



PCE Industry Report

Aerospace & Defense



Middle Market M&A Summary

Aerospace & Defense

4th Quarter 2017

Key Highlights

- The public company industry median TEV/EBIT multiple is 17.6x.
- The public company industry median TEV/EBITDA multiple is 14.5x.

Key Trends

- Defense industry participants believe that with the resurgence of global security threats in late 2017, there will be a reversal in the trend of contracting military budgets for the large traditional markets. Additionally, many are turning to weapon manufacturing customers from emerging countries like India, South Korea and Japan.¹
- Despite Lockheed Martin's F-22 Raptor being discontinued, they remain committed to supporting the program as they announced in December that the U.S. government awarded a \$7 billion contract for the sustainment of F-22's currently in service.²
- Japan bolstered its levels of defense spending and is expected to reach a record \$46 billion overall defense budget in 2018 to address the North Korean threat to national security. As part of the increase, a multibillion dollar purchase from the US of a new missile defense system was approved by the government.³
- As 2017 drew to a close, new US Defense Department DFARS regulations were implemented that dictates defense contract bidders must comply with new cybersecurity regulations. Industry participants fear the new rule will raise the costs associated with the bidding process.⁴

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

¹ "Salesman-In-Chief", Quartz, November 7, 2017.

² "Lockheed Martin to Provide F-22 Sustainment Services for \$7B", Zacks Equity Research, December 22, 2017.

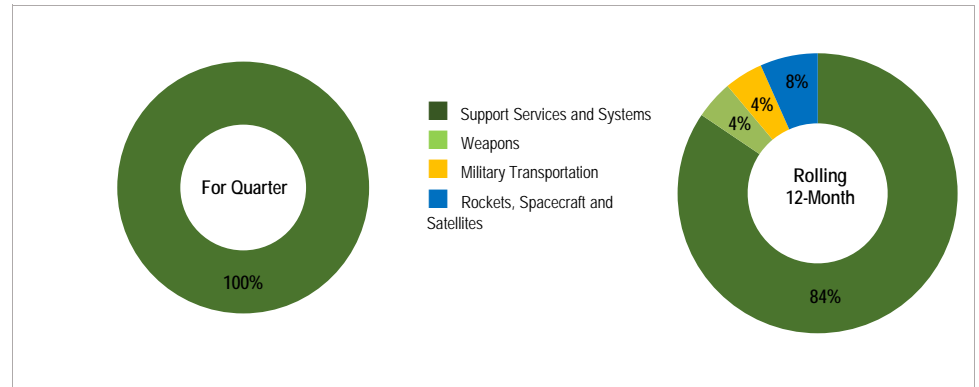
³ "Japan Buys US Missile Defense System to Counter North Korean Threat", The Guardian, December 19, 2017.

⁴ "Contractors Must Contend With New Cybersecurity Rule", National Defense, January 4, 2018.

Industry Trends During Quarter

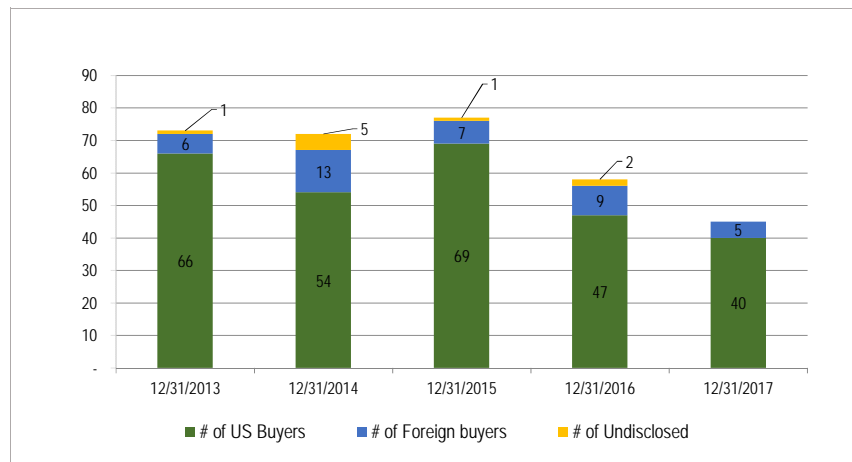
Sector	Transaction Volume	TEV/ Revenue	TEV/EBITDA
Support Services and Systems	↑	↓	↑
Weapons	↓	↓	↑
Military Transportation	→	↓	↑
Rockets, Spacecraft and Satellites	↓	↓	↓

Transaction Volume as % of Industry



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

Rolling 12-Month Transaction Volume Trends by Buyer Origin



Largest Transactions Closed During Quarter by Transaction Value (\$ in millions)

Sector	Target	Buyer	Transaction Value
Support Services and Systems	MesoScribe Technologies, Inc.	CVD Materials Corporation	\$0.8

Source: S&P Capital IQ as of 1/15/2018 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:

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- 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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- Business Services
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- Diversified Industrials
- Healthcare
- IT & Telecom
- Power & Energy
- Transportation & Logistics

PCE Investment Bankers, Inc - member FINRA & SIPC; PCE Valuations, LLC; PCE Advisory, LLC

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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