

# Grant Thornton Corporate Finance

## mergers & acquisitions

Grant Thornton 

### Aerospace Components M&A update

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### Grant Thornton Corporate Finance Mergers & Acquisitions Industrials Group

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## Aerospace components: Surge in merger & acquisition (M&A) activity realigns industry ownership.

The Aerospace Components sector has seen a rush in M&A activity, driven by:

- **Private equity appetite for consolidation,**
- **Strategic buyers build out of systems & search for advanced technologies,**
- **Strong order book & revenue outlook and**
- **Sellers finding transactions attractive.**

#### Surge in Aerospace Component M&A - realigning industry ownership

The M&A activity in the Aerospace Component sector almost doubled in 2006 over the previous year.<sup>1</sup>

We believe we are witnessing a transfer of industry ownership from owner operators to institutional investors. The median size of disclosed transactions at \$34 million reflects the size and structure of industry players — explaining in part, the attraction of consolidation strategies.

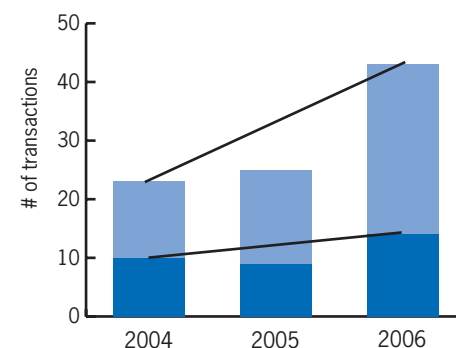
#### Strong private equity interest - attracted by consolidation

Private equity firms were behind half the aerospace component transactions in 2006.<sup>1</sup> Their interest is a function of opportunities in the sector and the generally buoyant private equity markets.

- Transactions are split equally between new platform investments made directly by private equity groups; and acquisitions by companies already owned or controlled by private equity investors. >

Number of M&A transactions  
Aerospace components

■ Private Equity Backed Buyers  
■ Strategic Buyers



Source: Company filings, press releases, Capital IQ

<sup>1</sup> Company filings, press releases, Capital IQ

- The number of deals in the sector pursued by private equity or private equity-backed companies more than doubled in 2006. Many funds are still seeking platform acquisitions and have been disappointed at losing out in competitive sale processes.

Private equity is being attracted to the aerospace components sector by the:

- Fragmented nature of the industry and the opportunities provided by consolidation;
- Significant differences in transaction pricing between small and large deals — which rewards their trademark “buy and build” acquisition strategies; and
- Strong outlook for industry demand.

More broadly, the private equity industry as a whole is being fuelled by unprecedented access to capital (both debt and equity) provided by investors seeking market beating returns. The amount spent on U.S. buyouts, doubled in 2006 to \$260 billion.<sup>2</sup> Equity raised by buyout funds reached yet another high in 2006 at \$130 billion (65 percent above the record set in 2000<sup>3</sup>).

### Illustrative Aerospace Components transactions - 2006

Ann. Date	Target	Description	Acquirer	Transaction value (\$m)	EV	
					Sales	EBITDA
<b>Private equity backed buyers</b>						
Nov-06	Reinhold Industries	Composite & sheet molding manufacture	Jordan Company	\$44	1.0x	4.8x
Sep-06	Jormac Aerospace	Aviation product manufacture & engineering	Yankee Pacific Aerospace	NA	NA	NA
Sep-06	All Power Manufacturing	Aerospace bushing & spacer manufacture	RBC Bearings	\$9	0.8x	NA
Aug-06	Berkshire Industries	Aerospace component manufacture	Precision Partners	NA	NA	NA
Jul-06	Wesco Aircraft Hardware	Provides small machined aircraft parts	Carlyle Group	NA	NA	NA
Jul-06	MRA Systems, thrust reverser assets	Thrust inversers & airplane brakes	NORDAM Group	NA	NA	NA
Jun-06	Sweeney Eng. & Electra-Motion	Manufactures aerospace valving	TransDigm Group	\$27	NA	NA
Jun-06	Pankl Aerospace Systems	Manufactures aerospace components	Admiralty Partners	NA	NA	NA
Jun-06	Primus International	Structural aerospace components & kits	Oak Hill Capital Partners	NA	NA	NA
May-06	Hitchcock Industries	Castings for aerospace & industrial	Industrial Growth Partners	NA	NA	NA
Apr-06	Goodrich Turbomachinery	Manufactures turbo machinery products	Admiralty Partners	\$83	NA	NA
Apr-06	NASCO Aircraft Brake	Aircraft wheel & brake component manufacture	K&F Industries	\$19	1.7x	NA
Apr-06	Praxair Surface Technologies	Repairs engine & airframe components	Gridiron/Skyview Capital	NA	NA	NA
Apr-06	Tell Tool	Manufactures engine & hydraulics components	Platte River Ventures	NA	NA	NA
Mar-06	AbelConn	Supplies backplanes & interconnects	Argosy Partners	NA	NA	NA
<b>Strategic buyers</b>						
Dec-06	Argo Tech	Fuel flow devices & system manufacture	Eaton Corp.	\$697	3.0x	14.0x
Dec-06	Talley Defense Systems	Manufactures propellant-based products	Nammo AS	NA	NA	NA
Nov-06	Allied Aerospace	Aircraft hardware & prototype systems	Triumph Group Inc.	NA	NA	NA
Oct-06	Limco Airepair	Heat transfer & pneumatic ducting manufacture	Fokker Services B.V	NA	NA	NA
Sep-06	Sierracin Corporation	Aircraft windshield & window manufacturing	PPG Industries Inc.	NA	NA	NA
Sep-06	Aerospace Manufacturing Tech.	Structural aerospace machined parts	Senior Operations	\$110	3.3x	NA
Sep-06	Keith Products	Aircraft ventilation, & heating manufacture	Meggitt plc	\$32	NA	NA
Sep-06	National Sensor Systems	Manufactures optical systems for aerospace	BAE Systems	\$9	NA	NA
Aug-06	Stellex Aerostructures	Engineered subsystems & components	GKN plc	NA	NA	NA
May-06	Crestview Aerospace	Aircraft structures, airframe assemblies	L-3 Communications	\$135	1.1x	6.3x
Apr-06	Excel Manufacturing	Precision machining & sub-assemblies	Triumph Group Inc.	NA	NA	NA
Mar-06	Aeroturbine	Aftermarket aircraft engine & air frame support	AerCap BV	NA	NA	NA
Mar-06	Superior Air Parts	PMA and aircraft engine manufacture	Thielert AG	\$10	NA	5.0x
Jan-06	Sterling Machine	Manufactures precision machined parts	Senior plc	\$36	NA	NA
			<b>Average</b>	<b>\$101</b>	<b>1.8x</b>	<b>7.5x</b>
			<b>Median</b>	<b>\$34</b>	<b>1.4x</b>	<b>5.7x</b>

Source: Company filings, press releases, Capital IQ

<sup>2</sup> Citigroup Global Markets

<sup>3</sup> Private Equity Analyst

This capital is being paired with easy credit: Debt multiples have increased to late 1990 levels and typically comprise 65 percent of the post transaction capital structure.<sup>4</sup>

### Strategic buyers add capabilities - systems delivery and advanced technologies

Strategic buyers are using acquisitions to selectively fill out their “systems offerings,” enabling them to design, develop and deliver the superior integrated assembled systems and sub-systems that customers are demanding.

Strategic buyers are also using acquisitions to access advanced capabilities and growth markets. They are effectively acquiring proven research and development (R&D), whether it is designs and technologies or processes and materials (e.g. composites).

#### Acquirers are rewarding:

- Advanced technology and capabilities
- Proprietary design ownership
- Capabilities that advance or can be integrated into systems
- Growing order books on next generation planes
- Customer diversification
- Dependency of customers
- Strong replacement parts business
- High profitability
- Modern facilities and available capacity

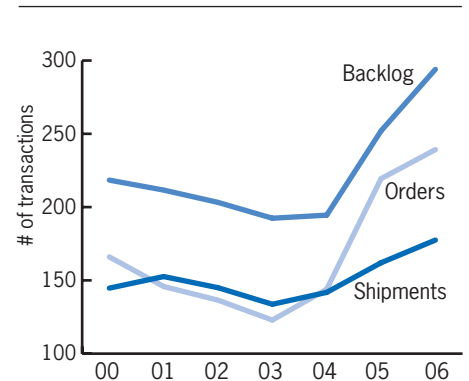
### Strong order book and revenue outlook - provides comfort for acquirers

Aircraft industry sales rose by 11 percent in 2006, and a further eight percent increase is expected in 2007.<sup>5</sup> Much of the increase has been in commercial business, where growth exceeded 20 percent in 2006. A further 15 percent growth in commercial sales is expected in 2007, returning commercial and military revenue to equal balance.

Orders and backlogs have ballooned, showing nine and 17 percent increases respectively in 2006.<sup>5</sup> This is on top of the huge 52 and 30 percent jumps achieved in 2005. Acquirers are taking comfort from this, particularly when combined with the facts that: Boeing and Airbus production is largely sold out until 2011<sup>6</sup>; there have been 20 percent improvements in fuel efficiency provided by new planes; and analysis by Boeing suggests U.S. airlines will need to replace fleets starting in 2012. There are currently a total of 126 planes that are 25 to 40 years old. Without new orders, that number is expected to grow to 384 planes by 2012 and 840 by 2015.<sup>6</sup>

Plants are increasing capacity in response to delivery pressures. U.S. machinery orders rose 13 percent overall in 2006.<sup>7</sup> However, with skilled labor being a significant constraint in many parts of the country, manufacturers are being forced to creatively rethink the way they recruit; the skills they hire and the manner in which their people and machines interact.

Industry orders, backlog & shipments



Source: Aerospace Industries Association

### Sellers find transactions attractive - a shift to external ownership

Transaction prices have become appealing to sellers. This is a reaction to how:

- Industry profits have rebounded, and are now 30 percent above the high of 1999.<sup>5</sup> Profits rose six percent in 2006 following a 32 percent rise in 2005.
- Transaction multiples have increased. For example, recently \$20 million businesses frequently changed hands at around 6x EBITDA, \$100 million businesses were near 8x EBITDA and \$400 million businesses traded at around 10x EBITDA. Comparitively, Aerospace Component companies in the public markets are trading at around 9x EBITDA.

<sup>4</sup> Standard & Poor's LCD

<sup>5</sup> Aerospace Industries Association

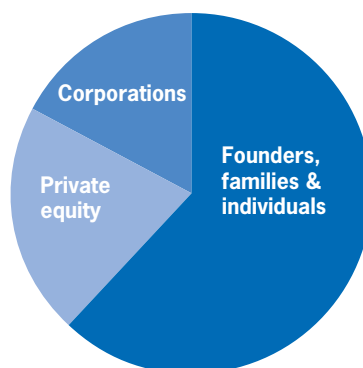
<sup>6</sup> Wall Street Journal

<sup>7</sup> First Research

Sellers have not forgotten the operating challenges to be addressed. These can be daunting for individuals with substantial wealth tied to businesses and which may be better suited for institutional ownership because of:

- Financing future investment — both capital equipment and R&D needs.
- Demands of working for powerful and dominant customers.
- Recruiting skilled workers and managing the shifting skill sets from experienced machinists to flexible engineers. Also, securing offshore production capabilities.
- Resolving shareholder ownership and succession planning requirements.

Sellers by ownership type - 2006



In 2006, 60 percent of sellers were founders, families and individuals.<sup>1</sup> The remaining 40 percent of sellers were split equally between: private equity groups trading out of prior investments; and corporations divesting non-core operations.

## Conclusions

We believe we are witnessing a transfer of industry ownership from owner operators to institutional investors. Sellers are pursuing transactions, earnings have recovered, transaction pricing is attractive and strong interest is being demonstrated by a wide range of buyers. The broad marketing of businesses is being rewarded due to the fragmented nature of the private equity and Aerospace Components industries.

Strong demand is providing acquirers a smooth runway where they can secure the benefits of their acquisitions, implement systems development and innovate the design breakthroughs and manufacturing efficiencies so essential to the future of the U.S. industry.

## About Grant Thornton Corporate Finance LLC

Grant Thornton Corporate Finance LLC provides investment banking and ownership consulting services to middle-market companies in the United States and around the world. For additional information or to discuss: ownership transition issues; acquisitions, divestitures and capital raising strategies; please feel free to contact Ian Cookson on 617.848.4982 or by email at [ian.cookson@gt.com](mailto:ian.cookson@gt.com).

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