

AVIATION · AEROSPACE · DEFENSE

THIRD QUARTER

2015

This Industry Practice Group was established to draw on the experience of CFA advisors, many of whom as former business owners and CEOs, have first-hand knowledge and have completed many transactions in this industry. Working with your local CFA representative, you can be sure that the collective wealth of knowledge is available to every CFA client.

Aerospace and Defense M&A

M&A activity for North American based target companies in the Aerospace and defense sector for Q2 2015 included 30 closed deals, according to data published by industry data tracker FactSet. The average transaction value was \$428 million. Deal value and volume for the quarter was relatively flat. However, just after the close of Q2 Lockheed Martin announced its \$9 billion acquisition of the Sikorsky helicopter unit from United Technologies. The deal is the largest in the sector since United Technologies acquired Goodrich in 2011. One of the bigger drivers of deal activity on the defense side was cyber security as defense contractors doubled down on their cyber divisions sparked by Raytheon's \$1.9 billion merger with Vista Equity's Websense in April.

Aerospace products and part manufacturing has grown steadily since 2006 with a particularly strong 2014. Lower oil prices are expected to save the industry tens of billions of dollars through 2015 and sustaining industry growth for, at least, the near future.



Source: Federal Reserve Bank

Transactional Overview

Notable closed middle market transactions for the period in the Aerospace/Defense sector include:

June 2015 - Eagle Eye Networks, acquired Brivo Systems LLC for US\$50 million. Eagle Eye Networks provides on-demand cloud based security and operations video management system (VMS) for cloud and on-premise recording. Customers include the public and private sector. Brivo Systems LLC develops cloud applications for security management. The company serves Federal and local governments.

April 2015 - Air France Industries KLM Engineering & Maintenance, a subsidiary of Air France-KLM SA, acquired a 50% minority stake in Tradewinds Engine Services LLC for US\$10 million in cash. Air France Industries KLM Engineering & Maintenance provides a broad range of airframe, engine and component maintenance services. Tradewinds Engine Services provides, distributes, and repairs engines and engine parts.



MERGERS, ACQUISITIONS, AND
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April 2015 - TransDigm Group Inc acquired the business and assets of Aerospace business of Pexco LLC, a portfolio company of Odyssey Investment Partners LLC for US\$496 million in cash. TransDigm Group, Inc. designs, produces and supplies engineered aircraft components used in aerospace and defense applications through its wholly-owned subsidiaries. Founded in 1997 by Stephen Berger, Brian Kwait and William Hopkins, Odyssey Investment Partners LLC is a middle-market private equity investment firm headquartered in New York City.

Selected Q2 Closed Transactions	
Target/Issuer	Buyers/Investors
Sheets Manufacturing Co.	GKN Aerospace, Inc.
Tecnickrome Aéronautique, Inc.	SPP Canada Aircraft, Inc.
FMH Aerospace Corp.	IGP Industries LLC
Pexco LLC /Aerospace Business	TransDigm Group, Inc.
Kestrel Aircraft Co.	Eclipse Aerospace, Inc.
Tradewinds Engine Services LLC	Air France/KLM Engineering & Maintenance
Kellstrom Commercial Aerospace, Inc.	AeroEquity, Inc.
PHS/MWA Aviation Services	Wencor Group LLC

M&A Trends

Strong growth on the commercial side of the aerospace sector, especially large manufacturers such as Boeing and Raytheon, have created strong cash stockpiles on the balance sheets of major corporate players. Those funds need a home and acquiring new technology (i.e. Raytheon's merger with Websense) is a productive use of the money. In addition, limits on defense spending has had a tepid impact on companies heavily invested in the public sector leading them to branch out into the private sector through M&A (again, Raytheon's merger with Websense).

Industry Update

As a result of near over-capacity utilization in the aircraft production industry, Airbus and Boeing booked fewer commercial aircraft orders during the Paris Air Show in June 2015 than they did two years earlier at the bi-annual event. Together, the rival aircraft makers booked \$109 billion in orders and commitments; the two companies secured \$134 billion in orders at the show in 2013. The drop in orders was not unexpected, as Boeing and Airbus have been building their order backlogs as the world's airlines and aircraft leasing firms order new, more efficient aircraft to update their fleets. Airbus' commercial jet backlog stands at about 6,300, and Boeing's is about 5,700. Both companies have suggested that they may increase production rates to address the large backlogs and long waits for new planes, which could further reduce orders.

Industry Indicators:

- US durable goods manufacturers' shipments of nondefense aircraft and parts, an indicator of demand for aircraft parts, rose 19.9 percent year-to-date in May 2015 compared to the same period in 2014.
- US durable goods manufacturers' shipments of military aircraft and parts, an indicator of demand for aircraft parts for military use, fell 7.0 percent year-to-date in May 2015 compared to the same period in 2014.
- According to data from the Interindustry Economic Research Fund, Inc. (IERF), revenue for US aircraft engines, parts, and equipment production is forecast to grow at an annual compounded rate of 5 percent over the next five years.

The Aviation, Aerospace and Defense Industry Practice Group is a multi-disciplinary group of investment banking advisors within Corporate Finance Associates. Collectively, the Aviation, Aerospace and Defense Practice Group provides M&A advice to public and private companies in all sectors of the aviation, aerospace and defense industries, including charter and management, fabricated components and parts, fuel distribution, airport services, homeland security and military defense systems. For information on mergers, acquisitions, divestitures, recapitalizations, joint ventures or financial resources, contact your local Corporate Finance Associates office.

