

The Diversified Model Is Holding Back Aerospace Companies

By **Matteo Peraldo**

The case for separating aerospace and defense businesses from broader industrial production has never been stronger, and the drivers are not just activist investors who have championed such splits for a decade or more.

The paths of technology, material science, customer demand signals and regulation are diverging. Mixed portfolios that once promised resilience have become a drag on performance rather than a source of strength. Complexity is out. It's all about focus now.

Wall Street has delivered its judgment. Since General Electric's breakup, GE Aerospace's shares have almost doubled, and GE Vernova has more than tripled in value. Howmet, which evolved from its Alcoa heritage into a focused engineered components and materials player, has delivered a remarkable 1,800%+ return since its 2020 separation.

Private equity has accelerated the trend, with Barnes split into a focused aerospace business and a separate industrial solutions unit, each with its own equity story and likely different valuation multiples.

Aerospace franchises are often undervalued inside mixed portfolios. Complexity and overhead dilute performance and slow decision-making. There is not a quick-fix playbook. Some combinations still work; others require greater scrutiny.

The pressure is now squarely on the remaining diversified groups, such as Textron, that still combine aerospace and defense and industrial markets. Companies straddling those markets should demonstrate that their existing structure creates tangible value that cannot be surpassed by separation through carve-outs.

That is a high bar. In practice, promised synergies from shared corporate functions, common research and development or cross-selling rarely offset the cost and distraction of managing fundamentally different businesses.

Industrial "baggage" can complicate or block portfolio moves that aerospace units need, scale-building mergers and bolt-on acquisitions. In an industry where scale is increasingly the ticket to compete (*AW&ST* March 25-April 7, 2024, p. 66), this constraint becomes a strategic liability.

Activists have understood this and brought it before many boards. Their playbook is increasingly consistent: Build a stake, highlight the conglomerate discount, frame aerospace as the underleveraged crown jewel and call for a strategic review that evaluates separation or divestitures.

For underscale aerospace assets trapped in multisegment structures, "try harder" is no longer a credible answer. It is best to part ways. What should management teams do in this environment?

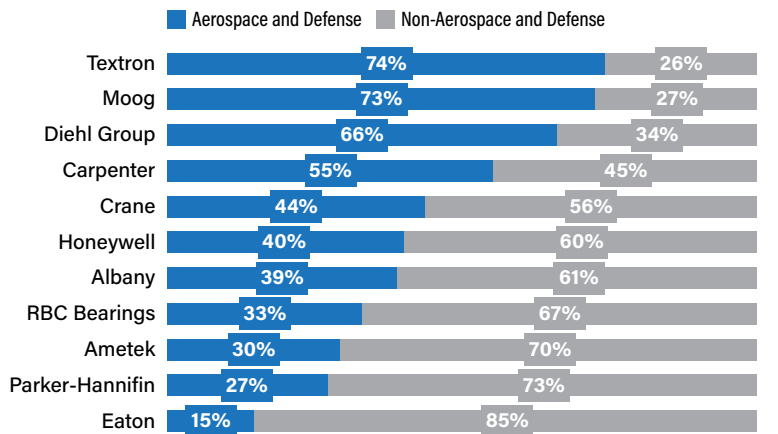
First, management needs a compelling value creation plan that explains how the current portfolio will outperform as is—on growth, margins, cash and capital deploy-

ment—and why this beats the alternative of a breakup. The plan must be concrete and come with specific cost actions, prioritized growth bets, disciplined merger and acquisition and a clear stance on shareholder returns.

Leadership teams should quietly ensure they are separation-ready, even if they are not actively pursuing a breakup. That requires well-developed carveout scenarios, delineated businesses with clean financials and stand-alone operating models that can be executed quickly.

Revenue Mix for Selected Aerospace and Defense and Industrial Companies

2024 Revenue



Source: *AlixPartners* analysis based on companies' financial reporting

The objective is to move fast, create self-standing, properly capitalized aerospace and defense and industrial champions, and limit the operational drag of complex entanglements and long Transition Service Arrangements. Untangling information technology links across different businesses is often the long pole in executing separations.

Focused aerospace and defense players will need to use their sharper equity stories and cleaner balance sheets to pursue consolidation, move up the value chain from components to subsystems, and invest aggressively in technology and aftermarket capabilities. The rapid growth of defense tech startups provides ample fodder for established companies to refresh their intellectual property pipeline through targeted merger and acquisition.

The market is sending the clear message that the diversified model that once protected aerospace businesses now holds most of them back. Breaking up is fast becoming the only credible route to unlock trapped value, restore strategic clarity and compete on equal terms with focused champions. These are the businesses that will shape next-generation aircraft programs. 🚀

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