



INTEROCEAN

Investment Bank for the Manufacturing Sector SM



Quarterly Manufacturing Update

Q3 2017

InterOcean Advisors LLC

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InterOcean (IOA) closely follows economic and M&A transaction activity in the manufacturing sector. Each quarter we issue a market overview that offers our perspectives on the state of the manufacturing sector and provides insights into select end market industry verticals that we cover.

Leading Economic Indicators

Gearing Up

U.S. manufacturing continued to outperform the market in Q3 2017. The InterOcean Manufacturing Index increased 6.7%, while the S&P 500 rose 4.0% over the past quarter. Capital equipment spending was again a key driver in the growth, with order backlogs increasing for the eighth month in a row. However, continued declines in capacity utilization may begin to limit capital expenditures, as labor shortages continue to hamper manufacturers.

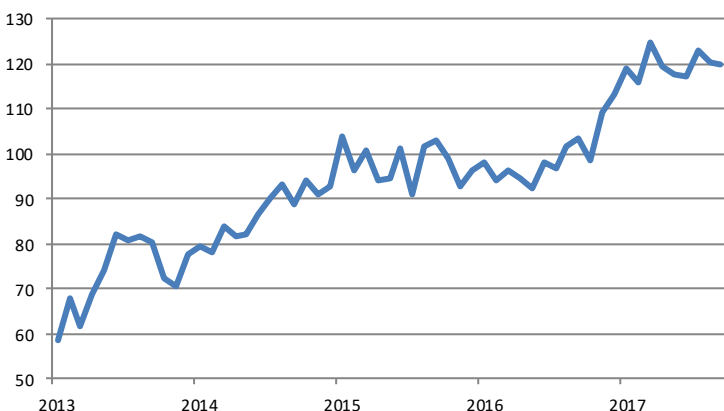
The high level of consumer confidence is still expected to translate into robust consumer spending. Some of this effect has already been seen in the Automotive Index which rose 14.7% over the past quarter, reflecting the swing from anticipated weak unit sales

to strong sales following the hurricanes in the Gulf Coast.

Surveys of purchasing managers have signaled continued expansion in the manufacturing sector, as the U.S. PMI rose to 60.8, its highest level since 2004. Manufacturing activity was also expansionary in the Eurozone, Japan and China on the heels of improving global demand. The weakened U.S. dollar can be expected to continue to make U.S.-made goods more attractive to overseas purchasers.

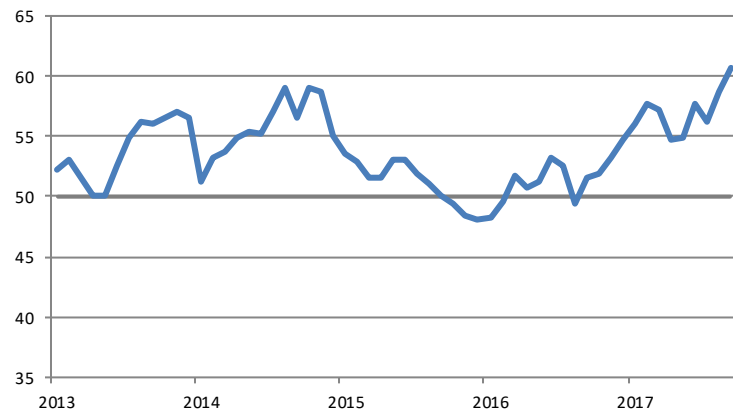
We believe that the strength in the equity markets bodes well for a strong Q4 2017 with continued demand for capital equipment, aircraft and new housing stock.

Chart 1: Consumer Confidence Index



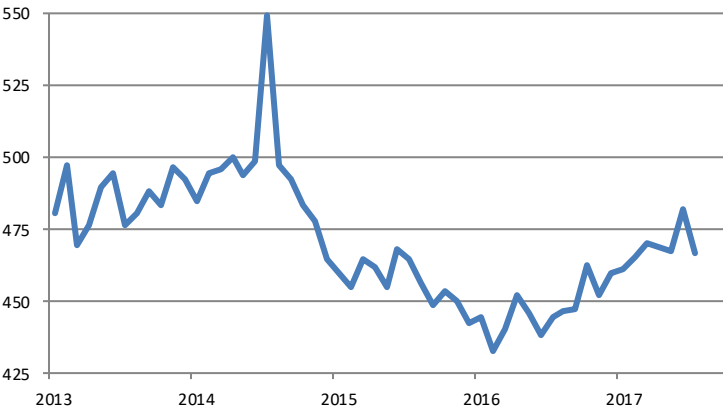
Source: The Conference Board

Chart 2: Purchasing Managers' Index (PMI)



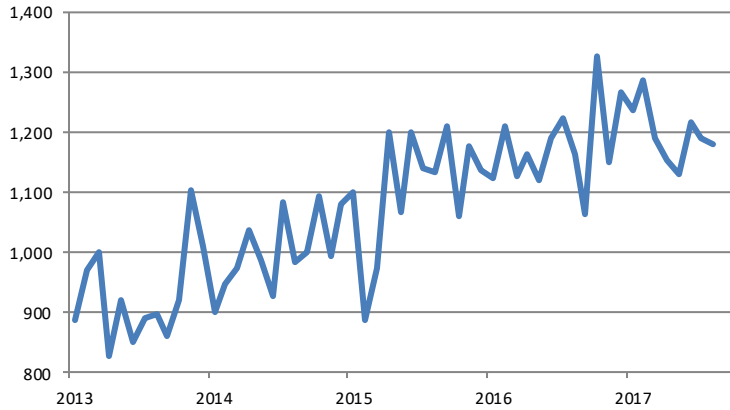
Source: Institute for Supply Management (ISM)

Chart 3: Manufacturers' New Orders (\$ in billions)



Source: U.S. Census Bureau

Chart 4: Housing Starts (thousands)



Source: U.S. Census Bureau
* New privately owned housing units started at a seasonally adjusted annual rate

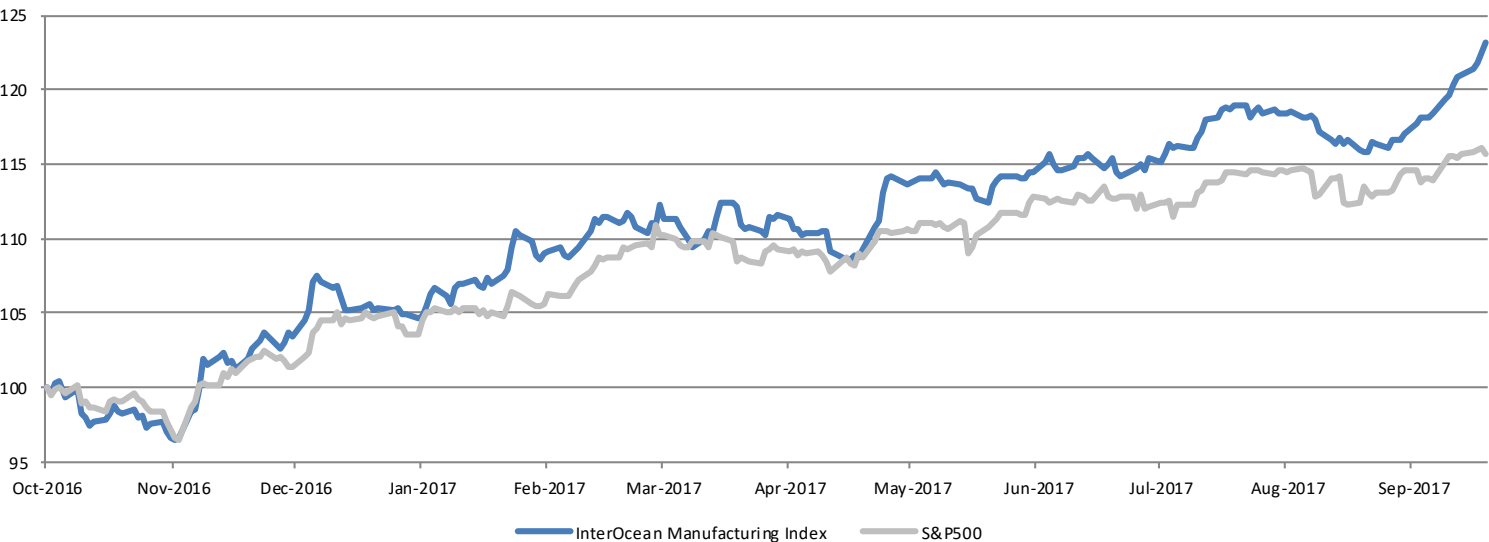
Manufacturing Sector Performance

InterOcean Manufacturing Indices

The InterOcean Manufacturing Index provides a quick snapshot of the market performance of publicly traded manufacturing companies. The Index is an aggregation of market-cap weighted indices for the industries covered by InterOcean. Each industry index is comprised of a representative group of

25-35 publicly traded manufacturing companies that are important participants in that market. The IOA Manufacturing Index equally weights the industry-specific indices, so as not to skew performance toward any single vertical. Each quarter, InterOcean resets the indices to 100.

Chart 5: InterOcean Manufacturing Index vs. S&P500



Source: S&P Capital IQ and InterOcean Advisors; data as of September 30, 2017

Highlights of Q3 Index Data

- › InterOcean Manufacturing Index outperformed the S&P 500 in Q3 2017, increasing 6.7% while the S&P 500 rose 4.0%. 17 of the 18 industries comprising the Institute for Supply Management (ISM)'s manufacturing sector reported growth in September.
- › IOA Capital Equipment Index rose sharply for the third consecutive quarter, up 8.3% on top of a 7.4% increase in Q2 2017. Related capital equipment sectors, Electrical Products and Flow Control, rose 5.0% and 8.8%, respectively. Strong corporate profits continue to drive equipment purchases.
- › IOA Plastics & Packaging Index underperformed the market, rising only 0.9% in Q3 2017. The global oversupply of polyethylene, the most common plastic, is putting downward pressure on prices in a flat demand market.
- › IOA Aerospace & Defense Index rose 11.1% in Q3 2017. Despite concerns about near-term production capacity and future commercial aircraft orders, total industry output continues to increase. The principal driver of this growth is heavy passenger demand, which reached a 12-year peak during the latest twelve-month period. In addition, global defense spending is expected to increase with the proposed \$700 billion U.S. defense budget approved by the Senate in September.

Chart 6: IOA Aerospace & Defense Index vs. S&P500

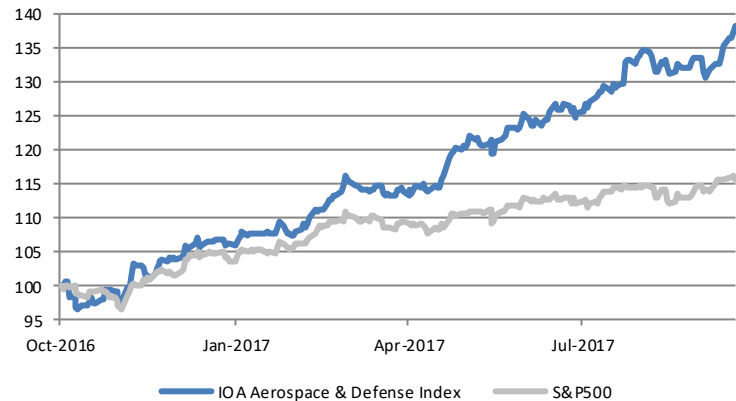


Chart 7: IOA Automotive Index vs. S&P500

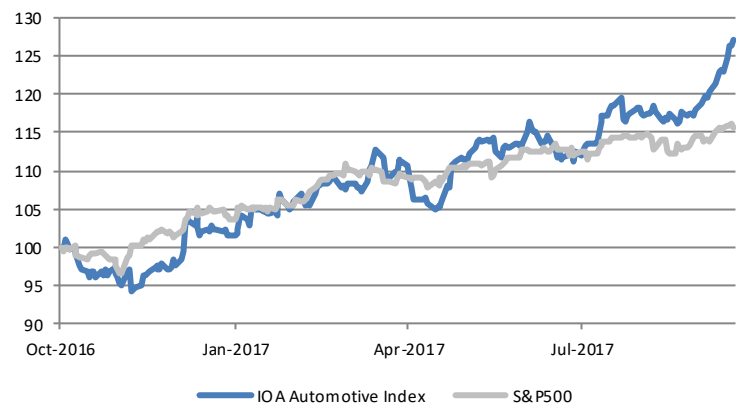
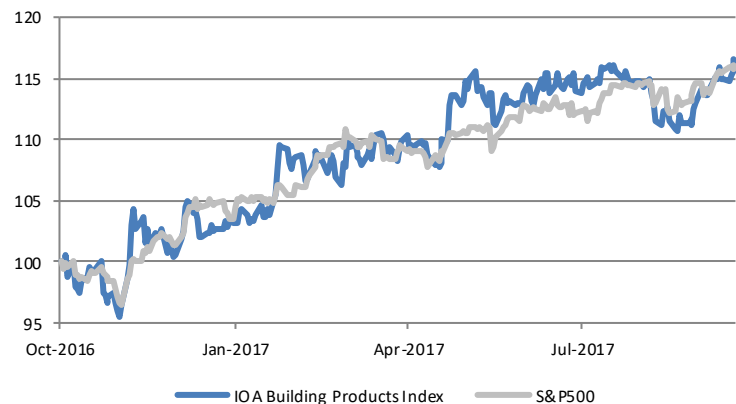


Chart 8: IOA Building Products Index vs. S&P500



Source: S&P Capital IQ and InterOcean Advisors; data as of September 30, 2017

Chart 9: IOA Capital Equipment Index vs. S&P500

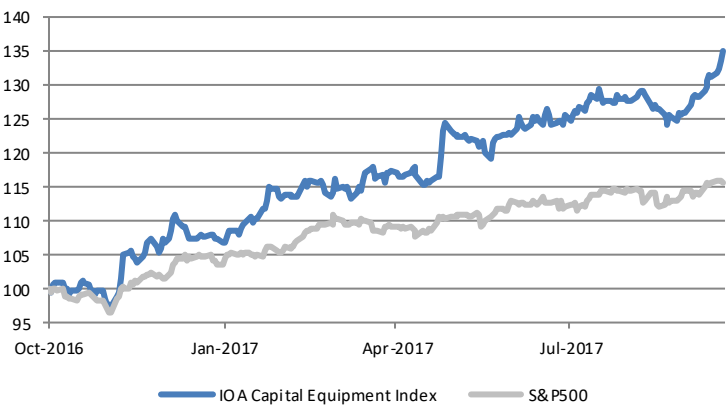


Chart 10: IOA Distribution & Business Services Index vs. S&P500

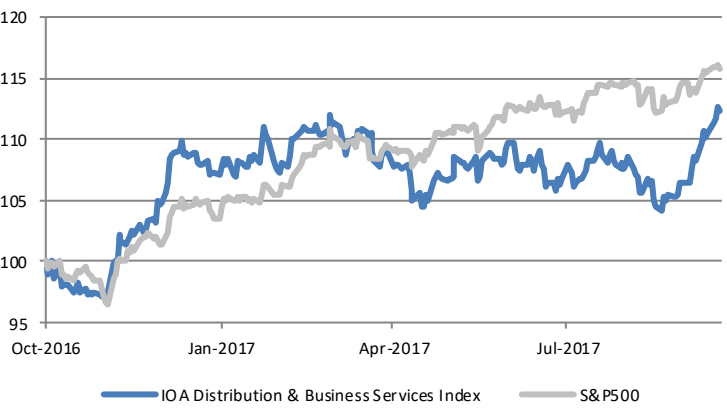


Chart 11: IOA Electrical Products Index vs. S&P500

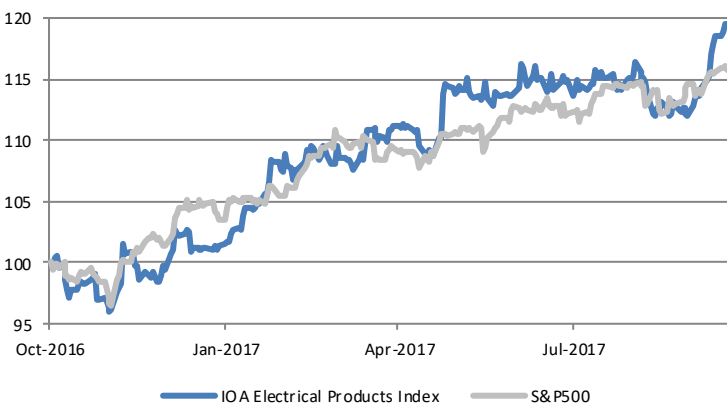


Chart 12: IOA Flow Control Index vs. S&P500

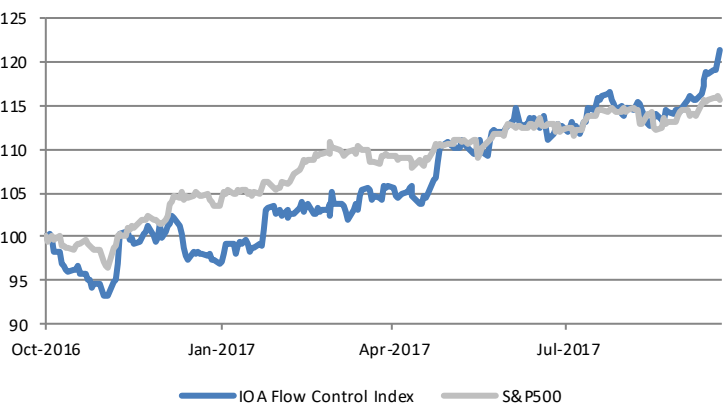


Chart 13: IOA Metals Index vs. S&P500

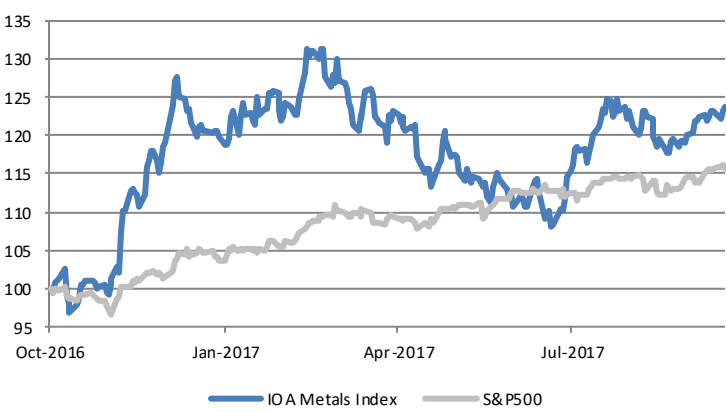
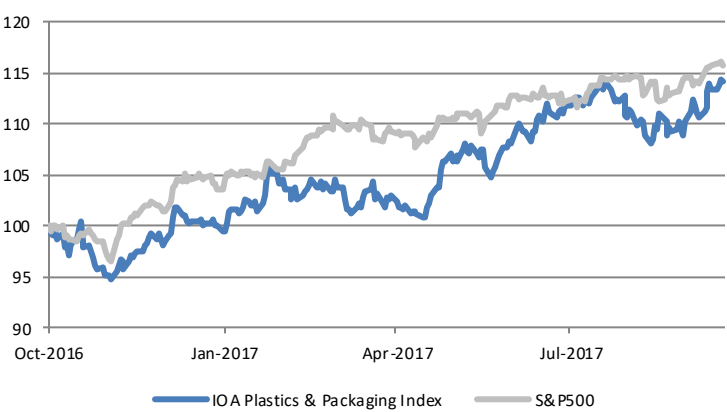


Chart 14: IOA Plastics & Packaging Index vs. S&P500



Source: S&P Capital IQ and InterOcean Advisors; data as of September 30, 2017

Q3 Industry EBITDA Multiples Strong

The enterprise value / EBITDA multiple—a standard component of traditional corporate valuation exercises—increased on average 1.2 times across the InterOcean industry indices in Q3 2017 compared to the prior year.

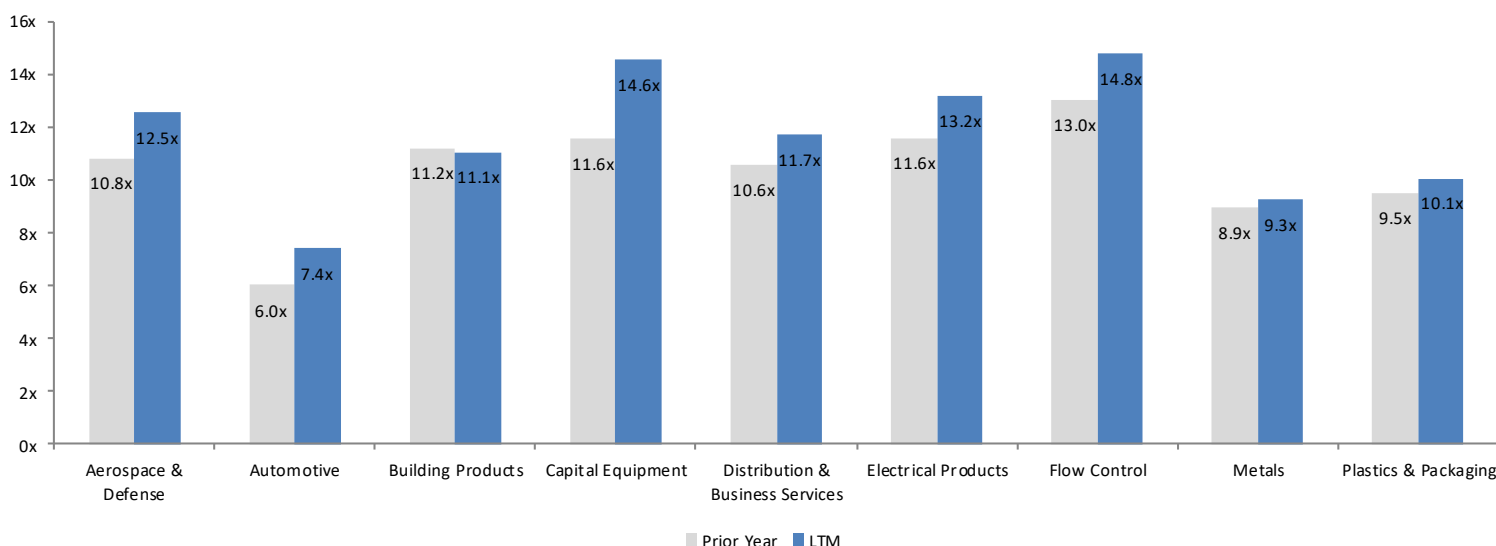
As mentioned earlier, expectations for continued strength in the capital spending arena, including Capital Equipment, Electrical Products and Flow Control, are reflected in rising equity values in the sector. Companies in those three indices are trading, on

average, over 14.0x EBITDA.

The 11.1x multiple for building products companies was relatively unchanged from Q2, as housing starts have declined since 2016. However, the U.S. housing market is still under-supplied by an estimated 400,000 units.

The strong 12.5x multiple for Aerospace & Defense companies continues to reflect the large commercial aircraft backlog and proposed increases in defense spending.

Chart 15: Median Enterprise Value/LTM EBITDA Multiples for IOA Index Companies



Source: S&P Capital IQ and InterOcean Advisors; data as of September 30, 2017

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InterOcean Advisors LLC

Middle Market Investment Bank

InterOcean is one of North America's leading specialty investment banks focused on serving the manufacturing sector. InterOcean advises corporations, private business owners, private equity groups and management teams, offering the following services:

- Mergers & Acquisitions
- Private Capital Sourcing (Debt and Equity)
- Sale / Divestiture Advisory
- Financial Advisory

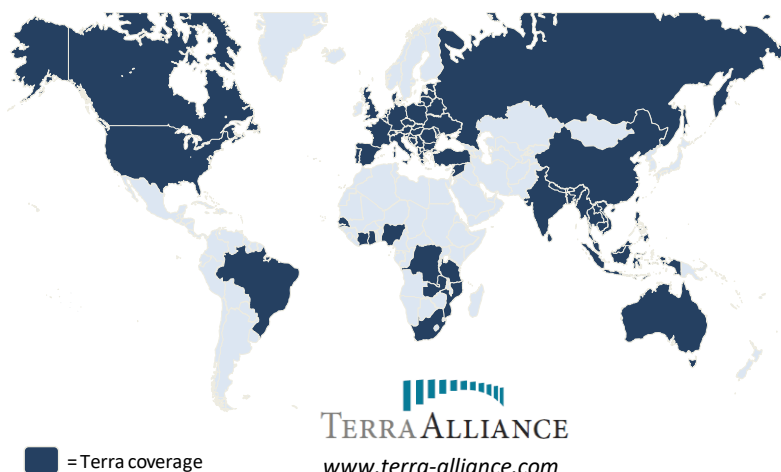
To learn more about InterOcean, please visit our website at: www.ioadvisors.com

Manufacturing Sector Focus

InterOcean is dedicated to providing solutions for the aerospace & defense, automotive, building products, capital equipment, distribution & business services, electrical products, flow control, metals and plastics & packaging segments of the economy. Our deep experience in these industries facilitates the identification of important industry and market trends, a company's key value drivers and qualified buyers, lenders and investors, thereby improving the likelihood of a transaction closing at a premium value and on a timely basis.

International Capabilities

InterOcean is the sole U.S. member of the Terra Corporate Finance Alliance, a growing international alliance of investment banks with operations in North America, South America, Europe, the Middle East, Africa and Asia. Through this network, InterOcean has a platform for offering enhanced identification of, and access to, potential transaction parties around the globe. Collectively, over the past few years, the Terra network has advised on more than 200 M&A transactions with a total value in excess of USD \$10 billion.



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