PMCF | INVESTMENT BANKING

AEROSPACE & DEFENSE M&A PULSE

FIRST QUARTER 2020

Q1'20

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ABOUT PMCF

P&M Corporate Finance (“PMCF”), a U.S. registered broker/dealer, is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, www.pmcf.com.

INVESTMENT BANKING SERVICES:

- Mergers & Acquisitions
- Carve-outs & Divestitures
- Strategic Assessments
- Corporate Advisory
- Readiness Reviews
- Capital Raising

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SELECT PMCF AEROSPACE & DEFENSE TRANSACTIONS

DEMMER CORPORATION	MOELLER AEROSPACE	TRITON MANUFACTURING COMPANY, INC.	WRIGHT TOOL COMPANY
has sold its Heavy Fabrication Operation serving principally the defense and aerospace industries to	has been acquired by	has been acquired by	has been acquired by
Loc	ae Industrial Partners	molex®	FEDERAL RESOURCES®

What We're Discussing with Clients

The ongoing COVID-19 crisis has left a profound and potentially permanent impact on the A&D market. While the defense sector remains strong with increased spending on weapons development, aerospace is adapting to a market where both the production and aftermarket sectors will have to adjust to the current environment. Reduced demand, weakened productivity, and increased supply chain distress have forced the OEMs to Tier 3 and Tier 4 suppliers to re-examine their business model and continuity plans.

Airbus and Boeing both recently announced deep production cuts and indicated a shift to smaller-capacity aircraft may be necessary to prepare for the "new normal." Both companies are trying to assess what the recovery in traffic might look like over the next 24 months, which will have a meaningful impact on the entire supply chain. However, today's supply chain is significantly more prepared than in previous downturns such as 2001 and 2008. The past two decades of industry consolidation as well as a relentless focus on operational excellence and technology implementation have left businesses throughout the supply chain well-positioned to deal with the COVID-19 effects.

Many companies have already started to re-open their production facilities, drawing on best practices used in overseas facilities that were impacted by the first wave of the virus. Airlines in Asia have cautiously started to add flights with the European and American airlines to potentially follow. Boeing's production of the 737 MAX is also set to restart this quarter and increase gradually to 30+ aircraft per month in 2021.

Although the short-term outlook remains uncertain, operators should position their business in a way that enables it to resume growth quickly. The following are a few key areas where management can focus their energy while planning for the start-up:

Managing Cash and Working Capital

As operations quickly ramp after an extended shutdown or slowdown, managing cash and working capital will be critical to ensure operations continue uninterrupted and short-term financial obligations can be met. The purchase of raw materials, payroll, and benefits expense as well as facility overhead will all start to accelerate prior to the receipt of customer payments. Having a firm understanding of the projected timing of cash inflows and outflows is essential to planning for capital requirements. Key areas of focus include:

- Accounts receivable – is A/R being managed properly? Have customers changed their payment practices? Are any customers at risk of declaring bankruptcy? Were POs properly invoiced? Closely tracking the status of receivables will help eliminate surprises and ensure liquidity needs are met.
- Inventory – material purchases to satisfy near-term demand may be required in advance of the receipt of customer payments. In the absence of safety stock, a significant purchase of raw materials may be required to satisfy the immediate return of customer demand.
- Accounts payable – while extending payment terms to customers may seem like an easy lever to pull to ease the burden on working capital, it is important to consider how that action might negatively impact your suppliers' liquidity, and perhaps more importantly, affect the relationship in the future. Consider your supplier to also be your partner and work with your partners to establish terms that are reasonable for all parties involved.

The above (and more) is effectively managed through a 13-week cash flow model – a fundamental tool to identify liquidity needs over the next 90 days. The 13-week model provides a granular analysis of "cash in, cash out" that companies can utilize as a short-term playbook to prepare contingency plans. Changes to the operating model, including examining fixed and variable costs, should be considered (in the short term) when/if any cash pinch-points are identified. These pinch points should also be proactively addressed with vendors (e.g. if payments will be delayed) or lenders (e.g. covenants potentially tripped) to collectively work on a mutually beneficial solution (e.g. temporary adjustment of borrowing or payment terms).

Consistent, Direct Communication with Stakeholders

Although many challenges may arise during the re-opening or ramp up of production facilities, a line of direct, fact-based communication with key stakeholder groups is critical to your team's transition back into the workplace. All company communication should disseminate from the highest levels of the organization, but also needs to be a two-way street. Creating this type of environment will help alleviate potential pain points and allow team members to collaboratively work on effective solutions.

The first step is to identify these stakeholders. Company staff, customers, suppliers and financing partners are all essential partners to maintain operations and each group will have their own concerns during the crisis. The following are key items for communication with each key stakeholder group:

- Company staff – timing of re-openings of facilities/expansion of shifts and steps taken to ensure safety
- Customers – understand changes in expected demand and production schedule. Liquidity challenges may delay payments and there may be a need to revisit payment terms with key customers.
- Suppliers – inquire about any potential interruption in the supply of key raw materials. This may also be an opportunity to revisit pricing and payment terms.
- Financing partners – 13-week cash flow projections, potential for principal deferrals, and projected swings in covenants

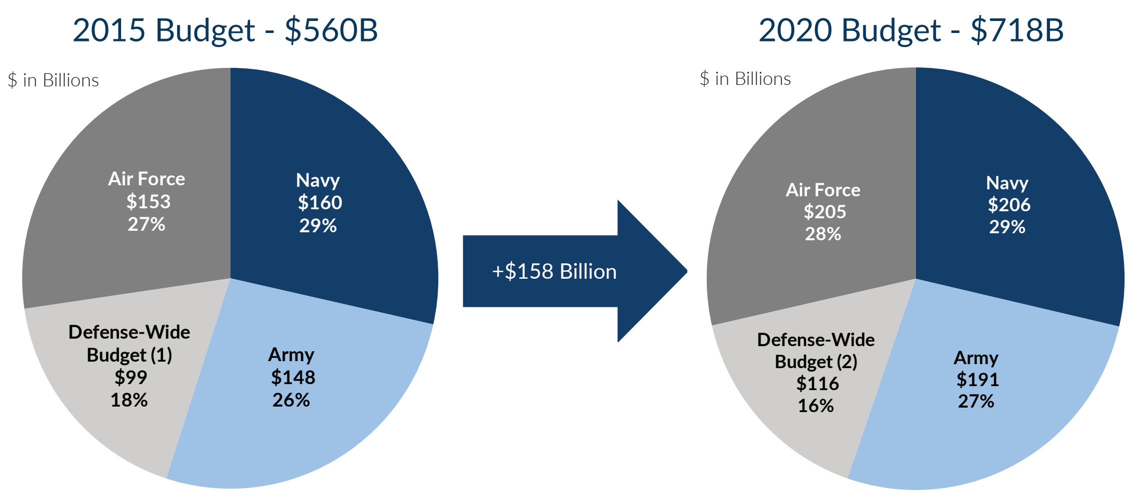
Macroeconomic Trends & Signals

The U.S. Department of Defense Budget - 2015 vs. 2020; Key 2020 Program Spend Detail

Since 2015, the U.S. Department of Defense has increased spending by $158 billion, or a 5.1% CAGR, to $718 billion. While branch spending as a percentage of the total budget has remained stable over that time period, the government continues to focus on several modernization initiatives across air, land, and maritime to counter and deter the rise of global terrorism.

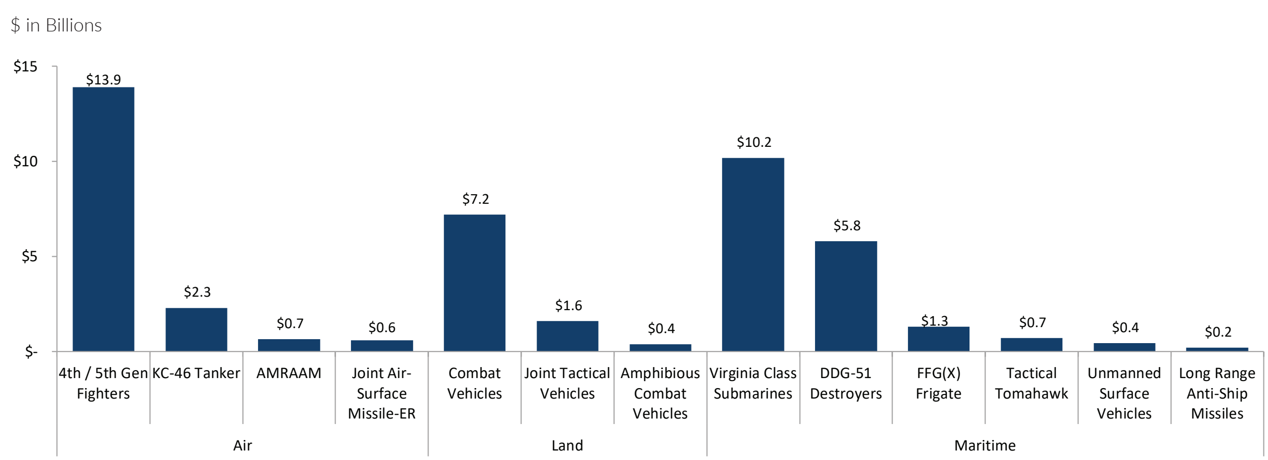
- The Air Force and Navy will acquire additional 4th and 5th generation fighters with advanced capabilities. 5th generation fighters will have several features that include Active Electronically Scanned Arrays (AESA) radar, Distributed Aperture System (DAS), Electro Optical Targeting System (EOTS), and helmet mounted display systems.
- The Navy plans to expand its Battle Force fleet by 6% to 314 in 2020, including new Virginia Class Submarines, DDG-51 Destroyers, FFG(X) Frigates, and other essential ships.
- The Army is actively expanding warfighting capabilities to include enhanced ground combat capabilities, the close combat lethality task force, increased vehicle fleet size, and increased tank lethality.

THE U.S. DEPARTMENT OF DEFENSE BUDGET 2015 VS. 2020 BY BRANCH



Source: Department of Defense
(1) Includes overseas contingency operations, bases, and Ebola relief programs.
(2) Includes overseas contingency operations, bases, and emergency funding and relief programs

KEY 2020 PROGRAM SPEND DETAIL



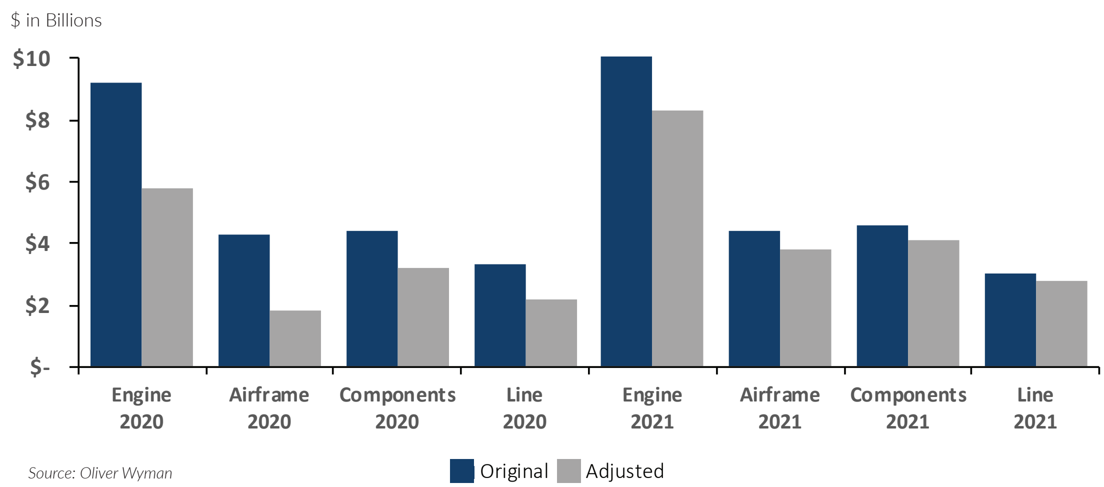
Source: U.S. Department of Defense

Macroeconomic Trends & Signals (Cont.)

COVID-19 Impact on the North American Aerospace MRO Industry

Due to the many stay-at-home orders still in effect coupled with domestic and international travel restrictions, airlines are managing lower passenger loads by grounding most of their fleets and significantly cutting back on several routes and service to smaller regional airports. As a result, the North American aerospace MRO market is expected to experience its greatest decline in the past two decades, with adjusted 2020 projections now forecasting a decrease of 38% when compared to 2019 results, or 43% when compared to the original 2020 projections. While 2021 suggests a modest recovery as passengers start their return to the friendly skies, analysts are not expecting traffic to recover to pre-crisis levels before 2023.

NORTH AMERICAN MRO MARKET SIZE - 2020 TO 2021

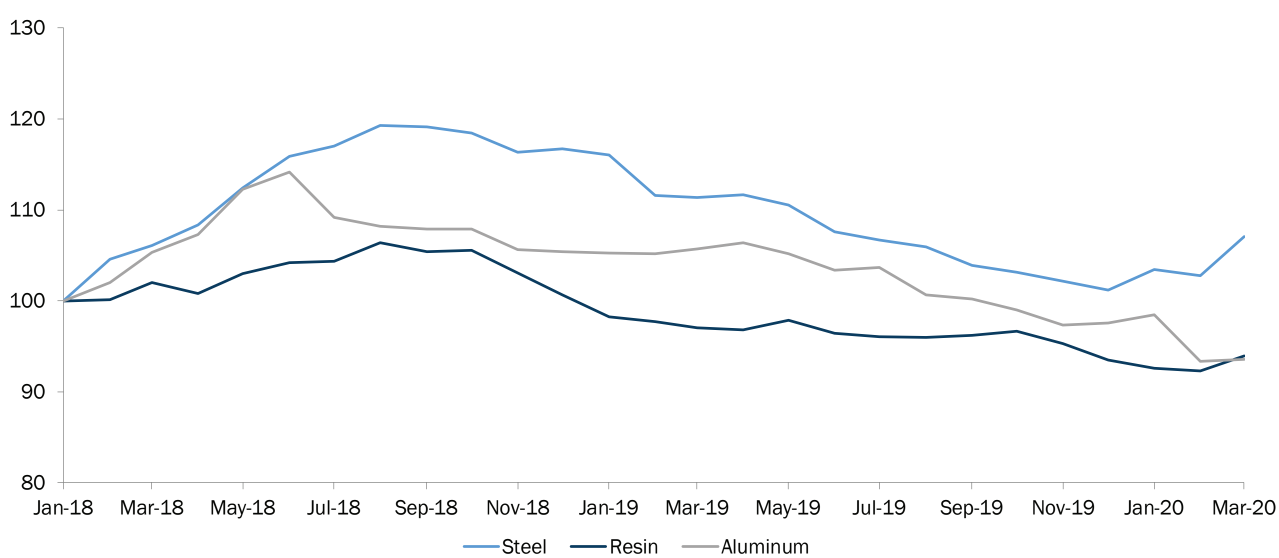


Source: Oliver Wyman

Raw Materials Pricing Index

Manufacturers and suppliers are contending with moderate price levels of steel, aluminum, and resins. Since early Q1-2020, raw materials have experienced a sharp decline in pricing as global supply chains manage reduced demand and weak productivity from China and other developed nations. However, prices are expected to increase to pre-COVID-19 levels in 2H-2020 as production slowly resumes in China and other countries approach full production levels.

RAW MATERIALS PRICE INDEX (Q1 2018 – MARCH 2020)



Source: Federal Reserve Bank of St. Louis
Note: Indices anchored at 100 as of Jan 2018

Aerospace & Defense M&A Activity

SELECT A&D TRANSACTIONS

$ in Millions

Announced Date	Target	Buyer	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Mar-20	G.S. Precision, Inc.	AE Industrial Partners, LP	n/a	n/a	n/a
Mar-20	TECT Corp	Whitcraft LLC	n/a	n/a	n/a
Feb-20	Société Anonyme Belge de Constructions Aéronautiques	Sabena Aerospace SA	$107	0.50x	5.8x
Feb-20	Elliott Aviation, Inc.	Spp Management Services, Llc; Summit Park III, L.P.	n/a	n/a	n/a
Jan-20	Gilat Satellite Networks Ltd.	Comtech Telecommunications Corp.	$419	1.59x	13.1x
Jan-20	Kopter Group AG	Leonardo S.p.a.	$185	n/a	n/a
Jan-20	Showa Aircraft Industry Co., Ltd.	Bain Capital, LP	$633	2.63x	13.0x
Jan-20	Airborne Tactical Radios Business of Raytheon Company	BAE Systems plc	$275	n/a	n/a
Dec-19	Non-Core Instrumentation and Sampling Business of CIRCOR International, Inc.	Crane Co.	$172	2.07x	n/a
Dec-19	Ellison Surface Technologies, Inc	Bodycote plc	$200	3.39x	16.7x
Dec-19	Fairbanks Morse Engine	Arcline Investment Management LP	$450	n/a	n/a
Dec-19	Wartsila Elac Nautik GmbH	Cohort plc	$12	0.50x	n/a
Nov-19	901 D LLC	Curtiss-Wright Corporation	$135	n/a	n/a
Nov-19	CirComp GmbH	Albany International Corp.	$40	n/a	n/a
Nov-19	A&D Power Supply Business Of Excelitas Technologies Corp	TT Electronics plc	$18	1.90x	10.4x
Nov-19	OEM Manufacturing Division of B&E Group, LLC	Cadence Aerospace, LLC	n/a	n/a	n/a
Nov-19	Bal Seal Engineering, Inc.	Kaman Aerospace Group, Inc.	$330	3.50x	12.5x
Oct-19	Draka Fileca SAS	Carlisle Companies Incorporated	$79	1.70x	14.6x
Oct-19	Nobles Worldwide, Inc	Ducommun LaBarge Technologies, Inc.	$77	n/a	n/a
Oct-19	Manufacturing Techniques, Inc.	QinetiQ Group plc	$125	0.75x	11.0x

Source: Capital IQ

KEY DEAL HIGHLIGHTS

End Market and Product Expansion

Bodycote Acquires Ellison Surface Technologies

On December 24, 2019, Bodycote plc announced the acquisition of Ohio-based Ellison Surface Technologies, a leading manufacturer of advanced thermal spray coating and performance coating solutions, for $200 million (3.39x revenue; 16.7x EBITDA). Stephen Harris, Group Chief Executive of Bodycote plc, commented: "This acquisition continues our strategy to build our Specialist Technologies portfolio and enhance our exposure to the civil aerospace market, where we see structural growth over the long term, notwithstanding the current hiatus in the industry. Ellison's business is one that we have respected for a long time and is a perfect strategic fit for Bodycote's Specialist Technologies businesses."

End Market and Product Expansion

Kaman Aerospace Group, Inc. Acquires Bal Seal Engineering, Inc.

On November 5, 2019, Kaman Aerospace Group, Inc. announced the acquisition of Connecticut-based Bal Seal Engineering, Inc. for $330 million (3.50x revenue; 12.5x EBITDA). Bal Seal Engineering is a leader in the design, development, and manufacturing of highly engineered products, including precision springs, seals, and contacts. The transaction, which closed in early January, allows Kaman to significantly expand its portfolio of engineered product offerings as well as exploit new customer opportunities in the medical technology, aerospace and defense, and industrial end markets.

Strategic Planning for a Sale

The Importance of Planning

Organizations that incorporate a long-term view on exit planning are more likely to achieve higher shareholder returns from the sale of the business. Although short-term actions may have an impact, many issues cannot be addressed with “running fixes” while a transaction is in process. The identification, resolution (or mitigation) of potential issues in advance of a transaction is critical to a successful outcome. While the current state of the A&D and M&A markets is challenging, now is a great time to plan and prepare for a transaction in the future.

We guide our clients through this preparation phase with a Readiness Review™, which typically occurs 12-36 months before a planned liquidity event to ensure companies are ready for a transaction. The Readiness Review allows business owners to objectively assess operations, manage operating and positioning risks, and evaluate how well the company is positioned for the rigors of a transaction, all under the umbrella of what it means relative to value.

What is a Readiness Review™ and Why is it Important?

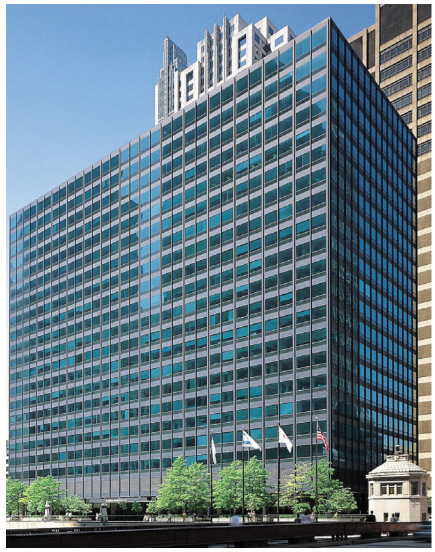
The Readiness Review encompasses a thorough understanding of the shareholders’ liquidity objectives in combination with a detailed review of the company’s operations, organizational structure, strategic plans, and product, customer, and financial profile. Our analysis includes observations on value as well as identification of key metrics that can impact value based on a buyer’s perception of risk. Upon the completion of the Readiness Review process, the PMCF team delivers a formal report that includes:

- Preliminary Positioning Assessment (e.g. preliminary company positioning, industry snapshot / analysis, key compelling positioning attributes, and areas for further assessment)
- Comprehensive Valuation Summary (e.g. historical and projected financial summary, valuation methodologies, preliminary valuation range, and sensitivity analyses)
- Strategic Recommendations and Planning Objectives - this section typically reviews 8-12 risk positioning characteristics that will be critical to a buyer’s evaluation, determines the current status of each item, and summarizes potential tactics to address any gap between the current and desired situation.

We also establish future recurring planning discussions (e.g. every 3-6 months) to examine progress towards the company’s goals - all with a focus on the end liquidity objective.

Why is it Important for a Company to have a “Readiness Review?”

1. Prepares a company for the scrutiny of sophisticated capital investors
2. Helps ownership and management identify the value attributes and constraints of the business
3. Provides ownership with an understanding of perceived value considerations in the eyes of investors
4. Affords a company the opportunity to address shortfalls and enhance the value in advance of a capital transaction
5. Helps align corporate strategy with organizational, personal financial, tax, and wealth transfer planning
6. Helps shareholders/management understand how various business strategies can impact future value
7. Resolves potential deal obstacles to ensure a smooth diligence process and higher likelihood of deal success



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Recent PMCF Awards

M&A DEALS & DEALMAKERS AWARDS

2019 MiBiz DEAL OF THE YEAR WINNER
MANUFACTURING DEAL OF THE YEAR

Structural Concepts has been acquired by MASON WELLS

2019 THE M&A ADVISOR AWARD FINALIST

2019 M&A ADVISORS AWARD FINALIST
BOUTIQUE INVESTMENT BANK OF THE YEAR

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