PErspective in MANUFACTURING

A FEATURE EXAMINING THE ROLE OF PRIVATE EQUITY IN THE MANUFACTURING SPACE.

Manufacturing of transportation equipment is a key economic driver, and private equity has become an increasingly popular source of funding.

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Manufacturing of transportation equipment (TE) – including cars, trucks, commercial and military aircraft, ships, trains and their respective equipment – is a key economic driver worldwide. According to First Research, the global TE manufacturing industry generates approximately $4 trillion in annual revenues, with $750 billion coming from the United States. And private equity has become an increasingly popular source of funding in many TE sectors.

As traditional lending routes were squeezed during the financial crisis, the aviation industry has increasingly received funding from private equity firms such as the Carlyle Group and Cerberus Capital Management, which have provided much-needed equity, lending and leasing capital, according to legal newsletter International Law Office. Boeing Capital estimates there will be a $124 billion financing requirement for commercial jets in 2015 and, according to aviation newsletter Flight Global, new investors continue to enter the sector, including private equity, hedge funds and sovereign wealth funds.

Shipping has seen a huge influx of private equity capital over the last few years, as well. The financial crisis hit just as a boom in ship deliveries was underway, leaving lenders saddled with billions of dollars in bad debt, and forcing the industry to find alternative funding sources, according to *Bloomberg*. The subsequent post-crisis slump drew a rush of private equity investors looking to take advantage of low asset prices at the bottom of the market, including Oaktree Capital Management and Golden Tree Asset Management, which has a 4.81 percent stake in Euronav. Private equity funds poured at least $7 billion into shipping in 2014, according to industry newsletter *Hellenic Shipping News*.

However, private equity interest in the shipping sector could be waning, as the sector can be volatile and illiquid. Now that shipping assets are priced above their recent lows, the shipping industry is not drawing private equity firms to the extent it was before – and some insiders fear private equity could move on to other sectors, according to *SeaTrade Global*, a shipping newsletter.

The automotive industry – in particular General Motors, Ford and Chrysler – is seeing a level of interest from the private equity world not seen since before the Great Recession, according to the *Detroit Free Press*. This has led to some tension in the industry between activist investors who believe some automakers are hoarding cash that could be put to better use, and the longer development cycles of the automotive industry, which also has to be prepared for potential geopolitical and macroeconomic shifts.

In the defense subsector, as federal military budgets continue to shrink, consolidation and divestiture have become key trends. Some large TE firms sold off assets in 2014 to focus on their core, according to *Washington Technology*. Military contractor and jet manufacturer General Dynamics sold its Advanced Systems line of business to Canadian communications and information company MDA, and Boeing exited the commercial cybermarket and transferred its Narus technology to Symantec.

Each subsector has its own unique opportunities and challenges, but there seems to be ongoing demand for private equity financing for the manufacturing of all types of transportation equipment. What remains to be seen, however, is how long private equity will be willing and able to meet this demand.

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