

## MANUFACTURING SUMMARY REPORT

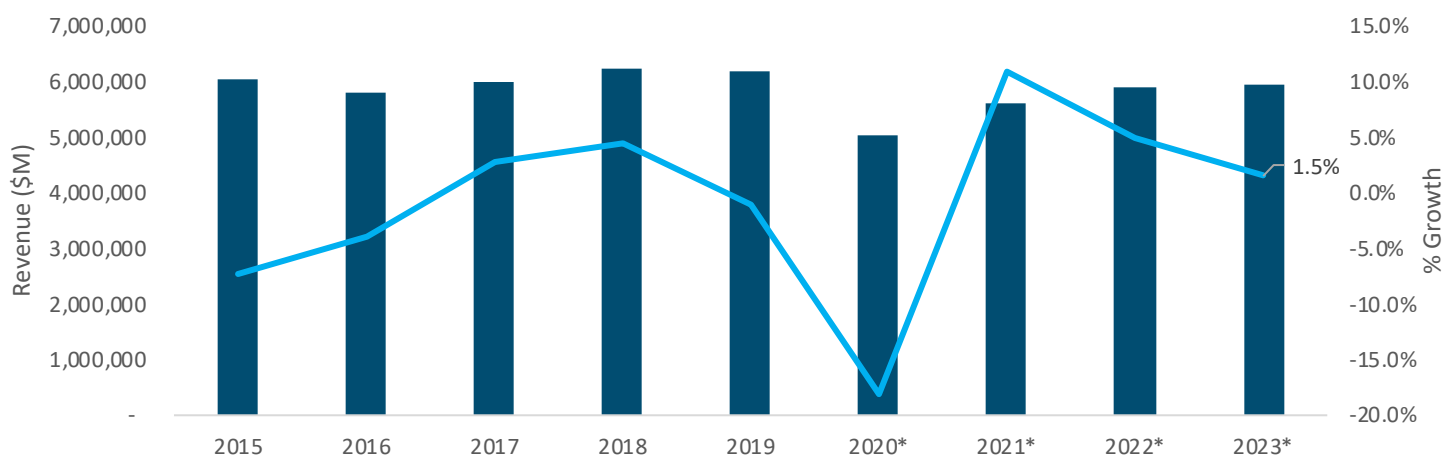
2020 – 2<sup>nd</sup> QUARTER

### MANUFACTURING OVERVIEW

- The manufacturing sector contains operators who transform raw inputs into products through a variety of processes. The sector is massive and includes everything from food and beverages to wood and paper products. As such, manufacturers are subject to a broad range of factors such as commodity prices, the strength of the dollar, policy decisions, and much more.
- Prior to the current period, US manufacturing was already struggling. Following a decline in 2019, first quarter activity was stagnant before the pandemic's arrival. Trade disputes with China, rising labor costs, and a slowing economy all factored into the slowdown already in progress. Furthermore, an appreciating dollar has made exports more expensive for foreign consumers and imports cheaper for Americans.
- The response to COVID-19 has devastated the manufacturing sector especially, with a forecasted 18.1% decline in 2020. Much of the sector works in on-site jobs, making stay-at-home orders and social distancing measures particularly difficult to cope with. Many manufacturers have experienced a massive drop in demand coupled with global supply chain disruptions, leaving many to temporarily close their factories altogether. Accordingly, March 2020 saw the largest monthly drop in US manufacturing since the end of WWII, bested only by April 2020.
- Manufacturers are taking a number of steps to adapt to the new environment. Many are looking to increase automation to decrease the workers needed on factory floors. For example, meatpacking giant Tyson Foods is looking to implement a deboning system for its chickens following some meat shortages. Another focus has been on rethinking supply chains in response to tariffs and COVID-19 disruptions, with 52% of advanced manufacturers saying the virus has already caused them to take steps towards finding new suppliers. Many manufacturers are considering moving operations to more tariff friendly locations that are less likely to suffer disruptions, such as back to the US or Central America.
- Moving forward, the manufacturing sector is expected to have a slow recovery without quite reaching pre-pandemic levels in the next five years. However, this is part of a decade long stagnation and will likely be helped by a depreciating dollar and technological advances. We expect M&A to remain suppressed in the short-term but pick up later in the year, especially for distressed companies.

*IBISWorld, WSJ, Deloitte, The Fed, EY, RCO Research.*

#### INDUSTRY REVENUE



*IBISWorld 2020*

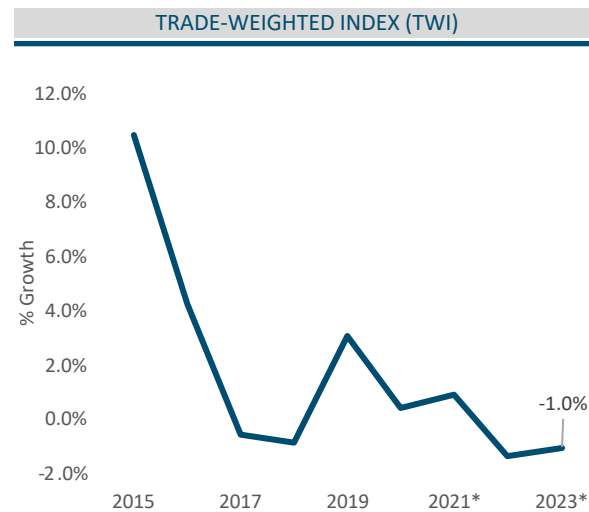
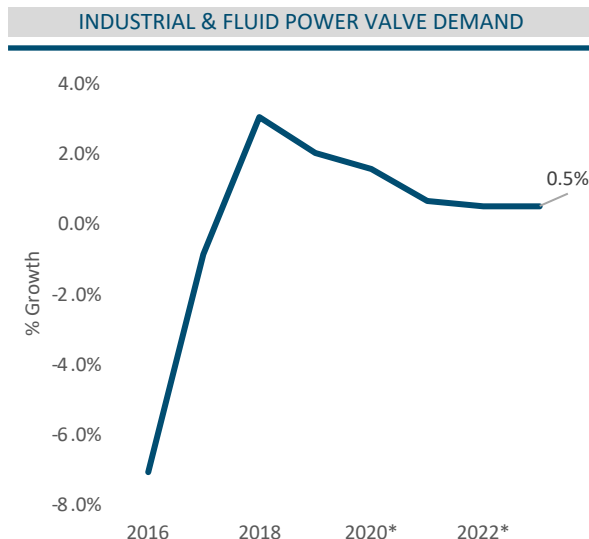
## FEATURED SEGMENT:

# INDUSTRIAL & FLUID POWER VALVE MANUFACTURING



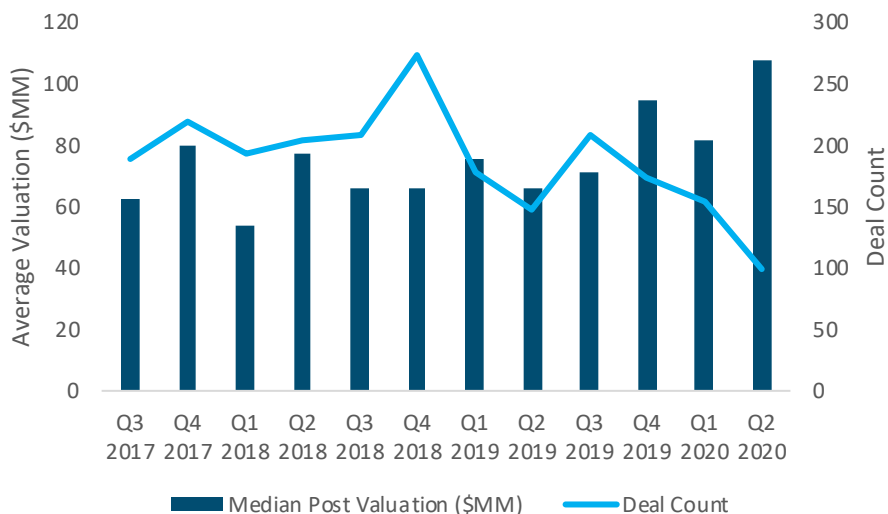
- The industrial and fluid power valve manufacturing industry services almost every type of industrial activity. The industrial valves segment includes a variety of flow control devices that are used in general applications such as waterworks, primary metal and industrial manufacturing, and petroleum refining. Fluid power valves are essential components of hydraulic and pneumatic power systems, which transfer power from one location to another. They are frequently used in the aerospace market, hydraulic fracturing, and industrial machinery manufacturing.
- Demand for industry products typically mirrors industrial production and manufacturing activity. The largest product markets are energy, manufacturing, waterworks, and construction. Demand from the energy sector is concentrated near the wellhead, particularly during new drilling. Waterworks and construction demand are driven in large part by government investment in infrastructure, which may temporarily falter as local governments reel from the pandemic.
- Energy, which accounts for just over a quarter of demand, has been the key driver of industry performance in the last several years. When oil prices dropped in 2015-2016, the industry suffered and had not yet returned to 2014 production before the pandemic hit. After the historic rout in oil prices caused by the pandemic, investment in upstream oil and gas assets has plummeted even more than during the 2015 crash. This will likely cause a drastic decline in industry revenue until US oil production returns.
- The industrial and fluid power valve manufacturing industry is highly globalized, with imports representing just over half the domestic demand and exports accounting for 42% of US production. Much of the exports go to oil producing countries in the Middle East or East Asian manufacturers. Because the industry relies on global trade so heavily, the recent appreciation of the dollar has hampered US manufacturers. The trade weighted index (TWI), which measures the strength of the US dollar compared to the currencies of its trading partners, is finally projected to decline in the coming years which should help US manufacturers.
- Industry trends include the increasing integration of industrial and fluid power valves with control systems and software. These systems manage plant processes in real time by collecting and analyzing information, then using control valves to continuously modulate the flow of process fluids.

IBISWorld 2019, WSJ, RCO Research.



\*Indicates forecasted industry revenue prior to current impacts of COVID-19. IBISWorld 2019.

### NORTH AMERICAN DEAL COUNT & AVERAGE VALUATIONS – UP TO \$250MM



PitchBook data through June 30, 2020.

### AVERAGE INDUSTRY PERFORMANCE AND MULTIPLES

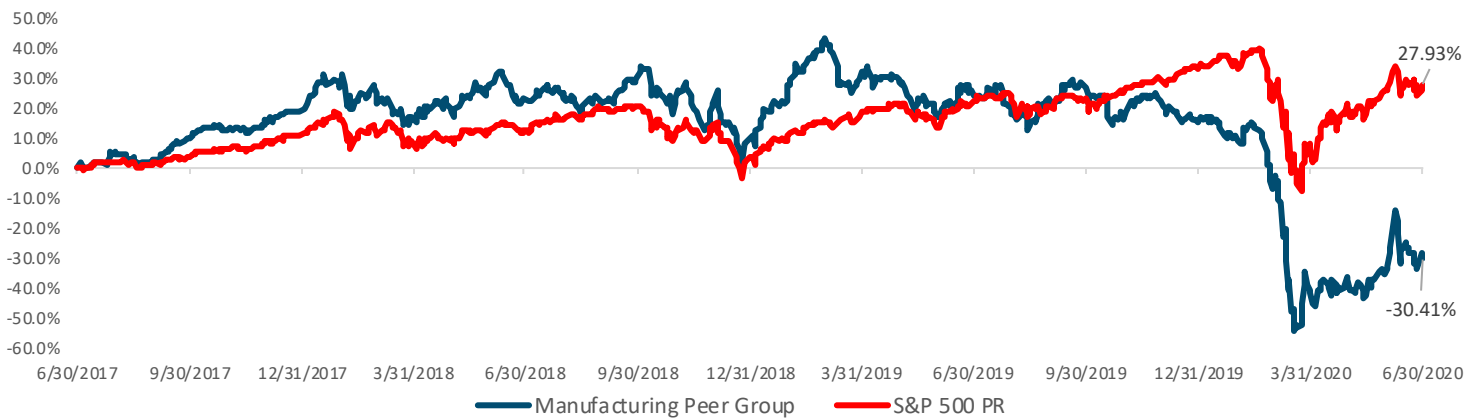
| TEV Range (\$MM) | Revenues (\$MM) | EBITDA Margin % | TEV / EBITDA |
|------------------|-----------------|-----------------|--------------|
| 10–25            | \$20.6          | 18.6%           | 5.6x         |
| 25-50            | \$39.9          | 19.4%           | 6.0x         |
| 50-100           | \$66.3          | 20.2%           | 6.9x         |
| 100-250          | \$132.0         | 19.9%           | 7.5x         |

GF Data® 2003 through June 30, 2020.

# R&C MANUFACTURING INDICES

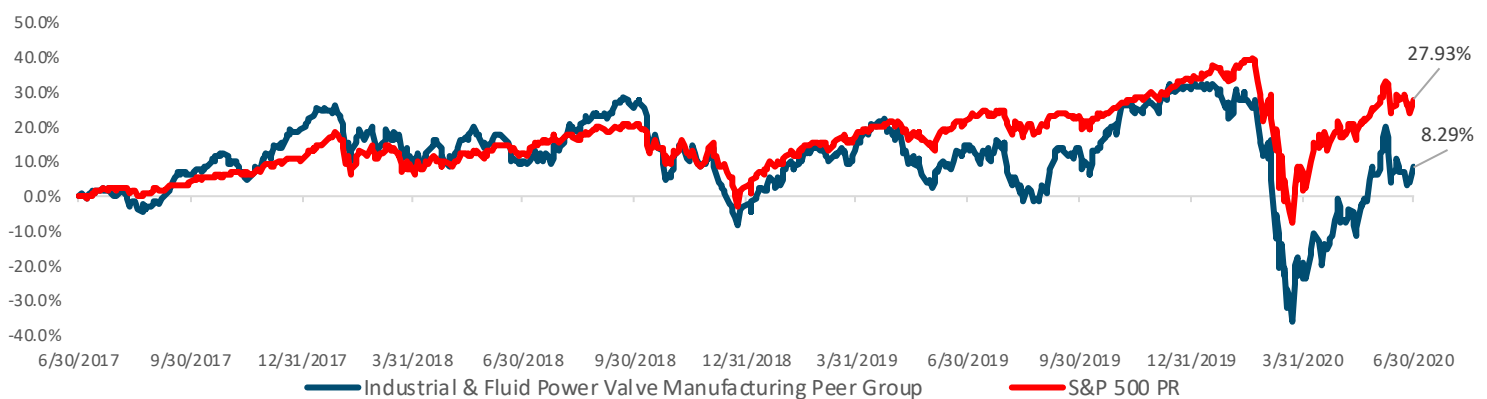


## MANUFACTURING INDEX



| Peer Group                     | As of 6/30/2020 |               |                  | TTM 6/30/2020 |              | EV Multiples |            |
|--------------------------------|-----------------|---------------|------------------|---------------|--------------|--------------|------------|
|                                | \$ / share      | Market Cap    | Enterprise Value | Sales         | EBITDA       | TTM Sales    | TTM EBITDA |
| Johnson & Johnson Services Inc | \$ 140.63       | \$ 370,750.22 | \$ 380,309.22    | \$ 82,729.00  | \$ 26,326.00 | 4.6x         | 14.4x      |
| ExxonMobil Corporation         | 44.72           | 189,184.85    | 244,048.85       | 249,071.00    | 36,653.00    | 1.0x         | 6.7x       |
| Boeing Co.                     | 183.30          | 103,440.84    | 127,145.84       | 70,550.00     | (2,928.00)   | 1.8x         | -43.4x     |
| General Motors Co              | 25.30           | 36,206.23     | 120,784.23       | 135,068.00    | 19,966.00    | 0.9x         | 6.0x       |
| Tyson Foods, Inc.              | 59.71           | 21,753.56     | 33,581.56        | 43,472.00     | 4,035.00     | 0.8x         | 8.3x       |

## INDUSTRIAL & FLUID POWER VALVE MANUFACTURING INDEX



| Peer Group                  | As of 6/30/2020 |              |                  | TTM 6/30/2020 |             | EV Multiples |            |
|-----------------------------|-----------------|--------------|------------------|---------------|-------------|--------------|------------|
|                             | \$ / share      | Market Cap   | Enterprise Value | Sales         | EBITDA      | TTM Sales    | TTM EBITDA |
| Emerson Electric Co.        | \$ 62.03        | \$ 37,061.39 | \$ 42,225.39     | \$ 17,968.00  | \$ 3,697.00 | 2.4x         | 11.4x      |
| Parker-Hannifin Corporation | 183.27          | 23,498.41    | 31,852.80        | 14,216.38     | 2,435.43    | 2.2x         | 13.1x      |
| Ilt Inc                     | 58.74           | 5,069.26     | 4,708.56         | 2,814.20      | 544.50      | 1.7x         | 8.6x       |
| Flowserve Corporation       | 28.52           | 3,711.19     | 4,664.85         | 3,949.26      | 451.65      | 1.2x         | 10.3x      |
| SPX FLOW, Inc               | 37.44           | 1,596.72     | 2,095.22         | 1,422.70      | 127.30      | 1.5x         | 16.5x      |

PitchBook data through June 30, 2020.

# FEATURED MANUFACTURING TRANSACTIONS



**Chemring  
Ordnance**

*Acquired by*

**Nammo**

On May 6, 2020, Nammo, a Norwegian/Finnish aerospace and defense group, announced the completion of acquiring Chemring Ordnance, Inc.

Chemring Ordnance develops and manufactures ordnance, pyrotechnic products, and other munition components out of its facility in Perry, Florida. The acquisition reflects Nammo's pursuit of becoming a main provider of advanced munitions to the US government. Nammo now has more employees in the US than in any other country and have expanded their manufacturing and development capabilities.

Total cash consideration equated \$17MM.<sup>1</sup>

On April 16, 2020, Standex International Corporation (NYSE:SXI) announced the sale of its Refrigerated Solutions Group to lower middle market investor, Ten Oaks Group.

Refrigerated Solutions Group (RSG) manufactures refrigerated cabinets and walk-ins with facilities in Wisconsin and Mississippi. The divestiture of RSG is part of Standex's strategy of simplifying their portfolio and focusing on their most profitable core businesses.

Total consideration equated \$11MM.<sup>2</sup>



*Acquired by*



**speedo**

*Acquired by*



On April 6, 2020, PVH Corp. (NYSE:PVH), one of the world's largest apparel companies, announced the sale of its Speedo North America business to Pentland Group.

Speedo North America is a manufacturer of swimwear apparel and is part of the global Speedo brand. Pentland Group is the parent company of the Speedo brand, and this acquisition will allow Pentland to operate the Speedo businesses worldwide.

Total cash consideration equated \$170MM.<sup>3</sup>

PitchBook.

1. Transaction Press Release, dated May 06, 2020. <https://www.nammo.com/newsroom/#/pressreleases/nammo-completes-florida-acquisition-and-releases-annual-report-2996378>
2. Transaction Press Release, dated April 16, 2020. <https://www.prnewswire.com/news-releases/standex-completes-sale-of-refrigerated-solutions-group-301041444.html>
3. Transaction Press Release, dated April 06, 2020. <https://www.businesswire.com/news/home/20200406005562/en/PVH-Corp.-Completes-Sale-Speedo-North-America>

# ROMANCHUK & CO.

## FIRM CAPABILITIES



Romanchuk & Co. is a boutique investment banking firm providing mergers and acquisitions (M&A) and financial advisory services to lower middle-market leaders within the diversified industrials sectors. We advise owners and investors of privately-held businesses, private equity firms and corporations on the preparation and sale of their company, assist them in identifying strategic

opportunities, and help them execute upon those strategies. Our team of licensed investment bankers specializes in providing sell-side M&A advisory services to lower middle-market companies with enterprise values ranging from \$15 million to \$250 million. For more information, please visit our website at [www.romanchukco.com](http://www.romanchukco.com).

## RECENT EXPERIENCE

Our most recently closed deals showcase our firm's unique ability to execute transactions across the diversified industrials sectors, while maximizing value for our clients in the lower middle-market. Drawing on our collective industry experience and strengths, Romanchuk & Co. is focused on providing creative, impactful M&A strategies to our clients across the diversified industrials sector.



## INDUSTRY RECOGNITION



Romanchuk & Co. was selected as the Boutique Investment Banking Firm of the Year for 2018. Over 230 nominees, representing over 600 companies, became finalists for the awards. An independent judging committee of 29 top M&A industry experts determined the ultimate recipients of the awards.

In addition, Romanchuk & Co. was named a finalist in the following categories: Energy Deal of the Year, Industrials Deal of the Year (\$10MM-\$50MM), M&A Deal of the Year (\$10MM-\$25MM), and M&A Deal of the Year (\$50MM-\$75MM).

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