

KAL Capital Markets Aerospace & Defense

Q1 2024



KAL
Capital

INTRODUCTION

Dear Friends,

We are pleased to announce three new transactions in the first quarter that are described in greater detail on the following slides. We are immensely proud of the momentum in the practice, particularly given that these transactions each represent a key KAL Capital focus area including Maintenance, Repair, Overhaul ("MRO"), surface treatments, and the US Navy supply-chain.

From a capital markets perspective, we have unequivocally witnessed an improvement as each of our active projects has received a robust response from both strategic and private equity buyers. Most acutely, we have seen risk appetite in the debt capital markets improve markedly and while all-in rates remain high, availability (Debt/EBITDA) has recovered after a precipitous decline during the second half of 2022. Unfortunately, the equity capital markets for A&D names have not rallied in-line with the broader market. This is primarily related to the major challenges at Boeing (-33% YTD) and the ripple effect of an on-going FAA investigation.

From a supply-chain perspective, challenges at Boeing commercial have become a constant source of concern with limited odds of near-term relief. After leaning on its supply-chain to continuously reduce cost without sacrificing quality or delivery, it now appears that Boeing should have spent more time and energy understanding its own manufacturing processes and controls. There is now little doubt that Airbus has emerged as the winner in the battle for the all important narrowbody market. That said, airlines do not have the option of waiting nearly a decade for an A320 delivery slot, and in many ways the B737MAX is "too big to fail." For M&A processes, we are being conservative in how we forecast Boeing production ramps to align with buyers who are still very much looking for high-quality assets in the sector.

The defense sector has seen significant news flow so far this year. First, the DoD Budget was finally appropriated in late March despite the fiscal year of the government beginning six-months earlier. This dysfunction stands in the way of important next-generation platforms and effectively reduces total procurement spending. Despite an era of global rearmament, the DoD Budget is declining in real – terms (adjusted for inflation) and the threat of a global conflict remains omnipresent as illustrated by Iran's unprecedented direct attack on Israel. The nature of the attack serves to inform the future of combat whereby a high number of attritable UAVs are used in a "swarm" to overwhelm air combat defense. This presents a new set of challenges and a mismatch in cost of defense vs. attack (Patriot missile vs. near-hobby drone). The DoD and its funding mechanisms are responding to this evolving landscape, and we have seen an unprecedented variety of new programs searching for next-generation solutions.

Sincerely,



Trevor Bohn
Partner



Ryan Murphy
Partner



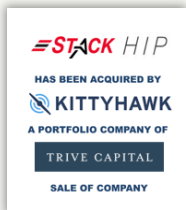
RECENT TRANSACTION ANNOUNCEMENTS



APRIL 2024



MARCH 2024



FEBRUARY 2024

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KAL ADVISES SEGERS GROUP

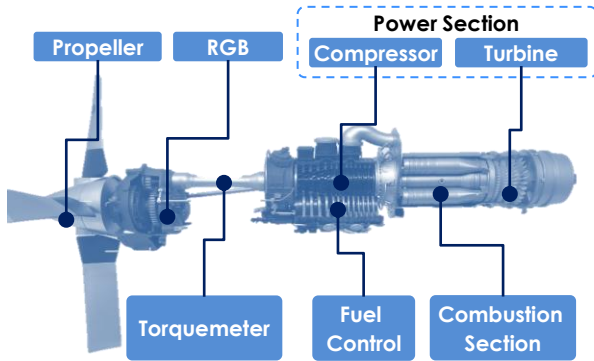
SEGERS GROUP HAS BEEN ACQUIRED BY H.I.G. CAPITAL



- » Segers Group ("Segers" or the "Company") is a Rolls-Royce, Lockheed Martin, and Honeywell Authorized Maintenance Center (AMC) and leading provider of overhaul and repair services on the Rolls-Royce T56/501 engine- and Hamilton Sundstrand 54H60 propeller-equipped on the C-130/P-3 aircraft
- » Housed in a 136K sq. ft facility located in Fairhope, AL, the Company has a robust machine shop capabilities, an engine and propeller accessories shop, as well as an indoor dyno test cell all supported by a best-in-class engineering team

UNMATCHED SET OF OEM AND GOVERNMENT APPROVALS

Anatomy of T56 Propulsion System



Representative T56 Propulsion System Approvals

- ✓ Rolls-Royce T56/501 Series I, II, III, 3.5 Authorized Maintenance Center (AMC)
- ✓ 1 of only 3 authorized QEC service centers in the world
- ✓ Complete OH capability on Honeywell Fuel Controls & Accessories
- ✓ USAF/USN approval
- ✓ Prerequisite for Foreign Military Sales (FMS) customers
- ✓ FAA and EASA approved Part-145 approved repair station

INVESTMENT HIGHLIGHTS



Unmatched Set of OEM and US Government Approvals for the C-130 and P-3 Propulsion System

Provider of Highly Complex MRO Solutions to High-Cost of Failure, Mission-Critical Systems

Vertically-Integrated Engine and Propeller MRO Operations

Robust Engineering Capabilities and Service Offering

High Barriers-to-Entry and Irreplicable Value Proposition

Tremendous Built-In Growth and Visibility

KAL ADVISES FOX VALLEY METAL-TECH, INC

FOX VALLEY METAL TECH INC. ACQUIRED BY ARMORWORKS



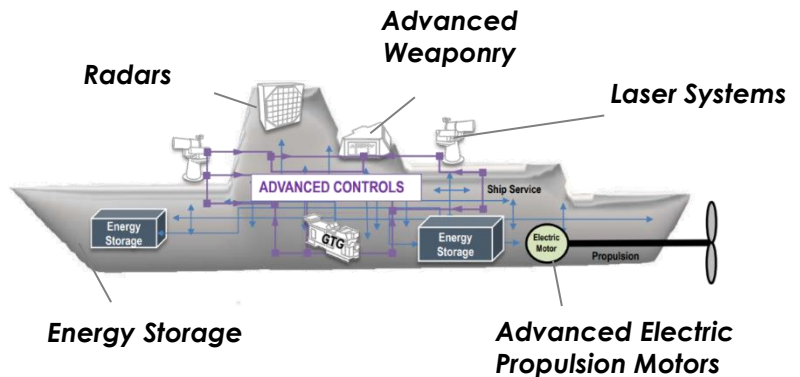
FOX VALLEY METAL-TECH, INC.
HAS BEEN ACQUIRED BY
ARMORWORKS
A PORTFOLIO COMPANY OF
LITTLEJOHN CAPITAL
SALE OF COMPANY

- » Fox Valley Metal Tech, Inc. is a provider of complex, precision metal fabrications for use on naval ships, submarines, combat vessels, and other critical defense applications. It specializes in precision welded enclosures and cabinets requiring value-add engineering and design housing high-value, high-cost-of-failure electronic systems on naval vessels
- » FVMT is headquartered in Green Bay, WI with a total footprint of 185K sq. ft. across its facilities

WELL-ALIGNED WITH NAVAL PLATFORM ELECTRIFICATION INITIATIVE

Drivers of Electrification

- ✓ Increased fuel efficiency
- ✓ Easier maintenance / lower costs
- ✓ Flexible design and upgradeability for anticipated future demands (e.g., high-energy weapons and laser systems)
- ✓ Enhanced stealth and survivability
- ✓ Increased platform endurance and effectiveness



INVESTMENT HIGHLIGHTS



End-to-End Naval Metal Fabrication Capabilities

Focused on Precision Weldments for Mission-Critical Naval Systems

Positioned on Priority Navy Programs Amid Historical Fleet Expansion

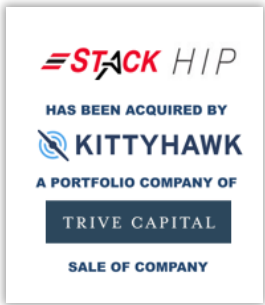
Well-Aligned with Naval Platform Electrification Initiative

Significant Barriers-to-Entry Through Process IP, Facility, and Approvals Portfolio

Strong Revenue Outlook Underscored by Robust Backlog

KAL ADVISES Stack Metallurgical Group

STACK HIP HAS BEEN ACQUIRED BY KITTYHAWK



- » Stack Metallurgical Group – HIP (“Stack HIP”, or the “Company”) is a leader in the modern metal processing market serving the aerospace, power generation, industrial & consumer end-markets
- » The Company’s HIP operations are strategically located in the Pacific Northwest near the majority of their key customers
- » Stack HIP’s unique capabilities include tailored cycles that combine HIP and heat treating processes, significantly reducing lead times while delivering superior quality

KEY HIP EQUIPMENT

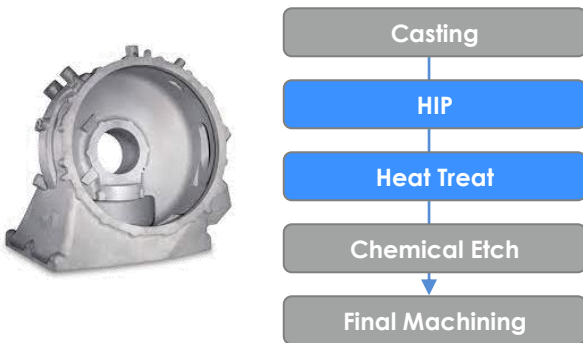
» Stack has invested in top-of-the-line Hot Isostatic Pressing equipment operating two Quintus vessels with the following specs:

# of Vessels	1	1
Current Replacement Cost	\$6.5M	~\$27.0M
Size (d x h)	660mm x 1,750mm	1,600mm x 2,591mm
Rev. / Cycle	~\$5,000	~\$10,000
Capacity / Unit	\$3.5M	\$7.0M
Max Temp (°F)	2,280	2,280
Parts	Mid-Sized Components	Large Castings



COMBINING CRITICAL HEAT TREAT AND HIP CAPABILITIES

Aerospace Castings Post-Manufacturing Steps



3-D Printing Post-Manufacturing Steps



One of few providers combining heat treat and HIP under one roof

Stack’s unique HIP capabilities include tailored cycles that combine HIP and heat-treating processes, reducing lead time while delivering superior quality

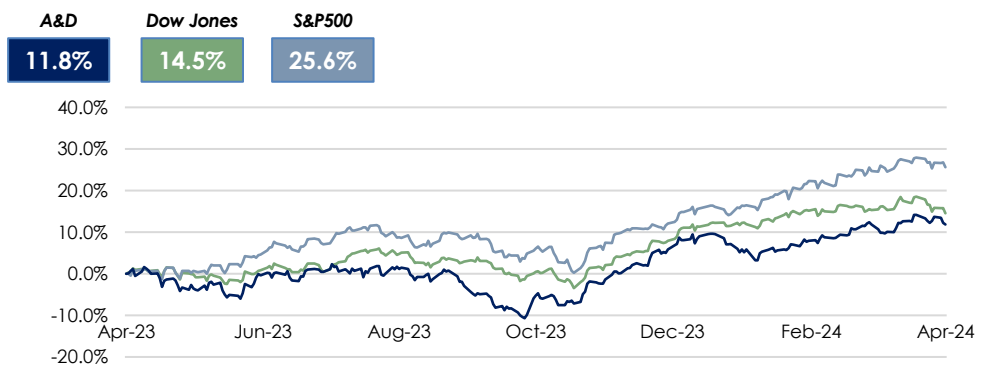
A&D CAPITAL AND DEBT MARKETS UPDATE

A&D STOCKS RALLY IN LINE WITH BROADER MARKET

» As the market rose in Q1 of 2024, A&D stocks continued to rally alongside global equities

- » The first quarter of 2024 saw the S&P 500 gaining 10.2%. Overall, all the eleven sectors turned in a positive return in Q1
- » A&D stocks fell 0.16% in the first quarter, largely due to supply chain weaknesses particularly for Boeing which carried over from previous years

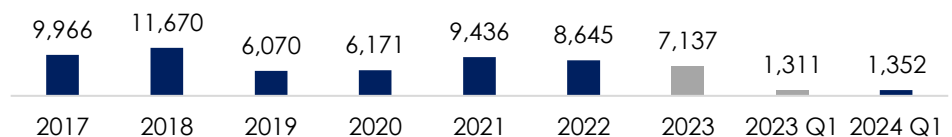
iShares US Aerospace and Defense Index vs. S&P500 vs. Dow Jones IA (LTM)



A&D M&A HOLDS AS DEBT MARKET IMPROVES

» Q1 2024 A&D deal volume steadily picked up from 2023 while debt markets improved

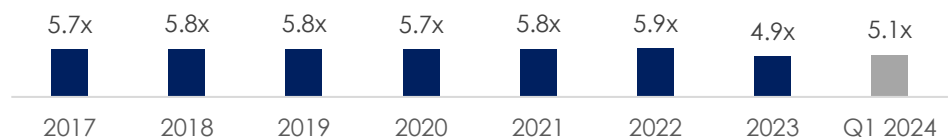
US Middle-Market (<\$500mm) M&A Deal Volume



A&D M&A Deal Volume








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







- » In Q1 2024, rising bond yields signal a potential shift towards higher-risk investments. Debt/EBITDA ratios have begun to inch back up, indicating improvement in overall debt markets. Compared to Q4, overall sentiment has become more optimistic reflecting a brighter market outlook moving forward

COMMERCIAL AEROSPACE SECTOR OVERVIEW

PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk.High	Market Cap. (\$bn)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
AIRBUS	164.20	172.82	138.92	1.7x	1.8x	13.1x	18.3x
 BOEING	173.47	267.54	105.89	1.7x	1.9x	30.0x	39.9x
 Parker	557.50	570.15	71.59	4.1x	4.2x	16.5x	16.0x
 TRANSDIGM GROUP INC.	1,230.09	1,246.22	68.69	10.9x	12.4x	20.8x	25.1x
HEICO	192.97	200.64	23.65	6.7x	8.1x	26.1x	30.4x
 MTU Aero Engines	114.83	134.54	12.36	1.5x	2.1x	9.2x	124.1x
 SPIRIT AEROSYSTEMS	34.34	36.34	3.99	1.0x	1.2x	11.4x	74.2x

NOTABLE DEFENSE/SPACE TRANSACTIONS

Date	Target	Acquirer	Description
Jan-24	 CARLISLE Carlisle Interconnect Business	Amphenol®	» Carlisle Interconnect business is a design and manufacturing shop producing cables, wires, and connectors for power & data transfer
Jan-24	 KAMAN	ARCLINE INVESTMENT MANAGEMENT	» Arcline acquired Kaman in a take private transaction; Kaman is a manufacturer of high-precision and engineered components & structures
Jan-24	 AEROCISION	A C P	» AeroCision is a supplier of complex engine components; it was combined into Cadence Aerospace assets to form Kinetic Engine Systems
Jan-24	Honeywell Cockpit/Legacy Displays Assets	HEICO	» HEICO acquired assets from Honeywell, adding key capabilities to produce and repair 737NG/777 & other legacy aircraft cockpit displays
Feb-24	VSE CORPORATION	 TC TURBINE CONTROLS MRO	» VSE acquired Turbine Controls, a provider of aftermarket maintenance, repair, and overhaul component MRO services








» Commercial aerospace stocks have remained under pressure due to ongoing supply chain challenges, modest MRO market growth, and shifts in regional fleet distribution. These factors continue to impact major players within the space

» Commercial aerospace companies have faced challenges in production and quality control. Both Airbus and Boeing are striving to ramp-up production to meet demand. However, delays and quality issues with new engine technologies have presented some obstacles



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	101.69	104.91	134.61	2.2x	2.5x	13.3x	17.4x
 LOCKHEED MARTIN	453.20	508.10	108.99	1.8x	1.9x	12.9x	12.0x
 GENERAL DYNAMICS	288.53	296.50	79.04	1.9x	2.1x	14.7x	17.7x
 NORTHROP GRUMMAN	459.61	496.89	68.11	2.0x	2.1x	14.1x	18.1x
 BAE SYSTEMS	65.39	70.49	48.65	1.5x	1.8x	11.2x	12.6x
 L3HARRIS	203.86	218.34	38.75	2.5x	2.7x	13.7x	14.1x
 leidos	127.66	131.50	17.24	1.4x	1.4x	12.7x	11.8x

NOTABLE COMMERCIAL AERO TRANSACTIONS

Date	Target	Acquirer	Description
Feb-24	 Anillo Industries, Inc.		» Anillo Industries is a manufacturer of specialty components and hardware for the private sector A&D markets
Feb-24	 CHARLES E. GILLMAN COMPANY		» Charles E. Gillman is a manufacturer of high-reliability electrical cables & harnesses for military ground vehicles and other ruggedized applications
Feb-24	 MALLOY AERONAUTICS		» Malloy Aeronautics develops and manufactures all-electric uncrewed aerial systems (UAV) & vertical take off and landing (VTOL) aircrafts
March-24	 ManTech Technical Advisory Services Programs	 SPACIAL PARTS ANALYSIS 	» Arlington Capital Partners acquired programs of ManTech, who provide highly specialized mission critical solutions and R&D support
March-24	 AMMCON Corporation	 ARCLINE INTEGRATED MANUFACTURING	» Ammcon is a CNC manufacturer of critical fittings and assembled components used in submarine and aircraft carrier programs

» The defense sector is trading at near all-time highs, driven by geopolitical tensions, weapons stock depletion, and advancements in technology. These factors are leading to significant growth opportunities within the sector

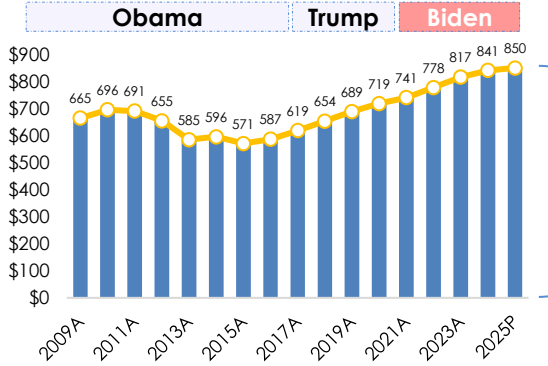
» Defense M&A activity continues to excel despite modest budget increases with the rise of autonomous weapons/vehicles and AI driving growth for the sector

DOD BUDGET OVERVIEW

FY25 DEFENSE BUDGET REQUEST

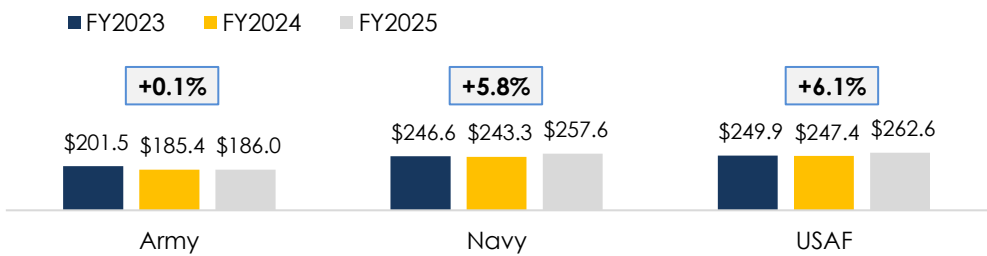
Key Trends in the FY25 Budget Request

- » Modernization
- » Advanced Technologies
- » Defense Workforce Investments (military pay raise)
- » Increasing Geopolitical confrontation



- The defense budget proposal for 2025 sits at \$850Bn total
- The FY2025 defense budget continues the upward growth trend over the last 10 years, with the budget proposal growing 1% from 2024 to 2025

DoD Budget by Department and YoY Growth



Budget Highlights by Department

Army

- The FY 2025 request totals \$185.9 billion, a \$400 million increase from 2024
- The Army prioritizes modernization efforts with a focus on emerging technology, while also improving soldier & family housing for combat readiness and improved quality of life



Navy

- The FY 2025 request totals \$257.6 billion, with \$203.9 billion allocated to the Navy and \$53.7 billion to the Marine Corps
- The Navy plans to procure 6 battle force ships as part of its efforts to enhance modernization and further support the sustainability of the submarine industrial base sector



Air Force

- The FY 2025 request totals \$188.1 billion, a \$3.0 billion increase from 2024
- Significant investments in operations, modernization efforts across core functions, and procurement of advanced aircraft & munitions will solidify growth for the sector



LOAR GROUP FILES FOR IPO

» Loar Holdings files for a \$100M IPO of its common stock

» LOAR provides a variety of specialized proprietary products to the aerospace and defense end-markets; proprietary products made up 85% of LOAR's 2023 revenue

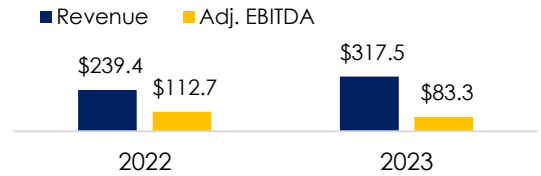
» IPOs have historically made up between 3-5% of private exits

» With inflation stabilizing and a better economic outlook, the IPO market is set to rebound in 2024

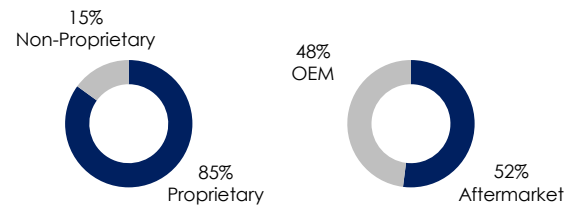
- » On April 2, 2024, Loar Holdings filed for an IPO with the SEC to raise \$100M
- » Based on White Plains, NY, Loar designs and sells specialized proprietary products, including seat belts, water purification systems and brake discs, for aircraft and aerospace and defense systems
- » By the end of 2023, LOAR has total debt of \$539M on its balance sheet on which it paid ~\$67M of interest

LOAR Financial Summary

Revenue & Adj. EBITDA



2023 Revenue



Loar Group Product Portfolio



Structural Latches and Keepers



Braking Systems



De-icing Systems



Electro-Mechanical Brush Blocks



Fluid & Motion Control



Restraints & Safety Devices



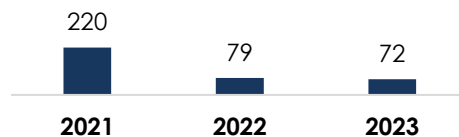
Water Filtration



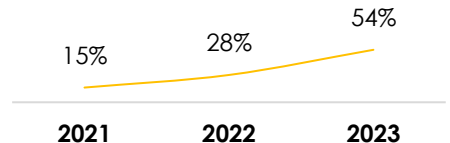
Engineered Materials

IPO Activity Set to Rebound in 2024

PE-backed Exits by Type



Postponed/Withdrawn IPOs as % of IPO Volume



IPOs as Potential Exit Alternative for Private Companies

- IPO have historically been the preferred exit route for VC sponsors
- Sponsor-to-sponsor exits have become more common for PE buyout firms

Benefits of IPO Exit

- The next few years are primed to see a resurgence of IPO exits for PE buyouts
- IPOs typically result in higher valuations for portfolio companies

RECENT TRANSACTIONS

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**KAL
Capital**

KAL Capital Markets LLC
3738 Bayer Ave. Suite 103
Long Beach, CA 90808
www.kalcap.com



Trevor Bohn
Partner
(949) 404-4203
trevor@kalcap.com



Ryan Murphy
Partner
(949) 404-4204
ryan@kalcap.com

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