

# Missioncontrol

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## Second-quarter 2014 global aerospace and defense industry mergers and acquisitions analysis



Scott Thompson

To help provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our quarterly analysis of M&A activity in the global aerospace & defense industry.

Deal activity continued to rebound from 2013, particularly when measured by deal value. Why? Acquirers are engaging in larger transactions, including four mega-deal announcements so far this year.

### Quarterly A&D Deal Activity

Measured by number and value of deals worth \$50 million or more

	2011		2012				2013				2014	
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q
Number of deals	11	11	3	14	8	16	13	12	7	8	13	14
Total deal value (\$ bil.)	20.3	3.4	1.3	4.3	6.2	9.2	2.1	4.1	2.9	3.8	3.5	10.7
Average deal value (\$ bil.)	1.8	0.3	0.4	0.3	0.8	0.6	0.2	0.3	0.4	0.5	0.3	0.8

These mega-deals already exceed the total for all of 2013, and include a merger between ATK and Orbital Sciences and acquisitions between Cobham-Aeroflex, Alcoa-Firth Rixson, and Sinchuan Chengfei Integration Technology-Shenyang Aircraft Industrial. The merger of Orbital Sciences and ATK is the first defense-oriented mega-deal since the Budget Control of Act of 2011, nearly three years ago.

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

- Aerospace M&A, with disclosed values of at least \$50 million, remains robust, with volume expected to match the record high set last year. And while deal making on the defense side of the sector has not been quite as strong, defense M&A shows signs of normalizing.
- The majority of deals so far in 2014 have been acquisitions of subsidiaries of strategics, or portfolio companies of financials, rather than standalone strategics. This trend owes to two factors. First, some strategic acquirers prefer to pursue divestitures of non-core businesses from companies in the A&D and broader industrial sectors, such as units of SPX, ThyssenKrupp, and GE. Second, private equity firms continue to exit from A&D portfolio investments made prior to the financial crisis. This strategy led to the largest announcement of the year, the \$3 billion sale of Firth Rixson by Oak Hill Capital Partners LP to Alcoa.
- Deal valuations increased with an expansion in both aerospace and defense multiples. Ordinarily, this could encourage acquirers to use their own stock, which may also have benefitted from generally higher valuations, to engage in new deals. But while equity and debt are still popular funding sources for M&A, the percentage of announcements that are being financed, at least in part, with internal funds has reached a record high. This is an encouraging sign and suggests that more sector constituents are deciding



that M&A offers a better return to shareholders than holding cash, or returning it in the form of dividends and share repurchases.

- Cross-border deals are on pace for their strongest year since 2007, driven in part by an increase in transatlantic deals for aerospace and defense targets. Although national industrial policies can hinder some cross-border deals, policymakers often are more open to transactions involving acquirers of the nations in these regions.

Heading into the second half of 2014, we are optimistic about aerospace and defense M&A. Commercial aviation targets remain attractive due to the strong growth offered by record aerospace OEM order books. The demand outlook is less robust in the defense part of the sector, but the US budget level has become clearer through at least FY15. In some cases, consolidation can be motivated by attempts to reduce the cost of research and development. This should encourage acquirers to act on some of their pent-up demand for mergers and acquisitions within the sector.

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

Launch the data explorer at [www.pwc.com/us/missioncontrol](http://www.pwc.com/us/missioncontrol) for a deeper dive into the data, or contact us to further discuss our insights.

Sincerely,



**Scott C. Thompson**  
US Aerospace & Defense Leader