Mesirow

Aerospace & Defense sector report

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Intro and Overview

In our 2022 Year-End Update, we highlighted the slowing deal activity in the second half of 2022 for Aerospace & Defense (A&D) deals launched to market. Throughout 2023, that trend persisted. In fact, 2023 was one of the slowest years for M&A activity in the past decade, and the A&D sector was not exception to that slowdown.

Moreover, stubborn fundamental challenges persist throughout the A&D landscape and present ongoing hurdles for businesses. For one, the A&D supply chain continues to be strained. In commercial Aerospace, specifically, the complex and large supply chain network has created a multi-bottleneck situation for Original Equipment Manufacturers (OEMs) and an expanding backlog of work for supporting suppliers. Although improving, production rates are still not yet at pre-COVID levels and OEM CEOs are on the record that they do not anticipate a full recovery to occur in 2024.

Specific to the Defense industry, last year we noted rising geopolitical tensions. In 2023, those tensions only became more pronounced with no signs of slowing down. As regional wars in eastern Europe (Ukraine/Russia) and the Middle East (Israel/Hamas), or threat of wars (China/Taiwan), persist, governments are expanding their defense budgets from an already elevated level seen in 2022. Whether it be superpowers like the US and China or regionally focused military players like Sweden and Indonesia, military budgets are growing globally. As such, defense companies are seeing record Request for Proposals (RFPs) and expanding backlogs for everything from standard munitions to cutting-edge hypersonic missiles.

In the Space industry, 2023 was a year of recalibration as founders had to manage their operations with much less capital available to them than the previous few years. Indeed, although the Department of Defense (DoD) continues to emphasize the importance of Space, and the commercial space industry continues to grow beyond the leading sub-sectors of rocket launches (hello, SpaceX), satellite imagery, and communications, the investor capital that supported the industry was significantly curtailed. This lack of growth capital was another trend that began in 2022 and persisted throughout 2023. Yet, the flow of capital in 2024 is expected to loosen. Even more, some space companies may see a valuation pop upon their next capital raise after weathering 2023's more austere environment by showcasing an ability to grow despite challenging economic conditions and in an environment in which their services are becoming critical for both military and commercial clients.

In all, as it did in 2022, the A&D M&A market continues to be challenged by macro headwinds; from economics to geopolitical tensions there are persistent impediments, many carrying over from 2022, that continue to create challenging circumstances. Yet, despite these difficulties, there are demand signals that support indications of a rebound, particularly for the back half of 2024. As interest rates stabilize, many expect both strategic and financial sponsor appetite for transactions throughout A&D to increase. For commercial aerospace, ongoing consumer demand has the industry nearing pre-COVID levels. And in the Defense industry, the mentioned growing military budgets has sent states on a buying frenzy. Thus, an expanding number of executed transactions and deal activity may not be that far away.

Ultimately, as a revisit to 2023 and a look ahead to 2024, here are the key highlights relevant to the A&D community:

Aerospace

1. Growing commercial aircraft backlog
2. Persistent and stubborn supply chain pressures
3. Ongoing workforce shortages

Defense

4. US National Defense Authorization Act ("NDAA") and global defense spending amid rising global tensions
5. Hypersonic missiles take center stage

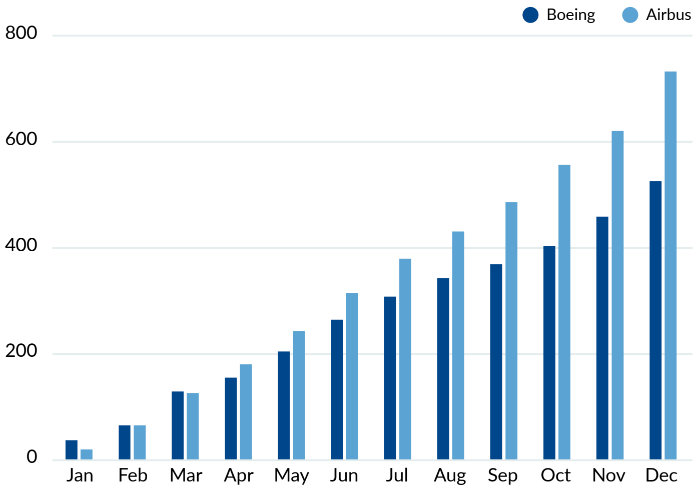
Space

6. Commercial space's resiliency and investment recovery signs

Section 1: Commercial Aerospace

1. Growing Commercial Aircraft Backlog

CHART 1: **CUMULATIVE DELIVERIES** | January 2023 - December 2023



Source: FlightPlan (aggregating data from Boeing and Airbus)

Much to the delight of the aerospace industry, worldwide aircraft backlog orders are at a record high; so too are engine backlog orders. At the beginning of December 2023, there were nearly 15,000 aircraft and 30,000 engines on backorder, both an industry record and the foundation for what is triple-digit growth compared to the same period last year.

Further fueling optimism in commercial aerospace is the fact that 2023 aircraft cancellations remain below levels seen in previous years. With a record backlog and reduced cancellations, all the ingredients may be present for a strong and sustained recovery. Hence, some commercial airline executives are showcasing high confidence for the future health of the industry.

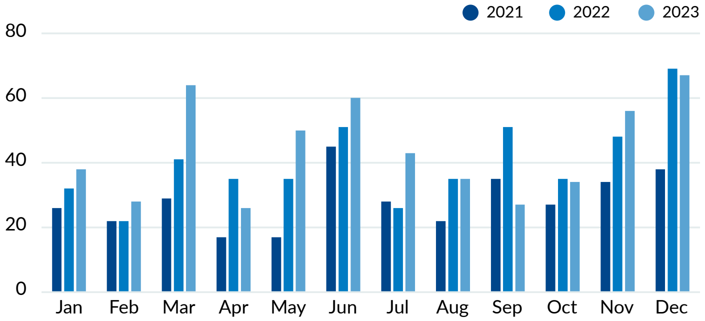
Indeed, both Airbus and Boeing had much to celebrate heading into the 2023 holiday season. For Boeing, the company's backlog is estimated to be around 1,200, which includes a $52 billion order from Emirates Airline – 95 widebody jets – Air India – 290 aircraft across a variety of Boeing's models – and Lufthansa's first order from Boeing in more than 30 years for 100 737 Max's.

Similarly, Airbus is suspected of having a record 2023. Although official numbers have yet to be released, Airbus saw sizeable orders placed late in the year, including from Avolon – 100 A321neos – Turkish Airlines – 220 jets including 150 A321neos – easyJet – 101 A321neos – and Lufthansa – 40 A220s. For the entirety of 2023, Bloomberg has reported that Airbus has received over 2,000 aircraft orders.

Airbus Americas Chairman and CEO Jeff Knittel recently confirmed that the company has a backlog of 8,000 airplanes; he contributed the strong demand to industry growth and shorter replacement cycles for older aircraft. All-in-all, analysts are gleefully speculating that Airbus may announce a 2023 book-to-bill ratio of 2.66, which means that for every aircraft the company delivered in 2023, Airbus has received 2.66 net new orders. Such a ratio would set the foundation for a production boom for Airbus through the remainder of the 2020s. Similarly, and despite recent headlines, Boeing CEO Dave Calhoun said that orders "are out to 2028-29 and the majority of the backlog is now in the 2030s." With such strong and sustained demand signals, analysts are seriously anticipating the industry's return to pre-COVID levels.

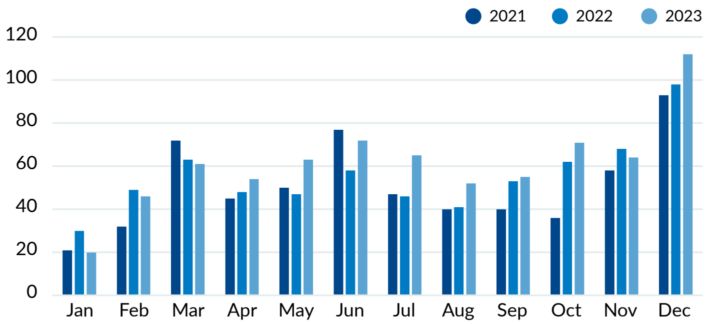
2. Persistent and Stubborn Supply Chain Pressures

CHART 2: **BOEING MONTHLY DELIVERIES |** January 2023 - December 2023



Source: FlightPlan (aggregating data from Boeing and Airbus)

CHART 3: **AIRBUS MONTHLY DELIVERIES |** January 2023 - December 2023



Source: FlightPlan (aggregating data from Boeing and Airbus)

Despite all the optimism in aircraft backlog and production, encouraged analysts are still cautious of declaring a full-blown recovery given the dampening effects of the supply chain. As the OEMs seek to further ramp production rates of aircrafts, many suppliers are struggling to source parts and attract labor (more on that in the next highlight section) while also managing depleted capital reserves that were utilized to weather the COVID-induced aerospace slowdown.

The aerospace supply chain is most aptly characterized as vast and complex. Indeed, as AE Industrial's David Rowe and Bryan McElwee put it, "the average American commercial aerospace OEM has more than 200 tier-1 suppliers and more than 12,000 second and third-tier suppliers." Boeing, for instance, sources 70 percent of its aircraft parts from external companies.

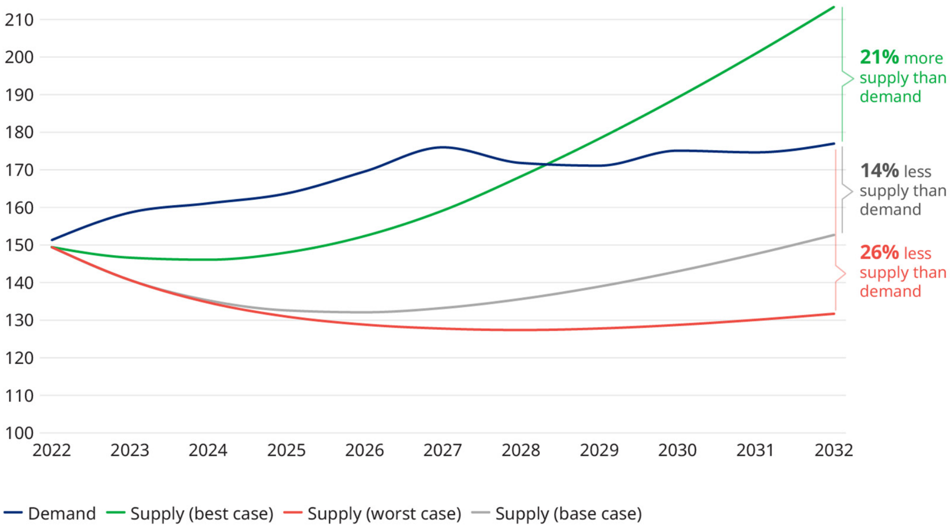
Even as recently as early December, Safran's CEO Olivier Andries warned against setting unrealistic targets as the commercial airline industry faces rising travel demands. Andries says, "the supply chain is still struggling to recover from the shock of the pandemic, as well as other shocks: Ukraine, energy, inflation, and labor." Put more bluntly, Andres adds, "the supply chain…has not returned to a normal level. So, for us the question is what is the right speed for the ramp-up. It's not a question of demand…demand is there."

Theirry Betbeze, CEO of Dassault Falcon, said that he has deployed workers out to crucial small suppliers in hopes of bolstering production outputs. Further still, the company has acquired some of these smaller businesses as well. Aircraft leasing company, Avolon, similarly believes the supply chain issue will persist into 2025. Moreover, another indication of a slower return to pre-COVID levels is Airbus' own admitted delay in meetings its target of 75 aircraft a month, moving that goal out from 2025 to 2026.

Yet, despite the persistent supply chain struggles, deliveries were up over 12% for Boeing from for Year-To-Date November, and more than 10% for Airbus in the same timeframe. Accordingly, despite the continuing challenges, the momentum towards overcoming supply chain obstacles appears to be in motion as both Airbus and Boeing improved deliveries in 2023.

3. Ongoing Workforce Shortages

CHART 4: AVIATION MECHANICS IN NORTH AMERICA: SUPPLY AND DEMAND



Source: Oliver Wyman

In addition to the supply chain constraints curtailing production capabilities, the aerospace industry is also faced with a workforce shortage that further inhibits a complete industry-wide recovery to pre-COVID levels. From OEMs and suppliers through Maintenance, Report, and Overhaul ("MRO") shops, the inability to secure talent has been felt throughout the industry. The struggle is also irrespective of the type of position needing to be filled, be it pilots, air traffic controllers, or mechanics.

On the pilot front, experts anticipate the shortage to persist into the 2030s with Oliver Wyman predicting that the shortage of pilots in North America will hit above 13,000 by 2032. Although this shortfall is less than what Oliver Wyman predicted a year ago, the reduced shortfall may not be for the right reasons. For instance, Ohio-based PSA Airlines has parked more than a dozen aircraft because it cannot find the pilots needed to fly them. Indeed, data reveals that almost 500 regional jets and turboprop aircraft across 11 regional carriers were in storage. And while the pilot shortage is felt throughout the entire industry, smaller, regional providers, like PSA Airlines, that service thinner markets are particularly vulnerable.

For air traffic controllers, the lack of depth is "showing clear signs of strain that we cannot ignore" says Jennifer Homendy, the chair of the National Safety Transportation Board. Given the lack of qualified personnel, air traffic controllers are being required to do mandatory overtime, which has led to fatigue and, ultimately, a growing list of close calls at major airports this year. The shortage is so great that earlier in 2023 the Department of Transportation's Office of Inspector General found that 77% of critical air traffic control facilities were short-staffed.

Mechanics are also in short supply. PSA airlines says it lost 175 seasoned mechanics in the first half of 2023 alone; and while it has hired more talent to augment the loss, the new replacements lack experience and require third-party assistance to supplement the lost skill. This includes consultants and technological solutions like iPads with reference links and short video vignettes to help diagnosis and fix a problem. This can lead to greater aircraft downtime for jet owners and rising costs for MRO shops.

For the bigger airlines, the shortfall is just as concerning. United noted that it will need to hire more than 7,000 aircraft maintenance technicians. Adding credence to this number was Kate Gebo, United's EVP of Human Resources and Labor Relations, who said that 40% to 50% of its technicians are retirement eligible. More broadly, Oliver Wyman predicts the industry will need an additional 43,000 to 47,000 by 2027. For many experts that level of hiring is unobtainable, which has led some to look to automation and artificial intelligence as a substitute.

For suppliers producing essential components that the OEMs require, the workforce shortage has also been a barrier to overcome. For instance, Aerospace supplier CEO Hugue Meloche has sought out foreign workers to fill key positions, often paying C$10,000-plus for each skilled laborer he brings to his Montreal-based factories. Meloche noted that almost 20% of his workforce comes from foreign sources like Mexico, Tunisia, or Brazil, which has added almost C$1 million in extra costs on his company. However, for most OEM suppliers, the reliance by OEMs for these critical parts has led to an ability to increase prices. For Meloche, he has four dedicated employees just to help these foreign workers get acclimated to living in Canada.

Yet, these increased costs are often passed on to the OEMs, who then pass them on to commercial airlines and, ultimately, to the consumer. Subsequently, the average ticket price for more than 600 routes are up 2.1% year-over-year yet demand for air travel remains. Ultimately, the shortage of talent comes as the industry looks to continue its production gains noted above. As one industry executive noted, layoffs during COVID happened in a matter of months, but replacing that talent will take years.

Section 2: Defense

4. US National Defense Authorization Act ("NDAA") and Global Defense Spending Amid Rising Global Tensions

As readers will know, currently, geopolitical confrontations abound. From Ukraine/Russia to Israel/Hamas as well flaring tensions between China/Taiwan and North Korea/South Korea, there was much military action and preparedness occurring as 2023 ended. Unsurprisingly then, 2024 is set to be a year in which defense budgets are propped up further as rising tensions weigh globally.

Across the globe, countries have committed to record defense budgets for 2024. From Japan to Sweeden and Indonesia, defense budgets are seeing a major boost across many 2024 government budgets. Here's a quick look at the top three most significant defense spenders:

US

To begin, the US has expanded its defense budget by about 3% to $886 billion. Of note, the US remains focused on countering China's growing pressuring in the Indo-Pacific. Specifically, the US is focusing on its nuclear modernization efforts via its Sentinel program, which continues to see bipartisan support. Moreover, the US remains fixated on being the leader in Space technologies, including missile tracking and communications, as well as C6ISR, and next-generation technologies like hypersonic missiles. Finally, the budget allots significant dollars for continued naval asset refreshments and continued expansion of surveillance and real-time monitoring capabilities via satellite, drones, and other technologies to provide crucial intelligence for the US and its allies.

Not included in the NDAA is robust aid for the wars currently being fought by Ukraine and Israel are mostly divided out in a separate budget that is currently under continuing deliberations in the US Congress. Overall, the US defense bill clearly signifies the state's commitment to countering its foes; it also provides a small, but immediate, assistance to Ukraine to counter Russia as well as provide a pay raise for military personnel and extends an overseas surveillance program.

CHINA

As opposition to Japan and the US, China has set a defense budget of $227 billion, though experts believe that undercuts the actual planned spending. In fact, The Stockholm International Peace Research Institute estimated that for FY22, China's budgeted military spending was 25% less than actual. Even more, on the floor of the US Congress in December, Senator Dan Sullivan stated that intelligence officials stated China's real defense spending for FY24 is closer to $700 billion.

One important reminder in comparing budgets comes from an analysis by Peter Robertson and Wilson Beaver, who state that:

"Comparing each country's defense inputs suggests that the purchasing power of China's overall defense budget is 60 percent higher than the dollar equivalent suggests. Even when using the old, low estimate of $290 billion, that would give the Chinese military nearly $469 billion in actual spending power — about 59 percent of the 2021 US defense budget."

Overall, China has been shifting its spending away from personnel in favor of equipment such as missiles, aircrafts, and warships. Indeed, China now has the largest navy with roughly 370 naval ships and submarines. The change in Chinese military spending and, ultimately, strategy, has caught the attention of the US and has exacerbated the rising competition of next-generation warfare technologies (discussed further below).

RUSSIA

Russia is preparing to spend 6% of its GDP on the military, the first time in modern history the country has devoted such a high percentage to defense spending and eclipsing last year's 3.9% spend rate. In fact, the 2024's budget is the first time for Russia that defense spending will exceed social spending.

As the Carnegie Mellon Endowment for International Peace puts it:

"The record defense spending shows that the Kremlin has no intentions of ending its war against Ukraine anytime soon: on the contrary. Even if the fighting becomes less intense or the conflict becomes frozen, the money will go toward replenishing Russia's depleted military arsenals. Likewise, it has enough cash to fund an escalation such as the imposition of martial law or full mobilization."

Yet, war has been beneficial to the Russian economy with industries directly related to the war having seen significant growth from last year. For instance, navigation devices have seen an almost 75% increase from the previous year and protective clothing up over 40%. Even more, Russia has a record low unemployment rate currently. Nevertheless, the Carnegie Mellon institute concluded that, "by staking everything on rising military expenditure, the Kremlin is forcing the economy into the snare of perpetual war" to keep the economy from failing.

GLOBAL TRENDS

Rising defense budget along with rising global tensions creates a recipe for the defense industry's growth. As seen in Russia, the US defense industry too is realizing economic gains. For instance, Lockheed Martin, General Dynamics and other defense primes anticipate forthcoming orders for thousands of artillery rounds, hundreds of Patriot missile interceptors, and a wide spanning order for armored vehicles. Moreover, the US' effort to resupply arms supplied to Ukraine were signed late in 2022 and have started to creep into primes' financials as Lockheed, General Dynamics and RTX all reported better than expected results. Executives at these primes further confirmed this trend is likely to continue with more orders to resupply stocks from assisting Ukraine and now Israel as well.

As General Dynamics Chief Financial Officer Jason Aiken told analysts:

"We've gone from 14,000 artillery rounds per month to 20,000 very quickly. We're working ahead of schedule to accelerate that production capacity up to 85,000, even as high as 100,000 rounds per month. And I think the Israel situation is only going to put upward pressure on that demand."

Moreover, outside the US, other defense primes are also noting strong demand as well. Both Sweeden's Saab and Germany's Rheinmetall noted strong demand for both weapons and ammunition like that seen by in the US

Overall, continued assistance to both the Ukraine and Israel seems likely and, therefore, the US defense industry is expected to continue to see replenishing orders and continued growth of the industry's existing platforms and programs. Of particular importance will be systems being used by foreign allies, such as Guided Multiple-Launch Rocket Systems (GMLRS) used by the Ukrainians and manufactured by Northrop Gruman or the smart bombs Israel uses, which are produced by Boeing. Perhaps this sentiment is no better punctuated then by BAE's December announcement of a large, 10-year extension worth $8.8 billion to manage the US Army's Holston Army Ammunition Plant in Tennessee.

5. Hypersonic Missiles Take Center Stage

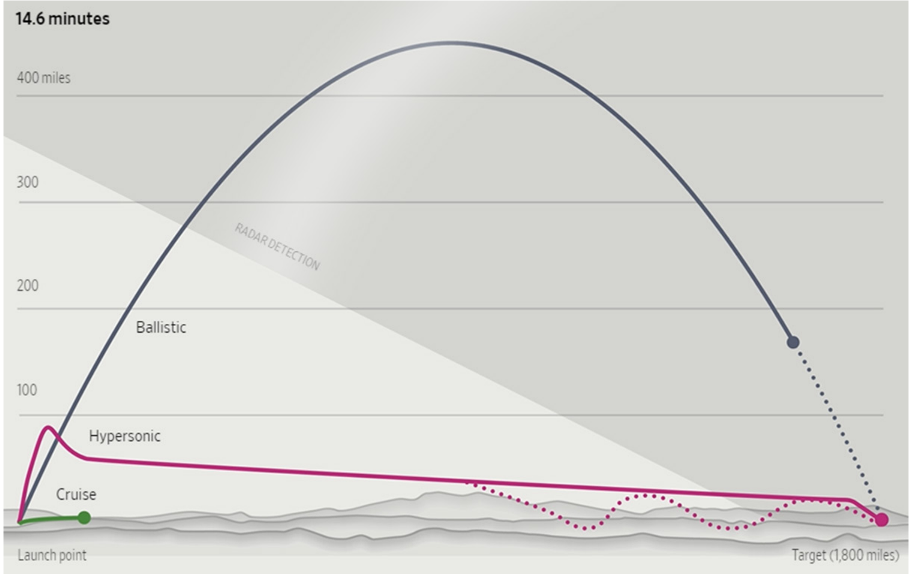
As the global geopolitical temperature heats up, defense primes are being called upon to not only maintain existing programs (i.e., replenish supplies, as discussed above), but also to develop next-generation technologies. These forthcoming capabilities are meant to provide an edge in case of a wider conflict. Specifically, there is one area in particular that is increasingly becoming the frontlines of the military technological competition between major world powers: hypersonic missiles.

Unlike ballistic missiles that fly at hypersonic speeds but along a set trajectory, hypersonic missiles are highly maneuverable and don't follow a traditional ballistic trajectory. Therefore, hypersonic missiles, moving at five times the speed of sound along a less predictable path, pose a significant threat to the would-be target.

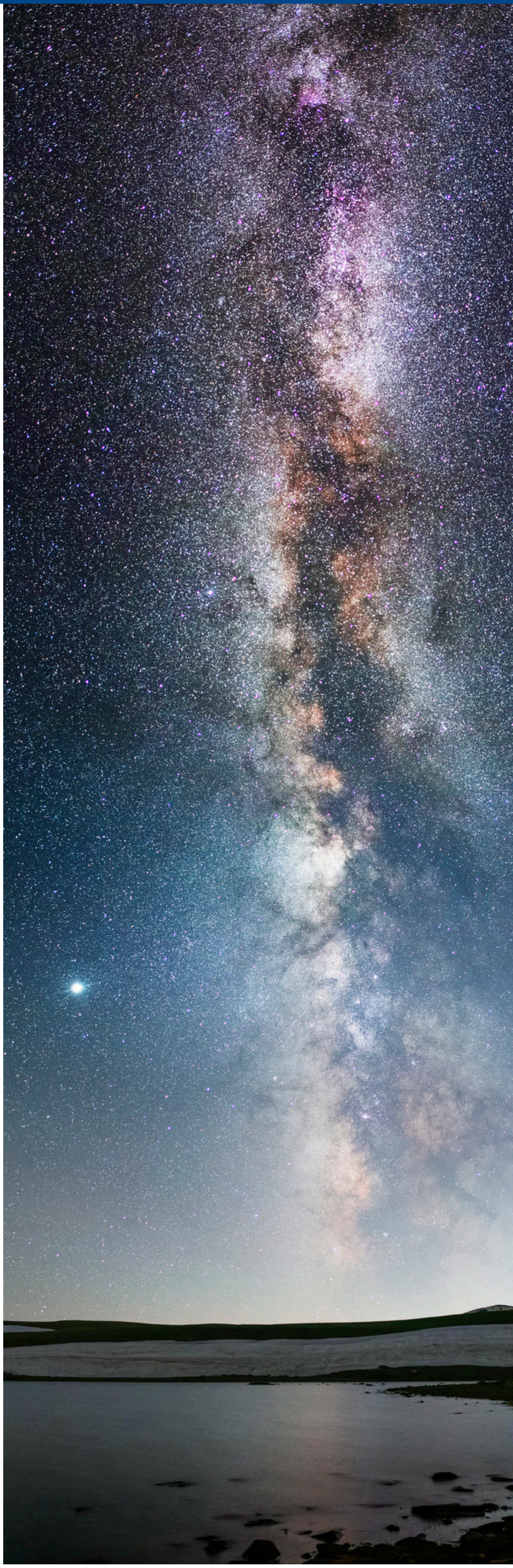
China, Russia, and the US are all deep in development for this technology. The US, for instance, is outwardly dedicating a healthy research budget to develop these weapons at roughly $4 billion per year. As part of this endeavor, Congress has ordered the Missile Defense Agency ("MDA") to receive Glide Phase Interceptors ("GPIs") capable of destroying hypersonic missiles by the end of 2029; the original mandate was to begin receiving working countermeasures in the 2030s. Moreover, the mandate continues that by 2032 the MDA should deliver "no fewer than 12" GPIs with full operational capabilities. In this case, full operational capabilities include the ability for GPIs "to be operated collaboratively with space-based or terrestrial sensors."

Raytheon, Northrop Grumman, Boeing and Lockheed Martin are all moving forward on various government projects to develop hypersonic missiles and GPI countermeasures. Likewise, smaller ventures like Ursa Major and X-Bow Systems have received funding to continue developing similar technologies. Even newcomer defense manufacturers like Andruil Industries acquired Adranos, a solid rocket motor manufacturer, to develop hypersonic missile technologies. Ultimately, given the importance of this technology by the world's superpowers, both large and small defense contractors are seeing significant capital resources made available to them for these efforts.

CHART 5: COMPARISON: HYPERSONIC VS. NON-HYPERSONIC VS. BALLISTIC MISSILE



Source: Wall Street Journal



Section 3: Space

6. Commercial Space's Resiliency and Investment Recovery Signs

The Space industry faced many challenges throughout 2023; from diminishing investor capital resources to large, macroeconomic headwinds, the industry had to transverse a tougher environment than what it had seen in the recent past. Yet, despite these challenges, the industry has proven its resilient capabilities, something the old commercial space industry of the 1990s and early 2000s struggled with. Increased emphasis has been placed on businesses with sound operations and ongoing or near-term revenue opportunities, especially those with revenues tied to government contracts. As Vaibhav Lohiya, Managing Director and Global Head of Space Banking at Deutsche Bank Securities noted, "investors are starting to get more selective…with more interest in backing category leaders that can offer near-term returns rather than 'moonshot' opportunities."

One important sign of a recovery in progress is increased investing in space globally. While the US remains the center for commercial space startup investing, signs are pointing to other countries beginning to ramp attention and capital into the industry as well, which promotes a healthy and robust industry. Within the first half of 2023 alone, significant investment went into non-US space companies, including those in Germany, France, Spain, Canada, and Israel. In fact, France has become a significant player for space investing, with the country moving into the number 4 spot for total investment in the industry. Rounding out the top 5, the list includes the US, the U.K. and China, as many would expect, but also Singapore.

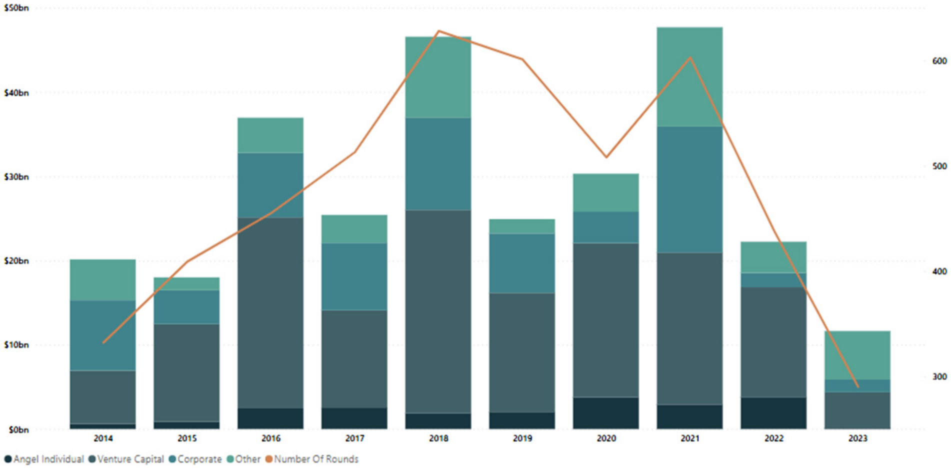
Another sign of an ongoing recovery for the industry is the number of rounds closed during Q3 of 2023. With 103 rounds closed during the third quarter, the industry saw the most funding in the last five consecutive quarters. Drilling into this data further by sub-industry, by far the largest portion of the space industry to receive funding were Satellite businesses and, in particular, those focused on GPS, Geo-Intelligence or Communication functionalities.

Lastly, while the financing raised in 2023 went mostly to well-established players like SpaceX or Ursa Major, both of whom raised a large amount of capital in 2023, by number of deals, Seed and Series A rounds were the most robust. This speaks to the industries focus on supporting operations generating revenues or those newcomers that are developing technology focused on Department of Defense

and other government entities' focus areas. Accordingly, as Series B and Series C funding diminished, there is was an uptick in M&A activity. This indicates an ongoing recovery because, previously, these businesses would have to close without an ability to raise another round. Closing out 2023 and heading into 2024, these businesses have been able to seek acquisitions by healthier competitors and continue their operations. A rising M&A market indicates the growing maturity of these companies and strong investor sentiment for the near-term success that these companies can offer.

Thus, while some space companies continue to face capital pressure and there will likely be more failed businesses in the short-term, over the medium-term the industry, post-recovery, is likely to be positioned very well for healthy business development and technological advancement. This may be particularly true given the surviving operations will be ones with robust innovations paired with well-established revenues and budgets to furnish these advancements. Indeed, the future looks bright as the industry matures from its venture and SPAC craze a few years ago to a more mature, less hype-driven investment opportunity with clear market drivers and value-add propositions that have become critical to many customers' own operations.

CHART 6: DECLINING EQUITY INVESTMENTS ACROSS INVESTORS



Source: Space Capital

Section 4: M&A + Concluding Thoughts

7. Macro Trends and the M&A Markets

2023 presented M&A markets with many obstacles and headwinds, including rising interest rates, geopolitical tensions escalating, and slowing global economic growth. All of this culminated in deal volume down an estimated 17% globally. In particular, large transactions were impacted the most with IPOs down 25% year-on-year, ultimately falling to a 14-year low.

Looking ahead to 2024, the M&A market remains in a state of semi-flux but with positive metrics signaling improving appetite by both buyers and sellers. However, some key variables loom over declaring a full rebound. As an overview, and most notably, the world continues to grapple with rising political tensions; in addition, there are a number of important elections throughout the year that will influence markets and their regulators. Moreover, the US, and other key economies, continues to manage its economic recovery. Even as inflationary concerns show signs of easing, investors are still waiting to see the soft-landing that governments are attempting to make coming off increased interest rates.

First, and as we have written about throughout this report, the geopolitical landscape is hotter than it has been in years. Just to scratch the surface and set the stage, the US' recently increased activity in the Red Sea against Houthi targets in Yemen, wars in Israel and the Ukraine are continuing, and rising confrontational rhetoric coming from state actors like China and North Korea have sent governments scrambling to shore-up defense measures. In all, these events lead to rising concerns and market uncertainty for businesses outside of the defense ecosystem. Accordingly, as we discussed in the previous section of this report, defense suppliers and manufacturers are well positioned to capitalize on growing defense budgets, but other industries may face stagnation until more clarity on the world stage is realized.

Second, it must be considered that 2024 is a significant year for elections, topped off by the Presidential election in the US Worldwide, there will be more than 40 national elections, representing more than 40% of the world's population and GDP. Critical elections kick off in Taiwan in January and run through November, when the US will elect its next president. For the markets, years in which the US will vote for president often brings about volatility, yet the year after is typically a rally year in which the markets do well. Experts believe this is because of the uncertainty in an election year, and the subsequent certainty once the results of the election are known. More than anything, markets favor short-term clarity. As the US will be voting for control of both the Congress and President, it brings into question what party, if any, will be able to enact its agenda in 2025. Whatever party that is, if any, expect the M&A markets to have a reaction, even if that reaction is a further 'wait-and-see' approach.

Third, in the US, investors are beginning to see inflationary pressures come under control and, as such, the US Federal Reserve has signaled that interest rates are likely to stabilize. For M&A activity, this removes a large uncertainty and obstacle for dealmakers, an encouraging sign to go along with a stronger than expected Q4. All of this further encourages a cautiously optimistic rebound for transactions over the next twelve months. It also helps lead to renewed optimism and opinion articles with upbeat sentiments, such as the Reuters article published in mid-December declaring, "Backlogged M&A pipeline will burst in 2024."

So, what should buyers and sellers be thinking about regarding the M&A markets over the next 12 months?

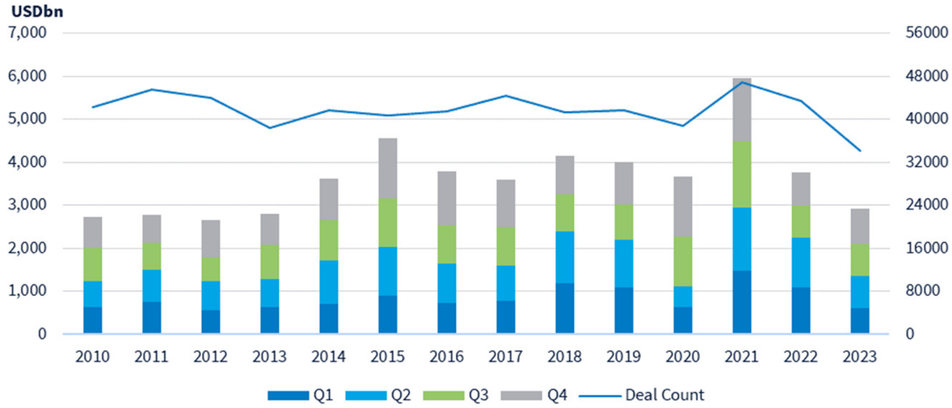
For large strategics, Mesirow anticipates continued portfolio rationalization as companies double-down on their most critical and core offerings and offload assets that do not fit within a narrower strategic view of their go-forward growth initiatives.

For financial sponsors, much has been written throughout 2023 regarding the amount of dry powder these investors are holding in part because of the current US administration's focus on applying regulatory pressures with regard to antitrust actions. Yet, as 2024 kicks off, some of that dry power appears to be getting put. Given 2023 was a slower year for A&D processes, demand for quality A&D businesses has built up. Paired with lowering interest rates and the amount of dry powder available, the situation becomes one that could lead to favorable valuations for sellers in 2024. In fact, perhaps early 2024 is already seeing a bit of that formula in effect through the recently announced acquisition by Arcline Investment Management of aviation technology firm Kaman Corp. via a roughly $1.8 billion all-cash deal.

Within A&D specifically, significant interest is expected in value-add suppliers that are holding long-term contracts with key manufacturers and government agencies. In particular, sole-source suppliers, businesses operating in environments faced with large gaps between demand and supply leading to large backlogs, and those involved in the parts of the industry that are stated government priorities, like ammunitions, will see significant interest from both strategics and financial sponsors if brought to market in 2024.

Overall, Mesirow has a cautiously optimistic A&D M&A market view for 2024 with a plus-side possibility as the several factors discussed above become more transparent.

CHART 7: DEALMAKING DOLDRUMS: GLOBAL M&A DROPPED TO A DECADE LOW



Source: Mergermarket, data correct as of 15 December 2023

Dedicated advisor to the Aerospace & Defense sector

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