Bucking the trend

Despite a year-on-year decrease in mergers and acquisitions across plastics packaging as a whole, activity in the machinery market has been frenetic lately. **Noli Dinkovski** looks at what's behind this current flurry of deal-making

Against a backdrop of economic uncertainty, mergers and acquisitions (M&A) activity across the entire plastics industry dropped by 18 per cent in 2023 – and, according to advisory firm Stout's annual report – the plastics packaging segment was impacted the most with a 26 per cent year-on-year decrease.

Yet, despite these headline figures, it has been hard to ignore the significant number of deals involving machinery manufacturers and tech providers that have peppered the market, both late last year and into early 2024.

First, extrusion equipment maker Davis-Standard agreed to acquire Extrusion Technology Group (ETG) from entities controlled by the Dutch Investor Nimbus. That was followed by China-based extrusion equipment manufacturer Jwell Machinery purchasing extrusion blow moulding machinery maker Kautex Maschinenbau. Then came the news that Krones had moved into injection moulding with the purchase of Netstal.

Other notable acquisitions have also been made by the likes of Niigata Machinery, Piovan, Coesia, and Rockwell. And only last month, came the news that process control specialist Agr International had been bought by fellow US firm Indicor.

With activity so muted across the rest of the industry, questions have been raised as to why there appear to be so many deals specific to machinery makers. While simple market consolidation may be a driver in a number of cases, it appears that a number of other underlying factors are driving M&A activity – and business performance in general.

The surge in machinery sector acquisitions is part of a broader trend that has been unfolding over the past two decades, reflecting a global consolidation across all industry sectors, argues Michael Mufson, managing director of M&A advisory firm Mufson Howe Hunter & Company, which specialises in the injection moulding (IM) market.

"Within the plastics sector, which comprises thousands of manufacturers and suppliers, consolidations are driven by a number of factors," he suggests. "Large companies seek growth, both organically and through acquisitions. Additionally, the increasing complexity of IM machines necessitates significant capital to fund R&D investment, creating barriers for smaller competitors."

When it comes to the IM market, Mufson points out that the lead times required from customer order to final installation can be well over 18 months, which puts pressure on working capital demands.

"Cash flow constraints in 2023, attributed to rising interest rates and cautious spending attitudes, also impacted M&A activity," he adds. "Furthermore, global inventory restocking contributed to a slowdown in product demand, reflected in lower sales and cash flow, lessening smaller companies' ability to fund required innovation."

A key driver for consolidation in the equipment sector is a business's position in the supply chain, explains Nicholas Mockett, corporate financier at Moorgate Capital. Put simply, if customers (namely, packaging manufacturers) are consolidating, one way for suppliers to enhance a negotiating position is to scale up.

"The events of recent years, Covid, conflicts, and the supply challenges, have meant that the predictability of business – including revenues, profits and cash flows – at the customer end has been trickier," Mockett says. "This may have caused subdued capital expenditure, which may have impacted the machinery producers. Consequently, shareholders may be more receptive to an offer."

Of the flurry of recent machinery-related M&A deals, Mockett suggests the Jwell acquisition of Kautex is the most intriguing. Within Europe, there has been a great deal of talk concerning near-shoring, allied with an anti-China sentiment, and this transaction provides the Asian parent company with proximity to European markets, he points out.

The surge in machinery sector acquisitions reflects a broader long-term consolidation trend, says Michael Mufson

"Jwell may cross-sell its low-cost Asian products to the Kautex customer base," Mockett says. "Germany has long been viewed as the engineering powerhouse of Europe, although it seems that its automotive industry has been out-manoeuvred by Chinese electric vehicle manufactures. In the packaging machinery segment, perhaps the know-how is revered by Asian players (at least at a certain value) who can exploit it in the Asian markets, which are typically faster growing."

Davis-Standard's acquisition of ETG, a German company previously owned by a European private equity (PE) group, follows a similar rationale, according to Mufson.

"What makes this deal fascinating is the strategic advantage it offers Davis-Standard," he says. "By acquiring a highly regarded manufacturer and distributor of extruders and extruder equipment in Germany, Davis-Standard gains access to new markets and enhances its product portfolio. This move likely strengthens its competitive position in the industry and provides additional growth opportunities. The liquidity event reinforces

to PE sponsors a strong ability to invest in this sector, grow businesses by both organic activity and acquisition, and see a strong MOIC (multiple on invested capital)."

But it's not always European markets that machinery makers are striving to gain access to. In February, auxiliary systems manufacturer Piovan Group consolidated its position in India by acquiring a majority stake in joint venture company Nu-Vu Conair.

The move, Piovan says, will allow it to capture growth in new markets, while Nu-Vu Conair's Indian manufacturing site gives it greater proximity to customers.

"Our acquisition strategy is driven by two factors: technological advancement and geographic expansion," says a spokeswoman for the company. "By acquiring cutting-edge technologies and expanding our presence, we aim to be closer to our customers, offering them comprehensive solutions that encompass consultation, production, and maintenance."

Many acquirers are large multinational corporates adopting strategies to diversify into new or related markets, leveraging their existing scale and capabilities, suggests Alan Chan, industrials M&A director at advisory firm BDO.

"The pandemic strengthened the appetite for automation in manufacturing processes, with many large players now widely adopting new technology to enable efficiency to be maximised through automation," he says.

Mockett notes that automation seems to be a common theme driving M&A activity in the machinery market. He suggests that it's probably not surprising, given company bosses in almost every country in the world bemoaning a lack of skilled employees, and the reticence among younger generations to enter packaging-related industries. "Also, with the talk of artificial intelligence (as a successor theme to Industry 4.0 or The Internet of Things) manufacturers may be looking at upgrading plant and equipment," he adds.

Environmental concerns, particularly regarding recycling, appear to be a motivating force behind acquisitions in the plastics industry, too. According to Mufson, end-users are increasingly demanding the use of recycled materials, which requires substantial research, technological advancements, and capital investment.

"Ultimately, with packaging manufacturers seeking to embrace sustainability across their diversified offering, machine manufacturers may benefit from providing their customers with a one-stop-shop offering to support the production of a greater breadth of products," he says.

Alan Chan at BDO agrees that packaging manufacturers are looking for machinery that's not just fast and reliable, but also smart and sustainable – therefore, machinery needs to advance to keep up.

"Reducing waste not only impacts the bottom line, but it's of growing importance when it comes to environmental, social and governance credentials, and the ability to contribute to a circular economy," he says. "Manufacturers are increasing their packaging product ranges, which will require new or updated production equipment."

Nicholas Mockett notes that there is PE interest in the machinery market, with Davis-Standard being a prime example. Previously owned by ONCAP (the PE platform of Onex) it was sold in 2021 to Gamut Capital. "These secondary deals (PE selling to PE) are not uncommon," Mockett notes. "Also, the roll-up (or buy and build) being performed by Davis-Standard is a common PE strategy for value growth. That said, some PE houses (and even debt providers) would not invest in plastics-related supply chains."

Michael Mufson estimates that currently, PE firms represent around half of the buyers in the plastics machinery sector. The funding for these deals, he says, primarily originates from two main sources: cash sitting on corporate balance sheets, which is looking for a use of proceeds; and PE firms with substantial reserves of unallocated capital, often referred to as 'dry powder'.

Piovan Group recently acquired a majority stake in Nu-Vu Conair (top), while Kautex Maschinenbau is now owned by Jwell Machinery

"Corporate balance sheets, buoyed by robust cash reserves, provide ample funding for acquisitions," he says. "While money is readily available, the primary challenge lies in identifying suitable acquisition targets that align with strategic objectives. Despite the abundance of capital, finding the right companies with the potential for growth and synergies remains a crucial aspect of successful deal-making in the machinery sector."

Considered to be an attractive sector with the potential for strong returns, Chain believes the packaging market in general is catching the eye of PE firms. "It has proven to be a resilient sector, too, despite the tough economic conditions, as people still need to buy goods that require packaging," he says. "Add on to that the exciting innovation that is happening with greener packaging solutions and smarter, tech-driven packaging, and you create real opportunities for growth and expansion."

Looking ahead for plastics packaging as a whole, M&A experts agree that there will be an onus for companies to innovate, increase recyclable content, improve recycling processes, and provide greater clarity on the recycling of packaging.

"Legislation is a persistent concern, although there is talk in the UK at least of packaging tax being imposed on other substrates, which may help level the playing field for plastics," notes Mockett. "The winners are likely to be those that have differentiated products and cater to customers' qualms about recyclability and recycled content."

There is plenty of potential for growth, especially for companies that can get ahead of the sustainability curve, maintains Chan. "But there are hurdles to clear, too, with regulation and changing consumer attitudes shaking things up," he adds. "It's going to be an interesting year ahead, that's for sure." EP

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