Specialised Industrials Sector Report

December 2022

North Edge.

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Foreword

There is no doubt that the specialised industrials sector continues to play an important role in the UK, particularly in terms of providing supply chain resilience, high-value employment opportunities and supporting the UK's sustainability ambitions. Despite the macro-economic climate, the sector has continued to attract interest from investors, with M&A transactions involving UK manufacturers jumping to 779 deals in 2021, up almost a third from the 595 deals completed in 2020.

Given our experience of supporting several businesses in this sector, we believe there are three themes that have provided businesses with resilience in the current climate and will continue to support the growth of the wider sector – Automation, Onshoring and Circular Economy. In addition, we believe the regions will continue to play an important role in UK manufacturing, with c.50% of the UK's manufacturing turnover coming from NorthEdge's core regions. In this report we outline the key drivers and challenges of each theme, whilst highlighting the experience from our own portfolio.

This year we have supported Platinum Stairlifts, a manufacturer of specialist stairlift products, to invest in a new purpose-built manufacturing facility, Foundry Park. Based in Keighley, the multi-million pound site supports the business to improve process efficiencies, enhance product quality and double production capacity, as well as creating several new jobs in the area.

In recent years we have also supported portfolio company Clearly Drinks, a soft drinks manufacturer, by investing £5 million into a state-of-the-art canning facility. The multi-million-pound investment allows the business to further improve its sustainability credentials, by minimising the use of single-use and virgin plastic as it continues to scale.

Elsewhere in our portfolio The Belfield Group, the UK's largest white label manufacturer of home furnishings, sold its Usleep subsidiary to Vita in 2021. During the partnership with Usleep we provided significant investment into its manufacturing facilities, providing capacity for growth and the capability to deliver market-leading operational efficiency through semi-automated manufacturing - resulting in Usleep doubling EBITDA during the investment period. For the remaining divisions, we are continuing to support the business to build high-quality and sustainable products in the UK and further improve manufacturing efficiency.

Across the next twelve months, there will clearly be numerous challenges for the sector to overcome, however by adopting an agile approach; focussing investment into automation, sustainability and driving efficiencies, businesses can put themselves in a strong position to capitalise on the latest market trends.

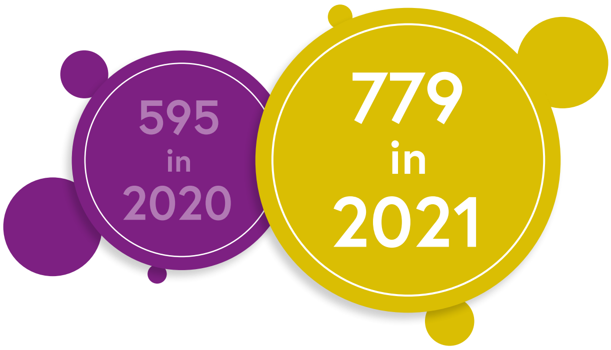
At NorthEdge we are proud of the role we can play in the Specialised Industrials sector, backing ambitious management teams and working alongside them to build better businesses, together.

Andy Ball, Partner

KEY STATISTICS

Market

M&A transactions involving UK manufacturers jumped to 779 deals in 2021, up almost a third from the 595 deals completed in 2020



In 2021 the number of private equity buy-out transactions rose by almost 40% year on year

MANUFACTURING INVESTMENT

34% of UK manufacturers are considering private equity investment to help fund the growth of their business

The sector represents 15% of total UK business investment

Manufacturers are investing £31bn into the UK economy each year

The UK is the 9th largest manufacturing country in the world

People

There are

2.5m

jobs provided by UK manufacturing

Britain's manufacturers are facing the largest shortage of skilled workers since 1989

Only 6% of businesses strongly believe that the skills gap is being addressed by the Government with effective policies in place

6%

86% of businesses agree that they have a responsibility to get involved in schools and training to shape the workforce of the future

86%

86%

86% of businesses have a policy in place for upskilling and retraining their workforce, and believe in life-long learning

85%

85% of businesses believe in leadership training for all levels of management, and have a workforce development programme in place

Within manufacturing, 80% of workers have expressed a desire to upskill in 2022 to learn more and progress their careers...

80%

67%

...a further 67% also felt that gaining new skills was key to achieving their work goals

Just 2% of manufacturers have an average workforce age below 30

2%

30

IN FOCUS
Automation

500,000

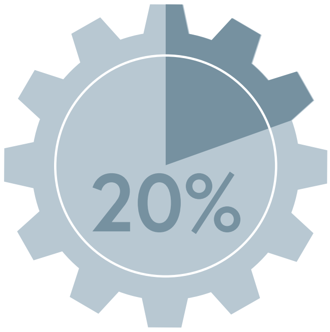
Last year the number of industrial robots installed around the world hit an all-time high of over 500,000...

31%

...representing a 31% year-on-year expansion.

Over the past 30 years, the average robot price has fallen by half in real terms, and even further relative to labour costs

Implementing industrial robots is estimated to save companies up to c.20% in total costs



£6.3bn boost

Smart factories could provide a £6.3bn boost to UK manufacturing by 2030.

£147 million investment

The British government is set to invest £147 million into the second round of "Manufacturing Made Smarter", a scheme set to promote innovation and interconnectivity within the UK's manufacturing scene.

Automation

With shifts in consumer demand driving the need for greater output, quicker deliveries and reduced costs, manufacturers are increasingly turning to automation to increase operational efficiencies. In the past automation was synonymous with heavy and expensive machinery, however with declining costs and significant advances in technology, automation is now viewed as an attractive solution for operators looking to adopt a flexible manufacturing model.

Robotics is one area that is leading innovation within the industry and has been pinpointed as a key trend to progress the future of automation. In the last year alone the number of industrial robots installed around the world hit an all-time high of over 500,000, a 31% year-on-year expansion. This rapid growth can be linked to falling robot prices, which have halved across the last 30 years as production has increased. Whilst there are obvious benefits to robotics, mainly centred around increased productivity, it becomes even more appealing when considering the full cost angle, particularly improved margins and controlled overhead spend. Implementing industrial robots is estimated to save companies up to 20% in total costs, a figure that is expected to rise to 22% by 2025.

Another area receiving more interest, and one that goes hand in hand with robotics, is the development of smart infrastructure. Given the wider manufacturing sector is moving towards a digital first approach, many businesses are utilising smart and autonomous systems, fuelled by data and machine learning, to create a more reliable and scalable operation. Examples of this technology include the utilisation of machine learning to analyse robotic patterns and ensure operations are fully optimised for efficiency. Another example is using data in a connected supply chain to proactively adjust for any delays and modify manufacturing priorities in real time. With reports suggesting that smart factories could provide a £6.3bn boost to UK manufacturing by 2030, with 5G-powered manufacturing reported to have the biggest potential impact in the North West, North East, Midlands, and Wales, more manufacturers are looking for ways to create a digitised and connected environment to improve process efficiencies and reduce costs.

As part of a government scheme companies can reduce their tax bill by up to **25p for every £1** **that is invested in automation machinery until March 2023**

From a people perspective it's a common misconception that these innovations will result in humans being replaced from the process entirely. If anything, the emergence of these technologies means that people's roles within factories will evolve for the better. For example many manufacturers rely on robotics to take up routine tasks, which provides employers with the flexibility to upskill and reallocate people to more highly-skilled and fulfilling roles. It has also been a source of job creation as more people are needed with the right mix of skills to design, install, operate and maintain the latest digital technologies.

Given the many benefits linked with automation, the UK Government has announced several schemes as a way of boosting the UK's recovery from the Covid pandemic. In 2021 Rishi Sunak, then Chancellor, announced new legislation that would encourage companies to invest in new productivity-enhancing machinery by March 2023. As part of the scheme companies can reduce their tax bill by up to 25p for every £1 that is invested in automation machinery. It was also announced that the Government is set to invest £147m into the second round of 'Manufacturing Made Smarter', a scheme set to promote innovation and interconnectivity within the UK's manufacturing industry. Businesses can capitalise on this further investment to bring more automated solutions into their operations and excel in an increasingly competitive and dynamic marketplace.

IN FOCUS
Onshoring

90%

...of manufacturers cited the pandemic as a key cause of disruption to their supply chains.

75%

...of companies have increased the number of their British suppliers in the past...

2 years

71%

...of leaders are making onshoring plans to improve quality - particularly to access qualified people, skills and technology

15%

...of manufacturers have increased their use of local suppliers to simplify logistics and be more responsive to external changes in the supply chain.

Onshoring

Over the last two decades, there have been significant cost advantages to offshoring, however given the increasing risk of supply chain disruption, rising labour costs in developing countries, the current geopolitical climate and a desire to reduce carbon footprints, offshore manufacturing has become less appealing than it once was.

In the past many businesses offshored process to developing economies to gain a competitive advantage from the lower price points, however as labour costs have risen across the last decade, there is a growing trend for businesses to return to UK suppliers. Covid-19 could be seen as a catalyst for onshoring, with 90% of manufacturers citing the pandemic as a key cause of disruption to their supply chains. Whilst the pandemic may have kickstarted the conversations around a return to the UK, it's certainly not the only reason. Businesses are viewing onshoring as an increasingly important step to increase UK productivity, bolster manufacturing resilience and ensure supply chains are fit for the future.

With research showing that 75% of companies have increased the number of their British suppliers in the past two years, it appears more leaders are beginning to understand the intrinsic value attached to bringing production back to the UK. The ability to simplify logistics and be more responsive to external changes within the supply chain has its obvious benefits, and with 15% of manufacturers increasing their use of local suppliers, it seems more businesses are taking the steps to become more agile and mitigate any future risks.

Further research shows that the main driver behind onshoring is a renewed focus on quality, with 71% of leaders making onshoring plans particularly to access qualified people, skills and technology. This has many positive implications for UK supply chains, as with increased investment into skilled labour and the latest technology, manufacturers can build smart and resilient supply chains that are capable of withstanding external disruptions.

75% **of companies have increased the number of their British suppliers in the past** **2 years**

There are also a number of positive implications from an environmental point of view. From an ESG perspective, onshoring has the potential to decrease environmental impact by reducing the physical distance travelled by goods, helping to reduce any additional carbon emissions in the process. It also had the power to positively impact social and governance factors, as it can improve brand reputation amongst consumers whist also increasing transparency for all stakeholders.

From an investment perspective, private equity firms are seizing opportunities to invest in high quality companies that are taking steps to onshore operations. Businesses can take advantage of this growth opportunity to minimise supply chain disruptions, and leverage the latest technology to create more efficient and cost-effective approaches.

IN FOCUS
Circular Economy

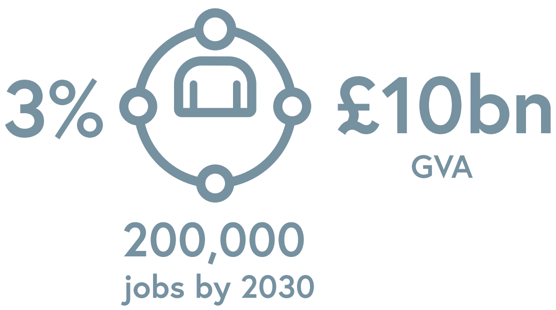
> £788m across 119 investments

There was over £788m of capital deployed across 119 circular economy investments in 2021 – c.3x the capital deployed in 2020

The Specialised Industrials and Manufacturing sector was the most prominent for circular economy investment in 2021, accounting for 37% of deal volumes

Upwards of 70% of consumers would pay an additional 5% for a green product, if it met the same performance standards as a non-green alternative.

Moving the UK towards a more 'circular' approach could increase productivity by 3% annually, generate a further £10bn GVA and create 200,000 jobs by 2030



A machinery producer may be able to save up to 60% of the total material costs of the individual products by refurbishing machines and reusing components

Circular Economy

The notion of businesses continuing to use raw materials at the current rate is simply not sustainable, with more companies beginning to re-think the way they do business to support the economy of the future. With a need to support a growing population whilst navigating uncertain supply chains, diminishing resources, tightening environmental regulation, and the urgent need to reduce carbon emissions, the importance of a circular economy is growing at pace.

The circular economy has caught the imagination of leaders across the world, and is taking shape as a viable, practical alternative to the traditional linear economic model. The European Union has already taken steps to develop the concept of a circular economy by making it one of its key strategic objectives in the EU Taxonomy, which will resolutely promote the financing of circular economy solutions. From a manufacturing perspective, the European Commission also launched a circular economy action plan last year to encourage manufacturers to deliver on circularity in order to meet the EU's 2050 climate targets.

70% **of consumers would pay an additional** **5%** **for a green product that meets the same performance standards**

In Britain, businesses are already working together to move from 'production lines' to 'circular systems' that guarantee every energy and material input and output is used efficiently or upcycled into another production cycle. In our portfolio, Future Industrial Services, a provider of industrial and environmental services, invested into a new waste treatment facility which opened in November 2021. The multi-million pound investment allows the business to support its customers with sustainable development goal-aligned services and increase contribution to the UK's circular economy.

The economic case to switch towards a more 'circular' approach is compelling given the many positive benefits for the wider UK economy. Research suggests that productivity could increase by 3% annually, generating a further £10bn GVA and 200,000 jobs by 2030. There are also many layers of sustainable and economic value for businesses who adopt a circular model. For example, a machinery producer may be able to save up to 60% of the total material costs of the individual products by refurbishing machines and reusing components. Furthermore, new customer segments can also be reached, with research showing that upwards of 70% of consumers would pay an additional 5% for a green product, if it met the same performance standards as a non-green alternative. Businesses can take the first steps towards a more sustainable approach by reducing the use of raw materials, reusing used products or materials and recycling old products at the end of their life.

From an investment perspective, there was over £788m of capital deployed across 119 circular economy investments in 2021. The specialised industrials and manufacturing sector was the most prominent for circular economy investment in 2021, accounting for 37% of deal volumes. This presents an exciting growth opportunity for businesses, through introducing circular products and services, companies can support the UK to build a more resilient economy and reach its sustainability goals.

TAKING RESPONSIBILITY

Over the last few years 'responsibility' has taken on many different names and meanings. In the context of business, it generally refers to a company's commitment to do more than just make a profit – focussing on building a business that will be sustainable for many years to come.

The name often associated with this commitment is Environmental, Social and Corporate Governance (ESG). Although the case for a strong ESG proposition becomes more compelling when looking to combat issues such as climate change and the gender pay gap, it also makes sense from a commercial standpoint. A recent study from PwC found that 66% of respondents cited value creation as their main driver for ESG activity.

Corporate responsibility is no longer a nice-to-have, it's now a key factor in judging the value of a business and will continue to be long into the future. Given the extensive role the specialised industrials sector plays in supporting the UK economy, manufacturers have a significant role to play towards building a sustainable future – especially surrounding the topics of People and Sustainability.

People

Reports suggest that Britain's manufacturers are facing the largest shortage of skilled workers since 1989. Whilst the Government have introduced several schemes and polices to improve these statistics, businesses can also evolve their own approach to people to ensure they attract and retain the best talent.

Within manufacturing, 80% of workers have expressed a desire to upskill in 2022 to learn more and progress their careers. A further 67% also felt that gaining new skills was key to achieving their work goals. This represents a huge opportunity for manufacturers who can offer retraining and upskilling programmes that support colleagues to adapt and thrive in their roles. With the rise of automated processes in manufacturing, there will also be a need to train colleagues to work with the latest technologies. Expanding people's skill set will allow them to work alongside automated processes, to become more streamlined and improve efficiencies.

There is also a misguided perception of the industry that jobs are low-paid and monotonous. This alongside the view that 'Britain doesn't make anything anymore' is causing many young people to overlook a career in the industry. To counteract this, businesses should look to place a spotlight on the employee value proposition that they offer - whether that's modern working facilities, use of advanced technologies, opportunities for development, career mobility, wellbeing, culture or purpose.

There is also an opportunity to improve diversity in the manufacturing industry to ensure that all under-represented groups are included proportionally across roles and activities. Research shows that only 67% of manufacturers have a DE&I strategy or are planning one, just 2% of manufacturers have an average workforce age below 30 and ethnic minority representation on boards is only 5%. Not only is there a moral obligation to start changing these stats, but it is also integral to further innovation and sustainable growth within the sector.

It is also important to consider the impact of automation and AI on the diversity in the industry, whilst investment in this area can support businesses to improve efficiencies and reduce costs, it is often low-skilled or administrative roles that are most affected – these roles are typically occupied by a disproportionate number of female and ethnic minority workers. Therefore, in order to keep improving diversity (and therefore productivity) in the sector employers must continue to place a focus on upskilling talent as well as investing in automation. Companies that take the time to invest in their people will be able to attract and retain the best talent in the market and reap the commercial rewards that a highly engaged and motivated workforce brings.

Sustainability

ESG factors have redefined and elevated sustainability in manufacturing like never before. With 95% of manufacturing executives expecting their organisations to invest more in ESG areas throughout 2022, it has become an increasingly important area of focus to deliver sustainable growth.

Due to the increased scrutiny around the impact on our planet, more industrial companies are aiming to operationalise and communicate environmental commitments in all areas, including design, sourcing, production, distribution, and disposal. There is also an extremely high awareness within the sector of the Government's net zero targets, with many manufacturers recognising this as an opportunity to innovate and differentiate themselves from competitors. Sustainable initiatives that can help businesses to carve out a competitive advantage and stay ahead of the curve include:

Building a more sustainable supply chain – reviewing the supply chain and logistics channels to cut down on carbon emissions, create efficiencies and ensure fair treatment of labour

Efficient resource usage – reducing wastage through the usage of recycled materials and manufacturing recyclable products

Green facilities – optimising facilities to operate on a greener basis i.e. using renewable energy sources and re-using waste outputs from the manufacturing process

Whilst it will take time to implement these changes, and will require the right level of input and collaboration across the business, manufacturers that embrace the changes will put themselves in a strong position to achieve improved levels of profitability, competitive advantage and employee engagement – all whilst having a positive impact on the planet.

CASE STUDIES

thebelfieldgroup

The Belfield Group design and manufacture products for the home, which are distributed via a multi-channel approach. Throughout our investment, we have supported the business to improve the sustainability of their manufacturing processes and products:

19

eco-sustainable products launched in 2021 across seven customers

25

eco-sustainable products launched in 2022

UK-based manufacturer

Reduced energy usage in production

Lower carbon footprint

Recycled, natural and recyclable materials

Use of recycled pre and post consumer waste in production

Zero waste to landfill

Manufacturing to order to minimise wastage

Health & Safety is a top priority

Responsibly sourced

FSC LEATHER WORKING GROUP ISO 14001 Sedex

In 2017 we acquired a majority stake in Clearly Drinks, a soft drinks manufacturer in the fast-growing flavoured spring water sector that specialises in sugar-free products. On investment we recognised that Clearly Drinks was playing a key role in supporting the UK to reduce its obesity rate by providing tasty and healthy sugar-free products, however we also recognised the impact that they were having on the planet through their use of single use plastic, energy and water. As a result Clearly Drinks have introduced several initiatives to improve their impact on society and reduce their impact on the planet:

100%

Made all their bottles 100% recyclable

640 tonnes

Made a commitment to eliminating 640 tonnes of plastic from their packaging

160 million

With NorthEdge support, Clearly invested into a state-of the-art canning facility which can produce up to 160 million cans each year

Clearly has partnered with the North East Autism Society to provide employment opportunities for young people with autism, and in 2020 the business also became a Disability confident employer.

Earlier this year Platinum Stairlifts, a designer and manufacturer of specialist stairlift products, opened a brand new purpose-built manufacturing facility, Foundry Park in Keighley.

Platinum currently ships over 10,000 stairlifts a year to its network of partners across the UK, Europe, North America and Australia, however this new multi-million pound facility will provide Platinum with the capacity to more than double production – supporting the business to serve the increasing demands of the global market.

10,000

stairlifts shipped a year to UK, Europe, North America and Australia

30

new manufacturing jobs created over the next 6 months

95%

of unused paint from the production process is recycled

50% increase in headcount since investment, now employing over **250** people throughout Yorkshire

Our Specialised Industrials Track Record

6 investments across 2 funds

ACCROL PAPERS

thebelfieldgroup

bridge farm group

CLEARLY DRINKS®

DW3

fine industries

Includes current investments and exits >1x MOIC

About NorthEdge

NorthEdge is a lower-mid market private equity firm headquartered in the North, owned, and built by its senior team, supported by a global blue chip investor base. We have £900m AUM across four regionally focused funds.

Headquartered in Manchester, with offices in Leeds and Birmingham, we have a 25-year track record of investing in businesses with ambitious management teams and significant growth potential. Our current portfolio of 27 businesses employs over 7,000 people.

We look to invest in like-minded businesses and management teams who have real ambition and the potential to shape global markets. We back management teams, in the Specialised Industrials, Technology, Healthcare and Business Services sectors, who recognise the value of having an experienced business partner alongside them, supporting them to build a better business. Within the Specialised Industrials sector our key areas of focus are Advanced Manufacturing & Automation, Renewables & Green Supply Chain, Modern Methods of Construction & Asset Rental, and Speciality Chemicals.

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Building better businesses, together

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