ENGINEERING in AEROSPACE & AUTOMOTIVE

Trends and strategies for mergers & acquisitions
Industry outlook for engineering service providers

In 2008 und 2009, the branch of the engineering service provider had to bear the strongest decline in its history. However, as quickly as this decline came, the comeback occurred as well. The current business of the engineering companies is in many cases affected by resource shortages and non-grantable customer requests. The whole branch has gained momentum and has changed its face.

One of the features that most clearly show the dramatic changes in this branch, is the huge increase in company transactions in the branch of engineering service providers. Particularly in the field of automotive and aerospace, the consolidation and concentration are fully in progress. In this brochure we would like to give you a short market overview and an estimation of the M&A transactions.

In comparison to 2009, the German automotive industry noted a record year in 2010 with turnovers of 317 bn EUR and a growth in sales of 20%. Thus, VW will soon be the largest automotive manufacturer in the world – and it is already today one of the major clients for external engineering services worldwide. The aerospace sector also achieved a peak value and realized a turnover of 24.7 bn EUR. For 2011, further records are expected for both branches.

Due to more complex technologies and developments as well as the current cost pressure in the branches, more and more engineering services are contracted to external service providers. In addition to the cost savings, the producers expect more flexibility and a wider knowledge base in the development as a result of the outsourcing.

The long-lasting trend of outsourcing made sure that the number of engineering service providers increased steadily before the crisis. During the crisis the budgets of the automotive and aerospace companies were shortened in all areas, causing the turnover in associated branches to decrease as well. Therefore, a pressure of consolidation arose and led to many company takeovers.

In line with the recovery of the automotive and aerospace industries after the financial crisis, the development budgets also increased. It is expected that the turnovers of the global engineering service provider will have more than doubled until 2020 with an annual growth of 7.6%. Due to engineering service providers from foreign countries, cost pressure has increased enormously despite these good prospects. More and more producers switch over to near and off shoring. Strong competitions come particularly from India and Eastern Europe, providing brilliant technical qualifications and nearly inexhaustible engineering resources as well as an excellent financial capital backing.

Expenditures for engineering service providers in the field of aerospace and automotive

![Expenditures for engineering service providers in the field of aerospace and automotive](image-url)
Furthermore, those topics are regarded as unsuitable for near and off shoring, which concern core competencies of the German client industries, particularly in the field of fundamental new development and complex technologies (Lünendonk user study 2011). As a consequence thereof, many engineering service providers from these countries are active on the buyer side in Germany. To gain market access to European automotive and aerospace industries, these companies are in many cases willing to pay strategic prices for the target companies.

Contrariwise, German suppliers are also searching for acquisition opportunities in Eastern Europe or Asia not only to offer a widespread service portfolio at competitive prices but also to measure up to the increasing globalization of development and production plants of their customers.

Besides the regional presence, special competencies and know-how are gaining importance. Competence in technology is one of the most important selection criteria for engineering service providers (Lünendonk user study 2011). These special competencies can often be found at small niche suppliers, which are more flexible and faster to pick up new trends. Nowadays, conglomerates and huge market participants often buy their technologies by means of company transactions to avoid bearing the costs and the risk of the research. Therefore, particularly smaller niche suppliers are promising target companies.

However, “big is beautiful” also applies to the engineering market. The big manufacturers require larger and larger service portfolios, which confronts particularly small companies with problems. The number of suppliers will be reduced. This generates further pressure for concentration and consolidation. In return, the large engineering companies try to reduce the dependency of a conglomerate or the business cycle of a specific industry by diversification and by having a widespread service portfolio. Thus, they are better able to respond to the pressure of price reduction. By means of a diversified portfolio in several branches, a steady planning should be achievable. For this reason, many companies in this branch are currently searching for suitable target companies to purchase further services and to offer them by themselves.

„Discussions with development departments of automotive producers point out that the local presence in the development hardly loose its importance. The proportion of stationary workstations is traditionally on a high level in comparison to other company departments, which are provided increasingly often with notebooks. “

Lünendonk user study 2011 „Zukunft der Ingenieursdienstleistungen in Deutschland“ [“Future of engineering services in Germany”]

„The strategic fixing of core competencies, depth of in-house activity and external partners will be the key to a successful engineering service provider-business model.”

Oliver Wyman „Spurwechsel erforderlich“ [“Lane change necessary”]
Global concentration process

Typical targets:
- Global completeness
- Service provision in the US$-environment
- NAFTA-market access

Typical targets:
- Suppliers of off-shoring services
- Local content/Local knowledge
- Completion of the range of products

Typical targets:
- Technology/innovation leaders
- Market access in Europe

Typical targets:
- Niche suppliers with high technology competence
- Companies with attractive customer structure/OEM access

Cause of sale of German companies:
- Currently attractive valuation
- Formation of strategic alliances
- Globalization

Cause of purchase of German companies:
- Market access
- Cost structures
- Expansions
The convergence of the markets is becoming to be more and more visible in many fields of the engineering service providers. It is increasingly important to offer complete service portfolio to be able to implement more complex and networked systems and solutions. Nowadays, interdisciplinary cooperation and approaches are an important condition to act successfully in the market as an engineering service provider. In this context, there are many activities of market participants to additionally buy expertise in neighbouring topics. It is also possible to see this trend in our own M&A business, where we get more and more buyer requests for neighbouring segments.

Exemplary transactions in a large variety of branches:

<table>
<thead>
<tr>
<th>Branch</th>
<th>Date</th>
<th>Target</th>
<th>Buyer</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certification</td>
<td>25.03.2010</td>
<td>ÅF-KontrollAB</td>
<td>Dekra SE</td>
<td>With the acquisition of ÅF-Kontroll, Dekra developed especially in Scandinavia and Eastern Europe the business of inspection and certification in the field of power plants.</td>
</tr>
<tr>
<td>IT</td>
<td>22.12.2010</td>
<td>FUNA International GmbH</td>
<td>L-3 Communications Inc.</td>
<td>The specialist for entertainment, control and security systems for cruise ships and luxury yachts, FUNA International, expands the business portfolio of the US communication and security group L-3 Communications.</td>
</tr>
<tr>
<td>Production</td>
<td>05.01.2011</td>
<td>Assembly &amp; Test Worldwide Inc (business units USA and Germany)</td>
<td>ATS Automation Tooling Systems Inc.</td>
<td>Due to the purchase of the German and the American business units of Assembly &amp; Test Worldwide Inc., the Canadian company ATS Automation Tooling Systems Inc. increases its expertise in the automotive industry and gains access to new automotive clients.</td>
</tr>
<tr>
<td>Engineering</td>
<td>01.07.2011</td>
<td>ELAN GmbH</td>
<td>Ausy SA</td>
<td>Due to the acquisition of ELAN GmbH, the Ausy group is able to offer widespread services in Germany to EADS as well as to act more dominant against EADS as a bigger supplier.</td>
</tr>
<tr>
<td>Training</td>
<td>28.12.2010</td>
<td>RAG Bildung GmbH</td>
<td>TÜV Nord AG</td>
<td>With the acquisition of RAG Bildung GmbH group and its 40 educational centres, TÜV Nord AG expanded its business activity besides the classic technical certification organization into the education branch.</td>
</tr>
<tr>
<td>Testing</td>
<td>16.08.2011</td>
<td>Chilworth Technology Ltd</td>
<td>Dekra SE</td>
<td>Dekra SE expanded due to the transaction in the field of explosion control and process security services.</td>
</tr>
</tbody>
</table>
## Company transaction with German involvement in 2011

<table>
<thead>
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<th>Date</th>
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</tr>
</thead>
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<tr>
<td>15.01.2011</td>
<td>BST Bishop Steering Technology Ltd</td>
<td>GMH Stahlverarbeitungs GmbH</td>
<td>As of 15.01.2011 on, GMH took over BST. BST is one of the worldwide leading engineering offices for automotive steering systems and other components for the automotive industry. GMH strengthens and amends its development, product and service portfolio.</td>
</tr>
<tr>
<td>31.01.2011</td>
<td>Berner &amp; Mattner Systemtechnik GmbH</td>
<td>Assystem SA</td>
<td>On 31.01.2011, Assystem SA took over the German engineering service provider Berner &amp; Mattner. The target company is specialized in development and testing of complex electronic systems.</td>
</tr>
<tr>
<td>10.02.2011</td>
<td>Aerotech Peissenberg GmbH &amp; Co. KG</td>
<td>MT Aerospace Holding GmbH</td>
<td>On 10.02.2011 it was announced that MT Aerospace Holding GmbH took over Aerotech Peissenberg GmbH &amp; Co. KG. Peissenberg is a supplier and engineering partner of many driving gear producers.</td>
</tr>
<tr>
<td>14.02.2011</td>
<td>Teraport GmbH</td>
<td>Breilmann AG</td>
<td>Teraport is specialized on the digital prototype construction and ranks amongst others BMW, Daimler and VW as its clients. Breilmann AG is a owner managed engineering and consultancy company with focus on logistics. Breilmann wants to enlarge its product portfolio.</td>
</tr>
<tr>
<td>01.04.2011</td>
<td>encad Ingenieurgesellschaft mbH</td>
<td>euro engineering AG</td>
<td>With the fusion on 01.04.2011, encad Ingenieurgesellschaft mbH was integrated with 100% into euro engineering AG. Since 2004, Encad was already a subsidiary of euro engineering. Euro engineering is part of the DIS group, which is a subsidiary of Adecco and an engineering service provider for automotive, machine construction as well as electro technology. Encad is active in Bavaria as an engineering service provider for machine and plant construction as well as power plant and environment technology.</td>
</tr>
<tr>
<td>01.04.2011</td>
<td>Atena Engineering GmbH</td>
<td>Assystem Aerospace Germany GmbH</td>
<td>The two German subsidiaries of Assystem SA, Atena Engineering GmbH and Assystem Aerospace Germany GmbH merged to a common company.</td>
</tr>
<tr>
<td>07.04.2011</td>
<td>Proceda Modellbau GmbH</td>
<td>Daimler AG</td>
<td>Proceda Modellbau GmbH is active in the field of construction, development and model building for the industry.</td>
</tr>
<tr>
<td>14.04.2011</td>
<td>KWI Engineers GmbH</td>
<td>IPRO Dresden Planungs- und Ingenieur-AG</td>
<td>IPRO bought the majority of KWI. KWI is a multi disciplinary and international acting planning and consulting company. Its clients are industry and business as well as public customers. IPRO expands its foreign activities with this acquisition.</td>
</tr>
<tr>
<td>01.07.2011</td>
<td>ELAN GmbH</td>
<td>Ausy S.A.</td>
<td>Ausy is a technology service provider in the high-tech sector and software development. One of the most important clients is Airbus. Elan is one of the biggest German engineering companies in the aviation sector. Elan GmbH was part of the EDAG Group.</td>
</tr>
</tbody>
</table>

### Selected transactions in the engineering sector in 2011

Sources: M&A Review, Majunke Report, Mergermarket, own researches Angermann M&A International GmbH
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Together with our partners we offer you a unique and worldwide expertise in transactions in the engineering sector. Currently, we are consulting more than 50 transactions in the engineering sector worldwide, thereof a multitude of buy side mandates with focus on the German-speaking region.

A strong team of engineering experts of Angermann

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Stefan Eggers  
Consultant  
Expert in Technology M&A
More than 500 professionals in 64 offices and in 41 countries

Europe
Belgium, Bulgaria, Denmark, Germany, Estonia, Finland, France, Great Britain, Ireland, Italy, Latvia, Lithuania, Netherlands, Norway, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Czech Republic, Turkey, Ukraine, Hungary

America
Canada, Mexico, USA (Atlanta, Baltimore, Barrington, Boston, Chicago, Cleveland, Dallas, Jacksonville, Los Angeles, Miami, Newport Beach, New York, Philadelphia, Richmond, Seattle, Silicon Valley) as well as Argentina, Brazil, Chile

Africa
South Africa, Tunisia

Asia and Pacific
Australia, China, Hong Kong, India, Israel, Japan, Mongolia, Saudi Arabia, Singapore, Thailand, Central Asia
Case Studies

- **Target:** Gesab AB
- **Project type:** Sell side mandate
- **Country:** Sweden/Finland
- **Business area:** Construction and engineering service

**Brief description:**
The Swedish M&A International team of Avantus was exclusively entrusted with the search for a buyer for Gesab AB. By this sale, Gesab should be enabled as part of a major development and construction group to execute more comprehensive and more complex constructions respectively developments as well as to expand the customer base and the range of services. With the Etteplan group they found a buyer who could strengthen its position as a supplier for the automotive and aerospace industries within its growth strategy in Scandinavia with the acquisition of Gesab and who develops Gesab AB as an independent entity within the group.

- **Target:** Sigma Concurrand Engineering GmbH
- **Project type:** Sell side mandate
- **Country:** Germany
- **Business area:** Industry and capital goods, aerospace

**Brief description:**
Angermann was authorized to search a buyer within the aerospace or automotive supplier industry. As Airbus Industries requires a minimum turnover of its suppliers, the aim was to merge Sigma into a major entity. So far, the buyer (EDAG) had been concentrated on the automotive industry and was interested in the aerospace expansion. For this reason, this deal was a win-win situation for both parties.
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