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PErspective in MANUFACTURING

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE MANUFACTURING SPACE.

Deal-making in the machinery manufacturing space in 2015 has been mostly on par with last year.

According to private equity and venture capital-focused research firm PitchBook, 91 companies in the global machinery manufacturing space have been the subjects of private equity/leveraged buyout activity so far this year, compared with 88 during the same period last year.

There has been just one IPO in the sector this year: that of Cincinnati, Ohio-based Milacron, a provider of plastics processing technologies. The company floated towards the end of June, raising $285.71 million and achieving a post-launch valuation of $1.33 billion, according to PitchBook. The firm is partially owned by private equity firm CCMP Capital Advisors, which reduced its stake from 79.1 percent to 62.1 percent as a result of the IPO, according to *The Street*. By comparison, there were three machinery manufacturing IPOs in the same period last year, and five in the whole of 2014.

M&A activity more generally has been robust, with 175 companies involved in mergers so far this year. This is compared with 181 companies during the same period the year before.

However, certain macroeconomic trends could cause disruption to the status quo, as well as the desirability of certain assets and regions. The continued low price of oil, now almost a third what it was a year ago, is benefitting some companies thanks to lower energy—and therefore manufacturing—costs. But it is of course hurting those companies that supply equipment to the energy production industry. Low commodity prices for metals and minerals will also have a dampening effect on businesses serving the mining industries.

The economic downturn in China will also have consequences for the global economy, including a slowdown in the machinery manufacturing sector. Germany, a major exporter of machinery, has massive exposure to the Chinese market and, despite healthy demand for its products from elsewhere, the country is bracing itself for a period of reduced spending from the Far East, according to *Financial Times*. With fewer orders from China, German machine-makers will likely have to reduce domestic investments to compensate.

Makers of textile machinery could be hit especially hard by a Chinese economic crisis, seeing a slowdown in 2016 after order backlogs have been cleared, according to the president of the French Association of Textile Machinery Manufacturers (UCMTF), B2B textiles newsletter *Fibre2Fashion* reports.

However, the Chinese downturn could also provide opportunities for private equity firms. Sharp declines in public equity prices could force cash-strapped businesses to seek capital from private equity sources, similar to businesses in the U.S. in 2007 and 2008, according to PitchBook.

PErspective in Manufacturing is a feature examining the role of private equity in the manufacturing space..

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