

# KAL Capital - Aerospace & Defense

## Quarter In Review

### Introduction

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Dear Friends,

We hope that everyone enjoyed a great Thanksgiving with their families.

Apologies for the delay with our Quarterly Industry Review, but we have been quite busy with both closed transactions as well as gearing up for several new deals to launch in Q1 2023. In the second quarter we advised on two great transactions both as bolt-on's to existing platforms of blue-chip private equity sponsors. First, we advised Stroco Manufacturing, a provider of precision machined and fabricated structures, on its sale to Novaria Group (a portfolio company of KKR). Our second transaction was with Airport Terminal Services (ATS) which completed a transaction with Alliance Ground International, a portfolio company of Greenbriar and Audax. Both of these transactions were family-owned businesses that had experienced tremendous growth and had a multitude of seller-friendly options available as a result of the a KAL process.

These transactions were done despite a market environment that has made an abrupt transition from seller-friendly to one that requires thoughtful consideration to process design and timing. Rising interest rates are the primary culprit as the subsequent and forecasted impact on the macro economy has caused lenders to be more conservative with both the availability and cost of capital available for use in M&A events. Notably, our niche of A&D continues to be amazingly insulated as well-priced transaction activity continues, albeit at a pace below 2021. The reason for this resilience is based on the strength of both the commercial aerospace as well as defense end-markets. We have seen both private equity and strategic buyers rotate towards the A&D markets as they are two industries seen as "safe havens" in what potentially could be a global recession. This notion is being reflected in our M&A processes as we have seen private equity sponsors submit offers that either rely on pre-existing debt facilities at portfolio companies or simply contemplate a completely equity financed transaction. This aggressive posture has allowed us to continue running seller-friendly processes through the second half of 2022. Looking ahead, we are hopeful that the debt financing environment improves; we would expect the recovery to be led by non-traditional lenders that rely on LP-committed capital versus traditional commercial banks which will likely have cautious outlooks well into 2023.

We expect to have a full deal plate in 2023 as we have a number of transactions that are ready to come to the market. Our Q1 deals will include transactions in the engine MRO, aerostructure, proprietary fluid control and metal finishing industries; please reach out if you have any questions!

Sincerely,



Trevor Bohn  
Partner



Ryan Murphy  
Partner

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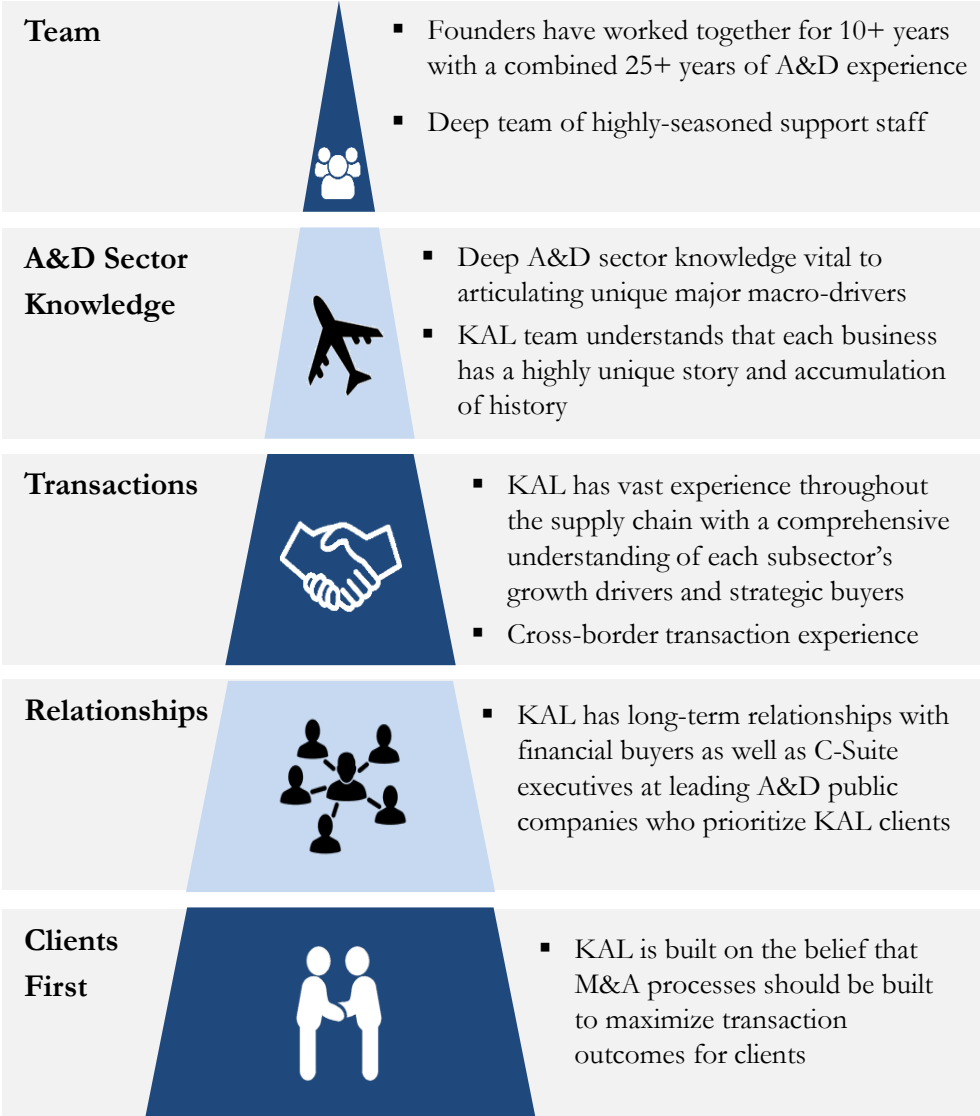
## KAL Capital Overview

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**



# KAL Advises Airport Terminal Services

## Airport Terminal Services Acquired by Alliance Ground International



- Airport Terminal Services (ATS) offers full-range ground handling services, including passenger, ramp, and cargo handling, aircraft re-fueling and de-icing, as well as lounge and concierge services
- KAL Capital announced the sale of ATS to AGI, a portfolio company of Greenbriar and Audax
- The acquisition of ATS will allow AGI to build their presence in the airport terminal and passenger side of the business

## Full-Suite of Ground Handling Services

<b>Customer Services</b>	<ul style="list-style-type: none"><li>▪ Ticket counter and gate operations for check-in and baggage service offices</li></ul>	<b>Cabin Cleaning</b>	<ul style="list-style-type: none"><li>▪ Aisle and seat cleaning, security searches, and aircraft restocking</li></ul>
<b>Ramp Handling</b>	<ul style="list-style-type: none"><li>▪ Airplane marshaling, baggage load/unload, and heavy equipment operations</li></ul>	<b>Aircraft Fueling</b>	<ul style="list-style-type: none"><li>▪ Into-plane fueling and fuel farm management services</li></ul>
<b>De-Icing</b>	<ul style="list-style-type: none"><li>▪ Removal from snow, ice, or frost from aircraft</li></ul>	<b>Cargo Services</b>	<ul style="list-style-type: none"><li>▪ Loading/Unloading, warehouse operations and document processing</li></ul>

## Investment Highlights

Turn-Key Ground Handling Services

Diverse Foothold in Airports Across the United States

Positioned to Expand Services to Different Airlines

Established Relationships With Major Airlines

Focused on Best-In-Class Service Across Capabilities

❖ *By adding Airport Terminal Service's capabilities, AGI will expand its service offering as well as increase their footprint within the U.S.*

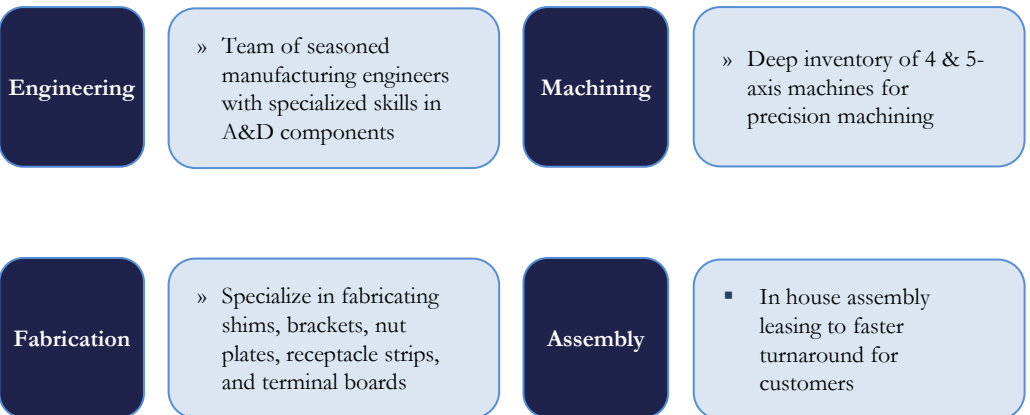
# KAL Advises Stroco Manufacturing Inc.

## Stroco Manufacturing Inc. Acquired by Novaria Group



- Stroco Manufacturing Manufactures and assembles shims, brackets, nut plates, terminal boards, and other metal products for private sector and U.S. federal government aerospace and high precision industries
- KAL Capital announced the sale of Stroco to Novaria group, a portfolio company of KKR
- The acquisition of Stroco will allow Novaria Group to build upon their presence in the A & D manufacturing space

## Company Snapshot



## Investment Highlights

Vertically Integrated Operations

High Mix Volume of Parts & Consumer Type

Niche-Focused on Smaller Part Envelopes & Standard Assemblies

Robust Operational Processes and Employee Acquisition & Retention

Identified Near-Term Growth Opportunities

❖ *By adding Stroco to its holdings, Novaria Group will expand its manufacturing operations with a focus on small part manufacturing*

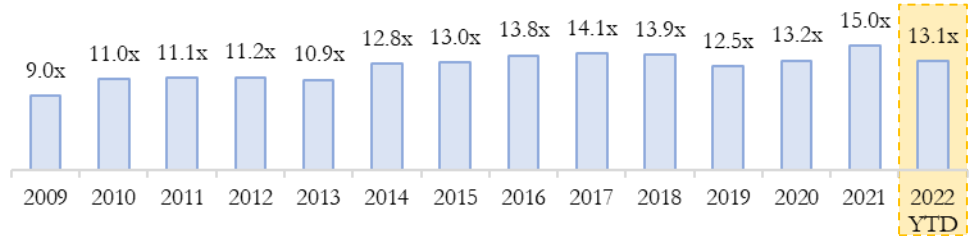
# Q3 2022 M&A Update

## EBITDA Multiples on the Rise

❖ *Best-In-Class companies will still command above average multiples of EBITDA*

- EV/EBITDA Multiples have dropped since the record highs of 2021, despite the amount of dry powder in the buyer marketplace
- Although multiples are down from previous years, we continue to see expansion in the overall marketplace over the long term

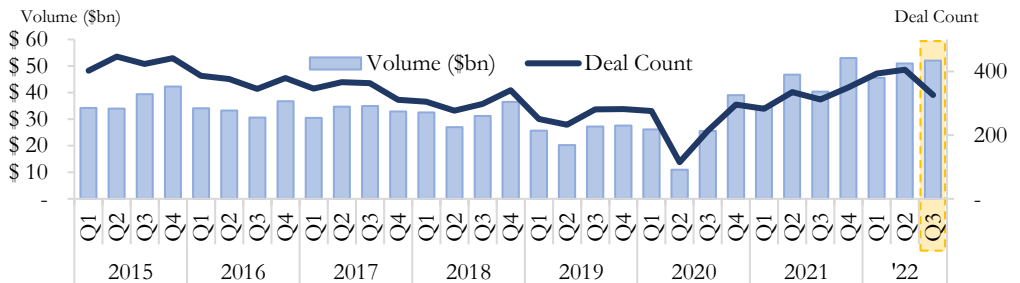
*Average A&D EV/EBITDA Multiples*



## Long Term M&A Volume

❖ *Q3 M&A activity was focused on larger transactions, and we expect that trend to continue through Q4 and into Q1 2023*

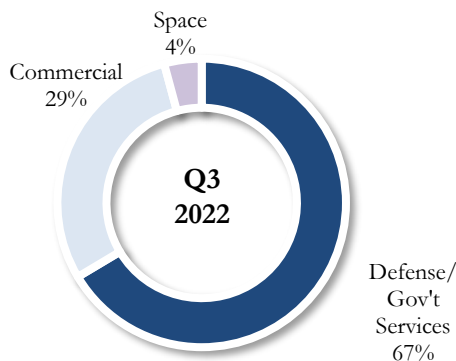
- M&A volume has taken a serious hit in 2022 Q3, while the total transaction value has seen a slight increase
- Although Private Equity dry-powder is at an all-time-high, the current economic climate continues to tamp down the fiery M&A market of past quarters



*With the current debt and economic factors, Private Equity Groups will be forced to finance acquisitions with a greater percentage equity vs debt*

## 2022 Q3 Aerospace & Defense M&A

### End Market Breakdown












- **Defense:** Defense and Gov't services transactions continue to grow at unprecedented rates
- **Commercial:** The global commercial aircraft market is expected to grow from \$163bn to \$181bn in 2022 representing a CAGR of 10.2%
- **Space:** 2022 space related M&A activity is down significantly compared to years prior as the Space focused SPAC's continue to underperform the general market

## Defense & Government Services Overview

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

Public Market Performance								
Company	Share Price	% of 52-Wk.High	Market Cap. (\$bn)		EV/Revenue		EV/EBITDA	
			11/01/22	12/31/21	2022	2021	2022	2021
 Raytheon Technologies	94.15	88.8%	138.81	134.95	2.56x	2.5x	15.72x	13.6x
 LOCKHEED MARTIN	482.06	98.1%	126.33	99.83	2.1x	1.7x	15.3x	12.3x
 NORTHROP GRUMMAN	530.03	95.3%	82.40	62.93	2.71x	1.9x	11.17x	7.5x
 GENERAL DYNAMICS	246.37	96.6%	68.83	59.11	2.1x	1.7x	15.3x	11.8x
 L3HARRIS™ FAST. FORWARD.	238.81	85.5%	46.14	41.99	3.2x	2.7x	21.1x	12.8x
 BAE SYSTEMS	37.20	90.4%	29.25	17.28	1.7x	1.2x	12.35x	9.0x
 leidos	104.36	93.9%	13.89	12.89	1.4x	1.2x	13.28x	9.7x
 Nasdaq	157.49	73.2%	25.94	34.97	5.5x	5.8x	15.6x	16.5x

Notable Transactions		
Target	Acquirer	Description
 sequa	 VERITAS CAPITAL	Global technology company and a leading solutions provider for aircraft engines and gas turbines
 EXXELIA	 HEICO	Designer and manufacturer of high reliability passive components for the private sector and international government aerospace & defense applications
 acoustics	 TELEDYNE TECHNOLOGIES INCORPORATED	Designer and manufacturer of acoustic imaging instruments and predictive maintenance solutions for international government markets
 ABRACON	 GENSTAR CAPITAL	Provider of passive components, providing frequency control & timing devices, RF & antenna products, and inductor & connectivity solutions

Active Buyer Highlight	
 ARCLINE INVESTMENT MANAGEMENT	<b>Recent Acquisitions</b>
	 MEZZO TECHNOLOGIES <ul style="list-style-type: none"> <li>Custom high performance microtube heat exchangers</li> </ul>
	 CUSTOM INTERCONNECT <ul style="list-style-type: none"> <li>Manufacturer of high performance proprietary contact pin technology</li> </ul>
<ul style="list-style-type: none"> <li>Private Equity firm with over \$4.4B in capital commitments, making a series of acquisitions throughout the industry</li> </ul>	 OMEGA <ul style="list-style-type: none"> <li>Leading provider of sensing, control, and monitoring technologies</li> </ul>

## Commercial Focus: Quarter in Review

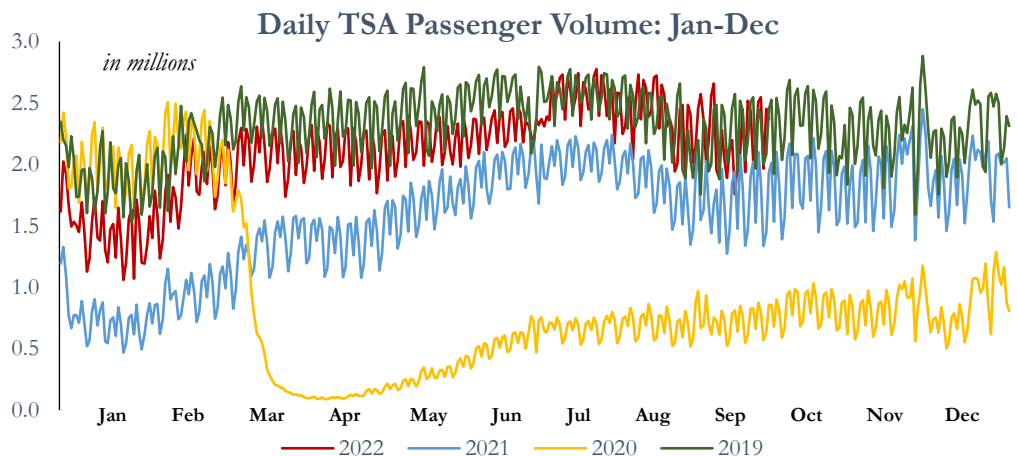
### Boeing and Airbus Deliveries, Orders, Build Rates & Backlog

- Boeing and Airbus delivered 35 and 41 commercial jets in August 2022, and 277 and 382 respectively YTD through August
- Through Q1 of 2021, Boeing and Airbus delivered 156 and 297 commercial jets respectively, they are on track to beat these numbers pending October 2022

Platform	Deliveries YTD	Net Orders	Build Rate by Month	Backlog
	Through August 2022		August 2022	
B737	240	132	28	4,125
A320	298	191	33	5,847
A220	30	73	2	529
B777/ 777X	16	45	3	432
B787	2	-6	2	482
A350	38	7	6	440
B747	3	0	0.5	3
A330	16	-80	2	221

### Narrow Body Aircraft Passenger Counts






- Narrowbody aircraft passenger traffic are expected to see continued strengthening as the airline industry continues along the road to recovery as pre-pandemic levels are approached and surpassed





# Commercial Aerospace Market Overview





## Public Market Performance

Company	Share Price	% of 52-Wk.High	Market Cap. (\$bn)		EV/Revenue		EV/EBITDA	
			11/01/22	12/31/21	2022	2021	2022	2021
 <b>BOEING</b>	167.07	71.4%	99.54	125.55	2.2x	2.5x	16.4x	17.1x
<b>AIRBUS</b>	28.28	81.8%	88.96	94.61	1.5x	1.7x	8.2x	10.8x
 <b>SPIRIT</b> AEROSYSTEMS	26.93	50.5%	2.46	2.54	1.2x	1.8x	11.5x	16.4x
<b>HEICO</b>	158.72	96.2%	18.80	18.69	9.1x	9.7x	33.9x	35.7x
 <b>MTU</b> Aero Engines	83.55	65.6%	9.67	10.19	2.8x	1.9x	12.8x	18.8x
<b>TRANSDIGM</b> GROUP INC.	620.00	90.6%	33.71	35.58	9.2x	10.7x	21.43x	24.9x
 <b>Parker</b>	310.73	91.3%	39.9	41.64	3.24x	3.1x	21.67x	14.5x
 <b>Nasdaq</b>	157.49	73.2%	25.94	34.97	5.5x	5.8x	15.6x	16.5x

## Notable Transactions

Target	Acquirer	Description
 <b>YORK</b> SPACE SYSTEMS	 <b>ae</b> Industrial Partners	<ul style="list-style-type: none"> <li>Provider of small satellites, components and turnkey mission operations to private sector and U.S. federal government aerospace and defense markets</li> </ul>
 <b>Sensor</b> Systems	<b>HEICO</b>	<ul style="list-style-type: none"> <li>Develops and manufactures airborne communications and navigation antennas for private sector and US federal government aerospace and commercial markets</li> </ul>
 <b>Integral</b> Industries, Inc. PRECISION AEROSPACE COMPONENTS	 <b>Enjet</b> AERO	<ul style="list-style-type: none"> <li>Manufacturer of components and assemblies for private sector and US federal government commercial and military aircraft engine markets</li> </ul>

## HEICO– Active Buyer Highlight

 <b>ae</b> Industrial Partners	<h3>Recent Acquisitions</h3> <ul style="list-style-type: none"> <li> <b>YORK</b> SPACE SYSTEMS             <ul style="list-style-type: none"> <li>Small satellites, components and turnkey mission operations</li> </ul> </li> <li> <b>FIREFLY</b> AEROSPACE             <ul style="list-style-type: none"> <li>Design, manufacture and operation of reliable launch vehicles</li> </ul> </li> <li> <b>F.T. Gearing Systems</b> <ul style="list-style-type: none"> <li>Highly engineered gears for the commercial aero and defense industries</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>AE Industrial Partners is an aerospace private investment firm</li> <li>They invest in market-leading companies with a focus in the commercial sector this quarter</li> </ul>	



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