Will M&A gain more traction in 2024?

M&A trends in industrial manufacturing

2023

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Introduction

M&A deals move to the front burner

M&A activity in industrial manufacturing simmered at a slower pace in 2023, constrained by high interest rates, difficulties in accessing capital, and uncertainty about the future of the economy. However, signs that those dealmaking impediments are less likely to be an obstacle in 2024 began to emerge in some IM subsectors during Q4'23.

Dealmaking in IM continued its decline in 2023, falling 12.5 percent to 8,171 deals—this deal volume is only slightly higher than what was experienced during COVID-19 in 2020. The geopolitical environment seems to be more than a counter balance to reducing inflation and stabilizing interest rates. Clearly, not what anyone would call "robust."

In contrast to the downbeat numbers, however, some rays of optimism appear to be returning to the market. When KPMG asked 200 leading C-suite executives about their M&A expectations, 65 percent said they expect to see growth in dealmaking in 2024. In addition, industrial manufacturing was one of the top three areas the executives pinpointed as targets for transactions.[1]

The survey results are consistent with the trend we are seeing at the Fed. The December indication that rates were unlikely to be raised and will likely be reduced in 2024 by three 25 basis point cuts should certainly stimulate activity.[2] KPMG economists anticipate the first cuts could come as early as May.

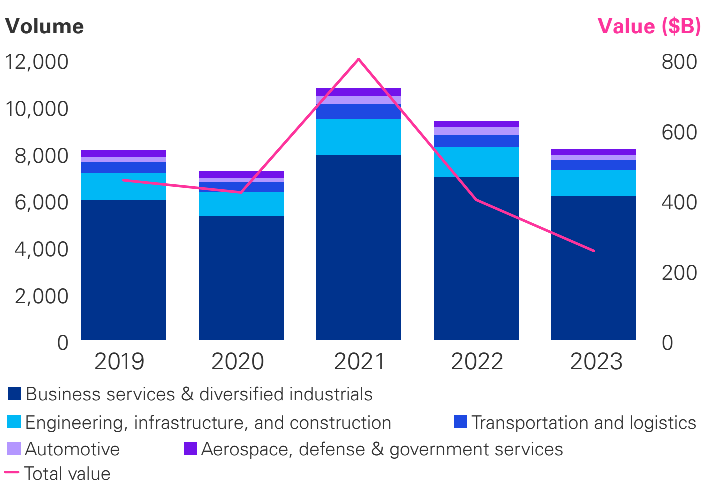
In our practice, we are supporting more companies contemplating separations than we have seen at one time in the past eight quarters. Clearly, not all of these deals will transact, but the activity is very encouraging. Some of our most active clients have told us to expect a busy Q1'24 as they are evaluating both buying and selling actions.

Todd Dubner
Principal
Deal Advisory & Strategy Leader
Industrial Manufacturing

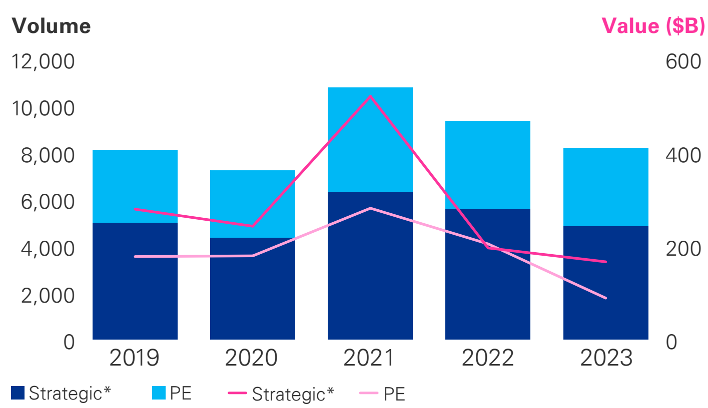
2023 highlights

8,171 deals ▼ **-12.5%** decrease YoY | **$249.9** billion deal value ▼ **-33.8%** decrease YoY

IM deal activity by sector



IM deal activity by type



Includes SPAC deal activity

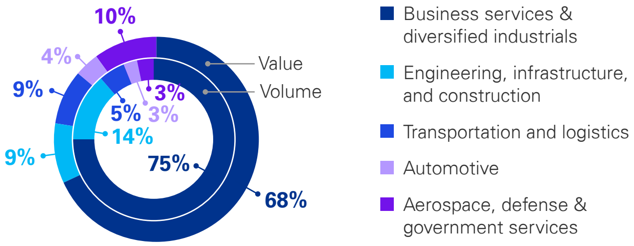
[1] KPMG Annual Senior Executive M&A Survey, December 2023

[2] "Fed Signals Rate Cuts in 2024, New York Times, December 13, 2023

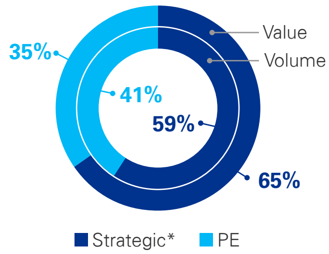
2023 deal mix

Outer ring represents value, inner ring represents volume

Sector mix



PE/Strategic mix



*Includes SPAC deal activity

Top strategic deals in 2023

Acquirer	Target	Rationale	Value (billions)
Smurfit Kappa Group Plc	WestRock Company	To create a global leader in sustainable packaging amidst tough macroeconomic conditions	$11.2
Xylem Inc.	Evoqua Water Technologies Corp.	Create a global platform to address water scarcity and resilience	$7.5
BAE Systems, Inc.	Ball Aerospace & Technologies Corp.	Add a high-quality, fast-growing technology-focused business with significant capabilities to its portfolio	$5.6
Honeywell International Inc.	Global Access Solutions	Boost Honeywell's building technologies business	$5.0
Concentrix Corp.	Webhelp SAS	Expand beyond North America, add clients in ast-growing markets	$4.8

Top PE deals in 2023

Acquirer	Target	Rationale	Value (billions)
Abu Dhabi Investment Authority, Apollo Global Management	Univar Solutions	Accelerate the specialty chemicals and ingredients distribution firm's long-term strategy	$8.1
Stonepeak	Textainer Group Holdings	To take the company private and focus on its growth	$5.3
Bain Capital	Guidehouse	To expand its portfolio with a leading government and business consulting firm	$1.7
Apollo Global Management, Irenic Capital Management	Arconic	Upgrade key machine centers and technology to expand long-term goals	$1.2

Deal data has been sourced from Capital IQ, Pitchbook, and KPMG analysis and excludes asset purchases/minority purchases. The values and volumes data cited are for U.S. deals announced between 1/1/2023 and 12/31/2023. Deal values are only presented based on publicly available deal data and are not exhaustive. Previously published statistics may be restated to incorporate new data and/or any changes.

By the numbers

Automotive

Changing footprints

In a down market, companies often think about expanding the reach of their core business or shrinking their footprint by selling off non-core businesses.

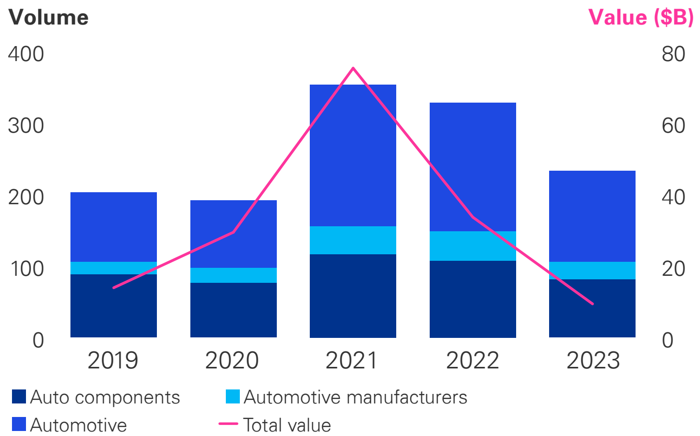
In the biggest deal of the year, LKQ, which makes specialty parts for auto repairs and accessories, expanded into the Canadian market by acquiring Quebec-based Uni-Select for $2.2 billion. Uni-Select is a major player in both the Canadian and U.S. markets for aftermarket auto repair products, giving LKQ an expanded global presence. In a similar vein, oil firm BP Products expanded its reach by announcing the acquisition of TravelCenters of America, a truck stop operator, for $1.3 billion.

The second biggest deal of the year was a major divestiture. German railroad Deutsche Bahn said it was selling its British subsidiary, Arriva, for nearly $1.7 billion, to I Squared Capital, a PE firm focused on infrastructure investments. Arriva's business is mostly focused on British buses (and other modes of transportation apart from trains) at a time when Deutsche Bahn is under fire for poor train service in its home market. Deutsche Bahn said it would use the proceeds of the deal to bolster its German rail business.

2023 highlights

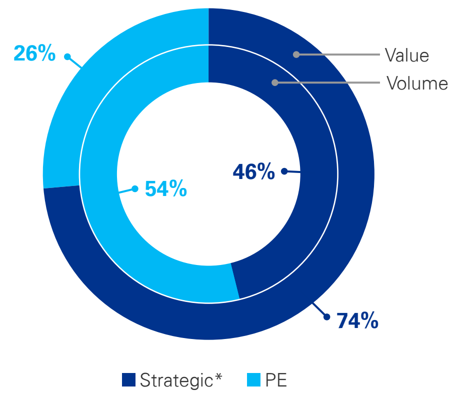
233 deals ▼ **-29%** decrease YoY | **$9.4** billion deal value ▼ **-72%** decrease YoY

Automotive deal activity by subsector



2023 automotive PE/strategic mix

Outer ring represents value, inner ring represents volume



*Includes SPAC deal activity

Top automotive deals

Acquirer	Target	Rationale	Value (billions)
LKQ Corporation	Uni-Select Inc.	Expand global presence, bolster Quebec operations	$2.2
I Squared Capital	Arriva	To expand and electrify I Squared's fleet	$1.7
BP Products North America Inc.	TravelCenters of America Inc.	Complement existing business, offer seamless nationwide service, enable expansion	$1.3

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By the numbers

Engineering, infrastructure, and construction

Focusing on the core business

With the number of deals in infrastructure and construction segment on the decline, firms focused on their core business by acquiring other firms to bolster their global reach.

The largest deal of the year was the announced acquisition of Argos USA, a cement producer, by Summit Materials, a producer of cement, concrete and asphalt, for $3.2 billion. The combination will create the fourth largest cement platform in the U.S. In another materials deal, CRH Americas materials, a subsidiary of Irish materials firm CRH, acquired the south Texas cement subsidiary of Martin Marietta for $2.1 billion.

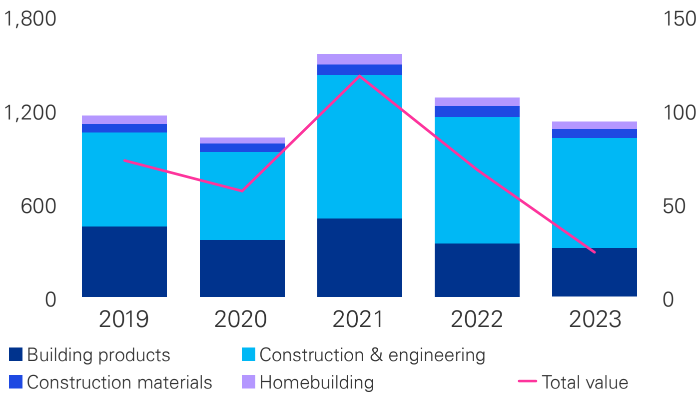
Holcim, a roofing systems operator, expanded its footprint by acquiring Duro-Last, a producer of commercial roofing, for $1.3 billion.

In infrastructure deals, PE firm KKR, through its Highway Infrastructure Trust, announced the acquisition of 12 Indian highways from PNC Infratech for $1.1 billion.

2023 highlights

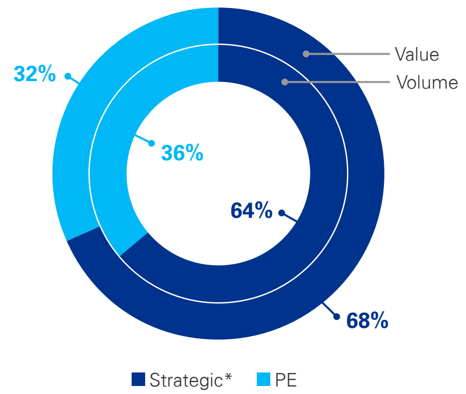
1,121 deals ▼ **-12.1%** decrease YoY | **$23.7** billion deal value ▼ **-65.1%** decrease YoY

EIC deal activity by subsector



2023 EIC PE/strategic mix

Outer ring represents value. Inner ring represents volume



*Includes SPAC deal activity

Top EIC deals

Acquirer	Target	Rationale	Value (billions)
Summit Materials, Inc.	Argos USA Corporation	Enhance portfolio through material-led strategy for long-term growth and sustainability	$3.2
CRH Americas Materials, Inc	Martin Marietta South Texas Cement, LLC/Martin Marietta's South Texas ready-mix concrete operations	Optimize portfolio, align with SOAR 2025 objectives, and use proceeds for growth and shareholder returns	$2.1
Holcim Ltd	Duro-Last, Inc.	Complement offering in North American market, advance leadership in sustainability	$1.3
Kohlberg Kravis Roberts	PNC Infratech (Road Assets)	Enhance presence in India, enhance Highways infrastructure Trust's (a KKR platform company) product portfolio	$1.1

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By the numbers

PE firms return

The quarter was marked by PE firms getting back into the market to make purchases after a long period on the sidelines.

Forward Air, a trucking firm owned by PE firms Ridgemont Equity Partners and EVE Partners, registered the largest deal of the year by announcing the acquisition of Omni Logistics, a provider of international and domestic logistics, for $3.1 billion . The deal, which took place after the price was renegotiated, will create an integrated freight company.

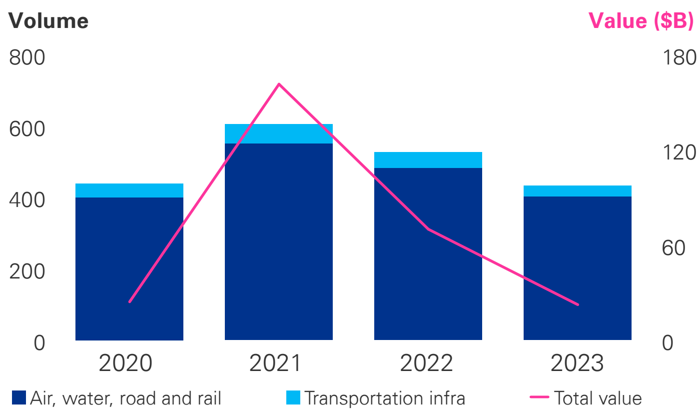
In the ship maintenance sector, PE firm Lone Star Capital acquired Titan Acquisition Holdings from Carlyle and Stellex Capital management for $2 billion. Titan includes Portland Oregon-based Vigor Industrial, Norfolk, Virginia-based MHI Holdings, and San Diego-based Continental Maritime, three firms that offer ship maintenance and repair facilities to such clients as the U.S. Navy.

2023 highlights

432 deals ▼ **-18%** decrease YoY

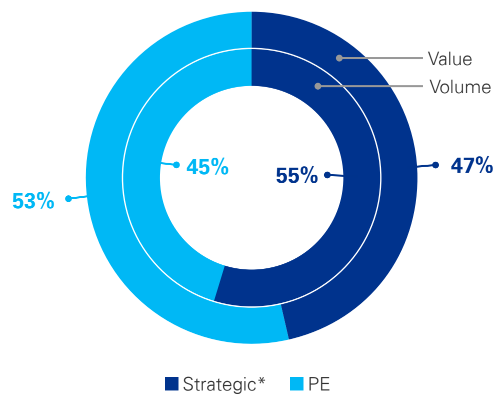
$22.3 billion deal value ▼ **-68.1%** decrease YoY

TLD deal activity by subsector



2023 TLD PE/strategic mix

Outer ring represents value. Inner ring represents volume



*Includes SPAC deal activity

Top TLD deals

Acquirer	Target	Rationale	Value (billions)
Forward Air Corporation	Omni Logistics, LLC	Provide customers with multimodal solutions for complex and high-service freight requirements	$3.2
Lone Star Funds	Vigor Industrial	To enhance MHI's (platform company) portfolio in ship repairing services	$2.0
EQT	Lazer Logistics	Leverage EQT's expertise in fleet electrification and digital acceleration initiatives expertise in fleet electrification and digital acceleration initiatives	$1.5

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Deep dive

Joint ventures—fueling the energy transition amid uncertainty

Partnerships in industrial markets have soared since 2016, sustaining activity levels hovering around 1,000 joint venture and alliance formations per year. Despite a slowdown in traditional M&A activity into Q4'23, partnerships have provided a safe haven for sustained traction in industry-transforming deals.

Amid economic uncertainty throughout 2023, established industrial players pivoted to JVs and alliances to continue progressing in the energy transition. They did so to leverage optionality and flexibility in sharing risks, costs, and rewards inherent to JVs. In addition, energy transition JVs may assist with capitalizing on government incentives programs such as the IRA and IIJA acts or satisfy ESG goals and comply with regulations. Some companies are using JVs as a form of divestiture, so really should ultimately be considered M&A activity.

From a sub-sector perspective in 2023, transformational JVs have advanced the energy transition agenda in automotive, engineering and construction, and transportation and logistics sectors. These energy transition initiatives—which are capital intensive and may be overshadowed by a longer payback—come with more uncertainty about their return on investment. However, they have enabled IM companies to hedge on risk while forging ahead with EV development, battery and hydrogen production, refueling and charging infrastructure, and supporting logistics networks. While there are many examples of recent JV announcements across each of these growth areas, a few noteworthy partnerships exemplify the trend:

- **Securing battery supply** A key example is the JV between Cummins, Daimler Truck, and Paccar, each partnering to accelerate and localize battery cell production and supply chain in the U.S. The JV's goal is to manufacture battery cells for commercial EVs and industrial applications, with investment expected to be around $2–3 billion for the 21-gigawatt hour factory.
- **Building-out the recharging infrastructure** One of the marquee JVs leading the charge is the partnership between General Motors, BMW Group, Mercedes-Benz, Honda, Hyundai, Kia, and Stellantis to address the limited EV charging infrastructure in North America. With the goal of installing around 30,000 fast charging stations by 2030, these automotive giants are collaborating and pooling resources to ensure convenient access for EV owners, which helps to alleviate range anxiety and increase EV adoption.
- **Developing zero-emission vehicles** Among several recent high-profile partnerships to produce EVs is the partnership between Sony and Honda to form Afeela, the electric vehicle brand. This partnership capitalizes on the respective expertise of these two companies in technology and automotive industries to accelerate entry into the competitive EV space.

Yet even with their obvious benefits in these choppy waters, JVs and alliances are prone to falling apart, or better yet not even reaching the first milestone of signing the deal. Our experience assisting companies with JV formation and stand-up has helped enables us to spot common deal-breakers, such as lack of JV formation experience, too much focus on a single partner in the early stages of formation, balancing partner control and decision rights, alignment on exit terms, cultural differences, operational complexity, and agreement on share ratio and profit sharing. Our experience has also helped us identify key success factors in JVs—read our recent paper, "Success in Joint Ventures" for more information, or please reach out to us directly.[3]

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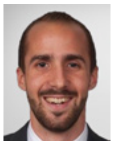

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[3] Success in Joint Ventures

Outlook

Encouraging hints of a thaw

Corporate investors and private equity firms have been saying for the last two years that their M&A plans have been curtailed until they can get clarity about the future of the economy and interest rates begin to decrease. Both of those goals now seem attainable in early 2024, shifting the outlook in favor of an increase in transactions.

While the timing is still unclear, there is a consensus that the Federal Reserve has decided to begin cutting interest rates this year, with possibly three 25 basis point cuts by year end. KPMG economists believe the first cut could come as soon as May, which could prime the pump for things like residential and non-residential construction investment. As a consequence of falling mortgage rates, for example, U.S. homebuilder sentiment rose for the first time in five months in December because of an increase in prospective buyer traffic.[4]

The fed pivot also means a potentially lower cost of capital for PE investors looking to deploy more than $2 trillion in dry powder, which they have been hoarding while waiting for rates to begin to decline. PE executives told KPMG in a survey that a 50 basis point reduction in interest rates would spur them to increase their M&A activity. In fact, two-thirds of corporate and PE executives expect to make more deals in 2024 than in 2023.[5]

With air travel expected to surpass pre-pandemic levels in 2024, according to the International Air transport Association,[6] demand for planes and maintenance, repairs, and operational services is increasing and may lead to more consolidation in that sector. On the defense side, a 5 percent increase in the U.S. defense budget may help the Pentagon utilize more Silicon Valley tech expertise, leading traditional defense contractors to expand their footprint with acquisitions.

Another factor that will be driving M&A in IM is the more than $2 trillion in new federal subsidies for select industries, including semiconductors, electric vehicles, and infrastructure. Total construction spending on manufacturing reached $176 billion in the first 11 months of 2023, 71 percent higher in the same period a year earlier.[7] In addition, the Biden Administration has earmarked hundreds of billions in federal funds to improve transit systems, airports and passenger rail infrastructure.[8] Those funds are beginning to be dispersed by states and will impact a wide range of companies that provide construction and transportation systems.

Key considerations as we look ahead

While pursuing M&A in a possible economy soft landing, IM dealmakers should consider the following:

1 Interest rate cuts

How far does the Fed have to cut rates to make acquisitions more attractive?

2 Business transformation

Are the necessary components in place for companies to embark on an overall business transformation?

3 Technology benefits

To what extent would acquisitions of technology firms outside your normal core business help rationalize major M&A programs?

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[4] Michael Sasso, "US Homebuilder Sentiment Rises for First Time in Five Months," Bloomberg, December 18, 2023
[5] KPMG Annual Senior Executive M&A Survey, December 2023
[6] "Airlines Set to Earn 2.7% Net Profit Margin on Record Revenues in 2024," IATA.org, December 6, 2023
[7] "Value of Private Construction Put in Place," census.gov, January 2, 2024
[8] "Fact Sheet: The Bipartisan Infrastructure Deal," whitehouse.gov, November 2021

How KPMG can help

We help our clients overcome deal obstacles by approaching value delivery in an integrated way, leveraging our depth in the IM industry, delivering tools-led insights backed by data, and full M&A capabilities throughout the deal lifecycle.

With an IM specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

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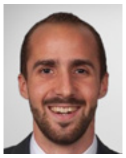

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