

Aerospace & Defence

Industry Update Q2 2023

Normality is returning to the commercial aerospace market but we do not foresee significant M&A activity to pick up until the end of the year. Commercial aircraft traffic and capacity broadly at pre-Covid levels in all regions except Asia Pacific (still down 10-15%) and the Middle East (traffic up 15% capacity up 5%). North American commercial daily flights have come down from peak at the start of the year but are still marginally above 2020. From a European airport perspective activity at the Top 10 airports is still 10% down on 2019; London Heathrow is back to 2019 levels, whilst Luton, the only UK airport with activity above 2019 levels, reflects sustained pent up demand for leisure travel post pandemic. Despite the squeeze on discretionary spending this is not forecast to end anytime soon. Engine OEMs are demonstrating the resilience of their models with spares and LTSAs price increases. From a UK OEM perspective the Rolls-Royce widebody fleet continues its recovery but cash cows like the Trent 700 at 1200 daily cycles are still 25% down on pre-Covid¹. Air freight activity decreased considerably from its Covid highs; in September 2022 11% above same time in 2019, end of the year only 3% ahead of 2019 position.

The return to normal flying activity continues to have a positive effect on the Aftermarket. The strong message from Paris is that demand, pricing and supply/ demand imbalances in the Aftermarket still make it the most attractive place to be positioned. There are significant positive signs from the OE focussed supply chain, demand signals are clear but there remain choke points in the supply chain that could impact deliveries over the summer. These need to be cleared before an undisturbed trading history can be presented to investors. One of the key supply chain choke points remains labour; Airbus will hire another 13,000 employees in 2023 and this will be reflected down the supply chain. Availability and cost of skilled labour in a high inflationary environment will impact margins. With gremlins still to be ironed out in the delivery schedule and inflationary pressures in the cost base to be ridden out we do not expect sale processes for those heavily exposed to the new build market to kick off in earnest until 2024.

¹ Source BoA Commercial Aerospace Tracker

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	89,722	(3,667)	84,274	n/a	1.6x 52,122 19%	1.5x 55,074 6%	1.4x 62,266 13%	12.2x 6,881 13%	11.3x 7,488 14%	9.6x 8,786 14%	18.3x 4,616 9%	16.1x 5,229 9%	13.1x 6,431 10%	9%	13%
Boeing Company		Dec-22	99,963	32,837	132,820	9.5x	2.4x 55,281 20%	2.2x 61,296 11%	1.9x 71,763 17%	nfm 941 2%	38.3x 3,468 6%	18.8x 7,081 10%	nfm (619) (1%)	nfm 1,884 3%	24.4x 5,452 8%	14%	174%
Bombardier Inc.		Dec-22	3,699	3,946	7,926	4.3x	1.4x 5,737 28%	1.3x 6,128 7%	1.2x 6,525 6%	15.0x 528 9%	8.7x 911 15%	7.4x 1,073 16%	23.0x 345 6%	13.9x 569 9%	11.4x 696 11%	7%	43%
Dassault Aviation société anonyme		Dec-22	12,963	(8,331)	2,613	n/a	0.4x 6,268 2%	0.6x 4,699 (25%)	0.5x 5,199 11%	3.8x 686 11%	5.2x 500 11%	4.0x 649 12%	4.9x 536 9%	7.1x 366 8%	5.5x 475 9%	(9%)	(3%)
HEICO Corporation		Oct-22	16,723	499	17,530	0.9x	8.8x 1,998 42%	8.0x 2,196 10%	7.2x 2,429 11%	33.2x 528 26%	30.5x 575 26%	27.0x 649 27%	44.7x 392 20%	36.3x 483 22%	31.9x 550 23%	10%	11%
Howmet Aerospace Inc.		Dec-22	16,118	2,880	19,043	2.5x	4.1x 4,700 28%	3.8x 5,017 7%	3.5x 5,406 8%	18.2x 1,046 22%	16.8x 1,136 23%	14.8x 1,286 24%	26.1x 729 16%	20.6x 923 18%	18.0x 1,059 20%	7%	11%
MTU Aero Engines AG		Dec-22	10,976	487	11,600	0.5x	2.5x 4,728 34%	2.1x 5,447 15%	1.9x 6,105 12%	18.7x 619 13%	12.1x 959 18%	10.9x 1,069 18%	26.4x 440 9%	16.5x 702 13%	14.5x 802 13%	14%	31%
Rolls-Royce Holdings plc		Dec-22	12,622	3,459	15,780	2.0x	1.2x 13,520 21%	1.1x 13,895 3%	1.1x 14,960 8%	10.1x 1,555 12%	8.9x 1,771 13%	7.7x 2,052 14%	20.1x 787 6%	17.5x 902 6%	13.8x 1,144 8%	5%	15%
Safran SA		Dec-22	51,769	255	51,174	0.1x	2.9x 17,450 36%	2.6x 19,841 14%	2.3x 22,244 12%	15.0x 3,414 20%	13.5x 3,781 19%	11.3x 4,534 20%	23.3x 2,193 13%	19.1x 2,676 13%	15.3x 3,342 15%	13%	15%
Senior plc		Dec-22	718	179	893	1.9x	1.1x 848 29%	0.9x 944 11%	0.9x 1,022 8%	11.1x 80 9%	9.3x 96 10%	8.1x 110 11%	27.9x 32 4%	20.5x 44 5%	15.2x 59 6%	10%	17%
Singapore Technologies Engineering Ltd		Dec-22	6,671	3,684	10,355	4.6x	1.9x 5,592 33%	1.8x 5,609 0%	1.7x 5,972 6%	14.9x 694 12%	12.9x 800 14%	11.9x 872 15%	28.4x 365 7%	22.0x 470 8%	19.9x 520 9%	3%	12%
Textron Inc.		Dec-22	10,733	1,790	12,523	1.4x	1.2x 10,681 17%	1.1x 10,948 3%	1.1x 11,562 6%	10.0x 1,251 12%	9.8x 1,282 12%	8.9x 1,402 12%	15.4x 813 8%	13.1x 957 9%	11.8x 1,058 9%	4%	6%
Min							0.4x	0.6x	0.5x	3.8x	5.2x	4.0x	4.9x	7.1x	5.5x	(9%)	(3%)
Mean							2.4x	2.3x	2.1x	14.8x	14.8x	11.7x	23.5x	18.4x	16.2x	7%	29%
Median							1.7x	1.7x	1.5x	14.9x	11.7x	10.2x	23.3x	17.5x	14.8x	8%	14%
Max							8.8x	8.0x	7.2x	33.2x	38.3x	27.0x	44.7x	36.3x	31.9x	14%	174%

Source: CapIQ

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

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Turkey's approval of Sweden's membership of NATO reflects the reality of current geopolitics – the downside of association with Russia outweigh the upsides. It was thought that the main upside for European defence firms from Russia's increasingly hostile stance would be from within Europe as countries scrambled to meet NATO requirements and build credible capabilities. This has undoubtedly benefited Hensoldt, Leonardo and Rheinmetall as the log jam in Germany's Special Defence Fund begins to be unlocked with orders for Chinooks and significant tank ammunition orders. The perhaps unexpected upside is the replacement of Russia by European defence firms in the global export market. Countries that would traditionally rely on Russian hardware, which have no desire to be seen to be dependent on the US, are typically looking to European countries to provide the high tech capabilities that had previously been sourced from Russia. Most notably France has gradually, but materially replaced Russia as a key supplier to India. In 2010 79% of India's military imports were from Russia and 1% from France, by the 2020s Russian share had decreased to 35% and France had surmounted it at 36%. This will only increase further with the recent acquisition of carrier borne Rafales and 3 conventional submarines.

On a tactical basis it is likely that Turkey's vote was bought with promises of upgrades to their own F16 fleet and, most likely, counter promises to the Greeks on acquisition of the F35. Standardisation across NATO remains in vogue and was trumpeted at the latest conference. At the moment the US defence contractors with their off the shelf capabilities, especially F35, continue to benefit from this. Whilst there were renewed calls for specialisation across the NATO industrial base to make production runs more efficient and increase standardisation the political power of local interests will always erode the grander commitments made to international alliances so it is likely that this, in reality, will be confined to logistics, land forces and missiles. The focus for strategic collaboration will be focussed on the next generation combat aircraft.

In the face of unprecedented demand, and a high probability of a further \$50bn demand from NATO countries in Europe the US supply chain is increasingly looking to harness the capability and capacity of allies to enable it to meet ambitious targets – and address the inefficiencies that years of protectionism have allowed to promulgate. There have been calls from influential commentators such as Dr Jerry McGinn to relax export controls in order to maximise the benefits of an allied supply chain. The fact that the most chronic shortages, outside rare earth metals, are of the more industrial capabilities such as dry dock capacity, casting, forging and welding indicates that, even with regulatory change, there should be considerable demand inbound from across the Atlantic.

Defence				EV/Revenue			EV/EBITDA			EV/EBIT			2 Year CAGR				
				Revenue (GBPm)			EBITDA (GBPm)			EBIT (GBPm)			2022 2024				
				Revenue growth			EBITDA %			EBIT %							
				Net debt /													
Company	Country	Year End Date	Market Cap (GBPm)	Net Debt / (Cash)	Adj EV (GBPm)	EBITDA (2023)	2022	2023	2024	2022	2023	2024	2022	2023	2024	Sales	EBITDA
BAE Systems plc		Dec-22	28,201	3,842	31,441	1.2x	1.5x	1.3x	1.2x	11.5x	9.7x	9.1x	15.1x	12.1x	11.3x	9%	12%
							21,258	24,221	25,457	2,738	3,231	3,446	2,082	2,594	2,781		
							9%	14%	5%	13%	13%	14%	10%	11%	11%		
Elbit Systems Ltd.		Dec-22	7,254	953	8,080	2.1x	1.8x	1.8x	1.6x	21.4x	18.0x	14.2x	37.5x	22.6x	21.1x	4%	23%
							4,574	4,489	4,994	378	449	569	215	358	383		
							17%	(2%)	11%	8%	10%	11%	5%	8%	8%		
General Dynamics Corporation		Dec-22	46,363	8,132	54,495	1.9x	1.7x	1.7x	1.6x	12.0x	13.0x	11.6x	16.2x	15.4x	13.5x	3%	2%
							32,706	32,648	34,865	4,552	4,206	4,718	3,370	3,536	4,035		
							15%	(0%)	7%	14%	13%	14%	10%	11%	12%		
Kratos Defense & Security Solutions, Inc.		Dec-22	1,440	250	1,700	3.6x	2.3x	2.2x	2.0x	nmf	24.6x	20.3x	nmf	nmf	46.9x	7%	67%
							746	783	861	30	69	84	4	21	36		
							23%	5%	10%	4%	9%	10%	1%	3%	4%		
L3Harris Technologies, Inc.		Dec-22	29,186	8,220	37,488	3.0x	2.6x	2.7x	2.5x	15.7x	13.9x	12.7x	26.4x	16.6x	15.3x	2%	11%
							14,162	14,049	14,736	2,381	2,702	2,954	1,421	2,256	2,446		
							7%	(1%)	5%	17%	19%	20%	10%	16%	17%		
Leidos Holdings, Inc.		Dec-22	9,550	4,201	13,796	3.5x	1.2x	1.2x	1.1x	11.3x	11.4x	10.6x	16.6x	14.6x	13.0x	2%	3%
							11,949	11,823	12,395	1,217	1,206	1,295	833	946	1,064		
							17%	(1%)	5%	10%	10%	10%	7%	8%	9%		
Leonardo S.p.a.		Dec-22	5,138	3,307	8,895	2.1x	0.7x	0.7x	0.6x	6.8x	5.7x	5.2x	9.7x	8.2x	7.4x	3%	15%
							13,050	13,204	13,827	1,299	1,567	1,706	914	1,079	1,203		
							10%	1%	5%	10%	12%	12%	7%	8%	9%		
Lockheed Martin Corporation		Dec-22	91,748	10,765	102,513	1.4x	1.9x	2.0x	1.9x	14.3x	13.2x	12.8x	18.7x	15.4x	15.0x	(1%)	6%
							54,764	51,768	53,336	7,154	7,762	7,991	5,471	6,677	6,843		
							11%	(5%)	3%	13%	15%	15%	10%	13%	13%		
Northrop Grumman Corporation		Dec-22	54,468	11,165	65,633	2.7x	2.2x	2.2x	2.1x	10.3x	15.6x	14.5x	14.1x	20.7x	18.8x	2%	(16%)
							30,378	30,230	31,828	6,374	4,208	4,542	4,642	3,174	3,485		
							15%	(0%)	5%	21%	14%	14%	15%	10%	11%		
Raytheon Technologies Corporation		Dec-22	112,400	24,425	138,110	2.4x	2.5x	2.4x	2.2x	14.7x	13.7x	12.4x	26.1x	19.8x	17.6x	5%	9%
							55,668	57,212	61,812	9,398	10,104	11,180	5,285	6,963	7,826		
							17%	3%	8%	17%	18%	18%	9%	12%	13%		
Rheinmetall AG		Dec-22	9,347	278	9,491	0.3x	1.7x	1.4x	1.2x	11.1x	8.7x	6.9x	14.4x	11.5x	8.7x	19%	27%
							5,686	6,691	8,086	852	1,089	1,383	659	828	1,096		
							20%	18%	21%	15%	16%	17%	12%	12%	14%		
Saab AB (publ)		Dec-22	5,644	(494)	5,155	n/a	1.5x	1.5x	1.3x	13.6x	11.3x	9.7x	18.0x	17.3x	14.3x	8%	18%
							3,344	3,533	3,934	380	456	529	286	297	361		
							5%	6%	11%	11%	13%	13%	9%	8%	9%		
Thales S.A.		Dec-22	24,767	154	25,388	0.1x	1.6x	1.6x	1.5x	11.3x	10.2x	9.5x	19.0x	13.7x	12.3x	4%	9%
							15,583	15,845	16,977	2,244	2,484	2,678	1,335	1,855	2,056		
							15%	2%	7%	14%	16%	16%	9%	12%	12%		
Min							0.7x	0.7x	0.6x	6.8x	5.7x	5.2x	9.7x	8.2x	7.4x	(1%)	(16%)
Mean							1.8x	1.7x	1.6x	12.8x	13.0x	11.5x	19.3x	15.7x	16.6x	5%	14%
Median							1.7x	1.7x	1.6x	11.7x	13.0x	11.6x	17.3x	15.4x	14.3x	4%	11%
Max							2.6x	2.7x	2.5x	21.4x	24.6x	20.3x	37.5x	22.6x	46.9x	19%	67%

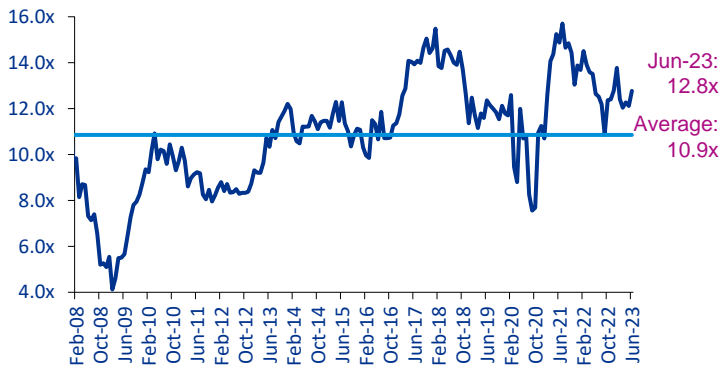
Source: CapIQ

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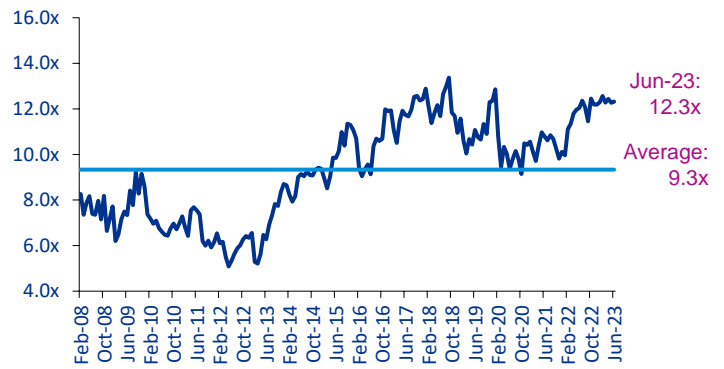
Public company valuations through the cycle (EV/LTM EBITDA)

Aerospace



Source: Capital IQ

Defence



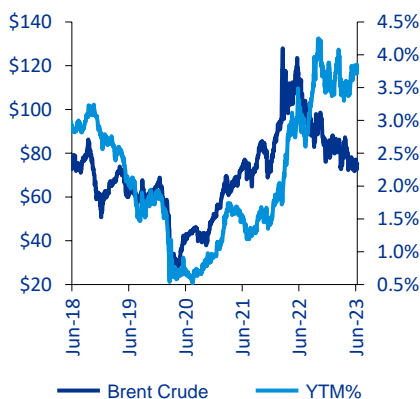
Source: Capital IQ

Selected M&A highlights

- Jun 23: **Honeywell International** is to acquire the **Head-Up Display (HUD) assets from Saab AB**, the Sweden based manufacturer of military defence products
- Jun 23: **Bain Capital**, has acquired an undisclosed stake in **KP Aviation LLC**, the US supplier of aftermarket aviation assets
- Jun 23: **Barnes Group Inc**, is to acquire **MB Aerospace Ltd**, the UK based design and engineering company of aero-engines components from **Blackstone Inc**,
- May 23: **EDGE Group**, has acquired 80% of **MARS Robotics**, the Jordan based provider of engineering solutions and services to UAS original equipment manufacturers
- May 23: **HEICO Corp**, is to acquire **Wencor Group LLC** the US based company providing design, manufacturing and distribution services in the aviation industry from **Warburg Pincus LLC**
- May 23: **Israel Aerospace Industries Ltd**, is to acquire **Intracom Defense Electronics**, the Greece based division of **Intracom**.
- May 23: **AIM MRO LLC** has acquired **Gerard Poly Mouldings Ltd**, the UK based design and manufacturing of masking products for aerospace and gas turbine engines
- Apr 23: **Fastener Distribution Holdings LLC**, a portfolio company of **Audax Group**, has acquired **BJG Electronics Inc**, the US manufacturer and distributor of electromechanical products from **Rockwood Equity Partners LLC**
- Apr 23: **Tikehau Capital**, has acquired a majority stake in **JV Group**, the France based company specialising in precision machining of mechanic and composite parts and subsystems in the aeronautic, spatial and defence industries
- Apr 23: **Vance Street Capital** has acquired an undisclosed stake in **Aero Group Holdings LLC**, the US based company engaged in designing and manufacturing new and replacement components for the general aviation industry

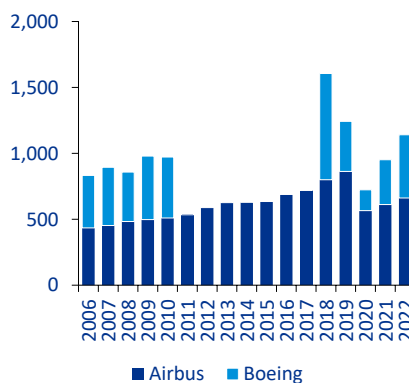
Economic Indicators

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



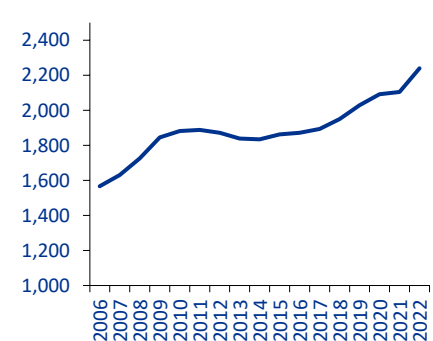
Source: Capital IQ

Delivered Commercial Aircraft (Units)



Source: Airbus, Boeing reports

Global Defence Spend (\$bn)



Source: SIPRI Military Expenditure Database

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