MANUFACTURING & DISTRIBUTION M&A QUARTERLY

Q3 2021

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Investor interest in the Manufacturing and Distribution sector continues to escalate as companies emerge from the pandemic and continue innovating production and distribution of their goods to customers worldwide. During Q3, capital invested for Manufacturing and Distribution nearly doubled compared to the same period in 2020 and exceeded capital invested in 2018.

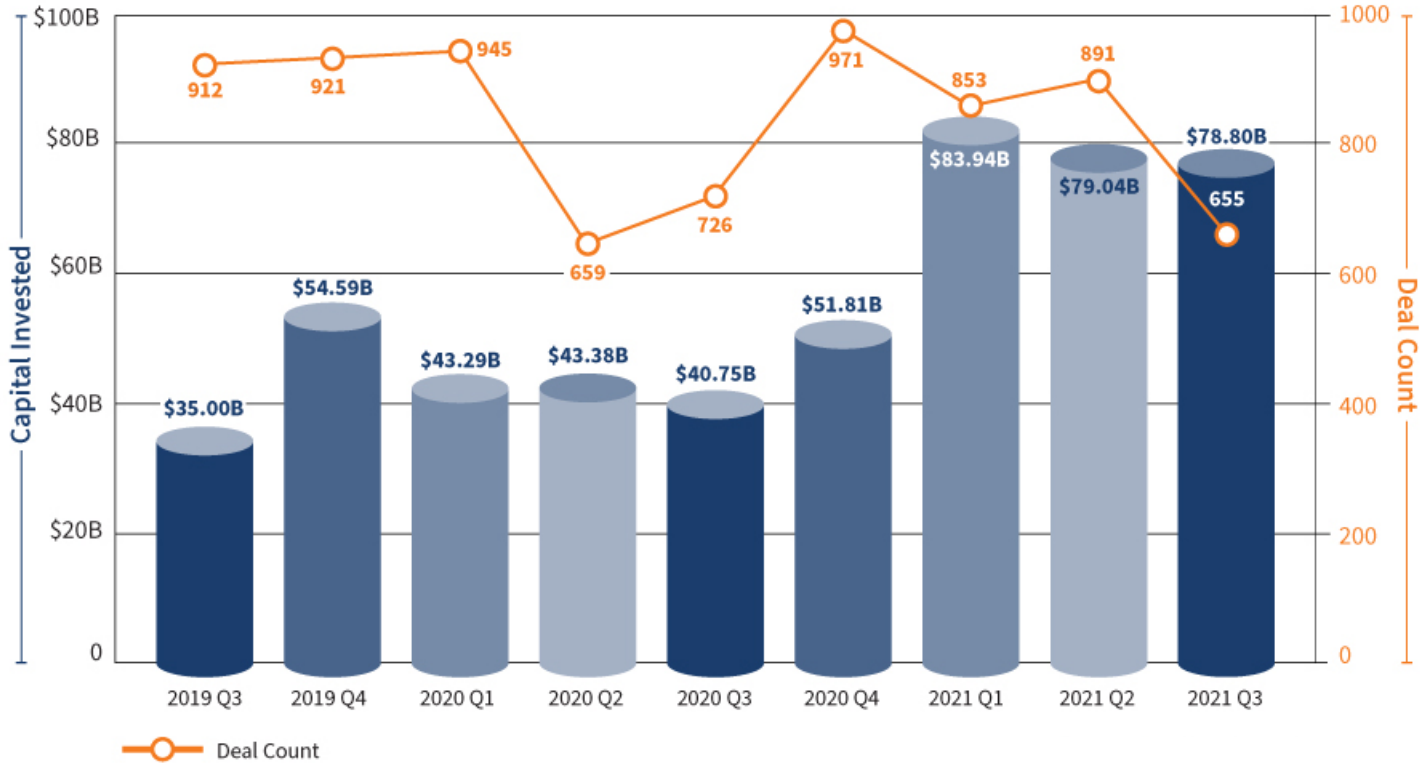
M&A activity in the Manufacturing and Distribution sector is frothy and, barring any unforeseen circumstances, may continue through the fourth quarter. The proposed *Infrastructure Investment and Jobs Act* is still promising and could provide $1 trillion in total spending over five years — including an infusion of federal funding for US public works across various industries. Investors may be eager to position themselves and their portfolio companies by acquiring new platforms and add-ons that provide products and services to infrastructure projects.

Manufacturing and Distribution companies are facing headwinds caused by labor shortages, supply chain interruptions, and security concerns that have impacted companies around the globe. To tackle these and other challenges while also preparing their operations for the future, companies are building inventory levels, using temporary labor, and seeking alternative vendors.

Q3 2021 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc., as of October 1, 2021

Capital invested by deal count



By the numbers, Q3 2021 was the best third quarter in five years for M&A activity in the Manufacturing and Distribution sector. Coming in at $78 billion in capital invested, the quarter far surpassed last year's $41 billion and the prior year's $35 billion in Q3 capital invested. Total deal count for Q3 2021 was 655 and the average deal size was $120 million. This represents one of the largest average per-deal-size since 2018.

We have seen little change in the top 10 investors in Manufacturing and Distribution in Q3 but some new investors including National Science Foundation, Arcline Investment Management, Keiretsu Forum, and Pritzker Private Capital, a family office located in Chicago, all closed deals during this three month period in the Manufacturing and Distribution sector.

Manufacturing companies that are involved in science, healthcare, and transportation platforms continue to capture investor attention:

- Danaher acquired privately-held Aldevron for $9.6 billion – this quarter's biggest transaction. Aldevron manufactures high-quality plasmid DNA, mRNA, and proteins, serving biotechnology and pharmaceutical customers across research, clinical and commercial applications.
- Silicon Labs' infrastructure and automotive business was acquired by Skyworks Solutions. With this acquisition, Skyworks Solutions will be able to expand into markets such as data centers, 5G wireless infrastructure, and electric and hybrid vehicles.
- Traton, a subsidiary of Volkswagen, acquired Navistar (US), which makes medium and heavy-duty trucks, school buses, military vehicles, and diesel engines. With schools returning to in-person learning nationwide for the 2021-2022 school year, and a robust return of school spending, this was an attractive acquisition target in the Manufacturing and Distribution space. The infrastructure bill may have also played a role in Traton's decision.

Q3 2021 top investors: Most active private equity firms based on number of deals

Private Equity Fund	Deal Count
Arcline Investment Management	7
Bain Capital	6
The Carlyle Group (NAS: CG)	6
KPS Capital Partners	5

Q3 2021 Top 10 deals

Company Name	Deal Size (millions)	Investors	Deal Type
Aldevron	9,600M	Biotechnology	Merger/Acquisition
Culligan International	6,000M	Household Products	Buyout/LBO
The Bountiful Company	5,750M	Other Consumer Non-Durables	Merger/Acquisition
Navistar (US)	3,700M	Automotive	Merger/Acquisition
Alta Resources	2,925M	Energy Production	Merger/Acquisition
Silicon Labs (Infrastructure & Automotive Business)	2,750M	Road	Merger/Acquisition
Crown Holdings (Food Can Business)	2,051M	Other Commercial Products	Buyout/LBO
Knoll Group	1,800M	Home Furnishings	Merger/Acquisition
Luminex	1,800M	Biotechnology	Merger/Acquisition
TaylorMade	1,700M	Recreational Goods	Buyout/LBO

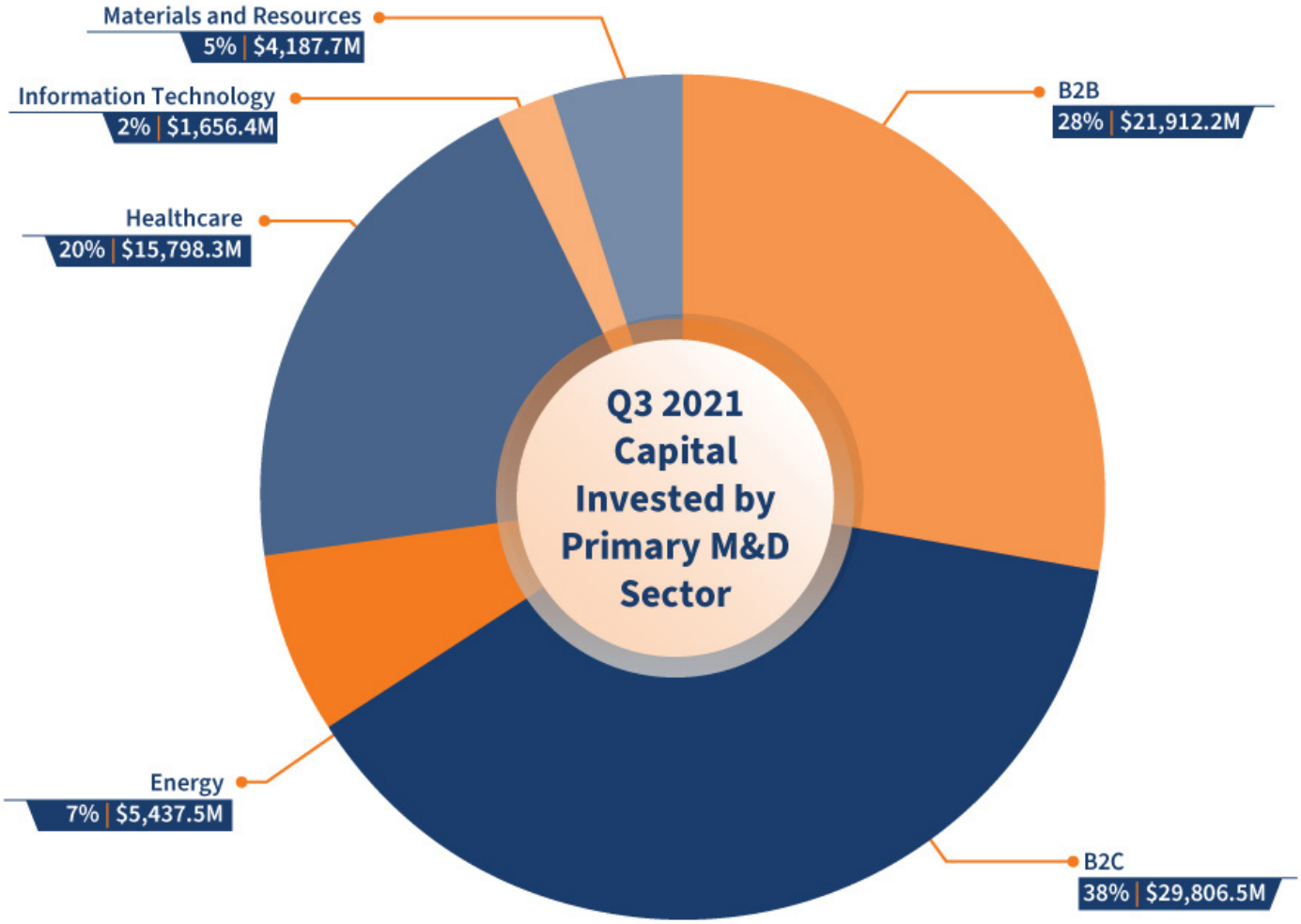
There are also a few market factors we wanted to highlight that are impacting the deal space:

- **Lenders are taking a "covenant-lite" stance that are helping deals get done faster and with less friction.** Companies are obtaining low-interest funding from both commercial and private lending sources that are offering lending arrangements with minimum covenants compared to most recent years where businesses would need to meet numerous positive and negative covenants to maintain funding (e.g., meeting a certain EBITDA or fixed income ratio thresholds). With fewer covenants, affordable debt and ample available capital, banks are willing to do deals and some companies are taking on debt for the first time ever. This helped private equity firms to close deals and encouraged more transaction activity across the board.
- **Innovation in the manufacturing space is a crucial differentiator.** Any company caught off guard by the pandemic constraints on its production, logistics and resources had to be innovative and adaptive to operate effectively in 2021. Investors are focused on those businesses that have invested in technology, diversified their supplier bases, and reshored/onshored aspects of their supply networks.
- **New ways to deal with ongoing labor constraints.** Whether they're adding more materials handling automation to their warehouses, outsourcing distribution to third-party logistics providers (3PLs) or adding innovative picking technology that makes warehouse workers' jobs easier, manufacturers and distributors are doing what they can to deal with the persistent labor shortage. They're figuring out how to be more efficient with less headcount and all while growing orders, increasing throughput, and managing internal supply chain risk.

- **Employee health and safety remain key concerns.** In order to keep their workforces healthy, safe and productive, manufacturers and distributors are deploying "touchless" technology, automation, applications, and tools that help support social distancing in the workplace. The same diligence is being applied in the customer-facing world where orders can be placed, managed and received in a touchless manner. Advanced technologies such as artificial intelligence (AI), machine learning (ML), and robotic process automation (RPA) help companies get more done while also protecting their valuable labor pools.

- **Investors are encouraging innovation, but they want to see track records and proof that it works.** Working with external consultants, investors are taking deep dives into their target companies' research and development (R&D) activity to see how much companies are spending, what they're developing and the results of those actions over the last two years. Most investors want to see tangible results. One company CohnReznick recently worked with had some traction under its feet on this level — having implemented new equipment meant to improve efficiency and reduce labor costs — but that wasn't enough for investors to give a multiple based on projected savings. Typically, the innovation has to show real results for investors to pay for it in the purchase price.

Q3 2021 capital invested by primary M&D sector



FOOD MANUFACTURING DEALS

During FY20 and continuing into FY21, various reports and news sources have indicated the emotional strain working from home and constantly being "on" has had on employees. Many consumers have turned to comfort food to provide a source of relief. The producers and distributors of breads, desserts and other similar products have seen tremendous sales growth as retailers welcome them on their shelves – and investors have noticed! During Q3 2021, we saw multiple transactions in this space getting done including: (i) Rise Baking Company received $740 million in debt financing from MidCap Financial; (ii) Belgian Boys raised $1.64 million in seed funding from SpaceStation Investments; and (iii) Teeny Foods Corp. was acquired by CenterGate Capital through an LBO for an undisclosed sum.

During FY20 we saw retailers not wanting to take on new suppliers or launch new products due to the disruption in the supply chain and lack of consumer browsing in-store. While certain supply chains are still stressed, we have returned to a more normal state with retailers looking to diversify suppliers and launch new brands and products once again.

Aware of the surge in comfort foods (as previously noted) and the return of family and friend gatherings, retailers have put a renewed focus on stocking baked goods. Helana's family-owned bakery has been impacted personally and recently signed up with local and national grocery chains to stock their baked goods. She couldn't be more excited!

One last trend we want to touch on is co-manufacturing. Outsourcing your manufacturing to others or seeking a co-manufacture to produce your product has gained a lot of attention. Helana recently attended Expo East where she met two national brands that co-manufacture their own products, as well as private label brands for others. They were seeking new customers as they continue to add capacity at their plants. FoodScience Corporation (owned by private equity firm Wind Point Partners in Chicago) definitely sees the benefit in co-manufacturing and acquired Pet Tech Laboratories in Sept. 2021. While Pet Tech Laboratories co-manufactures for animal nutritional supplements, we expect to see more food focused co-manufactures grow and gain investor notice.

WHAT'S NEXT

With the worldwide COVID-19 vaccination efforts underway demand is high in both the B2B and B2C sectors, and with supply chain shortages continuing across the board, Manufacturing and Distribution will continue to face challenges but may also see new opportunities opening up during the fourth quarter. Investors appear to be aware of these factors and see much potential in the sector; this may continue to buoy M&A activity during the coming quarter.

The passage of the *Infrastructure Investment and Jobs Act* could inject a major infusion of federal funding for US public works across various industries, making Manufacturing and Distribution companies an even more attractive target for investors in the coming months. Based on the relevant conversations that took place during Q3, we could see an uptick in Manufacturing and Distribution deals focused on the infrastructure bill during the fourth quarter.

As these and other external factors continue to evolve, companies operating in the Manufacturing and Distribution sector are also outsourcing more non-core responsibilities to reliable third parties and focusing on what they do best. Technology has advanced to the point where companies can readily pull operational data from their providers' systems. For example, a third-party logistics firm that manages a manufacturer's distribution arm can use a transportation management system (TMS) to provide the data that manufacturer needs to be able to provide shipment visibility to its own customers.

With this data in hand, companies in the sector can more confidently outsource these activities while conserving internal resources for more important projects. They can also effectively streamline their operations, control their outputs and inputs (based on the data), and present an attractive package for potential investors that want to see companies focused on what they do best, versus trying to be all things to all people.

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