

Aerospace & Defense Industry Update



Commercial Aviation Update

The Boeing 787 Dreamliner™ jet has finally arrived as Boeing, Co. made its first delivery in September. All Nippon Airways Co. and the U.S. plane maker signed the final documents related to the first delivered Dreamliner, and the title was transferred to the Japanese airline. The long-awaited plane, made largely of plastic composite materials instead of aluminum, was handed off more than three years behind Boeing's original schedule.¹

The delivery marks the first of what Boeing and industry analyst forecasts to be many. Just recently, Boeing raised its forecast for China's spending on commercial aircraft by 25%, citing international expansion in what the company expects will become the world's second-biggest aircraft market, after the U.S. The expectations are that the Chinese carrier and others will spend \$600 billion for 5,000 new commercial airplanes from Boeing, Airbus and other manufacturers.²

Last year, Boeing estimated that China would spend \$480 billion on 4,330 planes over the next 20 years. The new and higher forecast assumes continued economic growth in China of at least 7%. That is well below China's historical pace over the past three decades, but in line with many economists' expectations. However, such long-term predictions are inherently uncertain, especially in light of current global economic woes. The forecast also includes a predicted 6% increase in airplane prices, which Airbus and Boeing

have raised to cover higher raw-material costs.² Overall Dreamliner orders through August 2011 total 821 worldwide.³

Boeing's rival Airbus, a unit of European Aeronautic Defence & Space Co, has plans to develop the A350 XWB (extra wide body) to compete directly with the Dreamliner and has already garnered a healthy order log to date with a total of 567.⁴ According to Airbus, the program is on track for a 2013 delivery with Qatar Airways being its launch customer. However, Bernstein Research forecasts that the A350 first delivery will slip into 2014 and that Airbus will only deliver eight of the next-generation aircraft in that year, flagging a significant slippage in the program.

Current Outlook for Commercial Aviation

Airbus has raised its long-term global market forecast for aircraft demand. Airbus, though slightly less bullish than Boeing, forecast demand for 27,800 new passenger and freighter aircraft at a combined total list price of \$3.5 trillion through 2030. Airbus also projected that the global fleet of all passenger aircraft with more than 100 seats would rise to 31,500 planes. Boeing put the figure even higher at 36,030 aircraft. Boeing is also more bullish on the market for single-aisle passenger jets, forecasting that traffic will rise at a 5.1% annual rate versus 4.8% forecasted by Airbus.⁵

The International Air Transport Association (IATA) has reported that indicators for business travel look "gloomy" and suggested that expansion could stall in the fourth quarter of 2011. Earlier in June, the IATA trimmed the

forecast for the air travel industry to \$4 billion from the \$8.6 billion predicted in March.⁴

Aerospace and Defense M&A Landscape

Third quarter 2011 deal values were buoyed by United Technologies Corp.'s (UTC) blockbuster acquisition of Goodrich Corp., for \$18.4 billion, including \$1.9 billion in net debt assumed. Goodrich is a global supplier of systems and services to the aerospace and defense industry. Its products include aircraft landing gears, aircraft wheels and brakes. Goodrich, with estimated 2011 sales of \$8 billion, serves a global customer base with 27,000 employees worldwide. UTC was reportedly in talks to acquire Goodrich Corp. as an effort to provide a broader range of complementary products and to create strong verticals, with a deal finally announced September 21, 2011. Following completion of the transaction, United Technologies is expected to have worldwide sales of approximately \$66 billion based on projected 2011 results. The combined company's increased scale, financial strength and complementary products will further strengthen United Technologies' position in the aerospace and defense industry.⁶

Excluding the acquisition of Goodrich, transaction values and volumes fell slightly in the third quarter 2011. During the period, the industry saw 52 announced and/or closed transactions at a value of \$1.7 billion. The average valuation multiples also decreased to 7.3x EBITDA in the third quarter versus 8.5x EBITDA in both Q2 2011 and Q3 2010.⁷

Cash-rich companies that hoarded cash during the trough of the recent recession are becoming increasingly eager to deploy the excess capital for growth via M&A. Over-capitalized companies can retain dry powder for only a certain matter of time before they feel the pressure from activist shareholders and competitors to put the cash to work.

While overall trends in the aerospace & defense industry have remained positive, the projected decrease of the US defense budget and globalization of commercial aerospace continues to present opportunities and challenges to participants across the global supply chain.

¹ Kesmodal, David. "Boeing Delivers First Dreamliner." Wall Street Journal. September 26, 2011.

² SHIROUZU, NORIHIKO. "Boeing Sees China on the Rise: Firm Increases Forecast for Spending on Commercial Aircraft." Wall Street Journal. September 8, 2011.

³ Boeing Corporation. www.boeing.com. September 2011

⁴ Airbus S.A.S. www.airbus.com. September 2011

⁵ Nithyananthan Kaveri; Cameron, Doug. "Airbus Raises Market Forecast." Wall Street Journal. September 19, 2011.

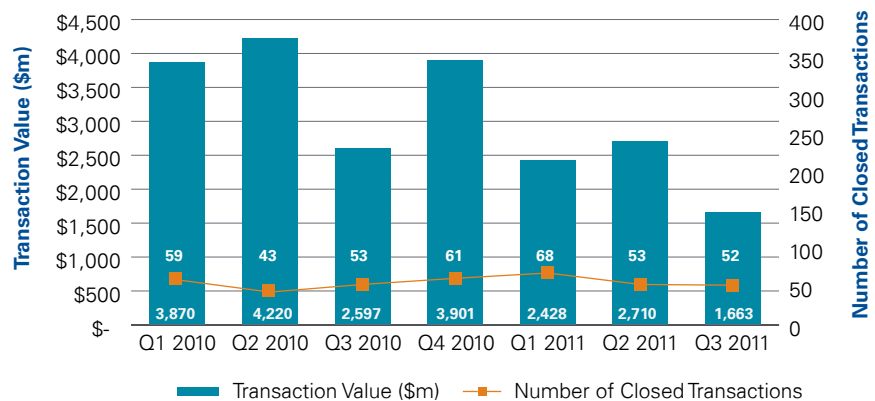
⁶ Goodrich Corporation. Form 8-k. September 22, 2011.

⁷ Capital IQ and Company Filings

Select Transportation and Logistics M&A Transactions

- September 21, 2011 – **United Technologies Corp.** (NYSE:UTX), a conglomerate providing technology products and services to the building systems and aerospace industries worldwide, acquired **Goodrich Corp.** (NYSE:GR), a provider of aerospace components, systems, and services primarily in the United States, Canada, Europe, and the Asia Pacific, for \$18.4 billion. The deal implies a valuation multiple of 2.4x revenue and 12.8x EBITDA based on LTM June 2011 results.
- September 15, 2011 – **Cobham plc** (LSE:COB), a provider of aerospace and defense technology and systems worldwide, acquired **Trivec Aviant Corporation**, a provider of antenna systems for the military in the United States and internationally, for \$144 million. The deal implies a valuation multiple of 6.4x EBITDA based on LTM December 2010 results.
- September 14, 2011 – **Bluefin Robotics Corporation**, a provider of autonomous underwater vehicles, acquired **Hawkes Remotes, Inc.**, a provider of remotely operated vehicles (ROVs), for an undisclosed amount.
- August 26, 2011 – **Bridgepoint Development Capital**, a private equity firm, acquired **Lamsco West, Inc. Bolsan Company, Inc. and Attewell Limited**, providers of laminated shim stock aerospace equipments, for \$84 million.
- August 16, 2011 – **Greenbriar Equity Group LLC**, a private equity firm, acquired the **Aerospace Hardware Division from Anixter International Inc.**, (NYSE:AXE), a leading global distributor of communication and security products, electrical and electronic wire & cable, fasteners and other small parts, for \$185 million. The Aerospace Hardware Division comprises an aerospace hardware division that engages in the distribution

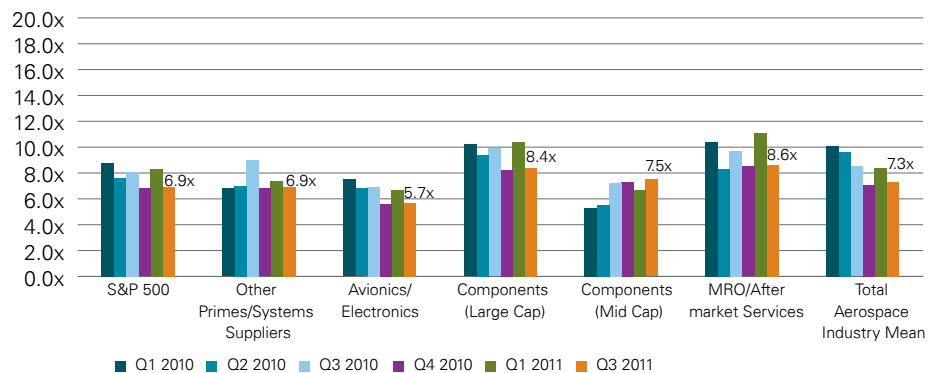
Global Transaction Volume and Deal Value



Source: Capital IQ and Company Filings

Note: Q3 2011 transaction value does not include United Technologies Corp.'s \$18.4 billion acquisition of Goodrich Corp.

Public Comparables Average Enterprise Value to EBITDA Multiples



Source: Capital IQ and Company Filings

- of aerospace hardware and related components to a broad range of aerospace and defense OEMs and their subcontractors throughout the world. The deal implies a valuation multiple of approximately 1.0x revenue and 7.7x EBITDA based on the current run rate of H'1 2011 results.
- August 5, 2011 – **TransDigm Group Incorporated** (NYSE:TDG), a provider of engineered aircraft components for use on commercial and military aircraft principally in the United States, acquired **Schneller, LLC**, a provider of engineered decorative materials for aircraft interiors, for \$289 million. The deal implies a valuation multiple of approximately 3.0x revenue based on LTM December 2011 estimates.

- July 28, 2011 – **Curtiss-Wright Controls, Inc.**, a provider of mechanical, hydraulic, and electromechanical control and actuation systems for aerospace, industrial, and defense applications, acquired **Acra Control Ltd.**, a provider of airborne data acquisition, communications, recording and transmission systems for the aerospace and transportation industries, for \$60 million. The deal implies a valuation multiple of 2.0x revenue based on LTM March 2011 results.
- July 10, 2011 – **Precision Castparts Corp.** (NYSE:PCP), a provider of metal components and products worldwide, acquired **Primus International, Inc.**, a provider of aircraft products catering to original equipment manufacturers and suppliers, for \$900 million.

Source: Capital IQ, Company Filings and Press Releases

Select Aerospace and Defense Public Comparables

Company	Market Cap ⁽¹⁾	Share Price ⁽¹⁾	52 Wk Low	52 Wk High	1 Mo Price % Chng	1 Yr Price % Chng	"Debt to TC"	"Price to BV"	"EV ⁽²⁾ /Sales"	"EV ⁽²⁾ /EBITDA ⁽³⁾ "
S&P 500										
Boeing Co.	44,843.5	60.5	56.0	80.7	-8.4%	-9.1%	70.7%	9.5	0.7	7.5
General Dynamics Corp.	20,580.8	56.9	54.0	78.3	-11.0%	-9.4%	18.6%	1.5	0.7	4.8
Goodrich Corp.	15,104.4	120.7	72.9	122.3	37.3%	63.7%	38.6%	4.0	2.3	12.0
Honeywell International Inc.	34,356.3	43.9	41.5	62.3	-7.1%	-0.1%	38.8%	2.8	1.1	8.1
Lockheed Martin Corporation	24,379.6	72.6	66.4	82.4	-2.0%	1.9%	60.5%	7.4	0.6	5.2
Northrop Grumman Corporation	14,506.2	52.2	49.2	72.5	-4.1%	-14.0%	24.7%	1.2	0.5	3.9
Raytheon Co.	14,452.2	40.9	38.4	53.1	-4.6%	-10.6%	25.9%	1.4	0.6	5.0
Rockwell Collins Inc.	8,107.4	52.8	43.8	67.3	4.4%	-9.4%	25.9%	4.9	1.8	8.3
United Technologies Corp.	63,937.0	70.4	67.1	91.8	-4.6%	-1.2%	32.1%	2.8	1.3	7.5
S&P 500 Mean					0.0%	1.3%	37%	3.9	1.0	6.9
S&P 500 Median					-4.6%	-9.1%	32%	2.8	0.7	7.5
Other Primes/Systems Suppliers										
BAE Systems plc	13,892.7	4.2	3.8	5.8	-4.3%	-22.3%	61.9%	1.7	0.5	3.7
Bombardier, Inc.	6,098.7	3.5	3.5	7.0	-32.4%	-27.8%	79.1%	7.1	0.4	5.0
European Aeronautic Defence and Space Company EADS	23,478.9	28.5	22.3	34.1	-7.1%	14.7%	27.3%	1.5	0.3	4.5
Embraer SA	4,589.8	25.4	21.0	35.4	1.1%	-10.6%	40.2%	1.5	0.8	11.1
Finmeccanica SpA	4,057.2	7.0	5.8	13.6	-2.0%	-64.7%	45.6%	0.4	0.5	4.8
Thales	6,290.3	31.7	31.5	41.0	-12.6%	-13.1%	32.2%	1.2	0.4	12.3
Other Primes/Systems Suppliers Mean					-9.6%	-20.6%	48%	2.3	0.5	6.9
Other Primes/Systems Suppliers Median					-5.7%	-17.7%	43%	1.5	0.4	4.9
Avionics/Electronics										
Alliant Techsystems Inc.	1,796.0	54.5	51.3	80.0	-13.7%	-27.7%	56.6%	1.5	0.6	4.7
DRS Data & Research Services plc	9.3	0.3	0.3	0.4	-2.7%	-13.3%	26.5%	1.1	0.2	2.7
Harris Corp.	4,052.6	34.2	34.1	53.4	-14.5%	-22.8%	45.2%	1.7	1.0	4.7
L-3 Communications Holdings Inc.	6,530.9	62.0	58.3	88.6	-7.8%	-14.3%	37.1%	0.9	0.7	5.3
CAE Inc.	2,435.3	9.5	9.0	12.9	-11.5%	-8.0%	42.2%	2.7	1.8	8.5
Ultra Electronics Holdings plc	1,612.6	23.5	19.8	29.8	2.3%	-12.1%	16.0%	4.0	1.5	8.4
Avionics/Electronics Mean					-8.0%	-16.4%	37%	2.0	1.0	5.7
Avionics/Electronics Median					-9.7%	-13.8%	40%	1.6	0.8	5.0
Components (Large Cap)										
Cobham plc	2,989.3	2.7	2.6	3.9	-9.2%	-24.7%	42.2%	1.9	1.3	5.8
Curtiss-Wright Corp.	1,343.7	28.8	25.7	38.9	-5.6%	-4.9%	27.0%	1.1	0.9	6.2
Esterline Technologies Corp.	1,587.0	51.8	50.2	82.3	-31.0%	-9.4%	40.4%	1.0	1.5	7.8
Meggitt plc	4,070.6	5.2	1.9	6.3	-4.3%	12.6%	35.6%	1.5	2.7	11.0

Company	Market Cap(1)	Share Price(1)	52 Wk Low	52 Wk High	1 Mo Price % Chng	1 Yr Price % Chng	"Debt to TC"	"Price to BV"	"EV(2)/ Sales"	"EV(2)/ EBITDA(3)"
Components (Large Cap)										
Moog Inc.	1,499.4	32.6	30.5	46.5	-18.5%	79.3%	37.1%	1.2	0.9	6.8
Precision Castparts Corp.	22,390.3	155.5	126.9	174.0	-6.2%	710.1%	3.0%	3.0	3.3	12.2
Rolls Royce Holdings plc	17,404.6	9.3	8.2	10.5	-7.4%	-53.9%	19.3%	2.3	0.9	6.4
Smiths Group plc	6,136.7	15.6	13.8	22.7	1.5%	-26.2%	41.8%	3.0	1.6	7.9
Textron Inc.	4,892.2	17.6	14.7	28.9	5.6%	-20.5%	61.4%	1.5	0.9	10.7
Zodiac Aerospace SA	4,134.3	77.9	60.1	84.4	1.2%	23.4%	37.5%	2.0	1.5	9.5
Components (Large Cap) Mean					7.4%	68.6%	35%	1.8	1.6	8.4
Components (Large Cap) Median					-5.9%	-7.1%	37%	1.7	1.4	7.9
Components (Mid Cap)										
Ducommun Inc.	157.8	15.0	14.5	26.1	-18.5%	-31.2%	60.7%	0.6	1.3	13.9
Heroux-Devtek Inc.	219.7	7.2	5.4	8.9	-3.3%	21.4%	31.5%	1.0	0.8	5.1
Magellan Aerospace Corp.	52.9	2.9	2.5	5.4	-16.3%	13.3%	52.8%	0.2	0.4	3.6
Triumph Group, Inc.	2,390.7	48.7	37.0	54.8	-7.7%	30.7%	42.3%	1.4	1.1	7.5
Components (Mid Cap) Mean					-11.4%	8.5%	47%	0.8	0.9	7.5
Components (Mid Cap) Median					-12.0%	17.3%	48%	0.8	0.9	6.3
MRO/Aftermarket Services										
AAR Corp.	674.5	16.7	16.5	31.7	-29.5%	-10.7%	36.8%	1.5	0.6	5.3
HEICO Corp.	1,666.4	49.2	35.8	58.0	-10.4%	34.9%	0.0%	7.8	2.5	11.9
MRO/Aftermarket Services Mean					-19.9%	12.1%	18%	4.7	1.5	8.6
MRO/Aftermarket Services Median					-19.9%	12.1%	18%	4.7	1.5	8.6
Total Aerospace Industry Mean					-7.2%	14.4%	38%	2.5	1.1	7.3
Total Aerospace Industry Median					-7.1%	-9.4%	37%	1.5	0.9	6.8

Source: Capital IQ and company filings

(1) Market Capitalization amounts are in millions, based on closing share prices as of September 30, 2011

(2) Enterprise Value (EV) equals Market Capitalization plus Debt, Preferred Equity, and Minority Interest, minus Cash and Cash Equivalents

(3) EBITDA equals Earnings before Interest, Taxes, Depreciation, and Amortization

(4) Market Capitalization and Share Prices are based on foreign exchange listed securities and converted to US\$

KPMG Corporate Finance LLC We Can Do a Great Deal Together.

KPMG Corporate Finance LLC provides a broad range of investment banking and advisory services to its domestic and international clients. Our professionals have the experience and depth of knowledge in global M&A and project finance to advise clients on mergers and acquisitions, sales and divestitures, buyouts, financings, debt restructurings, equity recapitalizations, infrastructure project finance, and other advisory initiatives. In addition, we remain impartial to financing sources, helping to ensure that our efforts are objective and aligned with the goals of clients.

Operating in 82 countries, KPMG International's member firms' corporate finance practices (KPMG) comprise more than 2,100 professionals who are able to meet the needs of KPMG's clients across the globe. In 2010 as a leading financial adviser, KPMG completed 269 deals totaling US\$16.5 billion, according to Thomson Reuters's global M&A league tables.

www.kpmgcorporatefinance.com

Contact Us

We welcome the opportunity to meet with you, learn more about your company's objectives, and discuss our people and capabilities.

Terence Yeh
Managing Director
Los Angeles
213-817-3128
tyeh@kpmg.com

Thomas R. Groh
Vice President
Chicago
312-665-2186
tgroh@kpmg.com

Corporate finance services, including Financing, Debt Advisory, and Valuation Services, are not performed by all KPMG member firms and are not offered by member firms in certain jurisdictions due to legal or regulatory constraints. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2012 KPMG Corporate Finance LLC, a Delaware limited liability company, is a member of FINRA and SIPC and is registered as a broker dealer with the SEC. KPMG Corporate Finance LLC is a subsidiary of KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the U.S.A. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International. 25043NSS