# TOP DEFENSE CHARTS OF 2024

CLAIRVEST

If you are seeking an investment partner to help accelerate your strategic position, our track record of backing owner-operators is unparalleled. We would love to connect, whether to discuss potential collaborations or simply to chat about your priorities for 2025.

Below are some of the themes we are tracking for current and future investments. Feel free to reach out!

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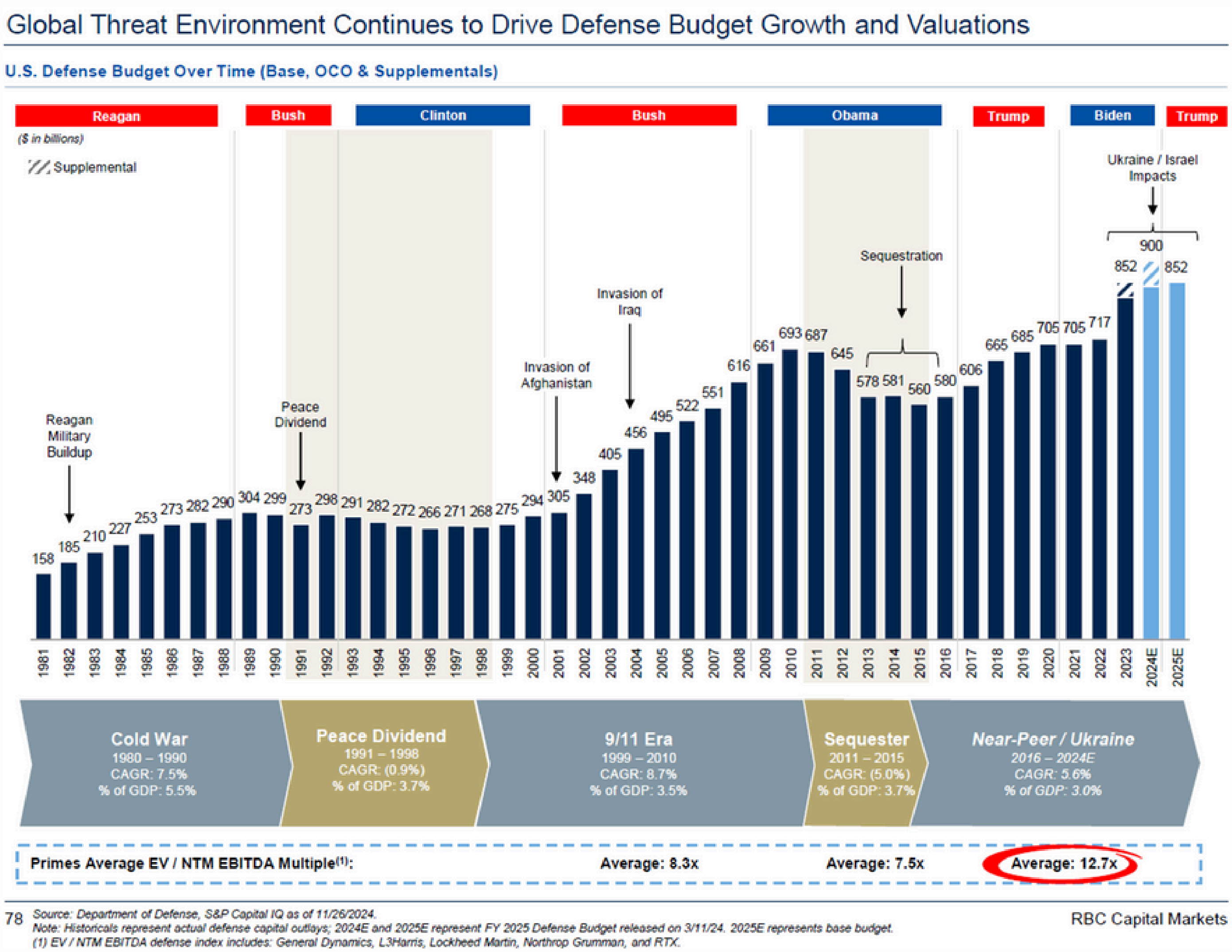
## *1. The global threat environment is intensifying leading to resilient defense budgets and valuation multiples.*




*Global Aerospace, Defense, and Government Services – State of the Union; RBC Capital Markets, LLC*

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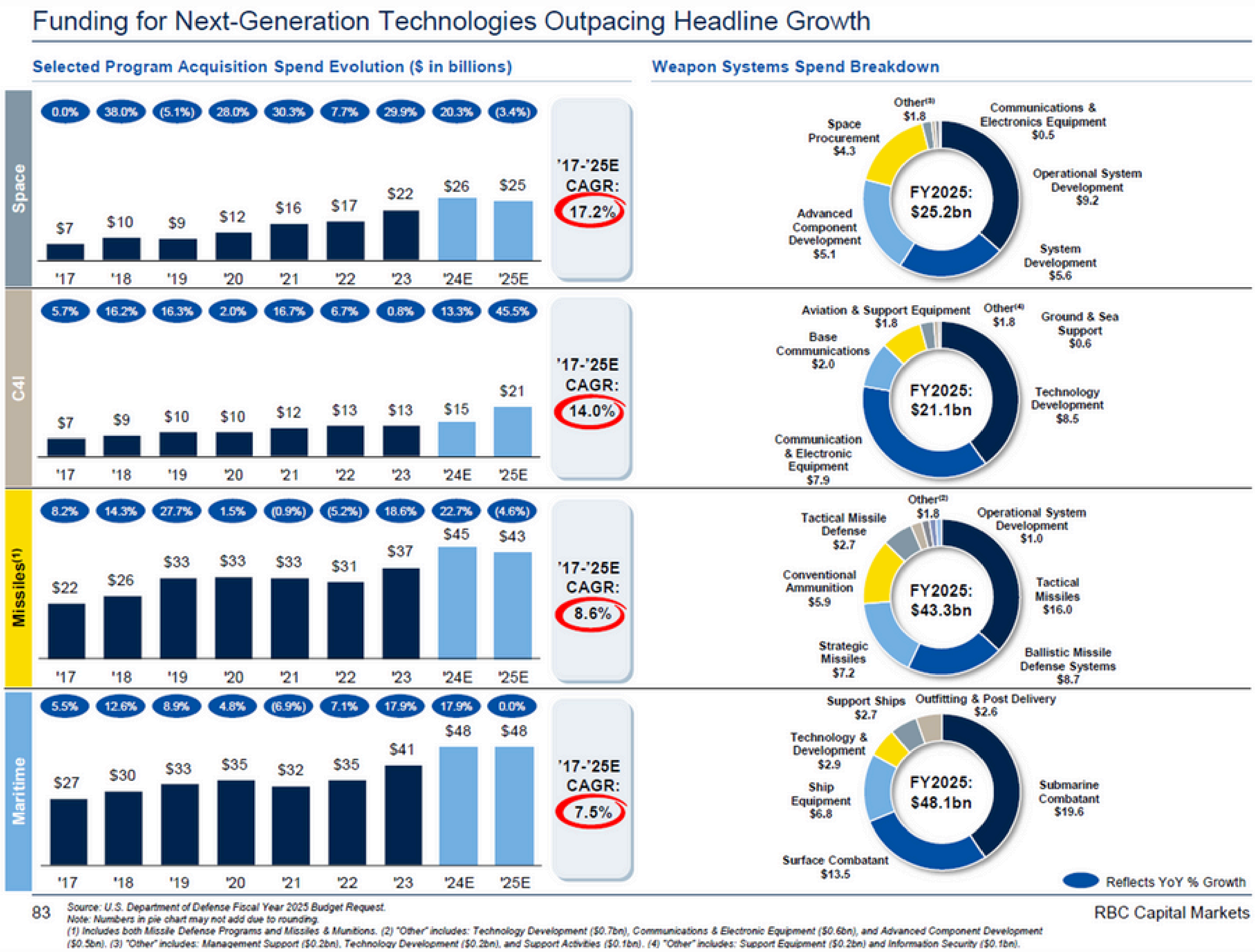
***2. Certain areas of spend are outpacing top line growth – space, missiles, C4ISR, and maritime are the winners. Pivoting into these capabilities is one of the strategies entrepreneurs are using to augment their enterprise values.***

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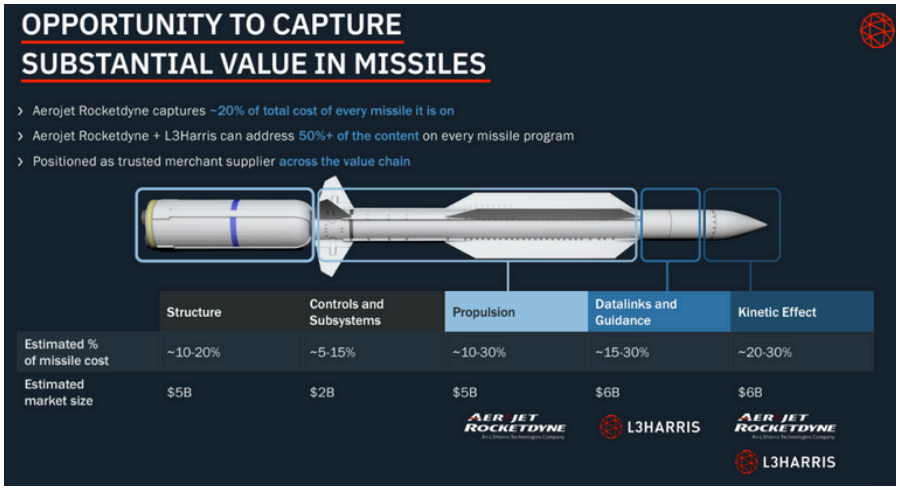
## *3. Consolidation amongst the large caps continues. With the L3/Aero merger, it now can control 50% or more of the content on any missile program.*




*L3Harris Investor Day Presentation.*

**Number of contractors per major weapons category**

| Weapons category | 1990 | 2020 | 2020 U.S.-based prime contractors |
|---|---|---|---|
| Tactical missiles | 13 | 3 | Boeing, Lockheed Martin, Raytheon Technologies |
| Fixed-wing aircraft | 8 | 3 | Boeing, Lockheed Martin, Northrop Grumman |
| Expendable launch vehicles | 6 | 2 | Boeing, Lockheed Martin |
| Satellites | 8 | 4 | Boeing, Hughes, Lockheed Martin, Northrop Grumman |
| Surface ships | 8 | 2 | General Dynamics, Huntington Ingalls |
| Tactical wheeled vehicles | 6 | 3 | AM General, General Motors, Oshkosh |
| Tracked combat vehicles | 3 | 1 | General Dynamics |
| Strategic missiles | 3 | 2 | Boeing, Lockheed Martin |
| Torpedoes | 3 | 2 | Lockkeed Martin, Raytheon Technologies |
| Rotary wing aircraft | 4 | 3 | Bell Textron, Boeing, Lockheed Martin (Sikorsky) |

Source: Department of Defense sourcing the Office of Commercial and Economic Analysis (OCEA)

B | Foreign Policy at BROOKINGS

*O'Hanlon, M. and Roch, A. (February 27, 2023). Strengthening America's defense industrial base. Brookings.*

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***4. Unmanned, unmanned, unmanned. Not only air. We show some of the larger maritime products.***


*H.I Sutton. (April 25, 2024). World Guide to Large Underwater Drones.*

***5. Missile Economics. The cost of attack is coming down with the use of unmanned munitions, with some reporting suggesting the Iranian Shahed drone costs $300-400k while many U.S. defensive missiles cost in the millions. How programs like the 'Replicator Initiative' will adapt to this new reality will be interesting to monitor.***

## The Insufficiency of the Cost Exchange Ratio

The "cost exchange ratio" framework is attractive because it is rooted in some truth: air and missile defense interceptors are relatively expensive. Budget documents for FY2024 suggest that U.S. defensive missiles are, overall, roughly twice as expensive as offensive missiles (see table below), when averaging all-up-round unit costs. Highly capable U.S. offensive missiles are also likely more expensive than less sophisticated missiles provided to the Houthis by Iran, though there is some evidence of underestimating the cost of these systems.

**Average Procurement Unit Cost of DoD Missiles, 2020–2024**

Then-Year Dollars, Thousands

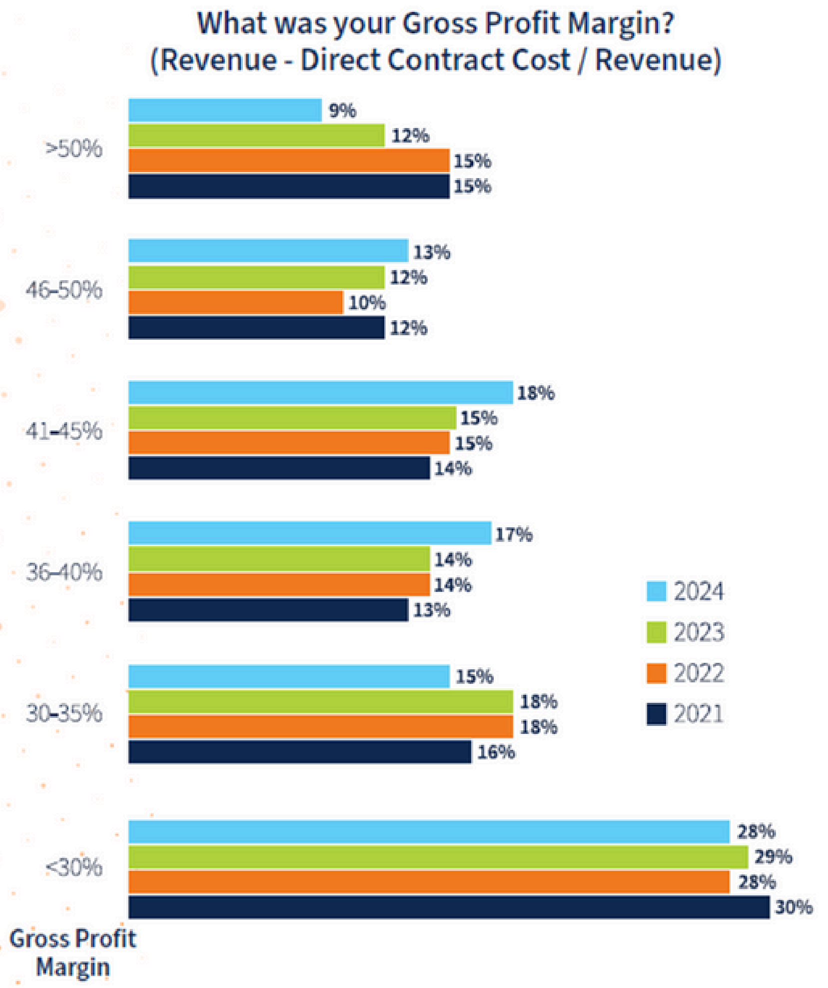
| Defense | Average Unit Cost |
|---|---|
| **Air Force** | |
| Advanced Medium-Range Air-to-Air Missile (AMRAAM) | $708 |
| Sidewinder | $394 |
| **Army** | |
| Indirect Fire Protection Capability (IFPC) | $520 |
| Patriot PAC-3 Missile Segment Enhancement (MSE) | $3,878 |
| **Missile Defense Agency** | |
| Standard Missile-3 (SM-3) | $15,102 |
| Terminal High Altitude Area Defense (THAAD) | $8,397 |
| **Navy** | |
| AMRAAM | $959 |
| Evolved Sea Sparrow Missile (ESSM) | $1,589 |
| Sidewinder | $422 |
| Standard Missile-2 (SM-2) | $2,204 |
| Standard Missile-6 (SM-6) | $4,308 |

*Rumbaugh, W. (February 13, 2024). Cost and Value in Air and Missile Defense Intercepts. Center for Strategic & International Studies.*

## *6. Government service companies continue to post steady gross profit margins (the profit on contracts excluding indirects) of 30-40%.*

### Gross profit margins hold more or less steady.

The last five years have seen no significant changes to gross profit margins The majority of firms—63%—are able to maintain gross profit margins between 30% and 50%; only a few outliers can achieve margins over 50%. The remainder of the respondents struggle to manage direct cost and see margins below 30%; firms that don't use AI are twice as likely to be in this category.

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*2024 GAUGE report: CohnReznik; Unanet.*

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## *7. While no company shows PWINs below 50%; in fact, companies with $50M of revenue and higher have showed an even distribution of win rates – about half have win rates below 50% on new proposals.*

### What is your actual proposal win rate and what do you project it to be in the next 12 months?
(by revenue and employee)

| | | 2024 Annual Revenue | | | | Employee Size | |
|---|---|---|---|---|---|---|---|
| | Total | $0 - <$10M | $10 - <$25M | $25 - <$50M | $50M+ | 1-99 | 100+ |
| **Actual Win Rate - Past 12 Months** | | | | | | | |
| 76-100% | 12% | 9% | 7% | 7% | 21% | 7% | 16% |
| 51-75% | 28% | 28% | 28% | 22% | 31% | 29% | 27% |
| 26-50% | 31% | 26% | 41% | 42% | 25% | 28% | 35% |
| 0-25% | 29% | 37% | 24% | 29% | 23% | 36% | 22% |
| **Projected Win Rate - Past 12 Months** | | | | | | | |
| 76-100% | 13% | 13% | 4% | 9% | 22% | 8% | 18% |
| 51-75% | 30% | 32% | 25% | 31% | 31% | 32% | 29% |
| 26-50% | 36% | 30% | 53% | 36% | 31% | 33% | 37% |
| 0-25% | 21% | 25% | 18% | 24% | 16% | 27% | 16% |

*2024 GAUGE report: CohnReznik; Unanet.*

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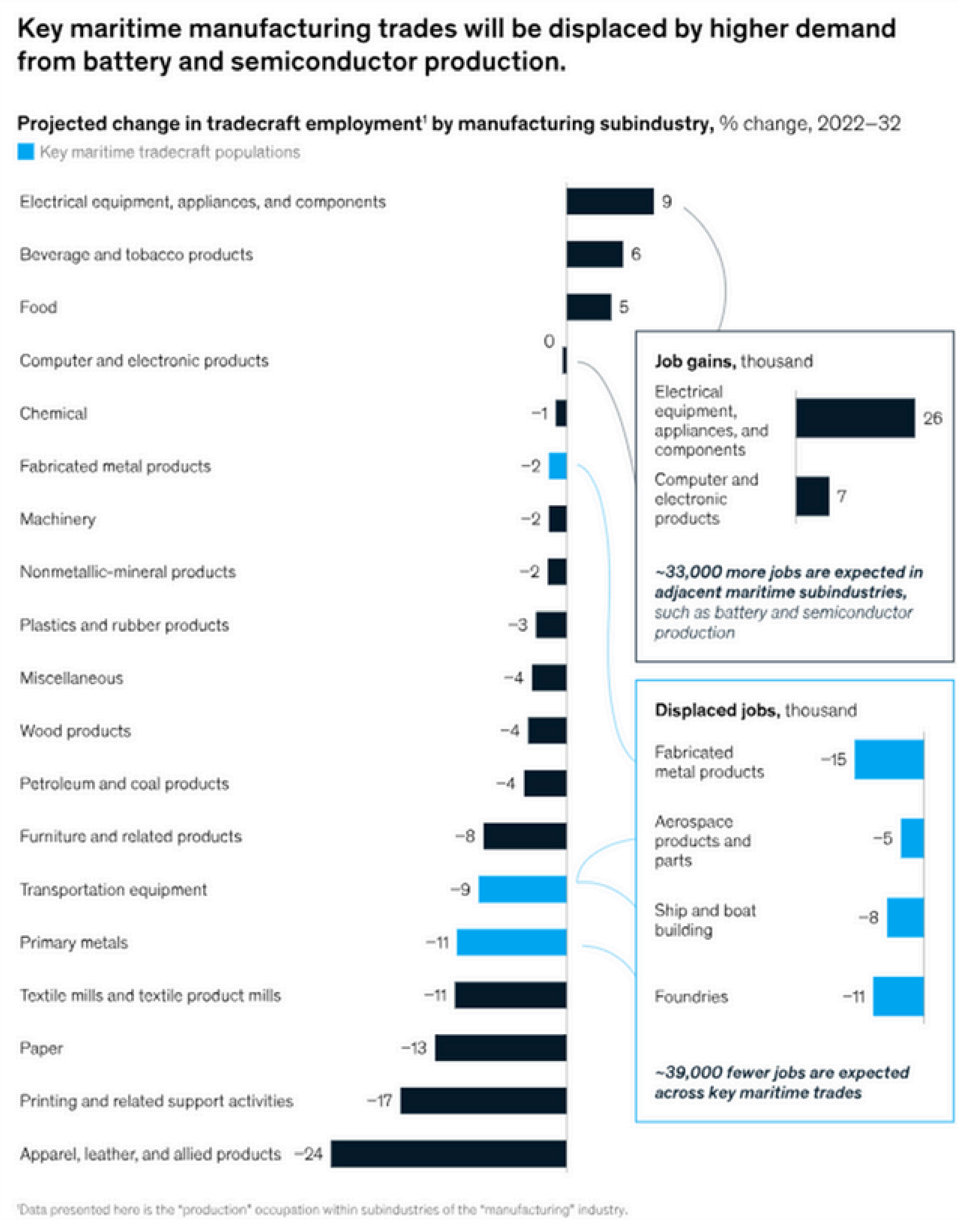
***8. Labour as an Asset. Since 1985, U.S. defense industry employment has declined by 2/3rds to 1.1 million. This trend is only expected to worsen with many key trades expecting declines.***




*Weddle, B. et al (June 5, 2024). Charting a new course: The untapped potential of American shipyards. McKinsey & Company.*