

INDUSTRY INSIGHTS MANUFACTURING

Q3 2021 M&A Market Update

INSIDE THIS ISSUE...

Following a relatively subdued year of manufacturing sector deal activity in 2020, M&A activity went into overdrive in the first three quarters of 2021. Overarching market themes, including access to low cost of capital, a recovery in business activity and companies' focus on business digital transformation served as catalysts bolstering 2021 transaction volume in the manufacturing sector. These market influencers, together with the prospect of capital gains tax hikes by early 2022 are expected to remain prevalent, compelling M&A activity through the end of the year.

The stay-at-home economy of the post-pandemic era has shifted investor interest to B2B manufacturers from B2C manufacturers. In 2021, investors in the manufacturing space focused their attention on data-oriented, technology enabled organizations that use data to determine investments, run operations, price products and improve margins. Increased competition among strategic and private equity buyers front running digital transformation and automation trends as well as the perceived demand uplift for manufactured goods from the infrastructure bill drove the median enterprise value (EV)/EBITDA multiple to 11.9x, up from 10.0x in the first three quarters of 2020.

The return to historical multiple levels not seen since 2016 contributed to a 44% increase over the first three quarters of 2020 in announced deals involving U.S. headquartered targets. Transaction volume in the sector was further strengthened by lenders offering less restrictive covenants on low interest capital which they are looking to deploy. Additionally, public equity markets delivered record levels of performance in Q1 2021. BDO Capital's manufacturing sector index outpaced the S&P 500's equity performance, as demand for manufactured goods continued to recover from the COVID-19 induced slump. We expect manufacturing sector players to focus their efforts on managing supply chain shortages, transportation challenges, and labor constraints, meanwhile deploying capital to accelerate digital transformation and automation for the rest of 2021 and 2022.

BDO Capital Advisors, LLC provides the following services:

- ▶ Sell-side Advisory
- ▶ Acquisition Advisory
- ▶ Board Advisory
- ▶ Capital Raising

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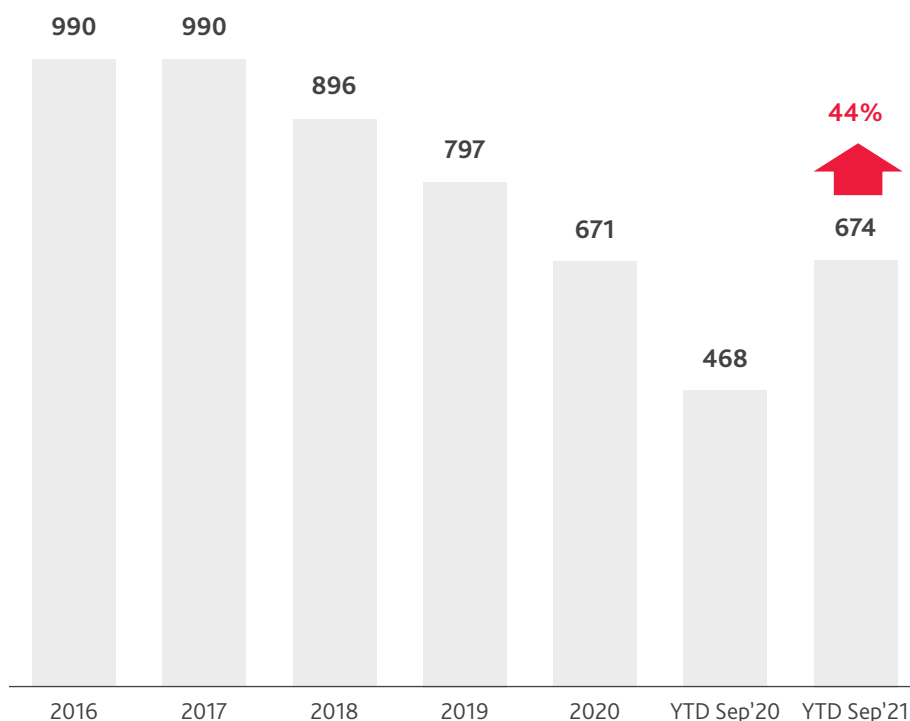
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SECTOR M&A ACTIVITY

M&A Transaction Volume: U.S. Manufacturing Industry

Commentary

- ▶ Activity in the U.S. manufacturing M&A market witnessed a strong uptick in the first three quarters of 2021, posting a 44% increase in transaction volume over the same period a year ago.
- ▶ In total, there were 674 announced deals in the sector involving U.S. headquartered targets as of Q3 2021, a sign that deal making is on pace to exceed the pre-COVID-19 volumes seen in 2019.
- ▶ Labor shortages and increasing wages have made manufacturing automation and digital transformation the key themes of this M&A cycle.

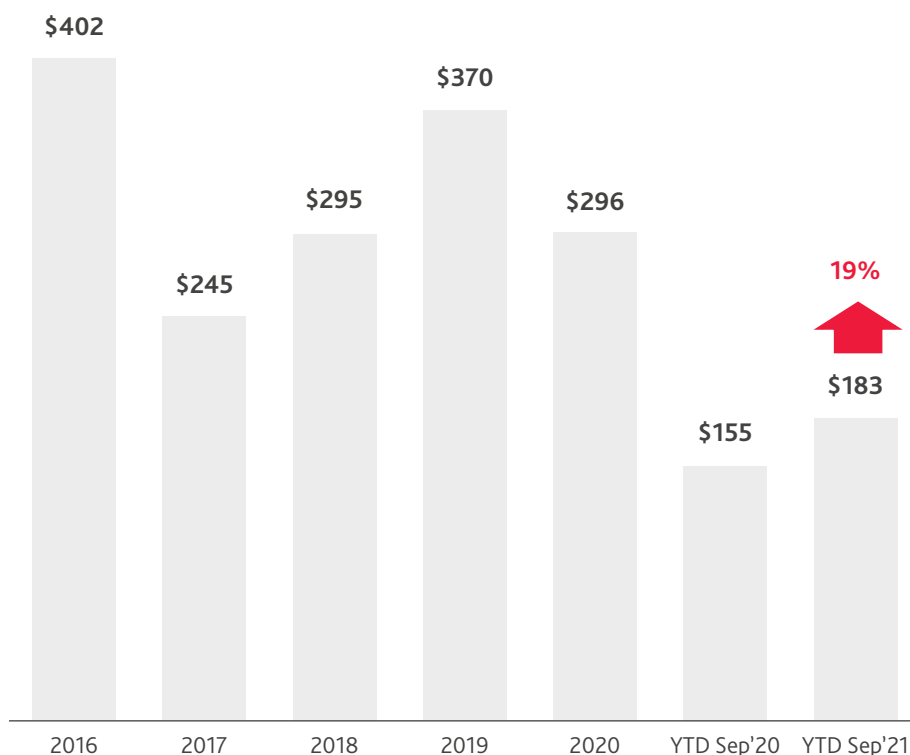


Source: S&P Capital IQ

M&A Transaction Value (\$B): U.S. Manufacturing Industry

Commentary

- ▶ Total reported year-to-date deal value improved 19% year-over-year.
- ▶ Buyer enthusiasm was evidenced by 10 manufacturing megadeals (transactions exceeding \$1 billion) in Q3.
- ▶ TRATON GROUP, a subsidiary of Volkswagen, acquired Navistar, which manufactures medium and heavy-duty trucks, school buses and military vehicles, for approximately \$3.7 billion—the largest U.S. manufacturing M&A deal announced in Q3.
- ▶ Standard Industries' approximately \$6.7 billion acquisition of W.R. Grace, a global manufacturer of specialty chemicals, was the largest U.S. manufacturing deal so far in 2021.



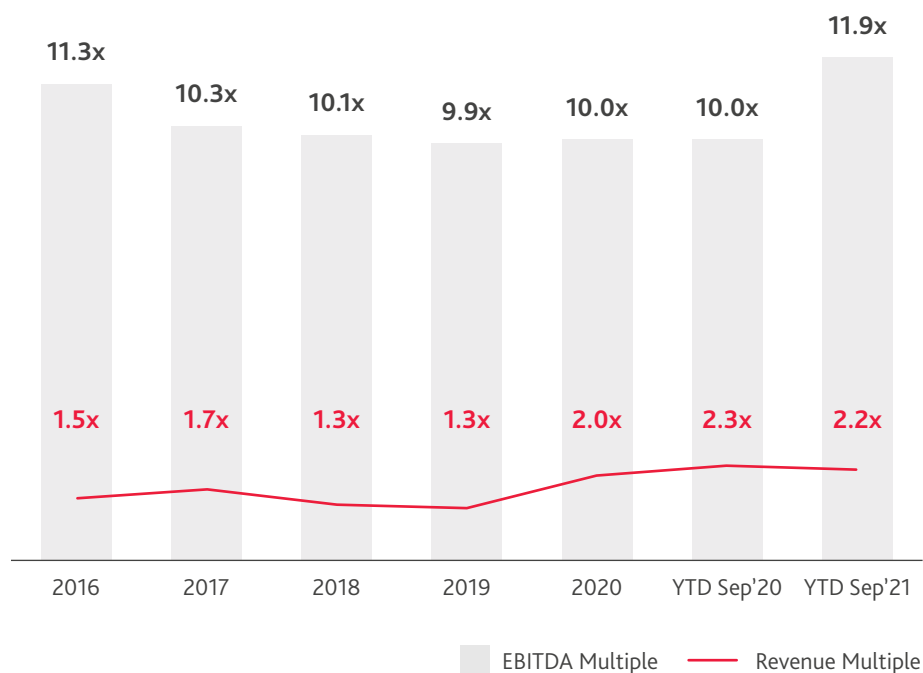
Source: S&P Capital IQ

SECTOR VALUATION TRENDS

Median U.S. Manufacturing M&A Transaction Multiples

Commentary

- ▶ Investors drove up strategic and private equity valuations so far in 2021 as the world slowly returned from lockdowns and capital remains cheap.
- ▶ The median reported EV/EBITDA multiple increased to 11.9x in the first nine months of 2021 from 9.3x in the same period in 2020.
- ▶ Financial sponsors are contributing to the significant increase in valuations in the sector as they try to position themselves for an anticipated increase in demand for products that are needed to support infrastructure bill beneficiaries.



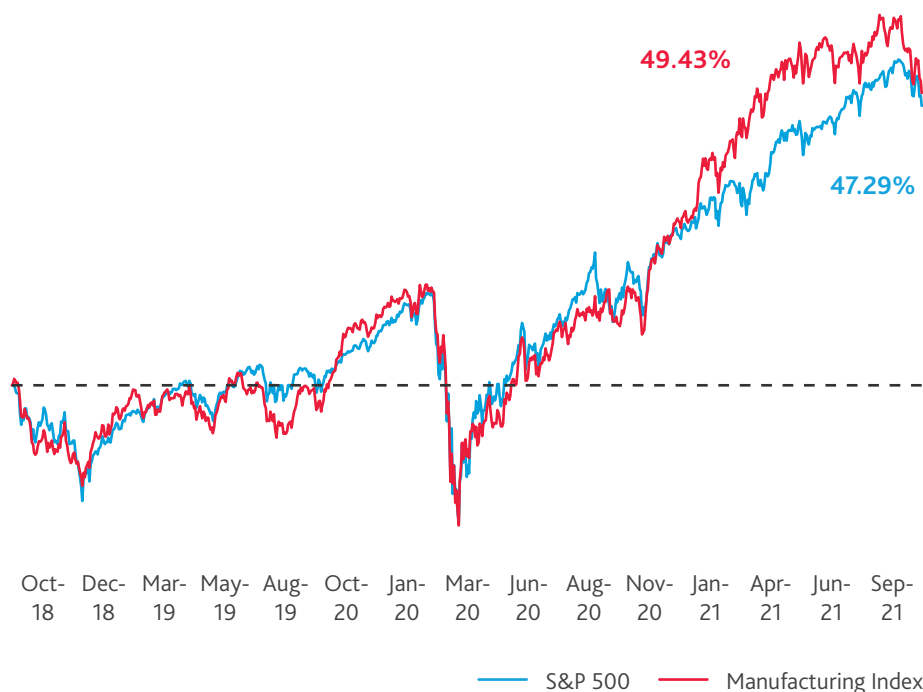
Note: Excludes EBITDA multiples > 20x

Source: S&P Capital IQ

Manufacturing Equity Performance V. S&P 500 Index

Commentary

- ▶ Through the end of Q3 2021, manufacturing sector stocks delivered returns in excess of the S&P 500 as demand for finished goods continued to recover from the COVID-19 induced slump.
- ▶ The Manufacturing Index rose 49.4% through Q3 2021 compared to a gain of 47.3% in the S&P 500 during the same period.
- ▶ Market participants are balancing between positive tailwinds from re-opening and the headwinds from supply chain shortages, commodity price inflation, transportation challenges and labor constraints.



Note: Manufacturing Index weighted by market capitalization

Source: S&P Capital IQ

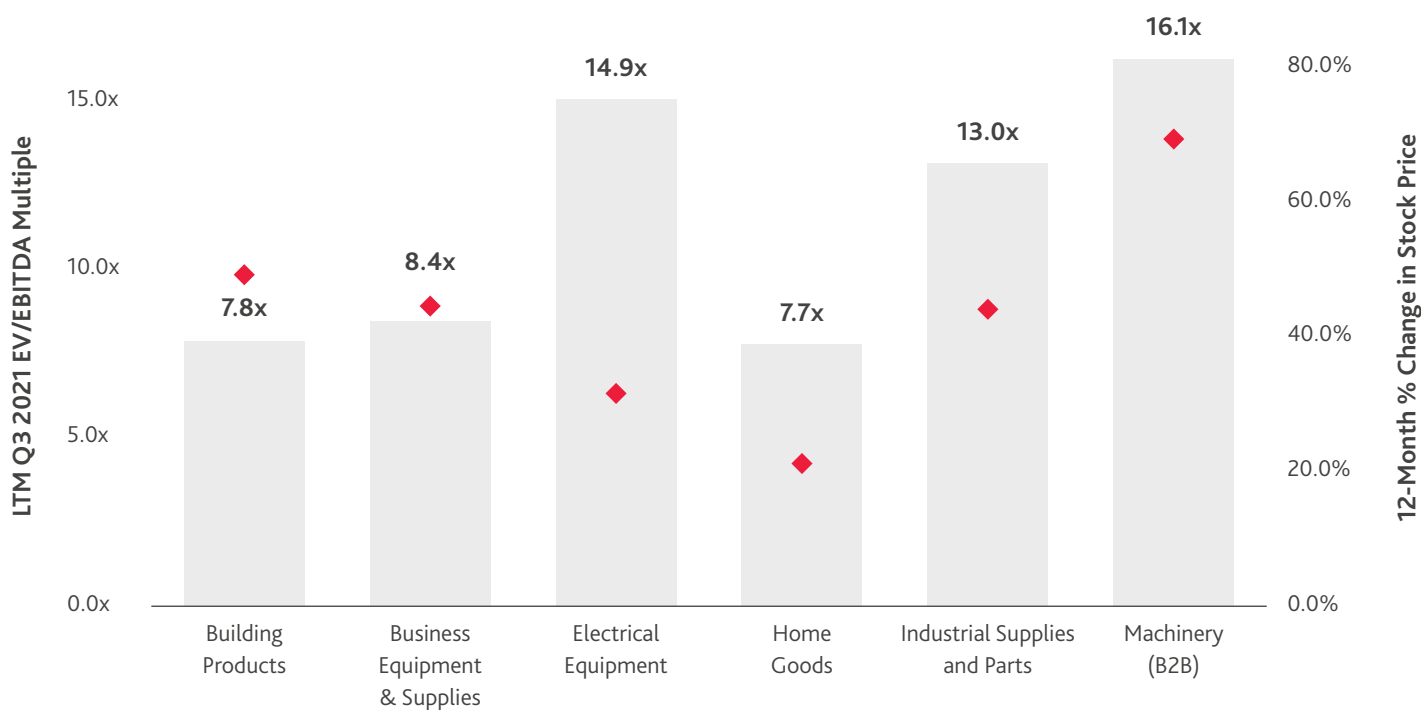
EQUITY TRADING OVERVIEW

Key Trading Statistics

Sub-Sector	# of Companies	Median Enterprise Value (\$mm)	Change in Stock Price		LTM Q3 2021		2021E	
			3 mos.	12 mos.	EV/ EBITDA	P/E	EV/ EBITDA	P/E
Building Products	10	3,058	22.5%	48.7%	7.8x	24.2x	8.8x	14.0x
Business Equipment and Supplies	1	2,067	1.7%	44.1%	8.4x	10.7x	7.0x	6.2x
Electrical Equipment	9	11,230	19.2%	31.3%	14.9x	25.1x	13.8x	20.5x
Home Goods	6	7,665	8.6%	21.1%	7.7x	12.2x	8.9x	12.3x
Industrial Supplies and Parts	15	5,823	7.7%	43.7%	13.0x	24.6x	12.1x	20.3x
Machinery (B2B)	7	70,673	20.7%	68.6%	16.1x	22.4x	15.0x	17.3x

Source: S&P Capital IQ

Public Company Sector Performance



Source: S&P Capital IQ

 LTM Q3 2021 EV/EBITDA
 12 Months % Change



COASTAL
SHOWER DOORS



Served as exclusive financial advisor to Coastal Industries, Inc. in its sale to American Bath Group, LLC

BDO CAPITAL DEAL CLOSING

BDO Capital Announces the Sale of Coastal Industries, Inc. to American Bath Group, LLC

BDO Capital Advisors, LLC (BDO Capital) is pleased to announce the sale of Coastal Industries, Inc. (Coastal) to American Bath Group, LLC (ABG), a leading manufacturer of bathtubs, showers, shower doors and related products. BDO Capital served as exclusive financial advisor to Coastal on this transaction, which builds on the firm's experience working with entrepreneur-owned companies in the manufacturing sector. Senior Managing Director Valentina Midura led the engagement for BDO Capital.

Founded in 1972, Coastal offers a broad array of high-quality shower and bath products including swinging and sliding doors, fixed panels, tub doors, room dividers and hardware. The Company distributes its products through three Company-owned regional distribution centers, online retailers and an international network of dealers.

American Bath Group is a leading North American bathware manufacturer with a comprehensive product offering including showers, integrated tub / showers, bathtubs, shower bases, jetted whirlpools, and spas through a broad portfolio of well-recognized brands. ABG is a portfolio company of Centerbridge Partners, L.P., a leading private investment management firm founded in 2005 with approximately \$31 billion in capital under management across 10 funds with offices in New York and London.

BDO: ONE OF THE MOST ACTIVE ADVISORY NETWORKS IN THE WORLD

Top 15 Most Active Middle Market Advisor



1,546

Deals in 2020



\$83.5B

Transaction Value



100

Countries

Select BDO Capital Advisors Manufacturing Experience



Served as exclusive financial advisor to Schiller Grounds Care, Inc. in its divestiture of BOB-CAT Mowers and the Steiner and Ryan brands to Doosan Bobcat Inc. (S. Korea:KRX)



Served as exclusive financial advisor to Avista Technologies, Inc. and Avista Technologies (UK) Ltd. in its sale to Kurita Water Industries Ltd. (TSE:6370)



Served as exclusive financial advisor to Amada North America, Inc. in its acquisition of Advanced Technology Sales and Service, Inc.



Served as exclusive financial advisor to Neutronics, Inc. in its sale to Bacharach, Inc., a portfolio company of FFL Partners



Served as exclusive financial advisor to Securus, Inc. dba HOLDRITE in its sale to Reliance Worldwide Corporation Limited (ASX:RWC)



Served as exclusive financial advisor to Lenco Marine, Inc. in its sale to Power Products, LLC, a portfolio company of Sentinel Capital Partners

BDO's global M&A and Transaction Services teams completed 1,546 deals in 2020, generating a combined value of USD \$83.5B. BDO also performed strongly in the 2020 financial advisor league tables:



Top 15 ranked mid-market M&A advisor globally for deals <\$500M by Refinitiv



8th leading M&A advisor in the European market according to Refinitiv's 2020 Global Mid-Market M&A Review

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- ▶ Partial / Minority Sales
- ▶ Corporate Carve-Outs
- ▶ Cross-Border Transactions
- ▶ ESOPs

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- ▶ Strategic Alternative Reviews
- ▶ Special Committee Advisory
- ▶ Share Repurchase Programs
- ▶ IPO Advisory
- ▶ ESOP Formation

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- ▶ Structuring
- ▶ Negotiation
- ▶ Acquisition Financing
- ▶ Management Buyouts
- ▶ Acquisition Search

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- ▶ Debt
- ▶ Mezzanine
- ▶ Equity



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