NDIA Munitions Executive Summit Conference 2009

RE-SHAPING THE MUNITIONS ENTERPRISE
THE VIEW FROM WALL STREET
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

Current $  
Constant FY09 $  
Average High in Budget Cycle ≈ $550B in FY08$  
Average Low in Budget Cycle ≈ $350B in FY08$

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
“Bar-bell” Shaped Markets

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

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

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

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

QDR Worries
Relief Rally
Shelter
DEFENSE HAS CONTINUED TO OUTPERFORM THE MARKET
CO’S WITH EXPOSURE TO THIS MARKET HAVE HELD UP BETTER.
### Market Value to EBITDA

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>Year End 2006</th>
<th>Year End 2004</th>
<th>Cycle Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alliant Tech</strong></td>
<td>6.6x</td>
<td>8.6x</td>
<td>10.7x</td>
<td></td>
</tr>
<tr>
<td><strong>General Dynamics</strong></td>
<td>5.4x</td>
<td>9.1x</td>
<td>8.7x</td>
<td></td>
</tr>
<tr>
<td><strong>Defence Average</strong></td>
<td>5.9x</td>
<td>8.7x</td>
<td>9.3x</td>
<td>4 - 10x</td>
</tr>
</tbody>
</table>

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