Changing political winds bode well for industrial M&A in 1H
by Marlene Givant Star and Sam Weisberg, with additional reporting by Richard Tekneci
January 10, 2017

A new US president and significant changes around the world will lead to a continuation of heady M&A activity in the industrial segment, several industry experts told *Mergermarket*.

Shilpi Gupta, a partner in the M&A group of Skadden Arps, said leading up to year-end 2016, there was "a material pause to see how the elections were going to shake out." This was not just in the US but in Europe and Asia including in South Korea, where the impeachment of President Park Geun-hye all but shut down M&A. "Everyone needs to adjust to the new reality."

Likewise, it will take time for Great Britain to figure out how to execute on its exit from the European Union. There is also weakness in the pound and euro that could impact activity, Gupta said.

One of the drivers of industrial M&A will be how to repatriate money back to the US. "People are anxiously awaiting tax relief," under Donald Trump, Gupta said. "That has an impact on where and how you spend your money."

Asia will continue to be active on the inbound and outbound side. In addition, Gupta predicts a fair amount of activity in Europe by US acquirers.

Whitney Krutulis, director of business development of Sterling Partners, said Trump's win is generating excitement in the industrial and infrastructure services communities. The hope is that years of red tape will go away, she said, so that investors can execute on projects in a tighter timeframe.

Justin Marku, a vice president of Sterling focused on business and commercial services, agreed, noting that in 2016, construction spending around the oil and petrochemical segments moderated somewhat. An increase in construction spending would be positive for downstream industrial services. One of Sterling's portfolio companies that stands to benefit is **DBI Services**, a road construction services firm, he said.

Furthermore, the growth in e-commerce will generate new business models and opportunities in the supply chain and logistics segments, Marku added.

CHEMICALS/MATERIALS

Ben Scharff, managing director of investment bank Grace Matthews, said the hot chemical and materials segments for 2017 include chemical distribution; building products and building materials and oilfield and water treatment chemicals. Construction spending remains strong and the building products segment will enjoy an increase in infrastructure spending under Trump even if raw material costs go up as oil recovers.

Oilfield and water treatment chemicals will prosper as oil prices rise and investment in equipment increases. Even more, regulatory reform should be favorable to the industry under Trump.

Two-thousand sixteen saw a number of megadeals in the chemical and coatings segments, including **Nippon Paint** acquiring **Dunn-Edwards**. In addition, big chemical distribution companies that have gone public in recent years are aggressively making acquisitions in value-added distribution.

In addition to regulatory-driven forced divestitures from the pending mega-mergers of **ChemChina** [CNNCC.UL] and **Syngenta**[SYNN.S]; **Bayer** [BAYN.DE] and **Monsanto** [NYSE:MON] and **Dow** [NYSE:DOW] and **DuPont**,[NYSE:DD] there will be other divestitures later – probably in mid to late 2018, as the companies rationalize these large transactions, Scharff said.

AUTOMOTIVE/TRANSPORT

In the automotive industry, a sector banker said the hottest subsectors will continue to be connectivity and mobilityrelated. **Delphi Automotive** [NYSE:DLPH], BorgWarner [NYSE:BWA], **Robert Bosch**, **Continental AG** [ETR:CON] and **Magna International** [TSE:MG] are expected to continue consolidating, potentially within the connectivity sector, he added.

Sterling's Marku agreed that telematics will drive M&A. Infrastructure spending around cell towers and fiber networks and bandwidth could generate investment opportunities in service companies related to those networks.

In tire manufacturing, traditional tire makers will continue diversifying into specialty niche segments such as agricultural and forestry machinery, said Steven Rathbone, a managing director at HT Capital Advisors. Case in point: Japan-based **Yokohama Rubber**'s [TYO:5101] nearly USD 1.2bn acquisition in early 2016 of **Alliance Tire Group.**

Trump's promise to boost infrastructure spending should benefit flatbed and heavy hauling groups, said one sector banker. While giants like **Swift Transportation** [NYSE:SWFT] and **Werner Enterprises** [NASDAQ:WERN] have flatbed capacity, private companies such as the trucking rollup outfit **Daseke** and heavy equipment trucking group **Keen Transport**, owned by **Platinum Equity** since 2012, could also grow significantly via M&A, he said. Similarly, any waste treatment groups that offer services related to energy, oil, tunnel, bridge and road projects could see a boom in M&A activity, said another sector banker.

Tunnel Hill Partners, a waste-by-rail group that acquired Connecticut-based **City Carting** in June, is an example of a fast-growing business that could either merge with a larger group next year or go on an acquisition spree, said a waste sector banker. Solid waste targets will continue to command multiples of 7x to 9x EBITDA, he said.

AEROSPACE/DEFENSE

Manan K. Shah, a managing partner at Focus Investment Banking, said overall global aerospace and defense spending will continue to increase. Trump's presidency is expected to benefit missile defense and Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) spending. Shah added that cybersecurity will continue to receive attention. He named **Lockheed Martin** [NYSE:LMT], **Northrop Grumman** [NYSE:NOC], **General Dynamics** [NYSE:GD], **ManTech International** [NASDAQ:MANT] and **CSRA** [NYSE:CSRA] as some of the larger companies expected to look at acquisitions over the next year.