

Industry Insights: **Manufacturing**

Q2 2024 M&A Market Update



Inside this issue...

Manufacturing sector M&A plateaued in 2023 and activity continued to slow in Q1 2024, with inflation, recession fears, higher cost of capital, geopolitical instability, and supply chain fragility contributing to a cautious approach to transactions. Manufacturing deals completed in recent quarters withstood the scrutiny of heightened diligence and a disciplined approach to acquisitions as investors sought to identify hidden gems at reasonable valuations. While there are ample sources of debt financing for middle-market deals primarily from private credit funds, it comes with conservative leverage levels and higher costs. Elevated interest rates have also contributed to differing perspectives on valuations and a disconnect between what sellers believe a company is worth and what buyers are willing to pay. Privately held founder-owned businesses continued to make up a larger share of transactions due in part to demographic factors, as private equity exits have been delayed.

Despite a tepid environment, signs are emerging for an uptick in manufacturing M&A in H2 2024 as moderating inflation, a resilient US economy, and the prospect of declining interest rates have boosted prospects of a soft landing. Also, pent-up demand for deals, large quantities of dry powder held by strategic and financial buyers, and corporate repositionings are poised to drive increased transactions.

As broad economic indicators improve, manufacturers have indicated an appetite for acquisitions that enable consolidation and vertical integration.

Higher input costs and intense competition are motivating companies to seek greater scale, operating leverage, synergies, talent in a tight labor market, and access to new technologies. The manufacturing PMI registered expansion in March 2024 for the first time since October 2022, before regressing to contraction territory in April 2024. Large manufacturers have been eyeing targets that bring in key technologies as part of an industry shift towards smart manufacturing. Digital transformation employing artificial intelligence, the internet, robotics, automation, and data analytics are important aspects of many manufacturers' strategies to optimize operations, increase productivity, and reduce costs.

Global uncertainty regarding international conflicts and their impact on supply chain stability impacted manufacturing M&A in 2023. Buyers are looking toward targets that help mitigate such risks in 2024, in some cases through geographic diversification, acquiring additional manufacturing capacity in new regions. Nearshoring by acquiring targets, particularly in Mexico where a lower cost of labor and direct access to the American market exists, is on the rise. Reshoring to the US to manage supply chain risk, reduce transportation costs and lead times, increase quality and product availability, and improve customer responsiveness are also important goals. Transplantation of manufacturing facilities back to North America has been particularly prevalent in the automotive and semiconductor manufacturing industries, the latter having significantly increased investments, propelled in part by the 2022 U.S. Chips Act.

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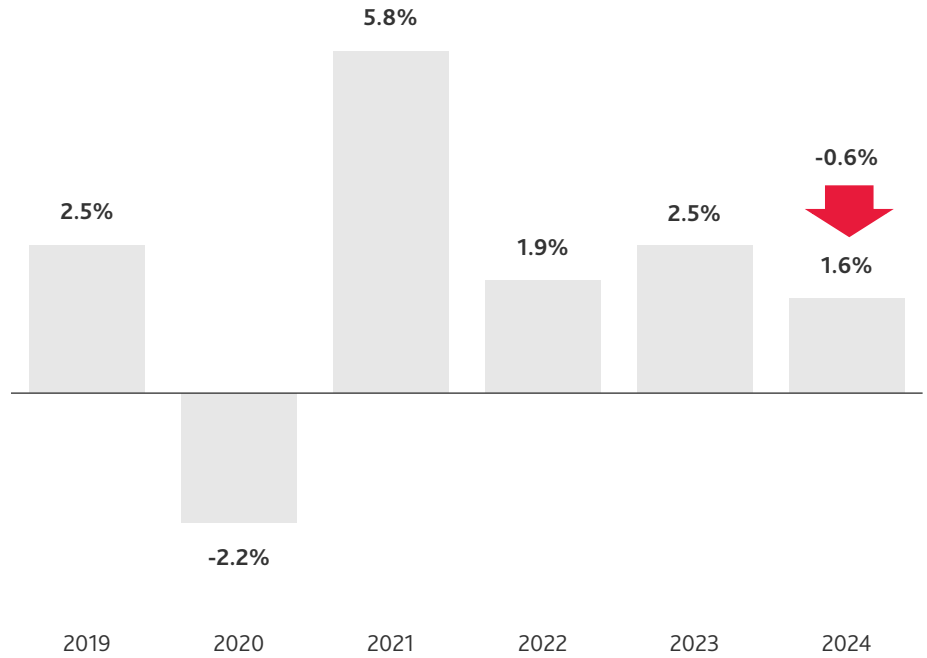
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MANUFACTURING ECONOMIC INDICATORS

U.S. Real GDP Annual Percent Change

Commentary

- ▶ U.S. Real GDP grew at an annualized rate of 1.6% in Q1 2024, declining from 2.5% in 2023.
- ▶ Deceleration in GDP reflected declining consumer spending, exports, and a downturn in government spending, partially offset by increases in residential fixed investment.
- ▶ U.S. economic health is an important influencer of manufacturing activity, which represents about 11% of overall GDP.

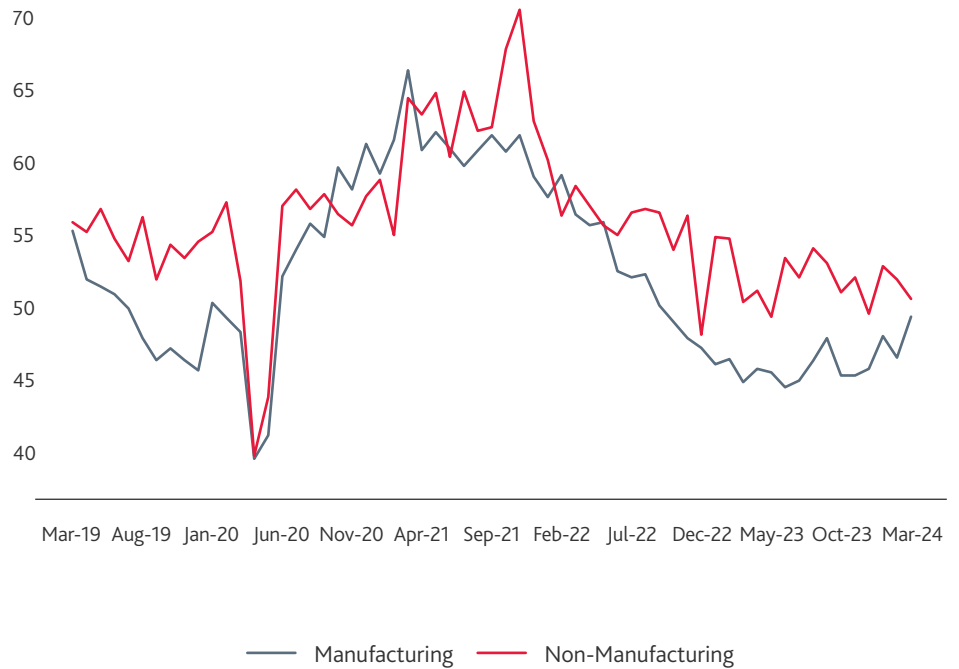


Source: Bureau of Economic Analysis

Manufacturing PMI VS Services NMI

Commentary

- ▶ ISM's manufacturing index ("PMI") averaged 49% in Q1 2024, up from an average of 47% in 2023.
- ▶ Recent values reflect the continued contraction in manufacturing, despite a normalization of supply chain operations.
- ▶ In March 2024, twelve of the sixteen services industries registered growth, reflecting continued improvement in logistics and the supply chain.
- ▶ In comparison, the non-manufacturing index ("NMI") or "Services Index" revealed continued market growth in Q1 2024 at a 52% average level, compared with a 53% average in 2023.



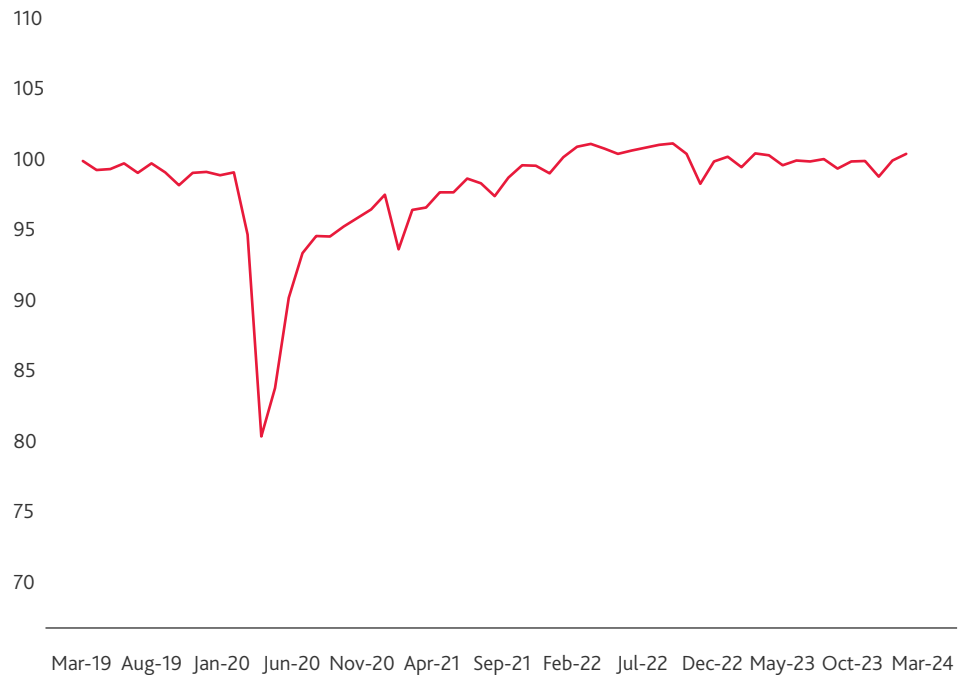
Source: Institute for Supply Management

MANUFACTURING ECONOMIC INDICATORS

U.S. Manufacturing Production

Commentary

- ▶ Manufacturing output declined at an annualized rate of 1.8% in Q1 2024, following 1.2% growth in 2023. Strength in H1 2023 was mitigated by a slowing economy in recent quarters and fears of lower economic activity in 2024 as the impact of higher interest rates takes effect.
- ▶ Factory output declined 0.1% annualized in Q1 2024.
- ▶ Mining output declined 12.3% annualized in Q1 2024, driven in part by reduced oil and gas extraction, and declines in related ancillary services.

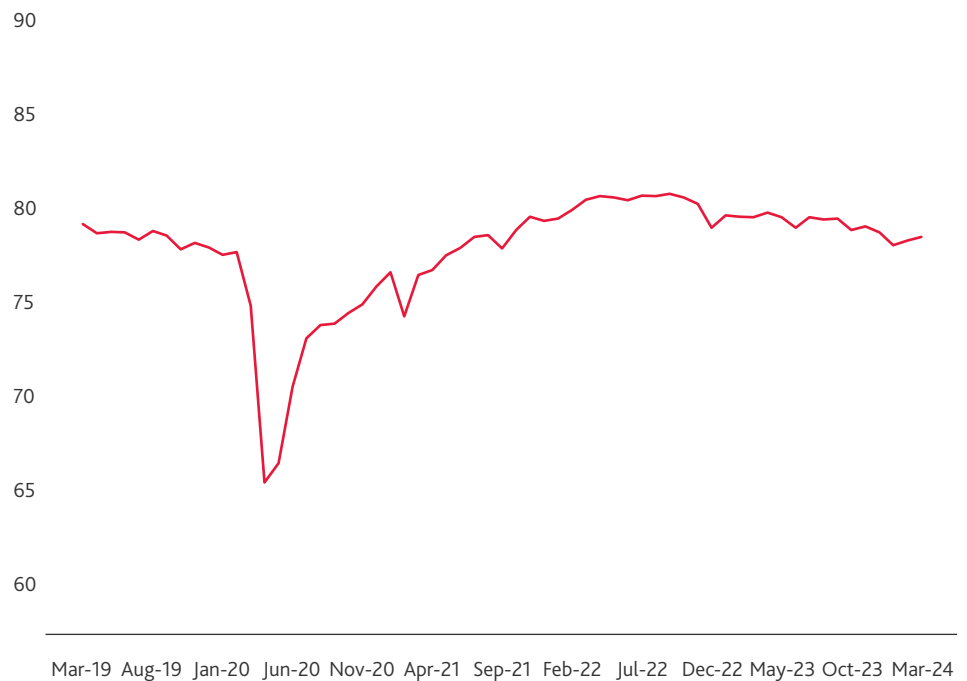


Source: Board of Governors of the Federal Reserve System (US)

U.S. Manufacturing Capacity Utilization

Commentary

- ▶ Capacity utilization at the end of Q1 2024 for manufacturing was 78.4%, slightly above the long-run average of 77.6%.
- ▶ Capacity utilization softened slightly going into Q1 2024 for both durable and nondurable good manufacturers as demand for products moderated.
- ▶ Foreign demand also contracted amid global economic concerns and a strong U.S. dollar.



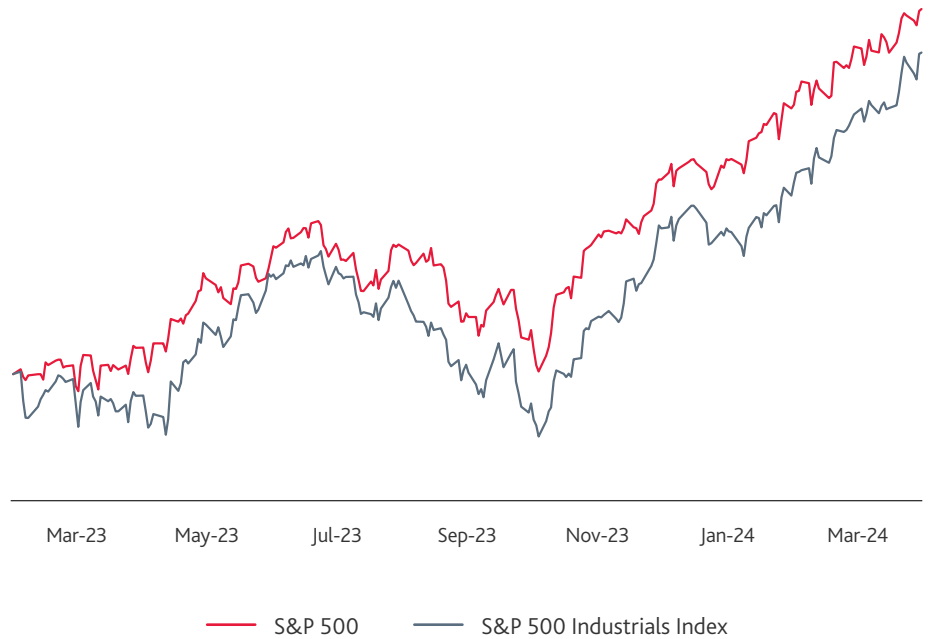
Source: Board of Governors of the Federal Reserve System (US)

S&P 500 INDUSTRIALS INDEX TOTAL QUARTERLY EARNINGS (\$B)

S&P 500 VS. S&P 500 Industrials Index

Commentary

- ▶ The S&P 500 Industrials index rose 10.6% in Q1 2024 compared to a gain of 10.2% in the S&P 500 during the same period.
- ▶ Industrials was the fourth-highest returning sector of the 11 S&P 500 indices in Q1 2024, trailing closely behind the energy, financials and communications sectors.
- ▶ The industrials sector benefited from healing supply chains and favorable pricing, along with an increase in construction, partly driven by the Inflation Reduction Act.

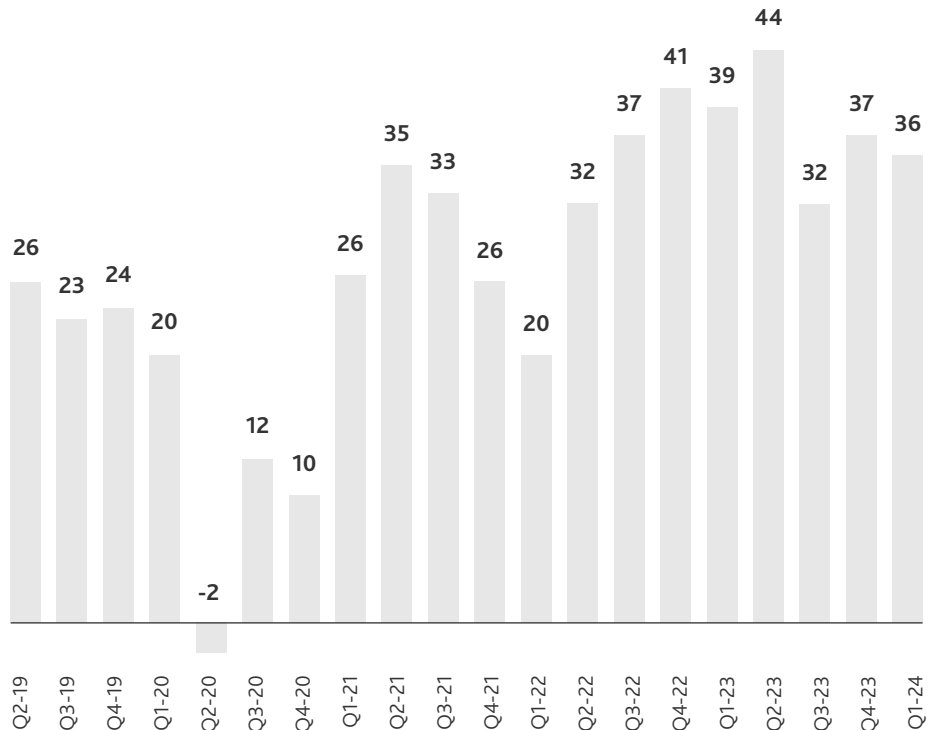


Source: Yahoo Finance

S&P 500 Industrials Index Total Quarterly Earnings (\$B)

Commentary

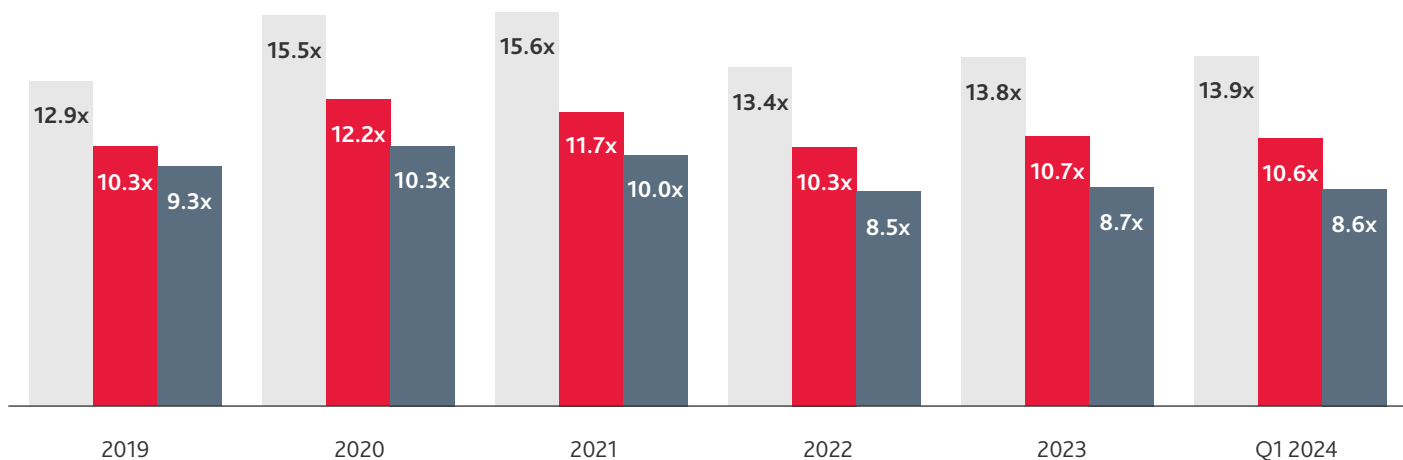
- ▶ S&P 500 Industrials annual earnings fell 4% quarter-over-quarter reaching \$35.6B in Q1 2024, following growth in 2023 as the economy expanded, company revenues increased, and a focus on cost-containment and efficiencies produced higher profits.
- ▶ Strength in early 2023 shifted to declines in recent quarters with the reduction in manufacturing output and transportation & logistics companies seeing related declines in freight volume.
- ▶ In Q1 2024, the industrials sector reported higher than consensus forecasted earnings, with positive EPS surprises from Caterpillar (\$5.60 vs. \$5.14), and 3M Company (\$2.39 vs. \$2.11).



Source: S&P Capital IQ

SECTOR EQUITY MARKET TRENDS

Public Industrial Valuations by Market Cap



Source: S&P Capital IQ

Note: EBITDA Multiples between 1x and 30x

Small-Cap between \$250M and \$2B, Mid-Cap \$2B-\$10B, Large-Cap \$10B+

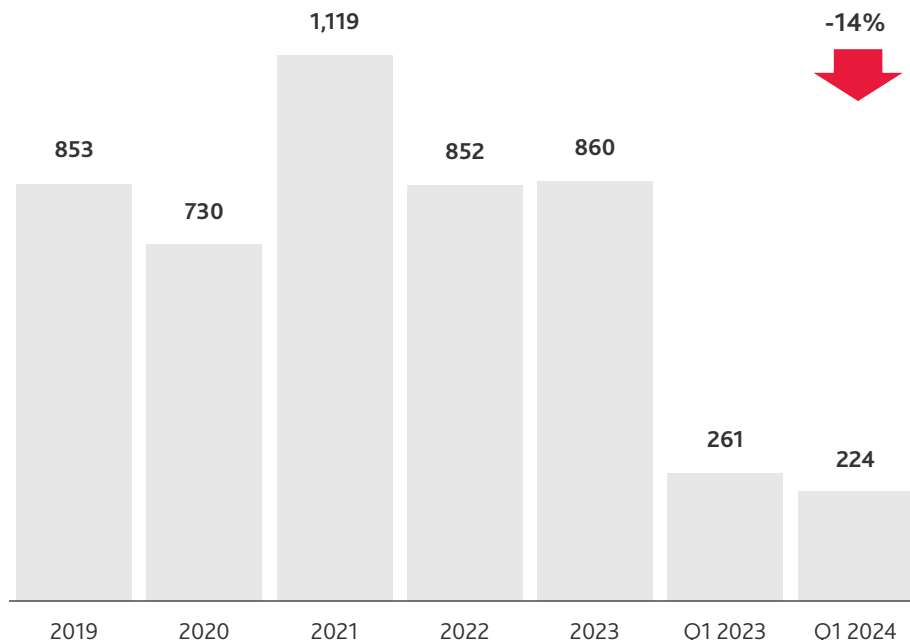
Large-Cap Mid-Cap Small-Cap

SECTOR M&A ACTIVITY

U.S. Manufacturing M&A Transaction Volume

Commentary

- ▶ Activity in the U.S. manufacturing M&A market was down 14% in Q1 2024 y-o-y, with 224 announced deals involving U.S. headquartered targets.
- ▶ Inflation, global and domestic economic uncertainty, higher cost of capital, and geopolitical instability have all impacted M&A.
- ▶ Market participants are cautiously optimistic on a pickup in deal activity in H2 2024, with greater confidence of the U.S. economy achieving a soft landing, moderating inflation, lower interest rates, abundant dry powder, and a refocus on growth.



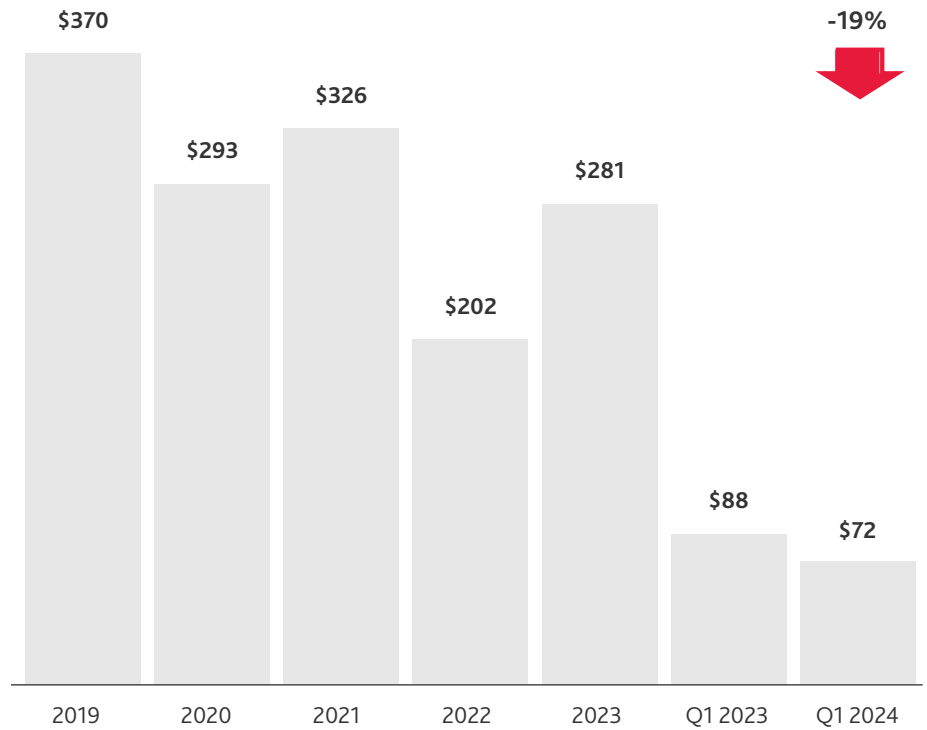
Source: S&P Capital IQ

SECTOR M&A ACTIVITY

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

Commentary

- ▶ Total announced deal value in Q1 2024 declined to \$72B compared with \$88B in Q1 2023.
- ▶ There were 14 megadeals (transactions exceeding \$1 billion), worth \$65B announced through Q1 2024, compared to 13 megadeals worth \$77B in Q1 2023, which accounted for the drop in value.
- ▶ Hewlett Packard Enterprise Company (NYSE:HPE) announced its planned acquisition of Juniper Networks, Inc. (NYSE:JNPR), an American manufacturer of networking technology products, for approximately \$15 billion, representing the largest U.S. manufacturing M&A deal announced in Q1 2024.

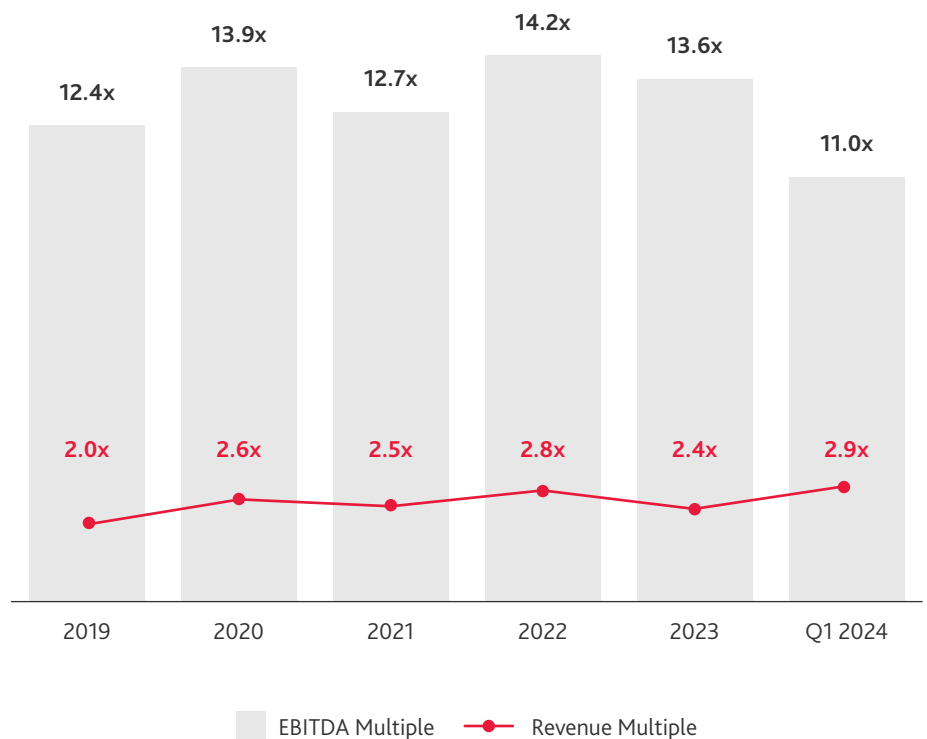


Source: S&P Capital IQ

Median U.S. Manufacturing M&A Transaction Multiples

Commentary

- ▶ The median reported EV/EBITDA multiple in Q1 2024 declined to 11.0x from 13.6x in 2023.
- ▶ Rising costs of capital, less debt availability and higher equity requirements, and decreased investor risk appetite have led strategic and financial investors to seek higher quality opportunities and lower valuations.
- ▶ Strategic manufacturing players have remained cautious entering 2024, with a disciplined approach and extensive due diligence on targets addressing strategic gaps and/or expanding capabilities.



Source: S&P Capital IQ / Note: Revenue Multiples between 1x and 10x; EBITDA Multiples between 1x and 30x

BDO CAPITAL DEAL CLOSING

BDO Capital Advises on Sale of SnapLock Industries, Inc.

BDO Capital Advisors, LLC (BDO Capital) is pleased to announce the sale of Snap Lock Industries, Inc. (SnapLock or the Company) to Gerflor Group (Gerflor). BDO Capital served as exclusive financial advisor to SnapLock on this transaction, which builds on the firm's experience advising family-owned businesses in the manufacturing sector. Valentina Midura, Senior Managing Director, led the client engagement for BDO Capital.

Founded in 1991 and headquartered in Salt Lake City, Utah, SnapLock is an industry leading manufacturer of modular flooring systems. SnapLock has a portfolio of 25+ core products across the garage, event, and sports market segments and is the premium choice for superior quality and unique, easy to install modular surfaces. SnapLock is a pioneer of the modular flooring industry across each of its market segments and has a rich history of introducing bold, innovative new products protected by 30+ patents covering various designs and utilities.

"The SnapLock shareholders and management are thrilled that the Company has been acquired by Gerflor, who we believe will prove to be a strong partner as they share our culture and approach to business, and we look forward to continued growth under new ownership," said **Jorgen Moller, CEO of SnapLock.**

"With SnapLock's commitment to U.S.-manufactured solutions and continual product improvements through in-house engineering expertise, this reconfirms Gerflor's focus on value-added solutions in growing segments while expanding our operational footprint in the U.S.," said **Benjamin Bachman, CEO of Gerflor USA.** Gerflor, headquartered in France, creates, manufactures, and markets innovative, decorative, and sustainable flooring solutions and wall finishes.

Gerflor develops specific flooring and wall solutions to meet every indoor market application need: housing, healthcare, education, sport, retail, industry, offices, hospitality, and transport vehicles. With 4,200 employees, 19 manufacturing plants, 5 R&D centers, and 30 subsidiaries, Gerflor provides its customers with design-driven, innovative, and environmentally friendly solutions in more than 100 countries.

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Countries

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Served as exclusive financial advisor to Tendon Systems LLC in its sale to Commercial Metals Company (NYSE: CMC)




Served as exclusive financial advisor to Dutchland, Inc. in its sale to Lindsay Precast, a portfolio company of MiddleGround Capital



Served as exclusive financial to SMT, Corp. in its sale to Harwood Capital



Served as exclusive financial advisor to Safe-Way Garage Doors, LLC in its sale to CW Industrial Partners, LLC



Served as exclusive financial advisor to Spiroflow in its sale to May River Capital

*Includes investment banking and transaction services

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*Services provided with the assistance of BDO USA, LLP

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