

# Aerospace Market Update

November 2010



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Aerospace Industry  
Merger and Acquisition Trends  
Valuations– Public Companies  
Recent Aerospace & Defense Mergers  
and Acquisitions

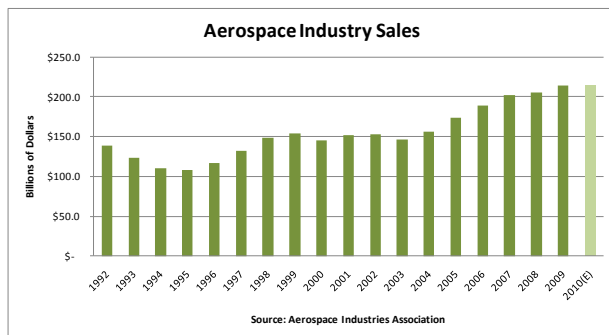
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**EXVERE**inc.  
PRIVATE INVESTMENT BANKING

THERE'S A GREAT DEAL AT STAKE!

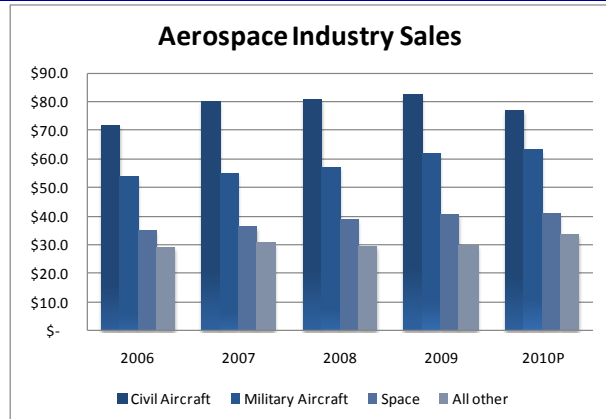
## Aerospace Industry

Despite the economic decline, aerospace industry sales grew by 4% in 2009 benefiting from record backlogs which accumulated over the past years. Fears of OEM production cuts in 2009 never surfaced; instead Boeing and Airbus delivered a record 979 aircraft. Concerns about newly elected Democrats slashing the U.S. defense budget were proven exaggerated. Rather, President Obama increased the U.S. presence in Afghanistan while increasing overall defense spending. The Aerospace Industries Association (AIA) expects military aircraft sales to show a slight increase from 2009, while civil aircraft should experience a slight decline. Minimal growth was predicted in 2010 for the entire industry. Given trends late in 2010, the civil segment should begin a recovery in 2011, while global tightening of defense budgets should cause military sales to come under pressure.



Over the past 20 years, the commercial aircraft industry has experienced both economic downturns and growth periods, while on average it grew 5% per year. This trend is projected to continue for the next 20 years, fueled by continued increases in demand among emerging economies, high oil prices, and an increased flight range. Air cargo traffic is also expected to grow on average 5% per year, driven by rising world gross domestic product and continued globalization of manufacturing and its reliance on predictable delivery.

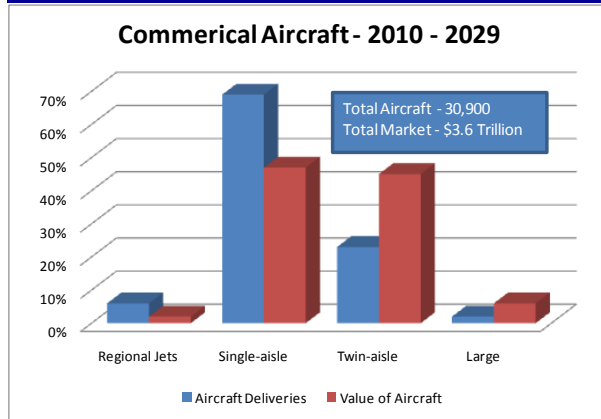
Boeing has recently demonstrated its confidence as it



announced increased production rates for the 737 in August 2010. During 2009, this rate remained steady at an average of 31 per month despite many skeptics calling for reductions. Since then, production increased to 34 per month in early 2010, and will increase to 38 per month in early 2013 reflecting the strong demand and backlog. While Boeing experienced some cancellation and deferral of sales during 2009, 2010 has shown different results. Increasing production rates therefore is the only way to avoid costly fees if a customer is bumped. Airbus has also experienced similar trends and recently announced increased production rates for its mid-size aircraft, the A320.

Boeing also reiterated its position that airplane fleet growth will continue to outpace national economies, leading to demand for over 30,000 new aircraft worth \$3.6 trillion over the next 20 years. Twin-aisle aircraft, though representing only 23% of total number of planes, comprise nearly the same dollar amount as single-aisle. Challenging the smaller single-aisle market is China's Comac C919 (156 seats) and the Russian-built Irkut MS-21 (150-212 seats). So far the Irkut has attracted only domestic interest and shown no momentum among foreign buyers. The C919 should see strong domestic sales as well, but with a significantly larger captive population could eventually be on Airbus and Boeing's radar internationally.

## Aerospace Industry



For passenger capacity levels below 150, Embraer and Bombardier still remain the leading contenders. Bombardier forecasts demand for 6,500 aircraft in the 110-130 seat range, which the C-Series is specifically targeted to address.

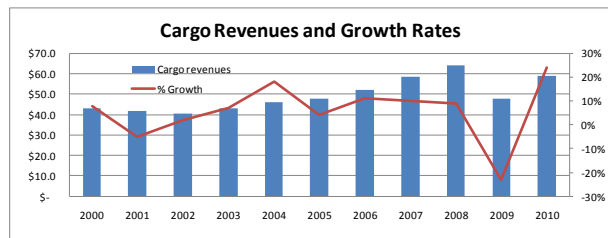
Financing for new aircraft is improving and high fuel prices have airlines looking to retire older planes in favor of new and more efficient models. Additionally, airlines are preparing for increased passenger traffic by investing more in passenger amenities, especially in first and business class upgrades.

### Signs of Improvement

- Airline passenger growth rate has remained remarkably consistent since 1977 at an average of

5%. The International Air Transport Association (IATA) has forecasted passenger growth of 7 percent for a total of 2.4 billion passengers in 2010. Passenger load factors have also increased dramatically. The US Department of Transportation reported that the July passenger load factor for US airlines was 86.9%, which represents the highest factor in July for any previous year.

- Cargo traffic, which has been slow to recover, is expected to show an 18.5 percent growth rate in 2010. Cargo yields have rebounded faster than passenger yields, due to tighter supply-demand conditions. Having slumped to revenue levels not seen since 2005, the improvement in 2010 is welcomed and significant. This is a good signal since typically air freight has gained market share at the start of economic upswings, mostly due to the need for speed and scarce working capital. However, in the past decade, there has been a decline in cargo's share of both value and weight.



### Update from Farnborough Air Show

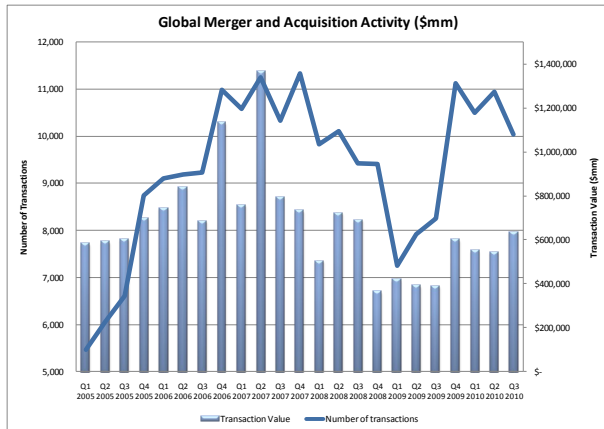
More than 1,450 exhibitors (57 more than in 2008), and 280,000 total attendees from 38 countries were at Farnborough, including delegations from Egypt, Taiwan, and Morocco attending for the first time. Organizers also cited stronger interest from China and Russia. 2010 was termed the "Year of the Lessor", as commercial leasing companies decided the show was the right time to plunge back into the market and bought up production line slots for more than 300 aircraft. In total, buyers from 44 countries placed orders totaling a respectable \$47 billion — on par with 2006 (\$46 billion). Orders at the show are

well off the record-breaking \$88.7 billion in deals announced at Farnborough in 2008, but the event easily exceeded the \$7 billion in orders for commercial planes at its sister show Le Bourget, near Paris, in 2009.

There was also plenty of buzz surrounding other OEMs as Embraer and turboprop specialist ATR reported healthy orders. Russia's new generation of airliners racked up important deals from European and Asian customers. While not entirely unexpected, there were over 120,000 visitors, which represented a decrease of 8% from 2008.

## Merger and Acquisition Trends

Beginning in 2009, global merger and acquisition activity began experiencing a noticeable decline. However, recent announcements suggest a revival of merger and acquisition activity due to strong corporate profits combined with excess cash and inexpensive debt. This, coupled with the prevailing thought that equity is currently undervalued, has led to substantially more acquisitions being financed with cash than stock.

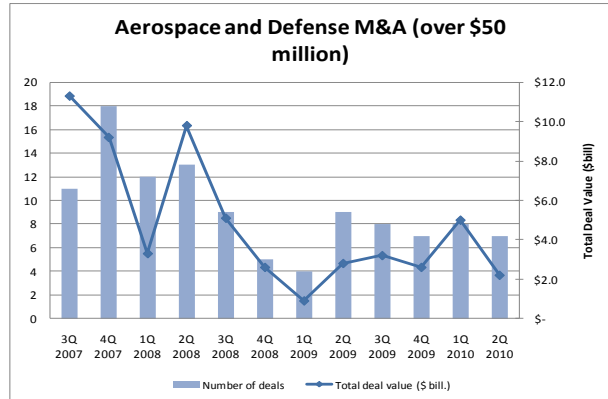


Middle market companies – commonly defined as having EBITDA (earnings before interest, tax, depreciation and amortization) between \$5 million and \$50 million have been the catalyst for the M&A market. As economic uncertainty has sent many large corporate buyers to the sidelines and kept private equity firms from making aggressive bids for larger companies, middle-market deal making has accounted for a larger share of the M&A pie. According to Robert W. Baird, middle market M&A volume accounted for about 30% of total deal volume in the peak year of 2007. This figure rose to 37.5% in 2008 and in the first quarter of 2010 it accounted for 43%.

### Aerospace M&A

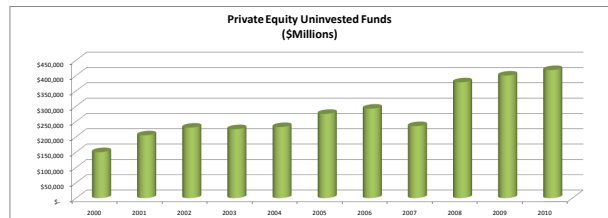
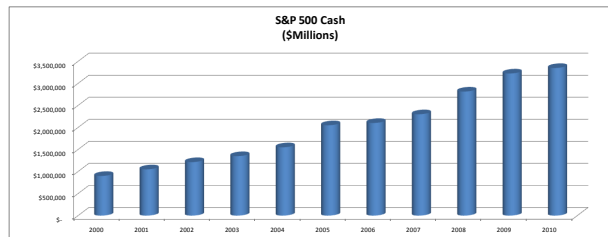
Over the past two months, four separate deals in excess of \$250 million have been announced in the aerospace industry. Southwestern Airlines announced its intent to acquire AirTran Airways for \$1.4 billion,

followed by TransDigm’s winning bid of \$1.2 billion for McKechnie Aerospace Holdings. These transactions were preceded by Safran SA’s intent to buy L-1 Identify Solutions in late September. Most recently, TSI Group was purchased by B/E Aerospace for \$310 million. These are positive signs that the aerospace industry may be beginning to attract attention. PricewaterhouseCooper is forecasting that aerospace and defense transactions could top \$20 billion in



2010, which is more than double the \$9.5 billion in 2009.

Several factors are driving the increased M&A activity. Slow growth for many public and private aerospace firms coupled with significant cash balances in corporate balance sheets is increasing demand by strategic acquirers.



### Merger and Acquisition Trends

Additionally, private equity firms have raised several trillion dollars over the last few years, which are typically seeking privately held companies or corporate spin-offs for investment. The aerospace and defense sectors offer additional attractiveness as a good number of companies have weathered the economic downturn well and have solid future growth prospects.

Financial investors were largely absent as acquirers during the first half of 2010, although some took advantage of the opportunity to exit certain portfolio investments as valuations crept higher. This lack of acquisition activity is a major departure from the relative level of private equity activity in 2009 and the first quarter of 2010. With the tremendous amount of uninvested capital, improving lending and economic conditions, private equity investors will be back into the mix. However, it is likely that strategic acquirers will continue to have the upper hand on acquisitions in 2011.

Average deal values edged upward slightly in the second quarter, though still remain depressed when compared with previous quarters. This compares with two mega-deal announcements in the first quarter of 2010 and all of 2009. Despite the drop in mega-deal (defined as having transaction values more than \$1 billion), the pace of activity in large and middle-market transactions is similar to the first quarter of 2010 and 2009, although throughout this entire period the vast majority of deals were those with disclosed values under \$50 million.

For the remainder of 2010, as a general improvement in global economic output increases in air traffic, deal activity is likely to shift toward larger value transactions. In the near future, it is expected that Chinese entities will become much more active in the M&A market, reflecting the efforts to build its domestic aerospace industry.

#### **Aerospace Component M&A**

Another factor which is generating additional demand for acquisitions is the desire for Boeing and Airbus to manage less component suppliers as they seek to slash production and research expense. Consolidation is likely to occur for producers of fuselage, tail and engine parts due to the high initial development costs for new families of aircraft. Since aero structure companies are typically build-to-print, consolidation within this lower margin market will help to streamline operations with rising production quality. Several companies, including GKN Plc, Senior Plc and Fokker Aerospace have mentioned that they are seeking potential acquisition targets in these sectors.

With new composite parts becoming a critical part of the majority of new aircraft, companies are looking to acquire new technologies which will allow them to capture additional higher-value work. Since companies miss out on maintenance and spares orders because the fabric of composite aircraft isn't replaced in its lifetime, they are looking to acquisitions as a method to expand into higher-value work.

Heading into 2011, aerospace and defense M&A activity should increase in number and value. In this slow-growth environment, strategic acquirers will be searching for other avenues to boost earnings. Private equity buyers are expected to cautiously enter the market as lending conditions continue to strengthen. Given these conditions, Exvere anticipates an upward trend to continue in 2011 both in number of transactions and total volume.

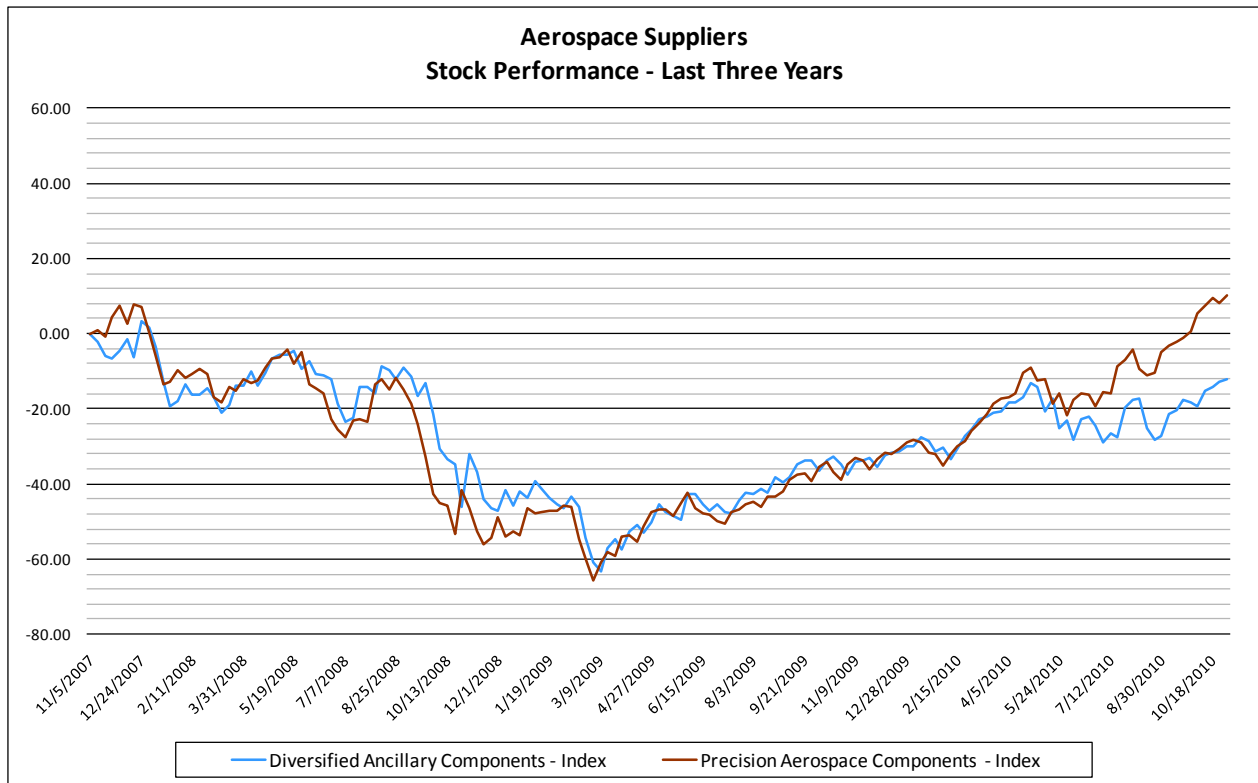
# Aerospace Market Update



## Valuations—Public Companies

Diversified Ancillary Components - Current Valuation Multiples (November 5, 2010)			
Company Name	Revenue Multiple	EBITDA Multiple	Future Revenue Multiple
BE Aerospace Inc. (NasdaqGS:BEAV)	2.4x	12.9x	2.0x
Danaher Corp. (NYSE:DHR)	2.4x	11.9x	2.2x
Ducommun Corp. (NYSE:DCO)	0.6x	5.9x	0.6x
Hampson Industries plc (LSE:HAMP)	1.0x	4.1x	-
HEICO Corp. (NYSE:HEI)	2.8x	13.5x	2.5x
Kaman Corporation (NasdaqGA:KAMN)	0.7x	12.3x	0.6x
Kaydon Corporation (NYSE:KDN)	2.0x	8.4x	1.8x
RBC Bearings Inc. (NasdaqGS:ROLL)	2.5x	12.6x	-
Standex International Corp. (NYSE:SXI)	0.7x	7.0x	0.7x
Timken Co. (NYSE:TKR)	1.0x	6.5x	0.8x
High	1.0x	4.1x	2.5x
Low	0.6x	7.0x	0.6x
Mean	1.6x	9.5x	1.4x
Median	1.5x	10.2x	1.3x

Precision Aerospace Components - Current Valuation Multiples (November 5, 2010)			
Company Name	Revenue Multiple	EBITDA Multiple	Future Revenue Multiple
Barnes Group Inc. (NYSE:B)	1.3x	9.7x	1.1x
Esterline Technologies Corp. (NYSE:ESL)	1.5x	8.9x	1.3x
Goodrich Corp. (NYSE:GR)	1.8x	9.8x	1.6x
Haw k Corp. (AMEX:HWK)	1.9x	10.0x	1.5x
Heroux-Devtek (TSX:HRX)	0.8x	5.5x	0.7x
Hexcel Corp. (NYSE:HXL)	1.8x	11.7x	1.6x
Ladish Co. Inc. (NasdaqGS:LDSH)	1.5x	10.7x	1.3x
LMI Aerospace Inc. (NasdaqGS:LMA)	0.8x	6.7x	0.8x
Precision Castparts Corp. (NYSE:PCP)	3.5x	12.7x	3.1x
Spirit AeroSystems (NYSE:SPR)	0.9x	6.6x	0.8x
Triumph Group Inc. (NYSE:TGI)	1.9x	13.1x	1.1x
High	3.5x	12.7x	3.1x
Low	0.8x	5.5x	0.7x
Mean	1.6x	9.6x	1.4x
Median	1.5x	9.8x	1.3x



## Recent Aerospace & Defense Mergers and Acquisitions

### Pacific Northwest

Date	Target	Location	Buyers/Investors
11/11/2010	<b>Global Aerosystems, LLC</b>	Everett, Washington	Kaman Corporation (Nasdaq: KAMN)
09/21/2010	<b>Pacific Aero Tech, Inc.</b>	Kent, Washington	McNally Industries, LLC
07/01/2010	<b>LifePort, Inc.</b>	Woodlawn, Washington	Sikorsky Support Services, Inc.
06/21/2010	<b>AirCare Solutions Group</b>	Olympia, Washington	Jeff Roberts
06/07/2010	<b>Nampa Valley Helicopters, Inc.</b>	Boise, Idaho	Heli-Welders Canada Ltd.
03/26/2010	<b>Epic AIR, LLC</b>	Bend, Oregon	Aviation Industry Corporation of China
02/16/2010	<b>Soundair AMG</b>	Everett, Washington	Jetpower, Inc.
11/23/2009	<b>Naverus, Inc.</b>	Kent, Washington	GE Aviation
05/01/2009	<b>Cloud Cap Technology Inc.</b>	Hood River, Oregon	Goodrich Corp. (NYSE:GR)
12/11/2008	<b>Volant Aerospace, LLC</b>	Burlington, Washington	Ian Rollo
11/25/2008	<b>Accra Manufacturing</b>	Bothell, Washington	Primus International
11/12/2008	<b>Million Air Moses Lake</b>	Moses Lake, Washington	Million Air Interlink, Inc.
10/29/2008	<b>LaFarge and Egge, Inc.</b>	Lynnwood, Washington	Graham Capital Group, LLC
10/06/2008	<b>Fatigue Technology, Inc.</b>	Seattle, Washington	Precision Castparts Corp. (NYSE:PCP)
07/22/2008	<b>Insitu, Inc.</b>	Bingen, Washington	Boeing Integrated Defense Systems,
04/01/2008	<b>Nova Composites, Inc.</b>	Lynnwood, Washington	Park Electrochemical Corp. (NYSE:PKE)
03/04/2008	<b>QPM Aerospace, Inc., Metallic Rod</b>	Monroe, Washington	SKF AB (OM:SKF B)
01/29/2008	<b>Giddens Industries, Inc.</b>	Everett, Washington	Platte River Ventures
01/16/2008	<b>QPM Aerospace, Inc.</b>	Bellevue, Washington	Key Principal Partners

\*Denotes Exvere Representation

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## About Exvere

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Exvere's Aerospace focus combines deep industry knowledge and key strategic relationships with world-class Merger and Acquisition advisory in the Pacific Northwest. Exvere's strong knowledge of the Pacific Northwest aerospace and defense market, combined with its breadth of transactional, operational, and technical expertise enables us to effectively create strategies which result in highly successful 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 providing best-in-class service relentlessly and creatively applying our expertise to generate superior results for our clients.

### **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

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## The Exvere Edge

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Founded in Seattle in 1991, Exvere has advised on over 100 capital transactions. In 2006, Exvere established Exvere Securities, LLC, as a FINRA broker-dealer. The firm has established a significant reputation by representing Northwest business owners on mergers and acquisitions, recapitalizations, valuations, and financing.

**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 extensive research and analytical capabilities. We also help owners assess appropriate timing considerations and see the business through the eyes of a potential acquirer; addressing those strengths and weaknesses – in order to provide valuable insight and direction resulting in a higher valuation at the chosen time of exit.

**Valuation Expertise** - Exvere's staff includes an Accredited Valuation Analyst (AVA), ensuring quality and accuracy in valuations and fairness opinions.

**FINRA Member** - Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA broker-dealer. As such, we are subject to high regulatory and financial standards, setting us apart from most M&A firms. Importantly, this qualification allows us to provide a greater array of options to our clients, such as partnering with international and domestic investment banks, sharing extensive research resources, and providing fairness opinions.

**Real Estate Licensed** - Exvere principals further benefit from having real estate licenses in Washington state, allowing us to facilitate our clients' needs related to real estate asset transactions.