

Will Crane's **M&A** **strategy** lead to further **value creation?**



Valuation Master Class



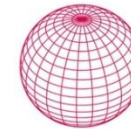
This video is for
learning purposes only.

***This is not
investment advice or a
recommendation.***



Ask
Ajarn
Andrew

Will Crane's M&A strategy lead to further value creation?



VALUATION MASTER CLASS

CRANE

Diversified US manufacturer of engineered industrial products serving aerospace, process flow technologies, and payment systems

Our estimate:

US\$92

(Downside 13%)

SELL



3 things to know about this company

- ★ Strategic M&A acquisitions to drive top-line growth
- ★ Divestiture helps to boost profitability over the long run
- ★ Accelerated organic growth through higher gov't budget

Key statistics

Analyst consensus (26)

US\$125

(Upside 17%)

BUY

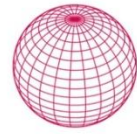
PE ratio

16x

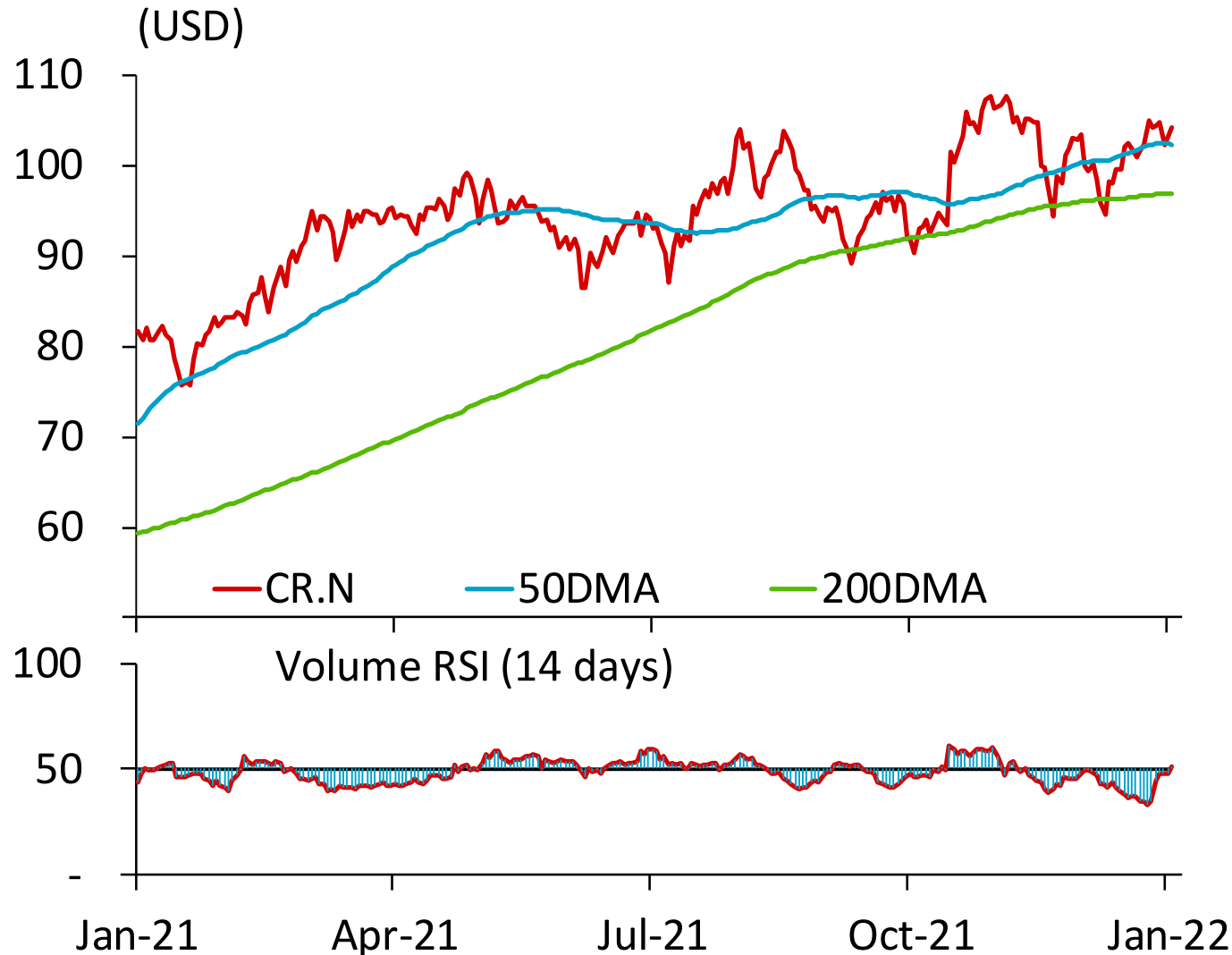
Dividend yield

1.6%

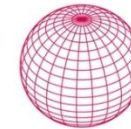
Price remains bullish, volume signal unclear



VALUATION MASTER CLASS



- ★ Over the past year, Crane has seen a strong bullish rally
 - The share price has increased by **32% YTD**
- ★ The 50 DMA line has stayed above 200 DMA throughout the whole period, which indicates a bullish signal
- ★ The RSI-Volume recently crossed the 50%-line which, if continues, would also be a positive sign



Sales

Story

FVMR

Value

WCB

Risks

Payment & Merchandising technologies 43%

Payment software



Vending



Banking



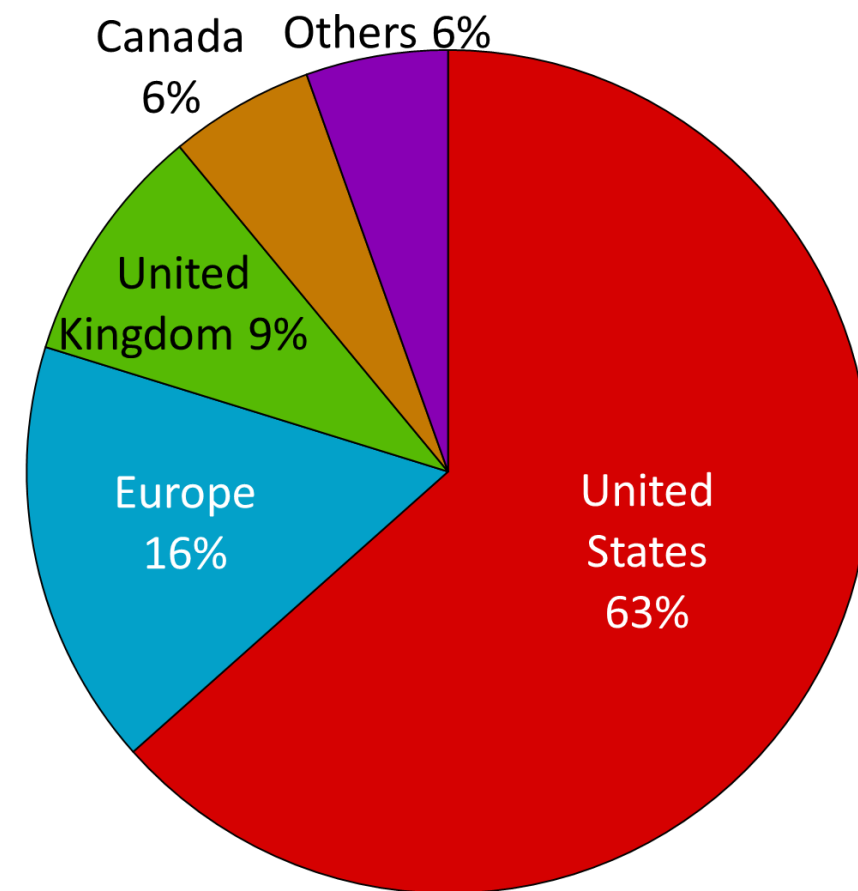
Process flow technologies 37%

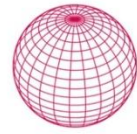


Aerospace & Electronics 20%



Breakdown by region





Sales

Story

FVMR

Value

WCB

Risks

- ★ Over the past 10 years, Crane completed 13 significant acquisitions
 - The company plans to free up US\$1-2bn for M&A purposes through 2023
- ★ Besides boosting growth, acquisitions help to keep up with technological trends
 - Crane focused on acquisitions that could be directly merged with its existing entities (also called bolt-on transactions)
 - Therefore, synergies tend to show up quickly

WESTLOCK
CONTROLS

MERRIMAC

MICROTRONIC

CA CUMMINS
ALLISON

w.ta®

Money Controls

HOKE

CRANE
CURRENCY™

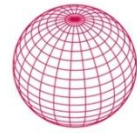
GYROLOK®

GO REGULATOR

mei.

DOPAK®
Sampling Systems

Goodwill comprises majority of its assets



VALUATION MASTER CLASS

Sales

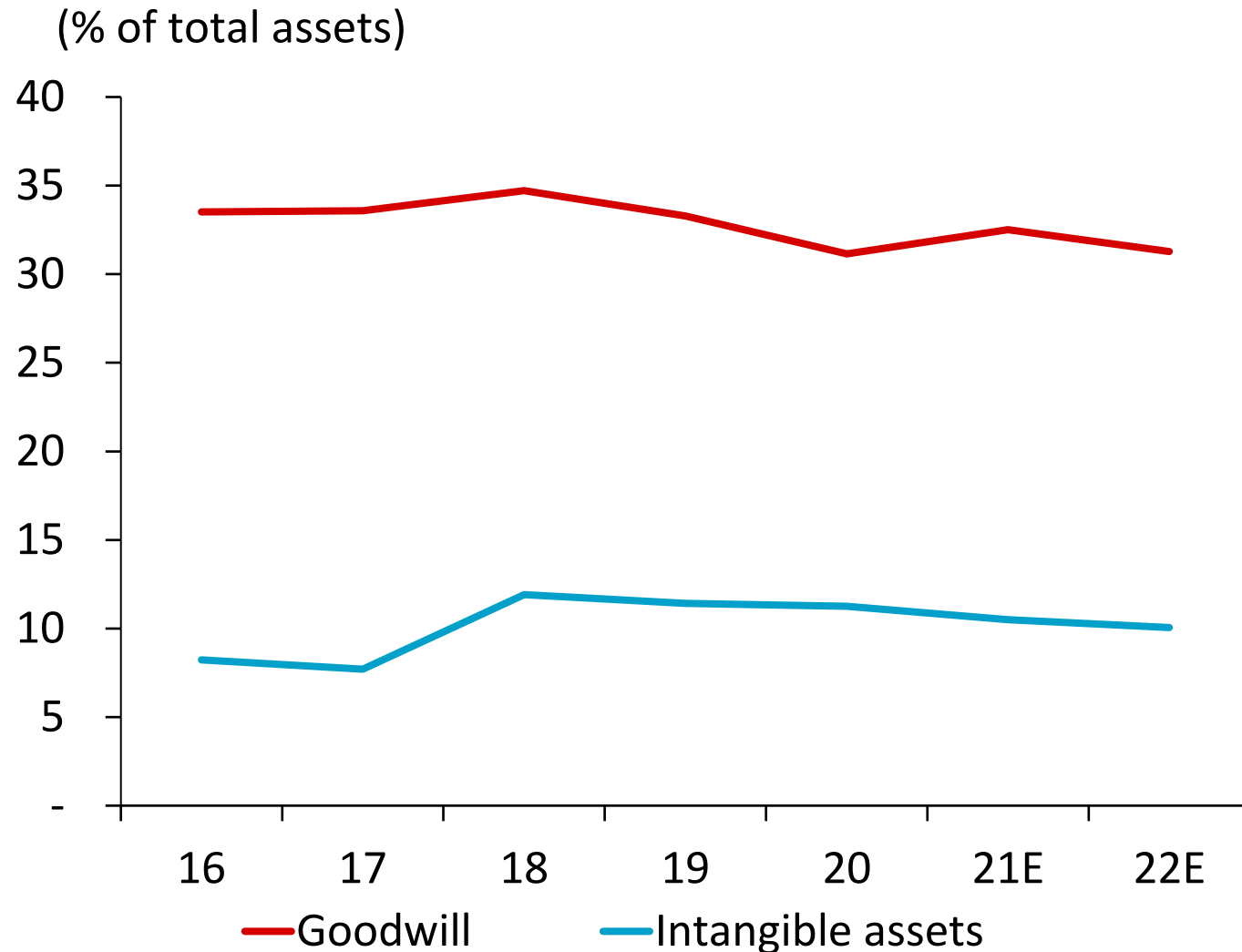
Story

FVMR

Value

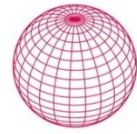
WCB

Risks



- ★ Its M&A activities are reflected in its asset base
- ★ As of 2020, around 42% of its total assets consist of goodwill (31%) and intangible assets (11%)
 - The global average of Industrials companies is goodwill (8%) and intangible assets (6%)

Crane delivered on ROIC; acquisitions seem to pay off



VALUATION MASTER CLASS

Sales

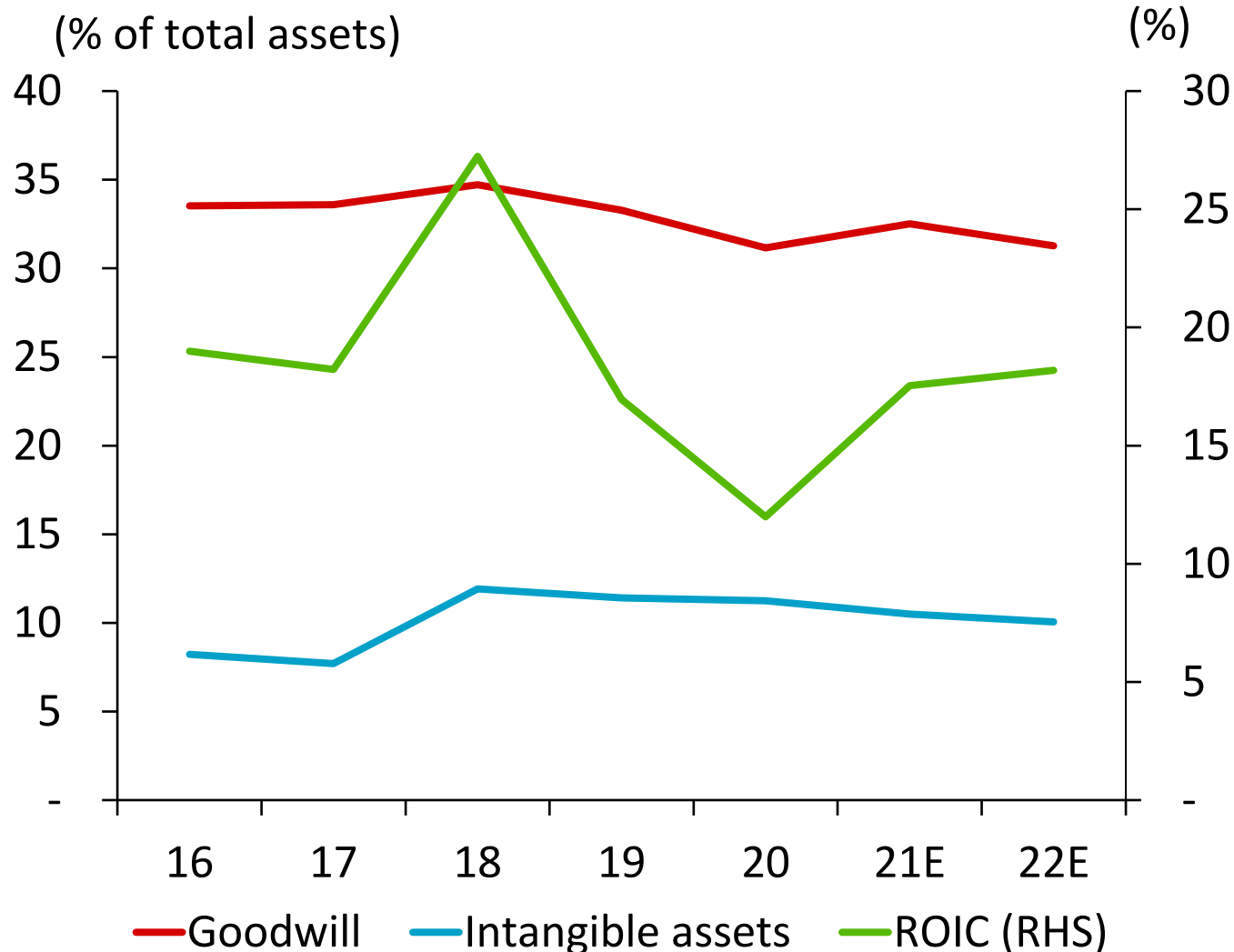
Story

FVMR

Value

WCB

Risks

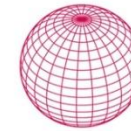


★ In the past, Crane was able to generate a ROIC of around 20%, which is strong

- Only in 2020, ROIC dropped to 11% which is still in line with WACC
- I expect the company to be able to return to 20% ROIC in the near-term future

★ Crane might pay a high premium on its acquisitions, but synergies show

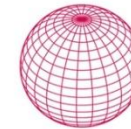
- It claims that synergies turned out to be 2x higher than analysts predicted



EBIT margin	2016	2017	2018	2019	2020	9M21	Avg.
Fluid Handling	10.9	9.8	10.8	11.8	9.7	14.9	11.3
Payment/Merchandise	17.9	18.8	14.8	15.3	9.1	23.8	16.6
Aerospace	20.1	23.2	22.1	23.7	15.5	18.7	20.5
Engineered materials	19.1	17.9	15.5	12.8	12.9	11.1*	14.9
Total	16.1	16.4	15.1	16.0	11.0	19.3	15.6

* Captures only 1Q21 result as divestiture happened in 2Q21

- ★ In 2Q21, Crane divested its “Engineered Materials” segment for US\$360m
 - Revenue contribution declined from 10% in 2016 to 6% in 2020
 - Profitability has fallen by 8ppts over the same period
- ★ In its new strategic alignment, the company aims to focus on its 3 core competencies
 - It is using divestiture-related funds to expand its highly profitable aerospace segment



Sales

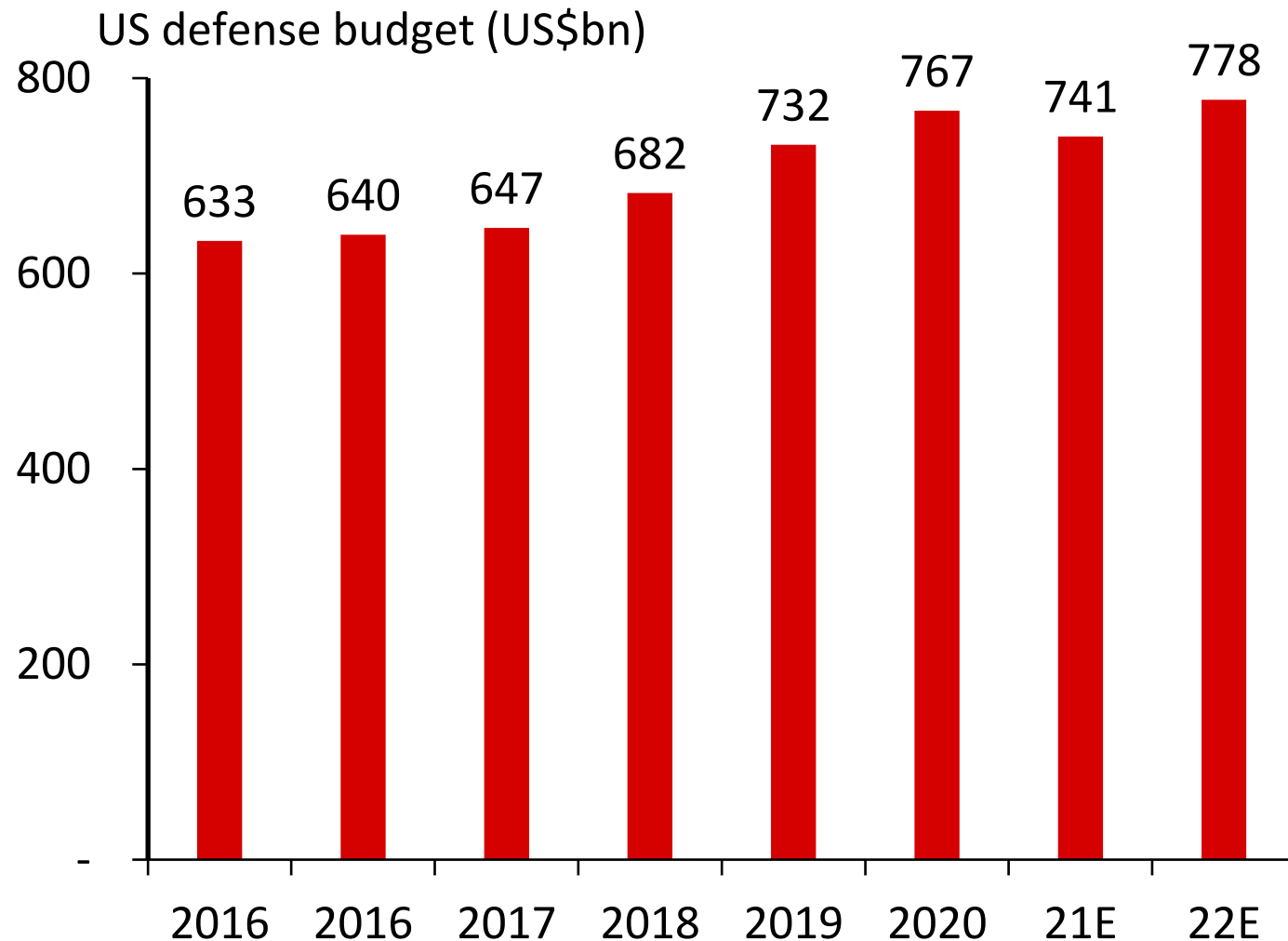
Story

FVMR

Value

WCB

Risks



- ★ The Aerospace & Defense segment is likely to see strong organic growth
 - The primary drivers are a rebound in commercial airline industry and increase in US defense budget
- ★ This segment plays a critical role in realizing future growth and enhancing profitability
 - Aerospace's EBIT margin of 20.5% vs. total company's margin of 15.6% (5-yr avg.)
 - Industry growth: 7-8% CAGR until 2030 expected



VALUATION MASTER CLASS

Home

Student login

FAQ

Blog

Resources

Testimonials



What Is Going to Happen with Inflation?

By Valuation Master Class Student

Many forces at work impact inflation. There are current trends that cause both inflationary and deflationary measures. Whether we'll see inflation or deflation in the future depends on which of these forces dominate.

[Read More](#)



How to Value a Startup

By Andrew Stotz

This story started when Dan, a podcast listener, replied to my recent weekly email with this question, "How do you value a startup, especially if there is no revenue?"

[Read More](#)



How to Fight Back When Your Dreams Are Crushed

By Andrew Stotz

The trouble you face is not your fault, and I'm gonna show you how you can fight back. I challenge you to recommit to your dreams today!

[Read More](#)

ValuationMasterClass.com



What Does It Mean to Be Financially World Class?



What Is Liabilities To Assets Ratio?



What Is Growth Year Over Year?

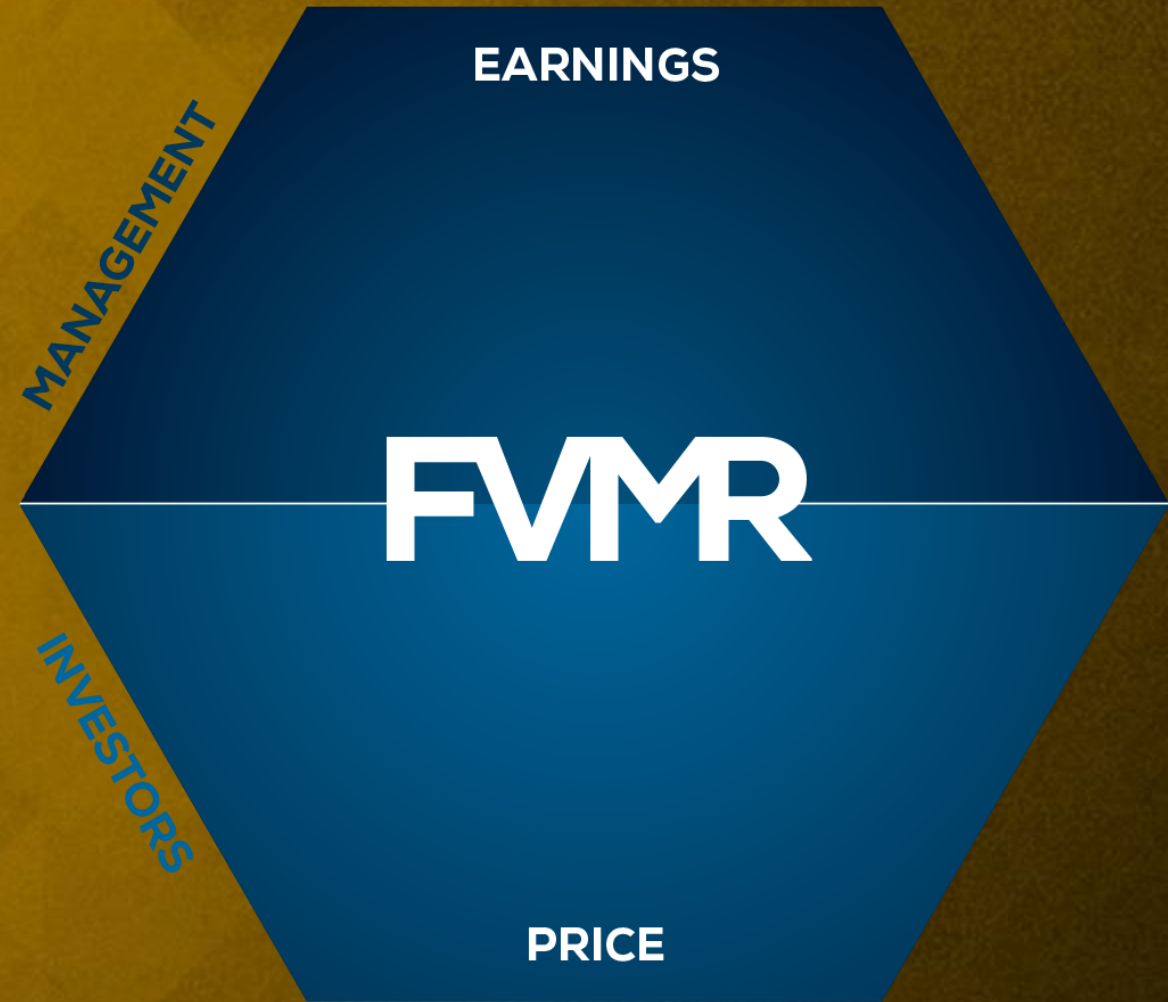
Scan this QR code
to go to the
ValuationMasterClass.com
blog to download all full
Case Study reports for free.

**It's usually up within 24h.*

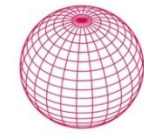


FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
 - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)



Moderate momentum in a highly cyclical industry



VALUATION MASTER CLASS

Sales

Story

FVMR

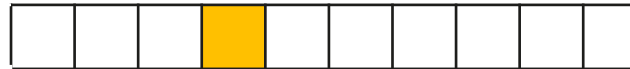
Value

WCB

Risks

Worst Neutral Best

Rank relative to all other companies*



Fundamentals



Valuation



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Operating profit margin	14.6	13.9	14.0	10.4	14.9
Recurring net margin	8.9	10.6	10.1	7.4	11.9
Asset turnover	79.4	87.6	77.6	65.0	70.1
Return on assets	7.1	9.3	7.8	4.8	8.4
Recurring return on equity	20.0	24.6	22.0	14.5	23.0

(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Price-to-sales	2.0	1.5	0.9	1.9	1.8
Price-to-earnings	22.6	14.6	9.0	25.4	15.3
Price-to-book	4.1	3.3	2.0	3.6	3.2
PE-to-EPS growth (PEG)	nm	0.4	nm	nm	0.2
EV/EBIT	13.6	12.1	7.6	20.0	12.9

Momentum



Risk



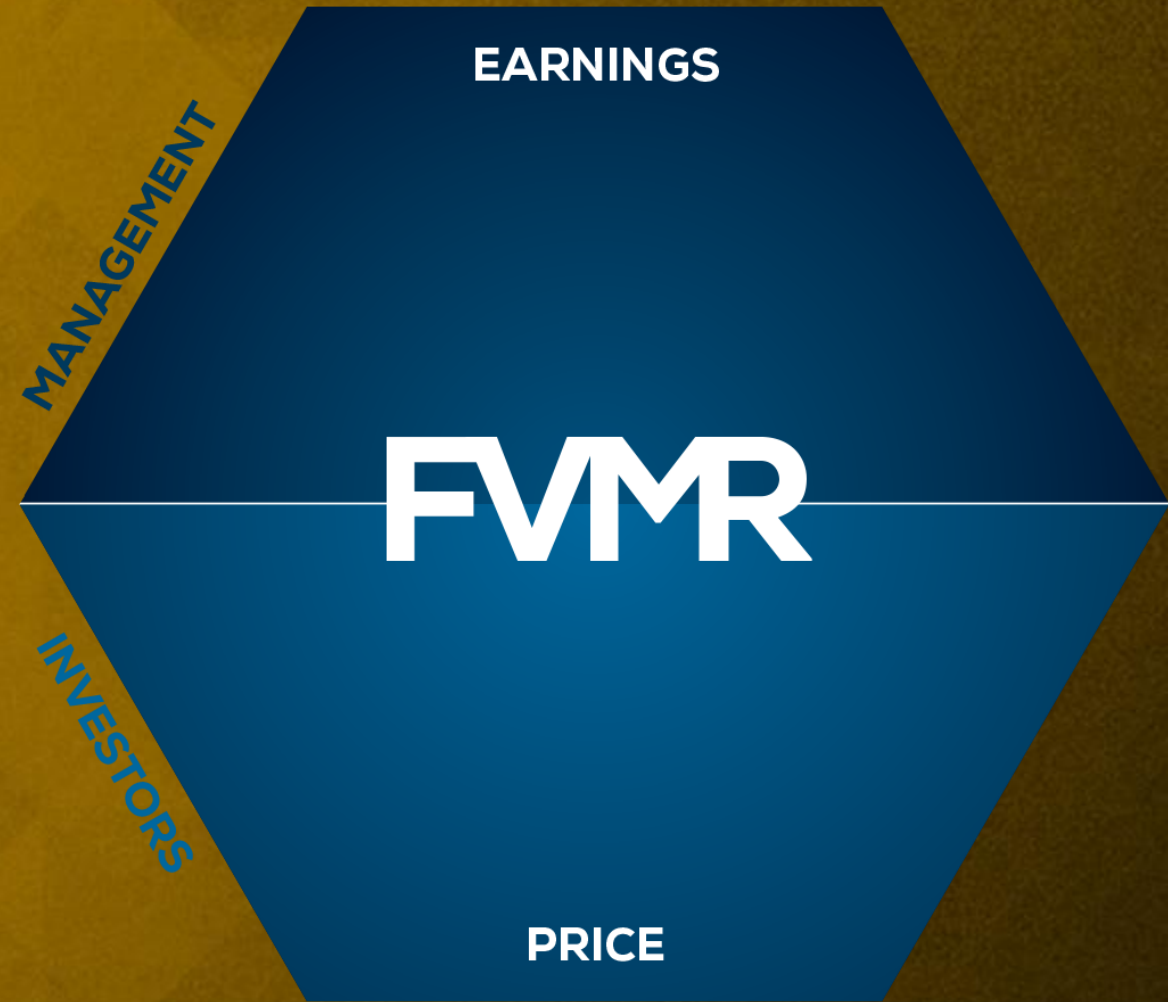
(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Revenue growth	1.4	20.1	(1.9)	(10.5)	9.4
Recurring EPS growth	(9.2)	41.2	(5.9)	(32.1)	63.4
Operating profit margin chg. (bps)	87	(66)	5	(358)	384
	6mth	3mth	1mth	3wk	1wk
Price change	4.2	0.8	(5.4)	(8.2)	(2.0)

(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Current ratio	1.8	1.8	1.6	1.5	2.3
Net debt-to-equity (%)	3.0	39.9	40.7	43.8	21.7
Times-interest-earned	11.3	9.2	9.8	5.5	9.5
	5yr	3yr	1yr	6mth	3mth
Beta	1.5	1.6	1.1	1.5	1.3

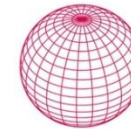
Note: Benchmarking against 2,160 non-financial companies in USA.

Recently, I created a short
online course explaining my
FVMR investing approach

Get \$97 value
for FREE
(limited offer)



Consensus still sees upside after recent price rally



Sales

Story

FVMR

Value

WCB

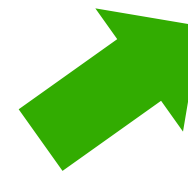
Risks

Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	2	2	2	2
Buy	2	2	2	2
Hold	1	2	3	3
Sell	-	-	-	-
Strong sell	-	-	-	-
Average score	1.8	2.0	2.1	2.1

Price target	Oct-21	Nov-21	Dec-21	Current
Median	118	126	125	125
Mean	118	126	123	125

#7
analysts

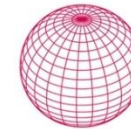


Upside: 17%

- ★ 4 analysts expect the company to outperform while 3 analysts still stay cautious
- ★ Analysts expect a strong margin expansion in line with the company's strategy to focus on its highly profitable segments

Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	(1.9)	(10.5)	7.5	6.3	5.7
Gross margin	35.5	35.9	34.3	38.1	37.7	39.0
EBIT margin	14.0	14.1	10.5	15.7	17.0	17.8
Net margin	10.0	4.1	6.2	12.0	12.5	13.4



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, US\$ m)	2019A	2020A	2021E	2022E
Revenue	3,283	2,937	3,231	3,392
Cost of goods & services	(2,104)	(1,931)	(2,000)	(2,120)
Gross profit	1,179	1,006	1,231	1,272
SG&A	(698)	(698)	(695)	(729)
Other operating (exp)/inc	(19)	-	-	-
EBIT	462	308	536	543
Interest expense (net)	(44)	(53)	(53)	(37)
Other non-operating inc/(exp)	71	66	67	68
Earnings before taxes (EBT)	489	321	551	574
Income tax	(37)	(43)	(110)	(115)
Earnings after taxes (EAT)	452	277	440	459
Equity income/Minority interest	(0)	(0)	-	-
Earnings from cont. operations	451	277	440	459
Forex/Exceptionals before tax	(318)	(96)	-	-
Net profit	133	181	440	459

- ★ Net profit sees a strong rebound in 21E and could lead to a record
 - The strong bottom-line is mainly driven by the margin expansion, but also strong growth prospects



Sales

Story

FVMR

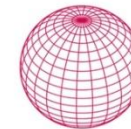
Value

WCB

Risks

(YE Dec, US\$ m)	2019A	2020A	2021E	2022E
Cash & short-term investments	394	551	351	509
Accounts receivable	569	505	556	584
Inventories	457	430	444	471
Other current assets	80	88	162	170
Total current assets	1,500	1,574	1,513	1,734
Long-term investments	-	-	-	-
Net fixed assets	616	574	559	576
Intangible assets	505	519	483	500
Goodwill	1,472	1,438	1,495	1,555
Other long-term assets	330	511	536	563
Total assets	4,424	4,615	4,587	4,927

- ★ Goodwill is the primary asset on the company's balance sheet
- ★ Given its past M&A history and relevance for growth generation, I assume further acquisitions to take place over the next years



Sales

Story

FVMR

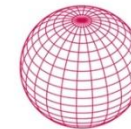
Value

WCB

Risks

(YE Dec, US\$ m)	2019A	2020A	2021E	2022E
Overdrafts & short-term loans	149	376	-	-
Accounts payable	577	461	500	530
Other current liabilities	190	220	242	254
Total current liabilities	917	1,057	742	784
Long-term debt	842	843	851	860
Other long-term liabilities	1,189	1,184	1,196	1,208
Total liabilities	2,947	3,084	2,790	2,852
Minority interest	3	2	2	2
Paid-up capital - Common shares	388	403	403	403
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	2,112	2,193	2,502	2,824
Revaluation/Forex/Others	(1,027)	(1,067)	(1,110)	(1,154)
Total equity	1,474	1,529	1,795	2,073
Total liab & shareholders' equity	4,424	4,615	4,587	4,927

- ★ The company recently agreed on resuming its share repurchase program
 - The total confirmed budget of US\$300m is spread over the following years



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec)	2019A	2020A	2021E	2022E
General growth (YoY, %)				
Revenue	(1.9)	(10.5)	10.0	5.0
Assets	9.4	4.3	(0.6)	7.4
Gross profit	(0.9)	(14.7)	22.3	3.3
Operating profit	(1.3)	(33.3)	74.1	1.2
Attributable profit	(60.3)	35.8	143.3	4.3
EPS	(60.1)	37.4	146.1	5.1
Recurring EPS	(9.5)	(30.3)	72.3	5.1
Du Pont analysis (%)				
Net profit margin	4.1	6.2	13.6	13.5
Revenue per US\$100 of assets	77.6	65.0	70.2	71.3
Assets/equity (x)	2.8	3.0	2.8	2.5
Return on equity	8.9	12.1	26.5	23.8
Others (%)				
Effective tax rate	21.7	19.3	20.0	20.0
Dividend payout ratio	24.7	39.1	29.9	30.0

★ Asset base shrinks in 21E due to the divestiture of its 4th segment

- Beyond 2022, I see a strong asset growth, providing the basis for revenue to grow in a similar direction



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec)	2019A	2020A	2021E	2022E
Internal liquidity (x)				
Current ratio	1.6	1.5	2.0	2.2
Quick, or acid test ratio	1.1	1.1	1.4	1.6
Working cap. mgmt (Days)				
Inventory conversion period	74	83	79	78
Receivables collection period	63	66	59	61
Days from raw mat to coll	138	149	138	138
Payables deferral period	102	97	86	87
Cash conversion cycle	36	52	51	51
Profitability ratios (%)				
Gross profit margin	35.9	34.3	38.1	37.5
EBIT margin	14.1	10.5	16.6	16.0
EBIT return on avg assets	10.9	6.8	11.7	11.4
Return on average assets	3.1	4.0	9.6	9.7

★ The margin expansion is also reflected in higher return on assets, which is likely to double in 21E



Good / Moderate / Weak

Sales

Story

FVMR

WCB

Ratios

Value

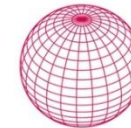
Risks

Earnings

Driver	Potential	Our thoughts
Price	Moderate	Ability to raise prices for specialized niche technology
Quantity	Good	Strong organic and inorganic (M&A) growth expected
COGS	Moderate	Higher growth in aerospace could spice up margin further
Opex	Weak	Market already anticipated strong margin expansion
EPS could achieve high single-digit growth (21E-25E)		

Price

Driver	Potential	Our thoughts
PE	Weak	Cheap on 22E (13.3x) vs. US Industrials; EPS growth slower
PB	Moderate	Cheap on 22E (2.9x) vs. US Industrials; ROE is in line
Share price seems to be fair based on multiples		



Sales

Story

FVMR

Value

WCB

Risks

(YE Dec, US\$ m)	2019A	2020A	2021E	2022E
EBIT	462.1	308.1	536.3	542.7
<i>Est tax rate (%)</i>	<i>21.7</i>	<i>19.3</i>	<i>20.0</i>	<i>20.0</i>
NOPAT	361.7	248.5	429.0	434.2
Add: Depre & amort	113.5	127.5	139.1	149.0
Less: CAPEX	(65.7)	(29.6)	(88.4)	(127.8)
Chg in A/R	17.5	64.2	(51.4)	(27.8)
Chg in inventory	(45.8)	27.6	(14.7)	(26.7)
Chg in oth curr assets	(58.2)	(8.5)	(73.5)	(8.1)
Chg in A/P	(38.6)	(116.0)	39.0	30.1
Chg in oth curr liabs	72.6	29.6	22.3	12.1
Less: Chg in working cap	(52.5)	(3.1)	(78.3)	(20.4)
Less: Chg in invest cap				
Free cash flow to firm	357.0	343.3	401.5	435.0
<i>FCF per share (US\$)</i>	<i>5.9</i>	<i>5.8</i>	<i>6.9</i>	<i>7.5</i>
<i>NOPAT growth (%)</i>	<i>(4.2)</i>	<i>(31.3)</i>	<i>72.6</i>	<i>1.2</i>
<i>FCF growth (%)</i>	<i>8.6</i>	<i>(3.8)</i>	<i>16.9</i>	<i>8.4</i>

- ★ Strong cash flow generation is crucial for pursuing its M&A strategy



Sales

Story

FVMR

Value

WCB

Risks

Forecast assumptions		
3-year average	Consensus	My assumptions
Revenue growth (CAGR)	6.5	7.0
Gross margin	38.3	37.9
EBIT margin	16.8	16.5

My valuation method	
Market: United States of America	
Market risk-free rate	2.0
Market equity risk premium	9.0
Market return	11.0
Company beta (x)	1.3
COE	13.3
WACC	11.2
Terminal growth rate	4.0

Valuation Method:
FCFF

- ★ I see a slightly higher revenue growth than consensus
- ★ Despite acknowledging the recent margin expansion, it will be difficult for Crane to maintain it forever
 - Aerospace and defense segment becomes increasingly competitive
- ★ My long-term assumptions are relatively optimistic with regards to maintaining high profitability



Sales

Story

FVMR

WCB

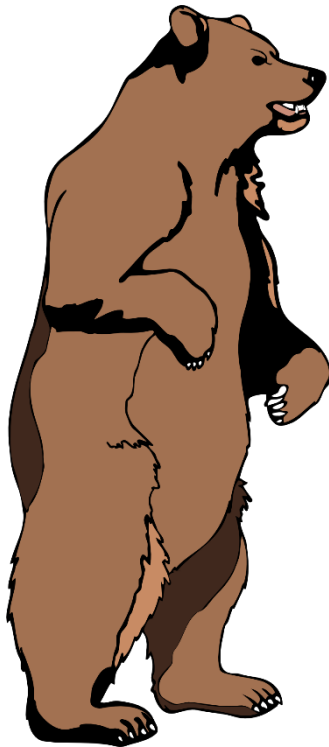
Ratios

Value

Risks

Bear
US\$85

(Downside 20%)



Base
US\$92

(Downside 13%)



Bull
US\$100

(Downside 6%)



World Class Benchmarking Scorecard

- ★ Identifies a company's competitive position relative to global peers
- ★ Uses a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)



Profitable Growth has been consistently strong



Sales

Story

FVMR

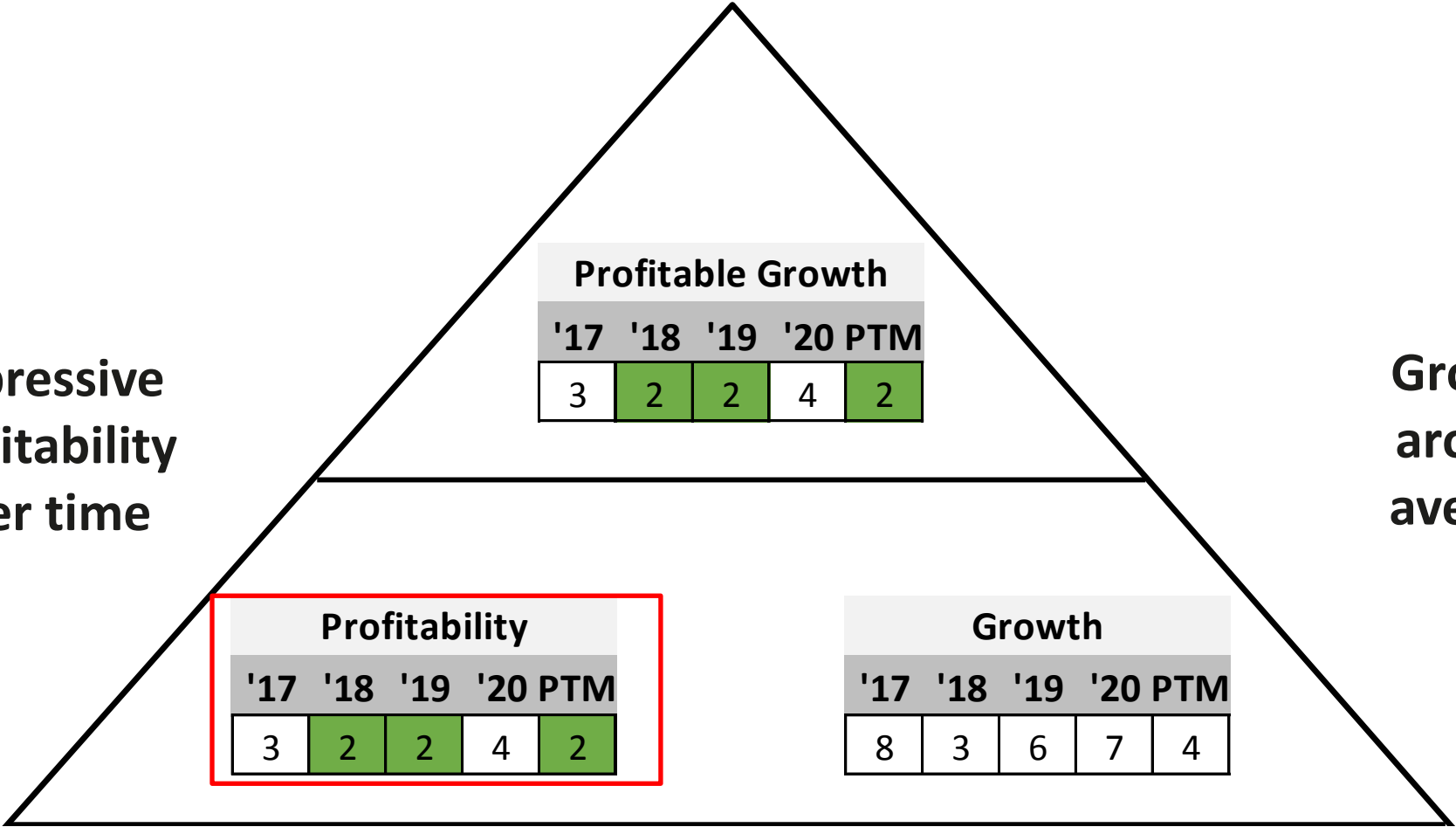
Value

WCB

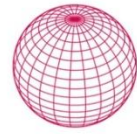
Risks

Impressive
profitability
over time

Growth
around
average



Benchmarked against 1,480 large Industrials companies worldwide.



Sales

Story

FVMR

Value

WCB

Risks

- ★ Risk of overpaying acquisitions, impairment charges or failure to integrate the business
- ★ Inability to protect intellectual property or lacking innovative ideas
- ★ Adverse regulatory changes and environmental liabilities



CRANE

Diversified US manufacturer of engineered industrial products serving aerospace, process flow technologies, and payment systems

Our estimate:

US\$92

(Downside 13%)

SELL



3 things to know about this company

- ★ Strategic M&A acquisitions to drive top-line growth
- ★ Divestiture helps to boost profitability over the long run
- ★ Accelerated organic growth through higher gov't budget

Key statistics

Analyst consensus (26)

US\$125

(Upside 17%)

BUY

PE ratio

16x

Dividend yield

1.6%

CONCLUSION

- Strong ability to grow organically and through strategic acquisitions
- Focus on profitable segments could bring ROIC back to 20%
- Stock trades in line with industry multiples

