

## 2023 Year-End Sector Report: Aerospace & Defense

In our 2022 Year-End Update, we highlighted the slowing deal activity in the second half of 2022 for Aerospace & Defense (A&D) deals launched to market. Throughout 2023, that trend persisted. In fact, 2023 was one of the slowest years for M&A activity in the past decade, and the A&D sector was not exception to that slowdown.

Moreover, stubborn fundamental challenges persist throughout the A&D landscape and present ongoing hurdles for businesses. For one, the A&D supply chain continues to be strained. In commercial Aerospace, specifically, the complex and large supply chain network has created a multi-bottleneck situation for Original Equipment Manufacturers (OEMs) and an expanding backlog of work for supporting suppliers. Although improving, production rates are still not yet at pre-COVID levels and OEM CEOs are on the record that they do not anticipate a full recovery to occur in 2024.

Specific to the Defense industry, last year we noted rising geopolitical tensions. In 2023, those tensions only became more pronounced with no signs of slowing down. As regional wars in eastern Europe (Ukraine/Russia) and the Middle East (Israel/Hamas), or threat of wars (China/Taiwan), persist, governments are expanding their defense budgets from an already elevated level seen in 2022. Whether it be superpowers like the US and China or regionally focused military players like Sweden and Indonesia, military budgets are growing globally. As such, defense companies are seeing record Request for Proposals (RFPs) and expanding backlogs for everything from standard munitions to cutting-edge hypersonic missiles.

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