



EUROPEAN COMMISSION
DG Competition

Case M.10506 – PARKER / MEGGITT

Only the English text is available and authentic.

**REGULATION (EC) No 139/2004
MERGER PROCEDURE**

Decision on the implementation of the commitments -
Purchaser approval
Date: 01/07/2022



EUROPEAN COMMISSION

Brussels, 1.7.2022
C(2022) 4781 final

PUBLIC VERSION

In the published version of this decision, some information has been omitted pursuant to Article 17(2) of Council Regulation (EC) No 139/2004 concerning non-disclosure of business secrets and other confidential information. The omissions are shown thus [...]. Where possible the information omitted has been replaced by ranges of figures or a general description.

Parker-Hannifin Corporation
6035 Parkland Boulevard
44124 Cleveland, Ohio
United States of America

Dear Sir or Madam,

Subject: Case M.10506 – PARKER / MEGGITT
Approval of Kaman Corporation as purchaser of Parker-Hannifin Corporation's Aircraft Wheels and Brakes Division following your letter of 25 May 2022 and the Trustee's opinion of 1 June 2022

1. FACTS AND PROCEDURE

- (1) By decision of 11 April 2022 (the 'Decision') based on Article 6(1)(b) in connection with Article 6(2) of the Merger Regulation,¹ the Commission declared the operation by which Parker-Hannifin Corporation ('Parker' or the 'Notifying Party', United States) intends to acquire within the meaning of Article 3(1)(b) of the Merger Regulation sole control over the whole of Meggitt PLC ('Meggitt', United Kingdom) by way of purchase of shares (the 'Transaction') compatible with the internal market following modification by Parker, subject to conditions and obligations (the 'Commitments'). Parker and Meggitt are together referred to as the 'Parties'.

¹ OJ L 24, 29.1.2004, p. 1 (the 'Merger Regulation').

- (2) In particular, the Commitments provide that Parker is to divest its Aircraft Wheels and Brakes Division, which includes a facility in Avon, Ohio, US and all tangible assets located there (as well as certain assets located at a plant in Guaymas, Mexico), as well as intangible assets such as the ‘Cleveland Wheels & Brakes’ brand, other brand agreements, designs/drawings, contracts, R&D projects, trade secrets, patents and knowledge transfers (the ‘Divestment Business’).
- (3) By letter of 25 May 2022, the Notifying Party proposed Kaman Corporation (‘Kaman’) for approval by the Commission as purchaser of Parker’s Aircraft Wheels and Brakes Division and submitted the proposed Asset Purchase Agreement and further related agreements (the ‘Proposed Agreements’).
- (4) On 1 June 2022, ING Bank N.V. as the Monitoring Trustee (the ‘Trustee’) submitted an assessment of Kaman’s suitability as a purchaser and, in particular, has indicated that it fulfils the criteria of the purchaser requirements in section D of the Commitments attached to the Decision. In this assessment, the Trustee also indicated that, on the basis of the Proposed Agreements, the Divestment Business would be sold in a manner consistent with the Commitments.

2. ASSESSMENT OF THE PROPOSAL

- (5) Pursuant to paragraph 16 of the Commitments, the Commission has to verify that the remedy-taker fulfils the purchaser criteria and that the Divestment Business is being transferred in a manner consistent with the Commitments.

2.1. Assessment of the purchaser criteria

- (6) In accordance with paragraph 15 of the Commitments, in order to be approved by the Commission, any remedy-taker must fulfil the following criteria:
 - (a) The remedy-taker shall be independent of and unconnected to the Notifying Party and its Affiliated Undertakings (this being assessed having regard to the situation following the divestiture);
 - (b) The remedy-taker shall have the financial resources, proven expertise and incentive to maintain and develop the Divestment Business as a viable and active competitive force in competition with the Parties and other competitors;
 - (c) The acquisition of the Divestment Business by the remedy-taker must neither be likely to create, in light of the information available to the Commission, *prima facie* competition concerns nor give rise to a risk that the implementation of the Commitments will be delayed. In particular, the remedy-taker must reasonably be expected to obtain all necessary approvals from the relevant regulatory authorities for the acquisition of the Divestment Business.
 - (d) The remedy-taker shall be an existing manufacturer of aerospace components.
 - (e) The remedy-taker shall have experience in dealing with direct or indirect supplies to military and government customers.

2.1.1. *Brief description of the proposed purchaser*

- (7) Kaman is a publicly listed company headquartered in the US, which develops, manufactures and markets aerospace and aviation components, systems and aircraft. In 2021, Kaman had revenue of approximately EUR 626m (US709m)² and net earnings of approximately EUR 38.6m (US43.7m)³. Kaman operates three business segments: Engineered Products, Precision Products and Structures.

2.1.2. *Independence from the Parties*

- (8) The Notifying Party submits that Kaman is independent of, and unconnected to Parker and Meggitt, with no overlap in major shareholders and no-cross directorship links between Kaman and Parker/Meggitt. The commercial links between Kaman and Parker/Meggitt are limited to minor amounts of supply on an arm's length basis. Specifically, in 2021 Kaman made purchases of approximately EUR [...] from Parker and of approximately EUR [...] from Meggitt. Further, Kaman made sales of approximately EUR [...] to Parker and of approximately EUR [...] to Meggitt. In addition, Kaman has historically acquired a limited number of [...] from the Divestment Business, but made no such purchases in 2021.
- (9) The Trustee in its Reasoned Opinion concluded that Kaman is independent of and unconnected to the Parties, and that any economic links between Kaman and the Parties relate primarily to ordinary course trading activities and are not material in terms of magnitude.
- (10) Given the comparatively minor scope of the supply relationships between Kaman and Parker/Meggitt, as well as in light of all of the above, the Commission concludes that Kaman fulfils the Purchaser criterion set out in paragraph 15 of the Commitments of being independent of and unconnected to the Notifying Party and its Affiliated Undertakings.

2.1.3. *Financial resources, proven expertise and incentive to maintain and develop the Divested Business as a viable and active competitor*

Financial resources to maintain and develop the Divestment Business

- (11) Kaman is a public company listed on the New York Stock Exchange, Kaman is principally funded by equity and has a market capitalisation of USD1.01bn as at 1 June 2022.
- (12) Kaman's debt is currently rated BB by S&P with a stable outlook at the last time of review (8 March 2022).⁴
- (13) Based on estimates presented by financial analysts⁵, the net debt/EBITDA ratio of Kaman following the transaction is expected to reach the upper end of the leverage

² Converted with the ECB's currency converter with the exchange rate of 31 December 2021.

³ Converted with the ECB's currency converter with the exchange rate of 31 December 2021.

⁴ Trustee's Reasoned Opinion, Annex 2 '*S&P Global – Ratings: Kaman Corp. Outlook Revised To Stable From Negative On Aviation Recovery; Ratings Affirmed*'

⁵ Trustee's Reasoned Opinion, Annex 2 '*KeyBanc Capital Markets – Merger/Acquisition: KAMN: Aircraft Wheel and Brake Deal Adds Margin Accretion & Stability; Maintain OW*'

of comparable companies following the acquisition and is expected fall back to a leverage that is comparable to some companies of its peer group⁶.

- (14) Considering the financing structure, as explained in the Trustee's Reasoned Opinion, Kaman had USD 129 million in cash on its balance sheet as of 31 March 2022 and explained that it had access to an agreed credit facility with JP Morgan which would cover well over the acquisition price. SEC filings show that Kaman's lenders have agreed certain amendments to Kaman's credit facilities to take account of the proposed acquisition.⁷ This total available funding leaves some headroom compared to the agreed purchase price for the Divestment Business of USD 440 million.
- (15) In addition to the debt financing headroom, Kaman is listed on the New York Stock Exchange, and may be able to raise additional financing through share issuances, should the need arise.
- (16) With regards to operating profit, Kaman achieved an EBITDA margin of 17% in 2021, which appears to be a healthy margin level, slightly above the average of the comparable companies provided by the Trustee in its Reasoned Opinion⁸.
- (17) The EBITDA margin of the Divestment Business in 2021 was [financial data] %, which would accordingly result in an improvement following the potential acquisition. In addition, the [financial data] % EBITDA margin was kept as the base assumption for Kaman Business plan, which seems conservative contrary to the Divestment Business management, which assumed an increase to a [financial data] % EBITDA margin in their business plan.
- (18) Based on the above, the Commission considers, in line with the Trustee's Reasoned Opinion, that Kaman has the financial resources to maintain and develop the Divestment Business.

Proven expertise

- (19) Regarding the Purchaser's proven expertise, the Notifying Party submits that Kaman has a long history in the aerospace industry with both OEM and aftermarket sales to a wide range of large aerospace customers such as Sikorsky, Boeing, Airbus, Lockheed Martin, Rolls Royce, Raytheon, and Bell. In particular, the Notifying Party puts forward that Kaman provides, via its three reporting segments, a wide range of aerospace components (see also para. (20) below for further details) such as precision bearings, seals, springs, arming solutions, and composite aerostructures. In addition, the Notifying Party submits that Kaman is a niche helicopter OEM producing platforms such as its heavy lift K-MAX manned helicopter, the K-MAX TITAN unmanned aerial system, and the KARGO UAV unmanned aerial system. The Notifying Party further submits that, by acquiring 23 companies over the last 14 years, Kaman has developed a significant experience integrating and running companies and that two of its three most recent

⁶ Parker net debt/EBITDA ratio is prior to any impact of the Meggitt transaction.

⁷ SEC Filings – FORM8-K <https://kaman.gcs-web.com/static-files/4364cc29-c706-4414-9491-c292476eecf2>

⁸ Trustee's Reasoned Opinion, Figure 11

acquisitions were aerospace companies, namely Bal Seal Engineering, and EXTEX Engineering Products.

- (20) In its Reasoned Opinion, the Trustee reviewed Kaman's business segments and concluded that it has a proven track record of developing, manufacturing and selling aerospace components, both directly to OEM customers as well as to supply its own aircraft. As a manufacturer of aerospace components, Kaman is active across three business segments, all covering the manufacture and supply of aerospace components:
- (a) Engineered Products, which is Kaman's largest business segment by revenue and by number of employees, produces, among others, (i) bearings for use in commercial aviation and military programs, (ii) springs, seals and contacts for use in the aerospace and defence markets to protect critical equipment from failure and (iii) bearings, precision seals, spring sand contacts for use in high performance applications including radar systems, fuel pumps, motors and robotics;
 - (b) Precision Products, which is the business segment that produces precision safe and arming solutions for missile and bomb systems, subcontract helicopter work, modification and support for the SH-2G Super Seasprite. This business segment also covers the manufacture of Kaman's aircraft, the K-MAX, K-MAX TITAN, and the KARGO UAV;
 - (c) Structures, which is the business segment that produces metallic and composite products for use in both commercial and defence aerospace, such as (i) metallic structures and assemblies such as airframes and fuselages, aircraft doors, nacelles and (ii) composite bonded structures such as rotor blades and workstations.
- (21) Specifically, with respect to the business segment within which the Divestment Business would operate (i.e. the Engineered Products segment), the Trustee notes that it has grown in each period since Kaman has separately reported financial information for that segment and that it accounts for half of Kaman's capital expenditure for the three-year period from 2019-2021.
- (22) Furthermore, the Trustee submits that Kaman's management team has experience of operating in the aerospace industry and notes in particular that Kaman's independent directors appear to have a range of management experience including previously holding senior roles at aerospace businesses.
- (23) Moreover, the Trustee reviewed Kaman's acquisition experience, in particular the most recent acquisition of Bal Seal in 2020 and found that Kaman has successfully integrated the acquired businesses.
- (24) The Trustee also analysed Kaman's plans regarding R&D projects underway in acquired businesses and concluded that Kaman has demonstrated a track record of investing in acquired business in order to maintain and develop those businesses.

Incentive to maintain and develop the Divestment Business as a viable and active competitive force

- (25) The Notifying Party submits that post-Transaction, the Divestment Business will form a significant part of Kaman's overall business and that in view of its size and importance within Kaman, the latter will have a strong incentive to compete

aggressively and ensure that the Divestment Business continues to be successful. The Notifying Party stresses that Kaman has strong R&D capabilities and a historically consistent investment in R&D as evidenced by the commercialisation of major R&D projects such as Titanium Diffusion Hardening, and developing entire new aircraft platforms such as the KARGO UAV. The Notifying Party also submits that in view of Kaman's track record of progressing and finalising the R&D projects of acquired companies, Kaman intends to provide all necessary support to continue and commercialise the R&D projects that are currently being carried out by Divestment Business.

- (26) In its Reasoned Opinion, the Trustee has concluded that the Divestment Business would fit well into Kaman's engineered products business and that Kaman has the relevant incentives to maintain and further grow the Divestment Business given that:
- (a) the Divestment Business represents a significant transaction for Kaman, both in terms of valuation (44% of Kaman's current market capitalisation) and in terms of the additional revenue and EBITDA that the acquired business will contribute (representing [2021 financial data] % and [2021 financial data] % respectively of Kaman's 2021 revenue and EBITDA), which will strongly incentivised Kaman's management to ensure the success of the transaction;
 - (b) the transaction appears in line with Kaman's announced strategy of focusing on higher margin aerospace products, including through acquisitions and will enable it to expand its current product offering in the aerospace components sector;
 - (c) the financial forecasts presented by Kaman for the Divestment Business outline a growing business in terms of both revenue and profitability. These forecasts are in line with those presented by management of the Divestment Business in terms of revenue and more conservative in terms of profitability, and in this respect do not appear unreasonable; and
 - (d) the HSM expressed to the Trustee that he and his management have a positive impression of Kaman as the potential purchaser of the business in terms of cultural fit, sector experience, and Kaman's commitment, incentive and willingness to maintain and develop the business.
- (27) In light of the above, and based on the information made available to the Commission, the Commission concludes that Kaman has the incentive to maintain and develop the Divested Business as a viable and active competitive force in the aircraft wheels and brake sector.

2.1.4. *Existing manufacturer of aerospace components*

- (28) As stressed in paragraph (20) above, Kaman is a manufacturer of aerospace components active across three business segments, all of which cover the manufacture and supply of aerospace components. Kaman supplies as such major aerospace original equipment manufacturers including Airbus, Boeing, Lockheed Martin, Rolls-Royce, Raytheon, Bell Helicopter (part of Textron) and Sikorsky.
- (29) In addition, Kaman has divested in 2019 its distribution business in order to focus specifically on its aerospace and defence business. In this respect, at the time of its

announcement it outlined that the transaction would enable the company to ‘*focus on accelerating growth of aerospace and engineered products businesses*’.⁹

- (30) In its Reasoned Opinion, the Trustee considers that Kaman is an existing manufacturer of aerospace components who has been active in the development, manufacture and sale of products in the aerospace sector. The Trustee further stresses that Kaman is active in the manufacture of helicopters in addition to producing a range of components for use in the aerospace industry including bearings, seals, springs, contacts and metallic and composite structures. The Trustee also analysed Kaman’s sales breakdown and notes that it derives 26% of its revenue from commercial, business and general aviation applications while a further 24% of its revenue is derived from defence applications, a significant proportion of which relates to aerospace components.
- (31) In light of the above, and based on the information made available to the Commission, the Commission concludes that Kaman fulfils the purchaser criterion of being an existing manufacturer of aerospace components.

2.1.5. *Experience in dealing with direct or indirect supplies to military and government customers*

- (32) Kaman is already a manufacturer of components and aircraft for military applications. It produces military aircrafts such as SH-2G and K-Max helicopters. Kaman also produces components for use across a range of applications such as (i) bearings used in the manufacture of the AH-64 helicopter, Virginia Class submarine, Joint Strike Fighter aircraft and Typhoon aircraft, (ii) fuses to allow the safe arming of devices, and (iii) composite and metallic aero-structures used in fixed and rotary wing aircraft.
- (33) In 2021, Kaman derived [2021 sales data] % of its revenue from government customers. Kaman’s direct and indirect sales to the US government in 2021 totalled USD [2021 sales data] (approx. EUR [2021 sales data]), representing [2021 sales data] % of Kaman’s total sales. Of this amount, USD [2021 sales data] (approx. EUR [2021 sales data]) was represented by direct sales to the US government, with the remainder (USD [2021 sales data] - approx. EUR [2021 sales data]) in indirect sales to the US government (*i.e. sales of products to original equipment manufacturers where the US government is the end user*).
- (34) In 2021, Kaman also made sales of USD [2021 sales data] (approx. EUR [2021 sales data]) to international governments customers ([international government customers]), representing [2021 sales data] % of Kaman’s overall sales.
- (35) The Trustee has assessed Kaman’s experience in dealing and supplying military and government customers and came to the conclusion that, as a manufacturer of components and aircraft for military applications, Kaman has a proven track record of supplying military and government customers, both directly, and through other original equipment manufacturers. This conclusion is based on the fact that Kaman achieves high volume of sales with government customers.

⁹ See: <https://www.businesswire.com/news/home/20190626005336/en/Kaman-Announces-Sale-of-Distribution-Segment-to-Littlejohn-Co.-for-700-Million-in-Cash>, accessed on 23 June 2022.

- (36) In light of the above, and based on the information made available to the Commission, the Commission considers that Kaman fulfils the purchaser criterion of having experience in dealing with direct or indirect supplies to military and government customers.

2.1.6. Absence of prima facie competition problems

- (37) The Notifying Party submits that the acquisition of the Divestment Business by Kaman will not give rise to any prima facie competition concerns, nor any risk that the implementation of the Commitments will be delayed. There are no horizontal overlaps between the activities of Kaman and the Divestment Business and any vertical links are minor [...] from the Divestment Business to Kaman – no deliveries in 2021, deliveries of approximately EUR [...] in 2022).
- (38) The Trustee agrees with this analysis, as it has not identified any activities of Kaman that could be considered as overlapping with the activities of the Divestment Business. Further the Trustee also has not identified any vertical competition or foreclosure concerns, in particular due to the minor presence of Kaman in helicopters (estimated global market share of 0.5%).
- (39) In addition, according to the Notifying Party, the acquisition of the Divestment Business by Kaman may be notifiable to competition authorities in the United States, but expects a clearance to be achieved within a short period of time due to the absence of potential competition issues. Further, the acquisition of the Divestment Business by Kaman may be subject to foreign direct investment approval in Italy, where the Notifying Party intends to make a precautionary filing and expects to receive a clearance in short order.
- (40) Based on the above, the Commission considers, in line with the Trustee's Reasoned Opinion, that the acquisition of the Divestment Business by Kaman does not give rise to prima facie competition concerns or poses any risk that the implementation of the Commitments will be delayed.
- (41) This prima facie assessment is based on the information available for the purpose of this buyer approval and does not prejudice the competition assessment of the acquisition of the Divestment Business by Kaman by a competent competition authority under applicable merger control rules, or its assessment by any authority in charge of clearing foreign direct investments.

2.2. Sale in a manner consistent with the Commitments

- (42) The Trustee considers that the assets that are listed as included and excluded in the scope of the business to be sold under the Asset Purchase Agreement are materially in line with the provisions of the Commitments.
- (43) The Commission observes that in line with the Commitments, two engineers are to be hired for the Divestment Business for the purposes of supervising and further developing the [...] R&D Project and that Parker will arrange for training and transfer of skills and knowledge.
- (44) The Commitments also foresee that a single employee based in China is to be part of the personnel to transfer to the Purchaser as part of the Divestment Business. However, as explained by the Notifying Party and confirmed by the Trustee,

Kaman would like to exclude this employee as it has its own sales presence in Asia, covering also China. The Commission can accept this deviation from the Commitments.

- (45) Two permits listed in the Commitments as to be transferred with the Divestment Business are not transferable under current applicable law. Kaman however confirmed to the Trustee that it is in the process of obtaining these permits and further submits that it is confident that it will obtain all necessary permits.¹⁰
- (46) The Commitments include a number of agreements for the supply of transitional support services by Parker. The timeframe foreseen in the Commitments is 3-6 months, extendable upon request by the Purchaser. However, the Trustee notes that the Asset Purchase Agreement includes transitional services for up to 12 months post-Closing, as this was requested by Kaman. As the Commitments allow for an extension of such transitional arrangements of up to 12 months upon request by the purchaser, the Trustee has no objection to these proposed timelines. Further, the Divestment Business explained that such a timeframe is required to ensure business continuation, prevent disruptions and ensure compliance with contracts. In any case, Kaman explains that the goal is to transition within 6 months but that the greater length of time foreseen is simply to provide a buffer in case more time is required.¹¹ In light of this, the foreseen period for transitional services of up to 12 months does not appear problematic.
- (47) The Commitments foresee the inclusion in the Divestment Business of certain assets used by Parker's aircraft wheels and brakes division which are located at a plant in Guaymas, Mexico which supplies limited basic machining to the aircraft wheels and brakes division. These assets located in Mexico are part of the assets to be transferred under the Proposed Agreements. The Trustee notes that according to the Hold Separate Manager of the Divestment Business these assets are mostly cutting equipment that create a significant amount of noise and dust which would result in environmental implications should they be transferred to the Avon, Ohio site. Therefore, the Hold Separate Manager stated that the Divestment Business does not currently intend to transfer these assets to the Avon, Ohio facility and instead would prefer to identify a local supplier to perform such work. Until such a solution is found, the assets would need to remain at Parker's Guaymas facility in order to supply the machining work to the Divestment Business under a transitional services agreement. During the transitional services period, a longer term arrangement will be developed – either by (i) setting up of an arrangement whereby the Divestment Business buys directly from the Parker Guaymas facility, (ii) identifying another supplier, or (iii) insourcing the production to the Divestment Business' Avon, Ohio facility.¹² The Divestment Business explains that in any case as it is the Divestment Business which is providing the material to be cut to the Guaymas facility (and to any other potential supplier in the future), the Divestment Business considers that it will be easy to find a source for these basic machining services.¹³ Therefore, the independence, viability and competitiveness of the Divestment Business does not appear to depend on the transfer of the assets used for the basic machining work that are currently located in Guaymas, Mexico.

¹⁰ Email from Trustee, 17 June 2022.

¹¹ Email from Trustee, 17 June 2022.

¹² Email from Trustee, 17 June 2022.

¹³ Email from Trustee, 22 June 2022.

- (48) Based on the above and in line with the Reasoned Opinion by the Trustee, the Commission concludes that the Divestment Business is being sold in a manner consistent with the Decision and the Commitments.

3. CONCLUSION

- (49) On the basis of the above assessment, the Commission approves Kaman as a suitable purchaser.
- (50) On the basis of the Proposed Agreements, the Commission further concludes that the Divestment Business is being sold in a manner consistent with the Commitments.
- (51) This decision only constitutes approval of the proposed purchaser identified herein and of the Proposed Agreements. This decision does not constitute a confirmation that Parker has complied with its Commitments.
- (52) This decision is based on Section D of the Commitments attached to the Commission Decision of 11 April 2022.

For the Commission

(Signed)
Olivier GUERSENT
Director-General