

BDO CAPITAL MANUFACTURING & DISTRIBUTION

Q2 2017 M&A Review and Outlook

CONTENTS

STATISTICALLY SPEAKING	2
Volumes	2
Valuations	2
MARKET SPOTLIGHT	3
ECONOMIC INDICATORS.....	4
IN SUMMARY.....	4
BDO CAPITAL TRANSACTION.....	5

BDO Capital Advisors, LLC provides counsel in the areas of:

- ▶ Mergers & Acquisitions
- ▶ Capital Raising
- ▶ Board Advisory

Please direct inquiries to:



Dan Shea | *Managing Director*
Los Angeles
310-557-8205
dshea@bdocap.com



Bill Shiry | *Managing Director*
Chicago
312-233-1856
wshiry@bdocap.com

A LULL IN THE ACTION

Appetite and Opportunity for Deal Making Are Palpable Though

Sector Deal Volume Down; Multiples Remain High

M&A activity in the *Manufacturing & Distribution (M&D)* sector began declining during the second half of 2016 and was down 18.5 percent during the first four months of 2017. We believe that election concerns initiated the trend and post-election uncertainties about tax, regulatory and healthcare reforms continue to hamper transaction activity.

Deal pipelines are now filling though, so we expect activity to once again rise, particularly given optimism among sector executives as noted in recent surveys.

Publicly traded sector companies have surged ahead, with our M&D Index up by approximately 20 percent over the S&P 500 since Election Day. Public investors are clearly expecting big things from the Trump administration's proposed pro-manufacturing policies.

The average EBITDA multiple in recent sector transactions continues to hover at approximately 9.0x. A buyer paying this much for a business must either bring significant synergies and/or a sound plan to grow profits quickly and dramatically or ROI will likely suffer.

Market Spotlight – 'Maker Cities' Help Revitalize U.S. Manufacturing Sector

Maker Cities are an important revitalizing element of the U.S. manufacturing base. Specifically, Maker Cities are municipalities wherein key stakeholders – elected officials, industry executives, educators and the citizenry – plan and work in concert to promote the local industrial base.

Part and parcel of a Maker City are employers and schools joining to develop work/study programs and lifelong learning opportunities focused on the modern tools of production – computer science, robotics, electronics, computer-aided design and advanced manufacturing.

Maker Cities are also focused on providing a suitable ecosystem – affordable housing, transportation, high-speed internet and business friendly taxation and regulation. These things support and promote a healthy business environment and provide a quality of life that workers of all ages appreciate. They also promote an environment attractive to capital formation and M&A activity.

Economic Conditions Promote Growth in Demand for Goods and Services

U.S. manufacturers added a net 41,000 jobs during the first four months of 2017, a notable turnaround from the 16,000 net job loss in 2016. GDP growth remains stubbornly low, at an annualized rate of 1.2 percent in Q1 2017, but is expected to rise modestly in near-term quarters. The biggest positive is optimism among M&D executives as well as consumers as noted in the recent ISM report and the University of Michigan's consumer sentiment survey.

STATISTICALLY SPEAKING

Volumes

Deal volume in the M&D sector began declining during the second half of 2016, down 26.5 percent compared to the second half of 2015. The decline continued into 2017 with April YTD down 18.5 percent versus the year-earlier period (see Figure I).

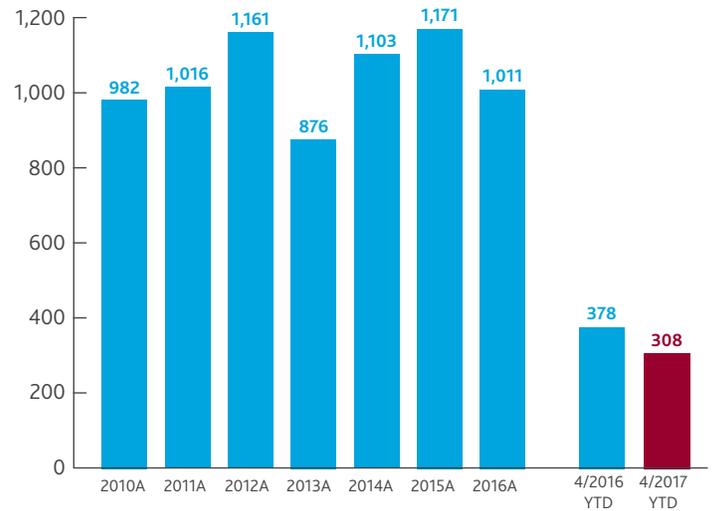
While this is troubling news for sector deal makers, the downtrend is likely to be short lived. It is clear that both buyers and sellers were more cautious during the latter half of 2016 largely due to election year concerns and, in particular, the raucous presidential race.

Heightened caution remains after the election, albeit down a few notches. Many would-be sellers remain in “wait and see” mode as the tax, regulatory and healthcare debates ensue. The good news for business is that earnings continue to rise and surveyed manufacturing executives suggest broad based optimism about the near and medium-term.

We know from our deal flow that both strategic and financial buyers remain interested in acquiring M&D businesses and are armed with substantial cash and ample access to debt capital. We also know that deal pipelines are refilling. Stay tuned.

Indeed, the M&D sector continues to be sought after by investors, remaining a substantial slice (16 percent-18 percent) of the entire U.S. deal market. Further, sector closings continue to break approximately 2:1 in favor of strategic versus financial buyers and attractive M&D company auctions are usually well attended by both camps.

FIGURE I
Transaction Volumes — U.S. Manufacturing & Distribution
2010A – April 2017 YTD

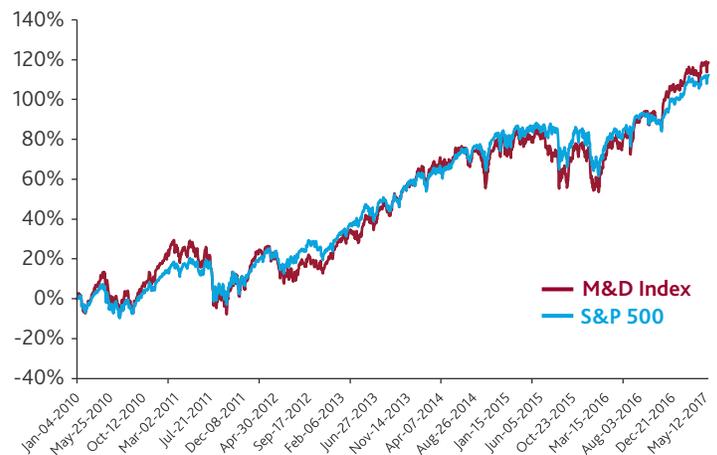


Source: BDO Capital Research and S&P Capital IQ

Valuations

While modestly more volatile, publicly traded M&D securities have generally mirrored the performance of the broader market during the post-recession period (see Figure II). Things shifted following the 2016 election however and, as of May 24, 2017, our M&D Index (a basket of over 700 M&D stocks) has bested the S&P 500 by over 20 percent. The intended policies and early actions of the new administration have provided cause for optimism among M&D sector participants and investors. It is nice to see, too, that investors in our basket of M&D stocks would have earned a nearly 120 percent return on their money in the last 7.5 years.

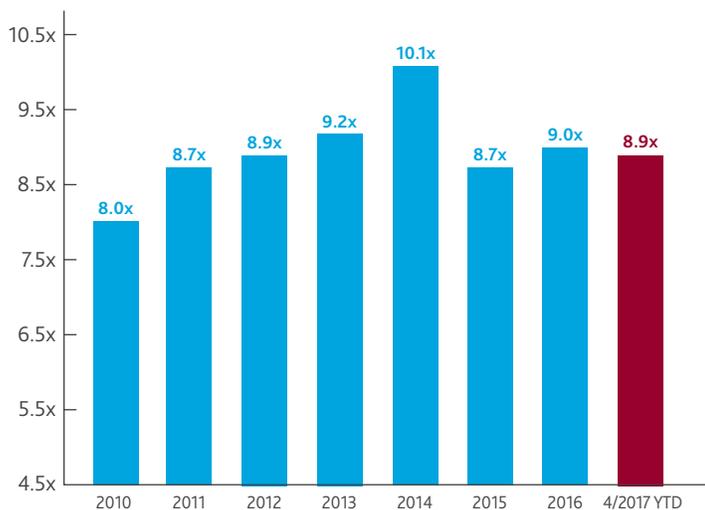
Figure II
Public Company Index — U.S. Manufacturing & Distribution
Jan 4, 2010 – May 24, 2017



Source: BDO Capital Research and S&P Capital IQ

Valuation multiples for middle-market M&D transactions peaked in 2014 at an average of 10.1x EBITDA (see Figure III), when an abundance of strategic and financial buyer interest drove prices up. Multiples have since moderated but still remain very high. The average EBITDA multiple for an M&D control sale transaction during 2017 registered approximately 8.9x. We expect to see some downward pressure on multiples as the economic upcycle ages.

FIGURE III
Avg EBITDA Multiples — U.S. Manufacturing & Distribution
Transaction EV of \$500M and Under
2010A – 4/2017YTD



Source: BDO Capital Research and S&P Capital IQ

MARKET SPOTLIGHT

'Maker Cities' Help Revitalize the Manufacturing Sector in America

The manufacturing base in America has become more competitive in recent years. This competitiveness is beginning to show in the employment statistics with U.S. manufacturing jobs up in 2017 by 41,000 through April. In contrast, the U.S. manufacturing job base shrank by 16,000 in 2016.

Innovation, an energy cost advantage, and proximity to customers, among other things, have led to a gradual turnaround in U.S. manufacturing. This turnaround is serving as a call to action among industry leaders, government officials, educators, investors and ordinary citizens to work together to transform population centers across the country into "Maker Cities" (see *U.S. News & World Report* article by Hirshberg and Kadanoff).

Maker Cities tend to be mid-sized in terms of population – not New York, Los Angeles or Chicago, for example, but Raleigh,

Pittsburgh, Louisville and smaller. They are places where community leaders come together to decide where their city can be "best in class." Leaders then focus investments accordingly. In the case of Louisville, with big local players such as UPS, GE and Ford, the focus has been on logistics and advanced manufacturing. A May 25, 2017 article in the *Louisville Business First* touted three separate companies in logistics and manufacturing who recently invested a combined \$25 million in local facilities and created 41 new job openings, 17 of which pay \$29 per hour. While anecdotal, these investments point to much broader movement.

Part and parcel of this movement is the aligning of worker training/education with the needs of local employers. Classroom time, employer-developed work-study programs, and lifelong learning opportunities (e.g., boot camps, online classes, "nanodegrees") are leading to the shrinking of the "skills gap" as well as to higher paying jobs and an overall stronger economic base and brighter future for communities.

Manufacturers need their workers to focus on the modern tools of production – computer science, robotics, electronics, computer-aided design and advanced manufacturing. These areas of study tend to be where school-employer alignment has been focused. In fact, many Maker City communities are introducing technology-oriented curricula into early education. Indeed, competitiveness is being redefined in the Maker City paradigm as a workforce's ability to collaborate in solving problems via the application of new technologies. Education is critical to the mission.

Maker Cities are also focused on providing an infrastructure suited to promote local manufacturing. Affordable housing, commuter-friendly transit, high-speed internet and business-friendly permitting and taxation policies are important to the ecosystem. These things support and promote a healthy business environment and provide a quality of life that workers of all ages appreciate.

The manufacturing base in America has suffered greatly over the past 25 years. Small and mid-town U.S.A. have shouldered a significant portion of the burden. Many have said that manufacturing in America will not recover. Thankfully Maker Cities across the country are challenging this notion. While much work needs to be done, we see the Maker City approach spreading further in coming years. In doing so, we believe it can help strengthen businesses and communities and also present investment opportunities for strategic and financial investors in search of attractive returns.

ECONOMIC INDICATORS

The U.S. economy remains stubbornly slow but is showing recent signs of acceleration. A sense of optimism bodes well for M&A in the near-term. Certain relevant economic indicators include:

U.S. Gross Domestic Product (GDP)

U.S. economic growth slowed to an annualized rate of 1.2 percent (second reading) during Q1 2017, down from 2.1 percent during Q4 2016. The main culprits were slow inventory investment, slow gains in productivity and labor shortages. Early indications suggest that Q2 2017 growth will be higher due in part to industrial production accelerating. *The Wall Street Journal's* survey of more than 60 economists currently predicts growth of 3.1 percent, 2.6 percent and 2.5 percent during Q2, Q3 and Q4, respectively, of 2017. In other words, growth will likely remain stubbornly below the administration's stated goal of 3+ percent.

Institute for Supply Management (ISM) Index

Despite recent GDP results, ISM indicates that manufacturing growth should continue through the rest of 2017. Based on a survey of purchasing and supply executives across 18 industries, ISM predicted an average revenue increase for the year of 4.4 percent, with executives being optimistic about rising demand for their goods and services amid signs of solid consumer confidence. Further, manufacturers this year expect a 5.2 percent increase in capital expenditures and a 1.3 percent rise in employment.

Jobs Report

Total nonfarm payroll employment increased by 211,000 in April 2017, and the unemployment rate was little changed at 4.4 percent according to the U.S. Bureau of Labor Statistics. Both the unemployment rate and the number of unemployed persons, at 7.1 million, changed little during the month. Over the past 12 months, the unemployment rate has declined by 0.6 percent. As already mentioned, job growth in the M&D sector is off to a great start in 2017, up 41,000 jobs through April, while real wages are on the rise.

Consumer Confidence

Consumer confidence remains high according to the University of Michigan Sentiment Index. It has continued to move along the high plateau established in November 2016 and currently reads 97.1. The December to May average is 97.3.

IN SUMMARY

The current lull in deal activity in the M&D sector is expected to be temporary. Deal pipelines are filling and sector executives are feeling optimistic about the new Administration's pro-growth, pro-manufacturing initiatives. Valuation multiples remain very high.

The sector is evolving with Maker Cities leading the way. Constituents of these cities are coming together for the benefit of local industrial bases. Real job growth has been seen among M&D companies this year and, while the overall economy remains sluggish, it is stable, and stability is good for deal making.

BDO CAPITAL TRANSACTION

BDO Capital Advisors, LLC, is pleased to announce the sale of Marshall Excelsior Company (MEC) to the Harbour Group family of companies. As the exclusive financial advisor to MEC, BDO Capital assisted with the preparation of a confidential offering memorandum, contacted a select group of strategic and financial buyers, and advised the shareholder on structuring and negotiating the transaction. Family-owned and operated, MEC is headquartered in Marshall, Michigan, and is a leading designer, manufacturer and supplier of mission-critical, highly engineered flow control products used in the transportation, storage and consumption of liquefied petroleum gas (LPG) and liquefied anhydrous ammonia (NH₃). Harbour Group is a privately owned, operations focused company based in St. Louis, Missouri. Harbour Group's companies are engaged in manufacturing and distribution across diverse industries. The MEC sale highlights BDO Capital's extensive experience in the flow control and industrial component sectors, and in successfully positioning businesses with leading acquirers. The BDO Capital transaction team was led by Bill Shiry, Managing Director, with support from Associates Lyndsay Ronan and James Wenk.



About BDO Capital Advisors

BDO Capital Advisors, LLC, a wholly-owned affiliate of BDO USA, is a leading middle market investment bank that focuses on sell-side advisory, acquisition advisory, capital raising and board advisory services with offices located throughout the United States. The firm has deep industry knowledge, extensive cross-border transaction experience and superior execution capabilities. The firm has broad industry expertise and contacts having closed transactions within the Manufacturing & Distribution, Consumer, Food & Retail, Healthcare & Life Sciences, Business Services, Energy & Natural Resources and Technology, Media & Telecom sectors. Our seasoned investment bankers have collectively advised on hundreds of transactions for a variety of clients including family-owned businesses, entrepreneur-led companies, public corporations and leading private equity firms. Our professionals also draw upon the full depth and breadth of BDO USA's national resources which include 60+ offices and over 5,000 professionals located throughout the United States.

The firm has worldwide access to buyers, sellers and offshore investors via the Corporate Finance practices of BDO International's network of independent member firms which have been ranked collectively as a Top 5 global M&A mid-market advisor based on total deal volume announced in 2016, according to Thomson Reuters SDC. BDO International Corporate Finance firms operate in approximately 100 countries with over 2,000 professionals who are able to meet the investment banking needs of clients across the globe.

BDO Capital Advisors, LLC is a separate legal entity and is an affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm. BDO Capital Advisors, LLC is a FINRA/SIPC member firm. For more information please visit: www.bdocap.com.

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 67,700 people working out of 1,400 offices across 158 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.

This publication has been carefully prepared, but should be seen as general guidance only. You should not act upon the information contained in this publication without obtaining specific professional advice. Please contact BDO Capital Advisors, LLC to discuss these matters in the context of your particular circumstances. BDO accepts no responsibility for any loss incurred as a result of acting on information in this publication.

© 2017 BDO Capital Advisors, LLC. All rights reserved. www.bdocap.com

BDO Capital Advisors M&A Contacts:

ROBERT SNAPE, President
617-239-4177 (Direct)
339-236-1050 (Mobile)
bsnape@bdocap.com

VALENTINA MIDURA, Senior Managing Director
617-422-7593 (Direct)
978-873-1314 (Mobile)
vmidura@bdocap.com

KEVIN SENDLENSKI, Managing Director
617-422-7536 (Direct)
617-970-7033 (Mobile)
ksendlenki@bdocap.com

DAN SHEA, Managing Director
310-557-8205 (Direct)
310-903-2163 (Mobile)
dshea@bdocap.com

WILLIAM R. SHIRY, JR., Managing Director
312-233-1856 (Direct)
216-272-3129 (Mobile)
wshiry@bdocap.com

PATRICK BISCEGLIA, Director
617-239-4115 (Direct)
804-513-9724 (Mobile)
pbisceglia@bdocap.com