



Welding Equipment and Hardgoods Market Insights

March 2013



Investment Banking Solutions for the Middle Market



Industry Report

Investment Banking Solutions for the Middle Market

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I. Executive Summary

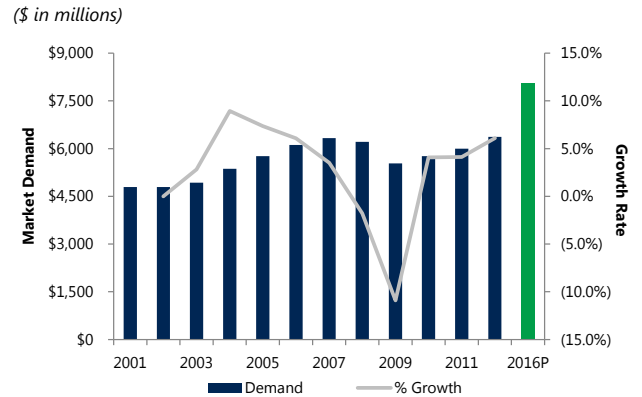
Overview

The U.S. welding equipment and hardgoods market represents an expanding \$6 billion industry. The market is principally segmented into equipment and hardgoods product categories, which are primarily consumed in the manufacturing, repair & maintenance, and construction end markets. Demand for welding equipment and hardgoods is highly correlated to the overall economy, specifically in the manufacturing and construction sectors. Despite being hit hard in the 2008/2009 recession, the welding equipment and hardgoods market has grown over the last 10-years and is projected to expand through 2016.

Historically, the U.S. has been a net exporter of welding equipment and hardgoods as it is the headquarters of two world-leading manufacturers, Lincoln Electric and Illinois Tool Works (via Miller Electric). The dollar value of exports increased from \$810 million in 2006 to \$915 million in 2011 while imports increased from \$715 million in 2006 to \$860 million in 2011; however, it is projected that by 2016, the U.S. will no longer remain a net exporter. Overall, the domestic market for welding equipment and hardgoods is projected to increase from \$6.0 billion to \$8.1 billion from 2011 to 2016, representing a Compound Annual Growth Rate ("CAGR") of 6.1%.

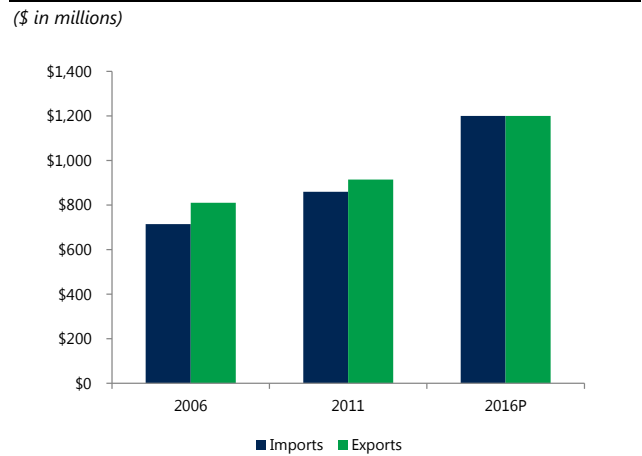
With hundreds of suppliers participating in the U.S., the principal types of companies that comprise the industry are welding equipment (arc, resistance, oxyfuel, laser beam, and ultrasonic) and hardgoods (welding consumable electrode and filler metal) suppliers. While the producers of welding equipment demonstrate relative specialization in equipment, the welding electrode and filler metal segments also focus on particular niches (i.e., wire specialists that apply flux coatings to rod). In addition to the welding equipment and hardgoods market, League Park has also extensively researched the packaged gas market, which is analyzed in our Industrial and Specialty Gas Industry Insights Report.

Figure 1: U.S. Welding Market Demand, 2001 – 2016P



Sources: The Freedonia Group, League Park Estimates

Figure 2: U.S. Welding Market Trade, 2006 – 2016P



Sources: The Freedonia Group, League Park Estimates

II. Product Overview

The primary welding product categories are segmented into equipment and hardgoods. Historically, equipment has consistently accounted for more than 50% of demand and represented 69% of demand in 2011. The mix between equipment and hardgoods is not expected to materially change through 2016 as the projected growth will be largely driven by an increasing number of applications in which various types of welding equipment can be applied.

Equipment

Demand for welding equipment decreased from \$3.8 billion to \$3.7 billion from 2006 to 2011, respectively, and is projected to increase to \$5.0 billion by 2016. The equipment segment includes a wide assortment of durable goods and supporting equipment, accessories, and replacement parts that are directly involved in the welding process. The principal welding processes include:

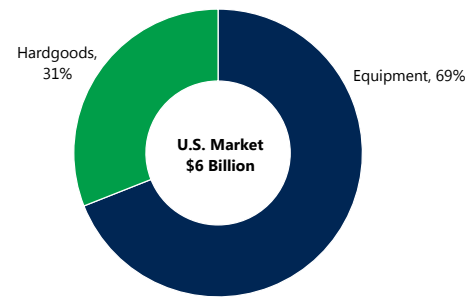
- Arc welding – creates an electric arc between an electrode and the base material to melt the metals together.
- Resistance welding – joins metal by applying pressure and electric current, and heating them until it is melted together at the point of contact.
- Oxyfuel welding – uses a mix of gases to fuel a torch to join two metal components together.

Due to the capital intensity of welding equipment purchases, the equipment market tends to be slightly more volatile than the hardgoods market; however, as referenced previously, the equipment market is projected to exhibit solid growth over the medium-term.

Hardgoods

Demand for welding hardgoods remained relatively flat at \$1.6 billion from 2006 to 2011 and is projected to increase to \$2.2 billion by 2016. The hardgoods segment includes welding electrodes and filler metals. The welding electrodes and filler metal are utilized by all arc-welding and oxyfuel-welding processes. In addition to hardgoods, the sector also consumes a large amount of personal protective equipment, such as shields, gloves, and screens. The personal protective equipment market is approximately \$7 billion in annual demand and tends to be a fairly stable market with consistent growth.

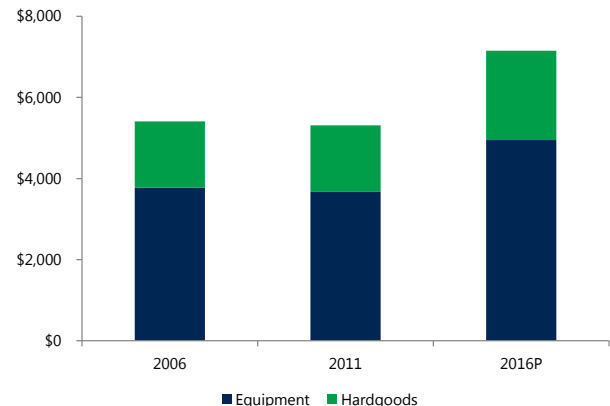
Figure 3: U.S. Domestic Demand by Product



Sources: The Freedonia Group, League Park Estimates

Figure 4: Trends in Demand by Product, 2006 – 2016P

(\$ in millions)



Sources: The Freedonia Group, League Park Estimates

III. Market Overview

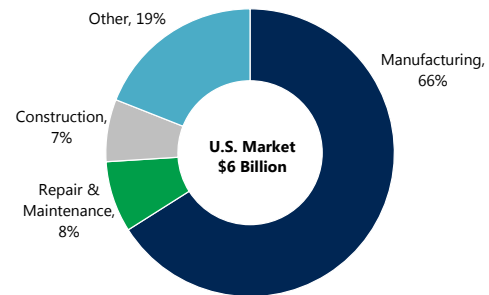
Market Definition and Segmentation

The primary end markets for welding equipment and hardgoods include manufacturing, repair and maintenance, construction, and other markets:

- Manufacturing – demand increased from \$3,921 million to \$3,955 million from 2006 to 2011, respectively, and is projected to increase to \$5,219 million by 2016.
- Repair and Maintenance – demand decreased from \$492 million to \$463 million from 2006 to 2011, respectively, and is projected to increase to \$644 million by 2016.
- Construction – demand decreased from \$647 million to \$452 million from 2006 to 2011, respectively, and is projected to increase to \$791 million by 2016.
- Other – demand increased from \$1,053 million to \$1,130 million from 2006 to 2011, respectively, and is projected to increase to \$1,413 million by 2016.

The nature of welding, particularly in the manufacturing sector, has increasingly resulted in companies adopting automation due to advances in technology and repetitive performance of metal joining tasks. Specifically, automation is widely applied in production welding due to its ability to complete a high volume of repetitive welds accurately and without fatigue. Furthermore, automated machines enable and drive production efficiency in hazardous environments.

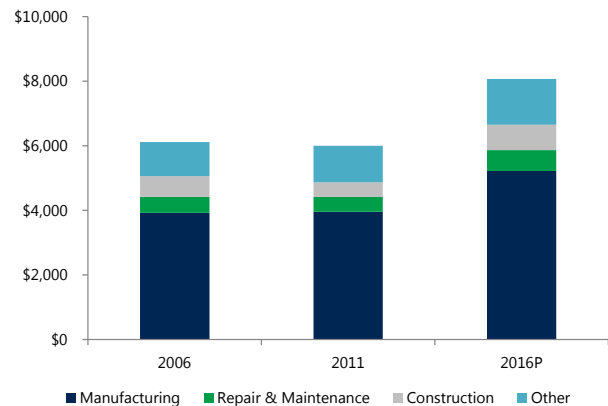
Figure 5: U.S. Domestic Demand by Market



Sources: The Freedonia Group, League Park Estimates

Figure 6: Trends in Demand by Market, 2006 – 2016P

(\$ in millions)



Sources: The Freedonia Group, League Park Estimates

Manufacturing

Demand in the manufacturing sector is primarily driven by fabricated metal products. Metal fabrication performs sawing, bending, machining, and welding to structural steel and sheet metals to meet customer specific requirements. The primary welding methods within manufacturing include arc welding, resistance welding, and oxyfuel welding and cutting. Other welding applications include the manufacture of products in transportation, agriculture, construction, and mining equipment.

U.S. manufacturing shipments steadily increased after the 2008/2009 recession, demonstrating strong momentum into 2013 and beyond. Recovery in transportation equipment and motor vehicles will drive demand for welding goods and services through the forecast period. In addition, increasing investment in heavy machinery is anticipated to drive demand for welding equipment and hardgoods as the economic recovery continues.

Repair and Maintenance

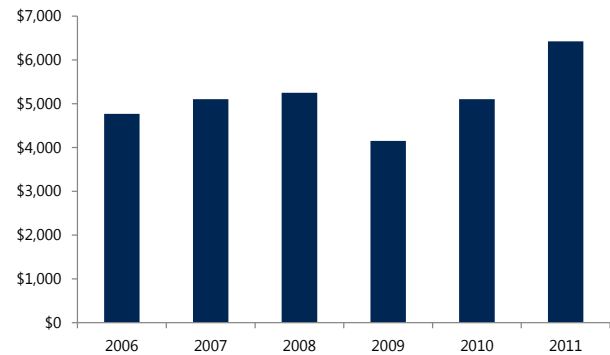
The repair and maintenance sector is principally driven by automotive repair, but also includes infrastructure activities such as utility, bridge, and waste water maintenance. The trend of U.S. motor vehicles in use has been positive, with the exception of the 2008/2009 recession, and is anticipated to drive growth in the near-term.

The \$200-plus billion automotive aftermarket is a very steady market and has grown at an average annual rate of 3.5% since 1988. While the market is highly stable, companies tend to benefit from high degree of non-discretionary demand and steady growth. Stability in the aftermarket sector is driven by multiple factors, including:

- Aftermarket parts are relatively low cost items when compared to the cost of new vehicle.
- Demand for parts and service are typically need-based.
- Vehicle owners' desire to care for a significant investment.
- Demand is tied to the growing overall base of vehicles, not merely new vehicle sales.

Figure 7: U.S. Manufacturing Shipments, 2006 – 2011

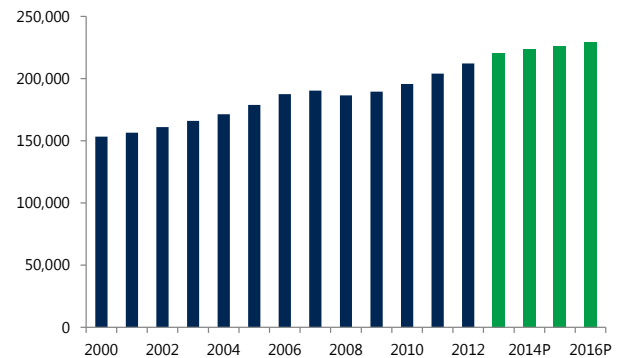
(\$ in millions)



Sources: The Freedonia Group, League Park Estimates

Figure 8: Units of Light Auto Vehicles, 2000 – 2016P

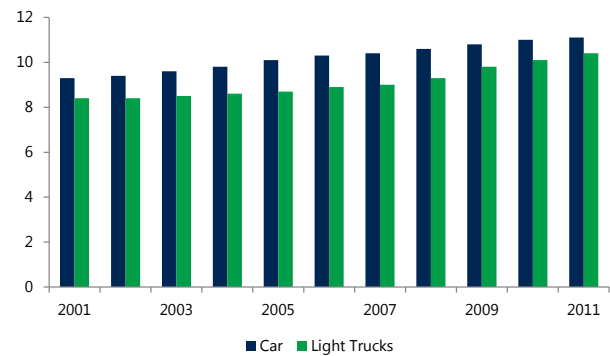
(units in thousands)



Sources: AAI, Gabelli & Company, The Freedonia Group, League Park Estimates

Figure 9: Light Vehicle Average Age, 2001 – 2011

(units in years)



Source: U.S. Department of Energy, League Park Estimates

Construction

The construction market is principally driven by the building of structures and pipeline construction. Construction expenditures in the U.S. have been at its lowest levels since 2006, but the market is stabilizing and expected to rebound in the forthcoming years as the economy and the housing market recovers.

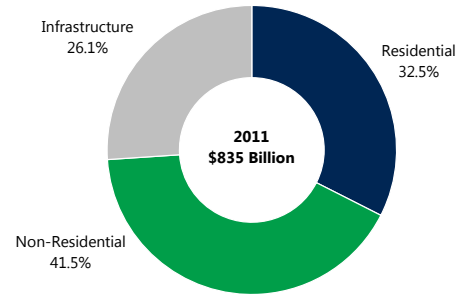
The construction market is anticipated to increase in demand over the period from 2011 to 2016, surpassing the repair and maintenance market and regaining its position as the second-largest welding equipment and hardgoods market segment. The relatively low mortgage rate environment, increasing disposable income, and projected 9% U.S. population growth over the next 10 years are potential market drivers for residential construction to grow from \$265 billion in 2012 to \$401 billion by 2016. In addition, the \$340-plus billion non-residential construction market has shown consistent growth over the past 24 months and projected to reach \$433 billion by 2016. Lastly, the outlook for infrastructure construction is projected to grow from \$221 billion in 2012 to \$281 billion by 2016, principally driven by appropriated funding and energy-related construction. Revitalized construction activity and pipeline construction welding activities are high potential growth drivers for welding equipment and hardgoods over the medium-term.

Other Markets

The remaining \$1,130 million of domestic demand is primarily comprised of energy and power generation along with consumer, mining (excluding coal mining), warehousing, equipment leasing, educational facilities, and research laboratories.

The other markets is anticipated to increase by approximately \$300 million over the period from 2011 to 2016. Enhanced support and investment in traditional and alternative energy technologies will strengthen gains in demand for welding equipment and hardgoods through the forecast period.

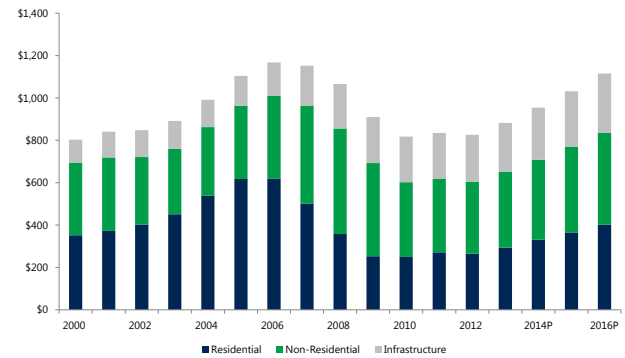
Figure 10: Construction Industry Composition



Sources: FMI, League Park Estimates

Figure 11: U.S. Construction Spending, 2000 – 2016P

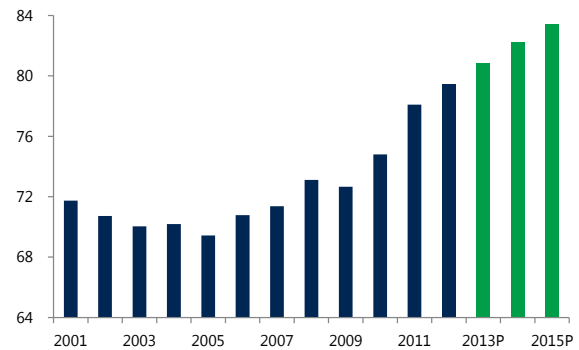
(\$ in billions)



Sources: FMI, League Park Estimates

Figure 12: U.S. Primary Energy Production, 2001 – 2015P

(units in quadrillion Btu)



Source: U.S. Energy Information Administration, League Park Estimates

Industry Trends

Sound Market Growth

The manufacturing market will continue to dominate the U.S. market for welding equipment and hardgoods through 2016. However, growth in the construction and repair and maintenance markets will outperform manufacturing growth. Driven by the economic recovery and deferred maintenance, the repair and maintenance and construction markets are projected to have annual growth of 6.8% and 11.8%, respectively, compared to manufacturing's annual growth rate of 5.7%.

U.S. Manufacturing Renaissance

While developing countries such as China have demonstrated a significant manufacturing cost advantage over the U.S. for decades, the gap is rapidly shrinking due to (i) rising wage and benefit costs in China; (ii) increasing U.S. productivity; (iii) lower U.S. energy costs; and (iii) weakening U.S. dollar. Some manufacturing may shift from China to nations with lower labor costs (e.g., Vietnam, Indonesia, Mexico), but these nations are currently limited by inadequate infrastructure, skilled workers, scale, as well as political and intellectual property risks. League Park believes that growth of manufacturing in the U.S. will become more pronounced over the next five years and be driven by our strong energy reserves over the long run.

Safer Welding Machinery and Processes

Workers in the welding occupation are exposed to hazardous environments, particularly working near an open arc or flame. While protective gear such as heavy leather gloves, long sleeves, heavy aprons, and eye protection are utilized, safety and health issues remain a major concern. Along with improvements in personal protection equipment, the American National Standards revised its welding safety procedures in 2012 and the Occupational Safety and Health Administration has numerous regulations regarding the safe performance of welding, cutting, and brazing operations. In order to mitigate liabilities and workplace injuries, some employers are finding automated machines as sound alternatives for such hazardous environments; however, we believe these changes will have little to no impact on the \$7 billion personal protective equipment market.

Broad Spectrum of Suppliers

The three basic types of companies that participate in the welding equipment and hardgoods market are welding equipment suppliers, welding consumable electrode and filler metal suppliers, and industrial gas suppliers. The leading industry suppliers are Lincoln Electric, Illinois Tool Works, and Colfax Corporation while the leading suppliers of industrial gases used in welding processes are Airgas, Air Products, Linde, Praxair, and Matheson. While the majority of the market demand is satisfied by the companies listed above, the less traditional forms of welding such as ultrasonic, laser welding equipment, friction-stir, and electron beam are recognized as more specialized projects, requiring the expertise of specific companies that offer them.

Fragmented Distributor Base

The welding equipment and hardgoods distribution industry is highly fragmented with approximately 900 participants. League Park believes that continued consolidation will exist throughout the distribution sector and the 900 market participants. However, due to the unique product or market demands, we believe that the sub-segments need to be assessed by individual markets and potentially on a regional basis. Nonetheless, the distributor provides the value of having the right product, at the right time, at the right place, which allows industrial companies such as welders and manufacturers to focus on their core competencies and not deal with having a large purchasing staff or warehousing facilities.

Balanced Trade

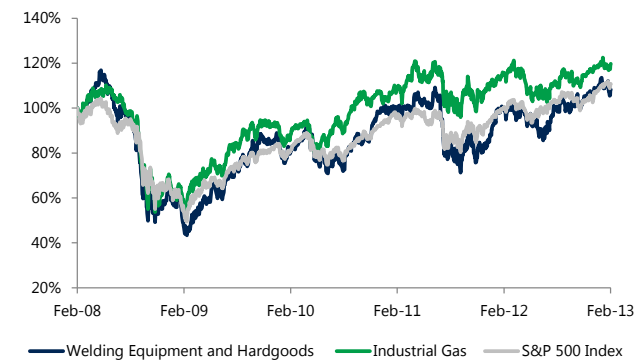
The U.S. engages in significant trade related to the various types of welding equipment and has been maintaining a net export position since 2006. However, imports (\$860 million in 2011) are projected to outpace exports (\$915 million in 2011), reaching equal volume (\$1.2 billion) by 2016. Among welding equipment, we believe that the U.S. will remain a net exporter in the arc welding equipment segment as it is the headquarters of two world-leading manufacturers, Lincoln Electric and Illinois Tool Works. The majority of U.S. welding exports are sent to Canada, Mexico, Western Europe, China, and Japan while imports are principally sourced from Japan, Germany, China, Canada, and Mexico.

IV. Financial Analysis

While the publicly-traded welding equipment and hardgoods companies have essentially mirrored the broader equity market (i.e., S&P 500 Index) trends over the past five years, the publicly-traded industrial gas companies have outperformed the market. Public company valuations multiples remain strong after their recovery since the steep decline in 2008. The median Earnings Before Interest, Tax, Depreciation, and Amortization ("EBITDA") multiple for welding equipment and hardgoods and industrial gas companies was 8.6x and 10.5x, respectively, as of February 28, 2013.

Figure 13: Relative Stock Price Performance

February 28, 2008 – February 28, 2013



Source: Capital IQ

Figure 15: Industry Financial Analysis

As of February 28, 2013
(\$ in millions)

Welding Equipment and Hardgoods	Last Twelve Months (LTM)			LTM Margins			YoY Change			
	Revenue	EBIT	EBITDA	Gross	EBIT	EBITDA	LTM Revenue	LTM Margins Gross	LTM Margins EBIT	LTM Margins EBITDA
Illinois Tool Works	\$17,924.0	\$2,849.0	\$3,460.0	36.1%	15.9%	19.3%	0.8%	2.4%	4.3%	4.2%
Voestalpine AG	15,361.3	830.1	1,596.0	20.1%	5.4%	10.4%	(0.5%)	(4.8%)	(35.8%)	(23.2%)
Cofax Corporation	3,913.9	275.4	462.1	29.9%	7.0%	11.8%	464.5%	(13.6%)	255.6%	366.9%
Lincoln Electric Holdings	2,853.4	373.4	438.7	30.4%	13.1%	15.4%	5.9%	11.2%	23.7%	20.6%
Shenzhen Jasic Technology	95.4	11.7	13.3	30.4%	12.3%	14.0%	1.5%	2.0%	(17.0%)	(13.6%)
Shenzhen Riland Industry	121.8	14.7	15.6	12.1%	12.1%	12.8%	(0.1%)	(56.5%)	(8.9%)	(8.5%)
Median	\$3,383.6	\$324.4	\$450.4	30.1%	12.2%	13.4%	1.1%	(1.4%)	(2.3%)	(2.1%)
Industrial Gas										
The Linde Group	\$19,005.6	\$2,391.1	\$4,230.5	36.5%	12.6%	22.3%	6.2%	0.2%	3.0%	6.1%
L'Air Liquide SA	20,069.8	3,323.8	4,922.8	60.6%	16.6%	24.5%	5.9%	0.0%	8.8%	8.7%
Praxair	11,224.0	2,502.0	3,503.0	43.0%	22.3%	31.2%	(0.2%)	1.0%	2.7%	1.9%
Air Products & Chemicals	9,852.6	1,518.3	2,374.6	26.6%	15.4%	24.1%	1.5%	1.2%	(1.0%)	0.9%
Airgas	4,935.7	605.3	889.3	55.0%	12.3%	18.0%	7.1%	1.4%	9.0%	8.2%
Taiyo Nippon Sanso Corporation	5,061.3	294.6	624.6	32.3%	5.8%	12.3%	(0.9%)	(3.3%)	(12.7%)	(14.3%)
Median	\$10,538.3	\$1,954.7	\$2,938.8	39.8%	14.0%	23.2%	3.7%	0.6%	2.9%	4.0%

Source: Capital IQ

As of February 28, 2013, the median welding equipment and hardgoods and industrial gas public companies were trading at 91.8% and 94.9% of their respective 52 week high.

Figure 14: Relative Stock Price Performance

As of February 28, 2013

Welding Equipment and Hardgoods	Price as of	52 Week		% of High
	02/28/13	High	Low	
Illinois Tool Works	\$61.50	\$65.60	\$49.07	93.8%
Voestalpine AG	33.84	37.66	25.80	89.9%
Cofax Corporation	43.40	45.13	24.43	96.2%
Lincoln Electric Holdings	56.05	56.77	37.63	98.7%
Shenzhen Jasic Technology	1.73	2.41	1.27	71.8%
Shenzhen Riland Industry	1.45	1.92	1.02	75.8%
Median	\$38.62	\$41.39	\$25.11	91.8%
Industrial Gas				
The Linde Group	\$181.79	\$182.14	\$143.41	99.8%
L'Air Liquide SA	121.95	130.85	109.45	93.2%
Praxair	113.05	116.93	100.00	96.7%
Air Products & Chemicals	86.34	92.79	76.11	93.0%
Airgas	100.28	101.32	76.01	99.0%
Taiyo Nippon Sanso Corporation	7.05	7.70	3.92	91.6%
Median	\$106.67	\$109.13	\$88.06	94.9%

Source: Capital IQ



Financial Analysis

Figure 16: Industry Valuations

As of February 28, 2013
(\$ in millions)

Welding Equipment and Hargoods	Market Cap 02/28/13	Enterprise Value*	Total Debt /		Enterprise Value / LTM		
			LTM EBITDA	Capital	Revenue	EBIT	EBITDA
Illinois Tool Works	\$27,451.8	\$29,729.8	1.5x	15.5%	1.66x	10.4x	8.6x
Voestalpine AG	6,285.8	9,693.1	2.9x	42.2%	0.63x	11.7x	6.1x
Colfax Corporation	3,796.1	5,285.9	3.7x	31.3%	1.35x	19.2x	11.4x
Lincoln Electric Holdings	4,037.8	3,787.5	0.0x	0.5%	1.33x	10.1x	8.6x
Shenzhen Jasic Technology	339.7	159.6	0.0x	0.0%	1.67x	13.7x	12.0x
Shenzhen Riland Industry	283.3	117.2	0.0x	0.0%	0.96x	8.0x	7.5x
Median	\$3,916.9	\$4,536.7	0.8x	8.0%	1.34x	11.1x	8.6x
Industrial Gas							
The Linde Group	\$33,672.1	\$46,301.9	3.2x	28.8%	2.44x	19.4x	10.9x
L'Air Liquide SA	37,964.0	46,190.9	1.9x	19.9%	2.30x	13.9x	9.4x
Praxair	33,484.2	41,298.2	2.1x	18.0%	3.68x	16.5x	11.8x
Air Products & Chemicals	17,926.3	23,978.5	2.6x	25.3%	2.43x	15.8x	10.1x
Airgas	7,613.0	9,900.0	2.7x	23.6%	2.01x	16.4x	11.1x
Taiyo Nippon Sanso Corporation	2,783.0	5,414.9	4.3x	49.2%	1.07x	18.4x	8.7x
Median	\$25,705.2	\$32,638.3	2.6x	24.4%	2.37x	16.4x	10.5x

* - Enterprise Value includes Preferred Equity and Cash.

Source: Capital IQ

Figure 17: Trends in Industry Valuations

As of December 31, 2004 – 2012 and February 28, 2013
(multiples of TEV / EBITDA)

Welding Equipment and Hardgoods	2/28/2013	12/31/2012	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004
Illinois Tool Works	8.6x	8.9x	7.9x	10.0x	15.3x	6.0x	9.8x	9.3x	10.0x	12.0x
Voestalpine AG	6.1x	6.2x	3.9x	6.9x	8.4x	3.1x	7.6x	6.2x	3.8x	5.4x
Colfax Corporation	11.4x	14.3x	11.4x	11.8x	6.3x	n/a	n/a	n/a	n/a	n/a
Lincoln Electric Holdings	8.6x	8.7x	9.2x	10.5x	11.0x	5.1x	8.9x	9.7x	9.6x	9.9x
Shenzhen Jasic Technology	12.0x	11.9x	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Shenzhen Riland Industry	7.5x	8.8x	14.5x	n/m	0.0x	0.0x	0.0x	0.0x	n/a	n/a
Median	8.6x	8.9x	9.2x	10.3x	8.4x	4.1x	8.3x	7.7x	9.6x	9.9x
Industrial Gas										
The Linde Group	10.9x	10.2x	8.4x	9.2x	8.6x	6.5x	9.4x	12.9x	6.5x	6.0x
L'Air Liquide SA	9.4x	9.9x	9.6x	10.4x	9.8x	7.9x	11.0x	10.1x	9.6x	8.4x
Praxair	11.8x	11.4x	11.4x	12.5x	12.4x	8.0x	13.0x	10.4x	10.9x	10.6x
Air Products & Chemicals	10.1x	9.2x	8.3x	9.5x	9.9x	5.8x	10.7x	9.5x	8.8x	9.3x
Airgas	11.1x	10.6x	10.1x	9.9x	8.0x	6.7x	10.2x	9.2x	9.5x	9.9x
Taiyo Nippon Sanso Corporation	8.7x	6.9x	6.4x	7.7x	11.5x	6.6x	8.9x	10.5x	10.1x	8.2x
Median	10.5x	10.1x	9.0x	9.7x	9.9x	6.7x	10.5x	10.3x	9.6x	8.9x

Source: Capital IQ



LEAGUE PARK OVERVIEW

League Park is a boutique investment bank that professionally and ethically advises clients on strategies aimed to maximize shareholder value. We assist middle market companies with transactions that generate value through mergers and acquisitions, recapitalizations, capital raising, and outsourced corporate development.

Whatever the transaction, our clients receive specialized attention from senior bankers at every step in the deal process. Our team has decades of investment banking, corporate development, private equity, and operational experience, completing over 300 transactions across a diverse range of industries in the past 25 years.

Advisory Capabilities:

Mergers and Acquisitions
Recapitalizations
Capital Raising
Outsourced Corporate Development

Industry Expertise:

Business Services
Healthcare
Technology
Retail and Consumer Products

Industrial

- Automotive
- Building Products and Construction
- Distribution
- Industrial and Specialty Gas
- **Industrial Services**
- Metals
- Paper, Print and Packaging
- Specialty Chemicals
- Specialty Glass

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COMPANY A



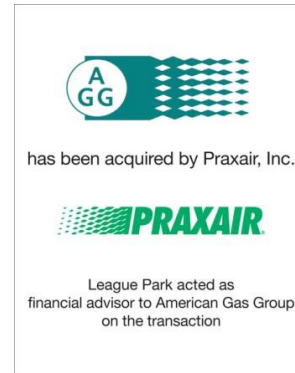
Company Overview

Company A is a leading Midwestern manufacturer of welding equipment. The company manufactures laser, arc, capacitor discharge, MIG, TIG, MAG, and plasma welders that serves a diverse North American customer base. The company's unique engineering and breadth and depth of manufacturing capabilities provide customers with one-stop for all their welding equipment needs.

Transaction Overview

Given the favorable M&A trends in the welding and hardgoods industry, the privately-held company has decided to explore its strategic options with regard to a potential transaction. League Park has been engaged in the pending sell-side M&A transaction.

AMERICAN GAS GROUP



Company Overview

American Gas Group is one of the largest independent specialty gas distributors in North America. The company specializes and packages a variety of specialty gases including EPA Protocols, hydrocarbons, VOC mixtures, reactive mixtures, high-purity chemicals, and research-grade gases in addition to industrial and medical gas products. The American Gas Group procures its products on a global basis and is a known industry leader for supply of rare gases and gas mixtures. The company's unique packaging capabilities and breadth and depth of inventory provide customers with one-stop for all their specialty gas and hard goods needs.

Transaction Overview

Given American Gas Group's strong market position and its history of significant growth, the shareholders decided to explore their strategic options with regard to a potential sale transaction. After reviewing the competitive landscape in North America, League Park and the company prepared detailed synergy analysis for the most likely acquirer of the business, Praxair, which is the largest industrial gases company in North and South America. In late 2011, Praxair acquired the American Gas Group and is focused on continuing to drive its strong market position and its history of growth.



SOURCES AND DISCLOSURE

Sources Referenced

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Capital IQ
Company Investor Presentations
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Standard & Poor's
The Freedonia Group
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U.S. Department of Transportation
U.S. Energy Information Administration

The Freedonia Group

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