



# Precision Metal Manufacturing

## Market Snapshot

Market Intelligence for Industry Players

Q3 2009

### 2009 M&A Market Commentary

Transactions for middle market precision metal manufacturing ("PMM") companies slowed considerably in the first half of 2009. This continues a two year long downward trend.

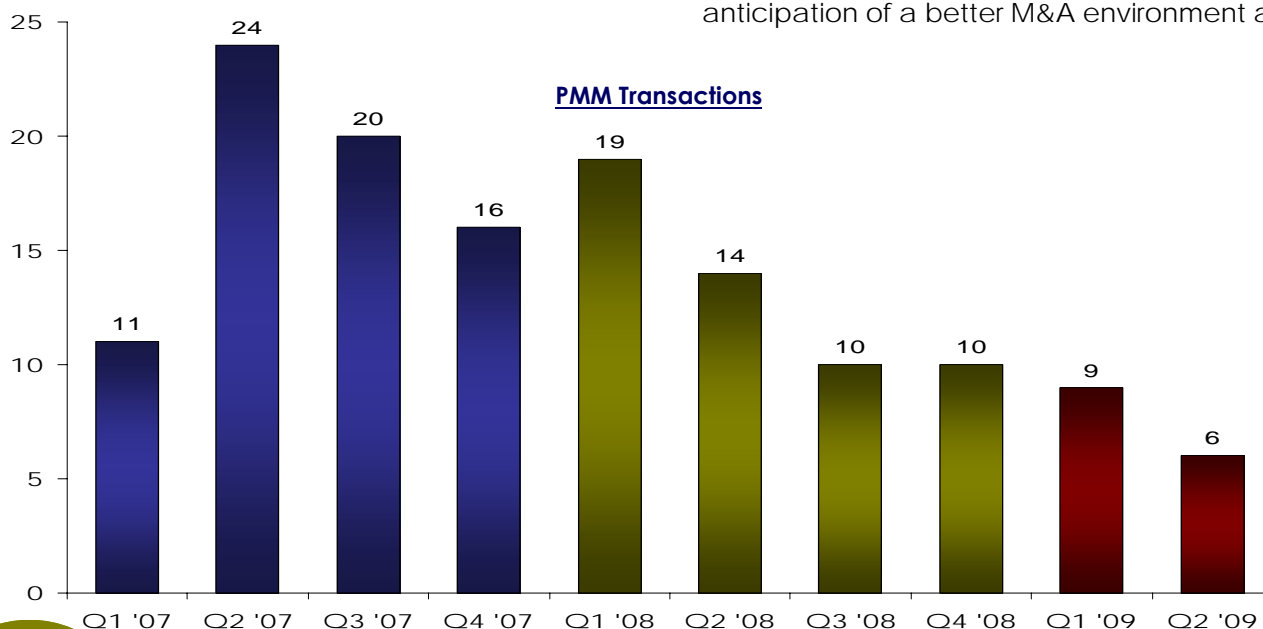
Only 15 PMM transactions were announced in the first half of the year. This was well below the activity in the first half of 2008, which saw 33 announcements, and the activity in the first half of 2007, which had 35 announcements. This decline in activity reflects a similar slowdown in the broader M&A market.

Of the transactions announced, medical and military-aerospace suppliers accounted for 8 of the 15 deals. The remaining announcements involved suppliers to the automotive and heavy equipment industries. Many of these transactions were sales of distressed companies.

Current merger & acquisition market conditions continued to weigh on the PMM industry segment. These conditions include limited visibility into future business performance, low valuations, and the current credit crunch.

Economic uncertainty has played a major role in the slowdown of activity. Unpredictable orders and dwindling backlogs for many PMMs have made it difficult to forecast future revenues. This uncertainty has given pause to both buyers and sellers.

Valuation expectations between buyers and sellers remain disparate. Due to the lack of visibility, buyers remain conservative with future projections. In addition, debt financing is returning at a slower than expected pace which continues to put pressure on valuations. Consequently, buyers have been cautious. Meanwhile, many owners whose businesses are performing well despite the current economic downturn have delayed selling their businesses in anticipation of a better M&A environment ahead.



Source: Capital IQ and Capstone Partners



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## 2009 M&A Trends

### Tough Times

Some recent transactions have been the result of the current economic downturn. As the automotive industry continues to struggle, larger suppliers in the industry have acquired smaller suppliers that are burdened by their debt obligations and faced with a reduction in orders. For example, Contech, LLC and The Homer D. Bronson Company each filed for bankruptcy protection. In each case a larger supplier in the automotive industry (Cerion, LLC and Gill Industries, Inc., respectively) acquired the companies. Additionally, Morton Metal Craft, which became a portfolio company of Brazos Private Equity LLC in 2006, failed to meet its debt obligations because of a severe drop in orders from a major customer. Due to the highly leveraged nature of the business, Morton filed for bankruptcy and Brazos sold its 80% holding in the company to Matcor Holding Group, a diversified PMM in Mississauga, Ontario, Canada.

### One-Stop-Shop

The acquisition strategy of the one-stop-shop companies is based on adding specialized manufacturing capabilities to their service offerings. For medical device OEM suppliers, "full-service" outsourcing positions the company to perform multiple services in house, such as casting, machining, testing, finishing and packaging. In the aerospace industry some companies use the term 'kitting', which is the ability to create, manufacture and put together complete assemblies ready for use on the OEM's manufacturing line. Most of the recent M&A announcements for medical device and aerospace PMMs fit this trend of bringing more capabilities under one roof. For instance, Innovative Medical Device Solutions acquired Cencast for its casting expertise and to increase speed to market for its OEM customers. Premier Precision Group acquired Aimco to add new customer relationships and expand its ability to machine small to medium sized complex aerospace components to round out its full service capabilities in aerospace. In each case, the acquirers are attempting to capture additional margin lost to subcontracting and expand their relationships with their OEM customers.

### Critical Mass

Capstone believes that PMMs with annual revenues in excess of \$15 million stand out as established players in this highly fragmented industry. Their ability to stay current with technology allows them to attract premier clients. Additionally, as the business climate weakened many of these companies were able to remain profitable as their business contracted. This has given more established PMM companies looking for an exit a choice in this tough environment to either consider a transaction or wait until business picks up again.



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## Selected Deal Briefs

### Innovative Medical Device Solutions acquires Cencast Corp. - January 2009.

Innovative Medical Device Solutions (IMDS) is a leading innovator in contract, full-service medical device development and manufacturing, primarily for the orthopedic industry. Cencast provides conventional and innovative precision metal casting solutions to the medical device industry. IMDS is the result of a focused growth and acquisition strategy. Its goal is to create a complete supply chain solution for OEM customers. To do this, IMDS first bought a platform company that specialized in contract manufacturing for orthopedic medical device OEMs (Leis Medical). Then IMDS acquired a design house that specializes in the research, development and design of medical devices (Medicinelodge), with the aim of being a single source for both development and manufacturing of orthopedic devices. Shortly thereafter, IMDS acquired a company that provides preclinical testing abilities, such as strength and fatigue testing and biomechanical testing (Frontier BioMedical, LLC). *"Cencast Corporation, as part of IMDS, will bring improved lead times to our customers who outsource products that are manufactured from castings,"* stated Wade Fallin, President and CEO of IMDS. IMDS is a portfolio company of Arsenal Capital Partners, a private equity firm with a sector focus in healthcare.

### Avalign Technologies, Inc. acquires NGInstruments, Inc - May 2009.

NGInstruments specializes in flute grinding and Swiss turning primarily for the medical, dental, and veterinary markets. The company, which is located in Warsaw, Indiana, serves 40 OEMs across 1,400 product types. NGInstrument's focus was attractive to Avalign Technologies, which is comprised of several niche manufacturing operations for the orthopedic markets.

*"NGInstruments is a strategic and complementary acquisition for Avalign. NGInstruments adds an important product line through their market-leading expertise in precision grinding that bolsters Avalign's offering to our orthopedics customers in the reconstruction, trauma and spine markets,"* said Joseph F. Damico, Chairman of the Board of Avalign Technologies. NGInstruments joins the 'full-service' offering of Avalign which is composed of Nemcomed (instrumentation) and Advantis Medical (instrument delivery trays). Avalign Technologies is a portfolio company of RoundTable Healthcare Partners, a private equity firm focused exclusively on the healthcare industry.

### Premier Precision Group Inc. acquires Aimco Precision Inc. - June 2009.

Aimco, established in 1977, is a Phoenix-based PMM which specializes in precision machining of small to midsize aerospace components, such as airframe, systems and engine parts. Premier Precision Group has acquired three other firms in the Phoenix area including Stewart Manufacturing, Jet Machining and Jet Processing. Additionally, Premier Precision Group, in what they are now calling a "bundled offering" is creating a one-stop source for precision machining, fabrication, assembly and related processing for the aerospace industry. Premier Precision says that this concentration of facilities in specific geographical locations *"allows Premier Precision to provide the most responsive and comprehensive service to its customers."* Premier Precision Group is a portfolio company of Spell Capital Partners LLC, a private equity and buyout firm in Minneapolis which has two platform companies specializing in precision metal manufacturing.

## H1 2009 Precision Metal Manufacturing M&amp;A Transactions

Announced/ Closed	Target / Acquirer	Target Description	Implied EV (\$mm)	EV/LTM Revenue
6/26/2009 6/26/2009	<b>Morton Industrial Group Inc.</b> Matcor Metal Fabrication Inc.	Operates as a contract manufacturer of engineered metal components and subassemblies.	\$33.0	-
6/25/2009 6/25/2009	<b>Aimco Precision, Inc.</b> Premier Precision Group	Manufactures precision machined aerospace products, including aircraft and turning engine components.	-	-
6/22/2009 7/14/2009	<b>INTERMET Corporation</b> Revstone Industries, LLC	Designs, engineers and manufactures castings from aluminum, magnesium and zinc.	\$13.0	-
5/15/2009 5/15/2009	<b>Parkview Metal Products LLC</b> Waukesha Metal Products, LLC	Provides precision metal stamping and fabrication services.	-	-
5/15/2009 6/17/2009	<b>Contech Castings LLC</b> Cerion, LLC	Offers lightweight die cast components for the global automotive market.	\$27.0	-
5/1/2009 5/1/2009	<b>NGInstruments, Inc.</b> Align Technologies, Inc.	Operates as a contract manufacturer for precision instruments for medical, dental and veterinary markets.	-	-
3/13/2009 Pending	<b>Precision Parts International, Inc.</b> Cerion, LLC	Manufactures, designs, and assembles metal components for automotive, aviation and industrial sectors.	\$18.5	-
3/13/2009 3/13/2009	<b>Merritt Tool Company</b> Triumph Aerospace Systems Group, Inc.	Engages in machining, CNC milling, turning and assembly operations for defense and aerospace companies.	-	-
3/13/2009 3/13/2009	<b>Citation Corporation, Machining Operations</b> COMPASS Automotive Group, Inc.	Manufactures aluminum die castings and offers metal forming for the aviation and industrial sectors.	-	-
3/3/2009 3/3/2009	<b>DR Technologies, Inc.</b> Nogales Investors Management, LLC	Offers manufacturing services for industry clients in aerospace, transportation and commercial markets.	-	-
2/20/2009 2/20/2009	<b>VR Laser Services USA, Inc.</b> Metals USA Holdings Corp.	Provides processed carbon steel plate products.	\$4.2	-
2/2/2009 Pending	<b>The Homer D. Bronson Company</b> Gill Industries, Inc.	Manufactures custom engineered hinges and stampings for the automotive, heavy truck and industrial markets.	\$2.5	-
1/26/2009 1/26/2009	<b>Cencast Corporation</b> Innovative Medical Device Solutions	Provides medical precision castings for the orthopedic and medical device markets.	-	-
1/20/2009 1/20/2009	<b>Porter's Fabrications, Inc.</b> Triangle Capital Corporation	Provides fabricated metal parts, engineering, CAD/CAM, prototype and development.	-	-
1/13/2009 1/13/2009	<b>BMW Metal Fabrication</b> Intersol Holding AG	Manufactures fabricated metal products for the automotive industry.	-	-

Source: Capstone Partners and Capital IQ  
EV = enterprise value; LTM = last 12 months

## About Capstone Partners LLC

Capstone Partners LLC is a leading national investment banking advisory firm dedicated to serving the transaction needs of middle market companies. The firm provides corporate sale & divestiture, merger & acquisition and private placement advisory services across four major industry practices: Business Services, Specialty Products, Technology Solutions and Health & Wellness.



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