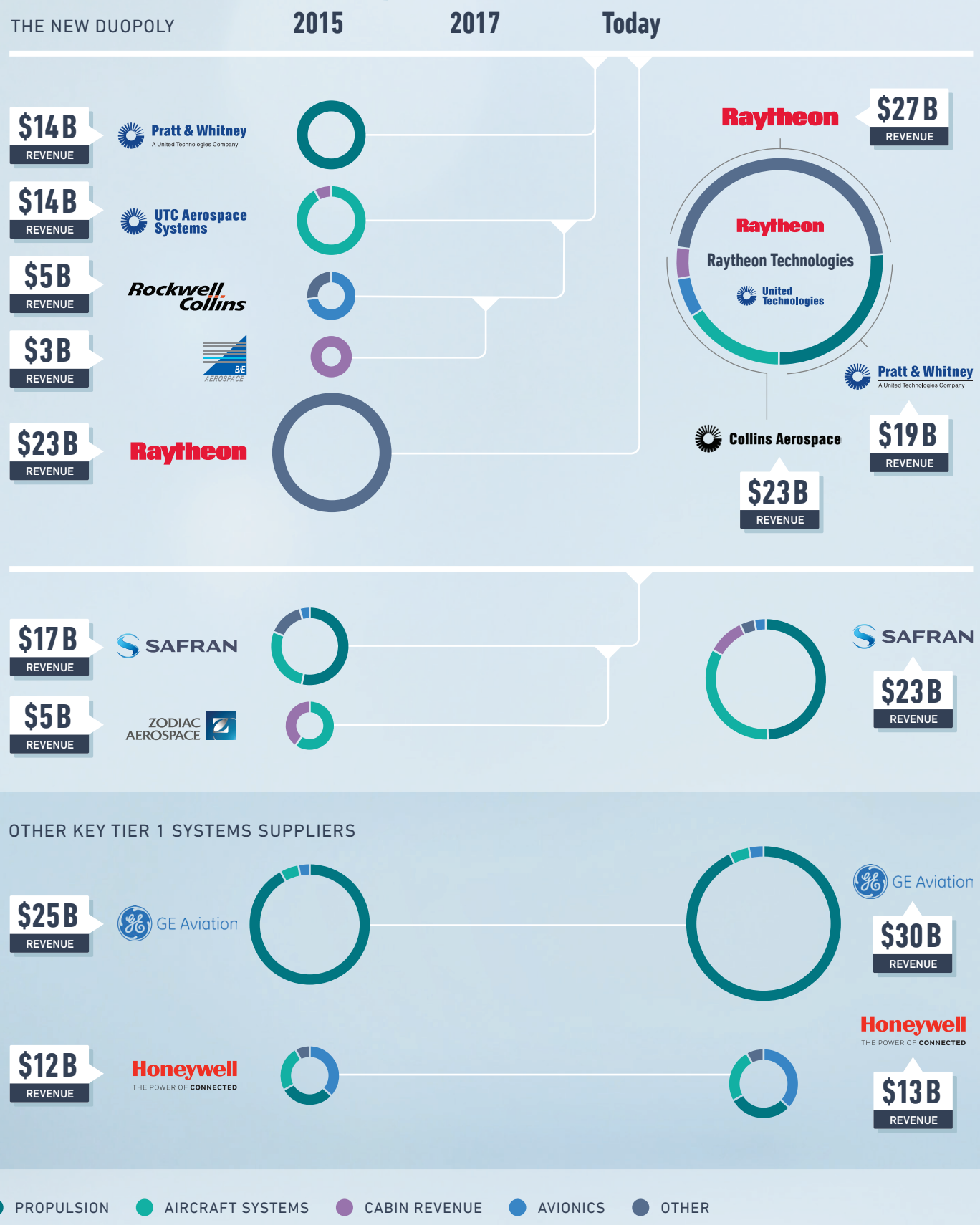
AVASCENT

THE NEW DUOPOLY

The Fight for Scale Creates a New Tier of Aerospace Giants

The commercial aerospace landscape has undergone notable transformation since 2017, and a New Duopoly of diversified aerospace giants has appeared right at the feet of Boeing and Airbus. UTC and Safran's acquisitions of Rockwell Collins and Zodiac, respectively, strengthen their protections around profitability and aftermarket revenue, and apply further pressure on their subscale competitors across numerous market segments. Large and small suppliers alike must now seriously evaluate their portfolios and ensure they are well-positioned to add value within the new competitive context.



IN JUST TWO YEARS, THE COMMERCIAL AEROSPACE LANDSCAPE HAS MORPHED CONSIDERABLY.

UTC's acquisition of Rockwell Collins – covered in Avascent's October 2017 white paper, *Power Play* – and Safran's acquisition of Zodiac have created two large, diversified "Super Tier 1" suppliers. Despite its more limited impact on the civil aerospace supply base, the announced merger in June 2019 between UTC and Raytheon, which would make the new Raytheon Technologies Corp. the second-largest A&D firm behind Boeing, further accentuates this dynamic.

As discussed in the white paper, these acquisitions confirmed the hypothesis that suppliers should be seeking increased scale to withstand OEM pressure on their profitability and aftermarket revenue.

Now, with industry preparing to steamroll into the next decade with new program introductions and record production levels, a New Duopoly of aerospace giants has appeared right at the feet of Boeing and Airbus. Not only do the new Raytheon Technologies and Safran portfolios roughly mirror each other in size, shape and capabilities – they also represent new poles in the U.S. – European balance of aerospace industrial power.

This New Duopoly enjoys tremendous diversification across avionics, propulsion, interiors, structures, mechanical and power systems – creating pressure on their competitors in each of these verticals.

NEW AIRCRAFT SYSTEM SUPPLIER LANDSCAPE

THE NEW DUOPOLY

United Technologies

SAFRAN

Where will additional consolidation take place within the supply chain?

OTHER NOTABLE SYSTEM SUPPLIERS*

GE Aviation

Rolls Royce

Honeywell THE POWER OF CONNECTED

THALES

TRANSDIGM GROUP INC.

MEGGITT

Parker Aerospace

EATON

MOOG

WOODWARD

CURTISS-WRIGHT

KEY CONSIDERATIONS

TIER 1

Should other Tier 1s build scale to compete as another "super supplier" against UTC and Safran, or choose sides and strategically align with UTC or Safran?

TIER 2 & 3

As OEM pricing pressure trickles down, how can Tier 2 and Tier 3 suppliers differentiate, climb the value chain, and add value within the UTC/Safran context?

Jay Carmel leads the firm's civil aerospace practice. Mr. Carmel delivers strategic guidance to suppliers and investors active in multiple aviation end-markets. In addition to traditional aircraft systems, Mr. Carmel has expertise in aircraft autonomy, connectivity, and electrification. For more information, contact: jcarmel@avascent.com.

Logan Slone is a Senior Associate, with over 14 years of experience in aerospace, defense and security analysis. Prior to Avascent, Logan led the Rockwell Collins Corporate Strategy function, and played a key role in Rockwell Collins' merger with UTC Aerospace Systems. For more information, contact: lslone@avascent.com.

**Companies listed have significant non-aerostructures systems content on civil aircraft and exceed $1B in aerospace revenue; list is not exhaustive*
Note: Revenues are FY18 pro-forma, and account for the eventual standalone United Technologies business excluding Otis and Carrier.
Sources: Company 10-Ks, investor presentations, Avascent analysis