

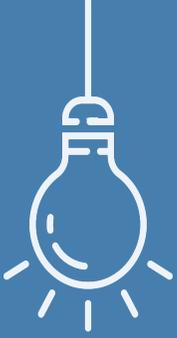


Strategies & Trends in Capital Allocation

AEROSPACE

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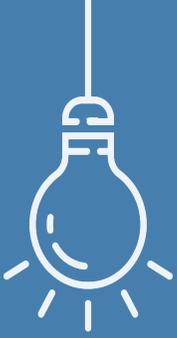
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Now Trending

- **Impact of pandemic on civilian travel:** Global airlines gauge financial impact, including effects on results of operations, future periods and liquidity, and capital resources.
- **Lingering trade disputes:** Cargo business has been particularly impacted. For the first time since 2012, cargo traffic experienced negative growth in 2019, with demand declining 3.3%. Yields from cargo activities dropped some 5% also compared to 2018.
- **Rising costs:** Aircraft manufacturers and suppliers are faced with increasing and volatile prices for raw materials including steel, aluminum and copper.
- **Regional jet market:** Estimates suggest more than 5,000 regional jets will be required over the next 20 years as the private jet industry grows driven primarily by an aging fleet and demand from Asia-Pacific, Middle East and Latin America. This change in aircraft fleet mix creates an evolving aftermarket in commercial aerospace.
- **M&A activity:** Growth drivers such as C5ISR, commercial aerospace, autonomous vehicles, and hypersonics compels companies to achieve scale.
- **Digital transformation:** Significant opportunities to improve efficiency and competitiveness include: digitization of plane maintenance data and schedules; leveraging AI to augment advanced safety features in aircrafts; improving tracking in supply chains and procurement utilizing shared databases with suppliers and partners; using VR to optimize and design factories; managing material costs and demand fluctuations with big data.
- **Decreasing noncommercial funding:** For some, requires diversifying capital sources (e.g., venture capital, private equity, and sovereign wealth funds).



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CAPEX Considerations

- **Capex re-evaluation:** Sequential capital expenditures fell by -25.97% in Q1 2020 as the initial impact of the COVID-19 pandemic, and other market forces materialized. Faced with cash flow pressures, organizations are compelled to revisit their Capex projects that are planned and in progress. Cutting too aggressively can have material impact on future competitiveness; too conservatively on financial health. A scenario such as this is when a Capex management system such as Finario truly shines, helping companies make faster, better decisions based on up-to-the-minute data, ROI analyses, and more.
- **Agile decision making:** At a time when tariffs, regulations, politics, new technologies, and variability in demand present formidable challenges for aerospace executives, the ability to pivot quickly, react opportunistically, and make capital decisions that are well-considered, strategic, and based on a holistic view of capital projects in progress or in consideration, can have material impact in the millions.
- **Personal hygiene/safety:** Operators are faced with new challenges to accommodate and innovate in terms of their perceived and real in-flight safety as it relates to the spreading of viruses and other passenger health risks. How much of this will be the "new normal" vs. a temporary necessity challenges Capex choices.
- **Urban air mobility:** Development of UAM vehicles is expected to accelerate in the next ten years, making an investment now in new technologies such as electric propulsion systems a potentially prudent strategy.
- **Modern Manufacturing:** Ongoing opportunities to improve fuel efficiency continue to push modern manufacturing technologies that achieve light-weighting, improved aerodynamics, or engine optimization.



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Industry Snapshot

- D&B Hoovers categorization: Companies engaged in manufacturing aerospace products and parts, aircraft engine and engine parts, and other aircraft parts and auxiliary equipment.
- Global revenue, including defense, was \$685.6 billion in 2017 according to Deloitte.
- In 2018, the U.S. Aerospace & Defense industry generated \$929.5 billion in sales revenue – an increase of 4% from the previous year.
- The Commercial Aerospace segment of the A&D industry generated \$318 billion in sales in 2018, while the Defense & National Security segment generated \$152 billion.
- The global aerospace and defense market is estimated to be valued at US \$1600 billion in the year 2025, growing at a CAGR of 3.5% in the period 2019 to 2025.
- Countries with the highest aerospace exports include: U.S., France, Germany, UK, Canada, Singapore and Spain.
- Leading aircraft manufacturers and suppliers (in 2018) included: Boeing, Airbus, Lockheed Martin, United Technologies Corp., GE Aviation, Northrup Grumman, Raytheon, Safran, Rolls Royce Holdings, Leonard SpA and Honeywell International.
- While the full impact of the COVID-19 pandemic is not yet known, disruptions in production and slowing demand in civilian travel have had considerable impact, raising short-term concerns about cash flow and liquidity; cascading effects throughout the supply chain may weaken the industrial base that supports complex manufacturing.
- Of the 27,500 aircraft in service at the beginning of 2020 in U.S., less than 7,500 were still flying in May 2020. Research suggests the fleet is unlikely to top 27,000 again until the end of 2022 at the earliest. Aerospace faces an inventory pile-up of unwanted aircraft ordered in the heyday that may take up to five years to work through.

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