

# Aerospace & Defence - Q2 2022 Industry Update



Labour driven disruptions have been the order of the day across commercial aerospace in both Europe and the US. In tight labour markets airlines and airports have been unable to entice back the staff let go over Covid in the face of a robust rebound in demand. Air Traffic Control at Gatwick has faced similar labour driven constraints – reducing airport capacity by 10% - whilst central and eastern Europe air space is severely congested due to detours around Russian and Belarussian airspace.

The return of Trans-Atlantic demand has not yet heralded the return of the wide body market. Despite Boeing expressing optimism that 787s will take to the air again soon, the return of the trans-Atlantic market has benefited the long range A320s at the expense of the wide body fleet. The 4200 A320s on order represent, to some extent, a cannibalisation of the wide body demand. The lower cost, lower emissions, direct flight option on offer from the A321XLR is increasingly attractive. Until the Asian market returns, and China shows little sign of opening up, the wide body return remains in doubt. International flights into China since the start of the year are 88% below 2019 levels, whilst Chinese airline capacity is still 30% below 2019 levels.

China remains problematic as an end market for Boeing. A recent contract award of over 290 aircraft to Chinese airlines see Airbus further consolidate its position with 4 out of the 9 major Chinese operators.

From an M&A perspective we are seeing buyers in the mid-market prepared to take a view on proforma financials that reflect the future recovery in build rates where they feel there is sufficient contractual cover and switching cost. Buyers are starting to give credit for future build rates (in narrow body), even though these build rates are at risk from the supply chain issues we describe above. Less certain is the financing of aerospace transactions. Lenders seem reluctant to bank on future recovery, or worried about existing exposure, and are at the conservative end of the leverage spectrum.

## Aerospace














						EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2021-2023	
Company	Country	Market Cap (GBPm)	Net Debt /(Cash)	Adj EV (GBPm)	Net debt / EBITDA (2022)	2021	2022	2023	2021	2022	2023	2021	2022	2023	Sales	EBITDA
Airbus SE		62,621	(1,897)	59,315	n/a	1.4x 43,800 (2%)	1.1x 51,837 18%	1.0x 61,051 18%	10.6x 5,587 13%	8.4x 7,021 14%	6.6x 8,928 15%	15.9x 3,733 9%	12.1x 4,903 9%	8.9x 6,678 11%	18%	26%
Boeing Company		66,567	34,582	101,249	8.1x	2.2x 45,999 8%	1.6x 61,834 34%	1.3x 75,080 21%	nmf 1,076 2%	23.7x 4,280 7%	12.6x 8,045 11%	nmf (518) (1%)	39.8x 2,543 4%	16.2x 6,242 8%	28%	173%
Bombardier Inc.		1,198	4,253	5,716	5.9x	1.3x 4,494 (5%)	1.1x 5,440 21%	0.9x 6,052 11%	21.3x 269 6%	7.9x 721 13%	6.0x 947 16%	39.7x 144 3%	16.6x 345 6%	10.9x 525 9%	16%	88%
Dassault Aviation SA		10,655	(3,991)	5,099	n/a	0.8x 6,092 24%	1.0x 5,176 (15%)	1.0x 5,270 2%	8.8x 577 9%	9.5x 534 10%	8.1x 628 12%	11.3x 451 7%	13.5x 378 7%	12.0x 424 8%	(7%)	4%
HEICO Corporation		12,945	118	13,336	0.2x	9.5x 1,400 1%	7.3x 1,820 30%	6.6x 2,019 11%	36.3x 367 26%	27.3x 489 27%	24.1x 553 27%	42.2x 316 23%	32.7x 408 22%	28.6x 467 23%	20%	23%
Meggitt PLC		6,161	778	7,018	2.2x	4.7x 1,489 (12%)	4.1x 1,691 14%	3.6x 1,968 16%	29.6x 237 16%	19.6x 359 21%	16.7x 421 21%	nmf 103 7%	27.8x 253 15%	22.7x 309 16%	15%	33%
MTU Aero Engines AG		7,985	513	8,498	0.7x	2.4x 3,517 (1%)	1.9x 4,560 30%	1.7x 5,148 13%	18.2x 467 13%	11.3x 751 16%	9.7x 878 17%	28.2x 302 9%	16.7x 510 11%	13.6x 623 12%	21%	37%
Rolls-Royce Holdings plc		6,941	5,254	11,817	4.0x	1.1x 11,218 (2%)	1.0x 11,624 4%	0.9x 12,592 8%	9.3x 1,268 11%	9.1x 1,303 11%	7.2x 1,641 13%	25.4x 465 4%	23.5x 503 4%	14.8x 797 6%	6%	14%
Safran SA		34,590	1,597	35,490	0.5x	2.8x 12,845 (15%)	2.3x 15,689 22%	2.0x 18,112 15%	16.1x 2,206 17%	11.9x 2,988 19%	9.8x 3,624 20%	33.8x 1,049 8%	17.4x 2,035 13%	13.5x 2,621 14%	19%	28%
Senior plc		477	153	626	2.2x	1.0x 659 (10%)	0.8x 744 13%	0.8x 833 12%	11.1x 57 9%	8.9x 71 9%	7.0x 90 11%	nmf 10 2%	25.3x 25 3%	13.4x 47 6%	12%	26%
Singapore Technologies Engineering Ltd		7,521	716	8,340	1.0x	2.0x 4,214 6%	1.6x 5,331 26%	1.4x 5,776 8%	14.9x 559 13%	11.9x 699 13%	10.3x 812 14%	23.2x 359 9%	18.9x 442 8%	16.1x 518 9%	17%	21%
Textron Inc.		10,809	1,564	12,373	1.1x	1.2x 9,926 10%	1.0x 11,839 19%	1.0x 12,455 5%	10.6x 1,169 12%	8.6x 1,432 12%	8.1x 1,536 12%	13.7x 901 9%	11.3x 1,097 9%	10.4x 1,191 10%	12%	15%
Thales S.A.		21,447	739	23,319	0.3x	1.7x 13,600 (1%)	1.6x 14,819 9%	1.5x 15,927 7%	12.2x 1,913 14%	10.0x 2,341 16%	9.0x 2,591 16%	22.4x 1,040 8%	14.2x 1,637 11%	12.5x 1,859 11%	8%	16%
Min						0.8x	0.8x	0.8x	8.8x	7.9x	6.0x	11.3x	11.3x	8.9x	(7%)	4%
Mean						2.5x	2.0x	1.8x	16.6x	12.9x	10.4x	25.6x	20.7x	14.9x	14%	28%
Median						1.7x	1.6x	1.3x	13.6x	10.0x	9.0x	24.3x	17.4x	13.5x	16%	24%
Max						9.5x	7.3x	6.6x	36.3x	27.3x	24.1x	42.2x	39.8x	28.6x	28%	88%

Source: CapIQ.

Note: Multiples are based on enterprise value as of 30 June 2022 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 Ukrainian conflict has materially strengthened the NATO alliance – with the additions of Finland and Sweden – whilst simultaneously exposing a number of weaknesses in European defence capabilities. On the one hand specialist capabilities have been neglected or paid lip service to; credible Chemical, Biological, Radiological and Nuclear defence capabilities are lacking outside the major powers. On the other the industrial supply chain for artillery munitions and guided missiles has been woefully under invested. It lacks the capacity, and increasingly, the manpower, to respond quickly. It will take at least two years to return stockpiles to normal levels ignoring any sustained requirement to re-supply Ukraine or to meet increased NATO training requirements. That pledges of support have, largely, been slow to materialise, reflects, in the most part, this under investment in the supply chain and a paucity of deployable reserves rather than a reduction in political commitment. The US continues to recognise the Ukraine as a strategic priority – any compromise now would signal weakness to China – and the European nations are aligned, with a couple of notable exceptions, behind this aim. Such commitment was reflected by the agreement at the Madrid NATO summit to increase the number of NATO troops on high readiness from 40,000 to 300,000 from 2023. Whilst Europe remains a fragmented market in which national considerations dominate both procurement and M&A activities there does remain opportunity for British businesses. The lacklustre availability record of the German fast jet fleet would potentially benefit from the type of availability based service model developed in the UK - which is ironic as the Chief of the General Staff in the UK recently called for the end of the whole fleet management model for armoured vehicles. Against a backdrop of political chaos a concerted effort by the Defence Secretary, supported by his heads of service, to increase defence spending seems to have had the desired effect. Although whether future incumbents of number 10, faced by future fiscal constraints, honour the pledge of the outgoing Prime Minister to increase defence spending to 2.5% of GDP by 2030. In terms of M&A we have not yet seen an uptick in activity to reflect the positive market outlook. We suspect that this, in part, reflects the lack of accessible, available assets and in part, the long lead times and ongoing supply chain issues that are hindering the conversion of the order book to the bottom line. We do expect the significant increase in NATO high readiness forces and the added emphasis on inter-operability to mean that the key beneficiaries in terms of spending and subsequent M&A will be communications, training and platform support related.

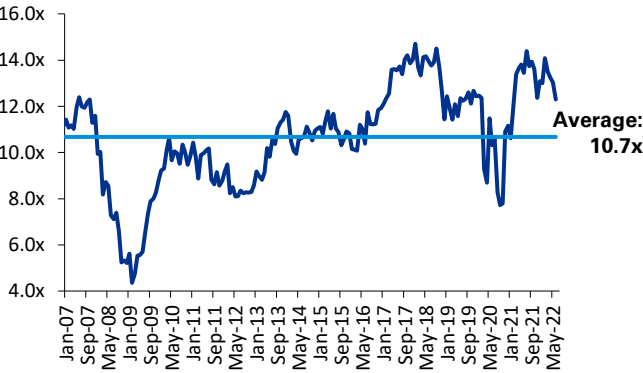
Defence

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BAE Systems plc		26,161	3,594	31,625	1.2x	1.6x 19,521 1%	1.4x 22,280 14%	1.4x 23,242 4%	14.2x 2,224 11%	10.4x 3,034 14%	9.9x 3,208 14%	17.2x 1,844 9%	13.1x 2,417 11%	12.3x 2,577 11%	9%	20%
Elbit Systems Ltd.		8,308	909	9,088	1.8x	2.3x 3,898 14%	2.0x 4,655 19%	1.8x 4,930 6%	22.6x 403 10%	18.0x 504 11%	16.4x 555 11%	30.7x 296 8%	22.7x 401 9%	20.8x 437 9%	12%	17%
General Dynamics Corporation		50,467	7,832	58,299	1.8x	2.1x 28,410 2%	1.8x 32,501 14%	1.7x 34,913 7%	15.0x 3,893 14%	13.7x 4,255 13%	12.4x 4,719 14%	17.7x 3,303 12%	16.6x 3,513 11%	14.7x 3,978 11%	11%	10%
Kratos Defense & Security Solutions, Inc.		1,428	97	1,537	1.4x	2.5x 606 10%	2.1x 738 22%	1.9x 819 11%	36.9x 42 7%	21.5x 72 10%	17.6x 87 11%	nmf 23 4%	nmf 23 3%	35.9x 43 5%	16%	45%
L3Harris Technologies, Inc.		38,364	5,672	44,117	1.8x	3.4x 13,156 (1%)	3.1x 14,437 10%	2.9x 15,111 5%	16.4x 2,686 20%	14.3x 3,087 21%	13.5x 3,256 22%	21.9x 2,013 15%	16.0x 2,763 19%	15.3x 2,882 19%	7%	10%
Leidos Holdings, Inc.		11,326	4,137	15,504	3.4x	1.5x 10,145 13%	1.3x 11,677 15%	1.3x 12,263 5%	14.1x 1,099 11%	12.8x 1,213 10%	12.0x 1,288 11%	17.7x 877 9%	16.6x 935 8%	15.0x 1,032 8%	10%	8%
Leonardo S.p.a.		4,790	4,087	8,900	2.8x	0.7x 11,872 (1%)	0.7x 12,834 8%	0.7x 13,374 4%	7.9x 1,133 10%	6.0x 1,484 12%	5.5x 1,628 12%	10.3x 867 7%	8.6x 1,032 8%	7.7x 1,156 9%	6%	20%
Lockheed Martin Corporation		94,309	7,402	101,711	0.9x	2.1x 49,513 3%	1.9x 54,318 10%	1.8x 55,886 3%	15.3x 6,654 13%	12.5x 8,125 15%	12.1x 8,432 15%	17.3x 5,896 12%	14.6x 6,973 13%	14.0x 7,248 13%	6%	13%
Northrop Grumman Corporation		61,220	9,064	70,284	2.3x	2.7x 26,341 (2%)	2.3x 30,080 14%	2.2x 31,367 4%	10.9x 6,450 24%	17.7x 3,978 13%	16.7x 4,199 13%	12.4x 5,650 21%	23.6x 2,981 10%	21.8x 3,220 10%	9%	(19%)
Raytheon Technologies Corporation		117,301	20,585	139,073	2.0x	2.9x 47,552 15%	2.5x 56,230 18%	2.3x 61,065 9%	16.6x 8,400 18%	13.5x 10,302 18%	11.9x 11,697 19%	27.1x 5,139 11%	20.2x 6,893 12%	17.1x 8,117 13%	13%	18%
Rheinmetall AG		8,207	345	8,416	0.4x	1.8x 4,752 (2%)	1.5x 5,720 20%	1.2x 6,787 19%	12.1x 694 15%	9.6x 881 15%	7.9x 1,059 16%	16.0x 526 11%	13.1x 643 11%	10.5x 801 12%	20%	24%
Saab AB (publ)		4,479	(156)	4,316	n/a	1.3x 3,198 1%	1.3x 3,337 4%	1.2x 3,615 8%	13.9x 310 10%	10.2x 424 13%	9.0x 478 13%	18.5x 233 7%	16.3x 265 8%	13.9x 310 9%	6%	24%
Ultra Electronics Holdings plc		2,484	40	2,549	0.2x	3.0x 851 (1%)	2.8x 913 7%	2.7x 953 4%	19.0x 134 16%	15.3x 167 18%	14.4x 177 19%	22.5x 114 13%	18.5x 138 15%	17.5x 145 15%	6%	15%
Min						0.7x	0.7x	0.7x	7.9x	6.0x	5.5x	10.3x	8.6x	7.7x	6%	(19%)
Mean						2.1x	1.9x	1.8x	16.5x	13.5x	12.3x	19.1x	16.6x	16.7x	10%	16%
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Max						3.4x	3.1x	2.9x	36.9x	21.5x	17.6x	30.7x	23.6x	35.9x	20%	45%

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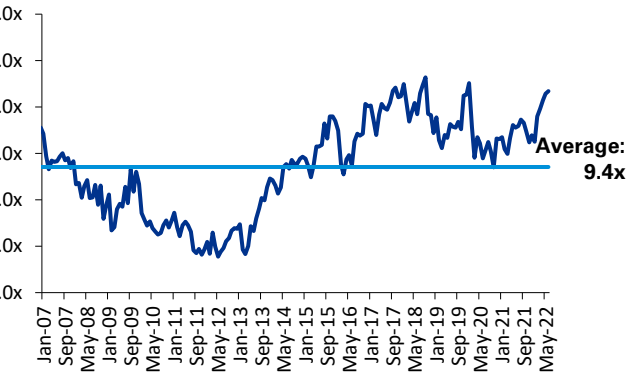
Sector valuation through the cycle (EV/LTM EBITDA)

Aerospace



Source: Capital IQ

Defence



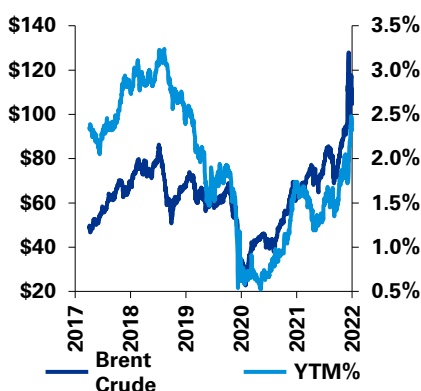
Source: Capital IQ

## Selected recent M&amp;A activity headlines

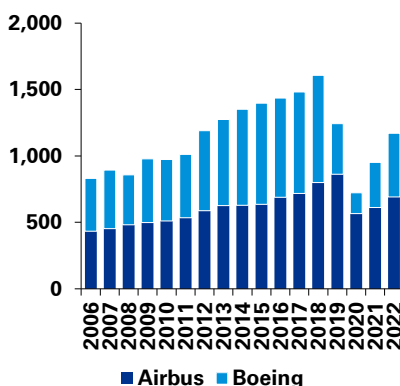
- Jun 2022 - **Leonardo SpA**, has acquired **Rada Electronic Industries Ltd**, the listed Israel based manufacturer of electronic equipment for the aerospace and commercial aviation markets
- Jun 2022 – **Doncasters Group** acquired **Uni Pol**, a China-based provider of investment castings for the aerospace and automotive industries
- May 2022 – **Textron Aviation** acquired **Mistequay Group**, the US passed precision manufacturer of aviation components
- May 2022 – **Latécoère S.A.** agreed to acquire **Avcorp Industries Inc.**, the listed Canada-based provider of integrated composite and metallic aircraft structures to aircraft manufacturer
- May 2022 – **B-Technology & Innovation Industrial Group (BT2i)**, the France based specialist in the design and production of metal parts and sub-assemblies for aerospace manufacturers and equipment suppliers has been acquired by **Tikehau Ace Capital**
- Apr 2022 - **Thales** has acquired **Advanced Acoustic Concepts Inc**, the US based provider of sonar systems, acoustic training systems, and software integration for navy and homeland security applications from **Leonard DRS**
- Apr 2022 – **Accurus Aerospace**, a portfolio company of **Liberty Hall Capital Partners**, has acquired **Ferra Holdings Ltd**, the Australia based provider of advanced components, sub-systems and assemblies for military and commercial aerospace
- Apr 2022 – **Communication and Power Industries (CPI)**, the US-based maker of components and subsystems for radar and electronic warfare, has been acquired by **the Jordan Company**
- Apr 2022 - **GS Precision Inc**, has acquired **FT Gearing Systems Ltd**, the UK based manufacturer of highly engineered gears to the aerospace and defence industries
- Apr 2022 - **American Industrial Acquisition Corp** has acquired **MB Aerospace Sterling Heights Inc**, the US based provider of machining of high-value cast components for aerospace and industrial markets from **MB Aerospace**, a portfolio company of **Blackstone**

## Economic indicators

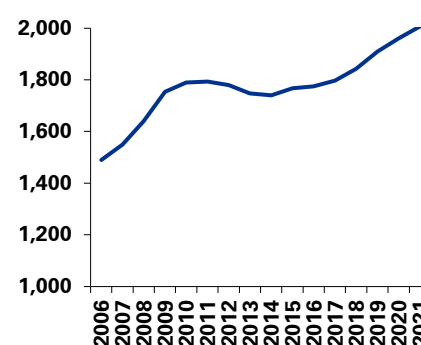
Brent Crude (\$) vs. US 10 Yr Treasuries



Delivered Commercial Aircraft (Units)



Global Defence Spend (\$bn)



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