

### Middle Market Transaction Volume Allowing Buyers to be Selective

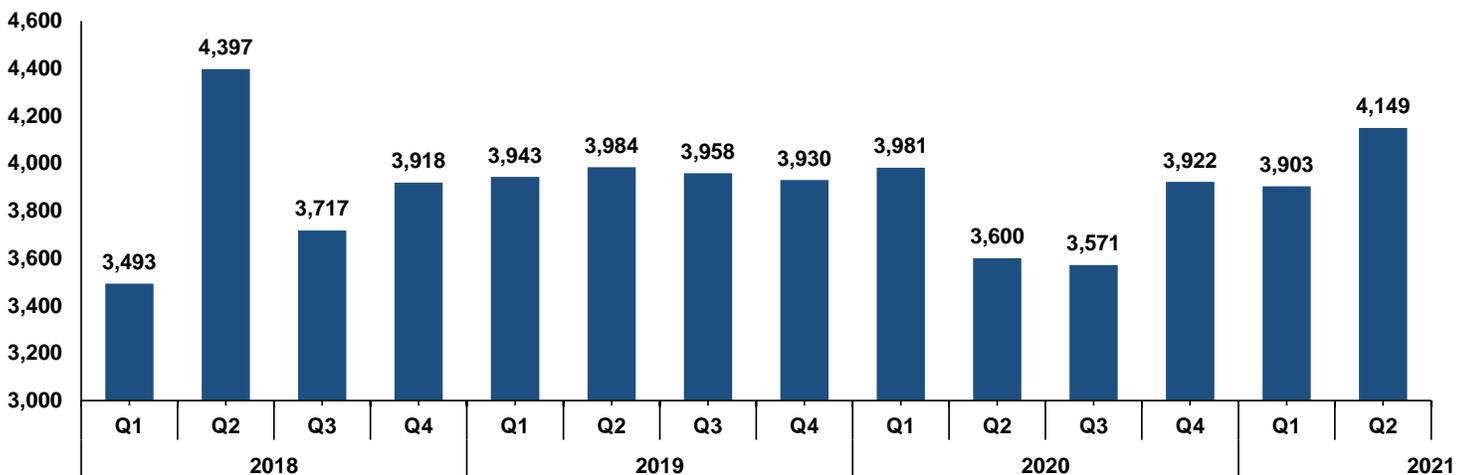
In the second quarter of 2021, the lower middle market (deals less than \$100 million in enterprise value) saw its highest level of completed M&A transactions since the second quarter of 2018. The chart below shows that in the twelve-month period ending on June 30, 2021, over 4,100 transactions were completed, compared to a low of 3,600 for the same period in 2020.

The number of businesses in the market has created intense competition for buyers' attention. In an informal survey of middle market private equity firms, buyers have commented that they are extremely busy evaluating new deals. The typical middle market fund reported seeing more than 500 deals in the last 12 months. Typically, these funds expect to complete 3-5 platform deals annually, meaning they are expecting to close approximately 1% of the deals that come across their desk. This ratio of sellers to buyers has enabled buyers to be much more

selective in the deals they choose to pursue. As one buyer remarked, "Grade A assets will always garner strong interest and in these situations, we are getting more aggressive." With respect to Grade B assets – businesses with key-man risk, customer concentration, limited differentiation and lack of historical growth – buyers are opting to be more selective, and in many instances are passing before they even execute an NDA, to focus on alternative opportunities.

With the ever-looming possibility of increased capital gains taxes, it remains to be seen if sellers will pull back, but so long as buyers are flooded with deals, they will continue to be selective on where and how they deploy capital. EdgePoint expects a return to a more favorable seller environment due to the imbalance between buyer capital seeking acquisitions and a finite number of targets.

### Rolling Twelve Month Middle Market M&A Transactions by Quarter



Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

## Notable Recently Announced and Closed Industrial Transactions

Date: 03/21/2021 (Announced)	Overview / Strategic Rationale:	Transportation
<b>Target:</b>  <b>Acquirers:</b>  <b>Key Metrics:</b> Implied Enterprise Value (\$M) \$33,655 EV/LTM EBITDA 24.0x EV/LTM Revenue 12.9x	<p>Canadian National Railway Company (CN) provides transportation of natural resources, manufactured products, and finished goods with three-coast access via rail and related transportation. CN is the only railroad connecting the East and West coast in Canada with the southern United States.</p> <ul style="list-style-type: none"> <li><i>Kansas City Southern provides domestic and international rail transportation in the United States, Mexico, and Panama</i></li> <li><i>The acquisition will enable Canada National to create an express route between the United States, Mexico, and Canada, enhancing CN's competitiveness</i></li> <li><i>The transaction will create a top-tier railway</i></li> </ul>	
<b>Date: 7/19/2021 (Closed)</b> <b>Target:</b>  <b>Acquirer:</b>  <b>Herman Miller</b> <b>Key Metrics:</b> Implied Enterprise Value (\$M) \$2,041 EV/LTM EBITDA 14.4x EV/LTM Revenue 1.8x	<p>Herman Miller, Inc manufactures, designs, and distributes modern interior furniture for the home, office, and healthcare markets.</p> <ul style="list-style-type: none"> <li><i>Knoll, Inc. manufactures, designs, and sells commercial and residential furniture and accessories</i></li> <li><i>The acquisition enables Herman Miller to have a broader portfolio, global footprint, and advanced digital capabilities</i></li> <li><i>Herman Miller will be able to increase its scale and capabilities with the addition of Knoll, making it a leader in the modern furnishings industry</i></li> </ul>	Building Products
<b>Date: 04/29/2021 (Closed)</b> <b>Target:</b>  <b>Acquirer:</b>  <b>Key Metrics:</b> Implied Enterprise Value (\$M) \$1350 EV/LTM EBITDA - EV/LTM Revenue 4.2x	<p>AMETEK manufactures electronic instruments and is a differentiated supplier for electromechanical devices.</p> <ul style="list-style-type: none"> <li><i>Abaco Systems provides commercial open architecture computing and rugged embedded electronic systems for aerospace, defense, and specialized industrial applications with market leading embedded computing solutions</i></li> <li><i>The acquisition will enable AMETEK to add and broaden its businesses in the aerospace and defense industry</i></li> <li><i>AMETEK's goal is double-digit percentage growth in earnings per share over the business cycle and a greater return on total capital</i></li> </ul>	Aerospace & Defense
<b>Date: 03/17/2021 (Closed)</b> <b>Target:</b>  Powering and Connecting Your World <b>Acquirer:</b>  Powering Business Worldwide <b>Key Metrics:</b> Implied Enterprise Value (\$M) \$1,650 EV/LTM EBITDA 12.0x EV/LTM Revenue 4.1x	<p>Eaton Corporation is a provider of power management products and services to manage electrical, hydraulic, and mechanical power more efficiently and safely.</p> <ul style="list-style-type: none"> <li><i>Tripp Lite manufactures and is a leading supplier of power quality products, including power protection and connectivity solutions for data centers, and industrial, medical, and communications markets</i></li> <li><i>The acquisition of Tripp Lite will expand Eaton's power management products and services offering.</i></li> </ul>	Electrical Equipment

Source: Company Filings, Pitchbook, CapIQ, News Releases, Investor Reports

## Recently Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
<b>AEROSPACE &amp; DEFENSE</b>						
6/8/2021	Angeles Equity Partners, LLC	Primus Metals, Inc.	Primus Metals, Inc., doing business as Primus Aero, designs and manufactures machined components and integrated assemblies for the aerospace, defense, and space industries.	\$ -	-	-
5/25/2021	Veritas Capital Fund Management, L.L.C.; Evergreen Coast Capital Corp.	Cubic Corporation	Cubic Corporation designs, integrates, and operates systems, products, and services for command, control, communications, computers, intelligence, surveillance, and reconnaissance (C4ISR) customers worldwide.	\$ 3,477	2.3x	14.7x
5/4/2021	Re:Build Manufacturing	Cutting Dynamics, Inc.	Cutting Dynamics, Inc. manufactures sub-assemblies and components primarily for the aerospace industry.	\$ -	-	-
2/16/2021	Essex Industries, Inc.	Stevens Manufacturing Company, Inc.	Stevens Manufacturing Company, Inc. manufactures products and parts for the aerospace industry.	\$ -	-	-
1/12/2021	Loar Group, Inc.	Safe Flight Instrument Corporation	Safe Flight Instrument, LLC manufactures aviation safety and flight performance systems.	\$ -	-	-
<b>BUILDING PRODUCTS</b>						
8/2/2021	Hardwoods Specialty Products US LP	Novo Building Products, LLC	Novo Building Products, LLC provides wood products processing services.	\$ 302	-	-
6/22/2021	L.A. Lumber Treating, Ltd.	Lumber pressure treating plant, related equipment and business of Fontana wood and Wholesale.	As of June 22, 2021, Lumber pressure treating plant, related equipment and business of Fontana wood and Wholesale.	\$ -	-	-
6/16/2021	Maas-Hansen Steel Corporation	Rolled Steel Products, Inc.	Rolled Steel Products, Inc. operates as a manufacturer of steel roofing and siding products for agricultural, commercial, industrial, architectural, and residential projects.	\$ -	-	-
5/3/2021	Meridian Adhesives Group LLC	Frontier Products Inc.	Frontier Products Inc. manufactures adhesives construction products.	\$ -	-	-
<b>CHEMICALS, PLASTICS, &amp; SPECIALTY MATERIALS</b>						
6/29/2021	Quadion LLC	Pawling Engineered Products Inc.	Pawling Engineered Products Inc. designs and develops elastomer products, such as elastomeric seals, gaskets, and tubes.	\$ -	-	-
5/3/2021	Patrick Industries, Inc.	Alpha Systems, LLC	Alpha Systems, LLC manufactures and distributes adhesives, sealants, cleaners, injection molding, roofing, and flooring products.	\$ -	-	-
<b>ENERGY, POWER, &amp; INFRASTRUCTURE</b>						
7/21/2021	EQT Corporation	Alta Resources, LLC	Alta Resources, LLC engages in exploration and production of shale oil and gas in North America.	\$ 3,125	-	-
5/28/2021	Hartree Partners, LP	Sprague Resources LP	Sprague Resources LP engages in the purchase, storage, distribution, and sale of refined petroleum products and natural gas in the United States and Canada.	\$ -	-	-
<b>SPECIALTY DISTRIBUTION</b>						
6/10/2021	Rotunda Capital Partners, LLC	American Equipment/Pacific Crane & Hoist/Allied Crane	American Equipment/Pacific Crane & Hoist/Allied Crane represents the combined operations of American Equipment, Inc.; Pacific Crane & Hoist, Inc.; and Allied Crane, Inc. in their sale to Rotunda Capital Partners, LLC. Pacific Crane & Hoist, Inc. engages in designing, engineering, installation, and maintenance of crane and hoist systems.	\$ -	-	-
5/27/2021	Wastequip, LLC	Wastebuilt Environmental Solutions, LLC	Wastebuilt Environmental Solutions, LLC manufactures and distributes equipment, parts, and services for the waste and recycling industry.	\$ -	-	-
2/2/2021	Wurth Industry of North America LLC	Atlantic Fasteners, Inc.	Atlantic Fasteners, Inc. manufactures and distributes standard and special fasteners.	\$ -	-	-
1/14/2021	Inverness Graham Investments, Inc.	Electron Microscopy Sciences, Inc.	Electron Microscopy Sciences, Inc. specializes in the manufacture, preparation, and distribution of chemicals, supplies, accessories, and equipment for electron and light microscopy, histology, cell biology, neuroscience, and other biological related research fields.	\$ -	-	-

Source: EdgePoint Proprietary Database, Company Filings, Pitchbook, CapIQ, News Releases

Key Metrics

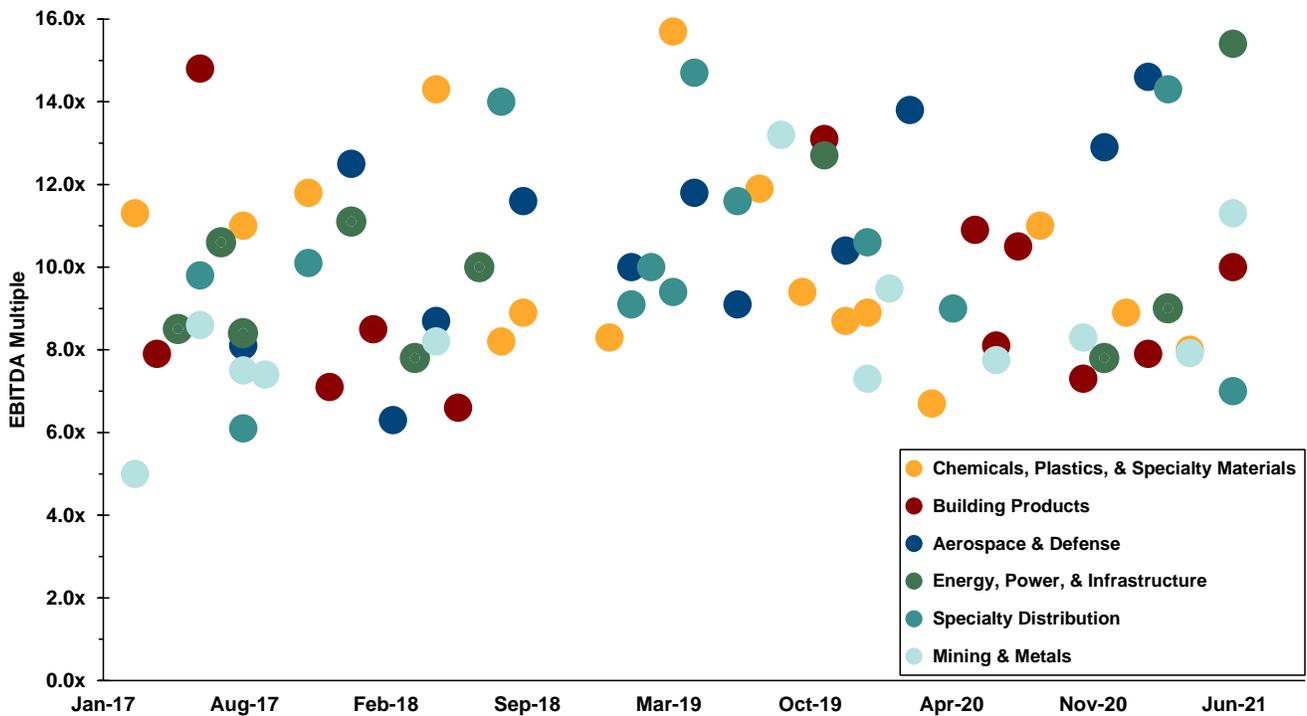
Industrial deal flow has increased significantly in the first half of 2021. Due in part to increased prices for raw materials and commodities, M&A activity for mining and metals has been very strong in 1H 2021. Industry leader Newmont Mining completed three acquisitions in the first half of the year, while Fortuna Silver completed the \$900 million acquisition of Roxgold in April.

As evidenced in the table below (Select Transaction Multiples), transaction values across key sub-sectors of the industry have not deteriorated materially despite market volatility as strategic consolidators aggressively bid for high quality acquisition

targets. The average reported EV/EBITDA multiple paid by buyers across the industrial landscape has not materially changed from 2020 levels. 1H 2021 saw an average multiple of 9.5x compared to the 2020 average of 9.4x (average transaction size \$250 million), highlighting the ongoing trend of buyers aggressively pursuing high-quality targets.

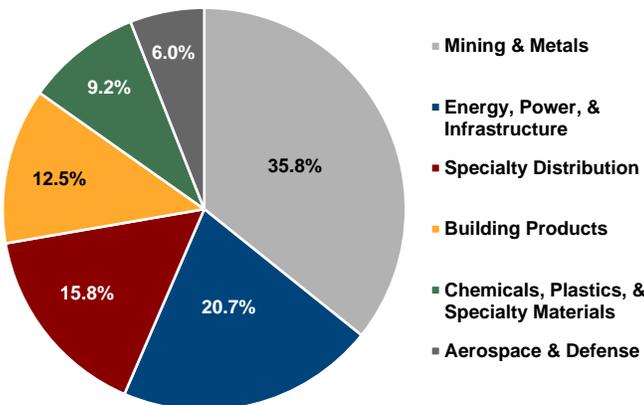
Strategic and private-equity-backed portfolio companies accounted for the majority of transaction activity during the last 12 months. These buyers view the current market as an opportunity to use M&A to achieve increasing operational efficiencies and scale through targeted acquisitions.

Select Transaction Multiples



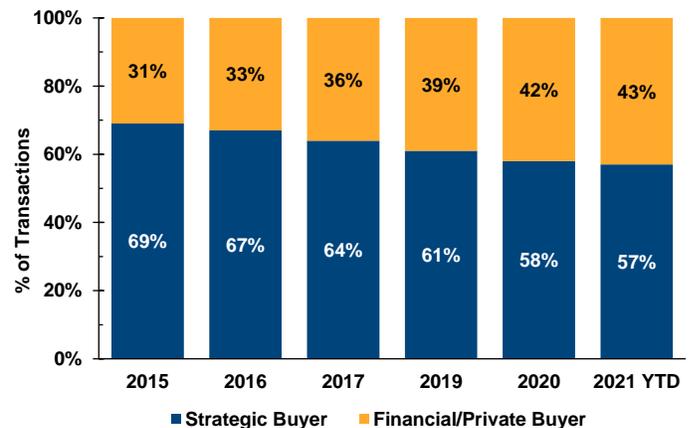
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (2021)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Share of Transactions by Buyer Type



## Sub-Sector Profile: Building Products

The building products sub-sector continues to thrive in the pandemic re-opening environment despite being impacted by a tight labor market, significant supply shortages, and material price volatility.

The lumber market in particular has been impacted by price fluctuations, creating a slight slowdown in new home construction during the second quarter. Prices for lumber and other materials are expected to normalize throughout the remainder of 2021.

Despite the many supply-side factors affecting the industry over the past few quarters, construction activity is expected to remain at elevated levels for the foreseeable future. Demand continues to be driven by historically low 30-year mortgage rates and the transition from urban to suburban living.

Demand and volatility are often drivers of investment activity, and this has proven to be the case in the building products market as of late. Deal volume has increased as sellers seek to

capitalize on higher prices and increased demand, while buyers aim to benefit from the industry's strong tailwinds and increased growth.

U.S. LBM Holdings, a distributor of specialty building materials, was one of the most active acquirers in the first half of 2021, closing six transactions between January and July. The company's transactions consisted mainly of lumber businesses, owing to the increasingly strong demand for wood products.

The increased M&A activity for the industrial building products sector is expected to continue into the second half of 2021 as the economy continues to recover from the pandemic. Deal volume is expected to remain particularly active—continuing the momentum that has generated a 49% increase in announced and completed transactions YOY.

The potential for changes to U.S. fiscal and tax policies will continue to compound the market-specific factors driving industry deal volume throughout 2021 and into 2022.

## Active Industrial Building Products Buyers

Select Strategic Buyers	Date of Investment	Acquisition Activity
	07/01/2021	<ul style="list-style-type: none"> <li>Brand-Vaughan Lumber Co., Inc.</li> </ul>
	06/22/2021	<ul style="list-style-type: none"> <li>Tanco Lumber, LLC</li> </ul>
	06/03/2021	<ul style="list-style-type: none"> <li>J.P. Hart Lumber Company</li> </ul>
	05/25/2021	<ul style="list-style-type: none"> <li>American Construction Source, LLC</li> </ul>
	02/02/2021	<ul style="list-style-type: none"> <li>Villaume Industries, Inc.</li> </ul>
	01/04/2021	<ul style="list-style-type: none"> <li>Gilcrest/Jewett Lumber Company</li> </ul>
	02/26/2021	<ul style="list-style-type: none"> <li>Louis T. Ollesheimer &amp; Son, Inc.</li> </ul>
	02/05/2021	<ul style="list-style-type: none"> <li>JB Wholesale Roofing and Building Supply, Inc.</li> </ul>
	06/29/2021	<ul style="list-style-type: none"> <li>The Wolf Organization, LLC</li> </ul>
	05/03/2021	<ul style="list-style-type: none"> <li>NWI Enterprises</li> </ul>
	07/13/2021	<ul style="list-style-type: none"> <li>Millwork 360, LLC</li> </ul>
	03/30/2021	<ul style="list-style-type: none"> <li>SSI Opportunities</li> </ul>

## Holy Guacamole: Global Chip Shortage Creates Broad Supply Chain Challenges

### The Situation

In 2020, headlines were dominated by inexplicable shortages of simple, easily produced toilet paper. More than 18 months into the global pandemic, a shortage of semi-conductor chips has impacted almost every industry across the globe. From iPhones to Escalades, manufacturers are scrambling to address unprecedented supply chain challenges.

### How Did This Happen?

The current shortage is the product of dramatic swings in demand combined with significant supply constraints. With the onset of the pandemic in the first half of 2020, global automotive demand for chips fell by 30% as automakers scaled back production. According to the Semiconductor Industry Association (SIA), chip makers diverted capacity to produce chips for healthcare and other electronics manufacturers. To the manufacturer's surprise, automotive chip demand snapped back quickly in the second half of the year (up 15% by the end of 2020). Chip producers such as Intel, Samsung and Taiwan's TSMC have worked to increase production, but they do not have the capacity to meet demand. This mismatch of supply and demand has led to the shortage in chips and significantly higher prices (upwards of 20%) for customers who ultimately receive chips.

### What is the Solution?

Per the SIA, the global chip shortage is expected to persist through at least the middle of 2022. Both GM and Ford have been forced to idle manufacturing plants at various times for their most popular cars including the Chevy Silverado and the F-150 pickups. To cope with chip shortages, automobile manufacturers have opted to de-feature cars to enable them to ship products despite the lack of chips.

Leading chip producers have announced plans for new facilities to increase production dramatically. In March 2021, Intel announced plans to build two new chip facilities in Arizona for a total investment of \$20 billion. These facilities will do little to solve the short-term issues, but they will help to alleviate long term supply constraints.

Unlike 2020's toilet paper shortage, there is no short-term solution for this messy situation. It will take time for supply and demand to adjust to this new reality.

### Select Quotes

*"I do think we'll continue to see impact this year and it will have a tail into next year."*

*- Mary Barra, CEO, General Motors*

*"The semiconductor industry has worked to ramp up production to meet the steep jump in demand, but this supply-demand imbalance cannot be remedied with the 'flip of a switch.'"*

*- Falan Yinug, Director,  
Industry Statistics and Economic Policy,  
Semiconductor Industry Association*

*"It's not like you can just build a plant in 30 days. It takes roughly about 2.5 years."*

*- Patrick Penfield, Professor of Supply Chain  
Management, Syracuse University*



***Car Dealership with record low inventory***

*Justin Sullivan, Getty Images*

## What We are Reading:

### **Here's why the United States may have a housing boom for the next 5 years**

Historically low housing inventory is driving a recent surge in home prices. According to Case Shiller's 20 city average of home prices, values have increased about 17% compared to last year. The housing market last saw YOY price increases at these levels during the 2002-2005 housing boom. The ongoing lack of inventory is continuing to drive the seller's market, causing a decreasing trend in homebuyer sentiment over the last several months. Experts suggest that the United States will need to boost construction of homes by about 50% for the residential real estate market to normalize.

### **Senate passes \$1 trillion bipartisan infrastructure bill, sending key part of Biden's economic agenda to the House**

In early August, the Senate passed a \$1 trillion bipartisan infrastructure bill, which includes funding for infrastructure, utilities, transportation, climate change, vehicle safety, energy efficiency, natural resources, broadband, and various other categories. Transportation, broadband, and utilities are central topics, and they received \$550 million of the total budget. The legislation is meant to address each of these systemic issues while creating jobs for millions of Americans over the next decade. The proposal is still subject to debate and revision by the House of Representatives, where the Democrats have assembled a \$3.5 trillion proposal. Congress will likely reach an agreement and take a final vote in late September prior to its fall recess.

### **How much carbon comes from a liter of Coke? Companies grapple with climate change math**

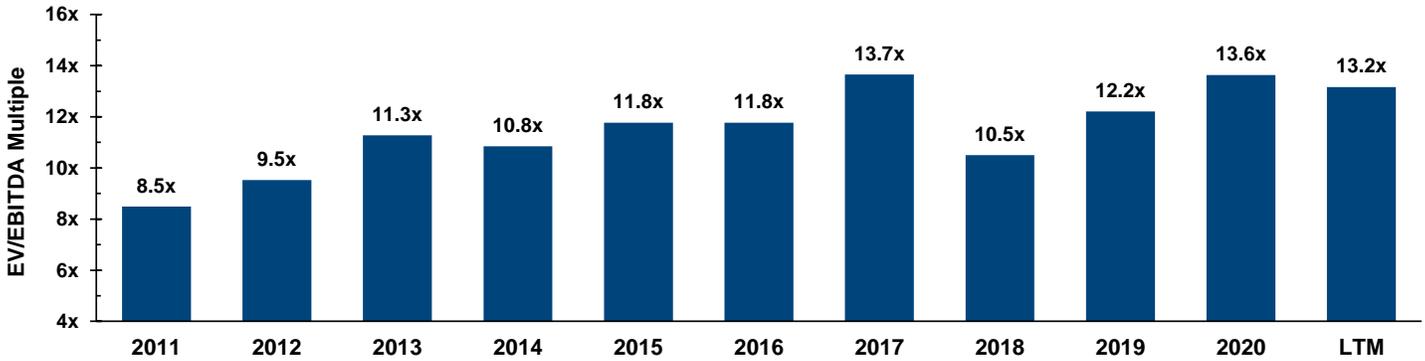
Investors, regulators, and consumers are encouraging corporations to be more environmentally conscious and asking them to take action while increasing transparency to curb climate change. In particular, companies are dealing with increasing pressure to disclose the volumes of greenhouse gases they release into the atmosphere. The SEC is working on a climate-disclosure regulation which is intended to encourage public companies to eliminate greenhouse gas emissions. A report from the United Nations in mid-August stated that global warming is being driven by the emission of greenhouse gases from human activities. The regulation aims to introduce rules relating to emissions resulting from a company's operations, from its energy consumption, and from the usage of the company's products.

### **Pace of U.S. inflation steadies at 13-year high in July**

June saw the largest rise in the consumer price index since 2008, a 5.4% increase over the prior year. The trend continued into July as companies continued passing increased supply costs on to their customers. The Federal Reserve appears unalarmed and believes these costs will eventually be reduced as supply-chain disruption and material shortages subside. Others have voiced concern that elevated prices and higher levels of inflation are here to stay. As the economy continues to recover and pandemic-driven subsidies end the Fed will need to decide how to address these inflationary pressures, whether through tapering its market-making activities or via higher interest rates.

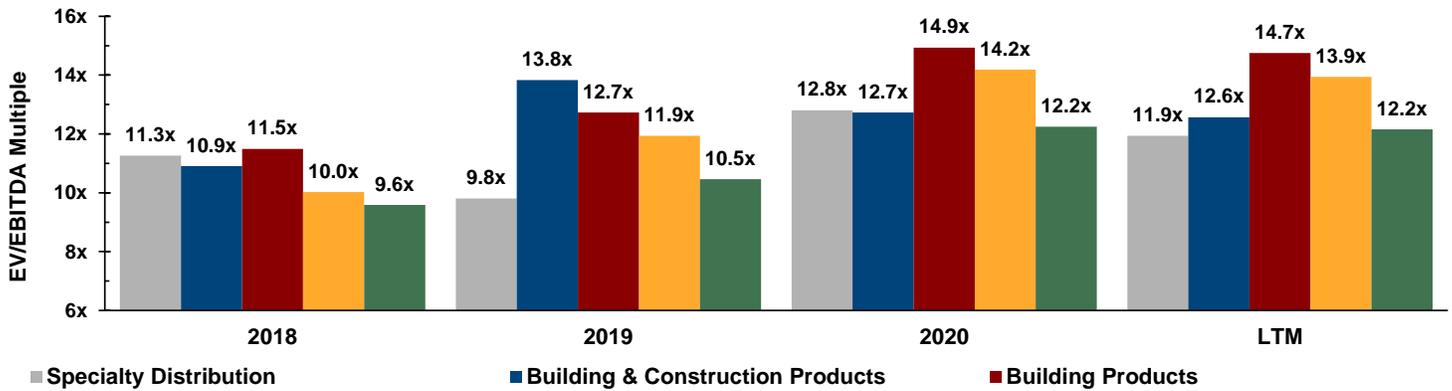
Public Company Comparisons Trading Multiples

Industrial Public Comparables Composite: EV/EBITDA Multiples



Source: CapIQ, public trading data as of July 30, 2021

Industrial Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of July 30, 2021

Representative EdgePoint Industrial Transactions

**EIGHTH DAY SOUND**  
has been acquired by  
**CLAIR**

**HUGHES-PRIMEAU**  
has been acquired by  
an Undisclosed Buyer

**MASTER DISTRIBUTION**  
has been acquired by  
**AFC Industries**  
a Portfolio Company of  
**INCLINE**  
EQUITY PARTNERS

**QVI QUALITY VALVE INC.**  
has been acquired by  
**PFINGSTEN**

**ICC**  
International Chemical Corp.  
has been acquired by  
**DuBois**

**DRIVEKORE**  
Tools, Supplies, & Safety For The Professional  
has been acquired by  
**COLONY**  
EQUITY PARTNERS

*For more information and insight please contact the EdgePoint Industrials team:*

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EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

