

# Benesch Aerospace and Automotive Market Intelligence

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## Aerospace Market Overview

A record-setting year for aircraft orders has created a huge production backlog, which is good news for commercial aircraft manufacturers and tier suppliers. Elsewhere, machine vision, robotics, and manufacturing intelligence are enabling the aerospace industry to automate more tasks while improving safety and quality; companies in the aerospace industry show a rapidly growing interest in 3D printing; the gap between the market values of commercial aerospace and defense and government services companies narrowed during 2015's second quarter; and Europe's defence industry is struggling as most governments are keeping a lid on military spending.

## Aerospace Major PE Activity

- Dubai Aerospace sold its Arizona-based aviation services unit, StandardAero, to Veritas Capital for an estimated \$1.8 billion.
- Aerospace components supplier Shimtech Industries was acquired in a \$220-million deal backed by private equity firm Inflexion. Shimtech, which is headquartered in Hayes, has four manufacturing facilities in the U.S. as well as three in Europe.
- Aerospace and power generation investor AE Industrial Partners, based in Fla., held a first close on \$270 million for its first institutional fund.
- KKR delayed a \$300-million IPO for Singapore's MMI International for the third time amid volatile markets.
- Carlyle collected \$2.9B for its fourth European buyout fund. Like its predecessor, Fund IV will invest in a range of industries including aerospace and automotive components.
- Cleveland-based TransDigm Group completed its \$496-million buyout of Pexco Aerospace, a provider of plastic interior parts used on commercial aircraft—from Odyssey Investment Partners.
- H-D Advanced Manufacturing, a Pittsburgh-based portfolio company of Cleveland's The Riverside Co., acquired Va.-based Firstmark. H-D makes highly engineered components and subsystems for aerospace and defense industries. This is H-D's fourth aerospace business acquisition since its formation in 2012.
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- Oklahoma City-based Acorn Growth, which specializes in aerospace and defense investments, acquired Aerospheres, a British supplier of tools for aircraft repair, for an undisclosed sum.
- Carlyle, KKR, Temasek and Advent are among the private equity firms vying for a 40% stake in Tata Technologies in a potential \$520-million deal which would give the auto and aerospace design company a valuation of \$1.3 billion.
- Lockheed Martin and Textron have reportedly emerged as potential bidders to acquire United Technologies' (UTC) subsidiary Sikorsky Aircraft. Textron has approached private equity firms to help it make a cash offer for Sikorsky. UTC unveiled plans to exit the helicopter business amid declining orders due to a slump in global crude prices.
- Capital Partners bought a stake in Ky.-based injection molder Parkway Products. Markets served by Parkway include aerospace, automotive and healthcare.

## Aerospace Trends and Outlook

- Neff Capital predicts a “seismic shift in how we manufacture for the aerospace and defense industry within the next 20 years.” The firm will invest \$10 million of initial capital in Sintavia, a company it has established to focus on the 3-D printing needs of global aerospace and defense equipment manufacturers.
- A JPMorgan analyst [said](#) the aerospace, defense sector will continue to grow over next 18 months. That outlook is shared by Moody’s Investors Services, which [projects](#) stable, but unspectacular, growth across the board with aerospace and manufacturers of heating, ventilation and air conditioning equipment to be among the sectors that will maintain their stronger-than-average earnings throughout Q1 2016. Meanwhile, the aerospace materials market is [projected](#) to reach \$18.5 billion by 2019.
- At a recent summit hosted by GE Capital, 80 aerospace suppliers, manufacturers, and private equity professionals involved in commercial aircraft [said](#) aerospace suppliers are still in the early days of a long-term boom.
- Maintenance, repair and overhaul are some of the major segments in the aerospace industry, and will represent a major opportunity for the aerospace composites over the [forecast period](#) of 2014-2020. However, higher prices and recyclability issues regarding the aerospace composites are anticipated to hinder the growth of the market in near future.
- Lower fuel prices could impact demand as carriers re-think their jetliner replacement plans, particularly if interest rates rise. There’s also [the risk](#) that Boeing and Airbus continue their aggressive ramp-up plans beyond the point of prudence, which would lead to overcapacity and a market drop after 2018.

- In order to meet the challenges of the new competitive landscape, states must provide a workforce that is able to satisfy both backlog demand for aircraft and meet future demand for the next generation of more efficient, sustainable aircraft, warns [PwC](#).
- **Materials innovation:** Kim Choate, market director, innovative plastics for SABIC, [sees](#) four key trends influencing materials for use in aircraft interiors: **Lightweighting, metal replacement, greater design freedom, and additive manufacturing.**

*“Most small-volume parts now reside in hidden spaces, but the opportunity exists to use additive manufacturing for larger-scale parts in cabin interiors where compliant grades of polyetherimide and polycarbonate can play a role.”*

– Kim Choate

- More and more aircrafts are being leased, as opposed to airlines owning planes outright. The role of **private equity is becoming more prominent within the aircraft leasing industry** as this [trend continues](#).

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### Case in Point

- Global Jet Capital, which is backed by Carlyle, Blackstone’s GSO Capital Partners and AE Industrial Partners, is offering a range of operating and interim leases, finance leases and mortgage loans, progress payments and mezzanine financing for both new and previously owned business jets. GJC expects to work closely with all the leading aircraft manufacturers to help customers who want their aircraft to be off-balance-sheet assets. **It sees international markets beyond the U.S. as being a strong focus of its activities.**
  - Alternative asset management firm Napier Park Global Capital has closed its aircraft lease fund at \$454 million. The pool will focus on acquiring about \$2 billion in commercial aircraft by the end of 2016.
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- Markets and Markets [sees](#) the cyber security market grow to \$170 billion by 2020 with the aerospace, defense, and intelligence vertical continuing to be the largest contributor to cybersecurity solutions. According to IDC, North America is expected to be the biggest market, while the APAC and EMEA regions are expected to experience increased market traction.

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## Case in Point

- Raytheon will acquire Websense from Vista Equity Partners as part of a \$1.9-billion arrangement to combine assets and create a new cybersecurity operation. The defense giant said it will invest \$1.57 billion in cash, including a \$600-million loan, for an 80.3% ownership stake in a newly-formed joint venture
  - Private equity funds managed by Blackstone have agreed to sell AlliedBarton to Wendel SE for approximately \$1.67 billion. AlliedBarton is a leading U.S.-based provider of security services, serving clients across diverse end-markets including aerospace and defense.
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## Automotive Market Overview

[EY's Automotive Global Capital Confidence Barometer](#) reveals that automotive companies' appetite for M&A is at an all-time high, with 70% of executives expecting to pursue acquisitions in the next 12 months. Deals under \$250 million continue to dominate executives' plans. However, since the last Barometer in October 2014, the most significant growth has been in upper-middle-market deals, those between \$250 million and \$1 billion in size.

The growing importance of product innovation and access to emerging technologies, such as driverless cars and advanced materials, are also [said](#) to be motivating factors behind a significant number of deals within the automotive sector.

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## Automotive

### Major Transactions

- Morgenthaler Private Equity purchased Ohio-based automotive supplier DLH Industries, and is merging DLH with another company it owns, Bowles Fluidics. Both companies make components for handling automotive fluids. Morgenthaler, which has offices in Cleveland and Boston, targets companies with transaction values of \$25 million to \$150 million.
  - Audax Private Equity and Moelis Capital Partners completed the sale of Quest Automotive Products (QAP) and Quest Industrial Products (QIP)—both divisions of Quest Specialty Chemicals—to The Valspar Corporation for about \$300 million.
  - New York-based middle-market private equity firm American Industrial Partners acquired Anixter's fasteners division for \$380 million. The group makes and distributes fasteners for customers in the heavy truck, power train, luxury automotive, agriculture, construction and recreational vehicle verticals.
  - Schulman completed its \$800-million acquisition of Citadel, a specialty engineered plastics company, from HGGC and Charlesbank Capital Partners. Adding Citadel and its \$525 million in annual revenue will transform Schulman into a nearly \$3-billion-a-year company. Citadel makes composites and compounds used in a variety of industries, including automotive.
  - Audax acquired TPC Wire & Cable, an Ohio-based maker of wire, cable and connectors used in harsh industrial applications, from Chicago-based private equity group Pfingsten Partners. TPC's products serve the automotive sector, among others.
  - Bain Capital completed its acquisition of Mich.-based auto supplier TI Automotive for about \$2.4 billion. TI generated roughly \$3 billion in revenue in 2014.
  - Apollo will purchase Cleveland-based industrial magnet and battery maker OM Group for about \$1.03 billion. OM Group serves global markets including automotive systems, aerospace and defense.
  - Private equity firm Watermill purchased Michigan-based Quality Metalcraft, which makes engineered structural metal parts for the automotive and specialty vehicle industries. Terms weren't disclosed.
  - Aviation Industry of China (AVIC) has agreed to acquire auto parts supplier Henniges Automotive from private equity owner Littlejohn & Co. for around \$800 million. Mich.-based Henniges specializes in vehicle-sealing and anti-vibration technology.
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## Automotive Trends and Outlook

- A [recent technology survey](#) found that two out of every three industrial manufacturers, including automakers, were using 3D printing. But while automobiles have made great strides in becoming cleaner and greener in recent years, they still have miles to go as “manufacturing is dirtier than ever,” according to Divergent Microfactories, creator of a 3D-printed supercar [expected](#) to shake up the auto industry.
- An ACC [report](#) finds that the U.S. plastics industry could experience investments of nearly \$47 billion in new capacity to produce plastics materials and products. The increased supply will be consumed by plastics-intensive industries, such as automotive, building and construction, and packaging. The U.S. plastics manufacturing renaissance will supply strong, lightweight auto parts, insulation and packaging that will help industries meet environmental and energy targets.
- Drawing from lessons learned from outside the aerospace industry, Boeing plans to use newer and more standardized manufacturing techniques found in the auto industry and feeding those changes back into its existing assembly lines. The company expects “significant” cost savings from the switch.