

2022 Year-End Sector Report: Aerospace & Defense

2022 Year-end update

The number of Aerospace & Defense (A&D) deals launched to market slowed in the second half of 2022, which coincided with growing global recession fears. However, improving fundamentals and industry-specific tailwinds helped create an encouraging mergers and acquisitions (M&A) market for many A&D businesses.

In the commercial aerospace sector, pilot shortages, strained supply chains and pent-up consumer demand has expanded backlogs and pipelines from OEMs through Tier 3 and 4 suppliers. Reverberating throughout the entire industry, a delay with one supplier ripples through the entire ecosystem. Boeing noted that while the demand for its airplanes remains strong, its ability to manufacture and deliver planes continues to be negatively impacted. Despite slower delivery times to customers, middle market A&D suppliers are propped up with strong end-demand, and are continuing to attract meaningful interest from buyers, particularly with fewer deals coming to market.

For the defense sector, increased geopolitical tensions surrounding Ukraine and Taiwan have fueled government military budgets. In the U.S. specifically, Congress is poised to pass a roughly \$857 billion defense budget, with other U.S. allies expected to grow their defense budgets as well. Not to be outdone, China and Russia are also expanding their defense budgets in kind. These countries are placing emphasis on next generation technologies, including hypersonic missiles, upgrading nuclear arsenals and support infrastructure and expanding air and naval fleets. Many middle market defense companies are securing long-term government contracts based on these expanding government budgets, which creates significant attention from buyers during a transaction process.

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