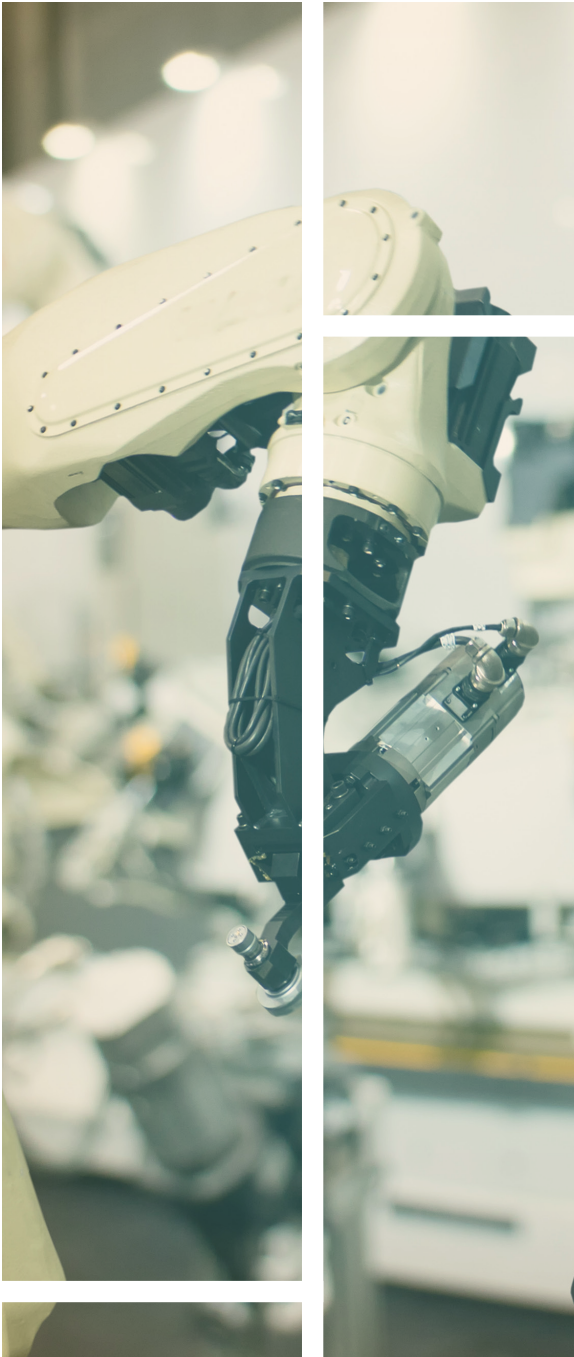


Industrial Technology Leaders are Likely Buyers for First Wave of Post-Pandemic Industrials M&A



CONTRIBUTORS

[Ben Farris](#), Managing Director

[Sean Bennis](#), Managing Director

[Bobby Reifman](#), Managing Director

The COVID-19 pandemic has already brought significant changes to the deal-making landscape. While regular-way deal activity has ground to a halt, strategic Industrial Technology buyers largely remain “open” and accessible.

For private equity investors and private companies eager to reach potential buyers for a mid- or post-pandemic sale, the current climate presents an opportunity to lay the groundwork for a deal or make a connection for a future discussion.

Here are some insights on how Industrial Technology corporates are currently managing COVID-19 and approaching M&A:

OPERATIONS CHALLENGED BY COVID-19, DEMAND FORECASTS

Corporates are in a similar position to private equity firms and private companies when it comes to their operations during this time. As the pandemic has impacted supply chains and reduced demand, operators are heads down on their businesses, managing the health crisis on their factory floors to protect employees and implementing cost reduction plans.

While most businesses have been deemed essential, some corporates are questioning whether they truly want to be. With the ability to stay open, they are producing. But—save for much-needed supplies for safety, treatment and testing—questions remain surrounding demand conditions in the latter half of 2020. With many plants still open, there may be a growing supply-demand imbalance on the horizon. April ISM Manufacturing Index data shows contraction, but the drop-off was less than anticipated. Corporates expect reverberations from COVID-19 to be felt at least through end of year.

(continued next page)

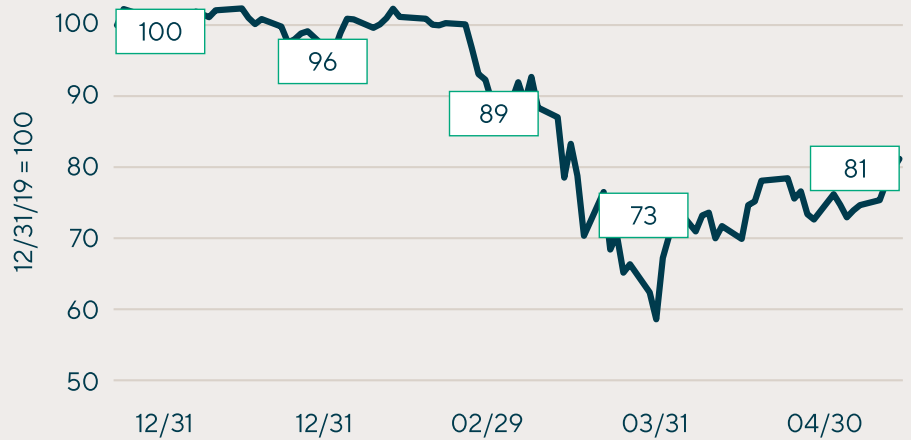
NOW'S THE TIME TO LAY THE GROUNDWORK FOR M&A

With the spread of COVID-19, corporate development teams' actionable opportunities have slowed significantly despite strong cash positions and considerable flexibility. Although stock prices, trading multiples and cash balances remain historically favorable, challenges impeding progress include difficulty ensuring C-suite support and the optics of spending capital on an acquisition while reducing headcount.

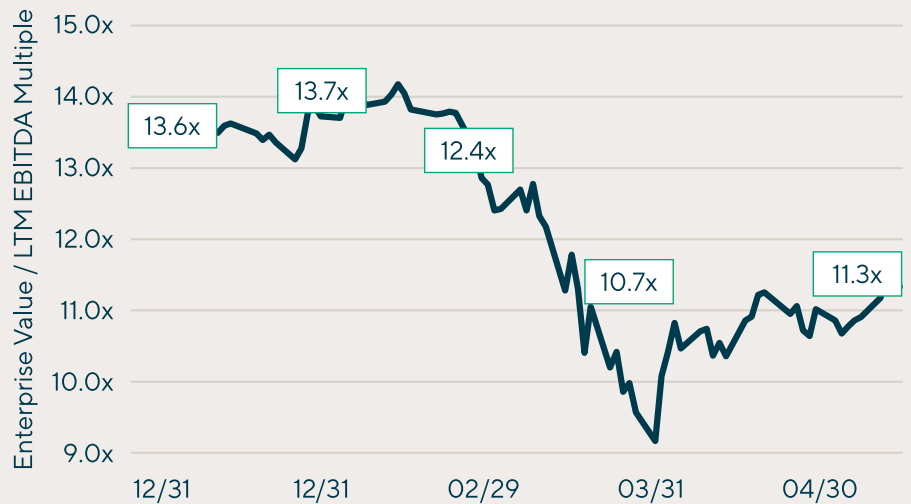
While few corporate development teams are proactively calling targets, many have time on their hands and thus are open to inbound conversations and investment opportunities, particularly those aligned with long-term strategic priorities. These teams are finding ways to be proactive and pragmatic to build relationships and buy now—or tee up deals for once the external environment improves.

Key questions remain around post-COVID-19 EBITDA adjustments and valuation multiples. Will this be viewed as a lost quarter that can be thrown out, or will there be a more granular look at the adjustments? We expect that growth-focused strategics will likely take a market-based, yet longer-term view for high quality private equity-owned and privately held businesses.

The Lincoln "Industrials 30"¹ stock price index is down 19% YTD²...



...EBITDA trading multiples are off 2+ turns, but remain in double digits...



...and liquidity remains strong³

~\$18.5 billion
Aggregate cash and cash equivalents

(continued next page)

¹Companies in the index include: 3M, AMETEK, Barnes, Carlisle, Caterpillar, Colfax, Columbus McKinnon, Deere, Donaldson, Dover, Eaton, Emerson, Flowserve, Fortive, General Electric, Honeywell, Hubbell, IDEX, Illinois Tool Works, Ingersoll Rand, ITT, Littelfuse, Nordson, Parker-Hannifin, Pentair, Rexnord, Rockwell Automation, Sensata, Stanley Black & Decker and Textron

²Index calculated on market value-weighted basis

³Total dollar value represents the sum of cash and cash equivalents across every Lincoln Industrials 30 company; the latest available data for each constituent was used in the calculation

LINCOLN PERSPECTIVE

When Industrials deal making activity picks up again, we expect the first wave of post-COVID M&A to look very different from M&A in 2018 and 2019. The first wave of Industrial Technology M&A will be driven by well-capitalized corporate buyers and private equity backed strategics.

In the current environment, those looking to sell can plant the seeds for future relationships by building relationships with the best potential buyers now. By investing the time today, PE investors and private companies can improve their likelihood of a strong business outcome either now or down the line.

Here is what else we expect:

Talking to (or “Zooming”) strategics now will pay off:

Private equity and private companies looking to sell have an opportunity today to take advantage of corporate development availability in order to either a) transact in a highly strategic manner near term, or b) introduce the business, develop a relationship with corporate decision makers and tee up a deal for 2021.

Sale processes will be targeted:

Broad auctions will not be a fixture in this first wave of renewed Industrials M&A activity. The sale process will be more focused, thoughtful and targeted with pursuit of selected strategic-oriented buyers.

First-rate companies will sell for first-rate prices:

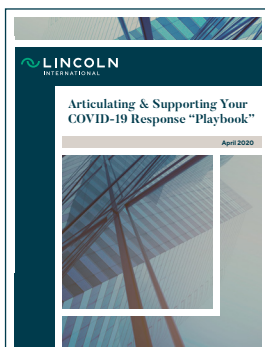
Just as we saw following the Great Recession, we expect that – despite market dislocation – the market will speak. ‘A’ businesses – including those that exhibit market leadership, have a favorable cost-of-product to cost-of-failure ratio, provide a solution customers need, earn a margin commensurate with the value provided and exhibit growth as a result – will always trade for ‘A’ multiples.

Logical, not transformational M&A:

With lower risk tolerance, transformational acquisitions will see enhanced scrutiny. Corporates will be more likely to pursue logical add-ons in order to broaden product sets, expand customer relationships or access complementary geographies.

What is more, we are starting to see industrial technology corporates and private equity-backed strategics “create” sellers out of sidelined firms—both by working to preempt recent engagements and by working their hit list of targets.

Interested in learning more? Get to know Lincoln’s global Industrials Group at www.lincolninternational.com/industrials.



Request a copy of our guide **Articulating & Supporting Your COVID-19 Response “Playbook”** to learn how you can track both quantitative and qualitative actions and metrics now to be better prepared to present your COVID-19 narrative to potential buyers from a position of strength.

If you’re ready to engage potential buyers—informally or formally—Lincoln’s team of industrial technology experts can help. As the **largest, most active and top-ranked industrials advisor**, Lincoln offers deep, long-term strategic buyer relationships globally.