

PwC Deals

Global Aerospace and Defense Deals Insights Year-End 2017

A record year for aerospace and defense

Executive summary

Two thousand and seventeen was a record year for deal value in the global aerospace and defense industry, with \$72 billion, surpassing the previous record of \$67 billion set in 2015. Commercial aviation remains strong, with growth in Revenue Passenger Miles (RPMs) up nearly 8% in 2017 and above 6% in each of the two prior years. However, increasing competition and pressure on profit margins have been catalysts for industry consolidation and have resulted in some of the largest acquisitions in industry history, as suppliers seek synergies.

Deal activity in defense was also strong this year, mostly due to geopolitical tensions, emphasis on missile defense, and the Trump administration's increasing defense budgets. Defense contractors have been planning ahead by making investments in technologies such as autonomy, artificial intelligence, robotics, and cybersecurity. We predict these trends will continue through 2018.

Tax reform will provide increased liquidity which, combined with continued strong growth in aviation and a return to growth in defense, should result in another strong year of M&A in 2018.






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Bob Long
US Aerospace and Defense
Deals leader
PwC

Trends and highlights

- Deal value in 2017 was \$72 billion, 7% above the previous record in 2015 and 79% higher than 2016.
- There were 454 deals in 2017, the same amount as in 2016. However, the average deal size in 2017 was \$411 million, 19% higher than the three-year historical average of \$345 million.
- There were nine deals with announced value greater than \$1 billion, accounting for 86% of the total value this year. United Technologies' \$30 billion acquisition of Rockwell Collins was the largest transaction since 2015 and heavily impacted the trends between the third and fourth quarters of 2017 at right.
- North America had the largest increase in deal activity in 2017, up 29% from 2016, while Europe's participation as an acquirer dropped by 20%.

	2017 versus 2016	Q4 2017 versus Q3 2017
Total deal value	 79%	 72%
Total deal volume	0%	 15%
Average deal size	 69%	 71%

Source: Thomson Reuters



Source: Thomson Reuters and other publicly available sources

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Deal activity

A record \$72 billion in deal value was announced in 2017, 7% higher than the previous record set in 2015 and 79% higher than 2016. Deal value was driven by increasing geopolitical tensions and market competition, and is heavily attributed to one of the largest transactions in industry history. Even so, deal volume remained steady this year.

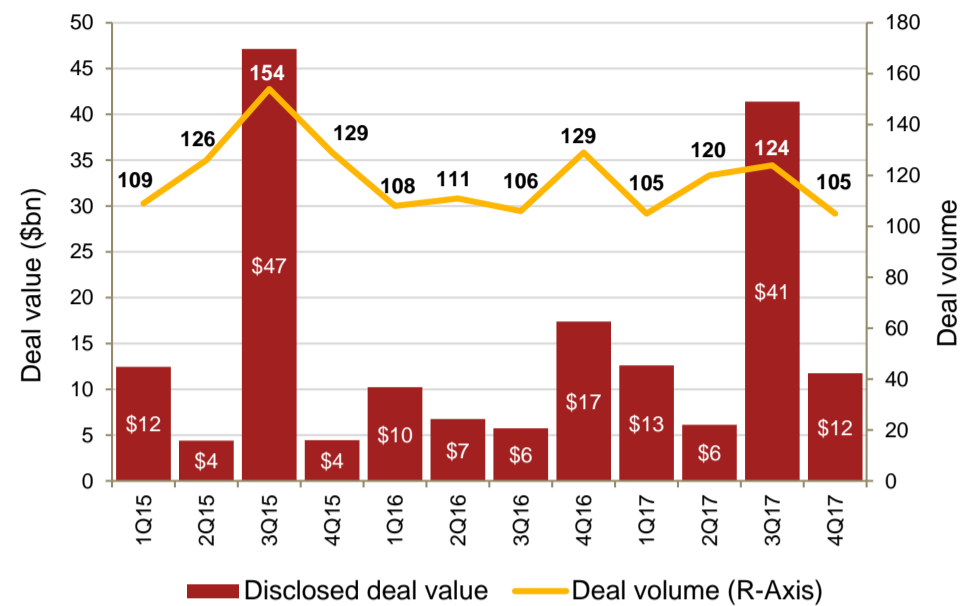
Largest transaction

In September, United Technologies agreed to acquire Rockwell Collins for \$30 billion. The transaction is partly a result of increasing competition and pressure on profit margins. This deal is the second largest in industry history and will help United Technologies maintain its competitive position as the industry's largest supplier.

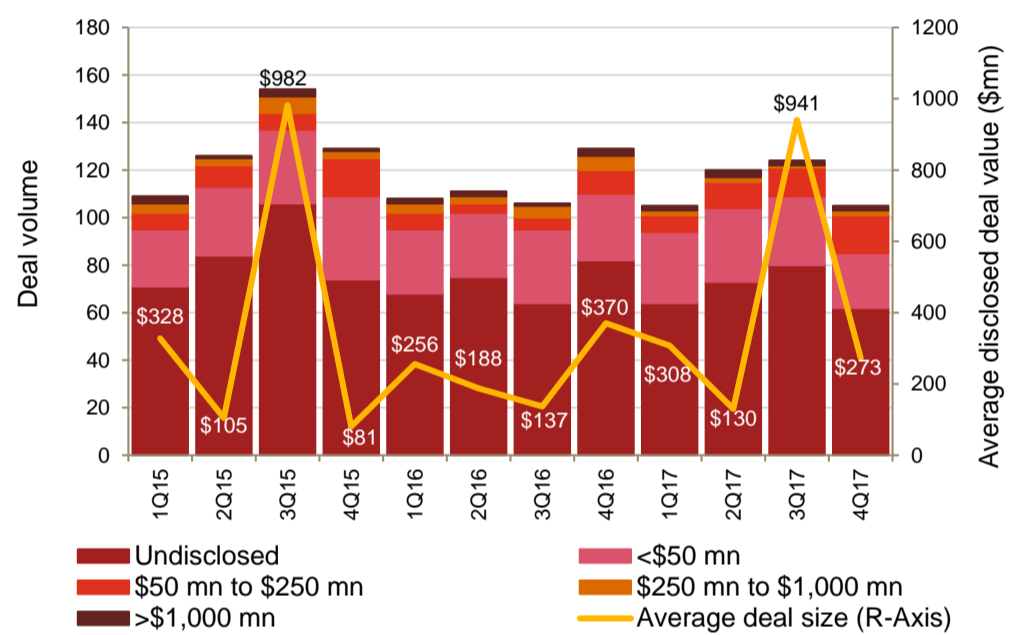
Megadeals (\$5B and over)

There were four megadeals announced in 2017: the United Technologies/Rockwell Collins transaction was followed quickly by Northrop Grumman's \$9 billion acquisition of Orbital ATK. Safran's \$8 billion acquisition of Zodiac Aerospace set the stage in January while Thales' \$5 billion acquisition of Gemalto closed the year on a high note in December.

Total deal value and volume



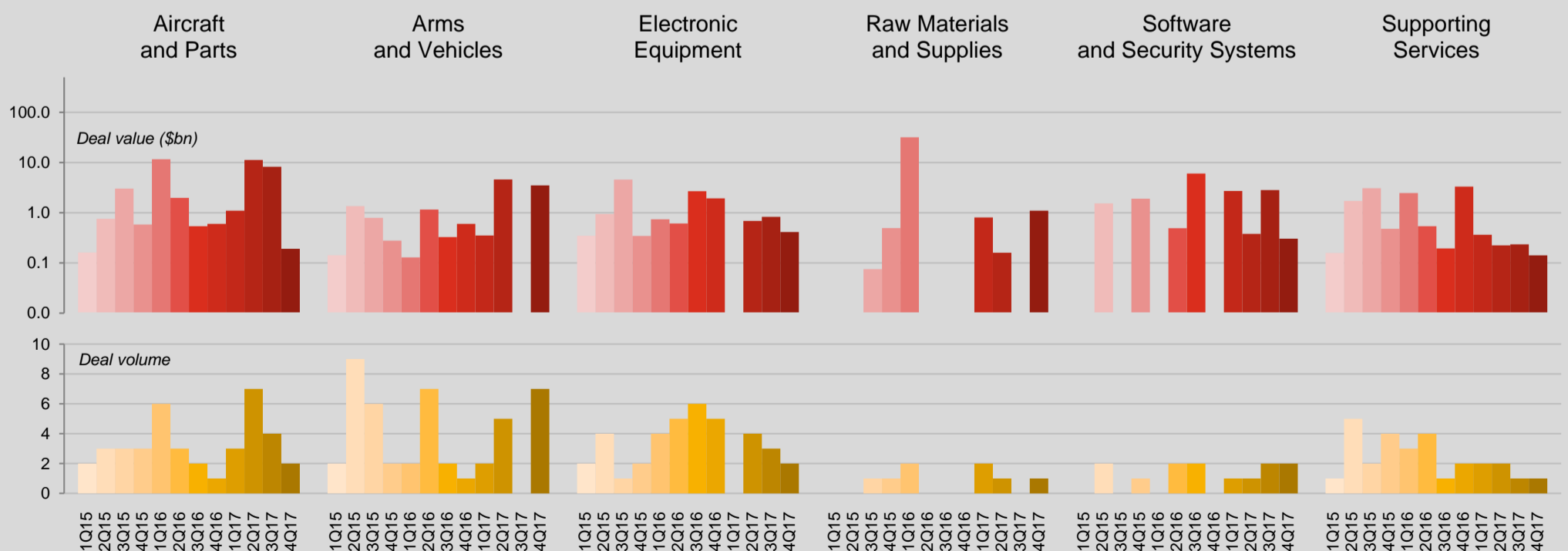
Deals by disclosed value



Source: Thomson Reuters and other publicly available sources

Sector category analysis

The Aircraft and Parts category continues to account for the majority of deal value in sector. Aircraft parts suppliers are looking to strengthen core capabilities and mitigate risks from increasing market competition. The Arms and Vehicles category doubled in deal value this year, as increasing geopolitical tensions drew large transactions in China, South Korea, and the United States.



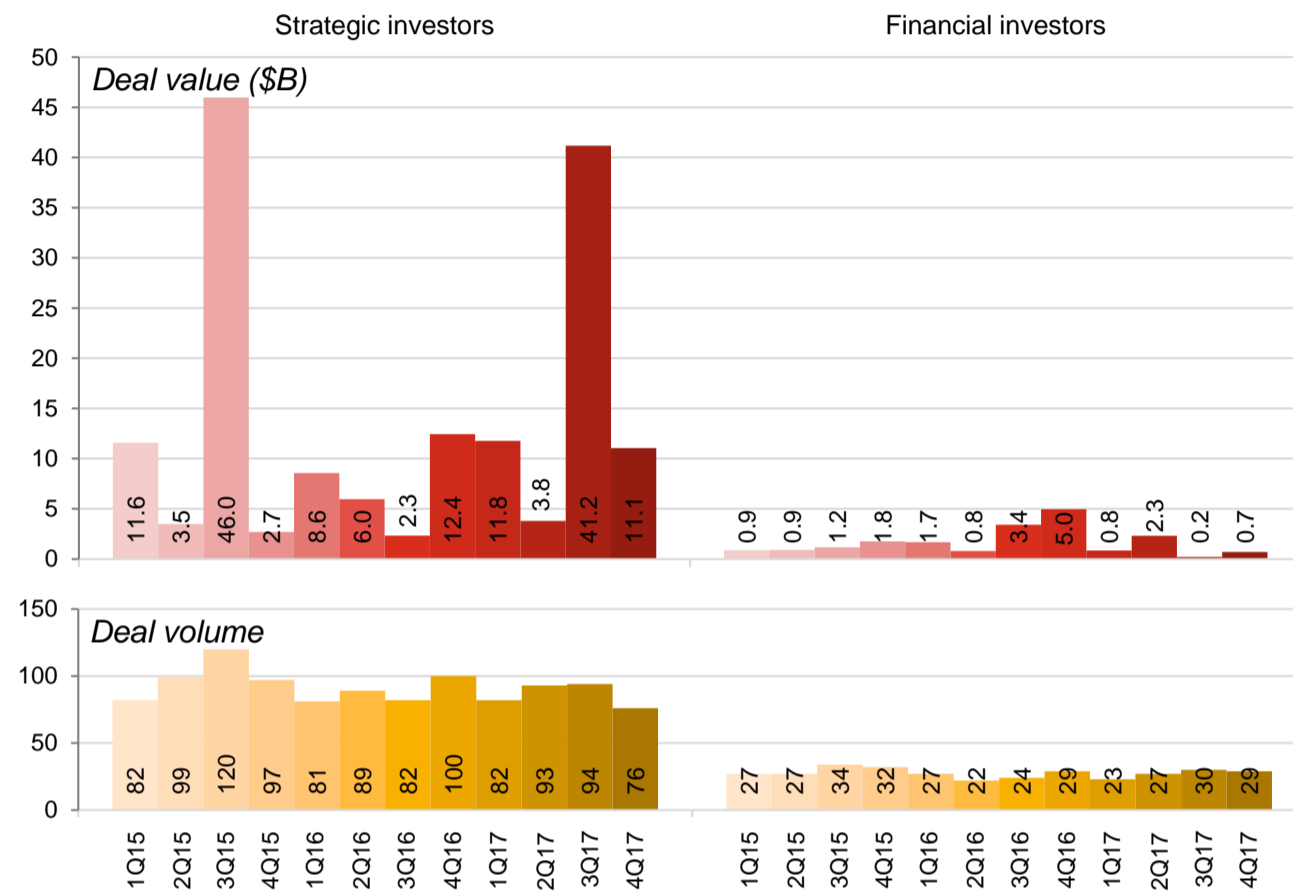
Source: Thomson Reuters and other publicly available sources

¹Megadeals are defined as deals with disclosed value equal to or greater than \$5 billion USD.

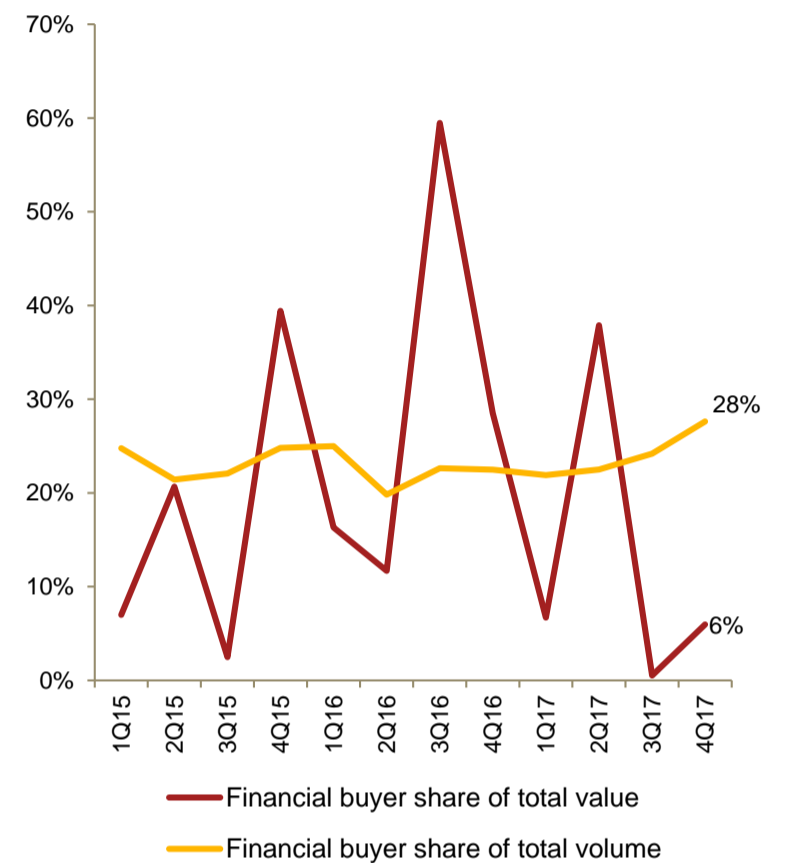
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Financial vs. strategic investors

Strategic investors continue to contribute to the largest share of deal activity in the sector. Ninety-four percent of value and 76% of volume was attributed to transactions between sector participants in 2017. Financial buyers' share of total value and volume remains relatively low.



Financial investor share of M&A activity

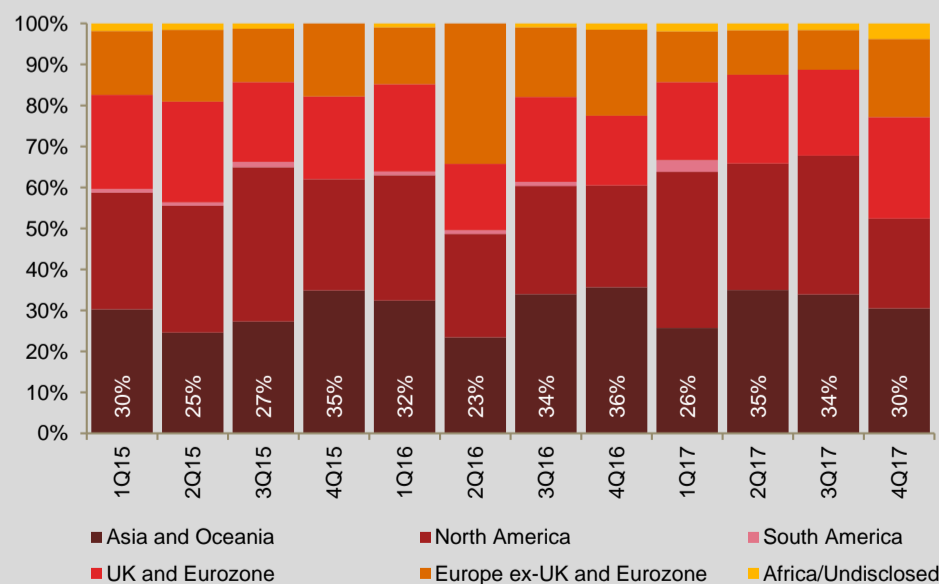


Source: Thomson Reuters and other publicly available sources

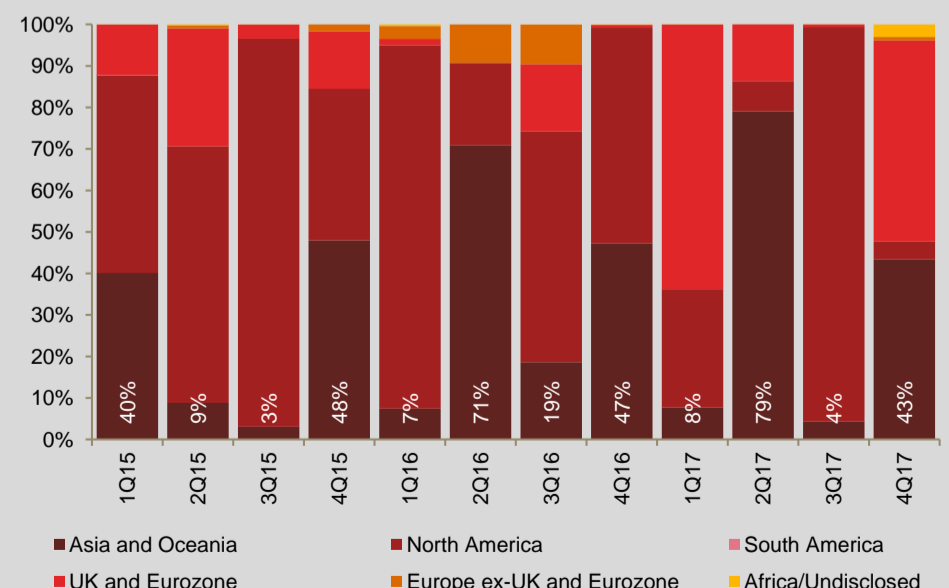
Regional analysis

North America remains the most active acquirer, followed by the UK and Eurozone and Asia and Oceania regions. This pattern carries over to target regions, with the US accounting for 32% of targets in 2017, a 29% increase from 2016. Europe's participation as an acquirer also dropped by 20% in 2017. This could be a sign of the region's more diplomatic stance to a changing geopolitical landscape.

Share of deal volume by acquirer region



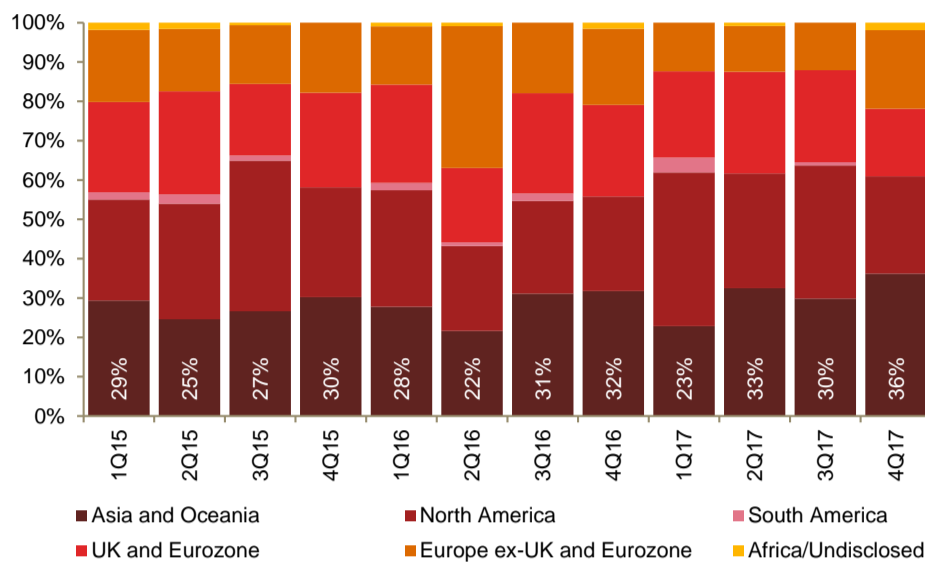
Share of deal value by acquirer region



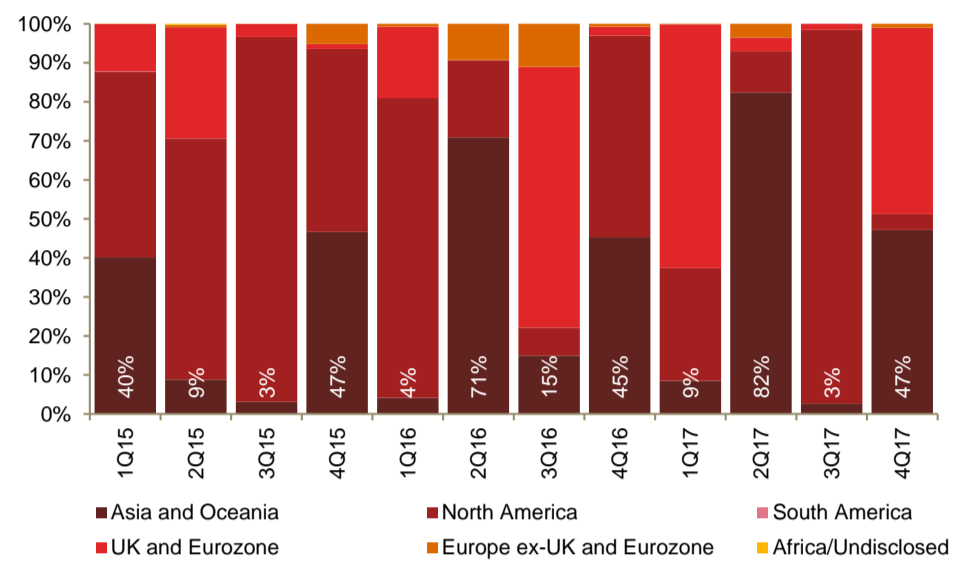
Source: Thomson Reuters and other publicly available sources

Regional analysis (continued)

Share of disclosed deal volume by target region

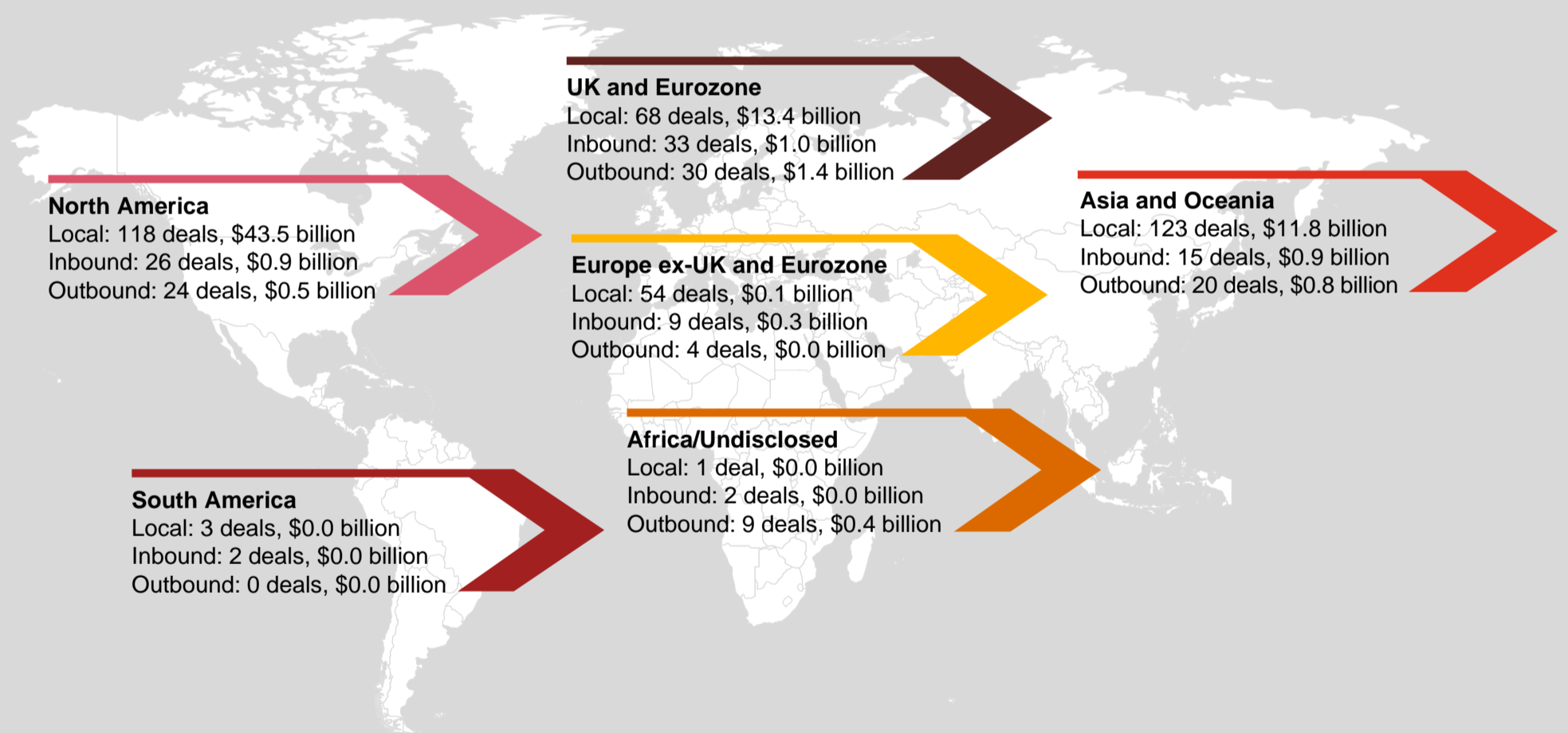


Share of disclosed deal value by target region



Source: Thomson Reuters and other publicly available sources

A&D deals by region



Source: Thomson Reuters and other publicly available sources

A&D deals outlook

Our view is that aviation transaction volumes will continue their positive trend, leveraging the dynamics discussed above. We also expect growth in defense deals, but believe the vast majority will be of a “portfolio shaping” nature at the mid- to small end of the range given the Pentagon’s view of mergers between primes. Additionally, while the industry holds substantial dry powder today, tax reform has the potential to impact volumes and values across the board as increased liquidity becomes available to fund inorganic growth agendas. Overall, we believe 2018 is shaping up to be another solid year for deal making in the industry.

Global A&D Deals Insights Year-End 2017

Top 10 A&D deals 2017

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
09/04/17	Rockwell Collins Inc.	United States	United Technologies Corp.	United States	Pending	30,000	Aircraft and Parts
09/18/17	Orbital ATK Inc.	United States	Northrop Grumman Corp.	United States	Pending	9,171	Arms and Vehicles
01/19/17	Zodiac Aerospace SA	France	Safran SA	France	Pending	7,839	Aircraft and Parts
12/17/17	Gemalto NV	Netherlands	Thales SA	France	Pending	5,398	Software and Security Systems
10/28/17	Wuchang Shipbuilding Industry Group Co. Ltd.	China	China Shipbuilding Industry Co. Ltd.	China	Pending	3,549	Arms and Vehicles
02/24/17	DigitalGlobe Inc.	United States	MacDonald Dettwiler & Associates Ltd.	Canada	Completed	2,134	Software and Security Systems
06/13/17	Hyundai Heavy Industries Co. Ltd.	South Korea	Hyundai Robotics Co. Ltd.	South Korea	Completed	1,268	Arms and Vehicles
06/28/17	Daewoo Shipbuilding & Marine Engineering Co. Ltd.	South Korea	The Export-Import Bank of Korea {KEXIM}	South Korea	Completed	1,127	Arms and Vehicles
04/07/17	Soares Ltd.	China	China Merchants Industry Holdings Co. Ltd.	Hong Kong	Completed	1,100	Raw Materials and Supplies
01/27/17	Harris Corp.-Government IT Services Business	United States	Veritas Capital Partners LP	United States	Completed	690	Software and Security Systems

Top 10 A&D deals 2016

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
10/23/16	B/E Aerospace Inc.	United States	Rockwell Collins Inc.	United States	Completed	8,201	Aircraft and Parts
01/26/16	Lockheed Martin Corp.-Government IT & Technical Services Businesses	United States	Leidos Holdings Inc.	United States	Completed	5,930	Software and Security Systems
11/14/16	STX Offshore & Shipbuilding Co. Ltd.	South Korea	Creditors	South Korea	Pending	3,597	Arms and Vehicles
04/29/16	Jiangsu Guoxin Investment Group Ltd.-Assets	China	Sainty Marine Corp. Ltd.	China	Completed	3,188	Supporting Services
09/29/16	Safran Identity & Security SAS	France	Investor Group	United States	Completed	2,720	Software and Security Systems
11/29/16	Shenyang Aircraft Industry (Group) Co. Ltd.	China	Zhonghang Heibao Co. Ltd.	China	Completed	1,400	Aircraft and Parts
03/18/16	Airbus Group SE-Defence Electronics Business	Germany	KKR & Co. LP	United States	Completed	1,244	Electronic Equipment
05/24/16	ILC Holdings Inc.	United States	TransDigm Group Inc.	United States	Completed	1,000	Electronic Equipment
12/23/16	Daewoo Shipbuilding & Marine Engineering Co. Ltd.	South Korea	The Export-Import Bank of Korea {KEXIM}	South Korea	Pending	830	Arms and Vehicles
07/11/16	Industria de Turbo Propulsores SA	Spain	Rolls-Royce Holdings PLC	United Kingdom	Intended	796	Aircraft and Parts

Top 10 A&D deals 2015

Announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Deal value ¹	Category
08/10/15	Precision Castparts Corp.	United States	Berkshire Hathaway Inc.	United States	Completed	31,595	Raw Materials and Supplies
07/20/15	Sikorsky Aircraft Corp.	United States	Lockheed Martin Corp.	United States	Completed	9,000	Aircraft and Parts
02/06/15	Exelis Inc.	United States	Harris Corp.	United States	Completed	4,561	Electronic Equipment
01/23/15	Keppel Land Ltd.	Singapore	Keppel Corp. Ltd.	Singapore	Completed	2,288	Supporting Services
09/23/15	Landmark Aviation	United States	BBA Aviation PLC	United Kingdom	Completed	2,065	Supporting Services
04/20/15	Websense Inc.	United States	Raytheon Co.	United States	Completed	1,900	Software and Security Systems
03/18/15	Shifang Mingri Yuhang Industry Co. Ltd.	China	Xinjiang Machinery Research Institute Co. Ltd.	China	Completed	1,804	Aircraft and Parts
10/29/15	C Series Aircraft LP	Canada	Investissement Quebec	Canada	Completed	1,000	Aircraft and Parts
03/02/15	Scitor Corp.	United States	Science Applications International Corp.	United States	Completed	790	Supporting Services
07/28/15	Fokker Technologies Group BV	Netherlands	GKN PLC	United Kingdom	Completed	781	Aircraft and Parts

Source: Thomson Reuters and other publicly available sources

¹ In Million USD

About PwC's Deals Practice

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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 9,800 deals professionals in 75 countries, we can deploy seasoned teams that combine aerospace and defense industry skills with local market knowledge virtually anywhere and everywhere 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 divesture 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 or 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 January 1, 2015 and December 31, 2017, 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.