The Senate came to an agreement on Wednesday (3/25) on an unprecedented $2 trillion stimulus package aimed at providing an economic buffer to stabilize the downside risk in the near-term as the COVID-19 virus continues to spread domestically.

- Following unanimous Senate approval, the House is likely to consider and pass the relief plan on Friday, which would then leave the bill in the hands of President Trump (who indicated he would immediately sign it into law).
- The legislation will provide direct financial assistance to many Americans, expand unemployment insurance, offer hundreds in billions in loans to small and large businesses, and provide health care providers with additional resources as the virus spreads.

Thursday’s jobless claims of 3.3 million revealed the economic toll of the pandemic is as severe as anticipated, reflecting continued uncertainty around the blunt fallout of the virus.

**Debt Capital Markets**

- Actions by the Federal Reserve last week continue to permeate through the market, creating greater liquidity and more normalized trading dynamics.
- As market volatility moderated, the higher end of the credit spectrum experienced a greater level of insulation with investors continuing to support issuers’ requests for additional liquidity:
  - High grade and pro-rata issuers across the credit spectrum remain active and investor appetite has remained steady.
  - The week is likely going to be a record for investment grade issuance, with $96 billion of capital raised across 43 issuers through 3/26.
  - Primary activity centered around repeat issuers looking to increase Revolvers, Short-Dated Funded Loans (e.g., 364-day facilities), or Delayed Draw Term Loans, in addition to tapping the bond markets.
- With the precipitous fall of LIBOR, investors are in many cases asking Arrangers to add LIBOR floors where there currently are none or are at the current document standard of zero.
- Investors are now focused on analyzing the potential impact issuers face from a sustained economic disruption:
  - Pressure will continue to be on spreads as investors price in the relative risk → even some high-grade credits today are being issued at prices that were closer to high yield returns only three weeks ago.
- Primary loan issuance at the lower end of the credit spectrum has been all but shuttered with opportunistic transactions pulled and event-driven transactions shelved until the market can find some stability.
  - The forward institutional calendar now stands at $21.7 billion and will remain low for the foreseeable future.
- The volatility experienced last week in the secondary loan market has improved, yet prices remain at extremely low levels.
- The high yield bond markets remain closed for the time being, with indices bottoming on Monday, and subsequently rallying alongside narrower bid-ask spreads and higher volume.
  - Leveraged loans are pricing in a 23% default rate versus 12% default rate for high yield.

**Equity Capital Markets**

- Equity markets have reversed following last week’s rapid stock selling due to ‘portfolio pruning’ and deteriorating liquidity:
  - The majority of portfolio forced liquidation and deleveraging is believed to have largely run its course, as sale volume is smaller and more selective, returning to more ‘normal’ trading dynamics.
    - For example, systematic clients on Credit Suisse Group AG’s prime-brokerage platform have slashed their equity positions by 45% this month compared with the end of last → now the equity markets have less selling pressure to absorb from systematic players.
    - As investors priced in the federal relief plan, equity markets rallied off of lows, exhibiting trends that reflect a new bull market.
  - According to J.P. Morgan, an impending rebalancing flow is likely coming from buy-and-hold investors, as forced selling ends, and a rebalancing of portfolios (higher weight to equities) will result in $850 billion of stock buying power.
    - U.S. pension funds would need to spend $400 billion on stocks to ‘revert to pre-virus equity allocations’, mutual funds will need to buy around $300 billion of equities to get back to their 60/40 targeted allocations, and Norway’s sovereign wealth fund and Japan’s pension fund are expected to make around $150 billion of purchases to return to their target holding levels.
    - Signs of this rebalancing were reflected in Tuesday’s stock performance, with the Dow Jones Industrial Average having its best single day performance in over 87 years on the anticipation of the $2 trillion U.S. stimulus package being passed.
- Many companies continue to re-evaluate their share buyback strategies, opting for capital preservation while also being mindful of buyback optics in the wake of potential political backlash.

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Building Products Market Perspectives

• The U.S. economy has entered truly unfamiliar territory, driven by the COVID-19 pandemic and a severe economic contraction that has caused a record 3.3 million American workers to apply for unemployment
  – Low mortgage rates have helped provide support for homeowners and potential buyers, but it hasn’t been enough to avoid a slowdown
• Many building product manufacturers and distributors have begun to temporarily suspend operations at all or certain facilities to balance production levels with customer demand and prioritize the well-being of their employees, as well as maintain compliance with mandates by federal and state governments
• Analysts have continued to downgrade some of the nation’s largest homebuilders, with the anticipation that COVID-19 will decrease consumer sentiment and continue to slowdown homebuilding
  – The spring is usually the busiest season for sellers and the coronavirus can significantly impact the 2020 selling season
• Realtors in what have been the strongest housing markets across the U.S. are expecting a slowdown in those markets
  – The Houston market is anticipating a dual impact from the coronavirus and falling oil prices
• The housing market overall remains optimistic with exceptionally low inventories and the hope that any downturn will be relatively short

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Sources: NAHB, Wall Street Research, Zillow
Note: Market data as of 3/25/2020; Manufacturing (Large Cap): ALLE, AOS, ASX, HX, CSL, FBHS, HBUB, IR, LII, MAS, MHK, NYSE:CNR, OC, SHW, SWK; Manufacturing (Mid Cap): AAOI, AMWD, AWI, AYI, BCC, CREE, CVCO, DOOR, FRTA, GFF, JELD, LPX, NYSE:LCII, PATK, ROCK, SSD, TILE, TREX, TSX:OSB, WMS; Manufacturing (Small Cap): AFI, APOG, CSTE, DXYN, IINN, LYT, NX, NYSE:SKY, PGTI, TGLS; Distribution / Installation: BECN, BLD, BLDR, BMCH, BXC, FBM, GMS, HDS, IBP, POOL, SIC, SITE, TSX:HDI, UFPI, WSO

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Chemicals and Materials Market Perspectives

- Oil-price driven changes continue to affect organic chemicals chains
  - US gas advantage reduced significantly
  - Several Cracker, PDH and CTO / MTO projects delayed as a result of soft supply-demand dynamics and financing challenges
- Many Chemical & Materials companies designated “Critical Infrastructure”, enabling continued production
  - Potential employee-infection plans / protocols being established for shut-down / load-balancing / cleaning / restart
- Companies in process of re-evaluating “coronavirus-affected” 2020E base-cases reflecting uncertain demand outlook, especially in 3Q and beyond
  - Secondary / tertiary impacts of other affected industries and medium-term economic demand harder to gauge
  - Selected public company dividend yields at elevated levels raising comparisons / differences between today and 2009
- Private equity firms finishing portfolio-oriented exercises and refocusing on potential targets
  - M&A processes largely deferred or paused, with selected exceptions
  - Financing availability / terms / pricing in flux

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**Commodities / Diversified:** ASIX, AKE, ASH, BAS, BRKMS, CBT, CLN, CE, CF, CINR, CMP, 1COV, UAN, DOW, EMN, EVK, FOE, HUN, IPHS, ICL, KPLUY, DSM, KOP, KRA, KRO, MX, VIT, MITX, NTR, OLN, ORBIA *,POL, SASE:2010, SOLB, SYNT, CC, MOS, TSE, TROX, VNTR, WLK, WCH, YAR;  
**Specialties:** AGFS, APD, AKZA, ALB, AVD, AXTA, BCPC, CCMP, CBM, CRDA, CTVA, DD, ECL, ESI, ENTG, FMC, GIVN, FUL, HXL, HEN3, NGVT, IFF, AI, LIN, LONN, NEU, PPG, KWR, RPM, SXT, SY1, SHW, GRA

**Sources:** Capital IQ as of 3/26/2020

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Distribution

- Distributors continue to adapt to changing market conditions due to the COVID-19 spread, as more than 36 states have issued shelter-in-place orders for at least part of their state, encompassing over 200 million people
  - Warehouse workers, employees of logistics and distribution companies, maritime and railroad employees, private and public postal shipping workers, employees in the aviation industry (including air cargo operations) and repair shops for relevant vehicles and equipment have been deemed essential despite these orders
  - The recently passed $2 trillion CARES Act should provide additional support necessary to both companies and individuals in the distribution industry with small and large business loans, one-time checks, expanded unemployment benefits and tax cuts
- According to a recent report by McKinsey & Co., key areas within retail and industrial supply chains are expected to suffer from stock-outs through the end of May
  - Stock-outs have been exacerbated in recent weeks due to a perfect storm of more restricted production, undefined freight movements and consumers stockpiling goods
    - Key sectors experiencing the brunt of stock-outs include pharma, consumer goods, mass retail, foodservice and semiconductor markets
    - Government-mandated shelter-in-place orders should bring a reprieve for many at-risk supply chains, providing companies with additional time and capacity to prevent or minimize the impact of stock-outs in the near-term
    - Distributors are evaluating different avenues to alleviate supply chain constraints including building more inventory, prioritizing orders, hiring more headcount and using third-party fulfillment companies for non-core products
  - In recent years, just-in-time supply chains have kept capital investment and inventory levels low, allowing for greater flexibility and cash flow generation
    - These dynamics have prompted many to re-evaluate key strategies to survive future supply chain shocks, including building buffer inventory, preventing over-ordering, identifying and cultivating alternative supply sources, ensuring effective communication strategies (internally and externally), and addressing systems deficiencies
- Transportation and distribution companies are being forced to work overtime to handle massive demand increases, with particular focus on food, medical and paper product supply chains
  - Massive freight demand is expected to continue in the near-term on the heels of further inventory restocking as Chinese manufacturing recovers
  - Government-mandated shelter-in-place orders should bring a reprieve for many at-risk supply chains, providing companies with additional time and capacity to prevent or minimize the impact of stock-outs in the near-term
  - Distributors are evaluating different avenues to alleviate supply chain constraints including building more inventory, prioritizing orders, hiring more headcount and using third-party fulfillment companies for non-core products

Public Company 30-Day Stock Performance

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Note: Market Data as of 3/25/2020; BL / Ind MRO: AIT, BOSN, FAST, GWW, HDS, LAW, SPS, ALF, POCO, SYX, O&G: DXP, MRC, DNOW, Tech / E / E: ARW, APT, BDC, ECM, HCWCC, RXY, SNX, TRNS, WCC; Food / Foods: Bnzl, CHF, CPE, PGGC, SYX, UNFL, USFD; Chem: BNR, DKS, ICMC, UNVR; Vehicle: AAP, AZO, DORM, GPC, LKQ, MPAA, ORLY, SMP, UNS; BP: BRCN, BMCH, BDLR, BXC, FERG, FBM, GSM, HCL, RCH; Other: POOL, SITE, WSO

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Diversified Industrials Market Update

**Economic Impact**

- Magnitude and longevity of Coronavirus concerns remain impossible to accurately forecast given all the moving parts (travel bans, quarantines, stimulus, etc.); however, strain in the job market is already visible with jobless claims rising from 281k last week to ~3.3 million.
  - US: Consensus estimates now predict the economy to shrink 15% - 30% in 2Q20, as social distancing measures enforcement increase across states and economic activity continues to decline.
  - China: Economists slashed 2020 growth forecasts to 3% (lowest since 1976), since the release last week of data suggesting a historic collapse in economic activity in January and February.
  - Europe: Bloomberg Economists see a contractions of more than 3% this quarter and 2.4% in 2Q20, the deepest consecutive drops in the eurozone’s history.

**Key Themes**

- Coronavirus uncertainty continues to drive market volatility and obscure demand visibility for 2H20 outlook; likely leading more companies to forego future guidance and the sector to continue to experience a wave of credit rating downgrades if the environment persists.
- While the market is clearly discounting impacts to future cash flows, sentiment is that demand has not been permanently impaired and should recover once conditions stabilize.
- Some companies across the space have yet to see a material impact on domestic capacity utilization and North American supply chains.

**Recent Trading Performance**

- Despite a recent boost from the impending $2 trillion fiscal stimulus bill, overall sector valuation remain 3.1x EV / NTM EBITDA below its YTD high of 14.2x on 2/12/2020.
- ~73% of companies in our coverage universe have experienced a greater than 40% drop in their share price relative to their 52-week high price.
- Sell off has largely been disconnected from fundamentals; however, companies with meaningful exposure to automotive, commercial aerospace and oil & gas remain particularly challenged.

**Diversified Industrials EV / NTM EBITDA Trading Dashboard**

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Sources: Bloomberg, IHS Markit, Equity Research; Note: Capital IQ market data as of 3/25/2020.

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A number of U.S. states and municipalities and many countries around the world have issued “stay-at-home” or “shelter-in-place” orders limiting non-essential services, further negatively impacting economic output due to COVID-19. However, many Industrial & Business Services companies have been categorized as essential and continue to operate at either full or limited capacity.

- The $2 trillion stimulus package approved by the Senate could provide billions for infrastructure projects, including hospitals, airports and transit systems. However, it is largely up to states, localities and other recipients to determine how it will be spent.
- Some general construction activity has been temporarily stopped or delayed, but most activity is continuing.
  - According to an Associated General Contractors of America survey, 28% of firms have halted or delayed projects due to COVID-19.
  - Some areas, such as Boston and Cambridge, MA have halted construction during the COVID-19 “stay-at-home” orders.
  - Required government services, such as permitting and inspections have largely stopped, further contributing to project delays.
- Providers of janitorial and waste & environmental services have seen a dramatic uptick in demand for decontamination and disposal services during the COVID-19 outbreak.
  - However, some providers have faced supply chain delays around personal protective equipment as worldwide demand for N95 face masks, face shields and nitrile gloves has skyrocketed.
- The COVID-19 outbreak and the associated rise in both remote work and video streaming has advanced the need for more robust 5G technologies in the U.S.
  - Many telecom carriers have publicly reported double-digit increases in volume week-over-week.

### Industrial & Business Services Subsector Median Trading Multiples

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Services</td>
<td>9.6x</td>
<td>10.0x</td>
<td>9.1x</td>
<td>9.6x</td>
</tr>
<tr>
<td>Construction Services</td>
<td>7.6x</td>
<td>5.3x</td>
<td>6.2x</td>
<td>7.5x</td>
</tr>
<tr>
<td>Engineering &amp; Consulting</td>
<td>13.9x</td>
<td>5.9x</td>
<td>12.2x</td>
<td>10.7x</td>
</tr>
<tr>
<td>Waste &amp; Environmental</td>
<td>11.3x</td>
<td>4.9x</td>
<td>9.2x</td>
<td>9.8x</td>
</tr>
<tr>
<td>Staffing / Training / Security</td>
<td>11.8x</td>
<td>4.9x</td>
<td>9.2x</td>
<td>9.8x</td>
</tr>
<tr>
<td>Rental Services</td>
<td>11.8x</td>
<td>8.1x</td>
<td>11.2x</td>
<td>11.8x</td>
</tr>
</tbody>
</table>

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Metals & Mining Market Perspectives

- Mill shutdowns announced in the past week:
  - **ArcelorMittal** announced blow downs at:
    - Indiana Harbor blast furnace No. 4
  - **Gerdau** is suspending melting and rolling operations at:
    - SBQ mill at Fort Smith, AK
    - SBQ mill in Jackson, MI
    - SBQ mill in Monroe, MI
  - **U.S. Steel** indefinitely idling tubular operations at:
    - Lone Star, TX
    - Lorain, OH

- Recent announcements of idled steel production capacity represent mills focused on the oil & gas Industry (OCTG) and automotive industry (sheet & SBQ); a prolonged shutdown of North American automotive production will place incremental pressure on BOF sheet capacity, with the temporary elimination of ~25mm tons of annualized demand

- The February decline in imports is fortuitous and could lessen the impact of an inventory overhang in the steel supply chain; HRC pricing has temporarily stabilized as well, though scrap price declines point to lower prices in April (see chart below)

- Over the past week, global aluminum premiums have dropped significantly, as increased uncertainty around virus-related lockdowns impacts both logistics and consumer operations. This week, aluminum buyers in the U.S. saw the Midwest Premium hit a 25 month low, off >10% from the week prior

- Copper cathode premiums in the U.S. remain stable, despite price declines on Chinese exchanges, as spot demand has dried up on cautious buyer sentiment and a lack of ‘dip buying’

- Metal recyclers and scrap processors are navigating tighter sourcing markets. Dealers are reporting strong flows of industrial scrap, but are cautious sellers in a rapidly declining price environment. Volumes of ‘peddler’ scrap have slowed considerably due to lower pricing and many yards closing ‘peddler’ operations in response to Covid-19

- The broader equity market sell-off has meaningfully impacted metals sector valuations, causing a drop of (0.8x) EV / NTM EBITDA from a YTD high of 6.9x on 1/20/2020

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**2020 YTD Metals Sector Equities Index Performance**

<table>
<thead>
<tr>
<th>Index</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select Global Producers</td>
<td>10.0%</td>
<td>10.0%</td>
<td>(36.2%)</td>
</tr>
<tr>
<td>Domestic Producers</td>
<td>(10.0%)</td>
<td>(20.0%)</td>
<td>(41.7%)</td>
</tr>
<tr>
<td>Scrap Recyclers</td>
<td>(30.0%)</td>
<td>(40.0%)</td>
<td>(43.7%)</td>
</tr>
<tr>
<td>Specialty Metals &amp; Alloys</td>
<td>(50.0%)</td>
<td>(50.0%)</td>
<td>(46.1%)</td>
</tr>
<tr>
<td>Service Centers / Processors</td>
<td>(70.0%)</td>
<td>(70.0%)</td>
<td>(54.7%)</td>
</tr>
</tbody>
</table>

**2020 YTD Pricing Performance**

<table>
<thead>
<tr>
<th>Metal</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aluminum</td>
<td>10.0%</td>
<td>10.0%</td>
<td>(22.2%)</td>
</tr>
<tr>
<td>Copper</td>
<td>(10.0%)</td>
<td>(20.0%)</td>
<td>(22.8%)</td>
</tr>
<tr>
<td>Nickel</td>
<td>(30.0%)</td>
<td>(40.0%)</td>
<td>(22.8%)</td>
</tr>
<tr>
<td>Steel (HRC)</td>
<td>(50.0%)</td>
<td>(60.0%)</td>
<td>(46.1%)</td>
</tr>
<tr>
<td>Zinc</td>
<td>(70.0%)</td>
<td>(80.0%)</td>
<td>(46.1%)</td>
</tr>
</tbody>
</table>

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---

Sources: Capital IQ, American Metal Market; Note: Market data as of close 3/25/2020

1 Considers median of equal weighted aggregate Metals Sector Indices (detailed below)


3 Considers $/lb. pricing of the following indices for each metal, Aluminum: LME Official Cash; Copper: LME Official Cash; Nickel: LME Official Cash; Steel (HRC): Steel Hot-Rolled Coil Index, fob mill US; Zinc: LME Official Cash

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Industrial Investment Banking Weekly Round-Up

Paper and Packaging

Week Ending March 27th, 2020

Paper and Packaging Market Perspectives

- World-20 February pulp shipments were down 0.2% year-over-year per the Pulp and Paper Products Council.
- Clearwater Paper is experiencing a significant increase in demand for its retail tissue products and an increase in demand for paperboard used for packaging food and pharmaceutical products.
- LSC Communications is preparing to file for Chapter 11 bankruptcy after failed efforts to restructure its nearly $1 billion of debt. LSC disclosed earlier this month that it entered into a forbearance agreement with its lenders. The waiver expires on May 14.
- Transcontinental provided a business update on March 25:
  - The majority of the Packaging segment supports the food industry and is running at high capacity, whereas other Packaging operations are experiencing a decrease in volumes due to government restrictions or the economic slowdown
  - The Print segment was materially affected by government measures in Ontario and Québec to close all non-essential businesses and services for two weeks in Ontario and three weeks in Québec starting March 25. Such measures drove significant temporary reduction in printing activities, and resulted in approximately 1,600 temporary layoffs at Transcontinental.
- Rayonier Advanced Materials announced that it will halt production at its newsprint plant in Kapuskasing, Ontario.
- CCL Industries closed on its acquisition of Flexpol in Poland and renamed it Innovia Poland on March 20.
- Waste Management suspended some of its operations and shut down select material recovery facilities in California that collect recyclables "until further notice". Such actions will drive up OCC prices, which already rose by $12/ton in March to $44/ton.
- Deluxe Corporation approved a 20% salary reduction for all of its named executive officers for the second quarter of 2020.
- International Paper entered into a $750 million revolving credit agreement to augment access to liquidity due to current macroeconomic conditions; the new agreement supplements the Company's existing $1.5 billion credit agreement from 2016.
- Standard and Pools downgraded the debt rating for Hoffmaster Group Inc to 'CCC+' with a Negative Outlook.
- Standard and Pools downgraded Cimpress' issuer credit rating to B+ from BB-, the rating on its senior secured facility to BB- from BB, and the rating on its unsecured notes to 'B-' from 'B. S&P expects revenue and EBITDA declines, leading to an increase in net leverage above its 4.5x downgrade threshold in the company's fiscal year ending June 30.

Public Company Stock Performance Since February 21

<table>
<thead>
<tr>
<th>Rigid Packaging</th>
<th>Corrugated Packaging</th>
<th>Flexible Packaging</th>
<th>Labels</th>
<th>Pulp and Paper</th>
<th>Printing</th>
<th>S&amp;P 500</th>
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<tbody>
<tr>
<td>Feb-21</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
</tr>
<tr>
<td>Feb-28</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
</tr>
<tr>
<td>Mar-06</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
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<tr>
<td>Mar-13</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
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<tr>
<td>Mar-20</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
</tr>
<tr>
<td>Mar-25</td>
<td>(25%)</td>
<td>(26%)</td>
<td>(26%)</td>
<td>(27%)</td>
<td>(27%)</td>
<td>(36%)</td>
</tr>
</tbody>
</table>

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The financial landscape is changing by the hour but what has remained constant throughout this period of economic turmoil is our commitment to you. We have been through changing economic cycles over many years, and our business clients rely on us to provide guidance and stability as we help them evaluate and take advantage of market opportunities. We want to assure you that we are here to serve your business’ financial needs.

The spread of the coronavirus (COVID-19), combined with the start of an oil market ‘supply war’ by Saudi Arabia and Russia, has continued to drive global disruption and volatility across the capital and M&A markets. In the wake of this market and economic uncertainty, the KeyBanc Capital Markets Industrial Investment Banking Group is pleased to provide you with our targeted weekly sector update.

Our continued pulse on the industrial markets provides our team with unique insight into up-to-date industry dynamics. The links provided below outlined these perspectives across the M&A and Capital Markets and select sectors of the industrial market.

We recognize that you may have questions related to your business operations and the impacts this will have on your industry. We are available to meet with you by phone, email and video conference. We encourage you to reach out to Mike McMahon or any of the KeyBanc Capital Markets Industrial bankers covering the relevant sectors for the support you need to navigate this unprecedented time.

We hope you and your family are staying safe and remaining healthy.

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Click below to view the perspectives from each Industrial sector:

- Real-Time Capital Markets Perspectives
- Building Products
- Chemicals & Materials
- Distribution
- Diversified Industrials
- Industrial & Business Services
- Metals & Mining
- Paper & Packaging

Disclosure: KeyBanc Capital Markets is a trade name under which corporate and investment banking products and services of KeyCorp and its subsidiaries, KeyBanc Capital Markets Inc., Member FINRA/SIPC and KeyBank National Association (“KeyBank N.A.”), are marketed. Securities products and services are offered by KeyBanc Capital Markets Inc. and its licensed securities representatives, who may also be employees of KeyBank N.A. Banking products and services are offered by KeyBank N.A. This report was not issued by our research department. The information contained in this report has been obtained from sources deemed to be reliable but is not represented to be complete and it should not be relied upon as such. This report does not purport to be a complete analysis of any security, issuer, or industry and is not an offer or a solicitation of an offer to buy or sell any securities. This report is prepared for general information purposes only and does not consider the specific investment objectives, financial situation and particular needs of any individual person or entity.
Real-Time Capital Markets Perspectives

- Actions by the Federal Reserve (Fed), the White House and Congress to quell panic have received mixed results as companies, investors and advisors look to confront market dislocations in the face of continued uncertainty around COVID-19
- The demand side of the equation is now the primary concern as companies prepare for more shut downs and ‘shelters-in-place’
- Domestic banks remain very well capitalized and poised to help clients during these difficult times

Debt Capital Markets

- Signs of liquidity drying up have been met by a ‘bazooka’ of cash from the Fed, which offered over $1 trillion of repo on Friday (March 13th) and reopened its commercial paper purchase facility on March 17th
- Companies (especially those in at-risk sectors) are negotiating additional lines of credit and drawing bank lines
- Leveraged loan and high-yield markets have traded off 10-15 percent on fears that the economy will contract for the next three to six months, coupled with the start of oil price war
- Whereas the institutional loan market has seen a more direct impact from the global outbreak of COVID-19, the pro rata bank market has remained relatively insulated
  - The uncertainty experienced in the institutional loan market has become further evident in the gradual decline of the forward calendar, with more issuers electing to wait on the sidelines amid the volatility
  - Pro rata issuers across the credit spectrum remain active as investor appetite has held steady → issuers have been well-received by lenders, who continue to support solid pro rata relationships with committed capital
- While the high-yield markets have not seen issuance, there has been meaningful activity from high-grade companies this week
  - On March 17th, ten companies launched capital raises of high grade debt totaling $27.6 billion, including an $8.5 billion offering from Exxon Mobil, a $6.5 billion offering from PepsiCo, a $3.5 billion offering from Verizon, and a $2.5 billion offering from Goldman Sachs
  - These offerings were on the heals of the Fed’s announcement to reintroduce the Commercial Paper Funding Facility, a measure from the financial crisis to shore up short term funding markets, providing $10 billion of credit protection from its Exchange Stabilization Fund

Equity Capital Markets

- U.S. equity markets in the week of March 16th have been characterized by extraordinary volatility as high-volume selling proliferates due to lower conviction on the duration and severity of COVID-19 in the U.S.
  - The Dow Jones Industrial Average closed below 20000 for the first time since early 2017, a myriad stocks are trading at their lowest levels in five plus years, and trading was halted intraday for the fourth time this month after the S&P 500 lost more than 7%
    • Through March 18th, the Dow had lost 33% of its value since its February record levels (across only 24 sessions)
    • A proliferation of long-only selling has driven a bulk of the sell-off, largely due to ‘portfolio pruning’ and moves away from ‘at-risk’ names (including those that are aligned with energy exposure, are highly levered, or don’t stand to benefit from secular economic trends)
    • Massive trading disparity remains across comparable companies, as stocks continue to trade less on fundamentals (limited earnings visibility)
    • We are seeing elevated trading volumes across the street and on our desk with activity any day 2-3 times normalized levels
- New issuance, follow-ons and convertible offerings have been on hold, while share buy-back volume have been mixed
  - Many companies have opportunistically put new share buy-backs programs in place, while others have held off on share repurchases (opting for more prudent uses of capital)

Mergers & Acquisitions

- With few exceptions, the M&A market has taken a pause in response to the unprecedented disruption related to COVID-19
  - Yet-to-launch auctions are delayed for the foreseeable future, while processes that are in the pre-exclusivity stages have paused
    • The pause has allowed companies to assess the direct impact on their operations, while continuing to prepare for an eventual launch
  - Buyer and sellers in the final stages (post-exclusivity or near-exclusivity) are attempting to close amidst uncertain market conditions
  - Private equity firms and strategic acquirers will continue to shop for deals in preparation for markets returning to normalcy
  - Debt market volatility concerns → financing support for M&A transactions is expected to vary largely on the size of the facility (and the number of lenders involved), the quality of the issuer (and of the underlying deal) and end market
    - Some buyers are considering greater equity checks (reducing the amount of debt needed), allowing for subsequent refinancing flexibility

Sources: Bloomberg, LCD, Refinitiv, MergerMarket, KeyBanc Capital Markets
Building Products

• Until the coronavirus crisis, the state of the U.S. housing market remained positive with housing starts up 39% on a year-on-year basis in February 2020. Building permits for future home construction jumped to a rate of 1.550 million units in January 2020, which was the highest level since March 2007. This growth is driven by the severe shortage of existing homes for sale and high demand among buyers which should benefit the builders.

• Builders grew more confident in the Midwest, but they were less confident in the South, West and Northeast. Total builder confidence levels fell slightly in March 2020. The Housing Market Index (HMI) remained relatively high compared to average HMIs in 2019. Next month’s index will incorporate sentiment from the Coronavirus shutdown.

• Nearly a third of homebuilding material inputs come from China, according to the National Association of Home Builders, including finished products such as bathtubs, sinks, appliances and more. So far builders have not reported any major supply chain disruptions for products made in China but there is the expectation of some disruption in the future. Since the financial crisis, homebuilding has struggled to keep pace with demand because of the cost of construction, lack of available land and a construction labor shortage.

• The NAHB has identified at least two areas of concern for homebuilders in the short term outside of supply chain issues, both related to compliance with OSHA standards: The availability of N95 respirators for those working with respirable silica dust as well as the legal ramifications of the coronavirus and OSHA reporting standards on injuries and illnesses in the workplace.

• There is concern that labor, already in short supply in the construction business, could be severely hit by COVID-19, should builders see the virus become prevalent on job sites.

• Zillow conducted a study on housing during previous pandemics and concluded that while home sales dropped dramatically during the pandemic, home prices stayed approximately the same or suffered a slight decrease. This makes intuitive sense because it is harder for prices to change when there are fewer transactions. In short, previous pandemics have simply put the housing market on pause.

• Mortgage rates fell to a record low last week, but are moving up again this week as lenders try to handle an onslaught of refinance demand.

• Despite Analysts being bullish on housing, many have downgraded homebuilders and other building products companies with the assumption of an impact on end-market demand from COVID-19.

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</tr>
</tbody>
</table>

Sources: NAHB, Wall Street Research, Zillow
Chemicals & Materials

- Coronavirus and its industry / economic impacts dominate the performance and outlooks of companies in the industry
- January and February performance was generally positive across sectors for US / European companies
  - Early coronavirus impacts were largely felt as supply chains from China or sales into China were disrupted
  - Concerns over stranded containers in China, product not being loaded/unloaded on a timely basis
- March – beginnings of coronavirus impacts on European / US economies and early signs of impact into sector performance
  - e.g. US auto production shutdowns (Fiat Chrysler, Ford, GM, Honda, Nissan and Toyota) will impact related supply chain sectors
  - Early green shoots of productivity returning to China – return of traffic jams in Shanghai
- Oil Prices – naphtha price declines continue to impact ethylene / petrochemical chain prices
  - This impact was ongoing and will affect profits from gas-based petrochemical production and potentially benefit the margins of downstream purchasers
- FX – Surging US Dollar will impact profitability of US-produced chemicals
  - e.g. US agricultural chemicals sold into Brazil
- Earnings are expected to be impacted across the board, questions are whether the impacts will be discreet to 2Q / 3Q or domino further
  - “Medical” / discreet event vs. long-term structural issue will depend on timing until coronavirus downtrend and resolution
  - Question of 2020 vs 2021 for companies with discreet annual sales (coatings, ag. chem, etc.) vs. structural industries (commodities, intermediates, etc.)
  - Uniformly low EV / EBITDA multiples expected to expand as 2020 estimates are updated
- M&A – case-by-case situation, with several sale processes being deferred/lengthened
  - DuPont N&B / IFF RMT appears to be on-track, while Apergy / ChampionX RMT may be challenged
  - Debt financing availability impacting acquirors ability to execute in the immediate-term, but private equity continuing to actively hunt

Trading Perspectives by Sector

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Sources: Capital IQ as of 3/19/20
Distribution

- Distributors continue to evaluate and respond to supply chain disruptions in the wake of the COVID-19 spread
  - According to a recent ISM survey, nearly 75% of all companies have reported supply chain disruptions as a result of COVID-19
- These dislocations were initiated by the COVID-19 breakout in China beginning in December 2019, prompting many distributors and manufacturers alike to re-evaluate product sourcing
  - According to ISM, over half of all companies have noted average lead times for Tier-1 sourced China products have doubled, in addition to experiencing further difficulty receiving supply chain information from Chinese suppliers
    - In the near term, the cost of goods from China is expected to increase, as a result of overtime and expedited freight costs
    - US-China trade tensions had already elevated country of origin and landed-cost considerations
  - Further spread of COVID-19 to other Asia-Pacific and European countries has created further complexity to many re-sourcing initiatives
- In the wake of these global supply chain dislocations, distributors’ key focus is on securing orders, transportation capacity and delivery visibility from not only Tier-1, but also Tier-2 and Tier-3 suppliers → effective and regular communication is paramount
  - Distributors with healthy inventory levels or those that source predominately domestically are in better standing to manage these international supply chain disruptions in the near term
- While many sectors have recently experienced activity slow-downs, select markets are adapting to an influx in demand, including those supporting the food, foodservice and healthcare industries
  - The grocery industry remains under significant strain to support massive demand in the last week
    - Kroger, along with other major grocery chains, are looking to hire significantly more workers across their retail stores and distribution centers
    - Many are reducing hours to give employees time to restock and deep clean stores after shoppers swarm shelves
  - While most restaurants have closed seated dining options throughout the U.S., pick-up and delivery remains robust, requiring greater packaging and consumable supplies than previously anticipated
  - Amazon announced plans to prioritize inventory of medical and household goods currently in high demand, including baby products, cleaning and hygiene, beauty and personal care, and pet supplies
  - 3M and Honeywell are among the major healthcare suppliers that have implemented plans to increase production of key products (e.g., face masks), working with key distributors to prioritize delivery of goods in areas where they are needed the most (hospitals)
- Distributors continue to adapt to work-from-home mandates, evolving their day-to-day interactions through digital strategies
  - Outside sales functions continue to experience meaningful disruptions; companies with proactive digitally-enabled sales processes have been able to overcome some of these temporary issues
  - Businesses with strong e-commerce customer bases have been able to manage demand fluctuations with greater efficiency

Public Company 30-Day Stock Performance

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Diversified Industrials

Economic Impact

- Economists are tapering down estimates for economic growth globally as the coronavirus continues to disrupt supply chains, weaken demand and freeze spending
  - In the U.S. the year started solid; however, some forecasts predict that rapid changes to the economy from the virus would slow first-quarter economic growth to a rate of 0.4% and that the economy would shrink at a 6.5% rate in the second-quarter and a 1.9% rate in the third-quarter
  - Even though China is now slowly getting back to work, the unemployment rate rose 1 percentage point to 6.2% (likely an underestimate); officially, the government is still targeting about 6.0% GDP growth in 2020; however, preliminary estimates indicate that a positive outcome may be unlikely
  - For the broader European Union, the European Commission last week said there could be a 1% contraction this year, which would be more severe than the downturn experienced during the sovereign debt crisis a decade ago

Key Themes

- Worldwide factory production dropped at the steepest rate since 2009 as companies reported falling demand and a reduced supply of inputs due to global supply chain disruptions, which are impacting the diversified manufacturing sector across the board
- Deterioration in orders for new investment goods points to a renewed downturn in global capex arising from the heightened uncertainty surrounding the spread of COVID-19
  - The recent slump indicates a set-back after signs of capex spending recovered at the start of the year amid easing trade war tensions
- Consistent expectations of lower 1Q20 / 2Q20 revenue and earnings due to reduced demand and supply chain disruptions caused by the virus; however, actual impact remains impossible to quantify, causing some companies to pull previously provided financial guidance
- Many companies have been proactively drawing down revolving credit facilities and tapping other available sources of financing to ensure sufficient liquidity levels to navigate imminent business disruptions

Recent Trading Performance

- The equity market sell off caused by fear surrounding the impact of COVID-19 on the global economy has meaningfully impacted the diversified industrials sector valuations, causing a drop of (4.0x) EV / NTM EBITDA from its YTD high of 14.2x on 2/12/2020

Diversified Industrials EV / NTM EBITDA Trading Dashboard

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>Δ Week</th>
<th>Δ Month</th>
<th>Δ YTD</th>
<th>1-Month</th>
<th>YTD</th>
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<tbody>
<tr>
<td>Industrial Technology</td>
<td>12.2x</td>
<td>(3.4x)</td>
<td>(4.8x)</td>
<td>15.6x</td>
<td>17.0x</td>
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<tr>
<td>Construction</td>
<td>12.2x</td>
<td>(1.3x)</td>
<td>(1.7x)</td>
<td>13.4x</td>
<td>13.9x</td>
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<td>Food Equipment</td>
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<td>(3.2x)</td>
<td>14.2x</td>
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<td>Flow Control / Water</td>
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<td>(2.4x)</td>
<td>(2.9x)</td>
<td>13.9x</td>
<td>14.4x</td>
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<tr>
<td>Diversified Index</td>
<td>10.2x</td>
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<td>(3.1x)</td>
<td>12.5x</td>
<td>13.3x</td>
<td></td>
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<tr>
<td>Large Cap Diversifieds</td>
<td>9.7x</td>
<td>(2.8x)</td>
<td>(3.5x)</td>
<td>12.5x</td>
<td>13.2x</td>
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<tr>
<td>Capital Goods</td>
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<td>(3.4x)</td>
<td>(5.2x)</td>
<td>11.0x</td>
<td>12.8x</td>
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<tr>
<td>Engineered Components</td>
<td>6.8x</td>
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<td>(2.8x)</td>
<td>9.0x</td>
<td>9.6x</td>
<td></td>
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<td>Power Transmission</td>
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<td>(1.6x)</td>
<td>(2.3x)</td>
<td>8.3x</td>
<td>9.0x</td>
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</tbody>
</table>

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Sources: Bloomberg, IHS Markit, Equity Research; Note: Capital IQ market data as of 3/18/2020

- **Capital Goods**: CFX, GNRC, LECO, MTW, THR, TNC
- **Construction**: ASTE, CAT, DE, MTW, TEX
- **Engineered Components**: EPAC, HI, KMT, NPO, NVT
- **Flow Control / Water**: AOS, AQUA, BMI, FELE, PNR, WTS, XYL
- **Food Equipment**: ITW, JBT, MIDD, WBT
- **Industrial Technology**: CTS, GGG, IEX, LFUS, NDSN
- **Large Cap Diversifieds**: AME, DOV, EMR, ETN, HON, IR, ITW, JCI, PH
- **Power Transmission**: AIMC, RBC, RXN, TKR
- **Diversified Index**: Average of all indexes
Industrial & Business Services

Industrial & Business Services companies will be negatively affected by the general slowing of the U.S. economy that has been predicted by analysts in the wake of COVID-19 and falling oil & gas prices. However, many subsectors within the Industrial & Business Services industry will be less impacted than other industries that rely more heavily on international supply chains, consumer spending and/or international demand.

- The effect on Industrial & Business Services companies will vary dramatically based on end markets, with those who are exposed to the travel and hospitality industry or the oil & gas industry being hardest hit.
- Field, Construction and Engineering & Consulting Services companies with exposure to state and local government spending could also feel a short-term squeeze, as these governments divert funds to deal with the COVID-19 outbreak and temporarily shutdown worksites within cities.
- As recession fears grow and expectation for increasing unemployment claims as a result of COVID-19 “social distancing” measures (following an extended period of near-record low unemployment), Staffing, Training and Security Services companies have seen valuations fall to their lowest levels in more than five years.
- The Waste & Environmental Services industry is largely considered essential services and will fall into the category of seeing a lower impact vs. others through the U.S. economy. However, Waste Management has site a delay in its nearly $5 billion acquisition of Advanced Disposal Services due to COVID-19 related delays in antitrust reviews being conducted by the U.S. Department of Justice.

Industrial & Business Services Subsector Median Trading Multiples

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Field Services</td>
<td>9.6x</td>
<td>9.1x</td>
<td>10.0x</td>
<td>5.8x</td>
</tr>
<tr>
<td>Construction Services</td>
<td>7.6x</td>
<td>6.2x</td>
<td>7.5x</td>
<td>4.8x</td>
</tr>
<tr>
<td>Engineering &amp; Consulting</td>
<td>13.9x</td>
<td>12.2x</td>
<td>13.1x</td>
<td>10.9x</td>
</tr>
<tr>
<td>Waste &amp; Environmental Services</td>
<td>13.5x</td>
<td>13.8x</td>
<td>13.6x</td>
<td>12.2x</td>
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<tr>
<td>Staffing / Training / Security</td>
<td>8.8x</td>
<td>8.0x</td>
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<tr>
<td>Rental Services</td>
<td>11.8x</td>
<td>11.2x</td>
<td>11.8x</td>
<td>7.9x</td>
</tr>
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Subsector Indices Representative Firms: Field Services - Dycom, MasTec, Team, Mistras and Comfort Systems; Construction Services - Granite, Matrix Services, MYR Group, Primoris and Tutor Perini; Engineering & Consulting - AECOM, Jacobs, KBR, Stantec and Tera Tech; Waste & Environmental - Casella, Clean Harbors, Republic Services, US Ecology and Waste Management; Staffing / Training / Security - Brink’s, Kelly Services, Manpower Group, Robert Half and TrueBlue; Rental Services - Cintas, H&E Equipment Services, Herc Holdings, UniFirst and United Rentals.
Metals & Mining

- Metals producers have not seen significant supply disruptions to date as a result of the Covid-19 pandemic, although key alloying elements (i.e. tungsten) are in short supply. Most have not yet cut workforces or production but are planning for business disruptions in the coming weeks.

- Producers and distributors are preparing for significant demand destruction in the 2nd quarter as major industry users of steel and other industrial metals including automotive, commercial construction, oil & gas exploration and aerospace are in various levels of temporary shutdown.

- This week’s shutdown of the North American automotive industry (Ford, FCA, GM, Honda closing facilities in stages beginning March 19th), temporarily eliminates 25 million tons of annualized demand for steel and a key market for aluminum.

- Steel producers that serve the oil & gas industry have begun to curtail production, cancelling raw material orders in recent weeks.

- Imports of steel and aluminum are expected to remain muted throughout the 2nd quarter as well; the port of Houston is largely closed at this point.

- Non-ferrous metals prices have declined dramatically year over year and are now being exacerbated by ‘frantic’ behavior on major metals exchanges. Exchange inventories are at their highest levels since September 2018 and investor positioning has turned negative.

- Metal recyclers and scrap processors are feeling the impact of a rapidly declining export market and expectations of lower domestic volumes, lower prices are curtailing the flow of material into yards as well.

2020 YTD Metals Equities Index Performance

2020 YTD Pricing Performance

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Sources: Capital IQ, American Metal Market

1 Market data as through 3/18/20
Paper & Packaging

- Paper and Packaging demand behavior will be hard to accurately forecast during the uncertainty created by COVID-19
  - Consumer panic buying of food, beverage, consumer and household staples, and tissues / toilet paper will help manufacturers in the short run, but will hurt them once panic demand reverses and people use their built up inventories at home
  - Healthcare packaging will also be a major beneficiary of heightened demand for medical devices and pills
  - On the other hand, packaging companies with industrial end market such as automotive and aerospace will be hurt given plant shutdowns at the Big Three and troubles at Boeing

- Boxboard production was down 0.5% in February and is down 1.4% year-to-date (American Forest and Paper Association)
  - The industry's operating rate of 93.7% and was essentially flat year-over-year
  - Boxboard backlogs declined in February from year-ago-levels, with SBS (solid bleached sulfate) backlogs down 15%, URB (uncoated recycled board) backlogs down 10%, and CRB (coated recycled board) backlogs down 22%
  - After holding up throughout 2019, SBS folding carton, CRB and URB prices fell by $30/ton in February as a result of weak demand

- North American Uncoated Freesheet Demand was down 12% in February (Pulp and Paper Products Council)
  - Shipments were down 7.3% in February following an 8.0% decline in January

- The rapid decline in FX rates against the US Dollar presents FX translation risk to companies with large foreign operations
- Declining interest rates present pension challenges for companies where unfunded pensions are a large part of their value
- Sonoco drew down entire $150 million Term Loan facility on March 18 to repay commercial paper and for other purposes

Stock Market is Rewarding Companies with Lower Financial Leverage

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