



INDUSTRIALS & MANUFACTURING

Update | Q2 2021

VP VICTORY PARTNERS

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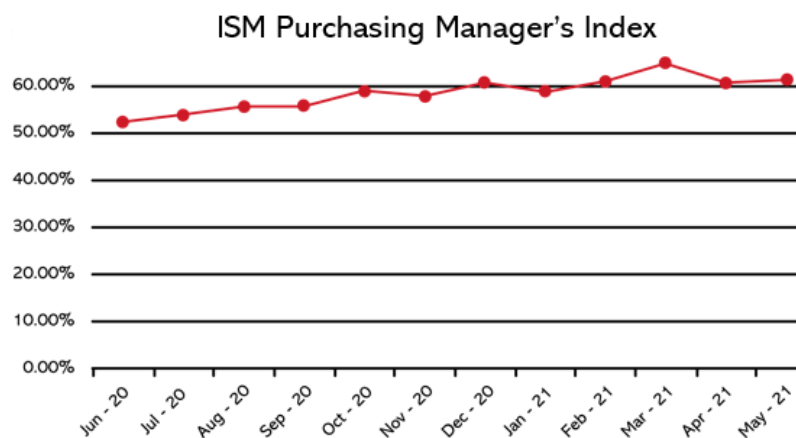
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INDUSTRY OUTLOOK

According to the ISM's May Manufacturing Report, the May PMI (Purchasing Managers' Index), a monthly indicator of U.S. economic activity derived from a survey of purchasing managers at over 300 manufacturing firms, registered at 61.2%. This represents an increase of 0.5 percentage points from April's PMI. A Manufacturing PMI above 43.1% represents an expanding economy. Therefore, the Manufacturing PMI indicates that the overall economy expanded for the 12th straight month following a contraction in April 2020. According to Timothy Fiore, Chair of the Institute for Supply Management, a Manufacturing PMI of 61.2% corresponds to a 5.2% increase in real GDP on an annualized basis.

New orders, production, employment, backlog, and prices are all growing in the sector. While new orders, production, and backlog increased at a steady clip, employment crept along increasing slightly as it has proved difficult to find low-wage factory workers. The New Orders Index registered 67%, representing an increase of 2.7 percentage points from the April reading. The Production Index registered 58.5%, a decrease of 4% compared to the April reading of 62.5%. The Employment Index registered 50.9%, a 4.2% decrease in comparison to the April reading of 55.1%. The Backlog Index registered 70.6%, a 2.4% increase in comparison to the April reading of 68.2%.

ISM Purchasing Manager's Index Graph





M&A OVERVIEW

According to Refinitiv's 2021 Q1 Global Mergers & Acquisitions Review, the industrials sector was responsible for 13% of total Global M&A Activity. In Q1 of 2021, Refinitiv tallied a total of 1,624 global industrials sector deals totaling \$177 billion in deal value. This represents an increase from the 1,440 global deals worth \$149 billion in Q1 of last year.

PwC expects 2021 Manufacturing M&A to recover from sector lows seen throughout 2020. While the recent economic momentum bodes well for the entire sector, we expect 2021 to be a healthy and robust year especially for lower middle market manufacturing M&A. The M&A Source and International Business Brokers Association's most recent "Market Pulse Report," showcased a variety of stellar Q1 metrics which have given advisors an optimistic outlook for lower middle market activity.

In the lower middle market, manufacturing accounted for a large percentage of Q1 2021 transactions. As seen in this graph from the International Business Brokers Association, manufacturing was responsible for 33% percent of \$5M-\$50M transactions.

Additionally, lower middle market firms between \$5M-\$50M fetched prices which were on average, 107% of the pre-set asking price.

"We have double our standard deal flow in market right now, and I'm hearing similar things from advisors around the country. People are the busiest they've ever been."

*Scott Bushkie, President
Cornerstone Business Services*

Lower middle market deals between \$5M-\$50M are closing 2 months faster on average than they were in Q1 of 2020.

"What's interesting is how quickly the \$5 million-plus deals moved to the closing table. When the market is competitive, like the lower middle market is right now, buyers will use speed to close as one competitive advantage in their purchase offer."

*Dylan Ryan, Advisor
Upton Financial Group*

Figure 11: Top 3 Industries by Market Sector

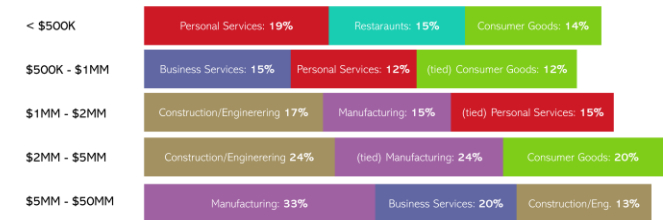


Figure 9: Final Price Realized vs Asking Price, Q1 2019-2021

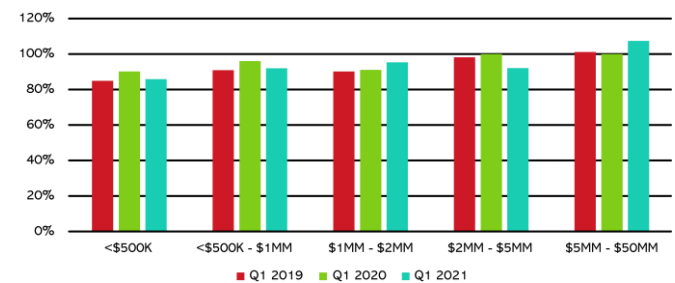
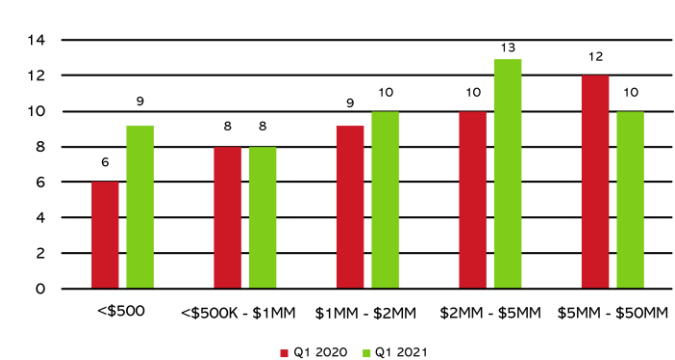


Figure 5: Time to Close for Deals Completed in Q1 2021





SEGMENT HIGHLIGHT | Outdoor Furniture

The consumer goods industry has been heavily affected by supply chain issues over the course of the COVID-19 pandemic. Outdoor furniture companies are no exception to this. Throughout the pandemic, outdoor furniture companies have had to deal with rising prices of aluminum, plastics, rubber, and wood. The price of aluminum has increased by 59% over the course of the past year. The price of wood has increased roughly 400% over the past year. The price of rubber fluctuated between 60%-100% of last year's levels. According to recycling.net, the price of plastic is double what it was a year ago. In addition to the challenges faced regarding supply chain issues and higher input prices, there have also been labor shortages and mandatory shutdowns. While COVID-19 has certainly imposed great challenges to firms in the outdoor furniture industry, many have weathered the storm and are well-positioned to continue their pre-COVID-19 growth track.

According to Global Market Insights, the outdoor furniture industry exceeded \$18.2 billion in 2019 CAGR and will grow at a CAGR of 4.8% from 2020 to 2026. By 2026, the industry will reach a size of \$20.6 billion.

- In 2019, residential-end use held approximately 65% of the market share.
- North America and Europe are among the major revenue generating regions due to higher product employment in gardens or outer spaces.
- The North America market valuation is anticipated to reach \$6.4 billion by 2026.
- Chairs are the fastest growing outdoor furniture segment with a CAGR of 6% between 2020 – 2026.

Aluminum (USD/T) **\$1570.50**



Rubber (JPY/Kg) **248.10**



Lumber (USD/1000 board feet)
\$370.80 +2.00 (+0.54%)





SEGMENT HIGHLIGHT | Electrical Contracting

Electrical contractors (EC) worldwide are dependent on construction activity as well as demand for renovation. The global volume of construction is forecast to grow by 85% to \$15.5 trillion by 2030, according to a report by Global Construction Perspectives and Oxford Economics sponsored by PwC. The U.S. electrical contracting industry is comprised of more than 70,000 establishments (single-location companies and units of multi-location companies) with combined total annual revenue of more than \$170 billion.

DISC Corp's Christian Sokoll forecasts for the electrical market to return to nearly pre-pandemic levels (equivalent to 2019) between 2022 and 2023. The overall electrical market finished down 19.6% from 2019 in 2020. A small bounce-back is expected with a YOY increase of 3.9% in 2021, followed by 11.4% in 2022 and 5.4% in 2023. More specifically, the contractor sector was hit hard in 2020. DISC pegged the year down 24.8% YOY for 2020. The latest forecast for 2021 is down 1%, followed by solid growth in 2022 of 19.1%.

According to EC Mag's 2020 "Profile of the Electrical Contractor," availability, price, and compatibility remain the top three reasons for selecting an Electrical Contractor. EC Mag also pointed out significant declines in certain characteristic's relevance, including the following: Made in America, durability, energy efficiency, real-time technical support, and word of mouth.

The majority of EC firms continue to be smaller companies. However, this percentage has declined significantly since 2018. In 2018, 43% of electrical contracting companies recorded revenues of under \$250,000. In 2020, 40% of companies recorded revenues of under \$250,000. In 2018, 8% of companies reported revenues of \$10 million or more. In 2020, 11% of Electrical Contracting companies report revenue of \$10 million or more.

According to EC Mag, lighting continued to account for the largest share of industry revenue. Electric power transmission and distribution retained second place, while industrial systems increased by 9.7% over the past 2 years.

Figure 7 Top 3 Reasons for Originally Selecting a Brand Versus Making a Substitution

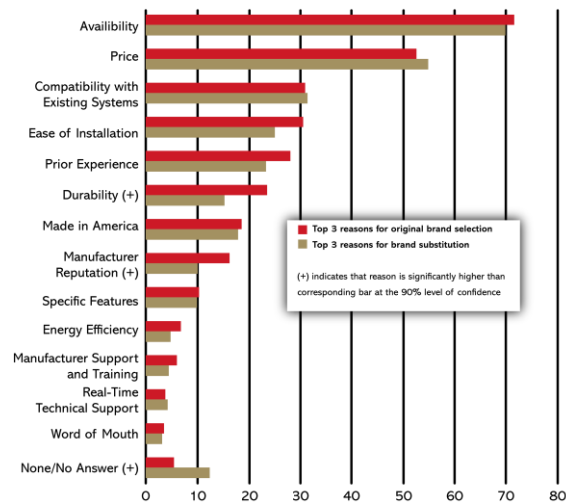


FIGURE 2 Company Size Trended 2020 Profile vs. 2018 Profile (Reporting from previous year)

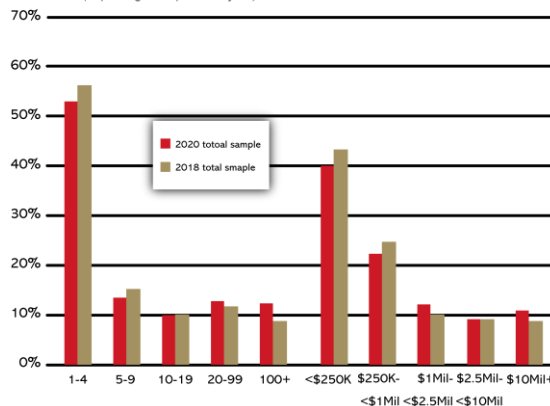
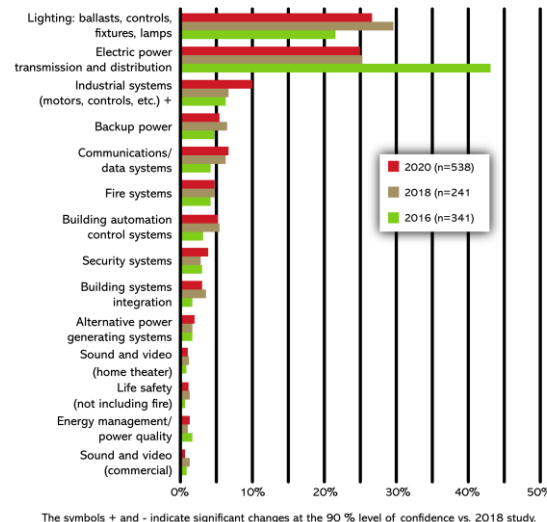


FIGURE 7 Sources of Revenue — Trended



The symbols + and - indicate significant changes at the 90% level of confidence vs. 2018 study.



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FIRM MANTRA

“ It is not the critic who counts; nor the man who points out how the strong man stumbles, or where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood; who strives valiantly; who errs, who comes short again and again, because there is no effort without error and shortcoming; but who does actually strive to do the deeds; who knows great enthusiasms, the great devotions; who spends himself in a worthy cause; who at the best knows in the end the triumph of high achievement, and who at the worst, if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who neither know victory nor defeat. ”



Theodore Roosevelt

— Theodore Roosevelt
The Man in the Arena



PREVIOUS CLIENTS

| Client | Industry | Type of Engagement |
|------------------------------------|----------------------------------|------------------------------------|
| ACSI | Financial Services | Advisory |
| Activor, Inc. | Healthcare | Corporate Finance |
| Advanced Particle Therapy | Healthcare | Corporate Takeover |
| Affinity Finance | Mortgage | M&A – Buyer |
| Affinity Finance | Mortgage | Joint Venture Advisory |
| Auto Benefits Corporation | Financial Services | Advisory |
| Automated Data Services, Inc. | Software | M&A Advisory |
| Automated Data Systems, Inc. | Financial IT Services | M&A– Seller |
| Bibbentuckers | Retail Chain / Consumer Services | M&A Advisory |
| Boardroom Software | Software | Corporate Finance |
| Brides International, Inc. | Apparel/Specialty Retail | M&A Advisory |
| California Proton Treatment Center | Healthcare | Bankruptcy Advisory |
| Cambridge Home Loans | Mortgage | M&A – Seller |
| Cantoni, Ltd. | Specialty Retail | M&A Advisory |
| Carequest Home Care, Inc. | Healthcare | M&A Advisory |
| Champion Brass, Inc. | Distribution | M&A Advisory |
| Cimaco, Inc. | Industrial Machinery | M&A Advisory |
| City Holdings | Mortgage | Divestiture Advisory |
| CMG Mortgage, Inc. | Community Banking | M&A – Buyer |
| Cobb Partners, LLC | Financial Services | Convertible Preferred Offering |
| Computrition, inc. | Software | Advisory |
| Contender Boats | Marine Manufacturing | Advisory |
| Dallas European Shoreline Imports | Auto Parts Distribution | Debt Financing |
| Datazone Systems, Inc. | Data Storage Devices | M&A Advisory |
| DeCrane Aircraft Holdings, Inc. | Aviation | M&A Advisory |
| Destination Films, Inc. | Film/Entertainment | Recapitalization |
| ECP Processing, Inc. | Merchant Processing | Advisory |
| First Chair Technologies, Inc. | IT Outsourcing/Integration | Private Placement-Convertible Debt |
| First National Bank of Los Angeles | Community Banking | Advisory |
| Fredericks of Hollywood, Inc. | Apparel/ Specialty Retail | Bankruptcy Advisory |
| Fruit-A-Freeze, Inc. | Foods/ Specialty Retail | M&A Advisory |
| H&S Yacht | Manufacturing | M&A Advisory |
| Hi Quality Electronics, Inc. | Consumer Electronics | M&A Advisory |
| Homebanc, Inc. | Financial Services | M&A – Seller |
| Homestar Funding | Mortgage | M&A – Seller |
| Hoss Equipment Company | Heavy Equipment Remanufacturing | Debt Financing |
| IMC | Building Products | M&A Advisory |
| Imperial Technology, Inc. | Data Storage Technology | M&A Advisory |
| Intelegy, Inc. | CRM/ Consulting | Advisory |
| JDI Solutions, Inc. | Manufacturing | M&A Advisory |
| Jolly Chef | Food Service | M&A Advisory |
| KAT & Associates, Inc. | Healthcare | Advisory |
| LAX World Co, Inc. | Sporting Goods Retail | M&A Advisory |
| Loan Genie, Inc. | Mortgage | Advisory |
| Long Range Systems, Inc. | Manufacturing | Corporate Finance |
| Magicstone Media, LLC | Media/Entertainment | Corporate Finance |



PREVIOUS CLIENTS

| Client | Industry | Type of Engagement |
|-----------------------------------|-------------------------------------|--------------------------------|
| Maryland Proton Treatment Center | Healthcare | Turnaround & Recapitalization |
| Maui Girl & Co., Inc. | Apparel/Specialty Retail | M&A Advisory |
| MI Senior Living | Senior Housing/Healthcare | Corporate Finance |
| Mid-America Fittings, Inc. | Manufacturing | M&A Advisory/Sale |
| Midland Metals Manufacturing, LLC | Distribution | Leveraged Recapitalization |
| MVI, Inc. | Insurance | Advisory |
| Nature's Formula, Ltd. | Health and Beauty | M&A Advisory |
| Neuronix, LTD | Healthcare | M&A Advisory |
| Newline | Int'l Manufacturer of Marker Boards | M&A Advisory |
| Numerica Software | Software | Advisory |
| Oakley Homes, Inc. | Construction | Private Placement |
| Palm Beach Tan | Retail Chain/Consumer Services | Debt Financing |
| PayDay One Holdings, LLC | Consumer Finance | M&A - Seller |
| PERGAN Nordamerika GmbH, i.G. | Organic Peroxides | M&A Advisory |
| Phoenix Radiology, Inc. | Healthcare | M&A Advisory |
| Predicate Logic, Inc. | Software | Corporate Finance |
| Pro Systems, Inc. | Manufacturing | Advisory |
| Prologistics Technology, Inc. | Software | Advisory |
| Promiseland Dairy | Food & Beverage | M&A Advisory |
| Resource Bancshares, Inc. | Mortgage | M&A – Buyer |
| San Dieguito National Bank | Community Banking | Advisory |
| SCS/Frigette | HVAC Manufacturing | M&A Advisory |
| Sessions, Inc. | Staffing/Entertainment | M&A Advisory |
| StaffUSA, Inc. | Staffing | M&A Advisory |
| Sun Country Bank | Community Banking | Advisory |
| Surgical Notes | Health Care Services & Technology | Debt Financing |
| SY technologies, Inc. | Missile Guidance Technology | Corporate Finance |
| Tishman West Realty, Inc | Financial Services | M&A– Seller |
| Transcend Equity Development | Energy Conservation Services | Project Financing |
| TruckloadUSA | Building Product Distributor | Debt Financing |
| Turner Financial, Inc. | Mortgage | M&A – Seller |
| U.S.E Community Services, Inc. | Financial Services | M&A – Seller |
| Uncle Julio's | Restaurant Chain | Recapitalization |
| Undaunted Holdings, LLC | Marine Manufacturing | Acquisition |
| US Merchant Systems, Inc. | Transaction Processing | Corporate Finance |
| US Merchant Systems, Inc. | Financial Services | Convertible Preferred Offering |
| USDB Bancorp, Inc. | Mortgage | M&A – Buyer |
| VVI Construction, Inc. | Construction | M&A Advisory |
| WalkAbout Software, Inc. | Software | M&A Advisory |
| Westex Metal & Iron, Inc. | Scrap Metals | M&A Advisory |
| Worthy Financial, Inc. | Reg A+ Bond Sales | Advisory |
| YouGotCash, LLC | Software- Portal | Advisory |



CITATIONS

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