KAL Capital

Naval Focus

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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 A&D supply-chain.

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**

Team

- Founders have worked together for 10+ years with a combined 25+ years of A&D experience
- Deep team of highly-seasoned support staff

A&D Sector Knowledge

- Deep A&D sector knowledge vital to articulating unique major macro-drivers
- KAL team understands that each business has a highly unique story and accumulation of history

Transactions

- KAL has vast experience throughout the supply chain with a comprehensive understanding of each subsector's growth drivers and strategic buyers
- Cross-border transaction experience

Relationships

- KAL has long-term relationships with financial buyers as well as C-Suite executives at leading A&D public companies who prioritize KAL clients

Clients First

- KAL is built on the belief that M&A processes should be built to maximize transaction outcomes for clients

HIGHLIGHTS

- May River Capital continues to build a strong defense-focused portfolio of key naval valve and actuation providers
- ESCO and Curtiss-Wright acquire key sole-source providers in the Naval submarine supply chain
- Mercury closes two Naval-focused COTS computing deals in less than 6-month period

M&A: Supply Chain Spotlight

Component M&A

MAY RIVER CAPITAL	HUNT VALVE	▪ Provides Severe-duty hydraulic valves ▪ Primarily serves the U.S. Submarine sector ▪ Components serve on Virginia class and additional Naval ship systems
MAY RIVER CAPITAL	Precision Technology USA ENGINEERED ACTUATORS	▪ Provides electro-mechanical actuation systems ▪ Engineers range of linear systems and custom motion control solutions ▪ Actuators found on Navy's Ford-class aircraft carriers
CURTISS-WRIGHT	DRESSER-RAND Assets	▪ Sole supplier of steam turbines & engine guard valves and provider of aftermarket support ▪ Found on Nimitz-class and Ford-class aircraft carriers as well as Virginia and Columbia class subs
ESCO TECHNOLOGIES	westland TECHNOLOGIES	▪ Sole supplier of engineered shock and vibration dampening systems ▪ Found on majority of Naval fleet ship including Virginia, Ohio and Los Angeles class submarines

Electronic Subsystems M&A

MERCURY SYSTEMS	THEMIS	▪ Provides SWaP optimized, rugged COTS computing systems for naval shipboard systems ▪ First of Mercury's two COTS deals executed in 6-month period
MERCURY SYSTEMS	GERMANE SYSTEMS	▪ Provides rugged COTS servers for submarine application ▪ Long-term involvement in Navy's Acoustics-Rapid COTS Insertion (A-RCI) program with Lockheed

M&A Analysis

While funding increases and production ramps, the greater naval supply chain has been adapting through a series of M&A consolidations to help support the synergies to fully capitalize on the long-term growth schedules set by current administration and DoD.

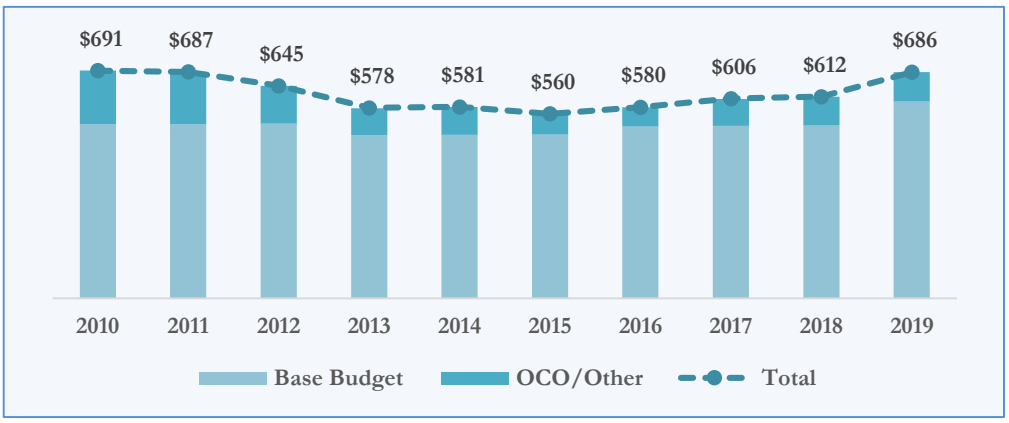
Key component and subsystems manufacturers have been a hot target for OEMs and other private equity-backed businesses building naval-focused portfolios. In 2019 we expect a sharp increase in new private equity entrants and continued platform growth. This means a more competitive landscape for these high-value targets in the component supply chains, and consequently competitive valuations when considering the strategic acquirers are looking for the same growth opportunities.

Strategic acquirers like ESCO Technologies and established naval-focused platforms like May River's Hunt Valve and Precision Tech will be a few of the names to follow as buyer's seek invaluable cost and production synergies while the key manufacturers entertain the valuation spikes and opportunities to integrate into the bigger picture of the production push.

Defense Focus: Naval Budget

- 5% Real growth over FY'18 with a reverse in 7-year decline in spending
- First time in over a decade that enacted appropriation will not be operating under continuing resolution
- All service branches experience double-digit YoY growth in budget
- Naval Procurement funding witnesses an 18% YoY increase to support sizeable shipbuilding production growth plans

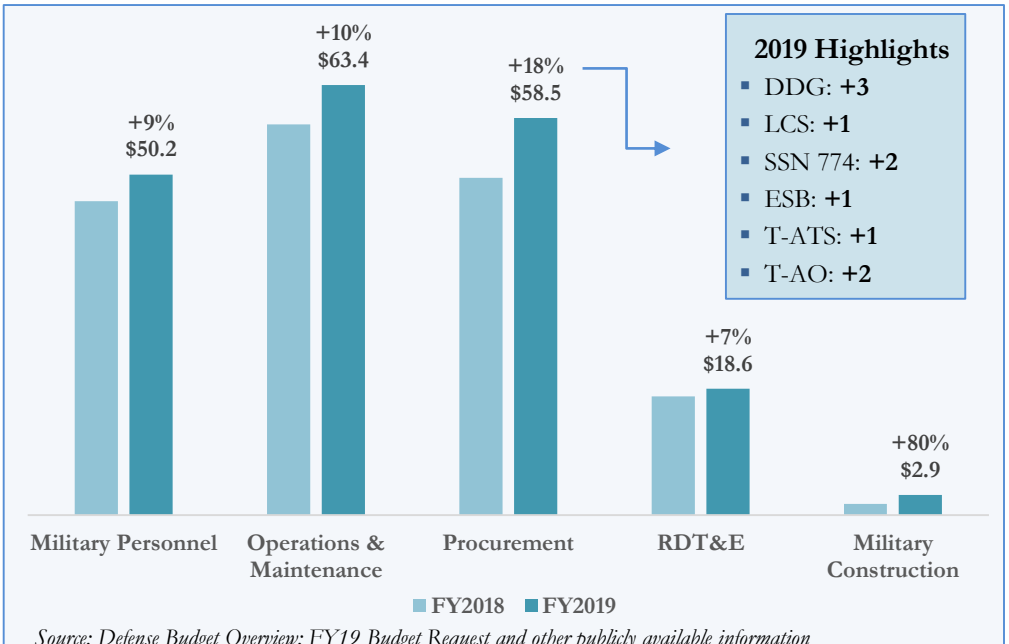
U.S. DoD Defense Budget



Funding by Military Department

Department	2018 ($ Bn)	2019 ($ Bn)	YoY %
Army	158.4	182	+15%
Air Force	170.2	194.2	+14%
Navy	173	194.1	+12%
Defense-Wide	110.3	115.8	+5%
TOTAL	611.8	686.1	+12%

Naval Funding Overview



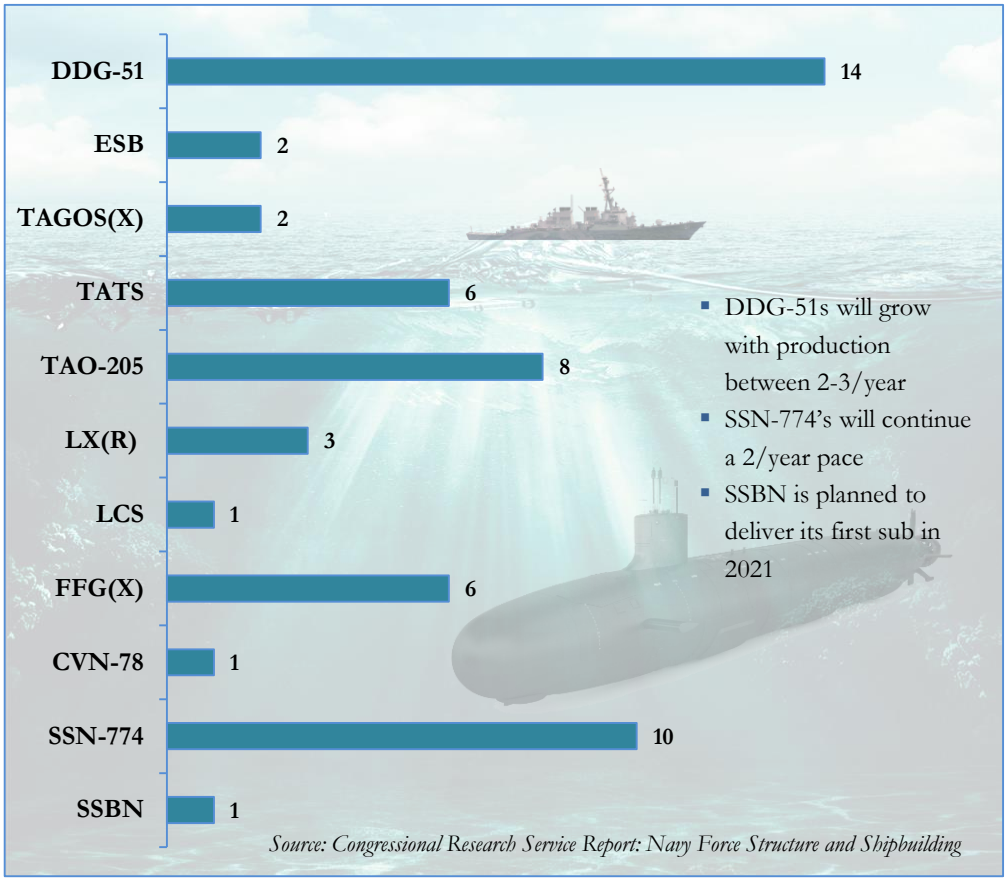
Source: Defense Budget Overview: FY19 Budget Request and other publicly available information

Shipbuilding Rates: Increasing Production

HIGHLIGHTS

- Navy's production FY'19 production plan aims to come closer to a 355-ship goal
- Over the next 5-years DDG-51 and SSBN-774s will increase at rates between 2-3 per year
- Navy's "NNN" (Navy the Nation Needs) Vision will increase ship platforms to double-digit production rates and rely on heavy supply chain ramping

Navy's FY'19 – FY'23 Production Plan Totals



Source: Congressional Research Service Report: Navy Force Structure and Shipbuilding

Vision for Growth

Production increase excitement has sent a wave of optimism through the supply chain though we are likely due for another increase. The Navy has structured their budget requests around an initial force-level goal of building a 308-ship fleet (currently ~280). After a 2016 Force Structure Assessment, 355-ships became the new production goal.

A 15% or greater increase is demanded from Navy leadership as general preparedness and threat deterrence become a growing concern with several rival military forces quickly modernizing naval efforts.

Congress has opened their ears to the requests of the Navy, and throughout the shipbuilding supply chain OEMs and component manufacturers alike are benefiting from multi-year programs and increased funding. In the years to come we foresee strategic suppliers teaming together through partnerships and M&A consolidations to support ramped production while benefiting from technical and cost-based synergies.

Ship	308 Plan	355 Goal	%
SSNs	**158.4**	**182**	**+15%**
LSCs	**170.2**	**194.2**	**+14%**
Amphib.	**173**	**194.1**	**+12%**
ESBs	**110.3**	**115.8**	**+5%**

Highlights

- A race for naval modernization has sparked build rate increases
- SSNs have the largest proposed production increase at 15%
- M&A poses attractive opportunities for suppliers seeking cost and production synergies

HIGHLIGHTS

- Supply chain optimism follows news of steady 2/year production and potential for further increase
- Funding increases in Virginia AP and PC reflect the continued Block V's higher cost & priority considering VPM integration
- Virginia Payload Module to be incorporated onto all Block V submarines hereafter

Focus: Virginia Class

Overview

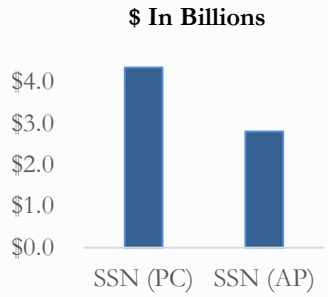
SSN-774s are produced under the Joint Production Agreement formed by GD/EB and HI/NNS. The agreement sets GD/EB as the prime, and allows the two OEMs to harness cost synergies and technical talent within two facilities. GD/EB and HI/NNS both take on different parts of production, alternating reactor compartment development and final assembly schedule, ultimately at a close to 50/50 profit split.

Production will continue at 2/year and will realize the first of the Block V Virginia Payload Module-equipped class in 2019. The Block V class will remain in production thereafter.

Funding Increases

SSN 774	2017	2018	2019
Quantity	**2**	**2**	**2**
Amount ($ Bn)	**5.3**	**5.5**	**7.4**

PC	▪ Program Construction (PC): **$4340.6MM**
AP	▪ Advanced Procurement (AP): **$2796.4MM**



- The program will experience a 1.35x YoY budget increase. The SSN supply chain has secured a minimum 2 subs production per year through 2023, though 3 has been in discussions with Congress. Strong production forecast and funding jumps have peaked interest for private equity and strategic acquirers alike. We expect to see aggressive M&A objectives in the months to come, resulting in rising valuations for target suppliers.

Virginia Payload Module – Block V

The upcoming Block V SSNs will be equipped with the Virginia Payload Module. GD was originally awarded development work in 2016 and has since brought along the help of BWX Technologies and BAE Systems for design and fabrication.

The VPM is one of several technological advancements on Virginia Class subs. While GD/EB & HI/NNS orchestrate the production ramp the supply chain will support the SSN with delivery of components and subsystems from valves and fasteners to propulsion and sonar technologies.

GENERAL DYNAMICS Electric Boat

BWXT BWX Technologies, Inc.

BAE SYSTEMS

HIGHLIGHTS

- Columbia class has become one of the top naval priority for procurement
- Funding receives a 3X increase to support design and development of first Columbia Class
- Navy plans for Columbia procurement to take place at roughly 1/year from FY'24 to FY'35

Focus: Columbia Class

Overview

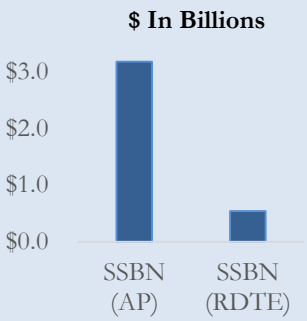
The Columbia Class (SSBN-826) will consist of 12 ballistic missile submarines to replace Navy's Ohio Class SSBN (14 currently). The Columbia program has been stated to be the Navy's top priority. First procurement is not expected until 2021 though the funding increases shed light on DoD priorities and bring a positive outlook for GD/EB, HI/NNS and the hundreds of suppliers that currently support them.

Current administration has vocalized that the 12-boat quota is a minimum. Suppliers have fueled off of the new energy and remain optimistic for further production increases. The value of the program has caught the attention of strategic and financial acquirers, consequently suppliers will continue to see rising valuations.

Funding

SSBN	2017	2018	2019
Quantity	-	-	-
Amount ($Bn)	**1.9**	**1.9**	**3.7**

AP	▪ Advanced Procurement (AP): **$3173.4**
RDTE	▪ RDTE: **$542.846**



- The Columbia Class program has nearly tripled with the 2019 budget increases. The implications for supply chain growth are tremendous. Consequently we will likely see materials manufacturers and subassembly specialists throughout the supply chain grow dramatically, spurring what we believe will be M&A consolidation with buyers seeking targets with invaluable contract seats and high-profit margins.

Procurement Schedule

'19	'20	'21	'22	'23	'24	'25	'26	'27	'28	'29	'30	'31	'32	'33	'34	'35	'36	'37
0	0	1	0	0	1	0	1	1	1	1	1	1	1	1	1	1	0	0

Source: Congressional Research Service Report: Navy Force Structure and Shipbuilding

Huntington Ingalls Industries

GENERAL DYNAMICS Electric Boat

Newport News Shipbuilding

- GD/EB will be prime contractor while more Virginia Class work will shift to HII/NNS to compensate
- Program funding set to filter through supply chain allowing engineering and manufacturing capabilities to expand through organic and M&A initiatives

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Mountain Secure Systems — HAS BEEN ACQUIRED BY Cache Creek Industries — SALE OF COMPANY	Beaver Aerospace & Defense, Inc. — HAS BEEN ACQUIRED BY Heroux Devtek — SALE OF COMPANY	Air Transport Components — A PORTFOLIO COMPANY OF GenCap America — HAS BEEN ACQUIRED BY Holder Family Investments — SALE OF COMPANY	PrimeFlight — HAS BEEN ACQUIRED BY The Carlyle Group — SALE OF COMPANY	Triumph Processing Embee Division — HAS BEEN ACQUIRED BY AMP — SALE OF COMPANY
DAS Dallas Aeronautical Services — HAS BEEN ACQUIRED BY West Star Aviation — SALE OF COMPANY	Mayday Manufacturing Hi-Tech Metal Finishing — HAS BEEN ACQUIRED BY ESCO Technologies — SALE OF COMPANY	Stellar Industries Inc. — HAS BEEN ACQUIRED BY Senior — SALE OF COMPANY	AMP — HAS BEEN RECAPITALIZED BY Watson Family Investments — RECAPITALIZATION	CAPCO — HAS BEEN RECAPITALIZED BY Capco Growth Partners, LLC — RECAPITALIZATION
Pryer — HAS BEEN RECAPITALIZED BY TCP Tulsa Capital Partners — RECAPITALIZATION	PFI Process Fab Inc. — A PORTFOLIO COMPANY OF Vance Street Capital — HAS BEEN ACQUIRED BY Burtek — A PORTFOLIO COMPANY OF Wynnchurch Capital — SALE OF COMPANY	Impresa Aerospace — A PORTFOLIO COMPANY OF Graycliff Partners — HAS BEEN ACQUIRED BY Twin Haven — SALE OF COMPANY	Merlin RAMCo Inc. — HAS BEEN ACQUIRED BY Trivest Capital — SALE OF COMPANY	DPS Dynamic Paint Solutions — HAS BEEN ACQUIRED BY Valence Surface Technologies — SALE OF COMPANY
Global Plus International Inc. — HAS BEEN ACQUIRED BY Valence Surface Technologies — SALE OF COMPANY	KaZaK Composites — HAS BEEN ACQUIRED BY Plasan — SALE OF COMPANY	TJC The Jordan Company — HAS ACQUIRED VT Group — ACQUISITION ADVISORY	Coast Plating, Inc. "Premier Metal Finishing" — HAS BEEN ACQUIRED BY Trivest Capital — SALE OF COMPANY	Ascent Aviation Services — A PORTFOLIO COMPANY OF Victory Park Capital — HAS BEEN ACQUIRED BY LVC — SALE OF COMPANY

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