



BUY: General Dynamics, Inc. [NYSE: GD]

Lead Analyst: Theo D'Onofrio

Sector Head: Jack Schaffer

Sector: Industrials

Agenda

Company Overview

Industry Overview

Investment Thesis

Valuation

Risks

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Company Overview

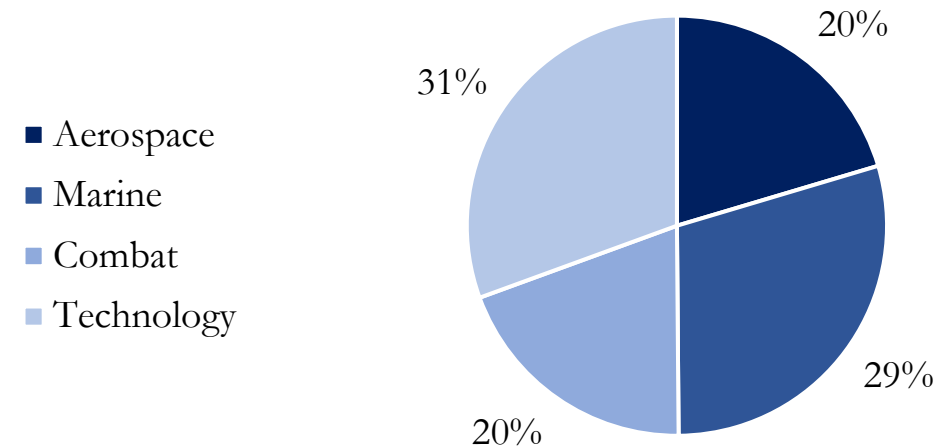
Company Description

- 1 General Dynamics is an Aerospace and Defense company headquartered in Reston, Virginia
- 2 Offers products and services in business aviation, ship construction, land combat and weapons, and technology
- 3 Revenue comprised of 70% US government, 15% US commercial customers, 9% non-US government, 6% other

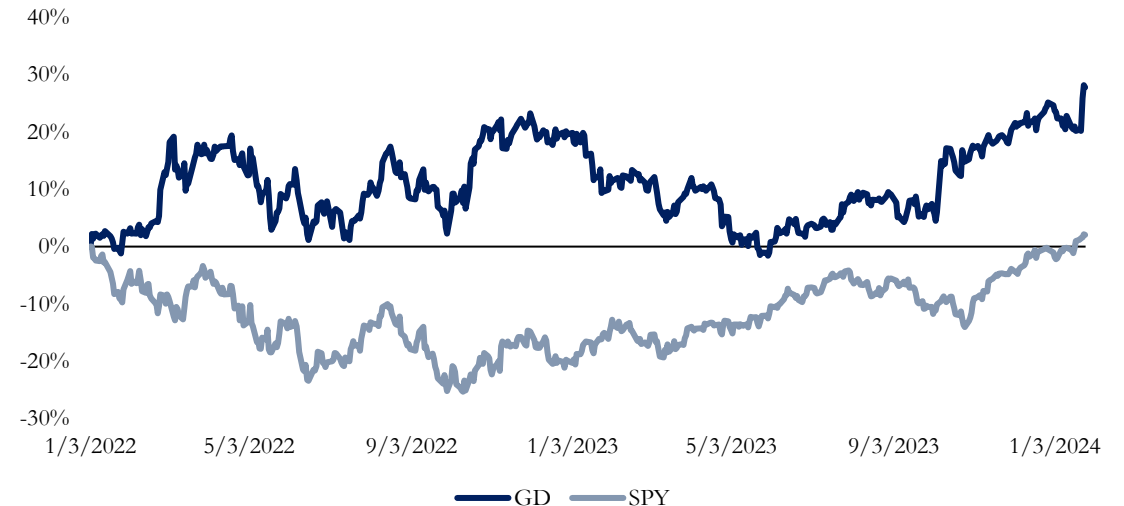
Key Information

Current Share Price	\$266.87
52 Week Range	\$202.35-\$269.50
Market Capitalization	\$72.83 Billion
LTM Revenue	\$42.3 Billion
LTM EBITDA	\$5.1 Billion

Revenue Breakdown



Stock Performance



Industry Overview

Industry Description

Aerospace and Defense focuses on the production and services provided for national security technology

Highly capital-intensive industry, making it difficult for new entrants to compete with established companies

General Dynamics is strong within this industry, particularly in its marine systems

Key Competitors



Industry Trends

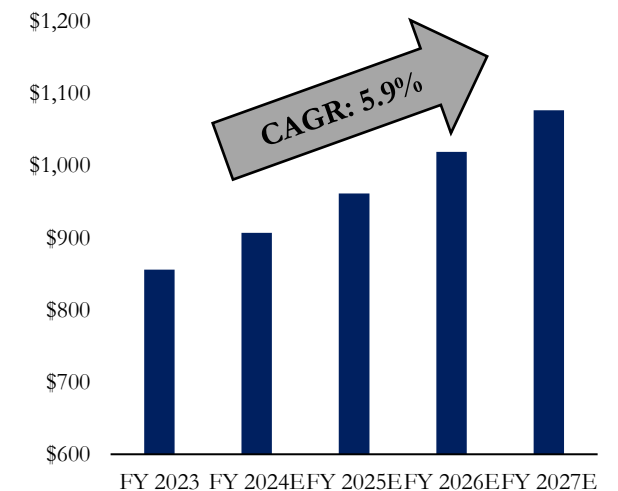
Tailwinds

- **Global Tensions:** Global tensions have been heightened in the past two years, making the demand for aerospace and defense products strong
- **Demand for air travel:** Commercial air travel heightened post-pandemic, leading to increased demand for new aircrafts and after-market products and services

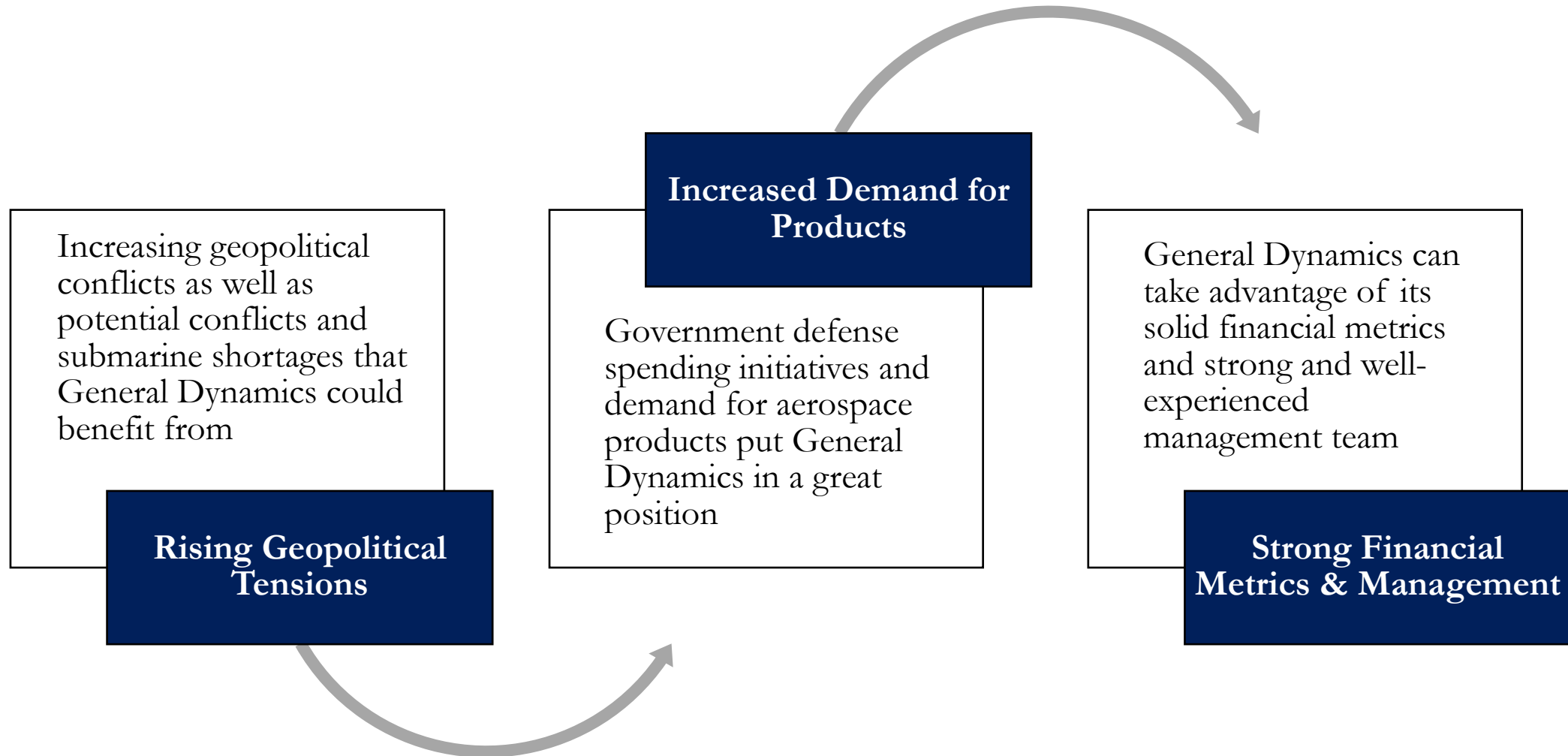
Headwinds

- **Supply Chain Issues :** Global supply chain issues have made obtaining parts for Aerospace and Defense products difficult, delaying many deliveries
- **Labor Issues:** Weak labor forces within the supply chain, as well as trouble attracting talent for aerospace and defense companies

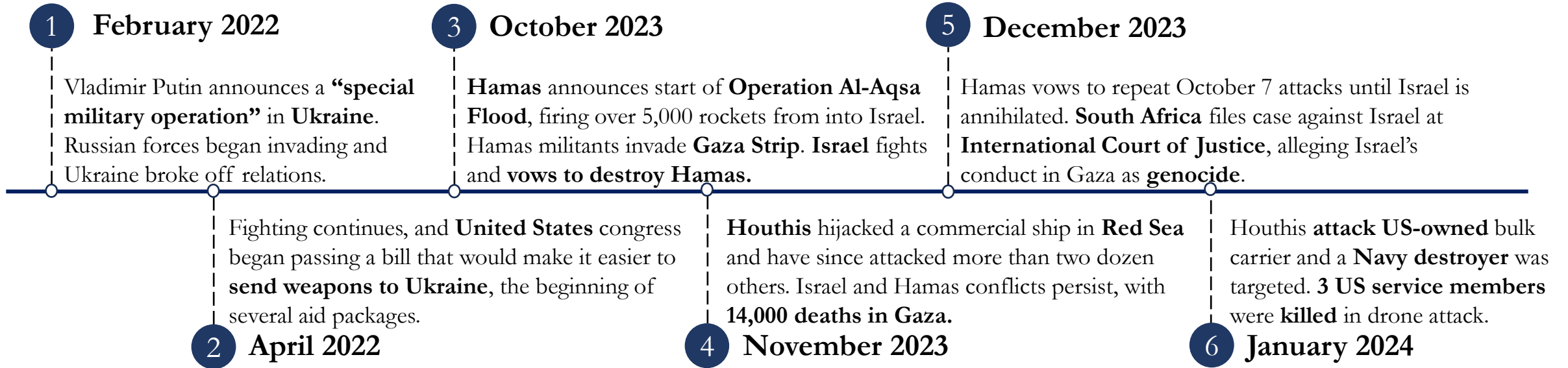
A&D Industry (\$USD, Billions)



Investment Thesis



Rising Geopolitical Tensions



Potential Conflict in Taiwan

Lai Ching-Te Elected President of Taiwan

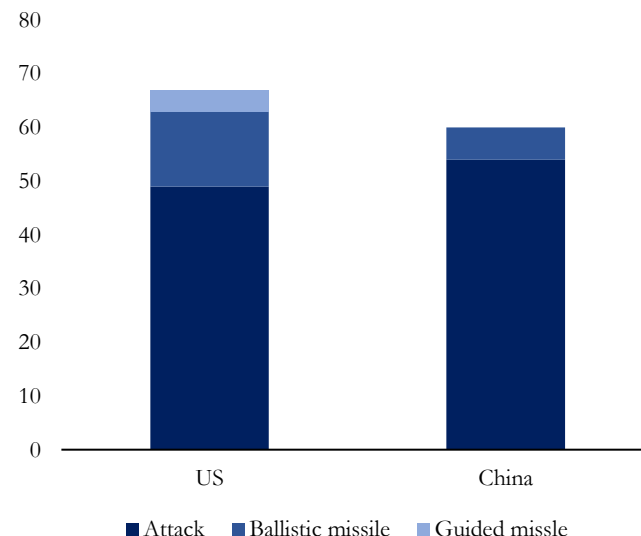


Democratic Progressive Party (DPP) has continuously sought autonomy from the mainland

After election, Taiwan reported 24 planes and 5 navy vessels from China circling the island

In late 2022, President Joe Biden said US forces would defend Taiwan in a Chinese invasion

United States Submarine Shortage

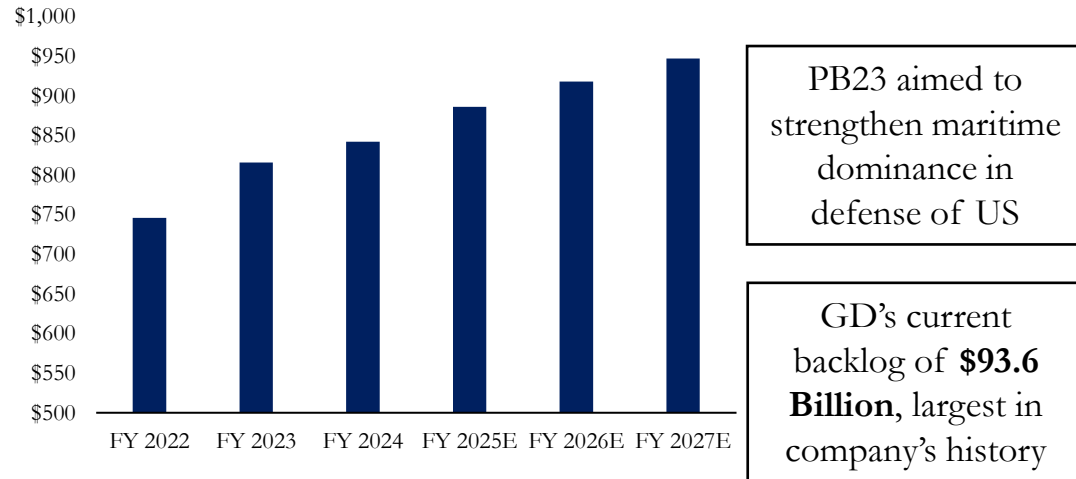


Pentagon forecast China would have total fleet of **80** attack & ballistic missile submarines by 2035

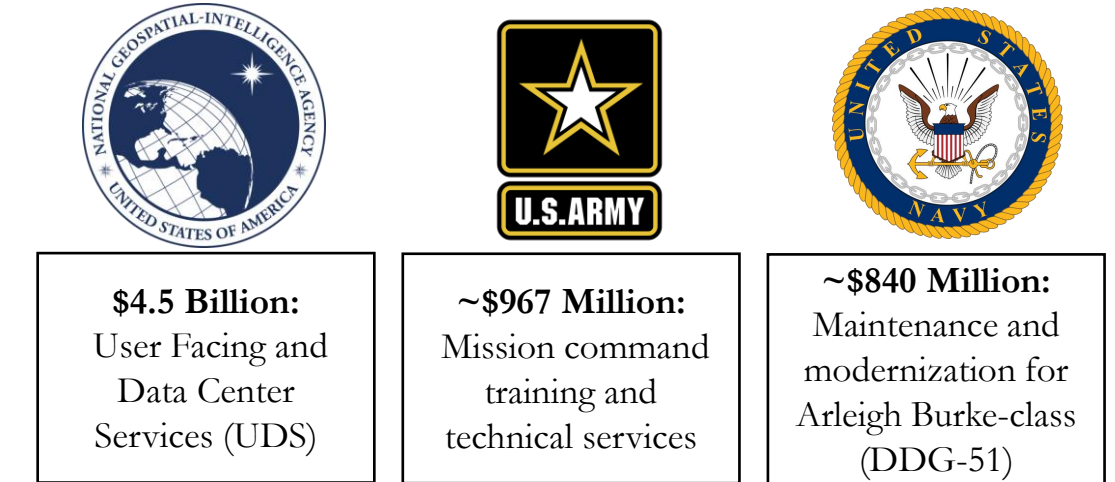
US fleet forecast to decline to **46 boats** by **2030** & **~37%** of US submarine force is out of commission and awaiting maintenance

Increased Demand for Products

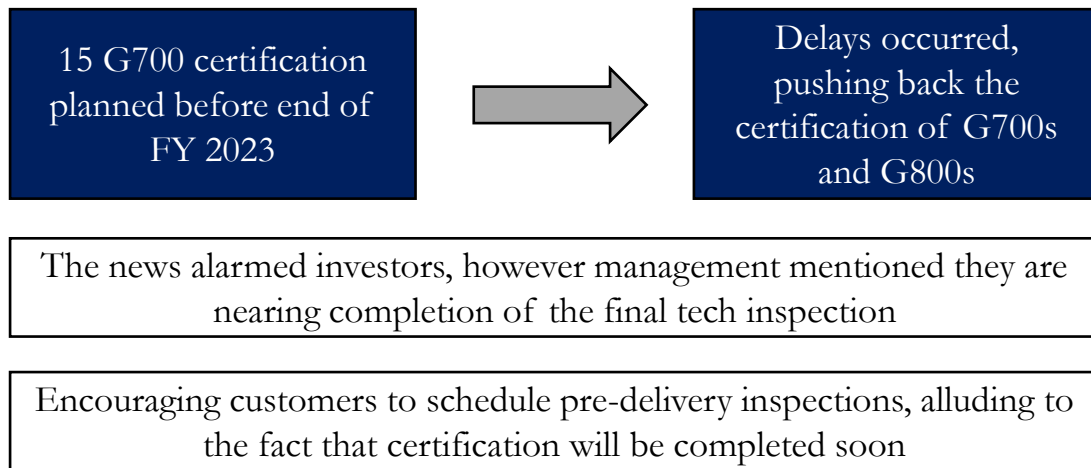
DoD Budget Increases (\$USD, billions) & Backlog



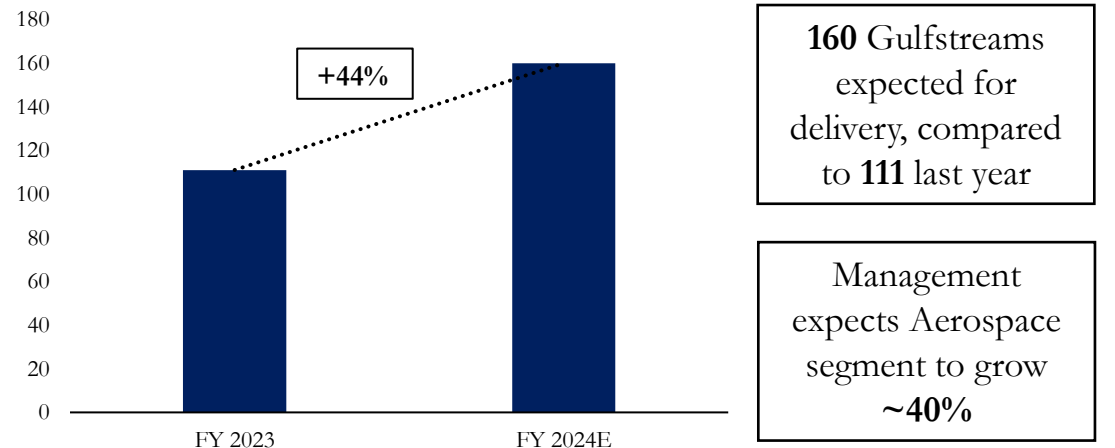
Recent & Potential Contracts



Delayed G700 & G800 Certification

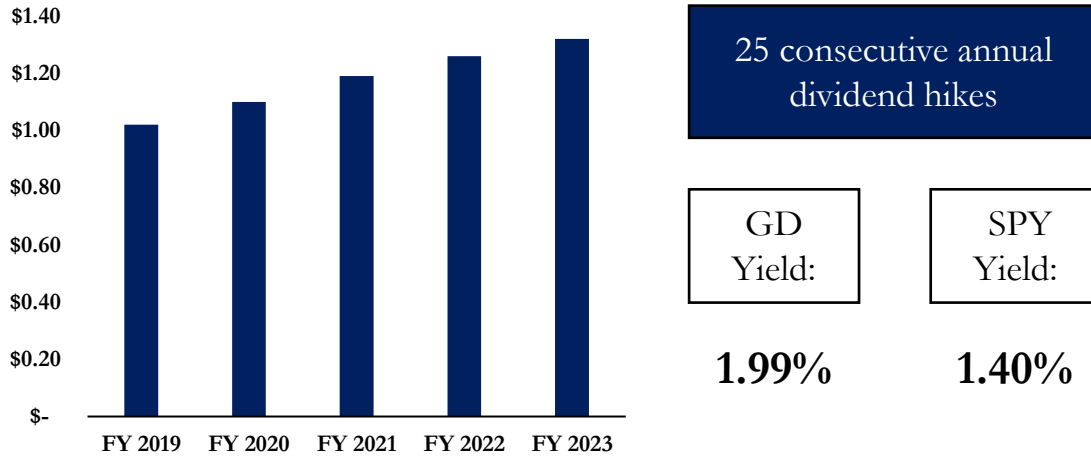


Gulfstream Deliveries

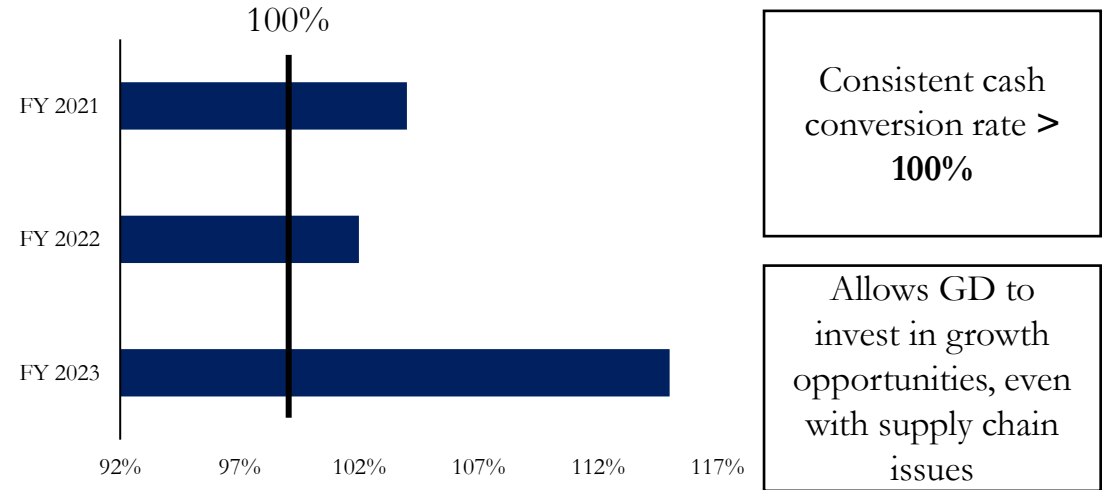


Strong Financial Metrics & Management

Dividend Aristocrat



Cash Conversion Rates



Strong & Established Management

Chief Executive Officer:
Phebe N Novakovic



Been with General Dynamics since 2001, and moved her way up as CEO

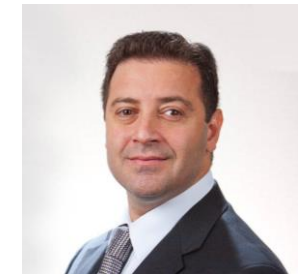
In 2018, recognized as 25th most powerful woman in the world by Forbes

Prior Experience working in United States Government (CIA)

Mark Roualet, previous Executive Vice President of Combat Systems, announces his retirement



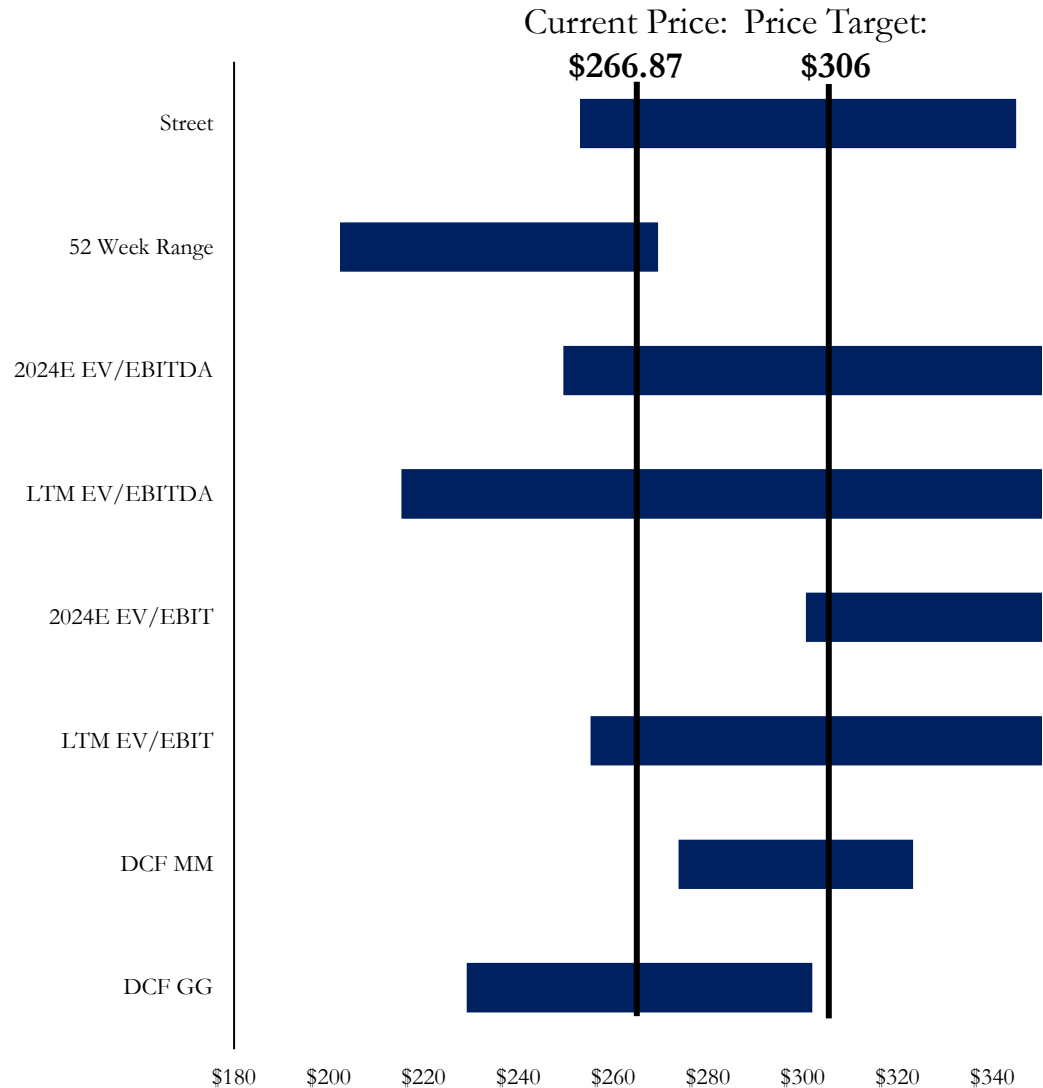
GD Tenure:
40 years



GD Tenure:
20 yrs

Valuation

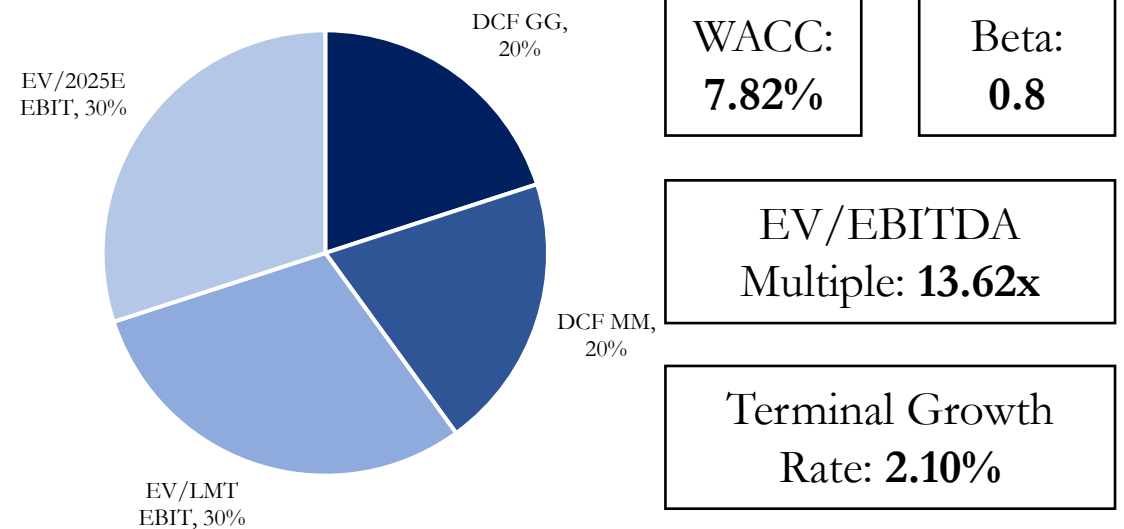
Football Field



Analyst Ratings

Wolfe	\$290
JP Morgan	\$280
Jefferies	\$275
Deutsche	\$310
Baird	\$345

Assumptions



Risks



Bear Case

- EV/LTM Revenue: 1.17x (share price of \$262)
- Geopolitical tensions subside
- GD sees major supply chain issues, further delaying the deliveries of G700s and G800s

Base Case

- EV/2024E EBITDA: 13.62x (share price of \$306)
- Geopolitical tensions continue
- GD sees increased demand in the aerospace segment and US begins repairs on ships

Bull Case

- EV/2024E EBITDA: 17.13x (share price of \$319)
- Fighting emerges in Taiwan, and US gets directly involved with conflicts
- Government DoD spending increases significantly

Thank you! Questions?

Appendix Overview

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[Appendix B: General Dynamic Management](#)

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[Appendix I: Biden on US Involvement in Taiwan](#)

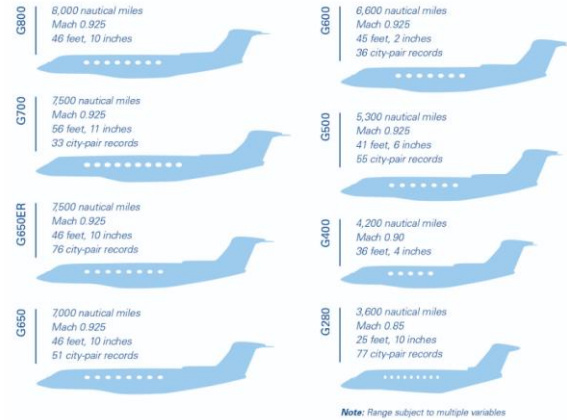
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A: General Dynamics Products

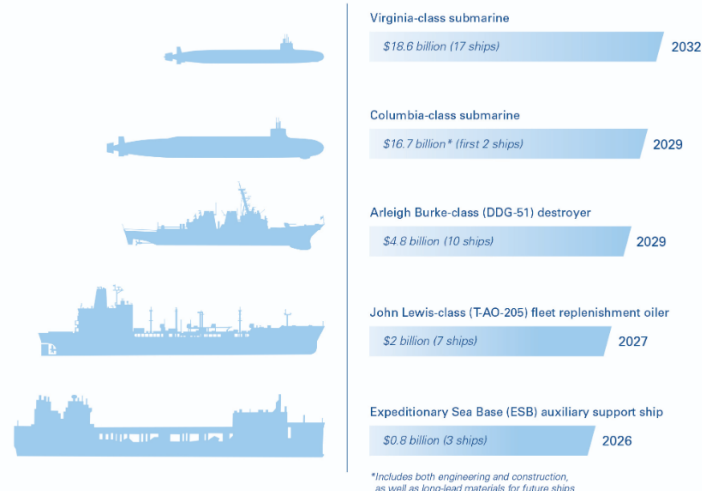
Aerospace



Gulfstream and Jet Aviation Network



Marine Systems Backlog



Combat Systems

Vehicle	Installed Base		Backlog	
	Vehicle Quantity	Countries	Vehicle Quantity	Final Delivery
ABRAMS Main Battle Tank	3,879	7	665	2026
STRYKER Wheeled Vehicle	3,750	2	533	2024
Light Armored Vehicle (LAV)	4,750	9	548	2025
AJAX / ASCOD Tracked Vehicle	485	4	509	2028
PANDUR / PIRANHA Armored Vehicle	7,207	25	592	2027
DURO / EAGLE Tactical Vehicle	2,623	5	957	2024

B: General Dynamic Management

Chief Executive Officer:
Phebe N. Novakovic



Experience:
20+ yrs

Chief Financial Officer:
Jason W. Aiken



Experience:
20+ yrs

General Counsel:
Gregory S. Gallopoulos



Experience:
16 yrs

HR & Administration
Kimberly A. Kuryea



Experience:

C: Insider Trading and Shareholders selling

1/26/2024: Mark C. Roualet sells 73,330 shares

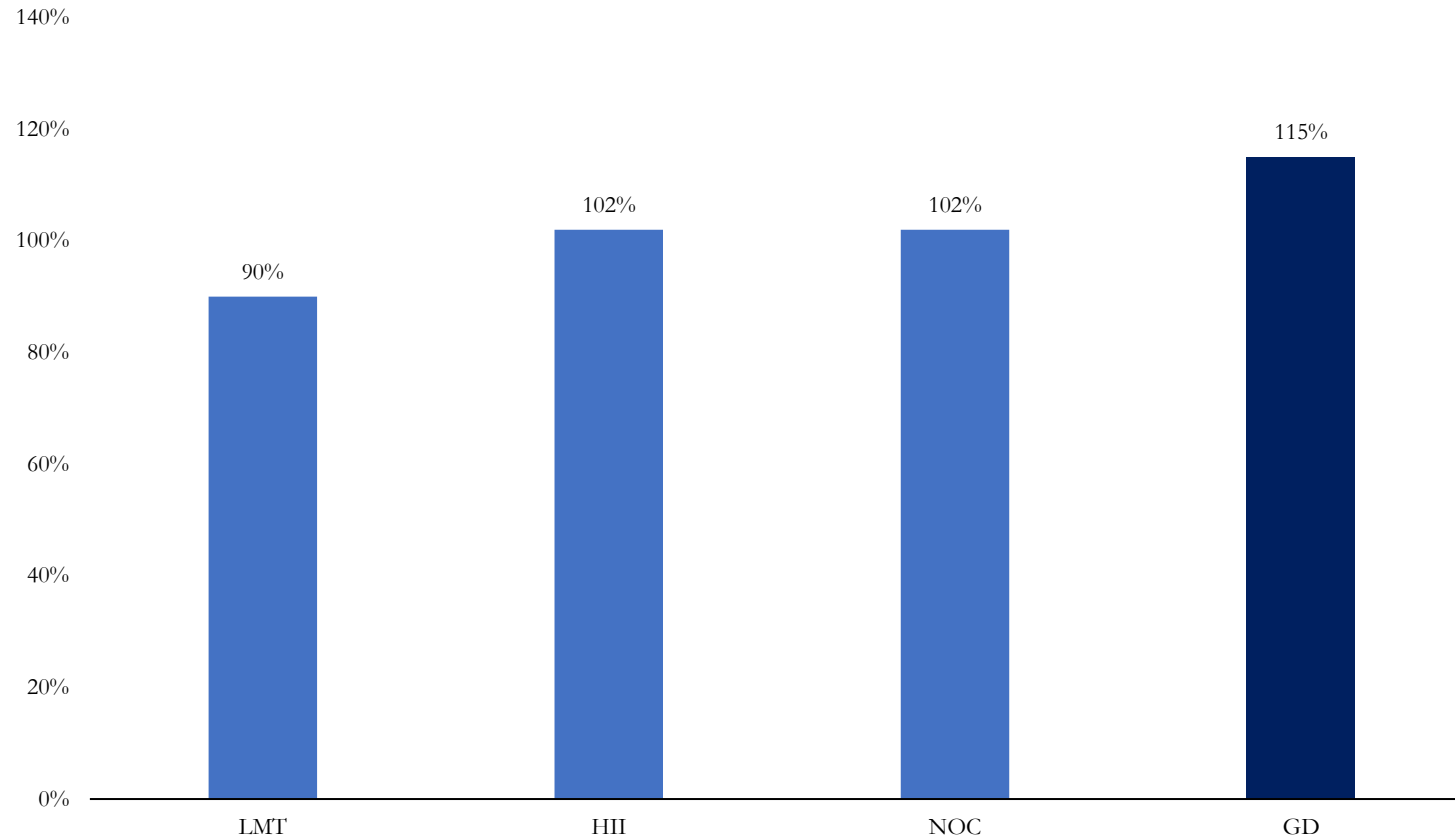
1/29/2024: Phebe N Novakovic sells 32,355 shares

Although this is a cause for concern, previous Congress selling of the stock was not in line with how stock traded

8/11/2023: Phebe N Novakovic sells 33,320 shares
Stock has increased **18%** since then

11/01/2023: Gregory Gallopoulos sells 33,200 shares
Stock has increased **10%** since then

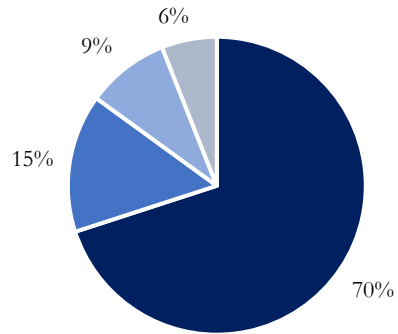
D: COMPS FY 2023 Cash Conversion



GD outperforms its competitors in Cash Conversion Rate by a significant margin, making it better suited to take advantage of current conflicts

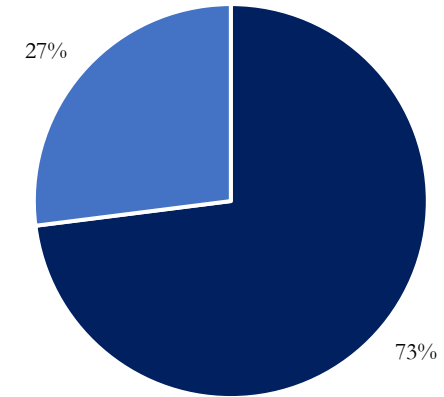
E: COMPS Customer Concentration

GD Customer Concentration



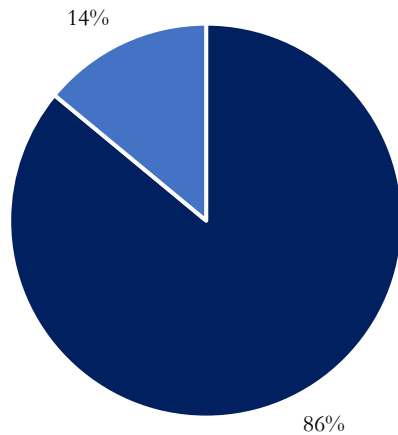
■ US Government ■ US Commercial Customers
■ Non-US Government ■ Non-US Commercial Customers

LTM Customer Concentration



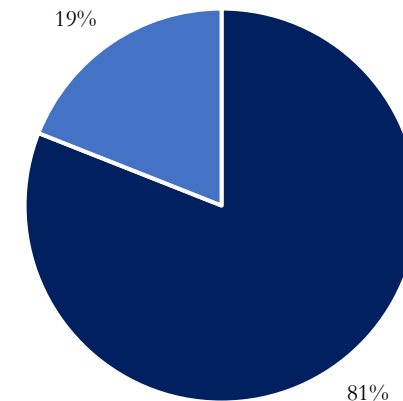
■ US Government ■ Other

NOC Customer Concentration



■ US Government ■ Other

HII Customer Concentration



■ US Navy ■ Other US Government

F: China Improving Submarine Technology

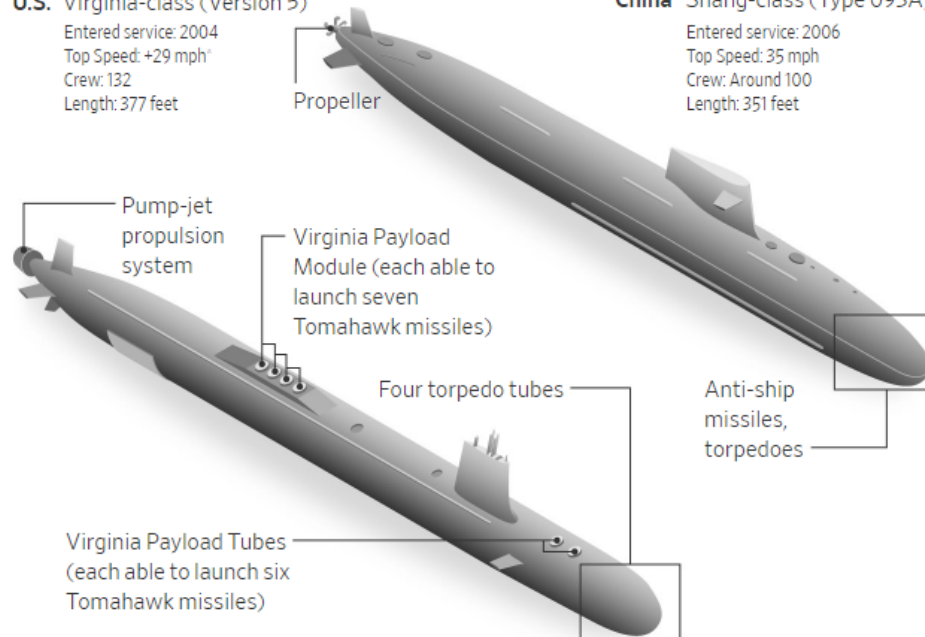
Nuclear-powered attack submarines

U.S. Virginia-class (Version 5)

Entered service: 2004
Top Speed: +29 mph*
Crew: 132
Length: 377 feet

China Shang-class (Type 093A)

Entered service: 2006
Top Speed: 35 mph
Crew: Around 100
Length: 351 feet



*Over 25 knots (28.8 mph). Exact speed not available.

Note: The Virginia Payload Module is a planned component for future submarines.

Source: U.S. Navy (U.S.); Naval-Technology.com (China)

Peter Champelli/THE WALL STREET JOURNAL

While submarine technology not as advanced as US, they are anticipated to make submarines for stealth attacks, modeled after Russian Akula I-class attack submarines

Much of existing submarine technology comes from reverse engineering diesel-electric submarines bought from Russia after collapse of Soviet Union. Possibility of Russia sharing advanced technology with China

China also working on **'Underwater Great Wall'** since 2017, which is a network of sensors over South China Sea and East China Sea

G: China Stock Market

SSE Composite Index



Chinese Stock Market almost at its 5 year low, with many foreign investors selling, totaling around **\$2 billion** worth of Mainland China shares in January despite Beijing's efforts to prop stock market

With China's failed attempts to stimulate the economy, war may become an option for China if it continues to fall

H: China Reaction to Taiwan Election

Analysis

China's muted reaction to Taiwan's election result may signal a waiting game

Helen Davidson and Amy Hawkins in Taipei

Taiwan says China has launched significant joint air and sea patrols, but analysts say Beijing's reaction to the ruling Democratic Progressive Party's election win has so far been relatively quiet



📷 A fishing boat returns to port at dawn at the north end of Pingtan Island, the closest point in China to Taiwan's main island. China has conducted joint combat patrols around Taiwan in the wake of elections. Photograph: Greg Baker/AFP/Getty Images

Taiwan elected president on January 13, 2024. China had sent 24 planes and 5 navy vessels into Taiwan's air defense identification zone on January days following,

During three previous occasions since mid-2010s Biden has made similar public comments suggesting that the US would get involved in a conflict over Taiwan

I: Biden on US involvement in Taiwan

NATIONAL SECURITY

Biden, again, says U.S. would help Taiwan if China attacks

SEPTEMBER 19, 2022 · 1:30 AM ET



John Ruwitch



President Biden waves as first lady Jill Biden watches standing at the top of the steps of Air Force One before boarding at Andrews Air Force Base, Md., on Saturday.

Gemunu Amarasinghe/AP

On September 18, 2022, President Joe Biden asked if, unlike in Ukraine, US forces would get involved in the event of a Chinese invasion, Biden replied:
“Yes.”

During three previous occasions since mid-2021 Biden has made similar public comments suggesting that the US would get involved in a conflict over
Taiwan

J: US Preparations for Potential War

How the US is preparing for a Chinese invasion of Taiwan

By Phil Stewart and Idrees Ali

January 31, 2024 5:58 PM EST · Updated a day ago



The Arleigh Burke-class guided-missile destroyer USS Stethem (DDG 63) steams during a three-carrier strike force photo exercise in the Western Pacific, November 12, 2017. Picture taken November 12, 2017. U.S. Navy photo by Mass Communication Specialist 3rd Class Kelsey J. Hockenberger/Handout via REUTERS/File Photo [Acquire Licensing Rights](#)

US war games (simulations of conflicts created by DoD) have concluded that China would likely try to bomb jet fuel supplies or refueling ships, crippling US air and sea power

United States is trying to spread its military logistic hubs across the region, including warehouses in Australia. Overall, Pacific region has shown sign of weakness for US region, so would need to increase presence there.

News | Military

US military targets 10 Houthi drones in new Yemen strikes

The Iran-aligned rebel group has warned of more attacks against US and British warships.



Armed supporters of Yemen's Houthi rebels attend a rally in solidarity with the Palestinian Hamas group in the Yemeni capital Sanaa, January 29, 2024 [Mohammed Huwais/AFP]

US Secretary of State, Anthony Blinken, met with Britain to discuss situation in Red Sea and to “hold the Houthis accountable for their illegal and reckless attacks on vessels in the Red Sea”

US has set up multinational naval task force to help protect Red Sea shipping from Houthis repeated attacks on busy waterways that carry up to 12% of global trade

1 Feb 2024



L: Other Recent & Potential Contracts



~\$2.5 Billion:
IDIQ contract for electric
health record system



\$967 Million:
Modifications on Virginia-
Class Submarines



\$1.3 Billion:
4 Contracts for Land
Command Support Systems