

M&D WATCH

Transportation & Logistics

RECORD-SETTING AEROSPACE TRANSACTIONS POINT TO HIGH PRODUCTION ACTIVITY IN THE SECTOR

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“Global mergers and acquisitions are on pace this year to hit the highest level on record, thanks to a buying spree from companies on the hunt for growth,” claims an August 10, 2015 Wall Street Journal article by Dana Mattioli and Dan Strumpf. The aerospace industry is a significant driver of this trend.

In July 2015, Lockheed Martin acquired Sikorsky Aircraft for \$9B and in August 2015, Berkshire Hathaway acquired Precision Castparts for \$37.2B. The two deals have combined to make Q3 2015 one of the most active periods of mergers and acquisitions in the history of the aerospace industry, on a dollar for dollar basis. As commercial airlines continue to post record profits, new aircraft purchases are becoming so common that the two main original equipment manufacturers in the commercial aerospace industry, Boeing and Airbus, continue to hold record backlogs that have created steady production projections over the next few years. In fact, these backlogs have allowed both Boeing and Airbus to announce increases to their production rates, especially the 737 and A320 model families. This trend will also be pushed further down the supply chain to tier 1, 2 and 3 suppliers.

The higher level of production activity and the greater stability it will create throughout the supply chain may also lead to increased, more profitable M&A activity as companies take advantage of the relative ease of income/cash flow projections over the intermediate future.

In any transaction, the first step is to understand the risks associated with the prospect. Creating reasonable pricing expectations is key, as is maintaining objectivity in the face of competition over a particular acquisition. If objectivity is lost and a bidding war ensues, the ultimate, overinflated price can create significant problems for the “winning” bidder, resulting in a real loss after the transaction is made. In such a complex economy, the due diligence that follows the risk assessment must be robust. Clearly understanding the prospect’s financial information and controls is imperative to ensure that your organization has a full view of their operations and can realistically achieve the synergies identified during the risk assessment.

After performing due diligence and accepting the terms of a transaction, your organization must then be ready for post-transaction integration. The addition (or subtraction) of assets, people, etc. will ultimately have a significant effect on your organization.

WeiserMazars can help your organization throughout the transaction process. Our dedicated team of consultants, auditors, and advisors has great experience in assessing risk, understanding financial information and controls, and helping you complete transactions in a way that will allow your organization to meet and exceed the original expectations.

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