

KAL Capital Markets Aerospace & Defense

Q1 2026



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INTRODUCTION

Dear Friends,

As we reach the end of the first quarter of 2026, the Aerospace, Defense, and Space markets continue to show notable growth, even against a more volatile geopolitical and macro backdrop. Public market performance, private investments, and strategic M&A activity all reinforced the view that investors and acquirers remain highly focused on differentiated, mission-critical platforms positioned at the center of national security.

In Washington and across the broader defense ecosystem, the quarter was defined by escalation in the Middle East, rising urgency around munitions replenishment, and a growing recognition that affordable, multi-tiered defense systems are now essential. The Iran campaign further validated the importance of C-UAS, interceptor recapitalization, base hardening, and broader industrial base expansion, while strategic and sponsor-backed buyers remained active in autonomy, space, simulation, and other capability areas tied to modern defense priorities.

Space and defense technology continue to attract outsized attention. SpaceX's reported IPO filing and the continued surge in defense tech capital reinforces how quickly the sector's center of gravity is evolving toward production-ready platforms, dual-use technologies, and modern defense systems. Buyers are increasingly willing to pay for scarcity, technical depth, and clear exposure to durable, well-funded programs.

Commercial aerospace showed signs of improvement, though the recovery remains uneven. Aftermarket and MRO businesses continue to benefit from strong utilization, aging fleets, and long-term demand for repair and replacement activity, while airlines remain cautious amid ongoing production constraints, fuel cost volatility, and broader uncertainty in global travel patterns.

Despite these headwinds, M&A appetite for premium aerospace and defense assets remains strong. Capital remains available, buyer conviction is high, and businesses with differentiated capabilities, entrenched customer relationships, and exposure to priority end markets continue to command significant interest.

As always, we appreciate your partnership and welcome the opportunity to connect.

Sincerely,



Trevor Bohn
Partner



Ryan Murphy
Partner



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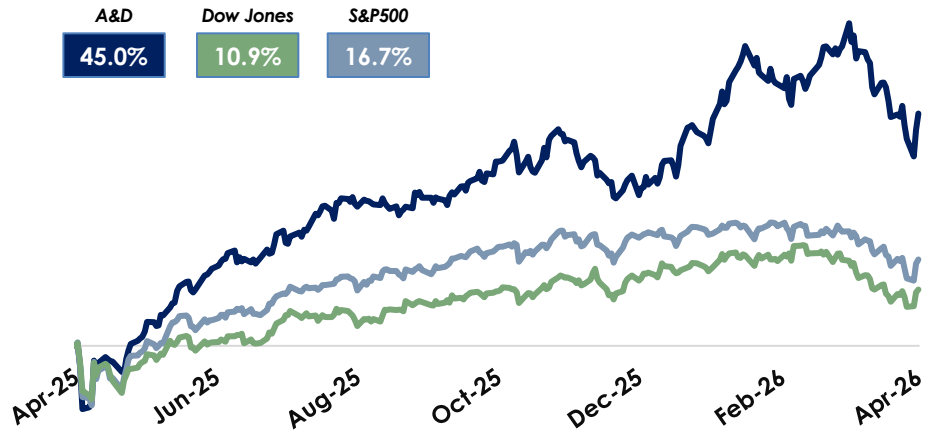
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A&D VALUATION & PUBLIC MARKETS BACKDROP

A&D RUN CONTINUES IN 2026

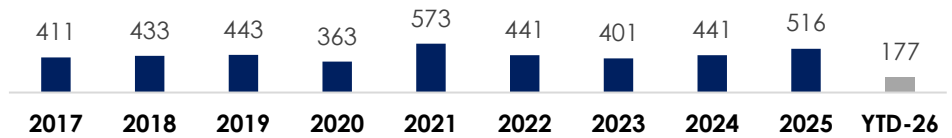
» A&D stocks spiked in early March following the start of the Iran conflict but have subsequently pulled back from the highs. They still outperform the S&P and Dow Jones indices in Q1. Rising defense budgets, munitions replenishment demand, and escalating geopolitical tensions continue to drive the sector's success

- » The S&P 500 finished Q1 2026 in negative territory, weighed down by the Iran conflict, surging oil prices, and broader market uncertainty
- » A&D stocks outperformed significantly, gaining 4% YTD while the S&P 500 declined 4% YTD. A&D stocks are up 45% to the S&P's 16.7% in the last twelve months



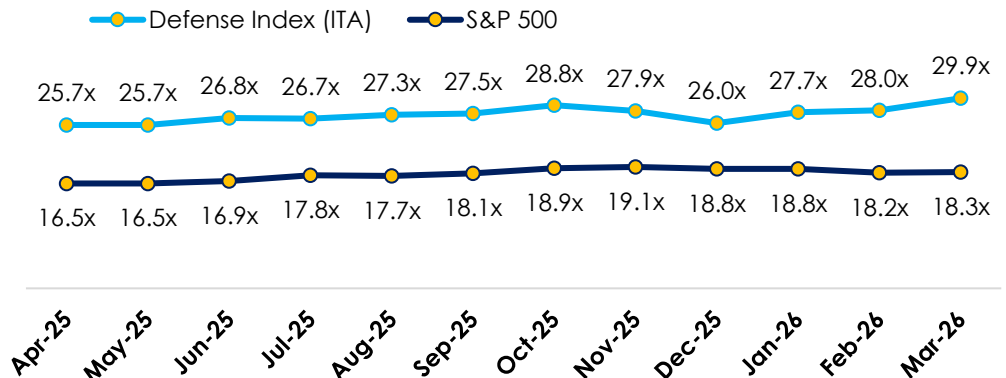
» Q1 2026 A&D deal volume of 177 transactions puts the sector on pace for ~708 transactions on the year, which would represent the highest volume in at least a decade

A&D M&A Deal Volume



A&D EV/EBITDA MULTIPLES EXCEED BROADER MARKET

» EV/EBITDA multiples for A&D businesses continue to trend above the S&P 500, reflecting investor confidence in the sector





DEFENSE & GOVERNMENT SERVICES SECTOR OVERVIEW

PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk. High	Market Cap. (\$B)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
RTX	195.05	214.50	262.33	3.2x	3.3x	18.8x	19.5x
LOCKHEED MARTIN	617.10	692.00	142.21	2.0x	2.1x	14.3x	18.8x
GENERAL DYNAMICS	351.72	369.70	95.12	1.9x	2.0x	15.5x	15.2x
NORTHROP GRUMMAN	697.36	774.00	99.00	2.6x	2.7x	18.1x	15.3x
BAE SYSTEMS	122.52	126.00	91.55	2.3x	2.6x	16.2x	18.4x
L3HARRIS™	354.51	379.23	66.21	3.3x	3.5x	18.1x	18.3x
leidos	156.64	205.77	19.71	1.3x	1.4x	9.9x	9.2x

NOTABLE DEFENSE & GOVT. TRANSACTIONS

Date	Target	Acquirer	Description
3/26	AECHELON	SHIELD AI	» Provider of visual simulation image generators, geospecific databases & integration services for aerospace & defense markets
3/16	EIS/AERO	AV	» Developer of electric & hybrid propulsion-powered UAS & advanced air mobility platforms for aerospace & defense markets
3/10	ExoAnalytic SOLUTIONS	ANDURIL	» Provider of space-domain awareness solutions for defense, environmental & missile defense markets
3/6	ORBION SPACE TECHNOLOGY	YORK SPACE SYSTEMS Industrial Partners	» Developer of Hall-effect thruster technology & spacecraft systems for aerospace markets
2/3	B CUBED	AURIA ENLIGHTENMENT CAPITAL	» Provider of end-to-end command, control & communications systems for defense & special operations markets
1/7	MICRO-TRONICS, INC.	ARXIS ARCLINE	» Provider of engineered, mission-critical elastomeric & metallic components for aerospace & defense markets

» Defense stocks had a volatile Q1 amid the U.S.-Iran conflict, record defense budget proposals, and accelerating munitions replenishment programs

» Q1 dealmaking centered on autonomy, space, and simulation capabilities as both strategic acquirers and PE-backed platforms competed to build integrated defense technology portfolios

SPOTLIGHT: TRUMP SUBMITS RECORD \$1.5T DEFENSE BUDGET

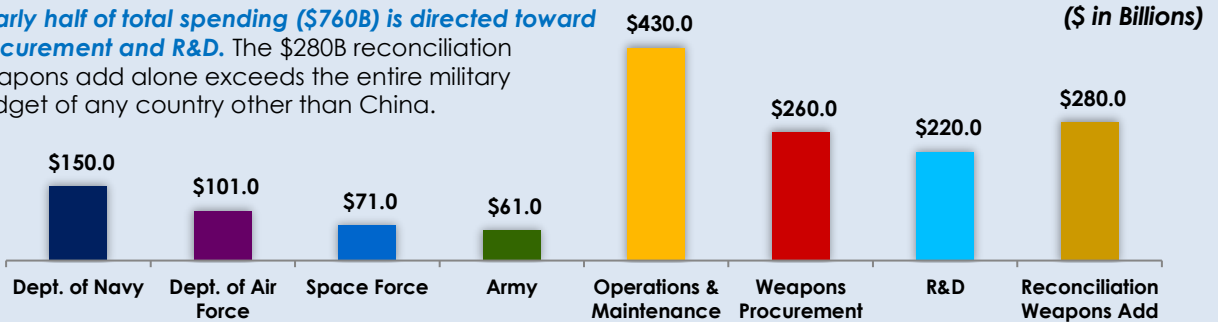
DEFENSE SPENDING ENTERS A NEW ERA



- **The formal request released on April 3rd confirms \$1.5T: \$1.15T base + \$350B reconciliation.** It's a 44% increase over FY26 and the largest dollar request since WWII, as well as it is the first time base defense spending has crossed \$1T
- **\$760B for weapons modernization,** including \$17.5 B for the Golden Dome missile shield, \$65.8B for shipbuilding, 85 F-35s, \$5B for the new F-47, \$71.2B for the Space Force, and Air Force missile procurement nearly doubled
- It's offset by \$73B in nondefense cuts (**EPA halved, housing, K-12, clean energy slashed**). Tariffs are framed as the funding source.
- Concerned parties warn that the **proposal adds ~\$3.2T to the national debt over a decade**

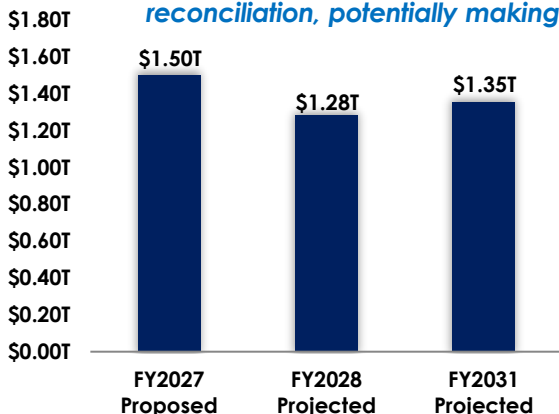
WHERE THE \$1.5T GOES

Nearly half of total spending (\$760B) is directed toward procurement and R&D. The \$280B reconciliation weapons add alone exceeds the entire military budget of any country other than China.



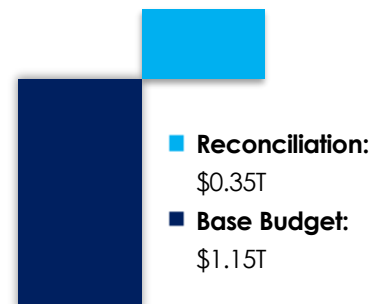
THE RECONCILIATION GAMBLE

HASC/SASC chairs praised the request, targeting 5% of GDP for defense, but OMB's own out-year projections show spending falling 15% to \$1.28T by FY28 without future reconciliation, potentially making FY27 a one-year surge rather than a new baseline.



At risk if reconciliation fails:

- Golden Dome: \$17.1B
- Space Force procurement: \$9.4B
- Navy aircraft: \$7.4B
- Navy shipbuilding: \$5.6B



SPOTLIGHT: IRAN CAMPAIGN VALIDATES C-UAS AS TOP PRIORITY

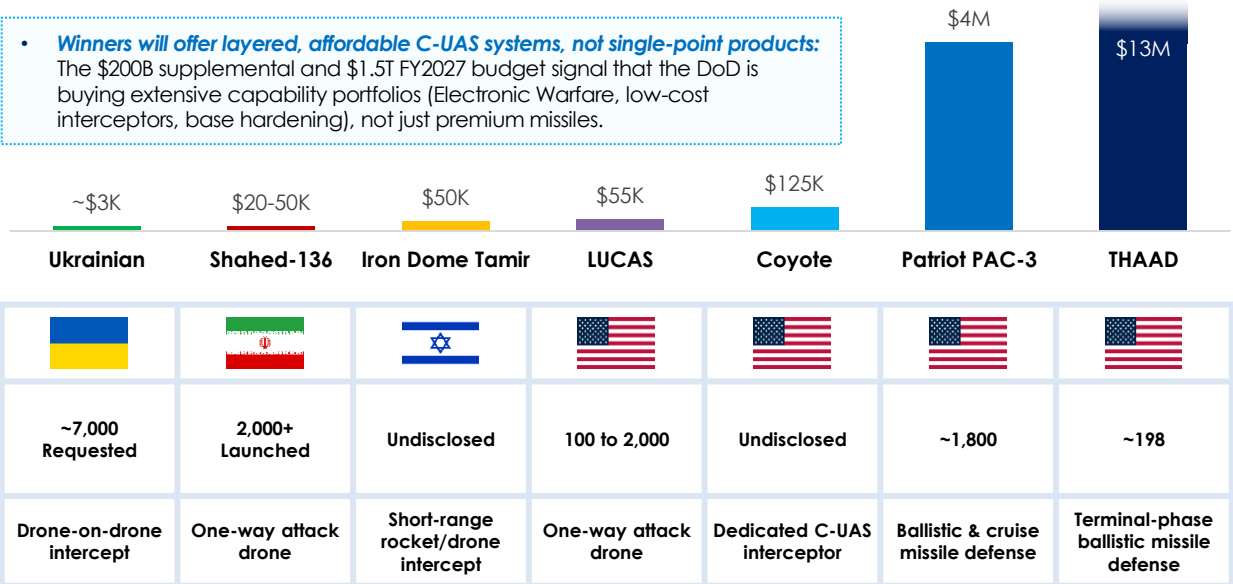
“...DRONES THAT COST \$30,000... AND WE ARE USING MISSILES THAT COST MILLIONS TO INTERCEPT THEM...”



- **The cost-exchange ratio is now proven at scale:** ~\$20K-\$50K Shaheds are draining ~\$4M PAC-3 interceptors, and 800+ interceptors were expended in the opening days vs. ~620 PAC-3s produced in all of 2025
- **New low-cost C-UAS systems are deploying but at early stage:** Coyote (RTX), Roadrunner (Anduril), Merops interceptor drone, and AeroVironment's Locust X3 laser (<\$5/shot) are all in theater or testing; Ukraine deployed 228 C-UAS specialists to five Gulf states, pitching ~\$3K interceptor drones vs. \$4M PAC-3s
- **LUCAS flips the Shaged script but remains supply-constrained:** The US reverse-engineered Iran's Shaged-136 into a \$55K one-way attack drone, first used in combat on February 28th

C-UAS COST PER INTERCEPT VS. COST PER THREAT IN THE IRAN THEATER

- **Winners will offer layered, affordable C-UAS systems, not single-point products:** The \$200B supplemental and \$1.5T FY2027 budget signal that the DoD is buying extensive capability portfolios (Electronic Warfare, low-cost interceptors, base hardening), not just premium missiles.



DEPARTMENT OF WAR \$200 BILLION IRAN WAR SUPPLEMENTAL REQUEST

Pentagon submitted a \$200B+ supplemental to the White House on March 18th for munitions replenishment and readiness, which is the largest wartime funding request since WWII. The war has cost ~\$1B+/day, and ~850 Tomahawks have been fired

MUNITIONS REPLENISHMENT

~850 Tomahawks fired through week 4

INTERCEPTOR RECAP

800+ interceptors in opening days

BASE HARDENING

Pentagon "top priority" to field hardened shelters

INDUSTRIAL BASE

PAC-3 production ramping from 620/yr to 2,000/yr

SPOTLIGHT: SPACEX IPO & THE NEW AEROSPACE MARKET

THE LARGEST IPO IN HISTORY



- **SpaceX filed confidentially for IPO on 4/1/26**, targeting a \$1.75T valuation and \$75B raise, **the largest IPO in history** at ~2.5x Saudi Aramco's record. June listing is expected
- **First of a potential trio of mega-IPOs** (SpaceX, OpenAI, Anthropic) that could push 2026 IPO proceeds past \$142B, a new all-time high
- **A&D IPOs have been gaining momentum** with StandardAero (\$10.4B), Loar Holdings, and Karman (KRMN) all debuting successfully

MARKET IMPACT – PORTFOLIO REBALANCING OF SPACE ASSETS?

- At \$1.75T, **SpaceX would exceed the combined market cap of LMT, BA, NOC, RTX, GD, and LHX**, redefining sector hierarchy
- **Nasdaq considering a "fast entry" rule for Nasdaq-100 inclusion**; S&P 500 inclusion could follow within 6 - 12 months, triggering billions in forced index-fund buying
- **Aerospace ETF rebalancing would require selling legacy defense stocks to buy SpaceX**, potentially depressing traditional prime valuations. Space ETFs (UFO) already up 100%+ in 12 months

Key Takeaways:



**Sector
Reclassification**



Index Disruption

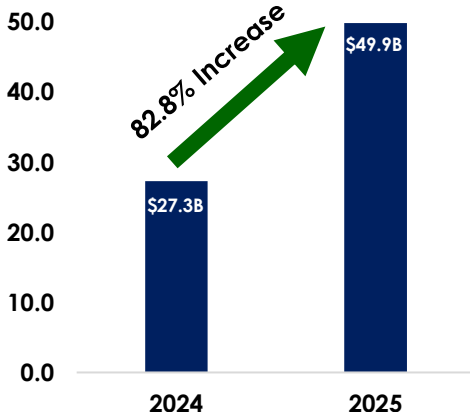


**Legacy Prime
Pressure**

DEFENSE TECH VC HITS RECORD HIGH

Defense tech VC deals reached a record \$49.9B in 2025, nearly 2x the \$27.3B in 2024






(\$) in billions



- **Anduril raised \$2.5B at \$30.5B valuation**, Helsing \$694M, and Saronic \$600M. 10 new billion-dollar companies emerged in 2025 alone
- **Corporate participation in defense tech VC hit an all-time high**, with corporates taking part in 28 rounds worth \$2B in 2025, led by aerospace primes like Dassault and Saab embedding startup tech into their platforms
- **Global military spending reached \$2.72T in 2024** (+9.4% YoY, steepest since 1988), and defense tech advanced more in 24 months than the prior three decades

COMMERCIAL AEROSPACE SECTOR OVERVIEW

PUBLIC MARKET PERFORMANCE

Company	Share Price	52-Wk. High	Market Cap. (\$B)	EV/Revenue		EV/EBITDA	
				NTM	LTM	NTM	LTM
AIRBUS	160.82	221.30	146.33	1.5x	1.6x	11.3x	14.2x
 BOEING	209.67	254.35	164.81	2.0x	2.2x	40.1x	-
 Parker	926.38	1,034.96	116.91	5.8x	6.2x	21.0x	22.4x
 TRANSDIGM GROUP INC.	1,180.32	1,623.83	66.66	9.2x	10.3x	17.5x	20.3x
HEICO	277.69	361.69	33.35	7.0x	7.8x	25.6x	27.7x
 MTU Aero Engines	310.00	404.80	19.27	1.8x	1.9x	9.3x	9.8x
 L3HARRIS AEROSPACE	58.21	99.67	5.45	9.4x	12.3x	23.8x	34.7x

NOTABLE COMMERCIAL AERO TRANSACTIONS

Date	Target	Acquirer	Description
3/11	 ADVANCED AIR Aero Parts Services Since 1977	 AIM MRO Industrial Partners	» Manufacturer of custom replacement bushings, sleeves & fasteners for commercial & military aircraft
2/9	 VELOCITY AEROSPACE SOLUTIONS	 Bombardier	» Provider of mobile & hangar-based MRO, avionics & AOG services for corporate & private aircraft
1/29	 PAG AERONAUTICAL GROUP INC.	 VSE CORPORATION	» Provider of aviation MRO & inventory-supported supply chain services for fixed-wing & rotary-wing aircraft
1/22	 HARPER ENGINEERING CO.	 L3HARRIS AEROSPACE	» Manufacturer of engineered latching & securing mechanisms for aerospace markets
1/16	 JET PARTS ENGINEERING  VICTOR SIERRA AVIATION HOLDINGS	 TRANSDIGM GROUP INC.	» Designers & manufacturers of proprietary OEM-alternative parts & repair services for commercial & general aviation markets
1/7	 AIRWAY AEROSPACE	 xioAero GROUP  CORE INDUSTRIAL	» Provider of MRO services for accessories, airframe & powerplant repairs across commercial, cargo & defense aviation markets

» Commercial aerospace stocks sold off sharply in Q1 as the Iran conflict drove surging fuel costs, Middle East airspace closures, and order uncertainty from Gulf carriers. Aftermarket names held up better on strong backlogs despite broader market pressure

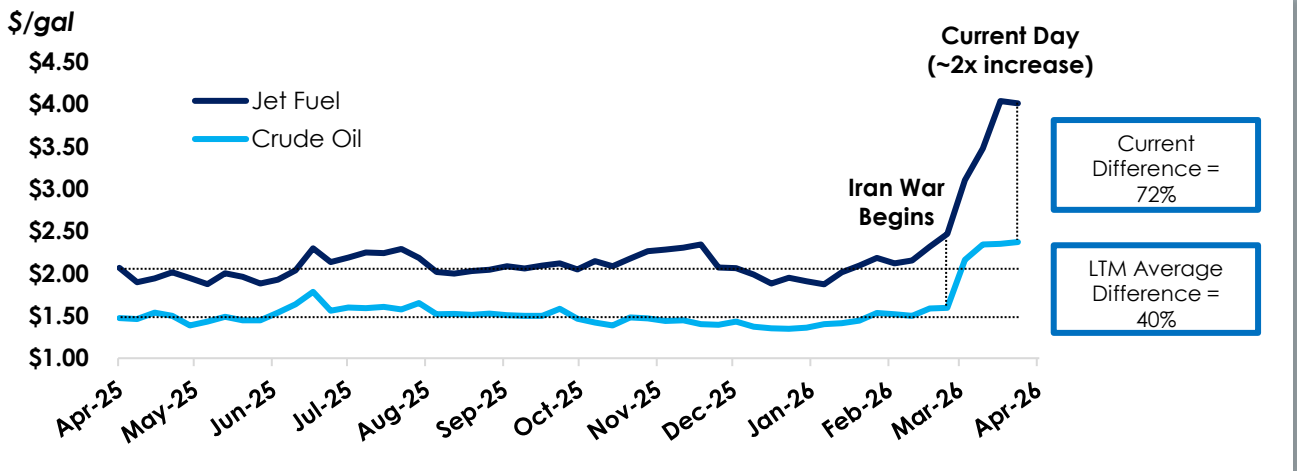
» Q1 dealmaking remained heavily concentrated in MRO and aftermarket services, with both public strategics and PE-backed platforms pursuing scale through bolt-on and transformational acquisitions across the supply chain



OIL PRICES PRESSURE AIRLINE MARGINS WHILE AI RESHAPES TRAVEL

OIL PRICES, JET FUEL COSTS, & IMPACT ON COMMERCIAL AEROSPACE

- » **Jet fuel surged from ~\$99/bbl in late February to \$197/bbl by March 20th**, nearly doubling in under a month, driven by the Iran conflict
- » This is a crack spread problem, not just an oil price problem. **Jet fuel prices doubled while crude rose only ~one-third**. Airlines hedge on crude benchmarks, which provide only partial protection
- » **Airlines responding with 20%+ fare increases**, fuel surcharges (Cathay Pacific +34%), and capacity cuts; IATA's \$41B industry profit forecast for 2026 now at risk







AI-DRIVEN WORKFORCE CHANGES MAY RESHAPE CORPORATE TRAVEL

- » **AI pressure on entry-level white-collar hiring could trim lower-value corporate travel at the margin**, as evidence shows hiring has slowed for young workers entering AI-exposed occupations, including roles such as financial analysts
- » **Corporate travel shifting from volume to value**, as trips increasingly must demonstrate clear ROI; hybrid virtual/in-person models cutting travel volume 30–50% at some firms
- » **The near-term read-through for aerospace is gradual, not binary**: even with AI pressure on junior headcount, business travel demand has not broken down broadly, as 84% of travel buyers expect 2026 spend to increase or stay flat

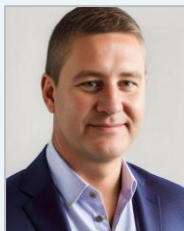
Fuel costs are the immediate headwind; AI is the longer-term variable to watch. Both reinforce demand for efficient fleets and aftermarket services.

RECENT TRANSACTIONS

 SEEMANN COMPOSITES HAS BEEN ACQUIRED BY  KARMAN SPACE & DEFENSE SALE OF COMPANY	 FORESIGHT INITIATING HAS BEEN ACQUIRED BY  VALENCE SURFACE TECHNOLOGIES A PORTFOLIO COMPANY OF  ATI PARTNERS SALE OF COMPANY	 ESTES ENERGETICS HAS BEEN ACQUIRED BY  VOYAGER SALE OF COMPANY	 FIVE AXIS INDUSTRIES HAS BEEN ACQUIRED BY  KARMAN SPACE & DEFENSE SALE OF COMPANY	 MACHINE SCIENCES HAS BEEN ACQUIRED BY  Viking SALE OF COMPANY	 CANOPY HAS MERGED WITH  MMI INDUSTRIES, INC.  HERA TECHNOLOGIES PORTFOLIO COMPANIES OF  TRIVE CAPITAL	 AEROSPACE TECHNOLOGIES GROUP HAS BEEN ACQUIRED BY  Jamco ALWAYS FLY TOGETHER A PORTFOLIO COMPANY OF  BainCapital SALE OF COMPANY
 ISC INTERCONNECT SOLUTIONS COMPANY HAS BEEN ACQUIRED BY  cogenuity SALE OF COMPANY	 OSG OLDHAM SEALS GROUP HAS BEEN ACQUIRED BY  INTEGRATED POLYMER SOLUTIONS A PORTFOLIO COMPANY OF  ARCLINE ACQUISITION ADVISORY	 INDUSTRIAL SOLID PROPULSION HAS BEEN ACQUIRED BY  KARMAN SPACE & DEFENSE SALE OF COMPANY	 3P PROCESSING HAS BEEN ACQUIRED BY  LITTLEJOHN CAPITAL	 Metal Technology INNOVATIVE PRECISION PORTFOLIO COMPANIES OF  Cumming Capital Management HAVE BEEN ACQUIRED BY  KARMAN SPACE & DEFENSE	 AET AERO ENGINE TECHNOLOGY HAS BEEN ACQUIRED BY  THE THERMAL GROUP A PORTFOLIO COMPANY OF  LITTLEJOHN CAPITAL SALE OF COMPANY	 SPIRA HAS BEEN ACQUIRED BY  INTEGRATED POLYMER SOLUTIONS A PORTFOLIO COMPANY OF  ARCLINE SALE OF COMPANY
 HERA TECHNOLOGIES HAS BEEN ACQUIRED BY  TRIVE CAPITAL SALE OF COMPANY	 SUNVAIR HAS BEEN ACQUIRED BY  GREENBRIAR EQUITY GROUP, LLC ACQUISITION ADVISORY	 segers HAS BEEN ACQUIRED BY  H.I.G. CAPITAL SALE OF COMPANY	 FOX FOX VALLEY METAL-TECH, INC. HAS BEEN ACQUIRED BY  ARROW METALS A PORTFOLIO COMPANY OF  LITTLEJOHN CAPITAL SALE OF COMPANY	 STACK HIP HAS BEEN ACQUIRED BY  KITTYHAWK A PORTFOLIO COMPANY OF  TRIVE CAPITAL SALE OF COMPANY	 LCRT LANE CITY AS BEEN ACQUIRED BY  Bodycote SALE OF COMPANY	 VIAN Enterprises HAS BEEN ACQUIRED BY  CRANE SALE OF COMPANY

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