

AVIATION · AEROSPACE · DEFENSE

THIRD QUARTER

2014

This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Aerospace M&A

M&A activity in the North American Aerospace and Defense sector for Q2 2014 included 29 closed deals according to data provided by *S&P Capital IQ*. Total deal value soared to \$443 million, while average deal value reached \$44 million. High deal value is largely attributed to several mega deals, the largest being The SI Organization's \$215 million acquisition of QinetiQ North America. Three additional deals, valued at more than \$60 million added to the high deal value of the quarter.

Aerospace M&A remains robust with volume expected to match the record high set in 2013. However, deal making on the defense side has not been as strong.

Transactional Overview

June 2014 - Air Industries Group (AMEX:AIRI) acquired Eur-Pac Corp. from Richard Rand and Peter Rand for \$1.8 million in cash. Eur-Pac Corporation develops ordnance parts and kits, hose assemblies, and hydraulic, mechanical, and electrical assemblies to the Defense Department in the United States. The company was founded in 1947 and is based in Waterbury, Connecticut.

May 2014 - Triumph Aerospace Systems Group LLC entered into an agreement to acquire hydraulic actuation business from GE Aviation for \$70 million. GE Aviation, Hydraulic Actuation Business comprises three facilities located in Yakima, Washington; Cheltenham, United Kingdom. Triumph Aerospace Systems offers complete landing gear actuation systems, door actuation, nose-wheel steering, hydraulic fuses, manifolds, flight control actuation and locking mechanisms for the commercial, military, and business jet markets.

April 2014 - XTRA Aerospace, Inc. was acquired by Wencor Group. Terms were not disclosed. XTRA is a provider of maintenance, repair and overhaul of Electronic Accessory, Radio, Instrument, Hydraulic, Electromechanical, and Galley components for commercial aircraft. XTRA further augments Wencor Group's electrical repair capabilities as it specializes in electrical components throughout the cockpit and interior of commercial aircraft. This strategic combination will enable XTRA to leverage Wencor Group's PMA and DER capabilities in order to bring additional savings to its broad base of airline and MRO customers. Corporate Finance Associates was exclusive advisor to XTRA.



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Selected Q2 Closed Transactions

Target/Issuer	Buyers/Investors
Zeta Associates Incorporated	Lockheed Martin Corporation (NYSE:LMT)
Atlantic Aero, Inc.	Landmark Aviation, L.L.C.
PATS Aircraft, LLC	Moelis Capital Partners LLC
GE Aviation, Hydraulic Actuation Bus.	Triumph Aerospace Systems Group
Wencor Group, LLC	Warburg Pincus LLC
Titan Aerospace Holdings, Inc.	Google Inc. (NasdaqGS:GOOGL)
SPX Precision Components, LLC	RFE Investment Partners
XTRA Aerospace Inc.	Wencor Group, LLC

Industry Dynamics

Globally, the commercial aerospace sector is expected to sustain significant revenue and earnings growth in 2014. There is an additional expectation for robust production levels both at the platform and supplier base, driven primarily by the accelerated replacement cycle of obsolete aircraft with next generation fuel-efficient aircraft as well as the continued increases in passenger travel demand in the Middle East and Asia Pacific regions.

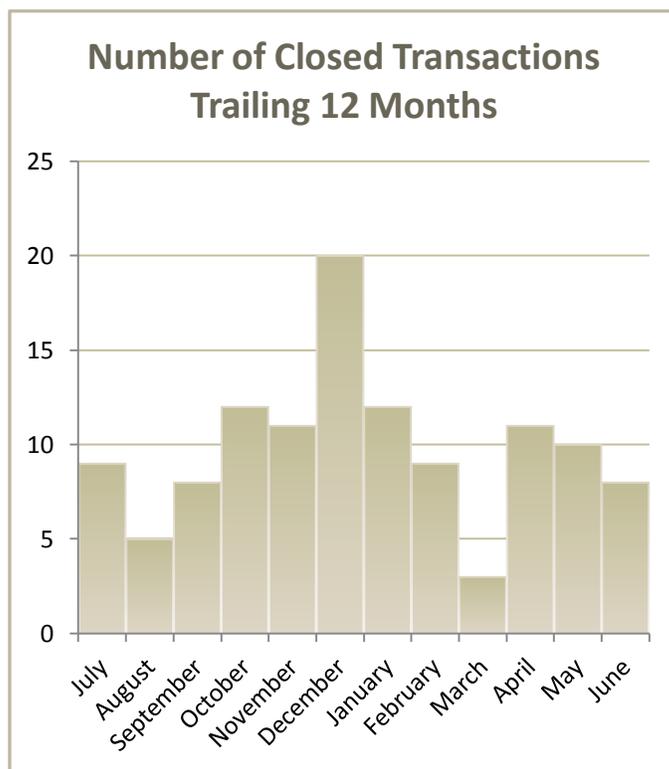
On the other hand, the global defense sector has seen declines in revenue and earnings. The prolonged period of armed conflict in Iraq and Afghanistan has led to lower budgets for traditional purchases of military equipment. However with tension rising in the Middle East, there is an expected increase in defense spending.

Key trends in the aerospace and defense industry:

- The majority of deals in 2014 have been acquisitions of subsidiaries of strategics or portfolio companies of private investment firms rather than standalone strategics. This trend is due to some strategic acquirers' preference to pursue divestitures of non-core businesses from companies in the Aerospace and Defense and broader industrial sectors. In addition, private equity firms continue to exit from Aerospace and Defense portfolio investments made prior to the financial crisis.
- Cross-border deals are on pace for their strongest year since 2007, driven in part by an increase in transatlantic deals for aerospace and defense targets. Although national industrial policies can hinder some cross-border deals, policymakers often are more open to transactions involving acquirers of the nations in these regions.

Broad Industry Indicators:

- US durable goods manufacturers' shipments of nondefense aircraft and parts, an indicator of demand for aerospace products and parts, rose 9.2 percent year-to-date in July 2014 compared to the same period in 2013.
- US durable goods manufacturers' shipments of military aircraft and parts, an indicator of demand for aerospace products and parts for military use, fell 1.9 percent year-to-date in July 2014 compared to the same period in 2013.
- US steel mill product prices, an indicator of commodity steel costs for aerospace products, rose 4.3 percent in August 2014 compared to the same month in 2013.



The Aviation, Aerospace and Defense Industry Practice Group is a multi-disciplinary group of investment banking advisors within Corporate Finance Associates. Collectively, the Aviation, Aerospace and Defense Practice Group provides M&A advice to public and private companies in all sectors of the aviation, aerospace and defense industries, including charter and management, fabricated components and parts, fuel distribution, airport services, homeland security and military defense systems. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.