WARWICK M&A GROUP

Industrials

Sector Report



Dec 2023
Issue #11

Rallying dealmaking valuations despite slowdown in M&A activity

Nippon Steel acquires US Steel

Star Bulk Carriers merges with Eagle Bulk Shipping

December sees a rally in dealmaking valuation, but activity is more than half of 2022 levels

December in numbers[1]

$34.2bn	281	$74.2m
Total deal value	No of deals closed	Average deal value
(2.5%)(YoY)	*(65.8%) (YoY)*	*91.8% (YoY)*

Average EV/EBITDA:	15.7x	**Average Week Prior Premium:**	18.5x
Average EV/Net Income:	37.6x	**Average 1 Month Prior Premium:**	20.0x
Average EV/Book Value:	5.5x	**Average 3 Months Prior Premium:**	18.4x

2023 Announced Deals ($ in billions)[1]



December is characterised by fewer transactions taking place relative to previous years, but at higher valuations
December was the third strongest month in the Industrials sector by Number of Transactions and their value

Sources: 1. Capital IQ; Data correct from 1/1/23 until 31/12/23

Nippon Steel Acquisition of US Steel

Two successful steel producers combine to produce an industry leader with a truly global presence to compete against Chinese rivals

Acquisition of

USS

by

NIPPON STEEL

$ 14.9 billion

Pending

Transaction Overview

- On 18 December 2023, Nippon Steel (TYO:5401) Japan's largest manufacturer of steel announced that it has entered into a tender offer to acquire US Steel (NYSE: X) the second largest steel producer in the United States.
- The combined company will be the world's third largest producer of steel, with a combined production capacity of 86 million tonnes per year.
- The transaction values USS at an equity value of $14.1 billion and an enterprise value of $14.9 billion, representing a 40% premium to its December 15th closing share price.
- US Steel has been exploring strategic options for a sale since August after rejecting a $7.3 billion offer from Cleveland Cliffs. Subsequently, USS received improved bids from Cleveland, Esmark, ArcelorMittal and Stelco.
- NSC's offer represents a 142% premium to the day before USS began exploring alternatives.

David B. Burritt: President, CEO of US Steel[1]

"Today's announcement also benefits the United States – ensuring a competitive, domestic steel industry, while strengthening our presence globally. Our shared decarbonization focus is expected to enhance and accelerate our ability to provide customers with innovative steel solutions to meet sustainability goals"

Eiji Hashimoto: President of Nippon Steel[1]

"This transaction brings together two companies with world-leading technologies and manufacturing capabilities, demonstrating our mission to serve customers worldwide, as well as our commitment to building a more environmentally friendly society through the decarbonization of steel"

"The transaction builds on our presence in the United States and we are committed to honouring all of U. S. Steel's existing union contracts"

Sources: Capital IQ 1. US Steel Joint Press Release

Summary of Transaction Terms

Value creation through the combination of capabilities will position the businesses at the forefront of global innovation in steelmaking

Transaction Structure	▪ Nippon Steel proposes an all-Cash transaction of $55.00 per share, a 37.5% improvement on Cleveland Cliffs' second offer. ▪ All Cash terms of transaction provide substantial certainty of value to US Steel Shareholders compared to competing offers.
Combined Company	▪ The combined venture will have the global capacity to produce 86 million tonnes of steel per year, becoming the third largest producer in the world. ▪ Enhanced ability to deliver net zero decarbonization targets by improving technology such as hydrogen injection into blast and electric arc furnaces.
Strategic Rationale	▪ Combines best in class technological capabilities to innovate and meet the growing global demand for steel products. ▪ New operational technologies in automation, energy-saving, and R&D will be the main driver of synergies.
Governance and Leadership	▪ US Steel will continue to operate under its existing name and remain headquartered in Pittsburgh, PA.
Timing, Approvals, Advisory and Financing	▪ The transaction is expected to close in the second or third quarter of 2024 ▪ Opposition from the United Steelworkers Union and political controversy of the foreign takeover of a historical and strategically critical U.S business will be a significant obstacle to completion ▪ The deal has received bipartisan opposition in Congress and among unions despite NSC's commitment to honour collective bargaining agreements ▪ Overall, investors believe the chance of completion to be 70% according to pricing of USS' shares

Sources: Capital IQ, US Steel Joint Press Release, Nippon Steel Investor Presentation

Star Bulk Carriers Merger with Eagle Bulk Shipping

The combined venture will become the largest US based dry bulk shipping company

Agreement to merge

STAR BULK

with

EAGLE BULK

$ 530 million

Pending

Transaction Overview

- On December 11, 2023, Star Bulk Carriers Corp. (NASDAQ:SBLK) announced that it has entered into a definitive transaction agreement to merge with Eagle Bulk Shipping Inc (NYSE:EGLE).
- The combined venture will be the largest U.S listed dry shipping business with a pro forma market capitalization of $2.1 billion and a fleet of 169 owned vessels.
- Total consideration to Eagle Bulk shareholders equivalent to $52.60 per share, based on the closing share price of (EGLE:SKG) ordinary shares of $44.85 on December 8th 2023 representing a 17% premium.
- Star Bulk and Eagle Bulk shareholders are expected to own 71% and 29% of 'Star Bulk Carriers' respectively.

Petros Pappas, CEO of Star Bulk[1]

"Bringing together Star Bulk and Eagle will create a global leader in dry bulk shipping with a large, diversified, scrubber fitted fleet. Together we will benefit from greater scale with 169 owned vessels, generating meaningful synergies and building an even stronger financial profile"

"With a well-capitalized balance sheet, we aim to continue delivering strong cash returns to shareholders while investing in emission reduction technologies as we continue to pursue growth over the long term"

Gary Vogel, CEO Eagle[1]

"We are very excited to be joining forces with Star Bulk, uniting two best-in-class companies, both commercially and operationally. We are bringing together two highly complementary organizations and are confident that this accretive merger with Star Bulk will unlock significant value for Eagle shareholders, including the opportunity to participate in the long-term upside of the combined company"

Sources: Capital IQ 1. Eagle Bulk joint press release

Summary of Transaction Terms

Star Bulk will retain a key stake in ownership and management of the combined business

Transaction Structure	▪ Eagle shareholders will receive 2.6211 shares of Star Bulk (common stock) for every Eagle share owned. ▪ Pro forma ownership: 71% for Star Bulk shareholders and 29% for Eagle Bulk shareholders.
Combined Company	▪ The combined company will continue to operate as 'Star Bulk Carriers' ▪ Company to be headquartered in Athens, Greece, with offices in Stamford, CT, Singapore, Copenhagen and Limassol, Cyprus.
Governance and Leadership	▪ The combined company will be led by Star Bulk's current management and joined by certain senior executives of Eagle. ▪ Petros Pappas, (Star Bulk CEO) will be the CEO of the combined company and Spyros Capralos (Star Bulk Chairman) will be the Chairman of the combined board. One member of Eagle's board will join the Star Bulk Board.
Capital Allocation	▪ The combined company is expected to have a combined liquidity of $420 million and net leverage of 37%. ▪ The transaction is expected to generate $50 million in annual cost and revenue synergies within 12-18 months through operations integration and economies of scale, including reductions in G&A expenses. ▪ Both companies will maintain their dividend policy until the transaction is completed, after which the combined company will maintain Star Bulk's current dividend policy.
Timing, Approvals, Advisory and Financing	▪ Transaction expected to close in the first half of 2024, following regulatory and Eagle shareholder approval.

Sources: Star Bulk joint press release

Deal to Watch:

An unsolicited superior offer from Miter Brands after the recommendation of Masonite's offer has prompted PGT's board to reconsider the terms of its sale

Competition for the Acquisition of

PGT INNOVATIONS

between

MASONITE

and

MITER BRANDS

Pending

Masonite	Miter Brands
$41.00 per share, structured as $33.50 in cash and $7.50 in stock	$41.50 per share
Represents a 24% premium to the 30-day volume weighted average share price	Represents a 56.5% premium to the October 9th share price
Offer recommended to PGT's shareholders by the board on the 18th of December	Unsolicited offer made on the 2nd of January, following a rejection of $38 per share cash offer
Estimated $100 million in annual synergies over seven years	Miter is backed by the Koch group, potential cost synergies include enhanced supply chain value
The combined company will have $4 billion in revenues, $700 million of EBITDA pre-synergies	Transaction valued at $2.4 billion with an EV/EBITDA of 10.55x

Company Overview

- PGT innovations is the leading U.S manufacturer and supplier of premium impact-resistant aluminium frame windows and doors with a global customer base.
- In the past 12 months PGT has engaged with 12 prospective strategic and financial partners and received 16 offers.
- Miter has demonstrated an active interest in pursuing the business and has made seven bids of increasing value, not including their most recent unsolicited offer.

Sources: Company disclosures; Masonite joint press release

PGT's Demands to MITER

PGT's board has identified several risks from Miter's offer but which, if satisfied, would deliver the greatest value to shareholders

Transaction Structure	▪ PGT's board believes that Miter's 1.2% improvement over Masonite's offer is insufficient compared to the average increase in consideration provided in topping bids ▪ In particular, this premium is insufficient given the opportunity for $100 million in synergies PGT expects to realise with Masonite as its partner
Contractual Protections	▪ Miter's proposal would require PGT to pay an $84 million termination fee, which is over 2.5x the increase in consideration of Miter's offer. ▪ Counter to custom, Miter has chosen not to offer to pay this fee itself as the fee would not be returned in the case that Miter fails to close its transaction
Next Steps	▪ PGT and Miter will negotiate the outstanding terms in question, if successful, Masonite will have the opportunity to submit an improved offer over four days

Timeline of Miter's bids



Miter has consistently played an active role in the sale process of PGT submitting eight bids since April which have increased 43% in value

Source: PGT Innovations press release

Four Prominent Global Deals Nearing Completion

7th December 2023 — **£1.3bn**

KKR

Reached an agreement on the acquisition of:

SMS

Stage of the deal: ○○●○○ **Chances of success:** Medium

Comment: KKR is acquiring Smart Metering Solutions plc, at £9.55/share for a total of £1.4bn. KKR achieved a strong outcome, purchasing at 15x 24E EBITDA and Liberum analysts predict SMS shares are worth 24% above the purchase price.

KKR believes the energy infrastructure company will be in a position to benefit from the UK's goal of achieving net-zero by 2050. With KKR's investment, SMS will expand its portfolio of Carbon reduction assets and drive innovation in smart metering and energy efficiency solutions

Despite the board's recommendation, shareholders representing a 17.8% stake in SMS, including the two founders and PrimeStone Capital have publicly opposed the deal, arguing that the offer price is inadequate.

17th December 2023 — **A$2.1bn**

CRH

Reached an agreement on the acquisition of:

ADBRI

Stage of the deal: ○○●●○ **Chances of success:** High

Comment: A team of CRH and Barro Group have acquired the leading Australian building materials business for A$3.20 per share representing 9x EV/EBITDA and representing a 41% premium to the 15th Dec closing price.

CRH already held 4.6% of Adbri through its derivatives and will now own 57% with Barrow maintaining its 43% ownership.

CRH was attracted by the stability and positive growth of the Australian building materials market and is the first acquisition for the company beyond its core European and North American markets.

22nd December 2023 — **$1.1bn**

TFI International

Reached an agreement on the acquisition of:

DASEKE

Stage of the deal: ○○●●○ **Chances of success:** High

Comment: TFI, the Canadian transport and logistics company, will purchase Daseke, the North American transportation solutions specialist for $8.30 in cash, representing an enterprise value of $1.1bn and an equity value of $386 million. The valuation represents an 82% premium to Daseke's 30 day volume weighted average trading price since December 21st.

The combined company will be one of the leading truckload businesses in Canada with revenues of $3.6 billion. Expectations are that the transaction will be EPS accretive to $0.5 per share in 2025.

The transaction will give TFI access to 11,000 flatbed and specialised trailers and one million square feet of warehouse space. TFI will intend to split the combined business into two public entities in the medium term.

15th December 2023 — **$760m**

Epiroc

Reached an agreement on the acquisition of:

STANLEY Infrastructure

Stage of the deal: ○○●●○ **Chances of success:** High

Comment: The leading Swedish manufacturer of mining and construction equipment will purchase the global manufacturer of excavator attachments and handheld hydraulic tools from Stanley Black & Decker. The all-cash transaction will be financed through a bridge facility.

The acquisition will strengthen Epiroc's presence in the U.S infrastructure and construction attachments business. The two companies have a complimentary product offering and enlarges Epiroc's indirect sales network. Stanley is expected to generate $450 to $470 million of revenue in FY23.The company intends to use the proceeds of the deal to amortize its debt.

The deal is expected to close in the first quarter of 2024.

Glossary

- **Dry Dock:** An area of water that can be emptied and used for repairing ships
- **Bridge facility:** Interim financing option to solidify short term position until a long-term financing option can be arranged

The Team



Adam Laubi

Sector Head



Timothy Lee

Analyst



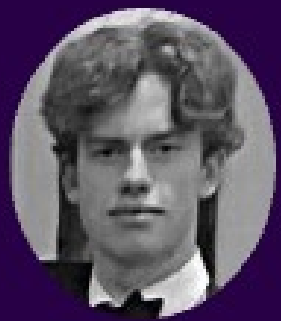
Aditya Nayar

Analyst



Emmanuel Mok

Analyst



Isac Ingemarsson

Analyst