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SECTOR SNAPSHOT



INDUSTRIALS M&A ACTIVITY AND VALUATIONS FOR H1 2020

Deal volumes decline in H1

Industrials deal volumes in the UK decreased by almost 40% in H1 2020 compared to H2 2019. The optimism created by the election of a majority government in December 2019 rapidly deteriorated as the global pandemic took grip towards the end of the first quarter.

Confidence, Output and Orders drastically weakened along with other sector KPIs (see the table below). Transactions were put on ice as buyers and investors switched from investing cash to preserving cash. Internal focus became the priority with parties on both sides of the deal adjusting to the adverse conditions and waiting for a return to normality.

Industrial KPIs

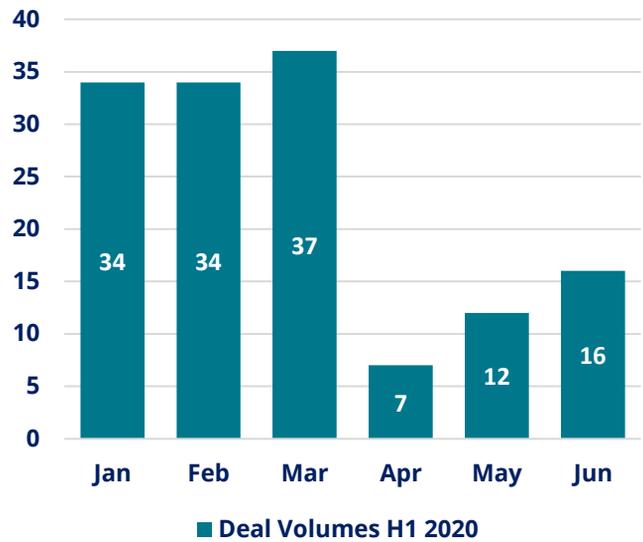
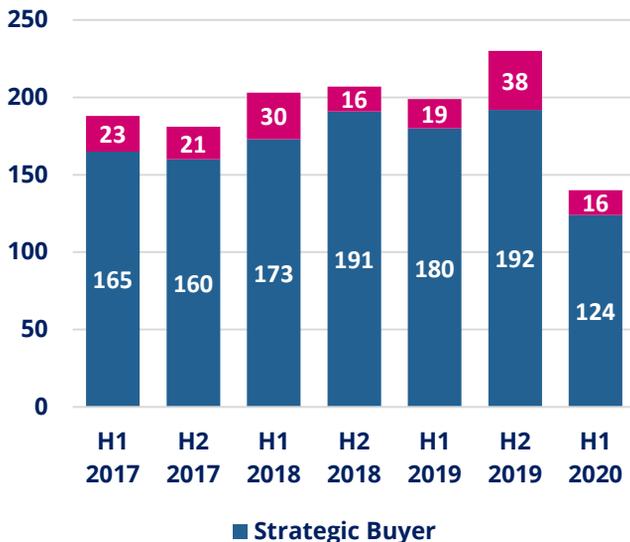
Industrial KPIs	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	Trend
Confidence	5.2	5.4	5.8	5.5	6.6	4.8	
Output	22	17	4	11	2	-56	
UK Orders	14	11	-6	-5	-3	-52	
Export Orders	12	8	6	10	-2	-52	
Employment	22	16	6	6	3	-22	
Investment	12	6	-1	3	20	-26	
PMI	50.9	50.1	50.7	49.6	52.4	25.6	
GBP/USD	1.3	1.3	1.2	1.3	1.3	1.2	
GBP/EUR	1.1	1.1	1.1	1.2	1.6	1.1	
Brent Crude (\$/Barrel)	63.8	68.5	62.0	62.4	50.8	33.4	

The post-election bounce which saw marked increases in investment and confidence in Q1 2020 evaporated in Q2 2020 as the depth and scale of the international crisis became apparent.

UK Industrials M&A: Deal volume

The first three months of 2020 were in line with previous quarters in terms of deal volume as deals carried over from 2019 completed. The impact of Covid-19 was seen from April onwards with a dramatic reduction in deals, leading to 140 Industrials completions in H1 2020 compared to an average of 207 per half-year since H1 2015.

There was no significant change in the proportion of UK vs International buyers, with 39% of deals having an overseas buyer compared to a five year average of 35%. As in previous periods, the US was the single largest source of overseas buyers (10% of deals).



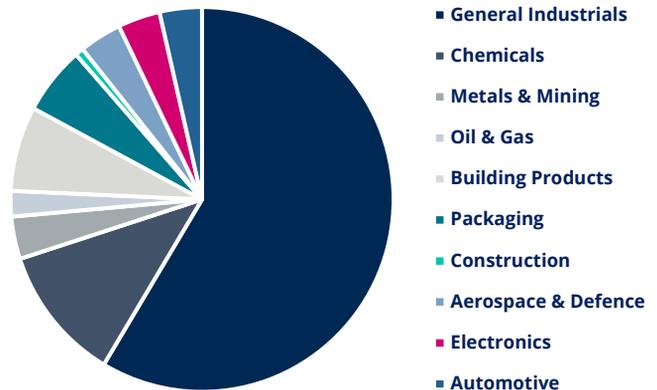
Subsector Overview

General Industrials accounted for circa 60% of deal volumes, which is broadly in line with historical trends.

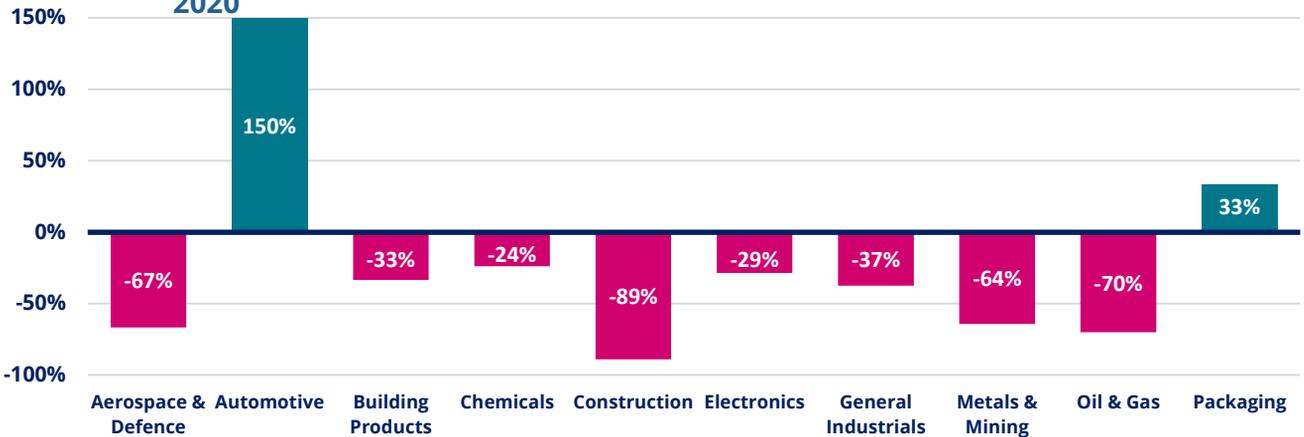
There were 16 deals in the Chemicals sector, which proved to be one of the most resilient subsectors. Chemicals deals accounted for 11% of total deals including the largest deal in H1, the £4bn acquisition of BP's petrochemicals business by Ineos.

Aerospace & Defence saw a decrease in deals from 15 in H2 2019 to 5 in H1 2020. Of these, just one was in the commercial aerospace market, the remainder being defence focussed. While not a UK deal, the aborted \$4.2bn acquisition of Embraer's commercial jet business by Boeing (allegedly 2 years in the making) was indicative of the sudden change of strategy required by businesses in commercial aerospace market.

Deal Volumes by Subsector



Percentage Change in Deal Volumes by Subsector from H2 2019 to H1 2020



H1 2019 was the strongest performing period in the last 5 years for Industrials in terms of deal volumes. Analysis of decreases from this peak should therefore be put in context, however, deal volumes in H1 2020 were a third down on the five-year average.

Construction saw the greatest decrease in deals from H2 2019 to H1 2020 of almost 90%, with just one deal in the period.

Automotive appears to have performed strongly with deal volume up by 150%, but this belies the fact that M&A has been muted in this subsector for some time, particularly in H2 2019. The 150% increase in deal volume starts from a low base in 2019. In addition, deals during this period were either in specialised areas of automotive such as electrification or caravans, or were deals where assets were purchased out of administration.

While the number of deals declined sharply, there were still transactions to be closed. Orbis advised long-term client Stuart Turner on its acquisition of Fluid Water Solutions. This is the eighth acquisition that Orbis have supported Stuart Turner on in addition to advising the shareholders in their deal with private equity firm LDC in 2017.

Orbis advised listed Finnish business InCap on its acquisition of Midlands-based electronics business AWS.

Working closely with our Clairfield partners in Helsinki, the deal creates an enlarged group employing over 1,250 people and generating annual revenues of c. €110 million.

Orbis continued our history of investing in the Building Products sector with the acquisition of shower products business Aqualux and the subsequent bolt-on of Aqata.



Notable Deals

Listed defence technology business QinetiQ acquired Newman & Spurr for £14m at an Enterprise Value (EV) to EBITDA multiple of 10.8x. The acquisition strengthens QinetiQ's modelling and simulation, synthetic environments and operational analysis offering.

QINETIQ

nsc
training-simulation-consultancy

Indian motorcycle manufacturer TVS acquired certain assets of Norton Motorcycles for £16m in what is hoped to be a new chapter for the long-suffering brand and its fans.

TVS

Norton

The largest deal of the period was Ineos' £4bn acquisition of BP's aromatics & acetyls divisions whose products are used in clothing, film and packaging, as well as food flavourings, paints and glues. The deal was part of BP's strategy to reduce debt and sees Ineos firming up on its investment in the plastics market.

INEOS

bp

Breedon acquired certain assets and operations of Cemex UK for £178m representing an EV/EBITDA multiple of 7.7x. The deal sees Breedon acquire circa 100 active operations across the UK. The acquisition significantly enhances Breedon's mineral reserves and is a key deal in consolidating the construction material supplies market. The deal is subject to a challenge by the CMA, but is likely to be approved following the disposal of other Breedon assets.

BREEDON

CEMEX

Renew Holdings fulfilled its ambitions to develop its position in the strategic highways market with its £38m acquisition of highways contractor Carnell Support Services. Carnell provides maintenance services to the road network via long-term framework contracts.

renew

Carnell
www.carnellgroup.co.uk

Travis Perkins disposed of its wholesale heating and plumbing business, Primaflow F&P in a £46m deal with Newberry Investments. The divestment is part of Travis Perkins strategy to simplify its business, to focus on its core offering and to reduce net debt.

TP

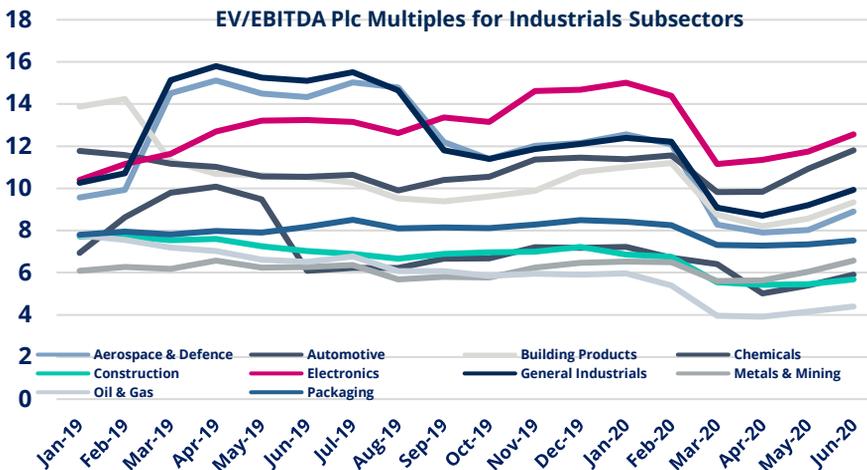
Primaflow F&P

Plc Summary

Plc valuations decreased rapidly in March 2020 across all of Orbis' industrials subsector indexes. EV/EBITDA multiples fell by 25% as an average across all of the subsectors between January and April 2020. Valuation multiples recovered some lost ground in Q2 but were still 15% down in June compared to where they were at the start of the year.

At their lowest point in April 2020, Aerospace & Defence (down 37%), Oil & Gas (down 35%) and Automotive (down 31%) were the hardest hit while Chemicals and Packaging proved to be more resilient. All subsectors strengthened by the end of H1 although all but two (Chemicals and Metals & Mining) were lower than at the outset of the year. The relatively strong performance of Chemicals echoed the higher levels of M&A activity in the subsector when compared to other Industrials subsectors.

EV/EBITDA Plc Multiples for Industrials Subsectors



EV/EBITDA Movement from Jan-20 to Jun-20

Aerospace & Defence	▼	-29%
Automotive	▼	-18%
Building Products	▼	-15%
Chemicals	▲	4%
Construction	▼	-17%
Electronics	▼	-16%
General Industrials	▼	-20%
Metals & Mining	▲	1%
Oil & Gas	▼	-26%
Packaging	▼	-10%
Industrials Index	▼	-15%

Sources: S&P CAPIQ, FAME, EEF Outlook, Orbis

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CLAIRFIELD
INTERNATIONAL

Summary & Outlook

H1 2020 proved a difficult period for businesses and dealmakers alike in the Industrials sector. May and June 2020 saw a modest recovery in deal flow and this has continued into Q3. We envisage continued recovery prompted by corporate acquirers and private equity having 'got their houses in order', although it will be some time before we are back to normality. Globally, private equity has circa \$2 trillion to deploy and Industrials remains a key sector for many in the private equity world. Balancing risk between buyers and sellers in an unpredictable market will feed through into deal structures with increased levels of deferred and earn-out structures. Likely changes to Capital Gains Tax in March 2021 are a factor in owners bringing businesses to market, although the increase in potential deal flow that this will create will be influenced by the outcome of Brexit and general market confidence among buyers and investors.

Orbis Partners specialises in mergers and acquisitions, MBOs & MBI, 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	<ul style="list-style-type: none"> 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.
Acquisition Support & Due Diligence	<ul style="list-style-type: none"> Acquisition Support - providing full management service to companies and investors looking to make acquisitions and strategic alliances. Research & origination - national & international 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	<ul style="list-style-type: none"> Deal leadership and fund raising. Align interests with management team. Co-investors on 15 deals.
Development Capital	<ul style="list-style-type: none"> Supporting existing business to fund development. Supportive investor bringing focus on value creation
Restructuring	<ul style="list-style-type: none"> Turnaround and profit improvement credentials. Lead the team through uncertainty and develop game plan. Co-investors and principal.

Orbis Partners : Industrials Credentials



Orbis Partners : Experience across a range of sectors

Industrial

Food & Beverage

Business Services

Healthcare

Technology, Media and Telecoms

Consumer & Retail