

KAL Capital - Aerospace & Defense

Quarter In Review

Introduction

Quarter in Review Q2 2019

Dear Friends,

We hope your summer is off to a great start.

For KAL Capital, we are extremely pleased to have represented Valence Surface Technology, a portfolio company of Trive Capital, in their sale to ATL Partners. The transaction marked another sale in an important sub-vertical for us (metal finishing). It was terrific to see the completion of a successful investment for both Trive Capital and several former clients of ours who made up some of the early constituents in the roll-up that eventually became Valence.

In addition, the previous quarter marked the singular most important industry networking event of the year, the Paris Air Show. Conversations at this year's show were focused on two primary topics. The first centered around the future of the MAX; will Boeing be able to get the aircraft flying again and if so, will airlines honor existing orders. By now, no one credible is predicting with certainty when the MAX will finally fly again. Concern about the sustainability of the current build-rate is growing in a linear direction to the number of planes parked throughout the greater Seattle area. Rumors of a Boeing narrow-body MAX replacement are rampant though no definitive time line has emerged.

The second topic of conversation centered around M&A activity. The headline grabbing transaction announcements are always fun, especially the idea of two behemoths like UTC and Raytheon doing a "merger of equals." For us and our clients in the lower tiers of the supply-chain, the M&A market remains seller-friendly primarily driven by institutional private equity deploying capital aggressively into growing businesses with clear barriers to entry.

In a continuation of what seems to be the "new normal," we do not anticipate the months of July or August to offer any break in the action as deal activity remains high.

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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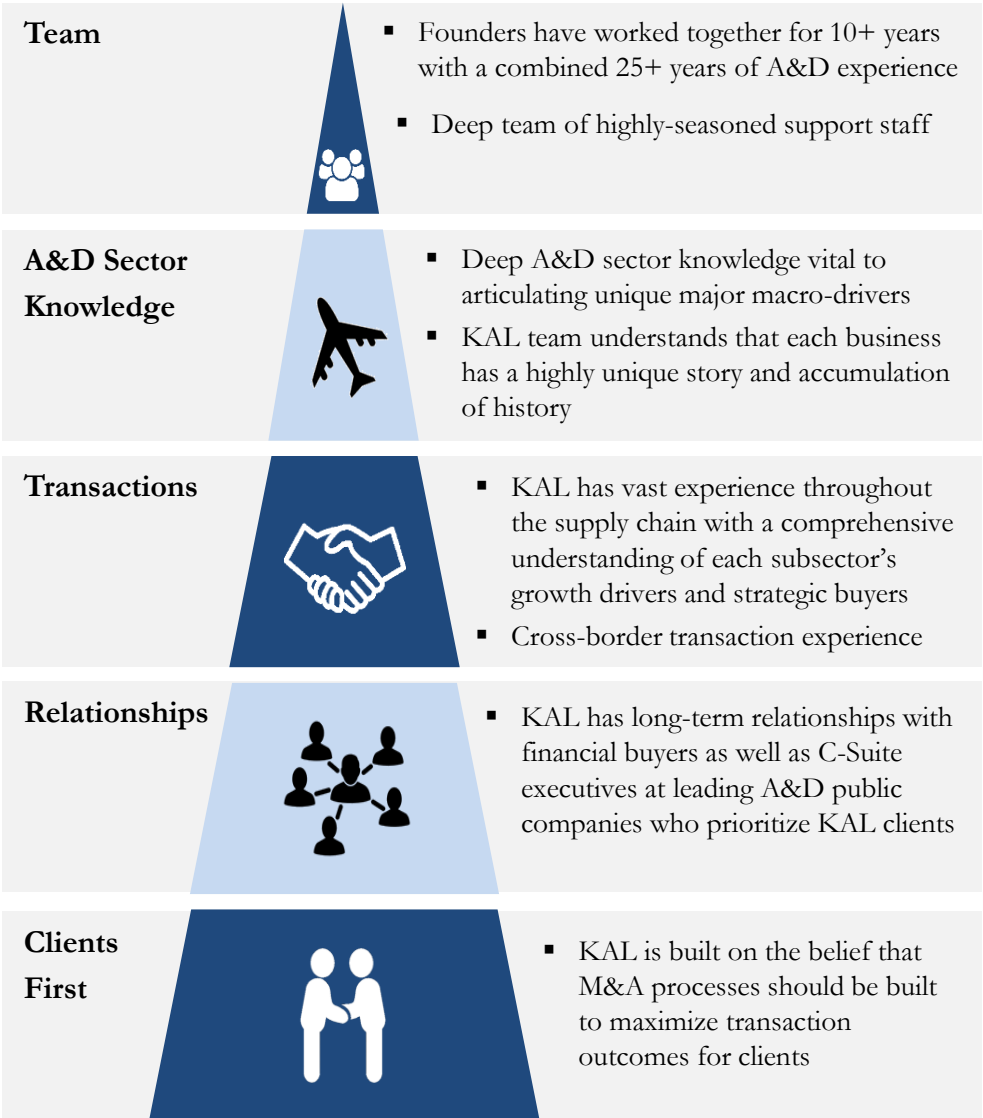
KAL Capital Overview

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 Valence Surface Technologies

Valence Surface Technologies Acquired by ATL Partners and BCI



A PORTFOLIO COMPANY OF

TRIVE CAPITAL

HAS BEEN ACQUIRED BY



BCI

SALE OF COMPANY

KAL Capital announced the sale of Valence Surface Technologies, a portfolio company of Trive Capital, to ATL Partners and British Columbia Investment Management Corporation (“BCI”) in Q2 2019, where KAL served as a sell-side advisor on the transaction.

Valence Surface Technologies (“Valence”) is the world’s largest independent provider of aerospace surface technology services. The Company provides specialized metal processing and finishing services to a diversified set of fast-growing commercial aerospace, defense, and space/satellite markets, delivering best-in-class quality, turn times, and supply chain partnerships.

Services and Capabilities

Non-Destructive Testing

Chemical Processing

Painting & Spray Coatings

Shot Peening & Blasting

Plating

Sub-Assembly & Other Services

Aluminum

Titanium

Steel

Composites

Other Alloys

<1 inch

Part Size Capabilities

>100 feet

Investment Highlights

1

The Independent Leader in Aerospace & Defense Surface Finishing

2

One-Stop Surface Finishing Capabilities in Every Region

3

Technical Leadership and Expertise in Complex Next-Gen Processes

4

High Barriers to Entry with Limited Competition and Industry Capacity

5

Highly Diversified Across A&D Market

6

Demonstrated Track Record of Delivering Earnings Expansion

❖ *ATL Partners and BCI acquire Valence Surface Technologies and will support their next phase of growth*

❖ *Most comprehensive set of surface finishing solutions for critical parts from fasteners to large, complex aerospace and engine assemblies*

❖ *Differentiated value proposition versus smaller, niche competitors yields high barriers to entry, attractive margins, and excellent growth potential*

HIGHLIGHTS

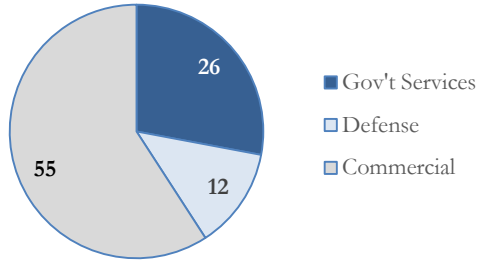
- ❖ **Aerospace & Defense M&A activity remains strong in Q2 of 2019 with 93 M&A deals**
- ❖ **Commercial and Gov't Services deals make up over 85% of Q2 2019 transactions**
- ❖ **Aerostructures & Components, C4ISR – Systems & Components, and IT/Cybersecurity lead the way for Q2 2019 deal flow**

M&A Market Snapshot

Q2 Aerospace & Defense M&A Activity

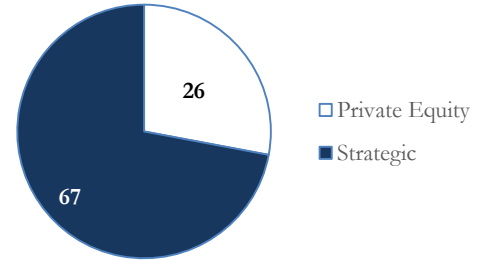
Deals by End Market

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

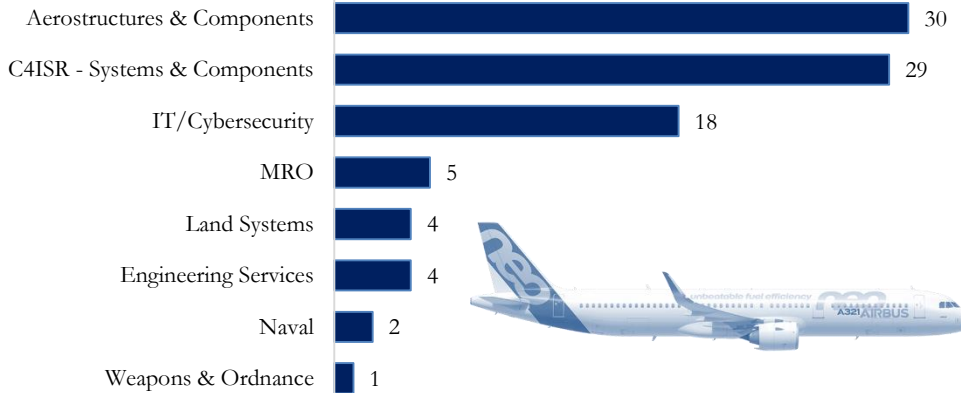


Strategic vs. Private Equity

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



Deals by Product Category



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

Analysis

Over 82% of the Q2 2019 deals were acquisitions in the Aerostructure & Components, C4ISR – Systems & Components, and IT/Cybersecurity sectors.

Despite the recent struggles of Boeing, backlog remains at an all time-high as current and long-term passenger growth supports continuing increases in aircraft production. As a result, aerostructures deal activity is forecasted to remain strong.

The National Defense Strategy Commission (NDSC) stated that the U.S. is losing its advantages in Electronic Warfare (EW) and has called for increased investment in EW capabilities for combat systems while also modernizing existing capabilities. In response to increasing demand, EW hardware and auxiliary system manufacturers have sought consolidation for production synergies. The M&A trend will likely continue at a faster rate in upcoming months.

As technology continues to advance, cybersecurity has become an increasing focus for the U.S. government. The threat of cyber attacks and breach of confidential information has spurred heavy investment as DoD aims to heighten battlefield advantage and national security. Cybersecurity specialists have looked to M&A to build technological advantage and solution synergies, Q2 was another example of the consolidation trend.

HIGHLIGHTS

❖ The amount of dry powder remains near record highs which has driven deal activity and rising valuations

❖ New A&D platforms allude to long-term growth horizons and add-on deals

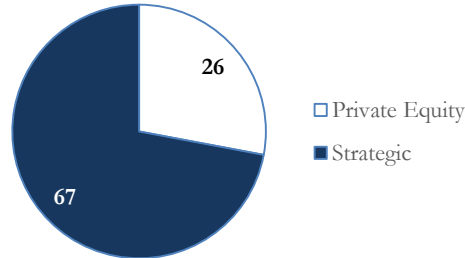
❖ Over 60% of the private equity deals were add-on transactions in Q2 of 2019

Private Equity Landscape

Q2 Aerospace & Defense M&A Activity

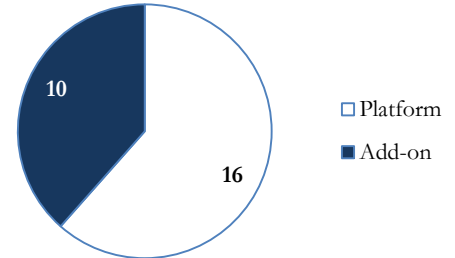
Strategic vs. Private Equity

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



Platform vs. Add-on

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



Key Platform Transactions

ATL Partners & BCI → Valence Surface Technologies

ATL Partners & BCI acquired Valence Surface Technologies, the largest independent aerospace surface finishing platform in North America, and will support their next phase of growth.



Carlyle Group → StandardAero Aviation Holdings

The Carlyle Group's acquisition of StandardAero, a global provider of repair and maintenance services, expands their aftermarket presence and primes StandardAero for follow-on acquisitions.



Insight Partners → Recorded Future

Insight Partner's acquisition of Recorded Future is the largest-ever threat intelligence acquisition and validates the growing global need for intelligence-led security and risk operations.



Add-on Transactions

Enlightenment Capital [EverWatch] → Northwood Global Solutions

EverWatch will increase their intelligence community solutions by acquiring Northwood, a provider of cloud architecture and migration, cybersecurity, and big data systems architecture solutions.



Audax Private Equity [TPC Wire & Cable] → EZ Form Cable Corp.

TPC Wire & Cable's acquisition of EZ Form Cable Corp. strengthened TPC's position as a diversified supplier of high-performance wire and cable solutions to specialized, high cost-of-failure environments.



Rockwood Equity Partners [BJG Electronics] → Connector Tech

Rockwood Equity Partners' acquisition of Connector Tech allowed BJG to increase footprint within the interconnect products distribution space while expanding their value-added production capabilities.



HIGHLIGHTS

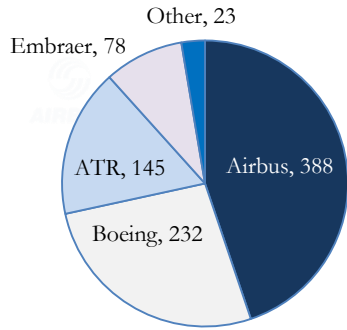
❖ *Airbus won the order race as the 737 MAX crisis continues to loom for Boeing*

❖ *The NMA will be a twin-aisle plane with a capacity for 220 to 270 passengers and a range of 5,200 nautical miles, filling the gap between narrow and wide-bodies*

Paris Air Show Recap

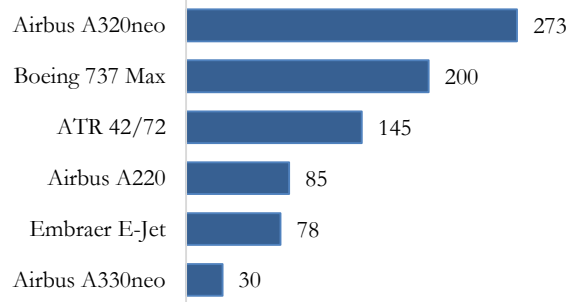
Key Takeaways

Order Commitments



Orders by Aircraft Type

Chart figures exclude over 300 conversions of existing orders announced during the show



The total number of new orders (commitments and options) totaled 866 – a fraction of the 1,464 orders from last year. The lack of orders for Boeing is to be expected as the uncertainties of the 737 MAX loom. Boeing aside, order totals had already been anticipated to be lower as previous years showed plentiful numbers, adding lots of catch-up work to the manufacturing supply chains.

Airbus officially launched the A321XLR on the first business day of the Paris Air Show. The aircraft is a long-range variant of the A321neo, with even more possible flight time than the A321LR. The newly launched A321XLR received 48 firm orders, 89 commitments, and 112 conversions, bringing the order book for the new aircraft to 249.

With the MAX currently grounded, International Airline Group (“IAG”) shocked the aviation world by signing an LOI for 200 aircraft, the biggest single-order announcement at the show. The order is a sign of optimism for the greater MAX program, and helps the aviation community comprehend the near-term return of the aircraft.

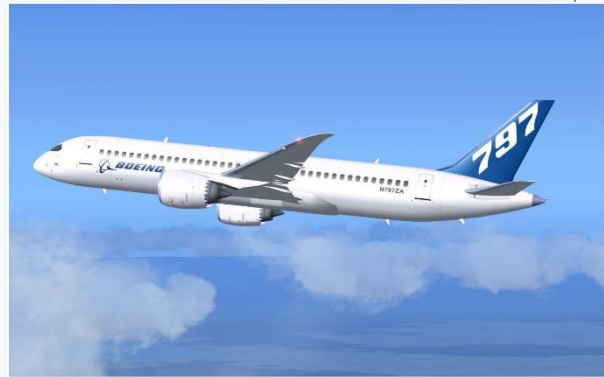
All Eyes on the 737 MAX and New Midsize Airplane (NMA)

The Paris Air Show shed no light on when the Boeing 737 MAX will return to service. The grounding of the aircraft continues to place stress on the supply chain and may delay programs as resources are allocated to ensure the 737 MAX returns to service as soon as possible.

Despite delays for the program, Boeing has ensured that the timeline of the NMA remains on track.

Boeing remains committed to its timeline in which design work commenced in late 2018, building components in 2020, assembly in 2023, flight testing in 2024, and with the new aircraft ultimately entering service in 2025.

Boeing anticipates a market of 4,000 jetliners for the 797.



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





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