CDI GLOBAL

Buying and Selling Companies in the Industrial Products & Services Sector

A step-by-step guide to finding the deal that's right for you.

Industrial Products & Services Sector

Executive Summary

The value of this guide

CDI Global has advised companies on mergers and acquisitions (M&A) for 40 years and has successfully completed over 1,600 transactions since its inception. We have a deep knowledge of the Industrial sector and understand the prime importance of making informed choices in this complex global industry. Opportunities are plentiful, but so are potential pitfalls. Until now you may have been sufficiently concerned by the latter to miss the former. This guide aims to explain both and demonstrate that, with the right expertise, there are deals to be made that can greatly benefit your business.

Who is it for?

Companies throughout the Industrial sector and those seeking investment opportunities, such as private equity firms. In particular, senior executives and owners of smaller and middle market companies who want to know more about mergers and acquisition in the Industrial sector, whether it has been on their 'to do' list or not. If you've never considered acquiring or divesting, we hope this guide will provide a fresh perspective.

Key takeaways

- The state of the Industrial sector M&A current market
- The benefits of buying or selling
- M&A - the promise and pitfalls
- Auctions - is there another way to buy?

Get an experienced perspective on your M&A ambitions

CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in this sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our Industrial experts by phone or Skype™.

Why buy or sell in the Industrial Products and Services sector?

On the basis of the increasing complexity of products and accelerated pace of technology, Industrial companies are now required to broaden their array of products and services as well as expand their geographic footprints to meet customer needs.

In recent years, we've seen a wide range of highly targeted and strategic acquisitions in the Industrial sector, where strategic investors are actively seeking complementary acquisitions to expand their portfolio. Furthermore, cross-border transactions have been an important part of companies' strategy, where with a strong domestic base, they are looking to expand their successful strategies internationally.

Conversely, as scale is a key driver contributing to the consolidation process, such industry evolution also poses opportunities for the smaller industry players.

The State of the Industrial Products & Services Market in 2021

The Industrial Products & Services sector is wide and very diversified and covers the whole range of manufacturing. The following segments exemplify the different activities:

1. Industrial Automation
2. Industrial Products and Services
3. Manufacturing
4. Industrial Electronics

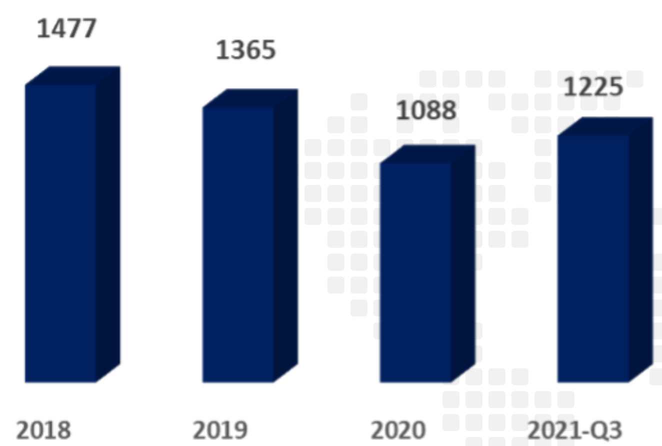
According to different sources the global Industrial market is expected to keep growing from approx. USD 33.6 bn in 2020 to USD 44.1 bn in 2025. Global M&A activity remains very strong, fueled by both strategic and private equity investors. From the strategic point of view, current players need to expand activities into new niches to further diversify their portfolio. Additionally new manufacturing technologies as well as growing demand from developing market are fostering growth in the sector.

Since the sector is in a clear consolidation process, its appeal for financial investors is not new. Private Equity players have been on both sides of transactions over the last five years, trying to exit and get a good return in a robust M&A environment, or looking for add-ons to their existing invested platforms to complement their current offerings.

As shown in the chart below, M&A dynamics in the sector is stable:

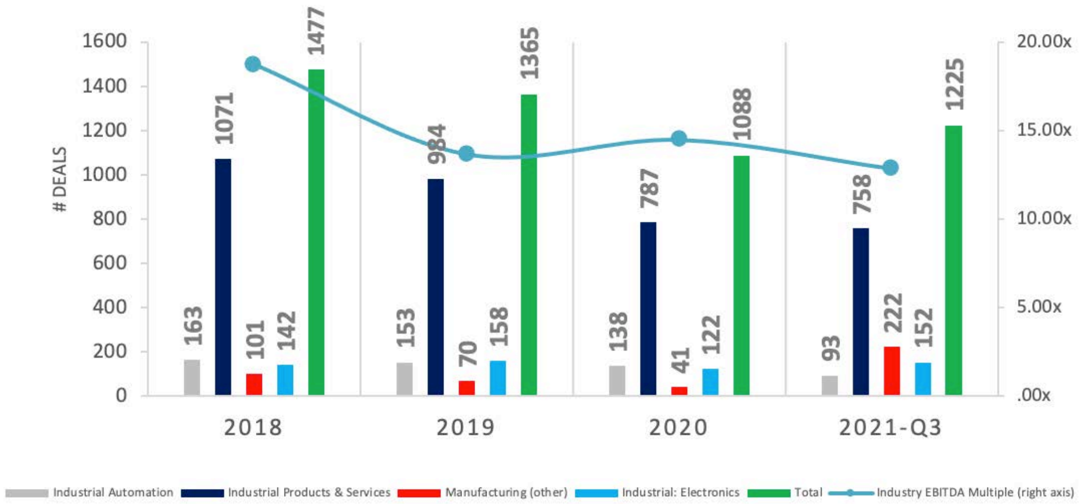
- Large market with over 1.000 transactions per year
- Average deal size stands high at approx. 326.6 m. EUR
- Number of transactions have dropped in 2020 due to COVID-19, but are set to rebound in 2021

Development of M&A activity in the sector:



Source: Mergermarket

Although far from the all-time highs of 2018, valuation multiples remain high, ranging from 8,4x to 19,0x depending on the segment. Also, there is no distinctive difference between valuation of listed and private companies' M&A transactions.



EBITDA multiples by sector

Year	2018	2019	2020	2021-Q3
Industrial Automation	26.10x	20.82x	11.97x	19.07x
Industrial Products & Service:	17.63x	12.73x	15.63x	14.12x
Industrial: Electronics	21.97x	13.61x	10.42x	11.99x
Manufacturing (other)	11.92x	9.19x	12.34x	8.44x

Source: Mergermarket

Where do the opportunities lie?

The future in this sector is still promising globally, and according to different sources, higher growth rates are expected in the Asian markets. In the established markets of the US and Europe, potential for consolidation exists as weaker market participants struggle with keeping up with challenging market environments.

The key factors that will keep on stimulating M&A transactions are scale, portfolio diversification, and new niche products and services as well as new technologies.

On the other hand, when looking at cross-border transactions, different regulatory environments imply the preference of big players to look for well-established companies in the target markets, rather than smaller ones that might demand a great effort from the acquirer and a higher risk.

What are the challenges?

Operating margins are already low in the industry, but as the market matures and competition grows, the clients also learn and design new formulas to put more pressure on prices. Globalization, specialization and scale are becoming the driving factors to succeed in the Industrial Products and Services market.

Trends in the Industrial sector

Companies in the Industrial Products and Services sector need to adapt to four major trends: navigating disruption in the manufacturing industry, digital investments, supply chain resilience and adapting to new work workplace. These factors drive change in the coming months and years in the sector. One key strategic option is to acquire companies in order to gain a competitive advantage. Another strategic option is to optimize the portfolio and divest businesses, which no longer add value to the strategy of the company.

Finally, different regulations in each country will continue to be the main reason for international searches and cross-border transactions. This applies equally to the different categories and thus perpetuates the current dynamics of M&A activity in this sector over the next few years.

"Identify the Right Opportunity"

What to do if you're looking to buy

"It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy."

1 The starting point:

It's vital that you have a clear rationale for seeking an acquisition in the first place, underpinned by your company's growth strategy. This will provide the framework for defining the criteria when choosing your target.

2 Next steps:

Specify criteria and decide which are critical/important, then quantify each one (e.g. target size, profitability, growth rate, sales in key segments, etc.). A preliminary list of targets can be drawn up but, at this point, a reality check is crucial. Do you have the time or expertise to locate the best targets? If not, you need help from an expert in the sector who will also advise on how and when to approach the companies in question.

3 Finance:

Engage with potential debt or equity providers to ensure they understand and back the plan, and that you will have sufficient financial firepower to do the deal. Also calculate how any extra leverage might affect the company.

Be mindful of fluctuations in currency exchange rates, they tend to be self-hedging if the changing value of debt and profits go hand in hand. Investing heavily in emerging economies/markets with volatile currencies can be tricky to manage, if they constitute a significant proportion of your corporate earnings. CDI Global's M&A advisors understand global markets and can shepherd you through the landscape and financial ramifications of your deal.

4 Identifying the right opportunity:

As we have said, many companies seek to strengthen their core when acquiring; but other businesses may diversify, either into higher margin sectors or to hedge against shocks in specific markets or geographical areas. M&A here requires a very rigorous approach as almost every opportunity will be different. Whatever the strategy, ideal targets for acquisition will likely have one or more important characteristics:

i. A steadily growing sales and profit profile
ii. Good growth potential based on factors such as holding a niche position and/or valuable intellectual property.
iii. Fragmented supplier and customer bases, relatively immune to cost/price pressures and more able to sustain margins.

5 Auctions:

On the face of it, auctions appear a good solution for time-poor senior executives seeking acquisitions. Initially the selling company does all the work, hiring an investment banker to prepare a glossy prospectus that arrives in the post, to be read at your leisure. But there are three immediate disadvantages:

i. The prospectus will often go to many other potential buyers, thus inviting maximum competition.
ii. You may receive it irrespective of the suitability of the offer, which can distract from the original goals.
iii. The focus for the bank conducting the auction is getting the best price for the seller.

So, your chance of acquiring a company that's a good fit at a reasonable price is diminished. And companies can waste a lot of time evaluating prospectuses to discover there would be little strategic benefit acquiring what's for sale.

Following the herd is rarely fruitful. Unfortunately, companies disappointed by auctions can allow this to color their view of M&A as a whole, to their detriment. This is a missed opportunity as other approaches are available, such as specialist search, which can be extremely effective.

6 Why use a specialist?

Serendipity is not an effective strategic tool. You need experienced advisors who will help you diagnose your requirements and know where to find what you need, anywhere. You need someone who understands your sector inside out and talks your language, yet also works cross-border as a matter of course, with a global knowledge and reach. Someone who is also used to managing the whole M&A process, dealing with the myriad of accounting, legal and specialist advisors and driving the deal home.

CDI Global deploys experienced specialists that listen to your needs in order to craft comprehensive strategies based on your precise requirements. Having an expert in your corner means maximizing your team's time and getting the job done to secure the best possible M&A outcome.

"We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction."

7 Due diligence:

CDI Global has the experience to recognize the warning signs of a bad deal and works with you to avoid those pitfalls. These warning signs include:

i. The seller appears not to be irrevocably committed to selling.
ii. The seller has limited or poorly prepared due diligence materials.
iii. The seller may not have proper support from professional advisors.
iv. The timetable is unclear or key deadlines in the process are missed or not respected by the seller.
v. The business starts to under-perform or miss key financial targets.
vi. The seller reneges on key aspects that have already been agreed.
vii. Due diligence uncovers one or more 'skeletons in the cupboard'.

However, cross-border deals in the Industrial Services sector can have specific pitfalls, especially when dealing in certain Asian countries where regulatory and accounting standards are different. Once again expert advice is needed to avoid costly mistakes. If your new acquisition brings with it hidden environmental liabilities, it can have a ruinous impact on your whole business, not just the new company. You need to find these during due diligence, and for that you need expert help. We remove the complexity from these negotiations by having global reach, with local experts that facilitate a smooth transaction.

8 Managing the transition:

With the deal nearing agreement, you will need clear plans (30-day, 90-day or similar) on what will be done immediately once the new business is acquired. It's vital to get role changes and/or redundancies implemented quickly. Will the owner or senior managers continue to be involved? Will you have to act to prevent departures of key personnel? You need to have clear answers to these important questions. CDI Global can help develop a strategy to navigate your post-merger integration to help optimize efficiency and synergies.

What to do if you're looking to sell?

1 The starting point:

For private companies, this often arrives when the owner reaches a certain age and wants to enjoy the fruits of their labor. Is the next generation willing or able to pick up the reins? If not, what are the options to transition the business? Is selling the right answer?

2 Next steps:

Do you sell all the business or keep a stake? The latter could be an attractive option if you're confident about future growth with your shares becoming more valuable in time. Even if you sell everything, be prepared for buyers who want to lock you into the business for a period, post-sale, particularly if they're paying a high price. Typically, buyers will have very well-defined requirements and what they want is usually simple – certainty about what they are buying and the risks and liabilities that come with it.

For your part, be clear about your minimum price and whether you wish to stay involved in the business in future. Don't compromise on these points. There is usually no need for negotiations to become as complex as they often do. Again, an experienced M&A advisor can usually craft a plan based on your desired timing. They also know where to find potential problems in the small print – anything that could claw back money from you as the seller in future years or leave you with residual liabilities (particularly with environmental issues or pension liabilities).

3 Finance:

It is the buyer who ultimately fixes the value of your business based on market, competition, and your unique selling points. It's important that you have a view, and make your calculations accordingly, but in the final analysis what they are willing to pay is the critical determinant of value. Every deal is different, so basing your valuation on what has happened previously can lead to disappointment and disruption to your business planning. Be clear, but also realistic, about your price and expectations and be prepared to walk away if these are not met.

Also, in any deal, be careful about committing to significant investment to make your business more sale-able. This may be necessary to remove an obstacle to sale (e.g. an environmental issue), but investment aimed at producing future growth may not impress buyers, particularly if the future profit uplift is reflected in the expected sale price. Buying on a promise is not attractive to either strategic acquirers or financial buyers, i.e. private equity.

4 Due Diligence:

What does a 'good' buyer look like?:

i. They have the right attitude and commitment to do the deal.
ii. They can provide proof of sufficient finances to complete the transaction.
iii. They have the resources, in particular the right people, to progress the deal.
iv. They have a track record of closing other similar deals.

5 Legacy / Cultural Considerations:

A final important consideration is whether the buyer is willing to meet terms you may set for the treatment of your staff after you depart. You must decide how important that is and be very clear if it is a requirement. In addition, for a privately-owned company, do you want the company name and brand to continue?

Case Study

CDI GLOBAL advises the Spanish company NBI Bearings in the acquisition of a majority stake in the Indian bearings manufacturer FKL

NBI Bearings Europe is the parent company of a group specialized in the design, manufacturing and distribution of precision bearings and other high value-added metalwork and machinery products for industrial clients.

The group has presence in 50 markets and, prior to this acquisition, it was already operating 8 plants (6 in Spain and two in Romania) and also had a long-term manufacturing agreement with a Chinese bearings manufacturer.

The group has an ambitious acquisition strategy, in which CDI GLOBAL IBERIA has already played a significant role, having advised the company, to date, in 5 acquisitions.

The investment rationale

FKL India is a specialist in the manufacturing of two specific bearings (SRB and TRB) with a diameter below 120 millimeters. The company was part of a larger group with over 40 years of experience in the Asian bearings markets. The acquisition not only allowed NBI to widen its product portfolio, but more importantly, serves as gateway to the enormous Indian market.

The role of CDI in the transaction

The deal was coordinated out of CDI GLOBAL's Madrid office. CDI GLOBAL's India office helped with its credentials to gain the mandate and provided specific support in the selection of the local due diligence teams.

The deal was successfully closed via a capital increase that allowed NBI to acquire a 51% stake in the company. NBI also committed to finance and deploy a strategic plan to upgrade the company´s industrial facilities, increase its capacity and accelerate its growth in the attractive Indian market.

Case Study

CDI GLOBAL advises Gustav Zech Foundation on the sale of Italy-based structured cabling distributor Qubix S.p.A to Swedish Hexatronic Group AB.

Having considered Qubix' business as non-core activity within GZS Digital, a subsidiary of Gustav Zech Foundation, the latter together with CDI GLOBAL initiated the sell-side process for the Italian cable distributor in summer 2020.

About the acquirer

HEXATRONIC is a technology group headquartered in Sweden specialized in the development, manufacture and distribution of products, components and system solutions primarily for the fiber optic telecommunication infrastructure market. Hexatronic entered into an agreement to acquire a 90% majority interest in Qubix, maintaining the current General Manager as minority shareholder.

CDI Global role in the transaction

CDI GLOBAL as the exclusive M&A advisor to Gustav Zech Foundation, analyzed the company, identified the most suitable strategic potential buyers in the international markets, helped the client in the final selection and conducted the negotiation process. Despite the challenging market environment and the restrictions related to the Covid-19 pandemic, the process was launched promptly and was finalized within 5 months. The speed of execution as well as cross-border expertise highlight the core competencies of CDI GLOBAL in this complex sell-side transactions.

About CDI Global

We hope this guide has stimulated your interest in M&A – and alerted you to both its potential opportunities and hazards. Our 40 years of experience has shown CDI Global how to navigate the shifting marketplace, and guide companies through the process to find opportunities that match their goals.

We have the knowledge.
Would you like to reap the benefit?

CDI Global offers expertise in:

- Industrial sectors – unlike banks and investment advisors, our team has both worked and conducted M&A advisory within various sectors across the industry. We know the industry structure and dynamics inside out.
- Custom-tailored, pro-active approach. We go out and find the best deal for your unique requirements, and offer pragmatic, hands on support, either in buy side or sell side mandates
- Extensive network of contacts, particularly among privately owned companies in the Industrial sector.
- Cross-border M&A expertise and global footprint. CDI Global has expertise on the ground in each territory and operates on the basis of cross-border cooperation.
- We focus on best strategic fit, not just best price.
- Experience in search projects and approaching SME owners on a highly confidential basis, improving closing rates and sourcing "not-for-sale" vs auction opportunities.
- Experience and support in organizing local Due Diligence, managing negotiations and providing results.
- Commitment to the long-term, both in our strategic advice and when working with clients.
- Respect we have earned from both parties in our transactions - based on trust and professionalism.

Get an experienced perspective on your M&A ambitions

CDI Global works with businesses throughout the world to achieve the very best M&A outcomes. If you are considering buying or selling in this sector, or would simply like to discuss your options, sign up now for a free, no-obligation consultation with our Industrial experts by phone or Skype™.

FIND OUT MORE

Industrial Products & Services Sector

www.cdiglobal.com