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**ANALYST QUICK NOTES**

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**Five Defense Stocks**
**John Eade**
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**Five Defense Stocks**

- President Trump is starting to talk budgets and spending, and appears to be focusing on borders and securities. In his first speech to Congress, he proposed a $54 billion increase to defense spending, offset by $54 billion in reductions to other areas. Even if he doesn't get all the funds he wants, the budget backdrop for the Defense and Aerospace companies is certainly more positive than it was during sequestration. Below are five BUY-rated companies in Aerospace & Defense that could benefit from increased defense spending:
    - Lockheed Martin Corp. (LMT: BUY): Lockheed has consistently surprised the Street in recent years, regardless of whether defense spending is rising or falling. We have a favorable view of the company's focus on international revenue diversification (now 25% of sales), and expect increased geopolitical tension to benefit sales and earnings going forward. The shares face ongoing headline risk, as the company's F-35 fighter jet program has been targeted by President Trump. But management has a history of managing through challenges. The company is mindful of shareholder returns and has raised the dividend at a double-digit rate for the past 14 years while aggressively buying back stock.
    - Northrop Grumman Corp. (NOC: BUY): Northrop Grumman is a leading global defense contractor with a focus on aerospace and, increasingly, electronic programs including cybersecurity. The company's balance sheet is clean, and management has a history of meeting and beating analyst expectations. Management is also aggressively repurchasing stock, with a clear focus on delivering returns to shareholders.
    - Raytheon Co. (RTN: BUY): We expect management's focus on its international and cybersecurity businesses to generate stronger growth over the next three to five years. RTN's business mix appears favorable compared to that of most defense industry peers, and given rising geopolitical threats, we like its emphasis on advanced missile defense, electronic warfare and cybersecurity systems. The company is also generating strong cash flow and aggressively returning cash to shareholders through increased dividends and share buybacks.

  - General Dynamics Corp. (GD: BUY): General Dynamics' diversified business mix is attractive compared to those of many peers, as a relatively low 60% of revenue comes from the U.S. government - thus reducing the company's exposure to the budget debates in Washington. Management is focused on driving growth through modest sales increases, margin improvement, and share buybacks, and has a history of delivering positive EPS surprises. The company is also aggressively returning cash to shareholders through increased dividends.
  - Boeing Co. (BA: BUY) Boeing is the largest aerospace and defense company in our coverage universe, and we believe that it has superior prospects due to its significant backlog and strong presence in the growing commercial aerospace industry. In the near term, the company is managing shifts in customer demand in order to prepare for stronger and more profitable growth in 2018 and beyond. At the same time, the management team is clearly focused on delivering strong shareholder returns and continues to boost the dividend and repurchase stock. We note that the shares are susceptible to headlines or presidential tweets about defense spending or trade with China. We would view any headline-related pullbacks as buying opportunities.
- For more information on these companies, please see our Analyst Reports on the website.

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