



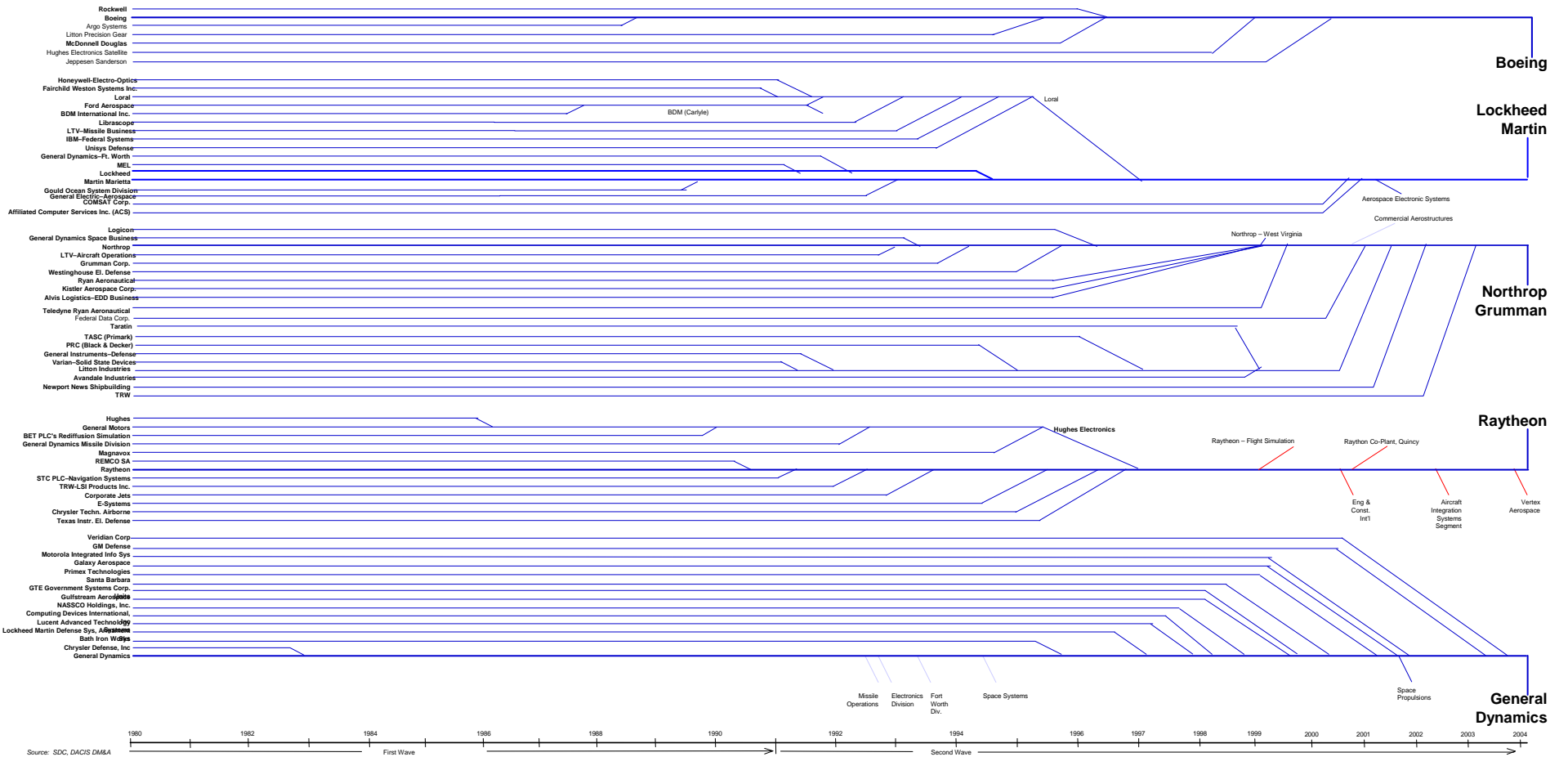
NPS 4th Annual Acquisition Research Symposium

The Evolving Defense Industrial Base

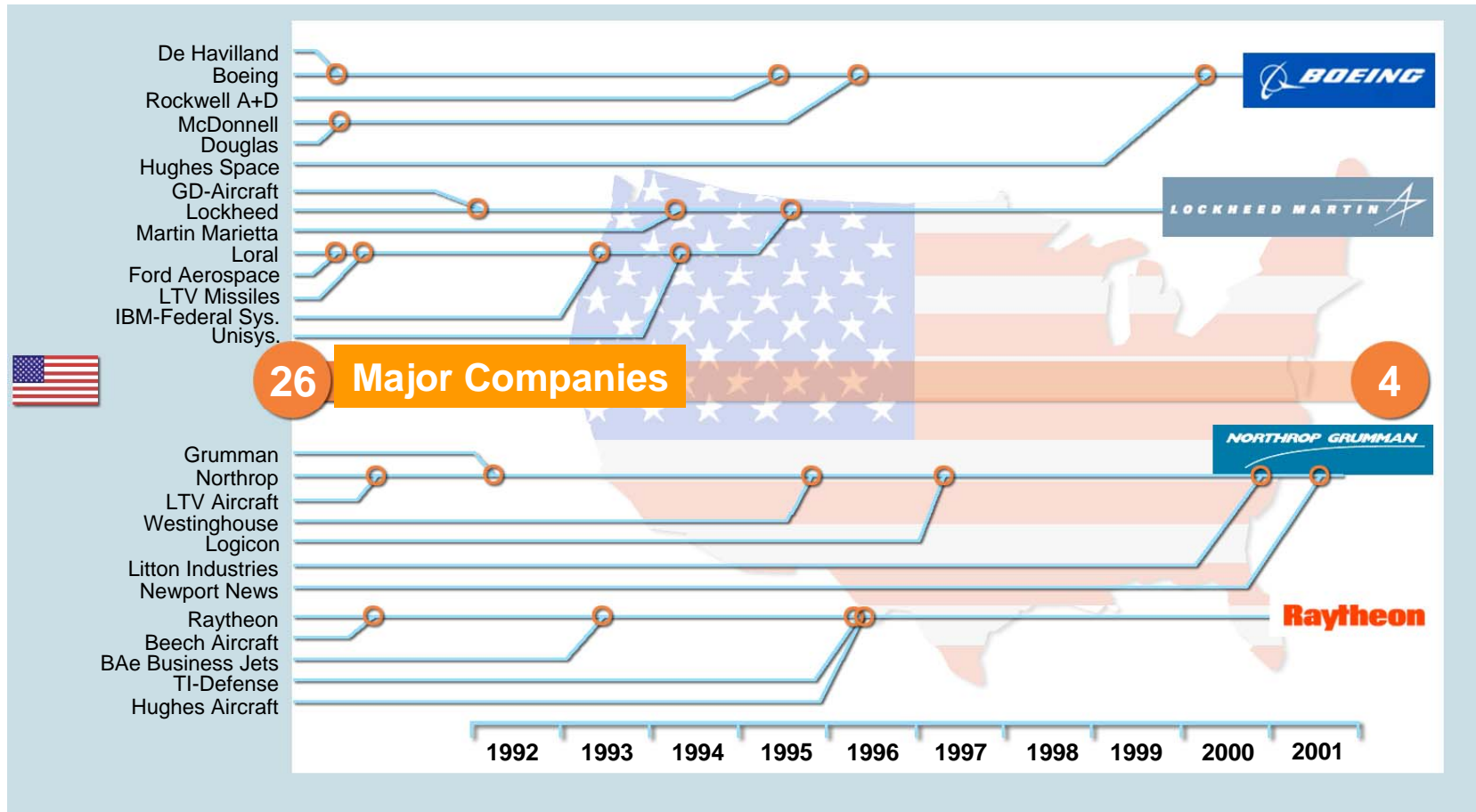
May 16, 2007

The Market Landscape has Changed in the U.S.

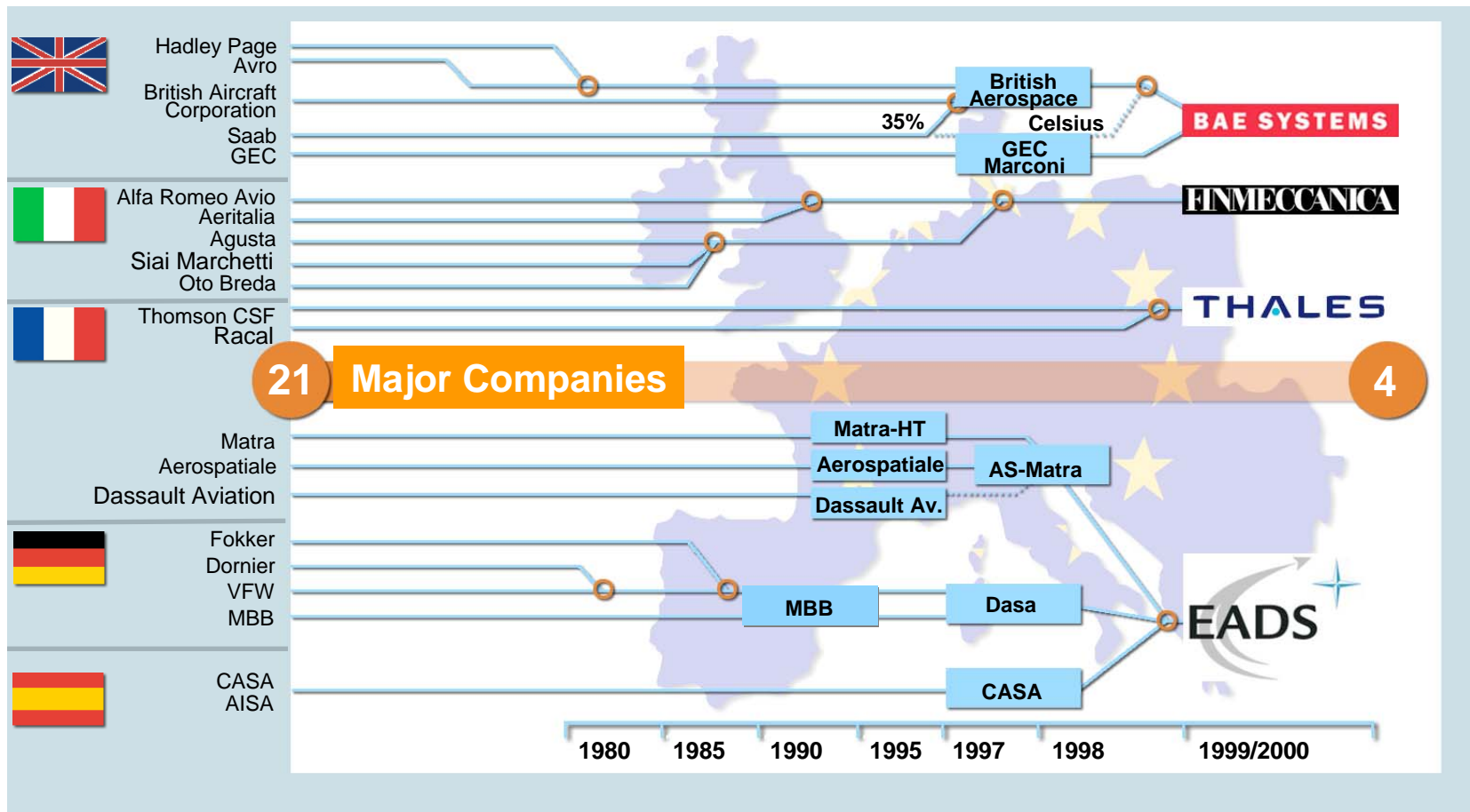
The Result Was Dramatic Consolidation...



U.S. Areospace Industry Consolidation



...And the Same Industrial Consolidation has Taken Place in Europe



Still Evolving Mergers & Acquisition Landscape

European Acquisition of US Targets

Year	# Targets Acquired	\$ Value
2003	25	\$.4B
2004	33	\$1.9B
2005	30	\$6.9B
Total	88	\$9.2B

- Rapid consolidation of core US sectors continues
- From 2003 to Today, Over 1,182 US Targets Acquired*
- Pace of Acquisition in US drives up prices of target companies

US Acquisition of European Targets

Year	# Targets Acquired	\$ Value
2003	21	\$2.7B
2004	19	\$3.0B
2005	31	\$7.4B
Total	71	\$13.2B

- European targets more affordable and attractive to US buyers
- Trend for Trans-Atlantic Acquisitions Increasing

Net Effect:

- Increased Global Teaming on Programs
- “National” Industrial lines Progressively Blurred
- Job creation, Production, & Employee Nationality are not always linked to Technology Origin

What are the Effects of a Consolidated Industrial Base?

Has Consolidation led to a Sunset Effect upon Competition?

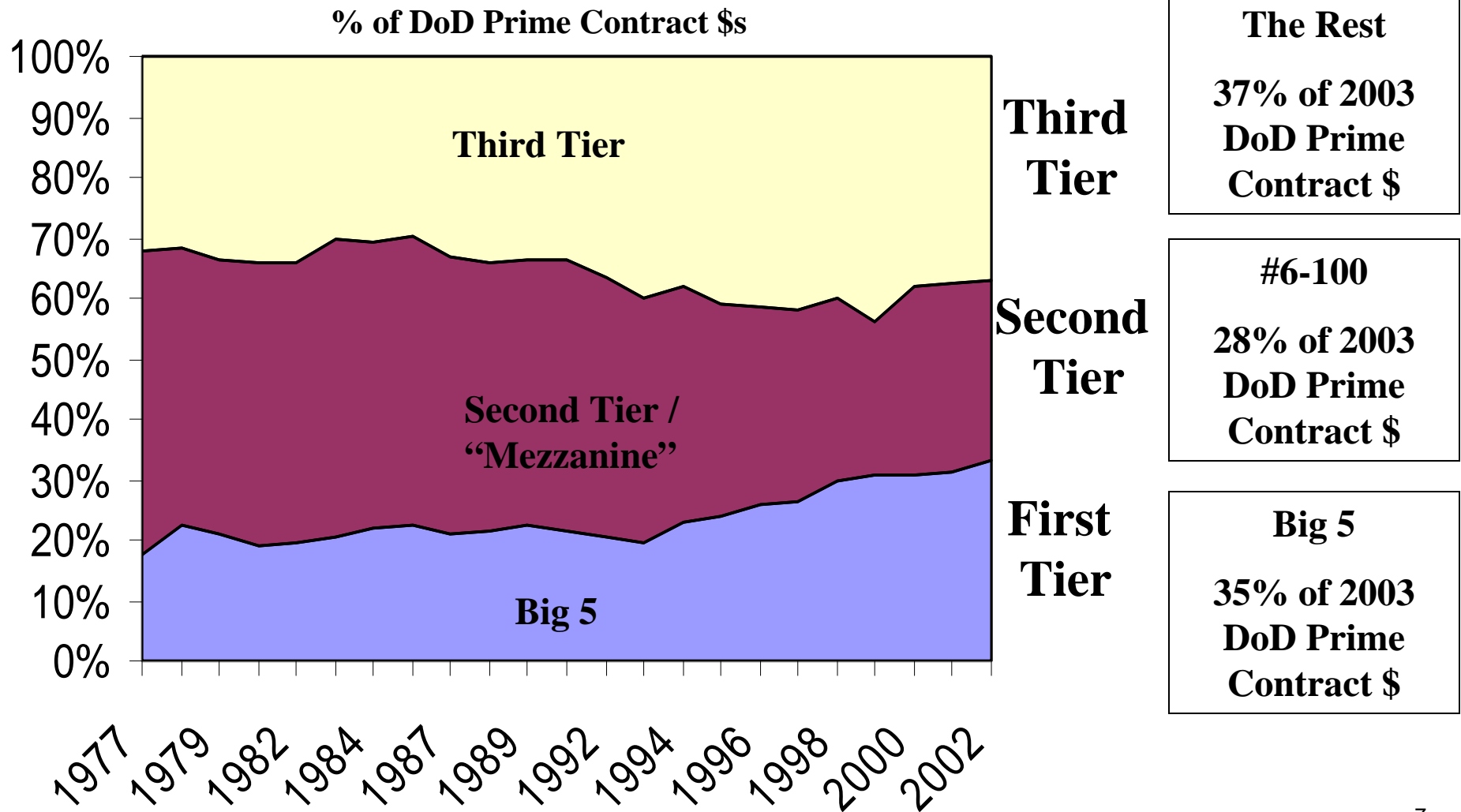
Leading to:

- Little Incentive for Technology Innovations
- Lack of Pricing Pressure amongst Suppliers
- Limited Bargaining Power for Customers

Industry Giants Focus on Portfolio Diversification and Acquisition of New Companies to Sustain Growth and Strategically Hedge against Market Downturns

- Achieved through Entry into New Markets (Regions and Segments)
- Teaming & Competing Globally is Part and Parcel to this:
“Glo-opetition”

In U.S... Consolidation has Resulted 3-Tiered, Barbell-Shaped Industry...





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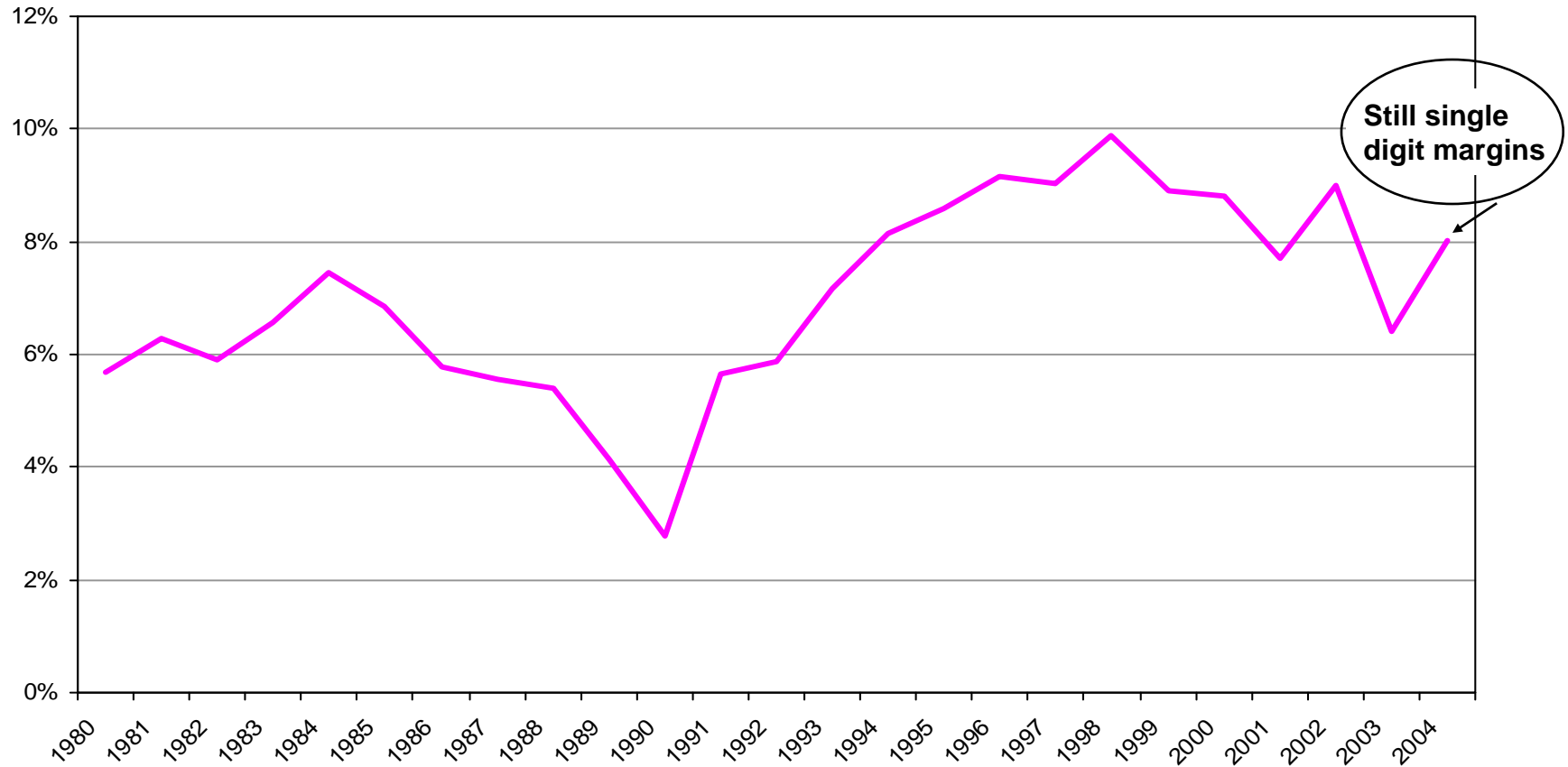
Changes that Drive DoD Industry Today

- Domestic Economics - Debt, Medicare, Social Security, Supplementals, Trade Balance
- Threat Changes - Asymmetric warfare (bio, cyber, IEDs); world-wide terrorism; weapons proliferation; rogue nuclear states
- New Missions - Homeland defense; missile defense; counterinsurgency; reconstruction
- Warfighting Changes - Netcentric Warfare; Systems-of-Systems; Joint and coalition operations
- Technological Changes - Integrated data; open-sources; bio, nano, robotics, high-energy lasers, etc.
- Industrial Changes - Horizontal & vertical integration; commercial high-tech advances
- Globalization - Rapid spread of Technology; multinational firms; foreign competition
- Defense Budget Shifts - From Equipment to Personnel, O&M and Homeland Security

Essentials of a Healthy Defense Industry: The Basics Have Not Changed

- **Industry Is Focused on the Long Term**
 - **Earn a profit that exceeds the cost of capital**
 - **Corporate Value is Created through Business**
 - **Attract investors by demonstrating profitability, positive cash flow, payment of dividends and stock appreciation**
 - **Attract and retain world class employees**
- **Must Fill the Pipeline:**
 - **Sales, Revenue, Cash Flow, and Profit**
 - **Acquisitions**
- **The Wall Street factor**

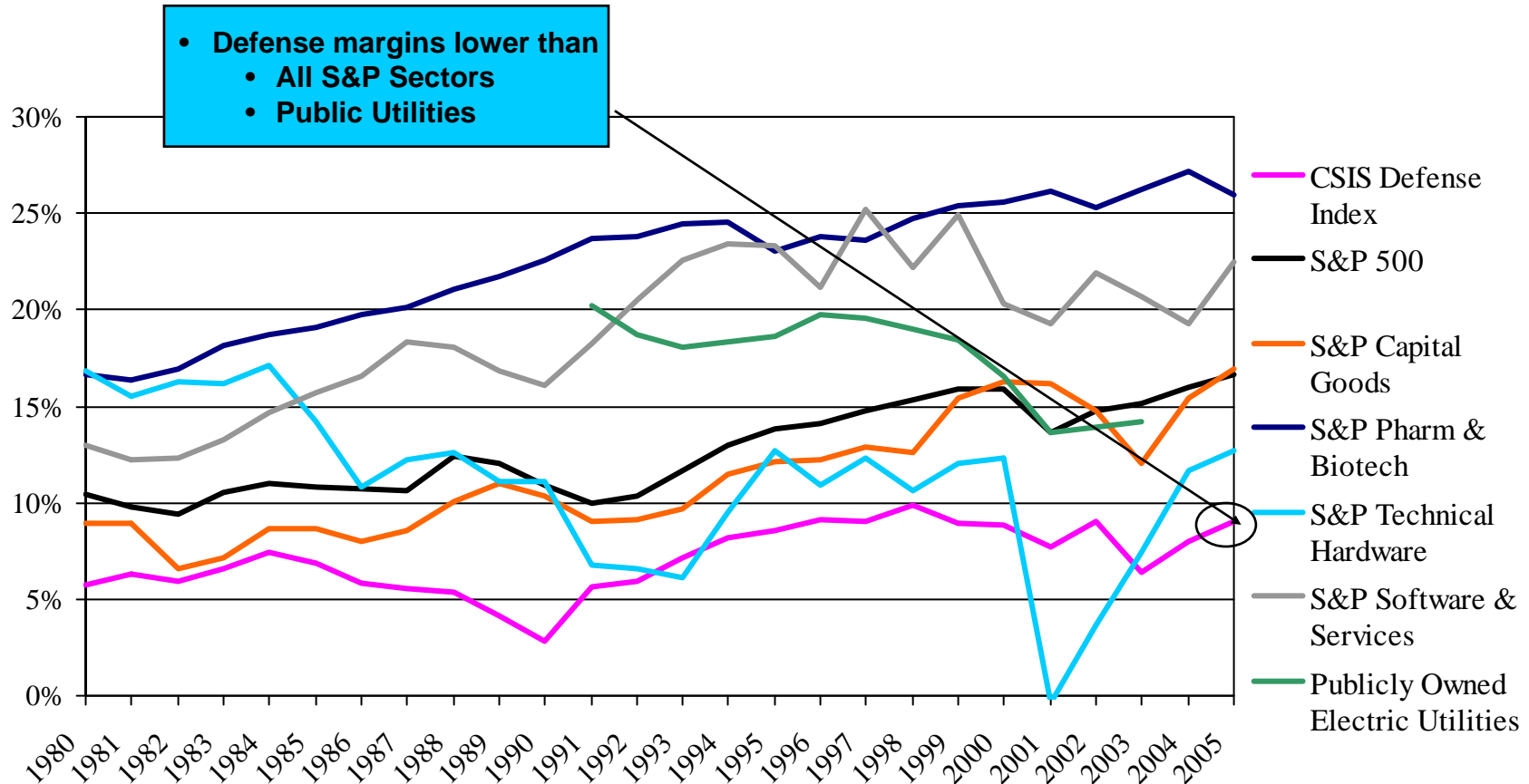
Defense Industry Margins



Note: CSIS Defense Index comprises 36 publicly-traded companies with majority revenues derived from US defense business. Boeing Military results have also been included.

Sources: FactSet, Company Reports, CSIS Analysis.

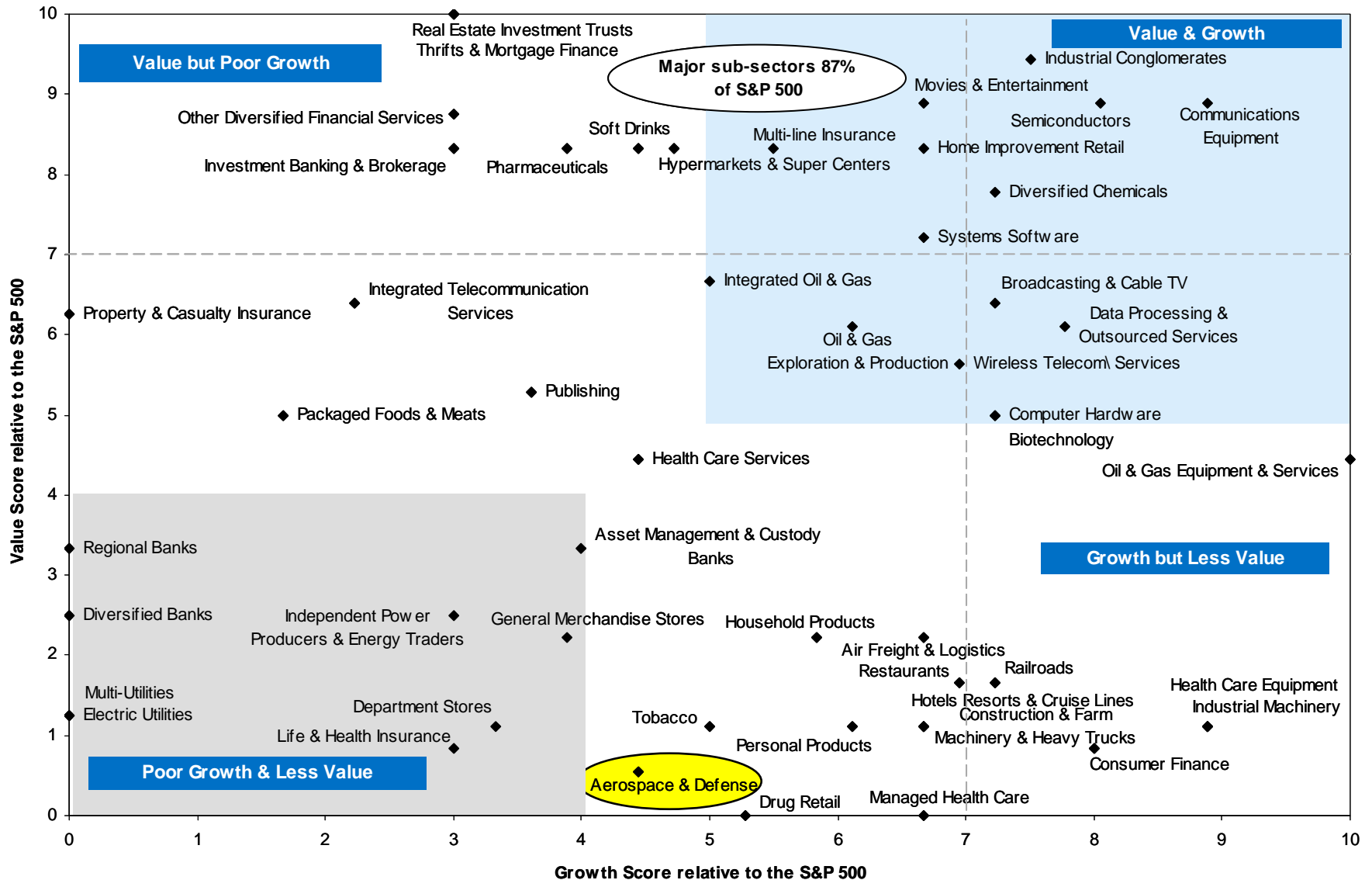
Defense Industry Margins Lower than Peers



Sources: FactSet, S&P Compustat, Energy Information Administration, Company Reports, CSIS Analysis.

Notes: 1) CSIS Defense Index comprises 36 publicly-traded companies with majority revenues derived from US defense business. Boeing Military results have also been included here.
 (2) S&P Sub-sector constituents accurate back to 1994; composition held constant for years 1980 to 1993.

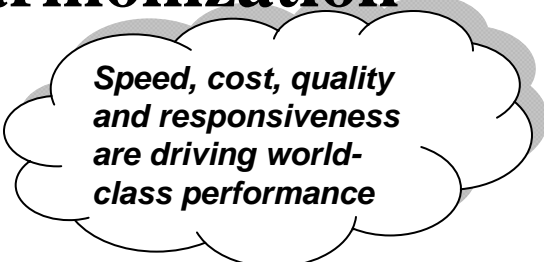
Goldman Sachs Investment Perspective



Source: Compustat, First Call, I/B/E/S, IDC and Goldman Sachs Research estimates.
 From Sector Strategy: Where to Invest Now, "Uncertainty leads to Opportunity," September 2005

Commercial Contracting Trends

- **Focus on Core Business functions to drive Value**
 - Outsourcing non core functions
- **Contracting is more strategically focused**
 - Impact on business strategy and relationship
- **Increased reliance on strategic suppliers to drive innovation and value**
 - Changes the dynamic of the business relationship from “Arms Length” supplier to a value add “Strategic Partner”
- **Linkage with the Customer**
 - Internal and External
- **Supply Chain Management and harmonization**
 - Strategic Sourcing and Spend Analysis



*Speed, cost, quality
and responsiveness
are driving world-
class performance*