bridgepoint | INVESTMENT BANKING

MANUFACTURING & MACHINING REPORT

SECOND QUARTER 2020

Valuations Bounce Back as Companies are Forced to Adapt

EXECUTIVE SUMMARY

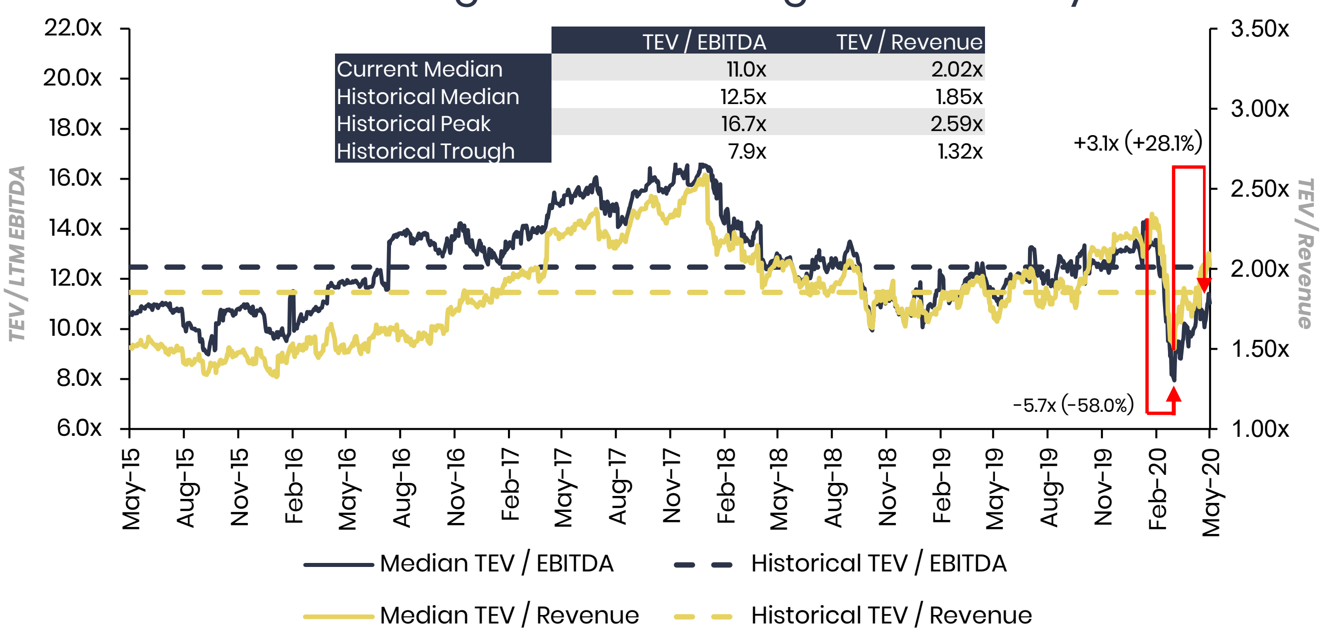
- After states implemented stay-at-home orders, TEV/EBITDA valuations for manufacturing and machining companies dropped almost 6x to near historic lows
- **Companies are now showing a trend of recovery, only down 1.5x** vs. historical median TEV/EBITDA multiples and **up >3x over the past two months**
- April **machining industry** reported that **unemployment grew to 13.3%** with hours being cut and average earnings down as well
- Nine out of 10 executives surveyed by the Association of Equipment Manufacturers **cited a decline in demand for equipment as the primary impact of the COVID-19 pandemic** on their business; hopes remain high for the long-term outlook
- **Companies are looking to temporarily adjust their operating models** to keep workforces productive while promoting health and safety initiatives

BIG PICTURE

- Machinery valuations and earnings are **highly sensitive** to globalization and economic well-being, and since the start of the Trade War and Covid-19 pandemic, valuations initially declined sharply but have since rebounded
- A strong economy is important when it comes to manufacturing as the **industry is very dependent on expansionary periods** when companies invest in new equipment
- Bridgepoint Investment Banking advises owners seeking near-term liquidity or stress financing that it is **imperative to consider financing options that improve liquidity and free cash flow cushion;** opportunistic acquisitions are likely possible for well capitalized companies – **critical to be properly capitalized in times of uncertainty**

Manufacturing and Machining Valuation Cycle

	TEV / EBITDA	TEV / Revenue
Current Median	11.0x	2.02x
Historical Median	12.5x	1.85x
Historical Peak	16.7x	2.59x
Historical Trough	7.9x	1.32x



Note: Composite composed of selected public comparables as listed on page 3.
Source: Bridgepoint Investment Banking, Capital IQ, Association of Equipment Manufacturers, Fred Economic Data, Forbes*

COVID-19 Impact on Manufacturing and Machining

Aerospace & Defense

- **Supply chain innovation occurring.** To adapt to issues related to Covid-19, manufacturers are evaluating 3-D printing and other methods to shorten supply times
- **Companies adopting vertical integration** to reduce the effective cost and time impact on changes that many manufacturers overlooked pre-Covid
- **Airline component manufacturers must adapt to evaporating demand** for at least the near term as stay-at-home orders and travel restrictions have caused the industry to delay production

Agricultural

- **Smart farming** is on the rise, causing many agriculture machinery companies to modify their equipment to help clients increase yields of crops and livestock
- **2020 financial projections decreased** for John Deere and AGCO Corporation in March 2020. Both companies plan to reduce operations due to Covid-19
- **Large tractor sales are down 50%** due to commodity prices falling and Covid impacting traditional sales models
- **With the shutdown of plants,** many farmers are concerned about the uncertainty of demand for their products in the market

Construction

- **Equipment purchases decreased** globally in 2019, and further exacerbated in 2020 due to Covid-19
- **Renting and leasing equipment is on the rise** as market uncertainty forces businesses to be more fluid and nimble to survive adverse market conditions
- **The horizon for global construction looks very strong** with the industry expected to grow to $173B by 2027
- **The growing business model of public/private partnerships** is predicted to increase growth in the construction sector

"Manufacturing trends have been driven by sector specialization. Niche manufacturers in the food, healthcare and paper products sub-sectors have done well. Construction equipment manufacturers have not faired as well. Client, niche and customer diversity and liquidity / capitalization will play a key role in company survival or growth."

Mike Anderson, Managing Director
Bridgepoint Investment Banking

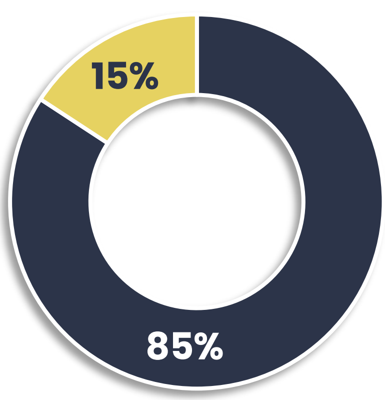
Sources: S&P Capital IQ, Analyst Research, IDC, Chicago Business, Businesswire, Bloomberg, Pitchbook

Selected Public Comparables

($ in millions, except per share data) Company Name	Country	5/22/2020 Cat	Equity Value	Enterprise Value	P / E LTM	TEV / Revenue LTM	TEV / EBITDA LTM	TEV / EBIT LTM
Caterpillar Inc.	United States	$112.47	$60,873.2	$91,798.2	11.9x	1.80x	9.2x	12.2x
Cummins Inc.	United States	$155.04	$22,856.9	$25,611.9	11.3x	1.13x	7.0x	9.3x
Deere & Company	United States	$140.71	$44,129.5	$86,804.5	16.0x	2.36x	15.2x	22.9x
Fortive Corporation	United States	$58.53	$19,716.2	$24,970.8	37.3x	3.36x	14.6x	21.4x
Illinois Tool Works Inc.	United States	$163.75	$51,733.9	$57,998.9	21.3x	4.21x	15.4x	17.3x
Lindsay Corporation	United States	$92.65	$1,003.8	$1,030.5	54.9x	2.31x	19.7x	35.0x
PACCAR Inc	United States	$68.42	$23,654.6	$30,518.3	11.2x	1.26x	9.7x	11.4x
Parker-Hannifin Corporation	United States	$166.88	$21,396.9	$29,889.5	16.4x	2.10x	11.0x	13.9x
Techtronic Industries Company Limited	Hong Kong	$8.44	$15,452.1	$15,583.8	25.0x	2.02x	17.5x	23.4x
Stanley Black & Decker, Inc.	United States	$121.49	$18,724.9	$26,225.4	19.9x	1.84x	11.0x	16.1x
Valmont Industries, Inc.	United States	$105.62	$2,255.7	$2,859.1	14.3x	1.04x	7.9x	11.3x

	P / E	TEV / Revenue	TEV / EBITDA	TEV / EBIT
High	54.9x	4.21x	19.7x	35.0x
Mean	21.8x	2.13x	12.6x	17.7x
Median	16.4x	2.02x	11.0x	16.1x
Low	11.2x	1.04x	7.0x	9.3x

Transactions by Acquiror Type 4/5/2020 – 5/17/20



Strategic

Financial / Private Equity

Selected Manufacturing Transactions

Date Announced	Target	Acquiror
05/17/2020	Agjet	Van Doren Sales
05/14/2020	Atlanta Rod & Mfg. Co.	Birmingham Fastener & Supply
05/14/2020	Construction Tool & Threading Company	Industrial Threaded Products
05/13/2020	Conco Services	Rising Point Capital
05/13/2020	Energy Recovery	Raymond James & Associates
05/11/2020	Davis Tool	Cline Tool and Service Company
05/08/2020	Champion Bus/ElDorado National Kansas	Forest River
05/08/2020	anna	Cannapreneur Partners
05/08/2020	Conco Systems, Inc.	UMB Capital Corporation; Tecum Capital Management
05/01/2020	Vac-U-Clamp	Macow Pacific Corp
04/29/2020	TMK Manufacturing	Vander-Bend Manufacturing
04/29/2020	Cedar Dumpster Manufacturing	American Made Dumpster
04/28/2020	Lucidyne Technologies	Microtec Srl GmbH
04/27/2020	All Assets of Urethane Technologies	Marine Fenders International
04/21/2020	PVBJ	Benis Holdings
04/10/2020	Cad Railway Industries	Sojitz Corporation
04/06/2020	PRO Manufactured Products	KKSP Precision Machining
04/05/2020	Wigen Water Technologies	METAWATER

Manufacturing and Machining Transaction Highlights

Van Doren Sales announced on May 17th 2020 the acquisition of Agjet LLC. A automation company focused on the fresh fruit and produce markets in Pacific Northwest.

"As part of the push for automation we have seen the need for advancing data and AI in the packhouse."
- Brad Pittsinger, Van Doren Sales, CEO

Industrial Threaded Products issued out a press release announcing the acquisition of Construction Tool & Threading Company on May 14th 2020.

"Through this acquisition, I'm most honored to unlock all of the talent in the Construction Tool & Threading Co. organization, as well as provide the team access to revitalize their services."*- Garrett Futrell, Industrial Threaded Products, CEO*

Sojitz Corporation, Sojitz Corporation of America, and Japan Oversea Infrastructure Investment Corporation acquired an additional 59% for 100% ownership in CAD Railway.

"Sojitz Group will continue to develop its overseas transportation infrastructure business of operations and maintenance in the rial and airport sectors and seek to contribute to sustainable growth in regional economics and societies." *– Sojitz Corporation, Press Release*

BRIDGEPOINT EXECUTIVE SUMMARY

- **Market-leading boutique investment bank providing M&A and capital raising advisory solutions focused in the middle-market manufacturing industry**
- 229+ years cumulative investment banking experience spanning 163 transactions
- $108+ billion of M&A, capital raising, corporate finance and M&A transaction advisory service experience
- 73 completed M&A assignments spanning more than $34 billion
- 90 completed corporate finance transactions, raising more than $74 billion in capital

SELECTED BRIDGEPOINT TRANSACTION EXPERIENCE

SECTORS OF FOCUS

Industrials & Transportation | Consumer & Retail | Business Services & Staffing | Healthcare | IT Services

MORE THAN

229 YEARS OF EXPERIENCE | **$108B** IN TRANSACTIONS | **163** TOTAL TRANSACTIONS

SENIOR LEADERSHIP

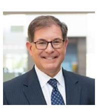

Matt Plooster
Managing Director


Mike Anderson
Managing Director

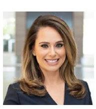

Gary Grote
Managing Director


Wm. Lee Merritt
Managing Director


Chad Gardiner
Director


Adam Claypool
Managing Director


Joe Liss
Managing Director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COO


Subhash Marineni
Vice President


Alex Spanel
Associate

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