

# INDUSTRIALS

SECOND QUARTER

2016

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 for North American based target companies in the Industrials sector for Q1 2016 included 216 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$126 million.

One of the largest transaction announcements in the sector during Q1 was in March when paint manufacturing giant The Sherwin-Williams Co (SHW.N) agreed to acquire rival U.S. paint manufacturer Valspar Corp (VAL.N) in an all-cash deal valued at about \$9.3 billion. The combined company would have revenue of \$15.6 billion, adjusted earnings before interest, tax, depreciation and amortization (EBITDA) of \$2.8 billion, and about 58,000 employees.

On the public markets, Danaher Corp (DHR) continues to be one of the sector's public leaders. The stock appreciated more than 10% during the quarter.



Industrial manufacturing production started Q1 strong, but tailed off significantly as the quarter closed.

## Transactional Overview

Notable closed transactions for the period in the Industrials sector include:

**March 2016** - CTS Corp acquired CTG Advanced Materials LLC, formerly known as HC Materials Corp, from Channel Technologies Group LLC, a portfolio company of Blue Wolf Capital Fund II LP, a fund managed by Blue Wolf Capital Partners LLC and is ultimately owned by Blue Wolf Capital Management LLC, for US\$73 million in cash. CTS Corporation is a designer and manufacturer of electronic components, actuators and sensors and a provider of services to OEMs in the automotive, communications, medical, defense and aerospace, industrial and computer markets. CTG Advanced Materials LLC develops and manufactures crystal piezoelectric parts for medical equipment.



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**March 2016** - Univar USA Inc., doing business as Univar Professional Products & Services, which is a subsidiary of Univar NV, and ultimately owned by Univar Inc., acquired Bodine Services of Decatur Inc., for US\$45.5 million. Univar NV distributes industrial chemicals and provides related specialty services. Bodine Services of Decatur, Inc. provides waste management, environmental consulting and facilities maintenance services.

**February 2016** - PolyOne Corp acquired the business and assets of thermoplastic elastomer business, from Kraton Performance Polymers Inc., for US\$72 million in cash. PolyOne Corp. provides specialized polymer materials, services and solutions with operations in specialty polymer formulations, color and additive systems, plastic sheet and packaging solutions and polymer distribution. Kraton Performance Polymers manufactures and markets styrenic block copolymers.

Selected Q1 Closed Transactions	
Target/Issuer	Buyers/Investors
Mart Resources, Inc.	San Leon Energy Plc; Midwestern Oil & Gas Co. Ltd.
Opta Minerals, Inc.	Speyside Equity LLC
Vogel Capital, Inc.	Acme United Corp.
Microsemi Corp. /Defense Business/	Mercury Systems, Inc.
Cincinnati Sub-zero Products, Inc.	Gentherm, Inc.
Mart Resources, Inc.	San Leon Energy Plc; Midwestern Oil & Gas Co. Ltd.

## Industry Update

US production of manufactured goods increased 1.8% in February 2016 compared to the same month a year earlier. February's rise represented the third consecutive monthly gain in US manufacturing output, which some economists are viewing as a sign that the sluggishness of the US manufacturing sector may be easing, according to the Wall Street Journal. US manufacturing growth has been hindered in recent months by weak global demand, a strong dollar that makes US goods more expensive in overseas markets, and low oil prices. The February gains in manufacturing production were led by motor vehicles and parts, which saw a 9.1% rise compared to February 2015. Growth in other key segments of the US manufacturing sector was muted in February. Consumer goods production rose 1.1%, while that of computer and electronic products saw a 1.5% gain. Production of industrial equipment declined 3.7%. Continued soft demand for US exports may prompt manufacturers to reduce their inventories, which could create further ripples of demand weakness within the overall manufacturing sector.

### Industry Indicators

- Total US manufacturers' shipments, which indicate manufacturing sector activity, fell 2.2% year-to-date in February 2016 compared to the same period in 2015. In combination with the increase in production (see above), this indicates a significant increase in inventories in the sector. If this isn't followed by a pickup in shipments in the coming months, industrial producers will have to cut back on production again. Total US wholesale sales of durable goods, a potential measure of industrial demand, rose 1.5% in November 2015 compared to the same month in 2014.
- The spot price of crude oil, which indicates energy prices paid by manufacturers, fell 29.1% in the week ending April 8, 2016, compared to the same week in 2015.

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 independent and integrated companies in all sectors of the industrials industry, including building materials, "green" building products, capital goods, diversified industrials, machinery, paper and forest products and businesses that serve the industrials industry. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.

