

Aerospace and Defense Update

Deloitte Corporate Finance LLC



Investment Banking Advisory Services

- Sale & Divestiture
- Acquisition, Joint Venture & Alliance
- Capital Raising
- Corporate Development Advisory

Transaction Highlight



American Piping Products, Inc.

has sold a majority equity interest to

the edgewater funds

**Edgewater Growth Capital
Partners II, L.P.**

The undersigned acted as exclusive financial
advisor to American Piping Products, Inc.

Deloitte.

Deloitte Corporate Finance LLC

Deloitte Corporate Finance LLC (“DCF”) is pleased to announce its role as the exclusive financial advisor to American Piping Products, Inc. (“APP”) regarding the sale of a majority of equity interest to The Edgewater Funds (“Edgewater”). The majority stock sale transaction positions APP for continued growth by providing capacity for expanding its product offering and investing further in scalable operating assets. The transaction is another example of DCF’s role as a leading middle market, sell-side financial advisor within the Metals sector.

About APP and Edgewater

American Piping Products is a rapidly growing distributor of specialty steel pipe, fittings, and valves to global infrastructure customers in the energy, manufacturing, and construction industries.

The Edgewater Funds is a private equity firm specializing in middle market growth capital investments.

Additional Recent Transactions



MARKOR

**Markor International Furniture
Co., Ltd.**

has acquired the
assets of

SCHNADIG

Schnadig Corporation

The undersigned acted as exclusive financial
advisor to Markor International Furniture Co., Ltd.

Deloitte.

Deloitte Corporate Finance LLC



**icon
systems**

Icon Systems, Inc.

has been acquired by

SAIC
From Science to Solutions

**Science Applications
International Corporation**

The undersigned acted as exclusive financial
advisor to Icon Systems, Inc.

Deloitte.

Deloitte Corporate Finance LLC



a wholly-owned subsidiary of
Rank Group Limited

has sold its
Medical Packaging Business
to

**BRENTWOOD
INDUSTRIES**

The undersigned acted as financial advisor to
Reynolds Packaging Group

Deloitte.

Deloitte Corporate Finance LLC

Industry Trends

Aerospace & Defense Industry Trends

On February 26, 2009, President Obama released his summary defense budget proposal for fiscal year 2010. The budget provides \$533.7 billion in discretionary authority, which represents a four percent increase over the \$513.3 billion enacted level for fiscal year 2009. In addition to the \$533.7 billion budget, the Administration has requested \$75.5 billion in supplemental appropriations in 2009 and \$130.0 billion in 2010 to support ongoing “overseas contingency operations” – the Administration’s preferred term to replace the previous “global war on terror”. Importantly, while the summary budget proposal does not indicate what defense funding will look like beyond FY 2010, it nevertheless represents an increase over FY 2009 and signifies a continued focus on the military’s efforts abroad (though resource allocations may shift from Iraq toward Afghanistan). Although the detailed budget proposal is not expected until May, Defense Secretary Gates recommended in a statement released on April 6 that the budget increases include funding allocated to increasing troop size in key combat areas and capabilities related to the F-35 Joint Strike Fighter, Littoral Combat Ship, Unmanned Aerial Vehicles and proven missile defense systems. Meanwhile, recommended reductions to the budget include less funding for the F-22 Raptor and for Future Combat Systems, citing that the latter does not directly address immediate concerns regarding the conflict in Afghanistan. The proposed budget may find resistance in Congress, however, as lawmakers balance the interest of the Administration with constituents affected by the potential job losses associated with certain program cuts.

Once a FY 2010 budget is finalized and passed through Congress, the visibility it provides on the Administration’s program priorities may drive increased levels of M&A activity in the defense sector. Many large industry players currently have strong balance sheets and may seek growth by acquiring providers who are focused on areas expected to benefit (or at least be relatively protected from any potential future funding decreases) as a result of those priorities. While the 1990’s saw a massive wave of consolidation among the largest players in the industry in the face of budget reductions at that time, the limited number of very large companies at the top of the food chain today means acquisitions are most likely to revolve around small and medium sized niche businesses.

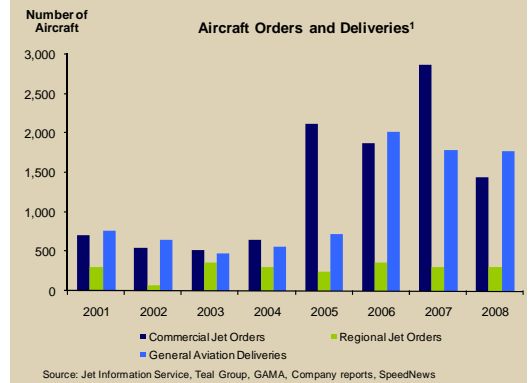
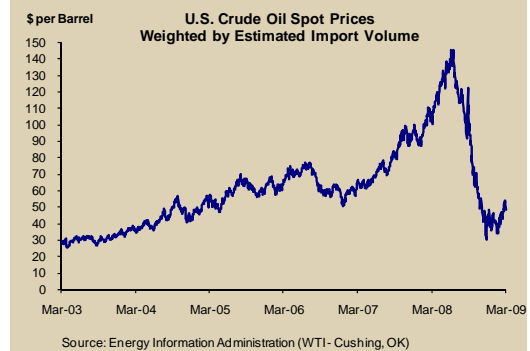
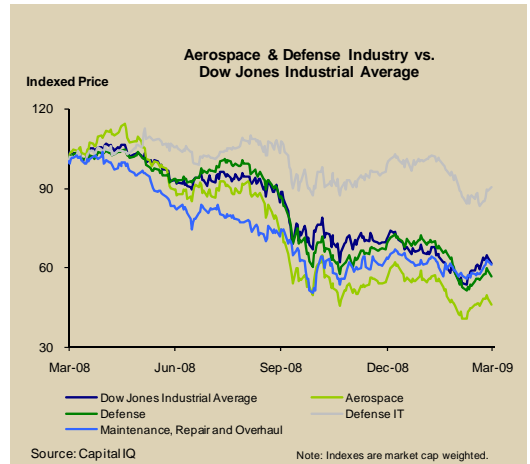
General Economic Trends

Rising unemployment, sharp declines in industrial production, deteriorating financial performance in virtually all sectors of the U.S. and global economies continued to dominate news headlines in the first quarter of 2009. These unsettling factors continued to increase investor uncertainty, significantly impacting M&A activity. In the first quarter of 2009, U.S. middle market transaction multiples fell to 5.5x Enterprise Value/EBITDA from 10.1x during all of 2008. In terms of deal volume, middle market transactions in the first quarter were on pace for an 18% annual decline compared to 2008. This decline, while significant, was much less than the larger deal volume decline. Distressed deals are up globally to \$3 billion from \$1.1 billion in the fourth quarter of 2008, but still below first and second quarter 2008 levels. The total value of cross-border transactions fell 70% relative to the first quarter of 2008 due primarily to the uncertainty with the market in the U.S., the currency impact, and foreign companies paying attention to their local markets during the economic crisis.

Despite historically low interest rates and aggressive monetary policy designed to stimulate the economic activity and lending, financing remains a significant challenge for buyers. This challenge is particularly cumbersome for private equity investors. The share of private equity transactions relative to total enterprise value of transactions fell from 7.5% during 2008 to only 4.9% in the first quarter of 2009. More dramatic is the drop from 2007, the private equity record year of 31.5 percent of deal value. In addition, after four years of financial buyers paying higher median enterprise value to EBITDA multiples than strategic buyers, the first quarter of 2009 multiples paid by strategic buyers equaled those paid by financial buyers(1).

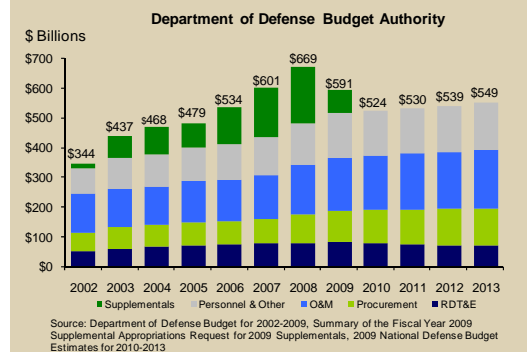
In the midst of the economic downturn, there were some first quarter indicators that hinted at stability. Positive indicators included an uptick in new factory orders in February and a rally in the equity markets in March. Additionally, in its most recent Beige Book report on current economic conditions, the Federal Reserve observed that economic activity in three of the twelve regions (Boston, Cleveland and Richmond) was mixed or steady, rather than negative. Positive areas cited include exports, tourism and residential real estate activity. If these metrics are viewed optimistically as indications of stability of top and bottom lines, potential buyers, expecting valuations to solidify, may come off the sidelines to consolidate and broaden business platforms.

1) Based on analysis of Thomson data for the respective periods.

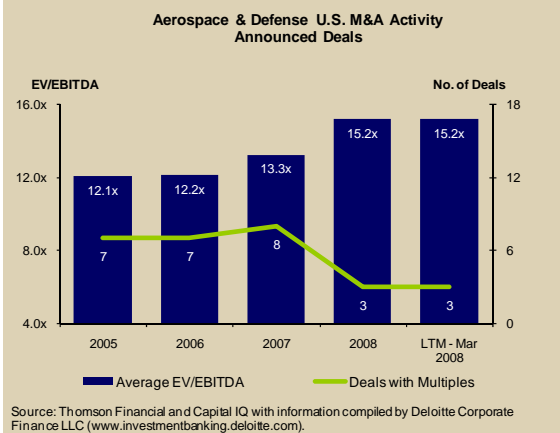
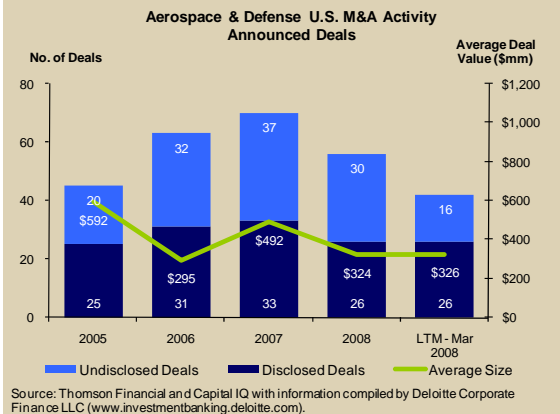
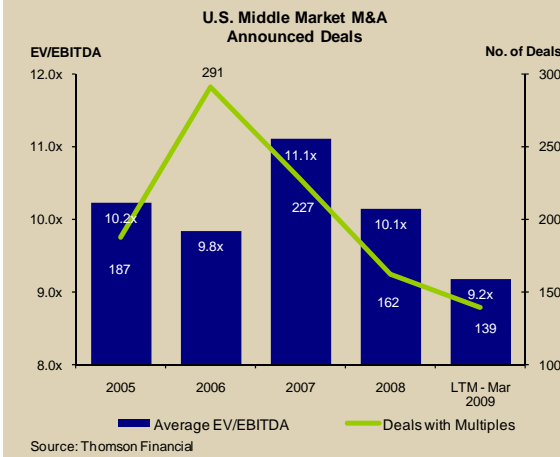
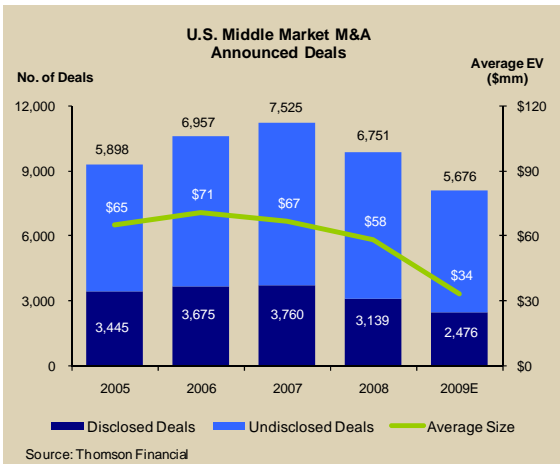


¹Commercial jets include Airbus and Boeing models, and data represents net orders. Regional jets include Embraer and Bombardier models. General aviation includes Cessna, Dassault, Gulfstream, Bombardier and Raytheon models.

Order and delivery figures represent data available as of the date of this report.



Highlighted Transactions



Deals Announced

- March 31, 2009 – **Triumph Group Inc. (NYSE:TGI)** agreed to acquire **Mexmil Co.** for an undisclosed amount. Mexmil Co. manufactures and supplies insulation blankets to airframe manufacturers, aircraft operators, and MROs, as well as offers a range of products to support commercial, regional, and military aircraft.
- March 31, 2009 – **Crossflo Systems Inc.** agreed to acquire the **Vigilys Product Portfolio of Kratos Defense & Security Systems** for an undisclosed amount. Kratos' Vigilys Product Portfolio is a tactical operations system that provides information between the field personnel and the operations center. The Vigilys products enable emergency personnel to see and share real time information on resource deployment and make assessments.
- March 18, 2009 – **Equus Resources Inc.** agreed to acquire **Quasar Aerospace Industries** for an undisclosed amount. Quasar Aerospace Industries offers aircraft manufacturing, flight instruction, aircraft leasing and selling, and other aerospace-related activities.
- March 13, 2009 – **Triumph Group Inc. (NYSE:TGI)** agreed to acquire **Merritt Tool Inc.** for an undisclosed amount. Merritt Tool manufactures aerospace equipment and machinery, specializing in complex, medium to large, conventional computer numerical control milling, turning, grinding and assembly machines. It serves customers in the aerospace, energy, and commercial industries.
- March 12, 2009 – **BAE Systems plc (LSE:BA)** agreed to acquire **Advanced Ceramics Research Inc.** for \$15 million. Advanced Ceramic Research provides ceramic products, laboratory milling products, water soluble tooling materials, cutting tools, custom mandrels, osteoconductive load bearing implant/bone scaffolds, fibrous monoliths and unmanned aerial vehicles.
- March 3, 2009 – **Nogales Investors Management LLC** agreed to acquire **DR Technologies Inc.** for an undisclosed amount. DR Technologies offers manufacturing services for industry clients in aerospace, transportation, and commercial markets. It serves aircraft structural components and sub-assemblies, structures and fairings for missile defense, lightweight, ballistically resistant structures, space structures, satellite structures and antenna reflectors, and dimensionally-stable optical benches for space telescopes and sensors markets, as well as government and industry clients.
- February 27, 2009 – **Woodward Governor Co. (NasdaqGS:WGOV)** agreed to acquire **HR Textron Inc.** for \$365 million. HR Textron manufactures and wholesales motion control systems for commercial and military aircraft, helicopters, missiles, spacecraft, marinecraft and ground vehicles.
- January 29, 2009 – **Astronics Corp. (NasdaqGM:ATRO)** agreed to acquire **DME Corp.** for \$51 million. DME Corp. manufactures electronic equipment and systems, specializing in aircraft safety, airport systems, test systems and other electronic/electromechanical assemblies.
- January 20, 2009 – **Ametek Inc. (NYSE:AME)** agreed to acquire **High Standard Aviation** for \$40 million. High Standard Aviation provides electrical, hydraulic and pneumatic repair services to the aerospace industry.
- January 14, 2009 – **MP2 Technologies Inc.** agreed to acquire **Weatherly Aircraft Nevada Inc.** for an undisclosed amount. Weatherly Aircraft Nevada manufactures single engine airplanes.
- January 7, 2009 – **Synchronous Aerospace Group** agreed to acquire **Helicomb International Inc.** for an undisclosed amount. Helicomb International manufactures commercial, military and space flight vehicles.

Source: Thomson Financial, Capital IQ

Related Content

In addition to information regarding the aerospace & defense industry being provided by DCF, you may be interested in additional events and informational sources available through DCF and the subsidiaries of Deloitte LLP.

Dbriefs Webcasts

Stay on top of the latest issues and strategies. Deloitte LLP and its subsidiaries offer Dbriefs, live webcasts that provide you with insights on important developments affecting your business. Webcasts are complimentary, 1-hour live sessions; you can participate from the convenience of your office.

Transaction & Business Events

[Cash is King: Sustaining Your Enterprise during the Downturn](#)

May 13, 2009 at 02:00 PM EDT (18:00 GMT); Host: David Williams, Principal - Deloitte Financial Advisory Services LLP

Cash has become a key business consideration that requires companies to depart from traditional operating priorities. How can your company address its cash position while sustaining the enterprise?

Listen in on May 13th to learn how understanding and addressing your company's cash position can help you weather the downturn and be better prepared for the recovery.

[Click here](#) to register for the webcast (or visit www.deloitte.com/us/dbriefs to view the archived webcast after May 13, 2009).

Deloitte Insights Podcast

[Planning for a Rainy Day: Ways to Improve Efficiency and Cut Costs in the Aerospace and Defense Industry](#)

If prizes were given out to industries that had the most cost overruns, delays and inefficiencies, aerospace and defense (A&D) would probably win hands down. On average, new weapons systems are coming in two years late, saddling taxpayers with nearly \$300 billion in unanticipated costs. Human nature is partly to blame: Too many contractors presume a "sunny day" scenario, projecting budget requests that are based on nothing going wrong. But things are about to change. The industry is going to have to make some painful adjustments as Washington is forced to devote more of its resources to shore up the ailing economy. For the foreseeable future sunny days are likely to be few and far between.

[Click here](#) to listen to our complimentary podcast anytime, anywhere.

Reports

[Holding pattern](#)

Outlook for the global commercial and business aircraft industry

Deloitte LLP

While the global economy is in a state of change and uncertainty, the long-term prospects for the global commercial aircraft industry are strong, although not immune to the economic downturn. A new report developed by Deloitte Touche Tohmatsu (DTT) entitled Holding pattern: Outlook for the global commercial and business aircraft industry provides a current and forward perspective, while taking into account the rapid daily changes in the industry. The report focuses on the key trends that have affected the commercial and business aircraft industry and forecasts that will shape its future success.

[Click here](#) to read the full report.

[2009 Industry Outlook: Aerospace & Defense](#)

Deloitte LLP

By focusing on product innovation, process improvements and new revenue opportunities, companies will be well-positioned to take advantage of an economic turnaround.

[Click here](#) to read the full 2009 Outlook report.

[2008 U.S. Top 20 Aerospace & Defense Company Performance Wrap-up](#)

2008 could have been a record-setting financial performance year

The 2008 U.S. Top 20 Aerospace & Defense Company Performance Wrap-up offers insights into the factors that impacted the performance of the top 20 U.S. A&D companies. The report predicts that for 2009 and beyond, these companies' success will largely depend on:

- Successful continuance of current large-scale programs under contract
- Effective management of cost and schedule targets while achieving mission assurance for the customer
- How they execute strategic leverage in the acquisition space
- The nimbleness with which they can identify and capture technology directions, and funding, of the new administration defense and security priorities

[Click here](#) to download the full report.

[Economic & Market Review: First Quarter 2009](#)

The Economic & Market Review is produced by the Investment Consulting Services group of Deloitte. This newsletter is presented to provide perspective and context within which to evaluate your portfolio performance, as well as a forward look at the questions, events, and circumstances that may impact performance in the quarter ahead.

[Click here](#) to watch Deloitte Chief Economist [Carl Steidtmann](#)'s presentation of the quarterly update by [viewing the media file](#) or read the full report in PDF format .

Deloitte Corporate Finance LLC

DCF provides deal execution and lead financial advisory services to large corporate, middle market, private equity and venture capital firms. DCF and its affiliates maintain a presence in key U.S. financial centers.

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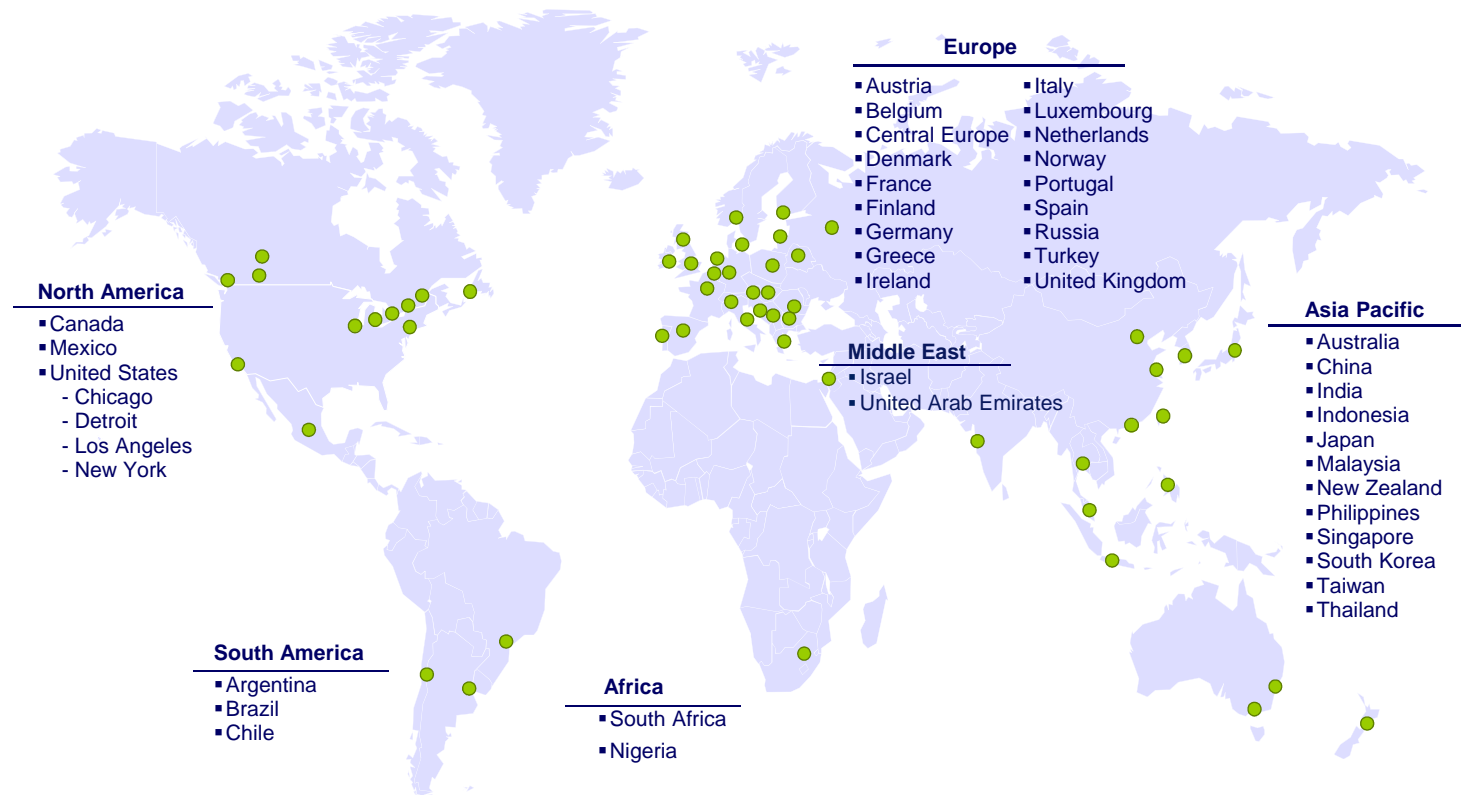
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DCF and the corporate finance practices of the member firms of Deloitte Touche Tohmatsu (DTT) or their affiliates are able to work together to provide industry-specific experience and execution capabilities to assist in the completion of M&A advisory assignments around the globe.



* In all office locations outside the United States listed above, corporate finance services are offered by the DTT member firm of the applicable country or an affiliate thereof. Each of the DTT member firms is a separate and independent legal entity.

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