














Aerospace & Defence - Q4 2021 Industry Update



Hopes of further unlocking of the commercial aerospace market in Q4 were rapidly squashed by the Omicron variant. This has not however put off those with conviction on the aerospace market paying multiples that look beyond the near term disruption and pricing in robust growth in the long term. Whilst, by the end of the year, Global RPKs were forecast to still be at c. 60% of 2019 levels and the Wide Body fleet is not forecast to be back at 2019 levels till 2025 there is enough positive momentum in the commercial aerospace market to sustain interest and valuations. At a macro level the global middle class continues to grow and the global consumer, when given the opportunity, has proven their eagerness to travel and spend on experiences having spent 2020 and 2021 focussed on spending on goods. Whilst the industry continues to invest to deliver long term de-carbonisation solutions, in the near term the only credible option is to fly on newer, more efficient planes. That and the rising price of oil, now over \$80 a barrel, will underpin new build deliveries. The narrow body super-cycle remains alive and kicking; Airbus are forecasting an OE CAGR of 11% from 2022 to 2025 – all driven by growth in A320 and A220. Airbus delivered 611 planes last year, up 8% from 2020, and announced 507 net orders. Whilst Boeing has lagged behind, delivering 340 planes in 2021, net orders stand at 535 for the year and recertification of the MAX in China pre-Christmas should close the gap in 2022. Whilst intercontinental travel remains subdued due to the decline in business flying and geo-political tensions across Asia, Business jets are set to continue their impressive momentum. By October 2021 deliveries were 5% higher in large jets than the same period in 2019, 12% higher for medium jets and 8.5% higher for small jets. Once Omicron has passed, and whilst the industry awaits the next variant the key risk will be on execution. Labour markets in the US have historically been tighter than in Europe, but nevertheless A&D players in Europe, especially in the UK, have been reporting significant wage pressures.

In the aerospace supply chain we expect to continue to see continued consolidation, encouraged by OEMs, driven by well capitalised platforms (mostly sovereign and private equity backed) and facilitated by the weakened balance sheets of those remaining independent players. Whilst some consolidation will be obligated and pricing will reflect this we do expect to see increasing amounts of M&A activity that prices in long term growth with valuations starting to creep back to pre-Covid levels.

Aerospace














Company	Country	Market Cap (GBPm)	Net Debt / (GBPm Cash)	Adj EV (GBPm)	Net debt / EBITDA (2021)	EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2020-2022	
						2020	2021	2022	2020	2021	2022	2020	2021	2022	Sales	EBITDA A
Airbus SE		74,161	(1,485)	71,177	n/a	1.6x 44,719 (25%)	1.6x 43,731 (2%)	1.4x 50,611 16%	18.9x 3,762 8%	11.8x 6,028 14%	9.9x 7,201 14%	49.2x 1,447 3%	18.3x 3,886 9%	14.4x 4,942 10%	6%	38%
Boeing Company		87,378	31,421	118,929	10.0x	2.8x 42,597 (26%)	2.5x 47,983 13%	1.9x 64,123 34%	nmf (4,697) (11%)	38.0x 3,132 7%	17.1x 6,975 11%	nmf (6,826) (16%)	nmf 1,504 3%	23.1x 5,139 8%	23%	n/a
Bombardier Inc.		2,353	4,381	6,991	9.8x	1.5x 4,751 (16%)	1.6x 4,491 (5%)	1.4x 4,917 9%	nmf (7) (0%)	15.6x 448 10%	10.8x 650 13%	nmf (219) (5%)	48.5x 144 3%	21.5x 325 7%	2%	n/a
Dassault Aviation SA		6,637	(2,884)	2,131	n/a	0.4x 4,926 (21%)	0.4x 5,630 14%	0.5x 4,725 (16%)	5.3x 402 8%	4.0x 536 10%	4.1x 521 11%	8.0x 265 5%	5.5x 384 7%	5.9x 360 8%	(2%)	14%
HEICO Corporation		13,491	149	13,850	0.4x	10.5x 1,315 (15%)	9.8x 1,415 8%	8.5x 1,626 15%	40.4x 343 26%	37.3x 372 26%	31.5x 439 27%	47.2x 294 22%	45.8x 302 21%	37.8x 366 23%	11%	13%
Meggitt PLC		5,748	823	6,551	2.7x	3.9x 1,684 (26%)	4.1x 1,584 (6%)	3.6x 1,796 13%	22.9x 287 17%	21.7x 302 19%	17.1x 394 21%	52.1x 126 7%	34.8x 188 12%	24.7x 265 15%	3%	16%
MTU Aero Engines AG		8,034	585	8,230	1.0x	2.3x 3,563 (9%)	2.2x 3,664 3%	1.9x 4,314 18%	18.7x 441 12%	13.9x 591 16%	11.4x 723 17%	30.4x 270 8%	21.4x 385 10%	16.2x 507 12%	10%	28%
Rolls-Royce Holdings plc		10,239	5,141	14,991	3.7x	1.3x 11,824 (29%)	1.3x 11,778 (0%)	1.2x 12,634 7%	nmf (842) (7%)	10.7x 1,395 12%	8.2x 1,838 15%	nmf (1,792) (15%)	24.1x 623 5%	16.0x 937 7%	3%	n/a
Safran SA		38,544	2,424	39,563	1.0x	2.6x 15,034 (29%)	3.0x 13,106 (13%)	2.6x 15,497 18%	15.4x 2,567 17%	16.3x 2,432 19%	12.7x 3,119 20%	30.7x 1,290 9%	26.4x 1,499 11%	18.5x 2,144 14%	2%	10%
Senior plc		610	147	754	2.7x	1.0x 734 (34%)	1.1x 680 (10%)	1.0x 737 12%	nmf (118) (16%)	13.6x 55 8%	9.8x 77 10%	nmf (178) (24%)	nmf 6 1%	28.0x 27 4%	0%	n/a
Singapore Technologies Engineering Ltd		6,413	782	7,080	1.4x	1.8x 3,967 (10%)	1.7x 4,163 5%	1.6x 4,485 8%	13.4x 529 13%	12.8x 583 13%	12.2x 581 13%	20.2x 351 9%	20.5x 345 8%	18.9x 375 8%	6%	5%
Textron Inc.		12,567	1,622	14,189	1.4x	1.5x 9,184 3%	1.4x 10,099 10%	1.3x 10,705 6%	13.8x 1,028 11%	12.0x 1,181 12%	11.0x 1,289 12%	17.7x 801 9%	16.0x 890 9%	14.3x 991 9%	8%	12%
Thales S.A.		13,379	2,155	14,581	1.0x	1.0x 15,221 (2%)	1.0x 14,288 (6%)	1.0x 15,176 6%	7.8x 1,878 12%	6.8x 2,136 15%	6.2x 2,365 16%	16.9x 862 6%	10.0x 1,460 10%	8.7x 1,682 11%	(0%)	12%
Min						0.4x	0.4x	0.5x	5.3x	4.0x	4.1x	8.0x	5.5x	5.9x	(2%)	5%
Mean						1.8x	2.4x	2.1x	17.4x	16.5x	12.4x	30.3x	24.7x	19.1x	6%	17%
Median						1.6x	1.6x	1.4x	15.4x	13.6x	11.0x	30.4x	21.4x	18.5x	3%	13%
Max						3.9x	9.8x	8.5x	40.4x	38.0x	31.5x	52.1x	48.5x	37.8x	23%	38%

Source: CapIQ.

Note: Multiples are based on enterprise value as of 30 September 2021 and historical and forecast sales. EBITDA and EBIT, calendarised to 31 December. "nmf": not meaningful; "n/a": not available. Adjusted EV takes into consideration IFRS16.

The Defence market remains robust and is underpinned by continued geo-political tensions. The key near term beneficiaries being major orders for Rafale, F35 and nuclear submarines. Whilst only the US and UK are currently exceeding the 2% NATO guidance on defence spending France is edging closer and NATO equipment spend amongst top 6 countries (c. 90% of total spend), increased by \$10bn in 2021. France in particular in 2022 is allocating 58% of its 2022 defence budget to equipment spend, versus a 20% NATO target. In the US we expect Biden's 5 year Defence preliminary budget in February, and the National Defence Strategy and Nuclear Posture in Spring 2022 to maintain long term confidence in the sector. Within the supply chain, access to security approved engineers in defence is becoming a challenge and constraint on development. Inflation across the supply chain has put pressure on margins in the commercial sector where there is little appetite from the airlines and lessors to absorb price increases; whilst the defence sector has more cost plus agreements, these erode the overall defence budget and there will be a lag before the margins are able to recover.

Defence

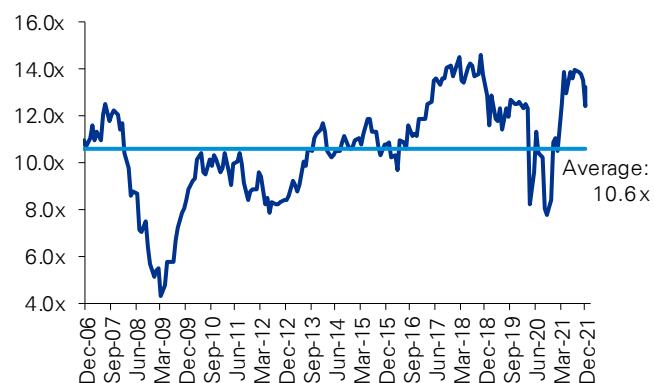
						EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2020-2022	
A	Country	Market Cap (GBPm)	Net Debt / (Cash)	Adj EV / EBITDA (GBPm)	Net debt EV / EBITDA (2021)	2020	2021	2022	2020	2021	2022	2020	2021	2022	Sales	EBITDA A
BAE Systems plc		17,381	3,828	20,940	1.4x	1.1x 19,277 5%	1.0x 21,440 11%	0.9x 22,233 4%	9.1x 2,293 12%	7.6x 2,757 13%	7.1x 2,934 13%	12.2x 1,713 9%	9.5x 2,197 10%	8.9x 2,341 11%	7%	13%
Elbit Systems Ltd.		5,664	1,001	6,539	2.3x	1.9x 3,415 0%	1.7x 3,857 13%	1.6x 3,998 4%	18.4x 355 10%	15.3x 428 11%	14.5x 450 11%	24.4x 268 8%	19.2x 340 9%	17.9x 365 9%	8%	13%
General Dynamics Corporation		42,914	8,986	51,900	2.4x	1.9x 27,778 (6%)	1.8x 28,723 3%	1.7x 29,841 4%	13.9x 3,728 13%	13.9x 3,725 13%	13.2x 3,921 13%	15.6x 3,320 12%	16.8x 3,088 11%	15.8x 3,295 11%	4%	3%
Kratos Defense & Security Solutions, Inc.		1,776	11	1,788	0.2x	3.3x 552 1%	3.0x 599 8%	2.6x 684 14%	43.1x 42 8%	29.5x 61 10%	24.5x 73 11%	nmf 25 5%	nmf 21 3%	51.0x 35 5%	11%	32%
L3Harris Technologies, Inc.		30,902	4,969	35,952	1.7x	2.7x 13,118 (5%)	2.7x 13,435 2%	2.6x 13,892 3%	13.0x 2,776 21%	12.2x 2,969 22%	11.9x 3,034 22%	13.4x 2,675 20%	14.2x 2,539 19%	13.5x 2,666 19%	3%	5%
Leidos Holdings, Inc.		9,214	3,837	13,088	3.4x	1.3x 10,071 8%	1.2x 10,697 6%	1.2x 11,274 5%	11.8x 1,114 11%	11.5x 1,134 11%	10.9x 1,198 11%	14.1x 928 9%	14.5x 900 8%	13.1x 999 9%	6%	4%
Leonardo S.p.a.		3,043	4,097	7,149	3.1x	0.6x 12,015 3%	0.6x 11,849 (1%)	0.6x 12,416 5%	4.9x 1,464 12%	5.4x 1,317 11%	4.9x 1,453 12%	6.6x 1,088 15%	7.8x 918 14%	6.9x 1,031 13%	2%	(0%)
Lockheed Martin Corporation		72,388	6,545	78,933	0.9x	1.6x 47,900 6%	1.6x 49,498 3%	1.6x 49,045 (1%)	10.8x 7,325 15%	10.3x 7,662 15%	10.4x 7,576 15%	11.3x 6,998 15%	11.8x 6,714 14%	12.1x 6,546 13%	1%	2%
Northrop Grumman Corporation		45,319	7,174	52,493	1.6x	1.9x 26,953 6%	2.0x 26,630 (1%)	1.9x 27,433 3%	13.0x 4,025 15%	11.6x 4,530 17%	13.8x 3,817 14%	15.7x 3,334 12%	12.2x 4,305 16%	18.8x 2,790 10%	1%	(3%)
Raytheon Technologies Corporation		95,283	18,748	115,261	2.4x	2.8x 41,447 21%	2.4x 47,758 15%	2.2x 52,146 9%	23.7x 4,864 12%	15.0x 7,690 16%	12.7x 9,066 17%	58.8x 1,959 5%	21.6x 5,332 11%	18.3x 6,292 12%	12%	37%
Rheinmetall AG		3,014	202	3,199	0.3x	0.6x 5,329 (0%)	0.7x 4,829 (9%)	0.6x 5,253 9%	5.5x 585 11%	4.6x 695 14%	4.3x 742 14%	9.2x 347 7%	6.8x 468 10%	6.2x 512 10%	(1%)	13%
Saab AB (publ)		2,477	(72)	2,392	n/a	0.8x 3,160 11%	0.8x 3,184 1%	0.7x 3,366 6%	11.9x 201 6%	6.2x 386 12%	5.7x 423 13%	27.6x 87 3%	10.1x 237 7%	8.9x 270 8%	3%	45%
Ultra Electronics Holdings plc		2,267	65	2,332	0.4x	2.7x 860 4%	2.7x 874 2%	2.5x 915 5%	16.6x 140 16%	15.1x 155 18%	14.1x 166 18%	21.4x 109 13%	18.2x 128 15%	17.1x 136 15%	3%	9%
Min						0.6x	0.6x	0.6x	4.9x	4.6x	4.3x	6.6x	6.8x	6.2x	(1%)	(3%)
Mean						1.8x	1.7x	1.6x	15.0x	12.2x	11.4x	19.2x	13.6x	16.0x	5%	13%
Median						1.9x	1.7x	1.6x	13.0x	11.6x	11.9x	14.9x	13.2x	13.5x	3%	9%
Max						3.3x	3.0x	2.6x	43.1x	29.5x	24.5x	58.8x	21.6x	51.0x	12%	45%

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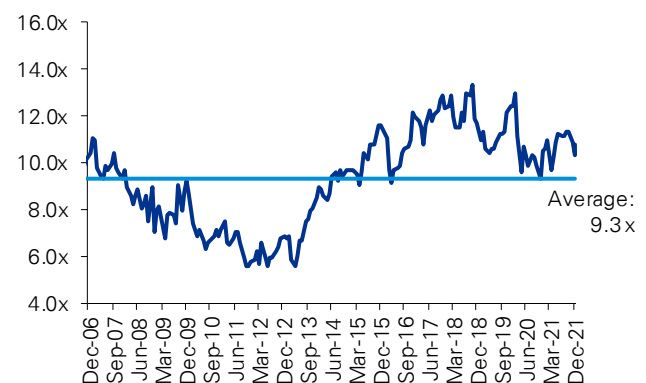
Sector valuation through the cycle (EV/LTM EBITDA)

Aerospace



Source: Capital IQ

Defence



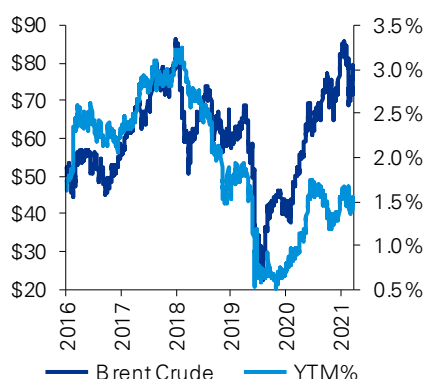
Source: Capital IQ

Selected recent M&A activity headlines

- Oct 2021 – **Mercury Systems** acquired **Avalet Technologies**, the US-based provider of rugged displays, integrated communications management systems, digital video recorders, and warning systems.
- Oct 2021 – **Vance Street Capital Partners** acquired **McFarlane Aviation, Inc.**, a US-based designer and manufacturer of aftermarket PMA parts for the general aviation industry.
- Oct 2021 – **CAE Inc.** agreed to acquire the **AirCentre Airline Operations Portfolio** of **Sabre Corporation**
- Nov 2021 – **The Carlyle Group** and **Stellex Capital Management** acquired **IMI A Group Holdings**, a US-based provider of comprehensive marine preservation, structural, scaffolding & environmental containment, and staffing services for the MRO and construction of the U.S. Navy fleet, from **J.F. Lehman & Company**
- Nov 2021 – **Rheinmetall** acquired **Elektro-Mechanische Technologien (EMT)**, the Germany-based unmanned air vehicle maker designed to carry various payloads for short and medium ranges of up to 100 km
- Nov 21: **BAE Systems** entered into a definitive agreement to acquire **Bohemia Interactive Simulations**, the Czech-based software developer of simulation training solutions for military organisations from **The Riverside Company**
- Dec 2021 – **Latécoère S.A.** entered into definitive agreement to acquire **Malaga Aerospace Defence and Electronic Systems**, (previously Raytheon Microelectronics) from **American Industrial Acquisition Corporation**
- Dec 2021 – **Vertex Aerospace, LLC** agreed to acquire **Defense Training and Mission Critical Solutions** from **Raytheon Technologies**
- Dec 2021 – **Thales Group** entered into a definitive agreement to acquire the **Navigation Aids Business** of **Moog Inc.**

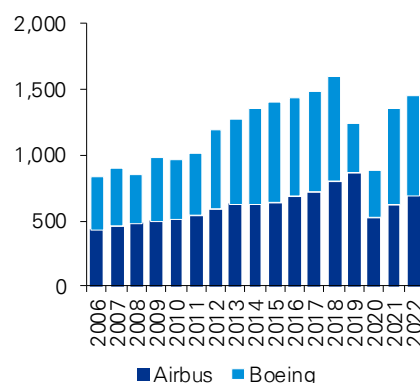
Economic indicators

Brent Crude (\$) vs. US 10 Yr Treasuries



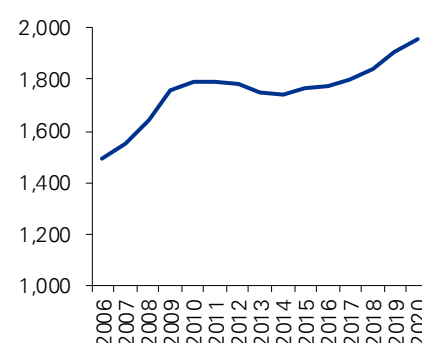
Source: Capital IQ

Delivered Commercial Aircraft (Units)



Source: Airbus and Boeing annual report, UBS, JPMorgan, Barclays.

Global Defence Spend (\$bn)



Source: SIPRI Military Expenditure Database

Our sector experts



Glynn Bellamy
Head of A&D, UK – KPMG UK
T: +44 (0)7766 442407
E: glynn.bellamy@kpmg.co.uk



Alastair Horrocks
Director – KPMG UK
T: +44 (0)7796 690204
E: alastair.horrocks@kpmg.co.uk



Matthew Willies
Director – KPMG UK
T: +44 (0)7796 941915
E: matt.willies@kpmg.co.uk

kpmg.com/uk


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