MANUFACTURING & DISTRIBUTION M&A QUARTERLY

Q2 2023

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While the slowdown that took hold of the M&A market near the end of 2022 has continued through the first half of this year, strategics and venture capital firms continue to be active investors in M&D, especially as it relates to ESG-driven companies. The evidence of this can be seen both in the total amount of capital invested and the total deal count for the first half of 2023 with few exceptions during the most recent quarter.

Year to date, investments amounted to $98.2 billion across 1,507 deals through June 2023 as compared to the same time period last year when $142.4 billion was invested across a total number of 2,498 deals.

Strategic investors have been active so far this year driving five of the top 15 M&D deals closed during Q2 2023:

I. Xylem's acquisition of Evoqua Water Technologies for $7.5 billion

II. Altria Group's acquisition of NJOY for $2.8 billion

III. HEICO's acquisition of Wencor Group for $2.1 billion

IV. Stratasys' acquisition of Desktop Metal Inc. for $1.8 billion

V. DuPont de Nemours' acquisition of Spectrum Plastics Group for $1.8 billion

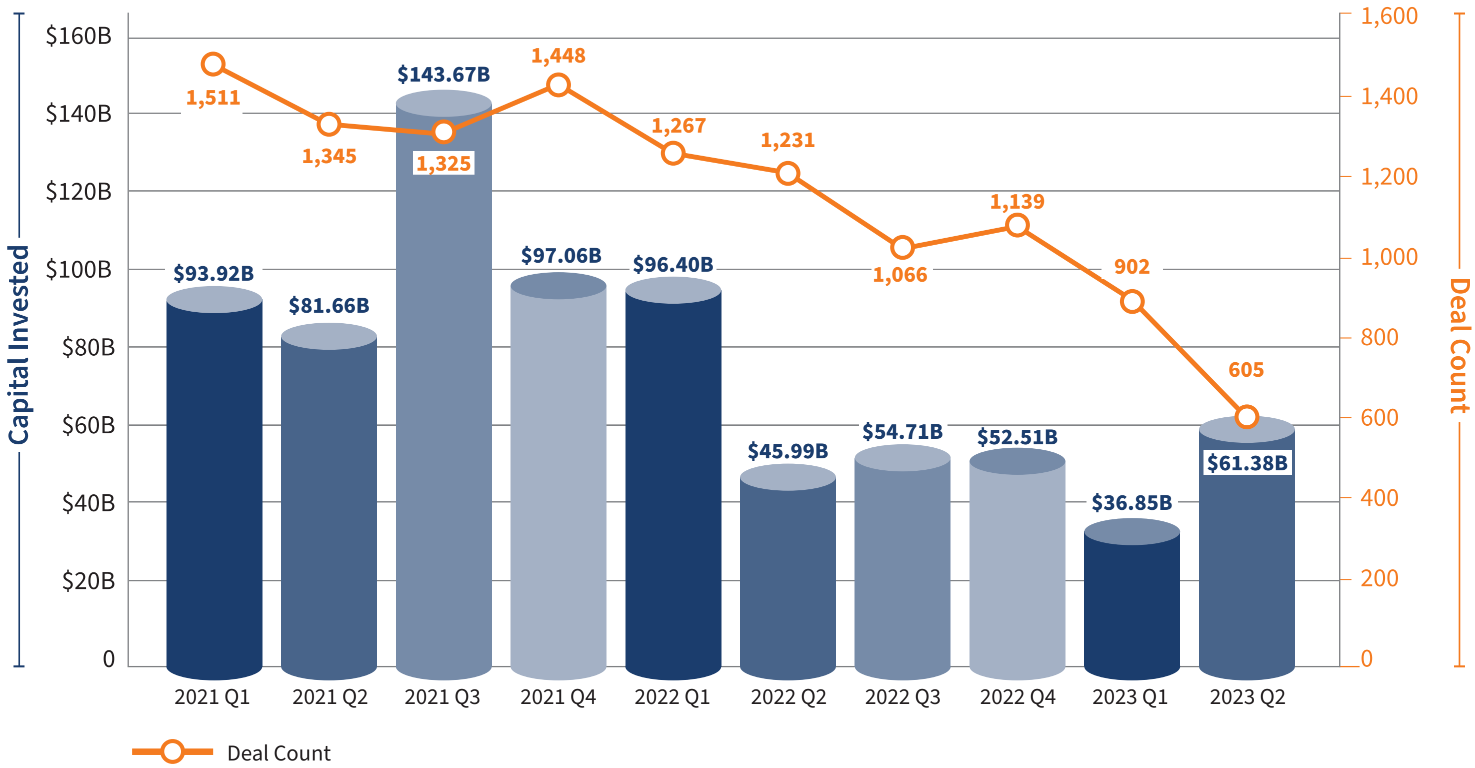
Some of the most significant private equity M&D deals that have closed through June 2023 include Blackstone's $8.4 billion purchase of Copeland, and BDT & Co.'s acquisition of Weber-Stephen Products for $3.7 billion. Other active investors in the M&D space are venture capital and accelerators, including Techstars, Climate Capital, Plug and Play Tech Center, Lowercarbon Capital, the National Science Foundation, and Made in Baltimore.

SKIP TO A SECTION:

Q2 2023 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc., as of July 11, 2023

Capital invested by deal count



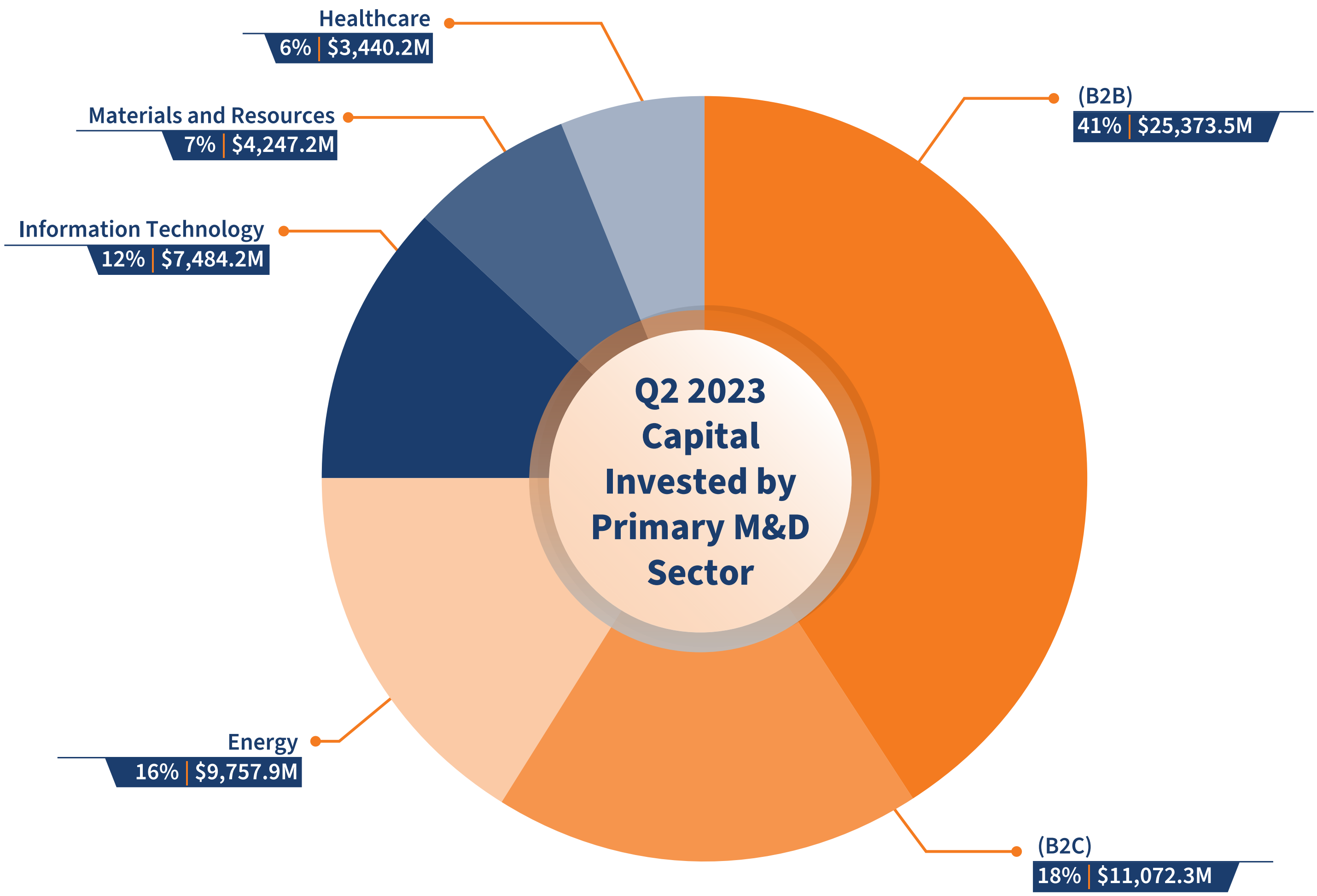
A total of 605 deals closed during the second quarter when investors allocated $61.38 billion to the M&D market. This compares to $36.85 billion across 902 deals during the previous quarter, and $45.99 billion across 1,231 deals during Q2 2022.

Many of the top investors this quarter were strategic investors, however a few private equity funds also closed deals the first half of this year including Audax Group, Advent International, Kohlberg Kravis Roberts, L Catterton, and One Equity Partners.

Other notable deals that closed during the first half of this year included the joint venture between Global Foundries and ST Microelectronics which was formed for semiconductor manufacturing based out of France, Apollo Global Management and Irenic Capital Managements acquisition of Arconic Corp for $5.2 billion, and Regal Rexnord's acquisition of Altra Industrial Motion Corp for $5 billion.

As shown on the next page, the B2B sector comprised 41% of the M&D deals during Q2, with B2C making up just 18% of the total deal volume. The energy sector received significant investor interest thus far in 2023 compared to historical years with investments at $9.8 billion, followed by information technology ($7.5 billion), healthcare ($3.4 billion), and materials and resources ($4.2 billion). Specific to energy, the top deals that closed involved Joint Venture (Hyundai Motors/SK On), Venture Global LNG, Ohmium, Chemtec Energy Services, and Farm to Flame Energy.

Q2 2023 capital invested by primary M&D sector



MARKET FACTORS IMPACTING THE DEAL SPACE

The M&D industry, as well as others, continue to feel the impact of increased material costs, labor costs, transportation, and other direct and indirect costs that can no longer be easily passed on to the customer. Buyers are starting to "push back" as demand and supply stabilizes, and as a lot of buyers built up their inventory levels during 2022. Some businesses are now dealing with excess inventory to use. This is forcing both manufacturers and distributors to come up with more inventive ways to stabilize their margins and keep demand going. For some, this trend is also driving companies to conserve cash versus continuing to invest in automation and innovation. "The constant drone about a recession has made manufacturers hesitant to invest as quickly as they might want to with many projects getting delayed," said a spokesperson from Manufacturers Resource Center. "Higher costs have made projects and expansions more costly, so many are relooking/rethinking those activities or getting fresh bids before proceeding."

With that said, one topic that remains top of mind for businesses to improve operations and margins is using technologies like artificial intelligence (AI), machine learning, and robotics to assist with everything from demand forecasting and production to fulfillment and distribution. Companies like Chicago-based Formic, for example, are offering a "robots as a service" model that gives customers access to on-demand robotics that can work in any manufacturing environment.

January through June 2023: Top 10 deals

Company Name	Deal Size
Copeland	$8.4B
Evoqua Water Technologies	$7.5B
GlobalFoundries / STMicroelectronics	$6.2B
Arconic	$5.2B
Altra Industrial Motion	$5.0B
Howden Group	$4.4B
Baxter BioPharma Solutions	$4.3B
Koninklijke DSM (Engineering Materials Business)	$4.1B
Weber-Stephen Products	$3.7B
Evident	$3.1B

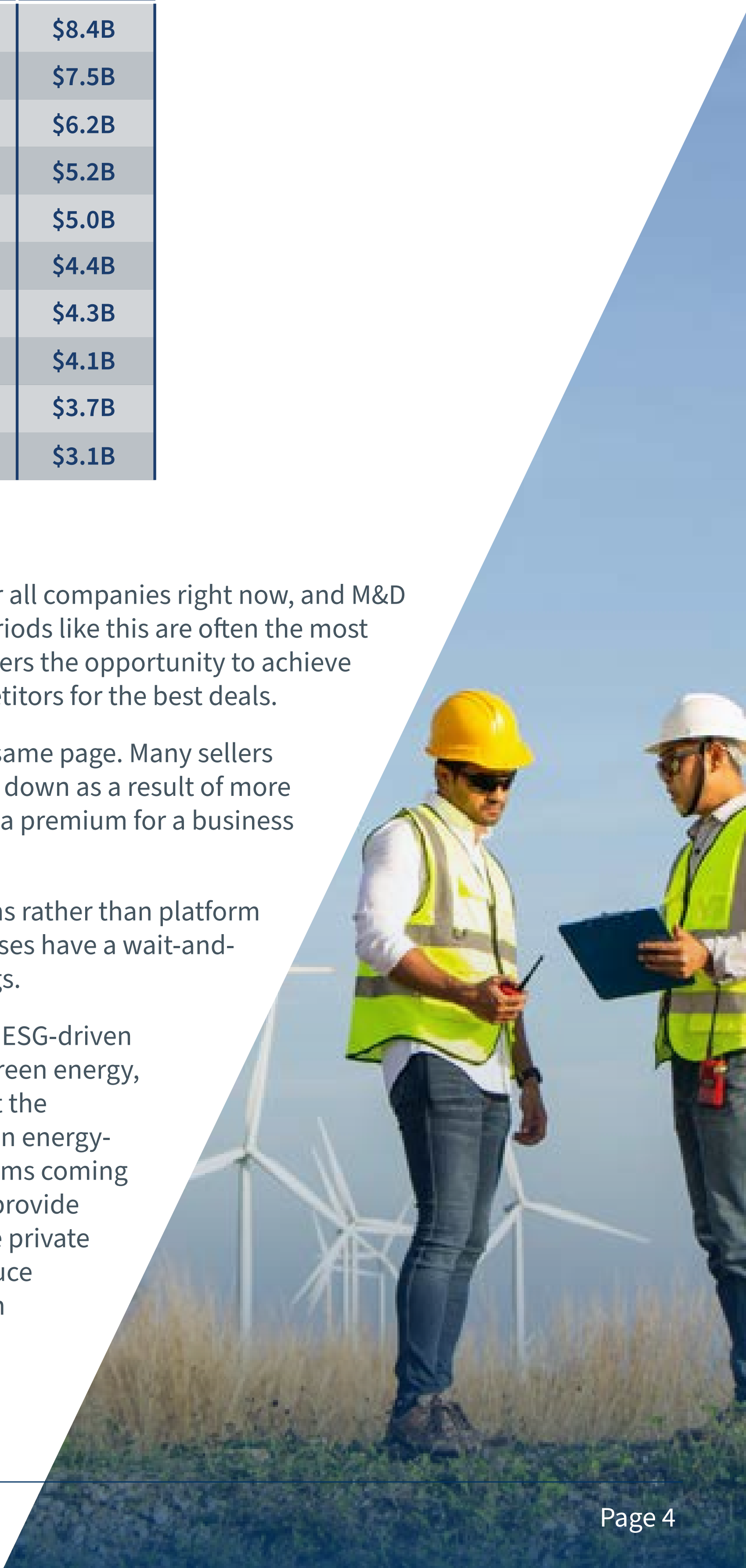
WHAT'S NEXT?

The M&A environment continues to be challenging for all companies right now, and M&D is no exception. Paradoxically, deals closed during periods like this are often the most successful. That's because the environment gives buyers the opportunity to achieve better returns and go head-to-head with fewer competitors for the best deals.

Going forward, buyers and sellers need to get on the same page. Many sellers have yet to accept the fact that valuations are coming down as a result of more expensive debt. Investors are no longer willing to pay a premium for a business that's not worth what its owner may believe it to be.

We expect to see a continued focus on smaller add-ons rather than platform deals as valuations continue to right-size and businesses have a wait-and-see approach to market growth and company earnings.

We are also noticing a trend in investments related to ESG-driven companies, especially as it relates to infrastructure, green energy, and the materials and machinery that help to support the manufacturing of these products. Likely the increase in energy-related transactions is the result of the various programs coming out of the *Inflation Reduction Act*; some of which will provide competitive grants to mobilize financing and leverage private capital for clean energy and climate projects that reduce greenhouse gas (GHG) emissions. With this increase in funding will also come innovation in the clean energy space. As a result, we will likely see more R&D put towards new energy solutions, or better storage, and costs driven down to increase adoption.



ESG: THE NEW FRONTIER FOR MANUFACTURING AND DISTRIBUTION

An acronym with roots in the investment community, ESG – or environmental, social and governance – is becoming increasingly important for the world's manufacturers and distributors; the customers that they serve; and the companies that they do business with across the value chain. With more activities viewed through the ESG lens – and more decisions being based on sustainability factors – organizations are placing a larger emphasis on how their products, activities, and decisions impact the world around them.

Take supply chains, for example. There's been a lack of transparency in these interconnected, global networks that's no longer going to cut it from the investors' perspective. Food companies are falling under tougher scrutiny on issues like responsible sourcing and regenerative agriculture. Much of the pressure is coming directly from consumers who want to know more about how ingredients are sourced, handled, and processed. With more consumers cooking and dining at home – and focused on health and wellness – these pressures will only increase in the coming years.

Manufacturers and distributors that want to stay competitive will have to keep a finger on the pulse of the end consumer more than ever before, as sustainability and social impact are driving spending habits. At the same time, they have to protect their brands' image and maintain resilient supply chains that adhere to best practices. For manufacturers, these requirements not only impact the upstream (suppliers) but also the downstream (distributors, retailers, and end users) value chain.

On the manufacturing floor, organizations are utilizing advanced technology like AI, Internet of Things, and machine learning to achieve ESG goals. By connecting devices and adding sensors, a smart connected factory has the potential to improve safety, increase efficiency, reduce errors, and track resource intensity.

For example, a smart factory enabled by AI can more quickly and accurately track emissions, energy usage, and waste. It can also help companies with predictive maintenance to cut down on machinery wear and tear, transform new product development with sustainability in mind, and implement circular economy initiatives by easily exchanging data between different points of the value chain.

Equipped with energy usage data, for instance, manufacturers can readily pinpoint the areas where they need to conserve energy, conserve water, or minimize waste. As manufacturers improve their operations in those areas, the key "wins" include better efficiencies, lower costs, and more resilient operations. Then, they can share that data with distributors and retailers across the value chain, which is increasingly focused on Scope 3 emissions transparency. Scope 3 includes the indirect greenhouse gas (GHG) emissions that occur in the value chain but aren't directly owned or controlled by the manufacturer itself.

These are just a few of the opportunities for M&D companies that want to improve their ESG positioning, operate more sustainably, and position themselves in a positive ESG light in the minds of potential investors and funding opportunities. Companies that take a complacent stance on these issues will soon be left behind. Those that collaborate across their value chains – and that understand the needs of their end consumers, suppliers, distributors, and investors – will be well positioned to create long-term financial value.

FOOD & BEVERAGE MANUFACTURING DEALS

Transaction activity in the food and beverage space in Q2 2023 was relatively flat as compared to Q1 2023; with Q1 closing $4.23 billion invested across 461 deals and Q2 closing $4.19 billion invested across 355 deals, indicating a slight uptick of average deal size from $9.2 million in Q1 to $11.8 million in Q2.

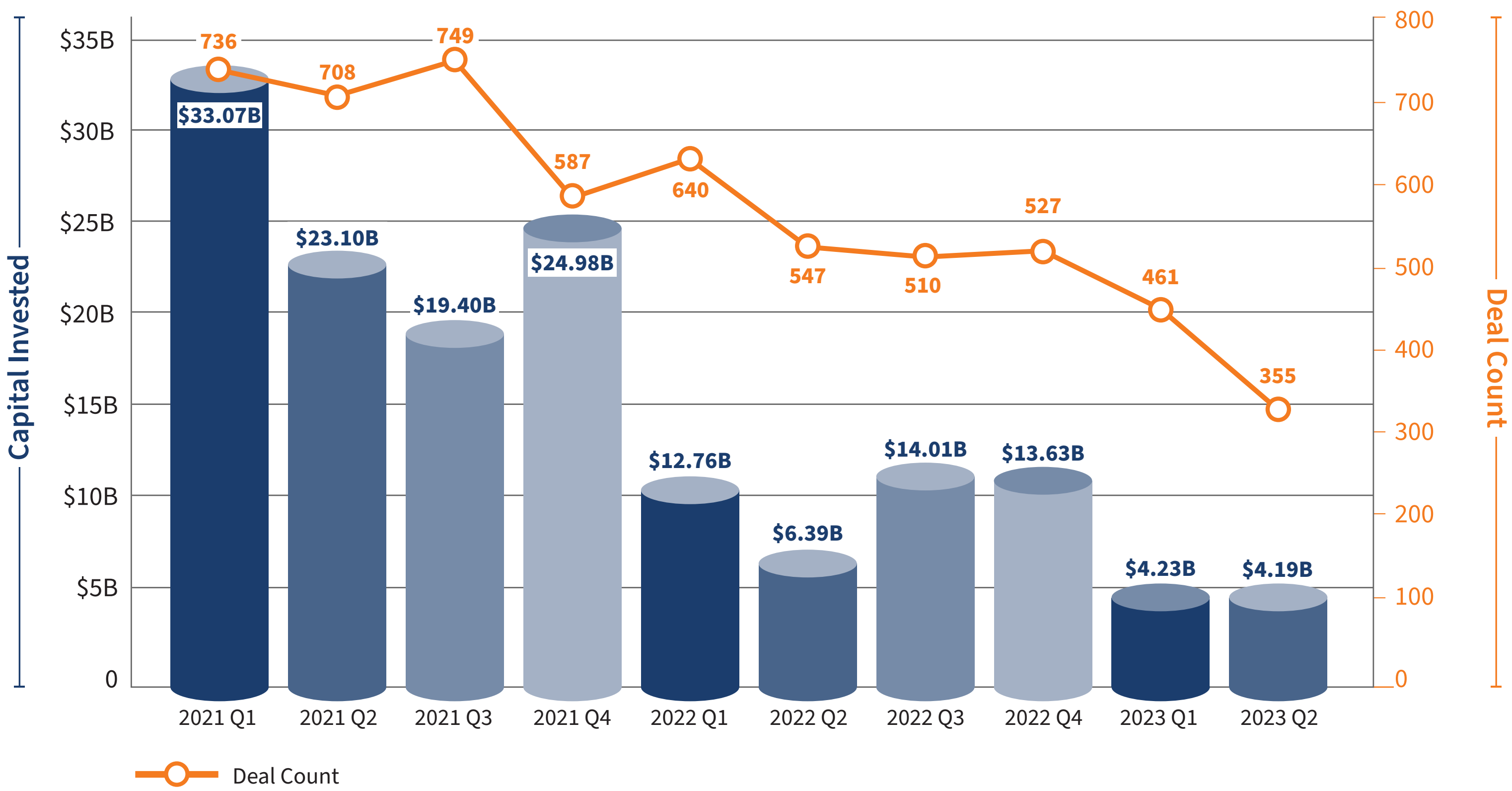
Some significant food and beverage transactions have already occurred in 2023, with Post Holdings' acquisition of The J.M. Smucker Co., and Kohlberg Kravis Roberts' sale of a 7.03% stake in U.S. Foods being the two largest transactions, at $1.2 billion and $695.3 million, respectively. Other deals of note during the quarter included Cava Group Inc.'s $281.7 million IPO, Fortune Fish & Gourmet's purchase of Boston Sword & Tuna for $285 million, and the $216 million acquisition of Penelope Bourbon by Luxco, a subsidiary of MGP Ingredients.

The top investors in the food and beverage space for Q2 included SOSV, E & J Gallo Winery, FairWave, Gaingels, Great Range Capital, and Harris Preston & Partners. Similar to what we're seeing in the M&D sector, as well as other sectors right now, strategic and venture capital investors were extremely active during the quarter.

Q2 2023 TRENDING NUMBERS

Food & Beverage Manufacturing

Capital invested by deal count



TOP FOOD & BEVERAGE TRENDS

Consumers have always been a driving force behind new food, cooking, and dining innovations; however, now more than ever, they're impacting the way food manufacturers think, act, and operate.

- Hybrid and even fully remote working arrangements are here to stay, which is driving a change in the way people eat compared to five years ago when they commuted to the office. Currently eight in 10 meals are sourced from home – a trend that's expected to continue – and one-quarter (26%) of consumers planned to cook more at home in 2023, according to a report by Morning Consult.
- Driven by the technologies that were adopted during COVID, including the delivery of groceries and liquor to consumers' doorsteps, there's been a steady decline of in-store grocery shopping, the report by Morning Consult found. In fact, the number of U.S. adults who shopped for groceries in a store declined by 6% in May 2023 compared to May 2022, with Gen Z adults and millennials leading the pack of consumers that no longer make in-person visits to the grocery store.
- With consumers' return to in-person socializing and uncertainty in the economy, liquor transactions have had increased interest so far in 2023. Over the past six months, we have seen a high number of alcoholic and non-alcoholic-related deals close including Luxco's acquisition of Penelope Bourbon for $216 million, Reform Ventures' $45.5 million venture raise for Casa Azul, and Monticello AG Center's acquisition of Jefferson Vineyards for $11.8 million, just to name a few.
- Consumers are increasingly switching to more and more private label brands in order to save money while still getting the same quality products that they've come to expect.
- Plant-based meat foods have slowly fallen out of favor with the broader consumer audience, which understands the health factor but isn't always willing to shell out more money for non-meat options. We still expect to see a growth in plant-based fish which has only recently begun capturing the market share that plant-based meat took from real meat products.

Q2 2023 Food & Beverage manufacturing deals

Company Name	Deal Size (millions)	Deal Date
The J.M. Smucker Co (Pet Food Business)	$1,209.6	28-Apr-2023
US Foods	$695.3	25-May-2023
Cava	$317.8	16-Jun-2023
Boston Sword & Tuna	$285.0	08-May-2023
Penelope Bourbon	$216.0	01-Jun-2023
Chosen Foods	$160.0	25-May-2023
Golden West Food Group	$120.0	04-May-2023
Farmer Brothers	$100.0	30-Jun-2023
Air Protein	$74.9	18-May-2023
Kemin Industries	$65.0	25-Apr-2023

We also have to consider what is top of mind for management teams and investors right now.

- No different than the M&D sector as a whole, F&B businesses can accelerate growth by adopting ESG into their products with a focus on sustainable and reusable packaging, transparency, and authenticity in labeling. F&B companies can stand out in a highly saturated market by telling their story and making a connection to the consumer to not only meet their needs but also wants for a better ESG business model.
- Pricing is a key factor for both management and investors. They understand that the end consumer can only absorb so many price increases and that they'll eventually move to a private label or a different brand in order to offset the added expense. Investors are very focused on understanding a business' pricing model and cost structure, including the business' supplier agreements. Investors want to see businesses have long-term partnerships with suppliers and well documented terms that allow businesses to manage their cost structure.
- Investors also want to make sure they understand how historical trends equate to the run-rate of a business as post-pandemic life stabilizes and inflation comes down. Investors remain extremely focused on projections and performing comparisons of actual-to-budget throughout the due diligence process to help ensure projections are reasonable.

With the M&D sector as a whole, getting buyers' and sellers' expectations aligned is going to be important as we move through the second half of this year. Transactions will continue to come to fruition, but it's taking much longer to close deals due to this disconnect. There's money available in the market and there will never be a lack of interest in companies, it's just a matter of pairing the right investor with the right opportunity and finding that connection.

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