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Business for Sale: An Indiana Machine Shop

An independent machine shop may be a great buy for someone with industry experience

By Darren Dahl | Nov 1, 2009

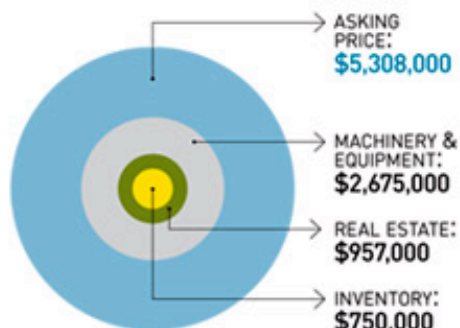
The company for sale is one of the country's roughly 21,000 independent machine shops, which bend, drill, and shape metal products. It's a fragmented industry with combined revenue of \$38 billion. These shops tend to serve large manufacturers, including Detroit's automakers.

The sellers, a machinist and his wife, founded the company in 1990. It started as a small operation using manually operated machines. The business has grown over the years and now boasts computer-controlled equipment specialized for parts prototyping and design. "Our customers, usually other engineers, come to us by saying, 'We need something to do this or fit that,' " says one of the sellers. The business, which employs 65, took in more than \$8.2 million last year and earned a profit of \$625,000.

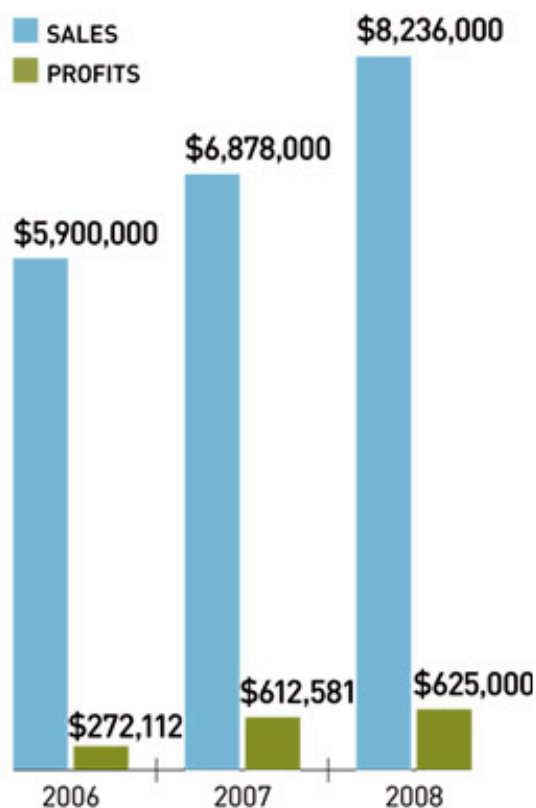
Many similar shops in the Midwest rely on auto work and have suffered declines of as much as 50 percent in the past year. Sales at this shop, however, have remained steady, thanks to the company's diversified customer base. In the past year, jobs have included making parts for a wheelchair lift and a livestock feed system. The sellers, both in their mid-40s, say they simply want to move on. "We're still young enough to try doing something else," says one.

COMPANY DASHBOARD

SALE PRICE VS. ASSETS



FINANCIAL HISTORY



KEY STATS

YEAR FOUNDED.....	1990
FULL-TIME EMPLOYEES.....	65
FACTORY SQUARE FOOTAGE.....	40,000
GROSS PROFIT MARGIN.....	24%

Price Rationale: Similar businesses that have sold over the past 24 months have been priced, on average, at about 5.4 times earnings before interest, taxes, depreciation, and amortization, or EBITDA, says Chip Measells, managing partner of Wyatt Matas & Associates, a mergers and acquisitions firm in Washington, D.C. That would make the price of this business, at seven times EBITDA, a bit steep. But, says Measells, the strong value of the company's high-tech assets makes the price "a good starting point" for negotiations.

The Pros: The shop has a strong record of revenue and profit growth combined with an ability to land high-margin design and prototyping work from a diversified customer base. A strong management team could continue with new owners.

The Cons: This could be a tough business for someone without significant industry experience. Without a network of contacts and personal relationships with customers, a buyer would need to make a significant investment of time and money to identify potential new clients.

The Bottom Line: This is a solid business opportunity for someone who knows the industry. Given that the recession is thinning the ranks of specialty machine shops, this one should be poised for healthy growth when the economy recovers.

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