



SECTOR BRIEFING AEROSPACE & DEFENSE 2014

Analysis of the global Aerospace & Defense sector points to another record year for commercial aerospace and a continued decline in defense



Chris Gregory is a partner of Clairfield UK and head of Clairfield's Industrial sector team

The commercial aerospace sector is expected to continue its record growth, driven largely by the replacement cycle of obsolete aircraft with new fleets delivering increased fuel-efficiency, as well as by an ever-growing demand for air travel. Conversely, global defense spending continues to decline, largely due to the reduction of armed forces in regions such as Iraq and Afghanistan combined with underlying affordability concerns among historically defense-heavy governments.

These are some of our observations:

- Market valuations for many Aerospace & Defense companies have increased by about 20% on average since January 1, 2013 despite a continued contraction in the defense sector.
- Investors expect defense companies to seek out consolidation and diversification opportunities globally to help drive efficiency and increase operating profit margins.
- A rise in market valuations coupled with the return of historic deal multiples is expected to encourage pre-crisis investors to start seeking an exit from those companies where a disposal had been postponed.
- Demand for increased fuel efficiency from fleet owners has forced up the overall development costs of aircraft components. This has in turn caused a reduction in the competitiveness of many smaller firms who are unable to achieve the same economies of scale as larger competitors, or support the increased investment required to service new programmes. We believe this will drive further consolidation amongst Tier 2 and 3 suppliers.
- While traditional defense spending nations are reducing budgets there is an opposite trend developing among emerging economies which may offer a respite for defense companies faced with reducing margins. Moreover, significant growth is expected in China and Russia which alone are expected to contribute nearly a third of global defense spending by 2020. As a result entry into this market will present its own challenges to western defense companies.



Bertrand Hermez is a partner of Clairfield France and an Aerospace & Defense sector expert

Heat map of disclosed domestic and crossborder deal activity during 2013



PERFORMANCE TRACKER

Aerospace & Defense public company year-on-year % change

OEMs



Equipment



Structures & Components



Source: BVD

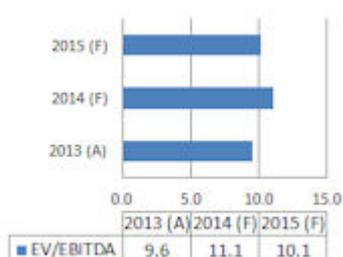
- The Clairfield Aerospace & Defense Index shows another year of record revenues and profits for commercial aerospace companies despite reductions in global defense spending.
- This growth is expected to continue through 2014 with OEMs benefiting from an accelerated replacement cycle of old aircraft in favor of next generation fuel-efficient fleets.
- The Equipment market continues to experience contracted growth impacted by significant reductions in defense spending. This is alleviated somewhat by the rise in demand in emerging markets.
- Growth in the Structures & Components market looks set to continue having been stimulated by the success of OEMs, however rising costs of production are increasing pressure on smaller suppliers which in turn is driving market consolidation.

Average EV/EBITDA trading multiples

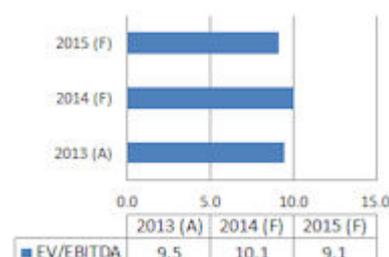
OEMs



Equipment



Structures & Components



Source: Capital IQ

- Overall industry EBITDA multiples over the last 12 months have consistently ranged between 8 and 10 with the global OEMs at the lower end of this spectrum.
- The EV/EBITDA multiples based on 2014/15 forecasts suggest a decline in performance in the Equipment market and a small increase in Structures & Components over this period. This results from the anticipated continued restrictions on defense budgets, together with increased pressure on margins in Structures & Components.

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Disclosed transactions during 2013

Deal size in USD million	Average EBITDA multiple
>50	9.9
51-100	11.9
100+	11.8

Source: BVD and Capital IQ

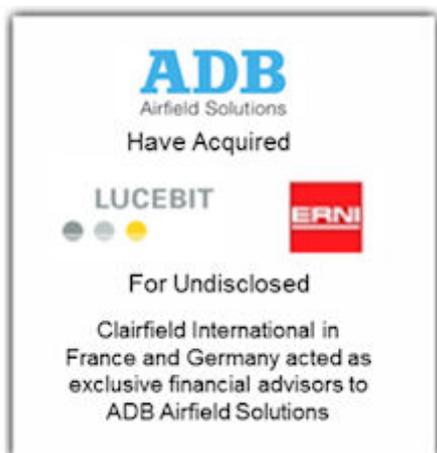
These figures are based upon fully disclosed transactions and estimates from the 260 deals completed and recorded during 2013.

The figures have been presented by deal size and an average EBITDA multiple calculated.

Aerospace & Defense remains an active sector for M&A transactions, particularly in the commercial aviation market where replacement cycles are driving EBITDA multiples of between 9 - 12 x depending on size. The

defense sector remains cautious but consolidation opportunities are expected to arise over the coming months.

Highlighted deal: ADB Airfield Solutions acquire Lucebit Group



ADB Airfield Solutions has become the worldwide leader in airfield ground lighting (AGL) products and systems, serving over 2000 airports in more than 175 countries. It has a strategy to acquire complementary companies, both in terms of products and client base. It engaged this strategy in 2014 with the acquisition of Lucebit Group and Erni. Lucebit was born from ABB Group's spinoff in 2002.

Lucebit Group enjoys strong market positions in Germany, Switzerland and Austria that will complement ADB Airfield Solutions presence in European key markets. Erni offers ADB new technology. The new Group has around €200 million of consolidated revenues.

Clairfield International in France and Germany acted as the exclusive financial advisors to ADB Airfield Solutions.

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