Building Products Market Perspectives

- The nation’s economy continues to stagger as the Labor Department reported ~4 million new unemployment claims
  - Over 30 million people have now filed for jobless aid in the six weeks since the coronavirus outbreak
- Manufacturers have slowed building product R&D during the pandemic, taking a “wait and see” position while cutting down funding as well as contract marketing and promotion
  - In a survey conducted by Home Innovation Research Labs, 46% of respondents reported that they have slowed their overall product research and development, 35% reported moderate cut backs to R&D, while 11% reported major cuts
- As building product names begin to report, COVID-19 has yet to impact the majority of the industry’s earnings, however several companies have already started to feel the effects of stay-at-home orders and social distancing
  - Despite sales declining 11% to $4.5 billion, D.R. Horton had a considerable improvement on Net Income, which rose 37% to $483 million, serving as a much needed lift to the homebuilding sector
  - Masco Corporation reported earnings: Sales jumped 4% to $1.6 billion; Adj. EBITDA grew 10% to $261 million
  - Griffon Corporation reported earnings: Sales increased 3% to $566 million; Adj. EBITDA was up 13% to $48 million
  - Patrick Industries reported earnings: Sales decreased 3% to $589 million; Net Income was up 2% to $21.2 million
  - Stanley Black & Decker reported earnings: Sales were down 6% to $3.1 billion; Net Income decreased 22% to $133 million. The company withdrew its full year guidance as a result of the uncertain macro environment due to COVID-19
  - Owens Corning reported earnings: Sales fell 4% to $1.6 billion; Adj. EBITDA remained flat at $231 million

Public Company Stock Performance Since February 21

Public Company Trading Performance Since February 21

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Industrial Investment Banking Weekly Round-Up

Chemicals and Materials
Week Ending May 1st, 2020

Chemicals and Materials Market Perspectives

- The Chemicals indexes were up strongly overall Week-over-Week, the second positive week sequentially, with Specialties up 4.4% and Commodities / Diversified up 6.7%
  - As more companies report this week, including: DOW, ESI, GRA, Wacker, BASF, OLN, Novozymes, Covestro, 3M, PPG, CE – differences in performance and outlook begin to roll-out to data-hungry investors who are sometimes reacting strongly to earnings reports, for example with Olin’s share price down -17.8% and Ingevity’s share price up 15.8% in trading on April 30th
  - Covestro’s earnings presentation depicted an interesting graph on their core volume development versus the prior year, continuing well into April, showing Chinese volumes recovering to pre-COVID levels, Europe on a strong upsurge and the US volume decline beginning to flatten
  - For large, well-covered Chemicals names, earnings (EBITDA) estimates for 2020 and 2021 have followed a steady decline since the beginning of the year, with 2021 showing a smaller decline. We will track this again at the end of May, when the quarterly earnings season has wrapped up and many US states will have begun their process of “opening” for business
- M&A continues at a slow pace overall, with strategies taking a more central role (DuBois / Altas-Cimcool, Huntsman-CVC Thermoset, Mitsubishi-Gelesta), but with private equity actively hunting

Market Perspectives

YTD % Change in EBITDA Estimates for Large Broadly Held Chemical Companies Index

<table>
<thead>
<tr>
<th></th>
<th>2020 Estimates Index</th>
<th>2021 Estimates Index</th>
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</thead>
<tbody>
<tr>
<td>Dec-19</td>
<td>(16.0%)</td>
<td>(12.0%)</td>
</tr>
<tr>
<td>Apr-19</td>
<td>(15.3%)</td>
<td>(33.5%)</td>
</tr>
<tr>
<td>Apr-20</td>
<td>(14.9%)</td>
<td>(11.5%)</td>
</tr>
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</table>

Share Price Performance by Sector

<table>
<thead>
<tr>
<th></th>
<th>10-Yr.</th>
<th>1-Yr.</th>
<th>3-Mon.</th>
<th>1-Mon.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialties</td>
<td>130.4%</td>
<td>(4.6%)</td>
<td>(6.5%)</td>
<td>10.9%</td>
</tr>
<tr>
<td>Commodities / Diversified</td>
<td>(15.3%)</td>
<td>(33.5%)</td>
<td>(20.1%)</td>
<td>14.1%</td>
</tr>
</tbody>
</table>

Enterprise Value / NTM EBITDA

<table>
<thead>
<tr>
<th></th>
<th>10-Yr. Avg</th>
<th>1-Yr. Avg</th>
<th>3-Mon. Avg</th>
<th>1-Mon. Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialties</td>
<td>10.3x</td>
<td>13.2x</td>
<td>12.7x</td>
<td>12.7x</td>
</tr>
<tr>
<td>Commodities / Diversified</td>
<td>6.8x</td>
<td>7.5x</td>
<td>7.3x</td>
<td>7.5x</td>
</tr>
</tbody>
</table>

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Sources:
- Capital IQ as of 4/30/2020
- Specialties Index: Nasdaq:AGFS, APO, ENXTPA:AKZA, ALB, AVG, AXTA, BCPC, CCMP, CBM:LSQE, CRDA, NYSE:CTVA, NYSE:DD, ECL, ESI, ENTG, FMC, GIVN, FUL, HUL, XTRA:HEN3, NGVT, IFF, ENXTPA:AI, LIN, LONN, NEU, PPG, KWR, RPM, SXT, SY1, SHW, GRA
- Large Broadly Held Chemical Companies Index: ENTG, CCMP, BAS, XTRA:EVK, ICNV, CLN, SY1, GIVN, SOLB, CRDA, FOE, FMC, JMAT, ENXTPA:DSM, LXS, MRK, GRA, ASH, ESI, ALB, IFF, CTVA, SHW, RPM, PPG, LIN, DD, DOV, POL, WLU, HUN, EMN, LBY, OLN, CE

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Modern Distribution Management’s quarterly survey has identified several key sentiments and themes among its over 600 respondents, including extended recovery times in the face of mounting competitive and economic pressure

- Mindsets amongst industry executives have begun shifting from expecting weeks-long impacts to many bracing for a couple years worth of recovery → one participant suggested “this will take two years to fully recover to previous levels”
- Competitive pressure is expected to rise dramatically as prices industry-wide will be dragged down by firms competing for market share to recoup losses, including the larger players that have a greater ability to withstand temporary dislocations
- Historically, distributors have been among recovery leaders and those who stay afloat early will be able to capitalize late into the recovery efforts
- Cash flow issues are on the raise as firms have largely began to draw down revolvers, strategically positioning for recovery by addressing the balance sheet rather than cutting costs, which is typically the preferred method in a normal downturn

Distribution stocks have bounced back greatly over the last four weeks but still remain significantly below all time highs seen in the first two months of the year

- Earnings estimates have dropped significantly throughout April as the impact of COVID-19 becomes more apparent on supply chains → estimates had been reduced by 12% industry-wide from March 1 st to April 1 st and have decreased another 22% since the beginning of April

Distribution Subsector Trading and EBITDA Estimate Perspectives

<table>
<thead>
<tr>
<th>Subsector</th>
<th>Trading</th>
<th>Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>67%</td>
<td>74%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Broadline / Industrial MRO</td>
<td>72%</td>
<td>49%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>37%</td>
<td>62%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Technology / Electrical / Electronics</td>
<td>66%</td>
<td>69%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Food / Foodservice</td>
<td>64%</td>
<td>164%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Chemicals</td>
<td>81%</td>
<td>67%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Vehicle Aftermarket</td>
<td>69%</td>
<td>48%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Building Products</td>
<td>60%</td>
<td>78%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
<tr>
<td>Other Specialty Distributors</td>
<td>87%</td>
<td>47%</td>
</tr>
<tr>
<td>% of High</td>
<td>% Above Low</td>
<td></td>
</tr>
<tr>
<td>3/1 to 4/1</td>
<td>4/1 to 4/30</td>
<td></td>
</tr>
</tbody>
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Diversified Industrials Market Update

Economic Impact

- Gross domestic product contracted at a seasonally adjusted annual rate of 4.8% in the first three months of 2020; this marked the first negative GDP reading since the 1.1% decline in the first quarter of 2014 and the lowest level since the 8.4% plunge in Q4 of 2008 during the worst of the financial crisis
  - IHS Markit now expects U.S. GDP to decline at a 37% annual rate from April to June, which would represent the biggest drop since quarterly records began in 1947
- Another 3.8 million workers filed for unemployment in the week ended April 25, bringing the total filings since late March to more than 30 million
- The Federal Reserve said it will keep its key short-term interest rate near zero for the foreseeable future as part of its extraordinary efforts to bolster an economy that is sinking into its worst crisis since the 1930s

Recent Themes

- Current demand environment points to a downturn in 2020; however, uncertainty around the severity and timeline to recovery has prompted some companies to provide a range of scenarios (e.g. mild, moderate and severe) outlining the potential effect to sales, margins and cash flows
- New orders for manufactured durable goods tumbled 14.4% last month, the second-largest drop ever, driven by a plunge in demand for transportation equipment such as auto parts as the coronavirus pandemic began to halt business and consumer activity
- From an end market perspective, names with exposure to safety, janitorial, food & beverage and defense have shown signs of stability; other markets, including aerospace, agriculture, auto, construction, retail and transportation, continue to soften

Recent Trading Performance

- Despite largely disappointing earnings results, equities have rallied and volatility has continued to decline (VIX is ~30 points) this week fueled by optimism on the reopening of the U.S. economy, progress on therapeutics to treat COVID-19 patients and sustained fiscal and monetary stimulus
- Overall diversified industrials sector valuation remains ~2.3x EV / LTM EBITDA below its YTD high of 14.0x on 2/12/2020
- ~65% of companies in our coverage universe have experienced a greater than 20% drop in their share price relative to their 52-week high price

Diversified Industrials EV / LTM EBITDA Trading Dashboard

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Diversified Industrials Team

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</table>

Sources: Barron’s, Wall Street Journal, Equity Research;
Note: Capital IQ market data as of 4/29/2020

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Metals & Mining Market Perspectives

- North American (‘NA’) steel producers continue to rationalize capacity (see table to the right)
  - Integrated producers (i.e., US Steel) facing marginal pricing pressure, are considering additional capacity cuts
- Last week, U.S. crude steel production declined 2.1% WoW, with mills producing 1.25 million tons at an average capacity utilization of 55.8%
- U.S. finished steel import volumes increased 16.1% MoM in March, driven by increased imports of OTCG products. Despite the MoM increase, imports were down 22.8% YoY amid a soft demand environment
- Aerospace suppliers remain cautious given uncertainty in an airline recovery and OE demand. Currently, major OEMs are expecting build-rates and engine production to begin a recovery in the 3Q of 2020, reaching normalized levels in 2021. OE demand is expected to rebound faster than MRO, following a 2019 peak in MRO demand on the grounding of the 737-Max
- U.S. aluminum pricing remains at historically low levels, with the Midwest premium hitting a 31-month low. Demand in the U.S. remains weak, which has kept spot activity thin. Despite some larger volume (i.e., Arconic) consumers returning to the market, many consumers are requesting contracted deliveries be pushed to later in 2020, driving a strong 3-month contango on the LME
- Strong copper unit demand from mills, has left copper scrap is in short supply globally. Major producers of virgin copper curtailed production in response weak pricing and the Covid-19 pandemic, has incentivizing many mills to increase their use of scrap. ‘Panic buying’ by mills and limited scrap processing / production is driving a global deficit in the copper scrap supply
- A shortage of ferrous scrap in key supply locations, drove a 21% increase in international scrap prices in the first two weeks of April. In the U.S. ferrous scrap pricing has remained soft on weak demand, pushing volumes to the export market and leaving many dealers on the sidelines

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**Sources:** Capital IQ, American Metal Market; Note: Market data as of close 4/29/2020

1 Includes capacity curtailments announced, but not yet idled
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
Paper and Packaging Market Perspectives

- U.S. plastics production will drop 10-12% this year according to the Plastics Industry Association
  - 2020 production volume will fall by 10.2% for plastics, 9.8% for resins, 12.2% for machinery, and 11.2% for mold making companies
- RISI’s contacts expect North American coated printing and writing paper demand to be down 50% sequentially in April
- Domtar will idle operations in its Hawesville KY, mill on May 5th, temporarily laying off 400 people. The H1 machine will restart in June and the H2 machine will restart in July. This will reduce uncoated freesheet paper production by 83,000 short tons.
- Cimpress amended its credit agreement to suspend covenants until December 2021 and increase pricing to LIBOR+3.25%. It also raised $300 million from Apollo in 5-year notes at 12% (50% PIK) plus warrants to purchase 3.9% of Cimpress’ shares.
- International Paper reported earnings: Sales were down 5% to $5.4 billion; Business Segment EBIT was down 15% to $512 million
- Avery Dennison reported earnings: Sales were down 1% to $1.7 billion; Adj. EBIT was up 8% to $204 million
- Packaging Corp. of America reported earnings: Sales were down 1% to $1.7 billion; Adj. EBITDA was down 16% to $311 million
  - Packaging sales were flat at $1.5 billion; Adj. EBITDA was down 13% to $290 million
  - Paper sales were down 9% to $217 million; Adj. EBITDA was down 29% to $33 million
  - Will close its corrugated products production facility in San Lorenzo, CA in June. Majority of equipment will be transferred to other facilities, and 20% of the customer business will be absorbed into other PCA plants. The closure will require $14-18 million in cash costs for severance and $9-13 million in non-cash asset impairment and accelerated depreciation charges.
- O-I Glass reported earnings: Sales were down 5% to $1.6 billion; EPS was down 37% to $0.32
  - O-I suspended its dividend; halted the strategic review of its Australia / New Zealand business; temporarily cut certain executive salaries and Board fees by up to 25%; and will temporarily defer up to 15% of other salaried employees’ base pay in 2020.
- R.R. Donnelley reported earnings: Sales were down 7% to $1.4 billion; Adj. EBITDA was up 19% to $100 million
- Resolute Forest Products reported earnings: Sales were down 13% to $689 million; Adj. EBITDA was down 69% to $32 million
- TriMas reported earnings: Packaging sales were up 13% to $100 million; Adj. EBIT was flat at $18 million

Public Company Stock Performance Since February 21

Public Company Trading Performance Since February 21

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<th>Email</th>
<th>Phone</th>
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Building Products Market Perspectives

- Just over 3 million people filed jobless claims last week, bringing the coronavirus total to ~33 million and effectively erasing every job added in the past decade
- States that initially halted construction in early March due to the coronavirus pandemic are gradually allowing contractors to return to job sites, however their return has been met by stagnant demand
  - The American Institute of Architects’ monthly billing index, which gauges market sentiment in the construction industry, fell to its lowest level ever, surpassing the low’s from the 2008 financial crisis
  - In a recent survey conducted by the Association of Equipment Manufacturers, over 90% of respondents reported a drop in new orders as a result of the COVID crisis
- The U.S. corporate bond market saw $162.7 billion in issuances during the month of April, the second highest monthly amount ever recorded, as companies seek increased liquidity to ride out the remainder of the coronavirus downturn
  - Homebuilder D.R. Horton joined the flux of debt offerings, launching a $500.0 million tender priced at T+225 and due October 2025
  - JELD-WEN also fortified their balance sheet, placing $250.0 million senior secured notes at 6.25% which mature in May 2025
- As building product names continue to report, companies utilize earnings calls to update investors on actions being taken to alleviate the impact of coronavirus
  - Martin Marietta reported earnings: Net Sales increased 1.9% to $958.2 million; Adj. EBITDA fell 5.8% to $149.0 million
  - Huttig Building Products reported earnings: Net Sales rose 2.8% to $203.0 million; Adj. EBITDA grew to $3.5 million from ($0.3 million)
  - Louisiana-Pacific reported earnings: Net Sales increased 0.5% to $585.0 million; Adj. EBITDA grew 43.0% to $83.0 million
  - Gibraltar Industries reported earnings: Net Sales grew 9.7% to $249.4 million; Net Income grew 92.1% to $121.0 million

Public Company Stock Performance Since February 21

Public Company Trading Performance Since February 21

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Sources: AEM, Company Filings, NAHB, NAR, NIA, Wall Street Research
Note: Market data as of 5/6/2020

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Chemicals and Materials Market Perspectives

- The Chemicals indexes were up for the third consecutive week, with Specialties up 3.2% and Commodities / Diversified up 2.1%
  - With exceptions of earnings surprises, trading volatility continues to subside as the market adjusts to the new COVID-normal outlook
  - Year-to-date, Specialties are down -11.3% and Commodities / Diversifieds are down -31.6%, with the S&P down -11.8% comparatively
  - Multiples in both Specialties and Commodities / Diversifieds have expanded as share prices have risen, but also as forward estimates begin to reflect new COVID-related earnings forecasts
- Companies reporting this week included: AKE, ALB, ASH, AXTA, CTVA, DD, EMN, FMC, HON, HUN, LYB, SOLB, TROX, VNTR, WLK
  - For 2Q outlooks, positive / resilient end-market exposures include: consumer packaging, home & personal care, medical, water / filtration and food & beverage, while weak end-market exposures include: automotive, aerospace, industrial / durable good manufacturing, oil & gas and construction. Agricultural chemicals and electronics end markets had varying projections
  - US and European ethylene operating rates are projected to be upper-70's to low-80's in Q2 with PVC ten points behind that. Low oil / naphtha prices continue to weigh on NA gas-based cracking exports.
  - Some companies are calling for an Industrial / Automotive production initial recovery beginning in late May and construction in mid-summer
  - M&A continues at a slow pace overall, with strategies continuing to play a central role and with private equity actively hunting
  - HY markets continue to strengthen, including a strong showing by POL, and the first, early-hints of a Term Loan re-opening begin to show

Trading Perspectives by Sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>10-Yr. Avg</th>
<th>1-Yr. Avg</th>
<th>3-Mon. Avg</th>
<th>1-Mon. Avg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialties</td>
<td>10.3x</td>
<td>13.3x</td>
<td>12.7x</td>
<td>13.2x</td>
</tr>
<tr>
<td>Commodities / Diversified</td>
<td>6.8x</td>
<td>7.5x</td>
<td>7.3x</td>
<td>7.7x</td>
</tr>
</tbody>
</table>

Asset Class Comparison

- Specialties: 10.3x vs 6.8x
- Commodities / Diversified: 7.5x vs 7.3x

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Distribution Market Perspectives

- As customer needs have changed over the last two months, industrial distributors have seen a significant shift in product mix
  - Personal protective equipment (PPE) and safety products, which had once only made up a small percentage of many distributors’ product portfolios, is now driving the majority of sales
  - As shipments of PPE and jan-san supplies flourish, worries of inventory shortages remain top of mind
  - In some cases, industrial distributors have received decades worth of demand for these products in only a few days
- With industrial distributors beginning to report first quarter earnings for 2020, companies that have been able to adapt to the current economic challenges have come out on top
  - Fastenal, which primarily distributes industrial and construction supplies, reported a 4.4% YoY increase in Q1 sales
  - Grainger reported a 7.2% increase in sales through Q1, primarily due to an increase in safety and cleaning supplies, while most other product categories were down
  - MSC Industrial’s sales decreased 4.5% YoY, dropping off through March as customer shutdowns became more widespread, however
- The U.S. PMI Index fell an additional 7.6 points from March to April, falling to 41.5, representing the lowest point since 2020
- April trucking demand decreased 32% YoY with spot rates for flatbed falling 17%, reefer down 10% and van falling 9% → freight demand is expected to continue weakening over the coming weeks
- Industrial distribution equities and trading multiples finished the month of April up meaningfully, in many cases reversing m

Public Company 30-Day Stock Performance

(Indexed to 0.0%)

1-Mo. 1-Wk. 1-Yr.
16% (2%) (6%)
15% 2% 16%
14% (2%) (8%)
13% (0%) (11%)
11% 3% (3%)
11% (6%) (64%)
10% (8%) (32%)
9% (2%) (28%)
8% (1%) 0%

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Sources: MDM, Supply Chain Dive, ISM, KeyBanc Capital Markets

1Leverage = Index Average Net Debt / NTM EBITDA
Note: Market Data as of 5/7/2020; BL / Ind MRO: AIT, BOSN, FAST, GWW, HDS, LAWS, MSM, PKOH, SYX; O&G: DXPE, MRC, DNOW; Tech / E / E: ARW, AVT, BDC, ECM, HWCC, RXL, TXN, WCC; Food / Foodservice: BSN, CHEF, CORE, PFGE, SYI, UNFI, USFD; Chem: BNR, DKS, IMCD, UNVR; Vehicle: AAP, AZO, DORM, GPC, LG, MPAA, ORLY, SMP, UNV; BP; BECN, BMCH, BLDR, BXS, FERG, FSM, GMS, HSI, RCH; Other: POOL, SITE, WSO

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Diversified Industrials Market Update
Diversified Industrials Sector First Quarter Earnings Themes

Capital Goods

“Since mid-March, we’ve seen significant deceleration in demand. April month-to-date sales orders have trended in the low 40% range, primarily due to customer closures.”

“Our products are likely to be negatively impacted due to a combination of the recessionary impact on nonresidential construction activity, the expected further deferral of telecom capital spending, the dramatic decline in oil prices leading to lower rental equipment utilization rates, and an overall sharp decline in macroeconomic activity internationally.”

Engineered Components

“In lieu of guidance, we looked at mild, moderate and severe scenarios that factor in a range of revenue declines over a 12-month period and what actions we would take to ensure we continue operations, manage depletions, continue to pay our dividend and strengthen our ability to recover fast.”

“[Our] 4-phased approach to navigate through the pandemic: (1) is focused on health & safety, (2) centers on business stability and progression, (3) is focused on process improvement based on the learnings from previous phases and (4) the post pandemic period, where we’ll adapt a new normal.”

Construction Machinery

“We are working through a number of operational challenges related to the pandemic and have suspended operations at certain facilities due to a combination of supply chain issues, weak customer demand and government regulations.”

“We have implemented a comprehensive cost reduction program that includes salary reductions, temporarily suspending manufacturing operations to align with customer demand and partnering with suppliers to [receive] only what is needed to support current production schedules.”

Food Equipment

“We’re aware that there will be a reduction in the number of restaurants post-crisis and an increased level of used equipment that could impact the demand for new equipment for a period of time.”

“We expect some pressure on capital investment with our customers in this period of uncertainty... and that’s really more to do with equipment orders being delayed and projects being pushed out as our customers work to understand these changes in demand. Certainly, food is very durable, as we’ve always talked about.”

Large Cap Diversifieds

“We’re seeing solid demand continue across our health care, medical and defense markets... Our most challenged markets is commercial aerospace and oil & gas.”

“We’re planning for an L type of recovery here, where [the] horizontal side is going to have some variation and a variation that is not known at this point.”

“Industrial automation and vehicle aftermarket as well as industrial winch markets have slowed and continued trending weaker with material deceleration in March after [a] positive January and February.”

Power Transmission

“In the beginning of March, we were experiencing a modest revenue and production impact in Italy. By the last week of March, our revenue in Europe was down by over 50%. The global automotive and truck industries were essentially shut down.”

“Our global manufacturing operations are mostly operational. We currently have some plant closures or plants running at reduced rates in India and Mexico, but we are actively working to get our capacity back up to 100%.”

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Sources: Freedonia Market Research, Equity Research;
Note: Capital IQ market data as of 5/6/2020

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Industrial & Business Services Market Perspectives

As planning in most states turns to strategy around reopening, many Industrial & Business Services companies are in high demand as companies rush to comply with new health and safety guidelines that need to be met before businesses are cleared to open. These new requirements range from enhanced cleaning and sanitation standards to facility enhancements, such as plexiglass dividers and hand washing stations or total floorplan redesigns to meet social distancing recommendations.

- Construction put-in-place spending in March was surprisingly resilient → spending increased ~1% month-over-month, indicating that the essential nature of construction has helped it perform better than most sectors during the shutdown
  - Increases in home improvement and public infrastructure spending were the driving forces of the overall increase → in particular, highway and street construction have increased during the shutdown as transportation departments have accelerated these projects to capitalize on the reduced traffic
- Even as regular waste collection continues, cost cutting by municipalities and commercial and industrial buildings have negatively affected the industry through the temporary suspension of specialty collections
  - Services such as curbside recycling, yard waste and bulk item collection have been suspended in many states
  - Despite disruptions in the industry, M&A activity is continuing → Waste Management noted that it is continuing to make progress towards closing the acquisition of Advanced Disposal and Republic Services and that its deal pipeline remains strong and active
- As video surveillance companies look to recover revenue lost due to the shutdown, demand for temperature detection capabilities has increased dramatically as facility owners and managers prepare to reopen
  - “Fever cameras,” which detect elevated body temperature with thermal imaging have been deployed at some essential facilities
- According to a HR trend study from Gartner, staffing firms may play a greater role in the post-COVID economy as more employers move to contingent workforces for improved cost-savings and workforce flexibility

Industrial & Business Services Subsector Median Trading Multiples

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<table>
<thead>
<tr>
<th>Steve Hughes</th>
<th>Jeff Johnston</th>
<th>Ed Hertz</th>
<th>Steve Meehan</th>
<th>Luke Korney</th>
<th>Trent Glasser</th>
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<td>Managing Director, I&amp;Bs</td>
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<td>Associate, I&amp;Bs</td>
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<td>Analyst, I&amp;Bs</td>
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<td><a href="mailto:luke.korney@key.com">luke.korney@key.com</a></td>
<td><a href="mailto:trent.glasser@key.com">trent.glasser@key.com</a></td>
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</table>

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Industrial Investment Banking Weekly Round-Up
Metals & Mining
Week Ending May 8th, 2020

Metals & Mining Market Perspectives

- Curtailments of North American (‘NA’) steel production capacity have slowed (see table to the right), amid a recovering price environment (see chart in the lower right)
  - HRC pricing hikes have been pushed down to mitigate the effects of decreased demand and an expected recovery in iron unit pricing
  - As automotive plants come back online, reduced capacity may limit mill’s ability to supply value-added (i.e., CRC, coated and galvanized) products to non-auto buyers
- U.S. crude steel production declined sharply last week, dropping 8.5% WoW, with mills producing 1.14 million tons at an average capacity utilization of 51.1%, the lowest production levels since June 2009
- Aerospace OEMs are expecting a strong rebound in production starting in 2021 and have begun inking new supply agreements. ATI recently announced a supply agreement with a major aerospace OEM, with volumes shipping in late 2020
- Primary aluminum pricing remains weak on soft demand. However, aluminum’s 3-month contango of ~$15 / tonne on the LME is indicative of the anticipated pricing recovery in 2020. China’s recent curtalsments to smelting capacity will further support a pricing recovery, but the outlook for downstream demand in the U.S. is mixed. Novelis has extended Aleris’ production outages, while Arconic has restarted key casting and rolling operations supplying the automotive market
- Copper cathode premiums in the U.S. are stable, but remain at historically low levels despite a shortage of copper scrap. The lack of a cathode pricing rebound amid a scrap shortage highlights the magnitude of implied demand destruction from Covid-19
- U.S. non-ferrous scrap exports volumes increased 7.5% MoM in March, down 4.5% YoY for the 1Q of 2020. Month-over-month increases were primarily driven by strong growth in Chinese consumption of U.S. non-ferrous scrap. Copper and aluminum exports to China were up 58.6% and 19.0%, respectively

2020 YTD Metals Sector Equities Index Performance 2

<table>
<thead>
<tr>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
<th>Apr-20</th>
<th>May-20</th>
</tr>
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<tr>
<td>(70.0%)</td>
<td>(50.0%)</td>
<td>(44.4%)</td>
<td>(33.3%)</td>
<td>(28.8%)</td>
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2020 YTD Pricing Performance 3

<table>
<thead>
<tr>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
<th>Apr-20</th>
<th>May-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>(30.0%)</td>
<td>(10.0%)</td>
<td>(0.0%)</td>
<td>(0.0%)</td>
<td>(30.0%)</td>
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</tbody>
</table>
| 1 Includes capacity curtailments announced, but not yet idled
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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Sources: Capital IQ, American Metal Market; Note: Market data as of close 5/6/2020


Recently Idled U.S. Mill Operations

<table>
<thead>
<tr>
<th>Steel</th>
<th>Associate, Metals &amp; Mining</th>
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<tr>
<td>AK Steel (Cliffs)</td>
<td>All operations in Dearborn, MI</td>
</tr>
<tr>
<td>ArcelorMittal</td>
<td>Cleveland, Blast Furnace No. 6</td>
</tr>
<tr>
<td></td>
<td>Dofasco, Blast Furnace No. 3</td>
</tr>
<tr>
<td>Iasco</td>
<td>Rolling mill in L’Original, Ontario</td>
</tr>
<tr>
<td>JSW Steel</td>
<td>EAF and mill in Mingo Junction, OH</td>
</tr>
<tr>
<td>Liberty Steel</td>
<td>Wire rod mill in Georgetown, SC</td>
</tr>
<tr>
<td>NLMK</td>
<td>EAF and mill in Portage, IN</td>
</tr>
<tr>
<td>Tenaris</td>
<td>Billet Mill in Koppel, PA</td>
</tr>
<tr>
<td></td>
<td>Tubular operations in Ambridge, PA</td>
</tr>
<tr>
<td>U.S. Steel</td>
<td>Granite City, Blast Furnace A</td>
</tr>
<tr>
<td></td>
<td>Gary Works, Blast Furnace No. 4</td>
</tr>
<tr>
<td></td>
<td>Gary Works, Blast Furnace No. 6</td>
</tr>
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<td></td>
<td>Gary Works, Blast Furnace No. 8</td>
</tr>
<tr>
<td>Stelco</td>
<td>Lake Erie Works, Blast Furnace</td>
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</tbody>
</table>

Select Global Producers:
ENXTAM:MT; BOVESPA:CSNA3; BOVESPA:GGBR3; AMEX:SIM; LSE:SVST; OM:SSAB A; 500470; XTRA:TKA

Domestic Producers:
CMC; NUE; STLD; X

Service Centers / Processors:
ZEUS; RS; TSX:RUS; RYI; WOR

Scrap Recyclers:
DB:ABA; SCHN; ASX:SGM

Specialty Metals & Alloys:
ATI; CRS; HAYN; KALU; MTRN; USAP
Paper and Packaging Market Perspectives

- According to RISI, U.S. old corrugated container (OCC) prices surged by $33/ton in May to $104/ton, 5x from $22/ton in Dec.
- WestRock reported quarterly results: Sales fell 4% to $4.4 billion; Adj. EBITDA fell 6% to $708 million
  - WestRock will increase its cash flow by $1 billion by end of FY2021 by cutting its annual dividend by 57%; cutting its FY2020 capital expenditures by $150 million to $950 million; cutting 2021 capital expenditures to $600-$800 million; deferring payroll taxes by $120 million; and paying FY2020 incentives and 401(k) contributions in stock in lieu of cash, thereby reducing cash outflow by $100 million
- Berry reported quarterly results: Sales increased 53% to $3.0 billion; Adj. EBITDA increased 52% to $539 million
  - Results were aided by the acquisition of RPC Group, which closed in July 2019
- Ball Corp. reported quarterly results: Sales were flat at $2.8 billion; EPS was down 80% to $0.07
- Sealed Air reported quarterly results: Sales were up 6% to $1.2 billion; Adj. EBITDA was up 17% to $253 million
- Quad/Graphics reported quarterly results: Sales fell 14% to $823 million; Adj. EBITDA fell 4% to $75 million
- Reynolds Consumer Products reported results: Sales were up 10% to $730 million; Adj. EBITDA was up 4% to $135 million
- Aptar reported quarterly results: Sales fell 3% to $722 million; Adj. EBITDA fell 7% to $144 million
- Cimpress reported quarterly results: Sales went down 10% to $598 million; Adj. EBITDA was down 20% to $89 million
- Clearwater Paper reported quarterly results: Sales went up 11% to $478 million; Adj. EBITDA was up 39% to $55 million
- Mercer reported quarterly results: Sales fell 28% to $351 million; Adj. EBITDA fell 54% to $57 million
- P. H. Glatfelter reported quarterly results: Sales went up 1% to $232 million; EPS went up 42% to $0.17
- Winpak reported quarterly results: Sales fell 5% to $214 million; Adj. EBITDA fell 14% to $42 million
- Richards Packaging reported quarterly results: Sales went up 33% to $109 million; Adj. EBITDA went up 64% to $19 million
- UFP Technologies reported quarterly results: Sales went up 2% to $48 million; EPS went up 4% to $0.52

Public Company Stock Performance Since February 21

Public Company Trading Performance Since February 21

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Building Products Market Perspectives

- Just under 3 million people filed for unemployment claims this week, marking the seventh straight week of declining weekly claims and bringing the total amount of applications for unemployment benefits in the past two months to ~37 million.
- The influx of stimulus dollars entering the economy are expected to fuel home improvement related expenditures, driven by limited experiential opportunities amidst stay at home orders as well as consumers’ new “Home Sweet Home” mentality.
- April typically marks the start to a robust spring homebuying season, however the coronavirus pandemic has halted the market causing new listings in April to drop 45% year over year.
  - The drop in new listings paired with a strong trend of sellers taking homes off the market led to an all time low for housing inventories in April, which were down 189,000 from the prior year and a 15.3% decline in total home sales compared to last year.
- The Federal Reserve began buying corporate bond funds for the first time ever on Tuesday and continued to encourage corporations to accelerate their debt binge in the hopes of leveraging up to survive the pandemic, despite a decade-high amount of bankruptcies filings in April, rising debt costs and historically low coverage ratios.
  - Vulcan Materials issued debt this week, completing an upsized $750 million offering due June 1, 2030 priced at T+300
  - Owens Corning placed $300 million senior notes, due June 1, 2030 priced at T+325, which the company plans to retain as balance sheet cash to enhance liquidity.
  - Mohawk Industries printed a $500 million offering of senior notes due May 15, 2030 priced at T+300, which will be used to refinance their existing $500 million credit facility that matures April 6, 2021.
- Boise Cascade reported earnings: Sales were up 12% to $1.2 billion; Adj. EBITDA rose 46% to $59.6 million. The company announced they would be lowering production and curtailing or reducing facility operations in response to the pandemic.

Public Company Stock Performance Since February 21

Graph showing stock performance with Indexed to 0%.

Public Company Trading Performance Since February 21

Graph showing trading performance with Enterprise Value / Next-Twelve-Months EBITDA.

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Sources: Company Filings, NAHB, NAR, Wall Street Research.

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Chemicals and Materials Market Perspectives

- The Chemicals indexes largely moved sideways this week, breaking a three-week up-streak with Specialties down -0.1% and Commodities / Diversifieds down -2.1%
  - Trading appears to be absorbing the 1Q Earnings releases in-stripe, with volatility continuing to subside and the market accepting the new COVID-normal weak Q2 / Q3 guidance or lack of earnings guidance overall
  - As most 2020E Earnings outlooks have been updated, the change in share prices are again correlating to similar movement in multiples
- Companies reporting this week included: FOE, IFF, LTHM, TSE and UNVR
  - Like many companies, TSE exemplified weak 2Q guidance, including:
    - Performance Plastics 50% lower to automotive applications, 20% lower to others
    - Synthetic Rubber: 50% lower
    - Latex Binders: 20% lower mainly from textile applications
    - Lower naphtha prices were helping the cost-positions of TSE European plants
- M&A continues to be weak, but LBO’s may be seeing early glimmers of hope, including some parties looking to take advantage of the returning depth in HY to consider HY-only leverage structures

Trading Perspectives by Sector

<table>
<thead>
<tr>
<th>Share Price Performance by Sector</th>
<th>Enterprise Value / NTM EBITDA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specialties</td>
<td>10.3x</td>
</tr>
<tr>
<td>Commodities / Diversified</td>
<td>6.8x</td>
</tr>
</tbody>
</table>

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**Sources:** Capital IQ as of 5/14/2020

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On May 13th, the World Health Organization warned against predicting the length of time the virus may remain active, stating that the virus could become endemic similar to HIV

- At this time, over 100 potential vaccines are currently being developed with several in clinical trials
- With the possibility of an endemic scenario, distributors are inline to be a critical cog in jump starting the U.S. economy during the “next normal”
- Approximately 30% of annual U.S. GDP has historically run through distributors, creating the opportunity for the industry to be the pivot point where economic activity returns to normal levels
- According to a PwC survey of over 280 companies, CFOs are becoming increasingly focused on the role of automation in supply chains as the economy exits the initial shock of the pandemic
- Of those surveyed, 72% of CFOs expect their firms to begin developing automation more heavily in response to COVID-19 → many companies lost response time and were forced to make underinformed decisions as a result of a lack of data
- As a critical link in the supply chain, distributors will play a key role helping automate and streamline supply chains for their customers and partners
- Industrial distribution equities and trading multiples saw a slight dip over the last week but have continued to perform well over the 30-day period
- MSC Industrial reported a YoY decrease of 10.5% in average daily sales for April 2020 → while sales decreased, bookings increased at a double digit pace YoY for the second consecutive month due to heightened demand for safety and janitorial orders that were hampered by increased lead times and scarcity (currently trading at 74% of 52-week high)
- Fastenal reported a YoY increase of 6.7% in average daily sales for April 2020 → increase was driven by safety products, increasing YoY 120% while fasteners and other product lines fell YoY by 23% and 10%, respectively (currently trading at 96% of 52-week high)
**Diversified Industrials Market Update**

**Economic Impact**
- The U.S. reported a record $738 billion budget deficit in April from the enormous government spending and shrinking revenues amid the novel COVID-19 pandemic; the previous record budget deficit for any month was $235 billion in February 2020.
- The U.S. economy lost 20.5 million jobs in April; the unemployment rate soared to 14.7%.
- Federal Reserve Chair Jerome Powell, in a sober review of where the U.S. economy stands on the cusp of its reopening, warned on Wednesday of an "extended period" of weak growth and stagnant income; he pledged to use more of the central bank’s power as needed and issued a call for additional fiscal spending.
- House Speaker Nancy Pelosi unveiled a proposal for the next phase of coronavirus relief legislation on Tuesday; the $3 trillion bill includes $1 trillion for states and local governments, $200 billion for hazard pay to at risk workers, $75 billion for testing and contact tracing and a second round of direct payments to households.

**Recent Themes**
- Manufacturing activity declined in April as demand contracted heavily, with the (1) New Orders Index contracting significantly, again pushed by new export order contraction, (2) Customers’ Inventories Index approaching a level that is considered a negative for future production, and (3) Backlog of Orders Index also contracting, in spite of a lack of production during the period.
- Nearly two-thirds of North American manufacturers say they are likely to bring production and sourcing back to the continent, according to a new survey of over 1,000 of the continent’s manufacturing and industrial suppliers; existing manufacturing hubs like Pennsylvania, Wisconsin and Texas were named as the most likely reshoring destinations.

**Recent Trading Performance**
- Following a sustained rally, equity markets sold off this week in the wake of largely disappointing quarterly earnings and a dovetail speech from the Federal Reserve Chair Jerome Powell; however, optimism on the reopening of the U.S. economy, progress on therapies to treat COVID-19 patients, the development of a potential vaccine, and sustained fiscal and monetary stimulus have continued to offer support to the market.
- Overall diversified industrials sector valuation remains ~3.5x EV / LTM EBITDA below its YTD high of 14.0x on 2/12/2020; ~73% of companies in our coverage universe have experienced a greater than 30% drop in their share price relative to their 52-week high price.

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>1-Month Avg.</th>
<th>Δ vs. 1-Month</th>
<th>YTD Avg.</th>
<th>Δ vs. YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Technology</td>
<td>15.8x</td>
<td>15.9x</td>
<td>(0.2x)</td>
<td>16.4x</td>
<td>(0.6x)</td>
</tr>
<tr>
<td>Food Equipment</td>
<td>12.7x</td>
<td>12.9x</td>
<td>(0.2x)</td>
<td>14.0x</td>
<td>(1.3x)</td>
</tr>
<tr>
<td>Flow Control / Water</td>
<td>12.0x</td>
<td>12.5x</td>
<td>(0.5x)</td>
<td>13.8x</td>
<td>(1.8x)</td>
</tr>
<tr>
<td>Large Cap Diversifieds</td>
<td>10.6x</td>
<td>11.2x</td>
<td>(0.6x)</td>
<td>12.6x</td>
<td>(2.0x)</td>
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<tr>
<td>Diversified Index</td>
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<td>11.0x</td>
<td>(0.5x)</td>
<td>12.0x</td>
<td>(1.5x)</td>
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<tr>
<td>Construction</td>
<td>10.1x</td>
<td>10.4x</td>
<td>(0.3x)</td>
<td>10.9x</td>
<td>(0.8x)</td>
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<td>Capital Goods</td>
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<td>10.1x</td>
<td>(0.2x)</td>
<td>11.7x</td>
<td>(1.8x)</td>
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<tr>
<td>Engineered Components</td>
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<td>8.9x</td>
<td>(0.8x)</td>
<td>9.7x</td>
<td>(1.7x)</td>
</tr>
<tr>
<td>Power Transmission</td>
<td>7.5x</td>
<td>7.4x</td>
<td>0.1x</td>
<td>8.1x</td>
<td>(0.6x)</td>
</tr>
</tbody>
</table>

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**Diversified Industrials Team**

<table>
<thead>
<tr>
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<th>Email</th>
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</thead>
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</tr>
</tbody>
</table>

**Sources:** Institute for Supply Management (ISM), Reuters, Wall Street Journal, Wall Street Research.

**Note:** Capital IQ market data as of 5/13/2020; PMI: Readings above 50 indicate activity is expanding across the manufacturing sector, whereas below 50 signal contraction.

**Capital Goods:** CF, 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, YLI; **Food Equipment:** ITW, JB, SJ, MIDD, WBT; **Industrial Technology:** CTS, GGG, IEX, LPUS, NSDN; **Large Cap Diversifieds:** AEM, DOV, EMR, ETN, HON, ITW, JCI, PH; **Power Transmission:** AEmc, BRC, RXN, TRS; **Diversified Index:** Average of all indices.

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Industrial Investment Banking Weekly Round-Up
Industrial & Business Services
Week Ending May 15th, 2020

Industrial & Business Services Market Perspectives

Most states across the country have turned their attention to plans for reopening and many states have already begun to lift restrictions. Most Industrial & Business Services companies were deemed essential services during the shutdown. However, for those that had restructured operations, nearly every state’s plan includes these companies in their earliest waves of reopening. In addition, the federal government has begun discussions around a new round of stimulus, which is expected to include fiscal aid to state and local governments as well as highway and mass transit funding, which could help boost infrastructure spending in 2020.

- Virtually every state has allowed at least some construction to return with varying social distancing and safety protocols in place. While the industry reported just under one million jobs lost in April, many analyst expect nearly all of those to return before summer.
- Industries like construction, where social distancing is easier to maintain, are poised to make the fastest recovery.
- The largest waste collection companies all noted considerable volume declines during the month of April, but most believe that the worst has passed and volumes are in the midst of gradual return.
- While residential waste collection volumes are well above normal, the nature of these contracts makes it difficult for waste collection companies to benefit financially from the shift to more than 75% of these collections are completed on a subscription basis.
- Security companies have begun to develop and market “return to workplace” programs to safeguard the health and safety of workers returning to commercial and industrial buildings.
  - These programs include touchless controls, integrated health screenings, contact tracing and social distancing and personal protective equipment compliance reminders.
- In rental services, heavy equipment rental has persevered through the COVID-19 slowdown much better than soft goods rental such as furniture, uniforms, linen and laundry.
  - Companies serving hospitality and event industries believe it could be many months before volumes return to some level of normalcy.

Industrial & Business Services Subsector Median Trading Multiples

<table>
<thead>
<tr>
<th>Field Services</th>
<th>Construction Services</th>
<th>Engineering &amp; Consulting</th>
<th>Waste &amp; Environmental</th>
<th>Staffing / Training / Security</th>
<th>Rental Services</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>9.1x</td>
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<td>4.9x</td>
<td>11.7x</td>
<td>11.2x</td>
<td></td>
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<tr>
<td>10.0x</td>
<td>7.4x</td>
<td>13.1x</td>
<td>13.6x</td>
<td>11.6x</td>
<td></td>
</tr>
<tr>
<td>6.9x</td>
<td>4.9x</td>
<td>12.0x</td>
<td>9.1x</td>
<td>8.7x</td>
<td></td>
</tr>
<tr>
<td>6.5x</td>
<td>5.8x</td>
<td>12.0x</td>
<td>10.0x</td>
<td>8.3x</td>
<td></td>
</tr>
</tbody>
</table>

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Metals & Mining Market Perspectives

- Curtailments of North American (‘NA’) steel production capacity have slowed (see table to the right), amid a recovering price environment (see chart in the lower right)
  - Sheet demand is returning slowly as automotive plants begin to restart, or resume operations on an ‘as needed’ basis
  - Demand from the energy sector has been particularly hard hit as the U.S. rig count has dropped 62.1% YoY to 374 rigs, the lowest level on record
- U.S. crude steel production rebounded sharply last week, spiking 5.2% WoW, with mills producing 1.2 million tons at an average capacity utilization of 53.7%. YTD production was down 35.9% YoY
- Stainless steel producers have cut production in response to lower overall demand, which has kept base prices for stainless relatively stable. Recent price declines have largely been attributable to a decline in surcharges, stemming from lower nickel, iron ore and molybdenum pricing
- Aluminum premiums in the U.S. were largely unchanged WoW, despite automotive demand returning to the market. Premiums and spot activity are expected to lag demand, until significant slack (i.e., consumer inventory) is removed from the supply chain.
- U.S. copper cathode premiums are trading close to two year lows on weak consumer demand and largely absent spot demand. In recent weeks, the absence of meaningful consumer demand has become increasingly apparent, as the tightening supply of high-grade copper scrap has failed to bolster the copper cathode premiums
- The scarcity of ferrous scrap in the U.S. continues to bode well for scrap pricing. Mill demand is driving pricing, but flows remain anemic as dealers hold inventories and wait out a meaningful price recovery. Independent of a major decrease in steel prices, market liquidity and pricing are expected to improve through June

2020 YTD Metals Sector Equities Index Performance 2

<table>
<thead>
<tr>
<th>Month</th>
<th>Select Global Producers</th>
<th>Domestic Producers</th>
<th>Scrap Recyclers</th>
</tr>
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<tbody>
<tr>
<td>Jan-20</td>
<td>(7.0%)</td>
<td>(5.0%)</td>
<td>(3.8%)</td>
</tr>
<tr>
<td>Feb-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(5.9%)</td>
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<tr>
<td>Mar-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
</tr>
<tr>
<td>Apr-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
</tr>
<tr>
<td>May-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
</tr>
</tbody>
</table>

2020 YTD Pricing Performance 3

<table>
<thead>
<tr>
<th>Month</th>
<th>Aluminum</th>
<th>Copper</th>
<th>Nickel</th>
<th>Steel (HRC)</th>
<th>Zinc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-20</td>
<td>(7.0%)</td>
<td>(5.0%)</td>
<td>(3.8%)</td>
<td>(2.0%)</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>Feb-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(5.9%)</td>
<td>(2.0%)</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>Mar-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
<td>(2.0%)</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>Apr-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
<td>(2.0%)</td>
<td>(0.0%)</td>
</tr>
<tr>
<td>May-20</td>
<td>(10.0%)</td>
<td>(8.0%)</td>
<td>(6.0%)</td>
<td>(2.0%)</td>
<td>(0.0%)</td>
</tr>
</tbody>
</table>

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Sources: Capital IQ, American Metal Market; Note: Market data as of close 5/13/2020

1 Includes capacity curtailments announced, but not yet idled


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
Paper and Packaging Market Perspectives

- North American uncoated freesheet shipments fell 33% in April according to The Pulp and Paper Products Council
  - Shipments are down 12% year-to-date
- Georgia-Pacific will shut its 900,000 tons/year Toledo, OR, containerboard mill for a week or longer due to lack of demand
- Amcor reported earnings: Sales increased 36% to $3.1 billion; Adj. EBIT increased 56% to $360 million
  - Results were aided by the acquisition of Bemis in June 2019
- Reynolds Group Holdings reported earnings: Sales declined 5% to $1.37 billion; Adj. EBITDA declined 1% to $264 million
- Domtar reported earnings: Sales declined 7% to $1.3 billion; Adj. EBITDA declined 53% to $95 million
  - Domtar suspended dividend and stock repurchase program
- CCL Industries reported earnings; Sales declined 3% to CAD 1.3 billion; Adj. EBITDA increased 2% to CAD 275 million
- Deluxe Corp. reported earnings; Sales declined 3% to $486 million; Adj. EBITDA declined 27% to $83 million
- Verso reported earnings; Sales declined 26% to $471 million; Adj. EBITDA declined 49% to $35 million
- Intertape Polymer reported earnings; Sales were flat at $279 million; Adj. EBITDA declined 2% to $38 million
- Tredag reported earnings; Sales declined 8% to $228 million; EPS turned to $(0.67) from $0.60 in the prior year
- Donnelley Financial reported earnings; Sales declined 4% to $221 million; Adj. EBITDA increased 27% to $30 million
- IPL Plastics reported earnings; Sales were flat at $141 million; Adj. EBITDA increased 10% to $19 million
- Ranpak reported earnings; Sales declined 4% to $63 million; Adj. EBITDA declined 8% to $18 million

Public Company Stock Performance Year to Date

Public Company Trading Performance Year to Date

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**Paper and Packaging Team**

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<th>Contact Information</th>
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<tr>
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</tr>
</tbody>
</table>

Note: Market data as of 5/13/2020. Rigid Packaging: ATR, ARD, BLL, BERY, CCK, TSX/PLP, MYE, OI, TSX/RPI, UN, SLGN, TRS, UFPT; Corrugated Packaging: TSK/CAS, GEF, GPK, IP, PACK, PKG, SON, WRK; Flexible Packaging: AMCR, TSK, ITP, REYN, SEE, TG, VKSC, TSK/WPK; Labels: AVY, TSX/COL, B; Pulp and Paper: TSK/CFX, CLW, GLT, MER, NP, RFP, SWM, TSK/SXP, UFS, VRS; Printing: CMPR, DFIN, DLX, EBQ, QUD, RRD, TSX; TCL A

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Building Products Market Perspectives

- Nearly half of American households have lost income in the two months since the coronavirus pandemic led to a nationwide economic shutdown and more than a third expect to lose income over the next four weeks
  - Another 2.4 million Americans filed for unemployment insurance last week even as states across the U.S. began opening up for business
- April housing numbers were well below initial 2020 forecasts, with total starts declining ~30% compared to the prior year, and single family starts falling 25% year over year
  - This drop was widely anticipated and in line with order updates from public homebuilders, with both D.R. Horton and Meritage Home Corp. reporting a significant decline in building orders
  - Most importantly, there is a clear trend of demand improving from April lows, which indicates a rebound in starts through the month of May
- Despite the promising outlook in housing starts, forecasts run the risk of neglecting pull-forward demand from the second half of 2020, and overstating orders from first-time and trade-up buyers who are crucial in full year growth estimates
- Lowe’s Companies Inc. revealed impressive signs of resiliency in its Q1’20 earnings report as they showed higher profits due to growth in its online home-improvement sales
  - Lowe’s reported a sales increase of 11.2% to $19.7 billion; Net earnings rose 27.8% to $1.3 billion
  - Sales on its Lowes.com website increased 80% during the quarter
- The Home Depot reported an increase in sales of 7.1% to $28.3 billion; Net earnings fell (10.7%) to $2.2 billion as expenses increased 17.1% during the quarter. The company took on various initiatives to support its associates during the COVID-19 pandemic such as expanding paid time off for all hourly associates, boosting workers’ pay and increasing benefits

Public Company Stock Performance Since February 21

<table>
<thead>
<tr>
<th>Source</th>
<th>Feb-21</th>
<th>Mar-08</th>
<th>Mar-24</th>
<th>Apr-09</th>
<th>Apr-25</th>
<th>May-11</th>
<th>May-20</th>
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<tbody>
<tr>
<td>(Indexed to 0%)</td>
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Public Company Trading Performance Since February 21

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<th>Source</th>
<th>Feb-21</th>
<th>Mar-08</th>
<th>Mar-24</th>
<th>Apr-09</th>
<th>Apr-25</th>
<th>May-11</th>
<th>May-20</th>
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<tr>
<td>(Enterprise Value / Next-Twelve-Months EBITDA)</td>
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<td></td>
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</tr>
</tbody>
</table>

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Sources: Company Filings, NAHB, NAR, Wall Street Research

Note: Market data as of 5/20/2020
Manufacturing (Large Cap): ALLE, AOS, ASX;HGX, CSL, FBHS, HUBB, IR, LII, MAS, MHK, NYSE:CNR, OC, SHW, SWK
Manufacturing (Mid Cap): AAI, AMWD, AVI, 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, IYTS, NX, NYSE:SKY, PGTI, TGLS
Distribution / Installation: BESC, BLD, BLDR, BMCH, BXC, FB, GM, HDS, IBP, POOL, SIC, SITE, TSX:SI, UFPI, WSG

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The Chemicals indexes gained strongly this week with Specialties up 5.5% and Commodities / Diversified up 8.5% week-over-week.

- Chemicals indexes tracked a broader rally seen across the S&P 500.
- As 1Q results announcements wrap-up, investors responded well to healthy 1Q results, often thru-April updates and very direct May/June guidance.

- Dow shut down their Midland site due to the unprecedented flooding in Michigan and are advancing site assessments.
- Other companies operating at the site include Cabot, Corteva and Trinseo.

- COVID capex impacts include Borealis’ scrapping plans for a $6.8 billion petrochemical project in Kazakhstan, however Berry plans to expand health and hygiene nonwovens capacity for PPE in North Carolina and Shell and CNOOC reached a deal for a $5.6 billion petrochemical complex in China, including a 1.5MMT/yr ethylene plant.

- With COVID-adapted operating plans / protocols / guidance largely established, M&A dialogues are re-building, as companies look for ways to grow during this period.
- Broad auctions continue to be largely avoided by “healthy” companies with sale-timing flexibility.
- Bi-lateral discussions between “logical” fits are increasing.

- Leveraged finance markets continue to be challenged due to a lack of depth in the Term Loan B market, but High Yield may lead the way.
- Strong inflows into HY funds continue to deepen demand and tighten pricing.

Trading Perspectives by Sector

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**Sources:** Capital IQ as of 5/21/2020

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Industrial Investment Banking Weekly Round-Up Distribution
Week Ending May 22nd, 2020

Distribution Market Perspectives

- Inbound and outbound truck movement has started to rise after hitting a floor in late April, with consumer-facing and essential industries like food & beverage, consumer packaged goods and retail seeing a 5% to 10% increase in shipment volume over the two-week moving average.

- While some industrial distributors were squeezed by manufacturers pre-COVID due to direct to consumer shipments and reduced inventory on-hand, distributors will be key to manufacturers rebuilding supply chains and recapturing market share.
  - Distributors offering value-added services (inventory management, technical knowledge, design and engineering services, etc.) will be most relied upon, as customers will seek higher service offerings to navigate an uncertain environment.

- The NAW Institute for Distribution Excellence expects a potential cooldown in M&A appetite in the near-term, which could temporarily put pressure on valuation multiples.
  - While the industry has performed better than most through the pandemic, smaller distributors who had already been struggling.

- NTM EBITDA estimates have slightly increased over the past few weeks, up approximately 2% across all subsectors, as many industrial distributors released Q1 earnings and states begin easing lockdown measures.

Distribution Subsector Trading and EBITDA Estimate Perspectives

<table>
<thead>
<tr>
<th>Overall</th>
<th>Broadline / Industrial MRO</th>
<th>Oil &amp; Gas</th>
<th>Building Products</th>
<th>Other Specialty Distributors</th>
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<td>Trading</td>
<td>Estimates</td>
<td>Trading</td>
<td>Trading</td>
<td>Estimates</td>
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<td>75%</td>
<td>0%</td>
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</tr>
</tbody>
</table>

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<thead>
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<th>Jeff Johnston</th>
<th>John Ebert</th>
<th>Will Beecher</th>
<th>Sam Beecher</th>
</tr>
</thead>
<tbody>
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<td>Managing Director Head of M&amp;A 216.689.4115</td>
<td>Director Distribution 216.689.3553</td>
<td>Associate 216.689.5683</td>
<td>Senior Analyst Distribution 216.689.5836</td>
</tr>
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<td><a href="mailto:john.ebert@key.com">john.ebert@key.com</a></td>
<td><a href="mailto:william.beecher@key.com">william.beecher@key.com</a></td>
<td><a href="mailto:samuel.beecher@key.com">samuel.beecher@key.com</a></td>
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Diversified Industrials Market Update

**Economic Impact**
- U.S. lawmakers and officials are crafting proposals to push American companies to move operations or key suppliers out of China which includes tax breaks, new rules and carefully structured subsidies
- Recent impacts from COVID-19 and, before that, tariffs, likely to spur investment into increased supply chain localization; more outsourced design, engineering and manufacturing
  - Mexico is likely to see a bigger boost in manufacturing than any one state in the U.S. as it provides an increasingly preferable option for North American companies still looking to manufacture outside the U.S.
- Another 2.4 million workers filed for unemployment in the week of May 16, bringing the total filings since late March to 38.6 million; however, after reaching a record high in the week ending March 28, jobless claims have been on a steady decline
- The economic downturn in the U.S. will likely continue for the rest of 2020, according to the ISM’s Semiannual Economic Forecast; manufacturing revenue for 2020 is expected to decrease, on average, by 10.3% (15.1 percentage points lower than the 4.8% increase for all of 2020 forecast in ISM’s December 2019 report)

**1Q20 Earnings Update**
- Results this earnings season were generally better than feared, as the adverse impact from COVID-19 had yet to fully materialize in North America and Europe, emerging only in the latter two weeks of the quarter
- Despite relative resilience out of the gate, year-out estimates contracted ~10% as forward commentary, in the absence of guidance, signaled meaningful declines in April / 2Q (i.e., April sales / orders declined on average, ~30%), with only gradual improvement expected through the balance of the year; this has given way to consensus forming around a "lower for longer" narrative following an April bottom

**Recent Trading Performance**
- Equities have continued to rally and volatility has further declined (VIX is ~28 points) this week fueled by optimism on the reopening of the U.S. economy, progress on COVID-19 vaccine trials and sustained fiscal and monetary stimulus
- Overall diversified industrials sector valuation remains ~2.7x EV / LTM EBITDA below its YTD high of 14.0x on 2/12/2020
- ~45% of companies in our coverage universe have experienced a greater than 30% drop in their share price relative to their 52-week high price

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Current</th>
<th>1-Month Avg.</th>
<th>Δ vs. 1-Month</th>
<th>YTD Avg.</th>
<th>Δ vs. YTD</th>
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<td>Industrial Technology</td>
<td>16.8x</td>
<td>16.2x</td>
<td>0.7x</td>
<td>16.4x</td>
<td>0.5x</td>
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<td>Food Equipment</td>
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<td>13.1x</td>
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<td>13.9x</td>
<td>(0.1x)</td>
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<td>Flow Control / Water</td>
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<td>12.4x</td>
<td>0.2x</td>
<td>13.7x</td>
<td>(1.1x)</td>
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<tr>
<td>Diversified Index</td>
<td>11.3x</td>
<td>11.0x</td>
<td>0.3x</td>
<td>11.9x</td>
<td>(0.6x)</td>
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<td>Large Cap Diversifieds</td>
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<td>11.0x</td>
<td>0.2x</td>
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<td>(1.3x)</td>
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<td>Construction</td>
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<td>10.6x</td>
<td>0.4x</td>
<td>10.9x</td>
<td>0.1x</td>
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<tr>
<td>Capital Goods</td>
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<td>10.3x</td>
<td>0.6x</td>
<td>11.7x</td>
<td>(0.7x)</td>
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<tr>
<td>Engineered Components</td>
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<td>8.8x</td>
<td>0.2x</td>
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<tr>
<td>Power Transmission</td>
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<td>7.6x</td>
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</table>

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<table>
<thead>
<tr>
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<th>Title</th>
<th>Phone Number</th>
<th>Email</th>
</tr>
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</tbody>
</table>

Sources: Institute for Supply Management (ISM), Reuters, Wall Street Journal, Wall Street Research;
Note: Capital IQ market data as of 5/20/2020;

**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, AQA, BMI, FELE, PNR, WTS, XYL; **Food Equipment:** ITW, JBT, MIDD, WBT; **Industrial Technology:** CTS, GGG, IEX, LFUS, NSDN; **Large Cap Diversifieds:** AME, DOV, EMR, ETN, HON, ITW, JCI, PH; **Power Transmission:** AIMG, BBC, DSM, TNK; **Diversified Index:** Average of all indexes

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Industrial Investment Banking Weekly Round-Up
Industrial & Business Services
Week Ending May 22nd, 2020

Industrial & Business Services Market Perspectives

Essentially all states, including those worst hit and with the most severe restrictions, have outlined steps for reopening. These states, including California, Massachusetts, Michigan, New York and others, have included Construction and other Industrial & Business Services industries in the earliest phases of their reopening plan. In addition, the House passed a new $3 trillion coronavirus relief bill that includes approximately $15 billion in highway funding – though this bill has stalled in the Senate

- The $15 billion in highway funding in the proposed stimulus bill would provide a much-needed boost to cash-strapped state departments of transportation
  - Many state DOTs are facing massive budget shortfalls without federal assistance, as the dramatic drop in driving has led to a corresponding drop in fuel tax and other transportation related revenue
  - In addition to the highway funding, the bill includes $900 billion in direct aid to state and local governments to help offset budget shortfalls
- Outsourced field and maintenance services companies, including those serving telecommunications, utility, oil & gas and other industrial end markets, are poised for a strong recovery as these industries accelerate their shift to outsourcing
  - As businesses reduced headcount in reaction to COVID-19 shutdowns, many are planning to leverage outsourced services to help focus on core competencies and enable them to return to normal productivity levels more quickly
- The staffing industry is anticipating a strong rebound as businesses attempt to scale up quickly due to states reopening
  - A study by the Federal Reserve Bank of Philadelphia indicated that job gains of 2.3 million per month were expected to begin in Q3 – this level of hiring and onboarding will likely be impossible without increased use of talent search and staffing firms
  - A survey by Staffing Hub indicates that more than 70% of firms expect the industry to emerge from the pandemic stronger than before
- A new small business survey indicates that cleaning & sanitation businesses are among the best performing during COVID-19
  - The increased focus on disinfecting public spaces and enhanced CDC cleaning guidelines has driven demand to an all-time high

Industrial & Business Services Subsector Median Trading Multiples

<table>
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<tr>
<th>Field Services</th>
<th>Construction Services</th>
<th>Engineering &amp; Consulting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Week Ending May 22, 2020</strong></td>
<td><strong>Week Ending May 22, 2020</strong></td>
<td><strong>Week Ending May 22, 2020</strong></td>
</tr>
<tr>
<td>9.1x</td>
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<td>11.7x</td>
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<tr>
<td>10.0x</td>
<td>7.4x</td>
<td>13.1x</td>
</tr>
<tr>
<td>7.6x</td>
<td>4.9x</td>
<td>12.0x</td>
</tr>
<tr>
<td>7.2x</td>
<td>5.2x</td>
<td>12.6x</td>
</tr>
</tbody>
</table>

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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

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Metals & Mining Market Perspectives

- Curtailments of North American (‘NA’) steel production capacity have slowed (see table to the right), amid a recovering price environment (see chart in the lower right)
  - Sheet demand is returning as automotive plants begin to restart, driving longer lead-times from mills and improving price stability
  - Demand from the energy sector continues to slump on a sharp decline in U.S. drilling activity. The U.S. rig count has dropped 65.7% YoY to 340 rigs, the lowest level on record
- U.S. crude steel production remains at historically low levels, but seems to have stabilized. Last week, production dropped only 1.9% WoW, with mills producing 1.2 million tons at an average capacity utilization of 52.7%
- With a surplus of primary aluminum in the marketplace, U.S. aluminum producers (i.e., Alcoa) are calling on smelters to
  • Steel (HRC):
    - AK Steel (Cliffs) - All operations in Dearborn, MI
    - ArcelorMittal - Cleveland, Blast Furnace No. 6
    - Evraz - Seamless pipe mill in Pueblo, CO
    - Ivaco - Rolling mill in L’Orignal, Ontario
    - JSW Steel - EAF and mill in Mingo Junction, OH
    - Liberty Steel - Wire rod mill in Georgetown, SC
    - NLMK - EAF and mill in Portage, IN
    - Tenaris - Billet mill in Koppel, PA
    - Tubular operations in Ambridge, PA
    - U.S. Steel - Granite City, Blast Furnace A
    - Gary Works, Blast Furnace No. 4
    - Gary Works, Blast Furnace No. 6
    - Gary Works, Blast Furnace No. 8
    - Stelco - Lake Erie Works, Blast Furnace

- With a surplus of primary aluminum in the marketplace, U.S. aluminum producers (i.e., Alcoa) are calling on smelters to evaluate the cost competitiveness of their production capacity. Continued oversupply will drive an inventory build-up and lead to a protracted period of depressed pricing. Unfortunately, given the lack of industry-wide production cuts to date, additional production curtailments are unlikely to materialize
- Finished copper pricing continues to strengthen despite elusive spot demand for the metal. Production restarts by the ‘Big 3’ automakers are a positive demand catalyst, but spot market demand is expected to lag and not pick up until mid-June
- The domestic copper scrap market has continued to tighten, as strong Chinese export demand pressures supply. A continued recovery in finished copper pricing should improve scrap pricing and availability, as dealers are incentivized to move inventory
- Stainless steel scrap demand remains weak, driven by production cuts at major mills. Weak demand is expected to have a significant impact on stainless scrap prices for the near-term

2020 YTD Metals Sector Equities Index Performance

2020 YTD Pricing Performance

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Sources: Capital IQ, American Metal Market; Note: Market data as of close 5/20/2020


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, 100 mill US; Zinc: LME Official Cash
Paper and Packaging Market Perspectives

- U.S. containerboard and box shipments were down 2% in April (American Forest and Paper Association and Fibre Box Assoc.)
  - April decline reverses the 6.5% growth registered in March
  - Solid bleached sulfate (SBS) production was down 3.7% in April and is down 4.6% year-to-date; SBS folding carton production was up 8.1% reflecting increased buying at retail, while SBS foodservice production was down 18%
  - The industry’s operating rate was 96.6%, up 220 basis points from a year ago
- Uncoated freesheet demand was down 37% in April and is down 17% year-to-date per the Pulp and Paper Products Council
  - Demand for cut-size paper plunged 55% in April; ongoing crisis is leading to a sharp acceleration in digitization, affecting office paper
  - Offset/opaque paper demand was down 27%, as work stoppage across the economy led to delays/cancellations in commercial printing
  - North American uncoated freesheet operating rate fell to an all-time low of 65% in April, down 30 points from last year
- The Irish Independent reported that IPL Plastics received takeover bids from Apollo, CapVest, and Madison Dearborn Partners
- Georgia-Pacific will idle a paper machine at Cedar Springs, GA containerboard mill for one week in May and one week in June
  - Follows announcement last week that it would shut down Toledo, OR containerboard mill for a week in May owing to a lack of demand
  - The medium machine going down has annual capacity of ~270,000 tons
- Canfor Pulp announced curtailment at Prince George Pulp and Paper and Intercontinental Pulp for four weeks starting July 6
  - Will reduce production by 38,000 tonnes of market kraft pulp and 12,000 tonnes of kraft paper
- Viskase announced earnings; Sales increased 4% to $98 million; Net Loss improved to $(4) million from $(6) million
- Supremex announced earnings; Sales increased 6% to $52 million; Adj. EBITDA increased 26% to $82 million
  - Results were helped by the acquisition of Royal Envelope in February 2020; suspended dividend in order to delever its balance sheet

Public Company Stock Performance Year to Date

![Graph showing stock performance](image)

Public Company Trading Performance Year to Date

![Graph showing trading performance](image)

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**Note:** Market data as of 5/20/2020. **Rigid Packaging:** ATR, ARD, BLL, BERY, CCK, TSX:IPLP, MYE, OI, TSX:RPI.UN, SLGN, TRS, UFPT; **Corrugated Packaging:** TSX:CAS, GEF, GPK, IP, PACK, PKG, SON, WKR; **Flexible Packaging:** AMCR, TSX:ITP, REYN, SEE, TG, VKSC, TSX:WPK; **Labels:** AVY, TSX:CCL.B; **Printing:** CMPR, DFIN, DLX, EBF, QUAD, RRD, TSX:TCL.A

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Building Products Market Perspectives

- There were ~2 million first-time claims for unemployment last week, bringing the total since the start of the pandemic to ~41 million. This week marked the ninth straight week in declining unemployment claims
  - Continuing unemployment claims decreased by ~4 million to just over 21 million, painting a clearer picture of current employment levels
- As the economy continues to stagger in the wake of COVID-19, the negative impacts on construction activity are becoming increasingly clear
  - Nonbuilding construction activity will continue to be augmented by the government shifting focus to infrastructure investment as a means of fiscal stimulus. This will help drive building materials demand, as nonbuilding projects tend to rely heavily on asphalt and concrete
  - The nonresidential building sector is subject to a longer recovery period, however the availability of grants and low interest loans for businesses will support nonresidential activity as the government looks to jumpstart consumer spending
- Despite a pandemic-driven contraction in 2020, window and door demand is expected to perform exceptionally well in the following years, driven by strong tailwinds
  - Ongoing efforts to improve the energy efficiency of buildings, supporting demand for higher value window and door products
  - Pent-up residential and nonresidential remodeling demand flooding the market as economic conditions improve
  - Shifting consumer aesthetic preference towards more expensive window and door materials (i.e., metal and wood)
- Even with the drastic declines in new and existing home sales, home prices have stayed resilient through the pandemic
  - The median existing home price posted impressive year-over-year growth in March and April, increasing by 8.0% and 7.6%, respectively
  - March marked the highest annual growth rate since December 2018

Public Company Stock Performance Since February 21

Public Company Trading Performance Since February 21

For additional information on KeyBanc Capital Markets, please contact any of the individuals listed below:

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<table>
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Sources: Freedonia, NAR, Wall Street Research

Note: Market data as of 5/27/2020; Manufacturing (Large Cap): ALLE, AOS, ASX;JHX, CSL, FBHS, HUBB, IR, LII, MAS, MKH, NYSE:CNR, OC, SHW, SWK; Manufacturing (Mid Cap): AAOI, AMWD, AVI, AvV, BCC, CRE, CVCX, DOOR, FRTA, GFF, JELD, LPX, NYSE:LCII, PATK, ROCK, SSD, TILE, TREX, TSX:OSB, WMS; Manufacturing (Small Cap): AFI, APOG, CSTE, DXYN, IIIN, LKYS, NX, NYSE:SKY, PGTI, TGLS; Distribution / Installation: BECN, BLD, BLDX, BMCH, BCS, FBM, GMS, HDS, IBP, POOL, SIC, SITE, TSX:HDZ, UDP, WSO.

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Industrial Investment Banking Weekly Round-Up
Chemicals and Materials
Week Ending May 29th, 2020

Chemicals and Materials Market Perspectives
• The Chemicals indexes continued their gains this week with Specialties up 3.7% and Commodities / Diversifieds up 2.1% week over week
  – Saint-Gobain took advantage of the upturn, selling its 10.75% stake in SIKA via a private placement
• This week, KeyBanc Capital Markets hosts its annual Industrials Conference, providing several insights across the economic landscape
  – Companies presenting so far have included: AXTA, EMN, HUN, LAC, OLN, PQG, VNTR and WLK with insights including:
    ▪ April chlor-alkali rates were in the upper 60’s percent range, but are forecast to improve into the low 70’s
    ▪ Caustic demand is down YOY, but stable
    ▪ April PVC / Building Products demand with better activity levels from May into June. Housing / construction end-markets are slightly more optimistic in 2Q and 2H along with a strong DIY market
    ▪ Refinish inventories may begin to restock before market demand picks-up, as demand is expected to recover overall with miles driven
• The HY markets continue to see an “avalanche” of cash flowing in, creating a robust environment for new issues
  – M&A activity continues to be slow with few processes and fewer announced deals, however, both strategic and private equity continue to actively review and engage in discussions

Trading Perspectives by Sector

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Sources: Capital IQ as of 5/28/2020

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With a large portion of the economic shutdown occurring during the second quarter of 2020, companies are expecting Q2 results to decline sharply

- Union Pacific has seen a 23% decline in overall volume so far in Q2, with the majority of the decline coming from their premium business as auto volume declined 85% amidst factory closings
- Danish shipping company Maersk expects to cancel 140 sailings and is forecasting a demand drop of 20% to 25% in the second quarter

Blanked sailings have plateaued over the past four weeks with total weekly blanked capacity at approximately 3.41 million TEUs, up from just 0.78 million TEUs in February
- Blanked sailings have propped rates up in the current uncertain shipping environment, with rates from China / East Asia to the U.S. West Coast up 25% YoY, while rates from China / East Asia to the U.S. East Coast are down 5% YoY

Uncertainty around supply chains has caused companies to place an increased emphasis on technology to help manage demand volatility and delivery tracking

- Hardware supplier Do It Best has been leaning heavily on a logistics platform developed by Ryder as warehouse sales jumped by 36% to 68% across certain locations during the first two weeks of May
- Analysts expect the market for these tools to continue to take off as the need for real time data becomes increasingly important in understanding trends and managing supply chains as demand increases

As return to work measures are implemented, technology will play a key role in ensuring warehouses and plants follow proper social distancing measures
- ProGlove, a supplier of wearable barcode scanning products, recently added proximity sensing capabilities to its products that alert users with sound, light and vibration signals when they come too close to another employee

Industrial distribution equity and trading performance continues to climb over a 30-day period as lockdown measures have been loosened across many states

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Distribution Market Perspectives

**Public Company 30-Day Stock Performance**

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</tr>
<tr>
<td>12% 7% 1%</td>
</tr>
<tr>
<td>9% 5% 13%</td>
</tr>
<tr>
<td>9% 4% 3%</td>
</tr>
<tr>
<td>6% 9% 9%</td>
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<tr>
<td>1% 7% (26%)</td>
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**Public Company 30-Day Trading Performance**

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<th>(EV / NTM EBITDA)</th>
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<tbody>
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<td>Average Today 1-Mo. 1-Wk. 1-Yr. Lev.</td>
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<tr>
<td>25.9x 23.9x 25.3x 19.4x 2.7x</td>
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<td>17.6x 15.6x 15.2x 10.3x 5.2x</td>
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<tr>
<td>10.8x 10.3x 10.6x 9.8x 2.3x</td>
</tr>
<tr>
<td>9.6x 9.4x 9.5x 8.1x 3.1x</td>
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For additional information on KeyBanc Capital Markets, please contact any of the Distribution Team individuals listed below:

Sources: MDM, Supply Chain Dive, Capital IQ, KeyBanc Capital Markets, Wall Street Journal

Leverage = Index Average Net Debt / NTM EBITDA

Note: Market Data as of 5/28/2020; BL / Ind MRO: AIT, BOSN, FAST, GWWD, HWS, LAWS, MS, PKOH, SYX; O&G: DXPE, DNOW; Food / Foodservice: BNZL, CHEF, CORE, PFGC, SYX, UNFI, USFD; Chem: BNR, DKH, IMCD, UNVR; Vehicle: AAP, AZO, DORM, GPC, LKQ, MPAA, ORLY, SMP, UNS; BP: BECN, BMCH, BLDR, GL, FERG, GMS, HS, RCH; Other: POOL, SITE, WSO

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**Diversified Industrials Market Update**

**Economic Impact**
- Senate Majority Leader Mitch McConnell said this week that Congress will “probably” have to pass another coronavirus relief bill and will decide whether to do so in the coming weeks
  - Democrats approved a $3 trillion rescue package earlier this month, but it is uncertain if it will pass
- Another 2.1 million workers filed for unemployment in the week of May 23, bringing the total filings since late March to 40.8 million; jobless claims have been on a steady decline after reaching a record high in the week ending March 28
- The European Commission is planning to deploy €750 billion, or about $826 billion, as part of a new long-term budget and recovery plan; about €500 billion would be offered as free grants to the bloc’s member states, while €250 billion would be made available as loans
- Japanese Prime Minister Shinzo Abe’s cabinet approved on Wednesday a new $1.1 trillion stimulus package that includes significant direct spending, to stop the coronavirus pandemic pushing the world’s third-largest economy deeper into recession

**2020 KBCM Industrials & Basic Materials Conference – Preliminary Takeaways**
- Business activity may have reached a trough is April as productivity levels and results have been better than expected in late April and into May
- Economic rebound in China appears to be sustaining, which is especially encouraging as the recovery has occurred in the absence of any meaningful stimulus from Beijing
- COVID-19-related structural changes may be a long-term positive for some
  - Cost structure improvements meant to position businesses well to weather near-term headwinds, may enhance profitability in the long-term
  - Increased capital investment should manufacturing companies decide to move and localize supply chains, reshore production, and increase plant automation

**Recent Trading Performance**
- Equities have continued to rally and volatility has further declined (VIX is ~27 points) this week fueled by optimism on the reopening of the U.S. economy, progress on COVID-19 vaccine trials and sustained global fiscal and monetary stimulus
- Overall diversified industrials sector valuation remains ~1.9x EV / LTM EBITDA below its YTD high of 14.0x on 2/12/2020
- ~31% of companies in our coverage universe have experienced a greater than 30% drop in their share price relative to their 52-week high price

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

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Sources: Reuters, Wall Street Journal, Wall Street Research

**Note:** Capital IQ market data as of 5/27/2020

**Capitals 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, ITW, JCI, PH

**Power Transmission:** AICM, BCB, RNK, TKN, Diversified Index: Average of all indexes

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Industrial & Business Services Market Perspectives

As restrictions continue to loosen across the U.S., much of the discussion around COVID-19 has moved to how to jumpstart the economic recovery. Public and private infrastructure continues to play a prominent role in most recovery plans, providing potential tailwinds for many Industrial & Business Services companies, particularly in the construction services, field services and engineering & consulting subsectors.

- New York Governor Andrew Cuomo announced plans to fast-track work on several major New York City regional infrastructure projects, including the ongoing upgrade of LaGuardia Airport and the renovation and expansion of Penn Station.
  - In part, this plan is an attempt to “supercharge” the COVID-19 recovery in New York City by stimulating the economy and creating jobs.
  - The accelerated pace for these projects also aims to capitalize on the extended period of reduced rail ridership and air traffic.

- While ongoing construction largely continued to operate as an essential service across the U.S., the demand for design services particularly for new projects dropped substantially.
  - The Architecture Billings Index fell by 20 points, indicating a dramatic decline in billings in the industry.
  - Firms also reported a sharp decline in backlog - nearly 60% of firms reported a decline in backlog and the average industry backlog fell more than one month from 6.3 months to 5.0 months.

- The communications infrastructure services industry received a boost from Federal officials as the FCC and DHS CISA Directors urged governors to declare industry workers essential and provide all appropriate access and resources.
  - The letter from the officials suggested that communication installers and repair workers as well as those constructing new communications facilities should be considered essential to help address unprecedented levels of customer usage.

- For the third consecutive week, the American Staffing Association Staffing Index ticked up, providing initial indications that the industry is poised for a strong recovery as a variety of companies turn to these firms to scale up quickly during the recovery.

Industrial & Business Services Subsector Median Trading Multiples

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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 Terex 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.

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Metals & Mining Market Perspectives

- Curtailments of North American (’NA’) steel production capacity have slowed (see table to the right), amid a recovering demand environment
  - Mills are testing the strength of demand with a 2nd round of price hikes at major mills. Demand is returning and capacity curtailments have slowed, indicating a near-term equilibrium
  - Demand from the energy sector continues to slump as U.S. drilling activity hits new lows. The U.S. rig count has dropped 67.7% YoY to 318 rigs, now the lowest level on record
- U.S. crude steel production has stabilized, but remains at historically low levels. Last week, production improved 0.8% WoW, with mills producing 1.2 million tons at an average capacity utilization of 53.2%
- Demand for specialty metals in the aerospace metals supply chain continues to improve. This week, Boeing restarted the assembly line for its beleaguered 737 Max aircraft, despite a pending FAA recertification of the aircraft. The restart marks a key inflection point for Boeing suppliers and the Company, who set an internal deadline of May 31st to restart 737 Max production
- Primary aluminum premiums have remained flat in the U.S., despite premiums rising on bullish sentiment in both Europe and Asia. Spot activity for primary aluminum in the U.S. remains thin, as most large-volume consumers have stayed out of the market since the beginning of the North American automotive production shutdowns
- The domestic copper scrap market remains tight on scarce supply and aggressive buying in China. Comex pricing is up 3.9% this month, but remains down 13.8% YTD (see chart below). Pricing gains have yet to increase scrap availability, but flows are expected to improve as pricing recovers and dealers are incentivized to move inventories

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<td>Domestic Producers</td>
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<td>Nickel</td>
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<td>Service Centers / Processors</td>
<td>Steel (HRC)</td>
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<td>Specialty Metals &amp; Alloys</td>
<td>Zinc</td>
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<td>Domestic Producers</td>
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<td>Scrap Recyclers</td>
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Sources: Capital IQ, American Metal Market; Note: Market data as of close 5/27/2020


3 Considers $/lb. pricing of the following indices for each metal, Aluminum: LME Official Cash; Copper: Comex Copper High-Grade 1st Active; Nickel: LME Official Cash; Steel (HRC): Steel Hot-Rolled Coil Index, fob mill US; Zinc: LME Official Cash
Paper and Packaging Market Perspectives

- Packaging delivered solid first quarter results despite the Covid pandemic, with panic buying of food, beverage, and consumer products offsetting weakness in industrial end markets.
  - Sales declined modestly as follows: Corrugated Packaging (-1%), Flexible Packaging (-1%), Rigid Packaging (-2%); and Labels (-2%), with all results removing companies where results were affected by M&A (Berry in Rigid, Amcor in Flexible, and Greif in Corrugated)
  - Profitability remained healthy with weighted average Adjusted EBITDA margins of 18% in Flexible Packaging, 17% in Corrugated Packaging, 17% in Labels, and 16% in Rigid Packaging
- Commercial Printing and Pulp and Paper were materially affected by the pandemic in their first quarter results
  - Sales declined 8% at Commercial Printing companies and 10% at Pulp and Paper companies
  - Weighted average Adjusted EBITDA margins were also relatively weak at 11% for both Pulp and Paper and Commercial Printing
- U.S. uncoated freesheet prices fell by $15/ton in May as the operating rate fell to an all-time low of 61% in April, per RISI
- Cascades will permanently close its Brown Containerboard Packaging facility in Burlington, Ontario by July 31. The 45 employees of this facility will be offered the option to transfer to Cascades' other business units
- Imaflex reported earnings: Sales declined 4% to CAD 21 million; EBITDA went up 162% to CAD 5 million

Public Company Stock Performance Year to Date

Public Company Trading Performance Year to Date

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