TRANSPORTATION & INFRASTRUCTURE INDUSTRY

Q2'16 UPDATE

HIGHLIGHTS

- M&A volume during Q2 2016 was less robust, continuing downward trend of the past three quarters
- M&A activity mirrors valuation multiples of public companies,
- Operational metrics and earnings largely positive across each of the subsectors, except Rail
- Valuation multiples mixed across subsectors, with positive trending in Aerospace and Construction but general softening of multiples for Automotive, Engineering, Rail, and Trucking & Logistics
- Analyst sentiment for 2016—2018 slightly improved for some sectors in Q2, but reasonably consistent with prior quarter

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Q2 2016 Overview

The second quarter of 2016 was marked by fewer transactions than the prior quarter, following a general decline in activity that started in Q4 of 2015. Quarterly transaction volume for the T&I industry is down 25% from the peak in Q3 2015. This dynamic, which largely corresponds to a decrease in valuation multiples for the publicly traded companies in each of the subsectors, is interesting upon examination of the operational metrics in each of the subsectors. With the exception of the Rail subsector, the publicly traded companies in all other subsectors of the T&I industry have generally reported higher revenue and profitability over the course of the last three quarters. The underlying operational metrics for each of the subsectors, putting aside again the Rail subsector, have been strong and are projected by industry analysts to remain strong. And with the overall stock market back to historical levels, it is interesting to consider the reason for softer acquisition interest in the sector. EdgePoint postulates that some of the slow-down in the volume of M&A activity is related to the availability of deal flow. As a M&A market becomes more mature, the availability of deal flow can decrease as willing sellers have already consummated transactions. Another rationale is an internal operational focus of industry participants that declining oil prices have caused. In some subsectors such as rail, the decline in oil prices caused industry participants to dedicate their time on right-sizing their organization or positioning their business in light of the industry changes. In other sectors, such as aerospace and automotive, lower fuel prices were a positive event that may have forced industry participants to focus on meeting greater demand for product or service.

Despite the lower volume, there was some notable M&A activity in the past quarter and a few high profile transactions. The most notable activity was in the automotive sector, where the pressure from the Big Three to keep up with evolving technological trends drove significant and strategic combinations. In an attempt to keep up with the driverless car concept, GM paid $1 billion for Cruise Automation, a San Francisco-based developer of autonomous vehicle technology. This acquisition is significant on several levels, including an endorsement of the growth in the technology and extraordinary valuations for companies with virtually no revenue. Cruise Automation was still in venture capital fundraising status and had reportedly achieved a post-money valuation of $90 million in its latest round. Other M&A activity was seemingly strategic and sparse when compared to prior periods, the result of internal focus by industry participants and low availability of acquisition targets.

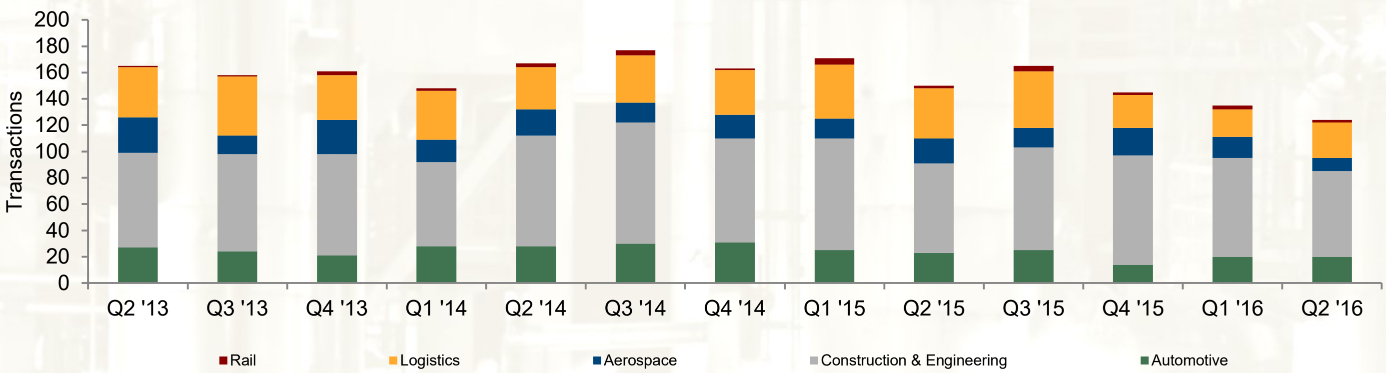
Valuation multiples for public registrants trended down through Q2 for most subsectors. Some of this trending is curious as the economic performance and outlook is positive. The public company Aerospace index has traded higher as enthusiasm for that sector continues to improve.

Analyst outlook for the rest of 2016, as well as 2017 and 2018, remains consistent with that of Q1 2016.

North American Merger & Acquisition Activity

Merger and acquisition activity in Q2 2016 followed the general downward trend that started in late 2015. Lower fuel prices and volatility in the supply chain impacted industry participants in all sub-sectors, contributing to delays in investment activity. In this environment, the industry participants in the T&I sector have been reportedly more focused on operational matters, such as integration of previous acquisitions, right-sizing their organization, or pursuit of different end markets to address the supply chain changes. Nevertheless, there was interesting M&A in Q2 2016 across all subsectors.

M&A Transactional Volume (Quarterly)



Source: CapIQ

Automotive Industry

The most notable observation amongst M&A activity in Q2 2016 was the interest amongst the Big Three builders in driverless technology. If there was any doubt that the autonomous driving concepts introduced by Tesla, and embraced and marketed by Uber, would become a mainstream element of the automotive industry product offering, the acquisition of Cruise Automation by GM should put those doubts to rest. In May, GM completed the acquisition of Cruise Automation, an autonomous vehicle technology Company for a reported $1 billion. This transaction is remarkable on a number of fronts, but most particularly the fact that the technology demand was so high that it prompted an old-economy company like GM to pay internet-bubble type valuations for a Company that has, according to several Analysts, "practically no revenue." According to the GM 10Q, approximately $291 million of the purchase price was paid in cash at Closing and the earnout was based upon establishing what the 10Q referred to as technology milestones.

Another strategic transaction involved Affinia Group, a filtration expert, who was acquired by MANN + HUMMEL of Germany for $1.3 billion. The acquisition brings the WIX and FILTRON brands to the MANN + HUMMEL portfolio, filling out its aftermarket offering with well-regarded and distributed products in the U.S. market.

Aerospace Industry

Q2 2016 M&A activity in the Aerospace sector seemed to be heavily focused on electronics. Private equity firm J.F. Lehman & Company purchased API Technologies, a technology leader in electronics systems, for a reported $311 million. According to the Company's SEC flings, EBITDA of API was approximately $21 million for FY 2016 but projected to increase to $38 in FY 2017. Nevertheless, the enterprise value / EBITDA multiple paid for API is an estimated 15x the FY 2016 EBITDA and over 8x the projected EBITDA for the next twelve months—which is a remarkable valuation, even in this market.

TransDigm, who offers a spectrum of engineered components and systems to the aerospace industry, announced the acquisition of ILC Industries, the parent company of Data Device Corporation ("DDC") in Q2 2016. DDC, who specializes in data, motion control, and power controller solutions, represents a strategic addition to the Power & Control business of TransDigm and is attractive to DDC for the amount of aftermarket business. TransDigm announced that the purchase price was $1 billion and that DDC revenues were projected to be $200 million for FY 2016. While there are not yet available details on the valuation multiples, EdgePoint will be interested to review the multiple once the transaction closes, as it is expected to be quite significant.

North American Merger & Acquisition Activity (continued)

Engineering and Construction Industry

Aside from only a few notable strategic transactions, the Q2 2016 M&A activity in the E&C sector was comprised primarily of activity amongst regional contractor firms. With construction activity expanding, this trend appears to be motivated upon a combination of capabilities, perhaps for specific projects and markets.

On the engineering side, serial acquirer Stantec completed both an acquisition and divestiture in the second quarter of 2016. In one of its largest acquisitions to date, the Company acquired MWH, a leading water engineering firm, for $793 million. This transaction positions Stantec as a top architecture / engineering firm with significant water engineering capabilities.

At the same time, Stantec divested its photogrammetry consulting business to Control Point Associates. This divestiture of a specialized service, when combined with the nature of its traditional service investments over the past year, illustrates to EdgePoint that Stantec seeks to bolster its capabilities, presumably to position itself for what it believes will be a wave of large infrastructure projects.

While the vast majority of transactions in the quarter were strategically-motivated regional combinations, there was a financial investor transaction in the quarter. Southern Air and Heat, a provider of HVAC maintenance and installation services in Florida and North Carolina, was acquired by MSouth Equity Partners. An impressive and established private equity firm focused on investment in the Southeast, the MSouth investment in Southern Air & Heat is notable for its endorsement of the growth opportunity in HVAC service in the Southeastern U.S. markets.

With such strong macroeconomic dynamics in this sector, including stable sources of project funding, pent-up demand for construction, aging infrastructure, and innovative delivery models that minimize project risk and capital investment requirements, EdgePoint expects continued interest in infrastructure investments in the coming years. Supporting this expectation is the reality that in Q2 alone, three new private equity firms announced dedicated investment platforms around an infrastructure investment thesis.

Trucking & Logistics Industry

M&A activity in the T&L sector was consistent with that of Q1 2016, with approximately 25 closed transactions. This volume is down substantially from that of the peak in Q3 2015, when nearly twice as many transactions were consummated. There were few notable transactions in the quarter and the absence of large scale transactions has been notable. With the stated intent of XPO Logistics to refrain from acquisition until after the integration of its 2015 transactions, business still recovering from the supply chain disruption earlier in the year, and the largest industry participants reporting much lower earnings, it is no surprise that there have not been many large transaction announcements.

Intermodal specialist IMC completed the acquisition of Progressive Transportation Systems in Q2 2016. This transaction achieves the Company's long-time goal of establishing intermodal capabilities on both the east and west coast of the United States. It is not clear yet that there are significant synergy opportunities from such a geographic presence, although it does appear logical that capabilities on both coasts does give IMC a unique market positioning in an otherwise regional business.

With an improving outlook for business conditions, EdgePoint expects that M&A volumes will increase in the second half of the year as the motivation for consolidation in this industry is still very much present.

Rail Industry

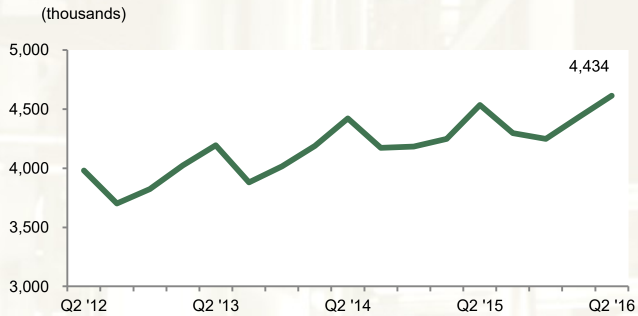
Unsurprising when considering that Q2 2016 was another soft quarter for industry metrics, M&A activity in the rail sector was practically non-existent. Only three rail-related transactions closed in the quarter. EdgePoint believes that the low M&A volume is a function of internal initiatives amongst the industry participants to address lower freight miles. The only notable activity in the quarter were the multiple short-line acquisitions of Watco, who acquired River Road Terminal and some Terminal Interchanges with CSX and NS.

The large rail suppliers were quiet in Q2 as Wabtec spent much of the summer working through the details on its ongoing merger with Faiveley. That transaction is still projected to close in Q4. In Q2, Knorr Bremse announced a major public takeover for its Commercial Vehicle business but stated that it still seeks rail industry transactions.

Historical Industry Metrics

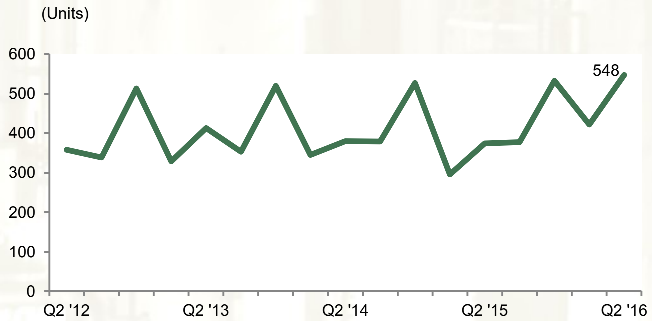
Overall, operational metrics monitored by EdgePoint largely improved in Q2 2016, underpinned by positive macroeconomic factors. Light vehicle production, aircraft deliveries, construction spending, and truck tonnage values continued their positive trends through Q2. While light vehicle production is generally good news, this has hurt some suppliers to the industry. According to Wards Auto, good light vehicle sales have delayed the release of new model concepts, which in turn hurts suppliers that benefit from changes in the product design (such as mold builders). Nevertheless, the overall industry appears to have benefitted based upon revenue and profitability growth (see next page) of the subsector. Construction spending has continued to increase in the midst of favorable economic conditions, low interest rates, and pent-up demand. According to Federal Reserve Bank of St. Louis, the truck tonnage index has continued to improve as lower fuel prices make over the road transportation more cost effective. As reported in prior quarters by EdgePoint, freight ton miles continue to decline with lower shipments of coal, frac sand, and chemicals. Of the ten commodities tracked by Association of American Railroads, only three had positive ton mile movement in Q2 2016.

Light Vehicle Production



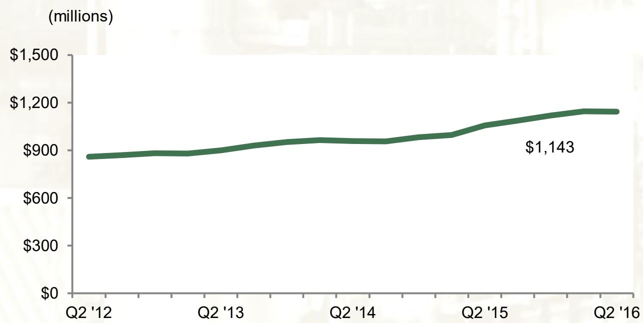
Source: WardsAuto

Aircraft Deliveries



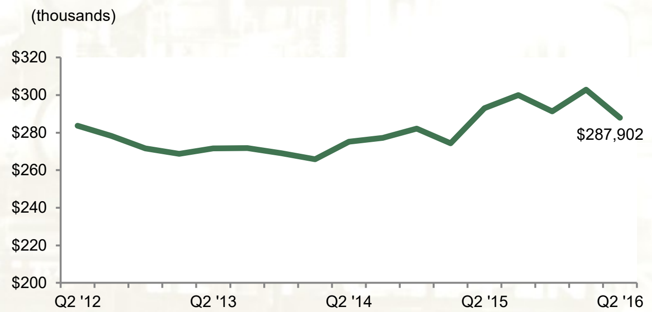
Source: General Aviation Manufacturers Association

Total Construction Spending



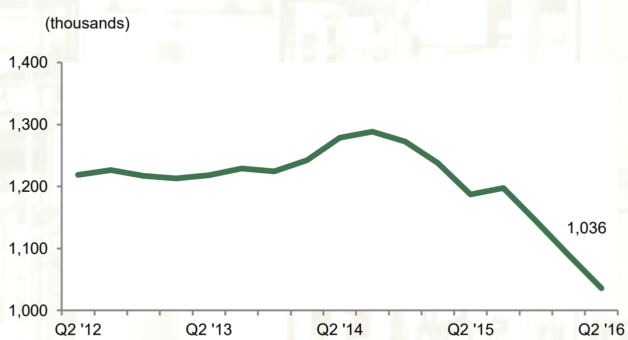
Source: St. Louis Federal Reserve

Public Construction Spending



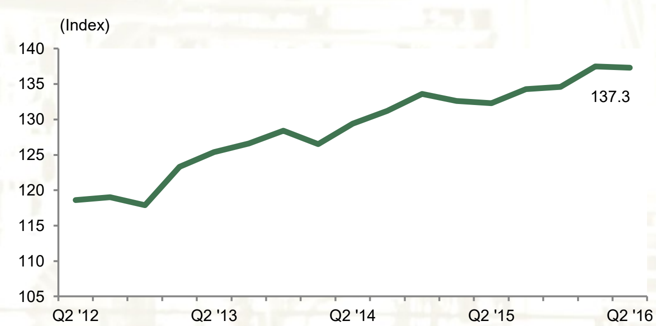
Source: St. Louis Federal Reserve

Freight Ton Miles



Source: St. Louis Federal Reserve

Truck Tonnage

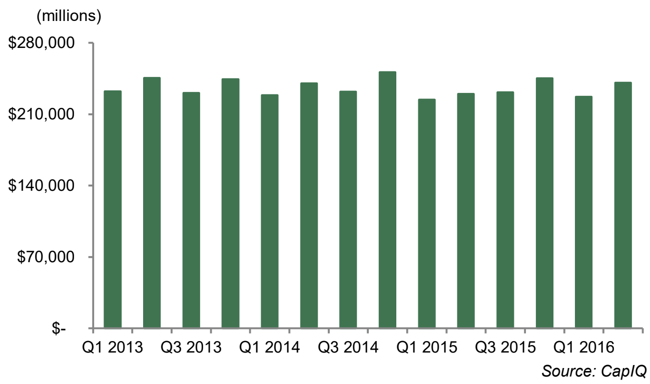


Source: St. Louis Federal Reserve

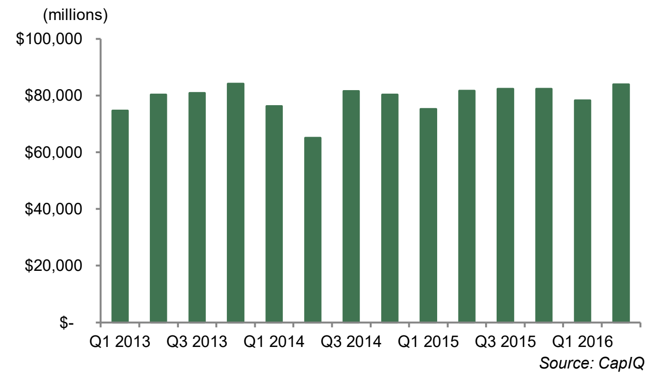
Quarterly Revenue

With the exception of the rail subsector, Q2 2016 revenue for the publicly traded participants in the T&I sectors was largely consistent with the prior quarter and generally a slight improvement over that of the prior year. Revenue for the automotive industry increased 4.8% over same quarter prior year, while aerospace, construction, and engineering subsectors grew in aggregate by 1.9%. The trucking and logistics sectors increased approximately 2.4% over Q2 2015. Each of these subsectors has benefitted from a modestly improving economy and lower fuel prices. Publicly traded participants in the rail subsector reported revenue declines of 1.4% from Q1 2016 and 12.7% from same quarter prior year, again the result of lower commodity shipments.

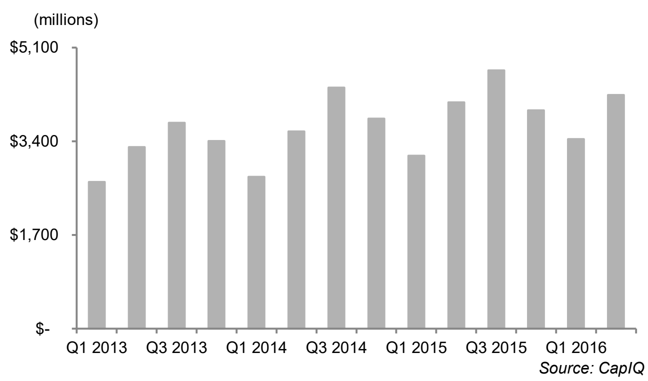
Automotive Quarterly Revenue



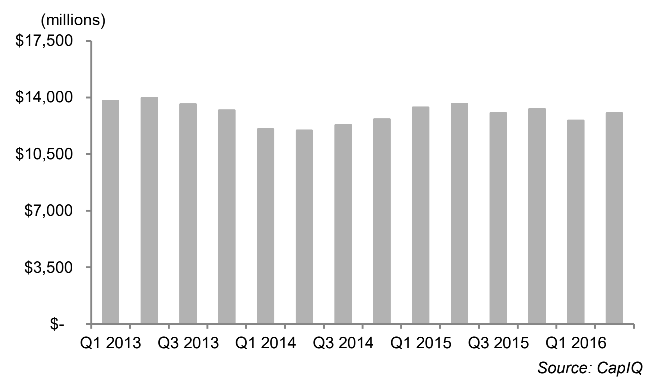
Aerospace Quarterly Revenue



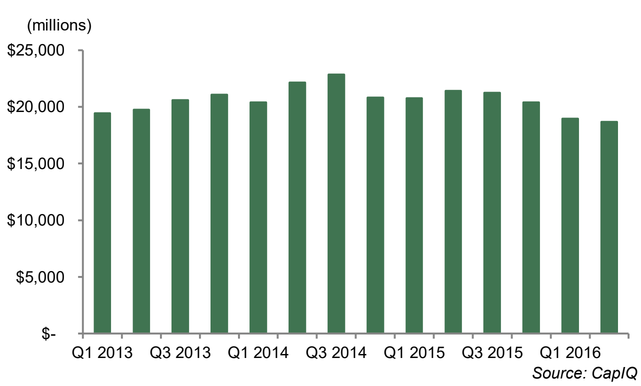
Construction Quarterly Revenue



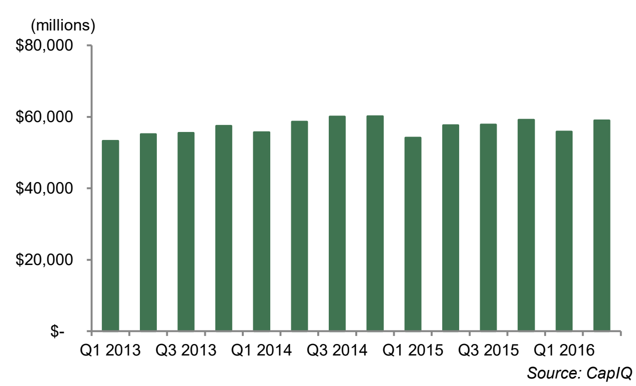
Engineering Quarterly Revenue



Rail Quarterly Revenue



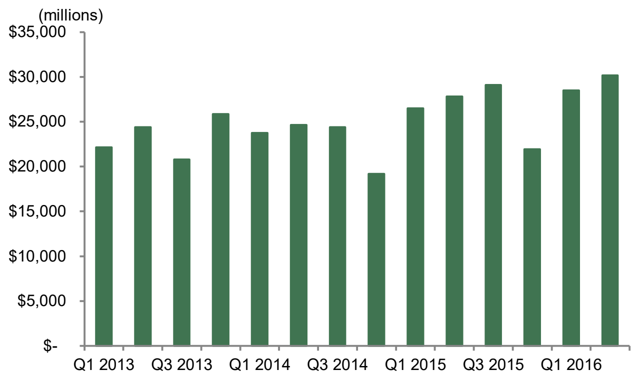
Trucking & Logistics Quarterly Revenue



Quarterly EBITDA

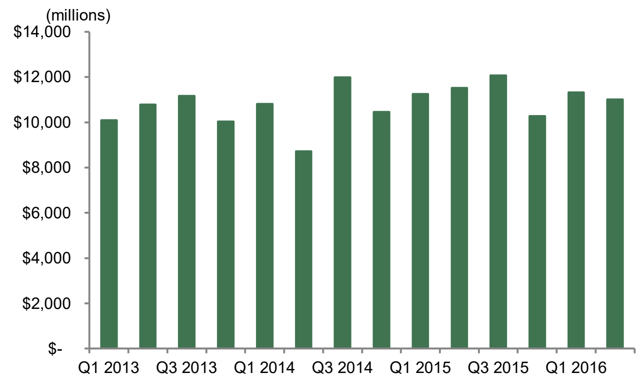
Q2 2016 profitability of the publicly traded participants in the T&I industry generally was mixed, with some subsectors enjoying better profitability growth than others. The Automotive industry enjoyed a 5.9% increase in EBITDA in Q2 2016 over Q1 2016, as well as a 8.5% increase over Q2 of the prior year, continuing the generally upward trend of the industry. Q2 earnings for the Construction industry continues to increase on a yearly basis. Despite declines in revenue, the profitability for the rail industry has remained relatively stable with cost containment strategies. Finally, the earnings for T&L industry participants has increased quarter over quarter for the last two years, largely driven by lower fuel prices.

Automotive Quarterly EBITDA



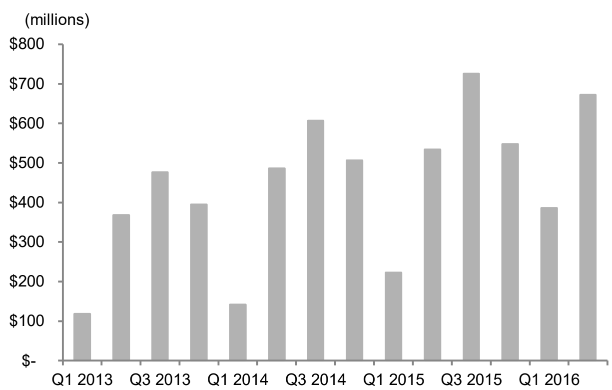
Source: CapIQ

Aerospace Quarterly EBITDA



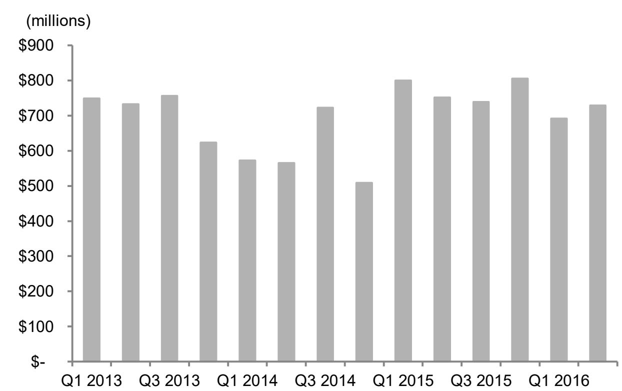
Source: CapIQ

Construction Quarterly EBITDA



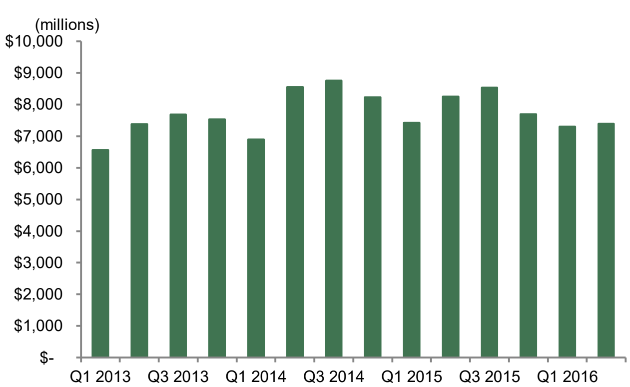
Source: CapIQ

Engineering Quarterly EBITDA



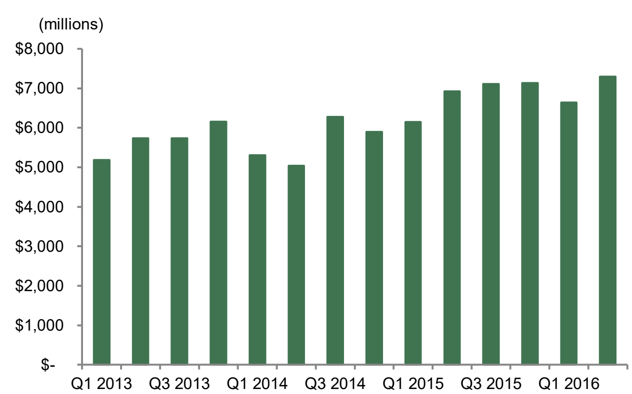
Source: CapIQ

Rail Quarterly EBITDA



Source: CapIQ

Trucking & Logistics Quarterly EBITDA

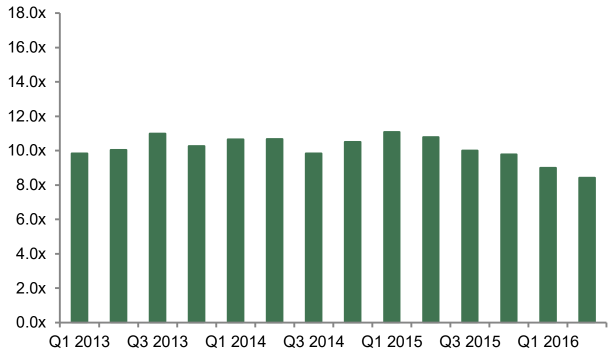


Source: CapIQ

Equity Valuation

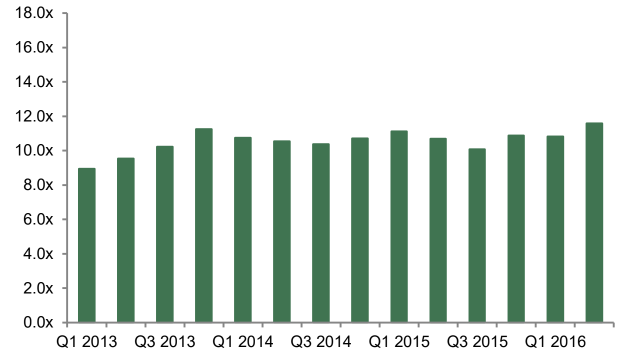
Equity valuations for the T&I industry, as measured by the EV / EBITDA multiples of publicly-traded registrants, were largely flat or lower in Q2 2016. The performance for the T&I industry was largely consistent with results for the overall S&P 500. Putting aside valuations for companies in the Aerospace and Construction sectors, which continue to increase, the valuation indices in all other subsectors declined in Q2 2016. Valuations for the Automotive sector have declined to the lowest levels in three years, as reported earnings of the subsector participants are catching up to the valuations. However, this dynamic is nevertheless curious, as earnings are good and the outlook for the Automotive sector is still largely positive by Analyst consensus.

Automotive EV / EBITDA



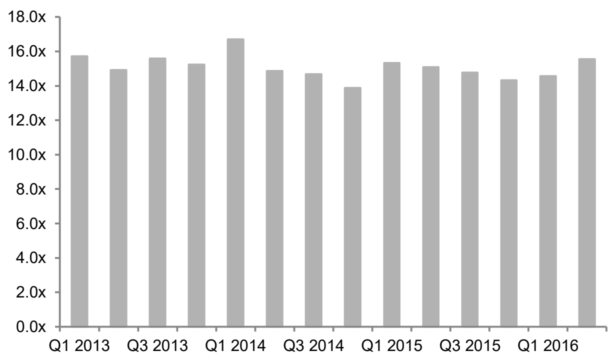
Source: CapIQ

Aerospace EV / EBITDA



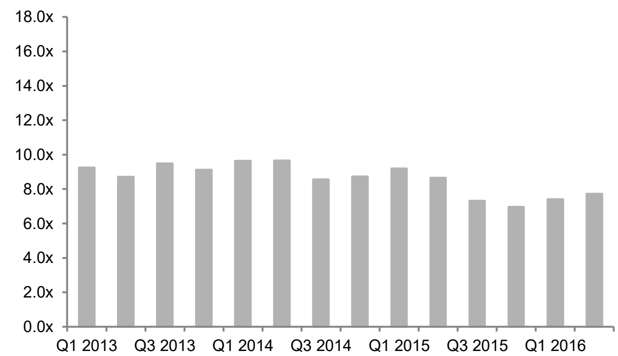
Source: CapIQ

Construction EV / EBITDA



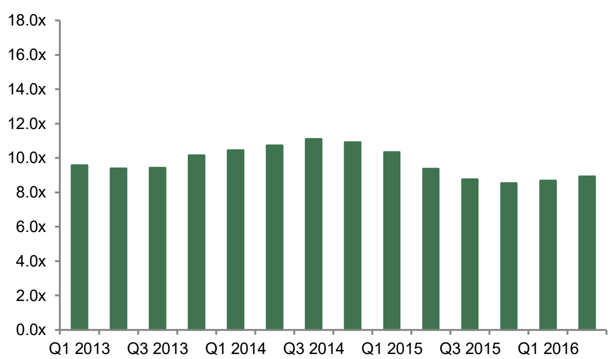
Source: CapIQ

Engineering EV / EBITDA



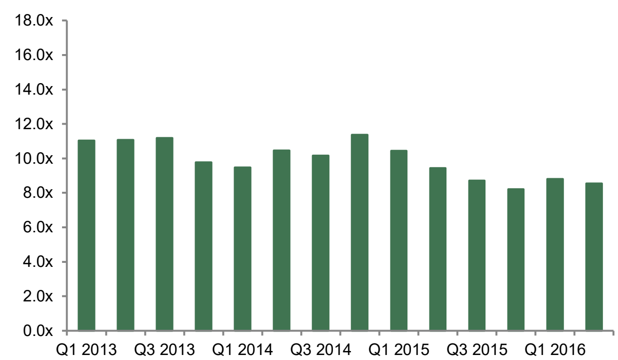
Source: CapIQ

Rail EV / EBITDA



Source: CapIQ

Trucking & Logistics EV / EBITDA

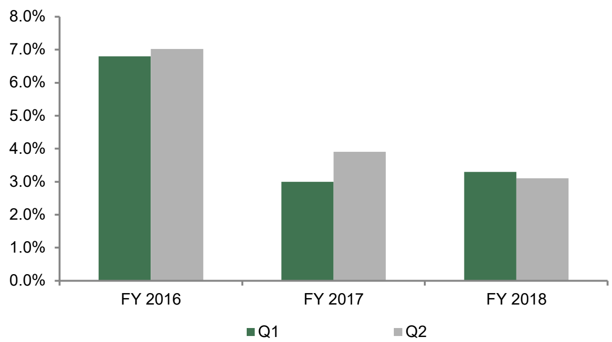


Source: CapIQ

Revenue Forecast

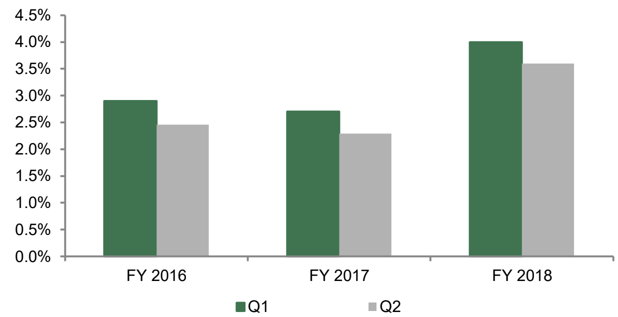
Overall, Analyst forecasts for the T&I sector was unchanged in the second quarter of 2016, as an improving economy and job market provided more optimism for the current and future years. After projecting FY 2017 Automotive sector growth of 3% in Q1, Analyst consensus in Q2 2016 improved to 4% growth. Similarly, the outlook for the engineering sector improved modestly in Q2, with Analyst consensus approximately one percentage point better than outlook in Q1. However, Analyst outlook for Aerospace growth decreased approximately 50 basis points for FY 2017 and 2018 but is still an attractive 2.5% to 3.5% per year. Consensus outlook for the Construction sector has remained largely consistent with the last quarter, but the growth outlook for Rail and Trucking & Logistics is mixed. In fact, Analysts appear to expect that improving conditions in rail in 2017 and 2018 will come at the expense of slower growth in the Trucking and Logistics sectors.

Automotive Forecast Revenue



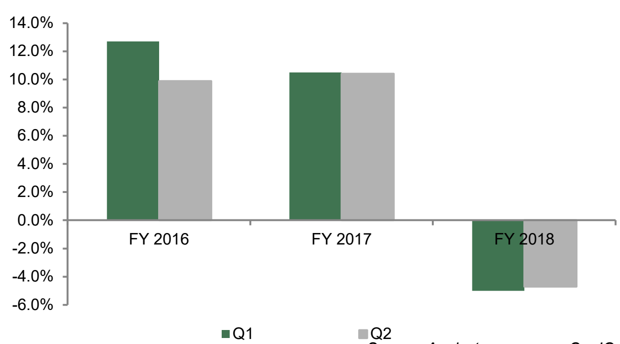
Source: Analyst consensus, CapIQ

Aerospace Forecast Revenue



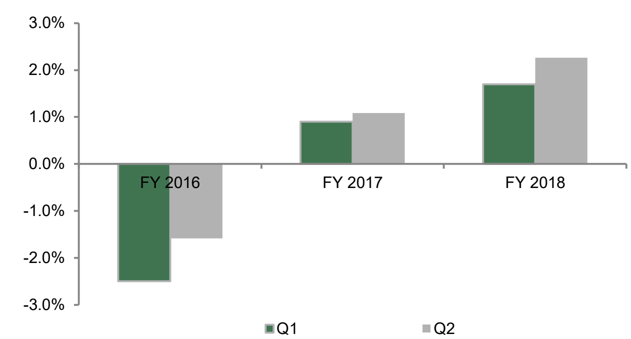
Source: Analyst consensus, CapIQ

Construction Forecast Revenue



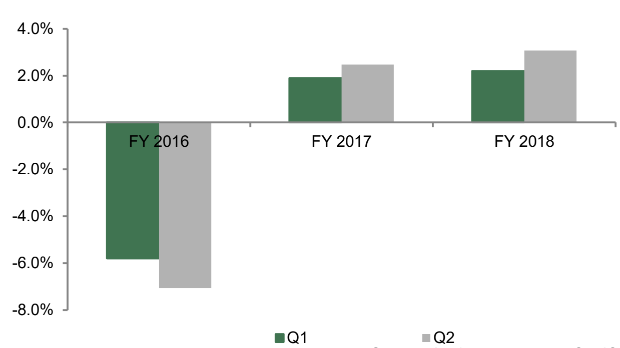
Source: Analyst consensus, CapIQ

Engineering Forecast Revenue



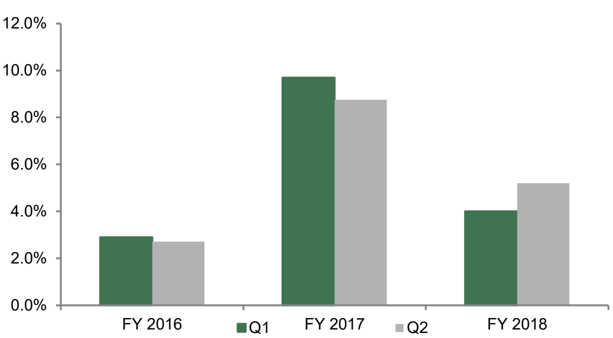
Source: Analyst consensus, CapIQ

Rail Forecast Revenue



Source: Analyst consensus, CapIQ

Trucking & Logistics Forecast Revenue

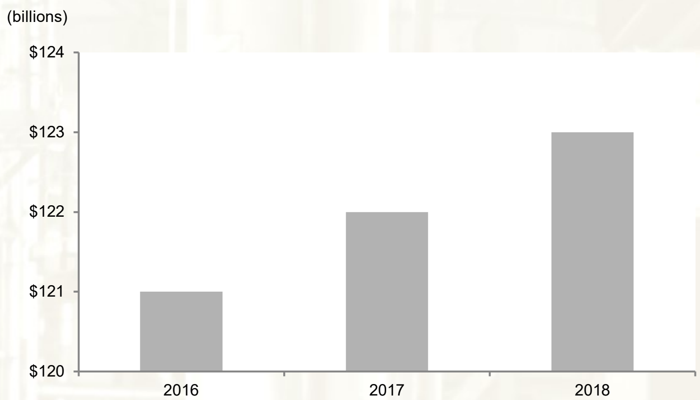


Source: Analyst consensus, CapIQ

Operational Outlook

The T&I sectors all have favorable operational outlooks through 2018, which is largely driven by Industry Analyst expectations for increased consumer spending, low fuel prices, and ample public and private infrastructure investment.

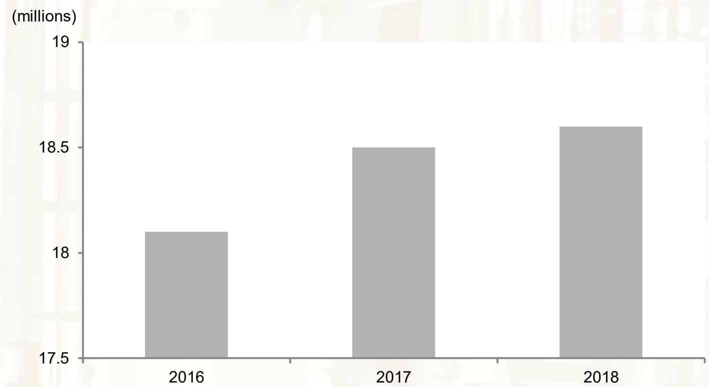
Transportation and Infrastructure Investment



Source: Oxford Economics

According to Oxford Economics, investment in transportation and infrastructure is expected to continue to increase through 2018, driven by the passage of the FAST Act, an increase in public private partnership and privatization investment, and pent up demand for infrastructure repair. Oxford Economics also projects that spending on transportation and infrastructure will grow 1.7% per year to $123 billion in 2018.

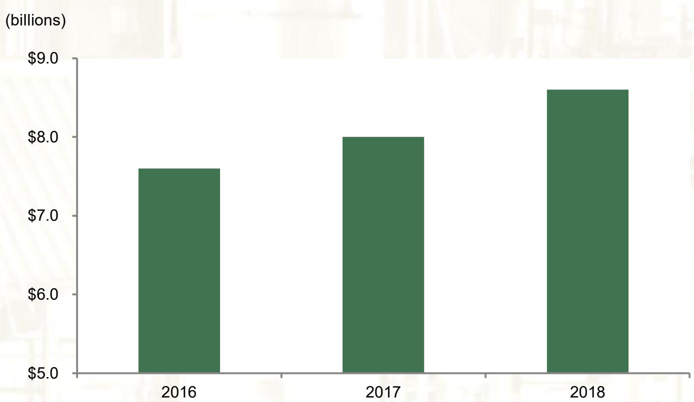
Light Vehicle Sales Projections



Source: Center for Automotive Research

Light vehicle sales are expected by a number of Analysts, including the Center for Automotive Research, to increase substantially through 2018, driven by solid macroeconomic fundamentals, an improving job market, the availability of new and exciting technology, and expected new model releases in 2018.

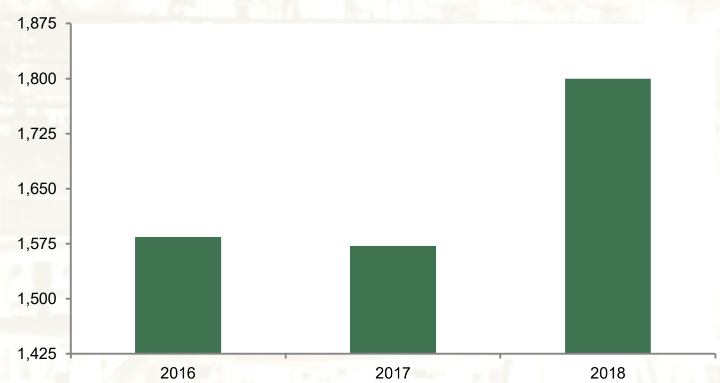
Projected Subway and Light Rail Construction



Source: ARTBA Forecast Model

Subway and light rail construction is expected to increase through 2018, largely driven by government spending, large capital projects in aging subways such as L.A. Metro, and continued urbanization of the U.S. population. Based upon the number large scale projects announced in major markets, as well as established funding from sales tax initiatives in California and Federal allocations, EdgePoint believes the country is entering a strong passenger transit investment cycle.

Airbus / Boeing Airplane Production



Sources: Airbus, Boeing, Leeham Co. estimates

The two largest manufacturers of airplanes are expected to have increased airplane production through 2018. The increase will be largely driven by increased trips per capita, according to Sabre, IHS, and Airbus. Additionally, with an aging airplane fleet needing to be replaced, these manufacturers expect to have favorable projected periods.

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

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