

*Reprint*

# Is the Wire Harness Business Consolidating?

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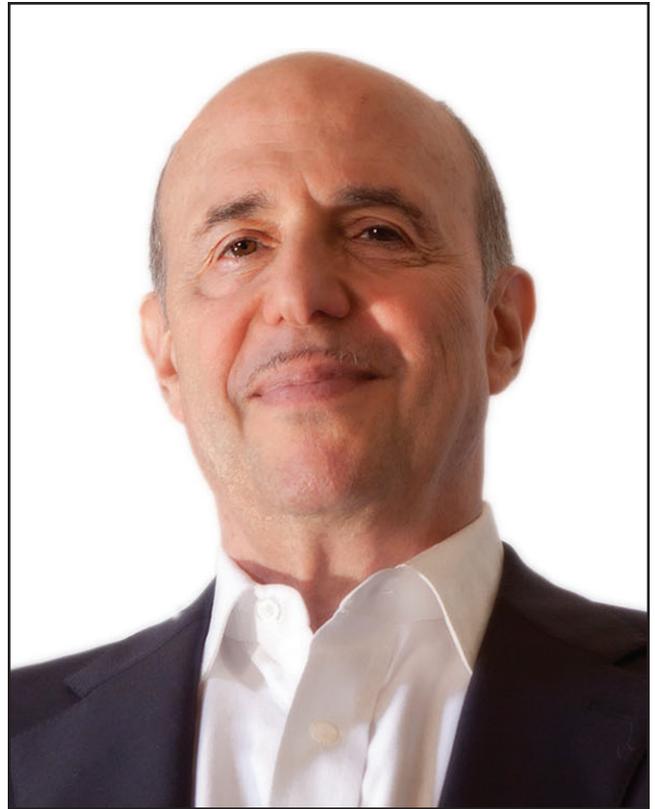


# Is the Wire Harness Business Consolidating?

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By Loren Smith



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I can understand why some recent transactions have prompted friends in our business to ask me if I think the wire harness industry is consolidating. Here are my observations:

First, I believe the more aggressive pursuit of deals we are witnessing has much more to do with private equity groups wanting to take advantage of low interest rates and an abundance of cash than with any dynamics within our industry. Private equity groups are in the hunt in general now, and our industry is just one of many attractive targets.

Second, many larger harness companies want to expand, and acquiring smaller harness companies can be a more cost-effective and reliable avenue to growth than attempting to increase market share.

So while I acknowledge that these two factors are spurring acquisition frequency, I believe they are more than offset by three factors that reduce the probability of industry consolidation:

- *Preferred deal size.* Private equity firms and large harness companies are generally not interested in companies below their minimum EBITDA requirement. The vast majority of wire harness companies fall below that threshold. This reality limits the likelihood of any spike in industry consolidation.

- *Small-niche lifestyle.* Regional owners are seldom attracted to out-of-the-blue selling opportunities. These owners are often enjoying a good living and the security afforded by comfortable interdependence with their customers. When such

owners do look to sell, that decision is usually triggered by a change such as a move toward retirement.

- *Ease of cost savings.* Historically, a quest for cost cutting has been a major driver in industry consolidations, so large harness operations might result from the pursuit of economy of scale. But today's information technology and automated equipment are enabling many small harness companies, by virtue of their agility, to contain costs more effectively than their much larger competitors.

So is the industry consolidating? It may be true that we now have fewer medium-size harness companies--i.e., those annually generating \$30 to \$50 million--but an overall drop in the number of companies from five or 10 years ago is not reflected in current data. North America is still home to well over 1,000 wire harness companies.

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