

### *Expectations For M&A During The Year Ahead*

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Fairmont expects 2024 to be a vibrant year for M&A across the Aerospace & Aviation, Defense, Space, and Government Services sectors where we operate. The majority of our client base, whether financial sponsors or corporate entities, continues to take a forward-leaning approach to acquisitions across multiple sectors of the market.

Reflecting on 2023, Fairmont was proud to experience our busiest year in the history of the firm. We are now reinforcing our team, tools, and resources in anticipation of a rise in deal activity in 2024, as both corporate buyers and financial sponsors look to M&A to drive growth and generate long-term returns.

Fairmont expects growing deal activity in **Commercial Aviation** commensurate with the continued resurgence of post-pandemic commercial travel, supporting demand at all levels of the commercial supply chain. This outlook is complicated to a degree by the OEM and supply chain implications of the recent 737 MAX 9 problems. Although easing, a supply constrained environment continues to favor sustainment of legacy aircraft, further buoying a robust MRO market. Business and general aviation markets, although much smaller, have attractive tailwinds.

In **Defense & National Security**, active wars in Ukraine and Gaza combined with ongoing threats from Iran, North Korea, China, and others are driving both rapid, conflict-shaped tech development and faster procurement of weapon systems. The Defense Investment account grew to more than \$300B in FY24. Whether this growth will be

sustained is uncertain, and the subject of debate given the upcoming Presidential election. The range of security challenges facing the United States has exposed gaps within the defense industrial base. The amount and nature of funding to address these challenges will have implications for defense and security transactions in the year ahead.

In the **Government Services** sector, IT modernization and expanding missions in civilian agencies continue to create a strong market for services and solutions providers. Deployment of AI-based tools will continue and improve the performance and productivity of a host of people-driven functions.

The **Space** sector will continue to show rapid growth driven by the mix of national security multi-orbit architecture requirements and commercial LEO constellations, but consolidation will occur as winners emerge. While buyers have become more discerning in considering Space platforms, differentiated companies in the supply chain, as well as providers of sensing and analytics, will continue to be in strong demand.

At a more macro level, the M&A push is supported by multiple, varied dynamics, including:

- Renewed optimism regarding the broader U.S. economy, as indicators of lower inflation and stronger than expected growth proliferate
- Confidence in the continued stability and growth of the federal budget and sector-specific spending within Aerospace, Defense and Government Services

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- Somewhat improved access to debt in support of transactions
  - Substantial dry powder in private equity, combined with corporate resources available for deployment in acquisitions
  - Continued customer demand for innovative solutions and an enduring dynamic of outsourcing to industry
  - Faster access to technology, capabilities, contracts, and skilled personnel than could be achieved through organic investments

This optimism is tempered to a degree by countervailing factors, including lingering economic uncertainty, continued supply chain challenges in some sectors, and a pending election that has the potential to affect policy and market factors. Importantly, the scarcity value of blue-chip assets of scale reinforces strong valuations.

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Throughout 2023 Fairmont observed many of these factors contributing to an important market development: the mutual desire on the buy side and the sell side for many deal processes – no matter what the sector – to move at a faster pace from initiation to close. This dynamic advantages participants who are prepared, informed, and ready to conduct comprehensive and effective diligence expeditiously and efficiently.

To succeed in this evolving and increasingly complex market environment, prospective buyers with an existing plan to execute the core of their market diligence efficiently and effectively as opportunities emerge have a distinct advantage. In many cases, this requires positioning ahead of a deal process

with enhanced market knowledge and analysis, or being able to get up to speed on the necessary areas of critical analysis very quickly.

Positioning for success is increasingly dependent on a preexisting understanding of relevant market and sector dynamics, which face growing complexity as economic conditions and policy dynamics evolve. The ability to conduct rapid, expedited, and relevant analysis to gain a full understanding of risks and opportunities allows a buyer to maintain a critical edge in an expedited process. Perhaps most important in such processes is the critical ability for a buyer to understand a target company's relative alignment with sectors of higher annual growth.

This challenge can largely be addressed through a systematic approach to strategic due diligence. Buyers need to evaluate multiple factors, including macro market dynamics, competitive pricing pressures, supply chain dynamics, political and budgetary factors, regulatory issues, as well as company-specific concerns that will affect both the tactical decisions leading to a successful transaction and the strategic, long-term prospects for a compelling return on investment.

At the core of this analysis is a rigorous and objective evaluation of the target company's forecast. It is the central analytical tool and the key output of an effective strategic diligence effort. When executed properly, the forecast integrates all the factors noted above and establishes a basis for both transaction valuation and post-acquisition strategic planning.

Identification and assessment of the key market, budget, and competitive factors that will ultimately influence and inform an effective assessment and handicapping of a target's forecast is critical. Should 2024 be as busy in the M&A sector as expected, buyers will be wise to begin preliminary analysis of key targets and preferred sectors early in expectation of more expedited deal processes.

# FAIRMONT

## CONSULTING GROUP

*Fairmont provides corporate clients and private equity sponsors with objective, unbiased research, analysis and recommendations in support of critical strategic decisions regarding whether, when, and how to invest time and capital to achieve objectives and generate optimal returns.*

Fairmont has supported **250 corporate and private equity clients** in aerospace, defense, space and government services since inception, including **60 clients in 2023**.

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Fairmont has executed **600+** engagements, including **84 in 2023**.

- Buy Side Diligence Assignments
- Sell Side Market Studies
- Strategy Engagements

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- ❑ Defense
  - ❑ Aerospace & Aviation
  - ❑ Hybrid A&D
  - ❑ Government Services
  - ❑ Space

*Fairmont leverages industry-leading market expertise, data-driven analysis, proprietary methodologies and data models, and an unbiased, conflict-free approach to assist our clients in achieving their objectives in an increasingly complex market.*

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M&A transaction values ranging from **\$25 Million to \$7+ Billion**

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## *Defense, Aerospace, Government Services & Space*

- Market Analysis & Strategy
- Buy Side Due Diligence
- Sell Side Market Studies
- Strategic Positioning In Advance Of Sale Process
- Acquisition Screens & Target Identification
- Post-Acquisition Market Analysis & Strategy
- Tactical BD Planning / Pipeline Support
- Long-term Corporate Planning Support – Market Forecasting & Strategy Alignment
- Diagnostic Assessments (Including Voice Of The Customer)
- Portfolio Review And Assessment (Invest / Hold / Divest)
- Adjacent Market Analysis & Execution Planning
- Competitive Assessments And Benchmarking
- IR&D Rationalization / Optimization
- Bespoke Support For Specific Situations / Concerns / Topics Of Interest To Corporate Leadership

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