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Exploring new horizons Together

Private Equity firms and the Defence industry

Background and
perspectives on the global
and French markets

June 2021

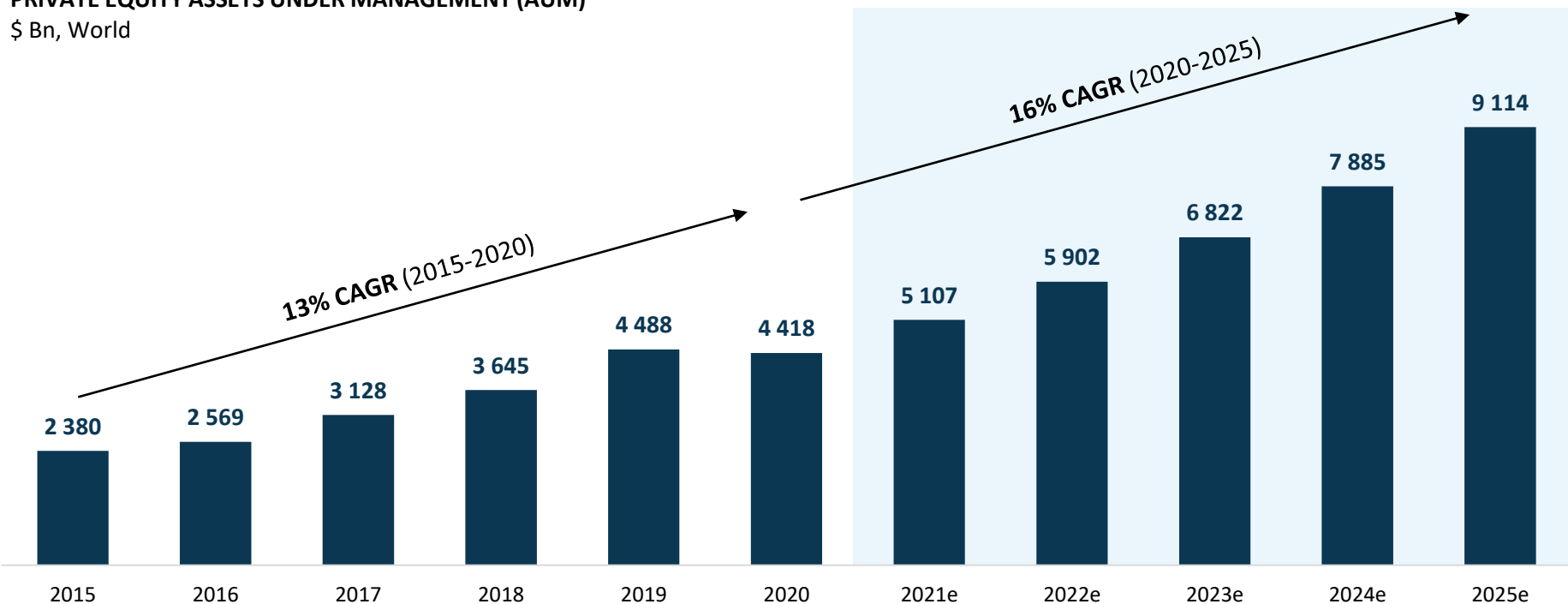


PRIVATE EQUITY ASSETS UNDER MANAGEMENT ARE EXPECTED TO TOP \$ 9 TN BY 2025, PROPELLED BY FAVOURABLE CENTRAL BANK POLICIES AND INVESTORS' SEARCH FOR YIELD

Low and negative interest rates coupled with unconventional monetary policies have supported the attractiveness of alternative investments and eased LBO financing. A long-term return of inflation could result in the opposite effect

PRIVATE EQUITY ASSETS UNDER MANAGEMENT (AUM)

\$ Bn, World



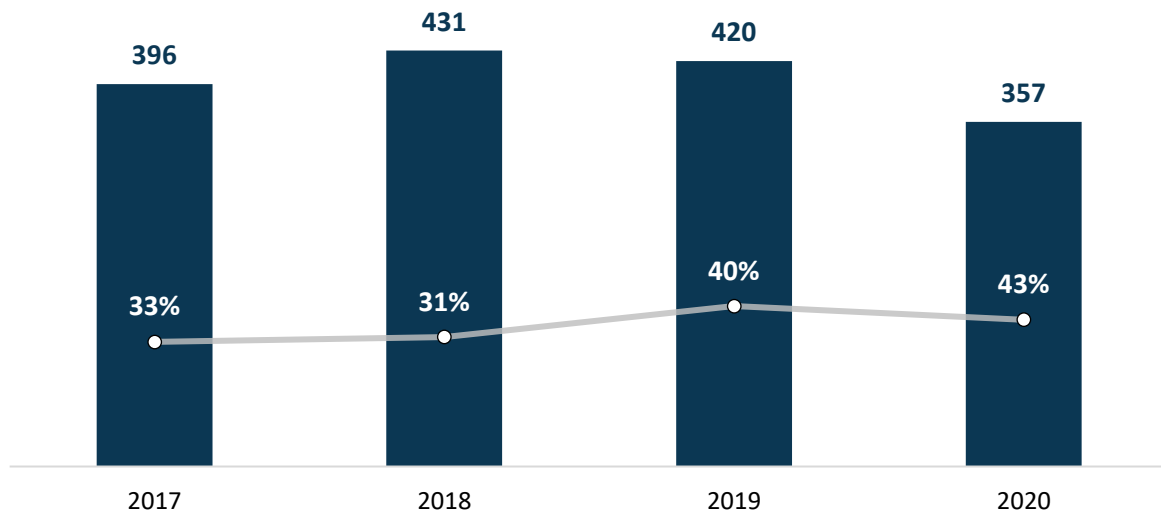
PRIVATE EQUITY FIRMS ARE INCREASINGLY ACTIVE IN A&D M&A TRANSACTIONS AND ACCOUNTED FOR 43% OF TOTAL SECTOR ACQUISITIONS IN 2020

PE buyers also contributed to the M&A recovery in Q1 2021 (48% of transactions volume), seizing the opportunities created by the COVID-induced reorganisation of companies' activities portfolio as well as the decrease in valuations

VOLUME OF M&A TRANSACTIONS IN THE A&D INDUSTRY AND MARKET SHARE OF PE BUYERS

Worldwide

■ Total M&A transactions (volume) —○— % of deals featuring a Private Equity buyer

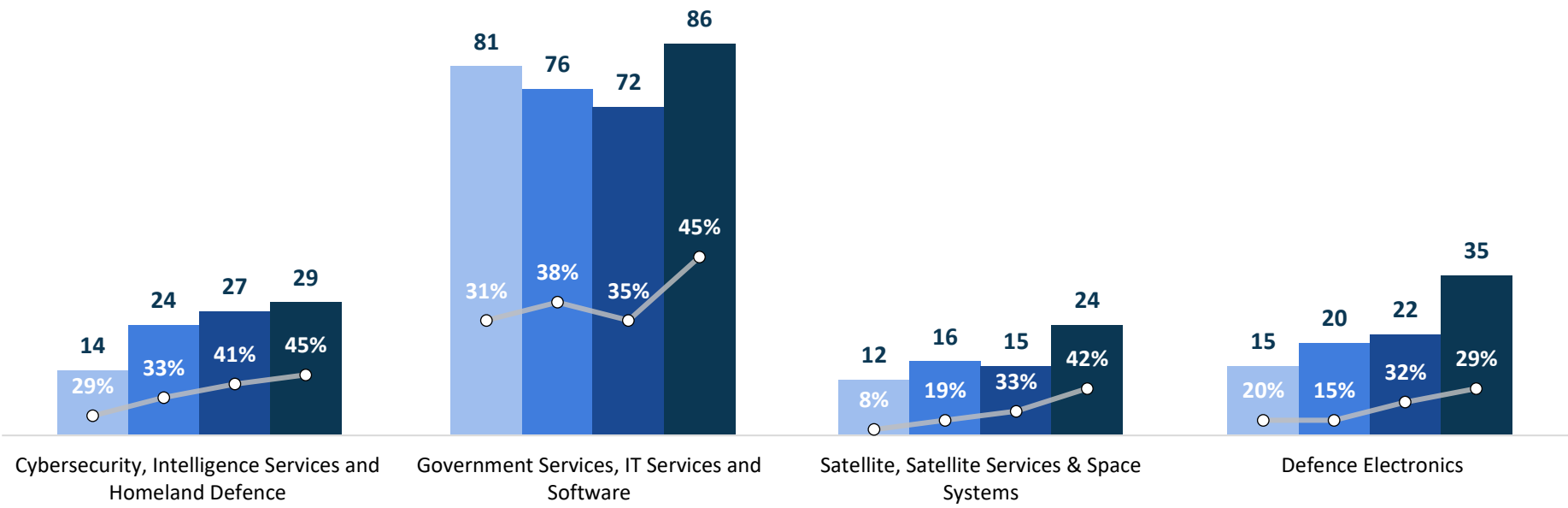


TOP PRIVATE EQUITY BUYERS (2017-2020)	
Company	A&D acquisitions
AE Industrial Partners	26
Arlington Capital Partners	21
The Carlyle Group	16
The Jordan Co.	9
Acorn Growth Cos.	7
Veritas Capital	7
Enlightenment Capital	7
J.F. Lehman & Co.	7
Warburg Pincus	6
KKR	6

PRIVATE EQUITY FIRMS HAVE A STRONG APPETITE FOR FAST GROWING SEGMENTS SUCH AS CYBERSECURITY AND SATELLITE & SPACE SYSTEMS

VOLUME OF M&A TRANSACTIONS IN THE A&D INDUSTRY FOR SELECTED SEGMENTS AND MARKET SHARE OF PE BUYERS
Worldwide

■ 2017 ■ 2018 ■ 2019 ■ 2020 —○— % of deals featuring a Private Equity buyer



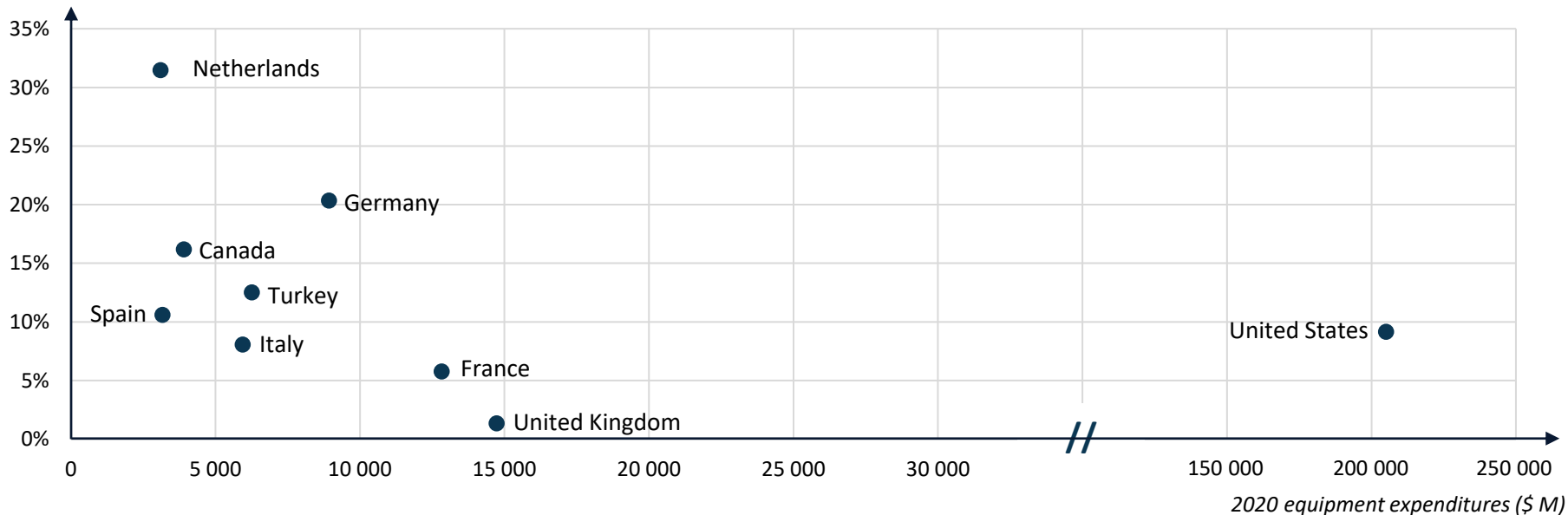
IN A CONTEXT OF RISING GEOPOLITICAL TENSIONS, THE ATTRACTIVENESS OF THE DEFENCE SECTOR IS SUPPORTED BY THE INCREASE IN MILITARY EQUIPMENT EXPENDITURE

The growth of equipment expenditure is supported by the renewal of platforms (land-based vehicles, fighter jets, naval platforms...) and the integration of technologies from the civil sector into defence systems (Cybersecurity, AI...)

MILITARY EQUIPMENT EXPENDITURE EVOLUTION

Selected NATO countries

Equipment expenditures 2017-2020 CAGR (%)



DEFENCE ACTIVITIES ARE ALSO A VALUABLE BUFFER TO COPE WITH THE CYCLICALITY OF COMMERCIAL AEROSPACE AND BOOST COMPANIES' RESILIENCE DURING CRISIS

All along the aerospace value chain, defence activities tended to overperform compared to civil ones in 2020, especially in the US where the government intensified its support through rising military spending

Y.O.Y. EVOLUTION OF CIVIL AND DEFENCE SALES FOR SELECTED PLAYERS OF THE AEROSPACE VALUE CHAIN

2019-2020

		CIVIL ACTIVITIES	DEFENCE ACTIVITIES
Aircraft OEMs	AIRBUS	↓ 37%	↓ 4%
	BOEING	↓ 50%	↑ 1%
Engine OEMs	GENERAL ELECTRIC AVIATION	↓ 37%	↑ 4%
	PRATT & WHITNEY	↓ 32%	↑ 14%
	ROLLS-ROYCE	↓ 31%	↑ 4%
Aerostructures & Components	TRIUMPH GROUP	↓ 44%	↑ 25%
	SPIRIT AEROSYSTEMS	↓ 62%	↑ 30%

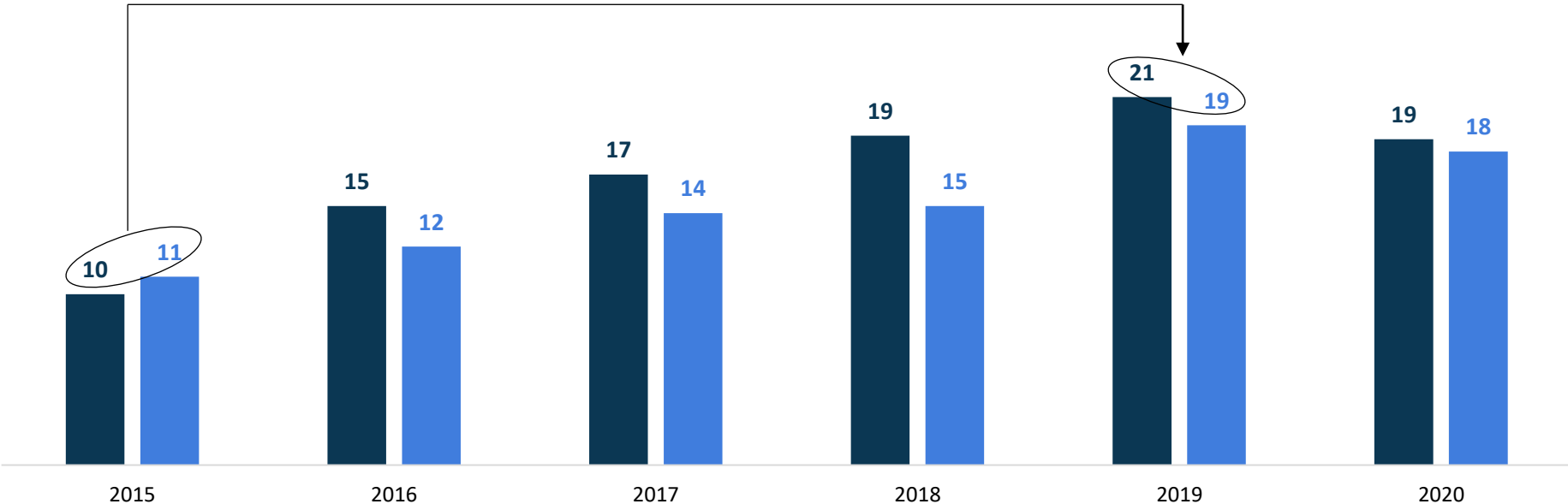
FRANCE IS NO EXCEPTION TO THE GLOBAL MACRO TREND: BOTH THE MONEY RAISED AND INVESTED ANNUALLY BY PE FIRMS VIRTUALLY DOUBLED BETWEEN 2015 AND 2019

The gap between the money raised and invested contributed to the accumulation of dry powder that currently amounts to c. € 20 Bn. COVID-19 only had a limited impact on annual fundraising and investments in 2020

ANNUAL FUNDRAISING AND INVESTMENTS OF FRENCH PRIVATE EQUITY FIRMS

€ Bn

■ Money raised ■ Money invested



IF THE SET UP OF DEFINVEST TO SPUR VC FIRMS' INTEREST FOR DEFENCE START-UPS IS BEARING FRUIT, PE FIRMS' APPETITE FOR MORE MATURE COMPANIES HAS REMAINED LIMITED SO FAR

The attractiveness of mature defence companies might benefit from the rolling out of several defence programmes at European level (SCAF, MGCS...) that could come with new build-up opportunities

SELECTED DEFENCE M&A TRANSACTIONS AND FUND RAISING INVOLVING PE FIRMS IN FRANCE

Defence companies for which latest deal occurred during the 2017-2021 period (not exhaustive)

● Cybersecurity ● Quantum Computing ● Satellite & New space ● Optics, lasers, CBRN detection/treatment ● Drones ● Naval ● Semiconductors ● Others⁽¹⁾

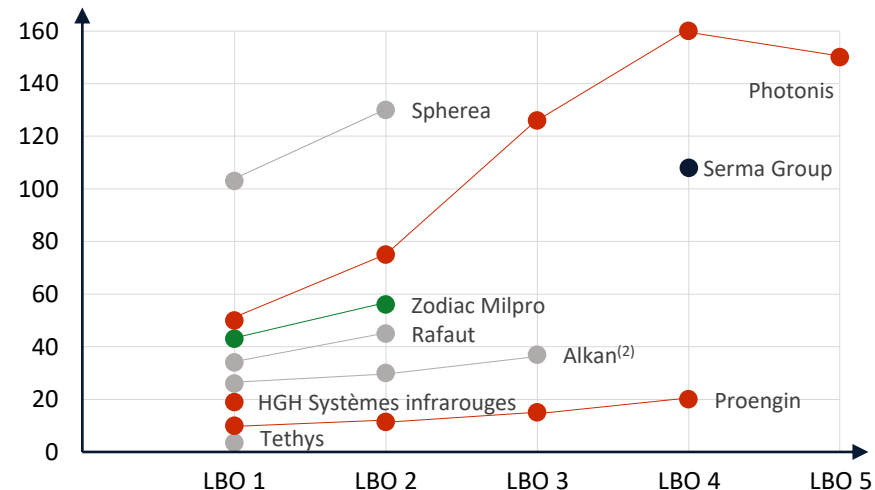
VENTURE AND GROWTH

X Backed (currently or past) by public funds Definvest or FID

Company	Seed	Series A	Series B	Series C	Series D
SINTERmat	●				
Pasqal	●	●			
Preligens	●	●			
GLIMPS	●	●			
Tehtris		●			
Unseenlabs		●	●		
Elistair	●	●	●		
Fab'entech	●	●	●		
Cailabs	●	●	●	●	
Kalray	●	●	●	●	●

LBOS

Estimated revenues at deal date (€ M)



(1): Aerostructures & Components, test benches, pyrotechnics...





(2): Rafaut acquired Alkan in 2021. The new group is expected to reach c. € 150 M revenues

Sources: Alba & Co analysis, CFNews, Preqin, Various press releases

THE DEFENCE INDUSTRY INCLUDES SPECIFIC DISINCENTIVES THAT NEED TO BE ADRESSED TO RELEASE OPPORTUNITIES FOR GROWTH AND VALUE

To support defence companies throughout their entire life-cycle, the complementarity between the private and public related parties is key

SELECTED DISINCENTIVES TO INVESTMENT IN DEFENCE COMPANIES FOR PE FIRMS

Disincentive	Description	Impact
 INVESTMENT CYCLES	Investment cycles in defence companies are approximately 7-8 years when typical holding periods for PE firms is ~5 years	LOW
 SHAREHOLDING STRUCTURE	In France, a significant proportion of SMEs with defence activities are family-owned companies , especially in the aerospace industry. Repeated success stories between families and PE companies will ease revealing new investment opportunities	MEDIUM
 ESG STANDARDS	Private Equity firms' limited partners (LPs) have an increasing focus on ESG-based principles . The application of such standards often results in the exclusion of investments in companies with defence activities. PE firms will need to clarify their investment selection criteria with their governing parties to take full advantage of defence opportunities	MEDIUM
 CONSTRAINED EXIT OPPORTUNITIES	<ul style="list-style-type: none"> France has taken several measures to strengthen its economic intelligence competencies: <ul style="list-style-type: none"> Creation of the Service de l'Information Stratégique et de la Sécurité Economique (SISSE) in 2016. The SISSE spotted 270 'at risk' transactions in 2020 In 2019, the PACTE law reinforced the government scrutiny regarding foreign direct investments in strategic companies, enlarging the scope to new sectors such as cybersecurity, space, drones, AI... In 2020, Bercy temporary lowered the threshold for screening FDI to 10%. If such measures contribute to the preservation of strategic competencies, they can also discourage investments from local PE firms for fear of not finding attractive exit opportunities. Clarifying and stabilising the public doctrine will be a key enabler to spur investments in the defence sector 	HIGH

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