BDO CAPITAL ADVISORS, LLC

BDO CAPITAL MANUFACTURING & DISTRIBUTION

Q2 2014 M&A Review and Outlook

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

- Mergers & Acquisitions
- Capital Raising
- Board Advisory

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DEAL ACTIVITY ROSE IN Q1, AS PREDICTED

Expect Trend to Continue

Transactions Up 28 Percent

M&A activity in the Manufacturing & Distribution (M&D) sector increased during Q1 2014, up approximately 28 percent versus the corresponding quarter in 2013. This was a notable shift in direction, coming off of 2013 which was the least active year for sector M&A since 2009. We expect the trend to continue throughout 2014, likely eclipsing 2012, which was a period propelled by material tax incentives.

The big question is: will potential sellers go to market in greater numbers? We think so, given the momentum we see as Q2 progresses. Equity and debt capital are available in abundance and valuations are on the rise. The average EBITDA multiple rose by 0.7x in Q1 2014 alone – good news for potential M&D sellers.

The Energy Cost Advantage – A Pervasive, Sustainable Development Sure to Promote Transaction Activity

U.S. manufacturers are re-shoring production (and jobs) to a greater degree these days for a variety of reasons, the most significant of which is the energy cost advantage. This advantage is unique to the U.S. and has resulted from access to cheap and abundant natural gas and electricity. It is expected to be sustainable for many years to come, given first-mover investments in large-scale natural gas recovery capabilities early last decade. As a consequence, U.S. manufacturing is becoming cost-competitive globally, if not cheaper, for an increasing range of products. The visibility for this trend seems endless and the impact is expected to be widespread given that energy is a cost element of nearly everything we consume. Strategic and PE investors alike are taking note and fixing their attention on manufacturing in the U.S.

Economic Indicators Are Generally Stable With A Positive Outlook

GDP growth was negative in Q1 and manufacturing production declined modestly in April, somewhat mitigated by encouraging results in the energy sector. However, affirming data from 2013 and the generally positive expectations of leading economists suggest that 2014 will provide a stable economic landscape for M&A activity in the M&D sector.

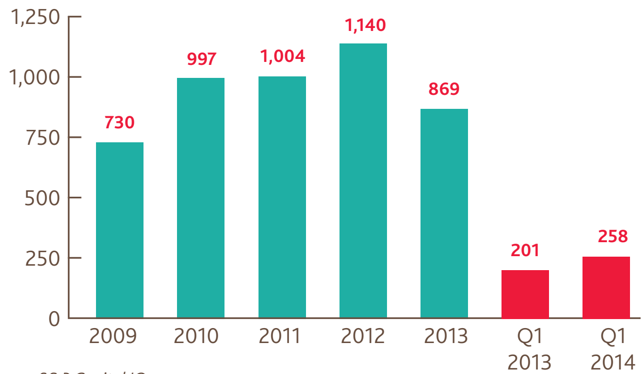
Read details

▶STATISTICALLY SPEAKING

Activity Level

After a significant slowdown in 2013, transaction activity in the Manufacturing & Distribution (M&D) sector shifted course to the positive in the most recent quarter (see Figure I). M&D transaction volume in the U.S. grew approximately 28 percent during Q1 2014 (vis-à-vis Q1 2013). The deal count in Q1 2014 surpassed all previous Q1s since 2009 (except Q1 2012, which it tied). This is a welcome result for sector dealmakers to be sure; however, it appears to have done little to satisfy buyer demand in the marketplace. It clearly remains a "sellers' market" in the M&D sector, as well as the broader market.

Figure I
Transaction Volumes – U.S. Manufacturing & Distribution
2009A – Q1 2014A

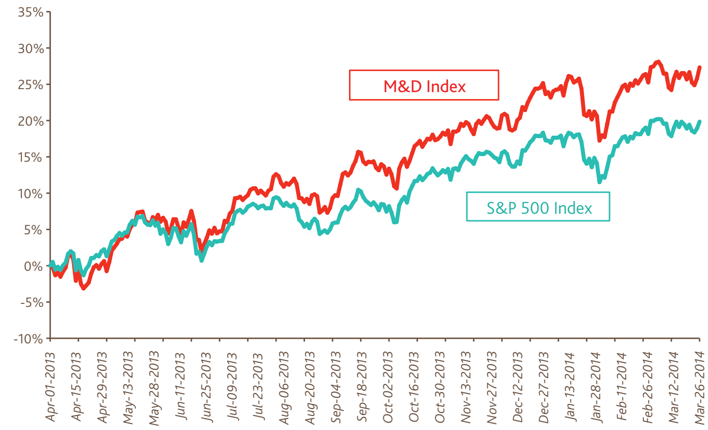


Source: S&P Capital IQ

Valuations

Public securities investors continue to favor the M&D sector over the broader market, as indicated by our M&D Index and its fairly consistent outperformance of the S&P 500 Index during the past year (see Figure II). Overall, our M&D basket of stocks bettered the S&P index, rising 27.3 percent versus 19.9 percent during the 12-month period.

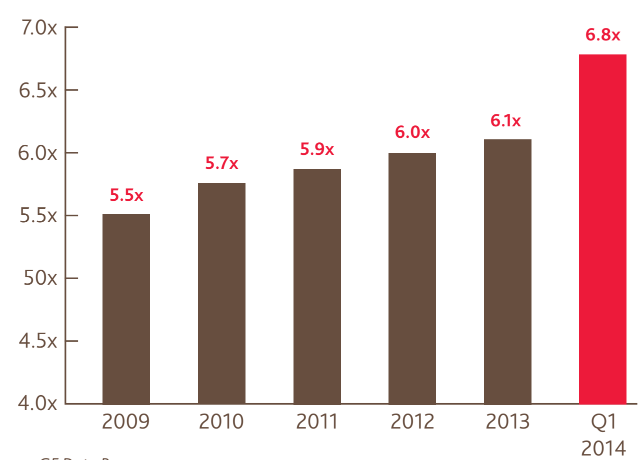
Figure II
Public Company Index – U.S. Manufacturing & Distribution
12 Month Chart – Through March 31, 2014



Source: S&P Capital IQ

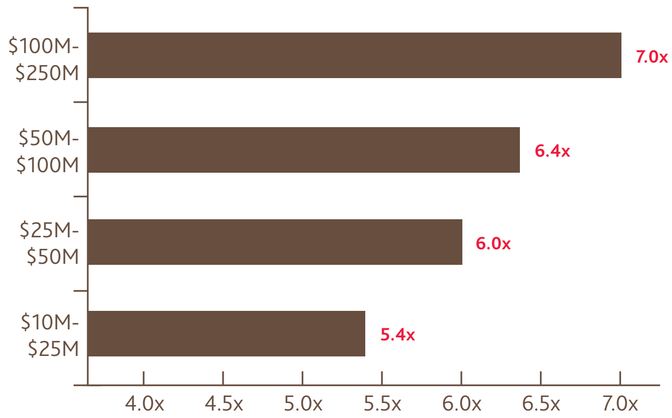
Similarly, private company valuations have been on the rise, most recently indicating a significant jump in Q1 2014. The average EBITDA multiple for M&D sector transactions of $250 million and under expanded by 0.7x (vis-à-vis the 2013 full-year average) to reach 6.8x during the quarter (see Figure III). This is additional evidence that we are in a sellers' market. In addition, transaction size and average EBITDA multiple paid continue to be directly correlated, with larger companies achieving higher EBITDA multiples (see Figure IV). It should be noted that all multiples highlighted in this report are averages. The actual multiple paid for a specific target can vary from the average significantly, based on the specific attributes of the seller and buyer involved.

Figure III
Avg EBITDA Multiples - Manufacturing & Distribution
Enterprise Value of $250M and Under
2009A - Q1 2014A



Source: GF Data Resources

Figure IV
Avg EBITDA Multiples - Manufacturing & Distribution
Enterprise Value of $250M and Under
By Deal Size



Source: GF Data Resources

MARKET ANALYSIS

A Focus on Energy

There is a manufacturing renaissance happening in the U.S., and we believe it has great potential. With labor rates in China doubling every five years, coupled with the increasing costs and added time related to overseas sourcing, as well as supply chain and intellectual property risk considerations, domestic production now makes sense for an expanding range of products.

The most significant factor fueling a U.S. manufacturing renaissance is a domestic energy cost advantage. Due to early large-scale investments in natural gas recovery, U.S. natural gas prices have fallen by approximately 50 percent in the last eight years. Natural gas now costs three times as much in Germany, France and China, and almost four times as much in Japan. This cost advantage is unique and sustainable in the U.S., given a lag in investment in recovery capabilities overseas.

The first to benefit from this advantage has been industries such as petrochemicals where natural gas is a direct input. Natural gas is also increasingly being used to power electricity-generating plants, thereby creating a substantial U.S. electricity cost advantage. These developments have provided a major boost to energy-intensive product manufacturers and their customers. Given the pervasive use of energy in nearly all products we consume, it is easy to see how the domestic energy advantage bodes well in the near and long-term for U.S. manufacturers and the customers they serve.

Investors, both strategic and financial, in the U.S. and abroad should and have been taking note of these developments. Investing in U.S. manufacturing companies/assets is definitely gaining in popularity. Some of this investment will come in the form of M&A and, as such, we expect to see an increasingly robust and sustainable transaction environment in the M&D sector for many periods to come.

ECONOMIC INDICATORS

Key economic indicators point to a sluggish April with manufacturing production and overall GDP down modestly. The year-over-year results, however, remain encouraging with gains in manufacturing production, new orders, shipments and inventory buildup. The energy sector is clearly proving to be a bright spot in our overall economy.

Q1 2014 GDP

In a second estimate, the U.S. Bureau of Economic Analysis reported that Q1 2014 real GDP declined 1.0 percent on an annualized basis. This result is a disappointment and can only partially be explained by the negative impact on business investment and construction caused by the severe weather this past winter. On a brighter note, The Wall Street Journal's monthly survey of leading economists (just under 50) predicts 3.0-3.3 percent in annualized GDP growth in each of the remaining three quarters of 2014.

Manufacturing Production

According to the Federal Reserve, durable goods production moved down 0.3 percent in April 2014 but was 4.3 percent above its year-earlier level. Declines were specifically evident in primary metals and machinery, while gains were seen in aerospace and transportation equipment. Similarly, non-durable goods output declined 0.7 percent in April but was 1.7 percent above its year-earlier level. Decreases in April spanned across most components of non-durables. Mining output, however, was a bright spot within manufacturing production, increasing 1.4 percent in April (2.0 percent in March), boosted by gains in oil and gas extraction, in coal mining and in support activities for mining. In total, the Fed's index for mining was 8.3 percent above its year-earlier level.

Manufacturing Productivity

The Bureau of Labor Statistics indicates that manufacturing sector productivity increased by 3.3 percent during Q1 2014 (2.2 percent year over year), as output increased 1.8 percent and while hours worked decreased 1.4 percent. The durable goods segment of overall manufacturing productivity increased 3.6 percent while the non-durable goods segment rose 2.5 percent.

Manufacturer's New Orders, Shipments and Inventories

According to the U.S. Census Bureau, new orders of manufactured goods were up 1.1 percent in March and 1.5 percent in February. Similarly, shipments were up 0.3 percent in March and 0.9 percent in February. In fact, shipments are at the highest level since the series was first published on an NAICS basis 22 years ago. Lastly, inventories increased 0.1 percent in March (0.7 percent in February), marking growth in 15 of the last 16 months.

Wholesale Trade

The U.S. Census Bureau also reports that wholesale trade sales were up in March by 1.4 percent and up 6.5 percent for the trailing 12-month period. Wholesale trade sales of durable and non-durable goods segments were up 4.9 percent and 7.9 percent, respectively, in the last 12 months. Particularly bright spots included electrical/electronic goods, metals and minerals. Similarly, wholesale trade inventories were up in March by 1.1 percent and up 5.9 percent during the trailing 12-month period. Inventories of the durable and non-durable goods segments mirrored overall results with petroleum and petroleum products leading the way.

IN SUMMARY

Deal volume was up materially in Q1 2014, as was the average EBITDA multiple for transactions in the M&D sector. As reported in our Q1 M&D report, it remains a "sellers' market." We do see some momentum in the market, however, which should lessen the supply-demand imbalance. The big story is the influence of the energy cost advantage and the positive impact it is having on U.S. manufacturing. This sustainable, unique opportunity is attracting the attention of strategic and PE investors alike, and should fuel M&A activities in the sector for many periods to come.

RECENT BDO CAPITAL TRANSACTION

BDO Capital Advisors, LLC, is pleased to announce that it served as exclusive financial advisor and placement agent to support an ESOP formation transaction for Storage Solutions, Inc. and its affiliated companies, Storage Solutions USA, LLC, Logistics Handling, LLC, and Warehouse Solutions, Inc. (collectively "SSI" or the "Company"). As the exclusive placement agent to SSI, BDO Capital Advisors prepared a private placement memorandum, identified and contacted a targeted group of potential financing sources and assisted in structuring and negotiating the transaction on behalf of the Company. SSI, with headquarters in Westfield, Indiana, provides turnkey solutions for material handling and industrial storage equipment from warehouse design to sales of equipment and finally professional installation. The Company sells both new and used material handling equipment, including pallet racking, work benches, lockers, service carts and industrial shelving. BDO Capital advised SSI on the placement of $29 million of senior securities required to finance the ESOP formation.

storage SOLUTIONS
ONE SOURCE · ONE RESULT

Storage Solutions, Inc. has formed an ESOP and placed $29 million of senior securities to support the transaction

BDO Capital Advisors, LLC served as exclusive financial advisor and placement agent to Storage Solutions, Inc.

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 have collectively generated approximately 13 billion dollars of shareholder transaction value and have raised billions of dollars in capital. BDO Capital is a FINRA/SIPC member firm.

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