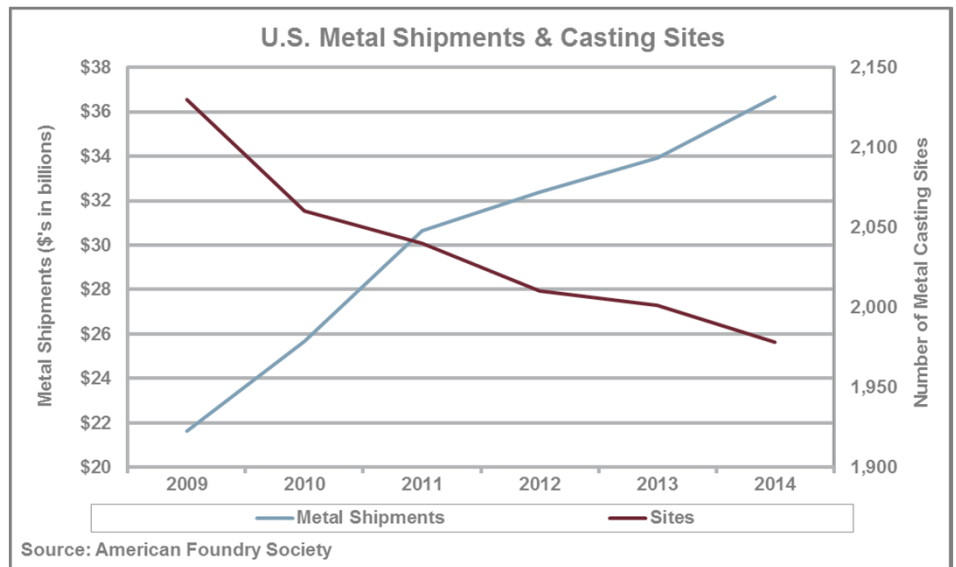


CONTINUED CONSOLIDATION AND INCREASES IN AVERAGE SALES PER FOUNDRY

The U.S. casting industry continues to experience significant consolidation. In the last ten years the number of U.S. foundries decreased over 20% from 2,480 to 1,978. Industry consolidation is expected to continue as smaller participants leave the market due to acquisition or inefficiency. The average dollar value of shipments per foundry has increased 83% in the last five years from \$10.1 million in 2009 to \$18.5 million in 2014. There are many reasons for this trend but most are based on the advantages of scale. Larger foundries are more able than smaller competitors to absorb fixed overhead and regulatory costs, have greater purchasing power for materials and additives, enjoy stability of

earnings through diversification by industry and customer, and use resources more effectively by flexing or redeploying labor and equipment with demand. These characteristics also allow larger foundry operations to access capital markets more easily and at lower cost than smaller foundries. The current lending environment has allowed foundries access to both the asset-based and cash-flow lending markets. If managed properly, additional leverage can provide substantial capital for growth and acquisitions. As consolidation continues and the average size of foundries increases, it is critical that all foundries examine their long-term future.



NEWSLETTER FEATURE TOPIC

Foundry and forging sell-side transactions have many industry specific characteristics to address in the planning, marketing, and due diligence stages of a transaction process.

As a running feature in our newsletter, Cleary Gull will highlight one consideration each issue and examine actions that can be taken to mitigate or reduce potential issues.

ENVIRONMENTAL CONSIDERATIONS

Foundries and forging operations have a reputation, and some would say well deserved, for creating environmental issues including damage to ground water, soil contamination, air emissions, dust collection, and disposition of un-reclaimed sand and other waste streams. When embarking on a sale process it is necessary to provide buyers with as much comfort as possible that their time, energy, and diligence dollars will ultimately yield a successful transaction. In fact, without some credible documentation concerning the environmental status, some banks, financial buyers, and many strategic buyers will delay becoming meaningfully engaged until they are convinced that a transaction is feasible and they are not assuming undue future risks.

Documentation will be required to mitigate environmental concerns including providing buyers with procedural logs and/or a detailed environmental history of the facility. The best corroboration of environmental cleanliness is a recent Phase I report from a well-respected, third-party environmental firm. This

type of report is a meaningful indication to buyers that a transaction is possible. If a recent Phase I has not been performed, the owners should consider performing a Phase I before the start of the sale process. The small upfront cost can provide a substantial amount of comfort to prospective buyers, increase the number of interested parties, and provide an opportunity for cost effective remediation. It is important to seek appropriate legal advice before undertaking an environmental assessment due to the risk that testing will uncover a potential problem which requires remediation. Although this type of testing could lead to additional costs to the seller, it is usually better to know in advance that such costs exist before they are uncovered in the sale process. Buyers will still critically review any environmental work performed and will ultimately determine if they believe that additional testing is required, but without some up-front documentation, buyers that are seriously concerned about the ability to finance and close a transaction may not participate in a process.

CLEARY GULL EXPERIENCE AND EXPERTISE

The foundry and forging industries are a sub-sector focus for Cleary Gull's Investment Banking Team. Our group recently completed its 11th foundry and forging transaction since 2006. In addition Cleary Gull has two active foundry and forging assignments. We have extensive experience in the industry including grey and ductile iron, aluminum, steel and stainless steel, and brass and bronze. Cleary Gull's most recent transactions were steel and stainless steel foundries with the sale of Pacific

Steel Casting Company to an affiliate of Speyside Equity and the sale of Waukesha Foundry to United Stars, Inc. We have experience working with entrepreneur-owned companies, with private equity-owned companies, and in situations where current management plans range from immediate retirement at closing to a long career in the industry. Cleary Gull regularly calls on over 200 manufacturing focused private equity firms and frequently interacts with the relevant strategic buyers in the industry.

