

Quarterly M&A and Industry Update – Aerospace & Defense Q1 2021



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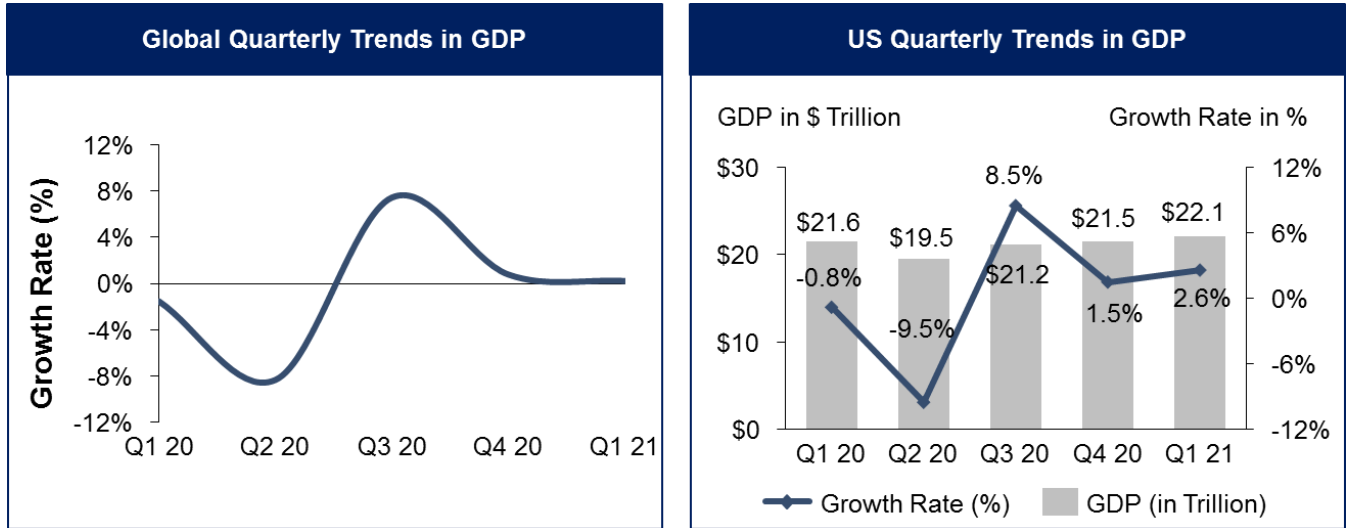
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Economic Situation Q1 2021

The global GDP grew by 0.3% in Q1 2021 as compared to Q4 2020 and the U.S. GDP grew by 2.6% in Q1 2021 as compared to Q4 2020. The global economic output is recovering from the collapse triggered by COVID-19; it will remain below pre-pandemic trends for a prolonged period. Second waves of the COVID-19 have slowed down or even temporarily reversed economic recoveries. The coronavirus is once again taking its toll on economic activity as the second wave prompts new restrictions, but the vaccine news is a game-changer for the outlook over the next two years. Economic recoveries are diverging across countries and sectors, reflecting variation in pandemic-induced disruptions and the extent of policy support. Strong demand for products that support working from home and the release of pent-up demand for durable goods more generally have been key factors behind the global recovery. The strength of the recovery varies across countries, depending on the severity of the health crisis, the extent of domestic disruptions to activity, the exposure to cross-border spillovers, and importantly, the effectiveness of policy support to limit persistent damage.



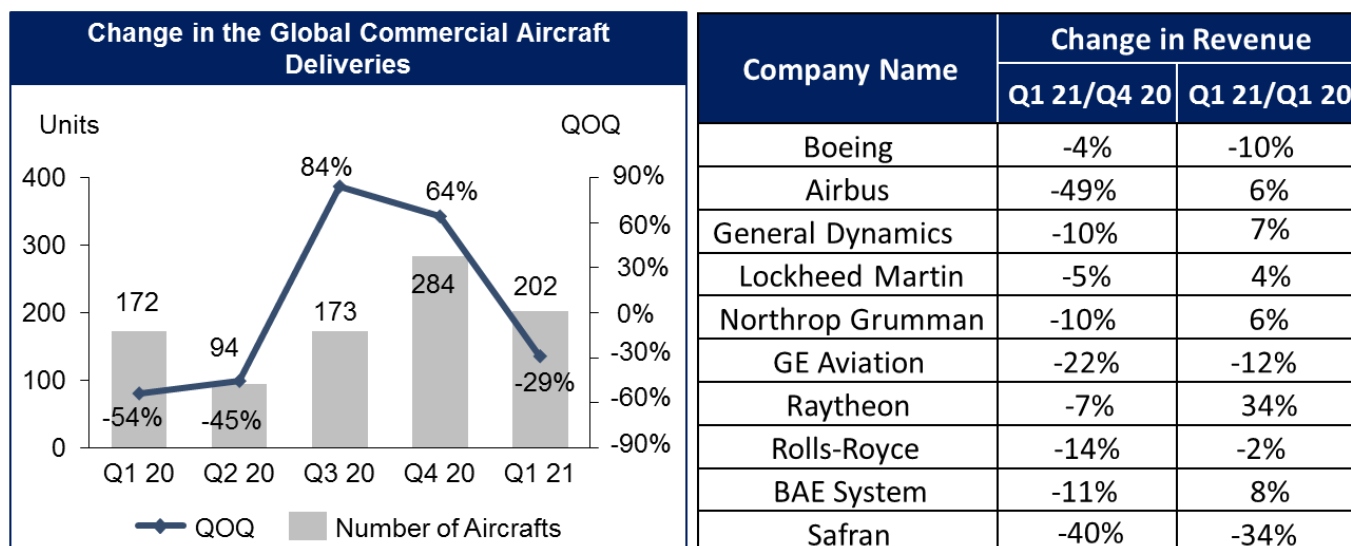
Note: The above image shows quarter over quarter change in GDP

Source: OECD, Fred Louis, Lucintel

Figure 1: Quarterly GDP Trends

Aerospace & Defense Industry Update – Q1 2021

The global deliveries of commercial aircraft declined by 29% in Q1 2021 as compared to Q4 2020. On quarterly basis all major aerospace OEMs registered revenue decline in Q1 of 2021. The commercial aerospace sector has been affected by the COVID-19 second wave, which has led to reduction in passenger traffic that has affected aircraft demand. As a result, the commercial aerospace sector is expected to recover slowly, as travel demand is not expected to return to pre-COVID-19 levels before 2024. The defense players will likely to continue focus on developing technologies and related budget allocations. The Defense sector’s focus will also be drawn towards cybersecurity, federal IT modernization, ISR, and other technologies. The figure below depicts change in commercial aircraft deliveries in the past five quarters (Q1 2020 – Q1 2021).



Source: Lucintel

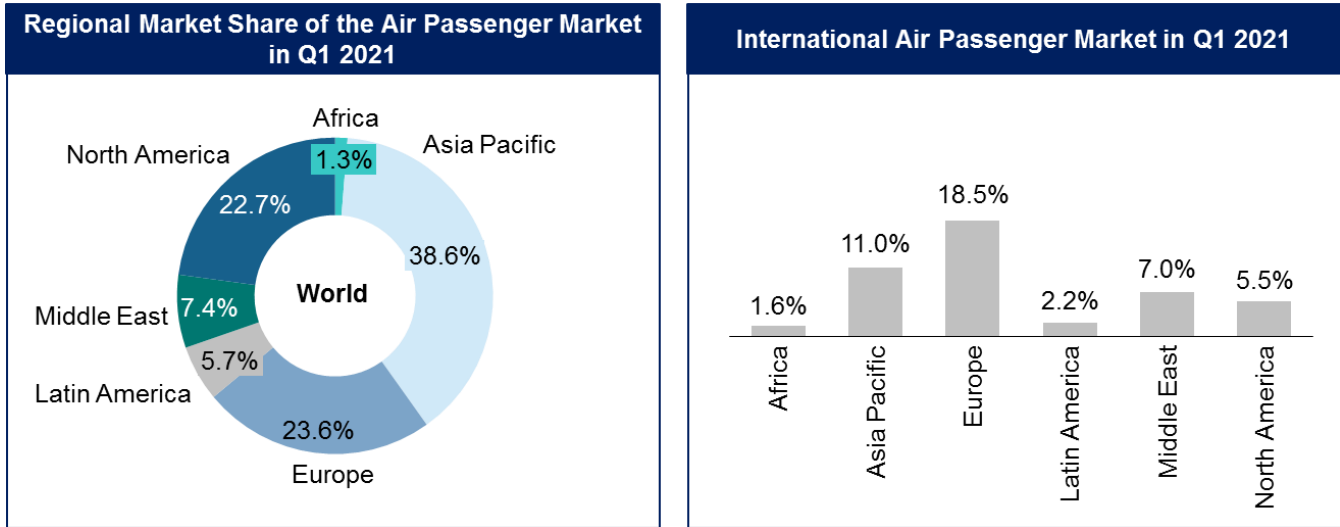
Source: Lucintel

Figure 2: Quarterly Change in the Global Commercial Aircraft Deliveries

Figure 3: Change in Revenue of Major Aerospace & Defense OEMs

Asia Pacific holds the largest market of around 38.6% in the total air passenger market, followed by Europe with around 23.6%. International air travel holds 46% of the total air passenger market. Europe contributed to the largest share of 19% in the international air passenger market. Many

industry executives believe commercial aerospace could take three years or more to recover passenger revenue.

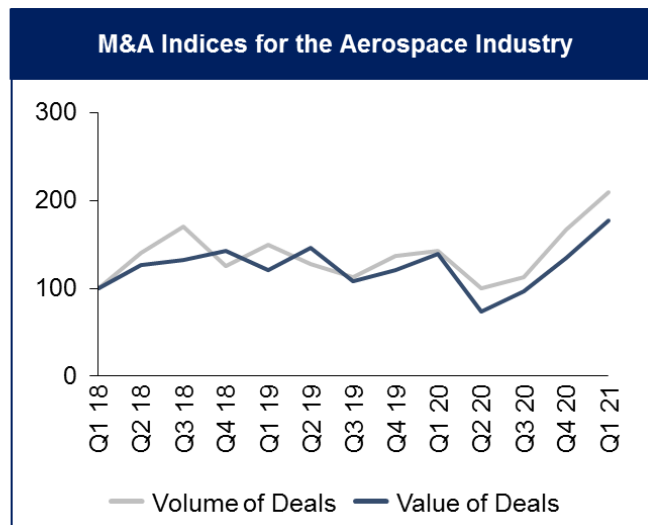
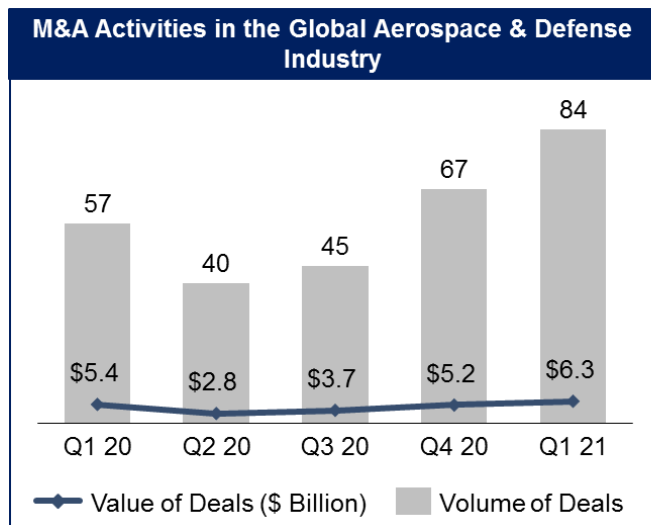


Source: Lucintel

Figure 4: Regional Market Share in the Air Passenger Market

M&A Update – Q1 2021

Merger and acquisition activities in the global aerospace & defense industry for Q1 of 2021 increased and recorded 84 completed M&A deals, an increase of 25% from Q4 of 2020. The total deal value in Q1 of 2021 is \$6.3 billion, which is an increase of 22% from Q4 of 2020 and an increase of 18% from Q1 of 2020. Deal making in the 2021 recovered on the heels of unusually low activity in 2020, while activity had rebounded in the 3rd and 4th quarters of the 2020. The impact of COVID-19 on defense players has been far more muted than commercial air, and the natural requirement for key defense programs has been to continue and will likely to be continued to deal volumes going forward. The companies focus on day-to-day operations, fleet rationalization, supply-chain stability and liquidity. The damage to the commercial sector from the COVID-19 pandemic has been substantial and a recovery will take two to three years.



Note: The above chart includes total completed deals with disclosed and undisclosed values

Source: Lucintel

Figure 5: Quarterly M&A Activities in the Global Aerospace & Defense Market

Table 1: Quarterly Changes in M&A Activities in the Global Aerospace & Defense Market

M&A Deals	Quarter Over Quarter Change in Merger and Acquisition Activities				
	Q1 20	Q2 20	Q3 20	Q4 20	Q1 21
Deal Value (\$ Billion)	16%	-47%	30%	40%	22%
No. of Deal	4%	-30%	13%	49%	25%

Table 2: M&A Deals in the Global Aerospace & Defense Market

Date	Target Company	Acquirer Company	Description
March 18, 2020	Sapcorda Services GmbH	U Blox Holding AG	The acquisition of Sapcorda expands u-blox's suite of location services complementing its existing data services, including its assistance data and communication service offerings. Sapcorda has focused on establishing a platform from which to bring GNSS augmentation services to the mass market by delivering on robustness, reliability, and end-to-end security as it relates to performance.
March 02, 2020	Left Hand Robotics Inc	The Toro Co	The acquisition supports The Toro Company's strategy of leadership in next generation technologies, including alternative power, smart connected, and autonomous products.

Feb 23, 2021	Deployable Space Systems Inc	Redwire LLC	Redwire have been focused on identifying innovative companies that are critical to enabling sustainable space infrastructure, and DSS's dominance in innovative deployable solar arrays and structures is a valuable addition to Redwire's technology portfolio.
Feb 19, 2021	Arcturus UAV Inc	AeroVironment Inc	Arcturus UAV's complementary capabilities provide program diversification, increase key customer penetration, and enhance shareholder value. Transaction adds leading medium Unmanned Aircraft Systems to AeroVironment's portfolio of intelligent, multi-domain robotic systems.
Feb 17, 2021	Argon Corp	Spectra Aerospace & Defense	As a result of the combination, Spectra will become a diversified designer and manufacturer of highly engineered avionics solutions, primarily for the defense technology market. Spectra offers its customers a differentiated portfolio of proprietary products that span the entire data capture lifecycle – recording, processing, routing, and ultimately displaying mission critical data.
Feb 09, 2021	AAE Aerospace Inc	Karman Missile & Space Sys	The acquisition of AAE is a significant step forward for Karman, allowing delivering more complete subsystems bonding the mating portions of metallic and composite structures. This partnership also adds coveted content positions on the most strategic rocket, missile defense, and hypersonic platforms, while opening up significant cross selling opportunities for Karman.
Jan 28, 2021	Utsi Electronics Ltd	PipeHawk PLC	The acquisition will provide an enlarged portfolio of GPR system offerings into a significantly wider range of markets as well as offering excellent opportunity to extend R&D activities into the highly desirable Environmental/Water/Structural Faults markets and increase unit profitability across the dual product ranges achieved through enhanced marketing, rationalized designs, and parts sourcing.
Jan 19, 2021	Oakman Aerospace Inc	Redwire LLC	Joining Redwire advances strategic ambition to achieve the next level of growth and expand technological innovation.
Jan 12, 2021	Safe Flight Instrument Corp	Loar Group Inc	By adding Safe Flight to Loar's suite of product offerings ,the company has added product lines that include stall warning and protection, automatic throttle systems, fuselage airflow angle sensors, control shakers and icing condition detectors just to name a few of the specialized capabilities.

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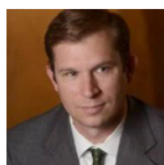


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