

Another Record Year for PE Deal Making

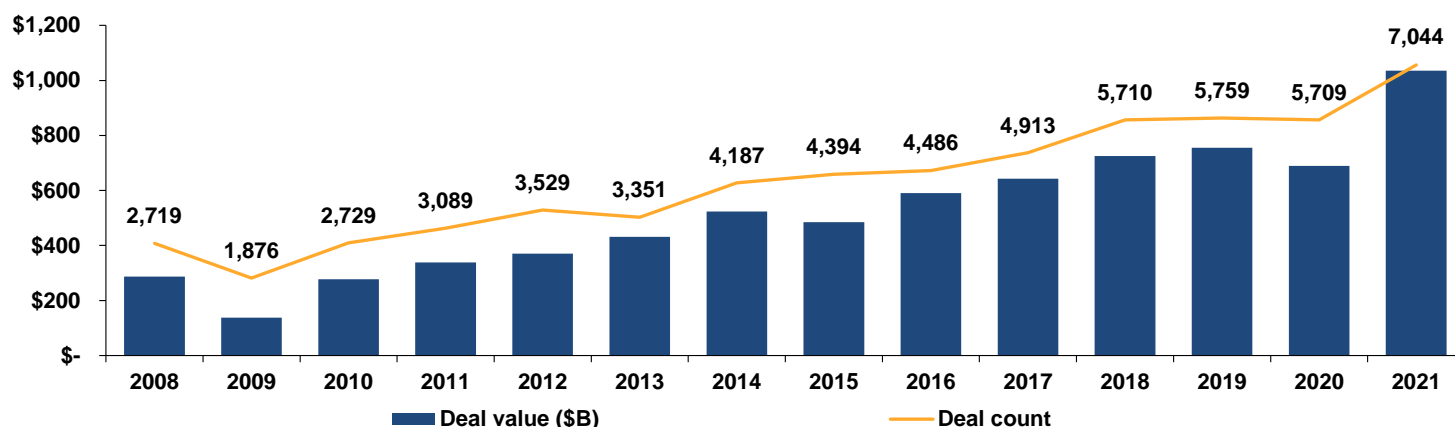
Throughout 2021, Private Equity deal making activity in the US reached an all-time high. In 2021, US PE firms closed over 7,000 transactions, up 23% from 2020 levels for a total of over \$1 billion in transaction value, a nearly 50% increase from 2020. Two primary factors contributed to the higher level of activity, notably, record amounts of available capital and an increasing number of owners seeking liquidity.

2021 saw private equity dry powder hit nearly \$827 billion, an all-time high, with approximately \$300 billion raised in 2021 alone. The firms that raised these funds will continue to be active buyers over the next several years as they seek more deals to put this money to work. In addition to equity, PE firms will continue to borrow money to help fund deals. Anticipated interest rate hikes are likely to have little impact on the demand for debt; rather, the availability of debt will be the determining factor if a deal gets done and at which multiple.

Another key driver of deal activity was the increased number of sellers who had decided to put their business on the market for sale. Many sellers who had been nearing retirement before the pandemic were exhausted by the efforts it took to navigate two very volatile years in 2020 and 2021. Additionally, the threat of capital gains rates increases served as the impetus for many sellers to pursue a liquidity event.


EdgePoint expects 2022 to be another record year for deal activity. Buyer fundraising continues and lenders are willing to continue to lend money for good deals. The threat of increased capital gains remains ever present. In addition, during the fourth quarter of 2021, most investment banks, lawyers and accountants were at capacity and unable to take on new deals at year end, creating further backlog for 2022. We anticipate that, as long as these conditions remain, it will be another busy year in the M&A market.

US PE Deal Activity



Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

Notable Recently Announced and Closed Industrial Transactions

Date: 12/17/2021 (Closed)	Overview / Strategic Rationale:	Specialty Distribution
<div>Target:<div></div></div> <div>Acquirer:<div></div></div> <div>Key Metrics:<div><div>Implied Enterprise Value (\$M)</div><div>\$1,001</div></div><div><div>EV/LTM EBITDA</div><div>12.9x</div></div><div><div>EV/LTM Revenue</div><div>1.3x</div></div></div>	<div>TopBuild is a distributor and installer of insulation and building products throughout the residential, commercial, and industrial markets.</div> <div><ul style="list-style-type: none"><i>Distribution International is a specialty distributor of insulation and MRO supplies for the commercial, industrial, marine, OEM, and HVAC markets</i><i>The acquisition will enable TopBuild to expand its customer base, service offerings, and locations, allowing TopBuild to access new key markets</i><i>TopBuild will now be able to offer fabrication capabilities with the addition of Distribution International</i></div>	
Date: 12/06/2021 (Announced)	Overview / Strategic Rationale:	Chemicals, Plastics, & Specialty Materials
<div>Target:<div></div></div> <div>Acquirer:<div></div></div> <div>Key Metrics:<div><div>Implied Enterprise Value (\$M)</div><div>\$2,378</div></div><div><div>EV/LTM EBITDA</div><div>14.7x</div></div><div><div>EV/LTM Revenue</div><div>2.4x</div></div></div>	<div>Saint-Gobain provides high-performance materials and solutions for the construction, mobility, and industrial markets. Saint-Gobain provides materials and solutions for public and private building construction renovations, light constructions, and decarbonization of construction.</div> <div><ul style="list-style-type: none"><i>GCP Applied Technologies, is a construction products technologies company that provides products and solutions for residential and commercial buildings, infrastructure, and underground construction</i><i>The acquisition enables Saint-Gobain to expand itself in the specialty construction chemicals industry in the United States</i></div>	
Date: 09/27/2021 (Announced)	Overview / Strategic Rationale:	Chemicals, Plastics, & Specialty Materials
<div>Target:<div></div></div> <div>Acquirer:<div></div></div> <div>Key Metrics:<div><div>Implied Enterprise Value (\$M)</div><div>\$850</div></div><div><div>EV/LTM EBITDA</div><div>-</div></div><div><div>EV/LTM Revenue</div><div>-</div></div></div>	<div>EnPro manufactures engineered industrial products and technology, and specializes in sealing technologies, advanced surface technologies, and engineered materials. EnPro specializes in the semiconductor, life sciences, and other technology-enabled markets.</div> <div><ul style="list-style-type: none"><i>NxEdge provides precision machining and surface treatments, including advanced coatings, for semiconductor fabrication equipment</i><i>The acquisition will enable EnPro to add and broaden its businesses in the industrial technology products and services markets</i><i>EnPro will be able to incorporate NxEdge's vertical integration solutions for the semiconductor industry, which provide shorter lead times, lower costs, and a reduced vendor base</i></div>	
Date: 08/20/2021 (Closed)	Overview / Strategic Rationale:	Building Products
<div>Target:<div></div></div> <div>Acquirer:<div></div></div> <div>Key Metrics:<div><div>Implied Enterprise Value (\$M)</div><div>\$239.5</div></div><div><div>EV/LTM EBITDA</div><div>-</div></div><div><div>EV/LTM Revenue</div><div>1.5x</div></div></div>	<div>Cornerstone Building Brands is a leading manufacturer of exterior building products for the commercial, residential, and repair and remodel industries. Cornerstone provides vinyl siding, windows, metal accessories, metal roofing, and wall systems.</div> <div><ul style="list-style-type: none"><i>Cascade Windows manufactures and installs windows and doors for residential and commercial buildings</i><i>The acquisition of Cascade Windows enables Cornerstone to expand geographically on the West Coast and to become more well-versed in the door and window manufacturing industry</i></div>	
Source: Company Filings, Pitchbook, CapIQ, News Releases, Investor Reports		

Recently Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
AEROSPACE & DEFENSE						
12/10/2021	ManTech International Corporation	Gryphon Technologies LC	Gryphon Technologies LC operates as an engineering and technical services company that provides support to the U.S. security and coalition forces.	\$ 350	-	-
11/5/2021	Mercury Systems, Inc.	Avalex Technologies Corporation	Avalex Technologies Corporation manufactures and supplies aerial surveillance mapping and video equipment.	\$ 155	-	-
7/26/2021	VSE Corporation	GlobalParts Group, Inc.	GlobalParts Group, Inc. manufactures and distributes aviation spare parts to the aviation industry in the United States and internationally.	\$ 40	0.6	-
BUILDING PRODUCTS						
12/23/2021	Holcim Group Services Limited	Malarkey Roofing Products Co.	Malarkey Roofing Products Co. manufactures and supplies roofing products for residential and commercial sectors.	\$ 1,350	-	-
12/20/2021	CW Industrial Partners, LLC	Safe-Way Garage Doors LLC	Safe-Way Garage Doors LLC manufactures and distributes residential, commercial, and industrial overhead garage doors for customers in North America.	\$ -	-	-
11/18/2021	Reliance Worldwide Corporation Limited	EZ-FLO International, Inc.	EZ-FLO International, Inc. manufactures and distributes plumbing products.	\$ 325	1.9	12.04
8/17/2021	Janus International Group, Inc.	Doors & Building Components Inc.	Doors & Building Components Inc. manufactures, sells, and installs steel curtain roll-up doors, components, and accessories for commercial and self-storage markets.	\$ 169	2.0	12.07
CHEMICALS, PLASTICS, & SPECIALTY MATERIALS						
12/20/2021	American Securities LLC	Hexion Holdings Corporation	Hexion Holdings Corporation, through its subsidiaries, produces and sells adhesives and performance materials in the United States, Canada, Europe, Asia, Latin America, Australia, and New Zealand.	\$ 3,333	1.2	8.52
12/6/2021	Compagnie de Saint-Gobain S.A.	GCP Applied Technologies Inc.	GCP Applied Technologies Inc. produces and sells specialty construction chemicals and specialty building materials worldwide.	\$ 2,307	2.4	14.75
12/2/2021	Altamira Material Solutions LP	Precision Fluorocarbon Inc.	Precision Fluorocarbon Inc. manufactures custom plastic products for customers in the United States and internationally.	\$ -	-	-
8/20/2021	Nucor Corporation	Hannibal Industries, Inc.	Hannibal Industries, Inc. manufactures carbon steel tubing and pallet racking systems.	\$ 370	-	6.90
7/30/2021	Martin Marietta Materials, Inc.	Southern Crushed Concrete, LLC	Southern Crushed Concrete, LLC manufactures recycled concrete and asphalt for construction projects in the Houston area.	\$ 140	-	-
ENERGY, POWER, & INFRASTRUCTURE						
12/13/2021	Select Energy Services, Inc.	Nuverra Environmental Solutions, Inc.	Nuverra Environmental Solutions, Inc. provides water logistics and oilfield services to customers focused on the development and ongoing production of oil and natural gas from shale formations in the United States.	\$ 52	0.5	20.29
11/14/2021	JERA Americas Inc.	Freeport LNG Development, L.P.	Freeport LNG Development, L.P. operates a natural gas liquefaction and liquefied natural gas export facility.	\$ 9,728	-	-
SPECIALTY DISTRIBUTION						
12/29/2021	TestEquity LLC & GE Supply Logistics, LLC	Lawson Products, Inc.	Lawson Products, Inc. distributes products and services to the industrial, commercial, institutional, and government maintenance, repair, and operations marketplace in the United States and Canada.	\$ -	-	-
12/15/2021	Motion Industries, Inc.	Kaman Distribution Group	Kaman Distribution Group distributes and supplies industrial parts and automation equipment.	\$ 1,300	-	-
10/15/2021	U.S. Lumber Group, LLC	REEB Millwork Corp.	REEB Millwork Corp. operates as a distributor of building products.	\$ 577	1.5	-

Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

Key Metrics

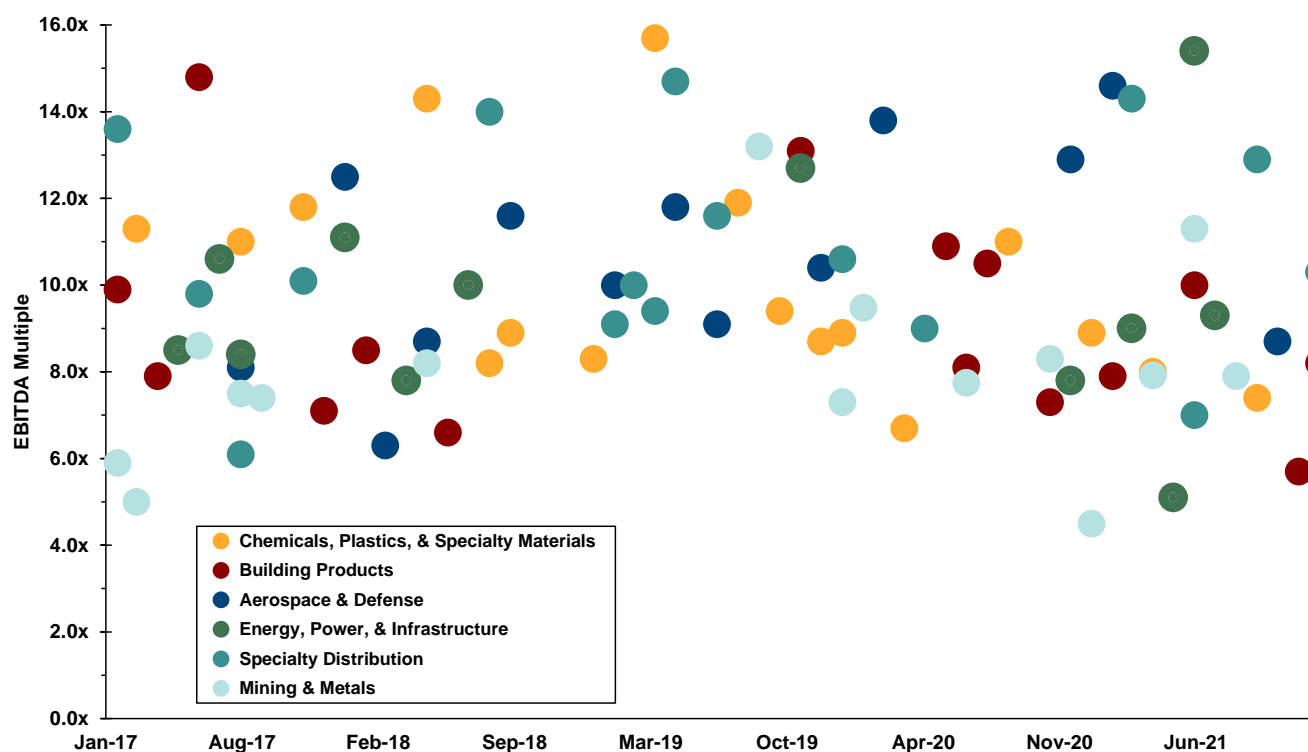
Industrial deal flow continued its momentum in the second half of 2021 as private equity transactions continued to grow in the share of overall M&A market. Distribution and Energy/Infrastructure deals accounted for 27% and 26% of all industrials transactions, respectively. Distribution deal flow continues to be driven by strategic consolidation and private-equity-backed roll-up strategies, especially related to construction supplies and building products.

Publicly traded distributor GMS, Inc. completed five acquisitions in 2021, four of which closed in the second half of the year. Bain Capital-backed building products distributor US LBM Holdings completed nine transactions in the second half,

bringing its annual total to 14 acquisitions in 2021.

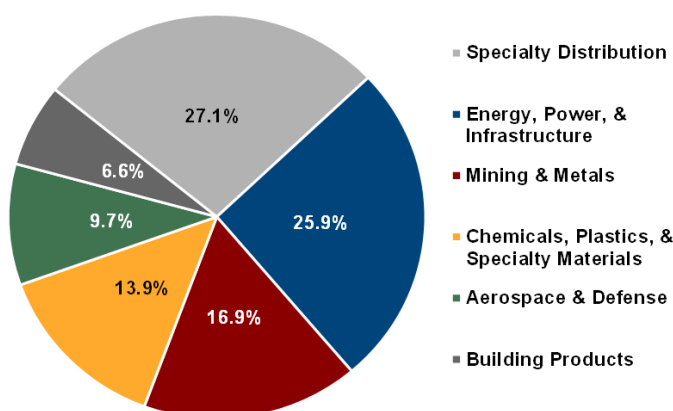
As evidenced in the table below (Select Transaction Multiples), publicly disclosed transaction values across Industrials sub-sectors have remained stable, even as private equity groups and strategic consolidators aggressively bid for high quality acquisition targets. The average reported EV/EBITDA multiple paid by buyers across the industrial landscape has not materially changed from 2020 levels. 2021 saw an average multiple of 9.6x compared to the 2020 average of 9.4x (average transaction size \$250 million), highlighting the ongoing trend of buyers aggressively pursuing high-quality targets.

Select Transaction Multiples



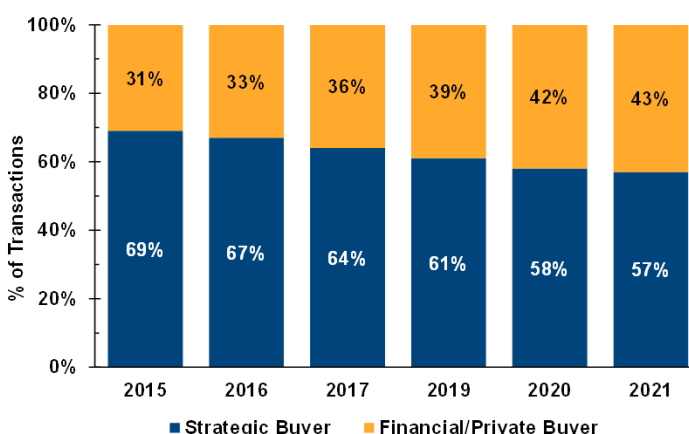
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (2021)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Share of Transactions by Buyer Type



Sub-Sector Profile: Chemicals, Plastics, and Specialty Materials

The Chemicals, Plastics, and Specialty Materials sub-sector is gaining momentum as it recovers from the COVID-19 global pandemic. Despite ongoing headwinds from supply shortages, labor challenges, and inflation-driven volatility, companies are expecting minimal pandemic-related disruption for the first time in more than two years. As a result, business leaders can re-focus on pre-pandemic priorities.

For many chemicals and materials companies, the opportunity to re-focus means a return to prioritizing sustainable manufacturing practices and to pursuing carbon-neutrality through decarbonization and other innovations, which will work toward reducing oceanic and atmospheric pollution.

As executives re-visit their growth and capital allocation strategies, they may be considering a wide range of opportunities to reshape their businesses through acquisitions and divestitures. Executives aiming to expand the scope of their business are likely to pursue add-on acquisitions targeting a specific product family, capability, or geography of strategic importance. For example, 2021 displayed high volumes of M&A

activity in Europe, the Middle East, and Asia Pacific as U.S. and international companies pursued consolidation in these regions. This approach was demonstrated by several large chemical companies in 2021, including Sherwin Williams, Saint-Gobain, Enpro, PPG, and DL Chemical.

Sherwin Williams closed three acquisitions in 2021, each an industrial coatings business, furthering the Company's offerings in that industry. Saint-Gobain completed four acquisitions in 2021 and is expected to complete several more strategic acquisitions in 2022 as it re-focuses its capital investment and pursues small add-on acquisitions in Central Europe. Saint-Gobain also announced the acquisition of GCP Applied Technologies of Alpharetta, Georgia which is expected to close in 2022. Trelleborg industrials and sealing businesses also completed add-on acquisitions in 2021, with more inorganic growth expected in 2022.

Investors and business owners should keep an eye on these trends as they consider their own strategic opportunities in 2022 and beyond.

Active Chemicals, Plastics, and Specialty Materials Buyers

Select Strategic Buyers	Date of Transaction	Acquisition Activity
	12/31/2021	<ul style="list-style-type: none"> Specialty Polymers, Inc.
	08/19/2021	<ul style="list-style-type: none"> Sika AG European Industrial Coatings
	02/02/2021	<ul style="list-style-type: none"> Tennant Coatings, Inc.
	06/04/2021	<ul style="list-style-type: none"> Tikkurila Oyj
	05/17/2021	<ul style="list-style-type: none"> Karl Worwag GmbH
	04/19/2021	<ul style="list-style-type: none"> CETELON Lackfabrik GmbH
	02/22/2021	<ul style="list-style-type: none"> Versaflex, Inc.
	09/30/2021	<ul style="list-style-type: none"> Duraziv SRL
	09/29/2021	<ul style="list-style-type: none"> Chryso S.A.S
	08/31/2021	<ul style="list-style-type: none"> Aurys Industries
	12/30/2021	<ul style="list-style-type: none"> Alpha Engineered Composites (Coated Fabrics Business)
	10/08/2021	<ul style="list-style-type: none"> VB Seals
	03/04/2021	<ul style="list-style-type: none"> Gutteling Group B.V.

It’s Not You, It’s Me: Corporate Breakups Continue

The Situation

November of 2021 saw announcements from three major industrial conglomerates announcing that they would break up into multiple parts to improve focus on their end markets. GE will split into three distinct companies: Healthcare, Power & Energy, and Aviation, which will bear the GE name in the future. J&J will split into two companies, one centered on pharmaceuticals and another on consumer health products. Toshiba will also break up into two companies, one dedicated to devices and semi-conductors and another dedicated to infrastructure and services. The aim of these splits is to better enable the divisions to make decisions about products and to enhance their competitive positions in their end markets.

How Did This Happen?

These corporate giants became leaders in their respective industries on the premise that a diversified conglomerate could best compete due to efficiencies in finance, as well as, administrative and research expenses. In practice, this led to layers of bureaucracy that slowed decision making. Diversification was another foundation on which the conglomerate model was supported. In theory, diverse end markets would cushion the impact of a slump in one end market while enjoying success in another. In reality, however, these divisions would often rise and fall together. As early as the 1980s, and in conjunction with the emergence of large private equity and activist investors, conglomerates have faced ever increasing pressure to shed underperforming divisions or split apart entirely in order to allow investors to choose more “pure play” opportunities.

What’s Next?

Each of the three corporations **has** targeted completing these breakups over the next 12 to 24 months. Recent history suggests that these smaller, more focused companies can achieve better outcomes for all stakeholders. In the case of GE, who sold its appliance business in 2016 to Haier, the new company has invested over \$1 billion in technology and new products and has added nearly 3,000 jobs to its US workforce. The investments have reversed years of declining market share as the company has gained market share every year since 2017. The company’s success seems to confirm business leaders’ and industry analysts’ beliefs that smaller, more focused companies are better positioned to meet the needs of their markets.



What We are Reading:

GM, Volkswagen Build Up Their Battery Supply Chains Amid Electric-Vehicle Push

Traditional automakers are emulating Tesla's approach to supply chain management with a renewed focus on vertical integration. The chip shortage and the rise in demand for electric vehicles with powerful lithium-ion batteries have led auto manufacturers to invest more in owned facilities and joint ventures in order to exert greater control on the availability and quality of their most critical parts and materials. The result, according to automakers, will be shorter lead times and improved financial performance as factories operate more efficiently and supplier markups are eliminated.

Source: The Wall Street Journal (01/03/2022)

Oil Demand to Exceed Pre-COVID Levels in 2022

The International Energy Agency (IEA) is expecting oil demand to rebound to pre-pandemic levels in 2022. The agency's prediction is largely tied to the expectation that severe COVID-19 outbreaks requiring local economies to shut down are a thing of the past, as vaccination rates rise and employers identify best-practices to keep offices, plants, and warehouses open. Oil prices may become increasingly volatile throughout the year as demand and supply re-adjust to pre-pandemic volumes.

Source: The Wall Street Journal (01/19/2022)

For Chip Industry, Global Supply Crunch Pushes Next Target to \$1 Trillion

The semiconductor industry set sales records in 2021, surpassing \$500 billion in revenue for the first time. With sales expected to double in less than ten years and the United States pushing for an increase in domestic chip production, the industry is expected to make explosive investments in new facilities. Intel, for example, recently announced it would establish a new domestic manufacturing hub in Ohio that will include as many as eight facilities at a cost of as much as \$100 billion. However, it may take years for the industry's new facilities to come online, opening the door for supply and pricing volatility to continue in the short term.

Source: The Wall Street Journal (01/30/2022)

U.S. Inflation Rate Accelerates to a 40-Year High of 7.5%

The Labor Department's Consumer Price Index continued its meteoric rise through the end of 2021, with inflation reaching its highest level in four decades for the period January 2021 to January 2022. Inflation has shown no signs of slowing down and will likely require intervention from the Federal Reserve Open Market Committee (FOMC) at its March meeting. As supply and labor constraints continue to impact the economy, some interest rates are starting to creep up in an acknowledgement of the FOMC's likely changes to the target Federal Funds Rate in the coming months.

Source: The Wall Street Journal (02/10/2022)

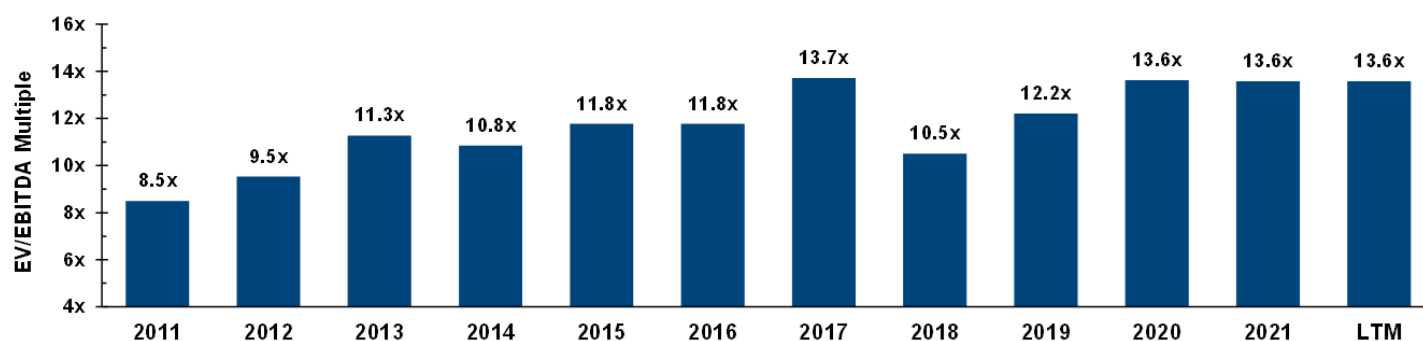
A Normal Supply Chain? It's Unlikely in 2022

The supply chain issues that began at the start of the pandemic are expected to continue through 2022. Several factors are contributing to the ongoing supply challenges that many companies are facing, including overheated demand driven by government stimulus, the momentum of ecommerce sales, and infrastructure challenges arising from the shortage of ships, containers, trucks, and labor. In combination with increasing interest rates, supply chain headwinds are expected to have a notable impact on economic growth. The International Monetary Fund (IMF) noted these and other macroeconomic factors when reducing its 2022 global growth forecast from 4.9% to 4.4% in its most recent report.

Source: The New York Times (02/01/2022)

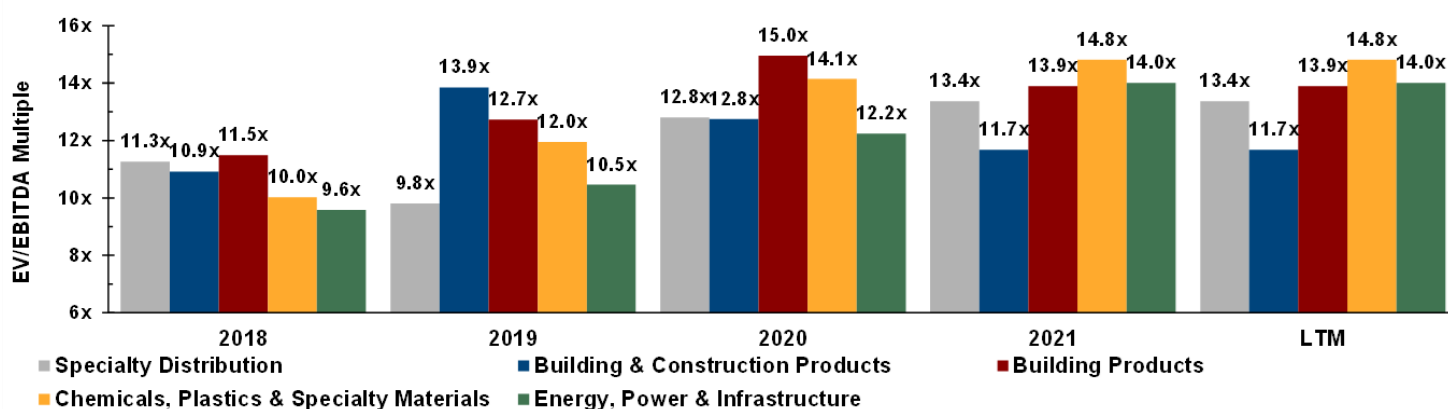
Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: Annual EV/EBITDA Multiples



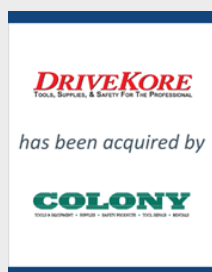
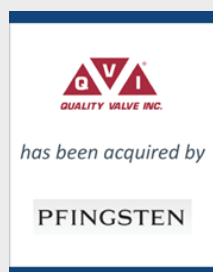
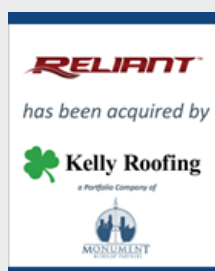
Source: CapIQ, public trading data as of January 31, 2021

Industrial Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of January 31, 2021

Representative EdgePoint Industrial Transactions



**For more information and insight
please contact the EdgePoint
Industrials team:**

Matt Keefe
Managing Director
Industrials

Contact:
216-342-5863
mkeefe@edgepoint.com



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