

MERGERS AND ACQUISITIONS

**2019'S MOST INTERESTING
TRANSACTIONS IN AEROSPACE,
DEFENSE, & GOVERNMENT SERVICES**

FEBRUARY 2020



DRIVING VALUE CREATION THROUGH STRATEGY & DILIGENCE



Fairmont's mission is to **help our clients measure value, mitigate risk, and drive value creation** — helping clients understand and respond to changing market conditions in order to achieve sustainable, profitable growth.



We provide **strategy & operational consulting and transaction diligence** to clients in the **aerospace, defense and government services markets**.



We bring **domain focus, business expertise, and proven experience** to bear on behalf of our clients.



We offer **flexible, value-driven service models** that help clients drive results while maintaining budget discipline.

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REFLECTIONS ON 2019 M&A IN ADG

“During 2019 Fairmont supported clients across a wide range of transactions, including many discussed in this report. That exposure gives us a perspective on M&A in aerospace, defense, and government services which we hope you will find interesting and useful as you contemplate the year ahead.

We saw a host of major mergers reshape the ADG ecosystem in 2019, perhaps none more notable than Raytheon and United Technologies. The merger was cited by the companies as generating value through by creating “a premier systems provider with advanced technologies to address rapidly growing segments of aerospace and defense.” Not everyone agreed (Third Point and Pershing Square) but the merger is expected to close in the first half of this year, and business divestments from the combined company have already begun. Woodward/Hexcel provides a second, albeit smaller example of businesses with limited overlap joining forces.

In addition, we saw the combinations of L-3 and Harris, and also SAIC and Engility. The former brings together two leading providers of defense electronic systems in a manner that should bring long-term benefits in terms of both manufacturing and R&D productivity — increasingly critical as DoD seeks to confront more sophisticated peer threats. And the combination of SAIC and Engility brings together complementary capabilities, contracts, and customer exposure in the defense and intelligence services sector in a manner that should drive long-term value for both customers and investors.

In the private equity world, we saw the largest PE defense deal in history take place with the acquisition of Cobham plc by Advent International. Fairmont was pleased to support Advent in this transaction, and we anticipate meaningful value creation to emerge through Advent's ownership as the business is provided with the support it needs to pursue a long-term, customer-centric strategy across its served markets in defense and aerospace.

While major deals certainly stole the headlines, there continued to be a wide range of transactions in the lower and middle markets across every domain — defense, aerospace and government services. Fairmont was pleased to support our clients in sixty-six separate transactions in 2019, from a \$10M tuck-in to a \$5B take-private, and we look forward to providing further assistance to our clients old and new in the year ahead.”

JAY WYNN
MANAGING DIRECTOR

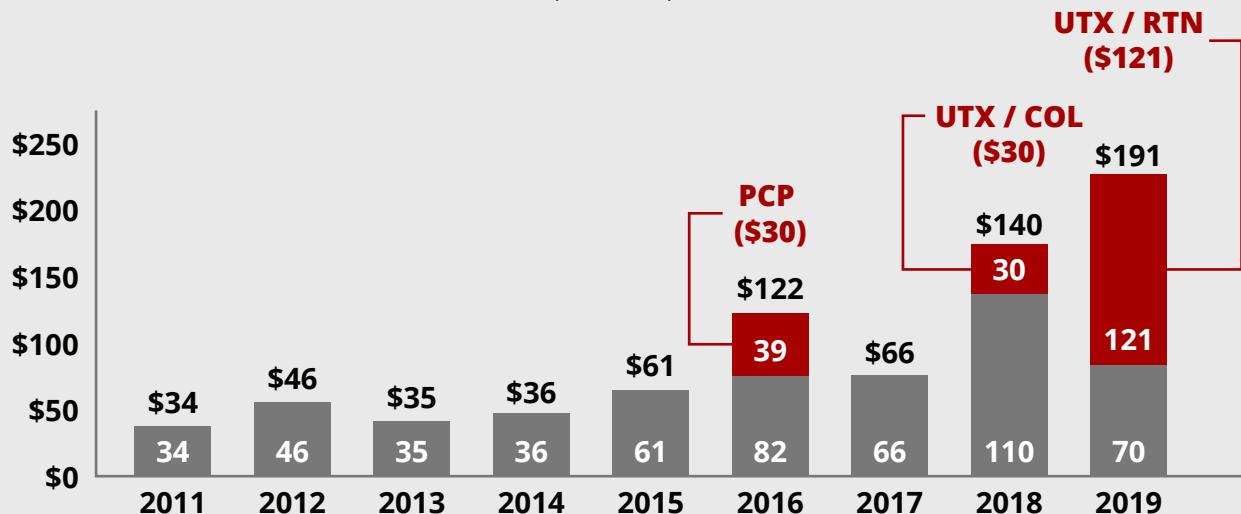


A LOOK AT THE NUMBERS

ADG deal value surged in 2019 to \$191B, driven by the UTC & Raytheon merger priced at \$121B. Total annual deal value of deals under \$10B remains elevated over historical levels, in the \$50-70M range since 2015.

GLOBAL A&D M&A 2011-2019

(In Billions)



LOOKING AHEAD TO 2020

What events are currently on our radar that could significantly impact the A&D Merger & Acquisition environment in 2020?

POTENTIAL HEADWINDS:

- Boeing MAX re-entry into service
- Political uncertainty – Presidential election
- Sustained high valuations
- Consolidation reducing number of sizeable targets for both strategic & large PE buyers

TAILWINDS:

- Founder-owned businesses seeking exit
- Carve-outs from major mergers
- Abundance of corporate and PE capital
- Relative security of defense vs other sectors

WHAT DOES FAIRMONT DO?



TRANSACTIONS

We provide critical market & competitive diligence in support of the acquisition and sale of businesses; detailed, objective independent financial forecasts and critical transaction support.



STRATEGY

We help clients understand evolving markets and changing competitive environments in order to decide where and how to invest time and capital in support of profitable long-term growth.

WHO RELIES ON FAIRMONT AND WHY?



CLIENTS

- Aerospace, defense and government services primes
- Tier 2 and Tier 3 suppliers & small / midmarket svc firms
- Global private equity investors and hedge funds
- PE portfolio companies



EXPERIENCE

- Advisors to CEOs, boards, and leading investors in ADG
- 100+ strategy engagements
- 100+ transactions worth \$10B+ in total enterprise value
- 100+ collective person-years of A&D experience



CAPABILITIES

- Deep domain knowledge across ADG and all subsectors
- Technology-enabled, data-driven analytical techniques
- Global network of SME's in operations, finance, technology, government

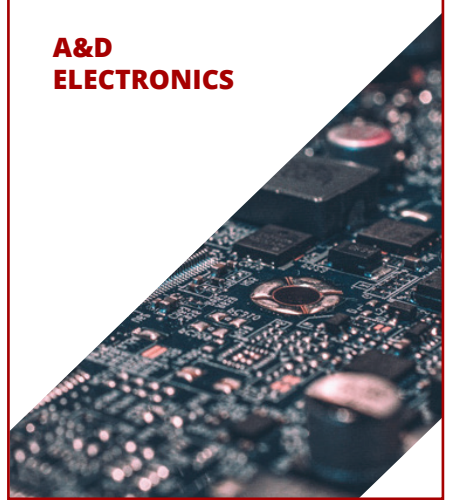
**BIG
MOVES**



**COMMERCIAL
AERO**



**A&D
ELECTRONICS**



MANUFACTURING



**SUPPLY
CHAIN**



SERVICES



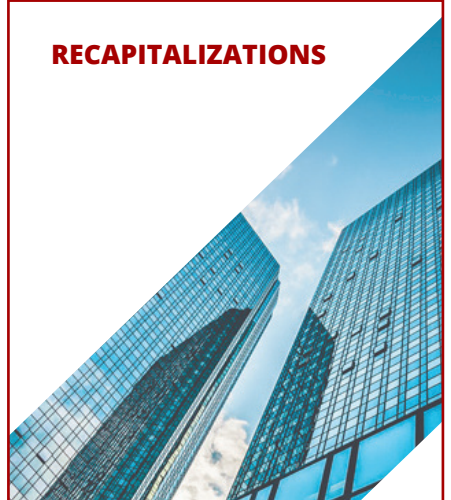
**MARKET
EXPANSION**



**FOREIGN
BUYERS**



RECAPITALIZATIONS



BIG MOVES



MERGED WITH
Raytheon

Closing Date: H1 2020 **Revenue:** \$74B
Price: \$121B **TEV/EBITDA:** 9x

The merger of UTC Aerospace and Raytheon creates the largest “platform agnostic” A&D player in the world. Scale promises a number of benefits including pricing defense from OEM primes, >\$1B in cost synergies, and technology opportunities. With limited direct overlap, few major carve offs are anticipated. This merger portends a consolidation of tier 1 suppliers.

**THE LARGEST ‘PLATFORM AGNOSTIC’
A&D SUPPLIER IN THE WORLD**



MERGED WITH
L3
Technologies

Closing Date: 7/1/19 **Revenue:** \$19B
Price: \$58B **TEV/EBITDA:** 24x

In another major merger of “platform agnostic” providers, the L3 Technologies and Harris combination creates a sixth prime government contractor. The union combines two innovators in networking and surveillance capabilities, Consistent with the Raytheon / UTC merger, L3 Harris also promises significant cost savings that will, in part, flow to the US government.

**COMPLEMENTARY DEFENSE SUPPLIERS
JOIN WITH TECH AND COST BENEFITS**



ACQUIRED BY
SAIC

Closing Date: 1/14/19 **Revenue:** \$1.9B
Price: \$2.2B **TEV/EBITDA:** 11.2x

The acquisition of Engility made SAIC the second-largest US government services contractor by revenue behind Leidos. Engility provided SAIC with new space platform exposure along with attractive intelligence agency positions, increasing its intelligence portfolio to more than \$1B. The acquisition is also a continuation of consolidation in the

**CONSOLIDATION CONTINUES IN THE
GOV. SERVICES SECTOR; SAIC NOW 2ND
LARGEST**

COMMERCIAL AERO



Closing Date: Q2 2019 **Revenue:** ~\$3.0B
Price: \$5.0B **TEV/EBITDA:** N/A

Veritas Capital Fund Management sold StandardAero (\$5.0B price), a global provider of overhaul and other engine maintenance services to The Carlyle Group. StandardAero was previously owned by Carlyle, who sold the business in 2007 to Dubai Aerospace. StandardAero has grown through a series of acquisitions including Jet Aviation Specialists LLC, PAS International Holdings Inc, and Vector Aerospace Corp.

STANDARDAERO IS RETURNING TO CARLYLE OWNERSHIP HAVING EXPERIENCED SIGNIFICANT RECENT GROWTH



Closing Date: Q2 2020 (Est.) **Revenue:** \$1.0B
Price: \$1.1B **TEV/EBIT:** 6.5x

Bombardier divested its Aerostructures and Aftermarket Service Business to Spirit AeroSystems. This acquisition from Bombardier includes three primary facilities: Belfast, Casablanca, and Dallas. Bombardier's Aerostructures business has significant Airbus A220 content, which aligns with Spirit AeroSystem's growth strategy of expanding their Airbus content, leadership in composite technology, and developing a low-cost country footprint.

SPIRIT AEROSYSTEMS EXPANDS ITS AIRBUS CONTENT THROUGH ITS ACQUISITION OF BOMBARDIER AEROSTRUCTURES



Closing Date: Q2 2019 **Revenue:** N/A
Price: N/A **TEV/EBITDA:** N/A

Boeing entered an agreement to purchase privately-held EnCore Group (Lift division), an aerospace interiors company that produces airplane galleys and seats for airlines. Integrating Boeing's cabin vertical is an effort to increase competition in the seating market and as well as potentially further access the aftermarket given seat replacement at overhaul. Previously, Boeing has partnered with EnCore on the launch of its Tourist Class Seating.

BOEING CONTINUES BROADER EFFORTS AT INSOURCING, WITH FOCUS ON AREAS OF SUPPLY CHAIN CONSTRAINT



Closing Date: Q1 2020 **Revenue:** N/A
Price: N/A **TEV/EBIT:** N/A

KKR & Co., Inc. acquired Novaria Holdings, LLC from Rosewood Private Investments and Tailwind Advisors. Novaria Group is an independent supplier of complex, highly engineered components, specialty fasteners, and specialty processes for the aerospace and defense industry. This acquisition comes in an effort for KKR to expand its industrials portfolio into the commercial aerospace market by partnering with a differentiated platform.

NOVARIA'S COMPLEX ENGINE PARTS AND UNIQUE CONTRACT POSITIONS MAKE IT AN ATTRACTIVE ASSET

A&D ELECTRONICS



ACQUIRED BY



Closing Date: March 2019 **Revenue:** \$375M
Price: \$182M **TEV/EBITDA:** 9.1x

Cerberus' offer represented a ~41% premium over Sparton's closing price; however, the offer was \$53M less than Ultra Electronics' bid made in March 2018. Because of a joint venture between Sparton and Ultra, the U.S. Navy expressed disinterest and the Ultra merger was terminated. In addition to the sonobuoys that attracted Ultra, Sparton manufactures electromechanical devices used in the Military & Aerospace, Medical & Biotech, and Industrial & Commercial markets.

AFTER ULTRA'S ACQUISITION FELL THROUGH, CERBERUS TOOK THE MANUFACTURING SVCS. COMPANY PRIVATE



ACQUIRED BY



Closing Date: January 2020 **Revenue:** \$2.5B
Price: \$4.99B **TEV/EBIT:** 14.9x

Cobham, a UK-based defense contractor, designs and manufacturers specialized systems and components for the aerospace, defense, homeland security, and communications markets. Advent pledged to maintain UK employee numbers for five years but exiting the London Stock Exchange will allow the company to remove foreign ownership hurdles. Cobham has positions on key DoD platforms, such as KC-46 refueling tanker, AN/SLQ-32 EW system, AN/SPY-6 radar, and others.

ADVENT ALLOWS A UK-BASED CONTRACTOR, FOCUSED ON U.S. PROGRAMS, TO EFFECTIVELY BECOME A "U.S. PERSON"



ACQUIRED BY



Closing Date: May 2019 **Revenue:** N/A
Price: N/A **TEV/EBITDA:** N/A

AEA acquired API Technologies, a portfolio company of J.F. Lehman & Co. API is a designer and manufacturer of high-performance components and subsystems for RF/microwave and electromagnetic spectrum applications. The company is headquartered in Massachusetts with additional facilities in DE, MD, PA, MI, FL, NJ, and int'l locations. The products are used in the military, industrial, medical, & space markets.

API'S PRODUCT OFFERING WILL BENEFIT FROM INCREASED ELECTRICAL CONTENT ON LEGACY AND NEW DEFENSE PROGRAMS



ACQUIRED BY



Closing Date: March 2019 **Revenue:** N/A
Price: \$66M **TEV/EBIT:** 10.5x

Nuvotronics designs, develops, and fabricates custom networks of circuits and passive components for complex microwave systems. The company's disruptive, patented PolyStrata technology was developed under DARPA and uniquely packages antennas, filters, and combiners — all of which are components in Cubic's product offerings. Nuvotronics was founded in 2008 and is based in Durham, NC.

THIS ACQUISITION OF A PATENT-PROTECTED TECHNOLOGY SHOULD BENEFIT CUBIC'S ENTIRE PRODUCT LINE

A&D ELECTRONICS

HERMETIC SOLUTIONS GROUP
Enabling Technology

ACQUIRED BY



Closing Date: February 2019 **Revenue:** N/A
Price: N/A **TEV/EBITDA:** N/A

Hermetic Solutions Group offers hermetic solutions — those with a seal that is gas tight or impervious to gas flow — for interconnect products, connectors, packaging, and other components. The company was created after ShoreView Industries' acquisitions of Pacific Aerospace & Engineering, Litron Inc., Hi-Rel Group, and Sinclair Manufacturing. The company now has ~600 employees across eight facilities.

HERMETIC SOLUTIONS GROUP IS THE RESULT OF FOUR ACQUISITIONS, WITH MIL-STD MANUFACTURING CAPABILITIES

MANUFACTURING



ACQUIRED BY



Closing Date: Q3 2019

Price: N/A

Revenue: N/A

TEV/EBITDA: N/A

MPE Partners divested the OEM Manufacturing division of B&E Group, a Massachusetts-based manufacturer of critical engine components, to Arlington's Cadence Aerospace. Located just miles from Cadence's Tell Tool Center of Excellence, B&E deepens Cadence positions on next generation engines. The addition of hard metal gas path component machining (alongside heat treat and brazing) affords the company a welcome capability expansion from airframe-heavy core.

CADENCE LOOKS TO WIDEN NEXT-GENERATION ENGINE PORTFOLIO, ENTRENCH WITH EAST COAST ENGINE OEMS



ACQUIRED BY



Closing Date: Q1 2019

Price: \$4.0B

Revenue: \$2.0B

TEV/EBITDA: 13.9x

TransDigm's largest acquisition yet secured its position as the largest independent integrated aerospace provider. The deal certainly has the hallmarks of a classic TransDigm acquisition — high sole source content and aftermarket exposure — but the size is what sets it apart in the company's acquisitive history. TransDigm has divested non-core Esterline business lines, but now drives over \$5.5B in sales from the combined diversified components business.

TRANSDIGM MAKES BIGGEST PLAY YET FOR ESTERLINE'S AFTERMARKET AND SOLE-SOURCE HEAVY PORTFOLIO

SUPPLY CHAIN



ACQUIRED BY



Closing Date: Q3 2019

Price: N/A

Revenue: N/A

TEV/EBITDA: N/A

ATL Partners and British Columbia Investment (BCI) acquired surface finishing specialist Valence Surface Technologies, a critical processing partner to structure OEMs across Aerospace, Defense, and Space. Comprised of eight facilities closely-aligned with their regional OEM customers, Valence is the largest independent provider in North America. ATL & BCI are likely to pursue this acquisitive strategy further and target whitespace in capability (engines) and geography (Europe).

VALENCE PRIMED AS PLATFORM FOR ADJACENT CAPABILITY AND MARKET EXPANSION



ACQUIRED BY



Closing Date: Q4 2019

Price: N/A

Revenue: N/A

TEV/EBIT: N/A

PPG acquired thermoplastic specialist Texstars from American Industrial Partners, solidifying an already-strong PPG foothold in military aircraft transparencies and canopies. PPG will seek to capitalize on Texstar's large installed base of products across the DoD fighter aircraft portfolio — namely the F/A-18 and F-16. PPG will continue to compete with GKN on next generation platforms such as F-35, though from a stronger competitive position.

PPG MAKES A DOD-FOCUSED AFTERMARKET PLAY, ACQUIRES IMPORTANT NORTH AMERICAN COMPETITOR

SERVICES

Dynetics

ACQUIRED BY

leidos

Closing Date: January 2020 **Revenue:** \$1.0B
Price: \$1.65B **TEV/EBITDA:** 15.0x

Leadership felt this acquisition would accelerate opportunities within the Innovation Center, the company's engine that develops new solutions to address the most challenging requirements. Dynetics provides engineering, scientific, & IT solutions across Avionics, Hypersonic & Space Solutions, Intelligence & Electronic Warfare, and Weapons Technology segments. Dynetics will operate as a wholly-owned subsidiary.

RECENT HYPERSONIC CONTRACT AWARDS ALLOW LEIDOS TO IMMEDIATELY ENTER A FAST GROWING MUNITIONS SEGMENT

AECOM

ACQUIRED BY

AMERICAN SECURITIES & LIG
LINDSAY GOLDBERG

Closing Date: February 2020 **Revenue:** \$3.7B
Price: \$2.40B **TEV/Oper.Inc:** 10.1x

Affiliates of American Securities and Lindsay Goldberg entered into a definitive agreement to acquire the Management Services business of AECOM. The segment provides program and facilities management, environmental management, training, logistics, systems engineering, and other services to DoD, Department of Energy, and other allied governments. The company was rebranded as Amentum in February.

AECOM EXPLORED A SPIN-OFF TO REDUCE DEBT AND BUY BACK SHARES BEFORE ACCEPTING THIS OFFER

GARDAWORLD

ACQUIRED BY

BC PARTNERS

Closing Date: October 2019 **Revenue:** \$2.3B
Price: \$3.96B **TEV/EBITDA:** 13.6x

BC Partners acquired a majority stake in a Canadian security services company, with the CEO and other members of the management team retaining a minority equity position. In the defense and foreign relations sectors, Garda provides security services to support missions in complex, emerging, and post-conflict markets. Service areas include physical security, staffing services, and armored truck transport.

WHILE GARDA WAS BC PARTNERS' ENTRY INTO GOV'T SERVICES, THE COMPANY HAS BEEN OWNED BY THREE PE FIRMS

MARKET EXPANSION



ACQUIRED BY



LORD

Closing Date:

October 29th, 2019

Price: \$3.7B

Revenue: \$1.1B

TEV/EBITDA: 16.5x

EXOTIC METALS

Closing Date:

September 16th, 2019

Price: \$1.7B

Revenue: \$450M

TEV/EBITDA: 12.9x

Parker's acquisition of Lord and Exotic, both suppliers of complex and performance-driven aerospace technologies, exemplifies the value strategics are willing to place on tactical market expansion; complementary solutions in mission-critical areas will simultaneously bolster Parker's value proposition and competitive differentiation, ultimately resulting in a more robust market position for the company.

BROADENING A COMPLEMENTARY PORTFOLIO OF HIGHLY-SPECIALIZED SOLUTIONS AND TECHNICAL EXPERTISE



ACQUIRED BY



Closing Date: Q1 2019

Price: N/A

Revenue: \$180M

TEV/EBITDA: N/A

Henry Schein's acquisition of North American Rescue will support the large medical solution provider's expansion into life-saving tactical medical products and kits; a critically important market in today's global conflict environment. NAR will also strengthen Henry Schein's domestic positioning as a respected supplier to the law enforcement, EMS, and community preparedness segments.

EXPANDING HORIZONS FOR TWO GREAT NAMES IN HEALTHCARE PROVISIONING



ACQUIRED BY



Closing Date: Q4 2019

Price: \$77M

Revenue: N/A

TEV/EBITDA: N/A

Ducommun is expanding its global defense footprint via the acquisition of Nobles Worldwide, a provider of engineered ammunition delivery and handling systems for platforms in the air, sea, and land domains; a market supported by favorable DoD budget dynamics and international customer requirements. The acquisition will also drive recurring aftermarket revenue to support Nobles' existing and growing global installed base.

TARGETING A NEW GLOBAL MARKET AND ITS EXISTING GLOBAL INSTALLED BASE

FOREIGN BUYERS



Closing Date: Q2 2019 **Revenue:** N/A
Price: \$181M **TEV/EBITDA:** N/A

Kordsa, a major player in composite precursor materials, expands into high temperature composites with the acquisition of Axiom, a Sorenson Capital portfolio company. Notably, Axiom is the only non-captive qualified source of Ox-Ox CMCs pre-preg a technology most prominently utilized on the Passport 20 engine. The deal represents Kordsa's latest expansion into the US aerospace composites market, having previously acquired weavers TPI and FDI.

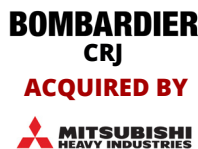
KORDSA CONTINUES ITS EXPANSION INTO THE US COMPOSITES MARKET



Closing Date: Q3 2019 **Revenue:** \$150M
Price: \$300M **TEV/EBIT:** N/A

Hanwha Aerospace, a Korean supplier of engine components, further expands their presence at Pratt and GE with the acquisition of EDAC, a Greenbriar Equity Group portfolio company. Hanwha is already a major engine component supplier, having secured LTAs worth \$4.5B with Pratt and Whitney. The EDAC acquisition is likely to further deepen their Pratt relationship given the footprint EDAC has in the Hartford area.

HANWHA GAINS A LOCAL FOOTPRINT TO PRATT AND THE ABILITY TO SERVE SELECT MILITARY ENGINES



Closing Date: Q2 2019 **Revenue:** N/A
Price: \$550M **TEV/EBITDA:** N/A

MHI acquired the CRJ program from Bombardier. This deal is notable as MHI has been heavily investing in their own regional aircraft, the SpaceJet (formerly known as the MRJ). While MHI is unlikely to manufacture the SpaceJet in North America, the CRJ's engineering team will likely be a key asset in helping certify the SpaceJet. Additionally, MHI acquired maintenance rights for the CRJ.

MHI ACQUIRED A LEGACY COMPETING AIRCRAFT PROGRAM



Closing Date: Q1 2019 **Revenue:** \$525M
Price: \$630M **TEV/EBIT:** 10x

MRAS represents ST Engineering's major market entry to the OEM nacelle value stream as ST has historically been a long-time major MRO service provider. ST has announced that they are planning on further capitalizing MRAS to help them win nacelle work at OEMs beyond GE/CFM as they are no longer captive. ST has also announced that they plan to vertically integrate MRAS with ST's shop and on-wing repair work.

ST ENGINEERING ENTERS THE OE NACELLE MANUFACTURING ENVIRONMENT WITH THE ACQUISITION OF MRAS

RECAPITALIZATIONS



RECAPITALIZED BY
OCEANSOUND
PARTNERS

Closing Date: Q4 2019
Price: N/A

Revenue: N/A
TEV/EBITDA: N/A

OceanSound recapitalized Smartronix with Trident Technologies, a company it had previously acquired in March, 2019. Both companies offer IT and cloud solutions to government customers. The intent of the deal, for which financial terms have not been disclosed, is to strengthen the companies' positions via their collective expertise, capabilities, and customer bases, and to streamline investments in organic and transaction-driven growth.

JOINING FORCES FOR COLLECTIVE GROWTH IN GOVERNMENT IT SOLUTIONS



RECAPITALIZED BY

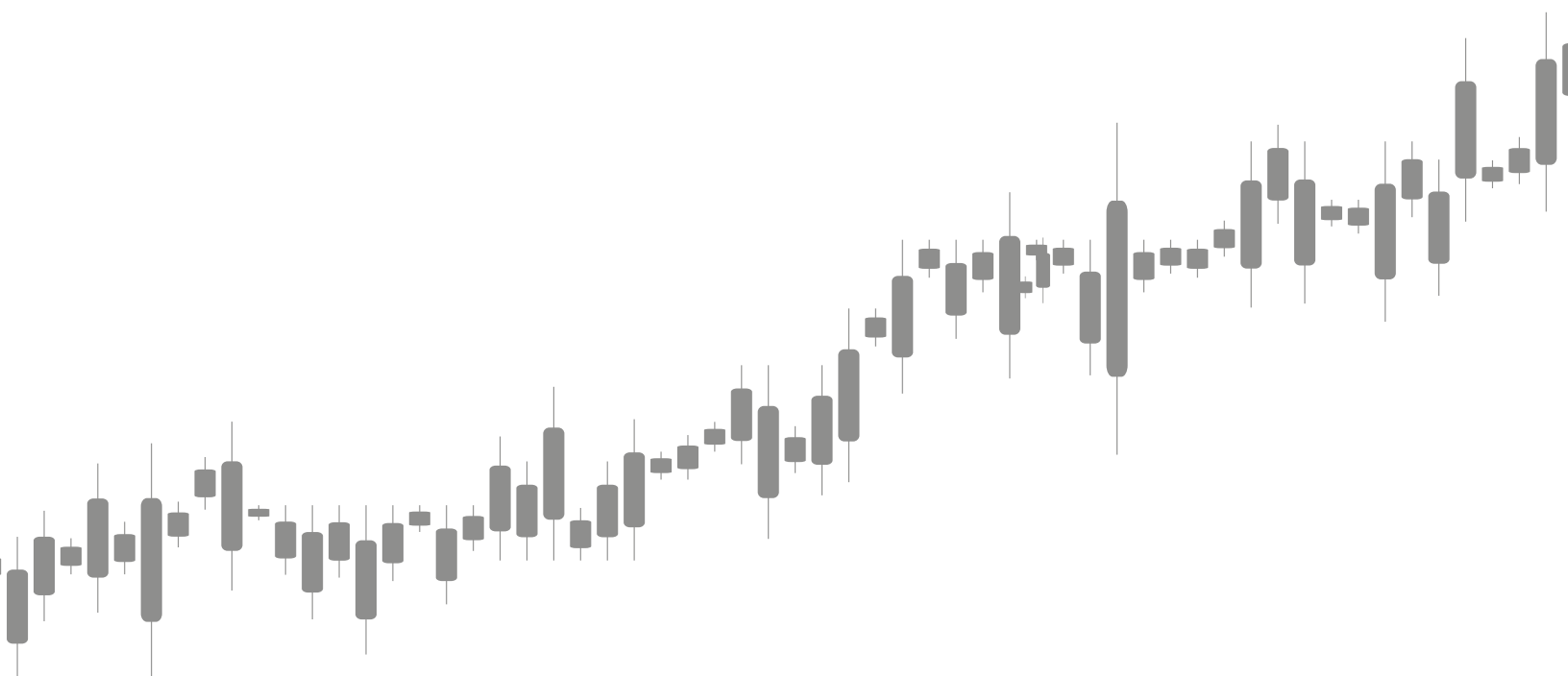
Berkshire Partners & WARBURG PINCUS

Closing Date: Pending
Price: N/A

Revenue: N/A
TEV/EBIT: N/A

The recapitalization of CPP by Berkshire Partners and Warburg Pincus will support the company's long-term growth strategy as a major A&D casting company. CPP's position as one of the world's largest casting manufacturers, coupled with strong underlying market dynamics, make it a solid target for private equity investment.

RECAPITALIZING A WELL-POSITIONED CASTING COMPANY TO FACILITATE INVESTMENT IN LONG-TERM GROWTH



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