Aerospace Executive Survey

Mergers & Acquisitions
Content

Executive Summary 4

Explanation of the Survey Results 6

Methodology 23

About Roever Broenner Susat Mazars and IPM 24

Authors 25

Imprint 26
Executive Summary

Among the numerous corporate strategy trends for companies in the aerospace industry, experts believe the development of **emerging markets** on customer side is most important. Shifting the commercial risks of OEMs to suppliers by developing **risk sharing partnership models** and establishing tier 1 system suppliers is increasingly important.

Experts think the most significant influence on future corporate strategy will be the **entrance of Asian competitors onto the market**; however, they think the importance of exchange rate developments will not change.

Although the willingness of suppliers to follow OEMs to the USA and Asia with their own production capacities continues to be assessed as (very) high, experts have recently identified a decrease in this trend due to exchange rate developments, compared to last year’s survey.

Experts believe that **consolidation pressure** has **further intensified** and – as expected last year – has **shifted from tier 1 to tier 2 suppliers**. This is expected to lead to increasing M&A activities at this level of the value chain.

According to experts, **acquisitions** at all levels of the value chain will primarily be driven by **buyer groups** operating on the **same level in the value chain** in the course of horizontal integration.
Private equity was assessed as being less important than in the previous year; however, experts expect it to increase again in the next two years.

Due to more rigorous M&A activity (at the level of suppliers and service contractors), competition for attractive targets is expected to increase. Buyers intend to mitigate the higher risks related to such competition by engaging more consultants.

Horizontal and vertical integration are the most significant drivers in acquiring companies, and this is expected to remain the case.

M&A transactions continue to be highly relevant to corporate strategy, despite a decrease in the previous year.

Along with acquisitions, experts view strategic alliances as a sensible strategic option for generating growth.
Among the numerous corporate strategy trends for companies in the aerospace industry, experts believe the development of emerging markets on customer side is most important. Shifting the commercial risks of OEMs to suppliers by developing risk sharing partnership models and establishing tier 1 system suppliers is increasingly important.

Over the last two years, aerospace industry experts have identified the following market developments as being the most relevant for corporate strategy:

a) the development of emerging markets on customer side (high or very high relevance according to 85 % of experts; previous year: 56 %),
b) shifting commercial risks to suppliers by developing risk sharing partnership models (78 %; previous year: 61 %),
c) establishing system suppliers at the tier 1 supplier level (77 %; previous year: 59 %),
d) exchange rate developments (66 %; previous year: 53 %),
e) Asian suppliers entering the market (OEMs and suppliers) (63 %; previous year: 51 %).

In the last year’s survey, experts identified b), c), and e) as the most relevant drivers for corporate strategy, although these factors imply different characteristics and rankings. And overall, the importance of these trends has increased significantly.
Experts believe the development of emerging markets on customer side has the highest relevance for corporate strategy in terms of how the aerospace industry has developed in the last two years. Last year only 56% ascribed this with high or very high relevance, whereas 25% thought it had very low or low relevance. Therefore the perception of the relevance of this driver has significantly increased. This change is particularly the result of the large numbers of aircraft ordered by customers in Asia and the Gulf States in 2014. For example, in October 2014 Airbus obtained an order for over 250 aircraft from the Indian airline, IndiGo. This is the largest order in the history of Airbus, based on a list price of EUR 25.7 billion.

The number of experts who believe shifting commercial risks to suppliers by developing risk sharing partnership models and establishing system suppliers at the tier 1 supplier level is relevant for corporate strategy increased significantly since the previous year. At the same time, the number of experts who thought the historical relevance of these factors was (very) low has declined compared to previous year. From an economic perspective, the increased significance of these two points is (at least indirectly) related to each other. From a business perspective, the increase in commercial risks at the supplier level requires an increase in added value (manifested by establishing a “group of system suppliers”) in order to secure, or to have the opportunity of securing, fair compensation for taking on the increased risk. In reality both developments are predominantly driven and demanded by OEMs to both mitigate economic risks and simplify the supplier landscape.

As a consequence of the increasing number of system suppliers, perceptions of the dependence of European suppliers on individual OEMs have (slightly) shifted over the last year: although 81% of the experts taking part in the survey still assess the dependence as high, some experts are now neutral with regard to this topic. This is in contrast to last year, when 100% of those surveyed believed this dependency to be high. Suppliers’ bargaining position with OEMs continues to be relatively weak, but it has improved slightly. In the next two years, the majority of experts expects this relevance to increase.
While 65% of industry experts classify developing exchange rates as a relevant development, 12% consider this factor to have (very) low significance for corporate strategy. This is particularly interesting, because last year industry experts not only assessed this factor as being of lesser relevance, moreover the majority did not expect its importance to increase in 2014 and 2015. This change in perceptions is primarily due to the significant increase in the strength of the U.S. dollar and the commensurate weakening of the euro in 2014.

Last year, the majority (61%) of experts thought that Asian suppliers entering the market was significant for corporate strategy. Yet according to the experts, the decreasing relevance of this factor is only due to the fact that the other developments mentioned above have clearly become more important. The importance of Asian suppliers has even increased slightly this year when measured in (absolute) percentage points: the proportion of experts ascribing (very) high relevance to the market entry of Asian suppliers increased to 63% this year, whereas only 15% perceive this as being of low importance (in comparison to 34% in the previous year).

The same applies to shifting production capacities to low-cost countries, which last year was still classified as the second most relevant for corporate strategy. This year 55% of the experts surveyed considered it to be (very) significant for corporate strategy, while 11% considered its relevance to be (very) low. General economic and political uncertainty is viewed by 59% of those surveyed as a relevant driver in the last two years, whereas 15% consider it to be of (very) low relevance.

Of the points listed above, experts only considered changes in kerosene prices, emissions trading and the decrease in added value by OEMs to have (very) low or neutral relevance. The perception of the relevance of kerosene prices is not surprising, given the significant decrease in crude oil prices in the last twelve months. As in the previous year, the relative majority of experts are blasé about the decrease in added value by OEMs (48% of those surveyed).

To summarise, compared to last year, this survey shows that the corporate strategy of market players in the aerospace industry continues to be influenced by a multitude of developments, with topics of increased relevance gaining importance (when measured in terms of (absolute) percentage points). The survey shows that the overall complexity of this industry has increased, due to numerous significant developments and factors.
Emerging markets on customer side
Shift of commercial risks to suppliers (risk sharing partnerships)
Establishing system suppliers at tier 1 supplier level
Exchange rate developments
Entering of Asian suppliers (OEMs as well as suppliers)
Economic and political uncertainty
Shifting production capacities to low-cost countries
Kerosene prices and emissions trading
Decrease in OEMs’ degree of added value

How do you assess the relevance of the following developments in the last two years for corporate strategy?

Assessment of relevance in the last two years of:

- very low
- low
- neutral
- high
- very high
How do you assess the relevance of the following developments for the next two years for company strategy?

The relevance of ... will ...

<table>
<thead>
<tr>
<th>Development</th>
<th>Decrease</th>
<th>Remain Stable</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging markets on customer side</td>
<td>4%</td>
<td>27%</td>
<td>69%</td>
</tr>
<tr>
<td>Shift of commercial risks to suppliers (risk sharing partnerships)</td>
<td>46%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Establishing system suppliers at tier 1 supplier level</td>
<td>52%</td>
<td>48%</td>
<td></td>
</tr>
<tr>
<td>Exchange rate developments</td>
<td>8%</td>
<td>58%</td>
<td>35%</td>
</tr>
<tr>
<td>Entering of Asian suppliers (OEMs as well as suppliers)</td>
<td>27%</td>
<td>73%</td>
<td></td>
</tr>
<tr>
<td>Economic and political uncertainty</td>
<td>5%</td>
<td>58%</td>
<td>38%</td>
</tr>
<tr>
<td>Shifting production capacities to low-cost countries</td>
<td>46%</td>
<td>54%</td>
<td></td>
</tr>
<tr>
<td>Kerosene prices and emissions trading</td>
<td>4%</td>
<td>50%</td>
<td>46%</td>
</tr>
<tr>
<td>Decrease in OEMs' degree of added value</td>
<td>4%</td>
<td>46%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Experts think the most significant influence on future corporate strategy will be the entrance of Asian competitors onto the market; however, they think the importance of exchange rate developments will not change.

Generally, the majority of industry experts expect developments currently perceived to influence corporate strategy to retain or increase their relevance over the next two years, with the exception of exchange rate developments. This is particularly the case for developments already identified as being relevant for corporate strategy over the past two years.

As with last year’s survey, those surveyed consider the entry of Asian suppliers onto the market (73%), the emergence of customer markets (69%) and the establishment of system suppliers at the tier 1 supplier level (68%) to be the greatest challenges for the next two years, and their importance will only increase. For 54% of the experts, the shifting of commercial risks to suppliers in conjunction with risk sharing partnership models and the shifting of production capacities to low-cost countries will also grow in importance for corporate strategy.

In contrast, exchange rate developments are assessed quite differently: only 35% of industry experts expect the relevance of this factor to increase for corporate strategy considerations in 2015 and 2016.

However, 8% of those asked expect a decrease in importance, while 58% assume the importance of this factor will remain stable. For all other developments identified as influencing corporate strategy, the overall perception is that their relevance will significantly increase over the next two years. This indicates that those surveyed, for the most part, do not believe that the recent marked drop in the value of the euro or the stronger U.S. dollar will undergo any changes in the near future. Instead, they think foreign currency rates will remain constant for the next two years.

The anticipated developments will inevitably result in changes to the market and competitive situation, to which European suppliers must adapt. One expected result of these developments is that the structure and particularly the number of suppliers will change on the long term. It can be assumed that, in the long term, the speed of these developments will accelerate.
Although the willingness of suppliers to follow OEMs to the USA and Asia with their own production capacities continues to be assessed as (very) high, experts have recently identified a decrease in this trend due to exchange rate developments, compared to last year’s survey.

The customers of the OEMs, (i.e. primarily airlines, increasingly originating from emerging markets such as the Gulf States and Asian countries) consistently assess this development as especially relevant for their corporate strategies. Yet this internationalisation of the OEMs’ business activities is accompanied by “offset obligations”, which OEMs also pass along to their suppliers.

**Excursus: Offset obligations**

Offset obligations are contractual obligations which require OEMs to obtain a certain portion of their added value, in conjunction with the manufacturing of airplanes, from the purchaser’s home country (customer countries). In order to fulfill these contractual obligations, OEMs increasingly require their suppliers to generate added value in customer countries. Since the structure of the suppliers in most of these customer countries is not comparable to the “classic manufacturing countries”, a better supply structure must first be established in these customer countries.

There has been a clear trend in the last few years that a larger portion of European OEMs’ airplane order intake has been from the Arab and Asian regions. Therefore, companies in the aerospace industry, in addition to the contractual offset obligations which already exist in some cases, have also an economic interest in shifting a greater degree of their added value from the euro region to customer countries. This makes them less vulnerable to exchange rate developments through so-called natural hedging strategies, i.e. a reduction in the difference between revenue and expenses in a particular foreign currency.
60% of experts surveyed (previous year: 63%) continue to ascribe suppliers, along with OEMs, with a high or very high willingness to invest in new production sites not only in emerging markets in Asia but also in developed markets, e.g. the USA. Simultaneously, 26% of those asked (previous year: 19%) considered this willingness to be low, whereas 15% (previous year: 19%) took a neutral position. In comparison to last year’s survey, participants’ assessment of the willingness to invest in foreign production sites has slightly decreased. Last year’s developments on the foreign currency markets could once again be an influencing factor here: because of the increasing weakness of the euro, production costs in the euro zone are falling relative to revenue invoiced in U.S. dollars, thus reducing (relative) cost pressures. Subsequently, those surveyed may have a slightly modified assessment of the advantages of a natural hedge versus the (organisational) disadvantages of a potential production shift.
Experts believe that consolidation pressure has further intensified and – as expected last year – has shifted from tier 1 to tier 2 suppliers. This is expected to lead to increasing M&A activities at this level of the value chain.

The Consolidation refers to changing structures as well as to reducing the number of suppliers in the value chain. This means that consolidation in the aerospace industry is not limited to suppliers. To the extent that consolidation is also understood as synonymous with the process of “pooling” added value, it also refers to OEMs and service contractors.

Industry experts viewed the pressure to consolidate at all levels of the value chain in the aerospace industry, in particular at the supplier level, as being relatively high over the last two years. This assessment therefore reflects the requirements of suppliers – partially driven by acquisitions – regarding their further development towards becoming appropriately sized system suppliers, having a good market position and being in a good position to negotiate with OEMs.

In comparison to the assessment experts made last year, the pressure to consolidate has intensified at all levels of the value chain – sometimes very distinctly – with the exception of OEMs. This development has, among other reasons, resulted from the intensified competition at the OEM level and increased competition for new airplane models where suppliers are also facing new challenges.

It is interesting to note that in the last two years, those surveyed assessed the pressure to consolidate at the tier 2 supplier level as being the most intense. In the previous year, tier 1 suppliers were still perceived as being the value-added level subject to the highest consolidation pressure. This shift corresponds to the expectations industry experts had last year that, due to the ever greater consolidation of tier 1 suppliers, which was already happening towards the end of 2013, the pressure to consolidate would be transferred downstream in the value chain.

For 2015 and 2016, those queried continue to assess the pressure to consolidate as being high, with only marginal changes expected. According to experts, an extensive shift in consolidation pressure from tier 1 suppliers to tier 2 suppliers has already taken place over the past two years. However, 69% of experts expect consolidation pressure to be high or very high for service contractors in the next two years (in comparison to 62% in the past two years). At the same time only 8% expect consolidation pressure to be low (in contrast to 12% in the past two years). This assessment can be seen as a further indication that market participants expect a successive consolidation to continue at all levels of the value chain and thus confirms the legitimacy of consolidation processes, which are quite commonly observed in other industries.

GRAPH 4

How do you assess the pressure to consolidate?

In the last two years, pressure for ... has been ...

For 2015 and 2016, those queried continue to assess the pressure to consolidate as being high, with only marginal changes expected. According to experts, an extensive shift in consolidation pressure from tier 1 suppliers to tier 2 suppliers has already taken place over the past two years. However, 69% of experts expect consolidation pressure to be high or very high for service contractors in the next two years (in comparison to 62% in the past two years). At the same time only 8% expect consolidation pressure to be low (in contrast to 12% in the past two years). This assessment can be seen as a further indication that market participants expect a successive consolidation to continue at all levels of the value chain and thus confirms the legitimacy of consolidation processes, which are quite commonly observed in other industries.
The majority of those surveyed did not just assess consolidation pressure for suppliers and service contractors as being high over the past two years, they assume it will remain high for them over the next two years as well. The portion of experts expecting a high level of consolidation pressure equals those being neutral regarding this pressure. Few experts assume the pressure on the OEMs to consolidate in the future will be low, but the most significant change from the status quo is shown by the experts who are now neutral with regards to future pressure on OEMs to consolidate (46% in contrast to 38% for the past two years). The majority of experts expect the moderate consolidation pressure OEMs have experienced over the last two years to continue.

As expected, the intensification and shift in consolidation pressure has led to an increase in M&A activities. Although the majority of those surveyed continue to perceive a (low or significant) increase in acquisition activities for supplier industries and service contractors over the next two years, they take a neutral stance with regard to OEMs. A solid 89% of the experts surveyed foresee greater M&A activities for tier 2 suppliers; 77% think the same for tier 1 suppliers. 63% still expect M&A activities to increase among service contractors in the future. Only 4% of those surveyed expect a reduction in M&A activities among tier 1 suppliers.

In conclusion, compared to last year’s survey, a larger number of the experts expect an increase in M&A activities at all levels of the value chain in the next two years, whereas slightly fewer expecting less acquisitions. This assessment is generally consistent compared with last year’s survey, in which more experts anticipated higher consolidation pressure, and fewer experts anticipated lower consolidation pressure, at the various levels of the value chain over the next two years.
According to experts, acquisitions at all levels of the value chain will primarily be driven by buyer groups operating on the same level in the value chain in the course of horizontal integration.

The surveyed experts consider the buyer group to be the driver all along the value chain, for each segment at the same level. This means they implicitly expect M&A activities to occur primarily through horizontal integration. This assessment is corroborated by the comparable evaluation of M&A drivers for the past two years and the next two years (see also page 19).

Those surveyed expect horizontal integration to be the predominant motivation for acquisitions, especially in supplier industries. 60% of experts think tier 1 suppliers will be the most significant buyer group at their respective level of the value chain, with 43% thinking the same for tier 2 suppliers. 20% of the experts think that OEMs will also be relevant in canvassing the tier 1 supplier market, and in the course of backward integration they will continue to gain a greater portion of added value. No other potential buyer segments are ascribed as much importance as OEMs and tier 1 suppliers.

Along with horizontal integration, vertical integration at the level of tier 2 suppliers is particularly seen as a potential motivating factor for M&A activities owing to downstream added value, i.e., in this case for tier 1 suppliers. This type of acquisition can be interpreted as the continuation of a greater orientation of tier 1 suppliers toward becoming system suppliers, which is supported by OEMs. Other buyer segments, such as OEMs, service contractors and private equity firms, are considered to be of relatively low importance at this level of the value chain.

Some examples of transactions at the supplier level with European investors in 2014 include the acquisition of mechanical and plant engineering firm Dürr AG’s aeroplane assembly technology business by Broetje-Automation, the acquisition of Greenpoint Technologies by Zodiac Aerospace and the acquisition of the British firm APPH by the Canadian firm Héroux-Devtek.

Experts think service contractors have the highest probability of being acquired, both through horizontal integration by other service contractors, and particularly by vertical integration by tier 1 suppliers (with the objective to expand influence along the value chain). Private equity firms are also seen as potential buyers.

This year’s assessment concerning which buyer segment will be the driving force at the various levels of added value contradicts the predominant opinion of experts last year, where tier 1 suppliers were identified as the future driving buyer group for target companies at all levels of the value chain. The crucial reason for this change in assessment is that the relevance of horizontal integration has significantly increased; 96% of those surveyed identify this as a frequent or very frequent reason for transactions, and they believe this will continue to increase in importance.

In general, this year’s survey results show that, compared with other levels of the value chain, private equity firms will become more relevant for future acquisition activities in the aerospace industry. They will be joined by service contractors, who, as a buyer segment, have gained increased relevance in M&A activities. Although the majority of experts continue to identify other market participants at all levels of the value chain as the most essential buyer segment for the next two years, a higher number of experts than last year see private equity as an important acquisition driver in the aerospace industry in the next two years.

According to experts, acquisitions at all levels of the value chain will primarily be driven by buyer groups operating on the same level in the value chain in the course of horizontal integration.
The perception of the relevance of private equity investors for M&A activities in the aerospace industry has gone down between 2013 and 2014, despite several relevant transactions involving private equity investors in 2014. In contrast, approximately 50% of those surveyed in last year’s Aerospace Executive Survey saw private equity investors as having a historically (very) high significance, whereas in the present survey only 31% of those surveyed shared this opinion. This change is possibly due to the fact that most of the acquisitions involving private equity investors in 2014 occurred in the American market, which is not adequately represented among survey respondents. In the past year, private equity transactions involving European firms included the purchase of 66.5% of Airbus Group’s “Test & Services” business unit by the French investor ACE Management and the Institute for Industrial Development in the Midi-Pyrénées as well as the purchase of the British company MK Test Systems by the British firm Synova Capital.

Looking forward to the next two years, 48% of those asked expect the importance of private equity investors for M&A activities within the aerospace industry to increase, which is consistent with the increased relevance of private equity among various firms in the buyer groups. Only 4% think their importance will wane. Thus the expected relevance of private equity has slightly increased in comparison to last year’s estimations, where 44% expected an increase and 6% a decrease.
Due to more rigorous M&A activity (at the level of suppliers and service contractors), competition for attractive targets is expected to increase. Buyers intend to mitigate the higher risks related to such competition by engaging more consultants.

**GRAPH 9**

According to your estimation, what effects will the increase in competition for targets have?

1. More consultants will be engaged to support M&A processes
2. Risks will shift to the benefit of buyers
3. Time pressure on M&A processes will increase
4. Auction sales will become more frequent
5. Purchase prices will increase

The expectations of the experts surrounding an increase in M&A activities have generally been influenced by competition for limited attractive targets. 85% of industry experts think that competition for attractive target companies will (greatly) intensify in the future. Between 78% and 96% of those surveyed additionally expected the following implications for the M&A process:

- Shifting transaction risks to acquiring companies
- Increasing time pressure on the M&A process and the related uncertainties of making a decision for a transaction
- More frequent use of structured tender processes

70% of the experts also expect purchase price levels to increase due to increasing competition. Without exception, those surveyed thought that engaging consultants for M&A processes will become more important in the future. This assessment is an indication that the use of consultants is recognised as a necessity and that support from consulting services from industry experts in a challenging M&A environment adds value.
As already reflected in the 2013 survey, the results of the present survey show a plurality of possible and actual motivations behind M&A activities. In principle, different causes and forces play a significant role in each transaction and can – from the perspective of the acquiring company – change during a given time period. Consequently, the following assertions should be understood as relative and indicating a trend.

Those surveyed assessed the following M&A drivers as the most significant for M&A activities in the next two years:

a) Accessing new customers/markets (horizontal integration)
b) Diversifying the business model or expanding the added value (vertical integration)
c) Accessing new products/technologies

With clear majorities of 96%, 85% and 84%, respectively, the surveyed experts believe that transactions are frequently or very frequently driven by the above mentioned motivations a)–c) to acquire. As in last year’s survey, the experts assessed the same forces driving M&A activities as highly relevant and with the same ranking. The portion of those surveyed who felt that a motivation to acquire was frequently or very frequently responsible for M&A activities in the last two years has increased compared to last year’s survey, which matched the expectations predicted for the future development of these driving forces last year.

From the experts’ viewpoint, other relevant factors were the purchase of new production resources and capacities, the consolidation pressure inherent in the industry and planned cost cuts which were cited as being (very) frequently responsible for transactions by 73% and 70% of the experts, respectively. The last factor in particular is a direct consequence of the cost pressures OEMs place on the suppliers which forces suppliers to improve the utilisation of their capacities and to realise economies of scale in order to gain competitive advantages.

In comparison, ensuring the value chain and opportunities for M&A activities were ascribed low relevance; 50% and 43% of those queried, respectively, felt they were significant forces driving M&A, while 19% and 15% respectively felt they rarely drove acquisitions.

In particular, acquiring new production resources and capacities, the consolidation pressure inherent in the industry, the planned cost cuts and ensuring the value chain – the importance of which has decreased since last year – have not (yet) met last year’s expectations of increased relevance. This may be due to the dominant motivation to focus on vertical and horizontal integration and to participate from emerging markets’ growth potentials.

As already reflected in the 2013 survey, the results of the present survey show a plurality of possible and actual motivations behind M&A activities. In principle, different causes and forces play a significant role in each transaction and can – from the perspective of the acquiring company – change during a given time period. Consequently, the following assertions should be understood as relative and indicating a trend.

Those surveyed assessed the following M&A drivers as the most significant for M&A activities in the next two years:

a) Accessing new customers/markets (horizontal integration)
b) Diversifying the business model or expanding the added value (vertical integration)
c) Accessing new products/technologies

With clear majorities of 96%, 85% and 84%, respectively, the surveyed experts believe that transactions are frequently or very frequently driven by the above mentioned motivations a)–c) to acquire. As in last year’s survey, the experts assessed the same forces driving M&A activities as highly relevant and with the same ranking. The portion of those surveyed who felt that a motivation to acquire was frequently or very frequently responsible for M&A activities in the last two years has increased compared to last year’s survey, which matched the expectations predicted for the future development of these driving forces last year.

From the experts’ viewpoint, other relevant factors were the purchase of new production resources and capacities, the consolidation pressure inherent in the industry and planned cost cuts which were cited as being (very) frequently responsible for transactions by 73% and 70% of the experts, respectively. The last factor in particular is a direct consequence of the cost pressures OEMs place on the suppliers which forces suppliers to improve the utilisation of their capacities and to realise economies of scale in order to gain competitive advantages.

In comparison, ensuring the value chain and opportunities for M&A activities were ascribed low relevance; 50% and 43% of those queried, respectively, felt they were significant forces driving M&A, while 19% and 15% respectively felt they rarely drove acquisitions.

In particular, acquiring new production resources and capacities, the consolidation pressure inherent in the industry, the planned cost cuts and ensuring the value chain – the importance of which has decreased since last year – have not (yet) met last year’s expectations of increased relevance. This may be due to the dominant motivation to focus on vertical and horizontal integration and to participate from emerging markets’ growth potentials.
It is interesting to note that, last year, horizontal integration was the only driving force behind M&A activities considered important by everyone surveyed in the previous two years. The high relevance of this driving force is reflected in the expectations of experts for the next two years. Although horizontal integration experts have, almost without exception, stated that acquisition is (very) frequently relevant, only 63% of those surveyed felt this would increase in the next two years. The current and future perceptions of horizontal integration being highly relevant is thus consistent with the experts’ expectations that M&A activities at various levels of the value chain in the aerospace industry will predominantly be led by companies on the same level in the value chain.

For the other two forces currently perceived as the most significant in driving M&A activities (points b and c above), 56% and 42%, respectively, of those surveyed expect an increase in relevance in the future, whereas the rest believe there will be no change. Even in view of the future relevance of other forces driving acquisitions – the purchase of new production resources and capacities, ensuring the value chain and new opportunities – the majority of experts surveyed expect there will be no change in the status quo. However, there is another view when it comes to consolidation pressure inherent in the industry and planned cost cuts: there are no other motivating forces for acquisition where more experts foresee an increase in relevance for M&A activities (67%). This estimation reflects the expectations that the pressure to consolidate in the aerospace industry will continue at a high level in the next two years.

**GRAPH 10**

*Which drivers were the most significant in triggering M&A activities in the last two years?*

The decisive driver for transactions was …

**GRAPH 11**

*Which driving forces will be the most significant in triggering M&A activities in the next two years?*

In the next two years, the most important driver will be …
According to 41% of industry executives, M&A is (very) strongly anchored in their own corporate strategies. In contrast, 33% of those surveyed were neutral about inorganic growth strategies, while 26% did not view acquisitions as an integral part of their corporate strategies.

In comparison to last year’s survey, there is a decrease in the perception of M&A’s relevance for corporate strategies: 56% of those surveyed last year said that M&A is integrated in their strategies. The proportion of experts who do not consider acquisitions to be a part of their corporate strategy remains unchanged.

Consequently, there is a higher number of executives who considered inorganic growth in the previous year to be strategically anchored but were neutral towards acquiring companies. To conclude, the survey’s results this year do not reflect the strong strategic anchoring of M&A predicted last year.
A widespread alternative to M&A-driven growth strategies is cooperations that make it possible, particularly for suppliers, to strengthen their negotiation positions to be better placed to face the challenges OEMs bring, e.g. the consequences of offset obligations. The majority of experts surveyed (56%) considered cooperations to be a meaningful measure for strengthening one’s own market position, whereas 7% thought cooperation agreements were inexpedient. According to the estimations of 63% of the experts, the importance of cooperations will increase in the next two years, whereas only 4% predicted their relevance will decrease. About half of those surveyed were of the opinion that there is a (very) strong willingness to enter into cooperative agreements. However, 15% of those surveyed held the opposite opinion, citing the need for increased acceptance of such strategic options. Nevertheless, approximately 67% of the industry’s experts believed that this will increase in practical relevance over the next two years. Consequently, M&A will no longer be viewed as the sole strategic option for generating opportunities for growth.

Along with acquisitions, experts view strategic alliances as a sensible strategic option for generating growth.
Methodology

About the Aerospace Executive Survey

The current survey highlights the current and future M&A activities expected among suppliers in the aerospace industry along with significant driving forces. The objective of this study is to assess the factors generally perceived as influencing corporate strategy in developments among suppliers in the aerospace industry – independent of their relationship to M&A activities. On this basis, conclusions can be drawn about consolidation activities and the significant forces driving acquisitions at individual supplier levels in the last two years and for the next two years.

It must be emphasised that the results of the executive survey reflect the subjective opinions of the experts surveyed and of experts representing various companies. There is no claim to scientific accuracy or completeness. Statistically speaking, this survey was derived from a relatively low number of samples. Nevertheless, we assume that the results of the survey suitably reflect the general predictions of the aerospace industry regarding future consolidation activities, since the experts recruited for the survey are from well-known suppliers operating in the international aerospace industry.

For further information, suggestions and ideas concerning the executive survey and its results, the authors are at your disposal.

Methodology and group surveyed

The survey was conducted during the “Mergers & Acquisitions: Risks or Opportunities” workshop held at the 2014 AVIATION FORUM Hamburg, Germany on 9th and 10th December 2014. The Hamburg AVIATION FORUM is an annual conference and trade fair for companies operating in the aerospace industry, focusing on procurement, innovation and supply chain management. The competence partner of the conference was Airbus, with the patron Dr. Klaus Richter, at that time EVP Airbus Procurement. The focus of the workshop was to assess the opportunities and risks of inorganic growth at various levels of the value chain in the aerospace industry. All of the experts surveyed work in the aerospace industry and represent companies at different levels of the value chain. Their work, amongst other things, involves issues specific to M&A activities.

A similar expert survey on current and future M&A activities expected in the aerospace industry was conducted at the 2013 AVIATION FORUM. The title of last year’s M&A workshop was “Consolidation of SMEs” (medium-sized entities), and these were the focus of last year’s survey. In addition to a slight change in the focus of the present survey, the results also changed because the experts queried in 2014 were different from those surveyed in 2013; therefore, time lapses do not necessarily imply a changed market perception, but could be partially due to the fact that those surveyed are different people with different opinions and expectations. To the extent that an interim comparison can be made between results specifically stated in the executive survey, these restrictions must generally be taken into consideration.
About Roever Broenner Susat Mazars

Roever Broenner Susat Mazars is one of Germany's leading independent medium-sized audit and tax consulting firms. Roever Broenner Susat Mazars Rechtsanwaltsgesellschaft mbH, a medium-sized law firm, is also a member of the group. 68 partners and 1,000 employees support clients in the areas of auditing, tax, accounting and legal advice, as well as financial advisory services.

www.rbs-partner.de

About IPM

The Institute for Production Management (IPM) is an independent institute that realizes annual conferences focused on the automotive, aviation and railway industries with an emphasis on procurement, innovation and global supply chain management. In addition, IPM offers a range of services targeting the commercialization and internalization of external innovations.

www.ipm-scm.com
Authors

Stephan Brunke  
Partner  
Roever Broenner Susat Mazars GmbH & Co. KG  
Tel: +49 40 288 01-3220  
stephan.brunke@mazars.de

Florian Funcke  
Manager  
Roever Broenner Susat Mazars GmbH & Co. KG  
Tel: +49 40 288 01-3222  
florian.funcke@mazars.de

Prof. Dr. Johannes Walther  
CEO  
IPM GmbH – Institute for Production Management  
Tel: +49 511 47 31 47 90  
j.w@ipm-scm.com

Daniel Wäldchen  
Principal  
IPM GmbH – Institute for Production Management  
Tel: +49 511 47 31 47 90  
d.w@ipm-scm.com
Imprint

Publisher
Roever Broenner Susat Mazars GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft
Domstrasse 15
20095 Hamburg
www.mazars.de

IPM GmbH
Institute for Production Management
Schiffgraben 42
30175 Hannover
www.ipm-scm.com