GKN Aerospace has enjoyed solid growth partly as the result of shrewd acquisitions, but can this be maintained as production of some types enters something of a hiatus?

For a convenient snapshot of the state of play in aerospace today, one could do worse than this 26 April trading update from GKN: “Aerospace sales in the first quarter increased modestly on an organic basis. “As expected in commercial aerospace, the production ramp-up of new aircraft is slightly more than offsetting cuts in the (Airbus) A380, Boeing 777/777X and business jets. Military sales were up compared to the prior year, reflecting the ramp-up of the [Lockheed Martin] F-35 Lightning II and stable production in older types.”

This follows a 2016 - while characterised by “strong headline sales growth” reflecting the first full year after the acquisition of Fokker - where GKN reported “organic sales growth in commercial aerospace (+3%) partially offset by decline in military (-2%).”

Such organic growth was good going; “above the market”, says GKN. However, broadly, the picture is of an industry – and one of its leading tier one suppliers – focused on execution of existing contracts rather than the rapid growth and breathless scrambling for new business that prevailed a couple of years ago.

Indeed, GKN Aerospace chief executive Kevin Cummings, in a pre-Paris air show press briefing in London, pointed to a record airliner backlog that “hit its peak last year”, with a book-to-bill ratio “at hit below one-to-one”. This year, he says, the backlog “will level off” as deliveries again exceed orders – Airbus and Boeing are saying exactly the same thing – and the “wild growth in orders” of recent years “cannot be sustained”.

CLEAR HORIZON
Moreover, in an aside to FlightGlobal, he observes that, with the possible exception of Boeing’s middle-of-the-market jumbo jet family, there are no new airframe programmes on the horizon. The industry – his word – is in a “lull”. None of that spells dull times or even a particularly slowdown for GKN Aerospace. UK headquartered but increasingly global, the company has a solid record of outgrowing the wider market and has seen annual sales growth of some 18% for the past five years, propelling the aerospace operation to number-one among GKN’s divisions – a group historically led by automotive drivelines.

Airbus and Boeing are saying the same thing – the wild growth in orders of recent years cannot be sustained
KEVIN CUMMINGS
GKN chief executive

Sales of £1.5 billion ($1.9 billion) in 2012 rose to £3.42 billion last year. That growth began with the late 2012 acquisition – reasonably described then as “transformative” – of engine components maker Volvo Aero. That deal turned GKN’s small propulsion parts aftermarket business into one of the world’s engine systems top three, behind only Arco/Aero (since bought by GE) and MTU.

GKN made another big play in 2015, in the form of a €706 million ($782 million) purchase of Fokker Technologies. Cummings at the time said the move “strengthened” GKN’s position in its “classic” domains of wings and composite aerostructures. And, GKN acquired a world-leading electrical wiring capability: Fokker Elmo.

With Fokker, GKN also bought its way into the “adjacent” segment of landing gear and bolstered its already-extensive position on the F-35 programme, of which Fokker’s native Netherlands is a partner. Fokker’s 1,000 employees in China, India and Turkey boost GKN’s strategy of expanding its Asia footprint.

FILTON ACQUISITION
GKN’s life as a tier one aerospace supplier can be dated to its January 2009 acquisition of the Airbus wing components manufacturer business at Filton, UK for £136 million. That deal leveraged a long-standing relationship with Airbus – which welcomed GKN’s help in realising its own restructuring and outsourcing ambitions – and made it one of the world’s three biggest aerostructures suppliers.

To underscore the obvious, GKN is acquisitive. Cummings says its goal is to be number one, two or three in every sector it operates, either by organic growth or acquisition. If that is not possible, then it will probably look to exit. Right now, he says, GKN is comfortably top table in aerostructures, engine structures, wiring, transparencies, electro-thermal ice protection and rotorcraft fuel tanks. And GKN, he adds, remains a “growth company”; in all those segments there are direct or adjacent acquisition opportunities.

But in a broader market where a record order book is being whittled down, what are the prospects for organic growth? Solid, says Cummings: all forecasts predict annual growth in airline passenger traffic of 4%-5% long into the future. Defence spending will rise by 2% or so yearly for at least the next five years, led by the F-35.

Meanwhile, GKN is among peers pushing very hard on the boundaries of next-generation capabilities like composites, additive manufacturing and smart surfaces. This raises the question of whether or not technology can drive a new wave of aerospace growth. Rich Oldfield, formerly GKN’s technology chief and now head of strategy, thinks the breakthrough technology that might enable, say, a true next-generation airliner with blended-wing body or open-rotor engines, is not imminent.

Cummings asks a different question. How long, he wonders, can it be before the “lull” he refers to is broken by a major programme launch? After all, and with or without a breakthrough technology, the long-term imperative to command dominant market positioning is a powerful urge in aerospace.