

Specialty Pumps and Valves Evolves Into a Seller's Market

Recent Deal Notables

Pentair acquires the assets of TwinPumps and K&M Plastics. TwinPumps designs and manufactures vortex and chopper pumps for municipal wastewater applications. K&M Plastics makes blow-molded brine tanks and pressure vessels for residential commercial water conditioning and filtration purposes. These transactions augment Pentair's long term growth strategy and will increase its water technology sales by approximately \$5-10mm. Terms were not disclosed.

ITT acquires business assets of Uniservice Wellpoint Srl. Uniservice designs diesel and electric-powered vacuum-primed centrifugal pumps and achieved revenues of \$4mm in 2002. The deal is part of ITT's "bolt on" acquisition strategy to enhance its service solutions and help its Flygt Group move from a product to a solutions provider platform. Terms were not disclosed.

Curtiss-Wright acquires TAPCO International for \$10.5mm in cash. TAPCO is a wholly owned subsidiary of Triten Corporation with annual sales of \$14.1mm. TAPCO engineers and produces flow control and ancillary equipment. The target is expected to function as a part of Curtiss-Wright's Flow Control Business unit.

Robbins & Myers executes tender offer to Tarby for \$12.5mm in cash. Tarby, a wholly owned subsidiary of Dover Resources, manufactures cavity pumps for industrial and municipal wastewater management markets with annual sales of \$6mm. The transaction is expected to be accretive.

Sector Snapshot

An evolving seller's market. Buyers continue to pursue medium-sized acquisitions without much success, as sellers have remained on the sidelines of the M&A market due to perceived low valuations. Capstone believes that this has become a seller's market as buyers will pay higher premiums to pursue niche middle market growth opportunities.

International markets key to increasing growth and reducing costs. Many pumps and valves companies have turned to cheaper offshore manufacturing facilities to reduce operating costs and improve profitability. These companies have also looked to international acquisitions to combat stagnant growth and increase market share.

Defense industry business is an acquirer hot button. The recent war with Iraq and a "defense-friendly" administration have spurred demand for defense-related products and services. Companies with products in these sectors command higher margins and will attract premium market valuations.

Robust demand for domestic water services. Fluid technology applications are expected to take a center stage position over the next few years given the demand for irrigation in agriculture and wastewater management applications. Demand for the water well, jet, pressure, centrifugal and submersible pump sectors also continue to be healthy.

Small to mid-sized acquisitions drive strategic growth. Consolidators are pursuing small and medium-sized acquisitions to improve core product lines and develop new complementary businesses. Concerns surrounding integration challenges have decreased interest in larger acquisitions.

Public Equities and Capstone Index

Company Name	Operating Data (Margin)		Valuation Data (EV */LTM)	
	Gross	EBITDA	Revenue	EBITDA
Crane Co. (CR)	23.9%	5.3%	1.2x	21.9x
Curtiss-Wright Corp. (CW)	33.4%	15.8%	1.3x	8.1x
Eaton Corporation (ETN)	26.8%	9.9%	1.0x	11.0x
Flowserve Corporation (FLS)	29.7%	11.2%	0.8x	7.3x
Gorman-Rupp Company (GRC)	20.6%	9.5%	1.0x	10.0x
IDEX Corporation (IEX)	38.3%	14.8%	1.8x	11.8x
ITT Industries, Inc. (ITT)	35.3%	13.8%	1.3x	9.2x
Pentair, Inc. (PNR)	24.4%	11.9%	1.0x	8.4x
Robbins & Myers, Inc. (RBN)	33.2%	10.7%	0.9x	8.8x
SPX Corporation (SPW)	31.1%	15.2%	1.1x	7.4x
Thomas Industries Inc. (TII)	35.5%	14.1%	1.9x	13.7x
Watts Industries, Inc. (WTS)	33.7%	12.9%	1.0x	7.9x
Average	30.5%	12.1%	1.2x	10.5x
Median	32.2%	12.4%	1.1x	9.0x
Harmonic Mean	29.5%	11.1%	1.1x	9.5x

* EV = Enterprise Value = (Market Capitalization + Debt - Cash)

Source: CapitalIQ, Company Data

Acquirers on the Hunt

Large publicly traded conglomerate pursuing "bolt on" acquisitions of companies with revenues of \$20-200mm and main lines of business involving either fluid technology or defense market products.

Mid-cap pumps manufacturer seeking to acquire companies with biotech, life sciences, filtration, fire and rescue and chemical applications. The targets should have minimum revenues of \$5mm and adjusted EBITDA margins of approximately 10%.

Diversified industrial manufacturer searching for companies within the aerospace and defense markets with revenues between \$45-75mm.

Medium-sized water valves producer seeking to acquire companies with water-related products in the commercial and residential markets with revenues of \$10-100mm. The targets should have growth greater than 7% or gross margins greater than 40%.

Target Profiles

Key characteristics of target acquisition candidates that have been most commonly communicated by the currently active acquirers include:

- Revenues greater than \$5mm;
- Annual growth in excess of 7%;
- EBITDA margins greater than 10%;
- Concentrated ownership seeking liquidity; and
- Products and services sold into key sectors, including aerospace, defense, automotive, commercial, biotech or pharmaceutical.

Capstone maintains a proprietary and confidential network for middle market companies (the "Capstone Watchlist") who have expressed an interest in evaluating the M&A market on a continual basis. For further inquiries, or to be included in the Capstone Watchlist, please contact Scott Yen below.

