

Aerospace & Defence

Industry Update

Q3 2023

The commercial aerospace market has seen positive tailwinds for the past 3 quarters, supported by build rates and pent up aftermarket demand. China is back flying, 737 Max are doing on average 300 flights per day versus 5-10 per day in January. We expect the aftermarket to remain strong to the year end (so far Crane and GE have reported 39% and 31% year on year growth in their aftermarket service businesses) but to slow into Q1 2024 as aftermarket demand steadies. 2024 will still remain positive for the aftermarket; lower growth will be supported by higher prices. From the OE perspective we expect a selective management of inventory at the primes. The latter should only be temporary but reflects a build-up of components throughout 2023 to minimise the disruption to deliveries. Boeing has been explicit on its intent to selectively manage supplier inventories. In the US, primes have traditionally been more aware of fragilities in the supply chain and looked to insulate the most vulnerable suppliers. In Europe there is less propensity to do this and so we would expect selective de-stocking from the European primes to place a greater balance sheet strain on OE suppliers. Whilst we expect a temporary plateau in commercial aerospace we do not believe this will impact the key M&A trends – out-sourcing of non-core activities from OEMs, consolidation in the supply chain to realise economies of scale and vertical integration to reduce inefficiencies in a complex supply chain. From an M&A perspective it has been a quiet quarter in the mid-market with most transactions being focussed on the aftermarket: Marubeni acquired Diversified Aero Services Inc in the US and we were very pleased to have supported Bridgepoint Development Capital in investment into in SK AeroSafety Group. We are aware of transactions being prepared for launch in the New Year and expect greater transaction volumes than as businesses can demonstrate 12 months of trading undisturbed by Covid and its subsequent supply chain disruptions.

Aerospace							EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2022-2024	
Company	Country	Year End Date	Market Cap (GBPm)	Net Debt / (Cash)	Adj EV (GBPm)	Net debt / EBITDA (2023)	2022	2023	2024	2022	2023	2024	2022	2023	2024	Sales	EBITDA
Airbus SE		Dec-22	86,916	(3,682)	81,466	n/a	1.6x 52,122 19%	1.5x 55,751 7%	1.3x 62,820 13%	11.8x 6,881 13%	10.9x 7,466 13%	9.3x 8,755 14%	17.6x 4,616 9%	15.7x 5,198 9%	12.8x 6,375 10%	10%	13%
Boeing Company		Dec-22	94,747	30,301	125,067	12.3x	2.3x 55,281 20%	1.9x 64,329 16%	1.7x 74,829 16%	nfm 941 2%	nfm 2,467 4%	18.3x 6,833 9%	nfm (619) (1%)	nfm 768 1%	24.1x 5,182 7%	16%	169%
Bombardier Inc.		Dec-22	2,736	4,042	7,051	4.2x	1.2x 5,737 28%	1.1x 6,392 11%	1.0x 6,812 7%	13.4x 528 9%	7.3x 969 15%	6.3x 1,124 16%	20.4x 345 6%	11.2x 629 10%	9.4x 747 11%	9%	46%
Dassault Aviation société anonyme		Dec-22	12,226	(6,469)	3,707	n/a	0.6x 6,268 2%	0.8x 4,799 (23%)	0.7x 5,197 8%	5.4x 686 11%	6.7x 552 12%	5.8x 640 12%	6.9x 536 9%	9.7x 383 8%	7.8x 475 9%	(9%)	(3%)
HEICO Corporation		Oct-22	16,099	405	16,807	0.6x	8.3x 2,029 44%	6.6x 2,534 25%	5.4x 3,141 24%	31.6x 531 26%	26.6x 632 25%	21.5x 781 25%	42.7x 394 19%	31.9x 526 21%	25.5x 659 21%	24%	21%
Howmet Aerospace Inc.		Dec-22	15,623	2,805	18,471	2.4x	3.9x 4,700 28%	3.5x 5,303 13%	3.2x 5,712 8%	17.7x 1,046 22%	15.5x 1,194 23%	13.8x 1,338 23%	25.3x 729 16%	19.1x 966 18%	16.6x 1,113 19%	10%	13%
MTU Aero Engines AG		Dec-22	8,008	405	7,954	0.4x	1.7x 4,728 34%	1.5x 5,474 16%	1.3x 6,190 13%	12.8x 619 13%	8.0x 1,000 18%	7.3x 1,090 18%	18.1x 440 9%	11.3x 706 13%	10.1x 787 13%	14%	33%
Rolls-Royce Holdings plc		Dec-22	18,472	2,931	20,956	1.3x	1.6x 13,520 21%	1.4x 14,561 8%	1.3x 15,700 8%	13.5x 1,555 12%	9.4x 2,225 15%	8.6x 2,437 16%	26.6x 787 6%	16.3x 1,288 9%	14.3x 1,463 9%	8%	25%
Safran SA		Dec-22	54,156	(64)	52,858	n/a	3.0x 17,450 36%	2.6x 20,203 16%	2.3x 22,876 13%	15.5x 3,414 20%	13.8x 3,827 19%	11.6x 4,567 20%	24.1x 2,193 13%	19.3x 2,741 14%	15.3x 3,460 15%	14%	16%
Senior plc		Dec-22	667	191	853	2.0x	1.0x 848 29%	0.9x 978 15%	0.8x 1,024 5%	10.6x 80 9%	8.9x 96 10%	7.6x 113 11%	26.7x 32 4%	18.3x 46 5%	14.2x 60 6%	10%	18%
Singapore Technologies Engineering Ltd		Dec-22	7,312	3,362	10,547	4.0x	1.9x 5,592 33%	1.8x 5,838 4%	1.7x 6,180 6%	15.2x 694 12%	12.7x 832 14%	11.6x 909 15%	28.9x 365 7%	21.3x 496 8%	18.8x 560 9%	5%	14%
Textron Inc.		Dec-22	12,683	1,746	14,429	1.3x	1.4x 10,681 17%	1.3x 11,386 7%	1.2x 12,088 6%	11.5x 1,251 12%	10.8x 1,342 12%	10.0x 1,447 12%	17.7x 813 8%	14.4x 1,002 9%	13.1x 1,105 9%	6%	8%
Min							0.6x	0.8x	0.7x	5.4x	6.7x	5.8x	6.9x	9.7x	7.8x	(9%)	(3%)
Mean							2.4x	2.1x	1.8x	14.5x	11.9x	11.0x	23.2x	17.1x	15.2x	10%	31%
Median							1.6x	1.5x	1.3x	13.4x	10.8x	9.6x	24.1x	16.3x	14.3x	10%	17%
Max							8.3x	6.6x	5.4x	31.6x	26.6x	21.5x	42.7x	31.9x	25.5x	24%	169%

Source: CapIQ

Note: (a) Multiples are based on enterprise value as of 30-September-2023 and historical and forecast sales, EBITDA and EBIT, calendarised to 31 December. "nfm": not meaningful; "n/a": not available.

Defence continues to benefit from geo-political tailwinds. Whilst there is some nervousness around next year's US defence budget the budgetary outlook for the US (in general), Europe and the Middle East remains positive. Markets have been buoyed by political promises made 12-18 months ago translating into hard contracts; the £3.95bn contract awarded by the UK MoD for the next phase of the AUKUS nuclear powered attack submarine programme materially exceeded expectations; the first €19bn spending milestone for German Special Defence Budget is due in Q1 2024, from there on the incremental uplift from the Special Budget is forecast to increase the total Defence budget in Germany to €84bn in 2024 (up from €51bn in 2020).

The horrific events in Ukraine and the Middle East continue to overstretch defence supply chain. Munitions of both the smart and dumb variety remain in particularly short supply. NATO stocks are depleted and the supply chain lacks the capacity to both refill them and keep up with the demand from the Ukraine. Rheinmetall's maximum annual output of shells post acquisition of EXPAL is 600k. This represents less the 40% of the annual demand from the Ukrainian armed forces alone who are firing around 5k rounds per day. For Tier 2 and Tier 3 members of the European supply chain the volumes demanded by major weapons programmes, such as Javelin, are providing aerospace-like orderbooks with forward visibility in excess of five years. Such volumes and visibility amongst a fragmented supply chain with limited vertical integration does now make a UK / European focussed roll up play more viable. At the larger end of the market, strategic capability acquisition remains the order of the day. The increasing importance of space was reflected in M&A activity in the quarter: BAES acquired Ball Aerospace and a consortium led by Saudi finance house Aljazira invested in Axiom Inc. The latter move by a Saudi investment vehicle reflects a more active capability acquisition strategy by Middle Eastern state funds defence vehicles. The strategic roadmaps for capability development, both organic and acquisitive, are now in place and the investment phase is now underway. EDGE, the UAE defence vehicle, acquired SIATT, a Brazilian manufacturer of surface to surface guided missiles.

Defence								EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2022-2024	
Company	Country	Year End Date	Market Cap (GBPm)	Net Debt / (Cash)	Adj EV (GBPm)	Net debt / EBITDA (2023)	2022	2023	2024	2022	2023	2024	2022	2023	2024	Sales	EBITDA	
BAE Systems plc		Dec-22	30,279	3,406	33,192	1.0x	1.6x 21,258 9%	1.3x 24,714 16%	1.3x 26,283 6%	12.1x 2,738 13%	10.1x 3,275 13%	9.4x 3,516 13%	15.9x 2,082 10%	12.6x 2,636 11%	11.6x 2,851 11%	11%	13%	
Elbit Systems Ltd.		Dec-22	7,223	1,122	8,217	2.3x	1.8x 4,574 17%	1.7x 4,747 4%	1.6x 4,981 5%	21.7x 378 8%	17.2x 478 10%	16.1x 511 10%	38.2x 215 5%	21.6x 380 8%	20.2x 406 8%	4%	16%	
General Dynamics Corporation		Dec-22	49,353	8,130	57,482	1.9x	1.8x 32,706 15%	1.7x 34,832 7%	1.5x 37,087 6%	12.6x 4,552 14%	13.2x 4,367 13%	11.6x 4,944 13%	17.1x 3,370 10%	15.7x 3,661 11%	13.6x 4,222 11%	6%	4%	
Kratos Defense & Security Solutions, Inc.		Dec-22	1,576	229	1,817	3.2x	2.4x 746 23%	2.2x 822 10%	2.0x 902 10%	nmf 30 4%	25.1x 72 9%	20.7x 88 10%	nmf 4 1%	nmf 22 3%	47.3x 38 4%	10%	71%	
L3Harris Technologies, Inc.		Dec-22	26,986	7,207	34,274	2.5x	2.4x 14,166 7%	2.2x 15,824 12%	2.0x 17,443 10%	14.4x 2,381 17%	12.1x 2,843 18%	10.6x 3,230 19%	24.1x 1,421 10%	15.0x 2,278 14%	13.3x 2,576 15%	11%	16%	
Leidos Holdings, Inc.		Dec-22	10,373	4,023	14,440	3.2x	1.2x 11,950 17%	1.2x 12,389 4%	1.1x 12,940 4%	11.9x 1,217 10%	11.3x 1,276 10%	10.7x 1,352 10%	17.3x 834 7%	14.4x 1,000 8%	13.0x 1,113 9%	4%	5%	
Leonardo S.p.a.		Dec-22	6,816	3,246	10,509	2.0x	0.8x 13,050 10%	0.8x 13,317 2%	0.8x 13,982 5%	8.1x 1,299 10%	6.6x 1,588 12%	6.1x 1,732 12%	11.5x 914 7%	9.7x 1,088 8%	8.6x 1,216 9%	4%	16%	
Lockheed Martin Corporation		Dec-22	84,395	10,915	95,311	1.3x	1.7x 54,764 11%	1.7x 54,599 (0%)	1.7x 56,192 3%	13.3x 7,154 13%	11.8x 8,109 15%	11.4x 8,372 15%	17.4x 5,471 10%	13.6x 6,993 13%	13.4x 7,121 13%	1%	8%	
Northrop Grumman Corporation		Dec-22	54,576	10,801	65,378	2.5x	2.2x 30,378 15%	2.1x 31,735 4%	2.0x 33,505 6%	10.3x 6,374 21%	14.9x 4,374 14%	13.9x 4,720 14%	14.1x 4,642 15%	19.8x 3,309 10%	17.9x 3,649 11%	5%	(14%)	
RTX Corp		Dec-22	85,638	24,813	111,715	2.3x	2.0x 55,668 17%	1.9x 59,660 7%	1.7x 64,724 8%	11.9x 9,398 17%	10.5x 10,671 18%	9.6x 11,611 18%	21.1x 5,285 9%	15.4x 7,258 12%	13.8x 8,115 13%	8%	11%	
Rheinmetall AG		Dec-22	9,177	654	9,730	0.6x	1.7x 5,686 20%	1.5x 6,701 18%	1.2x 8,253 23%	11.4x 852 15%	8.8x 1,099 16%	6.8x 1,428 17%	14.8x 659 12%	11.5x 845 13%	8.6x 1,136 14%	20%	29%	
Saab AB		Dec-22	5,565	(298)	5,279	n/a	1.6x 3,344 5%	1.4x 3,757 12%	1.3x 4,194 12%	13.9x 380 11%	10.9x 483 13%	9.3x 568 14%	18.5x 286 9%	16.5x 319 8%	13.5x 392 9%	12%	22%	
Thales S.A.		Dec-22	24,067	723	23,559	0.3x	1.5x 15,583 15%	1.5x 15,925 2%	1.4x 17,210 8%	10.5x 2,244 14%	9.6x 2,459 15%	8.6x 2,724 16%	17.7x 1,335 9%	12.7x 1,857 12%	11.2x 2,107 12%	5%	10%	
Min							0.8x	0.8x	0.8x	8.1x	6.6x	6.1x	11.5x	9.7x	8.6x	1%	(14%)	
Mean							1.7x	1.6x	1.5x	12.7x	12.5x	11.1x	19.0x	14.9x	15.8x	8%	16%	
Median							1.7x	1.7x	1.5x	12.0x	11.3x	10.6x	17.4x	14.7x	13.4x	6%	13%	
Max							2.4x	2.2x	2.0x	21.7x	25.1x	20.7x	38.2x	21.6x	47.3x	20%	71%	

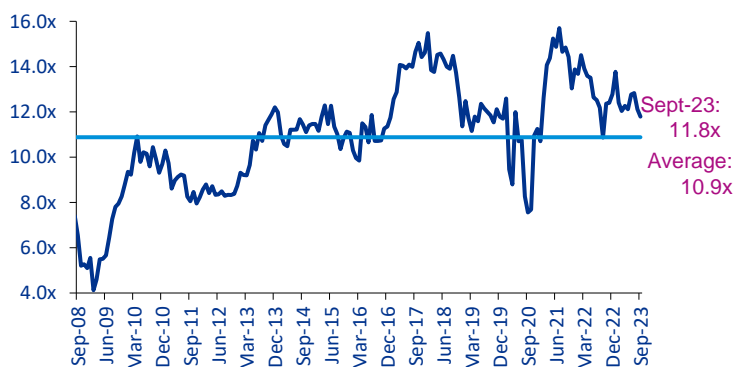
Source: CapIQ

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Public company valuations – through the cycle (EV/LTM EBITDA)

Aerospace



Defence

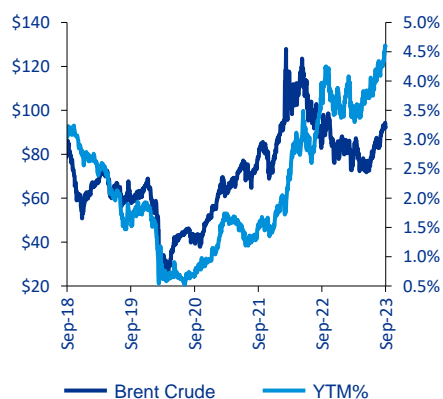


Selected M&A highlights

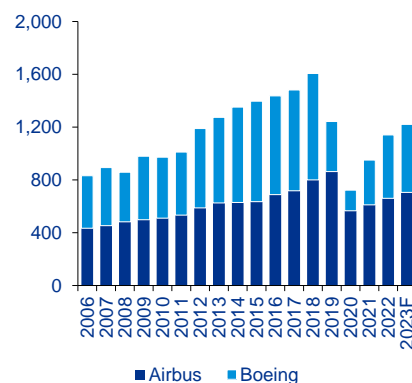
- Sep 23: **EDGE Group**, the UAE based provider of defence and military technology solutions has acquired 50% of **Sistemas Integrados de Alto Teor Tecnológico**, the Brazil based weapons manufacturer.
- Sep 23: An investor group led by **ND Capital**, **Tippet Venture Partners**, **RTX Ventures** has acquired an undisclosed stake in **H55 SA**, the Switzerland based manufacturer of electrical engine for aircraft
- Sep 23: **ProA Capital de Inversiones**, the private equity firm has acquired a majority stake in **Avioparts SL**, the Spain-based distributor of components and consumables for the aeronautical sector
- Sep 23: **Cerberus Capital Management LP**, the US-based private investment firm, has made an investment for an undisclosed stake in **Resonant Sciences LLC**, the local provider of aerospace survivability solutions.
- Sep 23: **Air France-KLM SA** and **Airbus SE** have entered into joint venture agreement for the provision on a worldwide basis of Airbus A350 component maintenance services.
- Aug 23: **Saab AB** has acquired **BlueBear Systems Group Ltd**, the UK-based provider of AI enabled autonomous swarm systems for complex defence and security applications.
- Aug 23: **BAE Systems plc** agreed to acquire **Ball Aerospace & Technologies Corp**, the US-based manufacturer of spacecraft, components and instruments for national defense, civil space and commercial space applications, from **Ball Corp**
- Aug 23: **Indra Sistemas SA** has agreed to acquire 9.5% of **Industria de Turbo Propulsores SA**, the Spain-based aero engine and gas turbine manufacturer from **Bain Capital LP**
- Jul 23: **Safran SA** has agreed to acquire **Collins Aerospace's Actuation and flight control businesses** from **RTX Corp**
- Jul 23: **Marubeni Corp** has acquired 50% of **Diversified Aero Services Inc**, the US-based commercial aircraft parts supplier
- Jul 23: **Bridgepoint Development Capital** acquired **SK Aero Safety**, the UK-based aviation component supplier, from **Levine Leichtman Capital Partners**

Economic Indicators

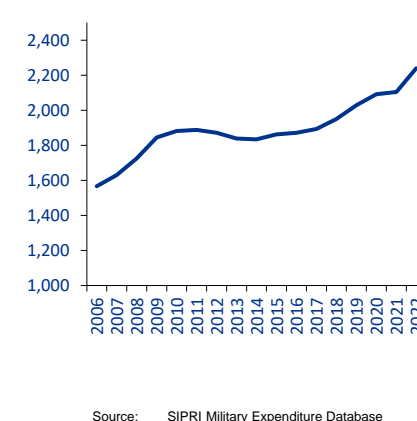
Brent Crude (\$) vs. US 10 Yr Treasuries



Delivered Commercial Aircraft (Units)



Global Defence Spend (\$bn)



Contact us



Alastair Horrocks

Director, Head of A&D M&A –
KPMG in the UK

T: +44 (0)7796 690204

E: alastair.horrocks@kpmg.co.uk



Glynn Bellamy

Partner, Head of A&D TS –
KPMG in the UK

T: +44 (0)7766 442407

E: glynn.bellamy@kpmg.co.uk



Matthew Willies

Partner –

KPMG in the UK

T: +44 (0)7796 941915

E: matt.willies@kpmg.co.uk

kpmg.com/uk



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