



**MERRIMACK
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Brilliance

Outlook for the North American Lighting Industry

November 2022

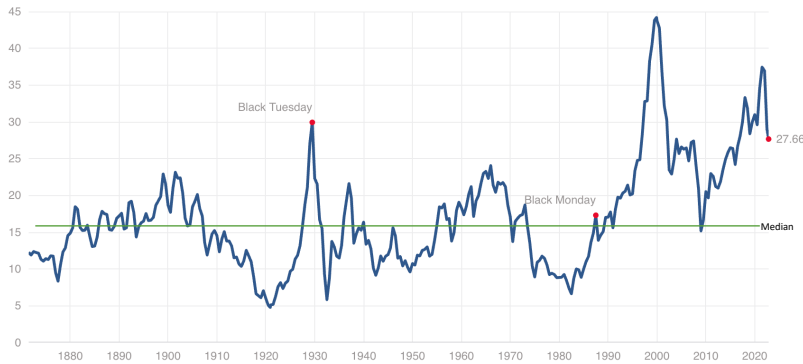
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US Equity Market Overview

- The S&P500 has declined 26% since the Dec 2021 peak
- The CAPE ratio is still 1.7x the long-term median

Shiller CAPE Ratio

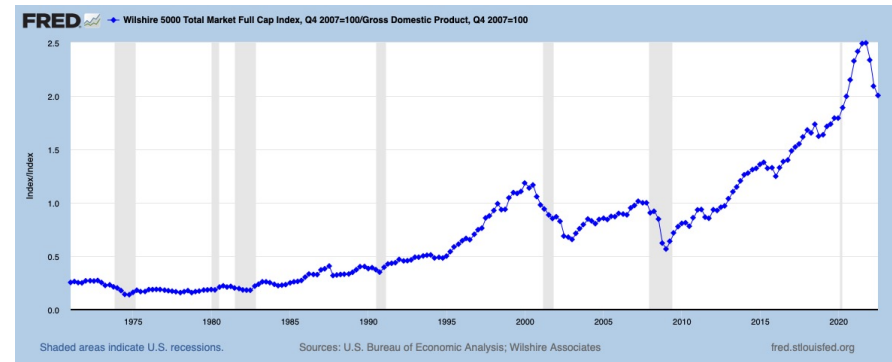


Source

The Shiller Cyclically Adjusted Price to Earnings ratio compares prices of S&P500 stocks to their average inflation-adjusted earnings over the prior ten years

- Takeaways
 - Valuations are coming back to earth
 - Still significant downside risk

Wilshire 5000 Total Market Full Cap Index/Gross Domestic Product



Source

The “Buffett indicator” compares the broad US equity market index to US GDP

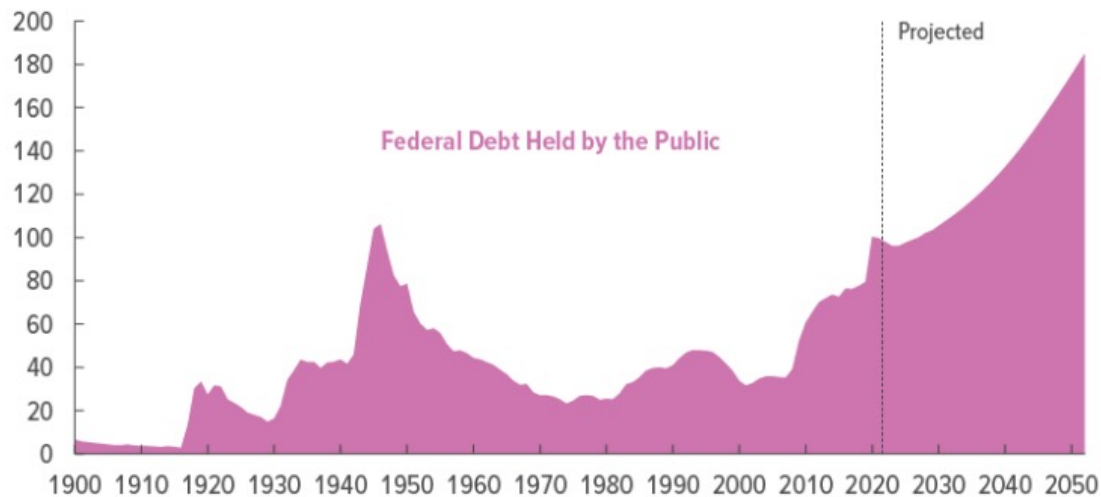
US Federal Debt

The federal deficit is unsustainable – spending will need to be radically reduced, and/or taxes will need to be radically increased

- The federal debt is \$93k per man, woman and child in the US

US Federal Debt

Percentage of Gross Domestic Product

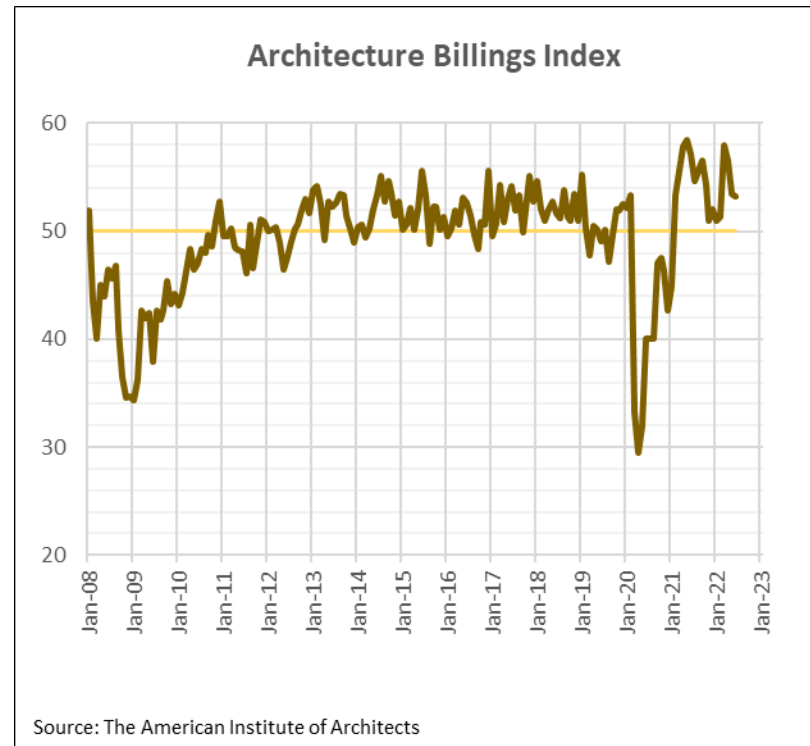
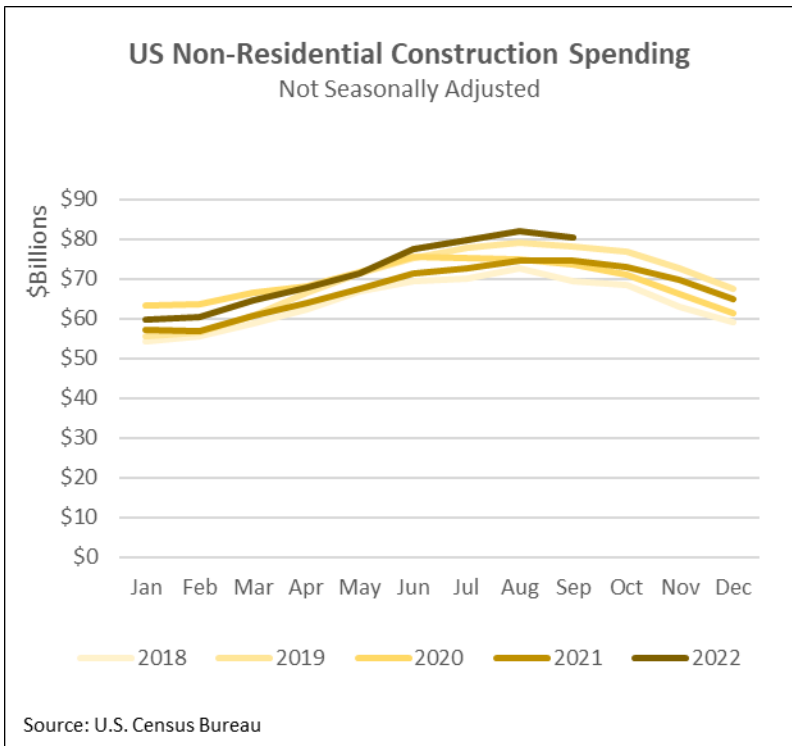


Debt is projected to rise in relation to GDP mainly because of increasing interest costs and growth in spending for Medicare and Social Security.

Source: CBO, May 2022

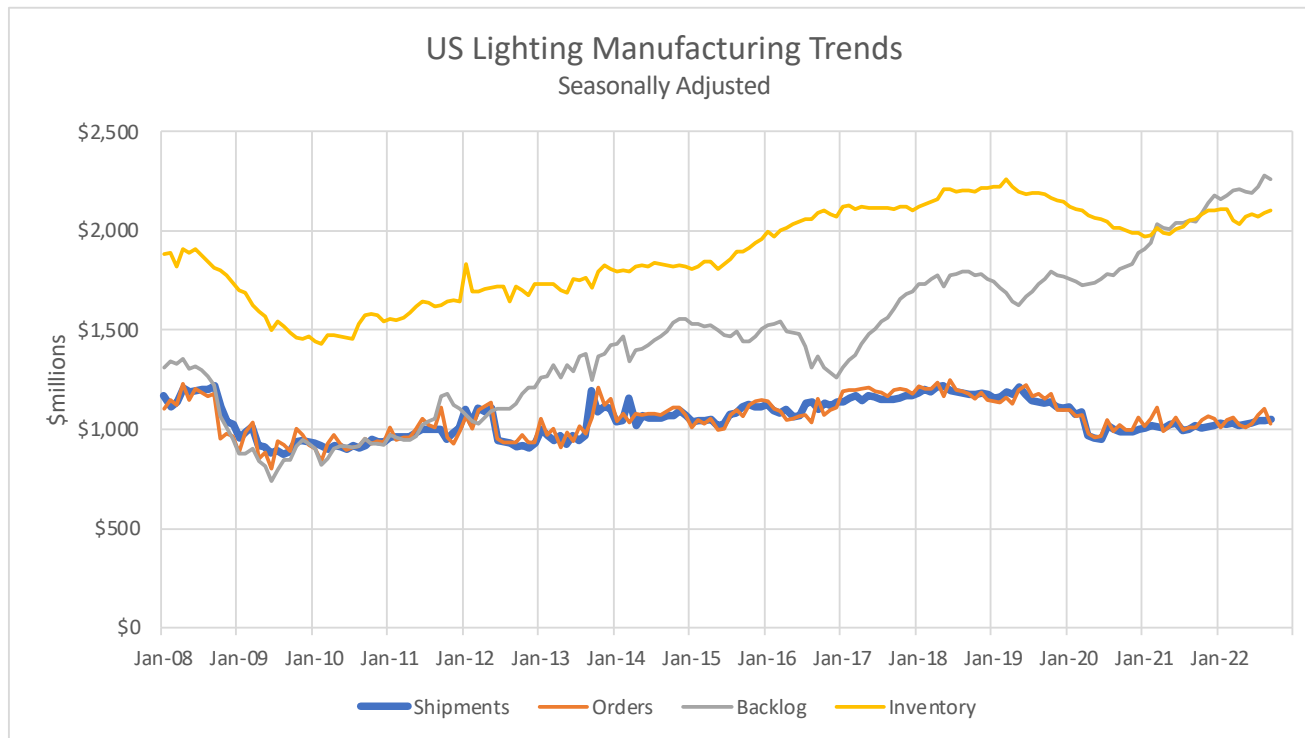
The Construction Industry is Healthy

- Non-residential construction spending has returned to pre-pandemic levels – in nominal dollars
- The Architecture Billings Index declined slightly, but a greater concern is that only 36% of responding architecture firms expect billings to increase in 2023, even with an average 7-month backlog in September



US Lighting Manufacturing

- Backlogs have risen dramatically due to supply chain challenges

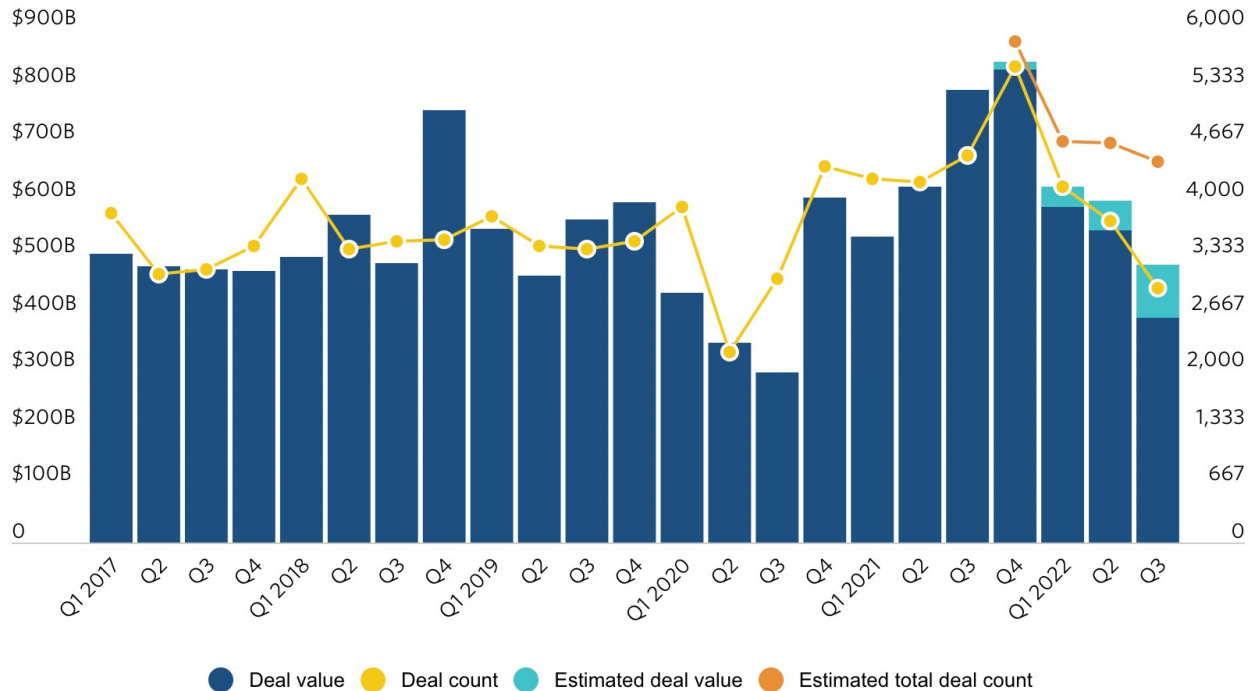


Source: [US Census Bureau](#)

The M&A Market has Normalized

- The North American M&A market dropped below pre-pandemic levels.

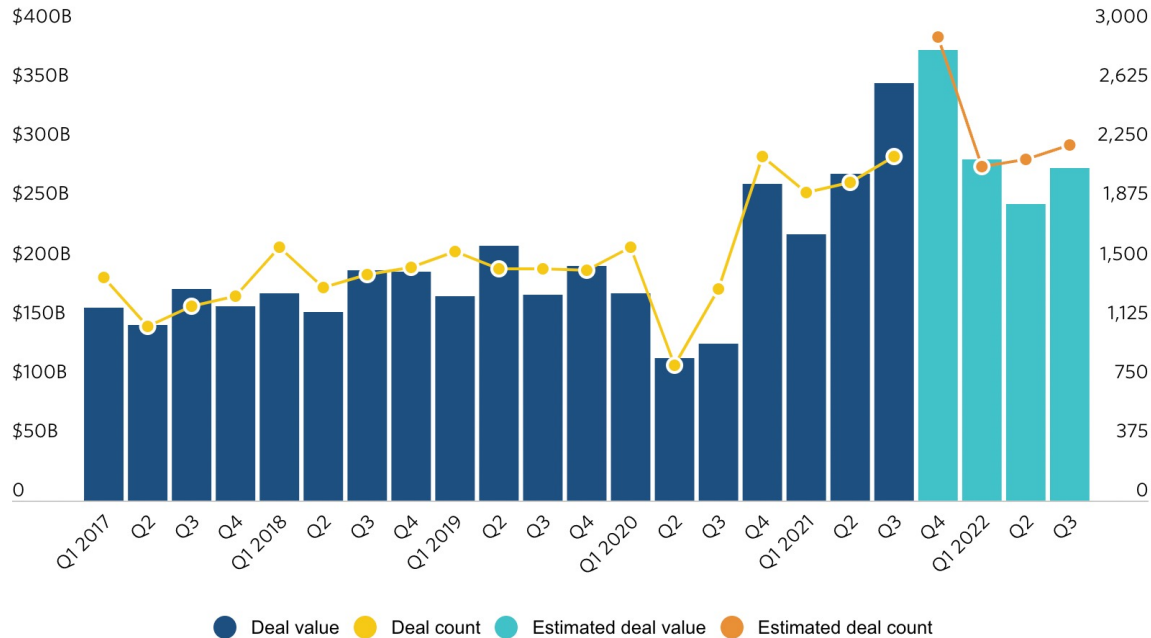
North American M&A Activity



Source: PitchBook
*As of Sept. 30, 2022

US Private Equity Activity

- Private equity firms are accounting for an increasing share of M&A activity
- Most of the capital being invested today was raised in the last 3 years, and is less susceptible to stock market volatility, relative to public companies



Source: US PE Breakdown
*As of Sept. 30, 2022

Lighting Industry M&A Activity

- Lighting M&A activity has softened in 2022, in part due to a conspicuous absence of public company buyers

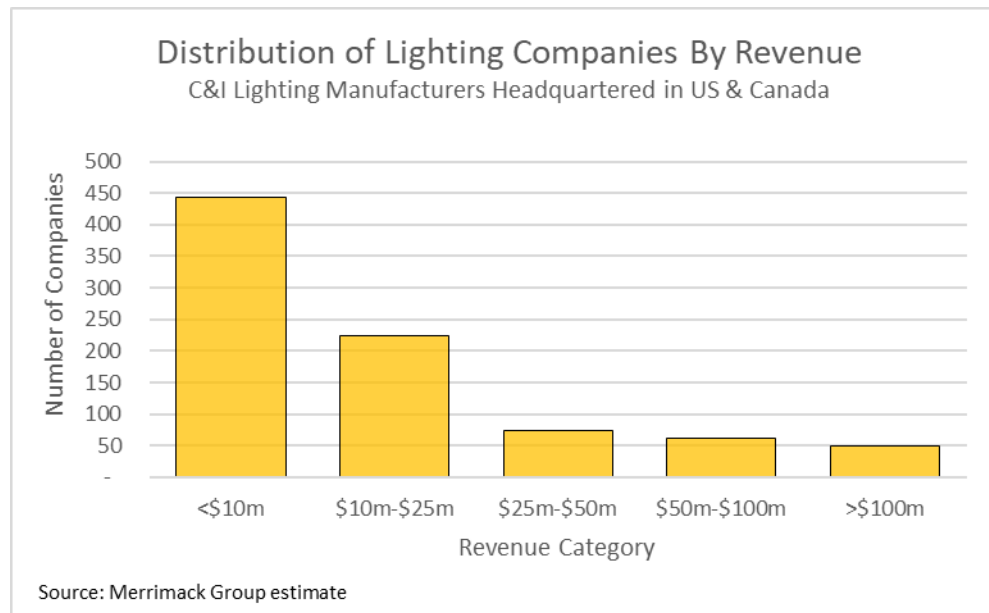
US & Canadian Lighting Manufacturer M&A Activity

Breakdown by Buyer Type
Jan 1, 2018 - Nov 1, 2022



Lighting Industry Consolidation Opportunity

- The lighting industry has become highly fragmented as a result of new entrants jumping on the LED bandwagon
 - The median revenue is \$10m
- As LED technology matures, Merrimack anticipates a wave of industry consolidation



Exit Timing Considerations

- Merrimack’s M&A environment indicators are generally positive
- Merrimack advises clients to consider several intrinsic factors when timing an exit
 - Positive long-term revenue and EBITDA trajectory (with covid allowances)
 - Positive leading indicators (e.g. quote activity, backlog)
 - Attractive growth opportunities (e.g. new products, new markets)
 - Potential deal-breaking complications (e.g. lawsuits, recalls, tax audits, loss of key talent, loss of key customers)
 - Management’s willingness and ability to continue to run the business for a transition period (6 months – 5 years)
 - Facility lease duration

Merrimack Lighting Industry M&A Environment Indicators

Factor	Status	Commentary
Construction Activity	●	Strong
Architecture Billings Index	●	>50
Strategic Buyer Demand	●	Moderating
Private Equity Demand	●	Still solid
Interest Rates	●	Increasing
Credit Availability	●	Easy money
Stock Market	●	Bear market
US Tax Environment	●	Unsustainably low
US Government Spending	●	\$1T infrastructure spending plan



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