

FEBRUARY 5, 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)

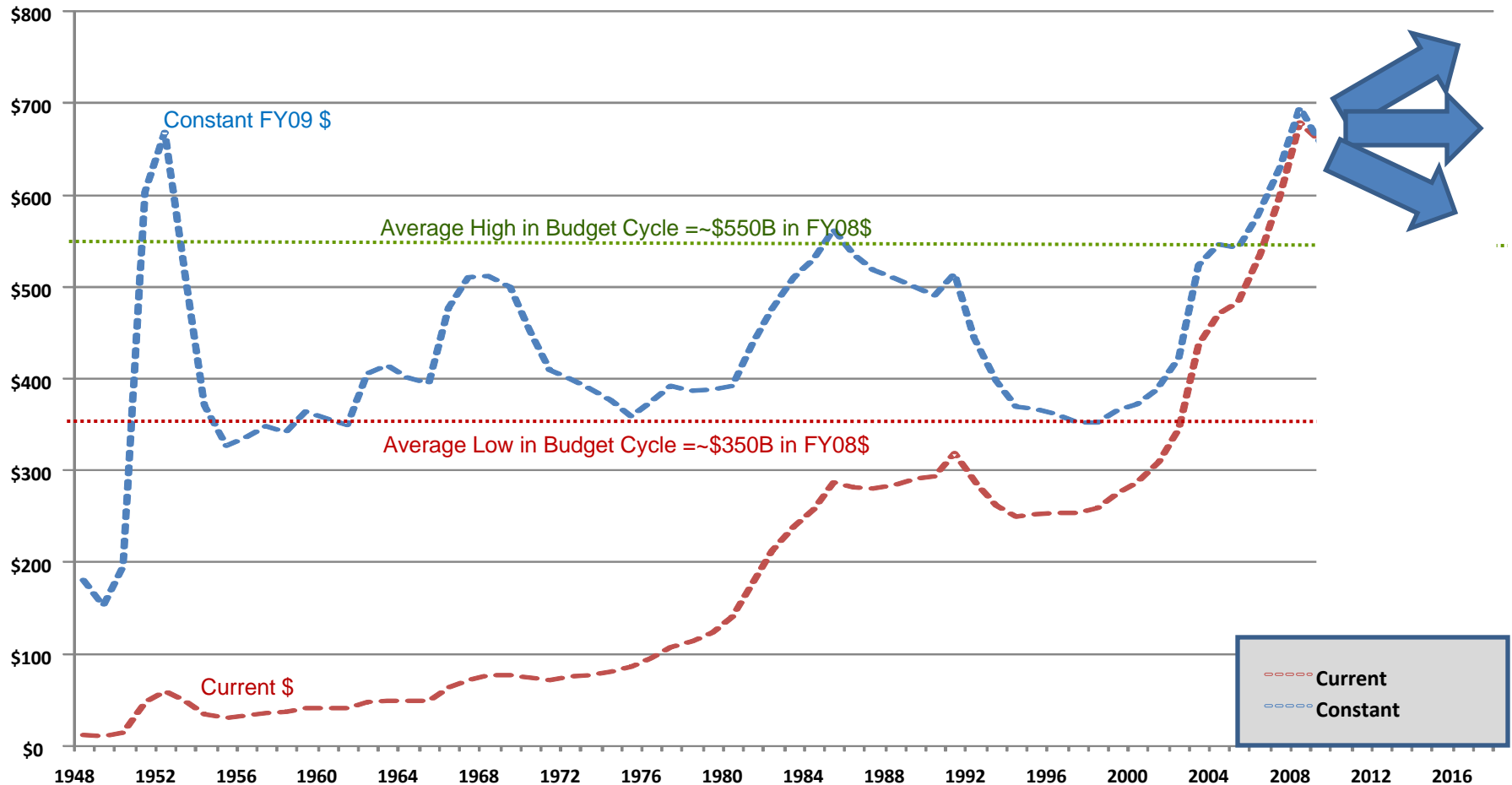
THE MACRO ENVIRONMENT

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



“Slice” #1

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

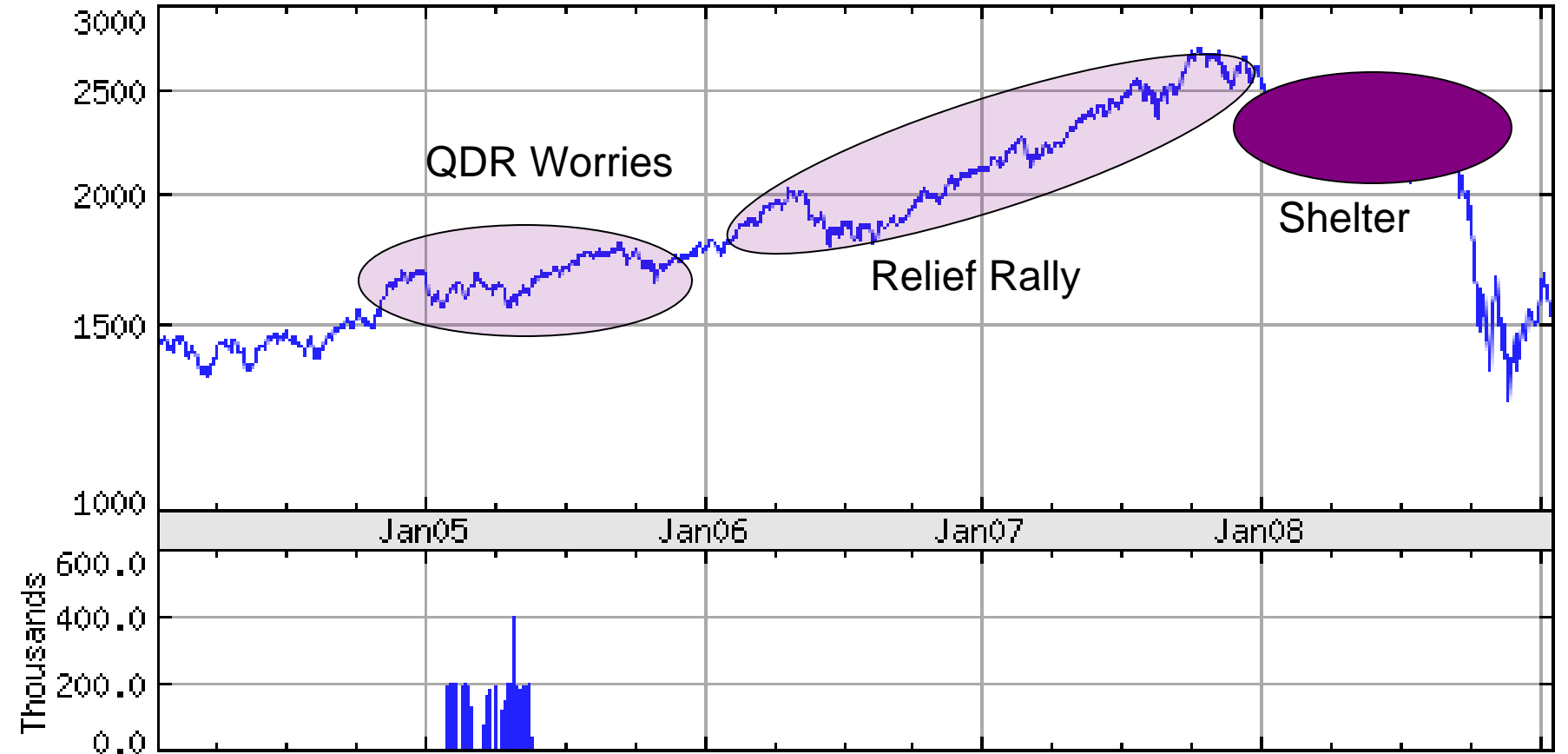
Reset/Retrofit: Install “black
boxes” in existing equipment to
plug into network,
maintenance/repair

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

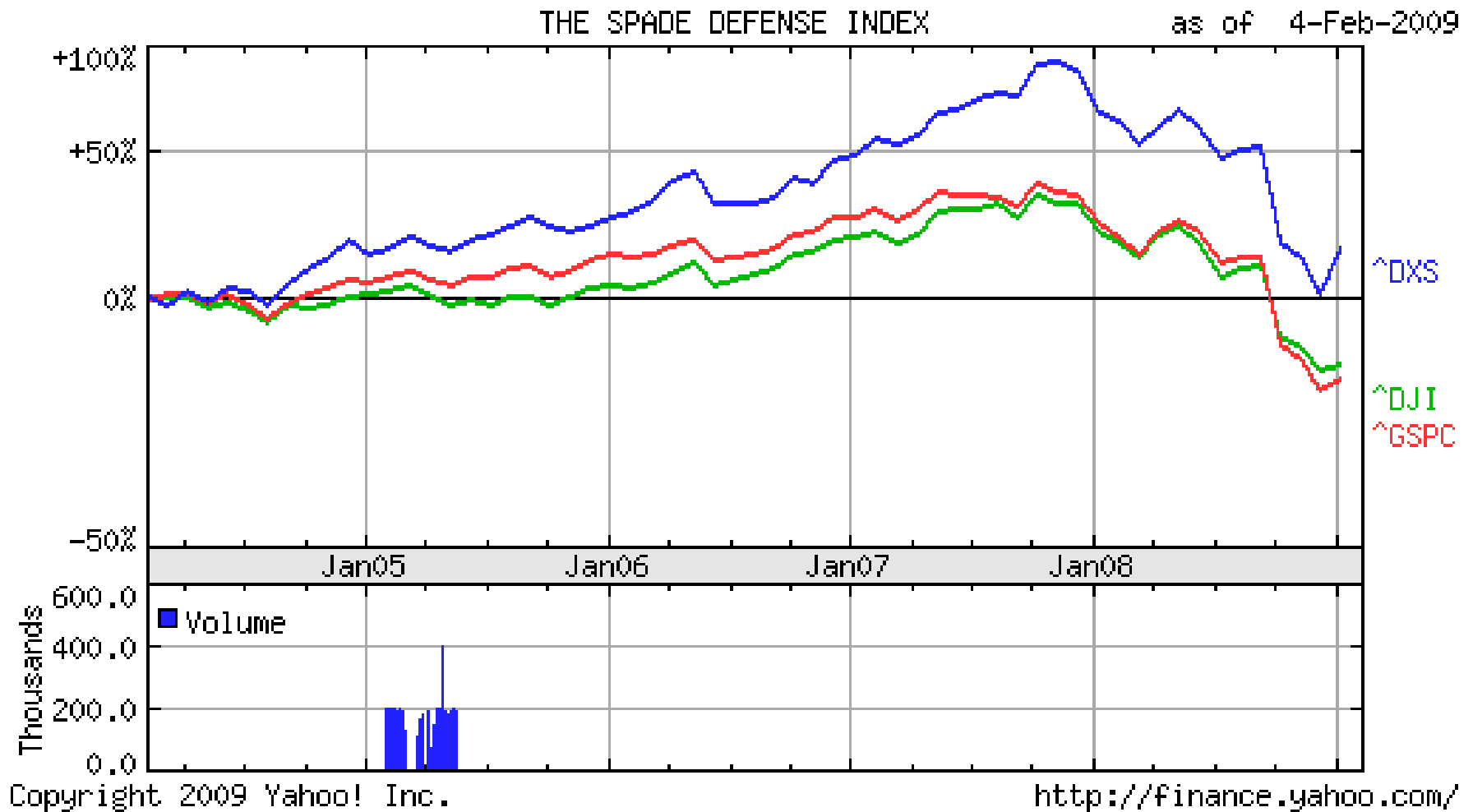
SPADE DEFENSE INDEX
as of 14-Jan-2009



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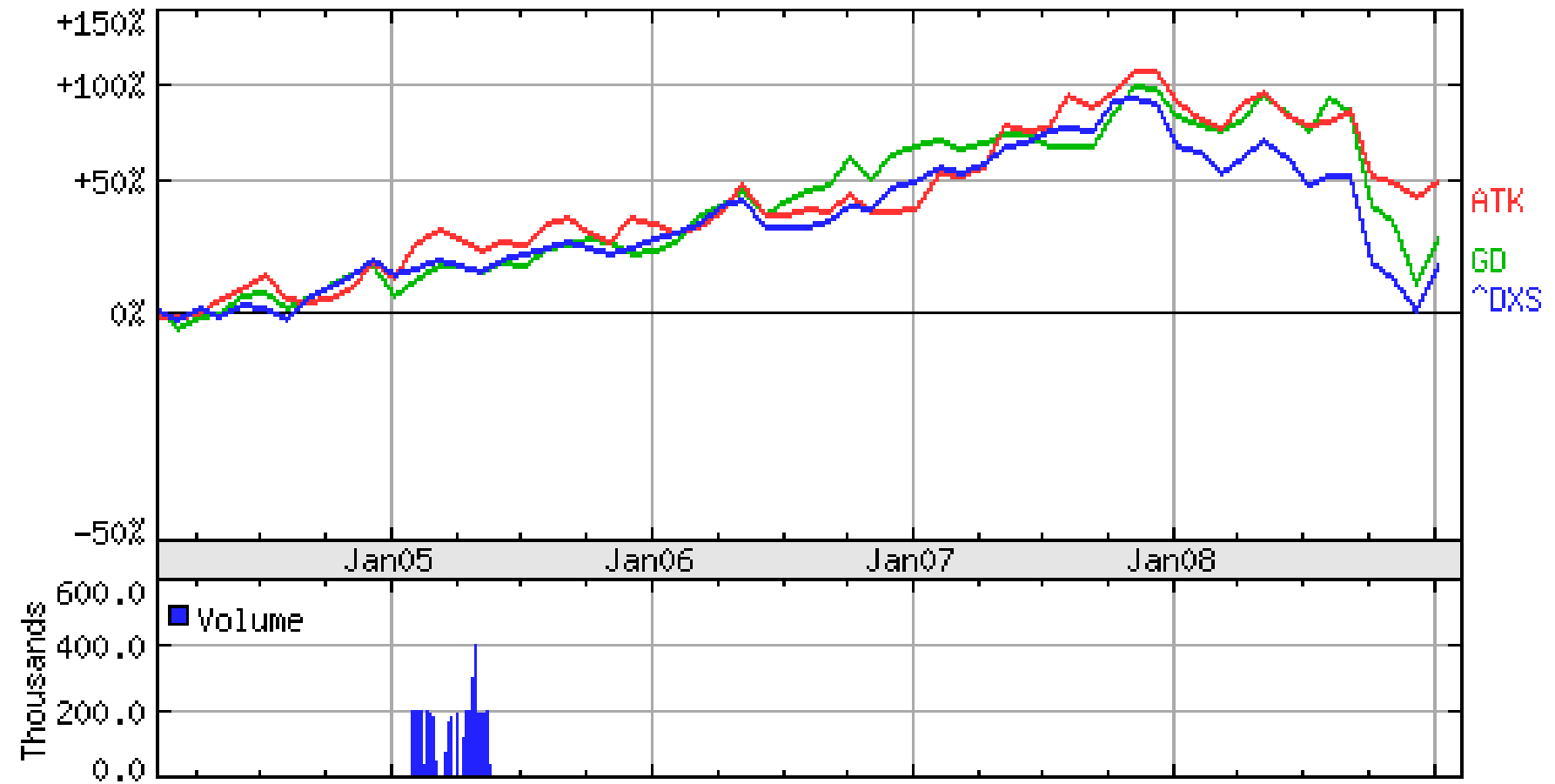
DEFENSE HAS CONTINUED TO OUTPERFORM THE MARKET



CO'S WITH EXPOSURE TO THIS MARKET HAVE HELD UP

THE SPADE DEFENSE INDEX

as of 4-Feb-2009



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VALUATIONS BUILDING IN A SIGNIFICANT DOWNTURN

Market Value to EBITDA

	Current	Year End 2006	Year End 2004	Cycle Range
Alliant Tech	6.6x	8.6x	10.7x	
General Dynamics	5.4x	9.1x	8.7x	
Defense Average	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

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