Industry Keynote

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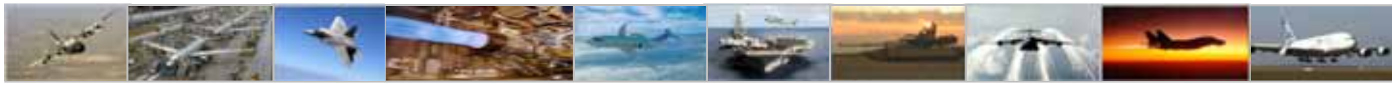
During his 15-year career in aerospace and finance, Mr. Alderman has completed more than $1 billion in mergers, acquisitions, and related transactions. Mr. Alderman started his career at Bankers Trust Company and has held senior positions in investment management and corporate development at GE Capital, Aviation Sales Company, and most recently as Managing Director of the aviation investment banking practice of Fieldstone. Mr. Alderman is a graduate of the JL Kellogg Graduate School of Management and Kenyon College. Mr. Alderman has been quoted as an industry expert by Bloomberg TV, CBS Marketwatch, USA Today, the Chicago Tribune, the Los Angeles Times, and the Washington Post.



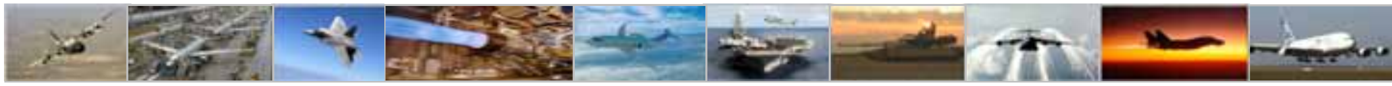
Alderman & Company
AEROSPACE AND DEFENSE INVESTMENT BANKERS

SEA SUPPLIER EXCELLENCE ALLIANCE

The Value of Operational Excellence

William H. Alderman
Alderman & Company

Irvine, California
June, 2011



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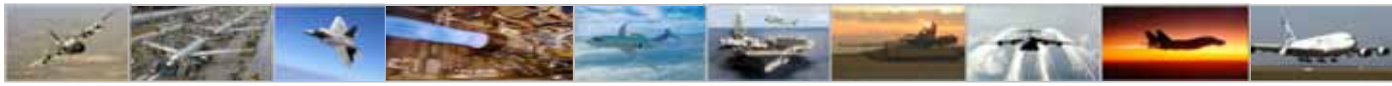

Alderman & Company™

Who we are and what we do:

Alderman & Company Consulting, LLC

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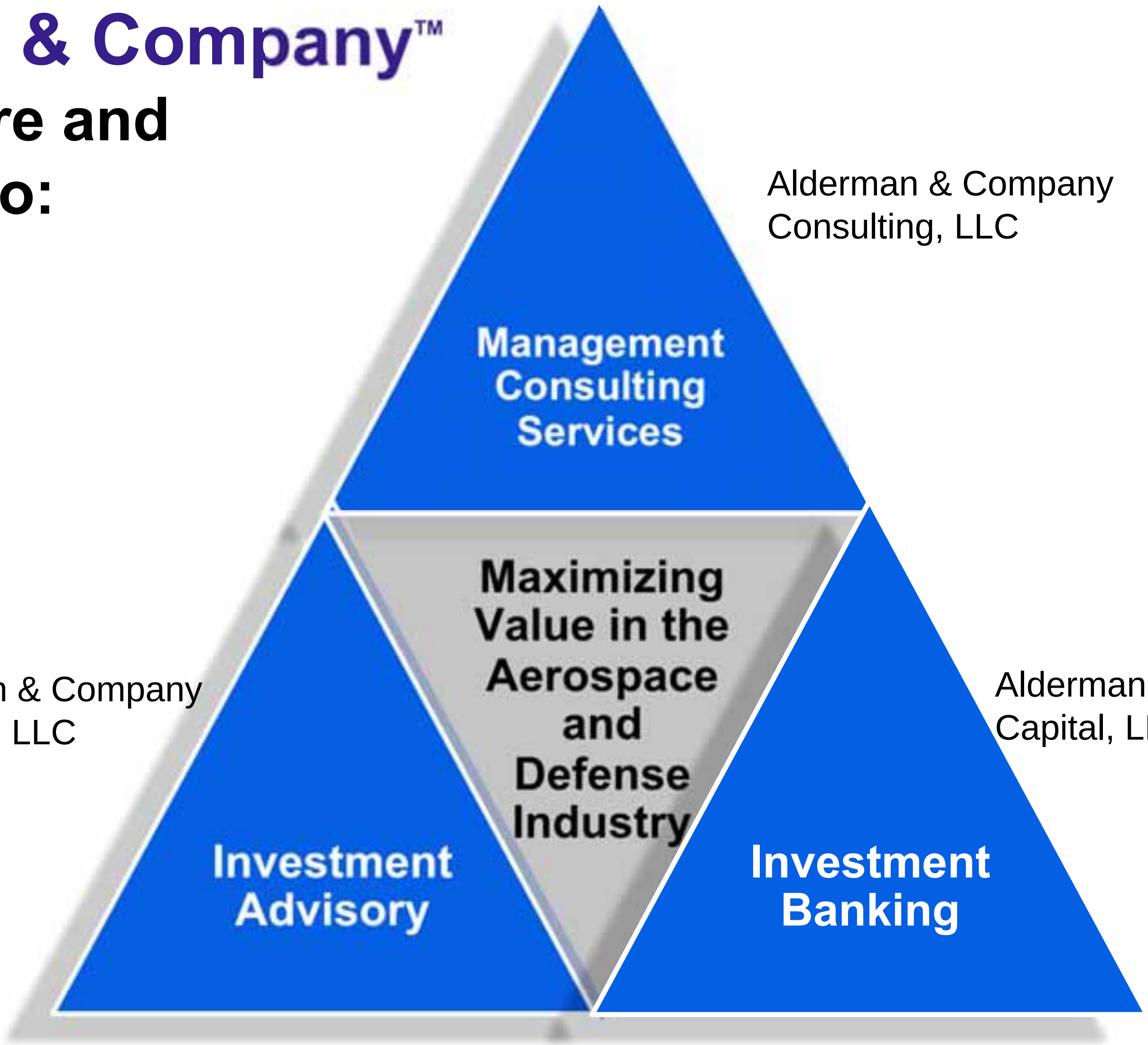
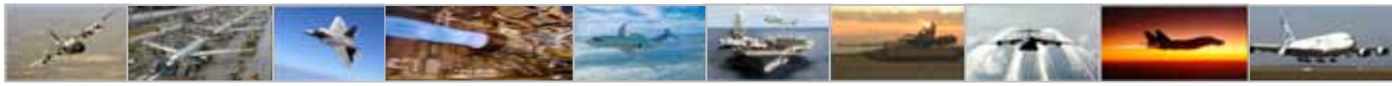




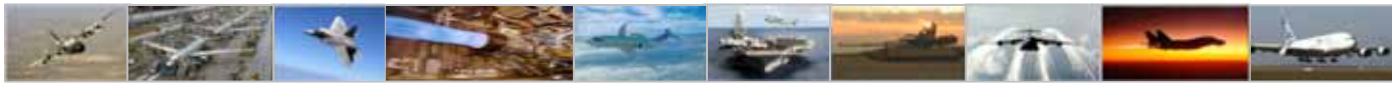
Agenda

The Value of Operational Excellence

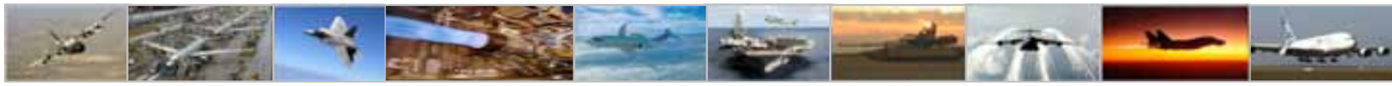
I. How is “Value” defined

II. How is value created

III. Examples



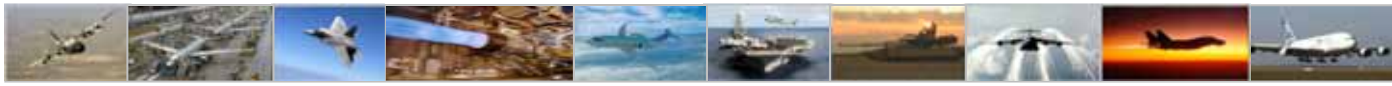
I. The Definition of Value



How is Value Defined

- **What is Value?**

- **Who says so?**



Valuation Methods

1. **Market Method** — What we often hear in preliminary negotiations

2. **Income Method** — What we see used most often in board rooms and actual negotiations

3. **Replacement Cost** — What we often see in distressed transactions

Valuation Methods: **Market**

Also referred to as “Comps”

Premise:

There exists a trading market for companies similar to yours and your company should trade at a price comparable to those that are similar to yours

Formula:

EBITDA Multiple: [Enterprise Value] / [EBITDA]
Revenue Multiple: [Enterprise Value] / [Revenue]

Valuation Methods: Market

"Comps"

Date	Buyer	Company Sold	Price ($MM)	Revenue ($MM)	Revenue Multiple	EBITDA	EBITDA Multiple
Dec-07	Example	Example	74.6	76.3	1.0	9.3	8.0
Dec-07	Example	Example	45.0	49.3	0.9	6.1	7.4
Nov-07	Example	Example	8.0	14.1	0.6	1.0	8.0
Sep-07	Example	Example	78.0	64.5	1.2	7.0	11.1
Jun-07	Example	Example	29.2	25.2	1.2	3.8	7.7
Jun-07	Example	Example	19.0	15.8	1.2	3.2	6.0
May-07	Example	Example	72.4	36.4	2.0	5.8	12.5
May-07	Example	Example	51.0	52.7	1.0	6.0	8.5
Apr-07	Example	Example	108.0	150.3	0.7	19.6	5.5
Feb-07	Example	Example	103.0	88.6	1.2	14.2	7.3
Feb-07	Example	Example	17.5	14.0	1.3	1.9	9.2
Jan-07	Example	Example	36.0	55.0	0.7	5.5	6.5
Dec-06	Example	Example	110.5	124.2	0.9	17.9	6.2
Dec-06	Example	Example	34.2	45.1	0.8	4.7	7.3
Oct-06	Example	Example	43.9	32.0	1.4	5.1	8.6
Aug-06	Example	Example	73.0	43.7	1.7	9.8	7.4
Jun-06	Example	Example	16.3	29.6	0.6	2.7	6.0
Jun-06	Example	Example	15.4	15.5	1.0	2.8	5.5
May-06	Example	Example	102.0	101.1	1.0	9.7	10.5
Etc							
		Average	$ 54.6	$ 54.4	1.1	$ 7.2	7.9

Valuation Methods: Market

EBITDA Multiple

$32mm

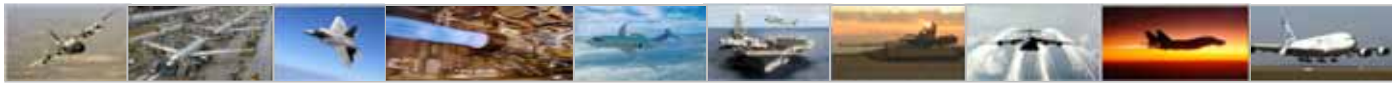
	Multiple				
EBITDA	4.0	6.0	8.0	10.0	12.0
$ 2.0	8	12	16	20	24
$ 4.0	16	24	32	40	48
$ 6.0	24	36	48	60	72
$ 8.0	32	48	64	80	96
$ 10.0	40	60	80	100	120

Valuation Methods: Market

Revenue Multiple

$28mm

Revenue	Multiple: 0.8	0.9	1.0	1.1	1.2
$ 10.0	8	9	10	11	12
$ 25.0	20	23	25	28	30
$ 50.0	40	45	50	55	60
$ 75.0	60	68	75	83	90
$ 100.0	80	90	100	110	120



Valuation Methods: **Income**

Premise:

Investors will formulate their view of the value of a business based upon their expectation of the future distributions they will receive from that business (“Free Cash Flow”).

Formula:

The buyer’s view of the company’s future performance drives this valuation method.

$$\text{Value} = \text{Discounted}\ [\ \Sigma\ CFO_1 + CFO_2 + CFO_3\ldots\ldots]$$

Valuation Methods: Income

Discount Rate	**14.00%**
Terminal Multiple	**8.00**

Valuation Date **1/1/2008**

Free Cash Flow	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Distributions to Shareholders	**3,500**	**4,000**	**4,250**	**4,750**	**5,500**

Terminal Value	12/31/2012
Free Cash Flow	5,500
Terminal Multiple	**8.00**
	44,000
Net Debt at Exit	6,774
Terminal Value	37,226
Capital Gain Tax	-7,445
Distribution	**29,781**

Discounted Values	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Year	1	2	3	4	5
Discount Factors	1.14	1.30	1.48	1.69	1.93
Nominal Cash Flows	3,500	4,000	4,250	4,750	35,281
Discounted Free Cash Flow	**$3,070**	**$3,078**	**$2,869**	**$2,812**	**$18,324**

Enterprise Value	**$30,153**
Net Debt	($6,774)
Value of Common Stock	$23,379

$30.2mm

Valuation Methods: **Replacement Cost**

Premise:

The value of a business is equal to the cost to replace all of its assets, including intangible assets ("goodwill")

Of note:

Goodwill items include:

- Trade names
- Intellectual property
- Customer relationships/lists
- Customer approvals
- Licenses & Certificates
- Supplier relationships

Valuation Methods: Replacement Cost

Valuing Intangibles / Goodwill

Accomplished by estimating the direct and indirect costs (and time) to recreate those exact assets

- **Process know how**
- **Customer contracts**
- **Supplier contracts**
- **Customer relationships/lists**
- **Approvals**
- **Etc**

Valuation Methods: Replacement Cost

Goodwill Example
Value of "Sheet Metal Process Know-how"

Cash Flows ($000)	1	2	3	4	5	6	7	8	9	10
Trainers and Consultants	(65)	(45)	(25)	(5)	(6)	(6)	(7)	(7)	(8)	(9)
Hiring Costs	(50)	(25)	(8)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
Cost of Manuals	(25)	(15)	(11)	(11)	(12)	(13)	(15)	(16)	(18)	(19)
Direct Labor Costs	(100)	(150)	(250)	(500)	(550)	(900)	(1,010)	(1,350)	(2,000)	(3,000)
Material Costs	(100)	(125)	(500)	(400)	(500)	(750)	(770)	(800)	(2,500)	(3,000)
Sheet Metal Revenues	-	-	500	1,000	1,250	1,500	2,500	5,000	8,000	9,000
Net Cash Flows	(340)	(360)	(294)	76	174	(179)	688	2,815	3,461	2,957
Discounted Values (r = 14%)										
Discount Factors	1.14	1.30	1.48	1.69	1.93	2.19	2.50	2.85	3.25	3.71
Discounted Free Cash Flow	($298)	($277)	($198)	$45	$90	($82)	$275	$987	$1,064	$798

Value of Sheet Metal Know-how	2,404

Valuation Methods: Replacement Cost

Accounts Receivable	5,347,981
Inventory	4,163,937
PP&E	5,313,905
Goodwill	6,492,726
Total	21,318,549

$21.3mm

Valuation Methods: **Weighted Value**

A holistic view of value is developed through a weighted assessment of all credible valuation methods.

	$MM	Weight
EBITDA Multiple	32.0	20%
Revenue Multiple	28.0	20%
Discounted Cash Flow	30.2	40%
Replacement Cost	21.3	20%
Weighted Value	28.3	

II. Value Creation Concepts

How is Value Created?

- By increasing expected future cash flow
- By decreasing future uncertainties

Value Creation

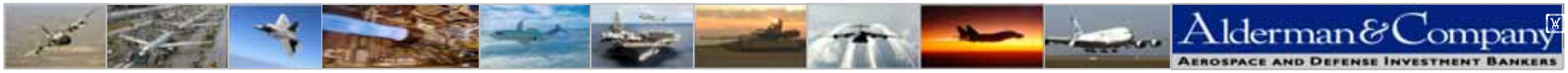
Increase Expected Future Cash Flow: Examples

- Eliminate production waste: generate same sales with lower labor or material cost
- Eliminate administrative waste: generate the sales with lower indirect / SG&A costs
- Accelerate throughput: turn Inventory faster to reduce working capital
- Compete on attributes other than price: so you can raise prices and improve gross margins

Value Creation

Reduce Uncertainty: Examples

- Increase customer “stickiness”
- Develop strengths against global competition
- Develop management talent, to successfully deal with future uncertainties (which are certain to happen)
- Invest in state of the art training, processes, technology and equipment - to maintain competitive edge



III. Quantitative Analysis: DCF

Examples of the Value of Operational Excellence

The Value of Reduced Uncertainty

Discount Rate Reduced by 2%	**12.00%**	Valuation Date	**1/1/2008**
Terminal Multiple	**8.00**		

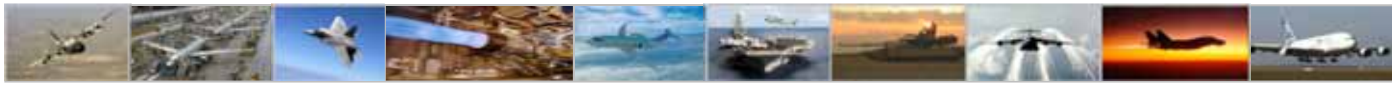
Free Cash Flow	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Distributions to Shareholders	**3,500**	**4,000**	**4,250**	**4,750**	**5,500**

Terminal Value		12/31/2012
	Free Cash Flow	5,500
	Terminal Multiple	**8.00**
		44,000
	Net Debt at Exit	6,774
	Terminal Value	37,226
	Capital Gain Tax	-7,445
	Distribution	**29,781**

Discounted Values	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Year	1	2	3	4	5
Discount Factors	1.12	1.25	1.40	1.57	1.76
Nominal Cash Flows	3,500	4,000	4,250	4,750	35,281
Discounted Free Cash Flow	**$3,125**	**$3,189**	**$3,025**	**$3,019**	**$20,019**

		Prior Value	**Value Created**
Enterprise Value	$32,377	$ 30,153	**$ 2,224**
Net Debt	($6,774)		
Value of Common Stock	$25,603		

$2.2mm



The Value of Faster Inventory Turns

Discount Rate	**14.00%**	Valuation Date	**1/1/2008**
Terminal Multiple	**8.00**		

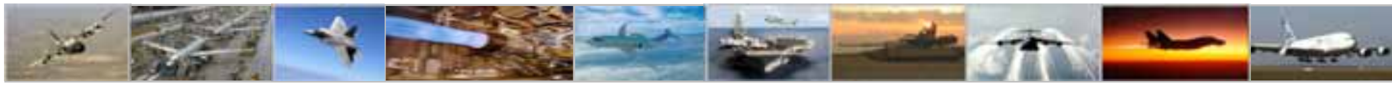
Free Cash Flow	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Distributions to Shareholders	**3,500**	**4,000**	**4,250**	**4,750**	**5,500**
Reduction in Inventory	**500**	**600**	**675**	**800**	**850**
Total Distributions available	**4,000**	**4,600**	**4,925**	**5,550**	**6,350**

Terminal Value	12/31/2012
Free Cash Flow	6,350
Terminal Multiple	**8.00**
	50,800
Net Debt at Exit	6,774
Terminal Value	44,026
Capital Gain Tax	-8,805
Distribution	**35,221**

Discounted Values	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Year	1	2	3	4	5
Discount Factors	1.14	1.30	1.48	1.69	1.93
Nominal Cash Flows	4,000	4,600	4,925	5,550	41,571
Discounted Free Cash Flow	**$3,509**	**$3,540**	**$3,324**	**$3,286**	**$21,591**

		Prior Value	**Value Created**
Enterprise Value	$35,249	$ 30,153	**$ 5,096**
Net Debt	($6,774)		
Value of Common Stock	$28,475		

$5.1mm



The Value of Better Equipment Utilization

Discount Rate	**14.00%**		Valuation Date	**1/1/2008**
Terminal Multiple	**8.00**			

Free Cash Flow	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Distributions to Shareholders	**3,500**	**4,000**	**4,250**	**4,750**	**5,500**
Reduced Capital Expenditures	**600**	**825**	**550**	**650**	**450**
Total Distributions available	**4,100**	**4,825**	**4,800**	**5,400**	**5,950**

Terminal Value	12/31/2012
Free Cash Flow	5,950
Terminal Multiple	**8.00**
	47,600
Net Debt at Exit	6,774
Terminal Value	40,826
Capital Gain Tax	-8,165
Distribution	**32,661**

Discounted Values	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Year	1	2	3	4	5
Discount Factors	1.14	1.30	1.48	1.69	1.93
Nominal Cash Flows	4,100	4,825	4,800	5,400	38,611
Discounted Free Cash Flow	**$3,596**	**$3,713**	**$3,240**	**$3,197**	**$20,053**

		Prior Value	**Value Created**
Enterprise Value	$33,799	$ 30,153	**$ 3,647**
Net Debt	($6,774)		
Value of Common Stock	$27,025		

$3.6mm

Closing Remarks

Who determines Value?

- Investors
- Buyers

How is value determined?

- Various methods, but primarily: discounted projected future cash flow

How is value created?

- Increasing expected future cash flow
- Decreasing uncertainty (the discount rate)

Closing Remarks

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