

Challenges In the Global Defense Sector

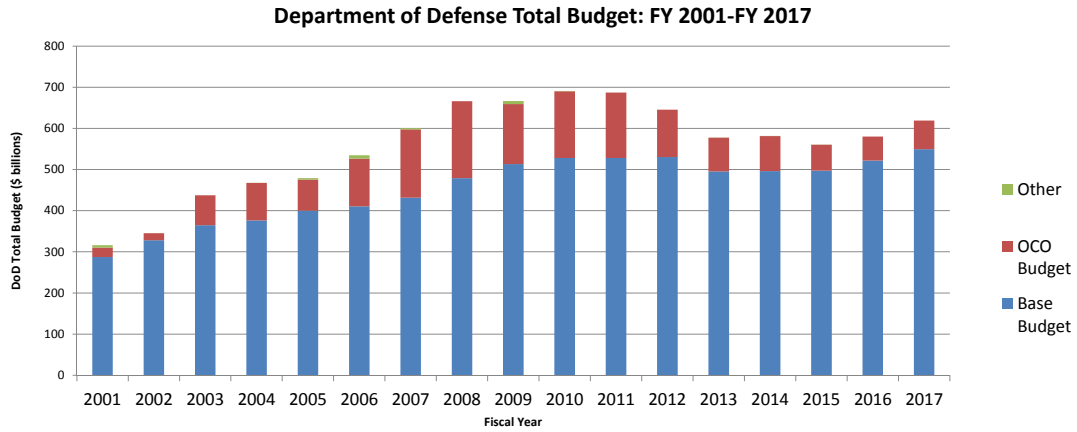
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May 2017

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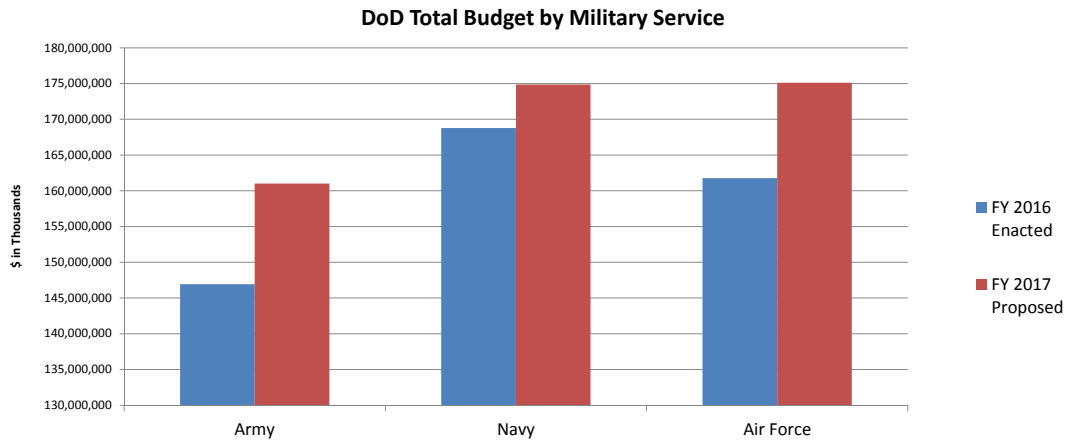
Outline

- US Defense Budget: Current and Historical Trends
 - Key Issues Facing the Various Services
 - Upcoming issues for FY 2018
- Defense Spending Across Nations
- Impact on Defense Companies
- Conclusion

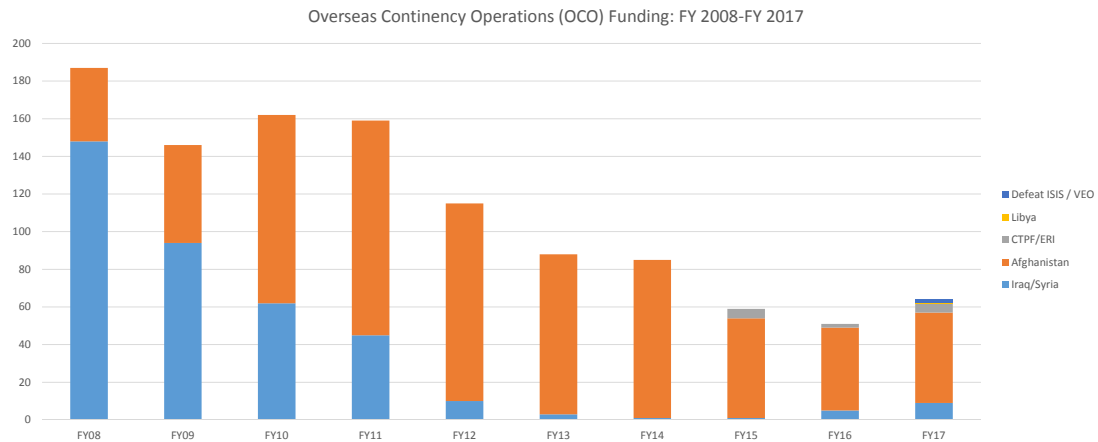
Trends in US Department of Defense Budget



US DoD Budget



Historical Trends in OCO Spending

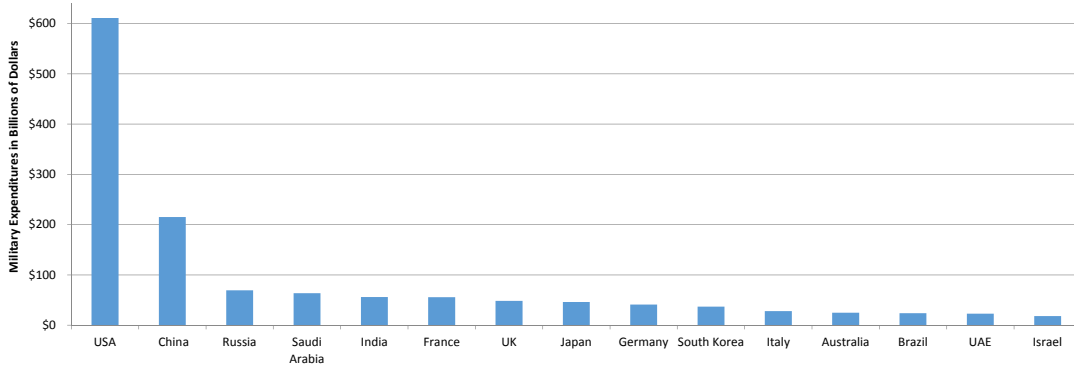


US Ships

- The new administration has emphasized increasing from 275 ships to 350-355 ships over the next thirty years to deal with the counterterrorism fight, and growth in Russia's and China's defense capabilities.
- According to CBO, this would require over \$26 billion per year over 30 years. The annual shipbuilding cost to increase the fleet would be 40% more than the approved FY 2016 spending on ships.
- In March, 2017 President Trump noted that he planned to undertake a major expansion of the Navy fleet, including having the 12 aircraft carriers rather than the current 10. Nevertheless, it could take awhile to increase the size of the fleet. Example: the Gerald R. Ford
- Development of new types of frigates

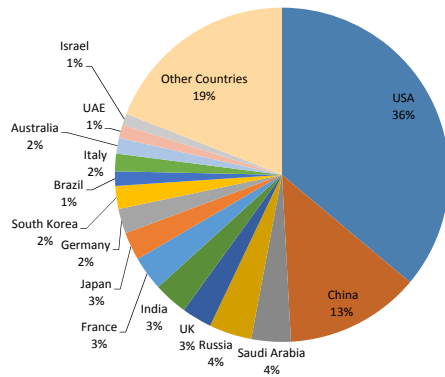
Global Defense Spending

Countries With the Highest Military Expenditures in 2016

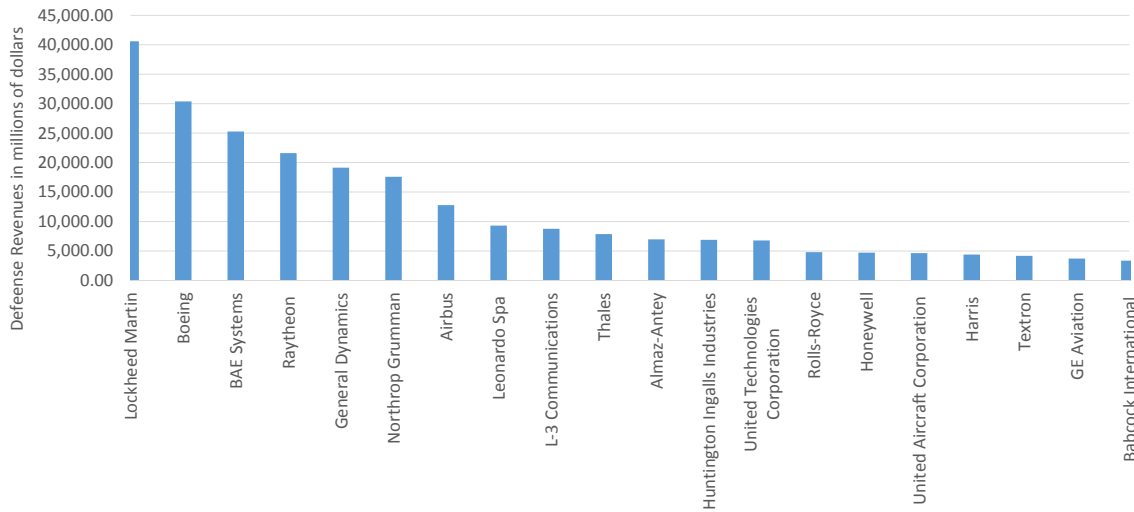


Global Defense Spending

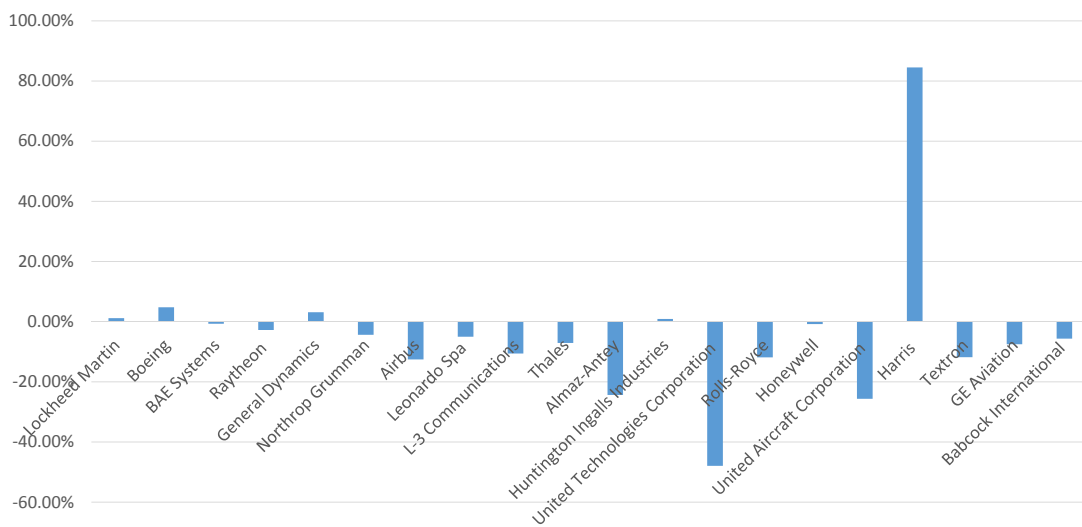
Share of Global Military Expenditures in 2016



Defense Revenues of Top 20 Global Defense Firms



Percent Change in Defense Revenue from Prior Year for the Top 20 Global Defense Firms



Conclusions

- US defense budget may increase, particularly in certain product areas, as national security challenges develop further
 - Will sequestration be lifted?
 - Implications for non-defense spending?
 - How much of continued national security concerns will be exhibited in overseas contingency operations funding?
- Continued national security concerns in Europe, which may lead to an increase in European defense budgets, despite overall budget constraints
- Firms in the global defense industry may focus on collaboration and diversification to hedge uncertainty in defense spending and associated product type.