



NPS 4th Annual Acquisition Research Symposium

The Evolving Defense Industrial Base

May 16, 2007

Report Documentation Page

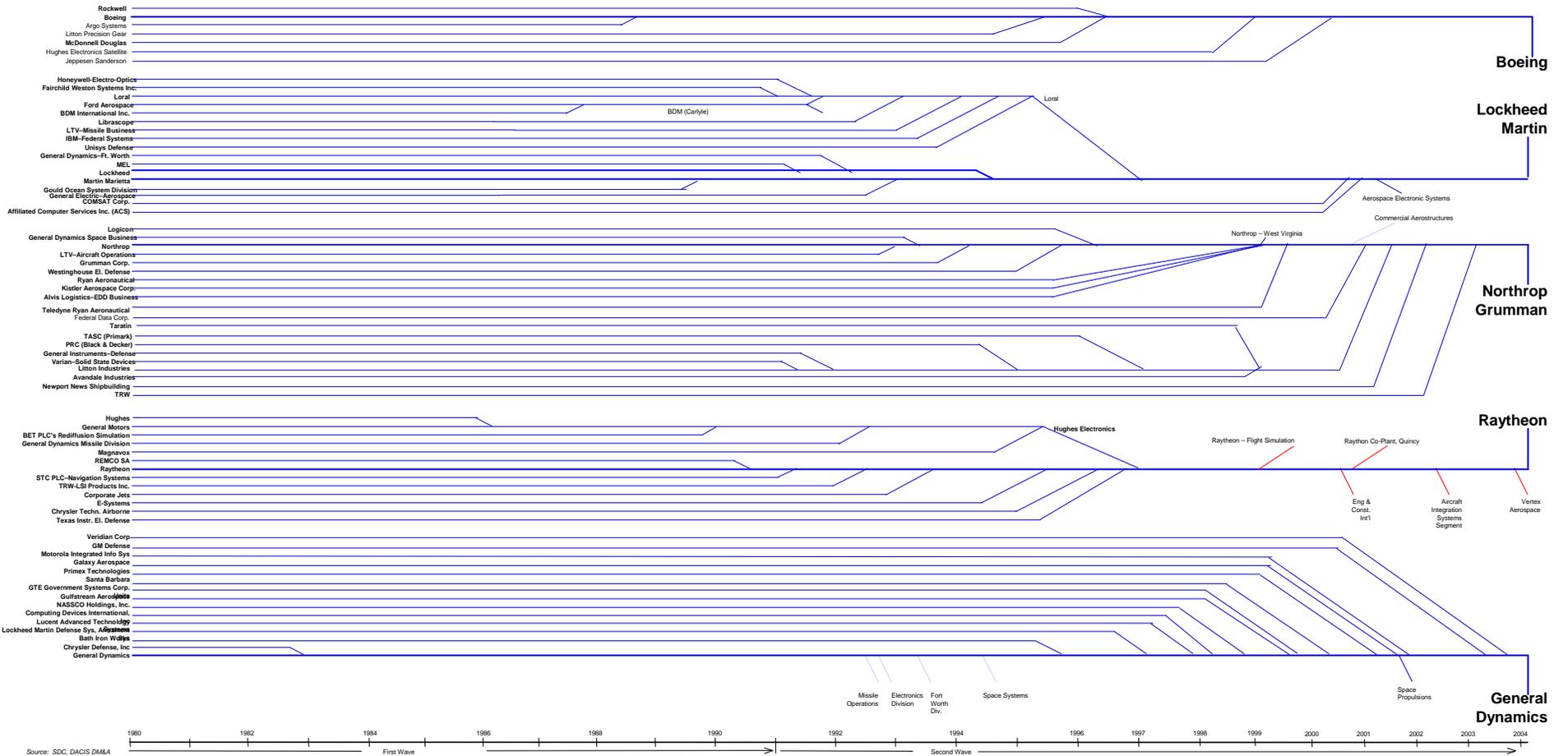
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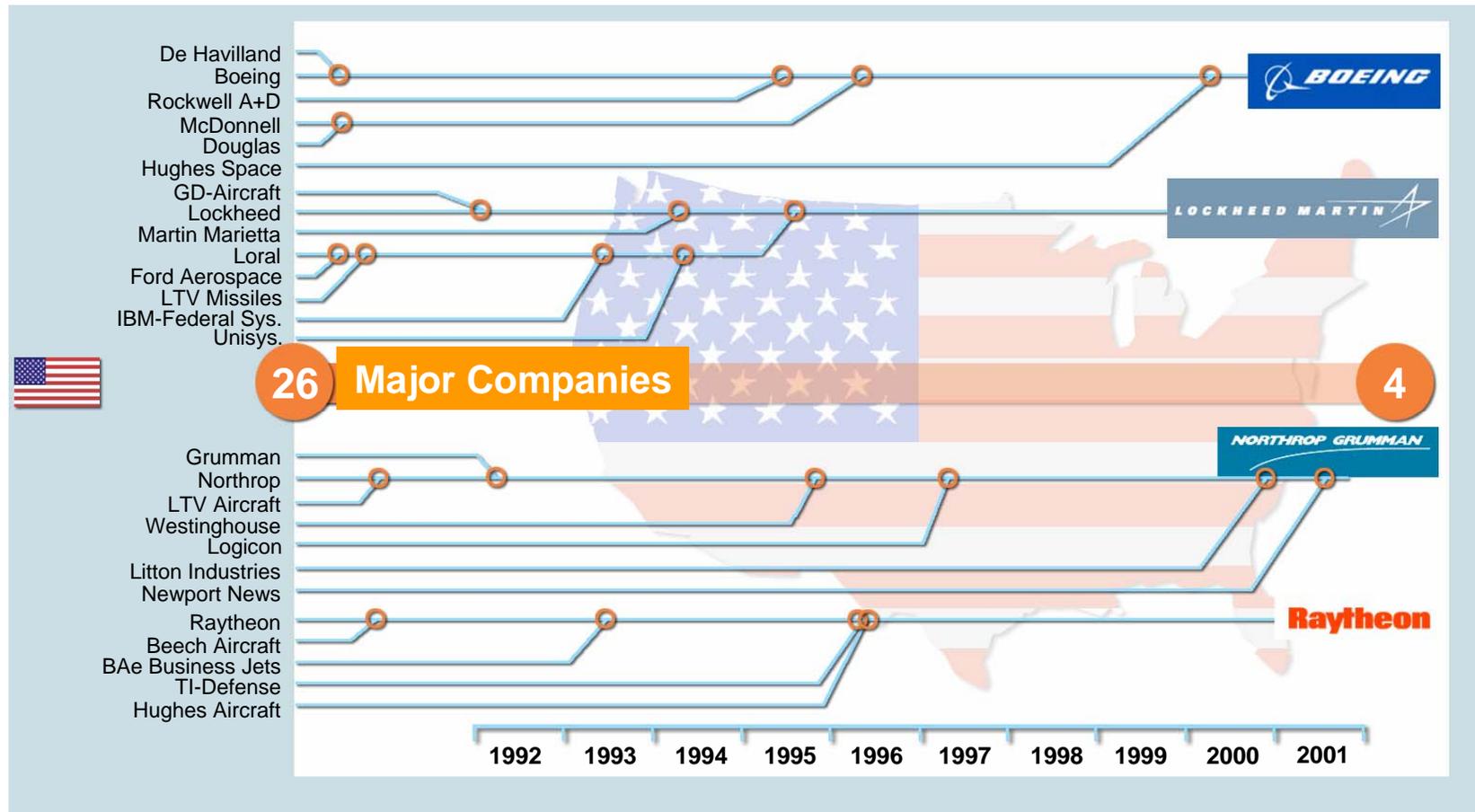
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The Market Landscape has Changed in the U.S.

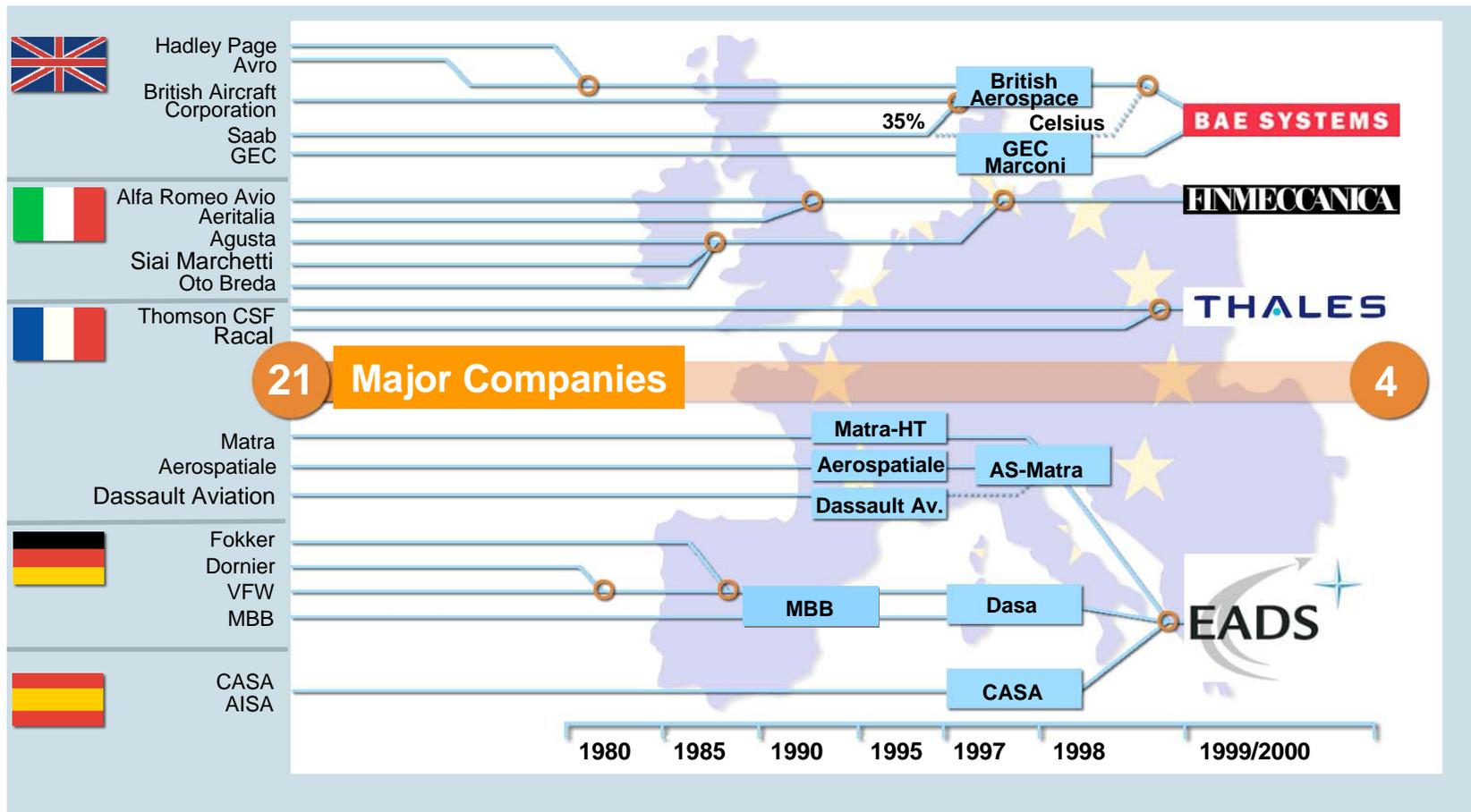
The Result Was Dramatic Consolidation...



U.S. Aerospace 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?

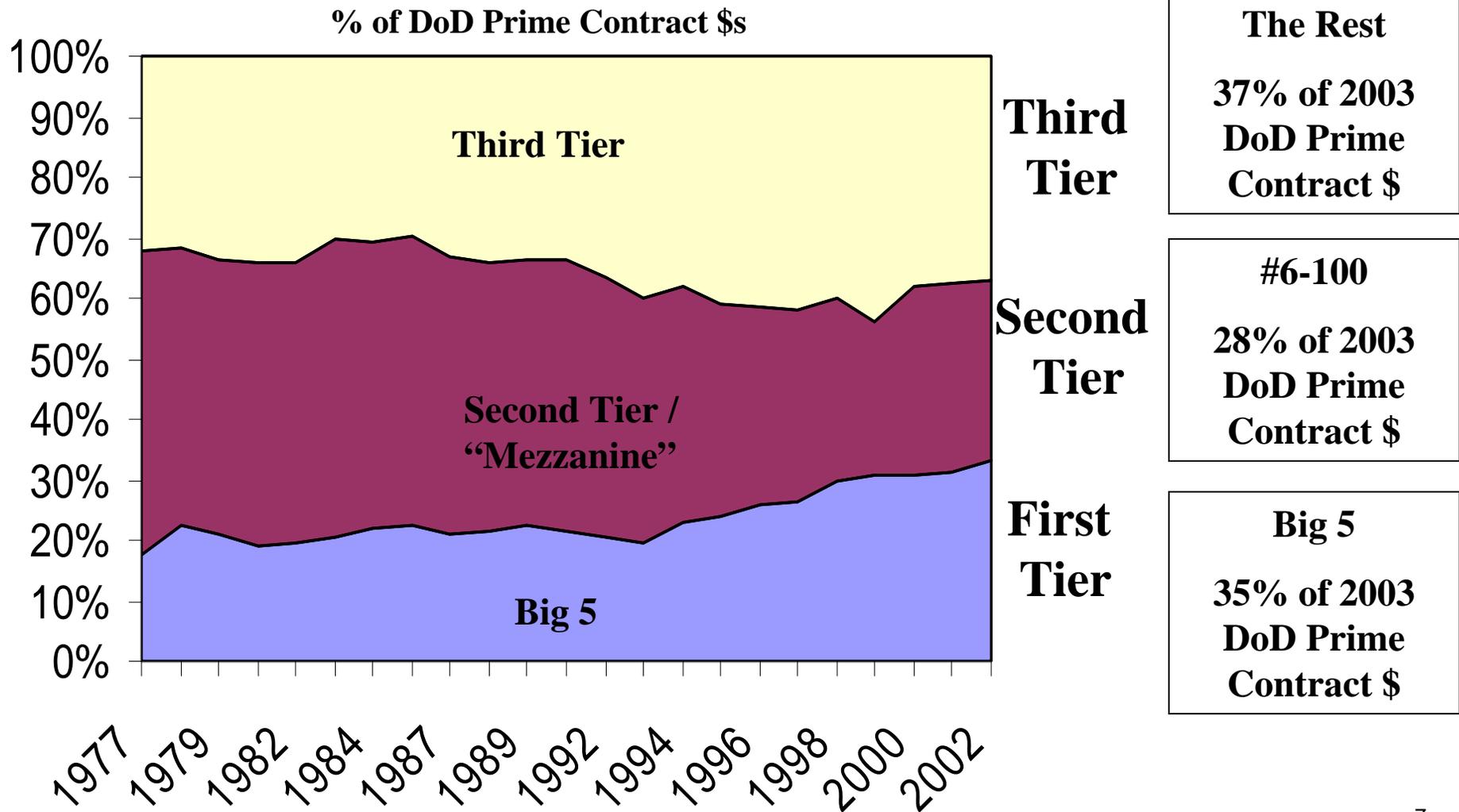
Leading to:

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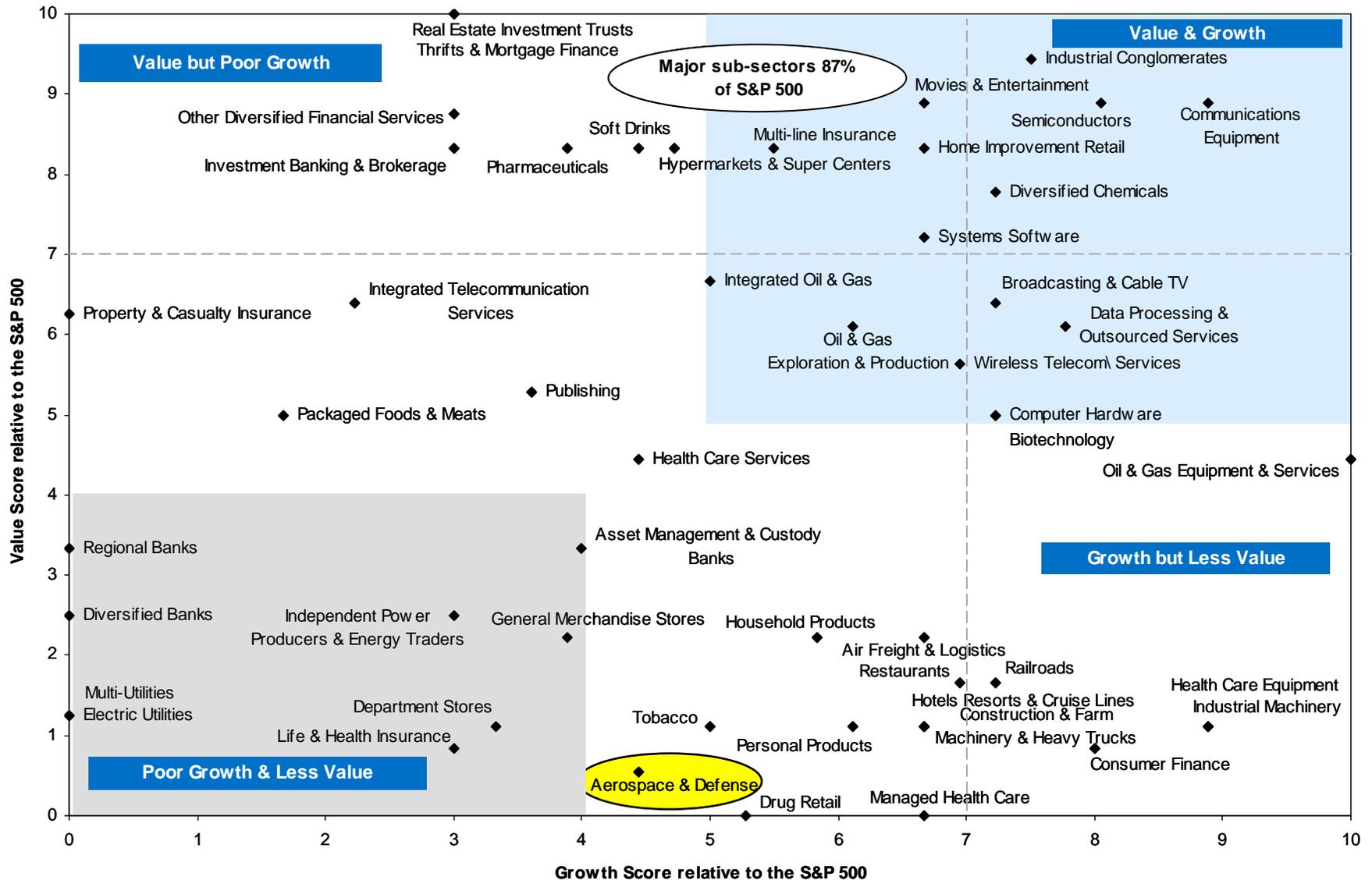
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Essentials of a Healthy Defense Industry: The Basics Have Not Changed

- **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**

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*