

KAL Capital Markets Aerospace & Defense

Q3 2023



INTRODUCTION

Dear Friends,

We had an extremely busy quarter at KAL Capital both in terms of transaction activity as well as changes at the firm.

On the transaction front, we were pleased to announce three transactions:

Hypergiant a provider of AI-enabled, cloud-based command and control services has been acquired by Forward Slope.

Stack Metallurgical and Lake City Heat Treat, both providers of heat treating and Hot Isostatic Pressing services, have signed an agreement to be acquired by Bodycote plc for \$145mm.

Cyclone Manufacturing, a provider of machining and fabrication services for the aerospace industry has signed an agreement to be acquired by Mubea.

Each of these transactions are covered in greater detail in the pages to follow, but suffice to say, we are extremely proud to be associated with each of these deals. From our perspective, the M&A market has shown continued, gradual improvement over the course of 2023. The most positive tailwinds are around debt financing as the availability of credit continues to increase, albeit at increased all-in-pricing. As usual, we will add our usual caveat that the M&A activity within the A&D industry sees less volatility than other sectors. Case in point, we expect A&D transaction activity to finish the year down 15 – 25% for the full-year 2023. This would mark a significant out performance compared to the broader market.

Within our sub-sectors, aerospace continues to be plagued by ongoing production ramp challenges, particularly for the Boeing and Pratt & Whitney supply-chains as quality issues continue to emerge. Unfortunately, these portions of the supply-chain continue to be in the uncomfortable position of strong demand signals from end-users that can not be met due to underlying chaos within the industrial base.

For the defense sub-sector, we are now witness to another devastating conflict, now in Israel. In addition to the ongoing war in Ukraine, this conflict will serve as a critical test to see if the US will be funding national security requirements despite a politically divisive environment within the US House.

In case you missed it, we are thrilled to announce the re-hiring of Trevor McKinnon to lead a new addition to KAL's core service offering. The new practice area will focus on advising businesses developing emerging critical technologies within the DoD ecosystem and will broaden our service offering to include growth capital raising. We are beyond excited!

Sincerely,

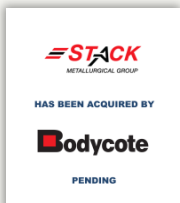
Trevor Bohn
Partner

Ryan Murphy
Partner

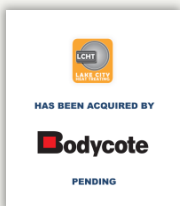
KAL
Capital



RECENT TRANSACTION ANNOUNCEMENTS



OCTOBER 2023



OCTOBER 2023



SEPTEMBER 2023



AUGUST 2023



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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

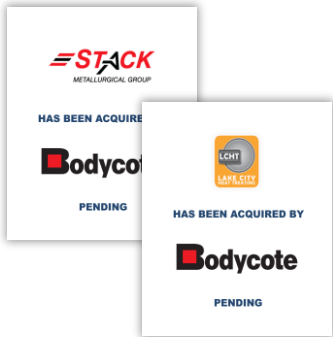


- » KAL is built on the belief that M&A processes should be built to maximize transaction outcomes for clients



KAL ADVISES STACK METALLURGICAL & LAKE CITY HEAT TREAT

STACK METALLURGICAL & LAKE CITY ACQUIRED BY BODYCOTE



- » Founded in 1932, SMG is a leading provider of metal processing services that include hot isostatic pressing ("HIP"), heat treating, and metal finishing
- » The Company currently operates out of four locations in the Pacific Northwest and has agreed to acquire a fifth location through the purchase of LCHT
- » LCHT has provided the aerospace, medical implant and other quality-critical industries with state-of-the-art HIP and vacuum heat-treating services since 1983

KEY SERVICES OVERVIEW

Hot Isostatic Pressing



Highly specialized HIP services, focused on high value, mission-critical components

Heat Treating



Aluminum, Vacuum, Endothermic, and Induction heat treating processes

Metal Finishing



Metal finishing services including penetrant inspection, anodizing, & painting

INVESTMENT HIGHLIGHTS

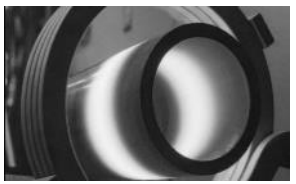


Combining Critical Post-Manufacturing Supply Chain Capabilities

Unmatched HIP and Heat Treat Capabilities with State-of-the-Art Equipment



Strategically Located in Proximity to its Customers Base



Extensive Portfolio of Hard-to-Obtain Approvals

Focused on Mission-Critical Components Across End-Markets



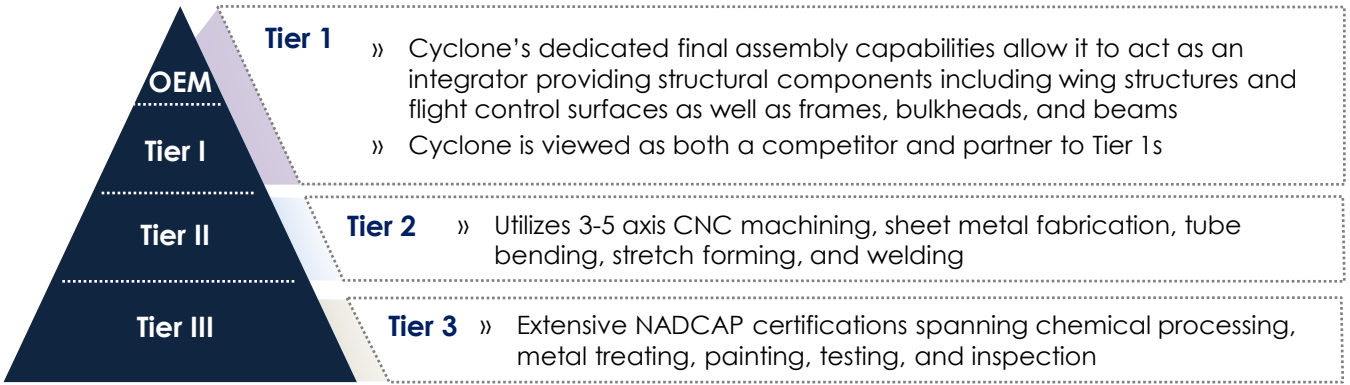
KAL ADVISES CYCLONE MANUFACTURING

CYCLONE MANUFACTURING ACQUIRED BY MUBEA



- » Cyclone Manufacturing is a vertically-integrated full-service provider of 3-5 axis machining, sheet metal fabrication, tube bending, welding and structural assemblies of aerospace structural components
- » The Company has established long-standing relationships with OEMs and their Tier 1 suppliers including Bombardier, Airbus, Boeing, Lockheed Martin, AIDC, Saab, and Spirit AeroSystems
- » Cyclone operates six state-of-the-art facilities totaling over 500,000 sq.ft. in Canada & Poland and maintains 130+ CNC machining centers

COMPREHENSIVE MANUFACTURING SOLUTION



INVESTMENT HIGHLIGHTS



Revenue Visibility Through LTAs with Blue-Chip OEMs & Tier 1 Suppliers

Ideally Positioned to Benefit from the Commercial Aerospace Recovery & Emerging Platforms



Vertically-Integrated Manufacturing & Final Assembly Capabilities

Extensive Library of Special Processing Approvals



Specialized in Difficult-to-Manufacture Structural Aerospace Components & Assemblies

Significant Investment in State-of-the-Art Facilities & Equipment

KAL ADVISES FORWARD SLOPE IN ITS ACQUISITION OF HYPERGIANT

HYPERGIANT ACQUIRED BY FORWARD SLOPE INC.



- » Hypergiant, a leader in AI-enabled, cloud-based command and control technologies and deployed solutions, has been acquired by Forward Slope
- » The company offers a world-class core geospatial data visualization and actions platform, Command Center, which makes AI-generated recommendations and delivers intelligent insights and actions across all domains
- » The acquisition is a natural partnership for the two organizations who believe in the future of next-gen, AI-enabled technology solutions to secure both America's defenses across all military domains and critical infrastructure

COMMAND CENTER – KEY CAPABILITIES

- » **Command Center is a Common Battle Management Interface (CBI) where data informs real-time decision-making and is shared instantly between multiple sources across all domains**



Air Force – JADC2

- » The Joint Effects for Real-time Integrated Command & Control Operations (JERIC2O) is the DoD's only modern, cloud-enabled, tactical level command-and-control (C2) software developed for the USAF's Advanced Battle Management System (ABMS) effort



Army

- » Hypergiant assisted the U.S. Army with advanced predictive maintenance and sustainment for its fleet, using Command Center to maximize the lifecycle of a remote fleet



Space Force

- » As a map-based geospatial solution, Command Center can be leveraged to track satellites in orbit or beyond into the furthest reaches of mapped space, displaying all available information in context to empower decision making



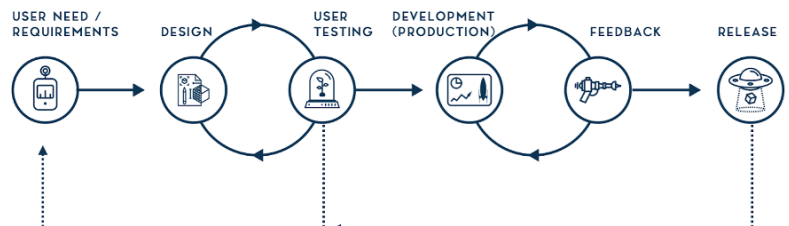
Physical Security

- » Leverages data fusion to see and understand applicable activity in real time. Operators can have unparalleled situational awareness of facilities, leveraging multiple data feeds like weather, crime statistics, live camera access, social media, and traffic data

WARFIGHTERS AT THE CORE OF DESIGN AND DEVELOPMENT

To ensure design system effectiveness, Hypergiant collaborates closely with warfighters. Through regular feedback sessions, warfighters are integrated into the design, development, and new feature scoping processes

By involving them early and often, Hypergiant builds a system specifically designed to address their unique challenges, human factors, and requirements





KAL Capital Launches Critical Technologies Venture and Growth Advisory Practice



Trevor McKinnon
Director - Critical
Technology Advisory

THE STATE OF THE NATIONAL SECURITY ENVIRONMENT

Over the next decade, the terms of the geopolitical competition between the US and the world's major powers will be set. If the US is to successfully prevail, it is imperative that both public and private sector work together to modernize and integrate critical new technologies that enhance military capabilities while properly resourcing the founders building them. The US National Defense Strategy calls for a "broad and deep change in how we produce and manage military capability" ([2022 National Defense Strategy](#)). The key initiatives driving this change will include transforming the foundation of the future force, making the right technology investments, and adapting and fortifying our defense industrial base – with an emphasis on private sector collaborations with contractors, investors, and the early-stage technology start-up ecosystem

AREAS OF FOCUS



Seed Areas

» Areas of emerging opportunity, which have not yet been proven out or widely commercialized



Biotechnology



Quantum Science



FutureG



Advanced Materials



Effective Adoption

» Effective adoption areas where vibrant existing commercial activity can be leveraged



AI & Autonomy



Advanced Computing



Microelectronics



Space Technology



Defense-Focus

» Accelerating the transition of key capabilities to the Military Services and the Combatant Commands



Directed Energy



Hypersonics



Integrated Sensing



Cybersecurity

KAL Capital Launches Critical Technologies Venture and Growth Advisory Practice

DoD Defense Innovation Initiatives

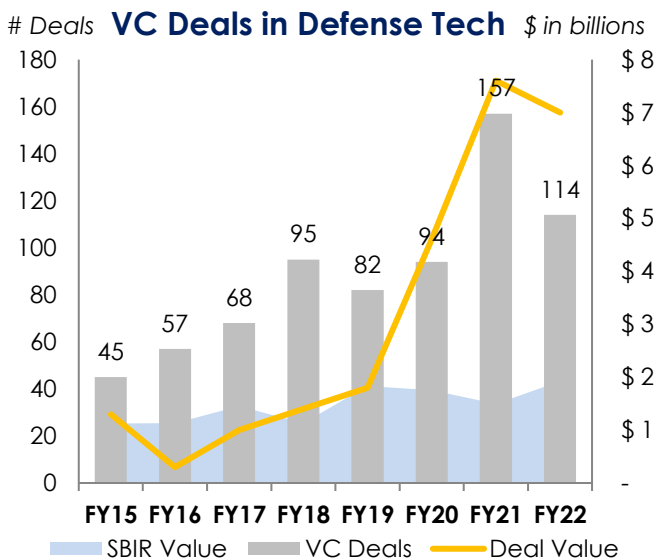


Office of Strategic Capital

- » Unrefined investment strategies, lengthy program-specific budget cycles, and outdated procurement methods have collectively made it both difficult and unlikely for defense tech start-ups to succeed in transitioning technology and building businesses with scalable, recurring revenue
- » While broader DoD procurement reform is underway, substantial increases in venture capital and strategic investor interests (defense primes) are quickly reshaping the landscape
- » VCs and strategic investors resource founders with economic capital to mitigate near-term “valleys of death”, intellectual capital to navigate the complexities of growth within the DoD procurement supply chain, and ultimately shaping the new norm for successful exits as early-stage companies become targets for strategic M&A

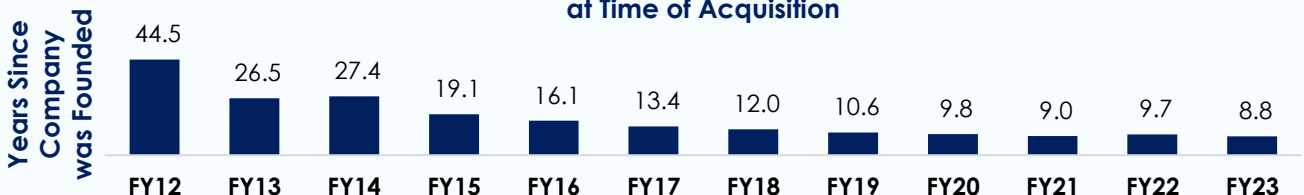
PRIVATE SECTOR MOTIONS

- » Venture capital investments into aerospace and defense technologies exceeded \$7 billion in 2021 and 2022, a substantial increase from \$4 billion in 2020
- » Silicon Valley VCs and strategic corporate funds have been driving this deal flow, investing in segments that align close to the DoD’s defined critical technology areas
- » From 2016 to 2022, over 70% of the venture-backed exits came from M&A - typically from strategic investors seeking to integrate next-gen capabilities and secure niche IP



Source: PitchBook

Average Age of National Security Tech Companies at Time of Acquisition





KAL Capital Launches Critical Technologies Venture and Growth Advisory Practice

KEY TAKEAWAYS

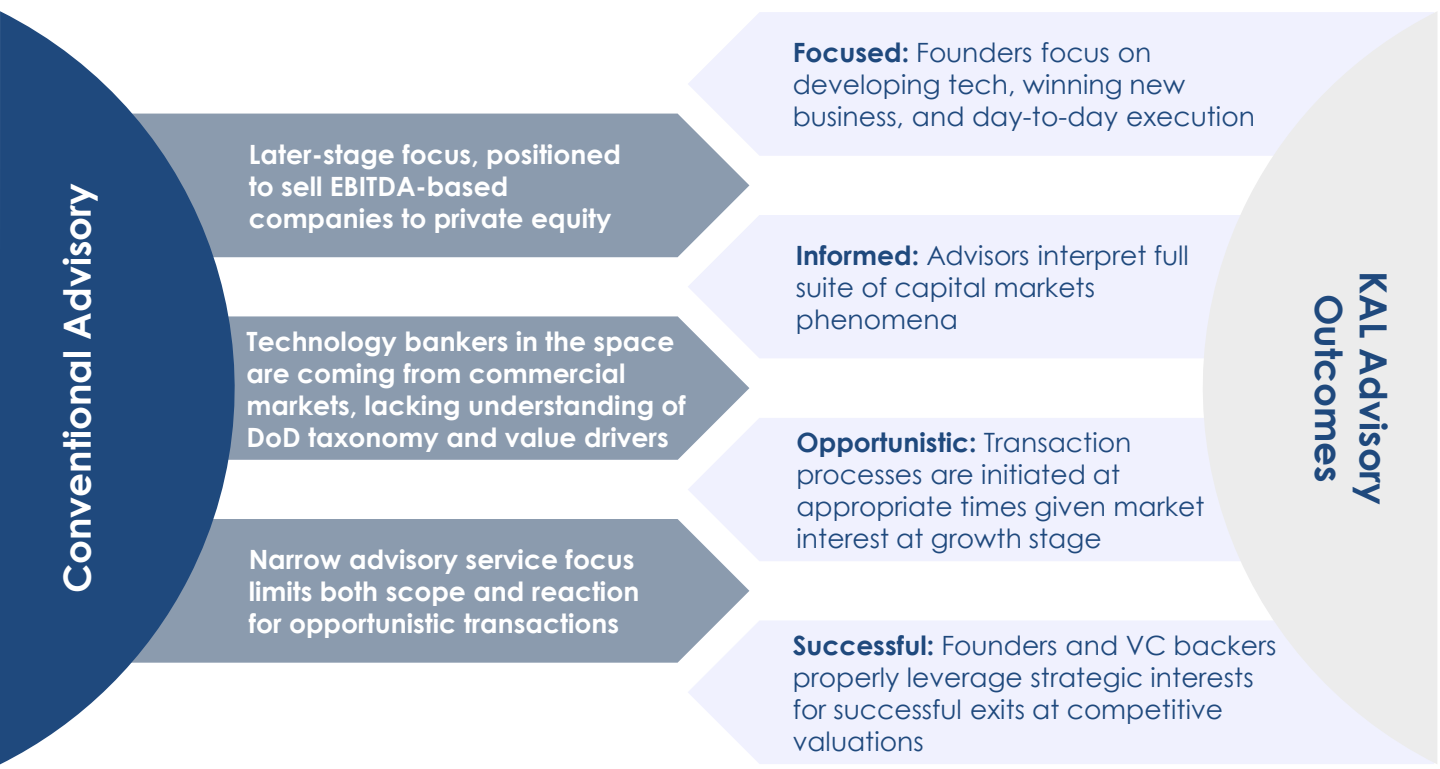
- ✓ *Innovation programs will continue to advance broader private-public collaboration, providing the most near-term value through ecosystem networking and discovery*

- ✓ *VCs will better align investment theses with priority critical technology areas with a preference for validated product-market fit and a clear DoD customer*

- ✓ *Defense primes and strategic investors will prioritize earlier-stage M&A within build-buy-partner paradigms as they position to win critical technology contracts*

- ✓ *Founders and their VC partners can leverage growing base of strategic interests for earlier exits at competitive valuations*

CONVENTIONAL ADVISORY VS. KAL OUTCOMES

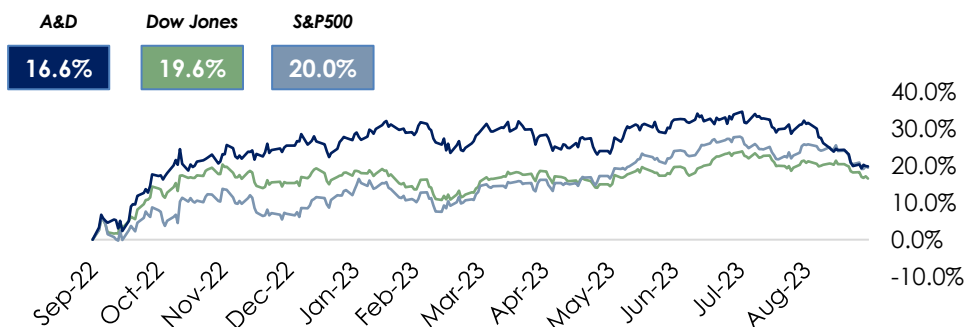


A&D CAPITAL AND DEBT MARKETS UPDATE

A&D STOCKS RALLY IN LINE WITH BROADER MARKET

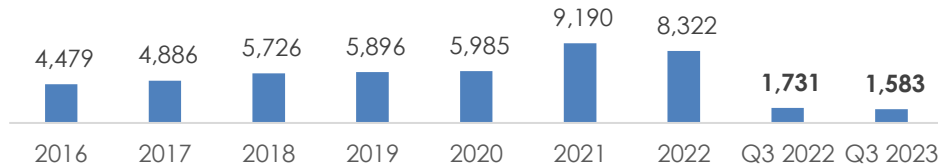
- » The third quarter of 2023 saw the S&P 500 lose 3.6% (but is still up 11.7% on the year). Overall, nine of eleven sectors turned in a negative return in Q3
- » A&D stocks fell 9.8% in the third quarter, largely due to continued earnings pressure and difficulties in the supply chain delaying on-time shipments

iShares US Aerospace and Defense Index vs. S&P500 vs. Dow Jones IA (LTM)



A&D M&A HOLDS AMID TIGHTENING DEBT MARKET

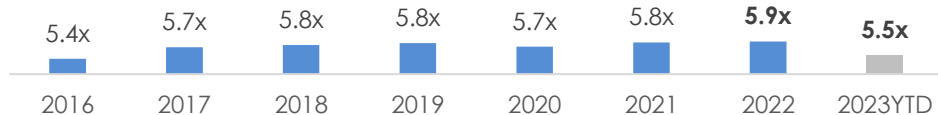
US Middle-Market (<\$500mm) M&A Deal Volume



A&D M&A Deal Volume



M&A Deals DEBT / EBITDA Multiple (PE Buyouts)



- » While debt markets have tightened causing a significant decline in global M&A deal activity, A&D remains a safe haven for investors looking to deploy capital with strong industry fundamentals on both the commercial and defense end markets






» As the market dipped in the Q3 of 2023, A&D stocks were affected more poignantly by the continued supply chain pressures weighing down on commercial build rates, in addition to wage pressures and a tight labor market driving cost inflation

» A&D deal volume has remained resilient despite global M&A volume declining ~25% year-over-year





COMMERCIAL AEROSPACE SECTOR OVERVIEW

PUBLIC MARKET PERFORMANCE

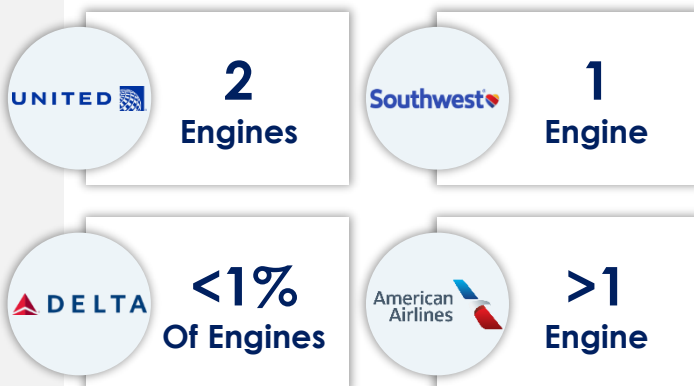
Company	Share Price	52-Wk.High	Market Cap. (\$bn)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
 BOEING	191.68	241.58	126.9	1.8x	2.1x	n/a	n/a
AIRBUS	126.28	137.20	97.5	1.4x	1.5x	10.0x	12.4x
 SPIRIT	16.14	38.55	1.8	0.8x	1.0x	11.5x	n/a
HEICO	161.93	182.18	19.3	5.4x	7.6x	22.5x	28.3x
 MTU	173.85	245.10	8.9	1.4x	1.6x	7.8x	10.2x
 TRANSDIGM	843.13	940.0	44.8	8.5x	9.8x	16.8x	20.4x
 Parker	389.52	428.16	49.1	3.1x	3.2x	12.9x	13.7x

NOTABLE TRANSACTIONS

Target	Acquirer	Description
 ARCONIC	APOLLO	» Arconic is a manufacturer of aluminum sheet, plate, extrusions and architectural products, serving primarily the ground transportation, aerospace, construction end markets
 PYRAMID	COREDUX ARCLINE	» Pyramid is a manufacturer of high-complexity, close-tolerance, machined components and sub-assemblies for the semiconductor, aerospace, and energy supply chains








UNAPPROVED PARTS AFFECT MULTIPLE AIRLINES

» UK-based **AOG Technics** has sold unauthorized engine parts that have affected over 100 aircraft of four major US airlines as well as Canadian carrier **WestJet** and engine OEM **CFM's** own repair shops









DEFENSE & GOVERNMENT SERVICES OVERVIEW

PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk.High	Market Cap. (\$bn)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
 RTX	71.97	104.91	102.5	1.8x	1.9x	10.0x	10.8x
 LOCKHEED MARTIN	408.96	508.10	101.7	1.7x	1.7x	11.8x	10.8x
 NORTHROP GRUMMAN	440.19	556.27	65.7	2.0x	2.1x	13.9x	10.4x
 GENERAL DYNAMICS	220.97	256.86	60.2	1.6x	1.7x	12.1x	12.9x
 L3HARRIS™	174.12	255.10	32.0	2.0x	2.3x	10.7x	14.1x
 BAE SYSTEMS	9.98	10.59	30.8	1.3x	1.5x	10.1x	10.8x
 leidos	92.16	110.91	12.7	1.2x	1.2x	11.1x	10.5x

NOTABLE TRANSACTIONS

Target	Acquirer	Description
		» Designs and manufactures composite aircraft including Fury, a group 5 UAV with fighter-like performance
		» Tomahawk designs engineers and manufactures AI-enabled multi-domain collaborative robotic control systems for the defense market
		» Prime contractor of full satellite systems and space missions, instruments and sensors, antennas, tactical camera systems for the DoD and NASA and other agencies

SIXTH GENERATION FIGHTER DEVELOPMENT

» As international rivalries continue to escalate, the race for air superiority in the development 6th generation fighters is progressing with aircraft expected to enter service in the 2030s






















Top 6th Generation Fighter Programs In Development

Program	GCAP	FCAS	NGAD	F/A-XX	PAK DP
Country					

» Public companies in the defense sector are trading near 52-week highs, bolstered by improved 2024 budgetary provisions and ongoing geopolitical tensions

» Defense M&A continues to thrive despite higher cost of capital, with interest especially strong in earlier stage companies operating in the DoD's identified critical technology areas

RECENT TRANSACTIONS

 HAS BEEN ACQUIRED BY Mubea SALE OF COMPANY	 HAS BEEN ACQUIRED BY ESI SALES OF COMPANY	 HAS BEEN ACQUIRED BY ARCLINE SALE OF COMPANY	 HAS BEEN ACQUIRED BY ROTOR CAPITAL SALE OF COMPANY	 HAS BEEN ACQUIRED BY OMEGA MORGAN SALE OF COMPANY	 HAS BEEN ACQUIRED BY TRIVE CAPITAL SALE OF COMPANY	 HAS BEEN ACQUIRED BY Lincotek SALE OF COMPANY
 HAS BEEN ACQUIRED BY TRIVE CAPITAL SALE OF COMPANY	 HAS BEEN ACQUIRED BY INRCORE A PORTFOLIO COMPANY OF THE JORDAN COMPANY SALE OF COMPANY	 HAS BEEN ACQUIRED BY NOVARIA GROUP A PORTFOLIO COMPANY OF KKR SALE OF COMPANY	 HAS BEEN ACQUIRED BY VITESSE SYSTEMS SALE OF COMPANY	 HAS BEEN ACQUIRED BY CRESTVIEW AEROSPACE A PORTFOLIO COMPANY OF AMERICAN INDUSTRIAL PARTNERS SALE OF COMPANY	 HAS BEEN ACQUIRED BY KARMAN A PORTFOLIO COMPANY OF TRIVE CAPITAL SALE OF COMPANY	 HAS BEEN ACQUIRED BY Deloitte. SALE OF COMPANY
 HAS BEEN ACQUIRED BY SUNVAIR AEROSPACE GROUP A PORTFOLIO COMPANY OF BLUE SEA CAPITAL SALE OF COMPANY	 HAS BEEN ACQUIRED BY CHARGER SALE OF COMPANY	 A PORTFOLIO COMPANY OF GENCAP AMERICA HAS BEEN ACQUIRED BY Calspan SALE OF COMPANY	 HAS BEEN ACQUIRED BY KROTOS SALE OF COMPANY	 HAS RECEIVED EQUITY INVESTMENT FROM GREENBRIAR EQUITY GROUP LLC EQUITY INVESTMENT	 HAS BEEN ACQUIRED BY HEROUX DEVTEK SALE OF COMPANY	 A PORTFOLIO COMPANY OF TRIVE CAPITAL HAS BEEN ACQUIRED BY MDP SALE OF COMPANY

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