



MANUFACTURING & DISTRIBUTION M&A QUARTERLY

Q1 2022



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After several consecutive quarters of significant investment volume and deal counts throughout 2021, investment and M&A in the Manufacturing and Distribution sector took a breather during Q1, when a total of \$77.06 billion was invested across 638 deals. This was lower than Q1 2021, when investors – eager to normalize after the first year of the COVID-19 outbreak – funneled \$88.63 billion into 1,094 deals.

Additionally, the first quarter had a significant transaction between Advanced Micro Devices and Xilinx for \$35 billion that, if excluded, Q1 2022 would have been only about a quarter of the deal activity that we saw in Q1 2021.

The rest of the quarter’s investment dollars were spread across the B2C sector (\$18.27 billion), the B2B sector (\$11.95 billion), healthcare (\$4.42 billion), energy

(\$840 million), and materials and resources (\$2.98 billion). Along with the Xilinx acquisition, the top deals involved manufacturers and distributors like Duravant, Cruise, Hey Dude, Reebok America, Zogenix, and Ball Metalpack.

It’s not unusual for deal activity to slow somewhat during Q1, and particularly after an extremely active year like 2021. With ongoing challenges including the supply chain disruption, new COVID-19 variants, labor constraints, and the Russia-Ukraine conflict impacting many manufacturers and distributors, investors could take a more cautiously optimistic approach in 2022 as organizations work to overcome these outside forces and maintain continuity in their operations. As the Russian invasion of Ukraine and subsequent humanitarian crisis continue, the well-being of those impacted by this conflict is of utmost importance.

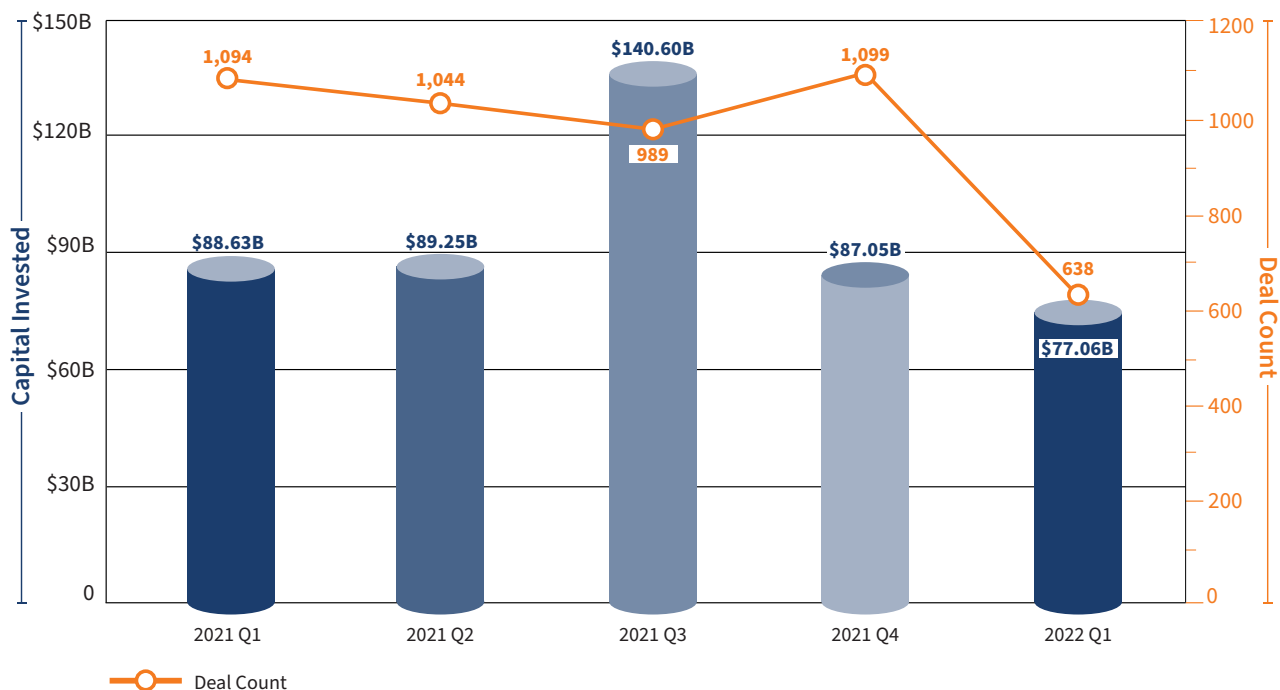
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Q1 2022 TRENDING NUMBERS

All data gathered from PitchBook Data, Inc., as of April 1, 2022

Capital invested by deal count





We noted the decline in M&A activity in Q1 2022 is likely driven by outside forces but another reason for the pause could be that for any deals that couldn't close by the end of 2021, the drive by the buyer and seller to close the deal quickly diminished. Any incentive to avoid potential tax implications on their deals from 2022 tax changes were no longer relevant.

While PE still dominated the Manufacturing and Distribution investments in Q1, more corporations, asset managers, and venture capital firms executed on transactions in Q1 2022 compared to past quarters. For example, Franklin Resources Inc. and Apollo Global Management Inc. – both asset managers – ranked as top investors in the sector during Q1.

Investors appear to be optimistic about the future of consumer spending as several of the top 10 deals during Q1 involved consumer product manufacturers of self-driving autonomous vehicles, footwear, and sports apparel. We also continue to see deals in healthcare with a focus on development and pharmaceuticals, and consumer packaging with a focus on sustainability.

TOP MARKET FACTORS IMPACTING THE DEAL SPACE



The semiconductor shortage is touching all corners of the Manufacturing and Distribution sector



The labor shortage persists



Freight and shipping costs continue to be at all-time peaks and will likely rise further with increasing gas prices



Fuel prices are also impacting consumer behavior, especially related to travel and discretionary purchases



Russia's invasion of Ukraine is impacting global supply chains



Businesses continue to evolve their global supply chains to hedge against new disruptions

Q1 2022 top investors: Most active private equity firms based on number of deals

Private Equity Fund	Deal Count
▶ Kohlberg Kravis Roberts (NYS: KKR)	5
▶ The Carlyle Group (NAS: CG)	5
▶ Arsenal Capital Partners	4
▶ HarbourVest Partners	4
▶ Arcline Investment Management	3



Q1 2022 Top 10 deals

Company Name	Deal Size (millions)	Investors	Deal Type
Xilinx	35,000M	Advanced Micro Devices	Merger/Acquisition
Duravant	3,531M	The Carlyle Group	PE Growth/Expansion
Cruise	3,450M	General Motors	Corporate
Forterra	2,740M	Quikrete Holdings	Merger/Acquisition
TransCore	2,680M	ST Engineering	Merger/Acquisition
Hey Dude	2,500M	Crocs	Merger/Acquisition
Reebok America	2,378M	Authentic Brands Group	Buyout/LBO
Hexion Holdings	2,000M	American Securities	Buyout/LBO
Zogenix	1,900M	UCB	Merger/Acquisition
Ball Metalpack	1,350M	Sonoco	Merger/Acquisition

WHAT'S NEXT?

Several factors could impact Manufacturing and Distribution M&A, PE, and investor activity during Q2 2022 as well as for the remainder of the year:

- **Venture capital firms** continue to remain active and may drive higher volume, however, smaller deals are getting done.
- **New capital is entering the market** with Sequoia Capital, Soma Capital, and Liquid 2 Ventures being some of the newer entrants this quarter.
- **The industrial supply market is “awash” with deals.** Despite the ongoing supply chain and labor constraints, [Industrial Distribution](#) published 41 news items regarding M&A activity in January 2022. This was a new single-month record and likely the best market since the Great Recession. The publication said that the industrial economy’s “significant improvement” since late-2020, and the fact that growing industrial distributors and suppliers want to gain as much market share as they can ahead of funds rolling out from the Biden administration’s \$1.2 trillion infrastructure deal, are contributing to the uptick in M&A activity.

- **COVID-19 continues** to affect the Manufacturing and Distribution space with a new round of lockdowns in China and uptick in subvariant BA.2 cases in Europe. In March, outbreaks in 28 provinces have infected more than 15,000 people and stemmed primarily from the highly transmissible omicron variant, [CNBC](#) reports. According to the news outlet, Dongguan city in the southern province of Guangdong ordered employees of businesses to work from home and locked down residential areas, permitting only necessary activities such as buying groceries and taking virus tests. Guangdong province produced about 24% of China’s exports in 2020 and Dongguan was the fifth-largest contributor to China’s GDP last year, with 1.09 trillion yuan (\$170.31 billion) in output, according to CNBC. Additionally, air freight warehouses at Shanghai Pudon Airport are jammed as a result of strict COVID testing protocols and at the city’s port in Shanghai-Ningbo there are more than 120 container vessels stuck on hold for shipment as of late March 2022.



- **Access to raw materials and shipping** will also be impacted by Russia's invasion of Ukraine and subsequent humanitarian crisis. Millions of containers travel to Europe from China by train on a route that goes through Russia but now must

make the journey by sea as sanctions have been put in place. Additionally, Ukraine is a key supplier of nickel, aluminum, wheat, and sunflower oil. The supply and demand imbalance for these items is driving commodity prices even higher.

PERFORMANCE IMPROVEMENT STRATEGIES FOR EVOLVING TIMES

While Manufacturing and Distribution companies are facing numerous headwinds, there are ways to improve the business during this time

- **Don't lose sight of forecasting** – Forecasting, demand sensing, and budgeting remain top priorities for manufacturers, distributors, and their investors. Efficient cashflow management requires good budgeting and forecasting; and the more granular, the better. In some cases, what were once quarterly or even annual projections have been whittled down to weekly based on the current climate.
- **Strive to hit a range** – Too often, businesses try to focus on being exact, but the one thing we know is no matter how hard you try, the plan and forecast will never be 100% accurate. Change the focus. Plan and forecast in terms of a range with the intent to be relatively accurate and identify alternate strategies to manage the business depending on where the business falls within the range.
- **Take advantage of automation** – As labor constraints continue it is more important than ever to innovate and automate. Don't become complacent, and continue to develop labor strategies and increased automation to mitigate possible long term labor shortages.
- **Diversify your supply chain** – Where possible, analyze the cost/benefit of diversifying supply chain and outsourcing to countries other than China due to COVID-19 and geopolitical concerns.
- **Manage cash closely** – Whereas money market interest rates were close to nil before, be sure to sweep extra cash into money market accounts as interest rates rise. Analyze and determine if it makes sense to lock into long term commodity contracts to hedge against rising prices.
- **Keep an eye on inflationary factors** – Consider what you can absorb on your margin and what needs to be passed onto the customer. Where prices cannot be increased, consider 'shrinkflation' alternatives such as packaging less product for the same cost or cutting back to basic services and adding on a menu of premiums for additional items.





FOOD MANUFACTURING AND DISTRIBUTION DEALS

Challenges facing farmers in the U.S. today are straining operations but also creating the conditions for innovation and adoption of new technologies, according to [Food Engineering Magazine](#), which said robots will increase efficiency while reducing labor needs across the food system. The rise of ESG will help to digitize farms, fintech will transform opportunities in agriculture, and RNA technology that has saved lives during COVID-19 will be applied to farms to save soils.

The magazine also expects the supply chain disruptions experienced over the past two years to create a further sense of urgency to develop solutions that will make supply chains more nimble, sustainable, localized, and less wasteful. Fermentation will power the next generation of alternative protein products; cellular protein will provide consumers around the world with safe, sustainable food; and the adoption of solutions that address food waste “will be recognized as both a good business practice and an essential tool for feeding the world,” the publication adds.

In catering to consumer demand for healthier food and beverage options, companies are developing “healthier for you” alcoholic beverages as well as merging their alcohol and non-alcohol supply chains in an effort to gain efficiencies, make smarter raw material purchases, and better utilize their production and shipping capacities. PE firms are watching these shifts closely and have taken a bigger interest in the distribution side of alcoholic beverage production.

In addition, this year’s Expo West was significantly dominated by plant-based foods including products that haven’t historically dominated the event (e.g., steak, bacon, and fish). These new entrants may help businesses revitalize the plant-based evolution and return it to its exponential growth; and investors have taken notice. For example, AuraPea raised \$2.2 million in angel funding to grow its plant-based products that are made of chickpeas and available in a variety of crumbles including chorizo, breakfast, Italian, and taco, providing consumers with healthy and organic meat substitutes.

Frozen foods were also prominent at Expo West. With more people working from home on a continuous basis, companies are developing more small portion lunch meals that people can cook quickly while at home during the week.

Snacking continues to be top of mind for food producers that, responding to consumer demand, are focusing more on nutritional ingredients and protein. These two top 10 food manufacturing transactions in Q1 focused on snacking:

1. Muniq received a \$6 million investment in March. Launched in 2020, Muniq’s line of nutritional meal replacement shakes are formulated with ingredients like prebiotic resistant starch which helps improve blood sugar control, weight management, and digestive health. Muniq previously [received an \\$8.2 million Series A](#) funding round in Q1 2021.

Q1 2022 food manufacturing deals

Company Name	Deal Date
▶ Gina Cucina	14-Mar-2022
▶ Muniq	08-Mar-2022
▶ Catalina Finer Foods	24-Feb-2022
▶ Made by Nacho	23-Feb-2022



2. Belgian Boys raised \$7 million in additional capital to continue to fund its growth. The company offers a variety of desserts like waffles, cookies, crepes, cakes, and also offers breakfast items made with non-GMO ingredients, thereby enabling customers to get ready-to-eat food at a fair price.

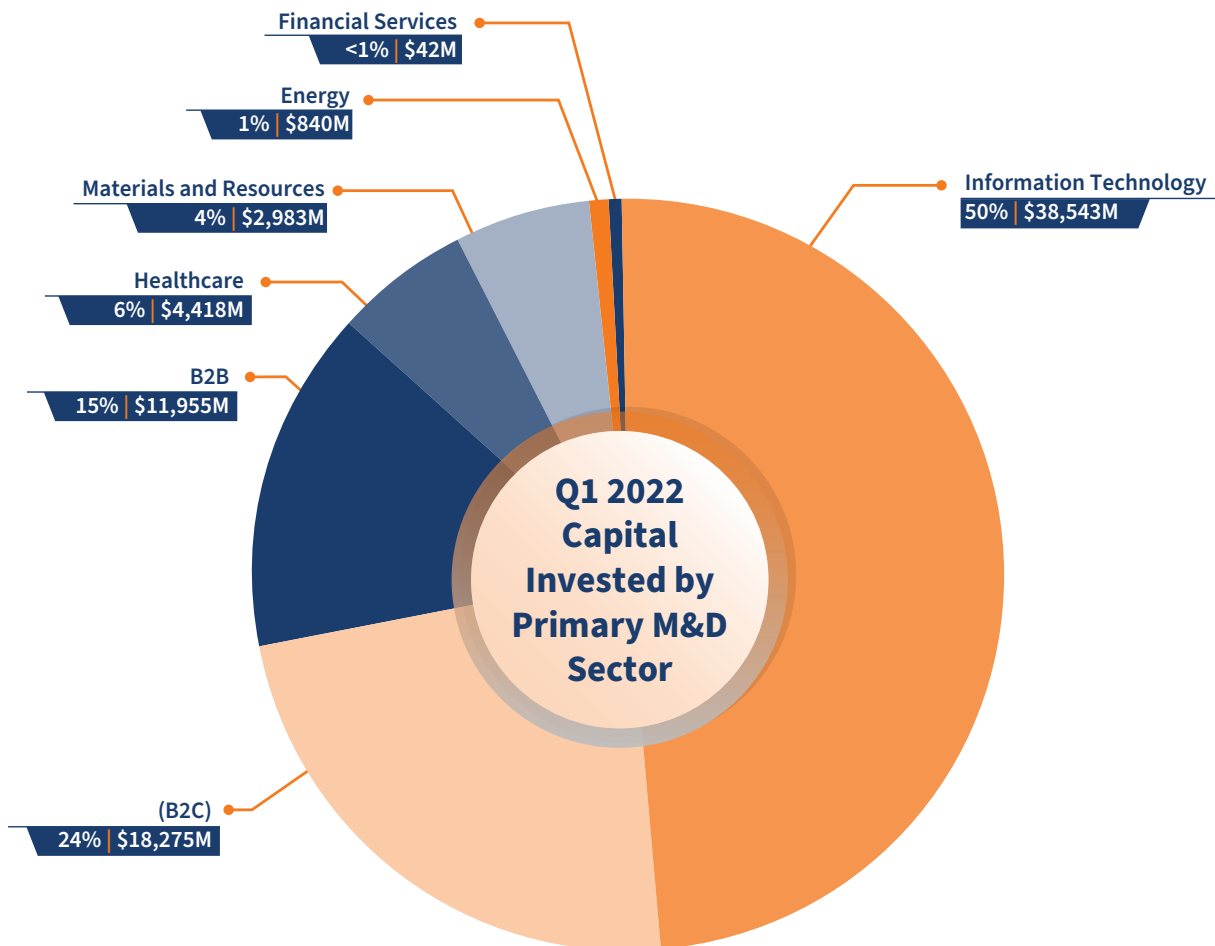
Another popular trend we are seeing is functional foods, especially snack foods and beverages, that provide a positive impact on the consumer’s health beyond nutrition. A lot of foods are including adaptogens through herbs or plant roots that address a consumer’s sleep, energy, and stress levels. Tastewise, an AI data platform for food and beverage, [predicts continued interest in functional foods](#), with 33% more consumers treating food as medicine in

2022 compared to 2020. Tastewise noted functional ingredients of interest include sea moss and rhodiola, known respectively for their fertility-boosting and gut health properties.

Overall, deal activity in the Manufacturing and Distribution space slowed this quarter; and although owners and investors continue to bare the burden of numerous market factors outside of their control, there are countless performance improvement strategies available to help triage current constraints and plan for success in the future.

Learn more about CohnReznick’s performance improvement services [here](#).

Q1 2022 capital invested by primary M&D sector



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