



# PRECISION MACHINING AND METAL FORMING

A ROBUST M&A MARKET FOR COMPANIES  
FOCUSED ON AEROSPACE AND DEFENSE  
AND OTHER MISSION-CRITICAL  
INDUSTRIES

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## Introduction

While not completely immune from broader macroeconomic risks, M&A activity and appetite in the A&D middle market has continued to be very healthy. This trend is expected to continue as the industry has proven to not only be resilient to the recession but is also demonstrating above-average growth rates. The unfortunate reality of rising geopolitical tensions has led to increasing defense budgets which has, in turn, provided significant stability to supply chains in recent years. At the same time, commercial aircraft orders and delivery rates are once again providing both strong future demand visibility and growth.

Acquirers, particularly private equity investors, are increasingly drawn to the A&D middle market, a landscape rich with contract manufacturers with compelling investment characteristics and strong profit margins even without traditionally defined intellectual property. Sellers in the sector can be rewarded with premium multiples as buyers seek to acquire multiple smaller entities and build a larger supplier with diverse capabilities, customers, and locations. While this thought piece places emphasis on the aerospace and defense market, many of the same dynamics also exist in other mission-critical industries such as medical, semiconductor, and robotics. In fact, it is not unusual for suppliers with primarily an A&D lineage to manufacture parts for these markets and vice versa.



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## Defining the A&D Precision Machining and Metal Forming Landscape

Traditional precision machining operations include CNC milling and turning, typically from billet (bar, tube, plate, sheet, extrusions, etc.) or near-net-shape castings or forgings. Beyond traditional milling and turning, additional methods of metal forming include electro-discharge machining (EDM), grinding, deep draw stamping, metal spinning, hydroforming, stretch forming, superplastic forming, and electroforming, among others. 3D printing also continues to advance in the industry, particularly within space, rocket, and missile markets. Metals used in A&D and other mission-critical end markets range from aluminum and stainless steel to titanium, magnesium, beryllium copper, nickel, bronze, and various high-temperature alloys. The use of unique manufacturing methods and metals is a result of the complex designs, shapes, thicknesses, and tolerances often associated with A&D and other mission-critical end markets. Components often must endure exposure to extreme temperatures, harsh environments, and long life cycles, all while maintaining a high strength-to-weight ratio. In many cases, parts manufacturers are also managing a supply chain of outside processing and metal finishing companies, each with their own specialties, such as welding, brazing, honing, shot-peening, blasting, heat-treating, anodizing, passivating, chemical milling, plating, testing, painting, and coating.

Most activities throughout the A&D supply chain are governed by AS9100, Nadcap, or customer-specific certifications. Similar quality certification requirements also exist within medical (ISO13485) and other markets. The difficulty in obtaining certifications and expertise in such a wide variety of niche manufacturing and processing methods has understandably led to the development of a large and fragmented supply chain, particularly since A&D is a lower volume and higher mix environment relative to other industries. This creates an opportunity for small and medium-sized companies to become centers of excellence within their respective domains.

### The Universe of Sellers is Large

AS9100 is a widely adopted and standardized quality management system for the aerospace industry, which is achieved on a facility/location level basis. According to IAQG, there are more than 9,000 AS9100 facilities in the United States. Highlighting select clusters of U.S. aerospace manufacturing, the top ten states by number of AS9100 facilities is below:

**Figure 1: AS9100 Facilities by Select States**



The AS9100 facilities highlighted in the figure above include companies of all sizes, ranging from very small privately-owned companies to each AS9100 facility of large public companies. The focus of this thought piece is on the middle market, itself a subjective term with no uniform definition. GCG's perspective is formed by the significant universe of buyers interested in companies with EBITDA between \$3M and \$25M. Below \$3M, a seller can still attract buyer interest, particularly as an add-on to a buyer consolidation strategy, however, the criteria for strategic fit will be much higher if the EBITDA is not meaningful in relative contribution to the size of the buyer. Exceptions, of course, exist for even the smallest companies that are truly unique, differentiated, and anticipating significant growth. In the \$3M-\$10M EBITDA range, however, sellers will begin to be viewed as large enough to be considered as a stand-alone investment and potentially the beginning of a new platform consolidation thesis.







In the \$10M-\$25M EBITDA range, demand and valuation multiples increase. The same is true for companies with EBITDA of \$25M+, however, the universe of buyers begins to decrease. Generally speaking, small companies typically get acquired by medium companies, which are in turn acquired by large companies, of which there are customarily fewer and fewer. The “middle market” (here, \$3-\$25M EBITDA) is not only typically associated with privately owned companies but also represents the highest level of M&A activity by volume.

### The Middle Market Buyer Universe is Dominated by Private Equity

The primary buyer universe for middle market precision machining and metal forming companies is dominated by private equity investors. While transactions involving publicly traded aerospace and defense buyers occasionally occur from time to time, their appetite is often driven only by protecting a threatened aspect of their supply chain. Tier 1 and 2 A&D suppliers are much more focused on pursuing companies with engineering/design authority and intellectual property. Privately owned companies (without private equity sponsorship) also exist as potential buyers, however, this is more common for smaller transactions, as most private companies do not have the access or desire to deploy capital toward larger acquisitions.

This leaves private equity investors (including family offices) as the primary buyer audience, many of whom operate as strategic buyers through existing portfolio companies. GCG maintains extensive relationships and regular dialogue with hundreds of private equity investors who are interested in acquiring middle market companies operating in aerospace and defense and other mission-critical industries, a snapshot of which is below. Notwithstanding the high level of overall interest and activity, however, it remains critical to find the right match between buyer and seller.

### Figure 2: GCG Market Perspective of Private Equity Investors with Demonstrated Interest in A&D Precision Machining and Metal Forming

	Private Equity Portfolio Companies with <b>\$25M+ EBITDA</b>	<b>25+</b>
	Private Equity Portfolio Companies with <b>\$10M-\$25M EBITDA</b>	<b>30+</b>
	Private Equity Portfolio Companies with <b>\$3M-\$10M EBITDA</b>	<b>50+</b>
	Additional Private Equity Firms with Interest in New Platform Acquisitions	<b>200+</b>



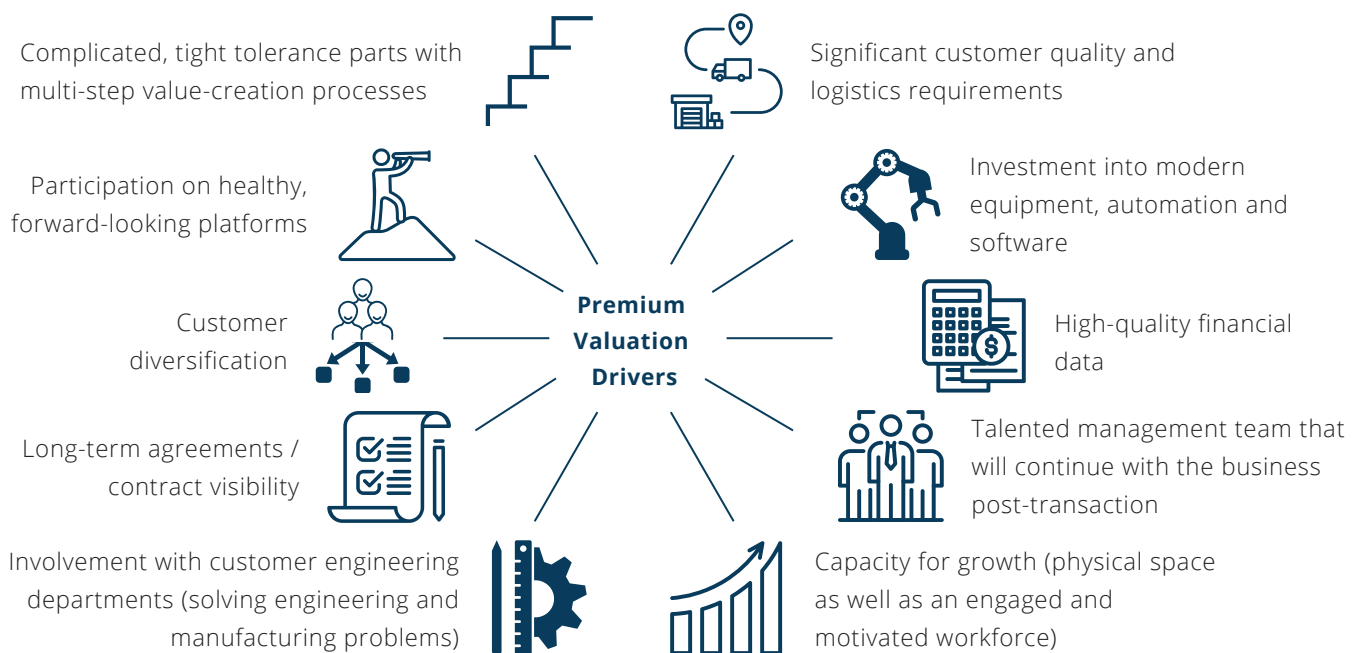
### What are Buyers Looking for?

With so many machine shops/precision metal forming companies in the United States, it could be easy to assume there is little differentiation, compressed margins, and discounted valuations. To the contrary, GCG observes significant variation in capabilities, sophistication, and profit margins in the A&D middle market. There are several drivers to above-average profitability which coincide with the characteristics that discriminating buyers are looking for in acquisition targets.

Complicated, tight tolerance parts which are manufactured with high levels of automation and multi-step processes (including assembly) typically command enhanced margins and buyer interest. Similarly, managing a supply chain of processing, metal finishing, or testing companies (or having these capabilities in-house) as part of the value creation process also creates a barrier to entry that is less easily penetrated.

Additional characteristics which typically drive valuation premiums are highlighted below.

**Figure 3: Key Characteristics Which Drive Valuation Premiums**



### **What are Sellers Looking for?**

While valuation and other key terms are clearly important in an M&A transaction, sellers are also often driven by a broader set of objectives related to business continuity, support, and growth. This may go beyond simple succession planning. It is not uncommon for privately owned businesses to feel they have reached an inflection point where additional growth may require greater resources, not just in capital but rather the development of (or participation with) a broader executive leadership team and infrastructure. Most often, this tends to relate to business development, human resources, finance, and administrative functions. The idea of becoming part of a larger organization that is focused on supporting individual locations through access to these functions, an enhanced ability to attract talent, and cross-selling of customers and capabilities can be very compelling. An M&A transaction can also provide significant upside to non-shareholder members of the management team through equity incentive plan participation with a private equity investor.



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### **What are Buyers Looking to Accomplish?**

As would be expected from a large buyer universe, there is diversity with respect to M&A strategies, however, most tend to relate to size, scale, or diversification. Some buyers are “pure-play” A&D system consolidators, focusing only on aerospace engine components for example, but not aerostructures or engineered systems (electro-mechanical, hydraulic, fuel, etc.). These participants seek enhanced size and scale primarily within their current customer base. Others are interested in all aspects of A&D manufacturing.

There are also non-A&D-focused companies (medical, semiconductor, robotics, etc.) that are interested in acquiring A&D centers of excellence and vice versa (A&D companies interested in diversifying into those industries). Still, other buyers pursue an approach across a much broader set of industries, with a clear focus on achieving wide-scale diversification of industries, customers, capabilities, and locations, as well as emphasizing cross-selling and operating efficiencies. All else being equal, achieving size, scale, and diversification through multiple acquisitions has proven to be a successful private equity investment strategy, as it typically leads to EBITDA multiple expansion.

## IN CONCLUSION

With healthy A&D tailwinds and a robust universe of middle market buyers and sellers, M&A activity is expected to continue to be strong for well-positioned companies in the precision machining and metal forming sector. If you are a business owner and would like to learn more about current market conditions, valuation multiples, and the GCG sale process, or if you are a prospective buyer and wish to learn more about future GCG sale mandate opportunities, please reach out to Peter Frankfort for a more detailed discussion.



### Peter Frankfort

Managing Director  
45 East Washington Street  
Suite 102  
Chagrin Falls, OH 44022  
Direct: (216) 245-6698  
pfrankfort@greenwichgp.com

### Relevant Transaction

A graphic with a black border containing the following text and logos from top to bottom: D&amp;R MACHINE COMPANY logo; the text "has been acquired by"; the CADREX MANUFACTURING SOLUTIONS logo; the text "a portfolio company of"; the CORE INDUSTRIAL logo; the GREENWICH CAPITAL GROUP logo; and the text "GCG served as the exclusive financial advisor to D&amp;R Machine".

## ABOUT US



Greenwich Capital Group LLC ("GCG") is a leading investment bank that advises clients including closely-held and family-owned businesses, private equity firms, and public companies. GCG's senior bankers have collectively advised on hundreds of transactions over many years of experience in mergers and acquisitions, with most having backgrounds with large U.S. and global firms. GCG is focused on advising clients in key industry verticals throughout the U.S.

GCG was founded by entrepreneurially minded investment banking professionals focused on building an organization centered around advising clients. We strive to build relationships by representing our clients' long-term interests and earning their trust. In contrast to the practice of pushing transaction responsibilities to junior resources, our philosophy is to deliver personalized, senior-level attention and experience to every GCG engagement. We are proud to offer references that will speak to a differentiated level of service and results.