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COMMENTARY

Acquire and Adapt

Strategies for a small supplier

Consolidation in the aerospace and defense supply chain can be big news when it involves publicly traded companies as prominent as United Technologies and Goodrich.

Merger and acquisition activity of smaller, privately held A&D suppliers largely goes unnoticed, although their business strategies are similar to the big names: acquire what you don't have to expand your product offering, nurture trusted partners and team for specific projects. Expansion is possible through organic growth, but the risks associated with internally funded research and development can be high. Sometimes the best growth comes not from new products but from a service expansion.

Tactair Fluid Controls Inc., a 350-employee, privately held manufacturer of hydraulic and pneumatic controls for aircraft and defense applications is a case study in all of the above. Its product line is concentrated in flight control systems and engine, nacelle, brake, landing gear, and nose-wheel steering controls. Its product line incorporates valves, actuators and dampers, accumulators and reservoirs and it is increasingly involved in the evolution of fluid and mechanical systems into electric controls. The company operates two plants with a total of 180,000 sq. ft. in Liverpool, N.Y., on the outskirts of Syracuse.

Tactair was started 50 years ago but had its greatest growth after being acquired in 1986 by Young & Franklin, a control maker for industrial gas turbines that wanted an entree into A&D. Young & Franklin does not publish an earnings report, but President Michael Yates says Tactair has annual revenues of \$70 million from a 50:50 split of military work for transports, trainers and



TACTAIR FLUID CONTROLS

helicopters with business and regional jets on the civil side. Its customer base is predominantly in the Americas.

For the decade that followed its own acquisition, Tactair expanded by buying others—Phoenix Controls, Teledyne's Hydra-Power Div., Kaiser Fluid Technology and the aerospace product lines of York Industries. Each buy added to what the company could market. York, for instance, brought in hydraulic accumulators, self-displacing accumulators for gas bottles, fire-suppressant valves, auxiliary hydraulic power packs and hydraulic hand pumps.

The company has been affected by shrinkage in the business and regional jet markets that followed the 2009 recession. "Business has been tough," says Yates. But its civil trough has been offset by good military sales from resupply, retrofit and new-build aircraft. Tactair also is taking advantage of favorable exchange rates. "In the past 5-6 years, Europeans are looking to partner with people like us that are dollar-denominated suppliers," he says.

So, despite the recession, Tactair is profitable and its revenues are growing.

It sells to Tier 1 suppliers more often than airframe makers, but not always. Niche applications are a strength, such as the brake metering valves and hydraulic accumulators it provided to General Atomics for Scaled Composite's WhiteKnightTwo aircraft. But it also makes leading-edge flap actuators and hydraulic accumulator overhaul kits for the U.S. Air Force's KC-135R Stratotanker fleet. It built the servo actuators for the nose-wheel steering system on the Hawker-Beechcraft T-6 Texan trainer and wheel-brake secondary flight controls and door controls for Embraer's Phenom business jet family.

Acquisitions have been hobbled in the past few years because nearly all of its competitors have been bought by larger Tier 1 and 2 suppliers. So, growth these days is internal. The emphasis is on establishing the Tactair name as a systems integrator that is comfortable working with traditional hydraulics and pneumatics or the newer electrical systems.

"Tactair isn't a name like Parker or Eaton that anyone in the world knows," Yates says. "But [it] has a name that everyone in [our] marketplace knows."

While it manufactures nearly everything in its assemblies, the company does not make controllers, so Yates is searching for a trusted source either through acquisition or partnering. Its competition comes primarily from North America, Europe or Japan, not China, Mexico or India. Yates is skeptical that those three will be competitors. "Lower labor costs can only be taken so far," he says.

The company's integrator message will be carried to Farnborough next month for the air show, with applications like a prototype electro-mechanical actuator uplock system (see photo). While some unmanned aerial vehicles use all-electric systems, finding enough power to run them becomes an issue as platforms grow larger. The reliability of electric systems may be less than traditional hydraulic systems, he says. "Nobody is at the point where they've got this thing licked," Yates notes. "There's a lot of challenges. That's a big opportunity for us." 🌀