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Zacks Small-Cap Research

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NN Inc. (NNBR-NASDAQ)

UPDATE: The company released 3rd quarter earnings which showed improvements but were below company expectations. An executive transition plan was also announced.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe NNBR could be worth $6.50 per share. A negative economic environment may lower this value.

Current Price (11/3/22)	$2.04
Valuation	**$6.50**

OUTLOOK

NN Inc. is a diversified industrial company that combines in-depth materials science expertise with advanced engineering and production capabilities to design and manufacture high-precision metal and plastic components and assemblies for a variety of end markets on a global basis. The company is targeting the electric vehicle and electric grid industries which should grow at above average growth rates. In 2021, the company underwent a series of financial transactions in order to transition to a longer-term capital structure which would provide flexibility and financial stability for its growth plans. The company has been public since 1994 and is expected to return to profitability in 2023.

SUMMARY DATA

52-Week High	**$6.13**
52-Week Low	**$1.62**
One-Year Return (%)	**-65.69**
Beta	**2.81**
Average Daily Volume (sh)	**133,939**
Shares Outstanding (mil)	**44.7**
Market Capitalization ($mil)	**$90.8**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**84**
Insider Ownership (%)	**3**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-16.2**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**

Risk Level	**Medium**
Type of Stock	**Small-Value**
Industry	**Industrial**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	$200 A	$150 A	$114 A	$119 A	$428 A
2021	$127 A	$123 A	$117 A	$110 A	$478 A
2022	$128 A	$125 A	$127 A	$125 E	$506 E
2023	$138 E	$146 E	$142 E	$137 E	$564 E

Adjusted EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	$0.01 A	-$0.11 A	$0.07 A	$0.17 A	-$0.16 A
2021	$0.05 A	$0.00 A	$0.01 A	-$0.01 A	$0.04 A
2022	$0.00 A	-$0.09 A	$0.03 A	$0.00 E	-$0.06 E
2023	$0.03 E	$0.03 E	$0.02 E	$0.05 E	$0.13 E

Quarterly revenues may not equal annual revenues due to rounding. Quarterly EPS may not equal annual EPS due to rounding, dilution or intangibles.

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WHAT'S NEW

Financial Review

NN Inc. (NASDAQ:NNBR) reported 3rd quarter financial results on November 1st which were mostly below company expectations. Sales increased 8.6% (10.4% organically) due to pricing actions and higher volumes. Sales in the Mobile Solution segment increased 11.0% and the Power Solutions segment showed a 5.0% sales increase compared to the prior year period. Total revenues were $127.3 million compared to our estimate of $133.7 million.

Adjusted operating income for the 3rd quarter was $2.5 million compared to an adjusted operating loss of $0.2 million in the 3rd quarter of 2021. Adjusted EBITDA improved to $11.8 million (9.3% margin) from $9.7 million (8.3% margin) for the same period in 2021. In the Power Solutions segment, adjusted operating income was $5.8 million compared to $4.0 million in the prior year period. In the Mobile Solutions segment, adjusted operating income declined slightly to $0.7 million from $1.0 million as certain inflationary costs were not recovered by pricing actions.

Inflation continues to negatively impact the company's operating results and management indicated that unrecovered inflationary costs totaled approximately $2.0 million in the quarter. The company continues to hold proactive pricing discussions with many of its customers recently which will continue to be recognized in the 4th quarter of this year.

In the Power Solutions segment, net sales for the 3rd quarter were $51.1 million compared to $48.7 million in the 3rd of 2021, an increase of 5.0%. The increase in sales was primarily due to pricing actions and higher volumes, partially offset by lower precious metals pass-through pricing and unfavorable foreign exchange effects. Adjusted income from operations was $5.8 million compared to $4.0 million in the 3rd quarter of 2021. The increase in operating income was primarily due to the higher levels of sales and lower incentive compensation expense as well as a favorable product mix.

In the Mobile Solutions segment, net sales for the 3rd quarter of 2022 were $76.1 million compared to $68.6 million in the prior year period, an increase of 11.0%. The increase in sales was primarily due to pricing actions and volume demand, partially offset by negative foreign exchange effects. Adjusted income from operations was $0.7 million compared to $1.0 million of adjusted income from operations in the prior year period. The decrease in operating income was primarily driven by inflationary costs not fully recovered by company pricing actions and was partially offset by lower incentive compensation expense.

For the nine-month period ending 9/30/22, operating cash flow was negative at ($2.7) million and capital expenditures were $14.0 million. The company has ample liquidity and was able to absorb most of the cash burn with cash on hand which totaled $28.7 million at the end of 2021 and $15.2 million at the end of the 2nd quarter. At the end of the 3rd quarter, cash stood at $12.6 million, total debt equaled $157.5 million and the company had $32.1 million of availability on its line of credit. The company is expecting free cash flow to be positive in the 4th quarter of 2022 so they are not expected to draw additional amounts on the line of credit. Based on trailing adjusted EBITDA of $48.2 million, the company's leverage ratio was 3.15x. The company stated they expect the leverage ratio to be under 3.00x by the end of the 1st quarter of 2023.

Business and Market Updates

The long-term outlook for the Power Solutions segment remains strong. Demand for electric control panels is expected to regain its strong growth trends by the end of 2022 due to ongoing growth of end-user industries and companies investing in making operations more efficient and productive. This includes those companies involved in upgrading the national electric grid. The global market size for battery electric storage is also expected to be a strong growth driver and is estimated to increase from

$10.9 billion in 2022 to $31.2 billion by 2029 at a CAGR of approximately 16.0%. Commercial, private, and industrial sectors are expected to yield the highest demand for battery energy storage systems. The rising penetration of lithium-ion batteries will also create growth opportunities. In addition, expansion of infrastructure projects, along with the growth in the transportation sector, will encourage leading companies to tap into those markets. Corporate investment in the overall energy storage sector was $22.0 billion for the first nine months of 2022.Around the world, many countries are driving progress in grid interconnection gaps, clearing the way for source to load across wide geographies.

The outlook for Mobile Solutions segment is turning positive with light vehicle production forecasted to improve throughout the rest of the year which reflects recovering markets in China and South Asia. This forecast if somewhat tempered by ongoing supply chain issues as well as possible recessionary environments around the world. Production of light vehicles is projected to end the year at 81.6 million units, down 4.5 million units from original industry forecasts in early 2022. Other industry sources have advised that the auto industry is already operating at or near recessionary levels influenced by s supply chain challenges, the Russia/Ukraine conflict, and ongoing COVID-19 dynamics.

The company's sales pipeline is developing as planned with business development teams focusing on key target markets with the expansion of products into the Electric Vehicle (EV) and Electric Grid markets remaining a priority. Another positive sign is the company's average deal size is increasing in value which can be attributed to high volume sales activity in Grid Storage and EV battery systems. The company indicated its focused end market targets of Electrical and Electric Vehicle business accounted for 36% of year-to-date new business wins.

During the 3rd quarter, the company secured new business contracts that are expected to generate revenues of $23 million in 2023, $29 million in 2024, and $31 million in 2025. These new programs require less capital than traditional contracts in the past as the customer is investing capital along with NN.

The company also recently announced it has organized a re-entry plan into the medical markets sector when their non-compete expires in Q4 2023. The company sold its Life Sciences division in 2020 in a deleveraging transaction.

The company has been proactive in taking pricing initiatives in many areas of its business. The company has secured full material pass through pricing on substantially all Mobile Solutions customers. In addition, discussions are ongoing with a focus on eliminating the negative pass-through lag that often occurs in inflationary environment. New customer contracts are also being structured to provide additional inflation protection. The benefits of these pricing actions are expected to be fully realized by the 4th quarter of this year.

NN has implemented a series of cost reduction initiatives which primarily focus on closing certain aerospace, defense and medical facilities. Facilities in Taunton, Massachusetts and Irvine, California are expected to be closed in the 1st quarter of 2023 which combined had annual operating losses of approximately $10 million. Three additional facilities are expected to be closed in the Mobile Solutions segment which may bring $3.9 million in benefits through cost savings and EBITDA improvement.

Management Transition

On November 1st, the company announced they have implemented a management transition plan to address the planned retirements of CEO, Warren Veltman and Executive Vice President, Mobile Solutions and Power Solutions, John Buchan. NN anticipates that Mr. Veltman and Mr. Buchan will remain in their current positions until the end of the 1st quarter of 2023, which may be extended in order to facilitate an orderly transition. Following their retirements, the company expects that Mr. Veltman and Mr. Buchan will remain available on a consulting basis to assist with the management transition as needed.

The Board of Directors has engaged Korn Ferry, a global organizational consulting and recruiting firm, to assist in identifying candidates for the President and Chief Executive Officer position, with expertise in the electrical and electric vehicle industries to further NN's focus on these rapidly growing markets.

Revised Outlook

Due to multiple avenues of cost pressures and the delays in recovering inflationary inputs through pricing actions, the company revised its 2022 outlook. The company now expects revenues in the range of $503-$510 million, which is down from previous guidance of $510-$525 million.

Adjusted EBITDA is now expected in the range of $45-$48 million which is down from earlier guidance of $51-$57 million. Free cash flow is expected to be negative in the range ($12) to ($9) million.

Much of the reduction in free cash flow guidance is related to non-operating cash outflows for Life Sciences sale tax, FICA deferral repayment, litigation, severance, and facility closure costs totaling approximately $8 million, consistent with the previous outlook.

Valuation & Estimate Changes

We are lowering our EPS estimates for Q4 and full year 2022 to account for the inflationary pressures and production disruptions incurred to date. We lower our Q4 revenue estimates to $125.3 and $506.0 million for the full year. We lower our Q4 adjusted EPS to approximately breakeven. There are no changes to 2023 estimates at this time due to uncertainties regarding sales growth inflation, supply chain disruptions, and labor shortages.

We are slightly lowering our valuation target to $6.50 from $7.40 due to lower levels of EBITDA and higher levels of net debt. See below for full description of valuation methodologies.

We do not believe the current operational environment reflects the true earnings power of NN going forward. The company's primary focus on growing end markets such as electric vehicles and electric grid upgrades should provide growth tailwinds for the foreseeable future. The company is already seeing results from recent sales efforts where there has been a significant pipeline expansion in these target growth markets. The company has a focused plan for cost reduction and margin improvement that should take hold in 2023. As inflationary and other cost pressures recede, NN should be able to produce strong double-digit earnings growth.

KEY INVESTMENT POINTS

Source: nninc.com

- Founded in 1980, NN Inc. (NNBR) has grown from a single ball and roller factory into a global diversified manufacturer with over $500 million in revenues (estimated) and advanced engineering and technology capabilities.

- The company combines in-depth materials science expertise with advanced engineering and production capabilities to design and manufacture high-precision metal and plastic components and assemblies for a variety of customers on a global basis.

- The company recently underwent a turnaround and restructuring efforts which include the divestiture of a major business segment, the reduction of debt, and other recapitalization efforts. These efforts should improve the overall viability of the company and to transition to a longer-term capital structure which would provide flexibility and financial stability for growth.

- The company has a defined growth strategy to take advantage of global trends associated with the shift from Internal Combustion Engine vehicles to Electric Vehicles as well as the modernization of the electric grid to accommodate the inevitable transition to EVs.

- The company has evolved from a traditional contract manufacturer into a high-tech partner in numerous technologies that provide relevant dynamic growth opportunities to its customers.

- NN has an experienced management team and a reconstituted Board of Directors that possess vast industry expertise relevant to the company's overall long-term growth strategies.

- The company went public in 1994 and currently has a market capitalization of $91.3 million. The leverage ratio as of the 3rd quarter ending 9/30/22 is 3.15x, however based on 2023 EBITDA estimates, the leverage ratio is expected to decline on a forward-looking basis.

- We believe NNBR stock is worth $6.50 based on a discounted cash flow (DCF) calculation and a peer multiple comparison using EV/EBITDA. In addition, the stock is selling below both book value per share and tangible book value per share.

NN's innovative solutions can be found all around you, from your home to your car to your workplace.



Source: nninc.com

OVERVIEW



Source: nninc.com

NN, Inc. is a diversified industrial company that combines complex materials science expertise with advanced engineering and production capabilities to design and manufacture high-precision metal and plastic components and assemblies for a variety of customers on a global basis. The company has evolved from a traditional contract manufacturer to an advanced technology focused partner with its customers.

The company operates under two distinct segments that represent a variety of products and end customers. Mobile Solutions is focused on growth in the automotive and general industrial end markets. The company has developed an expertise in manufacturing highly complex, tight tolerance, system critical components. This segment currently manufactures components on a high-volume basis for use in vehicle power steering, braking, transmissions, and gasoline fuel system applications. In addition, manufactured components include use in heating, ventilation, and air conditioning systems as well as diesel injection and diesel emissions treatment applications.

Power Solutions is focused on growth in the electrical, general industrial, automotive, aerospace and defense markets. Within this group the company 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 flight control and for military devices.

In addition, under the Power Solutions segment, the company manufactures a variety of products including electrical contacts, connectors, contact assemblies, and precision stampings for the electrical end market. The company also produces high precision products for the aerospace and defense end market utilizing extensive process technologies for optical grade plastics, thermally conductive plastics, titanium, Inconel, magnesium, and electroplating.

The company is making a concerted effort to focus on sustainable growth markets, particularly in the areas of electric vehicle components and products related to upgrading the electric grid. According to a report by Emergen Research, the 5-year compound annual growth rate for electric vehicles is expected to be in the range of 16%-20% range and reach an addressable market of over $4 billion. The industry associated with the upgrade of the national electric grid infrastructure is expected to grow at an annual rate of between 6%-10% and reach an addressable market of over $1 billion.

NN has a strategically placed global footprint with 69% of its manufacturing capacity located in North America, 13% in the Asia/Pacific region, and 9% in both Europe and South America. Approximately 75% of revenues are derived from North America, 12% from the Asia/Pacific region, and roughly 7% from both Europe and South America.

After a series of multiple acquisitions over the 2015-2018 time frame which were mostly financed by debt, the company realized that its overleveraged capital structure was hindering potential investment and growth opportunities. In 2020, the company sold its Life Sciences business for approximately $743 million in net proceeds. This medical related segment produced a variety of tools and instruments for the orthopedics and surgical end markets. The proceeds from this divestiture were used to repay approximately $710 million in net debt which significantly reduced leverage ratios which had been in excess of 6x prior to the sale.

In 2021, the company recapitalized its debt and equity structure in order to provide financial and operational flexibility. This involved a $150 million term loan, $65 million in preferred stock, and a $50 million asset-based lending facility. These transactions reduced the company's blended cost of equity from 15% to approximately 12%.

COMPETITIVE ADVANTAGES

NN possesses comprehensive and industry leading high-precision manufacturing capabilities and has the ability to produce high-precision parts in large production volumes. The core technology platform consists of advanced precision machining, progressive stamping, injection molding, laser welding, material science, assembly, and design optimization. Products are manufactured to application-specific customer design and co-design standards that are developed for a specific use. The high-precision capabilities are part of a zero-defect design process which seeks to eliminate variability and manufacturing defects throughout the entire product. The company has the manufacturing capability to create tolerances down to the 1-micron level. For comparison, the width of a human hair is about 88 microns. The company has differentiated themselves among competitors by providing customer engineered solutions and a broad reach and breadth of manufacturing capabilities.

The tight-tolerance and high-quality nature of the company's precision products is specifically suited for use in the high demanding applications that require exceptional reliability. The company's products are critical components to the operation and reliability of larger mechanical systems utilized by customers. These types of precision parts are difficult to manufacture and achieve premium pricing in the marketplace as the high cost of failure causes customers to focus on quality. Parts are developed for specific uses within customer critical systems and are typically designed in conjunction with the system designer.

The company's engineering expertise and thorough knowledge of the precision manufacturing processes adds proprietary value throughout the complete lifecycle of the products in conjunction with the customer. The relationship with the customer begins early in the conceptual design process where the company can offer valuable feedback on potential cost, manufacturability, and estimated reliability of the parts. Part designs are then prototyped, tested, and qualified in coordination with the customer design process before going to full-scale production. This close working relationship with customers early in the product lifecycle helps to secure business and increase industry knowledge. Lastly, product performance verification, product troubleshooting, and post-production engineering services further enhance the customer relationship.

NN maintains relationships with hundreds of customers around the world who are typically sophisticated, engineering-driven, mechanical systems manufacturers with long histories of product development and reputations for quality. Customers include well-known companies such as Bosch, Honeywell, Siemens, Itron, Denso, Raytheon, BorgWarner, Parker, and Eaton. The company has no material retail exposure which limits volatility and provides enhanced sales visibility. Relationships with the company's top ten revenue generating customers average more than ten years.

The company continues to realize benefits and synergistic effects between the Mobile Solutions and Power Solutions segments by sharing experienced engineering resources and wide-ranging portfolio of process technologies from each business to serve customers' changing needs. Recent solutions developed in the electric grid, electric vehicle, aerospace, defense, and general industrial markets leveraged the experience and expertise from each business to respond to increasingly tight and stringent customer requirements

Precision worm shafts (electric power steering)

Smart meter contact assembly or "blade"

Electric motor shafts



Source: NN Investor Presentation

RISKS

- NN depends on a relatively limited number of customers and the loss of any major customer would have a material adverse effect on the business. During 2021, revenues from their ten largest customers accounted for approximately 43% of consolidated net sales. The loss of all or a substantial portion of sales to these customers would result in the company losing a substantial portion of total revenues and would lower operating margins and cash flows from operations.

- Work stoppages or similar difficulties and unanticipated business disruptions could significantly disrupt manufacturing operations, reduce company revenues and materially affect earnings. A work stoppage at one or more facilities could have a material adverse effect on the company's business, prospects, financial condition, operating results, and free cash flows. Also, if end-market customers were to experience a work stoppage, that customer would likely halt or limit purchases of company products.

- The company's markets are highly competitive and many competitors have significant financial advantages that could adversely affect business operations. The company faces substantial competition in the sale of components, system subassemblies, and finished devices in the vertical end markets into which they sell products.

- Competitors are continuously exploring and implementing improvements in technology and manufacturing processes in order to improve product quality, and their ability to remain competitive will depend on whether NN is able to keep pace with such quality improvements in a cost-effective manner. Further, the company's customers internal manufacturing capabilities are a significant competitor in which they may choose to manufacture products internally as opposed to outsourced providers.

- The company's debt levels could adversely affect the overall business, prospects, financial condition, results of operations, and cash flows. As of March 31, 2022, the company had approximately $153.5 million of indebtedness outstanding and $50.0 million available for future borrowing under the ABL Facility.

- Total debt obligations could have important consequences, including increasing vulnerability to adverse economic or competitive developments, requiring a substantial portion of operating cash flows from operations to be dedicated to debt obligations. In addition, certain debt agreements contain restrictions that will limit flexibility in business operations such as covenants that limit the ability to engage in certain types of transactions.

- The company has international operations that are subject to foreign economic uncertainties and foreign currency fluctuations. Approximately 39% of total revenues are denominated in foreign currencies, which may result in additional risk of fluctuating currency values and exchange rates and controls on currency exchange. Any increased costs or reduced revenues as a result of foreign currency fluctuations could affect profits. The company also has material specific country risk exposure to China with its 49.0% investment in Wuxi Weifu Autocam Precision Machinery Company, Ltd.

MANAGEMENT

Warren Veltman
President and Chief Executive Officer

Warren Veltman was appointed President and Chief Executive Officer in February 2020, after having served as its Interim President and Chief Executive Officer since September 2019. He previously served as Executive Vice President of the Mobile Solutions group. Veltman joined NN in 2014 as part of the Autocam acquisition as the Senior Vice President and General Manager of the Autocam Precision Components Group. Prior to the acquisition, Veltman served as Chief Financial Officer of Autocam Corporation from 1990 and secretary and treasurer since 1991, until NN acquired the company in 2014. Prior to Autocam, he was an audit manager with Deloitte & Touche.

Michael Felcher
Senior Vice President and Chief Financial Officer

Mike Felcher was appointed Senior Vice President and Chief Financial Officer in July 2021, after having served as Vice President and Chief Accounting Officer since June 2018. Prior to joining NN, he served as the Vice President, North America Chief Financial Officer for JELD-WEN, Inc. Before assuming his role at JELD-WEN, Inc., Felcher served in finance roles of increasing responsibility with United Technologies Corporation's Aerospace Systems Division, and its predecessor, Goodrich Corporation. He began his career at PricewaterhouseCoopers and is a licensed CPA. He holds a Bachelor of Science, Accountancy from Bentley University and a Master of Business Administration from Wake Forest University.

Matthew Heiter
Senior Vice President, General Counsel and Secretary

Matt Heiter joined NN in July 2015 as Senior Vice President and General Counsel. Prior to joining NN, he was a shareholder in the law firm of Baker, Donelson, Bearman, Caldwell and Berkowitz, P.C., where he served as chair of the firm's Securities Practice Group. Heiter is a graduate of Vanderbilt Law School and has earned numerous honors while in private practice, including being listed in Best Lawyers in America and Chambers USA

John Buchan
Executive Vice President, Mobile Solutions and Power Solutions

John Buchan was appointed Interim Executive Vice President of the Mobile Solutions and Power Solutions groups in 2019, and previously served as the Mobile Solutions group's Vice President of Operations. Buchan joined NN as part of the Autocam acquisition in 2014, where he served as Chief Operations Officer. Prior to joining Autocam in 2002, Buchan worked at Benteler Automotive in various technical leadership roles culminating as Executive Vice President of the Exhaust Products Group. He has spent his entire career in operations roles, beginning with General Motors Central Foundry and Rochester Products Divisions. Buchan holds a bachelor's degree in electrical engineering and a master's degree in manufacturing management, both from the General Motors Institute.

Andrew Wall
Senior Vice President and Chief Commercial Officer

Andrew Wall joined NN in January 2022 as Senior Vice President and Chief Commercial Officer. Prior to joining NN, he held numerous marketing and sales, strategy, general management, and factory and field service operations roles with ABB, Ltd., a publicly held, global manufacturer of heavy electrical equipment and automation technology. Most recently, Wall served as Vice President, Product Marketing and Sales, Electrification U.S. He serves on the Board of Directors for Research Triangle Cleantech Cluster, an industry-funded, industry-led initiative focused on accelerating cleantech innovation and the cleantech economy of North Carolina. Wall holds a Bachelor of Science, Business Management from North Carolina State University and a Master of Business Administration from Elon University.

Gail Nixon
Senior Vice President and Chief Human Resources Officer

Gail Nixon joined NN in 2007 and was appointed Senior Vice President and Chief Human Resources Officer in 2018. She previously served as Vice President of Human Resources and has held multiple HR leadership roles within the company. Nixon began her career in the non-profit sector, and from 2000-2007, she held various accounting and human resources positions with a multi-state healthcare organization, ultimately serving as its corporate human resources director. Nixon is a member of the Society for Human Resource Management and has earned her Senior Professional in Human Resources and SHRM-Senior Certified Professional designations.

VALUATION

The markets that NN is focusing on are expected to produce above average growth rates. According to an IHS Market study, products used to expand and modernize the electric grid are expected to grow at an average annual rate of between 6%-10% from 2022 to 2027. The next generation mobility market, which are components used in the manufacturing of electric vehicles, is also a high-growth market. Electric vehicle production is expected to grow at an average annualized rate of between 16%-20% between 2022 and 2027. The company has provided long-term goals of $650 million in revenues by 2025 with $100 million in adjusted EBITDA in the same year.

Our primary valuation tool utilizes a Discounted Cash Flow process and produces three different scenarios.

> Bull Case – The company is able to achieve its stated goals of $650 million in revenues and $100 million in adjusted EBITDA in 2025. This assumes there is no significant secular disruption in either the EV or electric grid markets. Under this scenario, assuming a steady but small increase

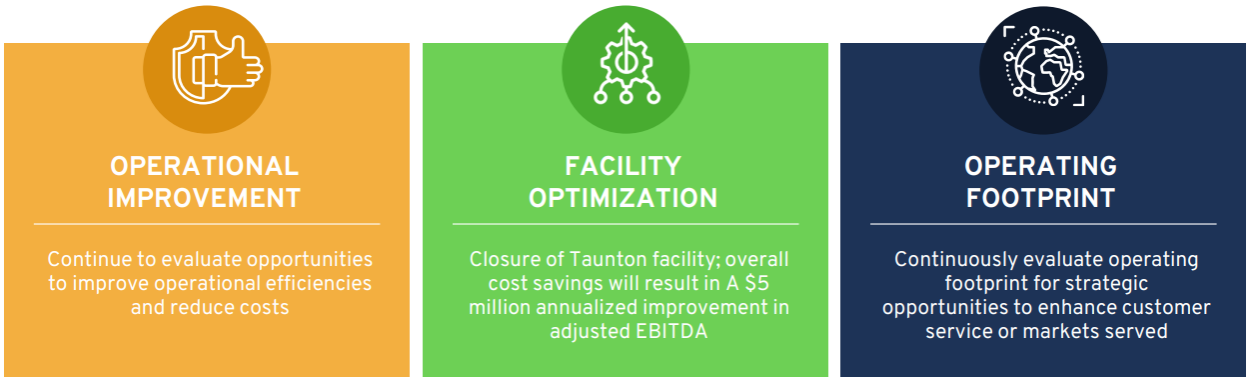
in operating margins creates a derived value of $7.50 per share and we apply a probability factor of 50%.

Base Case – The company does not achieve its 2025 revenue goals but does increase revenues at an annualized rate in the mid-single digit range over a 10-year period. Assuming slight margin increases every year, this creates a derived value of a $6.50 and we apply a probability factor of 35%.

Bear Case – The company faces a severe recessionary environment within the next five years and average annual revenue growth over that five-year period is roughly flat. Margins do not improve over that period which creates a derived value of $3.00 and we apply a probability factor of 15%.

The weighted average price target of these three scenarios is approximately $6.50. It is notable that the DCF calculation incorporates a 12.0% discount rate which is the company's stated weighted average cost of capital following their recent recapitalization. If the company's WACC is reduced in a potential recapitalization in 2024, a lower discount could be applied. Every 1.0% reduction in the WACC (discount rate) would add approximately $1.00 to the value target.

It is interesting to note that even in a worst-case environment, the company appears to be undervalued (Bear Case). However, that does not account for the volatile trading environment that may occur in the stock market during difficult economic times.



Source: NN Investor Presentation

In addition, NNBR is selling below book value per share. We calculate common equity value per share at the end of the 3rd quarter at $4.35. Tangible book value per share, which eliminates $85.1 million in intangible assets, is approximately $2.61. It's possible GAAP losses could occur this year or next, but we do not believe those will be material enough to bring the book value per share down to today's stock price. These calculations treat the outstanding preferred stock as a debt instrument.

KEY PRODUCTS

- **Precision Worm Shafts (Steering Worms)**
  - Application: automotive/electric power steering
  - Competitive Advantage: Turning, milling, griding (some are heat treated)
  - Distribution: France, Brazil, China, US

- **Terminal Assemblies**
  - Application: Electrical/Smart Meters
  - Competitive Advantage: Stamping, Contacts, Over-molding, Assembly
  - Distribution: Attleboro, Massachusetts

- **Electric Motor Shafts**
  - Application: Automotive/ Window/Seat/Wiper Motors
  - Competitive Advantage: Turning, Milling, Rolling, Grinding, Heat Treating
  - Distribution: France, Poland, Brazil

- **Terminal Assemblies**
  - Application: Electrical/Smart Meters
  - Competitive Advantage: Stamping, Contacts, Over-molding, Assembly
  - Distribution: Attleboro, Massachusetts

- **Electrical Contacts**
  - Application: Electrical (100s of various applications)
  - Competitive Advantage: Forming, Cladding, Plating, Machining, Precision Cleaning
  - Distribution: Massachusetts, China

- **Electrical Contact Assemblies**
  - Application: Electrical/ Grid and General Industrial
  - Competitive Advantage: Forming, Contact Manufacturing, Machining, Stamping, Plating, Brazing, Heat Treating, Assembly
  - Distribution: Massachusetts, China, Mexico City

- **High Voltage Connector Shields**
  - Application: Automotive/ EV Battery Connectors
  - Competitive Advantage: Stamping, Custom Tooling, Precision Cleaning
  - Distribution: Algonquin, IL, Attleboro, MA

- **Emissions Components- Diesel**
  - Application: General Industrial/Diesel After-Treatment
  - Competitive Advantage: Turning, Micro-milling, Heat Treating, Honing, EDM Drilling, Grinding, Deburr, Precision Washing
  - Distribution: Kentwood, MI

- **Electrical Reversing Switch**
  - Application: General Industrial/ Garbage Disposal
  - Competitive Advantage: Stamping, Riveting, Contact Manufacturing, Molding, Assembly
  - Distribution: Mexico City, Attleboro, MA

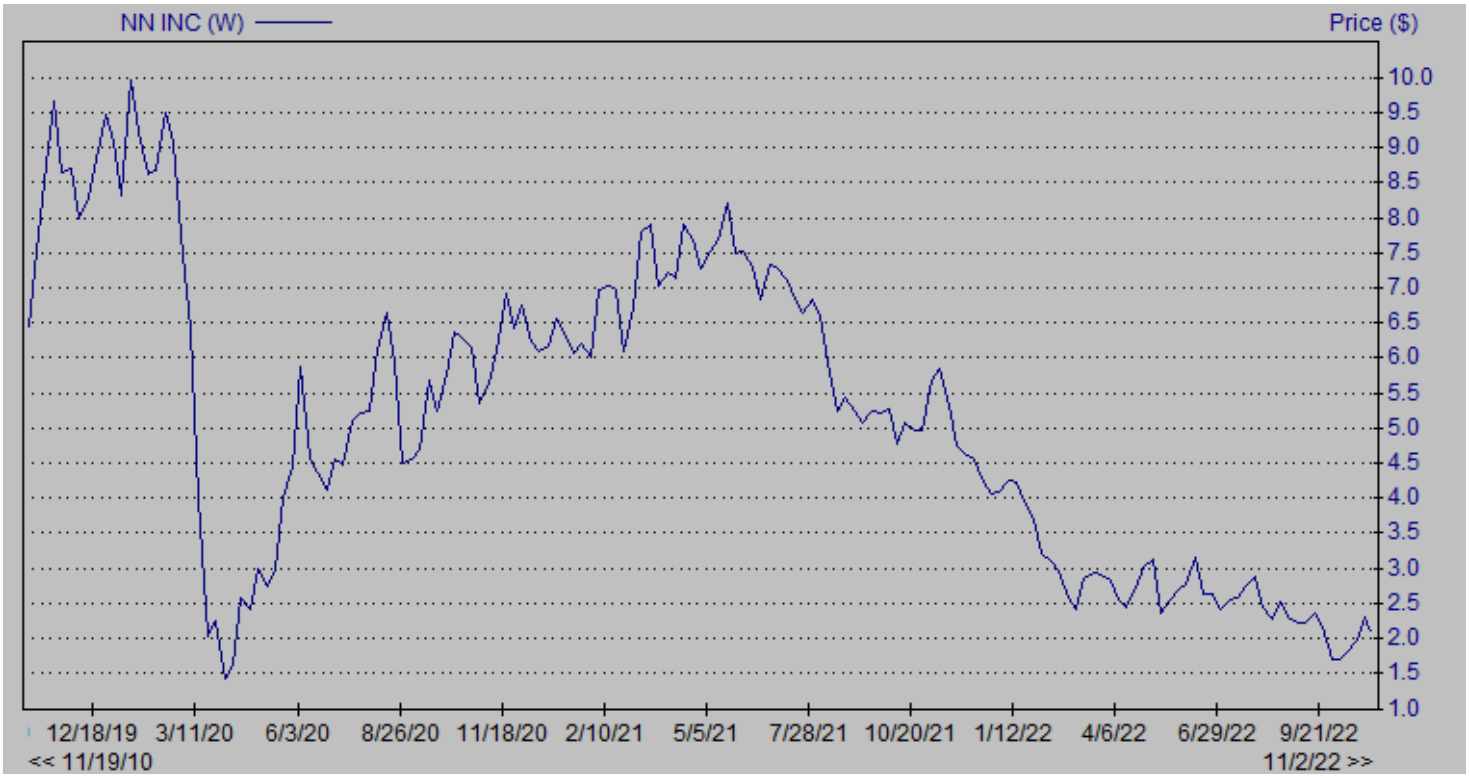
- **Electrical Contact Assemblies**
  - Application: Electrical/ Grid and General Industrial
  - Competitive Advantage: Forming, Contact Manufacturing, Machining, Stamping, Plating, Brazing, Heat Treating, Assembly
  - Distribution: Massachusetts, China, Mexico City

- **Steering Shafts and Pinions**
  - Application: Automotive/ Electric Power Steering
  - Competitive Advantage: Forming, Turing, Milling, Gear Hobbing, Heat Treating, Grinding
  - Distribution: Wellington, OH, Juarez, MX, France, Dowagiac, Michigan



Source: NN Investor Presentation

HISTORICAL STOCK PRICE



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