Industry Keynote

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Founder and President

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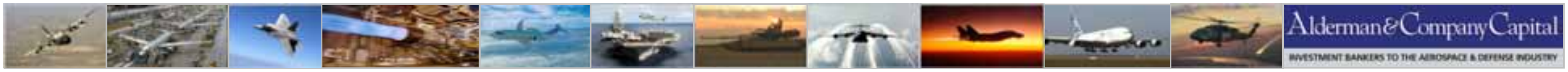


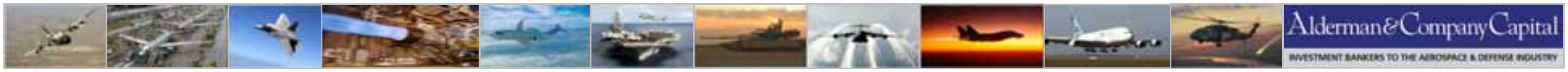
SEA SUPPLIER EXCELLENCE ALLIANCE

•Workforce Development

•*and its Impact on Owner Equity*

•William H. Alderman
•President
•Alderman & Company Capital, LLC

•Lincolnshire, IL
•July 26, 2012



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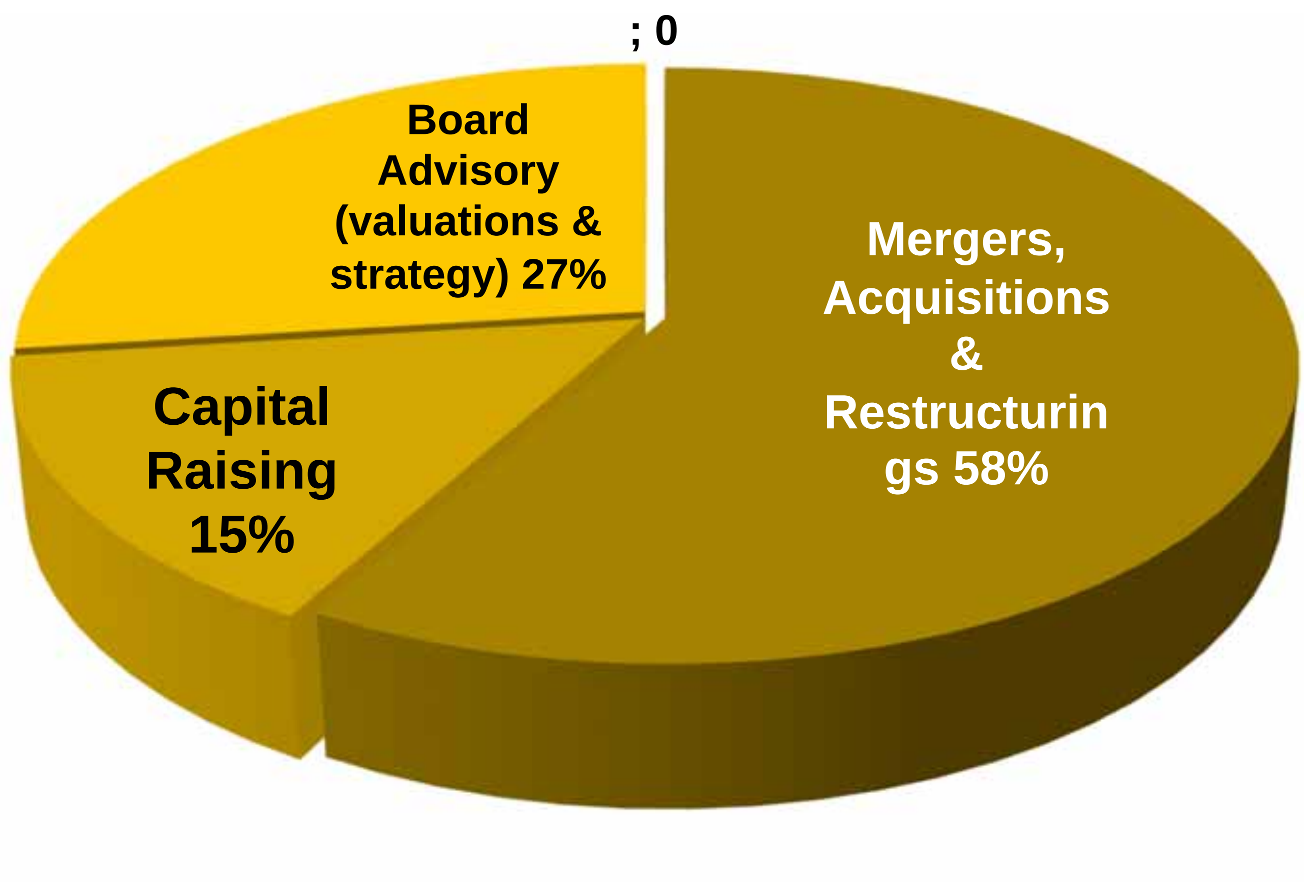
Firm Overview

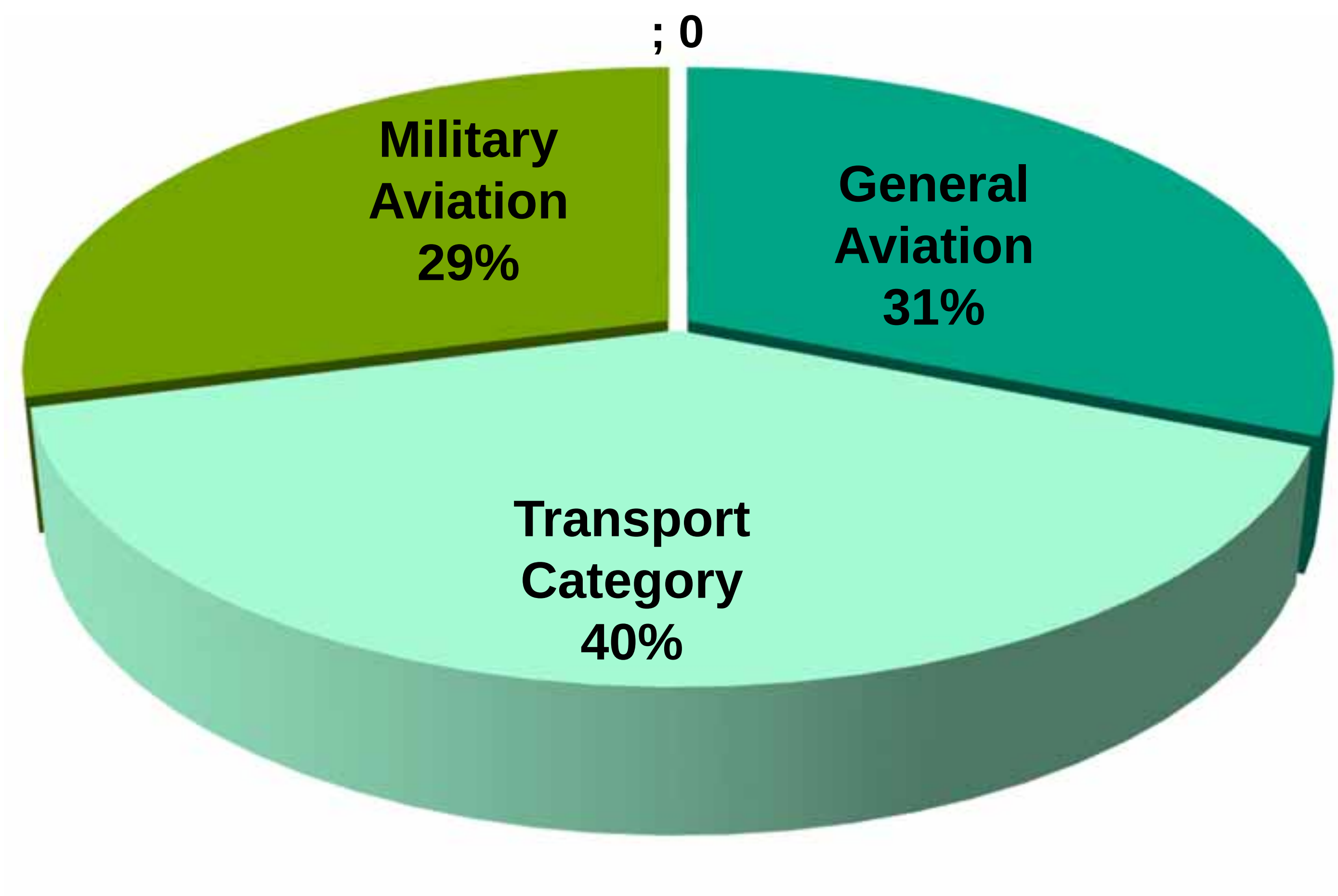
- Founded 2001
- Exclusively serving aerospace and defense
- Registered securities broker-dealer SIPC FINRA
- Services:
    - Mergers, Acquisitions & Restructuring
    - Capital Raising
    - Board Advisory (strategy and value creation)

Services



Based on most recent 50 engagements, as of March 31, 2012

Sectors



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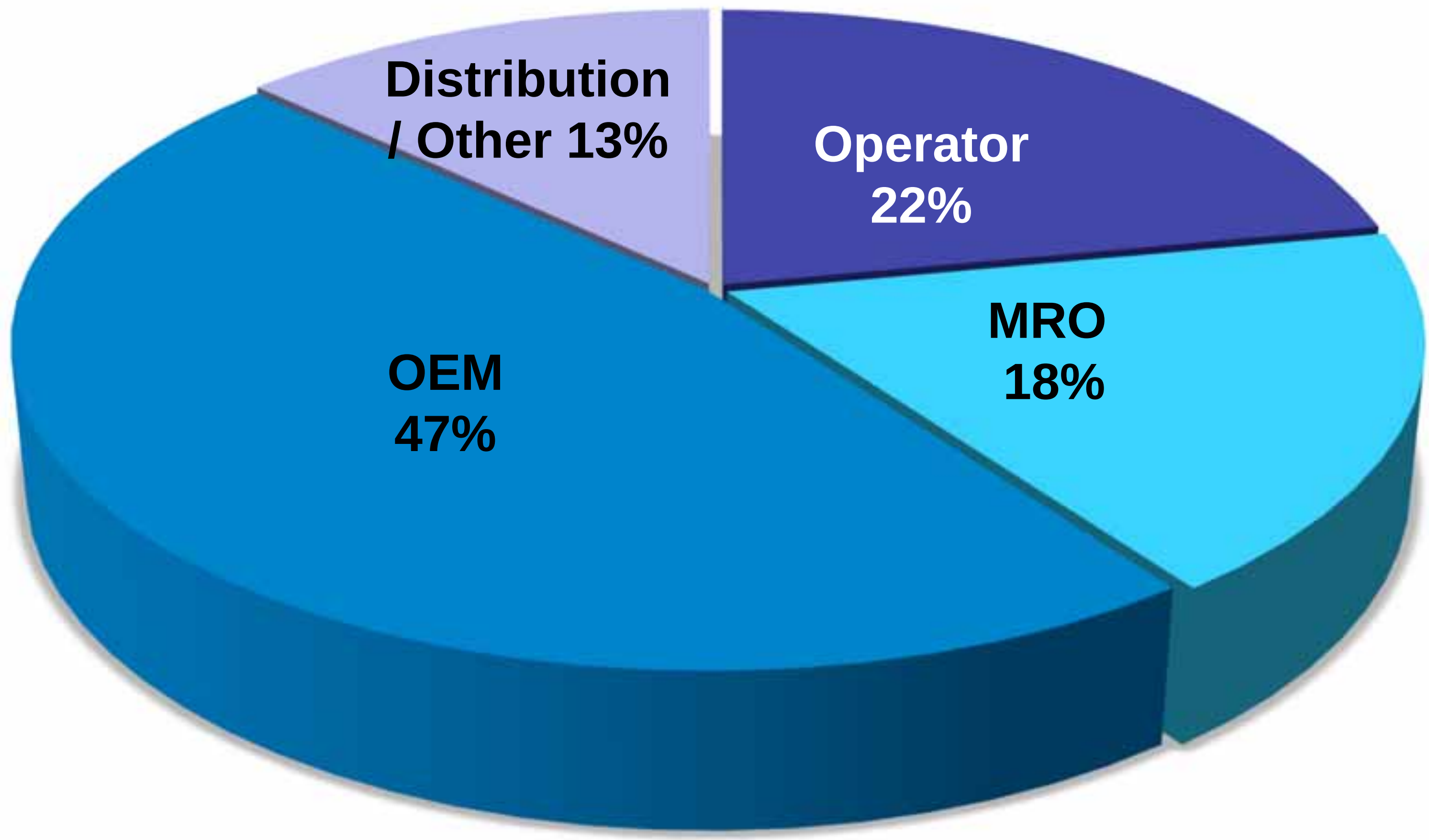
Business Types



Based on most recent 50 engagements, as of March 31, 2012

Agenda

I. How is Equity Value Determined?

II. How is Equity Value Created?

III. Workforce Development and its Impact on Equity Value

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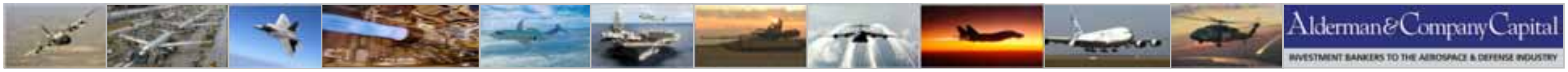
Valuation Methods

1. **Market Method:** *what we often hear in preliminary negotiations*

2. **Income Method:** *what we see used most frequently in Corporate Board Rooms and in final negotiations*

3. **Replacement Cost:** *what we often see in highly distressed transactions*



The Market Method ("Comps")

What we often hear in preliminary negotiations

Assumptions:

- There exists a trading market for companies similar to yours
- 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]

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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

	Multiple 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

Example: EBITDA of $4,000,000 at 8X = $32,000,000

Valuation Methods: Market

Revenue Multiple

Multiple

Revenue	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

Example: Revenue of $25,000,000 at 1.1X = $28,000,000

Valuation Methods: Market

The "Comps"

Based on EBITDA Multiple	**32,000,000**
Based on Revenue Multiple	**28,000,000**
Simple Average	**30,000,000**

Valuation Methods: Income

Income Method

Assumes 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").

The buyer's view of the company's future performance is the single most critical variable under the income valuation method.

Value = Discounted [Σ $CFO_1 + CFO_2 + CFO_3$……]

Valuation Methods: Income

					Pricing Date	1/1/12
Discount Rate				12.50%		
Terminal Multiple				6.00		

Free Cash Flow	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
Distributions to Shareholders	**2,500,000**	**2,750,000**	**3,000,000**	**3,250,000**	**3,500,000**

Terminal Value		
	EBITDA	3,500,000
	Terminal Multiple	**6.00**
		21,000,000
	Net Debt at Exit	3,500,000
	Terminal Value	**17,500,000**

Discounted Values	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
Year	1.00	2.00	3.00	4.00	5.00
Discount Factors	1.12	1.27	1.42	1.60	1.80
Nominal Cash Flows	2,500,000	2,750,000	3,000,000	3,250,000	21,000,000
Discounted Free Cash Flow	**$2,222,401**	**$2,173,190**	**$2,107,506**	**$2,029,613**	**$11,654,448**

Enterprise Value	**$20,187,158**
- Net Debt	$3,500,000
Value of Common Stock	**$16,687,158**

Valuation Methods: Replacement Cost

- **Replacement Cost Method**
- *What we often see in highly distressed transactions*

- Assumes that the value of a business is equal to the cost to replace the business in its entirety, including “Goodwill”.

- **Sample Goodwill Items:**
  - **Intangible assets**
  - **Trade names**
  - **Intellectual property**
  - **Patents**
  - **Unique process and knowledge**
  - **Customer relationships**
  - **Customer approvals**
  - **Governmental licenses**
  - **Certificates and approvals**
  - **Customer lists**
  - **Supplier relationships**
  - **All other ‘intangible’ aspects of the business**

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

Valuation Methods: Comprehensive

$ Millions		Higher	Mid	Lower
INCOME METHOD: DCF				
Implied Value		**20,000,000**	**17,500,000**	**16,000,000**
Weight	55%			
Weighted Value		11,000,000	9,625,000	8,800,000
MARKET METHOD: EBITDA MULTIPLE				
TTM EBITDA	**2,500,000**			
Multiple		7.00	6.00	5.00
Implied Value		**17,500,000**	**15,000,000**	**12,500,000**
Weight	25%			
Weighted Value		4,375,000	3,750,000	3,125,000
MARKET METHOD: REVENUE MULTIPLE				
TTM Revenue	**20,000,000**			
Multiple		0.90	0.85	0.80
Implied Value		**18,000,000**	**17,000,000**	**16,000,000**
Weight	15%			
Weighted Value		2,700,000	2,550,000	2,400,000
REPLACEMENT COST METHOD				
Implied Value		**12,500,000**	**10,000,000**	**7,500,000**
Weight	5%			
Weighted Value		625,000.0	500,000.0	375,000.0

SUMMARY	Higher	Mid	Lower
Weighted Average Debt Free Value	**18,700,000**	**16,425,000**	**14,700,000**
Subtract Net Debt	3,500,000	3,500,000	3,500,000
Value of Equity	15,200,000	12,925,000	11,200,000

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How is Equity Value Created?

- By increasing expected future
- free cash flows

By reducing uncertainty of future cash flows

Reducing the Level of Uncertainty: *High - r*

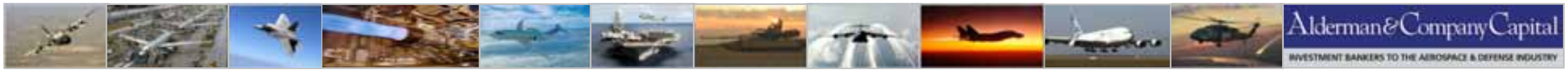
Pricing Date	1/1/12
Discount Rate	20.00%
Terminal Multiple	6.00

Free Cash Flow	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Distributions to Shareholders	2,500,000	2,750,000	3,000,000	3,250,000	3,500,000

Terminal Value	
EBITDA	3,500,000
Terminal Multiple	**6.00**
	21,000,000
Net Debt at Exit	3,500,000
Terminal Value	**17,500,000**

Discounted Values	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Year	1.00	2.00	3.00	4.00	5.00
Discount Factors	1.20	1.44	1.73	2.07	2.49
Nominal Cash Flows	2,500,000	2,750,000	3,000,000	3,250,000	21,000,000
Discounted Free Cash Flow	**$2,083,593**	**$1,910,199**	**$1,736,761**	**$1,568,105**	**$8,440,482**

Enterprise Value	**$15,739,141**
- Net Debt	$3,500,000
Value of Common Stock	**$12,239,141**



Reducing the Level of Uncertainty: *Low - r*

Pricing Date	1/1/12
Discount Rate	12.50%
Terminal Multiple	6.00

Free Cash Flow	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
Distributions to Shareholders	**2,500,000**	**2,750,000**	**3,000,000**	**3,250,000**	**3,500,000**

Terminal Value

EBITDA	3,500,000
Terminal Multiple	**6.00**
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Discounted Values	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**
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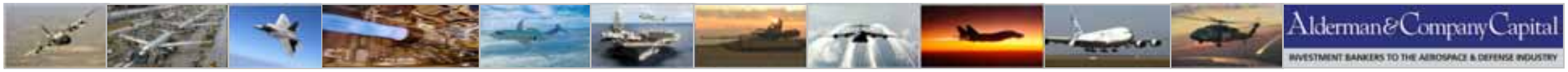
•Increasing Future Free Cash Flows

- Develop new products / platforms / markets
- Raise prices
- Reduce waste
- Increase asset utilization
- Etc.

- **Reduce Uncertainty of Future Free Cash Flows**
  - Consistently recruit, retain, and motivate an exceptional workforce
  - Consistently deliver valued products or services to markets where customers gladly pay prices well in excess of your costs
  - Consistently operate with excellent quality



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Creating Value in Aerospace Industry is not easy

- Winning new business when competition is fierce
- Maintaining margins when customers are demanding price reductions
- Increasing earnings when costs are rising
- Generating free cash flow when inventory and receivable levels are rising

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Lessons from “The 5C’s of Credit”

1. Collateral (assets)
2. Capital (net worth)
3. Capacity (cash flow)
4. Condition (overall health of business)
5. Character (the management team)

•25 years of experience prove:

•***People are the key to achieving great results, especially in highly competitive markets like Aerospace***

- **Character:** Recruiting, retaining, and motivating an exception management team, with dedication, skills, and integrity is the #1 way to create equity value in difficult markets and/or challenging times. Great managers find ways to increase free cash flow and lower uncertainty even in the most challenging of markets and most difficult times.

•Workforce Development

•Workforce Development

•"If your actions inspire others to dream more, learn more, do more and become more, you are a leader" **John Quincy Adams**

•The single best way to create equity value in this industry is through an exceptional leadership team with a firm commitment to workforce development

OBJECTIVITY . CLARITY . CLIENT SUCCESS

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