



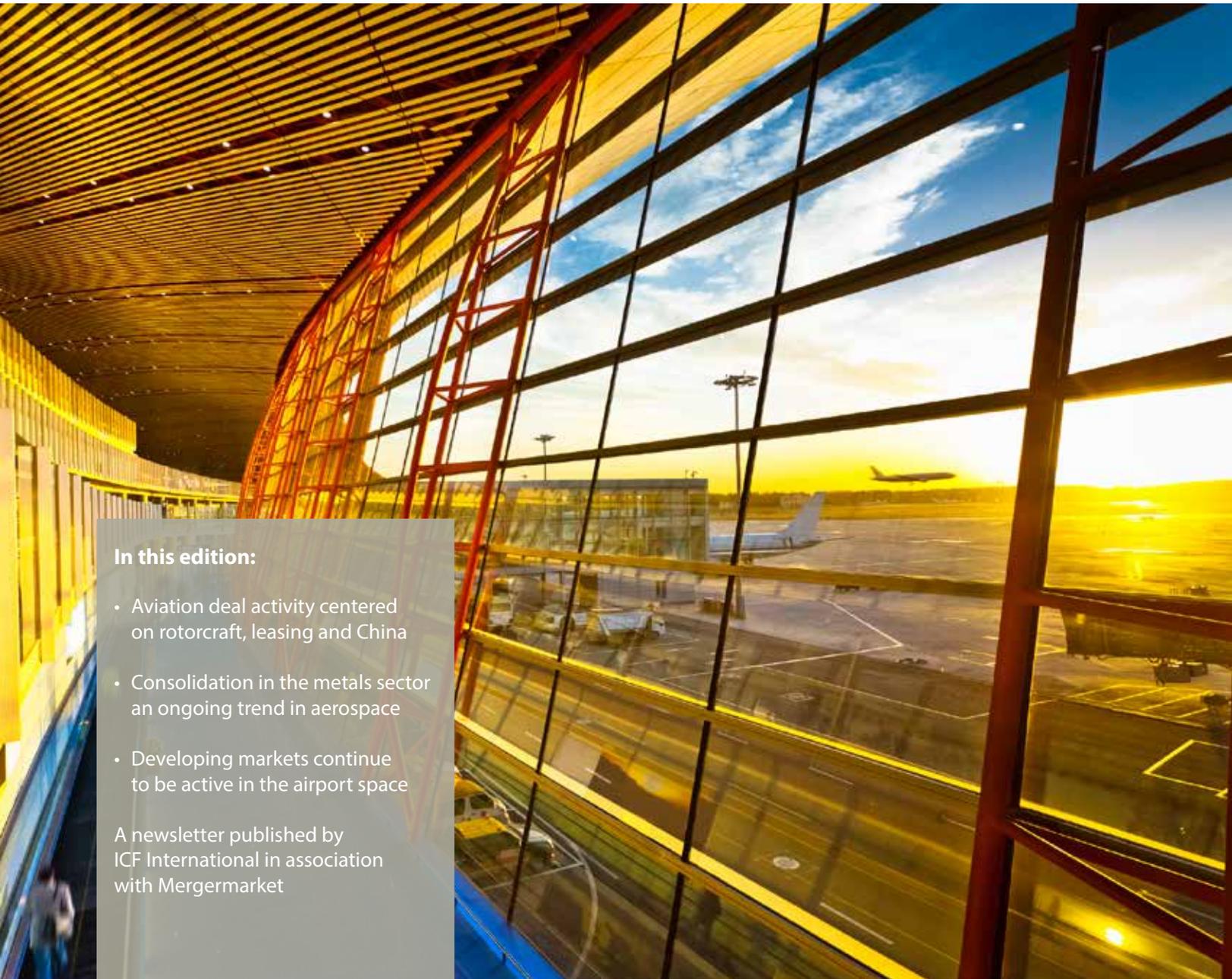
Aviation, Aerospace & Airports M&A Quarterly

Q4 2014

In this edition:

- Aviation deal activity centered on rotorcraft, leasing and China
- Consolidation in the metals sector an ongoing trend in aerospace
- Developing markets continue to be active in the airport space

A newsletter published by
ICF International in association
with Mergermarket



Contents

- 03 Introduction
- 05 Q4 2014 Highlighted Transactions
- 08 Aviation Highlighted Transactions and Trends
- 12 Aerospace Highlighted Transactions and Trends
- 15 Airport Highlighted Transactions and Trends

ICF SH&E, one of the world's largest and oldest aviation consultancies, is now doing business as ICF International. ICF's aviation practice provides strategic and transaction advisory services to clients across the spectrum of air transport.



Introduction

ICF International (formerly ICF SH&E) is pleased to present the sixth edition of *Aviation, Aerospace & Airports M&A Quarterly*, published in association with Mergermarket. The publication highlights activity and trends in aviation, aerospace and airport M&A in Q4 2014.

- Aviation deal activity covers airlines, air freight, leasing, business and general aviation, operators, and aviation IT and service providers, such as those involved in handling or catering.
- Aerospace deal activity includes commercial and defense-related firms, such as original equipment manufacturers (OEMs), aerospace suppliers, and maintenance, repair and overhaul providers (MROs).
- Airport deal activity includes private financing transactions where airports obtain funding for facility upgrades and infrastructure maintenance.

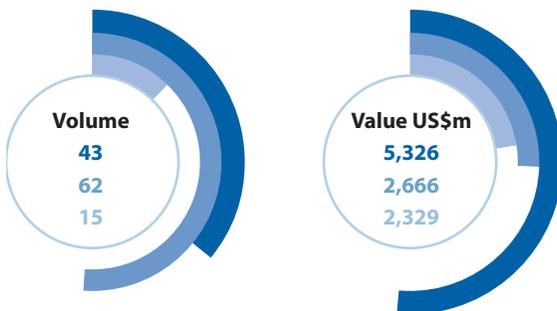
Q4 2014 proved to be another healthy three months for investment activity across the aviation, aerospace and airports sectors. China featured heavily in all three segments, with Chinese investors making key acquisitions both domestically and overseas.

In aviation, the rotorcraft and aircraft leasing markets were particularly buoyant in the fourth quarter. GE Capital Aviation Services made a key acquisition in the form of helicopter lessor Milestone Aviation Group, marking the largest aviation deal of the quarter at US\$1.8bn. Irish commercial aircraft lessor Avolon Holdings went ahead with its initial public offering after talks with Chinese bidders broke down, and Asian billionaire Li Ka-shing expressed an interest in acquiring a 100-strong portfolio of aircraft from leasing company AWAS Aviation Capital through his Cheung Kong Holdings conglomerate. If this deal goes ahead it will join three other agreements signed in November, which saw Cheung Kong enter the aircraft leasing business through the purchase of 18 aircraft from GECAS, 10 from BOC Aviation and a further 14 from Jackson Square Aviation.

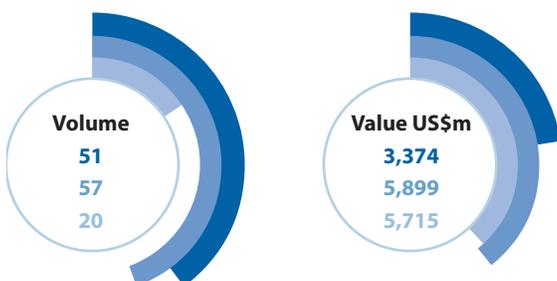
In aerospace, China's KuangChi Science and AVIC International Holding were particularly acquisitive overseas. The former invested in both New Zealand-based jetpack developer, Martin Aircraft, and Canadian hybrid cargo aircraft manufacturer, Solar Ship, while the latter attracted investment from Li Ka-Shing, acquired Align Aerospace and signed a turboprop engine development joint venture agreement with France's Safran. Metals and specialist aerospace testing firms proved to be enduring investment targets in their respective growing markets.

In airports, China's presence was also strongly felt through the acquisitions of Airbus's base, Toulouse Blagnac International Airport in France, and all of Parma International Airport in Italy. UK airports had a busy quarter with approval being granted to Ferrovial and Macquarie to acquire Aberdeen, Glasgow and Southampton from Heathrow Airport Holdings, and Ontario Teachers' Pension Plan once again showing

Q3 2014 Aviation, Aerospace, and Airport M&A Activity



Q4 2014 Aviation, Aerospace, and Airport M&A Activity



- Aviation
- Aerospace
- Airport



its soft spot for the market by upping its stake in Birmingham Airport. In Barranquilla, Colombia, the National Infrastructure Agency (ANI) announced in December 2014 the selection of Valorcon, Equipos Universal and Inversiones Millenium Azipo as the winning consortium for Ernesto Cortissoz International Airport. In Canada, Porter Airlines, in a surprising move, agreed to sell its terminal concession rights at Billy Bishop Toronto City Airport in January 2015 to equity group Nieuport Aviation, which is comprised of InstarAGF Asset Management Inc. (InstarAGF), Kilmer Van Nostrand Co. Limited, Partners Group, and institutional investors. And, two airport deals in Myanmar showed that investor confidence is beginning to return as relations continue to improve with the West.

This sixth edition of *Aviation, Aerospace & Airports M&A Quarterly* provides deep insight into the dealmaking activity during the fourth quarter by pulling out and breaking down key transactions, examining the driving forces behind those transactions, and identifying and analyzing both new and continuing trends.

Q4 2014 Highlighted Aviation Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
10/13/2014	Milestone Aviation Group Limited	GE Capital Aviation Services LLC	1,775
12/08/2014	Hainan Airlines (4.89% Stake)	Grand China Air Co. Ltd.	296.6
10/23/2014	Monarch Airlines (90% Stake)	Greybull Capital	266
10/14/2014	Hebei Airlines Co Ltd (95.4% Stake)	Xiamen Airlines Co Ltd	200
11/25/2014	Minsheng International Jet Co Ltd (61.25% Stake)	China Minsheng Investment Co Ltd	194
12/08/2014	Gama Aviation Holdings (Jersey) Ltd	Hangar 8 Plc	128
10/09/2014	Century Tokyo Leasing	CIT	120
11/27/2014	Jetstar Japan	Qantas, Japan Airlines	93.27
11/28/2014	Shanxi Airlines capital investment	HNA Group	82
12/08/2014	Hayward Aviation Limited	Jardine Lloyd Thompson Group Plc	42
10/21/2014	Milestone Aviation Group Limited (40% stake of JZCP)	GE Capital Aviation Services LLC	40
11/10/2014	Gading Sari Aviation Services Sdn. Bhd.	KL Airport Services Sdn Bhd	22
10/07/2014	Japan Airlines	CAE	9.6
10/26/2014	Hokkaido Air System (51.2% Stake)	Japan Airlines	9.3
11/25/2014	ACC Aviation Ltd.	British Smaller Companies VCT Plc; YFMPE II	8
12/08/2014	Cimber A/S	SAS	2.69
10/02/2014	Aergo Capital Limited (90% Stake)	CarVal Investors, LLC	
10/05/2014	R.E. Atckison	Columbus Jack Corp.	
10/07/2014	Swissport France Holding SAS and Servisair SAS (ground handling activities in France)	GH Team	
10/09/2014	Wiggins Airways, Inc.	Ameriflight, LLC	

Q4 2014 Highlighted Aerospace Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
12/31/2014	Prime Turbines; CT Aerospace, LP; Kansas Aviation of Independence, LLC; Air Parts & Supply Company, Inc.	VSE Corporation	229
11/12/2014	Provincial Aerospace Ltd.	Exchange Income Corporation	217
12/24/2014	Armstrong Aerospace, Inc.	Astronics Corporation	51
12/21/2014	Martin Aircraft Co. Ltd.	KuangChi Science Ltd	41
12/10/2014	MAS GMR Aerospace Engineering Company (44.61% stake)	GMR Infratrusture	15
10/01/2014	MW Crow	Rift Valley Equity Partners	
10/08/2014	Atlantic Precision	Generation Growth Capital	
10/09/2014	Remos Aircraft	Andreas Heeschen	
10/15/2014	Weatherford Aerospace, Inc.	Novaria Group Inc.	
10/17/2014	North American Aircraft Services, Inc.	Triumph Group, Inc.	
10/17/2014	Crown Precision Machining	H-D Advanced Manufacturing Co.	
10/20/2014	Phoenix CNC Engineering Limited	Universal Engineering Limited	
10/24/2014	Hispano-Suiza (Safran)	Rolls-Royce	
10/28/2014	Snecma	Max Aerospace	
10/28/2014	AeroSystems Engineering, Inc.	Gen Cap America, Inc.	
11/03/2014	X-Ray Industries, Inc.; Arcadia Aerospace Industries, LLC; Nray Services Inc.	Applus Services, S.A.	
11/04/2014	Avionics Interface Technologies, LLC	Teradyne, Inc.	
11/11/2014	FDS Avionics Corp.	Harbert Private Equity Fund III L.P.	
11/12/2014	Safran	AVIC	
11/13/2014	AEds	Etablissements Belzane	

Q4 2014 Highlighted Airports Transactions

Announced Date	Target Company	Bidder Company	Deal Value US\$(m)
10/16/2014	Aberdeen International Airport Ltd; Southampton Airport; Glasgow Airport Limited	Heathrow Airport Holdings Ltd.	1,678
10/29/2014	Hanthawaddy airport project	Consortium of Yongnam Holdings Ltd, Changi Airport Planners and Engineers, and JGC Corp.	1,500
12/04/2014	Toulouse-Blagnac Airport S.A. (49.99% Stake)	A consortium led by Shandong High-Tech Investment Co Ltd	380
11/17/2014	Mandalay International Airport	Jalux, Mitsubishi and Yoma Development Group	86
10/10/2014	Aeroporto Valerio Catullo di Verona Villafranca Spa (35% Stake)	Save S.p.A.	31
10/01/2014	Flemingo International Ltd.	Samena Capital	
10/13/2014	Flughafen Wien AG Wien (29.9%)	IFM Global	
10/14/2014	Parma International Airport	IZP Technologies	
10/16/2014	Setur	Lagardere Services	
11/24/2014	Koltsovo Airport (47.515% stake)	Renova Group	
12/19/2014	Kazan International Airport (35.36% stake)	Svyazinvestneftekhim	
12/29/2014	Birmingham Airport (19% stake)	Ontario Teachers' Pension Plan	

Aviation Highlighted Transactions and Trends

Recurring times

Aviation M&A activity in Q4 2014 centered around three key areas: rotorcraft, leasing and China. The quarter's largest deal – GE Capital Aviation Services' US\$1.8bn purchase of Milestone Aviation Group – managed to encompass the first two themes simultaneously. And, while Chinese investors walked away from a bid to enter the aircraft leasing sector through the purchase of Irish lessor Avolon Holdings, domestic investment activity among China's airlines and within its general aviation market more than made up for this.

Helicopter Leasing Sees Milestone Deal

Emphasizing the continued strong interest in both the rotorcraft market and the aircraft leasing sector in the fourth quarter, the largest deal of the three-month period ending December 31 was the sale of helicopter lessor Milestone Aviation Group to GE Capital Aviation Services (GECAS) for just shy of US\$1.8bn.

GECAS said the acquisition of the Dublin-based leasing company would enable it to diversify its business and reap the benefits of the “fast-growing” helicopter finance sector.

Milestone Aviation was founded in August 2010 and has since amassed a fleet of 168 helicopters, worth US\$2.8bn, along with a US\$3bn order book with a range of rotorcraft manufacturers. Milestone's fleet is leased out to 31 operators across 25 countries, a key market being the offshore oil and gas industry.

However, given the sharp drop in global oil prices – which have halved in the last several months – and the subsequent announcements of job cuts by companies including Chevron, Shell and BP, demand for offshore helicopter services could potentially be dampened going forward.

Milestone Aviation will keep its name following the acquisition, which is expected to close in 2015, and the company's founder, Richard T. Santulli, will serve as chairman. The leasing company's president, Daniel Rosenthal, will remain in the same role, as will the rest of the existing Milestone team.

New Lease on Life

The popularity of the aircraft leasing market spread to the fixed-wing sector, where initial public offerings, joint ventures and acquisitions were rife in Q4. Particularly noteworthy was the decision by AVIC Capital and China Investment Corp (CIC) to drop their bid for a 51% stake in Irish leasing company Avolon Holdings, days before Avolon listed 13,636,363 shares on the New York Stock Exchange, valued at US\$272.8m. The selling shareholders included private equity groups Cinven, CVC Capital Partners and Oak Hill Capital Partners.

AVIC and CIC first submitted a bid for a controlling stake in Avolon in November, but this was later rejected. The Chinese companies announced in early December that talks had collapsed, and the stock hit the public market on December 12, priced below Avolon's initially-

“The popularity of the aircraft leasing market spread to the fixed-wing sector, where initial public offerings, joint ventures and acquisitions were rife in Q4.”



planned US\$21 to US\$23 per share. Avolon's portfolio comprises 227 aircraft, of which 122 are owned, 12 are managed and 93 are commitments to purchase.

The fact that these Chinese firms walked away from the Avolon deal – in all likelihood due to disagreements over valuation – means that all eyes will now be on the planned sale of AWAS Aviation Capital's 100-strong aircraft portfolio, known as SkyFin. This sale has also attracted interest from Asian bidders new to the aircraft leasing market.

Hong Kong's Cheung Kong Holdings, a real estate conglomerate majority-owned by Asian billionaire Li Ka-shing, said in an August filing with the Hong Kong Stock Exchange that it had submitted a "preliminary, non-binding proposal" for the "possible acquisition of certain aircraft from the AWAS group." If this deal goes ahead, it will solidify Cheung Kong's position as a new entrant to the aircraft leasing market. The conglomerate entered the market in November when it agreed to buy 18 Airbus and Boeing aircraft from GECAS, 10 from BOC Aviation and a further 14 from Jackson Square Aviation.

Q4 also saw a number of joint ventures in the aircraft leasing space. US-based CIT Aerospace announced in October that it had joined forces with Japanese financial services company, Century Tokyo Leasing, to form aircraft leasing joint ventures in Ireland and the USA. The joint ventures, known as TC-CIT Aviation Ireland and TC-CIT Aviation US, will acquire commercial aircraft to lease out to airlines around the globe.

TC-CIT Aviation will initially acquire 14 aircraft from CIT Aerospace, which will be responsible for arranging future aircraft acquisitions, negotiating leases and servicing the aircraft. CIT will have a minority equity investment in the joint venture units. Century Tokyo Leasing will hold the majority equity interest and will act as a lender to the newly-established leasing companies.

Another aircraft leasing joint venture – this time in the Middle East – was announced in Q4 by Abu Dhabi-based Ittihad International Investment and Ireland-based Aviation Finance Company Limited (AFC). The two companies have formed a UAE-based joint venture called Ittihad/AFC Aviation, which will provide finance and leasing solutions to the aviation industry in the Middle East, North and East Africa and Asia.

AFC was also active on the acquisition trail when its parent company, Stellwagen Finance, purchased Swedish aircraft lessor Volito Aviation Services (VAS) and its Irish subsidiary in November. Once the two-stage acquisition is complete, VAS will be renamed Guardian Aviation Services Limited.

VAS was jointly owned by Malmo-based Volito Aviation, which held an 80% stake, and Goldman Sachs with 20%. It manages aircraft assets for Volito Goldman Sachs, but none of these aircraft were included in the purchase.

AFC chief executive Douglas Brennan said the acquisition would enable AFC "to offer a wide range of aircraft management services, from sourcing

and remarketing aircraft and engines to aircraft surveillance, collection or repossession capabilities and more.”

China has an Active Quarter

If aircraft leasing was one key theme in the aviation M&A market in Q4, China was the other. Alongside the acquisition by China Southern Airlines subsidiary Xiamen Airlines of a 99.23% stake in fellow Chinese carrier Hebei Airlines – previously covered in our Q3 report – Grand China Air purchased a 4.89% stake in Hainan Airlines for CNY1.9bn (US\$306m).

The acquisition boosts Grand China Air’s stake in Hainan Airlines to almost 35%, making it the largest shareholder. Meanwhile, Hainan Airlines parent company, HNA group, said in Q4 that it would make a CNY500m (US\$80.6m) capital investment in its Shanxi Airlines unit to further develop the carrier.

China was also active in the general aviation arena with two key acquisitions in Q4. Tsinghua Holdings acquired Hong Kong-based business aviation firm Sino Jet Management for an undisclosed sum. Tsinghua described the deal as “the first cross-border integration of its kind by a Chinese firm in the general aviation industry.”

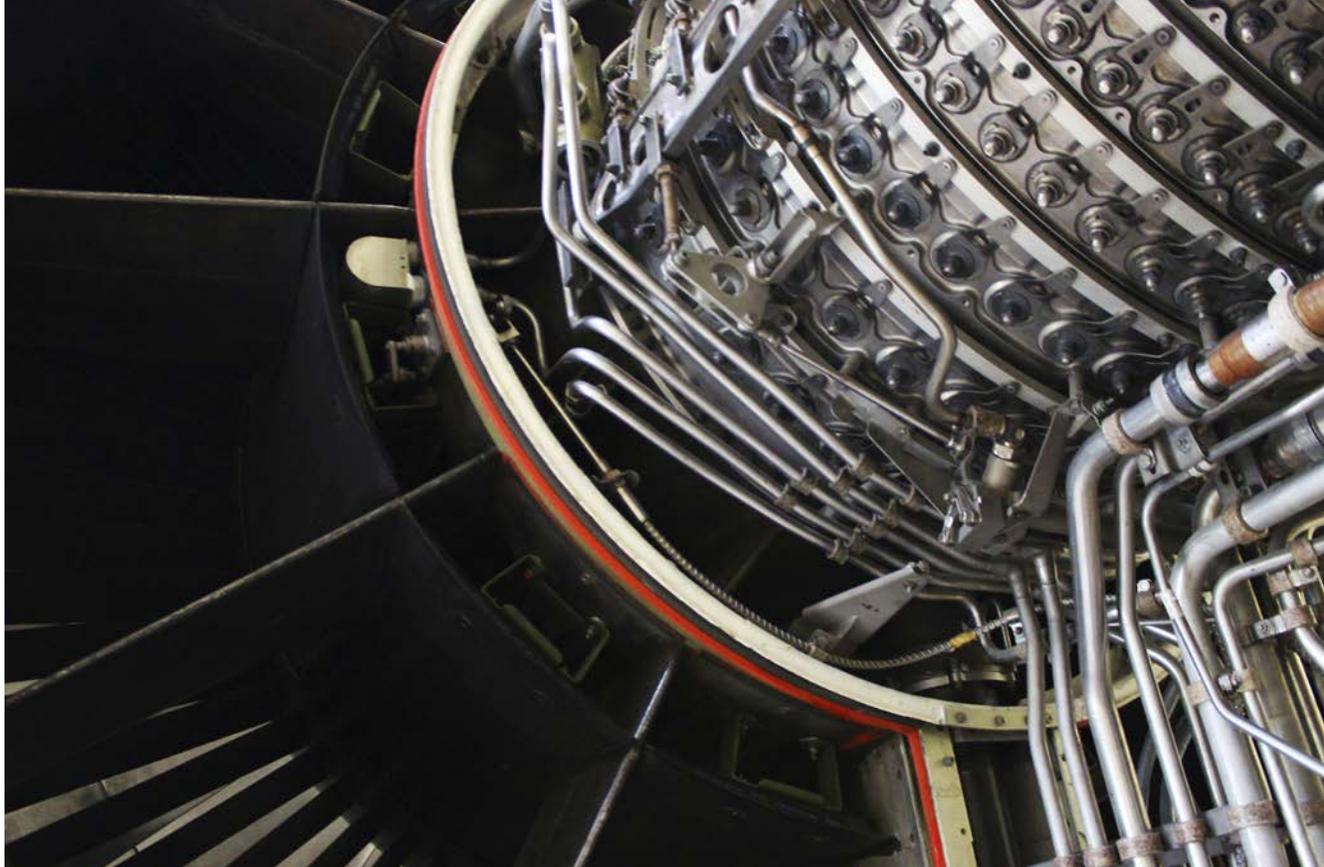
Tsinghua entered the general aviation market in 2013 with the acquisition of a majority stake in Beijing Bear Jet Aviation. Its plan for Sino Jet, which operates and manages a variety of business jet models, is to support its continued growth.

Another general aviation deal saw China Minsheng Investment Corp purchase a 62.5% stake in Minsheng International Jet, which itself owns 100% of Asia United Business Aviation.



Key Takeaways

- The rotorcraft sector proved robust with the acquisition of Milestone Aviation Group by GECAS, representing Q4’s biggest aviation deal
- Aircraft leasing was a hot market, drawing particular interest from Asian investors new to the sector, with IPOs, joint ventures and acquisitions taking center stage
- China had a busy three months with a spate of domestic commercial airline investment deals, and strong levels of activity in the general aviation sphere



How well are you executing operationally?

Partner with ICF International to advance your operational performance.

ICF will help improve your bottom line with the following OSC services:

- Operations due diligence
- Cost reduction/margin growth
- Operations performance improvement/revenue growth
- Reduction of supply chain risks
- Additive manufacturing advisory

Find out how well you can execute operationally by engaging with ICF prior to critical investment decisions. Our expertise in manufacturing, factory management, procurement and aerospace supply chain processes will help you generate concrete returns.

Learn more on our website at icfi.com/OSC

For more information contact Vivek Saxena, Vice President, ICF International at vivek.saxena@icfi.com

Aerospace Highlighted Transactions and Trends

Lasting trends

Aerospace transactions showed no signs of slowing down in Q4 and popular trends from the previous quarter, such as consolidation in the metals sector and interest in specialist testing firms, still proved fashionable in the last three months of 2014. China was particularly acquisitive in the fourth quarter, with two key overseas investments by technology company KuangChi Science and a raft of activity involving AVIC International Holding. Aircraft engine joint venture deals also proved popular during the quarter.

Chinese deal-making

China's heavy involvement in the aviation M&A market in Q4 also spilled over into the aerospace segment, where Shenzhen-based high-tech firm KuangChi Science and AVIC International Holding, a unit of aircraft manufacturer Aviation Industry Corporation of China, dominated the headlines.

KuangChi announced in December that it would provide a cornerstone investment in New Zealand-based jetpack maker Martin Aircraft. The Chinese technology company will invest NZ\$53m (US\$39.6m) over the next 30 months in Martin Aircraft, including subscribing for 52.5 million shares in the latter's initial public offering.

KuangChi and Martin Aircraft will form a separate joint venture company to pursue advanced research and development on the Martin Jetpack, and to market the product in Hong Kong and China following its commercialization. Subject to shareholder and regulatory approvals, KuangChi expects to complete its initial investment in late February 2015.

Overseas investment for KuangChi did not stop there in the fourth quarter. The company also signed a non-binding letter of intent to acquire up to 54.42% of Canadian hybrid cargo aircraft manufacturer Solar Ship. The proposed acquisition would see KuangChi invest up to C\$25m (US\$20.1m) in Solar Ship by July 30, 2016. Solar Ship is developing an aircraft that flies using solar electric power, aerodynamic lift and buoyant gas, which KuangChi is keen to market in mainland China and Hong Kong.

AVIC was the other big Chinese player in the aerospace market in Q4, following on from its recent attempt in the aviation sector to acquire a stake

in Ireland-based aircraft leasing company Avolon Holdings. AVIC International shares on the Hong Kong market experienced their most significant increase in six years when Li Ka-Shing bought a 9.74% stake in the company for HK\$270m (US\$34.8m) on December 22.

Earlier that month, AVIC International Holding (Zhuhai) Company Limited – a wholly-owned subsidiary of AVIC International – agreed to acquire California-based aerospace fasteners distributor Align Aerospace from Greenbriar Equity Group. Align distributes fasteners and other hardware to aerospace original equipment manufacturers (OEMs) and suppliers.

Following the acquisition – which is expected to close in the first quarter of 2015, subject to government approvals – AVIC International plans to retain Align's current management and Chatsworth, California headquarters. The Chinese company's chairman, Wu Guangquan, says it will "grow Align's relevance with its current customers in parallel with expanding the business globally, especially in the China market."

Not content to stop there, AVIC also signed an agreement in November with French aerospace company Safran to create a joint venture in China to develop components for turboprop aircraft engines. The deal signifies Safran's engine unit Snecma's first foray into the commercial turboprop engine market, which the company views as a "booming market."

The joint venture's first goal will be to design, produce and test two main components: power turbines – which directly influence fuel consumption – and flame tubes, where combustion takes place. The two companies aim to develop stronger metals that require less cooling as part of their research. Such research, say Safran

and AVIC, will enable them to eventually design new generations of engines.

This is not the first time Safran and AVIC have worked together. Safran's Turbomeca unit already collaborates with AVIC Engine on developing the Ardiden 3C turboshaft helicopter engine for the Avicopter AC352, which is scheduled for certification this year.

Engine joint ventures

The Safran/AVIC joint venture was just one of a crop of engine cooperation agreements to be inked in Q4, highlighting an enduring appetite for engine-related deals that spills over from the third quarter. Rolls-Royce and Safran subsidiary Hispano-Suiza firmed up an earlier memorandum of understanding to create a jointly-owned company that will design, develop, produce and support accessory drive train transmissions (ADTs) for all of Rolls-Royce's future civil aircraft engines.

The joint company will be headquartered at Hispano-Suiza's Colombes site in greater Paris, but will also operate from Rolls-Royce's Derby, UK and Dahlewitz, Germany facilities. The two sides have signed an exclusive 25-year contract covering the entire range of civil aircraft, with an emphasis on the re-engined Airbus A330neo, which will be powered by Rolls-Royce's Trent 7000 engine. Construction will begin in 2015 on a new production site in a "competitive country"; say the two manufacturers, with operations scheduled to begin in late 2016 or early 2017.

Safran continued its streak of Q4 engine joint ventures when its Snecma division agreed with Mumbai-based aviation engineering firm Max Aerospace to establish a joint company in India to provide maintenance services for military aircraft engines. The new company will be called Max Aero Engines Private Limited (MAEPL) and will provide



maintenance, repair and overhaul services, as well as support solutions, primarily to the Snecma M53 engines which power the Indian Air Force's fleet of Mirage 2000H 'Vajra' fighter jets.

Sticking with engine maintenance, Q4 saw a notable acquisition in this segment when Virginia, US-based VSE Corporation snapped up four business units from Killick Aerospace for a total investment of US\$229m. The units comprise Prime Turbines, CT Aerospace, Kansas Aviation and Air Parts & Supply Co. Each of the units specializes in providing MRO services and parts supply for corporate and regional jet engines and accessories.

GE Aviation also got a slice of the engine joint venture action when it entered an agreement with Parma, Italy-based Turbocoating to establish a 50/50 venture to be known as Advanced Ceramic Coatings (ACC). The new company will produce thermal barrier coatings for ceramic matrix composite components (CMCs) used in jet engines.

ACC will operate from Turbocoating's US facility in North Carolina. The joint venture aims to deliver its first coated components in late 2015. This will include CMC shrouds for the CFM International LEAP engine – the first commercial jet engine to use CMCs in the hot high-pressure turbine section. The deal marks a continued push by GE Aviation to create a supply chain to produce CMCs in large volumes. GE expects demand for CMCs to grow tenfold over the coming decade.

Metals maintain magnetic pull

Following on from significant activity among metals manufacturers in the third quarter, Q4 demonstrated that the appetite for acquisitions in this space has not waned. Q3 saw the acquisition of Aluminium Services UK by

Los Angeles-headquartered Reliance Steel & Aluminum, and rival US metals giant Alcoa flexed its muscles in the fourth quarter when it signed a definitive agreement to buy German titanium castings specialist TITAL.

Alcoa expects TITAL's revenues from titanium to increase by 70% over the next five years and is hoping the acquisition will strengthen its ability to capture the growing demand for advanced jet engine components made out of the lightweight metal. The titanium castings market remains relatively fragmented and is likely to be a target for further consolidation going forward.

Investment firms are also keeping a keen eye on the aerospace metals market and Q4 saw Ohio-based Mifsud Group acquire Illinois-based Montana Metal Products. The latter fabricates sheet metals for a range of sectors, including aerospace.

Testing times continue

Another trend which carried over from Q3 was the continued popularity of specialist aerospace testing firms. Barcelona-based testing, inspection and certification company Applus+ entered the North American aerospace testing market through the acquisition of three firms from Integrity Aerospace Group (IAG) and other minority shareholders. The three companies – X-Ray Industries, N-Ray Services and Arcadia Aerospace – are premier suppliers of non-destructive testing to the aerospace market and gas turbine industry.

And Massachusetts-based test equipment supplier Teradyne acquired Nebraska-based test instrumentation producer Avionics Interface Technologies (AIT). AIT will be operated as an independent division within Teradyne's Defense and Aerospace business unit.

Key Takeaways

- China played a significant role in the aerospace M&A space, with AVIC International Holding and high-tech company KuangChi Science both making multiple overseas investments
- A spate of engine joint venture deals were struck in Q4, including three involving Safran which saw the French company boost its presence in China and India
- Acquisition activity in the metals world continued to be strong in the fourth quarter, with Alcoa making a key move in the titanium segment and investment company Mifsud Group entering the sheet metal space
- Specialist aerospace testing firms remained strong acquisition targets, proving once again the growing importance of this sector

Airport Highlighted Transactions and Trends

Key Airport Deals

China got involved in European airport investment in Q4 when Chinese investors took stakes in Toulouse Blagnac International Airport in France and Parma International Airport in Italy. The big news in the UK was the receipt of regulatory approval by Spanish infrastructure firm Ferrovial and Australian fund Macquarie to acquire Aberdeen, Glasgow and Southampton airports from Heathrow Airport Holdings for GB£1.045bn (US\$1.57bn).

Ontario Teachers' Pension Plan demonstrated its continued appetite for UK airport investments when it bought an additional stake in Birmingham Airport (now at 48.25%) from Victorian Funds Management Corporation, following on from its Q3 acquisition of a 50% stake in Bristol Airport. Meanwhile, signs that Myanmar is coming in from the cold and repairing relations with the West resulted in two key airport deals which took place in the country in the fourth quarter.

China Lands in Europe

Chinese M&A activity permeated the airports market in addition to the aviation and aerospace sectors in the fourth quarter. The Symbiose consortium – which comprises infrastructure company Shandong Hi-Speed Group and Friedmann Pacific Asset Management, which has links to Chinese aircraft lessor CALC together with

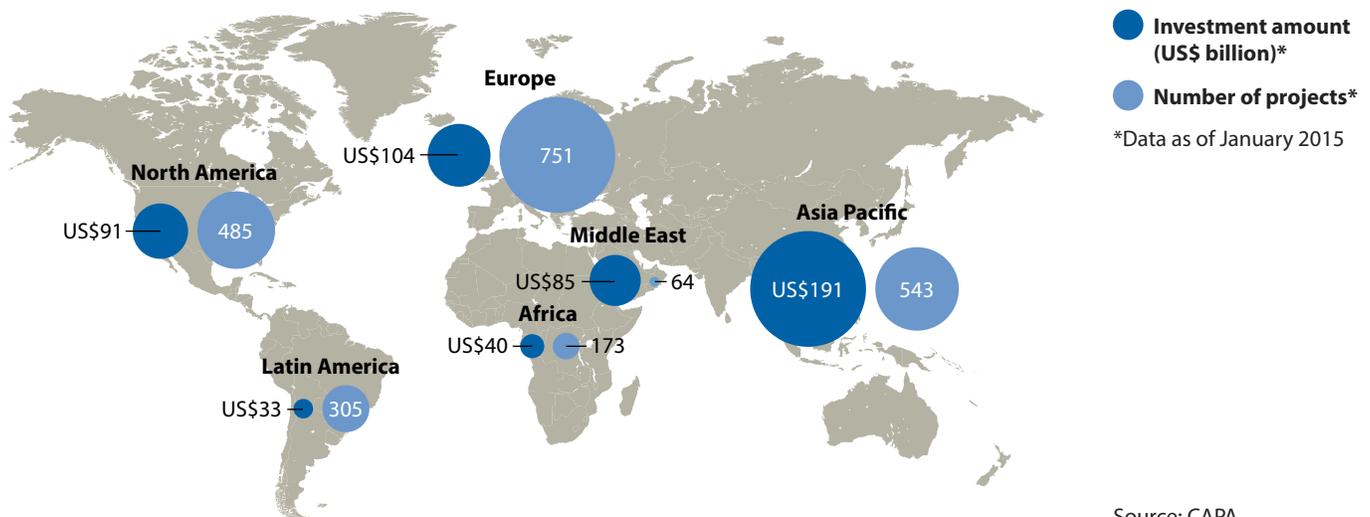
SNC Lavalin Group – acquired a 49.99% stake in Toulouse Blagnac Airport from the French government for €308m (US\$345.2m) under a partial privatization of the facility.

The deal is particularly interesting because Toulouse Blagnac, in addition to being a commercial airport, is where Airbus is based, and CALC is an Airbus customer. If the deal closes, the French government will be left with a 10.01% stake in the airport.

Italian Moves

Italian airport privatization activity continued in Q4 with the sale of two airports. F2i sold a 49% stake in its airport holding to Ardian and Credit Agricole. Ardian already has a strong relationship with F2i, having being involved in previous investments. Rumours persist that the new infusion of capital will prompt a renewed focus from F2i to capture a further stake in the Milan airports

Construction on Existing Airports by Region



“The contract to build a new terminal building at New York’s LaGuardia Airport was slated to be awarded during the summer of 2014, but the decision slipped first to early autumn and then to the end of the year. The decision has still not been made.”

system (SEA) currently owned by the City of Milan. Also completed was the acquisition by privately-held Chinese big data-based services provider and online shopping mall specialist IZP Technologies’ of Parma International Airport. IZP says that following the acquisition it will “further expand the scale of Parma Airport to become a China-Europe logistics center for global enterprises.

Port Authority Unable to Close

The contract to build a new terminal building at New York’s LaGuardia Airport was slated to be awarded during the summer of 2014, but the decision slipped first to early autumn and then to the end of the year. The decision has still not been made. Two consortia are rumored to remain in contention – LGA Central Airport Consortium (Aéroports de Paris, TAV Construction, Goldman Sachs, Suffolk Construction and STV) and LaGuardia Gateway Partners, a partnership of Vantage Airport Group, Skanska, Meridiam Infrastructure, Walsh Construction, Parsons Brinckerhoff, Morgan Stanley, Citigroup and Wells Fargo). Given recent history, and Governor Cuomo’s recent announcement of a new rail line to the airport, a swift conclusion looks unlikely at best.

The feeling remains that selecting a consortium to replace LaGuardia’s outdated Central Terminal Building might (possibly, hopefully) trigger a wave of privatisations in the United States. The capital investment this would release would allow the renewal and reinvigoration of a slew of outdated and outmoded assets. It would be transformational. The benefits to strained state and city finances are obvious; the benefits to the travelling public—through enhanced service levels and a more enjoyable travelling experience—perhaps less so, but in our view are equally important.

Conversely, abandoning the deal will send a powerful message that it’s simply too difficult to invest in a US airport. The barriers of political interference, sceptical and intransigent airlines and labour unions, and an unappealing regulatory framework risk being viewed as more trouble than they are worth. Why bother, with the expected upsurge in attractive investment alternatives elsewhere in the world? As you might imagine, our fingers remain firmly crossed for a successful closure of the deal.

Will Japan Open?

In Asia-Pacific, the Japanese government gave a long-awaited kick-start to the privatization of Kansai International Airport and Itami Airport in mid-2014, however, Japanese investors remain hesitant to commit to the process, given the transaction terms and conditions. Indicative bids have been delayed from February to May 2015 and this will provide a good indicator as to how realistic a chance the process has in finding private investment/management.

A Dark Horse Wins Billy Bishop

Creeping into 2015, Billy Bishop Toronto City Airport was sold to a Canadian consortium led by InstarAGF. The acquisition of the terminal concession is highly dependent on Porter Airlines, a regional turboprop carrier that is the current owner of the terminal building. Porter accounts for 75% of current traffic. The only other significant operator – Air Canada – has at best an ambivalent attitude to the airport; its continued existence detracts from the flag-carrier’s ability to consolidate operations at its Toronto Pearson hub.



Ferrovial Proves Commitment

Spanish infrastructure firm Ferrovial and Australia's Macquarie Infrastructure Fund were given the green light by European regulators in the fourth quarter to acquire Aberdeen, Glasgow and Southampton airports in the UK from Heathrow Airport Holdings (HAH) for GB£1.045bn. The deal leaves HAH – which is partially owned by Ferrovial – with just one airport, London Heathrow. The operator's portfolio used to contain London Gatwick and London Stansted in addition to the three airports that are being sold to Ferrovial/Macquarie. Aberdeen, Glasgow and Southampton will continue to be managed locally but will be equally held by Ferrovial and Macquarie.

Staying with the UK, Ontario Teachers' Pension Plan (OTPP) – which acquired a 50% stake in Bristol Airport in Q3 – illustrated its continued confidence in the UK airports sector by boosting its shareholding in Birmingham Airport in the fourth quarter. OTPP bought Victorian Funds Management Corporation's 19.25% stake in Birmingham for an undisclosed sum to increase its stake in the Midlands-based airport to 48.25%. The Canadian pension fund first invested in Birmingham Airport in 2001 and increased its stake in 2007. The airport handles about 9.5 million passengers a year.

Beware of Greeks Selling Airports

In November 2014, Fraport AG and its partner Copelouzos Group were selected as the preferred investor for a 40-year operating concession for 14 regional airports in Greece, including Aktio, Chania (Crete), Kavala, Kefalonia, Kerkyra (Corfu), Kos, Mitilini, Mykonos, Rhodes, Samos, Santorini, Skiathos, Thessalonik, and Zakynthos. Combined, these airports served approximately 19 million passengers in 2013 with a total purchase price of 1,234 million euros to be paid at financial closing (anticipated in fall 2015). However, with the recent election of the leftist Syriza party, there is some doubt as to whether this transaction will actually close.

A New Concession in Colombia

In Barranquilla, Colombia, the National Infrastructure Agency (ANI) announced in December 2014 the selection of Valorcon, Equipos Universal and Inversiones Millenium Azipo as the winning consortium. The group has committed to invest US\$132mn in improvements at Ernesto Cortissoz International Airport, including improving the freight and passenger terminals and upgrading the runway and taxiways. The 20-year concession includes a 120bn-peso (US\$62mn) investment within the first five years of the contract. The concession contract should be finalized in the first quarter of 2015.

Santiago Selects

Also occurring in December 2014, Chile's Ministry of Public works (MOP) received binding bids for the retendering of the concession for Santiago's Arturo Merino Benitez International Airport, which expires in September 2015. Selection of a preferred bidder is anticipated in early 2015. The new concession will have a duration of 15 years, lasting until 2030, and requires the development of a 200,000 m² new international passenger terminal, renovation and expansion of the existing domestic passenger terminal, and construction of a multi-storey car park. The project aims to triple the airport's capacity to 29 million passengers per year by 2030. It has been just announced that a French consortium of Vinci Airports and Aéroports de Paris has won this concession, pledging 78% of the gross revenue of the airport as a concession payment.

Myanmar Confidence Returns

Following the lifting of years of US and EU sanctions on Myanmar in 2012, there are signs that investor confidence in the former pariah state is beginning to return. Two key airport deals in Q4 underlined this trend. A consortium led by Singapore construction firm Yongnam Holdings and including a subsidiary of Changi Airports International in October won a US\$1.4bn contract to build a new airport for Yangon.

The contract to build Hanthawaddy International Airport was awarded by Myanmar's Department of Civil Aviation after talks with a consortium led by South Korea's Incheon Airport broke down. The new airport

will be located almost 50 miles from Yangon and will have capacity to handle 12 million passengers a year.

Air traffic is expected to increase to Myanmar as relations with the West continue to thaw. Also spotting this opportunity in Q4 was a joint venture between Japan's Mitsubishi Corporation and Jalux, which won a US\$86m concession to operate Mandalay International Airport for a period of 30 years. The bulk of the venture will be held by Mitsubishi and Jalux, but Myanmar-based Yoma Development Group will hold a 9% stake.

The Year in Review

Last year saw a number of deals centered on primary airports, and infrastructure, pension and private equity funds provided a significant slice of the financing. In Europe, airport privatization was a key theme of 2014, particularly in France and Italy. There was strong activity in the UK airport market with Heathrow Airport Holdings (formerly BAA) selling off the remainder of its portfolio, excluding London Heathrow, and pension funds making a beeline for secondary and regional airports. Other countries continue on the path of private sector involvement in airport privatization as a proven tool to generate investment in infrastructure and improve operating efficiencies.

The prices paid for airports in 2014 continued their upward trend. While still below the values reached during 2005 and 2007– transactions for which we have data had an average EV/EBITDA of 18x, well above the nadir of 11x following the 2008 economic crisis, but nowhere close to the 25x to 30x paid by investors in the early 2000's.

Key Takeaways

- With Toulouse Blagnac Airport in France being sold, French regional airport privatization may finally achieve traction. And there appear to be other airports that may soon be privatized (e.g. Nice Cote d'Azur Airport)
- Secondary sales continue actively, with the share sale of Aberdeen, Glasgow and Southampton to Ferrovial and Macquarie, and a further investment in Birmingham by Ontario Teachers' Pension Plan
- Japan is struggling to achieve its objective of removing the debt of Kansai airport from the Federal balance sheet through privatization
- Developing marketing to actively pull the private sector into airport operations and investment. This will continue in 2015, which we believe will be a banner year

About ICF International

ICF SH&E, the oldest consultancy dedicated solely to serving the air transport industry, is now doing business as ICF International. Our aviation and aerospace professionals have been drawn from financial, commercial, and technical segments of the industry, from airlines and from the businesses that serve airlines, such as lessors; maintenance, repair, and overhaul companies (MROs); aircraft manufacturers; and distribution companies.

ICF's transaction advisory practice provides expert financial, strategic and operational advice to corporate clients, investment banks, private equity firms, sovereign wealth funds and other institutional investors.

ICF International is a leading policy, management, and technology consulting firm with a staff of 4,500 and offices worldwide. ICF provides our aviation practice invaluable expertise in the fields of digital and interactive technology, business resiliency and emergency preparedness, energy efficiency, environmental sustainability, and strategic communications and marketing.

For more information, please visit us at www.icfi.com/aviation

Contact:

David B. Mitchell

Head of Transaction Advisory - Aviation & Aerospace

ICF International, 630 Third Avenue, 11th Floor, New York, NY 10017 USA

david.mitchell@icfi.com | +1 212 656 9151



ICF International has more than 70 locations worldwide, including offices in:

The Americas

New York

630 Third Avenue, 11th Floor
New York, NY 10017 USA
Tel: +1 212 656 9200

Washington

9300 Lee Highway
Fairfax, VA 22031 USA
Tel: +1 703 934 3000

Boston

One Main Street
Cambridge, MA 02142 USA
Tel: +1 617 218 3500

Ann Arbor

101 North Main Street, Suite 400
Ann Arbor, MI 48104 USA
Tel: +1 734 786 5276

Europe, Middle East, Africa

London

6th Floor, Watling House
33 Cannon Street, London
England
EC4M 5SB
Tel: +44 20 7242 9333

Asia-Pacific

Beijing

China Overseas Plaza
Tower 2, Suite 2001, 8 Guanghua
Dongli Chaoyang, Beijing, 100020
China
北京朝阳区光华东里8号中海广场2
号楼2001, 邮编 100020
T 电话 +86 10 65628305

Hong Kong

19/F, Heng Shan Centre, 145 Queen's
Road East, Wan Chai, Hong Kong
Tel: +852 2868 6980

Singapore

314 Tanglin Road # 01-05
Phoenix Park Office Campus
Singapore 247977
Tel: +65 6884 4951

Mergers & Acquisitions • Privatizations • Divestitures • Start-ups • Joint Ventures • Strategic Alliances



Rexnord acquired Micro Precision
Rexnord was advised by ICF SH&E



Cinven invested in Avolon
Cinven was advised by ICF SH&E



Kidd & Company acquired Imaginetics
Kidd & Company was advised by ICF SH&E



Goldner Hawn Johnson & Morrison
recapitalized Universal Turbine Parts
GHJM was advised by ICF SH&E



Blue Point Capital acquired Selmet
Blue Point was advised by ICF SH&E



Kidd & Company acquired NUMET
Kidd & Company was advised by ICF SH&E



Isthmar invested in SpiceJet
Isthmar was advised by ICF SH&E



Hawaiian emerged from Ch. 11 providing
100% recovery to unsecured creditors
Trustee was advised by ICF SH&E



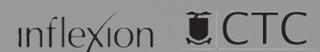
Caribbean Airlines acquired Air Jamaica
ICF SH&E advised the IFC



LDC acquired AIM Group
LDC was advised by ICF SH&E



DAE acquired StandardAero
DAE was advised by ICF SH&E



Inflexion acquired CTC Aviation Group
Inflexion was advised by ICF SH&E



IS Private Equity & HSBC acquired Havas
IS PE & HSBC were advised by ICF SH&E



Bravia Capital Partners & HNA Group
acquired Allco Aviation
Bravia was advised by ICF SH&E



Sciens Capital invested in
Apollo Aviation Group
Sciens Capital was advised by ICF SH&E



The IFC provided equity financing
to Kenya Airways
The IFC was advised by ICF SH&E



The IFC provided debt financing
to TAM
The IFC was advised by ICF SH&E



Privatization of
Medina airport
The IFC was advised by ICF SH&E



Part of The Mergermarket Group

www.mergermarketgroup.com

330 Hudson St. FL 4
New York, NY 10013

t: +1 212.686.5606
f: +1 212.686.2664
sales.us@mergermarket.com

80 Strand
London
WC2R 0RL
United Kingdom

t: +44 (0)20 7059 6100
f: +44 (0)20 7059 6101
sales@mergermarket.com

Suite 2401-03
Grand Millennium Plaza
181 Queen's Road, Central
Hong Kong

t: +852 2158 9700
f: +852 2158 9701
sales.asia@mergermarket.com

Disclaimer

This publication contains general information and is not intended to be comprehensive nor to provide financial, investment, legal, tax or other professional advice or services. This publication is not a substitute for such professional advice or services, and it should not be acted on or relied upon or used as a basis for any investment or other decision or action that may affect you or your business. Before taking any such decision, you should consult a suitability qualified professional adviser. Whilst reasonable effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed and neither Mergermarket nor any of its subsidiaries or any affiliate thereof or other related entity shall have any liability to any person or entity which relies on the information contained in this publication, including incidental or consequential damages arising from errors or omissions. Any such reliance is solely at the user's risk.