



# PCE Industry Report

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Aerospace & Defense



# Middle Market M&A Summary

## Aerospace & Defense

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1st Quarter 2016

### Key Highlights

- The average value of the top transactions was \$10 billion.
  - The largest transaction was the acquisition of Precision Castparts Corp. by Berkshire Hathaway Incorporated for \$37.9 billion.
  - The smallest transaction was the acquisition of AIM Aerospace, Inc. by Northwestern Mutual Capital for \$220 million.
- The public company industry median TEV/EBIT multiple is 13.1x.
- The public company industry median TEV/EBITDA multiple is 10.7x.

### Key Trends

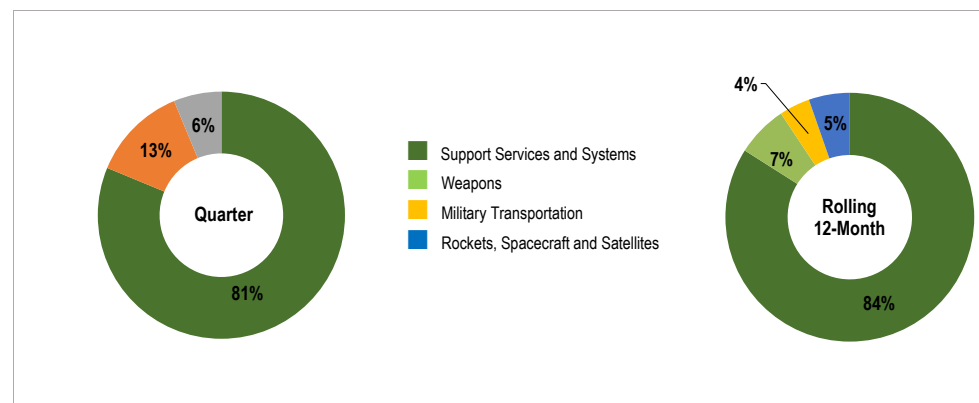
- The Weapons subsector's transaction volume was positively trending, while Support Services & Systems and Military Transportation subsectors were trending negatively while the Rockets subsector's was trending neutrally.
- The Support Services & Systems subsector's transaction volume was the largest at 81% of the industry over the past quarter.
- Jobs in the Aerospace & Defense sector is set to increase by 3.2% in 2016, its first job growth in the sector in 5 years. The increase in jobs is attributed to The Pentagon's increased FY16 budget, a resurgence of global security threats, low oil prices, and growth in production of new commercial aircraft driven by strong travel demand.
- M&A in the defense market is expected to be focused on smaller deals addressing technology niche segments such as cybersecurity, surveillance and UAV's.
- A Senate FAA bill looks to accelerate use of small commercial drones and allow flights at night and outside the sight of operators. The measure would permit regulators to approve a case-by-case exemption setting the stage for long-term privacy policies and safety standards for unmanned small aircraft.
- The Pentagon is reviewing plans to replace the Atlas V rocket and its Russian-built RD-180 engine with a new all-U.S. made booster. A quick development may be too risky according to outside acquisition experts, but a slow rollout stretching through 2025 would be less risky and save American taxpayers billions of dollars.

## Industry Trends During Quarter

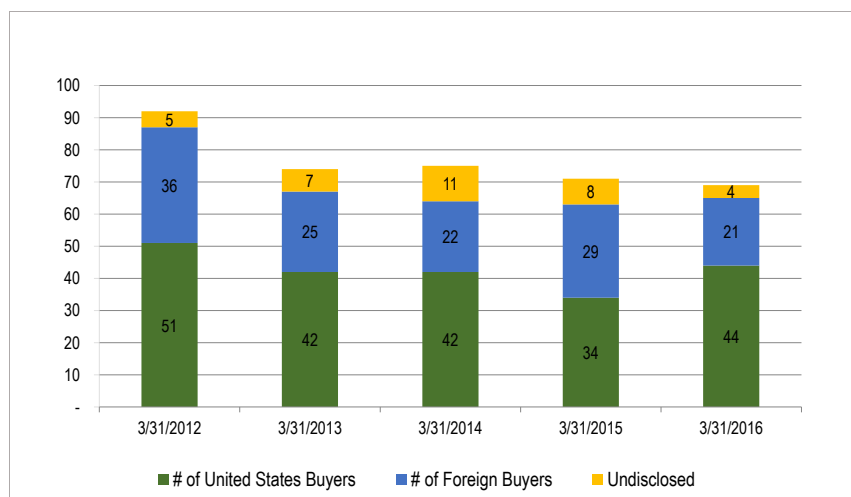
Sector	Transaction Volume	TEV/ Revenue	TEV/EBITDA
Support Services and Systems	↓	↑	↑
Weapons	↑	↓	↓
Military Transportation	↓	↓	↓
Rockets, Spacecraft and Satellites	→	↓	↑

\* 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	Precision Castparts Corp.	Berkshire Hathaway Inc.	\$37,916.7
Support Services & Systems	Landmark Aviation, L.L.C.	BBA Aviation plc	\$2,065.0
Support Services & Systems	Robertson Fuel Systems, LLC	HEICO Electronic Technologies Corp.	\$255.0
Support Services & Systems	AIM Aerospace, Inc.	Northwestern Mutual Capital LLC; BlackRock Private Equity Partners;	\$220.0

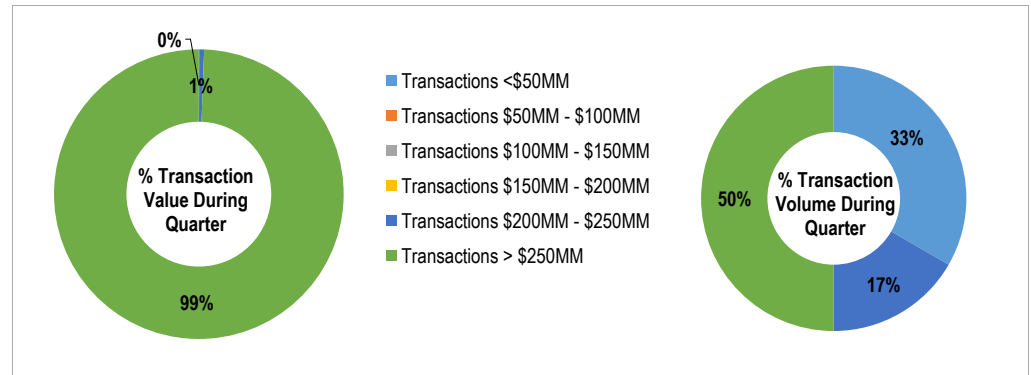
Source: S&P Capital IQ as of 4/27/2016 and PCE Proprietary Data

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

Transaction Volume	13
Number of Transactions with Disclosed Values	6
Transaction Value*	\$40,474.03
Average Transaction Value*	\$6,745.67
Median Transaction Value*	\$237.50

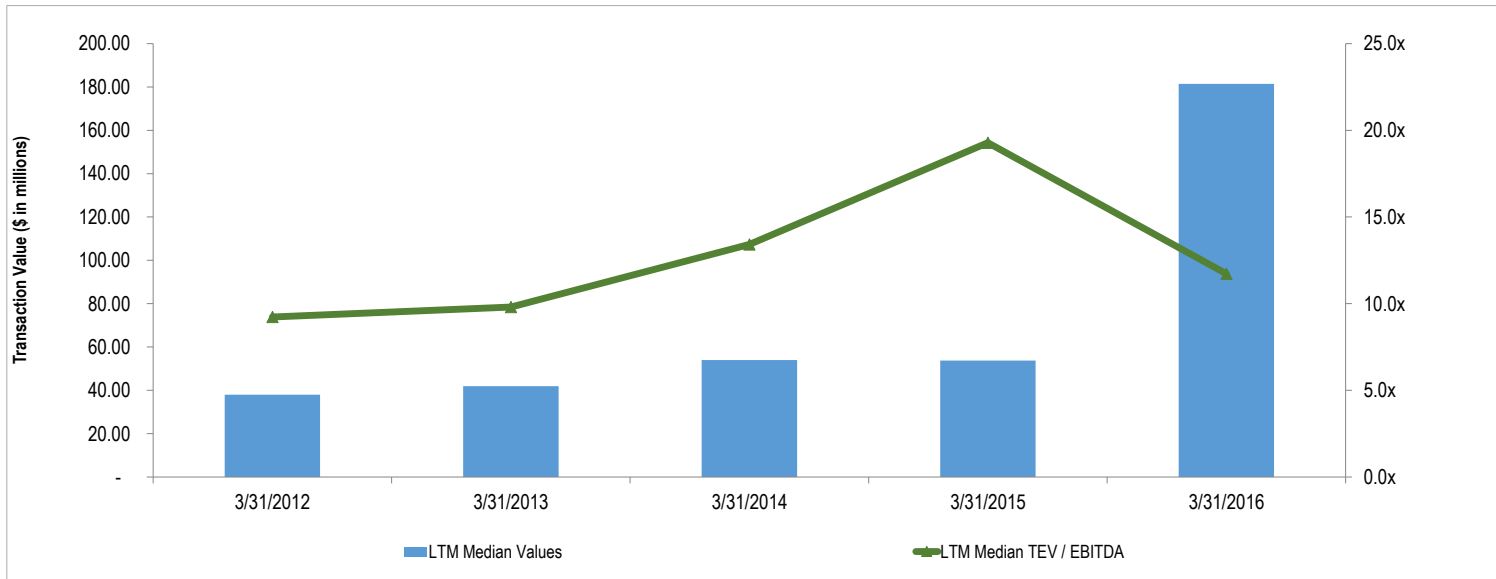
*\*Based on transactions with reported financial data only; historically ~ 30% to 40% of transactions report financial data.*

## 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.

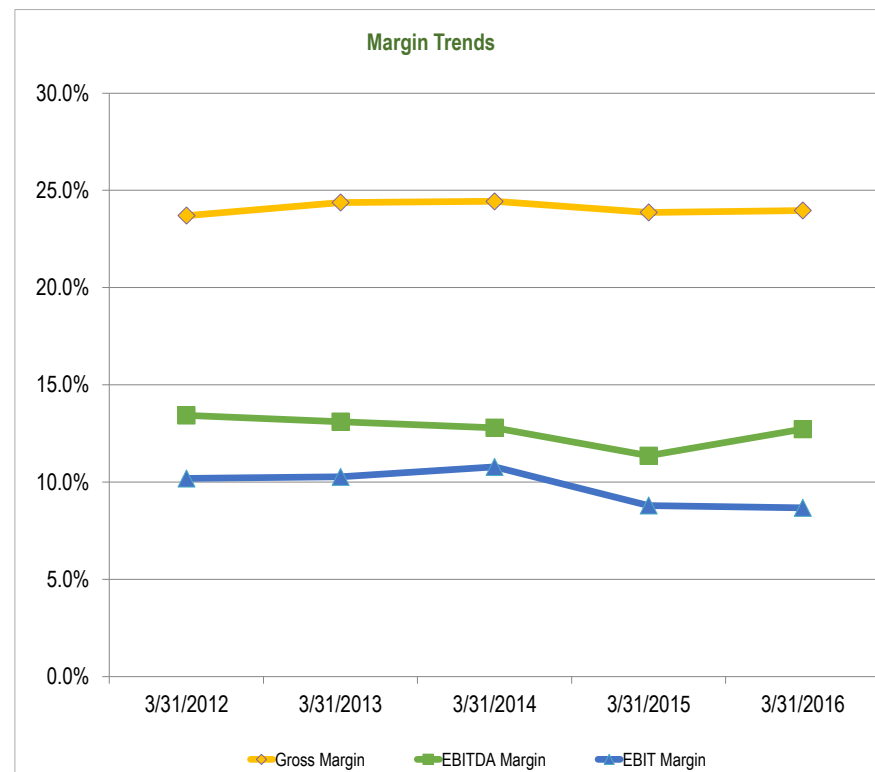
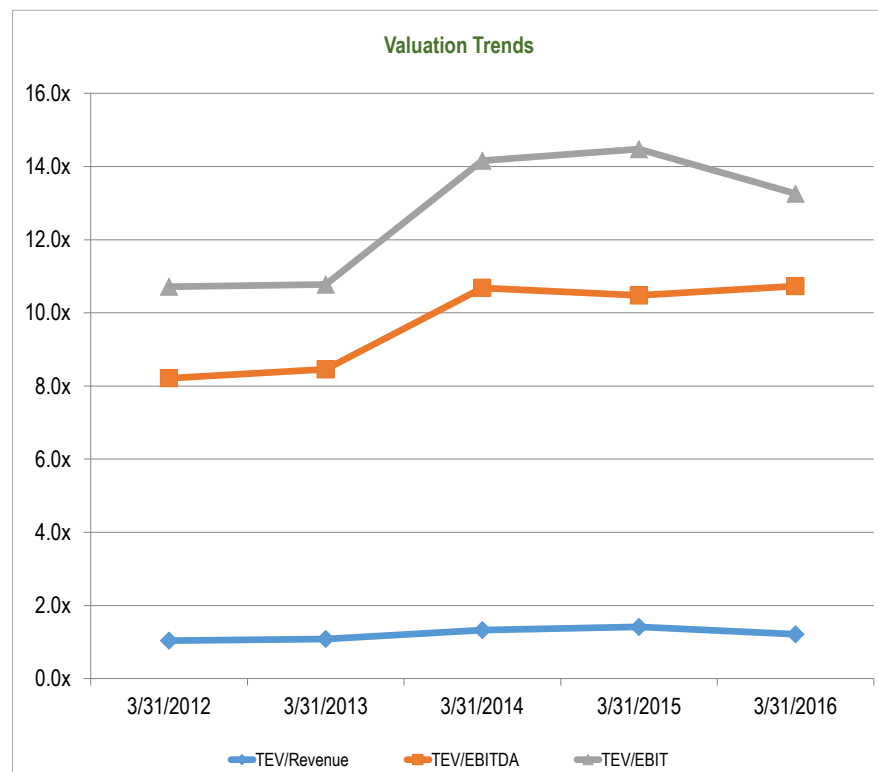
# Support Services and Systems

1st Quarter 2016

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

	Total Enterprise Value				Last Twelve Months 3/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$12,887	1.5x	11.7x	22.4x	TEV/Revenue	↓
Median	\$1,606	1.2x	10.7x	13.3x	TEV/EBITDA	↑
					TEV/EBIT	↓

	Margins			Last Twelve Months 3/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	25.2%	12.1%	8.5%	Gross Margin	↑
Median	24.0%	12.7%	8.7%	EBITDA Margin	↑
				EBIT Margin	↓



Source: S&P Capital IQ as of 4/27/2016 and PCE Proprietary Data

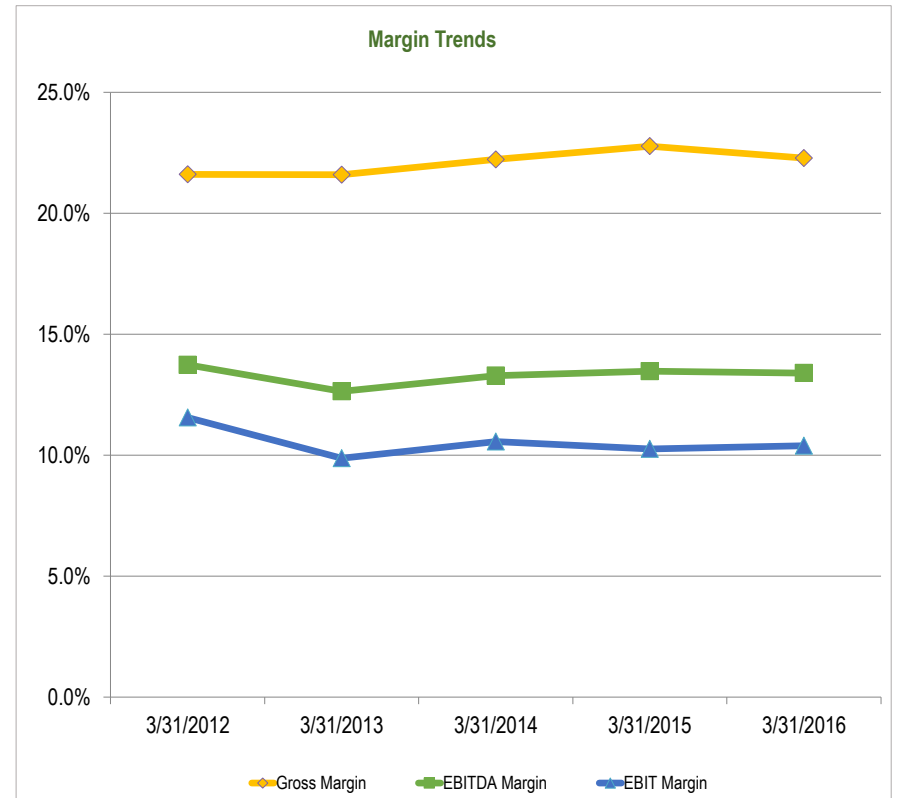
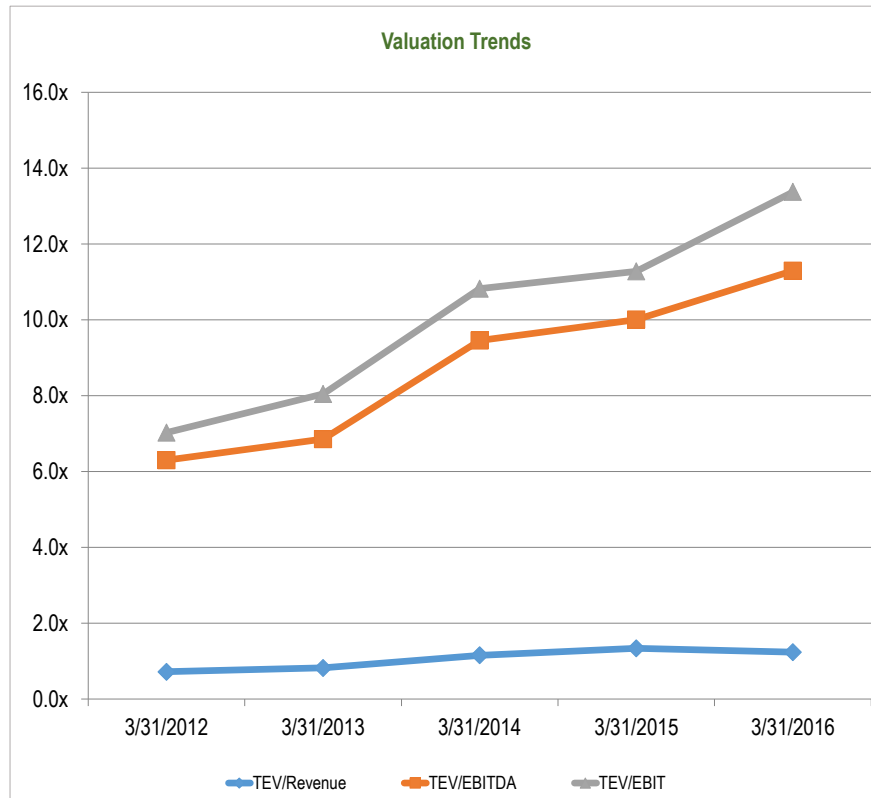
# Weapons

1st Quarter 2016

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

	Total Enterprise Value				Last Twelve Months 3/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$19,262	1.2x	11.0x	13.2x	TEV/Revenue	↓
Median	\$3,348	1.2x	11.3x	13.4x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 3/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	22.1%	10.8%	7.6%	Gross Margin	↓
Median	22.3%	13.4%	10.4%	EBITDA Margin	↓
				EBIT Margin	↑



Source: S&P Capital IQ as of 4/27/2016 and PCE Proprietary Data

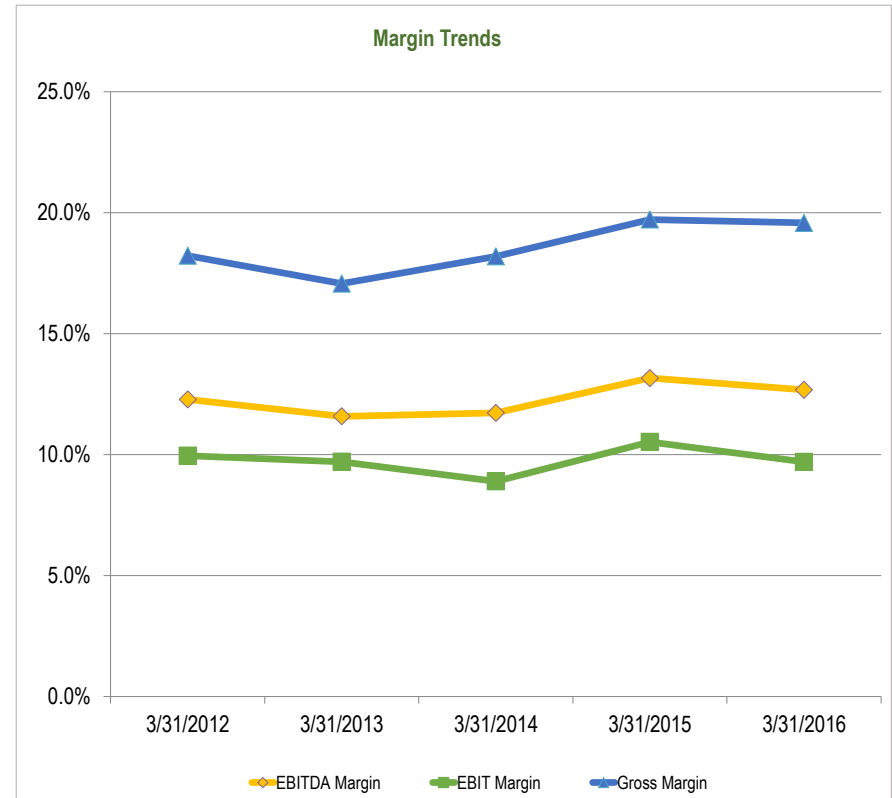
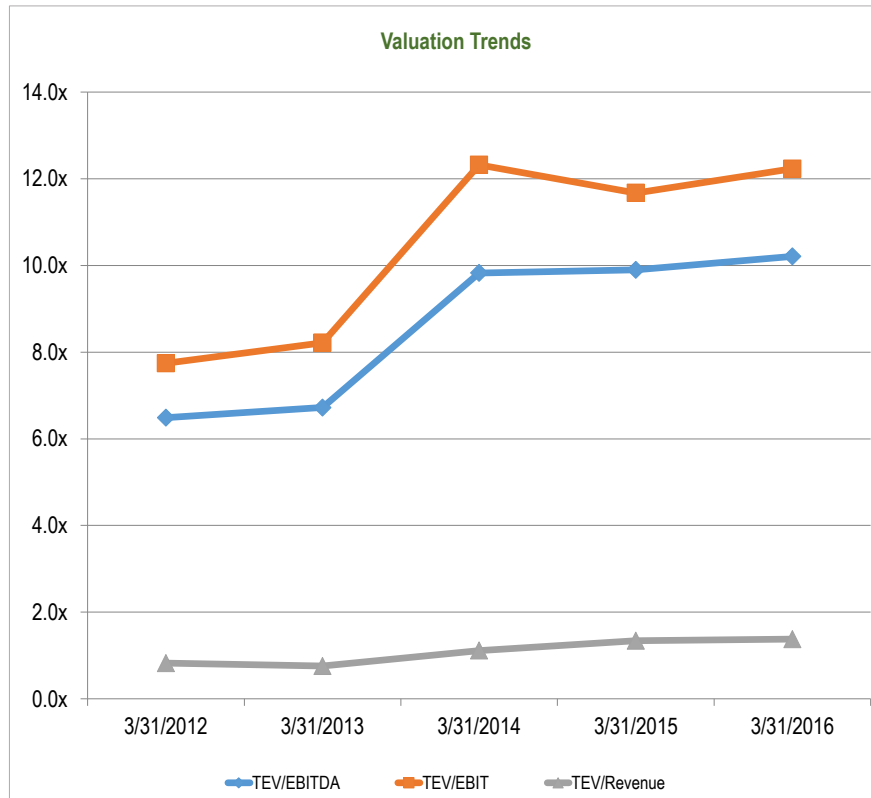
# Military Transportation

1st Quarter 2016

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

	Total Enterprise Value				Last Twelve Months 3/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$31,603	1.3x	11.8x	15.9x	TEV/Revenue	↑
Median	\$23,166	1.4x	10.2x	12.2x	TEV/EBITDA	↑
					TEV/EBIT	↑

	Margins			Last Twelve Months 3/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	21.5%	12.1%	9.6%	Gross Margin	↓
Median	19.6%	12.7%	9.7%	EBITDA Margin	↓
				EBIT Margin	↓



Source: S&P Capital IQ as of 4/27/2016 and PCE Proprietary Data

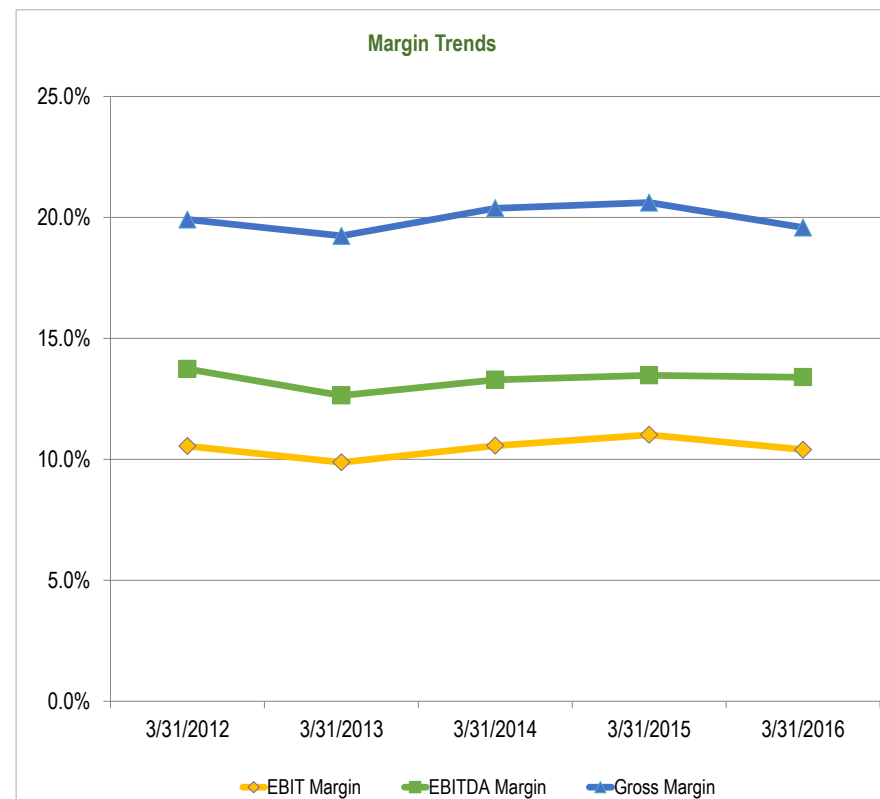
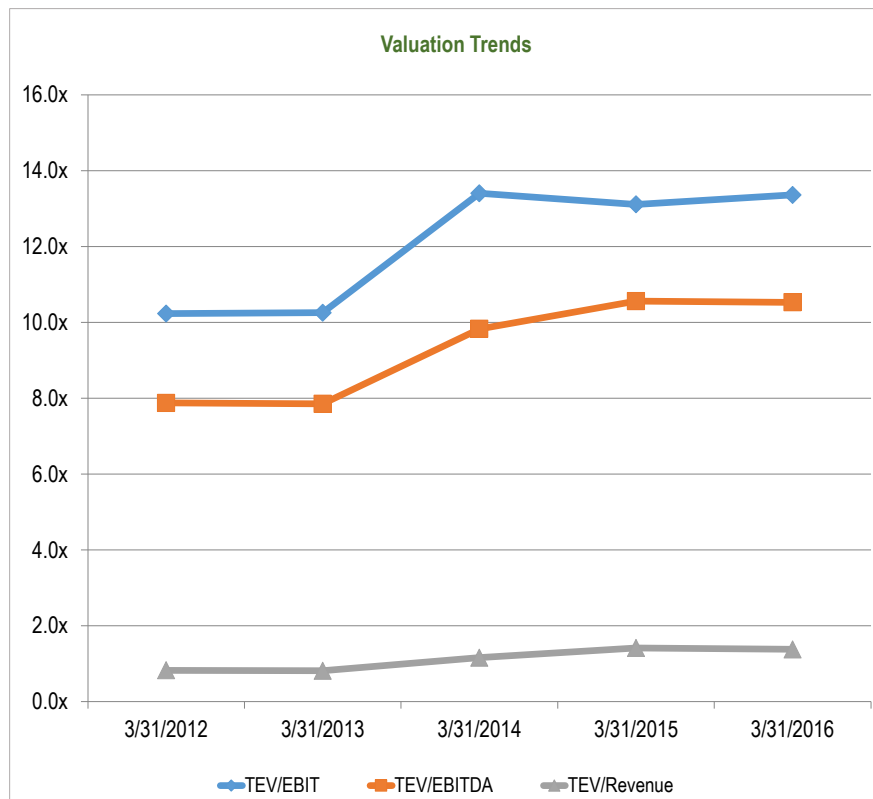
# Rockets, Spacecraft and Satellites

1st Quarter 2016

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

	Total Enterprise Value				Last Twelve Months 3/31/2016 Trends	
	Market Cap	Revenue	EBITDA	EBIT		
Average	\$30,287	1.4x	10.3x	13.6x	TEV/Revenue	↓
Median	\$20,712	1.4x	10.5x	13.4x	TEV/EBITDA	↓
					TEV/EBIT	↑

	Margins			Last Twelve Months 3/31/2016 Trends	
	Gross Profit	EBITDA	EBIT		
Average	20.2%	13.6%	10.7%	Gross Margin	↓
Median	19.6%	13.4%	10.4%	EBITDA Margin	↓
				EBIT Margin	↓



Source: S&P Capital IQ as of 4/27/2016 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

Experienced in all market sectors, PCE has established several specialty practice areas:

- Aerospace & Defense
- Banking, Finance & Insurance
- Building Products & Construction
- Business Services
- Consumer & Food
- Diversified Industrials
- Healthcare
- IT & Telecom
- Power & Energy
- Transportation & Logistics

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### PCE Locations

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Atlanta

Chicago

New York

### 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/announced dates only.

### Glossary

EBIT - Earnings Before Interest and Taxes

EBITDA - Earnings Before Interest, Taxes, Depreciation, Amortization

LTM - Last Twelve Months

TEV - Total Enterprise Value