



PCE Industry Report

Aerospace & Defense



Middle Market M&A Summary

Aerospace & Defense

2nd Quarter 2016

Key Highlights

- The average value of the top transactions was \$536.8 mm.
- The largest transaction was the acquisition of ILC Industries, LLC by TransDigm Group Incorporated for \$1.0 billion.
- The smallest transaction was the acquisition of Phoenix Heliparts, Inc. by TKC Aerospace Inc. for \$3 million.
- The public company industry median TEV/EBIT multiple is 14.45x.
- The public company industry median TEV/EBITDA multiple is 10.8x.

Key Trends

- The Rockets, Spacecrafts and Satellites subsector's transaction volume was positively trending, while Support Services & Systems was trending neutrally, and Weapons and Military Transportation were trending negatively.
- The Support Services & Systems subsector's transaction volume was the largest at 93% of the industry over the past quarter.
- Over the next five years, the industry will slowly liftoff thanks to more stable government funding as well as climbing defense spending in emerging markets and continued geopolitical tensions, meaning that over the next five years to 2021, industry revenue is forecasted to climb an annualized 2.1% to \$30.8 billion.
- The largest source of funding for this industry has been the US government; however, a tighter budget has forced the Pentagon to become more selective in their programs to fund, leading them to recently terminate systems like the Kinetic Energy Interceptor and the Medium Extended Air Defense System (MEADS).
- Airlines need to replace aging and less fuel-efficient planes to address rising fuel prices. Although oil prices have fallen sharply, increasing fuel efficiency still saves airlines millions of dollars and remains a focus for the industry. Plane-makers have invested billions in designing more efficient planes and would welcome even higher demand driven by higher fuel prices.¹

Source: IBIS World, S&P Capital IQ, and PCE Proprietary Data

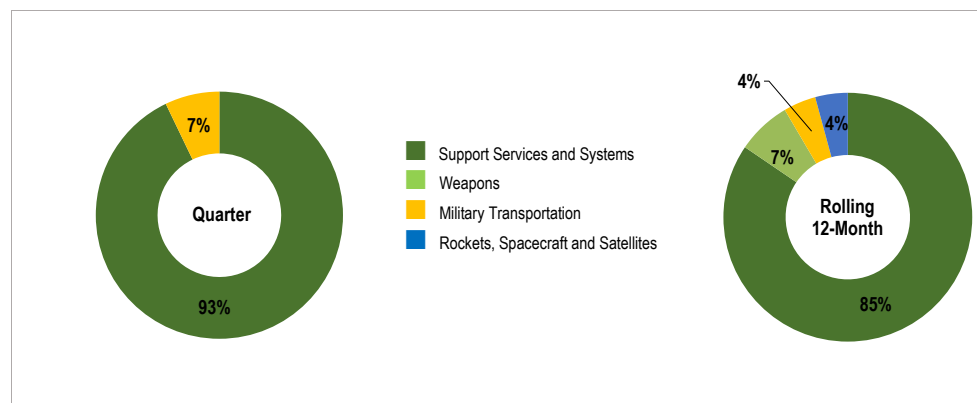
¹ S&P NetAdvantage Industry Surveys- Aerospace & Defense. April 2016.

Industry Trends During Quarter

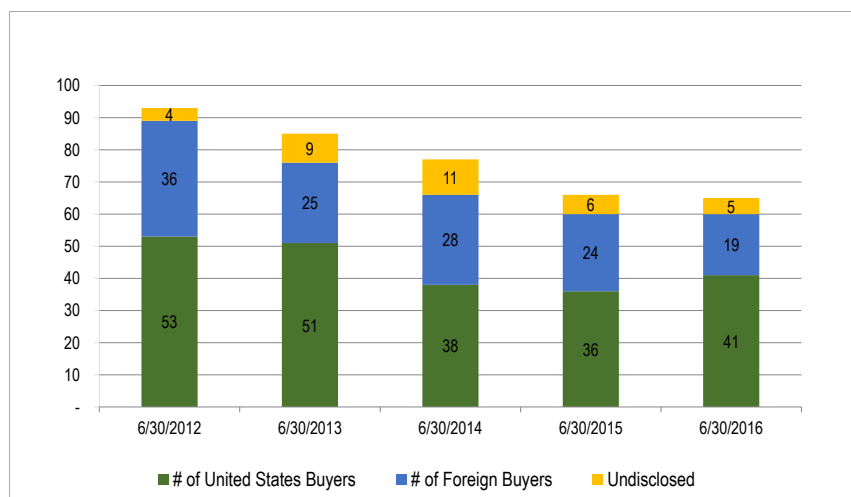
Sector	Transaction Volume	TEV/ Revenue	TEV/EBITDA
Support Services and Systems	→	↓	↓
Weapons	↓	↑	↓
Military Transportation	↓	↑	↓
Rockets, Spacecraft and Satellites	↑	↑	↑

* Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data

Transaction Volume as % of Industry



Rolling 12-Month Transaction Volume Trends by Buyer Origin



Representative Transactions Closed During Quarter

Sector	Target	Buyer	Transaction Value
Support Services & Systems	ILC Industries, LLC	TransDigm Inc.	\$1,000.0
Support Services & Systems	API Technologies Corp.	J.F. Lehman & Company	\$310.4
Support Services & Systems	Microsemi Corp. - RF Integrated Solutions	Mercury Systems, Inc.	\$300.0
Support Services & Systems	Armasight Inc.	FLIR Systems, Inc.	\$41.0

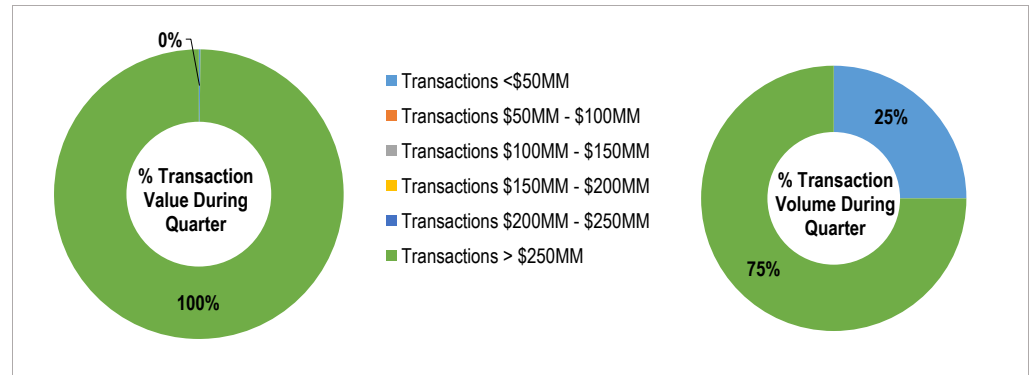
Source: S&P Capital IQ as of 7/20/2016 and PCE Proprietary Data

Summary of Sector Transactions During Quarter (\$ in millions)

Transaction Volume	13
Number of Transactions with Disclosed Values	4
Transaction Value*	\$1,613.45
Average Transaction Value*	\$330.89
Median Transaction Value*	\$300.00

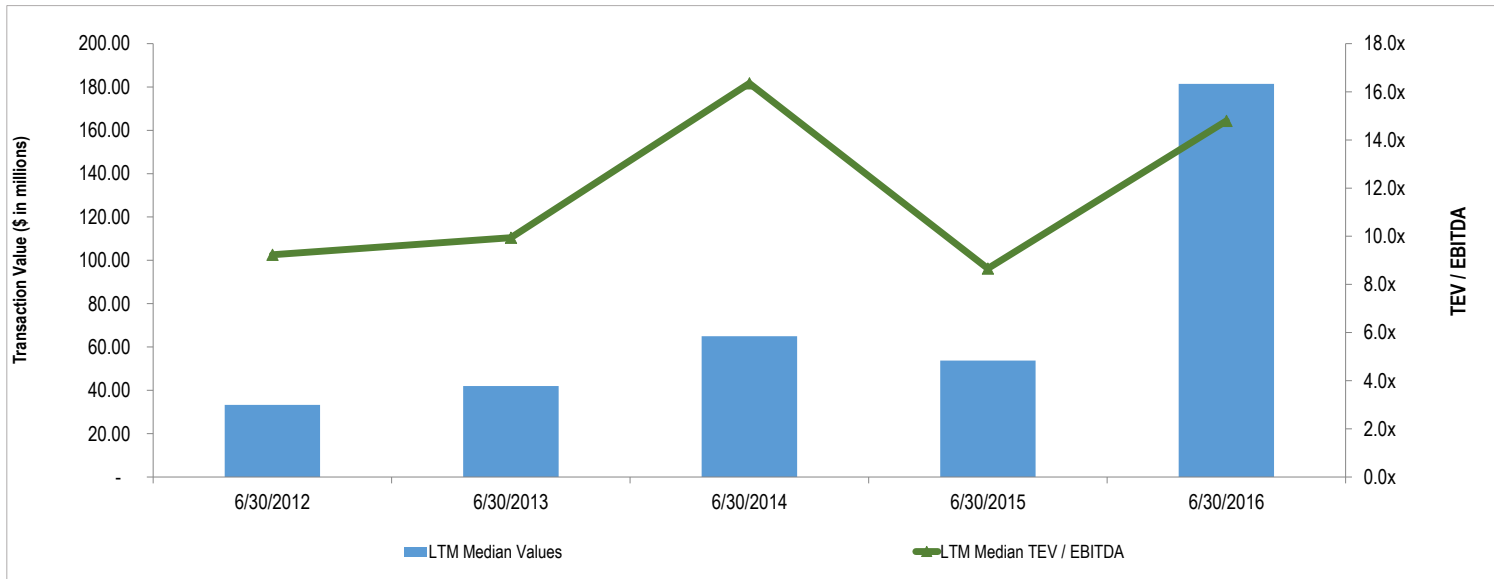
**Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.*

Transaction by Value & Volume



Private Sector Value and EBITDA Multiple Trends

Rolling 12-Month Value & Multiple Trends



** Values and multiples may be skewed given data includes reported information only. While ~ 30% - 40% of transactions disclose values, only ~ 3% - 5% disclose EBITDA multiples. As a result, data may be a poor indicator of overall market performance.*

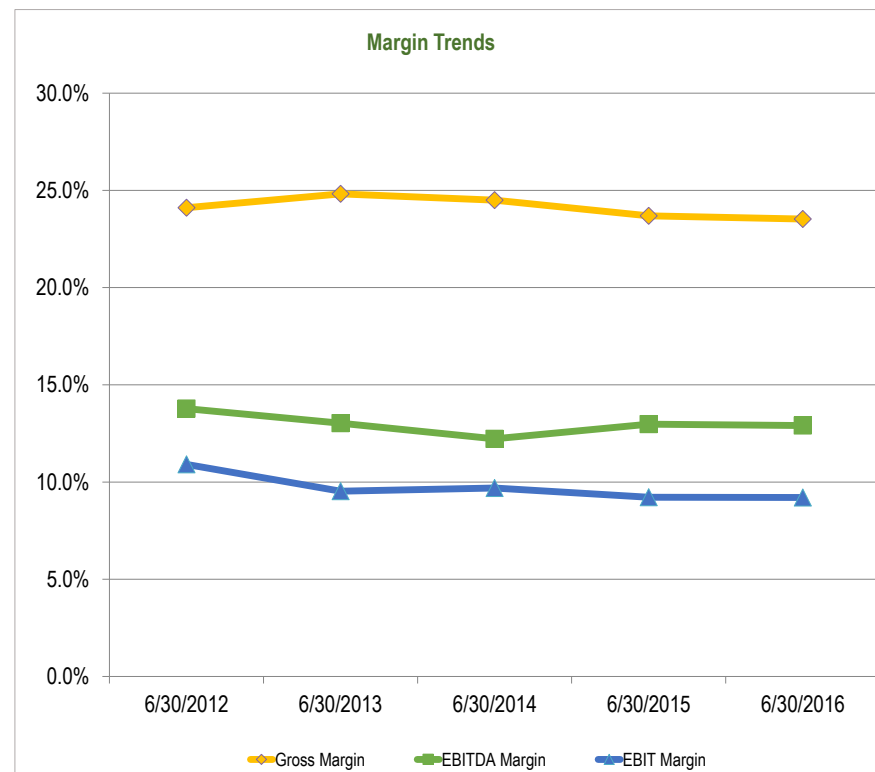
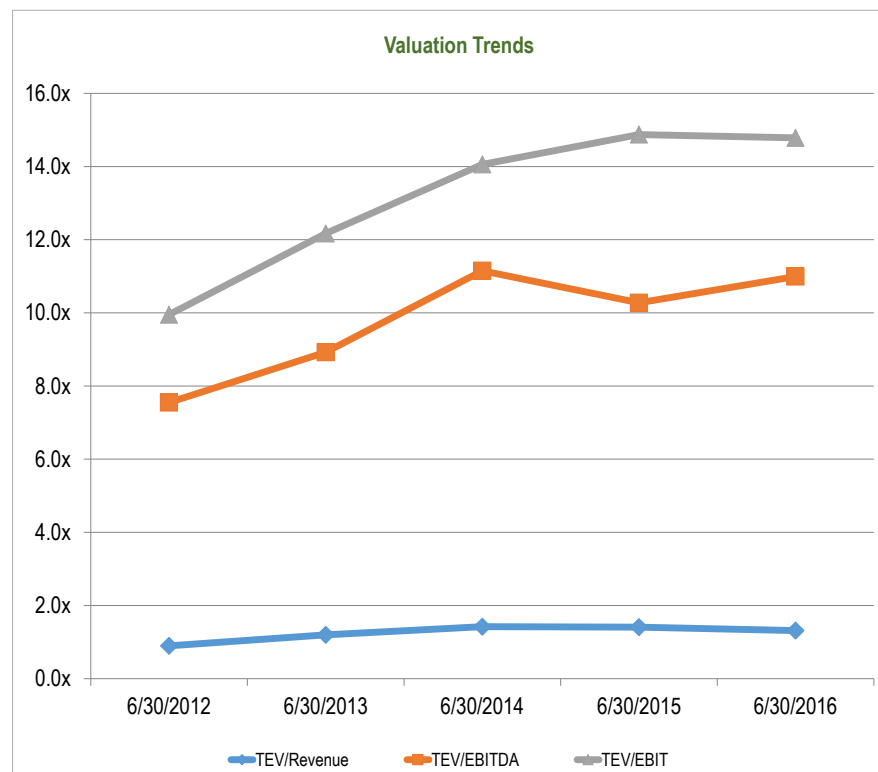
Support Services and Systems

2nd Quarter 2016

Summary of Public Comparables as of Quarter End (\$ in millions)

	Total Enterprise Value				Last Twelve Months 6/30/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$13,456	1.6x	12.3x	19.0x	TEV/Revenue	↓
Median	\$1,812	1.3x	11.0x	14.8x	TEV/EBITDA	↑
					TEV/EBIT	↓

	Margins			Last Twelve Months 6/30/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	25.3%	11.7%	8.1%	Gross Margin	↓
Median	23.5%	12.9%	9.2%	EBITDA Margin	↓
				EBIT Margin	↓

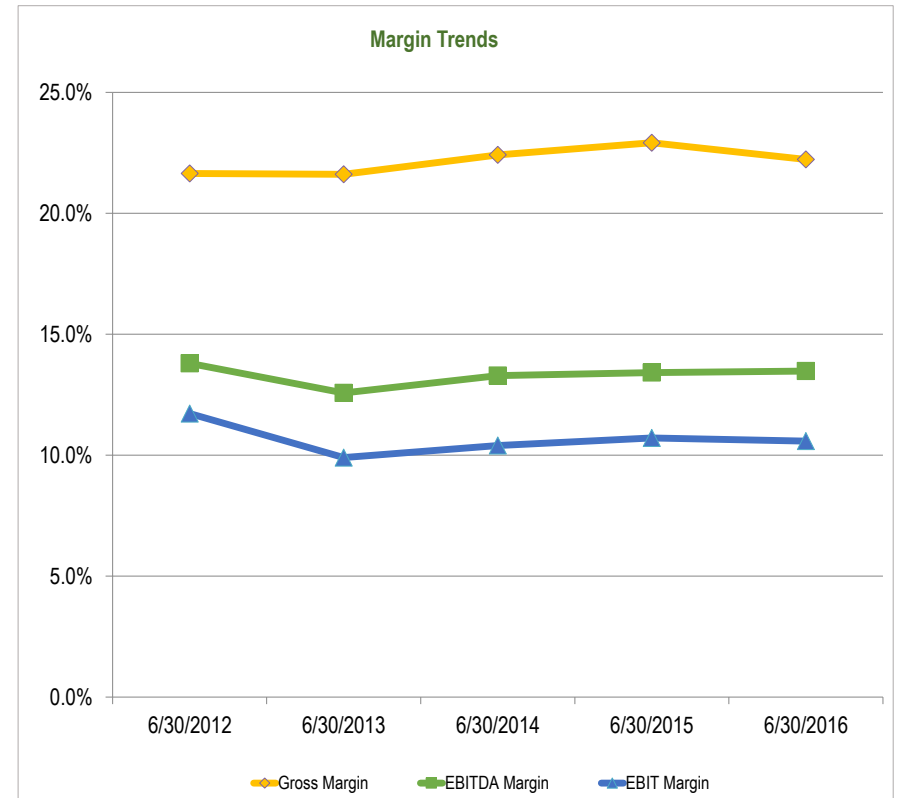
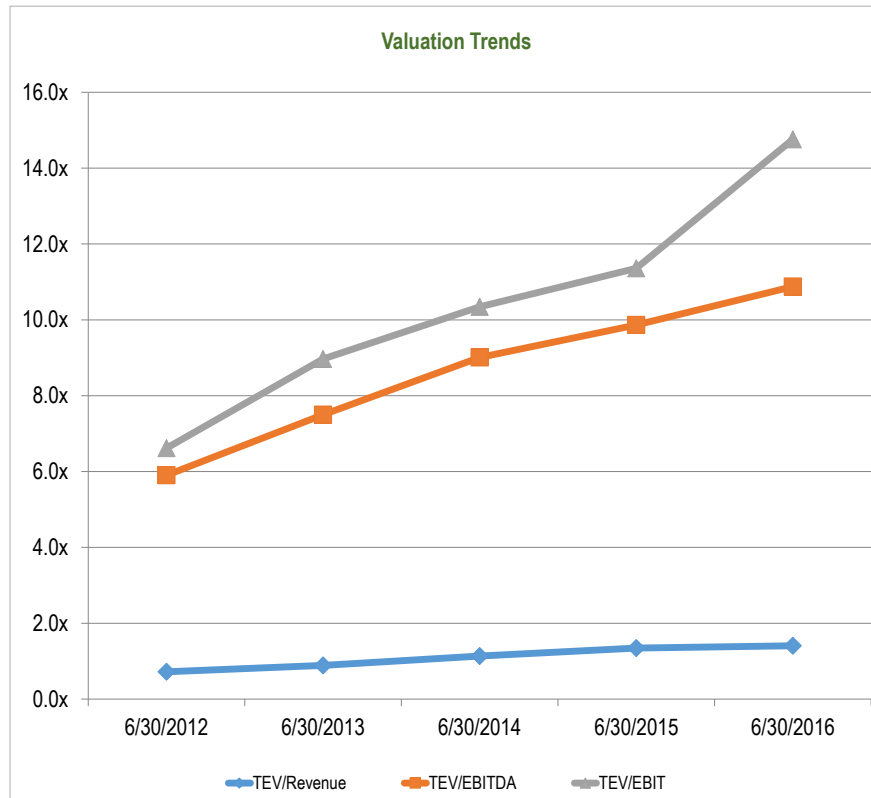


Source: S&P Capital IQ as of 7/20/2016 and PCE Proprietary Data

Summary of Public Comparables as of Quarter End (\$ in millions)

	Total Enterprise Value				Last Twelve Months 6/30/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$20,705	1.4x	12.6x	14.0x	TEV/Revenue	↑
Median	\$3,437	1.4x	10.9x	14.8x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 6/30/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	22.4%	11.1%	7.8%	Gross Margin	↓
Median	22.2%	13.5%	10.6%	EBITDA Margin	↑
				EBIT Margin	↓



Source: S&P Capital IQ as of 7/20/2016 and PCE Proprietary Data

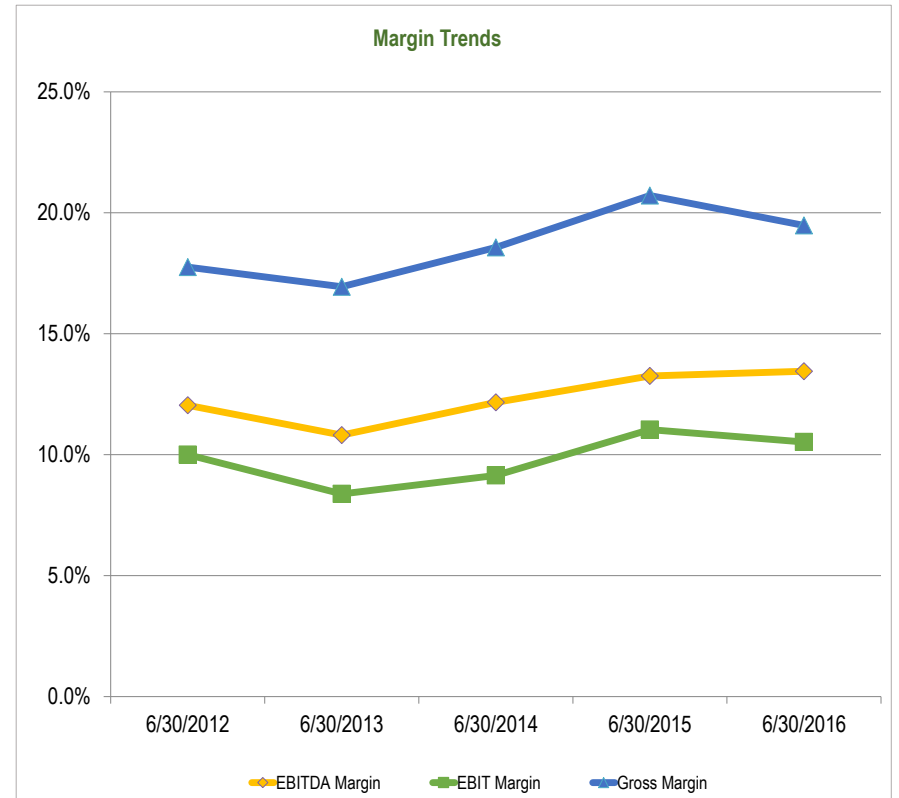
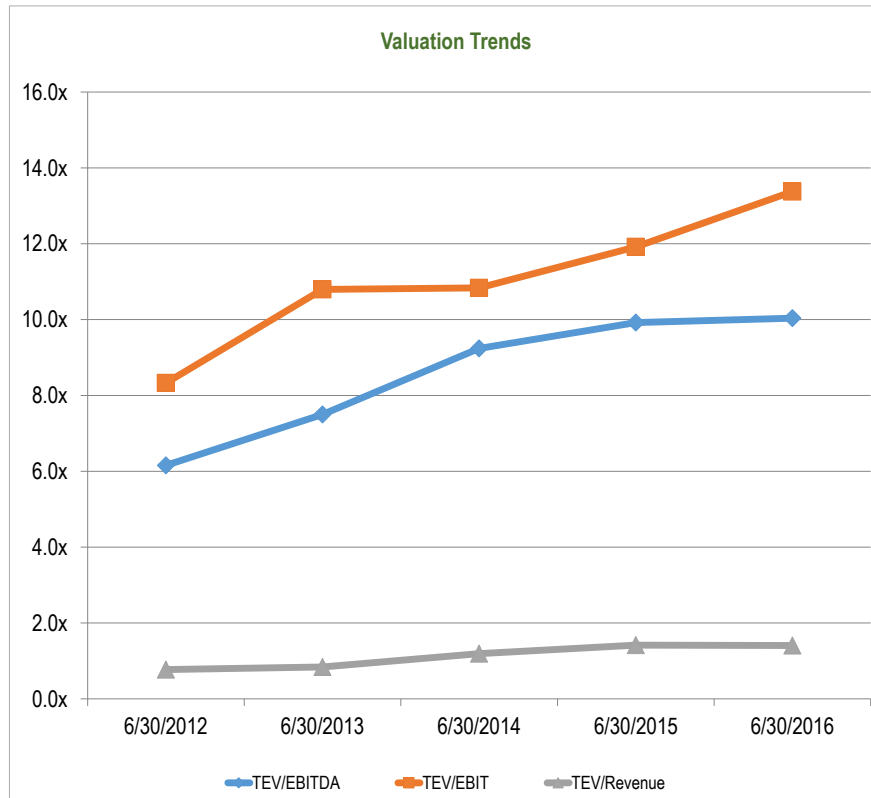
Military Transportation

2nd Quarter 2016

Summary of Public Comparables as of Quarter End (\$ in millions)

	Total Enterprise Value				Last Twelve Months 6/30/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$32,787	1.4x	12.1x	16.0x	TEV/Revenue	↓
Median	\$24,791	1.4x	10.0x	13.4x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 6/30/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	21.1%	12.2%	9.8%	Gross Margin	↓
Median	19.5%	13.5%	10.5%	EBITDA Margin	↑
				EBIT Margin	↓



Source: S&P Capital IQ as of 7/20/2016 and PCE Proprietary Data

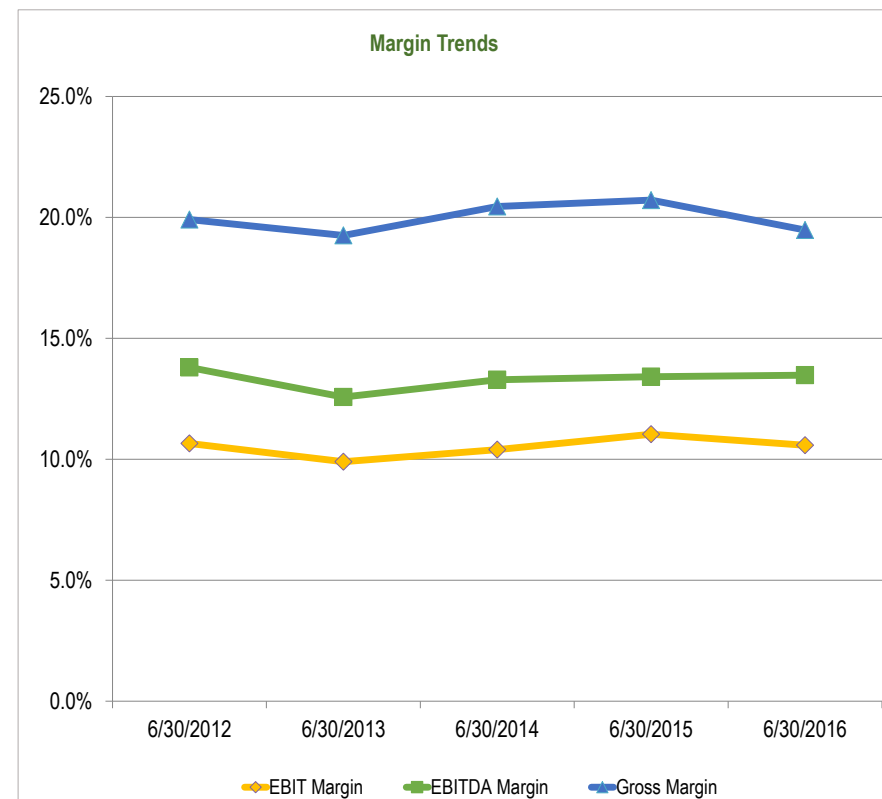
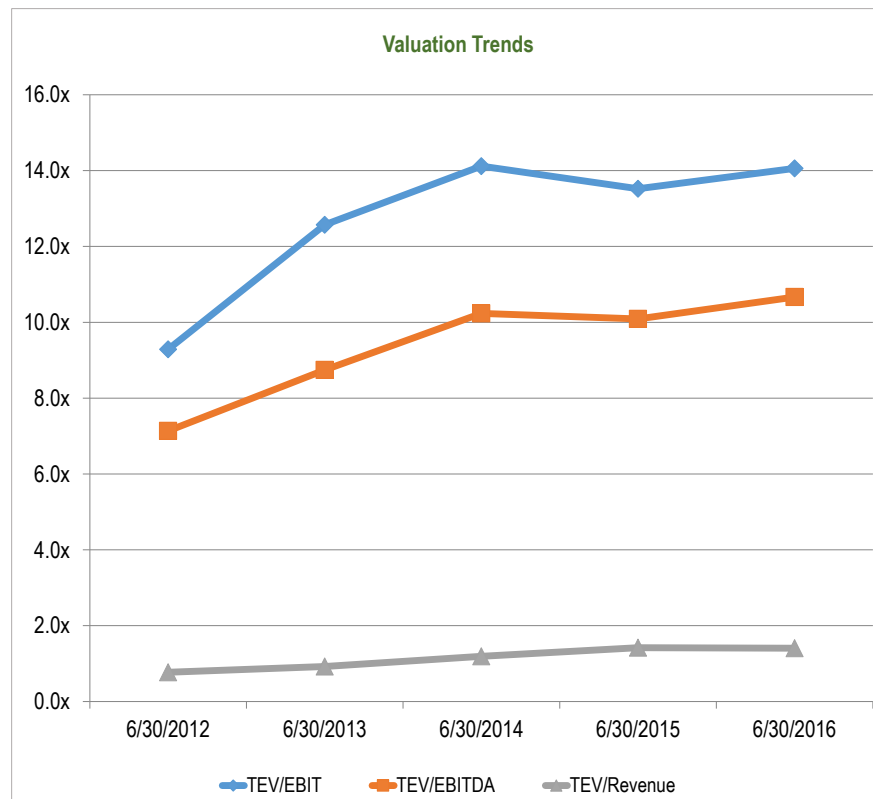
Rockets, Spacecraft and Satellites

2nd Quarter 2016

Summary of Public Comparables as of Quarter End (\$ in millions)

	Total Enterprise Value				Last Twelve Months 6/30/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$31,372	1.5x	10.7x	14.0x	TEV/Revenue	↓
Median	\$22,459	1.4x	10.7x	14.1x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 6/30/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	20.1%	13.8%	10.9%	Gross Margin	↓
Median	19.5%	13.5%	10.6%	EBITDA Margin	↑
				EBIT Margin	↓



Source: S&P Capital IQ as of 7/20/2016 and PCE Proprietary Data

About PCE

When you're navigating the critical and sometimes challenging phases of the business life cycle, nothing is more important than getting the right advice at the right time. At PCE, that's our specialty. Providing clients with the insightful strategies, creative solutions, and expert guidance they need to address the challenges they face today and achieve the goals they set for tomorrow.

PCE, a leading financial services firm for mid-market companies, offers a full range of services:

- M&A (mergers & acquisitions)
- Growth Capital – Equity & Debt
- Business Valuation
- ESOP (Employee Stock Ownership Plans)
- Financial & Management Consulting
- MBO (management buy outs)
- Bankruptcy
- Restructuring
- Fairness and Solvency Opinion
- Management Consulting
- Succession Planning
- Strategic Analysis
- Litigation Support

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- Building Products & Construction
- Business Services
- Consumer & Food
- Diversified Industrials
- Healthcare
- IT & Telecom
- Power & Energy
- Transportation & Logistics

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Data Assumptions

This report represents transaction activity as mergers & acquisitions, consolidations, restructurings and spin-offs. Targets are defined as U.S. Based companies with either foreign or U.S. based buyers. Transaction information provided is based on closed dates only.

Glossary

EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation, Amortization
LTM - Last Twelve Months
TEV - Total Enterprise Value