

Aerospace Components

Grant Thornton Corporate Finance, Mergers and Acquisitions February 2009

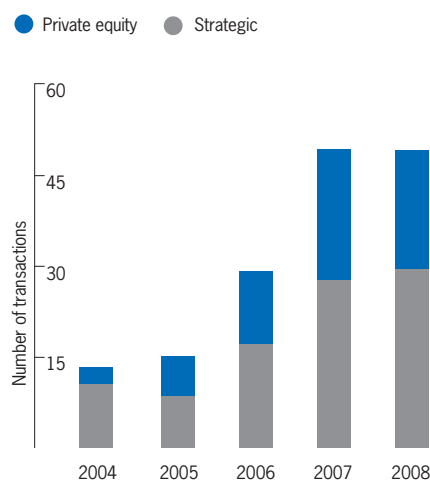
Sector outperforms: 2008 M&A activity matches prior-year record

2008 M&A activity matches prior-year record

Aerospace component M&A activity remained strong in 2008, and was one of the best performing sectors, with the same number of transactions as the record set in 2007. Activity was again weighted toward the first half of the year (in a 60/40 split), with a similar number of transactions in the second half of 2008 as 2007. Although 40% of transactions were led by private equity groups, this masks a shift in the second half where strategic buyers proved more successful in winning bids (by a factor of 3:1). Private equity buyers found it harder to raise the levels of debt that supported prices of previous acquisitions.

The strong level of aerospace component activity is in stark contrast to U.S. M&A activity as a whole, which declined by a third in volume terms from the prior year (and substantially more by value). However, the number of smaller deals across all industries

Number of M&A transactions – US aerospace components



Source: Capital IQ, company filings, press releases

(under \$50m¹) remained remarkably constant. It is this category of smaller deals that is more reflective of aerospace component transactions.

Highlights

- Strong M&A activity in 2008
- Industry outlook remains positive
- Damage confined to public markets
- M&A in related segments - Composites; MRO & distribution; Defense
- Conclusion

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Aerospace component sector outperforms: 2008 M&A activity matches prior-year record (continued)

The breadth of buyers reflects the fragmented nature of the industry, with no single buyer accounting for more than two transactions on our list. Acquirers were attracted to targets by the prospect of gaining scale, building out product offerings and providing customers with increasingly integrated systems.

Sellers by ownership type – 2008

- Founder **71%**
- Corporations **12%**
- Private equity **17%**



Source: Capital IQ, company filings

Founders again comprised the majority of sellers of businesses (71%), with owners attracted to a transaction by: reaching retirement age, receiving unsolicited approaches and diversifying their net-worth at a time when their businesses are generating strong earnings. Perhaps even more importantly, many component manufacturers have grown to a scale where they are simply no longer suitable for individual ownership. Founders feel they are constraining the growth of their businesses, as the funding required to expand a capital intensive operation from say \$30 to \$60 million in revenue is simply beyond the risk appetite and capabilities of many founders and their families.

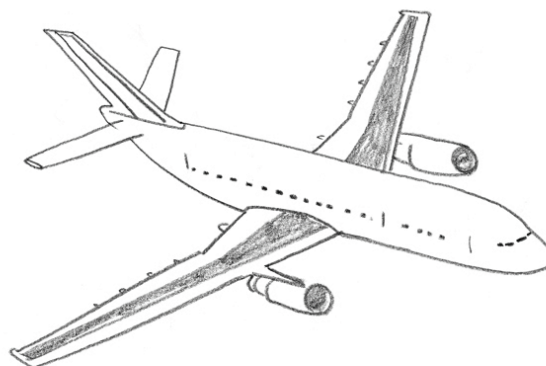
Industry outlook remains positive

U.S. Aerospace industry sales grew 2% during the year, to a new high. Backlogs increased 10%, to a level twice-annual shipments, and although new orders fell 14% they exceeded shipments by almost 20%². Overseas customers comprise 85% of commercial backlog³.

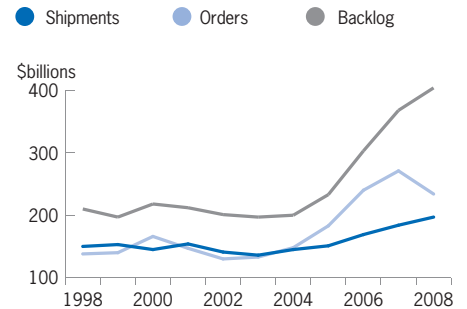
Commercial and military markets have continued to expand in unison with both sectors showing modest growth in 2008. Despite a weakening global economy with a slowdown in air transport, a scaling back by airlines of orders and extending delivery dates, and pressures in the business jet market, the AIA expects commercial sales to increase 7% in 2009². This is largely a result of strong backlog, a cautious approach to capacity increases and 2008 sales being depressed by work stoppages at Boeing. Longer term, Boeing remains confident of continued 5% annual growth in air travel⁴.

Military sales are expected to increase 4% in 2009², despite expected reductions in supplemental spending for Iraq and pressures on the public purse, as there is a significant lag between budget cuts and current purchases. The AIA believes procurement spending is basically committed for 2009, the new administration will have little impact on 2010 and aerospace defense sales will continue to grow through 2012².

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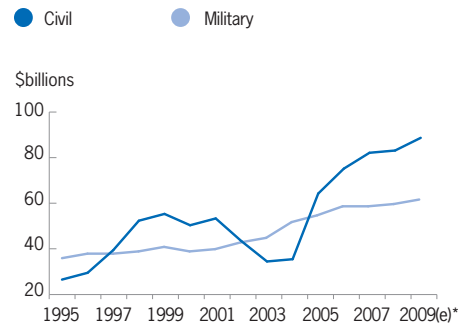


Aerospace industry backlog, orders & shipments 1998 – 2008



Source: U.S. Census Bureau, "Manufacturers' Shipments, Inventories, and Orders," AIA Estimates

Aerospace shipments 1995 – 2009



*Estimate excludes military replacement and repairs.
Source: Aerospace Industries Association

Aerospace component sector outperforms: 2008 M&A activity matches prior-year record (continued)

US aerospace component transactions – 2008

Date	Target	Description	Acquirer
Strategic			
Dec-08	Keddeg Company LLC	Aviation filtration products.	Clarcor Inc.
Dec-08	DynaBil Industries	Titanium and aluminum structural components.	Ducommun AeroStructures Inc.
Dec-08	Aircraft Parts Corp.	Engineered components to commercial aerospace.	TransDigm Group Incorporated
Nov-08	NMC Group, Inc.	Fasteners and custom molding products.	Esterline Technologies Corp.
Nov-08	ExTeX, Ltd.	Flight replacement parts for aircraft.	Timken Co.
Oct-08	Fatigue Technology, Inc.	Fastener, bushing and fatigue life solutions.	Precision Castparts Corp.
Sep-08	Ignition Products - Unison	Magnetos, harnesses, and other aircraft components.	Champion Aerospace (Transdigm)
Sep-08	Canam Aerospace Inc.	Helicopter cargo and logging hooks, long line accessories.	DART Helicopter Services
Aug-08	Airdrome Holdings LLC	Precision-machined aerospace components, tube fittings.	Precision Castparts Corp.
Aug-08	Airglas Inc.	Skis for helicopters and aircrafts.	Arctic Aviation Services
Aug-08	Chen-Tech Industries Inc.	Super alloy forgings for aerospace and aircraft engines.	Ladish Co. Inc.
Aug-08	Optimum Manufacturing	Optical components and machine parts for aerospace.	Corning Inc.
Jul-08	Dallas Manufacturing Facility	Proprietary tooling and molding for unmanned aircraft.	Precision Aviation, Inc.
Jul-08	MPC Products Corporation	Electromechanical motion control systems for aerospace.	Woodward Governor Co.
Jul-08	Insitu, Inc.	Autonomous aircraft for unmanned aircraft systems.	Boeing Integrated Defense Systems
Jul-08	Aerex Manufacturing, Inc.	Machining/minor sub-assembly services for aerospace.	Ladish Co. Inc.
Jun-08	Honeywell Consumables	Consumable aerospace parts.	BE Aerospace Inc.
Jun-08	MicroGroup Blaine, LLC	Precision machining services-aerospace and defense.	MultiSource Manufacturing
May-08	Scot Incorporated	Small precision electric motors for the aviation field.	Chemring Group plc
May-08	Motor Technology, Inc.	Fractional horsepower DC motors.	CIRCOR International Inc.
May-08	CSA Engineering Inc	Active-vibration-isolation systems.	Moog Inc.
Apr-08	Dabico, Inc.	Aircraft ground support equipment.	Cavotec MSL Holdings
Apr-08	Nova Composites	Aircraft composite structures.	Park Electrochemical Corp.
Mar-08	CEF Industries, Inc.	Electromechanical products and systems for aerospace.	TransDigm Inc.
Mar-08	Global Aeronautica (50%)	Joins and integrates 787 fuselage sections.	Boeing Co.
Mar-08	A.I.D. Corporation and BEMD	Bearing assemblies and aircraft components.	RBC Bearings Inc.
Mar-08	Two Aerospace Fastener lines – Wood family	Manufactures fastener products.	Alcoa, Inc.
Mar-08	QPM Aerospace, Metallic Rods	Metallic rods for aerospace applications.	SKF AB
Feb-08	B&R Machine and Tool	Structural components, dynamic parts and assemblies	Triumph Group Inc.
Feb-08	Hypernetics Limited	Electromechanical devices for aircraft braking systems.	Plaintree Systems Inc.
Jan-08	Skyline Industries, Inc.	Helicopter spare parts.	Goodrich Corp.
Private Equity			
Nov-08	Reliable Manufacturing Company	Precision components for aerospace.	Whitcraft, LLC (Golub Capital)
Oct-08	LaFarge and Egge Inc.	Precision tube bending and fabrication for aerospace.	Graham Capital Group, LLC
Sep-08	Griplock Systems, Inc.	Cables for aerospace.	KCA Partners, Ltd.
Aug-08	Precision AeroPower Group	Precision manufacturing and engineering for aerospace.	GenNx360 Capital Partners
Jul-08	Sandy Bay Machine, Inc.	Contract manufacturer of precision machined parts.	TSI Group (Arlington Capital)
Jun-08	Precision Gear Company	Supplies manufactured gears.	One Equity Partners LLC
Apr-08	Amcan Castings Limited	Metal castings for automotive and aerospace.	CONTECH LLC (Marathon Asset Mngt)
Apr-08	Process Fab, Inc.	Precision manufacturer of aerospace components.	Vance Street Capital
Apr-08	Consolidated Foundries, Inc.	Metal casted aerospace components.	Arlington Capital Partners
Apr-08	RDS Machine	Offer 5-Axis CNC Machining.	Premier Precision Group (Spell Capital)
Apr-08	Adam Aircraft	Aircraft for civil and government markets.	Industrial Investors
Apr-08	Velocity Aircraft	Canard pusher aircraft kits.	Rocket Racing, Inc. (Blueca Partners)
Apr-08	Saturn Fasteners, Inc.	High strength precision fasteners.	Acumatic Global Tech. (Platinum Equity)
Mar-08	Berkshire Manufactured Products	Stamped and machined components for aerospace.	Relativity Capital
Mar-08	MBM Tool & Machine	Aerospace components and assemblies.	Noranco Manufacturing (Bedford Capital)
Mar-08	Excentrotech Precision	Aerospace equipment manufacturing services.	Noranco Manufacturing (Bedford Capital)
Feb-08	Tronair, Inc.	Aircraft ground support equipment.	KRG Capital
Jan-08	Giddens Industries, Inc.	Machined and sheet metal parts for aerospace.	Platte River Ventures
Jan-08	Missouri Metals	Components and assemblies.	Metal Spinners Inc. (Reliant Equity)
Jan-08	Tri-Fab Associates Inc.	Machined precision sheet metal components.	Cascade Consolidated Industries
Jan-08	Brek Manufacturing Company	Structural aircraft parts.	Taurus Aerospace (Macquarie Group)

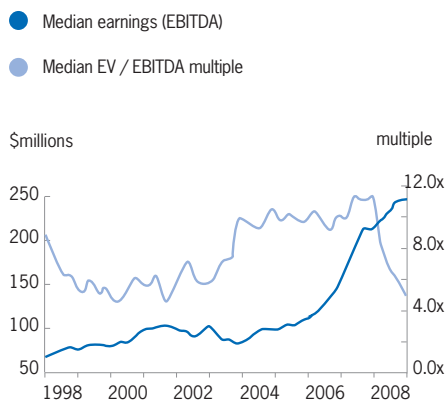
Source: Capital IQ, company filings, press releases

Aerospace component sector outperforms: 2008 M&A activity matches prior-year record (continued)

Damage in public equity markets

The greatest damage has been seen in public equity markets, where the market value of our aerospace component index⁵ fell by 55% during 2008, and public enterprise value multiples fell from 11x to 5x EBITDA. This is in stark contrast to earnings: EBITDA for our index of aerospace component businesses rose 17% in 2008, and analysts forecast revenue growth of 13% in 2009 (for index companies).

Public company aerospace component index – earnings and multiples



Source: Capital IQ, company filings

Prospective sellers of businesses can be comforted by the fact that private company transaction multiples are far stickier than those of public companies. Particularly for smaller businesses, where transaction multiples were less affected by easy debt and high public company values. Nevertheless, reduced debt availability has negatively impacted prices paid by private equity buyers, making strategic acquirers more competitive in the second half of 2008. Many financial buyers are, however, still sitting on significant cash reserves which they are keen to put to work, albeit with reduced debt levels. Many recall all too well that the best years for investment are those made in tough times.

Publicly traded aerospace component companies generally remain well capitalized - providing them financial flexibility for continued acquisitions. Median debt to equity ratios for companies in our index⁵ are around 50%, and interest charges are covered 7x. Among private equity owned companies, who now account for a significant portion of the sector and typically operate under far higher leverage ratios (debt to equity exceeding 1:1), the implications of a significant downturn in profits are more severe and could result in financial debt restructuring.

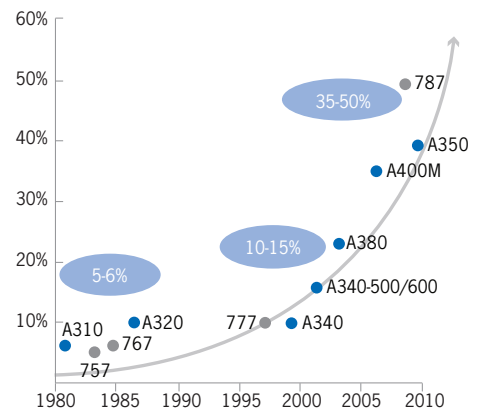
Strong M&A activity in related segments

Composite businesses sought for acquisition

Aerospace composite businesses are increasingly sought after as acquisition targets. Many component makers are seeking to acquire composite capabilities and few acquisition targets of scale are available. The surge in adoption of composites, which have now become cost effective and account for up to 50% of content on new generation planes, means traditional metal manufacturers can no longer ignore the importance of composite capabilities. Acquirers are particularly drawn to targets with defensible IP, technical expertise, and strong platforms. The end markets which composite businesses serve drive their ultimate acquirer, with half aerospace composite businesses being bought by aerospace component manufacturers. Multi-industry composite specialists and private equity groups comprise other buyers.

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Aircraft composite content over time



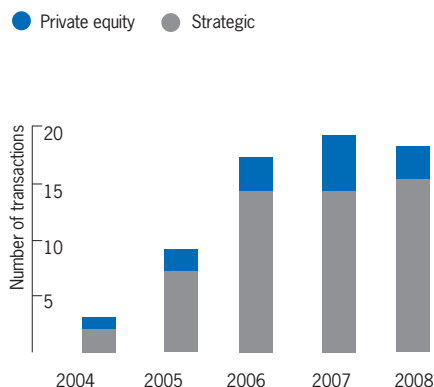
Source: Hexcel Corp., Aerostrategy

Aerospace component sector outperforms: 2008 M&A activity matches prior-year record (continued)

Realignment of MRO, component repair & distribution

The MRO, component repair, and distribution sub-sectors have seen significant transaction activity – with over 50 M&A transactions worldwide in the last three years. The sector has been going through realignment, with almost half transactions comprising corporate spin-offs of non-core operations to acquirers providing dedicated supply chain services. Most have been strategic buyers looking to secure additional service capabilities through adding customers or expanding systems, whether those comprise specific aircraft, engines or components. Opportunities have not missed the attention of private equity buyers, with some players leading consolidation among smaller operators in defined niches.

Number of M&A transactions – global MRO & distribution



Source: Capital IQ, company filings, press releases

Defense components and systems activity

Non-aerospace defense components and systems experienced a 7% decline in deal volume in 2008 (but 17% above 2006 levels). Prime aerospace and defense contractors continued to acquire niche technology defense equipment and service businesses (software, surveillance, global positioning, and communication equipment/services) that expand their capabilities to win large defense contracts. Component manufacturers, meanwhile, have been acquired by tier two suppliers and product specialists seeking to enhance capabilities, fill gaps in product offerings and simplify customer supply chains. Defense orientated private equity players have also invested, accounting for 20% of acquisitions. Cross-border deals comprised 20% of U.S. transactions, as European operators sought increased access to the large U.S. defense market.

Conclusion

2008 saw another year of very strong aerospace component M&A activity, with the sector bucking the national trend. However, the prevailing news headlines and reduced debt availability are causing acquirers to feel more cautious about the future. Consequently, the same level of activity is unlikely to be repeated in 2009. Nevertheless, a reasonable earnings outlook, demand for fill-in acquisitions and the smaller size of transactions in the sector (which are more easily financed) point to an ongoing, if lower, level of activity. •

¹ Source: Dealogic

² Source: Aerospace Industries Association

³ Source: Fitch Ratings' NA Aerospace/Defense Outlook

⁴ Source: Boeing's Current Market Outlook 2008-2027

⁵ Index: comprises 16 publicly traded US aerospace component manufacturers

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