Aerospace & Defense Trends Amidst Turbulent COVID-19 Period

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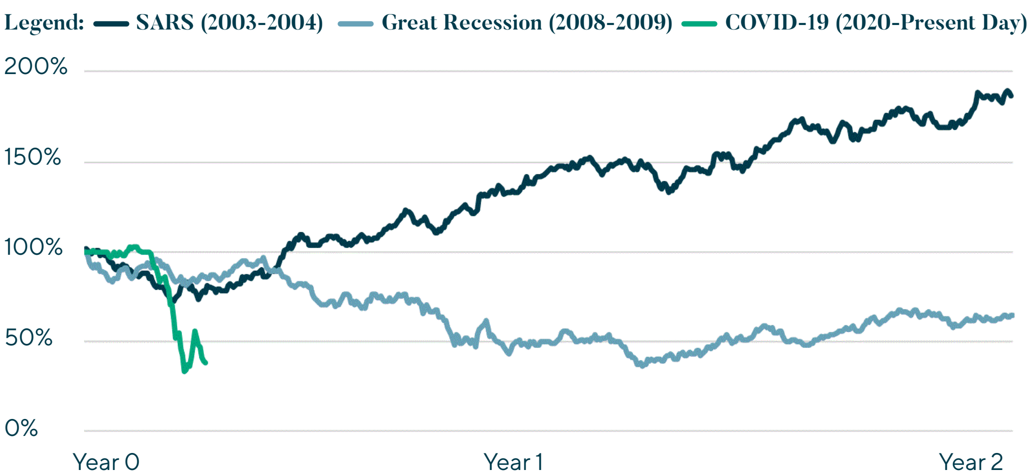
As commercial airlines have made significant cuts to their capacity due to global travel restrictions and demand reductions, coupled with facility shutdowns of OEMs and major suppliers, the commercial aerospace industry is experiencing an unprecedented disruption to the system. COVID-19 has rapidly altered the public commercial aerospace market to an even greater degree than the 2008 Great Recession or 2003 SARS epidemic, and significantly impacted the supply network of private aerospace businesses and the ability to invest in these companies due to the uncertainty of returning to a period of sustained normalcy.

COMMERCIAL AEROSPACE: HISTORICAL CRISIS PERFORMANCE

Commercial Aerospace Index[1]



1) Commercial Aerospace Index includes AAR, Airbus, Boeing, HEICO, Safran and Triumph. Each time series has been indexed at the share price as of the first trading day during the initial year of each crisis, and compares share price fluctuations through the end of the following year.

On the next page we answer questions that are top of mind for aerospace & defense investors, as they seek to navigate a market of unparalleled complexity in terms of their ability to put money to work.

(continued next page)

Q: WHAT ARE THE KEY DEVELOPMENTS AND MILESTONES TOWARDS A U.S. RECOVERY TO LOOK OUT FOR IN THE 2ND QUARTER?

1 A peak in COVID-19 cases and a declining rate of new infections, such that the business community and general public can be comfortable with the beginning of a recovery in epidemiological terms. While the passing of the COVID-19 apex is not likely to be followed by a rapid recovery in domestic travel, it is certainly a key prerequisite to the resumption of travel at a muted pace. China, for example, had flattened the curve and lifted travel restrictions nearly two months after the initial quarantine restrictions were put in place. This was followed by a pronounced pickup in domestic travel and, most recently, the cautious lifting of lockdown restrictions. While the situation across Asia continues to evolve, the travel response following the flattening of the curve was a positive data point.

2 In accordance with the above, a declining window of potential shutdowns and facility disruptions, both voluntary (e.g., Airbus and Boeing) and involuntary. While most aerospace & defense companies continue to operate as essential businesses, suppliers are adjusting to shelter-at-home orders and brace for potential COVID-19 diagnoses causing disruption at one of their facilities.

3 The impact of the government stimulus package working its way through the aerospace industry, increasing liquidity. This includes the $80+ billion earmarked for aerospace, as well as the broader $350 billion SBA support program. A key consideration will be whether – following the additional SBA guidance on April 3 – there are further updates to the implementation of affiliation rules that could allow for private equity portfolio companies to participate. Over the 2nd quarter, we expect increasing visibility on what companies' liquidity needs actually are, both in the public and private sector.

4 Increased clarity on the extent and duration of any reductions to commercial aerospace build / delivery rates over the coming months and years. On the other hand, a potential return to production of the MAX in the coming months would provide a key growth catalyst for the industry and provide incremental liquidity to weather the COVID-19 disruption. Certain suppliers have already leaned out their cost structure as a result of the MAX grounding in 2019 and, in doing so, inadvertently positioned themselves to handle a disruption of this magnitude.

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Q: WHAT AEROSPACE & DEFENSE DEALS ARE HAPPENING NOW AND IN THE NEAR-TERM WITHIN THIS UNIQUE ENVIRONMENT?

1. In general, many traditional auction processes are largely on-hold; however, certain active processes and pockets of opportunities remain and will continue to move forward in Q2:

   - One-off, proprietary discussions between motivated buyers – particularly where the buyer can fund all cash or otherwise does not require new LBO financing – and privately-owned businesses in search of a partner for growth, and private equity-owned "A" assets
   - Defense, space, and government services-oriented businesses, which are less affected by the dislocation of the commercial aerospace market
   - Processes whereby the seller / advisor are guiding towards a prolonged bid date to allow for a longer evaluation period (virtual, no in person meetings), more market visibility and the return of LBO financing
   - Minority equity, debt, structured capital and potentially control transactions to support the liquidity needs of suppliers requiring a solution beyond operational initiatives and the stimulus noted above. Significant capital has been raised by alternative investors for these strategies over the past few years.

2. In Q2, depending on the state of financing markets, corporate balance sheets and the progression of the COVID-19 curve, we may see launches of a select few aerospace & defense auction processes, generally starting with businesses that have proven their resilience through the disruption and resultant strength in their 2020 forecast, and where their most logical buyers are also in a better position to execute a deal. In conjunction with this wave, we may see the restart of certain processes that went on hold in March.

3. When the broader M&A market window returns, we expect a wave of new processes given the pent up supply of new deals that had completed preparation and that otherwise would have launched in 1H 2020.

Learn more about Lincoln's Aerospace & Defense team at www.lincolninternational.com/whoweserve/aerospace-defense.