Group **Investindustrial** in a majority deal. The Morgan family will still hold a minority holding and continue to guide the company forwards as stewards.

2019 Outlook For Industrial M&A

Looking forward political and economic uncertainty (domestic and international), rising interest rates and rising valuations may well negatively impact the industrial M&A market. However, we believe these will be offset by a number of key drivers influencing investment decisions over the coming year.

As we have seen throughout 2018 and 2019 to date, a number of strategic sales have been followed by acquisitions, as corporates continue to divest to focus on core activities, whilst acquiring non-core assets divested by others. This was the case with Weir, where the sale of **Weir Flow Control**, was accompanied by the announcement of the acquisition of US-based **ESCO** to strengthen Weir's position in the mining market, as the group continues its portfolio transformation.

Industry 4.0, the convergence of technology and manufacturing, will no longer be seen as a "future trend" as reported last year but an active part of companies strategic

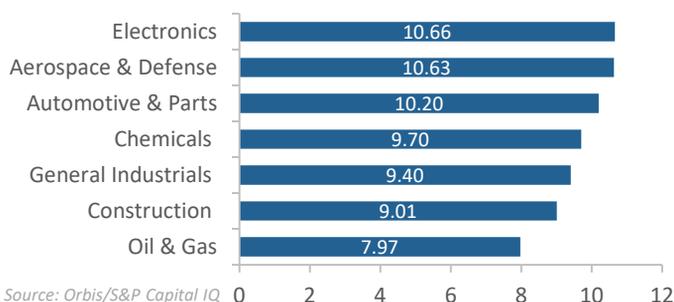
program. The increased demands for connectivity and automation from the industrial sector will likely drive future transactions as companies continue to internalise automation and data driven analytics.

The appetite for technology, along with the divesting of non-strategic assets, will have a significant impact on mid-market transactions. Strategic buyers will seek to acquire innovative mid-market manufacturers, synergising the smaller firms technology with their core activities. They will benefit from increased economies of scale, technological advancement and higher margins from niche markets, especially as organic growth for larger companies continues to stagnate.

We believe these factors will continue to drive M&A activity throughout 2019 and beyond, providing strong valuations and a competitive market, making it a good time for shareholders to review their ownership options.

Pricing Remains Strong Despite Continued Uncertainty

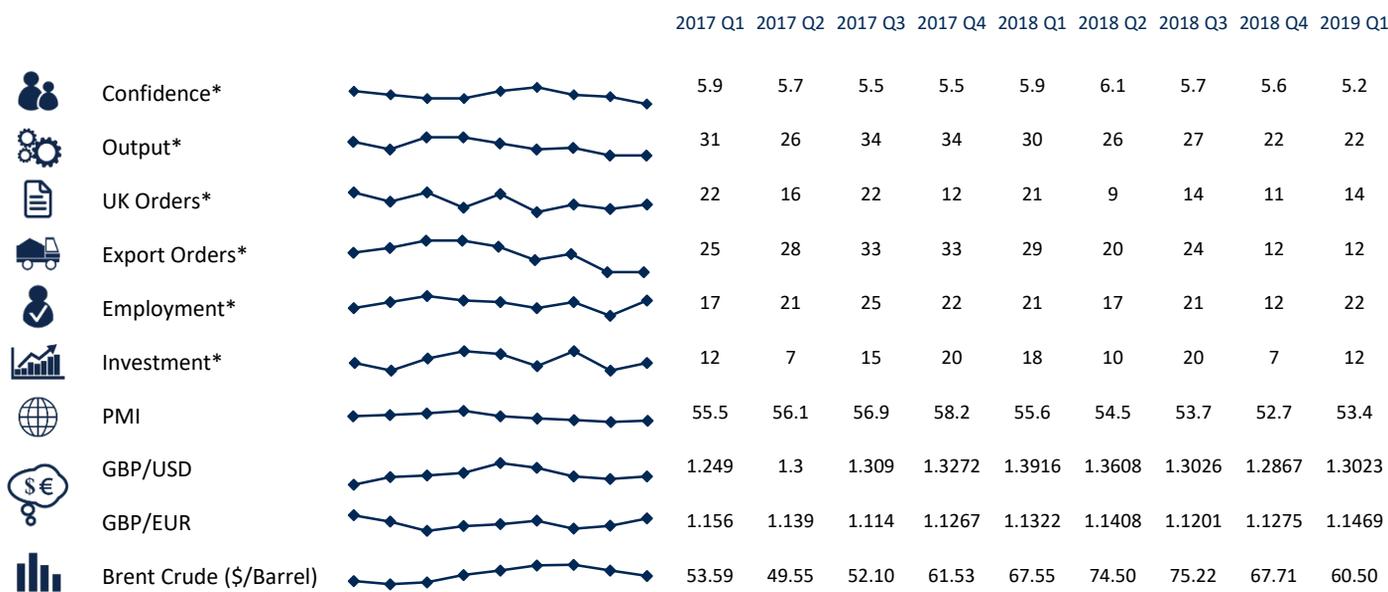
Global average EV/EBITDA multiples 2018



Pricing across all sub sectors remains strong with an overall average disclosed EBITDA multiple of **9.65x** across the industrial sector. Strong performers include the Electronics, Aerospace, and Automotive sub-sectors. In particular, Electronics continues to attract strong prices averaging **10.66x** for 2018, this comes despite the sectors relative struggles, with output contracting 4.3% over the year.

Given strong multiples overall across the industrial sector and high levels of activity across all buyer groups, it remains a good time for shareholders to consider a sale.

Industrial KPIs



*EEF Manufacturing Outlook Surveys

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Orbis Partners specialises in mergers and acquisitions, MBOs & MBIs, development capital and fundraising. The team at Orbis have created a unique corporate finance business model that combines their experiences investing as principal, together with advising clients on both buying and selling businesses.

Orbis is the UK partner for Clairfield International, a global investment bank, offering clients access to over 500 corporate finance professionals situated in over 40 offices across the globe.

Orbis Partners : Services

A complete range of M&A services providing a wealth of experience to our clients

- Company Sales**
 - Extensive mid market M&A expertise and experience across the team.
 - International reach - 23 countries and growing.
 - Over 90% of all sale mandate transactions involve an overseas party.

- Corporate Acquisitions**
 - Listed and private clients.
 - Research and origination - internal research team and tools.
 - Strategic and financial assessment.
 - Deal management.

- Acquisition Support & Due Diligence**
 - Acquisition Support - providing full management service to companies and investors looking to make acquisitions and strategic alliances.
 - Due Diligence - providing experienced and informed advice to support acquisitions, lends and investments.
 - Extensive experience within the UK and of international transactions.

- Management Buy Out**
 - Deal leadership and fund raising.
 - Align interests with management team.
 - Co-investors on 15 deals.

- Development Capital**
 - Supporting existing business to fund development.
 - Supportive investor bringing focus on value creation.
 - Co-investors for three deals.

- Restructuring**
 - Turnaround and profit improvement credentials.
 - Lead the team through uncertainty and develop game plan.
 - Co-investors and principal.

Orbis Partners : Sectors

Experience across a range of sectors

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| Industrial | Food & Beverage | Business Services | Healthcare | Technology, Media and Telecoms | Consumer & Retail |
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