

Aerospace and Defense

August 2014 Monthly Update



Boldly Going Where We Have Not Gone Before – Our Favorable Outlook for Space M&A

Last month we spent some time around the John F. Kennedy Space Center (“KSC”) in Florida to view the launch of SpaceX’s Falcon 9 rocket. Although the launch was canceled due to technical and weather challenges, our visit provided interesting tangible perspective on how much the space industry is changing and growing for the positive. We stopped by Launch Complex 39a – known as the world’s most famous launch pad due to its many Space Shuttle and Apollo launches, including the world’s first manned moon landing. However, today, the pad is under the control of Elon Musk and SpaceX, and being modified under a 20-year lease with NASA in preparation for next year’s first launch of SpaceX’s Falcon Heavy rocket. Falcon Heavy is the world’s largest and most powerful rocket ever, with massive payload potential plus with touted potential to even bring people to and from Mars! Okay, I realize that I won’t be booking a flight any time soon, but after speaking with staff at KSC and the nearby Air Force Base, it became very clear to me how bright the future is for the space launch and satellite industry. It is clear that the future is also becoming increasingly bright for space-related M&A, as players continue to merge with and acquire companies to enhance their capabilities and better position themselves for winning major commercial and defense work. Sierra Nevada Corporation’s acquisition of rocket propulsion company ORBITEX in June 2014 and XCOR’s acquisition of Space Expedition in July 2014 are two good recent examples of increasing activity in the sector. Although it is not likely that we will see in the horizon mergers as massive as the recent \$5 billion deal between ATK and Orbital Sciences, we do expect M&A activity to increase in favor of targets across the supply chain.

Farnborough 2014 – No Surprises

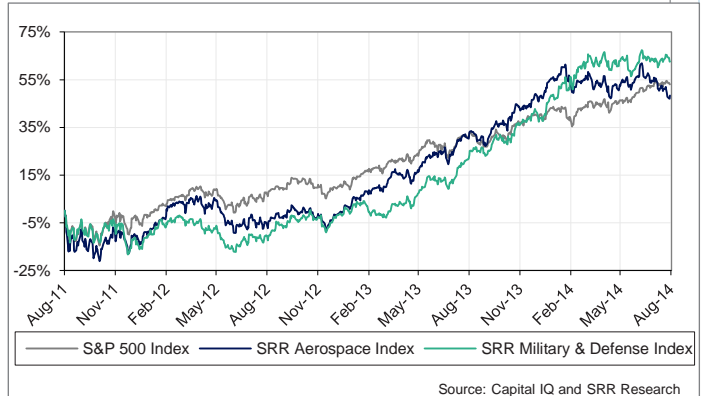
It was business as usual for an industry bumping along the top of the commercial aerospace cycle. Boeing racked up 201 orders while Airbus inked 496. Airbus announced a much-anticipated new engine option for the A330. Despite Boeing’s hope that the industry would see it as an admission that the A350 was struggling, the new variant racked up 105 orders apparently without cannibalizing A350 orders. The new entrant re-ignited debate about how Boeing might best address the need to replace the 757. Boeing’s 777X had a solid show as well, as Qatar Airways and Emirates finalized orders for over 200 aircraft in July. Regional aircraft manufacturers secured over 100 orders, and ATR alone added 75 orders for its turboprops. The trend in regional jets continues to be towards larger regionals, nipping at the heels of small single aisle mainline jets. All in all, clients we talked to report a generally upbeat mood with regard to the commercial aerospace industry. The talk of the defense industry at the show was the F-35. Would it make an appearance or wouldn’t it? In the end it didn’t. And while the absence was a short-term embarrassment for Lockheed Martin, the universal sentiment we heard was that the long term program will certainly be a huge success. In the end, the show felt almost ho hum. But sometimes, stability is just what the doctor ordered.

SRR AEROSPACE & DEFENSE SCORECARD

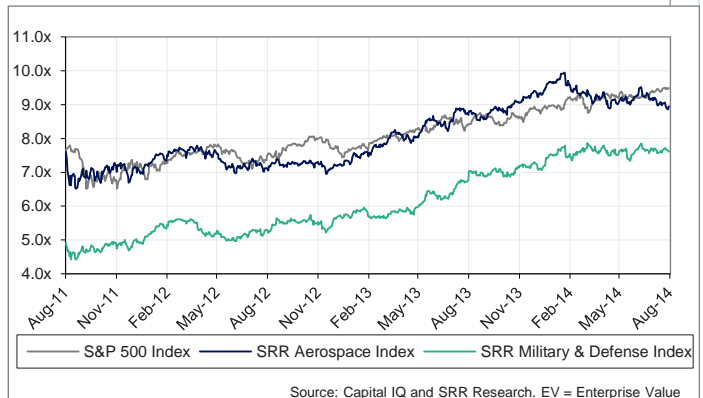
Scorecard Metric	2014 YTD
Aerospace & Defense M&A Transactions:	112
Equity Market Performance:	
SRR Aerospace Index	-5.26%
SRR Military & Defense Index	7.56%
S&P 500 Index	5.39%
Net Aircraft Orders (Boeing and Airbus, as of 7/29 and 6/30, respectively):	1,073
U.S. Gulf Coast Kerosene Type Jet Fuel Spot Price FOB (Price Change Per Gallon) – \$2.83 as of 7/28/2014	-3.30%

Source: Capital IQ, U.S. Energy Information Administration, and SRR Research
YTD = Year to Date through 7/31/2014

3-YEAR MARKET PERFORMANCE



3-YEAR VALUATION TRENDS – EV / NTM EBITDA



SRR Aerospace Index Constituents: The Boeing Company (BA), Bombardier (BBD.D), Airbus Group (AIR), Embraer SA (ERJ), Latécoere S.A. (LAT), LMI Aerospace Inc. (LMIA), Spirit AeroSystems Holdings, Inc. (SPR), Textron Inc. (TXT), Triumph Group, Inc. (TGI), AAR Corp. (AIR), Curtiss-Wright Corporation (CW), Meggitt PLC (MGMT), Moog Inc. (MOG.A), Precision Castparts Corp. (PCP), Rolls Royce Holdings Plc. (RR), Safran SA (SAF), Senior Plc (SNR), TransDigm Group Incorporated (TDG), United Technologies Corp. (UTX), Ametek Inc. (AME), Astronics Corp. (ATRO), B/E Aerospace Inc. (BEAV), Cobham Plc. (COB), Ducommun Inc. (DCO), Esterline Technologies Corp. (ESL), Rockwell Collins Inc. (COL), Thales SA (HO), Ultra Electronics Holdings Plc (ULE), and Zodiac Aerospace (ZC)

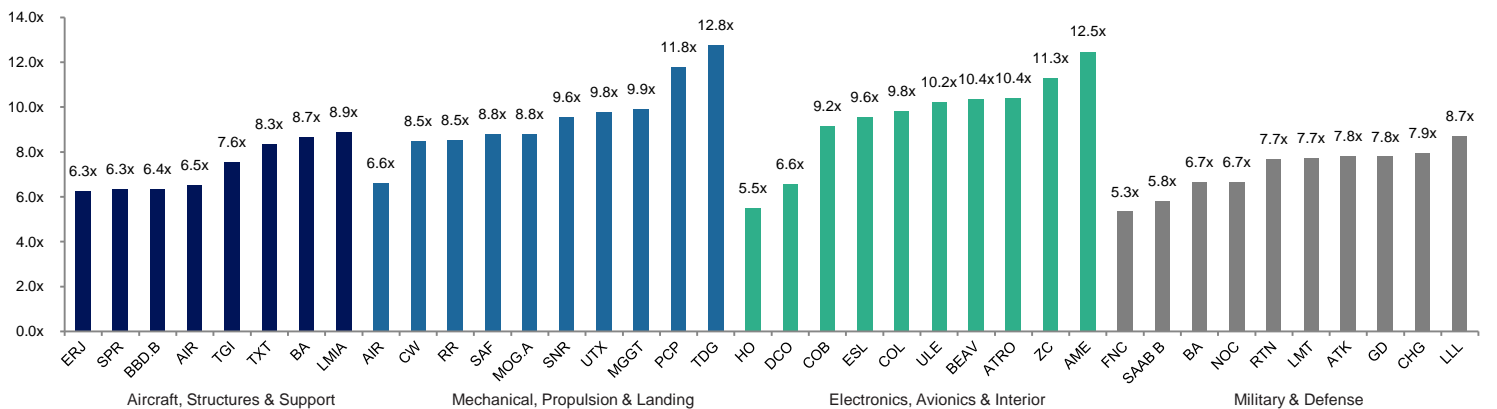
SRR Military & Defense Index Constituents: Alliant Techsystems Inc. (ATX), BAE Systems Plc (BA), Chemring Group Plc (CHG), Finmeccanica SpA (FNC), General Dynamics Corp. (GD), L-3 Communications Holdings Inc. (LLL), Lockheed Martin Corporation (LMT), Northrop Grumman Corporation (NOC), Raytheon Co. (RTN), and SAAB AB (SAAB B)

LATEST AEROSPACE & DEFENSE M&A TRANSACTIONS

Ann. Date	Sub-Sector	Target (Ownership)	Acquirer (Ownership)	EV (\$M)	EV/Rev	EV/EBITDA
6/1/2014	Parts Distribution	Apollo Aerospace Components Limited	Supply Technologies LLC (Park-Ohio Holdings Corp.)	-	-	-
6/3/2014	Structures & Materials	Sanders Industries, Inc.	Industrial Growth Partners	-	-	-
6/3/2014	Structures & Materials	Dynamet Technology, Inc.	RTI International Metals, Inc. (NYSE:RTI)	\$15.5	-	-
6/4/2014	Propulsion, Braking & Landing Systems	PATS Aircraft, LLC (Wayzata Investment Partners)	Moelis Capital Partners LLC (Moelis & Company Holdings LP)	-	-	-
6/5/2014	Interiors, Cabins & Control Systems	Greenpoint Technologies, Inc.	Zodiac Aerospace (ENXTPA: ZC)	-	-	-
6/5/2014*	Operations, Support & MRO Products/Services	Dixie Air Parts Supply, Inc.	Aerosync Engineering & Consulting Inc.	-	-	-
6/13/2014	Machined Parts & Components	Hanard Machine, Inc.	Allegheny Technologies Inc. (NYSE:ATI)	-	-	-
6/13/2014	Structures & Materials	Cella Energy Ltd. (Space Florida Company)	Persephone Capital Partners	-	-	-
6/13/2014	UAVs & Space	Innotech Products, Ltd. and TrueTech, Inc.	Luxfer Holdings PLC (NYSE: LXFR)	\$64.0	-	-
6/18/2014*	Structures & Materials	Deposition Sciences, Inc. (Advanced Lighting Technologies, Inc.)	Lockheed Martin Corporation (NYSE:LMT)	-	-	-
6/19/2014	UAVs & Space	Orbital Technologies Corporation	Sierra Nevada Corporation	-	-	-
6/25/2014*	Structures & Materials	Firth Rixson Limited (Oak Hill Capital Partners)	Alcoa Inc. (NYSE:AA)	\$3,000.0	3.0x	-
6/26/2014	Electronic, IT & Communication Systems	Microwatt Applications LLC	Laser Components USA, Inc.	-	-	-
6/30/2014	UAVs & Space	XCOR Space Expeditions	XCOR Aerospace, Inc. (Boston Harbor Angels, Desert Sky Holdings)	-	-	-
6/30/2014	Traditional Military & Defense	Camel Manufacturing Company, Inc.	Cold Mountain Capital	-	-	-
6/30/2014	Operations, Support & MRO Products/Services	Atlantic Aero, Inc.	Landmark Aviation, L.L.C. (The Carlyle Group LP)	-	-	-
6/30/2014*	Electronic, IT & Communication Systems	Zeta Associates Incorporated	Lockheed Martin Corporation (NYSE:LMT)	-	-	-
7/1/2014	Machined Parts & Components	Sungear, Inc.	H-D Advanced Manufacturing Company (Hicks Equity, The Riverside Company, Weinberg Capital)	-	-	-
7/7/2014	Traditional Military & Defense	Helmet Integrated Systems Ltd	Gentex Corporation	-	-	-
7/9/2014	UAVs & Space	Futron Corporation, Satellite, Space, and Telecom Businesses (Futron Corporation)	The Avascent Group	-	-	-
7/12/2014*	Traditional Military & Defense	Reed Composite Solutions, LLC	HESCO Bastion Ltd	-	-	-
7/14/2014	Operations, Support & MRO Products/Services	Colt International, Inc.	World Fuel Services Corp. (NYSE:INT)	\$63.0	0.2x	-
7/15/2014	Operations, Support & MRO Products/Services	Cargill Service Center	Naylor-Adams Aviation, LLC	-	-	-

*Transaction Pending. Source: Capital IQ. EV = Enterprise Value. Rev = Revenue

ENTERPRISE VALUE / NTM EBITDA – AS OF 7/31/2014



Source: Capital IQ, Bloomberg, and SRR Research

SRR Aerospace & Defense

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INVESTMENT BANKING

VALUATION & FINANCIAL OPINIONS

DISPUTE ADVISORY & FORENSIC SERVICES

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