RESEARCH REPORT

October 7, 2019

Stock Rating	BUY
Price Target	CAD $224.00
Current Price	CAD $176.64

Bear Case	Price Target	Bull Case
$199.98	$224.00	$233.31

Ticker	GD
Market Cap (MM)	$50,900
P/E NTM	14.0x
EV/EBITDA NTM	11.5x

52 Week Performance

General Dynamics

Defending Alpha

General Dynamics is an aerospace and defense company with a broad product and services portfolio spanning business jet-aircraft, combat vehicles, information technology, mission-critical systems, combat ships and submarines.

The Industrials team took a deep dive into three of GD's most prominent business segments to gain a more comprehensive understanding of the company's positioning in each.

(1) Specialized Services to Capitalize on Naval Expansion

(2) Market Over-Punishment of Combat Systems Segment

(3) A Compelling Risk-Reward Aerospace Profile

The Industrials team believes that General Dynamics has very strong lines of business, with a customer base that is less dependent on the US government than its peers. At GD's current valuation, we price in 28% upside, and intend to enter the name in the immediate future.

Industrials

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Company Overview

General Dynamics ("GD", "the company") is an aerospace & defense company. Incorporated in 1952, GD is the world's 5th largest aerospace & defense company by revenue. GD is primarily a defense company, deriving 74% of their revenue from defense segments, while the remaining 26% is sourced from their Aerospace division. Since its founding, GD has acquired and integrated more than 65 businesses to complement their portfolio. GD is headquartered in Falls Church Virginia, employing more than 105,600 across their five operating segments.

General Dynamics offers a diverse portfolio of products and services including business aviation, combat vehicles, weapons systems, munition, shipbuilding, information technology system and solutions. The company is organized into five operating segments: Aerospace, Combat Systems, Information Technology, Mission Systems and Marine Systems. Each business segment operates with a high degree of autonomy, with responsibility for its strategy and operational performance, resulting in greater operational flexibility and agility. Their organizational structure allows them to be segment leaders and to be responsible to changing customer needs and opportunities.

Business Segments Overview

Aerospace

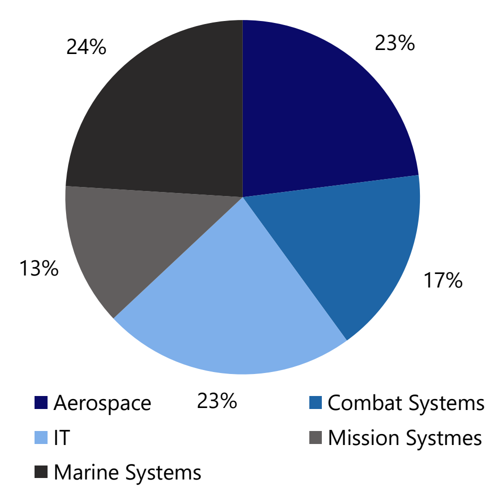
General Dynamics' aerospace segment consists of Gulfstream and Jet Aviation business units. The Gulfstream unit provides aircraft and a full range of services for business aircrafts produced by Gulfstream. Gulfstream is a leader in the production and servicing of mid-size and large cabin business jets. The aerospace segment saw 12.7% higher revenue in Q2 Y/Y, with backlogs up 18% Y/Y and expecting to deliver 145 aircraft in 2019. Their book to bill ratio was 1.0x. The aerospace segment had $11.375B on backlog at the end of 2018. The FAA in the last quarter certified their new business aircraft, G600, with deliveries expecting to begin in the later half of 2019. GD is continuing to expand their services network with three additions set to open this year.

Combat Systems

The Combat Systems group offers combat vehicles, weapon systems and munitions for the United States (U.S.) government and its non-U.S. partners. The segment consists of three business units: European Land Systems, Land Systems, and Ordnance and Tactile Systems. Revenue increased 8.1% Y/Y to $1.7B in Q2 ($6.8B est. FY2019), with a book to bill ratio of 0.5x. The Combat Systems group had $17B on backlog at the end of 2018.

EXHIBIT I

Revenue Breakdown by Segment



Source(s): Company Filings

Company Overview

Marine Systems

The Marine Systems segment is a market-leading designer and builder of nuclear-powered submarines, surface combatants, and auxiliary and combat-logistics ships for the U.S. Navy, the Jones Act ships for commercial customers. GD also provide repair services for nearly all classes of Navy ships. More than 90% of the segment's revenue is for Navy engineering, construction and lifecycle support awarded under large, multi-year contracts. Revenue for Q2 was up 7.2% Y/Y to $2.3B ($9B est FY2019), with two major contracts awarded totaling $765M in the quarter. The Marine Systems segment had $27B in backlog at yearend 2018.

Information Technology

The Information Technology segment was formed in 2018 concurrent with their acquisition of CSRA and the reorganization of their legacy Information Systems and Technology segment into two separate segments: Information Technology and Mission Systems. Revenue was flat for Q2, with industry leading EBITDA margin at 12.4%. Their book-to-bill was 1.2x. with backlog increasing to $8.9B, up 6% Y/Y.

Mission Systems

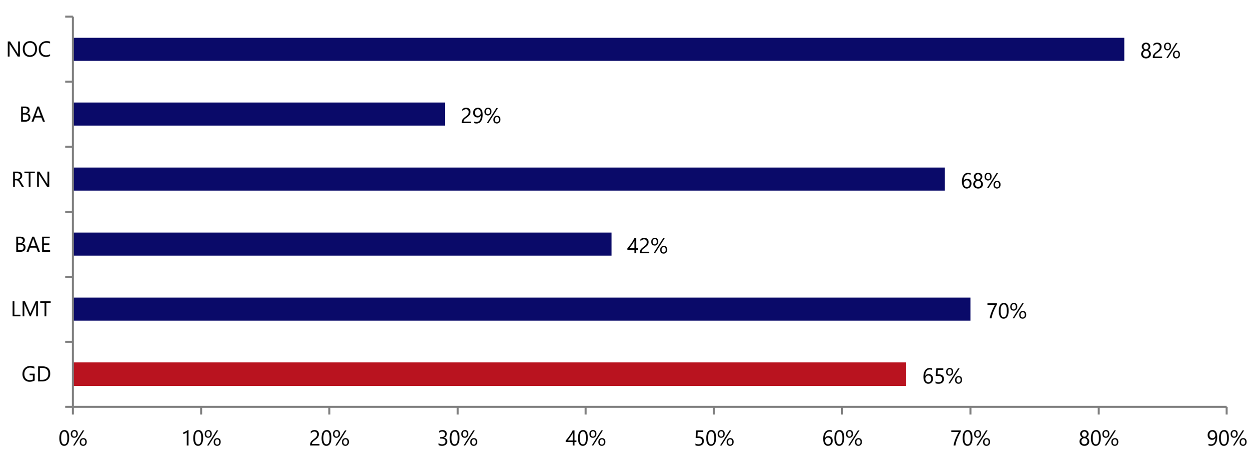
The Mission Systems provides data collection and processing products, command and control applications, and computing and communications equipment. The Mission Systems segment had revenue increase 11.3% in Q2 to $1.3B ($5B est. FY2019). The book-to-bill ratio was 0.9x with a backlog of $5B at yearend 2018.

Customers

In 2018, 65% of GD's consolidated revenue was derived from the U.S. government, 14% was from U.S. commercial customers, 10% was from non-U.S. commercial customers, and the remaining 11% was from non-U.S. government customers. GD's single largest customer was the Department of Defense (DoD), accounting for $18B in sales for FY2018, representing 48.8% of their revenue.

Exhibit II

U.S. Government Contracts as a % of Revenue



Source(s): Company Filings

The Aerospace and Defense Landscape in 2019

General Defense Industry

Defense is unique in its dependence on government defense budgets. This sets it apart from most traditional industrials companies, who are subject to the ebb and flow of more cyclical end markets. Thus, defense companies have been viewed as hedges against recessions, which is one reason why the Industrials team has dedicated more time to exploring the space. In this sector, companies deal with a concentrated customer base where the U.S. government is frequently the primary contractor. Some companies generate >90% of their revenue from the government; GD, with their business aviation segment, is more diversified than most at 65%. Many defense products have very long product cycles; some products may take 5-10 years, or more, to produce.

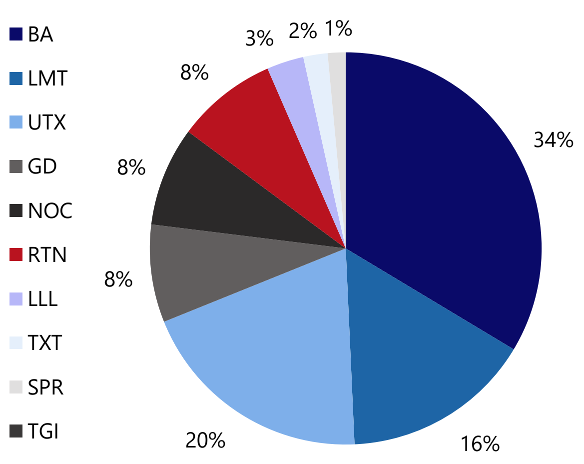
Weaker U.S. Budget Environment

High growth from international defense budgets was expected from 2014-18. This did not materialize, as budgets fell off in the Middle East with slowing GDP growth caused by falling oil prices. At the same time, the U.S. saw a budget increase in 2018 under the Trump administration, and U.S. arms exports grew due several factors: (1) Threats from Russia in Eastern Europe (2) Increased Chinese military presence in Asia-Pacific (3) North Korea threats (4) Syria and Yemen conflicts.

What now? NATO countries appear to be focusing on defense budgets to counter threats from Russia and the Middle East. There is more spending on cybersecurity programs, as military strategies worldwide shift towards integrating digital technologies. The U.S. remains the largest defense budget. After budget increases in 2018-19, U.S. spending is moderating under the 2020-21 budget agreement.

EXHIBIT III

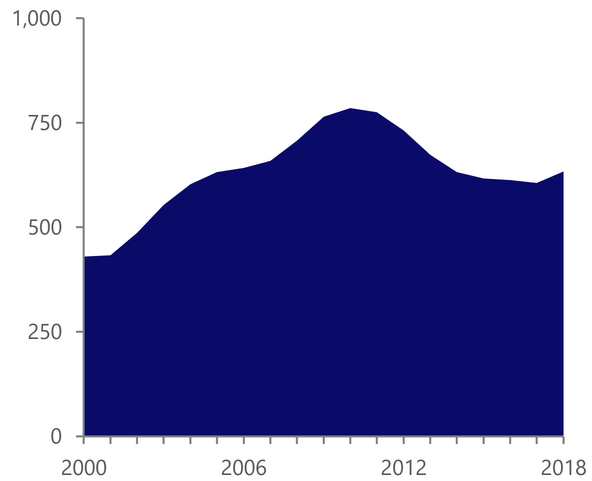
Market Share of Large-Cap Defense Names



Source(s): Mergent

EXHIBIT IV

U.S. Military Spending 2008-2018



Source(s): U.S. Department of Defense

The Aerospace and Defense Landscape in 2019

The $738 and $740B budgets for 2020 and 2021 represent a mere 3% nominal increase over 2019, and only a 1% increase in real terms. International defense budgets are becoming more important than ever, and are expected to grow faster than domestic budgets, at a CAGR of 5% over the next five years.

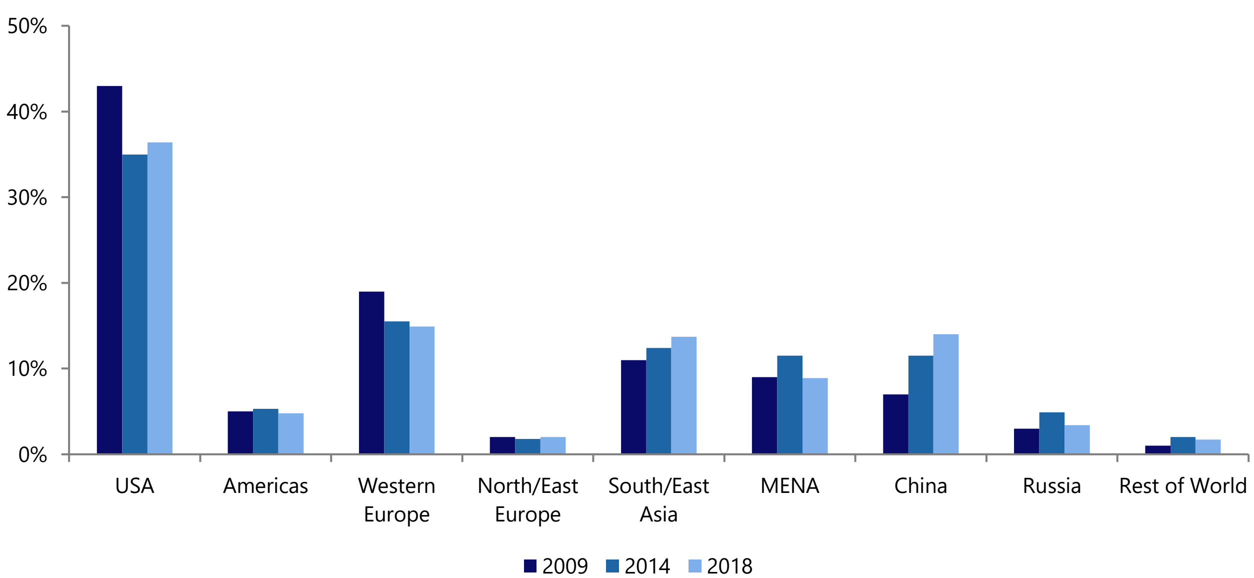
This begs the question: What kind of international exposure does each defense company have? Raytheon has the highest exposure to international budgets, being well positioned in missiles and missile defense, with strategic priorities in the Middle East and Eastern Europe. Lockheed Martin has opportunities in missiles and missile defense as well. General Dynamics has heavy ground vehicle exposure. Northrop Grumman's exposure is the lowest, but it is not growing through aircraft. Going forward, revenue mixes by geography will be an important factor to monitor.

Business Aviation

Demand for business jets is in part a function of corporate profits; the correlation between corporate profits and jet deliveries is 0.8. This relationship, however, is not expected to be as tight going forward. After 2008, business jet demand has not recovered with corporate profits, which are currently 22% above the 2006 peak. This is due to a myriad of factors, including stigma attached to corporate jets, low levels of confidence, and a new focus on cost cutting. Jet deliveries were mostly flat from 2012-17; 2018 marked a 3% uptick. Inventory for sale, another key business measure, has been falling steadily since 2012. This year it fell by 6% and is expected to bottom-out at a level below 10% of the active fleet, a good sign for the industry.

EXHIBIT V

Global Defense Spending by Region



Source(s): Bernstein

Thesis I: Specialized Services Position GD Well to Capitalize on Naval Expansion

General Dynamics is one of two primary ship and submarine builders for the U.S. Navy, with the other being Huntington Ingalls. GD was originally established as a successor to the Electric Boat Company, which was responsible for building the U.S. Navy's first modern submarines. GD's Bath Iron Works subsidiary focuses on designing and building U.S. Navy surface combat vessels, including the *Arleigh Burke*-class and *Zumwalt*-class guided-missile destroyers. The Electric Boat subsidiary builds U.S. Navy submarines, including the *Virginia, Seawolf, Ohio* and *Los Angeles*-class vessels. Finally, the National Steel and Shipbuilding Company (NASSCO) subsidiary designs, builds and supports U.S. Navy auxiliary ships and commercial ships. Nuclear-powered submarines, surface combatants, auxiliary and commercial ships account for 64.7%, 13.0% and 7.0% of Marine Systems revenue, respectively, in 2018.

General Dynamics is the undisputed leader in the submarine duopoly. Barriers to entry in this business are virtually insurmountable as it is such a technically demanding endeavor, requiring huge levels of capex, expertise and technology. The U.S. submarine fleet serves a critical strategic function, and its importance is increasing given accelerating investments by Russia and China. General Dynamic's *Columbia* program, a series of nuclear-powered ballistic missile submarines is replacing the *Ohio* class submarines over the next two decades. Roughly 80% of the work for the *Columbia* is set to be completed by General Dynamics, with the remaining portion completed by Huntington Ingalls.

U.S. Navy Budget Expansion and Commercial Trends Favour Business Line

As the U.S. defense budget flattens, Navy spending rises. The $206B budget for 2020 represents a 6% increase over 2019. Furthermore, the Navy's 2019 Force Structure Assessment outlines a 30-year shipbuilding plan to grow capacity to 355 ships by 2030, representing procurement of over 40 vessels. Naval budget increases have been caused by a

EXHIBIT VI

Ambitious Plan to Expand Navy

Ship Type	2014 FSA Plan	2016 FSA Plan
Ballistic Missile Submarines	12	12
Aircraft Carriers	11	12
Attack Submarines	48	66
Guided Missile Submarines	0	0
Large Surface Combatants	88	104
Small Surface Combatants	52	52
Amphibious Warfare Ships	34	38
Combat Logistics Force	29	32
Command and Support	34	39
Total	**308**	**355**

Source(s): U.S. Secretary of the Navy

Chinese Navy expansion and a desire to increase maritime presence in Asia. On the commercial side, U.S. oil and natural gas production is expected to continue climbing (albeit at a slower pace) and the need for tankers will remain elevated. Further upside will depend on trade affected by sanctions; for example, if U.S. sanctions on Iran shift oil exports to South Korea from Iran to the Gulf of Mexico, it will have a positive effect on the market. Every supertanker that departs from the Gulf of Mexico for South Korea instead of from Iran is a 150% gain in ton-mile demand.

The Navy's budget includes procurement for purchasing 11 new ships, including four new submarines, in the next year. General Dynamics, being one of two contractors in the world equipped to build nuclear submarines, is primed to benefit from these developments. Other large-cap defense names, such as Lockheed-Martin, Raytheon, or Northrop Grumman, simply do not have neither the shipyards, nor the expertise to compete in the space.

EXHIBIT VII

Naval Battle Force Delivery Plan Forecasts

Fiscal Year	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48
Aircraft Carrier					1					1				1				1				1				1				1
Large Surface Combatant	3	2	3	3	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2	3	2
Small Surface Combatant	1	1	1	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Attack Submarines	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Large Payload Submarines																		1			1			1			1			1
Ballistic Missile Submarines			1			1		1	1	1	1	1	1	1	1	1	1													
Amphibious Warfare Ships		1		1	1	2	1	1	2	1	1	1	2	1	1	1											1	2	2	2
Combat Logistics Force		3	2	1	2	1	2	1	1	1	1	1	1	1	1	1									1		2	2	2	2
Support Vessels	2	2	3	2	1	2	1	1	1	2	2	1	1	2	2	2	2	1		2										
Total Construction Plan	**8**	**11**	**12**	**11**	**12**	**12**	**11**	**10**	**12**	**12**	**12**	**10**	**12**	**12**	**12**	**11**	**10**	**9**	**7**	**8**	**8**	**7**	**7**	**7**	**8**	**7**	**11**	**10**	**11**	**12**

Source(s): U.S. Secretary of the Navy

Thesis I: Specialized Services Position GD Well to Capitalize on Naval Expansion

GD's Bath Iron Works business unit was awarded a $5B contract for the construction of five *Arleigh Burke*-class destroyers. Deliveries of the 11 ships currently in backlog are scheduled through 2027, providing high visibility. NASSCO expanded its backlog as well, with the Navy's exercise of options for three additional John Lewis-class oilers.

All in All, A Promising Outlook

Overall, General Dynamics is a shipbuilding incumbent expected to reap the rewards of a highly ambitious naval expansion plan. It, together with Huntington Ingalls, enjoys positions as the Navy's prime contractors. Huntington Ingalls is the leader in the nuclear aircraft carrier space, while General Dynamics dominates in nuclear submarines. However, the former is a shipbuilding pure-play, while General Dynamics offers a far more diversified portfolio.

Thesis II: Market Over-Punishment of Combat Systems Segment

General Dynamics' Combat Systems segment offers combat vehicles, weapons systems and munitions for the U.S. government and its foreign partners. Combat systems include main battle tanks, weapons systems and tactical vehicles. The hallmark product in this area is The Stryker – an eight-wheeled, medium-weight combat vehicle. In 2015, the U.S. Army requested a more "lethal variant" after which the company added a 30-millimeter, remotely operated cannon option. One of the company's newest additions in this segment is the British Army's AJAX armored fighting vehicle, set to enter service in 2020. AJAX is a family of vehicles offering advanced electronic architecture. Moreover, this segment also contains weapons systems such as the M2/M2-A1 heavy machine guns and MK19/MK47 grenade launchers for ground forces. Perhaps the market-leading product in General Dynamics' combat systems segment is its light armored vehicles (LAVs), which the company has over 13,000 of in service. General Dynamics is currently upgrading the Canadian Army's fleet of LAVs under a contract with the Canadian government that extends into 2024.

EXHIBIT IX

The Stryker

Source(s): Company Filings

EXHIBIT VIII

British Army's AJAX (Turreted Variant)

Source(s): Company Filings

EXHIBIT X

Light Armored Vehicle (LAV)

Source(s): Company Filings

Thesis II: Market Over-Punishment of Combat Systems Segment

Combat systems is the highest margin segment within General Dynamics. It contains some of the company's hallmark products and is known as a stable part of its operation. However, from Q4 2018 to Q1 2019, General Dynamics' stock was battered by a public political clash with Canada's Liberal government over a contract with Saudi Arabia. The Canadian government's previous cabinet signed a $15B deal with General Dynamics, much of which was related to the company's combat systems segment, including a purchase of 360 LAV vehicles to replace the country's archaic Buffalo of M113 models. General Dynamics agreed to manufacture the LAVs in its London, Ontario facility, promising thousands of jobs to the Canadian public. However, citing the killing of journalist Jamal Khashoggi and Saudi Arabia's involvement in the war in Yemen, Canada's new government publicly disclosed its intention to withdraw from the $15B contract it signed with General Dynamics.

The threat would result in great cost to the Canadian government, as withdrawing from the agreement would trigger a multi-billion-dollar liability payment. In addition, the withdrawal would cost thousands of jobs in General Dynamics' London plant. Despite the low probability of the government following through on its threat, General Dynamics' stock substantially underperformed during this period, losing over 55% in value. The largest impact that this contract withdrawal would have on the company pertains to its combat systems segment. However, this segment is highly resilient. In addition to it producing the highest margins within the business, combat systems is pivoting towards the U.S. defense budget, with U.S. government volumes accounting for 57% of revenue in 48% H1 2018.

The QUIC Industrials team believes that the negative market reaction surrounding the Canadian deal over-punished the stock. Months after the publicity has died out and Canada has recommitted deal, the stock is still yet to recover. We believe that the market is underappreciating 1) the resiliency of General Dynamics' Combat Systems segment and 2) the tailwinds it will receive from U.S. DoD spending.

EXHIBIT XI

Segment Data

	Revenues		Operating Margins	
Segment	**Reported**	**Adjusted**	**Reported**	**Adjusted**
GDIT	$2,158	$2,052	7.1%	7.1%
Mission Systems	$1,277	$1,199	12.7%	13.4%
Combat Systems	$1,659	$1,634	14.6%	14.5%
Marine Systems	$2,325	$2,333	8.5%	8.3%
Aerospace	$2,136	$2,147	15.5%	14.4%

Source(s): Company Filings, Bernstein

EXHIBIT XII

Q4 2018/Q1 2019 Political Effect on Share Price

Source(s): Capital IQ

Thesis III: A Compelling Risk-Reward Aerospace Profile

For the better part of the last decade, GD has been the laggard of its peer group. To a certain extent, the stock seems caught in middle ground, left as a less-loved defense prime due to business jet exposure and a less-loved cyclical industrial due to defense exposure. But, after peeling back the layers, it becomes clear that each piece of GD's business is actually a top performer across their respective markets, and we believe this warrants a second look at the equity.

In 1999, GD acquired Gulfstream, a manufacturer and service provider of business-jet aircraft. Since then, the aerospace division at GD has continued to produce business jets, boasting the most compelling offerings in the high-end market. The fleet consists of the G150, G280, G450, G550, G500, G600, G650 and the G650ER models. Currently, GD is transitioning by replacing the G450 and G550 with the G500 and G600 programs.

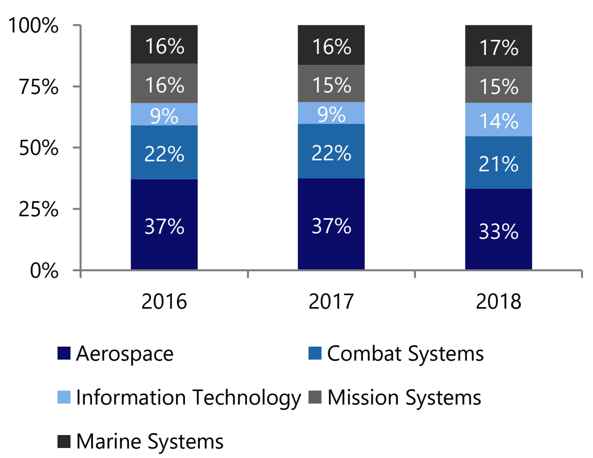
The company breaks out its aerospace business unit into two segments: Aircraft Manufacturing, Outfitting & Completions and Aircraft Services. The two key end markets for aerospace products include corporations, which represent ~70% of product demand, and high net worth individuals. The top competitors in the space are Bombardier, Cessna, Dassault, and Embraer.

Accounting for ~26% of revenues and a major ~37% of operating income in 2017, the Aerospace segment is crucial to GD's success and is the explanation for their recent underperformance. Following the financial crisis, the business jet market has been frustrated with false starts on the long-hoped recovery of demand. For the last five years, manufacturers, suppliers, and investors have been quick to cry for a bottom, but we think the conventional wisdom here could be misguided.

While people want to point to cost consciousness of U.S. corporations and commodity headwinds impacting emerging market wealth, we think that the main driver of soft broader market demand was the significant overproduction that took place between 2006 to 2010.

EXHIBIT XIII

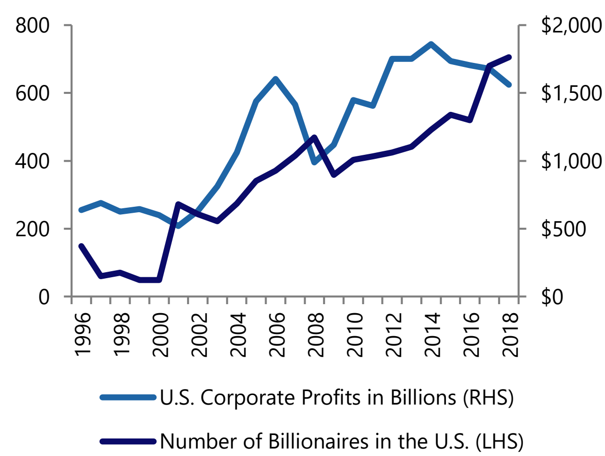
Segmented Operating Earnings



Source(s): Company Filings

EXHIBIT XIV

Key Aerospace End Markets



Source(s): Federal Reserve, Fortune

Thesis III: A Compelling Risk-Reward Aerospace Profile

In the absence of healthy market fundamentals, OEMs continued to overproduce eventually creating a bulge of surplus inventory. But, after five years of consistently underproducing vs. market fundamentals, we believe that the excess production is now finally beginning to be absorbed by buyers.

While the slow progression back to market equilibrium will not necessitate a sharp recovery in build rates, we think that the lingering effects of fleet age, corporate tax reduction and newly legislated depreciation rules set the stage for solid, but not overheated, demand. On the other hand, warning signs that we recognize and agree with include the changing public perception of jet travel in certain niches. Specifically, the degree to which private jets are viewed as taboo in the U.S. post-recession and the crackdown on corruption in China.

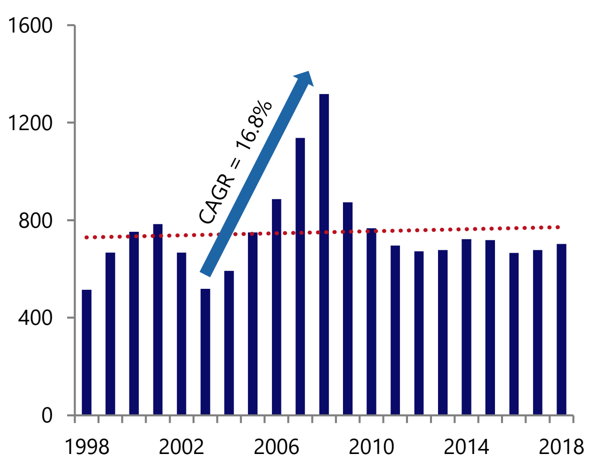
Not only would GD be poised to capture an enormous amount of value in the event of an uptick in business jet sales, but we think that Gulfstream has a dominant market position at the high-end of the market. As the president of Corporate Aviation Asset Professionals described the times, "inventory is getting picked over. Good airplanes with high-quality avionics and interiors in good condition are getting harder to come by."

With five primary suppliers and a range of secondary players in the lighter segment, the business jet market is competitive. However, we think that GD's advantage lies in the proprietary nature of its business jets, with unmatched industry speed and range specifications. For GD, we see this economic moat manifest itself in the form of strong pricing power. When business jets such as the Citations by Cessna have list prices in the single-digit million range, GD is able to charge in the mid-$60M range for a business jet like the G650.

Ultimately, barring a standstill in the current economic expansion, we think that GD stands to seize a bigger slice of a growing pie when it comes to the company's real profit driver, its Gulfstream business jets division.

EXHIBIT XV

Worldwide Business Jet Shipments



Source(s): General Aviation Manufacturers Association

EXHIBIT XVI

Global Average Flight Hours Per Private Aircraft

Source(s): Jet Support Services, Statista

Catalysts and Risks

Catalysts:

1) **Capital Allocation:** A net cash balance sheet is not required for GD's business. Currently, we view GD as a meaningfully underlevered company. GD has the capital allocation capacity for additional cash deployment towards more dividend increases and / or a more active share buyback program.

2) **CSRA Acquisition:** In 2018, GD purchased CSRA to drive growth in its IT segment. We believe that there could be additional upside on the equity if GD is able to generate better than expected cost synergies and margin performance from CSRA.

3) **Military AI Arms Race:** Autonomous weapons are a controversial debate topic. AI tech is at the point where the deployment of systems that can select and engage targets without human intervention is feasible not within decades, but in years. The third revolution in warfare would create an enormous opportunity for the top-tier defense primes.

Risks:

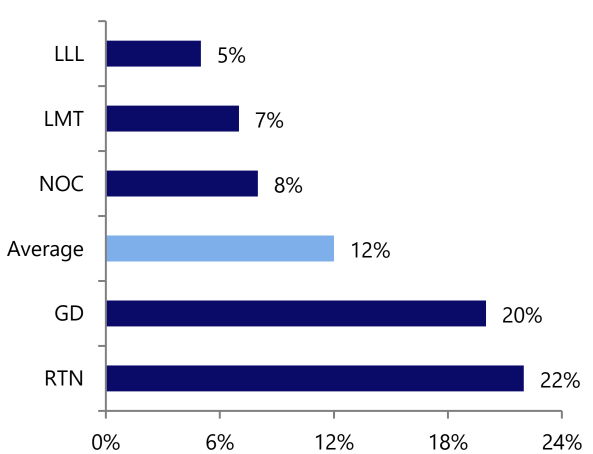
1) **Margin Pressure:** A shift involving more contracts with the U.S. government could lead to depressed margins in the Combat segment. The introduced Columbia class submarine could possibly cause cost overruns in the Marine segment, thus hurting funding for other naval programs involving GD.

2) **International Disruption:** Depending on what the defense product is, you can often sell these assets to any sort of foreign government. But if the U.S. concludes that another country is not an ally and does not want them equipped, then global sales can slide quickly.

3) **Bizjet Deterioration:** Albeit a low probability, the possibility of discounts and production cuts remains for GD if the long-range, large-cabin private jet market were to experience a cyclical fall in demand. Ultimately, we perceive the recovering jet market to be a compelling risk-reward value.

EXHIBIT XVII

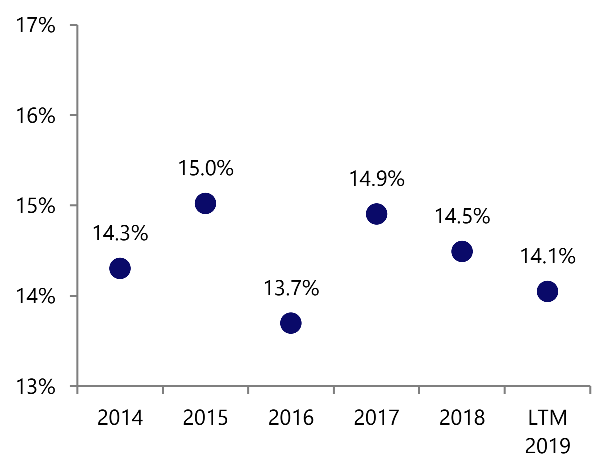
Capital Allocation Capacity as a % of Market Cap



Source(s): RBC Capital Markets

EXHIBIT XVIII

Historical EBITDA Margin



Source(s): Capital IQ

Valuation: Comparables & Discounted Cash Flow Analyses

Discounted Cash Flow — ***($ in millions)***

Ticker	GD
Tax Rate	21.0%
Discount Rate	8.0%
Valuation Date	2019-10-07

	2014A	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	Terminal
Discount Period						0.5	1.5	2.5	3.5	4.5	4.5
Discount Factor						0.962x	0.891x	0.825x	0.764x	0.707x	0.707x
Revenue	$30,852	$31,781	$30,561	$30,973	$36,193	$39,179	$42,411	$44,786	$47,294	$49,942	$49,942
% Growth		3.0%	(3.8%)	1.3%	16.9%	8.2%	5.6%	5.6%	5.6%	5.6%	
EBITDA	$4,414	$4,776	$4,187	$4,618	$5,246	$5,482	$6,035	$6,494	$6,952	$7,491	$7,491
% Margin	14.3%	15.0%	13.7%	14.9%	14.5%	14.0%	14.2%	14.5%	14.7%	15.0%	
% Growth		8.2%	(12.3%)	10.3%	13.6%	4.5%	10.1%	7.6%	7.1%	7.8%	
Less: D&A						763	523	552.288	583.2161	615.8762	
Operating Income	$3,918	$4,295	$3,734	$4,177	$4,483	$4,719	$5,512	$5,942	$6,369	$6,875	$6,875
% Tax Rate						*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*
NOPAT						**$3,869**	**$4,520**	**$4,872**	**$5,223**	**$5,638**	**$5,638**
Plus: D&A						$903	$859	$779	$685	$711	$711
Less: CapEx						($1,003)	($954)	($865)	($761)	($790)	($790)
Less: Change in NWC						($825)	–	–	–	–	–
Unlevered FCF						$2,944	$4,424	$4,786	$5,146	$5,559	$5,559
PV of Unlevered FCF @ 8.0%						**$2,833**	**$3,942**	**$3,948**	**$3,931**	**$3,932**	

Conclusion

Overall, through both comparables & discounted cash flow analysis, General Dynamics is undervalued relative to it's peers and intrinsically. The Industrials team believes that the company was over punished following the Canadian government's unlikely threat to withdraw from a $15B contract. Furthermore, weaker demand in the commercial jet industry also leaves General Dynamics trading at a discount to peers. However, the team believes that the slower demand is a result of overproduction in the past decade and that the company is well positioned to capture additional business if there were to an increase in demand.

Since writing this report on October 7th, 2019, the Industrials team has taken a stake in General Dynamics, ultimately due to the company's strong business and favourable valuation.

Valuation: Comparables & Discounted Cash Flow Analyses

Perpetual Growth Method			
PGR	1.5%	Enterprise Value	$79,981
Sum of PV UFCF	$18,586	Less: Net Debt	14,428
Terminal Value	86,804	Less: Minority Stake	–
PV of Terminal Value	61,395	**Equity Value**	**$65,553**
Enterprise Value	**$79,981**	Per Share	$224.3
Exit Multiple Method			
Exit Multiple	11.5x	Enterprise Value	$79,518
Sum of PV UFCF	$18,586	Less: Net Debt	14,428
Terminal Value	$86,150	Less: Minority Stake	–
PV of Terminal Value	$60,932	**Equity Value**	**$65,090**
Enterprise Value	**$79,518**	Per Share	$222.7
Blended Return			
Perpetual Growth Method	$224.3	Perpetual Growth Method Capital Return	27.0%
Exit Multiple Method	$222.7	Exit Multiple Method Capital Return	26.1%
Blended Share Price Target	**$223.5**	**Blend Share Price Capital Return**	**26.5%**

Trading Comparables *($ in millions)*

				TEV / EBITDA		TEV / Adj. EBITDA		Price / Earnings		19E EBITDA	Dividend
Ticker	**Name**	**Market Cap**	**TEV**	**2019E**	**2020E**	**2019E**	**2020E**	**2019E**	**2020E**	**Margin**	**Yield**
LMT	Lockheed Martin	$109,912	$122,050	12.7x	12.2x	10.9x	10.4x	17.9x	16.3x	16.2%	2.5%
BA	The Boeing Company	$195,546	$211,971	NM	11.5x	NM	10.2x	NM	15.5x	4.7%	2.4%
RTN	Raytheon Company	$61,209	$64,642	12.2x	11.2x	10.2x	9.6x	18.4x	17.0x	18.1%	1.7%
NOC	Northrop Grumman	$58,909	$73,616	15.5x	14.6x	12.4x	12.0x	17.1x	15.3x	14.0%	1.5%
GD	**General Dynamics**	**$52,317**	**$66,745**	**12.2x**	**11.6x**	**10.3x**	**9.9x**	**15.1x**	**14.1x**	**14.0%**	**2.3%**
Mean				**13.5x**	**12.4x**	**11.2x**	**10.6x**	**40.0x**	**16.0x**	**13.3%**	**2.0%**
Median				**12.7x**	**11.9x**	**10.9x**	**10.3x**	**18.2x**	**15.9x**	**15.1%**	**2.1%**

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