

# KAL Capital Markets Aerospace & Defense

Q3 2024

## INTRODUCTION

Dear Friends,

We hope you're doing well as we enter the final quarter of 2024. The Aerospace & Defense industry has experienced several significant developments over the past few months, and we're excited to share some key highlights.

The Boeing strike has caused considerable delays across the supply chain, particularly impacting the already troubled 737 program. As Boeing recovers, the industry is watching closely to see how quickly production will return to normal and alleviate pressure on tier 1 and tier 2 suppliers dependent on ramping deliveries. The resolution of this strike will be a critical factor in the pace of industry recovery.

In the M&A space, Q3 2024 saw several major transactions reshaping the A&D landscape. ITT's \$475 million acquisition of kSARIA expanded its capabilities in military fiber optic connectivity, while Honeywell's \$1.9 billion acquisition of CAES boosted its portfolio in electronic warfare. Similarly, KBR's \$737 million acquisition of LinQuest enhanced its standing in defense intelligence and reconnaissance technologies.

The middle-market sector also remains robust. Noteworthy transactions include Loar Group's \$385 million acquisition of Applied Avionics and Parsons' \$200 million acquisition of BlackSignal. These deals reflect growing interest in niche technologies like unmanned systems and avionics, which are critical for modern defense strategies and will shape the future growth in the sector.

Looking ahead, the upcoming U.S. presidential election is poised to have significant implications for defense policy. President Biden's administration has directed substantial funds toward emerging technologies and R&D, but the focus on areas like cybersecurity and AI has sometimes sidelined traditional defense procurement programs, raising concerns about readiness. This approach has led to some concerns about readiness in key military areas, with many defense contractors facing delays and uncertainty surrounding new orders for large equipment programs. Vice President Harris has further supported reducing military expenditures in favor of domestic social programs. Her progressive stance on military engagement could shift funding priorities even further away from traditional defense spending, potentially leading to cuts in major procurement programs in favor of more technology-driven projects.

In contrast, a Trump administration would likely focus on ramping up procurement spending, particularly for traditional defense platforms like fighter jets, missile defense systems, and shipbuilding. A renewed focus on large-scale defense acquisitions would create significant opportunities for companies involved in manufacturing and supplying these critical assets.

We anticipate a dynamic close to 2024 and appreciate your continued partnership as we navigate these evolving times in the A&D industry.

Warm Regards,



Trevor Bohn  
Partner



Ryan Murphy  
Partner





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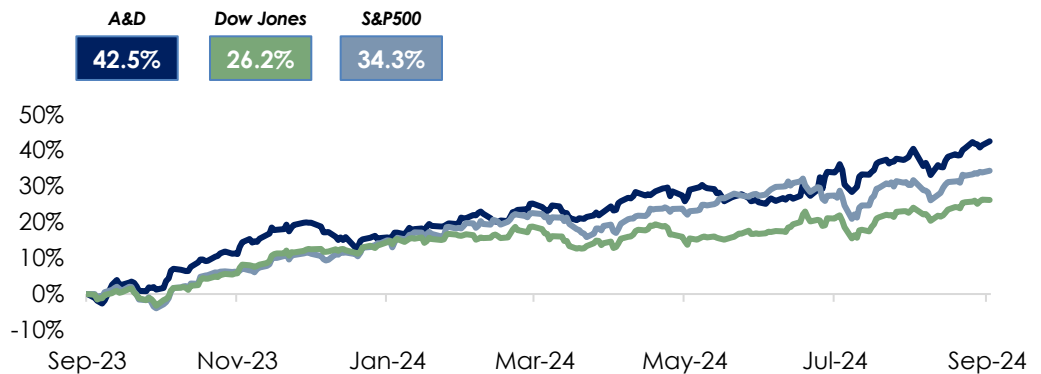
# A&D CAPITAL AND DEBT MARKETS UPDATE

## A&D BULLISH RUN CONTINUES THROUGH Q3

» A&D stocks continued to outperform the S&P 500 and Dow Jones, benefiting from robust backlogs and an anticipated increase in defense spending

- » The third quarter of 2024 saw the S&P 500 gain 4.3%, taking the YTD return to over 19%.
- » A&D stocks rose 15.7% in the third quarter, taking the YTD return to over 20%

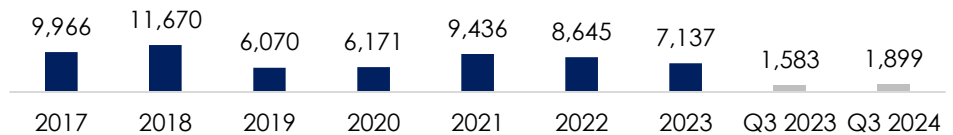
**iShares US Aerospace and Defense Index vs. S&P500 vs. Dow Jones IA (LTM)**



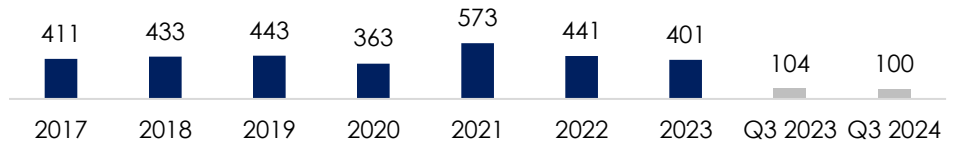
## A&D M&A HOLDS AS DEBT MARKET IMPROVES

» Q3 2024 A&D volume fell slightly compared to Q3 2023. The broader middle market space saw moderate gains while debt markets improved slightly

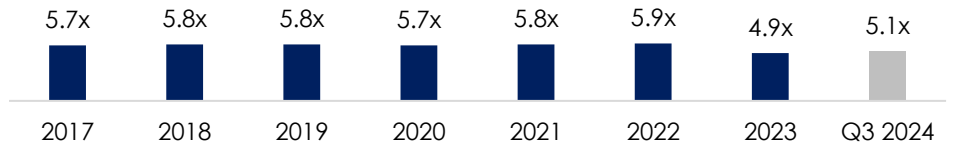
**US Middle-Market (<\$500mm) M&A Deal Volume**



**A&D M&A Deal Volume**








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
















- » A&D deal activity experienced a slight decline in Q3 2024 compared to the same period in 2023, as the industry approaches election season. The Fed announced its first rate cut of 50 bps in September. Anticipated interest rate cuts will be welcomed by dealmakers and could serve as a precursor to accelerated M&A activity

# COMMERCIAL AEROSPACE SECTOR OVERVIEW

## PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk.High	Market Cap. (\$bn)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
<b>AIRBUS</b>	134.13	172.82	118.27	1.4x	1.6x	11.5x	17.4x
 <b>BOEING</b>	152.04	267.54	93.68	1.6x	1.9x	25.0x	78.1x
 <b>Parker</b>	631.82	639.87	81.30	4.5x	4.6x	17.5x	17.8x
 <b>TRANSDIGM GROUP INC.</b>	1,427.13	1,433.03	80.08	11.3x	13.0x	21.8x	26.0x
<b>HEICO</b>	261.48	269.38	31.41	8.2x	9.0x	30.9x	33.4x
 <b>MTU Aero Engines</b>	156.18	159.17	16.83	2.0x	2.9x	12.0x	133.6x
 <b>SPIRIT AEROSYSTEMS</b>	32.51	37.08	3.79	1.0x	1.2x	33.1x	-

## NOTABLE COMMERCIAL AERO TRANSACTIONS

Date	Target	Acquirer	Description
Sept 30	 <b>ICON AEROSPACE</b>  <b>tag AERO</b>	 <b>GenNx360</b>  <b>PAG</b>	» Tag Aero & Icon Aerospace are repair stations specializing in repair and overhaul or avionics, instruments, radios, accessories, and APUs
Sep 12	 <b>SARIA</b>	 <b>ITT</b>	» Provider of mission critical interconnect, optical fiber, RF, and hybrid cable assemblies for A&D
Sep 4	 <b>PRECISE Aerospace Manufacturing</b>	 <b>Odyssey PEXCO</b>	» Provider of injection, compression, transfer molded plastic, CNC machining, and assembly for commercial aerospace markets
Sep 3	 <b>FLEXITECH AEROSPACE</b>	 <b>MDP T2S SOLUTIONS</b>	» Develops RF engineering analysis, RF communication systems and components for private sector and government satellite markets
Aug 15	 <b>TERRAN ORBITAL</b>	 <b>LOCKHEED MARTIN</b>	» End-to-end manufacture of small satellites and mission operations for private sector and government A&D markets
Jul 31	 <b>INNODYNE SYSTEMS</b>	 <b>O2 Investment Partners, LLC FCAH AEROSPACE</b>	» Innodyne is an FAA/ESA repair station specializing in MRO, DER, and component services for airframe, composite, and electronics

» Commercial airline stocks in Q3 2024 remained below their 52-week highs but saw modest gains from the previous quarter, despite mounting pressures from strikes at Boeing and Textron

» Strategic and private equity-backed buyers maintained robust M&A activity, particularly targeting satellite technology and aerospace advancements



# SPOTLIGHT – BOEING AND TEXTRON FACE LABOR STRIKES

## LATEST OEM PROPOSALS



<b>Wage Increase</b>	30% over 4 years; reinstatement of annual performance bonus
<b>Benefits</b>	Healthcare benefits maintained with enhanced retirement contributions starting in 2025
<b>Contract Duration</b>	4 years proposed
<b>Major Disputes</b>	Union demands 40% wage increase and defined benefit pension reinstatement
<b>Current Status</b>	Offer rejected; strike ongoing. \$6,000 ratification bonus offered by Boeing



<b>Wage Increase</b>	26% over 4 years; with 11% effective immediately
<b>Benefits</b>	Enhanced 401(k) matching to 9%; cuts in health benefits, including reduced coverage
<b>Contract Duration</b>	4 years proposed
<b>Major Disputes</b>	Reduction of healthcare benefits and dissatisfaction with wage offers
<b>Current Status</b>	Strike ongoing; health benefits cut for striking workers

## BOEING STRIKE CAUSES RIPPLES TO DOWNSTREAM SUPPLIERS

» Boeing's ongoing strike involves more than 33,000 machinists, who walked out in mid-September 2024



» The strike, though temporarily disrupting production, offers suppliers a chance to refine operations and prepare for the surge in demand once production resumes. While some suppliers have adjusted operations and furloughed workers in response to the freeze, Boeing's extensive supply chain spanning 12,000+ partners is set to benefit from the upcoming resolution, which will lead to significant catch-up production and heightened demand

» **Suppliers poised to ramp up quickly are well-positioned to capitalize on tremendous growth opportunities as Boeing accelerates to make up for lost time**

## TEXTRON MACHINISTS










» Approximately 5,000 workers went on strike at Textron's Wichita campus on September 23<sup>rd</sup>, 2024

» The strike impacts Textron's aviation unit—its most profitable business—disrupting operations at the company's service center and components manufacturing facilities in Wichita











**The current disruption creates strategic opportunities for A&D manufacturers to strengthen their market position. As companies seek solutions to mitigate risks from production delays, this is an ideal time to capitalize on increased demand for consolidation and supply chain efficiency**

# DEFENSE & GOVERNMENT SERVICES OVERVIEW

## PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk.High	Market Cap. (\$bn)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
 <b>RTX</b>	121.16	123.70	160.91	2.5x	2.8x	15.2x	20.7x
 <b>LOCKHEED MARTIN</b>	584.56	584.95	139.33	2.2x	2.2x	15.7x	14.9x
 <b>GENERAL DYNAMICS</b>	302.20	309.97	82.90	1.9x	2.1x	14.3x	16.7x
 <b>NORTHROP GRUMMAN</b>	528.07	534.61	77.23	2.2x	2.3x	15.7x	19.1x
 <b>leidos</b>	163.00	163.27	21.96	1.6x	1.6x	14.1x	12.5x
 <b>BAE SYSTEMS</b>	66.35	72.81	49.73	1.5x	1.9x	11.3x	13.9x
 <b>L3HARRIS</b>	237.87	245.59	45.13	2.7x	2.8x	14.3x	15.7x

## NOTABLE DEFENSE & GOVT. TRANSACTIONS

Date	Target	Acquirer	Description
Sep 27	 <b>Jacobs</b> Critical Mission Solutions	 <b>amentum</b>	» Jacobs CMS offers cybersecurity, data analytics, and technical consulting services to defense & govt. customers
Sept 26	 <b>Sabre</b>	 <b>CM EQUITY PARTNERS</b>	» Sabre Systems provides IT solutions for both private sector and U.S. federal government civil and defense markets
Sept 18	 <b>artel</b>	 <b>CYDECOR</b>	» Artel is a provider of telecom services including network integration, information management and software services for the government
Sept 3	 <b>LINQUEST</b> CORPORATION	 <b>KBR</b>	» LinQuest is a provider of engineering, acquisition and operations services for US government comms, command and control, and information systems
Aug 6	 <b>Vivace</b>	 <b>cerberus</b>	» Vivace develops mission-critical propulsion tanks for the private sector and US Gov spaceflight, hypersonic, and launch vehicle markets

» The defense sector continued strong performance in Q3 2024 as conflicts in Europe and the Middle East further depleted U.S. weapons stockpiles. Defense primes are preparing for new contracts under the FY24 NDAA, which prioritizes stockpile replenishment and securing critical supply chains

» Q3 2024 M&A activity has shifted toward cybersecurity and IT modernization, reflecting the growing demand for secure, high-tech capabilities amid evolving geopolitical threats

# SPOTLIGHT – COLLABORATIVE COMBAT AIRCRAFT

## THE AIR FORCE’S NEXT-GEN DRONE FLEET

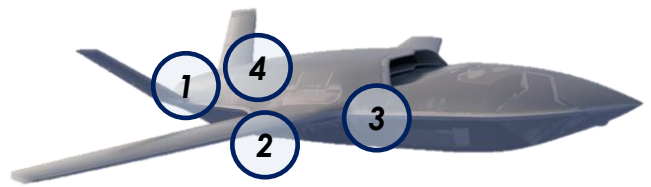
### Anduril & General Atomics Unveil Scale Models of CCA’s

- » The two recipients of the first Collaborative Combat Aircraft (CCA) prototype contracts presented their designs at the Air, Space, and Cyber Conference in September
- » The Air Force plans to procure up to 2,000 CCAs through the 2030s

**Anduril “Fury”**

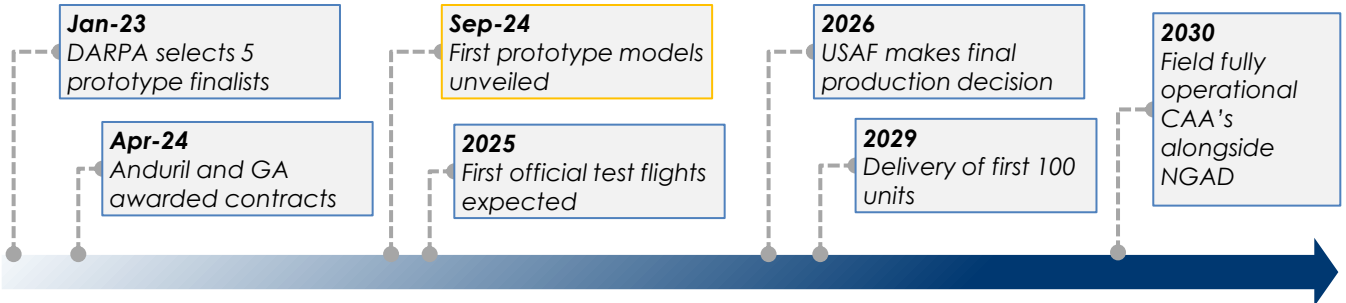


**General Atomics “Gambit”**

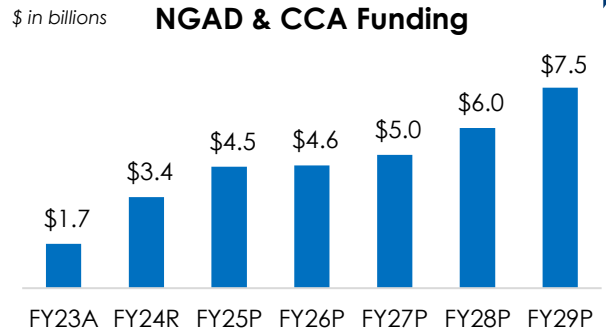


	Feature	Anduril	General Atomics
1	Engine	Williams International FJ44-4	Unspecified
2	Weapons	External mounted	Internal bay
3	Size	Unspecified	XQ-67 Chassis
4	Thrust	3,600 lbs	2,000-3,000 lbs



















































### Next Generation Air Dominance (NGAD) & CCA Implementation



- » The NGAD program is responsible for developing a sixth-gen family of systems to replace the F-22 Raptor
- » Includes a crewed sixth-gen fighter and a team of unmanned wingmen (CCAs)
- » US Air Force paused development of the crewed aircraft to reassess the design and operational concept

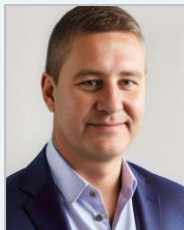


# RECENT TRANSACTIONS

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