



AVIATION · AEROSPACE · DEFENSE

THIRD QUARTER

2018

The Aviation, Aerospace and Defense Industry Practice Group draws on the experience of CFA dealmakers, who as former business owners, CEOs, and industry professionals, have first-hand knowledge and have completed many transactions in sectors throughout the Aviation, Aerospace and Defense category. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Aerospace and Defense M&A

M&A activity for North American based target companies in the Aerospace and Defense sector for Q2 2018 included 11 closed deals, according to data published by industry data tracker *FactSet*.

One of the notable middle market transactions closed in May when Valiant Integrated Services, LLC acquired Cubic Global Defense, Inc. and Omega Training Group, Inc. from Cubic Corp for \$138 Million in cash and contingent payout. Under the terms of transaction, Valiant Integrated Services paid \$135 Million in cash and will make additional earnout payments of \$3 Million based on certain performance conditions related to the award of certain government contracts over the next 12 to 24 months. The transaction allows Valiant Integrated Services to further expand its business operations. Cubic Global Defense engages in the manufacturing of tactical training and simulation systems while Omega Training Group provides training, testing, analysis, logistics and staffing services for the military industry.

Industry Update

Troubles with certain models of new, highly advanced aircraft engines have led to the grounding of significant numbers of Airbus and Boeing jets and have caused several airlines to reroute some flights, according to the *Seattle Times*. The most prominent issue has been with Rolls-Royce's Trent 1000 engines, which power Boeing 787 Dreamliner aircraft. Rolls-Royce is inspecting the engines for cracked turbine blades. So far, the number of engines requiring repairs has outstripped Rolls-Royce's ability to provide spare engines, which has left many Dreamliners grounded. Operators of aircraft still using the engines have had to alter flight plans to be closer to airports in case of emergency. Problems with Pratt & Whitney's new Geared Turbofan engine, which would power nearly half of Airbus's fleet of A320neo aircraft, have led to planes piling up at Airbus factories as they await engines. Issues with CFM's LEAP engine, which powers the other half of the Airbus A320neo fleet and all of Boeing's 737 MAX aircraft, have led to dozens of engine repairs and slowed some plane deliveries by several weeks.

- US corporate profits, which affect airline traffic and demand for new commercial aircraft, rose 4.3% in the first quarter of 2018 compared to the same period in 2017.
- US durable goods manufacturers' shipments of military aircraft and parts, an indicator of demand for aerospace products and parts for military use, rose 2.0% year-to-date in June 2018 compared to the same period in 2017.
- US durable goods manufacturers' shipments of nondefense aircraft and parts, an indicator of demand for aerospace products and parts, rose 2.6% year-to-date in June 2018 compared to the same period in 2017.
- US steel mill product prices, an indicator of commodity steel costs for aerospace products, rose 12.4% in July 2018 compared to the same month in 2017.

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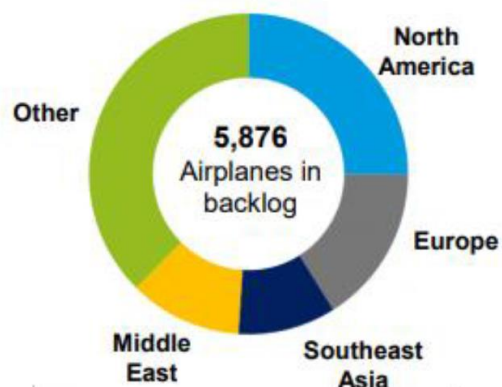
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Industry Insights

Boeing, a bellwether for the economy as whole, had a strong second quarter delivering 194 commercial planes as its backlog continues to grow.

Q2 2018 Boeing Backlog



Source: Boeing

Transactional Overview

Notable closed lower middle market transactions for the period in the Aerospace and Defense sector include:

June 2018 - Baylin Technologies, Inc. acquired **Alga Microwave, Inc.** for CAD27 million (\$20.3 Million) in cash, stock and contingent payout. Baylin Technologies engages in the provision, design, manufacture and supply of wireless antenna solutions. Alga Microwave manufactures microwave components for satellites. The firm's products include outdoor units, rack-mount, high power RF systems and passive microwave. The company was founded in 2003 and is headquartered in Kirkland, Canada.

June 2018 - MAG DS Corp, doing business as Momentum Aerospace Group and a portfolio company of New Mountain Capital, LLC, acquired **North American Surveillance Systems, Inc.** for an undisclosed amount. The transaction would add over 75 aircraft integration, modification and MRO professionals to Momentum Aerospace Group. Momentum Aerospace Group provides aviation, aerial surveillance, Intelligence, Surveillance and Reconnaissance (ISR) support and training services. North American Surveillance Systems provides airborne systems integration. The company was founded in 2007 and is headquartered in Titusville, FL.

Selected Q3 Closed Transactions	
Target/Issuer	Buyers/Investors
Alga Microwave, Inc.	Baylin Technologies, Inc.
Bulova Technologies Group, Inc. /2 Subs/	Big Red Express Trucking LLC
North American Surveillance Systems, Inc.	MAG DS Corp.; New Mountain Capital LLC
Hirschler Manufacturing, Inc.	Activa Capital SAS; Mecadaq Group SAS
Passenger Drone	Astro Aerospace Ltd.
Cubic Corp. /2 Subs/	Valiant Integrated Services LLC
B&B Trittech, Inc.	H.I.G. Capital LLC (Private Equity); Vantage Specialty Chemicals, Inc.
Worthington Aviation Parts, Inc.	Air T, Inc.
AeroCision LLC	Liberty Hall Capital Partners LP

April 2018 - Liberty Hall Capital Partners LP acquired **AeroCision LLC**, a portfolio company of Tulcan LP for an undisclosed amount in cash. The transaction was funded by Citizens Bank. Following the acquisition, AeroCision LLC integrated into Bromford Industries. The acquisition enhances Liberty Hall Capital Partners LP's investment strategy. Founded in 1958, AeroCision LLC is located in Chester, Connecticut, United States and manufactures machine and fabricated precision components.

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.