

METAL FABRICATION

FIRST QUARTER

2016

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

M&A activity for North American based target companies in the Metal Fabrication sector for Q4 2015 included 47 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$211 million.

Berkshire Hathaway's \$37.2 billion acquisition of Precision Castparts finally closed in early Q1 of 2016 after the European Commission approved the transaction. The purchase is Berkshire's largest to date and solidifies its position as a major player in the

industrials/metals sector. The acquisition may be a prelude of more mega-deals in the space with industry behemoths like Alcoa possibly active in 2016.

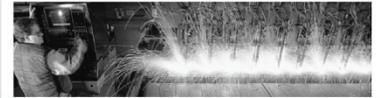
Metal production and commodity pricing declined significantly in 2015 and has shown limited signs of improvement in early 2016.

Transactional Overview

Notable closed transactions for the period in the Metal Fabrication sector include:

December 2015 - Hillenbrand Inc. acquired Red Valve Co Inc. for US\$131.9 million in cash, subject to certain post-closing adjustments. The acquisition also includes certain real estate used by Red Valve from Corinthian Realty LLC. Hillenbrand, Inc. operates as a global diversified industrial company that serves a wide variety of industries across the globe. Red Valve Co., Inc. manufactures valve products and engineered systems. Its products include pinch valve sleeves, manual pinch valves, control pinch valves, knife gate valves, pressure sensors and redflex expansion joints.

November 2015 - Senior Plc acquired Steico Industries Inc. for US \$75 million in cash. Senior Plc designs, manufactures and markets technology components and systems for the aerospace, defense, land vehicle, and energy markets. The company operates its business through two divisions: Aerospace and Flexonics.



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Steico Industries, Inc. manufactures precision tube and weld assemblies. The firm offers aluminum, steel, and titanium CNC bent tube assemblies, welded duct assemblies, hydraulic and fuel tube assemblies and precision cleaned breathing oxygen system tube assemblies.

November 2015 - Madison Capital Partners Corp, trading as Madison Industries, acquired the business and assets of castings, steel plate fabrication and deburring business from Kennametal Inc., for US\$70 million in cash. Founded in 1994 by Scott Murray, Madison Capital Partners Corp. is a private equity firm located in Chicago.

Selected Q4 Closed Transactions	
Target/Issuer	Buyers/Investors
Consolidated Metal Products Group	Flack Steel Ltd.
Tubular Steel, Inc.	Reliance Steel & Aluminum Co.
JW Aluminum Co.	GSO Capital Partners LP
Arlington Machine & Tool Co.	Rift Valley Equity Partners LLC
Justrite Manufacturing Co. LLC	101 Huntington Holdings LLC; Audax
Kennametal, Inc.	Madison Capital Partners Corp.
Standard Locknut LLC	Dunes Point Capital LLC
American Fabricators, Inc.	Kloekner Metals Corp.

Industry Update

US shipments of fabricated metal products declined 0.6% in the first 11 months of 2015 compared to the same period in 2014; new orders fell 2.5% during the same period. Demand for fabricated metal products may be dropping due to an overall slowdown in US manufacturing output. US industrial production, a demand indicator for fabricated metal products, fell 1.8% in 2015 compared to the prior year; production of fabricated metal products declined 1.3%. In December 2015 US manufacturing activity dropped for the second consecutive month, according to the Institute for Supply Management (ISM). Fabricated metal products reported a December drop in activity, along with several end-use markets for fabricated metal including machinery; transportation equipment; and electrical equipment, appliances, and components. Economists suggest slower growth in China is contributing to a global economic slowdown. The strong US dollar also makes US goods more expensive and less competitive in export markets.

US industrial production, a demand indicator for metal fabrication, only grew 0.3% in October 2015 compared to the same month a year earlier. However, metal coating, engraving, and heat treating production increased 3.1%. Demand for metal coating services is likely being sustained by healthy demand from the automotive industry; industrial production of motor vehicles and parts rose nearly 11% in October 2015 compared to the same period a year earlier.

US nonresidential construction spending, a demand indicator for architectural and structural metals, is expected to rise 7.4% in 2016, according to a December 2015 report by Associated Builders and Contractors (ABC). The steady recovery of the US economy and strong growth in consumer spending are expected to drive demand for new construction. Projects related to manufacturing are forecast to experience the strongest growth with a rise of nearly 15%, followed by lodging with gains of more than 11%.

- US durable goods manufacturers' shipments of fabricated metal products, an indicator of fabricated metal parts production, fell 0.6% year-to-date in November 2015 compared to the same period in 2014.
- US steel mill product prices, an indicator of commodity steel costs for fabricated metal products manufacturers, fell 19.8% in December 2015 compared to the same month in 2014.

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.

