AirBoss of America Corp.

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Investment Thesis

We believe that AirBoss of America ('AirBoss', 'BOS' or 'the Company') is in the early stages of a strategic shift to consolidate its operations, prioritizing its core rubber compounding strategy. We believe that through several internal initiatives and the resumption of M&A, the Company can extend its competitive advantages on both cost (capacity expansion and plant optimization) and product differentiation (further leveraging R&D capabilities to extend its IP portfolio, augment product premiumization, and advance its portfolio mix in higher margin offerings and new verticals). Currently, AirBoss is a meaningful and sizeable leader in rubber manufacturing and compounding. However, we believe that by leveraging several financial levers, the Company can significantly improve its position in the industry and, in the process, stabilize cash flow generation, shed its consolidator discount, and become a meaningful serial acquirer.

The base target price of $13.45 (+160%) reflects our DCF-derived base case of run-rate operations, with optionality for meaningful upside potential from capital recycling of its flagship property and non-core assets.

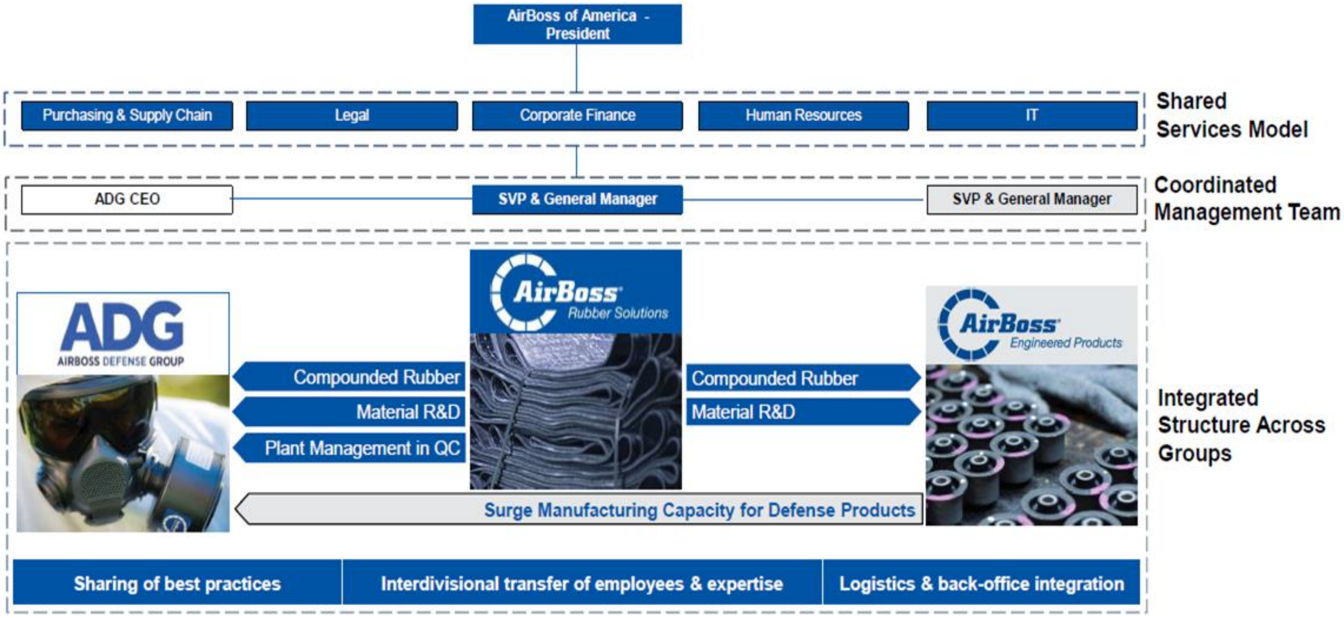
Company Overview

AirBoss is an industry leader in compounding and formulating mixed rubber-based products, engineering specialty rubber products, and supplying survivability equipment. Over the past several decades, AirBoss has evolved into a diversified company that houses first-class product design, operators and scientists, and manufacturing facilities. The Company serves diverse end market customers, including those in the automotive, defense, heavy construction and infrastructure, health care, and oil & gas industries.

AirBoss recently re-aligned its operating segments into two primary reporting units (1) AirBoss Rubber Solutions ('ARS') and (2) AirBoss Manufactured Products ('AMP').

We believe this restructuring more accurately partitions revenue between pure rubber compounding and enhanced products. More specifically, the new ARS now benefits from the incorporation of all internal and non-enhanced rubber-related sales previously allocated amongst its other segments. AMP, now benefits from the amalgamation of (2)(a) AirBoss Defence Group ('ADG') and (2)(b) AirBoss Engineered Products ('AEP').

> ARS is a world leader in rubber compounding and custom rubber polymer engineering, housing the second-largest rubber compounding capacity in North America. ARS's facilities are capable of producing ~500M turn pounds of rubber annually.
>
> ADG is a global leader in personal and respiratory protective equipment and survivability solutions. The Company manufactures a large spectrum of products focused on chemical, biological, radiological, and nuclear ('CRBN') wearables, explosives, and shelters.
>
> AEP specializes in enhanced engineering solutions, formulating custom compounds, and creating proprietary mold designs for highly specific end-use applications. The Company offers a one-stop-shop solution, from development (compound modeling and rapid prototyping) to commercializing (extensive testing and in-house machining and production design).



While the expansion of AirBoss' core operations has diversified its pure-play rubber offering into more enhanced specialty products, we believe the sources of revenue generation underpinning these verticals have led to excessive volatility in both fundamentals and the stock price. Specifically, ADG's revenue sources are conventionally non-recurring government contract awards, and AEP's revenues are linked to longer-duration automotive contracts that imbed a (relatively) fixed pricing model. Over the past several years, ADG revenues have been significantly constrained by an unprecedented slowdown in government spending as funding challenges post-COVID and political gridlock delays the awarding of publicly posted contracts. Similarly, during COVID, AEP experienced a meaningful impact from the reduction in global automotive production volumes and an inflationary cost base that far exceeded its inflexible pricing regime. We have confidence that ADG will eventually capitalize on the inevitable replenishment of dangerously low government defense and medical stockpiles globally and that AEP's recent price negotiations will yield long-term improvements. The market has failed to provide adequate valuation as to the future contributions of these segments.

Management Team

Insiders at AirBoss are significantly aligned with shareholders and currently own ~20.8% of the shares outstanding, led by CEO/Chairman Grenn Schoch at ~17.9%. We believe Mr. Schoch's personal financial interest, combined with his founder status and pertinent industry knowledge, positions the Company well for ongoing stewardship in best-in-class practices. We are also particularly impressed with Chris Bitsakakis' background in operational management, segment turnarounds, portfolio expansion, and M&A execution during his time at Cooper Standard, Magna International, Royal Building Products, and PCC Aerostructures (a Berkshire Hathaway Company). We believe his track record as an operator and the strategic initiatives and related investments and acquisitions made to date during his tenure at AirBoss have already demonstrated his ability to transform ARS into a globally dominant industry player. We believe this is also exemplified by the strategic hiring of Mikael Fryklund as Chief Strategic Officer. Mr. Fryklund was previously the President and Chief Executive Officer of Hexpol Group. Moving forward, we expect this impressive new management team, supported by a financially oriented board, to execute meaningfully on the evolution of AirBoss.

Competitive Landscape

The competitive landscape in AirBoss' core business segment, ARS, remains highly fragmented, with a handful of direct major competitors led by Hexpol. We believe one of the core ways to differentiate peers in this group is by their capacity, or annual turn pounds of rubber. In this context, Hexpol is the largest player in North America, with ~1.5B turn pounds per year. AirBoss is around the second largest, with ~500M turn pounds, followed by American Pheonix with around the same capacity*. Beyond these core players, Rubber News' annual rankings show three additional peers with over ~100M, two peers with ~50M-60M, and three players with ~25M-40M turn pounds. Many of these participants are private companies. We believe AirBoss' leadership status creates a sufficient moat through the capital intensity to replicate its current infrastructure, the expansive nature of its proprietary product portfolio, and its established relationships with core customers. Further, we believe that given its expansive balance sheet and public market status, AirBoss has a meaningful growth runway through the consolidation of smaller industry peers.

Financial Levers

AirBoss has several key assets that we believe have been dramatically undervalued by the market, resulting in the stock being materially discounted to intrinsic value. To unlock shareholder value, we believe AirBoss should move to monetize these assets and recycle the capital from the dispositions into advancing its ARS division. In doing so, the Company will be able to finance meaningful progression in internal initiatives and further M&A activity.

Asset Monetization #1: Kitchener/Waterloo Plant Sale

The crown jewel of AirBoss' hidden assets is the one million square feet underneath the Company's landmark rubber compounding facility in downtown Kitchener. We estimate the gross value of the property to range from $110.0M to $140.0M, a significant margin of safety for a stock bearing a $140.1M market capitalization, at the time of writing.

We calculated our implied property value range using two methods: sales price per square foot ('psf') and lease-based land valuation metrics.

Method #1

1M sf of rentable space @ $14.79 psf = $14.8M of annual lease income = $227.5M implied market value, using a cap rate of 6.5%. *We then applied a 50% discount rate on the above transaction value to generate an implied market value = $113.8M. We believe this discount aligns the value with the current state of the market and the predicted nature of the potential tenancy dynamics in this space.*

[Note: $14.79 is equal to the rental price psf listed for Kitchener, ON, as of Q4'23, per CBRE; the cap rate was +3 bps above CBRE's 2024 Outlook for Industrial Class B and +69 bps Industrial Class A].

Method #2

1M sf @ $279.92 sales price psf = $279.9M. *We then applied a 50% discount rate to reflect the more challenged real estate market environment, returning an implied market value = ~$140.0M. We believe this discount aligns the value with the current state of the market and the potential use cases for the land, as opposed to just solely the building itself.*

[Note: $279.92 is equal to the sales price psf listed for Kitchener, ON as of Q4'23, per CBRE].

Applying a normalized transaction closing fee and BOS' current tax rate of ~26.5%, we calculated net proceeds from the divestiture of $83.1M.

The Company will likely choose to re-build a state-of-the-art plant in Kitchener to retain its loyal and talented staff. Here, we believe the reconstruction costs will be ~$50M (beginning in year 1 and lasting approximately 1-2 years). During this time, we believe the Company will negotiate to re-lease their space for $14.8M (or ~$7.0M-$7.5M per year) over the period. While we believe there is an opportunity for the Company to potential decide to permanently lease a new site, constructed by a third party, in order to preserve capital earmarked for construction to instead be deployed into M&A, we have not accounted for this in our estimates, for conservatism.

Thus, taking net proceeds, less the cost of the lease obligations and construction, we see a PV Net Cash Benefit of $18.6M, or ~13.3% of the market cap (at the time of writing).

[Note: For conservatism, we did not include the PV value of operational cost savings from transitioning to a state-of-the-art facility. We have estimated these run-rate savings to range from ~$2M-$5M annually].

<u>Asset Monetization #2: Divestiture of its Historical AEP Assets</u>

We believe that the historical AEP segment should be divested due to the less attractive dynamics of automotive supply companies, the amount of investment required to diversify their product portfolio further, and its negative influence on the consolidated multiple. Like many automotive OEMs and tier 2+ suppliers, pricing power remains challenging, the manufacturers largely dictate volume, and contract maturity risk and competition remain persistent. Additionally, while AirBoss has made efforts to expand to non-automotive markets, including snowmobile and agricultural tracks and tires, industrial products, and others, we believe that the amount of time and investment required to grow these revenue streams into a meaningful counterbalance would be better allocated to ARS. Specifically, ARS has achieved superior growth, margins, and return metrics, and benefits from improved pricing dynamics, lower customer concentration, and more favourable competitive advantages. Finally, we note that this segment has the lowest multiple amongst the consolidated group, both in terms of AirBoss SOTP calculation and when comparing relative peer subsets. We believe that the divestment of this segment would result in material capital being recycled into ARS, which would lead to improved fundamental operations and a natural re-rating in the multiple.
We believe that AEP's divestiture would result in gross proceeds of $46.8M, and net proceeds of ~$34.4M. We calculated the gross value of this sale by taking our forecasted EBITDA at the time of sale of $10.4M multiplied by the EV/EBITDA of 4.9X, plus a premium of 25%.

[Note: We assume that any sale of AEP would include a continuing supply agreement between AirBoss' ARS division and the acquirer that could lead to consistent, if not higher, topline performance. However, in the DCF, we did not factor in the dynamics of a potential sale, and instead applied a forecast using steady state operations.]

<u>Asset Monetization #3: Divestiture of Non-Core Historical ADG Assets</u>

Bandolier

We believe the Bandolier product is a very attractive asset in the explosives and propellants space. While we note its numerous applications and demand potential, given the state of military contract awards and the general lumpiness of its historical contract history, we believe this asset should be monetized. Here, we believe the Company should be able to capture its growth potential either through a royalty component to the sale or an outsized sale price.

We believe this asset could produce gross proceeds of $15-$20M. For conservatism, we have not included any contribution from any type of royalty in our capital recycling forecasts.

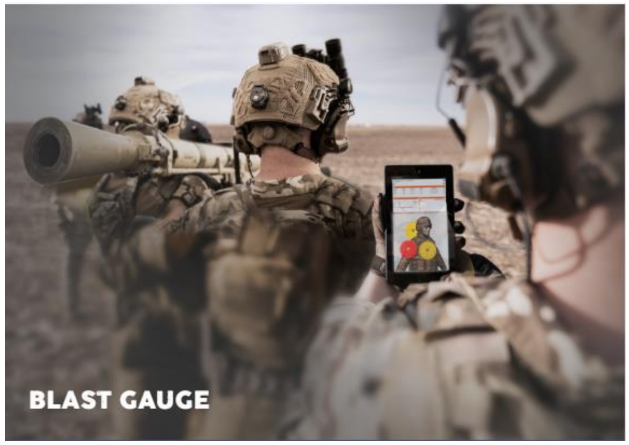
Blast Guage

The Blast Guage system represents a significant opportunity for AirBoss' defence business, given its vital contribution to protecting the health and safety of service members globally. For brevity on the essential nature of this product, we refer readers to the New York Times, which has published numerous articles on the implications of unmonitored, untreated, and repetitious exposure to blast overpressure.

While only in trial phases with various branches of the US military, this program, in its optimal state, would require military and certain law enforcement agencies to equip all personnel with three monitoring systems to be worn during training and active duty. AirBoss, in turn, would sell the three-unit monitoring hardware system as well as the software necessary to receive and document recorded data.

Using the US *SOCOM* as an example for the back-of-the-envelope calculation, we note: ~53k active members, assuming a 25% participation rate, 3 units per person (no stockpile multiplier), an average 3.4-year life span, at $86/set = ~$1.0M of recurring annual revenue on just hardware. Using the same assumptions for the US *Army*'s ~450k active service members, we note an increase to ~$8.5M in recurring revenue annually. These estimates reflect only a small sample size of the asset's total addressable market.

While numerous leaders of military and political agencies have voiced support for these programs, we have applied a very insignificant probability of realizing this revenue stream in the short to medium term, given the perceived hurdles that remain to its optimized rollout. As such, we believe the Company should sell this asset to a Company with more influence that would be able to give the program the best chance at being approved by the required committees. We believe this asset could produce gross proceeds of $40-$50M. While we believe that a larger company would be willing to pay up for this asset's potential runway, we would also be amenable to a deal where the terms provided for royalty-type payments to retain upside exposure. For conservatism, we have not included any contribution from any type of royalty in our capital recycling forecasts.



Husky Mobility Systems

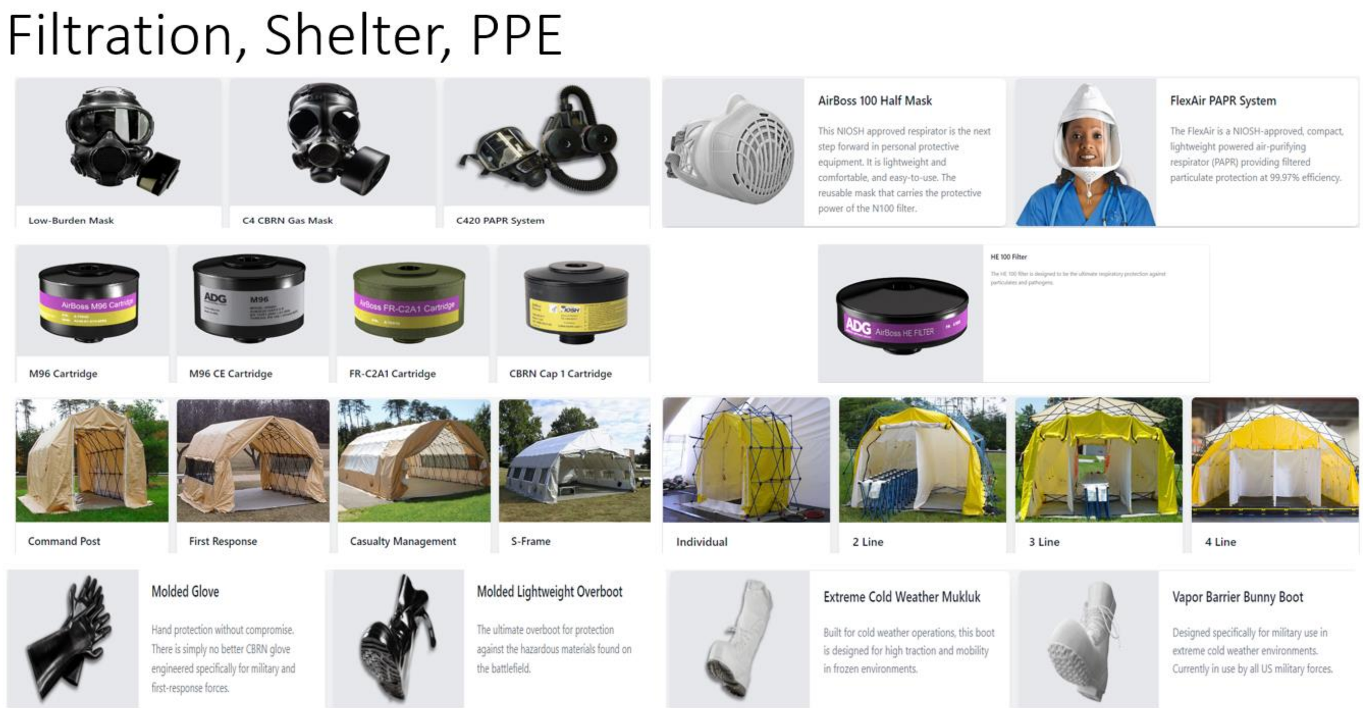
Another potential financial lever in the ADG toolkit is the Husky mobility systems, including the Husky 2G and Husky MK III VMMD vehicles and their custom payload accessories. While we believe this asset should be realizing significant uptake given the growing deployment of landmines by Russian forces in Ukraine, analogous to its utilization in Afghanistan and Iraq in the early 2000s (>$1B sold), these contracts remain restricted by political gridlock and budgetary constraints. We believe that given the premier fertility of Ukraine's agricultural land and the need to re-establish settlements in war-torn areas, these assets will eventually be needed for deployment in this region. If this were to occur, we expect BOS to benefit from selling new units (directly to Ukraine and indirectly through military assistance programs whereby NATO members donate older models to Ukraine and repurchase modernized replacement equipment), parts and maintenance sales, and training services revenue.

In the interim, AirBoss' distributor-type model ensures that investors are not encumbered by burdensome working capital requirements or depreciating inventory. However, given the limited visibility into the timing of expected mass adoption, combined with the historical repercussions from uncertain award realization, we believe the Company should consider a potential divestiture.

We believe that the sale of Husky could produce gross proceeds ranging from $50M-$55M. However, given the material runway that is likely to follow the easing of global aid restrictions to Ukraine and the end of the horrific conflict, we believe the Company should implement a royalty fee component to the sale to maintain its exposure to this asset's lucrative upside (as experienced in previous global ground conflicts). For conservatism, we have not included any contribution from any type of royalty in our capital recycling forecasts.

Core Products

We believe several products from the ADG portfolio should remain a part of the newly structured AirBoss, as they provide meaningful recurring topline contribution and multiple accretion. Specifically, we believe that AirBoss' diversified portfolio of boots, gas masks, gloves, medical and surgical gowns, survivability tents, and other related products will continue to play a meaningful part in replenishing global healthcare and military stockpiles.



Capital Recycling into Steady-state ARS

We believe that AirBoss will generate PV net proceeds and cost savings related to divestitures and ADG contract resumption of $135.5M. We assume that the company will retain 15% and will earmark 85% for recycling into ARS investments.

AirBoss benefits from participating in a highly fragmented industry, which provides the Company with a robust pipeline of potential targets to acquire through M&A. Our estimates forecast the average future acquisition multiple to be within a range of ~7.0X – 7.5X and that the effective tax rate would be ~27%.

Assuming the Company can deploy $115.2M at 7.4X, this would result in $15.6M of acquired EBITDA. Applying an EBITDA CAGR of ~9% over the 5-year forecasting period, a 10.2% WACC, and an estimated future EV/EBITDA of 10.5X, we return the acquired current EV of these assets to be $161.1M.

Organic Growth and Internal Initiatives

Capacity Expansion

To further extend its competitive advantage, we believe that AirBoss should continue to build out its global capacity. This expansion will further its cost advantage, extend its national presence, increase its potential customer list, and market share, and enable its expansion into high-margin sub-verticals and rubber-adjacent products.

Product Enhancement

Rubber Adjacent Verticals – TPV and Silicone

In conducting our competitive analysis, we evaluated two primary comparisons: Hexpol and Wacker Chemie. These companies successfully diversified into rubber-adjacent markets such as thermoplastics (TPV) and silicone. We believe that AirBoss' newest management additions of Mikael Fryklund and Chris Bitsakakis provide experience in these markets and set up the company well to expand its presence in these industries and develop diversified and margin accretive growth to ARS. While we believe that scale remains an important driver in the spread differential between AirBoss and these peers, we also highlight the structural margin accretion attributable to their exposure to these rubber adjacent verticals. Our belief is that an expansion into these markets would naturally increase BOS margins through positive mix shift, while also providing upside from cross selling and customer expansion.

Gross Margins	Y '18	Y '19	Y '20	Y '21	Y '22	Y '23	Average	Min	Median	Max	sd
AIRBOSS	0.0%	0.0%	18.3%	13.6%	15.4%	17.6%	16.3%	12.1%	14.9%	19.9%	8.0%
HEXPOL AB	21.2%	19.8%	21.8%	21.7%	19.5%	22.0%	21.0%	16.5%	21.1%	24.2%	1.8%
AVIENT CORP	21.7%	23.0%	24.2%	28.5%	26.0%	28.4%	24.7%	20.8%	23.9%	29.3%	2.8%
WACKER CHEMIE AG	17.6%	16.3%	18.5%	26.9%	26.3%	16.9%	20.3%	12.1%	18.7%	32.2%	5.6%
MEDIAN	21.2%	19.8%	21.8%	26.9%	26.0%	22.0%	22.5%	16.5%	22.0%	29.3%	2.8%

Operating Margins	Y '18	Y '19	Y '20	Y '21	Y '22	Y '23	Average	Min	Median	Max	sd
AIRBOSS	10.8%	12.0%	11.3%	7.3%	10.0%	8.8%	10.0%	4.9%	10.3%	16.3%	2.4%
HEXPOL AB	15.6%	13.2%	14.4%	19.2%	14.8%	16.2%	15.8%	7.6%	15.6%	26.9%	3.4%
AVIENT CORP	6.2%	5.5%	5.8%	8.4%	7.2%	6.3%	6.6%	0.1%	6.3%	11.5%	2.3%
WACKER CHEMIE AG	4.4%	-12.0%	3.6%	16.6%	16.7%	5.5%	10.0%	-65.0%	6.5%	24.6%	15.7%
MEDIAN	6.2%	5.5%	5.8%	16.6%	14.8%	6.3%	9.0%	2.0%	7.1%	20.5%	4.5%

EBITDA Margins	Y '18	Y '19	Y '20	Y '21	Y '22	Y '23	Average	Min	Median	Max	sd
AIRBOSS	13.9%	15.5%	14.6%	10.5%	13.8%	13.2%	13.6%	8.4%	13.7%	20.5%	2.4%
HEXPOL AB	17.5%	15.2%	17.7%	21.9%	17.0%	18.7%	18.3%	13.8%	18.2%	23.6%	2.1%
AVIENT CORP	10.2%	9.4%	10.2%	13.7%	13.8%	13.3%	11.3%	9.3%	11.1%	13.8%	1.6%
WACKER CHEMIE AG	15.2%	14.8%	12.2%	23.1%	21.6%	12.0%	17.0%	11.4%	15.2%	27.9%	4.8%
MEDIAN	15.2%	14.8%	12.2%	21.9%	17.0%	13.3%	15.7%	12.2%	15.2%	21.9%	2.9%

Colour and White Lines

AirBoss' expansion into colored and white rubber products through its Ace Elastomer acquisition has been accretive to margins and expanded the diversity of AirBoss' product portfolio and customer list. We note that the Company currently has six lines dedicated to these products. Given the relatively new nature of these product lines, we believe there is still meaningful operating leverage potential as current lines reach full utilization. Given recent onshoring, increased focus on North American markets for automotive customers, and further outsourcing of conventionally in-house production lines, we believe these sub-verticals each have ample room for growth.

IP Products

AirBoss has developed a long list of intellectual property and proprietary products and compositions. Two disclosed products are the HeatBoss and DuraBoss. These products are currently accretive to average ARS margins and demonstrate the value of AirBoss R&D. We believe that the current sales structure, which emphasizes customers bringing specific challenges to AirBoss to configure rubber solutions for, is beneficial to both margins and customer stickiness. We believe that the increasing mix towards enhanced raw material products is optimal for AirBoss to expand its non-tolling revenue streams, which collectively have higher margins and more recurring revenue than tolling revenues.

Acquisitions

Historical

AirBoss has an established track record of M&A activity and integration. The company has made ~$280M worth of deals over the past 10 years, ranging from $25M to $70M. While most of these have been in the Defence space, the Company's latest acquisition, Ace Elastomers, demonstrates its ability to effectively integrate additional rubber lines and advanced products into its offering. While AirBoss has historically driven ARS' growth organically, we believe that the company will pursue several deals of analogous size to and acquisition criteria to Ace Elastomer to augment its portfolio and accelerate its transformation.

Pipeline

The rubber compounding market remains highly fragmented, with hundreds of global rubber suppliers operating in the private market. We believe AirBoss will continue its long history of growth by acquisition, with an increased focus on M&A in the rubber compounding space.

We believe these deals will be done ~7X – 7.5X EV/EBITDA multiple, given the smaller relative nature of the deals, their private market status, and previous commentary by Management. This means that these deals will be accretive to both AirBoss' consolidated P&L and the capital recycling initiative. Moreover, this strategy will extend AirBoss' competitive advantage in both its cost and product differentiation strategies.

Valuation

Discounted Cash Flow Analysis

The base target price of $13.45 reflects our DCF-derived base case of run-rate operations.

Our base case DCF model assumes:

(1) Consolidated topline growth of 4% per year;
(2) EBIT margins of 6%;
(3) Tax Rate of 26.5%;
(4) D&A of 4% of sales; and
(5) CAPEX of 2% of sales.

This returns Terminal EBITDA at Year 5 of $49.2M. Then we applied a WACC of 10.2% and an assumed exit EV/EBITDA of 10.5X (current median comps less 77 bps), combined with steady shares outstanding and debt assumptions.

Conclusion

On balance, we believe that AirBoss presents a very attractive and asymmetrical risk/return profile at its current levels and is well-positioned to execute its transformational strategy that will drive meaningful returns for investors. We believe that AirBoss' baseline business is inflecting from trough levels across its segments, which, compounded by the monetization of several financial levers, will drive multiple years of material topline growth and improved margins. Management has a long track record of successfully implementing and scaling the type of internal investments currently being pursued, which is complemented by the return of the Company's growth-by-acquisition model and robust target pipeline.