

Manufacturing/Industrials Quarterly Report–Q4

Table of Contents

1. Market Overview
2. Major Transactions
3. Disruptive Factors
4. Outlook

1. Market Overview

Manufacturing

- Economic activity in the manufacturing sector contracted in December for the second consecutive month, said the latest [Manufacturing ISM Report On Business](#).
- Based on the above report, Morgan Stanley economist Ted Wieseman [explained](#) that “The very strong dollar, weak global growth, low oil prices severely depressing energy sector investment, and excessive inventories continue to weigh heavily on the manufacturing sector.”
- The chemicals market [saw an increase in M&A activity](#) over the last year and the year before. The trend was mainly driven by limited organic growth for strategic players, the search for regional expansion and the urge for consolidation in an ever more globalised economy, but the dollar hurt chemical exports.
- An increase in global air travel has lead airlines to upgrade their fleets and carriers to order new aircraft, making companies that make parts [attractive targets for private equity firms](#).

2. Major Transactions

- Apollo and Standard Chartered PE teamed up to buy Doosan Infracore's machine tools unit for \$1.1B. KKR, Carlyle and MBK Partners had also shown interest in the business.
- GenNx360 Capital Partners, a New York-based private equity firm investing in middle market industrial manufacturing companies, said its portfolio company Tooling Technology purchased G.H. Tool & Mold, which specializes in the design and manufacturing of tooling for die casters in the automotive, outdoor products and aerospace industries.
- Salford Group, backed by GenNx360 Capital Partners, bought agricultural products supplier Aerway from SAF-Holland Canada, which makes parts for trucks, buses and tractors.
- Audax Private Equity finalized the sale of North American specialty chemical distributor KODA Distribution Group (KDG) to Azelis Group, a portfolio company of funds advised by Apax Partners. Terms of the deal weren't disclosed.
- AP Exhaust Technologies, a portfolio company of Audax Group, acquired Eastern Catalytic. Financial terms weren't announced. Pennsylvania-based Eastern Catalytic supplies catalytic converters for the automotive light duty aftermarket.
- Audax also set up a platform in the specialty coatings and adhesives markets through the acquisition of California Products Corp., together with its existing investment in specialty packaging and printing coatings formulator Nicoat.
- Blackford Capital acquired Grand Equipment Company, a dealer of heavy-equipment construction equipment, marking the sixth transaction by the firm's Michigan Prosperity Fund.
- Middle-market private equity firm Platte River Equity bought industrial tool manufacturer Jameson for an undisclosed amount.
- Middle market PE firm American Industrial Partners held the final close of its sixth fund with \$1.8 billion in LP commitments. Fund VI will target well positioned industrial businesses.
- Dynacast, a manufacturer of precision metal components backed by Partners Group and American Industrial Partners, signed an agreement to acquire Tek-Cast/MH Machining Group in Illinois.
- Middle-market private equity firm Irving Place Capital bought Ohio Transmission, a Columbus, Ohio-based distributor of mechanical power transmission equipment and pumps, from Frontenac. No financial terms were disclosed.
- OM Group, a specialty materials and specialty chemicals company recently acquired by Apollo, changed its name to Vectra and will relocate its headquarters from Cleveland, Ohio, to Clayton, Mo.
- Huntsman Family Investments, the family office of Utah chemicals billionaire Jon Huntsman Sr., signed its first private equity deal with the acquisition of American Pacific's specialty chemicals division from private equity firm H.I.G. Capital. Financial terms weren't disclosed.
- KPS Capital Partners, Triton, PAI Partners and 3i are said to be among the private equity firms expected to submit offers for Eberspaecher's exhaust business. The unit of the German car parts maker may be valued at over \$1.1 billion.

- American Securities and P2 Capital Partners [agreed](#) to acquire Blount International, a maker of replacement parts, equipment and accessories for the agricultural and forestry markets, for about \$855 million.
- Engineered polymers producer Kraton Performance Polymers said it [will purchase](#) Arizona Chemical, a specialty chemicals producer majority owned by American Securities, for \$1.37 billion.
- Apollo [is in talks](#) to acquire lifting equipment provider Maxim Crane Works from Platinum Equity for more than \$1 billion. A deal has yet to be formally announced.
- Apollo is [considering an offer](#) for Chemours, the former DuPont chemical-manufacturing unit, and using it as a platform for consolidating other titanium-dioxide makers. The company has a market value of about \$1.4 billion.
- Accella Polyurethane Systems, LLC completed acquisitions in 2015 of Premium Spray Products, Burtin Polymer Labs and Coating and Foam Solutions, leading manufacturers of spray foams and coatings for the insulation and roofing, as well as specialized spray elastomers including the Bullet Liner brand for truck bed liners, in addition to the acquisition of IPS Polymer Systems, a leading manufacturer of polyurethane systems.
- Royal Adhesives and Sealants completed acquisitions in 2015 of Advanced Polymers International from PCI Paper Conversions, Inc., which is a manufacturer of the Gel-Tac microsphere based adhesives, which repositionable adhesives are designed for a wide variety of applications, as well as the acquisition of the UK based Chemical Innovations Limited a leading developer and manufacturer of high performance adhesives for automotive and industries applications.
- The Knowlton Development Corporation acquired Kolmar Laboratories Inc. and Acupac Packaging, New York based custom formulators and manufactures of color cosmetics, personal care and skincare products from a company controlled by Black Diamond Capital Management.

3. Disruptive Forces

- **Additive manufacturing** [is evolving](#) from prototyping to diagnostic tools to the production of vehicle bodies, although it's still not feasible for use on a large scale.
- In addition to 3-D printing, **advanced equipment, robotics, cutting-edge processes, and other manifestations of digital technology are going to lead the way**—if anything is—to a renaissance of U.S. manufacturing after a half-century of slippage, [writes](#) Area Development.
- **Cloud computing**—initially mostly used for accessing and sharing data—is becoming the catalyst for “a revolution that is going on in manufacturing,” [says](#) Jim Joyce, a specialist leader for new technologies with Deloitte. As software developers create more industry-specific applications, one of the most important capabilities for manufacturers has become real-time connectivity among machines, materials, peoples, tools, and systems on the shop floor.
- At the same time, these advances have left companies vulnerable to **security threats**. Cyberattacks waged against the nation's critical manufacturing sector—which includes the makers of goods such as primary metals, machinery and electrical and transportation equipment—nearly doubled in fiscal year 2015, according to a [government report](#).

4. Outlook

- A rapidly rising global population has been **driving demand for agriculture suppliers** because farmers need better equipment to manage their fields. PE activity is rising in this market as a consequence. For example, PE firms American Securities and P2 Capital Partners agreed to buy log splitter maker Blount International, while PE-backed Salford bought agricultural products supplier Aerway.
- **Speciality chemicals companies are likely to see some growth** in EBITDA this year, due to adverse foreign exchange effects, particularly for U.S.-based companies, with an expected uptick next year. [According to](#) Matilda Schillo, director at Lincoln International, 2016 should follow 2015 as a busy year for M&A in chemicals.
- While respondents to the [Manufacturing ISM Report On Business](#) said the manufacture of fabricated metal products is still very slow due to oil prices, those low fuel prices are keeping full-size SUV and truck sales at high volumes, **bearing well for the plastics and rubber products industry**. For more on this, see Area Development's [Auto Industry Comeback Presents New Opportunities](#).
- The upcoming [2016 Global Manufacturing Competitiveness Index report](#) predicts the **U.S. will beat China as the top manufacturing nation by 2020**.