



Cash Out Arbitrage

By The: Papi Allocators

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A Little Bit About Aerojet

- Inc. Ohio in 1915
- Aerojet is an American rocket and missile propulsion manufacturer
- Has two segments
 - 1) Aerospace and Defense
 - 2) Real Estate - Easton Development company. Easton owns 11,394 acres of land in California. Used for aerospace and defense operations
 - Revenue \$2B
 - Real Estate Revenue \$7.5M
- James Taiclet is looking to strengthen LMT's propulsion capabilities amid competition from new entrants such as SpaceX and Blue Origin for space contracts with the US government
- The acquisition is critical to the future of LMT's missile defense, hypersonic weapons and space businesses

Rules For A Cash Out Arb

Is It An All Cash Deal?

- Yes, it is an all-cash deal
- Total \$4.4B
- After the special \$5/share dividend it will total \$4.1B
- Closing price \$56 per share
- After dividend \$51 per share
- Supposed to close second half of 2021



Is It A Friendly Merger?

- LMT and Aerojet have history of working together
- LMT accounts 33% of Aerojet's net sales



Financing

Aerojet's Obligation Ratio			
	LT Debt	\$ 331	
	ST Debt	\$ 298	
	Leases * 7	\$ 99	
	Pen Shortfall	\$ 417	
	Cash Assets	\$ 1,012	
2020	GAAP Earnings	\$ 128	1.04
2019	GAAP Earnings	\$ 141	0.95
2021	VL Net Income	\$ 150	0.89

LMT's Obligation Ratio			
	LT Debt	\$ 11,675	
	ST Debt	\$ 1,000	
	Leases * 7	\$ 1,673	
	Pen Shortfall	\$ 13,300	
	Cash Assets	\$ 3,585	
2020	GAAP Earnings	\$ 6,539	3.68
2019	GAAP Earnings	\$ 6,230	3.86
2021	VL Net Income	\$ 7,300	3.30

- With annual sales of about \$2.2 billion, Aerojet generates as much revenue in a year as Lockheed does every two weeks.

Dividends

- As part of the deal AJRD declared a \$5.00 per share special dividend to holders of its shares
- The distribution will adjust to \$51 per share at closing
- The special dividend will be paid on March 24, 2021 to holders of record as of **March 9, 2021**.



Spread

Price To Pay	Closing Price	Cumulative Return
\$46	\$51	10.87%
\$47	\$51	8.51%
\$48	\$51	6.25%

	August	September	October	November	December	January	February	
Months	6	7	8	9	10	11	12	
Annualized Return	21.74%	18.63%	16.30%	14.49%	13.04%	11.86%	10.87%	@ \$46 per share
Annualized Return	17.02%	14.59%	12.77%	11.35%	10.21%	9.28%	8.51%	@ \$47 per share
Annualized Return	12.50%	10.71%	9.38%	8.33%	7.50%	6.82%	6.25%	@ \$48 per share

Unions

- 9% of the Aerojet's workforce is unionized
- 20% of the 110,000 are covered by collective bargaining agreements with various unions
- We are not concerned about the unions blocking the deal



Regulatory

- Department of Defense
- Major competitor like Raytheon, Boeing, Northrop Grumman are major customers of Aerojet
- Raytheon accounts for 17% of Aerojet's sales
- Provides propulsion systems for their missiles and rockets
- February 17, 2021 Raytheon challenged the merger
- Stating that it would make LMT a monopoly
- That Aerojet is a huge supplier for them

Regulatory

- A similar scenario unfolded in 2017 when Northrop Grumman acquired Orbital ATK
- The combination made Northrop Grumman the nation's dominant supplier of large solid rocket motors
- Regulators approved the deal in 2018 on condition that Northrop agreed to supply motors to its competitors



NORTHROP GRUMMAN

Orbital ATK 

Conclusion

- We think is a low-risk cash out arb
- We expect LMT to continue to supply Aerojet's technology to competitors. Something that the industry already does
- Worst come to worst we can double down on Aerojet. It is not a terrible business
- 1% of portfolio limit order at \$46 per share

