

M&A INDUSTRY REPORT

PRECISION METALWORKING

FOCUS Investment Banking is a leading middle-market investment bank with deep industry expertise, a nationwide footprint and a global reach.

FOCUS

Investment Banking

CONTENTS

03 - 05.

Market Highlights

06.

Transaction Activity

07.

Deal Drivers

08.

Client Spotlight

09 - 10.

News

11.

Industry Publications

12

The Team

13.

Recent Transactions

03

Metals Industry Highlights

The U.S. has gained 750,000 manufacturing jobs since January 2021. That's extraordinary in a country where the controlling narrative for decades has been the death of American manufacturing. The precision metalworking companies we serve are central to that success story. Their efforts are critical to the reshoring of production in the U.S. and key drivers for what McKinsey has dubbed the **Titanium Economy**.

We believe U.S. manufacturing is poised to enjoy a resurgence that can last for many years. However, success is not assured, and it is critical for participants to understand the trends impacting the industry and position themselves accordingly. Success will require substantial capital investment for automation and growth, deep knowledge of systems, strong operational and financial performance and new approaches to customer service. These challenges spell opportunity for industry leaders, but will pose serious threats to those unable to keep up.

We see the metalworking industry in the early stages of a significant wave of consolidation, with strong evidence that acquisition activity will not only continue, but will accelerate over the next few years. How you address this trend will impact both your business success and the legacy you build for yourself and your family.

The metals industry has been impacted by the macro environment factors we're all familiar with.

- Inflation
- Recession
- War
- Supply chain disruption

In 2022 metal fabricators saw dramatic fluctuation in materials costs with price increases early in the year for key metals such as steel, aluminum, nickel and titanium followed by precipitous declines later in the year. Skilled labor shortages, which had eased a bit for some firms as we came out of the pandemic, are back with a vengeance.

Gardner has reported a recent softening of metalworking demand after two very strong years in 2021 and 2022. However, the high performing, high precision companies we speak with regularly continue to report demand for products at levels higher than they can readily deliver. Some of the causes are familiar, such as the ongoing shortage of skilled machinists and the difficulty in

04

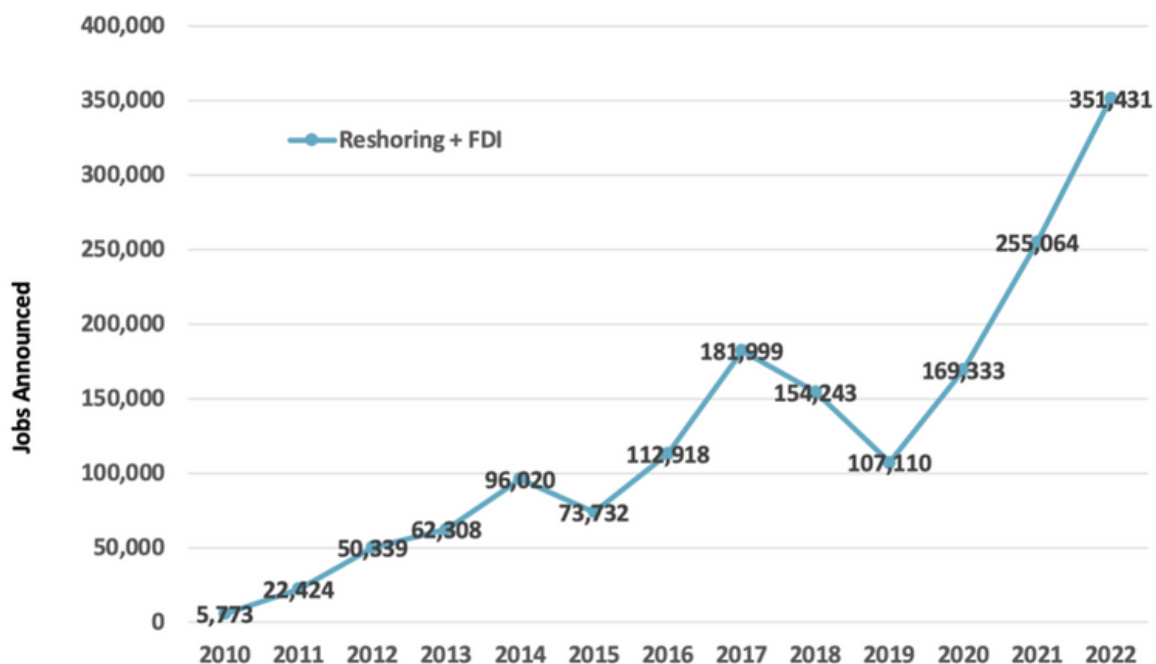
Metals Industry Highlights

attracting talented young people to the shop floor, notwithstanding compensation that often exceeds what's available elsewhere in the economy. As a result, demand for robotic automation tooling has exploded as we witnessed at **IMTS 2022**.

Supply chain disruptions have arisen from factors as widespread as:

- COVID induced production shutdowns
- War in Ukraine
- Transportation bottlenecks
- Geopolitical risks to major suppliers such as Taiwan.

A **recently issued report** from **Reshoring Initiative** projected that a record number of U.S. jobs were created in 2022 through the combination of reshoring and foreign direct investment.



05

Metals Industry Highlights

Rebuilding America's Manufacturing Base

According to the report: "Supply chain gaps and the need for greater self-sufficiency continue as major factors driving reshoring. The possibility of a Taiwan-China conflict and the threat of China decoupling are focusing those concerns. Destabilizing geopolitical and climate forces have brought to light our vulnerabilities and the need to address them. Subsequently, great opportunities have arisen for a continued meaningful rebound of U.S. manufacturing."

Taken together we are driving an ongoing shift toward increased demand for domestic suppliers, particularly from critical customer industries for precision machining such as aerospace and defense, medical device, semiconductor supply chain and automation equipment. We have recently seen examples of companies serving "old economy" sectors, which are performing at very high levels through innovation in terms of product design and/or advanced manufacturing technology.

Precision Metalworking will be critical to the rebuilding of the U.S. manufacturing base. Add to this the demand for rearmament resulting from the Russia-Ukraine conflict and its easy to predict significant shortages in U.S. high precision metals production capacity. Reflecting this, we're seeing increased acquisition interest from international firms seeking U.S. production to serve their customer base in North America.

Consolidation Demand Continues Strong

The push for rebuilding American manufacturing has not been ignored by the financial industry. In 2015 when we sold Smiths Machine to ARCH Global Precision, ARCH was one of a very short list of private equity backed consolidators in the precision machining industry. Today our team regularly communicates with more than 25 PE backed consolidators with multiple acquisitions in the precision metalworking industry and an identified strategy to grow their platforms in the space. We've also identified more than 100 additional financial and strategic acquirers indicating strong interest in metals industry acquisitions and that list is growing steadily.

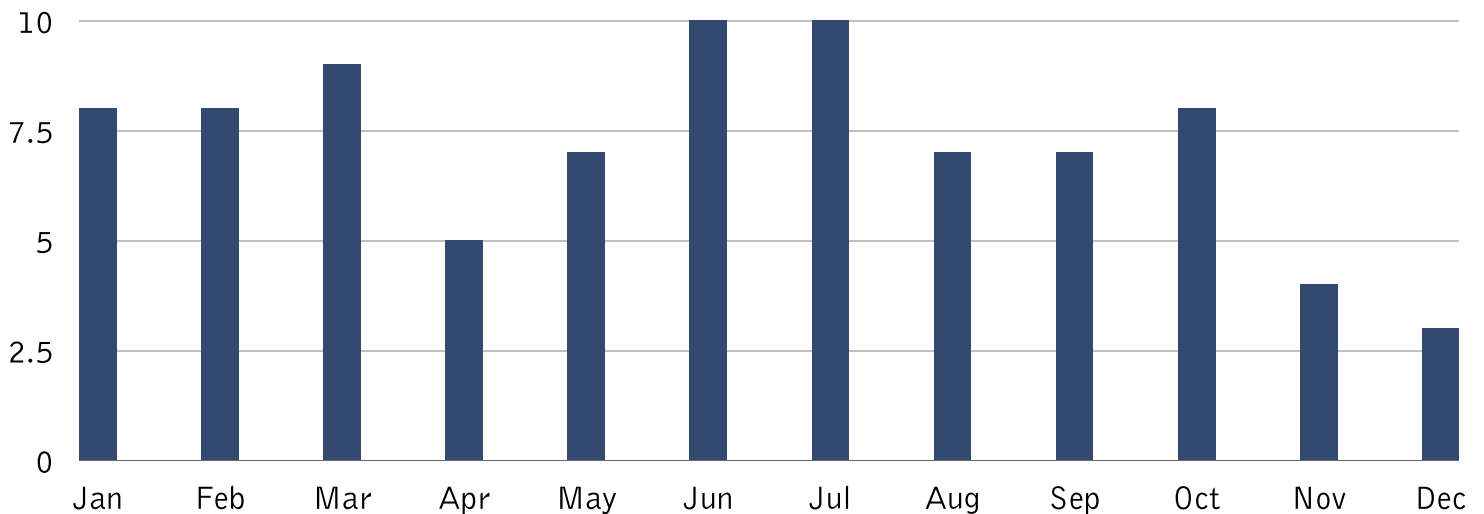
To date we've seen especially high levels of acquisition interest in high precision machining firms, which target mission critical parts for industries of strategic importance including aerospace and defense, semiconductor manufacturing, automation, commercial space launch, medical device, etc. However, interest is increasing in other metalworking sectors including stamping, cutting, welding and assembly. As demand for increased domestic sourcing of critical components builds, we anticipate that these sectors will benefit. Given the constraints we see to organic growth (skilled labor, etc.), we expect to see an increasing number of transactions driven by demand for production capacity as a factor distinct from the traditional PE focus on earnings.

Another major factor pushing the industry toward consolidation is the increasing need for automation, both through deployment of robotic systems and through adoption of more sophisticated digital information systems. FOCUS, recognizing the potential for margin expansion through automation, has covered these topics with multiple articles that you can find at [here](#). We are increasingly seeing automation investment as a significant positive factor in acquirer valuations.

06

Market Activity

Our data shows 95 transactions completed in precision metalworking in 2022 compared with 121 in 2021. This roughly 20% drop in activity is reflective of the overall M&A market for the year, which returned to more normal levels after a strong rebound in 2021 following the COVID year 2020. We see strong buyer demand continuing, with expectations for significant metalworking deal activity at valuation levels remaining strong for high performing companies.



Capital drives deals. Building on the early success of PE backed consolidators like ARCH Global Precision and CORE Industrial Partners, a substantial and growing amount of capital has been drawn to the metalworking sector and Advanced Manufacturing in general. Quality sellers can expect a robust number of interested parties and multiple bids at historically attractive multiples. But in our experience good transactions are not driven by money alone. Sellers choose to sell because of factors specific to their personal situations or factors specific to the business rather than focusing purely on market factors. Owners' age and health, along with lack of a next generation to take the reins of the family business are often key drivers. And surprisingly often owners choose to sell to provide opportunities for growth to their management teams or to assure that the business continues to be in a position to meet the needs of its customers.

07

Deal Drivers

Precision metalworking was once a core capability of most industrial enterprises in the United States. Commencing in the 1970s and accelerating in the 1980s under pressure from corporate raiders, outsourcing of these activities became the norm. This led to the formation and growth of thousands of entrepreneurial and family owned specialty shops focused on precision machining, cutting, stamping and forming, welding and other disciplines. These firms support key industries such as aerospace and defense, industrial automation, medical devices, communications, power generation and transmission and transportation which form the backbone of American industry and are critical to rebuilding our domestic capabilities in critical manufacturing sectors.

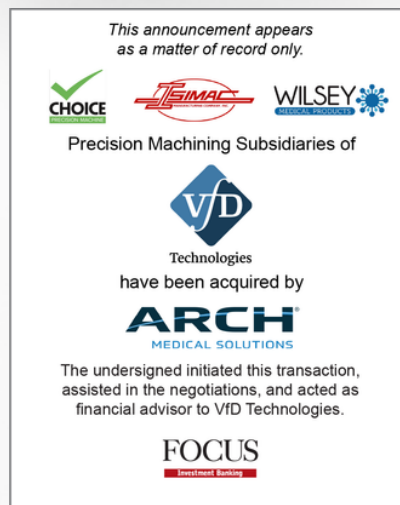
Fast forward to the 2010s, this critically important sector represented one of the most highly fragmented industries in the United States with thousands of private company participants and virtually no public companies focused on these activities, owned in many cases by baby boomers nearing retirement. Mid-decade private equity began to recognize this as a significant opportunity and the pace of acquisition has been steady and growing since then. With financial stress precipitated by inflation and supply chain disruptions, 2022 saw a slight slowdown in acquisition activity, but we see the pace of dealmaking accelerating in 2023 and at least through the mid 2020s.



08

Client Spotlight

FOCUS Represented VFD Technologies in multiple transactions



How do you increase the equity value of your business in 2022?

To find out, we asked Patrick Thornton, co-founder and chief financial officer of VFD Technologies Inc. for his expert advice.

1. Dive into your data

According to Thornton, there are four main objectives of making operational improvements, but they all start with having the right data and being able to analyze it to identify the most significant opportunities for improvement.

2. Focus on your customers

Thornton's second rule is to focus on your customers. Indeed, like the fact driven approach, all of the strategies Thornton suggests revolve around helping your customers, which in turn helps your own company.

3. Emphasize resource consumption over cost

The third rule follows closely on Rule 2.

4. Retain your people

Of course, your most valuable resource is your people, no more so than right now, when it's so difficult to find highly-skilled, experienced machinists, engineering and technical staff. Retaining the talent you have is so critical. You must be profitable enough to retain them while also investing in new technologies, so that you will continue to be the supplier of choice for your most demanding customers.

Article: Venture Capital Invades Precision Metalworking

Once in while something comes along that has the potential to change everything. Such a day may have come in the Precision Metalworking industry. With backing from Andreessen Horowitz, the big Silicon Valley venture capital firm, Hadrian Automation has raised \$90 million to build its second fully-automated factory to build parts for the aerospace and defense industries. Hadrian's immodest aim is to build the "planet's most efficient factory," enabling space & defense manufacturers to get parts 10x faster and halve the cost of making rockets, satellites, jets and drones.

What does this mean for Precision Machining?

1. Limited human involvement: According to CNBC, "Hadrian wants to create factories that can automatically manufacture parts for rockets, satellites, jets and drones at a rapid pace with limited human interference. "
2. Bringing the future forward: We think the Hadrian news—which many of our manufacturing clients



may not have heard about yet—has major implications far beyond the aerospace industry, affecting machine shops that manufacture all manner of parts for all types of businesses using all types of materials. Indeed, Hadrian says it "will accelerate the entire advanced manufacturing sector and bring the future forward, faster," by "delivering parts in less time, on time, every time."

If you're a machine shop owner and want to remain in business, you have to ask yourself if you can compete in this new environment. To do so, you are going to have to learn to do things that are maybe way beyond anything you've ever been trained to think about. But if you can't make the investment or don't want to make the effort, now is the time to seriously consider your options. Read the full article [here](#).

10

Article: Using technology, automation and regionalization to overcome supply chain bottlenecks

As if skilled labor shortages weren't enough, supply chain disruption has reared its head as one of the biggest challenges facing precision manufacturers. For many firms the easiest way to deal with these challenges is to simply not to deal with them, meaning sell your company now to a competitor or a private equity firm and let them figure it out. Recent consolidation moves in the metal service center industry have been driven in significant part by supply chain pressures. For everyone else, though, there are practical and affordable solutions you can implement today that will make your company more efficient, profitable, valuable, and sustainable for the long term.

In the last five years, reducing supply chain risk has evolved from an academic Boardroom discussion to a bonafide mandate for companies of all sizes. Issues ranging from geopolitics to the pandemic have radically accelerated the need to rethink how companies structure their supply chains. And while the issues facing various industries differ in magnitude, they are acute for precision manufacturers in the US. The good news is that there are practical and affordable solutions you can implement today that will make your company more efficient, more profitable, more valuable, and more sustainable.

For some real-world advice on the subject we spoke to our colleague Courtney J. Ryan, one of the foremost experts in the U.S. on supply chains and resourcing. Before becoming a FOCUS Senior Advisor, Ryan spent 27 years at Jabil Inc., a \$30 billion global leader in global outsourcing. Most recently he served as Jabil's executive vice president of enterprise strategy and corporate development and before that as senior vice president of global supply chain. He is now a founding partner at Steadfast Partners, an industrial technology advisory group created by four seasoned C-suite executives to help private equity firms accelerate and maximize value creation in their portfolio companies.

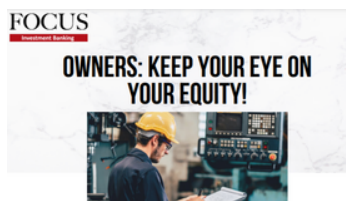
We asked Ryan what advice he would give the CEO of a \$20 million precision manufacturer or a private-equity consolidator investing in the industry. Continue reading the article [here](#).



11

Industry Publications

The Advanced Manufacturing team publishes a variety of industry pieces each month. Our goal is to inform our readers on the trends and keep them up to date on what we are seeing in the market.



If you're a precision machine shop owner, things are looking good right now. The economy is re-opening, and orders are piling up. In fact, your biggest problem may be keeping up with demand.

But does that mean your business is destined to continue to get more valuable as revenue grows? Not necessarily. It's complicated.

Many shop owners have been contemplating selling because valuations are now at record levels, fed by the post-pandemic rebound and private equity's desire to put their low-cost capital to work. But with business so good, many owners are thinking they should continue to grow the business and cash in down the road.

However, the dynamics of the business are changing; the basis of competition is evolving, and owners are strongly encouraged to develop a strategy that is equity focused, not sales focused. An equity strategy is one that focuses on maximizing your invested wealth, after taxes, come your retirement date. Smaller independent businesses have a high-risk profile due to business concentration and lack of liquidity, and that's particularly true in an industry that's consolidating. An equity strategy explores all your options to grow the value of your business interests and your overall wealth over time. It keeps the eye better trained on the strategic risks of the business and the risks to the family balance sheet over the long term.

Where many owners are in is thinking that their equity in the business is growing just because their sales are growing. But they lose sight of the fact that company valuations—what prospective buyers are willing to pay—are based on a complex combination of company-specific, industry-specific, and macro-economic factors, some you can influence, and some you can't. Your equity strategy, whose purpose is to secure your personal and family's needs and goals, needs to be founded on a realistic assessment of both risks and opportunities and a forecast of how these factors may affect future value.



Download the FOCUS Advanced Manufacturing Information Sheet

Stay in touch with us! [Register](#) for our monthly emails to receive up-to-date industry trends.

Sign Up

12

The Precision Metalworking Team

KEY FACTS

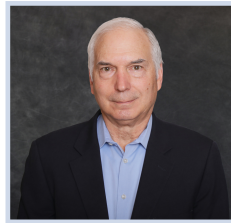
- Team: 7 investment bankers, 5 senior advisors and 2 research associates; Memphis, Atlanta, Austin, Bend, Chicago, Cincinnati, Dallas, Los Angeles, Pittsburgh, St. Petersburg
- Significant sell side, buy side, and capital formation transaction expertise both domestically and abroad



John Slater
Managing Director
Team Leader



Jorge Maceyras
Managing Director



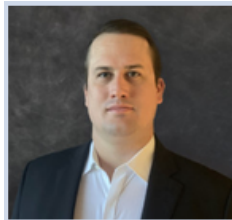
Brent Costello
Managing Director



Alexandra Slater
Associate



Craig Ladkin
Managing Director



Alex Williams
Principal



Courtney Ryan
Senior Advisor



Drew Morgan
Associate



13

Select Transactions

For a complete list of Advanced Manufacturing deals, please visit our [website](#).

This announcement appears as a matter of record only.

CHOICE **PRECINMAC** **WILSEY**

Precision Machining Subsidiaries of

V/D

Technologies

have been acquired by

ARCH

MEDICAL SOLUTIONS

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to V/D Technologies.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

ARCH

has acquired

H. & S. Svensson's Tool Company

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to ARCH Global Precision, LLC.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

RM ROTAX METALS

has been acquired by

RELIANCE

STEEL & ALUMINUM CO.

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Rotax Metals, Inc.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

WEC

GROUP

has been acquired by

amari metals

The undersigned co-managed this transaction with Rickitt Mitchell of Manchester, UK. This transaction won the November 2018 M&A Worldwide Deal of the Year.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

VIPER NORTHWEST

an S&K Technologies company

has been acquired by

PRECINMAC

PRECISION MACHINING

The undersigned assisted in the negotiations, and acted as financial advisor to Viper Northwest, Inc.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

adeios

an S&K Technologies company

has been acquired by

DFT

DIGITAL FORCE TECHNOLOGIES

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to S&K Technologies.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

TECUM

CAPITAL

has provided subordinated debt financing to

V/D

Technologies

to fund the acquisition of

PRECINMAC

The undersigned initiated the transaction, assisted in the negotiations and acted as financial advisor to V/D Technologies, Inc.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

RESILIENCE

CAPITAL PARTNERS

has acquired the assets and business of

TSS Technologies

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to TSS Technologies, Inc.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

ARCH

has acquired

CLING'S

AEROSPACE

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to ARCH Global Precision, LLC.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

MICROPULSE WEST

EDM SPECIALISTS | LONG MACHINING

has been acquired by

INCODEMA

FORGING THE FUTURE

a portfolio company of

CORE

INDUSTRIAL

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to Micropulse West

FOCUS

Investment Banking

This announcement appears as a matter of record only.

ARCH

has acquired

Morsch Machine

An American Manufacturing Company

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to ARCH Global Precision, LLC.

FOCUS

Investment Banking

This announcement appears as a matter of record only.

CFB has merged with **HIGRADE**

to form **Manufacturing Group**

financing was provided by **ALDINE**

The undersigned initiated this transaction, assisted in the negotiations, and acted as financial advisor to HL Precision Manufacturing, Inc.

FOCUS

Investment Banking



About FOCUS Investment Banking LLC

With more than three decades of experience, FOCUS Investment Banking is a trusted name in middle market M&A advisory services worldwide. Whether helping to sell, buy, or raise capital, FOCUS strives to maximize the value of every transaction for the benefit of its clients.

FOCUS' Advanced Manufacturing Team is one of the most experienced advanced manufacturing investment banking teams in the country. The combination of deep industry and operational experience, extensive market penetration, years of transaction experience, and a comprehensive approach to M&A provides our customers with customized strategies tailored to meet each client's objectives.

Securities transactions conducted by FOCUS Securities LLC, an affiliated company, registered Broker Dealer member FINRA/SIPC. For more information, visit <https://focusbankers.com/advanced-manufacturing/>.

© 2023 FOCUS Investment Banking LLC

To explore how the FOCUS Advanced Manufacturing team can help your business,
please contact John Slater or Jorge Maceyras

JOHN SLATER
Managing Director & Team Leader
john.slater@focusbankers.com
901-230-5062

JORGE MACEYRAS
Managing Director
jorge.maceyras@focusbankers.com
202-643.2569