



EXCERPTS OF RECENT MEDIA COVERAGE

MANUFACTURING & DISTRIBUTION PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2016

APPAREL MAGAZINE

HOW TO NOT LOSE YOUR SHIRT WHEN DISASTER STRIKES YOUR SUPPLY CHAIN

By [Rick Schreiber](#), [Clark Schweers](#)



June 1 is the official kick-off of hurricane season — a timely reminder for retailers to take stock of the contingency plans they have in place in the event their supply chains are washed out by a powerful storm or impacted by another significant weather event or natural disaster...

While retailers are aware of the risk natural disasters present, many are lacking the preventive measures to mitigate the impact of a supply chain disruption caused by a natural disaster. The 2015 BDO Retail RiskFactor Report, an analysis of the most recent 10-K filings of the largest 100 publicly traded U.S. retailers, included natural disasters as one of the industry's top 10 risks. Ninety-six percent of retailers noted risks related to natural disasters in the analysis, up from 70 percent in 2010.

The growing number of retailers who identified this as a risk could be attributed to the increasing frequency at which severe weather events are occurring...

As you review or develop your disaster response plan, here are a few tips to keep in mind:

- Identify a response team to take the lead on communicating with employees and external stakeholders...
- Collaborate with and diversify the locations of your suppliers...
- Review your insurance policy...
- Maintain contemporaneous documentation...
- Get the right team on your side...
- Establish milestones for claim recovery.

INDUSTRYWEEK

M&A IN MANUFACTURING: NO ALARM BELLS JUST YET

By [Dan Shea](#), [Managing Director](#), [BDO Capital Advisors](#)



TRENDS IN MANUFACTURING & DISTRIBUTION M&A

Nuanced trends in merger and acquisition (M&A) activity in the manufacturing and distribution (M&D) industry have industry stakeholders wondering whether they'll see a trough or bear market throughout the remainder of the year. According to BDO Capital Advisors' latest M&D M&A Outlook and Review—which analyzes statistics, trends and market rumblings in the industry—cautious optimism remains despite slowed transaction activity and a drop in multiples...



BDO has been a valued business advisor to manufacturing and distribution companies for more than 100 years. We work with a variety of companies from all industrial sectors, ranging from global distributors to startup and niche manufacturing corporations, on a myriad of accounting, consulting, tax and other financial issues.

VALUATIONS STILL LOFTY

EBITDA multiples of middle market M&D companies sold since the recession peaked with 2014's soaring average of 10.76x, pulling back last year to a more modest, but still lofty, 9.74x average. 2014's valuation levels were unsustainable. Responding to ripples of uncertainty in the global economy, buyers were more reserved in their bidding last year. The market saw a broader mix of companies trading hands, trending toward the market's "average performers."

CHUGGING AHEAD THROUGH ECONOMIC HEADWINDS

2015 was an active year for dealmaking in the M&D industry, but manufacturers are still feeling stifled by global economic volatility, especially the slowdown in China's economy and the ongoing strength of the dollar against weakening foreign currencies. While overall middle market deal volume in 2015 inched up above 2014 levels, a closer examination of the data tells a different—and perhaps troubling—story at year's end.

SECTOR DEAL VOLUME DECLINES IN 2016

A startling trend emerged during Q4 2015 and continued into the first quarter of 2016: Closings dropped by 10.4% year-over-year in December and by a whopping 20.8% year-over-year in January. Deal volume was still down in February, though by just 1% year-over-year. Why? Strategic buyers have pulled back on the reins since instability in the stock market began to escalate in Q3 2015. On the flipside, financial buyers have remained consistent in recent months, accounting for about 38 percent of deal volume...

FUND MANAGERS SEE BLUE SKIES IN M&D

...[Dealmakers] agree that the industry seems poised for a solid year. In fact, about one-quarter of fund managers surveyed said they expect the manufacturing sector will generate the greatest opportunity for investment in the next 12 months, according to BDO's 2016 PERSpective Private Equity Study. For now, we can likely expect to see a rebound in deal activity throughout the remainder of 2016, tempered by continued economic pressures across the globe.

MANUFACTURING BUSINESS TECHNOLOGY

REPORT: CYBERSECURITY TOPS MANUFACTURERS' BIGGEST RISKS

By Jon Minnick

In a new report from accounting and consulting organization BDO USA, LLP, more than nine in 10 manufacturers (92 percent) cite cybersecurity concerns in their SEC disclosures this year. That number is a 44 percent increase from 2013 and now ranks among manufacturers' top 10 risk factors.

BDO's 2016 Manufacturing RiskFactor Report analyzes the latest 10-K filings from the largest 100 publicly traded U.S. manufacturers across five key subsectors. The report also reveals that 91 percent of companies also cite operational infrastructure risk, including information systems and implementation of new systems and maintenance as a concern.



"As the industry races toward the next frontier, manufacturers must strike a balance between progress and security," said Rick Schreiber, Partner and National Leader

of the Manufacturing & Distribution practice and National Association of Manufacturers (NAM) Board Member in a press release. "Data analytics and the Internet of Things may spur the next industrial revolution, but with that comes increased exposure to cyber risk. Manufacturers still have some catching up to do to adequately protect their data, customers, products and factory floors."

MARKET NEWS INTERNATIONAL

US ISM SURVEY CHIEF: MOMENTUM BUILDS IN MANUFACTURING

By Jean Yung

Signs that businesses are getting ready to loosen their purse strings lifted U.S.

manufacturing activity to its first month of growth since August, and lends support to expectations that the sector will continue to expand this year, the Institute for Supply Management's manufacturing survey chief told MNI Thursday...

With 13 of the 18 manufacturing industries reporting growth, survey chief Brad Holcomb said the uptick is "very strong and broad-based" and that there's "every reason to be confident about the next few months."...

Rick Schreiber, national leader of the Manufacturing and Distribution practice at accounting and consulting firm BDO, said he would advise clients to feel more optimistic about investing in a new IT system or building a new facility following the ISM report. "I think this would say the economy is doing well and manufacturing is on the rebound, so if they're hesitant about investing, things are calming down," Schreiber said.

BUSINESS INSURANCE

CYBER THREATS LEAP TO TOP OF MANUFACTURERS' LIST OF RISKS

By Rob Lenihan

Cyber security is the top concern for more than nine out of 10 manufacturers surveyed, BDO USA L.L.P. said Tuesday, up 44% from 2013 and marking the first time cyber risk cracked the list of top 10 risk factors...

More than 92% of manufacturers in BDO's 2016 Manufacturing RiskFactor Report cited cyber security concerns in their disclosures to the U.S. Securities and Exchange Commission this year.

"As the industry races toward the next frontier, manufacturers must strike a balance between progress and security," Rick Schreiber, partner and national leader of the manufacturing and distribution practice and National Association of Manufacturers board member, said in a statement. "Data analytics and the Internet of Things may spur the next industrial revolution, but with that comes increased exposure to cyber risk. Manufacturers still have some catching up to do to adequately protect their data, customers, products and factory floors."...

Nearly all manufacturers cited competitive pressures this year. BDO said the push to get leaner and meaner and keep up with emerging technologies, like the Internet of Things, machine learning and virtual reality, appears to be contributing to related business risks.

Ninety-one percent worry about inability to properly execute corporate strategy—including cost reduction, capacity expansion or improving efficiencies. And 87% report risks around their ability to develop and market quality products that meet customer needs.

BDO said these pressures could drive manufacturers to pursue mergers and acquisitions in an effort to achieve scale and new capabilities. After a sharp drop in deal flow in the manufacturing sector at the end of 2015, strategic and financial buyers alike are showing an interest in M&A but remain cautious about lower valuations and still-challenging economic fundamentals...

Federal, state and local regulations are highlighted by 99% of manufacturers in their annual filings and are among the top two risks for the fourth year running. In particular, environmental regulatory risks are top of mind this year, cited by 95% of manufacturers. Forty-two percent mention regulations around emissions standards.



Dawn Williford, south region leader of BDO's risk advisory services, noted that compliance and competitive advantage are not mutually exclusive.

"When done right, risk management can be more of a boon than a burden to manufacturers by reducing costly errors and enhancing the operational foundations of the business," **Ms. Williford** said.

FOOD ENGINEERING

REDUCING WATER USAGE IN FOOD AND BEVERAGE PROCESSING

By Debra Schug

For decades, water was seen as a free commodity in processing environments, but attitudes are starting to change due to increasing drought conditions and recent water pollution crises...

According to the United Nations, approximately one-fifth of the world's population lives in water-scarce areas; another one-quarter face a water shortage. With numbers like these, the importance of water as a commodity becomes clear.

"Water is a finite resource that needs to be sustained for future generations," states **Rick Schreiber, national leader of BDO manufacturing and distribution consulting service.** "As the population grows, resources [such as water] become more constrained."...

BEST PRACTICES

Monitoring water consumption requires a proper assessment of the water footprint...

"Mid-sized and smaller companies should consider measuring water usage between work shifts, installing flow meters or leak detection systems, and adding spring valves to hoses," BDO's **Schreiber** advises.

As in any sustainability activity, changing the company's culture is an important component...

Schreiber supports using a Six Sigma methodology, such as a Kaizen event, to bring operators and managers together to review an existing process and identify areas for improvement...

CONTACT:

RICK SCHREIBER
 Manufacturing & Distribution Practice Leader, Memphis
 901-680-7607 / rschreiber@bdo.com

LARRY BARGER
 Senior Director, Assurance, Pittsburgh
 412-434-8203 / lbarger@bdo.com

MATT BECKER
 Tax Partner, Grand Rapids
 616-802-3413 / mkbecker@bdo.com

BRIAN ECCLESTON
 Assurance Partner, New York
 212-885-8220 / becleston@bdo.com

SEAN HENAGHAN
 Assurance Partner, Chicago
 312-233-1803 / shenaghan@bdo.com

ISSY KOTTON
 Assurance Partner, Los Angeles
 310-557-8266 / ikotton@bdo.com

FRED ROZELLE
 Assurance Partner, Detroit
 248-244-6544 / frozelle@bdo.com

JOHN TUCCI
 Assurance Partner, Woodbridge
 732-750-0900 / jtucci@bdo.com

The cost benefits of water reduction are evident. "Water conservation can create bottom-line savings," says **Schreiber**. "For example, The Equity Group chicken nugget processing plant in North Carolina cut its water use by 30 percent. It also saves \$100,000 annually by reviewing its water use and switching to less water-intensive procedures."

Material discussed in this article is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 60 offices and over 500 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,408 offices in 154 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.