Outlook for Industrials

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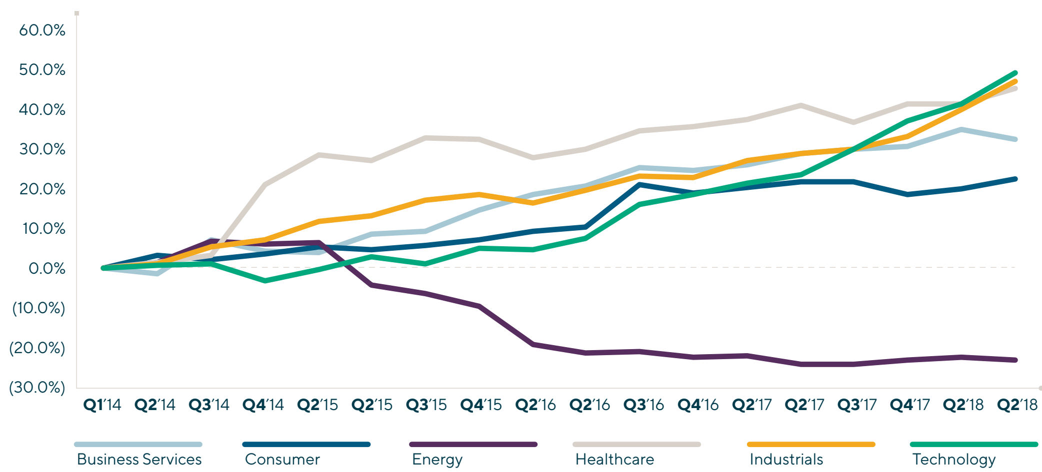
Strong industrials company performance and deal activity will continue to drive success in 2019, despite some uncertainty around tariffs and ongoing trade negotiations. Here are the trends we're watching.

- **M&A Market –** 2018 has been a banner year for M&A. In the first half of 2018, $2.35 trillion of deals were announced globally, up 57% from the first half of 2017. Industrials has been a top performing sector in the Lincoln Middle Market Index:



Looking ahead, based on our deal pipeline, we expect the second half of 2018 to be stronger than the first half, putting companies on solid footing heading into 2019.

- **Demand Drivers –** Largely positive economic indicators in Q2 and Q3 bolster the outlook for current industrials:
  - The U.S. economy remains on strong footing, with 4.2% GDP growth reported in Q2.
  - In August, The Manufacturing Purchasing Managers' Index (PMI) from the Institute for Supply Management registered the highest reading since 2004.
  - Industrial production increased 0.4% in August and output increased 4.9% over the last 12 months, according to the Board of Governors of the Federal Reserve System.
  - The Wall Street Journal reports that housing starts increased 6.9% over the first eight months of 2018, compared to the previous year, but builder confidence levels remain steady as building permits dipped in August and rising costs and labor challenges posed concerns.

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On the other hand, the AIA Consensus Construction Forecast projects 4.7% growth in nonresidential construction spending, and a 4.0% increase for 2019. These numbers suggest cautious optimism for 2019 demand.

While agriculture, auto, and metals have been in the hot seat due to potential tariff impact, there are several bright spots in the outlook for the coming year. Industrial technology has shown solid growth and earnings during all cycles and has been very robust. Electronics and aerospace have also been outperforming.

- **Operations Optionality –** For years, industrial manufacturers have built up global supply chains, and suppliers want to preserve those relationships. We expect companies will try to negotiate to secure price reductions and avoid passing along costs of tariffs to consumers, but the hard truth is some companies with sophisticated supply chains may need to look at different markets. If a company impacted by tariffs is competing with one who is not, it is likely to impact sourcing Agility and flexibility are ideal. Companies want optionality in their supply chain, but generally these types of changes can't be done quickly.
- **Valuation Volatility –** If tariffs or other economic changes impact the timing of orders, then that would naturally impact profitability and valuations. We have seen some deals where clients rushed orders to get ahead of tariffs, and others where they slowed production in anticipation of reduced demand. Private equity firms are watching this closely, but it's not the only factor impacting valuations. We expect that continued strong interest in Industrial deals and continued positive economic indicators will keep any potential valuation swings in check.

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Industrials is a resilient sector, and we see continued opportunity for growth and investment even amid trade uncertainty. Companies considering expansion or an exit in the coming year should connect with advisors to ensure their business strategy is aligned with economic indicators and covers potential changes to their supply chain, to be in the best position for growth that outperforms expectations.

Ben provides advisory services on mergers and acquisitions (M&A) to clients in the industrials sector. He has 15 years of M&A experience, focused on sell-side transactions for private equity groups, private companies and corporate clients. Through precise planning and aggressive execution, Ben provides balanced counsel and careful coordination of all stakeholders to deliver global buyer options and drive outlier results.

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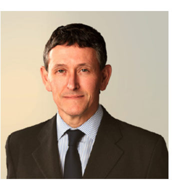

Julian is principally responsible for originating and executing transactions for industrial companies in the U.K. and Ireland. Julian's experience includes advising on mergers and acquisitions, public company takeovers and equity and debt fund raisings. He manages transactions across a broad range of sectors within the industrials industry.

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Richard advises clients on sell-side mergers and acquisitions (M&A) and is responsible for the industrial sector in Germany. He has nearly 30 years of advisory experience within the German corporate finance advisory market and has assisted clients with disposals, acquisitions, public takeovers, initial public offerings, secondary placements, privatizations, private placements and debt financing.

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As co-head of Lincoln's Global Industrial Group, Tom provides mergers and acquisitions (M&A) advisory services for international industrial companies and manages the firm's strategic efforts in the sector. Tom has extensive knowledge of cross-border transactions and corporate divestitures, and has advised on public and private financings of debt and equity.

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Interested in learning more? Get to know Lincoln's Industrials professionals at www.lincolninternational.com/industrials.