



# Metals & Specialty Manufacturing

INDUSTRY UPDATE | 2023 IN REVIEW





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- Key Insights and Observations
- Macroeconomic Update
- Public Market Valuation Trends
- Public Market Year-Over-Year Changes
- 2023 M&A Highlights
- Metals and Specialty Manufacturing Practice Overview

# Insights and Observations

Stout is pleased to present our Metals and Specialty Manufacturing Industry Update for 2023. Through our team's ongoing dialogue with top industry participants and analysis of subsector performance, we have outlined key takeaways below:

2023 saw a decline in overall M&A activity by about 15% from 2022 levels driven by:

- ❖ Uncertainty in the economy and the Fed's ability to deliver a soft landing
- ❖ Rising inflation that put pressure on material costs, impacting manufacturers' profitability
- ❖ Higher interest rates and lender tightening that moved some financial buyers to the sidelines
- ❖ A relative lack of exits by financial sponsors

While the Metals and Specialty Manufacturing sector also saw a decline in deal activity, year-over-year transaction value within the sector increased, driven by larger transformative deals in the aerospace and steel industries. These included Nippon Steel's \$14.9 billion bid for U. S. Steel, Apollo's \$8.1 billion take-private of Univar Solutions, and BAE Systems' \$5.6 billion pending acquisition of Ball Corporation's aerospace business, as well as A.M. Castle's merger with MiddleGround Capital-backed Banner Industries. Other notable deals in the sector included Apollo's acquisition of Arconic for \$5.2 billion and Heico's acquisition of Wencor Group for \$2.1 billion.



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## Insights and Observations (cont.)

A few key drivers for acquisitions included:

- ❖ Federal policy endorsement on infrastructure spending and the passing of the Bipartisan Infrastructure Law (BIL)
- ❖ A renewed focus on domestic manufacturing in the United States
- ❖ Emphasis from manufacturers on the importance of low carbon metals and green manufacturing
- ❖ U.S. import tariffs on metals that are expected to continue for the foreseeable future and which lead foreign producers to invest in U.S. domestic production in certain sectors
- ❖ Strong backlog of commercial aircraft orders globally and the need to bolster supply chains to support expected increased production
- ❖ Strong expected defense spending, particularly in stainless steel, specialty materials, and high-temperature alloys, to support marine, missile, hypersonic weapon, and satellite applications
- ❖ Expected growth in EV usage, particularly in charging infrastructure as well as production and recyclability of EV-related metals and materials
- ❖ Strong expected growth in supply chain management, risk management, and industrial services, particularly in metals and metal production

As strategic players in the sector continue to seek growth and diversification opportunities, financial buyers recalibrate their return models in the current higher interest rate environment, and an abundance of dry powder is ready to be deployed, we believe M&A activity in specific segments of the industry will begin to pick up steam in 2024.



# Macroeconomic Update

## RECENT MACRO PERFORMANCE

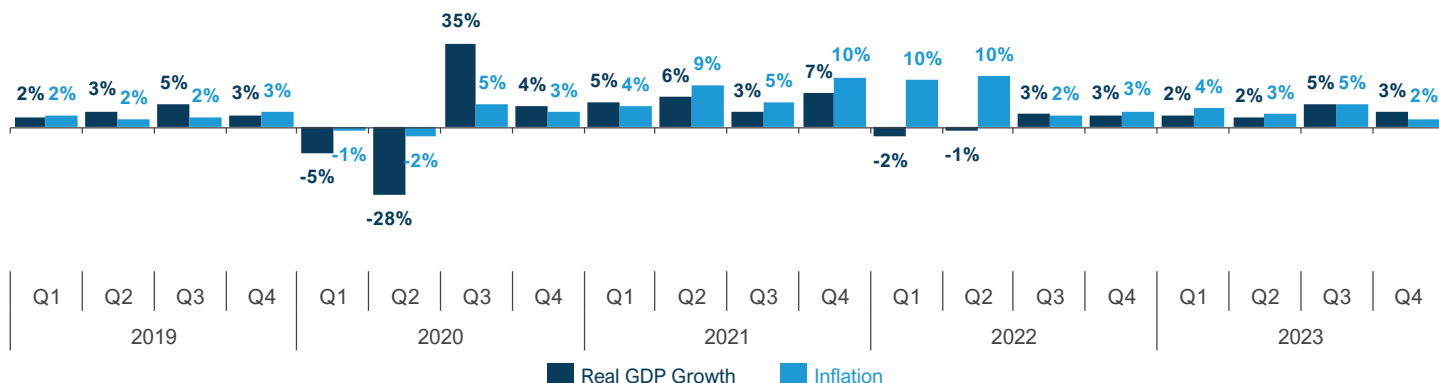
Despite significant market uncertainty, the U.S. economy has exhibited resilience, with major macroeconomic indicators stabilizing. The unemployment rate remains low at 3.7%, with consumer confidence around long-term averages. Real U.S. GDP grew 3% in Q4, marking a notable recovery from previous downturns in early 2022.

Inflation has shown signs of cooling, largely due to the Federal Reserve consistently raising interest rates throughout 2023, resulting in a federal funds rate of 5.3%. This strategy, aimed at economic stabilization, is having an impact as equity markets have rebounded. The Fed is signaling that it plans to begin cutting rates by a total of 75 basis points in 2024.

While the labor market remains relatively tight, wage growth has slowed as material and other input costs have moderated, providing relief for U.S. manufacturers. On the demand side, market participants experienced slower than expected demand in 2023, yet optimism prevails for a more robust 2024. In the broader landscape, reshoring continues to be a focus given ongoing geopolitical concerns.

## Real GDP Growth and Inflation

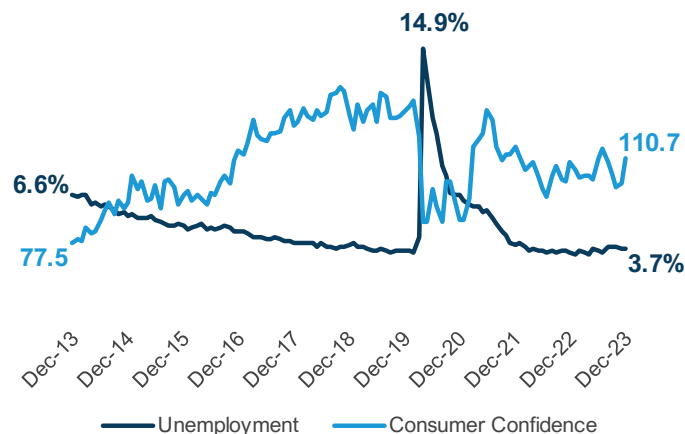
(Annualized quarterly percentage change)



Source: FRED Economic Data; Bureau of Economic Analysis

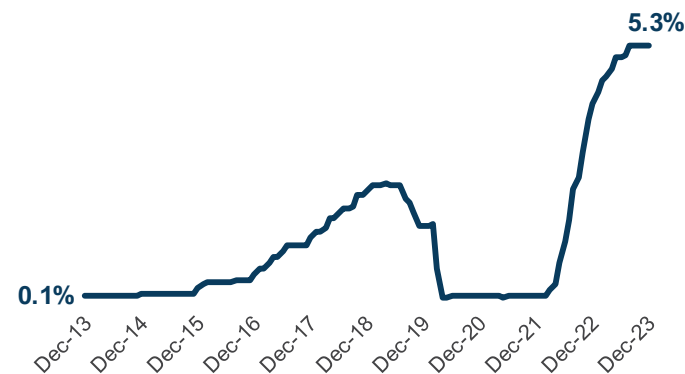
## Unemployment and Consumer Confidence

(Percentage of unemployed persons in the U.S. labor force)  
(Index of consumer sentiment; long-term average = 100)



Source: Bureau of Labor Statistics; University of Michigan Consumer Confidence Report

## Federal Funds Effective Rate



Source: Board of Governors of the Federal Reserve System

# Macroeconomic Update

## METAL PRICES

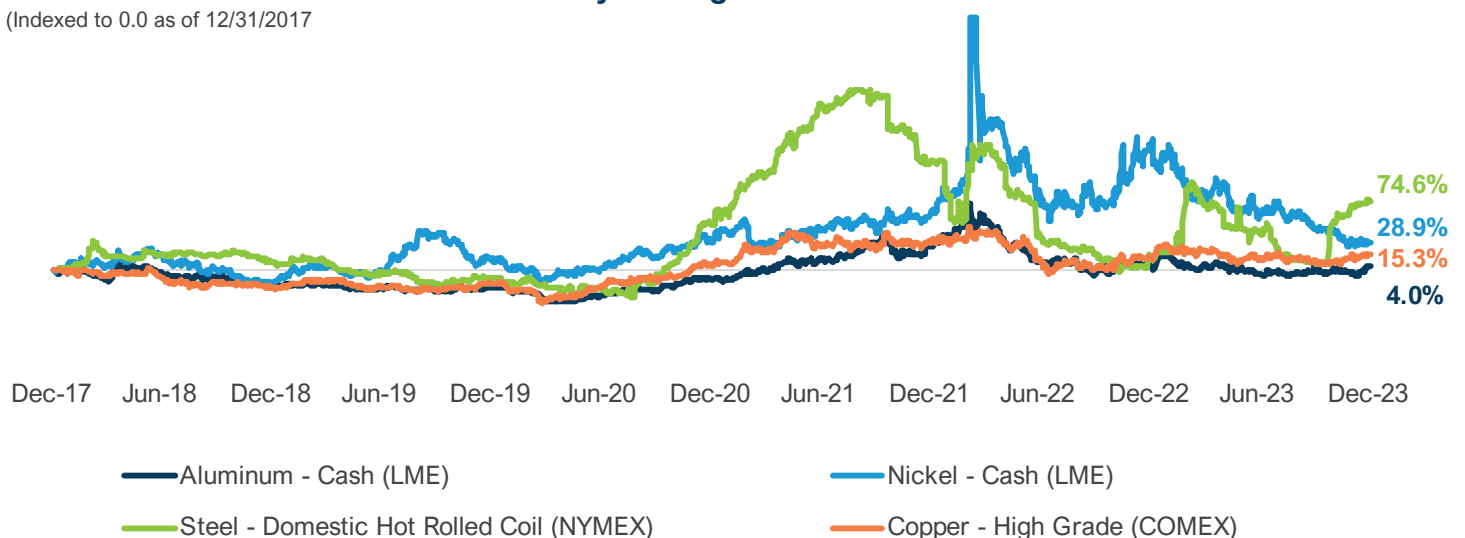
In 2023, non-precious metals and minerals prices fell by 9.6%, driven by decreased demand in advanced economies and China as well as supply disruptions in some critical metals. Destocking also continued to be a theme in 2023, with end demand on average contracting 1% in advanced economies. This trend is expected to carry into 2024 and expected to alleviate by the middle of the year.

Even amid dampened demand, there was a recovery in metal supply. Supply disruptions in 2022 gave way to some bright spots in 2023, driven by lower energy prices and the resolution of temporary production and supply bottlenecks. From Aug-22 to Apr-23, coal prices declined 52%, while natural gas prices in Europe and the U.S. fell by 81% and 75%, respectively. These favorable energy costs facilitated the resumption of operations at most aluminum and zinc smelters in Europe. Additionally, new supply capacity came online this year for several metals, including aluminum in China, copper in South America, and nickel in China and Indonesia.

Metal prices are expected to decline in 2024, with the World Bank forecasting a 4.8% drop in 2024, followed by a 6.2% rebound expected in 2025 as demand levels out and prices normalize. The most significant decreases in 2024 are expected to be in nickel and copper, with drops of 10.5% and 4.9%, respectively, with aluminum, iron ore, lead, tin, and zinc also expected to decline. The price outlook is subject to several upside risks, including a potential strong recovery in China's real estate sector and supply disruptions at mines caused by adverse weather, technical operating issues, labor disputes, and power/water constraints. Trade restrictions and policy interventions, such as sanctions on Russia and China's nearing aluminum production cap, could further impact supply. In the long term, however, the shift toward renewable energy could significantly boost demand for metals like lithium, copper, and nickel.

### Indexed Non-Precious Metal Commodity Pricing

(Indexed to 0.0 as of 12/31/2017)



Source: CapIQ

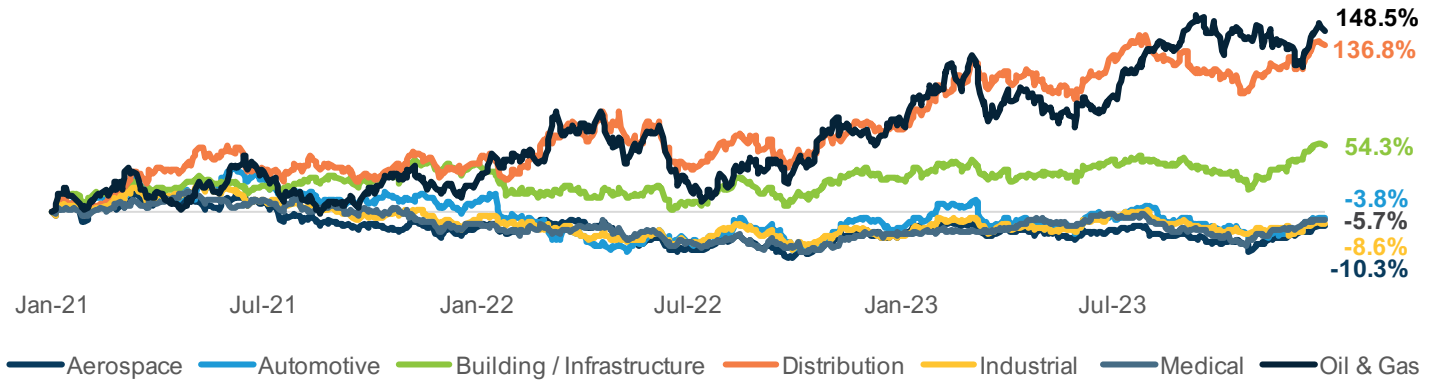
# Public Metal Company Valuation Trends

## INDUSTRY INDEXES

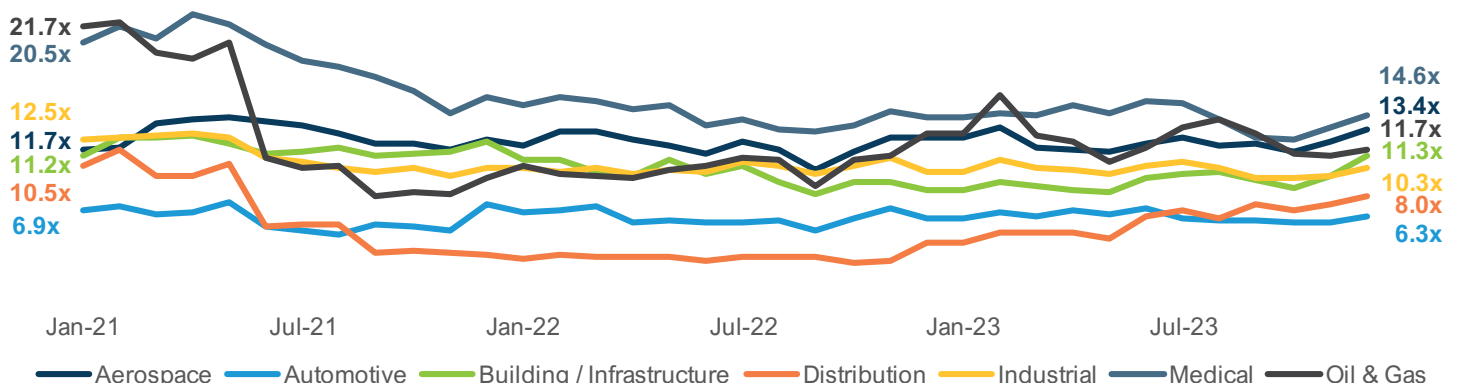


## 3-YEAR HISTORICAL STOCK PRICE PERFORMANCE

(Indexed to 0.0 as of 12/31/20)



## 3-YEAR HISTORICAL ENTERPRISE VALUE / LTM EBITDA MULTIPLES

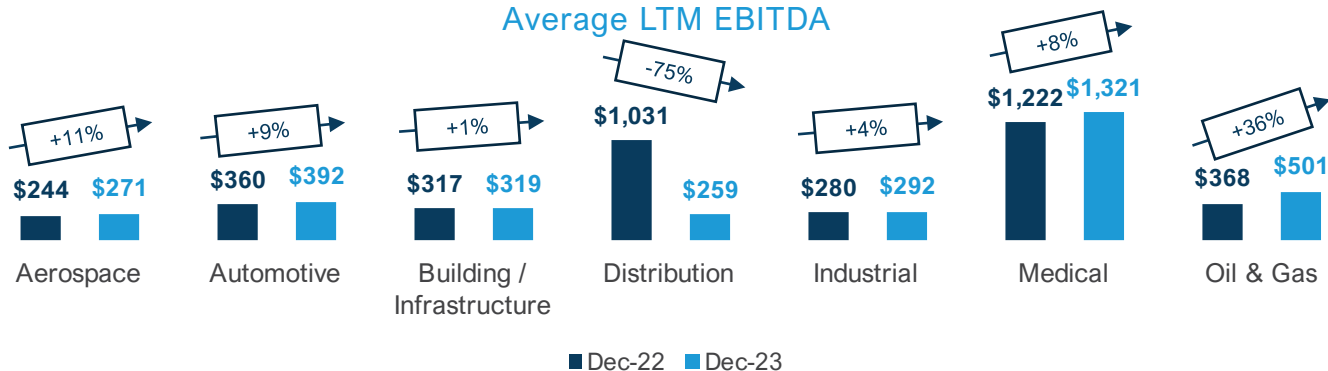


Source: S&P Capital IQ and Stout Proprietary Database; excludes extraordinary items

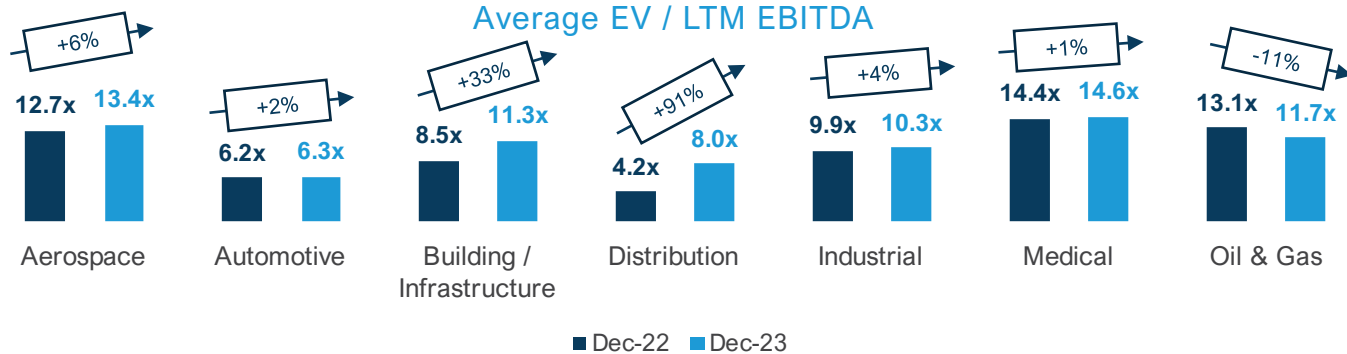
# Public Metal Company Year-Over-Year Changes

Average EV/LTM EBITDA increased year over year for Aerospace, Building / Infrastructure, and Distribution subsectors, while decreasing in Auto, Industrial, Medical, and Oil & Gas. Although valuation metrics were mixed in performance depending on subsector, average EBITDA performance increased across all sectors (excluding distribution), while margins remained flat, suggesting a reset of valuation to more realistic levels in the post zero interest rate policy (ZIRP) environment.

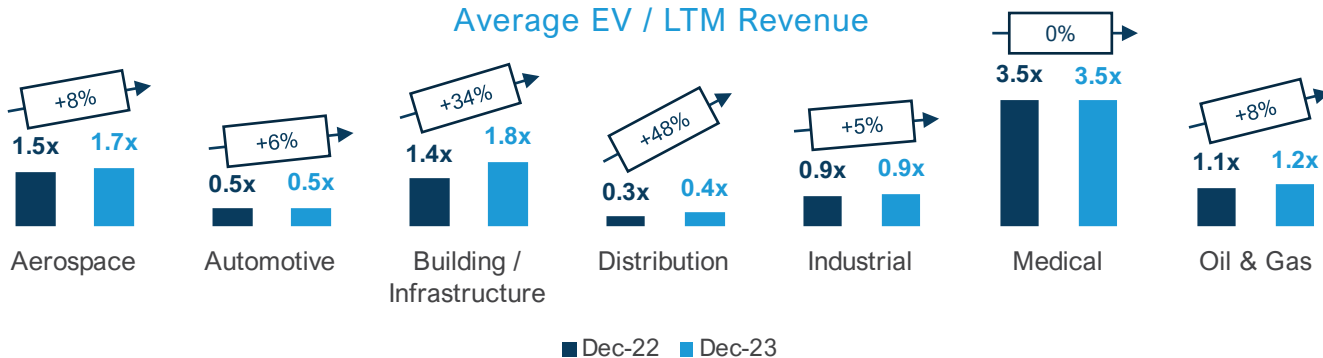
## Average LTM EBITDA



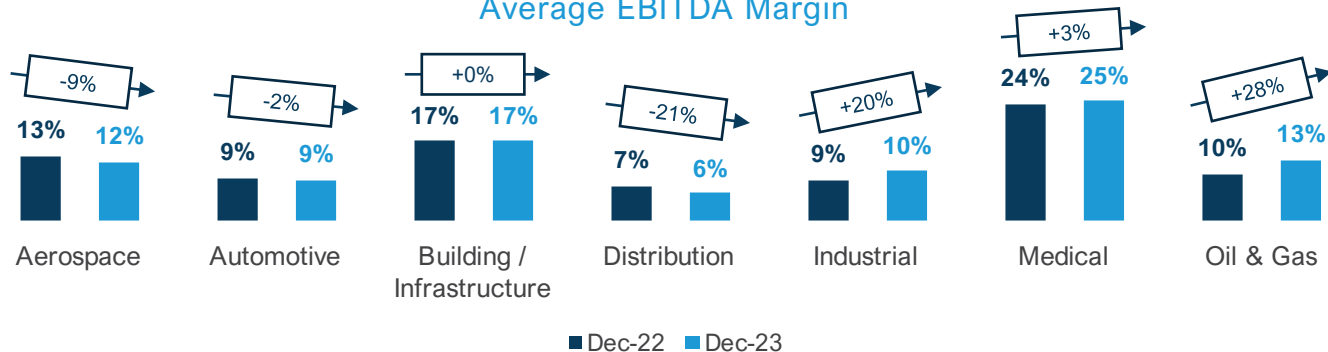
## Average EV / LTM EBITDA



## Average EV / LTM Revenue



## Average EBITDA Margin



Source: S&P Capital IQ and Stout Proprietary Database; excludes extraordinary items

# Transaction Highlights

## METALS & SPECIALTY MANUFACTURING

| Date   | Target (Ownership)                        | Subsector      | Acquiror (Ownership)                  |
|--------|---|----------------|---------------------------------------|
| Dec-23 | Stark Metal Sales                         | Distribution   | Pennsylvania Steel Company            |
| Nov-23 | BP Metals                                 | Automotive     | Generation Growth Capital             |
| Sep-23 | Custom Machines                           | Packaging      | DRT Holdings (Mill Rock Capital)      |
| Sep-23 | Exact                                     | Industrial     | Chancey Metals (Indigo South Capital) |
| Aug-23 | Alliance Supply                           | Industrial     | Russel Metals                         |
| Aug-23 | Levitated Metals Holdings                 | Industrial     | Mervis Industries                     |
| Jul-23 | EDSCO Fasteners (MiddleGround Capital)    | Infrastructure | Commercial Metals Company             |
| Jun-23 | Bedford Recycling                         | Automotive     | Metal Source                          |
| Jun-23 | A.M. Castle & Co.                         | Industrial     | MiddleGround Capital                  |
| Jun-23 | Cumberland Diversified Metals             | Distribution   | Slate Capital Group                   |
| Jun-23 | Wayne Manufacturing (North River Capital) | Automotive     | Hoffman Family of Companies           |
| May-23 | American Metal Supply Co.                 | Distribution   | MacArthur                             |
| May-23 | Arconic Corporation                       | Industrial     | Apollo Global Management              |
| Mar-23 | Heavy Metal Recyclers                     | Distribution   | Allmetal Recycling                    |
| Jan-23 | Cleveland Metals Exchange                 | Industrial     | Mill Steel Company                    |

Source: S&P Capital IQ and Stout Proprietary Database



# Stout Metals Practice Overview

## ABOUT

For more than 30 years, Stout has exclusively focused on serving the unique M&A transaction advisory needs of middle-market clients. Our firm is a trusted advisor to leading organizations due to our deep industry knowledge, senior-level attention, process expertise, and relentless focus on delivering unparalleled results.

The Stout Metals & Specialty Manufacturing team has deep experience and expertise across numerous industry subsectors, processes, and end markets.

## FOCUS AREAS

### Subsector Coverage

- Aerospace & Defense
- Automotive
- Building & Construction
- Industrial
- Medical
- Oil & Gas

### Process Expertise


- Tool & Die
- Machining
- Extrusion
- Powder Metals
- Forging
- Coating / Finishing
- Casting
- Roll Forming
- Stamping / Blanking
- Cold Drawing / Forming



## FOR MORE INFORMATION




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## SELECT TRANSACTIONS


 **MAJESTIC STEEL USA**  
completed a refinancing with a syndicate consisting of

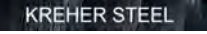
FINANCIAL ADVISOR


  
a portfolio company of


  
has been acquired by




SELL-SIDE ADVISOR

  
a subsidiary of

  
has been acquired by





SELL-SIDE ADVISOR


  
has been acquired by



SELL-SIDE ADVISOR

  
a portfolio company of

  
has been acquired by



SELL-SIDE ADVISOR

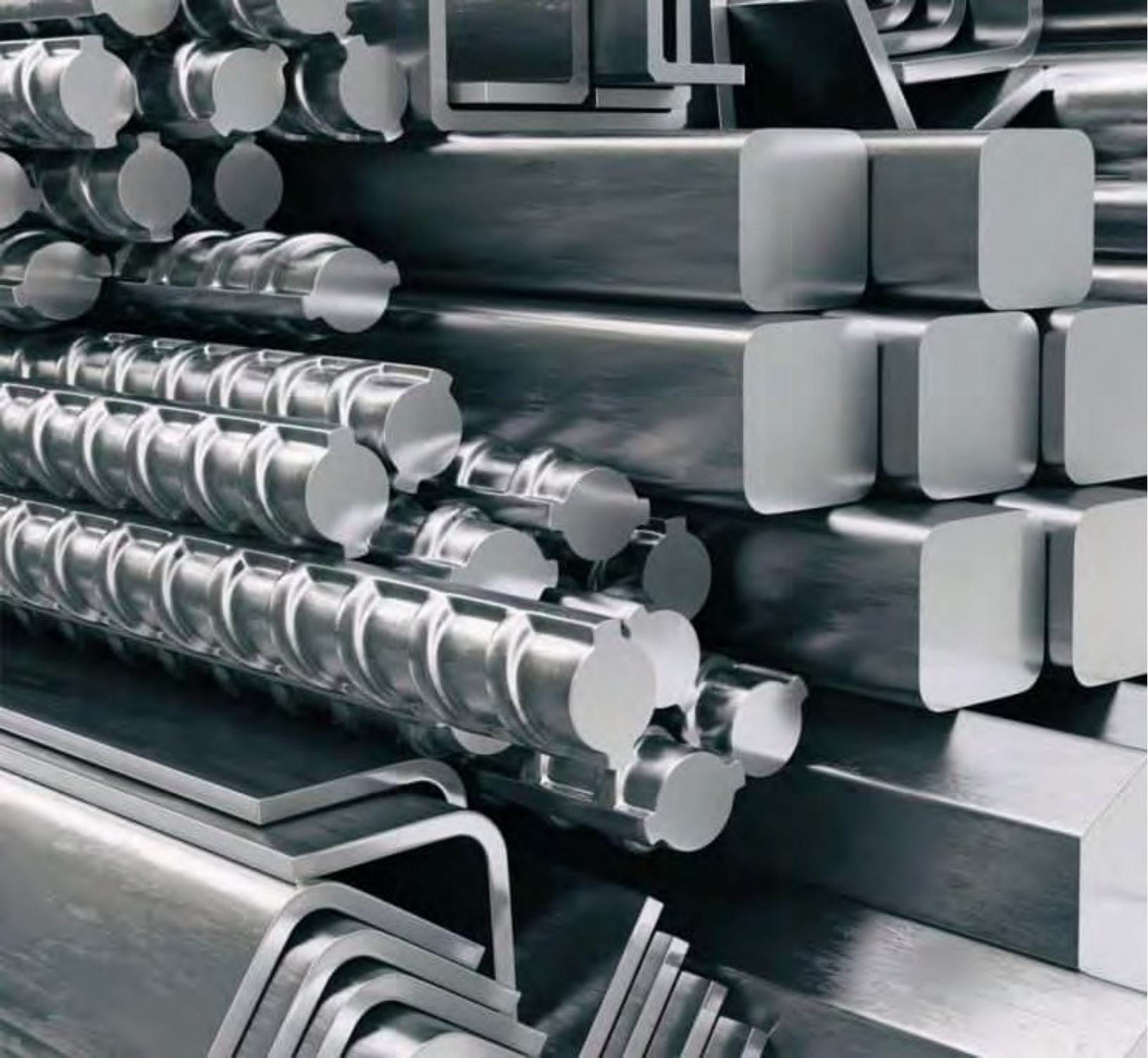
  
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a portfolio company of



SELL-SIDE ADVISOR

May include work by Stout professionals while at prior firms



## ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [\*\*Investment Banking services\*\*](#).

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