

AEROSPACE & DEFENSE

SUMMARY REPORT

2019 - 2nd QUARTER



AEROSPACE & DEFENSE MARKET OVERVIEW

- The aviation industry experienced another year of unparalleled growth due in large to moderate fuel prices, increased consumer buying power, rising equity markets, deflated interest rates and industry consolidation.
- When analyzing demand over the next decade, air travel is foreseen to be equally robust and this is expected to create record growth in the global fleet, with total fleet projected to reach 39,175 in 2029, up from 27,492 in 2019.
- Several factors, including heightened global geopolitical risk, increases in the US defense budget and higher defense spending will drive the global defense sector in coming years.
- M&A has fallen in line with strong financial performance as last year’s M&A activity in the industry was the third highest deal value in history, recording over 400 M&A transactions with an average deal size of \$350.6 million – 73% higher than the 10-year average. Deal value declined by 73% to \$4 billion in Q1 2019 compared to Q1 2018, as value was heavily impacted by the General Dynamics/CSRA transaction in the comparative 2018 period.
- Despite a slower Q1 2019 start, strong fundamentals such as increase in both passenger travel demand, favorable fuel prices and military expenditures will likely lead to another strong M&A landscape in 2019.
- The sector witnessed eight deals above \$1 billion in 2018, including the acquisition of CSRA Inc. by General Dynamics for \$9.7 billion, and the merger deal between Harris Corp. and L3 Technologies, Inc. creating L3Harris valued at approximately \$35.0 billion. Strategic investors continued to lead throughout 2018, accounting for an 89% share of value and 71% share of volume.

Oliver Wyman, PwC, Deloitte, RCO Research.

A&D Recent Significant Deals

TEV/EBITDA Multiples

Deal Date	Target	Acquirer	Deal Value (\$MM)
7/2/2019	L3 Technologies	Harris Corp.	22,800
3/14/2019	Esterline Technologies	TransDigm Group	4,000
10/9/2018	KLX Aerospace	Boeing Co.	4,250
7/5/2018*	Embraer Sa-Commercial Aviation Business	Boeing Co.	4,200
4/3/2018	CSRA, Inc.	General Dynamics	9,700

TEV (\$MM)	Aerospace Product & Parts Manufacturing Multiples
10-25	5.7
25-50	6.1
50-250	7.0
Average	6.0

* Note: Transaction announced date – deal is still pending.

PitchBook, RCO Research.

GF Data® (2012 through May 2019).



FEATURED SEGMENT: AIRCRAFT MRO

Companies in the maintenance, repair and overhaul (MRO) segment provide aircraft support services to operators, including, inspections and testing, ferrying aircraft between departure gates and taxiways, maintenance and repair and parts overhauling.

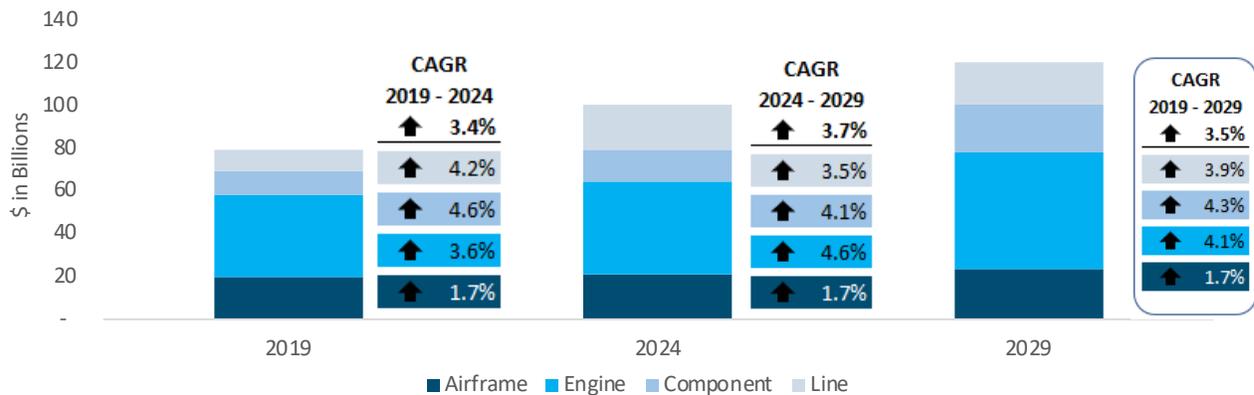
Driven by growth in the industry and the changing composition of fleet (new-generation aircraft, with more fuel-efficient engines and sophisticated technology, expected to begin to represent a larger share of in-service aircraft), the MRO market is estimated to grow to \$116 billion by 2029, up from \$81.9 billion in 2019. The move to replace older-generation aircraft will slow MRO spend in the first half of the next 10 years. Between 2019 and 2024, the MRO market is expected to grow at a CAGR of 3.4 percent, increasing MRO spend to \$96.9 billion.

In the next five years, the market will accelerate slightly, at an average of 3.7 percent annually, as the newer generation aircrafts reach the stage of life-limited parts needing replacement and other scheduled maintenance events rise. The North American MRO industry will stagnate as its growth comes from stealing share or attracting business from other regions.

Like the A&D industry, MRO M&A should remain strong through 2019, with plenty of potential targets and dry powder to put to work. While strategics continue to dominate in deal value, private equity interests are fueled by their usual investment thesis related to after-market revenue generating companies with low capex profiles and an ability to serve a diverse customer base.

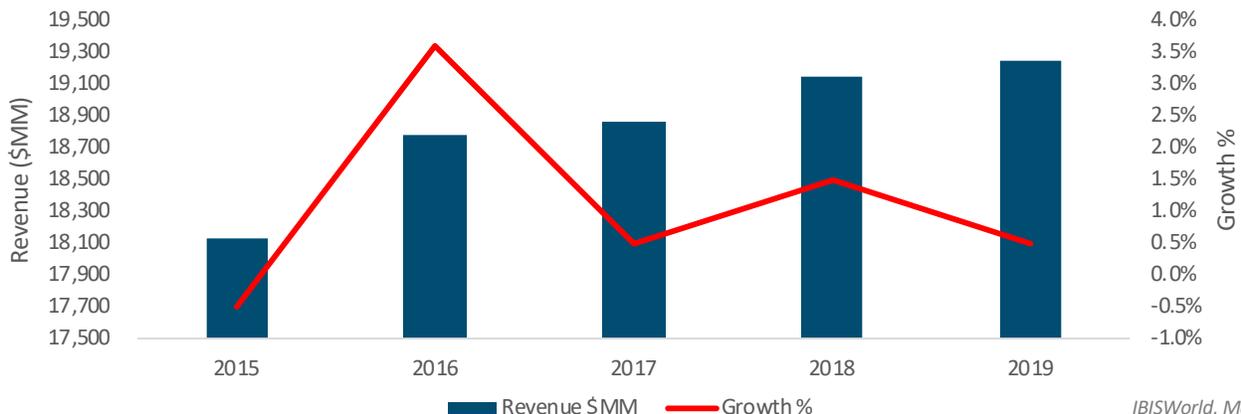
IBISWorld.

MRO Spend Growth – 2019-2029



Oliver Wyman

Industry Revenue – MRO, US Only



IBISWorld, May 2019

FEATURED AEROSPACE & DEFENSE M&A TRANSACTIONS



Acquired by



LEVINE LEICHTMAN
CAPITAL PARTNERS

On January 28, 2019, Levine Leichtman Capital Partners, a Los Angeles-based private equity firm, announced the acquisition of SK AeroSafety Group from SK FireSafety. The company manufactures aerospace systems and components and specializes in the inspection, testing and repair services of passenger safety equipment on commercial and private aircrafts.

Financial terms of the transaction were not disclosed.¹

On July 16, 2018, private equity firm Acorn Growth Companies announced the acquisition of Texas-based Berry Aviation, Inc. The company is a leader in private aviation, with services including aircraft maintenance, parts installation, safe aviation and aviation charter services to governments, companies and individuals.

Financial terms of the transaction were not disclosed.²



Acquired by



Acquired by



On July 30, 2018, GenNx360 Capital Partners, a New York-based private equity firm, announced the acquisition of Precision Aviation Group, Inc., a provider of aircraft parts and maintenance, repair and overhaul (MRO) services. The company provides its services for avionics, instruments, electronics and electrical accessories used in helicopters and aircraft internationally.

Financial terms of the transaction were not disclosed.³

1. PitchBook. Transaction Press Released, dated January 28, 2019. <https://www.globenewswire.com/news-release/2019/01/28/1706217/0/en/Levine-Leichtman-Capital-Partners-and-Management-Acquire-SK-AeroSafety.html>
2. PitchBook. Transaction Press Release, dated July 16, 2018. <https://www.businesswire.com/news/home/20180716005423/en/Acorn-Growth-Companies-Acquires-Berry-Aviation>
3. PitchBook. Transaction Press Released, dated July 30, 2018. <https://www.prnewswire.com/news-releases/gennx360-capital-partners-announces-acquisition-of-precision-aviation-group-inc-300688368.html>

ROMANCHUK & CO. FIRM CAPABILITIES



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

in identifying strategic opportunities, and help them execute upon those strategies. We specialize in providing sell-side M&A advisory services to lower middle-market companies with revenues or enterprise values ranging from \$15 million to \$250 million. For more information, please visit www.romanchukco.com.

Recent Experience

Our most recently closed deals showcase our firm's unique ability to execute transactions across diversified sectors, while adding substantial value for our clients in the lower middle-market.



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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