



North Texas Smallcap Manufacturing Companies

A LOOK AT 2020 THROUGH SEPTEMBER
30TH... "MOVING AHEAD SLOWLY"

There are over 5,000 manufacturers in the Dallas-Fort Worth-Arlington Metropolitan Statistical Area. According to Bureau of Labor Statistics, there were 278,000 persons in the DFW area employed in manufacturing. Perhaps one-third of the employment comes from large, international companies such as Lockheed, Texas Instruments or Raytheon but the majority comes from small, privately-held and family-owned businesses.

Understanding the value of the business is of utmost importance to the owner of the closely-held company. Whether value is going up or down is the ultimate test of managerial performance. Using “comparable” companies from the public marketplace is one method used by businesses to track value. Accordingly, understanding what is happening to the current market valuations of local and smaller publicly-traded manufacturing companies should be of great interest to these owners.

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The North Texas Small Cap Manufacturing Companies (NTSM)

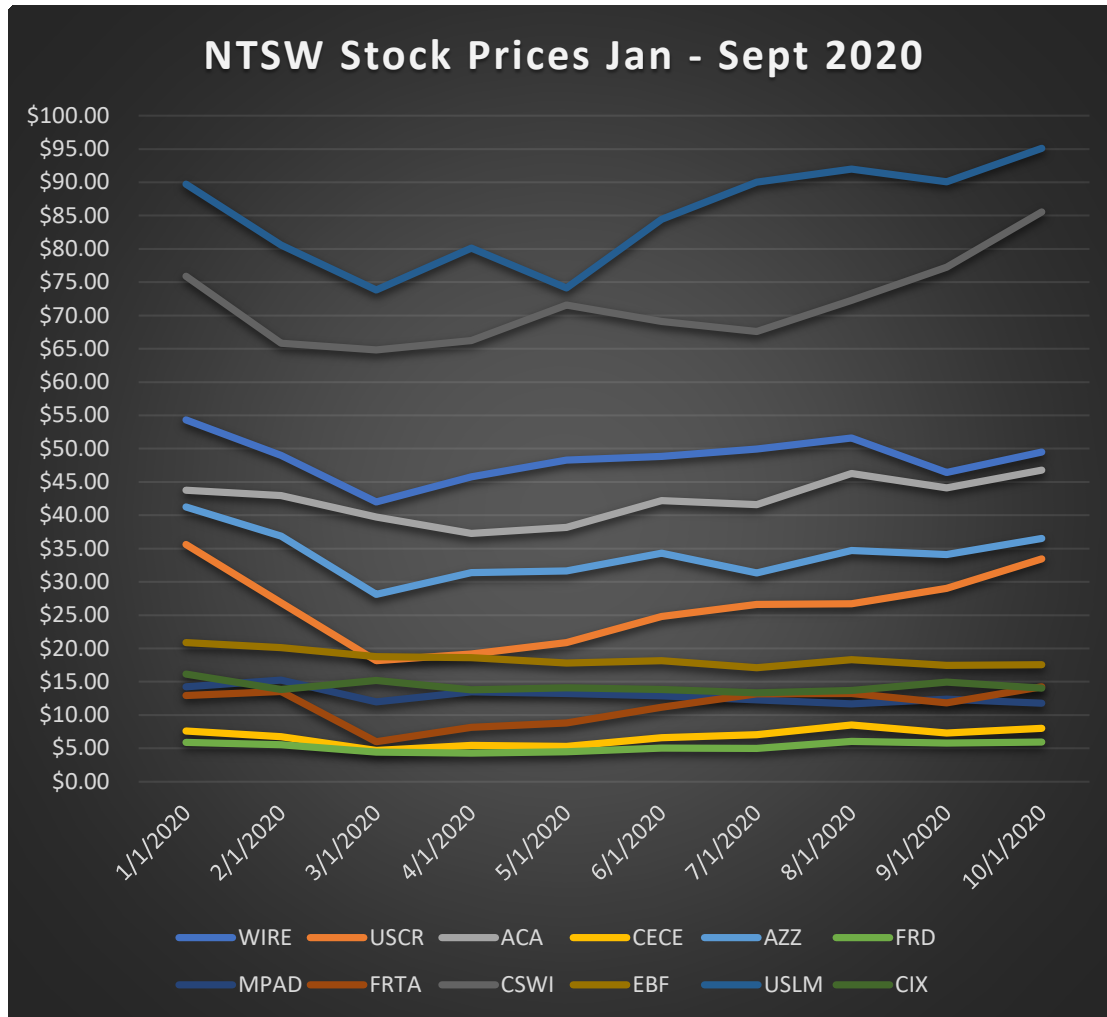
The information in the following tables about NTSM provide some key statistics on the financial and market performance of 12 smaller manufacturing companies headquartered in North Texas.

North Texas Small Cap Manufacturers							
<u>Stock/Index</u>	<u>symbol</u>	<u>sector</u>	<u>Location</u>	Trailing Twelve Months (TTM) at June 30, 2020			
				<u>Rev.</u>	<u>EBITDA</u>	<u>Employees</u>	
Encore Wire	WIRE	Industrials	McKinney	\$1,263,081	\$96,617	1,380	
U.S. Concrete	USCR	Basic Materials	Eules	\$1,480,000	\$163,900	3,173	
Arcosa	ACA	Industrials	Dallas	\$1,814,200	\$252,900	6,275	
CECO Environmental	CECE	Industrials	Dallas	\$336,344	\$29,741	830	
AZZ	AZZ	Industrials	Fort Worth	\$1,061,817	\$128,547	4,343	
Friedman Industries	FRD	Basic Materials	Longview	\$142,102	(\$5,328)	103	
Micropac	MPAD	Information Technology	Garland	\$27,601	\$5,853	132	
Fronterra, Inc.	FRTA	Industrials	Irving	\$1,568,770	\$194,155	4578	
CSW Industrials	CSWI	Industrials	Dallas	\$385,871	\$73,777	730	
Ennis	EBF	Industrials	Midlothian	\$419,375	\$62,411	2505	
U S Lime & Minerals	USLM	Basic Materials	Dallas	\$158,918	\$48,035	282	
CompX International	CIX	Industrials	Dallas	\$125,377	\$22,128	547	

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Encore Wire	WIRE	manufactures and sells electrical building wires and cables for interior electrical wiring in the United States.
U.S. Concrete	USCR	produces and sells ready-mixed concrete, aggregates, and concrete-related products and services
Arcosa	ACA	provides infrastructure-related products and solutions for the construction, energy, and transportation markets
CECO Environmental	CECE	provides industrial air quality and fluid handling systems for the energy, industrial, and other markets
AZZ	AZZ	galvanizing and metal coating solutions, welding solutions, electrical equipment, and engineered services
Friedman Industries	FRD	engages in steel processing, pipe manufacturing and processing, and the steel and pipe distribution
Micropac	MPAD	designs, manufactures, and distributes various types of microelectronic circuits.
Fronterra, Inc.	FRTA	manufactures and sells pipe and precast products the United States, Canada, and Mexico
CSW Industrials	CSWI	operates through two segments, Industrial Products and Specialty Chemicals.
Ennis	EBF	designs, manufactures, and sells business forms and other business products in the United States
U S Lime & Minerals	USLM	manufactures and supplies lime and limestone products in the United States.
CompX International	CIX	manufactures and sells security products and recreational marine components

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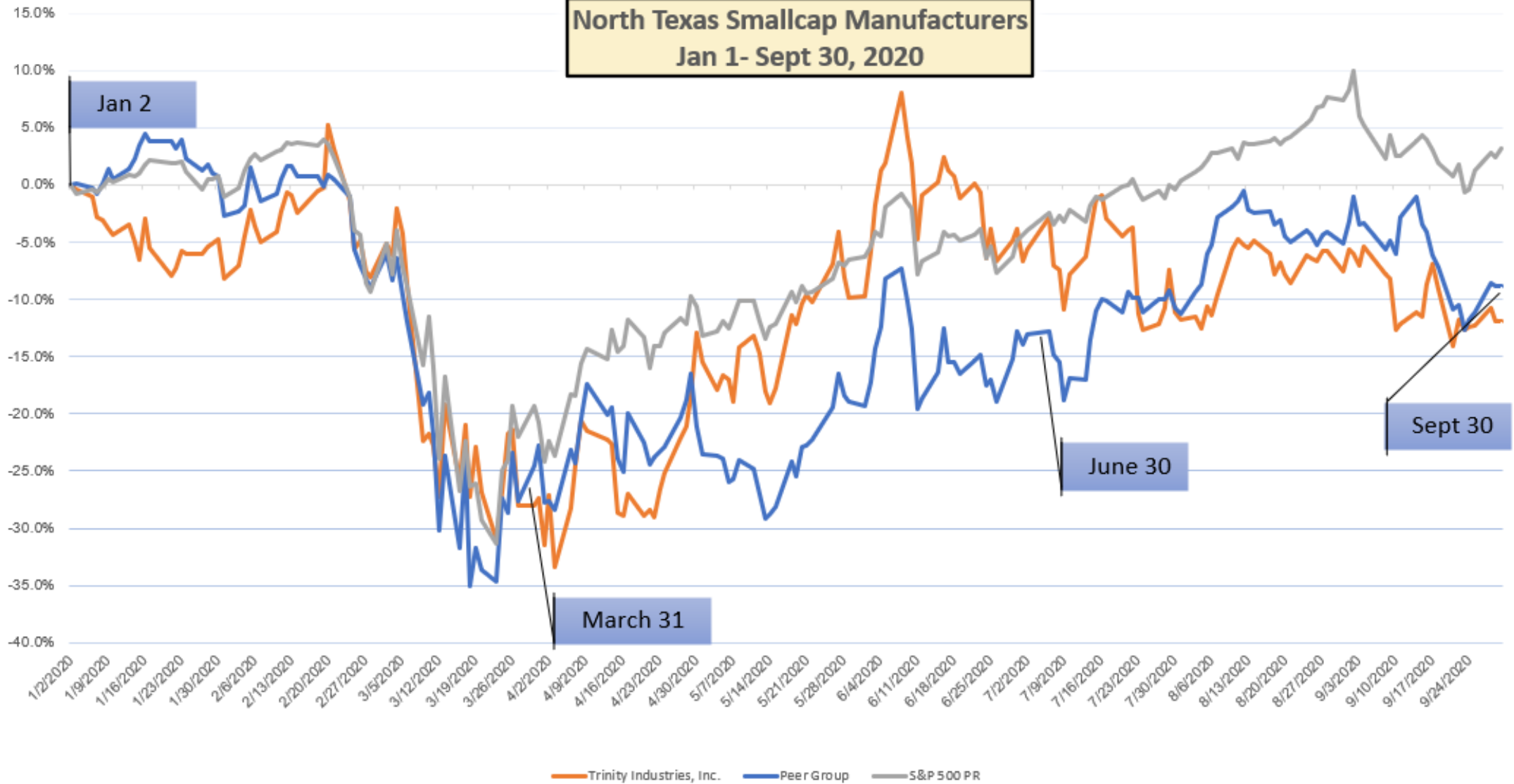


The NTSM stocks declined significantly from Jan 1 to March 1, seeing an average drop of about 25%. From this low point, the stocks, on average, began a climb back. At October 1, the group was down just 2% from the first of the year.

The biggest gainer during this period was FRTA with a 10% increase. The stock which lost the most ground was MPAD, which suffered a 17% decline.

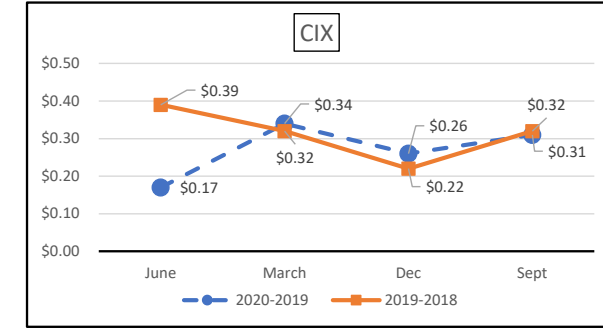
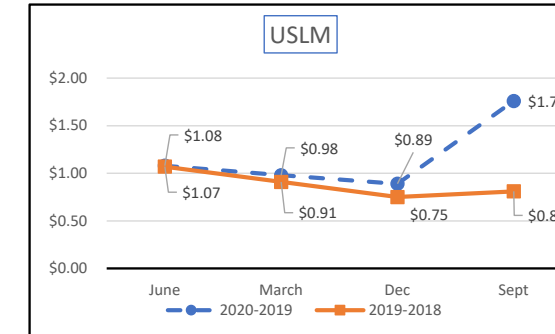
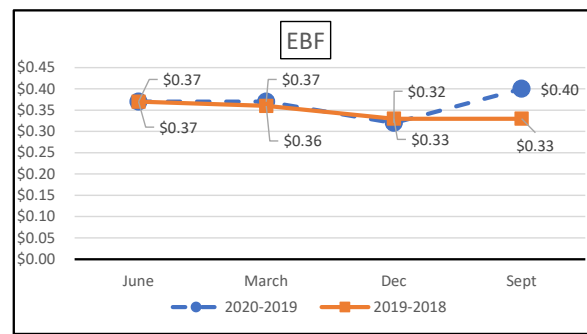
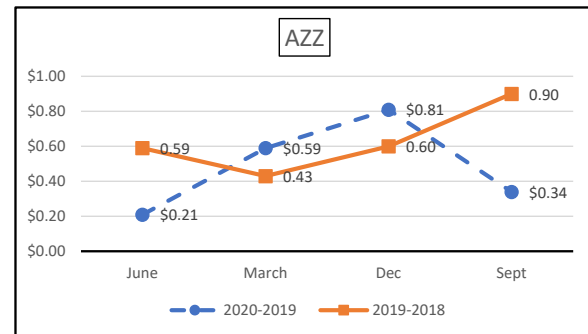
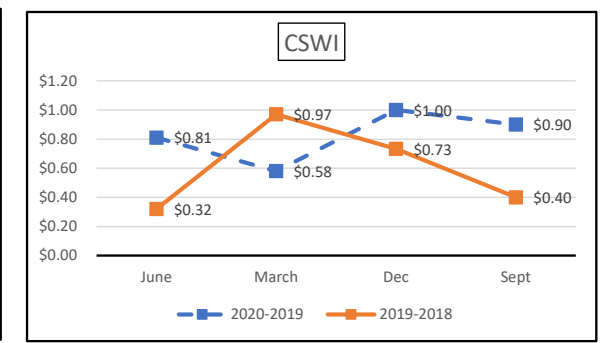
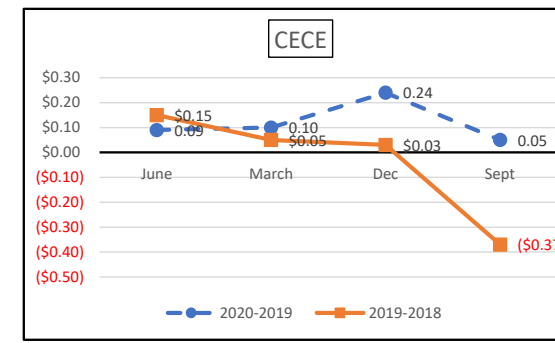
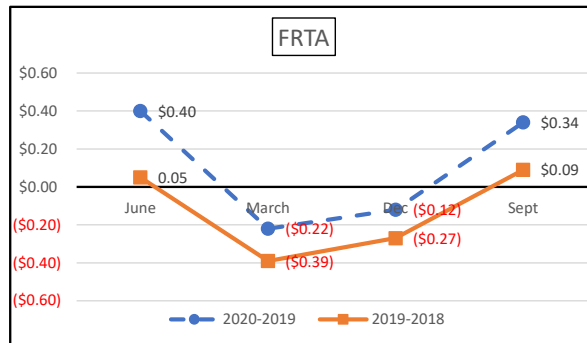
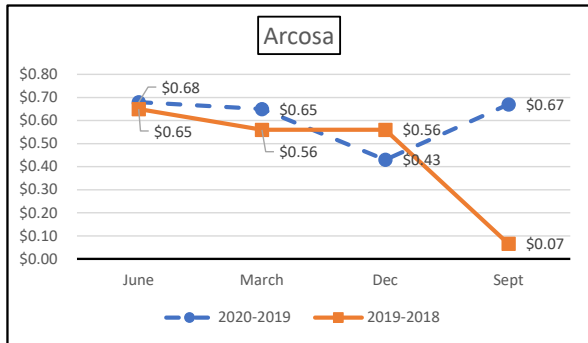
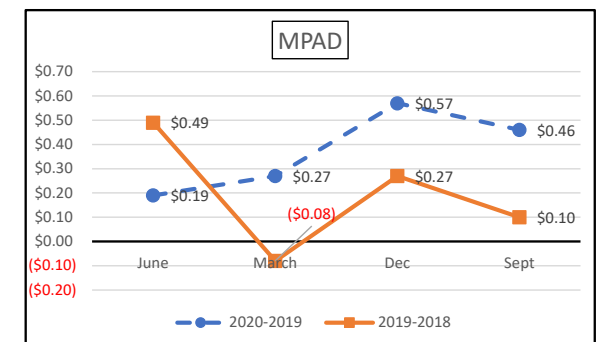
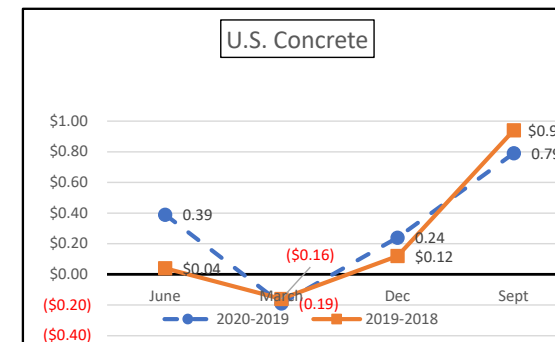
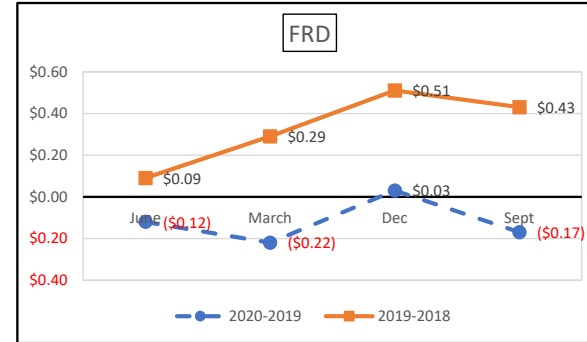
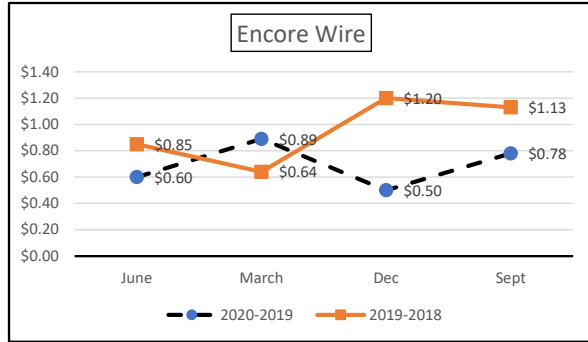
The following chart compares NTSM as a group against Trinity Industries (\$7.3 billion enterprise value) and the S&P 500 index.

North Texas Smallcap Manufacturers Jan 1- Sept 30, 2020



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Quarterly Comparison



The trailing twelve months profit margins for the NTSM, for the most part, were about the same or higher than calendar years 2019 and 2018.

	Gross Margin			EBITDA Margin		
	<u>TTM</u>	<u>2019CY</u>	<u>2018CY</u>	<u>TTM</u>	<u>2019CY</u>	<u>2018CY</u>
Encore Wire	13.65%	13.02%	14.72%	7.80%	7.13%	9.12%
U.S. Concrete	20.12%	19.69%	19.53%	15.26%	14.30%	14.66%
Arcosa	19.40%	19.14%	18.63%	14.76%	14.31%	12.77%
CECO Environmental	34.18%	33.38%	33.06%	9.20%	9.73%	9.10%
AZZ	21.64%	22.51%	20.90%	13.76%	15.24%	13.95%
Friedman Industries	1.12%	1.04%	9.13%	-1.60%	-1.10%	7.37%
Micropac Industries	45.33%	45.96%	37.99%	18.71%	18.56%	7.98%
Forterra	21.02%	19.37%	16.60%	14.80%	13.06%	11.40%
CSW Industrials	46.08%	46.24%	45.22%	20.06%	20.99%	21.58%
Ennis	28.65%	29.62%	31.17%	15.29%	16.38%	16.84%
United States Lime & Minerals	27.61%	26.33%	21.11%	33.09%	31.44%	27.50%
CompX International	<u>31.35%</u>	<u>31.36%</u>	<u>32.37%</u>	<u>16.40%</u>	<u>17.18%</u>	<u>17.99%</u>
Average	25.85%	25.64%	25.04%	14.79%	14.77%	14.19%

With one exception, revenue growth for the trailing twelve months was lower for every company. On average, growth has been nil for TTM at September 30, 2020.

	1 Yr. Revenue Growth		
	<u>TTM</u>	<u>2019CY</u>	<u>2018CY</u>
Encore Wire	-10.1%	-1.1%	10.7%
U.S. Concrete	-2.7%	-1.8%	12.8%
Arcosa	17.6%	18.9%	-0.1%
CECO Environmental	-5.4%	1.3%	-2.2%
AZZ	3.4%	10.1%	16.5%
Friedman Industries	-30.7%	-19.9%	92.3%
Micropac Industries	16.3%	21.4%	6.3%
Forterra	7.4%	3.4%	-6.4%
CSW Industrials	3.2%	10.7%	7.2%
Ennis	1.0%	11.7%	4.7%
United States Lime & Minerals	7.4%	9.6%	-0.3%
CompX International	-5.6%	5.1%	5.5%
Average	0.14%	5.79%	12.25%

“It Could Be a Lot Worse”

The major takeaway for NTSM market prices as of September 30th is that it could be a lot worse. Profit margins have largely held in a no-growth environment.

One major proviso is the recognition that there are only two COVID effected quarters in the analysis so far. 3rd calendar quarter results are not in yet. When the 3rd calendar quarter results are released, more will be known.

But, the stock market usually anticipates these things pretty well. The fact that September 30th NTSM market prices are up 11% over June 30th prices augurs well for the 3rd calendar quarter results of the NTSM.

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Valuation Multiple changes in 2020

At September 30th, the Market/Book ratios were down for six companies and unchanged for 5. Enterprise Value/EBITDA multiples, however, were down significantly for all but 2 companies.

<i>Stock</i>	<i>symbol</i>	Equity Mkt Cap/Book Value		EV / EBITDA		Mkt/Book	EV / EBITDA
		12/31/2019	9/30/2020	12/31/2019	6/30/2020	% chnge	% chnge
Encore Wire	WIRE	1.6	1.6	9.3	7.7	0.3%	-17.1%
U.S. Concrete	USCR	2.1	2.1	8.9	6.0	0.0%	-31.9%
Arcosa	ACA	1.2	1.2	9.4	8.1	-0.1%	-13.7%
CECO Environmental	CECE	1.5	1.5	11.6	9.0	0.3%	-22.3%
AZZ	AZZ	1.9	1.5	10.9	8.3	-22.1%	-23.5%
Friedman Industries	FRD	0.6	0.4	n.a.	n.a.	-26.0%	n.a.
Micropac	MPAD	1.2	1.3	5.0	3.4	3.5%	-31.9%
Fronterra, Inc.	FRTA	6.0	6.0	11.8	8.3	-0.2%	-29.4%
CSW Industrials	CSWI	4.0	3.4	15.4	15.0	-17.2%	-2.3%
Ennis	EBF	1.9	1.7	7.5	9.5	-8.0%	26.1%
U S Lime & Minerals	USLM	2.1	2.1	9.6	8.5	0.1%	-11.6%
CompX International	CIX	1.1	1.1	6.3	6.5	0.4%	3.1%
	med.	1.7	1.5	9.4	8.3		