

INDUSTRIALS

FIRST QUARTER

2014

This Industry Practice Group was established to draw on the experience of CFA advisors who have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Industrials M&A

M&A activity in the North American Industrials sector for Q4 2013 through February 10, 2014 included 946 deals announced or closed according to data provided by *S&P Capital IQ*. Strong momentum in the period is projected to continue into 2014 according to data published by international consulting firm PriceWaterHouseCoopers. In a sector as broad and imperative to the economy as industrials, improving macroeconomic trends and fundamentals are an indicator of the level of M&A activity. Average debt to EBITDA multiples continue to steadily increase, reaching 4.5x as of November 2013, according to *S&P Capital IQ*. This, in addition to the availability of cash with attractive terms, provides strategic and private equity buyers with numerous opportunities to recapitalize balance sheets and pursue liquidity events, which drives M&A activity and increases valuations.

Transactional Overview

Notable announced or closed transactions in the Industrials sector include:

January 2014 - Lee Aerospace, which has operated as part of the Triumph Group for 14 years, is once again a stand-alone company. Jim Lee, the founder and president, has re-acquired the aircraft window, sheet metal and composite structure operation and the company will again be known as Lee Aerospace. The opportunity to re-acquire the company presented itself late last year. Viking Air has chosen Lee to supply fuselage sections for its Viking Twin Otter 400. Lee Aerospace began work on the project in mid-2013. The company has other new work from local manufacturers as well, and it's looking for future growth opportunities, Lee said. Customers also include Bombardier Learjet, Beechcraft, Cessna Aircraft, Spirit AeroSystems, Honda, Cirrus and Gulfstream, the company said. Lee Aerospace, founded in 1989, became part of Triumph in 2000, and over the next 14 years, employment grew by more than 300 percent and revenue by 350 percent.

January 2014 - General Electric Company (NYSE:GE) entered into a definitive agreement to acquire reciprocating compression business division of Cameron International Corporation (NYSE:CAM) for approximately \$550 million on January 20, 2014. The purchase price is subject to closing adjustments. The reciprocating compression business had sales of \$355 million for the year ended December 31, 2012. Cameron



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Selected Q4 Transactions	
Target/Issuer	Buyers/Investors
Stiles Machinery Inc.	HOMAG Group AG (DB:HG1)
Android Industries, LLC	Mitsui & Co. Ltd. (TSE:8031)
Lee Aerospace Inc.	Lee Aerospace Inc.
Industrial Air Tool LLP	Pipeline Supply & Service, LLC
Joslyn Sunbank Company, LLC	Esterline Technologies Corp. (NYSE:ESL)
Chemcal, Inc.	U.S. Water Services, Inc.
Knappe & Koester, Inc.	G.S. Precision, Inc.
Replico Corporation	Contec Holdings Limited

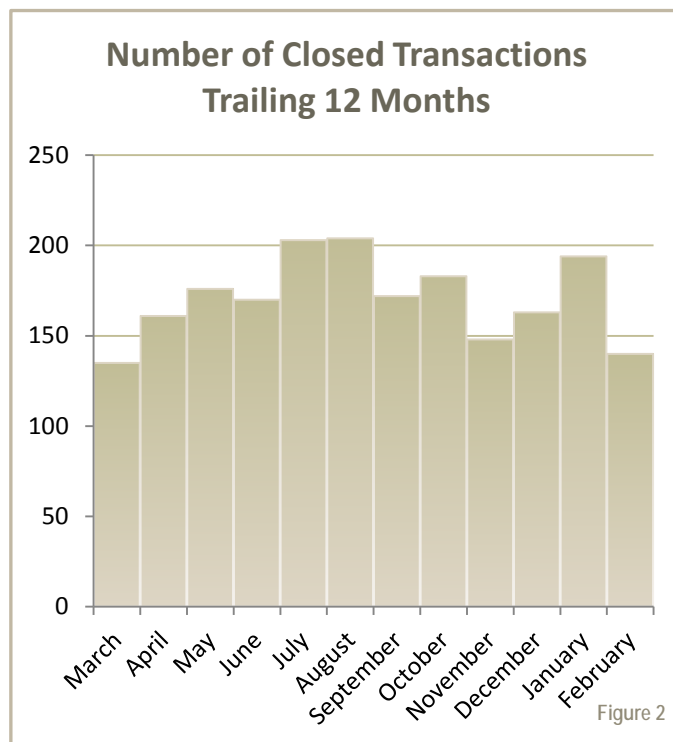
Figure 1

expects to complete the transaction during the third quarter of 2014. Cameron intends to use the net cash realized from the divestiture to partially fund its existing share repurchase program.

December 2013 - DXP Enterprises, Inc. (NasdaqGS:DXPE) entered into a definitive agreement to acquire B27, LLC from Champlain Capital Partners, L.P., a fund of Champlain Capital Management, LLC, Stockwell Fund II, L.P., a fund of Stockwell Capital LLC, Stephen Ardia, Audax Mezzanine Fund II, L.P., a fund of Audax Group, Inc., Gulfstar Merchant Banking III, Ltd., B28 Investment Fund, LLC, Roynat Merchant Capital Inc., Honeywell International Inc. Master Retirement Trust, Madison Capital Funding Co-Investment Fund LP and B27 Holdings Corp for approximately \$280 million on December 9, 2013.

Industry Dynamics

According to data from research firm *First Research*, the US industrial equipment wholesalers industry consists of about 27,000 companies with combined annual revenue of about \$160 billion. The US industrial machinery manufacturing industry includes more than 20,000 companies with combined annual revenue of about \$365 billion. Growth challenges include a fledgling global economy that impacts exports. Imports, which account for about 40 percent of the US market, come largely from Japan (mainly engines and construction equipment); China (generally smaller items like pumps and motors); Germany; Mexico; and Canada. Many manufacturers have significant foreign sales, often funneled through joint ventures with foreign partners. Exports account for about 45 percent of US machinery production. Major markets include Canada, which receives 20 percent of exported US machinery, and Mexico, which receives 10 percent.



New US orders for machinery increased more than 7 percent in the first nine months of 2013 compared to the same period in 2012. Among specific machinery categories, construction machinery saw the largest gains in new orders, with an increase of more than 21 percent. Industrial machinery orders rose nearly 16 percent, while new orders for metalworking machinery grew nearly 12 percent. Other machinery segments that saw new orders rise include mining and oil and gas field machinery (8 percent gain); material handling equipment (6 percent); turbines, generators, and other power transmission equipment (6 percent); and HVAC and refrigeration equipment (3 percent).

The Industrials Practice Group is a multi-disciplinary group of investment banking advisors within Corporate Finance Associates. Collectively, the Industrials Practice Group provides M&A advice to public and private companies in all sectors of the industrials, including international freight forwarders, warehouse management technology and both domestic and international 3PL operations. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.