



---

# ***Mission control***

**Fourth-quarter 2013 aerospace and defense industry mergers and acquisitions analysis**

## ***Highlights***

## To our aerospace and defense readers



**Scott Thompson**  
US Aerospace &  
Defense Leader

A handwritten signature in dark ink that reads "Scott".



**Guillaume  
Rochard**  
Global Aerospace &  
Defense Leader

A handwritten signature in dark ink that reads "Guillaume".

To provide further insights on recent mergers and acquisitions (M&A) activity, PwC is pleased to share with you our analysis of M&A activity in the global aerospace and defense (A&D) industry. In *Mission control*, you'll find an overview of deals in the sector during 2013, as well as our expectations for deal activity in the future.

2013 was a weak year for aerospace and defense M&A, with the seventh- and eighth-lowest annual deal volume and value, respectively, of the last ten years.

Private equity sellers were among the primary drivers of M&A activity in 2013, motivated by equity/IPO market performance and a desire to exit investments acquired prior to the financial crisis. Strategic acquirers are using more of their cash for M&A. Those A&D companies that are focusing their capital deployment strategies on buybacks and dividends could shift some of these funds toward acquisitions once the defense environment becomes more certain. However, some aerospace players will opt to ramp up new programs rather than pursuing M&A.

China is continuing its efforts to advance its domestic aerospace industry, with the Aviation Industry Corporation of China (AVIC) consolidating local engine businesses, increased engine R&D funding, and some non-engine aircraft equipment M&A. In addition, China in recent years has engaged in some deals outside of their home market. Other emerging markets are investing in civil aerospace, which could have an impact on M&A. For example, India's Hindustan Aeronautics' new commercial aircraft is expected to begin production in 2020.

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

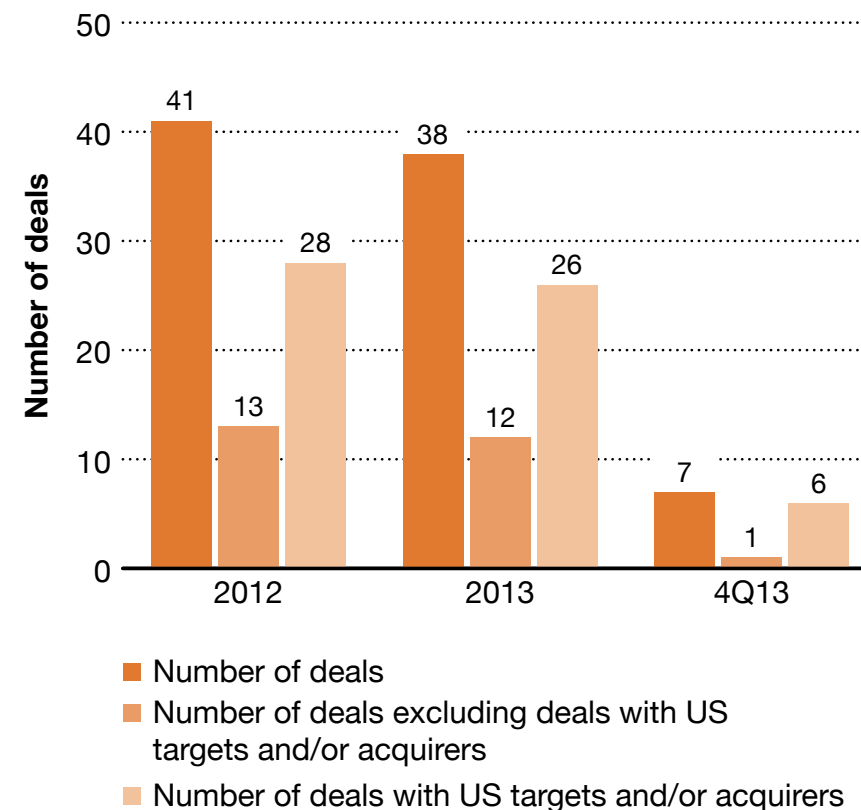
- The market for local deals remains strong by historical standards, with almost three-quarters of deals involving parties from the same country. Yet some increase in cross-border deals seems likely as austerity improves the rationale for Western cross-border defense consolidation and joint ventures. We also expect that transnational defense cooperation agreements will be increasingly pursued in order to improve export competitiveness.
- Aerospace targets remain popular, particularly among tier 2 and 3 suppliers, leading to a ten-year high of aerospace volume but moderate levels of deal value in 2013. Defense volume and value are hovering just above ten-year lows. Aerospace multiples have contracted to near long-term averages after a robust 2012.
- There appears to be some pent-up demand for defense deals, which have been on hold due to sequestration-related uncertainty. The US Bipartisan Budget Act of 2013 is a step toward driving increased defense M&A, but the Pentagon's budget submission and the Quadrennial Defense Review may also act as catalysts, in terms of assessing budget priorities.

We are pleased to present our 2013 analysis as part of our ongoing commitment to provide you with a greater understanding of M&A trends and prospects in the industry. For a deeper dive into the data, launch the data explorer at <http://www.pwc.com/us/en/industrial-products/publications/mission-control.jhtml> or contact us to further discuss our insights.

# Deals activity

## Deal activity by number of deals

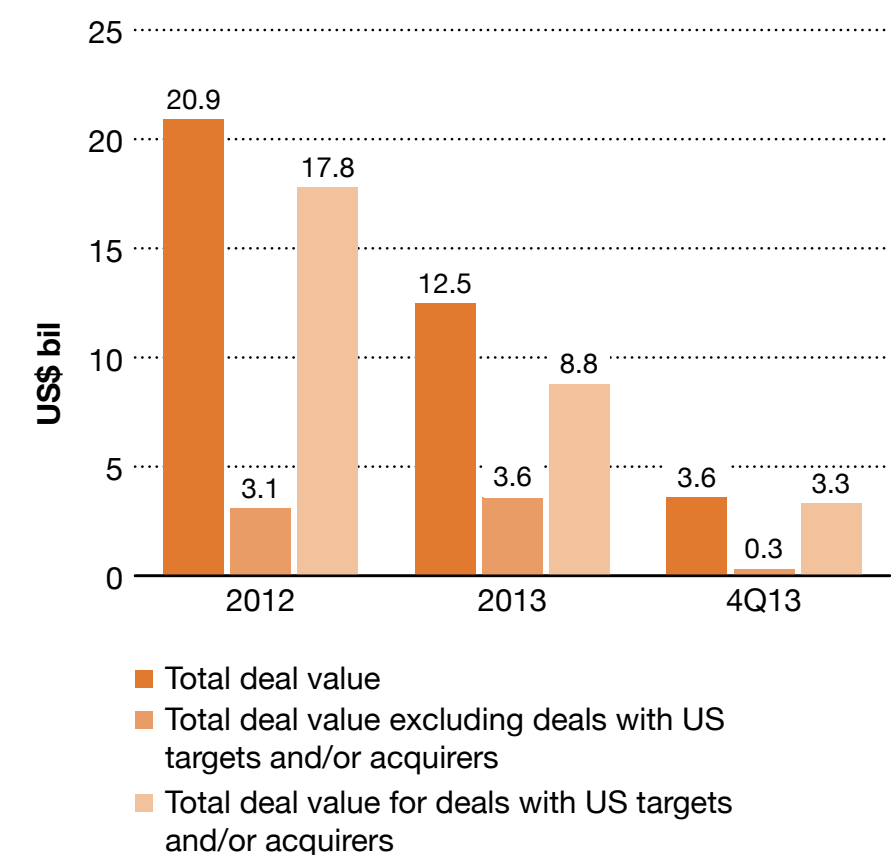
Measured by number of deals worth \$50 million or more



Source: Thomson Reuters/ PwC Analysis

## Deal activity by total deal value

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



Source: Thomson Reuters/ PwC Analysis

2013 was a weak year in terms of volume, whether using a \$50 million value threshold or considering all deals regardless of whether a value was disclosed. It was an even weaker year in terms of value when measured using either sample. This led to a decline in average M&A size. There has been an increase in the proportion of divestitures, up to 71 percent of deals announced in the fourth quarter, as more companies realign their portfolios instead of going for larger, transformational deals. This is one factor leading to the smaller average deal values.

*2013 was a weak year in terms of volume and value of deals.*

Financial investment was up slightly, but more notable is the jump in private equity exits during the year. We’ve noted in recent quarters that strong equity and IPO markets were making it an attractive environment for PE firms to exit investments acquired prior to the financial crisis. In 2013, almost one-third of aerospace and defense volume (deals of at least \$50 million in value) involved sales of portfolio companies by private equity. This contrasts with roughly ten percent of deals in 2012.

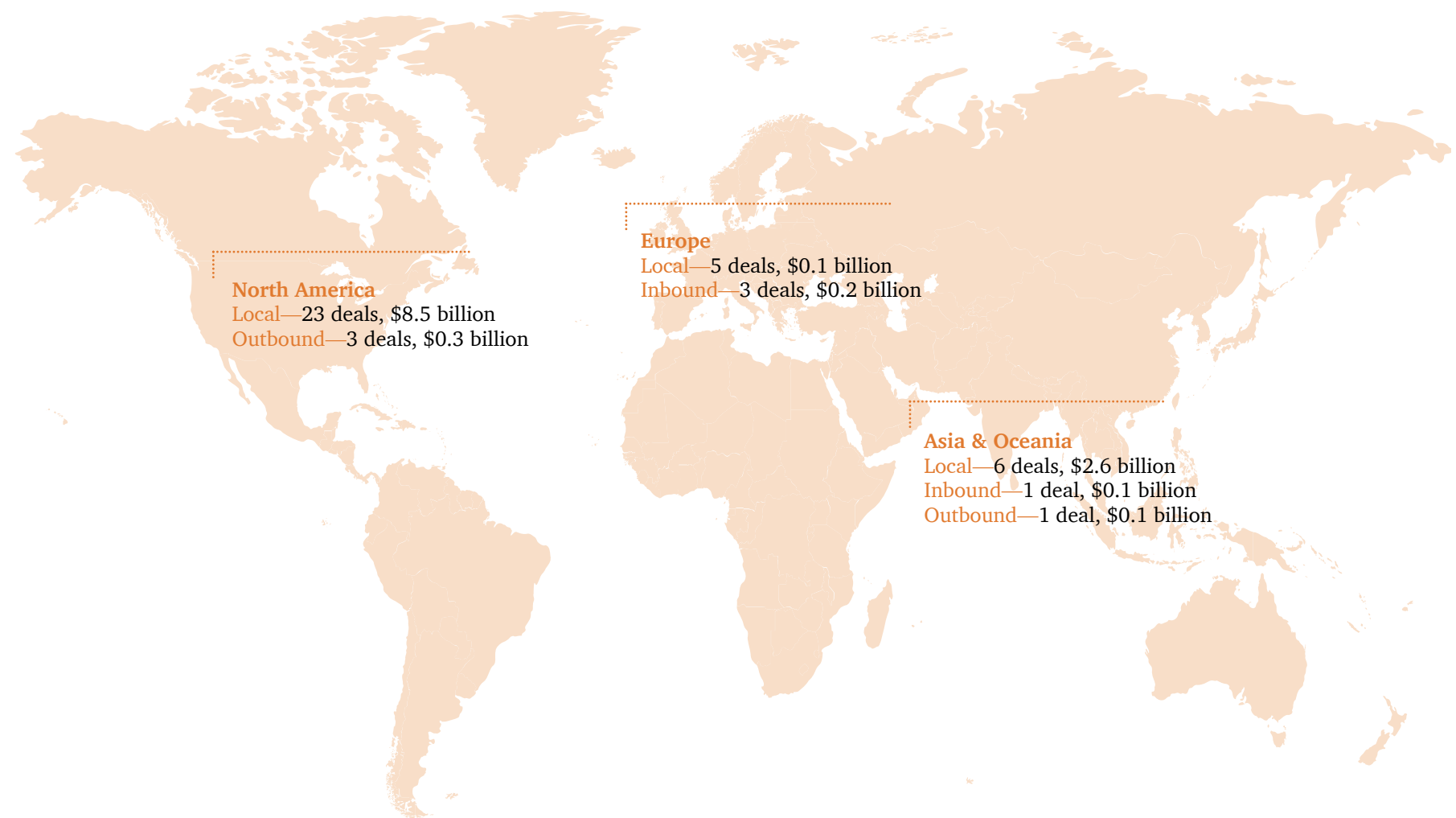
Yearly aerospace and defense activity										
Measured by number and value of deals (2004-2013)										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Number of deals	224	236	229	291	303	268	288	306	297	242
Total Deal Value (\$ bil)	23.6	14.5	22.2	41.3	23.1	9.1	13.4	30.9	22.0	13.2

Source: Thomson Reuters/ PwC Analysis

# Deal markets characteristics

*Global deal activity in 2013 showed a shift toward local deals.*

M&A global map for 2013—deals worth \$50 million or more\*



\* Sum of inbound and outbound deal value may not equal due to rounding.

Source: Thomson Reuters/ PwC Analysis

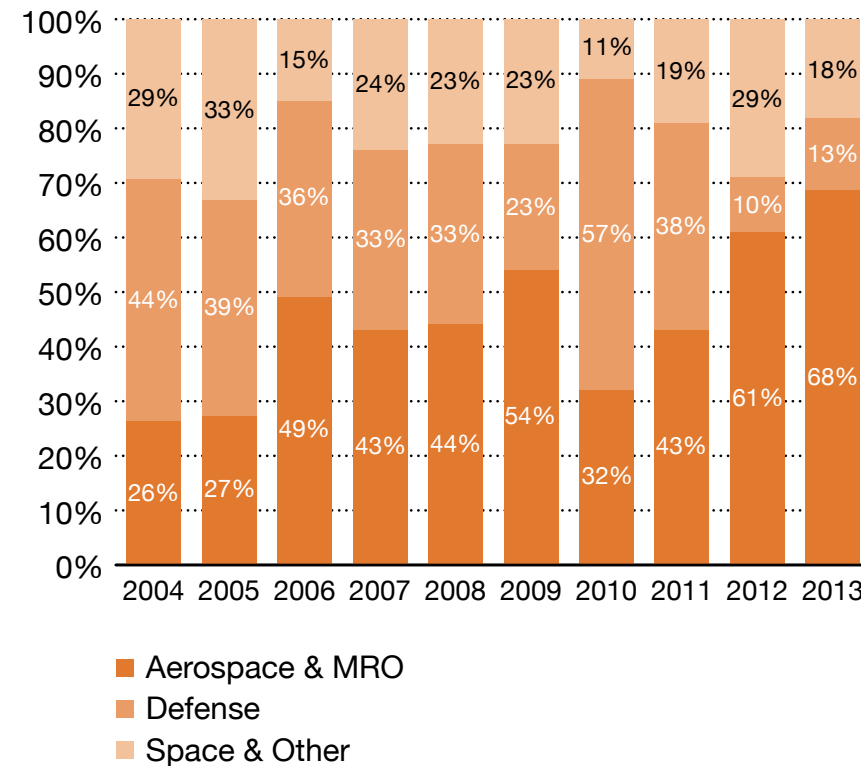
The majority of Asia & Oceania deals were in China, with AVIC continuing to consolidate the national aerospace industry. In particular, AVIC deals were up in 2013 when considering all deals with disclosed or undisclosed values. In 2013, China's aerospace M&A was focused on consolidating the local engine industry; in addition, Chinese companies also engaged in some non-engine aircraft equipment consolidation.

There was a slight shift toward local deals in 2013, which we view is due to a combination of risk aversion, ease of integration, and industrial policy that tends to discourage cross-border acquisitions. While the market has been more focused on local deals, we do expect that in the future more cross-border deals will be needed to offset weakness in Western defense budgets.

*Aerospace valuations have come more in line with longer-term norms.*

**Deals by Aerospace & Defense category**  
Measured by number of deals worth \$50 million or more

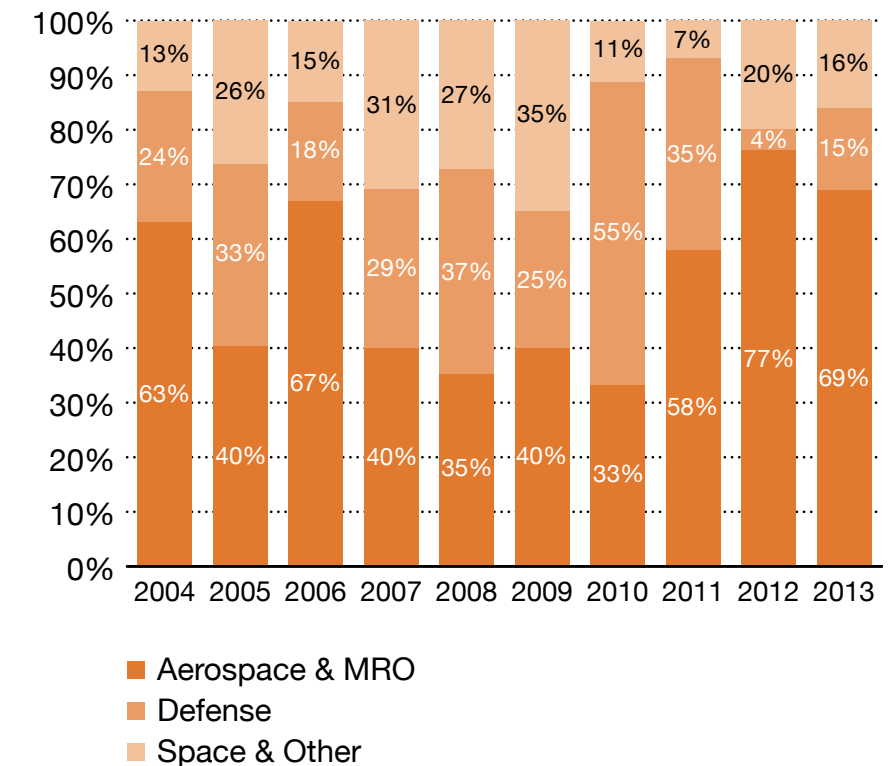
**Volume**



Source: Thomson Reuters/ PwC Analysis

**Deals by Aerospace & Defense category**  
Measured by number of deals worth \$50 million or more

**Value**



Source: Thomson Reuters/ PwC Analysis

The deal market remains focused on aerospace targets. There were more aerospace deals in 2013, when measured by volume, than in any year over the last ten years. This contrasts with defense deals, which hovered just above a ten-year low in terms of volume. However, we do note that aerospace deals were still small in terms of value. There was not a common theme across most of the aerospace deals, as targets included a range of avionics, MRO, engine, and aircraft component suppliers.

Aerospace valuations, which in recent periods were lofty by historical standards, have come more in line with longer-term norms. This could support a robust aerospace deal market in 2014 when considering the favorable growth outlook for this part of the sector. The recent US budget deal is a step in the right direction toward making defense M&A more attractive, but more specifics are needed as to spending priorities for upcoming years to remove the fog surrounding the defense outlook.

# Large deals

*Mega deal activity is likely to remain slow in 2014.*

## Mega deals in 2013—deals with a disclosed value of at least \$1 billion

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US\$ bil.	Category
Jun	Avic Xi'An Aero-Engine (Group) Ltd-Assets	China	Xi'An Aero-Engine PLC	China	Pending	1.59	Aerospace
Dec	Beech Holdings LLC	United States	Textron Inc	United States	Pending	1.40	Aerospace
Aug	ARINC Inc	United States	Rockwell Collins Inc	United States	Completed	1.39	Aerospace

There were three mega deals, or announcements with a disclosed value of at least \$1 billion, in 2013. This represents a minor decline from five such announcements in 2012. However, similar to last year, all mega deals were for aerospace targets.

The largest deal of the year was the \$1.59 billion Xi'an Aero-Engine acquisition of AVIC Xi'an Aero-Engine and several other local engine-related businesses. These deals, in addition to increased domestic R&D funding, are meant to help accelerate China's domestic engine development.

Textron, the manufacturer of CESSNA Aircraft, announced a \$1.4 billion acquisition of Beech Holding LLC in December that boosts its lineup of propeller-driven aircrafts. This followed the collapse of a deal with a potential Chinese buyer. Beech is the turboprop segment of the former Hawker Beechcraft, which emerged from bankruptcy protection in early 2013, and had been seeking a buyer for the business.

Rockwell Collins' \$1.39 billion acquisition of ARINC is a deal that accelerates Rockwell's strategy of developing information management solutions by combining ground networks with avionics and cabin systems. This mega deal is also notable due to the fact that it was a private equity exit.

Mega deal activity seems likely to remain slow in 2014. It is possible that the move to resolve budget uncertainties will result in some defense mega deals, but it is unlikely that large transformational deals among defense contractors will be permitted under current industrial policies.

# Methodology

*Mission control* is an analysis of mergers and acquisitions in the global aerospace and defense industry. Information was sourced from Thomson Reuters and includes deals for which targets or acquirers have primary SIC codes that fall into one of the following SIC industry groups: 1) ordnance and accessories, except vehicles and guided missiles; 2) aircraft and parts; 3) national security; 4) guided missiles, space vehicles, and parts; 5) search, detection, navigation, guidance, aeronautical and nautical systems, and instruments and equipment (SDNGN &NS, I&E); and 6) space research and technology.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2004 and December 31, 2013, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), or withdrawn. The term deals, when referenced herein, is used interchangeably with transactions and announcements. Unless otherwise noted, the term deals refers to all deals with a disclosed value of at least \$50 million.

Regional categories used in this report approximate United Nations (UN) Regional Groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom, plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.



# Resources

## PwC Aerospace and Defense practice

PwC's A&D practice is a global network of 1,200 partners and client service professionals who provide industry focused assurance, tax, and advisory services to leading A&D companies around the world. We help A&D companies address the full spectrum of industry-specific challenges across such areas as assurance, tax, operational improvement, supply chain management, program management effectiveness, IT effectiveness and security, compliance, export control, and government contracting. PwC's Deals practice, with approximately 6,500 dedicated deal professionals worldwide, has the experience to advise you on all factors that could affect a transaction, including market, financial accounting, tax, human resources, operating, information technology, and supply chain considerations. Teamed with our A&D practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as an industry point of view.

### PwC US

US Aerospace and Defense Leader  
**Scott Thompson**—+1.703.918.1976  
scott.thompson@us.pwc.com

US Aerospace and Defense Deals Leader  
**Bob Long**—+1.703.918.3025  
bob.long@us.pwc.com

US Aerospace and Defense Deals Partner  
**Joe Michalczyk**—+1.703.918.1480  
joe.michalczyk@us.pwc.com

US Aerospace and Defense Deals Director  
**Dale McDowell**—+1.703.918.4475  
dale.a.mcdowell@us.pwc.com

US Aerospace and Defense Advisory Leader  
**Charles Marx**—+1.602.364.8161  
charles.a.marx@us.pwc.com

US Aerospace and Defense Tax Leader  
**James Grow**—+1.703.918.3458  
james.b.grow@us.pwc.com

US Corporate Finance Industrial Products Leader  
**Rakesh Kotecha**—+1.312.298.2895  
rakesh.r.kotecha@us.pwc.com

US Aerospace and Defense Corporate Finance Director  
**Robert Ashcroft**—+1.312.298.2364  
r.ashcroft@us.pwc.com

US Industrial Products Marketing Director  
**Thomas Waller**—+1.973.236.4530  
thomas.a.waller@us.pwc.com

US Aerospace and Defense Marketing Manager  
**Gina Reynolds**—+1.973.236.4648  
gina.reynolds@us.pwc.com

US Aerospace and Defense Research Analyst  
**Michael Portnoy**—+1.813.348.7805  
michael.j.portnoy@us.pwc.com

### PwC Global

Global and France Aerospace and Defense Leader  
**Guillaume Rochard**—+33.1.56.57.8208  
guillaume.rochard@fr.pwc.com

Brazil Aerospace and Defense Leader  
**Augusto Assuncao**—+55.19.3794.5408  
augusto.assuncao@br.pwc.com

Canada Aerospace and Defense Leader  
**Mario Longpre**—+1.514.205.5065  
mario.longpre@ca.pwc.com

China Aerospace and Defense Leader  
**Huw Andrews**—+86.21.2323.8800  
huw.andrews@cn.pwc.com

Germany Aerospace and Defense Leader  
**Martin Theben**—+49.201.438.1524  
martin.theben@de.pwc.com

India Aerospace and Defense Leader  
**Dhiraj Mathur**—+91.11.4115.0309  
dhiraj.mathur@in.pwc.com

Italy Aerospace and Defense Leader  
**Corrado Testori**—+939.06.5702.52442  
corrado.testori@it.pwc.com

Middle East Aerospace and Defense Leader  
**Masood Hassan**—+971.4.304.3314  
masood.hassan@ae.pwc.com

UK Aerospace and Defense Leader  
**Dean Gilmore**—+44.20.721.35699  
dean.gilmore@uk.pwc.com

*Visit our aerospace and defense industry website  
at [www.pwc.com/us/industrialproducts](http://www.pwc.com/us/industrialproducts)*

