

VENTUREDEAL M&A ANALYSIS

Research and opinion on recent M&A
transactions.

Williams & KKR To
Acquire Discovery DJ
Services

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Acquires Ameron
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Recognition Assets

August 2018

VentureDeal

Williams and KKR To Acquire Discovery DJ Services From TPG Growth

Quick Take

[Williams \(WMB\)](#) and [KKR & Co. \(KKR\)](#) have [announced an agreement](#) to acquire [Discovery DJ Services](#) from TPG Growth for \$1.17 billion.

Discovery DJ Services provides oil and gas midstream services in the southern portion of Colorado's Denver-Julesburg Basin.

WMB stands to gain a more integrated chain of gathering, transport, processing and storage for its customers.

Target Company

Dallas, Texas-based Discovery DJ Services was formed to provide natural gas & oil gathering and processing services to exploration & production companies in the southern portion of Colorado's DJ Basin.

Discovery DJ Services' primary offerings include:

- Crude Oil and Natural Gas gathering pipelines
- Cryogenic Gas Processing
- Liquids Handling
- Crude Oil Storage

(Source: [Discovery](#))

Discovery DJ has facilities located in the Weld and Adams counties in Colorado and serves the Niobrara and Codell stacked-pay zones of the DJ Basin.

The firm's capacity is 60 million cubic feet per day of gas processing and 'an additional 200 MMcf/d plant that is fully permitted and under construction and is expected to be in service by the end of 2018.'

It also owns 130 miles of natural gas pipeline and 260,000 acres of dedicated land for gas gathering and processing. It maintains another 60,000 acres for oil gathering.

Market & Competition

Per a [recent article](#) about SRC Energy ([SRCI](#)), an exploration & production firm in the Denver-Julesburg Basin that operates more than 800 wells in Weld County, 'a shortage of gas processing plants limited the company's production capacity in the first half of the year.'

SRC Chairman and CEO Lynn Peterson continued, 'We're all looking forward to the day when Colorado politics and gas processing constraints no longer dominate every conversation, and we can instead focus on issues that are within our control.'

Major competitive vendors that provide oil and gas midstream services include:

- DCP Midstream ([DCP](#))
- Plains All American Pipeline ([PAA](#))
- Enterprise Products Partners ([ETP](#))
- Magellan Midstream Partners ([MMP](#))
- Outrigger Energy
- Black Diamond Gathering

Acquisition Terms and Rationale

Concurrent with the acquisition agreement announced, Williams also announced the combined sale of equity and assets for its WPZ Four Corners Area business to Harvest Midstream Company for \$1.125 billion in cash.

The firm said it would use part of the proceeds from that sale to fund 'opportunities associated with the Discovery acquisition.'

Under the terms of the joint venture, Williams will be the operator of the new assets and will initially have a 40% interest in the J.V. to KKR's 60% interest.

At Williams' option, it will be able to increase its interest up to 50% based on agreed-upon terms.

Given the sale of its Four Corners assets exceeds that of its 40% basis for the Discovery DJ deal, the acquisition appears to present no financial difficulty for the firm.

WMB and KKR are acquiring the Discovery midstream business to take advantage of the firm's fast-growing market opportunity and to expand Williams' asset footprint within the DJ Basin.

More specifically, as Williams CEO Alan Armstrong stated in the deal announcement,

For example, this transaction allows Williams to take advantage of synergies between the Discovery assets and our downstream businesses via the DJ Lateral of Overland Pass Pipeline ("OPPL"). We will now have the opportunity to integrate output from these acquired assets with production from our existing processing footprint in the West segment into our advantaged downstream assets, including OPPL and the Conway fractionator and storage facilities.

In the past 12 months, Williams' stock price has experienced significant variability, but has increased by 5% the wake of the acquisition announcement as the chart below indicates:



(Source: [SEEKING ALPHA](#))

A recurring theme now is the bottlenecks in shale transportation and processing. There is effectively far more production capacity than the ability to cost-effectively gather, transport, process and store the oil & gas extracted from shale formations.

Williams' move appears to solve much of that problem by efficiently connecting the various assets to be acquired with its existing asset base.

This strikes me as a smart way to integrate the gathering, transport, and processing chain, potentially giving Williams an advantage over competitors.

The deal is scheduled to close in early August and investors should be on the lookout for positive results by the end of 2018.

Northwest Pipe Acquires Ameron Water Transmission

Quick Take

[Northwest Pipe Company \(NWPX\)](#) announced it has acquired the [Ameron Water Transmission Group](#) from National Oilwell Varco ([NOV](#)) for \$38.3 million.

Ameron Water Transmission produces concrete and steel pipe systems in the United States, Mexico, Canada, and Central and South America.

NWPX will hope to do better with the deal than National Oilwell did, at least by paying a tiny fraction of NOV's acquisition price for an entity that should fit well into its operations.

Target Company

The Rancho Cucamonga, California-based former division of National Oilwell Varco ([NOV](#)) provides a range of steel, fiberglass-composite and concrete pipes for water and wastewater conveyance purposes in North America, Central and South America.

National Oilwell [acquired Ameron](#) in 2011 for \$777 million..

The firm posted \$57 million in sales in 2017 and has facilities in California and Mexico.

Ameron has customers in the industries of chemical, industrial, energy infrastructure and transportation markets.

Market & Competition

According to a [2014 market research report](#) by Freedonia, the water and wastewater pipe market will grow 7.7% per year to \$18.1 billion in 2018.

According to [another report](#), by Bluefield Research, investments in this sector will grow roughly from \$12 billion in 2017 to \$14 billion in 2026.

The main drivers for this expected growth are the increase in construction activity and the ongoing need for renewal of the US sewage system.

Major competitive vendors that provide water and wastewater pipes include:

- JM Eagle
- Pipelife
- North American Pipe
- Advanced Drainage Systems ([WMS](#))

- American Cast Iron Pipe

Acquisition Terms and Rationale

NWPX disclosed the acquisition price as \$38.3 million paid from cash on hand.

Management didn't disclose a change in financial guidance in the deal announcement.

A review of NWPX' [most recent 10-Q](#) indicates that as of March 31, 2018, the firm had approximately \$40 million in cash on hand and \$23.5 million in total liabilities.

NWPX acquired Ameron at what is likely an opportunistic price, given that seller National Oilwell had purchased the company seven years ago for \$777 million.

As NWPX CEO Scott Montross stated in the deal announcement,

The acquisition of Ameron is the next step in our multi-year transformation to grow our business into a pure-play water company, by building upon our strengths as an industry leader and consolidating two companies with proud histories in the water transmission business.

In the past 12 months, NWPX's stock price has risen by 26.7% or roughly double that of the S&P 500 Index, as the chart below indicates:

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BATS:NWPX, D 19.34 ▲ +0.08 (+0.42%) O: 19.17 H: 19.39 L: 19.17 C: 19.34



(Source: [SEEKING ALPHA](#))

For NWPX, the deal represents a significant acquisition. Ameron promises to both broaden NWPX' operational footprint and product line offerings.

These expanded offerings can be folded into NWPX's existing sales force; likewise, NWPX's offerings can be sold through Ameron's sales force and any redundancies eliminated in the post-close activity.

Management has scheduled a conference call for its quarterly earnings and acquisition details.

NWPX investors will likely need to wait at least a few quarters before they see the fruits of this acquisition. Operations will need to be streamlined and sales teams trained with new products before the combined entity can re-accelerate in the market.

However, it appears that management has acquired a significant entity at a bargain price, so downsides to investors seem limited in my view.

I'm bullish on NWPX's future prospects and agree with management that the deal will help it 'meet the increased demand we expect in our markets in the next few years.'

Cision Acquires ShareIQ Assets For Image Recognition

Quick Take

[Cision](#) ([CISN](#)) has [announced it has acquired ShareIQ](#) technical assets for an undisclosed amount.

ShareIQ has developed a proprietary platform to manage digital marketing campaigns and related visual recognition technologies.

With the acquisition, CISN continues to add capabilities to its Communications Cloud offering and broaden its value to customers.

Target Company

The New York-based brand marketing company was founded in 2014 to help brands optimize their earned media marketing.

Management is headed by Founder and CEO [Brian Killen](#), who has been with the firm since the start and was previously Chief Strategist of Global Product and Engineering at Acxiom.

ShareIQ's primary offerings include a proprietary platform in which brands can analyze and manage their campaigns' engagement rates, identify top influencers, and understand the target audiences' trends.

Investors invested \$5.2 million in the company through four rounds and included Plug and Play, Lakestar, JOIN Capital, Matthias Hilpert, and Nils Winkler. (Source: [Crunchbase](#))

Market & Competition

According to a [2018 market research report](#) by Grand View Research, the image recognition market was valued at \$16 billion in 2016.

The market is expected to grow at a CAGR of 19.2% between 2017 and 2025.

The main drivers for this expected growth are the increase of internet access worldwide and consequent social media adoption, as well as the rising use of image recognition across different verticals.

North America was the leader in image recognition in 2016 and it is expected to continue its dominance during the forecast period. Companies will continue to push for image recognition integration with mobile computing platforms in e-commerce and digital shopping functional areas.

The Asia Pacific region will register very strong growth at a CAGR of 23% between 2017 and 2025. China is expected to be the leader in that region, due to the use of security and surveillance systems. Finally, Europe is expected to drive growth in the market through its applications in automotive technologies.

Major competitive vendors that sell image recognition technologies include:

- Attrasoft
- Catchoom
- Google ([GOOGL](#))
- Hitachi ([OTCPK:HTHIY](#))
- Honeywell ([HON](#))
- LTU Technologies
- NEC (NEC1.F)
- Slyce
- Wikitude

Acquisition Terms and Rationale

Neither party disclosed the acquisition price or terms and Cision did not file an 8-K or disclose a change in financial guidance, so the deal was likely for a non-material amount.

Cision has acquired ShareIQ's imaging assets, which include the ability to discover, identify, track and analyze original images in order to help its media customers maximize their digital campaign efforts.

ShareIQ has processed over 750 billion unique images with its technologies and Cision has acquired that library of images as well as the underlying technologies.

As Cision stated in the deal announcement,

The ShareIQ platform is based on patent-pending technology that discovers, analyzes and indexes original pieces of visual content, as well as shared and republished copies of specific images. With the addition of ShareIQ technology to the Cision Communications Cloud, Cision becomes the first earned media platform in the industry to monitor, analyze and attribute value to both text and visual content.

CISION's stock price has dropped slightly in the wake of the acquisition announcement, but has risen sharply over the past 12 months as the chart below indicates:

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BATS:CISN, D 14.91 ▼ -0.16 (-1.06%) O: 15.08 H: 15.13 L: 14.90 C: 14.94



(Source: [SEEKING ALPHA](#))

With the deal, Cision is continuing its targeted acquisition efforts to make its Cision Cloud communications suite a top industry solution for digital marketers across a range of functionalities.

Cision is targeting full integration of ShareIQ's technologies into its existing workflow by the end of 2018, so investors should hope to begin seeing results in the first half of 2019.

While the deal by itself will likely not move the stock in the short term, it is part of Cision management's move to broaden its offerings across a larger set of capabilities, as public relations firms and brand marketers require greater intelligence throughout the digital market lifecycle, both within its own platform and with its partnerships with LiveRamp and MediaMath.