Flow Control: A Highly Attractive Investment Opportunity

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Harris Williams

Flow Control
A Highly Attractive Investment Opportunity

Strong market tailwinds and multiple value creation levers make flow control an attractive sector for potential investment

Strong Market Tailwinds

Infrastructure Spending

- Increased government spending, with ~$500B of funding earmarked for infrastructure projects over the next five years
- Additional spend upside from constantly evolving regulatory environment

Reshoring Initiatives & Supply Chain Dynamics

- The build-out of domestic manufacturing capabilities to strengthen previously outsourced supply chains has created pull-through demand for a wide range of flow control products

Energy Transition & Electrification

- In 2023, publicly traded companies alone invested over $5B in energy innovation projects
- Clean energy investments have begun to outpace fossil fuel investments; for every $1 of fossil fuel investment, $1.70 is being invested in clean energy technology

Technological Innovation

- Rapid adoption of advanced technologies and digital solutions are optimizing efficiency, increasing cost savings, and improving throughput, creating proven value for users

Value Creation Opportunities

Organic Growth Acceleration

- Multiple secular and long-term market tailwinds support increased demand in the flow control sector

Operational Enhancement

- Wide range of operational improvement opportunities, including footprint optimization, LEAN implementation, and continuous improvement pursuit

Technological Advancements

- Rapidly evolving end markets create ongoing demand for new and more technologically advanced products

M&A

- Large, fragmented market creates opportunity to employ buy-and-build strategy

Sources: EY, Reshoring Initiative, International Energy Agency, McKinsey & Company

Flow Control
Market Overview

- The global flow control market represents a large and diverse investment opportunity
  - Valued at ~$240B in 2023
- In this report, we focus on three specific segments of the flow control market:
  - Pumps and compressors
  - Valves
  - Flow meters and controls
- Though not covered in this report, a number of additional, attractive product categories exist with the flow control market, including filtration / mixing equipment, dispensing solutions, and pipes / tubing, among others
- The global flow control market is expected to grow at a 5.1% CAGR from 2023 to 2030, with growth across product categories underpinned by multiple strong and long-term demand drivers, including:
  - Infrastructure spending
  - Reshoring initiatives and supply chain dynamics
  - Energy transition and electrification
  - Technological innovation
- M&A has been and continues to be a significant opportunity for investors in the global flow control market
  - Between 2019 and YTD 2024, ~950 transactions were completed in the space
  - Despite robust deal activity historically, the flow control market remains highly fragmented, representing an attractive opportunity set for both new platforms and add-ons
- In addition to M&A proclivity, there are a number of factors to consider when contemplating an investment in the flow control space, including end market and application focus, operational expertise, and innovation capabilities, among others

Flow Control Market
Sectors of Focus

Pumps & Compressors

Devices within flow control that assist in liquid handling and movement or the transfer of pressurized gases through a variety of different thermomechanical ways

~$60B
Total Market Opportunity As of 2024E

~4%
Projected Growth Rate Through 2030E

Representative Names

Atlas Copco, Flowserve, Grundfos, Ingersoll Rand, Sulzer, xylem

Valves

Includes a subset of products in flow control that manage and regulate the flow of liquids and pressure across a range of systems

~$80B
Total Market Opportunity As of 2024E

~4%
Projected Growth Rate Through 2030E

Representative Names

Baker Hughes, Crane, Curtiss-Wright, Emerson, slb, Watts

Flow Meters & Controls

Measures how much liquid or gas moves through an apparatus, such as a pipeline, over a period of time and identifies metrics such as flow rates and other data points

~$11B
Total Market Opportunity As of 2024E

~6%
Projected Growth Rate Through 2030E

Representative Names

ABB, Badger Meter, danaher, Eaton, Fortive, Honeywell, Hubbell, IDEX Corporation, Itron, Mueller, Roper

Segment Overview
Pumps & Compressors

- Pumps and compressors represent a significant component of the broader global flow control market, with the segment valued at ~$58B as of 2023
- Pumps are typically used either to increase the pressure of fluid / gas or to transfer the fluid / gas at a higher discharge rate, whereas compressors are generally employed to power pneumatic tools and machinery, both across a wide variety of industries
- Pumps and compressors are both highly technical products:
  - Creates opportunities for technical and competitive differentiation from a manufacturing standpoint
  - Underpins sticky, consultative customer relationships in the aftermarket
- Technological developments and growing end markets, including water / wastewater treatment, chemical, power generation, and agriculture, are expected to drive robust continued growth in the space
  - Segment is expected to grow at CAGR of ~4% between 2023 and 2030E

Product Categories

Reciprocating Pump

Rotary Pump

Axial Pump

Centrifugal Pump

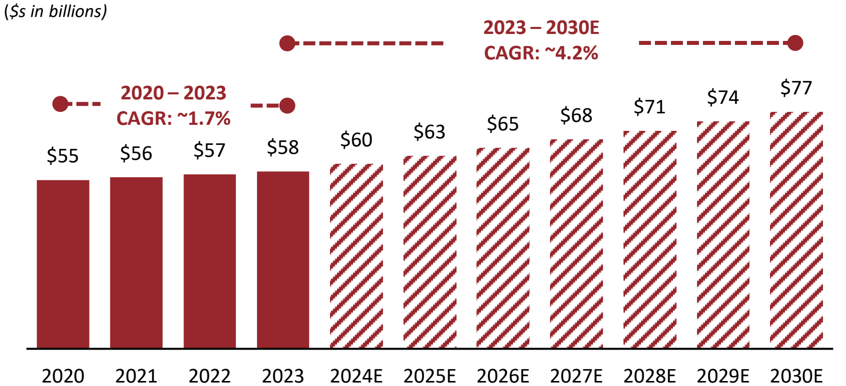
Rotary Screw Compressor

Reciprocating Air Compressor

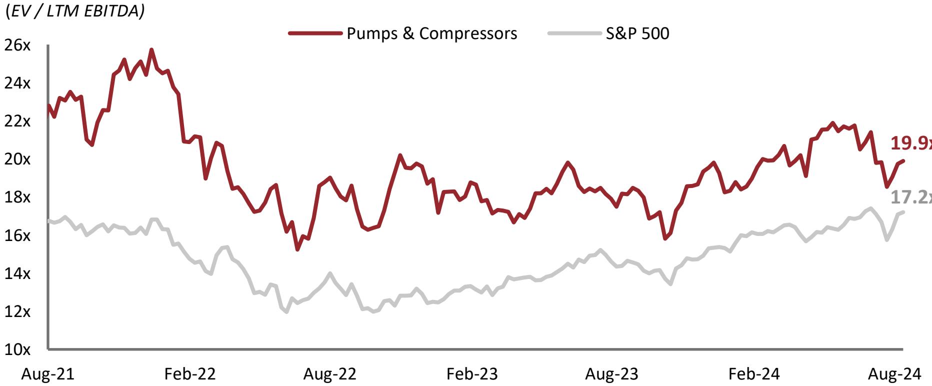
Axial Compressor

Centrifugal Compressor

Market Size and Growth



Public Comparables Performance[1]



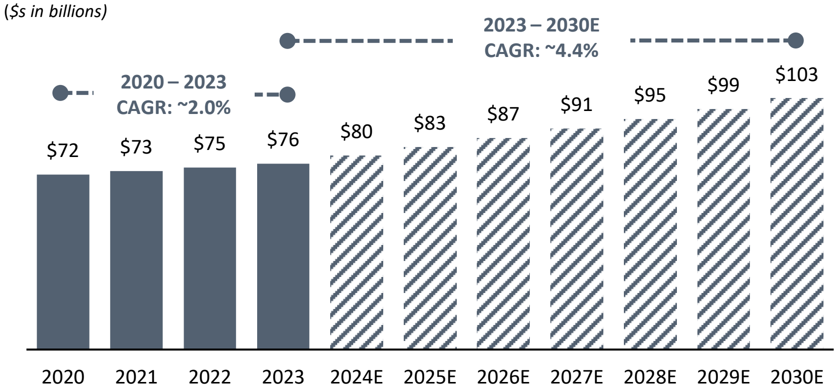
Select Platforms

Segment Overview
Valves

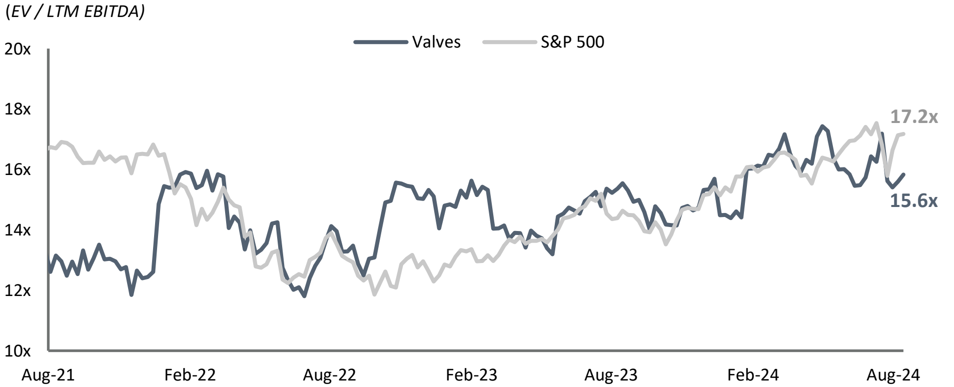
- Valves represent the largest segment of the broader global flow control market, valued at ~$76B in 2023
- Valves have many industrial use cases, including regulation of fluids in operations and processes, fluid pressure rates, speed and control of motorized cylinders, and water control within irrigation settings, among others
- Integration of items such as sensors, connectivity, and analytics has transformed the way in which valves are designed and manufactured, providing the ability to see real-time stats and help with predictive maintenance and monitoring
- Valve market growth is driven by factors such as new power plant construction, increasing industrial equipment usage, and the adoption of increasingly higher-quality models, potentially with additional capabilities or features
- In addition to strong underlying market growth, technical differentiation and focus on high-growth and / or regulated end markets represent powerful growth levers for industry participants
- Ultimately, the valve segment is expected to grow at a CAGR of ~4% between 2023 and 2030E

PRODUCT CATEGORIES

MARKET SIZE AND GROWTH



PUBLIC COMPARABLES PERFORMANCE[1]



SELECT PLATFORMS

Andronaco Industries, Circor, Flow Control Holdings, FloWorks, indicor, Leonard, Midland Industries, Quality Valve, Richards Industrials, Trillium Flow Technologies, VAG

Sources: Grandview Research, Grandview Research, Flow Research Group, Valve Manufacturers Association, S&P Capital IQ, HW research

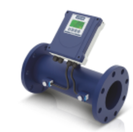
1. Data as of 8/28/2024; public comparables include Baker Hughes Company, Crane Company, Curtiss-Wright Corporation, Emerson Electric, Schlumberger Ltd, and Watts Water

Segment Overview
Flow Meters & Controls

- Flow meters and controls comprise an attractive and rapidly growing segment of the flow control market that was valued at ~$10B in 2023
- Flow meters are typically utilized to measure the flow rate or quantity of liquid or gas as it passes through an application; controls assist in the safe and efficient operation of other flow control components and / or processes
- A combination of multiple unique factors is expected to drive outsized growth in the flow meters and controls segment over the next few years
  - – Increased adoption due to improved product capabilities, IoT technology-related trends, LEED certifications, and government regulation
  - – Continued product mix shift toward more accurate, robust, and expensive meters that utilize more sophisticated technology
- Ultimately, the flow meters and controls segment is expected to grow at a CAGR of ~6% between 2023 and 2030
- In addition to strong underlying market growth, technological innovation and a highly fragmented competitive landscape create outsized growth opportunities for market participants through new product development and M&A, respectively

Product Categories


Magnetic Meters

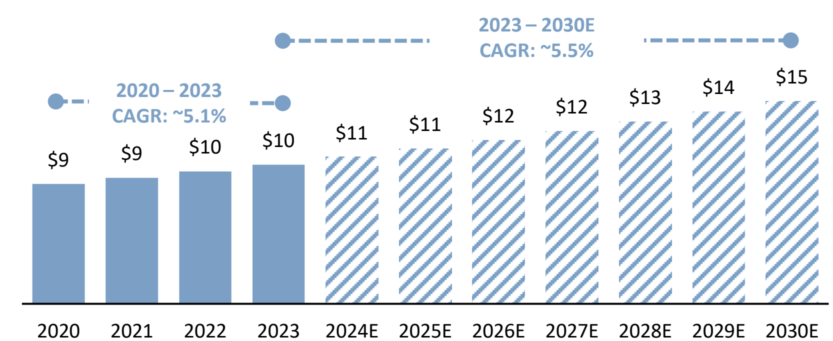

Ultrasonic Meters


Vortex Meters


Thermal Dispersion

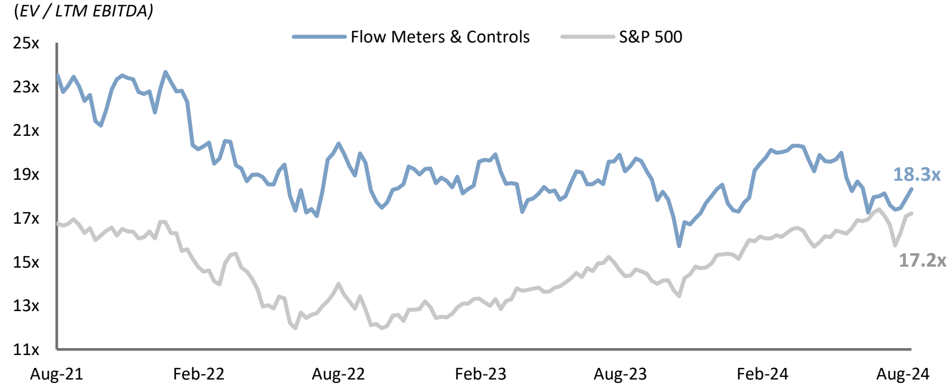
Market Size and Growth

($s in billions)



Public Comparables Performance[1]

(EV / LTM EBITDA)



Select Platforms

AlpHa, Clark-Reliance, CogneSense, Daniel, Dura Products, DwyerOmega, Micronics, Rochester Sensors, TASi, TSI, VEGA

Sources: Grandview Research, Measurement Control & Automation Association, S&P Capital IQ, HW research

1. Data as of 8/28/2024; public comparables include ABB, Badger Meter, Danaher Corporation, Eaton Corporation, Fortive Corporation, Honeywell International, Hubbell Incorporated, IDEX Corporation, Itron, Inc., Mueller Water Products, and Roper Technologies

Key Demand Drivers

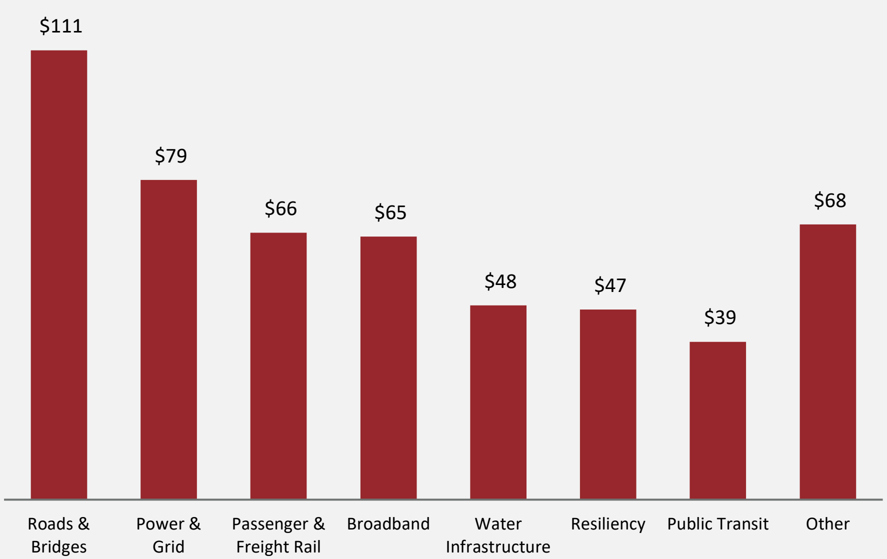
Infrastructure Spending

- The Infrastructure Investment and Jobs ACT (IIJA)and other regulations provide **$1.2 trillion for transportation and infrastructure investment**; of that, $550 billion will be allocated over the next five years
- Infrastructure spending is expected to accelerate growth in relevant flow control product markets
- Flow control products are expected to be **utilized across a wide variety of infrastructure improvement areas**, particularly in water-focused infrastructure initiatives
- Ongoing political changes are expected to continue driving regulatory and investment spending on infrastructure

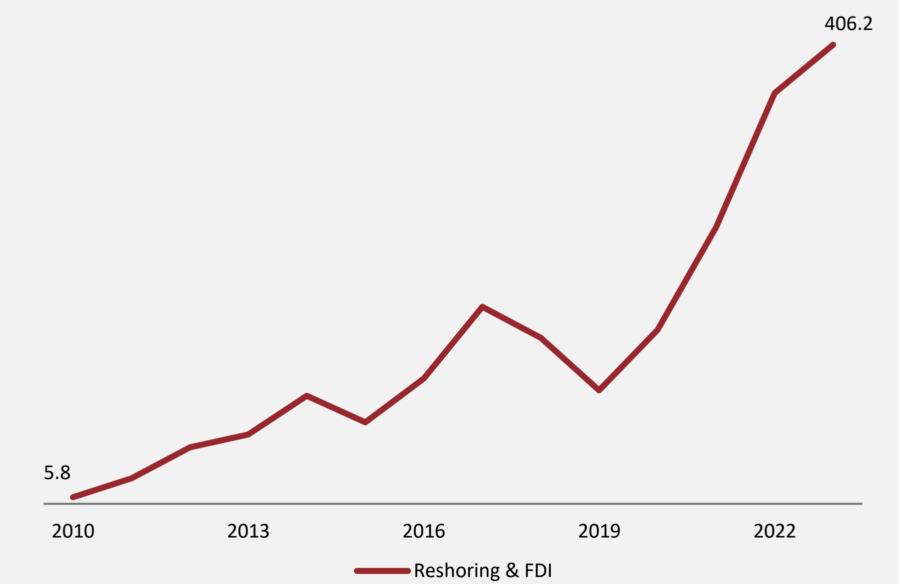
Reshoring Initiatives & Supply Chain Dynamics

- Continued **reshoring activity**, intended to improve supply chain resilience and reduce dependence on foreign production, is expected to support the continued growth of domestic manufacturing, which will in turn increase demand for flow control products
- Reshoring initiatives are supported by a range of factors:
  - ✓ Increased automation to reduce labor dependence
  - ✓ Local eco-systems of raw materials and components
  - ✓ Geopolitical concerns with China and Taiwan
  - ✓ Emphasis on Infrastructure, Energy, and Technology legislation providing additional funding

Infrastructure Spend Expected to Accelerate Growth in Related End Markets
(Instructure Spend by End Market, $s in billions[1])



Manufacturing Job Announcements per Year
(Reshoring & FDI Job Demand, Jobs in Thousands[2])



Sources: EY, Reshoring Initiatives

Key Demand Drivers (Cont.)

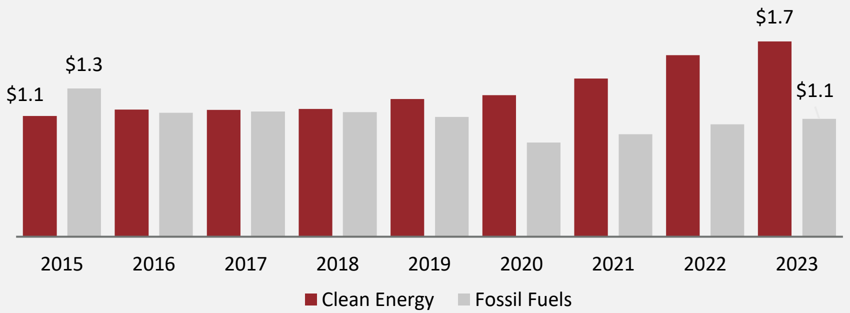
Energy Transition & Electrification

- Current regulations and government policies are driving spending on clean energy with **over $5 billion in spending on energy innovation projects**
- Record **consumer spending of $130 billion in 2023** on energy conversion
- Investment in clean energy has **begun to outpace investment in fossil fuels** by $1.70 for every $1.00 spent on fossil fuels
- Clean energy adoption bolsters demand for new flow control systems

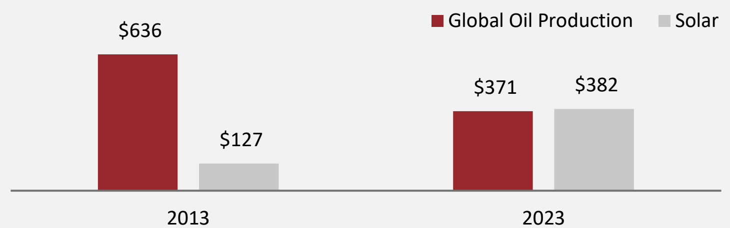
Technological Innovation

- Companies are rapidly adopting advanced technologies and digital solutions to **optimize efficiency, increase cost savings, and improve throughput**
- Technological innovations are rapidly moving into all areas of a facility, and a switch to flow control automation is creating tremendous value for users:
  - ✓ Optimizing process control to limit downtime
  - ✓ Utilizing process and performance data to improve throughput
  - ✓ Improving performance by better utilization of facilities

Global Energy Investment in Clean Energy and Fossil Fuels, 2015-2023
($s in billions[1])



Oil Production Investment and Solar Investment, 2013 vs. 2023
($s in billions[1])



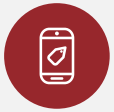
Examples of Technological Innovation and Digitalization in Manufacturing

Automation

Automated vehicles for production, loading, and order fulfillment

Advanced Planning

Long-term capacity planning and warehouse storage optimization



Data Visualization & Performance Tracking

Regular reporting, performance board, and real-time OEE and loss tracking

Digital Maintenance

Digitized work-order process, condition-based and preventative maintenance

Parameter Optimization

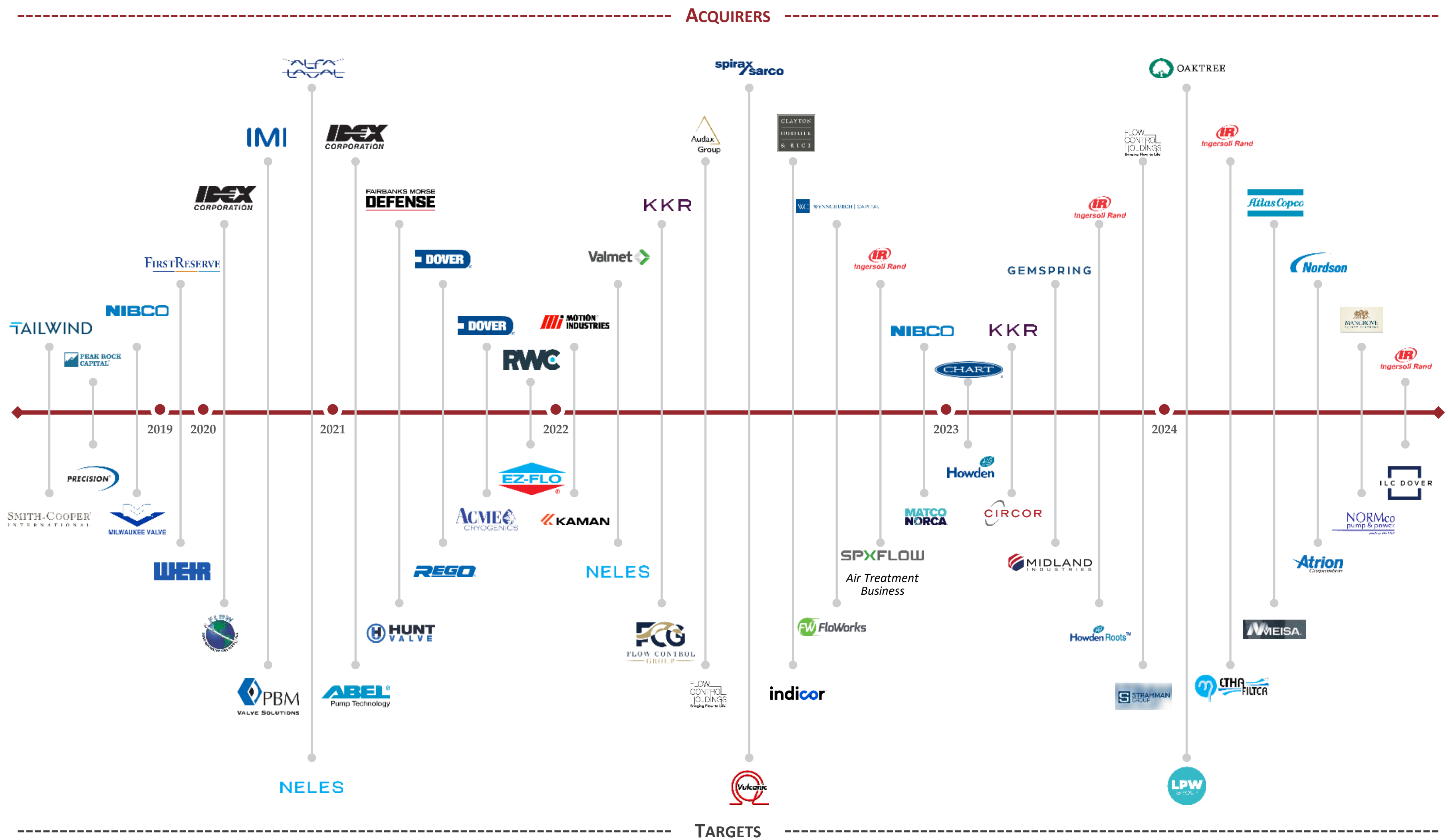
Performance-deterioration warnings and advanced analytical capabilities

Digital Platform For Front Lines

Mobile platforms for operations, performance, and communications

History of Continued M&A Activity

The flow control space has experienced consistent M&A activity from strategic buyers and sponsors alike



Key Considerations for Investors

What should investors be looking for?

- Branded, High-Quality Products
- New Product Development & Innovation Capabilities
- Focused Applications Built for Mission-Critical Use Cases
- Exposure to High-Growth End Markets with Long-Term Tailwinds
- Scaled operational footprint with ability to serve global customer base
- Industry-Leading Operational Expertise and Lean Capabilities
- Proven Track Record of Consistent Organic Growth
- Ability To Execute A Repeatable M&A Playbook

HW: A Leading Advisor in Flow Control

Harris Williams Engineered Equipment, Products & Components ("EEPC") Focus Areas

Flow Control Solutions

Electrical and Other Engineered Components

Safety Products and Equipment

Industrial Products Distributors

Select Flow Control Transactions

Marshall Excelsior
an operating company of
Harbour Group
has been acquired by
Dover

Leading provider of highly engineered, severe service flow control solutions for compressed and liquefied gases

Midland Industries
a portfolio company of
Wynnchurch Capital
has been acquired by
Gemspring

Leading provider of specialty valves, fittings, and hose to the commercial and industrial end markets

REGO
a portfolio company of
Windjammer Capital
has been acquired by
Dover

Premier provider of highly engineered flow control solutions for cryogenic, industrial, and liquified gas end markets

Hunt Valve
a portfolio company of
May River Capital
has been acquired by
Fairbanks Morse Defense
a portfolio company of
Arcline Investment Management

Potter Global Technologies
a portfolio company of
Gryphon Investors
has been acquired by
KKR

FinderGroup
a portfolio company of
EFFEA FA Capital
has been acquired by
PSG
a division of
Dover

Ryan Herco Flow Solutions
a portfolio company of
Greenbriar Equity Group LLC
has been acquired by
SunSource
a portfolio company of
Clayton Dubilier & Rice

FlexHead Industries
has been acquired by
Atkore International

Onicon
a portfolio company of
Harbour Group
has been acquired by
TASI
a portfolio company of
Berwind

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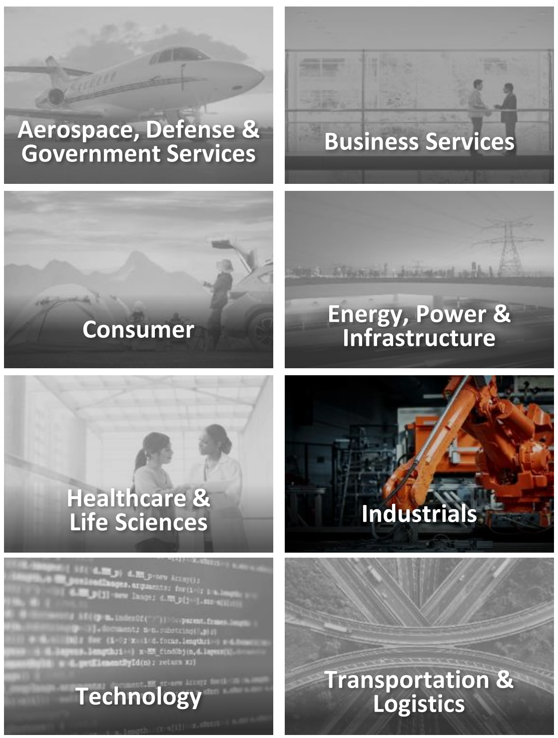
Deep Industry Experience



Proven Expertise

MERGERS & ACQUISITIONS

PRIVATE CAPITAL SOLUTIONS

PRIMARY FUND PLACEMENT

Core Values That Drive Success

75% Revenue from repeat clients

87% Managing Directors promoted from within

30+ Year history

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