

Breeze-Eastern Corporation: SWOT Analysis & Company Profile

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1 COMPANY OVERVIEW

Breeze-Eastern Corporation (BEC) is a leading rescue hoist and cargo hook technologies provider in the world. The company designs, develops and manufactures wide range of electric and hydraulic rescue hoist systems for helicopters. It offers external cargo hooks, helicopter rescue hoists, hoists for weapon loading systems, munitions hoists and motion control devices, and special application hoists and cargo winches for the aerospace, defense and commercial markets. BEC sells its products to OEM aircraft companies, governments, and other end-users such as military and civilian agencies and aerospace contractors. BEC is headquartered in Whippany, New Jersey, US.

1.1 Key Facts

Table 1: Breeze-Eastern Corporation Key Facts			
Corporate Address	35 Melanie Lane, Whippany, NJ, 7083	Ticker Symbol, Exchange	BZC , American Stock Exchange
Telephone	1 973 6021001	No. of Employees	191
Fax	1 973 6021178	Fiscal Year End	March
URL	www.breeze-eastern.com	Revenue (in US\$ Million)	69.03
Industry			
Locations	Germany, United States.		
Source: Annual Report, Company Website, Primary and Secondary Research			© Business Review

2 BUSINESS OVERVIEW

2.1 Business Description

Breeze-Eastern Corporation (BEC) is a US based rescue hoist and cargo hook technologies provider, holding more than 50% of global hoists and cargo hook market. BEC engages in design, development and manufacture of a range of external cargo hooks, helicopter rescue hoists, hoists for weapon loading systems, aircraft cargo winches, cargo tie downs and motion control systems. The company sells its products in more than 38 countries across Asia, Europe, and the US through a network of authorized service centers, internal marketing representatives, independent sales representatives and distributors. BEC employs 172 people.

It generates revenues from four business operations, namely, the sale of new equipment and spare parts, overhaul and repair, and engineering services. During the fiscal year ended March 2010, the company generated around 51% of its revenues through the sale of hoist and winch products, followed by 14% from the sale of cargo hook products, 7% from the sale of weapons handling products, and 28% from overhaul and repair and engineering sales.

BEC operates in three product segments, namely, Hoist and Winch, Cargo Hooks, and Weapons Handling. The company offers a wide range of rescue hoist systems, cargo winch systems, hoist/winch test stands, and sonar hoist systems for various helicopters which include Super Stallion, Seahawk, Osprey, Blackhawk, Ecureuil, Chinook, Merlin/Cormorant, Dolphin, Changhe Z-11, Agusta A119, Agusta A109 Power, and AgustaWestland AW139 helicopters. BEC also supplies equipment for Japanese, the US and European Multiple-Launch Rocket Systems, and the US High Mobility Artillery Rocket System (HIMARS).

BEC is a leading producer of cargo hook systems original equipment. It offers cargo hook systems for payloads ranging from 1,500 pounds to 36,000 pounds, which can be installed in various helicopter types and sizes. Further, BEC provides a broad spectrum of weapons handling systems ranging from weapons handling equipment for land-based rocket launchers to hoist weapons. Its products portfolio includes AL-16000-1, BL-27200, BL-32300-1, HLU-196, LD1028, LDS6000, RD2035, and RD1020. The company also provides overhaul, repair, and maintenance services for all of its products at its facility located at Whippany, New Jersey.

The company operates through various subsidiaries, which include, TTERUSA, Inc., TT Connecticut Corporation, Rancho TransTechnology Corporation, Retainers, Inc., SSP Industries, TransTechnology International Corporation, and TransTechnology Germany GmbH.

BEC geographically manages its operations in the US, Italy, Pacific and Far East, other European countries, England, UAE and Other non-US. During the fiscal year ended March 2010, the company reported 59.56% of its total revenues from the US, followed by 13.77% from Italy, 11.64% from Other non-United States, 6.24% from Pacific and Far East, 4.86% from Other European Countries, 3.63% from England, and 0.27% from the UAE.

Recently, the company changed its manufacturing facility from Union to Whippany, New Jersey and consolidated all operations at the new location. It designed the new facility to provide procurement, assembly and distribution operations of finished products across the US and Europe

BUSINESS OVERVIEW

2.2 Key Employees

Table 2: Breeze-Eastern Corporation Key Employees				
Name	Job Title	Board Level	Since	Age
Mike Harlan	Chief Executive Officer , President	Executive Board	2010	53
Charles W. Grigg	Chairman	Executive Board	2007	70
William H. Alderman	Director	Non Executive Board	2007	47
Jay R. Harris	Director	Non Executive Board	2007	74
William J. Recker	Director	Non Executive Board	1997	66
Russell M. Sarachek	Director	Non Executive Board	2007	46
William M. Shockley	Director	Non Executive Board	2006	47
Frederick Wasserman	Director	Non Executive Board	2007	55
Gerald C. Harvey	General Counsel , Secretary	Senior Management	2006	59
Mark Mishler	Senior Vice President , Chief Financial Officer , Treasurer	Senior Management	2010	51
Russ Heller	Vice President Information Technology	Senior Management		
Gary Olson	Senior Vice President Customer Connections	Senior Management		
Rodger Hahneman	Senior Vice President Operations	Senior Management		
Tom McLoughlin	Senior Vice President , Chief Engineer	Senior Management		
Mike Koons	Vice President Customer Care	Senior Management		
Andy Midkiff	Vice President Product Engineering and Program Management	Senior Management		
Jim Fett	Vice President Quality Improvement and Completeness	Senior Management		
Ed Chestnut	Director Human Resources	Senior Management		

Source: Annual Report, Company Website, Primary and Secondary Research

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BUSINESS OVERVIEW

2.2.1 Key Employee Biographies

Table 3: Breeze-Eastern Corporation Key Employee Biographies

<p>Charles W. Grigg Job Title: Chairman Board Name: Executive Board Age: 70 Since: 2007</p>	<p>Mr. Grigg has been the Chairman of the company since 2007. Prior to this, he served as the Chairman and the Chief Executive Officer of SPS Technologies, Inc. from 1993 to 2002. Currently, he serves as the Chairman of Penn Engineering & Manufacturing Corp. and Western Pneumatic Tube Holdings, LLC.</p>
<p>Mike Harlan Job Title: Chief Executive Officer and President Board Name: Executive Board Age: 53 Since: 2010</p>	<p>Mr. Harlan has been the Chief Executive Officer and President of the company since January 2010. Previously, he was an Executive Vice President and the Chief Operating Officer of Breeze-Eastern. He served as an Aviation Maintenance Officer in the US Navy for eight years. His previous assignments in aerospace industry include a Management Consultant at McKinsey & Co. and a Staff and Line Manager and New Business Leader at aerospace sector and avionics business of AlliedSignal. Prior to Breeze-Eastern, Mr. Harlan was the Chief Executive Officer of Nomad Innovations LLC, and Chief Operating Officer and President of Conformal Clad Inc.</p>
<p>Mark Mishler Job Title: Senior Vice President , Chief Financial Officer and Treasurer Board Name: Senior Management Age: 51 Since: 2010</p>	<p>Mr. Mishler is the Senior Vice President, the Chief Financial Officer, and the Treasurer of the company. Prior to joining the company, he served as the Chief Financial Officer of Vital Signs, Inc. he also worked as the Corporate Controller and the Chief Information Officer of Fedders Corporation and Amcast Industrial Corporation.</p>
<p>Source: Annual Report, Company Website, Primary and Secondary Research © Business Review</p>	

2.3 Locations and Subsidiaries

Table 4: Breeze-Eastern Corporation Subsidiaries	
TTERUSA, Inc. NJ United States	TT Connecticut Corporation CT United States
Rancho TransTechnology Corporation CA United States	Retainers, Inc. NJ United States
SSP Industries CA United States	TransTechnology International Corporation DE United States
TransTechnology Germany GmbH Germany	

Source: Annual Report, Company Website, Primary and Secondary Research

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3 SWOT ANALYSIS

3.1 Overview

Breeze-Eastern Corporation (BEC) is a leading rescue hoist and cargo hook technologies provider in the world. The company's strong liquidity and leading market position provide it an advantage while attracting and serving its customer base. Further, increasing order backlogs and growth in US defense spending could ensure a strong future. However, weak profitability and its dependence on limited customers are areas of concern for the company. Further, regulations on government contract compliance and risk prevailing due to foreign currency fluctuations could also affect the company's growth.

Table 5: Breeze-Eastern Corporation SWOT Analysis	
<p>Strengths</p> <ul style="list-style-type: none"> Dominant Market Position Strong Liquidity Position 	<p>Weaknesses</p> <ul style="list-style-type: none"> Dependence on Limited Customers Declining Market Share in Sector Declining Operating Margin Low Return on Equity
<p>Opportunities</p> <ul style="list-style-type: none"> Increasing US Defence Spending Increasing Order Backlogs Recovering Economy 	<p>Threats</p> <ul style="list-style-type: none"> Rapidly Changing Technology Government Contract Compliance Foreign Currency Fluctuations Dependency on Suppliers
<p>Source: Annual Report, Company Website, Primary and Secondary Research</p>	
<p>© Business Review</p>	

SWOT ANALYSIS

3.2 Strengths

Dominant Market Position

The company enjoys strong market position in helicopter-based rescue hoist and cargo hook market, which provides it a competitive edge over its peers. BEC is a leading designer, producer, service provider, and supplier of rescue hoists and cargo hook systems, with more than 50% market share. The company's rescue hoists and cargo hook product portfolio includes complete payload ranging from 1,500 to 36,000 pounds, which are installed in all types and sizes of helicopters. Further, the company's operations are also geographically diversified, with exports in more than 38 countries. BEC, through internal marketing and sales representatives and distributors, serves clients in China, Australia, Taiwan, New Zealand, France, Germany, Italy and Japan. Thus, strong capabilities of BEC in hoist and cargo hook market ensures strong future revenues of the company, as well as an advantage while efficiently serving the various needs of its customer base.

Strong Liquidity Position

The company's current ratio was 2.72 at the end of fiscal year 2010. This was above the aerospace and defence industry average of 1.04. A higher than the industry average current ratio indicates that the company is in a strong financial position and is more capable of meeting its short term obligations than other companies within the industry.

3.3 Weaknesses

Dependence on Limited Customers

The company's dependence on a few customers for a major share of revenue is an area of concern. During the fiscal year 2009, the company derived more than 50% of its total revenue from three major customers. The company recorded 25%, 19%, and 18% of its revenues in 2009 from the US Government, Finmeccanica SpA and United Technologies Corporation, respectively. Such dependence on select customers makes the company vulnerable to the risks arising due to loss of customers, changes in budget authorization and appropriation processes by government contractors, or contract cancellations.

Declining Market Share in Sector

During the fiscal year 2010, BEC recorded 8.5% decline in total revenues to USD 69.03 million, against USD 75.43 million in 2009. Further, the company's compounded annual growth rate (CAGR) for revenue was 1.74% during 2006-2010. This was below the aerospace and defence industry average of 8.59%. A lower than the industry average revenue CAGR may indicate that the company has underperformed the industry average companies growth and lost market share over the last four years. The company's underperformance could be attributed to a weak competitive position or inferior products and services offering or lack of innovative products and services.

SWOT ANALYSIS

Declining Operating Margin

During the fiscal year 2010, the company reported an operating loss of USD 8.07 million, as compared to operating income of USD 9.11 million in 2009. The company's operating margin was -11.69% for the fiscal year 2010, which was below the aerospace and defence companies average of 10.87%. A lower than the industry average operating margin may indicate inefficient cost management or a weak pricing strategy by the company. The operating margin has decreased 2,377 bps over 2009 which may indicate management's low focus on profitability.

Low Return on Equity

During the fiscal year 2010, the company reported a net loss of USD 6.04 million, as compared to net income of USD 5.76 million in 2009. Further, the company's return on equity (ROE) was -21.7% at the end of fiscal year 2010. This was below the aerospace and defence industry average of 22.74%. A lower than the industry average ROE may indicate that the company may not be using the shareholders' money as efficiently and that generating low returns for its shareholders compared to other companies in the industry.

3.4 Opportunities

Increasing US Defence Spending

The company, which provides its services to US military, could benefit from the growing defence spending. The US government, even in the prevailing economic conditions, has not curtailed its defence expenditure. It has substantially been increasing its budget for defence activities principally for its war on terror. Since the terrorist attacks of 2001, the US defence budget has distended about 35% in real terms. Much of the rise can be attributed to the wars in Iraq and Afghanistan. For the fiscal year 2010, the US government approved USD 680 billion defence budget bill. Further, to create and save jobs, revive the US economy and build the foundation for long-term economic growth, the US government enacted The American Recovery and Reinvestment Act of 2009. Of the total USD 787 billion stimulus package granted, about USD 7.4 billion was awarded to defence-related activities. Presently, the defence spending hovers around 4.7% of the gross domestic product (GDP). Furthermore, US is responsible for about 43% of the world's total military expenditure, amounting USD 661 billion in 2009. According to SIPRI, for the period 2000 to 2009, the military expenditure in the US increased by 76%. The increasing defence spending and new defence contracts for its major clients could provide more growth opportunities for the company.

Increasing Order Backlogs

The company has a strong order backlog, which could act as a source of its future revenues. As of March 31, 2010, the value of order backlogs stood at USD 130.14 million, as compared to USD 130.99 million at end of the fiscal year 2009. In early 2010, the company received USD 2.44 million worth order for Alenia's C-27J fixed wing cargo aircraft, USD 5.68 million worth order for Agusta's A109 and AW139 helicopters, and USD 3,883 valued order for Lockheed Martin's HIMARS or High Mobility Artillery Rocket System. Further, the value of new orders for services in overhaul and repair grew by USD 2.76 million due to orders received from the US Navy. The strong order backlog ensures steady revenues for the company in the coming years.

SWOT ANALYSIS

Recovering Economy

The global economic slowdown, which impacted all sectors across the globe, is in a recovery mode. The economic slowdown had posed a major challenge for most of the companies as market volatility concerns forced consumers shop only for basic and essential goods, thereby posing a major challenge to its clients, whose sales have witnessed a sharp decline. According to The World Bank, overall global GDP contracted by 2.2% in 2009, with Euro zone, Japan and the US contracting by 3.9%, 5.4% and 2.5%, respectively.

However, with various massive stimulus packages announced by respective governments to bring their economies back on track, the global output is expected to expand by 2.7% in 2010, and 3.2% in 2011. Euro zone, Japan and the US are expected to grow by 1%, 1.3% and 2.5% in 2010 and 1.7%, 1.8% and 2.7% in 2011, respectively. Though the GDP growth is below the 2007 levels, the recovering economy offers ample growth opportunities for companies across all sectors. The positive consumer confidence has regenerated the demand for a variety of goods which had been witnessing a decline over the past two years.

3.5 Threats

Rapidly Changing Technology

The technology market, in which, the company participates is subject to rapid technological changes. The introduction of products using new technologies or the adoption of new industry standards can make existing products, or products under development, obsolete or unmarketable. In this scenario, to compete effectively, the company has to continuously innovate and introduce new products that gain market acceptance. Unless the company understands the customers' requirements and adapts the emerging technologies in the market, and introduces new products and solutions, its business may be adversely affected.

Government Contract Compliance

The government contracts of the company are subjected to several intricate government procurement laws and regulations apart from the routine audits of contract pricing. The results of such investigations may lead to administrative, civil, or criminal proceedings, the ultimate outcome of which could be fines, penalties, repayments, or compensatory or treble damages. The government's regulations dictate that certain findings against a contractor may lead to a refund, payment of significant damages, or contract cancellation or debarment from doing business with the government. The suspension or debarment of business could have a material adverse effect on the company's financial performance since it relies heavily on government contracts.

Foreign Currency Fluctuations

Unfavourable changes in foreign currency exchange rates could increase the expenses for the company. The company has operations in the US, Italy, the UK, UAE, Pacific and Far East countries, and other European and Other non-US countries. Further, during the fiscal year 2009, the company recorded 40.44% of total sales from international customers. Thus, the non-US dollar currencies appreciation over US dollar or vice versa could incur additional costs for the company, as well as increase capital expenditures in US dollar terms.

SWOT ANALYSIS**Dependency on Suppliers**

The company relies on suppliers to procure component parts and assembly of components and subsystems, required for the manufacture of its products. Any disruption in deliveries from suppliers or decreased availability of raw materials or commodities has an adverse effect on the company's ability to meet its commitment to customers, which in return also increases the operating costs. Further, any failure of subcontractors could impact the production operations of the company, as well as result in delays in final delivery.

4 EVENTS

4.1 Company History

Table 6: Breeze-Eastern Corporation History

Year	Event Type	Description
2009	Contracts/Agreements	The company received an USD 5.2 million contract from Lockheed Martin Corporation for the production and support of the High Mobility Artillery Rocket System (HIMARS) rocket pod loading hoists for the US Army.
2009	Contracts/Agreements	BEC signed a lease agreement for the relocation of its corporate offices and manufacturing facility to an existing facility located in New Jersey.
2008	Divestiture	The company sold its headquarters facility and plant at 700 Liberty Avenue, Union, New Jersey.
2008	Contracts/Agreements	The company was selected by Sikorsky Aircraft Corporation to provide the Internal Cargo Winch System for the next generation CH-53K Heavy Lift helicopter Sikorsky.
2007	Contracts/Agreements	BEC received a contract from Lockheed Martin for the manufacture and support of HIMARS rocket pod loading hoists for the U.S. Army and Marine Corps.
2006	Contracts/Agreements	The company received a firm-fixed price contract for 140 C-160 Cargo Hooks for the CH-47 Aircraft from the U.S. Army Aviation and Missile Command, Redstone Arsenal, Alabama.
2006	Stock Listings/IPO	The company listed its shares on the American Stock Exchange under BZC symbol.
2006	Corporate Changes/Expansions	The company changed its name from TransTechnology Corporation to Breeze-Eastern Corporation.
2005	Others	The company delisted its shares from the New York Stock Exchange and listed on the Over-the-Counter Bulletin Board.
2005	Contracts/Agreements	The company received an USD 1.8 million contract from Hindustan Aeronautics Limited, Helicopter Division, Bangalore, India.
2005	Contracts/Agreements	The company received a contract from the Naval Inventory Control Point, Philadelphia for repair and overhaul of nine types of rescue hoists, cargo hooks, and other items.
2004	New Products/Services	The company delivered its first Breeze-Eastern HS-29700 Electric Rescue Hoist System to Changhe Aircraft Industries Corporation (CAIC) for installation on the Z-11 Helicopter.
2003	Divestiture	The company sold its subsidiary, Norco, Inc. subsidiary to Marathon Power Technologies Company.
2003	Divestiture	The company sold its TCR business subsidiary, TCR Corporation to an affiliate of MidMark Capital LLC.
2002	Divestiture	The company sold its Germany's Seeger Orbis retaining ring business to Barnes Group Inc.
2002	Contracts/Agreements	The company received a contract from the US Naval Inventory Control Point for 102 BL-27100-85 Hydraulic Rescue Hoists for use on the Navy's H-60 helicopter.
2002	Divestiture	The company sold its retaining ring business subsidiary,

EVENTS

1926	Incorporation/Establishment	TransTechnology Engineered Rings (USA) Inc. to SeaView Capital LLC. Breeze-Eastern Corporation was founded as TransTechnology Corporation.
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Source: Annual Report, Company Website, Primary and Secondary Research

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5 Appendix

5.1 Research Methodology

Business Review's "SWOT Analysis & Company Profile" reports utilize a wide range of primary and secondary sources, which are analyzed and presented in a consistent and easily accessible format. We strictly follow a standardized research methodology to ensure high levels of data quality:

Our company profiles are based on a core set of research techniques, which ensure the best possible level of quality and accuracy of data. The key sources used include:

1. Company Websites
2. Company Annual Reports
3. SEC Filings
4. Press Releases
5. Proprietary Databases

Data Consolidation – Our analysts benchmark data from internal and external sources to verify historical market data and to ensure that latest year data is fully supported by external opinion.

Quality Control – We rigorously conduct checks on our data and processes throughout the production of every company profile, to ensure that the highest levels of data quality are maintained across our portfolio.

5.2 Additional Notes

Figures in tables and charts throughout this report may not add up to totals due to rounding.

Any currency calculations used in the generation of data within this report have been calculated using constant 2009 annual average exchange rates.

Financial information for the company is taken from the most recently published annual reports or SEC filings

The financial and operational data reported for the company is as per the industry defined standards

Where required, turnover is converted to US\$ using the average annual conversion rate as of fiscal year end

5.3 Disclaimer

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