

Industry Week in Review – December 21, 2018

Summary

President Trump reverses course abruptly pulls troops out of Syria. Following the decision, Secretary of Defense James Mattis announced his retirement. Moreover, the Carlyle Group announced it will purchase StandardAero from Veritas Capital. Additionally, NASA announced a significant security breach that potentially compromised their employees' private information.

Aerospace & Defense Update

The Carlyle Group has agreed to acquire StandardAero Aviation Holdings, Inc. a portfolio company of Veritas Capital. StandardAero has a global brand and is a leading provider of maintenance, repair, and overhaul services for Boeing and Airbus' aircrafts, engines, business jets, and helicopters. The terms of the deal were not announced. This acquisition marks the second time Carlyle has owned StandardAero as it acquired the Company in 2004 and sold it to Dubai Aerospace for \$1.9 billion in 2007. Carlyle seeks to leverage StandardAero's strong reputation, skilled employee base, and attractive market position to accelerate growth. This transaction underscores trends of large scale M&A activity and considerable private equity interest that have shaped the aerospace and defense M&A landscape throughout 2018. The deal is anticipated to close in the first quarter of 2019.

This week, President Trump ordered an abrupt withdrawal of U.S. military forces from Syria, potentially ending a 4-year military campaign against the Islamic state of ISIS. Over the next several weeks the U.S. expects to extract over 2,000 military personnel from the region, but further details regarding the rest of the timeline and logistics of implementing the President's order have not been announced. Additionally, President Trump doubled down on his decision as he announced the U.S. will withdraw nearly 7,000 troops from Afghanistan. Trump's decisions have drawn both condemnation and praise as critics believe the U.S.'s departure will destabilize the region and proponents claim the war against ISIS has been won and it is time to bring American troops home. With these announcements, President Trump assured the U.S. will continue to utilize other tools at their disposal such as economic sanctions and diplomatic pressure to support the region.

Government Technology Solutions

NASA announced this week that employees' social security and other sensitive information may have been compromised in an October breach. There is an ongoing investigation to determine which current or former employees were affected. The server that was accessed contains information going back to 2006, but it does not appear to contain information that could impact NASA's missions. NASA announced that it will provide assistance to any victims of the breach who had their information compromised. Following the revelation of Marriott's cyberattack earlier this month, the NASA breach comes at a time in which the government is on high alert regarding cyber-espionage from other potentially government-sponsored adversaries. For this reason, the investigation into the NASA cyberattack will aim to uncover the entity behind the breach and their motives. This year alone, the U.S. has announced over 20 high profile indictments of cybercriminals from North Korea, Russia, China, and Iran. Regardless of the investigation's results, these events are likely to cause all government agencies to consider additional investments in cybersecurity in order to shift operations to newer and more secure IT systems and away from older, legacy

systems that tend to have more cyber vulnerabilities. This is likely to result in an increased demand for support from government contractors that specialize in IT security.

Big Movers

Lockheed Martin (Down 10.8%) – Share prices were down this week as concerns rise over the Pentagon identified Lockheed Martin's F-35 program as a potential area for cost savings.

Northrop Grumman (Down 10.5%) – Share prices were down this week as officials suggests costs are not sufficiently transparent regarding Northrop's new stealth bomber.

Transactions

Heston Services Ltd. has acquired Aircraft Maintenance Services, a provider of line maintenance services in major Australian airports to a wide warier of domestic and internal airlines. The deal is valued at an estimated \$3.2 million.

Optomec, Inc. has acquired Heffman Corporation, a provider of 3D metal printing systems for additive repair of gas turbine components. Terms of the deal were not disclosed.

Spartan Motors, Inc. has acquired Strobes-R-US, Inc., a provider of upfit services for government and non-government vehicles. Terms of the transaction were not disclosed.

Teledyne Technologies, Inc. has acquired the Imaging Business of Roper Technologies, a provider of imaging solutions, primarily for life sciences, academic research and customized OEM industrial imaging solutions. The deal is valued at an estimated \$225 million.

The Carlyle Group StandardAero Aviation Holdings., a provider of MRO services, auxiliary power units and components; airframe services including major alterations; FAA authorized avionics capabilities, engineering services, and aircraft design. Terms of the transaction were not disclosed.

Comparable Company Analysis

(\$ in millions, except price per share)

Defense Primes	Stock Price		Stock Price Δ		Market Cap	2018E P / E	2018E EV / EBITDA
	12/14/18	12/21/18	1-Week	1-Year			
Boeing	\$318.75	\$304.55	(4.5%)	3.2%	\$172,949.5	20.2x	12.9x
Lockheed Martin	287.70	256.55	(10.8%)	(19.1%)	72,969.4	14.6x	10.4x
General Dynamics	168.97	150.49	(10.9%)	(25.7%)	44,567.6	13.5x	10.9x
Raytheon	169.85	151.52	(10.8%)	(18.9%)	43,119.1	15.0x	9.0x
Northrop Grumman	262.71	235.24	(10.5%)	(22.7%)	40,842.3	12.3x	12.0x
BAE Systems	5.73	5.76	0.5%	(24.2%)	18,395.4	10.7x	7.6x
L3 Technologies	191.29	166.24	(13.1%)	(14.9%)	13,082.7	16.2x	11.7x
Median			(10.8%)	(19.1%)	\$43,119.1	14.6x	10.9x

Government Technology Solutions

Leidos Holdings	\$57.05	\$51.41	(9.9%)	(21.0%)	\$7,699.2	11.8x	9.7x
Booz Allen Hamilton	49.12	44.77	(8.9%)	15.8%	6,372.7	17.8x	12.1x
CACI International	159.27	141.86	(10.9%)	5.3%	3,525.1	14.9x	10.2x
Perspecta Inc.	20.20	17.42	(13.8%)	NM	2,854.8	NA	NA
SAIC	68.41	60.43	(11.7%)	(21.8%)	2,571.0	13.4x	10.1x
ManTech International	55.22	49.70	(10.0%)	(2.7%)	1,974.7	23.9x	11.6x
ICF International	67.62	62.17	(8.1%)	17.3%	1,171.7	16.4x	11.4x
Engility Holdings	30.69	27.18	(11.4%)	(3.7%)	1,004.8	13.3x	10.9x
KeyW	8.20	6.63	(19.1%)	12.4%	328.6	-22.7x	12.3x
VSE Corporation	30.71	28.98	(5.6%)	(42.1%)	315.3	NA	NA
Median			(10.5%)	(2.7%)	\$2,272.8	14.1x	11.2x

Aerospace

Airbus	\$100.15	\$94.84	(5.3%)	(6.0%)	\$73,567.3	19.7x	9.2x
Safran	122.20	117.15	(4.1%)	11.5%	48,358.3	21.8x	12.2x
TransDigm	346.80	322.73	(6.9%)	18.3%	17,023.5	20.7x	14.4x
MTU Aero Engines	190.31	180.78	(5.0%)	0.5%	9,334.5	17.6x	11.4x
Spirit AeroSystems	73.18	67.50	(7.8%)	(21.8%)	7,154.8	10.9x	7.7x
Embraer	21.12	21.58	2.2%	(11.6%)	4,075.4	64.5x	13.0x
Bombardier	1.51	1.41	(6.6%)	(41.6%)	3,357.1	13.1x	9.4x
Astronics	31.77	30.55	(3.8%)	(18.1%)	1,076.0	19.5x	14.0x
Triumph Group	13.23	12.15	(8.2%)	(55.9%)	605.5	5.6x	10.9x
Median			(5.3%)	(11.6%)	\$7,154.8	19.5x	11.4x