ASA Ventures Group

M&A Update June 2020

# Industrials

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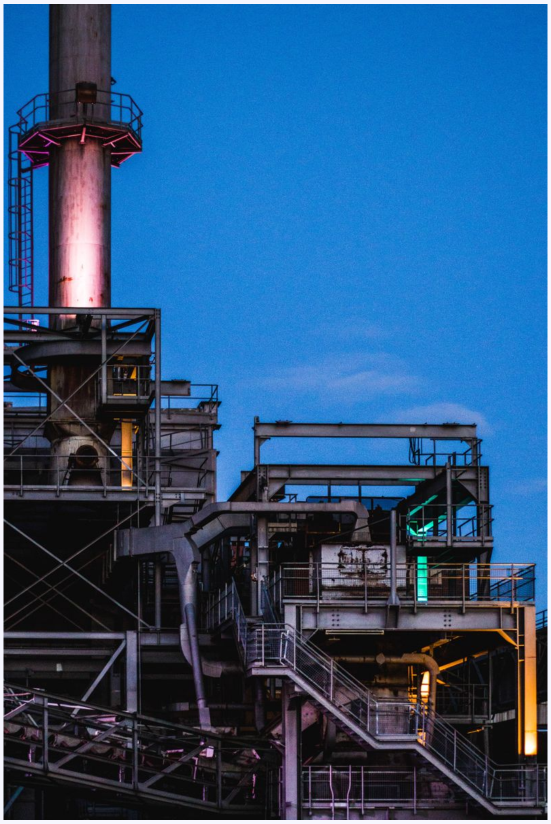
# Summary

## Industrial Companies Can Gain a Competitive Advantage Through Adopting New Technologies



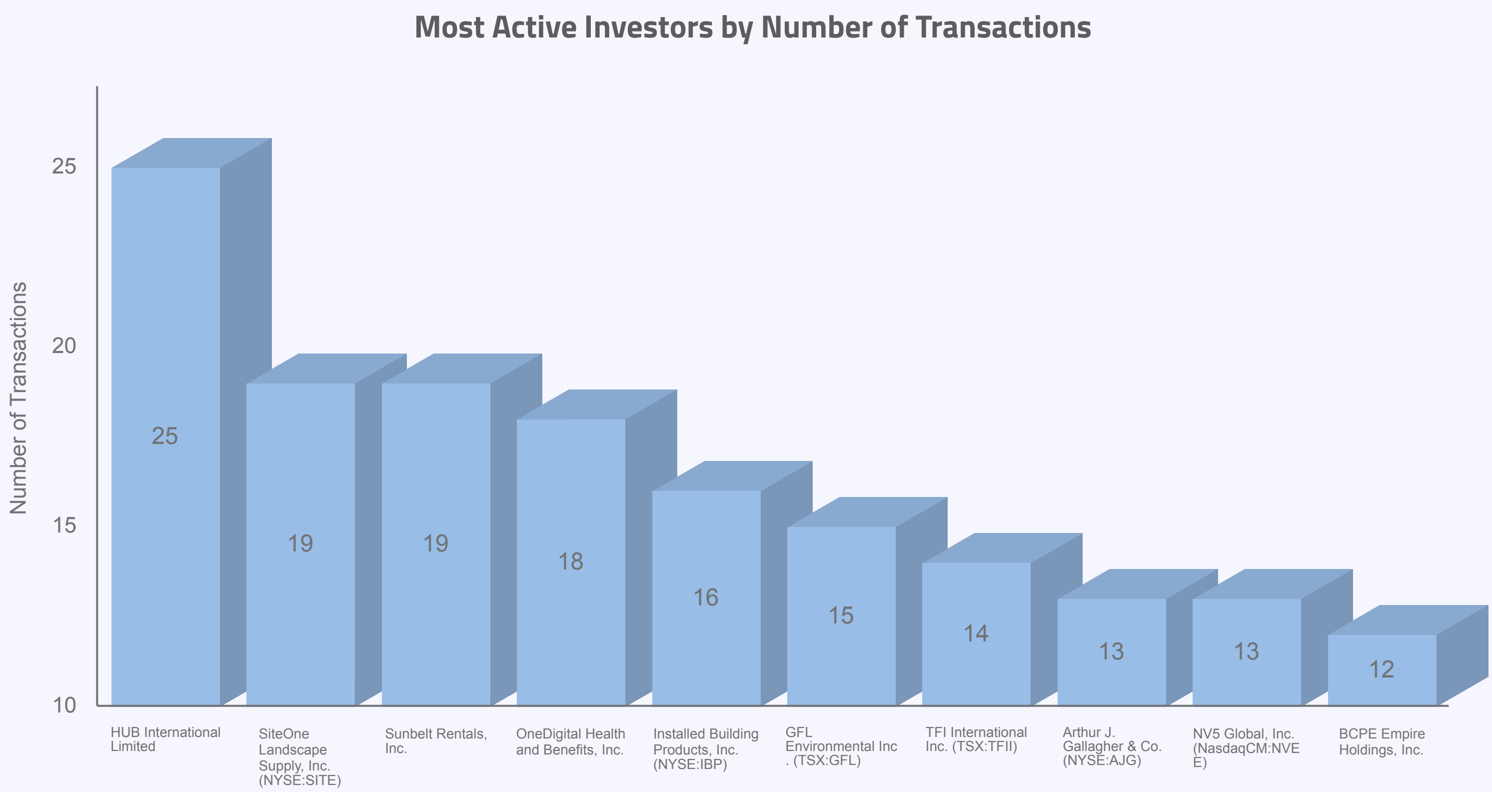
### Consolidation and Technology Driving M&A

Consolidation and digitization have been two of the key factors driving M&A in industrials. Consolidation allows companies to refine their portfolios, while benefiting from market reach, capability, and efficiencies gained through M&A. Technology is changing the landscape of the industrial sector, as manufacturers that invest the internet of things, artificial intelligence programs, and computerized maintenance management systems will likely establish a competitive advantage over those who are not looking into these technologies. This is because digitization allows for devices to be connected remotely, allowing them to “talk” to each other. Commonly referred to as the Internet of Things, this technology connects factories to the internet, enabling automation and adding value to the overall operation.

### Mega Deals Remain Prevalent in a Slightly Declining Deal Market

In past three years, mega deals over $5 billion have accounted for a bulk of the deal value in the industrials sector. In 2019 for example, three mega deals accounted for $20.1 billion or 24% of total deal value for the year. The high volume of mega deals is reflecting a decoupling of the mega deals segment of the M&A market from the lower-growth global economic environment. These types of deals are expected to continue into the future, even as total deal value has been decreasing due to political and regulatory interventions. COVID-19 is not expected to hinder mega deals either, as two deals have already been closed following the outbreak.

# TOTAL TRANSACTIONS BY COMPANY: 2017-2020




## Landscaping Group Adding Subsidiaries

SiteOne Landscape Supply, previously known as John Deere Landscapes, has been one of the most active investors in the past three years. Most of their M&A activity has been from adding subsidiaries who supply their custom landscaping equipment and materials, along with acquiring wholesale distribution centers. This has allowed them to continue to delivering leading products and value-adding services across the country.

## Construction Business Growing With M&A

Sunbelt Rentals, Inc. provides rental services across the construction sector. They rent out everything from general construction tools, to scaffolding and ventilation products. From 2017-2020 they were a part of 19 M&A transactions in industrials, and most of their activity comes from merging with trading companies and distributors, along with acquiring construction machinery and heavy trucks.

# Impacts of COVID-19

## Industrial Manufacturers Hit Hard & Mega Deals Continue

### COVID-19 Creating New Challenges For Manufacturing

The industrial manufacturing sector, which employs some 13 million workers in the US, is poised to be hit hard during this outbreak. There has been a global reduction in demand for industrial products, and social distancing guidelines have reduced the number of on-site employees. Now is a critical time for industrial manufacturers to explore new automated technologies, to both decrease worker density and to discover how new technologies can optimize the manufacturing process. This will not bring back demand for low skilled labor, but rather create new job opportunities for more tech-savvy workers.

### Mega Deals Still Closing During the COVID-19

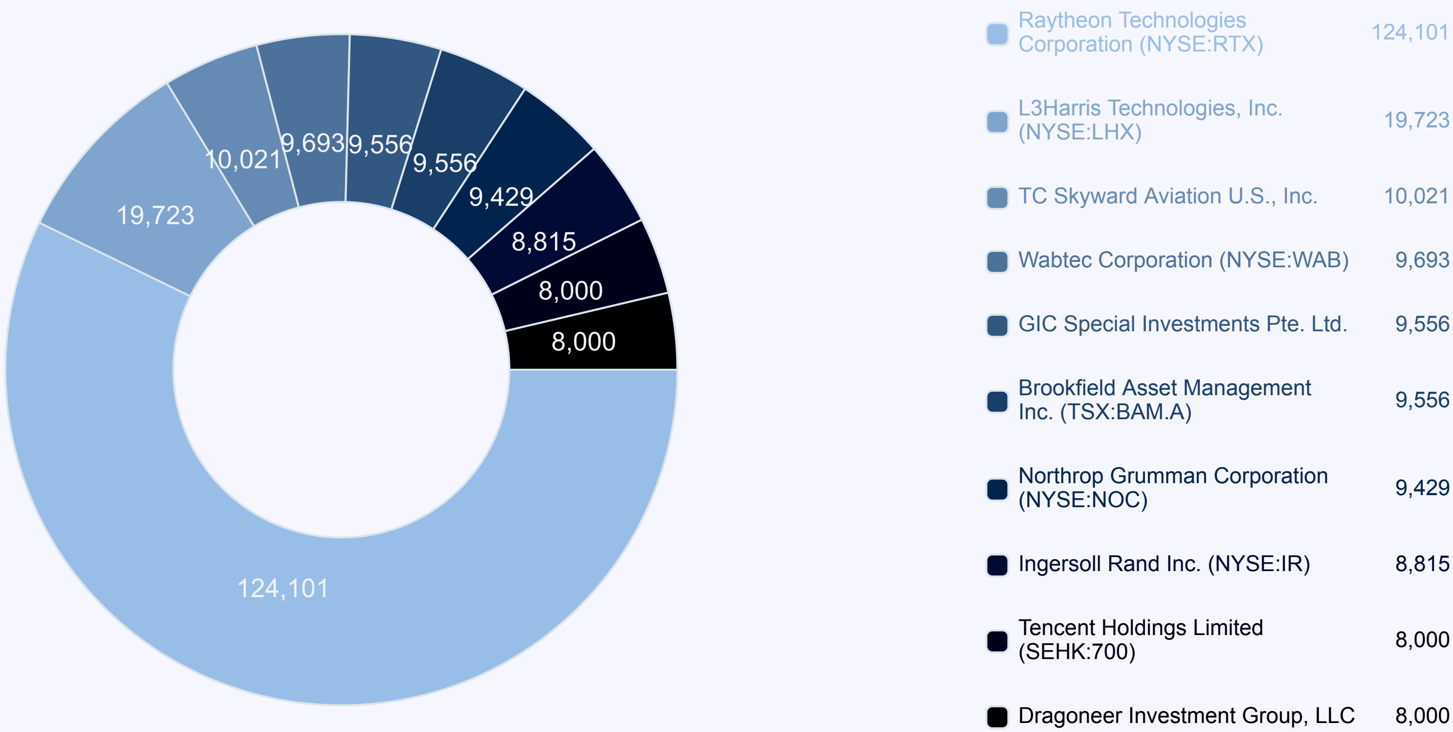
Industrial mega deals have not slowed down amid the coronavirus outbreak. GE recently sold their bio-pharma division for $20 billion to Danaher, an industrial-health care conglomerate. This deal is part of GE's multi-year transformation to de-risk their balance sheet and solidify their financial position. United Technologies also received regulatory approval for their merger with Raytheon Technologies at the beginning of April, showing that mega deals have not slowed down with the poor state of the economy.

### Long-Term Impact of COVID-19

As companies scramble to address the short-term economic challenges caused by COVID-19, some are starting to consider the long-term implications. The current crisis has accelerated the adoption of innovative practices in the industrials sector such as automated manufacturing, decoupling of supply chains, and the use of data infrastructure as a strategic asset. These practices allow industrial companies to reduce their in-person workforce, while also increasing productivity through automation. Companies that adopt these practices, while also making cuts to discretionary and capital spending, will likely have enough financial reserves to weather the storm.

# TOTAL TRANSACTION VALUE BY COMPANY: 2017-2020

**Most Active Investors by Transaction Size**
**Values in Millions ($)**




## Raytheon Tech With Largest Deal Value

In one of the largest aerospace and defense deals to date, Raytheon Technologies and United Technologies merged to establish three new industrial franchises. This transaction created an aerospace giant, an elevator manufacturer, and an air conditioning company. This monumental expansion also gives United Technologies the capability to develop connected aircrafts. These aircrafts will improve the safety and efficiency of air travel, along with increasing internet connectivity for passengers.

## Drones Being Used As A Business Tool

TC Skyward Aviation U.S. Inc. is an innovative aviation company that specializes in drone usage. They recently merged with Aviation Capital Group to expand their portfolio to commercial jet aircrafts and to grow their international presence. They have also partnered with Verizon, which helps keep their drone services safe and connected using their 5G network. Their drones have demonstrated the ability to do infrastructure inspection, delivery, and recreational flights.

# Valuations

## Nearly $500 Billion of Deals Closed: 2017-2020

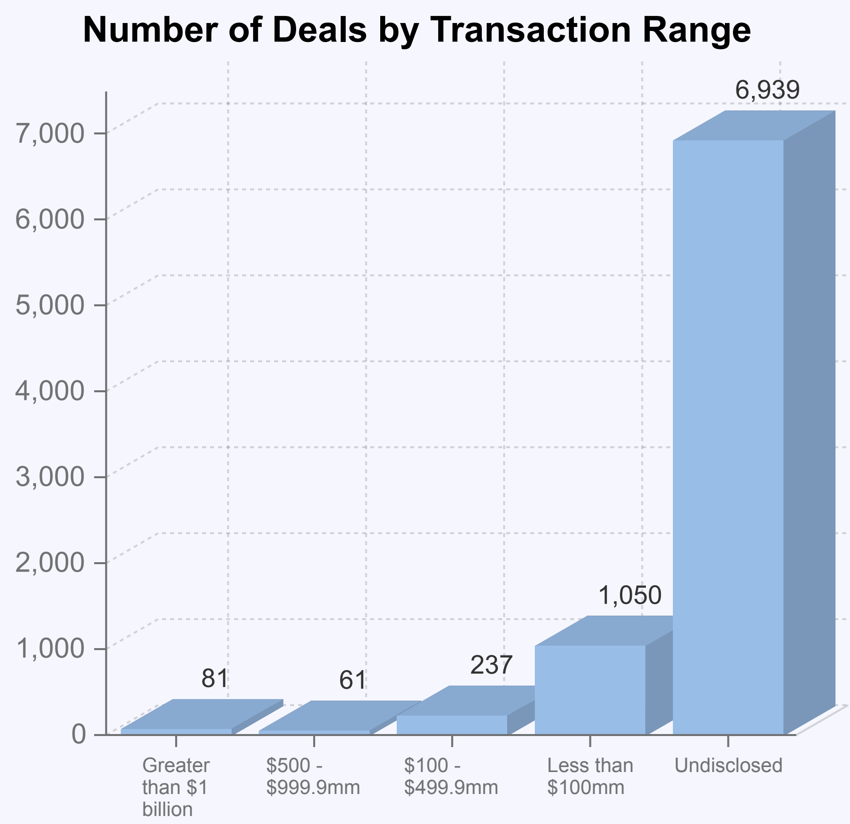
| | |
|---|---|
| Average Deal Value (Millions of $) | 137.28 |
| Average TEV/Revenue | .772 |
| Average TEV/EBITDA | 4.99 |

### ShopSabre Acquisition Helping Smaller Manufacturers

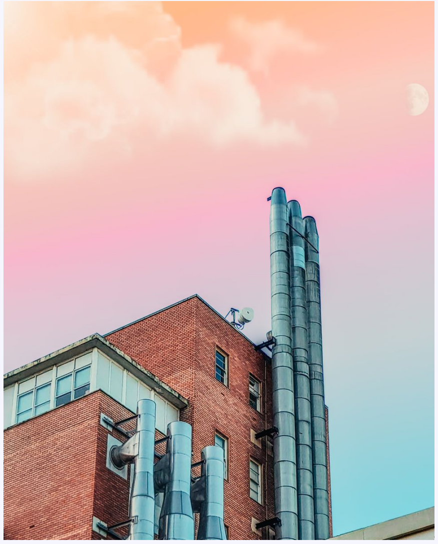
In October of 2018, ShopSabre received nearly $200 million in funding from LMF Capital, a private equity firm specializing in lower middle market manufacturing and industrials. ShopSabre is a leading designer and manufacturer of Computer Numerical Control (CNC) routers and plasma tables that are used in a variety of high-precision machining operations to cut wood, steel, aluminum and other metals. This deal will allow ShopSabre to supply their equipment at a much lower cost than traditional CNC machines, extending their reach to smaller businesses. This makes it possible for other businesses to continue to grow and keep their production in house, while still producing high quality products.

### Economic Outlook May Stimulate M&A

Valuations of private lower middle market industrial companies have been rising over the last three years, however industrial valuations tend to be lower compared to other industries. The average Total Enterprise Value (TEV)/EBITDA reached nearly 5x, and the average TEV/Revenue was just under 1x. Rising transaction values and valuations are causing investors to be more cautious, and this can explain why deal volume has fallen in the past two years. However, as the economic outlook declines with the emergence of COVID-19, valuations and deal values will fall. The lower purchase prices may draw private equity investors to the industrials sector, as they are sitting on record levels of dry powder that they must invest.



# Conclusion



## Falling Valuations Will Drive M&A

Although transaction values and valuations have been rising over the past three years, the COVID-19 outbreak has reversed that trend. Valuations of industrial companies will fall, but that will attract private equity investor who are sitting on record levels of dry powder. Companies that have relatively healthy financials may see an increased interest from investors in the coming years.

## Future of Manufacturing Is Automation

With the emergence of Coronavirus, manufacturing companies are having to change their business models. Social distancing guidelines have made it difficult to have an in-person workforce, and companies are looking to continue production with fewer employees. Many are turning to automated manufacturing, as it can increase the efficiencies of the manufacturing process, and cut costs in the long term.

## Mega Deals Continue Despite COVID-19

Mega deals have been a prominent part of the industrials sector, and COVID-19 is not slowing this trend. Two deals have already been closed following the outbreak, showing the resiliency of mega deals in this sector. It is expected that these deals will continue to account for a large portion of the deal value in this industry in the coming years.

# Senior Management Team

Jim Audette is a founding partner and President of ASA Ventures. He has broad experience in building high performance companies as a C-level executive and strategist. In addition, his experience includes M&A, debt and equity financings, and corporate restructurings, in a wide range of industries including technology, consumer products, promotional products, healthcare, manufacturing, energy and industrials.

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John Allen is a Managing Director, founding partner of ASA Ventures and is a CPA. He brings over 30 years of direct P&L and general management experience. His diverse background includes a unique combination of operations, financial and sales management, which has enabled him to lead companies to dramatic increases in revenue and profitability. He has served as President, General Manager, and Chief Financial Officer. He has an extensive sales background, has closed numerous transactions in the technology sector, as well as, integrating acquisitions.

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Bill Schloth is a Managing Director and founding partner of ASA Ventures. Bill has significant experience in mergers and acquisitions. He has worked on transactions in many sectors including renewable energy, cloud computing, data analysis, construction and manufacturing. These transactions have ranged in enterprise value from $5 million to $200 million. His focus has always been on exceeding client expectations through detail-oriented due diligence, transparency and thorough marketing efforts.

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# ASA Ventures Group

## Investment Banking for Private Companies: We Make a Market to Sell Your Company

### Trusted Advisors

Trust is one of the most important assets your business has—the trust of your customers, your stakeholders and your partners. As the financial advisor to leading middle market companies worldwide, we know exactly how valuable that trust can be when it comes to navigating strategic and financial alternatives both at home and abroad. We've been providing clients with straightforward, insightful and candid advice for over 25 years. As a leading, mid-market, investment bank, we draw on our deep industry expertise, comprehensive financial advisory and capital markets capabilities, and extensive transaction experience to generate the highest exit value for our clients.

### Why Us?

For 25 years our team has been dedicated to providing merger and acquisition representation for business owners who wish to sell their companies.

ASA clients are typically companies with EBITDA up to $25 million and enterprise values of $3 million to $250 million. ASA is focused on clients in the manufacturing, distribution, industrial, construction, technology and service sectors. Our emphasis is on industry leaders, niche markets, efficient operations and recurring revenue.

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