

Aerospace & Defence - Q3 2021 Industry Update



Retention of sovereign capability continues to play an increasingly important role in both defence and commercial aerospace. In the UK high profile tilts at Meggitt and Ultra are placing increasing focus on the soon to be enacted National Security and Investment (NS&I) Bill. Whilst Cobham was largely US focussed and could not be deemed sovereign capability, that is not such a clean cut decision in the case of Ultra. The high profile cases will attract the attention, but it is the machinery of bureaucracy behind the NS&I process that could have the biggest impact on M&A activity across the supply chain. The NS&I regime itself mirrors a trend in government scrutiny over foreign direct investment across the globe, with the key and as yet unproven question being whether the UK Government has put in place sufficiently robust process and capacity to review submissions in a timely manner without disrupting the investment process. Pre-emptive thought should be given to defence related capability – no matter how immaterial it is to the transaction. This will be especially pertinent as the enactment date will coincide with the perfect storm in the commercial aerospace supply chain; balance sheets impacted by 24 months of the pandemic, and no longer sustained by Government support, will be required to build working capital in order to meet the uplift in demand. With conventional funding sources closed off delays to approvals at that point could be the difference between solvent and insolvent sale processes.

Aerospace

Company	Country	Market cap (GBPm)	Adj EV (GBPm)	Net debt/ EBITDA (2021)	EV/Revenue Revenue (GBPm) Revenue growth			EV/EBITDA EBITDA (GBPm) EBITDA %			EV/EBIT EBIT (GBPm) EBIT %			2 Year CAGR 2019-2021	
					2020	2021	2022	2020	2021	2022	2020	2021	2022	Sales	EBITDA
Airbus SE		73,134	70,640	n/a	1.6x 44,719 (25%)	1.6x 44,370 (1%)	1.4x 50,614 14%	18.8x 3,762 8%	15.0x 4,721 11%	10.6x 6,652 13%	48.8x 1,447 3%	29.3x 2,411 5%	16.4x 4,302 9%	6%	33%
Boeing Company		101,437	131,831	7.9x	3.1x 42,597 (26%)	2.3x 57,074 34%	2.0x 64,813 14%	n/mf (4,433) (10%)	34.5x 3,824 7%	19.1x 6,908 11%	n/mf (6,826) (16%)	58.5x 2,254 4%	26.0x 5,063 8%	23%	n/a
Bombardier Inc.		1,708	5,715	9.5x	1.2x 4,751 (16%)	1.4x 4,230 (11%)	1.3x 4,518 7%	n/mf (7) (0%)	14.5x 395 9%	10.1x 567 13%	n/mf (218) (5%)	59.2x 97 2%	23.3x 246 5%	(2%)	n/a
Dassault Aviation SA		7,081	2,862	n/a	0.6x 4,926 (21%)	0.5x 5,824 18%	0.6x 4,774 (18%)	7.1x 402 8%	5.3x 536 9%	5.4x 526 11%	10.8x 265 5%	6.8x 418 7%	7.1x 401 8%	(2%)	14%
HEICO Corporation		12,769	13,097	0.4x	9.4x 1,393 (10%)	9.3x 1,406 1%	8.2x 1,600 14%	34.8x 377 27%	35.4x 370 26%	30.2x 433 27%	45.1x 291 21%	44.9x 291 21%	36.5x 358 22%	7%	7%
Meggitt PLC		3,589	4,590	2.4x	2.7x 1,684 (26%)	2.8x 1,623 (4%)	2.5x 1,830 13%	16.0x 287 17%	14.2x 323 20%	11.3x 407 22%	36.5x 126 7%	22.0x 208 13%	16.1x 284 16%	4%	19%
MTU Aero Engines AG		9,537	10,143	1.0x	2.8x 3,563 (9%)	2.7x 3,799 7%	2.4x 4,182 10%	23.0x 441 12%	17.1x 592 16%	13.9x 731 17%	37.5x 270 8%	25.7x 394 10%	19.6x 516 12%	8%	29%
Rolls-Royce Holdings plc		8,238	12,058	3.6x	1.0x 11,824 (29%)	1.0x 11,831 0%	0.9x 12,860 9%	n/mf (842) (7%)	11.0x 1,095 9%	7.3x 1,661 13%	n/mf (1,792) (15%)	43.2x 279 2%	15.4x 783 6%	4%	n/a
Safran SA		42,851	44,987	1.1x	3.0x 15,034 (29%)	3.3x 13,654 (9%)	2.8x 15,925 17%	17.5x 2,567 17%	16.9x 2,658 19%	13.3x 3,386 21%	34.9x 1,290 9%	27.0x 1,668 12%	18.8x 2,396 15%	3%	15%
Senior plc		629	831	3.8x	1.1x 734 (34%)	1.3x 662 (10%)	1.1x 738 11%	n/mf (118) (16%)	15.5x 54 8%	11.2x 74 10%	n/mf (178) (24%)	n/mf 2 0%	34.4x 24 3%	0%	n/a
Singapore Technologies Engineering Ltd		6,497	7,391	1.4x	1.9x 3,967 (10%)	1.8x 4,113 4%	1.7x 4,441 8%	14.0x 529 13%	13.7x 538 13%	12.7x 584 13%	21.1x 351 9%	22.3x 331 8%	20.0x 369 8%	6%	5%
Textron Inc.		11,239	13,109	1.6x	1.4x 9,316 5%	1.3x 9,938 7%	1.3x 10,418 5%	12.5x 1,048 11%	11.1x 1,177 12%	10.5x 1,254 12%	26.3x 499 5%	18.5x 710 7%	15.5x 843 8%	6%	9%
Thales S.A.		15,711	20,156	1.1x	1.3x 15,221 (2%)	1.3x 15,240 0%	1.2x 16,141 6%	10.7x 1,878 12%	9.4x 2,152 14%	8.3x 2,442 15%	23.4x 862 6%	13.5x 1,488 10%	11.5x 1,748 11%	3%	14%
Min					0.6x	0.5x	0.6x	7.1x	5.3x	5.4x	10.8x	6.8x	7.1x	(2%)	5%
Mean					2.4x	2.4x	2.1x	17.2x	16.4x	12.6x	31.6x	30.9x	20.1x	5%	16%
Median					1.6x	1.6x	1.4x	16.0x	14.5x	11.2x	34.9x	28.3x	18.8x	4%	14%
Max					9.4x	9.3x	8.2x	34.8x	35.4x	30.2x	48.8x	59.2x	36.5x	23%	33%

Source: CapIQ.

Note: Multiples are based on enterprise value as of 30 September 2021 and historical and forecast sales, EBITDA and EBIT, calendarised to 31 December. "n/mf": not meaningful; "n/a": not available. Adjusted EV takes into consideration IFRS16.

From a geo-political perspective the catchily named AUSKUS submarine pact has ruffled feathers but ultimately should benefit a highly skilled UK supply chain that lacks the volume to deliver any economies of scale. That the US does not suffer from this problem and is already at full capacity building two Virginia and one Columbia class per year should mean that the UK supply chain benefits disproportionately. The maturity of the Astute programme should position BAES and Rolls-Royce well to deliver a similar platform to Australia. Whilst the difficulties experienced in the early stages of the DCNS contract were well documented, they will pale into insignificance when compared with the complexities of building a nuclear submarine capability from scratch and securing the benefits to Australian industry that the Government will demand – albeit the reduced domestic content requirements do recognise the enormity of the task ahead. Better qualified commentators than I have speculated that the final Astute boat will be provided to the Australians for initial training purposes. Whatever the merits of this, there is no doubt that interoperability between Royal Navy and Royal Australian Navy will have to increase to support development of the new capability; this will impact operational capacity of the Royal Navy and place strain on the service network in Rosyth and Devonport. That the first vessel put at disposal of the Australians could be called HMS Agincourt is unlikely to improve diplomatic relations with France.

Defence

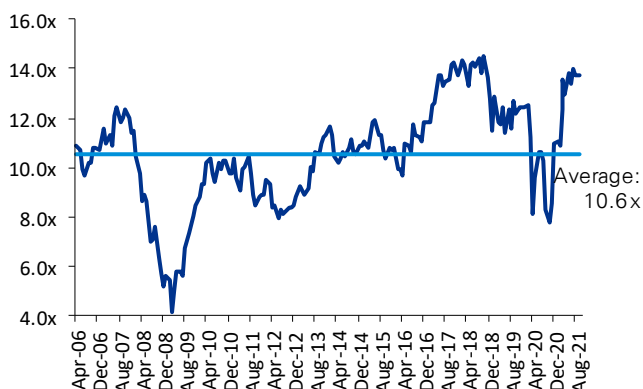
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					2020	2021	2022	2020	2021	2022	2020	2021	2022	Sales	EBITDA
BAE Systems plc		73,134	70,640	n/a	1.6x	1.6x	1.4x	18.8x	15.0x	10.6x	48.8x	29.3x	16.4x	6%	33%
Elbit Systems Ltd.		101,437	131,831	7.9x	3.1x	2.3x	2.0x	n/mf	34.5x	19.1x	n/mf	58.5x	26.0x	23%	n/a
General Dynamics Corporation		1,708	5,715	9.5x	1.2x	1.4x	1.3x	n/mf	14.5x	10.1x	n/mf	59.2x	23.3x	(2%)	n/a
Kratos Defense & Security Solutions, Inc.		7,081	2,862	n/a	0.6x	0.5x	0.6x	7.1x	5.3x	5.4x	10.8x	6.8x	7.1x	(2%)	14%
L3Harris Technologies, Inc.		12,769	13,097	0.4x	9.4x	9.3x	8.2x	34.8x	35.4x	30.2x	45.1x	44.9x	36.5x	7%	7%
Leidos Holdings, Inc.		3,589	4,590	2.4x	2.7x	2.8x	2.5x	16.0x	14.2x	11.3x	36.5x	22.0x	16.1x	4%	19%
Leonardo S.p.a		9,537	10,143	1.0x	2.8x	2.7x	2.4x	23.0x	17.1x	13.9x	37.5x	25.7x	19.6x	8%	29%
Lockheed Martin		8,238	12,058	3.6x	1.0x	1.0x	0.9x	n/mf	11.0x	7.3x	n/mf	43.2x	15.4x	4%	n/a
Northrop Grumman Corporation		42,851	44,987	1.1x	3.0x	3.3x	2.8x	17.5x	16.9x	13.3x	34.9x	27.0x	18.8x	3%	15%
Raytheon Technologies		629	831	3.8x	1.1x	1.3x	1.1x	n/mf	15.5x	11.2x	n/mf	n/mf	34.4x	0%	n/a
Rheinmetall AG		6,497	7,391	1.4x	1.9x	1.8x	1.7x	14.0x	13.7x	12.7x	21.1x	22.3x	20.0x	6%	5%
Saab AB (publ)		11,239	13,109	1.6x	1.4x	1.3x	1.3x	12.5x	11.1x	10.5x	26.3x	18.5x	15.5x	6%	9%
Ultra Electronics Holdings plc		15,711	20,156	1.1x	1.3x	1.3x	1.2x	10.7x	9.4x	8.3x	23.4x	13.5x	11.5x	3%	14%
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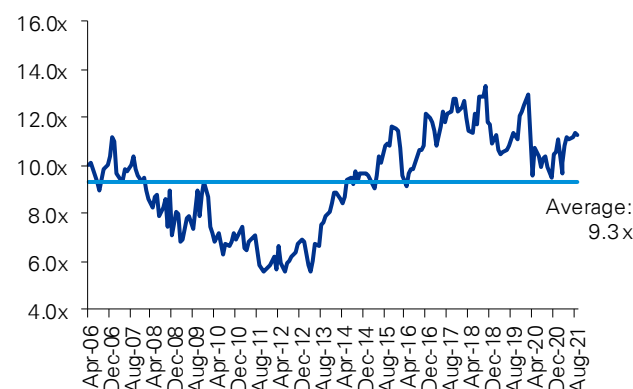
Sector valuation through the cycle (EV/LTM EBITDA)

Aerospace



Source: Capital IQ

Defence



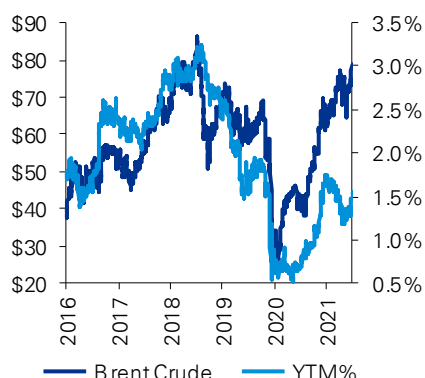
Source: Capital IQ

Selected recent M&A activity headlines

- Jul 2021 – **CAE USA Inc.** completed the acquisition of **L-3 Link Simulation & Training, AMI Instruments and L3 Doss Aviation, Inc.** from **L3 Harris Technologies, Inc.**
- Aug 2021 – **Latecoere S.A.** completed the acquisition of **Technical Airborne Components**, manufacturer of components for the aerospace, from **Searchlight Capital Partners** for €30m.
- Aug 2021 – **Arlington Capital Partners**, entered into definitive agreement to acquire **Electron Devices**, US-based manufacturer of microwave power tubes, switching tubes, electron emitters, and power supplies from **L3 Harris Technologies, Inc.** for approximately \$190 million.
- Sept 2021 – **Vertex Aerospace, LLC** agreed to acquire the **Defense Training and Mission Critical Solutions** business of from **Raytheon Technologies Corporation** which provides Defence Training Solutions, Commercial Training Solutions, Mission Critical Solutions and Modernization & Sustainment.
- Sept 2021 – **BAE Systems plc** acquired **In-Space Missions Limited**, a UK-based satellite manufacturer and operator.
- Sept 2021 - **Bain Capital Private Equity, LP, Sapa Placencia S.L.** and **JB Capital Markets**, signed a definitive agreement to acquire **Industria de Turbo Propulsores S.A.** from **Rolls-Royce plc** for €1.7 billion.
- Sept 2021 – **Equitix Limited** agreed to acquire **AirTanker Holdings**, UK-based joint venture supporting air-to-air refuelling, air transport and ancillary services for UK Ministry of Defence from **Rolls-Royce plc** and **Babcock International**.
- Oct 2021 – **HEICO Corporation** acquired **Pacrowave Inc.**, US-based specialised designer and manufacturer of RF and microwave components for defence contractors and electronic manufacturers worldwide.

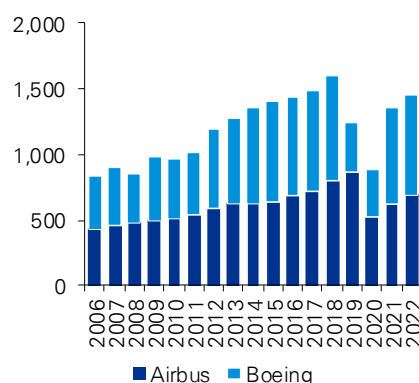
Economic indicators

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



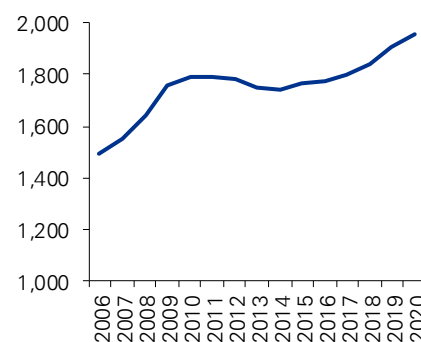
Source: Capital IQ

Delivered Commercial Aircraft (Units)



Source: Airbus and Boeing annual report, UBS, JPMorgan, Barclays.

Global Defence Spend (\$bn)



Source: SIPRI Military Expenditure Database

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The information in this document is based on data obtained from Bloomberg, CapitalIQ, EIU, Mergermarket, WTO and is based on KPMG analysis.

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