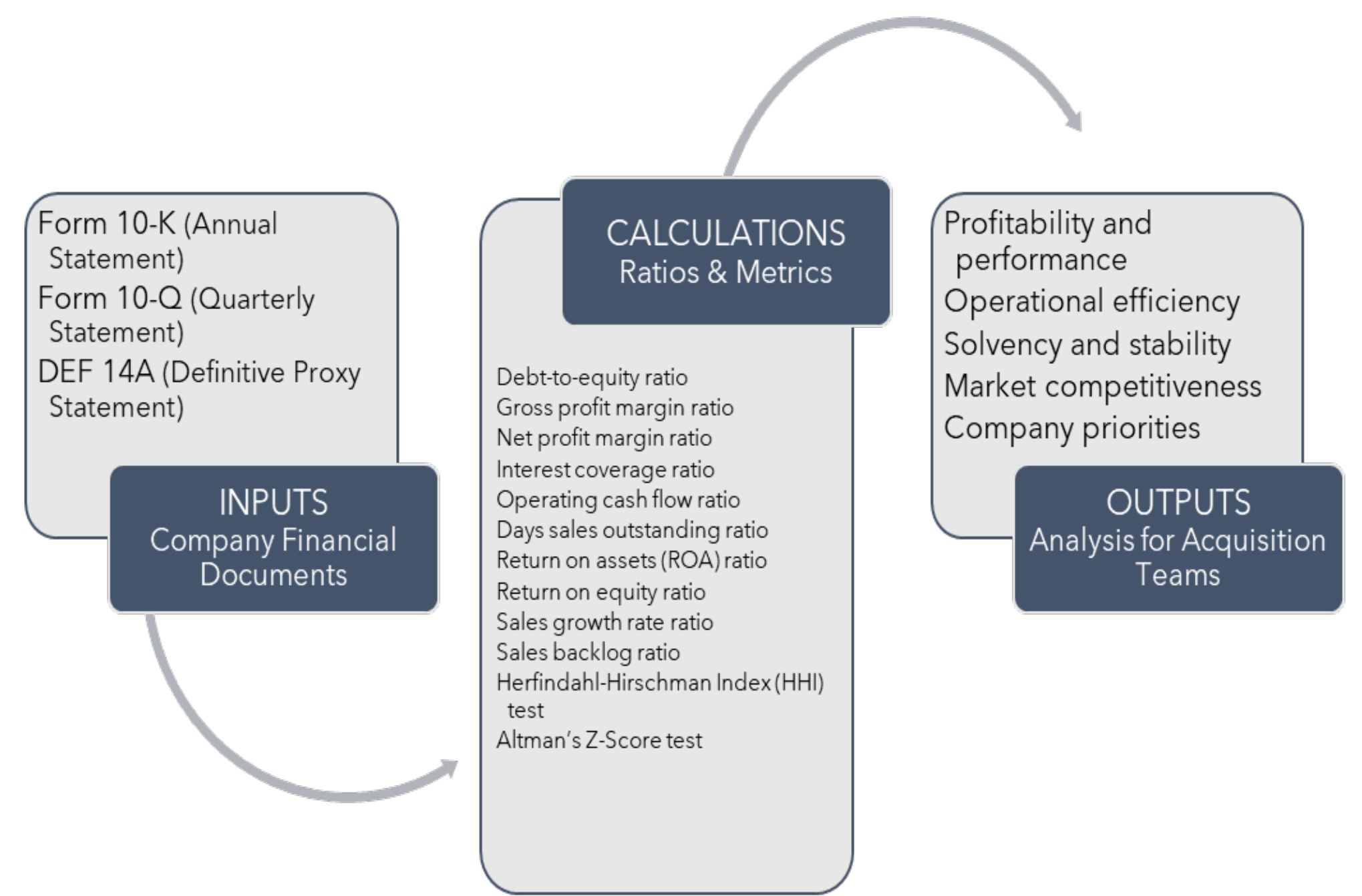
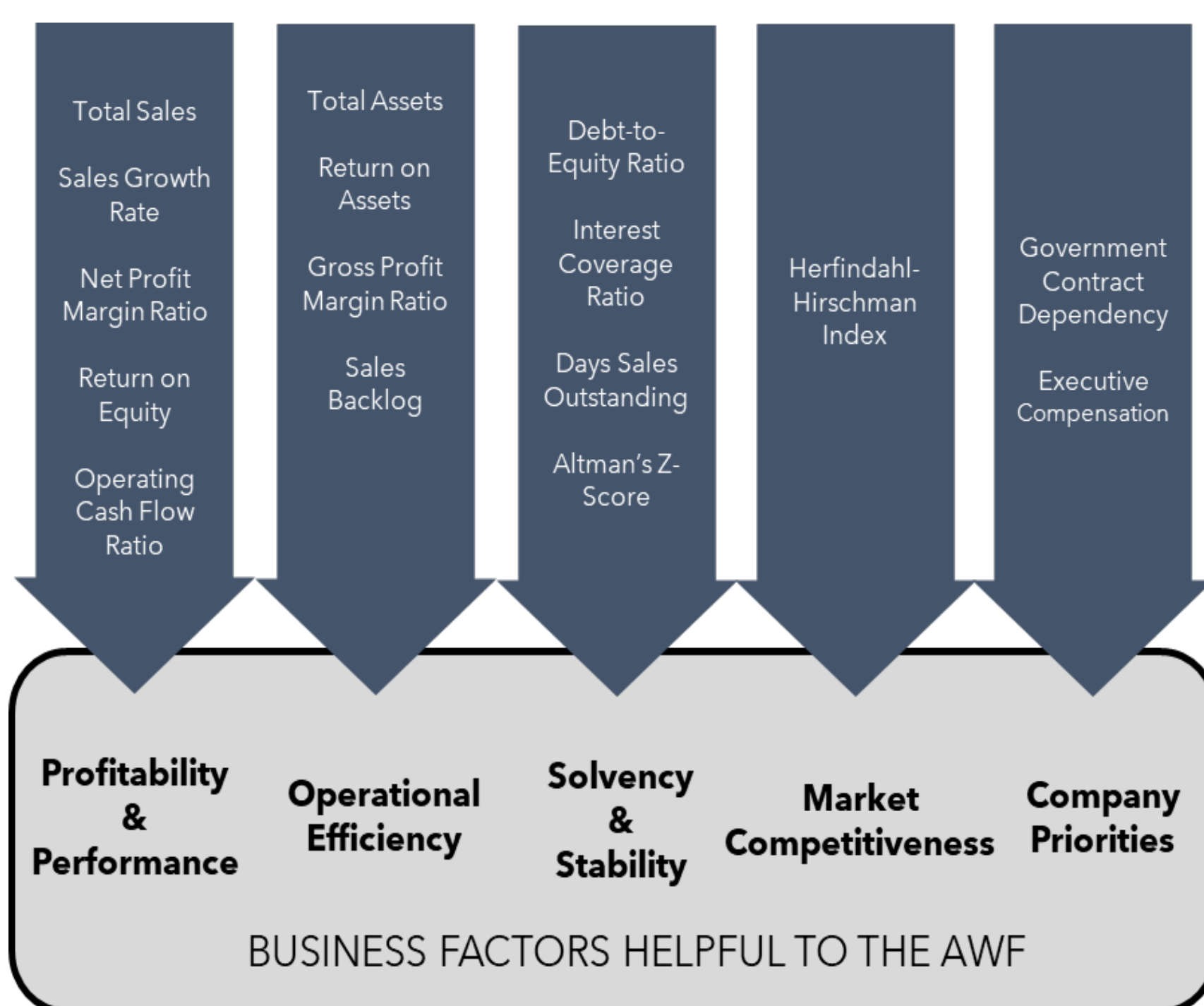


Abstract

The purpose of this study is to provide the acquisition workforce (AWF) with an understanding of industry operations and a tool for assessing a company's capability and capacity. This study utilizes publicly available financial information and defines how a number of ratios can be used to reduce asymmetrical information that occurs within a principal-agent relationship. We examine the defense industry's strategic level corporate financial objectives and incentives and seek to understand how this impacts the government's procurement decisions. Finally, we make recommendations on possible ways this information can be infused with current AWF training and strategies, as well as ways this information can be utilized in future policy and acquisition strategies.



Corporate financial information inputs and outputs



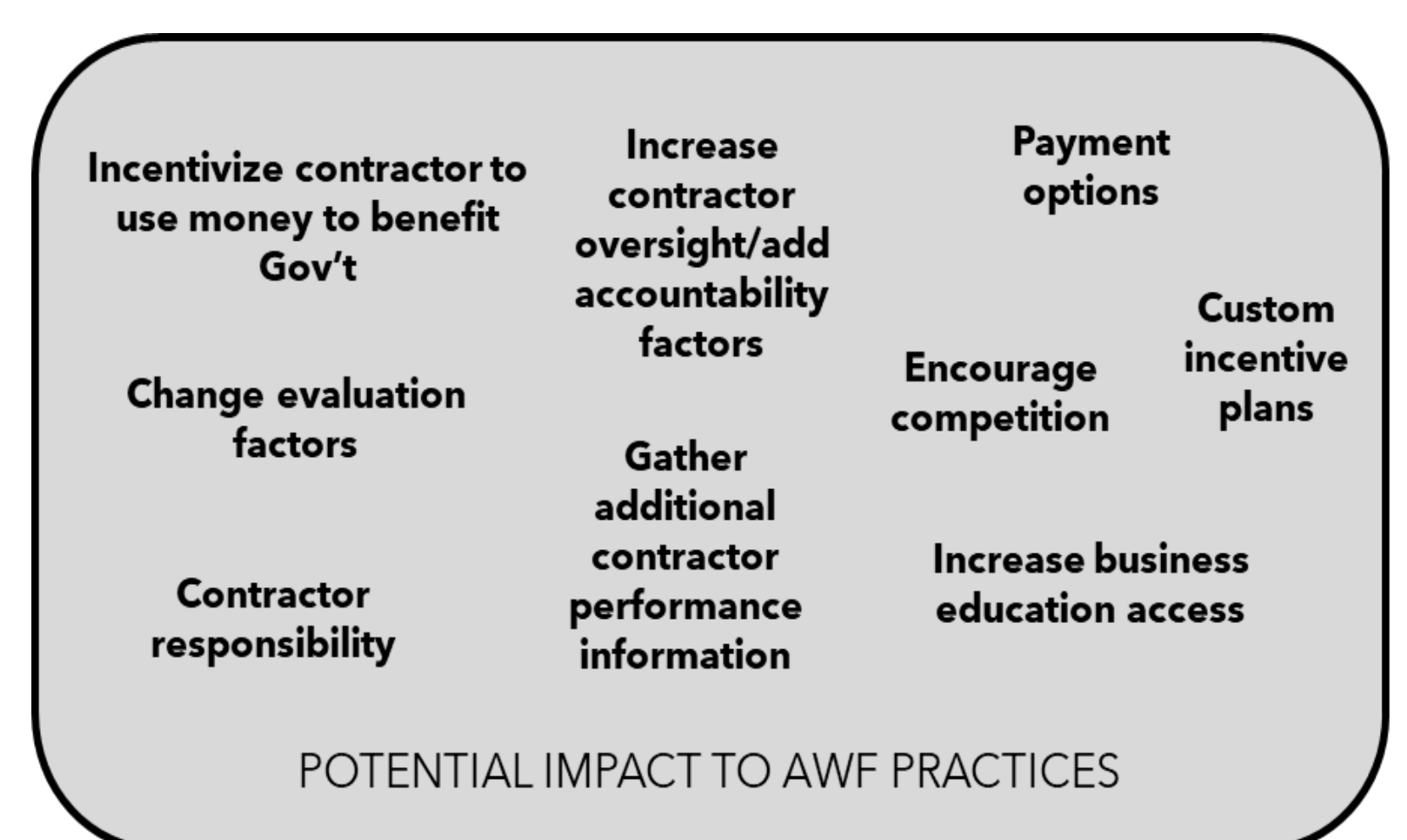
Helpful factors produced from financial ratios and metrics

Methods

We performed a case study analysis on the Joint Light Tactical Vehicle (JLTV) contract. We analyzed two of the major competitor's financial standing at time of award. We also compared their financial standings with other industry competitors for a baseline reference. Our analysis was conducted using numerous calculations to assess the financial health, capability, and capacity of both companies. To utilize all the calculations, the SEC Form 10-K and definitive proxy statement (DEF 14A) were examined. Most variables used for the calculations were gathered from each firm's financial statements while the executive compensation packages were viewed within the DEF 14A statement. The calculations include D/E ratio, GPMR, NPMR, ICR, OCF, DSO, ROA, ROE, sales growth, sales contract backlog, HHI test, and Altman's Z-score test. Also, executive compensation is illustrated as a percentage of a firm's sales.

Results

In our opinion, the case study analysis revealed Oshkosh (OSK) was the better choice for the contract. Lockheed Martin (LMT) showed relative weakness to OSK within government dependency (reliance on federal government contracts), sales' backlog (unfilled orders), and contextual clues found in its annual form 10-K narrative (i.e. MD&A and business segment discussions). While LMT produced capable prototypes of the Joint Light Tactical Vehicle (JLTV), we believe the firm lacked the capacity to perform the contract for three reasons. First, LMT lacked past performance as it did not have any programs within this industry: Military Armored Vehicle, Tank, and Tank Component Manufacturing. Second, LMT was bidding on a contract outside of its operational scope due to declining sales, significant reliance on federal government contracts, and DoD budget cuts during this time (sequestration). Last, LMT's sales' backlog indicated business operations were preoccupied with unfulfilled orders. LMT had a sales' backlog of 170% of its annual sales. This indicated to us the firm lacked the capacity to take on another large project. We agreed with Army's decision to award OSK the JLTV low-rate initial production (LRIP) contract.



Recommendations

Contracts should be customized to provide incentives that improve outcomes (cost, schedule, and performance). Financial analysis allows the AWF to become more attune with how DoD industry partners operate.

This understanding of how companies operate will sharpen the overall business acumen and will allow the AWF to develop stronger contract terms and conditions, enhance policy, and/or clue the AWF when additional contract oversight may be required.