



AGRICULTURAL EQUIPMENT

Capital Markets Report – Q2 2018

This inaugural report contains proprietary information and data on the agricultural equipment marketplace, which can be used as a baseline for company valuations and M&A activity levels in the industry.

Presented By:

***Ag Equipment
Intelligence***

SDR*Ventures*

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M&A Trends and Key Transactions

Current Company Valuation Ranges

Since January 1, 2013, average transaction EBITDA multiples of public and private company deals in the agricultural equipment industry have been 9.8x EBITDA (earnings before interest, tax, depreciation and amortization) and 1.2x revenue. The median EBITDA multiple was slightly lower at 8.0x EBITDA. The average total enterprise value (which includes debt) was \$632.9 million, with an average disclosed revenue of \$326.6 million.

Q2 Transactions

We tracked ten ag equipment transactions during Q2 2018, 27 since the start of 2018 and 54 over the last four quarters.

Turbo Mist sprayer manufacturer Slimline Manufacturing was acquired by publicly traded Decisive Dividends during the quarter for CAD \$7.0 million, plus a potential earn-out of an additional CAD \$1.5 million. The deal was financed with CAD \$6.0 million in debt including a CAD \$1.0 million vendor take-back, plus CAD \$1.0 million in Decisive shares. This constitutes a pre-earn-out multiple of 3.9x EBITDA and potential 4.7x EBITDA multiple should the full earn-out be paid. According to Decisive's website, it invests in established manufacturing companies with strong predictable cash flow to provide its shareholders with stable and growing monthly dividends.

No other deals we tracked during the second quarter of 2018 disclosed any financial details.

The M&A Environment

Generally, the overall M&A environment in the U.S. lower middle market (firms with up to \$10 million in EBITDA) remains robust, with deal activity in Q2 2018 increasing over the first quarter and in comparison to Q2 2017. Year-to-date valuations declined in the \$10-25 million and \$100-250 million categories, remained constant in the \$25-50 million category and increased in the \$50-100 million category.

Glossary of Terms

- **Earnings before interest, tax, depreciation and amortization (EBITDA)** – A key profitability measure, which is often used in determining company valuations.
- **EBITDA multiple** – The transaction value for the company sold divided by the EBITDA of the company sold.
- **Earn-out** – A provision that the seller of a business will obtain additional future compensation if the business achieves certain financial goals.
- **Lower middle market** – A classification of companies with between \$2,000,000–\$10,000,000 of EBITDA.
- **Enterprise Value (EV)** – A measure of a company's total transaction value, which is calculated as the buyer's equity (including preferred shares, minority interests, etc.) plus debt.

It should be noted that most private company transaction values are never publicly disclosed. The transaction multiples in this report include only those in which we were able to confirm the transaction value and the accompanying multiples.

The actual market for sellers may be substantially higher, or lower, than the multiples presented in this report. It is our experience that the larger transactions at higher than average valuations are the deals in which the transaction multiples are most commonly disclosed.

The best way to ascertain the real market value of a private company is to run a competitive process by receiving real bids from real buyers. Other methods include participating and bidding as a potential buyer in competitive auctions or hiring a credible firm that understands your industry and your business to perform a professional valuation.

Agricultural Equipment Public Markets

Public Market Performance

Average agricultural equipment market valuations dropped by 1.1x EBITDA during the second quarter of 2018, from an average of 10.1x EBITDA to 9.0x EBITDA, when expressed on an adjusted “DLOM” basis (see sidebar). Median multiples also dropped but not to the same extent. This extends the valuation decline for the group since the beginning of the year.

Interestingly, the large cap manufactures had lower average valuation multiples at the end of the second quarter than the mid-sized manufacturers (8.3x vs 9.6x EBITDA, respectively). Even more interestingly, the public company dealer group (Cervus, Rocky Mountain and Titan Machinery) had higher valuation multiples than the large cap comparables.

Trimble, Raven, Lindsay and Titan International stand out in our comparison with much higher than average valuation multiples, while AGCO and CNH are laggards.

The decline in the market valuations of the publicly traded ag equipment companies during Q2 2018 was largely during the month of May; however, the drop in value was not as steep as the S&P Agribusiness index during the same period.

While sector and individual company analysts can undoubtedly provide detailed explanations for many of the individual securities, we believe the declining market conditions were largely driven by 1) the increased cost of steel and aluminum for both U.S. and Canadian manufacturers with newly imposed tariffs and 2) the deteriorating conditions of the overall agricultural market and end-customers’ lack of ability to buy or upgrade equipment.

The following pages of this report include an analysis of public companies participating in the ag equipment industry as well as select transactional data. While this information is not intended to be all-inclusive, it is meant to offer a picture of key trends and activity in the industry that may be relevant to your business.

For private business owners, the valuation multiples of comparable publicly traded companies can provide a relevant valuation metric. However, since public companies are inherently more liquid than private companies (for instance, investors can trade public company shares anytime), we apply a 30% discount to these multiples (called a Discount for Lack of Marketability or “DLOM”) to more accurately reflect private company valuations.



Trailing Twelve Months M&A Transactions & Historical Trends

| Date | Target | Buyer | Target's Business Description | EV (\$mm) | EV / Rev | EV / EBITDA |
|------------|----------------------------------|-------------------------------------|--|-----------|----------|-------------|
| 6/20/2018 | Elder Sales & Service | LandPro Equipment | Distributes and sells farm equipment | - | - | - |
| 6/04/2018 | Auto-Rain Supply | SiteOne Landscape Supply | Wholesales farm and garden machinery and irrigation supplies and equipment | - | - | - |
| 5/31/2018 | W & A Manufacturing Company | AGROdeviate | Manufactures farm machinery and equipment | - | - | - |
| 5/21/2018 | Greenhaus Industries | Pipp Mobile Storage Systems | Manufactures multi-level cultivation and drying systems for indoor ag industry | - | - | - |
| 5/14/2018 | Slimline Manufacturing | Decisive Dividend Corp. | Products include turbo-mist agricultural sprayers, evaporation systems and more | 6.6 | - | - |
| 4/11/2018 | Grant County Farm Equipment | Undisclosed | Farm equipment dealer | - | - | - |
| 4/10/2018 | Acer Water Tanks | Ahrens Group | Provides water tanks for commercial, municipal and residential projects | - | - | - |
| 4/10/2018 | Franklin Robotics | Husqvarna AB | Develops and manufactures a robotic weeder, Tertill | - | - | - |
| 4/04/2018 | VAB Solutions | Baxley Equipment Company (Arkansas) | Offers mill optimization systems, automated systems and sorting, supplies, etc. | - | - | - |
| 4/02/2018 | Buchanan Power Equipment | Koenig Equipment | Supplies lawn/garden equipment and offers mobile maintenance and parts | - | - | - |
| 3/24/2018 | Horizon Equipment | Ag-Power | Supplies and retails ag/farm/turf equipment and parts | - | - | - |
| 3/23/2018 | Larson Farm and Lawn | Heritage Tractor | Farm and lawn machinery and equipment dealer | - | - | - |
| 3/19/2018 | L.T. Rich Products | The Toro Company | Manufactures commercial zero-turn spreader and sprayers, aerators, etc. | - | - | - |
| 3/14/2018 | Tri-County Farmers Equipment | H&R Agri-Power | Farm machinery and equipment dealer | - | - | - |
| 3/02/2018 | King Agro | Deere & Company | Manufacturer of carbon fiber technology products for the agricultural industry | - | - | - |
| 3/01/2018 | HyComp | Saint Gobain Performance Plastics | Manufactures advance composite parts | - | - | - |
| 2/27/2018 | Hydratec | Undisclosed | Designer and installer of agricultural irrigation products and systems for farmers | - | - | - |
| 2/26/2018 | Evergreen Implement | RDO Equipment Company | Supplies and retails farm machinery and equipment | - | - | - |
| 2/12/2018 | Atlantic Irrigation Specialties | SiteOne Landscape Supply | Provides irrigation, equipment, lighting, artificial turf, tools, and water features | - | - | - |
| 2/08/2018 | Torrent Engineering & Equipment | Valmont Industries | Designs compressed air and pressure water systems | - | - | - |
| 2/07/2018 | Yearwood Equipment Company | H&R Agri-Power | Farm machinery and equipment dealer | - | - | - |
| 2/02/2018 | Valley Vineyard & Orchard Supply | Clearview Capital | Manufactures and distributes vineyard cross arms, T-posts and supplies | - | - | - |
| 1/30/2018 | Quadco And Southstar Forestry | Komatsu | Manufactures attachments | - | - | - |
| 1/17/2018 | CMC Industrial Electronics | Ag Growth International | Design and manufactures monitoring systems for grain and other commodities | 6.2 | - | - |
| 1/16/2018 | SkySquirrel Technologies | VineView | Develops drone based technology for monitoring crop health | - | - | - |
| 1/03/2018 | Valley Farms Supply | Franklin Electric Company | Provides water well and waste water treatment equipment | 9.0 | - | - |
| 12/28/2017 | Junge Control | Ag Growth International | Manufactures and distributes automation, measurement, and blending systems | 20.0 | - | - |
| 12/14/2017 | MacDon Industries | Linamar Corporation | Designs, manufactures, and distributes harvesting equipment | 934.3 | 2.0x | - |
| 11/02/2017 | Rayco Manufacturing | Morbark; Stellex Capital | Manufactures environmental, forestry, landscaping, and construction equipment | - | - | - |
| 10/26/2017 | Corix Water Products | Groupe Deschênes | Manufactures pipes, valves, fire hydrants, water meters and irrigation equipment | - | - | - |
| 10/24/2017 | Delta-T Corp. (Kentucky) | Lindsay Goldberg & Company | Designs and manufactures commercial and agricultural ventilation fans | 500.0 | 2.1x | - |
| 10/20/2017 | AgEagle Aerial Systems | EnerJex Resources | Designs, develops, produces, distributes and supports drone aerial vehicles | 20.0 | - | - |
| 10/19/2017 | Apache | Genuine Parts Company | Offers baler and industrial belting, fasteners, lacing, spray, steam, etc. | - | - | - |

Sources: FactSet financial data and analytics; S&P Capital IQ; Deal Stats

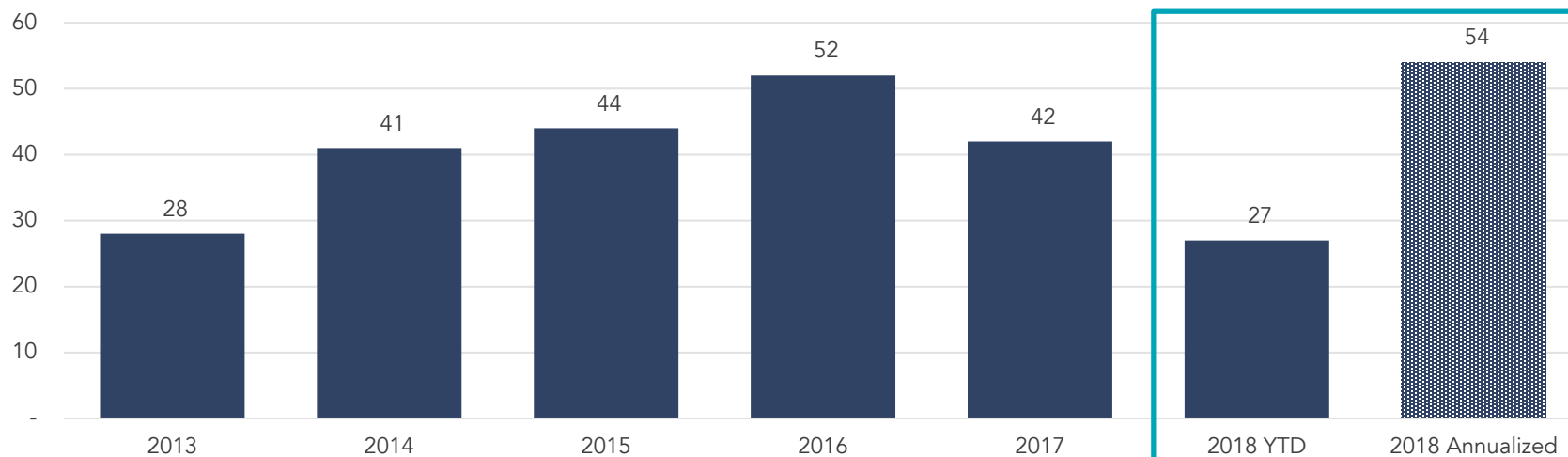
Trailing Twelve Months M&A Transactions (Cont.) & Historical Trends

| Date | Target | Buyer | Target's Business Description | EV (\$mm) | EV / Rev | EV / EBITDA |
|------------|------------------------------------|--------------------|---|-----------|----------|-------------|
| 10/02/2017 | Spectrum King | Banjo & Matilda | Manufactures and sells LED grow lights used in horticulture operations | - | - | - |
| 9/06/2017 | Blue River Technology | Deere & Company | Developes computer vision and robotics technology for agricultural applications | 305.0 | - | - |
| 9/06/2017 | Morris Industries | Avrio Capital Inc. | Manufactures and sells farm equipment | - | - | - |
| 7/25/2017 | Precision Planting (Equipment Div) | AGCO Corporation | Precision planting equipment manufacturing and distribution | - | - | - |
| 7/06/2017 | Olson Irrigation Systems | AEA Investors | Designs and produces filters and irrigation components | - | - | - |

Historical Transactions Summary¹

| Metric | Value |
|-------------------------------|-----------------|
| Average Revenue | \$326.6 Million |
| Average Enterprise Value (EV) | \$632.9 Million |
| Average EV/Revenue Multiple | 1.2x |
| Average EV/EBITDA Multiple | 9.8x |

Transaction Count by Year



Note: 1- Data apply to Agriculture and Farm Equipment deals dating back to January 1, 2013

Sources: FactSet financial data and analytics; S&P Capital IQ; Deal Stats

Public Company Analysis

| Company | Stock Price Performance | | | Capitalization (mm) | | 2015-2017 CAGR | | 2017 | Valuation Metrics | | | | |
|---------------------------------|-------------------------|-----------|----------|---------------------|--------------|----------------|--------|------------------|-------------------|---------|-----------|---------|---------|
| | Q2 2018 | % of 52 | % Change | Market | Enterprise | Revenue | EBITDA | EBITDA Margin | EV/Revenue | | EV/EBITDA | | |
| | Stock Price | Week High | 1 Year | Capitalization | Value | | | | YE 2017 | Q2 2018 | YE 2017 | Q1 2018 | Q2 2018 |
| Caterpillar Inc. | \$ 135.7 | 78.3% | 26.3% | \$ 80,632.1 | \$ 107,951.1 | (1.7%) | 5.0% | 18.8% | 2.7x | 2.7x | 17.4x | 13.4x | 11.4x |
| Deere & Company | 139.8 | 79.8% | 13.1% | 45,335.0 | 81,577.5 | 1.1% | 13.0% | 19.0% | 2.5x | 2.5x | 16.6x | 14.4x | 12.8x |
| Kubota Corporation | 78.7 | 73.9% | -6.3% | 19,388.6 | 23,796.1 | 6.7% | (1.2%) | 14.0% | 1.9x | 1.9x | 14.5x | 12.5x | 10.3x |
| CNH Industrial NV | 10.5 | 67.3% | -7.5% | 14,273.7 | 34,574.7 | 2.8% | 0.2% | 12.9% | 1.4x | 1.4x | 10.4x | 10.3x | 8.4x |
| Trimble Inc. | 32.8 | 100.0% | -7.9% | 8,206.7 | 9,054.7 | 7.6% | 8.5% | 16.7% | 4.1x | 4.1x | 24.1x | 21.0x | 18.9x |
| Toro Company | 60.3 | 82.6% | -13.0% | 6,353.7 | 6,449.5 | 2.6% | 9.3% | 16.7% | 2.8x | 2.8x | 16.8x | 15.9x | 15.2x |
| AGCO Corporation | 60.7 | 79.9% | -9.9% | 4,804.0 | 6,641.0 | 5.5% | 3.6% | 8.4% | 0.9x | 0.9x | 11.6x | 9.5x | 6.2x |
| Valmont Industries, Inc. | 150.8 | 85.5% | 0.8% | 3,378.0 | 3,693.5 | 2.4% | 7.4% | 12.8% | 1.5x | 1.5x | 11.7x | 10.3x | 10.4x |
| Advanced Drainage Systems, Inc. | 28.6 | 88.9% | 42.0% | 1,625.2 | 2,303.7 | 1.5% | 3.6% | 13.4% | 1.6x | 1.6x | 13.8x | 13.4x | 12.9x |
| Raven Industries, Inc. | 38.5 | 90.7% | 15.5% | 1,378.2 | 1,337.7 | 20.9% | 40.6% | 19.7% | 3.1x | 3.6x | 19.9x | 17.6x | 18.0x |
| Alamo Group Inc. | 90.4 | 74.9% | -0.5% | 1,049.1 | 1,120.5 | 1.8% | 4.2% | 12.0% | 1.5x | 1.5x | 14.4x | 11.9x | 10.7x |
| Lindsay Corporation | 97.0 | 94.1% | 8.7% | 1,043.4 | 1,058.1 | (3.8%) | (9.1%) | 11.0% | 1.8x | 1.8x | 16.5x | 16.3x | 17.2x |
| Ag Growth International Inc. | 42.1 | 69.4% | -5.3% | 693.3 | 1,122.1 | 35.0% | 62.4% | 14.1% | 1.8x | 1.8x | 14.0x | 13.2x | 13.2x |
| Titan International, Inc. | 10.7 | 73.8% | -10.7% | 642.2 | 1,096.7 | 2.6% | 15.5% | 4.1% | 0.8x | 0.8x | 28.1x | 19.2x | 13.5x |
| Titan Machinery Inc. | 15.6 | 62.0% | -13.5% | 343.6 | 636.5 | (6.2%) | 63.1% | 3.1% | 0.5x | 0.6x | 30.6x | 27.4x | 17.1x |
| Cervus Equipment Corporation | 10.8 | 68.3% | 27.0% | 169.6 | 362.7 | 3.8% | 8.3% | 4.2% | 0.4x | 0.4x | 9.6x | 7.6x | 9.1x |
| Rocky Mountain Dealerships Inc. | 8.4 | 58.4% | 9.2% | 166.5 | 456.8 | (0.8%) | 7.1% | 5.0% | 0.6x | 0.6x | 12.4x | 11.7x | 12.6x |

Financial Metrics

| | | | | | | | | |
|--------|------|-------|-------|------|------|-------|-------|-------|
| Mean | 4.8% | 14.2% | 12.1% | 1.7x | 1.8x | 16.6x | 14.5x | 12.8x |
| Median | 2.6% | 7.4% | 12.9% | 1.6x | 1.6x | 14.5x | 13.4x | 12.8x |

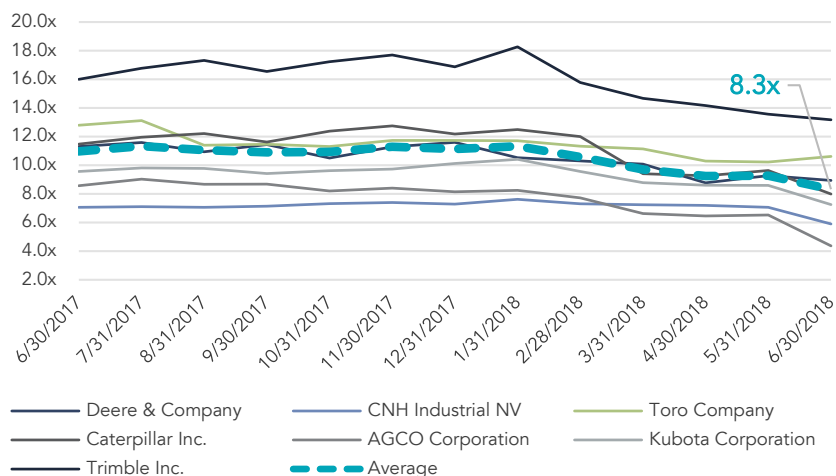
Metrics with 30.0% DLOM

| | | | | | |
|--------|------|------|-------|-------|------|
| Mean | 1.2x | 1.3x | 11.6x | 10.1x | 9.0x |
| Median | 1.1x | 1.1x | 10.1x | 9.4x | 8.9x |

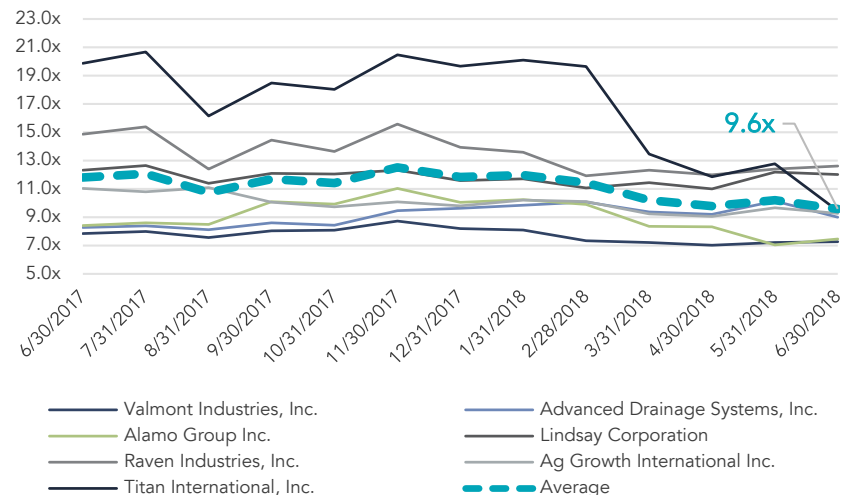
Notes: 1. Uses a 30% DLOM (Discount for Lack of Marketability) – see page 2 sidebar; 2. CAGR is Compound Annual Growth Rate
Sources: FactSet financial data and analytics; S&P Capital IQ

Public Comparable Historical EV/EBITDA Multiples with 30% DLOM

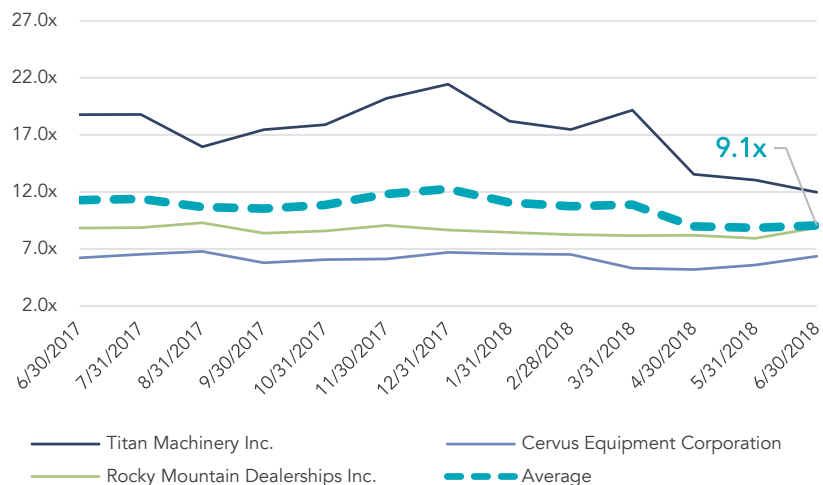
Large Cap Manufacturers



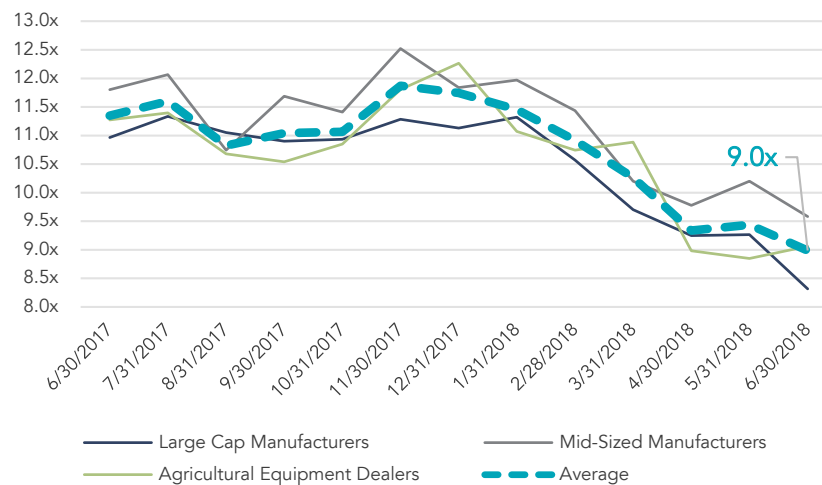
Mid-Sized Manufacturers



Agricultural Equipment Dealers



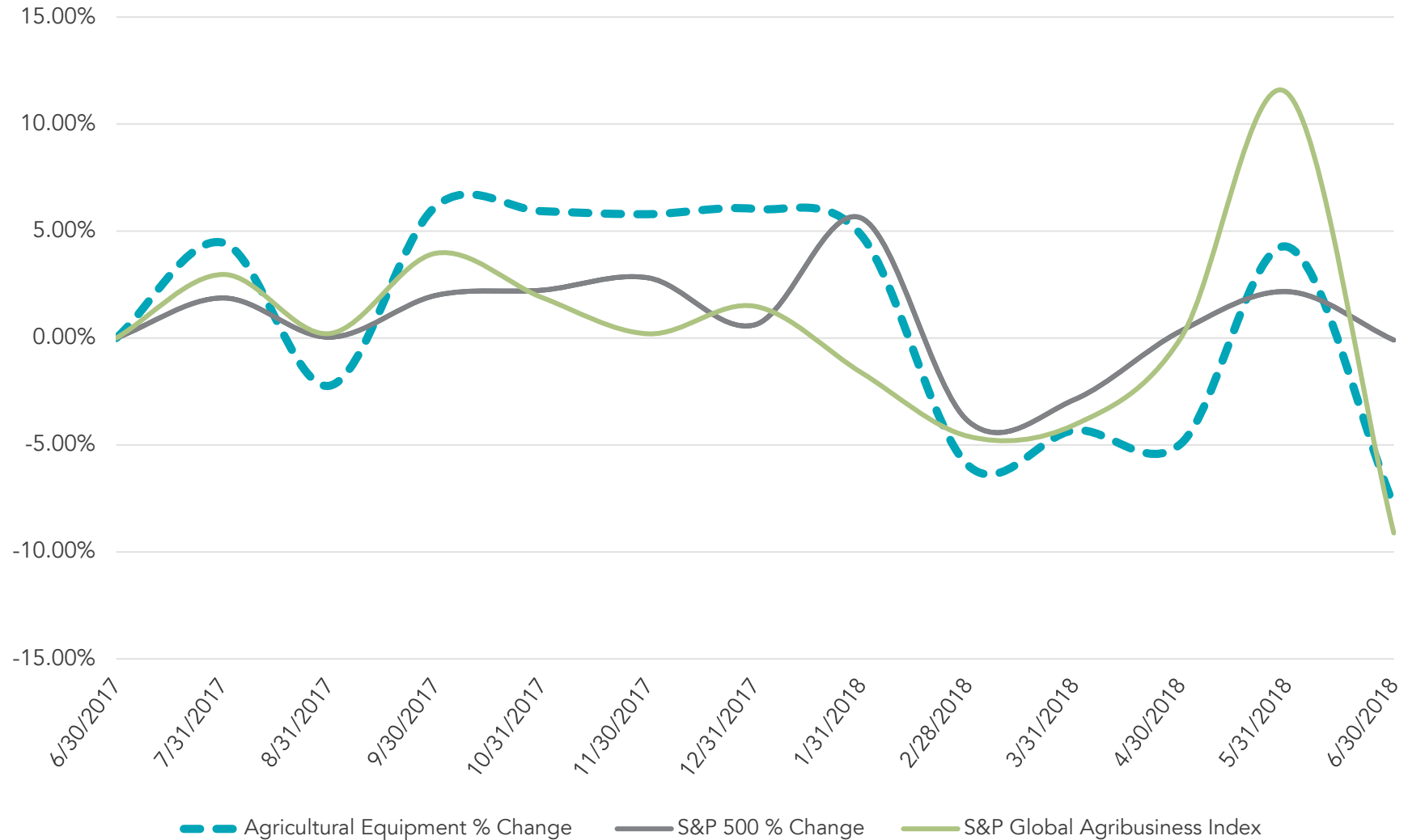
Average by Category



Notes: Uses a 30% DLOM (Discount for Lack of Marketability) – see page 2 sidebar
Sources: FactSet financial data and analytics; S&P Capital IQ

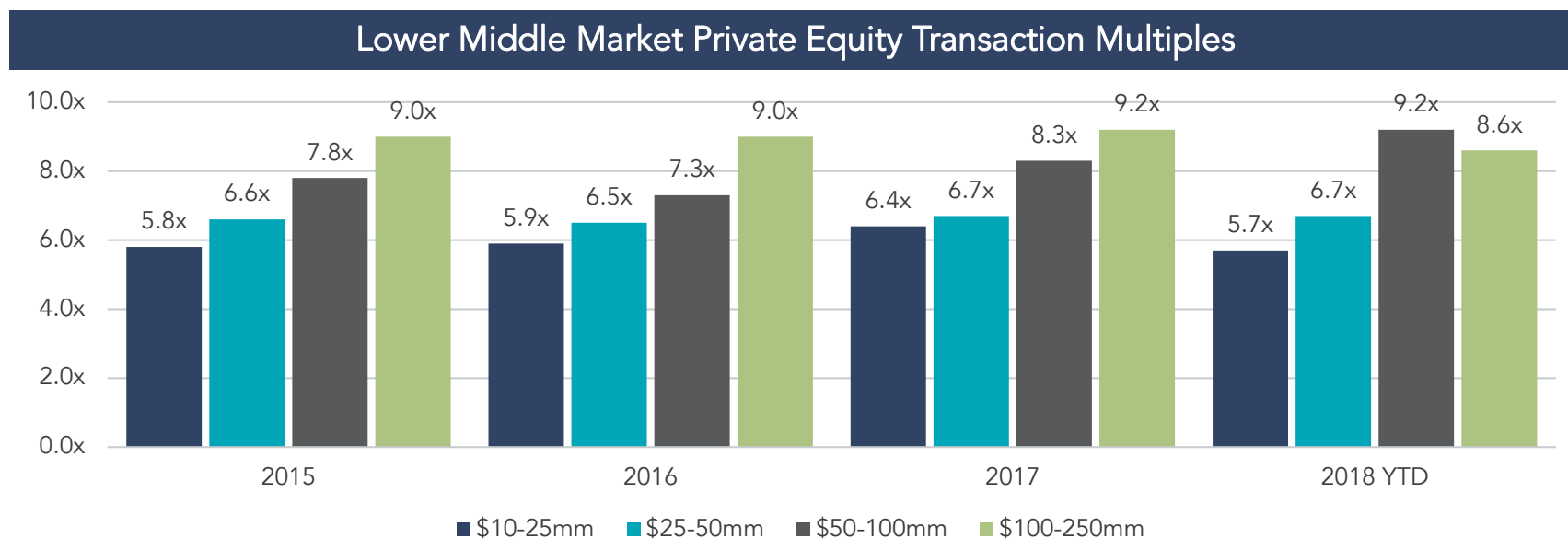
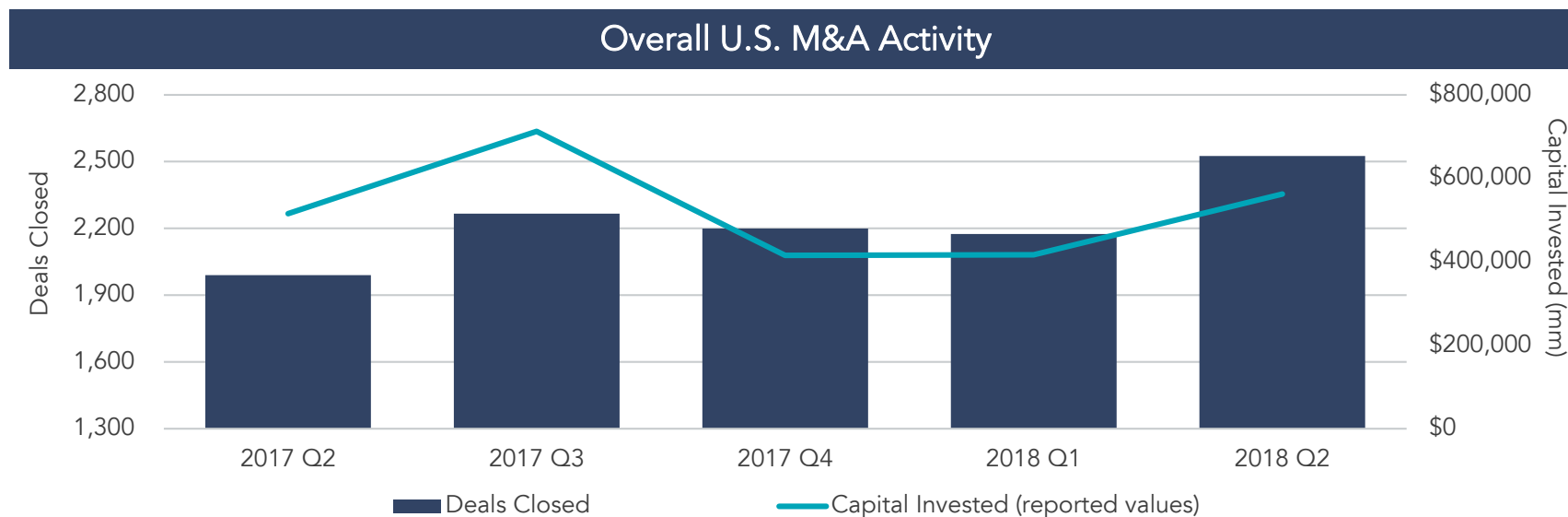
LTM Performance Against S&P 500 and Global Agribusiness Index

Agricultural Equipment vs S&P 500 vs S&P Global Agribusiness Index



Sources: FactSet financial data and analytics; S&P Capital IQ

U.S. M&A Activity Snapshot



Sources: FactSet financial data and analytics; GF Data®

SDR VENTURES OVERVIEW

Thought Leadership and Transactional Expertise in Ag and Food

Ag Equipment Intelligence

SDR Ventures

ERIC BOSVELD

Eric Bosveld leads SDR Ventures' mergers and acquisition advisory services in the U.S. and Canada for businesses serving and participating in the Ag and Food industry. He is also President and Founder of Bosveld and Associates, an advisory firm helping small and mid-sized private companies make the big, long-term decisions that are right for all their stakeholders.

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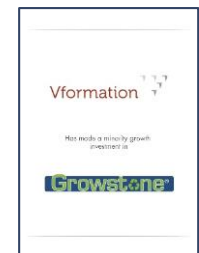
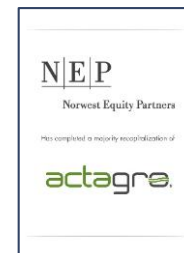
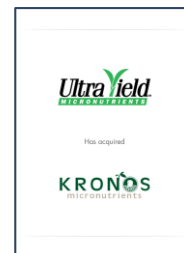
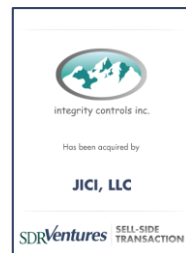
NEGOTIATE FAVOURABLE DEAL TERMS

- From execution of LOI to close, we are here to help produce outsized results
- Our experience closing deals will help you navigate complicated deal terms

OUTSOURCED BUSINESS DEVELOPMENT TEAM

- Save time and money involved in hiring a full-time business development team
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SELECT TRANSACTIONS



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Q2 2018 EDITION