



CIBC CAPITAL MARKETS

MACHINING AND FABRICATION MARKET UPDATE

Winter 2024



Opening remarks

CIBC is pleased to present its US machining and fabrication market update. This update provides insights on the key themes that are currently driving a resurgence in North American manufacturing, the M&A market conditions for precision machining and metal fabrication companies, and our opinion of what's driving premium valuations.

2023 was a great M&A year for North American manufacturers that spent the "COVID years" investing in advanced manufacturing, more efficient processes, automated equipment, and expanding the breadth of the manufacturing services offered to OEM customers.

The forward thinking leaders have spent the last 5+ years capitalizing on numerous industry challenges (including supply chain disruptions, labor constraints, inventory rationalization, and higher interest rates) to achieve 10-40% annual revenue growth.

Many of these leading manufacturers have completed major expansion projects to support strategic OEM partnerships and they have experienced an easier time increasing their workforce than most employers because they are considered by employees to be an employer of choice.

We believe the future for North American manufacturing is bright and the M&A market remains receptive to high-quality manufacturers who are embracing automation and building integrated partnerships with their OEM customers.

CIBC notable transactions



has been acquired by



a portfolio company of



has been acquired by



has been acquired by



has been acquired by



a portfolio company of



has been acquired by



have been acquired by



CIBC Machining and Fabrication Team



Ryan Chimenti
Managing Director
ryan.chimenti@cibc.com
(414) 291-4531



Chris Larsen
Executive Director
christopher.larsen@cibc.com
(414) 291-4547



Mike Boedeker
Director
michael.boedeker@cibc.com
(414) 291-4544



Scott McCarthy
Associate
scott.mccarthy@cibc.com
(414) 615-5492

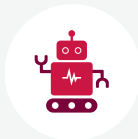
The resurgence of US manufacturing

Key themes and market observations



Expansion of strategic partnerships between key suppliers and OEMs are expanding

- OEMs are embracing suppliers as strategic partners to fill internal engineering and technical expertise voids and to promote a collaborative “culture of winning” for both suppliers and OEMs
- OEMs engineering and operations teams are managing strategic relationships previously controlled by purchasing and supply chain
- Manufacturers with advanced manufacturing capabilities are garnering materially higher margins than industry averages and receiving proprietary opportunities if they can provide OEMs with: 1) the ability to scale; 2) technical application and engineering expertise (“black art”); 3) speed (short development and lead times); 4) outstanding quality; and 5) consistent on-time delivery



Automation investments are fueling growth

- Investments have expanded capacity, improved safety, and freed up existing employees to innovate, improve efficiency, and grow
- Rapidly growing contract manufacturers are investing 25% of their annual capital expenditure budgets on automation tools to deliver improved quality, lead times, and capacity to scale to support new OEM outsourcing initiatives
- As reshoring trends continue, additional investment in automation will be required to compensate for persistent labor shortages and the growing skills gap



Reshoring and local production/local consumption appear to be sustainable

- The pandemic-driven global supply chain crisis has highlighted that OEMs need higher touch service and more face-to-face collaboration and interaction with their key suppliers
- Rising international tensions, wars, persistent tariffs, and port issues have highlighted the need for OEMs to shorten supply chains, bring manufacturing back to North America, or relocate production to countries more geographically and politically aligned with the US



Increasing private equity interest in precision machining and contract manufacturing

- Firms are investing significant resources in buy-and-build strategies focused on advanced manufacturing-minded machining and fabrication companies with value-added service models (“manufacturing as a service”)
- 2023 PE buy-and-build strategies are focused on end markets with predictable orders, visibility, and high margins such as aerospace and defense, medical, and aftermarket-focused infrastructure

Strategic partnerships with OEMs are expanding

Contract manufacturers are an integrated and essential partner to OEMs

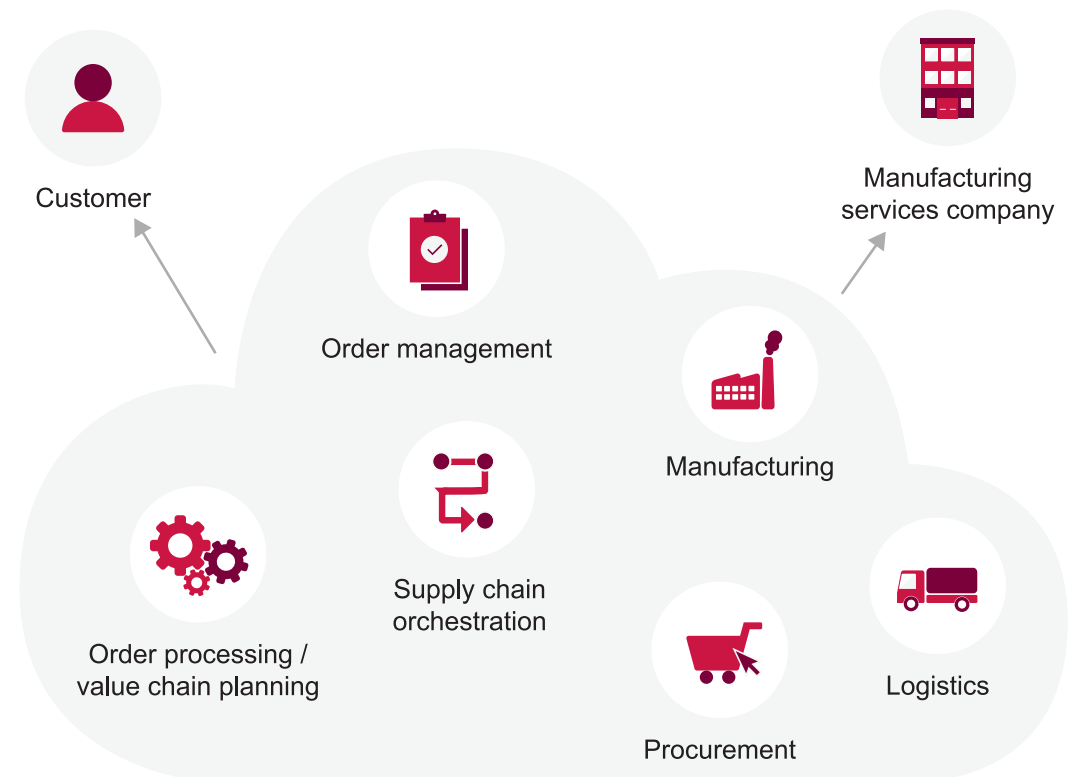
Attributes of high-growth advanced manufacturing partners

Capabilities	Broad and comprehensive (machining, laser, stamping, weld, paint all under one roof)
Engineering expertise	Know OEMs products better than the OEM and, often, own the IP
Customers	Customer rationalization strategies ("80/20 rule")
Strategic acquisitions	Proven acquisition platforms where each acquisition is accretive
Leadership	Deep team with empowered second layer of management



Fortune 1,000 companies are strategically aligning themselves with providers of outsourced manufacturing services to:

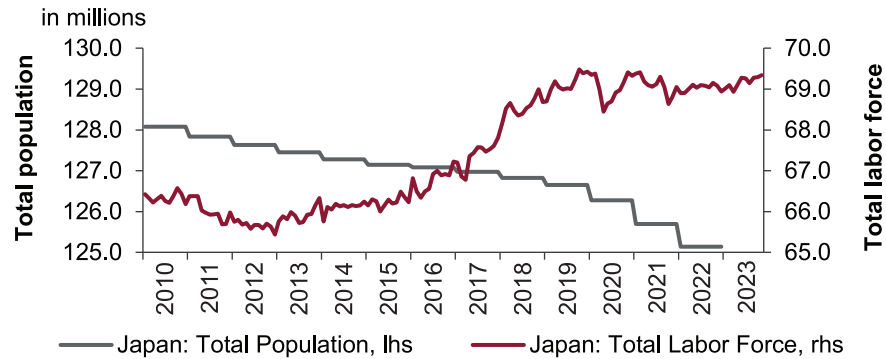
- Reduce investment in facilities, equipment, working capital, and employees
- Focus on marketing, sales, customer acquisition, and innovation
- Create flexibility and capacity to rapidly bring products to market and/or scale production
- Leverage key strategic partners investments in state-of-the-art capabilities and processes that improve quality



Automation investments are fueling growth

Rapid technology advancements and adoption of digitalization are driving margin growth and productivity gains in an era of rising costs, labor constraints, and increased demand from reshoring

Can Japan's automation success provide a roadmap for the US?



- Japan has been able to increase productivity despite a declining and aging population through persistent investments in automation
- Rapid advancements in industrial technology can fuel growth by increasing throughput and “lights out” manufacturing
- Productivity gains should lead to higher margins and cash flows to facilitate incremental capital investments in more automation

Case study: Robotics creating CNC operator and production efficiencies

Initial investment	Robot \$125,000	
Efficiency gained	Labor cost savings \$20,000	Cycle time savings \$45,000
Net payback	Net payback <2 years	Total efficiency gained 40%

- Automation implementation costs have significantly declined in recent years → More approachable for shops of all sizes and better ROI
- Increased investment in automation mitigates labor challenges and shortens cycle times → Shops with strong cultures are embracing labor/cobot collaboration
- Flexible, easy-to-move robots and cobots provide a low-cost, high ROI solution for high-mix shops and free up workers to innovate

Benefits of automation



Reduces cost with superior quality



Scalability to support growth



Lights-out manufacturing



Standardized processes promote consistency



Reusability and repeatability

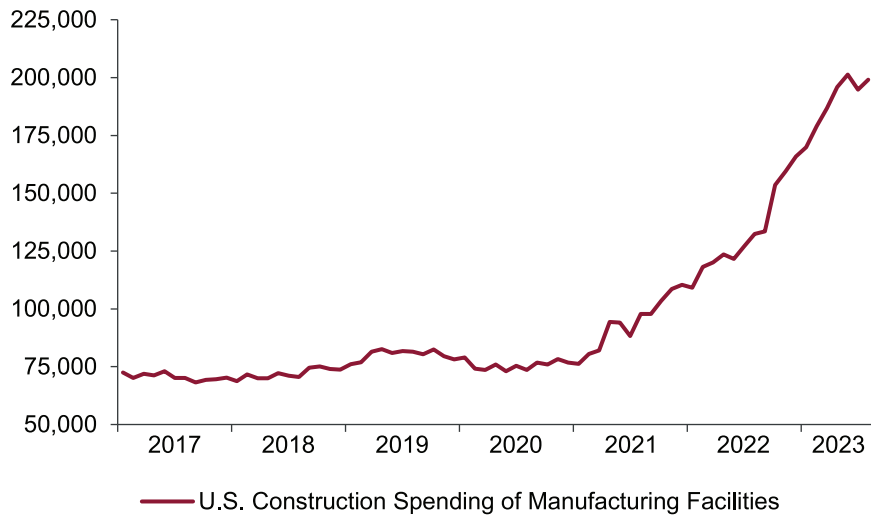
Sources: Macrobond, Bloomberg, as of 10/6/2023.

Reshoring trends appear to be sustainable

Even as supply chain disruptions abate, geopolitical instabilities spur continued investments to reshore or near-shore manufacturing operations

Strong investment in US manufacturing facilities continues

\$'s in millions



- Construction of US manufacturing facilities has accelerated post-pandemic, fueled by investments in semiconductor chip manufacturing and reshoring of supply chains
- Spend is expected to continue as investment in infrastructure persists through the rest of the decade

Factors driving reshoring



Engineering collaboration requirements



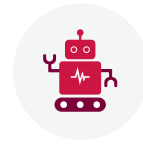
Higher quality



Shortened lead times



Supply chain bottlenecks



Improved cost position through automation



Geopolitical tensions



Persistent tariffs



Increasing labor costs in China

Sources: Macrobond, Census Bureau, Bloomberg, as of 10/6/2023.

Increasing private equity platform interest

Private equity is highly interested in pursuing contract manufacturers in high growth markets, with several large platform investments currently underway

Platform	PE sponsor	Primary end markets	Number of add-on acquisitions
	THE JORDAN COMPANY	Medical, other high-tech industries	>10
		Information & communication technology, aerospace & defense, warehouse automation, robotics, medical, gaming, industrials	
	One Equity Partners	Aerospace & defense, automation & robotics, building products, EV, food, lawn & garden, medical, semiconductor, solar power	5-10
		Aerospace & defense, medical, industrial, energy, telecommunications	
		Medical, life sciences, defense, transportation, robotics, telecommunications, energy	5-10
		Defense, industrial, engineered products, heavy truck, off-road equipment	
	AMERICAN INDUSTRIAL PARTNERS	Aerospace & defense, space, medical, energy, industrial	<5
		Medical	
	 	Aerospace & defense, automation, industrial, mining, medical, nuclear, oil & gas, power generation, semiconductor	<5
		Agriculture, defense, marine, lawn & garden, oil & gas, power generation, medical, industrial, fire & life safety, construction	
		Aerospace & defense, semiconductor, other high-tech industries	

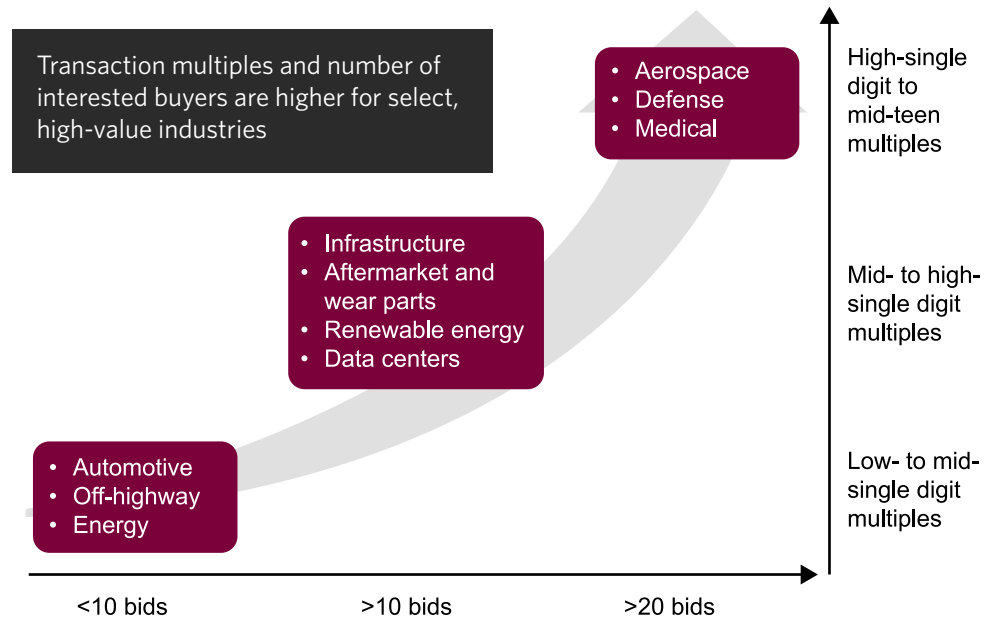
Sources: Capital IQ, publicly available information, and CIBC knowledge.

Business and financial drivers of premium valuations

Desirable characteristics and high growth end markets drive valuations above 10x

Value drivers

- ✓ Large, addressable, and recession resistant market
- ✓ Scalable, advanced manufacturing operations
- ✓ Technical knowledge and product differentiation
- ✓ Long-term, growing customer relationships
- ✓ Strong management team with the ability to scale
- ✓ Recurring or reoccurring revenue
- ✓ Strong gross (25-50%+) and EBITDA (20-50%) margins
- ✓ 3+ years of >10% "core" growth (unit vs. price)
- ✓ High free cash flow conversion (>85%) and high return on invested capital
- ✓ Proven organic and inorganic growth platform



Notable transactions

Date effective	Target	Acquiror	Target's business description
12/8/2023	Paragon Medical, Inc.	AMETEK, Inc. (NYSE: AME)	Manufactures surgical instruments, structures, and components
8/10/2023	Laser Precision	Weller Metalworks (LFM Capital)	Laser cutting, machining, forming, powder coating services
7/27/2023	Dynamac, Inc.	Cutting Edge Machining & Automation (Continuum Equity Partners)	CNC production milling and turning
7/13/2023	Precision Machine Products, Inc.	Gem Manufacturing Co., Inc. (CORE Industrial)	Specialty stamping and machining services
7/13/2023	Coining Technologies Inc.	Gem Manufacturing Co., Inc. (CORE Industrial)	Manufactures, engineers, and supplies precision metal components
7/1/2023	Mid-States Aluminum Corp.	Mayville Engineering Company, Inc. (NYSE: MEC)	Extrudes, fabricates, and anodizes a range of components
6/1/2023	ERA Industries, Inc.	L Squared Capital Partners	Precision machining services
5/3/2023	G. & V. Machine Co., Inc.	Manitowoc Tool and Machining, LLC (Summit Equity & Midwest Growth)	CNC machining services, including milling, turning, drilling, and grinding
5/1/2023	Muthig Industries, Inc.	Weller Metalworks (LFM Capital)	Sheet metal fabrication, stamping, and machining services
4/18/2023	Advantage Metal Products	Atelier D'usinage Megatech A.Q. Inc. (MiddleGround Capital)	Manufactures precision aerospace and defense components
2/28/2023	D&R Machine Company, Inc.	Cadrex Manufacturing Solutions (CORE Industrial)	Manufactures precision machined components
2/14/2023	Gem Manufacturing Co., Inc.	CORE Industrial Partners, LLC	Metal products, stampings, and mechanical assemblies
1/31/2023	Atelier D'usinage Megatech A.Q. Inc.	MiddleGround Management	Precision machining services
1/31/2023	Specialty Products Company	Momentum Manufacturing Group (One Equity Partners)	Precision CNC machining services
1/11/2023	Stanfordville Machine & Manufacturing, Inc.	RE3DTECH+GoProto (CORE Industrial)	Provides machining and sheet metal fabrication services

Sources: Capital IQ, publicly available information, and CIBC knowledge.

Notable transactions

Date effective	Target	Acquiror	Target's business description
1/9/2023	Lake Air Metal Products, LLC	P4G Capital	Sheet metal fabrication and machining services
12/31/2022	Alexander Machine & Tool Company, Inc.	George Industries LLC (Behrman Capital)	Machining, fabrication, and assembly solutions
12/2/2022	Cutting Edge Machining Solutions	Continuum Equity Partners	Precision machining services
12/1/2022	Nicholas Precision Works LLC	ARCH Medical Solutions Corp. (The Jordan Company)	Manufactures surgical cutting tools and precision medical instruments
11/30/2022	Manitowoc Tool and Machining, LLC	Summit Equity and Midwest Growth Partners	Precision machining services
11/30/2022	Pursuit Aerospace	Clayton, Dubilier & Rice, LLC	Manufactures precision aerospace components and assemblies
11/2/2022	HARBEC, Inc.	ADDMAN Engineering group (American Industrial Partners)	Manufacturer of tight tolerance precision 3D printed and machined components

Sources: Capital IQ, publicly available information, and CIBC knowledge.

This presentation and has been prepared by CIBC Capital Markets for discussion purposes only. The information contained in this document is strictly confidential and furnished to you solely for your benefit and internal use only. CIBC Capital Markets expressly disclaims any liability to any other person who purports to rely on it. These materials may not be reproduced, disseminated, quoted from or referred to in whole or in part at any time, in any manner or for any purpose, without obtaining the prior written consent of CIBC Capital Markets in each specific instance.

The materials described herein are provided "as is" without warranty of any kind, either express or implied, to the fullest extent permissible pursuant to applicable law, including but not limited to the implied warranties of merchantability, operation, usefulness, completeness, accuracy, timeliness, reliability, fitness for a particular purpose or non-infringement. The information and data contained herein has been obtained or derived from sources believed to be reliable, without independent verification by CIBC Capital Markets, and we do not represent or warrant that any such information or data is accurate, adequate or complete and we assume no responsibility or liability of any nature in connection therewith. CIBC Capital Markets assumes no obligation to update any information, assumptions, opinions, data or statements contained herein for any reason or to notify any person in respect thereof. The information and any analyses in this presentation are preliminary and are not intended to constitute a "valuation," "formal valuation," "appraisal," "prior valuation," or a "report, statement or opinion of an expert" for purposes of any securities legislation in Canada or otherwise. This printed presentation is incomplete without reference to the oral presentation, discussion and any related materials that supplement it.

The services, securities and investments discussed in this document may not be available to, nor suitable for, all investors. These materials do not (nor do they purport to) disclose all the risks and other significant issues relating to any of the securities, products or financial instruments described herein or any transaction related thereto. Nothing contained herein constitutes financial, business, legal, tax, investment, regulatory or accounting advice. Prior to making any investment in a product or financial instrument described herein, you should make your own appraisal of the risks from a financial, business, legal, tax, investment, regulatory and accounting perspective, without relying on the information contained herein, by consulting, if you deem it necessary, your own advisors in these matters or any other professional advisors. CIBC employees are prohibited from offering to change or otherwise influence any research report, rating or price target to any company as inducement for the receipt of any business or compensation.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC World Markets plc) provide products and services to customers around the world. In the US, CIBC Capital Markets also provides investment banking services under the trademark brand name CIBC Cleary Gull. Securities and other products offered or sold by CIBC Capital Markets are subject to investment risks, including possible loss of the principal invested. Each subsidiary or affiliate of CIBC is solely responsible for its own contractual obligations and commitments. Unless stated otherwise in writing, CIBC Capital Markets products and services are not insured by the Canada Deposit Insurance Corporation, the Federal Deposit Insurance Corporation, or other.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

