

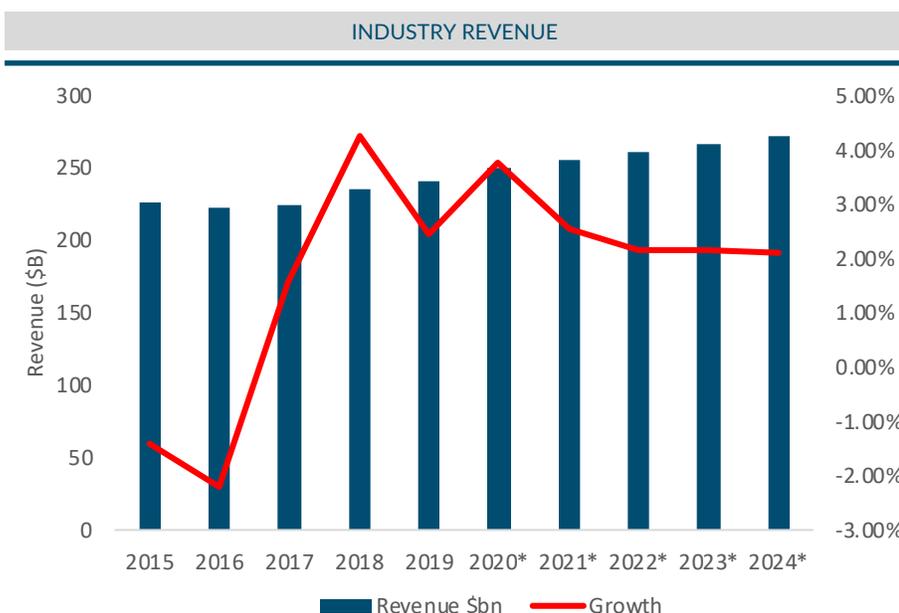
AEROSPACE & DEFENSE SUMMARY REPORT

First Quarter 2020

AEROSPACE & DEFENSE MARKET OVERVIEW

- The aerospace and defense (A&D) industry experienced modest gains in 2019, with growth primarily driven by the defense sector. Heightened security threats have steered defense budgets upward as governments seek to expand and modernize military and aircraft, with a total of \$738B in expenditures proposed for FY 2020, a \$22B boost from 2019.
- Further, US foreign military sales in 2019 totaled \$55.4B, in line with the \$55.7B spend in 2018. This figure is expected to rise in 2020, demonstrating the strong continued need for supplied products and services to foreign partners and allies.
- Conversely, the commercial sector saw production issues on aircraft models that led to a pushback in backlogs and slowdown in new orders. Overall, deliveries were lower in 2019 due to a decrease in production rates with stalls in certain aircrafts. Some of the bottlenecks are expected to be alleviated in 2020, as Boeing anticipates its 737 MAX aircraft to be back in service by August 2020.
- Deal activity in 2019 for the total market ended with a rise in deal value in the space, despite a decrease in transaction volume, with values largely driven by the merger of United Technologies Corp. and Raytheon. Through this megadeal, and others outside of the US, we expect competitors to seek growth opportunities through consolidations as they seek to combat these new power plays. Robust financial sponsorship in Q4 also signified sector appeal moving into 2020 with an expectation of seeing elevated multiples and valuations.
- The major headwind for the airline industry in 2020 is the spread of the coronavirus. IATA is warning that global airlines could stand to lose \$113B in sales, or 19% of their business, if the spread of the coronavirus isn't contained soon.

IBISWorld, S&P Global, PitchBook, NDA Defense Budget, PwC, IATA, RCO Research.



PitchBook data through December 31, 2019.



TEV (\$MM)	REVENUE (\$MM)	EBITDA
10-25	16.4	19.8%
25-50	25.3	25.7%
50-250	39.0	38.8%
Average	29.6	28.1%

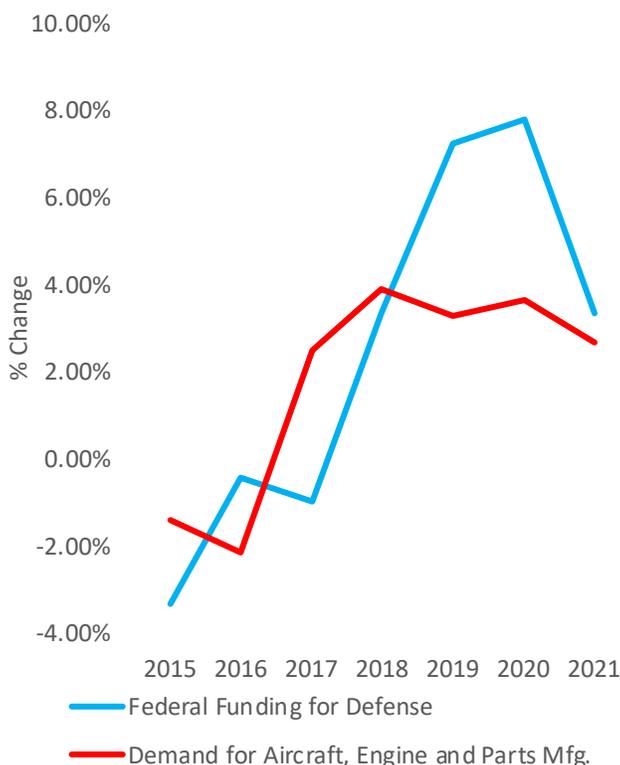
GF Data® 2012 through December 2019



FEATURED SEGMENT: PARTS & COMPONENT MANUFACTURING

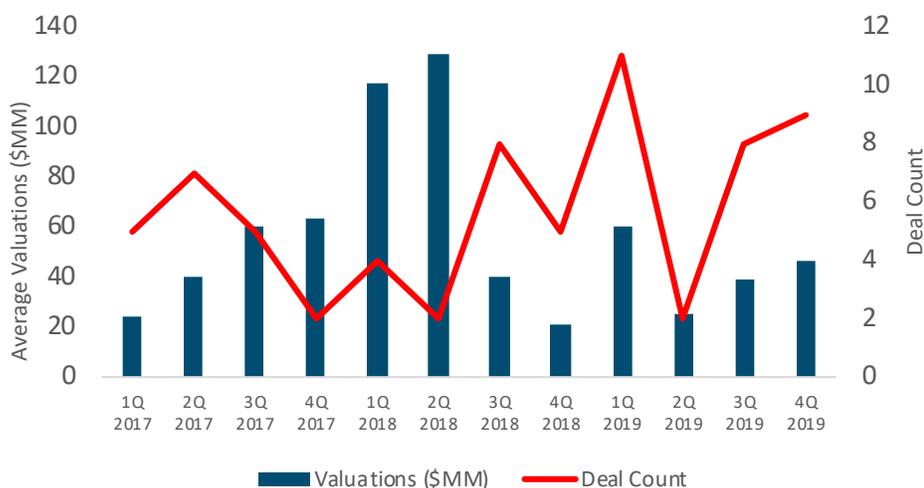
- Operators in the component manufacturing space are engaged in the distribution of a variety of aircraft parts and equipment, extending from fasteners to engine components. With the rise in aircraft use, the overall manufacturing sector has experienced significant demand boosts for replacement parts and industry services.
- Growth in the segment, particularly due to its function within the larger air transportation market, has primarily followed the trend of the general economy.
- Increased corporate profits as well as rising consumer incomes have driven demand for air travel and spending on both commercial and military aviation services.
- Manufacturers and subcontractors regularly purchase equipment and components from distributors, with the need for aircraft parts rising as the number of aircrafts-built increases. Additionally, advancing defense budgets through potential engagements in military conflicts has increased spending for missiles and other aircraft parts, thereby further supporting revenue growth for component distributors.
- Despite a 2019 decline in the number of aircrafts active, and with forecasted marginal declines throughout the next five years, as projected by the Federal Aviation Administration, immediate pressure or effects on industry operators are not expected to take place, as signified by estimated industry revenue increases at an annual rate of 1.4% to reach \$49.9B over the next five years.

KEY EXTERNAL DRIVERS



Federal Aviation Administration, IBISWorld, 2019.

NORTH AMERICAN DEAL COUNT & AVERAGE VALUATIONS - UP TO \$250MM



PitchBook data through December 31, 2019.

TEV / EBITDA MULTIPLES

TEV (\$MM)	Aerospace Product & Parts Manufacturing
10-25	5.7x
25-100	6.2x
50-250	7.4x
Average	6.4x

GF Data® 2012 through December 2019.

FEATURED AEROSPACE & DEFENSE M&A TRANSACTIONS



Acquired by



On January 31, 2020, PTB Group (ASX:PTB), announced the acquisition of Texas-based Prime Turbines .

The company is a provider of aircraft engine maintenance and overhaul service, conducting aviation and aerospace tests to analyze flight performance, aiding aerospace and defense operators to control maintenance costs. The acquisition enables PTB to expand its service offerings through Prime Turbines' MRO expertise.

Total purchase consideration equated \$21MM.¹

On December 24, 2019, Bodycote Plc (BOY.L), a heat treating and thermal processing service provider, announced the acquisition of Ellison Surface Technologies.

The company is a provider of thermal spray and engineered coating surface technology services to the aerospace industry, specializing in high-velocity oxy-fuel coatings. The acquisition will compliment Bodycote's existing surface technology and aerospace business.

Total purchase consideration equated \$200MM.¹



Acquired by



Acquired by



On December 19, 2019, an affiliate of Greenbriar Equity Group L.P. announced the acquisition of Arotech Corporation (NasdaqGM: ARTX).

Arotech Corp. is a defense and security products services company, manufacturing and marketing an array of trainers and simulators for equipment as well as providing advanced battery solutions, energy management and power distribution technologies. The company is engaged in the aerospace, defense, law enforcement and homeland security markets, servicing military, law enforcement, and commercial customers.

Total purchase consideration equated \$80MM.²

1. PitchBook. Transaction Press Released, dated January 31, 2020. <https://smallcaps.com.au/ptb-group-expands-us-aviation-presence-prime-turbines-acquisition/>
2. PitchBook. Transaction Press Released, dated December 24, 2019. <https://markets.businessinsider.com/news/stocks/bodycote-to-buy-ellison-surface-technologies-in-200-mln-deal-quick-facts-1028783448>
3. PitchBook. Transaction Press Release, dated December 19, 2019. <https://www.globenewswire.com/news-release/2019/12/19/1962826/0/en/Greenbriar-Equity-Group-Completes-Acquisition-of-Arotech-Corporation.html>

ROMANCHUK & CO.

FIRM CAPABILITIES



Romanchuk & Co. is a boutique investment banking firm providing mergers and acquisitions (M&A) and financial advisory services to lower middle-market leaders within the diversified industrials sectors. We advise owners and investors of privately-held businesses, private equity firms and corporations on the preparation and sale of their company, assist them in identifying strategic

opportunities, and help them execute upon those strategies. Our team of licensed investment bankers specializes in providing sell-side M&A advisory services to lower middle-market companies with enterprise values ranging from \$15 million to \$250 million. For more information, please visit our website at www.romanchukco.com.

RECENT EXPERIENCE

Our most recently closed deals showcase our firm's unique ability to execute transactions across the diversified industrials sectors, while maximizing value for our clients in the lower middle-market. Drawing on our collective industry experience and strengths, Romanchuk & Co. is focused on providing creative, impactful M&A strategies to our clients across the diversified industrials sector.



INDUSTRY RECOGNITION



Romanchuk & Co. was selected as the Boutique Investment Banking Firm of the Year for 2018. Over 230 nominees, representing over 600 companies, became finalists for the awards. An independent judging committee of 29 top M&A industry experts determined the ultimate recipients of the awards.

In addition, Romanchuk & Co. was named a finalist in the following categories: Energy Deal of the Year, Industrials Deal of the Year (\$10MM-\$50MM), M&A Deal of the Year (\$10MM-\$25MM), and M&A Deal of the Year (\$50MM-\$75MM).

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