

Sep 03, 2024

*Undefined

NNBR

NGS

Rating

Outperform

Unchanged

Current Price

\$3.94

Target Price

\$6.00

Market Capitalization

197.19m

Shares Outstanding

50.05m

Float

39.13m

Institutional Holdings

70.07%

12-Month Low/High

\$1.63/\$5.40

Average 90-Day Volume

278310

Fiscal Year End

2024-12-31

NN Inc

Some Additional Flexibility

Flexibility. On Friday, NN filed an 8-K disclosing some amendments to its term loan and ABL agreements. In essence, the amendments to each will provide the Company with additional financial flexibility, in our view. While there does not appear to be any change in interest rates, a reduction in rates is a long-term goal of management.

Term Loan. The amendment raises the amount of the Company's allowable indebtedness – incurred in connection with the purchase or lease of fixed assets – from \$20 million to \$40 million, provided that no more than \$26.95 million is used with respect to any sale and leaseback transaction. In addition, the amendment requires the Company to use the net cash proceeds obtained in connection with any future sale and leaseback transactions to prepay any outstanding principal indebtedness under the term loan.

ABL. The ABL amendment, among other things, raises the amount of the Company's allowable indebtedness – incurred in connection with the financing of the acquisition, construction or improvement of any fixed or capital assets – from \$20 million to \$40 million, provided that no more than \$26.95 million is used with respect to any sale and leaseback transaction.

Maintaining Outperform. We are maintaining our Outperform rating and \$6 price target on NNBR shares. Under a new management team, NN is implementing a strategic transformation designed to secure new growth, increase profits, and generate free cash flow.

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Refer to the last two pages for Analyst Certification & Disclosures

Revenues (\$ MIL)

Period	2023A	2024E	2025E
Q1	127.1A	121.2A	
Q2	125.2A	123.0A	
Q3	124.4A	125.0E	
Q4	112.5A	120.0E	
	489.3A	489.2E	530.0E

EPS (\$)

Period	2023A	2024E	2025E
Q1	(0.13)A	(0.08)A	
Q2	(0.07)A	(0.02)A	
Q3	0.00A	(0.01)E	
Q4	(0.10)A	(0.01)E	
	(0.29)A	(0.12)E	(0.02)E

Company Profile

NN, Inc. is a diversified industrial company that combines advanced engineering and production capabilities with in-depth materials science expertise to design and manufacture high-precision components and assemblies for a variety of end markets on a global basis. As of December 31, 2023, the Company had 27 facilities in North America, South America, Europe, and China. NN's businesses are organized into the Mobile Solutions and Power Solutions groups and are based principally on the end markets they serve.

Mobile Solutions is focused on growth in the automotive, general industrial, and medical end markets. The Company's expertise in manufacturing highly complex, tight tolerance, system critical components can be utilized in numerous applications, including for use in battery electric, hybrid electric, and internal combustion engine vehicles. The group currently manufactures components on a high-volume basis for use in power steering, braking, transmissions, and gasoline fuel system applications, along with components utilized in heating, ventilation and air conditioning and diesel injection and diesel emissions treatment applications. In 2023, Mobile Solutions accounted for \$303.3 million of revenue (62% of consolidated revenue) and \$29.8 million of adjusted EBITDA.

Power Solutions is focused on growth in the electrical, general industrial, automotive, and medical end markets. The segment combines materials science expertise with advanced engineering and production capabilities to design and manufacture a broad range of high-precision metal and plastic components, assemblies, and finished devices used in applications ranging from power control to transportation electrification. Power Solutions manufactures a variety of products including electrical contacts, connectors, contact assemblies, and precision stampings for the electrical end market and high precision products for the aerospace and defense end market. The segment utilizes the Company's extensive process technologies for optical grade plastics, thermally conductive plastics, titanium, Inconel, magnesium, and electroplating. The medical business includes the production of a variety of tools and instruments for the orthopedics and medical/surgical end markets. In 2023, Power Solutions accounted for \$185.9 million of revenue (38% of consolidated revenue) and \$28.3 million of adjusted EBITDA.

Fundamental Analysis 3.5 /5.0 checks

Our fundamental assessment rating, separate from our investment rating and valuation, is based on five attributes. We assign 3.5 checks out of 5.0 checks, which falls within our "Above Average" range. In terms of Governance, NN elects all Directors annually, with six of the seven Directors independent. The Chairman and CEO positions are separated, with an independent Chairman. There are limits on directors' service on other public company boards and audit committees. Executive compensation is driven by a pay-for-performance philosophy and there is a clawback policy applicable to any equity awards issued under compensation plans. There are stock ownership guidelines for executive officers and Directors. From a business perspective, we think the business transformation implemented in May 2023 will lead to improved top line growth and higher adjusted EBITDA margins. NN is a best in class strategic supplier of highly customized and diverse end-to-end solutions to OEMs in solid growth markets. Expansion into the medical devices market, a space the Company is familiar with, adds another growth driver, in our view. The Cost Reduction plan should positively impact margins, while the balance sheet optimization plan will provide the Company with a lower cost of capital and increased financial flexibility. NN's end markets are competitive and many competitors are larger than NN.

Valuation Summary

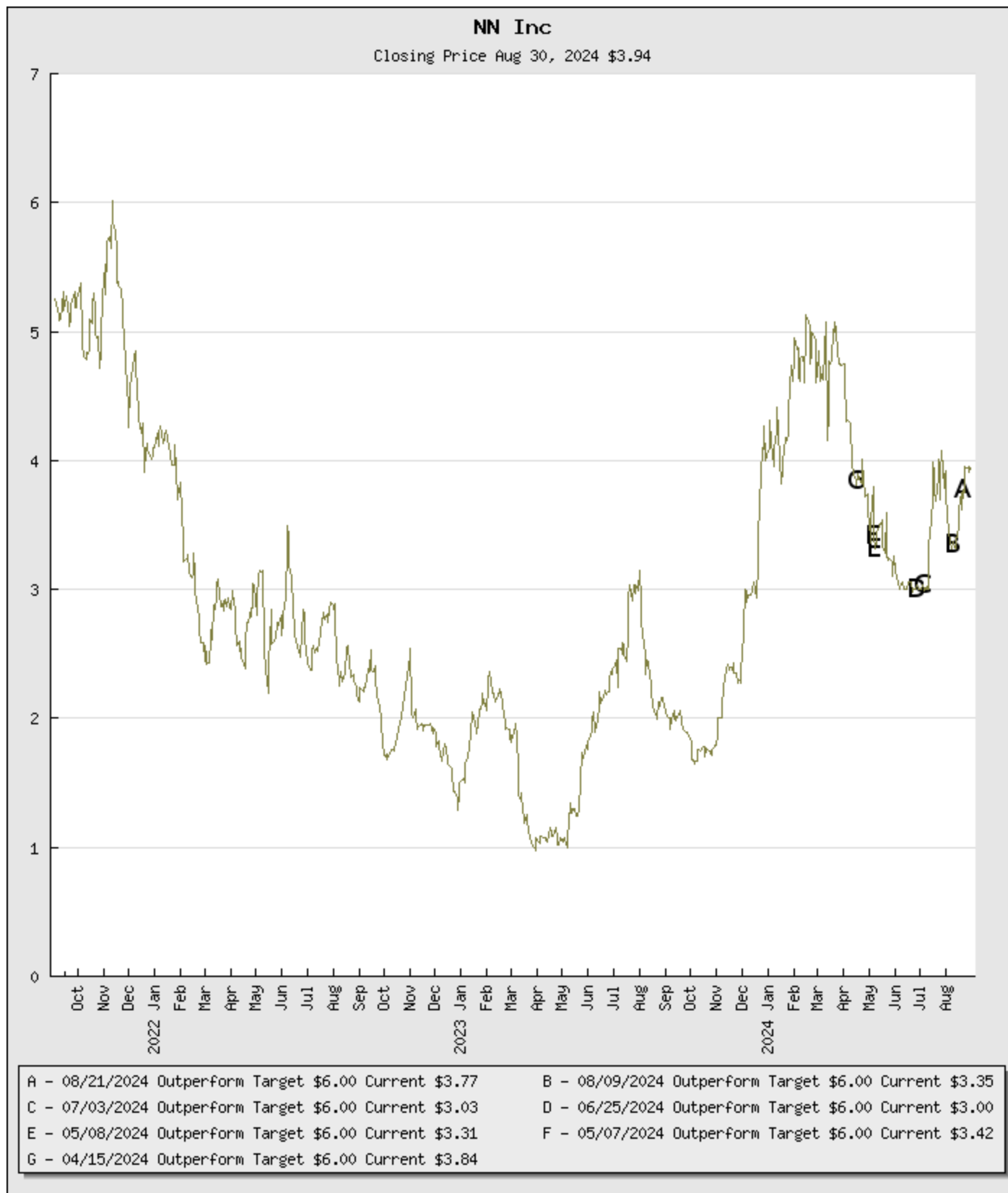
We are maintaining our Outperform rating and \$6 price target on NNBR shares. NN is in the midst of a strategic transition to a more diversified specialty components Company. We expect the final iteration will position the Company for reduced cyclicality along with higher margins. In our view, NN is diversified across solid end markets, with recent expansion into potentially faster growing end markets. Notably, the Company has a relatively modest market share in its diverse markets, suggesting the

potential for additional growth through market share expansion.

At our target price, NN shares would trade at 1.0x our projected 2024 revenue estimate and 8.3x our 2024 projected adjusted EBITDA estimate. These multiples are in-line with its peer group of specialty manufacturers which trade at an average 1.4x 2024 consensus revenue and 9.6x consensus adjusted EBITDA. Our valuation is back stopped by the value of the Company's hard assets, with installed equipment valued at \$400 million (insured value) and \$600 million of total PPE (insured value).

Risks include, but are not limited to:

- *Customer concentration.* During 2023, sales to various U.S. and foreign divisions of the ten largest customers accounted for approximately 47% of consolidated net sales.
- *International Operations.* NN operates in and sell products to customers outside the U.S. and is therefore subject to all the risks related to doing business internationally. The Company obtains a majority of raw materials from overseas suppliers, actively participate in overseas manufacturing operations, and sells to a large number of international customers. During the year ended December 31, 2023, sales to customers located outside of the U.S. accounted for 40% of consolidated net sales.
- *Product Failure.* The majority of NN's products are components of customers' products that are used in critical industrial applications. A failure of NN components could lead to a product recall. If a recall were to happen as a result of NN components failing, the Company could bear a substantial part of the cost of correction. In addition to the cost of fixing the parts affected by the component, a recall could result in the loss of a portion of or all of the customer's business and damage the Company's reputation.
- *Highly Competitive Markets.* NN faces substantial competition in the sale of components, system subassemblies, and finished devices in the vertical end markets into which products are sold. Competitors are continuously exploring and implementing improvements in technology and manufacturing processes in order to improve product quality. NN's ability to remain competitive will depend, among other things, on whether the Company is able to keep pace with such quality improvements in a cost-effective manner. Due to this competitiveness, NN may not be able to increase prices for products to cover cost increases. In addition, in many cases, the Company faces pressure from customers to reduce prices.
- *Customer Production.* In the Mobile Solutions segment, NN faces competition from customers' internal production, as customers weigh the risk of outsourcing strategically critical components or producing in-house.
- *Capital Structure.* NN's indebtedness could adversely affect the business, prospects, financial condition, results of operations, or cash flows. The principal amount outstanding under the term loan facility as of December 31, 2023, was \$148.1 million, and based on the interest rate then in effect, annual cash interest payments would be approximately \$18.3 million, with an additional \$2.9 million accrued as paid-in-kind interest. The debt agreements contain restrictions that could limit flexibility in operating the business.
- *Anti-Takeover Provisions.* Provisions in NN's charter documents and Delaware law may inhibit a takeover. These provisions include, for example, the authorization of the board of directors to issue up to five million preferred shares without a stockholder vote and that stockholders may not call a special meeting.
- *Acquisition Risk.* Acquiring businesses that complement or expand operations has been and may continue to be a key element of the Company's business strategy. Management regularly evaluates acquisition transactions.
- *Internal Controls.* In the past, NN has had difficulty with purchase accounting and other aspects related to the accounting for acquisitions, which resulted in material weaknesses in internal control over financial reporting. Although these issues have been remediated, there can be no assurances the Company will not face similar issues with respect to any future acquisitions.



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Noble intends to seek compensation for investment banking services and non-investment banking services (securities and non-securities related) within the next 3 months.

Noble is not a market maker in the Company.

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The fundamental assessment rating system is designed to provide insights on the company's fundamentals both on a macro level, which incorporates a company's market opportunity and competitive position, and on a micro/company specific level. The micro/company specific attributes include operating & financial leverage, and corporate governance/management. The number of check marks that a company receives is designed to provide a quick reference and easy determination of the company's fundamentals based upon the following five attributes of the company (weighting reflects the importance of each attribute in the overall scoring of company's fundamental analysis):

Attribute	Weighting
Corporate Governance/Management	20%
Market Opportunity Analysis	20%
Competitive Position	20%
Operating Leverage	20%
Financial Leverage	20%

For each attribute, the analysts score the company from a low of zero to a high of ten based upon the analysis described below. The final rating and resulting check marks is a result of dividing the overall score (out of 100%) by ten.

Rating	Score	Checks
Superior	9.1 to 10	Five Checks
Superior	8.1 to 9	Four & A Half Checks
Above Average	7.1 to 8	Four Checks
Above Average	6.1 to 7	Three & A Half Checks
Average	5.1 to 6	Three Checks
Average	4 to 5	Two & A Half Checks
Below Average	3 to 3.9	Two Checks
Below Average	2 to 2.9	One & A Half Checks
Low Quality	0 to 1.9	One Check

While these are the attributes currently used for the analyst's fundamental analysis, the attributes and weighting may be reviewed, updated with additional attributes, and/or changed in the future based on discussions with the analysts and recommendations from the Director of Research.

Following is the description of each attribute in the fundamental analysis.

Corporate Governance/Management

We believe that a review of corporate governance and assessment of the senior management are important tools to determine investment merit. Good corporate governance aligns management with the interests of stakeholders. As such, analysts are to rank the company on the basis of good corporate governance principles that may include rules and procedures, board composition and staggered term limits, rights and responsibilities, corporate objectives, monitoring of actions and policies, and accountability. In addition, analysts will assess issues with controlling shareholders and whether decisions have been made in the past that were in the interests of all shareholders. In addition, management will be assessed based on industry experience, expertise, and/or track record.

High ranking example: Board and management that is aligned with the interests of shareholders with incentives based on stock price appreciation and with an experienced management team known for exceptional shareholder returns.

Low ranking example: Concentrated ownership without independent directors that do not necessarily align with all shareholders' interests.

The Market Opportunity Analysis

In this review, the analyst assesses the company's macro environment as a measure of understanding the industry. Factors considered include the size and growth potential of the industry under various economic conditions, the emerging demands in the market, technological benefits/disruptions, competition, geographical opportunities, and customer demands/needs, and an assessment of supply and distribution channels. In addition, the analyst will review legal and regulatory trends, as well as potential shifts in consumer or social behavior and natural environment changes.

High rank example: A company in an industry that is growing revenues well above GDP rates (which are on average 2% plus) and/or may have unmet or underserved needs in a rapidly growing market opportunity.

Low rank example: A mature industry that is in secular decline and likely to grow below GDP rates.

Competitive Position

The evaluation of the company's competitive position is another macro environment attribute designed to measure the relevance, market share, position and value proposition, and sustainable differentiations of the company and its products/services within its industry. Ease of entry into the industry and the ability of other well-funded players to potentially enter the market would be determined. As such, the assessment would consider the company's strengths and advantages of its products/services against weaknesses and limitations. This may include the company's current brand awareness, pricing and cost structure, current market strategies and geographic penetration that may affect demand for its products/services. In addition, the company's competitors would be evaluated.

High rank example: An analyst would consider the company's product to be superior to its competitors and that should allow the company to gain market share.

Low rank example: A company with a "me-too" product that does not have any significant technology advantages in an industry that has low barriers to entry.

Operating Leverage

Simplistically, operating leverage is determined by the operating income relative to changes in revenue. The analyst will calculate the impact on sensitivity on gross margins and variable costs to determine operating leverage. The analyst will take into account the ability of the company to cut fixed and variable costs in a challenged revenue environment and technological changes that may impact operating expenses. In addition, the analyst is to assess corporate strategies that include capital investment, which may be required for sustainable revenue growth, marketing expenses, and the company's ability to attract and retain talent and/or employees. The analyst should focus on the revenue opportunity and determine the price elasticity of demand for the company's products or services. In other words, the analyst is to rank the company based on improved operating margins going forward on an absolute and relative basis.

High rank example: A company that has improving margins for the foreseeable future, with significant price elasticity.

Low rank example: A company that is in a challenged revenue environment with a fixed cost structure and limited ability to cut costs, indicating an outlook for declining margins.

Financial Leverage

A strict definition of financial leverage is total debt divided by total shareholder's equity. Financial leverage analysis is to determine the company's ability to improve shareholder value by means of utilizing its balance sheet to grow organically or to acquire assets. Analysts may look at the company's debt to cash flow leverage ratio, interest coverage ratios, or debt to equity ratios. In addition, the interest rate environment and the outlook for interest rates are a factor in determining the company's ability to manage financial leverage. Finally, the analyst is expected to determine the ability to service the debt given the industry and/or company profile, such as cyclical, barriers to entry, history of bankruptcy, consistency in revenue and profit growth, or predictability in sales and profits and large cash reserves. The analyst is expected to take into account capital intensity of the company and the anticipated of capital allocation decisions.

High rank example: A company with predictable and growing revenue and cash flow with modest debt levels. This may indicate that the company could improve shareholder value through growth investments, including acquisitions, using debt financing.

Low rank example: A company in a cyclical industry in a late stage economic cycle that has above average debt leverage and is in an industry that has a history of financial challenges, including bankruptcies.

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Senior Generalist Equity Analyst. Chartered Financial Analyst®. Over 25 years experience as a Generalist Analyst focused in the small to mid-cap space. MBA in Finance from Pace University and a BS in Agricultural Economics from Cornell University.

FINRA licenses 6, 7, 24, 63, 86, 87.

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NOBLE RATINGS DEFINITIONS	% OF SECURITIES COVERED	% IB CLIENTS
Outperform: potential return is >15% above the current price	91%	23%
Market Perform: potential return is -15% to 15% of the current price	9%	3%
Underperform: potential return is >15% below the current price	0%	0%

NOTE: On August 20, 2018, Noble Capital Markets, Inc. changed the terminology of its ratings (as shown above) from "Buy" to "Outperform", from "Hold" to "Market Perform" and from "Sell" to "Underperform." The percentage relationships, as compared to current price (definitions), have remained the same.

Additional information is available upon request. Any recipient of this report that wishes further information regarding the subject company or the disclosure information mentioned herein, should contact Noble Capital Markets, Inc. by mail or phone.

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