

Missioncontrol

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First-quarter 2014 global aerospace and defense industry mergers and acquisitions analysis



Scott Thompson

PwC is pleased to share with you our quarterly analysis of mergers and acquisitions (M&A) activity in the aerospace and defense (A&D) sector. *Mission control* offers our insights on deals in the sector during the first quarter of 2014, as well as our expectations for M&A in the coming year.

The pace of deal announcements increased slightly in the first quarter. However, many of these deals were similar to those announced last year, as the economic and industry environment remains relatively unchanged.

Quarterly aerospace and defense deal activity												
Measured by number and value of deals worth \$50 million or more												
	2011				2012				2013			2014
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Number of deals	13	11	11	3	14	8	16	11	13	8	8	12
Total deal value (\$ bil.)	5.8	20.3	3.4	1.3	4.3	6.2	9.2	1.8	4.2	2.9	3.8	3.3
Average deal value (\$ bil.)	0.4	1.8	0.3	0.4	0.3	0.8	0.6	0.2	0.3	0.4	0.5	0.3

Source: Thomson Reuters/ PwC Analysis

The defense M&A market also remains sluggish. While the Bipartisan Budget Act of 2013 has helped to delay the impact of sequestration cuts, there is little visibility on the reductions beyond fiscal year 2015. This uncertainty continues to make it difficult for companies to determine longer-term demand for programs, as well as to value potential targets.

PwC analysts are monitoring several additional trends expected to affect the values and locations of deals in the A&D sector:

- Despite the uncertainty about spending, the valuations of publically traded defense companies have increased significantly. We believe this multiple expansion results from defense companies using their cash for stock buy-backs. However, long-term valuation creation depends on investment of capital, rather than return of capital.
- The US Department of Defense recently reaffirmed its stance against prime contractor consolidation and pointed to M&A as a viable option for smaller companies. In addition, the DoD announced that transnational deals could be approved as long as the foreign supplier is deemed reliable. This industrial policy should help define the market for defense M&A once deal activity begins increasing again.
- Aerospace-focused deals continue at a robust pace. Just one quarter into 2014, aerospace deals year-to-date easily exceed aerospace deal volume in all recent years. While the sample of available deal valuation data for the first quarter announcements is not large, aerospace valuations remain high. This trend should



continue, given the relatively high growth rates characteristic of this segment of the sector.

- As previously noted, private equity exits contributed substantially to deal flow during 2013. This factor also figured into transactions during the first quarter, with approximately one-third of announcements resulting from the sale of PE portfolio companies. This matches the proportion in 2013, and represents an increase of approximately 10 percent from 2012. While PE firms were active in divesting A&D companies, strategic investors still dominate the buy-side. We attribute this to their having the advantage, in most cases, of being able to use stock to fund new transactions.

Looking ahead, we expect continued enthusiasm for commercial aerospace deals at lofty valuations and headwinds for defense deals. Longer-term defense priorities are expected to become clearer throughout 2014, but we also recognize that without improved clarity around long-term defense priorities, it is unlikely that we will see a sustained increase in the overall pace of aerospace and defense M&A.

We're pleased to present our first-quarter 2014 analysis as part of our ongoing commitment to providing you with a deeper understanding of M&A trends and prospects in the industry.

Launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/mission-control.jhtml> for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



Scott Thompson
US Aerospace & Defense Leader