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Mission control

2011 annual and fourth-quarter review

Merger and acquisition activity in the global aerospace and defence industry

Special report:
Can aircraft manufacturers prevent rate ramp-up problems?

Contents

Introduction

Welcome to *Mission control*, our analysis of merger and acquisition (M&A) activity in the aerospace and defence (A&D) sector. *Mission control* is a quarterly publication. In our fourth quarter edition, we provide a comprehensive examination of deal activity for the full year. In our last annual update, we shared an upbeat forecast for likely deal activity in 2011. Indeed, the year turned out to be a record one with deal totals hitting new highs.

In this report we again look ahead as well as examine trends in recent deal activity on both a quarterly and an annual basis. We analyse the relative level of deals for commercial aerospace OEMs and suppliers, MRO, defence, space and other companies, including how the valuation for these targets has changed over time. We've taken the opportunity to put the 2011 records in perspective with some comparisons with previous historic large deal activity, particularly the top deals announced during 2007, which was the previous peak year for annual deal value. We also evaluate trends in financial investment and regional deal flows. In a special report, we look at the challenge of supply rate readiness in the commercial aerospace sector. We also feature a spotlight on the importance of getting strategies and tactics right around divestitures.

The most significant trend affecting the aerospace and defence industry is the contrast in civil and military outlooks. The former is benefiting from fleet expansion in Asia, as well as fuel cost pressure that is supporting replacement demand in western nations. This growth potential is very attractive for potential acquirers. Although we may not see more deals on the scale of United Technologies' $16 billion 2011 announcement, there will likely be more moves by defence contractors to establish themselves further in the civil market as well as more consolidation between aerospace suppliers. In addition, several emerging markets continue to develop their own domestic aerospace industries, which are acting as another spur for aerospace transactions.

In contrast, many of the countries that are the largest global defence spenders have to contend with government cutbacks in response to fiscal burdens. Military programmes are being downsized and new weapons procurement is being scaled back. This challenge is prompting defence contractors to further globalise, take on more contract risk, and adjust their business portfolios as competition increases for a shrinking pool of defence expenditure. Export reforms are under discussion in the United States that could offset some of the current market weakness. But improved shareholder value is likely to require portfolio reshaping to target pockets of defence spending growth, such as unmanned systems. Consolidation among the top sector constituents seems unlikely, although a lively amount of deals between small and mid-size defence contractors can be expected. Budget cuts could force even larger defence deals, though this is a more remote possibility.

We expect that crossborder deals, which increased in 2011, will play an even more significant role going forward. Chinese companies, which until now have mainly focused on domestic consolidation, have made several recent overseas aerospace acquisitions that could provide a precedent for future outbound deal flow. European acquirers also continue to demonstrate strong interest in the US defence market. This enthusiasm is likely to increase, given relative levels of defence spending, even after accounting for base budget reductions in the United States. In addition, the potential benefits of European defence cooperation seem to offer a rationale for further consolidation within Europe at some point. While we may not see the record for the largest deal in sector history broken for some time, the weight of evidence suggests that 2012 will be another robust year.

Neil Hampson
Global Aerospace & Defence Leader

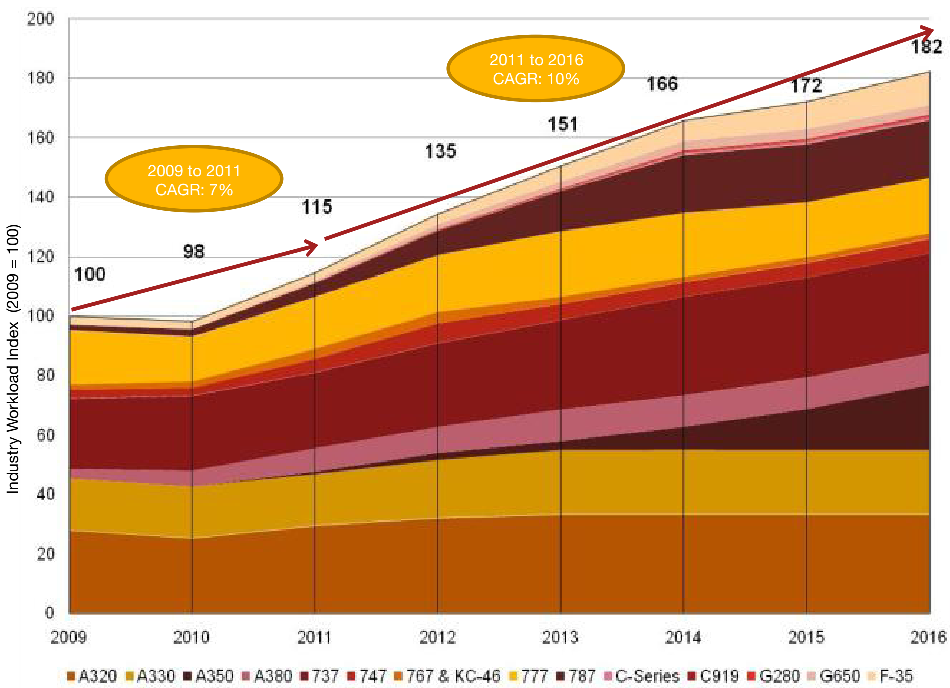
Scott Thompson
US Aerospace & Defence Leader

Special report: Can aircraft manufacturers prevent rate ramp-up problems?

High production rate ramp-up will be needed across much of the aerospace and defence sector. Both the leading civil aerospace manufacturers — Boeing and Airbus — have announced a series of record deals for their new generation of commercial aircraft. Military programmes such as the Joint Strike Fighter and Tanker are also ramping up in the next five to ten years. But big rate increases also mean pressure on the supply chain, leaving programmes vulnerable to supply chain delay or failure. Aerospace companies and their leading tier one suppliers are very conscious of the potential problems, particularly in light of the major delays that have affected recent programmes. The question is: What is the appropriate way to prevent future problems?

The question is even more pertinent at a time when world events and natural disasters have caused upheaval to supply chains in many industries. Although manufacturers can't prevent the occurrence of these outside events, they can insulate themselves from their effects through identification of supply chain risks related to supplier locations, transportation risk, and overdependence on single sources. Also, at a time when banking and market uncertainties remain high, the importance of checks on financial as well as operational and capacity vulnerabilities can't be underestimated. Then there is the need to identify "self-inflicted risks," such as a preferred reliance on a single supplier for certain components because managers perhaps feel comfortable with its product or team. This might come at the cost of overlooking vulnerabilities.

A steep ramp-up



PwC's analysis of announced programme rates shows the extent of additional capacity needed in the period to 2016.

"Financial market conditions are adding to capacity and ramp-up concerns."

Pinpointing ramp-up risk

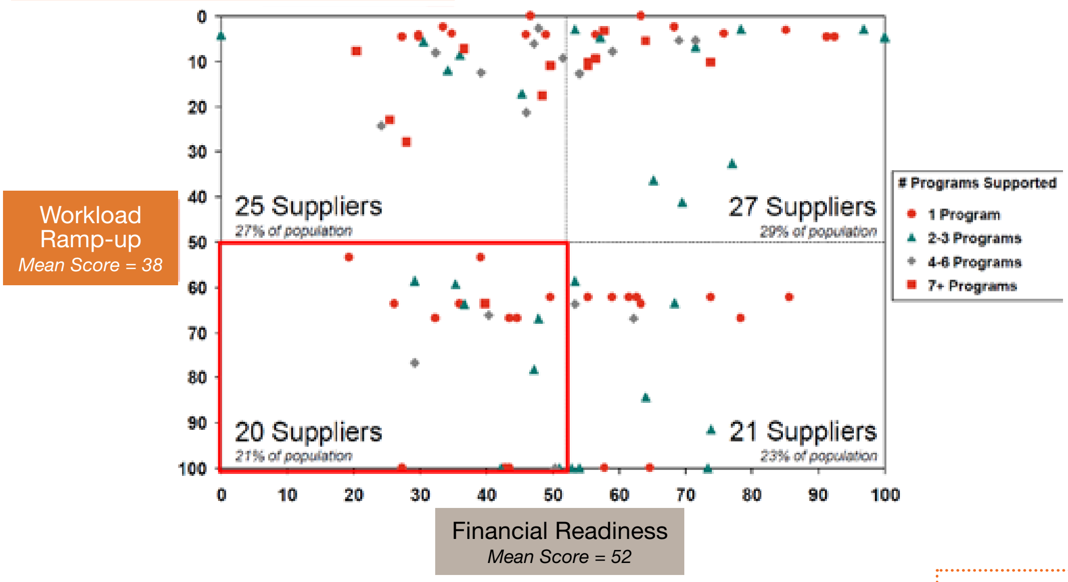
Managing risk in the supply chain is all the more important in commercial aerospace, where the industry operating model has pushed much of the design and manufacturing work to suppliers, often in the form of risk-sharing partnerships. We analysed the potential capacity risks in the aerospace supply chain by identifying which suppliers' operations will be most strained by projected rate ramp-ups on key 2011-2016 growth programmes. We then mapped that against which suppliers may be worst-positioned financially to invest in additional capacity. Our study covered 12 key growth programmes from five commercial and defence OEMs[1]. We calculated required capacity growth and financial readiness scores for 93 suppliers across nine different component and system segments. The results showed that a fifth (21%) of suppliers aren't financially ready to support the high ramp-up that is required.

Companies in the aerospace sector are alert to the need to proactively identify, prevent, and manage supply chain risk. But our experience with many A&D industry players suggests that current approaches to supply chain risk management are either too complex or too simple. We have seen companies trying to assign an absolute probability percentage to each supply chain risk or apply an undifferentiated and resource-intensive approach of performing a detailed due diligence on each of their suppliers. At the other end of the spectrum, companies sometimes rely on internal or supplier surveys to obtain a qualitative view of supply chain risks.

Both the in-depth and the more "light touch" approaches have limitations. Questionnaires can be insufficiently forensic. They also run the danger of bias as they rely on the views of suppliers themselves. Often responses are based on opinions, not facts, and they tend to be informed by experience. More in-depth approaches, though, can be resource-intensive and cover only a certain number of suppliers at any one time. They might, for example, start with the largest suppliers but the biggest risks may be multiple layers down in the supply chain. Both the in-depth and the simpler approaches have the potential of turning "risk management" into "issue management," addressing only current supplier issues rather than identifying future dangers.

44% of suppliers will see high workload ramp-up, while 52% are financially prepared to invest in added capacity

Total Population in Study (93 suppliers)



Our analysis of suppliers shows 21% facing high ramp-up but with low financial readiness.

"A fifth of suppliers are at risk of not being able to deliver the ramp-up that is required."

1 737, 777, 787, A320, A330, A350, A380, G280, G650, C-Series, C919, F-35.

Addressing multi-dimensional risks

PwC has developed a more practical but rigorous approach to assess risk and develop effective mitigation strategies. Our approach starts with a model that can be used to continually monitor and assess risk in the A&D supply chain. It is based on facts, not opinions, and combines readily available public data and information with data that is internal to the client company. Examples of publicly available data include supplier location, certain financial information, and the likely collective production volume of the supplier across different platforms. This is supplemented with internal data such as the supplier's on-time and quality performance. To determine capacity risk we take into account demands on suppliers from all programmes, both commercial and military, including those from competitors.

We combine these elements to form a comprehensive and multi-dimensional set of measurable risk and impact attributes. Each attribute is measurable to enable relative ranking of composite risk and impact. The attributes can be weighted to reflect their shifting importance to the organisation or changes in the external or industry environment. Each company in the supply chain is included and the result is a grid-based map of relative risk, enabling the client company to identify where the biggest potential risks lie. It is not overly burdensome or complex and, once established, can be continually updated to provide companies with a more "live overview" of potential supply chain risk as well as the effects of ongoing efforts to reduce supply chain risk.

Each dot on the grid represents a purchased component (or service). Each tells a particular story. For example, it might be a "single sourced part used on 70% of finished products delivered by an unstable supplier." If that is combined with the fact that qualifying another supplier might take six to 12 months, it presents a very practical focus and a compelling case for action to any C-level executive.

"Companies need a more effective more 'live overview' of where the biggest risks lie."

Becoming rate ramp-up ready

Using the model to identify potential risks, we then move on to what we call a "rapid supplier assessment." Here, there are obvious parallels between what a private equity company needs in weighing up acquisition targets and the requirements of aircraft OEMs at the top of complex supply chains. Both should consider pinpointing where risks lie and what it will take to address them. The aim is to have a highly pragmatic approach, seeking to verify risk and the changes that can be put in place to avoid it. These changes might take the form of alterations in the client company's supply chain management to reduce reliance on the particular supplier, reforms to be carried out by the supplier, or a combination of both. In exceptional cases, it might even take the form of a decision to acquire the supplier and take direct vertical control of that element of the supply chain. In September 2011, for example, EADS took a majority stake in German company PFW Aerospace, which faced a liquidity crisis. In other cases, consolidation within the supply chain might be needed to address capacity constraints and other ramp-up concerns.

Whether or not there is a need for M&A, PwC is experienced in advising companies and delivering the required supplier transformation programme. A "supplier transformation plan" would be developed at company level describing objectives and yearly targets, capability improvements, and performance targets. It would typically include an investment plan integrated into the company business plan with a series of detailed actions. A "workstream plan" would identify each improvement action per workstream plus critical milestones, objectives, and key performance indicators.

One of the challenges facing supplier companies is how they adapt to participate effectively within the overall value chain ramp-up. In our experience, many tier one suppliers still should consider upgrading their core capabilities to improve the reliability of their end-to-end performance in the value chain. This includes the maturity to manage their interface with their customers and the joint interface with other tier ones, particularly the integrated performance of their core capabilities. There remains a tendency to "firefight" or "muscle through" to meet the ramp-up challenge. This can come at the expense of ways to really structure, monitor, and dynamically collaborate as part of an extended supply chain.

Conclusion

In summary, the need to rapidly expand production in a number of aerospace platforms is putting strains on the supply chain. Our analysis indicates that a significant proportion of suppliers are at risk of not being able to deliver the ramp-up that is required. Companies need a practical method to identify rate readiness risks in the aerospace and defence supply chain. PwC has developed a way for aerospace and defence companies to quickly understand, pinpoint, and prevent risk across the whole supply chain. In most cases, supplier transformation to address risks can take place without any M&A. But, in some cases, either consolidation within the supply chain or vertical integration of the supplier with the aircraft manufacturer should not be ruled out.

"Consolidation within the supply chain or vertical integration cannot be ruled out."

Perspective: Overview of deal activity

Aerospace M&A pushes deal totals to record levels

2011 was a record year for aerospace and defence transactions. The 341 deals and $43.7 billion of deal value announced during 2011 beat the previous highs: 332 deals in 2010 and the $42.0 billion of value in 2007. The $16 billion United Technologies acquisition of Goodrich Corporation was the primary value driver. Volume drivers were more broad-based, with higher numbers for small deals (less than $50 million) and mega deals (above $1 billion) alike. Although mega deals were not as common in 2011 as they were in 2007, these transactions have continued their recovery from the recent low of only two such announcements in 2009 up to six in 2011. This led to an increase in average deal sizes, even when removing the impact of the Goodrich deal. The Goodrich transaction boosted US total deal value above historic norms despite a drop in the number of US deals. There was also a big increase in deals for aerospace targets in 2011, measured on both a volume and value basis. This, when considered alongside the higher sales multiples awarded to aerospace compared with defence targets, reflects the more favourable outlook for this part of the sector.

Defence divestitures and private equity exits boost large deal volume

Divestiture of slower-growth defence businesses and private equity exits dominate the list of largest deals. Two headline divestitures, the Northrop Grumman shipbuilding spinoff and the break-up of ITT, ranked among the top five deals this year. In addition, four of the top ten deals were sales by private equity companies to strategic investors. On the buy side, only one private equity purchase made the list: the Providence Equity Partners acquisition of SRA International. The 2011 largest deal targets were much more varied than in 2007, when the focus was mainly on aerospace targets. Also, more big deals predominated in the earlier record year; eight of the ten largest deals in 2007 were for values at or above $1.8 billion compared with just four such deals in 2011. Private equity exits played a role in each year. Activist investors had a part to play in some of the large 2011 divestitures but financial investor involvement was most evident in the smaller deals.

Europe and the United States drive global activity as Asia takes a step back

European acquirers played a much more significant role in the 2011 aerospace and defence deal market compared with 2010. The pace of market consolidation hastened within Europe and outbound deals also increased. The focus was firmly trans-Atlantic; all European outbound deals above the $50 million threshold in 2011 were for North American targets, boosting the number of crossborder deals for US targets. There was also important activity for non-US companies that have significant US revenues, as a means of increasing exposure to the largest defence market in the world. One rationale for these types of deals is that, in some cases, they may be easier to close. Transactions involving Asian acquirers declined year on year.

Deal volumes likely to grow in 2012

With OEM backlogs contributing to higher overall sector growth prospects, aerospace M&A is likely to continue to lead the A&D deal market in 2012. The outlook for defence is somewhat less certain. Defence M&A will likely remain oriented toward large spinoffs of lower growth units and smaller acquisitions in growth areas, such as cyber security. However, the further defence budgets fall, the more likely there could be calls for larger-scale consolidation in order to maintain a strong defence industrial base, which could outweigh antitrust concerns, in order to maintain a strong defence industrial base. Strategic investors have significant cash positions and appear well-positioned to drive a high volume of deals in 2012, both large and small. Deal volume, if not deal value, could be set to break another new record in 2012.

Commentary on 2011

Deal totals

Aerospace and defence M&A deal value and volume reached new highs in 2011. The 341 deals announced during 2011 edged ahead of the previous high of 332 reached in 2010. Total deal value nearly doubled year on year, with 2011's $43.7 billion surpassing the previous peak of $42.0 billion recorded in 2007. The relative level of sector M&A activity was also high when considering deals with a disclosed value of at least $50 million.

Larger deals are becoming more common after a relative lull in recent years. But, as we forecasted in last year's edition of *Mission control*, smaller deals are responsible for most of the deal volume. Deal value totals were significantly impacted by United Technologies' $16 billion acquisition of Goodrich. This will be the largest deal in sector history when it closes. Mega deals, defined as transactions with a disclosed value of at least $1 billion, are making a comeback. There were six of these announcements in 2011, up from four in 2010 and only two in 2009. Despite this, smaller deals (less than $50 million) have also increased their relative contribution to M&A activity. The market remains somewhat stratified, with smaller deal activity pushing deal numbers higher and more large "headline" deals making it a record year for deal value.

While US entities were involved in the vast majority of all deals, whether measured by value or number of deals, market stratification also affected trends in US versus non-US deals. The number of US deals as a share of the worldwide deal total declined in 2011 to a level slightly below its five- and ten-year averages. But the high number of larger US deals ensured that the US share of total deal value increased in 2011 and easily exceeds historical norms. This reflects the larger number of big companies based in the United States. For example, a recent benchmarking of the largest global defence companies from Defense News indicates that 15 of the top 20 defence contractors were based in the United States. US deals dominated the 2011 top ten A&D deals table; all but one of the six mega deals ($1 billion or more) involved both a US acquirer and a US target.

These trends are likely to extend into 2012. The A&D sector continues to globalise as non-US players increase their competitiveness, benefiting from a growth in air travel and defence budgets in regions such as Asia, Latin America, and the Middle East. Many countries, such as China, India, and Brazil, are seeking to take advantage of this demand shift by fostering their own domestic industries. Of these markets, China seems well positioned to advance its national aerospace industry given the relative level of domestic demand as well as technological help from western suppliers. As these sector mega trends play out, deal volumes likely will continue their gradual shift toward non-US parties while the bigger deal values will remain dominated by US transactions.

Annual aerospace and defence deal activity
Measured by number and value of deals (2002-2011)

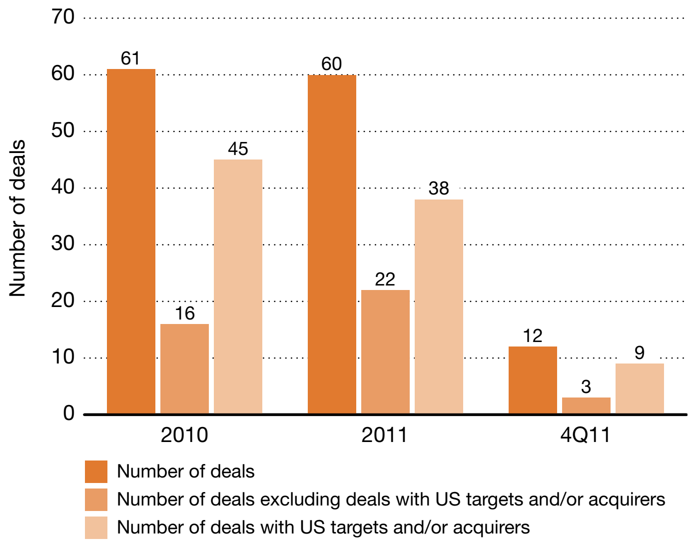
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Number of deals	173	204	230	243	239	304	309	293	332	341
Total deal value ($ bil)	12.9	14.7	24.1	13.6	22.4	42.0	22.1	11.8	21.9	43.7

Quarterly A&D deal activity
Measured by number and value of deals worth $50 million or more (1Q09–4Q11)

	2009				2010				2011			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Number of deals	4	11	11	10	10	13	16	22	22	15	11	12
Total deal value ($ bil)	0.9	3.0	3.8	3.1	5.7	5.2	4.9	5.5	12.6	6.2	20.3	3.6
Average deal value ($ bil)	0.2	0.3	0.3	0.3	0.6	0.4	0.3	0.2	0.6	0.4	1.8	0.3

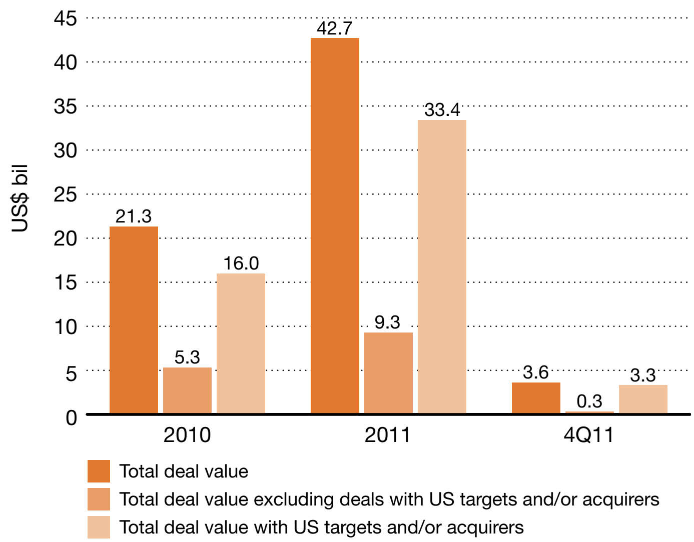
Deal activity by number of deals

Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)



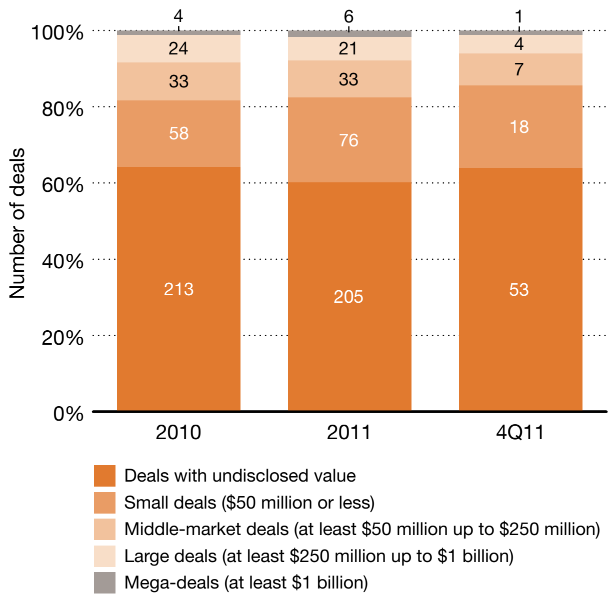
Deal activity by total deal value

Measured by value of deals worth $50 million or more (2010, 2011, 4Q11)



Deal activity by number and range of deal value

Measured by number of deals (2010, 2011, 4Q11)



Deal categories and valuation

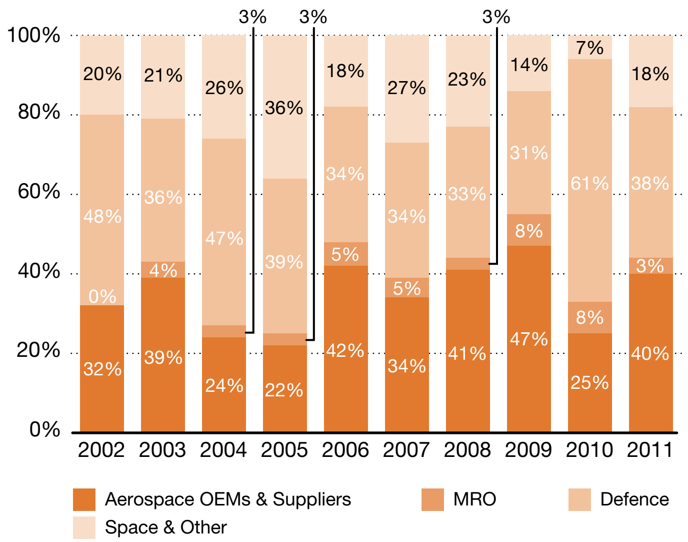
The contrasting fortunes of the aerospace and defence sectors was reflected in year on year deal trends. While aerospace deal numbers were up, the number of defence deals was down. Aerospace targets accounted for most deal value announced in 2011. The aerospace share was close to a historical high, heavily influenced by the Goodrich acquisition. Divestitures accounted for two of the three largest defence deals, with spinoffs of divisions perceived to have relatively lower growth potential and carrying relatively low multiples.

Median valuation, as measured by value/sales, declined across the whole of the A&D sector in 2011. But, again reflecting their different market environments, the median of aerospace (including maintenance, repair, and overhaul (MRO)) deals has begun to command a premium multiple relative to defence acquisitions over the last two years. This is hardly surprising given the dramatic rise in aircraft orders and backlogs. At the end of 2011, the aggregate large commercial aircraft backlog equalled more than eight years of deliveries at recent levels of production. In comparison, defence budgets are being scaled back by many of the largest-spending countries, and export restrictions can limit the benefits that can be gained from growth in emerging market defence budgets. MRO deals remain a small part of the overall aerospace and defence M&A market, although this is skewed somewhat by the fragmented nature of MRO. With small and/or private companies, many transaction values and even some transactions themselves may go unreported.

With much greater certainty around the future level of demand in the aerospace sector, aerospace deals are likely to make the largest contribution to activity in 2012. Aerospace deal flow may be boosted by companies that are predominantly defence-oriented seeking more exposure to the commercial aerospace business. Consolidation among large aerospace suppliers will be an important reason for dealmaking with companies seeking to gain greater scale and bargaining power versus other parts of the sector value chain, including OEMs and aftermarket suppliers. Moves to strengthen supply chain positions are also likely. Companies may seek to earn better margins by moving higher in the supply chain through an acquisition-based strategy while others may opt to use M&A to gain better control down the supply chain.

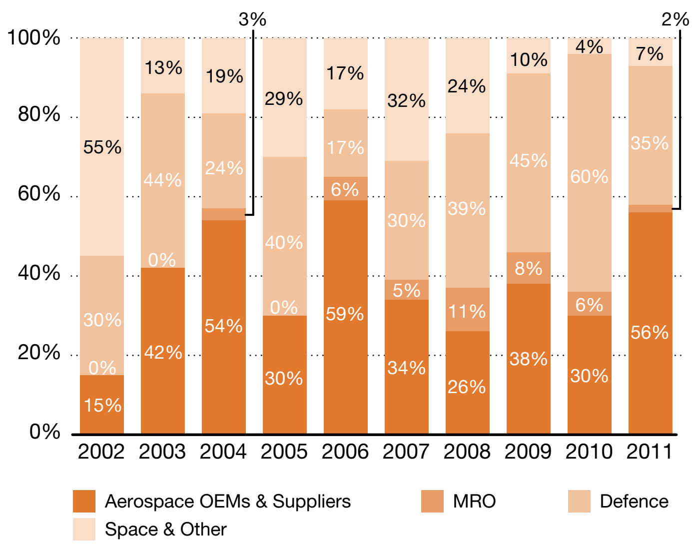
Deals by aerospace and defence target category

Measured by number of deals worth $50 million or more*



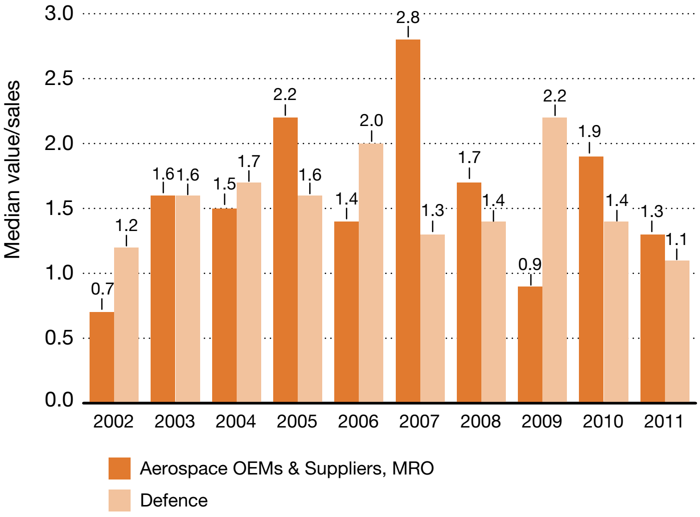
Deals by aerospace and defence target category

Measured by value of deals worth $50 million or more*

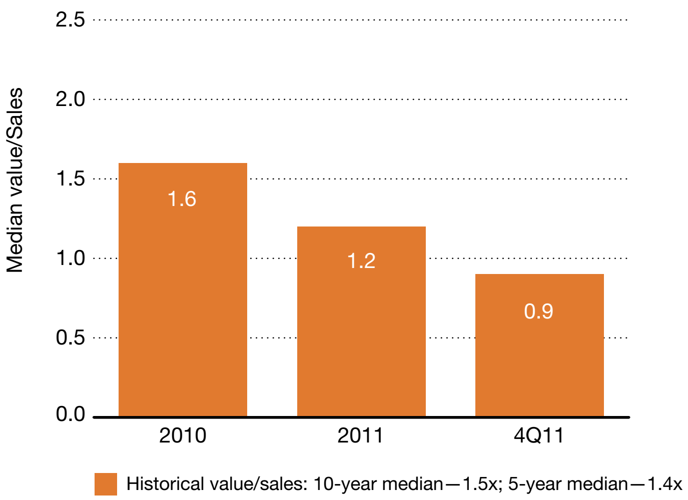


*percentages may not sum to 100% due to rounding

Deal valuation by median value/sales
Measured by value/sales for deals worth $50 million or more (2010, 2011, 4Q11)



Deal valuation by median value/sales
Measured by value/sales for deals worth $50 million or more (2010, 2011, 4Q11)



Top ten A&D deals

The $10 billion-plus deal has returned in the shape of United Technologies' $16 billion purchase of Goodrich. The acquisition allows United Technologies to diversify more into the commercial aerospace sector through products such as nacelle systems and landing gear. In addition, Goodrich has exposure to several defence categories with a favourable outlook, including intelligence, surveillance, and reconnaissance (ISR). The next-largest announcement was the Engine Holding GmbH joint venture between Daimler and Rolls-Royce Group for Tognum AG, the second-largest global manufacturer of high-speed engines for marine, energy, and defence industries. This deal is expected to help the acquirers increase their exposure to lighter engines, including those in Tognum's marine unit. Engine Holding has received all regulatory approval required for the merger.

The third- and fourth-largest announcements were the ITT Exelis and Huntington Ingalls spinoffs. There has been a broader market trend, beyond the aerospace and defence sector, toward breaking up conglomerates and creating more focused business portfolios. Pessimism around future defence budgets has reinforced this trend in the defence sector and was as a primary driver of both of these transactions. In addition, both spun-off entities have begun to restructure their business. In the case of Northrop Grumman, a weak outlook for ship building created the impetus for its Huntington Ingalls divestiture. Huntington Ingalls has since proceeded with a restructuring which includes employee reductions and the intention to shut down the Avondale shipyard by 2013. For ITT, the Xylem water-equipment business was believed to have a better outlook than the defence unit, ITT Exelis, or the legacy ITT industrial components business. This led to the spinoff of both ITT Exelis and Xylem.

Also among the largest deals of 2011 were the Providence Equity Partners acquisition of SRA International and the General Dynamics acquisition of Vangent Holding. These were the fifth- and eighth-largest deals of 2011, respectively. These two deals are similar in that they both targeted services companies. The SRA deal increased Providence's exposure to the government services market, as the private equity firm also owns Altegrity, a provider of services such as security screening, security training, and risk consulting. The Vangent deal allows General Dynamics to expand its exposure to information technology services for the government since the target provides healthcare technology and business systems.

The sixth-largest deal this year was Pratt & Whitney's acquisition of Rolls-Royce's 32.5% stake in International Aero Engines (IAE), a joint venture between Pratt & Whitney, Rolls-Royce, Japanese Aero Engines, and MTU Aero Engines. IAE manufactures engines for the A320. This acquisition gives Pratt & Whitney a majority position in IAE. The deal also allows Rolls-Royce to focus its investment on designing engines for the aircraft that will eventually succeed the upcoming narrow-body re-engine programmes. To this end, Pratt & Whitney also announced a new joint venture with Rolls-Royce to develop engines for future narrow-body aircraft.

The final three of the top ten 2011 deals are noteworthy because they all involved private equity exits to strategic acquirers. The seventh-largest deal was the Astrium acquisition of Vizada, a satellite communication services provider, from Apax Partners. Astrium is a subsidiary of EADS and this deal allows Astrium to increase its exposure to services sold to the US government. The ninth-largest deal was the Precision Castparts acquisition of Primus International, a manufacturer and wholesaler of metallic and composite aircraft components, from Oak Hill Capital Partners. Primus has exposure to several growth platforms, including the 787 and A350. The final deal was the Esterline Technologies purchase of Souriau Holding from Sagard Private Equity Partners. Souriau manufactures high-integrity connectors for a variety of end markets, including aerospace and defence. In addition, the Vangent acquisition was also a private equity sale from Veritas Capital.

Divestitures, such as Northrop Grumman's spinoff of Huntington Ingalls and ITT's break-up which formed ITT Exelis, show a motivation to shed low-growth defence businesses. This is very different to 2007, the previous record year for announced deal value, when aerospace transactions dominated the largest deals. The private equity investment exits from large aerospace and defence portfolio companies, such as the Vizada, Primus International, Souriau, and Vangent deals, have much more in common with 2007. Then, sales by private equity investors Aurora Capital Group and The Carlyle Group contributed to some of the largest deals of the year. Of these two themes in 2011, divestitures seems more likely to persist as a motivator of large deals. Spending cuts clearly indicate a negative demand environment and the intensity of these cuts seem more likely to increase than decrease. In addition, spending priorities may change as western economies come closer to a "new normal" level of defence expenditure. This public financing climate could provide additional impetus for large defence transactions in 2012.

Top ten A&D deals in 2011

Rank	Target name	Target category	Acquirer name	Target nation	Acquirer nation	Value of transaction in US$ bil.
1	Goodrich Corp	Aerospace OEMs & suppliers	United Technologies Corp	United States	United States	16.18
2	Tognum AG	Defence	Engine Holding GmbH	Germany	Germany/UK	4.72
3	ITT Exelis	Defence	Shareholders	United States	United States	2.10
4	Huntington Ingalls Industries Inc	Defence	Shareholders	United States	United States	2.01
5	SRA International Inc	Defence	Providence Equity Partners LLC	United States	United States	1.79
6	IAE International Aero Engines AG	Aerospace OEMs & suppliers	United Technologies Corp (Pratt & Whitney)	United States	United States	1.50
7	Vizada SAS	Space & other	Astrium SAS	France	France	0.96
8	Vangent Holding Corp	Defence	General Dynamics Corp	United States	United States	0.96
9	Primus International Inc	Aerospace OEMs & suppliers	Precision Castparts Corp	United States	United States	0.90
10	Souriau Holding SAS	Aerospace OEMs & suppliers	Esterline Technologies Corp	France	United States	0.70

Top ten A&D deals in 2007

Rank	Target name	Target category	Acquirer name	Target nation	Acquirer nation	Value of transaction in US$ bil.
1	Smiths Aerospace Ltd	Aerospace OEMs & suppliers	General Electric Co(GE)	United Kingdom	United States	4.81
2	Armor Holdings Inc	Defence	BAE Systems Inc	United States	United States	4.33
3	Tele Atlas NV	Space & other	TomTom NV	Netherlands	Netherlands	3.96
4	Tele Atlas NV	Space & other	Garmin Ltd	Netherlands	Netherlands	3.21
5	Auckland International Airport Ltd	Aerospace OEMs & suppliers	Dubai Aerospace Enterprise	New Zealand	United States	2.24
6	Sequa Corp	Aerospace OEMs & suppliers	The Carlyle Group LLC	United States	United States	2.01
7	K&F Industries Holdings Inc	Aerospace OEMs & suppliers	Meggitt PLC	United States	United Kingdom	1.80
8	Standard Aero Holdings Inc	Aerospace OEMs & suppliers	Dubai Aerospace Enterprise	Canada	Utd Arab Em	1.80
9	EDO Corp	Defence	ITT Corp	United States	United States	1.68
10	European Aeronautic Defence & Space Co(EADS)	Aerospace OEMs & suppliers	GK Vnesheconombank[2]	Netherlands	Russian Fed	1.45

2 Vnesheconombank acquired a 5% block of shares in EADS

Private equity activity

The relative level of financial investor acquisitions increased in 2011 to slightly above the long-term historical average. Most of the buying activity was away from the largest deals. Out of the top ten deals, only the Providence Equity Partners acquisition of SRA International featured a financial investor on the buy side. In contrast, as discussed in the previous section, four out of the top ten were private equity exits.

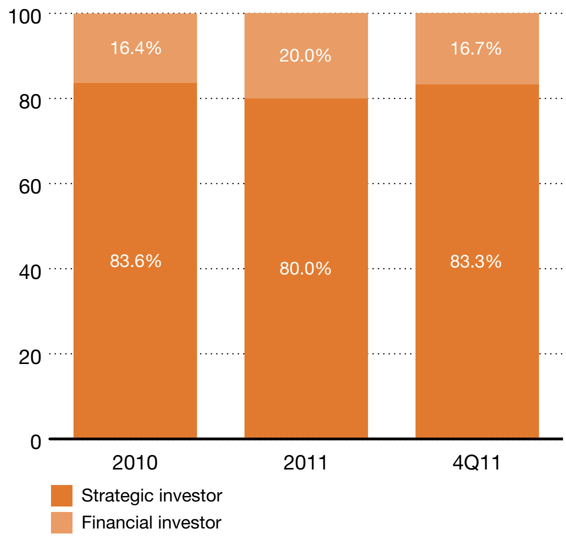
The visibility of buy-side private equity is sometimes obscured by undisclosed valuations. In contrast, private equity exits, often through IPOs or sales to strategic buyers, are more likely to have disclosed values and be included in M&A totals. Accordingly, there can be something of a sample bias when examining private equity involvement in the largest M&A deals. Also, it is important to consider that, even though financial investors were not major buyers in the largest aerospace and defence deals this year, some of these companies were very involved in shaping the broader market through shareholder challenges to management of defence contractors.

It seems likely that strategic investors will lead the way again in 2012. Large aerospace and defence competitors continue to carry ample liquidity while working down financial leverage. In addition, reports indicate that private equity fundraising weakened significantly in the second half of 2011. While last year was not a banner year for private equity in the sector, they may be attractive buyers for future divestments, particularly given the tax benefit of a sale to private equity versus spinning off an independent entity.

Top five private equity A&D deals in 2011

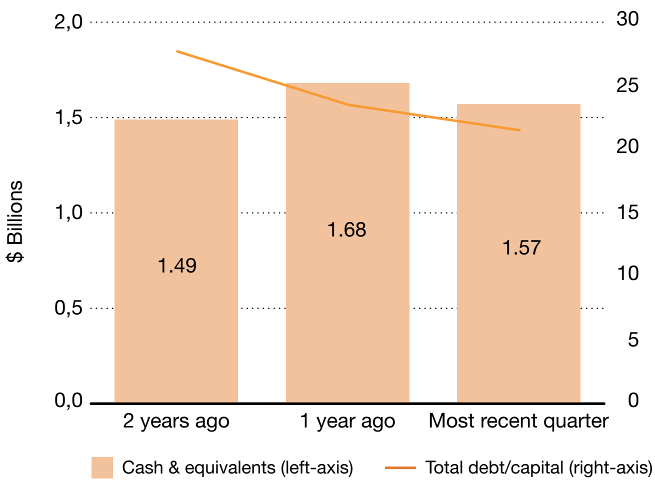
Rank	Target name	Target category	Acquirer name	Target nation	Acquirer nation	Value of transaction in US$ bil.
1	SRA International Inc	Defence	Providence Equity Partners LLC	United States	United States	1.79
2	Sensor-Nite NV	Aerospace OEMs & suppliers	Bain Capital LLC	Belgium	Netherlands	0.32
3	Pattonair International Ltd	Space & other	Exponent Private Equity LLP	United Kingdom	United Kingdom	0.24
4	Global Defence Technology & Systems Inc	Aerospace OEMs & suppliers	Ares Management LLC	United States	United States	0.22
5	Anixter International Inc-Aerospace Hardware Division	Space & other	Greenbriar Equity Group LLC	United States	United States	0.19

Deal activity by investor group
Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)



Financial investor % of total deals: 10-year—16.7%; 5-year—17.1%

Sector liquidity and leverage
Measured by average of top 50 global public competitors (Y-2, Y-1, MRQ)



Source: Company reports

Perspective on top ten historical A&D deals

Top ten historical completed A&D deals

Rank	Value of transaction in US$ bil	Date announced	Target name	Target nation	Acquirer name	Acquirer nation
1	13.36	Dec 1996	McDonnell Douglas Corp	United States	Boeing Co	United States
2	12.86	Jan 1999	Marconi Electronic Systems (General Electric Co PLC)	United Kingdom	British Aerospace PLC	United Kingdom
3	9.50	Jan 1997	Hughes Aircraft Co	United States	Raytheon Co	United States
4	8.76	Jan 1996	Loral Corp	United States	Lockheed Martin Corp	United States
5	7.06	Oct 2004	Snecma SA	France	Sagem Communication AG	France
6	6.75	Oct 1999	Aerospatiale Matra	France	DaimlerChrysler Aerospace AG	Germany
7	6.68	Feb 2002	TRW Inc	United States	Northrop Grumman Corp	United States
8	5.42	May 1999	Gulfstream Aerospace Corp	United States	General Dynamics Corp	United States
9	5.20	Aug 1994	Lockheed Corp	United States	Martin Marietta Corp	United States
10	5.16	Dec 2000	Litton Industries Inc	United States	Northrop Grumman Corp	United States

When United Technologies' $16 billion announcement for Goodrich closes, it will be the largest acquisition in the history of the sector. The ten largest completed aerospace and defence deals from earlier years are shown in the chart above. The list covers only deals that actually completed. Among those that were proposed but had to be withdrawn are the Lockheed Martin/Northrop Grumman merger and the potentially giant GE/Honeywell deal, both of which fell on regulatory grounds in 1998 and 2001 respectively.

Most of the completed deals in our table came during a period of significant post-Cold War defence consolidation in the United States and Europe. The General Dynamics acquisition of Gulfstream Aerospace Corporation is an exception to this. It is more akin to the United Technologies/Goodrich deal in the sense that it stemmed from favourable commercial aviation prospects, in this case specifically in the business jet category.

Current day horizontal consolidation among defence primes remains unlikely unless defence industrial policies change significantly. A change could be driven by greater-than-expected defence spending cuts but the relatively consolidated state of prime contractors and an interest in maintaining employment make this unlikely. So, although there is a business interest in the potential of large defence deals, the policy climate suggests there will not be a repeat of the $5 billion-plus transactions that we saw a decade or more ago, at least not in the immediate future. The large deal flow is likely to continue to come from commercial aerospace, although many of the largest commercial players may decide to stay focused on achieving their relatively strong organic growth potential.

Geographic regions

European dealmakers increased their activity in 2011. The growth in European deals has been driven by an increase in local market deals as well as outbound transactions. All of these European outbound announcements during 2011 targeted North American companies. This seems to be driven by interest in the United States from a size, if not a growth, perspective. Such acquisitions help companies match US dollar-based production with global sales in this currency, thus creating a natural hedge. The increase in European outbound deals also formed part of an overall rise in crossborder deals and foreign acquisitions of US targets.

Another element in crossborder activity is the acquisition by foreign competitors of non-US companies that have significant US revenue competitors. The EADS transaction for Vizada and Vector are examples of large non-US acquisitions that give the buyer increased exposure to the US market. This can be one way to mitigate some of the acquisition hurdles in the United States. Such hurdles include the need for reviews by the Committee on Foreign Investment in the United States, which some observers say are taking longer. In addition, cyber security concerns are raising standards for investment in the United States in the case of deals related to communication and technical services. Such concerns could lead to more restrictions on how the targets are allowed to operate.[3]

Interest in US targets could remain high despite domestic fiscal pressures. The US is very likely to maintain the largest defence budget in the world for some time and continue to act as a draw for crossborder consolidation. But transnational deals are likely to make a lot of sense in Europe as well due to defence cooperation agreements. The agreements support increased collaboration among large contractors, as well as joint procurement, in order to help retain defence industrial capabilities in spite of austerity measures. For example, defence pacts between France and the United Kingdom in recent years include agreements for industrial cooperation in the areas of unmanned vehicles, with BAE Systems and Dassault Aviation collaborating on research for a medium altitude long endurance unmanned aerial system.

Asia and Oceania acquirers and targets contributed less to overall totals in 2011 than in the previous year, despite several countries in Asia continuing their efforts to develop aerospace and defence competitors. For example, China is working on a new regional jet, a narrow-body aircraft, and a military jet (the ARJ21, C919, and J-20, respectively). However, there were fewer deals involving Aviation Industry Corporation of China (AVIC) in 2011 compared with 2010. While China was not as active from a volume standpoint, AVIC did play a role in some important foreign transactions to augment its technology. This led to the closure of two high-profile acquisitions of US general aviation targets — Cirrus Industries and Continental Motors — during 2011. This could represent a shift in focus from consolidation of the local Chinese aviation sector to executing on new programmes and supplementing capabilities with additional select foreign deals that can pass regulatory muster.

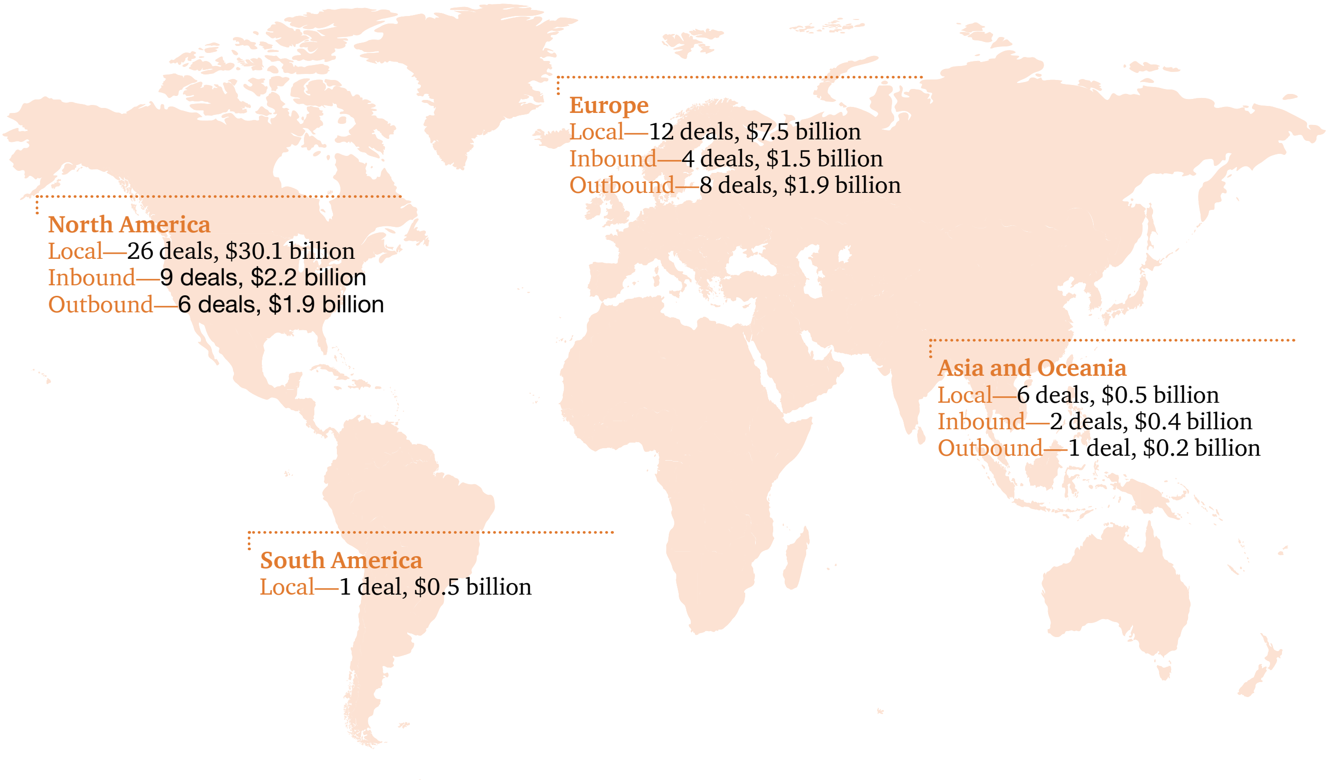
Indian firms were not highly active in the global deal market during 2011. But the country seems poised to contribute more to the M&A totals as policies are attempting to make the domestic industry more self-reliant. For example, reports indicate that India is planning to adjust its offset policy to require more technology transfers. In addition, the maximum level of allowable foreign investment in the defence sector may be raised to 49%. India already has a number of joint defence projects with countries such as Russia, Israel, and the United States. The latest changes could lead to more M&A, including additional joint ventures with Western defence companies and local consolidation, in order to improve competitiveness.

Deal flow involving Asia is likely to pick up in 2012. China may drive much of this activity by announcing larger deals targeting overseas aviation assets, subject to optimism about such deals getting approved. India may also contribute more on the defence side of the sector, both local-market and crossborder deals, given the country's liberalization efforts and growing economic power.

3 For more information on this topic, see PwC's "Cyber Security M&A: Decoding deals in the global Cyber Security industry"

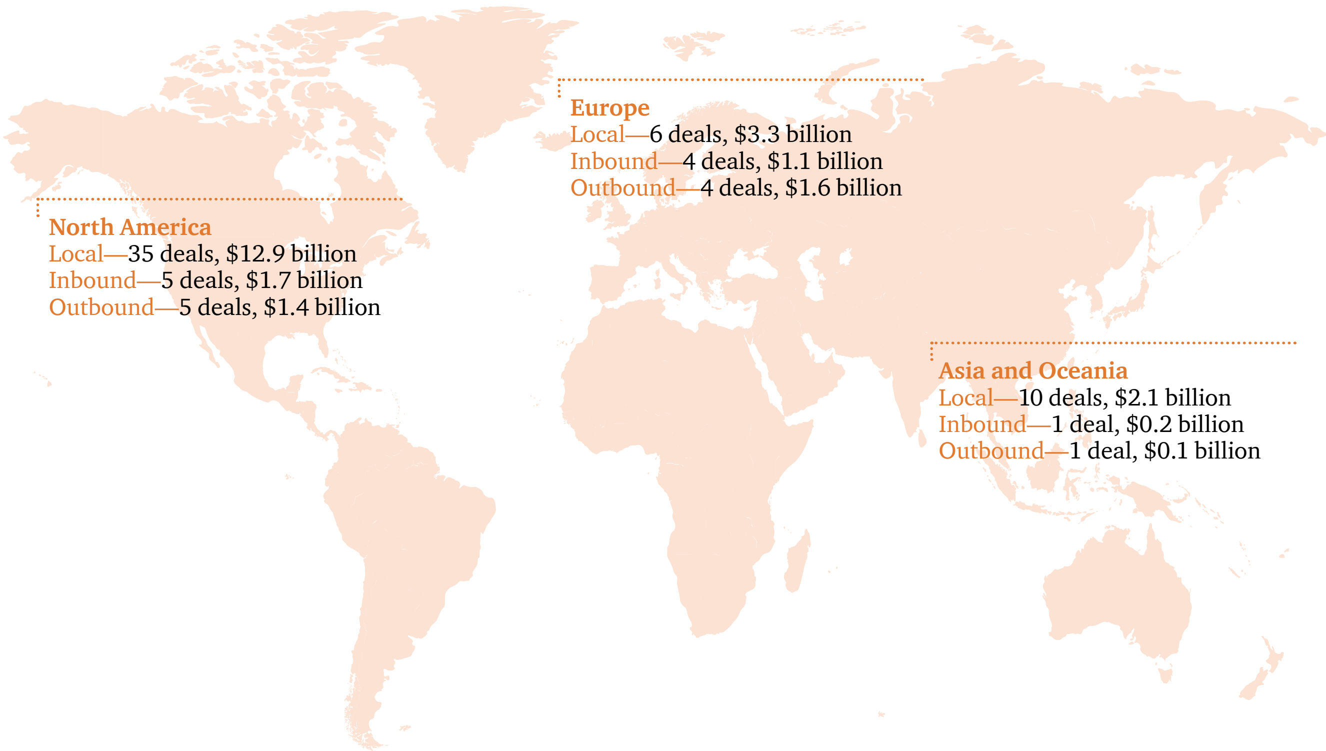
Global aerospace and defence deals in 2011

Measured by number and value of deals worth $50 million or more

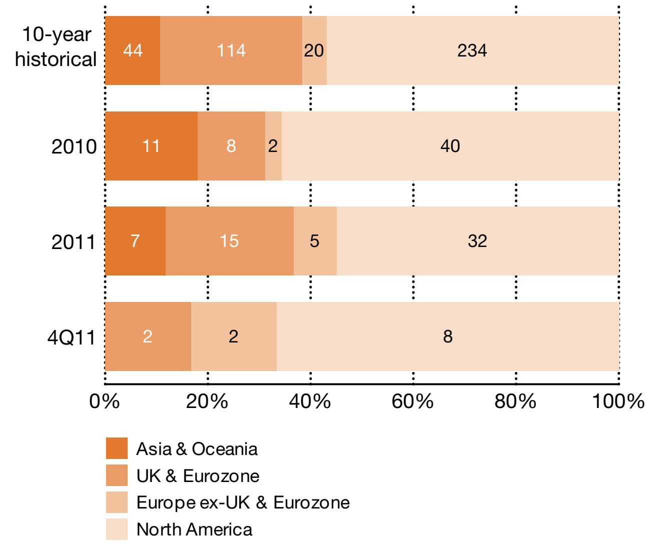


Global aerospace and defence deals in 2010

Measured by number and value of deals worth $50 million or more



Regional distribution of all deals by acquirer region**
Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)



Regional distribution of all deals by target region**
Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)

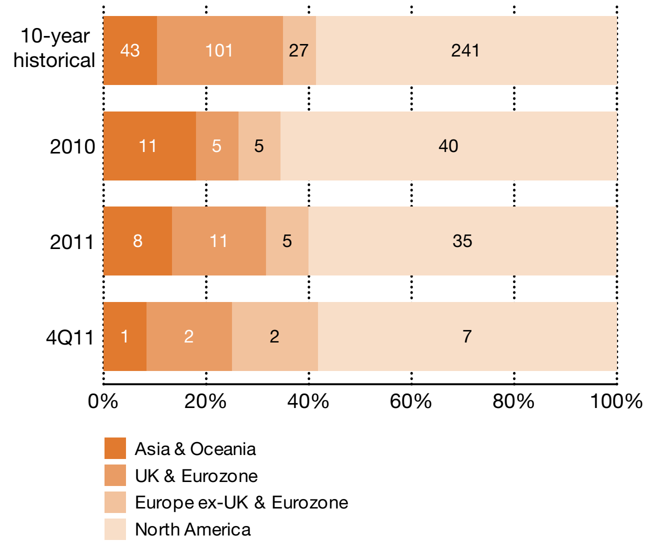
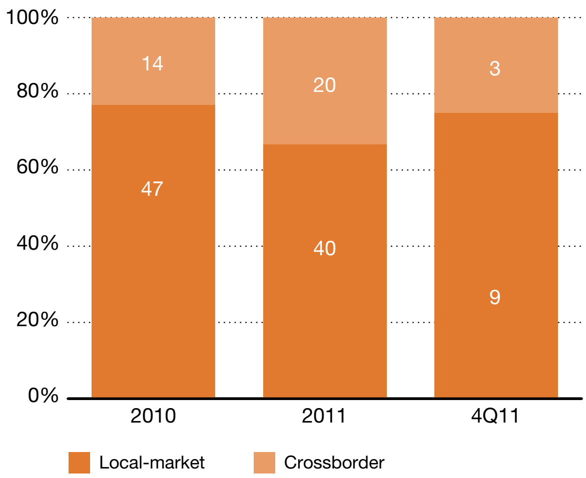
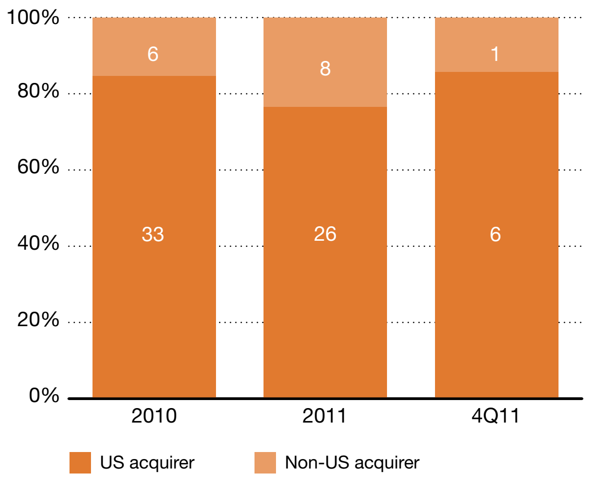


***Chart does not include one deal in South America during 2011 and ten- year historical period*

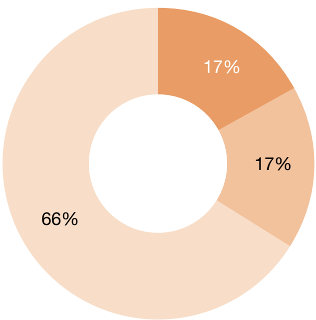
Local-market versus crossborder deals, all nations
Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)



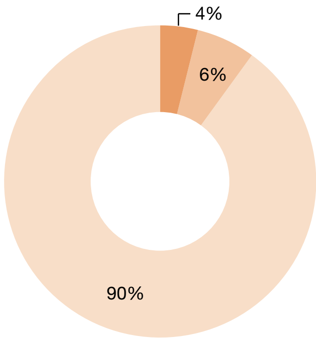
US versus non-US acquirers of US targets
Measured by number of deals worth $50 million or more (2010, 2011, 4Q11)



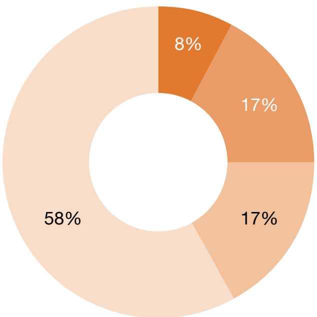
Regional distribution of deals by acquirer region
Measured by number of deals worth $50 million or more (4Q11)



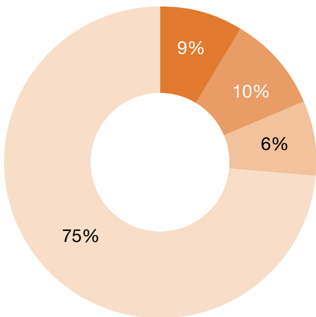
Regional distribution of deals by acquirer region
Measured by number of deals worth $50 million or more (4Q11)



Regional distribution of deals by target region
Measured by number of deals worth $50 million or more (4Q11)



Regional distribution of deals by target region
Measured by value of deals worth $50 million or more (4Q11)



Asia & Oceania | UK & Eurozone | Europe ex-UK & eurozone | North America | South America | Africa/undisclosed

Looking ahead

Aerospace and defence M&A posted a record year in 2011, buoyed by the largest announcement in sector history. As 2012 begins, the respective outlooks for the commercial aerospace and defence segments could not be more divergent. Commercial aerospace, which is more closely associated with global GDP, is likely to outperform defence, subject to continued global economic expansion. Fiscal pressures in the United States and budget cuts in other large defence markets are limiting organic growth potential for the defence industry and look likely to widen the disparity between aviation and military-related demand. This disparity will set the context for A&D deal activity in 2012.

On the commercial aerospace side of the sector, demand for new aircraft has led to a sharp rise in orders. To meet this demand, OEMs are planning to ramp up production to unprecedented levels. While this creates tremendous growth opportunities, it also means that supply chain risks will be among the most significant issues that large commercial OEMs and suppliers will face over the next few years. If these challenges are not successfully navigated, OEMs may have to intervene by acquiring key suppliers. This could provide an impetus for some large deals. In addition, aerospace suppliers to key growth platforms will be attractive targets for sector constituents looking to boost revenue, as well as other aerospace suppliers seeking to augment their exposure to these platforms.

The nature of deal flow in the defence industry remains somewhat uncertain. The defence industry has not yet fully restructured itself to grapple with fiscal realities because the full effects of budget cuts haven't played out yet. Under a base outlook where defence spending is reduced by levels similar to what is under current discussion — in the United States this would be $450 billion over ten years plus at least some of the $600 billion from the Super Committee trigger — the tenor of the defence M&A market is likely to be similar to 2011. Industrial policies would continue to discourage consolidation among the largest contractors and the divestiture of slower growth units, similar to Northrop Grumman's shipbuilding spinoff, would continue. Smaller deals to build capabilities in growth areas, similar to Raytheon's cyber security acquisitions in 2011, and additional diversification into commercial aerospace, though not on the scale of United Technologies' Goodrich acquisition, would also remain hallmarks of the market.

Defence spending cuts far beyond these levels would lead to a more dramatic shift in the M&A market. While not preferred from a competition standpoint, industrial policies may have to allow for some movement of more contractors toward the arsenal model of single domestic suppliers. This would be akin to how Lockheed Martin and Boeing became the sole provider of some launch services in 2006 due to reduced demand. Large, historic, and transformational crossborder deals could re-emerge based upon the realization that national champions could not survive a dramatically weaker spending environment. Finally, under this bearish scenario, there would likely be significant efforts to diversify further into commercial aerospace through acquisition. These announcements may not exceed the size of the United Technologies/Goodrich deal but the more that military budgets are cut, the bigger the potential for significant deal sizes.

One similarity in base outlooks for commercial aerospace and defence is that both aerospace OEMs and large defence contractors are carrying a lot of cash. With a record backlog and little sign of a potential order downturn, OEMs may feel they have less reason to be risk averse in working capital management. Both aerospace and defence companies will face investor pressures to put this cash to work; otherwise, they may have to return it to shareholders through dividends or share repurchases. This will likely incentivise strategic buyers to continue to drive sector M&A totals.

On a regional basis, European companies are likely to remain active as acquirers. Defence cooperation efforts in Europe could be a factor in deal flow, balanced against the interest in maintaining national champions and employment within nations. But budget pressures are likely to win out over these concerns. Asia may not provide the same level of volume as in past years as China's pace of local consolidation slows, but the trend of larger crossborder deals originating from this market is likely to continue.

The record level of A&D M&A activity in 2011 could go even higher in 2012. Commercial aerospace is benefiting from tailwinds that are likely to continue to attract investment. In addition, regardless of the extent of spending cuts, it is clear that competition among western contractors for smaller defence budgets will only grow more intense. This means that it will become even more difficult to grow organically, which has generally positive implications for M&A totals. Business portfolio realignment, with more small deals for growth targets and divestitures of "non-strategic" (i.e., lower growth businesses) will continue. For example, L-3 Communications announced during mid-2011 that it will spin off part of its government services segment in 2012, and it is reported that other players are undergoing strategic reviews that could include divestitures. So, while the forces affecting the aerospace and defence sector vary, many investors and companies will look to M&A to address these challenges and compete more effectively in 2012 and beyond.

PwC spotlight:
Managing divestitures and spinoffs

Divestitures of low-growth or non-core businesses are playing a major part in A&D M&A. Two headline divestitures, the Northrop Grumman shipbuilding spinoff and the break-up of ITT, ranked among the top five deals in 2011. But divestitures present special challenges for companies. They are less common than acquisitions and companies are likely to have far less experience in them. Nearly half of the C-suite executives and corporate development directors responding to a PwC survey reported their acquisition process was better defined than their divestiture process[4]. What are the challenges and what are the things senior managers need to look out for?

Unlike acquisitions, where the list of targets is on the radar of a company and may be refined continually, identifying a complete list of buyers can be much more challenging for management teams. Suitable buyers may not be directly involved in the same industry and might come from anywhere in the world. Equally, when it comes to assessing a part of the business for divestiture, internal cultures and barriers may come into play. Internal dynamics can lead to institutional resistance to identifying divestiture candidates and can ultimately hamper or derail divestiture efforts.

Selling a long-standing unit of a company can be a difficult, and often controversial, decision for an organisation, particularly if members of the management team have ties to the unit being divested. Such factors can cloud the best way of achieving an operational separation. It's a very different process than if the same company was integrating an acquired target company. But by selling a business unit that is no longer core to strategy, a company can raise capital to invest in its strategic priorities and allow that business unit to do the same, thereby enhancing overall shareholder value.

Attractions of divestitures

Despite the challenges, spinoffs are on the rise as an attractive way for companies to separate low-growth components of the business, or sometimes high-growth units, from more traditional pieces of the organisation. Such was the case with several high-profile transactions, including ITT's split into three publicly traded companies, Motorola's spinoff of its mobile-phone division, McGraw-Hill's spinoff of its educational unit, L-3's announced spinoff of several government services businesses, and Sara Lee's spinoff of its international beverage business.

Spinoffs, often the best way to dispose of a business while preserving shareholder value, are a sound strategy for businesses with significant appreciated value, as a sale can trigger a large taxable gain. A spinoff is a tax-free transaction that allows shareholders to maintain their appreciated value without triggering a gain. Thus, shareholders are allowed to preserve capital gains treatment and control the timing of the realisation of the gain. Following the repeal of the General Utilities Doctrine, a tax-free Section 355 spinoff may be the only remaining means by which a corporation can extract appreciated assets without paying corporate-level tax.

The most important gain, of course, is the fact that an organisation can secure financial resources to inject additional funding into its core business, thereby enabling it to refocus on essential aspects of the business that help define the organisation and launch key projects that may have been delayed. These initiatives can allow the company to improve its overall performance. Additionally, certain sellers are interested in acquiring capital as companies look to restructure their balance sheets by building up cash reserves or paying down debt.

4 "Divestitures in difficult times: A survey of US executives on the drivers of divestiture activity and the challenges for 2010 and beyond," PwC, 2009

Approaching divestitures

Timing, price, and ease are priorities that must be balanced when evaluating candidates for divestiture. Sellers need to pay close attention to how they manage the divestiture process, from start to finish. They frequently assemble a team dedicated to managing and executing the deal and the operational separation simultaneously. Once moving forward with a divestiture, leadership and investors should focus on the future of the core business and on expediting the divestiture to limit executive and investor distractions.

Reducing or avoiding delays altogether can be essential to maintaining the desired value of the sale. The longer a transaction takes, the more opportunity there is for value erosion. In recent times, we have noticed that divestiture transactions are tending to take longer to close than in previous years, with some companies being forced to go to market several times before successfully striking deals with buyers.

Depending on whether a carve-out audit was required and other buyer financing and regulatory requirements, a divestiture typically can take six months to a year. The long transaction period can be driven by the complexities of developing an accurate financial understanding of the business unit or carve-out, and disentangling its employees and operations from the larger corporate parent. The latter is a process that can last another six months and tie up resources long after the transaction closes.

A well thought-through preparation period can be critical to a successful sell transaction. The journey to getting the asset marketed and ultimately off the company's balance sheet begins once a business unit is chosen for divestiture. While planning can extend the time spent on a divestiture, it can save time and costs overall, as the process is likely to be more efficient once the seller goes to market.

Avoiding pitfalls

We've identified nine common pitfalls that can snare the unprepared:

- Failing to understand your anticipated buyer profile
- Failing to address critical pension issues
- Failing to address critical financial reporting issues
- Lack of detailed credible support for the business plan
- Data reconciliation issues while going to market before vetting the numbers, requiring significant bridging from the confidential information memorandum (CIM) to the data room information
- Stranded cost identification
- Lack of risk identification and response
- Lack of a clear transition services plan as well as a vision for post-transition service agreement (TSA) period
- Lengthy divestiture process due to lack of structure or data preparedness.

Extensive preparation is the one single critical factor shared by companies that are successful in achieving their goals for divestitures and spinoffs. Unpreparedness can be costly.

Walking in the buyer's shoes

In today's environment, concerns that buyers might have overlooked in previous years can damage or even derail a deal. To best prepare for a divestiture, sellers should conduct an assessment of operations and identify and correct any significant issues, such as unusually high back-office costs and plant inefficiency, and look at their restructuring options before going to market. Even if the issues cannot be corrected prior to closing, buyers are keen to gain a full understanding of the target's costs and benefits.

Adopt a buyer's perspective by performing due diligence of the business before buyers are involved. A full review of the unit slated for sale can be essential when sellers' and buyers' pricing expectations vary significantly. Advance diligence can also help the seller identify and promote the unit's strengths and evaluate alternative transactions and structures from an informed perspective. Buyers are often suspicious that executing a divestiture is merely a strategy for companies to rid themselves of a problem asset. To defuse that issue, sellers should be equipped to answer critical questions:

- Why is the asset for sale?
- Why has it been underperforming?
- Why is it expected to do well outside the company?
- How will the forecast be prepared?

It is also important to determine separation issues early during the process. Human resources, intellectual property, information technology systems, employee benefit plans, and other systems and processes that took years to create must be disentangled during a divestiture. The process includes the development of TSAs, which provide for services between the seller and the buyer post-closing. Buyers will want not only to outline all of the issues and time lines involved but also to incorporate all TSA and post-TSA costs into their initial valuations.

How PwC can help

The divestiture specialists with PwC's Transaction Services support clients by enabling them to accelerate the speed to market and deal close. We can deliver support, methodology, tools, and templates from start to finish of the divestiture process, assisting with areas including:

- divestiture strategy
- candidate acquirer screening
- sell-side commercial due diligence
- sell-side financial due diligence
- financial and tax structuring
- financial statements and reporting
- carve-out statements and regulatory filings for regulatory compliance
- people and human resource matters, employee benefits
- operational carve-out analysis
- insurance risk
- contract transition
- divestiture management and separation.

We deploy a team specially tailored to each engagement to advise clients. Our tailored approach gives clients the appropriate balance of transaction, functional, and industry expertise across the value chain. We start with a client's transaction viewpoint and investment thesis, and then guide a company through assessments and evaluations of divestiture considerations; exclusive or auction situation; planned capital structure and financing sources; timing and deliverables; critical deal and valuation issues; and integration challenges and solutions.

Case study

Issue	A global defence company sought opportunities to divest several business operations that were not central to the organisation's core mission. The company urgently needed cash to pay a lender loan and was required to efficiently conduct a series of divestiture transactions.
Action	PwC performed sell-side due diligence on the divested entities, analysing earnings trends, working capital issues, and potential separation concerns. We helped management gain an accurate view of normalised earnings and working capital, and helped prepare the company for buyer diligence by identifying areas of value leakage. PwC also helped the company establish a central divestiture management office and achieve its operational separation goals, including transition service agreements and tactical information technology and people separation.
Impact	PwC's involvement helped the company's management and its bankers prepare for the deal negotiations. Within the first few weeks of PwC's field deployment, the company: • Established its divestiture management office • Developed operational and functional 'day one' separation plans • Conducted separation activities with transition teams. The company successfully closed the transactions by the debt call date, raising enough cash to restructure its debt.

PwC's aerospace and defence experience

Deep aerospace and defence experience

PwC's A&D practice is a global network of nearly 1,200 partners and client service professionals who provide industry-focused assurance, tax, and advisory services to leading A&D companies around the world. This A&D experience is enhanced by our Public Services practice, which includes an additional 600 partners and 9,000 professionals focused on assisting federal, state, and local governments, international agencies, and healthcare entities. We help A&D companies address the full spectrum of industry-specific challenges across areas such as assurance, tax, operational improvement, supply chain management, programme management effectiveness, IT effectiveness and security, compliance, export control, and government contracting.

PwC's A&D client service professionals are committed — both individually and as a team — to the relentless pursuit of excellence, building insights, and advancing leadership on a wide range of the most critical challenges and issues confronting A&D organisations. PwC is a sponsor of leading industry conferences and frequently writes articles for, or is quoted in, leading industry publications. We are proud of our relationships with *Aviation Week* and *Flight International* as well as our participation in industry conferences and associations, such as the Aerospace Industries Association (AIA), AeroSpace, Defence, Security Group (A|D|S), and American Conference Institute (ACI). Our involvement in these organisations reflects our commitment to addressing industry needs and the furthering of dialogue with A&D industry leaders.

Quality deal professionals

PwC's Transaction Services practice, with approximately 6,500 dedicated deal professionals worldwide, has the right industry and functional experience to advise you on all factors that could affect a transaction, including market, financial accounting, tax, human resources, operating, information technology, and supply chain considerations. Teamed with our A&D practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as an industry point of view.

Local coverage, global connections

In addition to the 1,200 professionals who serve the A&D industry, our team is part of an extensive Industrial Products group that consists of more than 31,500 professionals, including approximately 18,600 providing assurance services, 7,700 providing tax services, and 5,200 providing advisory services. This expands our global footprint and enables us to concentrate efforts to bring clients a greater depth of talent, resources, and experience in the most effective and timely way.

Contacts

PwC's global aerospace and defence practice

PwC's A&D practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of professionals in every country where your company operates. Our people can help you deal with the challenges of today, and they understand the implications for tomorrow.

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Methodology

Mission control is an analysis of mergers and acquisitions in the global aerospace and defence industry. Information was sourced from Thomson Financial and includes deals for which targets or acquirers have primary SIC codes that fall into one of the following SIC industry groups: (1) ordnance and accessories, except vehicles and guided missiles; (2) aircraft and parts; (3) national security; (4) guided missiles, space vehicles, and parts; (5) search, detection, navigation, guidance, aeronautical and nautical systems, and instruments and equipment; and (6) space research and technology.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between January 1, 2002, and December 31, 2011, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), or withdrawn.

The term deals, when referenced herein, is used interchangeably with *transactions* and *announcements*. Unless otherwise noted, the term *deals* refers to all deals with a disclosed value of at least $50 million. All dollar amounts reported are in US dollars.

Regional categories used in this report approximate United Nations (UN) Regional Groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom plus Eurozone, and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.

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