

# KAL Capital Markets Aerospace & Defense

Q4 2024



## INTRODUCTION

Dear Friends,

Happy New Year!

For KAL Capital, we reflect back on 2024 and will remember it (mostly) fondly. For the firm, we continued to grow from both a transaction activity and personnel perspective. For the year we completed eight M&A transactions, in a variety of sub-sectors including MRO, proprietary products, build-to-print machining and surface treatments.

For 2024, we observed a few key trends that drove aerospace and defense M&A activity. First, we saw a general increase in strategic and sponsor activity as credit availability recovered representing a significant reversal from the tightness that characterized 2023. Despite higher base rates, the availability of debt capital to support M&A is growing dramatically driven by a booming private credit market. We expect this dynamic to continue to support M&A activity across sectors as the amount of capital flowing into this asset class seems unlimited. Secondly, within our target markets we saw buyer interest skew heavily towards aftermarket/MRO and proprietary products-focused businesses. Multiples for businesses that support both commercial and military repair/overhaul continue to set all-time highs, particularly if there is an element of engineering (DER/PMA). In contrast, new build (OEM) focused businesses continue to be beset by a variety of headwinds which became particularly pronounced in the fourth quarter when the Boeing Machinists decided to strike. Boeing's difficulties providing quality product and a predictable, consistent production schedule to their supply-chain were the primary Achilles heel of the entire industry. We expect the delta in buyer appetite between MRO and OEM assets to shrink driven by a recovery in B737MAX production which will accelerate the growth rate across the supply-chain.

Looking ahead to 2025, at the risk of being too optimistic, we expect A&D M&A activity to set all-time highs both in terms of transaction activity and valuations. There is a confluence of factors that will all contribute, but the most potent is the incoming Trump Administration. There is a prevailing optimism around economic prospects, FTC/anti-trust enforcement and the DoD Budget. From KAL's seat, the DoD budget will be the most interesting to watch as the new Administration simultaneously looks to balance the DOGE cost cutters with a Republican rank and file that is looking to increase DoD spending from its near all-time lows (as a % of GDP).

We wish everyone the best of luck in 2025 and look forward to connecting.

Sincerely,

Trevor Bohn  
Partner

Ryan Murphy  
Partner

**KAL**  
**Capital**



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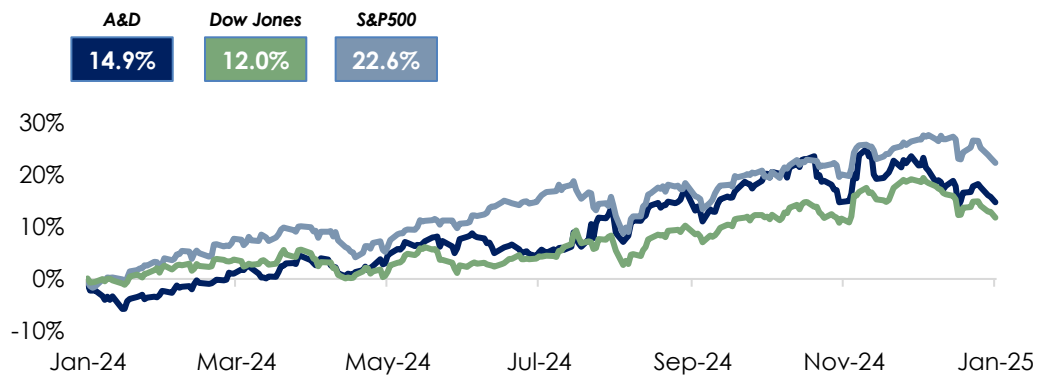
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# A&D CAPITAL AND DEBT MARKETS UPDATE

## A&D BULLISH RUN SLOWS DURING Q4

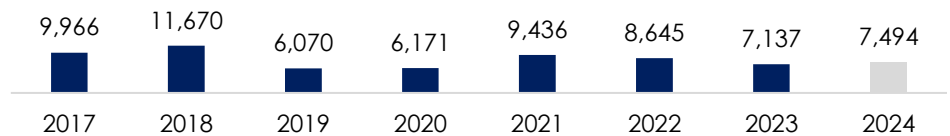
- » The fourth quarter of 2024 saw the S&P 500 gain 2.3%, taking the YTD return to over 22%.
- » A&D stocks fell 4.7% in the fourth quarter, closing out the year at a 15% gain

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

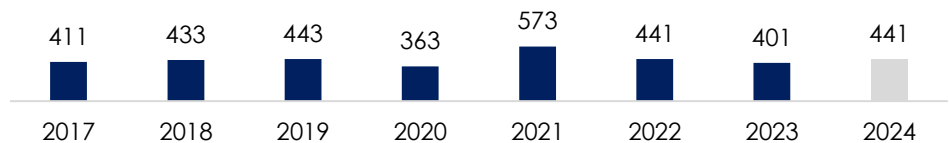


## A&D M&A HOLDS AS DEBT MARKET IMPROVES

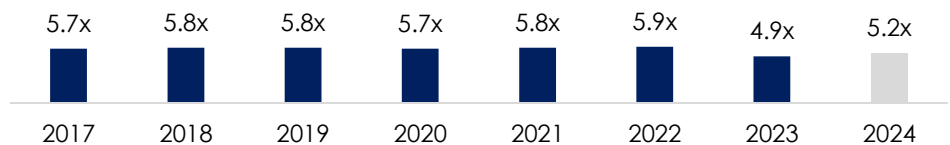
**US Middle-Market (<\$500mm) M&A Deal Volume**



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



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



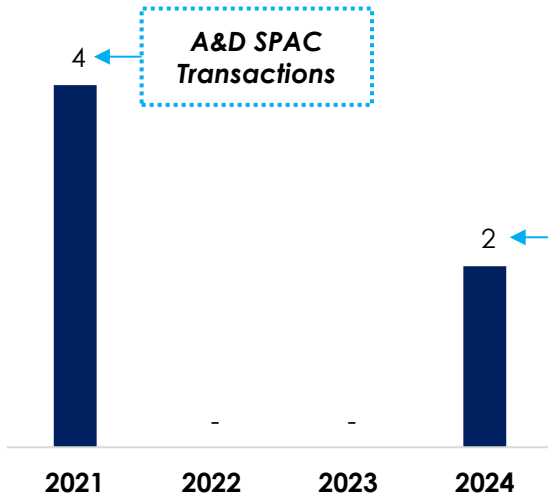
- » A&D deal activity experienced a slight increase in 2024 compared to 2023. The Fed announced its second rate cut of 25 bps in December, signaling continued easing of monetary policy. This will welcome dealmakers and will serve as a strong signal for accelerated M&A heading into the new year

» A&D stock's strong performance slowed during 4Q2024 following broader market trends, amid concerns of the Fed maintaining high interest rates and future demand for US defense products


» Q4 2024 A&D volume increased slightly compared to Q4 2023. The broader middle market space saw moderate gains while debt markets improved slightly

# SPOTLIGHT – THE RETURN OF PUREPLAY A&D IPOs


Global A&D IPO Trends (# of IPO's)



- » After years of limited activity, **2024 marked a turning point for A&D with the successful IPOs** of StandardAero and Loar Holdings
- » These IPOs signal renewed investor interest, driven by **strong fundamentals and rising defense budgets**
- » They also establish **IPOs as an attractive exit for private equity-backed A&D companies**, setting the stage for more PEG-backed public offerings in the future



- **IPO Date** – April 2024
- **EV** - \$2.2 Billion
- **EV/EBITDA** – 32.0x



- **IPO Date** – October 2024
- **EV** - \$8.0 Billion
- **EV/EBITDA** – 16.0x

Source: DACIS

## REGULATORY CHANGES FAVORABLE FOR LARGE TRANSACTION ACTIVITY

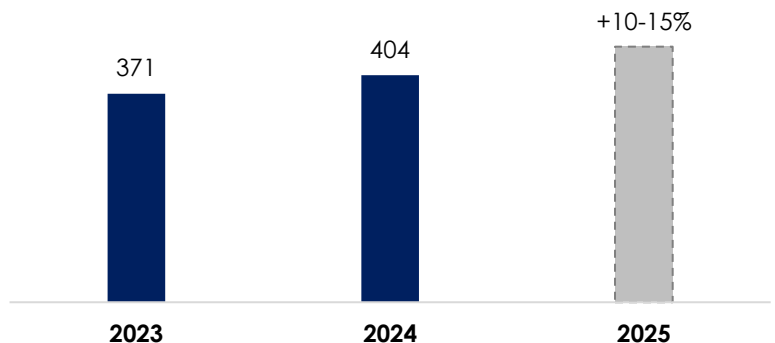


- » The incoming **Trump administration is expected to adopt a business-friendly regulatory stance**, impacting the Federal Trade Commission (FTC) and Department of Justice (DOJ) oversight of mergers, reducing antitrust enforcement, and enabling easier funding for large transactions
- » Under Lina Khan, the FTC intensified scrutiny on potential monopolies, particularly in consolidated sectors like A&D. A Trump appointee is expected to **streamline reviews, lower regulatory barriers, and boost consolidation in previously resistant sectors**

## MIDDLE MARKET A&D TRICKLE DOWN EFFECT

**Increased large-scale M&A and IPO activities in the A&D sector will have positive effects downstream in the middle market (<\$1 billion EV), with both valuations and transaction volume expected to increase 10-15% in 2025**



Middle Market A&D Transaction Volume



Source: DACIS

# 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>	115.73	128.70	154.06	2.3x	2.4x	14.2x	14.8x
 <b>LOCKHEED MARTIN</b>	483.07	618.95	114.51	1.8x	1.8x	13.0x	12.4x
 <b>GENERAL DYNAMICS</b>	261.16	316.90	71.72	1.6x	1.8x	12.7x	13.8x
 <b>NORTHROP GRUMMAN</b>	467.46	555.57	68.11	2.0x	2.0x	14.2x	16.6x
 <b>BAE SYSTEMS</b>	56.78	72.81	42.70	1.5x	1.7x	10.7x	12.1x
 <b>L3HARRIS</b>	207.85	256.74	39.42	2.4x	2.5x	12.5x	14.0x
 <b>leidos</b>	143.63	202.90	19.16	1.4x	1.4x	10.9x	10.2x

## NOTABLE DEFENSE & GOVT. TRANSACTIONS

Date	Target	Acquirer	Description
12/13	 Inertial Labs	 VIAVI	» Manufactures cutting-edge inertial measurements units (IMUs), GPS-aided inertial navigation systems (INSs), and attitude & heading reference systems (AHRs)
11/19	 BLUEHALO	 AV AeroVironment™	» Provides industry-leading capabilities in the areas of Space, C-UAS, Autonomous Systems, Electronic Warfare & Cyber, and AI/ML
10/2	 Dedrone	 AXON	» Provider of counter-drone and counter-unmanned aerial systems (C-UAS) technology
10/30	 Azure Summit Technology	 CACI	» Develops and delivers high-performance RF hardware and software defined technologies for critical conditions and emerging missions for national security
10/31	 TERRAN ORBITAL <small>A LOCKHEED MARTIN COMPANY</small>	 LOCKHEED MARTIN	» Manufactures satellites and satellite-related services for aerospace and defense industries

» The defense sector primes have seen a notable decline in share price since Trump appointed Musk & Ramaswamy as DOGE heads

» Investors are concerned about potential shifts in government defense priorities and procurement policies under this new initiative

» In Q4 2024, M&A activity in the defense sector remained focused on space, unmanned aerial systems (UAS), and cutting-edge high-performance software & hardware solutions



# SPOTLIGHT – DEPARTMENT OF GOVERNMENT EFFICIENCY

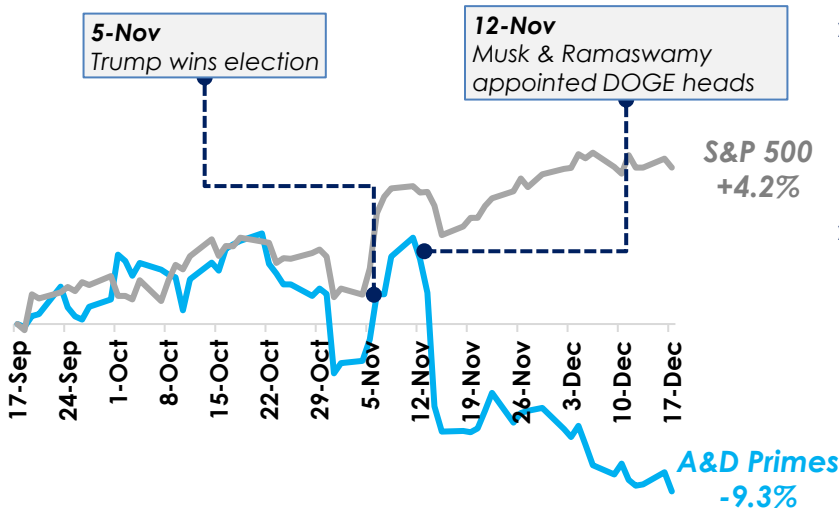
## NEW DEPARTMENT POISED TO AFFECT DEFENSE SPENDING

- » Trump's upcoming Department of Government Efficiency (DOGE) aims to **cut an ambitious \$2 trillion of US Government spending in 18 months** by streamlining processes, reducing bureaucratic overhead, and encouraging the adaptation of innovative technologies
- » The Department of Defense is likely to be affected by DOGE's push to eliminate government 'waste,' especially since its **budget rivals the combined total of all other discretionary spending by the US government**

### US Government Discretionary Spending, FY25 Request



## MAJOR PRIMES SEE STOCK PRICE DIP AMID DOGE UNCERTAINTY



- » Investor worries of sequestration-style cuts have triggered a sell-off in defense prime stocks, reflecting **broader market anxiety about the potential impact of DOGE** on defense budgets
- » These concerns about the potential for DOGE-driven DoD spending caps and fears that short-cycle expenditures could face significant cuts or be shifted to fixed-price contracts are rooted in the response to the 2013 sequestration, **which prioritized cutting short-cycle spending** while protecting long-term projects like shipbuilding and the F-35

## YOUNGER, MORE EFFICIENT COMPANIES SEE POTENTIAL BENEFITS

- » By prioritizing fixed-price contracts, the Department of Government Efficiency aims to **drive cost discipline, align with taxpayer interest, and foster a competitive environment** where contractors deliver more value per dollar spend
- » This shift may particularly benefit the emerging cadre of lean, innovative defense technology companies with a proven **track record of being capable of executing projects efficiently, on-time, and within budget**

### SPACEX

SpaceX dominates the private spaceflight industry with routine ISS missions, while Boeing launched its first mission after years of delays and setbacks. SpaceX's success can be attributed to these factors:

1. Streamlined Operations
2. Fixed Price Contracts
3. Focus on Reusability and Cost Efficiencies

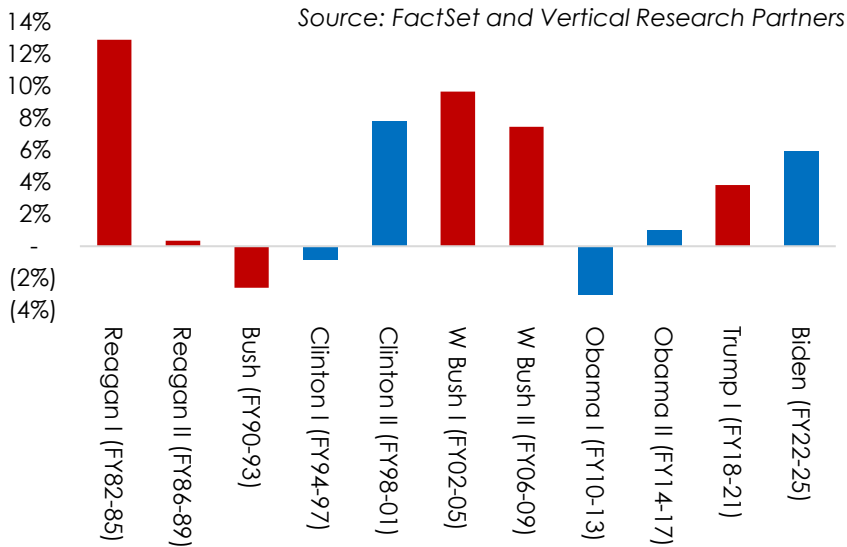
### ANDURIL

Anduril focuses on developing AI-powered solutions with a start up mentality, which allows them to move quickly, and iterate faster than their competitors. Anduril's success can be attributed to these factors:

1. Speed to Market
2. Fixed Price Contracts
3. Focused Innovation and Efficiencies

# DEFENSE SPENDING – MORE THAN JUST THE ADMINISTRATION

## US DEFENSE BUDGET GROWTH VERSUS PRESIDENTIAL PARTY



- » While the DOGE and the Trump Administration introduce uncertainty for the DoD budget, historical trends show that changes in **defense budgets are driven more by Congressional consensus** versus being strictly tied to the administration's political party
- » Despite concerns over DOGE, **defense spending is unlikely to face drastic cuts** due to its significant share of discretionary funding and strong congressional support for stated national security priorities

## NAVIGATING STRONG TAILWINDS & EMERGING HEADWINDS

### Opportunities

- + Wicker's Target** – Senator Roger Wicker's proposal to increase defense spending to approximately **5% of GDP** could significantly enhance budgets, ensuring readiness and modernization
- + Recent Appropriation Bill** – FY25 base budget growth is expected to grow at a steady but modest CAGR of **2.5% over FY25-29**, reflecting consistent increases across personnel, O&M, procurement, and R&D
- + Defense Tech Budgets** –
  - **Defense Innovation Unit (DIU)** – Increased focus on integrating commercial technologies, especially in AI, space systems, and cybersecurity
  - **Office of Strategic Capital (OSC)** – Aims to bridge private-sector investment into critical technology areas

### Challenges

- DOGE's Influence** – DOGE seeks to identify **\$2 trillion in government savings** within an **18-month period**, likely affecting discretionary spending, including defense and federal programs
- Prime Stock Performance** – U.S. defense stocks have underperformed, **dropping approximately 15% post-election**, reflecting growing investor uncertainty about budget outcomes and shifting political priorities
- Discretionary Spending Pressure** – Defense already consumes the largest share of discretionary budgets at **~\$850 billion**. DOGE scrutiny could exacerbate fiscal tensions and impact program funding stability

# SPOTLIGHT – NATIONAL DEFENSE AUTHORIZATION ACT

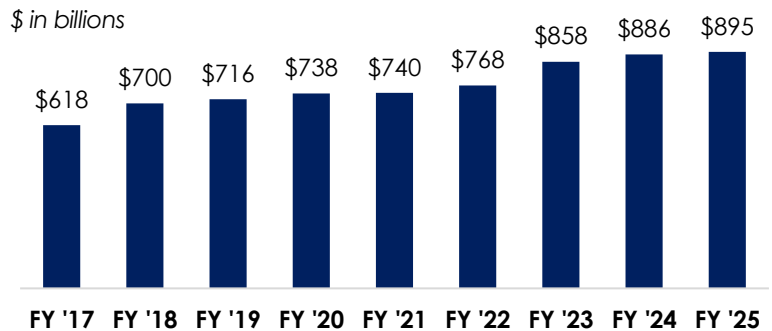
## HOUSE AND SENATE PASS FY2025 BILL

### Key Findings and Results

#### Key Points

- » The FY25 NDAA strengthens national security by its **focus on bolstering the defense industrial base, supporting allies, and advancing strategic initiatives like cybersecurity, AI, and next-generation technologies** to address evolving global threats. It also includes military pay increases, quality of life, and continued modernization efforts.

#### NDAA Authorized Defense Spending



**Feb-24**

Presidential Budget Request

**Jun-24**

Congress drafts budget resolutions

**Dec-24**

NDAA passes in the House

**Dec-24**

NDAA passes in the Senate

**Feb-25 (est.)**

Defense Appropriations Act to pass

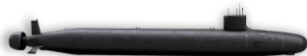
**Apr-25 (est.)**

DoD to obtain full use of funds

### Winners



- » Procurement of three **Arleigh Burke-class destroyers**, one above the original budget request



- » Procurement of one **Virginia-class submarine** with incremental funding for an additional ship



- » Funding for two **C-130Js** for the US Navy Reserve and two **C-130Js** for the polar airlift mission



- » The **B-21 Raider** program received full funding under NDAA

### Losers



- » Approves the retirement process of **A-10 Thunderbolt** aircraft



- » The **Joint Light Tactical Vehicle** saw funding reduced by \$101.7M



- » Plans to expand the active fleet of **C-40 Clipper** aircraft were cut by \$318M








- » A modernization effort of **B-52 Stratofortress** radar systems was cut by \$110M






# 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>	154.78	172.78	126.75	1.7x	1.7x	13.0x	17.0x
 <b>BOEING</b>	170.07	258.59	127.09	2.2x	2.4x	31.1x	-
 <b>Parker</b>	628.15	712.42	80.85	4.4x	4.5x	17.0x	17.4x
 <b>TRANSDIGM GROUP INC.</b>	1,251.21	1,451.32	70.36	10.0x	11.2x	18.9x	22.6x
<b>HEICO</b>	236.69	283.60	28.54	7.4x	8.1x	28.0x	30.1x
 <b>MTU Aero Engines</b>	322.00	332.60	18.03	2.2x	2.4x	12.6x	14.9x
 <b>SPIRIT AEROSYSTEMS</b>	33.24	37.08	3.89	1.2x	1.4x	130.3x	-

## NOTABLE COMMERCIAL AERO TRANSACTIONS

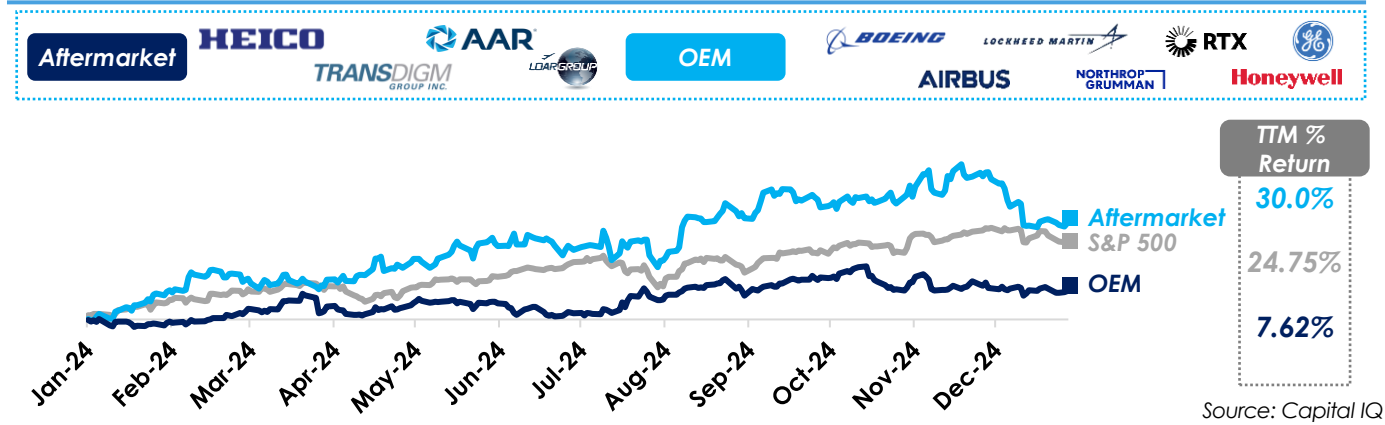
Date	Target	Acquirer	Description
12/03	 <b>Kellstrom Aerospace</b>	 <b>VSE CORPORATION</b>	» Global distributor and provider of aftermarket engine components, as well as heavy and line maintenance, checks, leasing, and trading
12/11	 <b>AIRGROUP AMERICAS, INC.</b>	 <b>AERO ACCESSORIES</b> <b>ATL PARTNERS</b>	» Supplier and distributor of replacement parts, specializing in high-precision bearings
11/04	 <b>ATSG</b>	<b>Stonepeak</b>	» Provider of aircraft leasing & air cargo transportation and related services to domestic and foreign air carriers
10/24	 <b>TURBINE AERO</b>	 <b>SNOW PEAK CAPITAL</b>	» Provider of component MRO services, with capabilities in fabrication, coatings, and assembly
10/14	 <b>PRECINMAC</b>	 <b>Centerbridge</b>	» Provider of high-tolerance, precision machined, and fabricated components & assemblies
10/8	 <b>STS Aviation Group</b>	 <b>H. I. G. CAPITAL</b>	» Provider of MRO services, workforce solutions, and supply chain management to the global aerospace industry

» Commercial airline stocks rebounded in 4Q2024, following increased travel demand and the resolution of strikes at Boeing and Textron

» Strategic and private equity-backed buyers maintained robust M&A activity, targeting precision machining, MRO, and aftermarket parts businesses

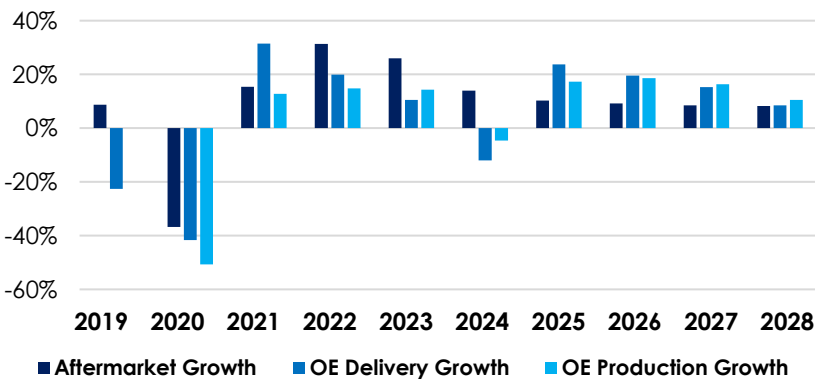
# SPOTLIGHT – OEM VS. AFTERMARKET

## SELECT A&D AFTERMARKET & OEM VS. S&P500 TTM PRICE RETURN



## AFTERMARKET VS. OEM GROWTH RATES, 2019 – 2028E

Source: Vertical Research Partners



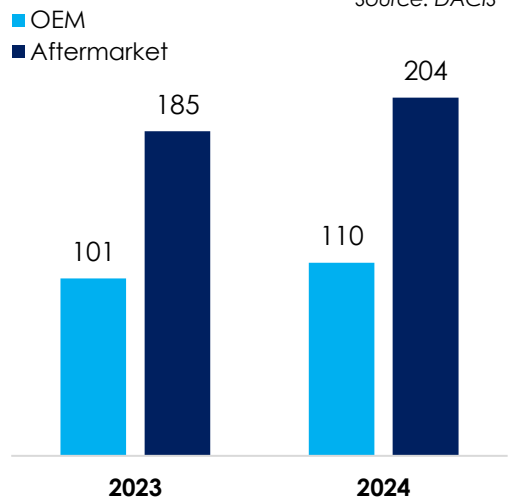
- » Aftermarket revenue growth is driven by **legacy fleets remaining in service** due to delayed aircraft replacements, along with growth in high-value MRO components
- » As OEMs ramp up aircraft production, **OE revenue is expected to normalize and exceed aftermarket revenue** as legacy fleet retirements approach reversion to their historical mean

## AFTERMARKET & OEM TRANSACTION VOLUME, 2024

Source: DACIS

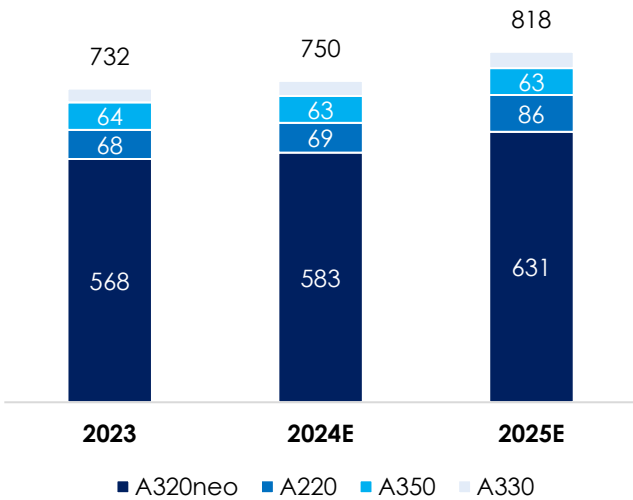
### A&D Transaction Volume Growth

- » Companies with primarily **aftermarket exposure have continued to outperform OEM-related companies over the past 12 months**, driven by strong M&A demand for MRO services
- » OEM transaction volume has been constrained by beleaguered production bottlenecks, rising costs due to inflation, and challenges in managing changing backlogs. However, **stabilization of the supply chain in 2025 is expected to support gradual recovery and improved OEM transaction volume** in the coming years



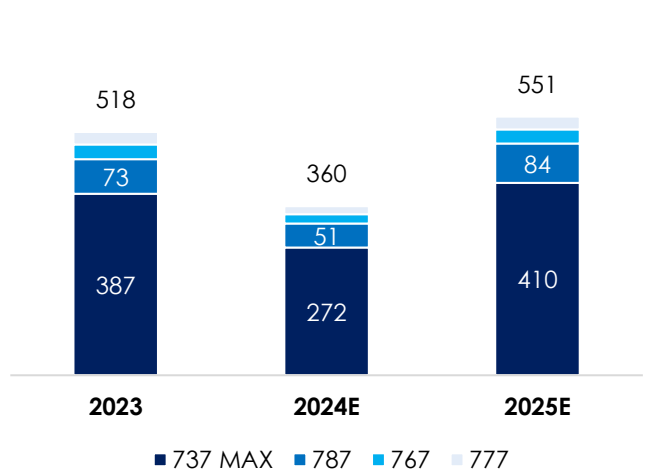
# SPOTLIGHT – AIRBUS VS. BOEING

## AIRBUS DELIVERIES, 2023 – 2025E



## BOEING DELIVERIES, 2023 – 2025E

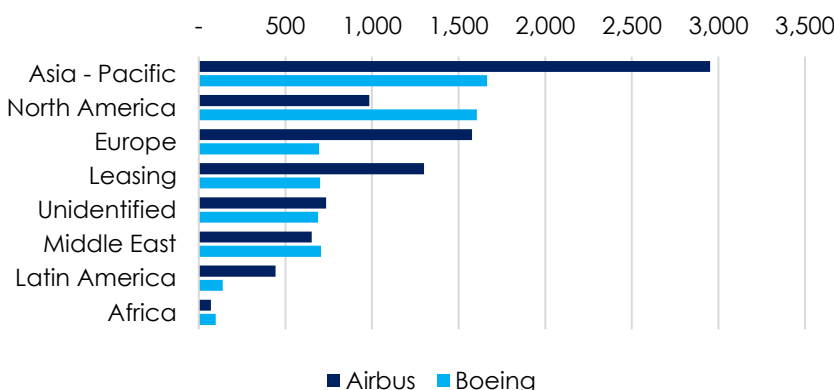
Source: Vertical Research Partners



## Growth Opportunities & Recent Updates

- » Airbus is expected to deliver approximately **818 aircraft in 2025, a 9% increase from 2024**, with the A320neo outpacing Boeing's troubled 737 MAX series
- » The A320neo's efficiency and reliability have **solidified Airbus's market dominance globally**, leveraging the 737 MAX's production setbacks and safety issues to secure strong orders, especially in Asia-Pacific and cargo markets.
- » Boeing's production delays, labor strikes, safety issues with the 737 MAX, and rising tariffs due to US-China tensions have **created long-lead times resulting in a loss of market share to Airbus**
- » Despite challenges, **Boeing's 737 MAX is now seeing rapidly scaling production**, bolstered by a strong order backlog
- » Boeing is actively **making investments in its widebody aircraft programs**, including the 777X and 787, driven by international travel demand & accelerating fleet modernization

## AIRBUS & BOEING BACKLOG BY REGION (# OF AIRCRAFT)



» Asia-Pacific has seen an uptick in Airbus orders, surpassing Boeing in the past four years with **Airbus orders making up 73% of the region's commercial aircraft** orders exceeding Boeing within the region

Source: Vertical Research Partners

# SPOTLIGHT – BOEING PRODUCTION RAMP

## Outcome of the Strike



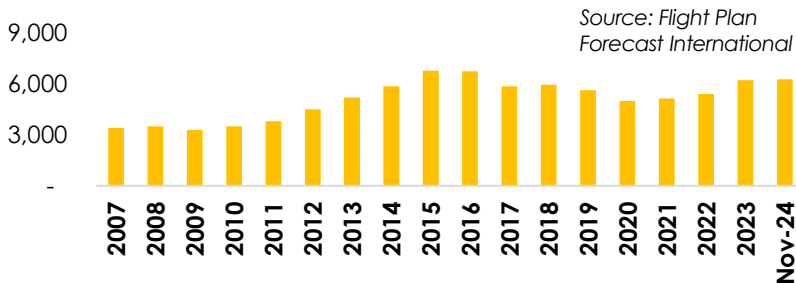
<b>Wage Increase</b>	38% over 4 years; reinstatement of annual performance bonus
<b>Benefits</b>	Healthcare benefits will be maintained with enhanced retirement contributions
<b>Ratification Bonus &amp; 401k</b>	\$12,000 ratification bonus & a 100% match up to 8% on 401k
<b>Contract Duration</b>	4 years

## Moving Forward

- » Boeing's recent seven-week strike, including over 33,000 machinists, has now concluded as of November 4<sup>th</sup>, 2024
- » Following the strike's resolution, **Boeing has resumed production** across all previously halted programs such as the 737 MAX & the 767
- » To meet growing market demand, Boeing announced a **\$1 billion investment to boost the 787 Dreamliner production** at its South Carolina facility, aiming to achieve a rate of 10 jets per month by 2026
- » Boeing's focus on sustainable aviation technologies, supply chain improvements, and the implementation of advanced safety systems ensures long-term reliability and growth



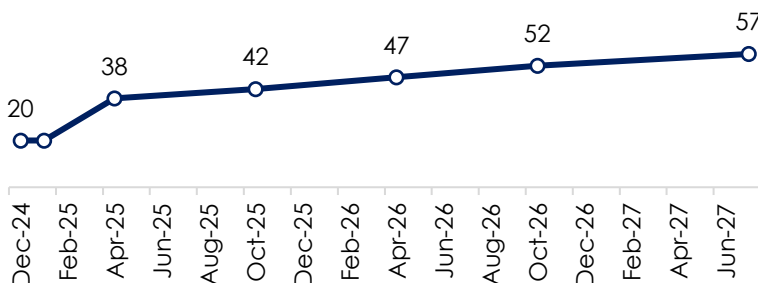
## STRONG ORDER BOOK SHOWS INCREASING BACKLOG IN 2024



- » Boeing's order backlog continues to grow, driven by demand for the **737 MAX, 787, and 777X**, reflecting a robust recovery in the airline industry
- » Boeing's backlog highlights robust demand for new, fuel-efficient aircraft as airlines modernize fleets to meet sustainability goals

## BUILD RATES SIGNIFICANTLY IMPROVE GIVEN POST-STRIKE RAMP-UP

Boeing 737 Build Rates



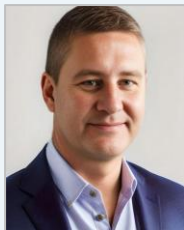
- » Boeing's aggressive **737 ramp-up shows strong future growth** despite multiple delays, supply chain issues, and other factors relating to the strike
- » Boeing's past post-strike ramp-ups have taken time to return to pre-walkout levels, as seen in 2008, when factories needed nearly a year to reach pre-walkout levels

# RECENT TRANSACTIONS

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