

WHAT'S NEXT AFTER A RECORD-SETTING YEAR FOR MERGERS AND ACQUISITIONS?

By David Holthaus

We're at the close of one of the most active years in merger and acquisition activity in recent memory, as several factors converged to make it a record-setting year for deals.

Low interest rates, a rising stock market, and the availability of capital all contributed to the hot market of 2021, says David Ruf, head of the chemicals and materials investment banking practice at KeyBanc Capital Markets. The biggest factor was COVID-disrupted 2020, he says. The deep uncertainty caused by the global pandemic led to business being put on hold.

"People were saying, 'I don't know if the sky is falling,' or 'I don't know if we still have a world to continue to live in,'" he says. "If I buy something in May 2020, does the world even exist by August?"

Ruf's practice generally focuses on deals under \$2 billion. Heading into 2021, deal activity that had been suppressed due to the pandemic uncertainty opened up as the economy recovered and again showed signs of stability.

"A lot of things that were scheduled to be sold in 2020 never got sold or didn't come to the market in the first place," he says. "As a result, everything that wasn't nailed down and everything that wasn't for sale or didn't come to the market in 2020 was suddenly hitting the market in the second quarter of 2021."

Pitchbook Data, the Seattle-based company that researches the venture capital, private equity, and merger and acquisition markets, reported that dealmaking through the third quarter of 2021 already broke 2019's record for annual deal value, at more than \$787 billion.

"The U.S. private equity industry is storming through 2021, smashing records as investors take advantage of a bullish climate, and remain undeterred by the possibility of inflation and interest rate hikes," the company wrote in an October analysis.

James Bauerle is a cofounder of Renaissance Partners, a Pittsburgh-based investment banking and business advisory firm. His firm's focus is on middle-market firms—ranging from a few million in sales to

\$500 million—and on the lower middle market—ranging from \$1 million to \$150 million. He recently assisted in the sale of the Paul Wissmach Glass Co., a 117-year-old family-owned business based in West Virginia.

He also has witnessed the frothy market for dealmaking. "It's an excellent time to be a seller if you have a good operating business. The multiples that people are paying are as good as they've been in my career of 40 years," he says.



Austria-based Stoelzle Glass Group purchased a Monaca, Pa. glass factory from the Oneida Group's Anchor Hocking Glass Co. in August 2021. Credit: Anchor Hocking Glass Co.

In the life cycle of nearly every business there comes a time when the owners reach a crossroads that may demand fundamental decisions: Do we expand or stay the course? Is it time to buy or time to sell? Who's next in line to run the business?

These questions not only need to address the state of the business but also need to be answered in the context of the marketplace, the economy, and the prospects for the future.

Deciding whether and when to sell or buy should be an ongoing topic among business management, Bauerle says.

"People who have companies should be thinking proactively about what their strategy is and whether they should be buying, selling, expanding, or not expanding," he says. "That should be a constant top-of-mind point."

There are many reasons buyers may be looking around. One is to enter new markets, as acquiring can be a quick way to do that if the business to be purchased has built a reliable customer base.

In August, Austria-based Stoelzle Glass Group announced it had purchased a glass factory in Pennsylvania from Anchor Hocking Glass Co. for an undisclosed amount. It is Stoelzle's first glass plant in the U.S., and its first outside of Europe. The acquisition, along with further investment and modernization, will promote the company's goal of "becoming the leading supplier for high-quality glass containers in the United States and North America," the company says in a news release.

Berlin Packaging, the Milan, Italy-based supplier of glass packaging, has expanded around the world through acquisition. In August, it announced the purchase of The Juvasa Group, a family-owned packaging firm based in Spain. The acquisition "continues our efforts to expand our presence in Europe, the Middle East, and Africa," says Bill Hayes, Berlin Packaging's global CEO and president, in a press release.

It was Berlin's sixth acquisition in the Europe, Middle East, and Africa region in 2021 alone, and its sixteenth since 2016.

In February, the company announced the acquisition of Sodis-Uhart, a family-owned glass packaging concern in southern France. It was the company's eleventh acquisition in Europe since 2016.

"Expanding our presence in Europe remains a critical objective for us in 2021," Hayes said at the time. "Targeted acquisitions continue to be an important way for us to execute on our strategic growth plans for Europe."

Kyocera Corp., the global company that supplies components for the auto and electronics industries, and many others, is constantly

scanning the horizon for partnerships, some of which may eventually become acquisitions. "Kyocera is absolutely interested in new technologies and new companies," says Mark Wolf, vice president of Kyocera's Fine Ceramics Group.

Kyocera prefers to work with smaller companies as suppliers or possibly in joint ventures first before considering an acquisition.

"We really like to work with companies first to get to know them before we do anything else," Wolf says. That way, company leaders can determine whether a tie-up will gel before making a bigger investment.

In January, Kyocera completed the acquisition of SLD Laser, a California-based tech company that was started in 2013 by Nobel laureate in physics Shuji Nakamura. SLD had commercialized gallium nitride-based laser light sources that can be used in the production of fine ceramics and in other applications.

"We know innovation is happening across the world," Wolf says. "People are going to come up with ideas and exploit those, and Kyocera is interested in those ideas."

Other recent Kyocera acquisitions include its purchase in 2019 of H.C. Starck Ceramics, an advanced ceramics manufacturer and sales company based in Selb, Germany. That deal gave Kyocera its first ceramic manufacturing facility in Europe, and it brought with it a new processing technology that enabled the production of high-rigidity, large, complex-shaped materials.

Later that year, Kyocera expanded its presence in Europe with the acquisition of the advanced ceramics business of Friatec GmbH, a 156-year-old business based in Mannheim, Germany.

Private equity firms are often looking to buy or invest in companies with leading-edge technology and superior products, and they have the capital to do that. "There's more than \$2 trillion of private equity that's looking for a home and

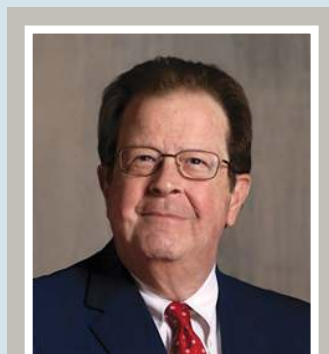
good deals," Bauerle says.

Artemis Capital Partners, a Boston-based private equity firm, bought Superior Technical Ceramics in 2018, citing STC's technical advantages in materials and processes, its engineering expertise, and its customer-centric culture, "the hallmarks of scalable growth," the firm said when it announced the deal. Vermont-based STC was founded in 1898 and provides advanced ceramic products used in a range of applications.

Sometimes a family-owned company will transition after a generational event. Mo-Sci Corp. was founded in 1985 by Delbert Day to



David Ruf



James Bauerle



ETS Technologies' first product, a synthetic skin substitute.
Credit: ETS Technologies

develop and supply specialty glass and ceramic products for specific market applications. The company grew into a leading supplier to the medical device industry with glass microspheres, fibers, and powders. It also provides sealing glass and test services for the aerospace, automotive, and electronics industries.

The company was led by Ted Day, Delbert's son, until he passed away in September 2020 at the age of 59. A year later, Mo-Sci announced it would be acquired by the Heraeus Group, a large portfolio company based in Hanau, Germany. Heraeus is a global Fortune 500 company whose roots date to a family pharmacy started in the 17th century. Today, the Heraeus Group includes businesses in the environmental, electronics, health, and industrial applications sectors.

The acquisition also included ETS Technology Holdings, a company founded in 2012 to develop and commercialize a novel, borate-based bioactive glass technology platform for wound care.

"Mo-Sci and Heraeus have been in contact for many years, and prior to his passing, Ted identified Heraeus as a preferred partner to take Mo-Sci and ETS to the next stage of development," says Kimberly Day, the owner of both companies, in a press release.

With 2021 merger and acquisition activity setting records, what does that mean for 2022?

KeyBanc's Ruf expects dealmaking to continue to be robust, but perhaps drop off slightly following this year's torrid market. "I would expect a slightly lower volume of M&A [mergers and acquisitions] in Q1, just because we had everything being pushed through in 2021," he says.

He expects capital to continue to be readily available for borrowing, and interest rates to remain low.

The big question, he says, is what will happen to tax rates if a big spending package is passed by Congress. The tax rates on capital gains could go up significantly, he explains, which might make prospective sellers wait. Or conversely, it could make them jump into the market before any new rates take effect.

There are several tailwinds that could help propel a robust market in 2022, according to a September report from UBS Global Wealth Management. They are

- Low interest rates and government stimulus packages that are still working their way through the economy,
- Record levels of capital available in both the private and public markets,
- Pent-up supply and demand from both sellers and buyers,
- The feeling that the worst may be behind us as it relates to the pandemic, and
- Possibly speeding up exit planning due to uncertainty related to capital gains and corporate taxes.

"Companies that performed well over the COVID period are trading at attractive valuation levels and are in demand by buyers," says Alan Felder of UBS Investment Bank.

Companies planning to sell should review their operations and get them in shape before going out on the market, Bauerle says. "It's no different than selling your house," he says. "You want a house that people look at and say that's a house that I'd like to live in and I'll pay fair value for."

Steps to take could include reviewing senior management and making sure the right people are in the right roles, and creating a succession plan. Bauerle recommended finding an independent set of eyes to evaluate the business to determine what value could be expected in a sale, and what needs to be done to tune up the enterprise, both operationally and financially.

Ruf advises sellers to prepare well and prepare deeply because momentum matters in a deal. If the seller needs to gather information while the deal is in process, a delay could raise doubts, he says. "Invariably, everybody's going to wonder why the process slowed down, what problem is occurring," he says.

Crafting the story of the business and describing what sets it apart from others in the field is critical, he says. That includes describing the quality of the customer base, the product differentiation, intellectual property, and the speed and quality of service.

"We spend a lot of time with management in advance of doing anything in the capital markets, months and months of gathering data, refining the story, putting that into a single package that makes sense," he says.

Decades of working with small- to midsized manufacturers like the Paul Wissmach Glass Co., whose colored glass is shipped from Paden City, W.Va., to customers around the globe, has shown Bauerle what their story is: "It's people who know how to do what they do, and go about it without a lot of fanfare, and whose products are valued all over the world."

And that's something to take to the bank any day. ▀