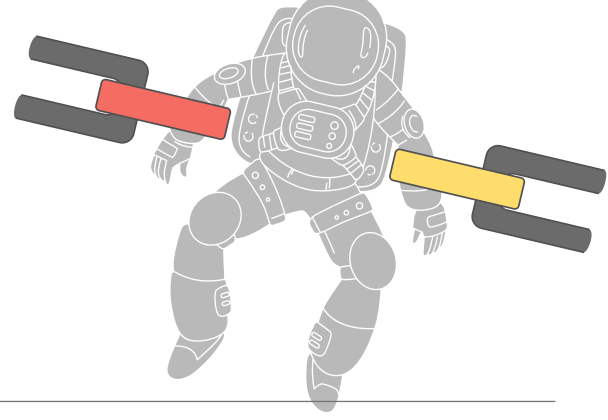


## Structural transformation in the aviation supply chain



Synavia & QRelation Management Team GmbH

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## GERMAN AEROSPACE SUPPLIERS IN THE WAKE OF THE CORONA CRISIS

Shaping the future in uncertain times - restructuring,  
M&A and private equity as strategic courses of action

### Point of departure

**A variety of developments and influential factors (e. g. Covid19, CO2 reduction, global competition, cost pressure etc.) are precipitating massive transformation within the aerospace industry.** The major OEMs (Original Equipment Manufacturers) such as Airbus and Boeing are strategically adjusting to the situation and have initiated incisive measures to deal with the transformation. Such preparedness is also expected and indeed required of the entire supply chain.

Predictions as to when the aviation market will recover to pre-crisis levels vary. Experts anticipate this is likely to be achieved sometime between 2023 and 2025. Airbus and Boeing have recently announced that they will again increase rates significantly. **There is no doubt that the commercial aviation market will again be a growth market worth actively engaging in.**

### Consolidation within the aerospace industry

**Independent of the Covid-19 crisis, corporate consolidation has been a factor within the aerospace industry for some time, occurring at OEM level (for example, Airbus/Bombardier C Series), at system suppliers (Tier 1, examples being the acquisition of Raytheon and Rockwell Collins by United Technologies (UTC) and take-over of Zodiac by the Safran Group) as well as in the downstream supply chain (Tier 2 ... Tier n, e.g. WeAre Group and NextTeam Group in France).** The advantage of consolidation is that strong and more financially robust companies emerge that are able to cover a broader proportion of the value chain, benefit from scaling and low cost effects and follow their customers along the globalisation path.

OEMs and large Tier 1 companies have initiated workforce adaptation, insourcing and asset disposal measures that will ensure their survival. In addition, these companies are regarded by their respective governments as relevant to the system and receive commensurate financial support.

In its capacity as a major European OEM, Airbus has opted to restructure its group and consequently differentiates between core business, which remains in-house or is backsource (fuselage and major structural components), and secondary business, for example the manufacture of detailed parts that are then subsequently purchased under the most favourable market conditions (one example is the split up of Premium

Aerotec). The most favourable conditions can essentially be negotiated where the supplier has achieved a particular order of magnitude. This means activities can be acquired bundled, naturally in full compliance with the requisite aerospace industry quality standards. So-called strategic suppliers ideally also have the commensurate funding options at their disposal and are prepared as a risk sharing partner to assume development risks and obtain the ROI on a long-term basis, in other words following the sale of the aircraft.

The pending structural transformation means that all suppliers in the downstream supply chain need to think now about how they would and indeed could successfully work together with Airbus, Boeing and its major strategic suppliers in future. Longstanding supplier relationships are becoming less valuable and may necessarily have to make way for more economically viable offers.

Above all on an international level, in other words outside Germany, the willingness of companies to cooperate and merge is extremely high. Various studies consistently show that the

## The Synavia and QRelation team

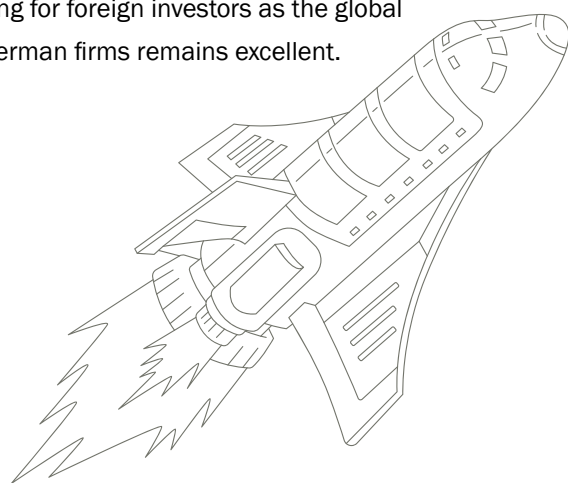
**helps aerospace industry companies to understand Their current position in the supply chain and to reposition themselves where necessary. To do nothing and hope that things go as well as they did in the past is an extremely risky undertaking.**

We have the necessary understanding of the market with the corresponding value chains and are able to integrate the appropriate expertise for the required tasks through our extensive network. Prior to a potential sale, we help ideally position and enhance the value of a company: from our own experience we understand the sales and acquisition process regarding companies, shareholdings and individual assets. We also continue to support our customers after a sale with an intelligently planned and implemented PMI phase (post-merger integration), consequently helping to ensure that all participating partners benefit.

highly fragmented German supply chain, which is largely characterised by small and medium-sized enterprises, is currently unable to keep up with the structural transformation, a fact that has led to a subtle loss in international competitiveness.

Companies that want to improve their supply chain rankings need to grow in order to enhance their significance with customers and fulfil the ever-important financial robustness criterion. As achieving this through organic growth is hardly an option, pressure to consolidate arises.

**That there is sufficient capital in circulation is a well-known fact and it is advisable to look for where the opportunities and favourable circumstances lie.** Swiss-based 'Montana Aerospace' is one such example. Through successful flotation the company recently procured almost €500 million in extra capital to acquire companies in the aerospace sector (buy and build strategy). Companies outside the sector are also ready to invest considerable sums in the currently weakened aerospace industry to facilitate strategic entry into the sector. The acquisition of highly developed companies in Germany is also interesting for foreign investors as the global reputation of German firms remains excellent.



Through our longstanding experience and valid networks

within the aerospace industry and our know-how in terms of supply chain management, restructuring, corporate finance and M&A, we have gained the trust of and have access to companies along the value chain as well as strategic and financial investors, both national and international.

Such access in tandem with our portfolio of experience enables us to help SMEs in the supply chain to implement the necessary strategic measures and achieve future growth and competitiveness on the international markets. The process is initiated with a brief analysis of operational processes and functions, as well as possible digitalisation and automation

potential. Recommendations can range from business model realignment, corporate cooperation, joint ventures or company purchases as add-on acquisitions, right through to the enlis-

ting of new shareholders, mergers, management buyouts or the sale of the company or parts of the business

**Our service offering for the aviation supply chain brings „added value“ both for OEMs and their system suppliers as well as for companies in the downstream supply chain. We have structured our offerings in such a way that our customers have the option of calling up individual work packages to meet their requirements:**

- Analysis of the market environment of companies, identification of opportunities, risks and dependencies, development of proposals for strategic orientation, restructuring and partnerships that generate added value and growth.
- Measures to increase company value (optimization of company processes, digitalization/automation, shortening time-to-market of new products, development of new customers/markets).
- Elaboration of national and cross-border proposals for cooperations and mergers of companies and start-ups with the objective of forming larger operating units that are robust and reliable partners with the ability to support the global growth strategy of their customers.
- Advising on raising equity and debt capital to finance growth and enter new markets, including cross-border transactions.
- Advising on the expansion of the shareholder base by identifying suitable strategic investors or financial sponsors who can provide long-term support for the realignment, growth or internationalization of the company.
- Advice on succession planning and spin-off / carve-out situations, for example through management buyouts and leveraged buyouts.
- Promotion of M&A and investment projects between German and international companies

With our range of services we explicitly support German, but also other European companies (start-ups, SMEs and listed companies) that want to expand their activities in Europe and vice versa.



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#### Norbert Schröder

norbert.schroeder@synavia.de  
Phone +49 (0)8066 8840642  
Mobile +49 (0)176 56287688

#### Stefan Karstens

s.karstens@QRelation.com  
Phone +49 (0)4183 7735138  
Mobile +49 (0)172 5267433



SynAvia c/o ORG Services UG  
Breitensteinstr. 11, 83075 Bad Feilnbach  
synavia.de



QRelation Management Team GmbH  
Seevekamp 100, 21266 Jesteburg  
QRelation.com