



MANUFACTURING, INDUSTRIAL & ENGINEERING

Sector Snapshot

Summer 2018

Welcome to the first edition of the Mazars Deal Advisory Manufacturing, Industrial and Engineering (MIE) Snapshot – the purpose of which is to serve as an introduction to Mazars and our MIE team, and also to provide some insight to key issues affecting the market, news and analysis of recent transactions.

Within this edition we will focus on the following topics:

- The challenges faced by SME manufacturers
- The automotive sub sector
- The plastics & packaging sub sector
- Key themes and drivers affecting deal activity

CONTENTS

01	The manufacturing iceberg...	1
02	Sector news	2
03	Where next for the MIE sector?	4
04	Factors impacting MIE valuations	5
05	Recent transactions	6
06	Mazars global reach	7
07	MIE credentials	8
08	MIE key contacts	9

01 The manufacturing iceberg...

SMEs are often key links in global manufacturing supply chains. However they are often at the mercy of their larger customers and have minimal political influence. Whilst this is the case across many subsectors of MIE it is particularly true of the automotive sector.

Whilst UK car manufacturing has been a huge success over the last ten years the uncertainty surrounding Brexit, access to the single market and the customs union is proving challenging for the large OEMs and their investment decisions.

Indeed these global OEMs are frequently in the press regarding their investment and financial challenges and are lobbying government to further their strategic objectives e.g. JLR announced this year that it would temporarily reduce production in response to weakening demand as a result of Brexit and tax legislation on diesel cars with 1,000 agency staff in the Midlands not being retained.

However these large automotive businesses, with strong balance sheets, access to finance and operating on a global basis, are the “tip of the manufacturing iceberg”.

Below these global OEMs (and indeed their Tier 1 suppliers) is a huge number of SMEs, typically owner managed, with limited visibility of orders, highly dependent on a small number of customers and with limited cash reserves. They are largely forgotten from the political agenda.

As the longer term prognosis of vehicle demand weakens, these SME manufacturers need to have their voices heard and receive more support from government, the banks and indeed further support from the OEMs themselves. It is essential that all stakeholders invest and support their supply chains.

Positive support for SME manufacturers will not only protect supply chain jobs but will also provide a solid foundation for post Brexit manufacturing in the UK.

“ The manufacturing, industrial and engineering sector remains a key pillar of the UK economy. Competition within the sector is fierce which in turn is driving businesses to become more efficient and innovative. When combined with the international reputation of British business, the industry remains very attractive to those outside the UK as both a trading partner and for acquisition targets. ”

Oliver Hoffman, Mazars Deal Advisory Partner, Head of M&A

02 Sector news – automotive

The MIE sector consists of a wide variety of sub sectors. In this edition we focus on the automotive and plastics & packaging sub sectors, with future editions providing insight into other key sub sectors.

The automotive sector continues to be a key driver of the UK economy and in particular exports – unlike the financial services industry the automotive sector drives the regional economies ranging from large regional production centres (such as Nissan in the North East, JLR in the Midlands and Honda in the South West) to a network of specialist manufacturers (such as McLaren, Morgan and Aston Martin). The UK is also a centre of excellence for F1 racing with six out of ten teams based in the UK. As such the sector has been a key reason why UK unemployment is currently at historically low levels (it is estimated that including component manufacturers the industry employs over 800,000 people).

'The outlook for 2018 remains uncertain'

Whilst the low value of sterling will continue to make UK exports attractive the lack of clarity over Brexit remains a key concern.

With complex pan-European supply chains common in the sector the car, engine and component manufacturers require clarity over both transitional and long term custom arrangements post Brexit.

'High quality and specialist UK automotive businesses remain attractive acquisition targets'

Despite some challenging market conditions we are still seeing strong acquisition interest from trade (both UK and overseas), private equity and other financial investors. The focus is typically on companies with strong links to the Tier 1 manufacturers and those that have the ability to both innovate and capitalise on the current political uncertainty.

We expect to see further corporate finance activity in the market during 2018; particularly within the automotive components sector as companies seek to realise efficiencies, consolidate their position with the Tier 1 manufacturers and establish a presence inside and outside of the European Union.

'UK new car registrations continue to decline'

The sector has been a major success story over the last few years but 2017 was more challenging. UK car production fell due to very weak domestic demand albeit mitigated by robust exports (assisted by the weakness of sterling). The key driver behind the weak UK market was a significant reduction in diesel car sales with consumer confidence being affected by uncertainty over diesel emissions and possible changes in government policy.

The trends of 2017 have continued into 2018 with Q1 new car registrations down 12.4% compared to the corresponding period in 2017 and with March 2018 monthly registrations down 15.7% compared to March 2017.

UK car registrations (vehicles)



The UK Packaging Manufacturing Industry has annual sales of £11 billion and employs some 85,000 people – it is a major contributor to UK GDP and a vital link in the packaging supply chain.

‘Plastics and packaging manufacturers are responding to the challenge to reduce impact on our environment’

Packaging, and in particular plastic packaging, is firmly in the spotlight following the issues highlighted by the BBC’s Blue Planet programme, such as the scale of non-degradable plastics that are within our oceans. This has prompted governments and consumers to embrace the challenge of marine conservation and the damaging environmental issues being caused by excess plastics.

A number of brands will educate the market by using clean, safe and sustainable products that distinguish them from the competition, as more food and beauty companies seek to safeguard the purity and future supply of their ocean ingredients.

Companies that fail to respond to these challenges risk reducing the value of their businesses. This could be particularly relevant in the context of a sale as both trade and financial buyers seek investments that are innovative and can differentiate themselves within their chosen markets.

‘Recycling targets are being adopted by brands globally and domestically’

The increasing use of recycled packaging is a trend amongst the major manufacturers and retailers.

Global brands such as Coca-Cola have responded to political and consumer pressure; for example Coca Cola increased its recycling targets to 50% by 2020. This trend is also being experienced in the domestic UK market with companies such as grocery retailer Iceland making an announcement that it intends to eliminate plastic packaging on all own-branded products by 2023.

With strong public opinion and increasing government legislation companies must respond more quickly to the challenge of recycling in order to protect and in some case build their brands and reputations.

‘The UK plastics and packaging market remains an attractive hunting ground for both domestic and overseas acquirers’

The market continues to see strong interest in UK companies from overseas investors looking to establish a foothold in the UK and to diversify their activities. This is highlighted by Klockner Pentoplast GMBH, one of the world’s largest providers of films for pharmaceuticals, medical devices, food, electronics and general packaging, acquiring Linpac, a UK manufacturer and supplier of plastic, paper and metal products for packaging in 2017 to create a global leader with revenues exceeding \$2 billion.

Similarly the large UK listed consolidators, such as Buznl Plc and Mondi Plc, continued to make acquisitions during 2017 in order to consolidate their positions and enhance their product offerings.

We expect to see further consolidation in the market during 2018, with appetite for well run, profitable small and mid-sized groups, offering diversification opportunities and additional routes to market.

03 Where next for the MIE sector?

Key themes and deal drivers

The MIE sector continues to be a key pillar of the UK economy. However it is facing a number of challenges arising from, inter alia, the Brexit negotiations and globalisation. The companies that will prosper in the long term will be those that respond and address the key challenges of:

Restriction in labour supply

- Slowing labour supply growth within the UK
- Reduced net inward migration
- Access to key talent and skills
- Reducing average hours resulting from an ageing population and demand for flexibility from the labour force

Cost pressures

- Increased cost pressures arising from inflation and the weakness of sterling
- Wage inflation

Growth & productivity challenges

- Slow improvements in productivity
- Low UK GDP growth compared to other G7 economies

Reduced levels of investment

- Reducing levels of investment as a result of Brexit related uncertainty
- Access to appropriate finance

Globalisation

- Increased competition from both inside and outside of the EU
- Consolidation of the supply base for large multinational manufacturers

The successful businesses will be those that navigate these challenges with a clear strategy, whilst retaining key talent, embracing innovation and developing their international presence.

From a deal perspective these businesses will continue to see:

- Strong trade interest from overseas
- High levels of interest from private equity and other financial investors
- Significant opportunities for bolt on acquisitions as the sector consolidates
- Attractive valuations

A significant proportion of the companies sold in the manufacturing sector have been bought by overseas acquirers. The depreciation of sterling since the Brexit vote has positively impacted overseas demand but it is not the only factor. M&A activity has become increasingly global over the last few years and innovative UK companies are seen as attractive investment opportunities and, relative to many other geographies, a safe and secure proposition.

04 Factors impacting MIE valuations

Valuation is a complex area and is impacted by a range of factors and sector dynamics.

We have highlighted below some key considerations:

Value enhancing factors

Key factors to justify a higher multiple

- Delivered financial performance/track record
- Growth opportunities
- Market growth rate
- Visibility of revenues and earnings
- Market position and barriers to entry
- Scalability and capacity
- Strength of ongoing management
- Specialist skills
- Technology
- Innovation

Hygiene factors

Might not add value but could depress it to the extent that there are issues

- Clarity of financial performance and underlying earnings
- Reliance on exiting shareholders
- Regulatory and legal issues
- Clarity of business structure

Specific buyer considerations

Can be the most important factor in achieving a strategic value

- Entry into new markets
- Protecting market position
- Accessing customers, capabilities, specialist skills or technology
- Potential synergies

05 Recent transactions

We have highlighted five transactions showing that the appetite for acquisitions within the sector is still strong from both trade and financial acquirers.

September
2017

German based CMR Group acquired Rofin-Sinar

CMR GmbH, a European private investor, purchased Rofin-Sinar UK. The acquisition fits into the portfolio of CMR, as CMR invests mainly in European Companies in attractive and growing industries.

Rofin-Sinar UK develops and manufactures a wide range of sealed CO2 lasers and power supplies for industrial processing and marking applications and achieved sales of £26m in its last financial year.

September
2017

Inflexion supported the buyout of Xtrac

Inflexion Private Equity supported the buyout of Xtrac Ltd, a world leader in the design and manufacture of high performance transmissions for the motorsport and automotive industry.

Xtrac supplies most of the world's top motorsport teams in both two and four-wheeled formulae across the globe, from MotoGP to Formula 1.

November
2017

Levy Brothers & Knowles acquired by NNZ – a multinational with Dutch origins

NNZ Ltd, a provider of packaging solutions for agricultural and industrial markets, acquired Levy Brothers & Knowles Ltd (trading as LBK Packaging), a provider of a full range of flexible packaging products.

April
2018

Precision Micro acquired by MBO backed by LDC

Precision Micro underwent a £22.5m buyout backed by LDC, the private equity arm of Lloyds Banking Group.

Precision Micro makes more than 50 million high-precision metal components each year for major global manufacturing customers across multiple markets.

April
2018

Elaghmore Partners acquired Priden Engineering

Priden Engineering, a £13m-turnover engineering company headquartered in Cambridgeshire, was acquired by private equity firm Elaghmore Partners.

Priden provides engineering services to the pneumatic vehicle, food industrial engineering and truck and bus sectors, as well as providing financial services for its truck and trailer customers.

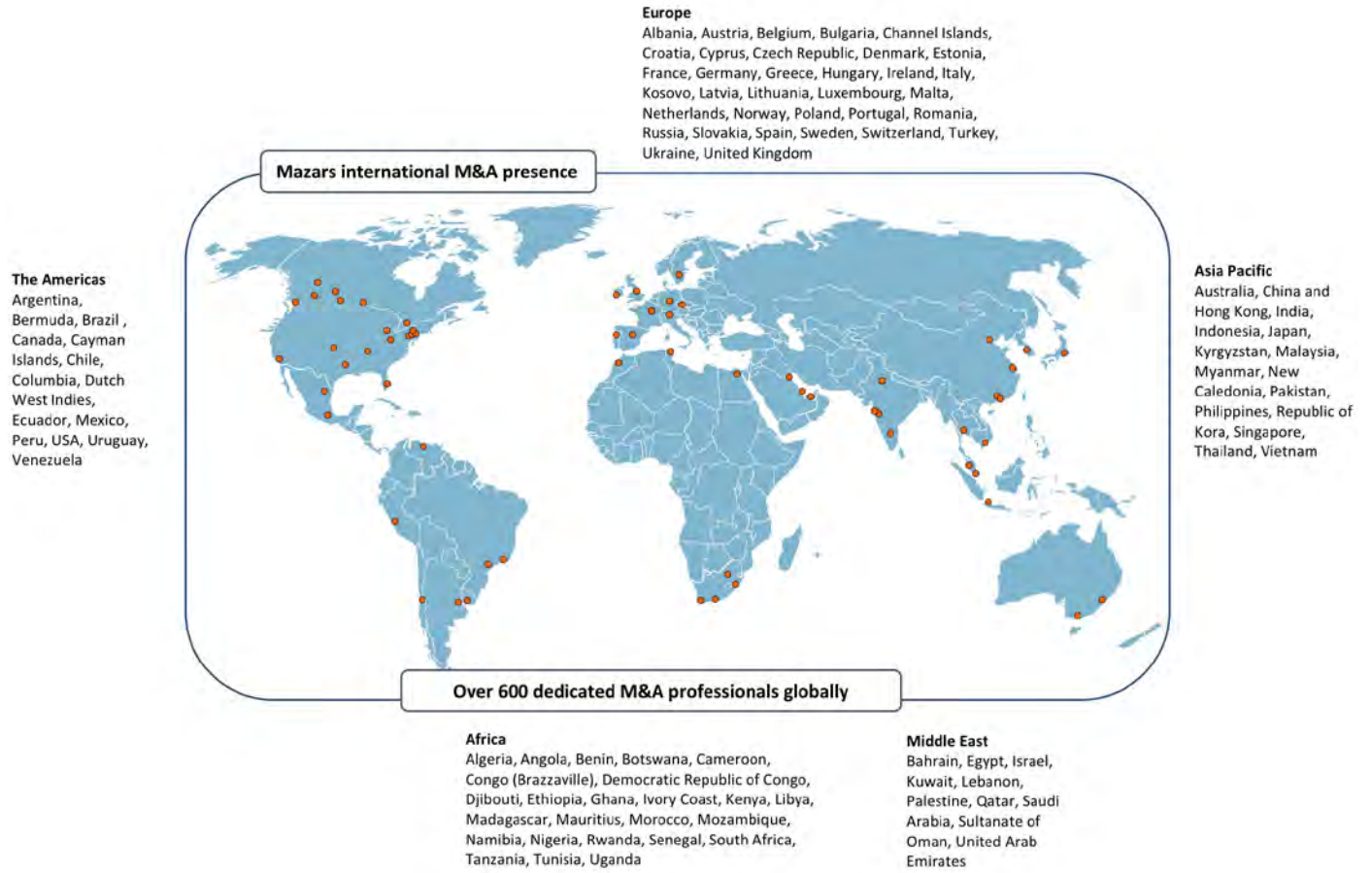
06 Mazars global reach

A genuine global reach

- One of the world's leading professional services firms operating a genuine globally integrated partnership
- 20,000 people located in 86 countries

Mazars M&A

- A global M&A advisory team with over 200 specialist staff in 34 countries
- Over £1bn+ value of UK deals completed (2017)
- 70+ employees in the UK
- A leading M&A adviser operating in the mid-market working with UK-based and international clients, providing M&A advisory services to corporates, entrepreneurs, management teams, private equity houses and banks
- Advising clients on a range of mid-market transactions including company sales, finance raising, management buy-outs, and corporate acquisitions
- Strong and active presence in Europe, North America, China, the Middle East and India





Sell-side M&A

Sale of Andaray Holdings Ltd, parent company of Cooper & Turner Ltd to the Watermill Group



Watermill Group



Sell-side M&A

Sale of Thermal Energy Ventures Ltd to the management team and YFM Equity Partners



Sell-side M&A

Sale of Clamason Industries Ltd to the management team and Connection Capital



connection
CAPITAL



Provided financial and tax due diligence to Perscitus LLP (on behalf of Jon Moulton) and Clydesdale Bank regarding the acquisition of Vertik-AL



Provided financial and tax due diligence to



regarding its investment in



Provided financial and tax due diligence to



regarding its acquisition of



Buy-side M&A

Acquisition of Bromford Industries Ltd by Liberty Hall Capital Partners



Provided financial and tax due diligence to



regarding the investment in



Sell-side M&A

Sale of a majority stake in BWB Holdings Ltd to CAF Turnkey & Engineering, subsidiary of , Construcciones y Auxiliar de Ferrocarriles, S.A.



08 MIE key contacts

Mazars is passionate about the MIE sector and our team includes experienced professionals who have completed multiple transactions in the MIE sector both in the UK and internationally. We leverage our experience with clients and on transactions to provide valuable advice and insights to our clients.



Oliver Hoffman, M&A Partner

Oliver is a specialist Mergers & Acquisitions Partner and heads our M&A team in the UK with 23 years of M&A experience.

He advises clients on transactions including company sales, acquisitions, MBOs and finance raising. His clients are privately owned, owner managed and listed businesses of all sizes, both UK based and international.

An increasing proportion of his transactions are cross-border as international corporates continue to see value and opportunity in buying UK businesses. Corporate Finance Cross Border (CFxB), the Mazars international platform which brings together over 200 M&A practitioners internationally, has helped Oliver market UK businesses on an international stage.

Oliver has advised on numerous transactions across the MIE sector over the years.



Julian Clough, MDA Partner

Julian is a Due Diligence Partner in the UK, specialising in the owner managed, private equity backed and larger corporate businesses market.

He has over 35 years experience advising a diverse range of clients on successful acquisitions, disposals, MBOs, fund raising and strategic planning. Julian has specialised in corporate finance for the last 17 years reporting to banks, corporates and private equity on over 350 deals.

He focuses on building long term and meaningful relationships, which allow him to gain a genuine understanding of his client's specific needs and objectives.

Julian has advised on transactions across the MIE sector including the Mobeus investment in ARC Specialist Engineering.

Contact us

Should you require any further information, please do not hesitate to contact:

Oliver Hoffman

M&A Partner, Head of M&A

M: +44 (0)7710 501 277

E: oliver.hoffman@mazars.co.uk

Julian Clough

MDA Partner, Due Diligence

M: +44 (0)7552 002 563

E: julian.clough@mazars.co.uk

www.mazars.co.uk

Mazars LLP cannot be held liable for the accuracy of information quoted from external sources. The contents of this newsletter does not constitute formal advice.

Mazars LLP is the UK firm of Mazars, an international advisory and accountancy organisation, and is a limited liability partnership registered in England with registered number OC308299. A list of partners' names is available for inspection at the firm's registered office, Tower Bridge House, St Katharine's Way, London E1W 1DD.

Registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

© Mazars 2018-06 36280

