EDGEPOINT

TRANSPORTATION & INFRASTRUCTURE INDUSTRY
Q1'16 UPDATE

HIGHLIGHTS

- Output for T&I sectors largely consistent with the overall growth in the U.S. economy during Q1 2016
- M&A deal activity in Q1 2016 was lower than prior quarters as investors were cautious about business conditions and uncertainty
- Valuations were mixed when compared to prior quarters, consistent with overall pressure on equity markets
- Outlook remains positive for T&I sectors with consensus projections for modest growth in engineering and automotive industries and more robust outlook in freight transportation, aerospace, and construction industries

EdgePoint
2000 Auburn Drive
Suite 330
Beachwood, Ohio
edgepoint.com
216-831-2430

Q1 2016 Overview

During Q1 2016, business activity in the Transportation and Infrastructure (T&I) industries largely mirrored that of the overall U.S. economy. The factors that contributed to a decrease in GDP growth from 1.4% in Q4 2015 to 0.5% in Q1 2016 also generally impacted the T&I sectors, albeit to varying degrees. Oil price declines, volatility in Chinese markets, steel price reductions, and political turmoil rattled the U.S. economy the past six months, with the tail end of Q1 2016 marked by signs of improvement.

The result was mixed amongst T&I sectors. While lower oil prices translated into a decline in freight car miles from fewer frac sand car shipments, lower pump prices helped support the consumption of new automobiles. Furthermore, the decline in diesel prices made trucking a relatively more viable mode of transport than rail in the past quarter. Lower fuel prices also benefitted the commercial airlines, who have largely kept the cost savings to invest in new aircraft.

Volatility in China in late 2015 also impacted the T&I sectors in the United States. In addition to general uncertainty and concern about the world's second largest economy, specific concerns about Chinese suppliers translated into purchase delays; instead of replenishing, importers decided to work down inventory levels in Q1 2016. These factors negatively impacted certain sectors of the Trucking and Logistics industry.

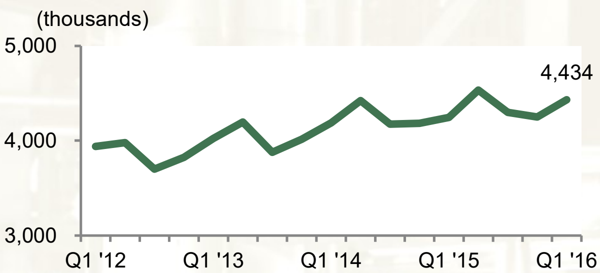
In aggregate, these variables constrained M&A activity in the T&I sector, as Q1 2016 reported the lowest quarterly deal volume since Q1 2013. Q1 2016 M&A activity was marked by a number of high profile, strategically-motivated deals, as well as significant private equity interest. Low organic growth and high cash levels amongst strategic corporations translated into some transformative transaction announcements in the quarter. Because Warren Buffett tends to be viewed by many investors as a leading indicator, special note is made of Berkshire Hathaway's acquisition of Precision Castparts, one of the largest suppliers of investment castings and forged components to the aerospace and power generation industries.

While the operational metrics in the last quarter could be described as "recovering," the longer-term outlook for T&I sectors remains positive. Fueled by aging infrastructure and available public (and private) financing, analysts expect most sectors to grow moderately through 2018. This could, of course, all be impacted – positively or negatively – by the results of the upcoming election.

Historical Industry Metrics

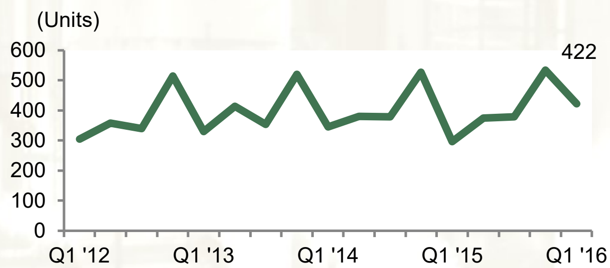
Putting aside the freight market, T&I sectors largely outperformed the overall U.S. economy in Q1 2016. Benefitting from lower fuel prices and improving employment, light vehicle production continued the growth experienced through the first part of 2015. According to Wards, vehicle output in Q1 2016 was only 100k vehicles behind previous record set in Q2 2015. While aircraft deliveries decreased in Q1 2016 compared to the prior quarter, Q1 2016 was stronger than any prior first quarter since 2012. Still hammered from declines in oil pricing and the resultant decrease in frac sand car shipments, freight ton miles continued to decline in Q1 2016 and represent levels approximately 10% lower than prior years. Total Construction and Public Construction spending were steady through Q1 2016 as the housing market recovered, recession-era projects were resurrected, and as funding for a number of public works projects cleared Congress and local municipalities.

Light Vehicle Production



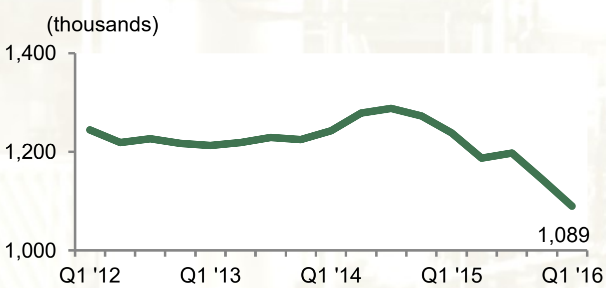
Source: WardsAuto

Aircraft Deliveries



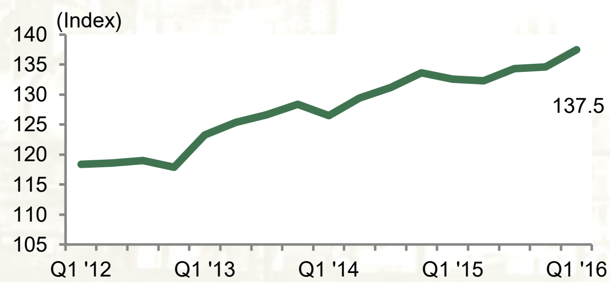
Source: General Aviation Manufacturers Association

Freight Ton Miles



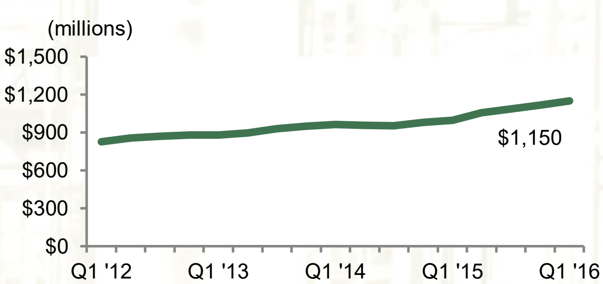
Source: St. Louis Federal Reserve

Truck Tonnage



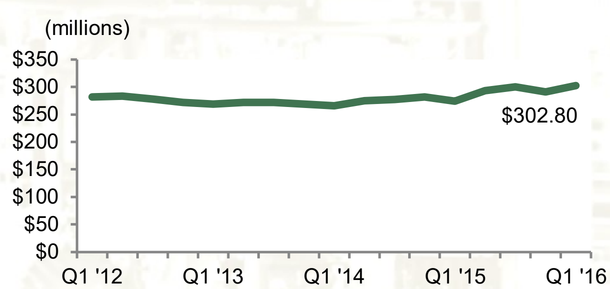
Source: St. Louis Federal Reserve

Total Construction Spending



Source: St. Louis Federal Reserve

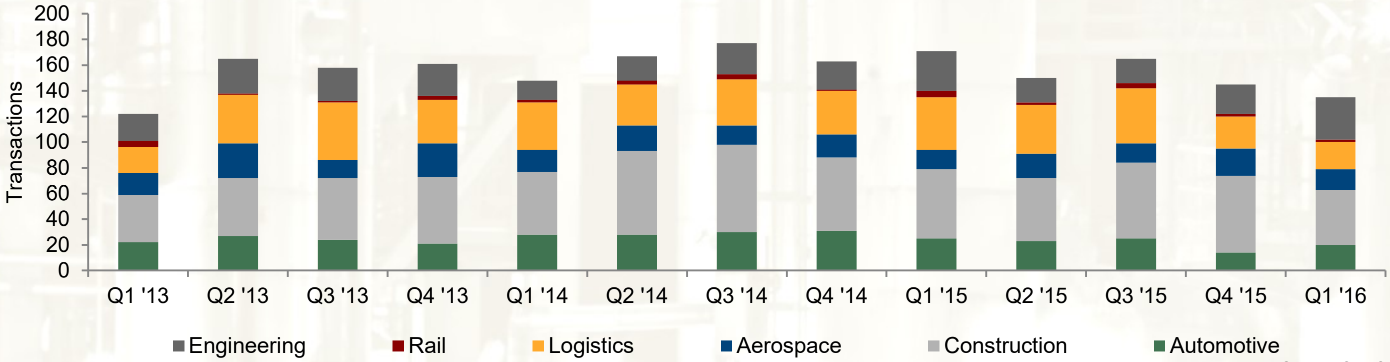
Public Construction Spending



Source: St. Louis Federal Reserve

North American Merger & Acquisition Activity

With significant stock market volatility and uncertainty in late 2015, the volume of M&A transactions declined over the past six months. The volume of T&I sector transactions in Q1 2016 was lower than any other quarter in the past three years. While activity per particular T&I sector varies from period to period based upon available acquisition candidates, the volume of logistics transactions was particularly soft in Q1 2016. This was largely a function of the low stock prices of publicly traded industry participants such as Celadon, XPO Logistics, and Roadrunner Transportation, who suffered significant valuation declines in the last six months. Impressively, there was a record number of Engineering and Construction industry transactions in Q1 2016 that EdgePoint postulates was driven by expected revenue growth in both industries for FY 2016 through FY 2018.



Source: CapIQ

Automotive Industry

Automotive sector transaction activity in Q1 2016 remained consistent with historical averages. Of particular note in the quarter was the emphasis on and availability of core business investment. Significant Tier 1 suppliers made very core investments in the quarter, including TI Group, Dana Holdings, and WABCO. The acquisition of Mangum Automotive Group, a gasket manufacturer, confirms the interest of Dana in continued investment in its aftermarket business. While other sectors of the transportation industry seem more willing to pursue diversification, the M&A activity of the leading Tier 1 suppliers is indicative of a growth strategy through greater concentration of core business. The trend in the quarter also illustrates that in a good market, with more available acquisition candidates, strategic buyers focus their M&A resources and capital on core business activities.

With only two reported transactions, private equity firms were not as active in the automotive sector in Q1 2016. While private equity has been more receptive to automotive investment this cycle than EdgePoint has witnessed since 2007, it also appears that their investment interests tend to be particular and focused on niche providers. For example, Huron Capital Partners, a Detroit-based private equity firm, invested in Drake Automotive Group this past quarter; so while a supplier to the automotive industry, Drake is focused on aftermarket components for vintage vehicles, which is a specialty when compared to OEM production.

Aerospace Industry

There was some impressive and formidable aerospace transaction activity in Q1 2016. Of the 16 reported aerospace transactions in the quarter, four had values in excess of $200 million. The announced deals largely represented strategic acquisitions with compelling synergistic rationale. For example, BBA Aviation closed on its acquisition of Landmark Aviation in February. While deal terms were not announced, the $2 billion transaction is reportedly a 12.5x EBITDA valuation of Landmark, based upon Thestreet.com estimate of $161 million of TTM EBITDA. The strategic rationale appears to be worth it, however, as the integration of Landmark service offerings into the BBA model will enable the combined entity to offer a very broad spectrum of outsourced services to its similar carrier customer base. Furthermore, BBA announced annual synergy savings of approximately $35 million per year, making the acquisition multiple approximately 10x the target's pro forma synergistic EBITDA.

Other large notable deals in the quarter include the acquisition of Robertson Fuel Systems by HEICO Electronics and Berkshire Hathaway's acquisition of Precision Castparts ("PCC"). The volume and values is supportive of a strong outlook for the sector.

North American Merger & Acquisition Activity (continued)

Engineering and Construction Industry

Q1 2016 was a big quarter for M&A in the engineering and construction sectors, with over 75 transactions announced or closed. As is often the fact pattern in this sector, the transaction activity was largely reflective of smaller niche practices acquired by some formidable brands. Pennoni Associates, a top civil engineering firm, acquired three civil engineering firms in Q1 2016, two of which have established presences in Florida. Pennoni acquired single office firms McCarthy and Associated, RWD Consultants, and EPN Group, demonstrating their willingness to integrate smaller practices.

In similar fashion, leading design firm Terracon bolstered its facilities management capabilities in the Southwest with its acquisition of Building Exterior Solutions, a 25 professional firm in Texas. As the 35th largest design firm according to ENR, this acquisition is interesting to EdgePoint as it illustrates the motivation of large firms to consider smaller transactions that are strategic, even though they do not "move the needle" from a size perspective. Large industry participants such as KBR and NV5 also completed transactions of small engineering firms in the quarter, illustrating that the largest firms are still interested in niche competencies that they can scale through integration into the their operational infrastructure.

The largest E&C transaction of the quarter was the merger of Furmanite Corporation and Team, Inc. The transaction was structured as a stock-for-stock transaction, with shareholders of Furmanite receiving .215 shares of Team Inc. stock. Based upon Furmanite's reported EBITDA through the end of 2015 ($34 million), EdgePoint estimates the $235 million deal represents an enterprise value / EBITDA multiple of approximately 7.0x EBITDA. However, EdgePoint notes that the target had reported deteriorating operational and financial conditions through the sale process.

Trucking & Logistics Industry

While there were over 20 announced transactions in the trucking and logistics sector in Q1 2016, it is notable that the mega-consolidators of 2015 were largely quiet. Between the announced halt in acquisition activity by XPO Logistics until it completed its acquisitions from 2015 (the dramatic declines in stock valuations of industry participants), and some management changes at the largest freight carriers, it is not surprising that the acquisition activity was quiet. Interestingly, the majority of transactions in the quarter included specialized logistics, final mile, and freight-forwarders.

One large transaction was reported in Q1, the $1.6 billion acquisition of UT Worldwide by DSV. DSV acquired UT Worldwide to expand it's logistic business and to capitalize on natural synergies due to rationalization. Additionally, UT Worldwide provides DSV potential cross-selling opportunities that will likely be capitalized upon.

Rail Industry

M&A activity surrounding the rail industry was light in Q1 2016 with very few reported transactions. Railroad operators were watching Canadian Pacific continue its pursuit of Norfolk Southern, a transaction that was ultimately abandoned due to regulatory concerns and shareholder dissent. Private equity firms continue to eye this sector as attractive, despite the capital intensity, and this interest was evident in Q1 with the acquisition by Trive Capital of Iowa Northern Railway Company. Considering that private equity firms tend to follow a similar investment thesis, and with the long-term positive macro-economic outlook for the Rail sector, EdgePoint expects to see more rail-related investment from financial investors.

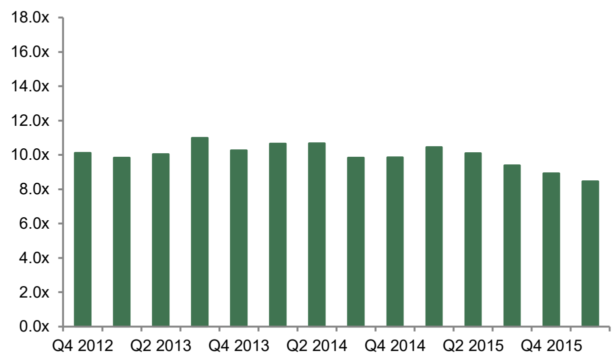
On the products side, there was no notable closed transaction activity in Q1 2016. EdgePoint believes that the slowness in the freight markets caused a pull-back amongst sellers as industry participants focused on ensuring their business was prepared for a softer business environment.

Serial-acquirer Wabtec, who tends to complete one or more transactions a quarter, closed no transactions in Q1 as it was consumed with its combination with Faiveley. That transaction is projected to close in the fourth quarter of 2016. Nevertheless, Wabtec is still aggressively seeking transactions to offset business declines in its freight products business.

Equity Valuation

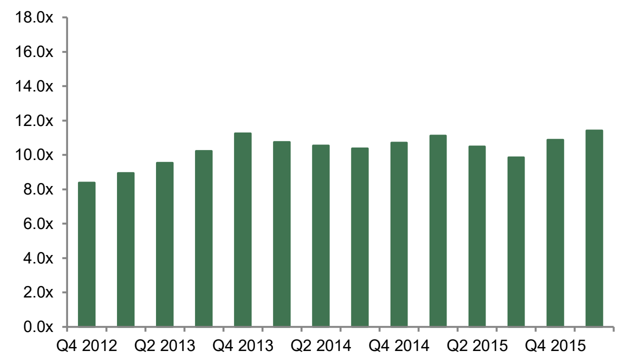
Equity valuations for the T&I sectors, as measured by enterprise value (EV) / EBITDA multiples of the publicly traded company universe, trended slightly lower in Q1 2016 for most sectors, except for the Aerospace and Engineering industries, largely reflecting the overall valuations in the S&P 500. EdgePoint views the pull back as short-term pessimism about the T&I industry as quarterly earnings were reasonably strong (see page 6) in the quarter, and the longer-term outlook for T&I sectors remains strong. Q1 2016 valuation appeared more like a buying opportunity for investors in the sector.

Automotive EV / EBITDA



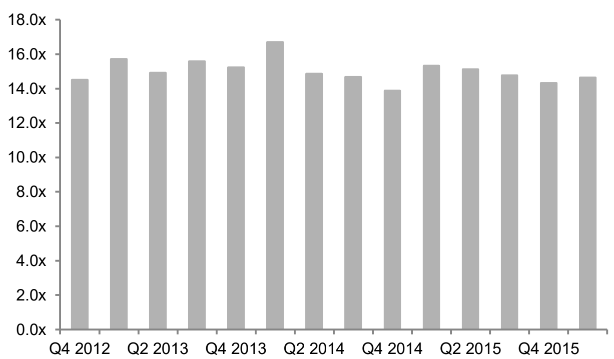
Source: CapIQ

Aerospace EV / EBITDA



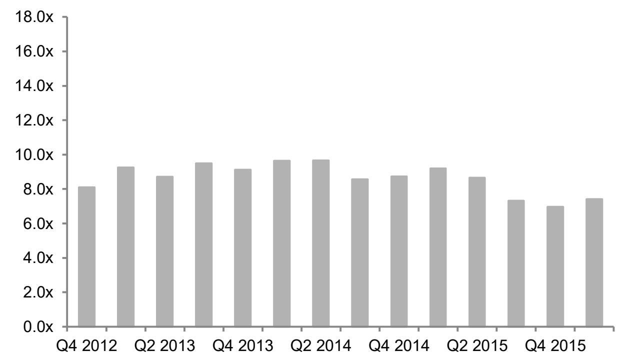
Source: CapIQ

Construction EV / EBITDA



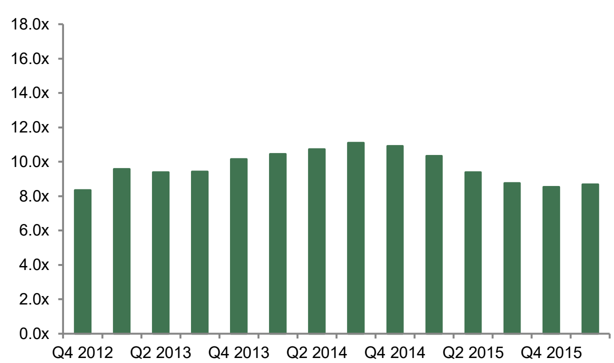
Source: CapIQ

Engineering EV / EBITDA



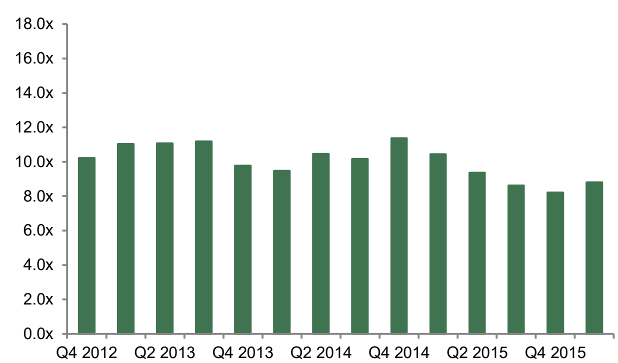
Source: CapIQ

Rail EV / EBITDA



Source: CapIQ

Trucking & Logistics EV / EBITDA

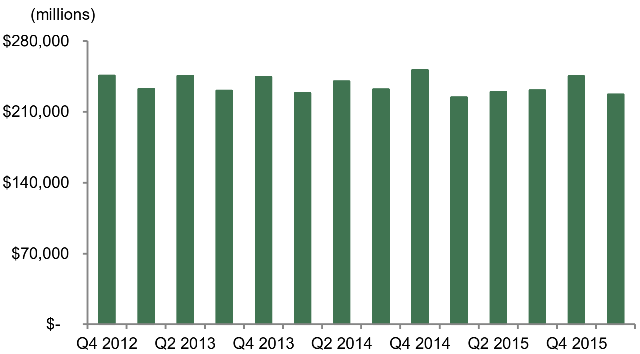


Source: CapIQ

Quarterly Revenue

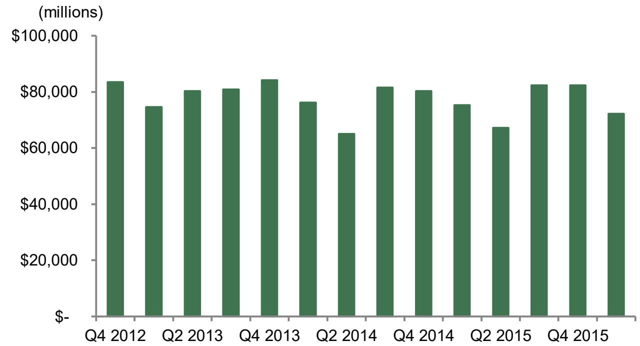
Revenue for T&I sectors trended lower in all sectors during Q1 2016 driven by macroeconomic and seasonal forces, such as lower oil and gas prices. Additionally, the first quarter of each year represented below has demonstrated general revenue declines when compared to other quarters, which continued in 2016, with the Aerospace industry being an outlier. The Construction industry has continued to reach a new revenue floor in each of the last three years demonstrating it is largely unaffected by macroeconomic trends in the U.S.

Automotive Quarterly Revenue



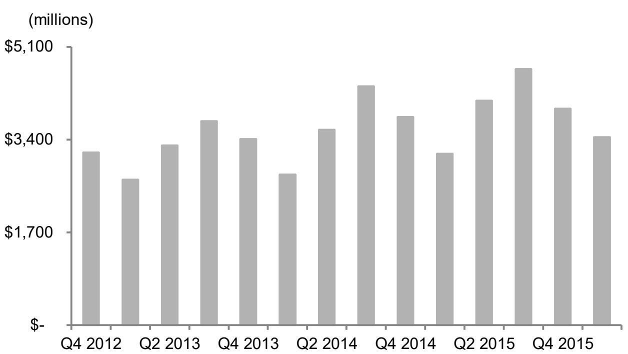
Source: CapIQ

Aerospace Quarterly Revenue



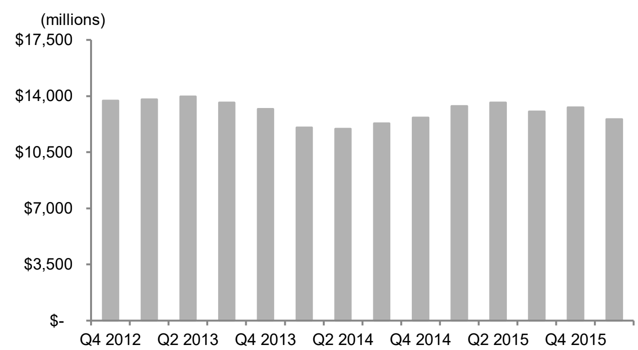
Source: CapIQ

Construction Quarterly Revenue



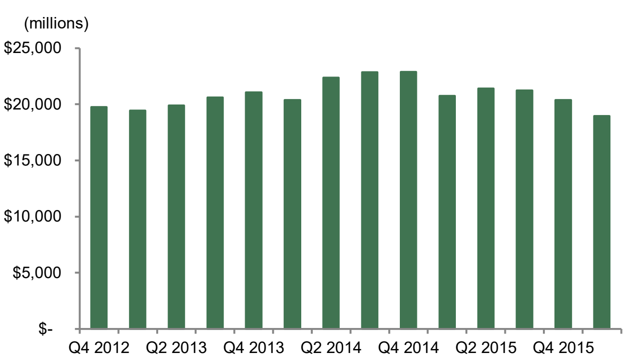
Source: CapIQ

Engineering Quarterly Revenue



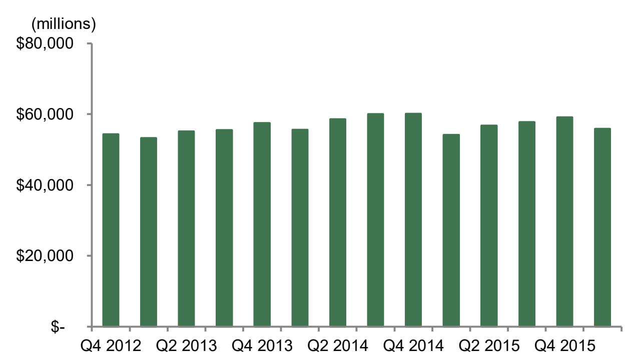
Source: CapIQ

Rail Quarterly Revenue



Source: CapIQ

Trucking & Logistics Quarterly Revenue

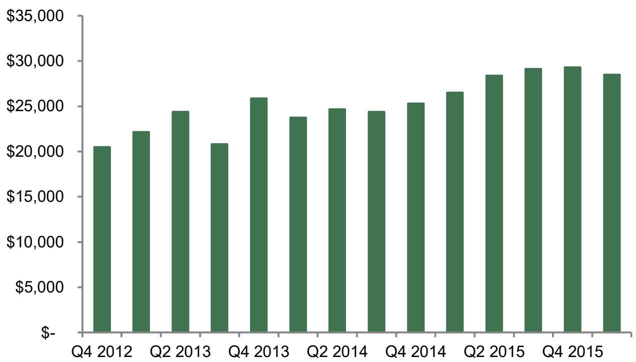


Source: CapIQ

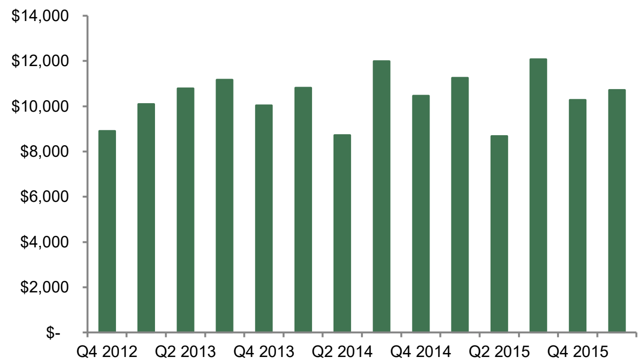
Quarterly EBITDA

Profitability for the T&I sectors largely decreased during Q1 2016, outside of the Automotive and Trucking & Logistics sectors, driven by macroeconomic trends such as decreasing fuel prices. Surprisingly to EdgePoint, profitability for the Aerospace industry decreased, as market participants did not pass fuel price savings along to its customers. Additionally, Engineering sector margins continue to decline since Q3 2015, which can explain the desire for companies to expand inorganically.

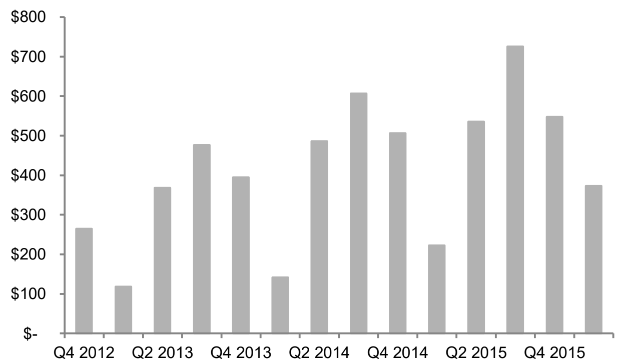
Automotive Quarterly EBITDA



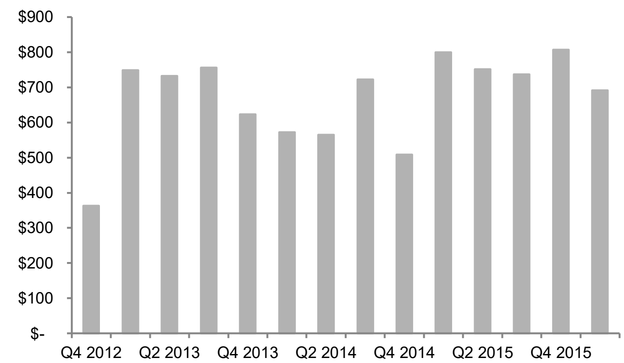
Aerospace Quarterly EBITDA



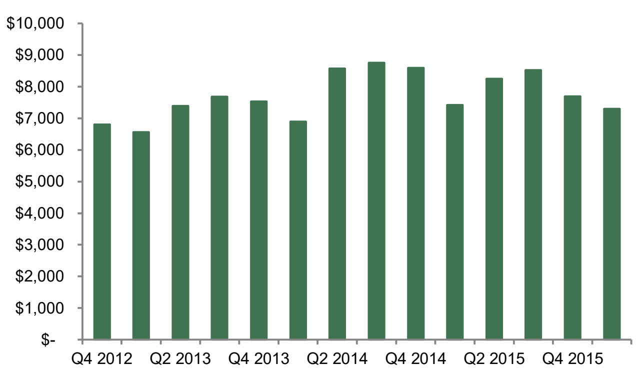
Construction Quarterly EBITDA



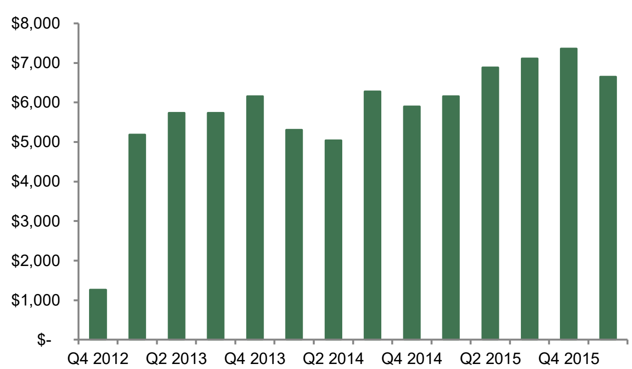
Engineering Quarterly EBITDA



Rail Quarterly EBITDA



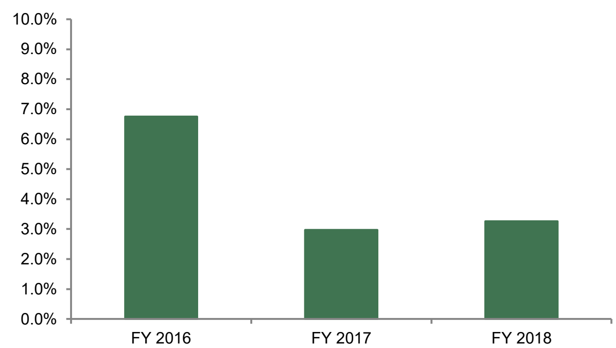
Trucking & Logistics Quarterly EBITDA



Revenue Forecast

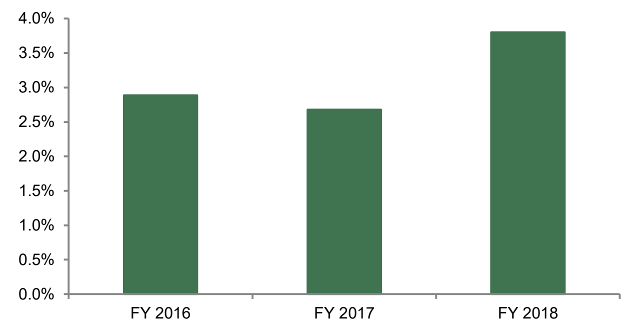
Equity analysts project varying degrees of revenue growth for the T&I sectors through 2018. According to analyst consensus, revenue growth for the Automotive industry growth will slow in 2017 and 2018 to approximately 1% per year after a strong 2016. Analysts forecast Aerospace industry revenue is forecasted by analysts to grow 3.2% per year through 2018 as the retirement of older aircraft and strong carrier earnings will drive continued demand for new production. EdgePoint observes a disconnect in the outlook for the Engineering services industry between equity analysts and industry professionals. As highlighted on page 9, AIA projects a much more robust outlook for the 2016 - 2017 period than do equity analysts that cover the sector. After declining in 2015 and 2016, equity analyst consensus is that revenue from the Rail industry will increase 2.1% and 3.6% in 2017 and 2018, respectively, as an increase in oil and gas prices will drive more drilling activity. This will, in turn, require the movement of more frac sand through the U.S. The consensus is that Trucking and Logistics revenue will increase in 2016 and 2017 due to increased container volume and expansion of ports; however, growth is expected to slow as diesel fuel prices increase in 2018.

Automotive Forecast Revenue



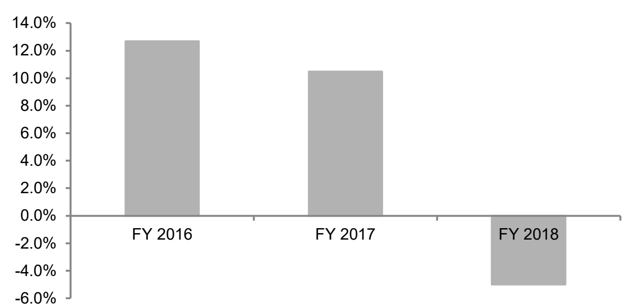
Source: Analyst consensus, CapIQ

Aerospace Forecast Revenue



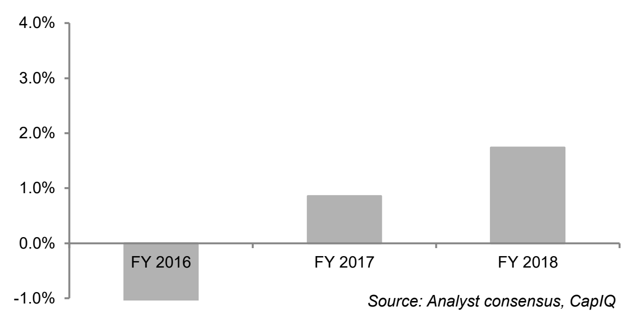
Source: Analyst consensus, CapIQ

Construction Forecast Revenue



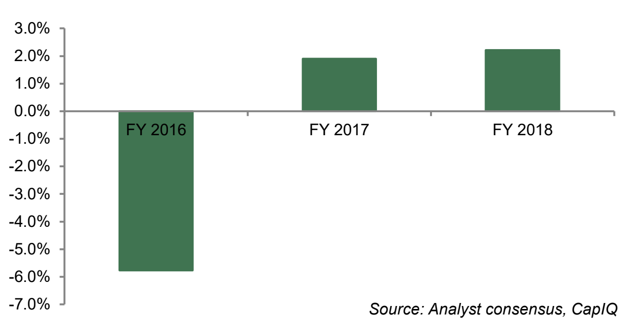
Source: Analyst consensus, CapIQ

Engineering Forecast Revenue



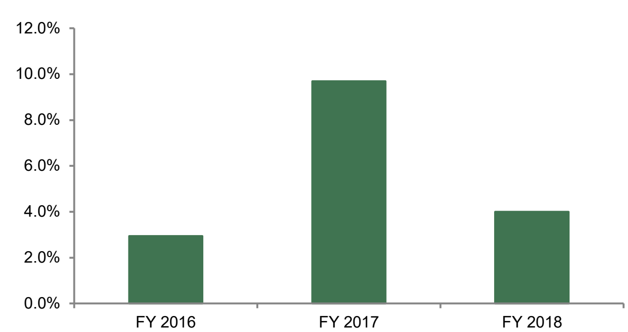
Source: Analyst consensus, CapIQ

Rail Forecast Revenue



Source: Analyst consensus, CapIQ

Trucking & Logistics Forecast Revenue

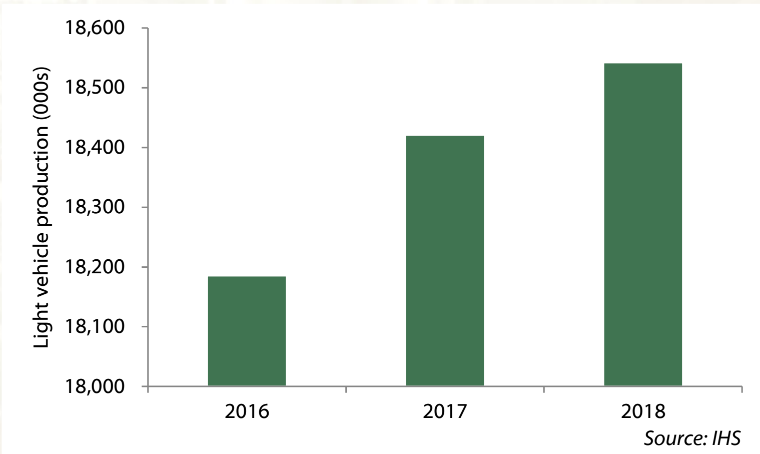


Source: Analyst consensus, CapIQ

Operational Outlook

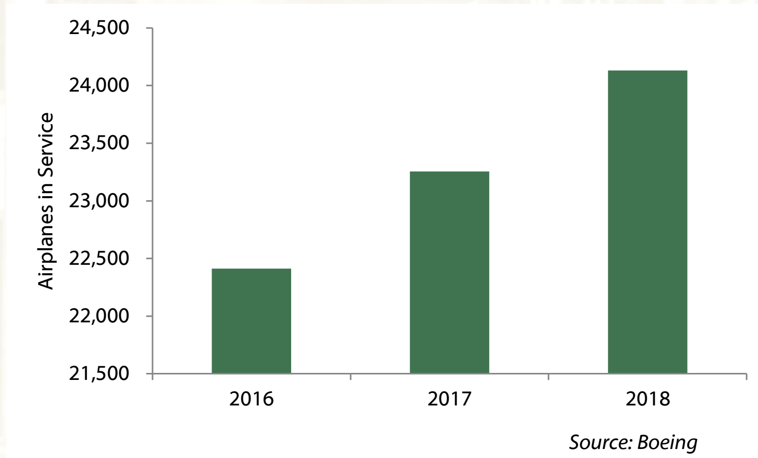
The outlook for operational metrics in each of the sectors suggests growth in the T&I sectors through 2017. With the exception of the AIA Consensus Construction forecast, all indicators tracked by EdgePoint forecasts growth through 2018.

Light Vehicle Production Forecast



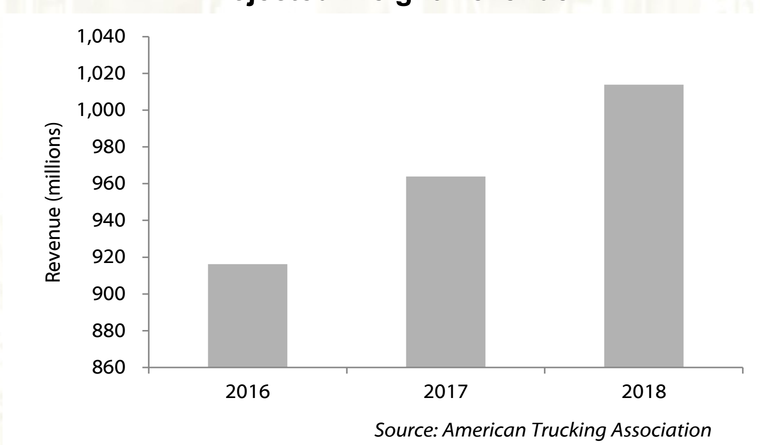
According to IHS, the U.S. can expect light vehicle production growth of 1.0% through 2018, driven by new model releases and expectations for the broader economy. The growth rate is lower than GDP, largely due to vehicles with greater longevity, better technology, and higher cost relative to wage growth.

Airplanes in Service



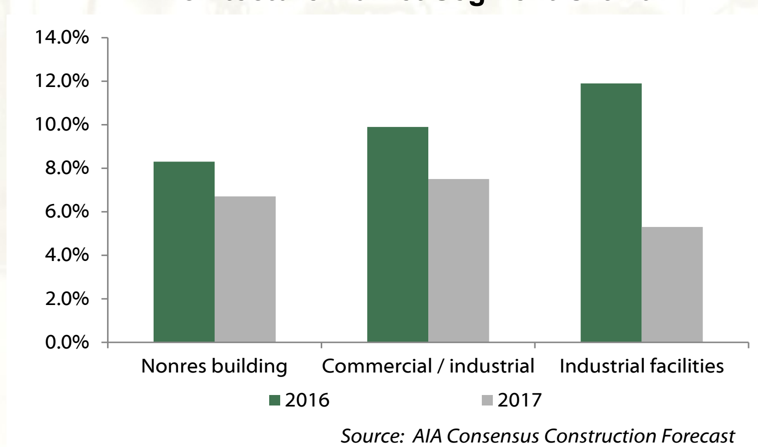
Boeing projects the number of airplanes in service is projected to grow through 2018, driven by capacity constraints and an aging fleet, which will prompt the need for new production. Analysts forecast increases in passenger and cargo traffic of 10% through 2018.

Projected Freight Revenue



According to the American Trucking Association, total freight industry revenue is projected to grow 5.2% annually through 2026, largely driven by population growth, expansion of the energy sector and improved foreign trade.

Architecture Market Segment Growth



The American Institute of Architects ("AIA") projects strong growth through 2017. As noted previously, Equity Analysts do not project the same outlook, as observed by CapIQ. The AIA believes growth in 2016 and 2017 will be achieved through federal government cooperation, lower-energy prices, and an improved employment situation.

About EdgePoint

EdgePoint is a leading investment bank and advisory firm specializing in middle market merger, acquisition, divestiture, and corporate financing services for private business owners and corporations. EdgePoint is a registered broker dealer and member of FINRA and SIPC. With professional backgrounds in the country's largest investment banks, commercial banks, corporate development departments, and financial advisory firms, EdgePoint professionals offer sophisticated transactional services to the middle market.

EdgePoint is a member firm of the Alliance of International Corporate Advisors ("AICA"), an integrated global network of middle-market advisory and finance firms. With 200 professionals in 59 offices throughout the Americas, Europe and Asia, EdgePoint offers its clients global perspective and capital market access.

To learn more about EdgePoint and our services, or to discuss the content in this newsletter, please contact **Paul Chameli** at 216-342-5854 or at **pchameli@edgepoint.com**.

ALLIANCE OF INTERNATIONAL CORPORATE ADVISORS

Representative Transportation & Infrastructure Transactions

Sell-Side Advisory	Sell-Side Advisory	Sell -Side Advisory	Sell-Side Advisory	Sell-Side Advisory
Standard Components, Inc. *has sold to* Summit Equity Group, LLC	SIFCO Industries, Inc. *has sold its Applied Surface Concepts business to* Norman Hay PLC	General Electric *has sold its* Rail Transit Parts Business to Wabtec	Cavallo Bus Lines, Inc. *has recapitalized with* Bennett Capital Partners	Louis Perry & Associates, Inc. *has sold to* CDM Smith

EdgePoint Transportation & Infrastructure Team

Paul Chameli
Managing Director
pchameli@edgepoint.com
216-342-5854

Russ Warren
Managing Director
rwarren@edgepoint.com
216-342-5859

Ben Stumpf
Associate
bstumpf@edgepoint.com
216-342-5866

Sean Coleman
Associate
scoleman@edgepoint.com
216-342-5869

EDGEPOINT
2000 Auburn Drive, Suite 330
Beachwood, OH 44122
(216) 831-2430