

## TOO MANY PLAYERS MAY MEAN A RESHAPING OF THE HELICOPTER MARKET

The AlixPartners A&D Minute

The global helicopter market has been shrinking over the past several years, with 2018 deliveries down 35% from 2013's record. Lower oil prices wiped out the once rich offshore oil-and-gas industry market, while the rebound in defense spending has not yet benefitted the helicopter sector.

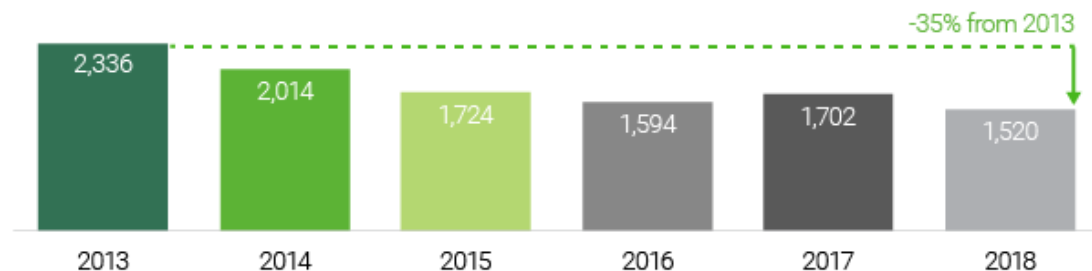
Five players dominate the market: Lockheed Martin (which acquired Sikorsky in 2015 for \$9 billion), Bell, and Boeing are fighting for the largest share of the US defense budget, while Airbus and Leonardo are more focused on civil markets, as their domestic military spending is significantly smaller.

We believe that these conditions make the market ripe for consolidation. The playing field is crowded, and there is pressure from other factors, including the US military's Future Vertical Lift (FVL) program to modernize its helicopters, Europe's common defense initiatives, and new technologies and business models such as urban air mobility.

### FIGURE 1: HELICOPTER MARKET REMAINS SOFT, WELL BELOW 2013 PEAK

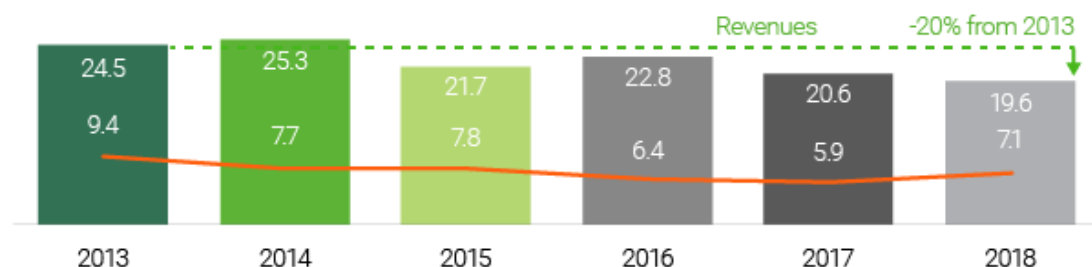
#### Commercial and military helicopter deliveries

2018 deliveries are down 11% from 2017; and down 35% from 2013



#### OEM financials

Airbus, Bell, Leonardo, and Sikorsky revenue (\$ billion) and EBIT (%) are sharply off 2013 values



Source: Annual reports, AlixPartners analysis

## **FUTURE VERTICAL LIFT LOOKS TO BE A WINNER-TAKES-ALL PROPOSITION**

The US Department of Defense's ambitious FVL program seeks to create a new family of rotorcraft that will span multiple branches of the military, with capability sets for a range of mission profiles. The primary focus until recently has been on the Black Hawk replacement known as Future Long-Range Assault Aircraft (FLRAA), but the recently released requirements for a Future Attack Reconnaissance Aircraft (FARA) competitive prototype have attention now with its requirements for light armed scout capabilities. This segment of US Army aviation has been historically challenged, with the cancellation of the Armed Aerial Scout program in 2014 and the pressure to replace the recently retired Bell OH-58D Kiowa fleet. Two primary teams are competing for the FARA and FLRAA requirement sets, and both include Lockheed Martin:

- Lockheed Martin and Boeing are co-developing two helicopters: the S-97 Raider targeted at light attack and reconnaissance missions and the SB>1 Defiant targeted at the medium-weight-class mission sets.
- Bell and Lockheed Martin have teamed on the V-280 Valor targeted at the FLRAA medium mission sets.
- Most recently, on October 2, 2019, Bell announced its intentions to field the Bell 360 Invictus as its FARA entrant.

At least one major US OEM will be excluded from these large-scale US defense programs and become a candidate for consolidation as a result.

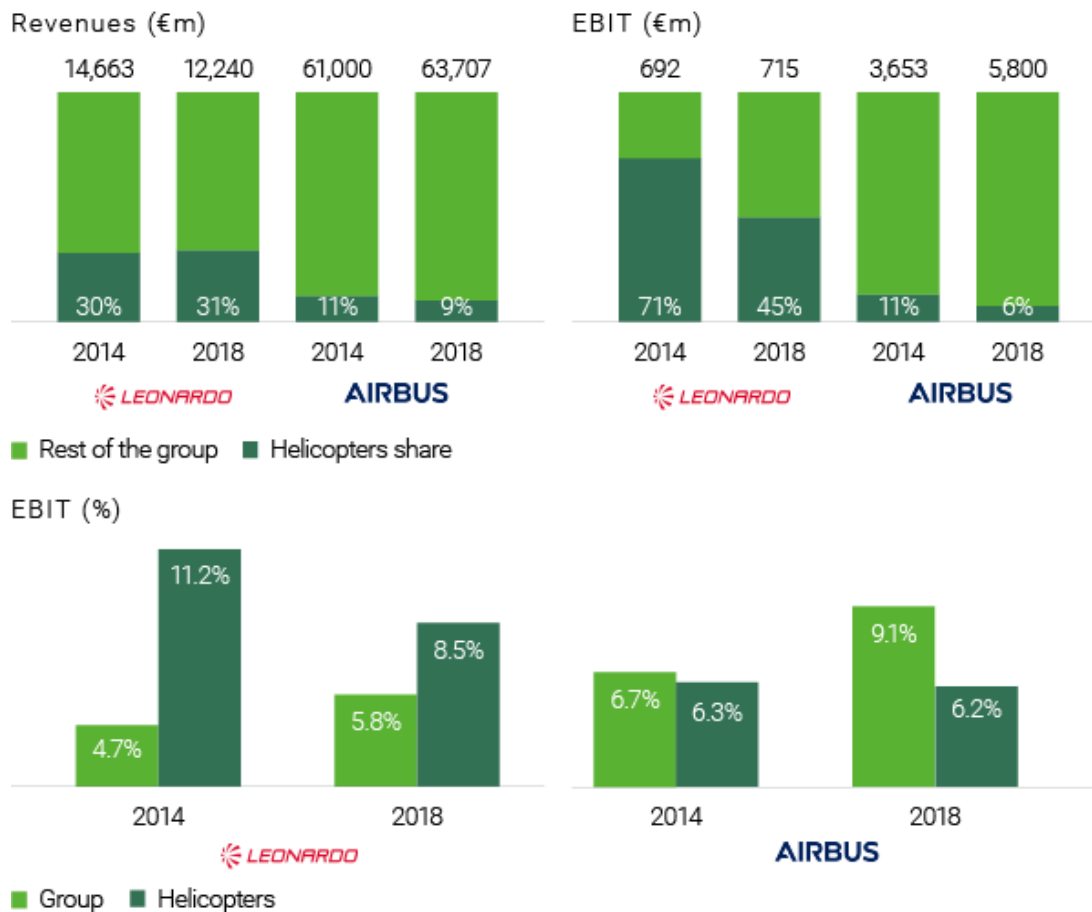
## **A POTENTIAL EUROPEAN WEDDING**

The growing push toward a common European defense and the increasing competition of US primes with international players could be the main driver to spur the combination of the Leonardo and Airbus helicopter divisions. The joint team is already collaborating on the NH-90 program and they have complementary product portfolios as Airbus is the leader in the light segments and Leonardo dominates in the medium segment. Also, they have well-matched areas of technical excellence such as Airbus' state-of-the-art Helionix avionics suite and Leonardo's loss-resistant main gearbox capable of "run-dry" for 60 minutes. In addition, a merge could unlock potential cost synergies on product development, sales, and aftermarket network or operations.

While there are good arguments for a merger of the two, there are potential roadblocks. One large obstacle is the political context, as the problematic relationship between Italy and France has already compromised several deals (Fincantieri-STX and FCA-Renault). Antitrust issues are also a concern, given that Airbus and Leonardo helicopters have a combined share of the civilian market of almost 80%.

However, a helicopter deal could help resolve matters the two companies have with several joint efforts, including the 50/50 joint venture in ATR and the shareholder structure of MBDA.

**FIGURE 2: LEONARDO VERSUS AIRBUS**



Source: Annual reports, AlixPartners analysis

**URBAN AIR MOBILITY: A MATTER OF WHEN, NOT IF**

Additional disruption in the helicopter market could come from air mobility, which is closer to reality than one might expect. Uber, the leader in on-demand mobility, is targeting commercial air mobility operations by 2023. Clearly this is ambitious, but momentum is building, and—with very narrow predetermined routes, select pilot cities, and ideal conditions—the timing may be achievable. Despite the high impediments in infrastructure, public perception, and regulatory challenges, several aircraft are well into testing, some will be ready to pilot public flights by next year.

So far more than \$2 billion has been invested in urban air mobility, and the technology is rapidly maturing. Approaches by the various OEMs varies widely: Bell, Airbus, and Boeing are making very concrete investments, while others are sitting on the sidelines.

Several start-ups are also active: more than 200 different designs for future vertical take-off and landing aircraft exist, creating a buying opportunity. Boeing, for instance, acquired Aurora Flight Sciences to advance autonomous technology capabilities and more recently partnered with Kitty Hawk to explore commercial feasibility for their “flying car”. Partnership and acquisition trends will continue, potentially expanding to a new combination of private equity, venture-backed capital, or perhaps an automotive giant’s entry into the urban air mobility market.

With so many catalysts, we strongly believe that a high-profile combination is likely to happen within the next few years, potentially earlier if urban air mobility takes off faster than expected.

**FOR A DEEPER DISCUSSION ABOUT THE CHALLENGES AND SOLUTIONS ASSOCIATED WITH THE HELICOPTER MARKET, CONTACT:**

**Eric Bernardini**

Global Co-Lead, Aerospace, Defense, and Aviation  
Managing Director  
+1 917 562 6607

[ebernardini@alixpartners.com](mailto:ebernardini@alixpartners.com)

**Nicolas Beaugrand**

Managing Director  
+33 6 75 37 45 40

[nbeaugrand@alixpartners.com](mailto:nbeaugrand@alixpartners.com)

**CONTACT THE AUTHORS:**

**Bryan Appel**

Vice President  
+1 646 428 9161

[bappel@alixpartners.com](mailto:bappel@alixpartners.com)

**Chris Martin**

Director  
+1 972 764 2125

[csmartin@alixpartners.com](mailto:csmartin@alixpartners.com)

**Matteo Peraldo**

Director  
+1 617 692 2805

[mperaldo@alixpartners.com](mailto:mperaldo@alixpartners.com)

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These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

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Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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