

# THE M&A ADVISOR SYMPOSIUM REPORT

## Featuring



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## > STALWARTS ROUNDTABLE MANUFACTURING IN MOTION: AN M&A SECTOR UPDATE

At The M&A Advisor's Annual Summit in New York on November 9, 2016, Julian Brown, managing director, PwC Corporate Finance, chaired a Stalwarts Roundtable discussion titled, "Manufacturing in Motion: An M&A Sector Update." Brown was accompanied on the panel by Chris Heckert, managing director, Generational Capital Markets; Christopher Sheeren, partner, Huron Capital Partners; and Stephen Altman, partner, Cornerstone Capital Partners, Inc.

The M&A Advisor has been witness to dramatic changes in the North American manufacturing Market throughout the past 18 months. What policy changes lie ahead with the current administration, however, remains an open question without any real clarity realized during the President's first 100 days.

What is certain, however, is that the introduction of innovative technologies—both for operational efficiency, product and service development, and distribution—is having a profound effect on business. Changes in corporate tax policy, to allow the repatriation of stranded cash, could also make US manufacturing more competitive going forward.

The industry stalwarts participating in our "Manufacturing in Motion" roundtable discussion provided excellent insight into many of the reasons why North American manufacturing is enjoying robust M&A market support. And as we learned, the sector is not simply strong for domestic buyers but it also attracting strong support from both Asia and Western Europe today.

Readers of this report, I am confident, will find actionable value in the observations and recommendations of our expert panelists. As always, I invite you also to share your views on this important sector.

**David Fergusson**  
President and Co-Chief Executive Officer  
The M&A Advisor

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## Executive Summary

The North American manufacturing market has become a focal point for international M&A, particularly the middle-market. Moving well beyond the “headline deals” involving large corporations, Asian and Western European buyers are increasingly bidding in the US middle- and lower-middle-market for manufacturers. The trend also sees more of the foreign buyers are keeping assets in the United States. China’s evolution from a low-cost manufacturing venue to a consumer society is also fueling this trend as Chinese buyers look to acquire quality brands from the US market. Possible changes in corporate tax law to allow “stranded cash” to return to the United States could benefit US manufacturing and increase the amount of onshoring already occurring. When the next recession will occur is an open question, and what M&A multiples will look like under the Trump administration is a “who knows?” question.

## Introduction

At the M&A Advisor’s Annual Summit in New York on November 9, 2016, Julian Brown, managing director, PwC Corporate Finance, chaired a Stalwarts Roundtable discussion titled, “Manufacturing in Motion: An M&A Sector Update.” Panelists included the following:

Chris Heckert, managing director, Generational Capital Markets  
Christopher Sheeren, partner, Huron Capital Partners  
Stephen Altman, partner, Cornerstone Capital Partners, Inc.

## International Investors Targeting North American Middle-Market

Julian Brown asked the panelists to give brief introductions, noting they represent firms of different sizes but all are looking at M&A in the context of cross-border deals and the middle-market. Brown has been building a corporate finance business within PwC for the past two years and spent more than a decade before that advising on M&A from PwC offices in Canada and Spain. Chris Heckert, of Texas-based Generational Capital Markets, said his firm has an “agnostic industry focus” and works with companies primarily in the United States and Canada that do deals with international buyers. Stephen Altman with the New York-based private equity (PE) firm Cornerstone Capital Partners focuses on investing in or acquiring niche manufacturing industrial and business service companies below \$10 million in value, with several deals completed in Canada. Likewise, Chris Sheeren of Detroit-based Huron Capital Partners invests in companies throughout the United States and Canada generally valued between \$5 and \$20 million.

Brown opened the discussion by describing what he sees as a trend toward Asian and Western European investors, who initially focused primarily on large cap companies and “headline deals,” increasingly seeing M&A opportunities in the M&A in the North American middle-market. PE investors, who have preferred acquisitions in North America but are now looking to exit some of their portfolio businesses, are drawing interest from Asia as well. “They need to have a good knowledge of what people are interested in coming from overseas,” Brown said. The US market is perceived to have higher growth potential and a more stable environment, which attracts more foreign investment, he said. “Look at your global statistics. You’ll see that Western Europe businesses have been keen investors across the whole space, whatever sector you pick in the US as well. It is a broader picture than just Asia.” As an example of the increased competition for

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deals with US companies, Brown cited the recent sale of GE Appliances to Chinese manufacturer Haier for \$5.6 billion. “If you ran the clock back not that far, just a couple of years, we would be advising clients that if you want to bring in Asian investors—be it Chinese, Korean, Japanese—into a Western-style auction process, you need to be warming them up six months before you actually go to market with that process.” But he said when Sweden’s Electrolux was forced to scrap its bid for GE Appliances, it took only thirty-eight days for Haier to sign off on its deal. “That was thirty-eight calendar days. It wasn’t thirty-eight business days. Interestingly, it was just before interestingly the Chinese New Year, so maybe that was another motivation to get everything done. I think there’s a very much changing landscape in the way those buyers are coming into the US and the level of comfort they have with the process.” He asked the panelists if they had experienced similar situations.

“It used to be we would have to hunt for many of these overseas buyers, and now we’re seeing many of them almost come to us.”

- Chris Heckert

Heckert agreed: “It used to be we would have to hunt for many of these overseas buyers, and now we’re seeing many of them almost come to us.” He said five to ten years ago, large foreign investors were not interested in middle- or lower-middle-market companies. “I work on the smaller side of the lower middle-market. Our typical deals are \$2 million to \$10 million in EBITDA . . . Now we’re seeing much higher levels of activity even on that size.”

Altman said, “We’ve exited three companies over the last couple of years, and we were surprised about the international interest. We had people looking from Europe as well as Asia. I think that’s reflected in some of the multiples we’ve seen. The multiples are very high because, I think, there’s just much more competition from abroad.”

Sheeren observed that international buyers are focusing on the US market “because of stability and, ironically, because of growth. Take a step back, and two percent annual growth is the weakest recovery we’ve had in seven decades. But relative to the rest of the world, it’s stable.” He added that organic growth is increasingly difficult for many companies in the US market. “I think that’s really driving a lot of the M&A activity—demanding growth and low interest rates, and there’s lots of cash on the balance sheets of a lot of corporate buyers. We have a consumer product business that we’ve been in the market with and talking primarily to strategics (strategic corporate investors), and there have been a couple of Spanish buyers in the mix that have moved I think faster than we anticipated they would. It’s a sample size of one, but it validates the thesis.”

Brown reiterated that he believes North America is the “focal point” of the M&A middle-market, but “the question mark is, ‘What are they focusing down on?’ What are the specifics that they’re looking to acquire?” He said some businesses attract a great deal of interest, but others “you can just miss quite easily. How do you select the businesses that you’re investing in?” He also questioned whether foreign investors are becoming more interested in acquiring and keeping manufacturing facilities in the United States, when a decade ago the only option for many such manufacturers was to move their operations offshore.

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## Evolution in China: Manufacturing to Consumer

Sheeren said US manufacturers who have not moved operations offshore usually have a good reason, but sometimes the markets change rapidly. “For the last fifteen years, anytime we’ve looked at a manufacturing business, we always ask, ‘Why isn’t this product being made in China? Why is this product still being manufactured in the US?’” Sheeren said. “There’s usually a good reason, but we want to make sure we’re validating all those reasons.” He cited a US-based automotive brake pad business that his firm invested in some years ago because “our industry research indicated that the guy at the corner brake shop does not want to put on a cheap Chinese-made brake pad because that customer is just going to come back in in six months or six weeks if it’s squeaking. There was just no confidence in the American installer base in a Chinese-made part.” Then suddenly Chinese-made brake pads improved in quality, and the investment in the US company didn’t look as good. “We thought that there was this sort of market-driven, made-in-American demand for it, but the reality was that a cheaper part of equivalent quality ended up being fine. The end consumer doesn’t really know the difference.”

Now that China is evolving from a low-cost manufacturing center to a consumer-directed market, Brown said brand recognition around products sold in China is also influencing M&A strategies for Chinese investors. “A lot of Chinese businesses have come to us when they’re looking to acquire. One of their real criteria is I’m not so concerned about the brand for the US market. I want to be able to take it—the made-in-America brand—to the Chinese market and leverage off that into the consumer base,” he said. “There’s probably more a quality perception gap now in China than there is in the US, which sounds a little bit strange. You see it around manufacturers for med-tech.” He added that beyond headline deals, many international buyers are looking for acquisitions in the US market to fill a market need. “You see a lot of European businesses saying, ‘I want this for this niche. I want that for that niche,’ and really starting to bring those target levels down and away from some of the really high end deals.” Likewise, with anti-trust concerns in some of the big international deals (like Electrolux-GE Appliances mentioned earlier), “we’ve seen a lot of the higher end deals being questioned as well and blocked by DOJ. I think that’s all feeding into this lower-level setting.” He asked the panelists what other themes they are seeing on the lower middle-market.

## Is Onshoring a Sustainable Trend?

Altman said one theme he is seeing is onshoring. “We’re investing millions of dollars in capacity and cost reductions in our companies,” he said. “We believe that we can build cost-effectively here. We need to have short lead times, and we’re investing our money here instead of importing from Asia. I think that’s a theme. Two of our portfolio companies just made sizable investments increasing capacity.”

Sheeren noted that predictions have been made over the past few years that the rising labor costs in China would “turn the tide” to more manufacturing jobs coming back to the United States. “Fast forward to today, there’s some disagreement,” he said. “China continues to subsidize its manufacturers. That’s preventing that re-shoring from occurring to some degree.” He added

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- Christopher Sheeren

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that the limited availability of skilled labor in the US market is also inhibiting onshoring. “We see it in Detroit for sure. It’s full employment for welders and other skilled laborers in Detroit right now because auto volumes for a couple of years have been at record level. There’s just not enough skilled labor in the US for this re-shoring that we’re all cheering for.”

Because this Stalwarts Panel discussion occurred on the day following the election of Donald Trump, Sheeren and Brown agreed that changes in corporate tax rates were more likely to affect M&A going forward. Brown said proposals to allow corporations to return stranded cash from overseas through changes in the tax code could have significant repercussions. “I think there will be an awful lot more dollars available in the US for investment,” he said. “It’s been driving M&A overseas to an extent just because they need to put that money to work somehow. I think that’s going to be interesting because it’s a wall of money. It’s huge.”

Heckert added that a theme he is seeing is the decrease in size of international buyers. “What used to be billion-dollar foreign entities, whether it’s Asia-Pacific or Europe, are now becoming hundred million-dollar companies, and they’re looking to invest their money into the US, not just these massive corporate entities that you see in the news all the time. That’s been a very interesting trend in the last few years, to see that new category of buyers come in and make sizable investments.”

Moving money from unstable currency environments could also be driving the onshoring trend, Brown added. “It’s a big switch between the large state-owned enterprises versus the private owned enterprises in the Chinese case at least. A lot of that is driven by specific personal goals to get some of his money in different currency,” he said.

### Is a Recession Coming? Who Wins and Loses?

Responding to an audience member concerned about another recession coming soon to the United States, Altman said his firm invests heavily in the commercial construction space. “We happen to have a portfolio company in commercial construction that happens to be green commercial construction, so we’re hoping that’ll help us in a downturn,” he said. “I think that anything in building products right now has to plan for the cycle that’s coming. I think any company that we look at, we want to know how they’ve done in the last recession because if they can survive that one, if we buy this one right, it will probably survive the next one.” Brown added, “I think that companies are looking an awful lot healthier today than they were going into 2008, 2009 just because of surviving that long or stripping out all the costs to get lean.” Altman added, “You can’t borrow as much now. The leverage ratios are much lower now than they were then.”

“I think the real test,” Brown said, “is what’s going to happen on the interest rate cycle. I don’t think it’s going to be as catastrophic as it was last time around. A, because it’s not as stretched as it was last time, and, B, no one is expecting the level of change that we had last time.”

“I think a downturn is coming regardless,” said Sheeren. “We go out of our way to try to avoid investing in industries that are vulnerable. So, we never invest in oil and gas, we never invest in

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the automotive supply chain. The auto aftermarket we like. Food and beverage, specialty chemicals, clothing . . . these industries tend to get bitten a little bit less so than some of the others. We take a broader view of trying not to get whacked too much because a downturn is coming. It's going to happen. It's anybody's guess where and when. I think we're assuming there'll be a slowdown in the next eighteen to twenty-four months. But," he joked, "the economists have predicted seven of the last four recessions."

### **Multiples under Trump? "Who Knows?"**

Another question from the audience was whether the panelists saw M&A multiples in the middle-market under the incoming Trump administration. Heckert said he is currently seeing "mid-single-digit" multiples in the middle-market. "Where that goes from here, who knows? I personally hope it goes up, of course, but crystal balls are only as good as yesterday's news," he said.

Brown added he is seeing "high single digits on EBITDA (earnings before interest, taxes, depreciation, and amortization)," but where that goes under a Trump administration, "Who knows?"

A final question concerned whether panelists are seeing more deals involving minority-owned businesses. Heckert said he is currently working on the sale of a business owned by a woman. "You've got a smaller market to go out to on this because if there's any real money tied up in that designation (minority-owned) and then you sell to someone that doesn't have it, obviously, that puts that revenue at risk. It's a more difficult deal and difficult market to go into, but it's certainly not something that can't be done. I have not seen a lot of those deals done successfully, but we've done some," he said.

Sheeren observed, "I think a minority owner needs to own about 30 percent or otherwise have some sort of operating control of the business. As a majority investor, it's pretty difficult for us to come in and structure that, to your point, Chris. We don't see a lot of it."

Heckert added, "The key in the deals that I've done is how much that [minority] designation actually affects the business. We also talk about checking the box. If it's part of an application for a contract, that revenue is tough to defend, but if it represents a really small amount—five, ten percent or less—usually that's something that can be overcome and can be discussed."

"I'm seeing high single digits on EBITDA but where that goes under a Trump administration, 'Who knows?'"

- Julian Brown

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# Video Interviews

To watch exclusive M&A Advisor interviews with these industry experts on “Manufacturing In Motion: An M&A Sector Update,” click on the following images:



**Chris Heckert**

Managing Director  
Generational Capital Markets



**Christopher S. Sheeren**

Partner  
Huron Capital Partners

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# Symposium Session Video

To watch the Stalwarts Roundtable discussion titled “Manufacturing In Motion: An M&A Sector Update” click on the image below:



**Manufacturing In  
Motion: An M&A  
Sector Update**

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## Contributors' Profiles



**Stephen Altman**  
Partner  
Cornerstone Capital Partners, Inc.

**Steve Altman** is a partner with Cornerstone Capital Partners Inc. Mr. Altman has been a private equity investor since 1998, with an emphasis on middle-market manufacturing and industrial service companies. To date, he has invested in transactions totaling \$300 million in enterprise value. Prior to joining Cornerstone, Mr. Altman was a principal with Long Point Capital, a middle-market private equity fund. Prior to Long Point, Mr. Altman worked for Masco Corp. and affiliates for ten years in a variety of operational, financial, and business development roles, primarily focused on turning around troubled operating divisions. His last position was as president of an operating division. Prior to Masco, Mr. Altman worked as a CPA for middle-market companies in the Boston office of Arthur Andersen. Mr. Altman currently is a director of Camino Modular Systems, Eastern Vault, and B-W-A Inc. He has previously served on the Board of Directors of Aarrowcast, Atlantic Plywood, Arch Aluminum and Glass, Craftsmen Industries, CHI Overhead Doors, National Print Group, and RAD Technologies. Mr. Altman received an MBA with distinction from the University of Michigan and graduated magna cum laude from the University of Vermont with a Bachelor of Science in Business Administration. Mr. Altman is a CPA (inactive).



**Julian Brown**  
Managing Director  
PwC Corporate Finance

**Julian Brown** is managing director and a head of the East Coast operations of PwC Corporate Finance LLC. Prior to his move to the US, Julian has gathered more than 20 years' experience in deal origination and execution in Europe, South America and Canada. During this time he has advised clients ranging from large listed multinationals to family-owned businesses on their M&A and financing transactions in a wide range of sectors. In a trade best learned by experience, Julian has advised families, corporates and PE clients on their successful completion of more than 50 buy-side and 80 sell-side transactions. Julian's career with PwC began in Spain, where he built the Firm's Corporate Finance practice from a zero base to a successful cross-sector team of 25 investment banking professionals focused on deals typically in the US\$50 million to US\$500 million range. In 2011, Julian moved to Canada to restructure and lead a team of some 50 investment bankers focused on the same market segment and across all sectors. Julian moved to New York in July 2014 to head up the East Coast operations of PricewaterhouseCoopers Corporate Finance LLC. Julian is a Series 24 General Securities Principal and is registered with FINRA. He is also a qualified investment advisor of the London Securities Institute and a Chartered Accountant (England & Wales Institute). Julian is fluent in English and Spanish.



**Chris Heckert**  
Managing Director  
Generational Capital Markets

**Chris Heckert** is managing director and supervising principal of Generational Capital Markets, Inc., Member FINRA/SIPC., an affiliate of Generational Equity, LLC. Mr. Heckert is actively involved with the marketing and sale of client businesses as well as the management, supervision, and compliance of the firm and its broker dealer activities. In addition to his years of experience selling privately held companies across the US and Canada, he has been a private business owner and investment advisor. Mr. Heckert holds a Bachelor of Arts degree from the University of Texas at Austin, attended the SMU Dedman School of Law, and holds series 7, 24, 63, 79, and 99 licenses. When not participating in local charities like the Susan G. Komen Race for the Cure and Genesis Women's Shelter he spends time with his wife and two daughters.



**Christopher S. Sheeren**  
Partner  
Huron Capital Partners

**Christopher S. Sheeren** is a partner at Huron Capital Partners. Chris is responsible for sourcing and evaluating investments made by Huron, as well as marketing and business development activities. He also oversees the firm's executive network. His experience includes serving as a financial advisor for middle market businesses throughout the U.S. and Canada. Prior to Huron, Chris was with Conway MacKenzie, a crisis-management and turnaround consulting firm. He gained extensive experience guiding clients through various bankruptcy and out-of-court workout situations, serving as interim CFO, controller or financial advisor. Prior to Conway, Chris was with PricewaterhouseCoopers as an audit manager and Revlon as a sales professional. Chris received a B.A. from the University of Nebraska and M.B.A. from the University of Michigan. Chris has served as a Director for numerous Huron portfolio companies, including Maple Leaf Automotive (OEQF) and Apex Laboratories International (among others). He is also the Board Treasurer for Mosaic Youth Theatre of Detroit.

# About the Sponsor



## Generational Group

Generational Group (comprised of Generational Equity, Generational Capital Markets and Generational Dealforce) is one of the leading middle-market M&A firms in North America. The Generational Group's experienced M&A professionals work with business owners who are considering a full or partial sale of their businesses. To prepare their clients for an eventual exit, Generational Equity conducts educational M&A conferences throughout North America that are designed to give business owners an overview of the overall M&A process. This enables Generational Equity clients to truly be buyer ready. The Firm also provides full business Valuation Services which are designed to enable business owners to know their company's current enterprise value prior to going to market. Generational Dealforce was designed by the firm to be a fully searchable database, allowing buyers to register their interests and receive timely updates when clients are taken to market. To learn more, visit [www.generational.com](http://www.generational.com) or [www.dealforce.com](http://www.dealforce.com).

# About the Publisher



## The M&A Advisor

The M&A Advisor was founded in 1998 to offer insights and intelligence on M&A activities. Over the past nineteen years we have established a premier network of M&A, Turnaround and Finance professionals. Today we have the privilege of presenting, recognizing the achievements of and facilitating connections among between the industry's top performers throughout the world with a comprehensive range of services. These include:

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## Upcoming Events

**Emerging Leaders Forum and Awards Gala** - London, UK - September 13, 2017

**Emerging Leaders Summit and Awards Gala** - New York, NY - September 19, 2017

**Corporate M&A Exchange Conference Gala** - London, UK - October 31, 2017

**TRI Conference: Special Situations & Turnaround and TRI Awards Gala** - London, UK - October 18, 2017

**M&A Advisor Summit and Awards Gala** - New York, NY - November 13, 2017

**Corporate Growth Forum and Corporate Development Awards Gala** - London, UK - February 28, 2018

**Distressed Investing Summit and Awards Gala** - Palm Beach, FL - March 2018

**International Financial Forum and Awards Gala** - New York, NY - June 2018

For additional information about The M&A Advisor's leadership services, contact Liuda Pisareva at [lpisareva@maadvisor.com](mailto:lpisareva@maadvisor.com).