Aerospace & defence M&A results are record-breaking, says PwC

LONDON, UK: Global aerospace and defence (A&D) merger and acquisition (M&A) value reached a record level in 2011, according to *Mission Control*, a quarterly analysis of M&A activity in the global A&D sector by PwC.

- 2011 yielded a 10-year 'high' in both deal value and volume
- US transactions dominated activity and cross-border deals increased
- Anticipated elevated level of M&A activity in 2012 with focus on aerospace.

Aggregate deal value reached US$43.7bn supported by 341 deals in 2011, compared to total deal value of US$21.9bn and 332 deals in 2010. The 2011 record surpassed the previous A&D deal record of US$42bn in 2007.

The primary driver of deal value in 2011 was the US$16bn transaction, the largest in sector history. However, volume drivers were broad-based, with higher numbers for small deals (less than US$50 million) and mega deals (above US$1bn) alike. A total of six mega deals were completed in 2011, recovering from the recent low of only two such announcements in 2009. This led to an increase in average transaction sizes, even when removing the impact of the US$16 million deal. There was also a big increase in deals for aerospace targets in 2011, measured on both a volume and value basis, while the number of defence deals decreased. Aerospace deal multiples also surpassed defence targets, reflecting the more attractive outlook for that part of the sector.

Wide-ranging mix of deals

PwC's global head of aerospace & defence, Neil Hampson, said: "We saw a wide-ranging mix of deals in 2011, as global aerospace and defence M&A activity reached record levels. Larger deals became more common, driven by sales of slower-growth defence businesses and private equity exits, while smaller deals drove the bulk of deal volume as major players with ample liquidity focused on acquiring growth.

"We anticipate an elevated level of M&A activity in the year ahead, particularly in aerospace where the outlook is being boosted by fleet expansion in Asia and strong replacement demand in western countries. Conversely, global deal activity in the defence sector is increasingly being impacted by the wave of government cutbacks. The uncertain outlook is causing defence contractors to further globalise in the face of growing competition for a shrinking pool of business. These trends will play a major role in deal activity as the year unfolds."

US entities were involved in the vast majority of A&D deals in 2011, whether measured by value or number of deals. The high number of larger US deals drove an increase in the US share of total deal value in 2011, exceeding historical norms. This reflects the larger number of big companies based in the US. All but one of the six mega deals involved the US. Cross border A&D deals increased in 2011 and European acquirers played a greater role in the A&D deal market compared to 2010. The pace of market consolidation rose within Europe and outbound deals also increased.

Globalisation continues

Looking ahead, the A&D sector continues to globalise as non-US players increase their competitiveness, benefiting from a growth in air travel and defence budgets in select regions such as Asia, Latin America and the Middle East, even as other countries cut spending. China appears to be best-positioned to advance its national aerospace industry given the relative level of domestic demand as well as technological help from western suppliers.

"Aerospace deals will likely lead M&A activity in 2012 and deal flow may be boosted by predominantly defence-oriented companies with strong cash positions seeking more exposure to the commercial aerospace business. Consolidation among large aerospace suppliers may also play a role as companies seek to gain greater scale and bargaining power in an increasingly competitive global market," said Hampson.

Special Report: Can aircraft manufacturers prevent rate ramp-up problems

Orders for new aircraft are expected to surge on both the commercial aerospace and defence side and manufacturers are planning to ramp-up production to unprecedented levels. Whilst this will create tremendous growth opportunities, the report says, it could also mean supply chain risks will be among the most significant issues that large commercial Original Equipment Manufacturers (OEMs) will face over the next few years.

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