

# Congress of the United States

Washington, DC 20515

June 30, 2024

The Honorable Lloyd J. Austin III  
Secretary of Defense  
U.S. Department of Defense  
1000 Defense Pentagon,  
Washington, DC 20301-1000

The Honorable Jonathan Kanter  
Assistant Attorney General for the Antitrust Division  
U.S. Department of Justice  
950 Pennsylvania Avenue, NW  
Washington, DC 20530

The Honorable Lina M. Khan  
Chair  
Federal Trade Commission  
600 Pennsylvania Avenue, NW  
Washington, DC 20580

Dear Secretary Austin, Assistant Attorney General Kanter, and Chair Khan,

We write in regard to TransDigm Group Inc.'s (TransDigm's) proposed acquisitions of two specialized aerospace contractors, SEI Industries LTD (SEI Industries or SEI) and Raptor Labs Holdco, LLC (Raptor Scientific or Raptor). Given TransDigm's merger and acquisition history, price gouging practices, and contribution to consolidation in the defense industrial base, we urge the U.S. Department of Defense (DoD, or the Department) and antitrust enforcers to closely scrutinize TransDigm's proposed acquisitions.

In late May, TransDigm announced plans to acquire Raptor Scientific for \$655 million.<sup>1</sup> Raptor Scientific, like TransDigm, is in the aerospace and defense markets selling aircraft components to DoD. The company has an annual revenue of \$90 million and has been awarded \$10.2 million in federal contracts since 2021.<sup>2</sup> Both Raptor Scientific and TransDigm produce highly engineered, proprietary aircraft components. TransDigm President and CEO Kevin Stein indicated that Raptor Scientific's "comprehensive proprietary and highly engineered product portfolio of aerospace and defense testing and instrumentation solutions fits well with [TransDigm's] value generation strategy."<sup>3</sup>

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<sup>1</sup> Law360, "TransDigm Buys Fellow Aerospace Biz In \$655M Cash Deal," Jade Martinez-Pogue, May 28, 2024, <https://www.law360.com/articles/1841297/transdigm-buys-fellow-aerospace-biz-in-655m-cash-deal>.

<sup>2</sup> Law360, "TransDigm Buys Fellow Aerospace Biz In \$655M Cash Deal," Jade Martinez-Pogue, May 28, 2024, <https://www.law360.com/articles/1841297/transdigm-buys-fellow-aerospace-biz-in-655m-cash-deal>; USAspending.gov, Raptor Scientific, categories, <https://www.usaspending.gov/search/?hash=aff4b166cfb0677fe3f65c42a960c4fa>.

<sup>3</sup> PR Newswire, "TransDigm Announces Acquisition of Raptor Scientific," May 28, 2024, <https://www.prnewswire.com/news-releases/transdigm-announces-acquisition-of-raptor-scientific-302156644.html>.

A week before the Raptor announcement, TransDigm announced it had acquired SEI Industries, “a leading provider of highly engineered products for aerial firefighting and other liquid transportation solutions” with annual revenues of approximately \$30 million.<sup>4</sup>

Since its founding in 1993, TransDigm has acquired at least 88 businesses and shows no signs of stopping.<sup>5</sup> The Raptor and SEI acquisitions appear to be part of TransDigm’s years-long playbook. In 2021, the DoD Inspector General completed a report we had requested on TransDigm which detailed this business model. It noted that TransDigm acquires companies “that specialize in highly engineered, sole-source spare parts” that are sold to DoD in “small quantities, resulting in lower-dollar-value contracts.”<sup>6</sup> TransDigm specifically utilized low-dollar-value contracts to exploit loopholes in price gouging controls: from 2017 to 2019, “more than 95 percent of the contracts that the DoD awarded to TransDigm” — amounting to \$268.2 million — fell below the threshold that would have required TransDigm to report cost or pricing data.<sup>7</sup> Reviews in 2019 and 2022 found TransDigm used this tactic to hide price mark-ups with profit margins as high as 4,436 percent.<sup>8</sup> We have been highly critical of these tactics, and called on both TransDigm and DoD to end the company’s price gouging.<sup>9</sup> But TransDigm appears poised to continue these tactics. In an earnings call this year, Stein reported that over the next year and a half, he sees “a target-rich environment for [TransDigm’s] focused acquisition strategy.”<sup>10</sup>

Given TransDigm’s rapid pace of acquisitions and demonstrated history of price gouging, we urge the Federal Trade Commission (FTC), the Department of Justice (DOJ), and DoD to closely scrutinize the impact of these transactions on competition in the defense industry.

The federal government’s antitrust enforcers — FTC and DOJ’s Antitrust Division — are statutorily required to combat anticompetitive behavior. The Sherman Act, the Clayton Act, and the FTC Act prohibit monopolization, mergers and acquisitions that lessen competition, and unfair methods of competition.<sup>11</sup> Among other antitrust enforcement responsibilities, the

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<sup>4</sup> PR Newswire, “TransDigm Announces Acquisition of SEI Industries LTD.,” May 22, 2024, <https://www.prnewswire.com/news-releases/transdigm-announces-acquisition-of-sei-industries-ltd-302152710.html>.

<sup>5</sup> TransDigm Group Inc., “Focused and Disciplined Acquisition Strategy,” blog, April 24, 2017, <https://www.transdigm.com/a-proven-value-base-operating-strategy/>.

<sup>6</sup> U.S. Department of Defense, Inspector General, “Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing,” report, December 13, 2021, <https://media.defense.gov/2021/Dec/27/2002914678/-1/-1/1/DODIG-2022-043%20508.PDF>.

<sup>7</sup> U.S. Department of Defense, Inspector General, “Audit of the Business Model for TransDigm Group Inc. and Its Impact on Department of Defense Spare Parts Pricing,” report, December 13, 2021, <https://media.defense.gov/2021/Dec/27/2002914678/-1/-1/1/DODIG-2022-043%20508.PDF>.

<sup>8</sup> Forbes, “Meet The Billionaire Who Built A Fortune ‘Price-Gouging’ Customers Like The Pentagon,” Jeremy Bogaisky, August 15, 2023, <https://www.forbes.com/sites/jeremybogaisky/2023/08/07/meet-the-billionaire-who-built-a-fortune-price-gouging-customers-like-the-pentagon/?sh=37dce29b1658>.

<sup>9</sup> Office of Senator Elizabeth Warren, “Warren, Garamendi Renew Call for TransDigm to End Price Gouging, Provide Pricing and Cost Transparency to Defense Department,” press release, November 30, 2023, <https://www.warren.senate.gov/oversight/letters/warren-garamendi-renew-call-for-transdigm-to-end-price-gouging-provide-pricing-and-cost-transparency-to-defense-department>.

<sup>10</sup> Yahoo Finance, “TransDigm Group Inc. Q1 2024 Earnings Call Transcript,” transcript, February 9, 2024, <https://finance.yahoo.com/news/transdigm-group-incorporated-nyse-tdg-152317897.html>.

<sup>11</sup> U.S. Government Accountability Office, “Defense Industrial Base: DOD Needs Better Insight into Risks from Mergers and Acquisitions,” October 17, 2023, p. 4, <https://www.gao.gov/assets/d24106129.pdf>.

agencies must block transactions that may have the effect of substantially lessening competition.<sup>12</sup>

DoD policy provides the Department with an important role with respect to transactions involving “major defense suppliers” — as defined by the DoD Secretary or other key Department officials — and directs DoD to review transactions to consider impacts on national security, the industrial and technological base, competition, increased costs, and satisfactory completion of current or future DoD programs or operations.<sup>13</sup> To assist this review, DoD should have access to documents provided to FTC or DOJ by the companies involved in the transaction under the *Hart-Scott-Rodino Act*,<sup>14</sup> pursuant to Section 857 of the FY24 *National Defense Authorization Act* (NDAA).<sup>15</sup>

Despite DoD’s stated policy and the additional tools provided in the FY24 NDAA, DoD has done little in the past to prevent harmful transactions.<sup>16</sup> The Government Accountability Office (GAO) found DoD does not review transactions proactively or “analyze the full range of risks that defense-related [mergers and acquisitions] pose to the defense industrial base.”<sup>17</sup> The GAO also found DoD’s focus “has resulted in DOD not comprehensively assessing the M&A of smaller suppliers, including those that supply critical products to DOD.”<sup>18</sup>

TransDigm’s pattern of roll-ups — including its proposed acquisition of Raptor Scientific — heightens the need for DoD to course correct in order to prevent future price gouging by TransDigm and fight consolidation in the defense industry. There is no indication that these mergers and acquisitions will have a beneficial impact on taxpayers or national security. Further, while TransDigm’s acquisition of SEI appears to fall below the threshold that triggers reporting requirements to antitrust agencies, antitrust agencies may still review the transaction to determine if it may unlawfully lessen competition.<sup>19</sup> DOJ and FTC’s finalized merger guidelines make clear that agencies may evaluate a company’s pattern or strategy of serial acquisitions collectively under antitrust law.<sup>20</sup> In any case, DoD is uniquely placed to recommend smaller transactions to antitrust agencies for further review.<sup>21</sup> DoD’s review, which is not constrained by

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<sup>12</sup> 15 U.S.C. 18.

<sup>13</sup> U.S. Department of Defense, “Review of Mergers, Acquisitions, Joint Ventures, Investments, and Strategic Alliances of Major Defense Suppliers on national Security and Public Interest,” Directive 5000.62, February 27, 2017, p. 3, <https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodd/500062p.pdf>.

<sup>14</sup> 15 U.S.C. 18a; Federal Trade Commission, “Premerger Notification Program,” <https://www.ftc.gov/enforcement/premerger-notification-program>.

<sup>15</sup> National Defense Authorization Act for Fiscal Year 2024, Public Law 118-31, Section 857, <https://www.congress.gov/118/plaws/publ31/PLAW-118publ31.pdf>.

<sup>16</sup> Letter from Senator Elizabeth Warren, Representatives Garamendi, Pocan to the Department of Defense, September 14, 2023, <https://www.warren.senate.gov/imo/media/doc/2023.09.14%20Letter%20to%20DoD%20on%20L3Harris-Aerojet%20Merger1.pdf>.

<sup>17</sup> U.S. Government Accountability Office, “Defense Industrial Base: DOD Needs Better Insight into Risks from Mergers and Acquisitions,” October 17, 2023, p. 33, <https://www.gao.gov/products/gao-24-106129>.

<sup>18</sup> U.S. Government Accountability Office, “Defense Industrial Base: DOD Needs Better Insight into Risks from Mergers and Acquisitions,” October 17, 2023, p. 19, <https://www.gao.gov/products/gao-24-106129>.

<sup>19</sup> 15 U.S.C. 18.

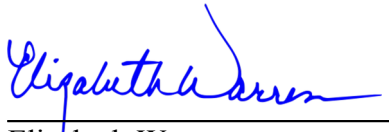
<sup>20</sup> U.S. Department of Justice and Federal Trade Commission, Merger Guidelines, December 18, 2023, p. 23, [https://www.ftc.gov/system/files/ftc\\_gov/pdf/2023\\_merger\\_guidelines\\_final\\_12.18.2023.pdf](https://www.ftc.gov/system/files/ftc_gov/pdf/2023_merger_guidelines_final_12.18.2023.pdf).

<sup>21</sup> U.S. Government Accountability Office, “Defense Industrial Base: DOD Needs Better Insight into Risks from Mergers and Acquisitions,” October 17, 2023, p. 12, <https://www.gao.gov/assets/870/862510.pdf>.

the antitrust laws, must take into account whether TransDigm’s serial acquisitions will have or are currently already having negative effects on the defense industrial base, including increased costs to DoD, and can include a review of “[a]ny... factor resulting from the covered transaction that may adversely affect the satisfactory completion of current or future DoD programs or operations.”<sup>22</sup>

DOJ and FTC must closely scrutinize these TransDigm transactions, as unique acquisitions and in the context of previous TransDigm acquisitions, to determine if they may have an adverse impact on competition. Given the significance of these transactions to competition in the defense industrial base, DoD must conduct its own analysis to assist antitrust agencies in determining potential effects on competition, and to conclude whether the transaction will harm our national security and other critical interests.

Sincerely,



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Elizabeth Warren  
United States Senator



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John Garamendi  
Member of Congress



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Mark Pocan  
Member of Congress

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<sup>22</sup> U.S. Department of Defense, “Review of Mergers, Acquisitions, Joint Ventures, Investments, and Strategic Alliances of Major Defense Suppliers on national Security and Public Interest,” Directive 5000.62, February 27, 2017, p. 3, <https://www.esd.whs.mil/Portals/54/Documents/DD/issuances/dodd/500062p.pdf>.