

METAL FABRICATION

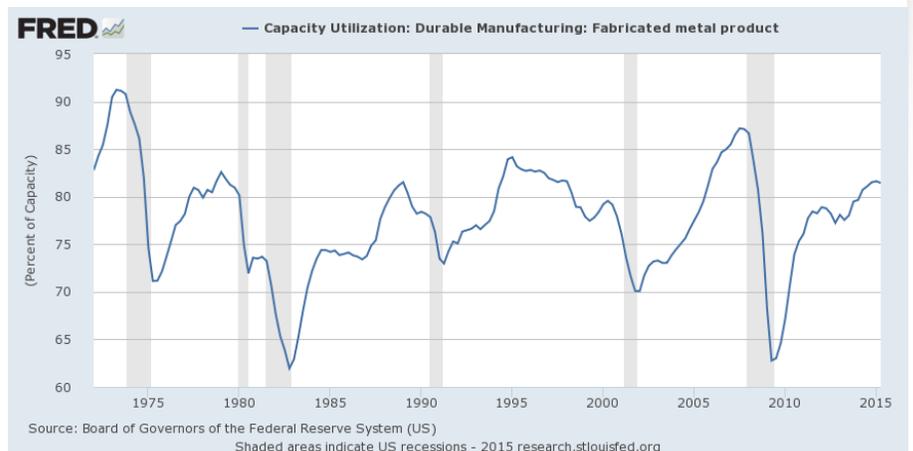
THIRD QUARTER

2015

This Industry Practice Group was established to draw on the experience of CFA dealmakers, who as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Metal Fabrication M&A

M&A activity for North American based target companies in the Metal Fabrication sector for Q2 2015 included 36 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$39 million. According a report from the Fabricators & Manufacturers Association, an industry trade group, the industry appears to be ripe for significant consolidation. There is a recent trend among OEMs to limit the amount of shops they work with and instead award contracts to a select group of preferred suppliers. Many mid-size shops are looking to diversify their customer bases and acquire new capabilities to survive in this environment. Those that don't follow this trend are likely targets for acquisition.

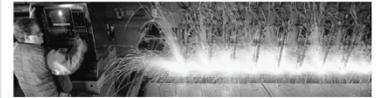


Industry production continues to improve since a low point following the global recession in 2010. Fabricated metal product manufacturing capacity is at its highest point in more than five years. This has partially been driven by an uptick in U.S. based manufacturing as well as continued depression in the prices of raw materials.

Transactional Overview

Notable closed transactions for the period in the Metal Fabrication sector include:

June 2015 - United States Steel Corp acquired the remaining 50% not already owned in Double Eagle Steel Coating Co from AK Steel Holding Corp for US\$25.2 million. United States Steel Corp. is an integrated steel producer of flat-rolled and tubular products with production operations in North America and Europe. AK Steel Holding Corp. is an integrated producer of flat-rolled carbon, stainless and electrical steels and tubular products. The company's operations consist primarily of nine steelmaking and finishing plants and tubular production facilities located in Indiana, Kentucky, Ohio and Pennsylvania.



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June 2015 - Thor Industries, Inc. acquired Postle Operating LLC, doing business as Postle Aluminum Co, a portfolio company of Babson Capital Management LLC (Private Equity) and Strength Capital Partners LLC, for US\$144.3 million in cash. Thor Industries, Inc. engages in the manufacture and management of recreational vehicles. Postle Operating LLC engages in aluminum extrusion, fabrication and distribution. It also offers manufacturing capabilities including extruding, painting, anodizing, and fabrication services.

May 2015 - Three Rivers Capital LLC acquired Rhodes Manufacturing Inc. for US\$3 million. Founded in 2005, 3 Rivers Capital LLC, formerly Standish Capital LLC, is a private equity firm located in Pittsburgh, Pennsylvania. Rhodes Manufacturing Co., Inc. manufactures metal fabricated tanks. The company also repairs and sells used tanks.

| Selected Q2 Closed Transactions | |
|---------------------------------|----------------------------------|
| Target/Issuer | Buyers/Investors |
| Techniquip, Inc. | Automated Valve & Equipment Co. |
| Veyance Technologies, Inc. | Stemco LP |
| Double Eagle Steel Coating Co. | United States Steel Corp. |
| A&B Welding, Inc. | Precision Tank & Equipment Co. |
| Billy Goat Industries, Inc. | Briggs & Stratton Corp. |
| Postle Operating LLC | Thor Industries, Inc. |
| Industries Spectal, Inc. | Lippert Components, Inc. |
| Waiward Steel Fabricators Ltd. | Abacus Private Equity Group Ltd. |

M&A Trends

Last year's \$3 billion megadeal between Alcoa and Firth Rixson, a global leader in aerospace jet engine components, showed a traditional commodity seller changing course to focus on value-added services. The trend toward increasing capabilities is expected to be a primary driver of M&A in this highly fragmented space. Many larger companies see acquisition as the easiest and fastest way to increase capabilities and market share.

Industry Update

According to an industry report from international consulting group PWC, iron ore and copper commodity prices have fallen significantly of late. Iron ore has fallen approximately 50% since the start of 2014 and copper prices reached a five-and-a-half-year low in January 2015. The lower price of materials is expected to spur significant manufacturing/fabrication growth as production costs lessen.

US industrial production by machine shops increased nearly 5 percent in 2014 compared to the previous year. In addition, US production of motor vehicles and parts rose 8 percent in 2014 compared to the prior year; machinery production climbed more than 7 percent. These trends have positively impacted the metal fabrication space in 2015 as manufacturing capacity hits a five-year high.

Key Indicators

- According to a report from the Interindustry Economic Research Fund, Inc. (IERF), revenue for US machine shops is forecast to grow at an annual compounded rate of 5 percent between 2015 and 2019.
- US durable goods manufacturers' shipments of fabricated metal products, an indicator of demand for machine shop services, rose 1.7 percent year-to-date in May 2015 compared to the same period in 2014.
- US steel mill product prices, an indicator of commodity steel costs for machine shops, fell 12.2 percent in June 2015 compared to the same month in 2014.

Collectively, the Metal Fabrication Practice Group provides M&A advice to public and private companies in all sectors of the metal fabrication industries, including fabricated structural steel, sheet metal work, metal stamping, steel and iron forgings, fabricated metal products and screw machine product manufacturing.

