

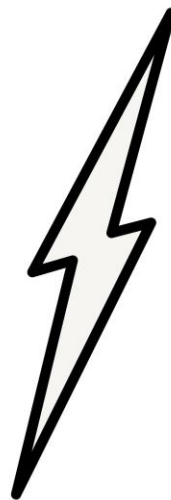


APOLLO

\$3.6bn Buyout of



*Private
Equity
Society*



Deal Overview

Acquirer

APOLLO

\$3.6bn All-Cash Deal
\$47.50/share

22% Premium over
undisturbed closing
share price, 28%
Premium over volume
weighted average price
(VWAP 25 June 2024)

Target



BARNES™

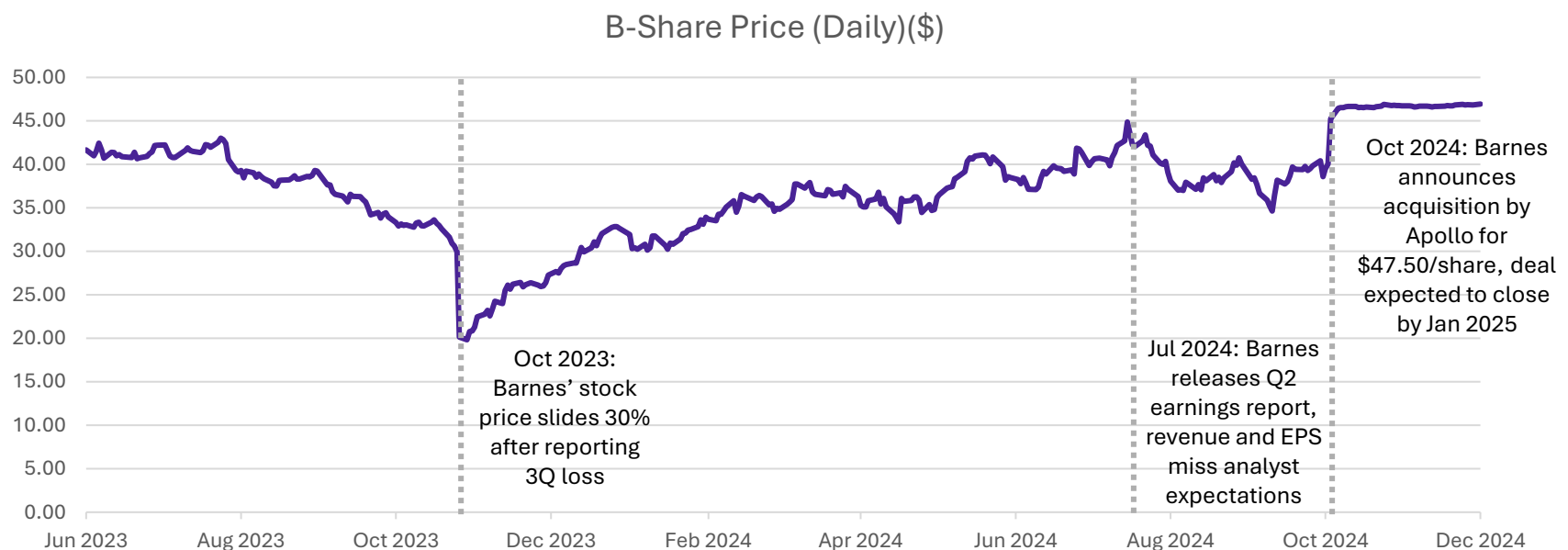
Barnes Group Inc. is a global industrial technology and aerospace manufacturer and service provider. The Group comprises **Barnes Aerospace**, specialising in component production for both commercial and military aircrafts, and **Barnes Industrial**, focusing on engineered plastics and industrial automation solutions.

Advised by

Goldman
Sachs

Jefferies

Timeline

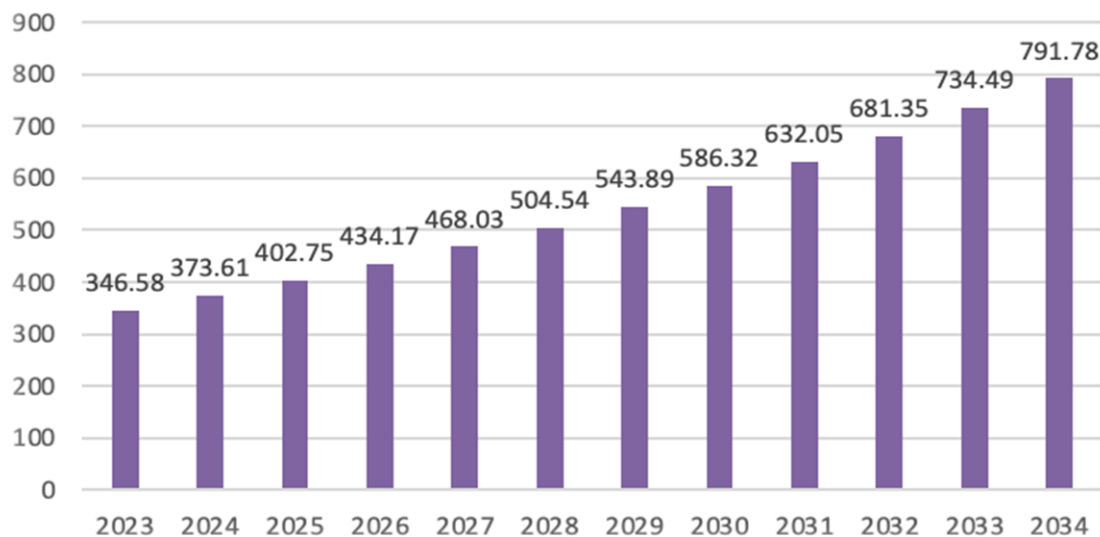


Source(s): Apollo, Barnes, Capital IQ, Financial Times

Market Overview

Aerospace Manufacturing

Aerospace Market Size (USD Billion)



Global aerospace market valued at USD 346.58 billion in 2023, projected to reach USD 791.78 billion by 2034 (CAGR 7.8%). US market size at USD 111.60 billion in 2023.

Industrial Technology

Valuation Trends

Valuations across the **Test & Measurement and Industrial Automation (TM&IA)** sector remain **under pressure**. Currently, the sector is trading **below the 5-year average** in terms of EV/EBITDA and well below 1Q2021 highs.

Sector Challenges

Backlogs for system integrators and OEMs under pressure due to conservative capital expenditure. Emphasis on parts, service, and software as complementary revenue streams.

Long-term, macro trends remain intact across the automation sector, which will accelerate a rebound once the economic backdrop begins to improve.

Growth Revisions



Test & Measurement growth expectations **revised up to 5.0%** (vs. 3.4% earlier).



Industrial Automation growth expectations **revised down to 3.7%** (vs. 4.2% earlier).

Target Overview

Barnes Aerospace

Original Equipment Manufacturing

Barnes Aerospace manufactures precision machined and fabricated components and assemblies for engines, nacelles, and airframes for global Original Equipment Manufacturers (OEMs). Its complex components and assemblies are made of exotic and high-temperature metals, including titanium, inconel, hastelloy, stainless steel and nickel alloy materials. Barnes Aerospace is also a trusted partner for turbine maintenance programs including Revenue Sharing Programs (RSPs).

Maintenance, Repair & Overhaul

Barnes Aerospace specialises in the repair of critical aero-engine components and is a renowned leader in the Aftermarket servicing for the MRO of critical components for commercial aviation, defense, and industrial industries. It serves global prominent engine manufacturers such as GE, Pratt & Whitney, Rolls-Royce, Siemens, Lockheed Martin, and Mitsubishi Power Aero. Barnes Aerospace's collaboration with these manufacturers thrives on streamlined servicing and maintaining engine components.

Barnes Industrial

Molding Solutions

Integrated hardware and software technologies focused on improving the processing, control and sustainability of engineered plastics. Key End-Markets: Healthcare, Packaging, Mobility, Electronics, Consumer, Industrial.

Automation

Innovative systems and solutions customized to meet the growing demand for industrial automation. Key End-Markets: Healthcare, Packaging, Mobility.

Force & Motion Control

Leading global provider of force and motion control systems and highly-engineered precision components in a broad range of industrial applications. Key End-Markets: Mobility, Industrial, Healthcare, Aerospace & Defense.



Brands in Barnes Industrials' portfolio, offering end-to-end solutions with their manufacturing capabilities and engineering, application and systems expertise.



Deal Rationale

Scaling Aerospace Business

Barnes seeks to expand its aerospace business, and Apollo's takeover stands to realise this vision. With a proven track record and expertise in managing aviation/aerospace manufacturing companies, as evidenced by its \$1.5bn financing deal with Embraer, Apollo can bring operational excellence and strategic direction to Barnes' expansion efforts.

This partnership allows Apollo and Barnes to leverage anticipated long term growth in aerospace demand, supporting Barnes in achieving its scaling ambitions while deepening Apollo's presence in the sector.

Improving Industrial Operations

Barnes is also on track to enhance its industrial operations with a strategic focus on driving ROIC, a goal well-aligned with Apollo's expertise in optimising industrial portfolios. Barnes aims to streamline its diverse portfolio (including brands like Gimatic and Kaller), capitalise on Industry 4.0 trends and its comparative advantage over more commoditised competitors. Apollo's recent acquisitions of industrial companies like Univar Solutions and Arconic position it to provide Barnes with capital, operational and strategic direction to capitalise on increasing deal activity in US industrial manufacturing.

The buyout will drive efficiency and unlock value in Barnes' industrial segment while simultaneously strengthening Apollo's foothold in industrials.

Apollo supported Univar Solutions' expansion strategy with a series of acquisitions, and partnerships, improving its manufacturing and distribution pipelines



Apollo committed "significant capital" in Arconic to be used for machine centre and technology upgrades, maximising production capabilities and raising process control standards

Accelerating Transformation

Barnes has been implementing a transformation strategy focused on portfolio reshaping, innovation, and financial performance improvement. Apollo plans to support and expedite these initiatives, aiming to unlock the company's full potential and drive sustainable growth.

LBO

Financial Forecast



Exit Valuation

Category	Value
Exit EBITDA (Year 5)	\$440
(×) Exit Multiple	9.0x
Exit Enterprise Value (TEV)	\$3,966
Initial LBO Debt	\$1,080
(-) Cumulative FCF	(\$1,941)
Ending Net Debt	(\$861)
Exit Equity Value	\$4,826

Operating Assumptions

LTM Revenue	\$1,616
Annual Revenue Growth (%)	19.8%
EBITDA Margin (%)	21.5%
D&A % of Revenue	7.54%
Capex % of Revenue	3.73%
Leverage Ratio	0.9x
Tax Rate (%)	11.57%
Interest Rate (%)	5.49%

Source(s): CapitalIQ

SWOT Analysis

Strengths

- **Enhanced Market Position:** Apollo's acquisition is expected to bolster Barnes Group's capabilities, particularly in the aerospace sector, allowing it to capitalize on long-term demand trends.
- **Operational Expertise:** Apollo's focus on operational improvements can lead to increased efficiency and profitability for Barnes Group.

Weaknesses

- **Integration Challenges:** Merging operations and cultures of two large organizations can be complex and may encounter unforeseen obstacles.
- **Financial Risks:** The substantial investment required for the acquisition could strain financial resources if anticipated synergies are not realized.

Opportunities

- **Market Expansion:** The partnership can facilitate entry into new markets and diversification of product offerings, enhancing competitive advantage.
- **Innovation and R&D:** Increased resources may be allocated to research and development, fostering innovation and the development of advanced technologies.

Threats

- **Regulatory Scrutiny:** The deal may attract attention from regulatory bodies concerned with market competition and monopolistic practices.
- **Market Volatility:** Economic fluctuations and changes in the aerospace and industrial sectors could impact the anticipated benefits of the acquisition.

Source(s):