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Machine Shops

SIC: 3599**NAICS:** 332710**Number of Businesses / Units:** 35,500

See Also

- ▶ [Contract Manufacturing](#)
- ▶ [Job Shop/Contract Manufacturing](#)

This industry comprises establishments, known as machine shops primarily engaged in machining metal parts on a job or order basis. Generally machine shop jobs are low volume using machine tools, such as lathes (including computer numerically controlled); automatic screw machines; and machines for boring, grinding, and milling.

Rules of Thumb

65 to 70 percent of annual revenues plus inventory

2 times SDE

2 times EBIT

3 to 5 times EBITDA

General Information

"Just because the shop isn't full of 5 axis, 30 tool machines doesn't mean it isn't a good shop."

"Need to understand equipment value and replacement schedules"

"Be wary of client concentration. OEMs have a tendency to try to get all your attention; and if they slow down, the job shop follows quickly."

"There are no major players in this industry."

Expert Ratings

▶ Competition	2	(1=Lot of : 4= Not Much)
▶ Amount of Risk	1.8	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.5	(1=Down : 4= Up)
▶ Location & Facilities	2.4	(1=Poor : 4= Excellent)
▶ Marketability	2.4	(1=Low : 4= High)

Pricing Tips

"Backlog, client concentration, WIP, CAPEX, line-item expense for Repairs & Maintenance, availability of qualified labor, client industry trends, etc. are all issues a potential buyer should investigate in valuing a shop."

"Short-run shops having design capabilities and doing prototyping may demand a premium. Different geographical areas will have varying availability of qualified machinists. Look for stable work force that is not near retirement. Be sensitive to difference between a machinist and a 'CNC machine operator.' Backlog, client concentration and industry(s) served can also have large effects on valuation."

"Strategic buyers tend to look for excess capacity."

"Short-run prototyping shops concentrating in the medical industry tend to sell for higher multiples."

"Look for customer concentration. Determine sales mix between commercial and military/defense contractors. Age and type of equipment will affect valuation. Production capacity is important."

"Customer concentration and level of owner skill required affect valuation."

"Condition of equipment; value equipment separately. Type of equipment very important. Any agreements or contracts?"

Benchmarks

"Many shops like to get X dollars per hour per machine and then work towards 70-80% capacity per machine or better."

▶ Industry Trend	2.4	(1=Declining : 4= Growing)
▶ Ease of Replication	3	(1=Easy : 4= Difficult)

Expert Comments

"CAPEX is high as glut of used equipment fades. Despite offshore competition, shops having unique skills will remain successful. OEM's are returning to profitability and thus machine shops are seeing better backlog of orders."

"Revenues and profitability are trending upwards in NE U.S. Barrier to entry high with well -quipped shops, low with antiquated equipment like retrofit CNC Bridgeports, etc. Abundance of bankers searching for businesses has grown demand as their background of lending to mfg. makes this industry 'seem' a fit. Risk of high client concentration always a concern with contract manufacturing."

"Need to be \$10 million shop to get good buyers"

"Contract machining, while recovering slowly, continues to feel the ripple effect of the OEM's slowdown"

Questions

"What capital equipment is on your wish list? What are your accounts receivable agings? What is your backlog? Do you ever have trouble meeting payroll?"

"Historical trends and future client relationships. Machinery obsolescence, etc."

Expenses as a Percentage of Sales

▶ Cost Of Goods	40% to 45%
▶ Payroll/Labor Costs	25%
▶ Occupancy Costs	3% to 5%
▶ Profit (pretax)	10%

Industry Trend

"Increased competition from NAFTA partners and overseas production"

"Should trend upwards with GDP going in like direction."

Advantages

- ▶ "Stable, automation making business less reliant on experienced operators thereby reducing all factors related to payroll, WC, downtime, etc."
- ▶ "Usually long-term agreements, specialized machinery and processes"
- ▶ "Higher margins if careful to service growth industries with demand for quick turns."
- ▶ "Diversity of customers; not subject to foreign competition (smaller shops)"
- ▶ "Competitive advantages can be developed by means of industry or production concentration."

Disadvantages

- ▶ "Offshore competition, at mercy of OEM's, shortage of true craftsmen."
- ▶ "Regulations and certifications"
- ▶ "Short-run and prototyping shops lack residual revenues of mid to long-term runs."
- ▶ "There exists a direct correlation with OEMs, and the contract manufacturer has little control."
- ▶ "Capital intensive; dependent on few, large customers."
- ▶ "A downturn in the economy affects these types of businesses hard."