

## Q4 2008: Inside this Issue

Welcome to the inaugural issue of Lincoln International's Aerospace and Defense ("A&D") Deal Reader, a newsletter focused on merger and acquisition trends, transactions and events of interest to owners and managers of global aerospace and defense businesses and their advisors.

Lincoln's Aerospace and Defense group is one of the largest and most active in the market - *and the only truly global team.*

In this issue, we discuss the implications of current market conditions on M&A prospects for aerospace and defense companies. Other topics covered in this issue include:

- A view from Lincoln International's A&D Advisory Director, General Edmonds, on prospects for the defense industry in coming years
- Recent M&A news involving A&D
- Spotlight on A&D, including public comparable and M&A valuations

## Aerospace and Defense M&A - A Bright Spot in a Tough Market

It will come as a surprise to few that aerospace public market valuations have fallen considerably. The sector's decline actually has been slightly steeper than that of the overall market recently - at least partially a reaction to its very strong performance in recent years.



Alyssa Morrisroe

A&D stocks outperformed the

S&P 500 by about 600% between 2003 and 2007, but have posted an average year-to-date decline of nearly 30%. Average P/E multiples have fallen from 20.9x in 2004 to 10.2x in 2008 (even while margins have continued to expand to a current average of 12.1% – up from a 2004 average of 10.6%). Add to this phenomenon the ongoing credit crunch, uncertainty in the face of an election and general global economic concern, and one would be forgiven for believing that aerospace and defense M&A may likely to grind to a halt.

To the contrary, however, the pace of A&D transactions remains strong. Total deal volume is down slightly, with 130 year-to-date closed transactions in 2008 versus 134 in the comparable 2007 timeframe. We anticipate – and in fact continue to see – strength in the A&D market on the basis of a variety of inter-related factors, including:

### Basic underlying strength of the Global A&D market

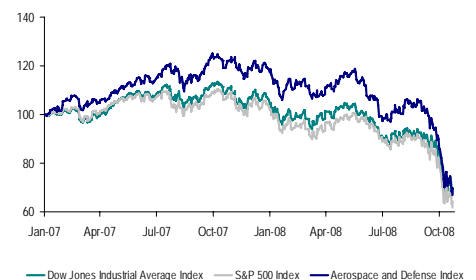
Aerospace and defense industry fundamentals are very attractive, with

Boeing amassing a 2008 orderbook of over 630 aircraft and Airbus garnering net 2008 orders of over 730 aircraft. Moreover, US carriers are not yet a significant portion of the orderbooks, and will likely continue to fill out the orderbooks into future years as their fleets age. Indeed, American Airlines announced an order of 42 Boeing 787 aircraft on October 15, 2008. The business jet market is equally strong, with Honeywell's recent *Business Aviation Outlook* calling for demand for up to 17,000 aircraft worth \$300 billion between 2008 and 2018. The defense industry remains healthy as well, with the recently approved 2009 defense appropriation totaling \$488 billion, including over \$100 billion approved for procurement. A fundamentally strong industry is one that will continue to attract strong investor interest.

### Fragmented nature of industry and pressure for consolidation

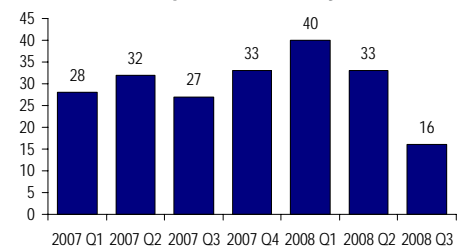
The A&D market remains incredibly fragmented. While some subsectors of the industry, such as avionics, have undergone significant consolidation to date, many others – including aerostructures, many electronics subsegments and numerous service sectors – are still in the relatively early stages of consolidation. There is also pressure from Primes and OEMs for industry players to consolidate into a streamlined supplier base with fewer, more capable suppliers. Contrasting the current structure of the industry with the vision of most Primes and OEMs underscores the need for, and likelihood of, significant further consolidation.

Aerospace and Defense Stock Price Performance Relative to Overall Market



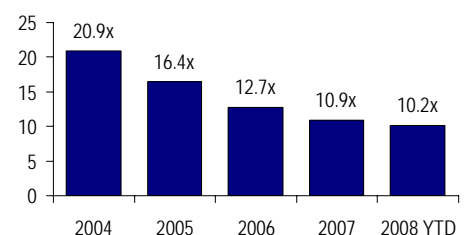
Note: Aerospace and Defense Index is composed of companies listed on page 5  
Source: CapitalIQ

Aerospace and Defense Merger and Acquisitions Activity



Source: CapitalIQ

Price / Earnings Ratios for Publicly Traded Aerospace and Defense Companies



Source: CapitalIQ

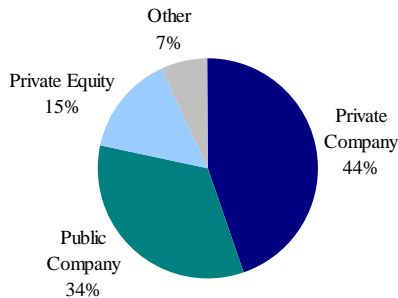
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## Aerospace and Defense M&A - A Bright Spot in a Tough Market *(continued)*

### Increasingly global nature of the A&D industry

Demand for aerospace and defense products is inherently global, creating requirements for an equally global supplier base. Certain sectors of the

Buyer Ownership Breakout - (2005 - 2007)



Source: CapitalIQ

industry, such as MRO, have been ahead of the curve in establishing global presence. However, significant additional globalization of the supply chain remains likely. While some companies chose to 'greenfield' operations around the globe, the difficulties inherent in such endeavors make M&A a safer and more attractive alternative. Moreover, many suppliers are looking for 'feet on the ground' near their customers. A drive on the part of (to date) primarily UK and Western European players to increase their presence with Boeing has led to their being very active buyers for US assets. The pressure for globalization will continue to support strong M&A activity.

### Significant strategic cash reserves

Private equity firms and foreign strategics have played a major role in aerospace

consolidation over the course of the last few years. US strategics, while certainly involved in the market, have not been a dominant force. However, US strategics have amassed significant war chests for acquisitions, with cash from operations increasing by over 20% in each of the last five years. It is likely that the current market environment will be viewed as an opportunity for many of the US strategics that have been on the sidelines until recently.

### Attractive attributes for private equity investors and lenders

While the current lending environment is very difficult, the A&D market continues to be an area of focus for private equity firms and lenders in the mid- to long-term. In particular, long-term agreements and the revenue and

*(Continued on page 3)*

## Lincoln International Performs in a Challenging Market: Five Recently Completed M&A Transactions in Eight Days

In today's economic climate, there is one question that continues to be asked:

### Are deals still getting done?

With five M&A transactions completed within eight business days in Q3, the results speak for themselves. To Lincoln International, a challenging market is exactly that: *a challenge*.

With over 130 bankers working together across nine offices world-wide, Lincoln International has the resources and perseverance it takes to overcome challenges and exceed our clients' expectations on every assignment, in any environment.



### Recently completed Lincoln International transactions

**D.S. BROWN**  
has been sold to  
**ALTUS**  
CAPITAL PARTNERS

**KATUN**  
a portfolio company of  
**Bank of America**  
and  
SVOBODA, COLLINS LLC.  
has been acquired by  
**MONOMOY**  
CAPITAL PARTNERS

**RAD**  
ELECTRONICS  
A portfolio company of  
**Chrysalis**  
VENTURES  
has sold  
**ASTREX**  
ELECTRONICS  
to  
**ROCKWOOD**  
EQUITY PARTNERS [L.P.]

**nmt**  
has sold certain assets to  
**nep**

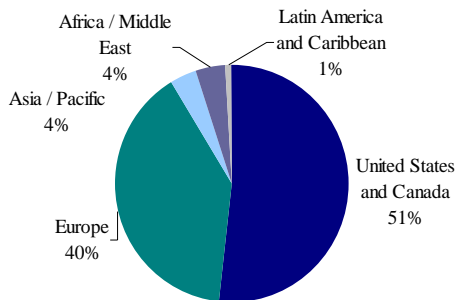
**Baird Capital Partners** has sold  
**XALOY**  
to  
**INDUSTRIAL GROWTH PARTNERS**

## Aerospace and Defense M&A - A Bright Spot in a Tough Market (*continued*)

(Continued from page 2)

earnings visibility they provide offer investors and lenders comfort. Moreover, there are inherent barriers to entry in the A&D market given the industry's stringent quality control, extensive certifications, tooling costs and,

Buyer Geographical Breakout - (2005 - 2007)



Source: CapitalIQ

frequently, traditional and/or process IP. These factors, together with the underlying strength of the market, should result in continued interest from private equity firms and participation from lenders.

### Implications for middle market A&D business owners

Despite all of the positive factors driving the continued activity within the A&D market, buyers have become more selective in the deals that they pursue in a general flight to quality. Based on the broad credit crunch and tight financing market, buyers are spending more time vetting deals and engaging in more extensive due diligence than was typical over the last few years. While M&A valuations continue to remain at robust

levels, moving forward, we believe that premium valuations will apply to businesses perceived as being of especially high quality.

For anyone in the marketplace contemplating a sale, these dynamics have important implications for maximizing value. In order to achieve a premium valuation, business owners should do everything possible to work with their advisors to prepare for a sale, identify the appropriate global buyers and effectively articulate their value proposition. Quality companies that properly prepare for a sale process will continue to garner attractive valuations.

*Alyssa Morrisroe, Vice President at Lincoln International, has over 12 years of experience advising owners and senior executives of aerospace and defense companies.*

## The General's Log



Brigadier General Bob Edmonds  
USAF, retired

*Brigadier General Bob Edmonds is an Advisory Director in Lincoln International's Aerospace and Defense Group. He retired in 2007 from the United States Air Force after 28 years of service, including as an F-15 pilot and commander. His experience also includes leading the US Air Force's Senate Liaison office on Capitol Hill after September 11<sup>th</sup>, 2001 and serving as a White House Fellow.*

*General Edmonds will have regular commentary in our Aerospace and Defense DealReader. For our inaugural issue, we interviewed General Edmonds regarding his thoughts on upcoming defense trends.*

### Question: What are your thoughts on the levels of future US defense budgets?

**General Edmonds:** This needs to be considered in the context of the global security environment. In terms of the Global War on Terrorism, the good news is that security in Iraq is improving – troop reductions are now on the way and Al-Qaeda seems to be no longer welcome. The surge did work, but more importantly, the Iraqi people and – remarkably – the Sunnis have rejected Al-Qaeda and have taken ownership of their future. But there continue to be significant security issues around the world. The Taliban in Afghanistan have gained strength with a safe haven in Pakistan. Iran's nuclear ambitions combined with President Ahmadinejad's hard-line rhetoric continue to signal confrontation and threaten stability in the volatile region. North Korea has threatened to restart its nuclear reactor in Pyongyang. Russia has flexed its muscles again with its Georgia intrusion and has announced a 25% increase in defense spending for next year (many people don't realize that Russia continues to fly bombers towards and into US airspace near Alaska). These are just a few national security issues to note.

With these types of threats in the world, I don't think there will be major decreases in defense budgets in the foreseeable future. However, following the election, there will be a top-to-bottom review of all defense programs – pretty standard procedure with a change of administration, but one that leads to uncertainty for many programs.

### Q: What programs do you predict as most vulnerable to termination or significant cuts?

**A:** Well that's the billion dollar question. While there's been much talk by the candidates about big-ticket programs such as aircraft, ship-builds and the like, we've rarely in the past, with either party, seen major programs terminated. These programs have gone through such scrutiny for initial funding and have developed large and disparate stakeholders. A trimmed budget may lead to lower per year buys, but program terminations are unlikely.

On the geo-political front, I think many see the Russian "bear" growling again. This certainly argues for modernization of our aircraft fleet – the F-22, F-35, a new air refueling tanker – increased build of new Navy warships and continued

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## The General's Log (continued)

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aggressive deployment of Future Combat Systems for the Army to stay on track.

This is not to say the current focus on fighting the war on terrorism is not important – it certainly is, and funding for special operations, better communications, intelligence gathering and dissemination equipment such as unmanned aerial vehicles and increased bandwidth should stay on course. These programs are critically important to maintain our technological edge.

**Question: What are some defense programs that are “must haves” from your perspective?**

A: I've already mentioned a few that we must continue to maintain our technical and operational superiority into the future. Coming out of Iraq there is a great need for recapitalization of the Army and Marines – particularly on the vehicle front, replacing vehicles we leave there, overhauling and modernizing those we keep, and keeping up with the latest up-armor technology. Iraq has been a watershed event in terms of armored

vehicles and equipment; we will never let our women and men into combat without vehicles that can withstand blasts. Another area in the “must have” category is network-centric systems. We can't have the most modern and capable forces without having technologies which advance network integration such as net-centric warfare; net-centric command and control; leveraging networks; technologies for unmanned aerial vehicles/robotics, cyber warfare and precision targeting (including missile defense, rockets and missiles).

## Lincoln Continues to Build Its Global Franchise

*Lincoln is proud to announce the opening of a global office in Tokyo, Japan and the addition of two members to the Global Aerospace and Defense Industry Group.*



The opening of Lincoln International's Tokyo office represents the firm's third new office this year, following its London and Madrid office openings.

The Tokyo office will provide merger and acquisition advisory

services to Japanese corporations that are focused on cross-border business development, primarily acquisitions. The Tokyo-based team will also identify and contact potential Japanese acquirers for North American and European sell-side assignments being executed by Lincoln International's North American and European offices. On a case-by-case basis the Tokyo team will work on out-in (foreign company buying or investing in a Japanese company) as well as in-in (domestic) transactions. Because close to 90% of Japanese M&A transactions are mid-market in size, Lincoln International is positioned to provide significant value added assistance to Japanese companies.

The Tokyo office will be led by Managing Director Tetsuya Fujii. Prior to joining Lincoln International, Fujii served as a

Senior Vice President, M&A Group, in the Investment Banking Division of Lehman Brothers' Tokyo office. He also worked for Deutsche Securities as a Director, Mergers & Acquisitions of the firm's Global Banking Group. Fujii graduated from Hitotsubashi University in Tokyo, Japan and received an MBA from the Kellogg School of Management at Northwestern University.

Lincoln is also proud to announce the hiring of Alyssa Morrisroe and Teresa Clegg. Morrisroe will be based in Los Angeles and Clegg in London and will both play a significant role in Lincoln International's Global Aerospace and Defense Group.

As a *Vice President*, Morrisroe will leverage her aerospace and defense industry contacts and expertise to spearhead M&A transactions as well as advise clients on strategic initiatives.

Prior to joining Lincoln International, Morrisroe was a *Vice President* at Jefferies Quarterdeck, an investment bank providing mergers and acquisitions advisory



Alyssa Morrisroe

services as well as debt and equity financing for defense, aerospace, space and information technology industries. In this role, Morrisroe was responsible for sourcing new business, planning, structuring

and negotiating transactions. During her tenure, she completed nearly two dozen transactions. Morrisroe graduated with a BA from the University of California at Berkeley.

Clegg has joined the firm's London office as a *Vice President* specializing in aerospace and defense. During her ten year banking career, Teresa has gained extensive A&D, particularly cross-border, transaction experience and excellent knowledge of a number of industry segments.



Teresa Clegg

In her previous role at Jefferies International, Teresa co-established the company's UK aerospace and defense business. During her six year tenure, Teresa successfully completed over 20 transactions for a range of corporate and private equity clients. Mandates included mainly sell-side advisory work as well as buy-side advisory, strategic acquisition searches and fairness opinions. Clegg earned a BA with Honors from Cambridge University.

## Public Comparable Trading Statistics

Company	Stock Price	52 Week		LTM Revenues	Market Cap.	Net Debt	EV/ Revenue	EV/ EBITDA	EV/ EBIT
		High	Low						
<b>Large Cap Companies</b>									
Boeing Co. (NYSE:BA)	\$42.91	\$99.0	\$40.0	\$66,946	\$30,244	\$785	0.5x	4.3x	5.4x
General Dynamics Corp. (NYSE:GD)	\$56.49	\$95.1	\$54.4	\$28,657	\$22,441	(\$451)	0.8x	5.7x	6.4x
Honeywell International Inc. (NYSE:HON)	\$27.85	\$63.0	\$26.0	\$37,119	\$20,227	\$6,901	0.7x	5.3x	6.5x
Lockheed Martin Corporation (NYSE:LMT)	\$79.77	\$120.3	\$78.3	\$42,440	\$31,617	\$1,271	0.8x	5.7x	6.7x
Northrop Grumman Corp. (NYSE:NOC)	\$45.91	\$85.2	\$37.2	\$33,178	\$15,009	\$3,296	0.6x	5.1x	6.5x
Raytheon Co. (NYSE:RTN)	\$44.15	\$67.5	\$41.8	\$22,443	\$18,406	(\$285)	0.8x	6.4x	7.4x
United Technologies Corp. (NYSE:UTX)	\$48.60	\$80.5	\$43.3	\$58,822	\$46,199	\$6,757	0.9x	5.9x	6.9x
<b>Mid-Cap Companies</b>									
Bombardier Inc. (TSX:BBD.B)	\$3.38	\$7.2	\$2.5	\$19,219	\$5,855	\$86	0.3x	3.9x	5.7x
Finmeccanica SpA (CM:FNC)	\$12.32	\$29.1	\$12.3	\$17,872	\$5,229	\$4,154	0.5x	4.8x	7.2x
L-3 Communications Holdings Inc. (NYSE:LLL)	\$79.84	\$115.3	\$75.9	\$14,481	\$9,694	\$3,926	0.9x	8.0x	9.1x
Precision Castparts Corp. (NYSE:PCP)	\$55.27	\$154.5	\$53.0	\$7,137	\$7,702	(\$89)	1.1x	4.3x	4.7x
Rolls Royce Group plc (LSE:RR.)	\$4.44	\$9.0	\$3.9	\$12,818	\$8,139	(\$1,286)	0.5x	4.8x	6.6x
Safran SA (ENXTPA:SAF)	\$12.46	\$24.0	\$11.5	\$13,694	\$5,064	\$130	0.4x	5.2x	14.6x
Singapore Technologies Engineering Ltd.	\$1.43	\$2.6	\$1.4	\$3,433	\$4,285	\$202	1.3x	9.1x	11.3x
<b>Small Cap Companies</b>									
CAE Inc. (TSX:CAE)	\$5.26	\$11.2	\$4.6	\$1,165	\$1,341	\$203	1.3x	5.6x	7.3x
Curtiss-Wright Corp. (NYSE:CW)	\$32.75	\$56.8	\$30.0	\$1,780	\$1,470	\$424	1.1x	7.1x	9.7x
Elbit Systems Ltd. (NasdaqGS:ESLT)	\$45.00	\$64.2	\$41.0	\$2,379	\$1,894	\$42	0.8x	6.2x	10.1x
Meggitt plc (LSE:MGGT)	\$2.18	\$5.6	\$2.0	\$1,700	\$1,440	\$1,277	1.6x	6.0x	9.3x
QinetiQ Group Plc (LSE:QQ.)	\$2.68	\$3.8	\$2.5	\$2,218	\$1,769	\$638	1.1x	9.0x	13.6x
Teledyne Technologies Inc. (NYSE:TDY)	\$43.35	\$66.2	\$37.7	\$1,767	\$1,547	\$278	1.0x	8.1x	9.9x
Zodiac SA (ENXTPA:ZC)	\$34.39	\$64.3	\$30.2	\$2,580	\$1,910	\$682	1.0x	6.8x	8.6x

### Notes:

1.\$ in millions

2.Large Cap Companies - market cap > \$10 billion; Mid-Cap Companies - market cap between \$10 billion and \$2 billion; Small Cap Companies - market cap < \$2 billion

Source: CapitalIQ

## Select Recent Industry Transactions

- 10/20/2008: **Sierra Nevada Corporation** announces the acquisition of **SpaceDev, Inc.**, a developer and manufacturer of space technology systems, subsystems, products and services for \$38 million, representing an EBITDA multiple of 29.0x and a revenue multiple of 1.0x
- 10/17/2008: **Boeing** announces its acquisition of **Federated Software Group**, a supplier of engineering services and software to track and distribute personnel and equipment for the Department of Defense
- 10/17/2008: **Rockwell Collins** announces its acquisition of UK-based **SEOS**, a manufacturer of visual display systems for military and commercial full flight simulators
- 10/16/2008: **Teledyne Technologies** announces the acquisition of UK-based **Cormon Ltd.**, a manufacturer of subsea and surface sand and corrosion sensors
- 10/15/2008: **Curtiss Wright** announces the acquisition of **Vmetro**, a Norwegian supplier of embedded computer products for \$78 million, representing an EBITDA multiple of 13.1x and a revenue multiple of 1.2x
- 10/15/2008: Italy's **Finmeccanica's** previously announced acquisition of **DRS Technologies**, a provider of defense electronic products receives CIFIUS approval
- 10/6/2008: **Precision Castparts Corporation** announces its acquisition of **Fatigue Technology**, an aerospace services company offering cold expansion fastener technology
- 10/3/2008: **Northrop Grumman** closes the acquisition of **3001 International, Inc.**, a provider of geospatial data production and analysis for \$90 million
- 10/1/2008: UK supplier **Cobham plc** closes on the acquisition of **Allied Defense Group's Global Microwave Systems**, a developer and producer of microwave / RF related devices and video collection links used in surveillance equipment for \$26 million
- 10/1/2008: **Woodward Governor** closes on the acquisition of **MPC Products**, a manufacturer of high-performance electromechanical motion control systems for \$383 million

## Lincoln International's Global Footprint



### About Lincoln International

Lincoln International specializes in merger and acquisition services, debt advisory services, UK pensions advisory and providing fairness opinions and valuations for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, New York, Madrid, Paris, Tokyo and Vienna and strategic partnerships with China Everbright and other partner firms in Asia, Lincoln International has strong local knowledge and contacts in the key global economies. Theagif organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at [www.lincolninternational.com](http://www.lincolninternational.com).

### Industry Groups

Lincoln International dedicates teams headed by senior professionals in each of its global offices to the following industries:

- Aerospace and Defense
- Automotive and Truck
- Building and Construction
- Business Services
- Chemicals
- Consumer
- Electronics
- Food and Beverage
- Industrials
- Packaging
- Technology
- Transportation and Logistics

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