



Tactical Acquisitions Make Sense in Uncertain Times

Given overall uncertainty in the global economy and mixed business conditions in a number of markets, we believe that this is an opportune time for companies to proactively seek **tactical** acquisitions. Investing in industry sectors you already know well can achieve several objectives:

- Enhance the company's competitive position;
- Improve prospects for sustainable, long term growth within existing business;
- Increase the company's overall enterprise value; and
- Minimize investment risk.

With valuations down from mid- 2011 peaks, performance in most sectors relatively good, generally stronger corporate balance sheets, and an abundance of capital still available for reasonably leveraged, strategic corporate initiatives, the overall M&A market remains strong. We believe that this is an opportune time for corporate managements to direct internal resources or engage outside advisory services to proactively identify and pursue **tactical** acquisitions for key business units. The strategies that could be employed will depend on each company's unique profile and a determination of the areas which could add strength or solve a lingering weakness, but could include themes such as:

- Strengthening distribution and/or customer relationships with additional product lines;
- Acquiring a brand or different product class that will bring additional traffic to channel;
- Adding services or accessories to enhance position with customers and improve margins;
- Strengthening geographic footprint and provide platform for higher organic growth outside the U.S.;
- Backward integrating with key supplier to manage costs, improve margins and ensure quality and availability of key component or commodity; and
- Providing for procurement and operating synergies that improve the cost structure of combined business.



Summarized below are a few cases that Corporate Fuel believes are representative of smart **tactical** acquisitions and the benefits each provided to the acquiring company. In each case, the acquisition strengthened the acquirer's competitive position, was financially accretive, enhanced its prospects for long term sustainable growth, and ultimately, we believe, will help increase the company's enterprise value over the long term.

Watts Water Technologies, Inc. (NYSE: "WTS") acquired Danfoss Socla S.A.S. ("Socla") on April, 29, 2011 for approximately \$180 million.

Watts Water manufactures and sells water safety and flow control products for the water quality, water conservation, water safety, and water flow control markets in North America, Europe and China. It provides water quality and supply products, including backflow preventers and check valves, fire protection systems, water pressure regulators, drainage products, temperature, relief and other types of valves, and point of use filtration and reverse osmosis systems for residential and commercial applications. In addition, it provides systems and products for radiant, solar, heat pump, and other renewable energy solar applications. Revenues for Watts were approximately \$1.4 billion over the past 12 months, generating EBITDA of around \$190 million. Its current market capitalization is nearly \$1.4 billion.

Socla was the water controls business unit of Danfoss A/S, a \$34 billion Danish company engaged in mechanical and electronic solutions around the world. Based in France, Socla manufactures and markets a variety of water control products such as self-acting and actuated valves and backflow preventers. Its products are sold primarily through wholesale channels in France, Germany and Eastern Europe. EBITDA at the time of purchase was \$16.5 million. Revenues were not disclosed.

Benefits to Watts of geographic expansion included:

- Strengthening European Plumbing and Flow Control platform with additional, complementary products and enhancing position in wholesale channel;
- Improving geographic position in France, Germany and Eastern Europe, and providing a platform for organic growth initiatives in other countries such as Italy, the U.K., Nordic and the Netherlands;



- Providing significant procurement and operating cost synergies, improving the company's overall pro-forma margins; and
- Meeting or exceeding all of the Company's key financial hurdles, and accretive to earnings in 2012 after amortization of required asset write-ups.

Astronics Corporation (Nasdaq:“ATRO”) acquires Ballard Technology, Inc. for \$24 million plus potential earn-out consideration over 5 years of up to \$5.5 million.

Astronics designs and manufactures products for the aerospace and defense industries worldwide. The Aerospace segment (92% of Revenues) designs and produces aircraft lighting, cabin electronics, airframe power and airfield lighting for the commercial, military and general aviation markets and for airport operators. The Test segment (8% of Revenues) develops and manufactures communications and weapons test systems, and training and simulation devices for military applications. Revenues for Astronics were approximately \$220 million over the past 12 months, generating EBITDA of approximately \$35 million. Its current market capitalization is \$400 million.

Ballard develops and manufactures hardware and software for test, simulation, maintenance and development of avionic databuses (“networks”). The company serves military and commercial avionic test markets around the world. Ballard was projecting revenues of approximately \$11 million for 2011 with EBITDA estimated (but not disclosed) to be around \$4 million.

Benefits to Astronics of this add-on, niche acquisition included:

- Adding complementary technologies and products, and a strong brand profile, to bolster the size and competitive position of the company in both the military and commercial aerospace markets;
- Enhancing the sustainable, long-term growth profile of company given Ballard's 20% CAGR over the past 3 years;
- Providing gross margins higher than Astronics historical results; and
- Meeting or exceeding all key financial hurdles utilizing excess cash on hand, and accretive in 2012.



Acrow Bridges acquires steel supplier in July, 2011

Acrow Bridges, a privately held company, engages in engineering, manufacturing and supplying prefabricated, modular steel bridges for emergency, temporary, detour and permanent applications. The company serves the transportation, construction, and military markets around the world.

The acquired steel supplier was Acrow's primary steel fabricator, specializing in structures requiring high tensile strength for specialty applications.

Benefits to Acrow of backward integration included:

- Obtaining direct control over the cost, availability and quality of structural steel source, which is critical to Acrow's overall product quality;
- Eliminating risks involved in adding a qualified second source supplier;
- Enhancing service offering for customers as a result of in-house R&D and manufacturing; and
- Substantially increasing profitability by eliminating manufacturing profit margin.

Corporate Fuel is a leading New York City based investment bank that provides advice and capital to middle market companies through three complementary businesses: Corporate Fuel Advisors, a full service investment banking firm that provides M&A, capital raising, consulting and talent services to small and medium sized companies with revenues typically between \$10 million and \$200 million; Corporate Fuel Securities, a FINRA registered broker-dealer specializing in private placements of debt and equity securities; and Corporate Fuel Partners, a private equity fund formed to make acquisitions of, or equity investments in, established companies with strong prospects