BDO CAPITAL ADVISORS, LLC
"Trusted Investment Bankers for the Middle Market"

BDO CAPITAL
MANUFACTURING & DISTRIBUTION
Q1 2016 M&A Review and Outlook

CONTENTS

SOUND THE ALARMS; WELL, NOT JUST YET

Is it a Trough or a Bear Market for Manufacturing & Distribution M&A?

M&D Sector Deal Volume Pulls Back From Recent Highs

M&A activity in the Manufacturing & Distribution (M&D) sector in 2015 was slightly ahead of 2014 levels, making 2015 the second most active post-recession year on record. However, a deeper dive into the details revealed an alarming trend. The pace of closings began to slow in Q3 and then dropped off materially in December 2015 and January 2016, down 10.4 percent and 20.8 percent, respectively, from comparable year-earlier periods. While financial buyers steadily purchased M&D companies throughout the year, strategic buyers pulled back in the second half.

So what's in store for 2016? With transaction pipelines filling and dealmakers still expressing optimism (see the most recent *BDO PErspective Private Equity Study*), we think the negative trend will soon reverse itself.

In terms of valuations, M&D companies sold for lower multiples on average in 2015 than 2014. No surprise here because the 2014 level, averaging 10.76x EBITDA, was unsustainable. The average in 2015 was still high at 9.74x and the mix of companies trading hands included a greater percentage of "average performers."

Spotlight – Building Products (Investors Seek "Higher Ground" Late in Economic Cycle)

The building products industry has significant positive runway, with particularly attractive growth estimates in residential housing spend, which is expected to rise by 38 percent over the next four years. As such, investors would be wise to take a hard look at this space, and potential sellers would be equally wise to consider exiting. (See more on page 3)

Economic Conditions Pose Problems

Economic concerns have dampened deal volume. Real GDP registered only 0.7 percent on an annualized basis for Q4 2015 (an "advance" estimate at this point). In addition, the Institute for Supply Management (ISM) Manufacturing Index has been indicating a contraction in sector activity for four months now. M&D companies are clearly being stifled by the slowing economy in China and a strong U.S. dollar. On a brighter note, the sector added a material number of jobs in January (approximately 29,000) and consumer confidence, although declining over the past year, remains relatively high. While we have not seen many performance challenges in our client base, most companies are not immune to global economic headwinds, so we can expect some additional consternation in the deal market this year.

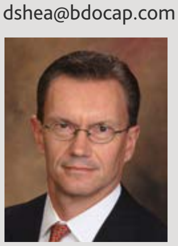
Read details ▶

BDO Capital Advisors, LLC provides counsel in the areas of:

- Mergers & Acquisitions
- Capital Raising
- Board Advisory

Please direct inquiries to:

Dan Shea | *Managing Director*
Los Angeles
310-557-8205
dshea@bdocap.com



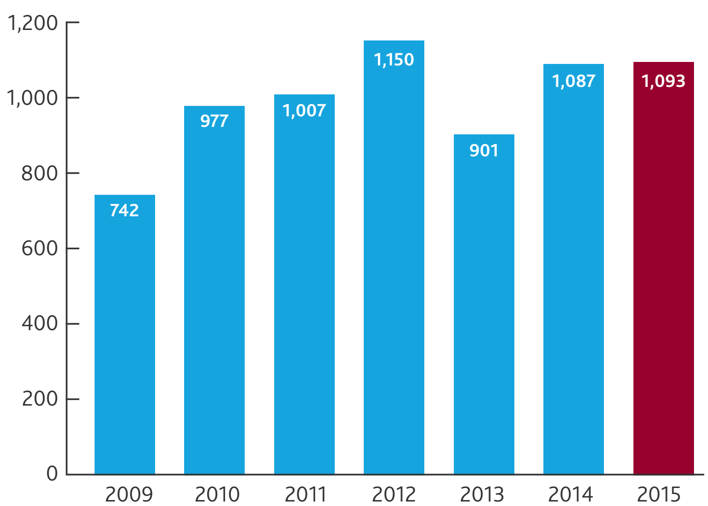
Bill Shiry | *Managing Director*
Chicago
312-233-1856
wshiry@bdocap.com

STATISTICALLY SPEAKING

Volumes

2015 was another active year for the M&D sector. Middle market M&A transaction volume inched upward over 2014 to reach the second highest annual level in the post-recession period (see Figure I). Underscoring this achievement was active participation by both strategic and financial buyers, with financial buyers advancing their share of closings to approximately 38 percent of total volume, up from the 34 percent registered in 2014.

FIGURE I
Transaction Volumes — U.S. Manufacturing & Distribution 2009A – 2015A



Source: S&P Capital IQ

Far and away the most interesting story the data told was the precipitous decline in closings towards the end of 2015 and into 2016. As indicated in Table I below, transaction volume was down by 4.1 percent during the second half of 2015 (as compared to the second half of 2014) and the pace of decline accelerated in December, down 10.4 percent vis-à-vis December 2014. Still more notable, 2016 began where 2015 left off, with transaction volume down 20.8 percent in January.

TABLE I
Change in U.S. Manufacturing & Distribution Deal Volume

	2H '15 v 2H '14	Dec '15 v Dec '14	Jan '16 v Jan '15
Percentage Change	- 4.1%	- 10.4%	- 20.8%

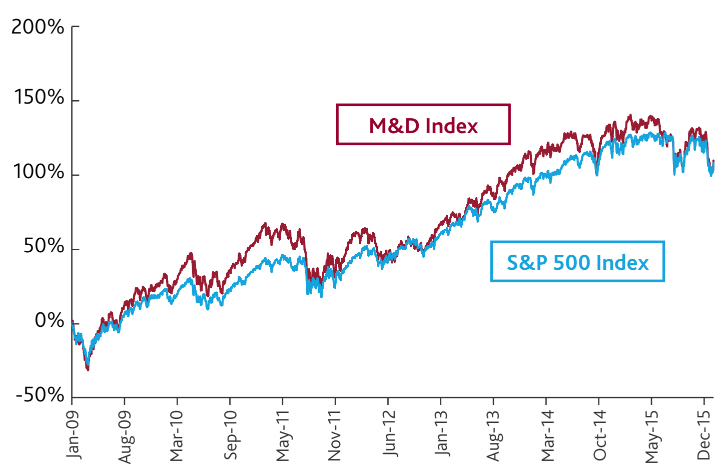
What is going on here? We believe that the decline has been largely due to growing concerns about the global economy. These concerns and their impact on deal count can be traced back to the start of increased volatility in the stock market in Q3 2015. It should be noted that this is a strategic buyer phenomenon. Strategic buyers have really backed off while financial buyer closings have held steady in recent quarters.

We expect the downward trend to end in the next few months. Deal pipelines appear to be filling, and dealmakers seem optimistic. As indicated in BDO's seventh annual *PErspective Private Equity Study*, 70 percent of PE fund managers still feel optimistic about the investment environment for the year ahead, up from just over half of respondents (56 percent) in 2015. So, stay tuned for an interesting and productive year ahead.

Valuations

Publicly-traded M&D securities have generally performed better than the broader market since the recession, as indicated by our M&D Index (see Figure II). At present, our index (a basket of over 700 M&D stocks) and the S&P 500 are both up almost 110 percent since the beginning of 2009, despite substantial downward pressure for the past two quarters.

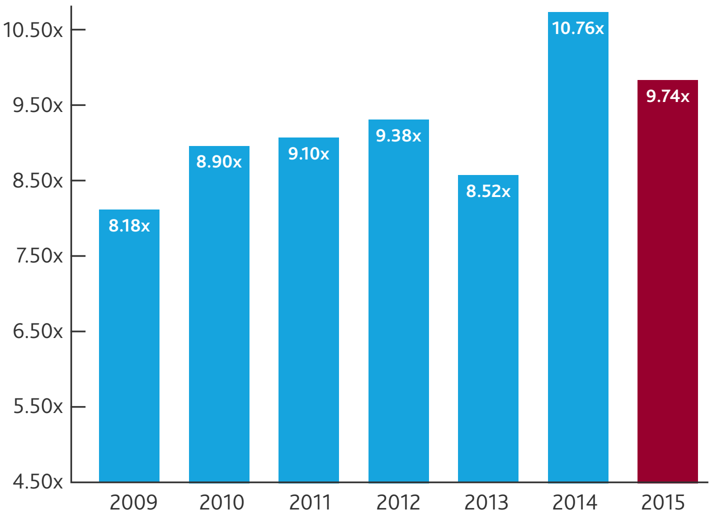
Figure II
Public Company Index — U.S. Manufacturing & Distribution Jan 2, 2009 – Jan 31, 2016



Source: S&P Capital IQ

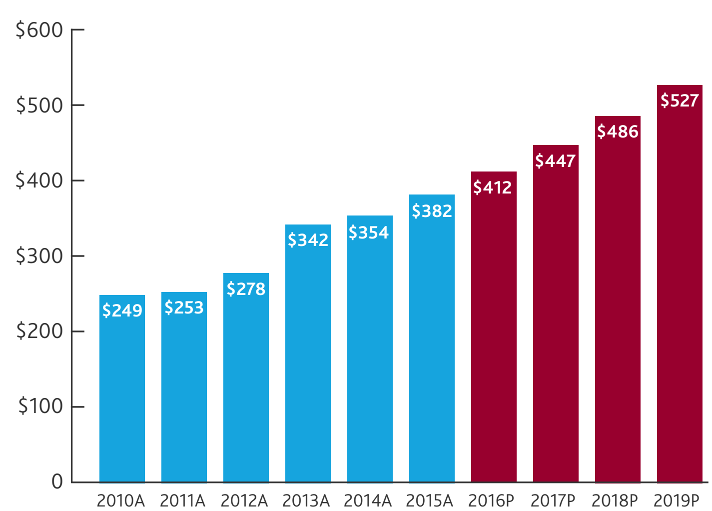
The valuations of middle market M&D companies sold since the recession peaked in 2014 at an average of 10.76x EBITDA, driven by the abundance of strategic as well as financial buyer capital. 2015 proved to be less feverish from a valuation perspective as buyers, undoubtedly influenced by economic concerns, tried to be more disciplined in bidding war situations. While less reported, the mix of companies for sale in 2015 included a greater percentage of "average performers," which naturally commanded lower multiples. The net result of these factors meant a decline in the average EBITDA multiple to 9.75x for the year.

FIGURE III
Avg EBITDA Multiples — U.S. Manufacturing & Distribution Transaction EV of $500M and Under 2009A – 2015A



Source: S&P Capital IQ

FIGURE IV
Residential Housing Spend 2010A – 2019P ($ in Billions)



Source: FMI Consulting

MARKET RUMBLINGS

Spotlight – Building Products Industry

At the end of any economic upcycle, investors are wise to focus their attention on sectors that have longer positive runway. Such is the present case with investors and the building products industry. As one of our recent sale clients remarked, "While the general economy ebbs and flows in four- to seven-year cycles, the building products industry is currently in year four of a 10-year growth cycle". As such, investors entering the building products market right now may be well positioned to enjoy great growth in coming years.

The brightest spot in the sector currently is residential investment, where it is predicted that residential housing spend will increase by almost 38 percent during the next four years (see Figure IV).

The National Association of Homebuilders Remodeling Market Index (RMI) also points to expectations of further expansion. Based on input from survey participants, the RMI reading in Q4 2015 stood at 58. A reading above 50 indicates expansion and the RMI has been above 50 since Q3 2009.

It takes two to tango, and it is clear to us that dance cards are full for both sellers and buyers alike. Indeed, building products business owners seem to be well aware of investor attention on their industry and, recognizing a near ideal time to exit, are doing so in great numbers.

ECONOMIC INDICATORS

As mentioned previously, concerns about the global economy have been and will continue to be a drag on middle market M&A in the U.S. Relevant economic indicators include:

Q4 2015 U.S. Gross Domestic Product (GDP)

Real GDP in the U.S. expanded minimally in Q4 2015 at an annualized 0.7 percent according to "advance" estimates from the Commerce Department, following a lackluster annualized growth of 2.0 percent in Q3 2015. This deceleration in real GDP in Q4 primarily reflected a slowdown in personal consumption expenditures and downturns in nonresidential fixed investment, exports, and state and local government spending, partly offset by a deceleration in imports and an acceleration in federal government spending. The Wall Street Journal's current survey of 60 plus economists indicates expected overall real GDP growth of 2.5 percent in 2016.

ISM Manufacturing Index – January 2016

The Institute for Supply Management (ISM) Manufacturing Index reading in January indicated economic contraction for the fourth straight month. A reading below 50 indicates contraction. January's reading came in at 48.2 and December dipped slightly to 48.0. Of the 18 manufacturing industries tracked by ISM, eight reported growth, including: textile mills; wood products; printing and related support activities; furniture and related products; computer and electronic products; machinery; and electrical equipment, appliances and components. The ten industries reporting contraction were: apparel, leather and allied products; non-metallic mineral products; petroleum and coal products; paper products; transportation equipment; plastics and rubber products; fabricated metal products; food, beverage and tobacco products; primary metals; and chemical products.

Jobs Report

Total non-farm payroll employment rose by 151,000 in January, and the unemployment rate changed slightly to 4.9 percent, according to the U.S. Bureau of Labor Statistics. Job gains occurred in several industries including manufacturing, which added 29,000 jobs following little employment change in 2015. Over the month, the majority of job gains occurred in food manufacturing (+11,000), fabricated metal products (+7,000), and furniture and related products (+3,000).

Consumer Confidence

According to the University of Michigan consumer sentiment survey, consumer confidence remained largely unchanged in January at a reading of 92.0, down 0.6 from December's level. It was, however, down by 6.1 points from the 98.1 reading noted in January 2015. This drop was mostly due to stock market volatility and the associated impact on household wealth, as well as weakened prospects for the national economy.

IN SUMMARY

M&D transaction activity has been dropping. This is a concerning trend, but we anticipate a reversal in 2016 because deal pipelines are filling and dealmakers remain optimistic. Valuations have come down recently too, but from unsustainable levels and due to a broader mix of companies, including "average performers", being sold. We seem to be nearing the end of the economic upcycle, so dealmakers are smart to focus on segments of the M&D landscape with cycle-defying growth prospects – e.g., building products. Indeed, the global economy seems shaky, with real GDP in Q4 2015 at a meager 0.7 percent annualized and ISM reporting a contraction in manufacturing. So, expect economic headwinds to be somewhat of a drag on deal closings in 2016.

RECENT BDO CAPITAL TRANSACTION

BDO Capital Advisors, LLC, is pleased to announce the sale of Maas-Hansen Steel Corporation (Maas-Hansen) to Triple-S Steel Holdings, Inc. (Triple-S), one of the top twenty steel service center businesses in America. Maas-Hansen specializes in the processing of light gauge steel and aluminum sheet products. The Company, which was founded in 1929, has approximately 50 employees in facilities in Vernon and Fontana, Calif. Gary Wolfe and Don Matso, Directors, issued a statement on behalf of Maas-Hansen: "After much deliberation, the shareholders of Maas-Hansen Steel, an 86 year-old family-owned business, are delighted that the loyal employees of Maas-Hansen Steel will now be part of the family of businesses owned by the very successful and growing Triple-S Steel, owned and managed by the Stein Family". As the exclusive financial advisor to Maas-Hansen, BDO Capital helped prepare a confidential offering memorandum, contacted an approved list of potential buyers and assisted the shareholders in structuring and negotiating the transaction.

MAAS-HANSEN
STEEL CORPORATION
1929

Substantially all of the assets of Maas-Hansen Steel Corporation have been acquired by a subsidiary of Triple-S Steel Holdings, Inc.

TRIPLE-S STEEL

BDO Capital Advisors, LLC served as exclusive financial advisor to Maas-Hansen Steel Corporation

About BDO Capital Advisors

BDO Capital Advisors, LLC is a middle market boutique investment bank that focuses on three product areas: mergers and acquisitions, capital raising, and board advisory. Serving a wide range of industries, our seasoned investment bankers advised clients on transactions worth over $20 billion in aggregate value and have raised billions of dollars in capital. BDO Capital Advisors, LLC is a FINRA/SIPC Member Firm.

BDO Capital Advisors, LLC is a separate legal entity and is an affiliated company of BDO USA, LLP, a Delaware limited liability partnership and national professional services firm. Through its affiliation with BDO's international network, BDO Capital has access to approximately 2,000 corporate finance professionals domiciled in more than 80 countries. For more information please visit www.bdocap.com

About BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 63 offices and more than 450 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,408 offices in 154 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

BDO Capital Advisors M&A Contacts:

ROBERT SNAPE, President
617-239-4177 (Direct)
339-236-1050 (Mobile)
bsnape@bdocap.com

VALENTINA MIDURA, Managing Director
617-422-7593 (Direct)
978-873-1314 (Mobile)
vmidura@bdocap.com

KEVIN SENDLENSKI, Managing Director
617-422-7536 (Direct)
617-970-7033 (Mobile)
ksendlenski@bdocap.com

DAN SHEA, Managing Director
310-557-8205 (Direct)
310-903-2163 (Mobile)
dshea@bdocap.com

BILL SHIRY, Managing Director
312-233-1856 (Direct)
216-272-3129 (Mobile)
wshiry@bdocap.com