MANUFACTURING & DISTRIBUTION M&A QUARTERLY

Q4 2023

CohnReznick
ADVISORY • ASSURANCE • TAX

MANUFACTURING & DISTRIBUTION M&A QUARTERLY: Q4 2023

By Helana Robbins Huddleston & Shawn Gilronan

Skip to a section:

Since the beginning of 2023 we've seen a large number of "mega deals" occurring in the manufacturing and distribution (M&D) sector. Activity during the final quarter of the year continued this trend, with a number of larger deals contributing to a healthy volume of capital being invested in the sector in 2023. This occurred despite the headwinds facing both investors and target companies, including high inflation, rising interest rates, and overall market hesitancy.

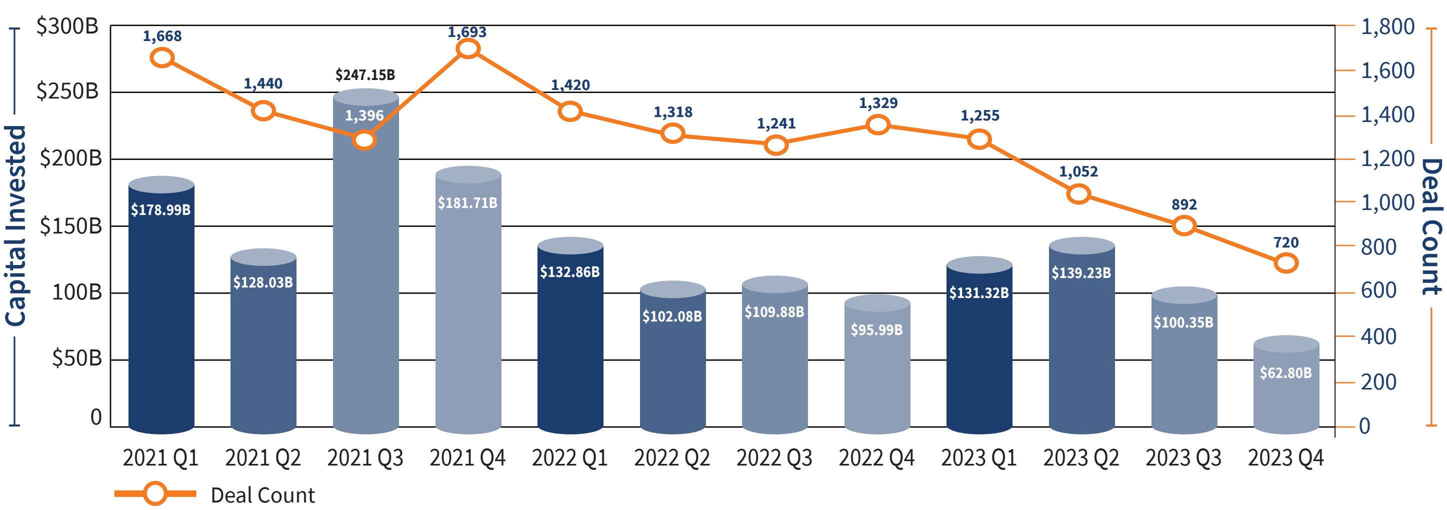
At the close of 2023, total capital investment in M&D was in line with the previous year – a stark contrast to M&A overall news reporting a 30% drop for the year. As noted above, this was driven by deal size rather than volume as the total capital invested in M&D was $433.70 billion across 3,919 deals in 2023 and $440.81 billion across 5,308 deals in 2022, making the average deal size $110.7 million in 2023 as compared to $83.0 million in 2022.

It is also important to note that transactions are getting done but through a mix of activities including strategic acquisitions, debt refinancings, leverage buyouts, and public-to-private transactions. We have highlighted significant transactions that cover all these types of activities later in this report.

QUARTERLY TRENDING NUMBERS

All data gathered from PitchBook Data, Inc. as of Jan. 2, 2024

Capital invested by deal count



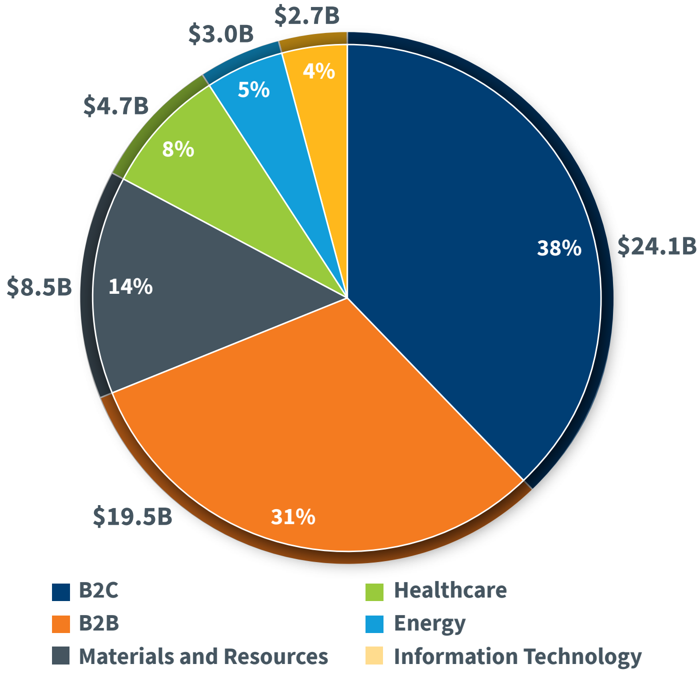
During the fourth quarter, a total of 720 deals closed, with investors spending $62.80 billion in the M&D market. This compares to $100.35 billion across 892 deals during the previous quarter, and $95.99 billion for 1,329 deals during the fourth quarter of 2022.

The biggest deals of the quarter included RTX's $6 billion in debt financing, Hostess's $5.6 billion acquisition by J.M. Smucker Co., Carrier Global's $3 billion in debt financing, the $2.6 billion LBO acquisition of Veritiv Corp. by Clayton Dubilier & Rice, and PepsiCo's $2.5 billion debt financing round.

October Through December 2023 Top 10 Deals

Companies	Deal Date	Deal Size
RTX	06-Nov-2023	$6.0B
Hostess Brands	07-Nov-2023	$5.6B
Newly Weds Foods	01-Dec-2023	$4.0B
The J.M. Smucker Co.	11-Oct-2023	$3.5B
Sazerac	12-Nov-2023	$3.1B
Carrier Global	15-Nov-2023	$3.0B
Veritiv	30-Nov-2023	$2.6B
Pepsico	08-Nov-2023	$2.5B
Paragon Medical	07-Dec-2023	$1.9B
CIRCOR International	18-Oct-2023	$1.6B

Q4 2023 Capital Invested by Primary M&D Sector



Other notable deals that closed during Q4 included the acquisition of CIRCOR International by Kohlberg Kravis Roberts via a $1.6 billion public-to-private LBO and The Jordan Co.'s purchase of Delrin using a $1.44 billion LBO.

The B2B sector comprised 31% of the M&D deals during Q4, with B2C making up about 38% of the total deal volume. The more significant volume in B2C was driven by J.M. Smucker Co., and PepsiCo transactions noted above. Materials and resources claimed the largest investment amount at $8.57 billion, followed by healthcare ($4.75 billion), IT ($2.77 billion), and energy ($3.03 billion).

MARKET FACTORS IMPACTING THE DEAL SPACE

Some of the trends that took hold in 2023, and that continue to impact the M&D space, include:

- Reshoring and onshoring of both manufacturing and sourcing to gain better control over processes and shorten supply chains.
- Investment in advanced technologies like artificial intelligence (AI) and machine learning on factory floors to offset the manufacturing labor shortages.
- A need to reskill the workforce in order to keep up with technological advancements. According to the Manufacturers' Outlook Survey, seven in 10 manufacturers cite attracting and retaining workers as a top challenge that will continue in 2024.
- Carbon neutrality as environmental sustainability remains a top priority, particularly for aerospace and automotive companies.
- Continued investment in industrial automation that helps companies work smarter, better, and faster.
- The use of additive manufacturing like 3D printing in the production process. This technology supports rapid prototyping and customization, and it also helps reduce waste.
- The Industrial Internet of Things (IIoT), which increases connectivity using devices and sensors that provide real-time data for better decision-making.

The final quarter of the year saw a mix of transaction activity in the M&D sector, with strategic acquisitions, debt refinancing, public-to-private LBO, and public offerings all playing a role in the overall transaction volume. Some of the more notable deals include:

- Aerospace and defense manufacturer RTX debt refinancing of $6 billion.
- Chase Corp's chemical business was acquired by Kohlberg Kravis Roberts through a $1.3 billion public-to-private LBO in November.
- Mondelez International's chewing gum business was acquired by Perfetti Van Melle for $1.35 billion in October.

The HVAC sector garnered the interest of both private equity (PE) and strategic investors during 2023. We've seen numerous PE funds use consolidation strategies with individual HVAC businesses nationwide, and with the goal of leveraging best operational practices and shared resources to drive improved margins and revenue growth. Carrier Global, HVAC manufacturer, raised $3 billion in debt financing in November with plans to use the funds to acquire more businesses.

We also noted that while venture capital was busy in 2022, private equity started dominating the investing field again, based on 2023's activity. Top PE investors include Kohlberg Kravis Roberts & Co., L.P. (KKR), SK Capital Partners, The Jordan Company, Ares Capital Corporation, and Constitution Capital Partners. These five PE firms had a combined total of 23 transactions over the last 12 months.

AI GAINS TRACTION IN MANUFACTURING AND DISTRIBUTION

Right now, most M&D companies are looking for new ways to gain a competitive edge in their given fields. Throttled by their existing legacy systems and manual processes, these organizations are turning to advanced technologies like AI and machine learning for help. Unfortunately, those that haven't already begun investing in Industry 4.0 automation and technologies still have some hurdles to jump before they can begin leveraging the power of artificial intelligence.

Put simply, any company that's still using a legacy green screen version of an enterprise resource planning (ERP) solution – and yes, there are plenty of them still in use out there – will have a difficult time implementing modern technologies. Even if the AI initiatives are being driven by senior executives and leaders, there are still some steps that have to be taken before M&D companies can successfully adopt AI, machine learning, and modern data platforms.

Here are five roadblocks that must be addressed before M&D can truly realize the benefits of these innovations:

- **Integration with existing systems.** Integration of AI technologies with existing legacy systems is a huge hurdle for M&D companies that have long-established processes and systems that aren't compatible with the latest AI technologies. To help ensure minimal operational disruption, the integration process must be meticulously planned out, the current IT infrastructure evaluated, and the compatibility of AI solutions carefully assessed. Also, a gradual, phased approach is often more successful than a complete overhaul. Depending on the age and condition of manufacturing equipment, integration of sensors and IoT devices can aid in the efficacy of AI adoption and result sets.
- **Data management and quality.** Artificial intelligence systems require high-quality, relevant data to function effectively, which means M&D companies must assess their current data collection and storage practices before jumping in. This is especially critical if the current data is siloed, outdated, or formatted in a way that's incompatible with AI applications. Establishing robust data governance, ensuring data quality, and developing efficient data pipelines are essential steps, along with training staff on the importance of data accuracy and consistency. In many cases, pre-work (e.g., constructing a modern data management platform) will be needed before a proper AI strategy or adoption can be executed.
- **Talent and skills gap.** Successful implementation of AI requires a workforce that's skilled in modern data architectures, languages, and platform technologies. If there's a significant skills gap in current employees' AI and data analytics capabilities, M&D companies should invest in training and development programs needed to upskill their workforce – or work with outside professional services firms to augment their capabilities. Additionally, organizations may need to hire and attract new talent with specialized skills in AI, machine learning, and data science to maintain these platforms once the technology is up and running.
- **Cost and ROI concerns.** Investing in AI can be costly, and it's crucial for companies to have a clear understanding of the return on investment (ROI). This includes the costs of software and hardware, integration, training, and ongoing maintenance. Manufacturers and distributors should also develop a clear business case for AI adoption, outlining the expected benefits like improved efficiency, reduced downtime, and enhanced decision-making capabilities. Finally, they need to set realistic expectations and understand that the ROI from AI adoption may be realized over a longer term.
- **Cybersecurity and privacy.** Artificial intelligence systems often process and store sensitive data, making them targets for cyberattacks. Companies must ensure robust cybersecurity measures are in place to protect their data and AI systems. This includes regular security audits, employee training on cybersecurity best practices, and implementing advanced security protocols. Additionally, compliance with data privacy regulations, such as GDPR or CCPA, must be ensured to avoid legal complications. Steps should also be taken to ensure sensitive PHI, PII, or customer data isn't uploaded into the AI large language models (LLMs) that exist in the public domain. Private and/or enterprise versions of these LLMs also exist, such as Open AI's ChatGPT Enterprise, which can exist within the four walls of an organization.

The successful adoption of AI and modern data analytics in M&D requires careful planning; investment in technology and people; and a commitment to continuous improvement and adaptation. A good starting point for companies that want to begin the journey is to start with an AI-readiness assessment. CohnReznick uses this assessment as an opportunity to determine exactly where the organization stands from a maturity perspective as it relates to people, processes, and technology. Then, we factor in the outcomes that the company wants to achieve with AI and what the potential use cases are (e.g., back-office automation, quality assurance, assembly line automation, etc.). From there, a roadmap is developed that companies can use to adopt AI and other modern data platforms.

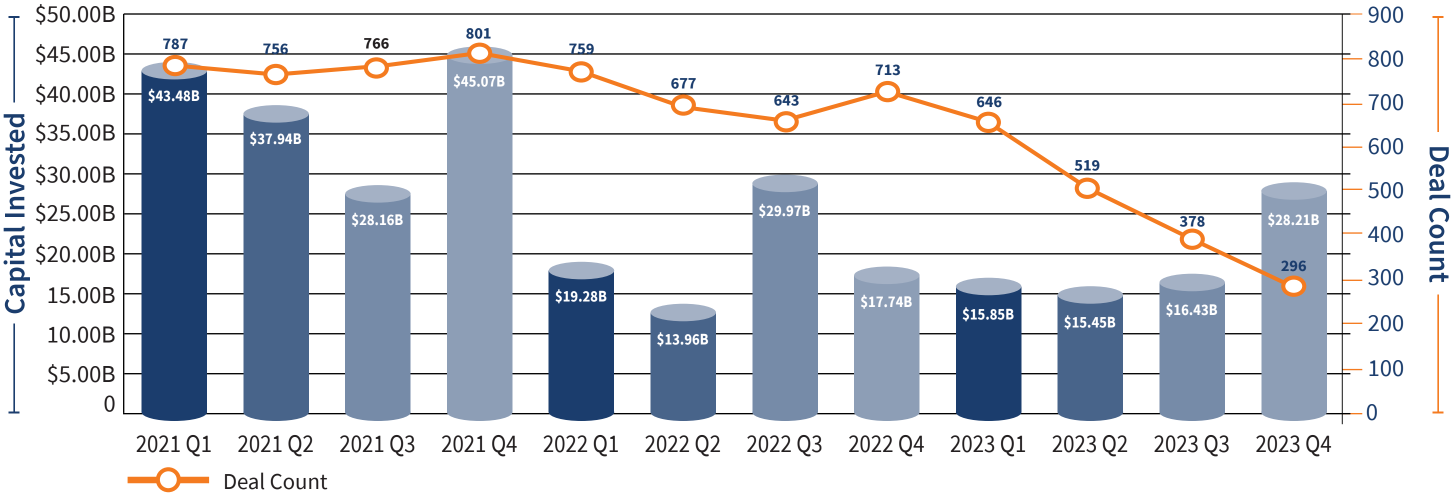
FOOD & BEVERAGE MANUFACTURING DEALS

A total of 296 food and beverage deals closed during Q4 2023, with The J.M. Smucker Co.'s $5.6 billion acquisition of Hostess Brands, and Redwood Holding's acquisition of Newly Weds Foods for $4 billion, being the two largest deals. Other deals of note during the quarter included PepsiCo's $3 billion in debt financing, Perfetti Van Melle's acquisition of Mondelez International's chewing gum business for $1.35 billion; Sysco's $1 billion in debt financing; and Apax Partners' $700 million LBO acquisition of Bazooka Candy Brands.

The top investors in the food and beverage space for Q4 included Furthermore Ventures, Promise Holdings, C-SAW, Capital Factory, Elemental Excelerator, and Santatera Capital.

QUARTERLY TRENDING NUMBERS

Food and beverage manufacturing capital invested by deal count



TOP FOOD & BEVERAGE TRENDS

- **More advanced technologies.** Like many other M&D businesses, F&B companies are looking for new ways to integrate advanced technology into their operations. For example, they're using AI-infused inventory management systems to improve business efficiency, better forecast demand, and plan for the unknown.
- **Distribution to fast-growing grocery chains.** Going forward, rapidly growing national grocers that comprise over 60% of the U.S. grocery market will continue to grow, and especially as more mergers take place in the industry. Of the top ten grocery distributors in the world, less than 50% are the traditional supermarket grocers. Additionally, according to Foodindustry.com, Walmart remains the leader in grocery with sales nearly at $505 billion, above Kroger and Costco who reported 2023 grocery sales of $148 billion and $176 billion, respectively.
- **Dynamic pricing strategies with the use of AI.** We're also seeing more grocers using dynamic pricing to manage the supply and demand for products and services. Grocers and food producers are using AI and products like Preva Dairy, which is an econometric modeling tool that factors in econometric factors at a geolocation level to answer questions like: Are shoppers willing to accept a higher price point? And, what other macroeconomic factors are going on within that specific geolocation (e.g., a residential construction boom)? Companies are also using AI to determine which economic factors result in a larger elasticity on a certain product or pricing, versus what's taking place in a neighboring region that may not be experiencing such residential growth. Given the current inflation rates and high costs – combined with the high cost of living in some areas – AI is playing an increasingly larger role in helping grocers test just how far they can push their prices up. This helps improve margins and profitability while also better ensuring consumers' needs are being met.

Q4 2023 Food & Beverage Manufacturing Deals

Companies	Deal Date	Deal Size
Hostess Brands	07-Nov-2023	$5.6B
Newly Weds Foods	01-Dec-2023	$4.0B
The J.M. Smucker Co.	11-Oct-2023	$3.5B
Sazerac	12-Nov-2023	$3.1B
Pepsico	08-Nov-2023	$2.5B
Mondelez International (Chewing Gum Business)	02-Oct-2023	$1.3B
Daou Vineyards	13-Dec-2023	$1.0B
Sysco	06-Nov-2023	$1.0B
La Colombe Coffee Roasters	15-Dec-2023	$900M
Bazooka Candy Brands	05-Oct-2023	$700M

As we move further into 2024, many of the same trends that took hold in M&D will likely continue, while some of the challenges may start to fade and be replaced by new disruptions and opportunities. With major waterways like the Suez and Panama Canals both experiencing delays at the end of the 2023, for example, and with continued geopolitical events ongoing, certain M&D businesses may continue to see impacts during the coming year. As outlined in this report, those companies that embrace technology like AI are finding new ways to overcome challenges, leverage new opportunities, and make themselves increasingly attractive to investors.

About CohnReznick

As a leading advisory, assurance, and tax firm, CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value, and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. With offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International.

For more information, visit www.cohnreznick.com

CONTACT

Helana Robbins Huddleston, CPA, CIRA,
Partner, Manufacturing and Distribution
Industry Co-Leader,
Transaction Advisory Services
312.508.5813 | helana.robbins@cohnreznick.com

Shawn Gilronan
Principal, Practice Leader
Technology+
703.744.7489 | Shawn.Gilronan@CohnReznick.com