KAL Capital - Aerospace & Defense

Year In Review

Introduction

Year in Review 2020

Dear Friends,

Happy belated New Year. As we reflect back on 2020, the year was obviously filled with unprecedented challenges to the aerospace and defense sector. However, the more nuanced perspective on the M&A market would be to emphasize 1) the historically seller-friendly market for defense assets and 2) the resiliency of the demand for commercial aero businesses. While the demand for defense-assets was somewhat predictable (although the extent was surprising), the M&A environment for commercial aerospace businesses was driven by significant buyer demand, primarily by financial sponsors looking to capitalize on the disruption in the supply-chain. That led to a more seller-friendly environment than anyone could have predicted as competitive M&A processes have forced buyers to pay "peak" EBITDA multiples off of depressed operating profits.

While we never would have imagined it during 1H 2020, KAL Capital finished the year with a record seven completed sell-side transactions, including four closed deals in Q4. We were fortunate to represent great businesses in the component MRO, composite and space supply-chains. We will describe each of these transactions in the following pages.

Looking into our crystal ball, we expect 2021 to be a historically active year for A&D transaction activity. Our expectations are based on the following assumptions 1) likely changes in capital gains tax treatment, 2) improvements in the commercial aerospace operating environment, 3) near-term strength in the DoD budget, and 4) (repeating for emphasis) likely changes in capital gains tax treatment.

The "blue wave" that many business owners within the sector feared has now materialized with all three legislative branches being under Democratic control. We will describe the Biden Administration's tax plan and funding priorities in greater detail, but the real question is the extent to which slim majorities in both the Senate and House will have on muting the more progressive elements of the Democratic Party. We believe that some level of tax increases for both businesses and capital gains are a foregone conclusion, but we do not expect them to be retroactive for 2021. We feel that this view is rapidly spreading amongst business owners, creating an extremely strong catalyst to initiate liquidity events this year. Potential changes in estate tax treatment including elimination of the step-up in basis at death will also nudge tax-focused sellers into the market. In conclusion, 2021 will likely be amongst the most active years in A&D M&A history; should be a better ride than 2020!

Sincerely,

Trevor Bohn
Partner

Ryan Murphy
Partner

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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 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**

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

- *KAL had at least one closed transaction in every quarters in 2020 across the commercial, defense, and space end-markets*

- *KAL surpassed 20 closed transactions since its inception to become the most active advisor in the $50 to $150 million space*

KAL Advises on 6 Transactions in 2020

All KAL Deals Were Closed Post-COVID

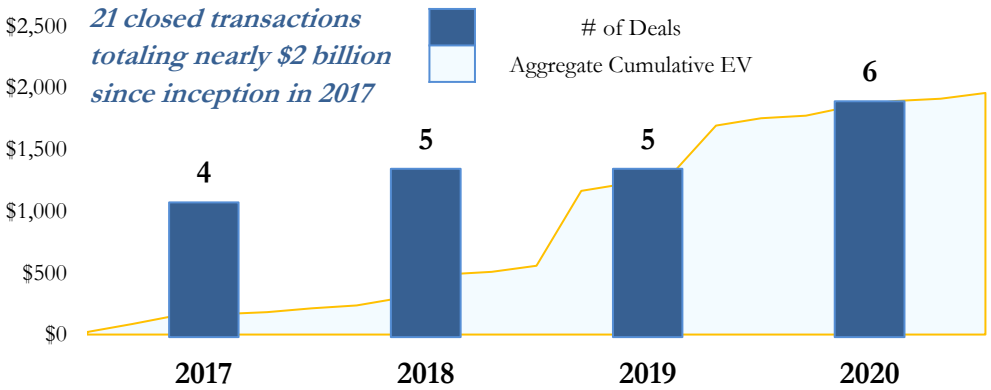
- AEVEX, ASE, and JetStream were primarily services business while ACPT, and Geodetics were A&D components and assemblies' manufacturers
- Mingo is a commercial/ Cargo aftermarket FAA-repair station

AEVEX — A PORTFOLIO COMPANY OF TRIVE CAPITAL — HAS BEEN ACQUIRED BY MADISON DEARBORN / COVANT — SALE OF COMPANY	ASE — A PORTFOLIO COMPANY OF GENCAP AMERICA — HAS BEEN ACQUIRED BY Calspan — SALE OF COMPANY	GEODETICS — HAS BEEN ACQUIRED BY AEVEX — A PORTFOLIO COMPANY OF MDP — SALE OF COMPANY
C4ISR Solutions	Engineering Services	Defense Electronics
Mar-2020	May-2020	Jul-2020
ACPT — HAS BEEN ACQUIRED BY CHARGER — SALE OF COMPANY	JETSTREAM — HAS BEEN RECAPITALIZED BY Management Buyout — RECAPITALIZATION	MINGO AEROSPACE — HAS BEEN ACQUIRED BY SUNVAIR AEROSPACE GROUP — A PORTFOLIO COMPANY OF BLUE SEA CAPITAL — SALE OF COMPANY
Advanced Composites	Airport Services	FAA-Certified Repair Station
Nov-2020	Dec-2020	Dec-2020

Investment Highlights

- ***Since its inception in 2017, KAL Capital has established itself as a premier sell-side M&A advisor in the A&D lower middle-market***

Deals by Year and Aggregate Cumulative EV (In $mm)



KAL Advises ACPT

- *Charger completes the acquisition of ACPT with the goal to further accelerate ACPT's leadership position in the composites space*

- *ACPT specializes in providing cost-efficient, ultra high-performance components and holds key IP around metallic-to-non-metallic bonding*

ACPT Acquired by Charger Investment Partners

ACPT
HAS BEEN ACQUIRED BY
CHARGER
SALE OF COMPANY

- KAL Capital announced the sale of Advanced Composites Products and Technology to Charger Investment Partners, where KAL served as the sell-side advisor on the transaction
- ACPT is a manufacturer of advanced composite structures for aviation, space, defense, marine, performance racing, industrial machinery, and oil applications
- The Company has established a reputation as a leading provider of composite technology and structures

Products & Capabilities

Capabilities


Design


Filament Winding


Lamination


Machine Shop


Curing


Quality Control

Sample Products

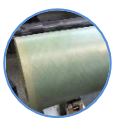

Actuation Tanks


Driveshafts


Aircraft Ducting


Rollers


Drill Pipes


Cable Housings

Investment Highlights

- End-to-End Advanced Composites Solutions Provider
- Core Capability in Filament Winding
- Technical Leader in Composites Design with Expertise in Metallic and Non-Metallic Bonding
- Provider of Cost-Efficient Components in High-Cost of Failure, Mission-Critical Systems
- Purpose-Built, Brand-New Manufacturing Facility with Excess Capacity to Support Future Growth

KAL Advises JetStream

- *KAL advised JetStream during a period of unprecedented disruption in the industry*

JetStream Acquired by Management Team

JETSTREAM

HAS BEEN RECAPITALIZED BY

Management Buyout

RECAPITALIZATION

- KAL Capital announced the sale of JetStream Ground Services through a management buyout, where KAL served as the sell-side advisor on the transaction
- JetStream is a leading provider of ramp handling, cargo handling, baggage handling, airport janitorial and passenger services
- Airlines/airports rely on JetStream for a full-spectrum of above- and below-the-wing services to always keep their fleet/facilities in pristine condition

- *JetStream combines above-the-wing services such as aircraft cleaning and more capital-intensive services such as cargo and ramp handling to deliver a comprehensive airport services suite to its airline customers*

Services & Capabilities

Cargo Handling

Ramp Handling

Aircraft Cleaning

Baggage Services

Airport Janitorial Services

Passenger Services

Investment Highlights

- Extensive Portfolio of Above- and Below-the-Wing Capabilities
- Robust Fleet Tracking Technology Enabling Data-Driven Decision-Making
- Vast Network of Services Locations Across the US
- Hub-Focused Operating Model
- Identified Near-Term Growth Opportunities

KAL Advises Mingo Aerospace

- *By acquiring Mingo, Sunvair Aerospace adds cargo loading systems repair and unique aftermarket thermal spray capabilities*
- *Mingo is a FAA-certified repair station with an extensive library of DER and OEM-approved repairs and strong relationships with aircraft operators globally*

Mingo Aerospace Acquired by Sunvair

MINGO AEROSPACE
HAS BEEN ACQUIRED BY
SUNVAIR AEROSPACE GROUP
A PORTFOLIO COMPANY OF
BLUE SEA CAPITAL
SALE OF COMPANY

- KAL Capital announced the sale of Mingo to Sunvair, a portfolio company of Blue Sea Capital, where KAL served as the sell-side advisor on the transaction
- Mingo is an FAA-certified repair station focused on cargo loading systems repair and HVOF thermal spray for landing gear and flights control components MRO
- The Company has established strong relationships with key airlines and MROs including American Airlines, Lufthansa Technik, KLM, AAR, and many others

Cargo Loading System

Products Supported

Power Drive Unit

Cargo/PMA Rollers

Stop Locks

Major Platform Supported

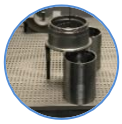
B747

B767

B777

Thermal Spray

Products Supported



Race

Trunnion

Link

Major Platform Supported

B737

B777

EMB 175/190

Investment Highlights

- Favorable Cargo Fleet Dynamics
- Broad Portfolio of DER-Approved Repairs and PMA Approvals
- Highly Unique Thermal Spray Capabilities
- Critical Position Within Landing Gear MRO Cycle
- Best-in-Class Management Team with Decades of Relevant Experience

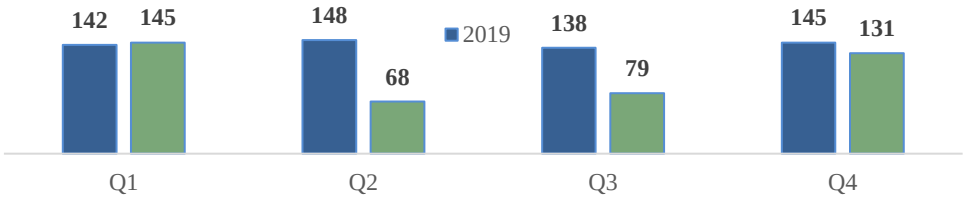
2020 M&A Overview

2020 Aerospace and Defense M&A Activity

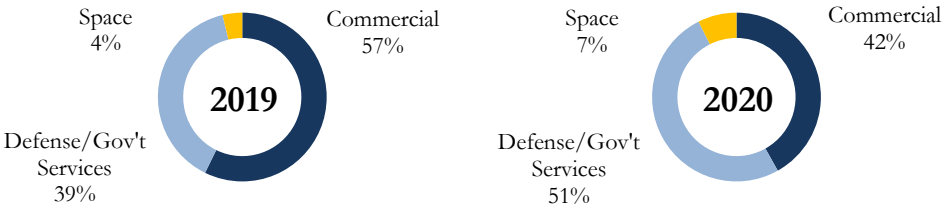
❖ *A&D deal activity rebounded in Q4 with defense and government services making up the majority of closed transactions*

- Before the pandemic struck, 2020 had started with great promise building upon the record levels of deal activity in 2019
- Deal activity recovered in Q4 after hitting lows not seen since the great recession in Q2 and Q3

Aerospace & Defense M&A Deal Activity By Quarter 2019 vs. 2020



End-Market Breakdown



2021 M&A Outlook

❖ *Commercial deal activity will continue to be challenged through at least the first half of the year while defense and space to maintain trajectory set in 2H of 2020*

Commercial

- With massive production cuts at Boeing & Airbus and a near halt in global air traffic, commercial aerospace deal activity suffered an unprecedented disruption in 2020
- But while volume of deals has decreased dramatically post-COVID, deal multiples in the sector have surprisingly held up as many believe we have hit the trough in the market with significant growth to be realized once the sector recovers over the next few years

Defense / Government Services

- A&D-focused financial and strategic buyers diverted their attention and resources towards the defense and government services sector once the pandemic impact had been digested
- In Q3 and Q4, KAL saw increased competition for defense/gov't services assets positioned on priority DoD programs. We expect a similar dynamic in 2021 despite fears of budget pressures with the new administration as a result of increased stimulus spending

Space and Satellite

- In 2020, space and satellite deal activity experienced a ~50% increase over 2019 due to 2 key headwinds:
  - Increased DoD investment/prioritization of cyber and space warfighting domains
  - Innovation by well-funded private space companies like SpaceX and Blue Origin has spurred traditional space players to refocus their efforts around the sector

Post-Election Outlook: Biden Tax Plan

❖ *When passed, the Biden tax plan set to increase taxes on high-earning individuals and large multinational corporations*

❖ *The incoming administration has indicated increasing the corporate and capital gains tax rates as well as eliminating the step-up basis in the estate tax as its marquee tax priorities*

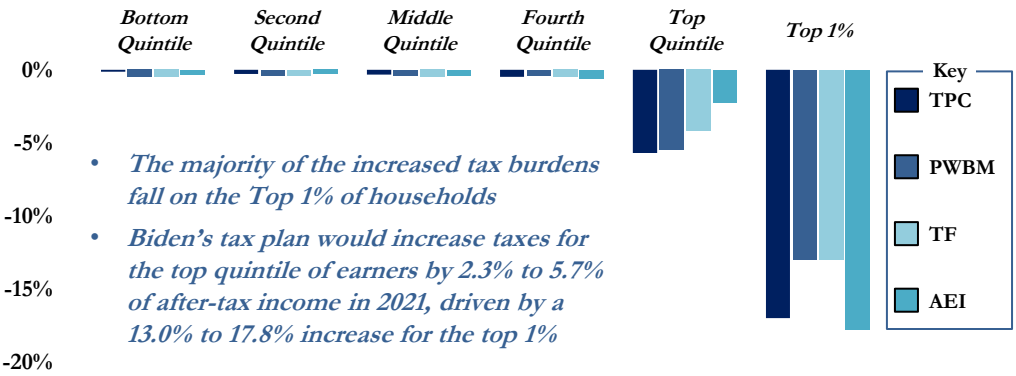
New Administration Brings Significant Expected Changes to Tax Policy

- With Joe Biden as the president-elect and Democratic control of both the House and Senate, it is expected that the next administration will see tax hikes and the undoing of the 2017 Tax Cuts and Jobs Act
- Tax increases and elimination of preferences are mostly directed towards high-income taxpayers and larger multinational businesses

Key Highlights of Current Tax Plan vs. Biden Tax Plan

Provision	Current	Biden Tax Plan	GDP
Corporate Tax Rate	21% → *28%*	• If greater than $100mm of book income, a 15% min. tax, less foreign taxes paid or loss carryovers	***-1.18%***
Qualified Business Income Deduction	20% → *0%*	• Phase out the deduction for taxpayers earning more than $400,000	***-0.09%***
Capital Gain Rate	20% → *39.6%*	• Tax capital gains and qualified dividends for taxpayers with income over $1 million by taxing 39.6%	***-0.02%***
Estate Taxes	2020 Exemption: $11.6 mm → ↓	• Eliminate step-up basis on assets inherited at death • Reduce the estate and gift exemption and increase tax rate	***-0.15%***
Real Estate	1031 Exchange → *N/A*	• Remove like-kind exchange deferral • Expand the low-income tax credit • Create a renter's tax credit	***n/a***

Distributional Impact of the Biden Tax Plan(1)



- ***The majority of the increased tax burdens fall on the Top 1% of households***
- ***Biden's tax plan would increase taxes for the top quintile of earners by 2.3% to 5.7% of after-tax income in 2021, driven by a 13.0% to 17.8% increase for the top 1%***

(1) Source: Tax Policy Center (TPC), Penn Wharton Budget Model (PWBM), Tax Foundation (TF), American Enterprise Institute (AEI)

Commercial Focus: A Challenging Year

❖ *Global passenger traffic fell 67% last year to levels not seen since 1999*

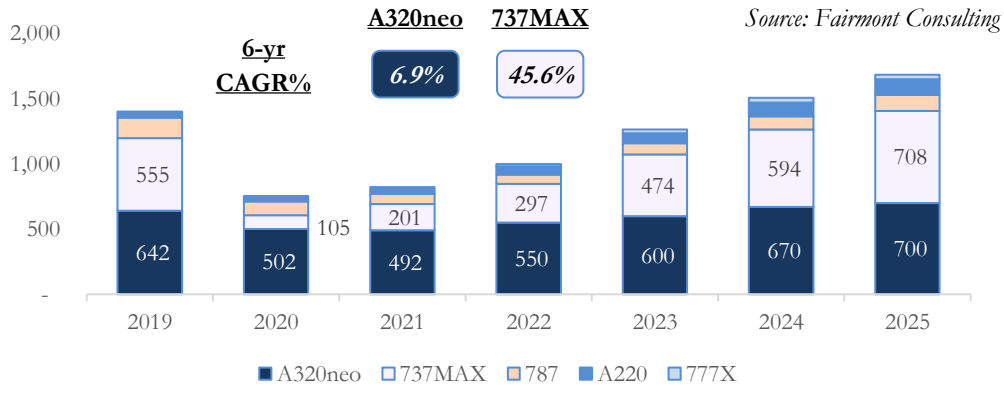
Boeing and Airbus Deliveries, Orders, Build Rates & Backlog

- Across the largest commercial aircraft OEMs, there were approximately 822 aircraft deliveries in 2020, a reduction of ~40% (600 aircraft) compared to 2019

Platform	YTD Deliveries		Net Orders	Build Rate per Month		Backlog
	Nov. 2019	Nov. 2020		Nov. 2019	Nov. 2020	
B737	121 →	15	-488	42 →	Resumed May '20 (1)	4,082
A320	537 →	379	267	60 →	40 (2)	5,956
A220	41 →	32	31	Not Disclosed →	Not Disclosed	494
B777/ 777X	40 →	22	-1	5 →	5	363
B787	137 →	53	25	14 →	10	515
A350	96 →	51	4	10 →	6	532
B747	7 →	4	-4	0.5 →	0.5	12
A380	6 →	1	0	0.5 →	0.5	8

❖ *Airlines are projecting a continued rise in passenger and cargo demand for 2021; passenger demand is expected to recover by 55% compared to 2020, but that will still be 29% below 2019 levels*

Aircraft Annual Production Forecast



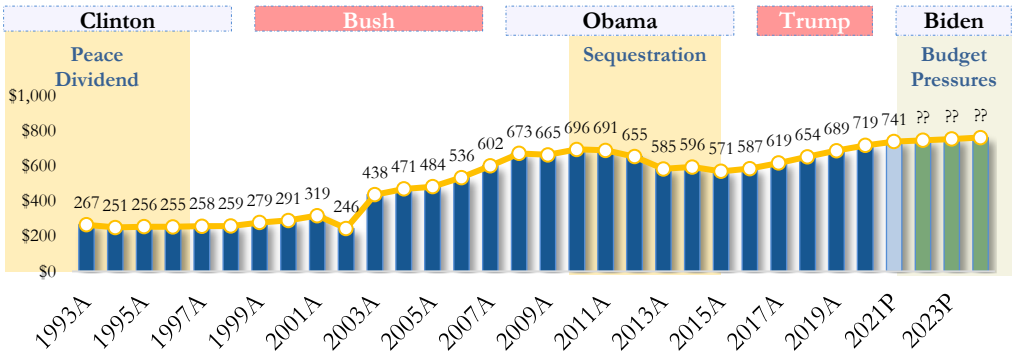
- COVID-19 vaccines and tests offer hope the airline industry will see customers return in the second half of 2021, but a full recovery to 2019 passenger levels will not happen until 2023 at the earliest
- Analysts predict that narrow-body, single-aisle aircraft will dominate new deliveries in the near-future as domestic travel will lead the recovery

(1) Boeing resumed low-rate production of the 737MAX and expects to reach 31 jets per month by 2022
(2) Airbus is considering an increase in production to 47 A320neo jets per month in the second half of 2021

Defense Focus: Defense Budget Under Biden

- *Despite modest downward pressures, a Biden administration has indicated it will not enact severe changes in terms of funding levels or priorities to the defense budget*

DoD Defense Budget Likely to Face Downward Pressures



- Many analysts expect continuity. The 2018 National Defense Strategy called for focusing on great power competitors China and Russia, with counterterrorism and smaller regional adversaries taking a back seat
- On the campaign trail, Biden pledged to "maintain our [military] superiority," but added that "we must do so affordably"

- *Biden has indicated missile defense, hypersonics, cybersecurity, and space as the key funding priorities during his administration*

Biden Administration Key Funding Priorities

Missile Defense / Hypersonics

- Biden has indicated that he will continue the prior administration's focus on new ICMB and hypersonic missile technology, responding to China and Russia

Cybersecurity / Artificial Intelligence

- Two key funding priorities for the previous Democratic administration for which the President-elect has pledged to adopt a much more aggressive posture

Space

- Space continues to be a bipartisan policy area and Biden has articulated his belief in the importance of its continued funding/prioritization

- *Defense industry CEOs are optimistic that a return to the shrinking budgets of sequestration over the course of the next administration is highly unlikely*

Defense Industry Leadership Insight

Gregory Hayes
CEO
Raytheon Technologies

"Defense has always been a bipartisan issue, and when Biden was vice president and previously a senator, I think he had a pretty good approach to national defense"

Kathy Welch
CEO
NORTHROP GRUMMAN

"We're confident that a new administration would recognize that value and continue to support the modernization efforts for both GBSD and B-21"

Mike Petters
President & CEO
Huntington Ingalls Industries

"If you have a change in the leadership and the administration, the new folks are going to be looking at the same outside world that the folks that are there now are"

Defense Focus: Major Programs Outlook

2021 will be Pivotal in the Developments of Many Defense Programs

US Air Force

Space Force under a Biden Administration

- Joe Biden has said he plans to reverse several Trump policies, but he is expected to continue to support the Space Force
- The Air Force designated almost $14 billion of its $168 billion 2020 budget for space capabilities. These projects have since become part of the Space Force

Small Launch Programs

- Small satellite launches by the Space Force slowed considerably in 2020 due to the pandemic and technical setbacks. Small rocket missions that slipped to 2021 include launches by Virgin Orbit, Rocket Lab and Space Vector

Space Force

Pentagon Keeps F-35's $398 Billion Full-Rate Production on Hold

- Technical challenges and COVID-19 have delayed preparation of the simulation facility where sophisticated combat testing will be conducted
- Despite the delayed decision the program will continue LRIP at the planned rate

Three-Dimensional Expeditionary Long-Range Radar

- Raytheon's contract was cancelled in 2020 due to project troubles. Northrop Grumman, Lockheed Martin and CEA Technologies are now competing for the new contract

US Army

Optionally Manned Fighting Vehicle

- The Army will once again try to replace the Bradley. Bidders include General Dynamics, Rheinmetall and BAE. Competition is expected to be whittled down to two in 2021

Mobile Protected Firepower

- General Dynamics is competing against BAE to build a new light tank. The Army will start getting soldiers' feedback about the competing tanks in 2021, with a winner likely chosen sometime in 2022

US Navy

Reshaping the Navy

- The Chief of Naval Operations has called for a new fleet with more submarines and fewer big surface combatants in favor of additional smaller combatants
- The CNO also has also championed more unmanned vessels, additional logistic vessels and a greater composition of the amphibious fleet

Marine Corps

Marine Corps

- Leadership guidance aims to restore the Marine Corps to its naval roots after two decades of operations ashore, invest in capabilities focused on great power conflict in the Pacific, and enhance individual fighting prowess

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MINGO AEROSPACE has been acquired by SUNAIR AEROSPACE GROUP a portfolio company of BLUE SEA CAPITAL — Sale of Company	ACPT has been acquired by CHARGER — Sale of Company	GEODETICS has been acquired by AEVEX a portfolio company of MDP — Sale of Company	ASE a portfolio company of GenCap America has been acquired by Calspan — Sale of Company	AEVEX AEROSPACE a portfolio company of TRIVE CAPITAL has been acquired by MADISON DEARBORN COVANT — Sale of Company
AERO PACIFIC CORPORATION has been acquired by ARCH a portfolio company of THE JORDAN COMPANY — Sale of Company	VALENCE SURFACE TECHNOLOGIES a portfolio company of TRIVE CAPITAL has been acquired by AEA BCI — Sale of Company	Triumph Aviation Services - NAAS Division has been acquired by STS Aviation Group — Sale of Company	FLORIDA TURBINE TECHNOLOGIES has been acquired by KRATOS — Sale of Company	Beaver AEROSPACE & DEFENSE, INC. has been acquired by HEROUX DEVTEK — 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	STS Aviation Group equity investment from GREENBRIAR EQUITY GROUP LLC — Equity Partnership	California Brazing has been acquired by TRIVE CAPITAL — Sale of Company	Air Transport Components a portfolio company of GenCap America has been acquired by HOLDER FAMILY INVESTMENTS — Sale of Company
MAYDAY MANUFACTURING HI-TECH METAL FINISHING has been acquired by ESCO TECHNOLOGIES — Sale of Company	STABCO Industries Inc. has been acquired by senior — Sale of Company	AMP has been recapitalized by WATSON Family Investments — Recapitalization	DAS DALLAS AVIONICS SERVICES has been acquired by WESTSTAR AVIATION — Sale of Company	IMPRESA AEROSPACE a portfolio company of GRAYCLIFF PARTNERS has been acquired by TWIN HAVEN — Sale of Company

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