

# KAL Capital - Aerospace & Defense

## Quarter In Review

### Introduction

---

Dear Colleagues –

The end of Q1 is here and we couldn't be more excited about the rest of the year, we hope you all share a similar sentiment. We couldn't ask for a better start to our year with several new team members and record setting deal flow as the aerospace/defense M&A market continues to outperform the broader market. Just as we predicted in our last Quarterly Industry Review, 2022 will likely outpace 2021 in terms of deal volume and size!

While there have been several interesting developments in the commercial aerospace sector, the news and expected follow-on effects of Russia's invasion of Ukraine have dominated conversations. Simply put, our view is that Russia's belligerence has forced a re-evaluation of previous paradigms that assumed a generally peaceful world order with limited real threat of war. This realization will have both near and long-term implications for the A&D supply-chain as leaders across the world evaluate and invest in strategic deterrents aimed to counter-balance the naked aggression displayed by a nuclear-armed Russia. KAL's perspective is that the growth seen in the recent DoD budget is just the tip of an upcoming bow wave of re-investment in capabilities that were previously deemed Cold War-era "relics." While the DoD has been focused on pivoting to address "near-peer" threats, we expect further investment across the armed forces with major beneficiaries being the Air and Space Forces. On the program side, we view the major winners to include GBSD, B-21, JSF (over the long-run), NGAD amongst others, particularly offensive and defensive hypersonic capabilities.

Expected growth in long-term funding of major procurement and R&D programs will be a major force in maintaining elevated valuations for businesses with defense end-market exposure. While defense multiples have remained above historic norms, the recent turn of events materially reduces risk that the progressive wing of the Democrat Party will be successful in slashing DoD budgets; thereby, creating a strong tailwind for M&A processes. On the commercial aero side, the aviation world is benefitting massively from a reduction in COVID restrictions and a continued sharp rebound in both leisure and business air travel. We have seen the first commercial aero OEM transactions coming to life and expect real momentum in the sector in 2H 2022.

As we sit at our desks and plan out the rest of the year, we're ecstatic about being back on the tradeshow circuit and will be attending MRO Americas, Special Operations Forces Industry Conference, Space Tech Exposition and the International Microwave symposium. If any of these are on your calendar as well, we'd love to connect and meet face to face like the good old days.

Please don't hesitate to reach out as we'd love to hear your input on Q1 and preview for the rest of the year!

Sincerely,



Trevor Bohn  
Partner



Ryan Murphy  
Partner

## Table of Contents

---

**I. KAL Capital Overview**

**II. KAL Advises Systems Innovation Engineering**

**III. Q1 2022 M&A Update**

**IV. Defense Focus: 2023 Budget**

**V. Defense and Government Services Overview**

**VI. Commercial Focus: Quarter in Review**

**VII. Commercial Aerospace Market Overview**



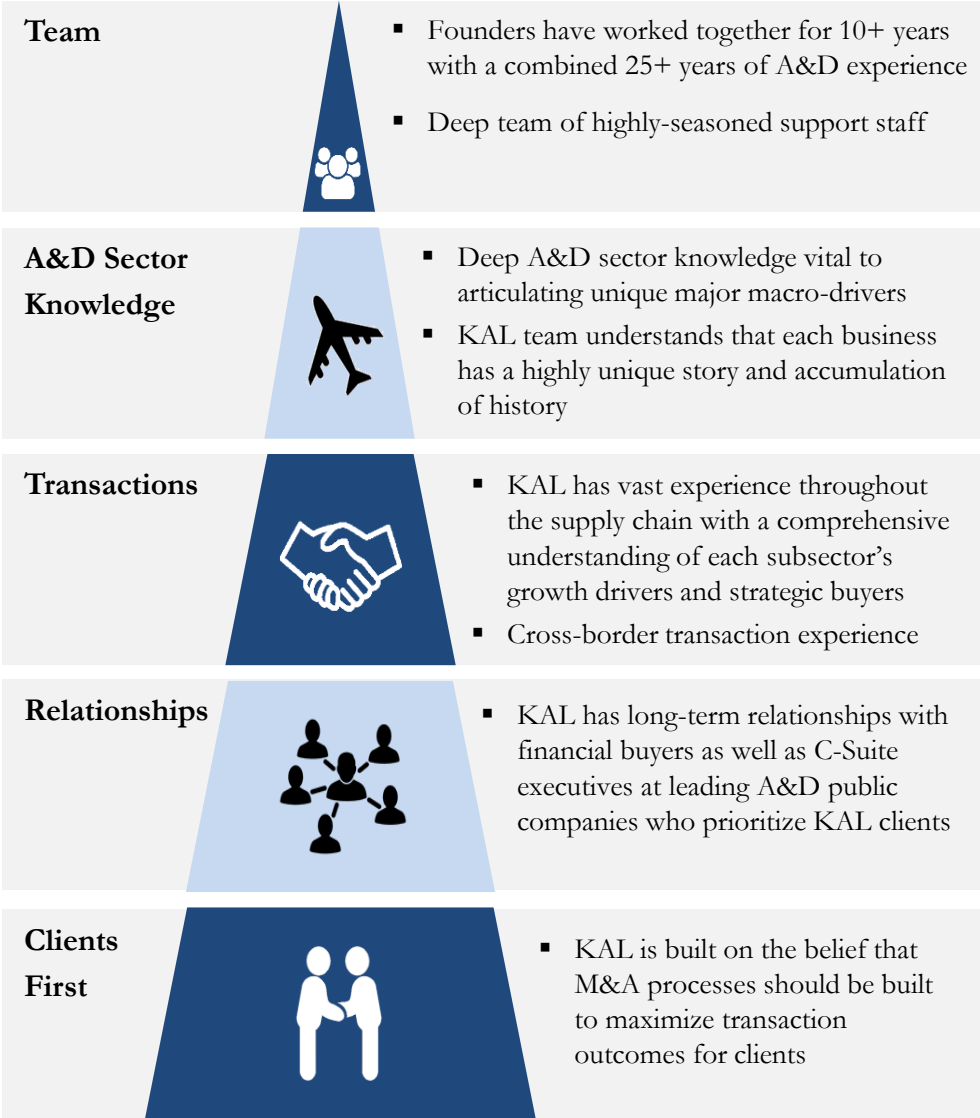
## KAL Capital Overview

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 Systems Innovation Engineering

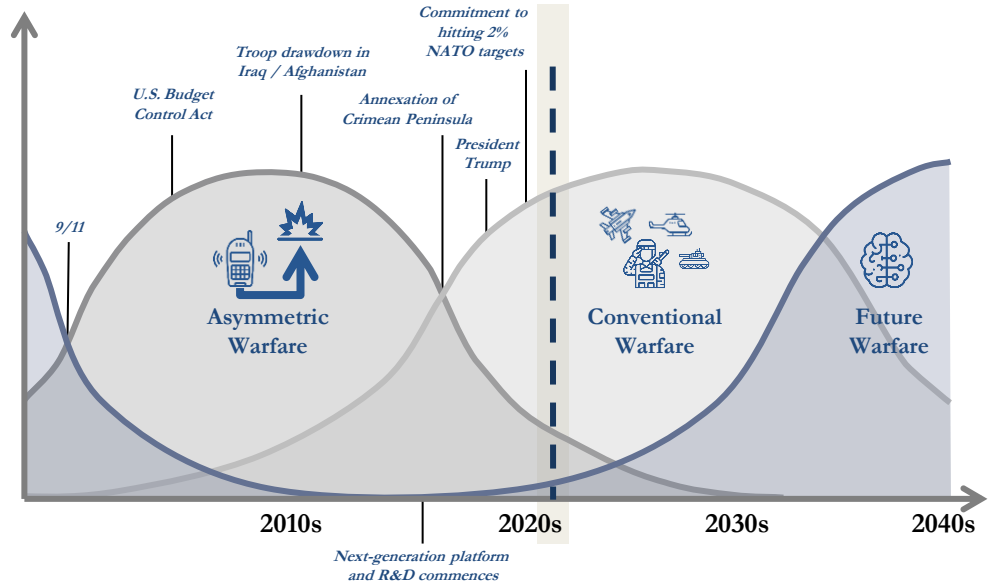
## System Innovation Engineering Acquired by Trive Capital



- KAL Capital announced the sale of Systems Innovation Engineering to Trive Capital, where KAL served as the sell-side advisor on the transaction
- Systems Innovation Engineering provides defense suppliers with strategic solutions that drive efficiency and effectiveness in product development, manufacturing, and sustainment
- Through technical capabilities and decades of expertise, SIE is committed to working with suppliers to improve supply chain reliability for critical defense technologies

❖ *By Acquiring Systems Innovation Engineering, Trive Capital seeks to further strengthen its Aerospace and Defense portfolio, while bolstering its footprint in the government services market*

## DOD's Renewed Focus in Conventional Warfare due to Great Power Threats



## Investment Highlights

**Non-Traditional DOD Contractor Solving Complex Supply Chain Engineering Challenges**

**Ideally Positioned to Execute DOD Key Priority of Expanding Defense Industrial Supplier Base**

**Trusted Partner on Key Defense Industrial Supplier Expansion Initiatives**

**Broad Range of Specialized Systems Engineering Solutions and Capabilities**

**Attractive Contract Backlog and Pipeline Opportunities**

# Q1 2022 M&A Update

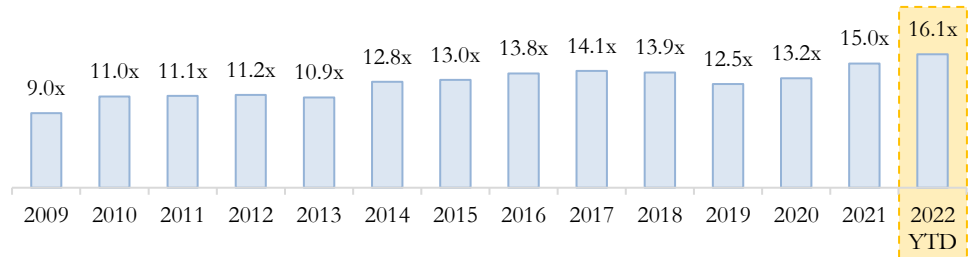
❖ Companies received unprecedented returns in the M&A market as multiples continued to climb in 2021

❖ The growth of the M&A industry in 2021 should continue in 2022 as companies continue to look for new areas of growth

## EBITDA Multiples on the Rise

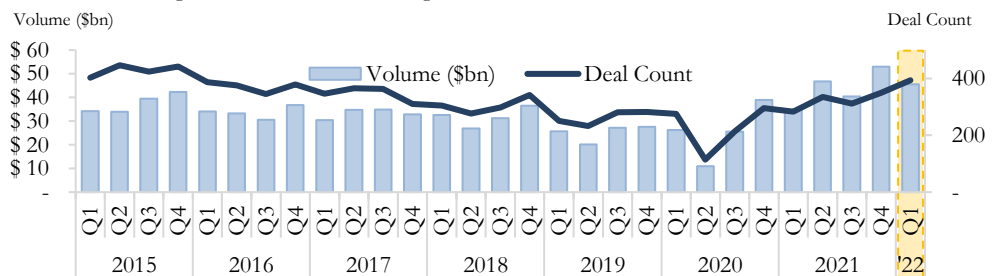
- EV/EBITDA Multiples surpassed the record highs from 2021 as buyers are ready to deploy their reserve capital throughout 2022
- The Average EBITDA Multiple has increased from 9.0x in 2009 to 16.1x in 2022 YTD

### Average EV/EBITDA Multiples



## Long Term M&A Volume

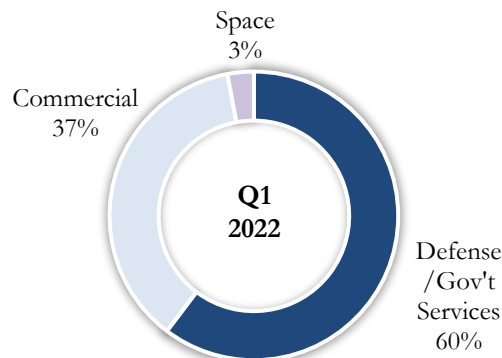
- The U.S. M&A market has remained strong following a record setting year in 2021 with many of the underlying market dynamics remaining the same in 2022
- Private Equity dry powder remains near all time highs, leading experts to forecast continued high levels of M&A throughout 2022



*Most major firms predict the momentum to continue well in into 2022 as demonstrated in Q1, despite rising rates and political factors*

## 2022 Q1 Aerospace & Defense M&A

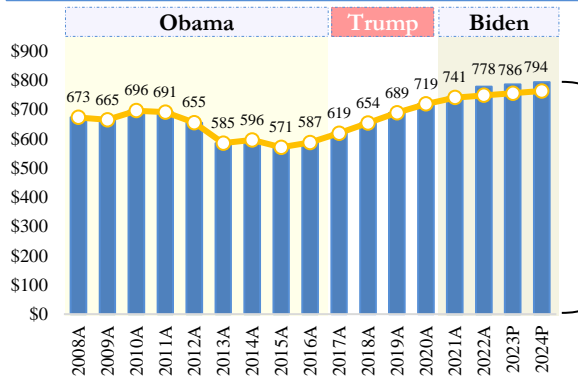
### End Market Breakdown



- Defense:** In Q1 2021, there were 27 Defense & Gov't services M&A transactions; 2022 YTD, there have been 41 Defense & Gov't services M&A transactions
- Commercial:** The global commercial aircraft market is expected to grow from \$163bn to \$181bn in 2022 representing a CAGR of 10.2%
- Space:** 2020 space related M&A deals totaled \$5.1bn, 2021 space related M&A deals totaled \$21.4bn, 2022 space related M&A activity is expected to far surpass previous years

# Defense Focus: 2023 Defense Budget Outlook

## DOD Announces Increased Budget for 2023



- The defense budget proposal for 2023 sits at \$773 billion total
- The defense budget has shown steady and continued growth for the last 10 years, with the budget proposal growing 4.1% from 2022 to 2023
- Expectations of continued aggressive investment in defense infrastructure by the U.S. make this an ideal time to be a business in the defense industry

- A major focus of the defense budget moving forward is Joint All-Domain Command and Control (JADC2) – the DOD's concept to connect sensors from all the military services into a single network
- Funding for JADC2 has become a consistent and growing part of the defense budget, with 2022 JADC2 spending sitting at \$6.8 billion and further increased expected in 2023

## Key 2023 Budget Highlights

### Air Force

- The FY 2023 request totals \$170 billion of which \$40.2 billion is allocated for classified projects
- Of note, the Air Force decided to decrease purchases of F-35s from Lockheed Martin and increase purchases of F-15EXs from Boeing



### Space Force

- The FY 2023 request totals \$27.6 billion, a \$10.6 billion increase from 2022
- The increase is notably for increased R&D spend such as further development of the Space Warfighting Analysis Center (SWAC)



### Navy

- The FY 2023 request totals \$231 billion, with \$181 billion allocated to the Navy and \$50 billion to the Marine Corps
- Of note, the Navy aims to decommission 24 ships, saving \$3.6 billion, while procuring an additional 9 new ships



## Russia – Ukraine Conflict

- The DOD budget proposal for 2023 proposed \$6.9 billion aimed at addressing the threats stemming from the Russia – Ukraine Conflict
- Nearly \$1 billion of the proposed funding is allocated for assistance to Ukraine by the State Department, USAID, and Department of Defense to counter Russian influence and to meet the emerging needs related to security, energy, cyber security issues, disinformation, macroeconomic stabilization, and civil society resilience
- President Biden specifically cited his desire for continued investments in a forceful response against Putin's advances in Ukraine through economic, humanitarian, and security initiatives

❖ *The Defense budget continues to grow year over year with a focus on maintaining U.S. dominance and integrated deterrence*








❖ *All branches of the military saw healthy budget increases with a focus on R&D spending to keep up with near peer competitors*

❖ *The Russia – Ukraine conflict has added a level of ambiguity to the U.S. defense plan and worldwide political environment not seen in decades*











## Defense & Government Services Overview

### Public Market Performance

Company	Share Price	% of 52-Wk.High	Market Cap. (\$bn)		EV/Revenue		EV/EBITDA	
			03/31/22	12/31/21	2022	2021	2022	2021
 <b>Raytheon Technologies</b>	\$ 99.07	94.9%	\$ 150.64	\$ 134.95	2.7x	2.5x	14.6x	13.6x
 <b>LOCKHEED MARTIN</b>	441.40	92.0%	116.52	99.83	1.9x	1.7x	13.8x	12.3x
 <b>NORTHROP GRUMMAN</b>	447.22	91.1%	66.67	62.93	2.3x	1.9x	8.8x	7.5x
 <b>GENERAL DYNAMICS</b>	241.18	94.6%	67.06	59.11	2.0x	1.7x	13.9x	11.8x
 <b>L3HARRIS™</b> FAST. FORWARD.	248.47	88.8%	47.61	41.99	3.1x	2.7x	14.5x	12.8x
 <b>BAE SYSTEMS</b>	37.67	92.7%	29.37	17.28	1.3x	1.2x	9.9x	9.0x
 <b>leidos</b>	108.02	98.5%	14.64	12.89	1.4x	1.2x	11.3x	9.7x

### Notable Transactions



Target	Acquirer	Description
 <b>HONEYBEE ROBOTICS</b> Spacecraft Mechanisms Corporation	 <b>BLUE ORIGIN</b>	<ul style="list-style-type: none"> <li>Developer of highly customized robots, smart machines, mechanisms and related technologies for aerospace and defense market applications</li> </ul>
 <b>RTC</b> AEROSPACE	 <b>stellax</b> CAPITAL MANAGEMENT	<ul style="list-style-type: none"> <li>Manufacturer and provider of MRO services on aircraft flight control systems, landing gear, ground support equipment, and missiles</li> </ul>
 <b>FLIGHT MICROWAVE</b>	 <b>HEICO</b>	<ul style="list-style-type: none"> <li>Designer and manufacturer of high-power microwave components for government aerospace and defense markets</li> </ul>
 <b>Cosmic</b> Advanced Engineering Solutions	 <b>KROTOS™</b>	<ul style="list-style-type: none"> <li>Designer and engineer of IT and engineering solutions including RF and radios, digital signal processing, geolocation, and more</li> </ul>

### Active Buyer Highlight



- Novaria Group is a portfolio company of KKR
- Family of precision component companies serving the aerospace and defense markets

#### Recent Acquisitions

-  **HYDRO-FITTING**  
MANUFACTURING CORPORATION
  - Designer and manufacturer of high-pressure valves, charging kits, hose assemblies and fittings
-  **ADVANCED COATING**  
POLYURETHANE COATING SPECIALIST
  - Provider of surface enhancement and protection technologies and Parylene coating services
-  **GK MECHANICAL SYSTEMS**
  - Mechanical engineering and manufacturing firm specializing in locking systems and related components





❖ Public companies in the defense sector are trading near 52-week highs, bolstered by a growing 2022 defense budget










# Commercial Aerospace Market Overview

## Public Market Performance

Company	Share Price	% of 52-Wk.High	Market Cap. (\$bn)		EV/Revenue		EV/EBITDA	
			12/31/21	12/31/20	2021	2020	2021	2020
 <b>BOEING</b>	\$ 191.50	73.5%	\$ 114.42	\$ 125.55	2.5x	2.5x	19.4x	17.1x
<b>AIRBUS</b>	30.22	86.3%	98.36	94.61	1.6x	1.7x	12.4x	13.4x
 <b>SPIRIT AEROSYSTEMS</b>	48.89	91.7%	5.11	2.54	1.9x	1.8x	18.0x	16.4x
<b>HEICO</b>	153.54	97.9%	18.82	18.69	9.9x	9.7x	36.3x	35.7x
 <b>MTU Aero Engines</b>	241.50	91.6%	12.37	10.19	2.8x	2.9x	18.2x	18.8x
<b>TRANSDIGM GROUP INC.</b>	651.54	94.7%	37.95	35.58	10.5x	10.7x	23.5x	24.9x
 <b>Parker</b>	283.76	83.5%	38.26	41.64	2.9x	3.1x	13.0x	14.5x

## Notable Transactions

Target	Acquirer	Description
 <b>VELOCITY AEROSPACE</b>	 <b>PAG</b>	<ul style="list-style-type: none"> <li>Provider of aviation maintenance, repair, and overhaul services, serving the commercial aviation market</li> </ul>
 <b>DART AEROSPACE</b>	<b>TRANSDIGM GROUP INC.</b>	<ul style="list-style-type: none"> <li>Provider of helicopter mission equipment solutions to civilian aircrafts</li> </ul>
 <b>PTS AVIATION INC.</b>	 <b>StandardAero</b>	<ul style="list-style-type: none"> <li>Supplier of serviceable aircraft engines, engine components and engine inventory that will expand StandardAero's portfolio of engine services and enable them to provide customizable MRO Services</li> </ul>

## Business Jets – Active Buyer Highlight

### WHEELS UP

- Wheels Up is a publicly listed private aviation company
- Allows members to charter private jets at an all-inclusive hourly rate

### Recent Acquisitions



- Part 135 operator of a fleet of Citation jets, which includes 12 CJ3, CJ3+ and CJ4 aircraft



- Global aviation services company with two groups serving unique customers and markets



- Provider of executive charter services, aircraft management programs, aviation consulting, aircraft acquisitions and sales services



3738 Bayer Ave  
 Suite 103  
 Long Beach, CA 90808  
[www.kalcap.com](http://www.kalcap.com)  
 P: (949) 404-4201

 HAS BEEN ACQUIRED BY <b>TRIVE CAPITAL</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>CRESTVIEW</b> A PORTFOLIO COMPANY OF <b>AMERICAN INDUSTRIAL PARTNERS</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>KARMAN</b> A PORTFOLIO COMPANY OF <b>TRIVE CAPITAL</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>ENDEAVOUR</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>Deloitte.</b> SALE OF COMPANY
 HAS BEEN ACQUIRED BY <b>KARMAN</b> A PORTFOLIO COMPANY OF <b>TRIVE CAPITAL</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>SUNVAIR</b> AEROSPACE GROUP <b>BLUE SEA CAPITAL</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>CHARGER</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>AEVEX</b> A PORTFOLIO COMPANY OF <b>MDP</b> SALE OF COMPANY	 A PORTFOLIO COMPANY OF <b>GEN CAP AMERICA</b> HAS BEEN ACQUIRED BY <b>Calspan</b> SALE OF COMPANY
 A PORTFOLIO COMPANY OF <b>TRIVE CAPITAL</b> HAS BEEN ACQUIRED BY <b>MADISON DEARBORN</b> <b>COVANT</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>ARCH</b> A PORTFOLIO COMPANY OF THE JORDAN COMPANY SALE OF COMPANY	 A PORTFOLIO COMPANY OF <b>TRIVE CAPITAL</b> HAS BEEN ACQUIRED BY <b>ALL</b> <b>BCI</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>STS</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>KRATOS</b> SALE OF COMPANY
 HAS BEEN ACQUIRED BY <b>HEROUX DEVTEK</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>THE CARLYLE GROUP</b> SALE OF COMPANY	 HAS BEEN ACQUIRED BY <b>AMP</b> SALE OF COMPANY	 EQUITY INVESTMENT FROM <b>GREENBRIAR</b> EQUITY GROUP, LLC EQUITY PARTNERSHIP	 HAS BEEN ACQUIRED BY <b>TRIVE CAPITAL</b> 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.