

“ a firm belief in the entrepreneurial spirit ”

CLEARY GULL

FOUNDRY NEWSLETTER



WINTER 2014

CONSOLIDATION CONTINUES AS UTILIZATION INCREASES

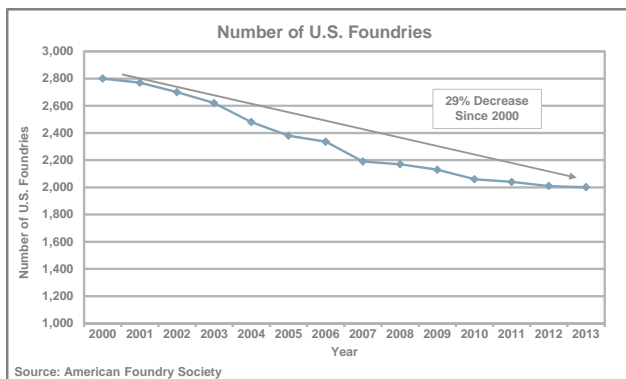
U.S. foundry production has expanded well beyond pre-recession levels, increasing over 20% from \$28.2 billion in U.S. casting shipments in 2007 to \$33.9 billion in 2013. All alloys tracked by the American Foundry Society Inc. (AFS) experienced growth during this period.

Even as sales increased, the number of foundries declined an additional 9% during this period, from 2,190 in 2007 to 2,001 in 2013. There were over 2,800 as recently as 2000. Although some foundries have gone out of business over

the years, a significant portion of the continuing consolidation of the industry is attributable to merger and acquisition activity.

Many foundries are benefiting from increased sales as capacity utilization has improved from 51% in 2009 to 82% in 2013. The increase in utilization and production per foundry undoubtedly has resulted in improved economies of scale and profitability.

The industry's growth is expected to continue. U.S. casting shipments are projected by AFS to increase an additional 4% to \$35.1 billion by 2015.



GROWTH RATES DIFFER BY ALLOY AND END MARKET

Projections are particularly robust for aluminum and specialty iron while steel is expected to be relatively stable and gray iron is expected to decrease. AFS projects further modest long-term increases in total tons produced and sales through 2021.

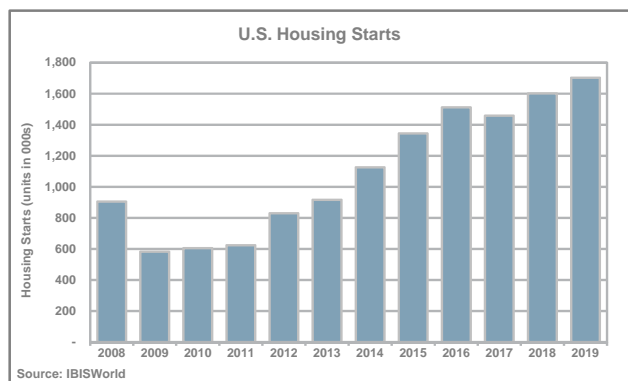
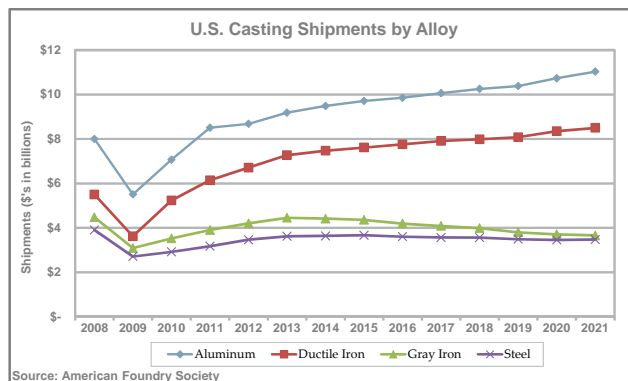
After several years of positive developments in seemingly all areas, end market trends impacting the foundry industry are beginning to diverge. Manufacturers of equipment and components utilized in the energy (oil and gas), agriculture, automotive (particularly aluminum), and rail industries are continuing to experience growth.

Manufacturers of construction and infrastructure equipment and components also are experiencing positive developments as these industries continue to recover from the recession. Housing starts, generally a leading indicator for construction equipment, are projected to increase significantly. A recovery in the construction industry would be a large positive for many foundries.

While long-term trends remain positive, the negative news in 2013 was primarily in defense and mining. The defense industry experienced an expected postwar contraction coupled with uncertainty about future government funding. After incredibly strong 2011-2012 levels of production in the mining industry, it now appears they may have been a peak that will not soon return.

As examples: Oshkosh Corporation's defense sector sales declined 23% in FY2013 to \$3.0 billion with further decreases expected in FY2014. Mining equipment sales of Joy Global declined 26% in FY2013 to \$1.2 billion.

Although served market trends are significant factors driving foundry industry growth, for any specific foundry its customers, programs and projects can be every bit as, and often more, important than its customer end markets.



INCREASING CAPABILITIES AND CAPACITY THROUGH ACQUISITIONS

To meet the current and expected market growth, well-funded foundries and investors are actively seeking acquisitions to increase capacity, add capabilities, and improve their position with the fastest growing end markets and customers.

Strategic Buyers

Industry participants seeking to increase capacity have always struggled with the decision whether to expand or acquire.

While expansion capacity can be engineered to meet specific needs and utilize the latest technology, it also may require a considerable investment, potentially disrupts existing production, and may not offer an immediate return on investment until new customers or programs are on board.

Many industry participants have focused on acquisitions that add customers, diversify end markets, and potentially augment existing capabilities. Acquisitions typically are expected to contribute immediate positive financial results as compared to the ramp up in production from an expansion.

Cleary Gull is engaged in ongoing discussions with several active strategic buyers seeking suitable acquisitions of iron, steel, and aluminum foundries.

Financial Buyers

The positive industry dynamics resulting from relatively fixed supply coupled with growth in demand have suggested continued investment in the foundry industry by private equity. The number of private equity groups interested in the industry is increasing, and many of the private equity groups that previously invested in the industry are seeking add-on acquisitions or additional platforms.

Strategic and financial buyers both are attracted to the industry based on the current availability and favorable cost of capital. Because foundries typically have significant physical assets that must be financed, current market conditions make the cost of owning these assets much lower than it has been.

Outlook

The continuing trend of industry consolidation is projected to yield winners and losers. Well-funded strategic parties and private equity backed foundries are able to add capacity in growing areas and industries while improving their economies of scale and their overall mix of business. Smaller, less well-funded firms which are not expanding may wish to assess their current capabilities and determine whether to participate in this wave of consolidation as a buyer or a seller.

Cleary Gull Experience

The foundry and forging industries are focus industries for Cleary Gull's Investment Banking Team. Currently we are executing our 10th foundry and forging transaction since 2006.

Cleary Gull has extensive experience in the foundry industry including grey and ductile iron, aluminum, steel, and brass and bronze. We have completed transactions for family owned companies experiencing transition and for private equity owned companies.

Cleary Gull regularly calls on over 200 manufacturing focused private equity firms and frequently interacts with the relevant strategic buyers in the industry.

RECENT FOUNDRY AND FORGING TRANSACTIONS

<p>Project</p> <p>Twin</p>	<p>Lee Brass a portfolio company of</p> <p>MCM MCM Capital Management, LLC</p> <p>has been acquired by</p> <p>an affiliate of</p> <p>THE RESERVE GROUP</p>	<p>pmt Industries, LLC a portfolio company of</p> <p>AAVIN Private Equity Growth Capital</p> <p>has been acquired by</p> <p>WALKER CORPORATION</p>
<p>IGC Technologies, LLC a portfolio company of</p> <p>BRASS RING CAPITAL and Lewis & Clark Private Equities, LP</p> <p>has been acquired by</p> <p>PRINCEMINERALS a portfolio company of</p> <p>Palladium EQUITY PARTNERS</p>	<p>AARROWCAST INC. HIGH QUALITY GRAY AND DUCTILE CASTINGS</p> <p>has been acquired by</p> <p>J.H. WHITNEY & CO. Cornerstone Capital Partners</p> <p>and</p> <p>Management of Aarrowcast</p>	<p>GREDE FOUNDRIES, INC.</p> <p>has secured</p> <p>\$125,000,000</p> <p>Debt Financing</p>
<p>STAINLESS FOUNDRY & ENGINEERING, INC.</p> <p>has been acquired by</p> <p>TMB INDUSTRIES</p>	<p>GREDE FOUNDRIES, INC.</p> <p>Valuation</p> <p>Analysis</p>	<p>Schaefer Equipment, Inc. a portfolio company of Cedar Creek Partners LLC</p> <p>has been acquired by</p> <p>Wabtec CORPORATION</p>

RECENT MACHINING TRANSACTIONS

<p>Project</p> <p>Sprocket</p>	<p>HI-TECH Manufacturing, LLC a portfolio company of</p> <p>Longview Capital Partners</p> <p>has been acquired by</p> <p>MAY RIVER CAPITAL</p> <p>THE POHLAD COMPANIES and YUKON PARTNERS</p>	<p>THE FREEMAN COMPANY WORLD CLASS AEROSPACE MANUFACTURING a portfolio company of</p> <p>MACC PEI Liquidating Trust NDSBIC, LP</p> <p>and</p> <p>PINECREEK CAPITAL</p> <p>has been acquired by</p> <p>JLL JLL PARTNERS</p>
<p>DRT Holdings, Inc.</p> <p>has acquired</p> <p>BNB Mfg. Co.</p>	<p>DRT Holdings, Inc.</p> <p>has acquired</p> <p>AeroMed medical component manufacturing</p>	<p>ST SWISS-TECH, LLC</p> <p>has been acquired by</p> <p>CORNERSTONE INDUSTRIAL GROUP, LLC in partnership with management</p>

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