

Supply Chain Woes and Interest Rate Environment Impact Dealmaking in 2022

Following the wave of pent-up demand for M&A in 2021 and early 2022, transaction volumes experienced a notable decline in the third and fourth quarters. The decline has largely been attributed to tightening capital markets and more stringent financing requirements, but was also impacted by the persisting effects of recent supply chain disruptions and rapidly rising inflation in most industries.

As The Federal Reserve Open Market Committee began taking a more aggressive stance on taming inflation in mid-2022, increasing the target for its Federal Funds Rate from 0.25%-0.50% in May 2022 to 4.25%-4.50% by the end of the year, businesses began seeing downstream effects. Where customers had previously accepted price increases and elongated lead times, they were beginning to demand price cuts and shorter lead times from manufacturers. As a result, buyers—and lenders—began to more closely scrutinize target company sales trends and the relationship between price and volume in historical financial statements.

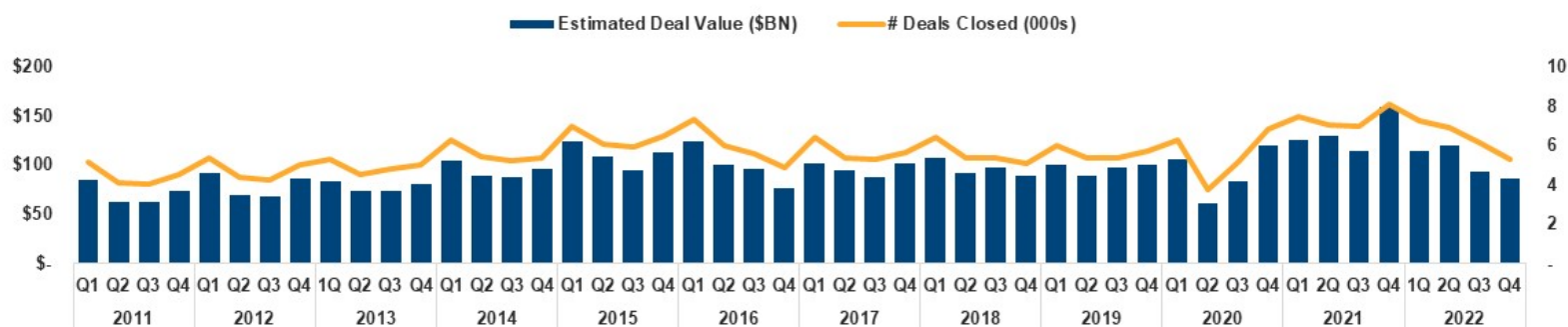
The increased scrutiny from buyers and lenders led many businesses to appear less attractive, as revenue and margin

growth was attributed to unsustainable price increases and financing requirements increased with interest rates. Consequently, deal volume sagged as sellers chose to wait out market volatility while dealmakers adjusted to the rising interest rate environment.

As we enter 2023, buyers and sellers have begun adjusting to the sea change that has occurred in the macroeconomy and capital markets. Further, global supply chains have largely normalized following the supply and demand shocks that emerged in 2021–2022.









While a slow first quarter of 2023 is imminent, EdgePoint expects dealmaking to rebound strongly in the middle of the year as a healthy supply of businesses enter the market and buyers and lenders adjust to the current interest rate environment. All sides will be watching The Fed and evaluating the interest rate environment and recession risks as 2023 unfolds. Potential sellers should engage advisors now and prepare for what will prove to be a highly competitive and active market in the second half of the year.

US Deal Activity by Quarter



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

Notable Recently Announced and Closed Industrial Transactions

Date: 12/18/2022 (Announced)		Overview / Strategic Rationale:	Aerospace & Defense
Target:		<p>L3Harris Technologies (NYSE:LHX) is a prominent provider of aerospace and defense technologies for mission-critical applications across the commercial and defense industries.</p> <ul style="list-style-type: none"> <i>Aerojet Rocketdyne is a manufacturer of propulsion and energetics systems, primarily for the U.S. Department of Defense and NASA</i> <i>The Aerojet acquisition will enable L3Harris to strengthen and expand its solid rocket motor production capabilities, as well as increase its position in hypersonics programs</i> <i>It is expected that the acquisition will save the company nearly \$50 million in overhead costs for the first year without shutting down major facilities</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$4,784		
EV/LTM EBITDA	15.9x		
EV/LTM Revenue	2.2x		
Date: 10/31/2022 (Closed)		Overview / Strategic Rationale:	Precision Manufacturing
Target:		<p>Blackstone (NYSE:BX) is one of the largest alternative asset management firms. Blackstone's private equity arm invests in growth-oriented businesses.</p> <ul style="list-style-type: none"> <i>Climate Technologies was previously a division of Emerson Electric (NYSE: EMR), a global leader in automation and HVACR commercial & residential solutions</i> <i>Climate Technologies is a manufacturer of branded compressors and HVACR products for climate control systems</i> <i>The acquisition enables Blackstone to grow its automation products and solution offerings to more end-markets and customers</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$14,000		
EV/LTM EBITDA	12.7x		
EV/LTM Revenue	2.8x		
Date: 10/27/2022 (Closed)		Overview / Strategic Rationale:	Plastics & Rubber
Target:		<p>Trelleborg Sealing Solutions U.S., a subsidiary of Trelleborg AB (publ) (OM:TREL B), provides polymer sealing solutions and components to the general industrial, aerospace, light vehicles, transportation, agricultural, and oil & gas industries.</p> <ul style="list-style-type: none"> <i>Quadion, also known as Minnesota Rubber & Plastics, engineers and manufactures custom-molded plastic and rubber components and assemblies</i> <i>The acquisition will enable Trelleborg to add to and broaden its customer base and strengthen its presence in North America</i> <i>Trelleborg will be able to horizontally integrate Quadion's medical device solutions, further increasing Trelleborg's share in the medical device market</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$950		
EV/LTM EBITDA	-		
EV/LTM Revenue	3.8x		
Date: 07/06/2022 (Announced)		Overview / Strategic Rationale:	Building Products
Target:		<p>Domtar Corporation is part of the Paper Excellence Group, a manufacturer of pulp and paper products and solutions. Domtar specializes in manufacturing communication, specialty, and packaging papers.</p> <ul style="list-style-type: none"> <i>Resolute Forest Products is a leading provider of forest products, including pulp, tissue, and wood products & papers</i> <i>The acquisition of Resolute Forest Products will enable Domtar to increase growth through obtaining greater access to tools, capital, and opportunities</i> <i>This transaction is in line with Domtar and the Paper Excellence Group's growth strategy of acquiring diversified forest product companies</i> 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$2,554		
EV/LTM EBITDA	3.0x		
EV/LTM Revenue	0.7x		

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						
12/16/2022	Advent International Corporation	Maxar Technologies Inc.	Maxar Technologies Inc. provides earth intelligence and space infrastructure solutions.	\$ 6,542	3.7	14.2
12/9/2022	Northleaf Capital Partners Ltd.	Accurus Aerospace Corporation	Accurus Aerospace manufactures and supplies machined parts, kits, and assemblies, as well as provide processing services.	\$ 235	-	-
12/1/2022	Lincoln Electric Holdings, Inc.	Fori Automation, Inc.	Fori Automation, Inc. designs and manufactures art automated systems to the aerospace, automotive, and defense industries.	\$ 427	-	-
BUILDING PRODUCTS						
12/1/2022	Fortune Brands Innovations, Inc	Emtek and Schaub Door And Cabinet Hardware and U.S.	Emtek and Schaub Door And Cabinet Hardware comprises the premium and luxury door and cabinet hardware manufacturing business.	\$ 800	2.3	-
11/30/2022	Interfor Corporation	Chaleur Forest Products	Chaleur Forest Products manufactures and sells wood and lumber products for the United States and Canadian markets.	\$ 238	-	-
11/3/2022	Masonite Corporation	Endura Products, Inc.	Endura Products, Inc. manufactures and sells performance door components.	\$ 375	1.4	-
9/1/2022	Builders FirstSource, Inc.	Trussway Manufacturing, LLC	Trussway Manufacturing, LLC manufactures and supplies pre-fabricated wood framing components for the building industry.	\$ 275	0.8	-
CHEMICALS & COATINGS						
11/4/2022	The Timken Company	GGB, Inc.	GGB, Inc. manufactures metal-polymer plain bearings.	\$ 303	-	-
9/1/2022	Chase Corporation	Nucera Solutions LLC	Nucera Solutions LLC develops and manufactures specialty polymers and polymerization technologies.	\$ 250	3.0	11.9
INDUSTRIAL DISTRIBUTION						
12/15/2022	Beijer Ref AB	Wittichen Supply Company Inc.	Wittichen Supply Company Inc. distributes heating, ventilating, air conditioning, and refrigeration parts, equipment, and supplies to HVAC/R contractors.	\$ 1,275	2.0	13.4
11/1/2022	H.I.G. Capital, LLC	Distribution Business of Avient Corporation (nka:Formerra)	Distribution Business of Avient Corporation is a leading distribution business of engineered thermoplastic polymers.	\$ 950	-	-
10/3/2022	BlueLinx Corporation	Vandermeer Forest Products, Inc.	Vandermeer Forest Products, Inc. engages in the distribution of building products, such as lumber, studs and plywood, OSB sheathing, and sub-flooring.	\$ 67	0.4	3.5
PLASTICS & RUBBER						
12/22/2022	ABC Technologies Holdings Inc.	Windsor Mold, Inc.	Windsor Mold, Inc. provides tooling solutions for the automotive plastics applications in Canada and internationally.	\$ 165	0.6	-
11/2/2022	HEXPOL AB	McCann Plastics, Inc.	McCann Plastics, Inc. manufactures thermoplastic custom compounding chemicals and materials.	\$ 11,000	1.7	-
PRECISION MANUFACTURING						
11/11/2022	M2 Capital Partners International Holdings Limited	Superior Industries International, Inc.	Superior Industries International, Inc. designs, manufactures, and sells aluminum wheels to OEMs and aftermarket distributors.	\$ 850	0.5	5.1
10/27/2022	Regal Rexnord Corporation	Altra Industrial Motion Corp.	Altra Industrial Motion Corp. designs and produces electromechanical power transmission motion control products.	\$ 4,987	2.6	13.4

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

Key Metrics

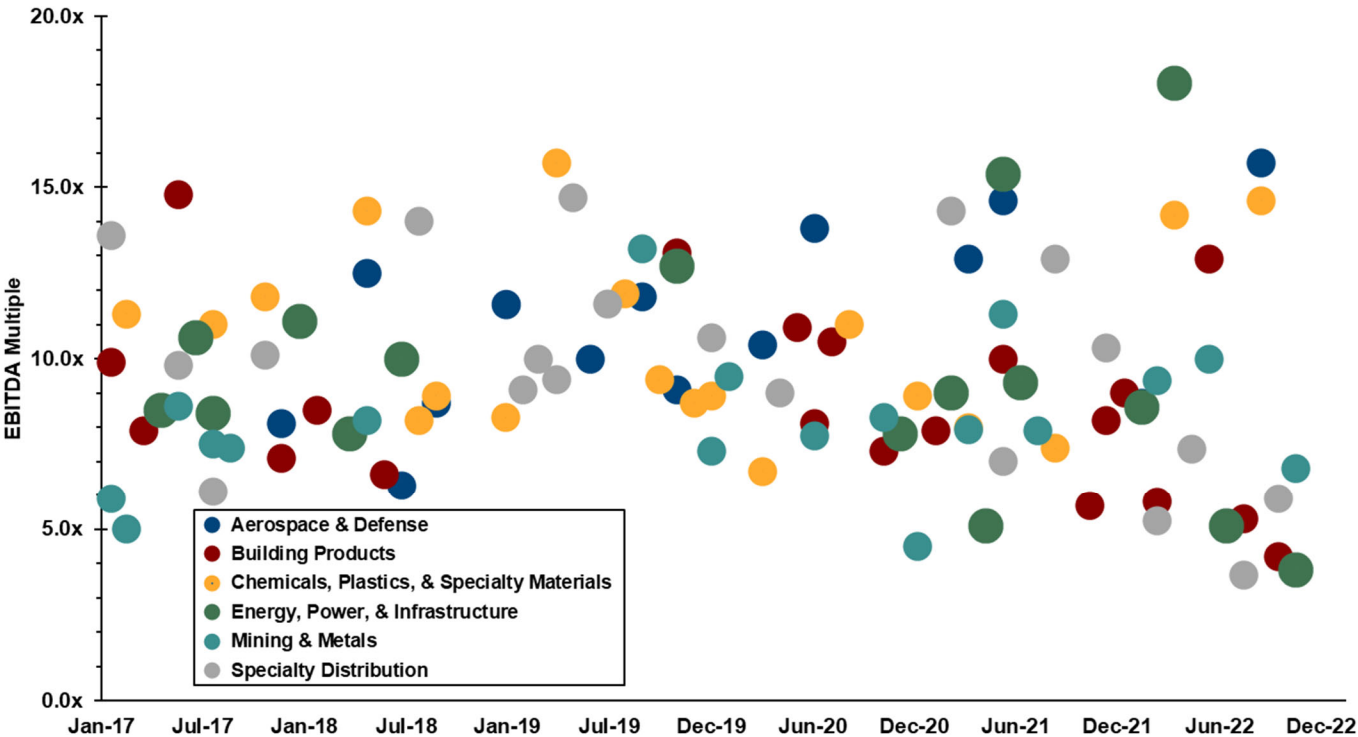
Industrials deal flow slowed slightly in the second half of 2022 as rising interest rates and market volatility impacted capital markets. Infrastructure, specialty materials, and aerospace transaction volume remained stable, while building products transactions faced significant headwinds—a 180-degree change from a year earlier, when home construction and renovations were booming.

Additionally, the increase in financial buyer activity—traditional private equity groups, independent sponsors, search funds, and others—continued, as financial sponsors accounted for more than one third of all transaction volume for the fourth straight

year. This trend was aided by the persistent low interest rate environment that has seemingly come to an end. Availability of debt financing and the persistence of this trend is a key aspect of the market to keep an eye on in 2023.

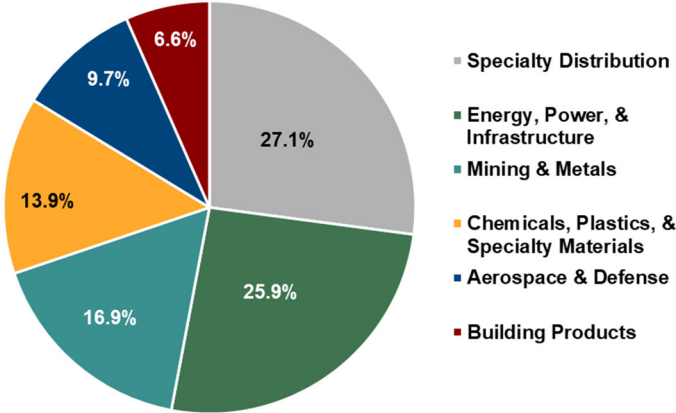
As evidenced in the table below (Select Transaction Multiples), publicly disclosed transaction values across Industrials sub-sectors decreased slightly in the second half of 2022. This trend may be skewed by the lack of large, public company transactions where data is available and/or declining overall deal volume.

Select Transaction Multiples



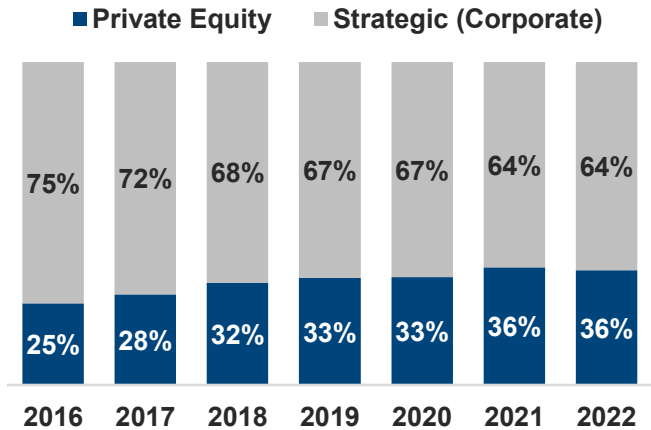
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (2022)



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

Share of Transactions by Buyer Type



Sub-Sector Profile: Specialty Chemicals Divestitures

Despite headwinds in the first half of 2022, activity in the Chemicals and Coatings sub-sector has remained strong. Supply chain disruptions from Russia's invasion of Ukraine followed by historically high inflation put pressure on operations and margins for many in the space. Sourcing domestic raw materials and the ability to pass through higher input costs were key determinates of performance in 2022.

Publicly traded strategics were the most active in 2022. Many used the volatility as a catalyst to reposition their portfolio by divesting non-core assets to be better aligned with long-term industry trends and potential short-term disruptions.




As executives increasingly re-visit their growth and capital allocation strategies, they may be considering a wide range of opportunities to reshape their product portfolio through acquisitions and divestitures. Business leaders 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. An important trend in 2022 was the high-volume of publicly traded strategics

shedding non-core assets. Conversely, private-equity investors were active in pursuing these assets, seeking to scale platforms with add-ons. For example, Saint-Gobain was very active in repositioning their portfolio. The Company divested nine sector related assets in 2022 alone. Saint-Gobain was also an active buyer, acquiring seven companies in the same period. The company has announced three acquisitions year-to-date 2023.

SK Capital Partners was among the most active private equity buyers. The firm made seven acquisitions in 2022. Two of these were acquired from Saint-Gobain. SK Capital was also able to divest two of its portfolio companies, including NuCera Solutions, a specialty polymers and coatings company, to publicly traded strategic Chase Corporation for \$250 million or 11.9x LTM EBITDA.

Investors and business owners should keep an eye on these trends as they consider their own strategic opportunities in 2023 and beyond.

Specialty Chemicals Activity

Select Strategic Divestitures	Date of Transaction	Acquisition Activity
	11/21/2022	<ul style="list-style-type: none"> Dansk Bilglas A/S
	09/01/2022	<ul style="list-style-type: none"> Crystals and Detectors business of Saint-Gobain
	07/22/2022	<ul style="list-style-type: none"> Saint-Gobain Performance Plastics Mg Silikon GmbH
	07/04/2022	<ul style="list-style-type: none"> Protrae A/S
	05/27/2022	<ul style="list-style-type: none"> GK Glaskontor Erfurt GmbH
	05/27/2022	<ul style="list-style-type: none"> Glas Ziegler Ges.M.B.H./ECKELT GLAS GmbH
	05/12/2022	<ul style="list-style-type: none"> Ceramic businesses of Saint-Gobain in Brazil and the US
	02/04/2022	<ul style="list-style-type: none"> AS Baltiklaas
	06/14/2022	<ul style="list-style-type: none"> Eberle Design Inc.
	04/01/2022	<ul style="list-style-type: none"> Business Activities of PPG in Africa
	06/28/2022	<ul style="list-style-type: none"> Printing Solutions Sweden Holding AB
	05/25/2022	<ul style="list-style-type: none"> Trelleborg Wheel Systems Holding AB

The Most Interesting “Boring” Book You’ll Read This Year

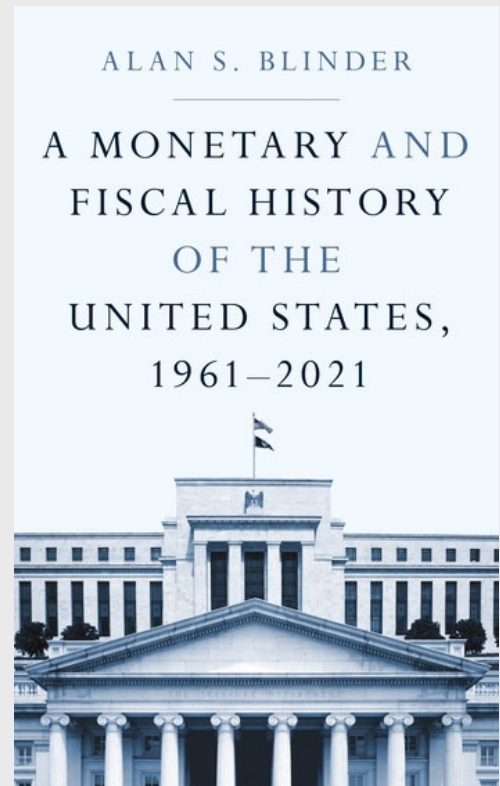
In 2003, author Michael Lewis wrote *Moneyball*, which told the story of how data and analytics helped the Oakland A’s baseball team reach the post season despite their team payroll being a fraction of that of large market teams such as the New York Yankees. The book discussed statistics and mathematics a great deal, yet Lewis did a masterful job of weaving in the personal narratives of the front office, the coaching staff, and the players. *Moneyball* was turned into a film by the same name in 2011. In the film, Brad Pitt plays the lead as Oakland A’s GM Billy Beane, who departed from historical baseball norms to adopt a data driven approach to roster construction.

It is safe to argue that no movie will be made about Alan Blinder’s recent book, *A Monetary and Fiscal History of the United States, 1961–2021*, but Blinder, like Lewis, manages to tell an interesting story while intertwining data and facts. The book details the interaction and sometimes direct conflict between fiscal policy and monetary policy in the United States dating back to 1961. The title is an homage to Milton Friedman’s landmark book, *A Monetary History of the United States, 1867–1960*. Blinder is quick to point out that the book picks up where Friedman left off, but it is no sequel.

Alan Blinder is uniquely suited to chronicle the economic history of the United States. Blinder is an intellectual giant, currently serving as a professor of economics and public affairs at Princeton. Prior to Princeton, Blinder held roles as Vice Chair of the Federal Reserve Board and member of the President’s Council of Economic Advisers during the Clinton administration. Blinder is a contemporary of all past Fed chairs over the last 30 years and has authored several works with former Fed chair and current Treasury Secretary, Janet Yellen. There is perhaps no person better equipped to detail the economic history of the United States.

Like *Moneyball*, *A Monetary and Fiscal History* provides a great deal of data but incorporates plenty of personal narratives about former Fed chairs, treasury secretaries and US presidents. Blinder chronicles key historical elements that have come together to form today’s policy regime including how the Fed developed its sense of independence—which was not the case during the Johnson administration. Blinder also uses data to show the relationship between inflation and unemployment and how they combine to form the Fed’s dual mandate. The book is light on equations but is packed full of important lessons for anyone seeking to understand where the economy has been, and where it could go. Even if Brad Pitt never plays the role of Jerome Powell, this book is worth reading.

A Monetary and Fiscal History of the United States, 1961–2021



“Alan Blinder is one of the clearest and most engaging writers on economics we have.”

- Ben Bernanke, former Chair of the Federal Reserve

“Blinder’s historical insights serve an important function in improving policy effectiveness and minimizing mistakes in today’s more uncertain and unsettled world.”

- Mohamed El-Erian, investor and author

What We Are Reading:

IMF Upgrades Outlook for Global Economy as Inflation Eases and China Reopens

The International Monetary Fund (IMF) originally forecasted the 2023 global economy to grow 2.7% in October 2022 but has increased its forecast for the global economy to grow at 2.9%. The IMF increased its forecast due to economic growth in the third and fourth quarters of 2022, the re-opening of China's economy, the tight labor market, and consumer spending. Inflation is also expected to ease from 8.8% to 6.6% in 2023, furthering the global economy's growth.

Source: Wall Street Journal (01/30/2023)

Global Supply Chains Face 'Hangover' as Excess Demand Softens

The global supply chain is expected begin its return to near pre-pandemic levels in the second half of 2023. The supply chain has slightly recovered from COVID-19, but many are still feeling constrained due to ongoing economic uncertainty, shipping backlog, component shortages, and high inflation. To combat the issues the supply chain is still facing, companies are searching for different ways to adapt and fulfill demand through onshoring and reshoring outside of China in countries like Mexico. 2023 is expected to mirror the second half of 2022 as the economy continues to recover, prices begin to normalize from the high inflation, and reduced disruptions within the supply chain.

Source: Bloomberg (12/20/2022)

What to Expect for the Economy in 2023

Despite GDP growing at 2.9% in the fourth quarter of 2022, economists believe that the US is headed towards a mild but short recession in 2023 due to high inflation, the tightening monetary policy, diminished savings from pandemic funding, and the Federal Reserve being forecasted to raise interest rates multiple times throughout 2023. As inflation cools, the economy will be able to return to pre-pandemic growth and interest rates.

Source: U.S. Chamber of Commerce (12/16/2022)

Industrials: A New Dawn for US Manufacturing?

Domestic manufacturing in the US is becoming the more favorable option in the long-term, as opposed to relying on importing from other countries, especially China. Manufacturing in the US has the ability to grow through sustainability, digitization, and onshoring efforts. Prior to COVID-19, domestic manufacturing lacked the support and focus needed to compete with international manufacturing. The shift to domestic manufacturing can be attributed towards enhanced focus on the US supply chain so there is less reliance on just-in-time delivery and foreign manufacturing, on updating manufacturing plants, equipment, and technologies to have automation capabilities, and on the transition to using low-carbon energy.

Source: Fidelity (12/14/2022)

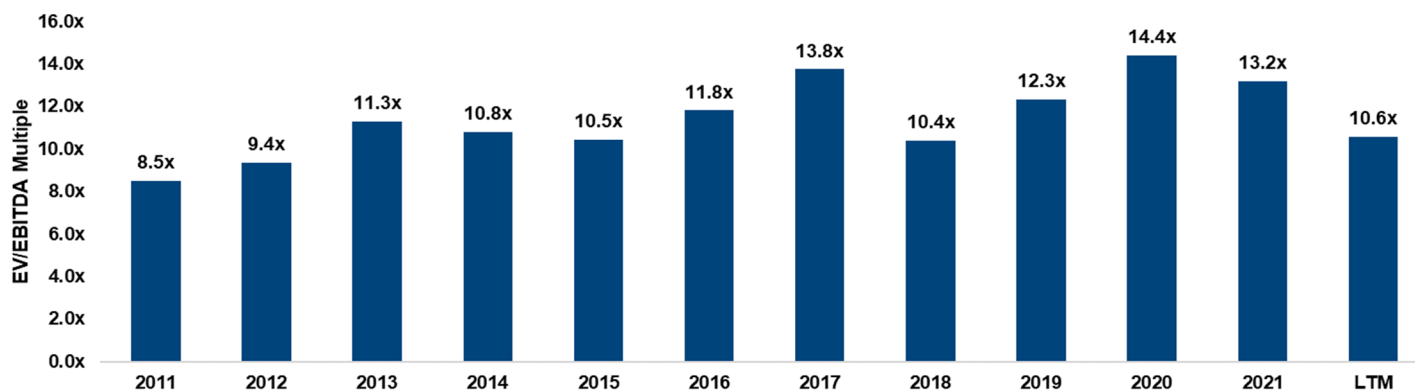
Fixing the U.S. Semiconductor Supply Chain

Most semiconductor fabricators are located in Taiwan, China, and South Korea. From the beginning of production to assembly and testing, lead times can range from 50 to 100 days. Congress and President Biden signed the CHIPS and Science Act into law in August 2022 to mitigate the risk of further backlog, increase the supply of semiconductor chips, and enhance the United States' position in the industry. The market needs to focus on the resiliency of the supply chain by testing the supply chain, ensuring that older-generation chips are available and not just the newer, more advanced chips, and standardizing chips across multiple industries.

Source: Harvard Business Review (10/25/2022)

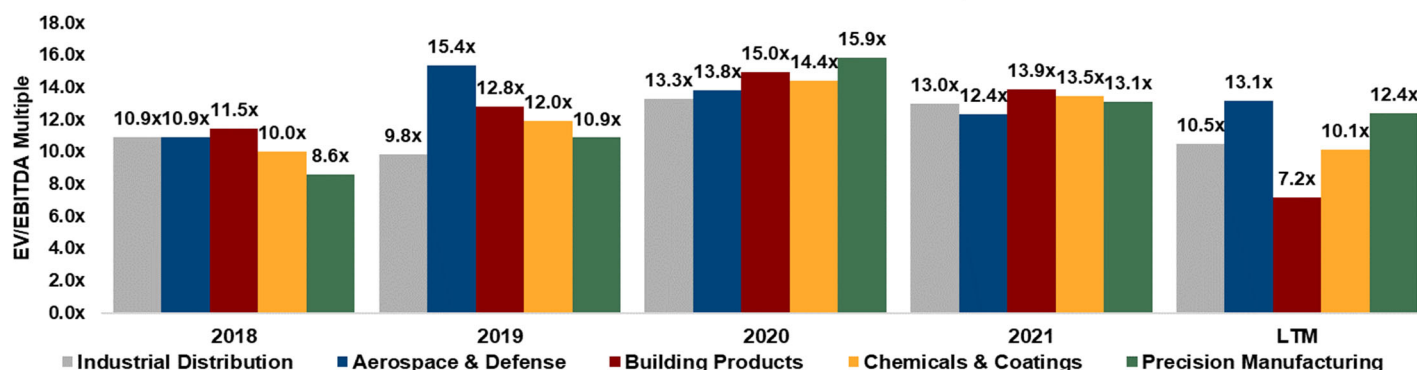
Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: EV/EBITDA Multiples



Source: CapIQ, public trading data as of December 31, 2022

Industrial Sub-Sector Public EV/EBITDA Multiples



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

Representative EdgePoint Industrial Transactions

has been recapitalized by

has been acquired by

a portfolio company of

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and

a portfolio company of

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**For more information and insight
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