CORPORATE FINANCE ASSOCIATES

INDUSTRY NEWSLETTER

METAL FABRICATION

FOURTH QUARTER 2013

MERGERS, ACQUISITIONS, AND CAPITAL RESOURCES SINCE 1956

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For over 50 years CFA has been advocating on behalf of business owners. Whether you're selling, buying or recapitalizing your company, our business is your business.

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This Industry Practice Group was established to draw on the experience of CFA dealmakers, who as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Metal Fabrication M&A

Dormancy presided over Q3 M&A activity in the Metal Fabrication sector. This came amidst surges within other industrial manufacturing industries. Operations in this industry center around bending, stamping, and machining for specialized applications. Metal part fabricators utilize ferrous and nonferrous metals like carbon, alloy and stainless steels, aluminum, titanium, brass, copper, and various alloys. These may come in sheets, bars, coils, etc.

Transactional Overview

Notable announced or closed transactions in the Industrials sector include:

July 2013 – United Performance Metals Inc. acquired the assets of Vulcanium, Inc. on July 12, 2013. Vulcanium President, Jerry St. Clair, will continue to oversee the operations at Vulcanium following the transaction. Vulcanium, Inc. engages in the design, fabrication, and service of titanium products and mill goods.

September 2013 – Enersys Capital, Inc. entered into a definitive agreement to acquire Purcell Systems Incorporated from Weston Presidio and others for approximately $120 million in cash on September 15, 2013. The consideration is subject to adjustment for working capital, closing cash and reduction for indebtedness and transaction expenses of Purcell that remain unpaid as of closing. Purcell Systems Incorporated designs and manufactures modular outdoor metal enclosure solutions for electrical units.

Selected Q3 Transactions	
Target/Issuer	Buyers/Investors
Columbus Metal Industries, LLC	Alter Trading Corporation
Johnson System, Inc.	The GSI Group, LLC
Essential Metals Corporation	Silver Opportunity Partners LLC
Imperial Machine & Tool Co Inc	Precision Engineered Tech, LLC
Vulcanium Inc.	United Performance Metals, Inc.
Midstates Tool & Die & Engin., Inc.	Lippert Components, Inc.
Ojibway Enclosure Systems Inc.	Universal Acoustic & Emission Tech.
Canfield Coating LLC	New Star Metals, Inc.

Figure 1

September 2013 – Power Partners, Inc. signed a memorandum of understanding to acquire StampSource on September 20, 2013. StampSource will be aligned with Gap Partners under the PPI umbrella. StampSource will keep its name and the entire team will stay intact. Taggart Enterprises, Inc. provides metal fabrication and stamping services.

Industry Dynamics

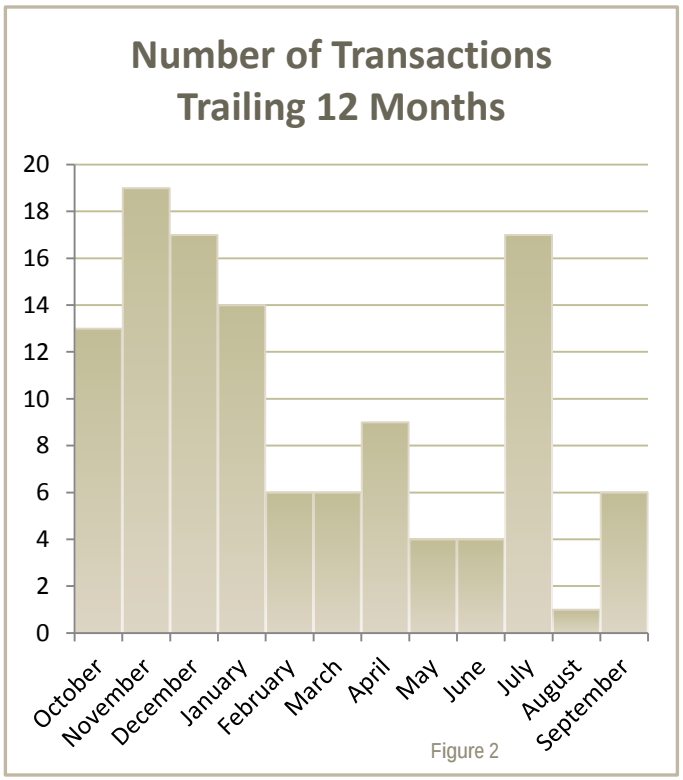

Figure 2

According to information from First Research, an industry research group, the global fabricated metal manufacturing sector generates nearly $2 trillion in annual revenue. Top producers include the US, China, Japan, Germany, Italy, and Canada.

The US fabricated metal product manufacturing industry is highly fragmented and includes about 55,000 companies with more than $325 billion in combined annual revenue. Key growth drivers include gains in US industrial production and rising demand for durable goods and infrastructure. Due to the specialized nature of the industry, many companies supply only a handful of products to a few large customers. Many companies in the industry are de-facto manufacturing subsidiaries of their customers, and their success depends directly on their customers' success. Equipment manufacturers are increasingly outsourcing the production of parts they formerly made themselves. Much of the sheet steel and steel plate bought by manufacturers from metal service centers is processed by a fabricator under an outsourcing arrangement before delivery. Due to the engineer-intensive nature of many products in this industry, companies can often add significant value for customers (and gain higher gross margins) by concentrating on niche products. However, niche products contain higher risks of obsolescence and customer concentration.

US new orders for fabricated metal products rose nearly 9 percent overall in 2013 compared to the same period in 2012, but orders in downstream industries were mixed. Machinery orders increased more than 37 percent, led by demand for construction, industrial, metalworking, and HVAC machinery. However, new orders for transportation equipment declined more than 10 percent as demand for aircraft dropped dramatically. Demand for fabricated metal parts is heavily driven by US manufacturing levels, especially for equipment and machinery. US production of fabricated metal products dropped more than 20 percent during the recession of the late 2000s. A greater reliance on low-cost overseas manufacture has cut the market for US metal products. Additionally, the cost of iron and steel can change more than 30 percent during a year. The US imposes various restrictions and tariffs on imports of steel from lower-cost countries to preserve jobs in the US steel industry. The US fabricated metal product manufacturing industry as a whole is fragmented: the largest 50 US companies account for about 20 percent of revenue. But concentration can be high in product segments such as boilers, cutlery and hand tools, metal cans, and springs.

The output of US metal products manufacturing is forecast to grow at an annual compounded rate of 4 percent between 2013 and 2017.

Collectively, the Metal Fabrication Practice Group provides M&A advice to public and private companies in all sectors of the metal fabrication industries, including fabricated structural steel, sheet metal work, metal stamping, steel and iron forgings, fabricated metal products and screw machine product manufacturing.