Manufacturing *update*

January 2012

Industry transactions

Valuation snapshot

Capital markets update

Article: Reshoring:
an opportunity for Canada?

Deloitte.

Industry transactions

December 22, 2011

Boston, Massachusetts-based **STAG Industrial, Inc.** acquired Rogers, Arkansas-based **warehouse** and Chippewa Falls, Wisconsin-based **manufacturing facilities (2)** for CAD$18.0 million. Two manufacturing facilities in Chippewa Falls and a warehouse and distribution facility in Rogers comprise facilities spread over 97,400 square feet for flat extrusion dies, coextrusion feedblocks, and slot die coating heads for plastic processors and web converters and a warehouse and distribution facility spread over 400,000 square feet.

Reddit West Springfield, Massachusetts-based **Cyalume Technologies, Inc.** acquired Colorado Springs, Colorado-based **Combat Training Solutions, Inc.** for CAD$6.3 million. Combat Training Solutions, Inc. manufactures non-pyrotechnic battlefield effects simulators (BES) and improvised explosive device (IED) simulators.

An unknown buyer acquired Visalia, California-based **Premier Holding Corp.** for CAD$0.2 million. Premier Holding Corp., a development stage company, focuses on marketing and sale of caskets to Indian reservations and low income groups.

December 21, 2011

Toronto, Ontario-based **Posera-HDX Inc.** acquired Edmonton, Alberta-based **Cash N Go Ltd** for US$0.3 million. Cash N Go Ltd is an ATM machines manufacturer and wholesaler.

December 20, 2011

London, United Kingdom-based **Lupus Capital plc** acquired Fremont, Nebraska-based **Overland Products Company, Inc.** for approximately 1.5x revenue (CAD$15.4 million). Overland Products Company, Inc. manufactures and sells metal stampings for a wide range of applications such as automobiles, camping gear, windows, and fishing reels.

Fountain Inn, South Carolina-based **Genetec Global Technologies, Inc.** acquired Fountain Inn, South Carolina-based **Systems South, Inc.** for CAD$1.8 million. Systems South, Inc. engages in designing, manufacturing, and integrating custom equipment, conveyors, and robotic solutions for manufacturing facilities.

December 16, 2011

Sterling Heights, Michigan-based **General Dynamics Land Systems Inc.** acquired Summerville, South Carolina-based **Force Protection, Inc.** for approximately 0.4x revenue (CAD$366.7 million). Force Protection, Inc., together with its subsidiaries, engages in the design, manufacture, testing, delivery, and support of blast- and ballistic-protected vehicles.

Kingston upon Thames, Surrey-based **The Vitec Group plc** acquired Bedford, New Hampshire-based **Haigh-Farr, Inc.** for approximately CAD$37.4 million. Haigh-Farr, Inc. engages in the design, development, and manufacture of flight body antennas. It offers Wraparound antenna, an omnidirectional antenna for cylindrical or conical shaped bodies; power dividers; Omnislot antennas; Flexislot antennas; button antennas; blade antennas; and GPS antennas.

December 15, 2011

Causeway Bay, Hong Kong-based **Max Era Properties Limited** and Bitterfeld-Wolfen, Saxony-Anhalt-based **Sovello AG** acquired equipment and machinery at Devens, Massachusetts facility of Evergreen Solar Inc. for CAD$9.3 million.

December 14, 2011

Kuala Lumpur, Malaysia-based **Sime Darby Bhd** acquired Milwaukee, Wisconsin-based **Bucyrus International Inc.'s distribution assets** for US$360.0 million. Bucyrus International Inc. is a surface mining manufacturer and wholesaler.

December 13, 2011

London, Greater London-based **Diploma PLC** acquired Clemmons, North Carolina-based **J. Royal Co., Inc.** for approximately 1.2x revenue (CAD$ 19.2 million). J. Royal Co., Inc. designs and manufactures O-rings, industrial seals, and gaskets.

December 9, 2011

Cleveland, Ohio-based **TransDigm Group Incorporated** acquired Branford, Connecticut-based **Harco Laboratories, Inc.** for CAD$85.2 million. Harco Laboratories, Inc. designs, manufactures, and distributes aerospace air data systems, gas turbine high temperature sensors, on-engine electrical cable assemblies, airframe electrical cable assemblies, and other sensor products.

A private company acquired the nitrogen assets and business of Calgary, Alberta-based **CWC Well Services Corp.** for CAD$7.6 million. CWC Well Services Corp., Nitrogen Assets and Business manufactures nitrogen pumping and transportation units.

December 6, 2011

Naples, Florida-based **Lippert Components, Inc.** acquired Elkhart, Indiana-based **M&M Fabricators Corp.** for approximately 0.5x revenue (CAD$ 1.5 million). M&M Fabricators Corp., a drive shaft shop, offers drive shaft services, custom applications, fabrication of steel and aluminum parts, and chassis alteration for Class A and Class C minis and vans in South Bend, Mishawaka, and Goshen, Indiana.

Rochester, New York-based **The Optima Group LLC** acquired Hammond, Indiana-based **Niagara LaSalle Corporation** for CAD$226.1 million from Kohlberg & Company, L.L.C. Niagara LaSalle Corporation manufactures and sells cold finished steel bars in the United States.

December 1, 2011

Columbus, Ohio-based **Worthington Industries, Inc.** acquired Wichita, Kansas-based **The Coleman Company, Inc.'s propane cylinder business** for CAD$23.4 million. The propane cylinder business of The Coleman Company, Inc. manufactures and supplies propane fuel cylinders.

Duluth, Georgia-based **AGCO Corporation** acquired Assumption, Illinois-based **The GSI Group, Inc.** for approximately 1.3x revenue (CAD$984.5 million). The GSI Group, Inc. manufactures grain storage, material handling, conditioning, and drying equipment.

Lufkin, Texas-based **Lufkin Industries, Inc.** acquired Red Deer, Alberta-based **Quinn's Oilfield Supply Ltd.** for CAD$300.1 million. Quinn's Oilfield Supply Ltd. manufactures and distributes reciprocating rod pumps in Canada and the United States. In addition, the company engages in servicing and repairing reciprocating rod pumps.

November 30, 2011

East Aurora, New York-based **Astronics Corporation** acquired Everett, Washington-based **Ballard Technology, Inc.** for CAD$30.0 million. Ballard Technology, Inc. develops and manufactures hardware and software for test, simulation, maintenance, and development of avionics databuses.

November 29, 2011

Tokyo, Japan-based **Marubeni Corporation** acquired an additional 6.66% in Sept-Iles, Quebec-based **Aluminerie Alouette Inc.** for CAD$185.4 million. Aluminerie Alouette Inc. produces primary aluminum and provides aluminum smelting services in the Americas.

November 22, 2011

Toronto, Ontario-based **Century Iron Mines Corporation** acquired **four iron ore projects in the Labrador Trough** of St. John's, Newfoundland and Labrador-based Altius Resources, Inc. for CAD$88.0 million. Four iron ore projects in the Labrador Trough comprises Astray, Grenville, Menihek, and Schefferville iron ore properties spread over an area of 1,647 square kilometers.

Athol, Massachusetts-based **The LS Starrett Co** acquired Columbus, Georgia-based **Bytewise Development Corp** for US$15.5 million. Bytewise Development Corp, doing business as Bytewise Measurement Systems manufactures metrology products.

November 21, 2011

Waukesha, Wisconsin-based **Safway Services, LLC** acquired Cleveland, Ohio-based **Waco Equipment Co.** for approximately 0.4x revenue (CAD$13.1 million). Waco Equipment Co., doing business as Waco Scaffolding and Equipment, Inc., designs, manufactures, rents, and markets scaffolding, shoring, forming, and contractor equipment for the contracting organizations.

November 15, 2011

New York-based **Partriarch Partners, LLC** acquired Leetsdale, Pennsylvania-based **Hussey Copper, Ltd.** for CAD$110.33. Hussey Copper, Ltd. manufactures copper products. The company focuses on producing copper bus bar.

Pasadena, California-based **The Parsons Corporation** acquired Lake Forest, California-based **SPARTA, Inc**. for CAD$354.0 million. SPARTA, Inc., doing business as Cobham Analytic Solutions, provides technical products and services to defense, intelligence, and homeland security sectors of the U.S. federal government.

November 10, 2011

New Orleans, Lousiana-based **MTI 01-2006 Inc.** acquired Elyria, Ohio-based **Inland RC, LLC** for CAD$0.6 million. Inland RC, LLC engages in the manufacturing of precast refractory shapes, injection lances, stirring lances, and electric furnace deltas.

November 7, 2011

Camden, New York-based **Omega Wire Corp.** acquired Santa Teresa, New Mexico-based **Ffhoenix Cuivre, LLC's machinery and equipment** for CAD$0.01 million. Ffhoenix Cuivre, LLC engages in copper fabrication and insulating business.

November 4, 2011

Tokyo, Japan-based **Toyo Seikan Kaisha Ltd** acquired Centennial, Colorado-based **Stolle Machinery Co LLC** for approximately 3.1x revenue (CAD$775.0 million). Stolle Machinery Co LLC manufactures and wholesales can-maker equipment, and provides support services.

Bloomfield, Connecticut-based **Kaman Aerospace Group, Inc.** acquired Bennington, Vermont-based **Vermont Composites, Inc.** for CAD$40.5 million. Vermont Composites, Inc. designs and fabricates carbon fiber composites structures for aerospace and medical/ industrial markets.

November 3, 2011

Ramsey, New Jersey-based **Wurth Group Of North America Inc.** acquired Bedford Heights, Ohio-based **Cardinal Fastener & Specialty Co.** for CAD$4.0 million. Cardinal Fastener & Specialty Co., Inc. produces fasteners in the hot forge bolt industry in North America.

November 2, 2011

Calgary, Alberta-based **Forest Gate Energy Inc.** acquired Abitibi, Quebec-based **Cuff Lake Property** for CAD$0.1 million. Cuff Lake Property is an iron-ore and magnetite mineral property consisting of 150 contiguous mining claims in Abitibi region.

October 31, 2011

Oakdale, Pennsylvania-based **Triumph Interiors** acquired Atlanta, Georgia-based **Aviation Network Services, LLC** for CAD$10.5 million. Aviation Network Services, LLC operates as a repair station and distributor of aircraft component inventory.

Evanston, Illinois-based **Industrial Opportunity Partners LLC** acquired Nashville, Tennessee-based **Cummins Filtration, Inc.'s light duty filtration business** for approximately 1.3x revenue (CAD$93.6 million). Light duty filtration business designs and manufactures filtration products and exhaust systems such as filtration, coolant, and chemical products for small-duty diesel powered engines.

Investor group acquired White Plains, New York-based **ITT Corp's water-related business** for approximately 1.3x revenue (US$4960.3 million). The business involves manufacturing of pumps, water and wastewater treatment systems.

London, Greater London-based **Hunting PLC** acquired Cypress, Texas-based **Specialty Supply LP** for US$36.0 million. Specialty Supply LP wholesales oil and gas directional drilling and surveying parts, tools and components.

Weston, Florida-based **The Legacy Cos** acquired Sacramento, California-based **Excalibur Products** for US$30.0 million. Excalibur Products is a manufacturer of food dehydrators.

Oaks, California-based **Smiths Interconnect** acquired Richmond, Virginia-based **Power Holdings Inc.** for US$235.0 million. Power Holdings Inc. is the holding company of Power Distribution Inc., a power distribution and voltage regulation equipment manufacturer and wholesaler.

London, Greater London-based **Bridgepoint Development Capital Ltd** acquired Santa Clarita, California-based **Lamsco West Inc.** for US$84.0 million. Lamsco West Inc. manufactures shims and laminated shim stock.

Carmel, Indiana-based **ADESA Inc.** acquired Redwood City, California-based **Openlane Inc.** for US$210.0 million. Openlane Inc. provides online auction services for automotive dealers to buy and sell wholesale vehicles.

October 28, 2011

Cleveland, Ohio-based **SIFCO Industries, Inc.** acquired Orange, California-based **GEL industries, Inc.** for CAD$24.5 million. GEL industries, Inc., doing business as Quality Aluminum Forge, engages in the design, tooling, and production of precision aluminum forging products.

October 21, 2011

Jennifer Lynn Mancl and **Jamie Lee Mancl** acquired Wisconsin Rapids, Wisconsin-based **ECC Corrosion, Inc.** from Energy Composites Corporation for CAD$13.0 million. ECC Corrosion, Inc. designs, engineers, manufactures, installs, and services composite structures, vessels, and processing systems for clean-tech applications in North America.

October 18, 2011

Seguin, Texas-based **Alamo Group Inc.** acquired St-Valérien-de-Milton, Quebec-based **Machineries Tenco (Cdn) Ltée** for approximately 0.2x revenue (CAD$6.0 million). Machineries Tenco (Cdn) Ltée, Les manufactures snow and ice removal equipment for road and airport runway maintenance.

October 13, 2011

Thomas R. Morgan acquired 2.95% stake in Herndon, Virginia-based **Infrastructure Developments Corp.** for approximately 11.2x revenue (CAD$0.1 million). Infrastructure Developments Corp. operates as an engineering and construction services company in the Middle East, East Asia, and Oceania. It primarily focuses on small to mid-sized government contracts and subcontracts.

October 11, 2011

Charlotte, North Carolina-based **Curtiss-Wright Controls, Inc.** acquired South Bend, Indiana-based **South Bend Controls, Inc.** for approximately 1.3x revenue (CAD$10.3 million). South Bend Controls, Inc. designs, develops, and manufactures fluid control components for medical, aerospace, space, and industrial markets worldwide.

October 5, 2011

Chattanooga, Tennessee-based **Astec Industries, Inc.**/ acquired Enid, Oklahoma-based **Steco, Inc.** and **GEFCO, Inc.** for CAD$30.0 million from Blue Tee Corp. GEFCO, Inc. engages in the design, manufacture, and sale of portable drilling rigs and related equipment for water well, environmental, groundwater monitoring, construction, and mining. Steco, Inc. manufactures transfer and dump trailers.

October 4, 2011

Jacksonville, Florida-based **Atlantic Aviation, Inc.** acquired Colorado Springs, Colorado-based **A-Cent Aviation, Inc.** for CAD$0.1 million. A-Cent Aviation, Inc. owns and operates a flight training school in Colorado Springs. The company offers simulator training; and provides aircraft for flight instruction and rental, as well as sells new and used aircraft.

Philadelphia, Pennsylvania-based **Cellucap Manufacturing Co.** acquired McDonough, Georgia-based **Glit/Disco, Inc.'s** certain assets for CAD$18.6 million. These assets engage in the manufacturing and distribution of filtration, cleaning and specialty products to the restaurant/food service industry.

October 3, 2011

Winnipeg, Manitoba-based **Ag Growth International Inc.** acquired Falls City, Nebraska-based **Airlanco Inc.** for approximately 1.0x revenue (CAD$11.7 million). Airlanco Inc. engages in designing and manufacturing air management equipment for customers worldwide.

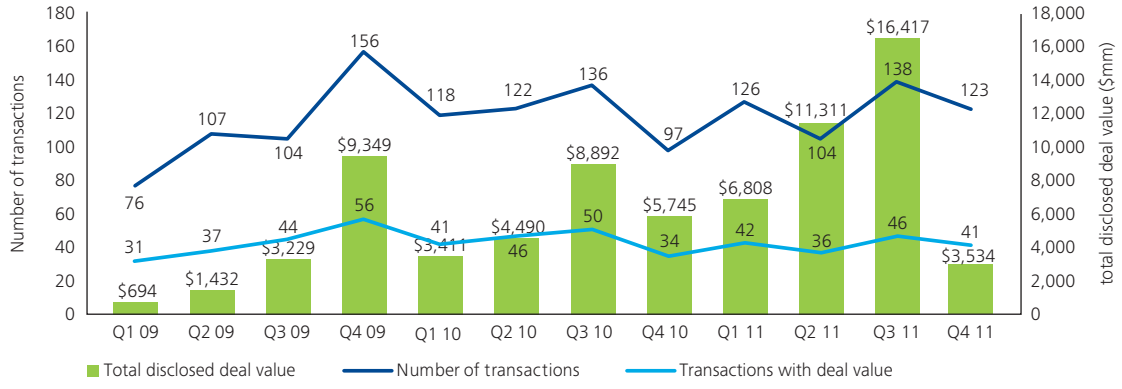
New York-based **Clayton, Dubilier & Rice, Inc.** acquired 60% stake in Bridgeton, Missouri-based **Hussmann International, Inc.** for approximately 0.4x revenue (CAD$192.9 million). Hussmann International, Inc. engages in the manufacture, sale, installation, and servicing of merchandising and refrigeration systems for the commercial food industry.

October 1, 2011

Canton, Ohio-based **The Timken Company** acquired Fulton, Illinois-based **Drives, LLC** for approximately 0.9x revenue (CAD$90.0 million). Drives, LLC manufactures ANSI precision roller chain, pintle chain, agricultural conveyor chain, engineering class chain, precision attachment chain, oil field roller chain, and auger products for agricultural, oil and mining, escalator, timber, oil separation, commercial, and power transmission markets in North and South America, Europe, Asia, Africa, and Australia.

Kempele, Finland-based **PKC Group Oyj** acquired Farmington Hills, Michigan-based **AEES, Inc.** for approximately 0.3x revenue (CAD$171.3 million). AEES, Inc. designs, develops, manufactures, and supplies electrical and electronic distribution systems for automotive and commercial transportation markets in the United States and internationally.

North American manufacturing M&A activity

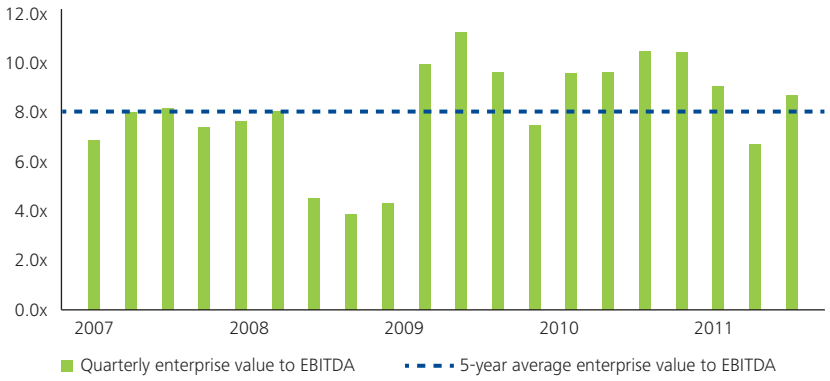


Source: Thomson Financial, Capital IQ

Valuation snapshot

Metal service centres (all values in trading currency $mm)

Company	Currency	Enterprise Value (EV)	EV/EBITDA
Reliance Steel & Aluminum Co.	USD	5,045	7.5x
Worthington Industries, Inc.	USD	1,639	9.0x
Russel Metals Inc.	CAD	1,426	6.7x
AM Castle & Co.	USD	296	10.9x
Olympic Steel Inc.	USD	503	9.0x
Adjusted average			8.5x
Adjusted median			9.0x



Source: Capital IQ. Note: Information as at December 31, 2011. Adjustments made to average and median to exclude high and low multiples.

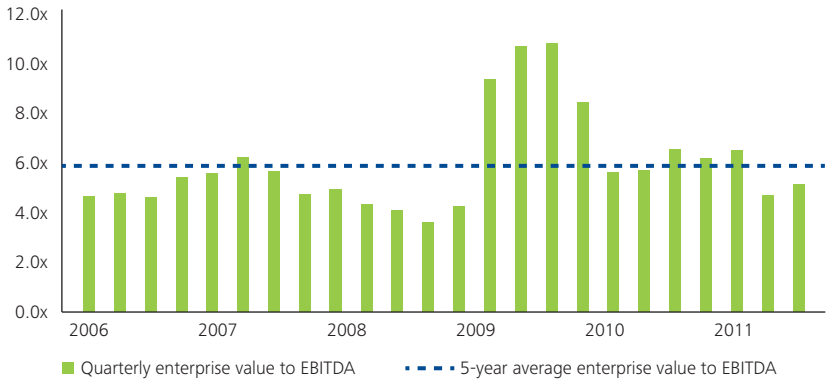
The metal service centre group profitability has shown some signs of recovery after the recession which led to falling demand and reduced steel prices. In September 2009, trailing twelve month ("TTM") profitability for the metal service centre group hit a cyclical low of $388 million in EBITDA. This is in contrast to TTM EBITDA of $1.8 billion for the metal service centre group in September 2008. As a result, EV/EBITDA multiples varied greatly over this period of volatile profitability. More recently, profitability for the metal service centre group has stabilized, with the TTM EBITDA of approximately $1.2 billion as at December 31, 2011. Additionally, the current metal service centre group EV/EBITDA multiple of 8.5x is floating above the historical average of 7.9x.

Profitability for the metal service centre group has stabilized, with the TTM EBITDA of approximately $1.2 billion as at December 31, 2011.

Similar to metal service centre's, auto parts manufacturer profitability was also severely impacted due to reduced demand for automotive products through the recent recession. In October 2009, TTM profitability for the auto parts manufacturing group hit a cyclical low of $3.4 billion in EBITDA. This is in contrast to TTM EBITDA of $9.5 billion for the auto parts manufacturing group in April 2008. As a result, EV/EBITDA multiples varied greatly over this period of volatile profitability. More recently, profitability for the auto parts manufacturing centre group has significantly increased, with TTM EBITDA of $10.7 billion as at December 31, 2011. However, the current auto parts manufacturers group EV/EBITDA multiple of 5.0x is below the historical average of 5.8x.

Auto parts manufacturers (all values in trading currency $mm)

Company	Currency	Enterprise Value (EV)	EV/EBITDA
Magna International, Inc.	CAD	6,856	3.3x
Martinrea International Inc.	CAD	917	6.2x
Lear Corp.	USD	3,208	3.1x
BorgWarner Inc.	USD	8,069	8.0x
Johnson Controls Inc.	USD	26,576	9.8x
American Axle & Manufacturing Holdings Inc.	USD	1,688	4.5x
Tenneco Inc.	USD	2,984	5.1x
TRW Automotive Holdings Corp.	USD	4,871	2.8x
Dana Holding Corporation	USD	2,646	4.0x
Linamar Corp.	CAD	1,498	4.5x
Wescast Industries Inc.	CAD	90	6.7x
Adjusted average			**5.0x**
Adjusted median			**4.5x**



Source: Capital IQ. Note: Information as at December 31, 2011. Adjustments made to average and median to exclude high and low multiples.

Similar to metal service centre's, auto parts manufacturer profitability was also severely impacted due to reduced demand for automotive products through the recent recession.

Industrial machinery (all values in trading currency $mm)

Company	Currency	Enterprise Value (EV)	EV/EBITDA
Danaher Corp.	USD	37,762	12.2x
Eaton Corporation	USD	17,532	8.1x
Parker Hannifin Corporation	USD	12,939	6.7x
Illinois Tool Works Inc.	USD	25,829	7.9x
Ingersoll-Rand Plc	USD	11,839	6.2x
Lincoln Electric Holdings Inc.	USD	3,067	9.4x
Dover Corp.	USD	12,031	7.8x
Adjusted average			**8.0x**
Adjusted median			**7.9x**

Source: Capital IQ. Note: Information as at December 31, 2011. Adjustments made to average and median to exclude high and low multiples.

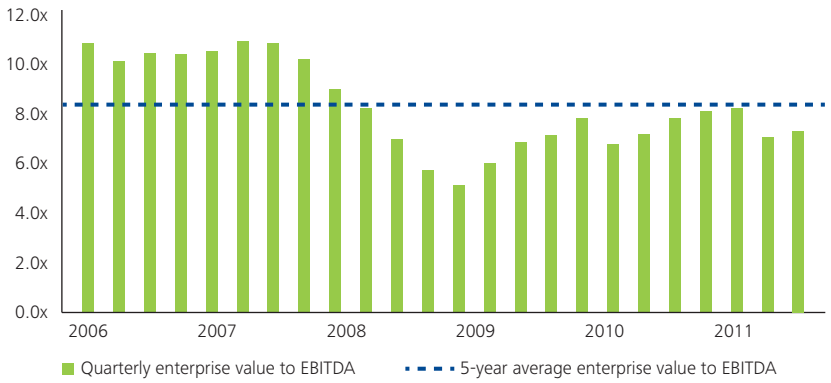
Profitability for the industrial machinery group has remained relatively stable during the economic cycle. In October 2009, TTM profitability for the industrial machinery group hit a cyclical low of $8.7 billion in EBITDA. This is in contrast to TTM EBITDA of $12.8 billion for the group in October 2008. Despite the relatively more stable profitability compared to other manufacturing groups, the stock market sold industrial machinery stocks off during the recent recession, resulting in volatile EV/EBITDA multiples. More recently, profitability for the industrial machinery group has increased, with TTM EBITDA of $14.2 billion as at December 31, 2011. Consistent with the recent volatility, the current industrial machinery group EV/EBITDA multiple of 8.0x is below the historical average of 9.3x.

Consistent with the recent volatility, the current industrial machinery group EV/EBITDA multiple of 8.0x is below the historical average of 9.3x.

The aerospace and defense parts and service group has experienced the most stable profitability of the manufacturing groups. In October 2009, TTM profitability for the aerospace and defense parts and service group hit a cyclical low of $25.2 billion in EBITDA, a $1.9 billion drop from the previous high of $27.1 billion in January of 2009. As at December 31, 2011, the TTM EBITDA for the aerospace and defense parts and service group reached $28.9 billion. Despite the very stable profitability compared to other manufacturing groups, the stock market sold aerospace and defense parts and service stocks off during the recent recession, resulting in volatile EV/EBITDA multiples. Current aerospace and defense parts and service group EV/EBITDA multiple of 7.2x is below the historical average of 8.2x; as cuts to the U.S. defense spending budgets are cooling growth expectations for the sector.

Aerospace & defence (all values in trading currency $mm)

Company	Currency	Enterprise Value (EV)	EV/EBITDA
CAE Inc.	CAD	3,186	8.8x
United Technologies Corp.	USD	72,949	7.2x
Lockheed Martin Corporation	USD	28,486	6.0x
General Dynamics Corp.	USD	26,238	5.8x
Northrop Grumman Corporation	USD	16,308	4.0x
ITT Corporation	USD	2,280	1.3x
Goodrich Corp.	USD	17,360	11.4x
Precision Castparts Corp.	USD	23,814	13.1x
Adjusted average			**7.2x**
Adjusted median			**6.6x**



Source: Capital IQ. Note: Information as at December 31, 2011. Adjustments made to average and median to exclude high and low multiples.

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Capital markets update

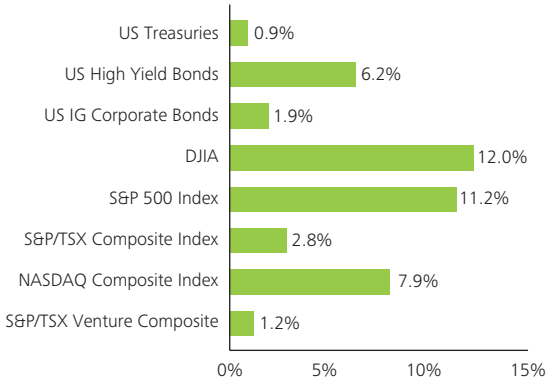
An eventful 2011 ends quietly

The events of the last few years have caused us all to challenge our assumptions about the financial and economic environment and its underpinnings. It has been a volatile year for Canada's economy with the second quarter's unexpected contraction followed by a sharp rebound in the third quarter. One-off events such as the natural disasters in Japan that reduced the auto industry activity temporarily derailed Canada's strong growth industry. While this ignited some talk of a double-dip recession, the release of the third-quarter data proved otherwise. The Canadian economy has picked up after stalling in the spring, with the auto sector recovering after supply chain disruptions arising from Japan's tragedy.

The Bank of Canada is expected to keep interest rates steady in 2012. With commodity prices staying historically high, U.S. demand recovering, and the Bank of Canada working hard to insulate the economy from the events in Europe, real GDP growth is forecasted at 2.0% in 2012. And the unemployment rate is forecast to remain steady at just above 7% in the year ahead.

The Canadian financial system remains strong despite the challenging global environment. While conditions in Canadian financial markets have tightened since June, prices have not declined as much as in most other countries and Canadian banks have not experienced any material reduction in their ability to raise funds in wholesale markets.

Q4 2011 returns



Source: Bank of America, Bloomberg, MSCI, Wall Street Journal, S&P LCD, Thomson Reuters/Jefferies

The events of the last few years have caused us all to challenge our assumptions about the financial and economic environment and its underpinnings. It has been a volatile year for Canada's economy with the second quarter's unexpected contraction followed by a sharp rebound in the third quarter.

Eurozone once again dominated the financial headlines

- Markets went through three distinct phases in as many months. In September, European equity markets underperformed other developed market equities on fears of another recession and the possibility of a disorderly default. In October, equity markets recovered on growing optimism that politicians would finally rally behind a comprehensive plan to tackle the crisis. All markets staged a brief rally the day after the euro area summit of October 26. The third phase, starting November 1, was a rollercoaster ride on intense political news flow over a proposed Greek referendum and leadership crises in Greece and Italy. Markets failed to recover even as reform-minded governments came to power in both countries. Indeed, bond markets witnessed bouts of intense selling pressure drawing ever wider circles. As a result, measures of volatility in bond and equity markets remained at elevated levels. Towards the end of November, equity and bond markets began to recover some of their earlier losses.
- The summit announcement triggered a sizeable rally in global financial markets on the belief that certain downside risks had been eliminated. While equity and credit markets rallied, the response was more muted in the bond market.
- In Europe, the members of the Eurozone agreed on a new package for assisting Greece, only to find that financial market stress kept getting worse as market participants doubted the package would be sufficient.
- The business-cycle tracer of the European Commission's Sentiment Index (ESI) confirms the threat of a recession in the Eurozone.
- However, talk about a Eurozone recession will not be uniformly felt. The danger of recession is particularly high in fringe nations where austerity packages are sapping growth and hurting confidence. Industrial nations like Germany and France are closely interconnected with their neighbours, but they are also dependant on demand for their goods from emerging markets, especially the BRICs and should continue to outperform others in Europe.

2.3%	7.5%	-11.1%	2.37%	1.0%
Growth expected to decline slightly to 2.0% in 2012	Canada's unemployment rate in Dec-11. It is expected to be stagnant at 7.3% during 2012	YTD return in S&P/TSX Index and 4.3% return in the S&P 500 Index in 2011	YTD High Yield bond fund returns	Bank of Canada O/N rate and the prime rate
Source: Bloomberg	Source: Bloomberg	Source: Bloomberg	Source: Morningstar	Source: Bloomberg

Debt markets

- Global debt capital markets activity totalled US$5 trillion during the full year of 2011, a 7% decrease from the comparable period in 2010.

- Fourth quarter global debt activity totalled US$948.5 billion, a slight decline from the third quarter and the slowest quarter for debt capital markets since the fourth quarter of 2008.

- The volume of global corporate high yield debt reached US$278.1 billion during full year 2011, a decrease of 14% compared to full year of 2010. Issuers in North America accounted for 70% of overall volume, down from 74% during 2010. European issuers, led by the United Kingdom, Germany and Italy, comprised 22% of new issuance, up from 20% last year at this time. With US$64.9 billion raised, the second half of 2011 marked the lowest six-month period for global high yield new issues since the first half of 2009, and a decline of 70% from the first half of 2011, which saw US$213.2 billion in activity.

- Canadian debt issuance in 2011, reached C$159.6 billion from 410 deals, representing an increase in proceeds of 3.4% compared to 2010.

- Canadian Domestic Corporate issuance (excluding self-funded issues) totalled C$52 billion from 151 issues, representing a 15.4% decrease in deal value from 2010.

- The overall U.S. syndicated loan's market issuance and volume for 2011 was a record high. Previously 2007 was the strongest on record. Total volume increased 75.1% to US$1,769.2 billion while issuance increased 46.8% to 3,141 deals compared to 2010. The average deal size for 2010 was US$472.3 million and in 2011 had increased to US$563.3 million.

- The U.S. leveraged loan volume for 2011 was at its strongest since 2007. Total volume for 2011 was 66.9% of the volume in 2007. Compared to 2010, total volume was up 47.1% to US$596.7 billion.

Equity markets

Equity capital markets activity totaled US$617.7 billion during the full year 2011, a 28% decline from the comparable period in 2010. Fourth quarter equity capital market activity totaled US$94.6 billion, a 10% decrease from the third quarter of this year, marking the slowest three-month period for global equity capital markets activity since the first quarter of 2009 when volume totaled US$71.8 billion. Global IPO volume totaled US$163.8 billion during the full year 2011, a decrease of 40% compared to the previous year when issuance totaled US$163.8 billion. Private equity-backed IPOs totaled $28.4 billion during the full year of 2011, accounting for 17% of overall activity. Issuers from the emerging markets raised US$75.2 billion during 2011, accounting for 46% of IPO volume during the period. The overall volume of equity capital markets activity remained highly concentrated among four main sectors including energy & power (14%), materials (14%), industrials (11%) and real estate (11%).

Public markets

Canadian equity and equity-related issuance totaled $32.2 billion from 565 issues in 2011, representing an 11.5% decrease in total proceeds from 2010. Fourth quarter proceeds of C$6.7 billion were up 7.2% sequentially. Energy & Power continued as the most active sector, with volume of C$13.8 billion in 2011 (a 42.8% market share). Materials and Real Estate were the second and third most active sectors, with C$23.8 billion and C$15.2 billion, respectively. In the fourth quarter, the Dow Jones Industrial Average jumped 12.0%, the S&P 500 gained 11.2% while the NASDAQ Composite climbed 7.9%. In Canada, returns were more muted as commodity prices slid, especially gold, with many predicting that the seven year bull market for the precious metal was coming to an end. During the quarter, the S&P/TSX Composite rose 2.8% and the TSX Venture Composite added 1.2%.

Private markets

Despite the initial positive outlook, fundraising proved to be very difficult in 2011 and the year ended with two of the poorest quarters for private equity fundraising since before the market downturn. According to Preqin, US$52.4 billion was raised by 108 funds, a similar total to Q3, which was the weakest quarter since the onset of the financial crisis. Annual fundraising reached just US$262.6 billion as 603 funds held a final close in 2011. Private equity fundraising floundered in the second half of 2011, with the funds that closed in the final quarter of the year raising a similar amount to those closed the previous quarter (US$54.4 billion). Despite a strong second quarter, in which 189 funds closed having collected US$88.4 billion in commitments, the annual total amounted to US$262.6 billion, less than the US$274 billion raised in 2010. Geographically, Europe-focused funds were the least prolific amongst those closed in Q4 2011. Buyout funds contributed the largest amount to the overall capital raised; 92 such funds closed having raised a combined US$69.2 billion. Venture funds were the most numerous of funds to close; 133 finished fundraising and pulled in an aggregate US$32.3 billion.

M&A activity was broad across all manufacturing sub sectors with continued strength in aerospace and defense parts and service, metal service and automotive parts suppliers.

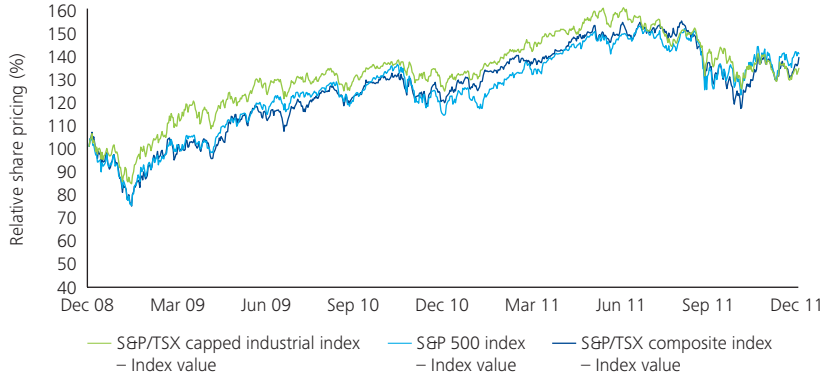
Manufacturing M&A Commentary

In the fourth quarter of 2011, the manufacturing industry witnessed a drop in merger and acquisition ("M&A") activity. M&A deal volume decreased 11% which was met with a 78% decrease in the aggregate value of M&A deals, quarter over quarter. On a year over year basis, M&A activity increased 4% in volume and 69% in terms of deal value.

M&A activity was broad across all manufacturing sub sectors with continued strength in aerospace and defense parts and service, metal service and automotive parts suppliers.

As the manufacturing sector continues to lead the economic recovery, we expect manufacturing M&A to increase over the coming period as certain manufacturing sectors consolidate to rationalize costs and build economies of scale. Confidence in a sustained recovery in manufacturing will give organizations the confidence to enact expansion strategies, which will include M&A.

Market indices versus S&P/TSX capped industrial index



Source: Capital IQ, Thomson Reuters

Reshoring: an opportunity for Canada?

The decline in the Canadian manufacturing industry has been well documented in the recent past and one only has to look at the graphs below to see how difficult it has been for the industry.

In 2000, manufacturing generated 18.4% of the country's GDP and was the biggest employer. This figure was down to 12.7% in 2010.

Manufacturing as a proportion of GDP in Canada

The manufacturing industry today employs 1.7 million. According to Statistics Canada, 519,000 manufacturing jobs were lost in Canada since 2003. This is the result of the well-known offshoring phenomenon whereby over the past 10 years western companies have trended towards outsourcing to low cost economies in an effort to maximize profits and remain competitive.

Manufacturing jobs as a proportion of total jobs in Canada

Today, however, an increasing number of stakeholders are questioning the true benefits of this process, as a number of factors are changing and the effects of the exodus are better understood.

From a cost perspective, developing economies are progressing at a rapid rate and their cost of living and salaries are narrowing the gap with western countries, while rising shipping costs from high oil prices and a growing consciousness for the environment are making near sourcing more compelling. Not to mention the important issue of intellectual property violations. Adding insult to injury, beside the resultant devastation to the North American manufacturing sector, companies that have taken products to China are now competing directly or indirectly with the same companies they initially outsourced to. Intellectual property laws are simply not enforced to the same extent outside of the western economies. One needs only to consider Apple to see the type of disregard for intellectual property laws. Having had a number of components manufactured in China, Apple is seeing a rapid increase in the number of imitation Ipods, Iphones and Ipads turning up in Asia. In fact, it was recently discovered that an entire imitation Apple store was established in China with employees thinking that they were working for the Cupertino based company.

As a result of these trends, one of the buzzwords that is being heard more and more within the industry is the concept of "reshoring". This essentially is reversing the trend of the last ten years by moving production back to the U.S. and Canada and consequently manufacturing jobs that have previously been outsourced to lower wage cost economies.

A recent Boston Consulting Group ("BCG") study has identified seven "tipping point" sectors that are poised to return to North America: transportation goods, computers and electronics, fabricated metal products, machinery, plastics and rubber, appliances and electrical equipment, and furniture. The report states that these industry groups could boost annual output by $100 million and generate 2 to 3 million jobs. Wages are projected to grow in China by 15 to 20 percent per year in U.S dollar terms, outpacing productivity growth in China. When this is coupled with rising shipping costs and the various other heartaches associated with international manufacturing one can clearly see the argument for "repatriation". BCG cites a number of companies who have already made the switch back and transferred some production from China back to the U.S: Ford, NCR, Coleman and All Clad to name a few. These companies have attributed this decision to factors other than purely wages such as the ability to serve North American customers more quickly, reduced risk of delivery delays and speed in the development of new products.

Companies that have taken products to China are now competing directly or indirectly with the same companies they initially outsourced to.

It certainly would be nice to think that manufacturing jobs would just ebb back naturally from China. This, however, is highly unlikely without policy makers and the manufacturing industry taking a number of aggressive steps to reshore these manufacturing jobs.

There are others that would argue that manufacturing will not leave China regardless of the above, as there is an abundance of labor at $2 per hour in the major cities. Furthermore, there are millions of workers in the smaller cities and towns that are working for 60 cents an hour who are only all too eager to move to the larger cities and earn an incremental $1.40 per hour.

The advocates of reshoring manufacturing from China should also be wary that China's loss may not necessarily be North America's gain. It could very well be a case of history repeating itself where in the early 20th century Britain lost its textile industry to Japan. As wages rose, those jobs left Japan, but went on to Hong Kong, Korea and onto China, never returning to Britain. Companies who decide to move their manufacturing capabilities from China may simply decide to move it to the super low cost economies such as India, Bangladesh, Vietnam and ultimately Africa, as opposed to returning to North America. However, many of these countries currently lack the supply base, infrastructure and labour skills that China has.

In Canada, as compared to the U.S., a recovery within the manufacturing sector may be even more challenging given that Canadian natural resource companies are thriving by exporting commodities to countries that have seen massive growth in manufacturing. The success achieved by resource companies has ironically made life more difficult for the manufacturers by driving up the value of the Canadian dollar, which in turn erodes manufacturers' competitiveness and provides an incentive to offshore production in low cost countries.

Perceptions are changing, China's wealth is growing, and the full cost of offshoring is being better appreciated. Corporate social responsibility has demanded that companies invest more and more on their "Green" agenda.

With the drop off in manufacturing activity, one of the other major challenges that the industry faces is the skills gap that has arisen over the past ten years. It is a vicious cycle whereby decreased manufacturing activity and opportunities have driven skilled workers out of the manufacturing industry and new graduates have decided to pursue alternative careers in other industries. In turn, the lack of a multigenerational skilled workforce acts as a deterrent to companies considering manufacturing in Canada. A contributing factor to this perfect storm is the demographic profile of the industry. A generation of the brightest, most entrepreneurial and skilled manufacturers is on the doorstep to retirement and the void left in the manufacturing workforce caused by sending manufacturing offshore means that this baby boomer generation of manufacturers are not afforded the opportunity to pass on their deep level of expertise. A manufacturing sector recovery in Canada will be made all the more difficult if the opportunity for knowledge transfer walks out the door with the retiring baby boomers.

What is undisputable is that the manufacturing landscape has fundamentally changed from the traditional manufacturing base that Canada enjoyed in the 80's and 90's. Despite the challenges there is clearly an opportunity today to reshore some of the manufacturing that has been sent overseas over the past 10 years. Perceptions are changing, China's wealth is growing, and the full cost of offshoring is being better appreciated. Corporate social responsibility has demanded that companies invest more and more on their "Green" agenda. Clearly, shipping raw materials and finished goods around the world is not in line with an environmentally conscious organization or society.

The opportunity to reshore certain manufacturing industries is real but will only be captured by a comprehensive and strategic approach by policy makers, education organizations and industry leaders that has a clear vision in terms of the economy of tomorrow and the industries and elements of the value chain that Canada wants to be a part of. A mix of policies, incentives and programs that focus on career development, innovation and technology and a rebalancing of export & import could get us there.

This is along the lines of the vision and roadmap outlined by the Take Back Manufacturing (TBM) group, an initiative which is sponsored by the Society of Manufacturing Engineers, that advocates that manufacturing will only return to North America if the correct policies and procedures are put in place now while the opportunity exists. Among other things, TBM notes how China can impose a higher rate of duty on the export of raw materials than on the export of finished goods, an initiative clearly designed to incentivize companies to add value prior to export and one that could be considered by policy makers in Canada.

For more information, please contact:

National manufacturing M&A team

Toronto

Tony Grnak
National Manufacturing Industry Leader
agrnak@deloitte.ca
416-601-6040

Doug McDonald
Partner
dcmcdonald@deloitte.ca
416-601-4661

Michael Morrow
Senior Manager
mimorrow@deloitte.ca
416-775-7325

John Jazwinski
Senior Manager
jjazwinski@deloitte.ca
416-601-6213

Maurizio Milani
Senior Manager
mamilani@deloitte.ca
416-874-3768

Eoin O'Connor
Manager
eooconnor@deloitte.ca
416-775-2314

Southwestern Ontario

Susan Mingie
Partner
smingie@deloitte.ca
519-650-7701

Anders McKenzie
Senior Manager
admckenzie@deloitte.ca
519-640-4665

Calgary

Jim Barker
Partner
jibarker@deloitte.ca
403-267-1793

Edmonton

David Sparrow
Partner
dasparrow@deloitte.ca
780-421-3864

www.deloitte.ca

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