

INDUSTRIALS & MANUFACTURING

Q3 2023 MARKET UPDATE

The Question of Capex: How Domestic Manufacturers Strategically Spend

G2 Capital Advisors is pleased to present its industrial distribution industry update for Q3 2023, providing specific commentary and market trends within the sector.

From rubber tote to nanotech producers, US manufacturers considering the best and highest use of capital expenditure (capex) should start by assessing where they are in their company life cycle and what they need to propel them to the next phase.

For earlier-stage manufacturers working to establish a customer base, capex might be applied to building capacity to assure potential customers of their ability to meet supply requirements and maintain supply security. For more mature manufacturers, capex can:

- Expand operations geographically to be closer to customers and suppliers,
- Broaden capabilities to create new products,
- Increase flexibility through automation to rapidly respond to changing market and customer needs.

For both, the question of “how” persists.

Here we will explore three options:

1. Insource: Buy equipment and manufacture internally.

While manufacturers who insource must spend to save, with the proper capex investments, companies could achieve economies of scale and internal cost stability—shielded from external fluctuations in labor and materials costs. Additional benefits to insourcing include:

- **Greater control:** Exercise tighter quality control, better adherence to production schedules, and the ability to implement changes or improvements quickly.
- **Reduced dependence on suppliers:** Mitigate risks associated with supply chain disruption caused by geopolitical events, natural disasters, or transportation issues.
- **Increased flexibility and responsiveness:** Adapt to changing market conditions, customer demands, or unforeseen events by pivoting production processes or implementing design changes without relying on external partners. Get to market faster by eliminating the potential delays associated with coordinating external suppliers.
- **Protected trade secrets:** Guard against theft or unauthorized disclosure by keeping sensitive information, proprietary technology, and intellectual property close.
- **Strategic differentiation:** Create custom or specialized products that may be challenging to achieve through outsourcing, especially if specialized equipment or expertise is required.

Small Machines, Big Results

Manufacturers seeking lower-cost, nimble, and space-efficient equipment should consider short-run manufacturing technologies. Over the last five to 10 years, advancements have increased equipment availability and driven costs down further—factors that make short-run manufacturing machine applications more accessible to business owners and executives and worth exploration. For example, robots can be programmed by workstations and deliver faster part production—particularly important when testing new product designs.

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However, a more vertically integrated model requires a more comprehensive in-house skill set, resources, and capital. Not all manufacturers excel at commercialization or can take on additional operational leverage or debt when expansion is needed. For those operators, there are other options to consider.

2. Outsource: Create capacity through Contract Manufacturing or Manufacturing Services.

Outsourcing sidesteps large capital expenditures on machinery, facilities, and equipment by using partner resources and potentially reducing time to market for products. In addition, manufacturers who outsource can reduce production costs, either by accessing lower-cost geographies or by taking advantage of contract manufacturers and suppliers' scale, to increase profit margins. Additional benefits include:

- **Fast and flexible scale:** Quickly scale production volumes up or down in response to market demands without investing in additional infrastructure, equipment, or labor.
- **Access to expertise:** Gain knowledge, skills, and access to specialized equipment and engineering capabilities to enable higher-quality processes and products.
- **Global reach and market entry:** Tap into international markets and a global supply chain through partner relationships.
- **Focus on innovation:** Allocate more resources and attention to research and development, allowing for innovation and the creation of new products or technologies.
- **Reduced employee management burden:** Maintain a smaller workforce and reduce the complexities and costs associated with labor management.
- **Create Production Redundancy:** Create secondary production capacity sources through a virtual redundancy program for core products.

Conversely, in exchange for capex savings, manufacturers could lose control over the production process, face communication barriers, and become dependent on—and vulnerable to—suppliers.

3. Hybrid: Determine the right ratio between internal and external production.

Combining insourcing and outsourcing strategies can reap a range of benefits, beginning with an optimized cost structure and reduced capex. Because there are several approaches to hybrid manufacturing, operators can choose the construct that best aligns with their goals. Options include, but are not limited to:

- Using a third party to create redundancy for specialized capabilities, thereby mitigating risk and maintaining differentiation,
- Offloading non-core processes to capitalize on external economies of scale, and
- Bolstering capacity and supply chain security by dividing manufacturing among manufacturing between internal and external producers.

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Here, we'll look more closely at the benefits associated with insourcing product design the outsourcing production:

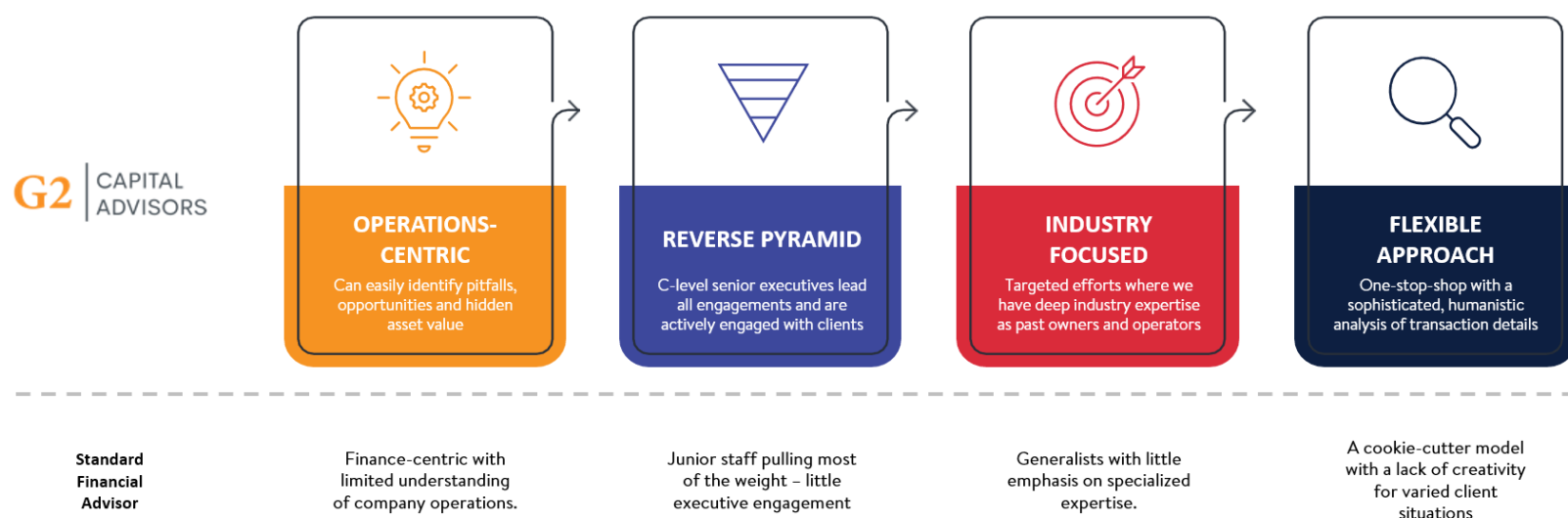
- Strategic focus: Concentrate on strategic activities, including research and development of cutting-edge initiatives, commercialization, brand development, etc., while entrusting automated processes or less strategic competencies to external partners.
- Division of expertise: Tap into specific skills, advanced technology, or specialized equipment through partnerships.
- Redeployment of resources to strategic initiatives: Focus on customer satisfaction and service, knowing that production is being handled by an efficient and effective 3rd party.

This model requires careful planning, well-defined strategic and core business competencies, clear communication, and effective management to ensure the integration of in-house and external processes. Through harmonization, operators stand to gain the insourcing benefits of protected IP and the outsourcing benefits of a potentially more resilient manufacturing footprint and supply chain as well as and access to new markets through partners.

In Closing

Manufacturers making capex investments according to their business life cycle business needs are poised gain two key benefits: 1. reaching their next growth phase with intention, and 2. positioning for long-term value.

According to a recent McKinsey report, there is a high correlation between pre-tax return on invested capital and valuations, highlighting the importance of a wise capital expenditure strategy. At G2, we have seen clients boost exit values thanks to precise, proactive capex investments that "do the work" for the acquirer. We encourage companies contemplating their 2024 capex strategy to connect with us on topics like financing sources and long-term planning—from add-ons to exits.



Source: S&P Capital IQ as of September 30, 2023, G2 Insights

SELECT ONGOING G2 PROJECTS

Industrial Distribution

PROJECT SIGN

Buy-Side

About the Mandate:

G2 is currently serving as the buy-side advisor to a manufacturer and distributor of safety signs and other solutions. G2 is assisting the company with acquisition opportunities in the North American market.

Vertically Integrated Construction

PROJECT BRIDGE

Sell-Side

About the Mandate:

G2 is currently serving as the sell-side advisor to a vertically-integrated heavy highway civil construction firm serving public and private customers across the Northeastern U.S. The Company's operational model delivers hard to replicate competitive advantages

Consumer Products

PROJECT ROUGHNECK

Sell-Side

About the Mandate:

G2 is currently serving as the sell-side advisor to a leading provider of consumer plastics solutions. The company develops and sells plastic storage and organization products under both national consumer and private label brands.

Commercial HVAC Design Build

PROJECT GLACIER

Sell-Side

About the Mandate:

G2 is currently advising on the sale of a provider of design, build, and construction services for large, commercial HVAC projects. The Company designs and manufactures complex HVAC solutions for industries including healthcare, retail, educational, and hospitality

Food Manufacturing Plant

PROJECT COAST

Sell-Side

About the Mandate:

G2 is currently advising on the sale of a frozen fruit manufacturing facility. The plant manufactures private label and branded frozen fruit and is a divestiture of a multinational agricultural corporation.

Steel Products Manufacturing

PROJECT SHIELD

Financing

About the Mandate:

G2 is currently serving as the financial advisor for a steel product manufacturing plant. The Company is looking to raise both equity and debt financing to capitalize on an opportunity to build a market-leading, state-of-the-art steel plant and become the cost-leader in the industry.

KEY I&M TRADING STATISTICS

Sector	Number of Companies	Median Enterprise Value (\$MM)	LTM ¹			
			Median Revenue Growth	Median EBITDA Growth	EV / Revenue	EV / EBITDA
Aerospace Manufacturing	17	\$8,170	3.2%	2.8%	1.6x	11.4x
Building Products	14	\$7,033	-0.3%	0.3%	1.6x	10.6x
Chemicals	19	\$22,291	-2.9%	-0.5%	1.5x	13.2x
Construction	11	\$9,144	2.9%	1.2%	1.0x	12.8x
CPG	11	\$24,722	-1.0%	0.4%	2.4x	13.3x
Electrical Equipment	11	\$17,865	1.1%	3.0%	3.4x	15.8x
Food	13	\$26,600	0.4%	5.3%	1.8x	10.7x
Industrial Technology	10	\$41,665	0.7%	1.5%	3.9x	16.1x
Materials	15	\$12,268	1.1%	1.9%	2.9x	10.1x
Metals	11	\$7,921	-4.0%	-7.2%	0.7x	5.8x
Packaging	12	\$16,252	-2.1%	-2.1%	1.3x	8.6x
Plastics	11	\$2,407	-6.9%	-2.4%	0.9x	8.2x

1) LTM September 2023
Source: S&P Capital IQ

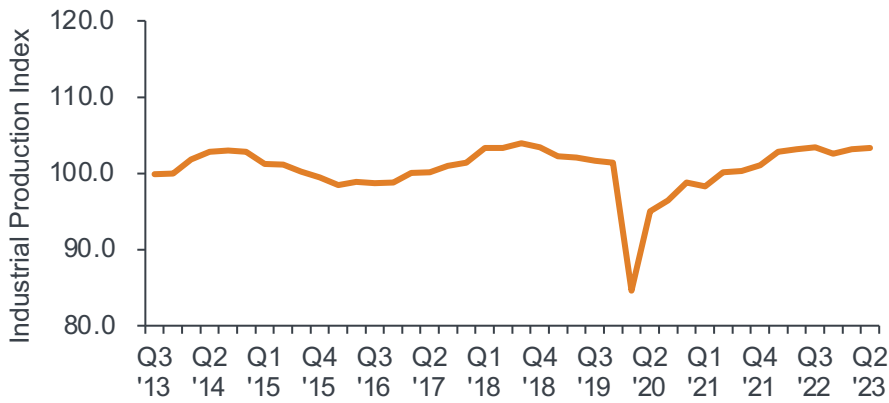
Q3 2023 M&A TRANSACTIONS

DATE	ACQUIRER	TARGET	DESCRIPTION	ENTERPRISE VALUE	REVENUE	EBITDA
Sep-2023	WEG S.A.	Industrial Motors and Generators businesses of Regal Rexnord Corporation	Industrial Motors and Generators businesses comprises power transmission equipment manufacturing business.	\$400.0	0.7x	-
Sep-2023	Southwire Company, LLC	Genesis Cable business of Resideo Technologies, Inc.	As of October 16, 2023, Genesis Cable business of Resideo Technologies, Inc. was acquired by Southwire Company, LLC. Genesis Cable business of Resideo Technologies, Inc. comprises commercial and residential security solution.	\$87.5	-	-
Sep-2023	Smurfit Kappa Group Plc	WestRock Company	WestRock Company, together with its subsidiaries, provides fiber-based paper and packaging solutions in North America, South America, Europe, Asia, and Australia.	\$20,968.0	1.0x	6.3x
Sep-2023	West Fraser Timber Co. Ltd.	Spray Lake Sawmills (1980) Ltd	Spray Lake Sawmills (1980) Ltd engages in manufacturing wood products, lumber, and various wood residuals and biproducts.	\$102.5	-	-
Sep-2023	Watsco, Inc.	Division of Gateway Supply Company, Inc.	The division acquired by Watsco comprises the plumbing and HVAC distribution business.	\$106.3	-	-
Aug-2023	Greif, Inc.	ColePak Inc.	ColePak Inc. manufactures interior paper packing partitions.	\$147.1	-	-
Aug-2023	Smiths Group plc	Heating & Cooling Products, Inc.	Heating & Cooling Products, Inc. manufactures heating, ventilation, and air conditioning (HVAC) products.	\$82.0	1.2x	-
Aug-2023	Champion Home Builders, Inc.; Champion Retail Housing, Inc.	Regional Enterprises LLC	Regional Enterprises LLC operates as a manufactured and modular housing company.	\$478.0	0.9x	5.7x
Aug-2023	AeroVironment, Inc.	Tomahawk Robotics, Inc.	Tomahawk Robotics, Inc. designs and develops robotic control systems to drive enterprise adoption of robotics.	\$116.3	-	-
Aug-2023	BAE Systems, Inc.	Ball Aerospace & Technologies Corp.	Ball Aerospace & Technologies Corp. develops and manufactures spacecraft, instruments and sensors, satellites, components, data exploitation systems, and RF solutions for strategic, tactical, and scientific applications.	\$5,550.0	2.8x	-
Aug-2023	Oxy Low Carbon Ventures, LLC	Carbon Engineering Ltd.	Carbon Engineering Ltd. develops and commercializes a technology to capture carbon dioxide (CO2) directly from the atmosphere.	\$1,100.0	-	-
Aug-2023	CEME S.p.A.	Micropump, Inc.	Micropump, Inc. manufactures seal-less, low-flow gear, and leak-free pumps.	\$110.3	2.9x	-
Aug-2023	Evergreen Hill Enterprise Pte. Ltd.	Engineered Papers Business	Transaction included the Engineered Papers Business of Mativ Holdings, Inc.	\$620.0	1.2x	-
Jul-2023	TopBuild Corp.	Specialty Products and Insulation LLC	Specialty Products and Insulation LLC operates as a distributor and fabricator of mechanical insulation and complementary products for commercial and industrial applications.	\$960.0	1.4x	12.5x
Jul-2023	TopBuild Corp.	Specialty Products and Insulation LLC	Specialty Products and Insulation LLC operates as a distributor and fabricator of mechanical insulation and complementary products for commercial and industrial applications.	\$960.0	1.4x	12.5x
Jul-2023	Rio Tinto Group	Matalco Inc.	Matalco Inc. manufactures and markets aluminum logs and cut billets for aluminum extrusion and forging manufacturing industries in Canada.	\$1,400.0	-	-
Jul-2023	Kohlberg Kravis Roberts & Co. L.P.; North America XIII Fund	Chase Corporation	Chase Corporation, a specialty chemicals company, engages in the manufacture and sale of protective materials for various applications in North America, Asia, the Middle East, Europe, and internationally.	\$1,330.4	3.4x	13.6x
Jul-2023	Beacon Roofing Supply, Inc.	Crossroads Roofing Supply, Inc.	Crossroads Roofing Supply, Inc. owns and operates as a residential and commercial roofing contractor.	\$804.5	-	-

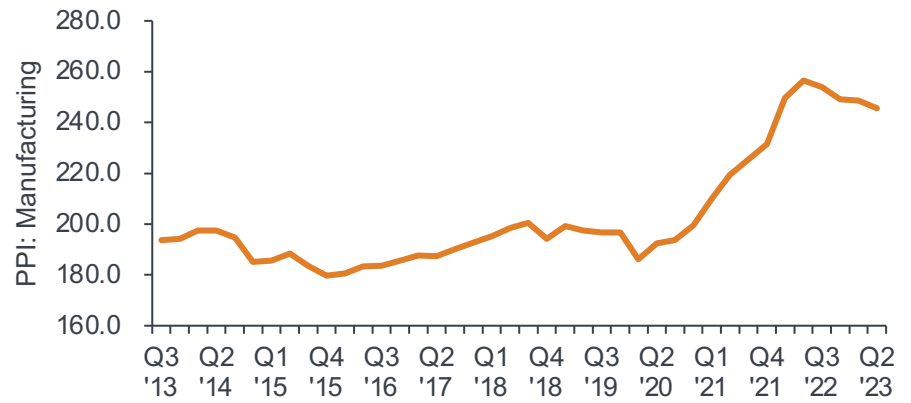
Source: S&P Capital IQ, company websites

MARKET INDICATORS

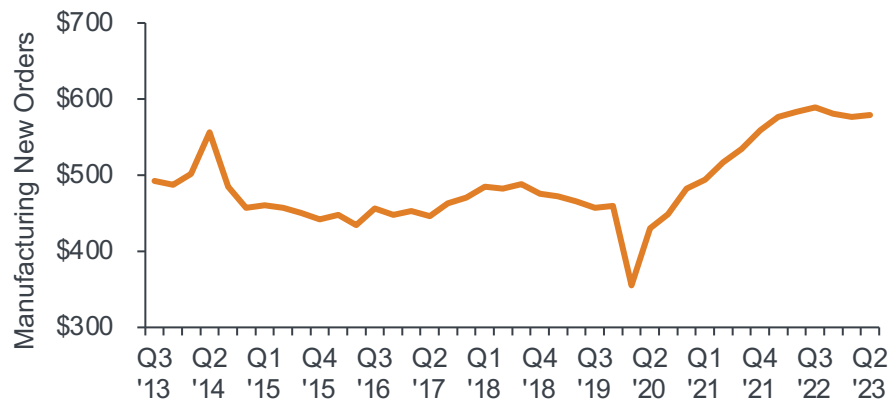
Industrial Production Index



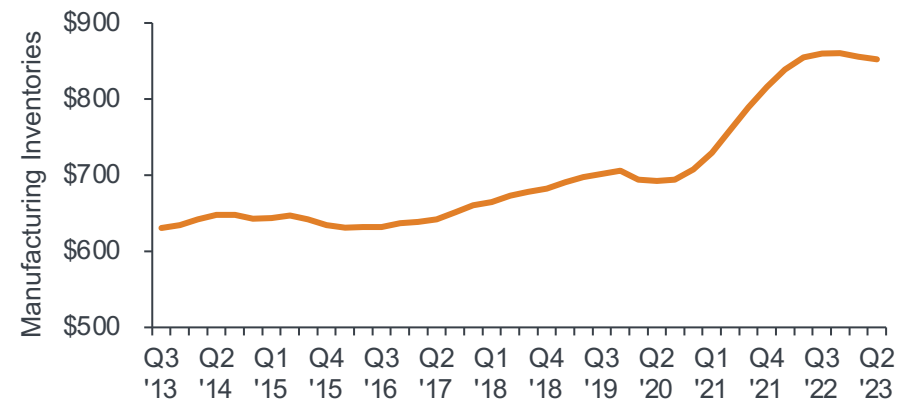
Producer Price Index: Manufacturing



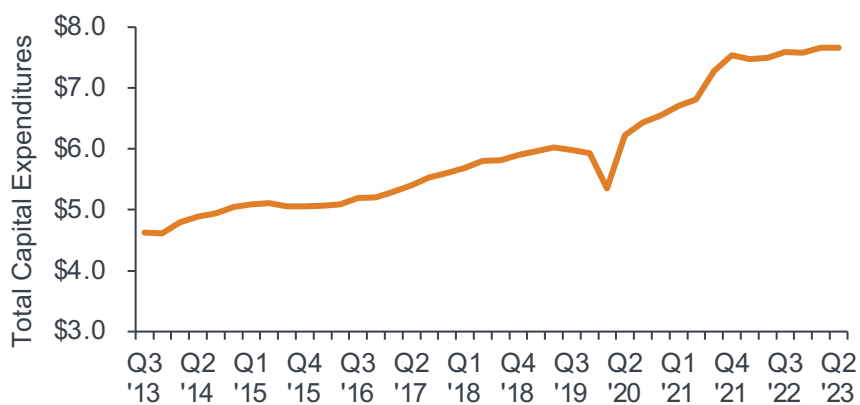
Manufacturing New Orders (\$B)



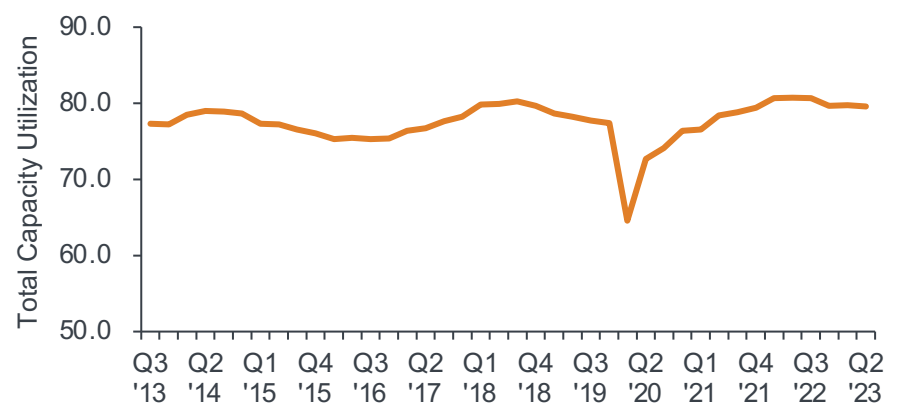
Manufacturing Total Inventories (\$B)



Total Capital Expenditures (\$TN)



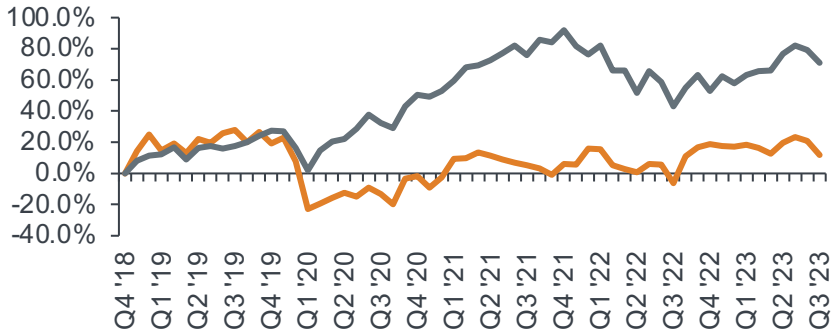
Total Capacity Utilization



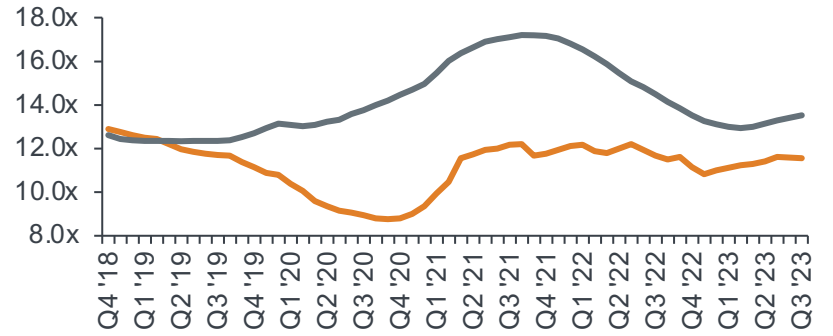
Source: Federal Reserve Economic Data

MARKET INDICATORS

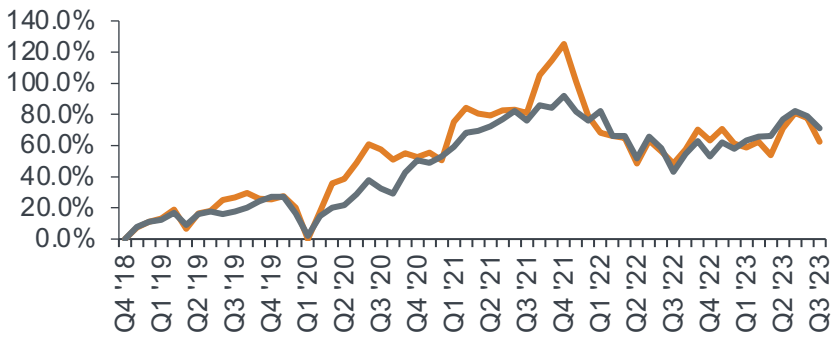
Aerospace Manufacturing Market Cap



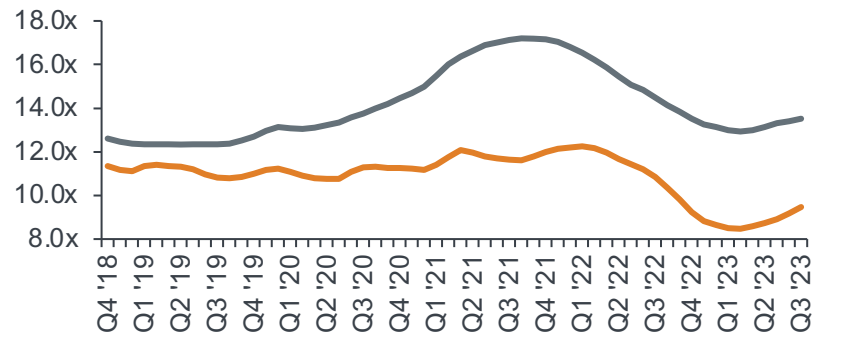
Aerospace Manufacturing EV / EBITDA



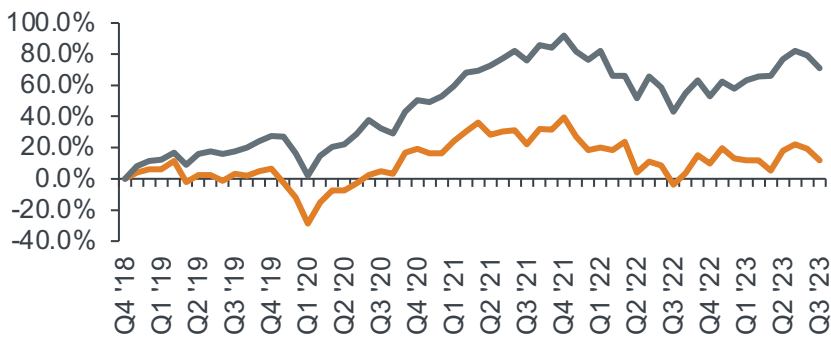
Building Products Market Cap



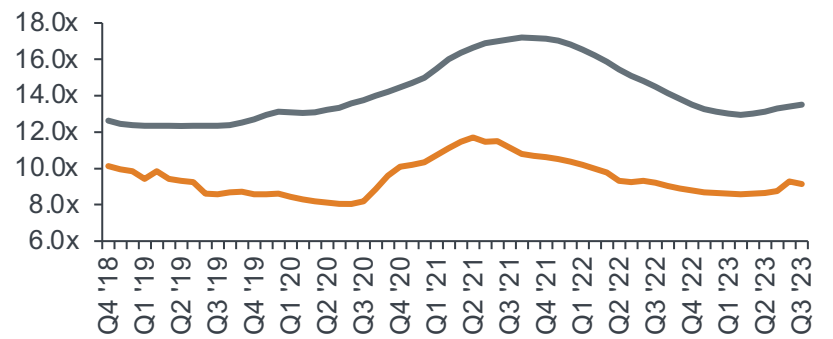
Building Products EV / EBITDA



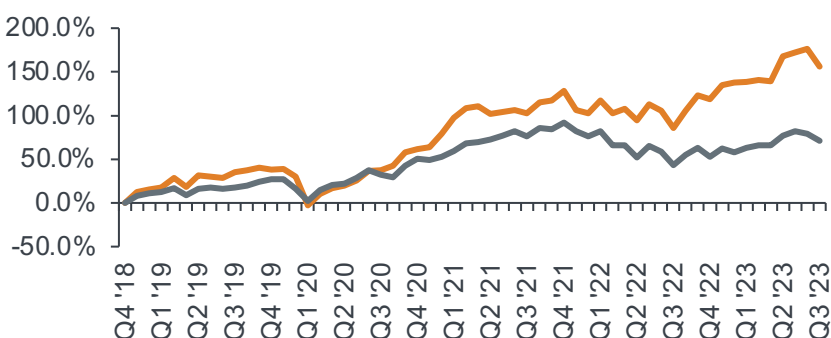
Chemicals Market Cap



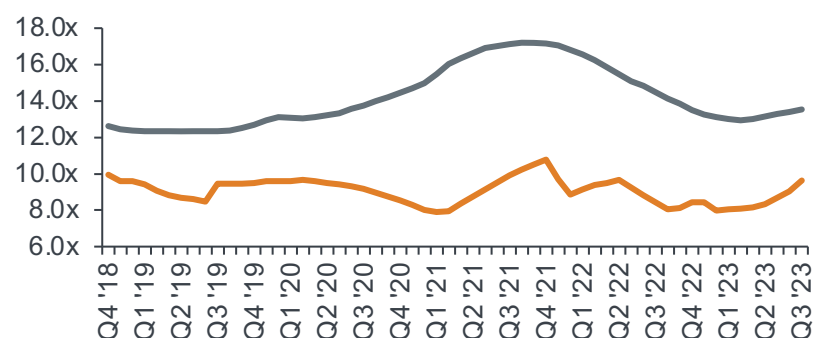
Chemicals EV / EBITDA



Construction Market Cap



Construction EV / EBITDA

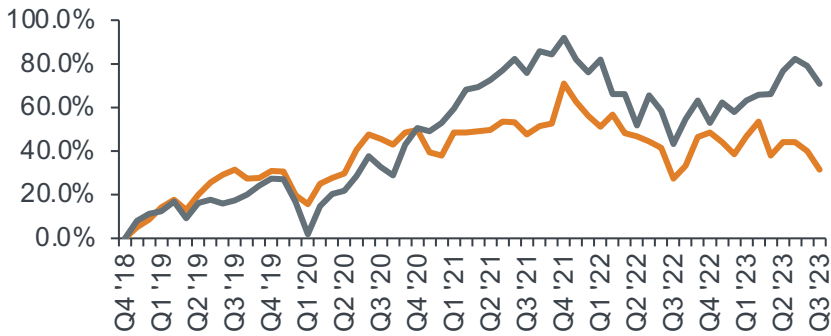


I&M Sector S&P 500

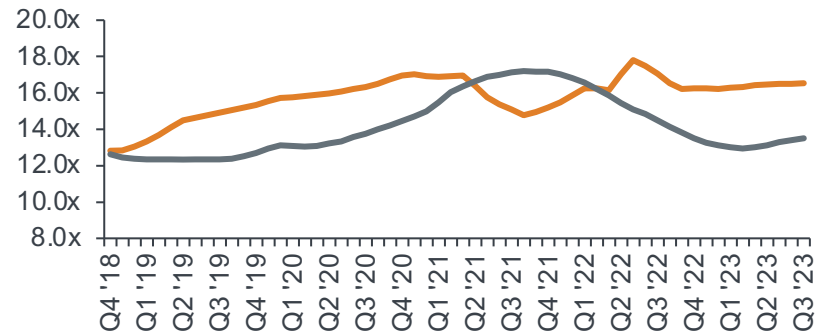
Source: S&P Capital IQ as of trading on September 30, 2023
Past performance is no guarantee of future results

MARKET INDICATORS

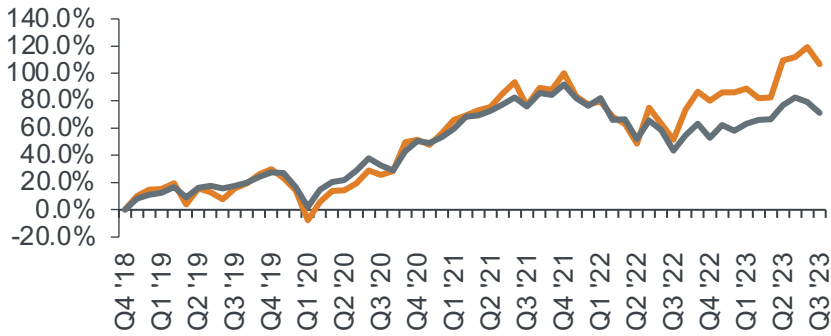
CPG Market Cap



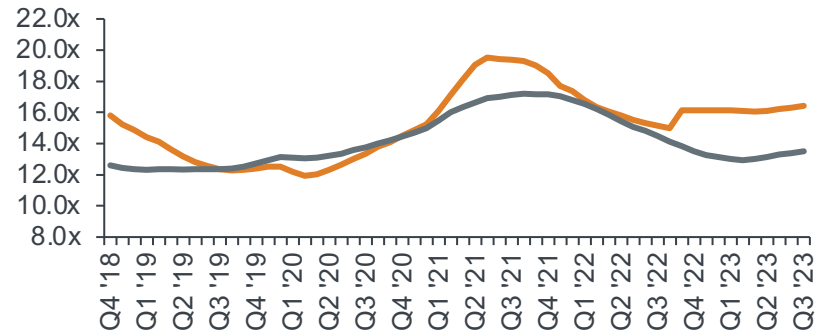
CPG EV / EBITDA



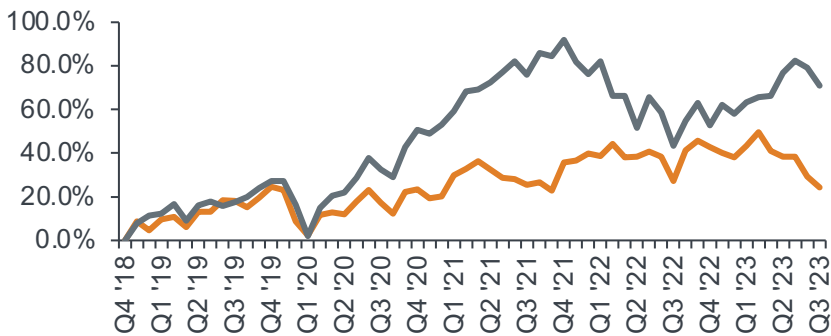
Electrical Equipment Market Cap



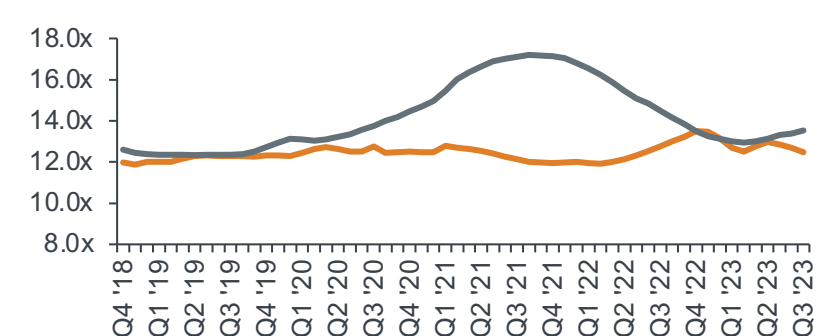
Electrical Equipment EV / EBITDA



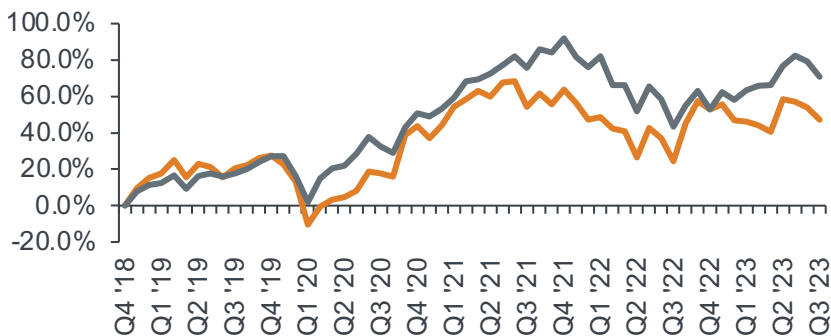
Food Market Cap



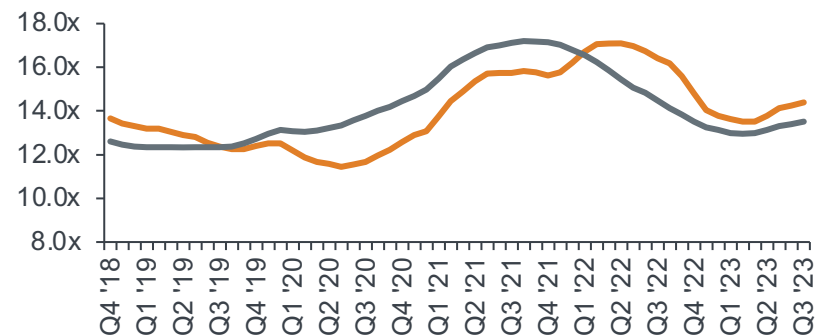
Food EV / EBITDA



Industrial Technology Market Cap



Industrial Technology EV / EBITDA

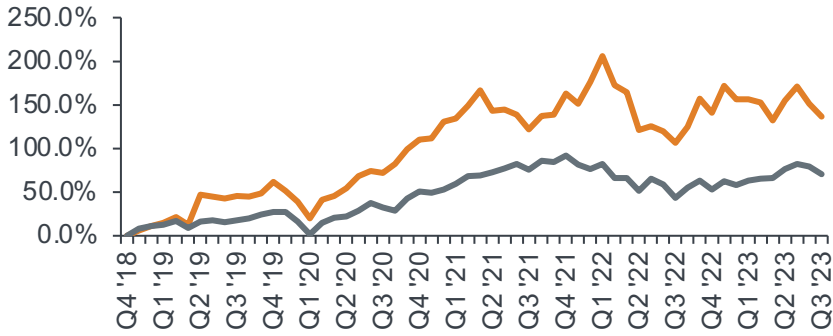


I&M Sector S&P 500

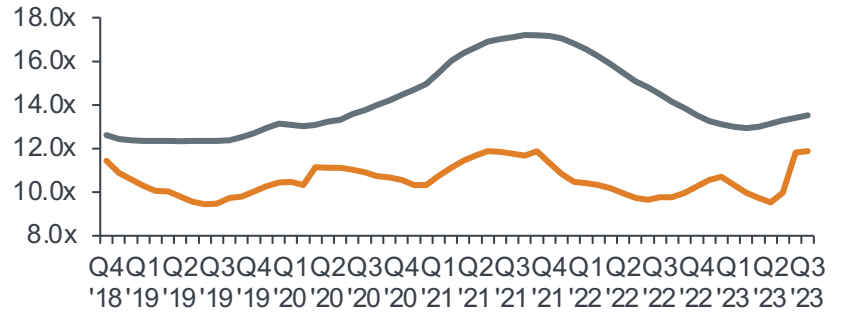
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MARKET INDICATORS

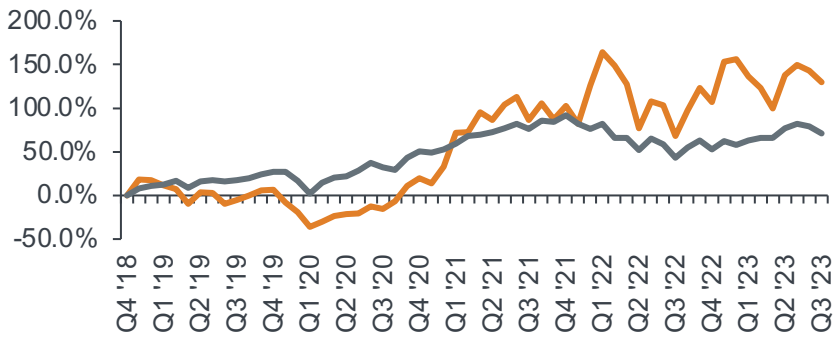
Materials Market Cap



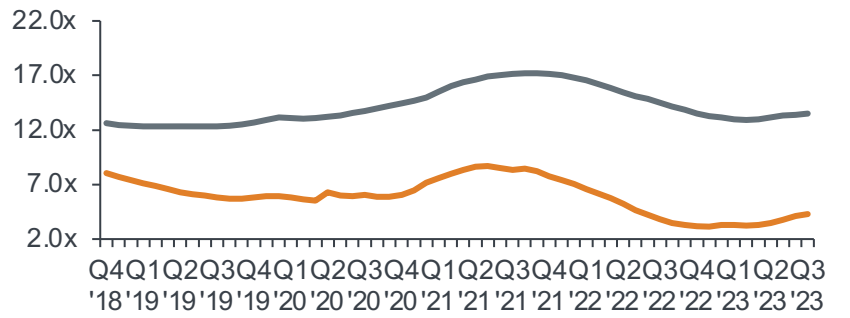
Materials EV / EBITDA



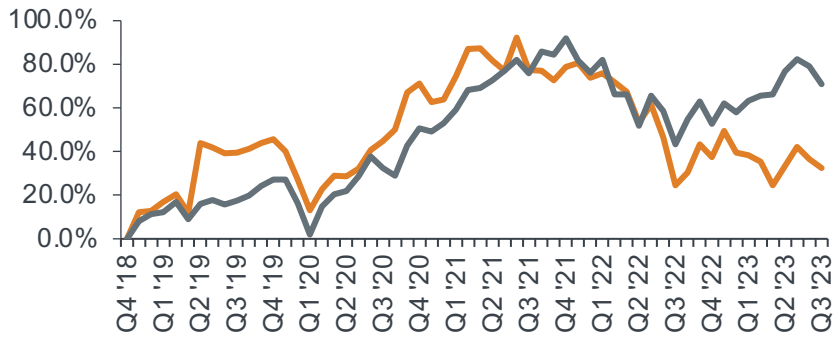
Metals Market Cap



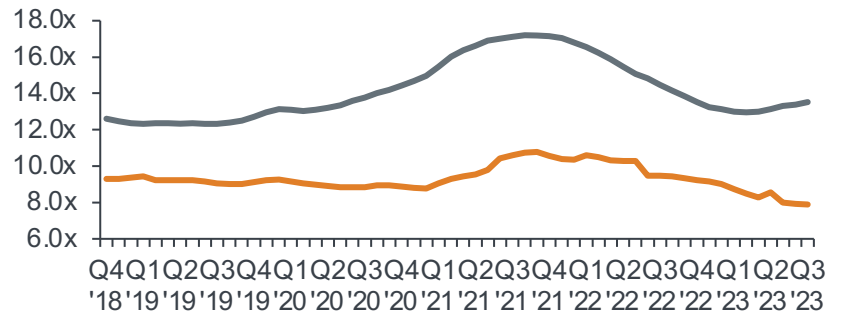
Metals EV / EBITDA



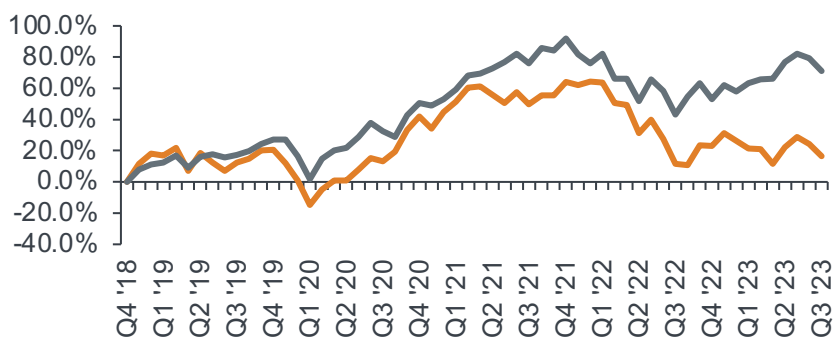
Packaging Market Cap



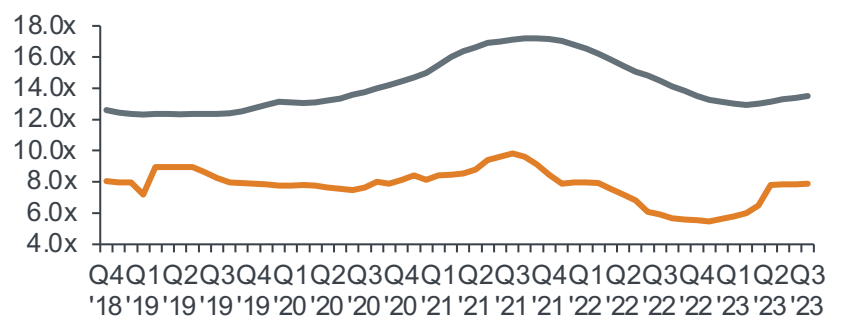
Packaging EV / EBITDA



Plastics Market Cap



Plastics EV / EBITDA



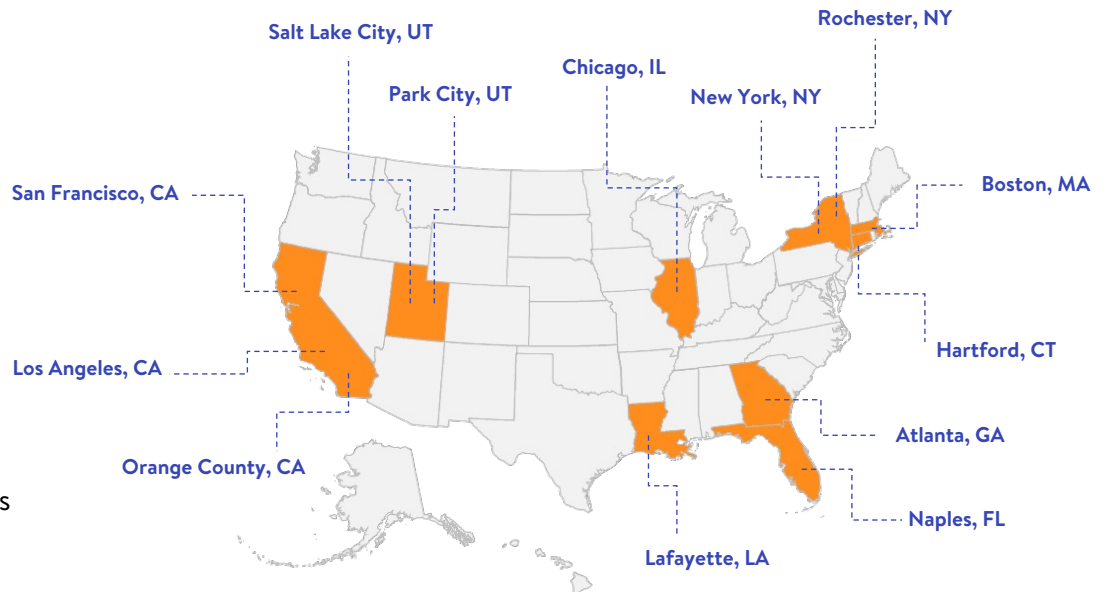
I&M Sector S&P 500

Source: S&P Capital IQ as of trading on September 30, 2023
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G2 FIRM OVERVIEW

Overview:

- 450+ mandates in 12 years
- \$5B+ total executed transaction value
- Extensive industry experience
- Robust strategic and sponsor relationships
- Active touchpoints with logical sellers and buyers

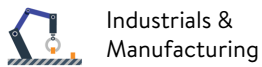


A Multi-faceted Platform:

Focused on crafting bespoke operational and financial advisory solutions for our corporate and investor clients. G2 works with clients across a range of situations.



Sector Expertise:



Industrials & Manufacturing

I&M Focus Sectors:

- Building Products / Construction
- Metals / Materials
- Container / Packaging
- Niche Manufacturing
- Distribution



Transportation & Logistics

T&L Focus Sectors:

- Freight Forwarding
- Trucking / Final Mile
- Warehousing / Distribution
- Third Party Logistics (3PL)
- e-Commerce Fulfillment



Technology & Business Services

TBS Focus Sectors:

- Tech-enabled Services
- BPO
- Managed Services
- Internet & Digital Media
- Business Services



Consumer & Retail

C&R Focus Sectors:

- Fast Moving Consumer Goods
- Retail & E-Commerce
- Quick Serve Restaurants
- Fast Casual Dining
- Marketing Services

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