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A Management Buyout in the Lower Middle Market

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A MANAGEMENT BUYOUT IN THE LOWER MIDDLE MARKET

by

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DEPARTMENTAL HONORS

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Spring 2014

ABC INC.

TO: CVF INVESTMENT COMMITTEE

FROM: JOSE BLANCO, JIM ALLRED

SUBJECT: ABC INC. INVESTMENT PROPOSAL

DATE: 3/31/2014

PLEASE NOTE: COMPANY, CUSTOMER, AND INDIVIDUAL NAMES AND LOCATIONS HAVE BEEN CHANGED FOR CONFIDENTIALITY PURPOSES.

OVERVIEW

ABC Inc., "ABC" or "The Company", is a leading manufacturer of precision rotary valves, feeders, screw conveyors, and components found in industrial material handling systems. Due to their proprietary products, exceptional durability, and custom design and manufacturing processes, ABC has developed a reputation as a premium manufacturer and supplier of choice across various industries. ABC initially targeted the wood products industry, and pulp and paper remains its largest industry segment today, but The Company has since expanded its services to mining, cement, chemical companies as well as coal and biomass burning plants. In addition to its proprietary products, ABC provides custom machining and fabrication services for select clients.

Located in Reno, Nevada and founded in 1977 by the original owners, ABC has had a presence in the West for over 35 years. Current legacy owners purchased The Company in 2003 and grew The Company to record profitability levels in 2008. Following down years during the economic recession, The Owner brought on John Smith, an experienced executive of several private and public machining companies, to act as CEO of ABC in 2011. With John's help, The Company has since rebounded to near pre-recession profitability levels as the housing market and domestic manufacturing continue to improve. ABC did $6.8M in revenue and $1.23M in adjusted EBITDA for 2012 and $6.86M in 2013 with an adjusted EBITDA of ~$1.57M.

Although not currently involved in the day-to-day operations at ABC, The Owner was working to resolve litigation that was brought against ABC by MMM Company. The $1.48M product liability claim was for a damaged machine due to faulty components ABC machined for MMM Company, but has since been resolved. At a court settlement hearing on Jan 7, 2014, a judge ordered a settlement of $500k, which will be paid in full by ABC's insurance company. Documents have been signed and area attached as Exhibit 2. The matter is detailed further at a later point in this memorandum.

The Owner is looking to retire and has approached John Smith to complete a management buyout of The Company. John Smith and sponsor Deal Sponsor have approached CVF to provide capital for the management buyout.

INVESTMENT OPPORTUNITY

As presented to CVF, The Owner has agreed to sell his 100% ownership stake in The Company. The Enterprise Value was based on a multiple of TTM EBITDA from December 2013 with adjustments made for The Owner's salary and other related expenses. The final valuation came to $7,200,000, which is 4.5x

TTM EBITDA of $1.6M. The company will transfer debt free, so a portion of the proceeds from the sale will be used to retire outstanding debt. The remainder will be split between cash, a seller note, and escrow. The details are outlined below.

Sources & Uses

SOURCES:		USES:	
Senior Term Debt	$2,250.00	Refinance Debt	$2,273.00
Seller Note	$ 600.00	Cash to Seller	$4,127.00
Subordinated Debt	$2,500.00	Seller Note	$ 600.00
Preferred Stock	$1,800.00	Escrow	$ 200.00
Common Stock	$ 600.00	Working Capital	$ 100.00
		Deal Expenses	$ 250.00
		Closing Fees	$ 200.00
TOTAL SOURCES	$7,750.00	TOTAL USES	$7,750.00

Sources

We have secured $2.25M in senior term financing from a Bank. Although this is less than the initial $2.5M from their proposal, we have decided to continue with them in order to close the deal in a timely fashion and not disrupt the seller. As such, the subordinated debt piece will be increased by 250k. The preferred stock, subordinated debt, and common stock investments will be divided between the Management Team, CVF, and Deal Sponsor as outlined in the table below. We have calculated the resulting ownership of the company based upon the investment made and warrant value for each security.

	Dollar Investment	Initial Ownership	Fully Diluted Ownership
Subordinated Debt			
CVF	$ 2001.85	4.8%	4.4%
Deal Sponsor	$ 348.14	0.8%	0.8%
Management	$ 150.00	0.4%	0.4%
Total	**$ 2,500.00**	**6.0%**	**5.5%**
Preferred Stock			
CVF	$ 1,405.56	26.5%	24.4%
Deal Sponsor	$ 244.44	4.6%	4.2%
Management	$ 150.00	2.8%	2.6%
Total	**$ 1,800.00**	**34.0%**	**31.3%**
Common Stock			
CVF	$ 255.56	21.3%	19.6%
Deal Sponsor	$ 44.44	3.7%	3.4%
Management	$ 300.00	25.0%	23.0%
Total	**$ 600.00**	**50.0%**	**46.0%**

Total Investment			
CVF	**$ 3,662.96**	**52.6%**	**48.4%**
Deal Sponsor	**$ 637.04**	**9.2%**	**8.4%**
Management	**$ 600.00**	**28.2%**	**26.0%**
Total	**$ 4,900.00**	**90.0%**	**82.8%**
Common Stock Options			
Deal Sponsor		**10.0%**	**9.2%**
Management		**0.0%**	**8.0%**

Note: Although Deal Sponsor has a 10% management option pool, they represent non-voting shares. Therefore, CVF will hold 48.4% of fully diluted shares, but they will represent 53.65% of the voting shares.

Uses

The funds for the transaction will be used to retire the balance of the outstanding debt with their Bank and provide a $600k escrow account that will be offset in the case of misrepresentations and/or other seller related disclosures and liabilities. The balance of the $7.2M purchase price will be distributed to the seller as cash payment. The remaining $550k of the $7.75M total transaction will be used to pay deal related expenses, closing costs, and provide additional working capital for the company's 2014 growth. Outside of typical accounting, legal, environmental, and other due diligence related expenses, CVF has agreed to split the cost of Representations and Warranties Insurance with the seller, which should amount to less than 150k

Projections

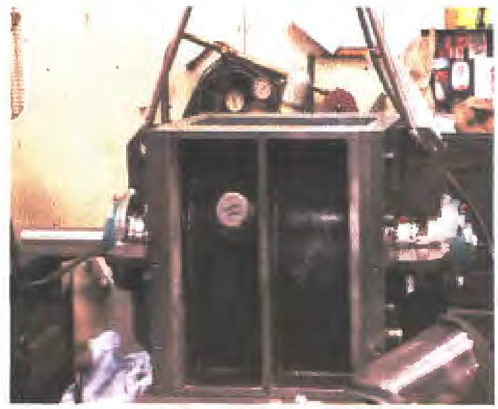
In the Base Case, CVF assumes 6% YOY revenue growth beginning in 2014 with GM and SGA holding around historically normal levels of 40% and 19% respectively. A 2019 exit valuation is based on a 4.5 EBITDA multiple will provide CVF with a 17.08% IRR on subordinated debt, 26.08% on preferred equity, and 48.49% on common stock. The total IRR would stand at 25.35% with a TYM multiple of 3.44x.

In the Management Case, CVF assumes 10% YOY revenue growth beginning in 2014 with GM and SGA beginning around historically normal levels of 40% and 19% respectively and decreasing over the life of the investment as the company gains operating leverage from its adequate workforce as well as increased gross margins as the business shifts toward higher margin proprietary products. A 2019 exit valuation is based on a 5.0 EBITDA multiple will provide CVF with a 18.75% IRR on subordinated debt, 32.15% on preferred equity, and 59.56% on common stock. The total IRR would stand at 30.85% with a TYM multiple of 4.45x.

PRODUCTS

ABC is a leading manufacturer of precision rotary valves, rotary feeders, screw conveyors, and provide custom fabrication of other components found in industrial material handling systems. These products are used to control the flow of raw materials as they pass through industrial conveyors and material processing systems. ABC products can be designed to move dry, powdered, granular, pelletized, or fragmented pieces ranging from 1"-12" inches. ABC's unique modular design allows for easy maintenance and replacement as needed.

Rotary Valves



Rotary valves are a vital component in material handling systems because they control the flow of material from a distribution point onto a conveyor or other material transportation device. Rotary valves often sit below hoppers, bins, receivers, or silos where they receive the raw materials and distribute them onto a conveyor belt below in a uniform and consistent manner. ABC's primary rotary valve is the PMV valve. ABC's modular design allows a company to remove, replace, or refurbish each individual component as needed rather than having to replace the entire valve. Not only does the modular nature of the feeder benefit the client by increasing product flexibility and decreasing downtime, but it also represents an important revenue stream for ABC. Currently, PMV replacement parts represent 10% of PMV rotary valve revenue and sell at significantly higher margins than complete valves. ABC currently has nine different PMV models that vary in size, capacity, and power.

Rotary Feeders

In the industry, rotary valves and rotary feeders often refer to the same product; however, at ABC, The Company distinguishes the two through distinct design differentiators. At ABC, rotary feeders have helix rotary panels and a blade at an edge of the rotary barrel. (See image). The helixes forces oversized material down the rotary against a sharp knife at the rotary barrel. This action causes the larger material to be sheered down to an appropriate size before passing through the feeder. This type of product is common in wood feeders and biomass burning feeders.

Screw Conveyors

Screw conveyors are comprised of a large screw blade encased in a tube or open trough are and commonly used to transport any dry, granular, or powdery material horizontally or at a slight incline.

As the screw rotates inside the tube or trough, material is pushed down the tube toward an exit point in consistent, measured amounts. The rate and volume of transfer is dictated by the size of the screw blades, speed at which they rotate, and incline of the conveyor. Additionally, the design of the screw can be altered for the type of material it is handling (as seen below).

Variations in screw design allow screw conveyors to mix, agitate, and aerate materials as they travel the length of the belt. This customization allows ABC to cater to various industries from agricultural producers to pulp and paper mills. Screw conveyors' simple design and reliable performance make them cost effective material handling options when compared with pneumatic and belt conveyors.

Custom Machining and Fabrication

ABC also does custom machining and fabrication for individual clients that vary widely by each client's needs. Currently, ABC's largest machining customer is XYZ Company, a water pump manufacturer, for whom ABC machines portions of their water pump cases and pump shafts. ABC's large capacity milling machines gives it a geographic comparative advantage in the machining market, which remains regional due to shipping costs.

Above: XYZ Company pump shafts.
Below: XYZ Company water pump

Although ABC originally started as a machining shop, The Company has made a strategic decision to focus on the proprietary products rather than the custom machining. In analyzing the mix of custom machining jobs, John noticed a large discrepancy in the margins they were receiving on the different jobs, varying from 5% to 60% gross margin. This is a significant variation from the 30%-60% gross margin The Company gets on the various feeder and valve products. As such, the sales mix has dramatically shifted towards their proprietary products over the course of John's tenure.

John plans to continue to provide machining services, but has become more selective in the types of jobs The Company takes, focusing primarily on larger customer orders and higher margin jobs like that of XYZ Company. Even so, they still have a strong presence in the machining market and it remains an important part of their company culture.

HISTORICAL SALES MIX

As mentioned above, ABC has made a conscious effort to transition away from custom machining to their proprietary products. Historical revenue and sales mix information can be found below.

	2011	2012	2013
Custom Machining	$2,316,389	$1,229,088	$1,333,753
Proprietary Products	$5,260,033	$5,653,041	$5,644,069
Gross Revenue	**$7,576,422**	**$6,882,129**	**$6,977,822**
Custom Machining	30.6%	17.9%	19.1%
Proprietary Products	69.4%	82.1%	80.9%

Although proprietary products have increased as a greater contributor to overall revenue, this due to falling revenue in custom machining rather than proprietary product growth. As you can see in the table above, proprietary product revenue has remained flat year-over-year while selective bidding on machining jobs has decreased revenue. However, despite the fall in revenue, the company is more profitable than ever, as higher margin proprietary product sales and machining jobs have driven EBITDA. Adjusted EBITDA for 2011 was $1,531,110 and adjusted EBITDA for 2013 was $1,619,127, despite $600K less in gross revenue.

While we recognize that decreasing sales in the proprietary line is an item of concern, we remain optimistic that we will see increases in these products post-close. We expect growth in various vertical industry channels, as outlined later in company opportunities later in this memo, as John and Joe can apply time and effort to further developing these sales channels.

INDUSTRY ANALYSIS

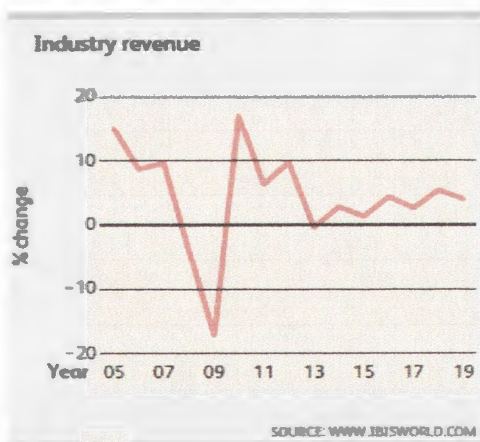
ABC has a high correlation to the broader U.S. Economy and several downstream industries. As such, we have detailed the current economic outlook for the U.S. macro economy and analyzed the conveyor manufacturing industry. Additionally, we have included projections and forecast for two primary downstream drivers for conveyor manufacturing, those being general U.S. manufacturing, construction/housing, and oil and gas.

U.S. Macro-Economic Outlook

United States economic growth has remained slow following the 2007 – 2009 recession and the ensuing recovery, but recent trends indicate a modest pick-up in the pace of growth. GDP growth estimates have been steadily revised upwards by the Bureau of Economic Analysis due to accelerations in private inventory investment and in state and local government spending, a deceleration in imports, and in PCE that was partly offset by a deceleration in exports. In the third quarter of 2013, GDP growth was most recently revised up to 4.1% and the fourth quarter is expected to come in at 2.9%. Forecasts for 2014 generally look to be positive. Kiplinger forecasts growth to level off around to 2.6-2.7%[1], and the last CBO report in early 2013 predicted a 3.4% growth rate[2]. As the impacts of the housing and financial crisis fade, minor upswings in housing, real estate, and stock prices, as well as the increasing availability of credit should help to spur a virtuous cycle of faster growth in employment, income, consumer spending, and business investment over the next few years. There are reasons to be optimistic for 2014 and beyond, but possible risks to continued growth include instability and deadlock in Washington and the Federal Reserve possibly letting long-term interest rates rise too much by tapering QE too quickly.

Conveyor Manufacturing Industry

According to IBISWorld, the broader Forklift and Conveyor Manufacturing Industry represents a $33.5B market in the U.S., of which conveyors and conveyor equipment represents an estimated 18.9%, or $6.33B. The industry has experienced 2.3% annual revenue growth since 2008, and is projected to continue to grow at annualized rate of 3.2% through 2018. While the industry as a whole experienced a large downturn following the financial crisis of 2008, it has seen a recovery to normal levels and is projected to improve over the next four years.



The Conveyor Equipment Manufacturing Association (CEMA), an industry trade association, publishes industry statistics on a monthly, quarterly, and annual basis. For 2012, CEMA reported that North America shipments were up 22.44% YOY totaling $10.41B and new orders were up 14.1% YOY. During the first half of 2013, the numbers pulled back slightly with $5.21B in shipments and a 1.72% decrease YOY for

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[1] http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/

[2] https://www.cbo.gov/publication/43907

new orders. CEMA directors did admit that such a pullback was expected "following back to back record years in 2011 and 2012". ABC experienced a similar trend as it finished out the year with lighter than expected sales in November and December. Despite the slight pullback in 2013, CEMA remains positive on the industry and its future growth.

Although there was some consolidation during the recession as smaller firms failed to successfully navigate the downturn, the industry remains fairly fragmented and decentralized. The Great Lakes region of the United States boasts the highest concentration of lift and conveyor manufacturers at 28% of total manufacturing; however, this region has decreased dramatically in recent years as manufacturing has contracted. Nevada represents 1.9% of all manufacturers nationally, with the West Coast and Rocky mountain regions being the most underserved regions from a population to manufacturer perspective. In 2013, IBISWorld estimated that over 1,500 companies currently operate in the lift and conveyor manufacturing industry with 80% of the companies employing less than 100 individuals. As ABC grows, it can capitalize on this fragmented market through tuck-ins and other strategic acquisitions of similarly sized companies.

Within the lift and conveyor manufacturing industry, sales are evenly distributed between three major market segments: freight handling (21.9%), construction (24.6%), and manufacturing (37.2%), with the remainder being exported (16.3%). ABC has traditionally experienced the most success within the manufacturing segment, but is looking to capitalize on opportunities in other industries as they continue to grow. A detailed analysis of these potential industries is found in the ABC Growth Opportunities section below.

The conveyor manufacturing industry is a mature industry with clearly defined markets and widely used products. Conveyors play a large role in many down-stream production operations and are largely driven by industries such as general manufacturing and construction. As such, the industry is highly correlated with the broader industrial indices such as the industrial production index.

Manufacturing

Much like the general economic outlook, the U.S. manufacturing outlook allows for cautious optimism. Increasing momentum in the later part of 2013 could bode well for the manufacturing environment in 2014 and beyond. Despite weak numbers in the spring of 2013, the Federal Reserve has found that manufacturing production has increased for 5 consecutive months following a .6% gain in November and YOY growth at 2.9% compared to just 1.2% in July.[3] Manufacturing capacity utilization has increased to 76.8%, its highest level since March 2008.[3] Some sectors of particularly strong growth in November of 2013 include wood products at 3.1%, nonmetal minerals at 1.3%, and petroleum and coal production at .9%.[3] New factory orders were up 1.8% in November and YTD sales growth was up 2.6% in the first 11 months of 2013.[3] The manufacturing outlook looks largely positive as the latest Purchasing Managers Index (PMI) registered at 57%, reflecting respondent's favorable view of the current manufacturing environment and indicating an expansion of the manufacturing sector.[4] Improving manufacturing conditions should prove beneficial for ABC and provide a natural tail wind for growth.

[3] http://www.federalreserve.gov/releases/g17/current/g17.pdf

[4] http://www.ism.ws/ismreport/mfgrob.cfm

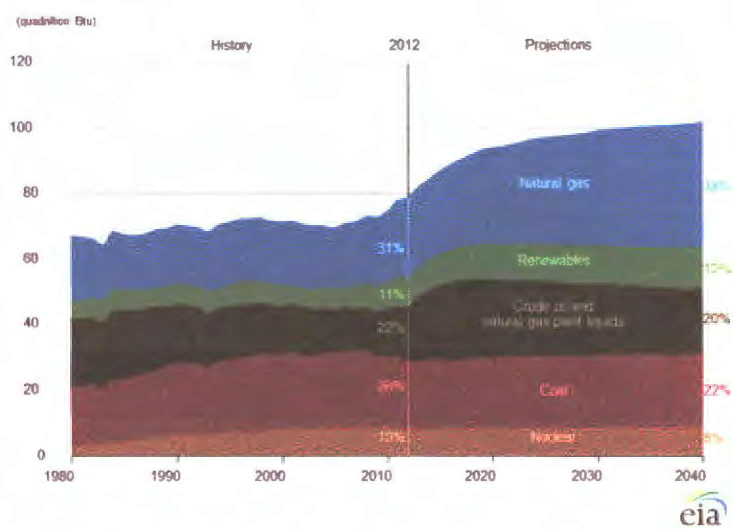
Housing and Construction

Data on the housing and construction sector appears to be promising as well. The U.S. Department of Commerce reported in December that housing starts jumped 22.7% from October to November to a seasonally adjusted rate of 1.09 million units, which would be the highest level since February of 2008[5]. This represents a 29.6% increase over the rate in November 2012. Building permits and housing completions came in just below their October rates but represented significant increases from the rates of last November in 2012. Kiplinger has forecasted a further expansion of the housing market in 2014 with starts and new home sales continuing to rise at double-digit rates. It predicts construction will continue to grow as builders respond to tight inventories, but likely at a lesser rate than that recorded as of last November[6].

Domestic Energy - Oil and Gas

Other important areas of downstream demand for rotary valves are the various domestic energy industries According to the US Energy Information Administration (EIA),[7] US energy production rose 9 percent from 1980-2009; Since 2009, US energy production has risen a dramatic 15 percent. The EIA has projected an additional 14 percent growth in US energy production through 2020. This growth in domestic production is largely driven by increased oil and gas production as hydraulic fracturing (fracking) has broadened U.S. oil reserves and increased domestic output. Since 2010, Crude oil has seen a 42 percent increase in domestic production and is estimated to grow an additional 20 percent through 2020. Natural Gas has seen similar growth, having increased 16 percent since 2010 with projected growth of 20 percent through 2020.

Figure 11. U.S. energy production by fuel, 1980-2040



Due to the extreme success of fracking, national and state and regulations are loosening to allow increased energy production across the nation, which should further expand production and increase demand for production process inputs such as valves and feeders. While oil and gas have contributed greatly to the growth of US energy, the EIA has projected flat to slightly declining use of coal and nuclear energy. While coal represents and important market for ABC, it is not considered and area of growth for the company (see below). At a minimum, flat industry growth should allow ABC to maintain its current market share while it grows in other segments.

Overall, increasing energy profitability and future growth opportunities across sectors should aid ABC's sales in key domestic geographical markets.

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[5] http://www.census.gov/construction/nrc/pdf/newresconst.pdf

[6] http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/

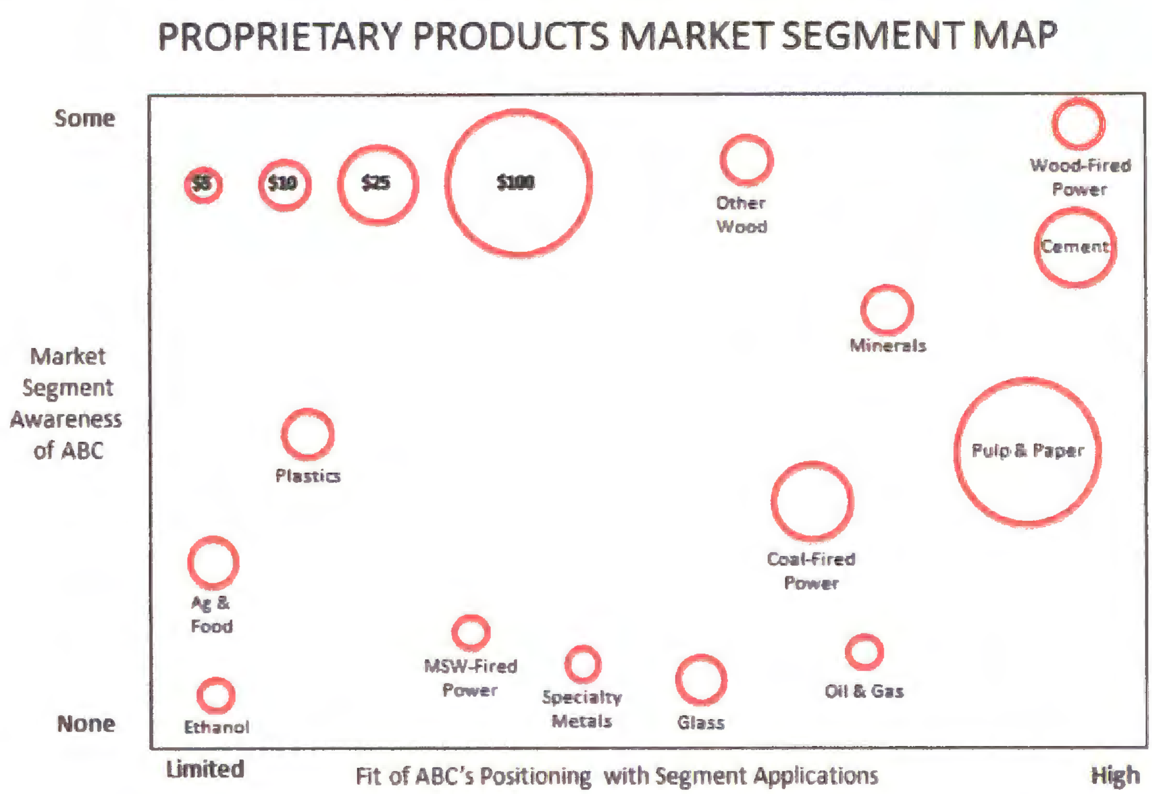
[7] http://www.eia.gov/forecasts/aeo/er/early_production.cfm

INDUSTRY GROWTH OPPORTUNITIES

Diverse Market Segments

ABC's proprietary products are unique and of the highest quality, but currently hold relatively small market share in various industries. ABC's rotary valves, feeders, and other offerings offer attractive benefits to companies in industries and market segments such as: Cement Manufacturing, Wood-fired Power Production energy, Pulp and Paper Manufacturing, Mineral Processing, and Coal-fired Power Production to name a few.

The diagram below shows ABC's opportunities in each of the above-mentioned market segments, as well as the estimated market size for each. We have outlined each of the proposed market segments and detailed the advantages and disadvantages of each. They appear in order or priority as determined by John Smith and Joe Adams.



- **Cement Manufacturing**

  Cement manufacturing is the highest priority market segment for ABC to target in its proprietary product sales. The industry is highly concentrated among a number of large companies operating multiple plants; the top seven companies operate over 70% of the 130 North American cement plants. Many of these companies are based in Europe, so European companies that integrate European feeders, valves and part of a larger conveyor system usually do the design, and initial assembly of these manufacturing plants. ABC's business opportunity is in refurbishing and replacing the feeders as they are used.

Every cement plant operates at least one and sometimes up to four raw mill feeders, and often has one spare unit on standby. These feeders are sold for approximately $125,000 to $150,000 each, indicating a market size of at least $16 million and perhaps as much as $40 million – although not every feeder will be replaced every year. The market for finish mill feeders is likewise substantial. Every plant operates at least two and up to ten of these smaller feeders, which are sold for approximately $50,000 each. This indicates a market of roughly $30-35 million, but again not annually. Management has estimated that the addressable market size for ABC is roughly $17.5M.

ABC has made significant inroads in the United States cement manufacturing industry by providing better-performing equipment with lower price points, lower long-term operating costs and significantly lowers lead times. In 2012, ABC did $235k in cement-related sales, which increased to $484k in 2013, a 100% increase year over year. ABC has made successful installations in many of the top cement manufacturers, such as CEMEX, Buzzi, Lafarge, and Ash Grove, and should have an opportunity to leverage those contacts to make further inroads in the industry. Additionally, success domestically could provide opportunities for international expansion, and ABC is already looking at business opportunities with CEMEX in Mexico.

ABC's geographic location could slow its market penetration, as many cement plants are located in the mid-west, Mississippi river basin, and eastern U.S. Because many purchasing decisions are made at a plant level, even in larger corporations, an ABC representative would have to travel to each cement plant to develop a relationship and sell their products.

Graphs detailing US Cement consumption by state as well as projections for national cement consumption are attached to this report as Exhibit 4. These were gathered from a FLSmidth Investor presentation entitled "The US Cement Market and NESHAP" in 2013.

- **Wood-Fired Power Generation (biomass-fired)**

  As one of the larger revenue segments for The Company, this segment also represents its largest market share at roughly 10%. There are still significant opportunities for growth here as regulations and guidelines to meet renewable energy standards push states to generate more power from plants that burn wood products and municipal waste. All of The Company's proprietary products are applicable in this segment with rotary feeders to handle fuel, screw conveyor applications to handle fuel and ash, and rotary valve applications to handle ash.

  Most biomass plants are small and produce less than 50 megawatts of power, but a few new and larger plants have been built in the last 3-4 years. There are approximately 60 biomass-fired power plants in operation in the US, with 14-18 plants located in California. California has aggressively pushed renewable energy sources, which have been very beneficial for biomass power producers, and The Company has maintained strong relationships with these California producers. Biomass-fired energy plants should benefit from positive public policy initiatives for green and renewable energy projects and represent a stable long-term business. Management has estimated that the addressable market size for ABC is roughly $11M.

In 2012, ABC did $814k in annual revenue to wood-fired power plants, which increased over 25% to $1.05M in 2013. The biomass-fired power generation market outside California has produced little revenue for The Company, despite representing the majority of business opportunities. Spotty and inconsistent sales coverage has held back non-regional sales results. To address this issue, management plans of using Richard, currently doing inside sales, as a sales rep for wood-fired plants outside of California. Richard was responsible for establishing ABC's current relationships in California and will be able to provide both customer relationships and technical ability to new customers.

- **Pulp and Paper Manufacturing**

  This industry has historically been largest source of revenues for ABC; however, growth in the wood-fired plants has recently overtaken it. Despite this ABC's historic strength in pulp and paper, there remains ample room for growth. The opportunity for ABC is primarily in PMV valves for ash handling in those plants, which operate their own steam and power generation facilities. Additional opportunities lie in screw conveyors and wood products feeders for most plants, but those are limited in comparison to PMV rotary valves.

  The U.S. market includes 240 paper mills, 186 paperboard mills, 21 newsprint mills, and 39 mills producing market pulp for sales to other mills, and the Canadian market is likely one-third the size of the U.S. market. Management has estimated that the addressable market size for ABC is roughly $96M, making it the largest of the prioritized market segments.

  Pulp and Paper has been one of the most important revenue sources for ABC over the years. In 2012, they had $1.19M in annual revenue, which slightly fell to $1.02M in 2013 as legal issues involving one of "a customer's plants decreased orders slightly. So far, The Company's industry penetration lays in a few handfuls of pulp and paper operations in Nevada, Washington, Florida, Virginia, Georgia, and Louisiana where it primarily sells with its own employees. A significant portion of the market is in Northern New England, Eastern Canada, and the upper Midwest, where sales channels are either new or non-existent.

  Despite the large markets potential and historically strong performance, some concerns do exist. The pulp and paper industry remains a traditional industry in which relationships develop over a long period. Additionally, industry has many sub-segments, in which financial stability and profitability varies greatly. Although we are optimistic that the pulp and paper industry will continue to play an integral role in ABC's business, the company will focus on other industries that may provide immediate and sustainable growth opportunities while continuing to develop relationships with pulp and paper plants as possible.

- **Mineral Processing**

  ABC has already established numerous relationships in a variety of the sub-segments of the mineral processing market, and there remain significant opportunities for growth. In 2012, ABC did $1.14M in annual revenue from mineral processers, which fell to $858k in 2013. Mineral processing is primarily a rotary valve market, with some dry products feeder and screw conveyor sales in the metallurgical coal sub-segment and some screw conveyor sales in gypsum.

An important new sub-segment for The Company is the production of ceramic proppants and fracking sand, both of which are used in hydraulic fracturing or fracking – a drilling technique to extract natural gas from underground rock formations. This is a growth market with significant opportunity as domestic oil and natural gas production intensifies, barring unforeseen developments in fracking and environmental regulation. The Company has supplied PMVs to St. Gobain for the production of ceramic proppants and to Schlumberger for mobile fracking sand blending terminals at the wellhead. Management has estimated that the addressable market size for ABC is roughly $16M in North America.

Due to the heavy, abrasive nature of the materials handled during these processes, rotary valves can wear out in as little as 3 months. While this creates consistent demand for valves and feeders, it is an important cost consideration for customers. ABC is currently testing a PMV coated in tungsten carbide, which should increase the product's durability and operating life. This special feeder will be installed at Schlumberger's Alberta, Canada plant and compared side-by-side to a traditional feeder. If successful, this particular product could prove extremely profitable in the mineral processing segment and further strengthen The Company's relationship with Schlumberger.

- **Coal-fired Power Production**

  This segment of the coal industry has offered great potential for The Company's proprietary products and has already been prioritized as a strategic opportunity throughout the history of the company. Opportunities for ABC relate to rotary valve and feeder systems used in ash handling and coal dust feeding systems. There are also opportunities for large dry products feeders at certain power stations for handling lime or other products in high-throughput applications.

  There are approximately 600 coal-fired power stations with over 2,000 generating units in the U.S. Each generating unit is an opportunity for ABC to supply one or more PMV rotary valves, depending on the size of the unit and its pollution control system. Ash handling systems in smaller generating units, those of roughly 250 megawatt and lower, are another opportunity to sell PMV rotary valves. Management has estimated that the addressable market size for ABC is roughly $26M. In 2012, ABC did $486k in sales to coal-fired power generators, which then fell to $374k in 2013 as coal demand weakened.

  This industry is under increasing regulation and ABC expects that increased regulation will have mixed results on demand. On a macro-economic level, coal demand has fallen dramatically as fracking has increased accessibility to and decreased the price of natural gas. Additionally, environmentally conscious public policy has further hindered coal-fired power generation as regulations mandate particular capital investments to eliminate certain forms of emissions. However, these regulations could benefit ABC as companies are forced to replace old systems with long-term lower-cost of ownership systems like the PMV. Additionally, ABC should benefit from Flu Gas Desulfurization mandates that utilize rotary valves to distribute sorbents into the conveyor systems. However, despite the increased regulations, coal-fired power plants will remain an important piece of US energy in the near term and should represent a positive sales channel for ABC.

Proprietary Modular Valve Products

ABC's Proprietary Modular Valve products represent one of the biggest opportunities for growth in the upcoming years. Historically, rotary valves have been produced with a solid outer case with the rotary in the middle. This solid design required customers to purchase a completely new valve if something were to go wrong with one piece of the machine. This may prove complicated for many customers as rotary valves may represent significant CapEx and replacement decisions can be delayed for cost reasons. ABC noticed this trend and worked to develop a modular system in which each component of the valve is individually made and subsequently bolted together. This allows customers to replace segments of the machine independently rather than replacing the entire valve.

This solution provides customers with increased flexibility for replacement parts, decreased downtime during valve replacements, and cost effective alternatives. These practices have proved extremely profitable for ABC as the individual modular components can be sold to customers at higher margins; yet still represent a significant cost savings when compared to purchasing an entirely new valve. This practice could prove particularly important to the company's top-line if the country were to experience another economic downturn and customers look for cost-effective alternatives.

In recent years, the company's proprietary products have grown as a percentage of revenues and profits. Given the higher margins the Company earns on its proprietary products and widespread applications of these products in diverse industries and market segments, the increased sale of these products should be considered the most effective path to growing the business and increasing profitability.

Original Equipment Manufacturers

Original Equipment Manufacturers (OEMs) represent interesting opportunities for future growth within the rotary valve and feeder markets. As previously mentioned, the bulk of ABC's business is refabricating and replacing old rotary valves and feeders. Initial installations in plants occur as a complete material handling solution provided by one company or a conglomeration of a few; very rarely would an entire system be assembled using parts from various companies. As such, ABC's business opportunity is largely limited to replacement work.

Various OEMs use and source feeders and rotary valves into their own products and/or systems; however, ABC's premium price point and value-add does not lend itself to integration into OEM systems. Additionally, may OEMs service lower markets where ABC's superior durability and quality is a non-issue. As such, ABC is considering developing an "OEM-grade" valve and feeder that are within the quality and price-point to make them attractive to potential OEM partners. While this could open new markets, there are significant risks associated with a lower-cost, lower-quality product like an "OEM-grade" valve.

Such a practice could have negative consequences in terms of brand perception, margin erosion, and product cannibalization. ABC has delivered premium products for much of its history. The introduction of a lower-quality product could change the perception and affect upper-market sales where performance depends heavily on quality. These OEM-grade rotary valves would have to be a lower quality in order to meet the price points necessary to garner OEM interest. At a 30-40% discount to current prices, some of the OEM price decrease may come out of gross margin rather than COGS. As a result, overall company profitability may suffer despite the higher revenue figures. Lastly, the lower price point many cannibalize more traditional products, which would sit at higher price points. This could decrease overall company profitability despite increased revenue figures.

TACTICAL INITIATIVES AND STRATEGIC SALES

Management has developed six tactical initiatives for implementation and will become part of the 90-day plan post-close. These initiatives vary from personal hires to market segment penetration strategies and are detailed in order of management's priority below. CVF will evaluate each initiative with ABC management and determine the appropriate timetable for each of these items.

1. *Marketing Team Development* – Hire a part-time/entry-level marketing administrator. Joe Adams will oversee The Company's sales and marketing effort post-close and is looking to hire an entry-level marketer to perform CRM database maintenance, targeted promotional material, website content, industry publications, etc.
2. *Wood-Fired Power Sales* – Move Richard to outside sales with a focus on wood-fired power plants Richard previously established the wood-fire plant relationships in California and The Company is looking to utilize his relationships and knowledge to develop customer relationships in other geographic markets. May need to recruit an inside sales rep to backfill his current work.
3. *Sales-people Travel* – Increase field sales time (2-3 weeks a month) and geographic coverage to incorporate CA, NV, and MT from Reno. Current sales strategy and structure limits face-to-face sales opportunities, limiting his selling strengths.
4. *Overhaul ABC Website*. Management would like to overhaul its website to represent a more professional appearance and develop a solutions driven approach. Items of interest include: Inquiry and contact capture, content management, industry specific solutions, comprehensive product offerings, and improved Search Engine Optimization (SEO).
5. *Reno Office Space* – Looking to overhaul the office space in Reno to incorporate a more contemporary, professional look and feel. Currently, job groups are scattered throughout the facility rather than grouping similar functions close to one another to maximize interaction.
6. *Distributor Recruitment* – In markets segments that are lower priority, The Company will pursue distributor relationships to manage growth. Market segments of interest include pulp and paper, minerals, and coal-fired power plants.

Management has estimated revenue generation and implementation cost for the above mentioned initiatives is aggregated below. A detailed revenue-cost breakdown for each individual initiative can be found in Exhibit 2.

Six "First Layer" Initiatives	2014 Impact				2015 Impact					Cumulative
Impact of Initiative on:	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	Impact
Revenues	25,000	70,000	110,000	205,000	150,000	185,000	200,000	275,000	810,000	1,015,000
Gr. Margin	10,000	28,000	44,000	82,000	60,000	74,000	80,000	110,000	324,000	406,000
SG&A	23,420	38,870	39,970	102,260	40,220	40,420	40,420	40,920	161,980	264,240
Op Income	(13,420)	(10,870)	4,030	(20,260)	19,780	33,580	39,580	69,080	162,020	141,760
Cash	(25,000)	(35,000)	0	(60,000)	0	0	0	0	0	(60,000)

ABC MANAGEMENT

John Smith

Management biographies removed for confidential purposes.

Joe Adams

Management biographies removed for confidential purposes.

COMPETITION

Two types of companies characterize competition within the rotary valve, feeder, and conveyor market: large multinational firms who design and install complete conveyor systems and smaller, highly fragmented businesses that specialize in the repair and replacement of components within these systems. As such, it is important for ABC to be aware of broader industry performance of international companies like Fischer (a division of Emerson Electric), Loesche, and FLSmidth; but direct competition is more likely with smaller national and regional firms like Jeffrey Radar. Other regional competitor are listed in this report but not detailed due to the fragmented nature of the industry and niche markets in which they compete.

Fisher Valves and Instruments – (http://www2.emersonprocess.com/en-US/Pages/Home.aspx)

Fisher is a brand within the Emerson Process Management Division of Emerson Electric, and is responsible for process management mechanisms such as actuators, rotary valves, and positioners. Overall, the process management Division accounts for 34% of Emerson's $24.7B in annual sales and over 42% of earnings. Growth within Emerson Electric has been driven by strong YOY growth in the process management division, due similar macroeconomic factors that have driven ABC growth. Although analysts are neutral on the company outlook, they are optimistic that company growth with continue to be driven by the process management division.

Although Emerson does not disclose revenue by brand segments, Fisher Controls International did $3.4B in revenue in 2002, when it was acquired by Emerson, and has remained a prominent piece of their process management business.

Loesche – (http://www.loesche.com/en/products/dry-grinding-plants/cement-raw-materials/)

Loesche is a privately held German manufacturing company with a focus on cement mills and cement-related machine manufacturing. Within the US, Loesche offers complete cement mill projects, individual products related to plant assembly, grinding plants, and process automation systems. As is common with other European automated process manufacturers, distance and increased lead times decrease their competitive edge for part replacement. This should prove beneficial as ABC looks to penetrate the US cement market further.

FLSmidth – (http://www.flsmidth.com/)

FLSmidth is a publicly traded company on the NASDAQCMX Copenhagen exchange and is headquartered in Denmark. FLSmidth is another international supplier for systems and equipment for global mineral and cement processing. In 2012, FLSmidth did €3.3B in revenue, with a large focus on emerging markets. Like other large international corporations, FLSmidth has the ability to design, manufacture, and build complete mineral and cement processing facilities as well as various material handling components. However, unlike Loesche, FLSmidth has the ability to implement systems the span the entire gambit of cement/mineral production and packaging. Despite their ability to serve the US cement market, distance and increased lead times decrease their competitive edge for part replacement.

In a 2013 report on the US cement market, FLSmidth portrayed and generally positive trend on the demand size as increasing consumer confidence, housing market recovery, and new jobs fuel demand for cement. They remained neutral on infrastructure and Federal and State impacts as sequestration and government budgets remained a concern. Generally, they have forecasted US Cement consumption to increase roughly 20 percent over the next 3 years, returning to pre-recession levels. Additional information from this report is attached as Exhibit 4.

Jeffrey Radar – (http://www.jeffreyrader.com/ and http://www.terrasource.com/)

Jeffery Radar is one of three brands in a conglomerate called TerraSource Global, a wholly owned subsidiary or Hillenbrand Inc. (NYSE: HI). This increased company size and reach has allowed further penetration into foreign markets such as Canada, India, and Sweden. Despite being a wholly owned subsidiary and part of a conglomerate, Jeffery Radar operates as an independent entity and is still identified as Jeffery Radar rather than TerraSource due to brand recognition.

Jeffery Radar focuses on material handling systems with a focus on pulp and paper, forest, energy generation, ash handling, recycling, conveyors, and other industries. They are perhaps one of the most notable competitors of ABC in the rotary valve and feeder market.

Others

Companies detailed below are small, regional players that compete with ABC in niche markets and geographic areas.

Western Pneumatics - http://www.westernp.com/section.cfm?wSectionID=1342

Austin Mac, Inc. - http://www.austinmacinc.com/

Clarke's Industries - http://www.clarkes-ind.com/html/rotary_feeders1.html

INVESTMENT CONSIDERATIONS

Litigation

The $1.484M customer dispute was over a custom machining order of 3300 rolls (cost of $170K), in which there was a material shortage for 30 rolls. MMM Company decided that ABC could use the excess material from a previous order they did in the 90's, bring it up to a current hardness spec, and integrate that steel into the rolls. Following months of use, the rolls failed and damaged a MMM Company machine, which led them to bring claims against ABC for the damaged machine, labor and cost, and material costs for loss of manufacturing capabilities. While ABC had a $4M insurance policy for product liability through Cincinnati Insurance and was confident in the insurance company's coverage, they were uncertain to what extent The Company might be exposure for relating to issues of negligence.

ABC and MMM Company unsuccessfully tried mediation last year and a settlement date was set for mid-January with a court trial date set for mid-February if unresolved. Previous settlements were unfruitful as the bid/ask spread was $1.35M to $150K and MMM Company failed to provide the necessary documents needed to expedite any sort of orderly settlement arrangement.

At a court settlement hearing on January 7, 2014, a judge ordered settlement between the companies for the sum of $500k. ABC's former insurance company, Cincinnati Insurance, will be responsible for 100% of the payment. As part of the settlement, each party will sign full releases for all parties involved. MMM Company, ABC, and Cincinnati Insurance drafted and have signed the court mandated settlement agreement and are waiting on judge approval, which will occur before closing. The Mutual Settlement Agreement and Release for the MMM Company settlement is attached as Exhibit 3.

Business Risks

Aging Workforce – Human Capital Turnover

ABC has a history of quality production dating back to its inception in 1977, and has been incredibly successful at leveraging the knowledge and experience of their more tenured workforce. Many of the key employees have extensive work experience in the industry and at The Company and will prove essential in the company's continued operations during the next 2-5 years. Two particular persons of interest are Matt, the Production Supervisor, and Richard, the Sales Manager/Screw Conveyor Design Specialist.

Matt and Richard are 62 and 63 respectively and have been at The Company since 1986. Not only have they been involved at ABC for over 25 years, they currently occupy incredibly important roles within the company. As Production Supervisor, Matt is responsible for all machine production, is particularly influential in the day to day operations of the machine shop, and is responsible for managing, scheduling, and acting as a key point of contact with clients. Richard has recently been transitioned to an inside sales role, but his greatest organizational value-add is as the screw conveyor design specialist. In addition to these key employees, there are several other less-tenured people who are key to the company's operations for the near and long term future.

Although the current employees are comfortable and confident in John and his management of the company, as proven over the last three years, employee turnover is a concern throughout the life of our investment. Both Matt and Richard have expressed an interest to remain at ABC for several years to come (Matt = 5-6 years and Richard = 2-4 years), but their extensive industry and company knowledge will need to be replaced eventually.

We have discussed with management several potential plans to incentivize key employees to remain with the company, including profit sharing, stock options, and strategic bonuses. John has also implemented apprenticeship practices with key employees to aid in transitioning their knowledge to younger employees in preparation for the future. Although ABC is in an excellent operating position for the next 2-3 years, retaining key personnel will be an issue we need to address in the upcoming years.

Claims (Workers Comp – Product Liability)

ABC and Manufacturing operates in an industry in which heavy machinery creates potentially dangerous working conditions that bring about exposure to potential claims from workers and other liabilities. ABC does not have a history of workers compensation claims, and we have reviewed their employee handbooks, hiring and training practices, and working environment to ensure that any additional exposure is mitigated. Our environmental consultant has identified a few measures for shop space improvement to eliminate potential issues related to chemical storage, welding materials, etc. We will continually review the necessary employee documentation to ensure all disclosures are properly identified and covered.

Additionally, the MMM Company issue has demonstrated the company's exposure to product liability claims. Although ABC has multiple product lines, the largest exposure for product liability is in its custom machining and manufacturing. While this remains a service that ABC performs, they have scaled back the custom machining operation and primarily machine for one company, XYZ Company. This should improve machining practices as well as concentrate the exposure for product liability claims.

Correlation to Macro Economic Trends – Manufacturing

Another business risk for ABC is its general correlation to the macro economy. As a producer of heavy machinery, ABC's business improves with economic booms as companies have cash flow to expand, upgrade, or replace used machinery. According to Kiplinger, U.S. GDP growth is projected to grow at 2.6% during 2014 with the housing sector continuing to recover by a 4% increase in home sales. Other macro factors like construction and energy are expected to increase in 2014[8]; all of which are positive leading indicators for continued growth for ABC.

However, if the country experiences a period of contraction, ABC will be adversely affected. Following the financial crisis of 2008, ABC's sales contracted by 25% in 2009 and 15% 2010. Although The Company recovered to 2008 levels by 2011, the lagging US economy severely affected ABC's performance. While we are positive on the U.S. macro-economic outlook, the company's tight correlation to the macro US economy is a risk we must consider during the life of the investment.

Customer Concentration

ABC has a fairly diversified customer concentration across industries and product classes with the top 10 customers representing 41% of total revenue in 2013. The table below represents historic customer concentration levels for XYZ Company and ABC's top 10 customers (including XYZ Company) by year.

CUSTOMER CONCENTRATION	2011	2012	2013
XYZ Company	13.47%	11.27%	14.63%
TOP 10 Customers	48.91%	37.26%	41.34%

XYZ Company, a multi-Mattion dollar public company, is ABC's largest customer and represented almost 15% of company revenue in 2013 with $1.17M in custom machining orders. ABC primarily machines mid-stream water pump cases and pump shafts for XYZ Company's Portland facility. In 2013, XYZ Company produced 350 "mid-stream" pumps in Portland (down from the estimated 500 it had ordered materials for), but only has capacity to machine 200-300 internally. The rest of the orders are then sent to ABC for machining. This does represent a potential concem for ABC. If demand for XYZ Company pumps weakens, ABC's share of machining jobs would be eliminate first, as the Portland XYZ Company plant would operate to capacity and only outsource the excess work.

In reviewing XYZ Company's investor presentations and quarterly calls, we remain optimistic that their relationship with ABC will remain strong in the upcoming years. The XYZ Company plant in Portland primarily manufactures mid-stream pumps, which is among XYZ Company's fastest growing and most profitable business segments. Mid-stream pumps are used primarily in domestic oil and gas operations, and are key components in pipelines and the oil and gas transportation infrastructure. The continued fracking growth in North Dakota, and newly passed legislation for fracking California, should continue to drive domestic oil output in the near term. Additionally, projects like the Keystone pipeline represent strong growth opportunities for XYZ Company's mid-stream pump business in the long-term. We remain optimistic that XYZ Company relationship will remain positive and further drive company profitability.

Due Diligence Process

<u>Accounting</u>

An Accountant from BFBA has been employed to do a quality of eamings analysis and performed on-site diligence at the Reno facility from 1/15 to 1/17. In all aspects of the evaluation, the quality of eamings was positive, indicating that the company has generally adheres to GAAP standards that accounting personal,

[8] http://www.kiplinger.com/tool/business/T019-S000-kiplinger-s-economic-outlooks/

policies, and oversight are appropriate for this business. Additionally, BFBA reviewed the 2011 and 2012 Tax Returns. While they did not have access to the underlying documents, "they did not identify any income tax positions or other items that appear to create significant income tax exposure for the company."

ABC's controller, in not a typical accounting professional as he did not graduate in accounting and spent the early years of his career in production management. However, having been a controller at various other companies for the past 15 years, he has gained an adequate understanding of GAAP to fulfill his current role. That being said, an adequate CFO would need to be hired as the company grows beyond The Controller's abilities. Additionally, a few adjustments may be made to inventory and accrued liabilities due to potentially obsolete inventory and a reserve for California Franchise Tax Expense, but these adjustments do not represent more than 70k and will have minimal effect on the transaction.

The Owner requested an audit on the company for 2013 and the firm is in the process of finalizing that report. While they have not finished the report, we will require the final audit before closing. That report will then be reviewed and compared to BFBA's report.

Environmental Audit

TetraTech was commissioned to complete an environmental audit of the Company and was on site on November 18th, 2013 to survey the premises and a final report was delivered on December 19, 2013. In addition to the on-site visit, TetraTech evaluated all applicable agency databases and performed an environmental checklist with The Owner. A complete Phase 1 evaluation was not performed at this time; however, TetraTech reviewed a Phase 1 evaluation that had been done in Nov. 2010. In addition to reviewing the historical environmental review, TetraTech conversed with the party that had performed the review to further clarify any areas of concern. Upon review of the 2010 Phase 1 analysis and on site analysis, TetraTech determined that "no significant environmental liabilities related to ABC operations were found. No significant release of hazardous material was discovered." Despite the historic nature of the reviewed report, we are comfortable that the on-site visit, other TetraTech tests, and John's presence at the company since 2011 provide sufficient knowledge of recent environmental practices to address our concerns.

While the final report uncovered no serious environmental liabilities or releases of hazardous materials and demonstrated that all of the necessary environmental permits are in good order, a number of small suggestions were made to reduce any possible environmental risks going forward. Tetra Tech suggested that: paint-thinner should be stored in a flammable materials storage cabinet, that metal shavings should be stored under a canopy when outside (to reduce water contamination due to cutting oil), company practices could improve as they relate to cleanup of material spills, and to store drummed liquids on secondary containment units. These suggestions represent "best practice" ideas are relatively easy to address. As such, they should not represent concerns as it relates to our investment.

Operations

Operation's Management, LLC was sent to survey operational practices at ABC and filed its report on December 18, 2013. The ten-page memo analyzes the company's operational strengths and weaknesses and identifies strategically important items for the Company's future performance.

In evaluating general company operations, they analyzed the various product segments and their contribution to company profitability. As noted preciously, there is a strategic shift toward proprietary products, but The Company has yet to see the expected sales traction as it relates to that product line. This this may be a concern, we are confident that Joe Adams' presence within the company and an improved sales plan will drive product segment growth. They commented that equipment and company machines appeared to be in good order and were operated in an efficient manner, noting that " most of the potential inefficiency is in managing labor." John Smith also addressed this in his management presentation, noting that man hours/job have increased slightly over the last year, indicating inefficiencies in labor management. To address these issues, both they and John have suggested that The Company create metrics by which each individual can be accountable for when doing the various jobs.

They also noted the lack of strategic direction as it relates to industry sales, saying, "there is no definitive direction." To address this issue, they identified two market sub segments ABC could focus their products to, those being the cement industry and biomass-fired plants. Those are the same industries management identified as growth opportunities and have developed plans to address those markets.

Perhaps the most positive note from the operations diligence is the excess capacity ABC currently has in their Reno facility and the operating leverage that should be gained with revenue growth. ABC currently operates one, occasionally two, working shifts for most jobs. As such, "there appears to be plenty of machine and labor capacity without capital investment." In their opinion, ABC should be able to manage demand with their current structure until the company reaches roughly $15M in sales. He mentioned a third shift may be needed, but that represents minimal marginal cost. In summary, the operations of The Company appear to be in good order and should scale with company growth.

Insurance

We are in the process of verifying all of the company's insurance information to ensure adequate coverage for all potential liabilities. The company contracted to provide Reps and Warranties Insurance is reviewing The Company's current policies and preparing a bundled offering for ABC. Early indications are that the Company has kept adequate records for both ERSIA, OSHA, and other employment related issues and is adequately insured. CVF will insist the company purchase Key Man Life Insurance on John Smith for the balance of our invested capital. Other necessary insurance is being evaluated as appropriate. Additional commentary will be provided as needed.

Reps and Warranties Insurance

One of The Owner's primary concern in the transaction is the extensive nature of the representations and warranties we will require as part of the Stock Purchase Agreement. While he is willing to rep and warranty to most of the items requested, he is concerned with the unlimited liability exposure and statute of limitations of some of the items. As such, we, with The Owner, have explored the possibility of Reps and Warranties Insurance for the purpose of closing this deal. Following the many proposals we received, we have selected Ambridge Financial do underwrite and issue the Reps and Warranties proposal.

We can purchase up to $7.2M, with $800k in retention for $140k premium with applicable taxes and fees or coverage of $4.0M, with $800k in retention for a $90k premium with applicable fees and taxes. We have agreed to split the premium cost with The Owner in order to close the deal. The retention for these policies will be the $200k in escrow and $600k seller note we can offset if needed. Ambridge does not cover environmental Reps and Warranties nor Fraud related issues; however, we are comfortable with Tetra Tech's environmental review and results and are not concerned about Fraud related issues as there is language in our documents to protect us against fraud.

Ambridge has begun the underwriting phase for the policy and we will provide the group with additional details as we solidify the policy and finalize the SPA.

RECOMMENDATION

CVF recommends that the Investment Committee approve the $3.66M investment in ABC Inc. We have concluded the key elements of our CVF's due diligence in ABC. Our research shows that there is a meaningful investment opportunity driven by an experienced management team, a positive macro environment, and defendable product line with viable growth opportunities. With this approval, CVF would authorize a transaction close by February 28, 2014.

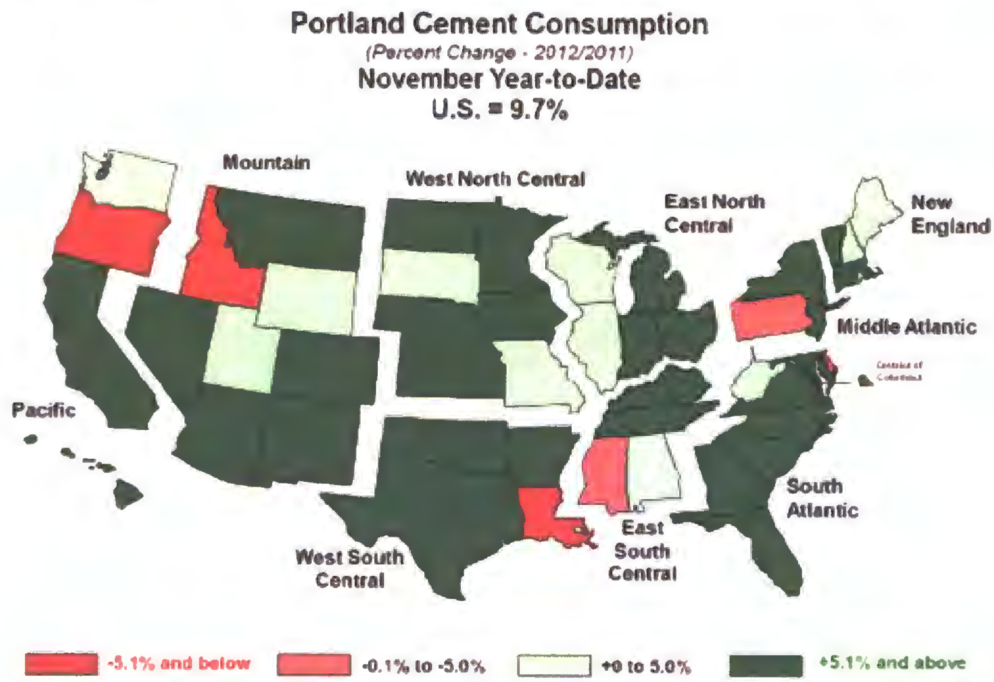
ABC INC

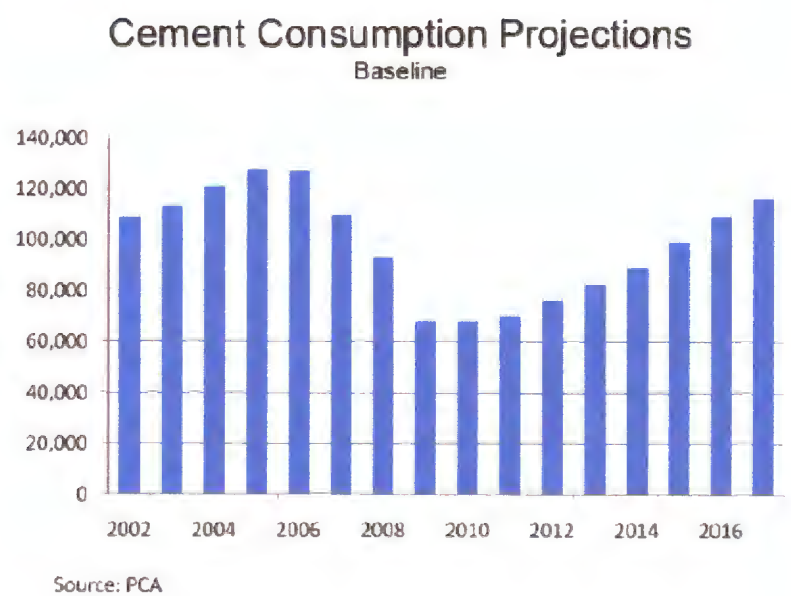
INVESTMENT COMMITTEE APPROVAL & SIGNATURE PAGE:

Exhibit 4

FLSmidth - US Cement Market Outlook – Select Graphs

US Cement Market Today





Source: FLSmidth "The US Cement Market and NESHAP" - http://hugin.info/2106/R/1685260/552053.pdf