



Capstone Partners

AVIATION

Q1 2017

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MERGER & ACQUISITION OVERVIEW

The old adage 'the best defense is a good offense' is certainly applicable today. As we witness ongoing geopolitical instability and increased tensions among superpowers, common sense indicates that global defense spending is poised to increase and preliminary indications are that the Trump Administration intends to do just that for the US. The global spending increases will, as is customary, be led by expected increases in the US Defense budget. This will reverse a period of spending declines that began with the wind-down of military operations in the Middle East. In addition, it will end the eight year streak of having the US military funded by continuing resolutions that permit spending only on existing programs.

Increased military spending of this nature will lead to increases in equipment procurement, address concerns about ongoing innovation and reinforce the need for the US to maintain its technology edge/technical superiority. Manufacturers of military aircraft, including unmanned vehicles, should benefit in addition to their component equipment suppliers.

In light of the changing landscape, sector M&A activity is likely to benefit over time as well. In short, the opportunity to exploit technology advances should create new attractive acquisition targets. Rather than the more defensive divestiture-led repositioning cycle that has been witnessed in the Aerospace and Defense industry over the past few years, we expect to see M&A activity become more opportunistically aggressive, motivated by a growth-focused mindset. We believe that the profiled transactions highlighted in this report are reflective of emerging long-term trends.

Projected Revenue: US Aircraft, Engine & Parts Manufacturing



Source: IBIS World

TRENDS AND DRIVERS

- ▶ **National defense spending poised to increase** – Defense spending is expected to increase under President Trump which, in turn, will drive demand for aviation products. During his campaign, Trump promised to “fully eliminate” the military spending caps that were passed in the 2011 Budget Control Act. Trump could boost funding to the Armed Forces by approximately \$500 billion over the next 10 years by removing these limitations on defense spending.

The Administration seeks to modernize and expand the military to its “highest level of readiness,” according to the official White House government website. Among other branch expansions, this proposed plan includes building an Air Force of at least 1,200 fighter aircraft and a new “state-of-the-art” missile defense system. The Army, a branch that has focused on aviation modernization over the past several years, is also an area marked for expansion. This projected influx of money and innovation into defense spending is expected to drive demand for new technology, parts and contractors in the Aviation market for years to come.

- ▶ **Modernizations and upgrades surge** – Technology advances have created opportunities for fleet modernization in both commercial and military aircraft for optimal 21st century airspace flight. Integrating these new advances promotes cost efficiencies, enhances safety, increases surveillance and radar capabilities, and helps enable mission readiness in warfighters.

Flight decks are one area seeing a high concentration of modernization. Garmin, for instance, introduced its next generation integrated flight deck at the start of 2017. The upgraded system features wireless cockpit connectivity, map overlay on horizontal situation indicator (HIS), wireless database updates, visual approaches and has an estimated weight savings of more than 250 pounds. Another example of flight deck modernization is the Air Force and NATO’s ongoing DRAGON (Diminishing Manufacturing Sources Replacement of Avionics for Global Operations and Navigation) program. “As original equipment manufacturers discontinue support to 40-year-old avionics, replacement parts are becoming harder and harder to come by,” DRAGON project manager Jennifer Pomphrett, explained. This, and a wide range of other modernization efforts are still underway, as aircraft operators seek to bring their fleets into the modern age.

- ▶ **Data and analysis in high demand** – The Global Commercial Avionics Systems market is expected to grow from \$25.4 billion at the close of 2016 to \$31.1 billion by 2024, according to Transparency Market Research (TRM), representing a compound annual growth interest rate (CAGR) of 3.5%. The top driver for this market is the high demand for real-time data processing. “Real-time data analytics can prove to be invaluable for the industry as it allows for a much quicker rate of data processing upon which necessary actions can be taken,” according to a TRM analyst. “The impact of this driver is expected to remain very high for the coming years.”

NOTABLE AVIATION TRANSACTIONS

Several notable transactions have already been announced or completed in the Aviation industry thus far in Q1 2017. Select transactions are outlined below, followed by a more comprehensive list on the following page.

- ▶ **Curtiss-Wright acquires Teletronics (December)** – Curtiss-Wright Corporation (Curtiss-Wright), recently announced the acquisition of Teletronics Technology (Teletronics) for \$230.0 million in cash at a revenue multiple of 3.6x. Teletronics manufactures data acquisition technology and flight test instrumentation for aerospace and defense applications. It has exposure to over 140 different programs including the F-35 and F-18 aircraft, and various spacecraft and missile programs. David C. Adams, Chairman and CEO of Curtiss-Wright, commented, “The acquisition of [Teletronics] will yield significant opportunities for growth by increasing the breadth of our data acquisition product portfolio while simultaneously providing greater penetration into our existing markets.” He added, “Further, consistent with our stated acquisition strategy, this transaction is expected to support our long-term financial objectives of margin expansion, strong free cash flow and solid return on invested capital.”
- ▶ **Rockwell Collins announces acquisition of B/E Aerospace (October)** – Rockwell Collins, a leading designer of aviation systems, recently agreed to acquire B/E Aerospace for an enterprise value of approximately \$8.2 billion at revenue and EBITDA multiples of 2.9x and 13.6x, respectively. The deal includes about \$6.4 billion in cash and stock, as well as the assumption of \$1.9 billion in debt. This acquisition will accelerate Rockwell Collins’ growth and strengthen its position as a supplier of cockpit and cabin solutions. According to Rockwell Collins’ press release, “The transaction combines Rockwell Collins’ capabilities in flight deck avionics, cabin electronics, mission communications, simulation and training, and information management systems with B/E Aerospace’s range of cabin interior products, which include seating, food and beverage preparation and storage equipment, lighting and oxygen systems, and modular galley and lavatory systems for commercial airliners and business jets.” The acquisition is consistent with Rockwell Collins’ strategy of accelerating growth in cockpit and cabin solutions, broadening its offerings to current customers.
- ▶ **TransDigm acquires Data Device (May)** – TransDigm, a leading provider of aircraft components, recently acquired ILC Industries, the parent company of Data Device Corporation (DDC), for \$1.0 billion in cash. DDC is a provider of databus, power controls and related products that are used in military avionics, commercial aerospace and space applications. W. Nicholas Howley, TransDigm’s Chairman and CEO, commented, “DDC has a strong presence across major military aircraft platforms and a growing presence on commercial aircraft. This is another sizable acquisition opportunity that meets our strategic, operational and value-creation criteria. The vast majority of DDC’s revenue comes from highly engineered, proprietary products with substantial aftermarket content. We are pleased with the opportunity to acquire a business of this size that has such an outstanding reputation with its customers and where we see opportunities for significant value creation.”

AVIATION: SELECT M&A TRANSACTIONS

Ann. Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
01/09/17	FluxData	Halma	Develops multispectral and polarimetric imaging systems for aerospace, defense and medical markets.	\$27.5	5.3x	-
01/02/17	Integral Aerospace	Admiralty Partners	Manufactures flight subsystems and components for military and commercial aircraft.	-	-	-
12/07/16	Teledyne Technologies	Curtiss-Wright Controls Defense	Provides data acquisition instrumentation for aircraft, missiles, aerospace, underwater and land vehicles.	\$233.0	3.6x	-
11/21/16	4DSP	Abaco Systems	Designs electronics and field programmable gate arrays for defense and aerospace organizations.	-	-	-
11/21/16	Vantage Vertical	The Falcon Group	Offers aerial surveying and volumetric, agricultural mapping and 3D mapping services.	-	-	-
11/03/16	CorActive High-Tech	Han's Laser Technology	Develops specialty optical fiber products for high-power amplifier and laser applications.	\$30.6	-	-
10/23/16	B/E Aerospace	Rockwell Collins	Designs cabin interior products for commercial aircraft and business jets.	\$8,228.5	2.9x	13.6x
10/21/16	Butler America Aerospace	HCL	Provides engineering, IT, application development and fleet services for aerospace and defense markets.	\$85.0	1.0x	-
10/21/16	Karel Manufacturing	Celestica	Manufactures harness and wiring products, assemblies and sheet metal products for aerospace applications.	-	-	-
10/04/16	Aerosim-CTC	L3 Technologies	Develops simulation-based training solutions for the air transport market.	-	-	-
09/12/16	Tronair	Golden Gate Capital	Designs aircraft ground support equipment for the aerospace industry.	-	-	-
08/12/16	Clear Mountain	Patriot One Technologies	Manufactures filtration and separation equipment for aircraft and naval ships.	-	-	-
08/08/16	AquiSense Technologies	Nikkiso America	Develops situational awareness solutions for military, government and commercial customers.	\$9.3	-	-
07/20/16	Stinar	Kruckeberg Industries	Provides aerospace R&D that focuses on advanced space technologies and launch vehicle systems.	-	-	-
07/11/16	Alfalight	Gooch & Housego	Manufactures rugged laser and electro-optical systems for defense, aerospace and security applications.	-	-	-
06/10/16	Micro-Coax	Carlisle Interconnect Technologies	Offers transmission line solutions for radio frequency and microwave applications.	\$95.9	2.1x	-
05/31/16	Kreisler Manufacturing	United Flexible	Manufactures precision metal components and assemblies for military and commercial aircraft engines.	\$28.3	0.8x	7.6x
05/24/16	Data Device	TransDigm	Offers data bus, motion control and power controller products for the aerospace and defense industries.	\$1,000.0	-	-
04/26/16	Kaydon	Stabilus	Manufactures custom engineered, performance-critical products for the aerospace and defense markets.	\$339.0	2.8x	-
03/21/16	Airco Industries	FTG Aerospace	Designs display and control panels, simulation systems and assemblies for aerospace applications.	-	-	-
02/29/16	Harris's Aero-Structures Div.	Albany International	Manufactures wings, tanks, rotor blades and airframes for commercial and military aircraft.	\$210.0	2.7x	-
02/25/16	Miltec	General Atomics	Designs and tests missile and aerospace systems.	\$14.6	0.5x	-
02/03/16	AIM Aerospace	NW Mutual, Farol, BlackRock and LH	Manufactures composite ducting, sub structural and interiors parts for airlines and OEMs worldwide.	\$220.0	-	-
01/28/16	Phoenix Heliparts	Golden 168 Investment	Provides maintenance, parts, engineering, STC, PMA, avionics and structural repairs for MD helicopters.	-	-	-
01/25/16	CD-adapco	Siemens Product Lifecycle	Provides engineering simulation and design exploration solutions.	\$970.0	4.9x	-

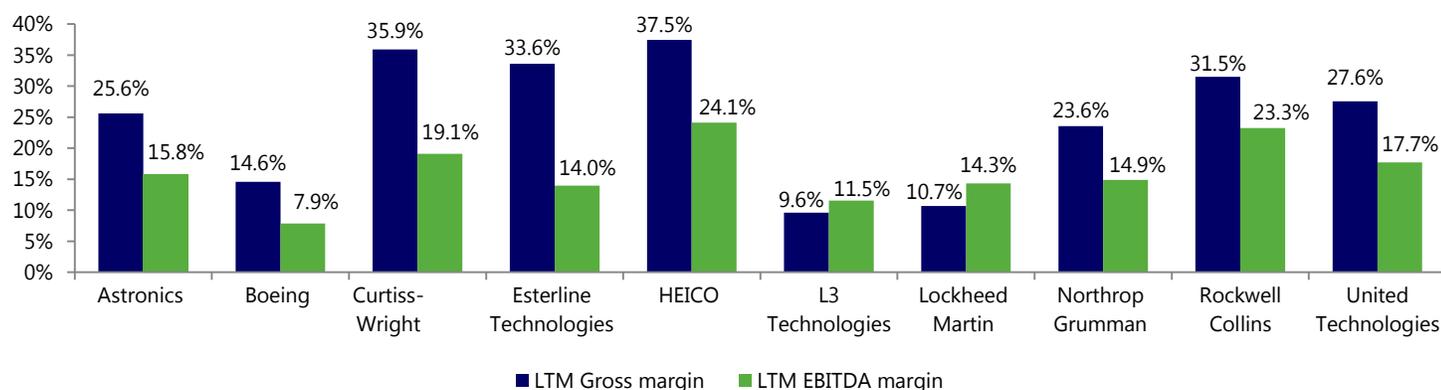
PUBLIC COMPANY TRADING & OPERATING DATA

Aviation Companies	Price 02/06/16	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV/LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
Astronics	\$33.04	80.5%	\$1,045.8	\$1,196.5	\$636.4	\$100.5	15.8%	1.9x	11.9x
Boeing	\$162.40	95.5%	\$100,225.4	\$100,208.4	\$94,571.0	\$7,448.0	7.9%	1.1x	13.5x
Curtiss-Wright	\$98.68	91.7%	\$4,364.4	\$4,879.2	\$2,132.1	\$407.3	19.1%	2.3x	12.0x
Esterline Technologies	\$92.95	96.3%	\$2,755.1	\$3,325.7	\$2,008.9	\$290.0	14.4%	1.7x	11.5x
HEICO	\$77.23	93.8%	\$4,777.9	\$5,377.0	\$1,376.3	\$331.8	24.1%	3.9x	16.2x
L3 Technologies	\$160.12	99.7%	\$12,378.7	\$15,406.7	\$10,511.0	\$1,214.0	11.5%	1.5x	12.7x
Lockheed Martin	\$254.46	94.3%	\$73,737.4	\$86,277.4	\$47,248.0	\$6,764.0	14.3%	1.8x	12.8x
Northrop Grumman	\$231.36	91.2%	\$40,503.8	\$45,032.8	\$24,508.0	\$3,649.0	14.9%	1.8x	12.3x
Rockwell Collins	\$91.02	94.3%	\$11,881.8	\$13,849.8	\$5,283.0	\$1,229.0	23.3%	2.6x	11.3x
United Technologies	\$109.65	97.2%	\$90,286.4	\$108,916.4	\$57,244.0	\$10,134.0	17.7%	1.9x	10.7x

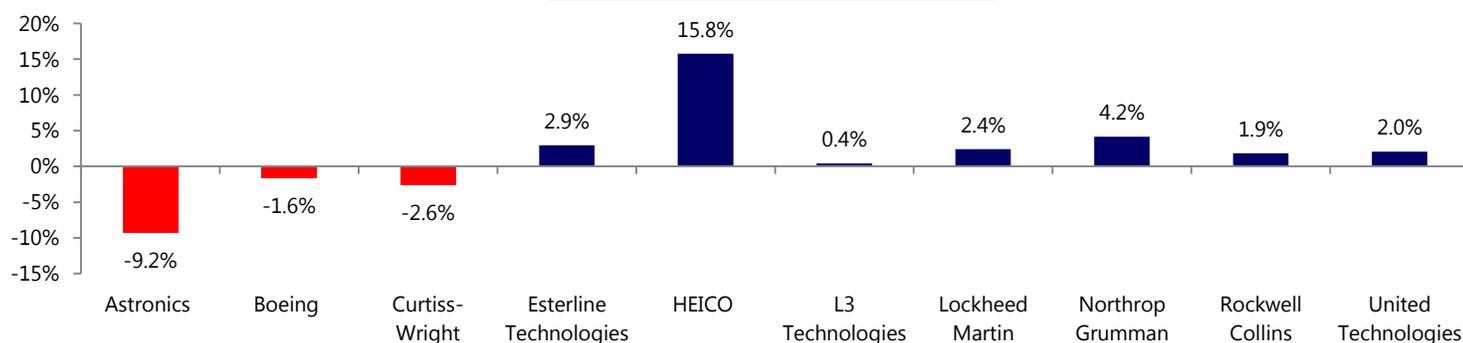
LTM = Last Twelve Months
EV = Enterprise Value
\$ in millions, except per share data

Mean	16.3%	2.0x	12.5x
Median	15.3%	1.9x	12.2x
Harmonic Mean	14.8%	1.8x	12.7x

Last Twelve Month Margin Performance



Last Twelve Month Revenue Growth



Source: Capital IQ as of February 6, 2017

CAPSTONE PARTNERS: SELECT RELEVANT TRANSACTIONS



Capstone Partners recently advised The DiSTI Corporation (DiSTI) on its partnership with Dos Rios Partners (Dos Rios) and Akoya Capital (Akoya). DiSTI provides software development toolkits and custom development services for creating 3-D user interfaces that support human machine interaction and in particular, virtual simulations used for training purposes within the Aerospace and Defense industry. Over the past 20 years, DiSTI has pioneered the development and commercialization of Virtual Maintenance Training (VMT) solutions and its graphical user interface software remains the industry standard.

Dos Rios is a private equity firm based in Austin, Texas that invests in privately-owned niche businesses. The firm prefers to invest in companies that are entrepreneur or family-owned with attractive growth prospects, a solid management team and the need for not only capital, but also operational expertise. Akoya Capital is a sector-focused investment firm that creates and nurtures partnerships between management and capital. John Regazzi, a Managing Director at Akoya, will serve on DiSTI's newly formed Board as Chairman.

"It was an honor to represent DiSTI, a company that truly offers best-in-class products and services," commented Capstone Partners' Managing Director Ted Polk. "The business is well positioned to enjoy considerable growth with its new investment partners."



THE AVIATION TEAM



Ted Polk, Managing Director
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Ted is a Managing Director and in charge of the firm’s Chicago office. Previously, Ted worked in a similar capacity for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 20 years of mergers and acquisitions-related experience, having completed numerous strategic sale and recapitalization transactions across a variety of industries. Ted works closely with businesses providing tech enabled products and services for industrial, government related and other applications. He started his career in the Corporate Banking Group at The Bank of New York and also previously worked as an ESOP advisor for Valuemetrics, Inc. Ted has been the recipient of multiple industry awards, holds degrees from Georgetown University and The University of Chicago and is a Chartered Financial Analyst (CFA).



Lisa Tolliver, Director
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Lisa has over 16 years of experience in the investment banking industry, primarily focused on advising private business owners in liquidity related transactions. Presently, Lisa is a Director in Capstone’s Chicago office, supporting the management of the Central Region. Prior to Capstone, Ms. Tolliver worked in the Capital Strategies Group at Morgan Stanley Smith Barney, where she was involved in the evaluation, marketing and closing of numerous transactions across a wide range of industries. Specifically, Lisa has developed expertise within various industries including government & defense, software & technology, manufacturing and outsourced business services. Lisa received her BA on academic scholarship from Illinois State University and is a Series 7 and 63 Registered Securities Representative.



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Parker is an Associate in Capstone’s Chicago office, working closely with private business owners to execute and optimize corporate finance transactions. Prior to joining Capstone, Parker was an Associate in Deloitte’s Business Valuation practice, specializing in enterprise, equity and intangible asset valuations across multiple industries including consumer, industrials, manufacturing and healthcare. Parker received his BA in Finance from the University of Notre Dame and is a Series 79 and 63 Registered Securities Representative.



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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is an award-winning investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. Over the past 15 years, Capstone has earned a reputation as one of the most innovative firms in the industry, offering corporate sale & divestiture, merger & acquisition, private placement, corporate restructuring, valuation and financial advisory services. The firm maintains seven industry practices, including: Business Services, Consumer Products, Education & Training, Government Services, Health & Medical, Manufacturing & Industrial, and Technology & Telecom. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, New York, Orange County, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in 70 offices across 31 countries.

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