Aviation M&A Panel Discussion and Workshop

ASA | AFRA Conference

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The Current M&A Market

The Current M&A Market

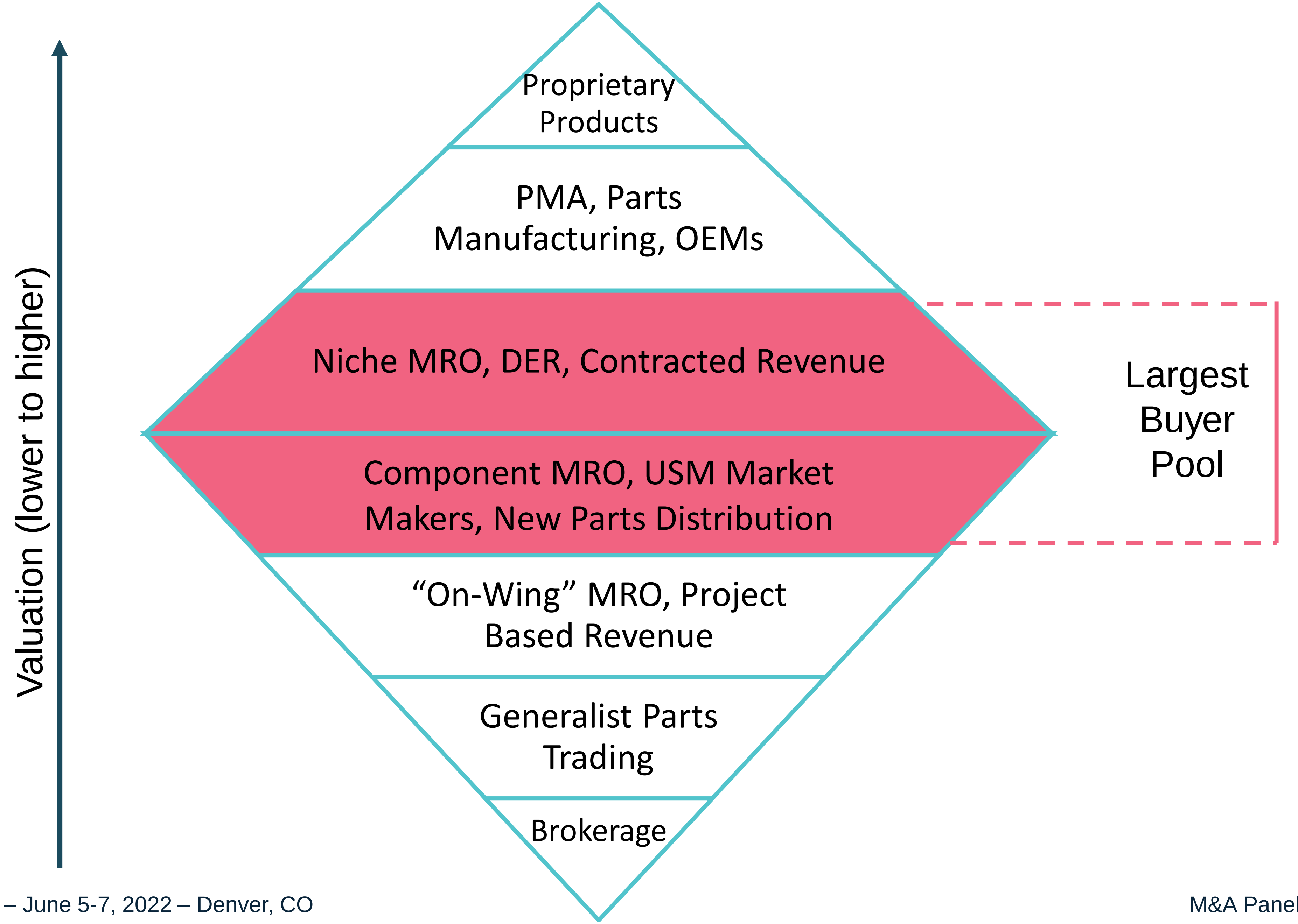
General M&A Market Observations

- Still one of the busiest markets in over a decade
- Fueled by pent up demand and access to capital (~$1T Private Equity capital)
- 40+ years experience says it's always a seller's market if you are prepared
- Pressures might not be properly accounted for – war, inflation, supply chain, interest, taxes, etc.

Aerospace/Aviation M&A Market Observations

- COVID took buyers and sellers out
- Large corporate buyers and A&D PE firms <u>have</u> to do deals
- Private Equity Trends:
  - Assembling clusters of smaller niche market leaders
  - Highly concentrated market makers (capability, inventory, etc.)
  - Building multi-continent USM/trading operations

XLCS Partners' Valuation & Buyer Universe Matrix

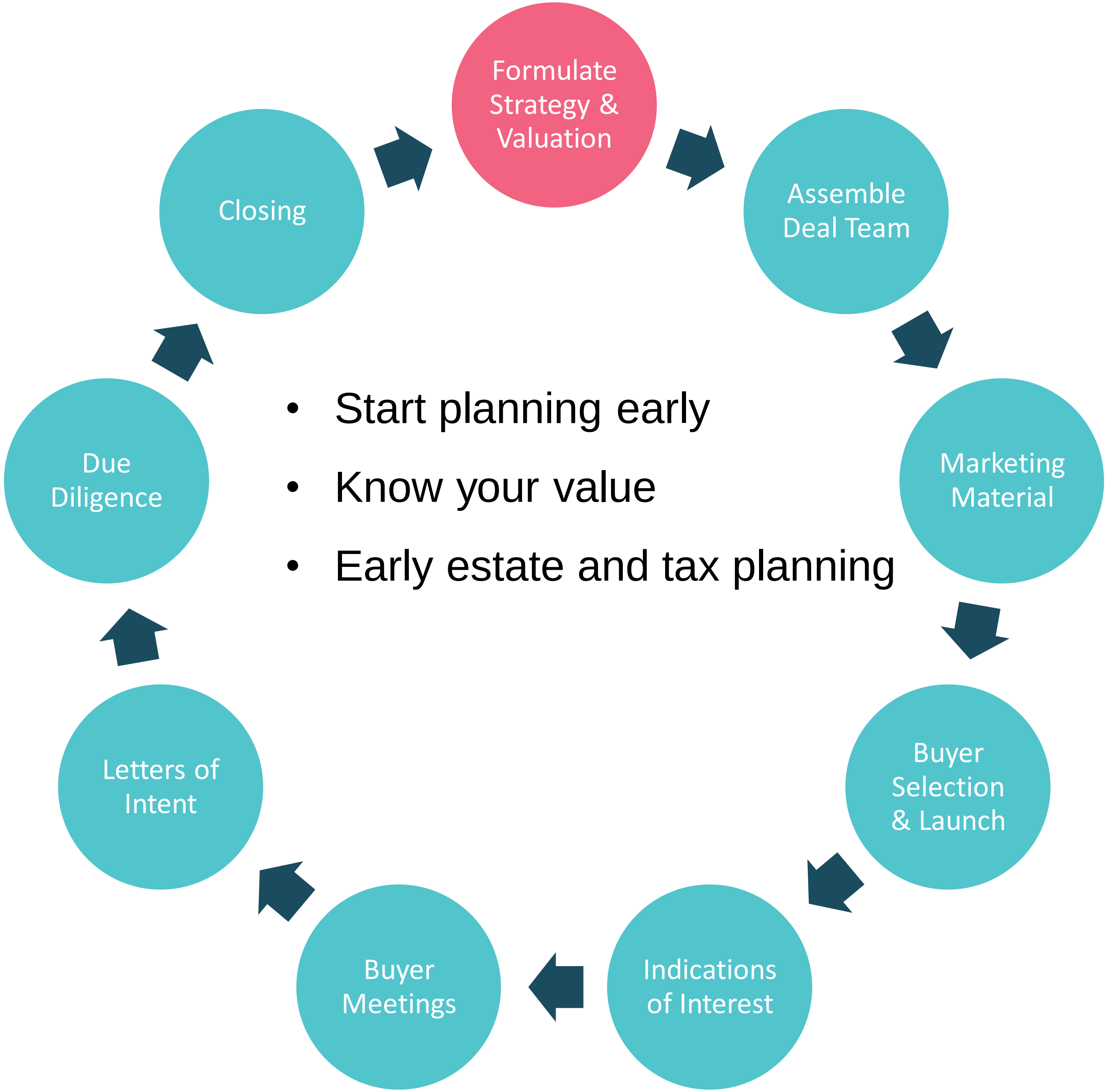


Mergers & Acquisitions Workshop

M&A Workshop Agenda

1. The M&A Process & Timing
2. Process Preparation
3. Private Equity & Recapitalizations
4. Final Thoughts

Formulate Strategy & Valuation



- Start planning early
- Know your value
- Early estate and tax planning

Highlight Organization Depth

Sales

- Relationship Depth
- Outside & Inside Sales
- Account Backups

Operations

- Process Improvements
- P&L Management
- Recruiting & Training
- Cost Controls Measures

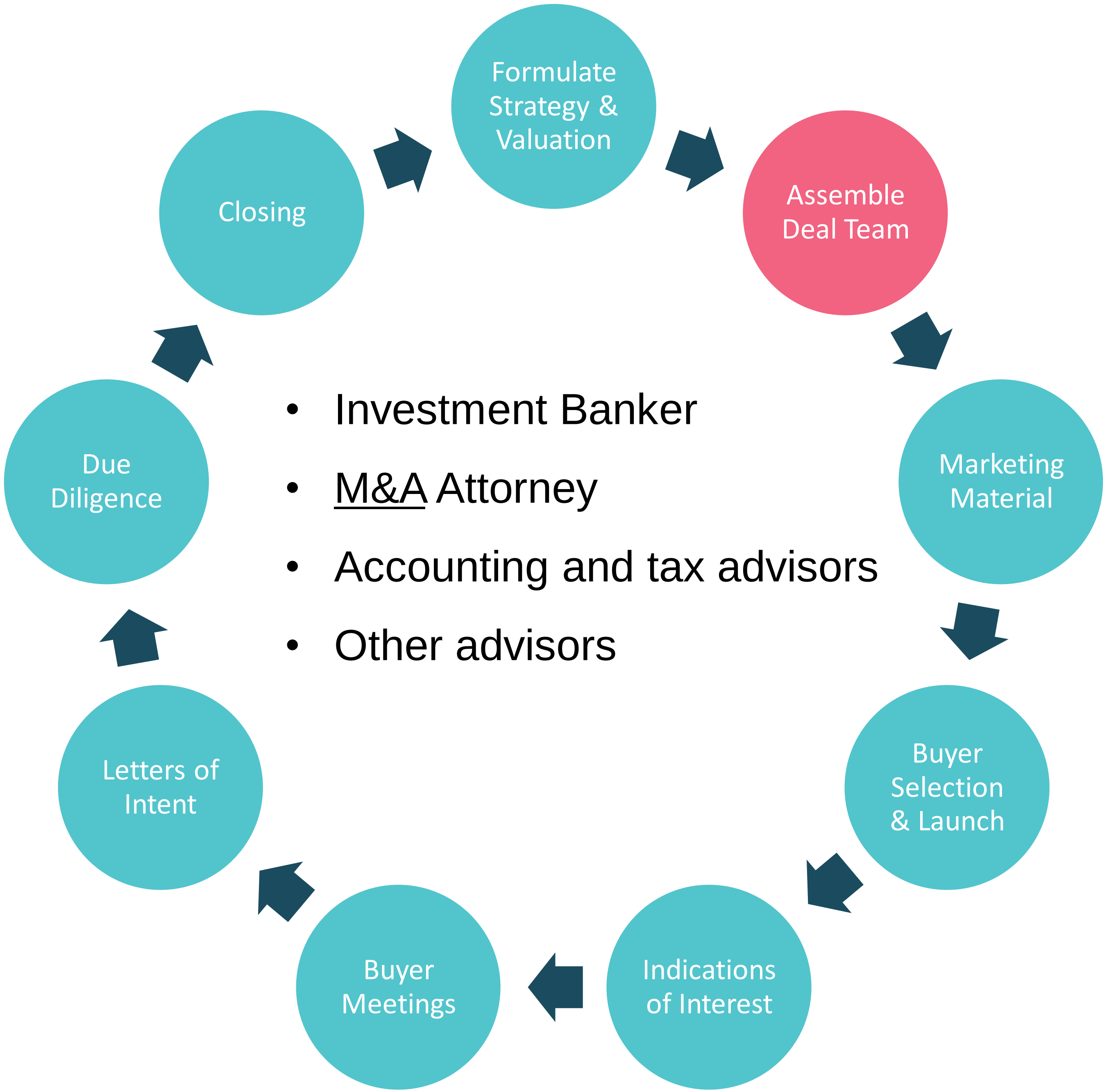
Technical

- Engineering/IT
- Intellectual Property
- New Capabilities
- Data Analytics

Finance

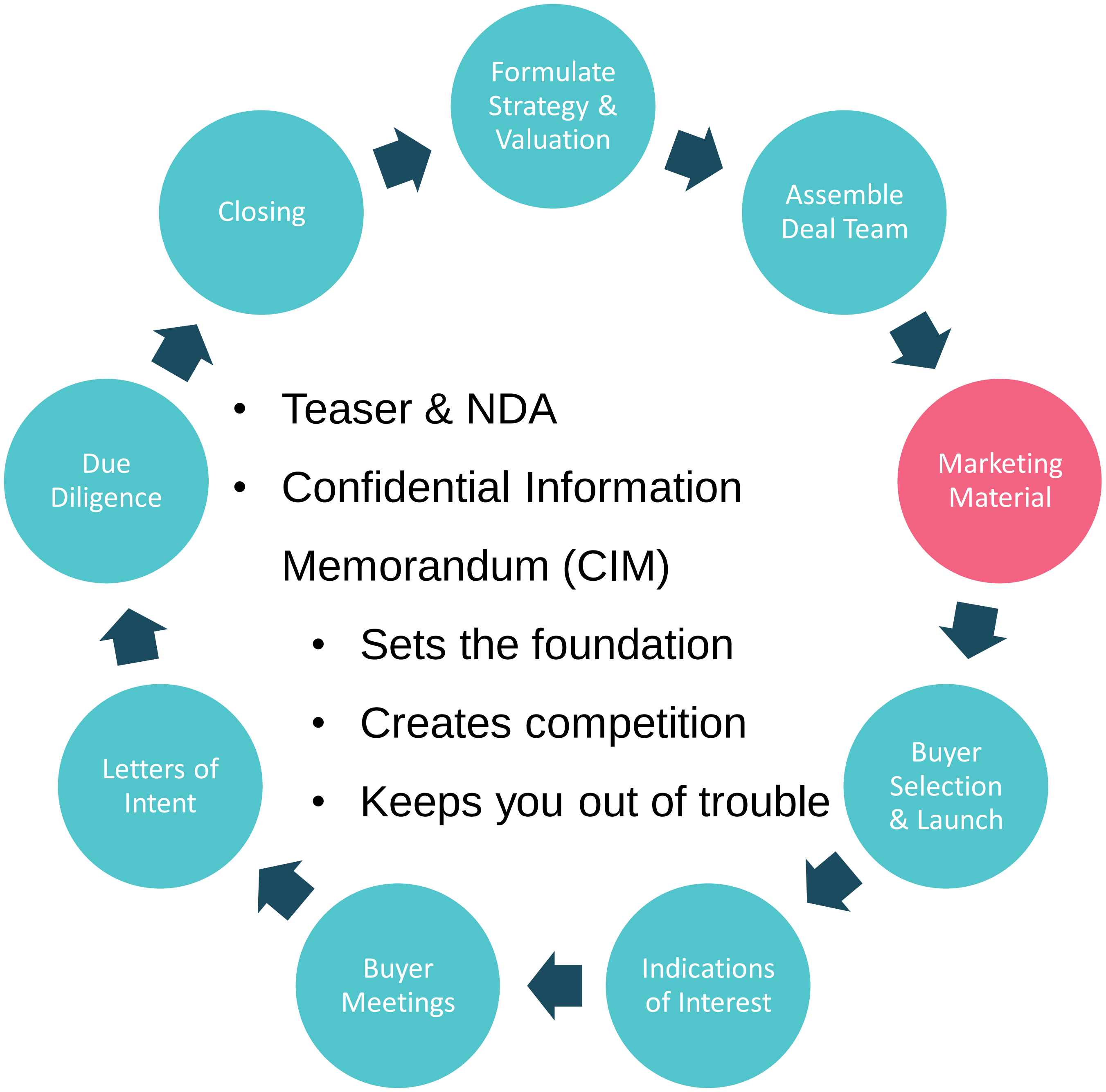
- AR/AP Strategies
- Inventory Strategies
- GAAP Accounting

Assemble Deal Team



- Investment Banker
- M&A Attorney
- Accounting and tax advisors
- Other advisors

Marketing Material



- Teaser & NDA
- Confidential Information Memorandum (CIM)
  - Sets the foundation
  - Creates competition
  - Keeps you out of trouble

Highlight your Strengths

Value Proposition

- Competitor Analysis
- Market Strengths
- Sales and Marketing Effectivity

Operational Integrity

- Quality Tracking
- Performance Metrics
- Team Longevity/Culture

Technical Planning

- IT Security
- Automation/Redundancy Reduction
- Data Analysis

Financial Stability

- Cash Position
- Credit Worthiness
- Strength of Customer Finances

Illustrate Why YOU

Leadership Highlights

- Leader Presentations
- Get to know the Team
- Buyer Benefits

Culture & Depth

- Company Culture
- Succession Plans & Org Chart Heat Map
- Employee Strengths

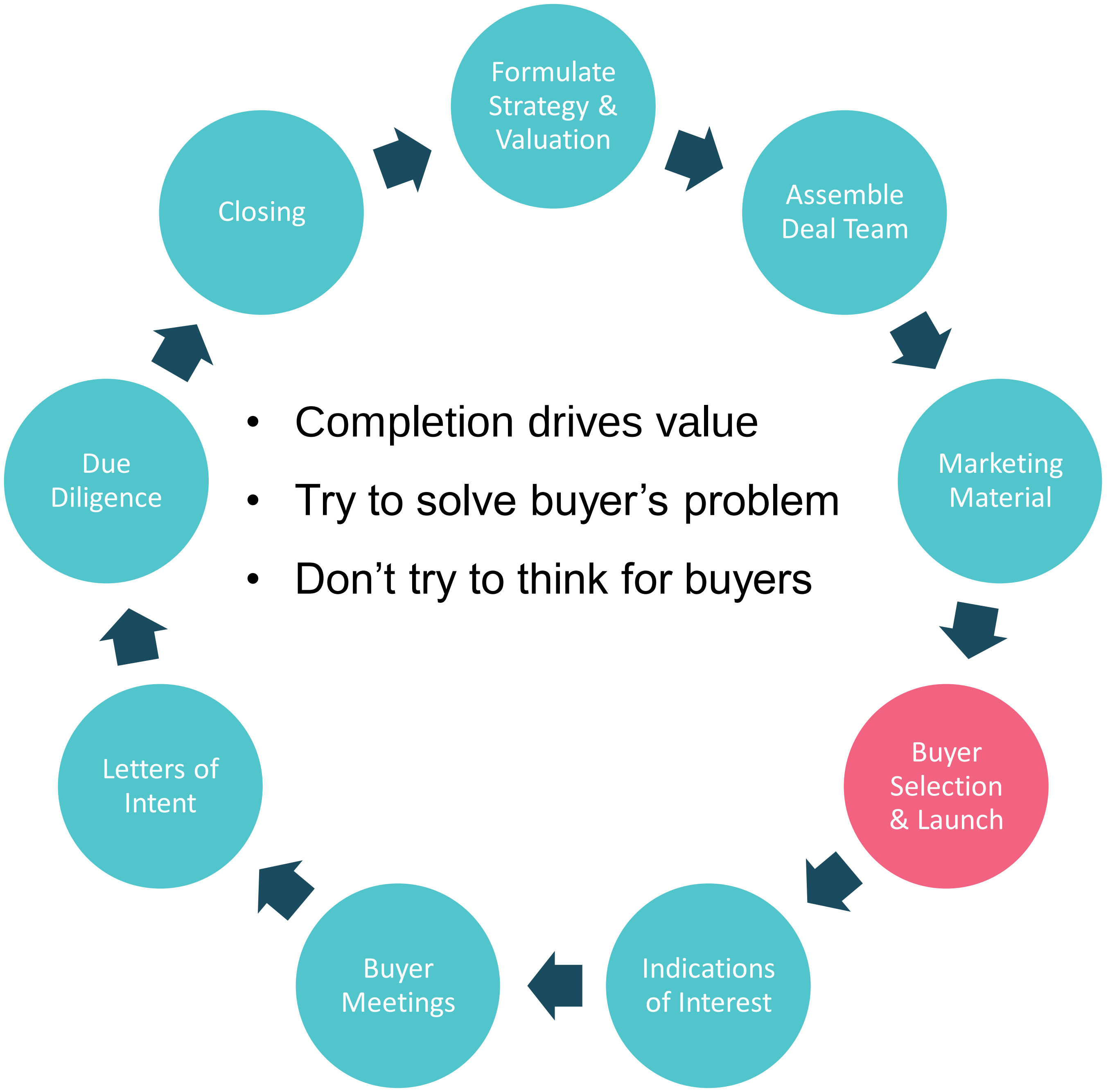
Growth Strategies

- Customer/Product Synergies
- New Capabilities/Products
- Detailed Growth Planning

Cap-Ex strategies

- Tooling & Expansion
- Inventory Investments
- Operational Cash Reinvestments

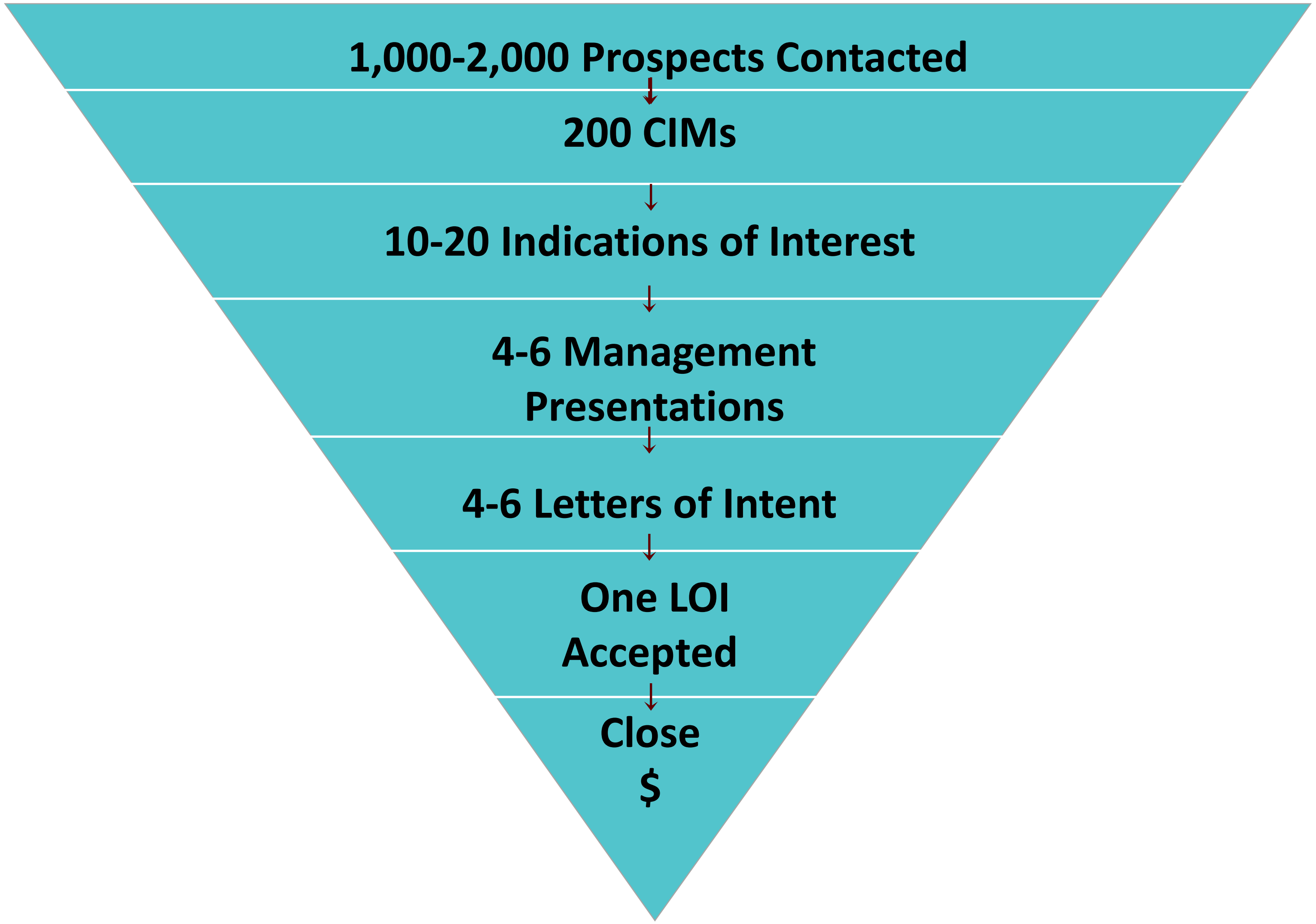
Buyer Selection & Launch



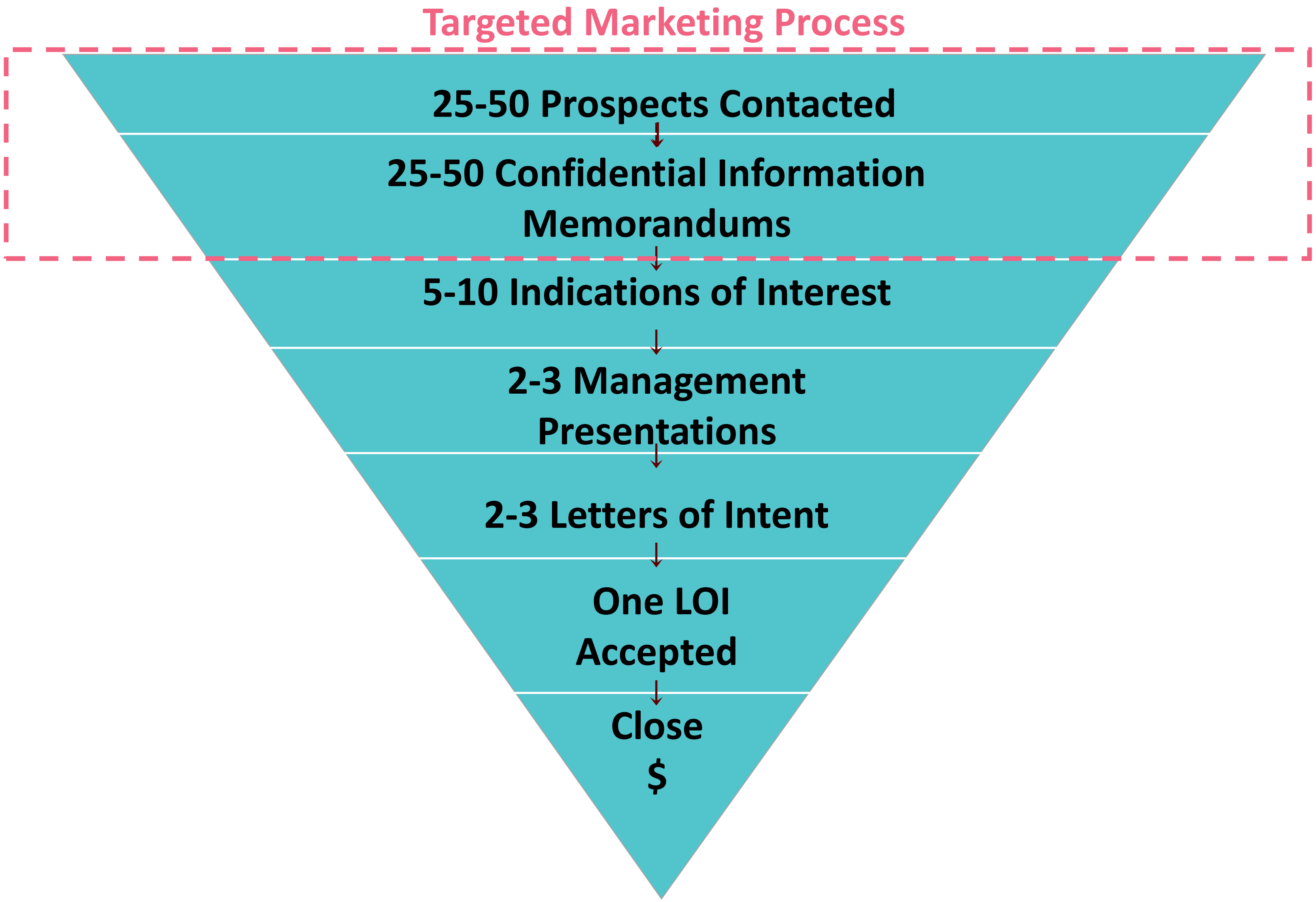
- Completion drives value
- Try to solve buyer’s problem
- Don’t try to think for buyers

The Process

Universal Marketing Process



The Process


Targeted Marketing Process
25-50 Prospects Contacted
25-50 Confidential Information Memorandums
5-10 Indications of Interest
2-3 Management Presentations
2-3 Letters of Intent
One LOI Accepted
Close
$

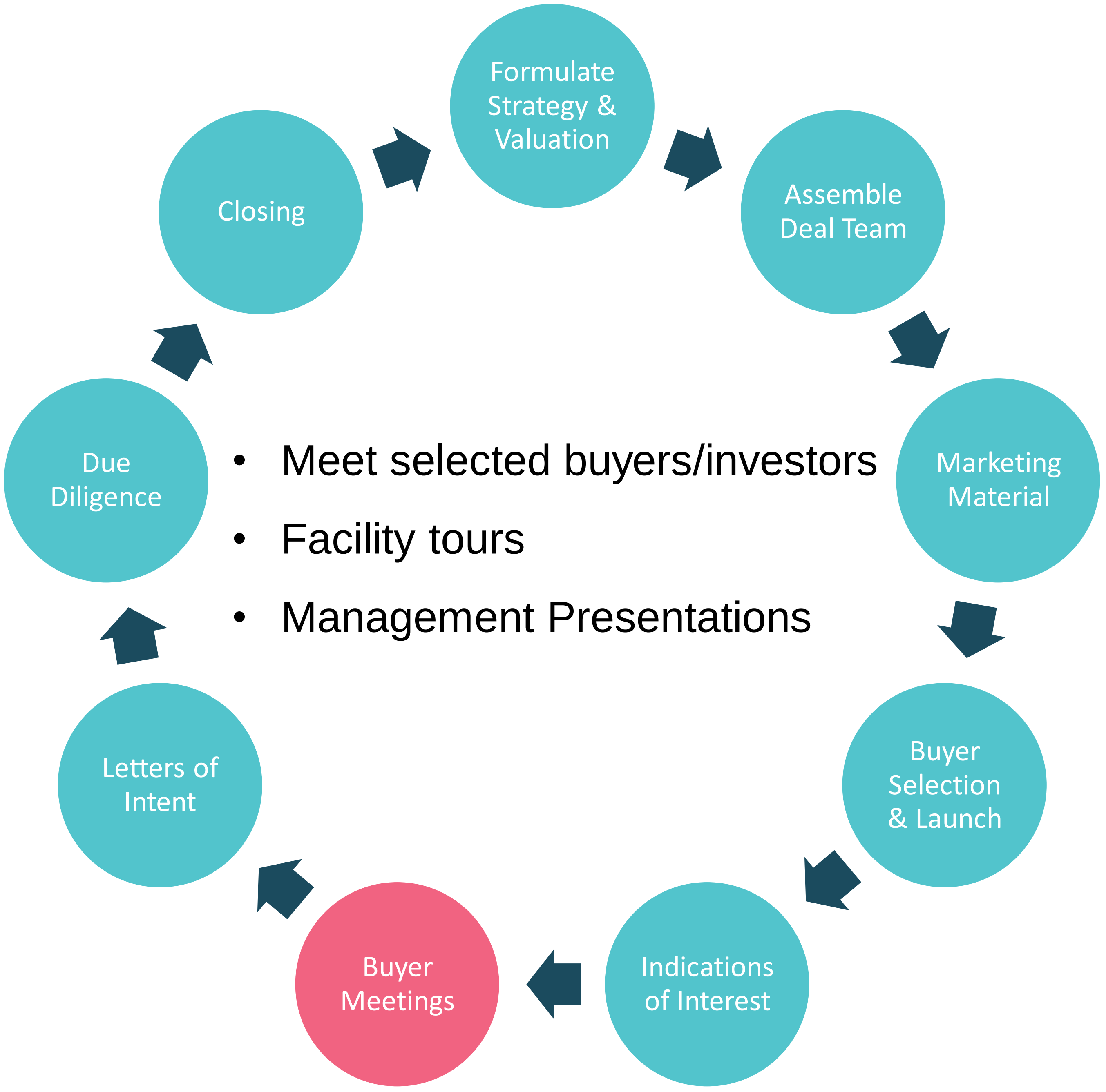
The Process

- Process Letter
- Investment banker calls
- Buyer Q&A
  - Creates competition
  - Shares good info
  - Solidifies offers

Indications of Interest

- Offer analysis
- Not all are created equal
  - Quality of the buyer
  - Terms of the deal
  - Culture/Fit

Management Visits



- Meet selected buyers/investors
- Facility tours
- Management Presentations

Do your Homework

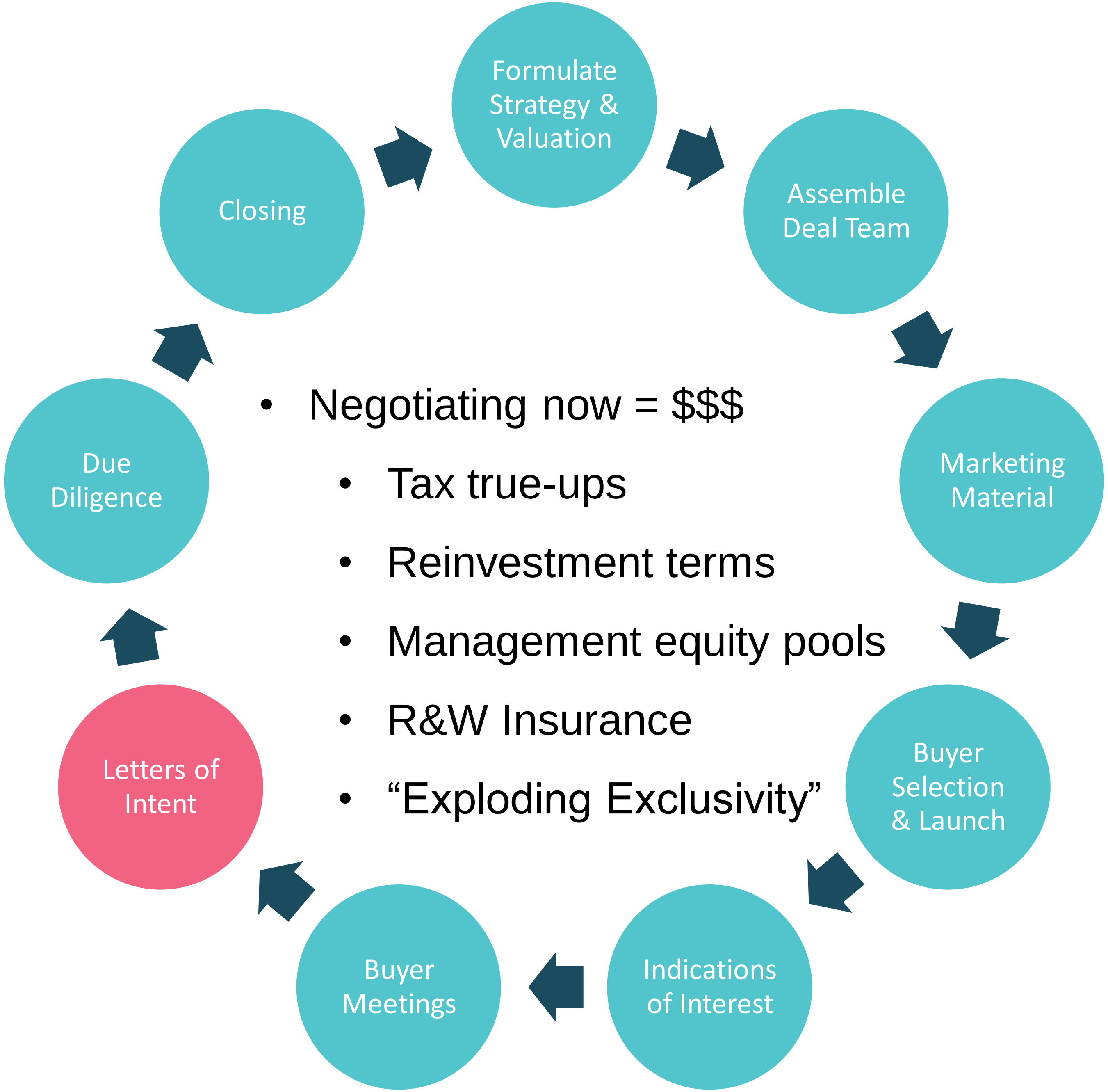
Be Prepared

- Dress Rehearsals
- Study your Data (Top Customers, Products, Performance)
- Be Confident

Know your Data

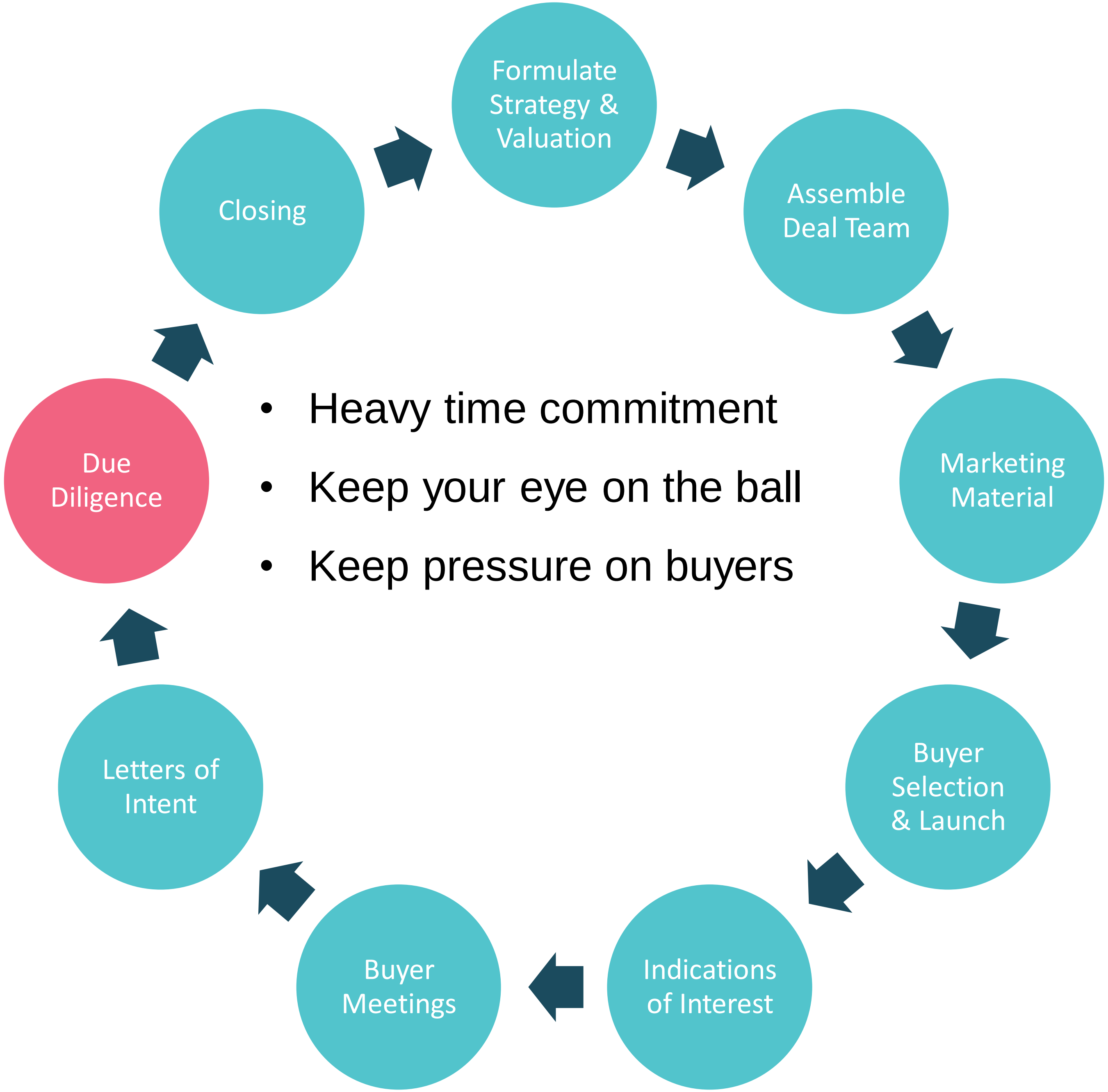
- Detailed Forecasting (Customer, Product, Aircraft)
- Performance & Quality Metrics
- Ability to Answer Quickly

Letters of Intent



- Negotiating now = $$$
  - Tax true-ups
  - Reinvestment terms
  - Management equity pools
  - R&W Insurance
  - “Exploding Exclusivity”

Due Diligence



- Heavy time commitment
- Keep your eye on the ball
- Keep pressure on buyers

Timing

Timing


Formulate Strategy & Valuation
Assemble Deal Team
Marketing Material
Buyer Selection & Launch
Indications of Interest
Buyer Meetings
Letters of Intent
Due Diligence
Closing
~30 – 90 Days

Timing


Formulate Strategy & Valuation
Assemble Deal Team
Marketing Material
Buyer Selection & Launch
Indications of Interest
Buyer Meetings
Letters of Intent
Due Diligence
Closing
~60 Days

Timing


Formulate Strategy & Valuation
Assemble Deal Team
Marketing Material
Buyer Selection & Launch
Indications of Interest
Buyer Meetings
Letters of Intent
Due Diligence
Closing
~30 Days

Timing


Formulate Strategy & Valuation
Assemble Deal Team
Marketing Material
Buyer Selection & Launch
Indications of Interest
Buyer Meetings
Letters of Intent
Due Diligence
Closing
~60 - 90 Days

Timing


Formulate Strategy & Valuation
Assemble Deal Team
Marketing Material
Buyer Selection & Launch
Indications of Interest
Buyer Meetings
Letters of Intent
Due Diligence
Closing
6+ Months

Private Equity

Private Equity Invested in Aviation

PE Firms Invested in the Aviation Industry

BLUE SEA CAPITAL	SUNVAIR AEROSPACE GROUP
J.F. Lehman & Company	CTS ENGINES
CVC	ONTIC
ARDIAN	Revima SERVICE IS OUR PASSION
ACORN GROWTH COMPANIES	aerospares 2000
hangxin	MagneticMRO
GRAHAM PARTNERS	DESSER AEROSPACE
MHC Mill Hill Capital DIRECT PRIVATE EQUITY	tag .AERO
THE CARLYLE GROUP	StandardAero
W. R. Berkley Corporation	Greenwich AEROGROUP
BAIRD	eCube solutions
VANCE STREET CAPITAL	JET PARTS ENGINEERING, INC.
EIC Exchange Income Corporation	RegionalOne World Wide Services
GenNx360 Capital Partners	AEROREPAIR
TOWERBROOK	sabena technics
GREENBRIAR EQUITY GROUP, L.P.	STS Aviation Group
BATTLE INVESTMENT GROUP	turbopower
COPLEY	AEROMED GROUP SIMPLIFY TAIL SPEND
BRIGHTWATER PARTNERS	UAC
PERMIRA	TOPCAST

PE Firms Invested in the Aviation Industry

ATL Partners — Valence Surface Technologies

Resilience Capital Partners — LKD Aerospace

ae Industrial Partners — Kellstrom Aerospace

Catacap — AerFin Beyond Support

O2 Investment Partners, LLC — First Class Air Holdings

JLL Partners — ATS

Audax Private Equity — FDH

Odyssey Investment Partners — All Clear

Trive Capital — Field Aerospace

Platinum Equity — Unical

Warburg Pincus — Wencor Group

Corrum Capital Management — AvAir

GTCR — JSSI

TGG The Gores Group — TurbineAero

Balmoral Funds — KP Aviation

Egeria — APOC

American Industrial Partners — Vertex aerospace

Gallant Capital — Aero Turbine

Liberty Hall Capital Partners — Dunlop Aircraft Tyres

Iron Range Capital Partners LLC — APS A Global Aerospace Partners Company

Recapitalizations 101

Recapitalization Example

	Selling Price		Newco
Purchase Price	$10,000	Purchase Price	$10,000
Cash at Closing*	($9,000)	Initial Investment (Equity)	($4,000)
Seller Reinvestment	$ 1,000	Financed Portion (Debt)	$ 6,000

Scenario 1:

Initial Investment	Source	Ownership of Newco
$ 3,000	Private Equity Fund	75%
$ 1,000	Seller Reinvestment	25%
$ 4,000	Initial Investment	

Scenario 2:

Initial Investment	Source	Ownership of Newco
$ 2,400	Private Equity Fund	60%
$ 1,600	Seller Reinvestment	40%
$ 4,000	Initial Investment	

*Less debt, taxes, expenses, etc.

Recapitalization Example

- Excellent industry, company, chemistry, management, infrastructure...
- Seller/Management remains 3 – 5 years
- Opportunity for management/employees to gain equity (investment or pool)
- Access to additional capital
- Limited personal risk for partners
- Increased human and financial capabilities
- Growth through strategic acquisitions, locations, investment

Expert Tips & Considerations

Parting Thoughts

- Start moving up the value matrix today
- One shot to do it right, make sure you do it really right
- Competition, competition, competition (see following slide)
- Life is too short to do business with the wrong partner
- What drags gets dirty – run a tight process and hold buyers accountable
- Don’t fall in love with any one buyer, they tend to drop out

Competition Drives Value

Company	M&A Sale Process Driven Outcome
Example A	• Exceeded unsolicited offer by **$23.0 MM***
Example B	• Exceeded unsolicited offer by **$29.0 MM***
Example C	• Exceeded initial LOI by **$8.5 MM***
Example D	• (Pending) Exceed initial LOI by **$25 MM***

* Past performance should not be taken as an indication or guarantee of future performance and no representation or warranty, express or implied, is made regarding future performance.

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