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EML - Big 3 Precision Mold Services Llc, Big 3 Precision Products, Inc.,  
The Eastern Company, TVV Capital - M&A Call

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## CORPORATE PARTICIPANTS

**August M. Vlak** *The Eastern Company - President, CEO & Director*

**Christopher Moulton** *The Eastern Company - Head of Corporate Development & IR*

**John L. Sullivan** *The Eastern Company - VP & CFO*

## PRESENTATION

### Operator

Good afternoon, ladies and gentlemen, and welcome to The Eastern Company's Investor Call to discuss the acquisition of Big 3 Precision. (Operator Instructions) And there will be a question-and-answer session after the presentation. (Operator Instructions)

At this time, it's my pleasure to turn the floor over to Mr. Chris Moulton, Head of Corporate Development and Investor Relations for The Eastern Company. Sir, the floor is yours.

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**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Thank you. Welcome, everyone, and thank you for joining us this afternoon for Eastern's conference call to discuss our acquisition of Big 3 Precision, which we announced this morning. Speaking on today's call will be Eastern's President and CEO, Gus Vlak. After which, we'll open the call for questions. Our CFO, John Sullivan, is also with us today and will be available to answer questions.

On today's call, we've prepared a presentation, which accompanies our prepared remarks. To access the presentation, please go to our website at [www.easterncompany.com](http://www.easterncompany.com), proceed to the Investor Information section and click on the link to today's webcast.

Before turning the call over to Gus, I'd like you to draw your attention to Slide 2. Please note that some of the information you will hear during our call today will consist of forward-looking statements about the company's future financial performance and business prospects, including, without limitation, statements regarding revenue, gross margin, operating expenses, other income and expense, taxes and business outlook. These forward-looking statements are subject to risks and uncertainties that could cause actual results or trends to differ significantly from those projected in these forward-looking statements. For more information regarding these risks and uncertainties, please refer to risk factors discussed in the press release we issued this morning, our Form 10-Q and our most recent 10-K.

In addition, I'd like to draw your attention to Slide 3. On today's call, management will refer to certain financial measures, such as adjusted EBITDA and adjusted EBITDA margins that are not measures of financial performance in accordance with GAAP, and may exclude items that are significant in understanding and assessing financial results. These non-GAAP financial measures are subject to inherent limitations as they reflect the exercise of judgment by management about which expense and income are excluded or included in determining these non-GAAP financial measures.

With that, I will turn the call over to Gus. Good afternoon, Gus.

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**August M. Vlak** - *The Eastern Company - President, CEO & Director*

Thanks, Chris. And thank you, everyone, for joining us this afternoon to learn more about our acquisition of Big 3 Precision. Today's call is a first for Eastern. It's the first time that we've invited everyone to an open forum to discuss a significant corporate development, which should give you an idea of how important this transaction is to us. As Chris mentioned, we put together a brief presentation about the transaction, and I'll start my remarks on Slide 4.

Eastern has a track record of successfully acquiring companies. We've acquired 3 in the last 3 years. And like those transactions with Big 3, we acquired leading and niche industrial businesses that design and manufacture in the U.S. and sell industrial products and solutions primarily to



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customers in North America. What sets this transaction apart from the others is its size and strategic significance. Among the many reasons that this is significant are: one, we're acquiring a stand-alone business that generated approximately \$72 million in revenue for the 12 months ended June 30, 2019; two, we're adding significant scale and building a larger company that's got a greater presence with key customers in leading niche industrial markets; and third, we're taking a big step towards becoming a \$100 million EBITDA company, which we believe will create long-term value for our shareholders.

We completed 3 acquisitions in the last 3 years and maintained a very disciplined approach. For this transaction, we stuck to our defined criteria, acquiring a company with strong intrinsic economics, a robust business model that serves attractive niche markets that we understand and a company that's got a capable and committed management team. In addition to acquiring a company which we believe will become a strong contributor to our top line earnings growth and cash flow, we believe that Big 3 provides an attractive opportunity for Eastern that can give a significant additional value through further organic growth and bolt-on acquisitions. And finally, given Big 3's strong financial performance, we expect this transaction to be accretive to our earnings for fiscal 2020.

Let's turn to Slide 5 and I'll recap the key points of the transaction. As stated in the press release that we issued this morning, we acquired 100% of the stock of both divisions of Big 3 for \$81.7 million. We'll talk more about the 2 divisions later on in this presentation. We paid 6.1x Big 3's adjusted EBITDA of \$13.4 million for the 12 months ending June 30, 2019. Excluding transaction costs and the impact of purchase accounting, this transaction is immediately accretive to Eastern. And the combination of a conservative valuation multiple and Big 3's strong financials means that we confidently expect the transaction to be accretive to our EPS by at least \$0.40 for fiscal 2020.

As many of you know, we've reduced our debt to approximately \$20 million shortly before the end of the second quarter -- or shortly after the second quarter, rather, and we refinanced our existing credit facility to fund this transaction and brought in new debt sponsors through a syndication of this facility. The new credit facility includes a \$100 million term loan and a \$20 million revolving credit, which is \$10 million more than our previous revolver, and carries a blended interest rate of 3.5%. We filed a complete credit agreement with our bank with our 8-K this morning.

Post transaction, our leverage is approximately 2.9x EBITDA, and that's calculated on a pro forma basis including Big 3 Precision for the 12 months ending June 30, 2019. Given Big 3's strong cash flow, we expect to be able to reduce this debt expeditiously as we've done in the past.

I'd like to turn to Slide 6 to give you some additional context for how we see this transaction. I want to touch briefly on Eastern's stated 3-part strategy that supports our goal to create long-term shareholder value and our ambition to become a \$100 million EBITDA company. Those of you who have been following Eastern for a while will recognize the 3 components of our strategy, which is: to optimize our portfolio of businesses; maximize the results from our best businesses; and ensure a solid and flexible balance sheet. Execution of all parts of this strategy includes both organic and acquired growth.

Our goal is to create long-term value from a portfolio of leading niche industrial businesses that deliver engineered solutions to customers. We acquire companies that generate stable cash flow, and we invest in bolt-on acquisitions to strengthen these individual businesses. And we maximize the potential of these businesses through investments in product innovation, operational excellence, talent development and adherence to our performance-based culture.

In our view, the acquisition of Big 3 advances our strategy without unduly burdening our balance sheet. To demonstrate a little bit more about why we believe that, let's take a closer look at Big 3's business fundamentals on the next 2 pages. We're acquiring a niche industry leader in turnkey packaging solutions with an offering of highly engineered value-added products and significant corporate longevity. Big 3 serves a broad and distinguished customer base including many well-known OEMs, brand owners, pharmaceutical companies across a diverse set of countercyclical markets. The company is headquartered in Centralia, Illinois and operates a network of 6 facilities that are located around the Midwest and Northeast markets, which enable it to provide service close to its customers. It also operates a small facility in the U.K. for that same purpose.

We believe that Big 3's end markets offer favorable characteristics. In its industrial end markets, demand for its products is primarily driven by the launches of new commercial trucks and automotive vehicles, and launches are increasing in frequency due to regulatory requirements, technology changes, changes in customers' desire and their need for more innovative design in products as well as intensifying competition. In addition,



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increasing manufacturing automation requires more advanced automatic racking systems and custom packaging that integrates with manufacturing production lines, like those that are manufactured by Big 3.

In the consumer packaging goods end of the market, demand for packaging is driven by the ever-changing consumer preferences and increasing emphasis on packaging to differentiate consumer products, which is causing brands to continuously launch new products. And at the same time, growing sustainability concerns spur packaging redesign. We believe that these characteristics drive Big 3's attractive financial profile. It's got sticky customer relationships that generate significant recurring revenue and a low-cost, working capital and CapEx business model that generates strong free cash flow. The company has generated double-digit sales growth for each of the past 5 years through organic sales and bolt-on acquisitions, and delivered an adjusted EBITDA margin of 18.6% for the 12 months ending June 30, 2019.

Turn to Slide 8 to show a little bit more about Big 3. Big 3 operates through 2 divisions: returnable packaging and packaging blow mold tooling. The returnable packaging business offers secure transport and material-handling solution for OEM components used in transportation and capital goods markets. These include turnkey end-to-end returnable packaging program management that encompasses design, engineering, prototyping, fabrication dunnage, assembly, kitting and repair of custom steel and aluminum packaging. These solutions help OEMs manage a growing complexity in logistics and manufacturing.

Packaging blow mold tooling offers efficient high-volume conversion of consumable bottles and containers used in a wide variety of end markets, including consumer packaged goods, pharmaceutical and medical and industrial markets. The production methods, which include injection blow mold tooling as well as injection stretch blow mold tooling are widely used to convert raw material – raw plastic resin into a package or container for a myriad of applications.

So now that I've given you a bit of an overview of Big 3, I'd like to show how this acquisition aligns with our acquisition criteria and offers us a compelling value creation potential. Let's turn to Slide 9.

So as we mentioned before in earnings calls and at our annual meeting, we apply a strict set of criteria to our analysis of acquisition candidates that focuses on businesses with robust business models in attractive niche markets with a committed and capable management team. We believe this transaction checks all the boxes. Big 3 possesses highly engineered products, industrial customers and end markets that complement Eastern's portfolio of businesses and offers us opportunities to leverage our expertise in expanding margins and adding scale through bolt-on acquisitions. Big 3 also has a sustainable business model that delivers strong return on invested capital and margins, and it's got a highly skilled and capable workforce with a strong leadership team that's got in-depth knowledge about the company's industries and its customer base. In short, we like to stay in our lane and acquire businesses that we understand and where we know how to grow and optimize the company.

We believe there are roughly 4 ways that we can support the growth and performance of Big 3, and Slide 10 shows the way in which we think about value creation. Starting on the left, we believe that Big 3 Precision will benefit from Eastern's management disciplines. That is the way we set clear, measurable performance expectations for our portfolio businesses, line accountability, resources and incentives. Second, we plan to work with Big 3 to expedite growth through bolt-on acquisitions, and Big 3 is no stranger to M&A activity. It's acquired 3 companies in the past 6 years, and the nature of the packaging blow mold tooling business, in particular, offers a lot of opportunities to build some critical mass through acquisition.

Moving to the right. We also identified numerous opportunities for Big 3 to grow organically, particularly in the returnable packaging business by leveraging many of our existing customer relationships. We've also seen a few opportunities to drive profitability through manufacturing efficiencies. In sum, we're adding a new growth business that gives us a clear path to create compelling value and generate strong cash flow to support the rapid deleveraging and equity gains.

So turning to Slide 11, I'll wrap up my comments. At Eastern, we have a proven record of successfully growing through acquisitions. And in evaluating Big 3 Precision, we stayed true to our acquisition process and our acquisition criteria. And as a result, we believe that our due diligence and our deliberate and disciplined approach, we have acquired a business that is right for us, it's an excellent fit; it offers us attractive value creation potential; and we acquired at an appropriate leverage ratio of 2.9x LTM EBITDA. Strategically, we're taking a significant step towards our goal of building critical mass in building leading niche industrial businesses that deliver engineered solutions and creating a company that generates \$100 million in EBITDA.



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With that, I'd like to turn it over to questions.

**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

So operator, we'd like to open the line for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay. While we wait, let's -- we do have some webcast questions that have come in. First one is how does the transaction multiple for this acquisition compare to your past acquisitions? Do you have a predetermined range of EBITDA multiples that you're willing to pay for your target business?

**John L. Sullivan** - *The Eastern Company - VP & CFO*

Well, this multiple is lower than some of our past and higher than others. The multiple is a function of many considerations including the quality of the business. We don't have any hard and fast rules for our multiple. But obviously, once you get to a double-digit number, then the business really must be growing rapidly. We believe that this particular transaction, the multiple of 6.1 is very attractive with the strength of this business.

**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay. We do have another webcast question. We read every day that there are indications that we're heading for an economic downturn. Why lever up the balance sheet at this time.

**John L. Sullivan** - *The Eastern Company - VP & CFO*

Well, we believe our balance sheet still remains strong. Even immediately after this transaction, we estimate that the LTM leverage ratio was about approximately 2.9x. And one of the things that was very attractive is we're refinancing this whole transaction at a blended interest rate of approximately 3.5%. Moreover, based on our expectation of Big 3's cash flow along with Eastern's cash flow generation, we'll be able to pay this debt down rather quickly.

**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay. I want to refresh the webcast questions. But operator, do we have any calls that have -- any questions that have come in over the telephone?

### Operator

There are no questions on the phones at this time. (Operator Instructions)



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**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay, we do have another question on the webcast. Management has an agreement -- or I should say, does management have an agreement for how long they'll stay with Big 3? And are there bonuses incentives -- are there bonus incentives provided to them?

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**August M. Vlak** - *The Eastern Company - President, CEO & Director*

So we do have an agreement with Todd Riley, the President of Big 3. But more importantly, we have a shared plan for what we envision for what we want to do here and how we want to grow this company. Todd will participate in the bonus and incentive plan that we have for all our senior executives. And we expect to incent them in that manner.

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**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Just to check on the phones, did we receive any other questions on the phone line?

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**Operator**

There are still no questions on the phones.

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**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay. We have one additional question. The -- on the webcast, the paydown of the purchase price of \$81 million, I guess, how long will the -- will it take to pay down the \$81 million purchase price based off the company's cash flow?

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**August M. Vlak** - *The Eastern Company - President, CEO & Director*

So while, of course, we have some expectations for that based on our internal evaluation of the company, this is really going to depend on a number of factors, including additional growth opportunities that will come from this trend -- from this business or other businesses and how we see it best to deploy our capital in the future. It's very hard to put a specific number on that at this time.

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**Christopher Moulton** - *The Eastern Company - Head of Corporate Development & IR*

Okay. I'll refresh the webcast. It appears as though we don't -- we have no further questions. So unless we have another question on the telephone, I'd like to turn the call back to the operator.

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**Operator**

Thank you, sir. And there are no questions on the phones. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time, and have a great day.

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