



Aviation and Aerospace M&A Quarterly

Q1 2015

In this edition:

- Large deals between leasing companies continue in the aircraft finance space
- Aviation in-flight technology remains active for airlines
- Metals continue to be acquisition magnets in aerospace

A newsletter published by ICF International
in association with Mergermarket



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ICF's aviation consulting & services practice (previously SH&E) is one of the world's largest and oldest consultancies dedicated to aviation. ICF provides transaction advisory services and strategic consulting to clients across the spectrum of air transport.



Introduction

ICF International (formerly ICF SH&E) is pleased to present the seventh edition of *Aviation and Aerospace M&A Quarterly*, published in association with Mergermarket. The publication highlights activity and trends in aircraft, airlines, aerospace and airport M&A in Q1 2015.

Top Deals

Q1 2015 proved to be another healthy three months for investment activity across the aircraft, airlines, aerospace and airports sectors. Significant deals were seen in all four areas and were spread across North America, Europe and Asia-Pacific.

The headline-grabbing transaction in the airline sector was Qatar Airways' acquisition of a 9.99% stake in International Airlines Group (IAG), the parent company of British Airways and Iberia parent company, for almost US\$1.7bn.

Other significant transactions in the operator sector included the US\$2bn acquisition of air

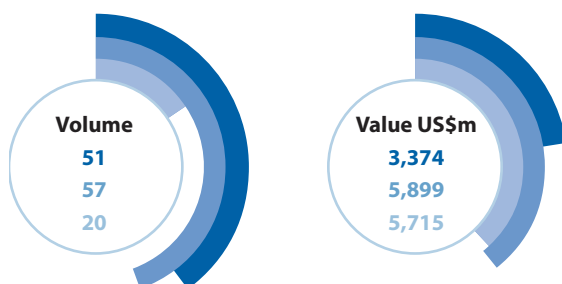
ambulance service provider Air Medical by investment firm KKR from affiliates of Bain Capital and Brockway Moran & Partners, and Nova Scotia-headquartered Chorus Aviation's C\$80m (US\$62m) purchase of Voyageur Airways.

In the aircraft sector M&A again focused on the leasing market in Q1 with the acquisition by Macquarie Group of a 90-aircraft portfolio from AWAS Aviation Capital for US\$4.0bn. This brought closure to speculation in the previous quarter over who would become the new owner of the so-called SkyFin portfolio.

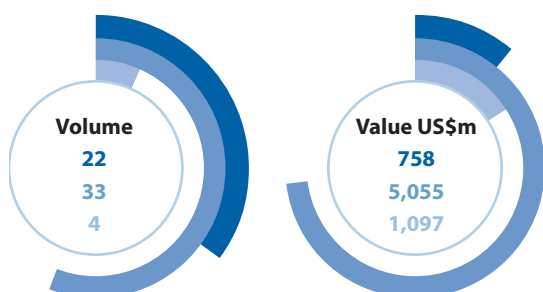
In aerospace, metals continued to make the headlines as they did in previous quarters. Alcoa signed a definitive agreement in March to acquire titanium specialist RTI International Metals for almost US\$1.5bn.

And in a deal spanning the aerospace sector, AAR agreed to sell its Telair Cargo Group unit to TransDigm for US\$725m in cash. AAR is also looking to sell its Precision Systems Manufacturing unit, highlighting a trend discussed later in the report for major corporations to divest non-core assets in order to focus on core activities.

Q4 2014 Aviation, Aerospace, and Airports M&A Activity



Q1 2015 Aviation, Aerospace, and Airports M&A Activity



■ Aviation
■ Aerospace
■ Airports

Regional Trends

The majority of deals in Q1 took place within North America, Europe and Asia-Pacific. Inter-continental deals consisted mainly of Asia-Pacific buyers investing in North American and European markets, although there were some examples of North American buyers completing deals in Europe.

Of the deals with announced values, Qatar Airways' investment in IAG made the Middle East and Europe connection the frontrunner, followed by North America-only deals, which amounted to over US\$6.5bn. The Qatar-IAG deal also resulted in the Middle East topping the buyer-power ranking, while on the selling side Europe was the most active by deal value.

Q1 2015 Highlighted Aviation Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
01/30/2015	IAG (9.99% stake)	Qatar Airways	16,885
03/03/2015	SkyFin	Macquarie	3,821
03/11/2015	Air Medical	KKR	2,000
02/23/2015	Telair Cargo	TransDigm	725
01/23/2015	Travelocity	Expedia	280
01/31/2015	Goshawk Aviation	NWS Holdings	216
02/03/2015	Alitalia Loyalty	Etihad	125
03/02/2015	lastminute.com	Bravofly Rumbo Group	120
03/12/2015	Voyageur Airways	Chorus Aviation	62
01/19/2015	V Lease	NTT Finance	50
01/22/2015	MITEQ	L-3 Communications	41
02/06/2015	Airnorth	Bristow	30
02/12/2015	PDG Helicopters	LDC	29
01/13/2015	Douglas Equipment (Curtiss-Wright)	Textron	20
01/26/2015	Bombardier's military aviation training unit	CAE	20

Q1 2015 Highlighted Aerospace Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
03/09/2015	RTI International Metals	Alcoa	1,468
01/12/2015	Survitec	Onex	680
03/17/2015	Shifang Mingri Aerospace Industrial	Xinjiang Machinery Research Institute	582
03/26/2015	Sargent Aerospace & Defense	RBC Bearings	493
01/05/2015	Tempus Applied Solutions	Chart Acquisition	100
03/31/2015	Franke Aquarotter GmbH	TransDigm	75
03/20/2015	CAV Aerospace	Better Capital	59
01/06/2015	Precision Engine Controls	Meggitt	44
03/02/2015	Aleris (Al extrusions)	Sankyo Tateyama	37
03/29/2015	Qingdao Hong Baichuan Metal Precision	Chongqing Zongshen Power Machinery	12
03/05/2015	Sterling Engineering	Air Industries Group	6
01/05/2015	Cam-Tech	PCX	N/A
01/20/2015	Aeroworks International	HEICO	N/A
01/20/2015	Norvic Aero Engines	Thames Valley Capital	N/A
01/20/2015	John Hassall	Novaria Group	N/A

Q1 2015 Highlighted Airports Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
02/04/2015	Santiago, Chile Arturo Merino Benitez Airport	Aéroports de Paris, Vinci and Astaldi consortium	700
01/28/2015	Billy Bishop Airport terminal	Nieuport Aviation Infrastructure Partners	588
01/02/2015	Toulouse Blagnac Airport	SNC Lavalin and three investors from China	351
03/18/2015	Quang Ninh Airport	Sun Group	349
01/05/2015	Istanbul Sabiha Gokcen	Malaysia Airports	268
01/11/2015	Hunan Airport Industrial*		100
03/24/2015	Delhi International Airport		78
03/02/2015	Perm Airport Bolshoye Savino	Novaya Kolkhida	22
02/22/2015	Delhi Cargo Service		5
01/16/2015	Roshchino Airport	Novaport	N/A
02/09/2015	Aeroporto di Firenze SpA (AdF), Societa Aereoporto Toscano (SAT)		**
02/20/2015	Worldwide Flight Services, Groupe 3S		***

* Hunan Airport Industrial files for CNY 634m Shanghai IPO

** Merger for AdF, SAT

*** JV

Aircraft

Leasing Remains a Big Focus

The aircraft leasing market continued to be buoyant in Q1 and included one notably large transaction between lessors. Speculation in the previous fourth quarter over who would acquire a 100-aircraft portfolio, known as SkyFin, from Terra Firma and Canada Pension Plan Investment Board (CPPIB) backed AWAS Aviation Capital was answered in March when Macquarie Group emerged as the winning bidder and announced their intent to acquire 90 of the aircraft from the portfolio.

Macquarie AirFinance, the aircraft operating lease division of Macquarie's Corporate and Asset Finance group (CAF), will manage the portfolio of 90 current-generation commercial passenger aircraft – which are leased out to 40 airlines – from the Irish lessor for US\$4.0bn. The majority of the aircraft are Airbus A320-200 and Boeing 737-800 narrowbodies, and the remainder are twin-aisle Airbus A330 series aircraft. The fleet has an average age of two years and an average remaining lease term of 6.5 years. Settlements for the aircraft acquisitions are expected to occur progressively over the next 12 months, subject to customary closing conditions.

The deal puts Hong Kong's Cheung Kong Holdings, a real estate conglomerate majority-owned by Asian billionaire Li Ka-shing, out of the picture for the AWAS portfolio bidding. Cheung Kong had reportedly submitted a preliminary, non-binding proposal to acquire the AWAS portfolio, a move that would have solidified its position as a major new entrant to the aircraft leasing market, following earlier agreements to buy 18 Airbus and Boeing aircraft from GE Capital Aviation Services (GECAS), 10 from BOC Aviation and a further 14 from Jackson Square Aviation.

Finding a Niche

Niche market leasing investment activity took off in Q4 with the sector's largest deal of the quarter – GECAS' US\$1.8bn acquisition of helicopter lessor Milestone Aviation Group from private equity firm The Jordan Company. At the time, GECAS said the acquisition would enable it to diversify its business and reap the benefits of the fast-growing helicopter finance sector.

The acquisition closed in late January and GECAS president and chief executive Norman Liu described it as “a key part of our growth strategy for 2015”, with the helicopter sector providing “a natural adjacency” for the lessor's expansion and diversification.

With competition in the new-life narrowbody segment significant, investors are finding themselves increasingly drawn to niche markets within the broader aircraft leasing segment, with mid-life fleets, engine parts leasing and helicopters all proving to be popular targets. A good illustration of this trend is AerGen, a Dublin-based start-up company specializing in leasing mid-life (aged 10-15 years) and late-life narrowbody aircraft.

AerGen began operating in January 2015 after raising an initial US\$200m of committed equity capital from a group of financial and strategic investors led by

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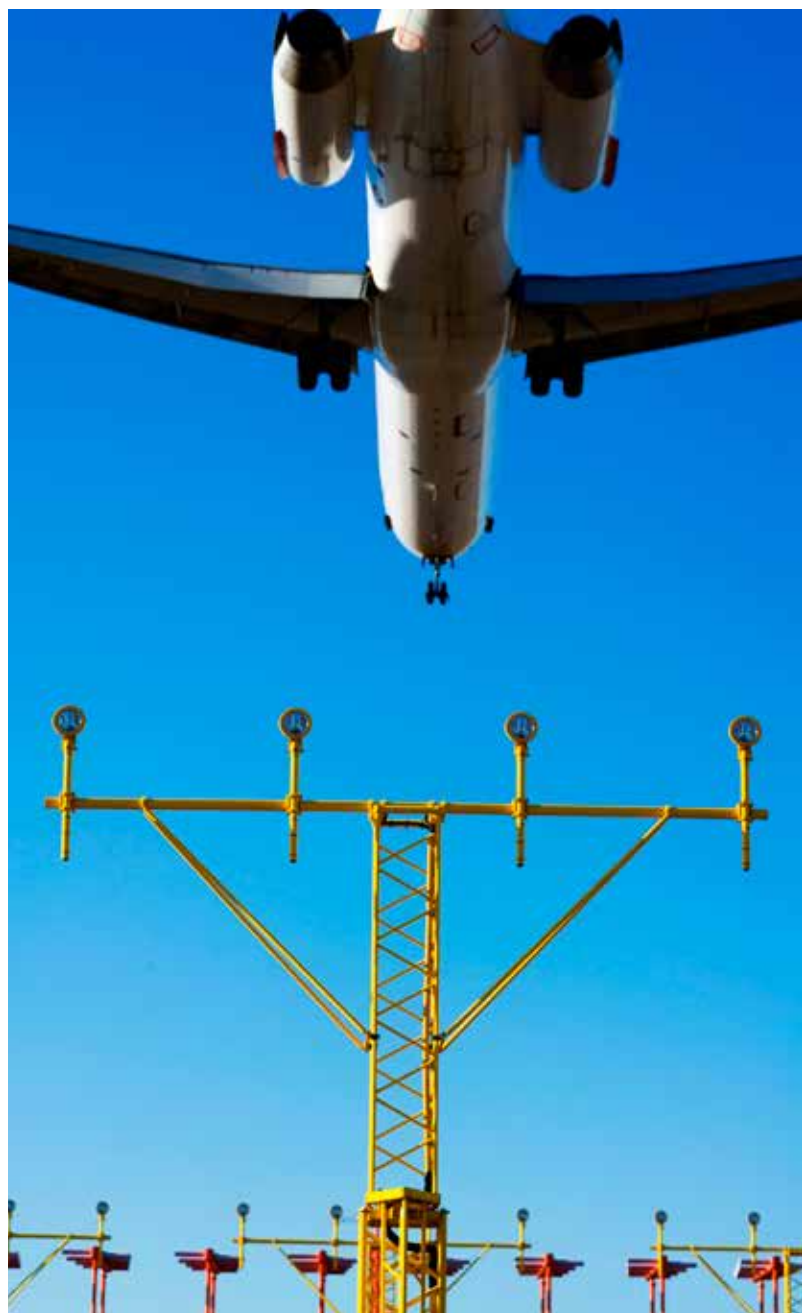
Greenbriar Equity Group. Its aim is to provide leasing and asset management services for owners and operators of older aircraft and engines. To help with the engine end-of-life management, AerGen acquired San Diego, California-based late-life aircraft engine parts management company, Avioserv, in Q1 for an undisclosed sum.

AerGen chief executive Bob Genise – a former chief executive of both DAE Capital and Boullioun Aviation Services – says that because Avioserv is already an established partner to a number of airlines and maintenance, repair and overhaul (MRO) providers, it will “provide distinct capabilities to AerGen as we acquire and manage aircraft through their full life cycle”. AerGen plans to invest in Avioserv to expand its offerings to include engines and engine parts for mid-life and end-of-life aircraft, in addition to its existing engine portfolio.

Explaining its decision to focus on the mid- and late-life niche, AerGen says these aircraft “provide dependability at lower leasing rates.”

Helicopter leasing first hit the headlines two years ago when funds affiliated with George Soros and Michael Dell invested US\$375m in Irish rotorcraft lessor Waypoint Leasing. GECAS’ acquisition of Milestone provides it with a fleet of 178 helicopters leased to 32 operators, overshadowing the 100-strong fleet leased to 13 customers by Waypoint.

The closing of the GECAS/Milestone deal was not the only activity seen in the helicopter leasing market in Q1. In late March, US-based Amur Finance Company acquired Singapore-based auction house and leasing company Lloyd Helicopters and its fleet of 21 aircraft for an undisclosed sum. Amur says the acquisition will enable it to “further its strategy of regional expansion in the Asia-Pacific region into operations while maintaining a focus on asset leasing and management.”



Key Takeaways

- Large deals between leasing companies continued in Q1 with Macquarie Group's US\$4.0bn acquisition of a 90-strong aircraft portfolio from AWAS Aviation Capital
- Niches continue to be explored, demonstrated by launch of AerGen, which specializes in leasing mid- and late-life aircraft, and its subsequent acquisition of late-life engine parts company Avioserv
- The rotorcraft sector kept momentum going with the completion of GE Capital Aviation Services' (GECAS') US\$1.8bn acquisition of Milestone Aviation Group, and Amur Finance Group's purchase of Singapore-based Lloyd Helicopters

Airlines

Aviation Technology Deals Abound

The technology side of aviation had an active first quarter with a raft of merger and acquisition transactions taking place across a range of segments, from online travel agency (OTA) stake sales to in-flight entertainment (IFE) company takeovers to in-flight connectivity.

By far the most significant deal was OTA giant Expedia's January acquisition of Travelocity from Sabre Corporation for US\$280m in cash. Less than a month after this deal was announced, Expedia also entered into a definitive agreement to acquire rival online travel specialist Orbitz Worldwide for US\$1.3bn. Sabre's OTA sell-offs did not end there; in March the travel technology firm completed the sale of its Lastminute.com division to Switzerland-headquartered online travel agency Bravofly Rumbo Group for US\$120m.

Taken together, these deals reshape online travel distribution into what appears on the surface to be a more consolidated marketplace. And yet from Sabre's perspective, it is perhaps more a recognition that the sector is becoming even more competitive, with TripAdvisor and Google expanding their penetration. Sabre says its decision to offload the two OTAs is in line with its strategy to focus on its core business of providing technology solutions to the airline and hospitality industries.

Another interesting deal that took place in the online travel distribution sector in Q1 was UK-based travel commerce platform Travelport's acquisition of a majority stake in German tour operator distribution company travel-IT for an undisclosed sum. The investment will enable Travelport to tap into Germany's large leisure travel industry through travel-IT's platform, which

it says "enables the real-time offer, search and booking of the unique content from all the major operators serving Germany."

In a different area of aviation technology – IFE – Q1 saw the acquisition of Singapore-based Pacific Avionics by Rockwell Collins. Pacific Avionics produces technologies used for wireless in-flight connectivity, an area in which Rockwell Collins has been expanding recently.

Announcing the acquisition, Rockwell Collins chief operating officer for commercial systems, Kent Statler, said: "These enhanced capabilities are a good example of how we're further expanding our cabin offerings beyond entertainment into new on-board applications and services to create a unique travel experience for airline passengers."

In-flight connectivity is a rapidly-growing sector, fuelled by strong and increasing demand from airline passengers to be connected to the Internet at all times, as well as technological advances that will increase bandwidth and speed.

Growing Middle East/Asia Appetite for Europe's Airlines

Following on from Abu Dhabi-based Etihad Airways' recent European spending spree – which has seen it take minority stakes in a number of airlines, including

"Sabre says its decision to offload the two OTAs is in line with its strategy to focus on its core business of providing technology solutions to the airline and hospitality industries."

Alitalia, Air Berlin and Air Serbia, Doha-based Qatar Airways acquired 9.99% of British Airways and Iberia parent, International Airlines Group (IAG), in Q1 for around US\$1.7bn.

However, the similarities between Etihad and Qatar Airways' strategies end there. While Etihad has focused on taking stakes in smaller loss-making carriers, Qatar Airways chief executive Akbar Al-Baker has made it clear that his company will only invest in "successful" airlines. The investment makes sense for Qatar Airways because it belongs to the same airline alliance – oneworld – as British Airways and Iberia. Qatar Airways has said it may look at increasing its IAG stake in the future.

Middle Eastern airlines were also active in purchases in their own territory in the first quarter, with low-cost carrier Air Arabia acquiring a 49% stake in Jordanian operator Petra Airlines. Following the transaction – which will see Petra's existing main shareholder RUM Group maintain a 51% stake – a newly-established carrier known as Air Arabia Jordan will begin operations from Amman's Queen Alia International Airport.

Asia-Pacific investment in European airlines was also evident in Q1, with the acquisition of a 34% stake in Czech Airlines by existing shareholder Korean Air, which it then sold on to Prague-based operator Travel Service. The transaction leaves Korean Air with a 44% stake in Czech Airlines, Travel Service with 34% and state-owned Czech Aeroholding with 19.7%.

The other big news in the Asia-Pacific region was the completion of a 40% purchase in Tiger Airways Australia by Virgin Australia for a token sum of A\$1. The deal gives Virgin Australia full control of Tiger Airways Australia and concludes a joint venture established between Virgin Australia and Singapore-based Tiger Airways Holdings in July 2013.

On announcing the planned acquisition in October, Virgin Australia chief executive John Borghetti said that subdued domestic demand in Australia would mean the growth of Tigerair Australia's domestic fleet would be reduced, but the transaction would enable the group to "benefit from the economies of scale and achieve profitability ahead of schedule by the end of 2016."

Air Ambulance Deals to the Rescue

Q1 saw two key transactions in the air ambulance space, the largest being the US\$2bn acquisition of Texas-headquartered air ambulance service provider Air Medical by investment firm KKR from affiliates of Bain Capital and Brockway Moran & Partners. Air Medical's subsidiaries transport more than 75,000 patients to hospital each year, using a fleet of helicopters and fixed-wing aircraft. KKR says it believes Air Medical is "poised for service expansion."

The second deal in this segment saw Nova Scotia-headquartered Chorus Aviation's acquire Canadian operator Voyageur Airways for C\$80m (US\$66m). Voyageur operates a fleet of 18 aircraft in Canada, Africa and Central Asia on medical, logistical and humanitarian flight missions.

Key Takeaways

- Aviation technology was at the center of a flurry of investment activity, particularly in the online travel agency space where Expedia paid US\$280m to acquire Travelocity from Sabre Corporation
- The biggest commercial airline deal of the quarter saw Qatar Airways taking almost 10% of British Airways and Iberia parent, International Airlines Group (IAG), for just shy of US\$1.7bn
- In the Asia-Pacific region, Virgin Australia completed the acquisition of the remaining 40% of Tiger Airways Australia, for which it paid just A\$1
- The air ambulance sector saw two key deals, including the US\$2bn acquisition of Air Medical by investment firm KKR



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Aerospace

Metals Continue to be Acquisition Magnets

Consolidation in the metals sector proved to be an ongoing trend in Q1 and accounted for one of the aerospace sector's most significant deals. Hot on the heels of its Q4 acquisition of German titanium castings specialist TITAL, US-based metals giant Alcoa announced in March that it had signed a definitive agreement to acquire RTI International Metals for just shy of US\$1.5bn.

Like TITAL, RTI also supplies titanium to a number of sectors including aerospace – the commercial side of which is increasingly using the material on account of its lightweight properties. Alcoa expects the acquisition to enable it to capitalize on the rapidly expanding commercial aerospace sector, where it anticipates annual growth rates of 5-6% through 2019.

The company expects RTI to contribute US\$1.2bn in revenues in 2019, up from US\$794m generated in 2014. A total of 80% of RTI's revenues in 2014 were from the aerospace and defense industries. When the deal was announced, RTI chief executive Dawne Hickton said: "Innovation and scale are critical to winning in both the titanium and aerospace industries today, which is why this transaction is such a natural strategic fit for both RTI and Alcoa."

Also in the metals sector, US-based Aleris completed the sale of its aluminium extrusions business to Japan's

Sankyo Tateyama for US\$37m. The divestment was in line with Aleris' strategy to focus solely on producing aluminium rolled products for a range of industries including aerospace, and it followed the company's announcement in October that it plans to sell its recycling and specification alloys businesses to Signature Group Holdings.

Precision Manufacturing Dominates

Accounting for four of the six highlighted aerospace manufacturing deals in the first quarter, the precision manufacturing sector proved to be a hotbed of activity in the first three months of 2015, particularly in North America. The biggest such deal saw UK-based engineering group Meggitt acquire California-headquartered Precision Engine Controls (PEC) for US\$44m in cash.

PEC supplies actuation systems and fuel metering valves to manufacturers of small-frame gas turbines,



which Meggitt says are complementary to its own valve technology in the aero-derivative gas turbine market and will enable it to expand its range of actuation capabilities. PEC's 78 employees will be integrated into the Meggitt Control Systems division.

Other North American precision manufacturing deals included Connecticut-headquartered PCX Aerostructures' acquisition of Texas-based Cam-Tech Manufacturing, and private equity firm Blue Point Capital Partners' acquisition of Western Metrology.

PCX, which supplies highly-engineered components for rotorcraft and fixed-wing aerospace platforms, describes Cam-Tech's integrated assembly capabilities as an "excellent complement" to its business. Cam-Tech offers complete structural airframe assemblies ready for delivery direct to tier 1 or original equipment manufacturer (OEM) integration centers. PCX will operate Cam-Tech as a wholly-owned subsidiary.

Demonstrating that private equity firms are also keeping a close eye on the precision manufacturing sector, Blue Point Capital Partners, in conjunction with its portfolio company Selmet (which supplies titanium castings to the aerospace and defense industries), purchased precision components manufacturer Western Metrology. The transaction is the second add-on acquisition for Selmet, which was acquired by Blue Point in November 2011. Its first acquisition – aerospace components supplier Onamac Industries – was completed in July 2014.

Outside North America but remaining in the same field, China's Chongking Zongshen Power Machinery invested US\$12m in Qingdao Hong Baichun Metal Precision Products, increasing its shareholding in the latter to 28%. The two companies plan to form a joint venture to develop precision components for the unmanned aerial vehicle (UAV) market.

Acquisitive Quarter for HEICO

Florida-based HEICO Aerospace made waves in Q1 with two key investments which saw it acquire 80% of both Aeroworks International and Harter Aerospace.

The Aeroworks deal came first when HEICO announced in January that its Flight Support Group division had completed its acquisition of the Netherlands-based company, which manufactures composite and metal parts used primarily in aircraft interior applications such as seating, galleys and overheads bins. With production facilities in Thailand and Laos, the addition of Aeroworks will expand the global reach of HEICO's production facilities to 10 countries across North America, Europe and Asia.

Less than two weeks after unveiling the Aeroworks deal, HEICO announced that it had also completed the acquisition of 80.1% of the equity of maintenance, repair and overhaul (MRO) specialist Harter Aerospace. Arizona-based Harter provides component MRO services covering nearly all of the major commercial Airbus and Boeing aircraft types.

"PCX, which supplies highly-engineered components for rotorcraft and fixed-wing aerospace platforms, describes Cam-Tech's integrated assembly capabilities as an 'excellent complement' to its business."

Key Takeaways

- The metals sector continued to see significant investment activity in Q1 with Alcoa's US\$1.5bn agreement to acquire titanium specialist RTI International Metals
- Precision manufacturing deals proved popular, accounting for four out of six highlighted aerospace manufacturing transactions in Q1
- Florida's HEICO Aerospace acquired 80% stakes in both Aeroworks International and Harter Aerospace, for an undisclosed sum

Airports

Asian Buyers Remain Active

Malaysia Airports Holdings completed its US\$268m purchase of a 40% stake in Istanbul's Sabiha Gokcen Airport, giving it full ownership of the Turkish facility and closing TAV Airports' hopes of acquiring a stake. The Turkish operator had originally agreed to acquire a 40% stake in Sabiha Gokcen from Limak Group for €285m (US\$355m). But Malaysia Airports Holdings, which already owned 60% of Sabiha Gokcen, prevented the transaction from going ahead when it exercised its right of first refusal to buy out the remaining 40% stake.

Malaysia Airports was also active in the Asia-Pacific region in the first quarter, announcing that it would sell off its entire stake in Delhi International Airport to Indian operator GMR Airports for US\$78m. The transaction will increase GMR's shareholding in Delhi Airport to 64%.

Elsewhere in Asia, Vietnamese property developer Sun Group agreed to invest US\$349m in constructing the new Quang Ninh International Airport. This continues the trend for greenfield airport construction projects across the Asia-Pacific, as cities attempt to match capacity to spiralling demand for air travel to and from the region.

Cargo Divestments

GMR Infrastructure's Delhi Airport agreed in February to sell off its entire 26% stake in Delhi Cargo Service Center to India Infrastructure Fund for US\$5m. This was not the only cargo divestment to occur during the quarter, despite the fact that the air cargo market has been showing signs of a moderate rebound in 2015. Global aerospace and defense company AAR agreed to sell its Telair Cargo Group to TransDigm for US\$725m in cash. AAR says the divestment "will allow us to focus our attention where we see the best opportunities for the company."

Porter Agrees Billy Bishop Sale

Nieuport Aviation Infrastructure Partners, a consortium of investors led by InstarAGF, acquired Billy Bishop Toronto City Airport from Porter Aviation Holdings for US\$588m. Porter Airlines is the dominant airline at the airport operating 88 percent of the weekly slots. The airport handled 2.4 million passengers in 2014 and is only suitable for turboprop operations, but plans are afoot to

extend its runway to enable it to handle jets, which could more than double passenger numbers by the mid-2020s. InstarAGF describes the acquisition as a "cornerstone investment" in its Essential Infrastructure Fund.

Partial Airport Privatizations on the Rise

Continuing a trend from Q4 2014 for European airports to be partially privatized, the French Government officially handed over a 49.99% stake in Toulouse Blagnac Airport to the Chinese-led Symbiose consortium, in exchange for around US\$351m. The Symbiose consortium aims to develop the airport and boost passenger numbers.

Santiago Brings in Top Deal

At around US\$700m, the biggest airport deal of the quarter involved a consortium comprising Aéroports de Paris, Vinci Airports and Astaldi winning a 20-year concession to operate and develop Santiago's Arturo Merino Benítez International Airport in Chile. The Nuevo Pudahuel consortium, which agreed to hand over 77.56% of the airport's revenues to the Chilean Government, will take over the concession on October 1 2015. It has agreed to construct a new 175,000m² (1.9m ft²) terminal building that will increase the airport's capacity to 30 million passengers a year.

Key Takeaways

- Malaysia Airports completes US\$268m purchase of remaining 40% stake in Istanbul Sabiha Gokcen International Airport, and sells entire stake in Delhi International Airport to GMR Airports
- Trend for cargo divestments develops, with GMR Infrastructure and AAR both offloading freight divisions
- In a unique transaction, Porter Aviation completes sale of Billy Bishop Toronto City Airport to Nieuport Aviation Infrastructure Partners for US\$588m
- Consortium comprising Aéroports de Paris and Vinci Airports awarded Chile's Santiago Airport concession

Quarterly Spotlights

Airports



Simon Morris
Vice President, ICF International
simon.morris@icfi.com

The airport transaction market (as the table illustrates) is enjoying a relatively good start to 2015, with several high profile successes including Billy Bishop, AGS (Aberdeen, Glasgow and Southampton; £1bn deal late 2014) and Toulouse. Deal flow so far this year has been no worse than previous years. However, the perennial complaint is that it is never enough, and 2014 was no exception. Opportunities that do arise are regarded as problematic, from a “political risk” standpoint, from the perspective of whether the vendor can complete the deal, from the absence of control, or simply because of the “quality” of the assets on offer.

A new complaint has risen over the last year in that deals are viewed as being “wired” for friends and family of the vendor, and outsiders will not get a fair opportunity to bid in processes that are presented as open. This complaint generally refers to secondary sales of airport assets. Initial sales by, for example, a regional or national Government would not normally be subject to such concerns, though there may be situations where additional tranches are disposed of to existing private shareholders in the interests of simplicity. In this context

“friends and family” could be defined to include formal partners. Infrastructure funds, for example, formally designate “LPs” (Limited Partnerships), which are often key fund investors. Less formally, cornerstone fund investors can have preferential rights over sales. Sometimes, previous transactions confer rights of first refusal on existing investment partners, which can constrain the ability of the seller to conduct a fully open market process.

Another argument that could be made to support sales within the family is that the business cycle for airports has not turned out to coincide with the typically five- or seven-year divestment horizons that infrastructure funds set themselves. Airport investments are lumpy and have pay back periods stretching over decades rather than years. Planning decisions that can be critical to an airport’s valuation are again resolved very slowly, and simply may not coincide with infrastructure fund managers’ self-imposed exit timetables. Faced with a divestment imperative coinciding with a sub-optimal moment to sell (for example where, as in the UK system, key planning decisions are just around the corner), sale to an LP or other friend or family member could look like a good compromise.

Also, the presence of a substantial complex risk factor can make a sale to outsiders difficult. Such risks could include a prospective new high-speed rail service or other link, or the impact of new laws or regulatory

Bidder Company	Target Company	Type	Deal Value US\$(m)
Malaysia Airports	Istanbul Sabiha Gokcen	Stake Purchase	268
SNC Lavalin and three investors from China	Toulouse Blagnac Airport	Privatization	351
Nieuport Aviation Infrastructure Partners	Billy Bishop Airport terminal	Acquisition	588
Aéroports de Paris, Vinci and Astaldi consortium	Santiago, Chile Arturo Merino Benitez airport	Concession Award	700
Novaya Kolkhida	Perm Airport Bolshoye Savino	Stake Purchase	22
Sun Group	Quang Ninh airport	Construction Project Win	49

proposals, the fate of a vulnerable airline, or simply the long-term economic prospects of a country seen as “difficult”. In such circumstances sale to an ‘insider’ familiar with the risk and able to price it in may simply represent an acceptance of the inevitable.

Finally, where an investment is seen as small-scale or relatively easy to value, a “friends and family” transaction may simply be seen as a method of reducing the transaction costs, management resources and disruption that a major formal process may engender.

Such sales might be justifiable in some cases. However, were such a practice widespread, it could be expected that:

- Asset prices for secondary sales would be depressed as prices paid are not tested through an auction process
- The prices paid and number of bidders for ab initio opportunities would conversely be inflated
- The number of bidders for future secondary sales opportunities would be significantly depressed, as there would be scepticism about both the true openness of potential transactions and the likelihood of future deal flow.

The evidence from last year (see table) does not apparently bear this out. Firstly, it is not clear that prices for secondary transactions, where the “friends and family” factor would be evident, are materially lower than prices for primary sales. Nor does there appear to be a premium for initial privatizations.

Secondly, although it is difficult to establish the number of binding offers submitted for each opportunity, it is not evident that applicants were depressed in number for secondary transactions relative to primary transactions.

There are other reasons for finding difficulty in the premise that “friends and family” deals are distorting the market. It is unlikely that investors in infrastructure funds, for example, would accept bids at sub-optimal prices where a competitive process would yield more. Pressure would be on the managers of Funds to justify such disinvestment decisions. Secondly, an infrastructure fund that operated an approach of “market testing” bids with an open process before selling under a pre-agreed arrangement would find that scope for divesting future assets would be severely circumscribed.

Nevertheless, suspicion that some deals were “wired” in 2014 will pervade transactions in 2015 with attention focused on European and Latin American deals. Bidders will continue to view some potential deals with suspicion and it will be interesting to keep this issue under review.

Aerospace & MRO



Kevin Michaels
Expert Consultant, ICF International
kevin.michaels@icfi.com

The Diversification of Alcoa

Alcoa’s March acquisition of RTI, one of the world’s largest manufacturers of titanium aerospace products, was a striking illustration of the impact that original equipment manufacturer (OEM) clean-sheet designs and re-engined aircraft are having on the supplier marketplace.

For instance, Boeing’s Dreamliner is a high composite and titanium content aircraft, as is the Airbus A350 XWB. And Boeing and Airbus followed the same trend with the re-engined 737 and A320. The rise of titanium in new aircraft production meant that aluminum demand was in decline and Alcoa needed to diversify into new materials, processes and customers. The company needed to become a solutions supplier rather than an aluminum supplier.

With the RTI acquisition, Alcoa will have the following capabilities: aluminium and titanium mill products; melting; forging; casting; extrusion; machining; and additive manufacturing. Through recent acquisitions Alcoa has successfully diversified its product offering and aluminium sheet and plate – once the company’s main product line – will make up less than 20% of its aerospace revenue.

These developments and innovations from the OEM side sounded a warning for Alcoa and other aluminium suppliers to innovate if they wanted to continue to compete against composites and titanium. The spark created by the OEMs formed the pathway to the creation of new alloys such as aluminium-lithium, for which Alcoa is now on its third generation. New applications for this include the fan blades in Pratt & Whitney’s Geared Turbofan.

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Contact:

Eliot Lees

Head of Transaction Advisory –

Aviation & Aerospace

ICF International

100 Cambridgepark Drive, Suite 501

Cambridge, MA, 02140 USA

Eliot.Lees@icfi.com | +1 617 218 3540



ICF International has more than 70 locations worldwide, including offices in:

The Americas

New York

630 Third Avenue, 11th Floor
New York, NY 10017 USA
Tel: +1 212 656 9200

Washington

9300 Lee Highway
Fairfax, VA 22031 USA
Tel: +1 703 934 3000

Boston

100 Cambridgepark Drive, Suite 501
Cambridge, MA 02140, USA
Tel: +1 617 218 3500

Ann Arbor

101 North Main Street, Suite 400
Ann Arbor, MI 48104 USA
Tel: +1 734 786 5276

Europe, Middle East, Africa

London

6th Floor, Watling House
33 Cannon Street, London
United Kingdom
EC4M 5SB
Tel: +44 20 7242 9333

Asia-Pacific

Beijing

China Overseas Plaza
Tower 2, Suite 2001, 8 Guanghua
Dongli Chaoyang, Beijing, 100020
China
北京朝阳区光华东里8号中海广场2号
楼2001, 邮编 100020
T 电话 +86 10 65628305

Hong Kong

19/F, Heng Shan Centre, 145 Queen's
Road East, Wan Chai, Hong Kong
Tel: +852 2868 6980

Singapore

314 Tanglin Road # 01-05
Phoenix Park Office Campus
Singapore 247977
Tel: +65 6884 4951

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ICF advised IDB on the Concessions Privatization by Aerodom of Seven Airports in the Dominican Republic



ICF advised Kidd & Company on its acquisition of Imaginetics



ICF advised Goldner Hawn Johnson & Morrison in support of its recapitalization of Universal Turbine Parts



ICF advised Blue Point Capital on its acquisition of Selmet



ICF advised the Belgian Government in support of the Privatization of Brussels International Airport Company (BIAC)



ICF advised Newcastle International Airport in support of its successful refinancing transaction



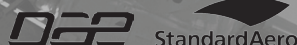
ICF advised the Trustee for Hawaiian Airlines in support of its successful emergence from Chapter 11 bankruptcy



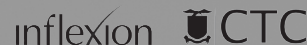
ICF advised the IFC on Caribbean Airlines' acquisition of Air Jamaica



ICF advised LDC in support of its acquisition of AIM Group



ICF advised DAE in support of its acquisition of StandardAero



ICF advised Inflexion for its acquisition of CTC Aviation Group



ICF advised IS Private Equity & HSBC for the acquisition of Havas



ICF advised Bravia Capital Partners and HNA Group for their acquisition of Allco Aviation



ICF advised Sciens Capital in support of its investment in Apollo Aviation Group



ICF advised the IFC in support of providing equity financing to Kenya Airways



ICF advised the IFC for its provision of debt financing to TAM



ICF advised the IFC in support of its privatization of Medina airport



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www.mergermarketgroup.com

330 Hudson St. FL 4
New York, NY 10013

t: +1 212.686.5606
f: +1 212.686.2664
sales.us@mergermarket.com

10 Queen Street Place
London
EC4R 1BE
United Kingdom

t: +44 (0)20 7059 6100
f: +44 (0)20 7059 6101
sales@mergermarket.com

Suite 1602-06
Grand Millennium Plaza
181 Queen's Road, Central
Hong Kong

t: +852 2158 9700
f: +852 2158 9701
sales.asia@mergermarket.com

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