

clearthought

Fluid Power and Flow Products

A look at M&A activity in the valves and actuators, pumps, and hydraulics and pneumatics sectors

Power Under Pressure

Fluid power enables and controls mechanical motion, providing the components and systems which form the foundation of drive and automation technology. Indeed, there is scarcely a machine or vehicle today which could operate without fluid power. Hydraulics and pneumatics give machines their speed, power, precision and dynamics. Unlike electrical power transmission engineering, fluid power uses the physical characteristics of water, oil or air to transmit power and output while the compact design of fluid power components gives them a high power-to-weight ratio.

Economic impact

Hydraulics and pneumatics manufacturers supply the entire mechanical engineering industry, as well as industries such as: construction and agricultural machinery, conveyor systems, food and packaging machinery, oil and gas machinery, woodworking and machine tools, electrical engineering, shipbuilding, mining, aviation, space travel, medical technology, environmental technology, and chemicals.

As the VDMA¹ states, hydraulics and pneumatics are now “an indispensable part of everyday working processes”. Powerful and reliable, they relieve people of heavy and monotonous work and provide support for tasks requiring speed and uniform quality while also making production processes more efficient.

Energy focus

With global energy resources under increasing strain, fluid power is used in a number of applications, with a view to reducing carbon emissions, such as: in wind power stations to move the rotor blades into the optimum wind position; in conventional power stations for flue gas desulphurisation; in waste disposal and recycling; and in water and sewage treatment. Energy-generating systems such as gas or steam turbines also benefit from the large number of possible applications of fluid technologies.

In the US, it is predicted² that much future fluid power research will focus on its use in off-highway vehicles and advanced manufacturing. Many opportunities also exist to improve heavy industry tool applications with human scale fluid power systems.

Automation

Another area of increasing focus is how fluid power can be combined with electronics to form future-proof automation and drive systems, as the boundaries between motion, drive and automation become increasingly blurred and ‘smart’ valves use digital controllers to achieve greater precision and efficiency in complex systems. Another key trend is fluid power systems operating under more extreme conditions such as higher pressures, broader temperature ranges, and in more remote and hostile environments, leading to further innovation across the industry.

M&A opportunities

Against this backdrop, we expect to see continued strong M&A activity across all sectors of the industry throughout 2016.

¹ VDMA: Fluid Power - Motion, Drive and Automation, 4th Edition

² National Fluid Power Association: 2014 Annual Report on the US Fluid Power Industry



Product Groups

The fluid power and flow products industry can be broken down into specific product groups:

Valves and Actuators

The economic recovery in the US and Europe, increasingly complex applications, and the emergence of 'smart' valves are all driving growth in the industry. Leading players include: Pentair plc, Cameron International Corp, Emerson Electric Co, Crane Co, Flowserve Corp, KSB AG, Parker Hannifin Corp, SPX Corp, The Weir Group plc, Watts Water Technologies Inc, Alfa Laval AB and CIRCOR International Inc.

The oil and gas sector accounts for approximately a third of the global valves market, with the water/wastewater, chemicals and power industries among other key markets. Global demand for industrial valves is forecast to rise 5.1% per year¹ through 2017 to \$82.5bn (€76bn). Although growth will be healthy across the globe, spurred by recovery from the recent economic downturn, the drivers of growth will vary by region.

Emerging nations

Advances in developing countries such as China – which has become the largest producer of industrial valves – and India will result from ongoing industrialisation, as investment in water infrastructure and electricity generation grows.

Growing demand for industrial valves in both the power and oil and gas processing sectors has been particularly driving sales in India², as the Indian government invests heavily in the country's oil and gas pipeline infrastructure development.

Research and Markets³ claims that the global industrial valves market in the oil and gas industry will grow at a compound annual growth rate of 5.3% from 2014–2019. It suggests that the industry is increasingly automating production processes to reduce downtime and boost operational efficiency. A key trend is the replacement of manually operated valves with fully automated isolation and control valves which are interconnected to monitoring and operating systems.

Water

There is huge global demand for valves in the water industry. In developing nations, access to water supply and sanitation is rising whereas in developed nations, ageing water infrastructure needs repairing and upgrading to meet clean water regulations.

According to the US Environmental Protection Agency, the US alone needs \$384bn (€352bn) of investment in drinking water infrastructure through to 2030 – of which about \$250bn (€230bn) will be geared towards replacement or refurbishment of ageing water distribution and transmission lines.

In the chemicals industry, long-term drivers include production moving ever closer to feedstock – especially in developing regions – while in the power market, the increasing drive towards urbanisation and increasing environmental regulations are key drivers of the sector.

Automation

Demand for automatic valves will outpace demand for conventional valves due to ongoing efforts by process manufacturers to improve operational efficiencies, according to Freedonia. The strongest gains will be registered in separately sold automatic actuators, which are used with standard valves to allow for automated valve functions and which are less expensive than automatic control and regulator valves with actuators pre-installed. Process manufacturing will also post strong gains in valve demand, driven by growing output, especially in the chemicals industry.

M&A activity

The volume of global M&A in the valves industry continues to be healthy, despite the macro-economic factors weighing on particular end markets and geographies. M&A involving businesses serving the oil and gas industry has clearly suffered due to the pressures in this sector, albeit that opportunities exist for acquisitive groups seeking to buy smaller peers which are not as adaptable to market factors.

Transaction values have been resilient, as long-established sector leaders continue to see strong appetite from prospective buyers. It is evident that world-class engineering capabilities, well-invested production facilities and strong customer relationships in growth sectors result in high profit multiples being paid for acquisitions in the industry.

¹ Freedonia Group: World Industrial Valves, January 2014

² TechSci Research: India Industrial Valves Market Forecast & Opportunities, 2020

³ Research and Markets: Global Industrial Valves Market in Oil and Gas Industry 2015–19

Recent deal highlights

- US group Hillenbrand Inc acquired Red Valve Co Inc, a US manufacturer of pinch valves and backflow prevention valves for the chemicals, food, minerals, mining, oil and gas, pharmaceutical, power, pulp and paper, wastewater and water industries. The acquisition enhances Hillenbrand's capabilities in the flow control market and allows the group to expand into wider markets and geographies.
- US group Watts Water Technologies Inc acquired an 80% stake in Apex Valves Ltd, the New Zealand-based designer and manufacturer of control valves for low and high pressure applications in the water industry. The acquisition will allow Watts Water to expand its Asia-Pacific presence with a leading supplier of control valves for hot water and filtration applications.
- The ongoing appetite for acquisitive growth by US groups was seen in the acquisition of BI-TORQ Valve Automation Inc by Strahman Valves Inc. BI-TORQ Valve Automation is a US manufacturer of actuators and valves for the chemicals, food and beverage, municipal, and oil and gas industries. The acquisition strengthens Strahman Valves' sales and marketing activities with a broader suite of products.
- Parker Hannifin Corp acquired President Engineering Group Ltd, a UK manufacturer of cryogenic valves for the industrial gas and liquefied natural gas (LNG) markets, and equipment for mining safety applications. President Engineering will form part of Parker's Instrumentation division.
- Graco Inc expanded its flow products business through the acquisition of Alco Valves Group Ltd, a UK manufacturer of high pressure valves for the oil and natural gas industries in addition to other industrial processes. The target's brands include Alco Hi-Tek, Alco Process, Alco Sub-Tek and Alco Valves.
- Israeli group Ham-Let Ltd acquired Jiangsu Xinghe Valve Co Ltd from Jiangsu Xinghe Group Co Ltd, Baird Capital Partners Asia and Investor Growth Capital Asia. Jiangsu Xinghe Valve is a manufacturer of instrumentation valves and fittings for the nuclear, oil and gas, petrochemical, wastewater and other process control industries.

Recent M&A activity in the Fluid Power and Flow Products sector

Target	Purchaser	Deal Value (€m)	EBITDA Multiple	Comment
Red Valve Company Inc	Hillenbrand Inc	113	13.0x	Hillenbrand has acquired Red Valve, a US manufacturer of highly engineered valves designed to operate in the harshest municipal and industrial wastewater environments.
Varisco Group SpA	Atlas Copco AB	Undisclosed	n/a	Atlas Copco has acquired the Varisco Group, an Italian producer of industrial pumps.
CCRE SpA (50% Stake)	Descours et Cabaud SA	6	n/a	Descours et Cabaud has acquired a 50% stake in CCRE, an Italian manufacturer of industrial supplies, bearings, mechanical drives, pneumatics, conveyor components, adhesives, and lubricants.
PMC Group AB	Nordstjernan AB	Undisclosed	n/a	Nordstjernan has acquired fellow Swedish company PMC Group, one of the leading Nordic providers of complete solutions in power, motion and control.
Specma AB	Hydra-Grene A/S	79	8.9x	Hydra-Grene has acquired Specma, a Swedish manufacturer of hydraulic systems and components to OEMs.
Service Equipment & Repair Company LLC	Industrial Service Solutions	Undisclosed	n/a	Industrial Service Solutions has acquired fellow US company Service Equipment & Repair Company, a manufacturer of pumps and pumping equipment.
Askoll Sei Srl	Taco Inc	46	n/a	Taco has acquired Askoll Sei, an Italian manufacturer of heating pumps.
Apex Valves Limited (80% Stake)	Watts Water Technologies Inc	18	n/a	Watts Water Technologies has acquired an 80% stake in Apex Valves, a New Zealand manufacturer of control valves for low and high pressure hot water and filtration systems.
Flexitech Europe SAS	Sun European Partners LLP	66	n/a	Sun European Partners has acquired Flexitech Europe, a French manufacturer of automotive hydraulic brake hoses.
LW Allen Inc	Gen Cap America Inc	Undisclosed	n/a	Gen Cap America has acquired LW Allen, a US manufacturer of water and wastewater control systems and distributor of industrial and heavy-duty pumps.
BI-TORQ Valve Automation Inc	Strahman Valves Inc	Undisclosed	n/a	Strahman Valves has acquired BI-TORQ Valve Automation, a US manufacturer of valves and actuators.
EPE-Goldman BV	Indutrade AB	Undisclosed	n/a	Indutrade has acquired EPE-Goldman, a Dutch distributor of hydraulic products such as pipe components, ball valves, filters, couplings, hydraulic hoses and measuring devices.
President Engineering Group Limited	Parker Hannifin Corporation	Undisclosed	n/a	Parker Hannifin has acquired the President Engineering Group, a UK manufacturer of precision engineered cryogenic valves for liquefied natural gas (LNG) and industrial gas applications.
Cortech Engineering LLC	DXP Enterprises Inc	Undisclosed	n/a	DXP Enterprises has acquired Cortech Engineering, a US distributor of pumps and related process equipment.
ABEL GmbH & Co. KG	Hillenbrand Inc	89	13.6x	Hillenbrand has acquired ABEL, a German manufacturer of diaphragm and piston pumps primarily used in the power generation, wastewater treatment, mining, general industry, oil and gas and marine markets.
Bifold Fluidpower Limited	Rotork plc	159	13.8x	Rotork has acquired Bifold Fluidpower, a UK manufacturer of hydraulic and pneumatic stainless steel directional control valves.
Challenger Industries Inc	NOW Inc	Undisclosed	n/a	NOW has acquired Challenger Industries, a US supplier of pipes, valves and fittings for the energy markets.
PneuDraulics Inc	TransDigm Group Inc	266	n/a	TransDigm Group has acquired PneuDraulics, a US manufacturer of hydraulic and pneumatic components for the aerospace industry.
Delta Industrial Valves Inc	The Weir Group plc	38	7.5x	Weir has acquired Delta Industrial Valves, a manufacturer of knife gate valves for the mining, oil sands and other industrial markets.
Petrolvalves Srl (60% Stake)	TBG Holdings NV	544	n/a	TBG Holdings, the family office of the Thyssen family which owns German steel giant ThyssenKrupp, has acquired a 60% stake in Petrolvalves, an Italian producer of valves for the petroleum and gas sectors.
Precision Engine Controls Corporation	Meggitt plc	37	8.7x	Meggitt has acquired Precision Engine Controls Corporation, the US manufacturer of control systems, fuel metering valves and actuators for industrial gas turbine engines.
SIHI Group BV	Flowsolve Corporation	301	12.5x	Flowsolve has acquired SIHI Group, a Dutch provider of engineered vacuum and fluid pumps and related services.
Alco Valves (UK) Limited	Graco Inc	92	11.8x	Graco has acquired Alco Valves, the UK manufacturer of valves for the oil and gas industry.
Faster SpA	Capvis Equity Partners AG	213	9.5x	Capvis Equity Partners has acquired Faster SpA, an Italian manufacturer of quick release couplings for automobiles and hydraulic power systems.
Xylem Flow Control Limited	Rotork plc	23	9.0x	Rotork has acquired Xylem Flow Control Limited (XFC), a UK manufacturer of submersible and industrial pumps.

Pumps

Due to technological advances and an increasingly diverse range of products, pumps can be found in a multitude of commercial applications from water/wastewater treatment plants and pipelines, to medical devices, to jet engines.

According to B2B International¹, Asian demand for pumps will continue to outpace other regions due to new infrastructure and heavy industrial spending. Meanwhile, the shift in energy production from coal and nuclear to natural gas and renewables will also be a big driver of innovation. Pumps will increasingly have to operate under more extreme conditions such as higher pressures, broader temperature ranges, and in more remote and hostile environments.

As such, end users are turning towards pumps which can be adapted to existing foundations and which can be maintained while running, thus reducing downtime and integration costs.

Global picture

Global demand for fluid handling pumps is projected to increase 5.5% per year to \$84bn (€77bn) in 2018². In developed nations, an improved environment for fixed investment spending will enable pump-using manufacturers to invest in expansion and upgrading of facilities. Across developing nations increased investment in water infrastructure will spur gains as access to water supply and sanitation systems is expanded. Growth in oil production will also provide opportunities, especially in newly developed areas requiring infrastructure improvement.

The Asia-Pacific region will generate 44% of new pump demand through 2018, based on advances in fixed investment expenditures and construction spending.

China will account for 23% of all new global pump demand between 2013 and 2018. Central and South America are expected to post the strongest annual gains, capitalising on ongoing industrialisation, although the US will remain the largest national market through to 2018.

Process manufacturing

Pump demand in the process manufacturing market will benefit from greater standards of living, particularly in developing regions where there is increased access to water supplies and improved sanitation.

Freedonia claims that centrifugal pumps will continue to be the most commonly used pump design due to their varied pressure and load handling capabilities – including the ability to handle liquids with high solids content – and relatively low maintenance costs. Demand for positive displacement pumps will outpace the industry average due to growth in process manufacturing activity, while demand for aftermarket parts will benefit from rising manufacturing activity, mainly in harsh environments such as those encountered in the chemicals industry.

M&A activity

Pressures in both the mining and the oil and gas industry have impacted on many global players in the pumps industry. This has stimulated large-scale transactions such as Schlumberger's acquisition of Cameron International Corp, as well as numerous mid-market deals. As a result, the central theme for M&A in the pumps sector is that many global groups are looking well beyond any near-term challenges. They are focusing on using their strong balance sheets and cash flows for acquisitions which bring new capabilities and technologies. They are also keen to look at targets which bring geographic expansion and the opportunity to penetrate new end markets.

In addition to trade deals, the pumps industry continues to attract private equity investors which seek high-quality targets with market-leading design and engineering capabilities, as well as embedded customer relationships.

¹ B2B International: Pumps, Valves & Compressors

² Freedonia Group: World Pumps, January 2015

Recent deal highlights

- Hillenbrand Inc acquired ABEL GmbH from Roper Technologies Inc. ABEL is a German manufacturer of diaphragm and piston pumps used in abrasive, aggressive and shear-sensitive applications in the chemicals, cement, ceramics, food processing, mining, oil and gas, power, steel, wastewater and water industries.
- The Swedish industrial group Atlas Copco AB continued its acquisition programme with the addition of Varisco Group SpA, an Italian manufacturer of centrifugal, positive displacement and submersible pumps for the chemicals, construction, firefighting, food processing, oil and wastewater industries. Atlas Copco integrated the target into the portable energy segment of its Construction Technique division.
- US group Taco Inc also made an Italian acquisition, buying Askoll Sei Srl – a manufacturer of heating pumps for dishwashers and washing machines. The company was integrated into Taco's Comfort Solutions division where it will use the Askoll Flow Solutions brand name and expand the group's capabilities in heating solutions for commercial appliance and equipment applications.
- Parsons Peebles Generation Ltd (PPGL) acquired Anstee & Ware Ltd, a UK supplier of motor, pump and gearbox repair and maintenance services for the rail and water industries. This transaction emphasises the appetite of OEM equipment manufacturers to pursue acquisitions which will add aftermarket service capabilities.
- A private equity deal saw Gen Cap America back a management buyout of LW Allen Inc, a US distributor of heavy-duty pumps and control systems for industrial and municipal wastewater and water applications under the Altronex brand.



Hydraulics and Pneumatics

After the sharp drop in 2008, the industry has regained momentum in recent years with the market returning to pre-crisis levels of activity. A number of key trends are emerging in the market¹ such as:

- OEMs reducing their number of suppliers as larger companies chase economies of scale and a broader product portfolio.
- Continued pressure on companies to reduce their carbon footprints and government incentives spurring demand for energy efficient solutions.
- Hydraulic equipment continuing to dominate drilling applications in the oil and gas sector thanks to higher power-to-size ratios, as oil exploration moves deeper into oceans and further into harsher environments. The hydraulic fracturing equipment market is also considered a major new opportunity.
- The integration of electronics with hydraulics is expanding the use of hydraulics in mechatronic systems in such diverse industries as agriculture, aerospace and industrial automation. The need to improve land productivity and yields will also fuel the demand for mechanisation, primarily in developing countries.

M&A activity

A constant driver for M&A in this market is vertical integration. With customers increasingly expecting a systems-based approach and all-encompassing solutions, the applications are becoming ever more complex. This means that suppliers are under increasing pressure to offer system integration capabilities.

At the same time, original equipment manufacturers need to develop close relationships with their customers in order to be able to solve the most complex pneumatic or hydraulic engineering problems. This is driving many large groups to make acquisitions involving manufacturers of complementary components at the product level.

Harnessing these capabilities also often allows them to penetrate new industrial sectors requiring an equally high level of systems engineering capability. With this in mind, it is evident that corporate buyers are paying closer attention to the strategic relevance of potential acquisitions – buying for the sake of scale has become a less important factor nowadays.

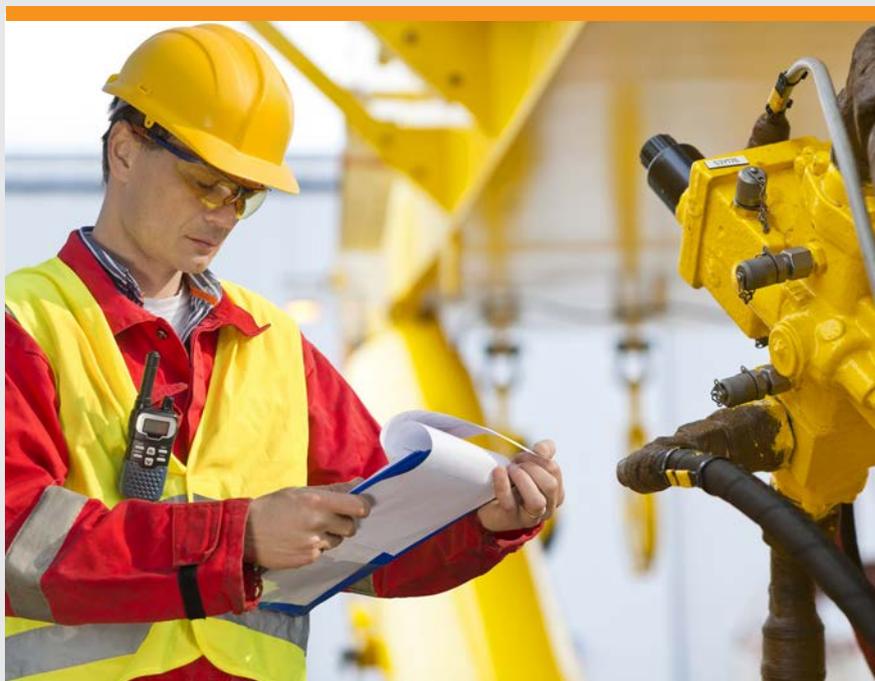
Acquisition targets in the sector typically demonstrate best-in-class engineering capabilities, coupled with genuine innovation and product development. Equally, with the systems focus in mind, many buyers are concentrating on targets with strong customer relationships – often centred on embedded aftermarket services and lifetime technical support.

Whilst some large-scale corporate reorganisations and mega-deals will persist, the increasing focus for M&A is very much on mid-market transactions. These deals typically involve businesses where owner-managers are seeking retirement sales or where global private equity firms are seeking to exit from previous investments or launch new investment platforms.

¹ Specma: World Hydraulic Industry report

Recent deal highlights

- Specma AB was acquired by Hydra-Grene AS, the Danish manufacturer of hydraulic components, fittings, hoses, motors, pumps and valves. Specma is a designer and manufacturer of hydraulic components and systems for the industrial and marine sectors including numerous aftermarket applications.
- Swedish private equity firm Nordstjernen acquired PMC Group AB, a Swedish manufacturer of hydraulic systems for the goods handling, forestry, industrial and marine sectors. The transaction provided an exit for Nordea, the Nordic bank, which had taken ownership of PMC from Swedish private equity firm Segulah.
- Rotork plc acquired Bifold Fluidpower Ltd, a UK designer and manufacturer of hydraulic and pneumatic stainless steel directional control valves and accessories for corrosive, hazardous and sub-sea applications. The deal shows how global groups are prepared to undertake acquisitions, despite the current market conditions in the energy industry being challenging. The deal provided an exit for UK private equity firm LDC.
- Alfagomma SpA – the Italian manufacturer of hydraulic adapters, hoses, fittings and valves – has been on the hunt for acquisitions, having completed the acquisition of Hiflex Europe Ltd, a manufacturer of hydraulic hoses and tubes.
- Serial acquirer Indutrade AB acquired EPE-Goldman BV, a Dutch distributor of hydraulic products including ball valves, filters, couplings, hydraulic hoses, measuring devices and pipe components.
- Applied Industrial Technologies Inc (AIT) acquired SG Morris Co, a distributor of fluid power components, fabrication panels, power units and pumps. The deal enhances AIT's fluid power distribution segment.



Deal highlights

Some of our recent deals

Chargepoint Technology

Leading precision valve manufacturer

Clearwater International advised management on a funding transaction which allowed the creation of 30 new jobs

Hydratech A/S

Manufacturer of hydraulic cylinders

Clearwater International advised Odin Equity Partners on the acquisition of a majority stake in Hydratech

KMPT AG

Global supplier of pusher and peeler centrifuges

Clearwater International advised the shareholders of KMPT on the sale to Andritz AG, a leading supplier of plants and services for the hydropower and other specialised industries

Masterflex AG

Technology specialist in high-tech plastic hoses

Clearwater International advised Masterflex on the sale of its subsidiary Angiokard Medizintechnik, a manufacturer of medical kits, to equitrust AG as part of a refinancing

Tristone Flowtech Group GmbH

Provider of flow technology solutions for the automotive industry

Clearwater International advised on the structuring and arrangement of a credit facility (A and B tranche) for the Group entities and the Holding

Grene Industri-Service

Supplier of spare parts and technical components

Clearwater International advised Schouw & Co on the sale of Grene Industri to the MBI team

Meet the team



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