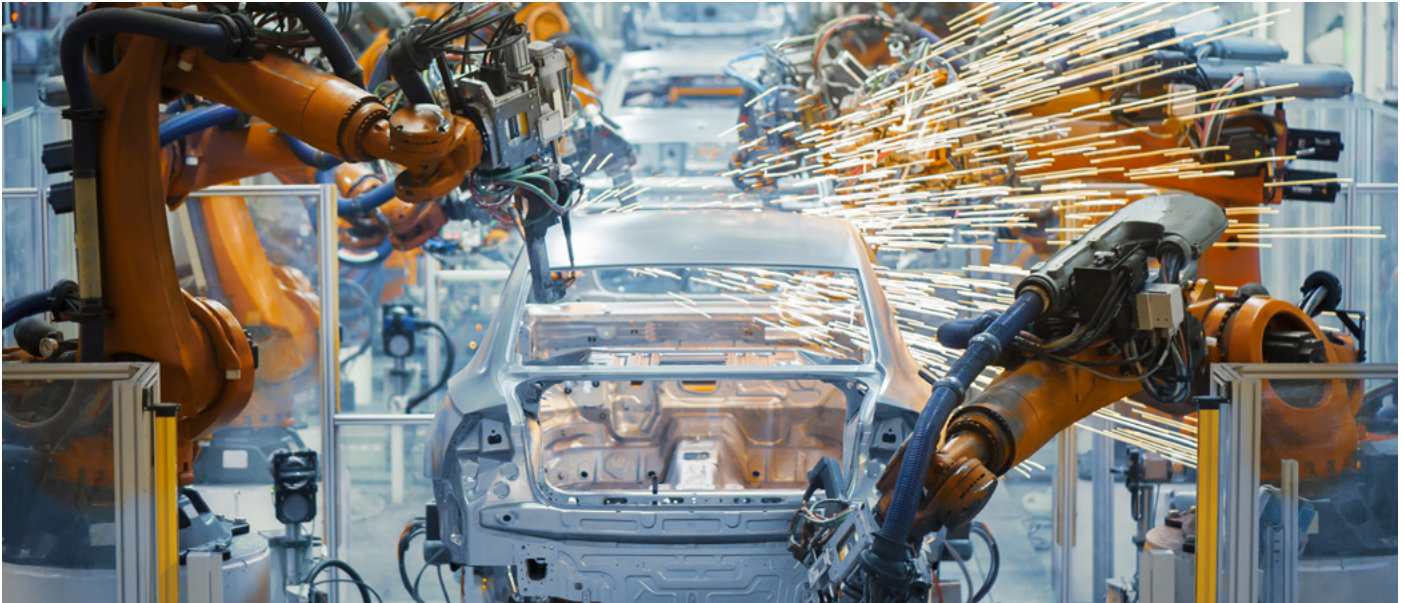


Manufacturing

Following a volatile 2020, the UK manufacturing industry appears to be well placed for continued growth. Various favourable trends are driving strong interest in the sector.

The manufacturing sector is a mature segment of the UK economy that continues to evolve and remains attractive to local and offshore investors. This report provides an overview of the industry's recent performance and examines the factors driving growth and sustained investment.



Overview

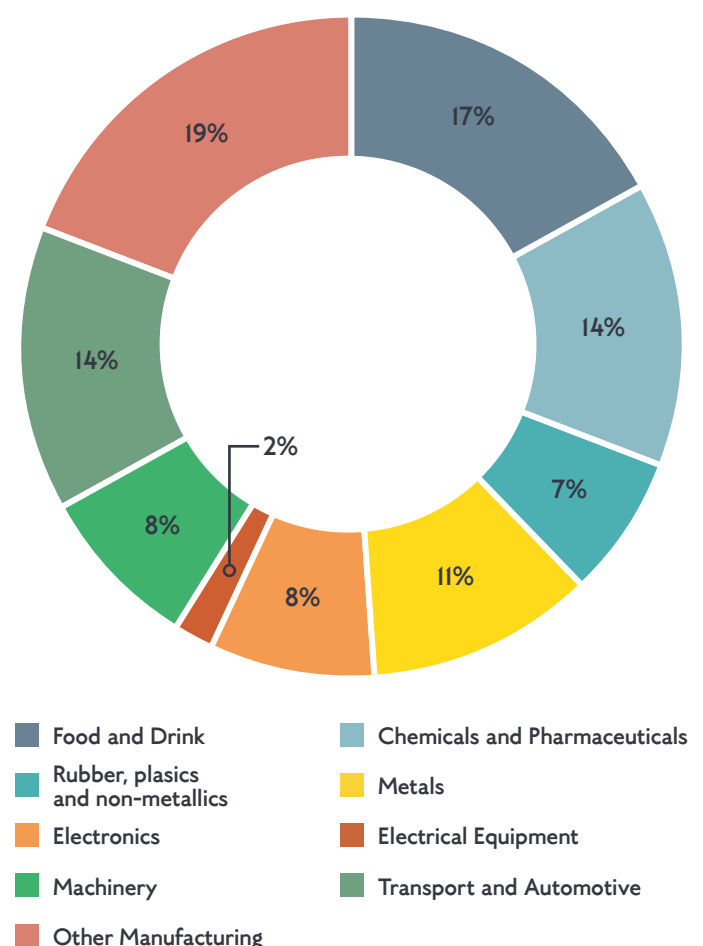
The diverse manufacturing industry consists of numerous subsectors, from food and beverage to electronics. The UK is often credited as the birthplace of modern manufacturing and the sector remains a material aspect of the UK economy, contributing c. 10% of all Gross Value Added (an economic productivity metric that measures contribution to an economy) and employing c. 2.7m people. Industry revenue has remained relatively constant from 2015-2020 at c. £400bn per annum.

After a volatile 2020, UK manufacturing is recovering well in 2021, with recent economic indicators suggesting that activity in the sector in April 2021 was the strongest seen since 1994. Market confidence was underpinned by demand, reaching the highest level since November 2013 as a result of the re-opening of parts of the economy and improving global market conditions. Two thirds of manufacturing businesses recently surveyed expressed confidence that demand will be even greater in 12 months' time. This confidence is reflected in the industry outlook, with Make UK, recently upgrading its growth forecast for 2021 to 3.9%. This is an impressive rate of growth for a mature sector.

Market Structure

The manufacturing sector transverses a number of industries, technologies, and activities. While traditional industries such as food and beverage, transport, and pharmaceuticals continue to thrive in the industry, technology based nascent sectors (e.g. nanotechnology, biotechnology, etc.) are now also helping to drive growth.

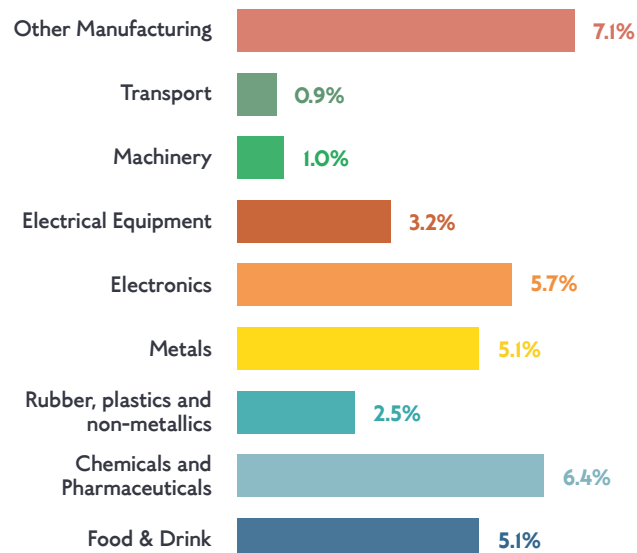
UK Manufacturing Output 2020



As seen above, food and beverage, chemicals and pharmaceuticals, transport, and metals manufacturing are currently the largest sub-sectors, making up over 50% of the UK's total manufacturing output between them. Several of the larger sub-sectors have also been the fastest growing, as indicated by the following chart.

Food and beverage, steel, and transport have been identified as the fastest growing manufacturing sub-sectors in the last decade.

Average Annual Growth in the Last Decade



The diversity of the sector is further evidenced by the list of the largest manufacturing operators in the UK:

Manufacturing Firm	Rev	Sector
Unilever	£41.8bn	Food, Household and Personal Care
Rio Tinto	£31.6bn	Metals
Glaxo SmithKline	£26.6bn	Pharmaceuticals
Anglo American	£18.2bn	Metals
AstraZeneca	£17.7bn	Pharmaceuticals
BAE Systems	£16.3bn	Aerospace and Defence
British American Tobacco	£14.9bn	Tobacco
Imperial Tobacco Group	£14.6bn	Tobacco
Associated British Food	£12.3bn	Food & Drink
Rolls Royce	£12.3bn	Aerospace and Defence





Industry Trends

The industry has been shaped by a number of market trends in recent times. Firstly, COVID-19 has had a significant impact on the pharmaceuticals segment, with unprecedented vaccine production required and consumers now naturally more focused on health and wellbeing. These trends that are shaping the pharmaceutical sector are also positively affecting the manufacturing sector, given that pharmaceuticals is such a substantial contributor to the sector.

Significant private investment is also expected to shape the sector over the coming years. *This will primarily be fuelled by the recently announced super deduction Government scheme, which will allow business to reduce their tax bill by up to 25p per £1 spent on plant and machinery until 2023.* The scheme is generally expected to boost in the industry.

Further, the adoption of digital technologies and automation of processes has long been one of the key trends in manufacturing. Given the social distancing requirements in recent times, this has again been at the forefront of many operators' minds. In 2020, 87% of UK manufacturers said they needed to adopt digital technologies and are ready to invest in these to boost productivity. This trend will likely persist, driving output and efficiency in the long run.

Finally, the UK Government reiterated its commitment to achieve net-zero carbon emissions by 2050, which has highlighted the need for energy and carbon intensive industries, such as manufacturing, to continue with their 'green revolution'. 96% of British manufacturing companies have already been impacted by green manufacturing trends, with three quarters of UK firms saying they are in the middle of their transformations. Businesses that are able to adopt renewable energy protocols, reduce waste, and incorporate recycling in operations will be well-positioned to thrive and also take advantage of Government incentives.

Given all the trends currently affecting the market, an M&A strategy could be a viable way that businesses can harness and benefit from the related positive implications.

M&A Activity and Trends

The industry demonstrated its M&A resilience in 2020, with 595 completed deals involving a UK manufacturer. This figure represented a 13% decline on the previous year. Whilst a decline would ordinarily not be considered a success, it should be noted that there was limited M&A activity for 4-6 months of 2020. Of these completed deals, a significant portion, 160, involved a sale to an overseas acquirer, representing a 5% increase from 2019.

Financial investors continue to be interested in the sector, with buyouts making up one fifth of UK manufacturing deals. This is expected to continue as institutional investors, fuelled by a low interest rate environment and considerable amounts of dry powder, look to take advantage of growth opportunities and favourable trends in the sector.

This strong appetite for M&A in the manufacturing sector has been driven by a number of factors:

- ▶ A perfect storm of the transition out of the EU trading bloc and the COVID-19 pandemic has drawn attention to vulnerabilities in supply chains. Driven by the desire to make UK supply chains more resilient, offshore businesses have been encouraged to on-shore, re-shore or near-shore their supply via acquisition.
- ▶ Given the considerable time and cost required in developing in-house technology and automation solutions, many firms are recognising the merit in fast-tracking their digital agenda and improving operational efficiencies through M&A.
- ▶ Despite the Government support available, some businesses have naturally struggled throughout the COVID-19 pandemic. This has presented an opportunity for well-capitalised businesses to grow via bolt-ons.
- ▶ Businesses with the expertise and specialism in sustainable practises present themselves as attractive acquisition targets for larger players that are looking to futureproof themselves as consumers, and governments demand greater focus on 'green' manufacturing.

The favourable market activity and confidence is evidenced by the notable manufacturing deals completed in the past 18 months:

Deal Date	Company	Buyer(s)	Deal Size (£m)	Deal Type
10-May-21	Nourished	ADM Ventures, Cibus Fund, and three others	7.90	Early Stage VC
05-Jan-21	Cobham Aerospace Connectivity	TransDigm Group	717.97	Merger/ Acquisition
16-Nov-20	Mylan	Pfizer	9,190.50	Merger/ Acquisition
05-Nov-20	Hovis	Endless	125.00	Buyout/ LBO
02-Nov-20	Rhino Products	LDC	36.00	PE Growth
30-Oct-20	Victoria	Koch Equity Development	175.00	PIPE
21-Jul-20	Smol	Balderton Capital, JamJar Investments	8.00	Early Stage VC
06-Mar-20	Consort Medical	Recipharm	505.00	Merger/ Acquisition
04-Mar-20	Globe-Trotter	Oakley Capital	10.60	Buyout/ LBO
01-Mar-20	McLaren Technology Group	Bahrain Mumtalakat Holding Company, Techniques d'Avant Garde	300.00	PE Growth
20-Jan-20	Cobham	Advent International, The Blackstone Group	4,000.00	Buyout/ LBO





Threats to the Sector

Much like the wider UK economy, the primary threats facing the manufacturing industry continue to be the uncertainty surrounding the longer-term ramifications of the COVID-19 pandemic and the UK's disorderly exit from the EU single market. The longer these threats persist, the more likely they are to curb fiscal recovery as trade and the wider economy reopen in the coming months. This could naturally have an adverse effect on the sector.

One significant impact of both Brexit and the pandemic has been the exposure of vulnerabilities in global supply chains. The potential persistence of disruption to production schedules, raw material availability, and onward distribution, especially abroad, is a source of concern for UK manufacturers.

Outlook

Following any market downturn, periods of abnormal and unpredictable growth can be expected. With the significant government support for the UK manufacturing industry following the COVID-19 pandemic, and continued investment into transformational digital technologies and automation, this could be a prolonged period of growth for the UK's manufacturing sector.

Given this positive market outlook, businesses in the industry that have demonstrated their resilience over the past 18 months will likely be considered attractive acquisition targets. We expect to see strong M&A activity continue over the coming years given the confidence and continued evolution of the industry.



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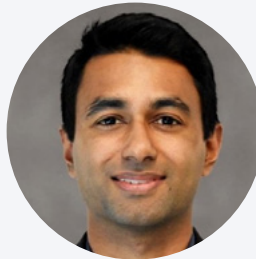


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