

## Valuation Trends

## Val. Trends #816: What will be tomorrow's Masters of the Air

Industry Overview

## The B-17s rise to prominence in WWII

Apple TV's Masters of the Air, based on the novel Masters of the Air by Donald Miller, follows the story of the U.S. Air Force 100th Bombardment Group in World War II. The series showcases the intensity of war through day-time air raids against the Axis powers. The Boeing B-17 "Flying Fortress" in the show and real life brought game changing technology to those campaigns in WWII. This weekly we will be discussing the aircraft which enabled the U.S. Air Force (USAF) to be the masters of the air in WWII, and the aircraft of tomorrow which will likely ensure the USAF remains dominant.

## The Birth of the Flying Fortress

Boeing began initial development of the B-17 in the 1930s where it first flew in 1935 and entered into service in 1938. The heavy bomber was developed to be tough and resilient with the capacity to deliver payloads up to 4,800lbs. While the aircraft evolved over time, staple features included heavy armor, five .30 caliber machine guns, two bomb racks, and four engines. During WWI, the B-17 was used by 32 overseas combat groups, but primarily used in daylight "precision" strategic bombing campaigns by the United States. While the B-17 was made to withstand heavy combat, the daytime operations and capable Axis air defenses meant many B-17s were destroyed in the war. The Experimental Aircraft Association Museum estimates of the 12,732 B-17s produced between 1935-1945, ~5,000 were lost during combat missions. A pivotal point in the bombing campaigns came with the increase presence of the American P-51 Mustang. The P-51 entered into service in 1940 and became a critical escort for the B-17s.

## Transitioning from a Fortress to a Raider

American bomber aircraft have evolved to maintain an enduring advantage, and new mission types. Where the Flying Fortress was meant to withstand heavy enemy fire, bombers of today are meant to never be detected. In December 2022, Northrop Grumman [unveiled the first USAF strategic bomber in over 30 years](#). The B-21 was designed specifically to meet the needs of a modern war with a technologically advanced advisory. The B-21 fleet must be capable of 1) taking off from faraway air strips (range), 2) carrying significant conventional and nuclear payloads, and 3) penetrating enemy airspace without detection (stealth).

## From Mustangs to Next Generation Air Dominance (NGAD)

Just as the P-51 Mustang brought new capabilities to the U.S. pilots in WWII, the next cutting-edge aircraft is being developed. As we outline in our note: [What to expect from sixth generation fighters](#) the NGAD program will push the boundaries for U.S. fighter jets. We expect a 6th-generation fighter could share mainly similarities with the cancelled Northrop/McDonnell Douglas YF-23 demonstrator. The aircraft could possess smaller, more swept wings and a variable V-tail design that would allow for superior high angle-of-attack (AoA) performance. Like the B-21, the next aircraft will focus on range, speed, stealth, and uncrewed wingman. While a Prime has yet to be announced for the program, we anticipate the 6<sup>th</sup> gen family of systems to be a >\$15bn opportunity.

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# Valuation analysis

## Exhibit 1: Aerospace & Defense Comp Sheet

A&amp;D Comp Sheet

Company	Opinion	Price		3/8/2024	Market Cap	P/E (x)			EV/EBITDA (x)			FCF Yield (%)			Div. Yield (%)
		Objective	Price			CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	
S&P 500			\$5,124			19x	17x	16x	13x	12x	11x				
LARGE CAP															
Raytheon Tech.	B-2-7	\$100	\$91	\$120,582	18x	17x	15x	21x	13x	12x	4.5%	4.8%	5.8%	2.7%	
Lockheed Martin	B-2-7	465	433	104,607	16x	16x	15x	12x	12x	12x	6.0%	6.0%	6.3%	3.0%	
Boeing*	B-2-9	225	198	121,106	NM	284x	30x	201x	30x	17x	3.7%	3.5%	5.2%	0.0%	
General Dynamics	B-1-7	315	272	74,608	23x	19x	17x	16x	14x	13x	5.1%	5.3%	6.0%	2.1%	
Northrop Grumman	B-1-7	615	460	68,941	20x	19x	17x	21x	14x	13x	3.0%	3.5%	4.7%	1.8%	
Transdigm	B-1-9	1310	1,165	64,781	43x	35x	29x	25x	21x	19x	2.0%	2.7%	3.5%	0.0%	
L3Harris Tech.	B-2-7	215	215	40,797	17x	17x	15x	31x	15x	13x	4.0%	5.4%	6.4%	2.6%	
Average					23x	58x	20x	47x	17x	14x	4.1%	4.5%	5.4%		
Defense Pure-plays					18x	17x	15x	21x	14x	13x	4.3%	5.0%	5.8%		
SMID CAP															
Teledyne Tech.	B-1-9	490	426	20,181	22x	21x	19x	17x	16x	15x	3.6%	4.8%	5.2%	0.0%	
Heico	B-1-7	220	186	22,766	62x	52x	43x	32x	25x	22x	1.8%	2.2%	2.7%	0.1%	
Textron	B-1-7	105	92	17,768	16x	15x	14x	12x	11x	10x	4.9%	5.5%	6.9%	0.1%	
CAE Inc	B-3-9	CAD26	CAD27	8,470	24x	22x	18x	13x	11x	10x	2.6%	3.2%	3.9%	0.0%	
Huntington Ingalls	B-3-7	250	293	11,613	17x	18x	16x	14x	14x	13x	5.8%	5.6%	6.0%	1.9%	
RBC Bearings Inc	B-1-9	280	268	7,822	33x	29x	28x	20x	19x	18x	2.9%	3.2%	3.5%	0.0%	
Crane Co.	C-1-7	140	129	7,331	26x	26x	23x	23x	17x	15x	2.1%	3.6%	4.2%	0.6%	
Spirit AeroSystems	-6-		36	4,152	NM	18x	11x	76x	8x	7x	NM	4.3%	4.7%	0.0%	
Mercury Systems	B-3-9	20	31	1,845	52x	50x	25x	22x	21x	14x	NM	2.8%	4.8%	0.0%	
Albany Intern.	B-2-8	105	95	2,979	27x	24x	21x	14x	13x	12x	1.7%	3.9%	4.5%	1.0%	
Embraer	C-1-9	28	21	3,938	43x	14x	11x	11x	9x	7x	7.6%	8.3%	10.2%	0.0%	
Average					32x	27x	22x	21x	15x	14x	3.6%	4.3%	5.7%		
Median					30x	24x	23x	19x	16x	15x	2.6%	3.2%	4.2%		
DEF. SVS															
Booz Allen Hamilt.	B-1-7	160	147	19,091	29x	26x	23x	22x	18x	16x	1.3%	3.1%	4.3%	1.4%	
KBR Inc	B-1-7	70	62	8,329	21x	20x	17x	13x	12x	11x	2.8%	5.5%	6.9%	0.9%	
CACI International	B-1-9	395	374	8,338	19x	17x	16x	14x	13x	12x	4.3%	5.2%	6.0%	0.0%	
Parsons Corp.	B-1-9	83	81	8,617	34x	30x	28x	23x	19x	17x	4.3%	3.7%	4.0%	0.0%	
Average					24x	22x	20x	19x	15x	14x	3.3%	4.5%	5.3%		
SPACE & HIGH GROWTH					EV/Sales to Growth			EV/EBITDA to Growth			P/FCF to Growth				
Palantir Tech.	C-1-9	28	26	57,620	1.5x	0.9x	0.6x	4.9x	2.9x	1.8x	0.7x	2.6x	1.7x	0.0%	
Rocket Lab	C-1-9	10	4	2,162	0.4x	0.1x	0.0x	NM	NM	0.5x	NM	NM	1.1x	0.0%	
Average					0.9x	0.5x	0.3x	4.9x	2.9x	1.8x	0.7x	2.6x	1.4x		
LESSORS					P/E			Pre-tax ROE			P/BV				
Air Lease	B-1-7	60	44	4,863	7x	7x	6x	10%	10%	11%	0.7x	0.7x	0.6x	2.1%	
Average					8x	7x	7x	13%	10%	11%	0.9x	0.9x	0.8x		

Source: BofA Global Research, Bloomberg

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## Exhibit 2: Aerospace & Defense industry valuation

A&amp;D Global Comp Sheet

3/8/2024	Equity	Enterprise	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			Dividend	
Company	Price	Capitalization	Value	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	CY23E	CY24E	CY25E	Yield (%)
S&P 500	\$5,124												
LARGE CAP													
Raytheon Technologies	\$91	\$120,582	\$161,229	18.0	16.8	14.8	20.7	13.3	12.1	2.3	2.1	1.9	
Lockheed Martin	\$433	\$104,607	\$121,824	15.7	16.5	15.0	11.8	12.4	11.7	1.8	1.8	1.7	3.0
Boeing*	\$198	\$121,106	\$159,267	NA	283.6	30.3	146.4	30.1	17.0	2.0	1.9	1.8	
General Dynamics	\$272	\$74,608	\$83,778	22.7	18.8	16.7	16.4	14.1	13.0	2.0	1.8	1.7	2.1
Northrop Grumman	\$460	\$68,941	\$81,810	19.7	18.6	16.6	21.1	13.9	12.8	2.1	2.0	1.9	1.8
Transdigm	\$1,165	\$64,781	\$82,844	42.8	34.9	29.1	25.0	21.1	19.2	12.0	10.4	9.4	0.0
L3Harris Technologies	\$215	\$40,797	\$54,251	17.4	17.0	14.9	31.0	15.2	13.3	2.8	2.6	2.5	2.6
Average				22.7	58.0	19.6	38.9	17.2	14.1	3.6	3.2	3.0	
Pure-play defense average				17.6	17.4	15.5	21.3	13.8	12.6	2.2	2.1	2.0	
MULTI - INDUSTRY													
Honeywell**	\$201	\$130,925	\$144,951	21.9	19.9	17.8	15.0	14.0	13.0	4.0	3.8	3.5	2.2

**Exhibit 2: Aerospace & Defense industry valuation**

A&amp;D Global Comp Sheet

3/8/2024	Equity	Enterprise	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			Dividend	
General Electric**	\$168	\$182,797	\$161,222	59.8	38.5	31.4	20.8	16.5	NA	2.5	2.3	2.1	0.2
Crane Co.	\$129	\$7,331	\$7,319	25.5	26.2	22.6	22.6	17.3	15.4	3.5	3.2	3.0	0.6
Average				35.7	28.2	23.9	19.5	16.0	14.2	3.3	3.1	2.9	
SMALL & MID CAP													
Textron	\$92	\$23,954	\$19,233	16.5	14.7	13.9	12.5	10.6	9.7	1.4	1.3	1.2	0.1
Teledyne Technologies Inc	\$426	\$20,181	\$22,936	21.6	20.6	18.7	17.0	15.7	14.9	4.1	3.9	3.7	
Heico	\$186	\$22,766	\$25,486	62.2	52.2	42.9	32.0	24.8	21.8	8.1	6.4	5.8	0.1
Garmin	\$142	\$27,221	\$24,268	26.5	24.3	22.5	19.7	17.5	16.1	4.7	4.3	4.0	2.2
CAE Inc	CAD27	CAD6,282	CAD11,635	23.8	21.5	18.0	12.8	11.0	10.0	2.6	2.5	2.3	
Howmet Aerospace Inc.	\$68	\$27,794	\$23,375	38.1	32.3	27.1	16.0	14.7	13.3	3.6	3.3	3.1	0.3
Huntington Ingalls Ind.	\$293	\$11,613	\$13,907	17.2	18.2	16.1	13.9	14.3	12.9	1.2	1.2	1.1	1.9
Bombardier	CAD52	CAD3,876	CAD8,586	12.2	17.2	6.3	7.6	6.7	5.3	1.1	1.0	0.9	
RBC Bearings Inc	\$268	\$7,822	\$9,058	32.7	29.4	27.9	20.4	18.9	17.8	5.9	5.5	5.2	
Crane	\$129	\$7,331	\$7,319	25.5	26.2	22.6	22.6	17.3	15.4	3.5	3.2	3.0	0.6
BWX Technologies Inc	\$103	\$9,422	\$10,556	35.0	31.3	28.3	21.8	20.3	18.6	4.4	4.2	4.0	1.0
Spirit AeroSystems	\$36	\$4,152	\$7,510	NA	18.3	10.8	75.7	8.5	7.1	1.2	0.9	0.8	0.0
Hexcel	\$76	\$6,413	\$6,915	42.0	33.8	28.1	20.3	17.8	15.4	3.9	3.5	3.1	0.8
Leonardo DRS	\$23	\$6,148	#N/A N/A	32.5	27.5	23.4	NA	NA	NA	NA	NA	NA	
Albany International	\$95	\$2,979	\$3,326	27.3	23.9	21.2	13.6	12.7	11.8	3.1	2.9	2.8	1.0
Mercury Systems Inc	\$31	\$1,845	\$2,361	51.8	49.7	24.9	22.4	20.6	14.4	2.6	2.8	2.7	
Embraer	\$21	\$3,938	\$5,376	42.9	14.3	11.0	10.8	8.9	7.4	1.0	0.9	0.8	
Cadre Holdings	\$38	\$1,446	\$1,501	40.5	33.4	28.5	17.5	16.3	14.8	3.1	3.0	2.8	0.8
Average				32.2	27.2	21.8	21.0	15.1	13.3	3.3	3.0	2.8	
Median				32.5	25.2	22.5	17.5	15.7	14.4	3.1	3.0	2.8	
DEFENSE SERVICES													
Leidos Holdings	\$129	\$17,483	\$22,097	18.5	18.3	16.5	13.7	13.6	12.9	1.5	1.4	1.3	1.2
Booz Allen Hamilton	\$147	\$19,091	\$22,123	28.6	25.5	22.6	19.8	17.6	16.0	2.1	1.9	1.8	1.4
CACI International	\$374	\$8,338	\$10,308	19.1	17.5	15.8	13.8	12.8	12.0	1.5	1.4	1.3	
Parsons Corporation	\$81	\$8,617	\$9,363	33.5	30.2	27.6	22.5	19.6	18.0	1.7	1.6	1.5	
KBR Inc.	\$62	\$8,329	\$8,295	21.3	20.2	16.7	11.1	10.0	8.9	1.2	1.1	0.9	
Average				24.2	22.3	19.8	16.2	14.7	13.6	1.6	1.5	1.4	
SPACE & HIGH GROWTH				EV/SALES to Growth			EV/EBITDA to Growth			P/FCF to Growth			
Palantir Technologies	\$26	\$57,620	\$54,260	0.55	0.95	0.63	1.84	2.87	1.82	0.30	NM	1.66	
Rocket Lab	\$4	\$2,162	\$2,084	0.03	0.09	0.03	NM	NM	0.53	2.32	NM	NM	
Average				0.29	0.52	0.33	1.84	2.87	1.17	1.31	NM	1.66	
European & Asian Aerospace & Defense companies covered by BofA Securities				P/E (x)			EV/EBITDA (x)			EV/Sales (x)			
Airbus	€158	€124,940	€110,972	24.7	23.0	18.0	13.2	11.6	9.6	1.7	1.6	1.4	1.2
Safran SA	€2	€83,504	€83,460	42.6	27.8	21.6	18.5	15.3	12.6	3.6	3.0	2.6	1.4
SAAB AB	€8	€111,692	€108,593	32.7	25.7	19.7	16.6	14.3	11.9	2.1	1.8	1.6	1.2
BAE Systems	€13	€38,081	€40,666	19.9	18.4	15.9	8.5	10.6	9.6	1.6	1.4	1.3	2.6
Rolls Royce	€4	€32,522	€34,549	28.2	19.7	15.6	15.1	12.5	10.7	2.2	2.0	1.9	
Average				29.6	22.9	18.2	13.5	12.1	10.4	2.1	1.9	1.7	1.8

Source: BofA Global Research, Bloomberg

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**Exhibit 3: Aerospace & Defense estimates vs. consensus**

BofA vs. consensus

Ticker	Company	Price Objective	Price 3/8/2024	Upside %	BofA Rating	Number of Opinions	Percentage Breakdown	
							Buy	Sell
LARGE CAP								
BA	Boeing	\$225	\$198	13%	NEUTRAL	33	64%	3%
LMT	Lockheed Martin	\$465	\$433	7%	NEUTRAL	25	28%	4%
GD	General Dynamics	315	272	16%	BUY	25	68%	0%
NOC	Northrop Grumman	615	460	34%	BUY	23	30%	9%
RTX	Raytheon Technologies	100	91	10%	NEUTRAL	26	31%	8%
TDG	Transdigm	1,310	1,165	12%	BUY	24	67%	4%
LHX	L3Harris Technologies	215	215	0%	NEUTRAL	26	62%	4%
SMALL & MID CAP								
TXT	Textron	105	92	14%	BUY	18	61%	6%



**Exhibit 3: Aerospace & Defense estimates vs. consensus**

BofA vs. consensus

Ticker	Company	Price Objective	Price 3/8/2024	Upside %	BofA Rating	Number of Opinions	Percentage Breakdown	
							Buy	Sell
CR	Crane	140	129	9%	BUY	10	70%	10%
ERJ	Embraer	28	21	31%	BUY	14	79%	0%
YCAE	CAE Inc	CAD 26	CAD 27	-2%	UNDERPERFORM	13	85%	8%
SPR	Spirit Aerosystems		36	#VALUE!	NO RATING	21	52%	0%
HEI	Heico	220	186	18%	BUY	20	70%	15%
HII	Huntington Ingalls Ind	250	293	-15%	UNDERPERFORM	14	43%	14%
RBC	RBC Bearings	280	268	4%	BUY	6	67%	0%
MRCY	Mercury Systems	20	31	-36%	UNDERPERFORM	10	20%	30%
TDY	Teledyne Technologies	490	426	15%	BUY	9	89%	0%
AIN	Albany International	105	95	10%	NEUTRAL	6	50%	0%
<b>DEFENSE SERVICES</b>								
BAH	Booz Allen Hamilton	\$160	\$147	9%	BUY	13	46%	8%
CACI	CACI International	395	\$374	6%	BUY	14	79%	0%
KBR	KBR	70	\$62	14%	BUY	11	91%	0%
PSN	Parsons Corporation	83	\$81	2%	BUY	11	82%	0%
<b>SPACE &amp; HIGH GROWTH</b>								
PLTR	Palantir Technologies	28	\$26	8%	BUY	19	21%	32%
RKLB	Rocket Lab	10	\$4	126%	BUY	11	91%	0%
<b>AIRCRAFT LEASING</b>								
AL	Air Lease	60	\$44	37%	BUY	8	88%	0%

Source: BofA Global Research, Bloomberg

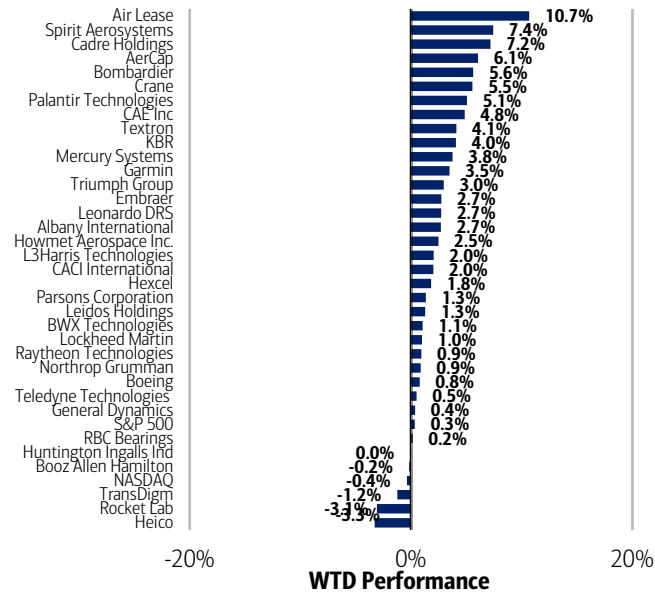
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## Performance Charts

### Exhibit 4: Week to date performance

Air Lease was up 10.17% Week to Date

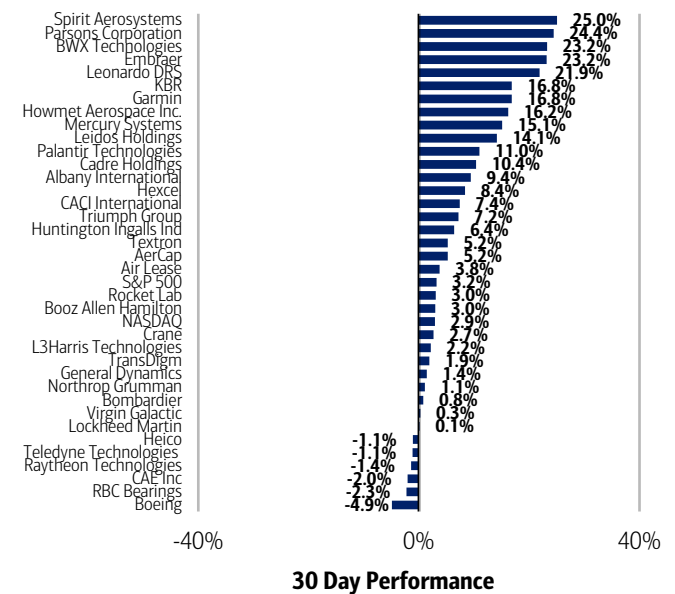


Source: BofA Global Research, Bloomberg

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### Exhibit 5: Month to date performance

Palantir is up 25.0% month to date

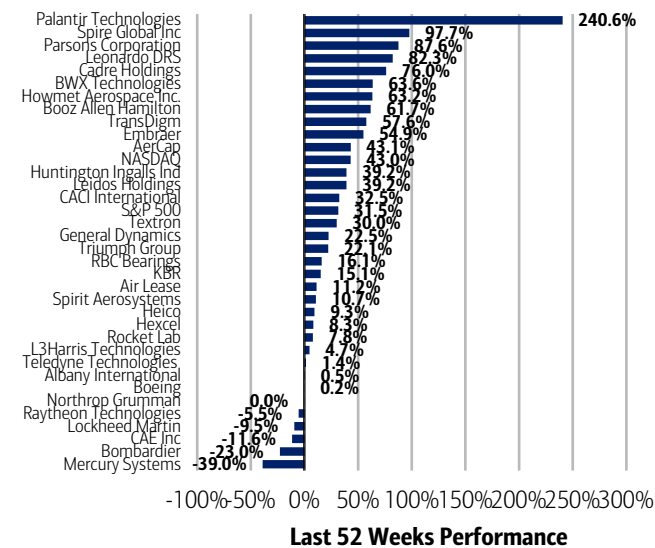


Source: BofA Global Research, Bloomberg

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### Exhibit 6: Last 52 weeks performance

Palantir was up 240.6% in the last 52 weeks

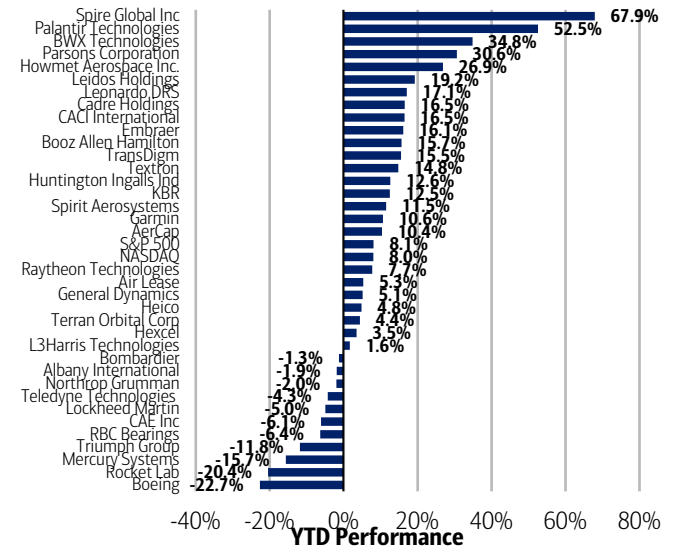


Source: BofA Global Research, Bloomberg

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### Exhibit 7: YTD Performance

Spire Global was up 67.9% YTD

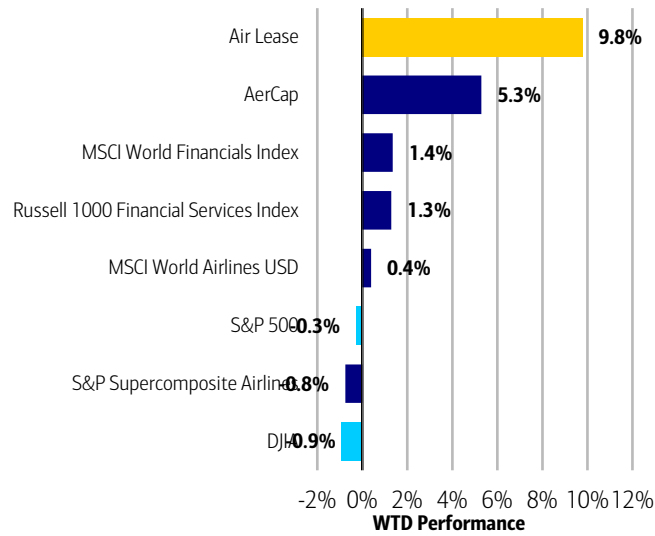


Source: BofA Global Research, Bloomberg

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**Exhibit 8: WTD Performance**

Air Lease was up 9.8% was up 8% in the last week

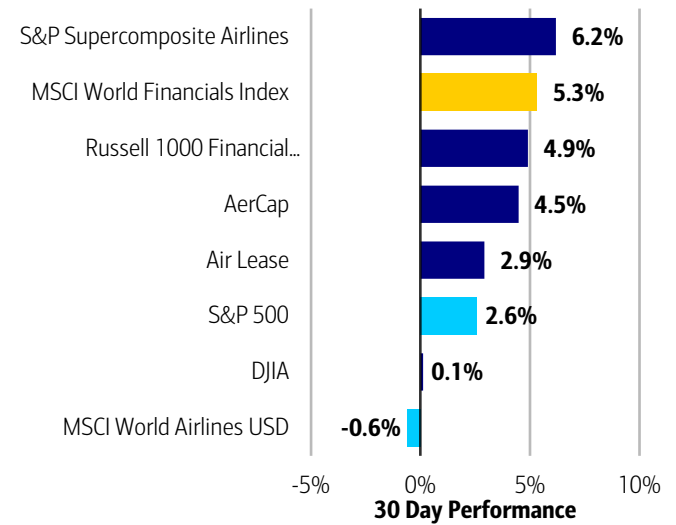


Source: BofA Global Research, Bloomberg

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**Exhibit 9: 30 Day Performance**

S&amp;P Supercomposite Airlines was up 6.2% in the last 30 days

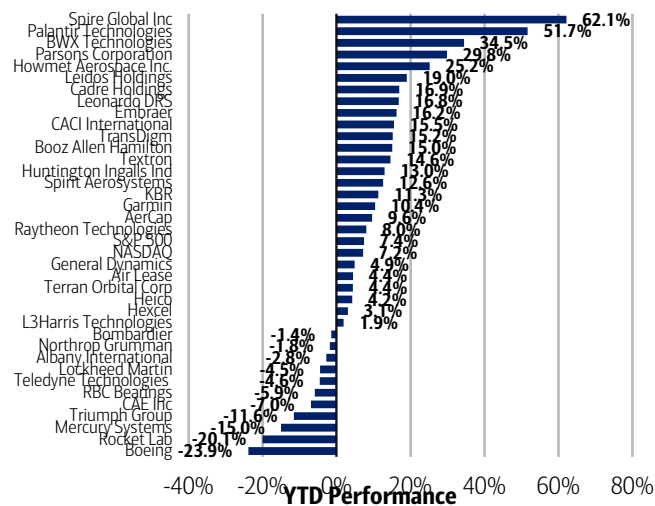


Source: BofA Global Research, Bloomberg

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**Exhibit 10: YTD Performance**

Spire Global was up 62.1% YTD

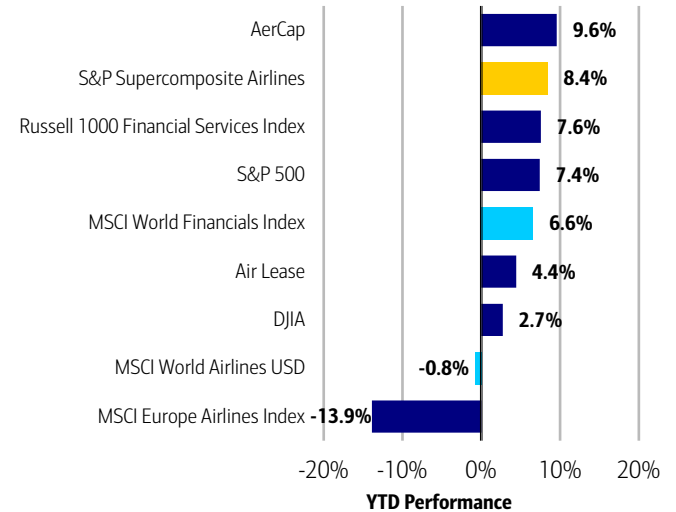


Source: BofA Global Research, Bloomberg

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**Exhibit 11: YTD Performance**

AerCap was up 9.6% YTD

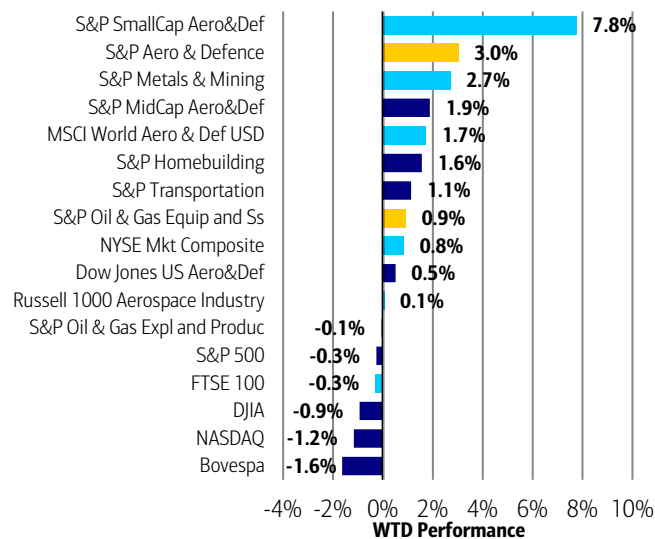


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 12: WTD Performance**

S&amp;P SmallCap Aero&amp;Def was up 7.8% in the last week

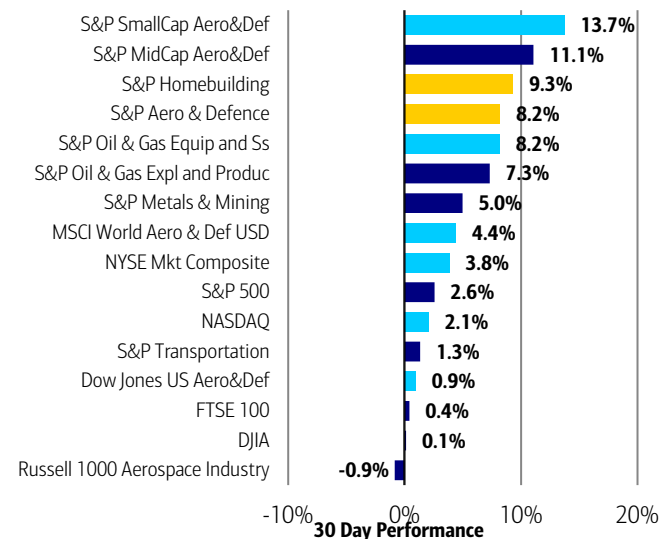


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 13: 30 Day Performance**

S&amp;P SmallCap Aero&amp;Def was up 13.7% in the last 30 days

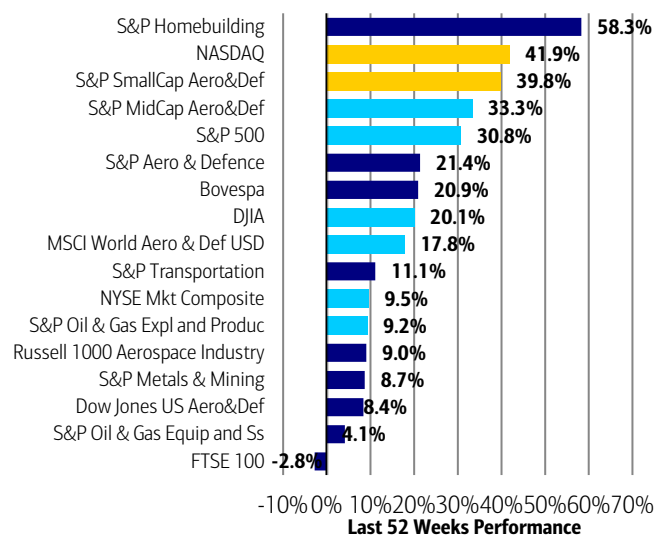


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 14: Last 52 Weeks Performance**

S&amp;P Homebuilding was up 58.3% in the last 52 weeks

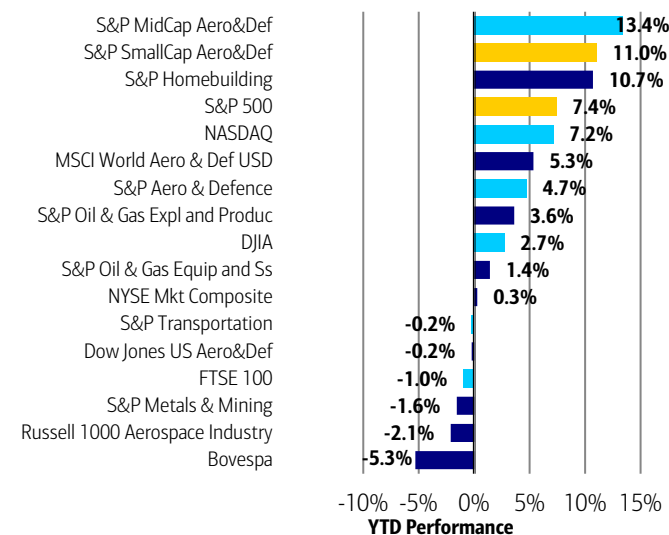


Source: BofA Global Research, Bloomberg

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**Exhibit 15: YTD Performance**

S&amp;P MidCap Aero&amp;Def was up 13.4% YTD



Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

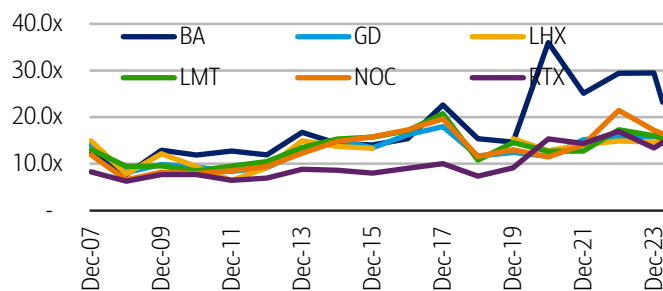
Source: BofA Global Research, Bloomberg

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## Price to earnings

### Exhibit 16: LARGE CAP STM PE

Large caps are currently trading in line with 2013-2015 levels

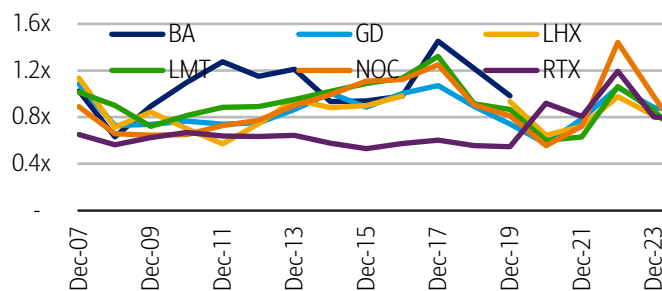


Source: BofA Global Research, Bloomberg

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### Exhibit 17: NTM PE relative to S&P 500

Valuations declined, but still in line with 2013-2015 levels

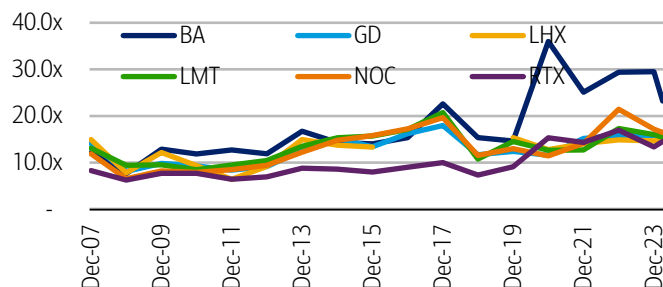


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 18: LARGE CAP STM PE

Large caps are currently trading in line with 2013-2015 levels

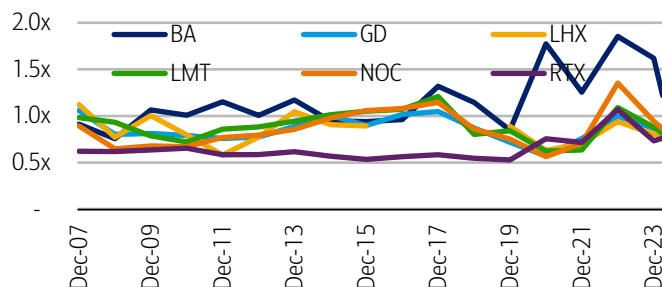


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 19: STM PE relative to S&P 500

Valuations have recovered in 2022, but declined in 2023

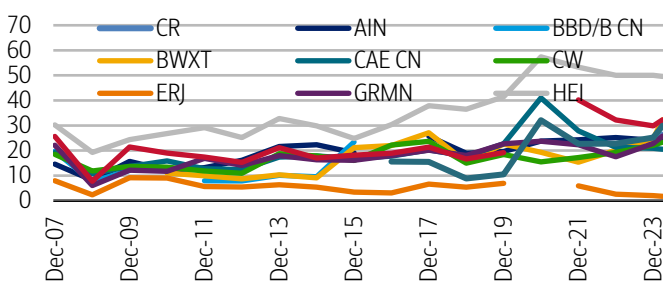


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 20: SMALL & MID CAP NTM PE

Defense names are below 2019 peak levels, commercial multiples are up factoring in recovery in air traffic

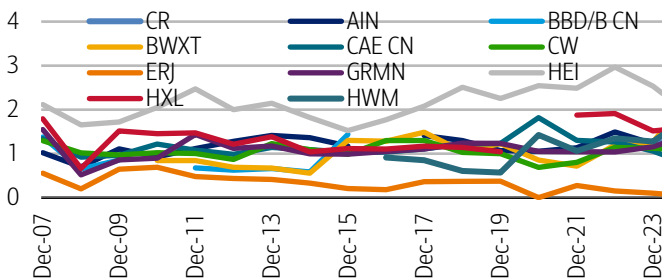


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 21: NTM PE relative to S&P 500

Relative valuation recovering since 2021, in line with previous years



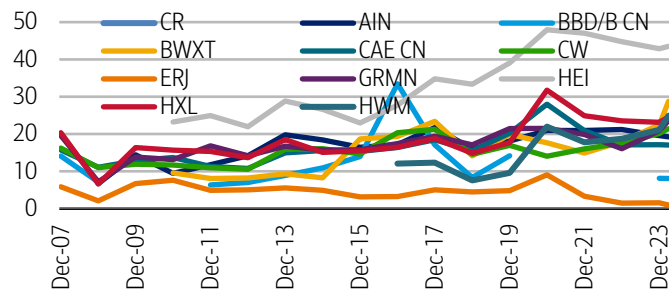
Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH



**Exhibit 22: SMALL & MID CAP STM PE**

Commercial multiples are up factoring in recovery in airtraffic

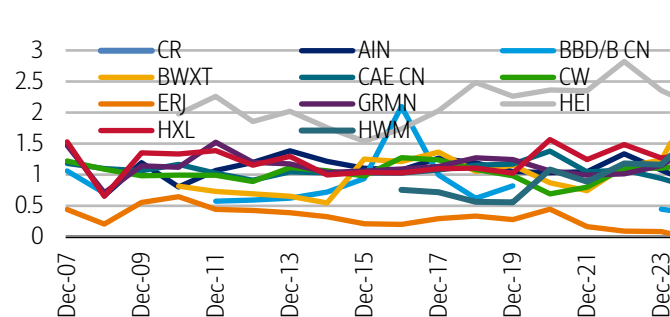


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 23: STM PE relative to S&P 500**

Relative valuation recovering since 2021

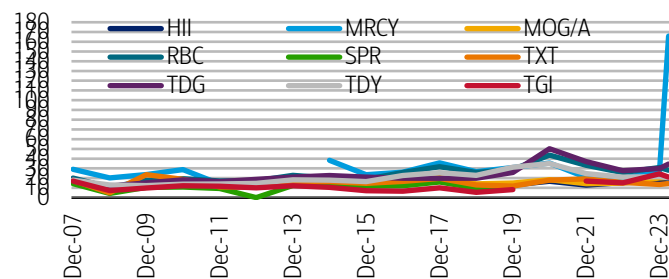


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 24: SMALL & MID CAP NTM PE**

Multiples compressing vs prior peaks

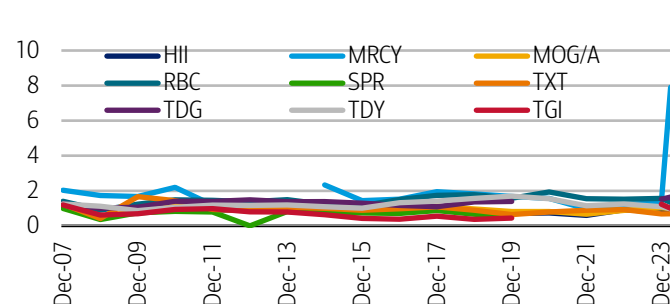


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 25: NTM PE relative to S&P 500**

Relative valuations mostly in line with previous levels

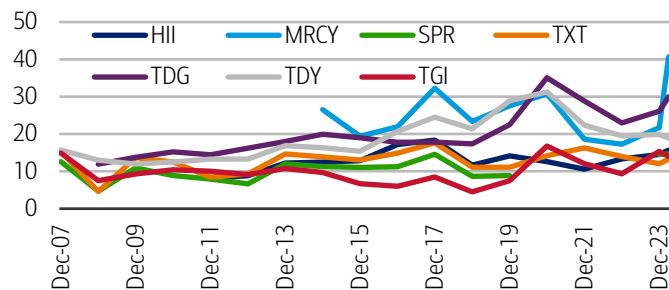


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 26: SMALL & MID CAP STM PE**

Multiples declining vs. prior peaks

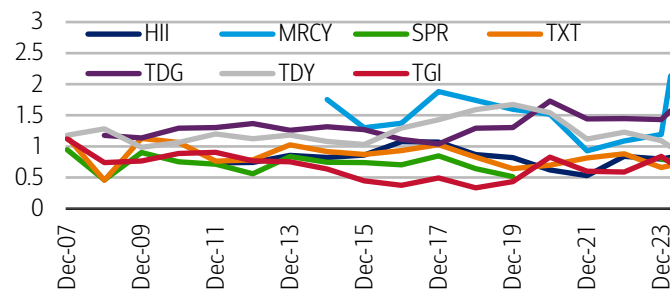


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 27: STM PE relative to S&P 500**

Relative valuations mostly in line with previous levels

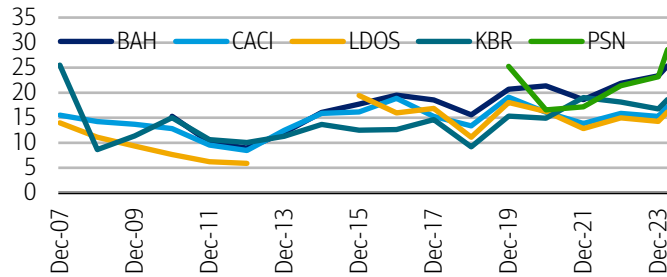


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 28: DEFENSE SERVICES CAP NTM PE**

Services recovering on IT &amp; cyber exposure

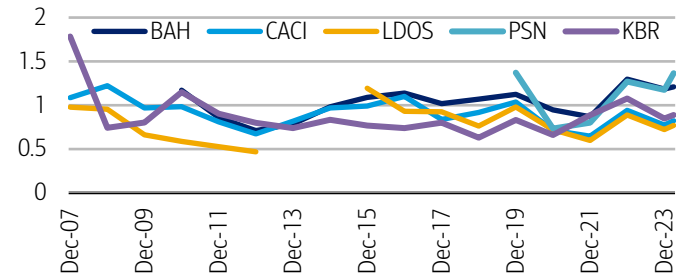


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 29: NTM PE relative to S&P 500**

Relative valuation trending upwards

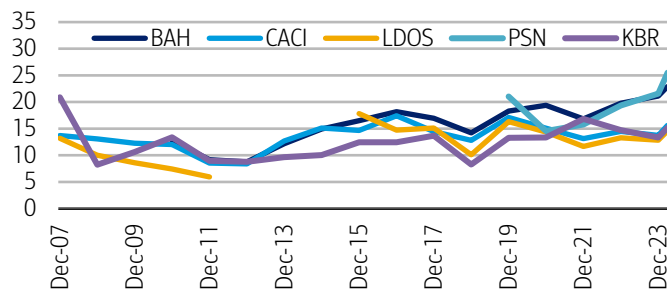


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 30: DEFENSE SERVICES CAP STM PE**

Services mostly in line with previous levels

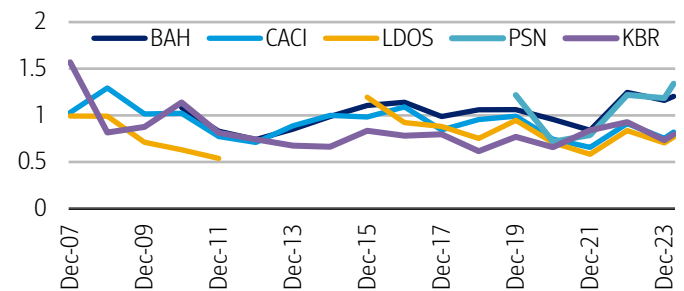


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 31: STM PE relative to S&P 500**

Relative valuation in line with previous years

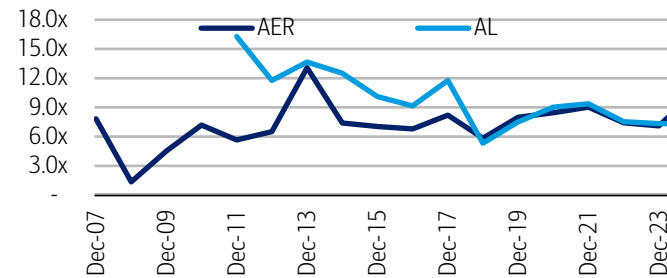


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 32: LESSORS CAP NTM PE**

Lessors' caps recovering from 2018 levels

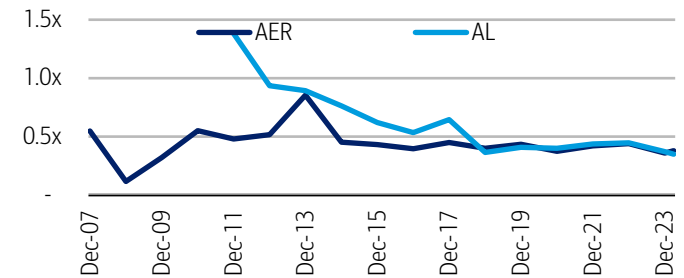


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 33: NTM PE relative to S&P 500**

Valuations were in line with previous levels

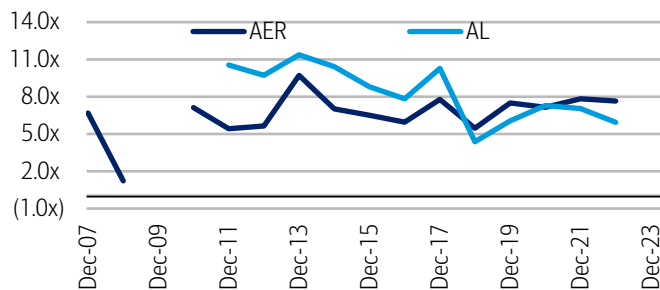


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 34: LESSORS SERVICES CAP STM PE**

Lessors caps are currently trading in line with 2018 levels

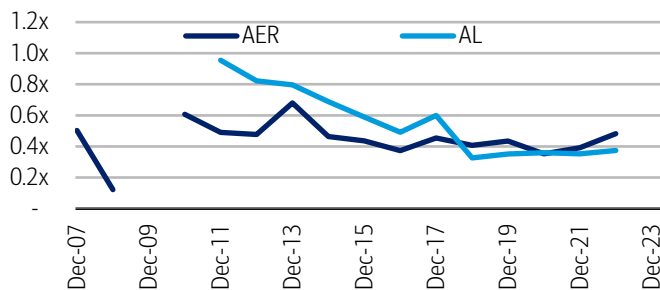


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 35: STM PE relative to S&P 500**

Lessors show a slower recovery

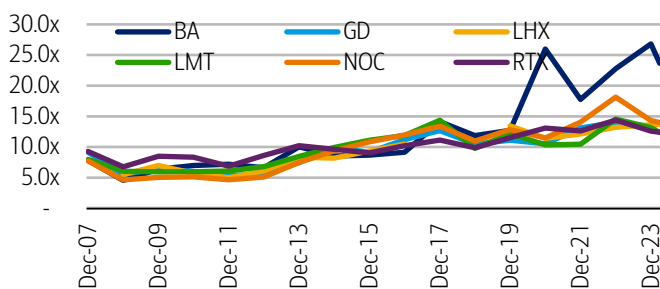


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**EV to EBITDA****Exhibit 36: LARGE CAP NTM EV/EBITDA**

Valuations are trending upwards

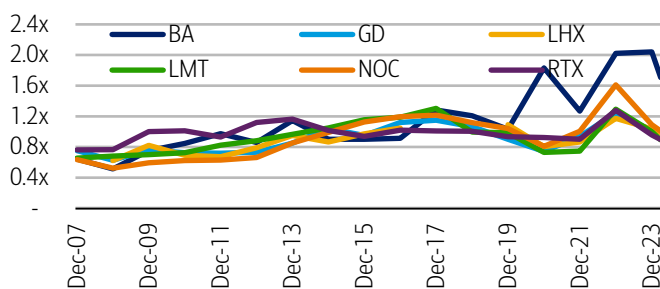


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 37: NTM EV/EBITDA relative to S&P 500**

Relative valuation declined to previous peaks in 2014-2018

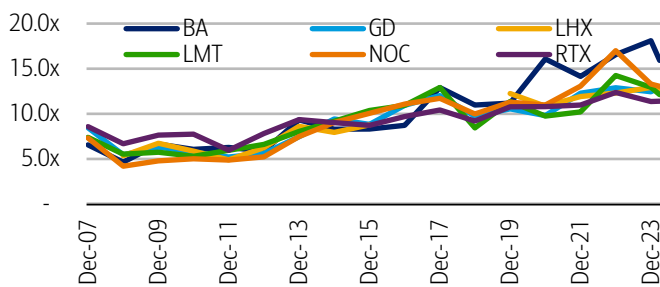


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 38: LARGE CAP STM EV/EBITDA**

Defense valuations trending upwards, but declined last year

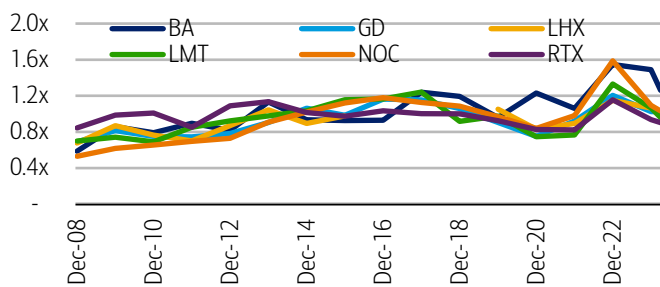


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 39: STM EV/EBITDA relative to S&P 500**

Relative valuation declined to previous years peak levels

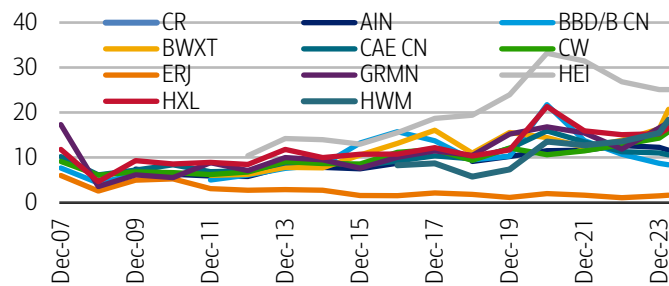


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 40: SMALL & MID CAP NTM EV/EBITDA**

Valuations expanding since 2008 lows

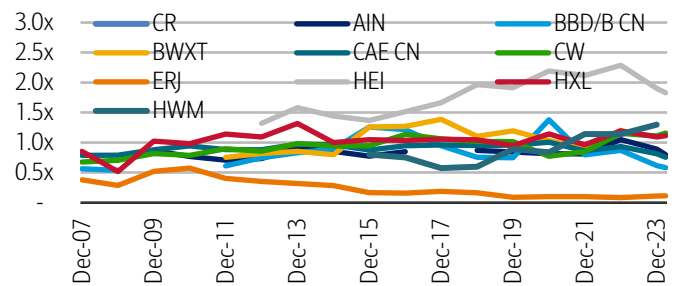


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 41: STM EV/EBITDA relative to S&P 500**

Expensive relative valuations reflect looming airtraffic recovery through 2023

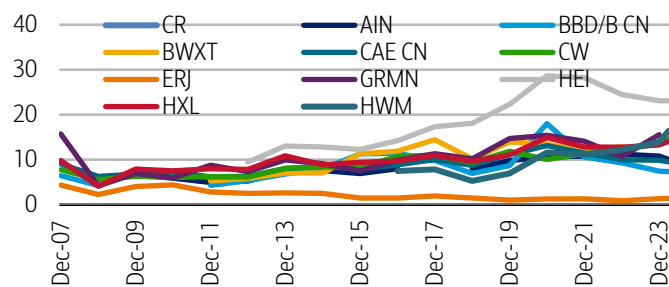


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 42: SMALL & MID CAP STM EV/EBITDA**

Valuations expanding since 2008 lows

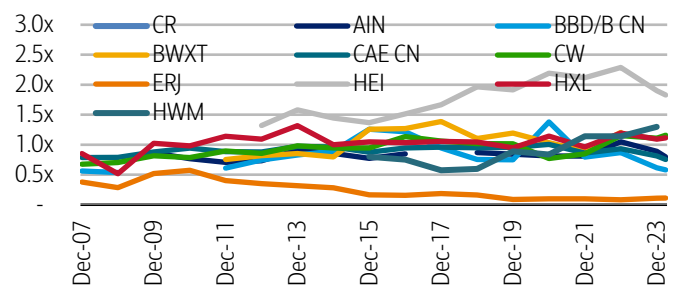


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 43: STM EV/EBITDA relative to S&P 500**

SMID Caps generally trading better

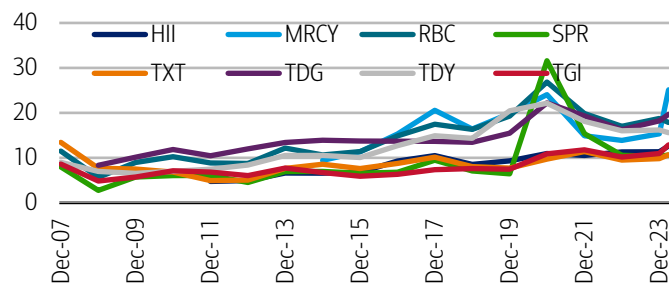


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 44: SMALL & MID CAP NTM EV/EBITDA**

Commercial aero names trading in line with pre covid levels

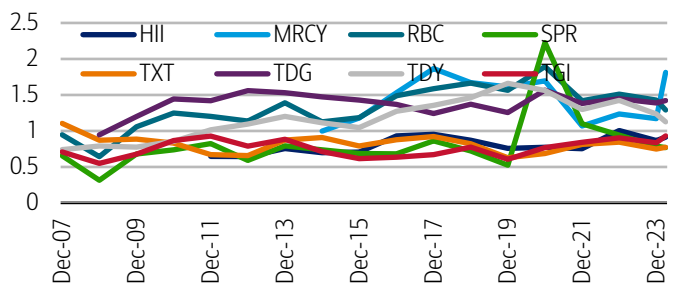


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 45: NTM EV/EBITDA relative to S&P 500**

Multiples in line with 2013-2015 levels

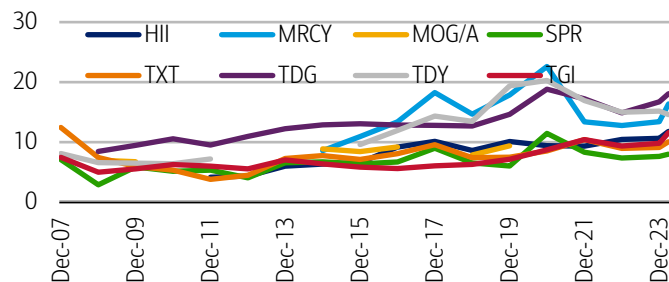


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 46: SMALL & MID CAP STM EV/EBITDA**

Commercial aero names trading in line with pre covid levels

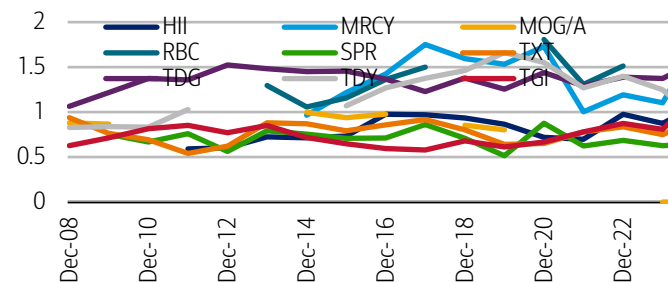


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 47: STM EV/EBITDA relative to S&P 500**

Multiples at 10-year highs

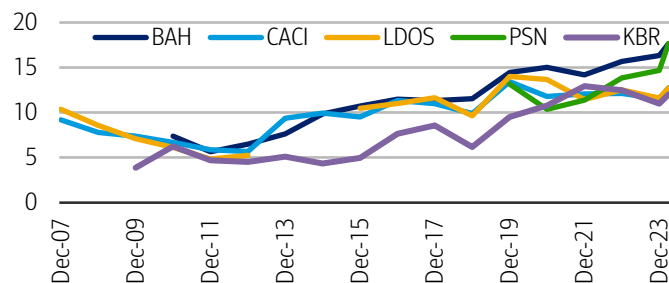


Source: BofA Global Research, Bloomberg

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**Exhibit 48: DEFENSE SERVICES CAP NTM EV/EBITDA**

Relative valuation trending upwards

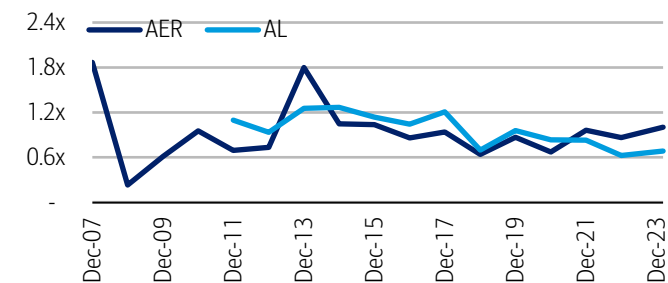


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 49: LESSORS CAP P/BV**

Relative valuation turned down recently

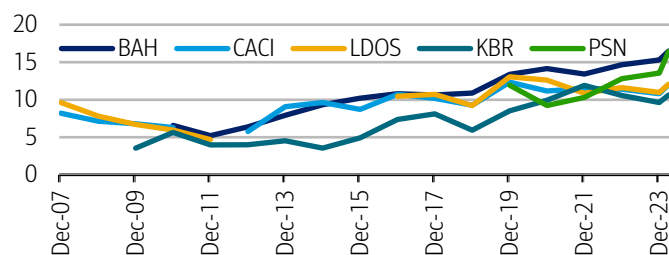


Source: BofA Global Research, Bloomberg, Factset

BofA GLOBAL RESEARCH

**Exhibit 50: DEFENSE SERVICES CAP STM EV/EBITDA**

Relative valuation generally trending upwards

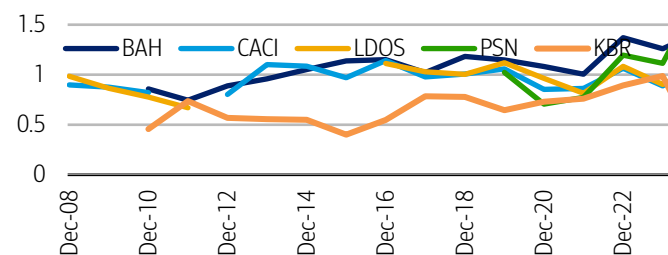


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 51: STM EV/EBITDA relative to S&P 500**

Relative valuation recovering since 2021



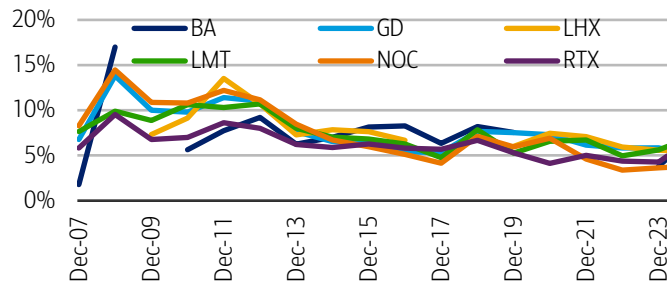
Source: BofA Global Research, Bloomberg

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## Free Cash Flow Yield

### Exhibit 52: LARGE CAP NTM FCF Yield

A&D large caps are declining

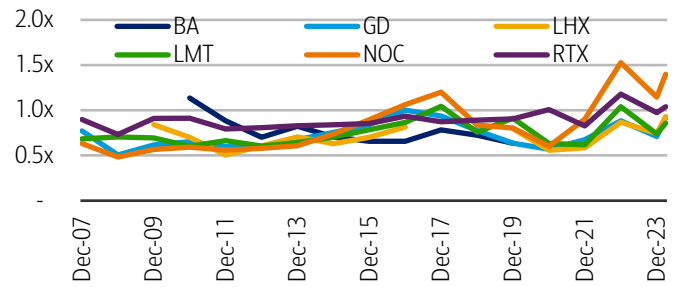


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 53: NTM FCF Yield relative to S&P 500

Trending towards market multiple or higher

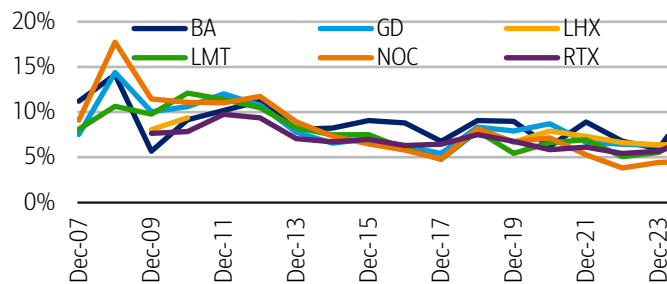


Source: BofA Global Research, Bloomberg, Factset

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### Exhibit 54: LARGE CAP STM FCF Yield

Large caps have de-rated from recent peak in 2018

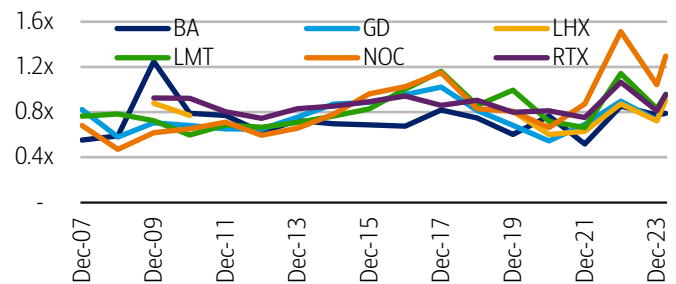


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 55: STM FCF Yield relative to S&P 500

Relative valuation recovering from recent 2020 lows

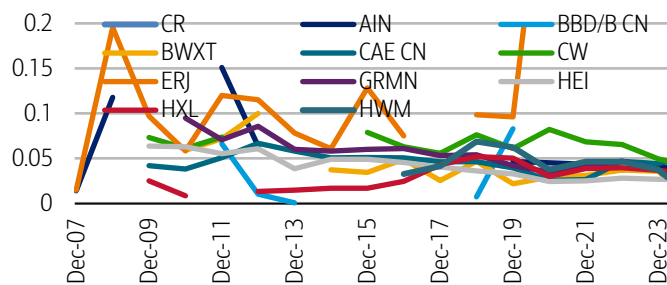


Source: BofA Global Research, Bloomberg, Factset

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### Exhibit 56: SMALL & MID CAP NTM FCF Yield

Most of these SMID players trading below 5%

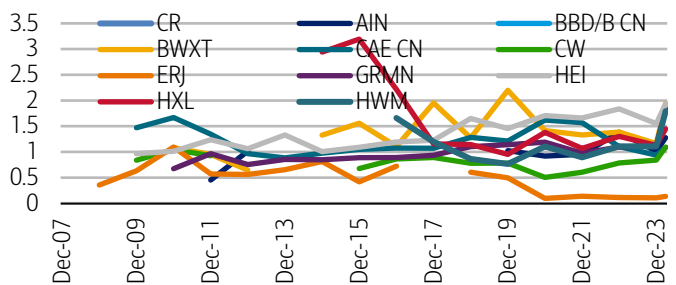


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 57: NTM FCF Yield relative to S&P 500

Most of these SMID players trading at a premium to the S&P 500

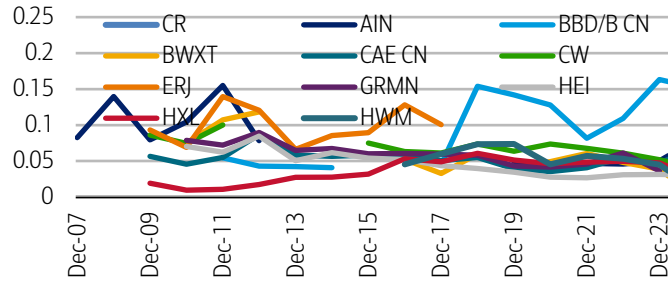


Source: BofA Global Research, Bloomberg, Factset

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**Exhibit 58: SMALL & MID CAP STM FCF Yield**

Most of these SMID players trading around 4%

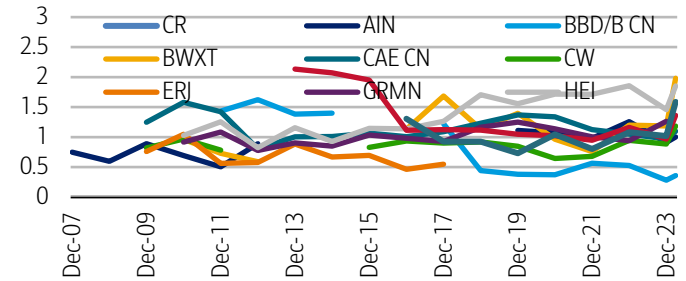


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 59: STM FCF Yield relative to S&P 500**

Most of these SMID players trading at a premium to the S&amp;P 500

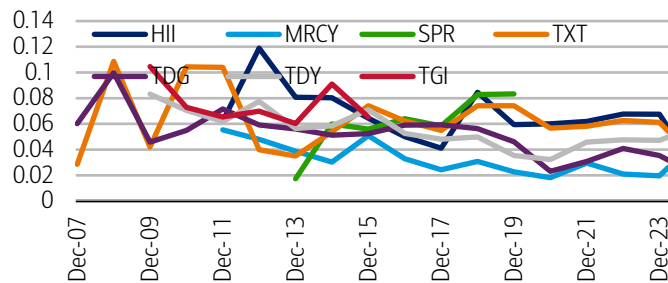


Source: BofA Global Research, Bloomberg, Factset

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**Exhibit 60: SMALL & MID CAP NTM FCF Yield**

Increased valuation divergence since 2015

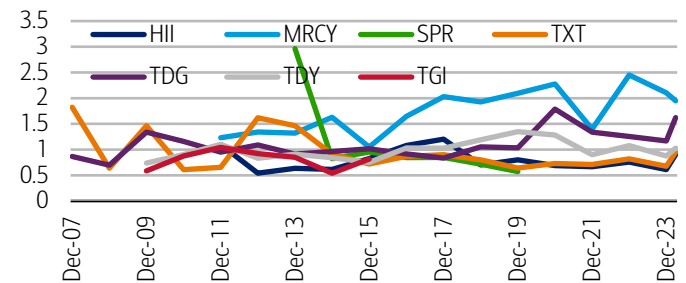


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 61: NTM FCF Yield relative to S&P 500**

MRCY and TDG trading at highest rel mult of group to S&amp;P 500

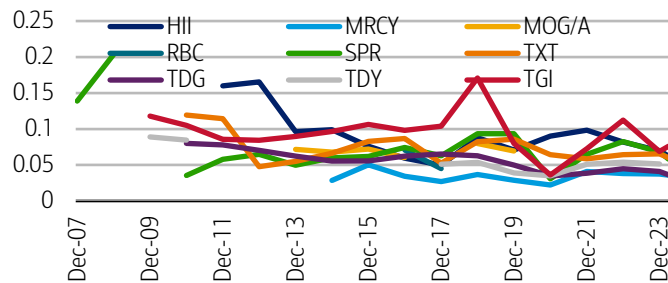


Source: BofA Global Research, Bloomberg, Factset

BofA GLOBAL RESEARCH

**Exhibit 62: SMALL & MID CAP STM FCF Yield**

Increased valuation divergence since 2015

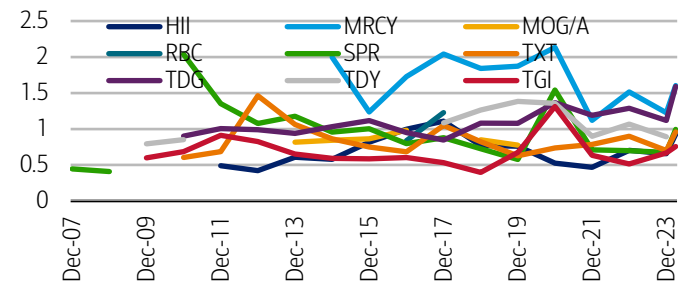


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 63: STM FCF Yield relative to S&P 500**

MRCY and TDG are trading above the group

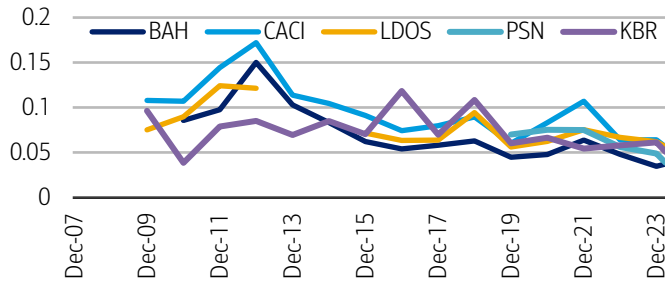


Source: BofA Global Research, Bloomberg, Factset

BofA GLOBAL RESEARCH

**Exhibit 64: DEFENSE SERVICES CAP NTM FCF Yield**

Valuation generally trending back towards lower levels

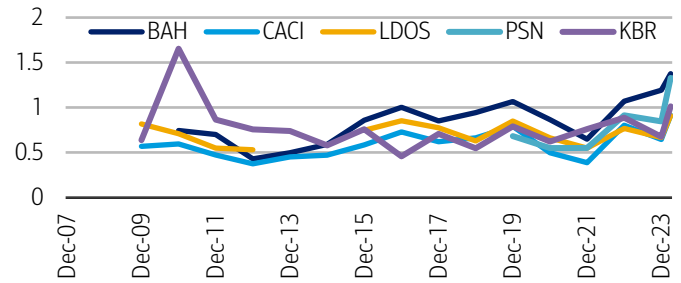


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 65: NTM FCF Yield relative to S&P 500**

Improving relative valuation from 2020 recent lows

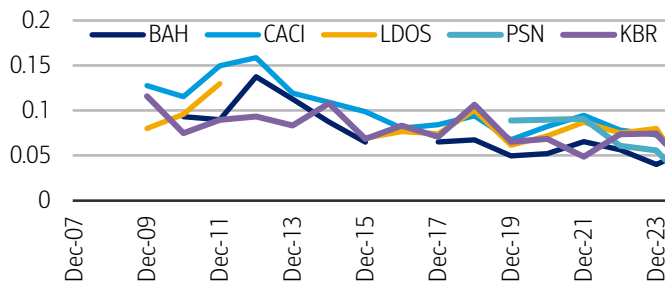


Source: BofA Global Research, Bloomberg, Factset

BofA GLOBAL RESEARCH

**Exhibit 66: DEFENSE SERVICES CAP STM FCF Yield**

Re-rating from 10-15 years ago shows the higher tech content

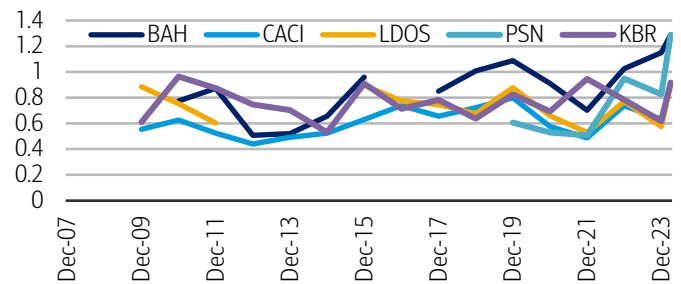


Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

**Exhibit 67: STM FCF Yield relative to S&P 500**

Relative valuation trending upwards

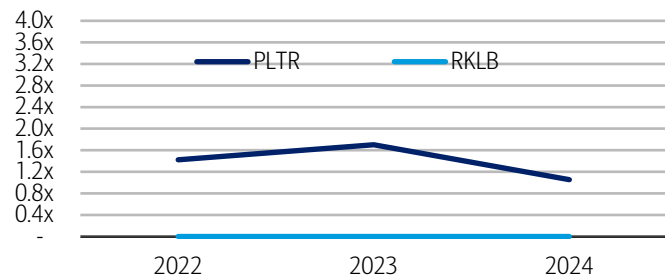


Source: BofA Global Research, Bloomberg, Factset

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**High Growth EV/EBITDA to Growth****Exhibit 68: Exhibit 69: HIGH GROWTH EV/EBITDA to Growth**

EV/EBITDA to Growth



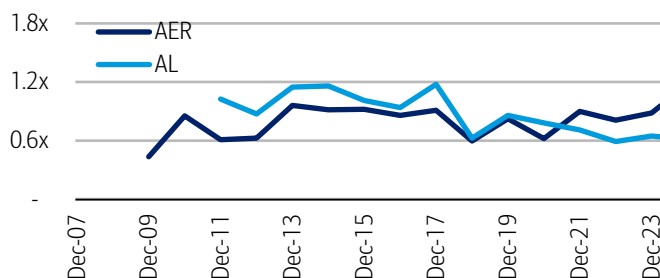
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## Lessors Price to Book Value

### Exhibit 69: LESSORS CAP NTM P/BV

COVID-19 significantly affected the implied value in lessors' book

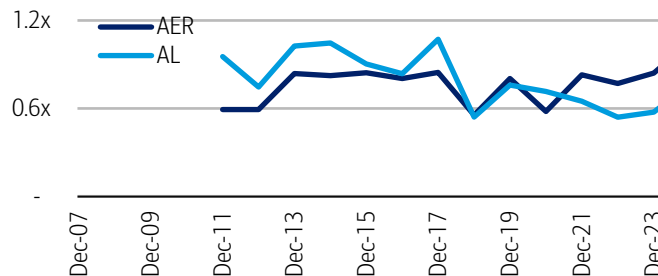


Source: BofA Global Research, Bloomberg, Factset

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### Exhibit 70: LESSORS CAP STM P/BV

COVID-19 significantly affected the implied value in lessors' book

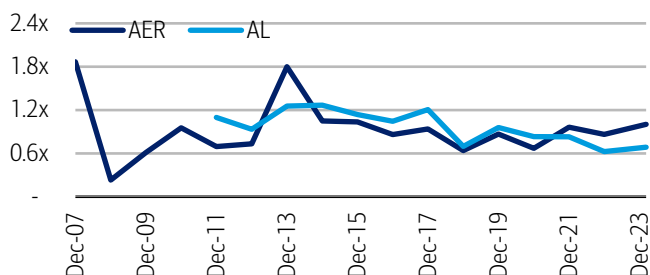


Source: BofA Global Research, Bloomberg, Factset

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### Exhibit 71: LESSORS CAP P/BV

Multiples are recovering YTD

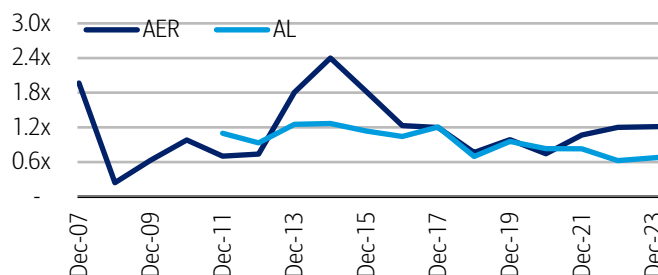


Source: BofA Global Research, Bloomberg, Factset

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### Exhibit 72: LESSORS CAP P/BV (Tangible)

Multiples diverging for AER and AL



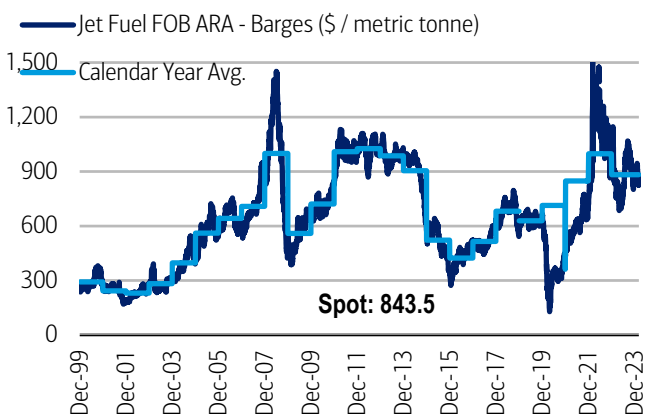
Source: BofA Global Research, Bloomberg, Factset

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## Main Aerospace Drivers

### Exhibit 73: Jet Fuel Price (as of March 07, 2024)

Jet fuel spot price is at \$843.5

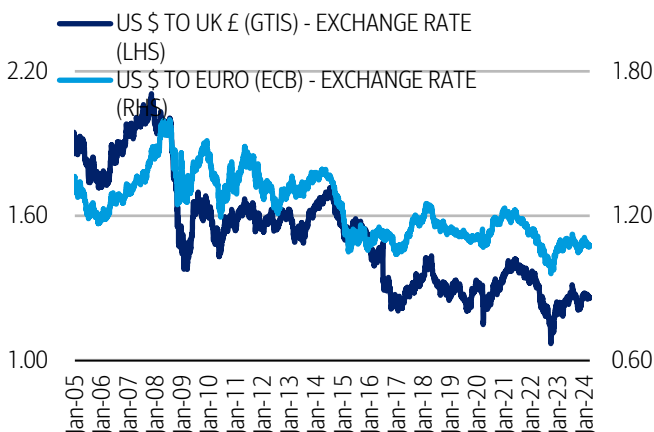


Source: BofA Global Research, Bloomberg

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### Exhibit 74: USD change to £ and Euro (as of March 08, 2024)

EUR/USD is down 2% in 2024 YTD



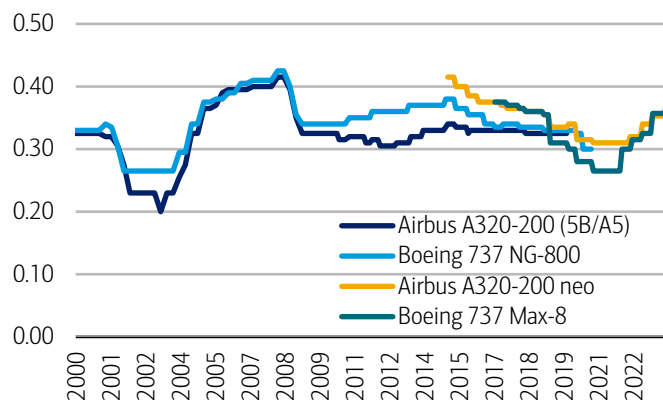
Source: BofA Global Research, Datastream, Bloomberg

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## Lease Rates

### Exhibit 75: Ascend Market Lease Rates - Narrowbodies (0 yrs age)

Lease rates for new single aisles increasing

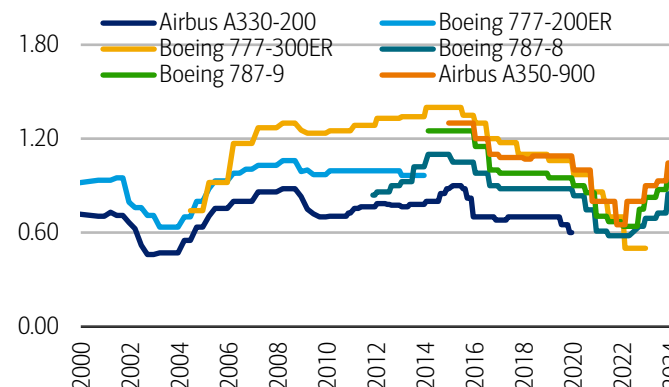


Source: Cirium

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### Exhibit 76: Ascend Market Lease Rates - Widebody Twins (0 yrs age)

Lease rates for new twin aisles recovering, but in line with pre covid

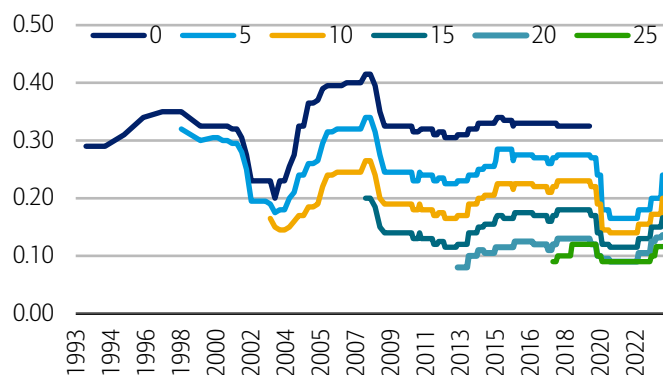


Source: Cirium

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### Exhibit 77: Ascend Constant Age Market Lease Rates - A320-200

Across age ranges A320-200 lease rates are recovering to pre-pandemic rates

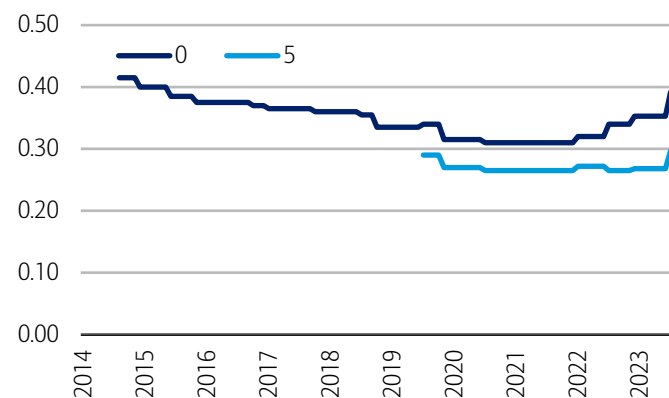


Source: Cirium

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### Exhibit 78: Ascend Constant Age Market Lease Rates - A320-neo

Lease rates are recovering for A320-neo, in line with pre covid rates

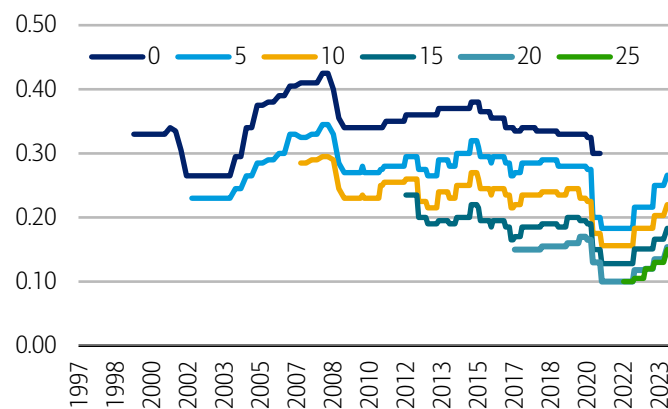


Source: Cirium

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### Exhibit 79: Ascend Constant Age Market Lease Rates - 737-800

Across age ranges 737-800 lease rates are recovering to pre-pandemic rates

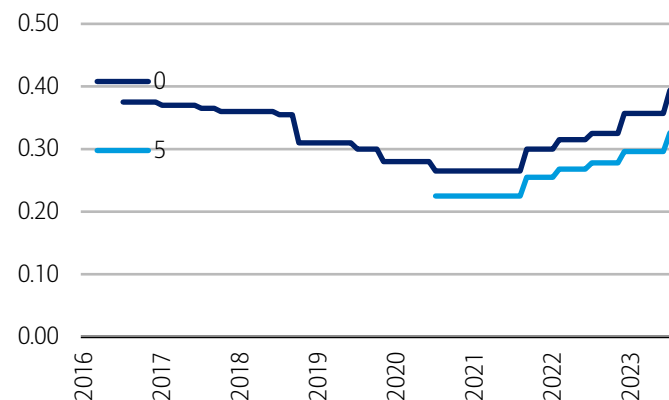


Source: Cirium

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### Exhibit 80: Ascend Constant Age Market Lease Rates - 737 Max-8

737 Max-8 rates starting to recover, in line with pre-pandemic and FAA grounding rates

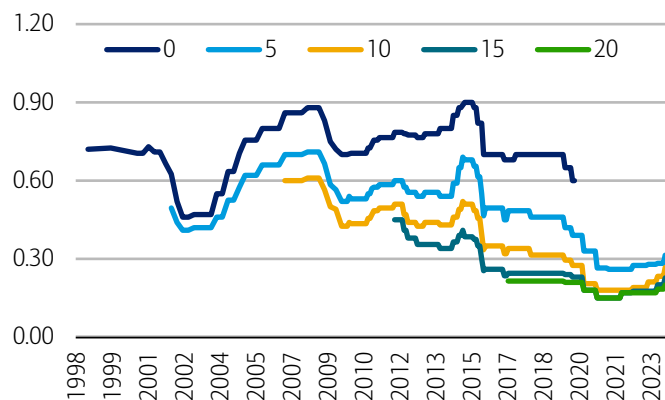


Source: Cirium

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**Exhibit 81: Ascend Constant Age Market Lease Rates - A330-200**

Constant Age Market Lease Rates, in \$mn per month

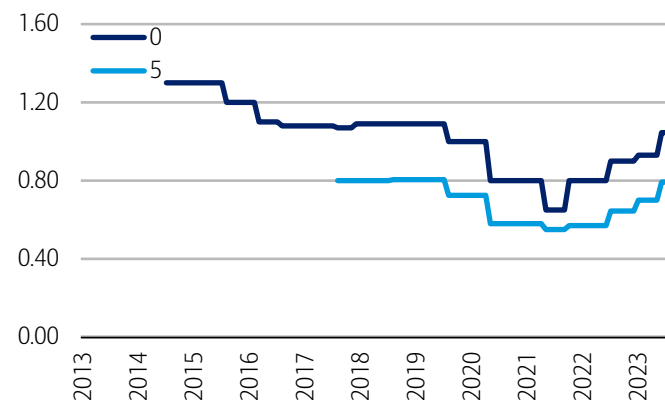


Source: Cirium

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**Exhibit 82: Ascend Constant Age Market Lease Rates - A350-900**

A350-900 lease rates are recovering to pre-pandemic rates

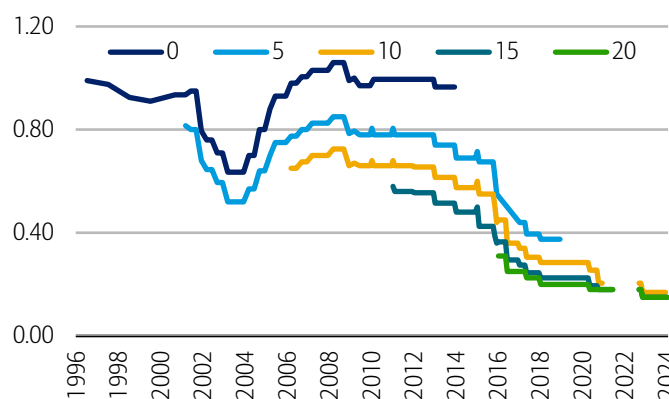


Source: Cirium

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**Exhibit 83: Ascend Constant Age Market Lease Rates - 777-200ER**

Across age ranges 777-200ER lease rates are relatively flat across the last five years

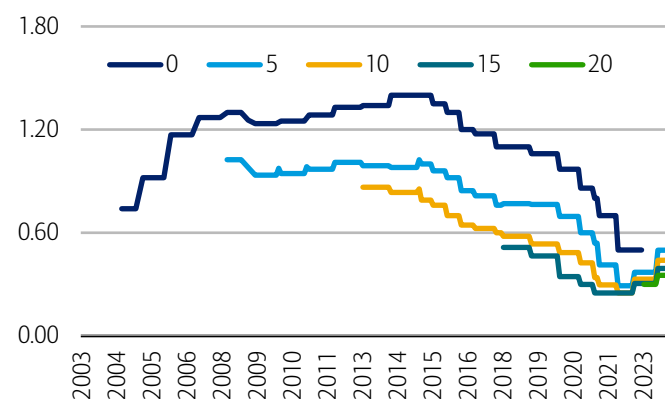


Source: Cirium

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**Exhibit 84: Ascend Constant Market Lease Rates - 777-300ER**

Across age ranges 777-300ER lease rates are recovering to pre-pandemic rates

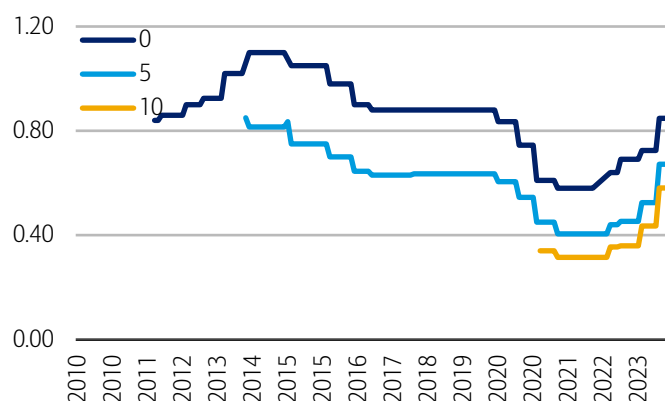


Source: Cirium

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**Exhibit 85: Ascend Constant Market Lease Rates - 787-8**

787-8 lease rates are recovering to pre-pandemic rates

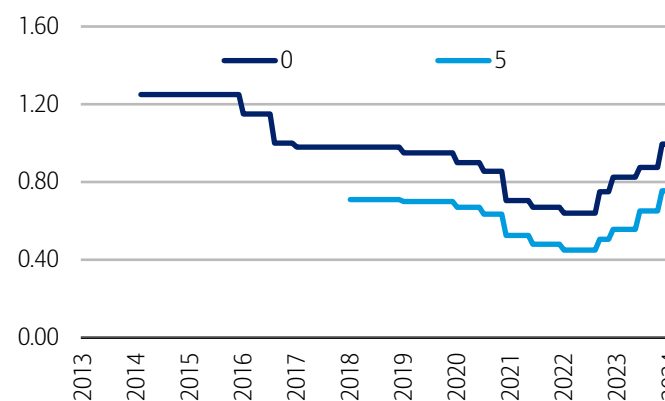


Source: Cirium

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**Exhibit 86: Ascend Constant Market Lease Rates - 787-9**

787-9 lease rates are recovering to pre-pandemic rates



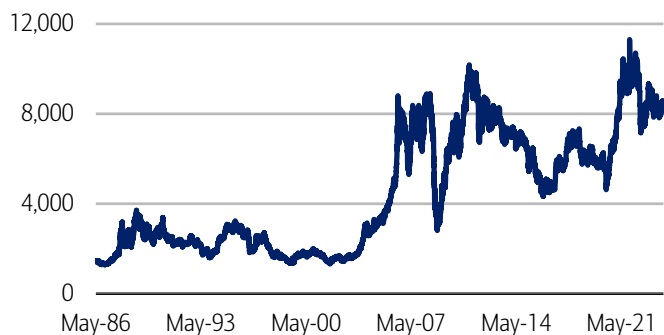
Source: Cirium

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## Raw Materials

### Exhibit 87: LME Spot Copper Prices (\$/ton)

Spot Copper price is at \$8546.49



Source: Bloomberg

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### Exhibit 88: LME Nickel Copper Prices (\$/ton)

Spot Nickel price is at \$17768

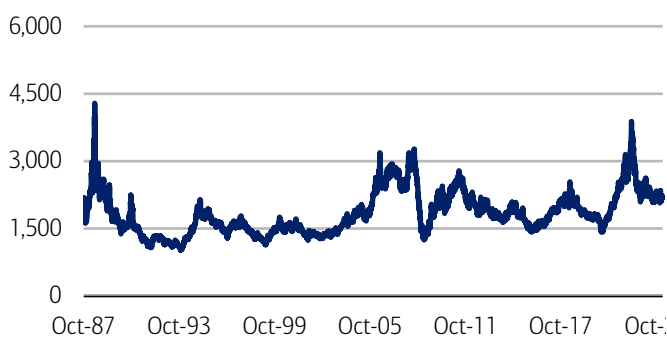


Source: Bloomberg

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### Exhibit 89: LME Spot Aluminum Prices(\$/ton)

Spot Aluminum price is at \$2208.55



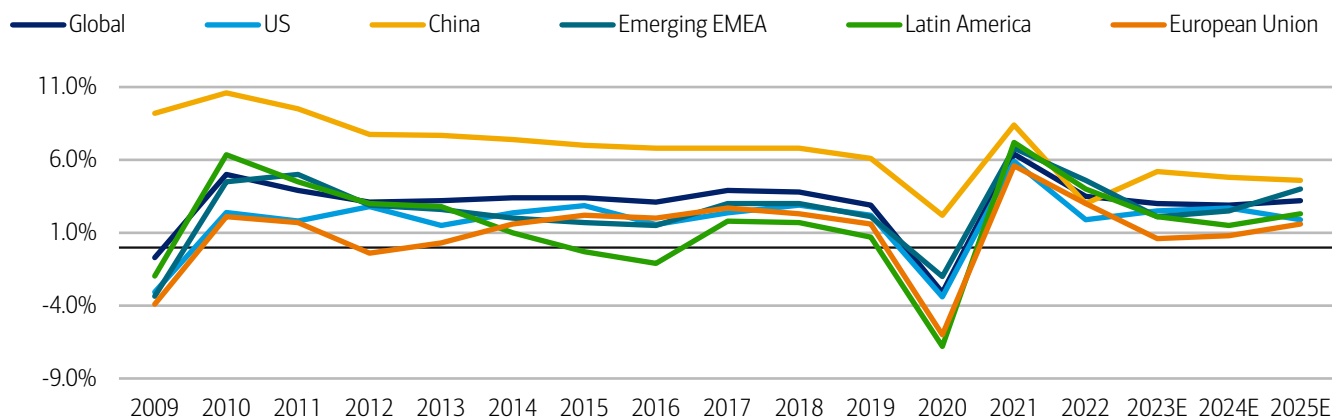
Source: Bloomberg

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## Economic Indicators

### Exhibit 90: GDP forecast

Global GDP is expected to grow 2.9% Y/Y in 2024E



Source: BofA Global Research Economists

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**Exhibit 91: CPI inflation forecast**

Global CPI inflation is expected to be 2.9% Y/Y in 2024E

	2019	2020	2021	2022	2023E	2024E	2025E
Global	3.2%	2.5%	4.0%	6.0%	4.2%	2.9%	2.7%
US	1.8%	1.2%	4.7%	8.0%	4.1%	3.2%	2.5%
China	2.9%	2.5%	0.9%	2.0%	0.4%	0.8%	1.7%
Emerging EMEA	6.4%	5.5%	9.9%	7.6%	9.3%	7.7%	6.3%
Latin America	8.8%	7.3%	10.9%	7.7%	5.0%	3.6%	3.4%
European Union	1.4%	0.7%	3.4%	9.2%	6.5%	2.6%	1.8%

Source: BofA Global Research Economists

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**Exhibit 92: Interest Rates forecast**

Global interest rate is expected at 4.66% for 2024E

	Current	2023E	2024E	2025E
Global	6.08%	5.20%	4.66%	4.02%
US	5.38%	5.38%	4.63%	3.63%
China	3.45%	3.45%	3.00%	2.90%
Emerging EMEA	18.91%	9.98%	10.71%	9.60%
Latin America	10.69%	10.88%	8.59%	7.66%
European Union	4.35%	4.39%	3.57%	2.36%

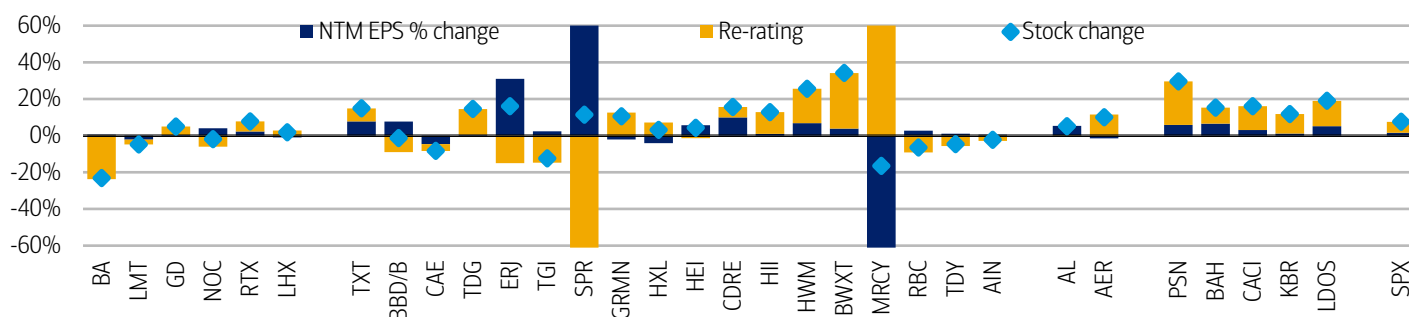
Source: BofA Global Research Economists

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## Re-rating and de-rating

**Exhibit 93: Re-rating and de-rating 2024 on a NTM PE basis**

Commercial aerospace names de-rated YTD



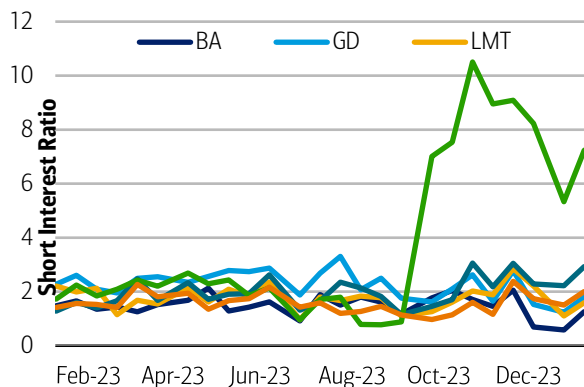
BofA Global Research, Bloomberg

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# Short Interest Ratio

## Exhibit 94: Large Caps

RTX's short interest ratio was 7.2x

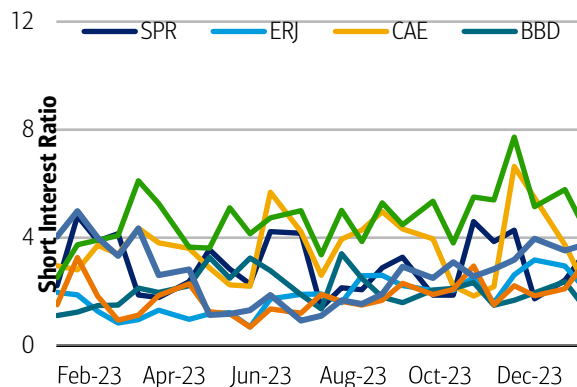


Source: BofA Global Research, Bloomberg

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## Exhibit 95: Small & Mid Caps

TDG's short interest ratio was 4.3x

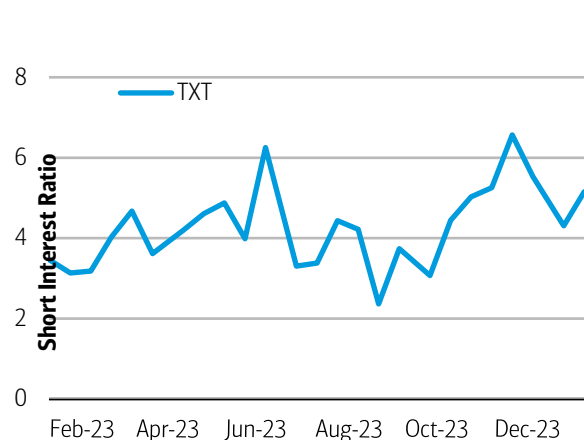


Source: BofA Global Research, Bloomberg

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## Exhibit 96: Multi-industry

TXT's short interest ratio was 5.2x

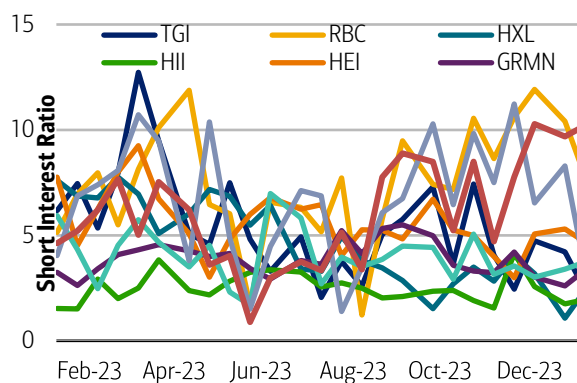


Source: BofA Global Research, Bloomberg

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## Exhibit 97: Small & Mid Caps

SPCE's short interest ratio was 10.2x

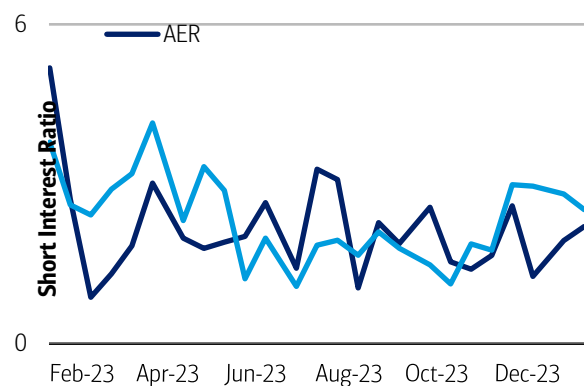


Source: BofA Global Research, Bloomberg

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## Exhibit 98: Aircraft Lessors

AL's short interest ratio was 2.5x

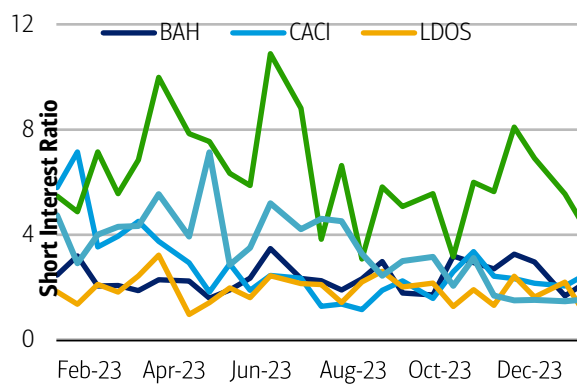


Source: BofA Global Research, Bloomberg

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## Exhibit 99: Defense Services

PSN's short interest ratio was 4.2x



Source: BofA Global Research, Bloomberg

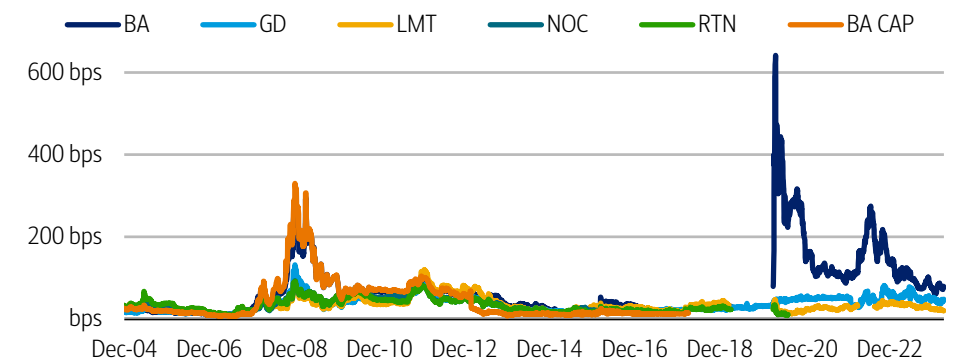
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# Credit Default Swaps

The following charts show historical Credit Default Swap Spreads for each company, expressed in basis points.

## Exhibit 100: Large Caps historical CDS

BA 5yr CDS is at 78bps after peaking in early 2020



Source: BofA Global Research, Bloomberg

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**Exhibit 101: Companies mentioned**

Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AL	AL US	Air Lease Corp	US\$ 43.8	B-1-7
AIN	AIN US	Albany Int	US\$ 95.48	B-2-8
BA	BA US	Boeing	US\$ 198.49	B-2-9
BAH	BAH US	Booz Allen Hamilton	US\$ 147.14	B-1-7
CACI	CACI US	CACI International	US\$ 374.16	B-1-9
CAE	CAE US	CAE Inc.	US\$ 19.72	B-3-9
YCAE	CAE CN	CAE Inc.	C\$ 26.61	B-3-9
CR	CR US	Crane	US\$ 128.54	C-1-7
ERJ	ERJ US	Embraer	US\$ 21.44	C-1-9
GD	GD US	General Dynamics	US\$ 272.31	B-1-7
HEI	HEI US	HEICO	US\$ 186.45	B-1-7
HII	HII US	Huntington Ing Ind	US\$ 293.32	B-3-7
KBR	KBR US	KBR	US\$ 61.66	B-1-7
LHX	LHX US	L3Harris	US\$ 214.6	B-2-7
LMT	LMT US	Lockheed Martin	US\$ 432.9	B-2-7
MRCY	MRCY US	Mercury Systems	US\$ 31.08	B-3-9
NOC	NOC US	Northrop Grumman	US\$ 459.5	B-1-7
PLTR	PLTR US	Palantir	US\$ 26.04	C-1-9
PSN	PSN US	Parsons	US\$ 81.42	B-1-9
RBC	RBC US	RBC Bearings	US\$ 268.05	B-1-9
RKLB	RKLB US	Rocket Lab	US\$ 4.42	C-1-9
RTX	RTX US	RTX	US\$ 90.88	B-2-7
SPR	SPR US	Spirit AeroSys-A	US\$ 35.78	-6-
TDY	TDY US	Teledyne Tech. Inc.	US\$ 425.98	B-1-9
TXT	TXT US	Textron	US\$ 92.13	B-1-7
TDG	TDG US	TransDigm Group	US\$ 1164.99	B-1-9
TGI	TGI US	Triumph Group	US\$ 14.66	C-1-9

Source: BofA Global Research

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**Price objective basis & risk****Air Lease Corporation (AL)**

We derive our PO of \$60 using a 0.9x price-to-book value on our 2024 estimate of AL book value. We expect the percentage of net book value at risk to disappear by the end of 2023 due to improving market conditions (with commercial traffic recovering of pre-pandemic levels by the end of 2023) and sale of riskier assets as they come off lease.

Downside risks to our price PO are global economic weakness, fuel price spikes, inability to access capital markets at attractive terms, terrorism and geopolitical events, a downturn in aircraft values resulting from rising supply, flattening yield curve, continued sharp appreciation of the U.S. dollar, changes in equity risk premiums, and overall stock market and financial company valuations.

Upside risks to our PO are stronger than expected economic growth, faster than expected recovery to air travel demand, continued weakness in fuel prices, U.S. dollar depreciation, and easier access to credit at attractive rates.

**Albany International (AIN)**

Our PO of \$105 is based on a sum-of-the-parts (SOTP) valuation reflecting a 12x EV/EBITDA multiple on Machine Clothing and a 16x multiple on AEC. In our view, a 12x multiple for MC accounts for upcoming challenges at the business while still providing a slight premium to the company's paper/packaging and machining peer group as well as future Heimbach contributions. We also see a 16x multiple for AEC as in line with similar commercial aero peers and think it fairly reflects potential upside from LEAP production ramp-up

Downside risks to our price objective are as follows: the Machine Clothing segment is



AIN's primary driver of cash. Global slowdown in paper production and/or disruption in the production of paper could hurt AIN's profits and cash profile. A disruption in cash generation in Machine Clothing could hinder management's ability to invest in aerospace and defense. A commercial aerospace downturn that affects narrowbody aircraft that have the CFM Leap engine could materially affect Albany. Unexpected cancellations to programs in both commercial and military could materially impact AIN. Uncertainty around leadership.

Upside risks to our PO are as follows: if the Airbus A320neo, Boeing 737 MAX and Comac C919 announced production rates are increased, AIN would benefit as a sole sourced supplier to the CFM LEAP engine and could provide upside to our estimates. Increased scope of work on existing programs and/or new program wins could provide upside in the medium term.

### **Boeing (BA)**

Our PO of \$225 is based on 2026e FCF of \$13/share and relative discount to the S&P500 of 0.9x (about one standard deviation above historical avg). In our view, a multiple roughly in line with the historical average fairly reflects the looming aerospace recovery, strong demand for commercial jets, defense opportunities, and the lack of dividend.

Upside risks are the possible involvement of an activist shareholder, better-than-expected cash margins at 787 and/or MAX programs, the company's ability to sustain 777 delivery rates through the bridge to 777X, lower-than-expected 777X, future single-aisle and middle-of-the-market aircraft development costs.

Downside risks: Tight competition for engineering talent in the current labor market could make new product development more challenging. Execution risk on new programs and production ramp-ups (737MAX, 777X, KC-46) could result in cost overruns and margin contractions. Changes in trade policy that end in a trade war. A sharp and prolonged surge in oil prices to above \$100/bbl would be negative to aircraft demand. A downturn in commercial aviation, due to an exogenous factor, could adversely affect financial results. As aircraft are priced in USD, an unexpected rapid revaluation in the dollar could significantly affect order activity. Also, a strong dollar could improve EU competitor's advantage. 787 fixes could take longer than expected. Reputation risk stemming from recent incidents could result in fewer incremental orders.

### **Booz Allen Hamilton (BAH)**

Our PO of \$160 is based on a 1.3x relative EV/EBITDA multiple to the BofA multiple for the defense primes on CY25 estimates. This equals a 17x EV/EBITDA multiple on CY25e. We think a relative multiple at the higher end of the historical range (0.9-1.4x) fairly represents the AI opportunity, strong organic growth opportunities, and a return to a more shareholder friendly capital deployment strategy.

Risks to the upside are a better-than-anticipated upturn in the federal budget, faster-than-expected normalization from post-COVID environment, inexpensive and well-integrated M&A activity and unexpected capital return to shareholders in the form of buybacks or special dividends.

Risks to the downside are cuts to the DoD budget vs. anticipated, which could negatively impact our estimates. Should BAH run into any problems with integrating M&A, containing its costs or a heightened competitive environment there could be downside risk to our estimates. Further disruption from COVID effects also a risk.

### **CACI International (CACI)**

Our PO of \$395 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on CY24 estimates. This equals 13x EV/EBITDA. In our view, the company's renewed capital

deployment strategy (opportunistic share repurchases) offsets the discount related to the lack of dividend (vs. peer group). The company continues to execute its tech strategy, disciplined approach to M&A, and is well positioned with respect to DoD priorities. However, the discount vs. primes reflects supply chain pressures in the near term and headline risk from political control impacting defense spending (relatively harder for short-term cycle companies).

Downside risks are cuts to the DoD budget vs. anticipated, problems finding acquisition targets, integrating M&A, hiring the right personnel, containing its costs, estimating costs and executing on fixed price contracts, sustaining reputational risk and future awards.

Upside risks are a better than anticipated federal budget allocated to innovative technologies and modernization, inexpensive and well integrated M&A activity, unexpected capital return to shareholders in the form of dividends, market share gains in the mission technology arena, better than expected margin expansion.

### **CAE Inc. (YCAE / CAE)**

Our C\$26 PO is based on a relative 1.2x P/FCF multiple on CY24E estimates. In our view, the 1.2x relative multiple, slightly below average of 1.3x, fairly factors in the scarcity premium for a pure play on aircraft simulators, new defense wins, and the concerns over defense underperforming for longer and risk of not executing on Civil. Our US\$19 PO is derived by applying an FX rate of 1.37 to our CAD PO.

Downside risks to our PO: If there is another downturn in commercial aviation and pressures seen in the economy worsen, earnings could fare worse than our projections and the stock could underperform. If margins fare worse than we are expecting, there could also be downside to our valuation. M&A risk includes additional findings from the LHX acquisition.

Upside risks to our PO: sales and margins within civil, military and new core markets could exceed our expectations (if the aviation recovery is faster than we expect), and defense multiples could exceed their previous market multiple.

### **Crane Co. (CR)**

We value CR on relative EV/EBITDA multiple on 2025 estimates. We assume a 1.3x relative multiple to the S&P500 on 2025. We believe this fairly reflects the strong performance CR has demonstrated as a stand-alone company, the value unlocked from both operational and portfolio shaping over the last seven years, and the upside of inorganic growth as the company aggressively pursues M&A. Applying this multiple we derive a \$140 PO.

Downside risks to our PO are: Another downturn in commercial aviation, due to an exogenous factor or natural business cyclicality, could adversely affect CR's financial results. CR could be materially affected by increased R&D expense if serious complications should arise from new platforms. A decline in US bill circulation could negatively affect Payment. Weakness in chemicals, oil and gas, and power, could materially affect the outlook for Process Flow Technologies. Increasing asbestos claims could result in higher settlement or defense costs and thus affect CR's financial results.

Upside risks to our PO are: a faster recovery in its end-markets than expected, particularly in commercial aerospace, acquisitions could provide upside to our estimates, better than-expected execution could increase the company's earnings power, and share buybacks could be greater than anticipated.

### **Embraer (ERJ)**

Our PO of \$28 is based on a 0.75x relative P/FCF multiple on 2024 estimates and include 90% of Eve's Enterprise Value, to reflect Embraer's ownership.

Upside risks: a stronger-than-anticipated air traffic recovery, cost reductions and execution better than forecast, sales campaigns proceed better than forecast, greater recovery in light and medium business jets, better Brazilian defense and security budget.

Downside risks: ERJ's products do not have a large enough end market, operational challenges, downturn in commercial and/or business jet markets. ERJ is exposed to currency headwinds, as some of its cost base is denominated in Brazilian reals (BRL). BRL strength relative to the USD could negatively affect its margins. Many view ERJ as a Brazilian entity, even though its cash flow suggests its exposure is global. Last, a Brazilian market selloff could impact ERJ shares.

### **General Dynamics (GD)**

We derive our PO of \$315 using a two-stage discounted cash flow (DCF) analysis, which assumes a 9.1% discount rate, 5.0% 2029-2033 growth rate, and 2.6% long-term growth rate. In our view, GD's defense program exposure to land and sea priorities, coupled with Gulfstream could provide near-term and medium-term organic growth. Additionally, the company's strong balance sheet and solid cash generation could sustain dividend growth and share repurchases.

Downside risks to our PO are 1) a downturn could occur in business jets, due to an exogenous factor, 2) given that business jets are priced in dollars, an unexpected devaluation in the dollar could significantly impact order activity, 3) poor execution on defense programs could adversely impact margins, 4) defense budget cuts could limit growth in the medium and long term.

### **HEICO Corporation (HEI)**

Our PO of \$220 is based on a 2.4x relative P/FCF multiple to the S&P 500 on CY25 estimates. Historically, HEI has traded between 0.9x and 2.6x NTM relative P/FCF multiple (excluding outlier period in 2013). In our view, a relative multiple above HEI's 5-year 1.92x average, fairly factors in HEI's unique market positioning, strong management execution and a sound balance sheet.

Downside risks are a longer-than-expected economic slowdown, which would likely lower original equipment manufacturer (OEM) production rates and demand for air travel, higher oil prices, which would likely derail air traffic growth and, therefore, aircraft demand, less acceptance of PMAs from the airline community, a change in acquisition strategy and integration.

Upside risks are increased M&A due to the company's acquisitive history, faster growth in sales, a stronger-than-expected commercial aero recovery, better-than-expected margins, a greater acceptance of parts manufacturer approval (PMA) parts by airlines and lessors.

### **Huntington Ingalls Industries (HII)**

We derive our PO of \$250 using a P/FCF multiple of 0.7x relative to the S&P 500 on 2025 estimates, resulting in a 15x multiple. This is in line with the historical average of 0.8x and factors in robust Navy exposure in a rising defense spending environment offset by persistent supply chain and labor challenges.

Upside risks to our PO are: if the US government's "pivot to the Pacific" strategy involves procuring more ships than we forecast and margins continue to expand beyond expected. Higher share repurchases could provide upside to reported EPS. Accretive acquisitions could increase future expected earnings.

Downside risks to our PO are: Cost overruns derail the company's plan to maintain operating margins above 9%. The Navy takes a budget cut and reduces current fleet procurement. Weaker than expected synergies from announced acquisitions.

#### **KBR (KBR)**

Our PO of \$70 is based on a 0.9x relative EV/EBITDA multiple to the defense primes on 2024 estimates. This equals a 13x EV/EBITDA multiple. We think KBR should trade slightly below the primes as strong US and int'l security demand for innovative tech and solutions, exposure to sustainable tech and funds, and solid FCF are offset by a continued lumpy award environment, labor and supply chain pressures, headline risk from political control impacting short cycle defense spending, and macroeconomic pressure on timing of sustainable technology projects.

Downside risks: cuts to the US Government budget vs. anticipated, increased competition from non-traditional players, problems integrating M&A, hiring the right personnel, containing costs, executing on fixed price contracts, sustaining reputational risk and earning future awards. On Sustainable Technologies, risks include slower than expected adoption of sustainable technologies, or higher than expected competition, and thus, lower than expected profitability.

Upside risks: better than anticipated budget allocated to innovative technologies and modernization, inexpensive and well-integrated M&A activity, unexpected capital return to shareholders in the form of dividends or share buybacks, market share gains, and better than expected margin expansion. On Sustainable Technologies, upside risks include faster than expected adoption of sustainable technologies, market share gains, and higher than expected profitability.

#### **L3Harris (LHX)**

Our PO of \$215 is based on an 15.8x 2024E P/FCF multiple. The P/FCF multiple reflects a 0.8x relative multiple to the S&P 500 on 2025 estimates. Improved sentiment on defense spending offset by operational hurdles is reflected through a relative valuation in line with the LHX and defense historical average, in our view.

Upside risk to our PO could result from LHX winning more content on new and existing programs vs. our expectations. Downside risk to our PO could result from continued supply chain challenges and LHX not integrating LLL and HRS as we expect. Integration challenges could put a strain on cash and impact our FCF estimates.

#### **Lockheed Martin (LMT)**

We derive our PO of \$465 using a discounted cash flow (DCF) analysis that factors in a discount rate of 8.8%, an implied long-term growth rate of 2.3%, and an FCF growth rate of 5% for years 2027-2032e.

Downside risks: as LMT derives nearly 30% of revenue from the Aeronautics division, should the company run into any execution issues on the F-35 program, we believe this could materially affect the company's financials in addition to posing headline risks. Execution risk on defense programs could result in cost overruns and margin contractions. Unexpected cancellations to programs in both commercial and military could materially impact Lockheed Martin as a result. Orders from international programs are difficult to time due to the complexity of the process. Thus, we could see some lumpiness with regard to international orders.

Upside risks: F-35 program performs better than anticipated, defense spending is higher than expected, and LMT continues to buy back more shares than we forecast, driving higher EPS growth.

#### **Mercury Systems (MRCY)**

Our \$20 PO is based on a 1.1x relative EV/EBITDA multiple on CY24/CH25 blended estimates, below the historical average of 1.4x. We believe this fairly accounts for the operational challenges across a higher mix of development programs and long semiconductor lead times.

Risks to the upside: Faster than expected improvement to the high-end processing supply chain could positively impact our estimates. Accretive acquisitions could provide upside to our estimates.

Risks to the downside: If there were a reversal in the defense primes' secular shift towards subsystems outsourcing, Mercury Systems' revenue would be negatively affected. Despite the complex and costly defense business process and high-capital requirements, the large commercial enterprises (such as blade server providers) or Silicon Valley technology companies could enter the military secure processing and storage subsystems business. Should MRCY run into any further problems with integrating M&A, containing its costs, or transitioning development programs to production, there could be downside risk to our estimates.

### **Northrop Grumman (NOC)**

We derive our PO of \$615 based on a DCF analysis that reflects a 3.5% Y/Y growth rate for 2025-2030e, a 2.7% long term growth rate and a 7.8% discount rate. The US Defense Budget Authorization has grown at a 1.8% CAGR in constant dollars since post World War II. Considering the most profitable production phase of the B-21 Raider program starts in about ten years and the GBSD will enter production at the end of this decade, we expect NOC's next terminal growth rate could exceed the historical growth rate of US defense spending.

Downside risks to our PO are that execution risk on defense programs could result in cost overruns and margin contractions, and unexpected cancellations to programs in both commercial and military could materially impact NOC.

### **Palantir Technologies (PLTR)**

Our PO of \$28 is based on a 0.7x EV/Sales/Growth multiple to 2025e and represents a sum of the parts of 0.7x on Government and 0.7x on Commercial (in line with GAAP profitable software infrastructure and industrial automation). We think that higher-than-peers' stock based compensation, outsized founders' voting power, and a less conventional investment and sales strategy are balanced by a beneficial position to national security and US government/allies' modernization efforts, a leading role in artificial intelligence (AI)-powered platforms, opportunistic partnerships, strong balance sheet and strengthening profitability.

Downside risks to our PO are lower-than-expected AI-platforms market growth, faster than expected commoditization, higher success from competitors to catch up with technologies, and/or stronger than expected resistance from government customers to use commercial off the shelf solutions.

Upside risks to our PO are stronger-than-expected growth of the AI-platforms market, higher-than-expected PLTR penetration, better-than-expected profitability, and/or successful agreements and investments.

### **Parsons Corporation (PSN)**

Our PO of \$83 is based on a SOTP valuation that factors in a 15x EV/EBITDA multiple on Federal Solutions (to account for the company's strategic portfolio and high-growth profile) and 19x EV/EBITDA on Critical Infrastructure (as the company focuses continues to benefit from higher margin, lower-risk, high-tech M&A).

### **RBC Bearings Inc (RBC)**



We derive our PO of \$280 using 1.5x relative EV/EBITDA multiple on CY25 estimates. Over the last five years, RBC has traded on average 1.5x the one-year-forward EV/EBITDA multiple. We believe that this multiple fairly reflects the current industrial cycle and recovering aerospace cycle.

Downside risks to our price objective are as follows: 1) Acquisitions are a core part of the company's growth strategy. This is an inherently risky strategy that relies on the availability of attractive acquisition candidates and successful integration. 2) RBC operates in a highly competitive global bearing industry. Some of the company's key competitors are significantly larger or divisions of larger companies. 3) Lower-than-expected build rates at its key aerospace and defense customer Boeing could provide downside to our estimates. 4) US government uncertainty could defer military maintenance and procurement programs.

Upside risks to our price objective are: 1) growth from acquisitions, 2) better-than-expected commercial aerospace growth, 3) improvement in the Industrial end markets, 4) stronger-than-expected execution that would increase gross margins.

### **Rocket Lab (RKLB)**

Our PO of \$10 is based on a long-term DCF of Base, Bull, and Bear cases for different revenue and cash generation scenarios between now and 2035. Our DCF factors in a 14.5% discount rate and assigns 33% probability to the Base case, 33% probability to the Bull case, and a 33% probability to the Bear case. We employ a lower discount rate relative to peers to account for the company's more mature launch capabilities. In our view, the equal weighting fairly reflects current investor risk appetite, momentum for new technology space stocks, and the perceived viability of Rocket Lab's business model compared to peers.

Downside risks to our PO are persistent COVID-19 restrictions in New Zealand, production delays, constellation launch market remaining captive to certain providers, setbacks to the economic recovery, inability to achieve M&A synergies, and setbacks to Neutron vehicle development.

Upside risks to our PO are better-than-expected cost cutting and margin expansion, well integrated M&A activity, market share gains in satellite components and services, higher reutilization levels, and better-than-expected commercialization of the Neutron launch vehicle.

### **RTX Corp (RTX)**

Our price objective (PO) of \$100 is based on a discounted cash flow (DCF) analysis that factors in a discount rate of 10.6%, a 5% next five-year growth rate, and a terminal growth rate of 4%.

Upside risks to our PO are if the GTF issues are fixed faster and smoother than anticipated, if the commercial aero and bizjet recoveries are better than expected, if margins fare better than we are forecasting, if the company executes on existing programs better than expected, or if gains share in the international market or makes a materially accretive acquisition.

Downside risks to our PO are a downturn in commercial aviation due to the natural business cycle or an exogenous event such as a terrorist attack or a pandemic, additional complications related to the GTF powder-metal issue present further risks, a severe global economic slowdown affecting top-line growth as 45% of sales are generated outside the US, execution risk on defense programs or unexpected cancellations to programs, and uncertain timing around orders from international programs.

### **Spirit AeroSys-A (SPR)**

We have removed the investment opinion on the company's stock. Investors should no longer rely on our previous opinion or price objective.

### **Teledyne Technologies Inc (TDY)**

We value TDY based on a relative EV/EBITDA multiple. Historically, TDY has traded on average 1.15x the market on an EV/EBITDA. We apply a slight premium at 1.2x which we think is appropriate due to best-in-class operations. Applying this to our 2025 estimates, we derive a \$490 PO.

Upside risks to our PO are higher accretion from acquisitions, a more rapid top- and bottom-line recovery in the industrials businesses and even further operating leverage.

Downside risks are poor integration of FLIR, another industrials downturn, a significant decline in the Department of Defense (DOD) budget, an exogenous event that prevents international sales.

### **Textron (TXT)**

Our \$105 PO is based on a relative P/E multiple of 0.9x the S&P 500 on 2025e. This relative multiple is slightly below where TXT has traded on average through historic cycles vs. the broader market since 1995, reflecting risks to Bell given its aging portfolio and possible budgetary cuts to FVL program. .

Upside risks to our PO are: Faster than expected recovery of business jets at Cessna. Higher than expected growth for US Defense related sales. A recovery in oil and gas end-market for helicopters. Better than expected US auto vol. at Kautex business unit. High operating leverage could unlock upside to earnings if sales recover.

Downside risks to our PO are: Bell faces declining V-22 production rates which will be a headwind to revenues and negatively impact segment margins. The recovery in the bizjet market does not last, credit availability shrinks and Cessna is hurt by potential new entrants. Serious complications could arise from the new aircraft development platforms. Bell and/or Cessna could experience supply chain constraints that could materially affect production rates. Given that business jets are priced in dollars, an unexpected rapid revaluation in the dollar could significantly affect order activity.

### **TransDigm Group Inc. (TDG)**

Our \$1310 PO is based on a 1.6x EV/EBITDA relative multiple to the S&P 500 on CY25e. The 1.6x multiple reflects a premium to average relative multiple of 1.4x. In our view, a multiple above historic average fairly reflects TDG's strong aftermarket positioning, robust margin performance and solid cash generation.

Downside risks to our PO are: Higher oil prices would likely derail air traffic growth and, therefore, aircraft demand, resulting in a downturn in commercial aviation. A downturn in commercial aviation, due to exogenous factors, such as a terrorist attack or natural business cyclicality, could adversely impact TDG's financial results. If the defense budget for RDT&E and investment accounts do not increase as we expect, this could affect TDG's defense business.

However, if the commercial aerospace and business aviation jet recoveries are better than we are forecasting, earnings could fare better than our projections and the stock could perform better. If margins fare better than we are forecasting, there could also be upside potential to our valuation.

### **Triumph Group (TGI)**

We derive our PO of \$21 using an 12.0x EV/EBITDA multiple on CY24e earnings. We think a multiple inline with other A&D peer suppliers fairly reflects the streamlined portfolio.





Better-than-expected execution could provide upside risk to our PO. TGI's ability to recover cash from customers could improve liquidity. Higher-than-expected cash generation could increase capital returned to shareholders. Acquisitions could provide upside risk.

Downside risks: Higher oil prices could derail air traffic growth and therefore aircraft demand, resulting in a downturn in commercial aviation. A downturn in commercial aviation, due to an exogenous factor such as a terrorist attack or natural business cyclically, could adversely affect financial results. TGI could be materially affected if serious complications should arise from new platforms. Given that aircraft are priced in dollars, an unexpected rapid devaluation in the dollar could significantly affect order activity. Revenues are heavily dependent on Boeing. Any material change in a relationship with Boeing could affect the company's financials. Balance sheet constraints could negatively impact operations.

## **Analyst Certification**

We, Ronald J. Epstein and Mariana Perez Mora, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



## US - Aerospace and Defense Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	AerCap Holdings N.V.	AER	AER US	Ronald J. Epstein
	Air Lease Corporation	AL	AL US	Ronald J. Epstein
	Booz Allen Hamilton	BAH	BAH US	Mariana Perez Mora
	BWX Technologies, Inc.	BWXT	BWXT US	Ronald J. Epstein
	CACI International	CACI	CACI US	Mariana Perez Mora
	Cadre Holdings Inc	CDRE	CDRE US	Ronald J. Epstein
	Crane Co.	CR	CR US	Ronald J. Epstein
	Embraer	ERJ	ERJ US	Ronald J. Epstein
	GE Aerospace	GE	GE US	Ronald J. Epstein
	General Dynamics	GD	GD US	Ronald J. Epstein
	HEICO Corporation	HEI	HEI US	Ronald J. Epstein
	Howmet Aerospace Inc.	HWM	HWM US	Ronald J. Epstein
	KBR	KBR	KBR US	Mariana Perez Mora
	Leidos Holdings	LDOS	LDOS US	Mariana Perez Mora
	Leonardo DRS, Inc.	DRS	DRS US	Ronald J. Epstein
	Northrop Grumman	NOC	NOC US	Ronald J. Epstein
	Palantir Technologies	PLTR	PLTR US	Mariana Perez Mora
	Parsons Corporation	PSN	PSN US	Mariana Perez Mora
	RBC Bearings Inc	RBC	RBC US	Ronald J. Epstein
	Rocket Lab	RKLB	RKLB US	Ronald J. Epstein
	Teledyne Technologies Inc	TDY	TDY US	Ronald J. Epstein
	Textron	TXT	TXT US	Ronald J. Epstein
	TransDigm Group Inc.	TDG	TDG US	Ronald J. Epstein
	Triumph Group	TGI	TGI US	Ronald J. Epstein
<b>NEUTRAL</b>				
	Albany International	AIN	AIN US	Ronald J. Epstein
	Boeing	BA	BA US	Ronald J. Epstein
	Garmin	GRMN	GRMN US	Ronald J. Epstein
	Hexcel Corporation	HXL	HXL US	Ronald J. Epstein
	L3Harris	LHX	LHX US	Ronald J. Epstein
	Lockheed Martin	LMT	LMT US	Ronald J. Epstein
	RTX Corp	RTX	RTX US	Ronald J. Epstein
<b>UNDERPERFORM</b>				
	Bombardier	BDRBF	BDRBF US	Ronald J. Epstein
	Bombardier Inc.	YBBD B	BBD/B CN	Ronald J. Epstein
	CAE Inc.	YCAE	CAE CN	Ronald J. Epstein
	CAE Inc.	CAE	CAE US	Ronald J. Epstein
	Huntington Ingalls Industries	HII	HII US	Ronald J. Epstein
	Mercury Systems	MRCY	MRCY US	Ronald J. Epstein

## Disclosures

## Important Disclosures

## Equity Investment Rating Distribution: Aerospace/Defense Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

## Equity Investment Rating Distribution: Engineering &amp; Construction Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	9	42.86%	Buy	5	55.56%
Hold	7	33.33%	Hold	3	42.86%
Sell	5	23.81%	Sell	3	60.00%



**Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

**Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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