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Aerospace & Defence

Top 5 trends driving M&A in 2017



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Private equity continues to be a key player

The year of mega-mergers in Aerospace & Defence

Industrialised Additive Manufacturing

Capability expansion driving MRO M&A activity

The rise of challengers from the East

Private equity continues to be a key player



Private Equity (PE) interest in the Aerospace Defence (A&D) sector has ticked up over the last five years and is being driven by several underlying trends: supply chain collaboration, technological innovation and continued investment in capacity and capability. With no sign of these trends abating, we have seen and continue to expect strong interest from PE for UK A&D assets. During the summer months, two key PE transactions stood out. Liberty Hall Capital's acquisition of Dunlop Aircraft Tyres, a designer and manufacturer of aircraft tyres, is their fourth in the UK. Platinum Equity's acquisition of Pattonair, a provider of supply chain management solutions, gives them exposure to the aftermarket with a range of blue-chip engine and MRO customers.

The year of mega-mergers in Aerospace & Defence



Despite a slow start for M&A in the A&D sector, activity picked up in Q3 as two mega deals were announced: United Technologies Corporation's (UTC) \$30bn acquisition of Rockwell Collins, the second largest in industry history, and Northrop Grumman's \$9bn acquisition of Orbital ATK. The smaller deal of the two still falls in the top ten largest deals in industry history. The Rockwell Collins acquisition is attributed to the commercial aerospace supply chain requiring greater scale in response to increased price pressures from OEMs. Further to these two mega-deals, in April Rockwell Collins bought B/E Aerospace, a cabin-interiors specialist, for \$8.6bn and two months later, Safran agreed to buy Zodiac, a specialist in aircraft seats, for \$7.7bn. The glut of aircraft interiors deals perhaps demonstrates the increasing importance of the cabin environment to hard -pressed airlines.

Industrialised Additive Manufacturing



Additive Manufacturing (AM), commonly known as 3D-printing, is on the verge of being widely adopted in industrial manufacturing and the A&D sector. The world's leading suppliers have taken note and are making ambitious moves to capture their share of its potentially huge value. For example, in 2016 GE acquired two leading companies that specialise in metal-based AM technology, which will help GE improve its ability to make fuel nozzles for its next generation turbofan engines. More recently, Moog Inc acquired a 70% stake in Linear Mold and Engineering, a company that specialises in metal additive manufacturing serving customers across a range of industries including Aerospace & Defence.

"2017 started on a relatively sombre note. However, September saw two industry-transforming transactions – UTC's intention to buy Rockwell Collins for £24bn and Northrop Grumman announced the acquisition of Orbital ATK for £7bn. These mega deals tilted the scales and deal activity reached a near record high of £34bn in Q3.

Looking ahead, M&A will continue to be important as companies look to diversify across markets and product lines. Commercial and defence sectors are both performing strongly at the same time, which is unusual; historically they have been countercyclical."

Jeremy Harrison
Partner
Catalyst Corporate Finance

Capability expansion driving MRO M&A activity



The favourable financial impact of airline consolidation in North America over the last five years has been well documented on balance sheets, with a series of mergers and acquisitions credited for being the catalyst for improving airline profitability. On the flipside, the effects of consolidation have not been so profound in the commercial aftermarket sector despite companies performing robustly and remaining in good health. We therefore expect to see further consolidation amongst MROs as firms look to drive inorganic growth and seek to expand by adding further strings to their bow. A number of recent significant deals underpins this notion – French engine maker Safran's \$9bn acquisition of compatriot Zodiac Aerospace, a manufacturer of seats, toilets, emergency equipment and other cabin items, and AC&A's (portfolio company of AE Industrial Partners) acquisition of Applied Composites Engineering, a provider of aviation maintenance, repair and overhaul services.

The rise of challengers from the East



China's aerospace industry has advanced at an impressive rate over the past decade and production of Comac C919, a narrow-body twinjet airliner, is causing debate among industry experts regarding potential impact on the existing Boeing/Airbus dominance. Despite the celebrations of a 'Made in China' jet, the reality is that Comac leaned on the experience of Western suppliers to achieve its maiden flight in May 2017. To avert this in the future, we are seeing Chinese companies disturb the existing supply chain. In September, Chinese Investment firm Zhejiang Science & Technology Investment Co (ZTC) acquired UK-based Acro Aircraft seating for £55m, giving ZTC access to intellectual property, industry-leading technology and access to the European supply chain. Prior to this, in April Shaanxi Ligeance Mineral Resources Co acquired Derby-based aerospace parts manufacturer Gardner Aerospace for £326m. This follows AVIC's acquisitions of AIM Aviation and Thompson Aero Seating in 2016 and allows the two companies to consolidate their supply chain services to China's burgeoning, domestic aviation industry.

Smart advice

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