

# Aerospace – Defense – Gov't Services

## *Lessons From Public Market Performance*

# FAIRMONT

## CONSULTING GROUP

Fall 2019

# Why Study Company Market Performance?

- ❑ By tracking the total returns to investors over both the short term (one year) and the longer term (three years), we can begin to discern which companies are best aligned with market trends, and executing operationally in ways that investors find compelling
- ❑ Every company is different, but some general observations can be made regarding the strategic choices that appear to underpin high performance
- ❑ More detailed information and additional views of the underlying dataset are available upon request: please contact

## **Jay Wynn**

*Co-Founder, Managing Director*

[JWynn@FairmontCG.com](mailto:JWynn@FairmontCG.com)

Office: (857) 310-5068

Mobile: (617) 922-3565

## **Ben Harper**

*Co-Founder, Partner*

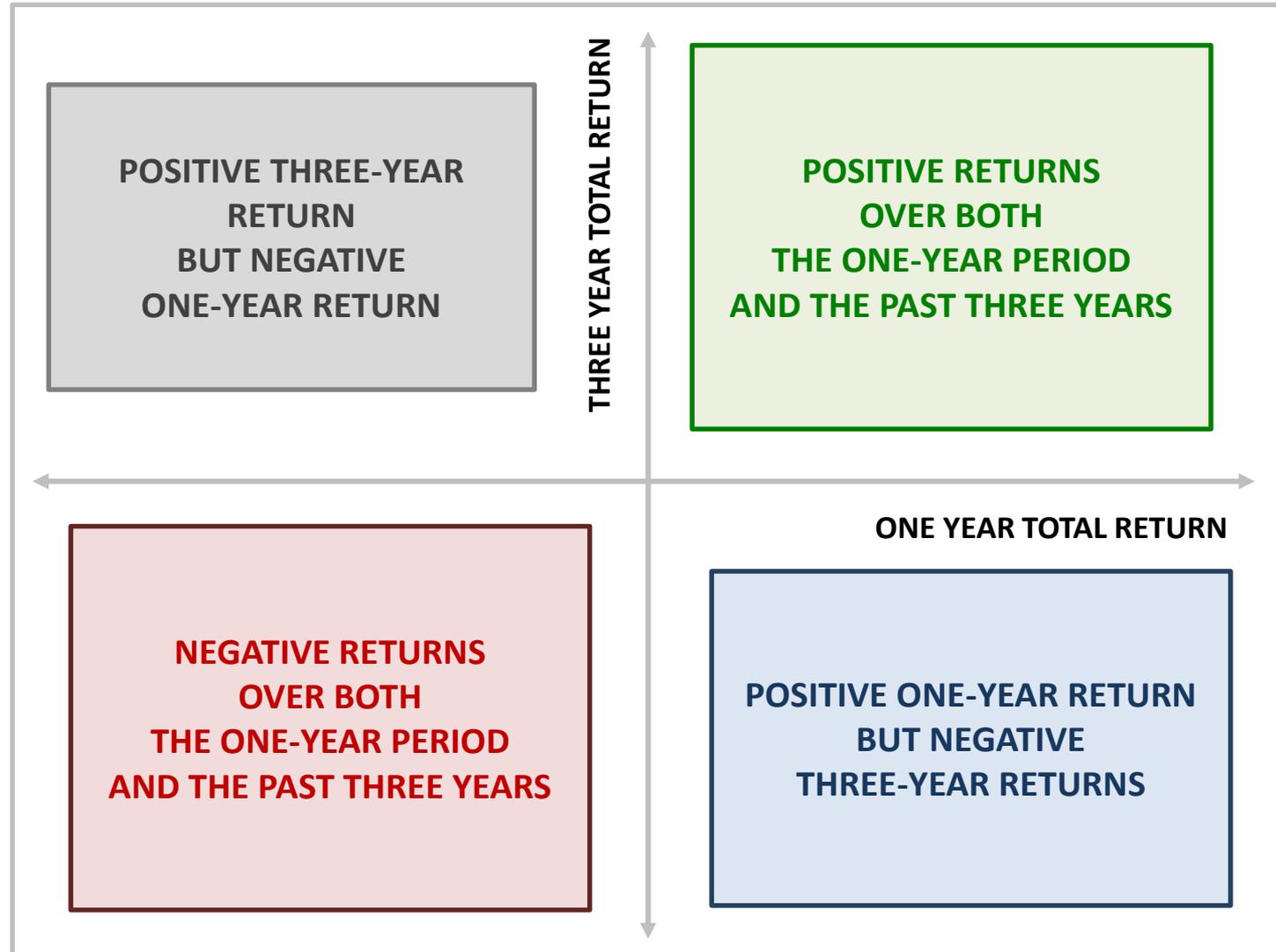
[BHarper@FairmontCG.com](mailto:BHarper@FairmontCG.com)

Office: (857) 310-5067

Mobile: (713) 907-5307

# How To Interpret The Charts

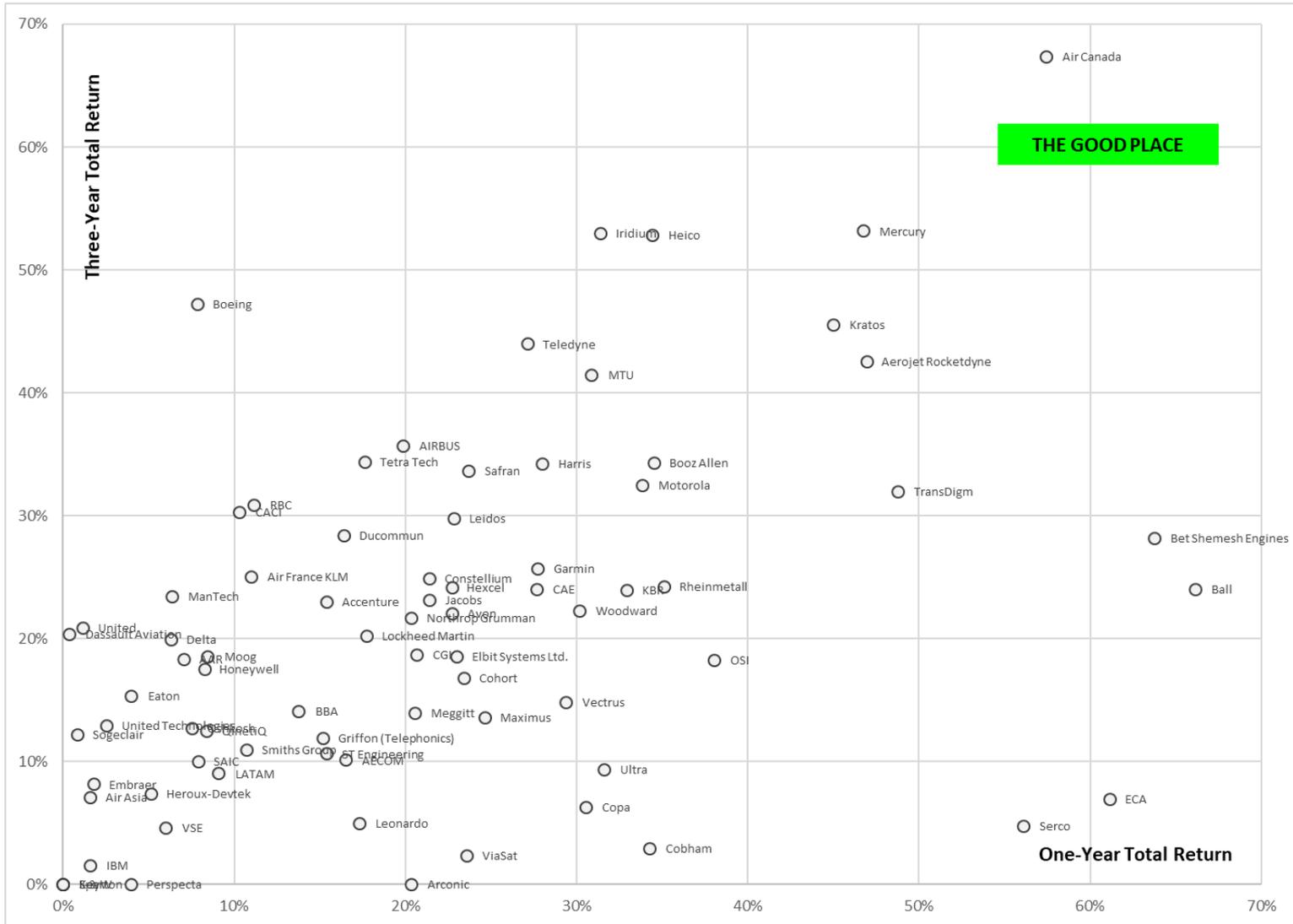
- ❑ Charts found herein plot total returns to investors for each company
- ❑ Total return includes share price appreciation, dividends, and stock buybacks
- ❑ Returns are calculated over a one-year period (X-axis) versus a three-year period (Y-axis; CAGR)
- ❑ Best performers over both the short term and the long term sit in the upper right
- ❑ Companies facing both long and short term challenges sit in lower left





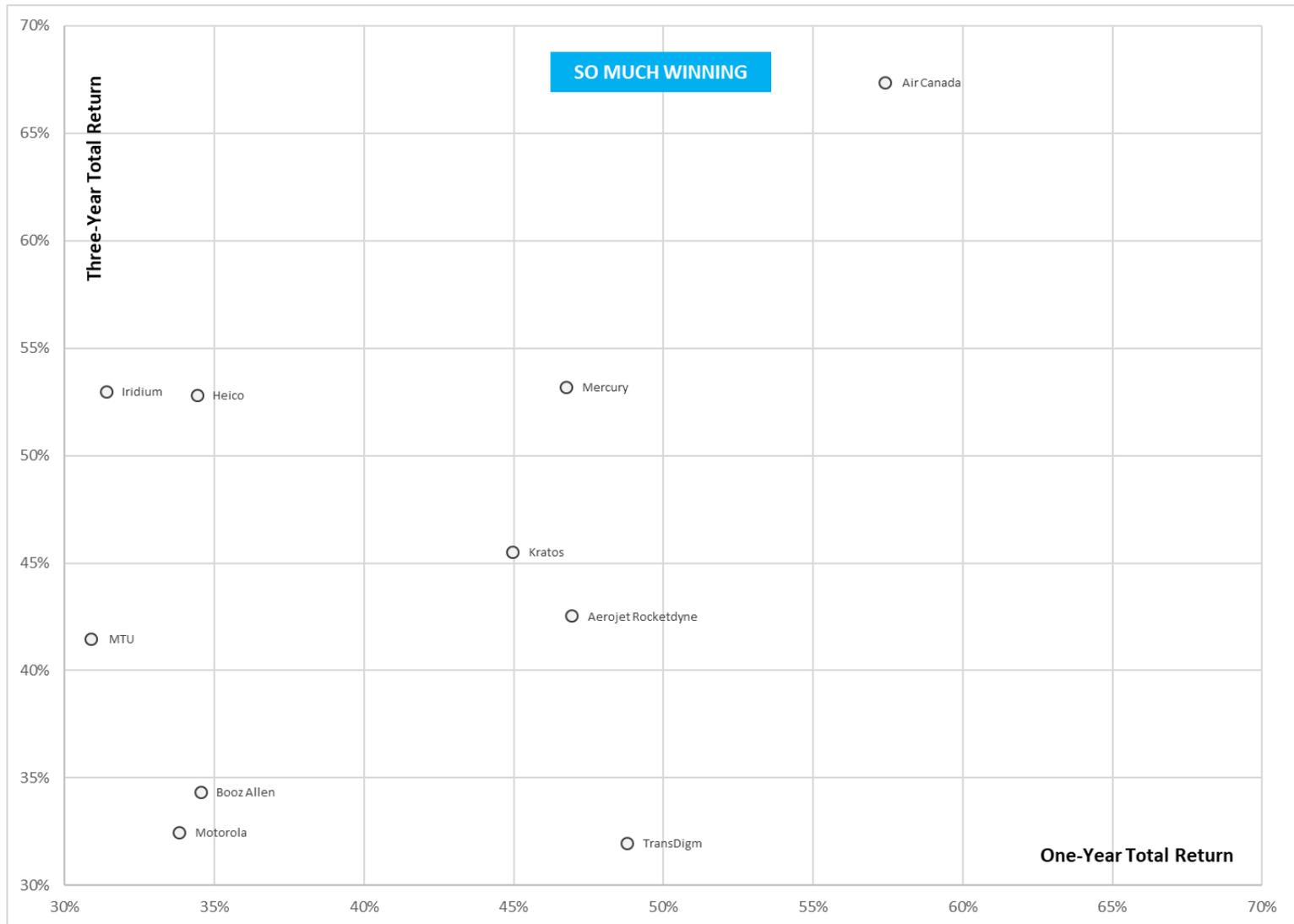
"The Good Place"

Companies With Positive Returns Over Both The Past Year And The Past Three Years



"So Much Winning"

Companies With Positive Returns In Excess Of 30% CAGR  
Over Both The Past Year And The Past Three Years



# What Can We Learn From This? Leading Player Strategies And Operating Models In Their Own Words

## NEXT GENERATION DEFENSE SYSTEMS



- ❑ Proven high-tech commercial business model for A&D
- ❑ Unique technology and capabilities on key programs
- ❑ Addressable market expansion enabling future growth
- ❑ Low-risk content expansion growth strategy
- ❑ Secular growth opportunity - prime outsourcing
- ❑ Destination employer and acquirer of choice



- ❑ Leader in rapidly developing, demonstrating and fielding affordable, leading technology systems
- ❑ Focused on "leading technology" with reduced financial, schedule and delivery risk
- ❑ Invested >\$100mm in the last several years developing a robust suite of high-performance, jet powered UAVs

## HIGH VALUE, HIGH VISIBILITY A&D AFTERMARKET CONTENT



- ❑ Proprietary aerospace products with significant aftermarket content
- ❑ Private equity-like capital structure and culture
- ❑ Aligned with shareholders



- ❑ Cash generation is paramount; focus on long term sustainable growth
- ❑ Maintain a flat organization focused on customers
- ❑ Diversification in products, services and customers avoiding concentration risks
- ❑ Focus on niche products and services within protected markets (high barriers to entry)

## Implications

# Where to invest, where to hold, where to divest?



### 1. Where is there uncertainty?

- A. **Mission** – DoD torn between the current fight (AFG, Syria, ME) and the next fight (China, Russia, Iran)
- B. **Politics** – Election 2020: Trump vs Sanders / Warren / Biden / Harris / Buttigieg / O'Rourke...

### 2. How is industry evolving?

- A. **Consolidation** -- Raytheon-UTC / UTC-Collins, L-3-Harris, TransDigm-Esterline, Parker-LORD, Northrop-Orbital/ATK
- B. **Retreat From Globalization** – trade wars, Brexit, CFIUS / Foreign Investment Risk Review Modernization Act

### 3. Where's the money?

- A. **Long-lived legacy platforms**, systems, programs with installed base / ecosystem and/or jobs base and/or political support
- B. **Next-generation technology** and systems to counter peer threats – China, Russia, North Korea, Iran

### 4. Where's the market performance?

- A. **Large installed base programs** - low price/platform value ratio, mission-essential, ongoing aftermarket demand, strong platform/program positions (TRANSDIGM, HEICO)
- B. **Next-gen requirements** – rapidly evolving technologies, systems, business models (MERCURY, KRATOS)

### 5. How to win?

- A. **STRATEGIC CLARITY** – pick (A) or (B) and stick to it – invest/divest as appropriate
  - *A muddled strategy that is neither (A) nor (B) will yield middling returns and frustration*
- B. **Operational discipline** – quality, schedule, and performance are paramount – BD/capture management/pricing discipline is essential – operational excellence & customer intimacy
- C. **Managerial accounting** -- tactical clarity regarding sales and profitability by site, by product, by customer, by contract, by program/platform; can't get where you want to go without knowing your business with absolute clarity

# Fairmont Consulting Group At A Glance



## 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

### OPERATIONS

We help clients achieve optimal efficiency in support of growth and investment objectives through analysis and improvement of operational processes, infrastructure, capital and personnel

## WHO RELIES ON FAIRMONT AND WHY?

### CLIENTS

Aerospace & defense primes  
Tier 2 and Tier 3 suppliers  
Global private equity investors and hedge funds  
PE portfolio companies

### EXPERIENCE

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

### CAPABILITIES

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

# Notable Recent Defense & Security Transactions



AMERICAN INDUSTRIAL PARTNERS

### Fairmont Provided Buy-Side Commercial Due Diligence

Closed: 29 June 2018 Revenue: \$950M  
Price: \$540M Employees: 7,400

*Madison, Miss.-based L-3 Vertex Aerospace is a global provider of aerospace sustainment & support and aviation & aerospace technical services for the U.S. Department of Defense, government agencies and foreign governments*



### Fairmont Provided Buy-Side Commercial Due Diligence

Annc: 25 July 2019 Revenue: \$2.4B  
Price: ~\$5B Employees: 10,000

*Wimborne, Dorset, UK-based Cobham designs and manufactures equipment, specialized systems and components for the aerospace, defense, homeland security, search and rescue and communications markets*



### Fairmont Provided Buy-Side Commercial Due Diligence

Closed: 9 May 2019 Revenue: n/a  
Price: n/a Employees: ~1,600

*Marlborough, Mass.-based API Technologies, Inc. is a designer and manufacturer of high-performance components and subsystems for demanding RF / microwave and electromagnetic spectrum management applications.*

BC PARTNERS



### Fairmont Provided Buy-Side Commercial Due Diligence

Annc: 23 July 2019 Revenue: \$2.3B  
Price: ~\$4B Employees: 92,000

*GardaWorld offers cash-management services using armored trucks & cash vaults. With 92,000 employees across 46 countries, it also provides security staffing and consulting for companies, humanitarian organizations, governments.*

# Notable Recent Aerospace Transactions



### Fairmont Provided Buy-Side Commercial Due Diligence

Closed: 8 July 2019 Revenue: n/a  
Price: n/a Employees: n/a

*Valence is the largest independent aerospace surface finishing platform in North America; provides non-destructive testing, shot peening, chemical processing, plating, painting and spray coating to aerospace and defense components*



### Fairmont Provided Buy-Side Commercial Due Diligence

Annc: 15 July 2019 Revenue: n/a  
Price: n/a Employees: n/a

*Long Beach, Calif.-based Integrated Polymer Solutions manufactures custom highly-engineered elastomeric components, such as seals, gaskets and tooling for composite manufacturing, for aerospace, military, and industrial sectors*



### Fairmont Provided Buy-Side Commercial Due Diligence

Closed: 5 July 2018 Revenue: n/a  
Price: n/a Employees: ~500

*Albany, Ore.-based Selmet, Inc is a manufacturer of complex titanium castings and machined components for the aerospace and defense industries – acquired by Consolidated Precision Products a portfolio company of Warburg Pincus*



### Fairmont Provided Sell-Side Commercial Due Diligence

Annc: 18 Feb 2019 Revenue: n/a  
Price: n/a Employees: n/a

*Axiom Materials is a composite materials manufacturer that combines a quality prepreg, adhesive, and ancillary composite products platform with customer-focused service and forward-thinking design*

# Other Transactions Of Note



**ENGILITY**

Merged With

**SAIC**

**Defense & Intelligence Services**

Fairmont Provided Merger Due Diligence To Engility

**HERMETIC SOLUTIONS GROUP**  
*Enabling Technology*

Acquired By

**WINDHAMMER CAPITAL INVESTORS**

**Specialized Defense Electronic Components**

Fairmont Provided Buy-Side Due Diligence

**NUVOTRONICS**

Acquired By

**CUBIC**

**Specialized Defense Electronic Components**

Fairmont Provided Buy-Side Due Diligence

**THE ATLAS GROUP**

Acquired By

**ae Industrial Partners**

**Assemblies for Commercial, Military and Business Aircraft**

Fairmont Provided Buy-Side Due Diligence

**brandywine communications** **ABP**

Acquired By

**CACHE CREEK INDUSTRIES**

**Defense / C4ISR Technology Providers**

Fairmont Provided Buy-Side Due Diligence

**sparton**

Acquired By

**cerberus**

**Naval Sonobuoys & Electronic Manufacturing Services**

Fairmont Provided Buy-Side Due Diligence

**MAG AEROSPACE**

Acquired By

**NMC**  
NEW MOUNTAIN CAPITAL LLC

**Airborne Defense C4ISR Services Provider**

Fairmont Provided Buy-Side Due Diligence

**TRONAIR**

**DatcoMedia MALABAR INTERNATIONAL**

Acquired By

**GOLDEN GATE CAPITAL**

**Business Aviation Ground Support Equipment & Software**

Fairmont Provided Buy-Side Due Diligence

# Notable Recent Strategic Engagements



## Core & Adjacent Market Growth Strategy

Aviation & Space Tier 2 /  
Tier 3 Supplier



## Market Opportunities Assessment And Growth Strategy

Aviation & Defense Tier 2  
Supplier



## Market Assessment And New Product Market Review

Aviation Capital  
Equipment Provider



## Competitive Environment Assessment

Defense Tier 2 /  
Tier 3 Supplier



## Independent Assessment of IR&D Projects, Budgets, and Projections

Defense Prime



## Strategic Assessment, M&A Roadmap, Acquisition Screen

Multiple Clients  
(Defense, Aerospace,  
Government Services)

# 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

---

## Jay Wynn

*Co-Founder, Managing Director*

[JWynn@FairmontCG.com](mailto:JWynn@FairmontCG.com)

Office: (857) 310-5068

Mobile: (617) 922-3565

## Ben Harper

*Co-Founder, Partner*

[BHarper@FairmontCG.com](mailto:BHarper@FairmontCG.com)

Office: (857) 310-5067

Mobile: (713) 907-5307

