MANUFACTURING & DISTRIBUTION M&A QUARTERLY

Q4 2021

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Helana Robbins Huddleston

Investor interest in the Manufacturing and Distribution sector heightened in Q4 as companies continued to adjust to the new realities of the global pandemic and developed new approaches to address persistent labor, supply chain, and logistics challenges. Overall deal volume for the sector reached $96.86 billion during the three-month period compared to $53.28 billion for Q4 2020. Average deal size during Q4 2021 was $128.3 million, up from $52.6 million in 2020 and $57.4 million the previous year.

Some companies managed the labor, supply chain, and logistics challenges by investing in automation, increasing their inventory stocking, and bringing suppliers and distributors closer to home. By shortening manufacturing lead times and reaching customers quicker, companies gained operational efficiencies and maintained gross profit margins; enough to grab investors' attention, which I expect to continue through 2022.

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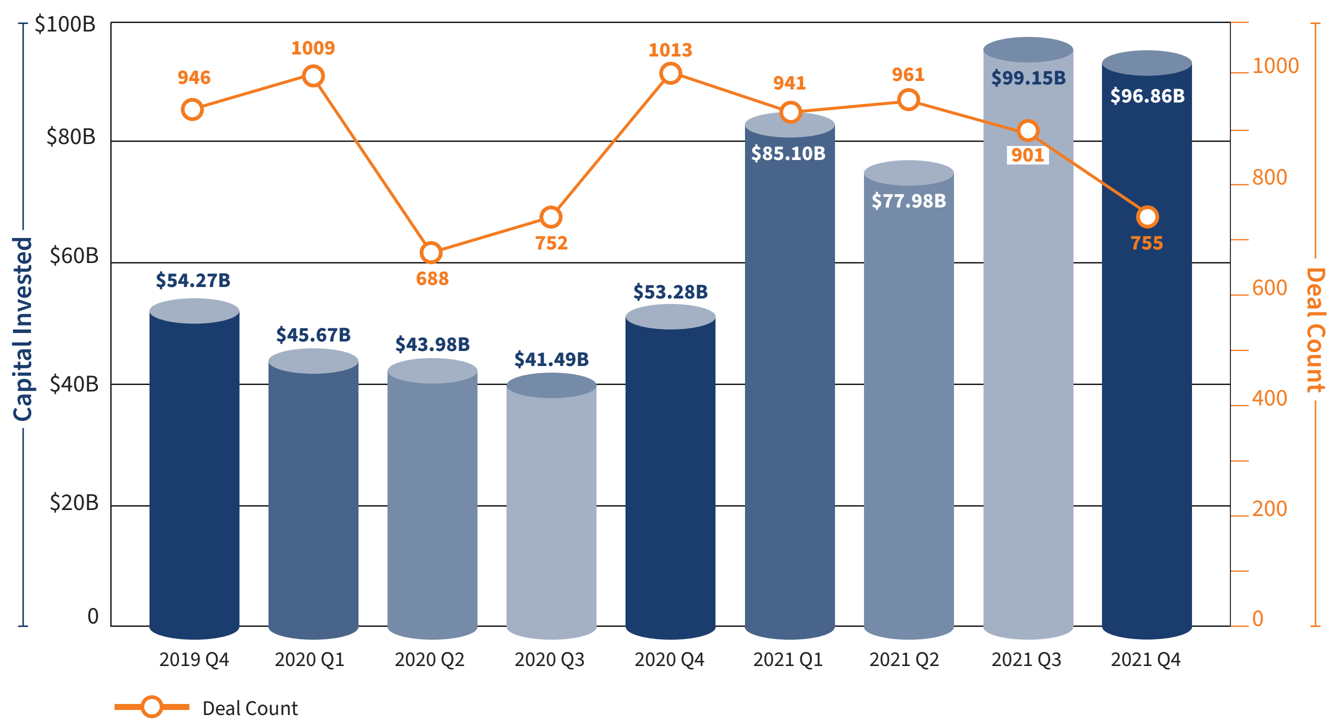
Q4 2021 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc., as of Jan. 4, 2022

Capital invested by deal count



Manufacturing and Distribution M&A activity picked up during the second half of 2021 and maintained momentum throughout the year; reaching levels that many of us in the transaction community had never seen in the past. Combined deal volume for Q4 and Q3 reached $196.01 billion in 2021 compared to $94.77 billion the prior year and $89.01 billion in 2019.

The average deal size has also more than doubled, albeit Q4's numbers were skewed by the October mega deal of $34 billion involving Blackstone and Medline, whereby the latter – the largest privately-held manufacturer and distributor of healthcare supplies – received a majority investment from a partnership comprised of funds managed by Blackstone, Carlyle and Hellman & Friedman. The overall larger deal size in Q4 isn't surprising since EBITDA multiples have continued to increase over the past few years and are now particularly high for businesses that have (i) niches, (ii) established e-commerce platforms and/or (iii) provide a product or service that falls under the environmental, social, and governance ("ESG") umbrella.

Q4 2021 top investors: Most active private equity firms based on number of deals

Private Equity Fund	Deal Count
Audax Group	8
The Carlyle Group (NAS: CG)	7
Arsenal Capital Partners	6
Fidelity Management & Research	6
Kohlberg Kravis Roberts (NYS: KKR)	6

In Q4, the top investors included newer entrants like One Equity Partners, Arsenal Capital Partners, and Gainline Capital Partners. In addition to these newer entrants making the top investors list, there were also two new funds, both founded in 2018, that were notably active this year: MiddleGround Capital and Arcline Investment Management. When discussing 2021 transactions, MiddleGround recently said: "We were able to raise over $1 billion, deploy roughly $700 million into five platforms and three add-ons, and return significant capital to our investors. This was no easy feat. The industrial M&A market has been extremely robust over the past year, with many high-quality companies being pursued by a lot of capital. The way we've managed to navigate these dynamics and surpass our strategic goals for 2021 comes down to one common denominator – our team. The success we've enjoyed this year is simply an output of our focus on building a culture that aligns our team with MiddleGround's vision."

Furthermore, with interest in building material companies growing – and material pricing volatility for commodities like lumber being passed onto end buyers – Lehigh West Region and Boral Industries both received investor interest during Q4. A manufacturer of building materials in California and Arizona, Lehigh was acquired by Martin Marietta for $2.3 billion in October, the same month that the North American building products businesses of Boral Industries were acquired by Westlake Chemical for $2.15 billion.

Contract manufacturing continued to remain in the spotlight during 2021 as organizations work to offset supply chain challenges, port congestion, capacity crunches, and rising transportation costs. This trend is piquing investors' interest, with the acquisition of PacMoore Products by MSI Express (backed by HCI Equity Partners) being one example of this. A provider of contract packaging and contract manufacturing services, MSI primarily works with CPG brands in the liquid and dry food space, with PacMoore representing the third add-on acquisition for MSI (following HCI's initial investment in 2018).

Capital by industry continues to move in a similar direction as Q3, with a greater shift towards B2B. B2C and B2B had close to the same total capital invested for the 2021 year of $100.326 billion and $97.346 billion respectively. Healthcare was close behind at $85.983 billion.

Overall, we saw 2021 have interest from investors in technology and healthcare, likely driven by the variants that are extending the duration of the pandemic and requiring an even larger supply of tests, vaccines, and related products. Investors showed significant interest in B2C deals during the first half of 2021, particularly those with e-commerce platforms and focused on grocery/pet products.

Q4 2021 Top 10 deals

Company Name	Deal Size (millions)	Investors	Deal Type
Medline Industries	34,000M	Medical Supplies	Buyout/LBO
BA Sports Nutrition	5,600M	Beverages	Merger/Acquisition
The Chamberlain Group	5,000M	Building Products	Buyout/LBO
Rexnord (PMC Business)	3,690M	Industrial Supplies and Parts	Merger/Acquisition
Domtar	3,000M	Forestry Processing	Merger/Acquisition
Masterflex (Vernon Hills)	2,900M	Other Devices and Supplies	Merger/Acquisition
Lehigh West Region	2,300M	Raw Materials (Non-Wood)	Merger/Acquisition
Boral Industries	2,150M	Building Products	Merger/Acquisition
Raven Industries	2,100M	Construction and Engineering	Merger/Acquisition
AOC Resins	2,000M	Multi-line Chemicals	Buyout/LBO

MARKET FACTORS IMPACTING THE DEAL SPACE

- **Labor constraints continue to be a significant concern for manufacturing and distribution companies.** It's been seven months of people quitting their jobs at near-record highs, and businesses are continuing to comment that they cannot find workers to fill open roles, Business Insider reports. We have seen companies increase usage of temporary agencies to fill open positions, sometimes paying four times as much compared to a fully-burdened employee. Internal wages have also been on the rise as a way for employers to attract permanent workers. According to the Bureau of Labor Statistics, average hourly earnings have ticked up by 4.8% from November 2020.

- **Order lead and delivery times are of utmost importance, and finding a way to manage them can put a company ahead of its competitors and win investors' attention.** We are seeing companies manage supply and logistics challenges in a few ways:
  - **Increasing their spend on inventory to avoid stretched out supplier and distribution lead times.** Companies are stocking more raw materials and finished goods in anticipation of orders, and paying container and freight costs at multiples of historical pricing to get their inventory in-house.
  - **Devoting additional resources to enhance their forecasting, reporting, and analytics capabilities to manage the increase in plant floor activities.** Downstream implications of these needs will likely have increased demands on operationally focused technology solutions. Investing in technologies will be offset by the savings in inventory storage cost if companies can properly manage customer demand with production to have a more just-in-time approach, even during times of supply and logistics challenges.
  - **Changing the route-to-market.** One example is Nike who has hinted that they will pull out of partnerships with particular retailers and emphasized an increased focus on a direct-to-customer approach. We anticipate more manufacturers will continue to close the distance between them and their customers, and improve their overall knowledge of their end-customer, which has been long desired but not achievable in the past.

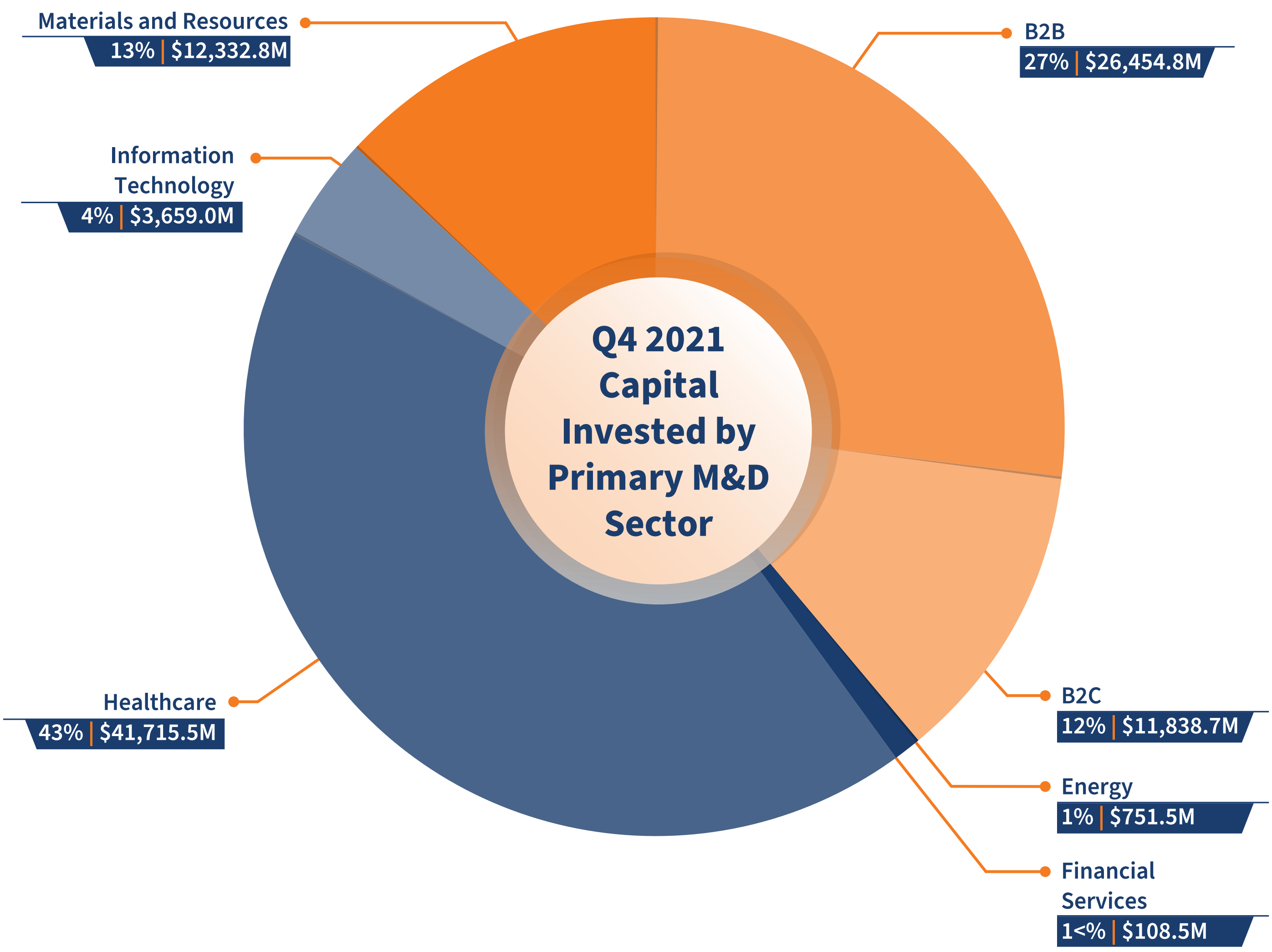
  These strategies can pay off when five-week lead times turn into many months and being able to service customers comes down to which company has inventory in stock. Companies can gain market share from competitors if they manage their inventory and distribution network closely.

- **Aligned with increase lead times, more plant and distribution center expansions, and greenfield projects are being announced**. If the pandemic taught us anything, it's that global supply chains that stretch overseas can be especially vulnerable to disruption. Companies are thinking differently now.
  - Medical device manufacturer Medtronic will be moving its Memphis operations to a larger facility as part of a plan to consolidate operations nationwide. Part of the new space will be sublet to CEVA Logistics, which will create 265 new jobs, Commercial Appeal reports.
  - Vinylmax and thyssenkrupp BILSTEIN of America are using Ohio state tax credits to expand their operations. For thyssenkrupp, it's the company's sixth expansion. Vinylmax, which manufactures vinyl and wood windows for new home construction as well as to replace existing ones, plans to increase production to meet growing demand, according to Journal-News.
  - Food Business News reported that confectionery manufacturer Perfetti Van Melle USA Inc. has announced plans to invest $9.8 million to expand its manufacturing facility in Erlanger, Kentucky. The maker of Airheads, Mentos, Fruit-tella, and Chupa Chups said it will add a candy manufacturing line and install an additional automated packaging area at the facility.

- **The passage of the infrastructure bill in November 2021 will create new opportunities for manufacturing and distribution in 2022 as the funds become available**. The bipartisan *Infrastructure Investment and Jobs Act* provides for $1.2 trillion in federal spending over the next five years. The bill includes funding that addresses energy, transportation, and water, including $65 billion allocated for electric and grid infrastructure. Another $47.2 billion is dedicated to resilience, including cybersecurity, The Hill reports.

- **The Biden administration will invest billions to expand coronavirus vaccine manufacturing**. According to the Washington Post, the administration is planning to invest billions of dollars to expand U.S. manufacturing capabilities of coronavirus vaccines to increase the supply of doses for poorer nations and better prepare the country for future pandemics. The White House will aim to spur the production of at least one billion doses a year by investing in companies that make mRNA vaccines, such as Pfizer and Moderna, and helping them expand capacity by funding facilities, equipment, staff, and training.

Q4 2021 capital invested by primary M&D sector



WHAT'S NEXT?

Some good news emerged on the supply chain front recently. It appears some of the bottlenecks that have been hurting consumers are finally easing, according to Motley Fool. U.S. port congestion isn't as bad as it was weeks or months ago, helped in part by turning several key ports into 24-hour operations. Delivery times are also improving. According to the Wall Street Journal, Nike executives expect the inventory situation to improve and its Finance Chief, Matthew Friend, said on a conference call that, "compared to 90 days ago we are increasingly confident supply will normalize heading into fiscal 2023 (June 2022)." The increased confidence and progress at the ports could mean a downtick in the increased consumer pricing all of us have been experiencing the past six months.

With labor constraints expected to linger in 2022, automation will continue to play a vital role in both back-office tasks and plant floor activities. Technologies like robotic process automation (RPA), artificial intelligence (AI), and machine learning (ML) will continue to make their way into the value chain, improving time-to-market, reducing operational spend, and eliminating error-prone processes along the way.

Increased investor focus on an ESG strategy will continue to gain momentum and impact investors across not only their investments, but fund formation, capital raising, operations, and their employee talent. Companies looking to attract investors should be considering ways to reduce carbon emissions or other pollution in their manufacturing process, ensuring data protection and privacy for their employees and customers, diversifying their employee talent and board composition, and more. The aerospace and defense industry has clearly taken ESG strategy into consideration as numerous airlines including American Airlines, United Airlines Holding Inc., and Delta Air Lines Inc. have announced their commitment to "Fly Net Zero" or achieve net zero carbon by 2050. Aircraft manufacturers and distributors should be focused on developing their processes and products to meet their customers' ESG expectations.

FOOD AND BEVERAGE DEALS

Along with the PacMoore deal mentioned earlier, some of the top food and beverage investments in Q4 included Lakeside Foods' acquisition of Cher-Make Sausage; Transparent Path's $7.82 million in angel funding from NetCapital; and Nepra Foods' $7.42 million IPO (on the Canadian Stock Exchange).

With all eyes on sustainability right now, food companies with an ESG footprint garnered investor interest during Q4. For example, Footprint International Holdco, a global materials science technology company focused on sustainable solutions, and Gores Holdings VIII entered into a definitive merger agreement that will bring the former public. The combined company, Footprint International, is expected to be listed on NASDAQ.

Also in Q4, Full Harvest received $23 million in Series B financing from lead investors TELUS Ventures, Citi Impact, Rethink Impact, and Astia Fund. Full Harvest partners with farms to obtain imperfect and surplus produce that it then sells to the market, thus providing an end-to-end solution for efficiently sourcing sustainable produce.

ESG strategy is not lost on the food and beverage industry, and we will continue to see more food and beverage companies coming to market with sustainable products produced in ethical ways, while also maintaining a strong culture of governance and responsibility to the community. We also noted that recent launches of products using upcycled ingredients include Wtrmln Wtr, a cold pressed juice that uses imperfect watermelons, and Barvocado, which uses upcycled avocado seeds to make energy bars. This is a global trend that's not limited to the U.S. Additionally, we expect to see more sustainable packaging being used by food and beverage companies that is either recyclable, refillable, and/or compostable. Evanesce, a company accelerating the adoption of green packaging, has molded starch technology that produces 100% compostable packaging material. The company expects to launch its products including meal trays, meat trays, containers, and cups into the market in early 2022.

Another top trend in the food and beverage industry that we expect to see is more plant-based options. Interest in plant-based food and beverages continues to grow, with plant-based food and beverage sales expected to reach $7 billion for 2021 – a 27% increase over 2019, xtalks reports. According to the Good Food Institute, this niche sector grew almost 2.5 times faster than total food sales between 2018 and 2020. Many plant-based manufacturers and distributors focused on bringing plant-based products to market with similarities first to red meat and then to poultry. We expect the focus to turn to fish in 2022 with companies like Aqua Cultured Foods, Good Catch, and Save to Sea already launching plant-based fish products for both adults and children. We also expect to see an increased focus on health and nutrition by plant-based product companies who have mastered winning products but now are looking to identify ways to use minimal ingredients and processing **without** sacrificing taste or texture.

Q4 2021 food manufacturing deals

Company Name	Deal Date
Netzro	14-Dec-2021
J.M. Smucker (Dry Pet Food Business)	01-Dec-2021
PacMoore Products (Contract Manufacturing Operations)	25-Oct-2021

Contact

Helana Robbins Huddleston, CPA, CIRA, Partner, Transactional Advisory Services
Author, *Manufacturing and Distribution M&A Quarterly, Q4 2021*
312.508.5813 | helana.robbins@cohnreznick.com

Henrietta Fuchs, CPA, Partner, Manufacturing and Distribution Industry – Co-Leader
646.762.3432 | henrietta.fuchs@cohnreznick.com

Jeffrey W. Rossi, CPA, CFE, Partner, Manufacturing and Distribution Industry – Co-Leader
203.399.1903 | jeffrey.rossi@cohnreznick.com

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