February 10, 2023 9:00 AM EST

Crane Holdings Co. (Pre-Spin)
(BUY)

Current Share Price (2/9/2023): $118.25	Ticker: CR
Fair Value Estimate: $132 per share	Dividend: $1.88
Shares Outstanding: 56.1 million	Yield: 1.6%
Market Capitalization: $6.5 billion	

Crane NXT (Post-Spin)

Fair Value Estimate: $58 per share	Ticker: CXT
Shares Outstanding: 56.1 million	Dividend: TBD
Market Capitalization: $3.5 billion	Yield: N/A

Crane Co.

Fair Value Estimate*: $74 per share	Ticker: CR
Shares Outstanding*: 56.1 million	Dividend: TBD
Market Capitalization: $4.1 billion	Yield: N/A

TBD – To be determined. N/A – Not applicable.
* Fair value estimate and shares outstanding based on a one-for-one share distribution ratio.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin CR.
Market capitalizations may not sum due to rounding.

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INVESTMENT THESIS

On March 30, 2022, before the market open, Crane Holdings Co. (NYSE: CR) announced that its Board of Directors had approved a plan to spin off its Aerospace & Electronics (AE) and Process Flow Technologies (PFT) businesses into a separately traded, standalone public company. The separation, if completed, is expected to be accomplished via a tax-free distribution of the Aerospace & Electronics and Process Flow Technologies businesses to CR shareholders. Following the transaction, which is expected to be completed within approximately 12 months from the announcement, CR shareholders will own 100% of the new entity.

Following the transaction, the parent company will control the Payment & Merchandising Technologies (PMT) business, as well as the Engineered Materials (EM) segment; it will change its corporate name to Crane NXT and is expected to trade on the NYSE under the symbol "CXT." The spin company will retain the former corporate name Crane Co. and the "CR" ticker on the NYSE. In connection with the spin-off, it is expected that Crane Co. will issue $300 million in debt, with the proceeds being retained by Crane NXT. CR shareholders of record as of March 23, 2023, will receive one share of Crane Co. for every share of Crane Holdings Co. held. Crane Co. common stock is expected to be distributed on April 3, 2023, with regular-way trading commencing on April 4, 2023.

In terms of rationale, management clearly believes that by separating the PMT business from the AE, PFT, and EM segments, the market will more easily be able to compare both companies to their respective peer sets. Management has historically compared the relative valuation of CR to the S&P Midcap 400 Capital Goods Index, and noted that over the prior 10-year period, the stock traded on average at a 3-turn discount on a forward EV/EBITDA basis. Further, the company noted that since 2019, the discount had widened to above 3x. The current discount to the index has narrowed and is now approximately 1 turn.

The crux of management's argument for separating the PMT business is rooted in its belief that the spin company will attract a more focused investor base that will re-rate the stock to more accurately reflect the growth, margin, and technology attributes of the business. Management believes that Crane NXT is most comparable to SMID-cap industrial technology companies, which have historically traded in the low- to mid-double digit range on forward EV/EBITDA. Historically, sell-side coverage has looked more toward traditional payment companies that trade in the mid-single digit range as a proxy for valuing PMT within the current conglomerate structure.

The ultimate success of the spin-off in terms of creating shareholder value will be dependent on the re-rating of Crane NXT. While it is our opinion that the business attributes of the PMT business warrant a premium multiple to traditional payment peers, it remains unclear what the actual market multiple will be. It is probable that the shares will trade lower in initial trading, as a lack of analyst coverage and shareholder rotation out of the parent company are likely to depress the shares. Following initial trading, Crane NXT will become a "show me" story, where management probably will have to more clearly articulate its business and growth strategies, along with meeting its financial targets, before a fully SMID-cap industrial technology multiple could be awarded. That said, we see value in Crane NXT and expect that over time, the market will expand the multiple awarded to the shares.

Shares of CR currently trade at 9.2x the consensus 2024 EBITDA estimate. Following the separation, Crane Co. will be compared directly to flow control and aerospace part supplier peers, which respectively trade at 13.0x (in a range of 9x–18x) and 10.5x (in a range of 8x-15x) the consensus 2024 EBITDA estimate. If we assume CR shares currently assign weighted peer multiples (based on 2022 adjusted operating income contribution) to AE and PFT, this implies that Crane NXT is valued at 7.1x, which would be slightly ahead of the aforementioned "traditional payment" peers, yet below the SMID-Cap industrial technology group. (It should be noted that over the past five- and ten-year periods, shares of CR have traded, on average, at 8.2x.)

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate to Crane Holdings Co. of $132 per share, consisting of $74 per share in value from new Crane Co. and $58 per share in value from post-spin Crane NXT (see Exhibit 18). Given the implied upside to our fair value estimate, combined with our favorable outlook on an eventual re-rating of Crane NXT, we recommend shares of CR ahead of the planned separation.

COMPANY DESCRIPTION

Crane Holdings Co.'s history can be traced back to the 1855 founding of R.T. Crane & Bro. by brothers Richard and Charles Crane. The company began by selling brass goods and plumbing supplies in Chicago, IL, before expanding into pipes and steam heating equipment, industrial valves and fittings, and malleable iron and brass. By the turn of the century, the company had expanded into enameled cast iron bathroom fixtures and had manufacturing plants in Chicago and Bridgeport, CT. By the 1950s, CR had become the world's leading valves and fittings manufacturer. The company's products were so widespread that *Fortune* magazine stated, in a July 1939 article, "You can't run a railroad or build a dam, operate a paper mill or lay a sewer, dig an oil well or heat a hospital, or launch a battleship or even take a shower without using one of the more than 40,000-odd products that are made by Crane Co." The Crane family sold its controlling interest in 1959, and the new management began turning CR into the global conglomerate it is today, which is now headquartered in Stamford, CT.

CR describes itself as a "diversified manufacturer of highly engineered industrial products," and the company operates under three "core" segments: Aerospace & Electronics (20% of revenue and 18% of adjusted operating income in 2022), Process Flow Technologies (33% of revenue and 26% of adjusted operating income in 2022), and Payment & Merchandising Technologies (40% of revenue and 50% of adjusted operating income in 2022). The company also operates a fourth segment, Engineered Materials, which was in the process of being sold at the beginning of 2022. However, the sale of that business was blocked by the U.S. Department of Justice (discussed later in this report) and, as of 2Q 2022, EM was moved from Discontinued Operations back to a reportable segment, which contributed 8% of revenue and 5% of adjusted operating income in 2022.

In 2022, the company reported revenue and adjusted EBITDA of $3.4 billion and $701 million (see Exhibit 1). In 2022, revenue increased by 6.1% versus the prior-year period, as most businesses continued to rebound from the depressed levels of 2021-2022 that were affected by COVID-related issues. Margins similarly rebounded, and the company reported record revenue and EPS in the year (see Exhibit 1).

Exhibit 1 Crane Holdings Co.: Historical Operating Results

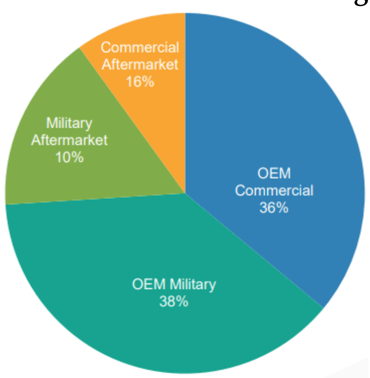
($ in millions, except per share data)

	2016	2017	2018	2019	2020	2021	2022
Revenue	$ 2,748	$ 2,786	$ 3,346	$ 3,283	$ 2,761	$ 3,180	$ 3,375
Gross Profit	990	1,015	1,189	1,179	965	1,241	1,340
EBITDA	465	482	596	649	441	636	701
Net Income	251	274	358	365	201	385	431
EPS	$ 4.23	$ 4.53	$ 5.87	$ 6.02	$ 3.41	$ 6.51	$ 7.54
Revenue YoY	0.3%	1.4%	20.1%	-1.9%	-15.9%	15.2%	6.1%
Gross Margin	36.0%	36.4%	35.5%	35.9%	35.0%	39.0%	39.7%
EBITDA Margin	16.9%	17.3%	17.8%	19.8%	16.0%	20.0%	20.8%
Net Margin	9.1%	9.8%	10.7%	11.1%	7.3%	12.1%	12.8%
EPS YoY	-0.2%	7.0%	29.7%	2.5%	-43.4%	90.8%	15.9%
CFO	$ 318.1	$ 317.5	$ 413.8	$ 393.9	$ 309.5	$ 498.5	$ (151.6)
CapEx	(51.5)	(49.0)	(108.8)	(68.8)	(32.9)	(51.7)	(58.4)
FCF	$ 266.6	$ 268.5	$ 305.0	$ 325.1	$ 276.6	$ 446.8	$ (210.0)

Source: Bloomberg

Aerospace & Electronics (AE). AE serves the commercial aerospace, military aerospace, defense, and space markets, providing original equipment and aftermarket parts used in landing systems, sensing and utility systems, fluid management, and microwave systems, among others. Core capabilities in the AE segment include power solutions (power conversion), sensing systems (condition and position sensing), fluid & thermal management (liquid cooling), landing systems (electric and hydraulic actuation), and microwave solutions (high frequency signal processing). Roughly 52% of sales are from the commercial end-market, and the remainder are derived from the military end-market, with 74% being sold to OEMs and 26% into the aftermarket (see Exhibit 2). The business is characterized by high visibility due to positions on leading aerospace platforms, program wins (contracts) and R&D investments positioning the company for future growth.

Exhibit 2 Crane Holdings Co.: Aerospace & Electronics Segment, Sales End-Market Exposure



Source: Company reports.

AE generated $667 million in revenue in 2022 and $122 million in adjusted operating income, representing an 18.3% margin. Revenue rose by 4.6% (4.8% organic increase), with growth at both OEM (3%) and aftermarket (10%) more than offsetting a 0.2% FX headwind. The segment's operating profit increased by 11% to $122 million as the company took advantage of the 2020 downturn to streamline operations and improve productivity. The revenue growth was a result of price increases offsetting lower volumes, as lower sales of military equipment and aftermarket parts mostly offset increased sales for the commercial side of the segment's business (see Exhibit 3).

Exhibit 3 Crane Holdings Co.: Aerospace & Electronics Segment, Historical Operating Results

($ in millions)

Aerospace & Electronics

	2018	2019	2020	2021	2022
Revenue	**743.5**	**798.8**	**650.7**	**638.3**	**667.0**
Operating Income	164.2	189.4	100.7	110.0	120.0
Operating Margin	22.1%	23.7%	15.5%	17.2%	18.0%
Adjusted Operating Income	**165.9**	**192.9**	**107.2**	**110.0**	**122.0**
Adjusted Operating Margin	**22.3%**	**24.1%**	**16.5%**	**17.2%**	**18.3%**
Depreciation and Amortization	13.0	13.5	14.2	14.7	
Capital Expenditures	(20.6)	(20.0)	(9.8)	(14.1)	
Order Backlog	**446.6**	**567.4**	**491.2**	**459.8**	**613.0**
Revenue Growth %	7.5%	7.4%	-18.5%	-1.9%	4.6%
Organic Growth	**7.5%**	**7.5%**	**-18.6%**	**-2.0%**	**4.8%**

Source: Bloomberg, and company reports.

Management has expressed a high degree of confidence in its ability to drive a 7%-9% sales CAGR for AE through 2031 and believes operating margins could return to historical levels in the low 20% range, supported by a strong core business, accelerating secular trends (electrification), and current signed contracts, many for projects that have yet to ramp. The growth forecast incorporates the core base business industry growing at 5% annually, with management noting that the commercial aerospace industry is still below pre-COVID levels, as the market is continuing to recover from COVID. Approximately 44,000 new aircraft are scheduled to be delivered through 2040, and air traffic is forecast to grow at a CAGR of 4.0%. The company has exposure to all major aircraft platforms, which should allow high-margin, long-tail, aftermarket revenue streams for parts and servicing of aircraft. For the defense side of the business, CR has highlighted recent government contracts and exposure to the electrification of military vehicles and aircraft in which the company will assist. CR has exposure to numerous high-volume production platforms, including the F-35 fighter jet, lower-tier air and missile defense sensors (LTAMDS), radar systems, and even the NASA Mars Perseverance Rover.

Long-term relationships due to the quality of CR products and high switching costs, with mission-critical content on military and commercial platforms, create a high-margin, annuity-like revenue stream from aftermarket parts and services, and opportunities for upgrades and modernizations over the life of the program/platform (many remain in use for 10+ years following the discontinuation of new builds). New business expansion opportunities and potential entrance into new markets from the current R&D program includes military vehicle electrification and core business pivots to new technologies.

Process Flow Technologies (PFT). PFT (formerly known as Fluid Handling) provides fluid handling equipment, including process valves and related products (~60% of segment revenue), commercial valves (~31% of segment revenue), and pumps and systems (~9% of segment revenue). The company's process valves include a range of on/off isolation valves, including lined valves, process ball valves, check valves, and butterfly valves, among others. CR's valves are used primarily in chemical, pharmaceutical, and general industrial end-markets. The pumps and systems product portfolio includes pumps for water and wastewater applications, which are primarily sold to municipal and industrial customers in the U.S. The commercial valves business produces valves and products for non-residential construction, gas utility, and municipal end-markets, primarily outside of the U.S.

In 2022, PFT generated $1.1 billion in revenue, representing a 7.2% year-over-year decline, with increased core sales (8.4% benefit, mainly on pricing) offset by unfavorable FX translation (4.7% drag) and Crane Supply's sales (19.3% drag). PFT's sales growth was driven by a combination of slight volume and pricing benefits in the year. Adjusted operating margins increased by 140 basis points to 16.2%, largely on increased sales and improved productivity (see Exhibit 4).

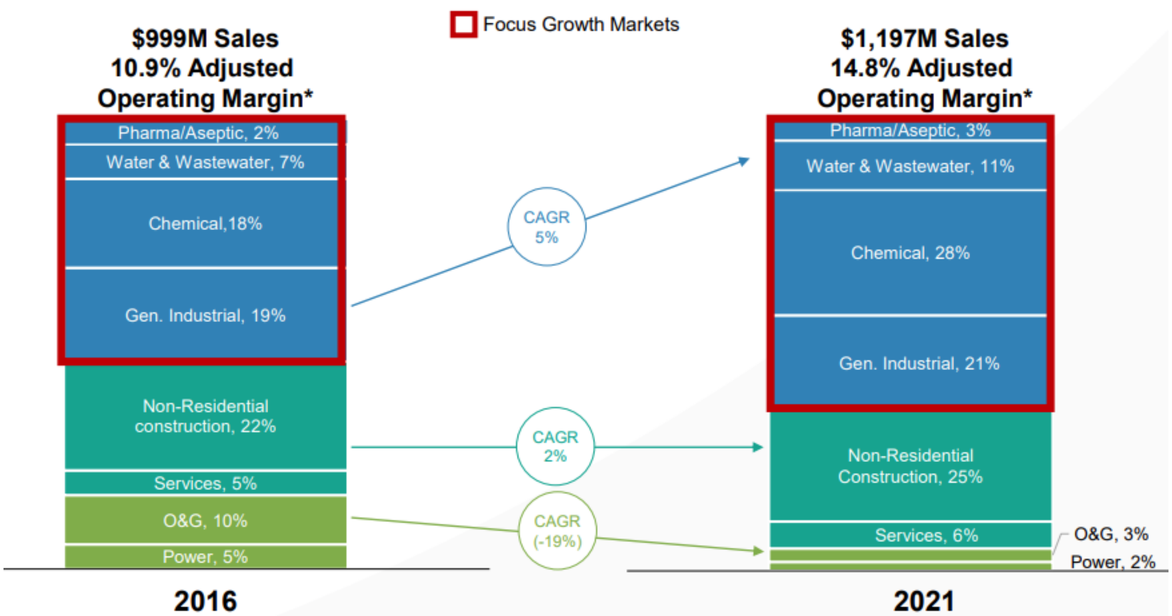
Exhibit 4 Crane Holdings Co.: Process Flow Technologies Segment, Historical Operating Results
($ in millions)
Process Flow Technologies

	2018	2019	2020	2021	2022
Revenue	**1,101.8**	**1,117.4**	**1,005.8**	**1,196.6**	**1,109.0**
Operating Income	118.8	131.7	97.7	182.5	168.0
Operating Margin	10.8%	11.8%	9.7%	15.2%	15.2%
Adjusted Operating Income	**144.6**	**151.5**	**114.5**	**176.6**	**179.0**
Adjusted Operating Margin	13.1%	13.6%	11.4%	14.8%	16.2%
Depreciation and Amortization	15.2	14.2	21.6	22.0	
Capital Expenditures	(19.9)	(23.4)	(13.7)	(18.8)	
Order Backlog	**279.6**	**267.0**	**313.4**	**357.9**	**369.0**
Revenue Growth %	5.7%	1.4%	-10.0%	19.0%	-7.2%
Organic Growth	**4.3%**	**3.9%**	**-14.8%**	**14.4%**	**8.2%**

Source: Company reports.

PFT is targeting 3%-5% annual revenue growth, with 100 basis points of operating margin expansion per year. Over the past 5+ years, the PFT segment has reprioritized its end-market exposure to align with faster-growing markets, including primary focuses on pharmaceutical, chemical, water and wastewater, and general industrial end-markets (see Exhibit 5). While the de-prioritization of the contribution from the oil & gas industry has muted top-line growth in the years 2016-2021, management believes that the focus on end-market growth will support the company's top-line targets.

Exhibit 5 Crane Holdings Co.: Process Flow Technologies Segment, End-Market Exposure



Source: Company reports.

Payment & Merchandising Technologies (PMT). The PMT segment is separated into two operating businesses: Crane Payment Innovations ("CPI") and Crane Currency (see Exhibit 6). CPI, representing approximately 60% of segment revenue, supplies "high technology payment acceptance and dispensing products". CPI focuses on retail, gaming, transportation, financial services, and vending vertical markets. CPI includes:

- OEM – historical core components business focuses on OEM integrated bill and coin acceptors and recyclers for automated payment solutions (market leader) and has expanded into a wide range of cashless products.
- System Solutions – a newer business for CPI; focuses on user-facing products, including coin counting machines, PAYPOD and PAYTOWER for payment automation (all-in-one retail-focused product), high-speed sorting and counting machines (acquired from Cummins Allison), and a legacy vending machine business.
- Connectivity Solutions – software solutions that tie front- and back-end operations together with strength in vending and gaming (casinos) but expanding across verticals.
- Service Solutions (acquired from Cummins Allison) – preventive maintenance, spare parts supplier, repairs of broken components, and predictive analytics for maintenance.

Exhibit 6 Crane Holdings Co.: Payment & Merchandising Technologies Businesses

Source: Company reports.

Crane Currency is a supplier of "banknotes and highly engineered banknote security features as well as a provider of security features for product authentication." The business focuses on Design Services, Paper Making, Micro Optic Technology, and Banknote Printing. The company's proprietary printing security technologies (micro-optics) produce a wide range of visual effects used to increase the level of security and public trust in banknotes, as well as increasingly for brand authentication.

Crane Currency has been the sole supplier of banknote printing paper to the U.S. Federal Reserve for over 100 years and is the supplier of the well-known "blue security stripe" on the U.S. $100 bill. Crane's banknote printing business has increased from an approximately 5% global market share in 2017, when the company printed 62 denominations for 27 countries, to a current market share of ~12%, printing 145 denominations for 59 countries.

PMT generated $1.3 billion in revenue and adjusted operating income of $339 million in 2022, representing a year-over-year decline of 0.4% in sales and 270 basis points of margin improvement versus the prior-year period. In 2021, a significant revenue increase resulted from higher CPI core sales to gaming, retail, vending, and transportation end-markets, as they recovered from COVID impacts, and from Crane Currency's increased sales of banknotes. Conversely, the decline in 2022 sales was the result of FX headwinds more than offsetting a 4.5% increase in core sales. Notably, through 3Q 2022, revenue declined by 2.9% versus the first nine months of 2021, as a 9.3% increase in sales at CPI was more than offset by a 19% decline in core sales at Currency (see Exhibit 7), implying a significant improvement in trends in 4Q 2022..

Exhibit 7 Crane Holdings Co.: Payment & Merchandising Technologies Segment, Historical Operating Results
($ in millions)

Payment & Merchandising Technologies

	2018	2019	2020	2021	2022
Revenue	1,257.0	1,158.3	1,104.8	1,345.1	1,340.0
Operating Income	186.0	177.3	100.6	307.5	333.0
Operating Margin	14.8%	15.3%	9.1%	22.9%	24.9%
Adjusted Operating Income	220.9	187.4	137.1	303.8	339.0
Adjusted Operating Margin	17.6%	16.2%	12.3%	22.6%	25.3%
Depreciation and Amortization	82.4	77.1	85.9	81.3	
Capital Expenditures	(57.5)	(20.6)	(9.3)	(18.6)	
Order Backlog	331.5	311.4	347.6	438.0	566.0
Revenue Growth %	61.8%	-7.9%	-4.6%	21.8%	-0.4%
Organic Growth	1.6%	-6.1%	-18.8%	18.0%	4.5%

Source: Company reports.

Looking forward, management believes this division can generate long-term core growth of 4%-6% annually, with segment EBITDA margins of approximately 28%. The growth forecast is underpinned by 40% recurring revenue (primarily from Currency, but with an increasing contribution from services at CPI), secular trends of an increasing need for improved security for currency and for brand authentication. The banknote printing, banknote security, and brand authentication businesses total a $3.5 billion and growing addressable market. Management believes that several U.S. banknotes need redesign, and the company expects that higher levels of security will be incorporated into the redesigned bills ($10, $20, and $50 bills). Aside from core growth, PMT will look to further augment growth through its bolt-on acquisition strategy.

Engineered Materials (EM). EM "manufactures fiberglass-reinforced plastic panels and coils, primarily for use in the manufacturing of recreational vehicles (RVs), and in commercial and industrial building applications, with some additional applications including trailers and other transportation-related products," according to the company.

In May 2021, CR entered into an agreement to sell the EM segment to Grupo Verzatec S.A. de C.V. for $360 million and, as such, beginning in 2Q 2021, the results of the segment were classified as "held for sale." The proposed sale hit resistance from the U.S. Department of Justice based on what CR management classified as "minor overlap in a small segment of the Engineered Materials business," and the agreement was ultimately terminated, with Verzatec paying a $7.5 million breakup fee in 2Q 2021. As of 3Q 2021, EM segment results were moved back into continuing operations.

In 2022, revenue increased by 13.2% to $258 million, following a 29.8% jump in 2021, and EM reported adjusted operating income of $37 million, representing a margin of 14.2%, in a year that was categorized by higher pricing and productivity offset by lower volumes (see Exhibit 8). Looking forward, management has commented that slower RV-related sales will likely weigh on near-term results, driven by recreational vehicle production cuts, which may be only partially offset by relative stability in the building products and transportation end-markets.

Exhibit 8 Crane Holdings Co.: Engineered Materials Historical Operating Results
($ in millions)
Engineered Materials

	2018	2019	2020	2021	2022
Revenue	243.2	208.6	175.6	228.0	258.0
Operating Income	37.8	26.8	22.7	27.0	33.0
Operating Margin	15.5%	12.9%	12.9%	11.8%	12.6%
Adjusted Operating Income	38.0	26.8	23.3	27.0	37.0
Adjusted Operating Margin	15.6%	12.9%	16.5%	11.8%	14.2%
Depreciation and Amortization	6.4	5.6	3.7		
Capital Expenditures	(10.3)	(4.4)	(1.2)		
Order Backlog	14.9	9.4	12.8		
Revenue Growth %	-11.7%	-14.2%	-15.8%	29.8%	13.2%

Source: Company reports.

CR also reports Corporate expense, which on an adjusted basis decreased consolidated operating income by $80.6 million in 2022 (see Exhibit 9).

Exhibit 9 Crane Holdings Co.: Corporate Historical Operating Results
($ in millions)
Corporate

	2018	2019	2020	2021	2022
Operating Income	(65.5)	(314.8)	(58.8)	(97.7)	(284.7)
Adjusted Operating Income	(63.4)	(64.8)	(58.7)	(89.5)	(80.6)
Depreciation and Amortization	3.0	3.1	2.1	1.5	
Capital Expenditures	(0.5)	(0.4)	(0.1)	(0.2)	

Source: Company reports.

Crane Co. Spin-Off

On March 30, 2022, Crane Holdings Co. announced that its Board of Directors had approved a plan to spin off its Aerospace & Electronics and Process Flow Technologies businesses into a separately traded, standalone public company. The separation, if completed, is expected to be accomplished via a tax-free distribution of the Aerospace & Electronics and Process Flow Technologies businesses to CR shareholders. Following the transaction, which is expected to be completed within approximately 12 months from the announcement, CR shareholders will own 100% of the new entity.

Following the transaction, the parent company will control the Payment & Merchandising Technologies business, as well as the Engineered Materials segment; it will change its corporate name to Crane NXT and is expected to trade on the NYSE under the symbol “CXT.” The spin company will retain the former corporate name Crane Co. and “CR” ticker on the NYSE. In connection with the spin-off, it is expected that Crane Co. will issue $300 million in debt, with the proceeds being retained by Crane NXT. CR shareholders of record as of March 23, 2023, will receive one share of Crane Co for every share of Crane Holdings Co. held. Crane Co. common stock is expected to be distributed on April 3, 2023, with regular-way trading commencing on April 4, 2023.

As a standalone entity, Crane Co.'s revenue profile will be driven primarily by PFT (58% of revenue), and to a lesser degree by the AE segment (31%), with EM contributing 11%. North America is the dominant end-market (66%), with Western Europe (17%), Emerging Markets (11%), and developed Asia Pacific (6%) rounding out the company's geographic exposure.

In terms of rationale, management clearly believes that by separating the PMT business from the AE, PFT, and EM segments, the market will more easily be able to compare both companies to their respective peer sets. In the company's March 2022 investor day presentation, management compared the relative valuation of CR to the S&P Midcap 400 Capital Goods Index and a peer set used for the company's compensation peers, and noted that over the prior 10-year period the stock traded on average at a 3-turn discount on a forward EV/EBITDA basis. Further, the company noted that since 2019, the discount had widened to above 3x. Since that presentation, the discount to the index has narrowed and now approximates 1 turn.

The crux of management's argument for separating PMT is rooted in its belief that the spin company will attract a more focused investor base that will re-rate the stock to more accurately reflect the growth, margin, and technology attributes of the business. Management believes that Crane NXT is most comparable to SMID-cap industrial technology companies such as ESCO Technologies, Brady Corporation, Helios Technologies, Altra Industrial Motion, and Gates Industrial, which have historically traded at approximately 11.5x forward EV/EBITDA.

Historically, sell-side coverage has looked more toward traditional payment companies such as NCR, Diebold Nixdorf, and De La Rue for peer comparisons in sum-of-the-parts valuations. CR management cites differences in growth, margins, and free cash flow conversion, which it believes make the traditional payment peer set less valid than SMID-cap industrial technology companies. For reference, the traditional payment peers have historically traded at approximately 6.5x forward EV/EBITDA.

In conjunction with CR's 4Q 2022 earnings release, management issued segment level earnings guidance, as well as pro forma guidance for both post-spin entities. For Crane Co., the company adjusts 2022 results to exclude the recently sold Crane Supply Co., and forecasts 10% revenue growth at AE based on high visibility into contracted work, a 2% increase at PFT, and a 15% decline at EM. Both AE and PFT are expected to deliver in excess of 100 basis points of margin improvement given the fixed cost structures at the businesses, resulting in total segment margins expanding by 80 basis points, according to management's projections. Including standalone corporate costs, Crane Co. is guiding for $321 million of adjusted EBITDA and EPS of $3.40-$3.70 (see Exhibit 10).

The Spin-Off Report

Exhibit 10 Crane Co.: Post-Spin Company Guidance

($ in millions, except per share data; shares in millions)

	GAAP	Adjusted	Adjusted Ex-Supply		2023G vs. 2022A Adj. ex-Supply		
Sales	**2022A**	**2022A**	**2022A**	**2023G**	**Change**	**FX**	**Core**
AE	667	667	667	735	10.0%	-0.1%	10.0%
PFT	1109	1109	1004	1025	2.0%	-2.0%	4.0%
EM	258	258	258	223	-15.0%	0.0%	-15.0%
Total Segment	**2035**	**2035**	**1929**	**1980**	**3.0%**	**-1.1%**	**+3%-5%**
						Leverage	
Operating Profit						**Total**	**Core**
AE	120	122	122	145	19%	35%	35%
PFT	168	179	162	176	9%	67%	35%
EM	33	37	37	23	-37%	-35%	-35%
Total Segment	**321**	**338**	**320**	**345**	**8%**	**48%**	**35%**
Operating Margin							
AE	18.0%	18.3%	18.3%	19.8%	150 bps		
PFT	15.2%	16.2%	16.1%	17.2%	110 bps		
EM	12.6%	14.2%	14.2%	10.5%	(370 bps)		
Total Segment	**15.8%**	**16.6%**	**16.6%**	**17.4%**	**80 bps**		

Guidance	**2023G**
Segment Operating Profit	345.0
Corporate	(65.0)
Operating Profit	280.0
Interest and Other	(16.0)
Pretax Income	264.0
Tax Rate	23.0%
Tax	(61.0)
Net Income	203.0
Diluted Shares	57.3
Adjusted EPS	**~$3.40-$3.70**
Adjusted EBITDA	
Net Income	203
Tax	61
Interest and Other	16
Depreciation and Amortization	41
Adjusted EBITDA	**321**
Adjusted EBITDA Margin	**16.2%**

Source: Company reports.

Crane NXT looks likely to exhibit slower growth than the spin company, with CPI increasing by 4% and Currency declining by 2% as roughly flat sales are offset by currency. The forecasted CPI growth rate is consistent with the business's long-term growth rate and is expected to be strong across the segment's end-market verticals. Within Currency, it is expected that the company will see growth in the product authentication and international banknote businesses, while the U.S. business should be largely flat as redesign projects for the U.S. ten-dollar note are expected to begin in 2025; CR believes it has good prospects for securing incremental business on new notes to include the company's security features. On a pro forma basis, Crane NXT is being guided to generate adjusted EBITDA of $364 million and adjusted EPS of $3.65-$3.95 in 2023 (see Exhibit 11).

Exhibit 11 Crane NXT: Post-Spin Company Guidance

($ in millions, except per share data; shares in millions)

	GAAP	Adjusted	Adjusted Ex-Amort.		2023G vs. 2022A Adj. ex-Supply		
Sales	**2022A**	**2022A**	**2022A**	**2023G**	**Change**	**FX**	**Core**
CPI	874	874	874	905	4.0%	-1.5%	5.0%
Crane Currency	466	466	466	455	-2.0%	-2.3%	0.0%
Total Segment	**1340**	**1340**	**1340**	**1360**		**-1.8%**	**+2%-4%**
						Leverage	
Operating Profit						**Total**	**Core**
CPI	217	223	246	262	6%	49%	35%
Crane Currency	117	117	132	1109	-17%	NM	NM
Other	-1	-1	-1	-1	—	—	—
Total Segment	**333**	**339**	**376**	**369**	**-2%**	**NM**	**NM**
Operating Margin							
CPI	24.8%	25.5%	28.2%	28.9%	70 bps		
Crane Currency	25.2%	25.2%	28.2%	24.0%	(430 bps)		
Total Segment	**24.9%**	**25.3%**	**28.2%**	**27.1%**	**(90 bps)**		

Guidance	**2023G**
Segment Operating Profit	369.0
Corporate	(50.0)
Operating Profit	319.0
Interest and Other	(47.0)
Pretax Income	272.0
Tax Rate	20.0%
Tax	(54.0)
Net Income	218.0
Diluted Shares	57.3
Adjusted EPS	**~3.65-$3.95**
Adjusted EBITDA	
Net Income	218
Tax	54
Interest and Other	47
Depreciation and Amortization	45
Adjusted EBITDA	**364**
Adjusted EBITDA Margin	**26.8%**

Source: Company reports.

VALUATION ANALYSIS

The ultimate success of the spin-off in terms of creating shareholder value will be dependent on the re-rating of Crane NXT. While it is our opinion that the business attributes of the PMT business warrant a premium multiple to traditional payment peers, it remains unclear what the actual market multiple will be. It is probable that the shares will trade lower in initial trading, as a lack of analyst coverage and a shareholder rotation out of the parent company are likely to depress the shares. Following initial trading, Crane NXT will become a "show me" story, where we believe management will have to more clearly articulate its business and growth strategies, along with meeting its financial targets, before a fully SMID-cap industrial technology multiple could be awarded. That said, we see value in Crane NXT and expect that over time the market will expand the multiple awarded to the shares.

Shares of CR currently trade at 9.2x the consensus 2024 EBITDA estimate. Following the separation, Crane Co. will be compared directly to flow control and aerospace part supplier peers, which respectively trade at 13.0x (in a range of 9x – 18x) and 10.5x (in a range of 8x - 15x) the consensus 2024 EBITDA estimate. If we assume CR shares currently assign weighted peer multiples (based on a 2022 adjusted operating income contribution) to AE and PFT, this implies that Crane NXT is valued at 7.1x, which would be slightly ahead of the above-noted "traditional payment" peers, yet below the SMID-Cap industrial technology group. (It should be noted that over the past five- and ten-year periods, shares of CR have traded on average at 8.2x.)

Crane Co.: Valuation

We base our Crane Co. earnings estimates on management's 2023 guidance and longer-term projections for 2024. Assuming 3% and 5% revenue growth for 2023 and 2024, respectively, we forecast standalone Crane Co. would generate revenue of nearly $2.1 billion in 2024. Assuming EBITDA margins of 17.0%, the company would earn $354 million before interest, taxes, depreciation, and amortization. Applying a weighted average peer multiple of 12x and incorporating estimated net debt of $125 million and current shares outstanding of 56.1 million, results in a fair value estimate of $74 per share (see Exhibit 12). Notably, our valuation multiples use a weighted average of the peer set for AE and PFT based on earning contribution.

Exhibit 12 Crane Co.: Fair Value Estimate Based on 2024E EBITDA

($ in millions, except per share data; shares in millions)

2022 Revenue	$ 1,929.0
Growth	3.0%
2023E Revenue	1,986.9
Growth	5.0%
2024E Revenue	2,086.2
EBITDA Margin	17.0%
EBITDA	354.7
Multiple	12.0x
Enterprise Value	4,255.9
Net Debt	125.0
Market Capitalization	4,130.9
Shares Outstanding	56.1
FVE $ / Share	**$ 73.58**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Based on the above derived EBITDA estimate, incorporating D&A, interest expense, and taxes at 23%, we estimate that Crane Co. would earn $230 million in adjusted net income in 2024, or $4.10 per share. Valuing the company at 18x implies a fair value estimate of $74 per share (see Exhibit 13).

Exhibit 13 Crane Co.: Fair Value Estimate Based on 2024E EPS

($ in millions, except per share data; shares in millions)

EBITDA	$ 354.7
D&A	40.0
EBIT	314.7
Interest Expense	16.0
Pre-Tax Income	298.7
Tax Expense	68.7
Net Income	230.0
Shares Outstanding	56.1
EPS	$ 4.10
Multiple	18.0x
FVE $ / Share	**$ 73.73**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Lastly, management has stated that both post-spin companies should be able to convert net income into free cash flow at "close to 100%." Assuming a 90% conversion rate, Crane Co. would generate $3.69 per share in free cash flow. If the shares were to yield 5% based on this free cash flow estimate, the stock would be fairly valued at $73 per share (see Exhibit 14).

Exhibit 14 Crane Co.: Fair Value Estimate Based on 2024E Free Cash Flow

($ in millions, except per share data; shares in millions)

Net Income	$ 230.0
FCF Conversion	90.0%
FCF	207.0
Shares Outstanding	56.1
FCF / Share	$ 3.69
FCF Yield	5.0%
FVE $ / Share	$ 73.73

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Based on an average of the above three valuation exercises, we assign a fair value estimate of $74 per share to Crane Co.

Crane NXT: Valuation

Similar to Crane Co., our Crane NXT earnings estimates are based on 2023 guidance and long-term projections for 2024. We forecast 1.5% revenue growth in 2023 and a more normalized 3% in 2024. We expect margins to expand by 80 basis points to 27%, in line with management projections based on operational leverage, resulting in 2024E EBITDA of $378 million. In line with our previous thoughts on the appropriate valuation multiple for Crane NXT, we assign a 10.0x multiple, resulting in an enterprise value estimate of $3.8 billion. Incorporating estimated net debt of $650 million and current shares outstanding results in a fair value estimate of $56 per share (see Exhibit 15).

Exhibit 15 Crane NXT: Fair Value Estimate Based on 2024E EBITDA

($ in millions, except per share data; shares in millions)

2022 Revenue	$ 1,340.0
Growth	1.5%
2023E Revenue	1,360.1
Growth	3.0%
2024E Revenue	1,400.9
EBITDA Margin	27.0%
EBITDA	378.2
Multiple	10.0x
Enterprise Value	3,782.4
Net Debt	650.0
Market Capitalization	3,132.4
Shares Outstanding	56.1
FVE $ / Share	**$ 55.79**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Starting with the $378 million EBITDA estimate for 2024, and incorporating historical depreciation and amortization, as well as estimated interest and tax expenses, we estimate that Crane NXT would earn $3.93 per share in 2024. Applying a 15x multiple, a fair value of $59 per share is derived (see Exhibit 16).

Exhibit 16 Crane NXT: Fair Value Estimate Based on 2024E EPS

($ in millions, except per share data; shares in millions)

EBITDA	$ 378.2
D&A	45.0
EBIT	333.2
Interest Expense	47.0
Pre-Tax Income	286.2
Tax Expense	65.8
Net Income	220.4
Shares Outstanding	56.1
EPS	$ 3.93
Multiple	15.0x
FVE $ / Share	**$ 58.89**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

If Crane NXT can convert net income to free cash flow at 90%, the company would generate $3.53 per share in free cash flow; if the shares yield 6% they would be fairly valued at $59 per share (see Exhibit 17).

Exhibit 17 Crane NXT: Fair Value Estimate Based on 2024E Free Cash Flow

($ in millions, except per share data; shares in millions)

Net Income	$	220.4
FCF Conversion		90.0%
FCF		198.4
Shares Outstanding		56.1
FCF / Share	$	3.53
FCF Yield		6.0%
FVE $ / Share	$	58.89

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Based on an average of the above three valuation exercises, we assign a fair value estimate of $58 per share to Crane NXT.

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate to Crane Holdings Co. of $132 per share, consisting of $74 per share in value from new Crane Co. and $58 per share in value from post-spin Crane NXT (see Exhibit 18). Given the implied upside to our fair value estimate, combined with our favorable outlook on an eventual re-rating of Crane NXT, we recommend shares of CR ahead of the planned separation.

Exhibit 18 Crane Holdings Co.: Pre-Spin Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share data; shares in millions)

Crane Co.		4,261.5
Crane NXT		3,898.2
Enterprise Value		8,159.8
Net Debt		775.0
Market Capitalization		7,384.8
Shares Outstanding		56.1
FVE $ / Share	**$**	**131.53**
Current Price	$	118.25
Implied Upside		***11.2%***

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

CONCLUSION

In terms of rationale, management clearly believes that by separating the PMT business from the AE, PFT, and EM segments, the market will more easily be able to compare both companies to their respective peer sets. Management has historically compared the relative valuation of CR to the S&P Midcap 400 Capital Goods Index and noted that over the prior 10-year period the stock traded on average at a 3-turn discount on a forward EV/EBITDA basis. Further, the company noted that since 2019 the discount had widened to above 3x. The current discount to the index has narrowed and now approximates 1 turn.

The crux of management's argument for separating the PMT business is rooted in its belief that the spin company will attract a more focused investor base that will re-rate the stock to more accurately reflect the growth, margin, and technology attributes of the business. Management believes that Crane NXT is most comparable to SMID-cap industrial technology companies, which have historically traded in the low- to mid-double-digit range on forward EV/EBITDA. Historically, sell-side coverage has looked more toward traditional payment companies that trade in the mid-single-digit range as a proxy for valuing PMT within the current conglomerate structure.

The ultimate success of the spin-off in terms of creating shareholder value will be dependent on the re-rating of Crane NXT. While it is our opinion that the business attributes of the PMT business warrant a premium multiple to traditional payment peers, it remains unclear what the actual market multiple will be. It is probable that the shares will trade lower in initial trading, as a lack of analyst coverage and shareholder rotation out of the parent company are likely to depress the shares. Following initial trading, Crane NXT will become a "show me" story, where management probably will have to more clearly articulate its business and growth strategies, along with meeting its financial targets, before a fully SMID-cap industrial technology multiple could be awarded. That said, we see value in Crane NXT and expect that over time the market will expand the multiple awarded to the shares.

Shares of CR currently trade at 9.2x the consensus 2024 EBITDA estimate. Following the separation, Crane Co. will be compared directly to flow control and aerospace part supplier peers, which respectively trade at 13.0x (in a range of 9x–18x) and 10.5x (in a range of 8x-15x) the consensus 2024 EBITDA estimate. If we assume CR shares currently assign weighted peer multiples (based on 2022 adjusted operating income contribution) to AE and PFT, this implies that Crane NXT is valued at 7.1x, which would be slightly ahead of the aforementioned "traditional payment" peers, yet below the SMID-Cap industrial technology group. (It should be noted that over the past five- and ten-year periods, shares of CR have traded, on average, at 8.2x.)

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate to Crane Holdings Co. of $132 per share, consisting of $74 per share in value from new Crane Co. and $58 per share in value from post-spin Crane NXT. Given the implied upside to our fair value estimate, combined with our favorable outlook on an eventual re-rating of Crane NXT, we recommend shares of CR ahead of the planned separation.

Disclosures

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