



# Flow control sector - M&A update

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# 1. Introduction

Oil and gas prices, together with the softening of industrial manufacturing activity in Asia, have dominated the headlines in recent months and have created a sense of uncertainty at the start of 2016. These factors will remain key considerations for many flow control operators who will seek to weigh up their options and reassess strategic priorities, in what is anticipated to be a challenging year in the sector. However, a plethora of opportunities are likely to become available, especially from an M&A perspective.

This publication provides a KPMG perspective on the global flow control sector, specifically focussing on original equipment manufacturers (OEMs) whose products comprise valves, pumps, seals, filtration and related flow control equipment. An insight into current themes, selected M&A transactions and a perspective on valuation trends is provided based upon a selected Flow Control Peer Group (FCPG), a selection of listed businesses considered to be key players in the sector (see Appendix).

## Key themes impacting the flow control sector

In 2015, industrial manufacturing companies were faced with considerable pressure on achieving desired returns which were anticipated at the start of the year. For a number of companies, this resulted in the revision of outlook statements and the issuance of profit warnings. The industry as a whole reached an inflection point, faced with a future of lower global organic growth and a low oil and gas price environment, which is having a knock-on effect across a range of industries and associated capital investment plans. During 2016, it is anticipated that operators will seek to reassess strategic priorities which will drive leaner operating business models, a focus on core activities and capital expenditure repositioning in line with end market demand.

The M&A market, on the other hand, was considerably buoyant and large scale acquisitions started to transform the flow control industry, in particular within the oilfield services sector. This trend is set to continue and is supported by a desire to integrate product and service offerings, improve operational efficiencies, and achieve cost savings. Valuations were also robust during the year, with M&A being driven largely by corporate activity to acquire strategic assets to support revenue growth. We anticipate that valuations will soften into 2016 driven by the weakening global industrial macroeconomic environment which should help stimulate global M&A activity.

### Current market themes

**Subdued global organic growth outlook** represented largely by Asia and driven by China, is creating uncertainty and a reassessment of strategic priorities.

**Low oil and gas prices** impacting growth and investment across a broad range of global industries, which has filtered into non-oil and gas sectors across both the supply chain and customer base.

**Robust M&A valuations during 2015** with double digit multiples being paid for flow control Small and Medium Sized Enterprises (SMEs), which are now expected to soften in response to macroeconomic market conditions.

### Responses being triggered

**Strategic review activity** is driving corporates to focus on core activities leading to non-core disposals and the streamlining of operating models to readjust cost bases - cost synergies are therefore a key area of focus and will continue to support large scale M&A activity.

**Capital expenditure priorities being reassessed**, especially operators exposed to onshore oil and gas in North America. Debt-laden oil and gas companies at risk of becoming insolvent, which will drive distressed M&A.

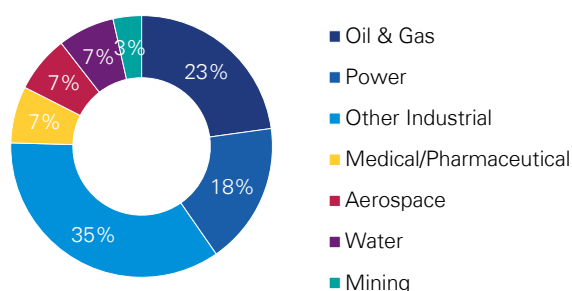
**Acquisition appetite** from corporate and financial institutions remains a strategic priority in the current environment and will be supported by softer valuations in 2016.

## 2. Flow control sector M&A activity and outlook

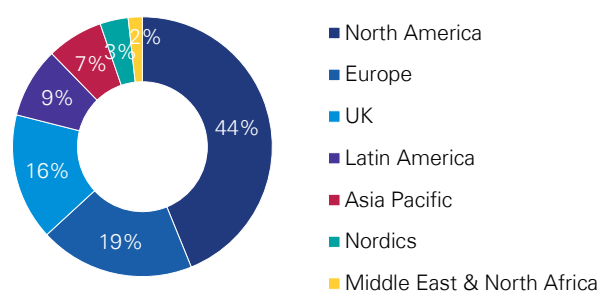
### 2015 M&A activity

- Large scale M&A consolidation was the most notable feature during the year, especially within oil and gas and the wider energy markets, where corporates continued to acquire strategic assets and started to dispose of non-core assets. Financial institutions were also active and particularly successful in carve-outs and complex acquisitions.
- In the oilfield services sector, two landmark US acquisitions were announced: Baker Hughes' acquisition by Halliburton for \$35 billion, the number two and three oilfield service companies, and Cameron, the flow control valve, pumps and related equipment manufacturer, acquired by Schlumberger, which enables the packaging of equipment and services together, for \$13.8 billion.
- Despite the downturn in oil and gas markets, the FCPG (see page 5 and 6) was very active during 2015 with 22 out of 30 companies conducting M&A in the year. The majority of this activity was represented by acquisitions in North America, Europe and the UK, across oil and gas and power industries, with strategic rationale on average being driven by the need to achieve growth and to diversify product, end market and geographic exposure.

### 2015 M&A Activity (by end market)



### 2015 M&A Activity (by geography)



Note: Includes all transactions in the calendar year 2015 for our flow control peer group (57 deals). Oil and gas includes upstream, midstream and downstream activities. Power includes generation, transmission and distribution activities.

Source: KPMG analysis of company press releases.

### Valuation

- The FCPG underperformed in 2015 versus the FTSE All Share and the Dow Jones indices by approximately 16%. EBITDA to Enterprise Value (EV) profit multiples across this peer group declined by approximately 7% or approximately 0.8x during 2015.
- Profit multiples paid in 2015 for notable flow control acquisitions were in the range of 9-13x EBITDA (see pages 5 and 6). OEMs with leading technologies and market positions operating in high growth, niche markets were key attributes of target companies at the upper end of the range.
- The price expectation gap between vendors and acquirers widened considerably in 2015 represented by listed company valuations which were previously supported by strong macroeconomic indicators, however this is expected to narrow as the growth outlook softens.

### 2016 M&A outlook

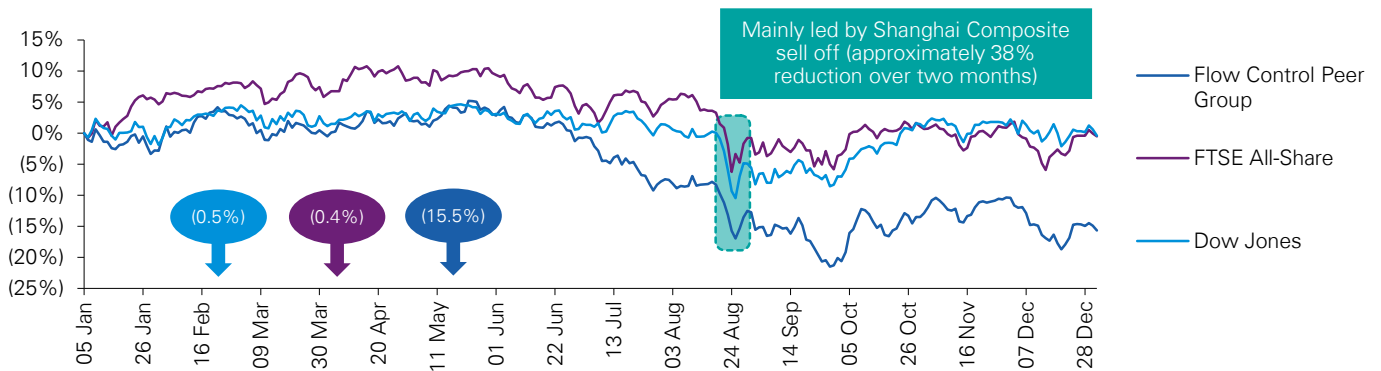
- Corporate appetite to acquire will intensify along with increased price competition from financial institutions given the availability of low cost capital. Valuations are also expected to soften compared to the levels witnessed in 2015.
- Large scale M&A activity will continue as witnessed in 2015 represented by diversification strategies, supply chain integration and achieving cost savings to support margins and shareholder returns in a lower organic growth environment.
- Non-core disposals to become more prominent due to a renewed focus on core activities and the rise in international activist shareholder activity. Financial acquirers likely to benefit from being able to acquire complex-carve out situations.
- Distressed sales in the oil and gas industry, especially those exposed to North American unconventional and offshore activities, will increase. Companies with debt-laden balance sheets will seek to refinance, if possible, and if not will drive distressed M&A.

# 3. Flow control valuation trends and selected notable transactions

## 1. Introduction

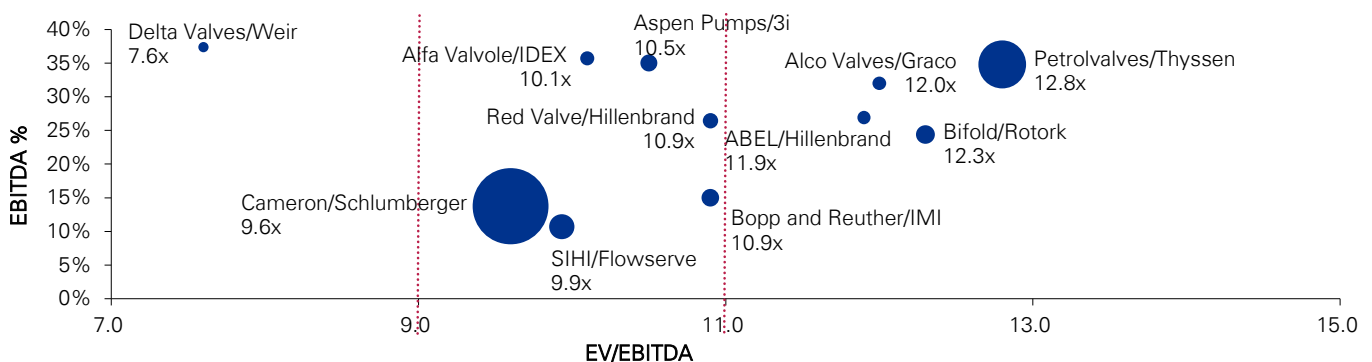
- The FCPG's share price performance underperformed against the FTSE All Share and the Dow Jones indices by 16% during 2015 and average EV/EBITDA multiples declined from on average of 11.0x to 10.2x during the year (see appendix for further detail). Contributing to this was Rotork plc, the UK listed actuator manufacturer, who issued a series of adverse trading updates due to its significant exposure to oil & gas industries, which led to its market capital declining by over 20% during the period. Spirax-Sarco Engineering plc, the UK listed valve specialist for steam applications and pump manufacturer, benefited from its diverse end markets, outperforming the peer group with its market capitalisation increasing by approximately 12% during the same period.
- Spirax-Sarco Engineering plc and Ebara, the Japanese pump manufacturer, represented some of the key winners in the peer group in terms of share price performance. The Weir Group plc, the UK mining and oil and gas engineer was the biggest loser with an approximate 43% decline across the period. Weir's performance was largely driven by its North American exposure to unconventional oil and gas and the mining industry, which are both currently in down-cycle phase. Spirax-Sarco's performance was supported by its exposure to more resilient general industrial markets.

## Relative 2015 share price performance (FCPG versus the FTSE All-Share and Dow Jones)



Note: Share price indexed to 5 January 2015 and weighted based upon market capitalisation.  
 Source: KPMG analysis of publicly available share price and share index data.

## Selected notable transactions – Q4 2014 and 2015



Note: Aspen Pumps/3i represents an EBITA multiple. Petrolvalves/Thyssen is grossed up to 100% Enterprise Value. Cameron/Schlumberger bubble not to scale. SIHI/Flowserve multiple is cash consideration/EBITDA.  
 Source: KPMG analysis of company press releases.

- We have selected a range of flow control transactions where the targets were principally OEMs involved in valve, actuation and pump manufacturing.
- On average, transaction profit multiples were in the range of 9-11x EV/EBITDA with 11x+ EBITDA multiples being paid for assets with leading market positions, product technologies and customer references.

## 2. Selected notable transaction highlights – Q4 2014 and 2015

### ABEL/Hillenbrand /

German manufacturer of piston diaphragms and piston pumps for energy markets, acquired by US listed diversified industrial group, Hillenbrand, for €95 million, 11.9x EV/EBITDA multiple.

*Rationale:* Aligns with Hillenbrand's Process Equipment Group and provides an entry point to the flow control market.

### Alfa Valvole/IDEX Corporation /

Italian manufacturer of speciality valve products for various markets, acquired by US listed manufacturer of pumps and metering products, IDEX, for €102 million, 10.1x EV/EBITDA multiple.

*Rationale:* The acquisition enables IDEX to expand its speciality valve platform in the global market and will operate as part of the Fluid & Metering Technologies segment.

### Bifold/Rotork /

UK based oil and gas valve OEM Bifold Fluidpower, acquired by UK listed valve actuator manufacturer Rotork, for £125 million, 12.3x EV/EBITDA multiple.

*Rationale:* Increases Rotork's addressable market by £750 million to £4.3 billion with access to a new portfolio of solenoid valves, a complementary product range.

### Cameron/Schlumberger /

US oil and gas valve OEM Cameron, acquired by Schlumberger, the US oilfield services company, both listed on the NYSE, for \$13.8 billion, 9.6x EV/EBITDA multiple.

*Rationale:* Allows provision of an integrated offering by combining production and drilling equipment with services.

### Petrolvalves (60%)/Thyssen-Bornemisza Group /

Italian subsea oil and gas specialist valve OEM Petrolvalves, acquired by Netherlands based holding company of the Thyssen family, TBG, which also owns the control valve OEM Mokveld, for an estimated EV (100%) of €1 billion, 12.8x EV/EBITDA multiple.

*Rationale:* Provides access to leading subsea valve technologies which complements TBG's existing investment in Mokveld.

### SIHI/Flowserve /

Netherlands based manufacturer of vacuum and fluid pumps for the process industries, acquired by US listed manufacturer of various flow control equipment, Flowserve Corporation, for €298 million, 9.9x cash consideration/EBITDA multiple.

*Rationale:* Adds chemical end market exposure, complimentary products and provides prospects to extend geographic reach through existing channels.

### Alco Valves/Graco /

UK based manufacturer of high pressure valves for oil and gas, acquired by NYSE listed manufacturer of handling and measuring equipment for fluids, Graco, for £72 million, 12.0x EV/EBITDA multiple.

*Rationale:* Consistent with Graco's strategy to add critical mass to its existing oil and natural gas business but also to access the flow control valve industry.

### Aspen Pumps/3i /

UK based manufacturer of pumps and condensers to the HVAC industry, Aspen, acquired by UK listed private equity firm, 3i Group, for £105 million, 10.5x EV/EBITDA multiple (EBITDA not disclosed).

*Rationale:* In line with 3i's strategy of supporting international growth of mid-market companies.

### Bopp and Reuther/IMI /

German control valve manufacturer for power generation and process industries, acquired by IMI Plc, LSE listed UK engineering firm with interests in flow control, for €153 million, 10.9x EV/EBITDA multiple.

*Rationale:* Allows IMI Critical Engineering to gain critical mass and new technologies in the power sector, particularly in Asia, China and India.

### Delta Industrial Valves/The Weir Group /

US manufacturer of knife gate valves for mining, oil sands and other markets, acquired by UK listed engineer, The Weir Group, for \$47 million, 7.6x EV/EBITDA multiple.

*Rationale:* Extends Weir's presence in mining and oil sands markets by expanding the portfolio of valve products, used in the transportation of slurry.

### Red Valve/Hillenbrand /

US manufacturer of valves for municipal and industrial wastewater sectors, acquired by US listed diversified industrial group, Hillenbrand, for \$132 million, 10.9x EV/EBITDA multiple.

*Rationale:* Aligns with recent ABEL acquisition and provides the potential to access new end markets and geographies.

Source: Company websites and press releases.

Note: Transactions listed occurred in 2015 other than Alco Valves/Graco which occurred in Q4 2014.

# 4. KPMG's recent sector transactions – M&A case studies

Case Study 1	
Target	President Engineering Group
Buyer	Parker Hannifin, NYSE listed
Value	Not disclosed
Date	September 2015



President Engineering Group (PEG) is based in Sheffield, UK. The company manufactures precision engineered cryogenic valves for liquefied natural gas, industrial gas applications and dust suppression products for the mining industry. PEG also supplies equipment for mining safety applications.

### LFY\* 2014:

- Revenue of £19 million
- EBITDA of £3 million
- 120 employees

KPMG in the UK was appointed to act as financial advisor to the owner-managed shareholders of PEG on the sale of the business to Parker Hannifin, a diversified manufacturer of motion and control technologies and systems for a variety of mobile, industrial and aerospace markets.

### KPMG expertise:

-  Advised owner manager and Private Equity
-  Access to a sector focused buyer network




**President Engineering Group**

KPMG UK, Deal Advisory  
acted as financial advisor to the shareholders of President Engineering Group on the sale of the business to Parker Hannifin

**Deal value not disclosed**  
2015

Case Study 2	
Target	Alco Valves Group
Buyer	Graco Inc, NYSE listed
Value	£72 million
Date	October 2014

Alco Valves Group (Alco) is based in Yorkshire, UK. The company manufactures high pressure valves for critical service applications for the oil, natural gas and general industrial sectors. Alco's brands include Alco Hi-Tek (double block and bleed valves), Alco Valves (instrumentation valves), Alco Sub-Tek (sub-sea valves), and Alco Process (process valves).



### LFY\* 2013:

- Revenue of £19 million
- EBITDA of £6 million
- More than 100 employees

KPMG in the UK was appointed to act as financial advisor to the shareholders of Alco Valves Group on the sale of the business to Graco Inc., a US manufacturer of fluid handling systems and products to a variety of end markets.

\* LFY refers to last financial year prior to acquisition.

### KPMG expertise:

-  Competitive sales process
-  Access to a sector focused international buyer network




**Alco Valves Group**

KPMG UK, Deal Advisory  
acted as financial advisor to the shareholders of Alco Valves Group on the sale of the business to Graco Inc

**£72 million**  
2014



### Case Study 3


Target	TapcoEnpro, DeltaValve & GROQUIP
Buyer	Sun Capital Partners, Private Equity
Value	Not disclosed
Date	June 2015

TapcoEnpro International, DeltaValve and GROQUIP formed part of the oil and gas division of Curtiss-Wright Corporation, located in Texas, Utah and Louisiana, US. The businesses offer a range of niche isolation valves, actuation, control and aftermarket services to the refining, iron and steel and upstream oil and gas industries.

Curtiss-Wright made a strategic decision to exit its oil and gas division which triggered the sale of these businesses.

KPMG in the US was appointed to provide buy side due diligence to Sun Capital Partners on the acquisition of these three businesses.

### KPMG expertise:

 Corporate carve-out assessment

 Private equity




**Sun Capital Partners**

KPMG US, Deal Advisory  
provided buy side diligence to Sun Capital on its acquisition of Tapco Enpro, Delta Valve and Groquip from Curtiss-Wright

**Deal value not disclosed**  
**2015**

### KPMG member firms' recent transaction experience includes:




**Spirax-Sarco**

KPMG UK, Deal Advisory  
provided buy side due diligence advice to Spirax-Sarco Engineering plc on consideration of acquisition targets

**2015**




**Fondo Strategico Italiano**

KPMG Italy, Deal Advisory  
acted as sole financial advisor in providing a valuation of the company and its investments which include amongst others Valvitalia S.p.A.


**2015**




**Interpump Group**

KPMG Italy, Deal Advisory  
assisted Interpump Group on the acquisition of Walvoil

**€100 million**  
**2015**




**Flowtech Fluidpower Plc**

KPMG UK, Deal Advisory  
acted as financial advisor to Flowtech Fluidpower on its £40 million flotation on the AIM

**2014**



# 5. About KPMG

## KPMG International

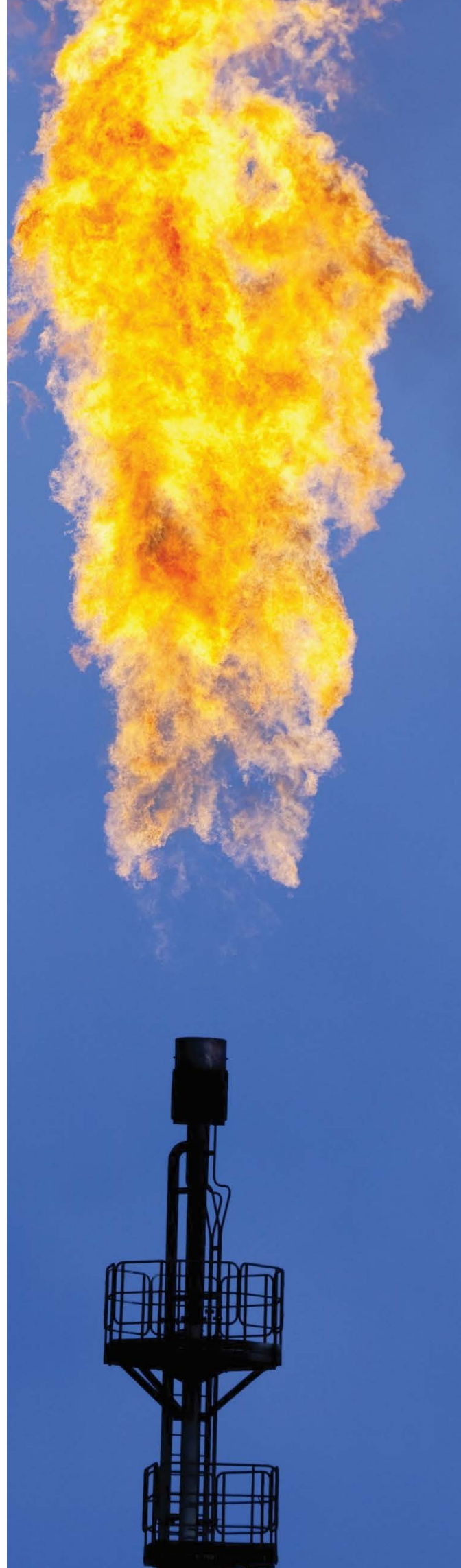
- KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 155 countries and have 174,000 people working in member firms around the world.
- The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

## KPMG Corporate Finance

- KPMG's Corporate Finance practice advises clients of various sizes – from large corporations, financial institutions and governments to medium-sized enterprises. KPMG helps organisations to identify, structure and execute public and private market transactions. As lead corporate finance advisors, member firms support clients through acquisitions, sale processes and debt refinancings and structurings.
- Member firm professionals strive to achieve forward thinking, independent and objective advice. KPMG would welcome the opportunity to meet with you to discuss the flow control sector, broader M&A market and, importantly, for us to understand the future strategic ambitions for your business.

## KPMG Flow Control M&A

- KPMG has a dedicated flow control network, with specialists in the UK firm as well as KPMG member firms in North America, Germany, Italy and Asia. Our demonstrable track record for delivering value to clients through appropriately tailored transactions differentiates us as an expert advisor, especially with our credentials in the sector.
- The team is led by Surinderpal Matharu, who recently re-joined KPMG's M&A team in the UK, having left a major listed UK FTSE flow control engineering group. Surinderpal worked in the global corporate development team, focused on strategy development and M&A transaction execution, including acquisitions, non-core disposals and joint ventures across the flow control industry, with specific focus across the energy markets.
- The combination of in-depth sector knowledge and KPMG's global sector focused network provides KPMG professionals with access to cross-border opportunities and strategic market intelligence.



## 6. Appendix

# Flow Control Peer Group

Flow Control Peer Group EV/EBITDA ratios and market capitalisation					
Company	HQ Location	Enterprise Value/EBITDA		Market Capitalisation (£'m)	
		05-Jan-15	31-Dec-15	05-Jan-15	31-Dec-15
Alfa Laval AB	Sweden	13.4x	10.7x	5,035	5,223
CIRCOR International, Inc.	US	8.4x	9.2x	658	471
CLARCOR Inc.	US	14.1x	10.1x	2,119	1,681
Crane Co.	US	10.2x	7.7x	2,226	1,884
Curtiss-Wright Corporation	US	10.4x	10.3x	2,162	2,124
Donaldson Company, Inc.	US	13.1x	11.8x	3,390	2,578
Dover Corporation	US	7.1x	8.3x	7,540	6,443
Ebara Corp.	Japan	5.9x	5.7x	1,250	1,519
Emerson Electric Co.	US	9.3x	8.4x	27,498	21,126
Flowserve Corp.	US	10.7x	9.1x	5,157	3,734
Gorman-Rupp Co.	US	12.6x	12.2x	531	473
Graco Inc.	US	14.2x	13.4x	3,087	2,733
IDEX Corporation	US	12.2x	12.7x	3,955	3,975
IMI plc	UK	10.8x	8.6x	3,327	2,343
ITT Corporation	US	7.7x	7.4x	2,280	2,204
KITZ Corporation	Japan	5.9x	6.3x	291	333
KSB Pumps Limited	India	19.6x	17.5x	229	220
Metso Corporation	Finland	9.1x	5.0x	2,836	2,287
Parker-Hannifin Corporation	US	10.5x	9.2x	12,061	8,942
Pentair plc	UK	11.2x	12.1x	7,842	5,386
Rexnord Corporation	US	11.1x	11.8x	1,791	1,233
Rotork plc	UK	12.7x	9.8x	1,989	1,587
SMC Corp.	Japan	14.2x	11.6x	11,819	12,042
Smiths Group plc*	UK	12.0x	9.7x	4,252	3,712
Spirax-Sarco Engineering plc	UK	13.3x	14.4x	2,146	2,409
SPX FLOW, Inc.	US	n/a	7.0x	-	781
Sulzer, Ltd.	Switzerland	7.4x	8.3x	2,266	2,173
The Weir Group plc	UK	9.2x	8.1x	3,764	2,136
Watts Water Technologies, Inc.	US	11.0x	15.6x	1,414	1,162
Xylem Inc.	US	11.4x	12.7x	4,263	4,439
<b>Mean</b>		<b>11.0x</b>	<b>10.2x</b>	<b>n/a</b>	<b>n/a</b>

Source: Publicly available market data.

Note: SPX FLOW Inc. EV/EBITDA ratio and market capitalisation are not available as at 5 January 2015 due to the fact that SPX FLOW Inc. was spun-off from its former parent company, SPX Corporation during Q4 2015.

\*Smiths Group's exposure to the flow control industry is through its subsidiary company John Crane, the mechanical seals OEM.



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