

Benesch Manufacturing/ Industrials Market Intelligence

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Subsectors include automotive, packaging, heavy equipment and aerospace

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Subsectors include coatings, specialty materials, plastics, chemicals, adhesives and polymers

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Manufacturing Market Overview

- Economic activity in the manufacturing sector expanded in April for 15 of the 18 manufacturing industries covered in the [Manufacturing ISM Report On Business](#)—including Plastics & Rubber Products; Miscellaneous Manufacturing; Machinery; Transportation Equipment; and Chemical Products. Only 10 industries reported growth in March, indicating a broader distribution of growth in April among the 18 industries.
- Manufacturing costs are now lower in the U.S. than in Europe and South America, and are overtaking parts of Asia, due to:
 - Oil prices plunging to their lowest level in five years;
 - Sliding costs for oil-derivative products (like plastics), other raw materials, and transportation;
 - Labor costs that are becoming more competitive with Asia's, where rates have skyrocketed; and
 - A rebounding economy, increased efficiency, and a more favorable regulatory environment than most of the world. ([source](#))
- Manufacturing and wholesale distribution (M&WD) rebounded in 2014, after having been one of the hardest hit industries in the U.S. during the 2008-2012 period. **The turnaround has captured the attention of the PE industry—particularly in the aerospace and defense, food and beverage, and chemicals subsectors.** ([source](#))

Manufacturing Major Transactions

- Pittsburgh's Incline Equity Partners marked its first local deal since raising a \$301-million fund in August 2013. The PE firm acquired AFC Holdings, a supply chain management firm that sources and provides fasteners such as screws and bolts to manufacturing and assembly plants. AFC had previously been owned by Cleveland-based Rockwood Equity Partners. The company's clients are largely clustered in Pennsylvania and Ohio.
- Blackford Capital portfolio company Amtech—a manufacturer of fiber-reinforced plastic components for the automotive and military sectors—merged with Pa. manufacturer McClarin Plastics. Blackford invests in manufacturing and service companies between \$20 million and \$100 million in sales, and also has a Michigan Prosperity Fund that invests in Michigan-based manufacturers.
- Micross Components, a portfolio company of Texas-based private equity firm Insight Equity, acquired Minco Technology Labs, a provider of die processing and semiconductor packaging for military, aerospace, energy, transportation and other harsh-environment markets.
- One Equity Partners sold paper and corrugated board manufacturer Duropack to packaging company DS Smith for \$340 million.

Manufacturing Disruptive Forces

- The evolution of manufacturing in the U.S., Germany, and Japan will stem from a commitment to steady innovation and disruptive technologies, including in-factory sensors, increased use of analytics and data science, in-factory use of augmented reality, and **drastic increases in how 3-D printing is used for the mass market.** ([source](#))
- Though M&A activity in industrial manufacturing is expected to remain robust as companies seek to acquire next-wave technology ([source](#)), disruptive implications of 3D printing include **quality assurance and quality control.**
- Advanced manufacturing sits at the intersection of physical (materials and fabrication) and digital (software and hardware) technologies. Companies that are able to integrate advanced manufacturing into their core capabilities will likely experience an accelerated rate of innovation and growth. ([source](#))
- While opportunities will stem from manufacturing know-how, nearly 80% of all manufacturing companies are currently experiencing a **shortage of skilled workers**, including engineers, chemists, and machinists. ([source](#))
- With U.S. manufacturers the most productive in the world, re-shoring is becoming a best practice. ([source](#))

Manufacturing Outlook

- **Private equity outlook will brighten for the manufacturing industry in 2015** as it continues its upward trajectory due to:
 - The steady **decline of energy costs**, oil prices and natural gas;
 - Low interest rates and plentiful credit providing **increased access to capital**; and
 - A growing number of manufacturing companies adopting new time- and cost-saving **technologies such as 3-D printing**. ([source](#))
- The commercial aerospace sector is likely to enjoy close to an 8% growth rate, **setting new records**

for aircraft production in 2015. The accelerated replacement cycle of obsolete aircraft with next generation fuel-efficient aircraft, and growing passenger travel demand, especially in the Middle East and the Asia-Pacific region are key drivers behind this trend.

- While the rate of growth for the U.S. A&D industry has been slowing over the last two years as a result of declines in defense sector spending, **defense spending is increasing in several areas of the globe**, especially in the United Arab Emirates, Saudi Arabia, India, South Korea, Japan, China, and Russia, as these countries equip their militaries with modern defense platforms and technologies. ([source](#))

Industrials Market Overview

- **Financial investors' focus shifted significantly toward specialty chemicals in 2014:** While only one-third of companies acquired by financial investors in 2012 were active in specialty chemicals, the share in 2014 was 50%. ([source](#))
- According to a quarterly analysis by Pricewaterhouse Coopers, **mergers and acquisition activity in industrial manufacturing surged in 2014** as companies are more actively shedding “non-core” units, then looking for ways to

deploy cash. Within types of manufacturing, PwC said 38% of deals involved industrial machinery companies, 20% fabricated metal products, 13% rubber and plastic products, 6% miscellaneous and 23% electronic and electrical equipment. ([source](#))

- The digital age is having a profound impact on the chemical sector. **Recent digital technology innovations** include advanced supercomputing and processing technologies, advanced analytics, data visualization, artificial intelligence, and machine learning. ([source](#))

Industrials

Major Transactions

- Ohio-based Ferry Industries, a manufacturer of rotational molding machinery, was purchased by Madison Industries, successor to private equity firm Madison Capital Partners.
- Berwind Consolidated Holdings bought Protective Industries, the parent company of Caplugs—a producer of caps, plugs, tubing, netting and other protective goods for industry—from Windjammer Capital Investors.
- Boulevard Acquisition, the public investment vehicle of Avenue Capital, agreed to acquire AgroFresh, Dow Chemical's specialty chemical business, for \$860 million.
- Dutch chemical maker Royal DSM agreed to sell a majority stake in a basic plastics and resins business to CVC Capital Partners in a deal valuing the assets at as much as \$816 million.
- Orica sold its chemicals unit to Blackstone for \$586 million.
- Missouri-based Accella, backed by Arsenal Capital Partners, is buying Calif.-based IPS Polymer Systems, a maker of polyurethane products, in order to expand its business on the west coast.
- A. Schulman, an Akron-based plastic compounds, powders and resins supplier, will buy Citadel Plastics Holdings for \$800 million from private equity firms HGGC and Charlesbank Capital Partners.
- Apax agreed to purchase Quality Distribution for a reported \$800 million. Quality currently operates the largest chemical bulk logistics network in North America.

Disruptive Forces

- Respondents in an industrial manufacturing survey said the **main trends driving acquisition activity** will be the need for market access (51%), the need for technology advancement (31%), and the need to cut costs (28%). **Divestitures** will be driven by the opportunity to sell non-core businesses (73%), the opportunity to monetize a successful business (38%), and the opportunity to sell an unprofitable business (32%). ([source](#))
- A bipartisan **bill to reform the EPA's chemical safety oversight** is picking up steam in the Senate, now having 36 co-sponsors, split equally between the two political parties. The bill is the first major environmental law to be drafted and possibly passed since the amendments to the Clean Air Act in 1990. **The legislation would require the EPA to only consider health and safety in how it regulates chemicals, and the agency may not consider the costs to industry.** ([source](#))

"We are only just beginning to get a glimpse of how the rapid acceleration of digital technologies within the chemical industry could disrupt traditional business models and operations."

– Duane Dickson, Deloitte

Industrials Outlook

- **PE firms will continue to look for deals in U.S. chemicals industry based on strong outlook for 2015.** The prospects are good for the U.S. chemical industry, [according to the American Chemistry Council \(ACC\)](#), which put out the forecast for 4% growth for the chemical sector. The outlook for the **U.S. automobile sector and the housing industry**—both major chemical end-use markets—have rendered chemical CEOs and private equity firms optimistic for M&As.

Case in Point

Betting on the projected strong growth in the U.S. economy and the U.S. housing market, L.A.-based **Platinum Equity** is purchasing Dallas-based **PrimeSource** Building Products from Tokyo's Itochu Group. PrimeSource is among the biggest purveyors of fasteners globally and one of the biggest distributors of building materials in North America.

- **2015 could mark a time of accelerated transformation for the chemical industry**, driven by global megatrends, digital discovery, biotechnology, manufacturing and materials innovations, and trans-ecosystem collaborations. ([source](#))
- **North America is projected to maintain a dominant share of chemicals M&As this year, but China will be the strongest growth region for chemicals M&A activity in 2015**, driven by further consolidation of the local market and an increase in geographic expansion and inbound international investments in the China market. ([source](#))
- The most **common challenges to deal-making** are anticipated to be a valuation disparity between buyers and sellers (61%), the challenges of identifying suitable targets (39%), and the difficulty of forecasting future performance (36%). ([source](#))
- **Innovations in coatings and sealants market expected to spur further M&A.** There have been several deals in the quarter for sealing companies, and most recently (April), Warren Buffett's Berkshire

agreed to buy \$560 million of stock in Axalta Coating Systems from Carlyle affiliates. Within the same month, American Securities made a deal to acquire Royal Adhesives and Sealants, which has made a slew of acquisitions under New York-based Arsenal Capital Partners' ownership.

- During 2015, key chemical segments of commodities, intermediates and specialties, fertilizers and agriculture chemicals, and industrial gases are all likely to experience continued growth in M&A activity. ([source](#))
- Another trend driving M&A in the chemicals industry is the **focus on biotechnology and renewables**. For instance, widening use in drug delivery systems, cosmetic implants, tissue engineering products, wound management supplies, and orthopedic pain therapies will **boost U.S. demand for natural biocompatible polymers 5.5% per year to \$1.1 billion in 2018**. ([source](#))
- **Activist investors are likely to drive the increase in deals**, putting pressure on chemical majors to divest assets seen as underperforming. Among buyers, private equity firm SK Capital Partners is targeting the chemical carve-out or orphan businesses with its new \$1-billion fund.
- Especially in North America, activist investors have pushed for portfolio restructuring of large chemical companies with diversified portfolios such as **Dow Chemical** and **DuPont**. ([source](#))

Case in Point

DuPont is planning to spin-off Chemours, which will include the company's titanium dioxide (TiO₂) and fluoropolymer segments; and Dow will carve out its chlorine, chlorinated organics and epoxy resins businesses, preparing them for a sale, a joint venture or a spin-off in what could be several deals.

"Coatings and sealants companies make attractive targets because they are technology rich and in fragmented industries and niche segments where they provide tremendous value versus the price of the product."

– John Televantos,
Arsenal Capital