Global Aerospace and Defense Deals Insights
Q1 2019

Executive summary
The first quarter of 2019 brought a settling in both the volume and value of A&D deal making. Value was heavily impacted by the $9.6 billion General Dynamics/CSRA transaction in the comparative 2018 period, with volumes easing off both prior year and the ten-year average. Our view here is that this is not necessarily an indicator of any long-term downshift. Underpinnings remain solid for the industry, both from a commercial and defense perspective. The question is whether those strong fundamentals drive deal making to recapture lost traction in the quarter or become obscured by uncertainty throughout the remainder of 2019.

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— Bob Long, US A&D Deals Leader

Trends and highlights

- **Total deal value**: $4 billion in Q1 2019 compared to Q1 2018, 73% lower than the ten-year average. Volumes fell off 14% and 10% when compared with Q1 2018 and the ten-year average.

- **Total deal volume**: 89 in Q1 2019 versus Q1 2018, 14% lower than the ten-year average.

- **Average deal size**: $139.7 million in Q1 2019 versus Q1 2018, 63% lower than the ten-year average.

*Average deal size is calculated by dividing the total disclosed deal value with the total number of deals with disclosed deal values.*
Highlights of Q1 2019 deal activity

Deal value and volume overview

With a total deal value of $4 billion in Q1 2019, the quarter witnessed the lowest deal value in the past three years. Similarly, total deal volume declined by 14% to 89 deals during Q1 2019 vis-à-vis Q1 2018, marking a corresponding low point in the historical period.

Largest transaction

Hyundai Heavy Industries (HHIG) agreed to acquire a controlling 28% stake in Daewoo Shipbuilding & Marine Engineering Co. Ltd. for approx. $2 billion. HHIG will set up a joint shipbuilding venture with state-run Korean Development Bank, Daewoo’s largest shareholder. The deal is expected to create a strengthened entity in a struggling South-Korean shipbuilding industry.

Megadeals*

There was no megadeal in Q1 2019.

Deals by disclosed value

Average deal size was $139.7 million in Q1 2019, 63% lower than in Q1 2018. Even when compared to a ten-year view, average value was off by nearly one third in the quarter.

Deals by disclosed value and average deal size

Source: Thomson Reuters and other publicly available sources; *Megadeals defined as deals with disclosed value equal to or greater than $5 billion.
Highlights of Q1 2019 deal activity, continued

Sub-sector analysis

In Q1 2019, the Arms and Vehicles category sustained its dominance with $2 billion of deal value, the best vis-à-vis the last three quarters, and contributed to 50% of total deal value. It was followed by a 19% contribution from Software and Security Systems, indicating continued focus on digitization of defense capabilities. In terms of volume, the Aircraft and Parts category accounted for a majority share with 29%, followed by Arms and Vehicles with a 22% share.

Financial vs. Strategic investors

Strategic investors continued to dominate in Q1 2019, accounting for a 93% share of value and 74% share of volume. The total deal value for strategic investors decreased by 72% to $3.8 billion while deal volume remained flat at 66 deals vis-à-vis Q1 2018.
Regional deal trends in Q1 2019

Regional analysis

The Asia and Oceania region was the most active acquirer in Q1 2019 with a 62% share of deal value, followed by North America with a 37% share. This trend was consistent for target regions also, with Asia and Oceania accounting for 63% of deal value, followed by North America with 37%.

A&D deals by region*

- **Asia and Oceania**
  - Local: 31 deals, $2.5 billion
  - Inbound: 2 deals, $28 million
  - Outbound: 1 deal, $0 disclosed

- **North America**
  - Local: 24 deals, $1.5 billion
  - Inbound: 7 deals, $0 disclosed
  - Outbound: 3 deals, $28 million

- **UK and Eurozone**
  - Local: 10 deals, $23 million
  - Inbound: 1 deal, $0 disclosed
  - Outbound: 1 deal, $0 disclosed

- **South America**
  - Local: 0 deals, $0
  - Inbound: 0 deals, $0
  - Outbound: 0 deals, $0

- **Africa/Undisclosed**
  - Local: 0 deals, $0
  - Inbound: 0 deals, $0
  - Outbound: 2 deals, $28 million

*Deal values above include those with disclosed value only. Deal volume with no values (“$0”) implies that the transaction values of those deals were not disclosed.
Key announced transactions (Q1 2019)

<table>
<thead>
<tr>
<th>Announced</th>
<th>Target name</th>
<th>Target nation</th>
<th>Acquirer name</th>
<th>Acquirer nation</th>
<th>Status</th>
<th>Deal value*</th>
<th>Category</th>
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<tbody>
<tr>
<td>01/31/19</td>
<td>Daewoo Shipbuilding &amp; Marine Engineering Co. Ltd.</td>
<td>South Korea</td>
<td>Hyundai Heavy Industries Co. Ltd.</td>
<td>South Korea</td>
<td>Pending</td>
<td>1,981</td>
<td>Arms and Vehicles</td>
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<td>01/30/19</td>
<td>LGS Innovations LLC</td>
<td>United States</td>
<td>CACI International Inc.</td>
<td>United States</td>
<td>Completed</td>
<td>750</td>
<td>Software and Security Systems</td>
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<td>02/11/19</td>
<td>Endeavor Robotics Inc.</td>
<td>United States</td>
<td>FLIR Systems Inc.</td>
<td>United States</td>
<td>Completed</td>
<td>385</td>
<td>Raw Materials and Supplies</td>
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<td>01/28/19</td>
<td>Aeryon Labs Inc.</td>
<td>Canada</td>
<td>FLIR Systems Inc.</td>
<td>United States</td>
<td>Completed</td>
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<td>Aircraft and Parts</td>
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<td>01/23/19</td>
<td>Guangdong Kuanpu Technology Co. Ltd.</td>
<td>China</td>
<td>King-Strong New Material Technology Co. Ltd.</td>
<td>China</td>
<td>Pending</td>
<td>108</td>
<td>Electronic Equipment</td>
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<td>01/26/19</td>
<td>Xi’an Hengda Microwave Technology Development Co. Ltd.</td>
<td>China</td>
<td>Jiangsu Leike Defense Technology Co. Ltd.</td>
<td>China</td>
<td>Pending</td>
<td>87</td>
<td>Electronic Equipment</td>
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<tr>
<td>01/03/19</td>
<td>Eviation Aircraft Ltd.</td>
<td>Israel</td>
<td>Clermont Energy Pte Ltd.</td>
<td>Singapore</td>
<td>Pending</td>
<td>76</td>
<td>Electronic Equipment</td>
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<td>03/08/19</td>
<td>Dart Aerospace Ltd.</td>
<td>Canada</td>
<td>Dart Aerospace Ltd. SPV</td>
<td>United States</td>
<td>Pending</td>
<td>75</td>
<td>Aircraft and Parts</td>
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<td>03/14/19</td>
<td>Nuvotronics Inc.</td>
<td>United States</td>
<td>Cubic Corp.</td>
<td>United States</td>
<td>Completed</td>
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<td>Supporting Services</td>
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<td>01/04/19</td>
<td>Beijing Unistrong Science &amp; Technology Co. Ltd.</td>
<td>China</td>
<td>Beijing Haidian District State-Owned Capital Operation Management Centre</td>
<td>China</td>
<td>Pending</td>
<td>68</td>
<td>Electronic Equipment</td>
</tr>
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</table>

Source: Thomson Reuters and other publicly available sources.

*A in Million USD

A&D Sector outlook

Strengthening defense budgets in the US and other major geographies, married with lingering geopolitical tensions should continue to support industry confidence in deal making. We see much of that activity being focused around spending priorities such as cybersecurity and IT modernization, with a search for scale and cost-competitiveness as a meaningful backdrop. Technology development at scale does not necessarily move at breakneck speed in the industry, meaning capability-driven acquisitions in these spaces are likely to drive a meaningful share of activity. Recent government services transactions have resulted in a few very large players who we believe will continue to shape their portfolios with selected transactions, while transactions such as Harris/L3 could bring certain divestitures to market (such as the $350 million night vision transaction with Elbit announced in early April).

From a commercial aerospace perspective, revenue passenger miles and backlogs have maintained, if not increased in momentum. We see opportunities for supply chain consolidation aligned with programs such as Boeing’s “Partnering for Success 2.0” and perhaps in reaction to trade and tariff uncertainties. Additionally, deals are likely to spring from OEMs’ stated goals of increasing lifecycle management services revenues.

Overall, we see opportunity for another solid year of activity in the industry, despite a sluggish start in the first quarter. There are always uncertainties to be dealt with such as Brexit and its very recent delay to October 31st, but the industry has proven itself as long-term focused when it comes to M&A and we believe the pursuit of value based upon strong market basics will provide confidence to those seeking inorganic opportunities.
Smart deal makers are perceptive enough to see value others have missed, flexible enough to adjust for the unexpected, aggressive enough to win favorable terms in a competitive environment, and circumspect enough to envision the challenges they will face from the moment the contract is signed. But in a business environment where information can quickly overwhelm, the smartest deal makers look to experienced advisors to help them fashion a deal that works.

PwC’s Deals group can advise aerospace and defense companies and aerospace and defense-focused private equity firms on key M&A decisions, from identifying acquisition or divestiture candidates and performing detailed buy-side diligence, to developing strategies for capturing post-deal profits and exiting a deal through a sale, carve-out, or IPO. With more than 20,000 deals practitioners worldwide, we can deploy seasoned teams that combine deep aerospace and defense industry skills with local market knowledge virtually anywhere your company operates or executes transactions.

Although every deal is unique, most will benefit from the broad experience we bring to delivering strategic M&A advice, due diligence, transaction structuring, M&A tax, merger integration, valuation, and post-deal services.

In short, we offer integrated solutions, tailored to your particular deal situation and designed to help you extract peak value within your risk profile. Whether your focus is deploying capital through an acquisition or joint venture, raising capital through an IPO or private placement, or harvesting an investment through the divestiture process, we can help.

For more information about M&A and related services in the global aerospace and defense industry, please visit [www.pwc.com/us/deals](http://www.pwc.com/us/deals) or [www.pwc.com/us](http://www.pwc.com/us).

### About the data

The information presented in this report is an analysis of deals in the global aerospace and defense industry. Deal information was sourced from Thomson Reuters and includes deals for which targets have an SIC code that falls into one of the 14 aerospace and defense industry groups. Certain adjustments have been made to the information to exclude transactions which are not specific to aerospace and defense or incorporate relevant transactions that were omitted from the SIC industry codes.

This analysis includes all individual mergers, acquisitions, and divestitures for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between April 1, 2016 and March 31, 2019, with a deal status of completed, partially completed, pending, pending regulatory and pending completion, and excludes all rumors and seeking buyers. Additionally, transactions that are spin-offs through distribution to existing shareholders are included.

Percentages and values are rounded to the nearest whole number which may result in minor differences when summing totals.