

FEBRUARY 4, 2009

# NDIA Munitions Executive Summit Conference 2009

**RE-SHAPING THE MUNITIONS ENTERPRISE  
THE VIEW FROM WALL STREET**



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# THE MACRO ENVIRONMENT

## The fiscal crisis (“the black swan appeared”)

- Started as a banking/liquidity crisis, now spreading into the general economy
  - The liquidity crisis showing signs of abating
  - The economic slowdown just starting
- Started as a US problem, now spreading globally
- Key question:
  - Catalyst for fundamental change (let’s get serious about fixing fundamental problems) or catalyst for status quo (now is not the time, deficits so big who cares if we add more)

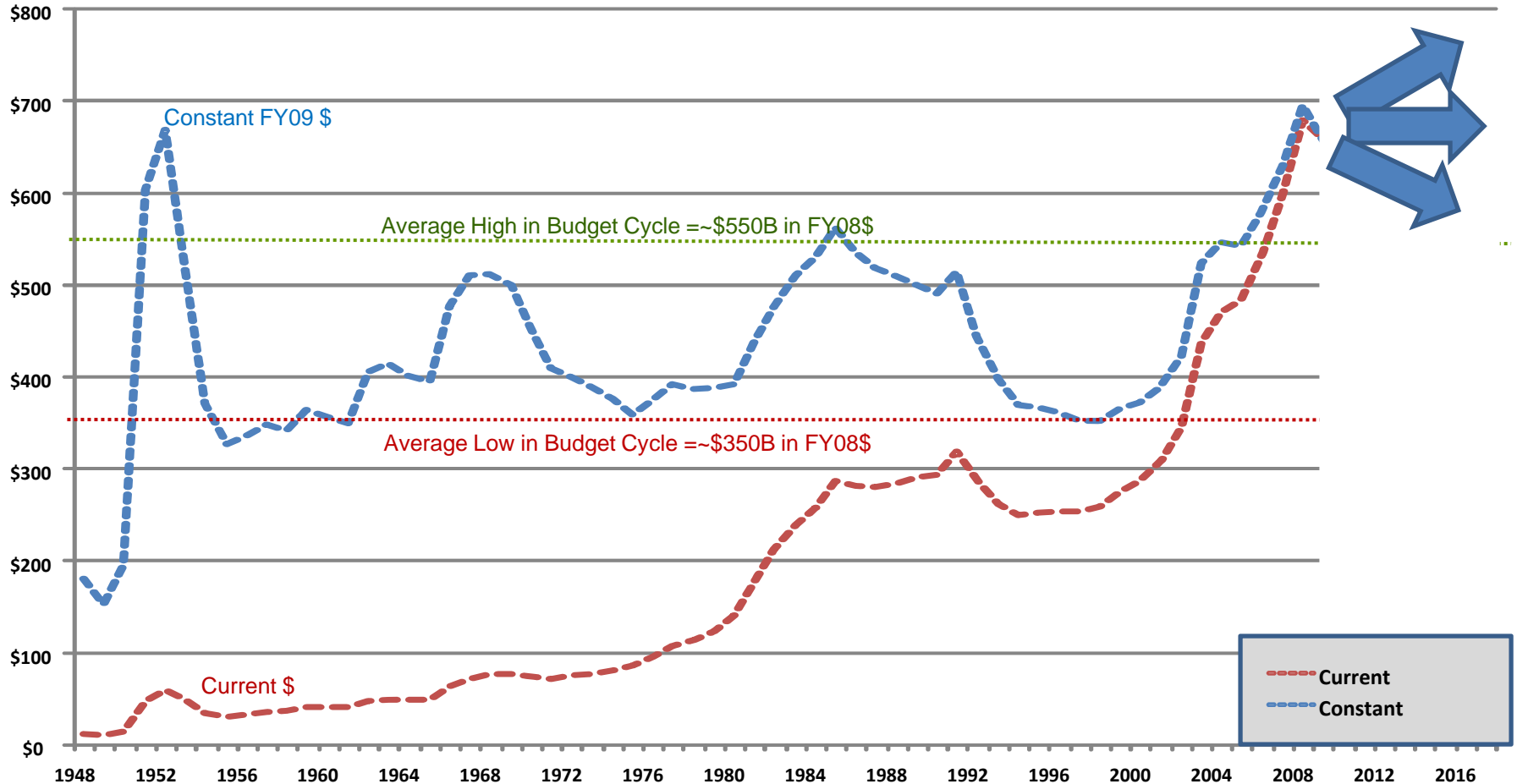
# THE MACRO ENVIRONMENT

## Second order consequences of the fiscal crisis

- **Slowing economies and collapsing commodity prices as drivers of global instability**
- **China relationship**
- **Fundamental rethink of role of government in economy?**

# US DEFENSE BUDGETS

## U.S. Defense Budget, 1948-present



Source: DoD, RSAdvisors Analysis

# US DEFENSE BUDGET ISSUES

- **2010 slightly up, how big are the supplementals?**
- **Impact of the 2009 QDR**
- **How much will change given the economic slowdown (catalyst for change or catalyst for status quo)**
- **All the trade-offs that have been discussed for last few years still present**
  - **Reset vs recap vs modernization**
  - **People vs things**
  - **Fight of today vs fight of tomorrow**

# US DEFENSE MARKET

## “Bar-bell” Shaped Markets



The Long War: rapid acquisition,  
Off the shelf/short development,  
quick response is key, COCOM centric

Dissuade: very long cycle,  
Technology development, platform  
oriented but limited production,  
service centric

“Slice” #2

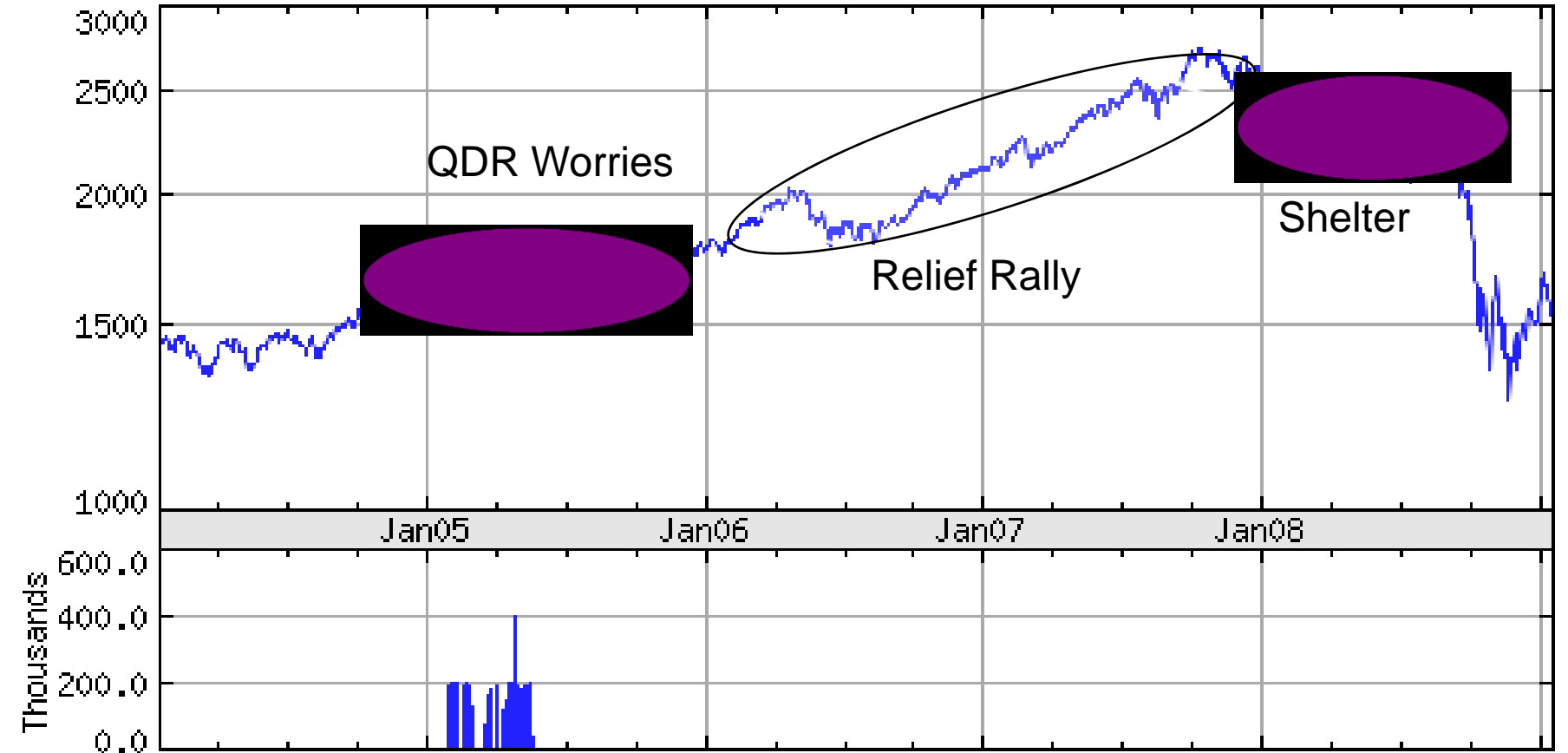
Reset/Retrofit: Install “black  
boxes” in existing equipment to  
plug into network,  
maintenance/repair

Transformation: Desire for large,  
horizontally integrating networks,  
leverage the IT revolution

**Strategic Question: How Do You Organize to Address  
Is it one or two industrial bases? Can they be the same suppliers?**

# THE VIEW FROM WALL STREET

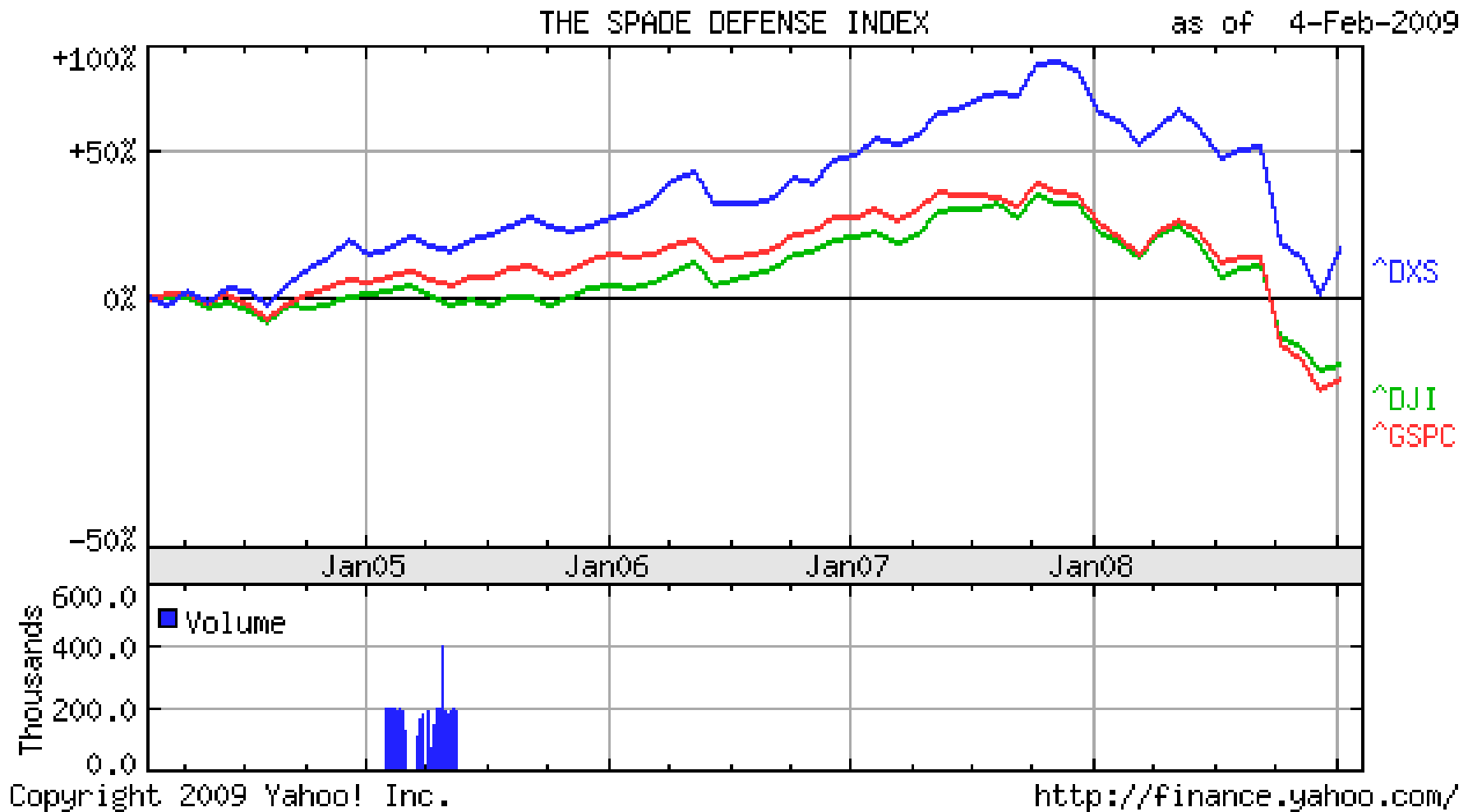
SPADE DEFENSE INDEX  
as of 14-Jan-2009



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# DEFENSE HAS CONTINUED TO OUTPERFORM THE MARKET

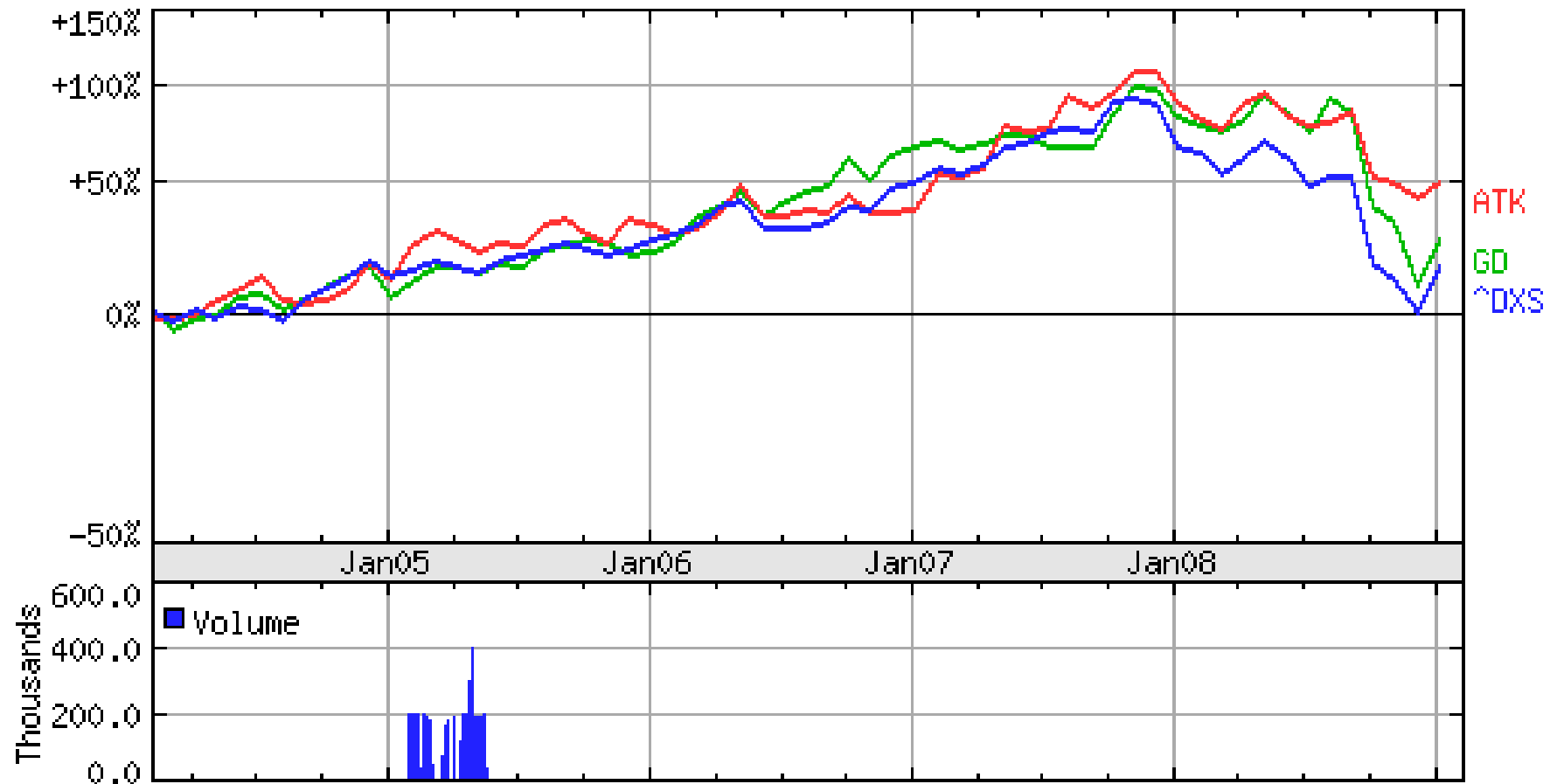




# CO'S WITH EXPOSURE TO THIS MARKET HAVE HELD UP BETTER

THE SPADE DEFENSE INDEX

as of 4-Feb-2009



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# VALUATIONS BUILDING IN A SIGNIFICANT DOWNTURN

## Market Value to EBITDA

	<b>Current</b>	<b>Year End 2006</b>	<b>Year End 2004</b>	<b>Cycle Range</b>
<b>Alliant Tech</b>	6.6x	8.6x	10.7x	
<b>General Dynamics</b>	5.4x	9.1x	8.7x	
<b>Defense Average</b>	5.9x	8.7x	9.3x	4 - 10x

Sources: JPMorgan, Credit Suisse, Cowen

## INVESTOR ISSUES

- What will happen to budgets
- What will happen to supplementals and who has exposure
- Pension accounting
- Where will the industry find growth
- How will it deploy cash
- Will “acquisition reform” hurt margins

**MULTI-DISCIPLINARY**

**FOCUSED**

**EXPERIENCED**

**TRUSTED**

