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From packaging consumer products to building airplanes, manufacturing deals are reshaping industries

By Danielle Fugazy

A manufacturing renaissance is brewing in the U.S., and many industries are seeing more M&A transactions with a manufacturing component come to fruition.

Some of the recent notable deals bring manufacturing expertise to existing portfolio companies, while others provide new platform companies for private equity firms and strategic acquirers. Either way, companies with a manufacturing component are in demand these days.

"There is a lot of growth in the manufacturing industry," explains Zia Uddin, a managing director with Monroe Capital LLC, a Chicago-based debt and capital provider with $1.6 billion under management. "Insourcing, or re-shoring, has been playing a role for quite some time. And there is a greater desire to develop products and get them to local markets more quickly, which is making manufacturers all the more important."

In the second quarter of 2014, merger and acquisition activity in the industrial manufacturing sector hit record levels, accounting for the highest quarterly deal volume since the fourth quarter of 2007 and the highest value in more than 10 years, according to PricewaterhouseCoopers (PwC). Driven primarily by an uptick in manufacturing transactions worth more than $1 billion, the first half of 2014 has already surpassed all of 2013 for total deal value. PwC and others expect healthy levels of M&A activity to continue for manufacturing companies through the remainder of the year.

Here's a look at five sectors in which transactions with a manufacturing component are playing significant roles.

1. AEROSPACE

As the global fleet of commercial airplanes ages, along with military airplanes, manufacturers in the aerospace industry have seen an incredible increase in demand for new production. Many companies are clamoring to snap up high-quality manufacturing companies that service the industry.

"Aerospace is one of the most heavily regulated industries in the world, and thank goodness for that," says Rowan Taylor, founding partner of Liberty Hall Capital Partners. "There is zero tolerance for failure in the aerospace industry, making it all the more important to have the best and highest-quality suppliers manufacturing the components of an airplane. Even the smallest nuts and bolts have to be built specifically to ensure they meet the proper safety standards. Having excellent manufacturers is a must."

Founded in 2011, New York-based Liberty Hall focuses exclusively on investments that serve the aerospace and defense industry. In November 2013, the firm acquired Precise Machining & Manufacturing, a supplier of engineered machine parts, kits and assemblies for the aerospace industry. Upon completing the acquisition, Liberty Hall formed Accurus Corp. and put Tulsa, Oklahoma-based Precise under its umbrella.

Today, Accurus is working to become one of the largest manufacturers serving Boeing Co. (NYSE: BA). "Given the dramatic growth in the need for new aircraft, there will be significant opportunity for manufacturers within the aerospace supply chain to gain market share by supplying parts to Boeing and its competitors, such as Lockheed Martin Corp. (NYSE: LMT) and Gulfstream Aerospace Corp., which is owned by General Dynamics (NYSE: GD)," says Taylor.

Photo courtesy of Accurus Aerospace Corp.

Liberty is planning to expand Accurus both organically and through acquisitions, beginning with an add-on acquisition. In March 2014, Liberty Hall acquired McCann Aerospace Machining LLC, doubling its manufacturing capacity and revenue. McCann makes metallic machine components for airplane wings. "The wing is not a solid piece. If you took off the skin of the wing you see ribs underneath. Those are made from metal. We manufacture those parts," says Taylor. Accurus now has two manufacturing plants, one in Tulsa and the other in Athens, Georgia.

Even the smallest nuts and bolts have to meet the proper safety standards.

Liberty Hall Capital isn't the only private equity firm that sought out a manufacturing company that services the aerospace and defense industry; many others are doing the same. In October 2013, Cleveland-based Resilience Capital Partners acquired Avionics International Supply (AIS) Inc. Headquartered in Denton, Texas, AIS is a wholesale manufacturer, distribution and repair services company. This purchase fits nicely in the Resilience portfolio, which also houses Nextant Aerospace, a U.S.-based company

specializing in the remanufacturing of business jets. Remanufacturing replaces all life-limited components in the jet with newly manufactured parts, resulting in a plane that is 88 percent new.

2. ELECTRICAL EQUIPMENT

Most people don't think about electrical components in their everyday lives. Yet when an appliance's switch doesn't work, it can cause frustration. Headquartered in Rock Fall, Illinois, Hartland Controls supplies electrical system components to the heating, ventilation and air conditioning market. Hartland's owners were at an inflection point, needing expertise to help grow. They found a partner in Incline Equity.

In March 2014, the Pittsburgh-based private equity firm recapitalized Hartland and took a more than 50 percent ownership stake in the company.

"We manufacture a $5 device that is used to turn on and off heating and cooling systems," says Jack Glover, a partner with Incline Equity. "We buy the plastic, steel and silver, assemble it and create an electro-mechanical device that is used in HVAC systems."

The component Hartland manufactures resembles the tip of a cellular phone charger. Hartland sells its product to original HVAC equipment manufacturers (OEMs), such as Lennox International (NYSE: LII) and Trane, which put the devices in new units. Hartland also sells its component as a replacement part, so when a technician fixes an HVAC unit, the Hartland electrical component sold to the OEM may be changed out for a Hartland replacement.

The company completes manufacturing in Shanghai and final assembly in Rock Falls, Illinois, with a total workforce of about 300. "There is a high labor component, and the product is small and easy to ship. You can fit tens of thousands of units into one container. We also have long lead times with the product, and we know that most of the people need the part during heating and cooling seasons. Given its predictability and how easily it ships, it makes sense to manufacture in Shanghai," says Glover.

Hartland manufactures HVAC components in Shanghai and does final assembly in Illinois.

Firms have been busy buying up the manufacturing plants of electrical components for quite some time. For example, in March 2014, Boston-based private equity firm Union Park Capital made its first acquisition, buying Testing Machines

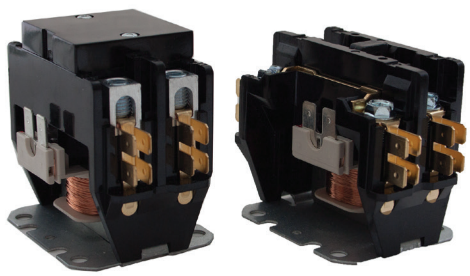
Inc. (TMI). TMI makes electronic instruments that measure the physical properties of materials, including pulp and paper, film, foil, ink, coatings, nonwovens, plastic, rubber, textile, adhesives, ceramic and metal. TMI's instruments are available to measure more than 50 properties, including adhesion, abrasion, friction, compression, tensile strength, impact, internal bond, softness and thickness. The private equity firm is looking for organic growth opportunities, as well as add-on acquisitions for TMI.

Jack Glover

3. FOOD AND BEVERAGE

Food companies globally have been of interest to strategic acquirers and private equity firms. According to PwC, U.S. retail and consumer M&A activity during the first quarter of 2014 was driven primarily by the food and beverage sector.

Two deals that made the headlines were Bridgepoint's buyout of Dr. Gerard and the Riverside Co.'s acquisition of Mec3. Interestingly, both deals were international.



In October 2013, London-based Bridgepoint bought Dr. Gerard, a maker of private-label biscuits in Poland, from Groupe Poult of France. Established in 1993, Dr Gerard sells to retail stores and operates from three sites across Poland, employing more than 950 people. In recent years it has transformed from a local company by developing into an international export business.

In February 2014, the Riverside Co. acquired Mec3, a developer, manufacturer and marketer of ingredients for gelato, pastry and other foods. Based in San Clemente, Italy, Mec3 sells its products internationally. With annual revenues of around $130 million, Mec3 serves more than 60,000 customers.

"Manufacturing opportunities in the food industry are only expected to grow. As consumers demand more selection in all kind of categories there will be a need for more manufacturers," says Jim Hill, chairman of the private equity practice with Benesch, Friedlander Coplan & Aronoff LLP, who often works on manufacturing transactions.

Joe Lee

Lastly, in May 2014, Mizkan Group, a condiment manufacturer, purchased Unilever's (NYSE: UN) pasta sauce business, including the Ragu and Bertolli brands, for $2.15 billion. With the purchase, Mizkan expects to enhance the company's focus on its North American branded business, expand and strengthen its U.S. manufacturing operations by leveraging synergies with Mizkan's American business, and develop a more balanced global operation.

4. HEALTH CARE

As demand for better health care continues to grow, so does the need to manufacture higher-quality products. As a result, manufacturers in all types of health care companies — and especially in the pharmaceutical industry — are attracting interest from prospective buyers. Steve Dyke, a partner with Riverside and industry sector head for specialty manufacturing, is quick to point out that manufacturing in the health care industry is not new, but it's certainly getting a lot more attention.

Things are heating up in pharmaceuticals, too. "As drugs come off patents, there is room for generic drug manufacturers to step in, particularly U.S. and European manufacturers, because you worry about quality in other countries. It's a very focused group of manufacturers that can do this," says Hill.

To that end, in May 2014 Abbott Labs (NYSE: ABT) has agreed to acquire Latin American pharmaceutical company CFR Pharmaceuticals for approximately $2.9 billion, plus the assumption of $430 million in net debt. CFR, based in Chile, provides drugs focused on women's health, central nervous system, and cardiovascular diseases.

In April 2014, London-based Pamplona Capital Management acquired a majority stake in Alvogen, one of the fastest growing manufacturers of generic brands in the pharmaceutical industry. Headquartered in Luxembourg, Alvogen operates in 34 markets across the U.S., Europe and the Asia-Pacific region, with manufacturing hubs in New Jersey, Romania and South Korea.

5. PACKAGING

Packaging isn't something that garners lots of attention, but it's included with almost every consumer purchase. As more products are created for consumers globally, more packaging must be manufactured. In some cases, this means not simple boxes, but sleekly designed packages that are environmentally friendly and weather resistant.

This is certainly the case with Summit Container Corp. Based in Monument, Colorado, Summit designs, manufactures and assembles highly engineered packaging for a customers across the telecommunications, food, photo and general manufacturing industries. Summit Container's primary focus is packaging for the cable and telecommunications industry.

"It's the packaging you see when your cable box or set top box is delivered or returned for service," says Monroe

Capital's Uddin. "Summit is unique because it has developed proprietary electrostatic discharge, or ESD, packaging," claims Uddin. "ESD packaging allows for the safe discharge of potentially damaging static electricity across the surface of the packaging, as opposed to through the electronic component. This material is adopted by Fortune 500 telecommunication companies for use in protecting circuit packs in transit and storage."

Summit's model is to set up facilities across the U.S. to establish low-cost regional operations close to customer locations. With revenue exceeding $20 million, Summit has facilities in Pennsylvania, Texas, Oregon and California.

"The customers want just-in-time delivery. The key to manufacturing today is to be able to provide a complete solution – from design to prototype to full-scale manufacturing of what the customer needs quickly and cost effectively," says Uddin.

In January, Monroe financed the acquisition of the company by providing a unitranche credit facility and an equity co-investment.

"People don't spend a lot of time thinking about the packaging space because they assume there is not much to it, but no one wants their cable box or telephone delivered broken. Summit needs to design and manufacture packaging for custom products at an effective price. The manufacturing of the packaging is very important; it is the first thing a customer interacts with before they see the product inside," says Uddin.

Going forward, Monroe expects Summit to focus on organic growth and move its manufacturing capabilities into other sectors, such as food and beverage.

In February, Riverside also invested in the packaging space when it acquired Be Green Packaging of Santa Barbara, California, a designer of environmentally friendly packaging. Be Green's molded fiber products are tree-free, compostable and recyclable.

As more products are created for consumers all over the world, more packaging needs to be manufactured.

"Sustainability is no longer a luxury. Customers and retailers are demanding or requiring green materials, and Be Green Packaging is delivering," says Riverside partner Joe Lee.

By using proprietary designs, processes and materials that regenerate in under one year - such as bamboo, bulrush, wheat straw, sugarcane and rice husk - Be Green strives to meet the most demanding specifications for any type of package.

"This is a high-growth industry, and Be Green Packaging has the tools to enjoy the long-term trend toward sustainable packaging," said Lee. "The company already serves a variety of blue-chip customers in numerous verticals, and has shown an ability to innovate while providing savings for its customers."

Right now Be Green operates mainly in food service and consumer goods. Apple Inc.'s (Nasdaq: AAPL) Chrome Book 11 and Gillette Razors are among the products it packages.

Since that deal, Riverside has purchased land in South Carolina to begin manufacturing in the U.S. instead of China.

The company will also look at other industry verticals, such as packaging for the food industry, rather than add-on deals.

In August, Ranpak Holdings, headquartered in Concord Township, Ohio, was sold to private equity firm Rhone Capital LLC by Odyssey Investment Partners. The deal values Ranpak at a reported $900 million, including debt. Ranpak manufactures paper-based packaging for more than 25,000 companies in the electronics, food and beverage, and pharmaceutical industries. In May, Ranpak bought rival manufacturer Geami Ltd., which makes a paper-based alternative to bubble wrap and has customers in North America, Europe and Asia.

"Overall, the need for packaging products is driven by consumer products, and there are so many new products in so many sectors that require customized solutions. Packaging companies will continue to see interest from private equity firms, strategic acquirers and lenders looking to take advantage of the activity," says Uddin. M&A