

# Specialty Materials – Carbon Composites

M&A Review and Valuation

September 2018

## SECTION ONE: MARKET UPDATE AND ANALYSIS

Ongoing material substitution trends, combined with increasing M&A activity by trade acquirers and financial sponsors has created a very favourable environment for sellers across the speciality materials sector. Additionally, carbon composite M&A continues to grow with 5 strong quarters in 2017 and 2018.

Across material types including; composites, plastic, rubber, adhesives, and coatings, the long-term macro trends of light-weighting, increasing use of materials with high-performance characteristics and the narrowing cost differential between specialty and traditional materials, continue to serve as tailwinds for the sector's growth.

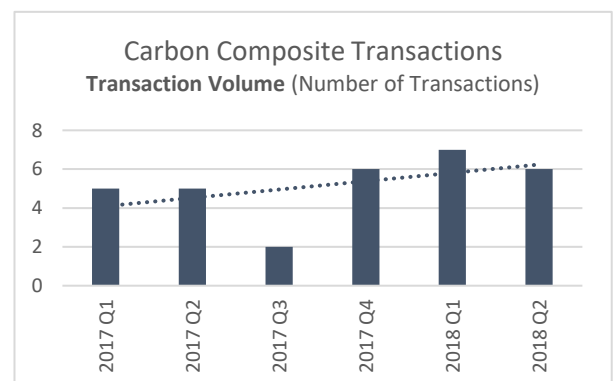
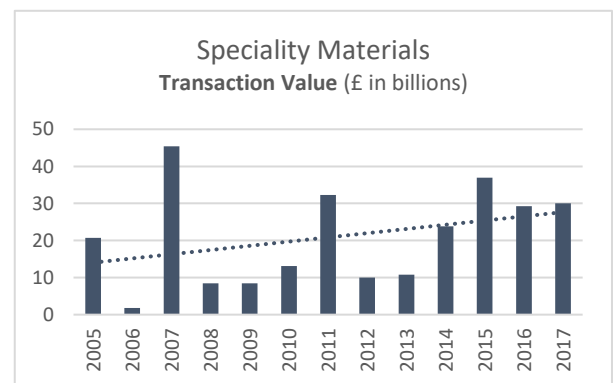
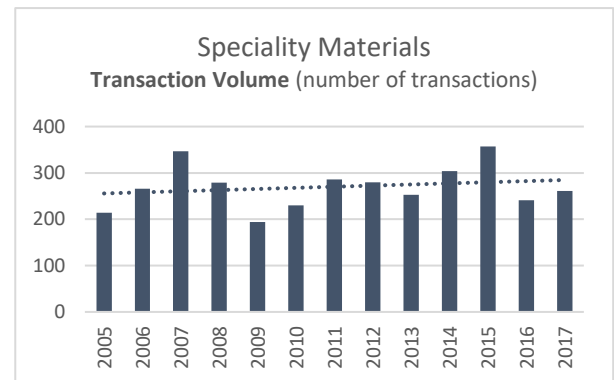
In addition, to these macro trends driving increased use of speciality materials, the attractive environment for sellers over the past four years have been fuelled by:

- Strategic acquirers' strong balance sheets;
- Financial sponsors' high levels of capital to deploy and their increasingly aggressive bidding behaviour;
- Strategic acquirers looking to expand their solutions offering, by acquiring additional technology and/or material expertise; and
- Attractive lending markets.

**Turning specifically to carbon composite transactions**, after impressive activity during 2015 and 2016 the composites industry was predicted to see a dip in transaction levels in 2017, however, some highly significant industry deals, robust growth rates, substantial value propositions and sustainable margins remained attractive incentives for strategic buyers and financial investors.

We expect further M&A growth in the second half of 2018, building on two previously strong quarters (when compared to Q1 and Q2 in 2017). The main drivers will include, the need to acquire innovative technology and expertise, to further consolidate the fragmented value chain, and to satisfy the desire to create a position in an attractive advanced composites market.

Acquisitions will continue to focus on carbon composites for the medical, aerospace and electric automotive industries and to a lesser extent ground transportation and building products, reflecting a broader economic view.



## SECTION TWO: CARBON COMPOSITES M&A VALUATIONS

Valuation multiples within the industry remain strong, with listed companies (table one) supporting an average EBITDA multiple of 11.8x and revenue multiple of 2.1x. Current composite transactions where details have been disclosed (table two), identify a multiple of 2.0x revenue.

**TABLE ONE: Select Comparable Public Company Metrics**

(£ in millions)	TTM Financials		LTM Margins			Valuation			
Company	Revenue	EBITDA	Gross Profit	EBITDA	OCF Margin <sup>(1)</sup>	Market Cap	Enterprise Value (EV)	EV/TTM Revenue	EV/TTM EBITDA
FACC AG	£672.4	£85.1	34.7%	12.6%	12.6%	£669.8	£837.1	1.2x	8.4x
Gurit Holding AG	£284.3	£35.2	24.6%	12.3%	9.1%	£374.4	£348.1	1.2x	9.1x
Hexcel Corporation	£1,553.7	£353.5	27%	22.7%	12.6%	£4,542.8	£5,106.7	3.3x	14.5x
Morgan Advanced Materials plc	£1,024.5	£143.3	76.4%	13.9%	9.8%	£932	£1,152.4	1.1x	5.8x
Schweiter Technologies AG	£773.2	£99	38.8%	12.8%	10.1%	£1,375.4	£1,191.6	1.5x	13.9x
Toray Industries, Inc.	£15,134.2	£916.1	20.3%	6.0%	NM	£9,764.4	£14,700.9	0.9x	8.8x
TPI Composites, Inc.	£724.6	£57.5	10.5%	7.9%	1.7%	£762.5	£753.2	1.0x	10.6x
Trex Company, Inc.	£475.8	£133.5	42.8%	28%	24%	£2,818.1	£2,876.5	6.4x	22.9x
							<b>Mean</b>	<b>2.1x</b>	<b>11.8x</b>
							<b>Median</b>	<b>1.2x</b>	<b>9.8x</b>

(1) Operating cash flow (OCF) calculated as EBITDA less capital expenditures  
Source: PitchBooks as of 11th Sept 2018

**TABLE TWO: Current Composite Transactions (where transaction detail has been disclosed)**

(£ in millions)				Target Financials		Valuation			
Date	Target	Description	Acquirer	Target Revenue	Target EBITDA	Enterprise Value (EV)	EV/TTM Revenue	EV/TTM EBITDA	
06/18	Carbures Europe	Manufacturer of composite structures using compound materials such as carbon fibre.	Inypsa Informes y Proyectos	£70.7	n/a	undisclosed	n/a	n/a	
05/18	Diversified Structural Composites	Manufacturer of carbon fibre and glass fibre reinforced composites in Erlanger, Kentucky.	Exel Composites	£14.3	n/a	£4.4	0.3x	n/a	
03/18	TenCate Advanced Composites	Producer of advanced composite materials.	Toray Industries	£147.3	n/a	£823.9	5.5x	n/a	
12/17	Benteler-SGL	Manufacturer of lightweight composite components based on glass and carbon fibre for the automotive industry	SGL Carbon	£27.0	n/a	undisclosed	n/a	n/a	
01/17	Continental Structural Plastics	Manufacturer of composite materials. The company develops products including moulded structural components.	Teijin	£415.4	n/a	£668.9	1.6x	n/a	
06/16	Gordon Composites	Manufacturer of thermoplastic and composite products.	PolyOne	£31.0	n/a	£64.9	2.0x	n/a	
12/15	HITCO Carbon Composites	Manufacturer of aerostructures and composites materials.	Avcorp Industries	£60.9	n/a	£28.0	0.4x	n/a	
11/15	Cobham	Manufacturers of aerospace components from composite materials	Meggitt	£49.2	n/a	£131.5	2.6x	n/a	
							<b>Mean</b>	<b>2.0x</b>	<b>n/m</b>
							<b>Median</b>	<b>1.8x</b>	<b>n/m</b>

## Recent Notable Transactions

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Further transactions in the broader speciality materials industry or where transaction metrics were undisclosed include the following:

- Mitsubishi Rayon Co. Ltd., currently the leading global producer of carbon fibre sheet moulding compound, acquired all shares of Seattle-based Gemini Composites.
- LG Hausys acquisition of c2i, the Slovakian composite part manufacturer that supplies BMW, Porsche, Bentley, Jaguar Land Rover and several aerospace and industrial applications.
- Eckhart & Associates acquisition of Eagle Engineering (tool manufacturing company).
- Toray Industries, Inc. acquired TenCate Advanced Composites Holding B.V. a Dutch carbon-fibre composite-material manufacturer.
- Evonik's acquisition of Air Products' specialty additives business, along with its US\$630 million purchase of JM Huber's silica business.
- Safran's acquisition of Zodiac Aerospace for US\$8.2 bn.
- Rockwell Collins acquisition of B/E Aerospace for US\$8.6 bn.
- Arsenal Capital Partners acquired Breen Colour Concentrates and Carolina Colour.
- Industrial Opportunity Partners acquired Creative Foam to create a platform in custom die cut flexible materials.
- Integrity Capital Partners acquired Cotesa, a manufacturer of fibre-reinforced composites components designed for the aviation and automotive industries.

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