

KAL Capital - Aerospace & Defense

Year In Review

Introduction

Year in Review 2018

Dear Friends,

We are pleased to present you with our 2018 Year in Review report. KAL Capital Markets finished the year with four closed transactions, all staying true to our core competency of exclusively advising firms within the greater aerospace and defense supply chain.

The transactions represented a broad mix of both business types as well as buyer profiles. Our clients for 2018 encompassed everything from a leading provider of aftermarket services (STS Aviation) to a manufacturer of proprietary motion control products (Beaver Aerospace). We worked diligently to provide our clients access to both international strategic buyers (Heroux-Devtek) as well as blue-chip, aerospace-focused private equity sponsors.

For the broader market, the close of 2018 was characterized by equity market volatility which overwhelmed financial headlines with a rather ambiguously-sourced pessimism. Diving into primary operations of key A&D OEMs like Boeing and Airbus the supply chain data tells a different story. Boeing and Airbus both wrapped up 2018 with record high annual aircraft deliveries – Airbus: 800, Boeing: 806. While the record high delivery numbers provide their own evidence of successful supply chain evolution and growth, the ratio of deliveries to current backlog for the OEMs implies long-lasting opportunities for the hundreds of suppliers throughout all tiers of the supply chain. At the time of this report Boeing 737 posts a backlog of 4,708!

Significant passenger travel demand in a time of globalization is a root cause for the ramped production rates, and with new aircraft and more flights we've witnessed a parallel demand for aftermarket and airline services in 2018.

Predicting 2019 M&A levels is a fool's errand, but we will venture to say that, barring a recession, valuations and activity will remain high given the strong underlying growth dynamics of both the commercial aerospace as well as the defense end-markets.

As always, we encourage your thoughts and questions and hope to hear from you soon.

Sincerely,

Trevor Bohn

Partner



Ryan Murphy

Partner




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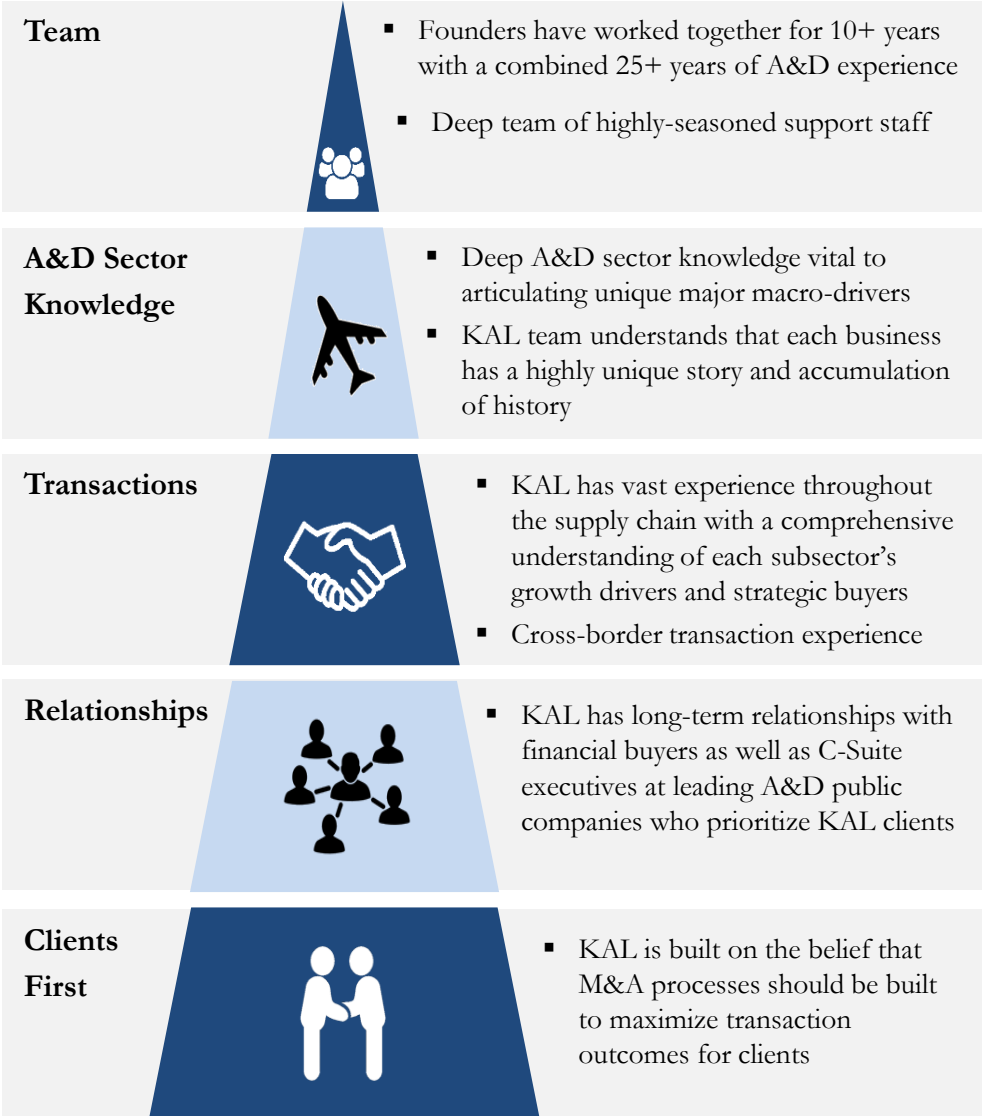
KAL Capital Overview

KAL Capital is a boutique investment bank focused on providing advisory services to owners of businesses throughout the greater aerospace supply-chains.

Our services consist primarily of M&A advisory and liquidity event planning. Our clientele are generally family or partnerships that own successful, growing businesses within the aerospace/defense sector. Today's M&A environment offers business owners a wide-range of transaction alternatives, often at compelling valuations. Our role is to assist in the navigation of this process and to ensure that valuation is maximized.

Services Provided


- **Sell-Side Advisory**
- **Buy-Side Advisory**
- **General Strategic Advisory**
- **Debt Capital Raising**
- **Equity Capital Raising**
- **Merchant Banking**




KAL Advises Beaver Aerospace & Defense

- ❖ KAL served as the exclusive sell-side advisor to Beaver Aerospace

Beaver Aerospace Acquired by Héroux-Devtek



HAS BEEN ACQUIRED BY



SALE OF COMPANY

KAL Capital announced the sale of Beaver Aerospace & Defense to Héroux-Devtek in Q1 2018, where KAL served as the exclusive sell-side advisor on the transaction.

Beaver Aerospace & Defense (“Beaver Aerospace”) is a leader in the design and manufacture of a broad-range of custom ball screws and electromechanical actuation systems for the commercial and military aerospace and defense industries.

Beaver Aerospace leverages long-standing industry relationships with OEMs and their suppliers to provide actuation & ball-screw solutions to aircraft, missiles, space exploration & defense systems.

- ❖ Beaver specializes in ball-screw and actuation system engineering and manufacturing to key A&D platforms



- ❖ Beaver leverages long-standing industry relations and engineering expertise to maintain sole-source partnerships


- HQ: Livonia, MI
- Three operating facilities
- Positioned as strategic partner through proven track record of mission-critical manufacturing
- Actuation & ball-screw business primarily derived from sole-source programs



KAL Advises Mountain Secure Systems


Mountain Secure Systems Acquired by Cache Creek Partners

- ❖ KAL served as the exclusive sell-side advisor on the sale of Mountain Secure Systems to Cache Creek Industries



MOUNTAIN SECURE SYSTEMS
RUGGED & WIRELESS SOLUTIONS

HAS BEEN ACQUIRED BY



SALE OF COMPANY

KAL Capital announced the sale of Mountain Secure Systems to Cache Creek Industries in Q2 2018, where KAL served as the exclusive sell-side advisor on the transaction.

Mountain Secure Systems (“MSS”) provides proprietary ruggedized COTS electronics solutions including packaged solid state drives and chassis-level electronics for commercial and A&D applications.

Founded in 1985, MSS operates out of Longmont, CO. Serving all arms of the DoD, MSS exercises extensive understanding of military and commercial standards to produce electronics built to withstand the harshest environments.

- ❖ MSS provides ruggedized, custom and COTS defense electronics solutions for DoD and commercial markets



End-Markets

Commercial

- Optical storage solutions for In-Flight Entertainment electronics
- Outdoor wireless solutions for several industries

Defense

- Sole-source provider of ruggedized electronics and wireless solutions for airborne and land systems throughout US DoD

- ❖ MSS leverages expertise in military requirements to provide sole-source solutions to all departments of DoD

- HQ: Longmont, CO
- 15,500 sq. ft. facility in Longmont, CO
- Leverages long-standing expertise in military standards to provide custom and COTS electronics solutions
- Sole-source provider to DoD



KAL Advises on the Sale of California Brazing

- ❖ KAL Capital served as the exclusive sell-side advisor to California Brazing

California Brazing Acquired by Trive Capital



HAS BEEN ACQUIRED BY

TRIVE CAPITAL

SALE OF COMPANY

KAL Capital is pleased to announce the sale of California Brazing to Trive Capital, where KAL served as the exclusive sell-side advisor on the transaction.

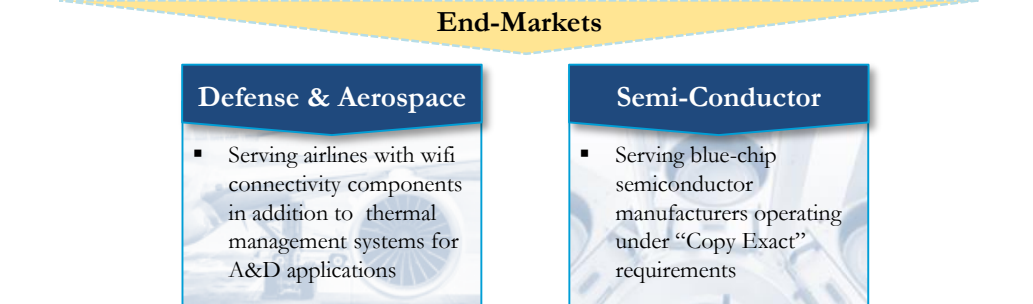
California Brazing (“Cal Braze”) is a leading manufacturer of complex critical components for A&D and semi-conductor markets, specializing in aluminum, high-temperature, and ceramic brazing, turn-key manufacturing, and complex CNC machining.

Cal Braze leverages its brazing, machining, and heat treat services to provide turn-key manufacturing solutions from its Newark, CA and Carson City, NV locations.

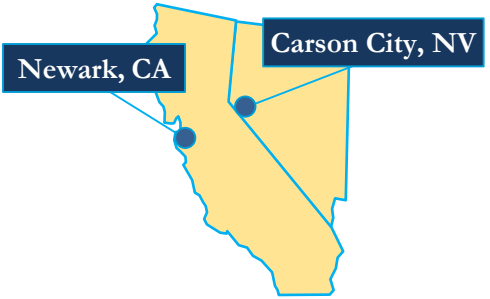
- ❖ Vertically integrated manufacturing operations



- ❖ Complex parts manufacturing focused on niche market spaces



- HQ: Newark, CA
- Heat Treat: Carson City, NV
- Leverages furnace brazing and CNC machining for vertically integrated operations
- Strategic focus on complex parts manufacturing with unique performance requirements



KAL Advises on STS Aviation's Equity Partnership

STS Aviation Receives Equity Investment From Greenbriar Equity Group



EQUITY INVESTMENT FROM



EQUITY PARTNERSHIP

KAL Capital is pleased to announce that its client STS Aviation Group has taken an equity investment from Greenbriar Equity Group. KAL served as the exclusive financial advisor.

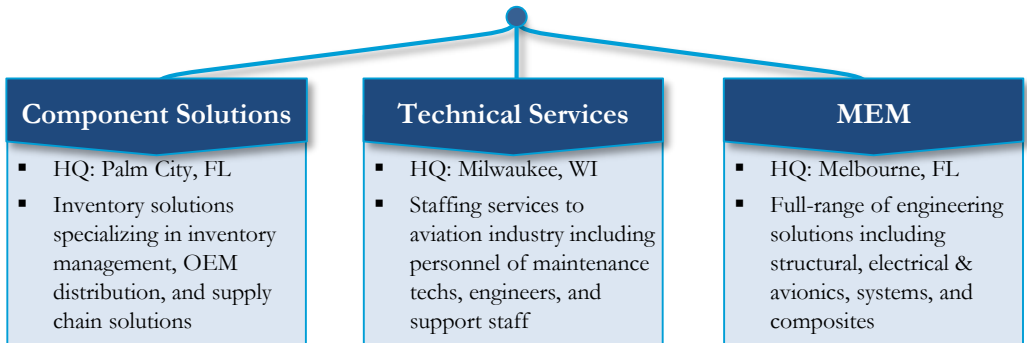
STS Aviation Group ("STS") provides one-stop aviation solutions through its three operating divisions focused on Technical Services, Component Solutions, and Maintenance, Engineering, & Modifications (MEM).

STS services commercial airlines, aircraft owners, MROs and OEMs worldwide over a span of five continents and 30 line maintenance stations across the US.

- ❖ KAL Capital served as the exclusive financial advisor to STS Aviation Group

- ❖ STS serves the aviation industry as a full one-stop provider through its three operating divisions

- ❖ Diversified customer base and global presence position STS' aftermarket services as optimal for current outsourcing trends



End-Markets

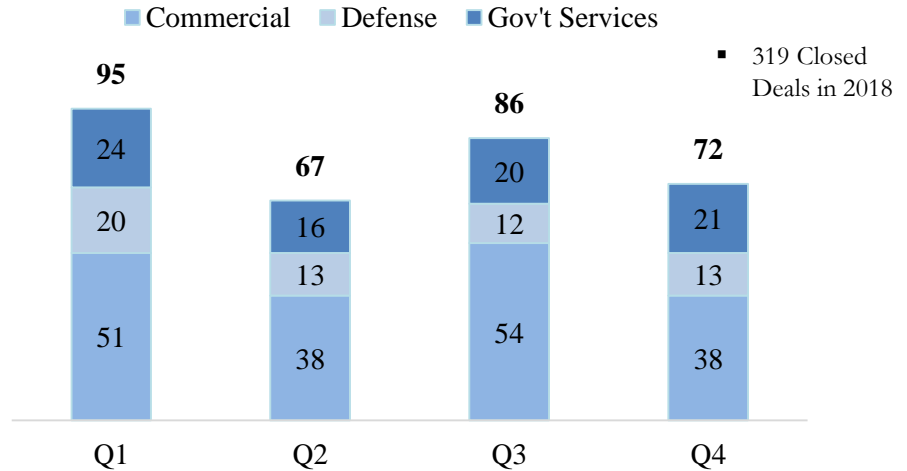


- HQ in Jensen Beach, FL
- International footprint spanning across 5 continents
- Largest US network of Line Maintenance stations – 30
- Ideally positioned for airline outsourcing trends through diverse service offerings and geographic footprint



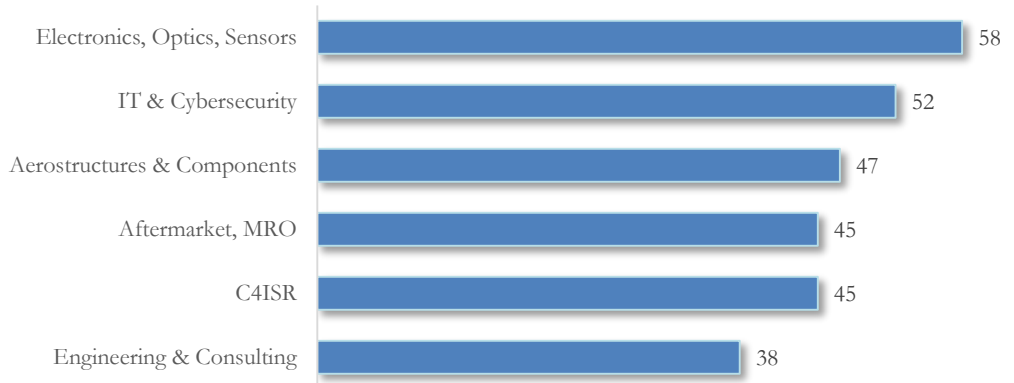
2018 M&A Deal Activity

2018 Deals by End-Market



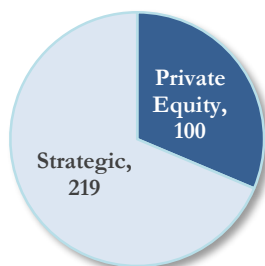
Source: DACIS, KAL Capital estimates, and other publicly available information

2018 Deals by Product Category



Source: DACIS, KAL Capital estimates, and other publicly available information

Analysis



Over 32% of 2018 deals were executed by private equity firms. Some of the busiest buyout firms included AE Industrial Partners and Arlington Capital, both exhibiting the overall investment trend of diverse government services and high-margin A&D component manufacturing acquisitions.

Strategic deals by General Dynamics and ASGN (On-Assignment) contributed to the continuously growing IT & Cybersecurity deal flow in the public markets.

Following the announcement of Boeing's KLX deal, aftermarket and MRO-related acquisitions experienced an up-tick as strategics and new PE-entrants seek to capitalize on high-margin services. We can expect the aftermarket momentum to continue into 2019.

- ❖ 319 M&A deals in 2018
- ❖ Commercial and Gov't Services deals make up over 80% of 2018 transactions

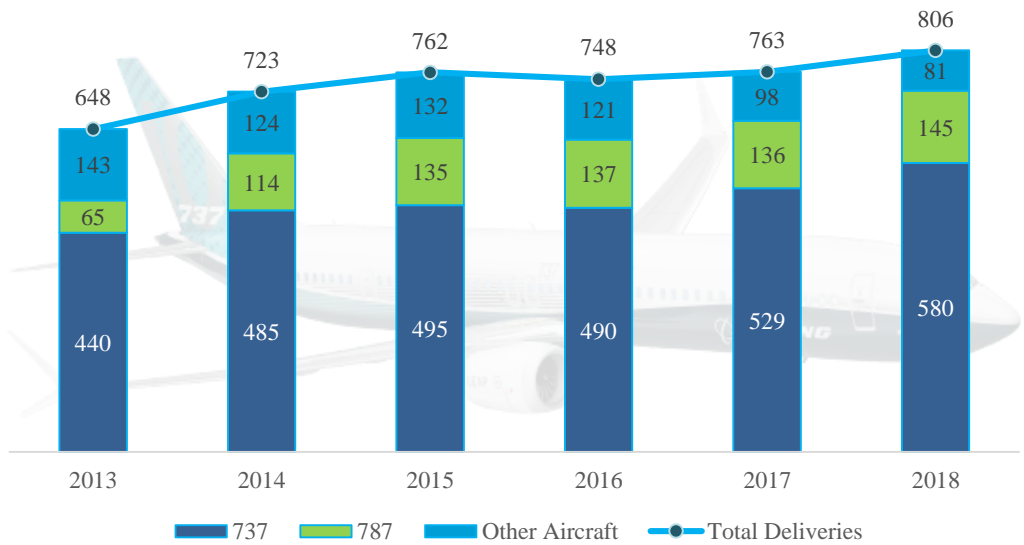
- ❖ Electronics and IT-focused transactions lead the way for 2018 deal flow

HIGHLIGHTS

- ❖ Boeing demonstrates consistent YoY growth reaching 806 total aircraft deliveries – a record high for a single year

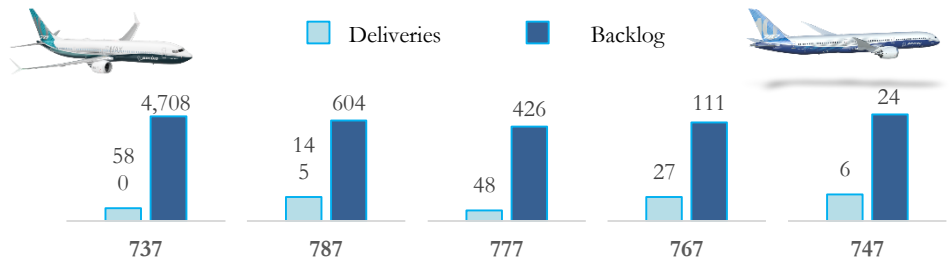
Commercial Focus: Boeing Update

Boeing Aircraft Deliveries Per Year



- ❖ 737 backlog is over 8X of current deliveries – implying long-term workload for the supply chain

2018 Backlog Vs. Deliveries Analysis



- ❖ Significant production ramping has instigated OEMs and larger suppliers to seek synergies through M&A

Early 2018 delivery delays raised initial concerns for Boeing though the more meaningful narrative resides in the delivery and backlog data. Reaching record high aircraft deliveries in 2018 required a collective push from the greater Boeing supply chain. Without surprise natural growing pains ensued and following month-by-month, tier I, II, and III have worked quickly to scale production rates to levels dramatically higher than recent years' standards.

The optimism shines brightest in the 737 and 787 backlog data, with both aircraft sitting on backlog summing to several multiples of what has currently been delivered. For the next several years we can expect to see larger suppliers hunting for cost and production synergies in component and subsystem manufacturing as well as in finishing services. Boeing has understood not only the immediate supply chain implications of their growth but also the aftermarket demand that will ramp in synchrony – noted by their 2018 stalwart deal with the acquisition of KLX. We can expect more supply chain players to turn to M&A to capitalize on the new demand.

HIGHLIGHTS

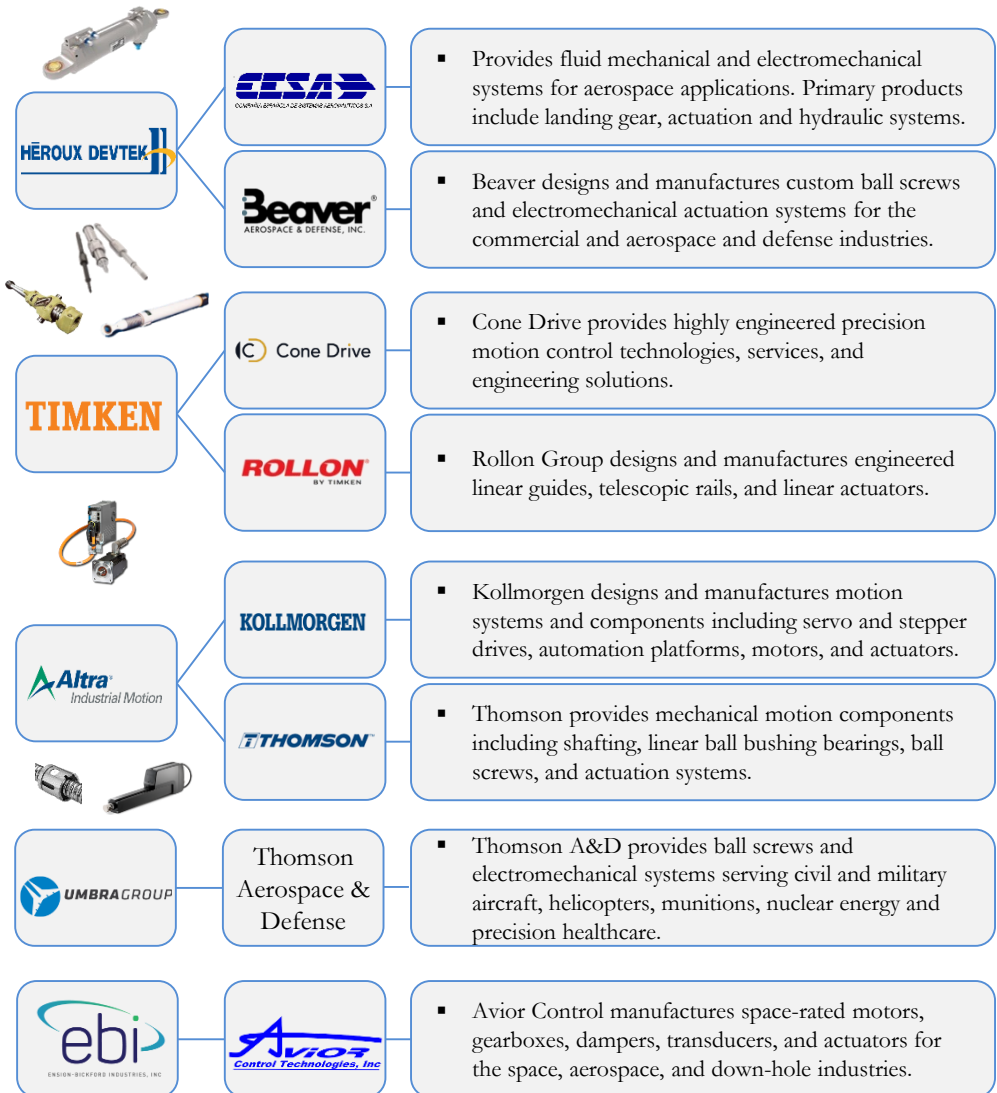
❖ Large OEMs took aggressive M&A approaches to growth in 2018

Actuation & Motion Control Spotlight

Select 2018 Strategic Transactions

- Highly-engineered components in motion control markets have attracted universal buyer interest though the complexity of the systems and resulting operational synergies more often lead to strategically driven M&A.
- Sole-source programs and proprietary systems position M&A as the most attractive growth option for many large suppliers looking to access opportunities with high-barrier contracts.
- Several large OEMs leaned heavily towards M&A in 2018 with more than one deal in the span of a year

Select 2018 Strategic Transactions



❖ Strong acquisition appetite demonstrates the value of high-barrier contracts and expanding current capabilities

❖ International demand for actuation and motion control specialists has driven valuation multiples

HIGHLIGHTS

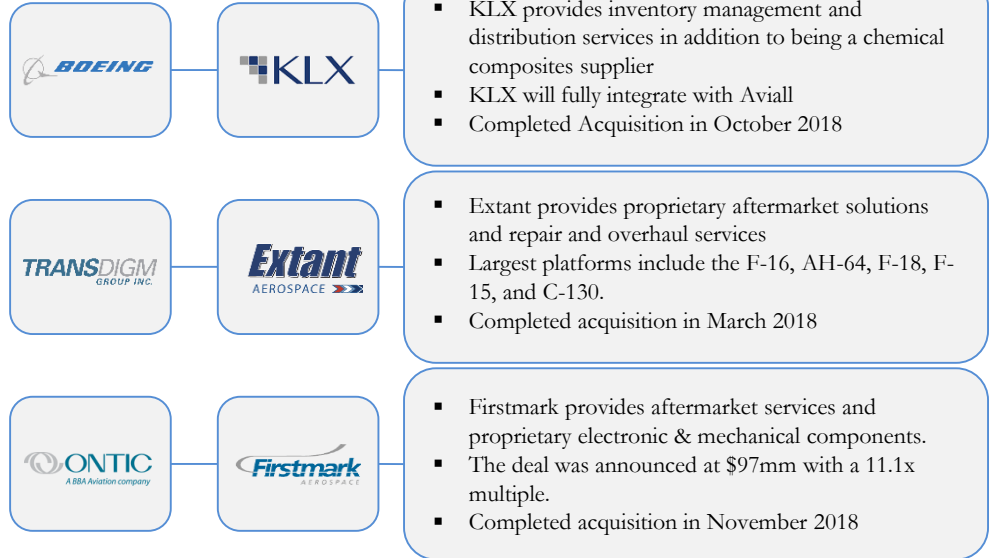
❖ Aftermarket services firms benefit from high valuation multiples as acquisition appetite increases

❖ Public companies like BBA and KLX continue momentum in growing high-margin aftermarket services divisions

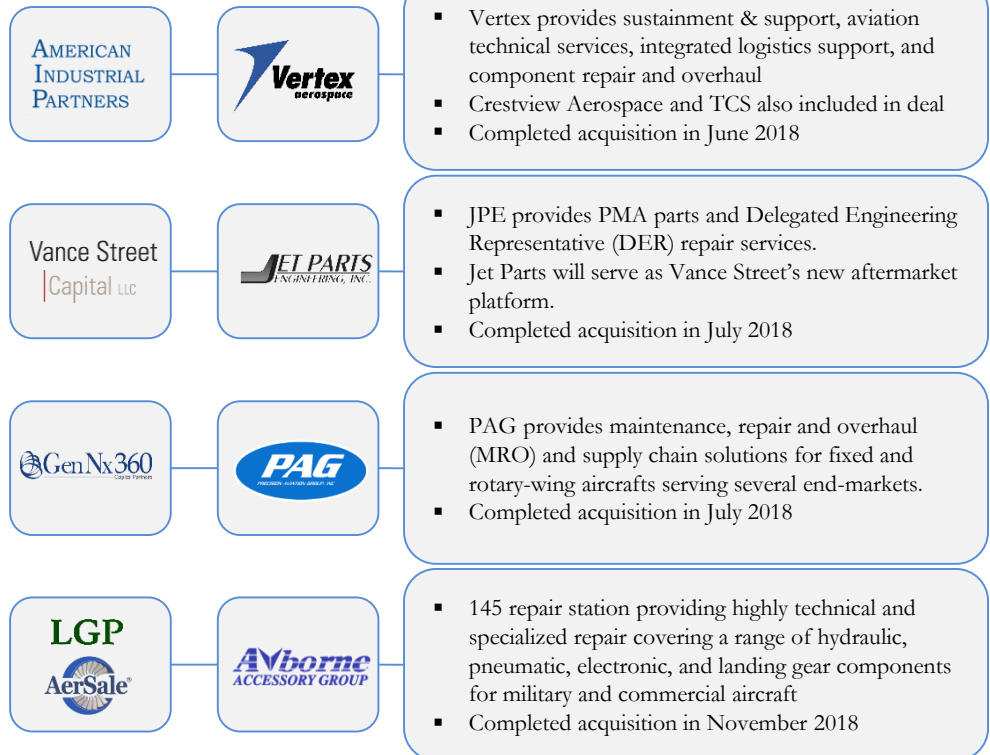
❖ Private equity shows heightened interest in new aftermarket platforms with niche proprietary offerings

Aftermarket Focus: M&A

Select 2018 Strategic Transactions



Select 2018 Private Equity Transactions



HIGHLIGHTS

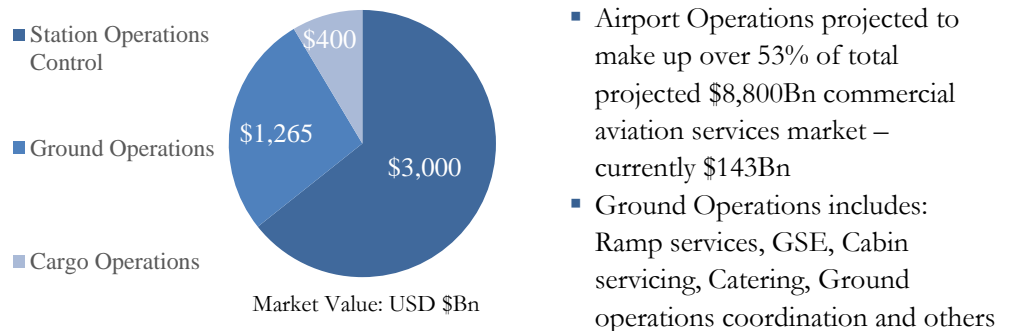
❖ Ground handling and aviation services providers witness strong consolidation interest from Private Equity and strategics in 2018

Aftermarket Focus: Airline & Aviation Services

Select 2018 Ground Handling & Aviation Services M&A

		<ul style="list-style-type: none"> Provides ground handling services in more than 170 airport locations in the US, Guam and the Bahamas Announced in November 2018
		<ul style="list-style-type: none"> Provides cargo and ground handling services with a presence in 198 airport locations and 22 countries Announced in July 2018
		<ul style="list-style-type: none"> Provides de-icing services at 12 UK airports, including ground handling at London Gatwick Announced in April 2018
		<ul style="list-style-type: none"> Provides deicing services to over 20 airlines at JFK, DCA, and ATL Announced in February 2018

Airport Operations Market Forecast 2018-2037



Source: Boeing Services Market Outlook, CAPA – Centre for Aviation

Significant market size increase can be fundamentally attributed to the exponential increase of flights and airport capacity around the globe. Airport operations are the backbone to the increased flight and airport capacity and airlines have been trending heavily towards outsourcing to narrow in on core competencies while cutting costs and maximizing profits.

IATA estimates that ground handling alone will see up to 60% of services outsourced by 2020. The ground handling and cargo outsourcing demands have aligned independent service providers to be key M&A targets for private equity as well as larger strategic firms. With these firms now becoming go-to providers for all airlines and airports, private equity will seek a profitable portfolio opportunity in an expanding market while larger strategic players will look to grow current services and footprint. In the end, the demand will result in an imminent rise in valuation multiples for target firms in this space.

❖ Airport operations and services to make up over 50% of projected \$8.8 trillion dollar market by 2037

❖ Airport privatization and Airline services outsourcing positions independent providers as key M&A targets

HIGHLIGHTS





❖ ISR market saw heightened interest by strategics and financial buyers in companies providing unmanned training, engineering, data collection and analysis, and special operations support services to DoD

Defense Focus





Intelligence, Surveillance, and Reconnaissance Services (ISR)

		<ul style="list-style-type: none">Acquisition allows CAE to enhance its core competency in aircraft training offerings and access AOCE's special operations customers
		<ul style="list-style-type: none">Government services-focused sponsor acquiring leader in rapidly-growing area of aerial sensors and surveillance
		<ul style="list-style-type: none">Enabled AEVEX to its engineering capabilities to become full-service airborne intelligence solutions provider
		<ul style="list-style-type: none">Primarily provides aircraft leasing services for special mission operations as well as engineering and modifications services

Government Charter Services

		<ul style="list-style-type: none">Berry provides government and private charter, freight, component MRO and fixed-base operations
		<ul style="list-style-type: none">Provides passenger airlift services to DoD and full-service passenger charter services. Omni was acquired at a 5.8X multiple

Marine & Naval Systems

		<ul style="list-style-type: none">Manufactures COTS-based rugged computers, servers, and storage systems for surface ships and submarines
		<ul style="list-style-type: none">Manufactures reciprocating compressors, steam turbines and steam system valves for Naval aircraft carriers and submarines

❖ Government charter services are an emerging aviation niche with high barriers to entry

❖ Mercury Systems and Curtiss-Wright make strategic acquisitions aimed to capture naval sub market growth



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