

Brilliance

Outlook for the North American Lighting Industry

March 2023

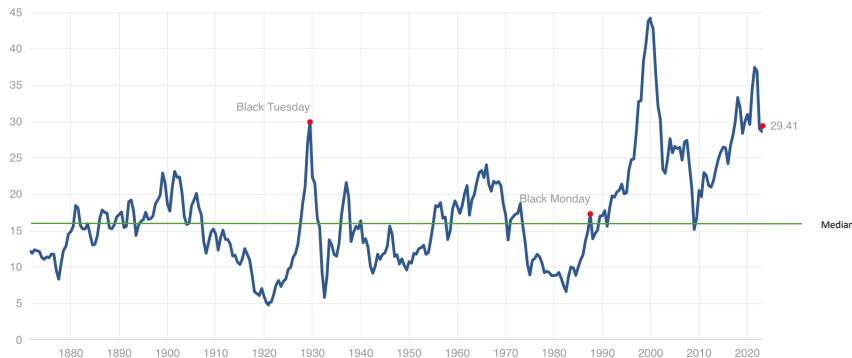
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US Equity Market Overview

- The S&P500 has declined 20% since the January 2022 peak
- The CAPE ratio is still 1.8x the long-term median

Shiller CAPE Ratio

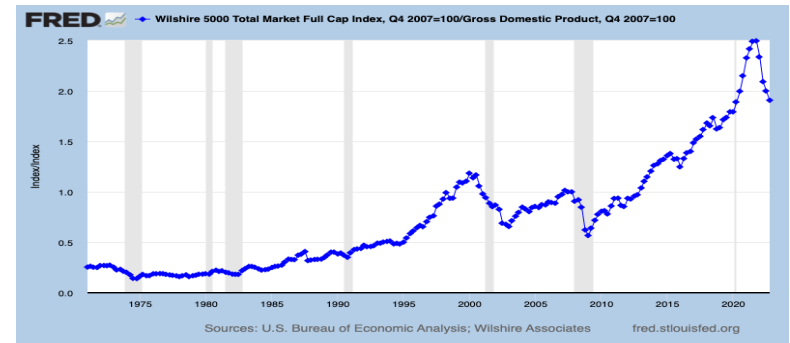


[Source](#)

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

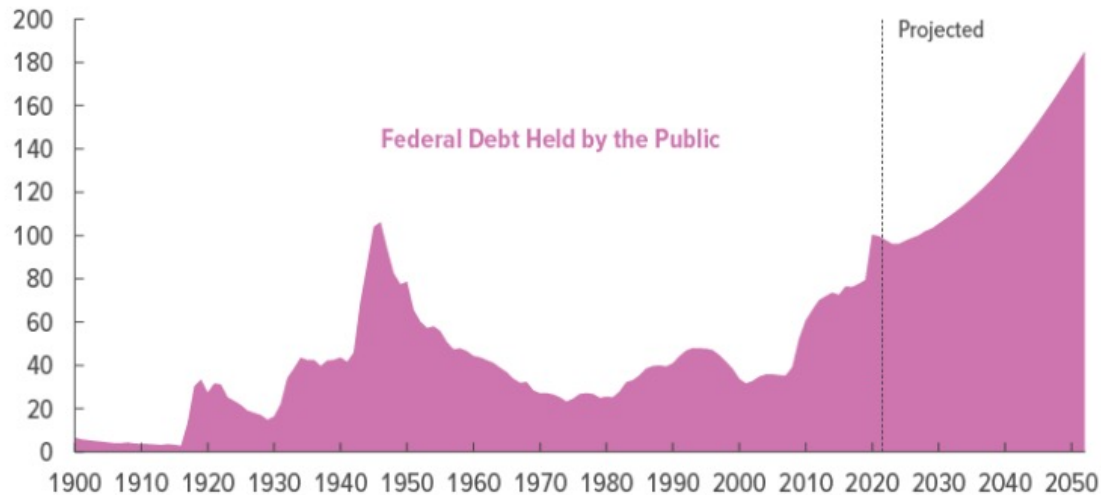
US Federal Debt

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
- Federal taxes would need to increase 41% to balance the budget*

US Federal Debt

Percentage of Gross Domestic Product



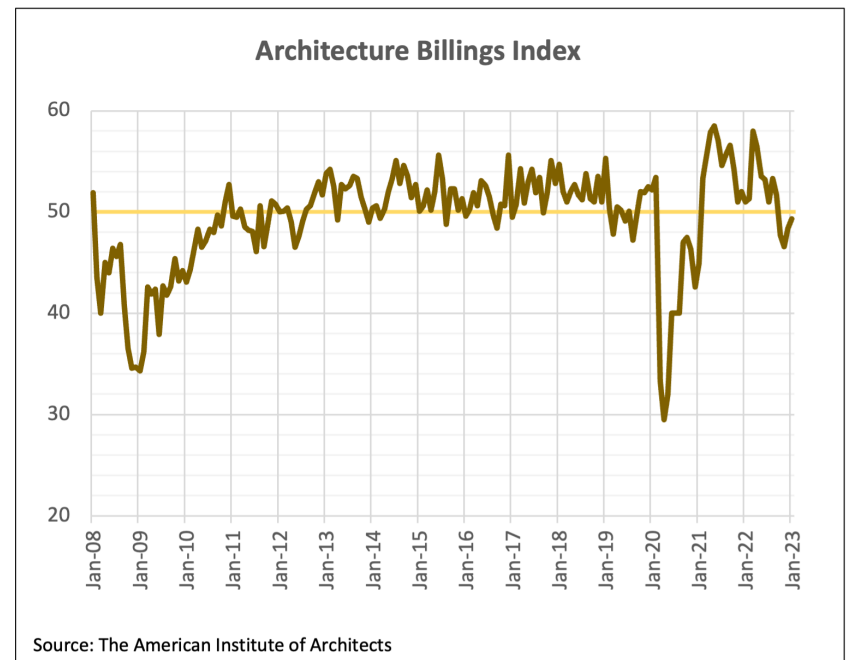
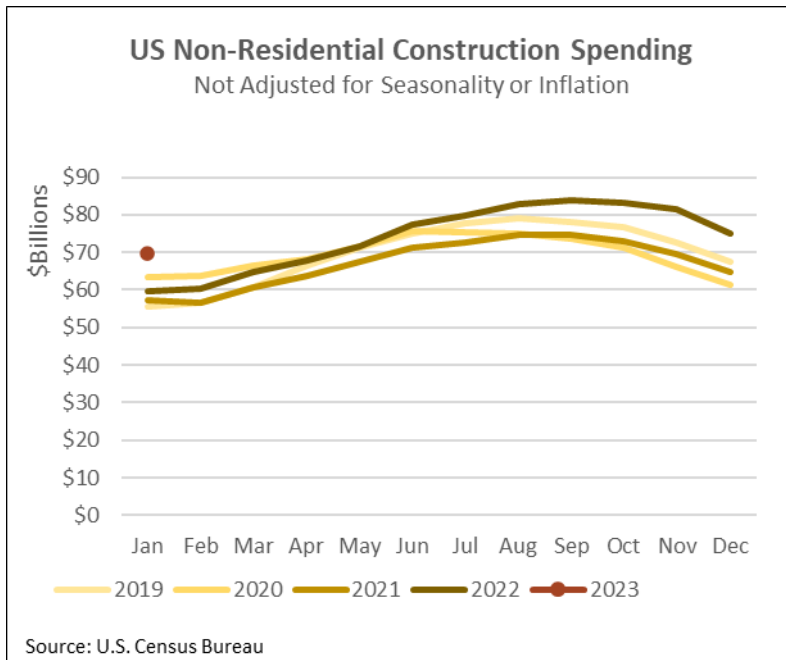
Debt is projected to rise in relation to GDP mainly because of increasing interest costs and growth in spending for Medicare and Social Security.

Source: CBO, May 2022

*Source: CRFB, 2022-23 fiscal year

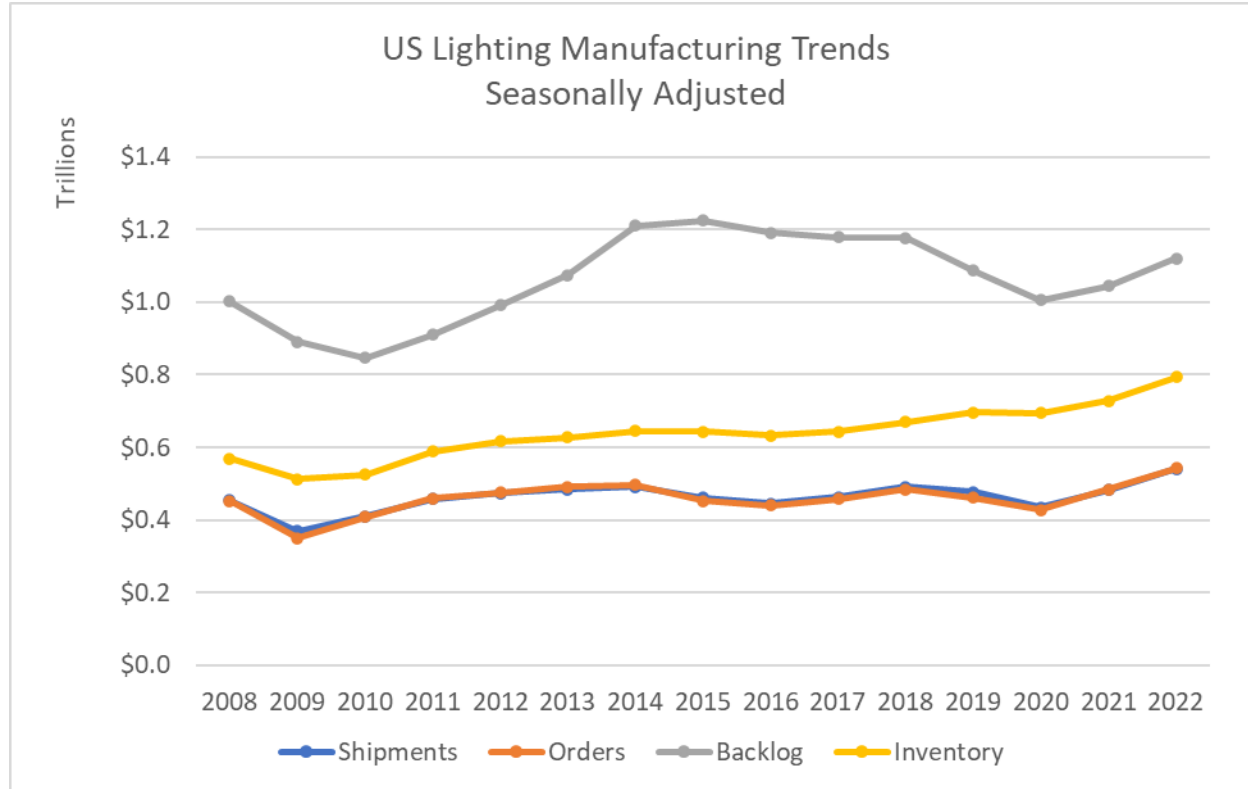
The Construction Industry is Healthy

- Non-residential construction spending is back on track for growth as it was higher than in pre-pandemic years - in nominal dollars.
- The Architecture Billings Index though is below pre-pandemic levels, a lot of firms reported a slight uptick in billings, indicating signs of recovery.



US Lighting Manufacturing

- Backlogs have risen dramatically due to supply chain challenges



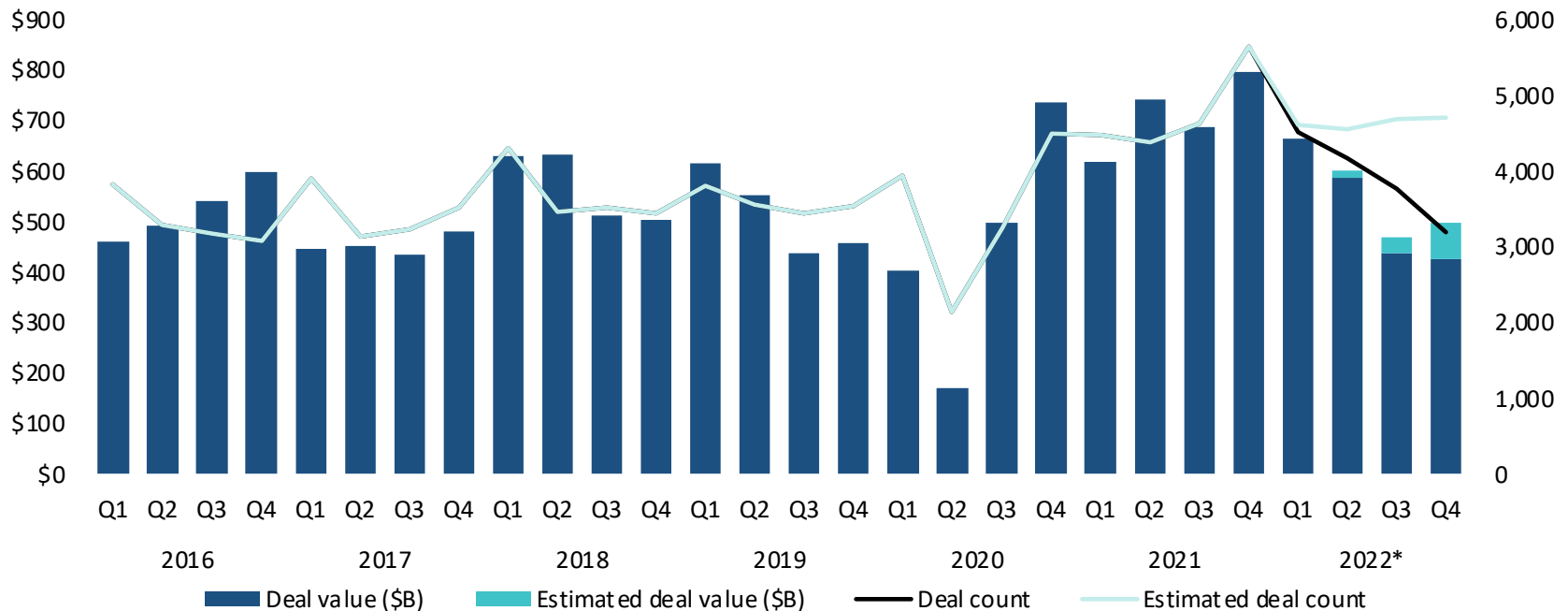
Source: [US Census Bureau](#)

Release Date- 6th March, 2023

The M&A Market is Normalizing

- North American M&A activity has somewhat softened, but is in line with pre-covid levels.

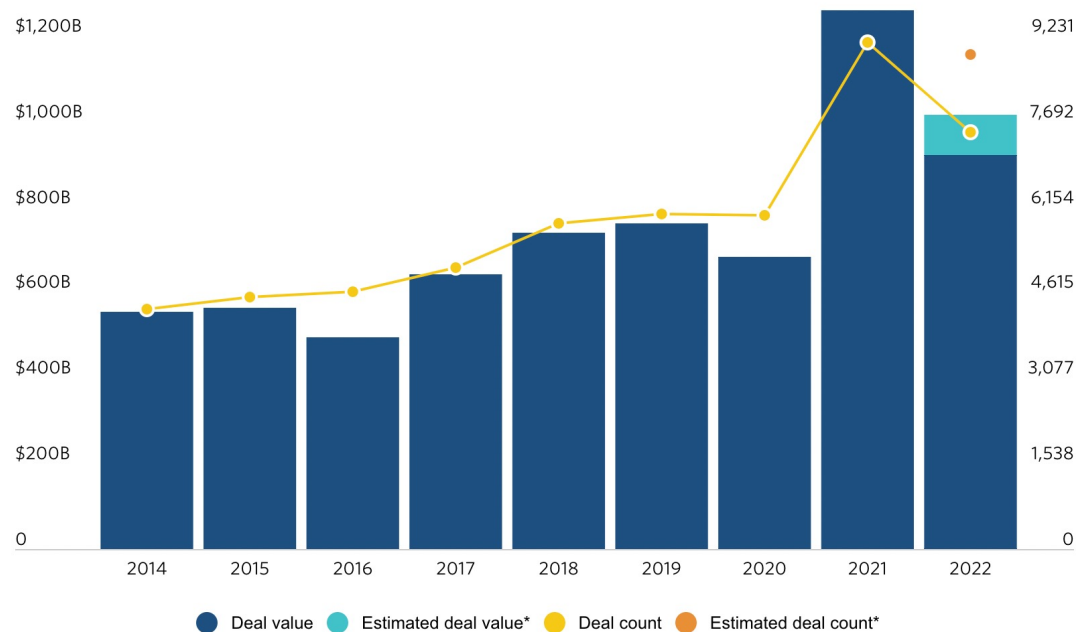
North American M&A Activity



As of 12/31/2022- Pitchbook

US Private Equity Activity

- Deal value in 2022 was 27% lower than that in 2021, however it was higher compared to previous years.



Source: PitchBook's 2022 Annual US PE Breakdown

*As of Dec. 31, 2022

Lighting Industry M&A Activity

- Lighting M&A activity had a strong start in 2023.

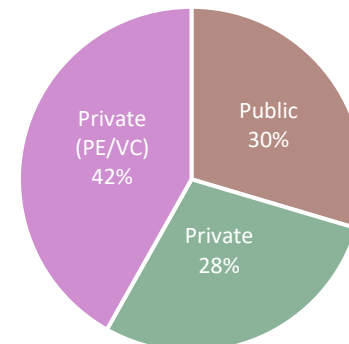
US & Canadian Lighting Manufacturer M&A Activity



Breakdown by Buyer Type

Lighting Manufacturers in North America

Jan 1, 2018 - Mar 1, 2023

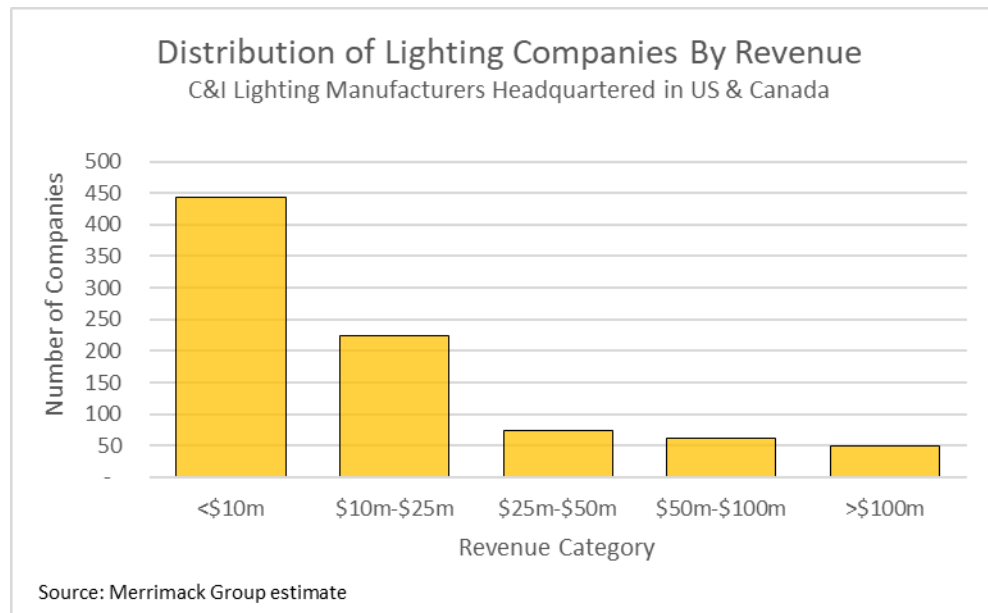


As of March 1, 2023

Announcement Year

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	●	Steady
Architecture Billings Index	●	<50, but improving
Strategic Buyer Demand	●	Strong
Private Equity Demand	●	Steady
Interest Rates	●	Increasing
Credit Availability	●	Easy money
Stock Market	●	Steady
US Tax Environment	●	Unsustainably low
US Government Spending	●	\$1T infrastructure spending plan



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