Aerospace and Defense Industry Snapshot

The aerospace and defense (A&D) arena remains stable relative to other industrial sectors, notwithstanding a general flattening or slight softening in aggregate demand.

Defense

The original announcement from Northrop Grumman that it would not re-bid the KC-X tanker program (with its A330 platform) has been modified based on the Pentagon's request that it remain in the running. The implication is that there may yet be a competition if the U.S. Department of Defense (DoD) agrees to delay the award date so Northrop Grumman/EADS will have additional time to prepare. However, the possibility still remains that the Boeing/Pratt and Whitney entry (B767 and PW4000) will be awarded this $40 billion plus contract starting in 2013 as sole bidder.

A comprehensive view of DoD procurement awaits the release of the Quadrennial Review later this Spring, with an eye towards revisions to the projected requirements for the F35 Joint Strike Fighter and various UAV Programs. Many published projections have the Pentagon continuing its spending at the higher end of the historical trends for several more years.

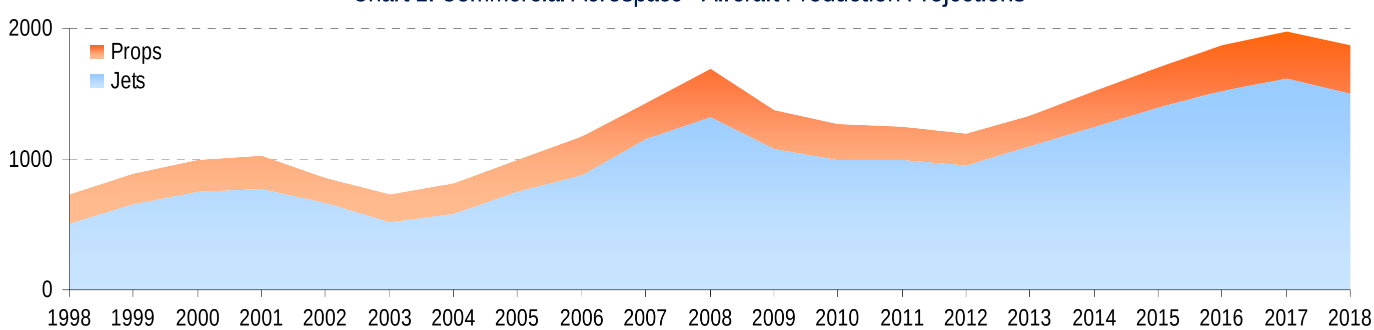
Commercial

Major platform events since last summer include the long awaited resumption of the certification progress of Boeing's 787 Dreamliner and the Airbus A350, both of which have received new orders in recent weeks and are progressing once again in their development programs.

Business jet orders are still depressed with industry groups now stating that growth of 8 to 9% CAGR will not commence sooner than 2012. Progress on the emerging Regional Jet programs (MRJ and CRJ) continues with progress by Pratt and Whitney on development of its geared turbofan. Recent announcement of the Russian Irkut MS-21 Twin Jet selection of the PW1000G GTF has enhanced the business case for this gas turbine. China, however, has selected the CFM56 Leap-X engine for its C919 single aisle, scheduled for entry into service in 2016. New next-generation narrow body decisions this year by Airbus and Embraer will keep this sector at the center of attention.

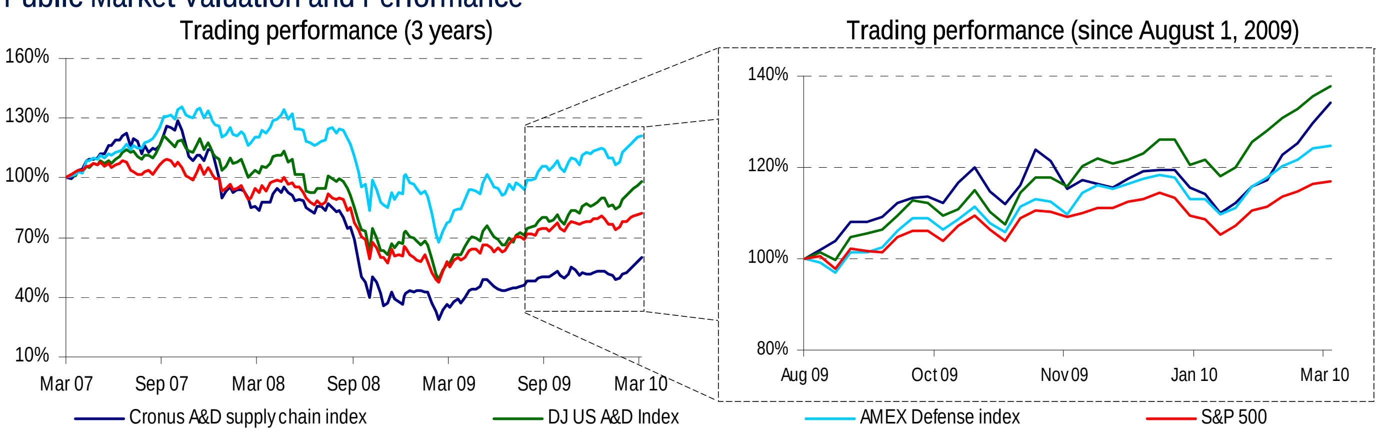
After a flat to slightly down year in 2009, any meaningful resumption of the commercial aerospace OEM sector will depend on when the U.S. and world airlines return to profitability. In contrast, the projection for the commercial MRO sector is expected to continue growing between 3% and 5% per year over the next five to ten years, with the most significant growth occurring in Asia. Lastly, rotorcraft production worldwide has flattened with an expected commencement of growth starting in 2012 amid indications of 10% total growth between 2010 and 2014.

Chart 1: Commercial Aerospace - Aircraft Production Projections



Source: GAMA, Teal, RSA analysis

Public Market Valuation and Performance



As of close on March 30, 2010.

Industry's Changing Bank Credit Requirements

Cronus surveyed ten banks serving the Connecticut business market to determine the credit environment and some specifics on credit limits and conditions:

- Asset Based Financing. Lending secured by working capital or other liquid assets was available even during the financial crisis but has improved significantly since. Improvement means access to the market for smaller credits and somewhat more liberal overall credit limits; however, lending will remain at the 80-85% level for accounts receivable and at 50% or below for inventory.
- Cash Flow Lending. This market was very difficult during the crisis and has now returned but in a far more moderate form than the pre-crisis levels of 2007. Cash flow-based lending is far more difficult to obtain for small business, and credit issues tend to eliminate rather than moderate borrowing capacity. In conjunction with an acquisition, the market can be accessed, but the sponsor must be a private equity group or a well-established credit. And the transaction cannot be overleveraged.
- Debt Capacity. This statistic ranges widely with the low end at 2.25 times EBITDA, while the high end is realistically 3 to 4 times, with the size, banking relationship and experience of the borrower all being critical.
- Interest Rates. Variable rates dominate with LIBOR-based loans as low as a 135 basis point premium. Standard middle market loans will be at a 200 to 400 basis point premium over LIBOR with some banks maintaining a 4% rate floor (i.e., if LIBOR plus the premium is lower).

The packaging and professionalism demonstrated by a company seeking financing greatly influences the outcome. Unaudited numbers can threaten a financing, although in smaller transactions tax returns are still relied upon. In the A&D industry, inventory is a particular problem, with banks reluctant to finance work-in-progress inventory and often capping the inventory portion of a loan independently from the overall credit cap. A credit worthy business with well organized documents, budget discipline and a balance sheet kept in accordance with GAAP should have the opportunity to recapitalize or extend current credit facilities.

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Leveraged Buy-Out Market

Chart 2: Average Debt Multiples of Middle Market LBO Loans

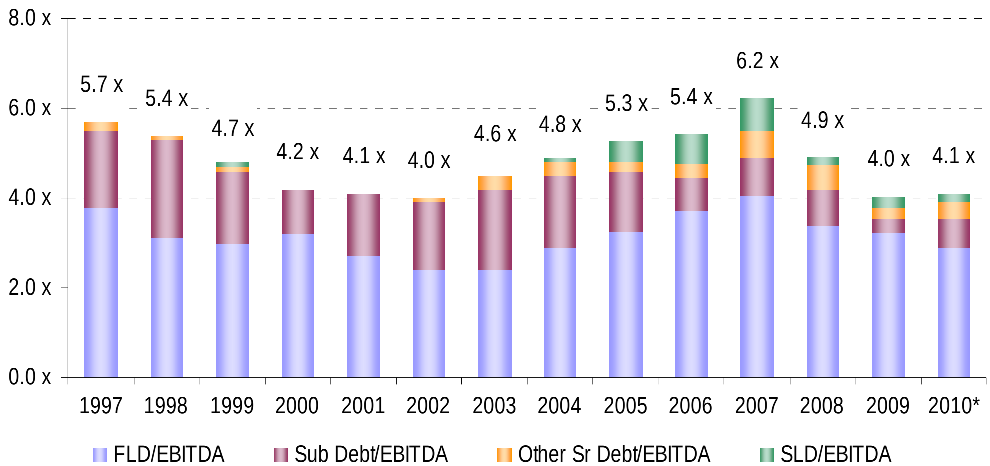
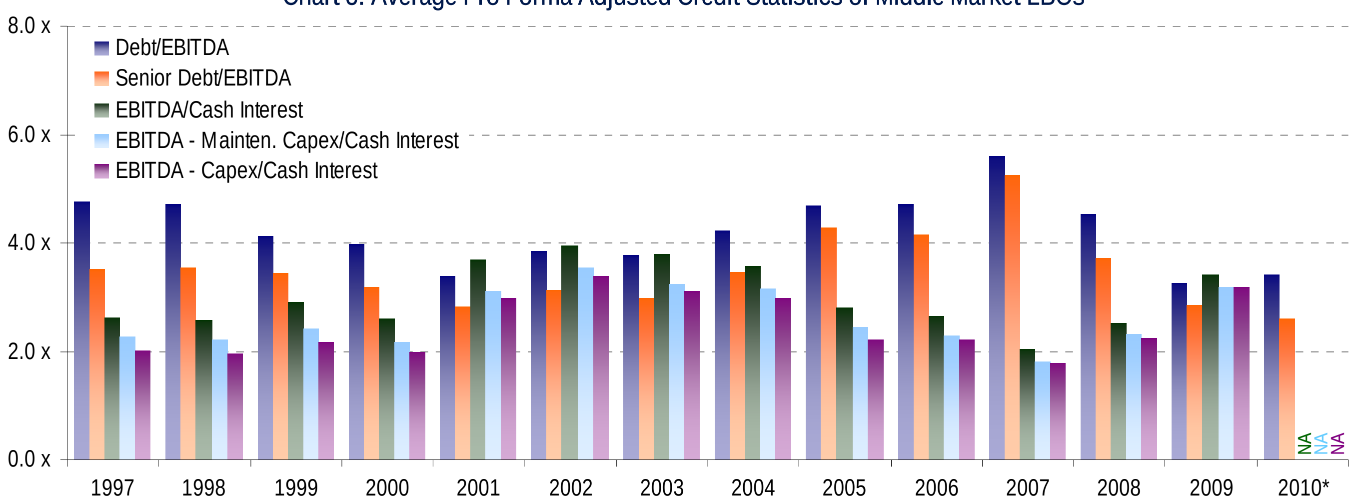


Chart 3: Average Pro Forma Adjusted Credit Statistics of Middle Market LBOs



Consists of issuers with EBITDA less than $50 million and excludes Media and Telecom loans. NA signifies insufficient observations for the period.
** LTM as of February 28, 2010.*
Source: Standard & Poor's

Private Equity Market Availability

The overall U.S. market for private equity (PE) bottomed out in mid-2009, turning the corner with slightly increased capital investment and number of transactions closed (Chart 4). More dramatic is the cumulative "overhang", or outstanding capital available due to the significant multi-year gap between capital raised and actual equity invested despite the severe drop in both (Chart 5). As of the end of 2009, this overhang totaled $400 billion.

Because standard PE fund practice is to invest raised capital within the subsequent five-year period, there is pressure to invest a large portion of this overhang within the next two to three years. One caveat is that PE firms have the option to refrain from calling on committed funds if investment opportunities do not arise. While opportunities are not yet available in some other sectors, revenue and growth expectations for the A&D industry are high and represent an attractive opportunity for PE (Chart 1). Cronus has had recent discussions with many PE firms that have expressed a strong interest in investing in the A&D sector in particular.

Chart 4: US Private Equity Transaction Flow

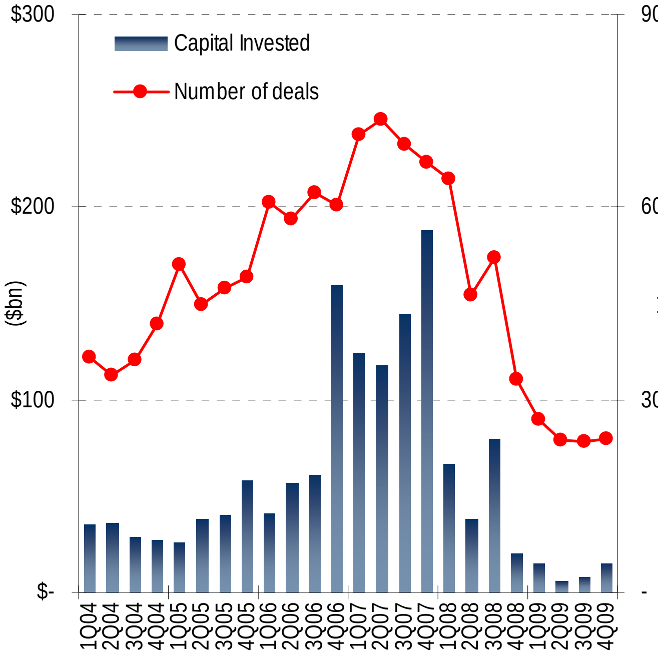
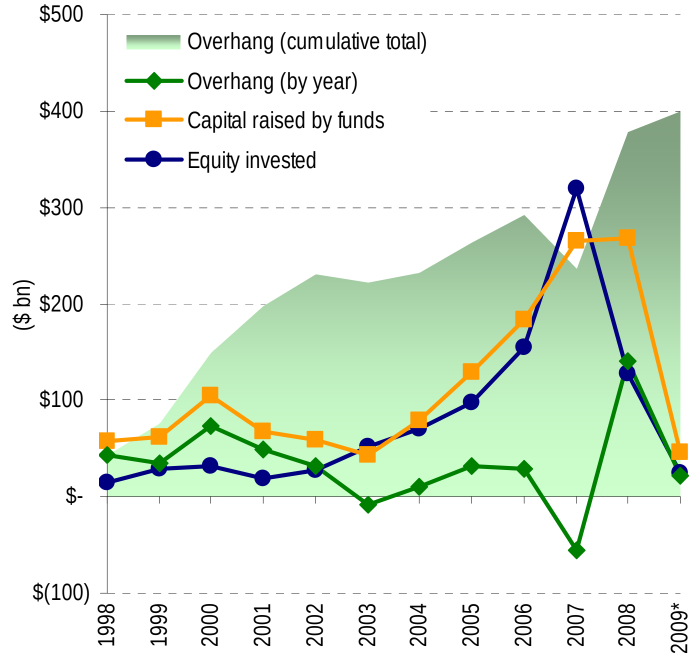


Chart 5: US Private Equity Overhang



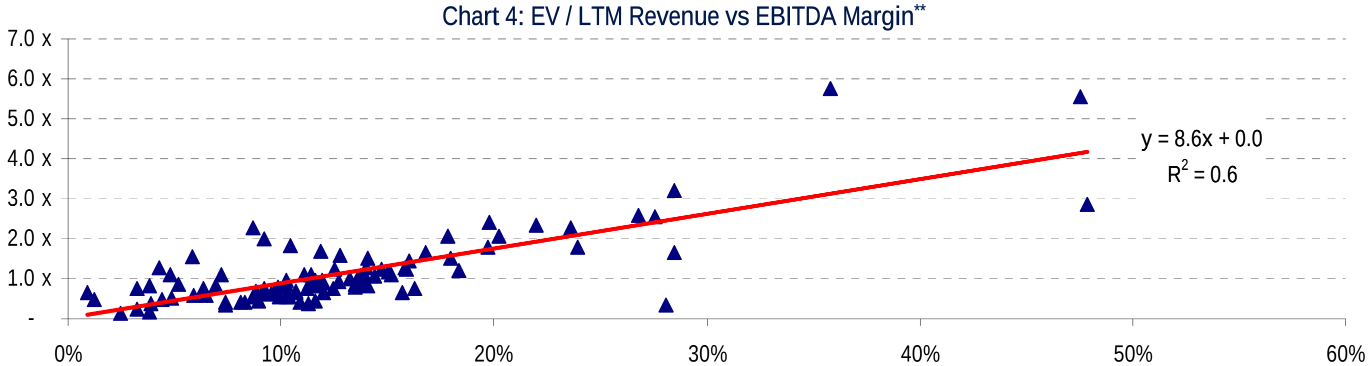
** As of April, 2009*
Source: Pitchbook

Public Market Valuation and Performance by Size

Amounts in millions of dollars

	Number of Observations	Mean Enterprise value	Mean LTM Revenue	Mean LTM EBITDA	Mean EBITDA Margin	EV / LTM Revenue	EV / LTM EBITDA
Revenue >$2,000	32	$ 15,068.4	$ 17,444.9	$ 1,805.7	12%	1.0 x	8.5 x
$2,000 > Revenue >$500	21	2,004.2	1,189.1	205.1	18%	1.7 x	9.2 x
$500 > Revenue >$100	28	257.7	267.1	29.3	11%	0.9 x	36.2 x
$100 > Revenue >$0	29	37.4	37.0	2.1	(4)%	1.1 x	14.2 x

Chart 4: EV / LTM Revenue vs EBITDA Margin**



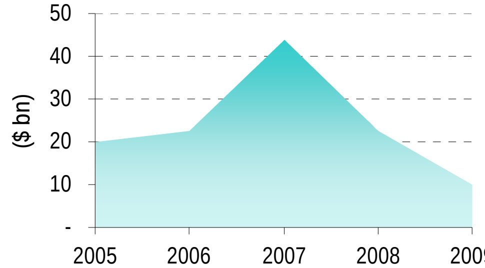
*** Excludes companies with negative EBITDA.*
Source: CapitalIQ

Consolidation Trends and Outlook

Merger and acquisition activity in the A&D sector fell off in 2009 similarly to the decline seen in other sectors, as economic uncertainty prevented operating companies or so-called strategic acquirers from pursuing acquisitions and as tight credit markets kept private equity on the sidelines. But 2010 looks to demonstrate a rebound of sorts, as strategics now comfortable with their own expected performance are willing to invest their substantial cash balances (over $78 billion among those with revenue over $2 billion) to fund strategic acquisitions.

Cronus anticipates that these acquisitions will be focused on realigning the businesses of the A&D sector with the expected shift in Pentagon procurement priorities, particularly reduced purchases of large weapons systems and continued acceleration of spending related to homeland defense. While differences between buyers and sellers regarding valuations remain, the on-going realignment of would-be sellers to the macro-economic and market circumstances of 2010 (and potentially quite beyond) should precipitate transaction activity underpinned by important strategic objectives or financial necessity.

Chart 6: A&D Mergers and acquisitions



Note: Disclosed deal value
Source: PircewaterhouseCoopers

Selected Aerospace and Defense Supply Chain M&A Activity

Date	Target	Buyer	Description
Jan 10	Europea Microfusioni Aerospaziali S.P.A.	Rolls Royce Group plc	Rolls Royce acquired the remaining 49% stake in Europea from Finmeccanica. Europea, founded in 1990 and based in Italy, is a manufacturer of precision advanced micro-castings for aero engines.
Jan 10	Slingsby Advanced Composites Ltd.	Marshall Aerospace International Services	Slingsby, incorporated in 1982 and based in the UK, engages in the design and manufacture of composite structures for the A&D industry and generated revenues of £15 million in 2009.
Dec 09	Orion Propulsion, Inc.	Dynetics, Inc.	Orion, founded in 2004 and based in Alabama, designs, fabricates, and tests propulsion systems and builds, maintains, and operates ground support equipment and special test equipment for aerospace customers.
Dec 09	Fischer Advanced Composite Components AG (FACC)	Xi'an Aircraft Industry Company Ltd.	Xi'an acquired a 91.25% stake in FACC from Österreichische Salinen Aktiengesellschaft and other shareholders. Xi'an injected approximately €40 million in fresh equity into FACC. FAAC, founded in 1989 and based in Austria, engages in the design, development, manufacture, and fabrication of composite aerostructures and aircraft interiors for civil aircraft.
Dec 09	Composotech Structures Inc.	Oneworld Energy, Inc.	OneWorld acquired a 29% stake in Composotech and now holds 80%, with Composotech senior management holding the remaining 20%. Composotech, founded in 2004 and headquartered in Canada, manufactures and markets composite structures, such as flight simulators and nose cones, and provides design, installation, repair, and maintenance services catering to the A&D industry.
Oct 09	Piaggio Aero Industries S.p.A.	Tata Limited	Tata acquired a minority stake in Piaggio, bringing its total stake to 33% and becoming one of the main shareholders. Piaggio, founded in 1998 and based in Italy, designs, constructs, and maintains aircraft, engines, and aircraft structural components for commercial, government, and military sectors, and offers repair, maintenance, and overhaul services.
Sep 09	Heli-One Components B.V	PPM Oost NV	PPM and Heli-One management acquired Heli-One from CHC. PPM acquired a 30% stake. Heli-One, founded in 1983 and based in the Netherlands, changed its name to NedAero Components. It operates as a helicopter support company, providing engine and component design, manufacturing, overhaul, repair, modifications, and logistics support services for helicopters and fixed wing aircraft of commercial and military customers.
Jul 09	Vought Aircraft Industries' Operations	Boeing Co.	Boeing acquired the South Carolina business and operations from Vought for approximately $1 billion in cash, including release from the obligation to repay $422 million previously advanced by Boeing. The operations manufacture rear sections of the composite fuselage used in the Boeing 787 Dreamliner aircraft and are now managed by the 787 Program.

Public Market Valuation and Performance – Select Cronus A&D Supply Chain Index

Amounts in millions of dollars, except per share data

	Stock Price	% of 52-week		Market	Enterprise		EV / Revenue				EV / EBITDA				P/E Ratio		
Company Name	3/30/2010	High	Low	Cap	Value	Cash	LTM	LQA	CY2010E	CY2011E	LTM	LQA	CY2010E	CY2011E	LTM	CY2010E	CY2011E
Hampson Industries plc	$0.93	57 %	120 %	$259	$474	$43	1.3 x	1.6 x	NA	NA	29.7 x	6.8 x	NA	NA	NM	NA	NA
Magellan Aerospace Corp.	1.79	65	545	33	296	6	0.4	0.4	0.4	0.4	3.9	4.7	4.3	3.9	2.1	10.6	7.1
Ducommun Inc.	21.40	98	159	224	234	19	0.5	0.6	0.5	0.5	5.5	4.7	4.2	4.0	22.1	10.3	9.9
Heroux-Devtek Inc.	5.26	89	147	160	214	30	0.7	0.7	0.6	0.6	4.2	4.6	4.0	4.3	9.1	8.8	10.1
LMI Aerospace Inc.	18.57	96	344	218	235	0	1.0	1.1	0.9	0.9	8.2	8.9	7.7	7.1	20.7	14.3	12.4
Sypris Solutions Inc.	3.37	84	674	66	74	16	0.3	0.3	0.3	0.2	NM	7.3	NA	NA	NM	NM	23.8
General Donlee Limited	7.85	97	144	42	86	2	2.1	2.5	NA	NA	10.3	17.2	NA	NA	7.2	NA	NA
Northstar Aerospace Inc.	0.99	75	278	30	79	0	0.4	0.4	0.5	0.4	5.1	3.5	4.4	4.1	NM	8.5	5.4
SIFCO Industries Inc.	17.05	98	299	90	71	20	0.8	0.8	NA	NA	4.7	5.0	NA	NA	10.9	NA	NA
CPI Aerostructures Inc.	8.30	93	144	50	53	2	1.2	1.0	NA	NA	8.2	5.0	NA	NA	12.9	NA	NA
Avcorp Industries Inc.	0.05	16	100	11	40	0	0.5	0.7	0.6	0.4	NM	NM	NM	7.1	NM	NM	NM
Edac Technologies Corp.	3.69	72	224	18	32	1	0.6	0.5	NA	NA	10.1	17.0	NA	NA	2.4	NA	NA
Tel-Instrument Electronics Corp.	7.97	91	211	21	21	0	2.3	3.3	NA	NA	NM	NM	NA	NA	NM	NA	NA
	Mean	79.4 %	260.6 %				0.9 x	1.1 x	0.5 x	0.5 x	9.0 x	7.7 x	4.9 x	5.1 x	10.9 x	10.5 x	11.5 x
	Median	88.9	210.8				0.7	0.7	0.5	0.4	6.8	5.0	4.3	4.2	10.0	10.3	10.0

Foreign currencies converted to U.S. dollars using current exchange rates. Sources: Filed 10-K and 10-Q financial reports.