

KAL Capital - Aerospace & Defense

Quarter In Review

Introduction

Quarter in Review Q3 2021

Dear Friends,

Unreal. That is simply the only way to describe the M&A market at this point. Just when we thought there could not be more activity and valuations could not be stretched any higher, we continue to see non-stop new transaction announcements all at or near all-time high valuation multiples. Our belief is that the back-half of 2021 will break every record worth noting from a deal activity perspective. Q4 is sure to continue at the same breakneck pace as the rush to beat capital gains tax changes continues unabated. As an aside, it appears that fears of radical, retroactive changes in capital gains tax treatment were overdone. Unfortunately (or fortunately in this case), it's a good reminder that material changes in our tax system and any other regulatory framework are incredibly difficult to effectuate.

For KAL Capital, our Q3 was truly madness with five closed transactions. That pace is incredible and at times felt a touch unsustainable, but we are grateful to our team and our clients at this remarkably busy time. Our closed transactions were in many of the most highly coveted sub-sectors within A&D including hypersonics, cybersecurity and composites. These businesses were undoubtedly leaders in their respective niches and fetched valuations that reflected their market leading position as well as buyer pools that are pre-conditioned to pay nose-bleed level multiples.

Despite building to a crescendo in Q4, we are beginning to now transition towards conversations centering around on what 2022 is going to look like; essentially, the question on everyone's mind is will there be some sort of pause in M&A activity given the frenetic pace of the last 18 months. Our perspective is that overall activity levels only have one direction to go from here if only because the entire M&A ecosystem is at risk for burn-out due to going all out for nearly a year. That said, we expect EBITDA multiples to continue to maintain or drift higher. We have been amazed at how easily the buyer community has absorbed the incredible amount of supply (deal activity) with no adverse impact on valuations. In particular, we have seen and experienced a seemingly unlimited appetite from existing sponsor-backed businesses for smaller, complimentary acquisitions or so called "bolt-on's." While this has always been an important avenue in the processes we run, we have never seen this category of buyers so prepared to out-bid public-strategic buyers. This development has created an advantageous, structural change for our clientele that is allowing businesses in our target zone (\$20mm - \$250mm Enterprise Value) to generally have multiple options to sell to sponsor-backed businesses at valuations that are multiple turns higher than we have witnessed. Anyways, it's unequivocally a great time to be in the aerospace / defense M&A ecosystem. Fingers crossed that the good times keep rolling.

Sincerely,



Trevor Bohn
Partner



Ryan Murphy
Partner

Table of Contents

I. KAL Capital Overview

II. Q3 2021 Public Market and M&A Snapshot

III. Defense & Government Services Overview

IV. Commercial Aero Market



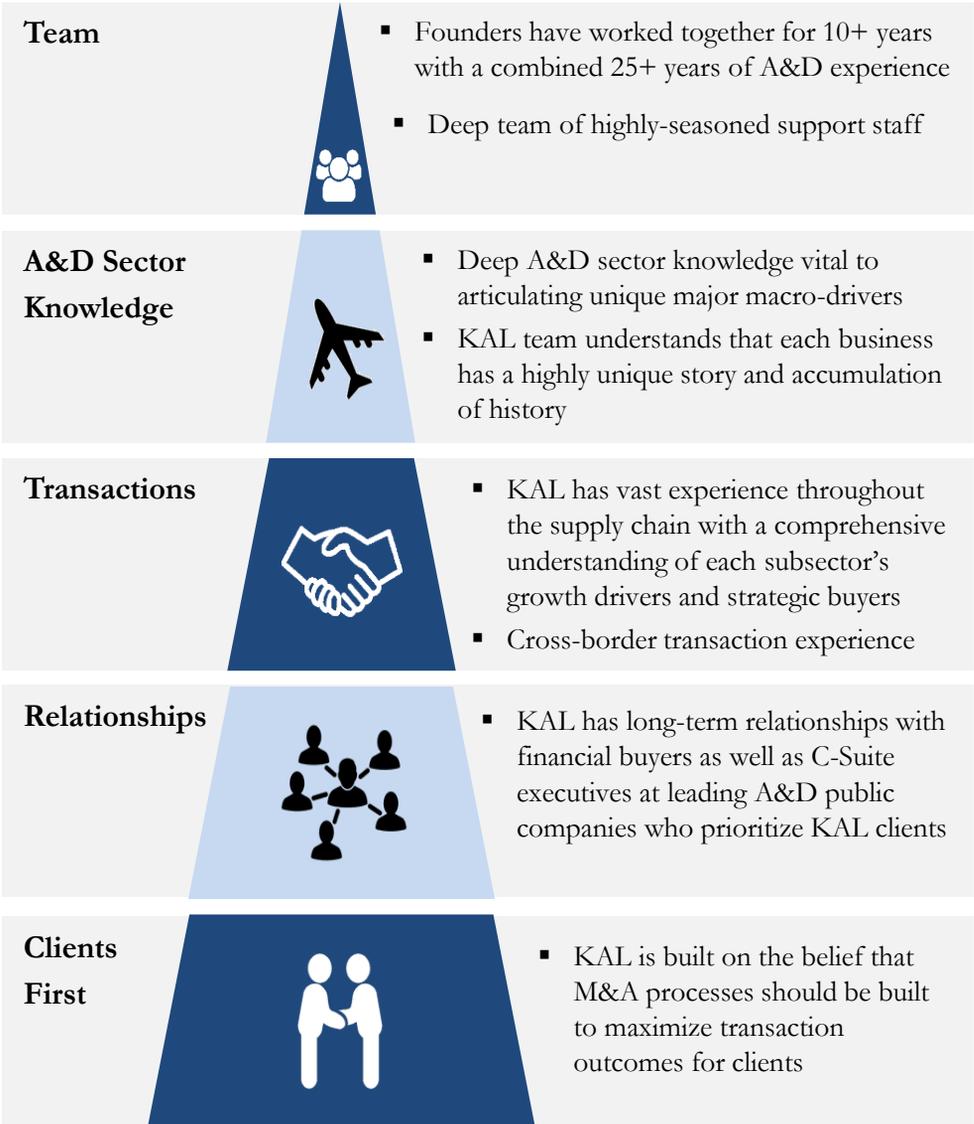
KAL Capital Overview

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**



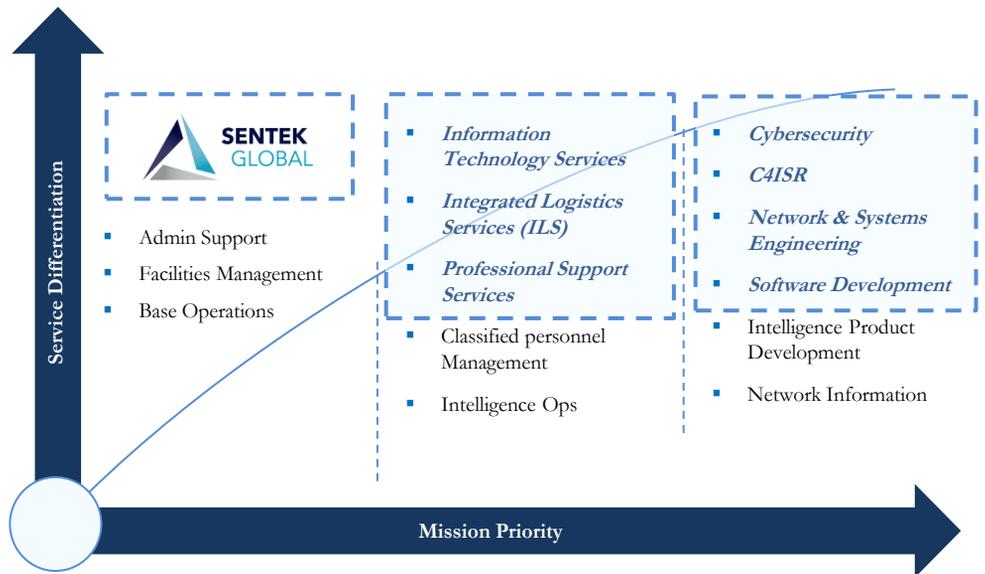
KAL Advises Sentek Global

Sentek Global Acquired by Deloitte



- KAL Capital announced the sale of Sentek Global to Deloitte, where KAL served as the sell-side advisor on the transaction
- Sentek Global, is a leading provider of systems engineering, cybersecurity, program management and integrated logistics services
- Sentek focuses its efforts on mission critical services for different branches of the government and military

❖ *By acquiring Sentek Global, Deloitte expands its existing presence in San Diego, while also bolstering its current mission-focused systems engineering capabilities and cyber offerings to other military branches and federal agencies*



Investment Highlights

Highly-Trained Workforce With Unparalleled Experience and Expertise Within the Industry

Focused on Complex, High-Value Services

Trusted Partner on Key Navy C4ISR and Cybersecurity Priorities

KAL Advises Forrest Machining

Forrest Machining Acquired by Endeavour Capital



- KAL Capital announced the sale of FMI Aerostructures to Endeavour Capital, where KAL served as the sell-side advisor on the transaction
- With 230,000 square feet under roof and over 130 active spindles, FMI is one of the largest independent A&D manufacturing businesses in North America
- The Company specializes in hard metal components, large aluminum structures, and complex assemblies

Production Programs

Products Supported



Bulkheads



Hinges



Fuel Doors



Planks



Flap Tracks



Wingtips

Major Platform Supported



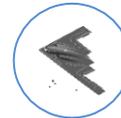
F-35



F/A-18



F-15



B-2



T-38



C-130

Service Life Extension Programs

Products Supported



Planks

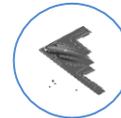


Flap Tracks



Wingtips

Major Platform Supported



B-2



T-38



C-130

Investment Highlights

Vertically-Integrated Operations

Highly-Coveted F 35 Exposure

Unique Manufacturing Expertise Suitable for both Production & Spares/SLE Military Aircraft

Specialized in Large, Fracture Critical Assemblies

Long-Standing Relationship w/ Blue Chip Customers
Backed by Robust Backlog

Identified Near-Term Growth Opportunities

❖ *By acquiring FMI, Endeavour seeks to create a stronger supply chain for critical structures through value added partnerships with its customers and delivering the best overall value in terms of quality, delivery, and service*

KAL Advises Systima Technologies

Systema Technologies Acquired by Karman Missile & Space Systems



- KAL Capital announced the sale of Systima Technologies to Karman Missile & Space Systems, a portfolio company of Trive Capital, where KAL served as the sell-side advisor on the transaction
- Systima Technologies is a leading manufacturer of energetic components and complex composite integrated systems supporting the defense, space, and hypersonic markets
- Systima's expertise includes energetic systems and aerostructures for missile, hypersonic, and launch vehicle platforms, as well as insensitive munition technologies

❖ The addition of Systima represents another acquisition that expands the core competencies, customer base, and platform content in a strategic way to enable Karman to deliver more comprehensive solutions to its customers in the space and hypersonic markets

Missile & Hypersonic Systems



Shroud Systems



Insensitive Munitions Technologies



Stage Separation Systems



Thrusters



Payload Release Systems



Recovery & Parachute Mortars



Payload Deployment



Safing Devices



Advanced Structures



Electromechanical



Fire sets



Pyrovalves

Defense Systems



Launch Tubes



Weapons Pods & Pylons



Carriage & Release Systems



Cutters



Hot Gas Generators



Safe-and-Arms Devices

Custom Energetic Components

Investment Highlights

Leader in the Development of Hypersonic System Solutions

Technical Leader in the Design & Engineering of Ordnance & Ballistic Devices and Aerostructures

Focused on Integrated Systems and Turn-Key Solutions

Vertically-Integrated with In-House Engineering, Ordnance, Design, Testing, and Composites Fabrication

OEM Partner from Development to Production on Launch, Spacecraft, Defense, and Hypersonic Programs

Strong Management Team with Best-in-Class Operations System

KAL Advises Kemco Aerospace Manufacturing

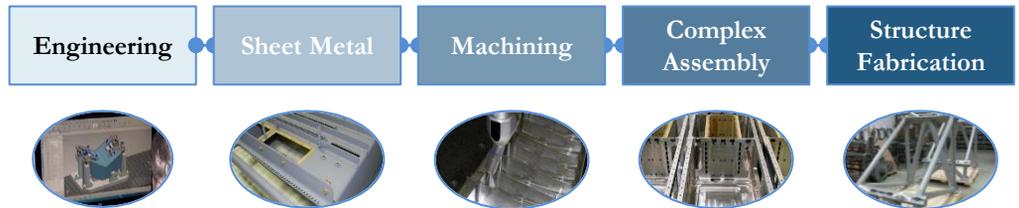
Kemco Aerospace Manufacturing Acquired by Crestview Aerospace



- KAL Capital announced the sale of Kemco Aerospace Manufacturing Acquired by Crestview Aerospace, a portfolio company of American Industrial Partners, where KAL served as the sell-side advisor on the transaction
- Kemco is a manufacturer of complex machine components and assemblies of varying complexity from wide-range of materials including aluminum, titanium and other exotic metals
- Headquartered in St. Louis, MO, Kemco is housed across two state-of-the-art facilities totaling 90,000 square feet

❖ *With the Kemco acquisition, Crestview adds a variety of well-funded DoD programs and Kemco's established long-standing relationships with aerospace and defense OEMs including Bell, Boeing and Lockheed Martin*

Vertically Integrated Capabilities



Major Platforms Supported



Investment Highlights

Vertically-Integrated Operations

Focus on Highly Complex, Flight-Critical Assemblies

Long-Standing Relationship w/ Blue-Chip OEMs and their Tier I Suppliers

Positioned on Key Military Platforms at Every Stage of the Production Lifecycle

Significant Investment in Infrastructure and Capacity to Support Future Growth

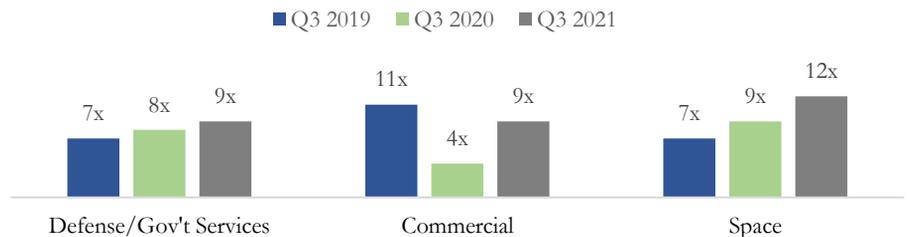
Identified Near-Term Growth Opportunities

Public Market and M&A Snapshot

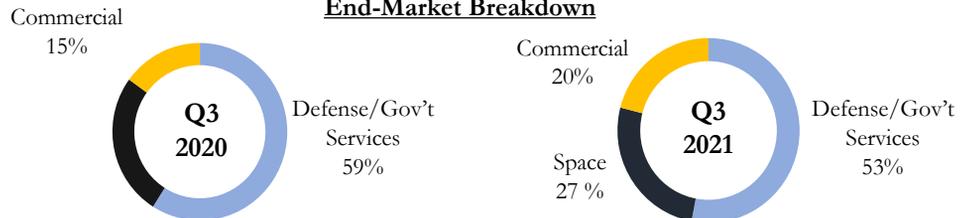
2021 Aerospace and Defense M&A Activity

- The market momentum that KAL felt during 1H 2021 is continuing into the third quarter
- Deal activity recovered above 2020 levels in Q3 as markets continue to improve from the 2020 pandemic shock

Aerospace & Defense M&A Deal Valuations Q3 2019-21



End-Market Breakdown



Q3 Aerospace and Defense Public Market Activity

Commercial

- Commercial aerospace valuations were slightly down in Q3 as airlines continue to work their way back to full capacity

Defense / Government Services

- Defense/Government Services prices dipped slightly during Q3 but YTD gains still remain strong as the industry was affected far less by the pandemic

Space and Satellite

- Space & Satellite companies took a small hit this quarter but YTD prices also remain strong in this sector as companies continue to shift their focus to outer space

Company	Q3	YTD
AEROJET ROCKETDYNE	-10.0%	-17.6%
BOEING	-8.5%	4.7%
CRANE	2.0%	21.7%
GENERAL DYNAMICS	4.4%	31.3%
HEICO	-5.5%	-0.5%
L3 Technologies	1.9%	17.2%
leidos	-5.2%	-8.5%
LOCKHEED MARTIN	-8.5%	-2.8%
MOOG	-10.3%	-5.2%
NORTHROP GRUMMAN	-1.2%	18.4%
Raytheon	0.6%	20.4%
SPIRIT AEROSPACE	-6.9%	12.6%
TEXTRON	1.2%	45.0%
Triumph Group	-10.6%	47.3%

Defense & Government Services Overview

❖ The Department of Defense's IT budget was requested at \$38 billion for IT in 2021

Cybersecurity Market Update

Cybersecurity at a Critical Juncture

In response to an unprecedented 79 ransomware attacks against US government organizations in 2020, costing an estimated \$18.9 billion, the White House requested \$9.8 billion to go toward civilian cybersecurity programs across the government.

Recent Policy Developments

The Cybersecurity and Infrastructure Security Agency (CISA) announced the creation of a new agency – the Joint Cyber Defense Collaborative (JCDC) – on August 6th to lead the development and execution of U.S. cyber defense.

U.S. Government Cybersecurity Spending

(\$ in billions)



Notable Transactions

Target	Acquirer	Description
 Copious Imaging	 ANDURIL	▪ Copius Imaging is a Massachusetts company focused on passive sensing technology to counter unmanned aerial systems
 SE	 Raytheon Technologies	▪ SEAKR is a leading supplier of advanced spacecraft electronics specializing in designing and manufacturing highly customized systems
 GEOST	 ATI PARTNERS	▪ Geost provides hardware for the Ground-Based Electro-Optical Deep Space Surveillance system used by the U.S. Space Force to track deep space objects
 Intelligent Automation, Inc.	 BLUEHALO	▪ Intelligent Automation, Inc. provides advanced technology development and productized solutions in artificial intelligence and machine learning, cybersecurity, hypersonics, space, 5G, data analytics and radio frequency

Active Buyer Highlight

Quantic
ELECTRONICS

A portfolio company of

ARCLINE
INVESTMENT MANAGEMENT

- Quantic is an electronic component company focused on mission-critical electronics in the military, aerospace, industrial, and commercial markets

Recent Acquisitions

PAKTRON
CAPACITORS

- Paktron is one of the oldest capacitor manufacturers in the United States

 BEI
PRECISION

- BEI designs and manufactures position feedback sensors and frequency reference technologies

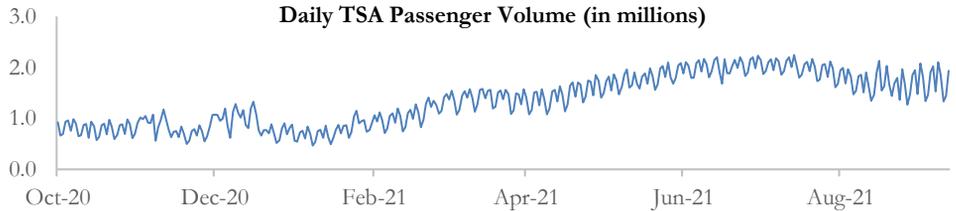
 X-microwave

- X-Microwave develops modular building blocks for RF and Microwave systems

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



HondaJet 2600

- Honda Aircraft has unveiled a new business jet concept intended to sit at the upper end of the light-jet segment but have sufficient range and size to enable it to compete in the mid-size market



Gulfstream G400 & G800

- Gulfstream has rolled out its two latest business jets aimed at filling niches in the business jet market, the Gulfstream G800 is the longest-range aircraft to be built by the company, and the Gulfstream G400 is Gulfstream's first large-cabin jet in a decade

Notable Deals

Target	Acquirer	Description
		Unical Aviation is a leading provider of aircraft parts and components to the global commercial aerospace market
		Inovar provides engineering, manufacturing, product assemblies and aftermarket services that are used by original equipment manufacturers (OEMs)
		Turbopower is a provider of MRO services for gas turbine engines, auxiliary power units and component parts to military and commercial customers

Boeing Jet Deliveries Lag Again

- While recovering air travel should have laid the foundation for a strong recovery in Boeing's commercial jet deliveries in 2021, the aircraft manufacturer has struggled to clear its massive backlog of undelivered jets
- The slow pace of recovery continued in the third quarter with Boeing announcing that it delivered 85 commercial jets during the period, largely because the company was forced to halt deliveries of the 787 Dreamliner for the entire quarter due to a quality issue



❖ Airlines continued to show promising results in Q3 as passenger counts continue to get closer to 2019 norms



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

 HAS BEEN ACQUIRED BY A PORTFOLIO COMPANY OF SALE OF COMPANY	 HAS BEEN ACQUIRED BY A PORTFOLIO COMPANY OF SALE OF COMPANY	 HAS BEEN ACQUIRED BY SALE OF COMPANY	 HAS BEEN ACQUIRED BY SALE OF COMPANY	 HAS BEEN ACQUIRED BY A PORTFOLIO COMPANY OF SALE OF COMPANY
 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 COVANT 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



Trevor Bohn
 Partner
 (949) 404-4203
trevor@kalcap.com



Ryan Murphy
 Partner
 (949) 404-4204
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.