



SAFRAN AND ZODIAC AEROSPACE, A NEW GLOBAL LEADER IN AEROSPACE

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Agreed Public Cash Offer by Safran of €29.47 per Zodiac Aerospace share and subsequent merger on the basis of 0.485 Safran share (ex-special dividend) for one Zodiac Aerospace share with pre-closing €5.50 per share special dividend to Safran's shareholders.

Unique combination to enjoy global leadership positions across the whole aircraft value chain with a comprehensive range of world-class products and services. Strong post-delivery and aftermarket revenue stream balancing exposure to OEM delivery cycle.

No. 3 player in aerospace¹ with combined revenues of over €21bn² balanced between propulsion and aircraft equipment No. 2 player in aircraft equipment with combined revenues of c. €10bn³ Optimized capital structure of the combined group targeting an investment grade profile. Safran intends to maintain its dividend practice unchanged thanks to strong cash generation.

Run-rate annual pre-tax cost synergies of €200m identified, to accelerate in the long term. Double-digit accretive effect on earnings per share⁴ as of the first full fiscal year of consolidation.

Safran (Euronext Paris: SAF), an international high-technology group and tier-1 supplier of engines, systems and equipment in its core markets of Aerospace, Defense and Security, and Zodiac Aerospace (Euronext Paris: ZC), a global leader in Aerosafety, Aircraft systems, Seats and Cabins, today announced that they have entered into exclusive negotiations for an acquisition of Zodiac Aerospace by Safran through an agreed public offer of €29.47 per share and a subsequent merger on the basis of 0.485 Safran shares for one Zodiac Aerospace share. Prior to and conditional upon the merger, Safran would distribute a special dividend of €5.50 per share to its existing shareholders.

Under the terms of the contemplated agreement:

- Safran would launch a tender offer on Zodiac Aerospace's shares⁶ at €29.47 per share, representing a premium of 24.6 per cent on Zodiac Aerospace's closing price on 18th, January, 2017, 36.1 per cent on Zodiac Aerospace's 3-month volume-weighted average price. The tender offer would be subject to an acceptance threshold of 50% of the share capital of Zodiac Aerospace. Family shareholders and two institutional investors (FFP and Fonds Stratégique de Participations) which are Zodiac Aerospace's reference shareholders and in total represent approximately 32 per cent of Zodiac Aerospace's share capital, intend to remain long-term shareholders of the combined entity and would undertake not to tender their shares into the public offer;

- Subject to the tender offer being successful and to Safran and Zodiac Aerospace's respective shareholders' approval of the merger, Safran and Zodiac Aerospace would merge based on an exchange ratio of 97 Safran shares (ex-special dividend) for 200 Zodiac Aerospace shares (or 0.485 Safran share (ex-special dividend) per Zodiac Aerospace share), consistent with the tender offer price after taking into account the special dividend. Family shareholders and two institutional investors (FFP and Fonds Stratégique de Participations) would undertake to contribute their shares to the merger;

- Prior to and conditional upon the merger, and subject to the tender offer being successful and to Safran and Zodiac Aerospace's respective shareholders' approval of the merger, Safran would distribute a special dividend of €5.5 per share, for a total amount of approximately €2.3bn to its shareholders.

Zodiac Aerospace's founding families, FFP, Fonds Stratégique de Participations and the French State intend to remain core shareholders of Safran with around 22 per cent⁷ of its capital, and, upon completion of the transaction, to sign a shareholders agreement comprising a two-year lock-up provision.

Combining two market leaders

The transaction would create a global leader in aircraft equipment, allying the market leading positions, expertise, technologies and talents of both Safran and Zodiac Aerospace. The new entity would combine Safran's capabilities in landing gear, wheels and brakes, nacelles, power systems, actuation and avionics, with Zodiac Aerospace's leading positions in seats, cabin interiors, power distribution, lighting, fuel, oxygen and fluid systems and safety equipment. In electrical systems, Zodiac Aerospace's assets would reinforce Safran's portfolio of technologies

and position the group ideally for future developments towards the “more electrical aircraft”. On a pro forma basis, including Safran’s world leading propulsion business, the combined group would have around 92,000 employees (of which more than 45,000 in France), c. €21.2bn in adjusted revenues⁸ and c. €2.7bn in adjusted recurring operating income⁸. On this basis the combined group would form the third largest player worldwide in the aerospace sector⁹. The combined group would become the second largest player worldwide in aircraft equipment with pro forma revenues in these businesses of c. €10bn¹⁰. It would be present in over 60 countries.

Reinforcing core aerospace business and enlarging footprint

The transaction would be fully consistent with Safran’s stated strategy to focus on its core aerospace and defense businesses. The new entity would offer a comprehensive product range reinforcing Safran’s presence across all key aircraft programs, fueling organic growth and limiting exposure to aircraft-OEM delivery cycles.

The combination would improve Safran’s exposure to a dollar-denominated cost-base, especially in North America where Zodiac Aerospace has a large footprint.

Creating value

Safran has already identified €200m p. a. of cost synergies, of which 50% should be achieved in year 1 and 90% in year 2, enabling the transaction to meet Safran’s RoCE goal in 3 years. Synergies should come from savings in procurement and SG&A and the optimization of the combined group’s footprint. Beyond identified cost synergies, Safran would enable Zodiac Aerospace’s seats and interiors business to accelerate their recovery and progress towards or above their historical margin levels.

The transaction would be expected to have a double-digit accretive effect on earnings per share¹¹ as of the first full fiscal year of consolidation.

Ross McInnes, Chairman of Safran’s Board of Directors stated: “Safran’s Board of Directors is very proud to contribute to a new chapter in Safran’s story. This planned acquisition is fully consistent with the strategy we clearly outlined almost a year ago at our Capital Markets Day, to bolster Safran’s core aerospace activities with quality businesses which share our DNA: technology, tier-1 positions and recurring revenue streams. It will strengthen our position and create significant value through integration and synergies. The Board of Directors is unanimously supportive because it is favorable for Safran’s shareholders, employees and partners. I extend a warm welcome to Zodiac Aerospace’s teams with whom we are excited to embark on this journey.”

Didier Domange, Chairman of Zodiac Aerospace’s Supervisory Board, said: “The creation of this new global leader in the aerospace industry is led by a strong industrial rationale and a long term vision. The new group will be ideally positioned to support its clients in their ambitious programs for the future. We are delighted to participate in the combination of two leaders of the industry with complementary positions and strong innovation abilities dedicated to their customers.”

Philippe Petitcolin, CEO of Safran, said: “The acquisition of Zodiac Aerospace represents a unique opportunity at this point in Safran’s development, just a few months after initiating the refocus of the group on our core activities of Aerospace and Defense. The technological complementarities will ensure that we accelerate domains as strategic as critical systems and the more electrical aircraft, which make up 40% of Zodiac Aerospace’s activities. Our industrial expertise will also accelerate the return to their historical levels of profitability in the seats and cabin activities. Finally, and above all, the strength of Safran’s managerial talent and the timing of this transaction will ensure the success of integrating Zodiac Aerospace into our Equipment businesses while Propulsion is focused on the LEAP programme. I am eager to drive this strategic move.”

Olivier Zarrouati, Chairman of Zodiac Aerospace’s Management Board, said: “The combination with Safran will lead to the creation of a world leader, with a high technological know-how, able to shape the future of aerospace. It will benefit our employees, our clients and our shareholders; it represents a new step in the consolidation of the aerospace industry. We are proud of Zodiac Aerospace’s industrial and commercial achievements and excited by the prospect of joining Safran and creating a global leader, with a strong European base.”

Financing

Safran will finance the cash portion of the transaction and its special dividend with a combination of cash on hand, including future proceeds from the disposals of Safran Identity & Security, existing committed undrawn facilities and a €4bn fully underwritten bridge loan. Upon completion of the transaction, Safran would target an investment grade profile with a targeted adjusted net debt / adjusted EBITDA ratio around 2.5x. After the completion of the transaction, Safran would maintain its practice of distributing an annual dividend amounting to approximately 40 per cent of adjusted net income.

Governance of Safran

Under the terms of the contemplated combination, Safran’s Board of Directors would comprise 20 members, including representatives of Zodiac Aerospace’s reference shareholders.

Ross McInnes would be Chairman of the Board.

Philippe Petitcolin would be CEO and Olivier Zarrouati, Chairman of Zodiac Aerospace’s Management Board, would become deputy CEO.

Bernard Delpit would be CFO.

A modification of Safran’s bylaws extending the age limit of the CEO from 65 to 68 years will be proposed by Safran’s Board of Directors to the next shareholders’ meeting.

Next steps

Safran's Board of Directors unanimously approved the principle of the planned transaction and decided to submit it to the group's employee representatives. Zodiac Aerospace's Supervisory Board unanimously approved the principle of the planned transaction and decided to submit it to Zodiac Aerospace's employee representatives. The finalization of a binding agreement is subject to the completion of procedures with Safran's and Zodiac Aerospace's respective employees representative bodies under applicable laws and regulations. The finalization of the transaction would be subject to the approval of Safran's and Zodiac Aerospace's shareholders, relevant antitrust clearances, regulatory approvals and other customary conditions. The completion of the tender offer is expected by the end of the 4th quarter 2017 and completion of the merger is expected early 2018. Safran and Zodiac Aerospace will update the market as required.

Advisors

Bank of America Merrill Lynch and Lazard acted as financial advisors to Safran, BDGS served as legal counsel, and Bank of America Merrill Lynch acted as bridge underwriter. BNP Paribas and Rothschild acted as financial advisors to Zodiac Aerospace and Bredin Prat served as legal counsel.



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