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Mission control
First-quarter 2011 aerospace and defense industry mergers and acquisitions analysis

Special report: Gaining a competitive advantage by retaining top talent through a merger

pwc

Welcome to the first-quarter 2011 edition of *Mission control*, PwC's quarterly analysis of mergers and acquisitions (M&A) in the global aerospace and defense (A&D) industry. In addition to a detailed summary of M&A activity in the quarter, this edition features a special report on retaining top talent and maintaining organizational culture through a merger. With M&A activity increasing across the globe, executives are facing talent management challenges, including organizational design, integration planning, and the cultural blend between acquirer and target. A disciplined approach to people integration helps companies achieve desired synergies, build momentum, and instill confidence among their stakeholders.

Special report:
Gaining a competitive advantage by retaining top talent through a merger

Companies engaged in merger and acquisition activity face a number of integration challenges. Among them are the complexities related to achieving synergies and cost reductions, and accessing new markets to sustain growth. With so much at risk, talent issues are too often overlooked. And yet, the effective handling of cultural concerns, compensation issues, and retaining pivotal talent is vital to the success of the new organization. Merger integration involves effectively managing multiple priorities. How the people issues are managed can be a make-or-break challenge. A staggering 70% of deals fail to deliver their intended benefits, often because cultural and people issues were mismanaged.[1] As a result, companies are becoming increasingly aware that M&A value creation, strategic growth, and sustainable business success hinge on the human side of deal making.

With about $20 billion worth of deals in 2010, nearly double the value of 2009 activity, the aerospace and defense industry is enjoying a robust period of merger and acquisition activity. Even more deal activity is expected in 2011. Spinoffs and divestitures have been trending upwards in the broader economy, but particularly in A&D. Northrop Grumman's sale of TASC and its spinoff of Huntington Ingalls, the planned spinoff of ITT Defense, and Lockheed Martin's sale of EIG and PAE are among the recent announcements and deals.

The robust M&A activity presents unique opportunities and complexities. Doing deals can present a serious challenge, especially when it comes to the people side of the business and the operating units responsible for sustaining performance.

The implications of organizational change

Major change in the workplace can cause fear and uncertainty among employees. When organizational change programs fail, it is largely because employees feel excluded from the process and end up lacking the motivation, skills, and knowledge to adopt new systems and procedures.

These issues come to the forefront during integration. One company, responding to a survey of participants in the recent M&A and Human Capital Roundtable hosted by PwC, reported beginning its retention campaign by posing a key question to incoming employees: "Do you see a future for yourself at this company?"[2]

Acquisitions for talent

Companies traditionally have pursued deals in order to achieve extensions of product and service offerings, or expand into new geographies. But talent itself is becoming a chief reason for M&A activity. Acquisitions often are made specifically for reasons of expanding the talent pool, or gaining new capabilities—securing a new innovative technology, and the talent behind it. With increased spending in such areas as cybersecurity and C4ISR, companies are frequently seeking professionals with very specific skill sets.

These employees, often critical to the building of products and services uniquely identified with the organization being acquired, are innovators, highly oriented to research and development (R&D). The same employees often have the necessary security clearances required for the governmental contract work that will be pursued by the acquiring company.

[1] Source: "When two become one," Hourglass, PwC, December 2010

[2] Source: "Talking about the people side of M&A," PwC, 2010

The impact of spinoffs

The contract specificity of talent is an issue relatively unique to A&D companies engaged in mergers and acquisitions. Many of the professionals in the acquired organizations are multiyear employees, who were hired and trained to work on specific contracts, and they are likely to follow those contracts to other companies. Understanding the relative mobility of that workforce is a key to managing talent during transition periods. Human resources and operations personnel often participate in the acquisition process very early, getting to know the personnel of the company being acquired and understanding the needs and requirements of key talent.

Also of significance in the current economy is the number of carve-out deals being spun off from larger companies (a trend occurring more in A&D than in other industries). These transactions often result from new or newly relevant organizational conflict of interest rules, applicable to organizations engaged in fulfilling governmental contracts for products and services and simultaneously serving governmental advisory roles related to the same.

These carved out divisions often are acquired by private equity firms. Such scenarios can be particularly challenging in terms of retaining and managing talent because of the differences in incentive structures. Predecessor benefits and pension plans often are not in line with those offered by the acquirer. This becomes an issue of high priority in terms of assessing what it will cost to continue to offer employees appropriate incentives.

The negative synergy resulting from such discrepancies has the potential to wreak havoc on the success of the deal. In addition to salary concerns and intangibles, such as workplace environment and opportunities for advancement, key employees must be convinced that the financial value they will gain with the acquiring company is the same or better than what they are losing. Companies sometimes attempt to fill the gap with such incentives as bonuses or other options for benefiting directly from the new company's financial success.

Keeping pivotal talent

Identifying and retaining key talent is essential to successful integration efforts, and a primary aspect of the due diligence process. The acquiring company must define each employee's relative importance to the business—both during the transition and beyond. The company must make an assessment regarding which employees are needed for short-term transition and which are needed for long-term value creation. When defining those needs, companies examine three levels of criticality:

- *Strategically critical.* Those employees most essential to the ongoing operations of the newly combined organization—typically, top executives, important business unit leaders, and key individual contributors.
- *Integration critical.* Those employees essential to the integration effort itself.
- *Knowledge-transfer critical.* Those employees with specialized knowledge essential to the transfer of ongoing information and know-how.

Investing heavily in pivotal talent can be a source of major competitive advantage. Pivotal talent is comprised of those game-changing employees whose performance can make or break the bottom line. They are those best positioned to add the greatest value and have the greatest impact on the future success of a company.

In their efforts to retain pivotal talent, companies are augmenting salary and incentive discussions with information regarding the shape of the new corporate culture—whether, for example, the new organization will be one of learning and empowerment, or of process discipline.

Bridging cultural differences

Nearly half of the companies attending the M&A and Human Capital Roundtable reported that cultural alignment—bridging the potentially value-destroying cultural differences between acquirer and target—takes a full year to achieve. The necessity for insight into cultural differences is even more crucial when the two organizations are based in different countries.

As a result, companies are focusing heavily on:

- Assessing the cultural compatibility between the target and the acquirer.
- Developing a culture integration roadmap by the first 30 days, or even before close if there is sufficient information about the two organizations' cultural compatibility.
- Holding the C-suite members accountable for sponsoring and leading culture change while at the same time empowering functions and local teams to adapt and deploy culture integration initiatives.

Launching an effective communications plan

Steady and constant communications about the status of the acquisition, and the multiple cultural and other issues that employees will face during and after the integration, can be essential to a satisfactory transition that will result in retaining valuable talent and preventing productivity slowdowns. In an environment already characterized by uncertainty, employees require communications that are regular and accurate, including clarity around the issue of leadership. Failing to do so can lead to misinformation. A solid communications plan is paramount during integration.

Managing people and talent issues during and after mergers and acquisitions comes with its own set of challenges. Failure to properly meet these challenges can result in:

- Loss of employee morale
- Employee exodus
- Stakeholder risk
- Loss of valuable intellectual property
- Continuity concerns
- Diminished deal value

Organizations achieving success in this arena strive to understand and empathize with the emotional and financial impact on employees facing major workplace changes, often including revisions in their roles, geographical relocations, and potential cultural conflicts. Companies frequently engaged in acquisitions for the purposes of gaining new talent also place a high priority on keeping pivotal talent. They provide salary and other incentives robust enough to appeal to those professionals of greatest value to the organization—during the transition, and going forward. Companies successfully employing these strategies can increase their prospects for achieving mergers and acquisitions that bring the intended results, including a post-merger integration that proceeds smoothly from Day One.

Perspective:
Thoughts on deal activity in the first quarter of 2011

The pace of deal activity announced during the first quarter increased significantly in both volume and value from previous years, matching our previous expectations. Two mega-deals, the Rolls-Royce and Daimler joint venture bid for Tognum AG, and the Northrop Grumman spinoff of the Huntington Ingalls shipbuilding business, drove most of the increase in deal value. We also note that the number of deals announced this quarter, regardless of whether a value was disclosed, is the highest quarterly total for this sector in at least 30 years.

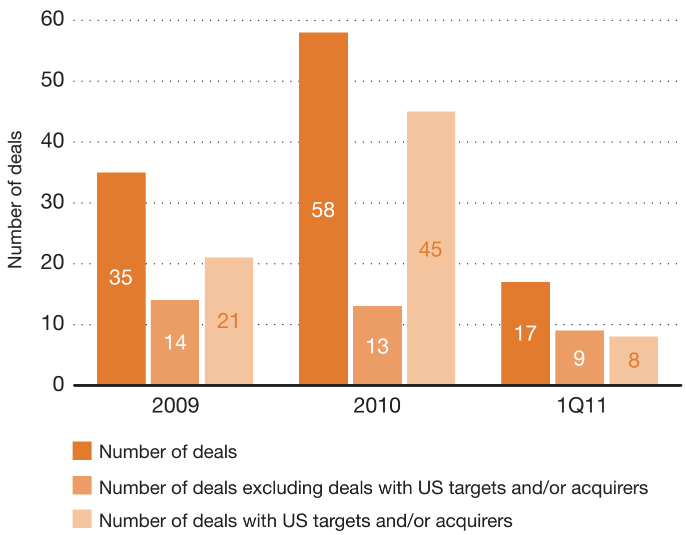
Financial investor purchases continued with divestitures by large corporations and the difficult environment for many smaller defense services companies providing opportunities for private equity. For the quarter, there was a decline in valuations, as measured by value/sales, to almost a 10-year annual low. We suspect that this sharp decline in valuation during the quarter is an anomaly rather than a sustained trend. However, we expect to see downward pressure on defense multiples, while we expect aerospace revenues to rise. In addition, the pace of mega-deals, defined as deals with a disclosed value of at least $1 billion, increased this quarter. We believe that large cash balances and supportive capital markets present the right conditions for a robust amount of mega-deals during the balance of the year.

Cross-border transactions by European acquirers drove several of the quarter's largest deals. Looking ahead, Asian deals will likely continue to grow, driven primarily by deals in China, as that country builds out its commercial aerospace capabilities. Additional attempts to close cross-border transactions similar to the recently announced acquisition of Cirrus Industries by a subsidiary of China Aviation Industry Corporation (AVIC) should also be expected. In addition, cross-border deals for targets in the US remain likely because of the size of the market, along with the advantageous natural currency hedge between production and sales, as the US dollar is the predominant currency in the global A&D market.

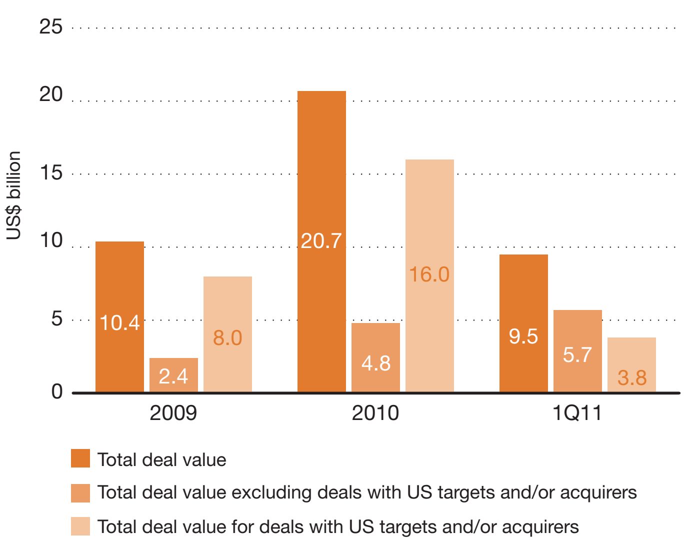
Several factors will likely drive aerospace and defense deal totals higher during upcoming quarters. First, large defense contractors will likely look for consolidation opportunities in the face of declining defense budgets. While consolidation among the large prime contractors is unlikely because of competitive and security reasons, there is opportunity for the defense primes to shift their portfolios toward growth segments such as intelligence, surveillance and reconnaissance (ISR), unmanned vehicles, and cyber-security. It may also be time for consolidation among land systems providers, given the declining tempo of operations overseas combined with declining budgets. Second, we may continue to see spin-offs of lower-growth businesses. Third, medium-size and smaller aerospace companies, including those that are part of diversified industrial companies, may seek to boost shareholder value by capitalizing on the growing aerospace market and strong multiples. Finally, private equity investors will likely remain interested in acquiring and turning around the lower-growth businesses that strategic players divest, and are likely to compete for targets with higher-growth technological capabilities. The combination of these factors supports our bullish outlook for aerospace and defense transactions for the balance of 2011.

Commentary

Deal activity by number of deals
Measured by number of deals worth $50 million or more



Deal activity by total deal value
Measured by value of deals worth $50 million or more



The pace of deal activity in the sector as measured by both number and value of deals has picked up significantly from the annual levels of both 2009 and 2010. In fact, the total number of A&D deals, regardless of value, exceeds quarterly totals dating back to the beginning of 1981. The importance of entities outside the US as drivers of M&A activity has increased. In terms of value, the most noteworthy deal was the $4.4 billion joint bid by Daimler AG and Rolls-Royce Group for engine manufacturer Tognum AG, a transaction that also led to a leap in average deal values for the quarter. The impact of acquirers outside the US was more broad-based in terms of deal volume, with these participants accounting for the majority of deals announced for the quarter.

The overall improvement in deal activity will likely continue. Evolving competition in commercial aerospace and budget headwinds in defense spending, coupled with greater availability of capital, should contribute to more (and incrementally larger) transactions by sector constituents. The relative participation of US entities is likely to return closer to the levels of the previous two years, which is also close to the 5- and 10-year averages of approximately 70%. The abundance of US aerospace and defense companies, the relative size of the US defense budget, and the desire of global competitors to enter this market should support this reversal.

Quarterly aerospace and defense deal activity
Measured by number and value of deals worth $50 million or more (2Q08-1Q11)

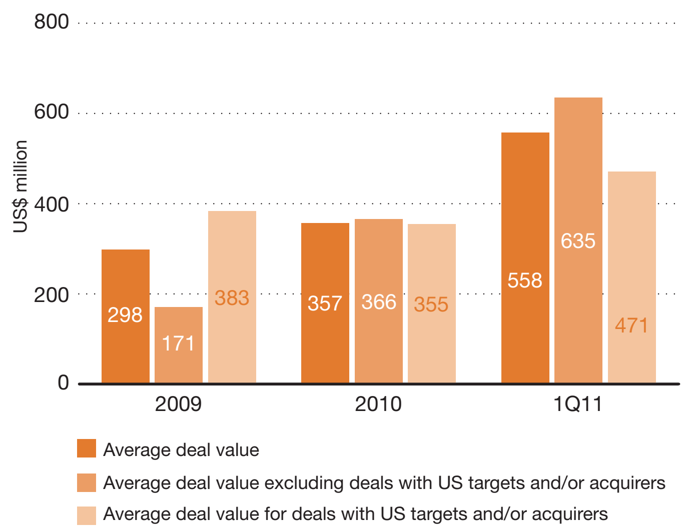
	2008			2009				2010				2011
	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
Number of deals	13	9	5	4	10	11	10	10	13	14	21	17
Total deal value ($ billion)	9.8	5.1	2.6	0.9	2.6	3.8	3.1	5.7	5.2	4.6	5.3	9.5
Average deal value ($ billion)	0.8	0.6	0.5	0.2	0.3	0.3	0.3	0.6	0.4	0.3	0.3	0.6

Moving forward, average deal values are more likely to rise than fall. Consolidation among defense prime contractors is unlikely, but there is a lot of potential for transactions among larger suppliers. It is also noteworthy that despite the increase in average deal value during the first quarter, average values still only slightly exceed the historical norms of the last decade.

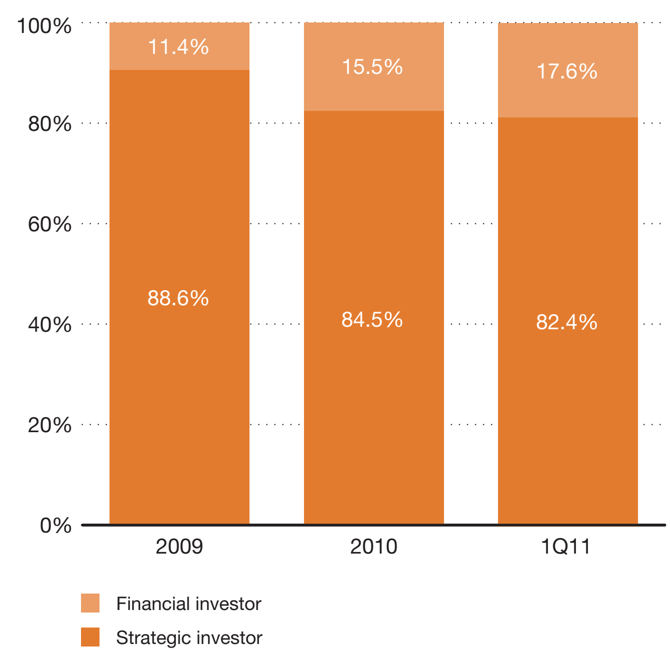
As we previously noted, over the course of 2010 financial investors began a gradual shift from exiting their A&D investments toward more buy-side activity. This trend continued in the first quarter of 2011, with the relative level of financial acquirers continuing to climb back toward historical norms. The primary driver for this ongoing trend is the continued improvement in capital market conditions, which have largely recovered from their post-leverage bubble floor. However, sector-specific drivers, such as the desire of large defense contractors to divest consulting subsidiaries to address conflict of interest rules, have also clearly had an impact in offering acquisition candidates for private equity firms. Those conflict of interest rules contributed to two divestitures to private equity firms — Lockheed Martin's sale of its Enterprise Integration Group to Veritas Capital in October 2010 and Northrop Grumman's sale of TASC to KKR and General Atlantic in November 2009.

We continue to believe that M&A resulting from conflict of interest rules will not persist as a substantial driver of activity since contractors have had time to divest most of the service businesses that could be of concern. However, financial investor activity is more likely to increase than decline. Large defense contractors continue to realign their defense portfolios to focus more on higher-growth businesses such as unmanned vehicles, ISR, and cyber-security. This should provide private equity firms with experience in the sector opportunities to invest in relatively mature, but high cash flow, divestments. In addition, private equity firms should continue to find opportunities to purchase smaller A&D services companies. For example, in early April 2011, Providence Equity Partners announced a $1.9 billion deal for SRA International, which had been looking for a potential acquirer since last fall.

Deal activity by average deal value
Measured by value of deals worth $50 million or more

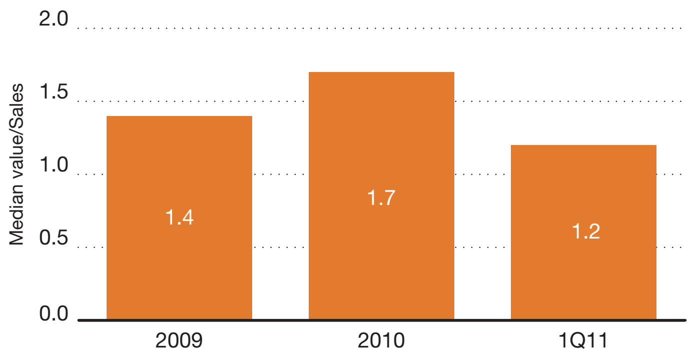


Deals by investor group
Measured by number of deals worth $50 million or more



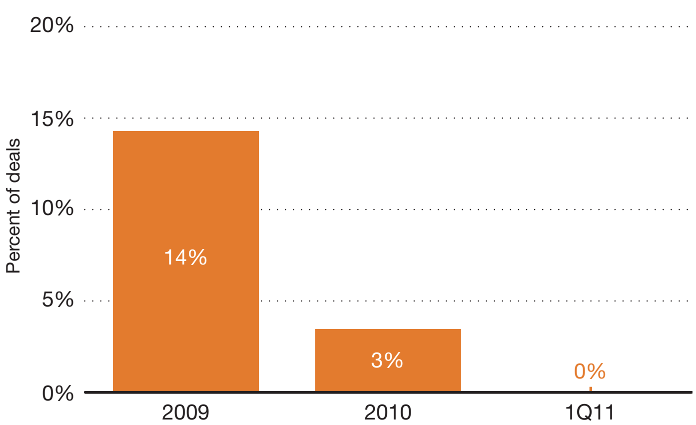
Financial investor % of total deals: 10-year—16.9%; 5-year—17.3%

Deal valuation by median value/sales
Measured by value/sales for deals worth $50 million or more



Historical value/Sales: 10-year median—1.5x; 5-year median—1.7x

Minority stake purchases
Measured by percent of deals worth $50 million or more for less than 50% ownership



Historical minority stake purchases as a percentage of total deals: 10-year—6.3%; 5-year—8.4%

Deal valuation, as measured by the median value/sales, declined for announcements during the first quarter compared with 2010. This was somewhat surprising given the increase in the pace of overall activity and the decline in minority stakes, which are typically associated with a valuation discount compared to controlling-interest transactions. However, the impact of higher sales for many aerospace and defense firms as they emerge from the recent economic downturn may be behind this trend. In this regard, it's interesting to look at deal valuations in 2002, the year following the last US recession. In that year, the median value/sales ratio dropped to a 10-year annual low of 1.2 times. Today, the near-term trend toward lower valuations is unlikely to continue, given that valuations for announcements during the first quarter were near the lower end of the historical value/sales range. The overall aerospace and defense M&A environment is improving and acquirers are showing an increased appetite for controlling-interest transactions. Both of these factors make an increase in multiples more likely over the balance of 2011.

Summary of mega-deals

Mega-deals in 2009 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Target description
Nov	Tasc Inc	United States	TASC Inc SPV	United States	Completed	1.65	Information technology services
Jul	Vought Aircraft Industries Inc-Facility, North Charleston, SC	United States	Boeing Co	United States	Completed	1.00	Aircraft parts, equipment

Mega-deals in 2010 (deals with a disclosed value of at least $1 billion)

Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Target description
Feb	VT Group PLC	United Kingdom	Babcock International Group PLC	United Kingdom	Completed	2.00	Shipbuilding and repairing
Mar	Vought Aircraft Industries Inc	United States	Triumph Group Inc	United States	Completed	1.57	Aircraft parts, equipment
Sep	McKechnie Aerospace	United States	TransDigm Group Inc	United States	Completed	1.27	Aircraft parts, equipment
Sep	L-1 Identity Solutions Inc	United States	Safran SA	France	Pending	1.13	Computer integrated systems design

Mega-deals and large deals in 1Q11 (deals with a disclosed value of at least $250 million)

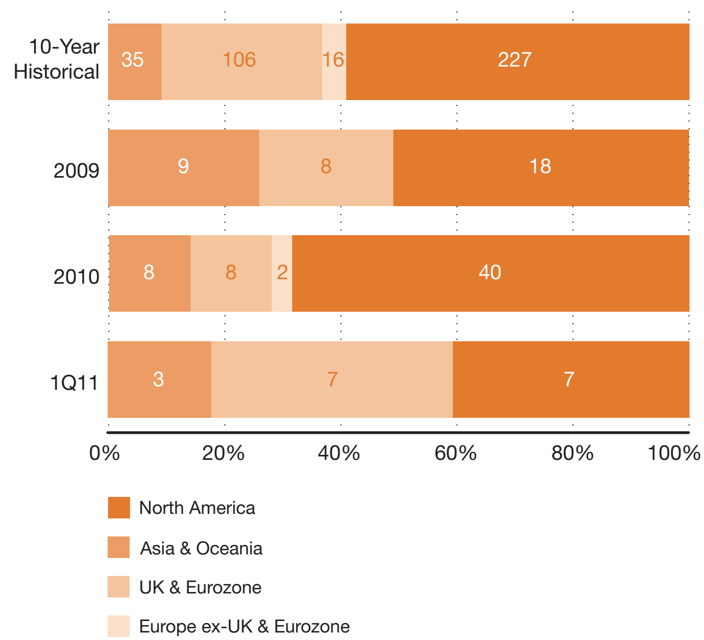
Month announced	Target name	Target nation	Acquirer name	Acquirer nation	Status	Value of transaction in US$ bil.	Target description
Mar	Tognum AG	Germany	Siebte Vermoegensver-Waltungsgesellschaft Zeus mbH	Germany	Intended	4.38	Engines
Jan	Huntington Ingalls Industries Inc	United States	Shareholders	United States	Completed	2.01	Shipbuilding
Jan	Pacific Scientific Aerospace	United States	Meggitt PLC	United Kingdom	Pending	0.69	Electric power products
Mar	Vector Aerospace Corp	Canada	Eurocopter SAS	France	Intended	0.61	Aircraft repair services
Feb	Herley Industries Inc	United States	Lanza Acquisition Co	United States	Completed	0.28	Microwave components
Jan	Norkom Technologies Ltd	Ireland-Rep	BAE Systems (Holdings) Ltd	United Kingdom	Completed	0.25	Internet software

The pace of mega-deal activity so far in 2011 has increased significantly. There were two mega-deal announcements during the first quarter, compared with four in 2010 and two in 2009. The largest mega-deal announcement in the first quarter was the 50-50 joint venture between Daimler and Rolls-Royce Group for Tognum AG, the second-largest global manufacturer of high-speed engines for marine, energy, and defense industries. Daimler already owns a 28% stake in Tognum, which was a wholly owned subsidiary prior to its divestiture several years ago. If the deal closes, Rolls-Royce would likely combine its Bergen diesel and gas engines business (part of its marine unit) with Tognum, with the acquirers benefiting from Tognum's focus on lighter engines. Tognum's executive and supervisory boards have indicated that they consider the offer inadequate. The tender acceptance period is scheduled to expire in mid-May.

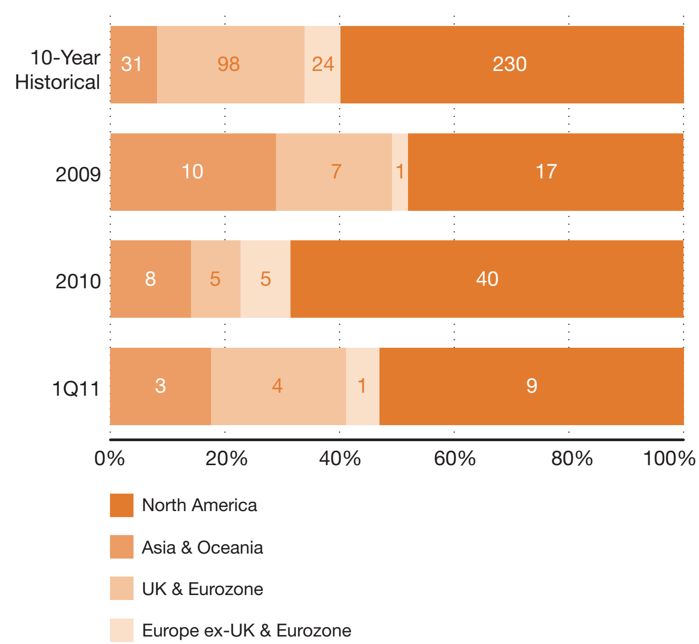
The other mega- and large deals for the quarter were motivated by a variety of strategies. Notably, two of the five deals involved large defense divestitures intended to improve valuations through a focus on higher-growth businesses. These deals were the completion of the Huntington Ingalls Industries spinoff to Northrop Grumman's shareholders, and Danaher's sale of its Pacific Scientific Aerospace business to Meggitt PLC. The Danaher transaction allows the company to focus more on non-A&D industries such as medical technology, life sciences, and diagnostics. The Huntington Ingalls spinoff moves Northrop Grumman out of shipbuilding, a business hurt by modest naval fleet plans. The spin-off of ITT Defense will be a mega-deal that is currently scheduled for the fourth quarter of 2011. Divestitures seem likely to continue to drive large deals in the future, as the process of realigning to reflect new defense spending realities has not fully played out.

The regional distribution and the direction of the flow of money in the A&D sector provide some interesting insights into the strategic motivations of sector constituents. European acquirers became more active during the first quarter, accounting for four of the six mega- and large-deal announcements. Several of these acquirers flexed their muscles globally, with two of these deals for targets outside Europe (Pacific Scientific Aerospace in the US and Vector Aerospace in Canada). Over the longer term, Asia appears likely to become a more significant acquirer. A lot of attention has been focused on Chinese joint venture agreements with Western aerospace suppliers as well as China Aviation Industry Corp.'s February 2011 agreement to acquire Cirrus Industries. The deal will allow AVIC to expand into the general aviation market and gain access to new technology, since Cirrus sells a four-seat aircraft and is developing a small jet. However, several factors could derail this deal, including inability to gain government approvals and a reported potential counter-offer from a US investment group.

Regional distribution of all deals by acquirer region
Measured by number of announced deals worth $50 million or more



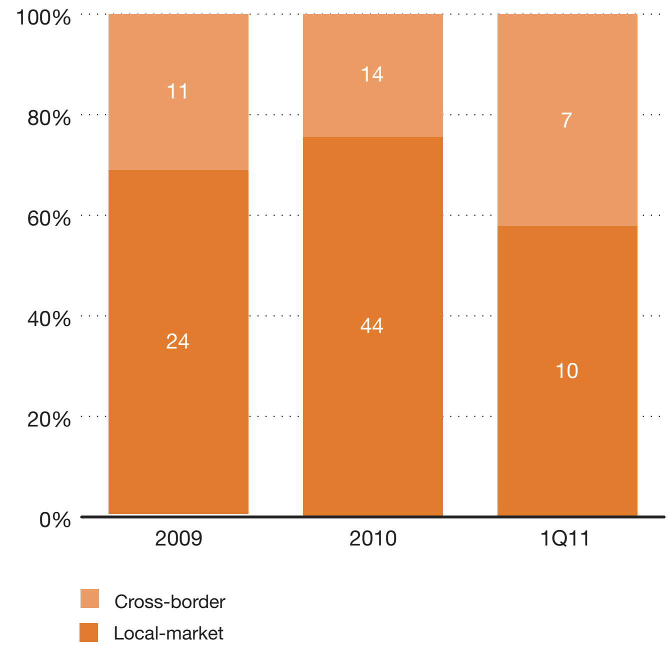
Regional distribution of all deals by target region*
Measured by number of announced deals worth $50 million or more



*10-year historical deals by target region chart does not include one deal for a target in the Africa/Undisclosed region.

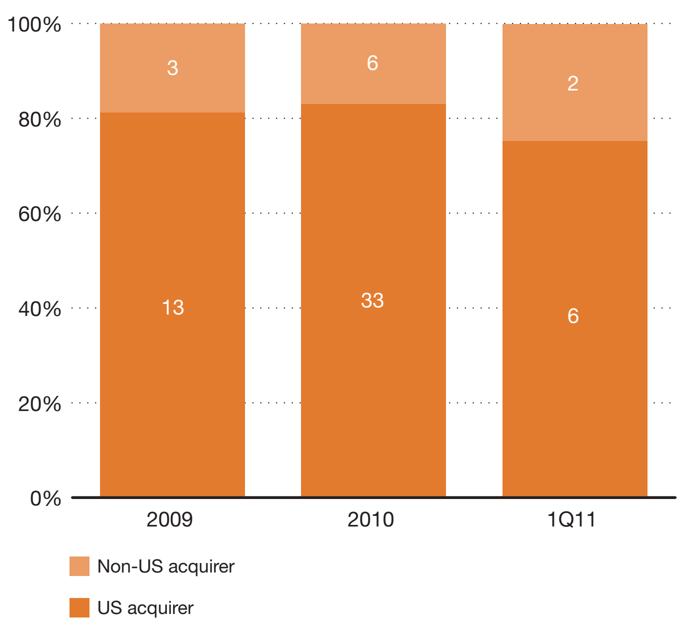
Local-market compared with cross-border deals (all nations)

Measured by number of deals worth $50 million or more



US compared with non-US acquirers of US targets

Measured by number of deals worth $50 million or more



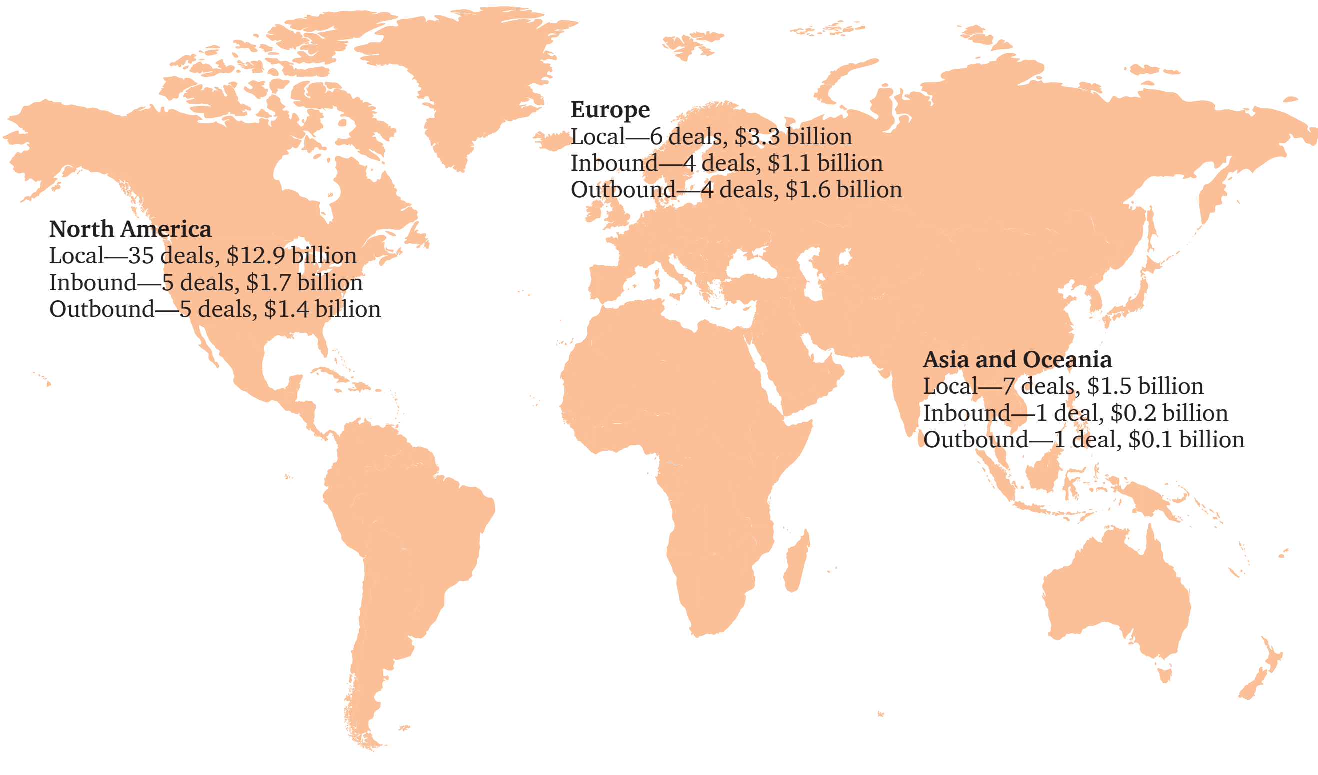
Cross-border deals from China that yield access to new technologies will likely remain a staple of future M&A totals; however, China has also been very active in consolidating its local market. A review of M&A data over the last several years reveals a rapid increase in the number of AVIC acquisitions of local aerospace suppliers. Many of these have escaped attention because of their lack of disclosed values; however, as China builds out its domestic commercial aerospace industry, these deals should remain common and contribute more significantly to M&A totals for both A&D acquirers and targets in the region.

Meanwhile, North American targets, primarily in the US, will provide opportunities to both domestic and foreign acquirers. Domestic acquirers may benefit from the desire of local defense companies to restructure their operations, while foreign acquirers, many of which are bolstered by a general weakening of the US dollar since mid-2010, are likely to be attracted to the overall size of the market.

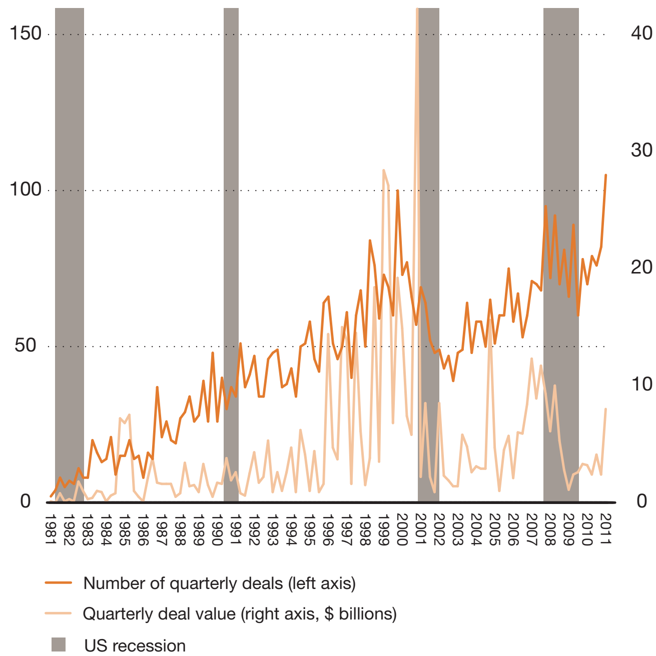
While many factors currently drive cross-border activity, it seems unlikely that the relative number of cross-border deals will increase much beyond the level of the first quarter. The aspirations in several emerging markets to build national aerospace champions, as well as concerns over maintaining a defense industrial base in many developed countries, should provide adequate impetus for local-market transactions over the balance of 2011.

Global aerospace and defense deals in 2010

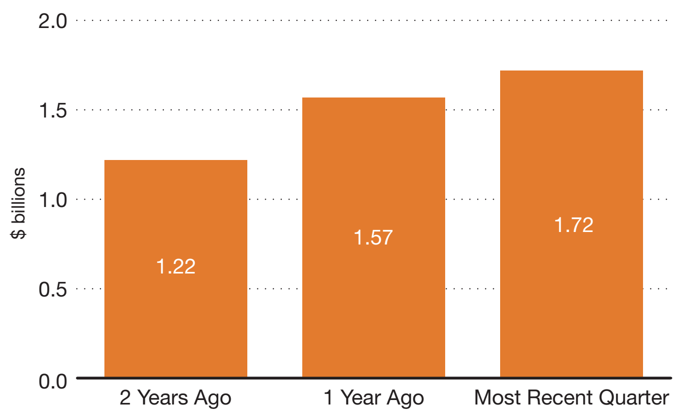
Measured by number and value of deals worth $50 million or more



Historical A&D deals measured quarterly and the business cycle
Measured by number and value of all A&D deals



Sector liquidity
Measured by average of top 50 global public competitors



Source: Company Reports

Historically, the total number and value of aerospace and defense deals has tended to increase during economic expansions. This was likely driven by improved availability of capital to finance deals during these periods. Other factors not directly tied to the business cycle, such as expectations for a prolonged reduction in defense spending, have also contributed to large-scale consolidation. This was the case among US defense prime contractors in the 1990s and led to the large increase in deal value during the decade. While defense companies are using acquisitions to target pockets of growth in light of the overall moribund spending environment, M&A among the largest defense contractors seems unlikely given the consolidated state of these market participants and the desire to maintain a competitive industrial base. This could somewhat restrain the potential growth in aggregate defense deal values during the rest of 2011.

In contrast, commercial aerospace demand is more often associated with the business cycle and is currently benefitting from higher traffic and fuel prices, the latter of which has contributed to demand for newer, more fuel efficient, aircraft. This overall growth will prove attractive to acquirers, particularly new entrants from emerging markets, which will likely continue to use smaller deals to bolster their capabilities. In addition, the significant amount of cash that remains on the balance sheets of the largest players in this sector should readily allow these firms to finance deals. Accordingly, our outlook is that deal values are unlikely to return to their previous historical high but macro-factors continue to indicate a continued recovery in the number and value of sector deals.

PwC spotlight

With M&A activity steadily increasing across the globe, many companies are facing complex talent-management challenges. A number of people issues need to be addressed, including organizational design, integration planning, and the cultural fit between the acquirer and the target.

M&A transactions often fail to achieve their desired results for a variety of reasons. Companies can greatly enhance the success of their deals by properly understanding, addressing, and resolving important concerns related to these issues during the due diligence stage.

How PwC can help

PwC's People and Change (P&C) practice supports clients by using interviews and surveys to conduct cultural assessments to help identify critical issues during merger integration.

PwC helps companies:

- Use a culture tool that assesses the operational norms of the organizations coming together and identifies how they might affect the integration. The goal is to map the differences between the operating styles, cultural drivers, and HR policies and practices of the companies to give the acquirer a clear picture of the size of the gulf between the organizations and decrease any cultural roadblocks to integration progress.
- Hold workshops with each organization's senior teams and agree on an integration culture, a process that helps the teams learn to respect each other's differences and to start to speak the same language.
- Build an elite integration team, relocating star performers from their usual roles to work with leadership and an effective integration management office—companies can no longer afford to choose members of their integration teams based solely on availability.
- Execute a strong, clear communications strategy by providing the right communications at the right time, and accounting for different levels of employee understanding of the changes. Steady communication is vital, even when there is no major news to announce, as a critical element in combating the distractions and anxiety that result from an integration effort.
- Determine whether there are likely to be any significant employee-related costs.

Organizations considering a merger or acquisition should devote appropriate time and resources to merging the companies' cultures, HR policies and processes, and organizational reporting relationships. PwC's disciplined approach to delivering people integration helps companies achieve early wins, build momentum, and instill confidence among stakeholders. PwC takes a proactive approach to helping clients focus on the right things at the right times, thereby enhancing the value of the deal.

PwC's integration processes support client integration teams and supplement them with experienced professionals who fill resource and technical gaps as needed.

A&D company case study: An A&D company buys a portion of another firm in bankruptcy

The people side of M&A

The people aspects of merger integration cannot be handled in a silo, away from the rest of the effort. Human capital issues are critical to every workstream and must be coordinated and managed with the same focus and discipline as issues of finance, operations, or information technology.

Issue	A large aerospace and defense company acquired some of the assets and intellectual property of a competitor, which had recently filed for bankruptcy protection. The deal enabled the buyer to access new services and increase capabilities in the areas of talent, knowledge, and resources. The acquisition also brought numerous challenges. The incoming workforce had experienced significant upheaval and was accustomed to a very different culture than the one at the acquiring firm. Procedures and requirements related to communications, risks, regulations, and operations varied markedly between the two firms.
Action	PwC developed a strategy for connecting with both workforces, focusing on a seamless transition for every employee. We: • Interviewed alumni of the target and used their feedback to design a communications strategy • Developed pre-joining, on-boarding, and 100-day transition strategies for all joiners • Developed a multimedia campaign to keep all stakeholders informed about the change • Conducted vigorous outreach, including one-on-one meetings, with incoming leaders • Created micro-sites for joiners, placing all of the information they were likely to need as new employees at their fingertips
Impact	As existing employees put themselves in the shoes of the joiners, they were able to anticipate what their new colleagues would need and want. As a result, the most difficult stakeholder issues were resolved before Day One. • A high-impact launch event helped educate joiners and facilitate a smooth transition • New employees were able to maintain their focus on existing customer relationships • A joint go-to-market strategy delivered early wins and set the stage for longer-term success

PwC's aerospace and defense experience

Deep aerospace and defense experience

PwC's A&D practice is a global network of 1,200 partners and client service professionals who provide industry-focused assurance, tax, and advisory services to leading A&D companies around the world. This A&D experience is enhanced by our Public Services practice, which includes an additional 600 partners and 9,000 professionals focused on assisting federal, state, and local governments, international agencies, and healthcare entities. We help A&D companies address the full spectrum of industry-specific challenges across areas such as assurance, tax, operational improvement, supply chain management, program management effectiveness, IT effectiveness and security, compliance, export control, and government contracting. PwC's A&D client service professionals are committed — both individually and as a team — to the relentless pursuit of excellence, building insights, and advancing leadership on a wide range of the most critical challenges and issues confronting A&D organizations. PwC is a sponsor of leading industry conferences and frequently writes articles for, or is quoted in, leading industry publications. We are proud of our relationships with Aviation Week and Flight International as well our participation in industry conferences and associations, such as the Aerospace Industries Association and American Conference Institute. Our involvement in these organizations reflects our commitment to addressing industry needs and the furthering of dialogue with A&D industry leaders.

Quality deal professionals

PwC's Transaction Services practice, with approximately 6,500 dedicated deal professionals worldwide, has the right industry and functional experience to advise you on all factors that could affect a transaction, including market, financial accounting, tax, human resources, operating, information technology, and supply chain considerations. Teamed with our A&D practice, our deal professionals can bring a unique perspective to your transaction, addressing it from a technical as well as industry point of view.

Local coverage, global connection

In addition to the 1,200 professionals who serve the A&D industry, our team is part of an extensive Industrial Products group that consists of more than 32,000 professionals, including approximately 17,000 providing assurance services, 8,300 providing tax services, and 7,000 providing advisory services. This expands our global footprint and enables us to concentrate efforts in bringing clients a greater depth of talent, resources, and expertise in the most effective and timely way.

Contacts

PwC's global Aerospace and Defense practice

PwC's A&D practice provides industry-focused assurance, tax, and advisory services. Through our global network, we can draw upon the in-depth industry experience of professionals in every country where your company operates. Our people can help you deal with the challenges of today, and they understand the implications for tomorrow.

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Methodology

Mission control is an analysis of mergers and acquisitions in the global aerospace and defense industry. Information was sourced from Thomson Reuters and includes deals for which targets or acquirers have primary SIC codes that fall into one of the following SIC industry groups: 1) ordnance and accessories, except vehicles and guided missiles; 2) aircraft and parts; 3) national security; 4) guided missiles, space vehicles, and parts; 5) search, detection, navigation, guidance, aeronautical and nautical systems, and instruments and equipment (SDNGN&NS, I&E); and 6) space research and technology.

This analysis includes all individual mergers and acquisitions for disclosed or undisclosed values, leveraged buyouts, privatizations, minority stake purchases, and acquisitions of remaining interest announced between April 1, 2008 and March 31, 2011, with a deal status of completed, intended, partially completed, pending, pending regulatory approval, unconditional (i.e., initial conditions set forth by the acquirer have been met but deal has not been completed), or withdrawn. The term *deals*, when referenced herein, is used interchangeably with *transactions* and *announcements*. Unless otherwise noted, the term *deals* refers to all deals with a disclosed value of at least $50 million.

Regional categories used in this report approximate United Nations (UN) Regional Groups as determined by the UN Statistics Division, with the exception of the North America region (includes North America and Latin and Caribbean UN groups), the Asia and Oceania region (includes Asia and Oceania UN groups), and Europe (divided into United Kingdom plus Eurozone and Europe ex-UK and Eurozone regions). The Eurozone includes Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, and Spain. Oceania includes Australia, New Zealand, Melanesia, Micronesia, and Polynesia. Overseas territories were included in the region of the parent country. China, when referenced separately, includes Hong Kong.

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