2021

FOCUS Investment Banking

PRECISION METALWORKING INDUSTRY REPORT

FOCUS Investment Banking

A Leading Middle Market Investment Bank

FOCUS
Investment Banking

CONTENTS

Meet the Precision Metalworking Team

03

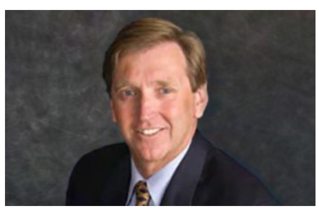
FIRM PROFILE

- Leading middle market investment bank since 1982; serving clients from $10-$300M
- Named #1 Middle Market Investment Bank by Axial
- Nationwide presence with 30+ bankers and 15+ staff and advisors
- 40 closed transactions in 2021
- Deep industry experience in targeted industry verticals
- 18 closed transactions in Precision Metalworking
- M&A Worldwide partner firm, providing FOCUS clients local expertise—globally

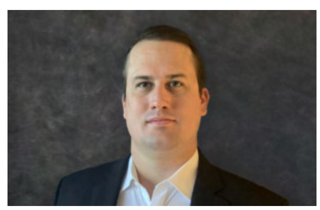
John Slater
Managing Director
Team Leader

Jorge Maceyras
Managing Director

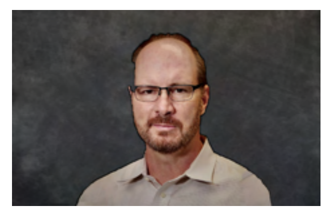
Brent Costello
Managing Director



Craig Ladkin
Managing Director

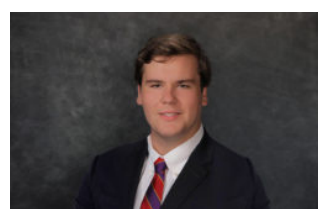


Alex Williams
Principal



Courtney Ryan
Senior Advisor

Alexandra Slater
Associate



Drew Morgan
Associate

WHY FOCUS

- Bankers have deep metal industry experience that optimizes our deal execution
- Customized approach that is tailored to meet each client's objectives
- All engagements are run by senior bankers
- Dedicated senior research team with premier research tools and databases, providing deep relationships with metals industry operators and investor knowledge of transaction valuations
- Proven track record of success with strong references

04 Market Highlights

I'm a fan of the sword and sorcery movie genre. Every story is pretty much the same: the handsome young hero pulls a magic sword from the stone and then marshals the kingdom to help rescue a beautiful damsel in distress from an army of nasty ogres and dragons. But there's always something missing. Where's that blacksmith who forged that sword?

Without the swords, arrowheads, spearpoints, and armor, the kingdom is lost.

Our heroes are the modern equivalent of the smithies of old. This newsletter champions the Precision Metalworking Industry. Your tools have changed, but your purpose and importance remains the same; without you, Advanced Manufacturing, the backbone of American industry, would not exist.

Instead of hammers and forges, you use CNC mills, robotic cells, and sophisticated software to help build today's weapons of war, from the foot soldier's laser-guided rifle to hypersonic missiles and robotic warships. You also help build the products of peace, including my titanium hips, and without your critical components the EVs and sustainable power plants of tomorrow could not exist. Your parts will be there as humanity increasingly leaves Earth to populate the solar system and beyond. What hasn't changed is that we still depend on talented men and women without whom none of this is possible.

FOCUS has a dedicated team of seven professionals committed to advocating your industry. In this newsletter and those to follow, you'll learn about the deal activity that is driving rapid consolidation of the metalworking industry as well as our advice on how you can better prepare for this environment by making your companies more productive and more valuable to potential acquirers. We'll cover both the big trends listed below that are impacting metalworking today and the stories of supporters who are driving the industry forward.

- Consolidation
- Automation
- Reshoring
- Data driven increases in productivity and margins

John Slater, Team Leader – Advanced Manufacturing

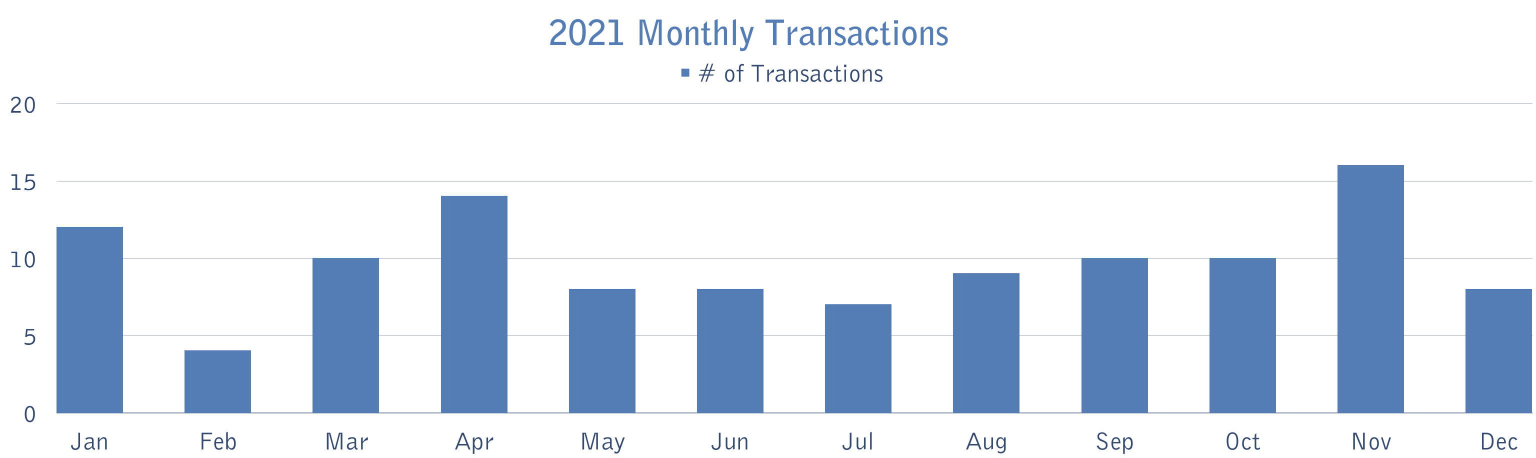
05 Transaction Activity

To better serve you when the need arises, our team continuously commits significant resources to knowing:

- *Who buys precision metalworking firms and why?*
- *What transactions are taking place in the industry?*
- *What are the big trends impacting value?*
- *What are industry players worth in the current market?*

Representative Transactions

Our data shows 121 transactions completed in precision metalworking in 2021. Certainly, there were more that received no publicity and aren't tracked in our databases.



Source: CapIQ and FOCUS research

The manufacturing industry is in a period of rapid consolidation, and we expect that trend to accelerate over the next few years given the number of new investors now targeting the industry.

TOTAL ENTERPRISE VALUE/EBITDA - MANUFACTURING M&A TRANSACTIONS

TEV ($USD M)	2003 - 2016	2017	2018	2019	2020	2021*	Total	N =
10 - 25	5.5	6.1	6.4	5.6	5.9	5.9	5.6	679
25 - 50	6.0	6.1	6.1	6.3	6.6	6.8	6.1	508
50 - 100	6.6	7.8	8.3	6.9	7.7	8.0	7.0	351
100 - 250	7.1	8.2	8.1	8.9	7.4	7.9	7.6	154
Total	6.0	6.8	6.9	6.5	6.7	7.0	6.2	
N =	1130	118	96	131	122	95		1692

Please note that N for 2003 - 16 encompasses fourteen years of activity.
*Annualized number as of November 2021.
Excludes earnouts. N = number of transactions

Source: GF DATA

06 Industry Trends

2021's transaction activity reflected some major trends of note.

Trend 1: New Capital for Private Equity Consolidation

In 2015 we completed the sale of our client Smiths Machine to ARCH Global Precision (ARCH), at the time one of a very few private equity-backed acquirers of precision metalworking firms. Through a series of 10 total transactions, four of which were sourced by FOCUS, ARCH built ARCH Precision Components (APC) into a multi-plant leader in high precision components targeting Aerospace and Defense.

In 2021 Madison Dearborn Partners saw the opportunity for continued growth and deployment of significant capital, acquiring APC (now ALIGN PRECISION) from ARCH. ARCH has continued to grow its ARCH Cutting Tools and ARCH Medical Solutions divisions through multiple additional acquisitions, including the summer 2021 purchase of our client VfD Technologies. For more details check out the case study at page 10.

Since 2015 numerous private equity groups have emulated ARCH's success in pursuing buy-and-build strategies in precision metalworking. Our Sponsor Relationships Team has identified 45 institutional investment groups currently pursuing buy-and-build strategies in precision metalworking.

Trend 2: Public Capital

2021 saw multiple public company acquisitions in the metalworking sector as well, highlighted by deals in Aerospace & Defense and Semiconductors, reflecting strong equity market valuations in those favored industries. Highlights include:

- Heico Flight Support Group's acquisition of Ridge Engineering and Bechdon
- Ichor Systems' acquisition of semiconductor supply chain firm IMG

Trend 3: Customer Segment Focus

Activity was particularly strong for companies focused on serving specific industries, particularly A&D as reflected above. Other transactions of note include:

- Crestview Aerospace's acquisition of Kemco Aerospace Manufacturing
- Angeles Equity Partners' acquisition of Primus Aerospace

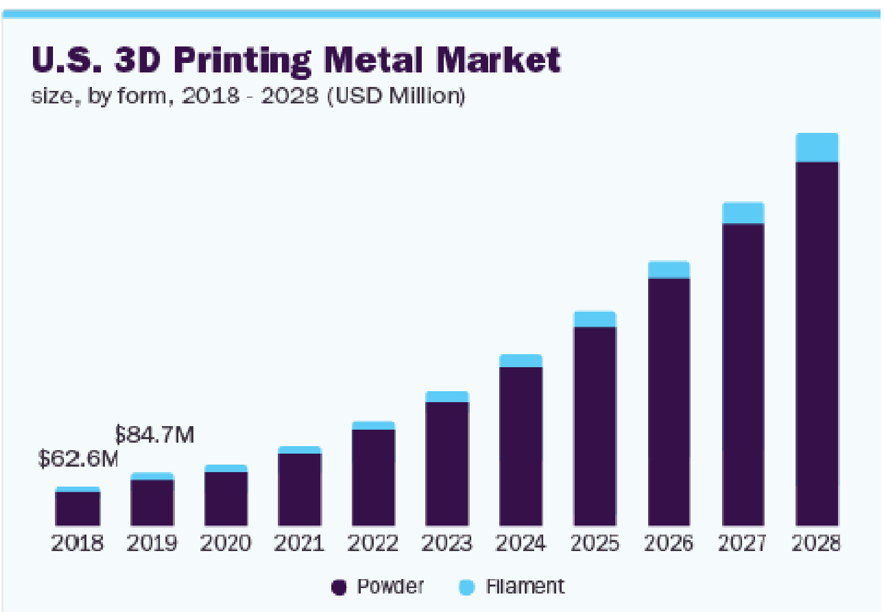
07 Industry Trends (cont.)

Trend 4: ESOP

Skilled labor shortages remain one of the major trends impacting the industry. Utilizing employee ownership as an incentive for engagement and retention, ESOP holding company Empowered Ventures acquired Firstar Precision.

Trend 5: Additive and Digital Direct Manufacturing

New technologies driven by Additive Manufacturing (3D Printing) and the use of digital networking tools have long been considered the "next big thing" in manufacturing. Most metalworking observers have thought that application of these technologies at scale in metalworking was likely on the far horizon.



Source: www.grandviewresearch.com

24.3%
U.S. Market CAGR
2021 - 2028

Based on some significant 2021 transactions that may be changing. Below are some key transactions we observed:

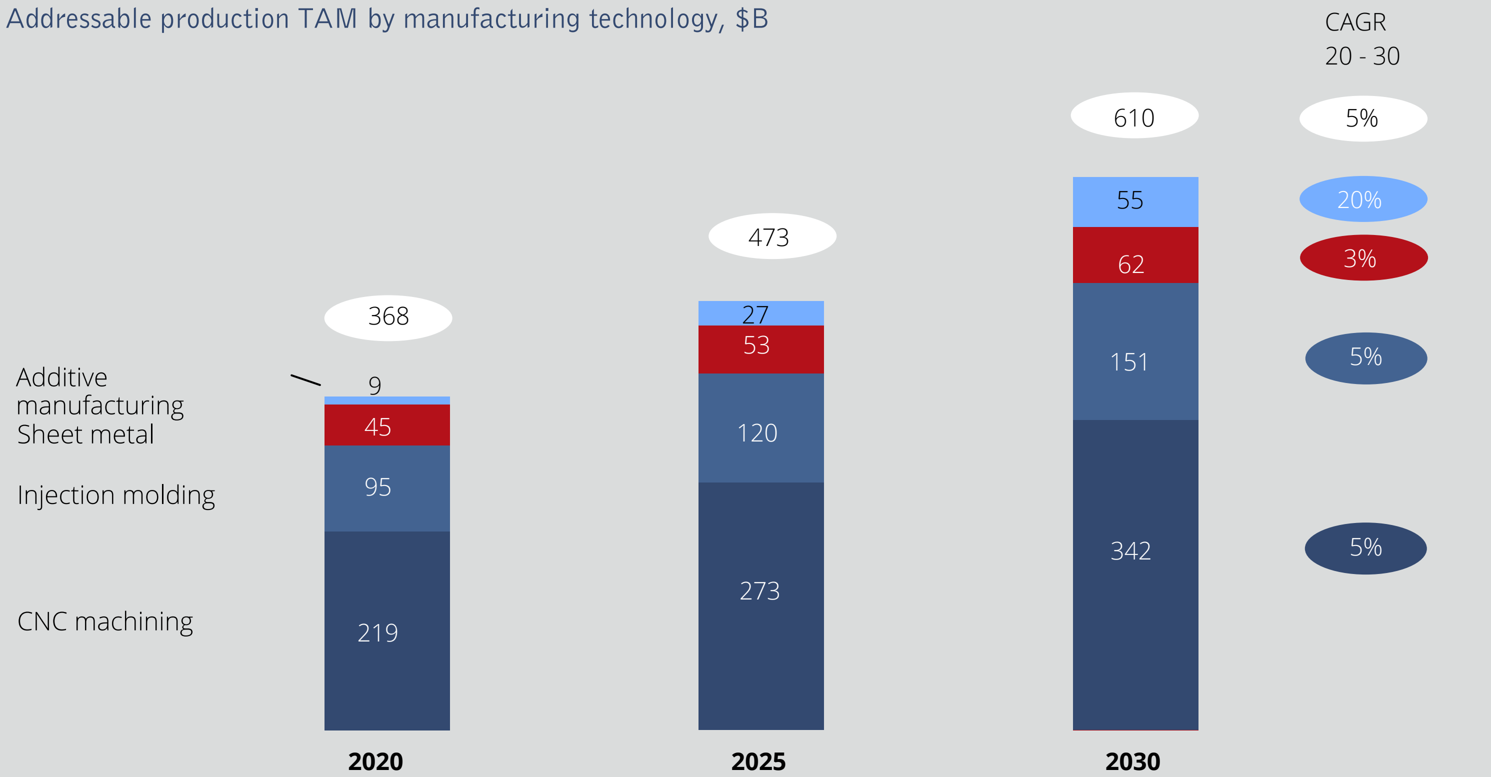
- CORE Industrial Partners' portfolio company Incodema acquired several high precision metalworking companies, including FOCUS client Micropulse West, immediately merging the acquired companies into another additive-focused portfolio company to form FATHOM Digital Manufacturing. FATHOM has since gone through a SPAC merger and trades as FATH on the NYSE.
- In December 2021, additive manufacturing firm ADDMAN Engineering, backed by American Industrial Partners, acquired Domaille Engineering to increase its capabilities in traditional Aerospace & Defense machining.

08 Industry Trends (cont.)

- Several other firms with heavy presence in Precision Machining are combining those capabilities with additive and digital technologies, including:
  - Protolabs, which trades on the NYSE as PRLB, acquired 3D Hubs in January 2021. 3D Hubs manages a network of precision manufacturing suppliers offering metalworking, additive manufacturing, and other manufacturing capabilities globally.
  - Xometry, which maintains a network of additive and machining providers similar to Protolabs, conducted a traditional public offering in July 2021 and trades on NASDAQ as XMTR.

Our addressable market is $350B+ today and expected to grow to $600B+ by 2030

Addressable production TAM by manufacturing technology, $B



Source: 2021 Fast Radius., Inc.

Source: "3D Printing and Additive Manufacturing Global State of the industry" Wohlers Reports (2020), with addressable subset and projects as estimated by third-party market study
"Injection Molded Plastics Analysis and Segment Forecasts to 2027" Grand View Research (2020), with addressable subset and projections as estimated by third-party market study
"Category Intelligence on Machining" Beroe (2020)", with addressable subset and projections as estimated by third-partry market study
"Metal Stamping Market Analysis" Grand View Research (2020), "Global Metal Stamping Market 2020 - 2027" Acumen Research (2020)", with addressable subset and projections as estimated by third-party market study

CONCLUSION:

Buyers have been particularly attracted to precision metalworking firms serving customer segments demanding a high level of parts precision and product complexity as well as those pushing the envelope in terms of the technologies they deploy. Certainly, however, many sellers serving more traditional industrial markets have found homes as well. Going forward we anticipate investor demand expanding beyond precision machining into other metalworking disciplines such as welding, cutting, forming, and finishing that are being increasingly impacted by the need for substantial capital investment in digitization, automation and high dollar equipment upgrades. That number has grown substantially over the past three years and we see signs that growth is continuing.

09 Our Work

H3 Manufacturing engaged FOCUS on the Sell-Side

"John Slater and Jorge Maceyras with FOCUS Investment Banking expertly coordinated a process that generated significant interest in my company from the market. The ultimate result of that process yielded a positive outcome for me personally and professionally as well as for the employees of HL Precision Manufacturing and its enduring future in an increasingly consolidating industry. Our deal combined elements of a merger, sale, and acquisition all resulting in the formation of a new parent company, H3 Manufacturing Group, LLC which now owns both HL Precision as well as Hi-Grade Welding & Mfg. The work done by the FOCUS team was disciplined, very well documented, and portrayed HL Precision in an accurate and attractive manner. I would very much recommend FOCUS to other business owners and CEOs looking to take their company to market and/or seek strategic partners for their road ahead."

Steven C. Hillard, President & CEO – H3 Manufacturing Group

Micropulse engaged FOCUS on the Sell-Side

"The FOCUS team was honest and transparent right from the beginning. John Slater's knowledge of our industry, along with his team of analysts, made the transition almost seamless. The process was thorough and well planned out – we moved from LOI to close in 60 days! I would highly recommend FOCUS Investment Banking for any transactions in the sectors they service."

Joe Tripi, CEO – Micropulse

10 Case Study

Three precision machining subsidiaries of VfD Technologies, Inc., a technology intensive manufacturer, have been acquired by ARCH Global Precision, a company that manufactures high-quality cutting tools and medical instruments. FOCUS initiated this transaction and advised VfD throughout the process. This case study highlights the unique process of this transaction.

PROCESS

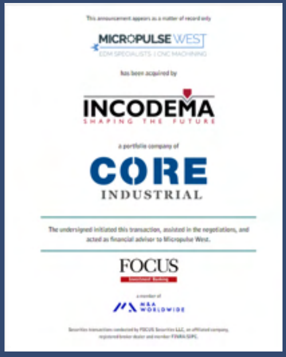
FOCUS previously assisted VfD in its acquisition of Isimac Manufacturing Company, Inc. After working with FOCUS to evaluate various strategic and financial options, VfD determined that the best fit for its precision machining subsidiaries – adding significant value to VfD – was a strategic sale, resulting in our arranging the combination with the ARCH Medical Solutions Company ("AMS") division acquired by ARCH Global Precision. Each of the VfD subsidiaries specializes in precision contract manufacturing for the medical device industry, with added expertise in machining robotic end-effectors for specialty robotics and factory automation applications.

RESULTS

The new acquisitions enhance AMS's strong existing base of operations as an industry-leading supplier known for growth and scale in the medical products market. With our team's deep knowledge and understanding of the precision machining industry, we were able to introduce ARCH to VfD's subsidiaries making it clear this was the perfect fit. We were also able to support VfD's value creation efforts. Our team's approach to the buy-side assignment helped us to locate numerous qualified prospects, making this transaction a successful one.

11 Select Transactions

For a complete list of Advanced Manufacturing deals, please visit our website.

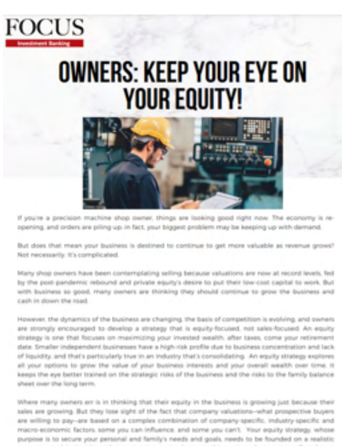


12 Industry Publications

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.

WELDING PRODUCTIVITY

PRODUCTION Machining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OWNERS: KEEP YOUR EYE ON YOUR EQUITY!

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 err is in 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

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/.

MID ATLANTIC REGION
FOCUS Investment Banking LLC
Headquarters
8065 Leesburg Pike
Suite 750
Vienna, VA 22182
202.785.9404
202.785.9413 (fax)

SOUTHEAST REGION
FOCUS Investment Banking LLC
Atlanta Office
3353 Peachtree Road NE
Suite 1160
Atlanta, GA 30326
404.504.8620
404.814.9141 (fax)

WESTERN REGION
FOCUS Investment Banking LLC
Los Angeles Metro Office
18012 Sky Park Circle
Suite 200
Irvine, CA 92614
213.943.1395
213.943-1397 (fax)