

# MACHINING AND FABRICATION MARKET UPDATE

March 2025



# Opening remarks

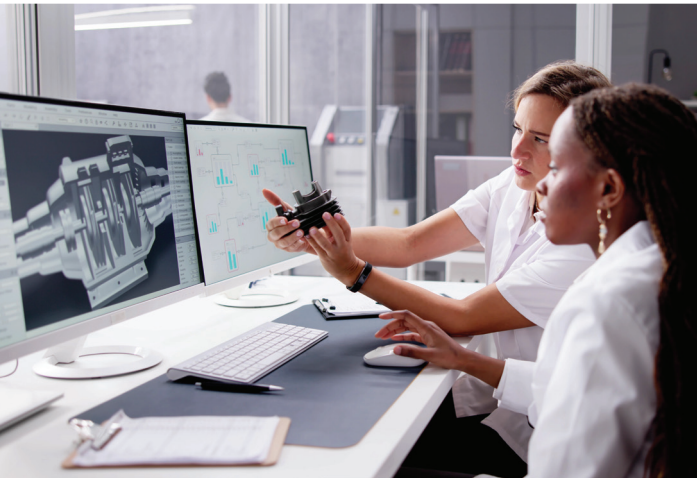
CIBC is pleased to present its US Machining and Fabrication market update, which provides insights on: 1) our outlook for 2025 and the key end markets that power North American manufacturing; 2) an update on the inventory rationalization that affected most companies during the past 18 months; 3) the factors that continue to drive premium valuations; and 4) recent M&A transactions.

2024 was a year of bifurcation: North American manufacturers that serve high-growth industries experiencing long-term, sustainable growth and positive tailwinds (e.g., aerospace & defense, space, and data center) grew volume, while those serving more cyclical industries (e.g., agriculture, automotive, and capital equipment) muddled through choppy orders, inconsistent backlogs, and murky customer forecasts.

As the calendar turns to 2025, most OEMs are returning to normal purchasing cycles after their 2023–2024 inventory rationalization efforts. While we have yet to see volumes consistently grow across all end markets, volumes have stabilized, albeit at levels lower than pre-2023, with only select markets experiencing record demand. That said, the fast-evolving tariff landscape, particularly with North American trading partners, has created economic uncertainty, clouded the outlook for several markets, and has frozen investment as manufacturers are fearful to expand capacity, invest in machinery, or nearshore raw material or component supply chains to Mexico and Canada without knowing the final policies. Tariffs have the potential to create opportunities for several domestic manufacturers and drive investment in key sectors but can also be disruptive for industries with integrated North American supply chains, such as the automotive sector.

Transaction volume has declined based on company performance issues in 2024, but buyers are still receptive to pursuing “A” companies that are embracing automation, retaining strong margins, and serving growing end markets. Competition and valuations for these assets is still strong, but at slightly lower multiples than 2023.

Despite some divergence in end markets, we believe the future of North American manufacturing remains bright supported by several tailwinds (reshoring, tariffs, automation and new technological advancements, demand for precision components, and the strategic shift to locally-based specialty manufacturing) driving a long-term, sustainable growth trajectory for strategic suppliers.



# CIBC notable transactions

|  |   |  |   |   |
|--|---|--|---|---|
|  <p>has been acquired by</p>   |  <p>a portfolio company of</p>    <p>has been acquired by</p>  |  <p>has been acquired by</p>                   | <p>STEELCRAFT<br/>has been acquired by</p>  <p>a portfolio company of</p>   |  <p>has been acquired by</p>    |
|   <p>have been acquired by</p>   |  <p>DRT Holdings, Inc.</p> <p>has acquired</p>    |  <p>DRT Holdings, Inc.</p> <p>has acquired</p>  |  <p>a portfolio company of</p>  <p>has been acquired by</p>   |  <p>has been acquired by</p>  <p>in partnership with<br/>management</p> |

## CIBC Machining and Fabrication team



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



Christopher Larsen  
Managing Director  
[christopher.larsen@cibc.com](mailto:christopher.larsen@cibc.com)  
414 291-4547



Mike Boedeker  
Director  
[michael.boedeker@cibc.com](mailto:michael.boedeker@cibc.com)  
414 291-4544



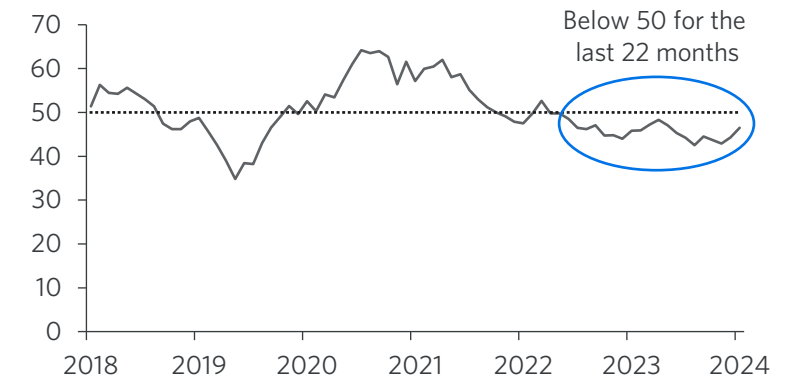
Scott McCarthy  
Associate  
[scott.mccarthy@cibc.com](mailto:scott.mccarthy@cibc.com)  
414 615-5492

# Completion of inventory rationalization sets state for growth rebound

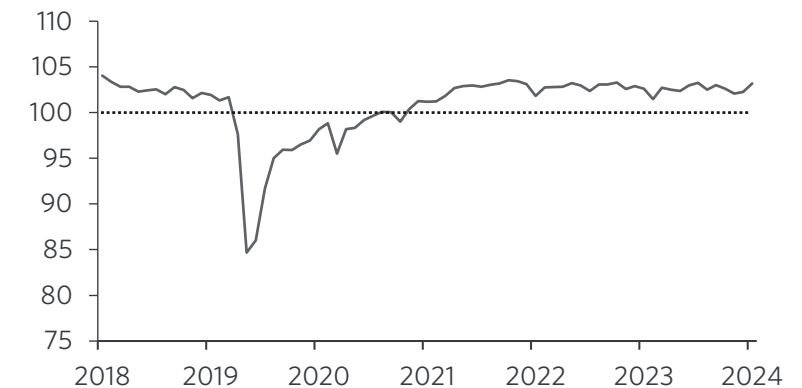
Production volumes experienced a slowdown across most sectors during the latter half of 2023 and the first half of 2024. This decline was primarily attributed to pandemic-induced overstocking and sector-specific recessions. However, by the second half of 2024, these volumes began to stabilize, positioning the industry for growth in 2025.

|                              |  |
|------------------------------|--|
| <p><b>Q1 2020</b></p>        | <p><b>The outbreak of COVID-19 caused shockwaves across US manufacturing</b></p> <ul style="list-style-type: none"> <li>Companies initially halted production, furloughed employees and braced for recession</li> <li>Swift government stimulus and resurgent consumer demand spurred manufacturers back into action</li> </ul>  |
| <p><b>H2 2020 - 2022</b></p> | <p><b>Global supply chain disruptions drive production</b></p> <ul style="list-style-type: none"> <li>Manufacturers began to reshore and “near-shore”</li> <li>Consumer hoarding and excess savings ramped activity in nearly all end markets</li> <li>Manufacturers responded by increasing capacity</li> </ul>   |
| <p><b>H2 2023</b></p>        | <p><b>Recession fears ground production to a halt</b></p> <ul style="list-style-type: none"> <li>OEM inventory swelled, bookings declined as inflation normalized, and orders slowed to their lowest levels in years as OEMs burned off excess inventory</li> <li>Metal fabricators and precision machine shop revenues declined; margin pressure increased as some suppliers “chased” volume</li> </ul>   |
| <p><b>H2 2024</b></p>        | <p><b>No recession → “Game on” for most industries in 2025</b></p> <ul style="list-style-type: none"> <li>After avoiding a broad recession and with inventories mostly normalized post-pandemic boom, orders resumed at the end 2024</li> <li>We anticipate the Precision Machining Business Index returning to growth in Q1 2025</li> <li>After investing in automation and upskilling their “A” players, manufacturers have capacity and are poised to capitalize on resurgent demand</li> </ul> |

Precision Machining Business Index



Industrial production



Sources: Gardner Intelligence and Federal Reserve Economic Data.

# 2025 outlook

While the effects of the 2023-2024 industrial recession have initially deterred strategic buyers from engaging in M&A in most industrial end markets, both the near-term and long-term outlook indicate a return to growth driven by several key factors:



## Re-shoring and near shoring

Global instability, lingering supply chain concerns post-pandemic, and tariffs continue to make localizing supply chains a priority for OEMs. This secular, multi-year transition should continue to bolster job creation, foster innovation, and strengthen US global manufacturing competitiveness, but inflation remains a concern as machine tool costs and wages continue to increase.



## Aging US infrastructure

Aging and obsolete infrastructure, including the electrical grid, power plants, energy storage, and public utilities, require significant investments to modernize and improve operational efficiency and reliability. Demand for heavy equipment that lays the foundation for this infrastructure and the mission-critical components that power the systems will drive persistent demand for precision machining and fabrication capabilities.



## Growth of data centers

Data center development continues to explode nationwide. Existing infrastructure has inadequate power supply, cooling systems, and connectivity to support the continued growth. Skilled precision machining and fabrication firms will be essential in providing customized solutions and innovative designs to support energy upgrades required to power the data center of the future.



## Defense spending

Program upgrades to the F-35, AH-64E Apache, and other key defense platforms, coupled with persistent demand for munitions, artillery, and missiles to support multiple global conflicts has created significant opportunities for US-based manufacturers. These customized, innovative platforms drive long-term contracts, predictable cash flow, and recurring demand.



## Advanced manufacturing



















Robotics and automated equipment have streamlined production processes, alleviated labor shortages, and reduced errors across the manufacturing ecosystem. New CNC and additive manufacturing techniques are improving precision and product quality. IoT connected machines enable real-time data analysis to optimize operations and enhance efficiency. These tools all help to improve productivity, drive economic growth, and enable flexible adaptations to changing OEM needs.



## OEM outsourcing initiatives

The increasing rate at which OEMs are outsourcing the production of critical components to integrated partners marks a strategic departure from their traditional practice of in-house manufacturing. OEMs are searching for cost efficiency, access to specialized expertise, and the ability to scale production, enabling OEMs to focus on core competencies.

# Diverging end markets in the industrial recession

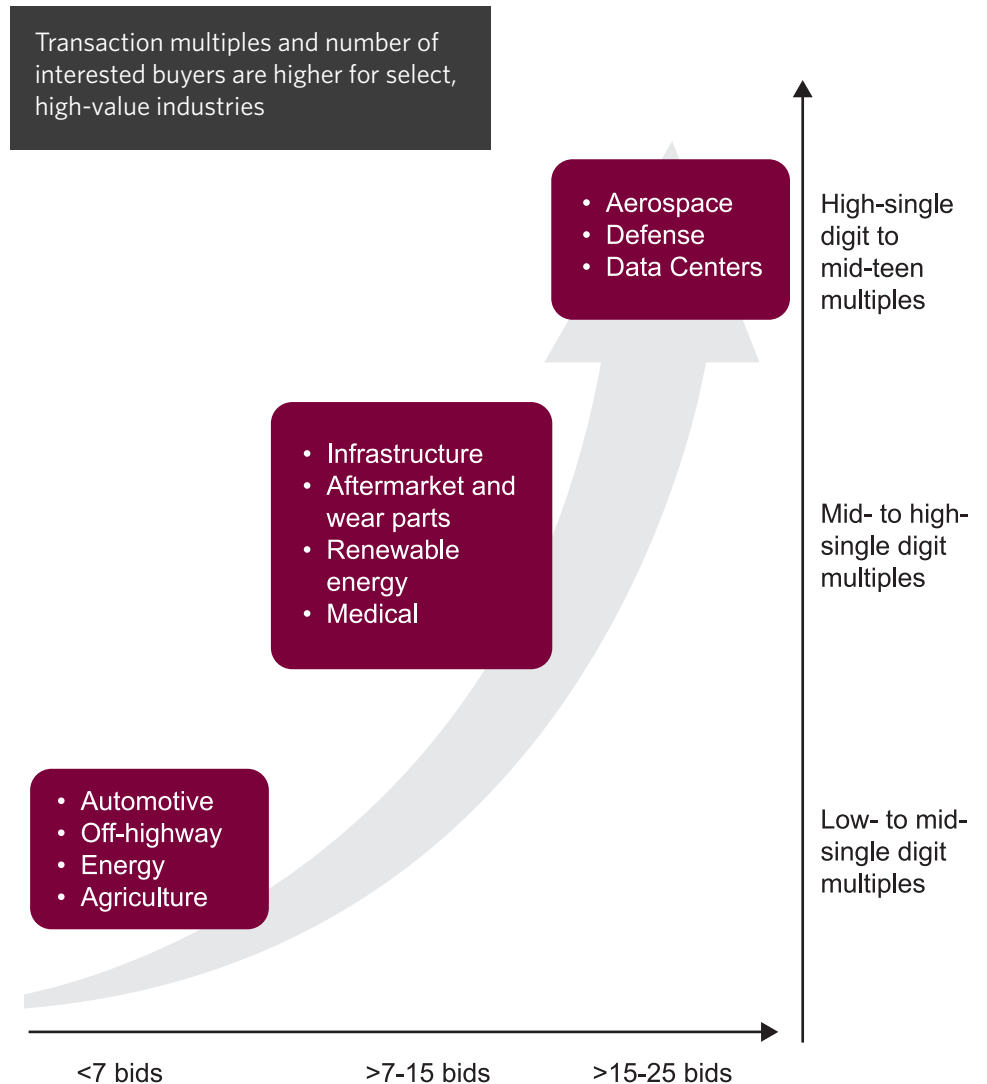
| End Market                     | Commentary  | M&A Activity  | Valuation   | 2025 Outlook  |
|--------------------------------|---|---|---|---|
| Data center / power generation | <ul style="list-style-type: none"> <li>Data center growth and power generation are a bright spot for manufacturing activity</li> <li>After an initial shock, the launch of DeepSeek has not significantly impacted AI and supercomputer-related CapEx. The MAG 7 has reiterated their commitment to spend ~\$100 billion per quarter, supporting rising revenues and valuations for sector manufacturers.</li> </ul>  |    |    |    |
| Infrastructure                 | <ul style="list-style-type: none"> <li>Aging electrical, water management, and other utility-related infrastructure are in desperate need of significant investment</li> <li>M&amp;A activity was strong in 2024, with multiples plateauing, largely due to slower growth</li> <li>Demand for these assets should remain strong in 2025 → Multi-year play</li> </ul>  |    |    |    |
| A&D / space                    | <ul style="list-style-type: none"> <li>Although 2024 M&amp;A activity cooled compared to 2023's rampant pace, "pure-play" A&amp;D focused firms are still considered "A" assets, albeit at slightly reduced multiples</li> <li>Expect a rebound in activity and valuations in 2025 as PE firms with roll-ups in the sector accelerate strategic add-ons to add customers or capabilities</li> </ul>   |    |    |    |
| Auto / transportation          | <ul style="list-style-type: none"> <li>Auto manufacturers have optimized costs and operations, but volumes remain low as weak demand and high interest rates push the average US car age to 12.6 years</li> <li>M&amp;A activity and valuations will stay flat in 2025 due to persistent tariffs, inflation, and interest rates, along with the challenge of re-tooling for ICE, EV, and hybrid vehicles</li> <li>Overcapacity in freight supply has cut Class 8 truck sales by over 10%, but upcoming 2027 EPA standards should boost medium- and heavy-duty truck investments soon</li> </ul> |    |    |    |
| Medical                        | <ul style="list-style-type: none"> <li>Inventory rationalization across supply chains significantly impacted the medical device end market, with several major players halting orders for over six months</li> <li>Concerns of cybersecurity for medtech devices and raw material shortages led to declining production and financial strain for many suppliers</li> </ul>  |  |  |  |
| Agriculture / off-highway      | <ul style="list-style-type: none"> <li>2024 farm income was down 25% from 2023, which created the beginning of an extended agricultural recession and resulted in the lowest equipment sales in decades and made transactions unfeasible</li> <li>Inflation, unpredictable weather patterns, and soft commodity markets foretell another weak year for ag-focused manufacturers and M&amp;A in 2025</li> <li>In addition, cash strapped manufacturers are beginning to enter bankruptcy or close operations</li> </ul>  |  |  |  |

# Business and financial drivers of premium valuations

Desirable characteristics and high-growth end markets drive valuations above 9x

## 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                         | Acquirer   | Target's business description  |
|----------------|--------------------------------|--|--|
| Pending        | Precinmac, LP                  | Centerbridge Partners, L.P.                          | Manufactures precision machined components and assemblies                                    |
| 01/27/25       | Barnes Group Inc.              | Apollo Global Management, Inc.                       | Provides engineered products, industrial technologies, and solutions                         |
| 01/22/25       | EZ Fabricating, Inc.           | House Rock Capital Partners                          | Provides metal fabrication, laser cutting, machining, coating, and other services            |
| 01/21/25       | M&M International, LLC         | Gainline Capital Partners                            | Manufactures small diameter stainless steel tubing   |
| 01/21/25       | Bandy Manufacturing, LLC       | Novaria Holdings LLC (KKR & Co. Inc.)                | Manufactures and designs aerospace and defense hinges and pins                               |
| 01/21/25       | Chandler Industries, Inc.      | BTX Precision, Inc. (L Squared Capital Partners)     | Manufactures precision machined components, fabrications, and complex assemblies             |
| 01/08/25       | Monalex Manufacturing, Inc.    | Lampin Corporation                                   | Provides precision machining services  |
| 01/07/25       | Precision Swiss Products, Inc. | GCM Holding Corporation (Avista Healthcare Partners) | Manufactures precision aerospace and defense components                                      |
| 12/31/24       | Selecteon Corporation          | Transition to an ESOP                                | Offers precision CNC machining and wire EDM services   |
| 12/19/24       | KKSP Precision Machining, LLC  | Red Arts Capital Management, LLC                     | Offers precision CNC machining services  |
| 12/10/24       | Addison Precision Mfg. Corp.   | BTX Precision, Inc. (L Squared Capital Partners)     | Manufactures precision machined components   |
| 11/15/24       | Ohio Laser LLC                 | Hickey Metal Fabrication and Roofing Company         | Engages in the manufacturing of metal fabrication products                                   |
| 11/14/24       | LTA Machining, Inc.            | Rache Corporation                                    | Offers CNC milling, CNC turning, multi-axis machining, and production manufacturing services |
| 11/04/24       | Promac Industries Inc.         | Canerector   | Provides machining services in the energy sector   |
| 11/01/24       | BMF Metal Fabrication, LLC     | Webco Manufacturing, Inc.                            | Provides machining, fabrication, forming, welding, and punching services                     |

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



# Notable transactions

| Date effective | Target                                 | Acquirer   | Target's business description   |
|----------------|--|--|---|
| 10/08/24       | Morgan Bronze Products, Inc.           | Wieland-Werke Aktiengesellschaft                 | Manufactures precision machined finished parts  |
| 10/07/24       | Prescott Precision Die, Inc.           | Pursuit Aerospace (Clayton, Dubilier & Rice)     | Manufactures aircraft engine components   |
| 09/11/24       | Actron Engineering                     | Kirtland Capital Partners                        | Manufactures precision aerospace and defense components                                   |
| 09/04/24       | Keystone Precision & Engineering, Inc. | Prince Industries, Inc. (HC Private Investments) | Provides machining, prototyping, and assembly services                                    |
| 08/27/24       | MSK Precision Products, Inc.           | PrecisionX Group (CORE Industrial Partners)      | Manufactures precision machined parts   |
| 8/22/24        | Ditron Inc.                            | PrecisionX Group (CORE Industrial Partners)      | Provides precision stamping services  |
| 08/20/24       | Hobson & Motzer, Inc.                  | Vantedge Medical (Aterian Investment Partners)   | Manufactures precision metal stamping components  |
| 08/12/24       | Precise Aerospace Manufacturing Inc.   | Pexco LLC (Odyssey Investment Partners)          | Provides plastic injection molding, CNC machining, and assembly services                  |
| 07/29/24       | Alpha Metalcraft Group                 | Industrial Growth Partners                       | Manufactures metal components and assemblies to aerospace, defense, and medical customers |
| 07/25/24       | Cardic Machine Products Inc.           | Capital Eleven; Blount Entities                  | Manufactures precision machined products  |
| 07/16/24       | Precise Tool and Die, Inc.             | JK Tool & Die, Inc.                              | Engages in tooling, precision component manufacturing, gauging, and fixturing             |
| 07/15/24       | DROP Sprockets, Inc                    | Weller Metalworks (LFM Capital)                  | Designs and manufactures sprockets  |
| 07/01/24       | Worldwide Technologies, LLC            | Quad Capital Partners, LLC                       | Provides precision machined parts   |
| 06/20/24       | H3 Manufacturing Group, LLC            | Rock Gate Partners                               | Provides precision parts and components   |
| 06/14/24       | Thin Metal Parts, LLC                  | Engineered Materials Solutions, Inc.             | Manufactures custom high-precision thin metal products                                    |

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.

