

# Helicopter Manufacturers

## 4 Major Players

March 18, 2015

### Overview

This report was prepared by Cogency Group Partners Inc. It provides some basic information on the 4 major players in helicopter manufacturing, with a focus on AgustaWestland. Each of the 4 players is owned by a public company. The table below includes a broad range of information.<sup>1</sup>

Name	Market Share					Investment Returns						
	Civilian	Military	Revenue	Earnings	Owner	Revenue	Earnings	Market Cap	TEV	2013	2014	YTD
AgustaWestland	16%	6%	€4,376	€543	Finmeccanica S.p.A.	€14,663	€1,080	€6,526	€11,875	90%	49%	17%
Airbus Helicopters	44%	11%	€6,524	€413	Airbus Group N.V.	€60,255	€3,493	€43,418	€61,169	89%	(26%)	34%
Bell Helicopter	21%	4%	\$4,245	\$529	Textron Inc.	\$13,878	\$1,214	\$12,407	\$16,515	40%	15%	5%
Sikorsky Aircraft	7%	21%	\$7,451	\$219	United Technologies Inc.	\$65,100	\$9,769	\$109,475	\$129,143	54%	1%	6%

### The Companies

**AgustaWestland** is based in Rome, Italy. It is a subsidiary of Finmeccanica S.p.A. (FNC-MI). The Italian Ministry for the Economy and Finance owns 30.2% of FNC. Agusta of Italy and Westland of the UK were both established in the 1950s. In 2001 FNC and GKN plc of the UK established a 50:50 joint venture company named AgustaWestland. In 2004 FNC acquired GKN's 50% stake. The past 3 years have been difficult for FNC. It incurred substantial financial losses and suffered a downgrade of its €4.3 billion debt to junk status. This period was characterized by an untimely US investment and a high profile Indian military contract scandal. In May 2014 government business fixer Mauro Moretti was named CEO. In January 2015 FNC's board approved a 5 year Industrial Plan. The plan reduces the number of businesses, refocuses resources, cuts costs and restores profitability. It also promotes a centralization of management at FNC. Its days as a holding company are over. Consistent with this plan, FNC recently announced the sale of its rail businesses to Hitachi for €1.9 billion. The sale will reduce debt by €600 million. FNC is also expected to reduce its investment in DRS Technologies, the US defense contractor. DRS was acquired in 2008 for €3.4 billion. Fitch Ratings, the global ratings agency, had a cautious response to the plan. In a February note it said, "Fitch believes that the outlined cost-reduction measures may prove difficult to achieve in the stated timeframe" and "that disposals were crucial." By comparison, equity markets have responded very positively to the plan. Shares have appreciated 17% so far this year. As illustrated by investment returns, equity markets have been very positive about FNC for more than 2 years. These are important times at Finmeccanica.

<sup>1</sup> Market share information is for 2014 and from Airbus Helicopters. Euro and US dollar amounts are in millions. Revenue and earnings are 2014 annual financial results. Earnings are a mixture of EBITDA, EBIT and other operating income metrics. Market caps and YTD investment returns are at February 27, 2015.

## Helicopter Manufacturers cont'd

---

AgustaWestland is the most profitable business at FNC. Its importance is only going to increase as FNC downsizes. AgustaWestland will continue to be positioned as innovative and technologically advanced. R&D is around 12% of revenue compared to 5% at Airbus. Other objectives are to maximize international and civilian market growth. While it has a substantial international presence, it has not achieved its potential in the Canadian civilian market. It has offices in Halifax to support its military presence and those of Alenia Aermacchi, another FNC business. As an aside, Alenia will be a serious competitor in the upcoming Fixed-Wing Search and Rescue RFP with Public Works and Government Services Canada. AgustaWestland's civilian customers and relationships in Canada include Arrow Leasing, Ornge, Chartwright Aviation, STARS and London Air Services. These names illustrate the suitability of AW109s and AW139s to the EMS and corporate markets. In order to maximize the potential of the Canadian civilian market, it is expected that the company will increase its commitment to its sales and service platform. FNC's 5 year Industrial Plan spells out that for AgustaWestland to strengthen its leadership on a global basis, it must expand its service activities. This will be ever more important to customers considering future deliveries of more sophisticated and more expensive AW169s and AW189s.

**Airbus Helicopters** is based in Toulouse, France. It was established in 1992 as Eurocopter with the merger of the helicopter divisions of Aerospatiale (France) and MBB (Germany). In 2014 it was rebranded as Airbus Helicopters, a member of Airbus Group (AIR-PA). Airbus Helicopters is the leading helicopter manufacturer in the world, but is a small part of Airbus Group which is dominated by Airbus aircraft manufacturing. Airbus Helicopters has been operating in Canada since 1984. Its head office and a manufacturing facility is in Fort Erie, Ontario. It has customer support centers in Richmond, BC and Montreal, Quebec. They serve 190 operators with more than 690 helicopters.

**Bell Helicopter** is based in Fort Worth, Texas. It was established in 1935. Bell is a subsidiary of Textron Inc. (TXT-N). TXT also owns Cessna and Beechcraft. Bell was the first company to obtain certification for a commercial helicopter. Bell has had a substantial presence for many years in both civilian and military markets in Canada. In 1986 it established its Mirabel manufacturing operations. The 660,000-square-foot facility is responsible for the design and manufacturing of most of Bell's commercial helicopters. It has produced nearly 4,000 helicopters for delivery worldwide from this plant. Mirabel and Calgary provide product support.

**Sikorsky Aircraft Corp.** is based in Stratford, Connecticut. It was established in 1925. It is a subsidiary of United Technologies Corporation (UTX-N). UTX also owns Pratt & Whitney. Sikorsky's military focus, its limited growth prospects and its lack of profitability are no longer a fit for UTX. It is expected that Sikorsky will be sold or spun out in 2015. The company is best known for its heavy helicopters that are used by all five branches of the US armed forces along with military services and commercial operators in 40 nations including Canada. Sikorsky does not have a manufacturing or bricks and mortar sales & service presence in Canada.

For more information:

Jack Muir        604-836-8782  
Rick Wlodarczak 604-785-8604

*This report was prepared by Cogency Group Partners Inc. ("Cogency"), an investment firm based in Vancouver, Canada. It was prepared from publicly available information. The information is from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed, nor in providing it do Cogency, Jack Muir or Rick Wlodarczak assume any responsibility or liability.*

---