

# ARCHIVED REPORT

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## Fairchild Dornier - Archived 3/2005

### Outlook

- The company is defunct and its operations have been sold off
- China's D'Long International Strategic Investment agreed to buy the 728 regional program in June 2003
- AvCraft Aviation purchased the 328JET division and the Fairchild Dornier name in January 2003
- This report will be archived in 2005

### Sales & Net Income Trends

Information Unavailable

### Headquarters

Following its emergence from bankruptcy in the early 1990s, Fairchild Aircraft searched for a way to expand what was essentially a one-product line. Demand for 19-passenger aircraft, especially those with small cabins, had declined dramatically. In June 1993, an announcement was made that Fairchild planned to purchase a majority share in the Czech aircraft manufacturer LET. Fairchild would have thus added two new aircraft (the L-420 and the L-610) to its product line, but discussions between LET and Fairchild regarding a joint venture ended in early 1995. The companies abandoned the idea because the privatization and restructuring process of LET was taking too long.

In mid-1996, Fairchild acquired 80 percent of Dornier Luftfahrt from DaimlerChrysler Aerospace (DASA),

which retained the remaining 20 percent. This transaction added the Dornier 228 and 328 turboprops to the Fairchild product line.

In late 1999, Clayton, Dubilier & Rice Inc, a leading private equity investor, and Allianz Capital Partners, an affiliate of Allianz Group, formed an alliance and acquired (then) Fairchild Aerospace Corp for \$1.2 billion. The new owners adopted the original name, Fairchild Dornier, and relocated the company's headquarters from Texas to Germany.

In mid-2002, having exhausted all other options, Fairchild Dornier filed for bankruptcy. The company's assets have since been sold piecemeal.

### Structure and Personnel

Eberhard Braun

Bank-appointed administrator

### Product Areas

Fairchild Dornier was organized around two international divisions as follows:

1. Fairchild Dornier (Germany)
2. Fairchild Dornier Corp (USA)

**Fairchild Dornier.** The German headquarters produces commuter/utility aircraft; widebody aircraft; reconnaissance, surveillance and training systems; fighter

aircraft; rotorcraft; and infrastructure programs. Specifically, Dornier Luftfahrt GmbH handles the production of the Dornier 228 and Dornier 328 regional aircraft, as well as providing various aerospace services.

**Fairchild Dornier Corp.** Based in the United States, Fairchild Dornier Corp manufactures the 19-passenger Metro 23 airliner, Merlin 23 business aircraft, Expediter cargo aircraft, and the C-26B.

## Facilities

AvCraft Aviation, <http://www.avcraft.com> This company purchased the 328JET and the rights to the Fairchild Dornier name in January 2003.

D'Long International Strategic Investment, 31000 Telegraph Road, Suite 250, Bingham Farms, MI 48025 USA. Telephone: (248) 593-1040. Web site: <http://www.d-long.com> This is a U.S. representative office of this Beijing, China-based company. D'Long agreed to purchase the 728 regional twinjet program in mid-2003.

Former Fairchild Dornier sites are listed below:

Fairchild Dornier Corp, 10823 NE Entrance Road, San Antonio, TX 78216 USA. Telephone: (210) 824-2313. Based on the outskirts of the San Antonio International Airport, this facility produces wings for the 328JET. The unit also provides support for other Fairchild Dornier products.

Fairchild Aircraft Services, 9623 West Terminal Drive, San Antonio, TX 78216 USA. Telephone: (210) 824-2313. Fairchild Gen-Aero Inc, dba Fairchild Aircraft Services, is the only FAA-approved repair station for the 328JET.

Fairchild Dornier, Worldgate Plaza IV, 8th Floor, 12801 Worldgate Drive, Herndon, VA 20170-4381 USA. Telephone: (703) 375-3600. This is the headquarters for the company's Sales & Marketing, Corporate Communications, Government Relations, Sales Engineering, Sales Finance, Contracts, and Marketing offices.

Fairchild Dornier, PO Box 1103, Airfield Oberpfaffenhofen, 82230 Wesseling, Germany. Telephone: (49 81) 53 30 0. Oberpfaffenhofen is the corporate headquarters, and the center for development and design, aircraft production, maintenance and service, and customer support. Airbus components and subassemblies are also produced here.

## Corporate Overview

Fairchild Dornier was a manufacturer of jet and turboprop aircraft for the airline, corporate, and government markets, providing a wide range of sales, support, production, and engineering services for the aviation industry. The company entered bankruptcy in April 2002 and is in the process of being sold off.

No news at the current time, due to the company's bankruptcy.

### New Products and Services

**GE 728JET Order.** In June 2000, GE Capital Aviation Services Inc placed an order for up to 150 Fairchild Dornier 728JET regional jets. The order included 50 firm sales and up to 100 options. The value of the 50 firm aircraft was approximately \$1.4 billion. In April 2002, GE Capital Aviation Services canceled its 728 order. According to a Fairchild Dornier spokesperson, the order was canceled due to the aircraft manufacturer's insolvency.

Fairchild Dornier does, however, have 728JET (now referred to as the 728-100) orders and options from Lufthansa CityLine, Bavaria International Aircraft Leasing, and Sol Air, for a total of 276 aircraft.

### Plant Expansion/Organization Update

### Mergers/Acquisitions/Divestitures

China's D'Long Buys 728 Program. In June 2003, Beijing-based D'Long International Strategic Investment agreed to buy Fairchild Dornier's 728 regional twinjet program. D'Long hopes to relaunch the aircraft program shortly in cooperation with unspecified Chinese partners. D'Long forecasts a market for approximately 600 regional jets in the 728 category in China over the next 20 years. The investment firm is reportedly in talks with Xi'an Aircraft Corp, part of AVIC I conglomerate, for the lead role in manufacturing the 728, most probably the wing assembly (which was originally to be allocated to EADS CASA). Final assembly could take place in Fairchild Dornier's old facilities in Oberpfaffenhofen.

AvCraft Aviation Acquires 328JET, Company Name. In March 2003, AvCraft Aviation, based in Texas, acquired the 328JET division. The new owner has also acquired rights to the once-proposed stretched 428JET derivative of the basic design, as well as the Fairchild Dornier name. Current plans call for the latter to resume operating as AvCraft's subsidiary in Germany.

Unconfirmed reports suggest AvCraft paid out just under \$110 million to seal the deal, which includes 18 completed "white tails" (unsold aircraft) and another five 328JETs in various stages of completion.

AvCraft reported in early 2003 that it held letters of interest for about 100 328JETs and letters of intent for another 40 units, and was projecting sales of 300-500 more. The new owner said it had received considerable interest for non-airline versions customized for the executive/corporate market sector.

By September 2003 AvCraft had planned to restart the 328JET line in Germany by year's end, but its current order backlog numbers only three aircraft, all for the corporate-configured Envoy 3 version. AvCraft is thus left with seven completed but unsold aircraft, and this may preclude a timely restart.

**RUAG Buys Fairchild Dornier Division.** In December 2002, the Swiss company RUAG purchased the maintenance division and the Airbus-component-producing operation of Fairchild Dornier. RUAG defeated a Russian aircraft company in weeks of fierce bidding, partly because the Swiss sought to purchase the two components together. The two businesses were purchased for an undisclosed sum.

**Fairchild Sold.** In December 1999, an investment fund managed by Clayton, Dubilier & Rice Inc and Allianz Capital Partners, an affiliate of Allianz Group, formed an alliance to acquire Fairchild Aerospace Corp. The transaction was valued at approximately \$1.2 billion and included an injection of \$400 million in growth capital from CD&R and ACP and debt financing of nearly \$800 million from a consortium of German commercial banks and other institutions. The proceeds were to be used by Fairchild Dornier for the development and production of its newest generation of aircraft products. The deal was completed in April 2000.

## Teaming/Competition/Joint Ventures

**China Aviation Industry Corporation.** In November 2000, Fairchild Dornier signed a Letter of Intent with Chinese industry to explore options for industrial cooperation based on the new family of Fairchild Dornier low-wing aircraft. Under the new agreement, Fairchild Dornier was to work with China Aviation Industry Corporation companies (AVIC I and AVIC II) in conjunction with Hainan Airlines to look at possible areas of industrial participation by Chinese industry on the 728JET family of airliners.

In November 2001, Fairchild Dornier signed an agreement with Harbin Aircraft Industrial Group to produce 328JET components. Harbin Aircraft, in Harbin, China, will produce wing fairings for the 328JET assembled in Oberpfaffenhofen, Germany. The wing fairing is an

aerodynamic structure between the wing and the fuselage of the aircraft. Harbin is part of the AVIC II industrial group in China. No other details of the agreement were released.

**IAI.** In September 1999, Fairchild Aerospace's Dornier Luftfahrt unit and Israel Aircraft Industries Ltd (IAI) signed an agreement for IAI to design and fabricate the fuselage and perform final structural assembly under the 44-seat 428JET regional jet program. The contract has a potential value of more than \$600 million. This follows an earlier agreement signed in June 1999 that made IAI responsible for system engineering and integration, flight testing, and certification support on the 428JET program. That contract is valued at \$80 million.

**Garrett Aviation Services.** In October 1999, Fairchild Aerospace and Garrett Aviation Services formed a partnership for completion and support of the Envoy series of business jets. Under the terms of the agreement, Garrett would become the completion integrator for Envoy 3 and Envoy 7 aircraft through its U.S. facilities and provide ongoing support for the aircraft after delivery, with Fairchild Aerospace maintaining overall responsibility for the programs. Envoy 3 completions will be done primarily in Springfield, Illinois. Envoy 7 completions will be done at a Garrett facility to be determined later. Fairchild's facilities may also be used for completions.

**ATR.** In early 1999, Fairchild and ATR consortium partners Aerospaciale Matra and Alenia were in talks on a possible collaboration on a family of regional jets. However, by mid-year talks had broken down, as the companies failed to reconcile their divergent views over combining rival aircraft projects.

**728JET.** In September 1998, Fairchild Dornier announced several risk-sharing partners for the proposed 728JET. These include Honeywell, which will supply Primus Epic avionics; AlliedSignal, supplying the RE220FD APU and environmental control system; BFGoodrich, manufacturing the wheels, tires, brakes, hydraulic system, brake-control system, and nose-wheel-steering system; Lucas Aerospace, supplying the fly-by-wire flight control system; Sundstrand Aerospace, producing the electrical system; and Parker Aerospace, which will supply the hydraulics system. General Electric will supply the GE CF34-8D engine for the aircraft.

**328.** Dornier Luftfahrt has entered into a number of risk-sharing agreements with various manufacturers for its upcoming 328 project. The major players in this large teaming arrangement include Daewoo of South Korea, which has a 21 percent stake in the project and is responsible for the aircraft's fuselage shells; Aermacchi,

which has a 14 percent share and will provide work on the cockpit; and Westland Aerospace of the U.K., which will provide the engine nacelles and take a 5 percent share in the overall project.

## Financial Results/Corporate Statistics

As it is a privately held company, Fairchild Dornier's financial statistics are not publicly released. However, some information concerning the company's financial performance has been reported, and is detailed below.

In June 2001, Fairchild Dornier announced that the company's total order book stood at 543 aircraft valued at more than \$12 billion. This is up 50 percent from \$8 billion in April 2000. The company went bankrupt in mid-2002.

Y/E September 31	1999	2000	2001
(USD millions)			
Revenues	560	650	710

## Strategic Outlook

After exhausting options to form partnerships with various aviation manufacturers ranging from Boeing to Alenia, Fairchild Dornier declared bankruptcy in April 2002. While bank-appointed administrator Eberhard Braun had hoped to see the company sold off whole, bad news throughout the year resulted in plans to sell off operations piecemeal.

In July 2002, the company was hit with a one-two punch that signaled the end of any hopes of Fairchild Dornier surviving intact. First, the company lost the largest order it had received for its planned 728 regional jet when Lufthansa canceled its order for 60 of the 68-78-passenger aircraft. This was closely followed by Alenia's announcement that "on the basis of a technical valuation of Fairchild Dornier, Alenia does not find it opportune to formally open negotiations" aimed at acquiring the 728 program.

Earlier in the year, aircraft leasing giant GECAS had canceled its order for 50 of the 728s, plus its 100

options. The Lufthansa action thus virtually gutted the program. Fairchild Dornier had reported 121 firm 728 sales at the end of 2001. In the wake of these cancellations, the order book now stands at about a dozen aircraft, and the company's insolvency administrator has said that even those orders would have to be renegotiated by any new owner.

By year-end 2002, the first sale had been completed. Switzerland-based aviation firm Swiss RUAG bought Fairchild's maintenance division and parts-supply business for an undisclosed amount.

During 2003, AvCraft Aviation purchased the 328JET program and China's D'Long investment firm agreed to buy the 728 program.

With the demise of Fairchild Dornier, this will be the final update of this report.

## Prime Award Summary

Information not available.

## Program Activity

Some important aerospace and government programs currently under way at Dornier are listed below. The briefs are intended to provide a listing of programs that are of major importance to the company. For detailed information or analysis of specific aerospace and defense programs or equipment, please refer to the appropriate Forecast International binder (for example, *Aircraft*, *Military Vehicles*, *Warships*, *Missiles*, *Electronics Systems*, and *Gas Turbines*). The following are the company's business interests:

- Aircraft

- Civil and Military Fixed-Wing Aircraft
- Missiles
- Space Systems
- Systems Integration
- Unmanned Vehicles

### Aircraft Programs

#### Airbus

Fairchild Dornier has produced Airbus components since 1980 and employs more than 400 people on Airbus work. Fairchild Dornier contributes several

assemblies for the Airbus A320/A321, including the wheel well, tail cone, outer landing flap, and cargo compartment paneling. The company is also involved in the A330/A340 program.

In May 2001, Fairchild Dornier won a new five-year contract to produce subassemblies for the full line of Airbus commercial airliners. The contract runs from 2002 to 2006 and has a potential value of \$230 million. Under terms of the contract with EADS Airbus GmbH in Hamburg, Fairchild Dornier will produce 1,693 ship-set assembly groups primarily for the single-aisle family of Airbus aircraft. Subassemblies to be produced under the new contract include the pressure bulkhead, sidebox with floor structure, rear section, and tailcone for the A318, A319, A320, and A321; the pressure bulkhead for the A330 and A340; and the pressure bulkhead for the A300/310.

### Fairchild Dornier 228

The Fairchild Dornier 228 is an unpressurized, 15- to 20-passenger, twin-turboprop regional/commuter, utility and special-purpose military transport aircraft. It is used as a short-range regional/commuter or executive passenger aircraft. Additional applications include commercial and military freight transportation, maritime and border patrol, airborne early warning, and signals intelligence work (SIGINT). In 1997, Fairchild shifted all Dornier 228 production to HAL in India as it focused on its larger 328 and its upcoming fan-powered family of derivatives.

### Fairchild Dornier 328

The Fairchild Dornier 328 is a twin-turboprop, pressurized, 30- to 33-seat regional/commuter transport aircraft. As market demand is shifting dramatically to the new regional jets, so Fairchild is focusing its efforts on its 328JET family while pressing ahead with development of the larger 728JET family.

### Fairchild 328JET

This is a twin-turbofan, short-range passenger transport aircraft. The 328JET is the baseline model requiring minimal changes to the existing turboprop-powered

Dornier 328 airframe. Aircraft flew for the first time in January 1998, and first deliveries were made in 1999. The proposed 428JET was stretched by 11 feet. This variant is fitted with a wing whose span has been increased by 6.5 feet and featuring modified flaps. Design was finalized in early 1998 and launched in May of that year. Israel Aircraft Industries was to produce the fuselage; power was to be provided by 6,050 lbst PW306 engines. The aircraft had a planned in-service date of August 2002. The program was terminated in August 2000. The Envoy 3 is a corporate variant of the 328JET seating 10 passengers. It cruises at 400 knots and offers a range of 2,400 nautical miles. It is priced at \$13.5 million.

### Fairchild 728JET

The 728JET, since redesignated the 728-100, is an all-new design that was first announced at the November 1997 Dubai Air Show. The baseline 70-seat model was to serve as the basis for a new family of regional jets spanning the 55- to 105-passenger-capacity spectrum, thereby complementing the 32-seat 328JET model.

### Fairchild Dornier Metro

This is a short-range regional/commuter passenger transportation and business/executive travel aircraft. Additional applications include small package carriage, maritime patrol, troop transport, flight inspection, airborne early warning, reconnaissance, and medical evacuation. In March 2001, Fairchild Dornier delivered the 1,053rd and final aircraft in the Merlin/Metro series, ending a production run of 35 years. Fairchild Dornier continues to provide complete customer support for more than 800 aircraft still in service throughout the world.

Fairchild/Lockheed Martin Multi-Mission Surveillance Aircraft. One of the special-mission versions of the Metro is known as the Multi-Mission Surveillance Aircraft (MMSA). This model is offered by Fairchild in conjunction with Lockheed Martin. The MMSA integrates the Metro 23 airliner with off-the-shelf surveillance and C<sup>4</sup>I systems tailored by Lockheed Martin for various tasks.

## U.S. Contract Awards

No major contracts have been awarded to Fairchild Dornier from the United States government in the past two years.

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