

Boeing's carve-outs: A sign of the times

The broad based interest in Boeing's two carve-outs Jeppesen and ForeFlight is making waves with reports indicating an \$8bn valuation for Jeppesen alone. These potential deals are interesting both from a seller and buyers perspective.

Background

Jeppesen is provider of navigational information, operations planning tools, and flight planning products. Founded in 1934 it is established to the point that pilots are said to refer to navigational charts as "Jepp charts". Rumoured suitors include both strategics (RTX, Honeywell, GE, Transdigm), as well as PEs (including Vista, Warburg Pincus, Advent, Permira, TPG, Apollo, Blackstone).

ForeFlight is a flight planning app for pilots including aviation weather monitoring, maps, charts, and more. It also integrates with Jeppesen's global library. While Jeppesen carve-out is confirmed to be in the final stages of bidding, at the time of writing, it is unclear whether ForeFlight will be part of this transaction, a separate transaction, or remain with Boeing. ForeFlight was only acquired in 2019.

Capital recycling

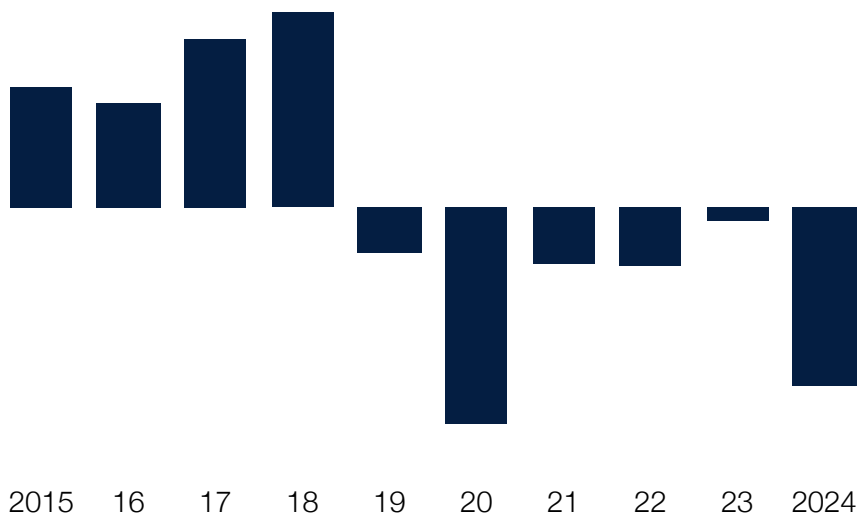
Businesses run for value generation follow the 'best-owner' principle to portfolio management: As long as you are the best owner of an asset, keep it, if someones else was able to generate more value, sell it. This approach can underpin a strong capital recycling programme whereby the funds obtained from asset sale get reinvested in more promising business opportunities. This would be the friendly way of seeing it.

Another positive way of looking at it would be to see a far-flung corporation trying to refocus on its core activities: Better do one thing well than many things so-so.

In light of the quality of businesses being carve out (high margin digital business models, data infrastructure, recurring revenue MRO business, growth options like drones and space), one could, however, also see a troubled company: Both its space and commercial aircraft lines have had quality issues with severe bottom-line impact; in fact Boeing has not turned a positive EBITA since 2018, and the cumulative EBITA losses over the last 6 years have wiped out the positive EBITA of the prior 3 years. All the while, the company has amassed \$63bn in debt and pension commitments. One might ask: Is it shrewd capital portfolio management and strategy-adjustments, or just a company trying to break out of its financial troubles?

Boeing's annual EBITA over the last 10 years

USD bn



Old and new PE favourites

Let's start with the obvious: Already starting with the Russian attack on Ukraine, there has been a renewed interest in aerospace & defence themes. This has been supercharged in Europe in Q1 where *strategic autonomy* is set to become a real policy, underpinned by unprecedented investment - think e.g. of the €150bn ReArm Europe program, the €500bn German special budget. Both Jeppesen and ForeFlight are not primarily defence companies, they fit the dual-use bill. Beyond the defence gold-rush, Jeppesen also fits an old PE favourite, which we like to call *digital infrastructure*: Business models built on providing the basic infrastructure on which more advanced, digital services are built. Navigation data -like positioning- is a prime example here.

While not a new feature *per se*, the Jeppesen suitors also stand out for being mostly consortia - either of two or more private equity funds, or a private equity plus a strategic.