

Wild First Half Having an Impact on M&A Activity

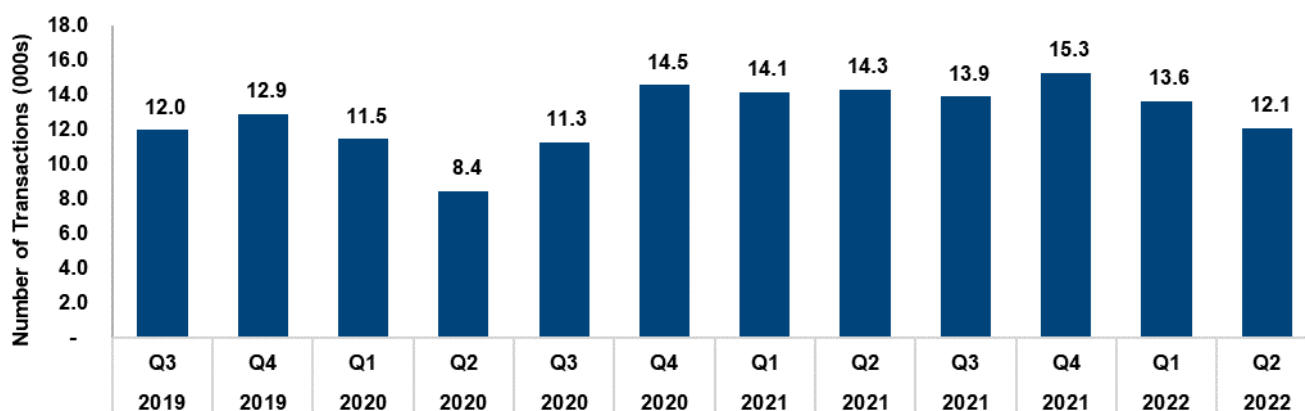
The first half of 2021 was so eventful that legendary sports broadcaster Gus Johnson would describe it perfectly with his signature tag line, “Unbelievable!” The first half saw Russia invade Ukraine, creating not only untold human tragedy, but also economic upheaval on a global scale. In China, COVID policies prompted additional lockdowns that created prolonged disruptions in global supply chains. In the U.S., inflation surged, prompting the Federal Reserve to significantly increase interest rates to curb the rising prices impacting real estate values and the building products industry. These factors have combined to create uncertainty in M&A markets as both strategic and financial buyers have become more conservative in evaluating new deals.

Data from multiple industry databases show that deal volume has slowed in 2022. The chart below shows global M&A transactions from CapIQ by quarter dating back to Q3 2019. In the first half of 2021, over 28 thousand transactions were announced, an astonishing 43% increase over the same period in 2020. In 2022,

however, the number of transactions declined by nearly 10%. When we focus solely on the middle market (deals less than \$500 million in enterprise value), the contrast is even greater. GF Data, a leader in middle market transaction reporting, reported 129 transactions in 1H 2022, as compared to 218 in 2021; a 40% decrease. The drop in M&A transactions suggest that buyers are exercising caution when evaluating new opportunities.

With broad uncertainty in the near-term economic outlook, buyers are being careful in their deployment of capital. Issues such as customer concentration, volatile growth, and single digit EBITDA margins are giving buyers pause. Additionally, industries with ties to new construction are also out of favor. These issues can result in lower valuations or no transaction at all. Nonetheless, financial buyers continue to raise funds to invest in businesses, so there will always be demand for acquisitions. EdgePoint believes that good businesses will continue to trade at attractive multiples, but in this environment, the definition of good has narrowed.

Number of Global M&A Transactions



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

Notable Recently Announced and Closed Industrial Transactions

Date: 06/24/2022 (Closed)		Overview / Strategic Rationale:	Precision Manufacturing
Target:		<p>Nucor Corporation manufactures flat-rolled steel and steel products. The company's building systems division manufactures custom-engineered steel buildings for commercial and industrial applications.</p> <ul style="list-style-type: none"> <i>C.H.I. Overhead Doors manufactures garage doors, commercial doors, and rolling steel doors for the residential and commercial markets</i> <i>Nucor and Nucor Building Systems anticipate revenue and cost synergies generated through cross-selling doors to existing custom-engineered structures customers as well as through vertical integration of the company's supply chain</i> <i>Nucor expects to expand its position in the steel structures industry, particularly in the manufacturing, industrial, and warehousing markets</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$3,000		
EV/LTM EBITDA	13.0x		
EV/LTM Revenue	-		
Date: 05/31/2022 (Announced)		Overview / Strategic Rationale:	Building Products
Target:		<p>Saint-Gobain provides materials and solutions for new construction and renovations. The company has demonstrated a deep focus on growing its building products businesses, having made numerous complementary acquisitions in the last few years.</p> <ul style="list-style-type: none"> <i>Kaycan manufactures and distributes exterior home improvement and construction products, including siding, shutters, rainwear, and windows</i> <i>Saint-Gobain's construction division manufactures a variety of materials and textiles-related building products for interior and exterior applications including plaster, insulation, roofing and siding</i> <i>The acquisition makes Saint-Gobain the largest siding provider in Canada and expands its strong presence in the U.S. market</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$928		
EV/LTM EBITDA	11.2X		
EV/LTM Revenue	2.0x		
Date: 03/28/2022 (Announced)		Overview / Strategic Rationale:	Chemicals, Plastics, & Specialty Materials
Target:		<p>SWM manufactures highly engineered films, adhesive tapes, foams, and other advanced materials. The company, originally a paper product manufacturer, has diversified into plastics and specialty products following numerous acquisitions in the last few years. The newly combined company is now known as Mativ.</p> <ul style="list-style-type: none"> <i>Neenah, Inc. is a manufacturer of specialty materials for filtration media, specialty coatings, engineered materials, and imaging & packaging solutions</i> <i>The acquisition will enable the combined company to diversify and expand its product offerings by incorporating Neenah's performance materials and filtration solutions alongside SWM's engineered composites, tapes & adhesives, and paper products</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$1,169		
EV/LTM EBITDA	1.1x		
EV/LTM Revenue	10.0x		
Date: 02/22/2022 (Announced)		Overview / Strategic Rationale:	Precision Manufacturing
Target:		<p>Cummins manufactures power solutions, including off-highway and on-highway engines, electric and hybrid generators & power systems, turbochargers, fuel systems, batteries, and related products.</p> <ul style="list-style-type: none"> <i>Meritor is a supplier of drivetrain, mobility, braking, and aftermarket & electric powertrain solutions for the commercial vehicle and industrial markets</i> <i>The acquisition of Meritor enables Cummins to expand its core axle and brake businesses by expanding into the commercial truck, trailer, off-highway, defense, specialty, and aftermarket industries</i> <i>Cummins will also be able to focus on developing economically viable decarbonized powertrain solutions, with the aim of achieving net-zero emissions</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$3,808		
EV/LTM EBITDA	0.9x		
EV/LTM Revenue	9.5x		
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						
5/25/2022	TransDigm Group Incorporated	Dart Aerospace Limited	Dart Aerospace Limited designs, manufactures, and markets-certified solutions for the helicopter and aerospace industry worldwide.	\$ 360	-	-
5/23/2022	Kaman Corporation	Aircraft Wheel and Brake Division of Parker-Hannifin Corporation	Aircraft Wheel and Brake Division comprises aircraft wheel and brake systems, and related hydraulic products manufacturing business for general aviation, business aviation, and rotorcraft and military aircraft markets.	\$ 440	6.3	15.7
BUILDING PRODUCTS						
5/2/2022	Woodgrain Inc.	Huttig Building Products, Inc.	Huttig Building Products, Inc., together with its subsidiaries, distributes millwork, building materials, and wood products for new residential construction, in-home improvement, remodeling, and repair works in the United States.	\$ 400	0.4	5.8
4/29/2022	KPS Capital Partners, LP	Oldcastle BuildingEnvelope, Inc.	Oldcastle BuildingEnvelope, Inc. designs, manufactures, and supplies building envelope solutions in the United States.	\$ 3,800	-	-
CHEMICALS & COATINGS						
5/13/2022	AZZ Inc.	Precoat Metals Corp.	Precoat Metals Corp. provides coil coating services for buildings, housing, appliances, vehicles, offices, containers, and households.	\$ 1,283	1.8	9.4
4/29/2022	Industrial Opportunity Partners, LLC	Raven Engineered Films, Inc.	Raven Engineered Films, Inc. manufactures and supplies flexible films and sheeting.	\$ 350	-	-
INDUSTRIAL DISTRIBUTION						
5/31/2022	Groupe Deschênes Inc.	Crane Canada Co.	Crane Canada Co. operates as a distributor of pipes and valves.	\$ 298	-	-
5/2/2022	DXP Enterprises, Inc.	Cisco Air Systems, Inc.	Cisco Air Systems, Inc. engages in the distribution of industrial air compressors in Northern California and Nevada.	\$ 52	1.2	7.4
PLASTICS & RUBBER						
4/6/2022	Dätwyler Holding AG	Quality Synthetic Rubber, Inc.	Quality Synthetic Rubber, Inc., doing business as Tac Materials Inc., provides custom molded synthetic rubber components for automotive, industrial, and medical markets.	\$ 625	3.8	14.2
2/28/2022	TriMas Corporation	Intertech Plastics, Inc.	Intertech Plastics, Inc. engages in fabricating custom injection molded products for application in consumer, medical, and specialty plastics markets in the Rocky Mountain region.	\$ 64	2.0	-
2/18/2022	Celanese Corporation	Mobility and Materials Business of DuPont de Nemours, Inc.	Mobility and Materials Business of DuPont de Nemours, Inc. comprises thermoplastics and elastomers business.	\$11,000	-	-
PRECISION MANUFACTURING						
6/2/2022	Worthington Industries, Inc.	Level5 Tools, LLC	Level5 Tools, LLC manufactures automatic drywall taping and finishing tools.	\$ 80	2.4	12.9
3/30/2022	IDEX Corporation	Kz Co.	Kz Co., doing business as KZValve, manufactures electric valves and controllers used primarily in the agriculture sector.	\$ 120	4.3	-

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

Key Metrics

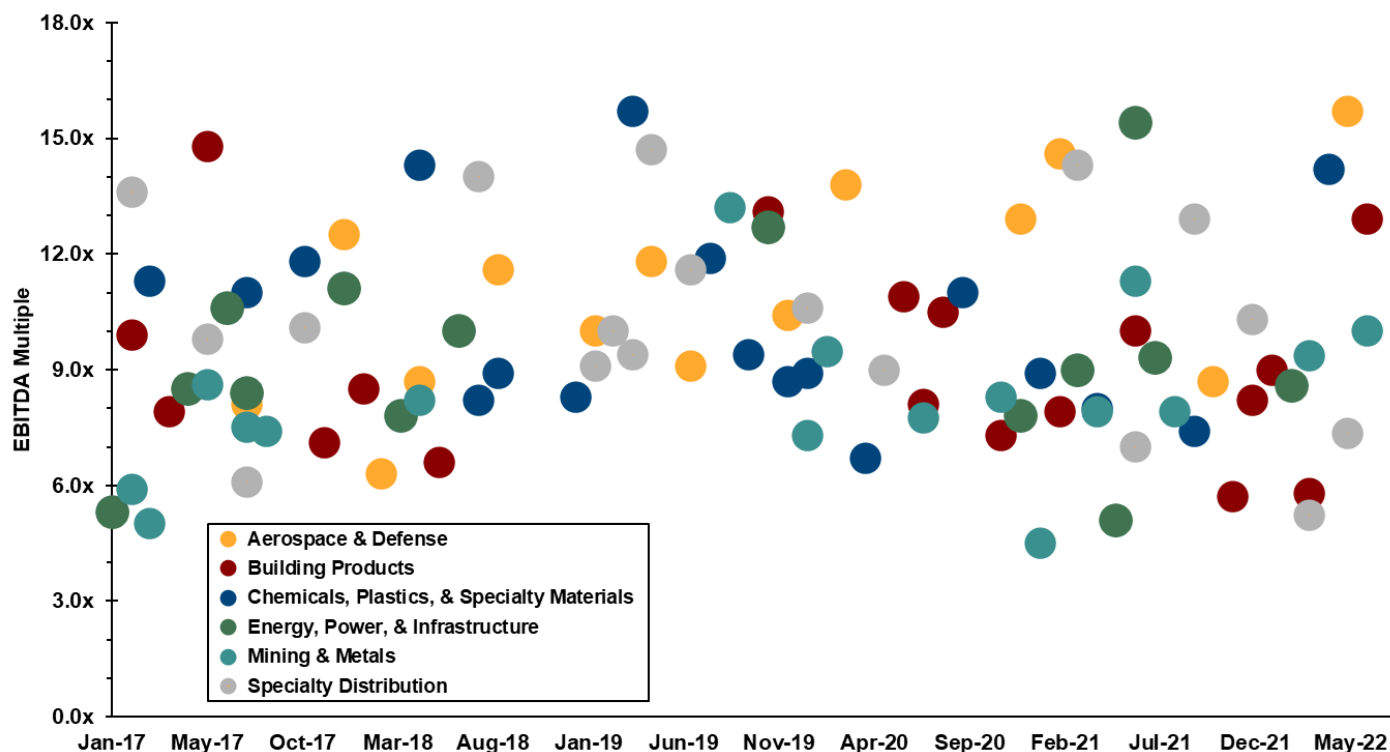
Despite the slowing market relative to the record-setting pace of 2021, the Industrials sector continued to see modest deal flow in the first half of 2022. The growth in private equity volume as a portion of the overall market slowed during the year-to-date period for the first time since 2016. Private Equity's share of industrials transaction volume had previously grown from 25% of all transactions in 2016 to 37% of volume in 2021 as the low interest rate environment persisted. Despite increasing interest rates, however, the lower-middle market continues to see steady sell-side volume and stable buyer demand for quality assets.

Specialty Distribution continued to represent a large proportion of industrials transactions, while advanced materials also saw

consistent deal volume. CGI Automated Manufacturing, a CORE Industrial Partners portfolio company, was a particularly active acquirer in the first half of 2022, completing five transactions during the period.

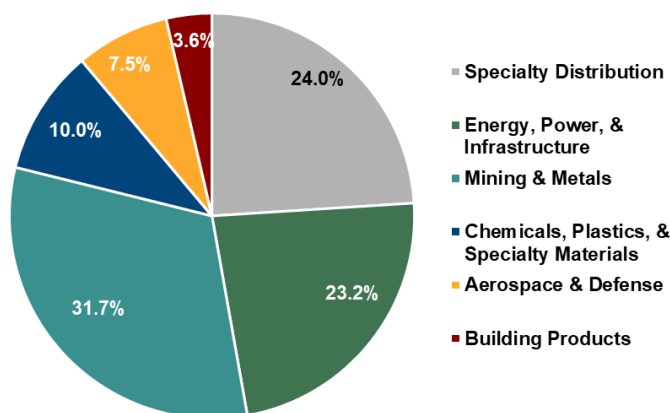
While data on all transactions is not publicly available, the select transaction multiples shown in the chart below continue to show little to no material change in valuations for industrials businesses. This trend is worth watching as The Fed continues implementing policies aimed at cooling inflation. The median valuation may begin to show downward pressure in the increasing interest rate environment as financing becomes more scarce, however quality businesses will continue to garner premium valuations.

Select Transaction Multiples



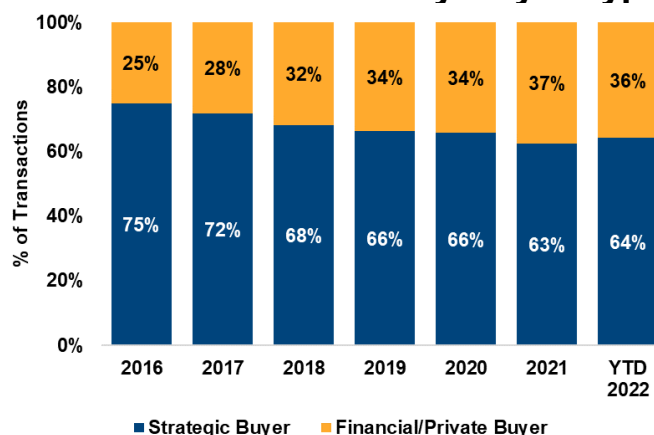
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (2022)



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

Share of Transactions by Buyer Type



Sub-Sector Profile: Building Products

The building products sub-sector has remained active through the first half of 2022. Although many deals closed in the first two quarters, it is important to note that these deals were initiated in late 2021 or very early in 2022. Since that time we have seen rising interest rates and recessionary indicators that have caused a red-hot housing market to stall.

As organic growth continues to be a hurdle for large players in the building products space, strategic buyers continue to utilize M&A as a primary means to achieve above average growth. Strategics will likely be the most active buyers as they hunt for future deals that enhance their market share and regional presence.

Among the active buyer universe, U.S. LBM continues to be one of the most aggressive buyers as it looks to further consolidate lumber and engineered wood products industry. The company has announced four deals so far in 2022, three of which are manufacturers of roof and floor truss components with a geographical presence extending from Arizona to Florida and the Caribbean.

Builders FirstSource has also been active in the manufactured building component space with their acquisition of Panel Truss Texas, Inc. Since its megamerger with BMC in 2020, the company has focused its regional expansion efforts in the Mountain West and Southwest regions.

Beacon continues to focus on driving above-market growth through regional expansion via acquisitions in the core exterior building products space. This year the company has closed three transactions, each of them single-branch locations in markets where it seeks to expand its presence.

Core & Main's acquisition strategy focuses on expanding its geographic footprint, product line expansion, and consolidating existing market position. All four transactions completed by Core & Main align with these growth initiatives.

We remain cautious on our outlook in the sub-sector for the remainder of 2022. Rising rates and a cooling housing market has given some investors pause, while those with conviction in the space will likely continue to look for attractive assets to deliver growth in an otherwise difficult environment.

Active Building Products Strategic Buyers

Select Strategic Buyers



Date of Transaction

08/08/2022
07/08/2022
06/01/2022
04/04/2022

Acquisition Activity

- Deco Truss Company
- Foxworth-Galbraith Lumber Company
- Truss Fab
- Crown Components



06/01/2022
04/29/2022
01/01/2022

- Complete Supply, Inc.
- Wichita Falls Builders Wholesale, Inc.
- Crabtree Siding and Supply



08/01/2022
04/11/2022
01/05/2022

- HomCo Lumber & Hardware
- Panel Truss Texas, Inc.
- National Lumber Company



08/08/2022
06/28/2022
05/02/2022
03/07/2022

- Inland Water Works Supply Company
- Earthsavers Erosion Control
- Lock City Supply, Inc.
- Dodson Engineered Products, Inc.

A Pandemic-Sized Hill to Climb: The Manufacturing Labor Shortage Continues

The Situation

In March of 2020, the COVID-19 global pandemic disrupted operations for thousands of businesses and day-to-day life for millions of Americans. Despite vaccines, government stimulus, and a strong economic recovery in 2021, the effects of the pandemic persist for many business owners – especially in the manufacturing and industrials sector. The St. Louis Fed reports that manufacturing employment, although recovered from its lows during the pandemic shutdown, remains below 13 million workers nationwide. Prior to the offshoring wave in the early 2000s, the manufacturing workforce in the United States numbered more than 17.5 million workers. Federal Reserve analysis suggests that this gap will need to be closed in order for manufacturers to keep up with demand for domestic production, however skilled workers are retiring at a faster pace than new workers are entering the manufacturing workforce.

The unavailability of skilled manufacturing labor remains one of the largest constraints for many business leaders, even as vaccines are widely accessible and government stimulus is winding down. As labor unions and manufacturing industry organizations work to support training efforts and drive worker interest in the trades, business owners are often left wondering whether they need to change their business models entirely to survive in the new labor economy.

How Did This Happen?

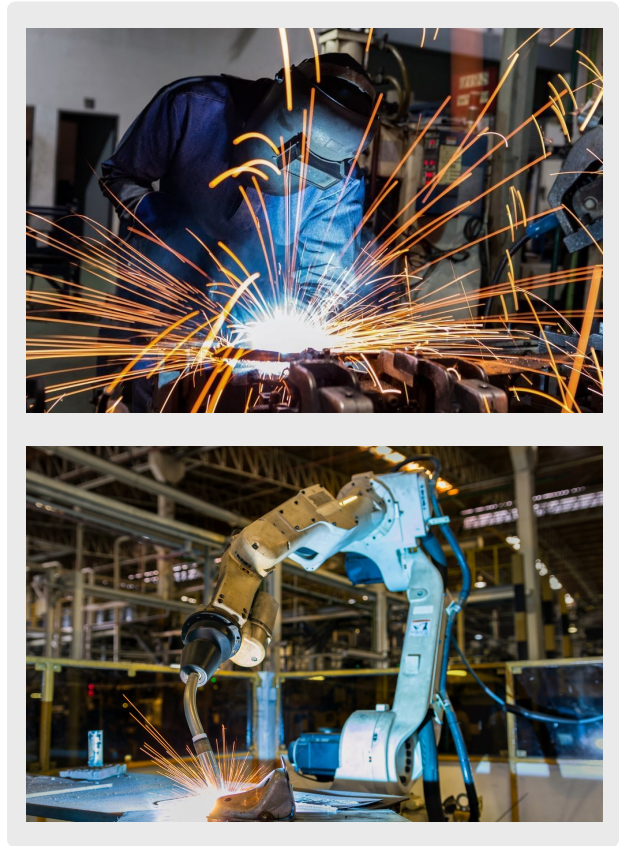
As with many of the societal externalities caused by government and public health intervention related to preventing the spread of COVID-19, the manufacturing labor shortage was not brought on by the pandemic itself. The manufacturing labor shortage first emerged more than a decade ago when many skilled workers began to retire and trained replacements were in short supply. For example, the American Welding Society (AWS) reports that less than 20% of welders are under the age of 35, while the average welder is more than 55 years old. Further, AWS estimates that the labor shortage among welders will reach a deficit of 400,000 workers by 2024. Recent growth in the material handling, semiconductor manufacturing, alternative energy, and civil infrastructure (roads, bridges, etc.) industries is further exacerbating the issue as demand for welders increases in these subsectors.

What's Next?

Manufacturers are continually pursuing new innovations to drive productivity and performance improvements. In recent years, Lean and Six Sigma have been supplemented by digitization and the Internet of Things. The next wave of innovation and productivity gains aims to reduce companies' need for labor by integrating robotics, automation, and artificial intelligence into production operations.

Startups such as Path Robotics – a venture-backed producer of robotic welding equipment based in Columbus, Ohio – are racing to address the pressing needs of American manufacturers by developing autonomous and semi-autonomous solutions that reduce the amount of labor required to operate a manufacturing plant. Path's robotic welding systems are equipped with sophisticated optics and "machine vision" systems that enable a computer to identify and execute welds. The machines operate as independent manufacturing cells, producing component parts without the need for welders or computer programmers.

While the adoption of robotics and automated manufacturing solutions – or Industry 5.0 – remains in its infancy, the potential exists for productivity to increase significantly, reducing domestic manufacturers' reliance on skilled labor in order to compete on a global scale. Path is just one of hundreds of startups and established players contributing innovative and new technologies to improve manufacturing productivity and ease labor constraints on the domestic manufacturing sector.



What We are Reading:

Global Economies Flash Warning of Sharp Slowdown

The global manufacturing and service sectors have seen production contractions in the last two months, something that has not occurred since May of 2020. Businesses in the eurozone have also reported a decline in new orders and inventory buildups, pointing to weakness in the months ahead as goods remain unsold. In the U.S., businesses are raising prices more slowly as softer order volume and competition have tempered price increases. Input costs have also moderated in the U.S., but wage and transportation costs continue to put downward pressure on businesses.

Source: The Wall Street Journal (08/23/2022)

Food, Fuel, and Further Commodity Crisis

Commodity prices are now top of mind for many consumers and businesses. The rising costs of food, fuel, and other commodity inputs have had a significant impact on consumer balance sheets. Although prices have risen, demand has been resilient for commodities that are necessities for consumers. If this trend continues, even in the event of a recession (as occurred in the 1970s), we could see a sharp spike to the upside on prices in the near-term with supply side constraints driven by a prolonged period of underinvestment in infrastructure for commodities like oil and natural gas. Looking further out along the time horizon, metal prices come into play. Industrial metals sit at the center of a sizeable green capex boom, and although prices in recent months have dropped, historical underinvestment in the space will encumber producers' ability to keep up with forecasted demand.

Source: Goldman Sachs (07/28/2022)

Inflation Has Outpaced Wage Growth. Now It's Cutting Into Spending.

With wage growth exceeding 4% year-over-year, consumer finances were bolstered by higher wages and low costs prior to the pandemic. Since then, those steady gains have been all but wiped out. After inflation hit 8% in July, consumers continued to spend, but, when removing inflation, household earnings have remained flat since March of 2021. Although sales at gas stations have hit record highs, this has been driven by price increases at the pump—the Federal Highway Administration reporting a 1% increase in miles traveled in May over the prior year.

Source: Wall Street Journal (07/17/2022)

The Postmodern Cycle

The world seems to be entering a 'postmodern' cycle, where inflation has become a more significant risk than deflation, and where increased globalization, commodity prices, and labor have become the fabric of the changing macroeconomic landscape. Capex spending will have to dramatically increase as investments in infrastructure for renewable energy are priorities in government spending. In the previous cycle, where weak nominal growth and record low interest rates favored growth strategies, the postmodern cycle is likely to focus on the stability and sustainability of margins and earnings.

Source: Goldman Sachs (05/17/2022)

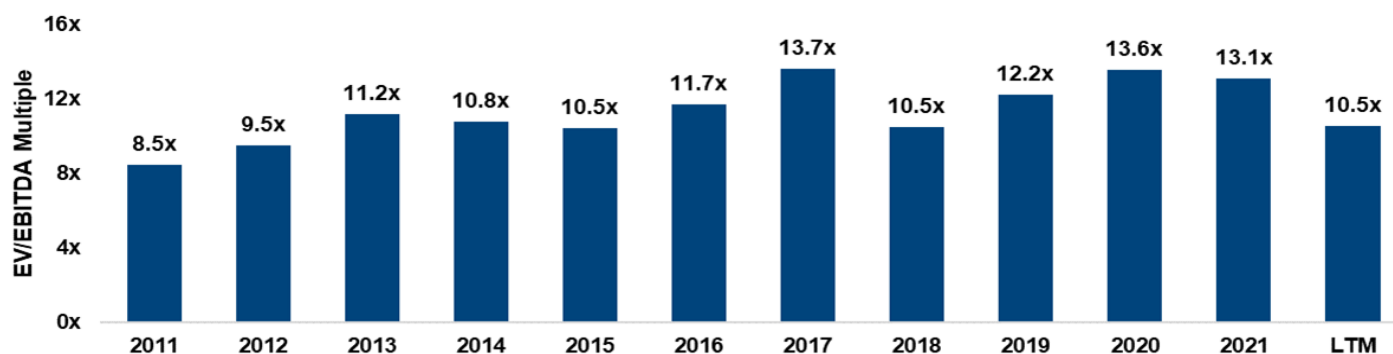
(De)Globalization Ahead?

The dual crises of the COVID-19 pandemic and Russia's invasion of Ukraine have pushed globalization to the forefront where it now faces its greatest test in the post-Cold War era. The pitfalls of globalization were exposed as supply chain disruptions and sharp spikes in goods led to questions about a multi-decade process that led to the free-flow of goods and services across borders. Although the prospect of reshoring has been discussed at length, thus far evidence of meaningful activity has been limited. Large companies have instead chosen to overstock goods to improve the resiliency of their supply chains. Long-term prospects remain promising with semiconductors setting a precedent by reshoring production to protect their future supply chains in the United States.

Source: Goldman Sachs (04/28/2022)

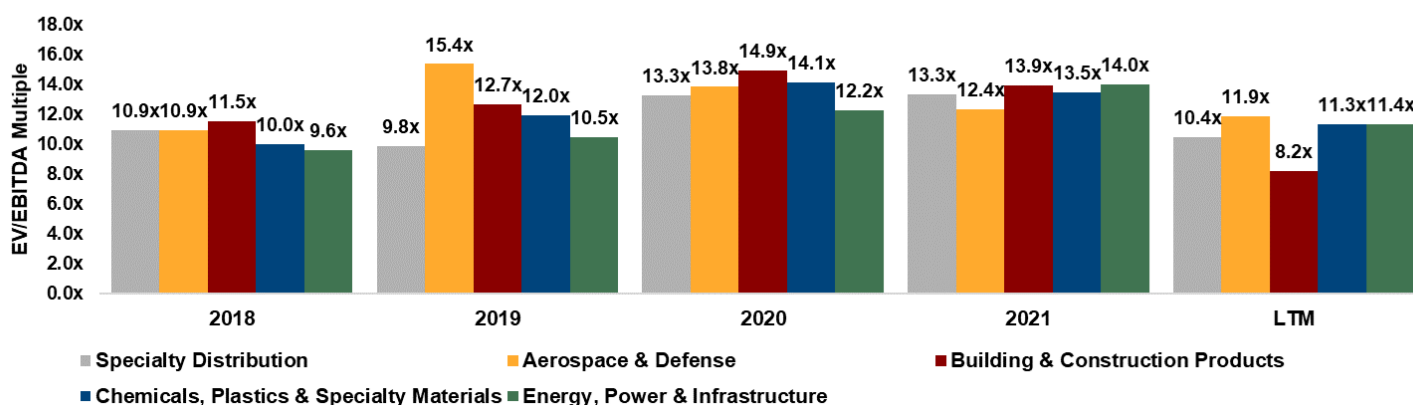
Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: EV/EBITDA Multiples



Source: CapIQ, public trading data as of June 30, 2022

Industrial Sub-Sector Public EV/EBITDA Multiples

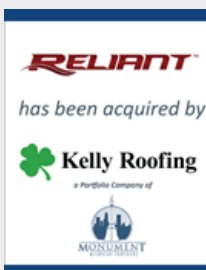


Source: CapIQ, public trading data as of June 30, 2022

Representative EdgePoint Industrial Transactions



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



Matt Keefe
Managing Director
Industrials

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



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