

The Aerospace & Defense Forum

**Santa Clarita Valley Chapter Meeting
March 19, 2024**

"Maximize the Value of Your Business in Today's A&D and M&A Environment"

Bart Webb – *President Janas Corporation*
Eric Jensen – *Managing Director Janas Associates*

7:15 – 9:00 AM

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The Aerospace & Defense Forum

Who We Are...

- An 13-year-old global aerospace and defense leadership community of over 2,500 professionals that facilitates communication, collaboration, and commerce relative to the business of A&D
- Nine chapters – Los Angeles, San Fernando Valley, Santa Clarita Valley, South Bay, Orange County, San Diego, Arizona, Dallas-Ft. Worth, and Ventura County.
- Conduct monthly meetings with presentations, panels and tours with industry leaders focused on some aspect of the business of A&D
- Our practice is to make copies of the business cards and provide them to the attendees. If you wish to do so, please place your cards in the basket



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**Santa Clarita Valley Economic Development Corporation
Santa Clarita Valley Chapter
Host and Sponsor**



Jey Wagner
President & CEO
SCVEDC

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Bart Webb –
*President of
Janas
Corporation*



Eric Jensen –
*Managing
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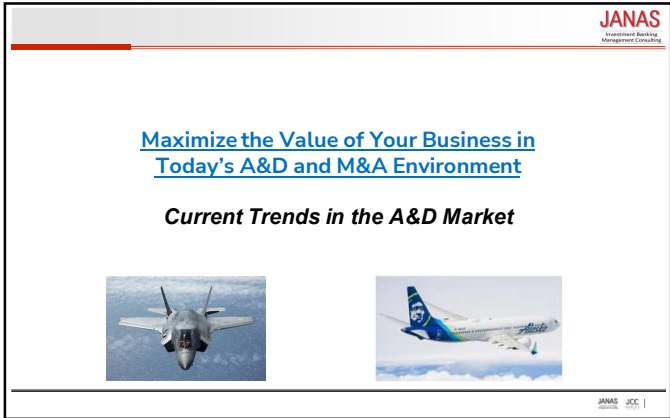
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Top 10 Investment Bank
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**MAXIMIZING
BUSINESS VALUE
IN TODAY'S
A&D MARKET**


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Maximize the Value of Your Business in Today's A&D and M&A Environment

Current Trends in the A&D Market



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Supply Chain

Jan 10, 2024 Jeffries Survey Results	Accenture Aero Insight Report
<ul style="list-style-type: none"> ➢ 25 Ops and Purchasing Managers, majority of \$250M+ facilities, survey Dec 2023 ➢ 3-6 month recovery common response ➢ Weighted average 10.5 months recovery... ➢ Reasons: <ul style="list-style-type: none"> ➢ Lack of qualified candidates ➢ Training longer than expected ➢ Sub supplier production capability ➢ Insufficient skilled labor ➢ Attrition ➢ Changing OEM schedules ➢ Doubt projected rates will materialize 	<ul style="list-style-type: none"> ➢ Raw Material costs: <ul style="list-style-type: none"> ➢ Maintain next 6 months ➢ Increases next 12-24 months ➢ Subsystem/Parts costs: <ul style="list-style-type: none"> ➢ Meet next 6-12 months ➢ Increases exceed in 12-24 months ➢ Production Labor costs: <ul style="list-style-type: none"> ➢ Maintain next 6 months ➢ Increases in 12-24 months <p style="text-align: center;">Impact on Suppliers</p> <ul style="list-style-type: none"> ➢ Limited incentive to increase capacity to meet ramp ➢ Could be an opportunity on the right platforms


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Boeing...

Ongoing Quality and Production Issues	Ongoing Impact on Suppliers
<ul style="list-style-type: none"> ➢ Max crashes in 2018 and 2019 killed 346 people <ul style="list-style-type: none"> ➢ Flawed software, single failure point ➢ Loss of door plug in 2024 <ul style="list-style-type: none"> ➢ Missing bolts ➢ The FAA after a six week audit of 737 MAX production at Boeing and Spirit "multiple instances...failed to comply with manufacturing quality control requirements" ➢ Various experts agree, it is a cultural issue and has been for years ➢ The board and leadership needs to be changed for the company to recover <ul style="list-style-type: none"> ➢ Institutional owners possess 70% of the stock 	<ul style="list-style-type: none"> ➢ Possible acquisition of Spirit ➢ Loss or orders to Airbus – although their backlog is full ➢ Production rate and ramp up suspect ➢ Ongoing financial pressure on company and therefore suppliers




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Commercial Market

Airbus and Boeing	Ongoing Impact on Suppliers
<ul style="list-style-type: none"> ➢ Airbus shipped 735 total A/C in 2023 <ul style="list-style-type: none"> ➢ Planned A320 rate 75 per month by 2026 – 900 per year ➢ New Airbus Commercial Aircraft CEO ➢ Boeing shipped 528 total A/C in 2023 <ul style="list-style-type: none"> ➢ Planned 737 rate 50 per month by 2025-2026 – 600 per year 	<ul style="list-style-type: none"> ➢ Possible acquisition of Spirit ➢ Loss or orders to Airbus – although their backlog is full ➢ Production rate and ramp up suspect ➢ Ongoing financial pressure on company and therefore suppliers




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Commercial Airlines and Business Jets

Commercial Airlines	Business Jets
<ul style="list-style-type: none"> ➢ Ongoing 737 problems ➢ A320 Geared Turbofan issues ➢ Pilot shortage ➢ 4 of 5 top US carriers reported record annual revenues ➢ Ultra Low-Cost Carriers are struggling <ul style="list-style-type: none"> ➢ Spirit/Jet Blue merger off ➢ Overall profitability expected to be steady with ongoing challenges regarding fuel and labor ➢ Asia Pacific a major growth area 	<ul style="list-style-type: none"> ➢ Netjets 1500 Cessna Citation order over 10 years = \$30B ➢ Gulfstream backlog = \$20B ➢ Backlogs are 18-24 months; challenge is supply chain




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Defense and MRO

Defense	MRO
<ul style="list-style-type: none"> ➢ Increased spending worldwide due to war in Ukraine and Gaza ➢ 4% CAGR forecast for US Defense budget through 2028 ➢ F35 – predominate fighter in Europe <ul style="list-style-type: none"> ➢ Overall build rate 156/yr ➢ 7th largest fleet, 9th in utilization ➢ 1st in aftermarket \$8.4B for 2024 ➢ S-70/H-60 \$8.0B aftermarket in 2024 ➢ F-16 \$6.1B aftermarket in 2024 <ul style="list-style-type: none"> ➢ The F-16 is 50 yrs. old ➢ F-22 replacement, 54 A/C through 2033, \$17.3B ➢ Navy is replacing the T-45 Goshawk, up to 200 A/C 	<ul style="list-style-type: none"> ➢ Less aircraft retirements as OEMs struggle to ramp up ➢ Commercial OEM demand CAGR 3% through 2033 ➢ Airframe parts price increase 10% ➢ Backlog of CFM, V2500 repairs ➢ Nearshoring, localized repairs ➢ Increased demand for PMA/DER



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Maximize the Value of Your Business in Today's A&D and M&A Environment



Success Factors in the M&A Market

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To create value, a Seller will need to align more than just the business issues to be successful...

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PERSONAL	BUSINESS	MARKET
<ul style="list-style-type: none"> Are there documented personal goals? Do I have a current personal finance & business tax strategy in place? Is there a transition plan, is my family and BOD on board? Are the right advisors in place to guide me through it? Have I made enough money to sell or transition the business? Will I stay on? Am I truly committed or fishing for good offers? Am I emotionally ready? 	<ul style="list-style-type: none"> Does the business have a sustainable and defensible business model? Has the business profitably grown for 2-3 years? Does my business have a strong management team? Does the business have strong financial & banking performance metrics? Can the business survive a detailed Due Diligence review? 	<ul style="list-style-type: none"> What are Buyers & Sellers looking for these days? How long do I need to prepare in advance? Am I selling or buying at the right time to maximize my strategy? What if I am approached by a Private Equity fund? How will Gov policies change my decision? Can I really "Time" the market?

The more these are aligned... → The more Value to be gained

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Initial Business Valuation

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Based on a multiple of EBITDA, Size of Business/EBITDA, Industry

- Earnings Before Interest, Taxes, Depreciation and Amortization - Adjusted
 - Interest expense on business loans
 - Fed and state income taxes
 - Depreciation
 - Amortization
 - Non-recurring expenses – an adjustment
 - Personal expenses – an adjustment
- Size of business
 - Multiple Break points
- EBITDA amount
 - Multiple Break points
- Industry
 - Different multiples per industry




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TWO BUYER Groups: Strategic Investors and Financial Investors

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Strategic Investors	Financial Investors
<ul style="list-style-type: none"> Industry players Competitors Vendors Customers Strategic investors often a first choice because they know the industry... 	<ul style="list-style-type: none"> Private Equity Groups (PEGs) Family Office Individual Investors




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Strategic Investors vs Financial Investors; what are they looking for?

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Strategic Investors	Financial Investors
<ul style="list-style-type: none"> More customers More products More markets New technology Intellectual property Economies of scale Higher value in time 	<ul style="list-style-type: none"> Increasing Cash-flows Base (platform) for growth Solid Management Scalable business model Competitive advantage Passion for innovation



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The Key Elements Investors and Acquirors are looking for

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Multiples Are Affected by Assessment of

- Finances
 - Three years past and projected financials, reviewed or audited, GAAP compliant
 - Consistent EBITDA, usually \$2M plus
 - All assets and liabilities
 - Capital expenditures required
 - Positive cash flows, debts, & margins, etc
- Business processes and personnel
 - Strong leadership team
 - Stable, documented processes
 - Industry certification such as AS9100
 - Equipment and facility maintained
 - Single point of failure – employee, equipment, supplier
 - Succession planning
 - Seller's motivation



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The Key Elements Investors and Acquirors are looking for (cont.)

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Multiples Are Affected by Assessment of

- Market and Competitive Landscape
 - Overall market stability, growth
 - Defendable niche, barriers to entry
 - Company reputation
 - Proprietary products and processes
 - Pricing leverage
 - Company growth prospects and potential
 - Long term, contracted backlog
 - Level of Customer Concentration
 - Alignment/complimentary with existing holdings
 - Platform potential
 - Gov/State regulation and legal issues



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To Get the Most Exit Value, Preparing for a Sale can take 3 years

Advisory/Transition Team

- CPA
- Financial Advisor/Wealth Manager
- Estate Attorney
- Corporate/M&A Attorney
- Investment Banker

Owner Preparation

- Business aspects in place
- Will be a life changing event
- Personal and family transition plan
 - Financial
 - Business responsibilities
 - Contingency
- Personal readiness



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SELL-SIDE M&A PROCESS TIMELINE

Typical M&A Process ~ 9 to 12 Months - Engagement to Closing


Week	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9
Phase I: Transaction Planning and Preparations	Engagement: Letter Signed Information Requests Kickoff Meeting Draft Teaser and CIM Conduct Self-audit Quality of Earnings (Optional) Prepare Online Data Room Finalize M&A With Client Favorite Target List								
Phase II: Marketing	Contact Targets and Distribute Teaser / NDA Negotiate M&A / Distribute CIM / Open Data Room Buyer Review and Preliminary Due Diligence Receive Indications of Interest (IOIs) Management Presentations								
Phase III: Receive Offers & Negotiate Transaction	Receive Final Letters of Intent (LOIs) Negotiate Final Letters of Intent Select Preferred Buyer and Finalize Terms Detailed Due Diligence Draft / Negotiate Purchase Agreement								
Phase IV: Document and Close	Documentation, Closure Announce Transaction and Closing Dinner								

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Example of A&D Industry Sale

Aerospace Company Sales Tripled

- Structured to have larger companies' systems and processes
- Added Engineering talent
- Added proprietary products
- Expanded the repair station
- Marketed as a company capable beyond its current size
- Sales tripled in two years



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Q&A

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Upcoming Chapter Webinars/Meetings

- March 19, 4:30pm: "Forward Slope Inc.'s experience with Private Equity – more than just an exit plan!", Carlos Persichetti, CEO, Forward Slope, Inc. | San Diego Chapter Meeting
- March 20: "Decarbonizing Aviation Through Real Action, Today", Kevin Noertker (Co-founder and CE) and Kam Akhter, Mechanical Design Engineer, Ampaire | National Online Forum webinar
- April 2, 4:30pm: "Cyber Security, Artificial Intelligence and other Aerospace Risks in 2024", Gunnar Light, CEO Global G Group & Director Coeus Consulting, Caroline Lynch, Founder/owner Copper Hill Strategies, LLC, Jeff Marek, Founder/owner Brevir Solutions LLC | Arizona Chapter Meeting

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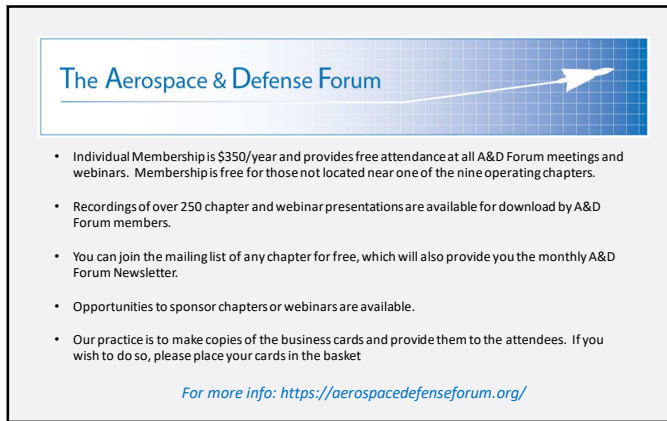
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Upcoming Chapter Webinars/Meetings

- April 16, 2024, 7:15 - 9:00 AM: "Tour of ITT Aerospace Controls in Valencia" Santa Clarita Valley A&D Forum. Presentation and tour of the factory.

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The Aerospace & Defense Forum

- Individual Membership is \$350/year and provides free attendance at all A&D Forum meetings and webinars. Membership is free for those not located near one of the nine operating chapters.
- Recordings of over 250 chapter and webinar presentations are available for download by A&D Forum members.
- You can join the mailing list of any chapter for free, which will also provide you the monthly A&D Forum Newsletter.
- Opportunities to sponsor chapters or webinars are available.
- Our practice is to make copies of the business cards and provide them to the attendees. If you wish to do so, please place your cards in the basket

For more info: <https://aerospacedefenseforum.org/>

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Thank You

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