

M&A in Manufacturing Video Transcript

Ian McManis:

Hi, and welcome to Barnes Dennig Ask the Experts video series. My name is Ian McManis, Marketing Manager with Barnes Dennig and we're talking with Harold Kremer, Director on our manufacturing team. As a certified valuation analyst, Harold is also the leader of our Valuation and M&A Advisory team. Joining Harold today is Eric Mills, Associate on our Project Resources Group with a focus in valuation and mergers and acquisitions. Today, they'll be talking about what you need to know when it comes to M&A within the manufacturing industry. So let's go ahead and get started. Thank you both for joining me today. Eric, I'll go ahead and turn it over to you.

Eric Mills:

Thank you, Ian. We have seen an uptick in M&A activity and valuation within the manufacturing sector. I've prepared a few questions for Harold to discuss the market. Harold, has the pandemic impacted valuations and volume of M&A activity?

Harold Kremer:

Thanks, Eric. Yes, the answer is definitely yes. When the pandemic started, the volume of transactions dropped off dramatically. But toward the end of 2020 into 2021, through the current date, volumes have been trending upward and now are at a record level. The pandemic caused many owners to put plans on hold, to consider acquisitions or sales, and now their attentions are turning to that and volumes are up. We have several sources that give us information about M&A in the manufacturing world. All of them are pointing toward higher volumes of activity. One of those sources said that they know of investment banks that have filled their pipeline for deals through the end of the year. So it's an amazing level of volume of activity that's happening right now.

As far as valuations go, valuation is affected by many factors, revenue trends and margins, profits are the biggest factors. We'll talk about a few more in a bit, but overall, the companies that have weathered the pandemic with strong revenue and profits are seeing the highest multiples of EBITDA in sale transactions.

Eric Mills:

Is there a certain multiple of earnings, cash flow or EBITDA that you are seeing in transactions that involve manufacturing companies?

Harold Kremer:

Eric, that's a great question. It's probably the question I get most from clients and contacts is, what's the current multiple of EBITDA that I should be looking for? But honestly, it's all over the board right now. There's not just a number that I can throw at you. It's all over the board, because the pandemic is

impacting companies so differently. There's a number of other factors that are out there in the manufacturing world. And just to back up a minute, EBITDA is earnings before interest, taxes, depreciation, and amortization. That seems to be the go-to factor that acquirers are looking at when they're doing deals and coming up with a multiple of EBITDA.

Some of the other big factors that are impacting that multiple right now are the labor shortage that's occurring in the manufacturing industry and supply chain issues. The other factor that I've heard recently from clients is shipping costs. There's a number of things at play here that are really impacting margins and profits. And when they impact profits, they impact valuation. Some of the other factors that impact multiples are the size of the company, depth of management, how deep is your bench, and in the amount of customer concentration.

Eric Mills:

Harold, what do you think is driving the uptick in M&A activity?

Harold Kremer:

Well, the biggest reason right now is capital gains tax. I think it's pretty clear that rates are going up. The unknown here is timing. Many of our clients and contacts are making an assumption that by the first of the year, the higher rates will be in play. So a lot of folks are trying to get a transaction done before year end. Another factor is the availability of funds. Private equity groups have plenty of cash they're looking to spend. Manufacturing's an area that private equity is always had a lot of attention for. So anyway, private equity groups are looking at manufacturers to do a lot of transactions.

Also, manufacturing companies are looking to buy other companies or even competitors as a method of growth. We've also seen companies looking to make acquisitions because of the labor shortage. They're buying other companies just to shore up their employee count. So a lot of activity, even companies buying other companies and growing that way.

The last reason for the uptick in activity that we've seen is the pandemic itself. COVID has caused a lot of owners to rethink what they want to do with their life. Some were of retirement age when COVID hit and they put their plans on hold for retirement. And now's the time to rethink about that. Many of the family-owned businesses that we work with in manufacturing were depending on that next generation to take over. COVID and the pandemic has caused that next generation to really think about what they want to do in life. Some are choosing something outside the family business. So that's causing some of this volume of M&A activity.

Eric Mills:

So, Harold, what would you recommend the owner of a manufacturing company do if they are thinking of selling their company?



Harold Kremer:

Reaching out to us here at Barnes Dennig is a great first step. I've helped a number of companies understand their value so that they can make some decisions. We have all the connections to help understand the process and help take a company through the process. And even if a transaction is not imminent, just thinking about it and planning for it now is a great thing to do, because if the valuation is part of that analysis, we can help an owner understand what they need to change or things that they can do differently to improve their value over the next few years, so that when it is time to exit, they can maximize their value.

Eric Mills:

Thank you, Harold. Those were all the questions for today. Back to you, Ian.

Ian McManis:

Thank you both for taking the time, and for being with us and sharing your insights. Eric, Harold, it does truly seem like a fascinating time to be in the manufacturing industry. And it seems like there's a lot of opportunities out there. So if you'd like more information or would like to set up a conversation, please visit the Barnes Dennig website. And until then, we'll see you next time on Ask the Experts.