



# manufacturingREPORT

## INDUSTRY OVERVIEW

The first half of 2014 has been one of the most active first six months for the manufacturing industry in the past five years. The industry is expected by many to be a leader in M&A activity for the balance of 2014. The prevailing reason is due to the move of on-shore manufacturing of innovative or new technologies to the United States. This is driven largely by the superior quality standards and the availability of technology in the US, and partly by intellectual property protection. As new developments come out in highly proprietary products such medical devices and consumer technology manufacturing, expect to see an increase in companies being targeted by strategic buyers and by financial buyers looking to capitalize on the macro economic trends currently underway.

Manufacturing has trailed overall M&A slightly in recent years, but deal experts predict that as overall deal flow slows in 2014 (due to projected reductions in consumer spending), M&A activity in manufacturing is expected to pick up.

Thus far, machinery and electrical components have led the charge, combining in the machinery and equipment segment for 40 transactions, with consumer luxury goods, textiles, and apparel also posting several large transactions.

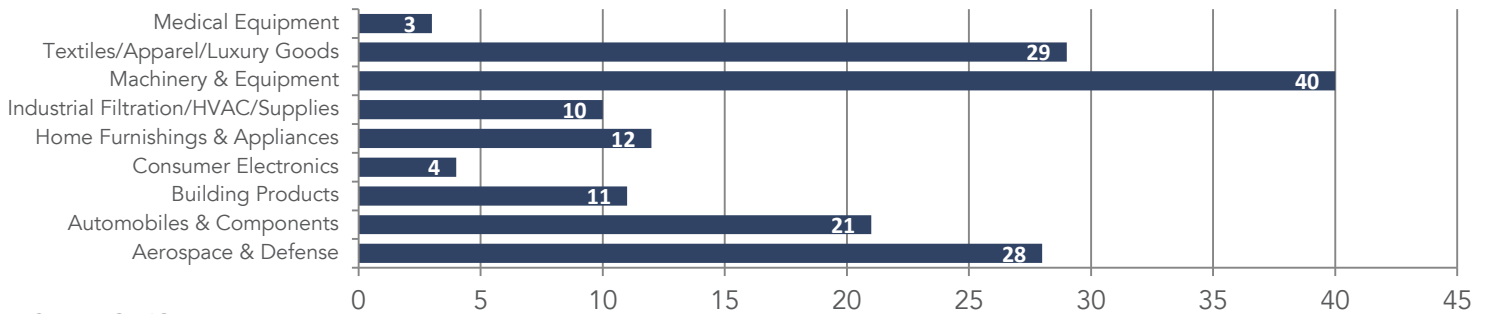
If you have any questions please contact us.

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## TRANSACTION HIGHLIGHTS

### TRANSACTIONS

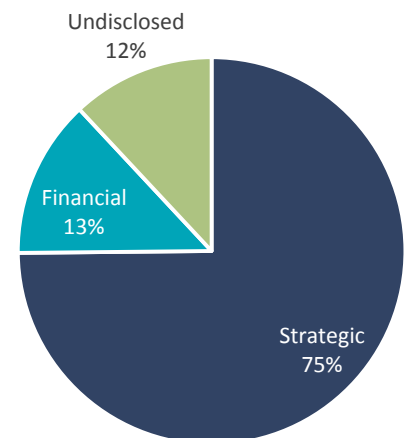
#### # BY SEGMENT (Q2)



Source: CapIQ

## STRATEGIC VS. FINANCIAL TRANSACTIONS HIGHLIGHTS

STRATEGIC ACQUISITIONS	<p><b>5.4.14 Tenaxis Medical</b>, a maker of anti-adhesion agents for surgical markets, was acquired <b>The Medicines Company</b>, in the largest reported medical device deal this quarter at \$170 million.</p>
FINANCIAL ACQUISITIONS	<p><b>5.7.14 Audax Group</b> lived up to its reputation for being active in industrials with two acquisitions for the quarter: <b>MIRATECH</b>, a manufacturer of emission control products, and <b>Luminator Mass Transit</b>, a manufacturer of lighted and thermal signs for transportation.</p> <p><b>4.11.14 SPX Corporation</b> divested <b>SPX Precision Components</b>, maker of metal forming equipment for \$62 million to <b>RFE Investment Partners</b>.</p>



The information contained herein is based on sources we believe reliable but is not guaranteed by us and is not to be considered all inclusive. It is not to be construed as an offer or consultation of an offer to sell or buy any securities.

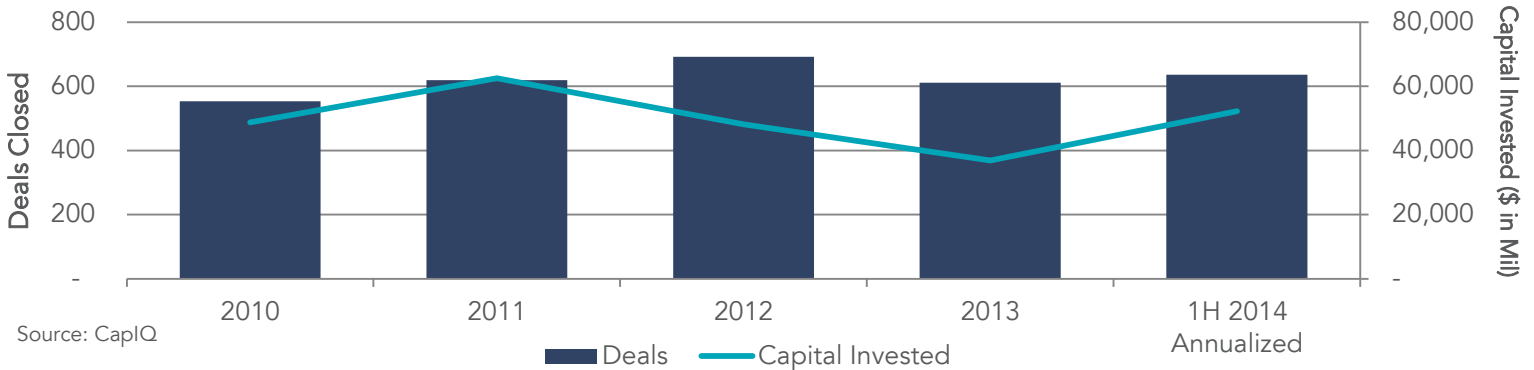


# manufacturingREPORT

## TRANSACTION ACTIVITY

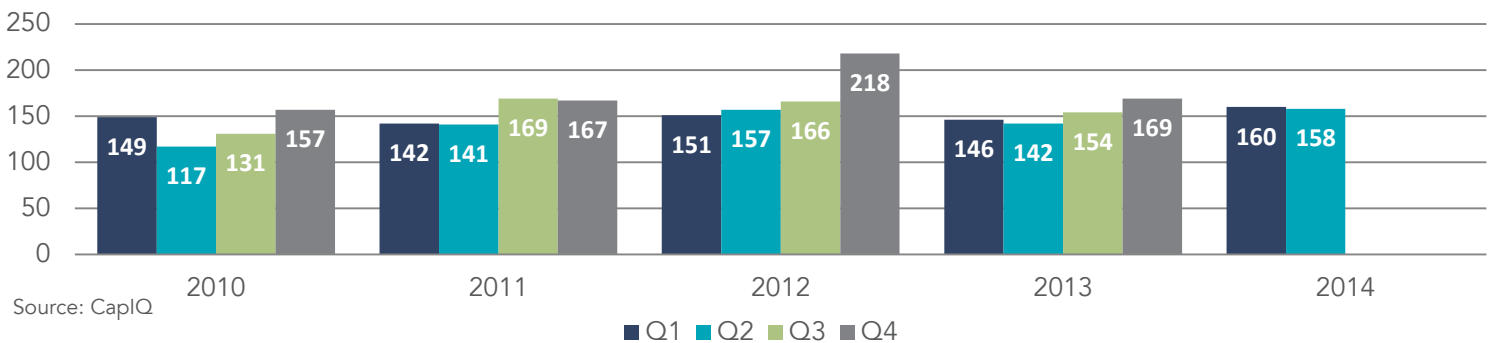
4/1/2014	Professional Power Products, Inc.	Power Solutions International, Inc. (NasdaqCM:PSIX)	Electrical Equipment	Power Solutions International, Inc. acquired Professional Power Products, Inc. (PPPI) for \$63.5 million on April 1, 2014. For the year ending December 31, 2013, PPPI had net sales of \$40.3 million and operating income of \$7.9 million.
4/4/2014	The Judith Ripka Companies, Inc.	JR Licensing, LLC	Textiles, Apparel and Luxury Goods	JR Licensing, LLC acquired The Judith Ripka Companies, Inc. for \$29 million in cash, promissory note and stock on April 4, 2014. The consideration includes \$11.97 million in cash, \$6 million in two interest-free promissory notes due 5 years from the date of issuance, and payable in cash or stock at Xcel Brands, Inc.'s option, and approximately 0.57 million shares of Xcel's common stock.
4/11/2014	SPX Precision Components, LLC	RFE Investment Partners; 24/6 Capital Partners	Aerospace and Defense	RFE Investment Partners and 24/6 Capital Partner acquired SPX Precision Components, LLC from SPX Corporation (NYSE:SPW) for \$62 million on April 10, 2014.
4/17/2014	KZRV LP	Thor Industries Inc. (NYSE:THO)	Automobiles and Components	Thor Industries Inc. entered into an agreement to acquire KZRV LP for \$52.3 million in cash on April 16, 2014. Thor plans to operate K-Z as a separate subsidiary. K-Z's management team is expected to be in place after the acquisition. K-Z generated sales of about \$150 million for the year ended December 31, 2013.
4/28/2014	AEGIS Flow Technologies, L.L.C.	IDEX Corporation (NYSE:IEX)	Pumps and Pumping Equipment	IDEX Corporation acquired AEGIS Flow Technologies for approximately \$26 million on April 28, 2014. AEGIS reported revenue of approximately \$15 million for the year ending December 31, 2013.
5/30/2014	Pro-Cut International	Snap-on Incorporated (NYSE:SNA)	Automobiles and Components	Snap-on Inc. acquired substantially all assets of Pro-Cut International for \$42 million in cash on May 30, 2014. Pro-Cut reported \$24 million of sales in 2013.

## US MANUFACTURING M&A ACTIVITY



## MANUFACTURING TRANSACTIONS

### # OF TRANSACTIONS BY QUARTER



\*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the industry.



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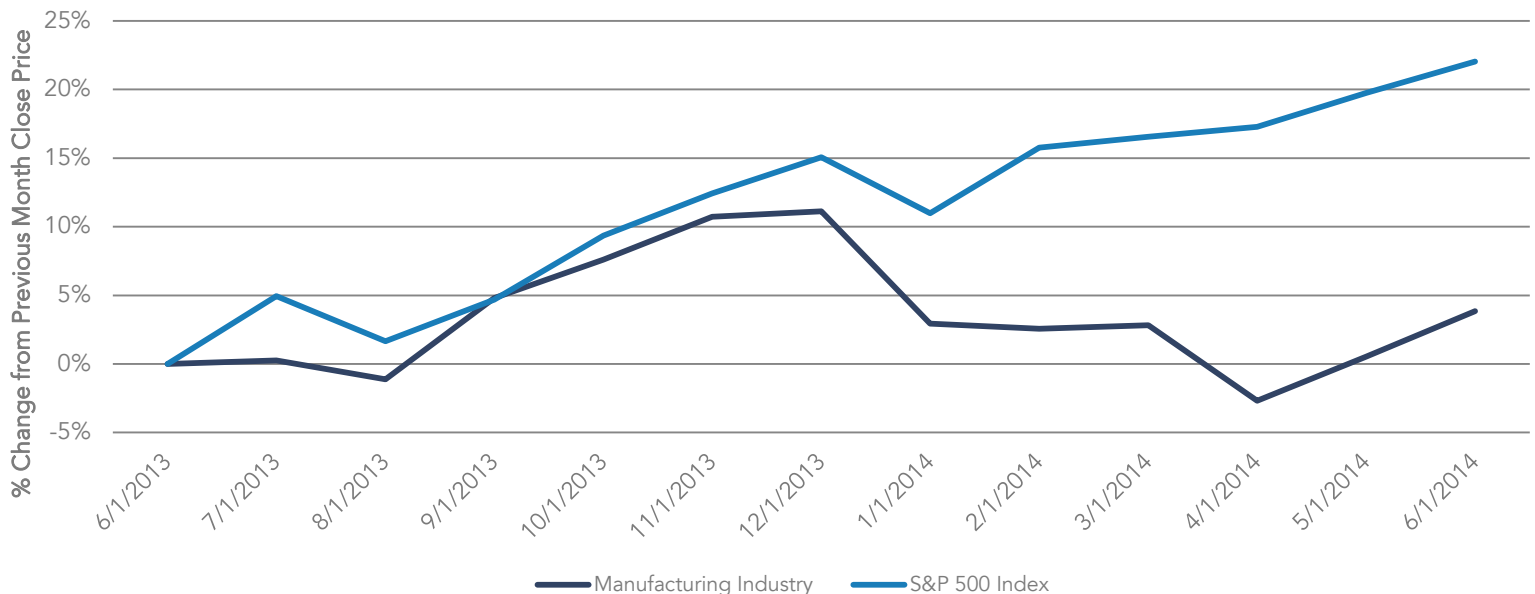
## PUBLIC BASKET

The manufacturing industry paced the broader S&P during FY13Q3, but began a slide in Q4. Valuations took a dive near the end of Q4, and continued the decline through FY14Q1. The slow start to 2014 and severe weather appears to have affected production levels across the US resulting in thin valuations for manufacturers as a whole, but as the sector comparison below shows, there have been bright spots. The US market also reacted poorly to the manufacturing slowdown in China despite Europe meeting its output projections for seven consecutive months. FY14Q2 began to see the manufacturing industry grow as China, Europe, and the US showed manufacturing and job growth, including a 6-month peak in both China and the US. As manufacturing outlook improved, the market responded in a positive manner.

Company	Symbol	State	Market Cap		Stock Price		LTM EPS	Price/Book	Price/Rev	Price/EBITDA
			(\$ in Mil)	Date	Month Change	YTD Change				
Under Armour, Inc.	NYSE:UA	MD	\$ 679	\$ 59.49	17.13%	36.29%	75.4x	11.4x	5.1x	37.8x
Deere & Company	NYSE:DE	IL	\$ 679	\$ 90.55	(0.68%)	(0.85%)	75.4x	3.1x	5.1x	10.3x
Cooper Tire & Rubber Co.	NYSE:CTB	OH	\$ 1,904	\$ 30.00	7.80%	24.79%	17.2x	1.9x	0.6x	5.6x
General Dynamics Corp.	NYSE:GD	VA	\$ 4,993	\$ 116.55	(1.33%)	21.98%	17.2x	2.9x	0.6x	5.6x
Unifi Inc.	NYSE:UFI	NY	\$ 350	\$ 27.53	18.26%	1.06%	17.9x	1.8x	1.3x	9.2x
iRobot Corporation	NasdaqGS:IRBT	NA	\$ 284	\$ 40.95	15.91%	17.77%	16.6x	3.5x	0.8x	8.3x
Real Goods Solar, Inc.	NasdaqCM:RGSE	CO	\$ 782	\$ 2.98	25.21%	(1.32%)	58.4x	6.2x	2.1x	22.8x
Cooper Tire & Rubber Co.	NYSE:CTB	OH	\$ 355	\$ 30.00	7.80%	24.79%	17.2x	1.9x	0.6x	NA
AAR Corp.	NYSE:AIR	IL	\$ 355	\$ 27.56	13.42%	(1.61%)	17.2x	1.1x	0.6x	5.6x
Sequential Brands Group, Inc.	NasdaqCM:SQBG	NY	\$ 581	\$ 13.81	49.38%	155.74%	21.5x	4.2x	0.8x	8.2x
Lululemon Athletica Inc.	NasdaqGS:LULU	BC	\$ 355	\$ 40.48	(9.30%)	(31.42%)	57.9x	5.2x	14.3x	25.8x
Sypris Solutions Inc.	NasdaqGM:SYPR	KY	\$ 72	\$ 5.58	18.72%	82.35%	23.6x	1.9x	3.2x	11.5x
TASER International Inc.	NasdaqGS:TASR	AZ	\$ 355	\$ 13.30	0.23%	(16.25%)	17.2x	5.8x	0.6x	5.6x
Cherokee Inc.	NasdaqGS:CHKE	CA	\$ 41	\$ 15.19	13.02%	10.07%	40.4x	6.0x	4.6x	20.0x
<b>Average</b>			<b>\$ 842</b>	<b>\$ 36.71</b>	<b>12.54%</b>	<b>23.10%</b>	<b>33.8x</b>	<b>4.1x</b>	<b>2.9x</b>	<b>13.6x</b>

Source: CapIQ

## MANUFACTURING INDUSTRY vs. S&P 500 RUNNING 12 MONTHS



Source: CapIQ



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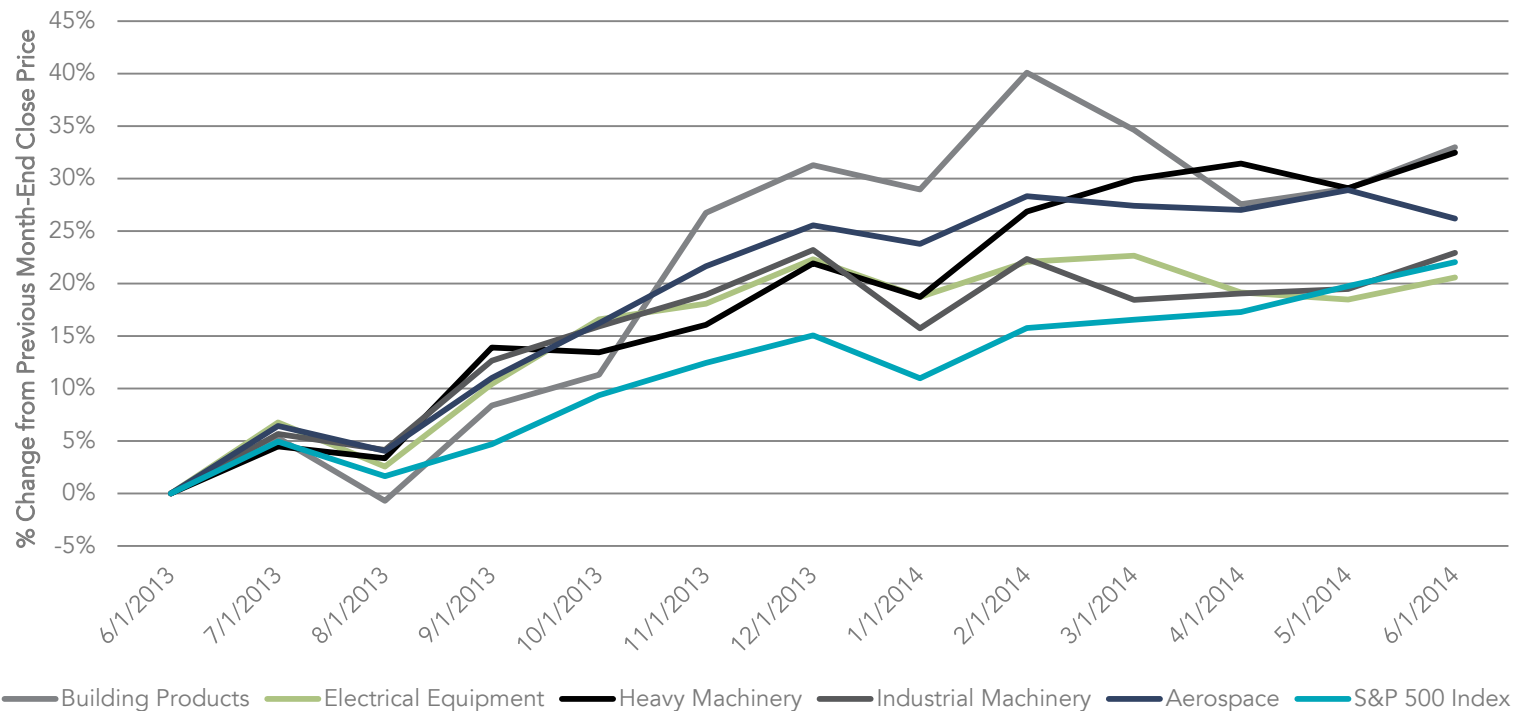
## INDUSTRY SEGMENTS

No two manufacturing industries are alike, and each requires a different intensity or discipline. Some are R&D focused, labor intensive, capital intensive, energy/resource intensive, trade intensive, or value focused, which all have different characteristics and requirements. By 2025, a new global consumer class will emerge, located mainly in developing countries. Watch for a period of shrinking trade deficits until the on-shoring trend reverses. Longer term, explosive growth in consumer spending in developing countries will allow manufacturers to reach more consumers in new areas and require expansion of manufacturing facilities into emerging markets. 2014 seems to be a dud in terms of US overall economic growth thus far, but indicators are pointing up for the second half, and as a result, M&A activity (and by extension, valuations) should pick up also.

Market Segment	Market Cap	Stock Price Delta			Price/ LTM EPS	Price/ Book	Price/ Sales	Price/ EBITDA
		Month	YTD	LTM				
Building Products	\$ 1,855	3.0%	1.3%	33.0%	37.05x	6.75x	1.59x	13.54x
Electrical Equipment	\$ 3,722	1.8%	(1.4%)	20.6%	38.62x	4.59x	3.51x	13.18x
Heavy Machinery	\$ 6,497	2.6%	8.6%	32.4%	33.38x	3.11x	1.41x	11.12x
Industrial Machinery	\$ 3,198	2.9%	(0.2%)	22.9%	25.56x	5.27x	2.33x	14.22x
Aerospace	\$ 10,514	(2.1%)	0.5%	26.2%	21.51x	1.08x	0.79x	8.23x
Automotive & Parts	\$ 413,918	4.6%	(5.8%)	1.1%	25.57x	3.51x	1.35x	15.81x
Consumer Durables & Apparel	\$ 3,676	1.0%	(1.1%)	18.4%	27.21x	4.27x	1.64x	15.77x
Industry Average	\$ 32,236,776	3.3%	(6.6%)	3.8%	23.94x	3.59x	1.63x	19.34x
S&P 500 Average	\$ 35,565	1.9%	6.1%	22.0%	27.84x	4.77x	3.13x	11.63x

Source: CapIQ

## MANUFACTURING SEGMENTS VS. S&P 500 RUNNING 12 MONTHS



Source: CapIQ

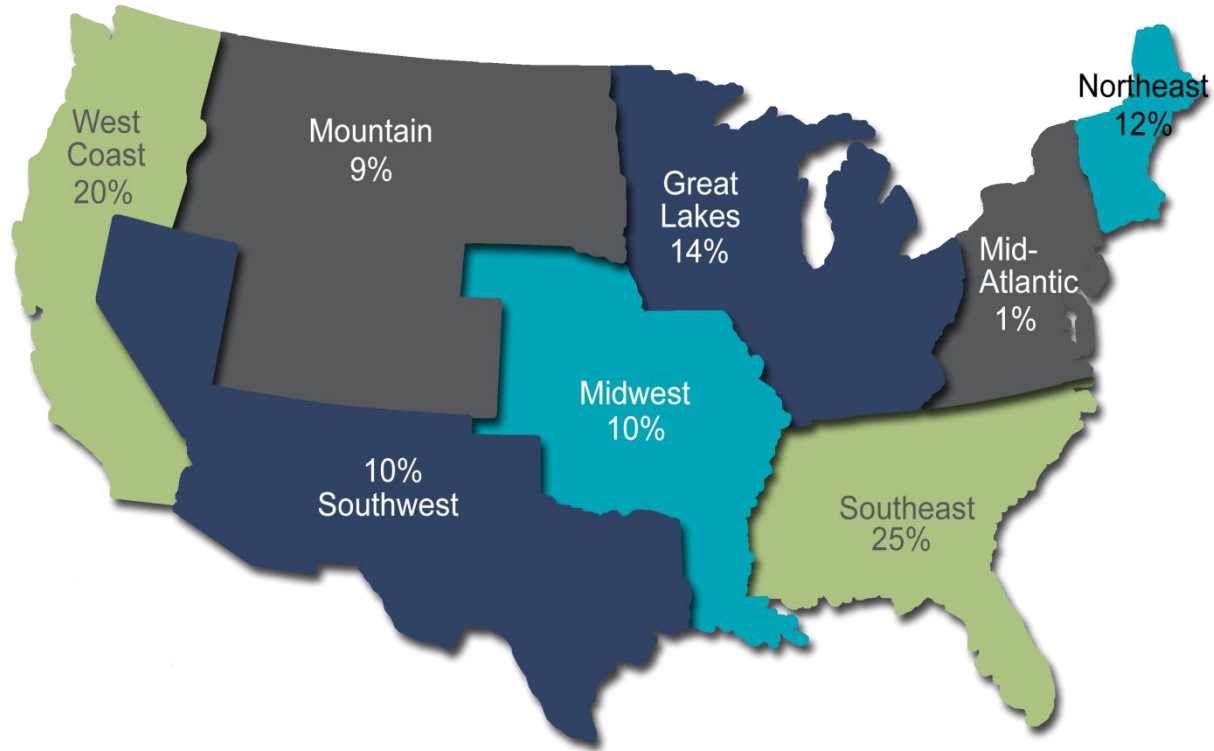


# manufacturingREPORT

## INDUSTRY GEOGRAPHY

### COMPANIES BY REGION

MANUFACTURING COMPANIES BY REGION AS OF JUNE 30, 2014



Source: CapIQ

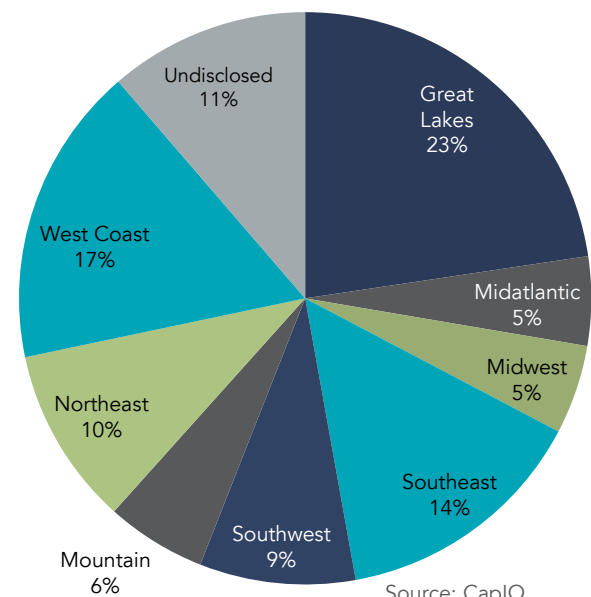
### COMPANIES BY SIZE

State	Undisclosed	\$ 0 - 5 Revenue	\$ 5 - 10 Revenue	\$ 10 - 25 Revenue	\$ 25 - 50 Revenue	\$ 50 - 100 Revenue	\$ 100+ Revenue
AZ	487	24	47	15	5	4	7
CO	469	18	40	22	5	2	10
KS	379	7	21	19	9	1	8
ND	78	1	6	3	2	0	0
NE	157	3	12	8	3	3	1
NM	78	5	5	3	2	0	1
OK	0	0	0	0	0	0	0
SD	89	4	6	7	1	1	0
TX	232	10	17	13	6	3	14
UT	288	11	18	9	4	1	4
WY	28	1	5	0	0	0	0

\*Revenue in millions

Source: CapIQ

### TRANSACTIONS BY REGION



Source: CapIQ

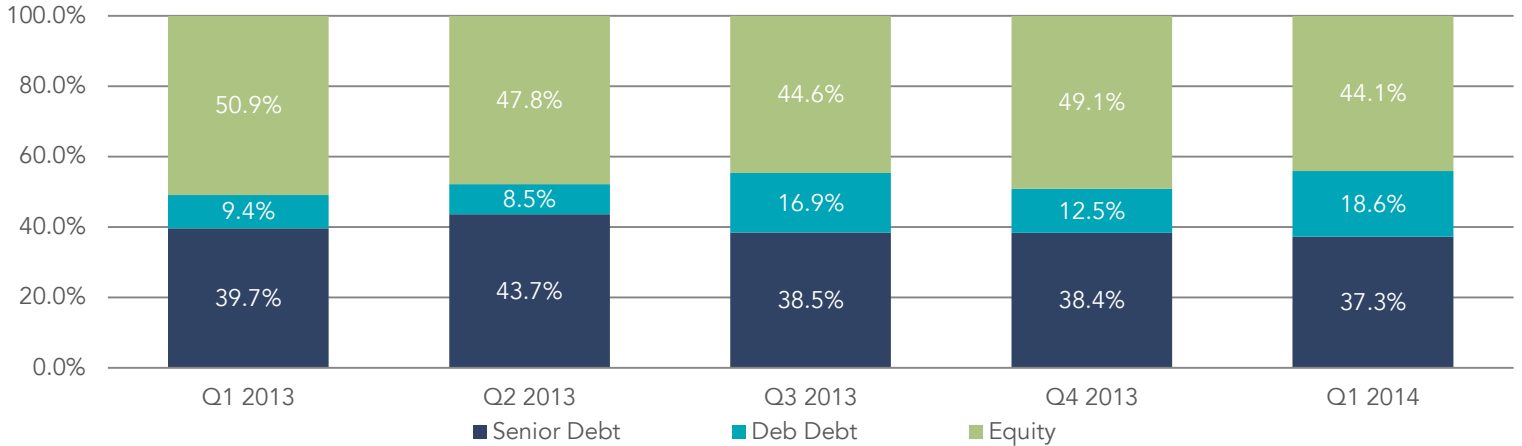
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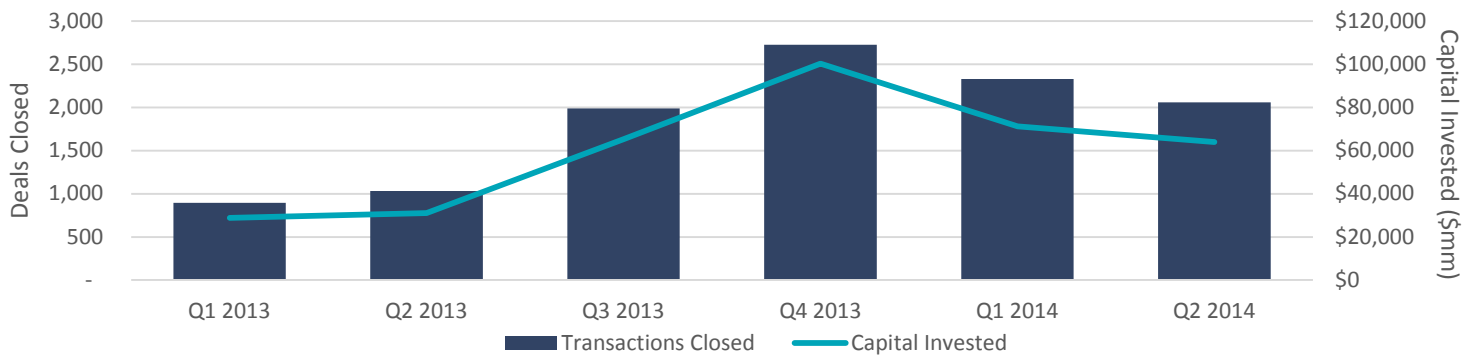
## M&A MARKET ACTIVITY – OVERALL LOWER MIDDLE MARKET

### CAPITAL STACK



Source: GF Data

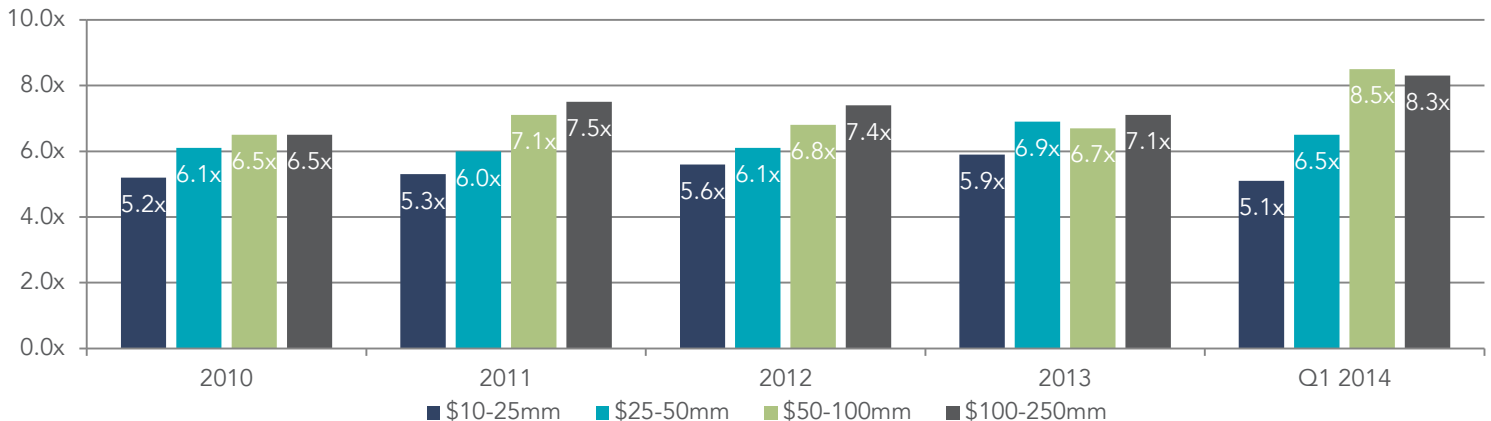
### US MIDDLE MARKET M&A ACTIVITY



Source: CapIQ

### TRANSACTION MULTIPLES

#### EBITDA MULTIPLES BY TRANSACTION SIZE



\*Note: These data represent the recorded transactions, are not all inclusive of completed transactions, and are meant to be representative of the lower middle market.

Source: GF Data



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## ABOUT SDR VENTURES

SDR Ventures is a boutique investment bank serving privately held business owners of companies with values up to \$300 million. Operating beyond the confines of a traditional investment bank, SDR's approach of Thinking Like Owners™ helps business owners maximize value in their business. SDR offers transaction advisory, capital formation, strategic advisory and performance exchange services.



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## SERVICES

### TRANSACTION ADVISORY

#### Buy Side

Running a proven process effective at generating responses, identifying "off-the-radar" opportunities, negotiating and closing accretive acquisitions.

#### Sell Side

Our process is designed to identify the "right" buyer and maximize shareholder value for our clients.

### CAPITAL FORMATION

#### Private Capital Placement

An effective and efficient process negotiating favorable debt and equity with the right capital partner for our clients

## RECENT TRANSACTIONS

<p>JULY 2014</p>  <p>Has been acquired by</p> <p>REVELSTOKE CAPITAL PARTNERS, LLC</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>JULY 2014</p>  <p>Has been acquired by</p>  <p>FRONTENAC COMPANY</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>APRIL 2014</p>  <p>Has been acquired by</p> <p>Barkwood, Inc.</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MARCH 2014</p> <p>PAN Capital Holdings LLC</p> <p>Commercial real estate loan provided by</p>  <p>Hexagon</p> <p>SDR Ventures CAPITAL FORMATION</p>	<p>NOVEMBER 2013</p>  <p>Has acquired</p> <p>A Business Unit of a Public Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>OCTOBER 2013</p>  <p>Debt Financing provided by</p>  <p>CoBiz Structured Finance CoBiz Financial</p> <p>SDR Ventures CAPITAL FORMATION</p>
<p>SEPTEMBER 2013</p>  <p>SDR Ventures CAPITAL FORMATION</p>	<p>SEPTEMBER 2013</p>  <p>Has acquired</p>  <p>Zeus &amp; Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>NOVEMBER 2012</p>  <p>Western Paper Distributors</p> <p>Has acquired</p>  <p>West County</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>JUNE 2012</p>  <p>AtLast Fulfillment™</p> <p>Has been acquired by</p>  <p>newoistics SHIPPING HAS A NEW HOME</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>	<p>MAY 2012</p> <p>Cohio Ventures LLC</p> <p>Has acquired</p>  <p>Mountain Tech Manufacturing for</p> <p>SDR Ventures BUY SIDE TRANSACTION</p>	<p>MARCH 2012</p>  <p>DENNEY Daney Transport, LTD</p> <p>Capital provided by</p>  <p>Mutual of Omaha Bank</p> <p>SDR Ventures CAPITAL FORMATION</p>

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