

- Business aviation contributes approximately \$150 billion in U.S. economic output and employs more than 1.2 million people
- The vast majority of business aircraft are manufactured, operated, serviced and maintained in the U.S.
- Approximately 3 percent of the nearly 15,000 business aircraft in the U.S. are flown by Fortune 500 companies, while the remaining 97 percent are operated by a broad cross-section of organizations
- Business aircraft reach ten times the number of the U.S. airports than commercial airlines
- The majority of U.S. airline flights only operate between 70 major airports, while the total number of U.S. destinations offered by commercial air carriers has steadily declined

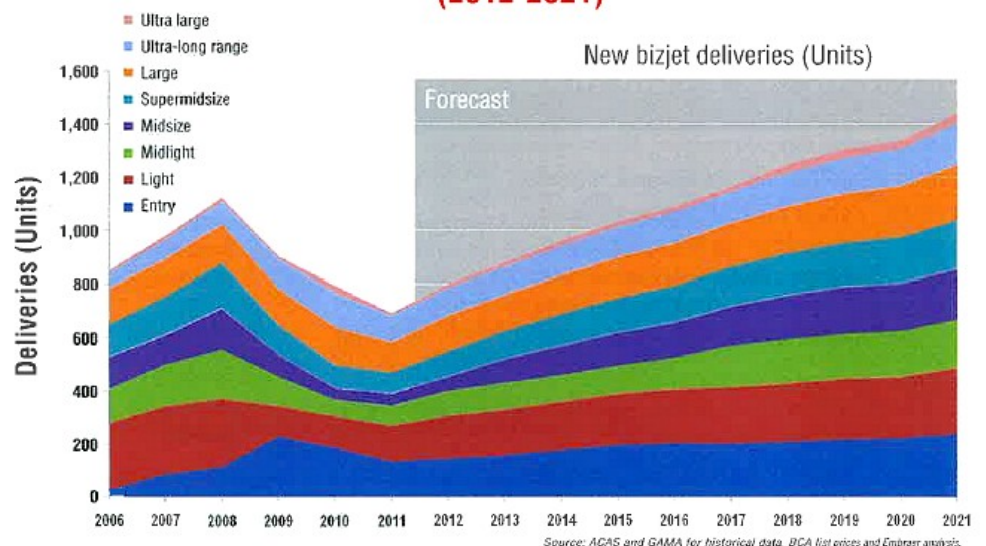
## BUSINESS AVIATION

Deliveries of business jets should begin to rise again in 2012, ending a three-year decline that has decimated much of the industry. That being said, any increase will be modest and peak deliveries experienced in 2008 are not expected to return until 2017 or later. In the 2011 Honeywell forecast, the company predicts deliveries of 10,000 new business jets from 2011 through 2021, generating more than \$230 billion in sales. In 2011, business jet manufacturers are expected to deliver just 600-650 aircraft; down from 732 in 2010 and 2012 is expected to remain below 700. The impact of demand for large jets can be seen, as the

dollar volume has increased, from the same forecast last year, on lower unit sales. Embraer has been more positive in its forecast over the next ten years, predicting deliveries of 11,275 aircraft with a value of \$260 billion; a \$50 billion increase over last year's forecast. Embraer sets a new delivery peak in 2018-2019 as the market continues to climb.

It remains a tale of two markets, with large-cabin aircraft experiencing better dynamics than light-weight and medium-weight aircraft. The backlog at General Dynamics Aerospace unit has risen for three consecutive quar-

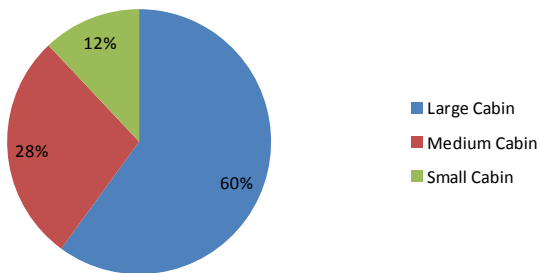
### EMBRAER MARKET FORECAST – WORLD DELIVERIES (2012-2021)



BUSINESS AVIATION (CONTINUED)

ters, thanks to improved demand for large Gulfstream jets. By contrast, Cessna’s backlog shrank by more than \$400 million during the first half of 2011, due to low demand for smaller aircraft. Embraer sees a similar pattern, predicting large-cabin aircraft and above to comprise 60 percent of the expected 10 year \$260 billion market.

**Business Aircraft Demand**

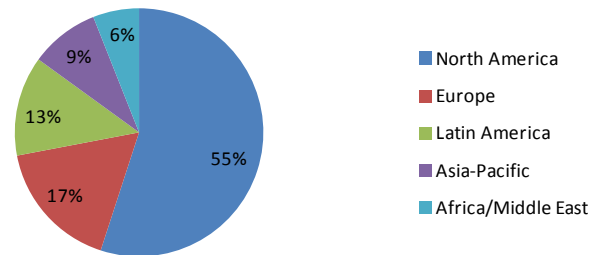


Demand from emerging business jet markets is offsetting some of the pain from slower sales in the U.S and Europe. Honeywell predicts that buyers from Brazil, Russia, India and China plan to purchase aircraft equal to 49 percent of their existing fleets for expansion or replacement during the next five years. This impact remains small however, since the number of business jet operators in these markets is comparatively small compared to the dominant markets of the U.S and Europe. North America still accounts for 55 percent of the industry’s sales.

The business jet market has historically been more sensitive to economic conditions than commercial or cargo sectors and a rebounding economy should remedy some of the challenges that the industry continues to face.

The business jet industry was clearly reminded of its cyclical nature when, in 2009, the precipitous and rapid decline of the demand resulted in cancellations exceeding gross orders, which caused a significant reduction in

**Business Jet Demand  
2012 - 2016**



firm order backlogs and aircraft deliveries. Today, the business aircraft industry’s improving book-to-bill ratio is a positive signal that the market has turned the corner and is gaining momentum. The world economy rebounded nicely in 2010, led by high growth economies (China, India and Brazil) and sustained by a recovering United States. On the other hand, lagging growth in Europe was, and remains, a concern. Most key business jet indicators are showing signs of improvement. Sales of used aircraft are rising to pre-downturn levels and, as a result, pre-owned inventories are declining. Business jet utilization, as measured by movements, is up. Industry deliveries are not expected to improve significantly in 2011; however, signs of a market recovery are plenty, and it is expected that business aircraft market deliveries will return to growth in 2012.

We believe that the long-term market drivers of growth for the business jet industry remain solid. These market drivers include: wealth creation, increasing penetration in high growth economies, globalization of trade, replacement demand and market accessibility.

# DEFENSE

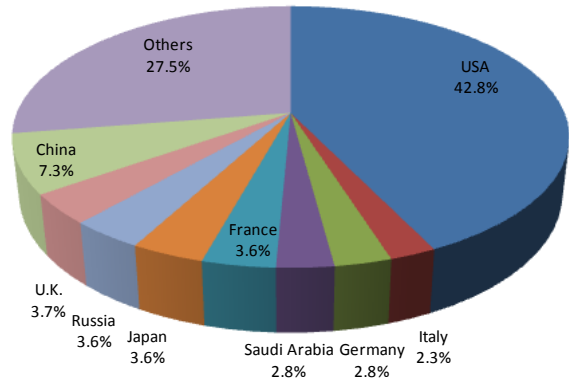
The U.S. defense budget has been under tight scrutiny as legislature looks to cut expenses. The U.S. House of Representatives has set a goal of reducing the federal deficit by up to \$1.5 trillion over the next decade, with defense spending as a key component. The Department of Defense faces cuts of about \$450 billion from its 10-year spending plans, and if the super committee fails to act by December 23, the August budget bill signed by President Obama calls for automatic cuts, including an additional \$50 billion from defense spending over a decade.

gram cost estimates have cast doubt on the actual number of aircraft to be produced.

With this taken into consideration, U.S. military spending still far exceeds that of any other country – spending six times more than the second largest spender, China. Global, with all countries taken into account, military spending reached \$1.6 trillion in 2010.



**Top 10 Shares of World Military Expenditures**



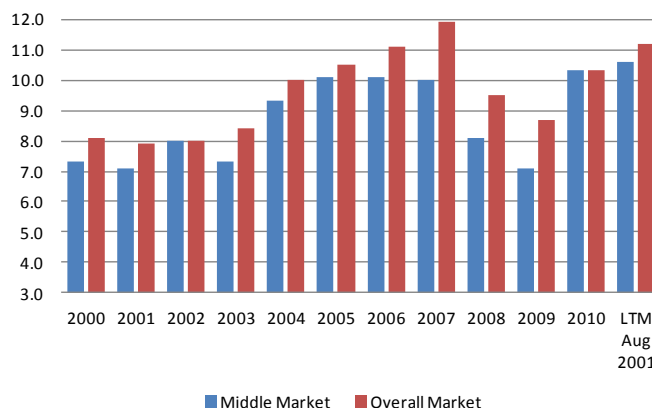
At the same time, the military faces significant capital equipment requirements in the coming years, from replacing aging aircraft carriers and building a new generation of submarines to fielding the F-35 Joint Strike Fighter (JSF) and funding a new line of aerial refueling tankers. Programs such as JSF have become under close scrutiny. Senate appropriators want to slash \$695 million from the Pentagon’s \$9.7 billion funding request for this program. It would freeze production levels at the 2011 rate through 2013 since the test program was unable to use all the new jets that were expected to be produced. The U.S. intends to buy a total of 2,443 aircraft for an estimated \$323 billion making it the most expensive defense program in history. The rising pro-

As a percent of GDP, U.S. military spending has increased from 3.1 percent in 2001 to 4.8 percent last year. Focus on spending has been on force modernization programs as budget constraints seek to achieve more with less.

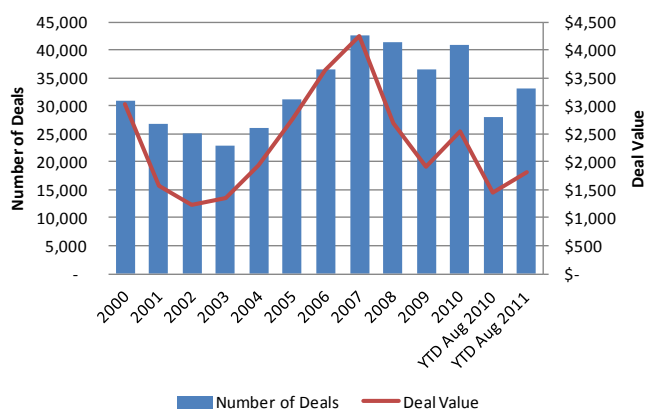
# M&A UPDATE

In 2011, merger and acquisition activity continues to be mixed, with higher valuation multiples and larger transaction sizes leading to an increased overall dollar volume, despite a decreased number of transactions. In the U.S. the year-to-date dollar volume is up nearly 40 percent compared with the same period last year, while the total number of transactions decreased slightly. Turning to the middle-market, the number of transaction is down over 15 percent from the same period a year ago, while dollar volume is up 16 percent. The continuing economic uncertainty and recent volatility in the worldwide equity markets has put a damper on the current outlook. It is overshadowing strong corporate earnings, increased liquidity in the debt markets and the estimated \$500 billion of committed but uninvested capital available in private equity funds.

## U.S. EV/EBITDA Valuation Multiples



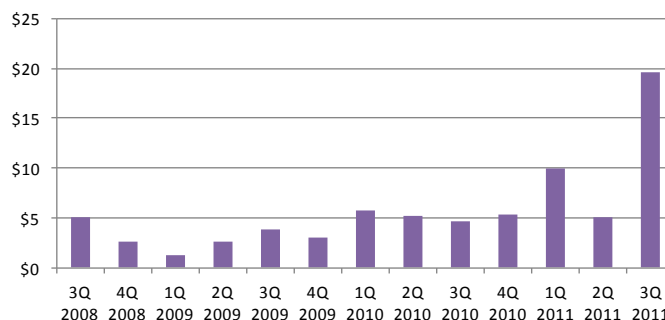
## Global M&A Activity (\$ in billions)



According to a recent report from PricewaterhouseCoopers, a total of 39 aerospace deals have been completed in 2011, through the end of September. This represents an increase of 2 transactions from the same period in 2010. M&A activity in the sector is expected to steadily increase in the coming months and into 2012 and beyond. The third quarter of 2011 showed a more robust deal value, though accomplished through a lesser amount of transactions. This trend of higher deal value is a positive upward trend when compared with previous quarters in 2008 and 2009. This trend is likely to continue to increase as corporate buyers look to use their growing cash stockpiles. Competition for attractive deal targets should increase as corporations are faced with pressure from investors to generate returns or return this cash to shareholders through dividends.

Overall, acquisition multiples as measured by enterprise value/EBITDA continue to rebound from recent lows, as the worst of the economic downturn appears to have passed. The one- and four-week acquisition premiums paid for public companies continues to trend downward from their highest levels in a decade as equity prices continue to rebound. Prices paid for middle market companies have followed this same trend reaching levels exceeding those experienced in 2005 and 2006.

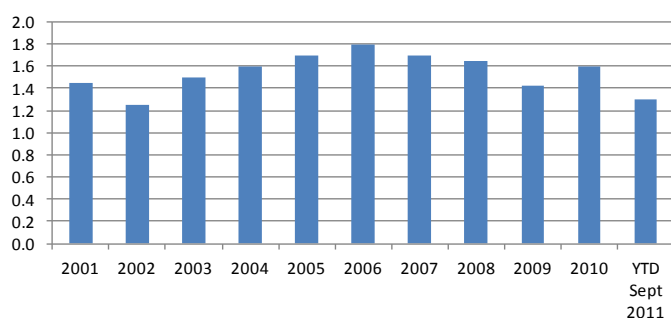
## Total dollar value - Transactions > \$50mm (\$ billions)



## M&amp;A UPDATE (CONTINUED)

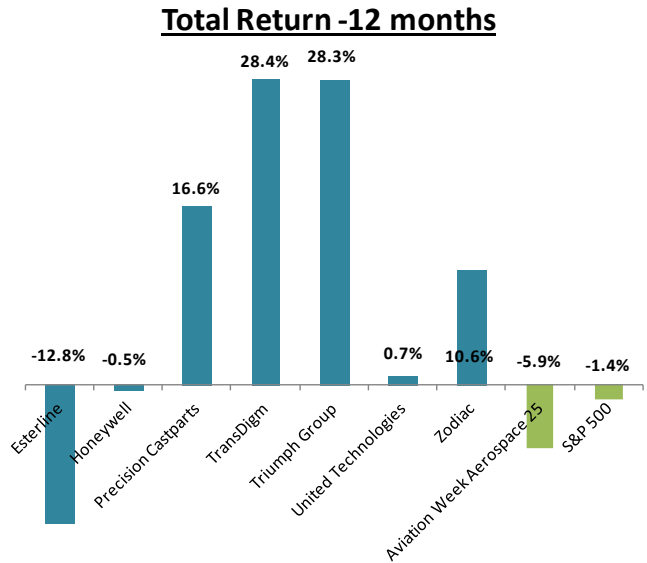
Aerospace and defense deal valuation remains average by historical standards. In fact, the median value/sales for deals announced through the third quarter of 2011 is near a 10-year low and a similar trend appears in multiples of EBITDA. This trend is already beginning to reverse as the overall level of M&A continues to improve. Higher values and valuation multiples can sometimes reflect the higher competition for targets during these periods. However, this relationship was most pronounced during the recent leverage bubble, an environment that is unlikely to appear again soon. The recent production increases in the commercial sector are likely to increase multiples even further while defense valuations may be somewhat depressed. Deal sizes are expected to continue to remain high as the market shifts to larger transactions. While recent volatility in global equity markets has decreased the value of using stock as a currency for new deals, companies should be able to put more of their cash to work to pursue larger acquisitions. Aerospace firms are well positioned to take advantage of future deal opportunities.

**Aerospace & Defense Acquisition Multiples**  
EV/Sales



# WALL STREET REWARDING ACQUISITIONS

Wall Street has seemingly viewed aggressive acquisitions as a positive indicator for future growth and market positioning. The chart below highlights some of the more notable acquirers of the past twelve months and their relative stock performance, as compared to Aviation Week’s 25 as well as the S&P 500. As shown, every highlighted company, with the exclusion of Esterline Technologies, has outperformed both indices. TransDigm, Triumph and Precision Castparts have performed exceedingly well. Esterline Technologies’ acquisition of Souriau SAS, a French manufacturer of connectors, has been the only major announcement which hasn’t resulted in a positive outcome in terms of stock performance.



## SUMMARY

Uncertain economic times have led to a slowdown in both government and discretionary spending, resulting in a declining environment for both defense and business aircraft. While business aircraft appears to have reached a bottom, defense spending will remain murky until world markets begin to stabilize. Firms involved in modernization and efficiency within the defense sector will be targeted for acquisition by larger firms seeking growth. With increased demand for large aircraft, and further projected demand for smaller aircraft, suppliers to the business aircraft market are in a good position to experience rising valuation multiples as consolidators look to this segment for diversification and exposure to new, growing programs.

## ABOUT EXVERE

Exvere's Aerospace focus combines deep industry knowledge and key strategic relationships with world-class Merger and Acquisition advisory services. Exvere's understanding of the Pacific Northwest aerospace and defense market, combined with its breadth of transactional, operational, and technical expertise enables us to effectively create strategies that result in highly suc-

cessful outcomes. Exvere has broad experience in a variety of aerospace market sub-sectors as well as a thorough understanding of the distinct dynamics and trends that create strategic value. We are committed to the relentless pursuit of best-in-class service by creatively applying our expertise to produce superior results.



*Located in Seattle, Washington*

### Aerospace Sectors

- Aerostructures
- Composite Structures and Components
- Aircraft & Engine Components
- Aircraft Interiors
- Foundry & Castings
- Engineering Services
- Avionics and Electronics
- Maintenance, Repair & Overhaul
- Supply Chain Management and Distribution
- Aviation Services and Support

## THE EXVERE EDGE

Founded in Seattle in 1991, Exvere has advised on well over 100 capital transactions. The firm has established a significant reputation by representing Northwest business owners on mergers and acquisitions, recapitalizations, valuations, and financing.

**Valuation Expertise:** Exvere Directors include in-house counsel and an Accredited Valuation Analyst (AVA), ensuring quality and accuracy in valuations and fairness opinions.




**Strategic Assessments:** Many owners have not yet developed comprehensive, long-range plans for their businesses. Exvere assists with producing near and long-term strategies to maximize exit values utilizing our proprietary research and analytical resources. We also help owners assess appropriate timing considerations by seeing the business through the eyes of a potential acquirer; addressing strengths and weaknesses in order to provide valuable insight and direction resulting in a higher valuation at the chosen time of exit.



# AEROSPACE / DEFENSE EXPERIENCE

 <p>Bellevue, Wa Has obtained financing from</p> <p><b>Key Principal Partners</b></p> <p><b>\$15,000,000</b> Subordinated debt</p> <p>The undersigned acted as an advisor to QPM Aerospace, Inc. in this transaction.</p> 	 <p>Has divested its Swaged Tubes division to</p>  <p>SKF Aerospace France (Formerly SARMA)</p> <p>The undersigned acted as an advisor to QPM Aerospace, Inc. in this transaction.</p> 	<p>Substantial assets of LaFarge &amp; Egge, Inc. Lynnwood, WA</p>  <p>Have been acquired by Graham Capital Group, LLC</p>  <p>The undersigned acted as exclusive advisor to the shareholders of LaFarge &amp; Egge in this transaction</p> 	<p>Substantial assets of Amtech Corporation Wapato, WA</p>  <p>Have been acquired by Blackford Capital, LLC</p>  <p>The undersigned acted as exclusive advisor to Amtech Corporation in this transaction</p> 
<p>The Membership Interests of Global Aerosystems, LLC Everett, Washington</p>  <p>Have been acquired by Kaman Corporation (NASDAQ: KAMN)</p>  <p>The undersigned acted as exclusive advisor to Global Aerosystems, LLC in this transaction</p> 	<p>Metal finishing services company specializing in commercial and military platforms</p> <p>Valuation and Sale of Minority Interest</p> 	<p>Manufacturer of cabin management systems</p> <p>Sale of Partial Interests</p> 	

# CURRENT ENGAGEMENTS

<p>International aerospace engineering services</p> <p>Retained for Buy-side Engagement</p> 	<p>Precision machining of hard metal parts</p> <p>Retained for Sell-side Engagement</p> 	<p>Aerospace engineering and tooling design</p> <p>Retained for Sell-side Engagement</p> 
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# AFFILIATIONS

