Opinion: A Map Of Aerospace Mergers And Acquisitions

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Steven Grundman

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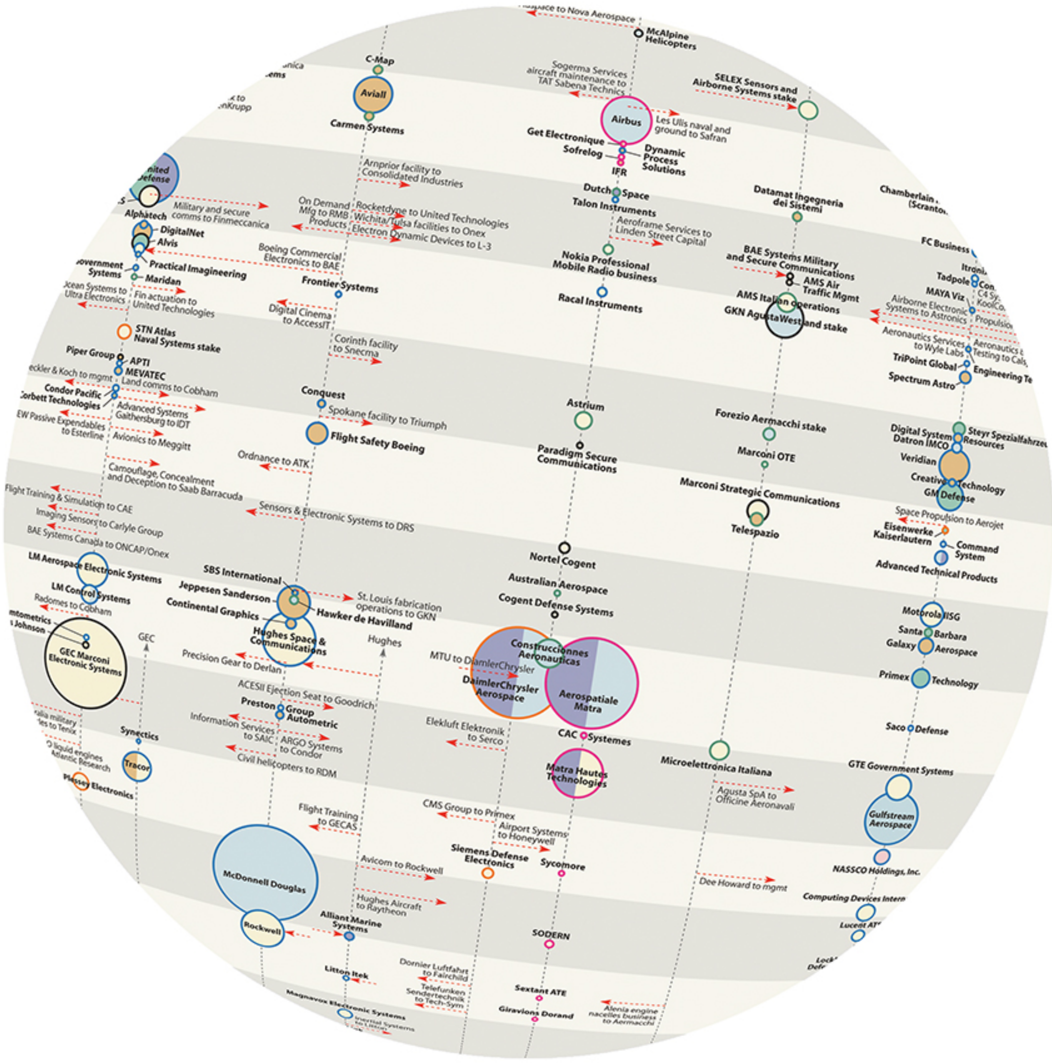
In mature industries such as aerospace and defense, mergers and acquisitions (M&A) are primary tools of corporate strategy. The race for competitive advantage increasingly relies on initiatives to reshape the scale, scope and vertical depth of a company’s structure as the bases of competition for product and service offerings become ever more firmly established. More specifically, corporate development initiatives are how companies in mature industries adapt to change—inflections in demand, technology perturbations, capital markets, politics, etc.

These principles come vividly to my mind as I consider a new “map” of mergers and acquisitions in aerospace, defense and government services that my consultancy, Grundman Advisory, is publishing this week. The document expands and updates a well-regarded infographic from the 2000s, which we have revived in a partnership with Renaissance Strategic Advisors.

The map depicts the mergers, acquisitions, divestitures and major recapitalizations that comprise the 25-year lineage of two dozen leading companies in our industry. Each transaction’s rendering on the map indicates its date and value as well as the sectors in which the acquired businesses participate and the nationality of their home markets. The resulting array of images puts a distinctive face on the deal-making that has remade aerospace companies and restructured the industry.



Six years after the 2010 inflections marked by the Great Recession's bottom and the Iraq War's end, what are the story lines of corporate development that stand out on this map?

•It is easy to see how the historic growth in orders and deliveries of large commercial airliners that accompanied recovery from the financial crisis has been reflected in M&A. The two largest transactions of the past six years —United Technologies' 2012 acquisition of Goodrich for $18 billion and Berkshire Hathaway's buyout last year of Precision Castparts at a valuation of $37 billion—both share an impetus in these commercial aviation boom years. That same impetus also underlies the appearance on the map of several comparatively smaller transactions: GE's acquisition of Avio Aero in 2013, Safran's acquisition of the RTM322 engine business that same year and Rockwell Collins's pending acquisition of B/E Aerospace.

•The downdraft in Pentagon investments that began in 2010 has had an equally profound effect on companies occupying that sector of the market, whose responses show up on the map as a flurry of dotted red lines signifying spinouts and divestitures. Three distinct themes animate these "portfolio-shaping" initiatives. First, there have been multibillion-dollar divestitures by diversified companies curtailing exposure to declining and volatile defense markets, a theme punctuated by United Technologies' sale of Sikorsky to Lockheed Martin in 2015; the separation of ATK in 2015 between its defense/aerospace businesses and Vista Outdoors, a commercial sporting goods company; and Airbus's sale of its defense electronics business to the private equity firm KKR earlier this year.

Second, some of the defense companies themselves— most notably Lockheed Martin and L3 Technologies — have been exiting the information technology and services segments of the federal market. Finally, the decline in defense spending caused a slew of divestitures tightening the focus of a company's business and financial model (e.g., Northrop Grumman's 2011 spinout of its shipbuilding sector as Huntington Ingalls).

•Viewed in the context of a full quarter-century of M&A activity by aerospace and defense companies, the comparative paucity of deal-making since 2010 also stands out, particularly among the largest companies. With the exception of Lockheed Martin, which has cultivated a steady agenda of strategic transactions over the past six years, none of the other "big-six" U.S. defense contractors has made a move larger than Raytheon's $1.6 billion acquisition of Websense in 2015.

Honeywell, the third-highest-valued company on the map, has made only four small aerospace transactions in six years, and it went fully three full years, 2012-14, without making a single acquisition in its aerospace businesses. Boeing has acquired 10 companies in six years, but none exceeds the $106 million it paid for Miro Technologies in 2012.

This last observation may bear an ironic tone, but it is not a criticism. After all, the robust valuations enjoyed by nearly the entire industry today testify to the merit of the general corporate development initiatives that have prevailed since 2010. At the same time, for all that it may illuminate about how our industry has employed M&A to adapt to change, the map reveals little about where these story lines may lead beyond the next inflection.

Steven Grundman is the principal of Grundman Advisory and Lund Fellow at the Atlantic Council. His views are not necessarily those of Aviation Week.
