



Aviation M&A Panel Discussion and Workshop
ASA | AFRA Conference
June 5-7, 2022 – Denver, Colorado



XLCS° PARTNERS



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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.

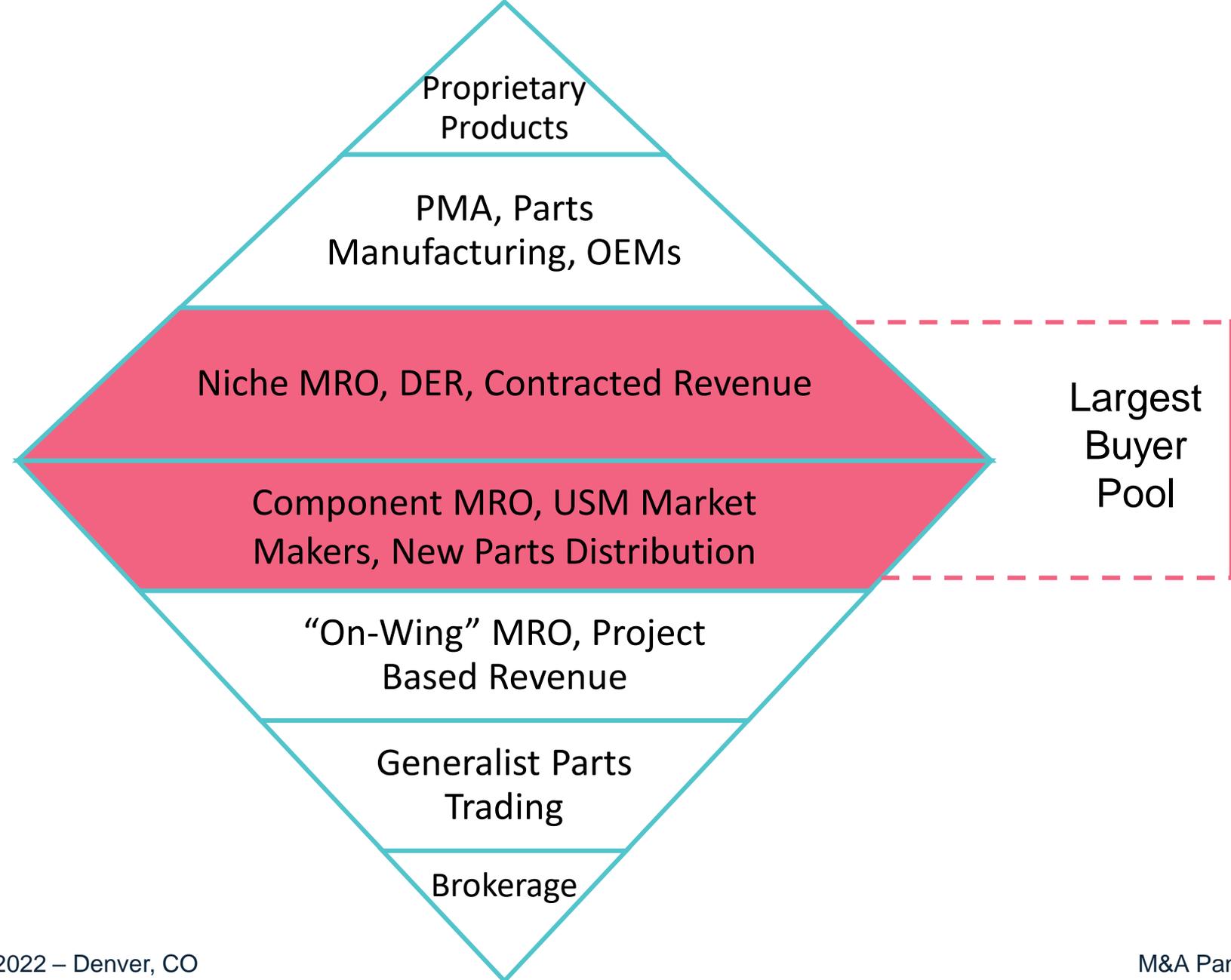
Aerospace/Aviation M&A Market Observations

- COVID took buyers and sellers out
- Large corporate buyers and A&D PE firms have 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



Valuation (lower to higher)



Mergers & Acquisitions Workshop

M&A Workshop Agenda

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

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Formulate Strategy & Valuation



Highlight Organization Depth

Sales

- Relationship Depth
- Outside & Inside Sales
- Account Backups

Operations

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

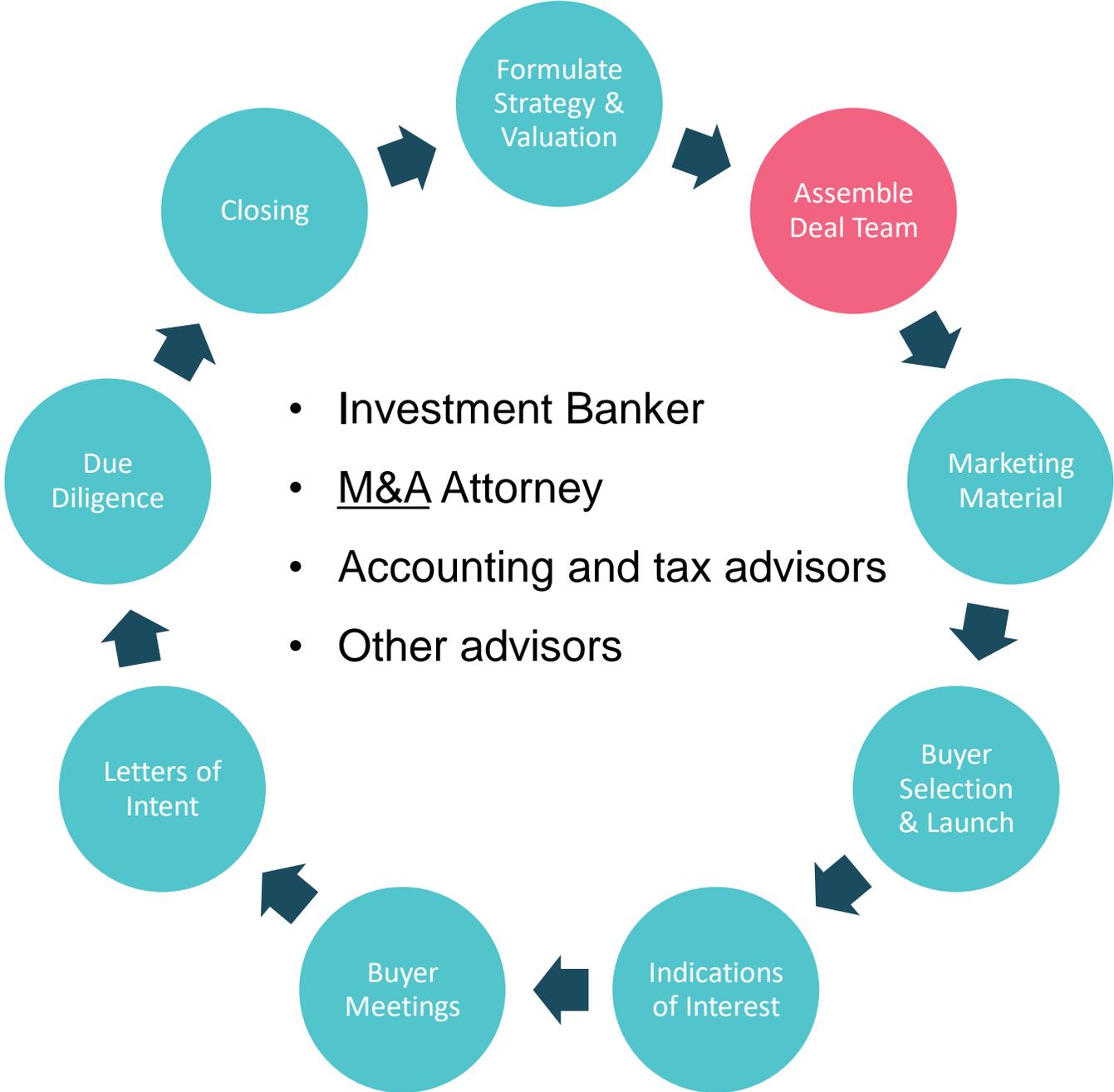
Technical

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

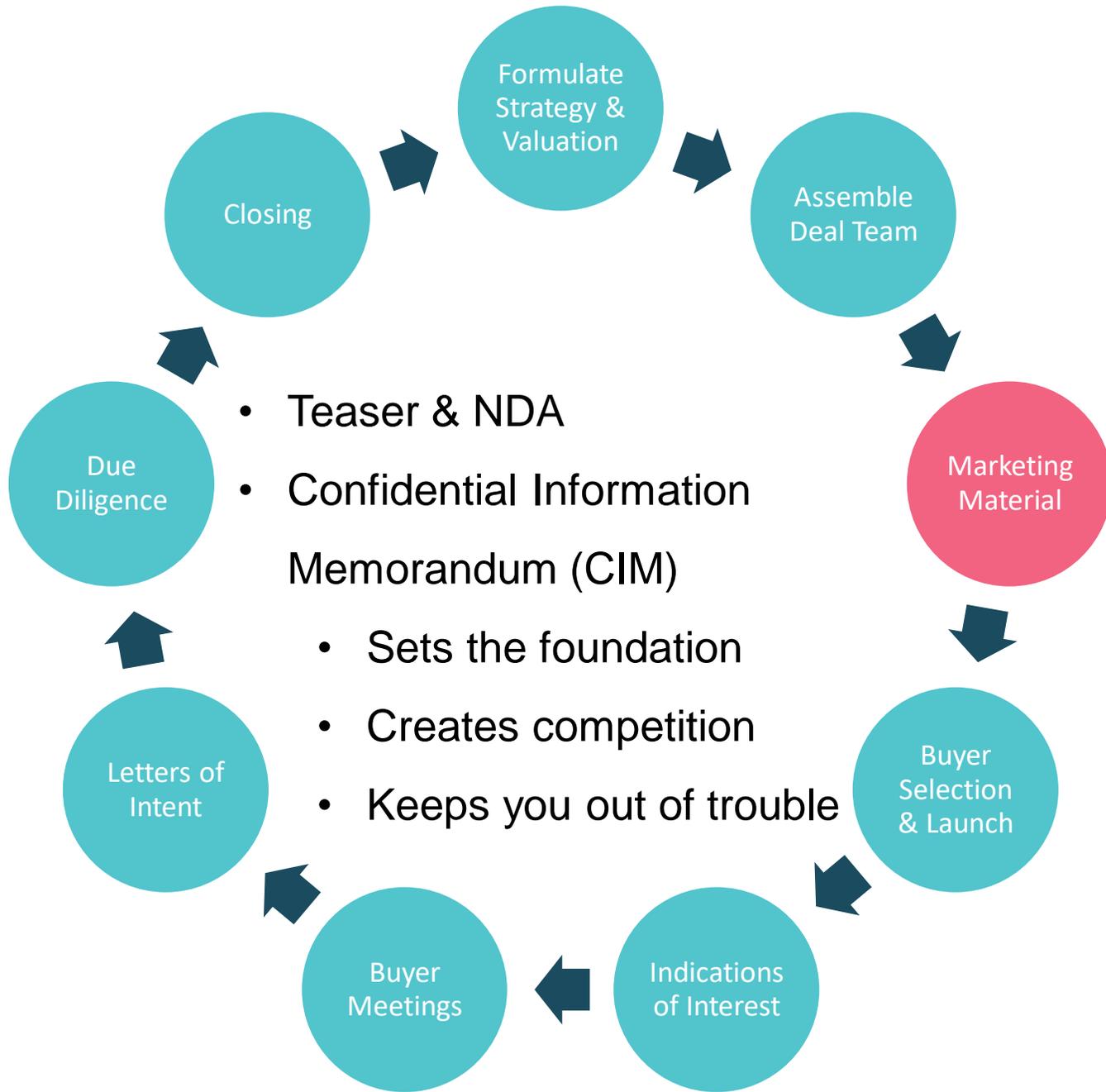
Finance

- AR/AP Strategies
- Inventory Strategies
- GAAP Accounting

Assemble Deal Team



Marketing Material



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

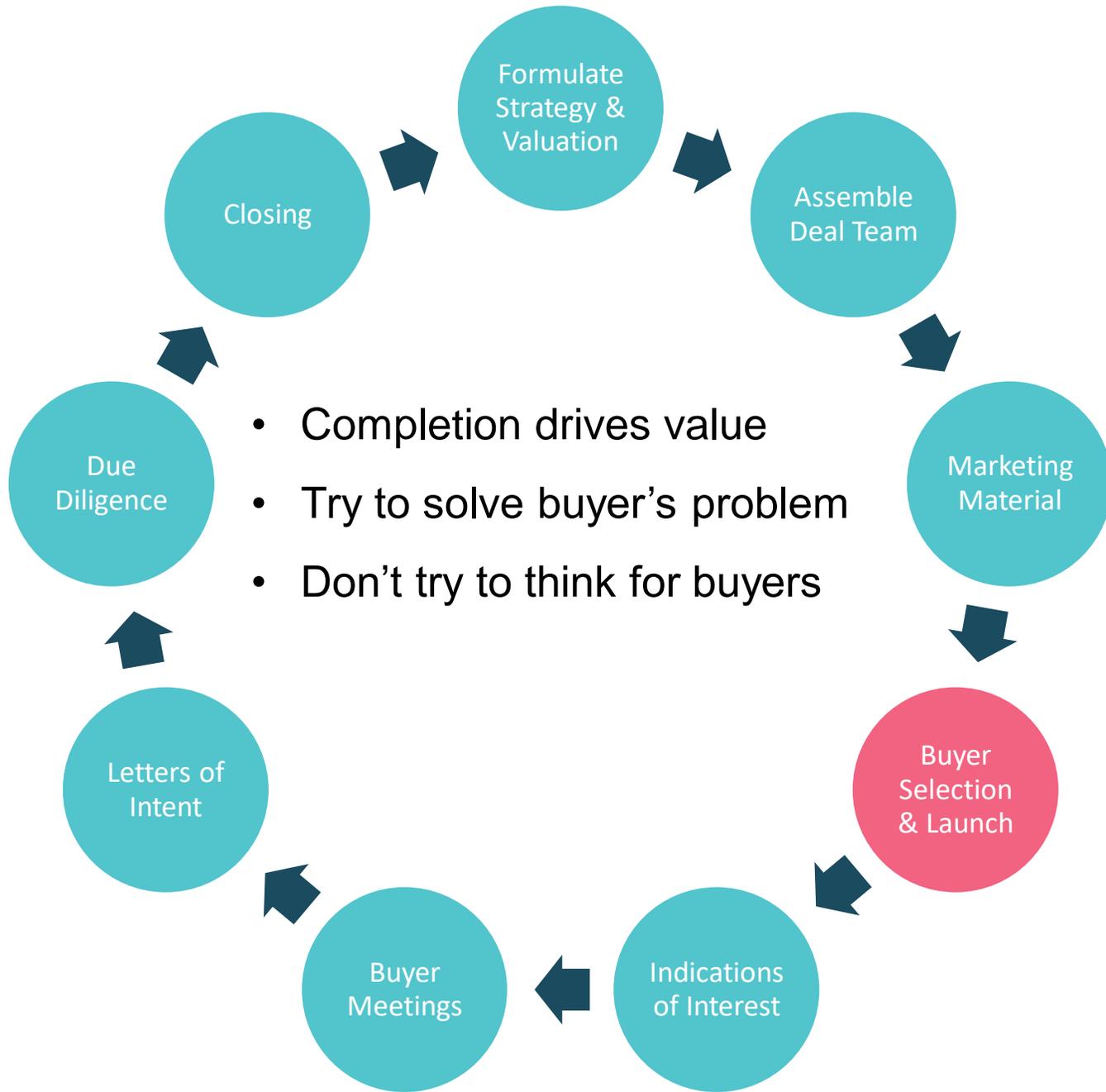
Growth Strategies

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

Cap-Ex strategies

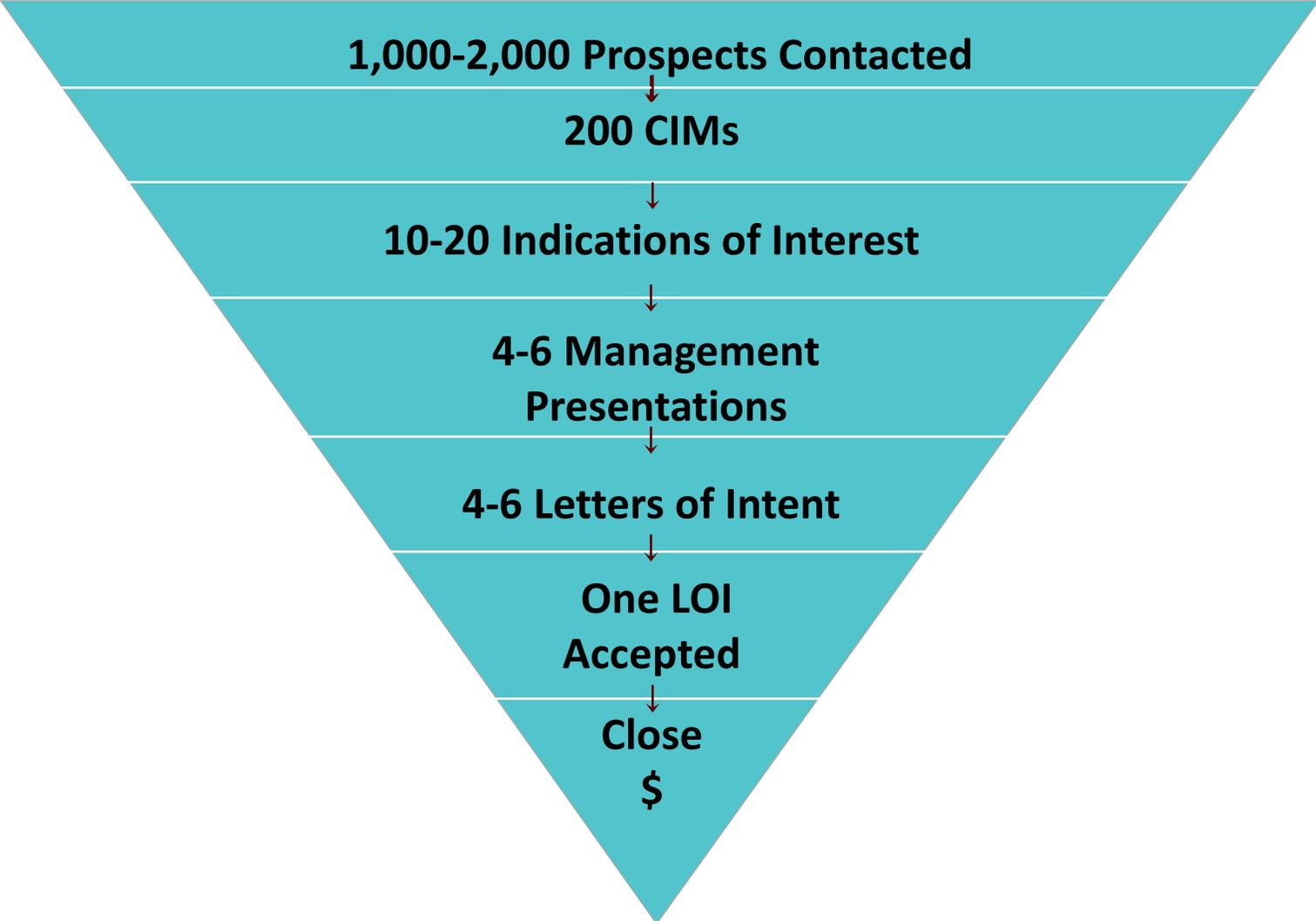
- Tooling & Expansion
- Inventory Investments
- Operational Cash Reinvestments

Buyer Selection & Launch

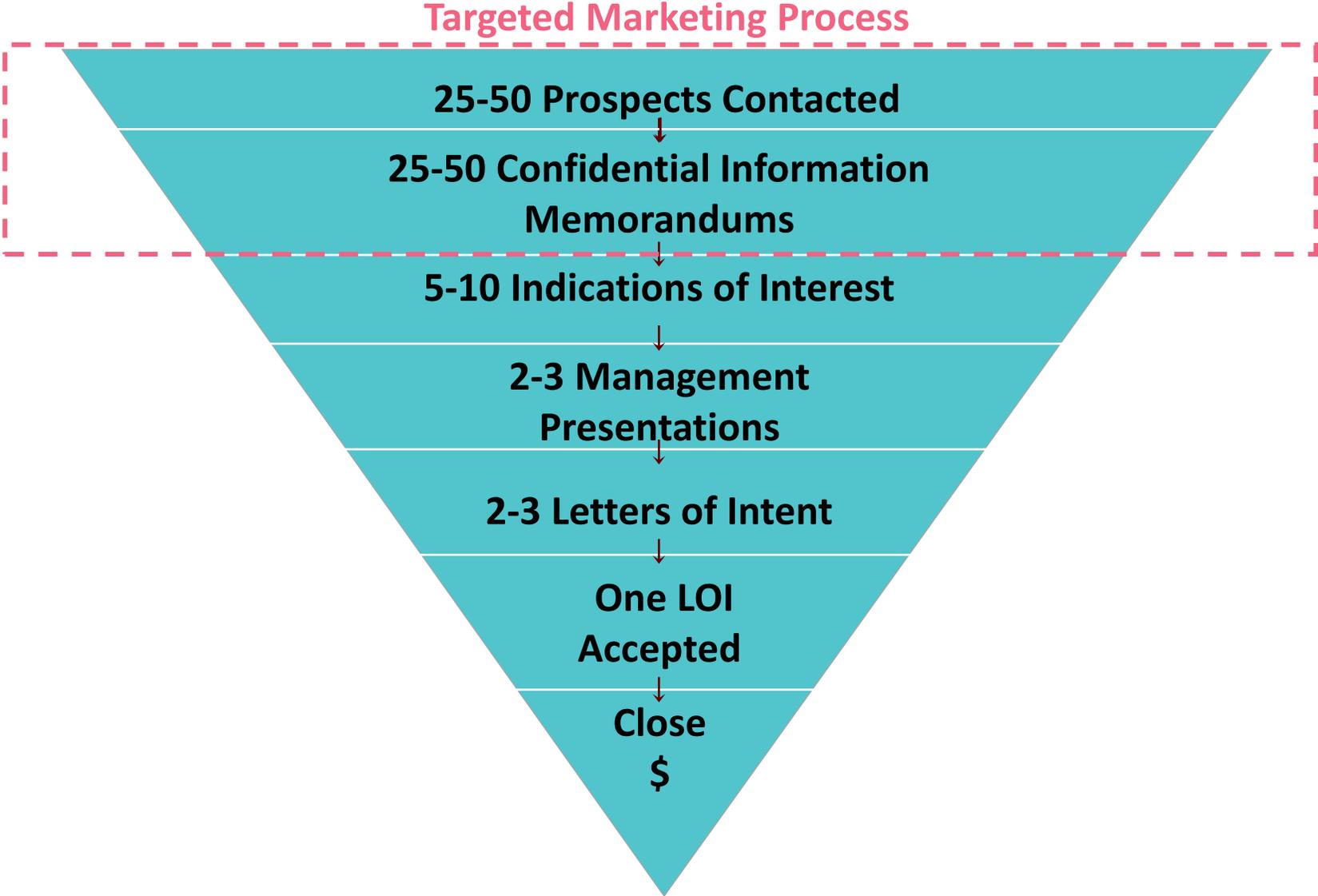


The Process

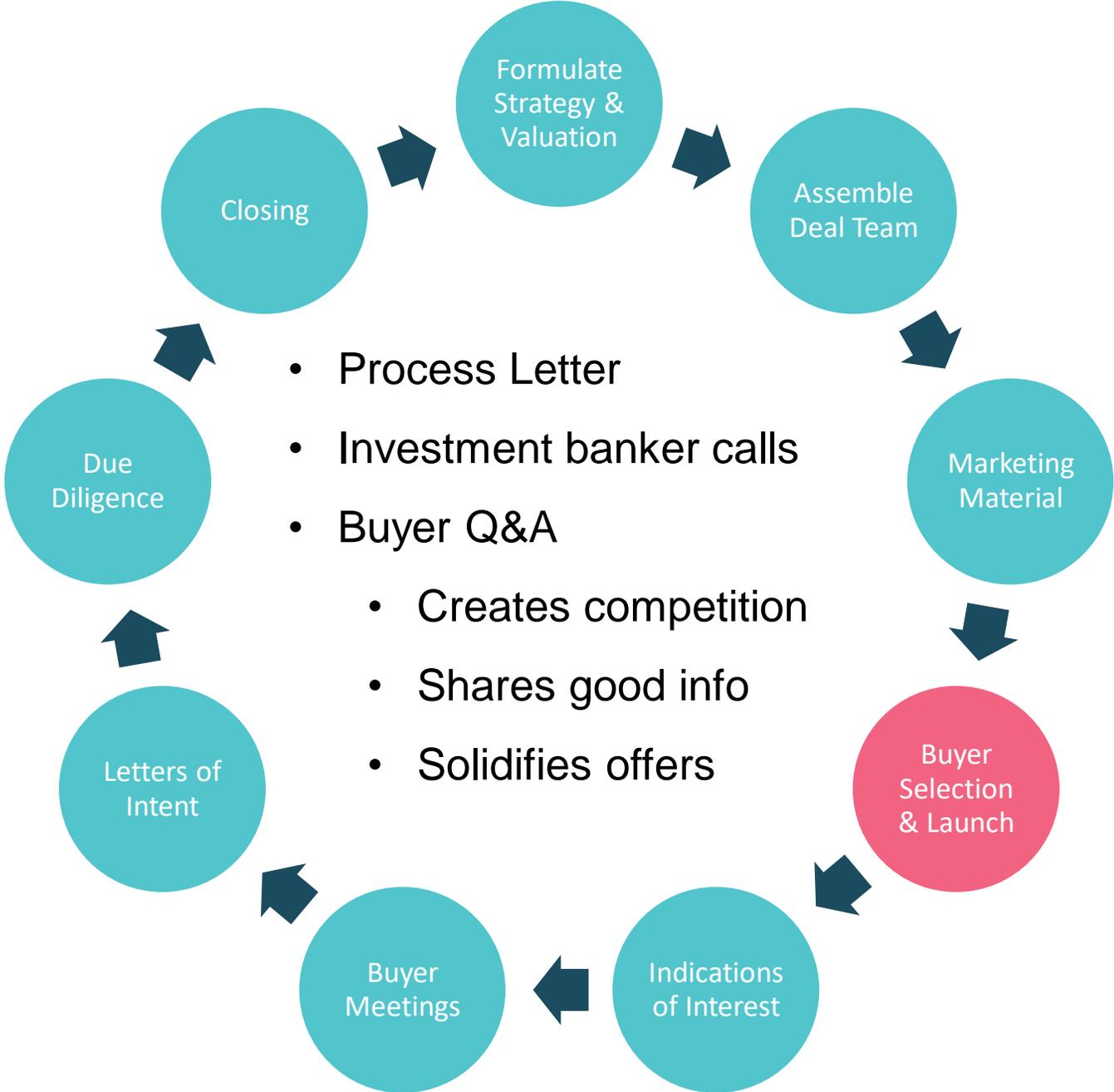
Universal Marketing Process



The Process



The Process



Indications of Interest



Management Visits



Do your Homework

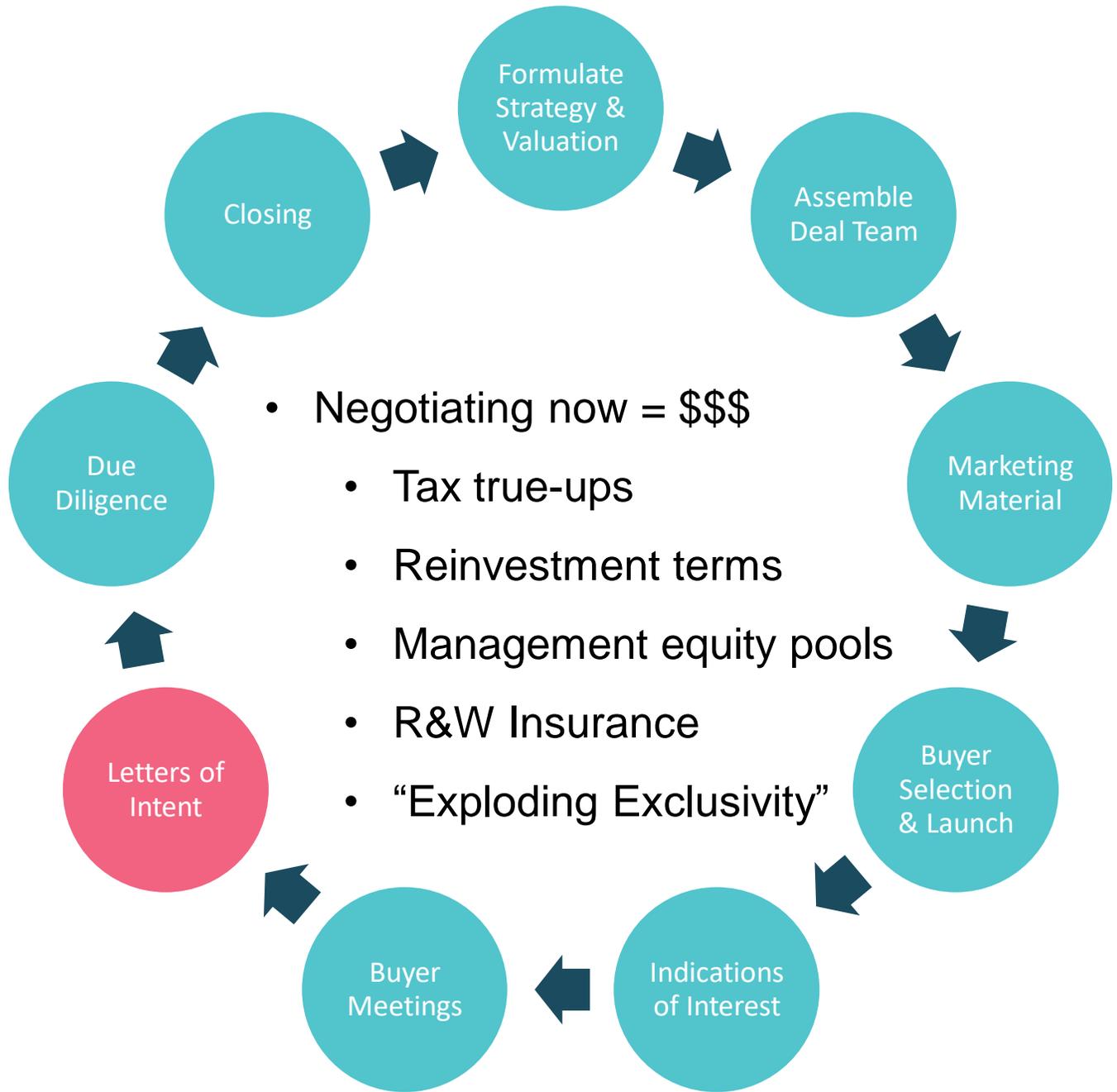
Be Prepared

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

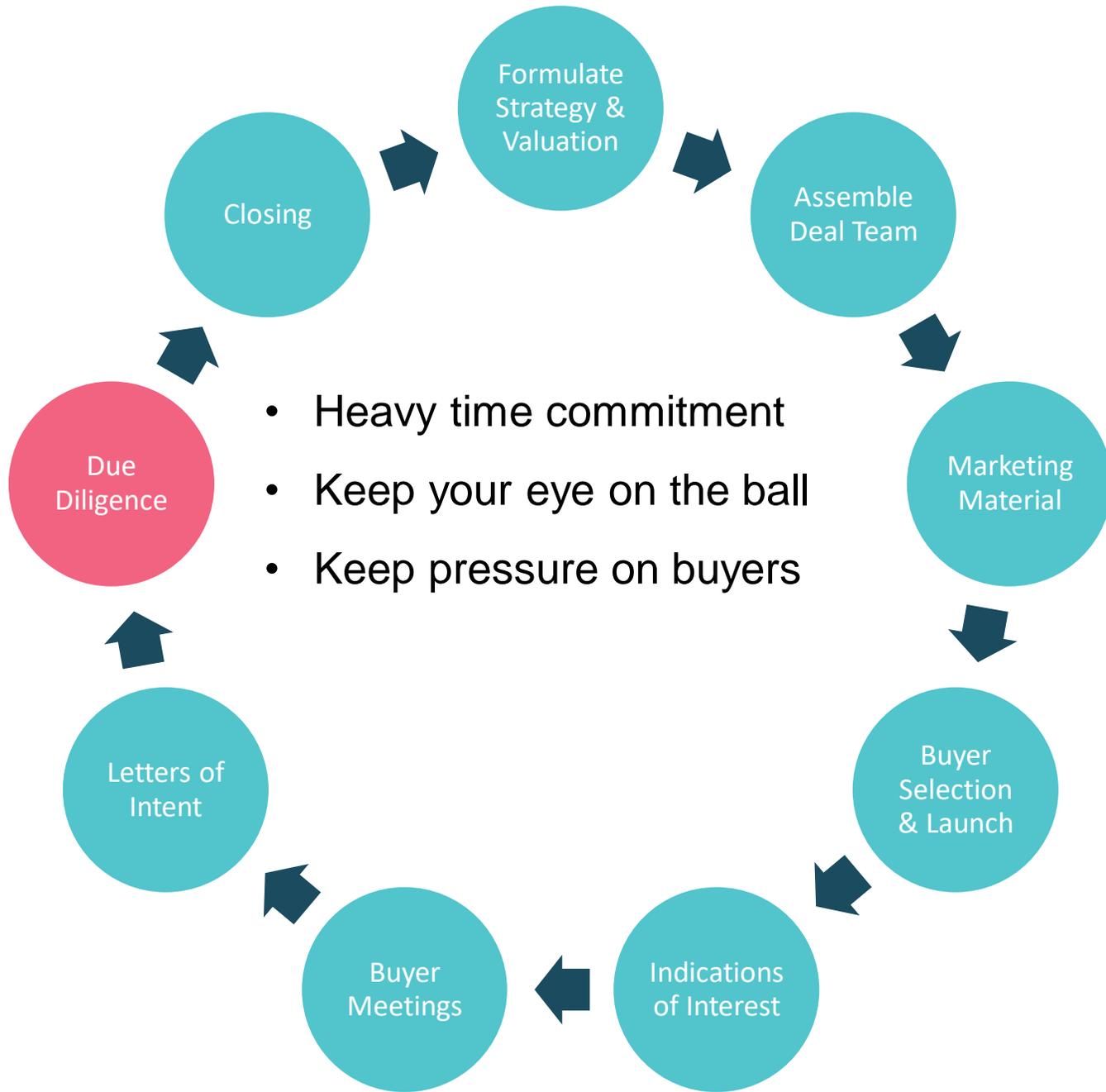
Know your Data

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

Letters of Intent



Due Diligence



Timing

Timing



Timing



Timing



Timing



Timing



Private Equity

Private Equity Invested in Aviation

PE Firms Invested in the Aviation Industry



PE Firms Invested in the Aviation Industry



Recapitalizations 101

Recapitalization Example

	<u>Selling Price</u>		<u>Newco</u>
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:	<u>Initial Investment</u>	<u>Source</u>	<u>Ownership of Newco</u>
	\$ 3,000	Private Equity Fund	75%
	<u>\$ 1,000</u>	Seller Reinvestment	25%
	\$ 4,000	Initial Investment	

Scenario 2:	<u>Initial Investment</u>	<u>Source</u>	<u>Ownership of Newco</u>
	\$ 2,400	Private Equity Fund	60%
	<u>\$ 1,600</u>	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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