

# KAL Capital - Aerospace & Defense

## Quarter In Review

### Introduction

Quarter in Review Q2 2021

Dear Friends,

Hope everyone's summer is off to a great start with some rest and recovery in your near-term future. For us at KAL, our summer vacations (thankfully, no complaints here!) have been deferred to next-year as the M&A market for A&D businesses is operating at a pace that we have never witnessed. While the increase of businesses for sale (due to changes in capital gains treatment) is not a surprise, the aggressive posture of the buy-side has been amazing to witness as valuations and deal structures are firmly above pre-COVID levels and any historical precedent. The supportive environment, already in motion during Q4 2020, has benefitted from COVID restrictions being lifted as well as natural momentum that has both private equity and strategic buyers pursuing transactions aggressively. While we at KAL are grateful for our sell-side mandates as well as the overall M&A market, our experience (maybe cynicism) makes us all too aware that these conditions will not last forever. In the mean-time, it's a great time to be a seller and we expect 2H 2021 to be the most active period for M&A in the sector in the last 20 years.

In the market, we have seen a few macro-themes develop over the course of 2021. First, the recovery in commercial aerospace has exceeded expectations of even the most optimistic market participant. Generally, the pick-up in air traffic that began in Q1 2021 accelerated dramatically in Q2 with the lifting of COVID restrictions expediting the pent-up demand for leisure travel. The pace of the recovery provided a positive demand-shock to a supply-chain desperate for good news but generally unprepared, particularly from a labor stand-point, to support an increased operating tempo. Like we predicted earlier this year, this pick-up is now translating into a much firmer demand picture for the commercial OEM supply-chain. Domestic airlines have taken this opportunity to place massive orders and take delivery for the many white tail B737MAX that have been built-up over the past several years. While the recovery has been largely focused on narrow-body aircraft, we expect that that international travel will be bouncing back shortly as vaccination rates in Europe and Asia start to trend towards US-levels. This has the supply-chain getting ready for an increase in build-rates on narrow-body programs for the first time in almost three years.

On the defense and space side, early signals from the Biden Administration around defense budget have largely been in line with expectations of 1) "flattish" total spending and 2) a pivot towards building weapon systems to defend against threats from near-peer nation states. While the SPAC craze has subsided a bit, we expect the M&A market to focus on growing niches such as space launch, military LEO and programs like the B-21 and the T-X trainer.

Sincerely,



Trevor Bohn  
Partner



Ryan Murphy  
Partner

## Table of Contents

---

**I. KAL Capital Overview**

**II. Q2 2021 A&D M&A Market Overview**

**III. Fiscal Outlook: Cap Gains Tax & DoD Budget**

**IV. Focus on Aerospace Sector Recovery**



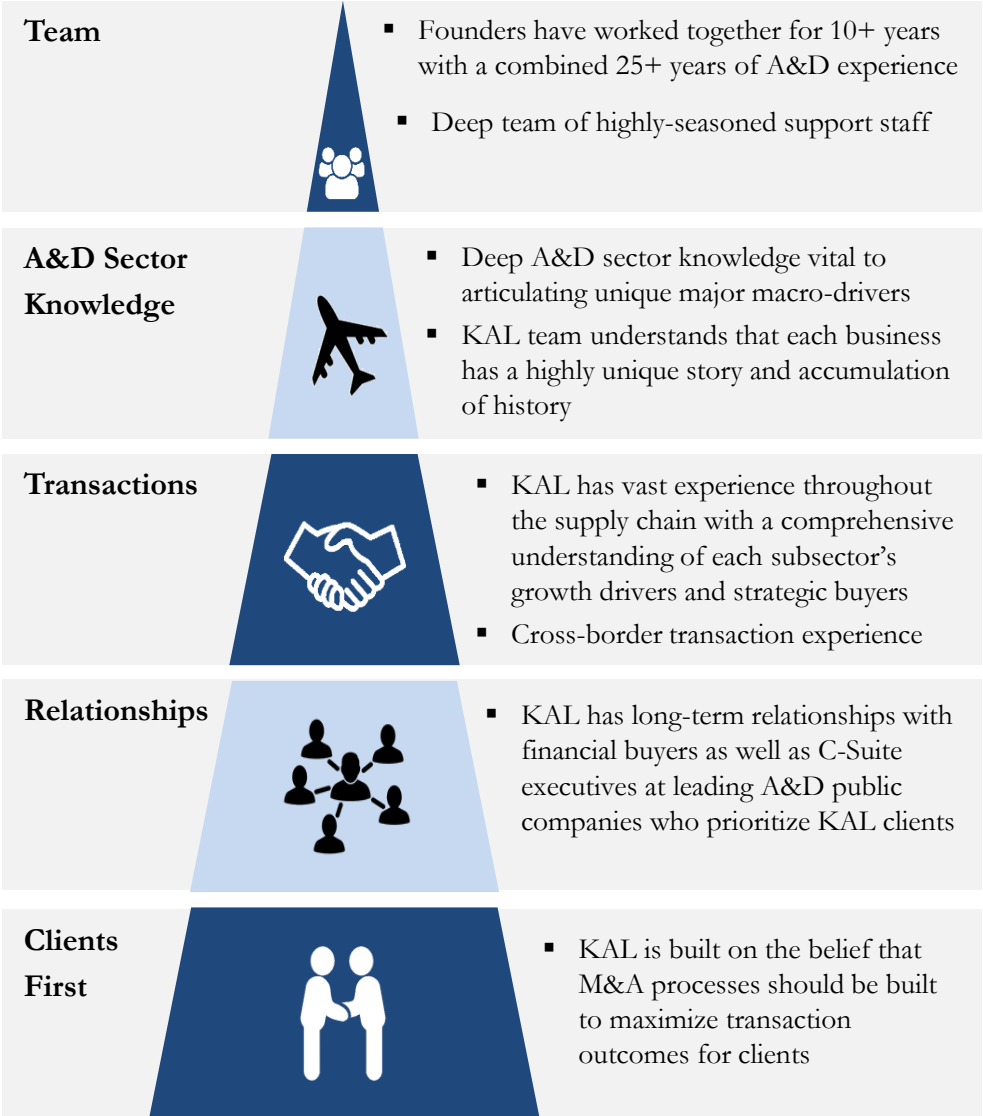
## KAL Capital Overview

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

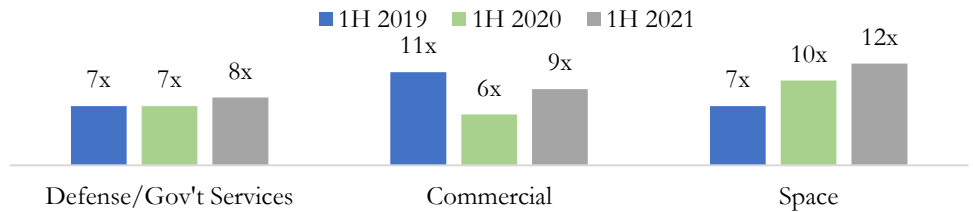


# Public Market and M&A Snapshot

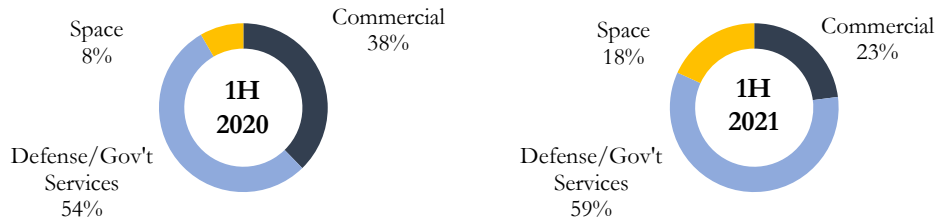
## 2021 Aerospace and Defense M&A Activity

- The market momentum that KAL felt during 2H 2020 is translating into increases in M&A activity and valuations
- Deal activity recovered above 2020 levels in Q2 as markets re-open and recover from the 2020 pandemic shock

### Aerospace & Defense M&A Deal Valuations 1H 2019-21



### End-Market Breakdown



### Q2 Aerospace and Defense Public Market Activity

#### Commercial

- Commercial aerospace valuations were relatively flat in Q2 as airlines continue to work their way back to full capacity.

#### Defense / Government Services

- Defense/Government Services prices rose over the quarter as the Biden administration submitted a proposal of \$715 billion for the 2022 fiscal defense budget. This was largely viewed as a win for the industry as many expected large cuts to the 2022 budget.

#### Space and Satellite

- Space & Satellite companies continued their strong start to 2021 after the pentagon announced an increased focus on space and cyberspace-based systems at the beginning of 2021.

Company	Q2	YTD
AEROJET ROCKETDYNE	2.3%	-8.1%
BOEING	-4.9%	18.6%
CRANE	-3.1%	20.9%
GENERAL DYNAMICS	4.1%	29.1%
HEICO	8.9%	9.3%
L3 Technologies	6.2%	19.8%
LEIDOS	4.6%	-1.5%
LOCKHEED MARTIN	1.9%	9.7%
MOOG	1.3%	9.7%
NORTHROP GRUMMAN	12.9%	23.5%
RAYTHEON	10.6%	24.9%
SPIRIT AEROSYSTEMS	4.4%	29.2%
TEXTRON	19.7%	48.5%
TRIUMPH GROUP	11.4%	76.5%

❖ Defense & Space/Satellite stocks rose significantly in Q2 while commercial prices stayed relatively flat

# Defense & Space Market Overview

❖ The \$753 billion defense budget sets the stage for these programs to continue in 2022

## Defense Growth Programs

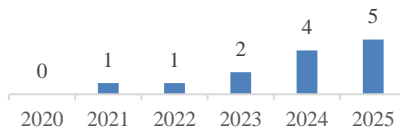
### B-21 Raider



**NORTHROP GRUMMAN**

The B-21 Raider is a very long-range heavy bomber expected to enter US service in 2026-27, eventually replacing portions of three existing fleets.

Production Forecast



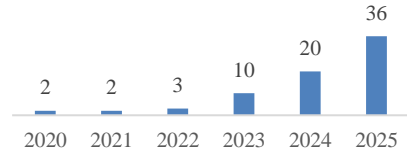
### T-7A Red Hawk



**BOEING**  
**SAAB**

The T-7A Red Hawk is the new advanced pilot training system for fighter and bomber pilots in the US Air Force.

Production Forecast



## Notable Deals

Target	Acquirer	Description
<b>BLACK HORSE</b>	<b>PARSONS</b>	<ul style="list-style-type: none"> <li>Black Horse Solutions provides autonomous and distributed detection, identification, exploitation and defeat of complex communications</li> </ul>
<b>Ridge Engineering LLC</b> <b>THE BECHDON COMPANY INC.</b>	<b>HEICO</b>	<ul style="list-style-type: none"> <li>Ridge Engineering specializes in brazing and machining for a variety of defense OEM's</li> <li>Bechdon provides precision machining services as well as welding for large, mechanically assembled fabrications</li> </ul>
<b>TRONIX3D</b>	<b>AGILE SPACE INDUSTRIES</b>	<ul style="list-style-type: none"> <li>Tronix3D (now Agile Additive) provides 3D printing of metal and polymer materials for mission critical parts within the aerospace and defense supply chain</li> </ul>
<b>FLIR SYSTEMS</b>	<b>TELEDYNE TECHNOLOGIES</b> Everywhere you look	<ul style="list-style-type: none"> <li>FLIR specializes in sensing technologies such as thermal imaging, visible-light imaging, video analytics, measurement and diagnostic, and advanced threat detection</li> </ul>

## Active Buyer Highlight

**REDWIRE**  
A portfolio company of  
 **ae Industrial Partners**

### Recent Acquisitions

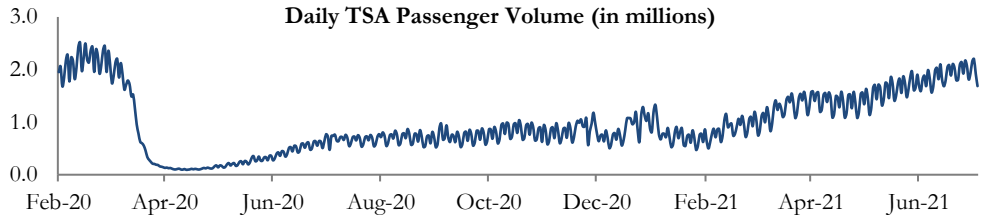
**ADCOLE Space**  
Heritage & Innovation  
 **MADE IN SPACE**  
REDWIRE COMPANY  
 **DEEP SPACE SYSTEMS**  
 **LoadPath**  
 **DSS Deployable Space Systems**  
 **OAKMAN AEROSPACE**  
 **ROCCOR**

❖ Space focused SPACs continue to make headlines in the 1H 2021 and we expect that to continue in 2H

# Commercial Aero Market

## Narrow Body Aircraft Passenger Counts

- Domestic narrow body aircraft travel has begun to pick up significantly since the record lows reached during 2020
- With all airlines now at full capacity, these passenger numbers are expected to increase gradually until returning to 2019 levels in the early 2022



## Key Program Developments



### Bombardier 7500

- Bombardier has found the first homes for its flagship Global 7500 in Canada with deliveries to two customers based there
- Bombardier has reached its targeted production rate for the model of 35 to 40 a year



### Boeing 777x

- The Federal Aviation Administration denied Boeing permission to move forward with a key step in certifying the 777x
- The FAA warned Boeing it may have to increase the number of test flights planned and that certification realistically is now more than two years out, probably in late 2023

## Notable Deals

Target	Acquirer	Description
		Keystone Turbine Services is a full service gas turbine engine repair and overhaul facility
		Camtronics is a provider of distribution and repair services for fixed and rotor wing aircraft
		Applied Aerodynamics is a high-quality, rapid reaction, MRO provider with a specialization in composite parts

## Engine and Aftermarket M&A Making a Comeback

Target	Acquirer	Description	Transaction Details
		HAECO Special Services is a leading provider of MRO services for military and government aircraft	<ul style="list-style-type: none"> <li>• Date: March 2021</li> <li>• This transaction positioning VSE to capitalize on higher-margin technical service opportunities</li> </ul>
		<ul style="list-style-type: none"> <li>• Birken manufactures complex assemblies for the jet engines</li> <li>• Enginetics manufactures precision components for aircraft engine manufacturers</li> </ul>	<ul style="list-style-type: none"> <li>• Dates: May 2021 &amp; March 2021</li> <li>• These acquisitions put Enjet in a strong position to capitalize on the emerging recovery with greater capabilities, resources, and capacity</li> </ul>

❖ Airlines showed promising results in Q2 as passenger counts continue to increase

❖ A&D Aftermarket M&A activity has seen a rise in both the military and commercial subsectors



100 West Broadway  
 Suite 205  
 Long Beach, CA 90802  
[www.kalcap.com](http://www.kalcap.com)  
 P: (949) 404-4201

 HAS BEEN ACQUIRED BY  A PORTFOLIO COMPANY OF  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  A PORTFOLIO COMPANY OF  SALE OF COMPANY	 A PORTFOLIO COMPANY OF  HAS BEEN ACQUIRED BY  SALE OF COMPANY	 A PORTFOLIO COMPANY OF  HAS BEEN ACQUIRED BY  SALE OF COMPANY
 HAS BEEN ACQUIRED BY  A PORTFOLIO COMPANY OF THE JORDAN COMPANY SALE OF COMPANY	 A PORTFOLIO COMPANY OF  HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY
 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 EQUITY INVESTMENT FROM  EQUITY PARTNERSHIP	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 A PORTFOLIO COMPANY OF  HAS BEEN ACQUIRED BY HOLDER FAMILY INVESTMENTS SALE OF COMPANY
 HAS BEEN ACQUIRED BY   SALE OF COMPANY	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 HAS BEEN RECAPITALIZED BY  RECAPITALIZATION	 HAS BEEN ACQUIRED BY  SALE OF COMPANY	 A PORTFOLIO COMPANY OF  HAS BEEN ACQUIRED BY  SALE OF COMPANY



**Trevor Bohn**  
 Partner  
 (949) 404-4203  
[trevor@kalcap.com](mailto:trevor@kalcap.com)



**Ryan Murphy**  
 Partner  
 (949) 404-4204  
[ryan@kalcap.com](mailto:ryan@kalcap.com)

This presentation has been prepared by KAL Capital Markets LLC ("KAL Capital") for the exclusive use of the party to whom KAL Capital delivers this presentation (together with its subsidiaries and affiliates, the "Recipient") using publicly available information. KAL Capital has not independently verified the information contained herein, nor does Salem make any representation or warranty, either express or implied, as to the accuracy, completeness or reliability of the information contained in this presentation, or any other information (whether communicated in written or oral form) transmitted to or made available to the Recipient. Any estimates or projections as to events that may occur in the future (including projections of revenue, expense, net income and stock performance) are based on publicly available information as of the date of this presentation. There is no guarantee that any of these estimates or projections will be achieved. Actual results will vary from the projections and such variations may be material. Nothing contained herein is, or shall be relied upon as, a promise or representation as to the past or future. KAL Capital expressly disclaims any and all liability relating to or resulting from the use of this presentation.

This presentation has been prepared solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. The Recipient should not construe the contents of this presentation as legal, tax, accounting or investment advice or a recommendation. The Recipient is urged to consult its own counsel, tax and financial advisors as to legal and related matters concerning any information described herein. This presentation does not purport to be all-inclusive or to contain all of the information that the Recipient may require. No investment, divestment or other financial decisions or actions should be based solely on the information in this presentation. The Recipient should not rely on any information contained herein.

This presentation has been prepared on a confidential basis solely for the use and benefit of the Recipient. The Recipient agrees that the information contained herein and in all related and ancillary documents is not to be used for any other purpose, that such information is of a confidential nature and that Recipient will treat it in a confidential manner. Distribution of this presentation to any person other than the Recipient and those persons retained to advise the Recipient who agree to maintain the confidentiality of this material and be bound by the limitations outlined herein, is unauthorized without the prior consent of KAL Capital. This material must not be copied, reproduced, distributed or passed to others at any time without the prior written consent of KAL Capital.