

## Aerospace Forging, Casting, Machining and Fabrications

### SECTOR SPOTLIGHT: Commercial Aerospace – June 2011

EUREKA CAPITAL PARTNERS LLC

#### MARKET REVIEW

*Positive growth outlook for commercial aerospace sector...*

*...is one of the few bright spots in a weak economic environment*

*Composites vs. metals debate continues*

*Industry stocks are trading at attractive valuations and outperformed the S&P 500 over the last twelve months*

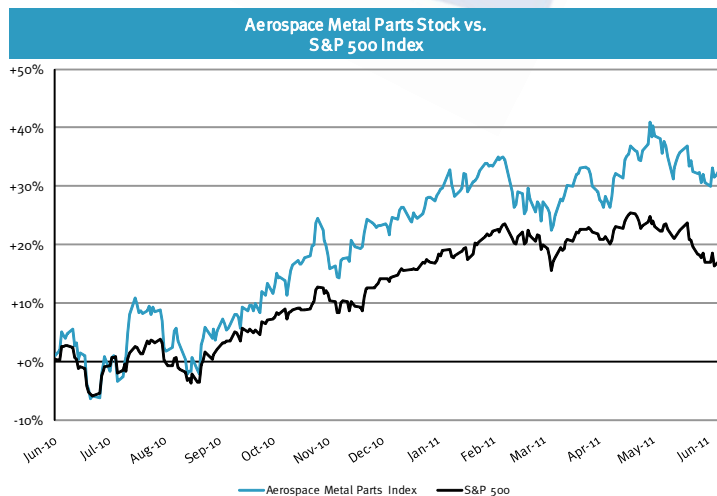
- In this issue, we are highlighting the commercial aerospace sector. Despite recent disappointing news in manufacturing, housing, and labor markets, we are witnessing a strong cyclical upturn and favorable growth prospects for commercial aerospace suppliers.
- The good news is that air traffic is growing, maintenance/aftermarket is recovering and large commercial aircraft deliveries are expected to increase at approximately 6% per year from 1.040 in 2010 to 1,425 in 2015. Emerging markets account for over 50% of this demand.
  - In widebody aircraft, the Boeing 787 certification and first delivery currently scheduled for the August-September time frame are critical milestones for Boeing and its network of suppliers (especially given the past three years of delays). The question remains whether Boeing has resolved its supplier issues and production rates can be ramped up quickly. The 777 production rate has already been raised and an additional increase is planned in 2013.
  - Boeing's pending decision whether to re-engine the 737 or to build a new aircraft is the major driver in the narrowbody space. Airbus' ability to book large volume of orders for its re-engined A320NEO, may tilt Boeing towards the re-engine option. Bombardier's CSeries appear to be gaining momentum and could represent a challenge to both the 737 and A320NEO.
- Manufacturing technology in the sector has been driven by a strong emphasis on high fuel efficiency, increased thrust, and reduction of noise and exhaust emissions. Approximately 50% of the structure of the 787 Dreamliner is made with composites and Airbus' A350 XWB has opted for composite fuselage.
- However, we note important concerns with respect to use of composites relative to metals, including lack of consistency in physical property and performance data from suppliers, narrower temperature ranges, harder-to-detect deterioration and higher production and development costs.
- Interestingly, Alcoa's newly developed lighter aluminum may unseat composites in the new narrowbody aircraft, in particular. The company announced in June that it developed a lighter, crack and corrosion-resistant aluminum, which is expected to reduce aircraft weight by 10%, boost fuel efficiency by 12%, and cost up to 30% less to make and repair compared to composite-intensive planes.
- We believe that healthy public market stock valuations reflect attractive opportunities in the aerospace metalworking segment. Our index of selected industry participants outperformed the S&P 500 by approximately 18% in the last twelve months.

## MARKET REVIEW (Continued)

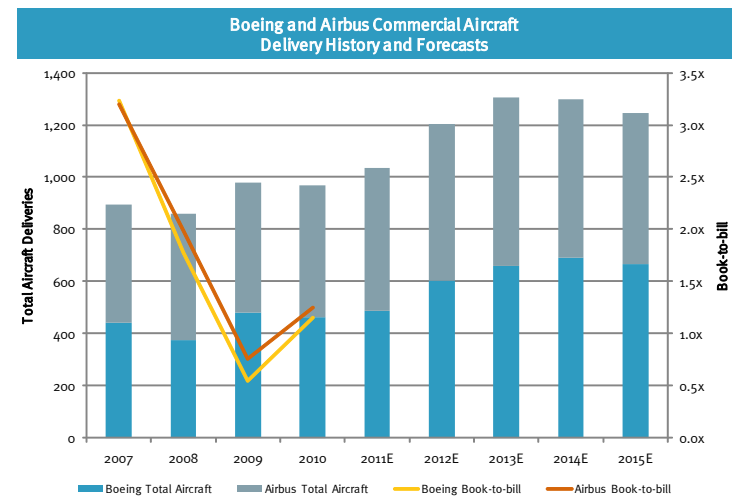
### Robust M&A activity highlight attractive opportunities in aerospace metalworking

- There is an active mergers and acquisitions market in the aerospace metalworking sector. Strategic acquisitions have been driven by vertical integration, expanding capabilities and capacity considerations. Recent transactions in the forging space (Ladish was acquired by Allegheny, GE's Unison Engine Components Group by Precision Castparts, Latrobe by Carpenter Technology and T&W Forge by SIFCO) underscore this consolidation trend.
- Financial acquirers have also been attracted to the sector by the positive growth prospects and profitability. A number of private equity firms (e.g., Corinthian Capital, GenNx360, Genstar Capital, Hammond Kennedy Whitney, Linsalata Capital, Vance Street Capital) completed platform acquisitions in the past few years.
- We also note attractive valuations in the recent transactions. The large strategic acquisitions command particularly high multiples, e.g. Allegheny paid 15.3x LTM EBITDA for Ladish, while Carpenter paid 9.0x LTM EBITDA for Latrobe. Smaller deals have typically been done at lower valuations (e.g., SIFCO is estimated to have paid 6.0x LTM EBITDA for T&W Forge).

## PUBLIC STOCK PERFORMANCE



## COMMERCIAL AIRCRAFT DELIVERIES



## VALUATION MULTIPLES FOR PUBLIC MANUFACTURERS OF METAL PARTS FOR AEROSPACE

Company (\$m, except per share)	Ticker	Price 06/20/11	Price	Equity	Firm	1 Yr Est. Growth Rate	EV / LTM		EBITDA Margin
			Performance LTM				Value	Value	
Alcoa, Inc.	AA	14.78	26.1%	15,690	27,759	18.0%	1.3x	9.0x	14.0%
Precision Castparts Corp.	PCP	155.03	33.9%	22,305	21,386	13.9%	3.4x	12.8x	26.8%
Goodrich Corp.	GR	92.51	30.0%	11,552	13,142	13.5%	1.8x	9.6x	19.0%
Allegheny Technologies Inc.	ATI	60.00	14.7%	6,368	7,206	30.3%	1.6x	18.1x	33.8%
Triumph Group, Inc.	TGI	95.91	34.3%	2,352	3,624	18.8%	1.2x	8.8x	14.1%
Titanium Metals Corporation	TIE	16.77	-17.9%	3,022	2,750	22.6%	3.1x	15.1x	20.5%
Carpenter Technology Corp.	CRS	51.92	35.5%	2,286	2,334	36.2%	1.5x	17.9x	8.4%
Hexcel Corp.	HXL	20.25	19.1%	1,983	2,212	14.2%	1.8x	10.9x	16.3%
Heroux-Devtek Inc.	HRX	8.60	62.0%	260	327	5.5%	0.9x	5.9x	15.4%
Ducommun Inc.	DCO	19.46	5.5%	205	226	23.5%	0.6x	5.8x	9.6%
CPI Aerostructures Inc. <sup>(1)</sup>	CVU	12.61	38.4%	86	91	81.1%	1.6x	11.0x	14.9%
SIFCO Industries Inc.	SIF	16.35	48.8%	86	82	NA	0.9x	7.4x	12.3%
Median			32.0%			18.8%	1.6x	10.3x	15.2%
S&P 500			17.0%						

(1) Does not include non-cash charges of \$7.2m incurred due to the early termination of a long term contract (T-38) and two other programs.

EBITDA = Earnings before interest, taxes, depreciation and amortization  
Enterprise Value (EV) = Market value of equity + Interest-bearing debt - cash  
NA = Not Available

Source: Capital IQ, SEC Filings

## RECENT MERGER AND ACQUISITION TRANSACTIONS

Date Announced	Target / Parent	Acquirer	Target Business Description	Deal Size (\$ in mm)
06/20/2011	Latrobe Specialty Metals, Inc. / Watermill Ventures; Hicks Holdings LLC	Carpenter Technology Corp.	Manufacturer and marketer of steel and fabricated steel alloy components for the manufacturing and aerospace industries based in Latrobe, PA.	557.8
06/14/2011	Unison Engine Components Group / General Electric Co.	Precision Castparts Corp.	Manufacturer of flash-welded and cold-rolled rings with three facilities in Wilkes-Barre and Mountaintop, PA and Birmingham, UK.	-
06/08/2011	MW Industries Inc. / Apollo Management, L.P.; Brockway Moran & Partners, Inc.; CITIC Capital Private Equity	Genstar Capital, LLC	Manufacturer of springs, fasteners, metal stampings, and flat-stamped spring-related products based in Logansport, IN.	-
06/07/2011	Quality Forming, Inc.	PRV Aerospace, LLC	Manufacturer of various parts, sub-assemblies, nose pieces, rudders, and titanium materials for commercial, civilian, and military aircrafts based in Torrance, CA.	-
04/28/2011	Avicenna Technology, Inc.	Ametek Inc.	Provider of laser machining services based in Montevideo, MN.	25.0
04/11/2011	W Industries Inc.	Tower International, Inc.	Metal parts and components fabricator based in Detroit, MI.	21.3
03/30/2011	Weaver Manufacturing, Inc.	Synchronous Aerospace, Inc.	Manufacturer of close tolerance machined parts for general aviation, commercial, and military markets based in Wichita, KS.	-
02/07/2011	Campbell Grinder Company	Glencoe Capital, LLC	Manufacturer of grinding equipment and components for the aerospace, bearing, land based turbine, defense, and medical prosthetic industries based in Spring Lake, MI.	-
12/23/2010	Arden Engineering, Inc.	PRV Aerospace, LLC	Provider of CNC machining services, assembly, and manufacturer of structural aerospace components from aluminum, titanium, and steel based in Orange, CA.	-
12/10/2010	T&W Forge, Inc. / Durrel Corporation	SIFCO Industries Inc.	Provider of precision forgings to original equipment manufacturers based in Alliance, OH.	23.6
12/09/2010	CAMtech Precision Manufacturing, Inc.	Jaws Capital Investment Inc.	Manufacturer of precision parts and assemblies for aerospace and defense industries based in Euless, TX.	7.8
11/29/2010	Whitcraft, LLC / Golub Capital; Ironwood Capital	Linsalata Capital Partners	Metal aerospace components and assemblies fabricator based in Eastford, CT.	-
11/22/2010	Venture Aircraft, Inc.	HSBC Capital (USA) Inc.	Manufacturer of sheet metal, machined parts, and sub-assemblies for the aerospace industry based in Compton, CA.	-
11/17/2010	Jonaco Machine, LLC / Denali Partners, LLC	Demmer Corporation	Manufacturer of precision machining products based in Chaska, MN.	-
11/17/2010	Quality Tool, Inc.	Demmer Corporation	Metal products fabricator offering punching, forming, laser cutting, welding, stamping, machining, and assembly services based in Brookings, SD.	-
11/16/2010	ATI Ladish Co., Inc.	Allegheny Technologies Inc.	Metal components manufacturer offering forgings, castings, and machined components based in Cudahy, WI.	819.1
09/30/2010	Petersen Inc.	GreatBanc Trust Company, Asset Management Arm	Custom steel fabrication and precision machining company based in Ogden, UT.	-
08/31/2010	LS Precision Manufacturing, Inc. / Trinity Hunt Partners	AEA Investors LP	Fastener and gasket manufacturer for the energy, military, petroleum, and aerospace industries based in Spring, TX.	-
07/07/2010	Peterson Machine & Manufacturing Inc.	MultiSource Manufacturing, LLC	CNC machine shop offering precision machined components for medical, automation, food packaging, computer, and aerospace industries based in Lakeville, MN.	-
07/06/2010	STADCO, Inc. / Omninet Capital, LLC	Corinthian Capital Group, LLC	Precision, close tolerance parts and assemblies fabricator based in Los Angeles, CA.	-
06/28/2010	Fabrication Network, Inc.	Pinnacle Precision Sheet Metal Corporation	Sheet metal components and CNC machining parts and assemblies fabrication company based in Anaheim, CA.	-
06/18/2010	Vector Composites Inc.	Composite Technology Investors LLC	Developer and manufacturer of composite structure components and assemblies for aerospace and defense applications based in Dayton, OH.	-
05/31/2010	Klune Industries, Inc.	Vance Street Capital LLC	Manufacturer of parts, assemblies, and components for commercial and military aircraft, and missile systems based in North Hollywood, CA.	20.0
03/11/2010	Northstar Aerospace Inc. / Ridge Capital Amalgamated Corp.	Gordon Investment Partners	Manufacturer of parts for military and commercial aircraft applications based in Bedford Park, IL.	2.1
02/22/2010	Eagle Tool & Machine Co., Inc.	Heroux-Devtek Inc.	Manufacturer of machined components for the aerospace and industrial markets based in Springfield, OH.	-
02/16/2010	Moeller Design & Development, Inc.	3D Systems Corp.	Provider of precision investment casting, CNC machining, and mold making services to aerospace, medical devices, and technology industries based in Seattle, WA.	3.6
01/22/2010	Johnson Precision, Inc.	CEPS, Inc.	Contract manufacturer offering precision machining and injection molding for aerospace, firearms, medical, and automotive industries, based in Amherst, NH.	-

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