

INDUSTRY INSIGHTS: MANUFACTURING

Q1 2023 M&A Market Update

BDO Capital Advisors, LLC provides the following services:

- ▶ Sell-Side Advisory
- ▶ Acquisition Advisory
- ▶ Capital Raising
- ▶ ESOP Advisory
- ▶ Board Advisory
- ▶ Special Situations

Please direct inquiries to:



VALENTINA MIDURA
Senior Managing Director
617-422-7593
vmidura@bdocap.com



CARLOS MEDINA
Associate
617-422-0700
cmedina@bdocap.com

INSIDE THIS ISSUE...

The manufacturing sector demonstrated continued momentum in 2022 despite facing various macro-economic headwinds. Inflationary pressures, supply chain bottlenecks, and labor shortages, combined with a high interest rate environment, sparked concerns around the Fed's ability to achieve a soft landing. While M&A activity is down from 2021, transaction volume in 2022 was in line with pre-pandemic levels. Well-capitalized investors continued to seek quality assets to add to their portfolios, resulting in healthy multiples and steady deal flow.

Manufacturing sector M&A activity slowed in 2022 relative to 2021; however, companies with strong balance sheets, revenue visibility and attractive margins continued to attract buyer interest. Transaction volume and value returned to pre-pandemic levels, with the number of deals decreasing 24 percent and total transaction value decreasing 38 percent in 2022 compared to 2021. The median enterprise value (EV)/EBITDA multiple increased to 14.2x in 2022 from 12.4x in 2021, driven by an acceleration in digital investments and adoption of emerging technologies in manufacturing. Additionally, manufacturing sector stocks decreased less than the S&P 500 in 2022, with the S&P 500 Industrials Index falling six percent vs. a 20 percent decline for the broader market. Electrical equipment, machinery (B2B), and industrial supplies and parts companies performed better than other manufacturing sub-sectors, in part due to companies building local inventory reserves and moving away from just-in-time systems.

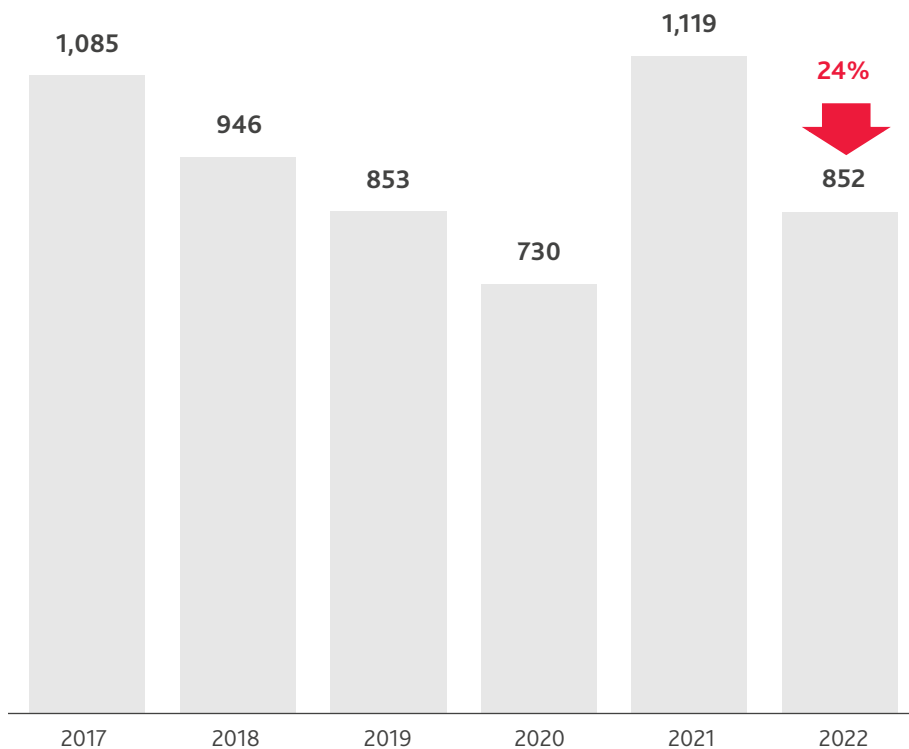
In 2023, industry leaders are expected to continue focusing on digitizing factories and using data-oriented technologies to optimize operations. Additionally, manufacturing sector companies may seek to double down their efforts in attracting and maintaining top-tier work forces to remain competitive. Finally, a growing subset of private manufacturing company owners are approaching retirement and exploring exit opportunities through strategic M&A.

SECTOR M&A ACTIVITY

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

Commentary

- ▶ Activity in the U.S. manufacturing M&A market slowed down through 2022, posting a 24 percent decrease in transaction volume over 2021.
- ▶ In total, there were 852 announced deals in the sector involving U.S. headquartered targets in 2022.
- ▶ Rising energy prices from global conflict and supply chain disruptions have made manufacturing more costly – defending profit margins has become more challenging.

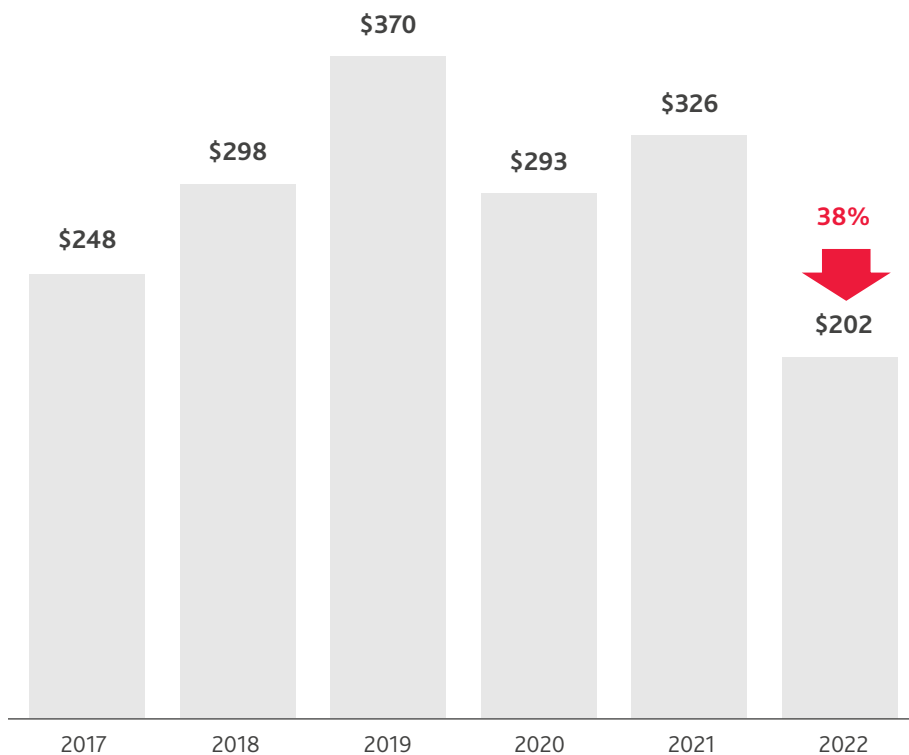


Source: S&P Capital IQ

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

Commentary

- ▶ Total reported deal value in 2022 decreased to \$202 billion from \$326 billion, or 38 percent lower than 2021.
- ▶ There were 47 megadeals (transactions exceeding \$1 billion) announced through 2022, compared to 76 megadeals in 2021.
- ▶ Johnson & Johnson (NYSE:JNJ), acquired Abiomed, Inc. (NasdaqGS:ABMD), a developer and manufacturer of medical devices to treat heart failures, for approximately \$18.9 billion, representing the largest U.S. manufacturing M&A deal announced in 2022.



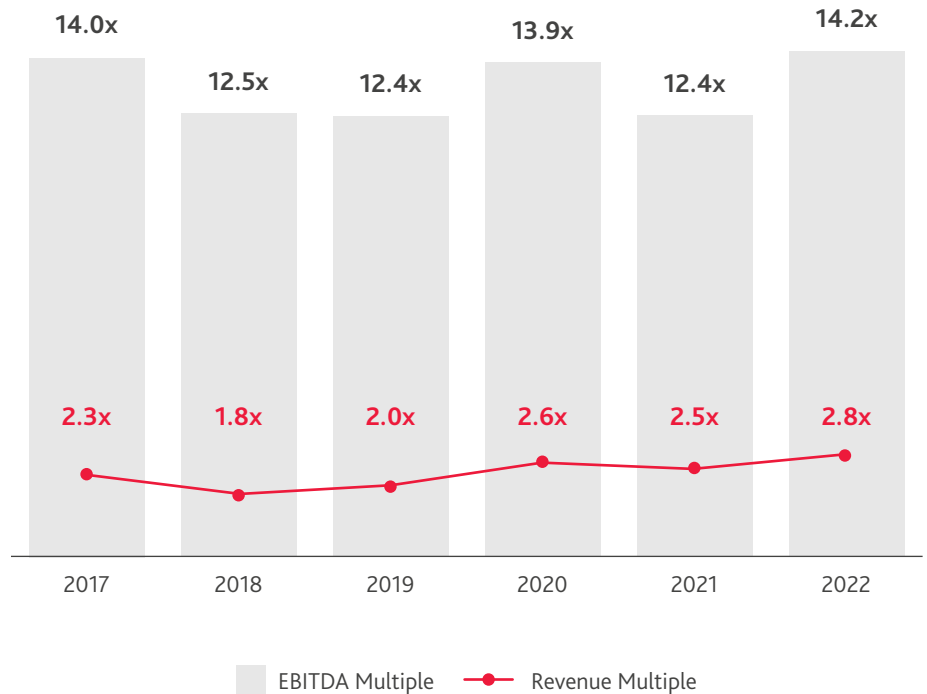
Source: S&P Capital IQ

SECTOR VALUATION TRENDS

Median U.S. Manufacturing M&A Transaction Multiples

Commentary

- ▶ The median reported EV/EBITDA multiple in 2022 increased to 14.2x from 12.4x in 2021, an increase of approximately 15 percent.
- ▶ Rising costs of capital and decreased investor risk appetite have led strategic and sponsor-backed investors to seek higher quality investment opportunities.
- ▶ Acceleration in digital investments and adoption of emerging technologies have increased M&A valuations in 2022 as technology-enabled businesses generally promote operating resilience in challenging environments.

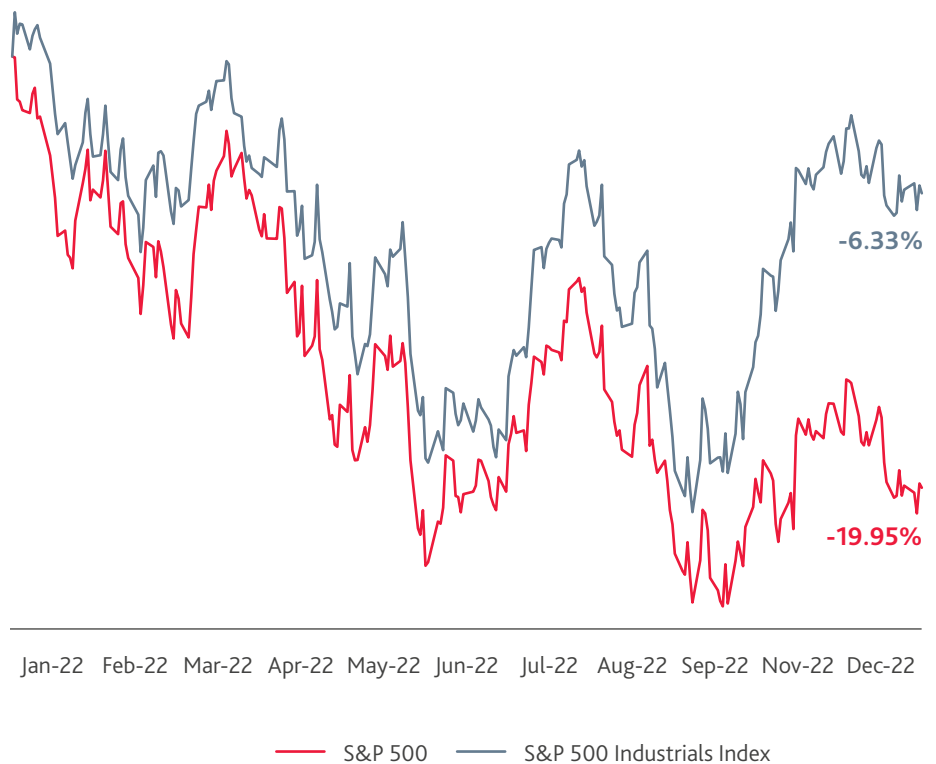


Source: S&P Capital IQ / Note: Revenue Multiples between 1x and 10x; EBITDA Multiples between 1x and 30x

S&P 500 vs. S&P 500 Industrials Index

Commentary

- ▶ Industrials sector equities benefitted from a return to pre-pandemic corporate investment and strong orders for capital goods.
- ▶ The S&P 500 Industrials Index fell approximately six percent through 2022 compared to a loss of approximately 20 percent in the S&P 500 during the same period.
- ▶ Manufacturing companies explored strategies to mitigate supply chain risk through building local capacity and reducing supply chain dependence.



Source: S&P Capital IQ / Note: Industrials Index weighted by market capitalization

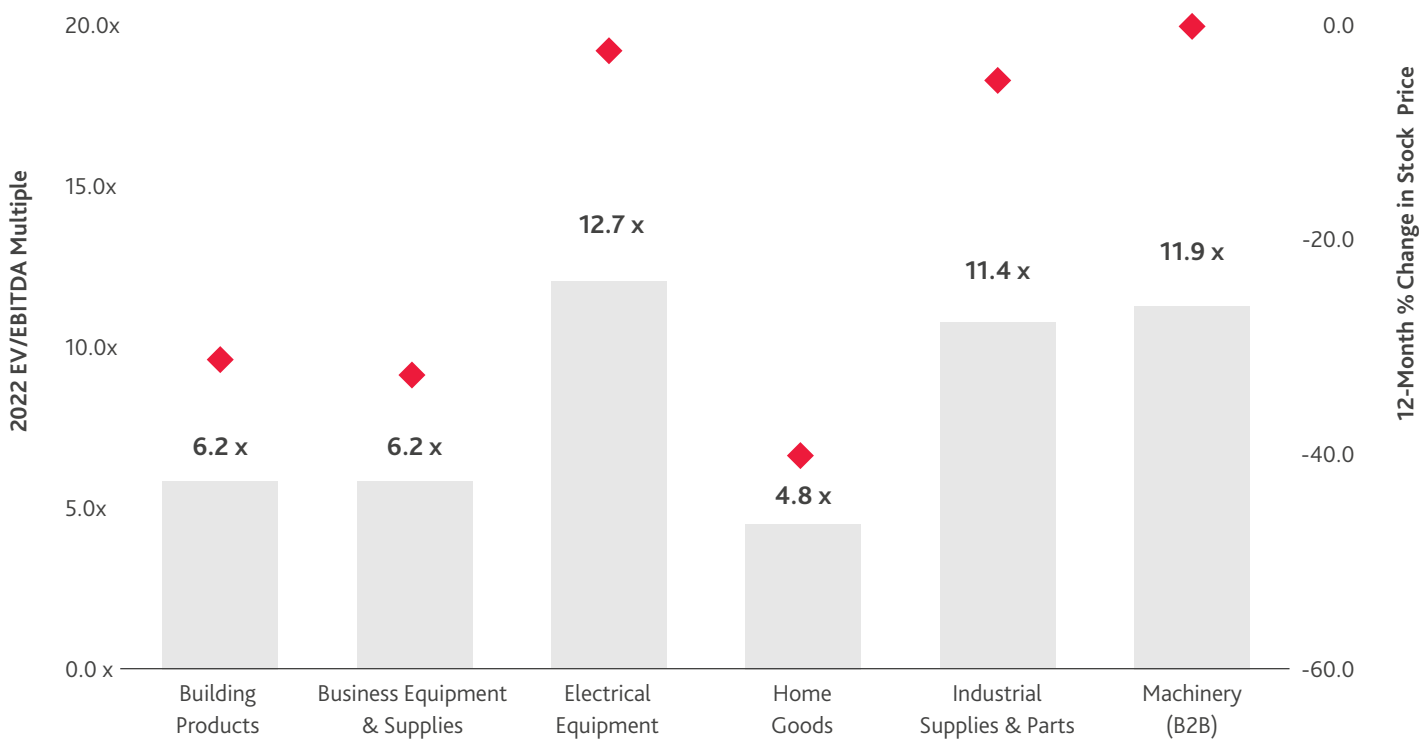
EQUITY TRADING OVERVIEW

Key Trading Statistics

Subsector	Number of Companies	Medium Enterprise Value (\$mm)	Change in Stock Price		2022		2023E	
			3 mos.	12 mos.	EV/EBITDA	P/E	EV/EBITDA	P/E
Building Products	9	2,608	10.3%	-31.2%	6.2 x	15.7 x	7.5 x	10.8 x
Business Equipment & Supplies	1	1,619	14.1%	-32.3%	6.2 x	24.9 x	6.8 x	4.5 x
Electrical Equipment	9	13,788	31.7%	-3.9%	12.7 x	14.9 x	11.5 x	16.4 x
Home Goods	6	5,112	6.5%	-42.0%	4.8 x	10.6 x	6.9 x	7.9 x
Industrial Supplies and Parts	14	6,063	15.9%	-6.9%	11.4 x	22.3 x	11.4 x	15.7 x
Machinery (B2B)	7	74,528	28.4%	-2.8%	11.9 x	17.4 x	12.4 x	15.2 x
Manufacturing Index	46	5,587	15.0%	-19.1%	8.8 x	16.5 x	9.4 x	13.0 x

Source: S&P Capital IQ

Public Company Sector Performance



Source: S&P Capital IQ

■ 2022 EV/EBITDA ◆ 12 Mos. % Change

BDO CAPITAL DEAL CLOSING

BDO Capital Advises on Sale of Dutchland, Inc.

BDO Capital Advisors, LLC (BDO Capital) is pleased to announce the sale of Dutchland, Inc. (Dutchland or the Company) to Lindsay Precast, a portfolio company of MiddleGround Capital (MiddleGround). BDO Capital served as exclusive financial advisor to Dutchland 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.

Dutchland is a leading manufacturer specializing in engineering, manufacturing, and assembling structures for water and wastewater facilities. Dutchland holds a 40+ year track record in combining operations expertise and product design in providing client solutions. Dutchland is based in Gap, Pennsylvania, and has over 150 highly skilled employees who design and build advanced wastewater treatment systems, storage tanks, and other highly specialized precast concrete structures.

"Since the establishment of our business in the early 1980's, we have been recognized as a leading manufacturer of precast post-tensioned concrete structures across water and wastewater infrastructure for local communities across the mid-Atlantic region," said Ben Kauffman, President & CEO of Dutchland. He added: "we believe MiddleGround will prove to be a great partner as they support our core values and ethical approach to business, and we look forward to future development under their management team."

"Dutchland is a natural and complementary addition to our platform, and we believe that combining our businesses will make us more than the sum of our parts, especially with MiddleGround Capital's deep operating experience," said Ron Lindsay, President of Lindsay Precast. "We welcome their dedicated team and are excited to collaborate with them as we expand their capabilities within our footprint and beyond."

Lindsay Precast is a premier concrete manufacturer and steel structure fabricator, serving state and municipal government entities, banks, utility companies, renewable energy companies, and the US military. The company has over 200 products manufactured in-house, with 8 facilities located in OH, CO, FL, NC, and SC, totaling around 350 employees.

Dutchland
INCORPORATED

Lindsay
PRECAST

MiddleGround Capital

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



ONE OF THE MOST ACTIVE ADVISORY NETWORKS IN THE WORLD

Ranked #1 Global Financial Advisor in FACTSET League Tables 2022



2,095
Deals in 2022





\$115 B
Deal Value



120
Countries

Select BDO Manufacturing Experience

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






Served as exclusive financial advisor to Solatube International, Inc. in its sale to Kingspan Light & Air, LLC, a division of Kingspan Group plc (ISE:KRX)





SLATE CAPITAL GROUP

Served as exclusive financial advisor to Pak Source Inc. in its sale to White Distribution and Supply, LLC, a portfolio company of Slate Capital Group, LLC

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 Savage Universal Corp. and its affiliates in its sale to The Vitec Group plc (LSE:VTC)




Served as exclusive financial advisor to Coastal Industries, Inc. in its sale to American Bath Group, LLC, a portfolio company of Centerbridge Partners, L.P.

BDO CAPITAL ADVISORS SERVICES

SELL-SIDE ADVISORY

- ▶ Company Sales
- ▶ Family Businesses
- ▶ Entrepreneur-Owned Companies
- ▶ Recapitalizations / Private Equity
- ▶ Partial / Minority Sales
- ▶ Corporate Carve-Outs
- ▶ Cross-Border Transactions
- ▶ ESOPs

ACQUISITION ADVISORY

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

ESOP ADVISORY

- ▶ Feasibility, valuation and tax analyses
- ▶ Assistance with the selection of an ESOP Trustee
- ▶ Capital raising for leveraged ESOPs
- ▶ Benefit plan design and analyses*
- ▶ M&A comparative analyses
- ▶ Tax and accounting*
- ▶ Plan administration*

CAPITAL RAISING

- ▶ Debt
- ▶ Mezzanine
- ▶ Equity

*Services provided with the assistance of BDO USA, LLP

ABOUT BDO CAPITAL ADVISORS

BDO Capital Advisors, LLC, a wholly-owned affiliate of BDO USA, LLP, is a leading middle market investment bank that focuses on sell-side advisory, acquisition advisory, capital raising, ESOP advisory, special situations and board advisory services with offices located throughout the United States. The firm has deep industry knowledge, extensive cross-border transaction experience and superior execution capabilities. The firm has broad industry expertise and contacts having closed transactions within the Manufacturing & Distribution; Consumer, Food & Retail; Healthcare & Life Sciences; Business Services; Energy & Natural Resources; Technology, Media & Telecom; Architecture, Engineering & Construction; and Government Contracting sectors. Our seasoned investment bankers have collectively advised on hundreds of transactions for a variety of clients including family-owned businesses, entrepreneur-led companies, public corporations and leading private equity firms. Our professionals also draw upon the full depth and breadth of BDO USA's national resources which include 80+ offices and more than 9,600 professionals located throughout the United States.

The firm has worldwide access to buyers, sellers and offshore investors via the Corporate Finance practices of BDO International's network of independent member firms. BDO International Corporate Finance firms operate in approximately 120 countries with approximately 2,500 professionals who are able to meet the investment banking needs of clients across the globe.

BDO Capital Advisors, LLC is a separate legal entity and is an affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm. BDO Capital Advisors, LLC is a FINRA/SIPC member firm. For more information please visit: www.bdocap.com

This publication has been carefully prepared, but should be seen as general guidance only. You should not act upon the information contained in this publication without obtaining specific professional advice. Please contact BDO Capital Advisors, LLC to discuss these matters in the context of your particular circumstances. BDO accepts no responsibility for any loss incurred as a result of acting on information in this publication.

BDO CAPITAL ADVISORS SENIOR PROFESSIONALS:



ROBERT SNAPE

President
617-239-4177

bsnape@bdocap.com



BLAKE HEAD

Managing Director, ESOP Advisory Group Head
404-979-7122

bhead@bdocap.com



VALENTINA MIDURA

Senior Managing Director
617-422-7593

vmidura@bdocap.com



PATRICK BISCEGLIA

Managing Director
804-401-4311

pbisceglia@bdocap.com



ERIC HIGGINS

Managing Director
617-422-0904

ehiggins@bdocap.com



BILL SHIRY

Managing Director
312-233-1856

wshiry@bdocap.com

At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes — for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. www.bdo.com

Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.