

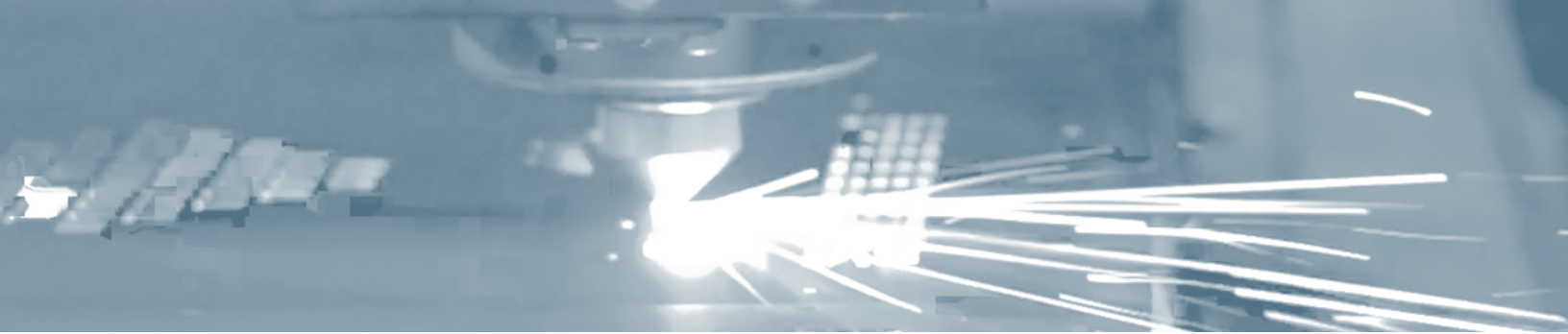
INDUSTRY UPDATE:
Metal Fabrication

Q4 2020



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MARKET OVERVIEW

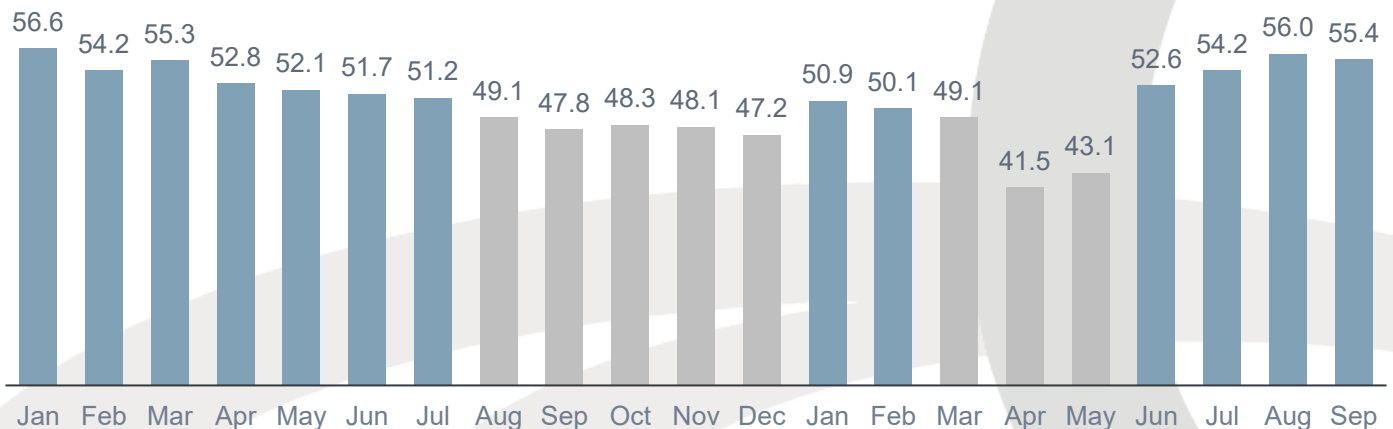
METAL FABRICATION SECTOR PERFORMANCE AND TRENDS

Following five consecutive months of modest pullback at the end of 2019, the \$338 billion metal fabrication market¹ exhibited positive momentum in 2020 before the full impact of the Covid-19 pandemic hit the US in March. The US manufacturing Purchasing Managers Index (PMI) figures for January and February both registered in excess of 50.0 (indicative of economic expansion). Beginning in March, however, the combination of unprecedented levels of unemployment and slowed economic activity resulted in a material decline in fabrication activity through May, with many fabricators reporting declines of 20%-40% in orders. In April, PMI figures dropped to 41.5—the lowest level in more than a decade. Since June, however, many fabricators have seen a strong rebound in demand. In fact, the August and September manufacturing PMI figures (56.0 and 55.4, respectively) reached their greatest levels in almost two years. This recovery can largely be attributed to the acceleration of previously delayed orders from March through May, but can also be attributed to core market growth and the continued nearshoring of products and components stemming from:

- ▶ The uncertainty of maintaining a global supply chain amid the turbulence caused by recent trade wars;
- ▶ Greater demand for high-quality, high precision parts with short lead times; and
- ▶ The rapidly growing ability of US fabricators to provide even greater precision with more efficiency on the heels of continued investment in automation and more efficient laser cutting machinery.

Origin expects solid growth in the metal fabrication market over the next three to five years, driven by continued economic recovery and nearshoring activities; increasing demand from key end markets such as military/defense, medical equipment, and alternative energy; and greater efficiency and cost effectiveness of key players in the industry.

U.S. MANUFACTURING PMI DATA, 2019-PRESENT



Source: Institute for Supply Management (ISM) – (2)



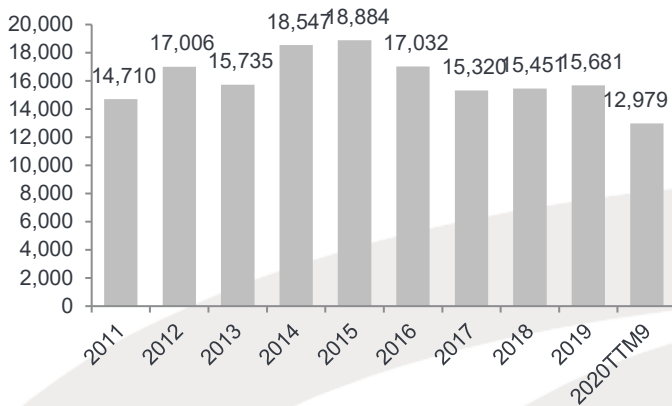
M&A TRENDS AND OUTLOOK

CURRENT M&A ENVIRONMENT

Metal fabrication M&A activity has been noticeably impacted by the global pandemic, as economic uncertainty and logistical challenges have created impediments to deal valuation and execution. Despite these issues, it remains a strong M&A market for those companies that have fared well and bounced back from the immediate impact of Covid-19. The underlying market fundamentals are conducive to deal activity, with strategic buyers seeking growth; US private equity buyers seeking to deploy an estimated \$1.2 trillion of capital; a meaningful number of family offices pursuing direct investment opportunities; and lenders providing reasonable levels of acquisition financing at historically low interest rates.

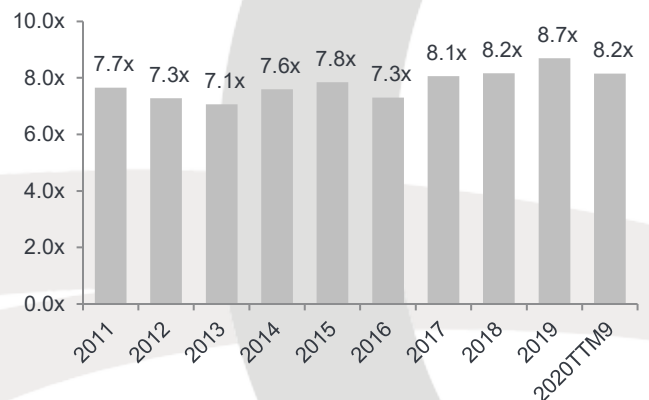
These dynamics are at play within the broader middle market manufacturing M&A market, as well. Transaction volume has moderated compared to prior years, but valuations (as measured by TEV/EBITDA multiples) remain on par with the 10-year average, likely due to demand for attractive acquisition targets outstripping supply in the current environment.

U.S. CONTROL TRANSACTION VOLUMES



Source: S&P Capital IQ – (3)

MIDDLE MARKET TEV/EBITDA MULTIPLES



Source: S&P Capital IQ – (4)

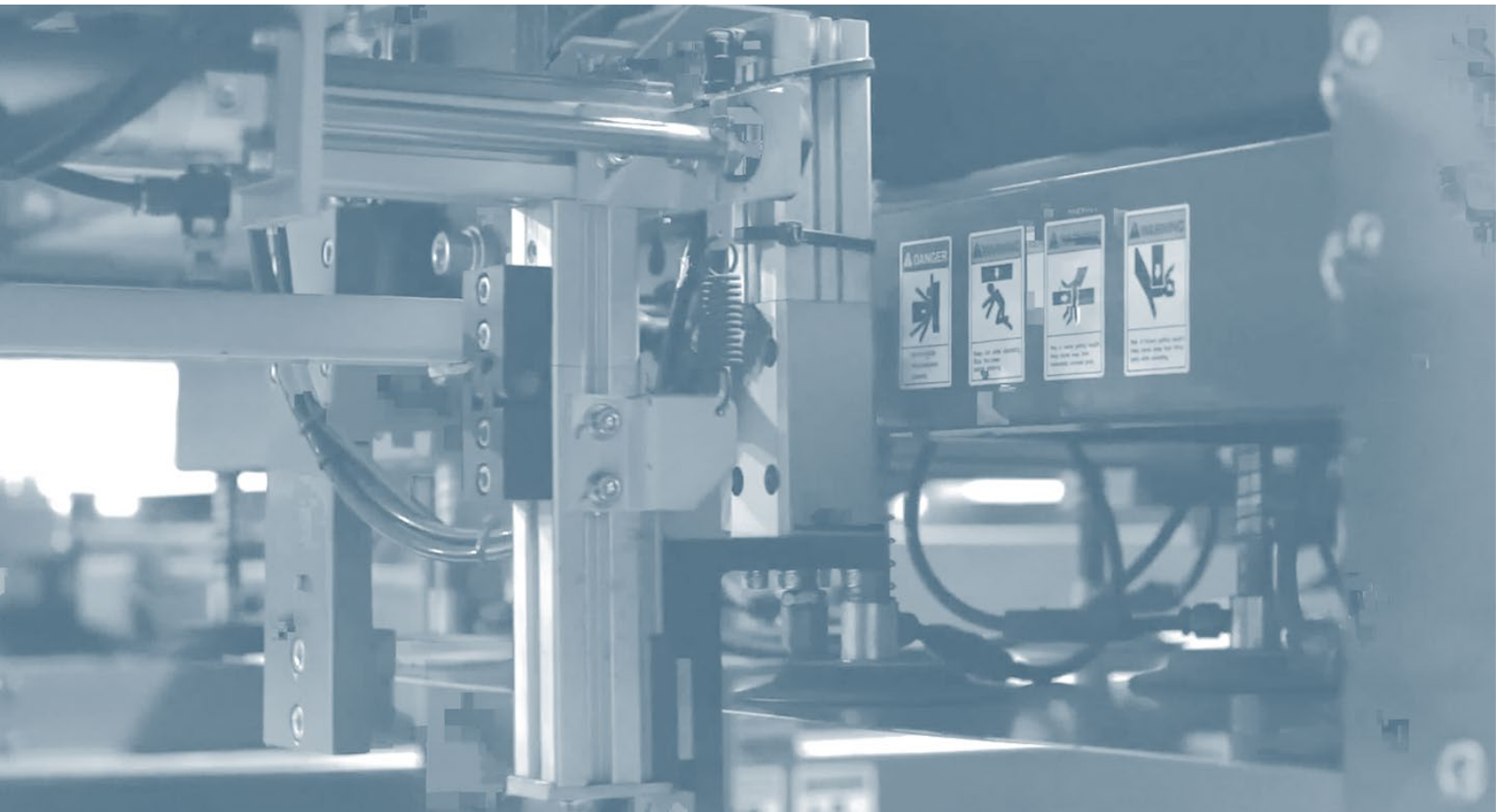
SELECT RECENT METAL FABRICATION M&A TRANSACTIONS

DATE	ACQUIRER	TARGET	TARGET DESCRIPTION
Oct-20	DeWys Manufacturing, Inc.	ReFab Liquidation, LLC	Manufacturer of metal fabrications with diverse capabilities, including machining, laser cutting, welding, turret punching, forming, finishing and assembly services.
Jul-20	CORE Industrial Partners LLC	Incodema Inc.	Manufactures sheet metal products and prototypes using intricate metal forming, short run production stamping, laser cutting, photochemical machining, urethane castings, CNC machining, microcut, polyjet, wire EDM, SLA, SLS, and DMLS.
Mar-20	Blitzblow USA LLC; US Advanced Systems LLC	Laser Access, Inc.	Specializes in close tolerance fabrications, flat laser cutting, 5-axis laser cutting, CNC brake press forming, welding, robotic welding, CNC milling and assembly for the automotive, aerospace, military and furniture industries.
Feb-20	Canerector Inc.	Quality Fabrication Inc.	Provides sheet metal fabrication and machining services to customers in the electronics, computers & networking, electrical, telecommunications, satellite communications, medical, security systems, and defense and aerospace markets.
Jan-20	Modineer Co., Inc.	P-K Tool & Manufacturing Co.	Designs and manufactures precision metal stampings for powersports and automotive industries utilizing metal-forming, laser cutting, machining, and assembly services.
Jan-20	Whiterock Capital	Fab-Tech, Inc.	Manufactures precision sheet metal components and provides fabrication, laser-cutting, punching, stamping, welding, powder coating, and painting services for the telecom, security, medical, defense, oil and gas, and transportation sectors.
Dec-19	Maysteel Industries, LLC	Porter's Group, LLC	Manufactures fabricated metal parts with a focus on high-quality metal enclosures, cabinets, kiosks, weldments and subcomponents.
May-19	Canerector Inc.	Phoenix Metal Fabricating, Inc.	Manufacturer of stampings and fabricated products and assemblies, including brackets, cabinets, and enclosures.
Apr-19	Curran Companies; Willcrest Partners	Precision Aerospace LLC	Supplier of complex machined sheet metal fabrications, including welded and mechanical assemblies supporting the aerospace industry, primarily for engine and exhaust applications
Apr-19	Union Partners I LLC	National Metalwares, L.P.	Engages in the manufacturing, fabrication, powder coating and end conditioning of welded steel tubing and tubular products for consumer and industrial product manufacturers.
Mar-19	Anchor Partners, LLC	Quality Industries, Inc.	Provides precision metal fabrication and assembly and power coating services for the truck, alternative/renewable energy, electrical enclosures, and food service equipment industries.

ROBUST M&A OUTLOOK

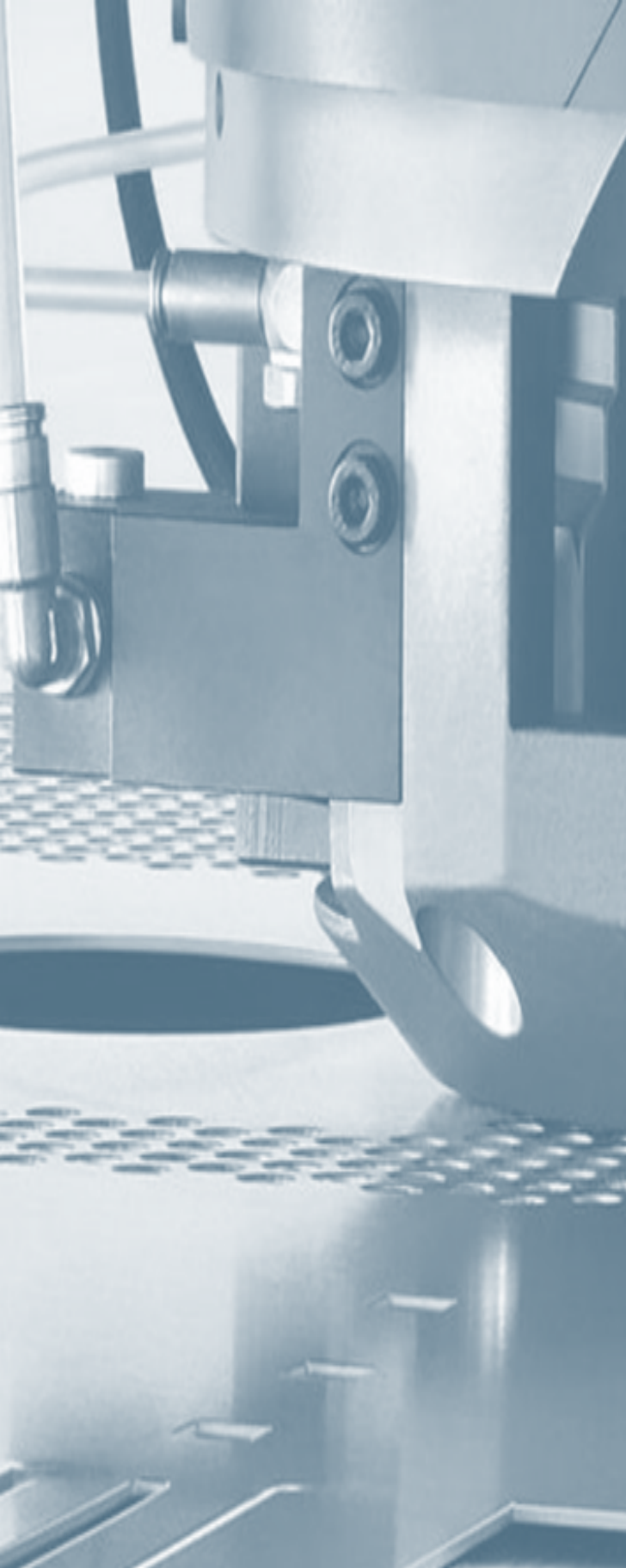
Origin anticipates a growing number of merger and acquisition transactions in the metal fabrication market in 2021 and beyond. We believe that strategic consolidation will be an important and widespread activity for at least the next several years, driven by the following underlying conditions and trends:

- ▶ **Fragmented Industry:** The metal fabrication segment is comprised of an estimated 51,000 fabricators, the vast majority of which are independent, privately-owned businesses. Furthermore, there are few dominant concerns with fabrication as a primary business activity. Accordingly, the fabrication market presents acquisition-minded companies and private equity groups with a robust universe of prospective targets.
- ▶ **Increasing Emphasis on Automation and Efficiency:** Fabricators have been increasingly investing in automation equipment and new technologies that can increase productivity, improve precision, minimize errors, reduce scrap, alleviate the challenges of finding/training skilled labor, and, ultimately, generate greater margins. Key areas of investment have been robotic welding, automated material handling systems, more efficient nesting software, and faster, more powerful lasers. Some private company owners are not willing or able to continue to make the necessary investments to compete for the more attractive opportunities in the market and, instead, may seek to exit their investment. Conversely, other companies are seeking acquisitions to capitalize on the additional capacity produced by their investments and to generate additional efficiencies through the realization of economies of scale from strategic combinations.





- ▶ **Diversification:** Fabrication of metal products is an important part of virtually all industrial sectors, including aerospace, automotive, construction, energy (traditional and alternative), medical, and mobile equipment, among numerous others. Yet a meaningful portion of fabricators end up with a significant concentration in one or two industries. While some fabricators benefit from the recognition gained from serving one industry, there is often a strategic benefit to finding new markets for continued growth and reducing the exposure to risk and/or cyclicity inherent in serving a single end market.
- ▶ **Greater Margin Potential:** Companies that serve markets with lower growth rates or greater competition are interested in pursuing acquisitions of companies that serve other, more favorable markets in an effort to transform the overall margin potential of their business. For example, many metal service centers have acquired fabrication businesses to capture more of the value-add inherent in a part or component purchased by an OEM.
- ▶ **Growth:** Acquisitions are an obvious means of achieving growth for an organization and solidifying or enhancing its market position. These are important strategic goals at any time, but they may be especially critical in a post-Covid world, when there is likely to be greater turmoil including increasing competition among suppliers for organic growth, and OEMs seeking to stabilize their supply base.



- ▶ **Supply Chain Stability:** For several years now many OEMs have sought to consolidate their supply base and reduce the overall number of suppliers with which they work. The purpose is to ensure that suppliers are financially strong, reduce the administrative burden of dealing with many suppliers and, at the end of the day, create a more stable and less risky supply chain. We believe this trend will continue, which will encourage suppliers to grow (primarily through acquisition) in order to be the supplier of choice for OEMs.
- ▶ **Increasing Number of Private Equity Group Platforms:** Middle market manufacturing as a whole has received increased attention in recent years from private equity groups, and the metal fabrication segment is no exception. Already a number of private equity groups have made platform investments in the industry. Private equity returns—especially in the middle market—are largely predicated on generating EBITDA growth. One of the key strategies employed to generate growth is through the acquisition of other fabrication companies. This is particularly true for targets that will either improve the margin profile of the platform investment or will provide a path into a new market that will help accelerate a company’s organic growth efforts. Coupled with available capital and a mandate to invest that capital, it would not be surprising to see a greater level of acquisitions of fabrication companies in the near future.

Select private equity groups that have made noteworthy investments in the industry are presented on the following pages.

SELECT PRIVATE EQUITY GROUPS WITH METAL FABRICATION INVESTMENTS

ALDINE

Aldine Capital Partners
Chicago, IL
aldinecapital.com

Lake Air Metal Products
(Minneapolis, MN)

Provides metal fabrication, machining, stamping, and value-added engineering services for medical, electronics, communications, turf care, agriculture, scientific, packaging, and aerospace industries.

H3 Manufacturing Group
(Champaign, IL)

Engages in complicated weldments manufacturing, custom sheet metal fabrications, CNC machining, and assembly. It serves clients in various industries that include aerospace and defense, power distribution and generation, medical, life sciences, packaging, agriculture, and transportation.



Anchor Investments
Southlake, TX
anchor-investments.com

Anchor Fabrication
(Fort Worth, TX)

Provides metal fabrication services. Its services include plasma cutting, laser, welding, robot, engineering, machining, forming, assembly, and painting. The company serves aerospace, agriculture, chemical, construction, electrical, environmental, material handling, mining, oilfield, plastic, and transportation industries.



Arch Equity Partners
St. Louis, MO
archequitypartners.com

Chandler Industries
(Minneapolis, MN)

Manufactures precision machined components, fabrications, and complex assemblies for the aerospace, defense, energy, industrial, medical, and other markets from its five locations in Minnesota and one location in Mexico.



Hall Capital Partners
Oklahoma City, OK
hall-capital.com

Modineer Company
(Niles, MI)

Manufacturer and fabricator of low- to medium-volume complex metal components and assemblies for the automotive, military, truck/trailer and industrial markets utilizing stamping, roll forming, welding, machining, painting, e-coating, and other specialty processes.



**Levine Leichtman
Capital Partners**
Los Angeles, CA
llcp.com

Jonathan Manufacturing
(Irvine, CA)

Manufactures aluminum and steel slides, trays and shelves, cable management products, and custom linear assemblies for the defense, server/data storage, heavy weight vehicle, medical and vending equipment, commercial/business aerospace, and other industrial sectors worldwide

SELECT PRIVATE EQUITY GROUPS WITH METAL FABRICATION INVESTMENTS

(CONTINUED)



Littlejohn Capital
Savannah, GA
littlejohncapital.com

Anchor Fabrication
(Fort Worth, TX)

Manufactures and supplies custom fabricated sheet metal enclosures, kiosks, and cabinets for the renewable energy, self-service, utility and industrial, telecom, security, military and defense, medium-duty truck, and data center markets.



MiddleGround Capital
Lexington, KY
middlegroundcapital.com

Steel Craft Corporation
(Hartford, WI)

Operates as a full-service fabricator and offers various services in the areas of laser cutting, tube lasers, NC punch press, metal stamping, NC brake forming, welding, machining, testing, certifying, and logistics management, as well as painting and coating, coupled with mechanical and electro-mechanical assembly.



PS Capital Partners
Milwaukee, WI
pscaptopartners.com

Waukesha Tool & Stamping
(Sussex, WI)

Provides precision sheet metal stamping and fabrication, component assembly, and tool and die manufacturing services, including the fabrication of aluminum and stainless steel enclosures, small parts, weldments, and other complex assemblies.

SPEYSIDE EQUITY

Speyside Equity
Ann Arbor, MI
speysideequity.com

Midland Stamping and Fabricating
(Schiller Park, IL)

Provides contract metal stampings and fabrications ranging from prototypes to full production runs to major tier one manufacturers in the automotive, appliance, industrial, trailer, cookware, and other industries.



Watermill Group
Lexington, MA
watermill.com

Quality Metalcraft and Experi-Metal
(Livonia, MI)

Manufactures and supplies automotive sheet metal stampings, fabrications, assemblies, and body in white vehicles for the automotive, commercial vehicle, aerospace, and defense industries.

Tenere
(Dresser, WI)

Manufactures metal fabrication and injection molding products to information and communications technology, aerospace, product development and prototyping, defense, HVAC, industrial, agricultural, commercial printing, and medical markets.



Wynnchurch Capital
Rosemont, IL
wynnchurch.com

Ironform Holdings
(Chicago, IL)

Offers light, medium and heavy gauge precision metal stampings, fabricated components and value-added assemblies for the heavy truck, agriculture, construction, off-highway, bus, and industrial end markets, with capabilities including cutting, forming, hand and robotic welding, machining, painting, and assembly.

PUBLIC COMPANY PERFORMANCE

There are few pure play fabrication companies that trade in the public markets; however, there are a number of companies for which fabrication operations are a meaningful business activity. For the selected companies below (grouped by primary end market served), the aggregate total enterprise value (TEV) to EBITDA multiple increased 10.2% over the past 12 months, with much of the increase generated in the month of September 2020 on the heels of positive PMI and other economic data. The companies driving this increase are those that serve diversified and automotive markets, which saw median increases of 16.8% and 30.0%, respectively. Companies with significant aerospace fabrication activities (inclusive of machining and casting), however, declined 22.1% over the same time period. Despite a materially greater median EBITDA margin (13.6%) compared to those companies serving other end markets (8.3%), the current median TEV/EBITDA multiple for aerospace companies of 6.9x is more in line with fabricators serving other markets, which signals the market's outlook on the aerospace industry in light of the considerable impact of Covid-19 on that sub-sector.

Company Name	Headquarters	Revenues	Gross Margin	EBITDA Margin	TEV	TEV/EBITDA Multiple			
						Current	1 Yr Ago	% Change	
<i>Diversified</i>									
Adval Tech Holding	Switzerland	\$ 146	53.7%	8.4%	\$ 95	7.5x	5.6x	33.1%	
Hammond Manufacturing	Canada	107	31.6%	8.0%	44	4.1x	5.5x	-25.8%	
Mayville Engineering	United States	402	9.0%	7.2%	262	9.1x	6.3x	44.7%	
NN, Inc.	United States	763	23.6%	11.5%	1,185	11.4x	12.1x	-6.1%	
Park-Ohio	United States	1,378	14.6%	5.6%	784	7.7x	7.0x	9.7%	
Standex International	United States	605	35.6%	16.4%	864	7.8x	8.8x	-11.4%	
Median		\$ 503	27.6%	8.2%	\$ 523	7.8x	6.7x	16.8%	
<i>Automotive</i>									
American Axle & Mfg.	United States	\$ 4,966	10.6%	12.2%	\$ 3,953	6.5x	4.3x	50.1%	
Gestamp Automoción	Spain	8,681	40.1%	6.8%	5,859	8.9x	6.3x	40.6%	
Linamar	Canada	4,286	11.5%	12.9%	2,953	5.3x	4.3x	24.3%	
Magna International	Canada	31,664	11.8%	7.6%	19,422	6.5x	5.2x	24.0%	
Martinrea International	Canada	2,371	17.9%	8.3%	1,322	5.9x	3.8x	58.3%	
Senior	United Kingdom	1,163	19.5%	8.5%	547	4.7x	8.4x	-44.6%	
Median		\$ 4,626	14.9%	8.4%	\$ 3,453	6.2x	4.8x	30.0%	
<i>Aerospace</i>									
Ducommun	United States	\$ 689	21.5%	12.2%	\$ 682	7.7x	8.9x	-13.1%	
Kaman	United States	806	32.3%	15.8%	1,242	9.7x	17.9x	-45.7%	
Lisi	France	1,708	53.1%	13.9%	1,342	5.1x	7.1x	-28.4%	
Magellan Aerospace	Canada	649	14.9%	13.6%	338	3.8x	6.0x	-37.1%	
Triumph Group	United States	2,665	20.5%	9.3%	1,943	6.9x	11.0x	-37.1%	
Median		\$ 806	21.5%	13.6%	\$ 1,242	6.9x	8.9x	-22.1%	
Median - All Categories		\$ 1,163	20%	9%	\$ 1,185	6.9x	6.3x	10.2%	

Source: S&P Capital IQ as of September 30, 2020

ORIGIN MERCHANT PARTNERS INC.

LEADING MIDDLE MARKET INVESTMENT BANK FOR INDUSTRIAL COMPANIES

Origin is one of North America’s leading middle market investment banks, with a strong focus on mergers and acquisitions in the industrial sector. We provide both buy-side and sell-side advisory services to private companies, corporations and financial sponsors.

Origin is dedicated to providing creative, value-maximizing solutions for its industrial clients. Our deep industry experience facilitates the identification of important industry and market trends, key value drivers, and qualified buyers, lenders and investors, thereby improving the likelihood of a transaction closing at a premium value and on a timely basis.

Through our expertise and commitment to excellence, Origin has become a valued partner upon which owners and management teams rely in their important M&A transactions.

- ▶ Founded in 2011
- ▶ Offices in Chicago, Montreal and Toronto
- ▶ Expertise in middle market manufacturing and industrial service transactions
- ▶ Deep experience in metals fabrication
- ▶ Active coverage of industrial sub-sectors through proprietary public company indices
- ▶ Comprehensive global reach through the Terra Alliance

METAL FABRICATION EXPERTISE

Origin has extensive experience advising companies involved in the production of diverse metal products and components for a wide range of end markets.

With more than 100 engagements in the metals processing segment, we have significant familiarity with virtually all forming and processing capabilities, including among others: casting, CNC machining, cutting, coating, extruding, fabrication, forging, hydroforming, impregnating, milling, non-destructive testing, tube fabrication, stamping, and welding.

REPRESENTATIVE TRANSACTIONS

<p>Decker Acquisition Corp. (d/b/a "Blessing Industries")</p>  <p>Has been acquired by</p> 	 <p>Has been acquired by</p> 	 <p>A subsidiary of</p>  <p>Has been acquired by</p> 	 <p>Has been acquired by</p> 	 <p>Has been acquired by entities established by</p>  
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GLOBAL REACH

Origin is a member of the Terra Corporate Finance Alliance, a leading international network of investment banks with coverage of more than 45 countries and operations in North America, South America, Europe, the Middle East, Africa and Asia. Through this network, Origin has a platform for offering enhanced identification of, and access to, potential transaction parties around the globe.

TERRA ALLIANCE 5-YEAR TRANSACTION RECORD

500+

Transactions

\$36B

Combined
Transaction Value



CONTACT US

Origin is currently advising the shareholders of multiple metal fabricators. To learn more about these opportunities or our investment banking services, or to obtain additional insight into specific industry verticals, please contact one of our specialists below.



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NOTES/SOURCES

1. Dun & Bradstreet First Research
2. Institute for Supply Management (ISM)
3. S&P CapitalIQ – US majority control acquisitions
4. S&P CapitalIQ - Transactions with Enterprise Values between \$10-\$250M and EBITDA multiples <15x; excludes technology, media and telecommunications transactions

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