



# manufacturingREPORT

## INDUSTRY OVERVIEW

Historically one of the most active quarters of the year, the fourth quarter turned out to be the weakest for M&A activity in the manufacturing industry, with the number of deals dropping to 313 from 361 in the third quarter. This is coming off the heels of an already deal-heavy first three quarters of 2014. In total, the industry saw 1,369 deals in 2014, up slightly from 1,338 in 2013. The machinery and equipment segment experienced the most transactions during the fourth quarter, much as it has throughout the year.

By late 2014, an estimated two thirds of operators in the industry had reported that they planned to expand capacity in 2015 and nearly one half had reported that they were going to increase capital expense budgets. Furthermore, two thirds intended to pursue a profitable growth strategy, meaning that they were going to focus on both revenue growth and cost reductions by improving productivity and processes as well as implementing new technologies throughout the enterprise. Despite the fact operators are pursuing cost savings strategies, nearly half have increased IT budgets. One of the newer technological trends the industry is moving towards is close-based infrastructure and SaaS applications. This trend will be important to monitor, as companies try to leverage these and other emerging technology platforms to further improve business efficiency. As the way technology evolves from the enterprise level to the level of capital equipment, process, and people, expect a flight in M&A towards these areas as well. Similarly, manufacturing of sensors, data collection components and equipment are likely to be active on the M&A scene in 2015.

Source: Netsuite

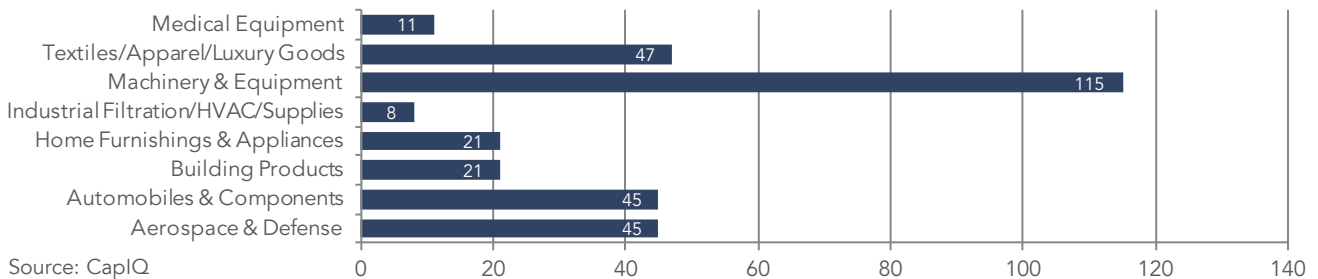
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## TRANSACTION HIGHLIGHTS

### TRANSACTIONS

#### # BY SEGMENT (Q4)

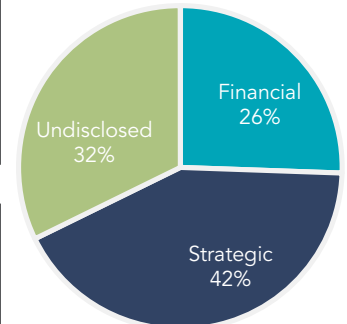


Source: CapIQ

## STRATEGIC VS. FINANCIAL TRANSACTIONS

### HIGHLIGHTS

|                        |          |   |
|------------------------|----------|---|
| STRATEGIC TRANSACTIONS | 10.5.14  | Two of the largest defense services providers, <b>Engility Holdings</b> and <b>TASC</b> , agreed to merge in an all stock deal valued at \$1.1 billion, including the assumption of debt.   |
|                        | 12.16.14 | <b>Newell Rubbermaid</b> agreed to acquire <b>Baby Jogger</b> for \$210 million through a combination of cash and debt.   |
| FINANCIAL TRANSACTIONS | 11.13.14 | <b>Berkshire Hathaway (BRK.A)</b> purchased <b>Duracell</b> from <b>P&amp;G</b> for \$4.7 billion. Berkshire will provide consideration in the form of its own stock and in return P&G will infuse \$1.8 billion of cash into Duracell before the transaction closes. |



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.



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## TRANSACTION ACTIVITY

| Date       | Target                                      | Buyers                                   | Target Description                      | Transaction Comments  |
|------------|---|--|---|---|
| 12/5/2014  | Race Face Performance Products, Inc.        | Fox Factory Holding Corp (NasdaqGS:FOXF) | Automobiles and Components              | Fox Factory Holding Corp. announced that it has entered into a definitive agreement to acquire substantially all the assets of the Race Face and Easton Cycling businesses, formerly Race Face Performance Products, Inc. Race Face/Easton designs, manufactures, and distributes high-performance mountain and road bike wheels and other high-performance cycling components. FOX will acquire Race Face/Easton in an asset purchase transaction for approximately \$30.2 million |
| 10/29/2014 | Manitex International, Inc. (NasdaqCM:MNTX) | Terex Corporation (NYSE:TEX)             | Construction Machinery and Heavy Trucks | Manitex International, Inc a leading international provider of cranes and specialized material and container handling equipment, announced an agreement to form a Joint Venture with Terex Corporation in ASV, which has been a wholly-owned subsidiary of Terex since 2008. As a result of the transaction, Manitex will own 51% of ASV and Terex will own 49% of ASV. The transaction has an estimated value of \$20 million.   |
| 10/24/2014 | Non Woven Solutions, LLC                    | Fibertex Nonwovens A/S                   | Textiles, Apparel and Luxury Goods      | Fibertex Nonwovens, a wholly-owned subsidiary of Schouw & Co., has agreed to acquire all shares in Non Woven Solutions LLC, a US manufacturer of nonwovens. As part of the transaction, a previously leased property has been acquired. The total transaction has an enterprise value of USD 25 million on a debt-free basis.   |
| 10/13/2014 | Autoform Tool & Mfg. Inc.                   | Park-Ohio Holdings Corp. (NasdaqGS:PKOH) | Automobiles and Components              | ParkOhio announced that it acquired Autoform Tool & Manufacturing, Inc. for its Assembly Components segment in an all-cash transaction valued at \$48.2 million. Autoform Tool & Manufacturing is an important supplier of high pressure fuel rails and high and low pressure fuel lines used in Gasoline Direct Injection (GDI) systems utilized by automotive and truck manufacturers.  |
| 10/9/2014  | DOT Fasteners Inc.                          | Morito Co., Ltd. (TSE:9837)              | Building Products                       | Morito Co., Ltd., the world's second largest supplier of apparel fasteners and other niche manufactured products, agreed to acquire Scovill Fasteners for \$45.35 million. Scovill Fasteners develops and manufactures a diverse range of high-performance fasteners for various apparel and industrial markets that produce items such as clothing, sporting goods, boating products and military equipment.   |

Source: CapIQ

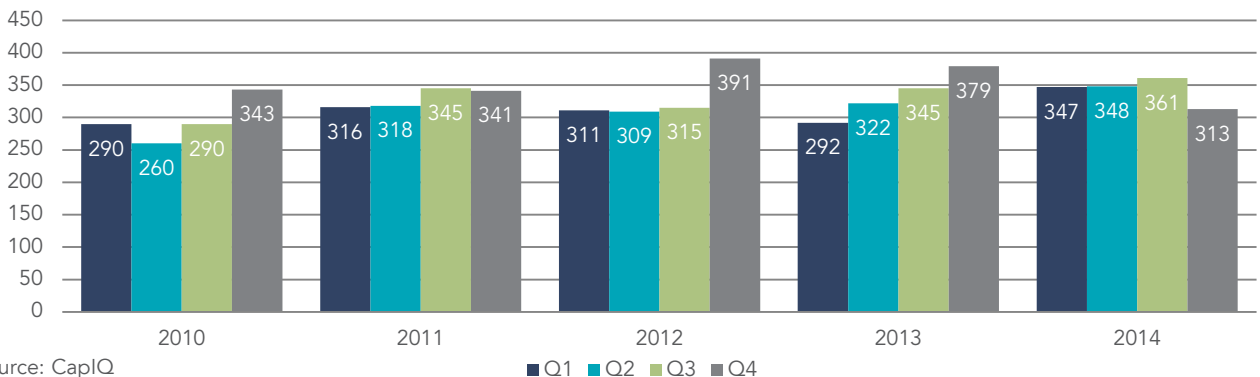
## US MANUFACTURING M&A ACTIVITY



Source: CapIQ

## MANUFACTURING TRANSACTIONS

### # OF TRANSACTIONS BY QUARTER



Source: CapIQ

\*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 S&P 500 outperformed the manufacturing industry in 2015, with the pace increasing as the year progressed. Even though the economy improved during 2014, many companies in the industry still suffered. This is especially true for companies with high levels of international exposure because fears have progressively mounted over slowing European and Asian economies. Going into 2015, industry surveys indicate that roughly 90% of firms expect positive revenue growth at an average rate of 5.6%; however, most of this revenue growth will be derived domestically since it is also expected that international sales will fall by at least 2.0%. Industry outlook calls for accelerating manufacturing production growth in 2015 of 4.0% followed by 3.6% in 2016. This will be driven in part by a recent trend: reshoring. Companies that had previously moved operations abroad are now relocating them back due to increasing labor costs and transportation cost, amongst other factors. This trend will not only benefit players in the industry, but also the domestic economy.

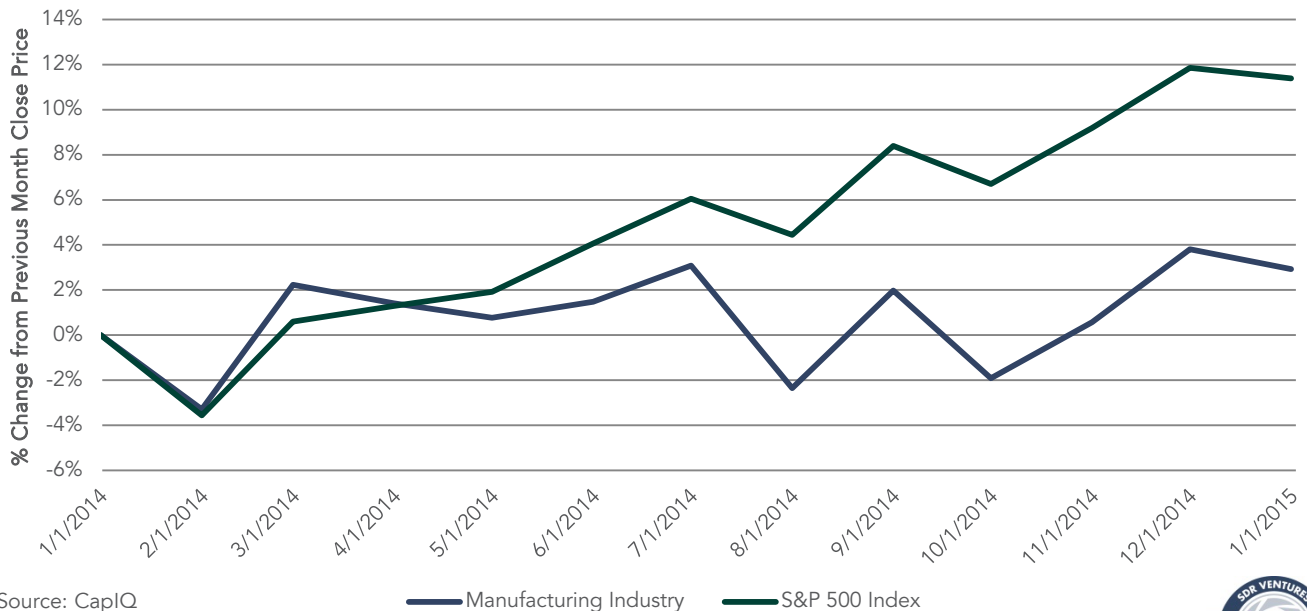
Source: PwC, MAPI

| Company                       | Symbol        | State | Market Cap       |                 | Stock Price  |               |              | Price/<br>LTM EPS | Price/<br>Book | TEV/<br>Rev  | TEV/<br>EBITDA |
|-------------------------------|---------------|-------|------------------|-----------------|--------------|---------------|--------------|-------------------|----------------|--------------|----------------|
|                               |               |       | (\$ in Mil)      | Price           | Month Change | YTD Change    |              |                   |                |              |                |
| AAR Corp.                     | NYSE:AIR      | IL    | \$ 1,105         | \$ 27.78        | 8.39%        | (0.82%)       | 19.1x        | 1.1x              | 0.8x           | 7.8x         |                |
| Cherokee Inc.                 | NasdaqGS:CHKE | CA    | \$ 163           | \$ 19.36        | 7.86%        | 40.29%        | 19.1x        | 6.2x              | 0.8x           | 10.5x        |                |
| Cooper Tire & Rubber Co.      | NYSE:CTB      | OH    | \$ 2,013         | \$ 34.65        | 2.12%        | 44.13%        | 15.5x        | 2.3x              | 0.7x           | 5.5x         |                |
| Deere & Company               | NYSE:DE       | IL    | \$ 30,460        | \$ 88.47        | 2.14%        | (3.13%)       | 15.5x        | 3.4x              | 0.7x           | 5.5x         |                |
| General Dynamics Corporation  | NYSE:GD       | NY    | \$ 45,606        | \$ 137.62       | (5.32%)      | 44.03%        | 10.6x        | 3.5x              | 1.8x           | 10.6x        |                |
| iRobot Corporation            | NasdaqGS:IRBT | NA    | \$ 1,220         | \$ 34.72        | (4.67%)      | (0.14%)       | 20.8x        | 2.7x              | 1.4x           | 10.4x        |                |
| Lululemon Athletica Inc.      | NasdaqGS:LULU | BC    | \$ 1,105         | \$ 55.79        | 15.77%       | (5.49%)       | 37.4x        | 7.3x              | 1.6x           | 14.7x        |                |
| Real Goods Solar, Inc.        | NasdaqCM:RGSE | CO    | \$ 207           | \$ 0.48         | (38.85%)     | (84.00%)      | NM           | 2.2x              | 0.3x           | NA           |                |
| Sypris Solutions Inc.         | NasdaqGM:SYPR | KY    | \$ 207           | \$ 2.66         | (1.48%)      | (13.07%)      | NM           | 0.9x              | 0.3x           | NM           |                |
| TASER International Inc.      | NasdaqGS:TASR | AZ    | \$ 48,106        | \$ 26.48        | 23.28%       | 66.75%        | 42.3x        | 11.8x             | 0.2x           | 4.6x         |                |
| Under Armour, Inc.            | NYSE:UA       | MD    | \$ 207           | \$ 67.90        | (6.33%)      | 55.56%        | 67.0x        | 11.6x             | 8.4x           | 34.3x        |                |
| Unifi Inc.                    | NYSE:UFI      | NC    | \$ 42            | \$ 29.73        | 4.39%        | 9.14%         | 79.6x        | 1.9x              | 5.0x           | 38.7x        |                |
| Sequential Brands Group, Inc. | NasdaqCM:SQBG | NY    | \$ 207           | \$ 13.07        | 6.09%        | 142.04%       | NM           | 1.9x              | 0.3x           | NM           |                |
| <b>Average</b>                |               |       | <b>\$ 10,050</b> | <b>\$ 41.44</b> | <b>1.03%</b> | <b>22.71%</b> | <b>32.7x</b> | <b>4.4x</b>       | <b>1.7x</b>    | <b>14.3x</b> |                |

Source: CapIQ

## MANUFACTURING INDUSTRY VS. S&P 500

### RUNNING 12 MONTHS



Source: CapIQ

— Manufacturing Industry — S&P 500 Index



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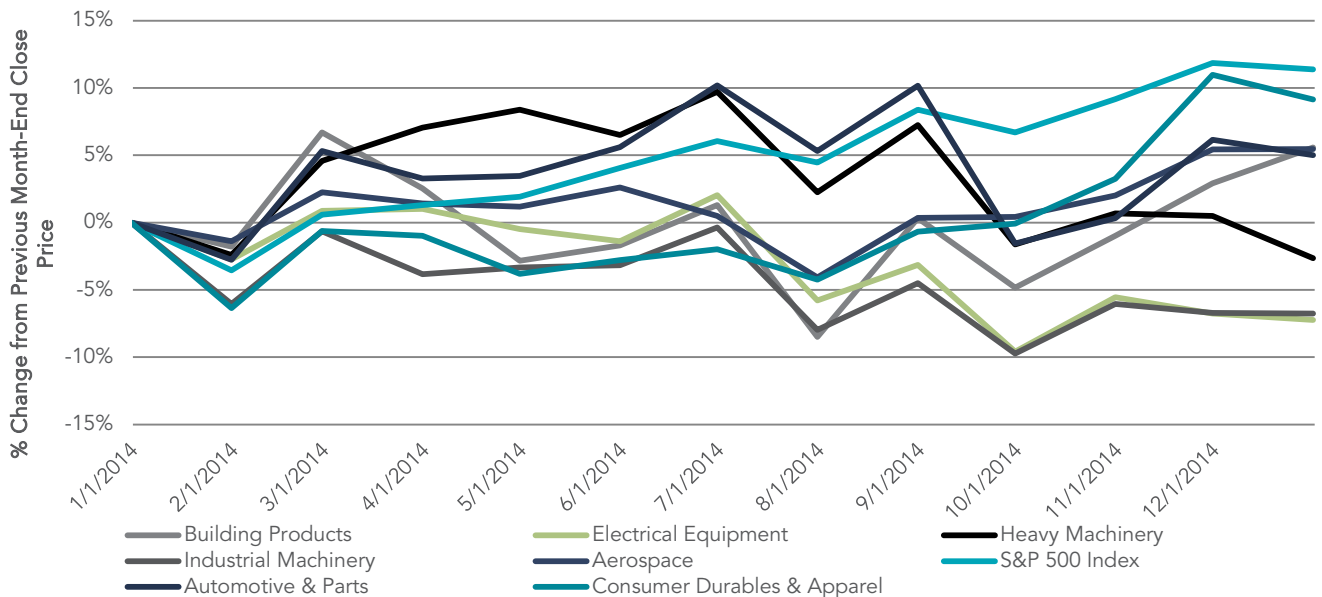
## INDUSTRY SEGMENTS

In 2014 all but one industry, consumer durables and wearables, performed worse than the S&P 500. One of the strongest players was Sequential Brands Group who, like many of its competitors, benefited greatly from the recovering domestic economy where increasing consumer confidence and rising personal disposable income throughout the year allowed consumers to allocate more purchases towards discretionary type products. Electrical equipment and industrial machinery were the worst performers, both down close to 7% on the year. This is primarily the result of increased competitive pressures and structural changes within the industry. In general, the market has favored manufacturers with a specific product portfolio. Multiplies increase to the degree a manufacturing process adds value to a product and to the extent the products are mission critical in end markets.

| Market Segment              | Av. Market Cap | Stock Price Delta |        |        | Price/<br>LTM EPS | Price/<br>Book | TEV/<br>Sales | TEV/<br>EBITDA |
|-----------------------------|----------------|-------------------|--------|--------|-------------------|----------------|---------------|----------------|
|                             |                | Month             | YTD    | LTM    |                   |                |               |                |
| Building Products           | \$ 1,933       | 2.6%              | 5.6%   | 5.6%   | 37.24x            | 5.51x          | 1.51x         | 12.58x         |
| Electrical Equipment        | \$ 2,891       | (0.5%)            | (7.2%) | (7.2%) | 36.93x            | 3.01x          | 2.53x         | 15.77x         |
| Heavy Machinery             | \$ 5,807       | (3.1%)            | (2.6%) | (2.6%) | 18.76x            | 2.70x          | 1.16x         | 12.55x         |
| Industrial Machinery        | \$ 2,993       | (0.1%)            | (6.8%) | (6.8%) | 27.22x            | 2.94x          | 1.83x         | 11.39x         |
| Aerospace                   | \$ 11,201      | 0.0%              | 5.5%   | 5.5%   | 19.14x            | 1.07x          | 0.83x         | 7.84x          |
| Automotive & Parts          | \$ 6,900       | (1.1%)            | 5.0%   | 5.0%   | 18.66x            | 2.97x          | 1.33x         | 12.09x         |
| Consumer Durables & Apparel | \$ 4,011       | (1.6%)            | 9.2%   | 9.2%   | 24.90x            | 3.87x          | 1.67x         | 14.41x         |
| Industry Average            | \$ 5,150       | (0.8%)            | 2.9%   | 2.9%   | 36.06x            | 3.06x          | 1.49x         | 13.75x         |
| S&P 500 Average             | \$ 37,711      | (0.4%)            | 11.4%  | 11.4%  | 27.79x            | 4.98x          | 3.23x         | 11.72x         |

Source: CapIQ

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



Source: CapIQ

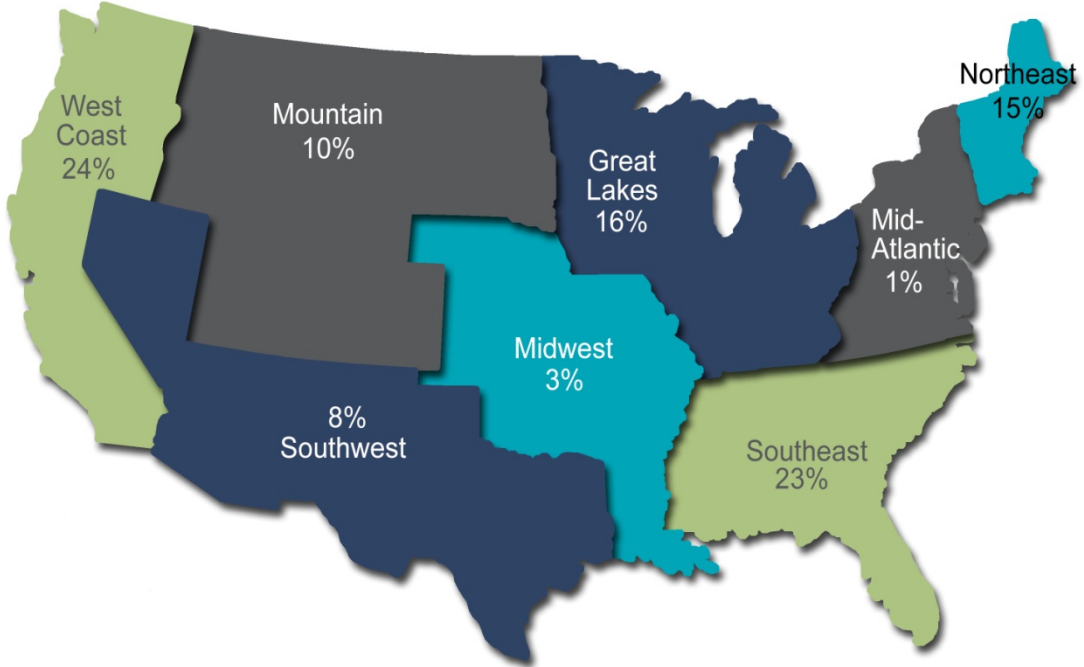


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## INDUSTRY GEOGRAPHY

### COMPANIES BY REGION

MANUFACTURING COMPANIES BY REGION AS OF DECEMBER 31, 2014



Source: CapIQ

### COMPANIES BY SIZE

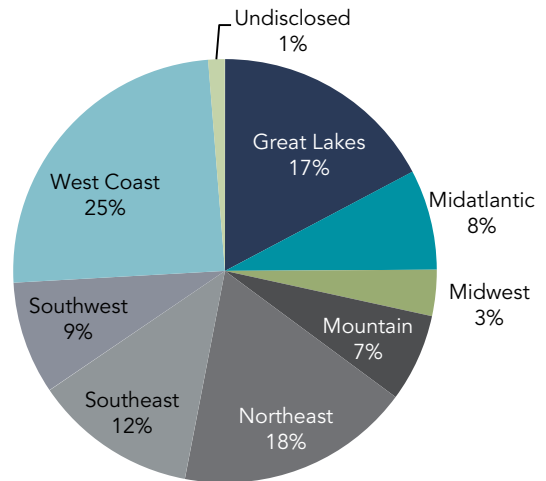
| State | Undisclosed | \$ 0 - 5 Revenue | \$5 - 10 Revenue | \$10 - 25 Revenue | \$25 - 50 Revenue | \$50 - 100 Revenue | \$100+ Revenue |
|-------|-------------|------------------|------------------|-------------------|-------------------|--------------------|----------------|
| AZ    | 305         | 48               | 106              | 74                | 36                | 9                  | 12             |
| CO    | <b>325</b>  | <b>38</b>        | <b>84</b>        | <b>72</b>         | <b>16</b>         | <b>11</b>          | <b>19</b>      |
| KS    | 214         | 19               | 73               | 71                | 43                | 12                 | 14             |
| ND    | <b>43</b>   | <b>8</b>         | <b>12</b>        | <b>19</b>         | <b>7</b>          | <b>1</b>           | <b>1</b>       |
| NE    | 74          | 10               | 36               | 37                | 17                | 8                  | 4              |
| NM    | <b>52</b>   | <b>12</b>        | <b>12</b>        | <b>13</b>         | <b>3</b>          | <b>0</b>           | <b>2</b>       |
| OK    | 168         | 29               | 82               | 54                | 29                | 14                 | 8              |
| SD    | <b>44</b>   | <b>7</b>         | <b>22</b>        | <b>20</b>         | <b>9</b>          | <b>3</b>           | <b>2</b>       |
| TX    | 1059        | 189              | 480              | 349               | 142               | 53                 | 104            |
| UT    | <b>198</b>  | <b>24</b>        | <b>49</b>        | <b>36</b>         | <b>22</b>         | <b>5</b>           | <b>5</b>       |
| WY    | 17          | 1                | 8                | 6                 | 2                 | 0                  | 0              |

\* Revenue in millions

Source: CapIQ

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

### TRANSACTIONS BY REGION



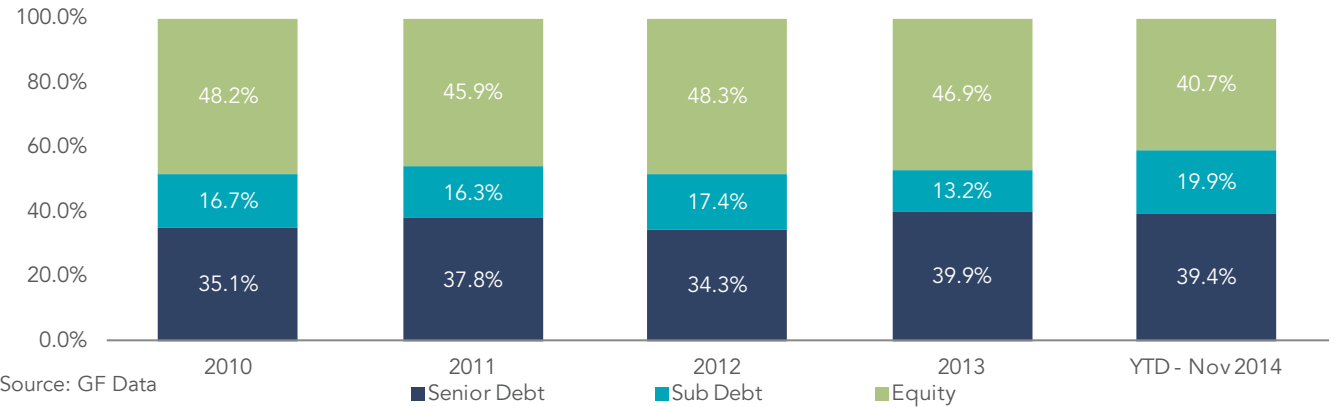
Source: CapIQ



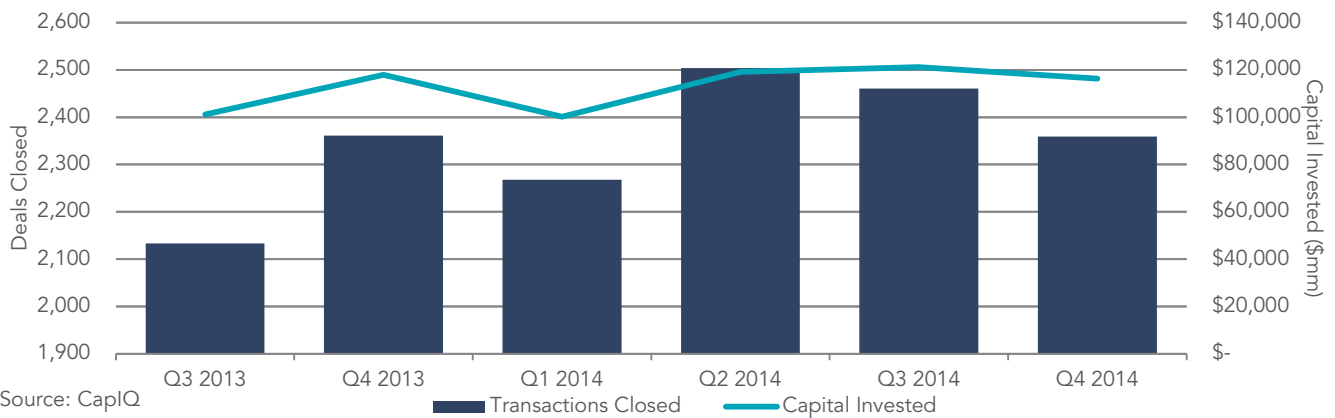
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## M&A MARKET ACTIVITY, OVERALL LOWER MIDDLE MARKET

### CAPITAL STACK - \$10-25 MILLION TEV

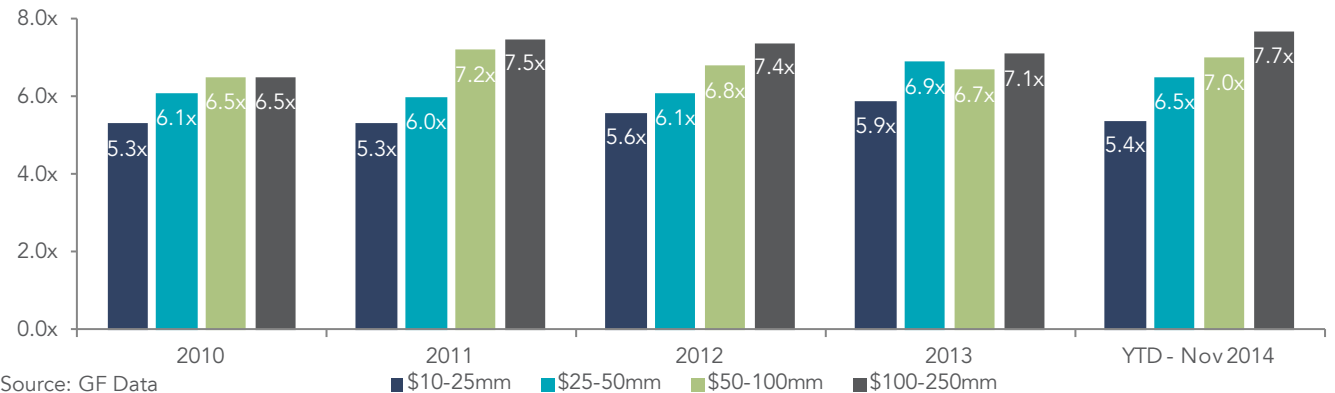


### US MIDDLE MARKET M&A ACTIVITY



### TRANSACTION MULTIPLES

#### EBITDA MULTIPLES BY TRANSACTION SIZE



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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<sup>SM</sup> 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.

### PRIVATE CAPITAL FORMATION

#### Capital Placement

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

#### Recapitalization

Whether recapitalizing a majority or minority of your company, we tailor our process to each client's specific needs to generate multiple options and favorable terms.

## RECENT TRANSACTIONS

|  |   |  |   |   |  |
|--|---|--|---|---|--|
| <p>DECEMBER 2014</p> <p>Deal financing provided by<br/>GUARANTY BANK<br/>AND TRUST COMPANY</p> <p>SDR Ventures CAPITAL FORMATION</p> | <p>OCTOBER 2014</p> <p>Has been acquired by<br/>Polymet<br/>Engineering Inc.</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>    | <p>AUGUST 2014</p> <p>Has been acquired by<br/>Private Investor<br/>Group</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>                        | <p>JULY 2014</p> <p>Has completed a equity recapitalization with<br/>REVELSTOKE CAPITAL PARTNERS, LLC</p> <p>SDR Ventures CAPITAL FORMATION</p> | <p>JULY 2014</p> <p>Has been acquired by<br/>FRONTENAC COMPANY</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>  | <p>APRIL 2014</p> <p>Has been acquired by<br/>Barkwood, Inc.</p> <p>SDR Ventures SELL SIDE TRANSACTION</p>       |
| <p>MARCH 2014</p> <p>Commercial real estate loan provided by<br/>Hexagon</p> <p>SDR Ventures CAPITAL FORMATION</p>                   | <p>NOVEMBER 2013</p> <p>Has acquired<br/>A Business Unit of a<br/>Public Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p> | <p>OCTOBER 2013</p> <p>Deal financing provided by<br/>ColBiz Structured Finance<br/>ColBiz 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<br/>Zeus<br/>&amp; Company</p> <p>SDR Ventures BUY SIDE TRANSACTION</p> | <p>NOVEMBER 2013</p> <p>Has acquired<br/>Western Paper Distributors</p> <p>SDR Ventures BUY SIDE TRANSACTION</p> |

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