



Aerospace & Defense, Mergers and Acquisitions Environment, and Company Valuation | December 11, 2008

NDIA Ground Robotics Division Quarterly Meeting



HOULIHAN LOKEY

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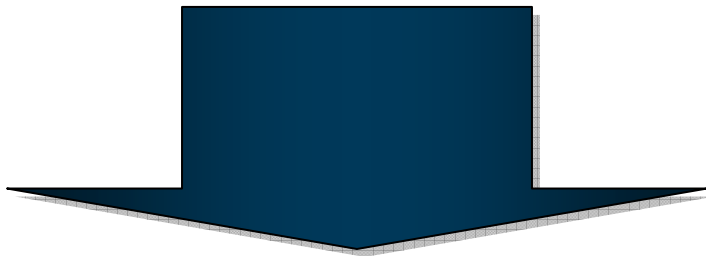
Premier Middle Market Investment Bank

**2008 Mid-Market
Financial Advisor of the Year
(Financial Times)**

Ranked #1 Mid-Market M&A Advisor

**#1 Restructuring Investment Banking Firm
in the U.S.**

**#1 Provider of Fairness Opinions
for Eight Consecutive Years**



Houlihan Lokey is a leading pure advisory investment bank

2006 M&A Advisory Rankings
U.S. Deals Under \$1 Billion Value

Rank	Advisor	Number of Deals
1	Houlihan Lokey	124

2007 M&A Advisory Rankings
U.S. Deals Under \$1.25 Billion

Rank	Advisor	Number of Deals
1	Houlihan Lokey	125

2008 1st Half M&A Advisory Rankings
U.S. Deals Under \$1.50 Billion

Rank	Advisor	Number of Deals
1	Houlihan Lokey	63
2	Goldman Sachs & Co	62
3	JP Morgan	60
4	Credit Suisse	47
5	UBS	43
6	* Lazard	41
6	* Merrill Lynch	41
8	* Citi	39
8	* Jefferies & Co Inc	39
10	Morgan Stanley	33
11	Lehman Brothers	28
12	* Duff and Phelps	26
12	* Deutsche Bank AG	26
14	* GW Equity	21
14	* Banc of America Securities LLC	21
14	* Wachovia Corp	21
17	RBC Capital Markets	20
18	* RSM Equico Capital Markets LLC	19
18	* William Blair & Co	19
20	* Robert W Baird & Co Inc	18
20	* Sandler O'Neill Partners	18
20	* Piper Jaffray Cos	18
23	Lincoln International	17
24	* BB&T Corp	15
24	* M&A International	15

* denotes tie.
Source: Thomson Reuters

Sources: Thomson Financial Securities Data, Mergers & Acquisitions Journal, The Deal.



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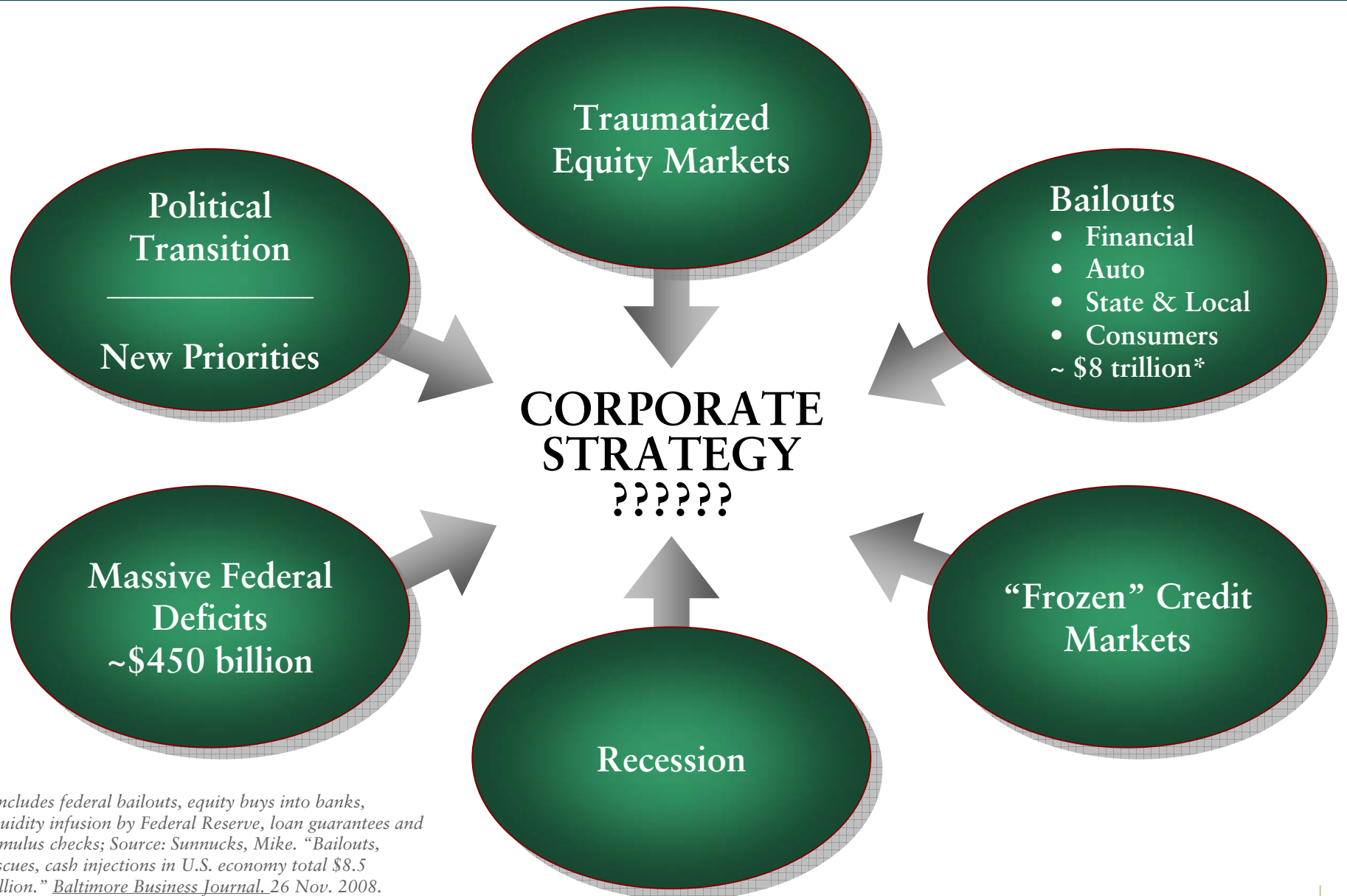
Select 2008 ADG Transactions

<p><i>Transaction Pending</i></p> <p>Project Star</p> <p>Sellside Advisor</p>	<p><i>Transaction Pending</i></p> <p>NMC Garry, Inc.</p> <p>has agreed to be acquired by</p> <p>Esterline</p> <p>Sellside Advisor</p>	<p><i>Transaction Pending</i></p> <p>NIITEK</p> <p>has been acquired by</p> <p>CHRYSLER GROUP LLC</p> <p>Sellside Advisor</p>	<p>Novus</p> <p>has been acquired by</p> <p>KFORCE PROFESSIONAL STAFFING</p> <p>Sellside Advisor</p>	<p>Continental Commerce Corporation</p> <p>a portfolio company of Veritas Capital</p> <p>has been acquired by</p> <p>Veritas Capital</p> <p>Lower Merion CRA Fund LP</p> <p>Sellside Advisor</p>	<p>GMS</p> <p>Global Microwave Systems a subsidiary of</p> <p>The Allied Defense Group</p> <p>has been acquired by</p> <p>COBHAM</p> <p>Sellside Advisor</p>	<p>INSITU</p> <p>has been acquired by</p> <p>BOEING</p> <p>Sellside Advisor & Fairness Opinion</p>
<p>VISION DEFENSE</p> <p>has been acquired by</p> <p>AMETEK</p> <p>Sellside Advisor</p>	<p>IAC Intelligent Automation Corporation</p> <p>has been acquired by</p> <p>Honeywell</p> <p>Sellside Advisor</p>	<p>JSSI</p> <p>has been acquired by</p> <p>R.H. Book, LLC and 1848 Capital Partners LLC</p> <p>Sellside Advisor</p>	<p>Booz Allen Hamilton</p> <p>has sold a majority stake in its U.S. Government Business to</p> <p>THE CARLYLE GROUP</p> <p>Fairness Opinion</p>	<p>Transportation Management Systems a division of</p> <p>Orbital Innovation You Can Count On™</p> <p>has been acquired by</p> <p>ACS</p> <p>Sellside Advisor</p>	<p>ACQUISITION SOLUTIONS®</p> <p>has been recapitalized in partnership with founders and management by</p> <p>EP EXCELLERE PARTNERS "Where Plan Drives Success"</p> <p>Sellside Advisor</p>	<p>Paragon Dynamics</p> <p>a subsidiary of</p> <p>ZANETT INC.</p> <p>has been acquired by</p> <p>KOR ELECTRONICS</p> <p>Sellside Advisor</p>
<p>SBS</p> <p>Strategic Business Systems, Incorporated</p> <p>has been acquired by</p> <p>BROCADE</p> <p>Sellside Advisor</p>	<p>Athena CONTROLS</p> <p>has been acquired by</p> <p>Rockwell Collins Building trust every day</p> <p>Sellside Advisor</p>	<p>TEAC Aerospace Technologies</p> <p>a portfolio company of</p> <p>THAYER HIDDEN CREEK</p> <p>has been acquired by</p> <p>GOODRICH</p> <p>Sellside Advisor</p>	<p>AVBORNE HEAVY MAINTENANCE</p> <p>has been acquired by</p> <p>AAR</p> <p>Sellside Advisor</p>	<p>GIDDENS INDUSTRIES</p> <p>has been acquired by</p> <p>PLATTE RIVER VENTURES</p> <p>Sellside Advisor</p>	<p>TITAN DYNAMICS SYSTEMS, INC.</p> <p>a subsidiary of</p> <p>The Allied Defense Group</p> <p>has been acquired by</p> <p>CHRYSLER GROUP LLC</p> <p>Sellside Advisor</p>	<p>DEUTSCH</p> <p>a company of</p> <p>WENDEL</p> <p>has acquired a majority stake of</p> <p>LADD</p> <p>a division of</p> <p>WESCO</p> <p>Buyside Advisor</p>

Houlihan Lokey is the most active investment bank in Aerospace-Defense-Government Services



Strategy Formulation in a Perfect Storm



**Includes federal bailouts, equity buys into banks, liquidity infusion by Federal Reserve, loan guarantees and stimulus checks; Source: Sunnucks, Mike. “Bailouts, rescues, cash injections in U.S. economy total \$8.5 trillion.” Baltimore Business Journal, 26 Nov. 2008.*



Drivers of M&A Activity

Strategic buyers are looking to:

- Improve positioning
 - Expand capabilities
 - Diversify risk (program, technology, competitive)

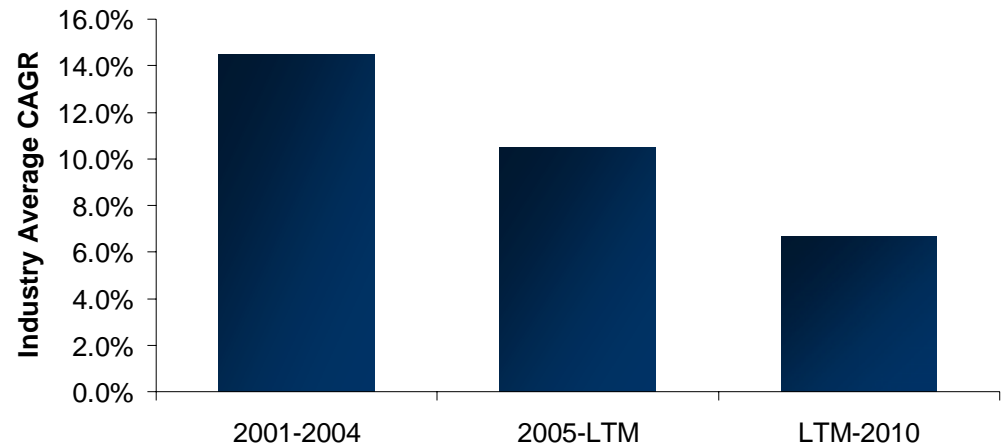
- Attract greater investor interest
 - Augment organic growth
 - Leverage strong balance sheets

- Companies seeking exits
 - Owner’s timing
 - Barriers to reaching “next level”

Private Equity looking to:

- Deploy capital in “safe” industries

Declining Revenue Growth Will Spur Acquisitions






Sources: Capital IQ

* Compounded Annual Growth Rates, As of October 14, 2008



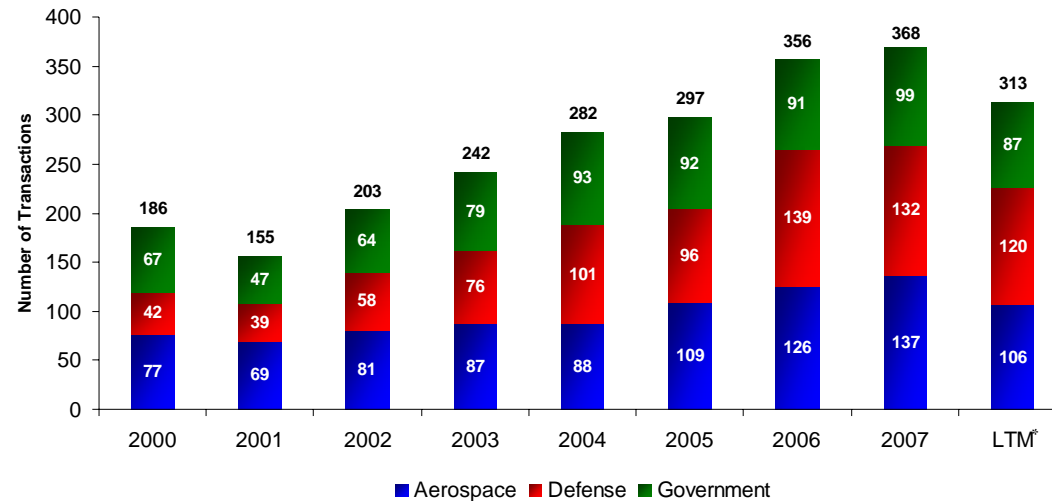
ADG M&A Strategic Premise

	Tier 1	Tier 2	Tier 3
Themes	<i>Mega-merger wave ended, turning focus to smaller targets to fill in capabilities and secure positions on major program awards</i>	<i>Evolution of merchant supplier model and consolidation of mid-tier suppliers</i>	<i>Few large diversified industrials and enormous base of small targets</i>
			
Characteristics	<ul style="list-style-type: none">■ Massive consolidation completed by late 1990s with few potential or viable deals remaining■ Capabilities-based approach to acquisitions, following evolution of lead systems integrator (“LSI”) role■ Characterized today by high interest in smaller targets (<\$250 million)	<ul style="list-style-type: none">■ Consolidation needed to address already-consolidated Tier 1 customer base■ Certain Tier 2 suppliers are acquiring systems engineering capability to preserve competitiveness as prime contractors in an increasingly systems-oriented procurement environment■ Extensive Wall Street support for consolidation to build critical mass■ Highest organic growth potential in defense electronics segments	<ul style="list-style-type: none">■ Need to rationalize shrinking customer base■ Consolidation to provide higher level subsystems to address customer drivers■ Still highly fragmented – significant consolidation is expected to continue



Aerospace Defense & Government Services Transaction Activity

Transaction Activity



*LTM as of 12/5/2008

Transaction Commentary

- Historically, transformational acquisitions have generally been larger transactions acting as a catalyst for the buyer to enter into a new market segment
 - BAE acquired United Defense Industries and Armor Holdings (ground vehicles)
 - Serco acquired SI (integrated solutions)
 - Finmeccanica acquired DRS (U.S. DoD)
 - Textron acquired AAI Corp (unmanned aerial systems)
- Recently, many smaller, more niche transactions, can also be viewed as transformational
 - Honeywell acquired Dimensions International (logistics support services)
 - Boeing acquired Insitu (UAS)
 - Lockheed Martin acquired Savi Technology (RFID)
 - Boeing acquired RavenWing (intelligence)



Drivers of Transactional Value

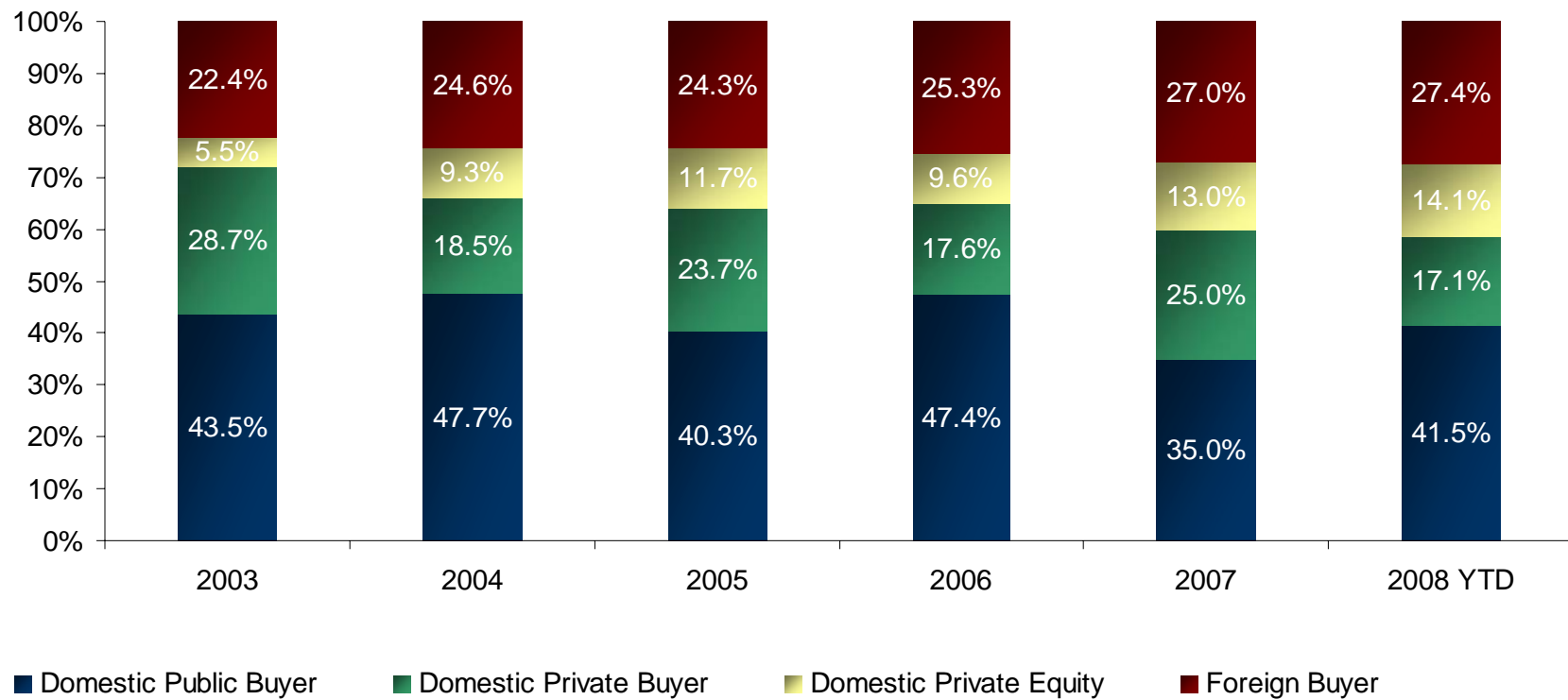
Company and Deal Valuations are a Factor of:

- Number and diversity of *buyers*
- Perception of overall *market health and opportunity*
- Buyer's *valuation*
- *Financial capability* of buyers
- *Company-specific attributes*



Buyers: Diverse Interest in Acquisitions

Transactions by Buyer Type



Sources: Capital IQ and Press Releases.



Buyers: Active Acquirers – A More Global Feel

2000-2002 Top 10 Acquirers

- 1 L-3 Communications
- 2 General Dynamics
- 3 United Technologies
- 4 MAXIMUS, Inc.
- 5 Boeing Co.
- 6 Northrop Grumman
- 7 DRS Technologies
- 8 Triumph Group
- 9 Goodrich Corp.
- 10 CACI International

2003-2005 Top 10 Acquirers

- 1 L-3 Communications
- 2 Cobham
- 3 SAIC
- 4 Curtiss-Wright
- 5 General Dynamics
- 6 BAE Systems
- 7 Lockheed Martin
- 8 Smiths Group
- 9 Teledyne
- 10 CACI International

2006-2008 Top 10 Acquirers

- 1 L-3 Communications
- 2 Ametek, Inc.
- 3 Lockheed Martin
- 4 Teledyne
- 5 Cobham
- 6 Chemring
- 7 QinetiQ Group plc
- 8 Ultra Electronics
- 9 BAE Systems
- 10 General Dynamics

Sources: Capital IQ and Press Releases.



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Buyers: Defense Primes M&A Activity at a Glance

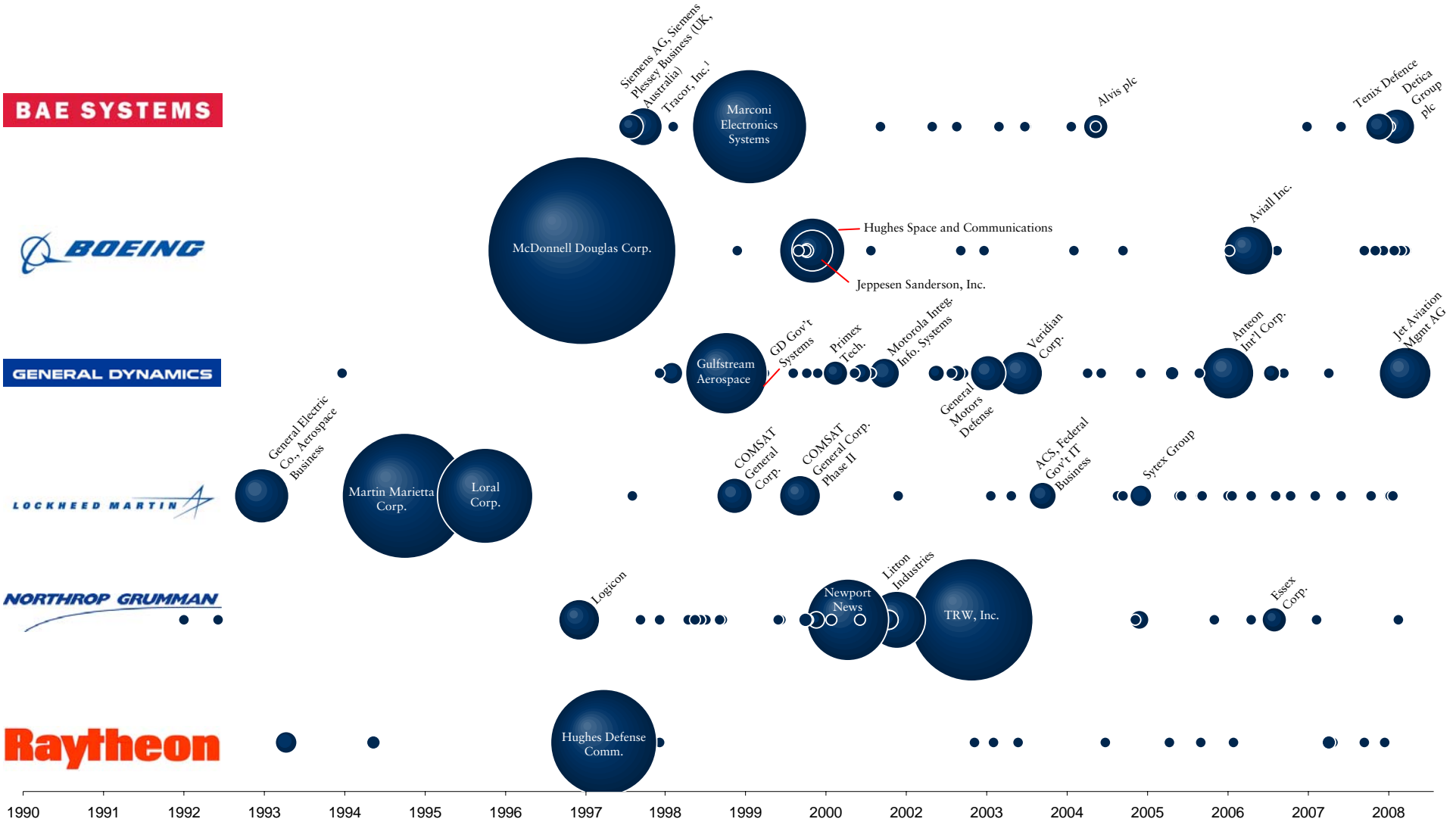
BAE SYSTEMS



GENERAL DYNAMICS



Raytheon



Source: Capital IQ and Houlihan Lokey Proprietary Information
(1) Acquisition by Marconi Electronics Systems prior to deal with British Aerospace



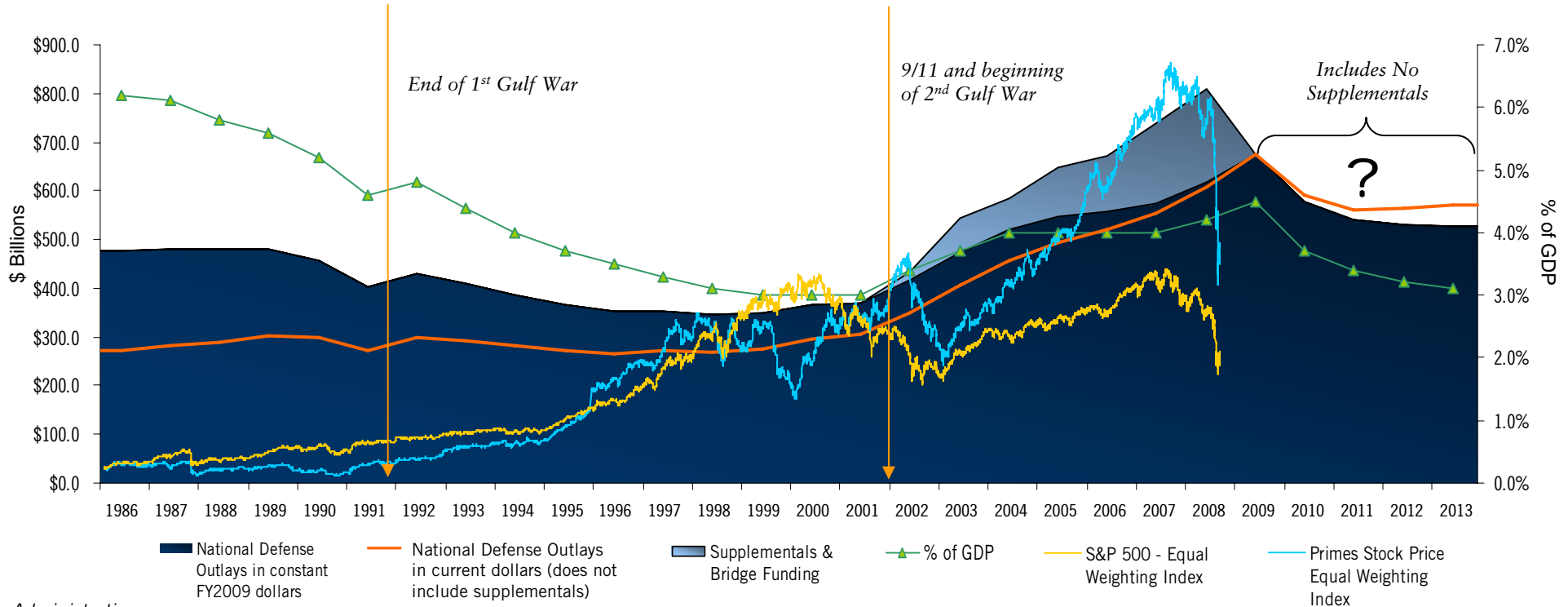
Market Health and Opportunity



ADG Is More Attractive Than Ever (Relatively)



Market Health and Opportunity: Defense Spending Compared to GDP and Industry Valuation



Administration:



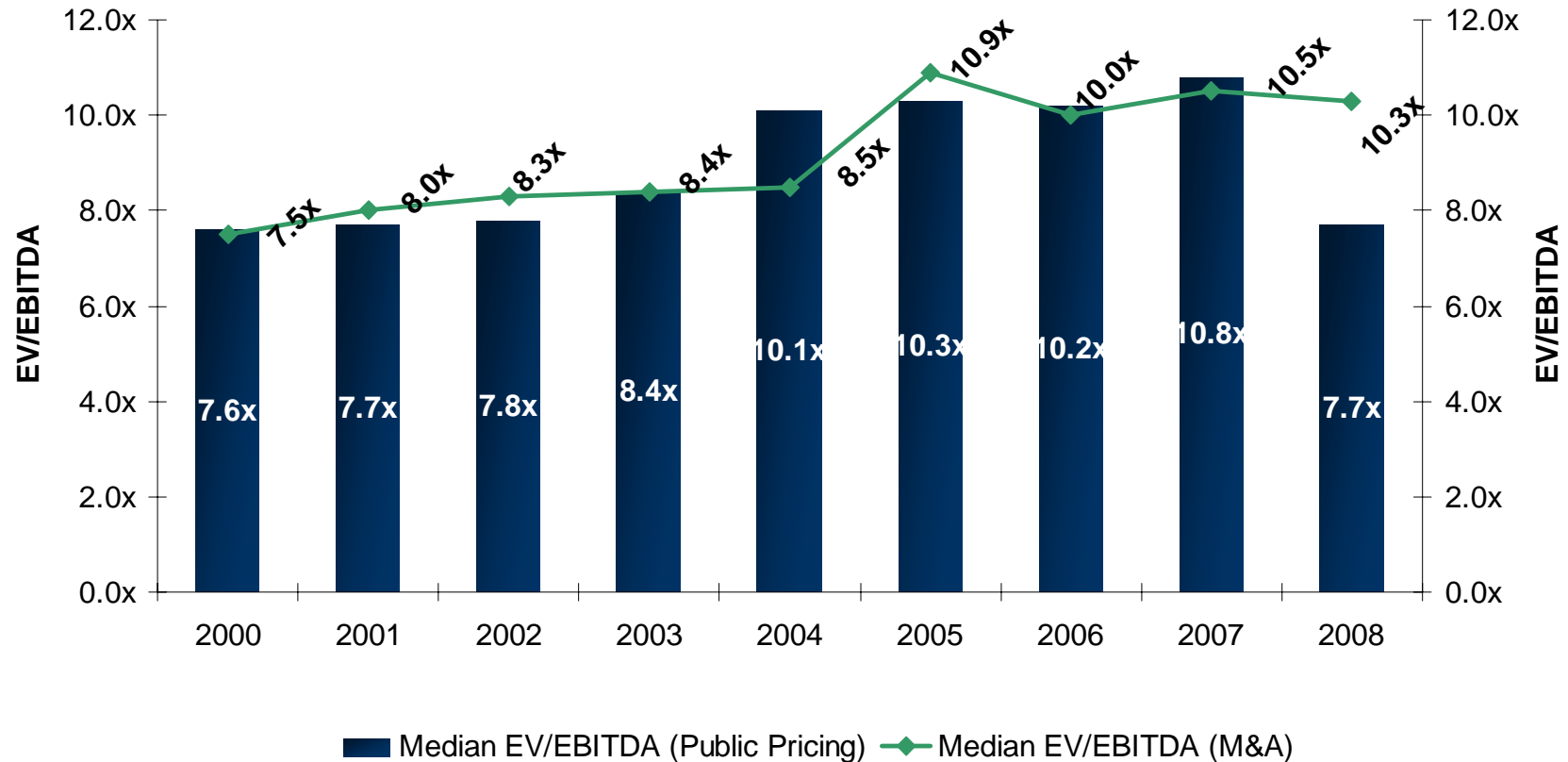
Current Defense Spending Trends

- One frame of reference for defense budget levels might be the green line: % of GDP*
- Current Industry Valuation clearly expect this level to drop

* Adm. Michael Mullen, Chairman of the U.S. Joint Chiefs of Staff, has estimated % to grow to at least 4 % due to modernization and the swelling personnel costs of a growing Army and Marine Corps



Valuation: ADG M&A Pricing vs. Public Pricing



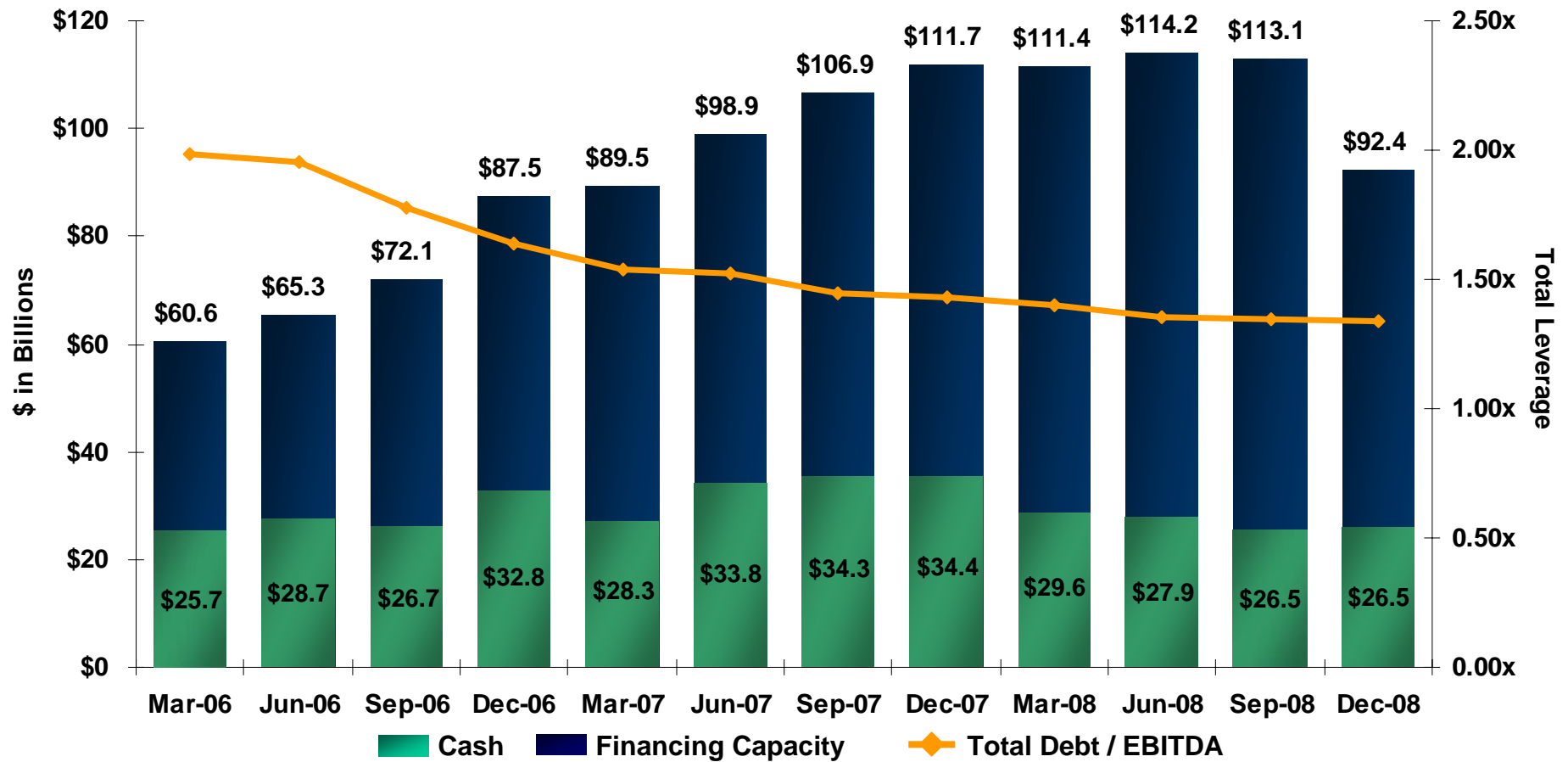
Source: Capital IQ, Public Company Information, Houlihan Lokey Estimates

* Current public pricing as of 12/5/2008

Will public buyers continue to support multiple reversal?



Financial Capability: Acquisition Financing Capacity



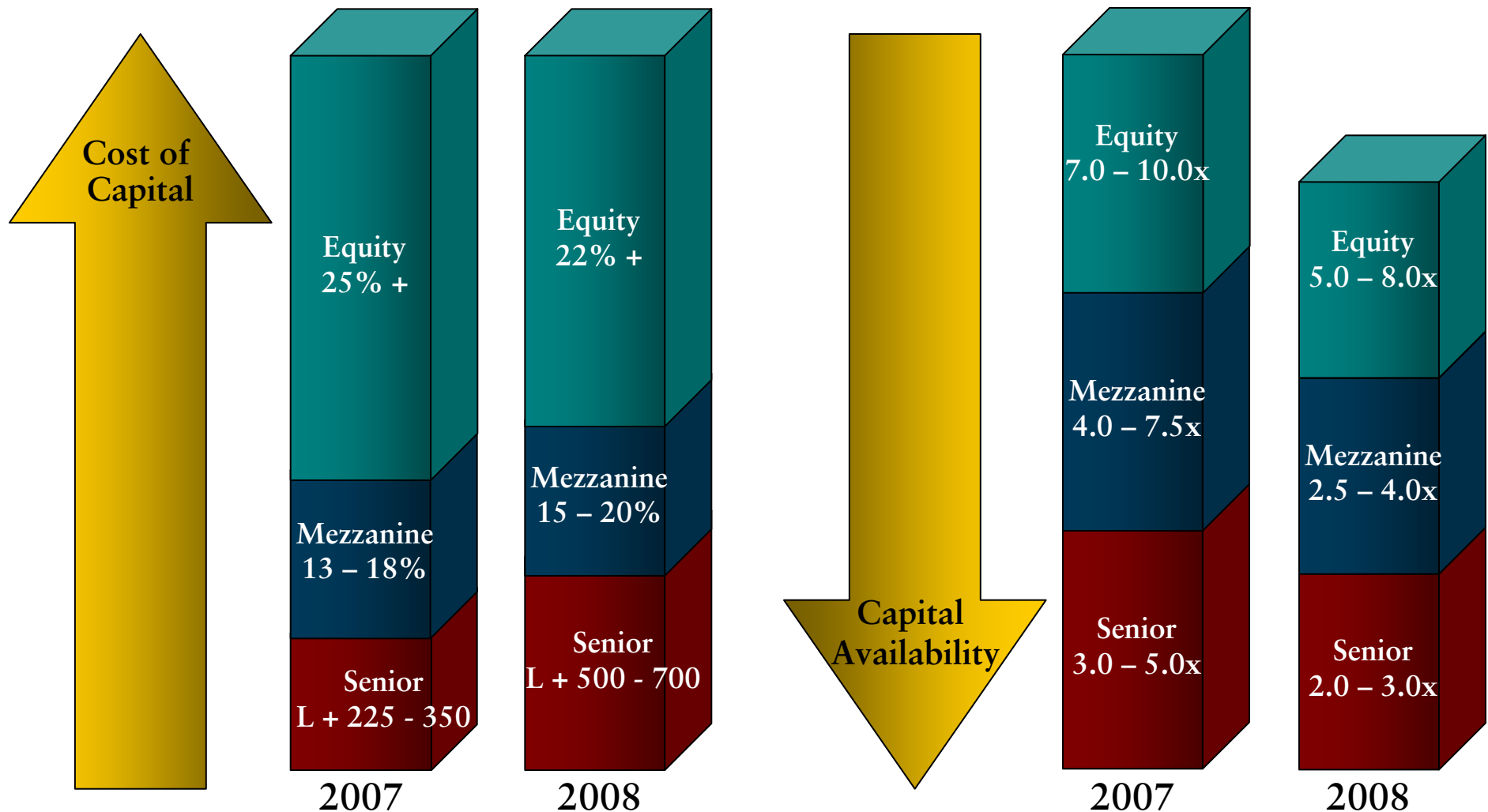
Source: Capital IQ; *Additional financing assumes a 3x leverage multiple of EBITDA less debt, Dec-08 as of 12/5/08 and represents 2.6x leverage multiple of EBITDA less debt

Note: Includes Government Services, Defense Primes, Other Defense and Diversified companies

Buyers continue to have access to capital to support M&A strategies



Financial Capability: Capital Cost and Availability

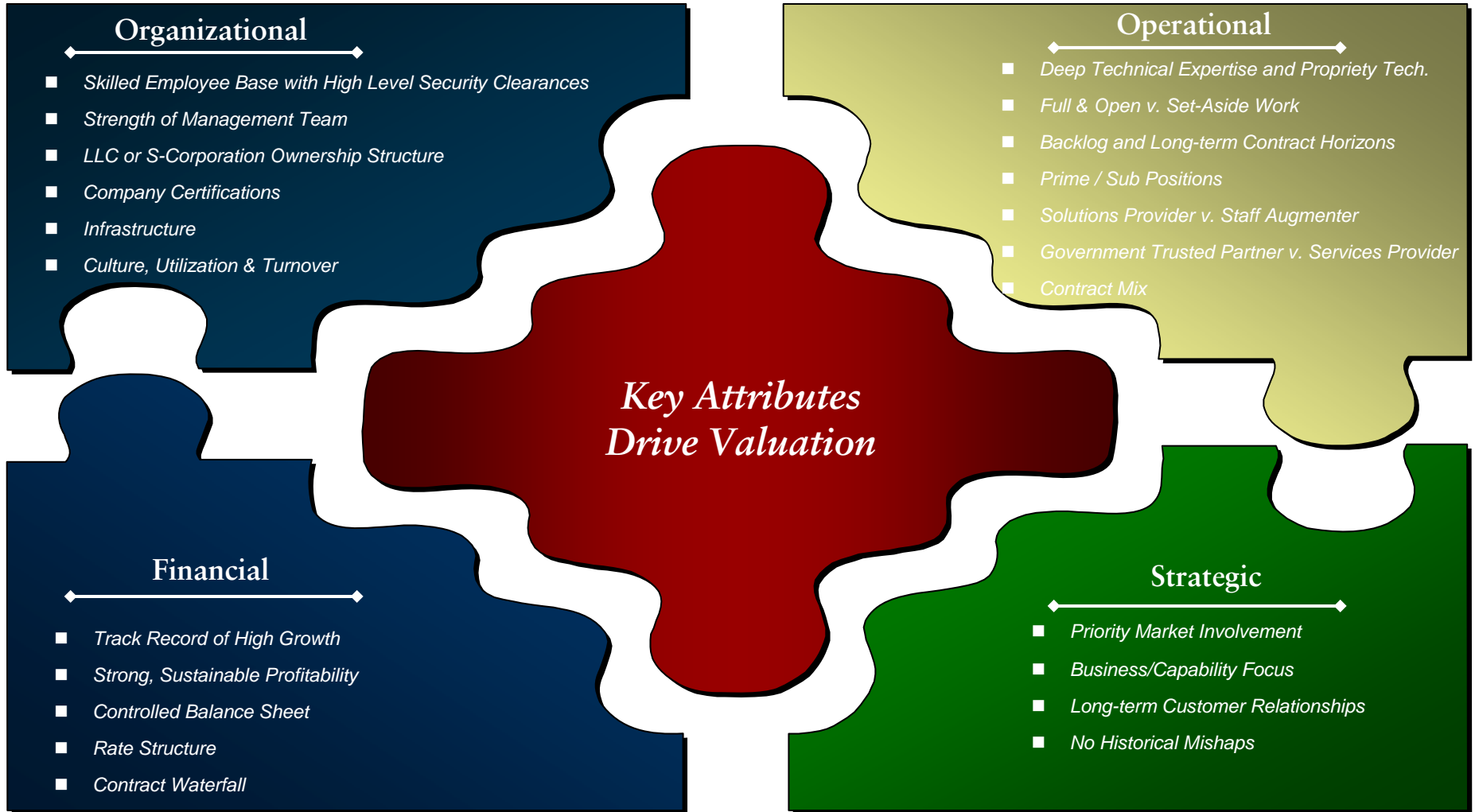


Source: Houlihan Lokey

Increased cost of capital and lower borrowing availability have put pressure on pricing and investor returns



Company-Specific Attributes: What Drives Value



Key discriminators coupled with the Company's degree of leveragability, growth and risk can result in significant valuation premiums

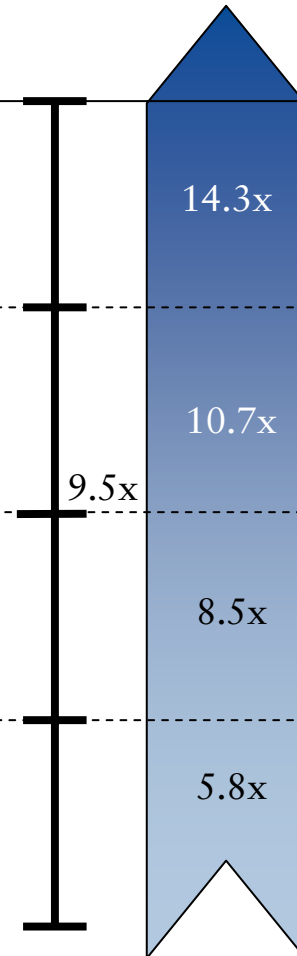


Company-Specific Attributes: What Drives Value

Valuation Dynamics

- Exceptional growth prospects
 - Proprietary technology and sole source programs
 - Deals involve larger and more highly-valued strategic buyers
 - Larger targets (revenue > \$100 million)
 - Targets offered access to “systems” credentials and specific programs/customers
-
- Highly leveragable: not tied to spending cycles
 - Proprietary IP
 - Distinguished customer relationships
 - Involved in priority, well funded programs/platforms/electronics content
 - Solid growth prospects and financial performance
-
- Moderate growth prospects
 - Partial “surge” revenue
 - Less involvement in priority DoD/intel/DHS markets
 - More diversified product/customer base
-
- Low technology differentiation
 - Significant surge related revenue
 - Mediocre financial performance
 - Small targets
 - Preference program dependence (e.g. 8(A))

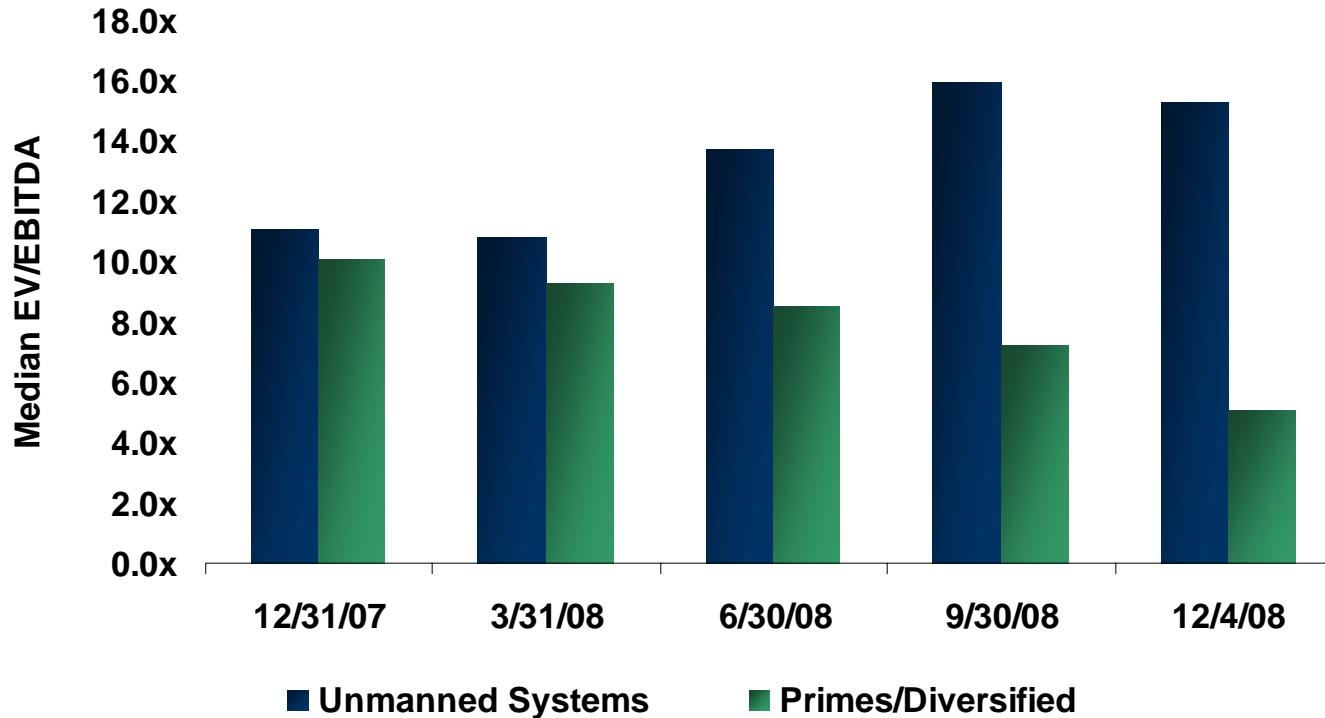
EBITDA Multiple*



*Quartile based on 180 Defense & Aerospace transactions from 1/2002 – 10/2008 that disclosed pricing information
Source: Houlihan Lokey



Unmanned Systems Public Pricing



Public pricing has remained relatively stable for unmanned systems and continue to command premiums over larger diversified defense companies

Source: Capital IQ; Unmanned Systems includes AeroVironment, Inc., QinetiQ Group Plc, and iRobot Corporation



Unmanned Systems Transactions

2007 Transactions				
Close Date	Target	Acquirer	EV ¹	EV/Revenue
12/18/07	United Industrial Corp.	Textron, Inc.	\$1,048.7	1.63x
10/22/07	SEA Group Ltd.	Cohort plc	\$56.3	1.51x
6/5/07	Applied Perception Inc.	Foster-Miller, Inc.	\$9.2	NA
		Median	\$56.3	1.57x

2008 Transactions				
Close Date	Target	Acquirer	EV ¹	EV/Revenue
Pending	Non-Intrusive Inspection Technology, Inc.	Chemring Group plc	\$40.0	ND ²
9/9/08	Insitu, Inc.	Boeing Co.	ND ²	ND ²
2008	Athena Technologies, Inc.	Rockwell Collins Inc.	\$107.0	ND ²
9/16/08	Hydroid, LLC	Kongsberg Maritime AS	\$80.0	4.00x
9/12/08	Nekton Research, LLC	iRobot Corp.	\$10.0	1.67x
7/7/08	Webb Research Corporation	Teledyne Technologies Inc	\$24.2	2.00x
		Median	\$60.0	2.86x

Greater unmanned systems deal activity in 2007 and 2008 than all recent years combined, reflecting traditional defense suppliers recognition of maturing programs and market opportunity

¹ (\$ in millions)

² Not Disclosed; Based on Houlihan Lokey proprietary data



What to Expect Next

- **Continued strong industry performance**

Delay in contracting until the new administration sorts through priorities

- **M&A accelerates as a tool for growth**

Premium valuations for technology, proprietary ideas, growth

- **Greater range of values**

Acquirers will pay up for strong differentiators

All boats no longer rising together

- **Continued, gradual reopening of financial markets**

Strategics continue to enjoy preferred position