

THE LOCKHEED-AEROFJET DEAL AND ITS ANTITRUST FALLOUT

T E A M 2

Introduction & Context

Key

Deal Announcement : Lockheed Martin, a global aerospace & defense company planned to acquire Aerojet Rocketdyne, a leading supplier of rocket engines & propulsion systems for \$4.4 billion.

Vertical

Lockheed Martin aimed to vertically integrate their supply chain, expecting cost synergies and improved efficiency.

Regulatory

Aerospace Defense is a highly regulated industry with significant government oversight and a large consolidation trend amongst the contractors. . The Federal Trade Commission (FTC) filed multiple “requests” of information from Lockheed Martin and finally filed a lawsuit in January 2022, arguing that the deal would reduce competition and harm national security interests.

Termination

Facing legal pressure, Lockheed abandoned the acquisition, marking a major antitrust intervention in the defense industry.

The Structure-Conduct-Performance (SCP) Paradigm (Bain, 1956) suggests that market structure influences firm behavior and performance.

Lockheed Martin Profile

Global Leader

World's Largest defence contractor by revenue, specializing in advanced technology systems for aerospace, defense, and security.

Vertical Integration

The company continuously acquires suppliers of key components and expand their control. Example; Lockheed Martin acquired Sikorsky Aircraft (2015) for \$9 billion, securing control over Black Hawk helicopters and military rotorcraft production.

Government Ties

70% of the revenue comes from government contracts, deals with NASA, allied governments and now foraying into space sector

Financial Strength

Revenue of \$66 billion, with a net income of \$5.7 billion in 2022. Order backlog of nearly \$150 billion showcasing long term growth and revenue stability.

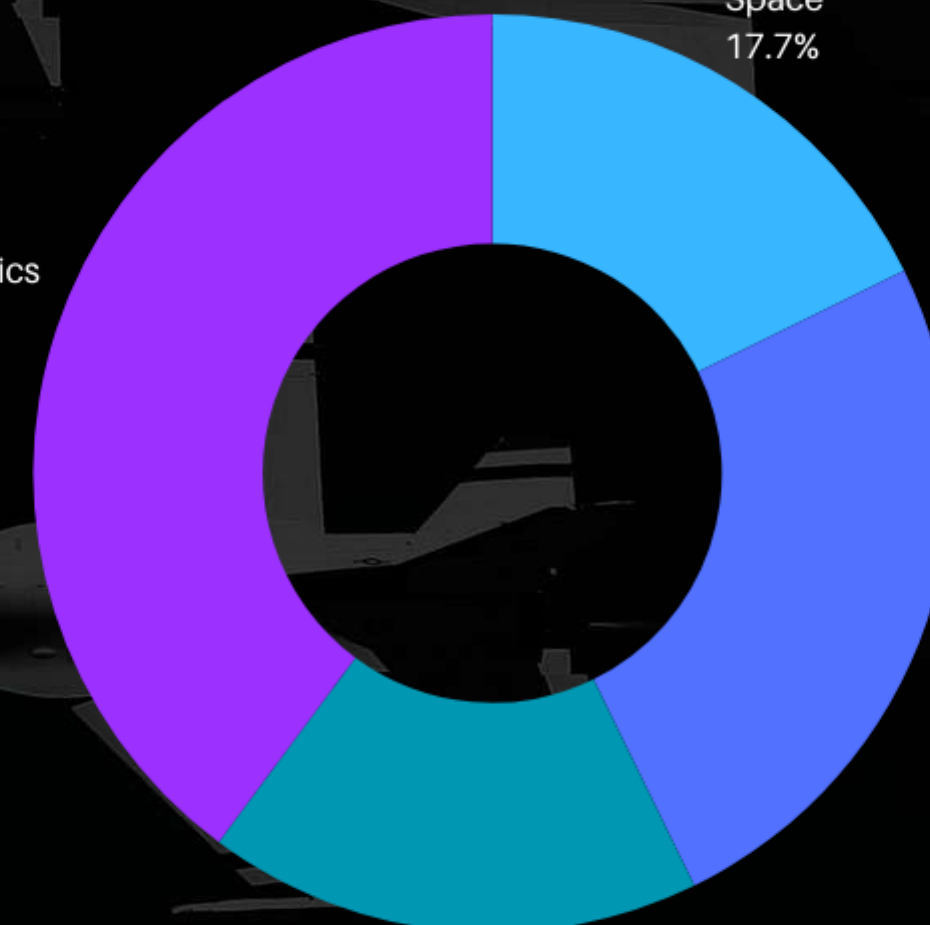


Aeronautics
39.8%

Space
17.7%

Rotary Systems
25%

Missiles
17.4%



Aerojet Rocketdyne Profile

Propulsion Systems

World leader in propulsion systems, providing proprietary engines and propulsion technology for missiles, rockets, and space exploration.

Advanced Technology

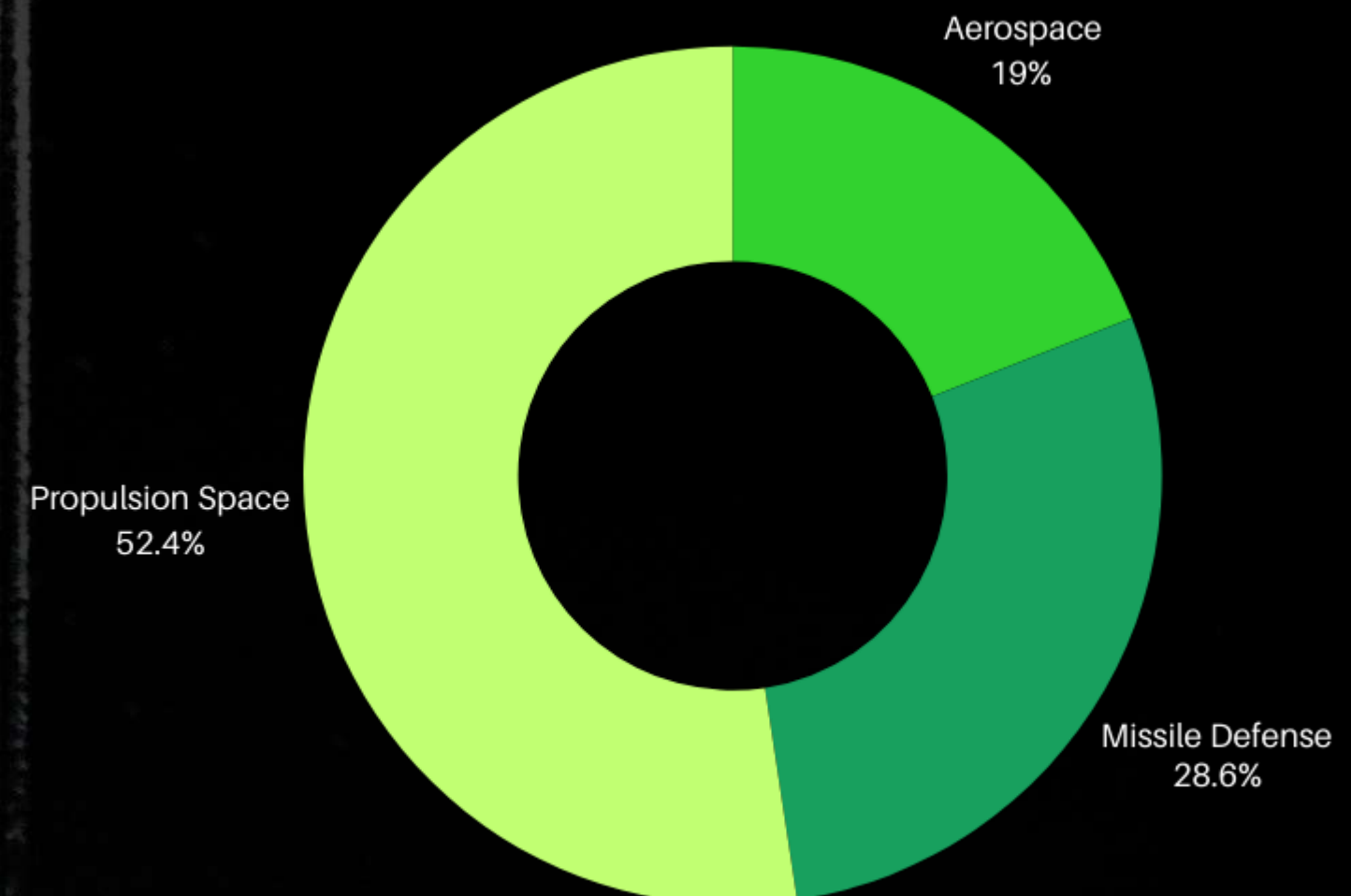
Hypersonic engines and sustainable propulsion solutions with Space Tech in focus. Often called the last independent propulsion system firm.

Defence & Space

The company is a key supplier to major defense contractors like Lockheed Martin, Boeing, and Raytheon, as well as government agencies like NASA and the U.S. Department of Defense

Financial Strength

Revenue of \$2 billion+ with backlog of nearly \$9.4 billion, showing its supply chain value.



What's the Deal

**Post dividend
Equity Value of
\$4.6 billion**

All cash deal. \$56 per share in cash. This represented a 33% premium in order to incentivize Aerojet Rocketdyne's shareholders to approve the deal.

**Total
Transaction
value \$4.4
billion**

\$51 per share after the payment of a pre-closing special dividend

**Aerojet
Rocketdyne
announces
dividend**

\$5 per share to its holders of record of common stock and convertible senior as of the close of business on March 10, 2021, and payable on March 24, 2021.

Vertical M&As aim for cost efficiencies, supply chain control, and reduced dependency on suppliers (Coase, 1937; Williamson, 1975).

Expected Synergies

Cost synergies

The Lockheed-Aerojet merger promised cost efficiencies, supply chain control, and procurement savings of \$400-\$500M annually.

Strategic Synergies

Strategically, Lockheed would dominate propulsion, reduce R&D cycles, and with compounded growth, even the space sector

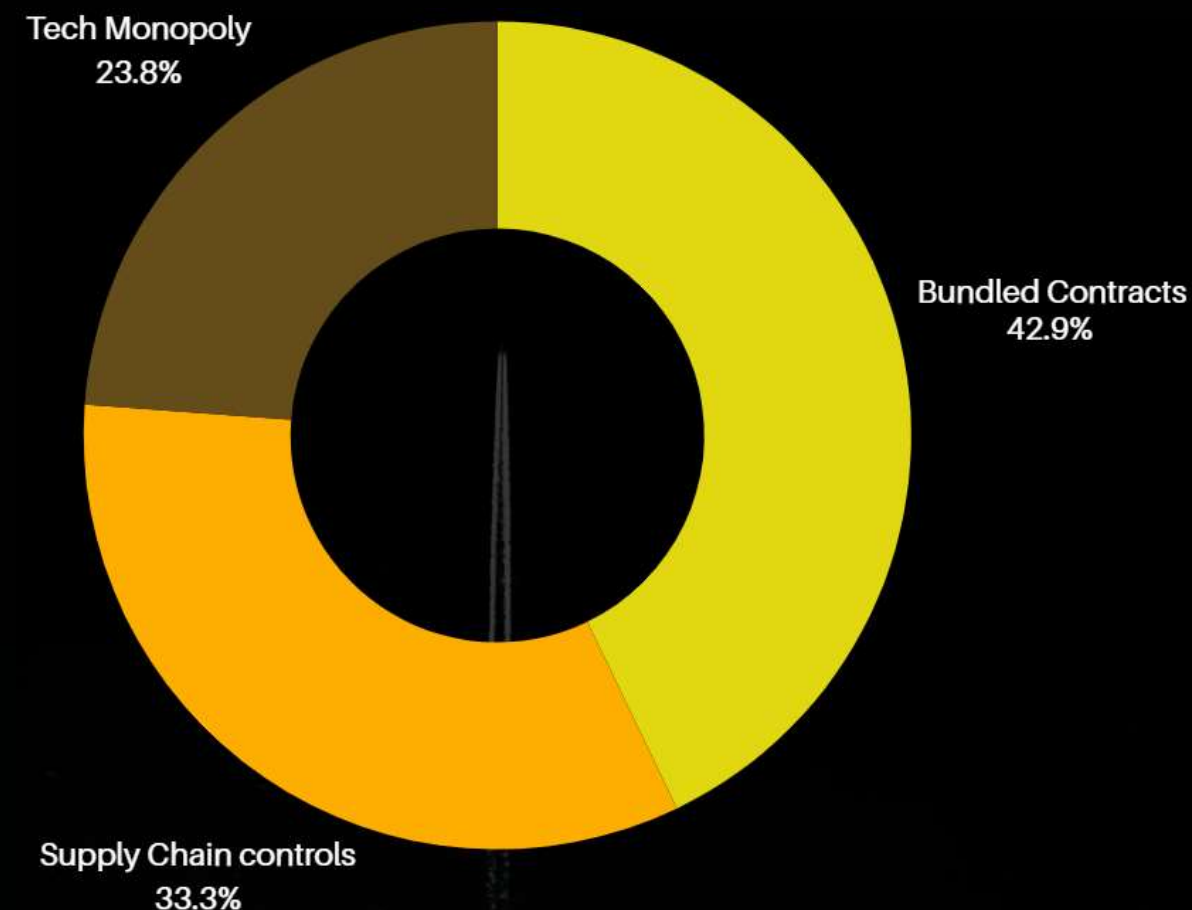
Revenue Synergies

Revenue synergies included securing Pentagon/NASA contracts, expanding hyper sonics, and enhancing pricing power, boosting revenue by \$2-4B.

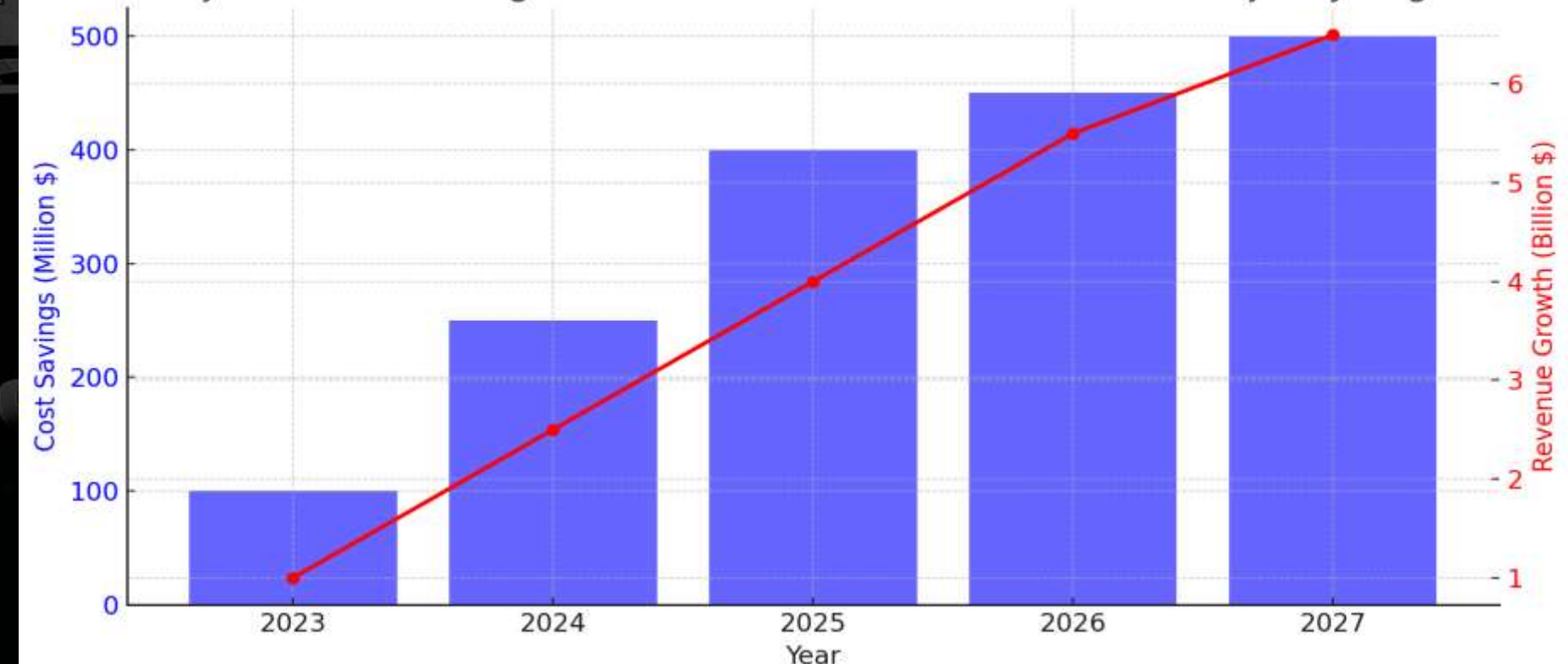
Operation Synergies

Streamlined production, improved quality control, and reduced supply chain risks through vertical integration of Aerojet's manufacturing processes.

Pricing Power for Lockheed



Projected Cost Savings & Revenue Growth from Lockheed-Aerojet Synergies



Timeline



Deal Announced

December 2020.
Total
Transaction
value \$4.4 billion



Information Request

January 2021
First Information
Request
Feb 2021 Second
request by FTC



Senator Report

July 2021,
Senator
Elizabeth
Warren asks FTC
to have a more
stringent
walkthrough.



Lawsuit

January 2022
FTC Sues citing
portection of
last independet
propulsion
system



Termination

Feb 2022 Deal
terminated



Fallout

July 2022, Board
of directors sue
each other.
Schism due to
failed merger

Key Merger & Acquisition Conflicts

ANTITRUST & MARKET CONTROL

The FTC argues that this acquisition would significantly reduce competition, handing over keys to critical defense infrastructure and unmitigated control over supply chain ultimately leading to monopoly pricing and a hit on innovation.

Competitor Opposition & Activism

Raytheon, a competitor, actively lobbied against the deal arguing that deal could easily block access to technology, hurting industry-wide competition. This can be seen as a “Target Defense” mechanism.

DoD & Shareholders

The Department of Defense also expressed concerns about national security, signaling multi-agency opposition. Separately concerns were raised if minority shareholders were being compromised to reach a deal.

"If permitted, the Proposed Acquisition would allow the combined firm to use its control of Aerojet to harm Lockheed's rivals in ways that would substantially lessen competition in multiple markets for products critical to the national defense." - FTC

Defensive strategies in M&A (Jensen & Ruback, 1983) include rival lobbying and regulatory interventions.

Market Reaction



Lockheed Martin

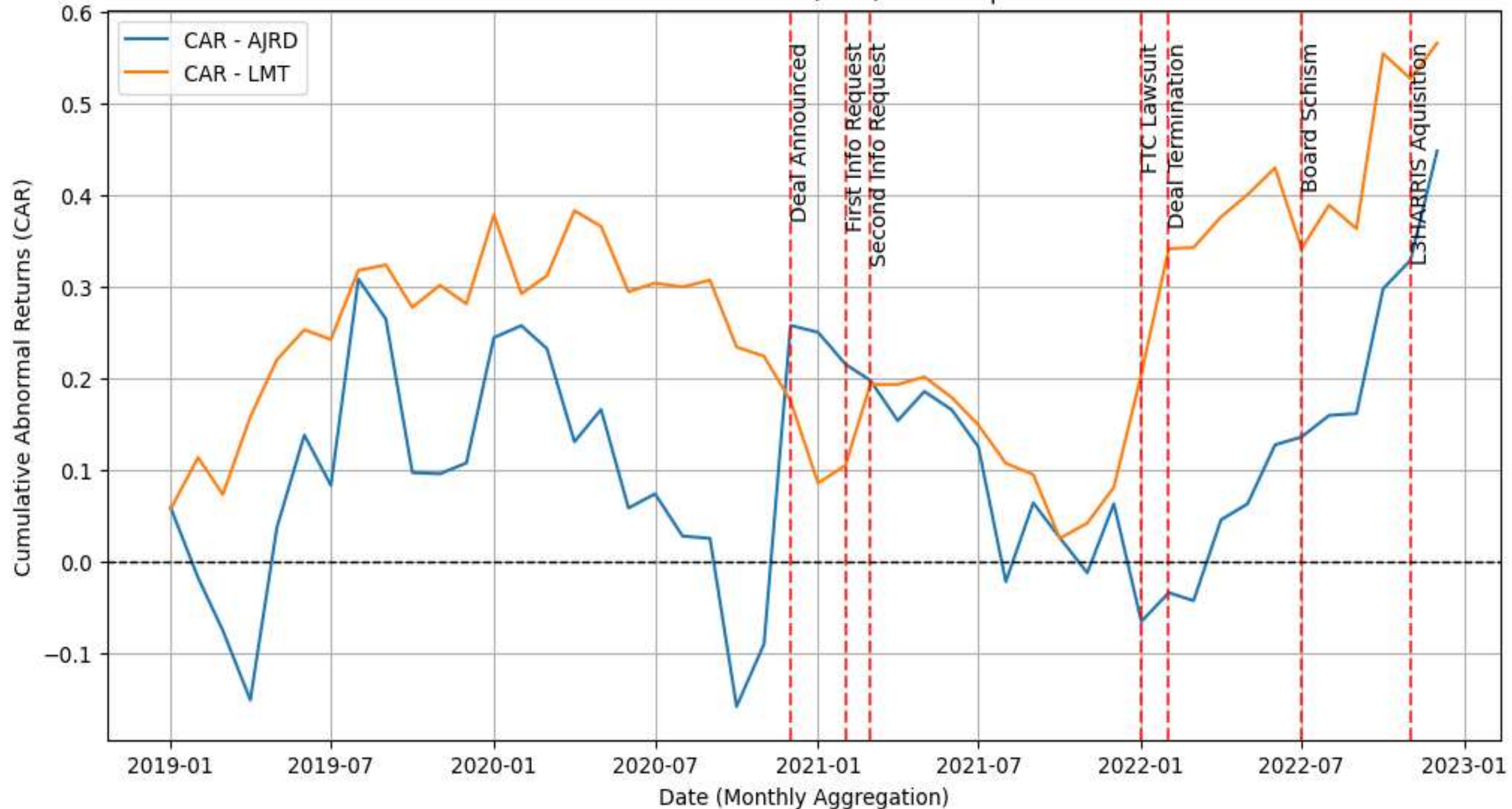
- Share prices pre & post-announcement remained market neutral without any knee-jerk reaction.
- Information requests from FTC brought about a 2.5% decrease to \$332.9.
- After the deal was called off, the prices while stable saw an uptick from \$370 to nearly \$410 in coming weeks indicating a renewed investor confidence.

Aerojet Rocketdyne

- Aerojet's share prices pre-announcement prices which hovered around \$42 surged to nearly \$55 reflecting 30% increase.
- During FTC's information requests, the share prices declined to \$50.75 from \$53 as regulatory concerns emerged.
- After the deal was dropped, the share prices declined from \$42 to \$36, a nearly 8% decline.

Cumulative Abnormal Returns

Cumulative Abnormal Returns (CAR) with Acquisition Events



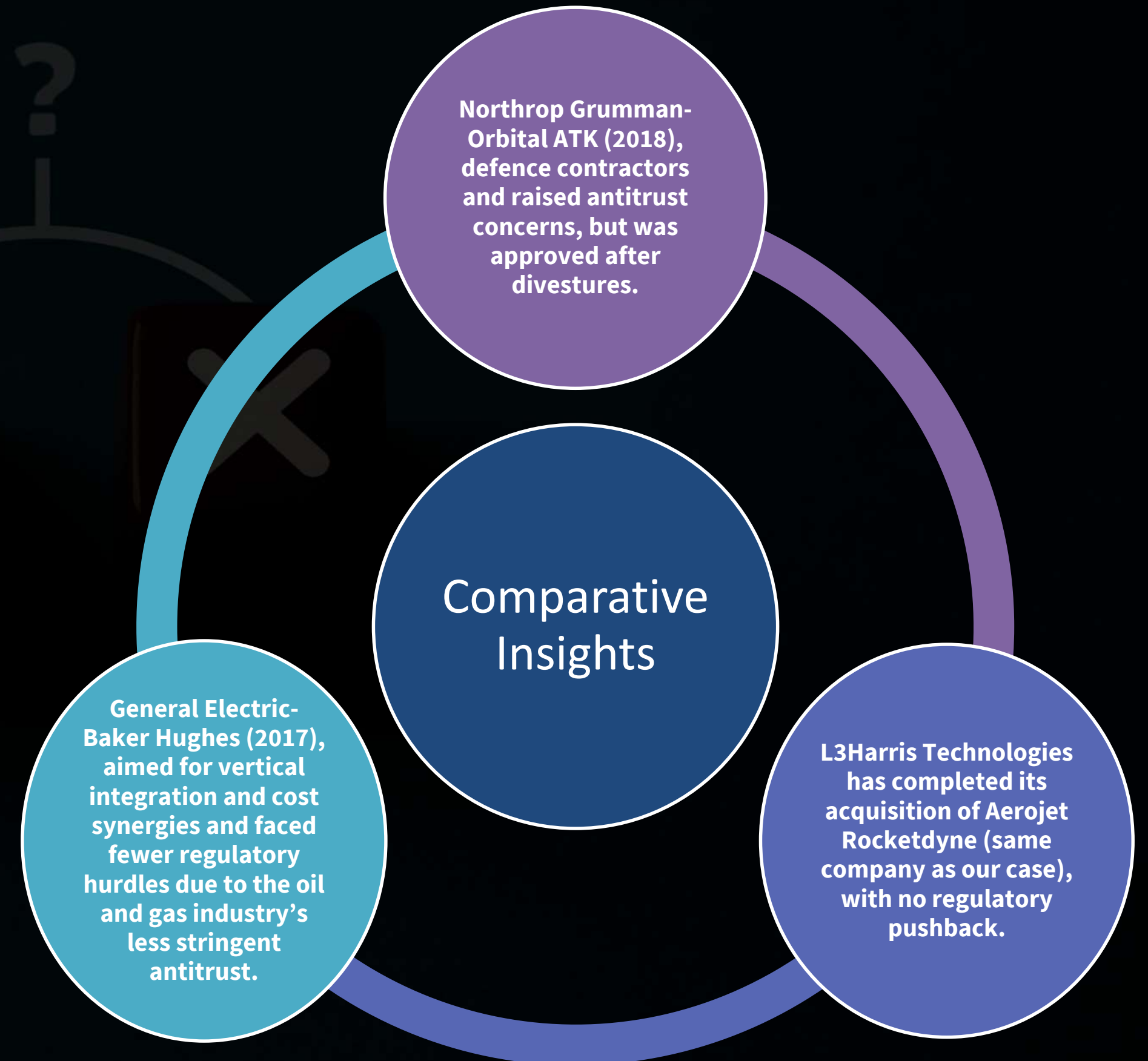
• Theory: Vertical M&As aim for cost efficiencies, supply chain control, and reduced dependency on suppliers (Coase, 1937; Williamson, 1975).

• Application: Lockheed Martin's rationale for acquiring Aerojet Rocketdyne aligns with this theory, as it aimed to reduce dependency on external suppliers and achieve cost synergies.

Comparative Insights



***“Firms integrate vertically to reduce transaction costs and achieve efficiencies, but excessive integration can create market power concerns.”
Williamson (1975)***



Lessons Learned

“While mergers and acquisitions can create value through synergies and strategic realignment, their success is contingent on overcoming regulatory barriers and competitive resistance. In industries with high government oversight, such as defense, vertical integration can be perceived as anti-competitive, leading to intervention from regulators and lobbying by competitors. Market participants price in these risks, reflecting investor expectations of regulatory scrutiny and deal feasibility”
Jensen & Ruback (1983)



Regulatory

M&A deals in highly regulated industries such as national defense will attract regulation for anti-trust and must account for the same.

Activism

Competitors can lobby against deals that may threaten their access to critical components for their business

Vertical Risk

While vertical integration can aid in cost synergies and supply chain control, it may end up attracting scrutiny and harm competition.

Market

Investors price in regulatory risk and make speculations/buy stocks

Strategic

Companies must evaluate regulatory landscapes and competitor reactions before pursuing M&A deals.

Conclusion

M&A deals in Defense and Aerospace are common, but investors, analysts, and firms must navigate regulatory pushback, competitor opposition, and national security concerns. The Lockheed-Aerojet case highlights growing antitrust scrutiny, shaping future consolidation strategies and emphasizing the risks of vertical integration in sensitive defense sectors

