Key Topics For Discussion

- Valuing businesses in the MRO segment
- Finding the right Buyer (or Target)
- Positioning key business attributes to successfully close a transaction
- Driving value through an M&A process to optimize valuation
It ain’t what you don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.”

- Mark Twain
**Valuation of Middle Market Companies**

Multiple relevant factors that influence the ultimate outcome, in both price and terms; can be monitored and managed to optimize their positioning during – and prior to – a sale process.

**M&A Market Conditions**
- M&A activity in the segment
- Active buyers in the segment
- Alternate auctions/processes

**Buyer Relevance**
- Market position
- Limitations to competition
- OEM strategic actions
- Regulatory environment

**Public Trading Valuations**
- Flows of funds (cross-segment)
- Access to capital

**Macroeconomic Factors**
- Fuel prices
- GDP, demand factors
- F/X, global trade

**Transaction Valuations**
- Sponsor interest and activity
- Access to financing
Market Conditions: Activity in the Segment

General Industrials M&A activity decelerated in 2015; Deal value has fallen steeper relative to number of deals; A&D deal activity has been steady

General Industrial Sector

Aerospace & Defense Sector

Source: CapIQ Data; DACIS.
## Market Conditions: Activity in the Segment

M&A activity and Sponsor interest in the MRO segment has been steady

<table>
<thead>
<tr>
<th>Closed</th>
<th>Target</th>
<th>Buyer</th>
<th>Target Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2/05/2016</td>
<td>Landmark Aviation</td>
<td>BBA Aviation</td>
<td>Provider of MRO, aircraft management, charter and FBO services</td>
</tr>
<tr>
<td>7/08/2015</td>
<td>StandardAero</td>
<td>Veritas Capital</td>
<td>MRO service provider for military and business aircraft</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>Prime Turbines &amp; CT Aerospace</td>
<td>VSE Corp. (VSEC)</td>
<td>Supplies commercial aircraft, engines, engine parts and related services</td>
</tr>
<tr>
<td>5/21/2014</td>
<td>Wencor Group</td>
<td>Warburg Pincus</td>
<td>Manufactures, repairs and distributes aircraft parts for operations, repair stations, aircraft operators and airframe OEMs</td>
</tr>
<tr>
<td>2/6/2014</td>
<td>TIMCO Aviation Services</td>
<td>HAECO</td>
<td>Leading provider of airframe MRO services to commercial, government and military aircraft operators worldwide</td>
</tr>
<tr>
<td>1/30/2014</td>
<td>Haas Group</td>
<td>Wesco Aircraft Holdings</td>
<td>Chemical supply chain management services provider for airlines and related MRO industries</td>
</tr>
<tr>
<td>1/7/2013</td>
<td>Aero Precision Industries</td>
<td>Greenwich AeroGroup</td>
<td>Supplies OEM systems, aftermarket aircraft spares and component overhaul to military aircraft operators worldwide</td>
</tr>
<tr>
<td>6/25/2012</td>
<td>Interturbine Projekt Management</td>
<td>B/E Aerospace (BEAV)</td>
<td>Supplier of consumables and electrical parts to the aerospace industry, MROs and airlines</td>
</tr>
<tr>
<td>5/24/2012</td>
<td>Interfast</td>
<td>Wesco Aircraft Europe</td>
<td>Distributes specialty fasteners and tooling for the aerospace and industrial markets</td>
</tr>
<tr>
<td>2/7/2012</td>
<td>AAXICO</td>
<td>Kirkhill Aircraft Parts Company (KAPCO)</td>
<td>Distributes, sells and leases consumables, electronics and accessories the aviation industry</td>
</tr>
<tr>
<td>1/30/2012</td>
<td>UFC Aerospace Corporation</td>
<td>B/E Aerospace (BEAV)</td>
<td>Provides aerospace logistics and supply chain management services</td>
</tr>
<tr>
<td>8/26/2011</td>
<td>Anixter Aerospace Hardware</td>
<td>Greenbriar Equity</td>
<td>Distributes machined components, composites hardware and electronics</td>
</tr>
<tr>
<td>7/27/2011</td>
<td>Satair A/S</td>
<td>Airbus SAS</td>
<td>Offers sales and aircraft parts distribution services to commercial operators, maintenance workshops, and various military operators</td>
</tr>
<tr>
<td>6/30/2011</td>
<td>Vector Aerospace Corporation</td>
<td>Eurocopter Holding SA</td>
<td>Provides aviation MRO services for fixed and rotary wing aircraft gas turbine engines</td>
</tr>
<tr>
<td>5/20/2011</td>
<td>Pattonair</td>
<td>Exponent Private Equity</td>
<td>Provides supply chain solutions for aerospace and defense industries</td>
</tr>
</tbody>
</table>

Source: CapIQ Database.
Market Conditions: Public Trading Valuations

Sub-segments in the Aerospace & Defense market exhibit significantly different TEV/EBITDA trends

Hardware & Metals Processing

Airframe OEMs & Primes

Complex Systems

Specialty Defense

Interiors & Integrators

MRO & Logistics

Source: CapIQ Database.
Market Conditions: Public Trading Valuations

The MRO sub-segment is valued in the top half of Aerospace & Defense segments

TEV/LTM Revenue

<table>
<thead>
<tr>
<th>Segment</th>
<th>TEV/LTM Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace Electronics</td>
<td>1.3x</td>
</tr>
<tr>
<td>Aerostructures</td>
<td>0.8x</td>
</tr>
<tr>
<td>Commercial Airframes</td>
<td>0.8x</td>
</tr>
<tr>
<td>Components &amp; Subsystems</td>
<td>1.1x</td>
</tr>
<tr>
<td>Controls and Systems</td>
<td>1.0x</td>
</tr>
<tr>
<td>Defense Electronics, Sensors &amp; C4ISR</td>
<td>6.8x</td>
</tr>
<tr>
<td>Engines &amp; Engine Systems</td>
<td>1.6x</td>
</tr>
<tr>
<td>Government, IT Services &amp; Software</td>
<td>4.1x</td>
</tr>
<tr>
<td>Interiors</td>
<td>1.6x</td>
</tr>
</tbody>
</table>

Source: CapIQ Database; Revenue multiples above 8x were filtered out of data.
Market Conditions: Private Transaction Valuations

On a private transaction basis, in recent history EBITDA Margin and Transaction Size are the most highly correlated factors to premium MRO transaction multiples (even more so than Revenue/EBITDA growth and backlog size/growth).

**LTM TEV/Rev vs. EBITDA margin**

- **R² = 0.72**

**TEV/EBITDA Multiples vs. TEV ($M)**

Source: CapIQ Database; Seabury M&A Transaction Database.
### Finding the Best Buyer (Sell-Side)

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>RATIONALE (ILLUSTRATIVE)</th>
</tr>
</thead>
</table>
| **Distribution Companies** | ▪ Distribution was a highly active A&D segment for M&A in 2015  
▪ Public trading valuations declined, but rebounded or now stable  
▪ Third party distributors are experiencing some volume softness  
▪ M&A may be a necessity to fill the shortfall |
| **MROs (Independent and Captive)** | ▪ Trend by OEMs and airlines/captive MROs to re-integrate work in a slower market  
▪ Airline consolidation and capacity discipline appear to have caused some deceleration of MRO volume, activity  
▪ Similar to distribution, MRO has also experienced some softness |
| **Financial Sponsors (With Relevant MRO Holdings)** | ▪ There are numerous “consolidator” sponsors in the A&D segment with relevant holdings nearing the 18-month “harvesting” window  
▪ Sponsors remain active; too few deals in the middle market range (~$25M+ EBITDA)  
▪ As in 1H15, expect sponsors with strategic holdings to demonstrate strong ability to pay (access to financing is coming into question) |
| **Financial Sponsors (With prior interest, A&D experience)** | ▪ There is a relatively small but active community of sponsors with relevant A&D and distribution experience  
▪ Primary rationale is to expand customer base of non-A&D assets, into strategically desired A&D customers  
▪ Smaller assets, even with concentration, often complement a product solution gap - while realizing overhead, direct operating cost synergies |
Finding the Best Target (Buy-Side)

An efficient target-screening process focuses effort on a clear set of objectives and key criteria that can be evaluated before significant resources are expended on due diligence… however, in the final analysis, key contractual details heavily influence the final outcome.

Filter 1: Is target “in-scope”
- Outside relevant market?
- Within sub-segments / focus areas?
- Too small / insignificant player?

Filter 2: Relevant products/ services
- Do products/services fit strategic and investment objectives?
- Which “potentials” have access to high growth / desired markets?

Filter 3: Acquisition feasibility
- Direct competitor / strategically misaligned?
- Structural barriers
  - Known “not for sale”
  - Difficult carve-out
  - Recent failed transaction

Filter 4: Other considerations
- Other knowable factors that make Target attractive / unattractive?
  - Political implications
  - Labor hindrances
  - Deteriorating markets/ disintermediation
  - Shareholder complexity

“All Potentials”

“High Potentials”
Positioning Common MRO Attributes

A critical factor - that can be monitored and influenced prior to a sale process - is maintaining visibility of (contractual or informal) strategic agreements underlying the forecast.

<table>
<thead>
<tr>
<th>Buyer/Seller Position</th>
<th>Common Attribute</th>
<th>Trend</th>
<th>Risk Mitigation / Position Levers</th>
</tr>
</thead>
</table>
| Revenue Stability     | - Purchase Order convention  
                         | - Invoicing to a MOU       | ⇧draul | - Supply vs. capacity analysis  
                         |                               |       | - Structural OEM cost gap(s)    |
| Backlog Health        | - LTAs (in certain cases)  
                         | - Visibility of fleet/platforms | ⇧draul | - Customer relationship strength  
                         |                               |       | - Relative cost advantage/BTE    |
| Margin Stability      | - LTAs (in certain cases)  
                         | - Scale effects               | ⇧draul | - Standard component pricing discounts  |
| Competition           | - Regional competition  
                         | - OEM, 3Pty cost discipline   | ⇧draul | - Prohibitive ferrying costs  
                         |                               |       | - Local vs. broad competition    |
| Disintermediation / Displacement | - OEM open capacity  
                             | - Component (supplier)       | ⇧draul | - Structural protections (low-cost or exclusive provider status)  |
| Operating Leases      | - Specific-use facilities  
                         | - Lessee options, extensions | ⇧draul | - Position in airport/regulated property  
                         |                               |       | - Proximity to key customers    |
| Sustainable workforce (incl. Training) | - Strong regional competition  
                             | - Changing requirements      | ⇧ | - Tenure analyses  
                         |                               |       | - Customer longevity analyses    |
| Authorizations & Certifications | - Expensive in many regards  
                                 | - Becoming more restricted   | ⇧draul | - Changing OEM dynamics reducing or limiting new entrants (BTE)  |
| Systems & Supporting Infrastructure | - Standardized, cost effective platforms across the industry | ⇧draul | - Strong business controls can be a differentiating factor  |
Positioning Key Business Attributes: Competition

Segmenting the industry on various levels isolates the real competition and positions the company to highlight its key value proposition relative to other players.
Positioning: Management Depth

The biggest question underlying the demand forecast is regarding maintenance businesses, the depth of the operators becomes a key factor to support business stability beyond the certifications and authorizations.
Positioning: Macroeconomic Factors

GDP recovery is faltering in many regions – the global slowdown and reversal of funds flows from emerging markets will play out significantly in 2016/2017.

Real GDP trend analysis – YoY growth

Source: S&P Capital IQ & Bloomberg; % change YoY.

1. "Eurozone" – an economic and monetary union of 16 European Union member states which have adopted the Euro currency as their sole legal tender.

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Maximizing Value Through the M&A Process

Extensive preparation creates an environment in which discipline can be achieved, in terms of information flow and speed – from market entry through documentation – to maximize both valuation and residual/contractual risk outcomes.

PREPARATION
- Background
- Business Strategy
- Competitive Advantages
- Key Markets
- Growth Story
- Financial Analysis
- Business Valuation
- Prepare Data Room
- Develop Buyer List

MARKETING
- Intelligence Gathering
- Initiate Contact
- Sign NDAs
- Preliminary Discussions
- Distribute CIMs
- Solicit IOIs
- Management Presentations
- On-Site Visits
- Initial Due Diligence
- Deal Structure
- LOIs

CLOSING
- Final Diligence
- Legal Negotiations
- Transition Planning
- Services Agreements
- Final Deal Structure
- Documentation
- Finalize Schedules
- Closing

$ Value

- Strategic Valuation
- Scarcity Value
- Competition
- Adjustments
- Synergies
- Base Financial Valuation
M&A Processes Can Be Complex, Long-Term Campaigns

“I’m on to your little game, Harrison!”

Source: New Yorker Magazine.