

METALS IQ

Industry Insights for Q4 2018

Geopolitical tensions between the U.S. and its North American partners, combined with minimal progress on Chinese trade negotiations likely played a role in the tempered metals sector deal activity in 2018. The number of transactions in metals declined to 133 in 2018, down 1.5% from the prior year. Conversely, the sector witnessed aggregate improvement on a deal value basis, with \$5.0 billion of M&A deal value in 2018 compared to \$1.0 billion in 2017.

Within the metals industry, steel continued to experience price increases driven by tariffs, higher oil prices, and supply chain disruptions. This was intensified by strong demand as steel shipments grew robustly, outpacing real GDP growth. Demand for steel from the automotive industry slowed, while the energy sector's demand for the metal experienced significant growth. Capacity utilization for U.S. steel producers rose to above 80% - its highest levels since 2014. Growing demand and rising steel

prices continued to drive the consolidation trend with interest from both strategic and private equity buyers. Strategic buyers accounted for the bulk of deal activity and have actively invested to increase their production capacity.

On the geopolitical front, while we saw some progress on tariffs between U.S. and China during the G20 summit and Beijing meetings, failure to reach a deal by March 1, 2019 would result in a tariff increase from 10% to 25% on \$200 billion worth of Chinese imports and would further introduce uncertainty into the metals market. Signing of the United States-Mexico-Canada Agreement (USMCA) in November 2018 should ease trade tensions between the North American trade partners. Despite the complex ratification and approval process ahead for the USMCA, the shift in tone between the three countries should bring relief to metals producers and downstream manufacturers and may lead to new opportunities for consolidation moving into 2019.

Recent Deal Activity Q3/Q4 2018

July 12, 2018 - Canada-based **Samuel, Son & Co. Limited** acquired Riverside, California-based **Sierra Aluminum Company**. Sierra manufactures standard and custom aluminum extrusions. Samuel management noted the acquisition moves Samuel's manufacturing division into the high-growth aluminum extrusion market. The announced transaction value was not disclosed.

July 31, 2018 - Liberty, Texas-based **Boomerang Tube LLC** acquired Chesterfield, Missouri-based **Southern Tube LLC**. Southern offers heat treatment and threading of oil country tubular goods. Boomerang management cited Southern Tube's transportation links and ability to expand its production capacity and product offerings as key drivers for the acquisition. The financial terms of the transaction were not disclosed.

August 2, 2018 - Rosemont, Illinois-based **MW Industries Inc.** acquired Corona, California-based **Ameriflex Inc.** Ameriflex manufactures stainless steel and other nickel-based alloy vacuum component parts used in applications supporting the semiconductor, microelectronics, and aerospace industries. MW management noted the acquisition increases MW's range of bellows products and technologies allowing MW to provide the most complete offering in the industry. The financial terms of the transaction were not disclosed.

August 2, 2018 - Private equity group **Aterian Investment Partners LLC** acquired Green Bay, Wisconsin-based **Pioneer Metal Finishing LLC**. Pioneer provides metal finishing products and services for equipment manufacturers and job shops in the United States. Aterian management cited Pioneer's turnaround times, expansive geographic presence, and broad service offerings as key drivers for the transaction. The financial terms of the transaction were not disclosed.

August 21, 2018 - Private equity group **Washington Equity Partners** acquired Englewood, Colorado-based **Accu-Tube Corporation**. Accu-Tube manufactures highly engineered small-diameter stainless steel tubing. Washington management noted that Accu-Tube is a market leader with unique engineering capabilities and differentiated products. The financial terms of the transaction were not disclosed.

August 23, 2018 - Deerfield, Illinois-based **Fortune Brands Home & Security Inc.** (NYSE:FBHS) acquired New London, North Carolina-based **Fiberon LLC**. Fiberon manufactures wood-alternative decking, railing, and fencing products for outdoor living applications. Brands management noted Fiberon's category expansion and product extension opportunities for Brands' doors and security segment as key drivers for the acquisition. The transaction value was \$470 million which implies a revenue multiple of 2.4x.

September 18, 2018 - Fort Wayne, Indiana-based **Steel Dynamics Inc.** (NasdaqGS:STLD) acquired Ashland, Kentucky-based **KES Holdings LLC**. KES produces merchant bar quality steel bar flats for generic types of applications, and special bar quality steel bar flats for precise customer specifications. Steel Dynamics management noted that the addition of flats and specialty alloy bars will provide product diversification. The transaction value was \$5 million.

October 1, 2018 - Elkhart, Indiana-based **Patrick Industries Inc.** (NasdaqGS:PATK) acquired West Columbia, South Carolina-based **Engineered Metals & Composites Inc.** EMC manufactures aluminum towers and small products for the marine industry. Patrick management cited EMC's technical expertise and innovative product offerings and the ability to further penetrate the marine market as key drivers for the acquisition. The transaction value was \$26 million which implies a revenue multiple of 1.6x.

October 15, 2018 - Private equity group **Auxo Investment Partners** acquired Warren, Michigan-based **Prestige Stamping Inc.** Prestige manufactures high-volume, tight-tolerance washers and small metal stampings and pro-

vides commercial heat treating services to the automotive, construction, and agriculture industries. Auxo management cited cultural alignment and financial support as the key drivers for the acquisition. The financial terms of the transaction were not disclosed.

November 5, 2018 - Grand Rapids, Michigan-based **Novo Building Products LLC**, a portfolio company of **Blue Wolf Capital Fund**, acquired Bowerston, Ohio-based **L.J. Smith Inc.**, a portfolio company of **McDonough Corporation**. L.J. Smith manufactures staircases and stair parts and assembled adjustable rail systems. Novo management noted that L.J. Smith is the preeminent stair parts business in the industry and offers manufacturing and distribution capabilities on a national scale. The financial terms of the transaction were not disclosed.

November 6, 2018 - Houston, Texas-based **Main Street Capital Corporation** acquired Port Washington, Wisconsin-based **Kickhaefer Manufacturing Company**. Kickhaefer manufactures precision metal parts and components for original equipment manufacturers. Main Street led a new portfolio investment to facilitate the management-led buyout. The financial terms of the transaction were not disclosed.

December 3, 2018 - Private equity groups **Hall Capital** and **Westbourne Capital Partners** and **Fred Jones Enterprises LLC** acquired Niles, Michigan-based **Modineer Co. Inc.** Modineer is a manufacturer of low to medium volume complex metal components and assemblies for the automotive, military, truck/trailer and industrial markets utilizing stamping, roll forming, and other specialty processes. Hall and Westbourne management noted Modineer manufactures more than 35 million components per year, operates from nine facilities, and are poised for expansion. The financial terms of the transaction were not disclosed.

December 3, 2018 - New York, New York-based **Liberty Street USA** announced an agreement to acquire Dallas, Texas-based **Keystone Consolidated Industries Inc.** Keystone produces steel fabricated wire products, industrial wires, and wire rods. Liberty noted the acquisition increases their downstream capabilities, creates critical synergies, adds strong management and provides better value and product. The announced transaction value was \$320 million.

December 5, 2018 - Mentor, Ohio-based **Race Winning Brands Inc.**, a portfolio company of **Kinderhook Industries LLC** acquired Colorado Springs, Colorado-based **Giannone Performance Products Inc.** Giannone management manufactures aluminum connecting rods. Race Winning Brands cited Giannone's proprietary features supporting top tier racing as the key driver for the acquisition. The announced transaction value was not disclosed.

December 10, 2018 - Scottsdale, Arizona-based **Carlisle Companies Incorporated** (NYSE:CSL) announced an agreement to acquire Elk Grove Village, Illinois-based **Petersen Aluminum Corporation**. Petersen manufactures market leading architectural metal roof panels, steel and aluminum flat sheets and coils, wall panels, perimeter roof edge systems, and related accessories for commercial, residential, institutional, industrial and agricultural markets. Carlisle management cited Peterson's portfolio of high-quality and innovative products and solutions as key drivers for the transaction. The announced transaction value was \$197 million which implies a revenue multiple of 1.2x.

December 17, 2018 - Marysville, Wisconsin-based **Mayville Engineering Company Inc.** acquired Defiance, Ohio-based **Defiance Metal Products Inc.** Defiance provides metal stamping, fabrication and painting of medium volume components, and assembly services. Mayville management noted the combined companies create greater customer and industry diversification, providing more products and processes through an expanded geographic footprint. The announced transaction value was not disclosed.

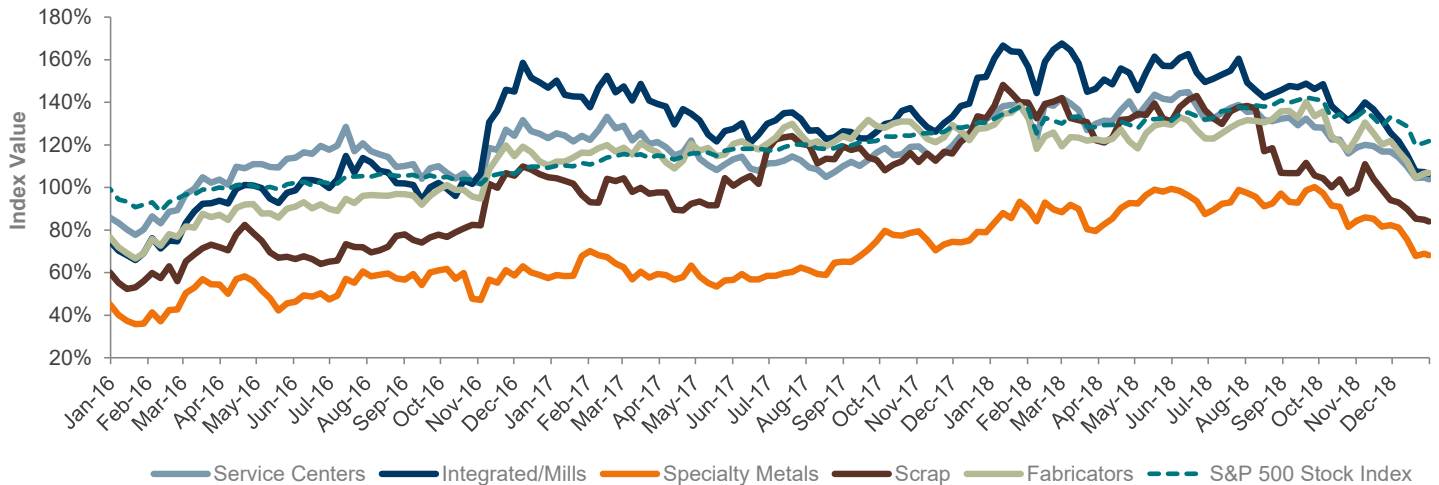
Metals Company Trading Multiples

Company	Exchange/ Ticker	12/31/18 Stock Price	Qtrly Price Change	Market Cap.	Total EV ⁽¹⁾	LTM		Gross Margin	EBITDA Margin	Net Debt/ EBITDA	Enterprise Value/LTM	
						Revenue	EBITDA				Revenue	EBITDA
Service Centers												
Olympic Steel, Inc.	NasdaqGS:ZEUS	14.27	(34%)	157	457	1,594	70	21%	4%	4.3x	0.3x	6.5x
Reliance Steel & Aluminum Co.	NYSE:RS	71.17	(17%)	5,013	7,006	11,097	1,178	29%	11%	1.7x	0.6x	5.9x
Median ⁽²⁾								25%	8%	3.0x	0.5x	6.2x
Mean								25%	8%	3.0x	0.5x	6.2x
Integrated/Mills												
AK Steel Holding Corporation	NYSE:AKS	\$ 2.25	(60%)	\$ 710	\$ 3,038	\$ 6,637	\$ 471	11%	7%	4.2x	0.5x	6.5x
Commercial Metals Company	NYSE:CMC	16.02	(25%)	1,884	2,421	4,644	352	13%	8%	1.5x	0.5x	6.9x
Nucor Corporation	NYSE:NUE	51.81	(19%)	16,265	19,001	23,864	3,598	16%	15%	0.7x	0.8x	5.3x
Steel Dynamics, Inc.	NasdaqGS:STLD	30.04	(30%)	6,896	8,215	11,254	1,864	19%	17%	0.7x	0.7x	4.4x
United States Steel Corporation	NYSE:X	18.24	(48%)	3,233	4,392	13,620	1,359	13%	10%	0.9x	0.3x	3.2x
Median ⁽²⁾								13%	10%	0.8x	0.5x	4.8x
Mean								14%	11%	1.6x	0.6x	5.8x
Specialty Metals												
Allegheny Technologies Incorporated	NYSE:ATI	\$ 21.77	(10%)	\$ 2,736	\$ 4,238	\$ 3,919	\$ 488	15%	12%	2.9x	1.1x	8.7x
Carpenter Technology Corporation	NYSE:CRS	35.61	(30%)	1,687	2,219	2,250	303	17%	13%	1.8x	1.0x	7.3x
Haynes International, Inc.	NasdaqGS:HAYN	26.40	(18%)	330	328	435	24	11%	6%	NM	0.8x	13.6x
Universal Stainless & Alloy Products, Inc.	NasdaqGS:USAP	16.21	(24%)	141	207	249	33	15%	13%	2.0x	0.8x	6.2x
Median ⁽²⁾								15%	13%	1.9x	0.9x	8.0x
Mean								15%	11%	2.2x	0.9x	9.0x
Scrap												
Industrial Services of America, Inc.	NasdaqCM:IDSA	\$ 1.12	(32%)	\$ 9	\$ 17	\$ 62	\$ 3	7%	4%	3.0x	0.3x	NM
Schnitzer Steel Industries, Inc.	NasdaqGS:SCHN	21.55	(36%)	565	672	2,365	195	15%	8%	0.5x	0.3x	3.4x
Sims Metal Management Limited	ASX:SGM	10.04	(36%)	2,035	1,726	6,458	296	12%	5%	NM	0.3x	5.8x
Median ⁽²⁾								12%	5%	1.7x	0.3x	4.6x
Mean								11%	6%	1.7x	0.3x	4.6x
Fabricators												
RBC Bearings Incorporated	NasdaqGS:ROLL	\$ 131.10	4%	\$ 3,141	\$ 3,205	\$ 696	\$ 173	39%	25%	0.4x	4.6x	18.5x
Shiloh Industries, Inc.	NasdaqGS:SHLO	5.83	(29%)	137	367	1,140	74	10%	6%	3.1x	0.3x	5.0x
The Timken Company	NYSE:TKR	37.32	(24%)	2,868	4,505	3,449	559	29%	16%	2.8x	1.3x	8.1x
Worthington Industries, Inc.	NYSE:WOR	34.84	(21%)	1,984	2,759	3,808	289	15%	8%	2.3x	0.7x	9.6x
Median ⁽²⁾								22%	12%	2.5x	1.0x	8.8x
Mean								23%	14%	2.1x	1.7x	10.3x

(1) EV ("Enterprise Value") is defined as market capitalization plus net debt, preferred equity and minority interest.
 (2) Median and mean values exclude all non-meaningful values.

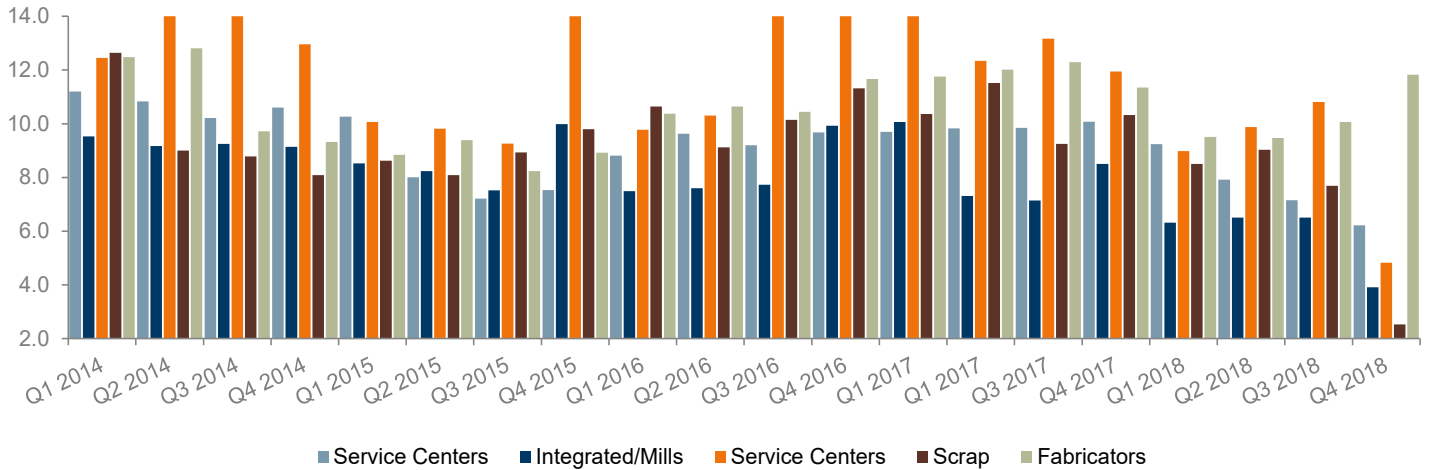
Source: Capital IQ (as of December 31, 2018)

Amherst Partners Metals Indices



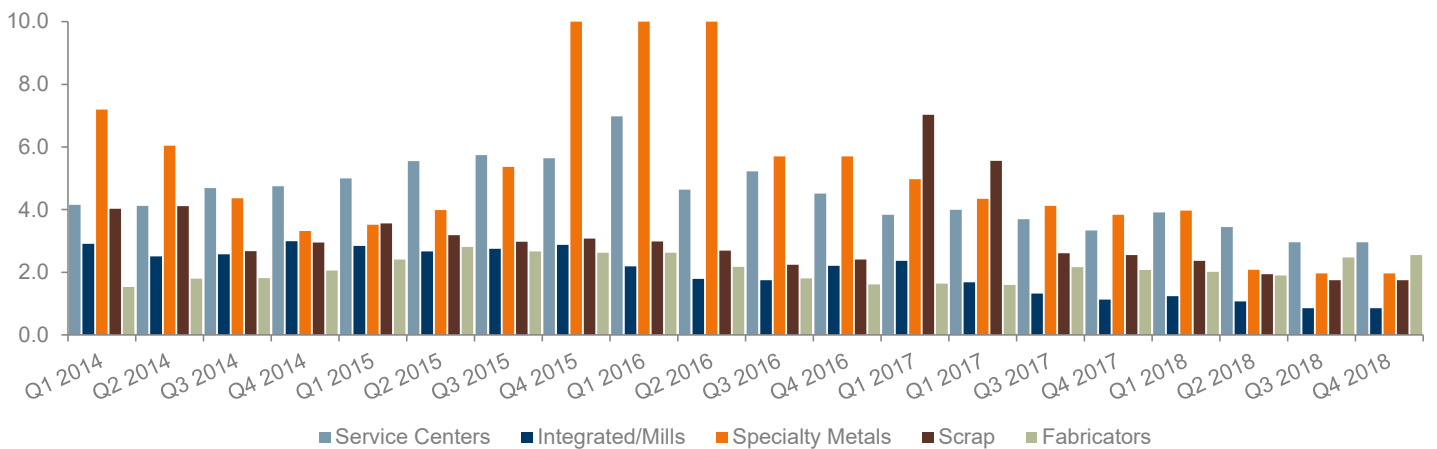
Source: Capital IQ

Metals Indices - Median Enterprise Value/LTM EBITDA



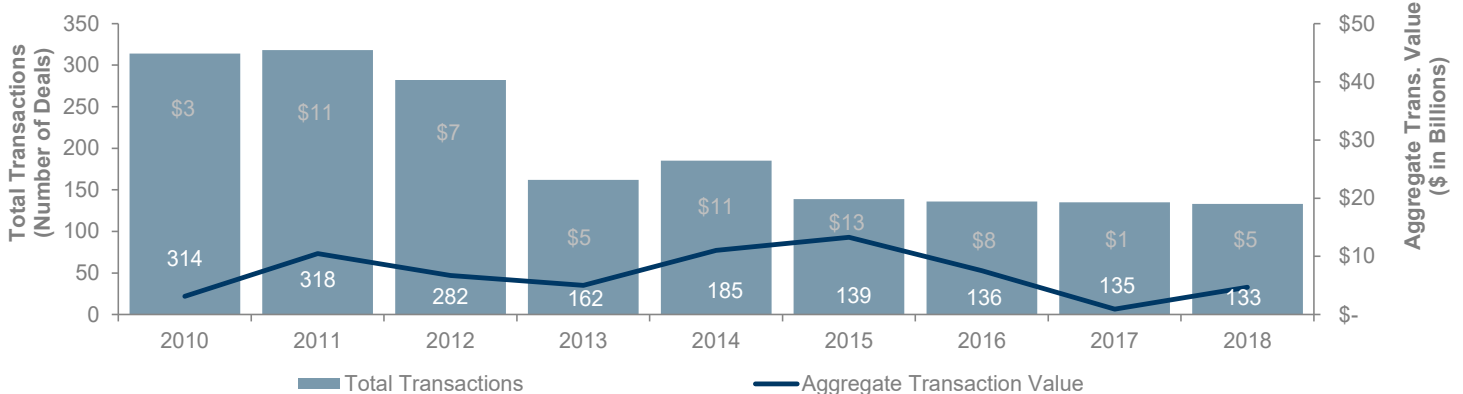
Source: Capital IQ

Metals Indices - Median Net Debt/LTM EBITDA



Source: Capital IQ

U. S. Metals M&A Activity



Search Criteria:
 (1) Building Products, Construction Materials, and Prefabricated Buildings and Components (Primary).
 (2) Acquisition of Majority Stake
 (3) Transactions Announced Date (Including Bids and Letters of Intent)

Source: Capital IQ

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