

Carleton McKenna & Co

INDUSTRY INSIGHTS:

ANALYSIS OF THE MATERIAL HANDLING & PROCESS EQUIPMENT MANUFACTURING MARKET

3Q 2024

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CM&Co Overview

Carleton McKenna & Co specializes in providing sell-side and buy-side **M&A advisory, capital raising and strategic consulting** services to middle-market clients, including closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms, subsidiaries of public companies and young growth companies.

Additionally, CM&Co is dedicated to maximizing shareholder value creation through a range of strategic options. Whether a business owner is prepared to pursue a transaction immediately or seeks to enhance the business's competitive positioning and value before a liquidity event, we offer tailored solutions to meet their needs.



M&A Advisory **Capital Raise** **Strategic Consulting**

Material Handling & Processing Equipment Expertise

CM&Co has significant experience advising companies across **the Material Handling and Process Equipment sectors**. Additionally, we help companies with engineered components, OEM and aftermarket products, metals, industrials and machinery, hydraulics and pneumatics, design and engineering, value-add distribution and other niche manufactured products. We draw on our understanding of market dynamics and leverages our deep relationships with industry experts and decisionmakers. We reach the right people and ask the right questions to determine interest without significant lags that might otherwise drag out or damage a transaction process.

Senior-level Attention

We staff transactions with **senior-level team members**, enabling expert handling of inevitable complications or issues without needing to get anyone up-to-speed at the last minute. Larger/commercial banks often pass the bulk of process management and work to junior-level analysts, with only episodic senior involvement. We believe that significant and complex transactions need active process participation and management with experience-levels to match.

Representative Experience



has been acquired by



The undersigned provided exclusive financial advisory services to Webster Industries, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES



has been acquired by



The undersigned provided exclusive financial advisory services to Commercial Fluid Power.

Carleton McKenna
INVESTMENT BANKING SERVICES



has acquired



The undersigned provided exclusive financial advisory services to Cornerstone Industrial Group, LLC.

Carleton McKenna
INVESTMENT BANKING SERVICES



has acquired



The undersigned provided exclusive financial advisory services to Webster Industries, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES

Project Coil



The undersigned provided exclusive strategic, alternative and financial advisory services to Arrowhead Industries Corp.

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has been acquired by



The undersigned provided exclusive financial advisory services to Premier Hydraulics, LLC.

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has been acquired by



The undersigned provided exclusive financial advisory services to Precision Component Industries, LLC.

Carleton McKenna
INVESTMENT BANKING SERVICES



The undersigned provided exclusive financial advisory services to Trust Technologies, a Kilroy Company, for debt placement.

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has been acquired by



The undersigned provided exclusive financial advisory services to Insight Services, Inc. (dba Testoil).

Carleton McKenna
INVESTMENT BANKING SERVICES

Figure 1: Types of Material Handling Equipment & Respective Levels of Automation⁽¹⁾

The material handling market utilizes equipment in three main areas: warehouse management, shop-floor operations, and field operations, which share common success factors, including accuracy, reliability, and cost efficiency. **Warehouse management** focuses on metrics like picking and sorting speed, as well as tracking accuracy. **Shop-floor operations** prioritize timely product delivery to production lines and low operating costs. **Field operations**, which include construction, mining, and ports, benefit from mechanical capabilities and the ability to handle multiple operations concurrently.

Level of Automation by Equipment Type

		No Presence	Existing Presence	Major Presence		
Material Handling Application	Activities	Cranes & Hoists	Conveyors	Trucks & Forklifts	AGVs ⁽²⁾	ASRS ⁽²⁾
Warehouse Management	Load/Unload Storage Bays	Major Presence	No Presence	Existing Presence	Existing Presence	Major Presence
	Picking Material for Production	Existing Presence	Major Presence	Major Presence	Major Presence	Major Presence
	Moving Storage Bays	No Presence	No Presence	No Presence	No Presence	Major Presence
	Packing Material	No Presence	No Presence	No Presence	Existing Presence	No Presence
Shop-Floor Operations	Deliverance to Assembly Lines	Existing Presence	No Presence	Major Presence	Major Presence	No Presence
	Movement Across Production Line	No Presence	No Presence	No Presence	Major Presence	No Presence
	Movement of Goods Along Continuous Flow Operations	No Presence	Major Presence	No Presence	Major Presence	No Presence
	Prepare/Position For Assembly	Major Presence	No Presence	Existing Presence	Existing Presence	No Presence
Field Operations	Deliver/Move Material	Major Presence	Existing Presence	Major Presence	Existing Presence	No Presence
	Moving Product Between Points	Major Presence	No Presence	Major Presence	Existing Presence	No Presence

(1) Sources: McKinsey & Company

(2) Definitions: AGVs= Automated Guided Vehicles; ASRS= Automated Storage and Retrieval Systems

Material Handling Industry⁽¹⁾

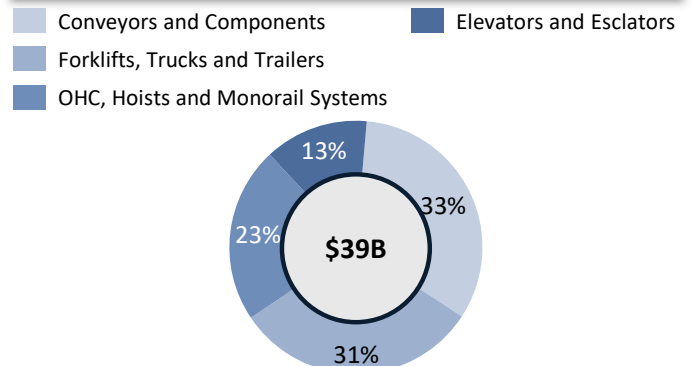
- Traditionally, material handling has been highly-fragmented, allowing specialization in respective areas coupled with stable competition.
- Urbanization and an aging workforce have required industry participants to offer continually-developing, automated and integrated services and product offerings.
- Accelerated adoption of e-commerce has required material handling operators to become more adaptive to SKU visibility, lead times and responsiveness to customer demands.
- Despite levels of variation across industry participants, certain success factors have defined top performers:
 - Cost control, which differentiates leaders and laggards, especially through the pandemic; and
 - Participants developing **integrated solutions** through M&A have delivered significant shareholder return
- The **material handling market is set for substantial growth in 2024 and beyond**, but not all participants are positioned to capitalize:
 - Industry leaders de-couple from laggards by becoming full-scale solutions providers to facilitate a more streamlined path from customer pain-points to delivered solutions; and
 - Leaders develop partnerships with OEMs in adjacent segments, with standardized implementation interfaces to enable equipment communication and seamless cross-functionality across product offerings.
- Material handling and other industrial equipment participants have an inherent ability to pass on price pressures to their customers:
 - As raw material prices skyrocketed and then corrected in recent years, many material handling participants have derived significant margin enhancement from maintaining elevated product pricing strategies.
 - Industry participants that are able to continue delivering valued solutions to customers will be more likely to sustain these elevated margins.

Figure 2: Products and End Markets

- The material handling industry includes companies that manufacture, design, engineer and distribute equipment specializing in the storage, movement or protection of products.
- Primary subsegments within the industry include **cranes, conveyors, and forklifts**, which each have their own markets, technologies, requirements, use-cases and capabilities.



Figure 3: Product Revenue Segmentation 2023⁽²⁾



(1) Sources: Pitchbook, IBISWorld

(2) Figure three represents Selected Revenue Segmentation | Definition: OHC represents "Overhead Crane Systems"

Commentary⁽¹⁾

- Growth in demand for material handling equipment has been fueled by increased business investment, utility construction, e-commerce, and nonresidential construction.
- The COVID-19 outbreak caused a temporary significant economic downturn, impacting downstream markets and disrupting supply chains.
- Stiff competition from foreign markets, driven by pricing, currency exchange rates and trade tensions, along with interest rate increases tempered domestic industry growth.
- Business investment in machinery and industrial equipment enhanced demand for forklifts and conveyor systems, enabling efficiencies in manufacturing and inventory management.
- Increased demand from wholesalers and retailers, particularly in e-commerce, drove the need for material handling equipment in storage, transportation, and logistics.
- The utility construction boom further boosted demand for forklifts and conveyors, particularly in the construction industry, supporting market growth.
- The Great Lakes region is a prominent manufacturing hub in the United States, largely due to its proximity to key manufacturing companies, including Ford and General Motors. These companies rely on forklifts and conveyor equipment for mass production. Additionally, the region's proximity to Canada, a major exporter, attracts companies in this sector to establish operations there.
- The Southeastern region of the United States is known for its attractive tax incentives for manufacturers, making it a preferred location for various manufacturing operations. It is a hub for producing essential items such as overhead traveling cranes, hoists, winches, industrial trucks, tractors, trailers, and stackers.
 - Recent legislation in Florida offering sales tax exemptions on machinery and equipment purchases has further boosted industry growth in the state by providing manufacturers with a cost advantage.

Figure 4: Financial Performance⁽¹⁾

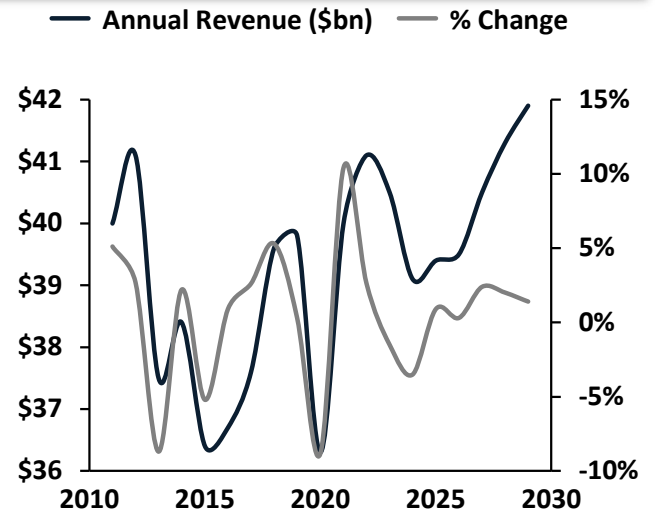


Figure 5: Percent of Total Enterprises by State⁽¹⁾

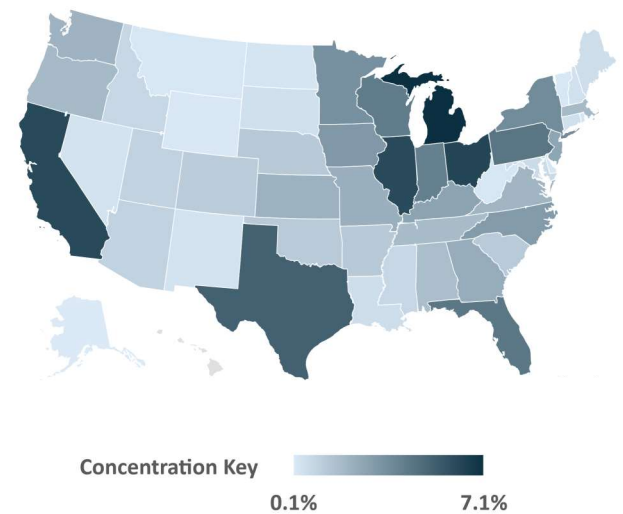
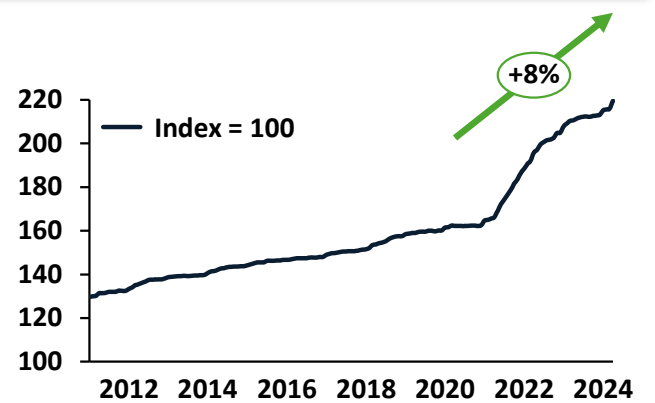


Figure 6: Material Handling Equipment PPI⁽²⁾



(1) Sources: Pitchbook, IBISWorld, Federal Reserve Economic Data (FRED)
 (2) Source: St. Louis FRED Data

PROCESS EQUIPMENT | PRIMARY PRODUCTS








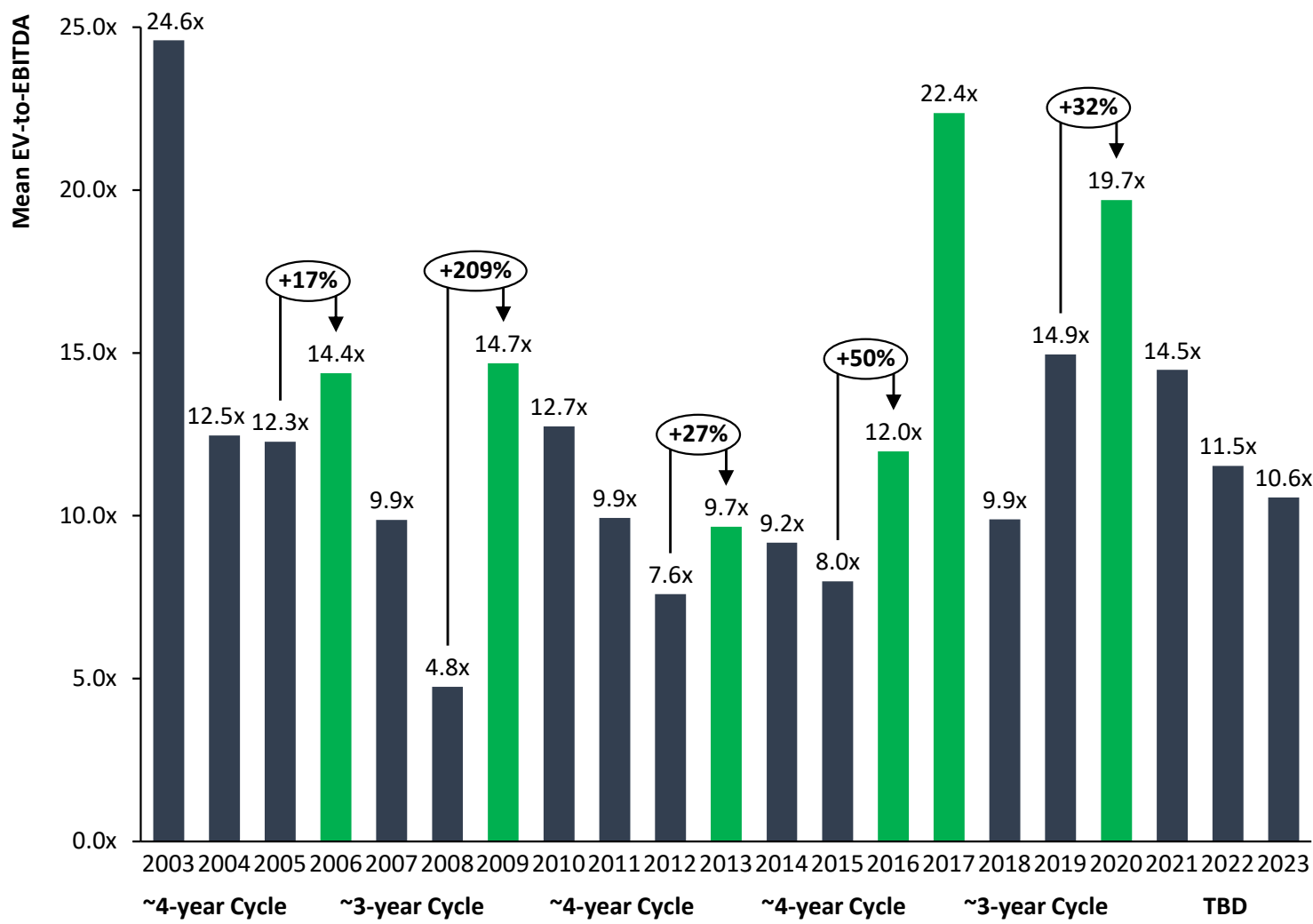
Product Segments	Equipment Functionality	Select Products	Select Applications	Select End Markets
<p>Feeding</p> 	<ul style="list-style-type: none"> Feeding equipment ensures precise material delivery 	<ul style="list-style-type: none"> Vibratory Screw Belt Apron Pneumatic 	<ul style="list-style-type: none"> Precise metering and controlled delivery Handling of heavy-duty materials Accurate weighing 	<ul style="list-style-type: none"> Food and Beverage Pharmaceuticals Chemicals Agriculture Mining and Minerals
<p>Conveying</p> 	<ul style="list-style-type: none"> Conveying equipment moves materials within a production line 	<ul style="list-style-type: none"> Vibratory Screw Bucket Chain Pneumatic 	<ul style="list-style-type: none"> Transporting bulk materials at various intermediate stages of the process line Vertically lifting materials 	<ul style="list-style-type: none"> Logistics Food and Beverage Mining and Minerals Chemicals Recycling
<p>Heating and Cooling</p> 	<ul style="list-style-type: none"> Heating and cooling equipment regulates temperature during processing 	<ul style="list-style-type: none"> Industrial Ovens/Furnaces Induction Exchangers Cooling Towers Chillers 	<ul style="list-style-type: none"> Baking, roasting and drying food products Drying granules and powders Heat treatment processes 	<ul style="list-style-type: none"> Food and Beverage Automotive Plastics and Rubber Chemicals Pharmaceuticals
<p>Grinding</p> 	<ul style="list-style-type: none"> Grinding equipment reduces material into particle size through mechanical force 	<ul style="list-style-type: none"> Hammermills Shredders Chippers 	<ul style="list-style-type: none"> Initial size reduction Grinding materials into subproducts Reducing product into granules 	<ul style="list-style-type: none"> Plastics and Rubber Pharmaceuticals Agriculture Recycling Chemicals
<p>Screening</p> 	<ul style="list-style-type: none"> Screening equipment separates material based on size or shape 	<ul style="list-style-type: none"> Vibratory Trommel Rotary Magnetic Optical 	<ul style="list-style-type: none"> Classifying and separating materials based on size Grading materials Particle size analysis 	<ul style="list-style-type: none"> Mining and Minerals Recycling Agriculture Food and Beverage Plastics and Rubber

Figure 7: Select Trading Data⁽¹⁾

Carleton McKenna & Co Select Public Comparables (\$000s, except per share data)⁽¹⁾

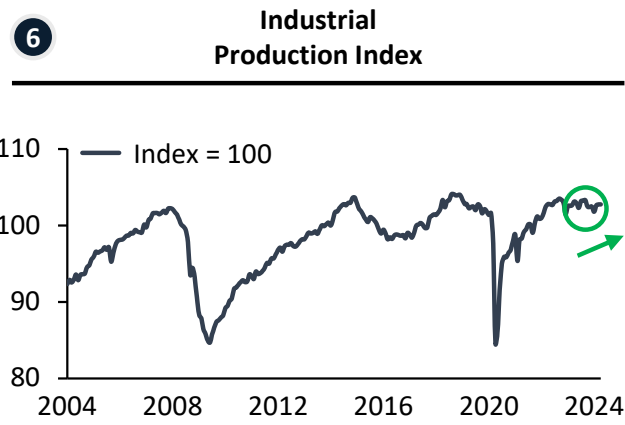
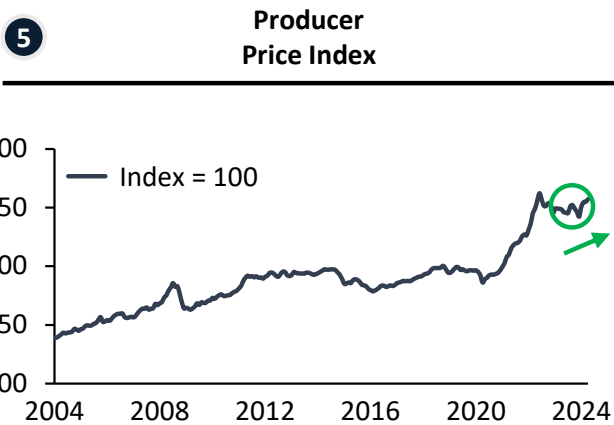
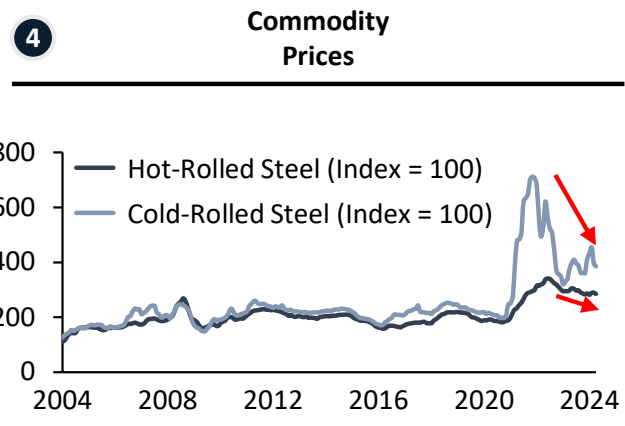
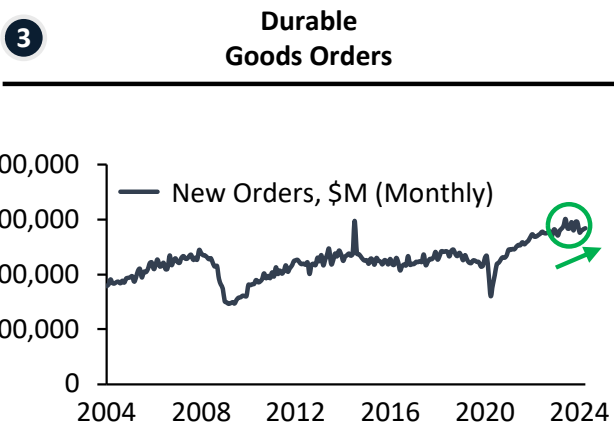
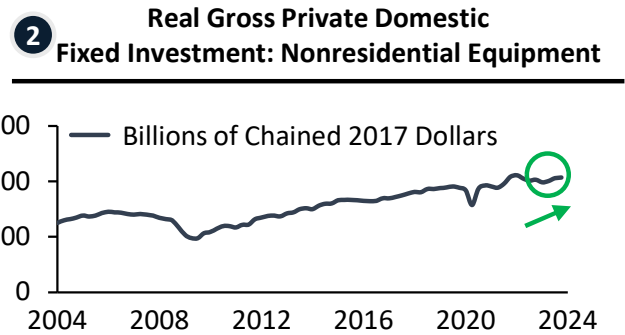
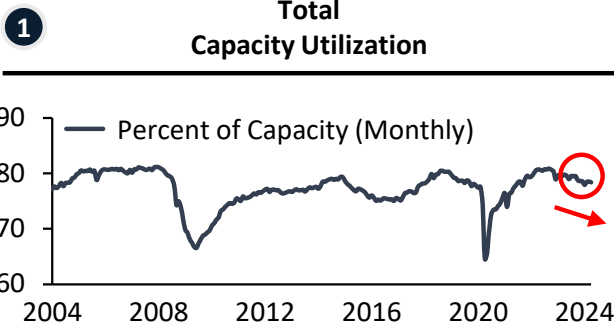
Company Name	Exchange: Ticker	Date	Market Data			Financial Data		Valuation Data	
			Share Price	% of 52-Week High	Enterprise Value (EV)	Market Cap	Revenue (LTM in 000s)	EBITDA (LTM)	EV/EBITDA (LTM)
Alamo Group	NYS: ALG	05/2024	\$197	85%	\$ 2,938,929	\$ 2,352,960	\$ 1,703,466	\$ 249,401	11.9x
Astec Industries	NAS: ASTE	05/2024	\$35	61%	1,012,013	785,404	1,299,500	94,600	13.5x
Columbus McKinnon	NAS: CMCO	05/2024	\$44	98%	1,587,142	1,271,589	1,001,879	163,414	10.7x
Kadant	NYS: KAI	05/2024	\$283	80%	3,862,425	3,317,735	976,889	204,972	19.4x
Metso	HEL: METSO	05/2024	\$12	93%	10,818,587	10,032,782	5,817,045	1,021,239	10.6x
Sandvik AB	STO: SAND	05/2024	\$21	90%	31,910,767	26,879,426	11,742,880	2,441,793	11.7x
Terex	NYS: TEX	05/2024	\$62	94%	4,567,300	4,173,273	5,208,300	742,200	6.6x
The Weir Group	LON: WEIR	05/2024	\$26	98%	7,310,378	6,787,838	3,276,651	674,349	13.2x
Median			\$39	92%	\$4,214,863	\$3,745,504	\$2,490,059	\$461,875	11.8x
Mean			\$49	87%	\$4,627,216	\$3,952,467	\$2,662,543	\$420,971	11.7x

The Process Equipment Industry endures 3- to 4-year cycles, expanding valuation multiples by approximately 32% upon cycle reset



(1) Source: Pitchbook

Figure 8: Relevant Leading Economic Indicators, 1Q 2024⁽¹⁾



Quick Conclusions

1 & 2: While total capacity utilization in the US is holding near two-year lows (1.1% below long-run average) fixed investment continues pace, with pockets of capacity use strength. Operating rate in Mining increased 0.9% in December 2023 to 94%, which is 7% above its long-run average.

3 & 4: New orders for manufactured durable goods increased in three of the last four months of 2023 while shipments fell in three of the last four months. It is possible lead times are expanding due to lower capacity utilization despite growing demand. The steel market also experienced pricing and delivery stabilization.

4, 5 & 6: We are seeing a decline in the Producer Price Index (*a measure of the average change in the prices domestic producers receive for their output*) while we're also seeing a moderation of commodity prices, particularly hot- and cold-rolled steel. Customers may be pressuring OEMs to give back some recent price increases related to cooling commodity input costs – market winners will hold historical price increases with value-add product solutions, innovation and support.

(1) Source: St. Louis FRED (data validated as of 4/1/2024)

History

145+ Year History

- Founded: 1876
- ESOP transition in 1986
- Partnership with MPE Partners in 2024

370+ Employees

- ~270 production employees
- ~100 non-production employees

3 Facilities

- Tiffin, OH (HQ)
- Newberg, OR
- Meridian, MS

MPE PARTNERS as Partner

- Strategic acquisition growth agenda, with backing from MPE Partners

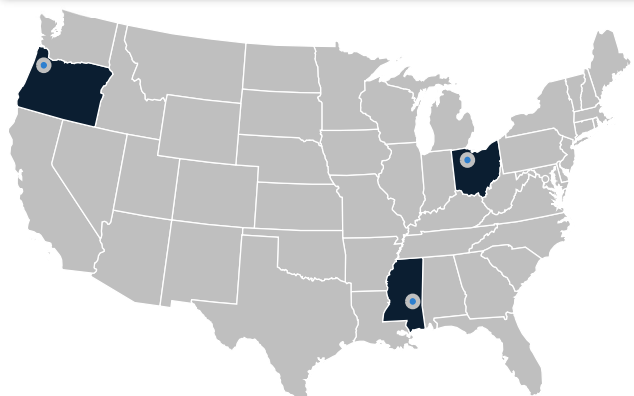
Product Portfolio

- Engineered Class Chain (ECC)
- Engineered Class Sprockets (ECS)
- Vibratory Process Equipment (VE)

Recent Growth Commentary

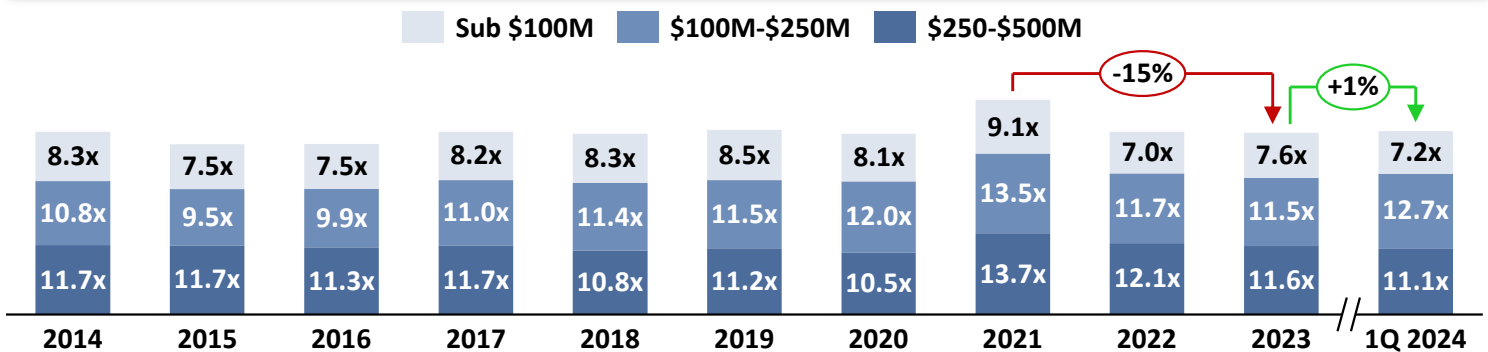
- For decades, Webster Industries, Inc. has been *the* market leader in engineered conveyor equipment component manufacturing for new and replacement purposes.
- The company understood that in order to maintain status as the “quality provider” in the market, they had to find ways to become more effective in delivering innovative, engineered solutions to their customers.
- In 2021, Webster acquired Action Vibratory Equipment, allowing Webster to increase their conveyor and process equipment application solutions portfolio and capabilities while expanding their geographic reach.
- As a result of the synergies created via the transaction, Webster has grown Action more than 50%, with further equipment and application growth opportunity.
- In 2023, Webster realized that annual buyouts of retiring employees demanded capital that would otherwise fuel internal or external growth investment.
- In order to unlock the company’s full growth potential, Webster hired CM&Co to run a process to find a capital provider supportive of the company’s growth potential.
- In 2024, CM&Co facilitated the recapitalization of Webster with MPE partners, a private equity firm based out of Cleveland and Boston. The Company is accelerating its significant capital investment and acquisition pursuit plans.

Facility Dispersion and Selected End Markets



<p>Recycling</p>	<p>Asphalt & Agg</p>	<p>Automotive</p>
<p>Water Treatment</p>	<p>Cement</p>	<p>Primary Metals</p>
<p>Food & Bev⁽⁵⁾</p>	<p>Forest Products</p>	<p>Grain</p>

Figure 9: Middle Market M&A Activity by Enterprise Value Bucket⁽¹⁾



- US industries across the board experienced a weak M&A market in 2023, as elevated borrowing costs, economic uncertainty and more careful lenders weighed on valuations and tempered activity.
- Since investors stayed more on the sidelines in 2023, they retain **unprecedented dry powder in 2024**.
- The M&A outlook through the end of 2024 appears healthy, as activity and valuations in the middle market are supported by non-bank lending and continuing interest from strategic and financial buyers.

Material Handling Valuations: Commentary

- Demand Driving Valuations:** Middle market material handling companies are experiencing heightened valuations due to increased demand for their products and services. This is particularly evident in the surge of e-commerce and the consequent need for efficient logistics.
- Strategic Value:** The strategic importance of material handling in enhancing operational efficiency and reducing costs has made these companies attractive in the middle market.
- Investor Attraction:** Both strategic buyers and private equity firms are keen on acquiring middle market material handling companies, drawn by the sector's resilience and growth potential, as well as opportunities for innovation and expansion.
- Technological Innovation:** Companies with innovative technologies that enhance automation, productivity, and efficiency in material handling command higher valuations. This reflects the market's recognition of the value of technology in driving growth and competitiveness.
- Consolidation Trends:** The middle market for material handling is experiencing consolidation as larger players seek to expand their market share and capabilities. This trend is supporting valuations as companies look to acquire specialized expertise and broaden their product portfolios to meet market demands.

Figure 10: Historical and Forward-looking Handling Multiples by Sector⁽²⁾

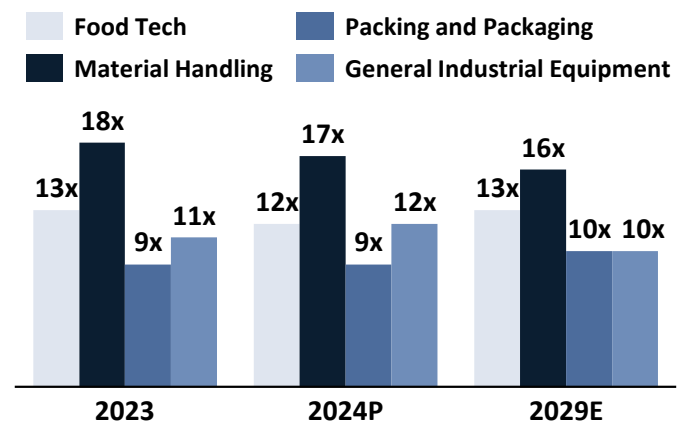
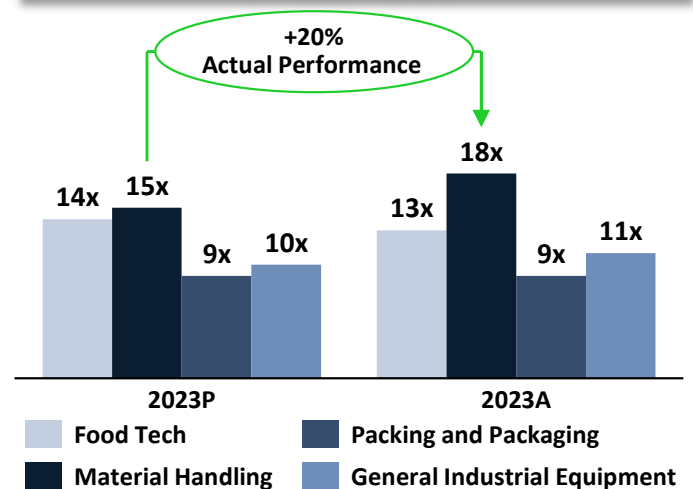


Figure 11: 2023 Handling Valuation Projections vs. Actual Results⁽²⁾



(1) Source: Pitchbook

(2) Source: S&P Global Market Intelligence, presented valuation multiples are calculated using medians

MATERIAL HANDLING & PROCESS EQUIPMENT

M&A TRANSACTIONS COMPLETED IN THE LAST TWELVE MONTHS (LTM) (1)



Date	Target (Ownership)	Buyer (Ownership)	Process Equipment & Handling Segments	End Markets
March 2024			<ul style="list-style-type: none"> Shredding 	<ul style="list-style-type: none"> Recycling
February 2024	 		<ul style="list-style-type: none"> Conveying Screening Feeding Separating 	<ul style="list-style-type: none"> Forest Products Agriculture Recycling Automotive
February 2024			<ul style="list-style-type: none"> Feeding Conveying Heating and Cooling Screening 	<ul style="list-style-type: none"> Food and Beverage Chemicals Minerals Recycling
January 2024		KĀDANT	<ul style="list-style-type: none"> Feeding Conveying 	<ul style="list-style-type: none"> Food and Beverage Agriculture Recycling Mining
January 2024		KĀDANT	<ul style="list-style-type: none"> Grinding 	<ul style="list-style-type: none"> Forest Products
December 2023			<ul style="list-style-type: none"> Feeding Conveying 	<ul style="list-style-type: none"> Agriculture Automotive Food and Beverage Medical
November 2023			<ul style="list-style-type: none"> Conveying 	<ul style="list-style-type: none"> Logistics
November 2023		Operiō group	<ul style="list-style-type: none"> Feeding 	<ul style="list-style-type: none"> Automotive Bulk Solids Chemicals Food and Beverage

(1) Source: Pitchbook

MATERIAL HANDLING & PROCESS EQUIPMENT

M&A TRANSACTIONS COMPLETED IN THE LAST TWELVE MONTHS (LTM) (2)



Date	Target (Ownership)	Buyer (Ownership)	Process Equipment & Handling Segments	End Markets
October 2023			<ul style="list-style-type: none"> Conveying 	<ul style="list-style-type: none"> Forest Products
August 2023			<ul style="list-style-type: none"> Conveying 	<ul style="list-style-type: none"> Automotive Agriculture Logistics
August 2023			<ul style="list-style-type: none"> Screening 	<ul style="list-style-type: none"> Logistics Pharmaceuticals
July 2023			<ul style="list-style-type: none"> Conveying Heating and Cooling Screening 	<ul style="list-style-type: none"> Agriculture Food and Beverage
July 2023			<ul style="list-style-type: none"> Feeding Conveying Grinding Screening 	<ul style="list-style-type: none"> Agriculture Forest Products Recycling
July 2023			<ul style="list-style-type: none"> Conveying Screening 	<ul style="list-style-type: none"> Agriculture Mining
July 2023	  M&A Advisor		<ul style="list-style-type: none"> Automation Lifting Transporting Heating & Cooling 	<ul style="list-style-type: none"> Energy Building & Construction Oil & Gas Recycling
June 2023			<ul style="list-style-type: none"> Conveying 	<ul style="list-style-type: none"> Cement Minerals

(1) Source: Pitchbook

Middle Market M&A Advisory & Capital Raising Sectors



**Specialty
Manufacturing
& Industrials**



**Business-to-
Business
Services**



**Consumer
Products**



Healthcare



**Technology &
SaaS**



**Construction &
Engineering**

Specialty Manufacturing & Industrials Professionals



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20%
Average increase in
purchase price through
diligence



500+
Transactions Closed

**Maximizing
Value**

**Optimizing
Fit**

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