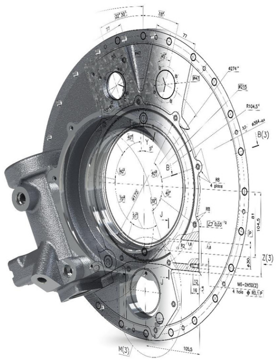
INTERVIEW WITH MIKE RITCHIE

Mike Ritchie is CEO of **Arrow Machine and Fabrication Group** ("Arrow"). Arrow partners with leading metal manufacturing and fabrication companies to create global strategic growth opportunities through its vertically integrated supply chain. Prior to forming Arrow in 2021, Mike was CEO of CGL Manufacturing Inc., which is now the anchor company of Arrow. **CGL Manufacturing Inc.** specializes in the CNC machining, fabrication, casting, painting, and assembly of powertrain and structural components parts.

DESCRIBE YOUR VISION FOR ARROW AND HOW ACQUISITIONS PLAY A ROLE IN THAT.

Well, the Arrow Group concept developed directly from my own experience as an owner operator. I grew CGL Manufacturing — which is a world-class supplier of machined castings, components, fabrications and assemblies — to over $75 million in annual revenue before rolling it into Arrow.

When you're doing well and reach a certain size in our industry — still too small to get the attention of the big names and already too big for local funding — you really start struggling with tight liquidity, purchasing power, and bandwidth, even when the demand for your products is there. I wanted something that would enable really great companies to get together, leverage the benefits of being



part of a bigger group, and really takeoff. That is, basically, what I'm trying to achieve with Arrow — a group of best-in-class metalworking companies, with complementary capabilities and customers, focused on maximizing long-term growth.

Our aim is to hit a billion in annual revenue in 2027 by becoming a premier provider to OEM clients in off-road, automotive, and engineered products. We can't achieve that goal without acquisitions. So far, we've acquired (all, or a majority position in) four companies and are currently in the process of completing two additional acquisitions. Going forward, we anticipate doing an additional 2-3 major acquisitions per year.

IS THE INDUSTRY READY FOR THIS TYPE OF CONSOLIDATION?

Yes, absolutely. There are 19,000 metalworking companies in this industry, 90% of which are making less than $5 million in annual revenue and have fewer than 50 people. It's a highly fragmented industry. Plus, there is a general shift happening… or, more specifically, NOT happening. Many owner operators of family businesses are having a tough time defining a succession plan because the next generation just isn't interested in running a metal shop in the "rust belt".

Scattered among these are some real gems that are doing exceptional work in innovative ways with real growth potential … but they still struggle with the financial risk and limited purchasing power that comes with being a smaller company. Those are the companies that we're looking to bring in.

We also validated the idea with our OEM customers. We talked about what the “future supplier” looked like, and I think it will increasingly be something closer to what Arrow is creating, than what we have now in the industry. OEMs want the innovation, high level of precision, and dedicated customer service that comes with small metal shops, but they would like to have more confidence in their financial stability and lower pricing. With Arrow’s financial backing and global supply chain benefits, we can provide that.

WHAT ARE YOU LOOKING FOR IN AN ACQUISITION? WHAT IS THE PROCESS LIKE?

We’re looking for best-in-class metalworking companies with great capabilities or great customers that complement our own. Typically, they’re well-established and well-respected in the industry. SteelCraft, for instance, is a legacy business that has been around for over 100 years. We look for companies that are already doing well and have the potential to really take their sales to the next level, but are constrained by tight liquidity or management bandwidth. Often family-owned companies that are in the process of defining next steps in their succession plan, but don’t have a clear plan in place. Beyond that, there have to be shared values and a real connection between our teams, because we are going to be working closely together. We have to be able to build trust through the transaction process. If we don’t click, it isn’t going to work.

We’re looking at companies with revenues above $5 million, and have already acquired companies with revenues over $100 million. Referrals are a huge source of introductions, but we are open to companies reaching out to us directly or through a business broker or other type of professional service provider. The due diligence process can be onerous if companies aren’t prepared. It definitely helps if a company has a professional involved to spearhead due diligence so that management teams can continue to focus on daily operations.

In terms of transaction time, if companies are prepared, and fit within Arrow’s strategic objectives, we can move quickly to get a deal done in just a couple of months. On the other hand, we’re working on transactions now with companies that we’ve known for literally years but are just now ready to pull the trigger on a deal. Each transaction really is very different.

IS THERE A "TYPICAL" ACQUISITION IN TERMS OF WHAT THE DEAL LOOKS LIKE?

There really is no typical deal — each transaction really is very different. We make fair, competitive offers and can get creative around owner-operator needs and concerns. They are personal, not prescriptive, and created uniquely for each owner operator that we're working with. There are a lot of scenarios:

- Some keep a minority equity stake, some prefer to fully exit and retire
- Some keep land, some want an option to sell land to us after a couple of years, some sell it as part of the deal
- Some want signing bonus, some want incentive bonuses based on performance; generally, however, we tend to stay away from negative performance clauses — it's not great for trust and we're responsible for growth too after a transaction
- Almost all want some kind of option or incentive structure for their teams which usually makes sense. I've been the person selling my company, so I understand how important it is to protect your teams, and we do that.

In all cases, I am very clear and upfront about where Arrow has flexibility for negotiation and where it does not.

WHAT CHALLENGES DO YOU OVERCOME IN THE TRANSACTION PROCESS?

Every deal is uniquely frustrating [laughs]. The thing that really comes to mind doesn't have to do with the company being acquired, but the industry itself. There is a habit, particularly among financial players, to come in with big, shiny offers for owner operators, but by the end of the day, they've beaten down the purchase price down as much as 30%. It creates resentment for the buyer.

It's a game I don't like to play, particularly because we're often partnering with our owner operators and their teams. We don't want that sense of lingering resentment. It's hard, though, because some owner operators now expect this to be the de facto process; if you don't come in with an exaggerated offer, they're not initially interested. Once they get to know us and understand how Arrow works, it is a different story. So, we're working against this bad habit in the industry.

HOW IS ARROW DIFFERENT FROM OTHER BUYERS IN THE INDUSTRY?

First and foremost, we're operators buying operators. We understand these businesses and what drives them because we've built them ourselves. And, more often than not, it is easier to grow the business than to let go of it. It is personal for the owner operators and their families. We're sensitive to that and, specifically, the needs and concerns of the owner operator sitting across the table from us. Usually, that means protecting the company's legacy and the teams working every day to build and maintain that legacy.

We can do this, in part, by respecting the technical expertise of the owner operator and their teams. Arrow is interested in long-term growth. That's why, in many cases, the owner operators stay on — to continue growing the company as they have been, because they're doing it well. Some financial buyers are interested in acquiring specifically to squeeze "the last puff" from a company before selling it off in parts. We aren't that — we aren't interested in flipping, splitting, overleveraging, relocating or closing companies. We're builders. We find good business with complementary capabilities and customers, and we leverage Arrow resources to help make them great — specifically, by realizing their potential as part of our global network. We want to support and grow our acquired companies — to build to a billion — not divest or destroy them.

And the proof is in the pudding. I invite all our potential acquirees to talk to the management teams of the companies that we've already partnered with to hear what their experience has been working with Arrow.

HOW CAN INTERESTED BROKERS AND OWNER OPERATORS GET IN TOUCH WITH ARROW?

Reach out to me directly. I'm personally involved in all of our acquisitions from an early stage. I enjoy conversations with other operators in the industry — even if it doesn't result in an acquisition, there are other ways we can find to do business.

Also, we're open to establishing relationships with business brokers or other professional service providers with experience with companies in metal machining and fabrication.

We're actively looking for new acquisitions and welcome the introductions.

Interested in Becoming an Arrow Partner?

Ideal partners are metal machining and fabrication companies generating $5 million or more in annual revenue with a clear path to future growth. We welcome conversations with owner operators looking to:

- Take their company to its next stage of growth
- Deleverage personal financial risk
- Benefit from being part of a large group of operators in the same industry sharing the same challenges

Our transactions are straightforward and efficient, usually lasting 3-6 months with limited disruptions to operations.

We encourage owner operators and business brokers to reach out to Mike Ritchie, CEO of Arrow Machine and Fabricating Group, to learn more.

Mike Ritchie

PRESIDENT AND CEO

ARROW MACHINE AND FABRICATION GROUP

ARROW