



CIBC CAPITAL MARKETS

# US MIDDLE MARKET

## Specialty Vehicle M&A Market Update

Summer 2024



# Opening remarks

CIBC is pleased to present its specialty vehicle M&A market update. Our team has a long history of serving clients in the specialty vehicle market and maintains a consistent dialogue with industry participants.

This update provides insights on key themes driving long-term secular demand and M&A interest from both strategic and private equity buyers. Several factors have converged to create a strong investment thesis in the industry, including ongoing demand for new vehicles due to pent-up demand from pandemic-induced supply chain issues and ongoing labor shortages, expectations of long-term spending growth in infrastructure and construction, investments in accessories by fleets and owner/operators to improve efficiency, safety, and vehicle up-time, and regular aftermarket product and service needs due to the demanding environments in which these vehicles operate.

While 2023 and early 2024 presented several challenges including higher interest rates, fallout from bank failures, and economic and public market uncertainty, we believe the long-term investment thesis in the specialty vehicle market is compelling.

## M&A Execution – Milwaukee



**Ryan Chimenti**  
Managing Director  
[ryan.chimenti@cibc.com](mailto:ryan.chimenti@cibc.com)  
[414 379-1604](tel:414-379-1604)



**Chris Larsen**  
Executive Director  
[christopher.larsen@cibc.com](mailto:christopher.larsen@cibc.com)  
[414 469-4635](tel:414-469-4635)



**Brian Howley**  
Director  
[brian.howley@cibc.com](mailto:brian.howley@cibc.com)  
[414 291-4537](tel:414-291-4537)

## Industry coverage – Chicago



**Eric Reuther**  
Managing Director & Head  
[eric.reuther@cibc.com](mailto:eric.reuther@cibc.com)  
[312 286-1119](tel:312-286-1119)



**Mei Chen**  
Director  
[meijun.chen@cibc.com](mailto:meijun.chen@cibc.com)  
[773 294-6930](tel:773-294-6930)



**James Mitchell**  
Associate  
[james.mitchell@cibc.com](mailto:james.mitchell@cibc.com)  
[708 819-5443](tel:708-819-5443)






# Select CIBC specialty vehicle transactions




CIBC has extensive history serving the specialty vehicle industry




## Selected advisory transactions




  
a portfolio company of  
  
has been acquired by  
  
a portfolio company of  


  
a portfolio company of  
    
has been acquired by  
  
a portfolio company of  


  
a portfolio company of  
  
PCM COMPANIES  
has been acquired by  


  
FUNCTION AND STYLE FOR TODAY'S TRUCKS  
has been acquired by  
  
a portfolio company of  


  
Automated Covering Systems  
a portfolio company of  
  
has been acquired by  
  
a portfolio company of  


  
In the Passing Lane Since 1934  
a portfolio company of  
  
has been acquired by  




# Select CIBC specialty vehicle transactions

CIBC has extensive history serving the specialty vehicle industry

## Selected financing transactions

\$150,000,000  
\$100,000,000



Revolving Credit Facility  
Senior Secured 5yr TLA

\$1,250,000,000  
\$65,000,000



Revolving Credit Facility  
Subscription Receipts

\$300,000,000



Senior Secured 5yr TLB

\$2,750,000,000  
\$750,000,000



Senior Secured 7yr TLB  
5yr Senior Secured Notes

\$225,000,000



Senior Secured 5yr TLA

\$550,000,000



ABL Revolving Credit Facility



# Key themes create a compelling investment thesis



## New vehicle demand remains strong

- Despite a challenging start to 2024, our expectation for new vehicle builds over the medium-term remains optimistic due to aging fleets, future regulations, and end market growth
- Infrastructure spending is our #1 catalyst driving demand for specialty vehicles, as large-scale infrastructure initiatives translate to the growth of truck and trailer fleets
- EPA'27 Clean Truck rules are expected to incentivize fleets and owner/operators to accelerate replacement cycles based on historical purchasing behavior the year before an EPA change



## Significant aftermarket parts & service opportunities

- High-margin aftermarket parts and service opportunities are abundant in the specialty vehicle market because downtime is costly and fines can be levied for damaged and inoperable parts
- Manufacturers that are structured to respond immediately to aftermarket service tend to have consistent performance, higher margins, and predictable growth for which strategic and financial buyers are willing to pay a premium
- The expansion and aging of fleets will add to the long-term growth in demand for aftermarket parts and service



## High margins available to participants delivering efficiency, safety, and uptime optimization

- Fleets and owner/operators are investing in accessories that make operations more efficient while on the jobsite, improve vehicle safety, and optimize revenue-generating uptime
- Best-in-class accessories manufacturers often generate high margins (40%+ gross and 20%+ EBITDA) due to their total cost of ownership value proposition, which is focused on maximizing customer profitability and fleet optimization
- These products are available through all sales channels, are utilized for new and retrofit applications, and often have a long tail of predictable and reoccurring aftermarket sales over the life of the truck and/or trailer



## Increasing private equity platform interest

- Industry's track record of consistent cash flow generation, secular underlying demand, diverse end markets, and fragmentation is driving increased interest from private equity investors
- Firms are investing significant resources in buy-and-build strategies to create market leaders in specific product categories with significant platform focus on aftermarket parts, aftermarket service, and thematic portfolios of brands

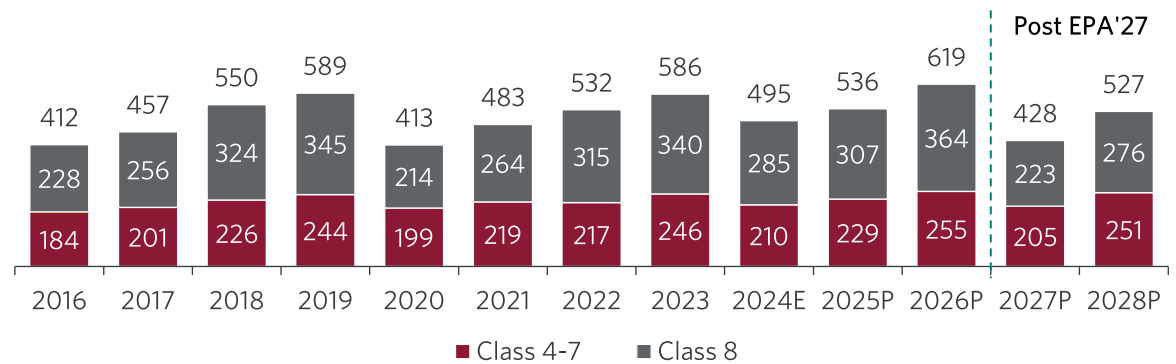


# New vehicle demand remains strong through the medium-term

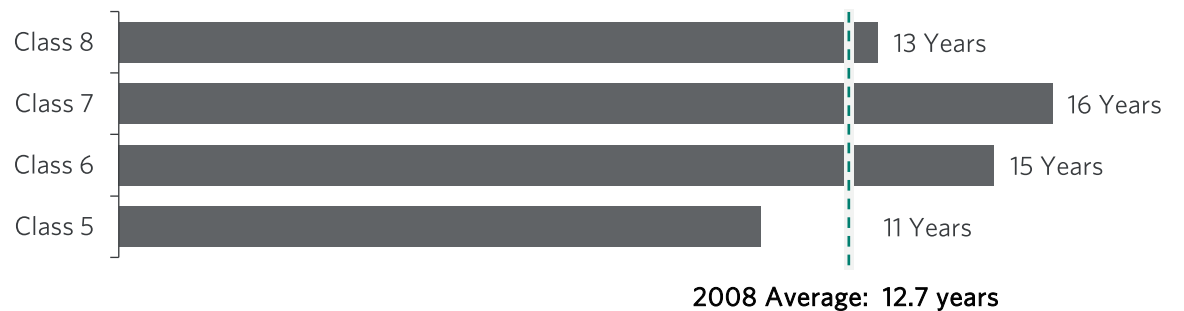
Industry forecasters are predicting production of medium- and heavy-duty vehicles in 2024 will fall approximately 15% from levels produced in 2023. According to NTEA, sales through Q1 2024 were approximately 10% below 2023. Industry participants' and our expectations for truck production remain optimistic for second half of 2024, 2025, and 2026 based on discussions with industry participants and the following factors:

- Pent-up Demand:** Supply chain issues and labor shortages over the past few years resulted in long lead times and growing backlogs for new vehicle manufacturers. Supply chain issues have mostly recovered, but labor and production efficiency remain a challenge for OEMs and bodybuilders. Thus, operators have been slow to make growth investments in their fleets and replace aging vehicles that are well past historical averages, which has benefited parts and service focused companies.
- Regulations:** Fuel efficiency and emission requirements continue to be a factor in fleet and owner/operator purchasing decisions. EPA'27 Clean Truck rules are accelerating demand ahead of the 2027 model year. Manufacturers are expected to be challenged to meet the forecasted volume of orders through 2026, which might soften the drop in new vehicle demand in 2027.
- Infrastructure and Construction Spending:** The recent IIJA and CHIPS Act passage and bipartisan spending support will result in broad industry growth for specialty vehicle participants transporting materials, equipment, and personnel.

## Annual N.A. truck production forecast classes 4-8 (thousands)



## 2023 average age of class 5-8 truck fleet (years)



## US highway and street construction spend (\$'s in billions)



Source: NTEA, ACT Research.

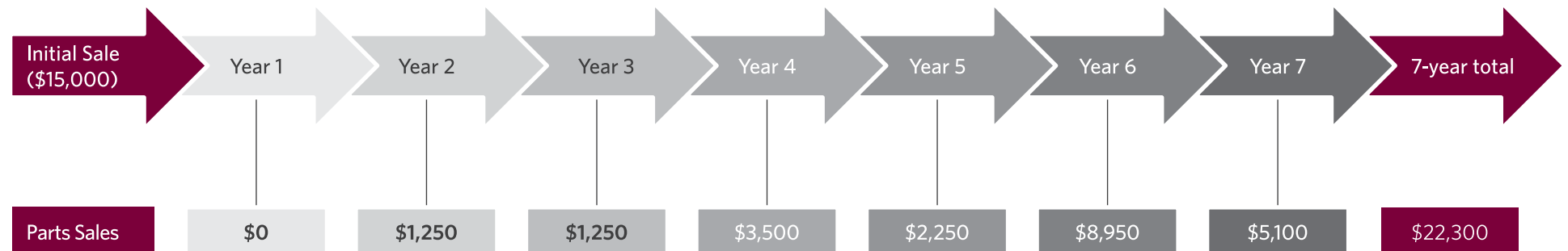
# Growing installed base and aging fleets require more aftermarket parts & service

Commercial and specialty vehicles often operate in demanding environments and log thousands of miles, subjecting the vehicles to significant wear and tear. Routine maintenance schedules are well documented and adhered to, but unpredictable, break/fix incidents remain a regular part of the vehicle lifecycle. When these incidents happen, availability is critical to uptime and replacement parts are a “need it now” item for which operators are willing to pay a premium. As a result, many manufacturers serving the aftermarket are achieving 60%+ gross margins on aftermarket parts sales.

Manufacturers that prioritize their aftermarket parts and service network tend to have higher margins, generate more OEM sales, and achieve higher growth rates than parts manufacturers focused exclusively on the OEM market. This differentiation is due to fleet and operator influenced pull-through demand during the OEM build because of the total cost of ownership and ROI over the life of the vehicle.

The “aftermarket first” strategy is proving to be more successful at driving growth because of a growing installed base of vehicles in operation and aging fleets. Based on the Bureau of Transportation Statistics data, the long-term growth rate for the number of registered medium- and heavy-duty trucks is approximately 3.5% per year. The installed base of vehicles is also aging and needs replacement because the annual maintenance costs are now exceeding the annual costs of a new truck. However, supply chain issues and labor shortages over the past few years has limited the number of new chassis available for purchase. This has resulted in more aftermarket parts demand to support older vehicles and increased the future need and demand for new vehicles as rising repair costs on aging fleets diminish ROIs.

## Aftermarket parts sales example



**1.5x – 3.0x**

Estimated aftermarket parts revenue as a multiple of original equipment purchase over its useful life

7-year parts sales of ~1.5x initial purchase

# Efficiency, safety, and uptime optimization drive continued growth in demand

Fleets and owner/operators continue to invest in aftermarket accessories and upgrades to improve operator efficiency, safety, and uptime. Many manufacturers are focusing new product development on technology and automation that improves the safety of drivers and roadways. For example, manufacturers are adding cameras and sensors that allow in-cab and remote-control operation to accommodate worksite rules that restrict drivers from exiting cabs. Another area of safety investments is products and technology that keep operators on the ground (instead of climbing on trucks and trailers) because fall accidents are among the most common workers' comp claims. Vehicles upfit for the job provide the added benefit of driver recruitment and retention which is critical in the current environment of driver shortages, higher costs, and restrictive time regulations.



## Operator benefits

- Ease of operation
- Low physical exertion
- Consistent function and performance
- Safety
- Automation



## Fleet and Owner desires

- Maximize revenue
  - More loads / jobs completed
- Minimize downtime
  - Longest-lasting, reliable products
- Improve safety
  - Fewer workers' compensation claims; greater retention
- Lowest total cost of ownership



## OEM and Dealer requirements

- Ease of installation
- Quality
- Reliability
- Availability
- Recurring high-margin parts / service



# Continued private equity platform interest

Despite the trucking industry's characterization as a low-margin, cyclical industry, private equity firms have successfully invested in, grown, and exited marquee platforms serving the specialty vehicle market. Strong private equity interest in the sector has created several notable platforms.

## Select private equity platforms

	<p><b>Large and growing addressable market</b></p> <ul style="list-style-type: none"> <li>Specialty vehicle industry is \$182 billion with mid-single digit growth expectations</li> </ul>
	<p><b>Fragmented market</b></p> <ul style="list-style-type: none"> <li>Opportunities for consolidation and geographic and product line expansion</li> </ul>
	<p><b>High margins</b></p> <ul style="list-style-type: none"> <li>Companies with compelling, innovative products and value propositions generate 20%+ EBITDA margins</li> </ul>
	<p><b>Recurring aftermarket demand</b></p> <ul style="list-style-type: none"> <li>Constant wear and tear creates meaningful aftermarket parts and service opportunities</li> </ul>
	<p><b>Multiple avenues for organic growth</b></p> <ul style="list-style-type: none"> <li>Product innovation, geographic coverage, sales channels, install/service, new customers</li> </ul>

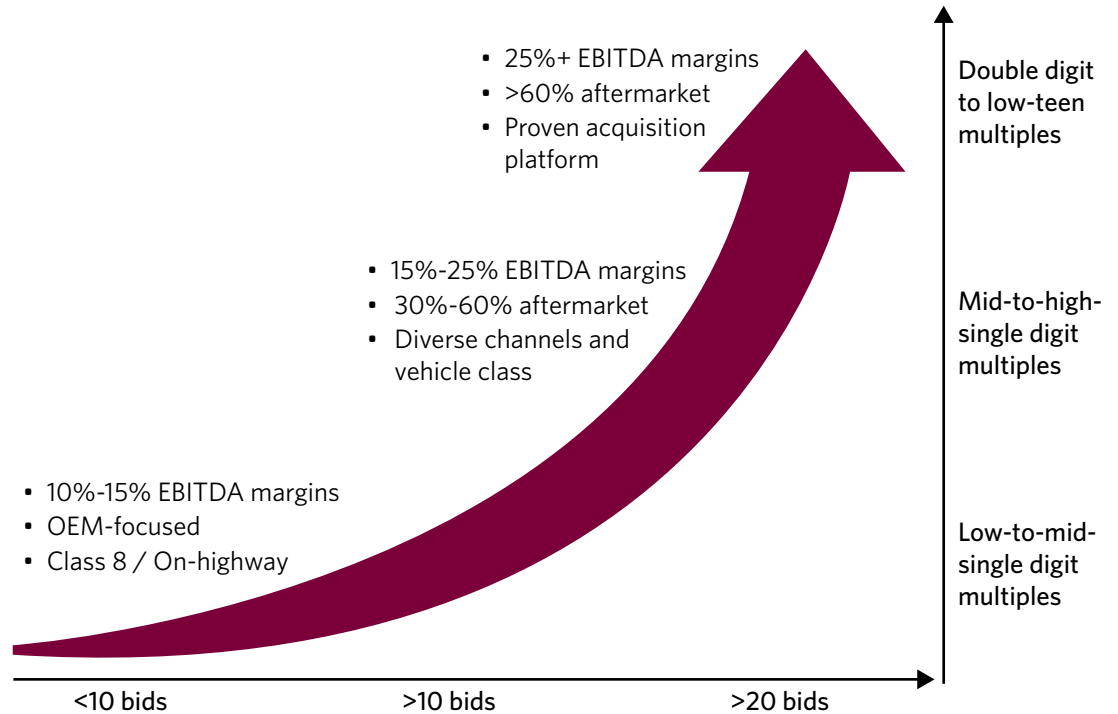
Platform	PE sponsor
	
	
	
	<p>Crown Family Office</p>
	
	
	
	
	

# Business and financial drivers of premium valuations

High margins and significant aftermarket sales exposure drive more buyer interest and valuations above 10x

## Value drivers

- Product differentiation (with IP) supporting efficiency, uptime, and safety
- Brand loyalty leading to long-term, growing customer relationships
- Multi-channel sales strategy supporting OEMs, dealers / distributors, and fleets / owners
- 60%+ recurring or reoccurring aftermarket parts and service revenue
- Strong management team with track record of driving growth
- Scalable manufacturing and sourcing operations
- Strong gross (35%-50%+) and EBITDA (20%-40%) margins
- 3+ years of >10% "core" growth (unit vs. price)
- High free cash flow conversion (>95%) and high return on invested capital
- Proven organic and inorganic growth platform



## Select recent transactions

Date effective	Target	Acquiror	Target's business description
2/22/2024	Vanner, Inc.	Havis, Inc.	Develops and delivers power conversion and management systems for specialty vehicles
2/15/2024	Safe Fleet Holdings, LLC	Clarience Technologies, LLC	Manufactures fleet safety and productivity solutions
2/15/2024	Central States Bus Sales, Inc.	Patriot Capital, CFB, IBCF, and KVICI	Largest authorized dealer of Blue Bird Corporation school buses in the US
1/16/2024	Cerka Industries Ltd.	DexKo Global Inc.	Manufactures trailer components, axles, and parts
12/29/2023	Vantage Vehicle International	Salt Creek Capital	Manufactures low-speed utility vehicles
12/19/2023	High Bar Brands, LLC.	Sentinel Capital Partners	Manufactures aftermarket accessories for the medium and heavy truck industry
10/1/2023	Brunner Inc.	Hendrickson USA, L.L.C.	Manufacturers brake shoes and s-cams for commercial vehicles, bus and trailer markets
8/18/2023	Merlot Vango Tarping Solutions	Safe Fleet Holdings, LLC	Manufactures rolling tarpaulin systems for flatbed and platform trailers
8/16/2023	East Manufacturing Corporation	Fultra, S.A.P.I. de C.V.	Manufactures a full line of trailers including flatbeds, dumps, refuse and drop decks
8/8/2023	Dieter's Metal Fabricating	High Bar Brands, LLC.	Manufactures stainless steel truck accessories
2/8/2023	Horizon Global Corporation	First Brands Group, LLC	Manufactures towing, trailering and cargo management accessory products
1/1/2023	AP Exhaust Products, Inc.	Marmon Holdings, Inc.	Manufactures emissions control products
9/29/2022	Dayco, LLC	Hidden Harbor Capital Partners	Manufactures engine products and drive systems for automotive, truck and industrial applications



## Select recent transactions

Date effective	Target	Acquiror	Target's business description
9/8/2022	Kerr Industries Limited	Safe Fleet Holdings, LLC	Leading specialty vehicle upfitter for law enforcement, emergency response, and commercial vehicle markets
7/5/2022	Pressure Systems International, Inc.	Clarience Technologies, LLC	Provider of automatic tire inflation systems for commercial truck trailers
6/21/2022	Raney's Inc.	Incline Equity Partners	E-commerce distributor of aftermarket heavy-duty truck parts and accessories
6/13/2022	Maxi-Métal Inc.	Oshkosh Corporation	Manufactures intervention vehicles with expertise in fire trucks and utility trucks
3/15/2022	HiSpec Wheel & Tire, Inc.	Dexter Axle Company, Inc.	Manufactures wheels, tires, and accessories for the RV and cargo industries
12/16/2021	Monroe Truck Equipment, Inc.	Aebi Schmidt Holding AG	Manufactures vehicle bodies for service and municipal trucks, and commercial vehicles
10/4/2021	DexKo Global Inc.	Brookfield Business Partners L.P.	Manufactures engineered components for trailers, recreational vehicles, and towable equipment
9/29/2021	Merlot Vango Tarping Solutions Inc.	Continuim Equity Partners	Manufactures rolling tarpaulin systems for flatbed and platform trailers
8/10/2021	Dayton Parts, LLC	Dorman Products, Inc.	Supplier of heavy-duty undercarriage aftermarket components
7/7/2021	Shur-Co, LLC	Behrman Capital	Manufacturers cargo covering and cargo control systems
7/1/2021	Navistar International Corporation	Dusk Inc.	Manufactures commercial trucks, diesel engines, and school and commercial buses
4/19/2021	Kaspar Ranch Hand Equipment LLC	Lippert Components, Inc.	Manufactures aftermarket heavy-duty truck accessories
3/24/2021	Crane Carrier Company	Battle Motors, Inc.	Manufactures vocational trucks and chassis

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