



AEROSPACE, DEFENSE & GOVERNMENT SERVICES

INDUSTRY UPDATE | FEBRUARY 2018



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WHAT WE'RE READING

OPINION: HOW FAR COULD BOEING TAKE INSOURCING?

"Vertical integration is not a new idea in aerospace. The United Aircraft and Transport Corp. comprised complete aircraft manufacturing capability until it was broken up into what would become Boeing, United Technologies Corp. (UTC) and United Airlines in 1934. For much of the Jet Age, aircraft OEMs were vertically integrated, but in the 1990s, outsourcing and Tier 1 supply-chain strategies took hold. After that era of outsourcing, the pendulum once again is swinging in the direction of vertical integration. This is particularly true with Boeing, which is combining insourcing with recruitment of new suppliers and its Partnering for Success program to create greater leverage on suppliers. The question on the suppliers' minds is: Where could Boeing vertically integrate next?"

[Aviation Week](#)

BUSINESS AVIATION ON AN UPSWING

"Business and general aviation manufacturers finished 2017 on an upswing, pushing up global shipments on the year 2.74 percent, to 2,324 units, and providing momentum into 2018, according to statistics released today by the General Aviation Manufacturers Association (GAMA). At the same time, the rotorcraft market underwent a turnaround, with total shipments jumping by almost 10 percent in 2017, GAMA reported in its 2017 aircraft shipment report."

[Aviation International News](#)

BIGGER, FASTER, STRONGER: CHINA'S EVER-EVOLVING MILITARY TECH

"Just ahead of the week-long Lunar New Year holiday, Chinese president Xi Jinping visited a satellite launch site in the southwest Sichuan province, where he cheered the modernization and technological advances of China's military. The setting was appropriate: Beidou 3 satellites were about to be sent into orbit, part of an effort to boost the satellite navigation system used by the People's Liberation Army (PLA)—one goal being the ability to strike enemy targets with millimeter-level accuracy. China's military upgrade goes beyond space-based navigation. Last May, Quartz highlighted notable advances like stealth fighter jets, high-tech reconnaissance ships, and long-range air-to-air missiles. The world's largest operational amphibious aircraft, the AG600, had recently completed a taxiing test."

[Defense One](#)

ACQUISITION DISRUPTION: INNOVATIVE CONCEPTS IN GOVERNMENT CONTRACTING

"Government procurement often gets a (not altogether undeserved) bad rap as a cumbersome process that is lacking in imagination and innovation. Today more than ever, however, the federal government is making use of cutting edge procedures and methods to attract commercial companies to government contracting and to encourage modernization and efficiency in procurements. Below we discuss some of the creative tools being used to benefit both contractors and the government, including other transaction agreements, contests, public-private partnerships, and other novel approaches."

[Morrison & Foerster](#)

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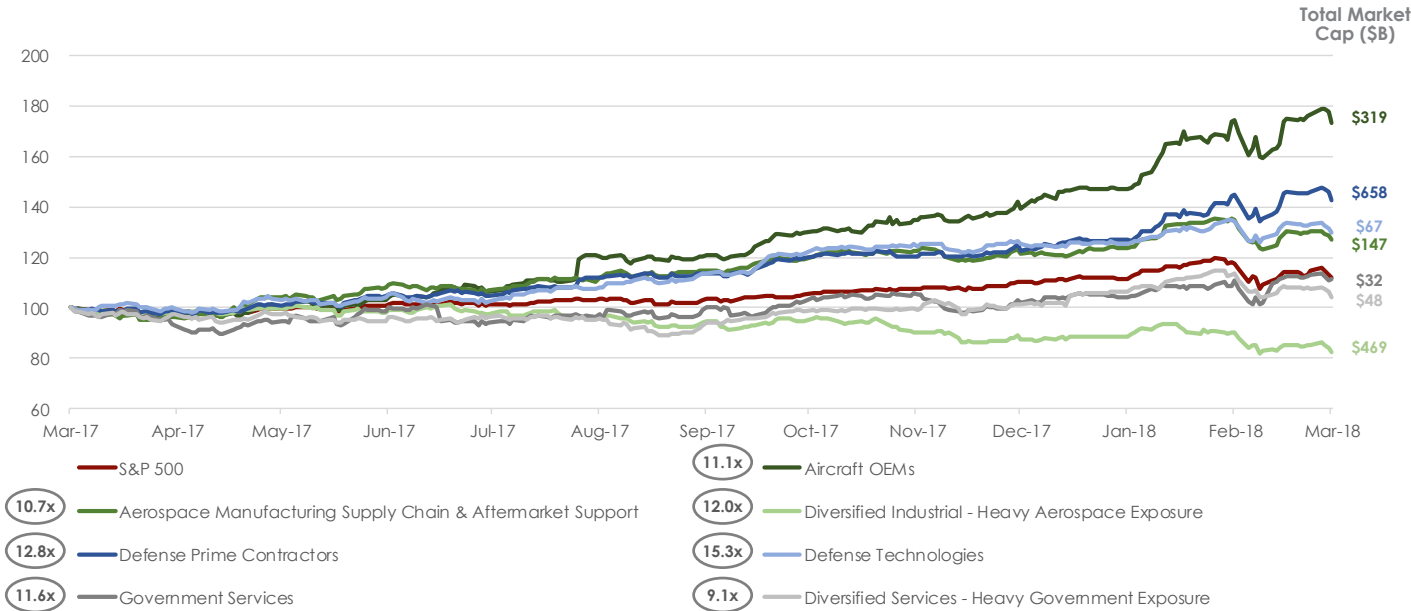
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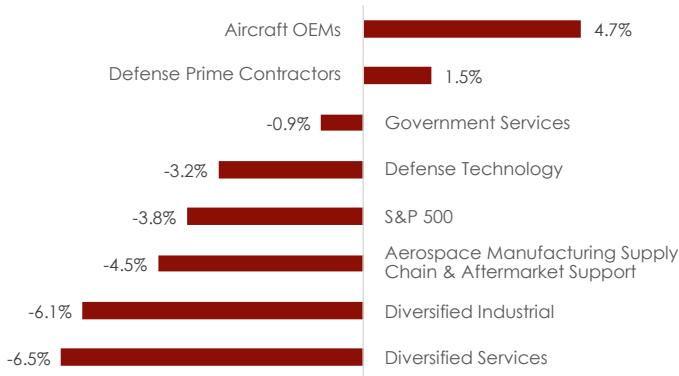
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PERSPECTIVE ON PUBLIC MARKETS^{(a)(b)(1)}

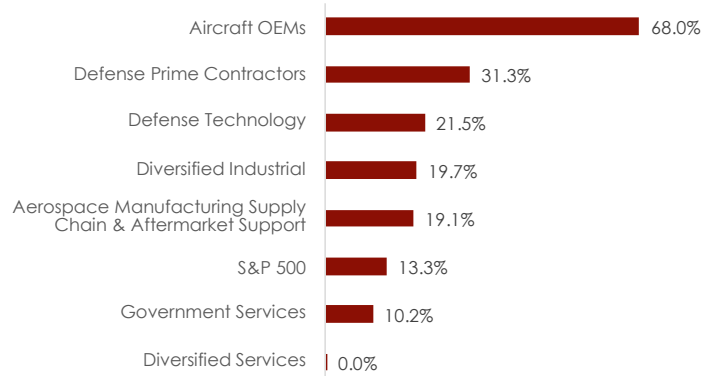
STOCK PRICE PERFORMANCE – LAST TWELVE MONTHS



MEDIAN % CHANGE (1 MONTH)



MEDIAN % CHANGE (12 MONTH)



MOST SIGNIFICANT STOCK PRICE MOVEMENT – JANUARY 31ST TO FEBRUARY 28TH



Current Price	52-Week High	52-Week Low
\$8.95	\$12.45	\$6.30

Recently announced higher volumes on hardware and chemical contracts as well as internal cost-cutting initiatives



Current Price	52-Week High	52-Week Low
\$15.14	\$21.59	\$13.63

Announced Q4 earnings that fell short of market expectations



Current Price	52-Week High	52-Week Low
\$40.53	\$40.58	\$27.53

General Dynamics announced acquisition of CSRA for \$9.6 billion, representing 11.6x CY18 EBITDA

RECENT M&A TRANSACTIONS⁽²⁾

Date Announced	Target	Sub-Sector	Description	Acquirer
AEROSPACE				
2/28/18	Moeller Manufacturing & Supply	Airframe and Engine Structural Components	Producer of aerospace and defense washers and spacers	Consolidated Aerospace Manufacturing (Tinicum)
2/27/18	San Diego Composites	Airframe and Engine Structural Components	Designer and producer of composite hardware and systems for the aerospace, space, and defense industries	Applied Composites (AE Industrial)
2/27/18	Leading Edge Aviation	Maintenance, Repair & Overhaul	Provider of avionics repair, overhaul, modification/system design, and installations services	Kathryn Brewer / ESOP
2/27/18	\$24 Beaver Aerospace & Defense	Airframe and Engine Structural Components	Manufacturer of ball screws and actuation systems	Heroux-Devtek Inc.
2/25/18	Air Wilmington	FBO	Sole FBO at Wilmington International Airport	Modern Aviation (Tiger Infrastructure)
2/14/18	JetMac	Electromechanical, Power & Related	Manufacturer of jacks, general aviation hydraulic power units, and fluid dispensers	Solair (Clavis Capital / Grayrock Capital)
2/8/18	Flying Colours Corp	Maintenance, Repair & Overhaul	Provider of green completions, refurbishment, repair and overhaul, and comprehensive maintenance services for business aircraft	New Heritage Capital
2/1/18	\$235 FMH Aerospace (Industrial Growth Partners)	Airframe and Engine Structural Components	Provider of complex, highly-engineered solutions for the aerospace, defense, and space industries	AMETEK
2/1/18	Ultimate Aircraft Deicing	Aviation Services & Support	Provider of deicing services for commercial aircraft	PrimeFlight (The Carlyle Group)
1/31/18	Air Transport Components	Maintenance, Repair & Overhaul	Provider of repair and overhaul services for components and accessories for commercial and military aircraft	Holder Family Investments
DEFENSE				
2/27/18	Sensor Technology Engineering	Tactical Products & Accessories	Designer and manufacturer of sophisticated nuclear radiation detectors for law enforcement and military applications	HEICO
2/21/18	Cofin Industries (Sagewind Capital)	Defense Electronics	Provider of defense electronics component preparation services for the aerospace and defense end markets	Behrman Capital
2/19/18	\$213 Dresser-Rand Govt Business	Air, Land, and Sea Platforms & Subsystems	Designer and manufacturer of high-speed rotating equipment solutions for U.S. Navy vessels	Curtiss-Wright
2/2/18	Galls (CI Capital)	Tactical Products & Accessories	Distributor of uniform and equipment to public safety markets	Charlesbank Capital Partners
2/2/18	\$455 Cobham AvComm and Wireless T&M	Defense Electronics	Provider of comprehensive testing services for communication networks	Viavi Solutions
1/26/18	EaglePicher Technologies	Defense Electronics	Provider of mission-critical power solutions for customers in the defense, aerospace, and medical end markets	GTCR
1/24/18	\$139 Atrenne Integrated Solutions (RFE Investment Partners)	Defense Electronics	Manufacturer of electromechanical equipment for aerospace and defense markets	Celestica
1/19/18	Armor Express (Spanos Barber Jesse & Co.)	Tactical Products & Accessories	Manufacturer of high-performance body armor solutions	KDH Defense Systems
1/2/18	\$9 Enertec Systems	Defense Electronics	Manufacturer of electronic systems	DPW Holdings
12/21/17	\$180 Themis Computer	Defense Electronics	Designer, manufacturer, and integrator of commercial, rugged servers, computers, and storage systems for defense programs	Mercury Systems
GOVERNMENT SERVICES				
2/23/18	\$355 Stinger Ghaffarian Technologies	Systems Engineering & Technical Assistance	Provider of high-value engineering, mission operations, scientific, and IT service solutions	KBR
2/23/18	MotionDSP	Software and Information Services	Provider of advanced image processing software for public safety, security, and government applications	Cubic Corporation
2/15/18	Integrity Applications	Systems Engineering & Technical Assistance	Provider of systems engineering, integrated solutions, technical analysis, and subject matter expertise	Arlington Capital Partners
2/14/18	PWC US Public Sector Business	Technology & Professional Services	Provider of financial and program management, strategy development, operational effectiveness, and organization design	Veritas Capital
2/12/18	\$9.6B CSRA	Technology & Professional Services	Provider of IT, mission, and operations-related services to the DoD, the intelligence community and homeland security	General Dynamics
2/2/18	Macfadden & Associates	Technical, Operations and Logistics Support	Provider of international disaster response operational support for federal government customers	PAE (Platinum Equity)
1/31/18	\$775 ECS Federal (Lindsey Goldberg)	Technology & Professional Services	Provider of cyber security, cloud, DevOps, IT modernization, and advanced science and engineering solutions	On Assignment, Inc.
1/23/18	\$36 SENTEL Corporation	Technical, Operations and Logistics Support	Provider of logistics and supply chain management, engineering and technology solutions, and intelligence mission support	Vectrus
1/9/18	\$220 Tenax Aerospace	Intelligence Services	Leases aircraft to government entities and private companies	NTC Group
12/18/17	Janus Global Operations	Technical, Operations and Logistics Support	Provider of integrated stability operations services to public and private sector clients worldwide	DC Capital Partners

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NOTES

- a. Current stock prices in USD as of 2/28/18
- b. Aircraft OEMs: BA, BBD.B, EADS, ERJ
 Aerospace Manufacturing Supply Chain & Aftermarket Support: AIR, ARNC, ATRO, B, BBA, DCO, ESL, GKN, HEI, HRX, HXL, KAMN, KLX, MAL, MGGT, MOG.A, ROLL, SAF, SNR, SPR, TDG, TGI, WAIR, WWD
 Diversified Industrial: AME, CR, CW, ETN, GE, HON, PH, RR, TXT, UTX
 Defense Prime Contractors: BA, BAE, EADS, GD, HO, HII, LMT, NOC, RTN
 Defense Technologies: AVAV, CHG, CMTL, COB, CUB, ESLT, FLIR, HRS, KTOS, LLL, MRCY, TDY, ULE
 Government Services: BAH, CACI, CSRA, EGL, KEYW, LDOS, MANT, SAIC, VEC
 Diversified Services: ACM, BAB, FLR, GIB, ICFI, JEC, KBR, SRP

SOURCES

1. FactSet
2. Mergermarket

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