Serial Acquirer Case Study: Danaher Corporation

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New York, NY 10119
Overview

• Despite the claim that acquisitions destroy value certain companies excel as acquirers and deliver outstanding value for shareholders.

• We studied the relationship between long term total shareholder returns (TSR) and different acquisition strategies and a variety of deal characteristics.
  – The only trait that consistently has a strong positive relationship with long term TSR across each industry is acquisition frequency.

• We call them Serial Acquirers and many generate outstanding results by being better at planning, executing and integrating acquisitions than their peers.

• Danaher Corporation is one of the world’s best serial acquirers
Danaher’s M&A Strategy Emphasizes Returns

- Even during the downturn in 2008 and 2009 Danaher delivered Cash Flow in excess of the required return on all capital.
- This strategy creates value for shareholders and demonstrates the benefits of continuously redeploying capital into positive returns.

Source: Fortuna Advisors Analytics, using CapitalIQ Data
Note: Acquisition Residual Cash Earnings (ARCE) is EBITDA + Rent + R&D Less Taxes Less Capital Charge Including Goodwill & Intangibles
Acquisitions Residual Cash Margin (ARCM) is ARCE as a % of Revenue
Danaher Creates Value Through Superior Returns and Growth

- Danaher’s M&A strategy relies on being able to operate the target company in a more efficient way.
- The Company’s Residual Cash Margin (with and without intangibles) has been consistently positive and relatively stable.
- When a business is run this efficiently, growth is tremendously valuable.
The Danaher Business System (DBS) Focuses Management on the Relentless Pursuit of Efficiency

- DBS is a culture where every employee from CEO to the shop floor is responsible for finding ways to improve the way work gets done.

- Danaher has held margins stable despite the recent downturn.

- More remarkable is the Company’s ability to maintain low levels of Asset Intensity.

**Source:** Fortuna Advisors Analytics, using CapitalIQ Data

**Note:** Gross Business Returns is Gross Cash Earnings (EBITDA + Rent + R&D Less Taxes) Divided by Gross Operating Assets (NWC, Gross PP&E, Capitalized Rent and R&D). Asset Intensity is Gross Operating Assets Divided by Revenue.
Danaher Tends to Acquire Lagging Companies in Attractive Sectors

Medical Technology: 27%
Young Innovations (YDNT), Schein Henry (HSIC), Sybron Dental (SYD), Patterson (PDCO), Dentsply (XRAY).

Electronic Test: 23%
Visual Networks (VNWK), Microtest (MTST), Fluke (FLK), Mettler Toledo (MTD), Ametek (AME), Fisher Scientific (FSH), Roper Industries (ROP), Tektronix (TEK).

Motion: 20%
Kollmorgen (KOL), Pacific Scientific (PSX), American Precision (APR), Joslyn (JOSL), Baldor Elect. (BEZ), Spectris (SXS), Parker-Hannifin (PH), Rockwell Automation (ROK).

Environmental: 15%
Ionics (ION), Pall Corp (PLL), Hach (HACH), Lifschultz (LIFF), Esco Tech (ESE), Cuno (CUNO), Pentair (PNR).

Note: Danaher acquired Gendex from XRAY not the entire company.
Source: Fortuna Advisors Analytics, using CapitalIQ data.
## Danaher’s Public Targets Tend to have Higher Gross Margins, SG&A and most Notably Asset Intensity

<table>
<thead>
<tr>
<th>Danaher Acquired Companies</th>
<th>Time Period</th>
<th>EBITDARR Margin</th>
<th>Gross Margin</th>
<th>SG&amp;A % of Sales</th>
<th>Asset Intensity</th>
<th>Gross Business Return</th>
<th>Enterprise Value to Gross Asset</th>
<th>Residual Cash Margin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tektronix</td>
<td>2007</td>
<td>36%</td>
<td>60%</td>
<td>31%</td>
<td>1.56x</td>
<td>21%</td>
<td>1.12x</td>
<td>18%</td>
</tr>
<tr>
<td>Sybron Dental Specialties</td>
<td>2005</td>
<td>25%</td>
<td>56%</td>
<td>37%</td>
<td>0.81x</td>
<td>26%</td>
<td>3.63x</td>
<td>13%</td>
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<tr>
<td>Visual Networks</td>
<td>2004</td>
<td>28%</td>
<td>70%</td>
<td>48%</td>
<td>1.58x</td>
<td>18%</td>
<td>0.72x</td>
<td>12%</td>
</tr>
<tr>
<td>Lifschultz Industries</td>
<td>2000</td>
<td>18%</td>
<td>49%</td>
<td>34%</td>
<td>0.88x</td>
<td>22%</td>
<td>1.25x</td>
<td>11%</td>
</tr>
<tr>
<td>Kollmorgen Corporation</td>
<td>1999</td>
<td>12%</td>
<td>29%</td>
<td>22%</td>
<td>0.89x</td>
<td>14%</td>
<td>1.09x</td>
<td>3%</td>
</tr>
<tr>
<td>American Precision Industries</td>
<td>1998</td>
<td>14%</td>
<td>31%</td>
<td>22%</td>
<td>0.96x</td>
<td>12%</td>
<td>0.89x</td>
<td>3%</td>
</tr>
<tr>
<td>Hach Company</td>
<td>1998</td>
<td>26%</td>
<td>49%</td>
<td>28%</td>
<td>1.43x</td>
<td>14%</td>
<td>1.11x</td>
<td>7%</td>
</tr>
<tr>
<td>Fluke Corporation</td>
<td>1997</td>
<td>25%</td>
<td>54%</td>
<td>35%</td>
<td>1.39x</td>
<td>15%</td>
<td>0.72x</td>
<td>7%</td>
</tr>
<tr>
<td>Pacific Scientific Company</td>
<td>1996</td>
<td>13%</td>
<td>31%</td>
<td>22%</td>
<td>1.07x</td>
<td>12%</td>
<td>1.19x</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Acquired Target Median</strong></td>
<td><strong>25%</strong></td>
<td><strong>49%</strong></td>
<td><strong>31%</strong></td>
<td><strong>1.07x</strong></td>
<td><strong>15%</strong></td>
<td><strong>1.11x</strong></td>
<td><strong>7%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Danaher Peer Median</strong></td>
<td><strong>2009</strong></td>
<td><strong>18%</strong></td>
<td><strong>27%</strong></td>
<td><strong>20%</strong></td>
<td><strong>0.95x</strong></td>
<td><strong>19%</strong></td>
<td><strong>1.69x</strong></td>
<td><strong>8%</strong></td>
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<tr>
<td><strong>Danaher</strong></td>
<td><strong>2009</strong></td>
<td><strong>25%</strong></td>
<td><strong>48%</strong></td>
<td><strong>27%</strong></td>
<td><strong>0.54x</strong></td>
<td><strong>41%</strong></td>
<td><strong>3.68x</strong></td>
<td><strong>16%</strong></td>
</tr>
</tbody>
</table>

Source: Fortuna Advisors Analytics, using CapitalIQ data
Danaher Peers includes Textron, Tyco, 3M, Ingersoll-Rand, Illinois Tool Works, Honeywell, and United Technologies
Like an Astute Value Investor Danaher has Demonstrated the Ability to Buy Companies Trading at a Discount

Source: Fortuna Advisors Analytics, using CapitalIQ data.

Note: “Long-Term Market Norm” based on the historical relationship between Gross Business Returns and Market Multiples for the 1,000 largest non-financial US Companies.

Danaher

- Percent of Targets at a Discount
  - Pre-Announcement: 91%
  - Median Target Premium/Discount Pre-Announcement: -40%
  - Median Target Premium/Discount Post-Announcement: -21%

"Long term market norm"
Appendix
Fortuna Advisors Partners
Experts in Strategy, Finance and Value Management

Gregory V. Milano
Managing Partner, Founder & CEO
- 25 years of experience including 17 years in value based management as Partner and President of Stern Stewart & Co., and Managing Director and Co-Head of the Strategic Finance Group at Credit Suisse
- Industry thought leader and advisor to senior executives on business and financial strategies designed to increase share prices, financial management processes to support value based strategies and a strong focus on behavioral economics to align the interests of managers with those of shareholders.

John R. Cryan
Partner & Co-Founder
- 10 years of experience including value management at Credit Suisse and Accenture
- Extensive experience in Enterprise Performance Management, developing and implementing value-based strategies into financial management and decision making processes

Steven C. Treadwell
Partner
- 15 years of experience including 9+ years of value management experience at HOLT and Credit Suisse
- Extensive work with some of the largest companies in the retail, consumer products and industrial sectors incorporating shareholder insights into the client’s strategic decision process
Focus and Discipline of Postmodern Corporate Finance

A View from the Investors’ Shoes

Diagnostic

Internal Capitalism Audit

Strategic Advice

- Strategic Plan Evaluation
- Capital Deployment Strategy
- Strategic M&A Planning & Valuation
- Strategy Alignment
- Investor Communication & Targeting

Process Enhancement

- Value Based Strategic Planning
- Capital Allocation Approvals
- Budgeting and Forecasting
- Performance Measures & Key Value Drivers
- Incentives to Simulate Ownership
- Training & Development

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