MANUFACTURING A SMARTER FUTURE

M&A FLOURISHING IN U.S. MANUFACTURING

SIGNIFICANT UPTICK
in M&A Activity

Manufacturing and industrial services M&A activity continues at its frenetic pace, while increased strategic and private equity interest has resulted in impressive valuations. Moreover, pressures of growth and creating improved competitive positioning are driving strategic buyers to seek M&A opportunities to expand market share, capture new customers, and diversify product and service offerings. Private equity groups have been both buyers and sellers—and many now are looking to exit successful investments in a frothy M&A environment. Others are looking to deploy and invest significant funded and available capital into new investments.

"The sector's underlying fundamentals are strong, there remain high-quality opportunities, not least in the middle market, and plenty of capital to get them done," said Matthew Roberson, Director, SC&H Capital.

The private equity industry has raised record levels of capital in each of the past two years—$1.13 trillion in 2016 and $1.18 trillion in 2017—according to a study published earlier this year by the Boston Consulting Group. The study concluded: "The private equity industry has not peaked. PE-owned companies are dwarfed by those that are publicly traded…and [investors] continue to invest their capital in private equity."

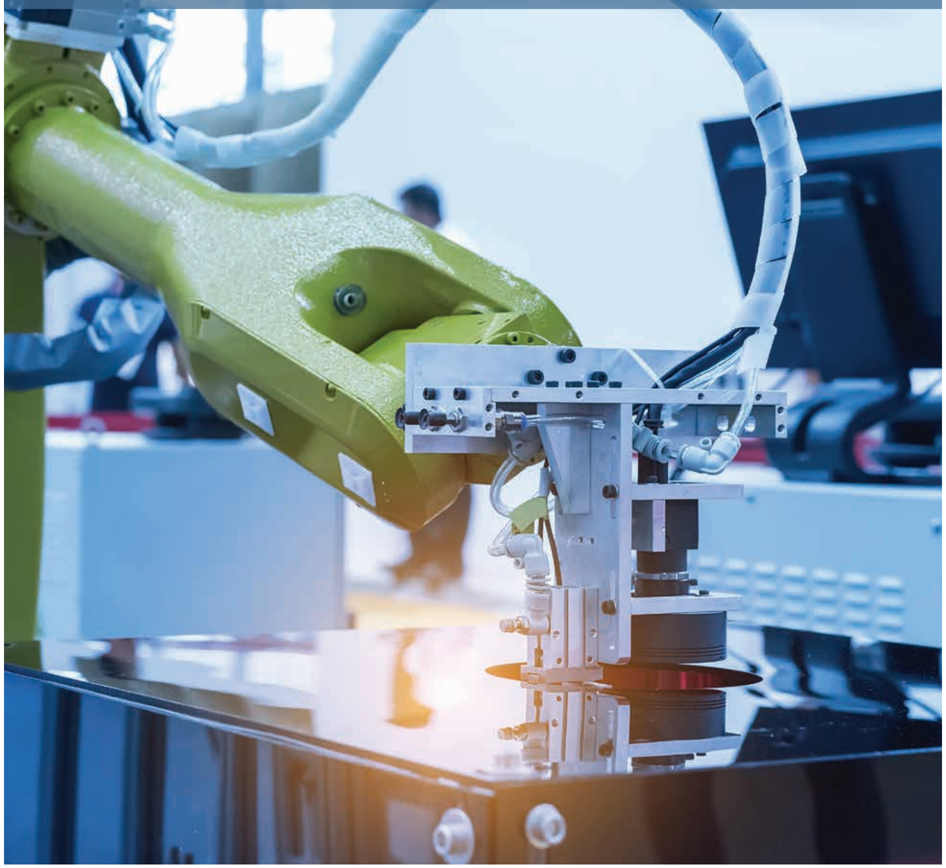
LOOKING AHEAD

The preponderance of investment capital, as well as the continued strength of the manufacturing sector, are among the prime reasons why SC&H Capital expects the current level of M&A activity to continued unabated, at least for the next year or two.

"We see more of the same for the next 12 to 18 months, including continued strength for the U.S. manufacturing and sustained deal flow," said Gregory Hogan, Director, SC&H Capital. "

In addition to being able to compete successfully with manufacturers abroad, the U.S. manufacturing sector will continue to benefit from what is expected to be a strong domestic economy in 2019. The solid economic fundamentals and favorable capital environment will continue to support sustained M&A activity across the manufacturing sector. Moreover, a significant number of highly attractive, privately held manufacturing companies have remained on the M&A sidelines, and we expect those business owners to take advantage of the continued sellers' market environment over the next 12-18 months.

SECTOR INSIGHTS

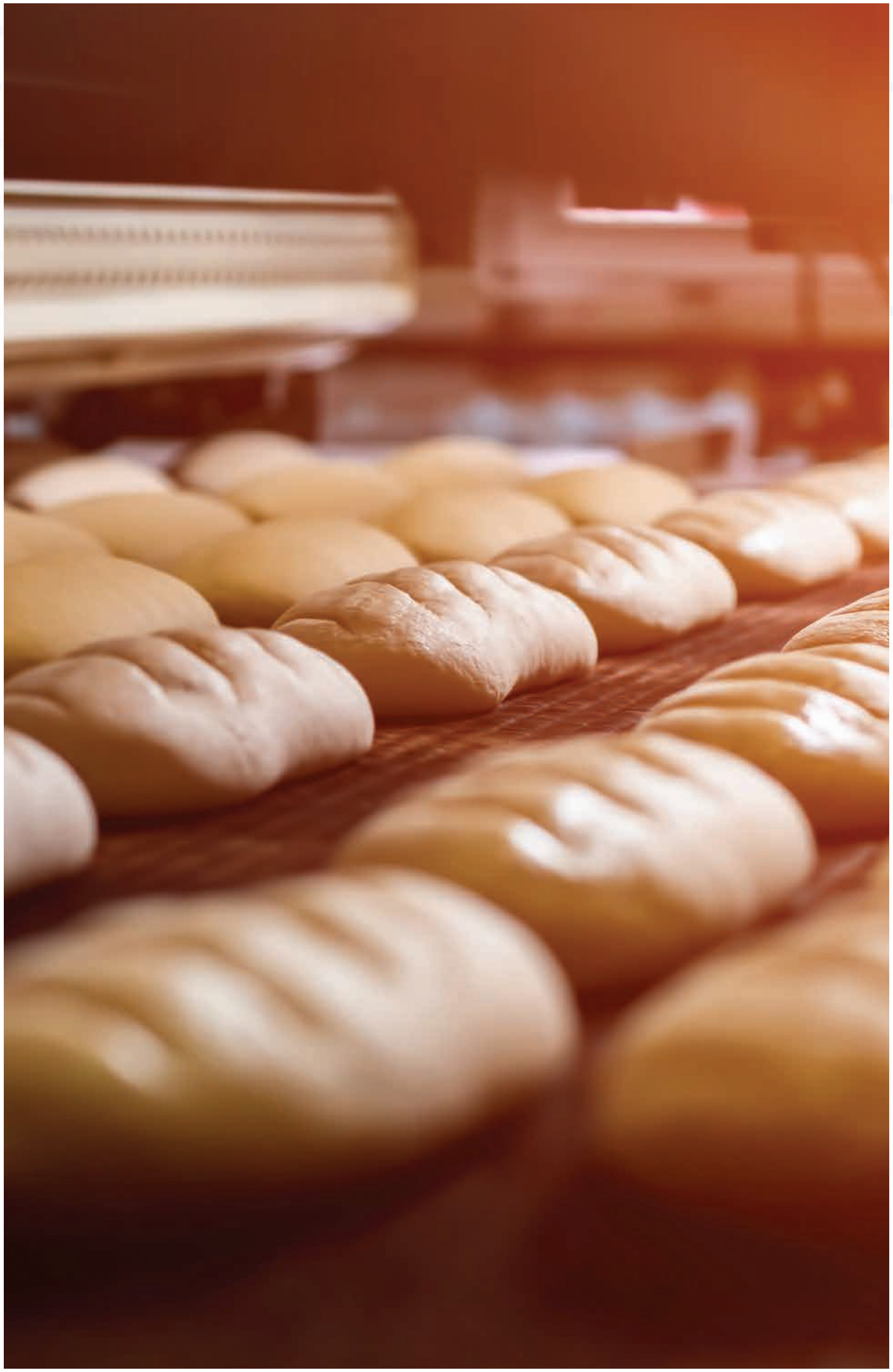


Numerous sectors within manufacturing and industrial services have been notably active and, therefore, constitute significant opportunities for buyers and sellers alike:

+ INDUSTRIAL MACHINERY AND EQUIPMENT

M&A activity continues to be very active from both strategic and financial buyers. At the core of this trend is increased capital investment in the U.S. Economy. Buyers in the middle market are paying premium multiples (>10x) for companies with attractive attributes like high revenue growth, patented products, or market domination. Strategic buyers are looking to expand service offerings and the ability to serve as a single provider of complete products and solutions for customers and are willing to pay deal premiums to secure a leading market position.

A recent example of this trend can be seen in the divestiture of the Haeger Insertion Machine division of Phillips Corporation to Penn Engineering. Haeger is a world leading manufacturer of hardware insertion machines and innovative fastener insertion technology solutions. A highly sought-after company by multiple global strategic buyers, Haeger ultimately elected to sell to PennEngineering, a global leader in the fastening industry, based largely on the latter’s plans to aggressively expand its branded product offerings to strengthen its global leadership position in the fastener space.



+ FOOD, SNACK & BEVERAGE

Confronted with flattening sales with many of their traditional brands, large packaged food providers are supplementing their organic growth with acquisitions of niche foods and brands that offer a better avenue for revenue growth. Of particular interest to strategic buyers are health conscious, non-GMO or organic brands (i.e. the "mindfulness" consumer trend), brands with local roots, as well as indulgent-snacks and on-the-go brands.

Private equity is active in the sector, as experienced executives from large food companies are partnering with private equity to build the next new target for strategic buyers to acquire. Valuations for food, snack and beverage companies over the next 12-24 months are expected to vary from 6x-12x+, depending on several factors including size, brand recognition, and growth trajectory.

One recent transaction involved G&S Foods/Tastysnacks, a manufacturer and co-packer of private label snacks, in a sale to MAW Acquisitions, a family office private equity group led by former Snyder's-Lance and Utz Quality Foods executives. The Company attracted significant attention from buyer groups, but the owners were most impressed with MAW Acquisitions' industry insight, knowledge of consumer trends mentioned above and forward-leaning approach to deal making, which were integral to MAW's selection by G&S.

SC&H CAPITAL

AGRIBUSINESS

Much in line with increased demand for organic and non-GMO food brands, consumers are looking for increased transparency throughout the supply chain for many of the other products they consume. These consumers want to understand where these products are made, what they are made from, and the environmental and social impact of their spent dollars.

The demand for environmental transparency in agriculture is no new trend, but awareness of environmental issues continues to increase. Products that promise results such as lower carbon footprints or diversion of waste from landfills are in demand by buyers and investors looking forward towards these “millennial-driven” demand trends. As can be seen in agribusiness giant Cargill’s investment in and partnership with Puris Proteins, and in the acquisition of Graybill Processing by a private equity group, it is clear that strategic buyers and investors alike continue to pour resources into M&A to fuel growth in the industry.

Graybill Processing was a growing family-owned company that recycles candy, bakery, and other hard-to-handle food waste into a value-added livestock feed used by dairy, beef, swine, and poultry farmers. Graybill’s products in particular reduce the carbon footprint of their dairy and beef farm customers. The Company was presented with a variety of interesting potential strategic and financial buyers, many of which had either a strong agribusiness or environmental investment angle. Ultimately, Graybill chose NCK Capital and Graycliff Partners as buyers because they possessed a unique combination of impact investment experience and a compelling investment and growth thesis.

+ PLASTIC PRODUCTS

Medical plastics, plastic packaging, and specialized plastic product M&A activity continue to be the standouts in a generally attractive M&A space. Specifically, robust activity is expected in tool and die, thermoforming, and machinery transactions, along with a meaningful increase in transactions involving hybrid buyers (strategic buyers owned by private equity firms) at valuation multiples comparable with pure play strategic buyers.

Valuations are highly dependent on certain key value drivers, including market leadership, size and growth, patented/proprietary products, and attractive customer mix, among others. The companies with the highest number of key value drivers can command valuations stretching into the double-digits.

Bowles Fluidics Corporation, a premier developer and manufacturer of innovative and proprietary fluidic nozzles and related fluid distribution assemblies, is an example of how leading companies can demand premium valuations. Bowles Fluidics' products are used by Ford, GM, Toyota, Toro, and Delta Faucets and other leading companies in the automotive and non-automotive markets. Bowles Fluidics evaluated an array of potential financial buyers as well as select strategic buyers, many of which submitted very competitive offers—evidence that private equity groups can be very competitive in valuations for premium companies.

+ ABOUT SC&H CAPITAL

SC&H Capital, an affiliate of SC&H Group, is a premier investment bank and advisory firm providing merger and acquisition (M&A), employee stock ownership plan (ESOP), and business valuation solutions globally leading middle market companies. SC&H Capital advises leading companies across numerous industries including technology, healthcare, manufacturing, and government contracting to help owners maximize their exit planning goals and liquidity objectives. To learn more visit **www.schcapital.com**

Christopher Helmrath
Managing Director
410.988.1351
chelmrath@schgroup.com

Gregory Hogan
Director
410.988.1352
ghogan@schgroup.com

Matthew Roberson
Director
410.988.1359
mroberson@schgroup.com

Kevin O'Sullivan
Principal
410.988.1358
kosullivan@schgroup.com