

Equities

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Jetting Into the Quarter: 1Q12 A&D Preview

Aero Gaining Steam, Defense is Steady as Sequester Looms

- **Top Picks heading into 1Q12** – We like Boeing (BA) in 1Q12 due to our expectation of a strong print helping reverse recent underperformance and relative multiple compression. We still think 2012 is the "Year of Boeing" due to strong order flow & production rate increases anchored by record backlogs. As a result, we're keeping **BA** on Citi's *Top Picks Live*. We also like **PCP** & **WAIR** this quarter based on what we expect will be positive commentary on commercial aero OE activity. On the defense side, we like **RTN's** & **GD's** discount valuation, undeserved in our view due to international exposure & potential re-rating (respectively).
- **Wichita tornados** – We consider the weekend's unfortunate & tragic tornados a short-term issue vs. a long-term problem for industry. As such, we recommend buying any dips. For more, see: [Wichita Tornados Temporarily Set Back Aero Suppliers](#).
- **Key Themes** – The following likely play an important role across 1Q12 A&D earnings: 1) Aero supply chain ramping to record levels; 2) Addressing concerns (unfounded, in our view) of a production bubble; 3) Defense companies beginning to plan for the sequester scenario; 4) Defense companies highlighting the benefits of CAS harmonization; 5) Cash deployment trends/priorities; 6) Bridging the gap between disparate bizjet production rate outlooks.
- **Estimate/PT Changes** – We've tweaked estimates & adjusted PTs across our coverage as we roll estimates forward a quarter & incorporate a lower market multiple.
- **A&D Earnings Preview Tool** – Company snapshots include earnings expectations, consensus views & valuation. Contact your Citi salesperson for an interactive copy.
- **Stock Selection** – We like BA/PCP/WAIR due to OE production exposure; RTN/LMT/NOC due to cash deployment & valuation; GD on its re-valuation potential; and HII as a turnaround story. Of our Neutrals: COL & TXT are better late cycle plays with exposure to smaller bizjets, while DGI appears fairly valued given the risks, in our view.

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Ticker	Rating		Target Price		Current Year Earnings Estimates		Next Year Earnings Estimates	
	Old	New	Old	New	Old	New	Old	New
BA	1	1	US\$87.00	US\$89.00	US\$4.54	US\$4.54	US\$5.77	US\$5.77
COL	2	2	US\$61.00	US\$63.00	US\$4.51	US\$4.51	US\$4.88	US\$4.88
DGI	2	2	US\$14.75	US\$14.75	US\$0.33	US\$0.33	US\$0.65	US\$0.65
GD	1	1	US\$88.00	US\$88.00	US\$7.25	US\$7.23	US\$7.71	US\$7.69
HII	1	1	US\$45.00	US\$46.00	US\$3.05	US\$3.05	US\$3.95	US\$3.95
LMT	1	1	US\$108.00	US\$108.00	US\$7.79	US\$7.85	US\$9.09	US\$9.09
NOC	1	1	US\$69.00	US\$69.00	US\$6.72	US\$6.71	US\$7.54	US\$7.54
PCP	1	1	US\$194.00	US\$199.00	US\$8.36	US\$8.37	US\$10.15	US\$10.15
RTN	1	1	US\$64.00	US\$64.00	US\$5.06	US\$5.06	US\$5.97	US\$5.97
TXT	2	2	US\$25.00	US\$25.00	US\$1.89	US\$1.88	US\$2.15	US\$2.15
WAIR	1H	1H	US\$17.00	US\$19.50	US\$1.07	US\$1.07	US\$1.20	US\$1.21

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Top Pick Update: "The Year of Boeing"

In our view, 2012 will be the "Year of Boeing" due to robust order, production, cash flow, and delivery dynamics. Our view is helped by the fact that the major labor risk for 2012 was taken off the table late last year.

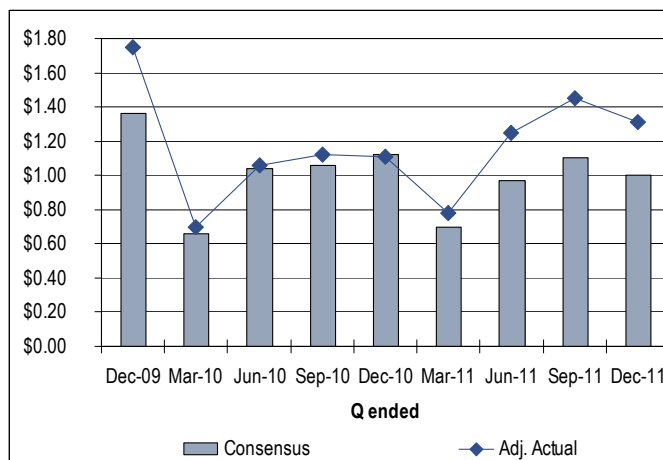
Annual guidance is typically conservative, as has been the case the last two years.

BA has admittedly disappointed YTD, underperforming the S&P 500 by ~1000 bps (stock has been flat YTD). We attribute this to: (1) Underwhelming CY12 EPS guidance issued back in January; (2) Negative 1Q headlines on 787 shimming issues; (3) Macro jitters driving market skepticism over planned production rate increases in light of a robust order environment; and (4) 737 pricing concerns in light of intense competition with Airbus and a perceived unwillingness of customers to buy an NG ahead of the MAX introduction. We respond to each issue below:

Expect Beat and Raises Throughout the Year

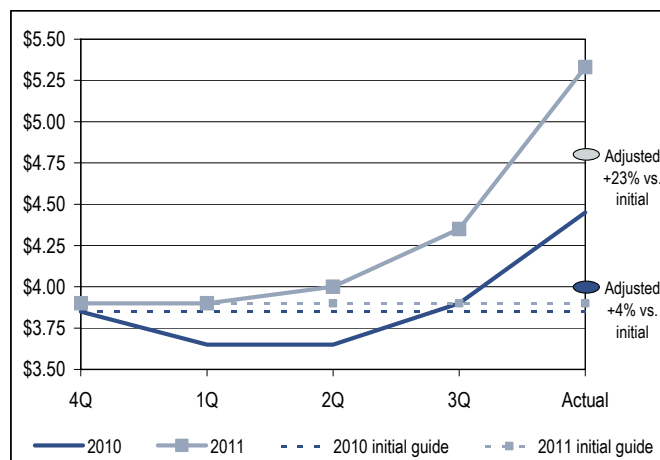
Boeing issues conservative guidance and has beaten consensus expectations the last nine quarters in a row (we note that headline 4Q10 EPS was a beat, but only met expectations when adjusted for tax gain). We expect the same dynamic in 2012. In a nutshell, the underwhelming guidance for 2012 issued back in January was extremely conservative and is likely raised throughout the year as the company retires risk on production rate ramps and executes well on fleet support for the 787.

Figure 1. Earnings Surprise (4Q09-4Q11)



Source: Citi Investment Research and Analysis, FactSet
Note: Adjustments impact 4Q10 & 4Q11 for tax gains (45c & 52c benefit, respectively)

Figure 2. FY EPS Guidance Trajectory



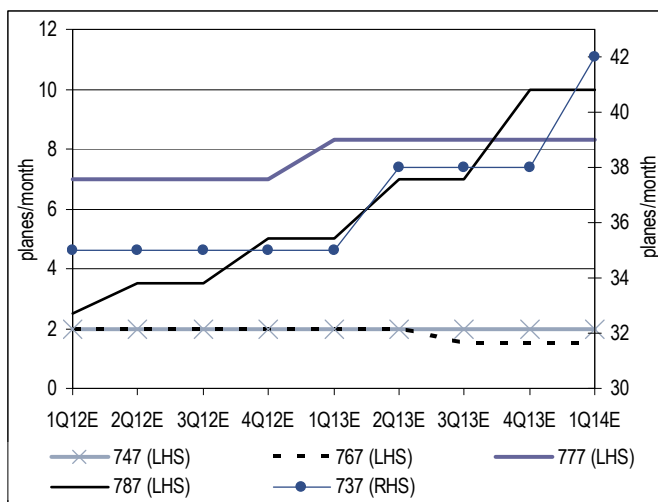
Source: Citi Investment Research and Analysis
Note: Adjusted EPS reflects tax gains/settlements

Boeing is boosting commercial production rates over the next couple years, with the most important ramp being the 787's looking to be on track.

787 Ramp on Track

Our checks with suppliers and with Boeing itself during the quarter suggest that the 787 production ramp is on track. As a reminder, the company expects to move from 2.5 planes a month to 3.5 in early 2Q, and to 5.0 a month by the end of the year. The end target remains 10 per month by the end of 2013. From what we gather, most suppliers are ready for 7 a month today and are currently facilitating for 10 per month. Furthermore, Boeing expects to be capacitized for 13 planes a month by mid-2012, when it expects to complete a surge line in Everett, WA. We expect company management to offer constructive commentary on the 787 during the earnings call – suggesting that they are garnering more confidence on the program with each passing day.

Figure 3. Boeing Production Rate Plans



Source: Citi Investment Research and Analysis

“Over Production” is a Fallacy

It's important to consider the source for the popular narrative that Boeing & Airbus are oversupplying the market: it's in lessors' best interest to argue for continued constrained supply.

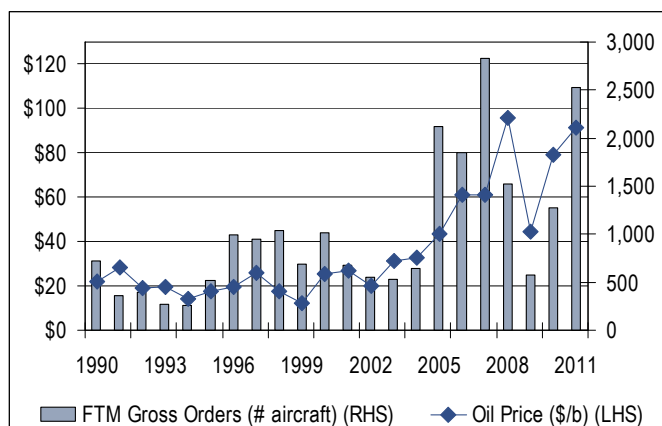
The market has recently become spooked by the notion that both Boeing and Airbus are getting set to over supply the market. This notion appears to have gotten started in large part by aircraft leasing executives, who seemingly appear to be given a bully pulpit each March to voice their opinions during an aircraft leasing conference in Arizona. In our view, it is important to consider the source. Aircraft lessors do better when the assets they are leasing are in scarcity. With Boeing and Airbus each getting set to increase production of newer and more fuel efficient planes, the notion of scarcity begins to erode for leasing companies holding older, less fuel efficient assets. In a nutshell, it is in the interests of the leasing companies to have Boeing and Airbus constrain supply, while it's in the interests of the OEMs to refresh their products and create demand for new planes. This is similar to a PC refresh cycle, or in the case of Apple, an iPhone or iPad product cycle.

High Fuel Prices Driving Demand

Range-bound oil prices contribute to airline demand for new planes.

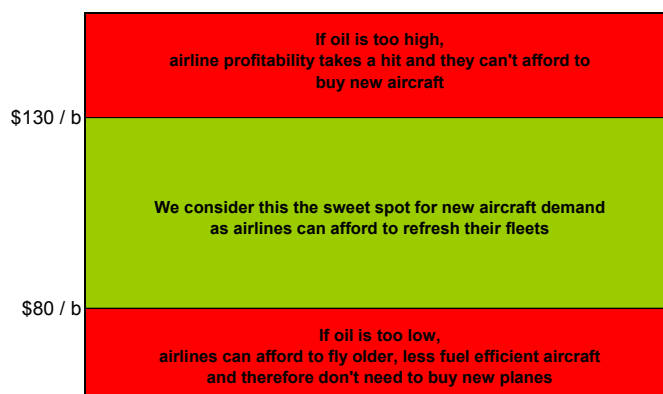
Airlines appear to be incented to buy new planes vs. flying older, less fuel efficient ones with the price of oil stuck between \$80 and \$130 per barrel. With oil below \$80, airlines can more profitably fly the older planes. With oil above \$130 they can't really afford to buy anything as profitability takes a hit. However, in the \$80 – 130 range, it seems they can't get their hands on new planes fast enough. The American Airlines bankruptcy is probably the best example of this, as a key strategic reason for entering into bankruptcy appears to have been the desire to jettison older, inefficient planes to make room for the purchase of new ones. In our view, this dynamic supports the order boom we've seen of late, and is supportive of airlines taking delivery of new planes over the next decade.

Figure 4. Oil Price vs. Gross Orders (1990-2011)



Source: Citi Investment Research and Analysis, FactSet, Ascend

Figure 5. Oil Price vs. New Aircraft Demand



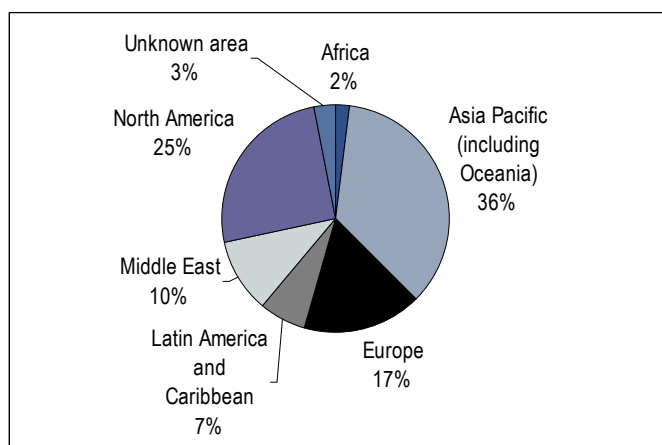
Source: Citi Investment Research and Analysis

Record backlogs are supportive of planned production rate increases.

Large Backlogs Supportive of Supply Increases

Boeing and Airbus backlogs are at their highest level (now stands at 8,500, 12% above 2008's previous peak) and are supportive of higher production rates. In fact, Boeing has recently suggested to us that their backlog would grow even further if airlines didn't mind putting orders in for planes that wouldn't deliver until 2020. However, it turns out the airlines do mind and they're pushing both OEMs to increase production rates so they can better manage their fleets. And again, demand remains robust because of the powerful combination of product cycles (737MAX, A320NEO, 787, A350, etc) and high oil prices.

Figure 6. Backlog Geographic Breakdown



Source: Citi Investment Research and Analysis

Figure 7. Boeing + Airbus Backlog Strength

Boeing		Deliveries			Yrs in current backlog	2012E-14E Delivery CAGR
	Backlog (#)	2012E	2013E	2014E		
737	2,672	415	443	488	4.8	8%
747	91	36	24	24	2.5	(18%)
767	69	24	21	18	2.7	(13%)
777	363	84	100	100	3.0	9%
787	871	41	85	125	7.2	75%
Total	4,066	600	673	755		12%

Airbus		Deliveries			Yrs in current backlog	2012E-14E Delivery CAGR
	Backlog (#)	2012E	2013E	2014E		
A320	3,344	452	475	497	6.0	5%
A330	333	91	101	109	2.5	9%
A350	555	0	0	10	TBD	NA
A380	181	30	35	40	4.3	15%
Total	4,413	573	611	656		7%

Source: Citi Investment Research and Analysis, Ascend

Boeing has been careful to manage delivery slots by double-booking in case certain orders don't come through.

Pricing pressure on the 737 should not be a surprise given the MAX intro and the competitive market. However, we expect efficiency gains to largely offset pricing pressure.

In our view, Boeing is only in the early stages of a significant up-cycle.

We consider CAS an underappreciated part of the Boeing story and could lend support commercial margins that are set to some pressure from new platforms.

Defense isn't as much of a drag as the market might think thanks to the Saudi order & the potential for increased F/A-18 demand due to F-35 delays.

Double Booking of Delivery Slots Offers Protection

Boeing has been double booking delivery slots as a strategy to lessen the risk of a plane going without a customer ready to take immediate delivery. This strategy worked well during the "Great Recession", as production rates remained stable on narrow-body planes and declined only modestly for the wide-bodies. We believe BA remains aggressive in managing its backlog and that it has a much better sense of the "real" nature of demand than do aircraft leasing executives – who again would prefer that the OEMs constrain supply and create a scarcity value for their older, less fuel efficient assets.

737 Pricing is a Known and Should Not be a Concern

There have been some recent reports and concerns that 737 pricing is coming under pressure and that this may be a sign of either weakening demand or potential margin pressure going forward. In our view, this is not a new topic, and Boeing itself has been very transparent about it. In fact, such a dynamic should not be a surprise to anyone. The pricing of the 737NG is bound to come under pressure given the introduction of the 737MAX. And pricing on the first few orders of the MAX is likely going to be competitive given that at this point it is a "paper plane" competing against another "paper plane" (the NEO). What we do know at this point, is that Boeing appears comfortable with the pricing of its accounting block and that historic efficiencies gains, which they expect to also garner going forward, will offset the pressure they are seeing on 737 pricing. This should allow for margin rates on this plane to remain stable for the foreseeable future.

Summary of our "Year of Boeing" Call

In our view, Boeing is only in the early stages of a significant up-cycle as we consider 2012 to be the "Year of Boeing" as order, production, cash, and delivery trends move in the company's direction. This is in line with our global aerospace industry view that the recovery cycle is heading strongly into Phase 2 in which OEs benefit from increased production rates. We expect ~1,200 commercial orders (driven largely by 737 MAX and 777) and a book-to-bill north of 2x. Cash flow improves as production rates increase, as the 787 inventory becomes less of a headwind and as R&D releases, together giving Boeing more opportunity for shareholder friendly cash deployment. We also consider Boeing's Commercial Aviation Services (CAS) to be underappreciated given its steady growth and strong margins. Also, we do not expect Boeing's defense business to be as much of a drag as the market might anticipate given steady international demand underpinned by a ~\$30b Saudi order for F-15s and Apaches, and continued domestic demand for F/A-18 (due to F-35 delays). Plus, the major labor risk for 2012 is off the table following late 2011's labor agreement.

We're keeping BA on Top Picks Live (we first added it on January 6 as a 12-month call) due to our positive stance on BA shares heading into this cyclical recovery in commercial aero. The strongest driver for earnings and cash over the year, in our view, will be production rate increases which we consider to be well-supported by record backlogs. Major catalysts include 737 MAX orders (bringing BA backlog into parity with Airbus), 787 production ramps, and international fighter jet wins.

■ Key Investment Points for 2012:

- **Stock Likely Follows Orders.** Boeing's stock performance has historically been closely correlated to orders, and in 2012 we expect the company to garner over 1,200 orders for a book-to-bill of roughly 2x. The last time the company had a book to bill this high was in 2005, and its stock was up 35% vs. the market up < 5%.

The 787 design phase is behind us, and we're now at the point where Boeing is doing what Boeing does best: crank out planes based on a locked-down design. In our view, valuation should be rewarded once investors get comfortable with this idea.

As working capital releases due to new program deliveries, we expect Boeing to generate ~\$8 per share of FCF in 2014E, representing 11% yield at current levels. We expect a majority of this cash to come back to s/h.

- **Improving Sentiment on 787 Should Support Valuation.** We expect sentiment on the 787 program to improve during the year as the company executes on its production rate ramp – and this should help consolidate valuation on the stock at least at its current level of 15x forward earnings. We saw the line last November (see: [From Slick Seattle to Dry Dubai...it's all Good for Boeing](#)), we've pulsed the supply chain, and we've come away with increased confidence in the ramp. In our view, this airplane is accelerating into the sweet spot of its life cycle: full rate production on a design that has been locked down.
- **Cash Generation to Improve; Higher Dividends and Share Repos Likely.** Boeing's free cash flow story is going to begin cranking up during 2012, and with it comes the potential for higher dividends and share repurchases. The company has been building inventory on the 747 and 787 development programs over the past several years and has been generating paltry levels of cash as a result. Now that these programs are winding down, R&D levels should unwind and working capital headwinds will dissipate. At this point, we expect the company to generate ~\$8 in FCF by 2014E, representing ~11% yield at current share levels. And at this point we expect that this money is going to largely come back to shareholders, along with pension funding.

■ **Potential Catalysts:**

- **Air Shows throughout the year**, including Singapore in February and Farnborough in July. We expect lots of orders out of these shows.
- **Production ramps on the 787**, which are scheduled for the middle and the end of the year. Boeing is officially at 2.5/month, but has started to build at 3.5 (the first off the line at the new rate likely comes off the line in May).
- **Potential defense wins** during the year in Brazil, Qatar, Korea, and UAE, as well as the potential for increased domestic F/A-18 orders (due to F-35 delays) which would keep the line open beyond current plans.

Summary 1Q12 Expectations

Going into the quarter, we have a **positive bias** on BA and PCP.

- We expect **BA** (April 25) to beat expectations & have positive commentary on 787 production rates and interest in 737. While the company could lay off previous language indicating > 1x book-to-bill in 2013, we expect it to at least re-iterate the coming production rate increases as well as annual guidance.
- **PCP** (date TBD) has disappointed lately as the market likely got over its skis on the aerospace ramp (especially 787 fasteners). The significant 787 impacts are likely still some quarters off, but we expect more attention on energy (22% sales) given recent wins, acquisitions, and cheap natural gas.
- We continue to like **RTN** (April 26) as a relatively inexpensive defense name with strong international content and a flexible balance sheet. Orders and sales could be slow early-on this year, but we expect margins to compensate.
- The **GD** (April 25) story improves as G650 EIS approaches, which drives Gulfstream's contribution to earnings above 30% in 2014E. We see a potential re-rating as this narrative comes into view.

Upcoming Quarter Sales Commentary

HII: It's admittedly tough to forecast lumpy shipbuilding sales, but we prefer to stay conservative given budgets.

RTN:

We've back-loaded our sales more than usual given the spending environment. This is line w/ recent defense company behavior of missing sales expectations.

Figure 8. Citi Revenue Estimates vs. Consensus

	Citi Revenue Est.			Consensus Revenue Est.		
	This Quarter	Current FY	Next FY	This Quarter	Current FY	Next FY
Boeing	\$18,312	\$79,287	\$86,191	\$18,385	\$79,054	\$85,396
DigitalGlobe	\$83	\$363	\$390	\$84	\$372	\$406
General Dynamics	\$7,865	\$33,030	\$33,504	\$7,915	\$33,177	\$33,350
Huntington	\$1,604	\$6,557	\$6,428	\$1,662	\$6,597	\$6,581
Lockheed Martin	\$10,614	\$45,570	\$45,968	\$10,558	\$45,616	\$45,074
Northrop Corp	\$6,154	\$25,147	\$25,089	\$6,265	\$25,074	\$24,653
Precision Cast	\$1,903	\$8,403	\$9,469	\$1,941	\$8,342	\$9,337
Raytheon	\$5,634	\$24,325	\$24,439	\$5,775	\$24,512	\$24,127
Rockwell Collins	\$1,172	\$4,932	\$5,082	\$1,179	\$4,945	\$5,181
Textron Inc	\$2,710	\$12,421	\$13,019	\$2,703	\$12,346	\$12,993
Wesco Aircraft	\$191	\$787	\$835	\$192	\$785	\$891
Green = at least 2% above Street			Red = at least 2% below Street			

Source: Citi Investment Research and Analysis, Thomson
Note: PCP annuals are for FY13 & FY14

Upcoming Quarter EPS Commentary

BA: Better commercial margin & more resilient defense expectations.

HII: Conservative Newport margins due to mix & typical seasonality (starts year slow).

TXT: Conservative Cessna margins & more dilution from the convertible due to higher stock price this Q.

Figure 9. Citi EPS Estimates vs. Consensus

	Citi EPS Est.			Consensus EPS Est.		
	This Quarter	Current FY	Next FY	This Quarter	Current FY	Next FY
Boeing	\$1.00	\$4.54	\$5.77	\$0.93	\$4.47	\$5.66
DigitalGlobe	\$0.00	\$0.33	\$0.65	\$0.01	\$0.47	\$0.87
General Dynamics	\$1.70	\$7.23	\$7.69	\$1.70	\$7.32	\$7.70
Huntington	\$0.62	\$3.05	\$3.95	\$0.69	\$2.99	\$3.94
Lockheed Martin	\$1.69	\$7.85	\$9.09	\$1.70	\$7.88	\$8.50
Northrop Corp	\$1.61	\$6.71	\$7.54	\$1.59	\$6.57	\$6.78
Precision Cast	\$2.25	\$10.15	\$11.68	\$2.26	\$10.03	\$11.51
Raytheon	\$1.14	\$5.06	\$5.97	\$1.16	\$5.06	\$5.57
Rockwell Collins	\$1.09	\$4.51	\$4.88	\$1.09	\$4.48	\$5.03
Textron Inc	\$0.30	\$1.88	\$2.15	\$0.36	\$1.91	\$2.28
Wesco Aircraft	\$0.26	\$1.07	\$1.21	\$0.26	\$1.06	\$1.25
Green = at least 2% above Street			Red = at least 2% below Street			

Source: Citi Investment Research and Analysis, Thomson
Note: PCP annuals are for FY13 & FY14

Themes to Watch

We will be focused on the following key themes during April's reporting season:

1. Aero supply chains

With production rates heading to historic highs, there has long been concern that the supply chain will not be able to keep up. Our channel checks this quarter indicate that the supply chain is primed for the coming ramps having put the necessary capacity in place (in some cases, this was achieved years ago). Still, we'll be listening closely to make sure that the supply chain and the OEs are comfortable with the logistics behind ramping to record rates. For more, see our read-out from our LA bus tour: [Ramp-Ready - LA tour reveals aero suppliers ready for production rate ramps](#).

2. Production bubble?

A favorite media narrative of late has been that there's a production bubble based on an overly frothy order market. The narrative has, in part, been stoked by leasing companies looking to support their lease rates and asset values. While there will likely be cancellations from overly ambitious airlines, record backlogs (6-7 years of production) and smart delivery slot management (i.e. overbooking) helps anchor planned rate increases. We addressed this backlog buffer in our year-end weekly: [Happy 2008! The Backlog Backstop in 2007 vs. 2011](#).

3. Planning for "doomsday" aka the sequester

They might have changed since our February DC bus tour which revealed that companies for the most part were doing precious little in anticipation of the unknowable impact of a sequester (see: [Defending Against the Unknown - Citi's DC bus tour explores decision-making in uncertain times](#)). However, DoD has indicated over the past month that it will start drawing up contingency plans this summer should Congress allow the full sequester to go into effect as written (despite both parties looking for ways to avoid this scenario). With the DoD now starting to plan for what SecDef Panetta has previously referred to as "doomsday," defense companies may begin to follow suit.

4. Defense pensions

We don't expect the numbers to change, but earnings season is an opportunity for defense companies to reiterate the positive implications of the CAS harmonization ruling from late 2011. As time progresses, we expect analysts and investors to better digest the implications of harmonization, which involve better cash flow and earnings. For more on the ruling, see: [FAS/CAS – Why You Should Care](#). As a result of the ruling, we changed our defense valuation methodology to base our targets on adjusted EPS (exclude pension impacts) due to our view that the more "normalized" earnings stream is ex-pension now that harmonization is on the books. For more, see: [A New Look at Defense Valuation](#).

5. Defense cash deployment

Defense companies are still under-levered by historical standards at 0.3x net debt to EBITDA and we see resilient cash generation implying the need for further leveraged buybacks. We also see defense companies returning at least 50% of OCF to shareholders over the coming years. For more, see p. 18-19 and 31-34 of our industry overview: [Emerging Themes and Trends](#).

6. Bizjet production rates

There has been some disagreement over the last few months regarding the direction of bizjet production rates. While new platforms certainly represent y/y growth, we do not believe every OE expects to grow production rates this year given persistently empty delivery slots and stubborn used inventories. Some companies (including COL) have indicated broad production rate increases in 2012, while others (most of the OEs) highlight that their rate plans are still uncertain. We will be listening out for whether any market participants change their tune, especially with regard to the small cabins which continue to see the most pressure.

Earnings Preview Cheat Sheets

Figure 10. BA Earnings Preview Sheet

Citi Investment Research & Analysis

Boeing Earnings Preview

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4/15/2012

Boeing

Ticker	BA
Rating	Buy
Risk	N/A
Target Price	\$89.00
Dividend Yield	2.4%
Expected Total Return	24.4%

Expectations

We're above the Street as we expect a robust commercial biz including 30 bps of q/q commercial margin expansion on better mix: 737 volumes picked up by 8 while 747 volumes dipped by 3 in the Q. We note that there could also be upside in BDS as we're conservatively modeling for 140 bps of sequential margin contraction. Note: we could see a ~\$0.22 EPS charge related to the A-12 case that is still hung up in the US legal system.

Key Issues for the Quarter

1) Impact of Wichita tornados; 2) Delivery guidance (now 585-600) including 787 / 747-8 targets (now 70-85, split evenly); 3) Order expectations after some slow down recently (2012 is likely propped up by MAX orders converting, but Albaugh recently sounded uncertain about his preview b2b target of > 1x in 2013); 4) 787 status, especially production ramp, change incorp, working capital & inventory release; 5) 747-8 status including demand; 6) Potential for new 777?; 7) MAX engineering status & 737 pricing; 8) Increase for 767 line?; 9) Cash flow update; 10) Saudi F-15 specifics including timing & CF impact; 11) Impact of C-130 AMP cancellation.

Expected Guidance

We expect BA to maintain 2012 guidance issued in conjunction w/ 4Q11. However, if there was a downward revision it would come from reduced 787 delivery expectations (although the company has said it has the shim fix well in hand) or a reduced defense outlook now that the FY13 budget has been proposed (although defense companies often don't try to front-run the budgetary process).

Our Investment Thesis

We consider 2012 to be the "Year of Boeing" driven by strong backlogs & order trends. Earnings visibility is further improved by planned production rate increases on profitable aircraft (737 & 777), offset by the dilutive new platforms (787 & 747) delivering in greater #s. Improved CF visibility is due to the wind-down of new development programs, which we believe will release working capital and support positive cash flow dynamics through 2012. Meanwhile, in our view BA's defense business is resilient due to in-demand helo platforms, a tanker program positioned to see decades of sales, and strong international positioning.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	14,910.0	19,555.0	18,312.0	23%
y/y growth	(2.0%)	18.2%	22.8%	
Consensus Revenue (mean)			18,385	
y/y growth			23.3%	
Operating Income	1,000.0	1,597.0	1,270.4	27%
y/y growth	(15%)	44.8%	27.0%	
Operating Margin	6.7%	8.2%	6.9%	23 bps
Segment Profit				
Boeing Commercial Airplanes	509.0	981.0	1,017.6	100%
Boeing Military Aircraft	369.0	374.0	330.5	(10%)
Network & Space Systems	143.0	170.0	132.2	(8%)
Global Services & Support	159.0	321.0	191.6	21%
Boeing Capital Corp.	52.0	(8.0)	32.5	(38%)
Other	(22.0)	43.0	(46.5)	111%
Interest Expense	(130.0)	(124.0)	(120.7)	-7%
Pretax Income	883.0	1,444.0	1,167.7	32%
Tax Rate	33.5%	3.9%	35.0%	155 bps
Net Income	587.6	1,387.0	759.0	29%
Diluted Shares	749.0	757.1	757.1	1%
Diluted EPS	\$0.78	\$1.83	\$1.00	28%
Guidance			n/a	
			*Implied guidance	
Consensus EPS (mean)			\$0.93	
Street High Estimate			\$1.10	
Street Low Estimate			\$0.74	

Conference Call Logistics

Earnings Date	4/25/2012
Conference Call Time	10:30 AM ET
Dial in Number	612-288-0340
Passcode	Boeing

Stock Set-up

Avg. Stock Impact Last Ten Earnings	1.4%
3-Month Performance:	
Absolute	(2.3%)
vs. S&P500	(850) bps
Short Interest (Days to Cover):	
Current	1.8
3-Mo. Average	2.6
Analyst Sentiment:	
Buy	65%
Hold	31%
Sell	4%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.00	\$1.83	0.6%
09/30/2011	\$1.10	\$1.45	4.5%
06/30/2011	\$0.97	\$1.25	0.7%
03/31/2011	\$0.70	\$0.78	0.8%

Valuation Summary

Price/Earnings	
FTM	15.2x
2013E	12.9x
2014E	11.1x
P/E vs. S&P 500 (premium/discount)	
FTM	19.1%
2013E	7.8%
EV/EBITDA	7.7x

Note: Valuation based on Apr 15, 2012 price of \$72.92

	Q2 2012E	2012E	2013E
	19,524.5	79,287.0	86,190.9
	18.0%	15.4%	8.7%
	19,343	79,054	85,396
			8.0%
	1,417.8	5,700.9	7,069.5
	-7.6%	-2.5%	24.0%
	7.3%	7.2%	8.2%
	1,127.3	4,550.2	5,742.2
	346.5	1,383.9	1,586.4
	134.2	526.7	533.2
	211.3	846.1	863.8
	32.5	129.9	129.9
	(46.5)	(186.0)	(186.0)
	(119.8)	(479.0)	(468.0)
	1,315.9	5,293.9	6,673.5
	35.0%	35.0%	35.0%
	855.4	3,441.0	4,337.8
	757.1	757.1	752.1
	\$1.13	\$4.54	\$5.77
		\$4.05 - 4.25	
	\$1.08	\$4.47	\$5.66
	\$1.18	\$5.10	\$6.31
	\$0.85	\$4.07	\$4.49

Source: Citi Investment Research and Analysis, Factset, Bloomberg, Company Reports

Figure 11. DGI Earnings Preview Sheet

Citi Investment Research & Analysis

DigitalGlobe Earnings Preview

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Jonathan Raviv

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4/15/2012

DigitalGlobe

Ticker	DGI
Rating	Neutral
Risk	N/A
Target Price	\$14.75
Dividend Yield	-
Expected Total Return	16.8%

Expectations

We're in line w/ the Street for 1Q12 which we expect to break even as COGS spending remains elevated as DGI plans to deploy 3 more RGTs this year.

Key Issues for the Quarter

1) Status of EV discussions w/ NGA given that uncertainty around the contract has driven recent underperformance; 2) Update on DAP customers given new focus on steadier government revenue streams; 3) Backlog status; 4) M&A pipeline; 5) New commercial product signings including impact of recently announced Baidu.com multi-year deal (we suspect this was built into expectations already); 6) Update on work to improve internal control over financial reporting.

Expected Guidance

We expect DGI to reiterate 4Q11 guidance with potential movement coming mainly from the resolution of the EV study which is expected to report out in April/May. We still expect COGS to outgrow sales this year due to 3 new RGTs coming online, but then begin to fall in the out-years as DGI monetizes those assets.

Our Investment Thesis

We believe that current valuation fairly reflects puts and takes associated with DGI. The high-visibility government business is offset by fuzzier commercial and enterprise-based opportunities, although the govt. contract was received some scrutiny of late. We would become more positive if the commercial business develops new markets and/or products allowing for better secular growth. We would become more negative if the EV contract were significantly reduced, if commercial development costs more than expected, or if DGI lost operational capabilities of any of its satellites.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	77.4	97.7	82.9	7%
y/y growth	0.1%	16.7%	7.1%	
Consensus Revenue (mean)			84	
y/y growth			8.1%	
Operating Income	4.9	15.3	3.3	(32%)
y/y growth	(62%)	34.2%	-32.4%	
Operating Margin	6.3%	15.7%	4.0%	(234 bps)
Segment Profit				
Commercial	3.2	11.8	4.6	42%
Defense & Intel	32.1	41.2	33.5	4%

Interest Expense	(7.9)	(4.0)	(3.0)	-62%
Pretax Income	(2.9)	11.3	0.3	NM
Tax Rate	NA	57.5%	42.0%	NA
Net Income	(1.4)	4.8	0.2	NM

Diluted Shares	46.1	46.0	47.0	2%
Diluted EPS	(\$0.03)	\$0.10	\$0.00	NM
Guidance			n/a	

*Implied guidance

Consensus EPS (mean)

Street High Estimate	\$0.01
Street Low Estimate	(\$0.08)

Conference Call Logistics

Earnings Date	TBD
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.7%)
3-Month Performance:	
Absolute	(23.2%)
vs. S&P500	(2,950) bps
Short Interest (Days to Cover):	
Current	3.9
3-Mo. Average	5.7
Analyst Sentiment:	
Buy	71%
Hold	14%
Sell	14%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.12	\$0.10	(15.7%)
09/30/2011	\$0.06	\$0.02	0.1%
06/30/2011	(\$0.03)	(\$0.01)	8.6%
03/31/2011	(\$0.02)	(\$0.02)	(10.1%)

Valuation Summary

Price/Earnings	
FTM	20.6x
2013E	14.4x
2014E	13.2x
P/E vs. S&P 500 (premium/discount)	
FTM	61.8%
2013E	20.1%
EV/EBITDA	6.0x

Note: Valuation based on Apr 15, 2012 price of \$12.63

	Q2 2012E	2012E	2013E
Revenue	87.2	363.0	389.7
y/y growth	5.7%	6.9%	7.3%
Consensus Revenue (mean)	90	372	406
y/y growth			9.2%
Operating Income	6.1	33.9	52.4
y/y growth	64.9%	23.8%	54.3%
Operating Margin	7.0%	9.3%	13.4%
Segment Profit			
Commercial	7.6	33.3	41.6
Defense & Intel	34.0	144.9	159.9
Interest Expense	(2.0)	(7.8)	(1.3)
Pretax Income	4.1	26.2	51.1
Tax Rate	41.0%	40.3%	40.0%
Net Income	2.4	15.6	30.7
Diluted Shares	47.0	47.0	47.0
Diluted EPS	\$0.05	\$0.33	\$0.65
Guidance		n/a	
Consensus EPS (mean)	\$0.08	\$0.47	\$0.87
Street High Estimate	\$0.12	\$0.86	\$1.31
Street Low Estimate	\$0.04	\$0.32	\$0.42

Conference Call Logistics

Earnings Date	TBD
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.7%)
3-Month Performance:	
Absolute	(23.2%)
vs. S&P500	(2,950) bps
Short Interest (Days to Cover):	
Current	3.9
3-Mo. Average	5.7
Analyst Sentiment:	
Buy	71%
Hold	14%
Sell	14%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.12	\$0.10	(15.7%)
09/30/2011	\$0.06	\$0.02	0.1%
06/30/2011	(\$0.03)	(\$0.01)	8.6%
03/31/2011	(\$0.02)	(\$0.02)	(10.1%)

Valuation Summary

Price/Earnings	
FTM	20.6x
2013E	14.4x
2014E	13.2x
P/E vs. S&P 500 (premium/discount)	
FTM	61.8%
2013E	20.1%
EV/EBITDA	6.0x

Note: Valuation based on Apr 15, 2012 price of \$12.63

Figure 12. GD Earnings Preview Sheet

Citi Investment Research & Analysis

General Dynamics Earnings Preview

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Jonathan Raviv

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4/15/2012

General Dynamics

Ticker	GD
Rating	Buy
Risk	N/A
Target Price	\$88.00
Dividend Yield	3.0%
Expected Total Return	30.5%

Expectations

We're just below the Street likely due to our more conservative assumptions for the IS&T business which appears to have been gummed up by the sequester overhang (short cycle businesses typically suffer the most in pressured fiscal environments). We would not be surprised if GD missed on IS&T sales but beat on total segment margin due to IS&T's dilutive margins (vs. the other segments). This would be in line with what GD has done over several recent earnings seasons: miss on sales but beat on margins.

Key Issues for the Quarter

1) Updates on Stryker (potential \$5b sole source) & M1 (need \$ to avoid line break); 2) Recent FBO purchase (helps Gulfstream China presence); 3) Progress @ Jet Aviation; 4) G650 update & EIS (scheduled for mid-year) in light of mild software concerns; 5) G280 & mid-cabin mkt improve updates; 6) IS&T guidance (currently flat in 2012) could be weaker due to gummed up system & 2H-load could create slips; 7) Update on DDG-51 MYP (could be increased to 10?); 8) WIN-T & JTRS HMS updates; 9) Impact of 2-yr SSBN(X) delay; 10) Cash deployment & M&A/divestiture targets?; 11) New Combat Systems opportunities.

Expected Guidance

Guidance is typically only discussed on the call (as opposed to being in the press release...). We see potential downside in the IS&T guidance of flat sales, although the EPS impact could be offset by better than expected margins. Still, GD has been reiterating its guidance over the last month at various sell-side events so we do not expect the company to attempt to front-run budget deliberations that are still yet to take place.

Our Investment Thesis

Gulfstream's spot at the top of the bizjet market makes GD unique as the segment is likely to snap back faster than the broader bizjet space. We expect the G650 EIS in 2Q12 to create earnings visibility, reinforced by a strong order book. We are less positive on GD's exposure to military ground budgets, while in our view shipbuilding is slow, but relatively steady. IS&T is exposed to a variety of service contracts which we expect to encounter some margin pressure over the near-term. With bizjets' contribution to earnings heading towards 30%, we see a re-rating opportunity (2 turns higher) since shares now trade in line w/ defense peers.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	7,798.0	9,147.0	7,864.7	1%
y/y growth	0.6%	6.3%	0.9%	
Consensus Revenue (mean)			7,915	
y/y growth			1.5%	
Operating Income	929.0	950.0	931.8	0%
y/y growth	1%	-11.7%	0.3%	
Operating Margin	11.9%	10.4%	11.8%	(6 bps)
Segment Profit				
Aerospace	230.0	73.0	239.6	4%
Information Systems & Tech.	276.0	315.0	257.0	(7%)
Marine Systems	167.0	190.0	176.7	6%
Combat Systems	277.0	388.0	278.1	0%

Interest Expense	(34.0)	(38.0)	(40.9)	20%
Pretax Income	896.0	911.0	890.9	-1%
Tax Rate	31.0%	33.8%	32.0%	97 bps
Net Income	618.0	603.0	605.8	(2%)

Diluted Shares	376.4	359.4	357.2	(5%)
Diluted EPS	\$1.64	\$1.68	\$1.70	3%
Guidance			n/a	

*Implied guidance

Consensus EPS (mean)

Street High Estimate	\$1.80
Street Low Estimate	\$1.62

Conference Call Logistics

Earnings Date	4/25/2012
Conference Call Time	9:00 AM ET
Dial in Number	800-706-7741
Passcode	8214-1815

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.5%)
3-Month Performance:	
Absolute	(2.4%)
vs. S&P500	(870) bps
Short Interest (Days to Cover):	
Current	2.4
3-Mo. Average	2.1
Analyst Sentiment:	
Buy	56%
Hold	39%
Sell	6%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.99	\$1.68	0.3%
09/30/2011	\$1.81	\$1.99	(2.1%)
06/30/2011	\$1.72	\$1.79	(2.4%)
03/31/2011	\$1.61	\$1.64	0.1%

Valuation Summary

Price/Earnings	
FTM	9.2x
2013E	8.9x
2014E	8.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(27.6%)
2013E	(26.0%)
EV/EBITDA	6.0x

Note: Valuation based on Apr 15, 2012 price of \$68.88

	Q2 2012E	2012E	2013E
	7,923.3	33,030.2	33,503.8
	0.6%	1.1%	1.4%
	8,102	33,177	33,350
			0.5%
	935.5	3,920.0	4,068.4
	-1.4%	2.5%	3.8%
	11.8%	11.9%	12.1%
	248.7	1,040.2	1,215.9
	257.0	1,086.3	1,076.6
	166.5	673.8	663.6
	282.4	1,199.7	1,189.3
	(39.7)	(159.3)	(153.8)
	895.8	3,760.7	3,914.6
	32.0%	32.0%	32.0%
	609.1	2,557.3	2,661.9
	354.9	353.7	346.1
	\$1.72	\$7.23	\$7.69
		\$7.10 - 7.20	
	\$1.77	\$7.32	\$7.70
	\$1.87	\$7.60	\$8.30
	\$1.72	\$7.04	\$6.89

Conference Call Logistics

Earnings Date	4/25/2012
Conference Call Time	9:00 AM ET
Dial in Number	800-706-7741
Passcode	8214-1815

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.5%)
3-Month Performance:	
Absolute	(2.4%)
vs. S&P500	(870) bps
Short Interest (Days to Cover):	
Current	2.4
3-Mo. Average	2.1
Analyst Sentiment:	
Buy	56%
Hold	39%
Sell	6%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.99	\$1.68	0.3%
09/30/2011	\$1.81	\$1.99	(2.1%)
06/30/2011	\$1.72	\$1.79	(2.4%)
03/31/2011	\$1.61	\$1.64	0.1%

Valuation Summary

Price/Earnings	
FTM	9.2x
2013E	8.9x
2014E	8.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(27.6%)
2013E	(26.0%)
EV/EBITDA	6.0x

Note: Valuation based on Apr 15, 2012 price of \$68.88

Figure 13. HII Earnings Preview Sheet

Citi Investment Research & Analysis
Huntington Ingalls Earnings Preview

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Jonathan Raviv
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4/15/2012

Huntington Ingalls

Ticker	HII
Rating	Buy
Risk	N/A
Target Price	\$46.00
Dividend Yield	-
Expected Total Return	18.8%

Expectations

We're below Street due to our preference to stay conservative on lumpy shipbuilding sales & our more conservative margin expectations for Newport which typically start the year slowly. We expect 50 bps segment margin contraction q/q due to Newport offset by continued improvements at Ingalls where we see 50 bps margin growth. We do not expect this Q to retire budgetary risks given on-going DC & DoD deliberations. Rather, the Q likely reiterates Ingalls performance and showcases the long-term margin recovery story.

Key Issues for the Quarter

1) Impact of new Navy shipbuilding plan which sets a 300-ship target vs. previous 313 (although we note that changes impacting HII's portfolio were relatively minor); 2) Outlook: still seeing ~flat sales over the next few years? What are the sensitivities to various stretches/delays? Still see 9%+ margins in 2015?; 3) Newport News margins: we expect 70 bps sequential degradation on mix & typical cadence; 4) Ingalls margins: they contracted 40 bps q/q although we expect them to come back in 1Q12 as risk continues to be retired on the low-margin ships; 5) Avondale negotiations (could receive Fed incentives or form a JV).

Expected Guidance

HII isn't likely giving specific guidance due to several uncertainties: Congress dealing w/ sequester, risks with getting low-margin ships out of Ingalls, and broader budget uncertainties. As such, we expect mgmt to continue to sound cautious, although reiterate a flat sales outlook and margins of 9%+ by 2015.

Our Investment Thesis

We are positive on HII primarily because it is the only defense company under our coverage with the opportunity to double margins over the long-term, coupled with improving cash dynamics that create the potential for dividends and improved shareholder returns. We believe margin improvement plans are within reach given performance at HII's closest comp: GD's Marine Systems. The risk to the story is fear of the unknown with regard to shipbuilding budgets, however we do not expect the US to continue to focus on power projection capabilities which implies a strong Navy.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	1,684.0	1,735.0	1,604.4	(5%)
y/y growth	(1.6%)	(0.1%)	(4.7%)	
Consensus Revenue (mean)			1,662	
y/y growth			(1.3%)	
Operating Income	85.0	114.0	77.0	(9%)
y/y growth	(3%)	10.0%	-9.5%	
Operating Margin	5.0%	6.6%	4.8%	(25 bps)
Segment Profit				
Ingalls	17.0	15.0	18.6	10%
Newport News	67.0	102.0	81.6	22%
Interest Expense	(15.0)	(29.0)	(29.3)	95%
Pretax Income	70.0	85.0	47.7	-32%
Tax Rate	35.7%	30.6%	35.0%	(71 bps)
Net Income	45.0	59.0	31.0	(31%)
Diluted Shares	48.8	49.7	49.8	2%
Diluted EPS	\$0.92	\$1.19	\$0.62	(33%)
Guidance			n/a	
Consensus EPS (mean)			\$0.69	
Street High Estimate			\$0.84	
Street Low Estimate			\$0.57	

Conference Call Logistics

Earnings Date	5/9/2012
Conference Call Time	9:00 AM ET
Dial in Number	(866) 383-8119
Passcode	6336-9601

Stock Set-up

Avg. Stock Impact Last Ten Earnings	2.2%
3-Month Performance:	
Absolute	15.3%
vs. S&P500	+ 900 bps
Short Interest (Days to Cover):	
Current	9.3
3-Mo. Average	16.2
Analyst Sentiment:	
Buy	43%
Hold	57%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.94	\$1.44	6.8%
09/30/2011	\$0.85	\$1.05	6.3%
06/30/2011	\$0.82	\$0.80	(0.6%)
03/31/2011	\$0.98	\$0.92	(3.5%)

Valuation Summary

Price/Earnings	
FTM	11.8x
2013E	9.8x
2014E	7.7x
P/E vs. S&P 500 (premium/discount)	
FTM	(7.6%)
2013E	(17.8%)
EV/EBITDA	-

Note: Valuation based on Apr 15, 2012 price of \$38.73

	Q2 2012E	2012E	2013E
Revenue	1,629.7	6,557.0	6,428.1
y/y growth	4.3%	(0.3%)	(2.0%)
Consensus Revenue (mean)	1,607	6,597	6,581
y/y growth			(0.2%)
Operating Income	84.2	351.7	423.4
y/y growth	-7.4%	-12.0%	20.4%
Operating Margin	5.2%	5.4%	6.6%
Segment Profit			
Ingalls	20.9	94.4	128.9
Newport News	86.6	350.3	344.5
Interest Expense	(29.5)	(117.6)	(117.2)
Pretax Income	54.7	234.1	306.2
Tax Rate	35.0%	35.0%	35.0%
Net Income	35.5	152.2	199.0
Diluted Shares	49.9	50.0	50.4
Diluted EPS	\$0.71	\$3.05	\$3.95
Guidance		n/a	
Consensus EPS (mean)	\$0.68	\$2.99	\$3.94
Street High Estimate	\$0.74	\$3.46	\$4.57
Street Low Estimate	\$0.57	\$2.67	\$3.70

Conference Call Logistics

Earnings Date	5/9/2012
Conference Call Time	9:00 AM ET
Dial in Number	(866) 383-8119
Passcode	6336-9601

Stock Set-up

Avg. Stock Impact Last Ten Earnings	2.2%
3-Month Performance:	
Absolute	15.3%
vs. S&P500	+ 900 bps
Short Interest (Days to Cover):	
Current	9.3
3-Mo. Average	16.2
Analyst Sentiment:	
Buy	43%
Hold	57%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.94	\$1.44	6.8%
09/30/2011	\$0.85	\$1.05	6.3%
06/30/2011	\$0.82	\$0.80	(0.6%)
03/31/2011	\$0.98	\$0.92	(3.5%)

Valuation Summary

Price/Earnings	
FTM	11.8x
2013E	9.8x
2014E	7.7x
P/E vs. S&P 500 (premium/discount)	
FTM	(7.6%)
2013E	(17.8%)
EV/EBITDA	-

Note: Valuation based on Apr 15, 2012 price of \$38.73

Figure 14. LMT Earnings Preview Sheet

Citi Investment Research & Analysis

Lockheed Martin Earnings Preview

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Jonathan Raviv

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4/15/2012

Lockheed Martin

Ticker	LMT
Rating	Buy
Risk	N/A
Target Price	\$108.00
Dividend Yield	4.5%
Expected Total Return	25.4%

Expectations

We're in line on sales and EPS as we expect flat y/y sales growth but improved EPS on smaller pension expense and 8% less shares (we see \$250m of repurchases in 1Q) offset by q/q & y/y margin dilution due to the absence of certain catch-ups. In all, we're expecting a flat quarter (y/y) from an operational perspective.

Key Issues for the Quarter

1) Changes to 2012 guidance from FY13 budget (F-35 delays, THAAD reductions); 2) F-35 slow-down impact on learning curve & negotiations on future lots (Deferring 179 units reportedly added \$6b to costs) & impact of Canada freeze; 3) Any sequester plans?; 4) Adjacent market opps. including non-DoD federal & energy; 5) Update on cash strategy (dvd boost expected in September) seeing as 2011 ended w/ \$3.6b on the b/s vs. only needing \$1b for the business; 5) Potential impact of CAS harmonization on cash & earnings; 6) Update on Saudi interest in DDGs/LCS (LMT exposed to both); 7) F-16 demand (Iraq, Oman, UAE, Taiwan, USAF)

Expected Guidance

We don't expect LMT adjust guidance & front-run Congressional budget deliberations over the year given the pressured spending environment and looming risks of sequestration. This would be in line w/ past behavior during pressured budget times (1Q11's 2011 EPS guidance boost was solely due to a tax settlement).

Our Investment Thesis

In our view, LMT can continue to perform due to demand for F-35s, C-130s, re-worked C-5s, attractive BMD technologies, and a strong cash position providing for shareholder friendly activities (dvd yields ~5%), with the company sticking by its goal of returning at least 50% of operating cash flow to shareholders (has been closer to 70 - 80% over the past three years). We further believe that the F-35 is the fighter of choice for the US military, and that even if the program were halved (to ~1500), it would still be worth at least 7.5 years of production at peak rates, with potential upside from international sales.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	10,626.0	12,211.0	10,614.5	(0%)
y/y growth	3.1%	(4.3%)	(0.1%)	
Consensus Revenue (mean)			10,558	
y/y growth			(0.6%)	
Operating Income	864.0	1,082.0	876.0	1%
y/y growth	(8%)	-3.0%	1.4%	
Operating Margin	8.1%	8.9%	8.3%	12 bps
Segment Profit				
Aeronautics	331.0	461.0	355.1	7%
Electronic Systems	429.0	431.0	411.6	(4%)
IS&GS	194.0	254.0	185.1	(5%)
Space Systems	217.0	258.0	207.0	(5%)
Interest Expense	(85.0)	(96.0)	(95.3)	12%
Pretax Income	797.5	966.0	781.7	-2%
Tax Rate	30.4%	27.7%	30.0%	(39 bps)
Net Income	555.1	698.0	547.2	(1%)
Diluted Shares	352.6	326.7	324.6	(8%)
Diluted EPS	\$1.57	\$2.14	\$1.69	7%
Guidance			n/a	
			*Implied guidance	
Consensus EPS (mean)			\$1.70	
Street High Estimate			\$1.85	
Street Low Estimate			\$1.61	

Conference Call Logistics

Earnings Date	4/26/2012
Conference Call Time	3:00 PM ET
Dial in Number	877-844-6881
Passcode	n/a

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.5%)
3-Month Performance:	
Absolute	9.5%
vs. S&P500	+ 320 bps
Short Interest (Days to Cover):	
Current	10.2
3-Mo. Average	7.8
Analyst Sentiment:	
Buy	16%
Hold	79%
Sell	5%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.94	\$2.14	0.9%
09/30/2011	\$1.81	\$1.99	(3.2%)
06/30/2011	\$1.93	\$2.14	1.9%
03/31/2011	\$1.51	\$1.55	2.1%

Valuation Summary

Price/Earnings	
FTM	11.1x
2013E	10.5x
2014E	9.4x
P/E vs. S&P 500 (premium/discount)	
FTM	(13.1%)
2013E	(12.3%)
EV/EBITDA	6.9x

Note: Valuation based on Apr 15, 2012 price of \$89.3

	Q2 2012E	2012E	2013E
Revenue	11,576.8	45,569.7	45,968.2
y/y growth	0.3%	(2.0%)	0.9%
Consensus Revenue (mean)	11,332	45,616	45,074
y/y growth		(1.2%)	
Operating Income	1,010.1	3,965.7	4,372.7
y/y growth	1.7%	-0.4%	10.3%
Operating Margin	8.7%	8.7%	9.5%
Segment Profit			
Aeronautics	387.0	1,580.6	1,593.7
Electronic Systems	463.4	1,783.3	1,791.6
IS&GS	211.9	803.9	769.1
Space Systems	231.7	930.4	925.5
Interest Expense	(95.3)	(381.1)	(381.1)
Pretax Income	915.9	3,588.6	3,995.6
Tax Rate	30.0%	30.0%	30.0%
Net Income	641.1	2,512.0	2,796.9
Diluted Shares	321.5	320.0	307.8
Diluted EPS	\$1.99	\$7.85	\$9.09
Guidance		\$7.70 - 7.90	
Consensus EPS (mean)	\$1.96	\$7.88	\$8.50
Street High Estimate	\$2.05	\$8.25	\$9.09
Street Low Estimate	\$1.88	\$7.70	\$7.43

Source: Citi Investment Research and Analysis, Factset, Bloomberg, Company Reports

Figure 15. NOC Earnings Preview Sheet

Citi Investment Research & Analysis

Northrop Grumman Earnings Preview

Jason Gursky, (415) 951-1672
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Jonathan Raviv
jonathan.raviv@citi.com

4/15/2012

Northrop Grumman

Ticker	NOC
Rating	Buy
Risk	N/A
Target Price	\$69.00
Dividend Yield	3.3%
Expected Total Return	16.8%

Expectations

We're below the Street on sales but above on EPS likely due to our more constructive margin stance vs. our view that 2012 will be unusually 2H-weighted. Our 1Q12 est. assumes \$250m of share repurchase. Overall, we expect sales to be down ~9% y/y due to a slow contracting environment.

Key Issues for the Quarter

1) Global Hawk Block 30 negotiations (guidance contemplates its cancellation) & impact of Fire Scout grounding; 2) International demand (UAVs, F16 radar upgrades); 3) Competitive benefits of better funded pension; 4) Adjustments to sales guidance? (which already bakes in 3% sensitivity for budgetary risks); 5) Update on dividend policy (now focuses on payout ratio) w/ looming dvd review board meeting (May); 6) F-35 LRIP 4 & F-18 MYP contract negotiations (still waiting for conclusion, commentary could provide pxing insight; 7) Margins still outperforming L-T targets?; 8) How F-35 delays/slowness can be offset by more F-18s.

Expected Guidance

We do not expect guidance to change given that it already contemplates the Block 30 cancellation and has extra cushion built in (~3%) for other budgetary risks. While NOC's expectation of 2H-loaded sales implies slippage risks, we don't expect a guidance revision at this point in the year. Language will still be guarded since sequestration isn't baked into guidance (partly because its not clear what full sequestration would entail from a budgetary perspective).

Our Investment Thesis

We expect margin resiliency as NOC continues to shape its portfolio & drive cost. Fundamentally, NOC is uniquely positioned in two long-term growth areas (a rarity in the defense space): (1) fighter jets via LMT's JSF (20% content) and BA's F/A-18 (40%); and (2) UAVs via Global Hawk & other technologies. We also see robust cash generation funding dividend increases and driving continued buybacks. NOC is also relatively well-positioned vs. peers due to its 92% funded pension, which could benefit its competitiveness going forward.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change
Revenue	6,734.0	6,506.0	6,154.3	(9%)
y/y growth	(21.8%)	(24.4%)	(8.6%)	
Consensus Revenue (mean)			6,265	
y/y growth			(7.0%)	
Operating Income	811.0	799.0	686.8	(15%)
y/y growth	6%	1.4%	-15.3%	
Operating Margin	12.0%	12.3%	11.2%	(88 bps)
Segment Profit				
Information Systems	194.0	196.0	170.6	(12%)
Aerospace	288.0	314.0	272.5	(5%)
Technical Services	67.0	67.0	58.7	(12%)
Electronic Systems	237.0	256.0	238.8	1%
Ships				NA
Interest Expense	(58.0)	(53.0)	(55.0)	-5%
Pretax Income	758.0	782.0	631.8	-17%
Tax Rate	34.6%	29.7%	34.3%	(31 bps)
Net Income	496.0	550.0	415.4	(16%)
Diluted Shares	296.9	262.7	258.5	(13%)
Diluted EPS	\$1.67	\$2.09	\$1.61	(4%)
Guidance			n/a	
			*Implied guidance	
Consensus EPS (mean)			\$1.59	
Street High Estimate			\$1.65	
Street Low Estimate			\$1.50	

Conference Call Logistics

Earnings Date	4/25/2012
Conference Call Time	11:30 AM ET
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.1%)
3-Month Performance:	
Absolute	3.3%
vs. S&P500	(290) bps
Short Interest (Days to Cover):	
Current	5.9
3-Mo. Average	6.4
Analyst Sentiment:	
Buy	18%
Hold	76%
Sell	6%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.67	\$2.09	2.1%
09/30/2011	\$1.68	\$1.86	(1.7%)
06/30/2011	\$1.67	\$1.81	(4.2%)
03/31/2011	\$1.56	\$1.67	0.7%

Valuation Summary

Price/Earnings	
FTM	9.2x
2013E	9.0x
2014E	8.7x
P/E vs. S&P 500 (premium/discount)	
FTM	(28.0%)
2013E	(25.1%)
EV/EBITDA	4.7x

Note: Valuation based on Apr 15, 2012 price of \$60.81

	Q2 2012E	2012E	2013E
	6,024.9	25,147.2	25,089.5
	(8.2%)	(4.8%)	(0.2%)
	6,260	25,074	24,653
			(1.7%)
	661.4	2,795.9	2,923.6
	-21.4%	-14.7%	4.6%
	11.0%	11.1%	11.7%
	174.0	709.2	689.3
	260.0	1,132.8	1,166.7
	55.6	232.0	228.3
	239.2	976.5	990.7
	(55.1)	(220.2)	(219.9)
	606.3	2,575.7	2,703.7
	34.2%	34.3%	34.3%
	398.6	1,693.5	1,777.7
	254.4	252.5	235.8
	[\$1.57]	[\$6.71]	[\$7.54]
		\$6.40 - 6.70	
	\$1.64	\$6.57	\$6.78
	\$1.72	\$6.80	\$7.73
	\$1.57	\$6.44	\$6.14

Conference Call Logistics

Earnings Date	4/25/2012
Conference Call Time	11:30 AM ET
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.1%)
3-Month Performance:	
Absolute	3.3%
vs. S&P500	(290) bps
Short Interest (Days to Cover):	
Current	5.9
3-Mo. Average	6.4
Analyst Sentiment:	
Buy	18%
Hold	76%
Sell	6%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$1.67	\$2.09	2.1%
09/30/2011	\$1.68	\$1.86	(1.7%)
06/30/2011	\$1.67	\$1.81	(4.2%)
03/31/2011	\$1.56	\$1.67	0.7%

Valuation Summary

Price/Earnings	
FTM	9.2x
2013E	9.0x
2014E	8.7x
P/E vs. S&P 500 (premium/discount)	
FTM	(28.0%)
2013E	(25.1%)
EV/EBITDA	4.7x

Note: Valuation based on Apr 15, 2012 price of \$60.81

Source: Citi Investment Research and Analysis, Factset, Bloomberg, Company Reports

Figure 18. COL Earnings Preview Sheet

Citi Investment Research & Analysis

Rockwell Collins Earnings Preview

Jason Gursky, (415) 951-1672

jason.gursky@citi.com

Jonathan Raviv

jonathan.raviv@citi.com

4/15/2012

Rockwell Collins

Ticker	COL
Rating	Neutral
Risk	N/A
Target Price	\$63.00
Dividend Yield	1.7%
Expected Total Return	12.2%

Expectations

We're in line w/ Street heading into F2Q12. We expect commercial growth (+8% y/y) to be offset by government (down 12% y/y) due to lower DAGR, JTRS, and a few cancelled programs. We assume 4% q/q avg. diluted sharecount reduction driven by \$130m in repos, reflecting our expectation that COL will spend more on repos in FY12 (\$713m est.) than ever before.

Key Issues for the Quarter

1) Strategic alternatives for Surface Solutions following recent decision to curtail iForce (reduced segment guidance in late Feb); 2) Update on JTRS HMS production decision (expected April); 3) Update on MidEast Firestorm orders (needed to hit Surface guidance); 3) 787 production rate (should have hit 4/month at 1Q-end); 3) SMID cabin bizjet outlook w/ COL talking about broad growth in 2012 vs. OEs that are sounding less bullish/certain; 4) Commercial aero am outlook (currently see low DD in FY12) amidst potential for slowed traffic; 5) Fusion EDS development & recent win(s) vs. Garmin; 6) F-35 helmet update; 7) NEO/MAX opportunities.

Expected Guidance

COL re-affirmed its FY12 (Sep) guidance on 1/19 during the F1Q12 earnings report, but soon after (2/23) reduced its Surface Solutions outlook from "down low DD" to "down high DD" due to what sounded like a strategic decision to exit the iForce business. We expect COL to re-affirm this reduction & highlight potential alternatives for that business, which could include further portfolio re-alignment.

Our Investment Thesis

COL is positioned to gain market share on new air transport platforms and new bizjets while also benefitting from upside in narrow-body production rate increases. However, COL faces a weak SMID-cabin bizjet market with new competitive pressures in avionics. On the defense side, its relatively high-margin portfolio comprised of electronic components is seeing near-term weakness due to smaller ground forces. Over the long-run, we are more constructive on COL's exposure to airborne electronics and avionics which it offers on a more commercial basis (more attractive to customer). However, in our view these puts/takes are reflected at current levels.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q2 2011	Q1 2012	Q2 2012E	Y/Y Change
Revenue	1,216.0	1,094.0	1,172.2	(4%)
y/y growth	7.2%	(0.9%)	(3.6%)	
Consensus Revenue (mean)			1,179	(3.1%)
y/y growth				
Operating Income	222.0	200.0	221.3	(0%)
y/y growth	12%	2.0%	-0.3%	
Operating Margin	18.3%	18.3%	18.9%	62 bps
Segment Profit				
Commercial systems	91.0	101.0	110.6	21%
Government systems	150.0	117.0	129.7	(14%)

Interest Expense	(4.0)	(6.0)	(9.8)	144%
Pretax Income	218.0	194.0	211.5	-3%
Tax Rate	31.1%	33.0%	25.0%	(610 bps)
Net Income	150.2	130.0	158.7	6%

Diluted Shares	156.5	151.1	145.6	(7%)
Diluted EPS	\$0.96	\$0.86	\$1.09	14%
Guidance			n/a	

Consensus EPS (mean)

Street High Estimate	\$1.14
Street Low Estimate	\$1.06

Conference Call Logistics

Earnings Date	4/19/2012
Conference Call Time	9:00 AM ET
Dial in Number	888-633-3299
Passcode	6447-9553

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(1.3%)
3-Month Performance:	
Absolute	(0.3%)
vs. S&P500	(660) bps
Short Interest (Days to Cover):	
Current	9.4
3-Mo. Average	7.8
Analyst Sentiment:	
Buy	39%
Hold	61%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.84	\$0.86	5.5%
09/30/2011	\$1.13	\$1.13	(0.6%)
06/30/2011	\$1.04	\$1.01	(5.0%)
03/31/2011	\$0.95	\$0.96	(1.3%)

Valuation Summary

Price/Earnings	
FTM	12.0x
2013E	11.4x
2014E	10.1x
P/E vs. S&P 500 (premium/discount)	
FTM	(6.1%)
2013E	(5.0%)
EV/EBITDA	9.0x

Note: Valuation based on Apr 15, 2012 price of \$57

	Q3 2012E	2012E	2013E
	1,275.1	4,931.7	5,082.5
	7.2%	2.6%	3.1%
	1,274	4,945	5,181
			4.8%
	258.6	971.5	1,045.6
	11.5%	7.8%	7.6%
	20.3%	19.7%	20.6%
	133.3	482.1	580.0
	144.7	565.5	539.8


(9.7)	(35.0)	(37.7)
248.9	936.4	1,007.9
30.8%	29.9%	33.0%
172.4	656.3	675.3

143.7	145.6	138.4
\$1.20	\$4.51	\$4.88
	\$4.40 - 4.60	

\$1.19	\$4.48	\$5.03
\$1.23	\$4.55	\$5.20
\$1.14	\$4.40	\$4.65

Source: Citi Investment Research and Analysis, Factset, Bloomberg, Company Reports

Figure 19. TXT Earnings Preview Sheet

		Citi Investment Research & Analysis <i>Textron Earnings Preview</i>		Jason Gursky, (415) 951-1672 jason.gursky@citi.com Jonathan Raviv jonathan.raviv@citi.com	
4/15/2012					
Textron					
Ticker	TXT				
Rating	Neutral				
Risk	N/A				
Target Price	\$25.00				
Dividend Yield	0.3%				
Expected Total Return	(6.6%)				
Expectations					
We're below Street EPS expectations likely due to our less constructive take on Cessna margins (we expect breakeven on lower seasonal sales representing 590 bps of q/q margin contraction. We're also modeling for sequential margin dilution in Bell (negative mix) & Industrial (persistent inefficiencies), and for Cessna sales to drop 38% sequentially in line with typical cadence (customers buy in 4Q for tax reasons). We're also expecting higher dilution from the o/s convert due to a higher share px this Q.					
Key Issues for the Quarter					
1) Cessna margins in light of what we expect will be a 38% sequential drop in sales (we expect 0% margins); 2) Cessna pxing environment; 3) Aero production rate plans (to what extent are slots sold out); 4) Bell: Customer response to newly launched 525 & 429 margins/order slots (not sold out); 5) Details around potential JV w/ AVIC for bizjet development in China; 6) Impact of recent wins including 3yr \$600m for USAF UAV svcs, SOCOM production contracts & Afghan ASV upsize; 7) Update on TAPV & ship-to-shore connector; 8) Pressure on Industrial due to Euro automaker exposure; 9) Systems still slowed by pressured DoD environment?					
Expected Guidance					
We expect recent Systems wins to create confidence around guidance rather than spur a guidance boost since (a) there are many moving pieces in the segment which could be impacted by budget debates; (b) newly won contracts don't necessarily begin delivering until 2013. Also, we're always wary of the Industrial segment's exposure to Europe, but have yet to see degradation to segment guidance as the biz is still bouncing off 2009's all-time lows.					
Our Investment Thesis					
While we're positive on TXT's established reputation, its end-markets face some near-term uncertainty including auto manufacturing (especially in Europe), golf/turf, and SMID-cabin bizjets. Bell appears to be in a better position today vs. 1 yr ago on the commercial side which we expect to grow, although military headwinds exist. Based on uncertainty at Cessna (new competitors, weaker demand) and defense uncertainty (faces some production cliffs & forthcoming - busy - competitions), current valuation fully reflects opportunities in front of TXT in our view.					
Summary Financial Performance and Our Estimates					
\$ Millions except for per share data; years refer to company fiscal years					
	Q1 2011	Q4 2011	Q1 2012E	Y/Y Change	
Revenue	2,479.0	3,254.0	2,709.6	9%	
y/y growth	12.2%	4.1%	9.3%		
Consensus Revenue (mean)			2,703		
y/y growth			9.1%		
Operating Income	84.0	(3.0)	170.5	103%	
y/y growth	79%	-103.7%	103.0%		
Operating Margin	3.4%	-0.1%	6.3%	290 bps	
Segment Profit					
Cessna	(38.0)	60.0			
Bell	91.0	167.0	115.9	27%	
Textron Systems	53.0	(8.0)	44.2	(17%)	
Industrial	61.0	49.0	46.7	(23%)	
Finance	(44.0)	(232.0)			
Interest Expense	(38.0)	(27.0)	(36.1)	-5%	
Pretax Income	46.0	(30.0)	134.4	192%	
Tax Rate	32.6%	NA	32.0%	(61 bps)	
Net Income	31.0	(17.0)	91.4	195%	
Diluted Shares	319.1	292.5	300.3	(6%)	
Diluted EPS	\$0.10	(\$0.06)	\$0.30	213%	
Guidance			n/a		
Consensus EPS (mean)			\$0.36		
Street High Estimate			\$0.46		
Street Low Estimate			\$0.31		
	Q2 2012E	2012E	2013E		
	3,010.2	12,421.3	13,019.1		
	10.3%	10.2%	4.8%		
	2,968	12,346	12,993		
			5.2%		
	224.1	954.4	1,051.3		
	29.5%	100.1%	10.2%		
	7.4%	7.7%	8.1%		
	22.7	150.7	205.8		
	141.2	576.0	612.0		
	46.2	185.3	182.4		
	50.2	187.4	192.3		
			3.8		
	(35.6)	(138.7)	(121.5)		
	188.5	815.7	929.8		
	32.0%	32.0%	32.0%		
	128.2	554.6	632.3		
	294.3	295.8	294.3		
	\$0.44	\$1.88	\$2.15		
		\$1.80 - 2.00			
	\$0.44	\$1.91	\$2.28		
	\$0.47	\$2.05	\$2.60		
	\$0.41	\$1.75	\$2.05		

Conference Call Logistics

Earnings Date	4/18/2012
Conference Call Time	8:00 AM ET
Dial in Number	(800) 230-1059
Passcode	n/a

Stock Set-up

Avg. Stock Impact Last Ten Earnings	4.9%
3-Month Performance:	
Absolute	26.8%
vs. S&P500	+ 2,050 bps
Short Interest (Days to Cover):	
Current	4.0
3-Mo. Average	4.1
Analyst Sentiment:	
Buy	64%
Hold	36%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.34	\$0.49	14.6%
09/30/2011	\$0.31	\$0.45	6.4%
06/30/2011	\$0.24	\$0.29	10.4%
03/31/2011	\$0.17	\$0.10	(1.1%)

Valuation Summary

Price/Earnings		
FTM		13.2x
2013E		11.6x
2014E		9.7x
P/E vs. S&P 500 (premium/discount)		
FTM		3.9%
2013E		(3.3%)
EV/EBITDA		11.9x

Note: Valuation based on Apr 15, 2012 price of \$26.85

Source: Citi Investment Research and Analysis, Factset, Bloomberg, Company Reports

Figure 20. WAIR Earnings Preview Sheet

Citi Investment Research & Analysis

Wesco Aircraft Earnings Preview

Jason Gursky, (415) 951-1672

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Jonathan Raviv

jonathan.raviv@citi.com

4/15/2012

Wesco Aircraft

Ticker	WAIR
Rating	Buy
Risk	High Risk
Target Price	\$19.50
Dividend Yield	-
Expected Total Return	25.9%

Expectations

We're in line with the Street for WAIR's F2Q12 on sales & EPS. We see strong commercial demand being driven by the supply chain gearing up for production rate increases (although they've yet to fully hit). We would not be surprised to see ~mid 30s-40% ad hoc sales share in F2Q despite WAIR's efforts to convert sales to the steadier JIT contract type due to extending lead times on strengthening demand. In our view, this is a high quality "problem" for WAIR. Near-term defense might be pressured, but we expect outgrowth based on share gains.

Key Issues for the Quarter

1) Status of Boeing disintermediation attempts w/ Tier 1-2 suppliers. Our FY13-14 ests. are below Street likely because we assume an additional 7% lost from suppliers (beyond Charleston). Negative commentary this Q could spur consensus to come down as risks are more widely understood; 2) F-35 ramp & how much more content can WAIR gain; 3) Are production rate ramps impacting yet? 4) New website designed to address aftermarket; 5) New facilities in Central/South America; 6) 787 production rate/demand as pre-existing inventory burns down; 7) Machine parts growth (over time could be as big as hardware).

Expected Guidance

We expect WAIR to stand by the FY12 (Sep) guidance has already reiterated once before. Note that our estimates begin to diverge from Consensus in FY13 as we're likely more conservative vs. the Street on the impacts from disintermediation among Boeing suppliers.

Our Investment Thesis

WAIR offers revenue and earnings visibility due to announced production rate increases, although better visibility likely costs margin as the company shifts contract structures. We expect cross-selling & adjacent mkt to supplement core growth. This includes traction in the MRO market and cross-selling with electronic products. Also, there is an opportunity for consolidation given a still fragmented market with WAIR and its chief competitor comprising 35% of the C-class aerospace distribution market. We could also see near-term EPS upside due to higher than expected ad hoc sales (due to lengthened lead times) driving better margins.

Summary Financial Performance and Our Estimates

\$ Millions except for per share data; years refer to company fiscal years

	Q2 2011	Q1 2012	Q2 2012E	Y/Y Change
Revenue	176.0	192.6	190.6	8%
y/y growth	7.3%	11.0%	8.3%	
Consensus Revenue (mean)			192	
y/y growth			8.9%	
Operating Income	44.0	46.0	46.0	4%
y/y growth	8%	8.4%	4.5%	
Operating Margin	24.4%	23.4%	23.7%	(74 bps)
Segment Profit				
North America	39.1	41.9	41.6	6%
Rest of World	5.3	4.9	5.1	(4%)
Interest Expense	(6.3)	(6.5)	(6.2)	-1%
Pretax Income	35.9	38.5	38.8	8%
Tax Rate	38.9%	39.9%	39.1%	13 bps
Net Income	23.1	24.3	24.7	7%
Diluted Shares	92.7	95.0	95.7	3%
Diluted EPS	\$0.25	\$0.26	\$0.26	4%
Guidance			n/a	
			*Implied guidance	
Consensus EPS (mean)			\$0.26	
Street High Estimate			\$0.27	
Street Low Estimate			\$0.24	

Conference Call Logistics

Earnings Date	TBD
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	1.4%
3-Month Performance:	
Absolute	20.7%
vs. S&P500	+ 1,440 bps
Short Interest (Days to Cover):	
Current	7.3
3-Mo. Average	5.7
Analyst Sentiment:	
Buy	63%
Hold	38%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.23	\$0.26	5.0%
09/30/2011	\$0.22	\$0.23	2.4%
06/30/2011	--	\$0.23	(3.0%)
03/31/2011	--	--	NA

Valuation Summary

Price/Earnings	
FTM	13.3x
2013E	12.4x
2014E	10.7x
P/E vs. S&P 500 (premium/discount)	
FTM	4.7%
2013E	3.5%
EV/EBITDA	-

Note: Valuation based on Apr 15, 2012 price of \$15.49

	Q3 2012E	2012E	2013E
Revenue	197.6	787.3	835.5
y/y growth	9.8%	10.8%	6.1%
Consensus Revenue (mean)	199	785	891
y/y growth			13.6%
Operating Income	48.1	190.7	207.8
y/y growth	13.4%	10.8%	9.0%
Operating Margin	23.9%	23.8%	24.4%
Segment Profit			
North America	43.3	172.4	184.8
Rest of World	5.5	21.3	26.8
Interest Expense	(5.9)	(24.5)	(20.8)
Pretax Income	41.2	162.4	183.3
Tax Rate	39.1%	39.3%	39.0%
Net Income	26.1	102.7	116.1
Diluted Shares	95.7	95.7	96.0
Diluted EPS	\$0.27	\$1.07	\$1.21
Guidance		\$1.03 - 1.07	
Consensus EPS (mean)	\$0.27	\$1.06	\$1.25
Street High Estimate	\$0.28	\$1.07	\$1.35
Street Low Estimate	\$0.26	\$1.04	\$1.20

Conference Call Logistics

Earnings Date	TBD
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	1.4%
3-Month Performance:	
Absolute	20.7%
vs. S&P500	+ 1,440 bps
Short Interest (Days to Cover):	
Current	7.3
3-Mo. Average	5.7
Analyst Sentiment:	
Buy	63%
Hold	38%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
12/31/2011	\$0.23	\$0.26	5.0%
09/30/2011	\$0.22	\$0.23	2.4%
06/30/2011	--	\$0.23	(3.0%)
03/31/2011	--	--	NA

Valuation Summary

Price/Earnings		
FTM		13.3x
2013E		12.4x
2014E		10.7x
P/E vs. S&P 500 (premium/discount)		
FTM		4.7%
2013E		3.5%
EV/EBITDA		-

Note: Valuation based on Apr 15, 2012 price of \$15.49

Company Focus

- Company Update
- Target Price Change
- Estimate Change
- Best Ideas

Buy	1
Price (13 Apr 12)	US\$72.92
Target price	US\$89.00
from US\$87.00	
Expected share price return	22.1%
Expected dividend yield	2.3%
Expected total return	24.4%
Market Cap	US\$54,378M

Price Performance (RIC: BA.N, BB: BA US)



Boeing Co. (BA) Still our Top Pick for 2012

- We've reduced our 1Q12 BCA sales expectation as reported 1Q deliveries fell 3 net aircraft short of our expectations (-1 737, -2 747s, -1 777, +1 767). We expect this is a timing issue and have increased our expectations for 2-4Q. Our 1Q12 EPS estimate falls 3c, but our full-year EPS estimate remains at \$4.54. Our PT increases as we roll our estimates forward a Q.

- Please see cheat sheet on page 11 for more details heading into earnings.

Figure 21. Model Changes & Guidance

Smillions except EPS	1Q12E		FY12E		FY13E		FY14E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	18,709	18,312	79,297	79,287	86,202	86,191	92,752	92,740
Commercial	11,145	10,748	48,428	48,428	54,711	54,711	60,947	60,947
Q/Q Change	(4.3%)	(6.4%)	-	-	-	-	-	-
Y/Y Change	25.5%	22.8%	15.4%	15.4%	8.7%	8.7%	7.6%	7.6%
Segment Margin	9.0%	9.1%	9.1%	9.1%	10.1%	10.1%	10.2%	10.2%
BCA margin	9.4%	9.5%	9.4%	9.4%	10.5%	10.5%	10.8%	10.8%
Defense margin	8.8%	8.8%	9.0%	9.0%	9.6%	9.6%	9.5%	9.5%
Unallocated Exp.	(388)	(388)	(1,550)	(1,550)	(1,600)	(1,600)	(1,620)	(1,620)
Total Op. Margin	6.9%	6.9%	7.2%	7.2%	8.2%	8.2%	8.5%	8.5%
Net Interest	(121)	(121)	(480)	(479)	(468)	(468)	(450)	(449)
Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
EPS	\$1.03	\$1.00	\$4.54	\$4.54	\$5.77	\$5.77	\$6.55	\$6.55
Dil. Shares O/S	757.1	757.1	757.1	757.1	752.1	752.1	744.1	744.1

\$ millions	2011 Actual	2012 Guidance		
		4Q11	Citi	Consensus
Revenue	\$68,735	\$78,000	\$80,000	\$79,287
EPS	\$5.33	4.05	4.25	\$4.54
Operating cash flow	\$4,023	> \$5.0b		
BCA				
Revenue	\$36,171	\$47,500	\$49,500	\$48,428
Deliveries	477	585	600	600
Operating Margin	9.7%	8.5%	9.0%	9.4%
BDS				
Revenue	31,976	\$30,000	\$30,500	\$30,544
BMA	14,947	~\$15,000		
NSS	8,673	~\$7,250		
GSS	8,356	~\$8,000		
Operating margin	9.9%	> 9%		
BMA	10.2%	~9.25%		
NSS	8.0%	~7.5%		
GSS	11.3%	~10.5%		

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.78A	1.25A	1.45A	1.83A	5.33A	5.33A
2012E	1.00E	1.13E	1.18E	1.23E	4.54E	4.47E
Previous	1.03E	1.13E	1.18E	1.20E	4.54E	na
2013E	1.34E	1.41E	1.49E	1.52E	5.77E	5.66E
Previous	1.34E	1.41E	1.49E	1.52E	5.77E	na
2014E	1.48E	1.65E	1.69E	1.73E	6.55E	6.53E
Previous	1.48E	1.65E	1.69E	1.73E	6.55E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

■ Company Update

Neutral	2
Price (13 Apr 12)	US\$12.63
Target price	US\$14.75
Expected share price return	16.8%
Expected dividend yield	0.0%
Expected total return	16.8%
Market Cap	US\$589M

Price Performance (RIC: DGI.N, BB: DGI US)



DigitalGlobe (DGI) EV contract still lacks focus

- Our estimates are unchanged heading into the quarter. We are expecting a White House-led study of commercial satellite imagery to report out this month or next, which should help clarify some of the uncertainty surrounding the EnhancedView contract with the National Geospatial Intelligence Agency (NGA).
- Please see cheat sheet on page 12 for more details heading into earnings.

Figure 22. Guidance

	Feb 29, 2011 4Q11 Earnings Guidance	2012	
		Citi Est.	Consensus
GAAP Revenue	\$373	\$363m	\$371m
EBITDA Margin	43%	42%	\$56m
Adj. EBITDA Margin	50%	51%	
EPS	-	\$0.33	\$0.46
CapEx (\$m)	\$200m	\$200m	
FCF Margin		(2.7%)	
ROE		3.0%	

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.03A	-0.02A	0.02A	0.10A	0.08A	0.09A
2012E	0.00E	0.05E	0.07E	0.21E	0.33E	0.47E
Previous	0.00E	0.05E	0.07E	0.21E	0.33E	na
2013E	0.08E	0.12E	0.18E	0.28E	0.65E	0.87E
Previous	0.08E	0.12E	0.18E	0.28E	0.65E	na
2014E	0.17E	0.25E	0.23E	0.35E	1.01E	0.92E
Previous	0.17E	0.25E	0.23E	0.35E	1.01E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Buy	1
Price (13 Apr 12)	US\$68.88
Target price	US\$88.00
Expected share price return	27.8%
Expected dividend yield	2.7%
Expected total return	30.5%
Market Cap	US\$24,768M

Price Performance (RIC: GD.N, BB: GD US)



General Dynamics Corp. (GD)

Mild estimate reduction on slowed IS&T

- We're bringing our EPS estimates mildly down due to weakness in the short-cycle IS&T business which in our view suffers the most from sequestration and CR overhangs. We have also further back-loaded our 2012 IS&T estimates to reflect the slowed acquisition environment. Our model now reflects the March 8.5% dividend boost to \$0.51 (minimal impact). Our PT is unchanged as a lower market multiple offsets our estimate roll-forward.

- Please see cheat sheet on page 13 for more details heading into earnings.

Figure 23. Model Changes & Guidance

\$million except EPS	1Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	8,011	7,865	33,113	33,030	33,594	33,504	34,016	33,923
Aero	1,653	1,653	6,933	6,933	7,554	7,554	8,003	8,003
IS&T	2,717	2,570	11,167	11,084	11,076	10,986	11,011	10,917
Marine	1,683	1,683	6,613	6,613	6,678	6,678	6,744	6,744
Combat	1,958	1,958	8,400	8,400	8,286	8,286	8,258	8,258
Segment Op. Margin	12.1%	12.1%	12.1%	12.1%	12.4%	12.4%	12.7%	12.7%
Aero	14.5%	14.5%	15.0%	15.0%	16.1%	16.1%	17.1%	17.1%
IS&T	10.0%	10.0%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
Marine	10.5%	10.5%	10.2%	10.2%	9.9%	9.9%	9.9%	9.9%
Combat	14.2%	14.2%	14.3%	14.3%	14.4%	14.4%	14.4%	14.4%
Corporate	(20)	(20)	(80)	(80)	(77)	(77)	(78)	(78)
Total Op. Margin	11.8%	11.8%	11.9%	11.9%	12.1%	12.1%	12.4%	12.4%
Interest Expense	(41)	(41)	(160)	(159)	(153)	(154)	(145)	(145)
Tax Rate	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
EPS	\$1.72	\$1.70	\$7.25	\$7.23	\$7.71	\$7.69	\$8.18	\$8.16
Diluted Shares O/S	357.2	357.2	353.7	353.7	346.1	346.1	339.5	339.5

\$millions	2010A		2011A		2012 Guidance 4Q11		Street	Citi
	low	high	low	high	low	high		
Sales	32,466	32,677					33,198	8,283
Aerospace	5,299	13.2%			15%			15.6%
IS&T	11,612	(3.4%)			flat			(1.2%)
Marine Systems	6,677	(0.7%)			Slightly down			(0.3%)
Combat Systems	8,878	(0.6%)			\$8,500			\$8,400
Segment Op Margin	12.4%	11.9%						12.1%
Aerospace	16.2%	12.2%			15%			15%
IS&T	10.5%	10.7%			high 9%			9.8%
Marine Systems	10.1%	10.4%			mid/low 10%			10.2%
Combat Systems	14.4%	14.5%			low/mid 14%			14.3%
Interest Expense		\$141		155	160			\$159
Tax Rate		31.4%		32%				32%
Diluted EPS	6.82	6.94		7.10	7.20		\$7.32	\$7.23

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.64A	1.79A	1.83A	1.68A	6.94A	7.28A
2012E	1.70E	1.72E	1.82E	2.00E	7.23E	7.32E
Previous	1.72E	1.75E	1.83E	1.95E	7.25E	na
2013E	1.80E	1.87E	1.93E	2.08E	7.69E	7.70E
Previous	1.80E	1.87E	1.94E	2.10E	7.71E	na
2014E	1.93E	2.00E	2.06E	2.17E	8.16E	8.29E
Previous	1.94E	2.00E	2.06E	2.18E	8.18E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- [Company Update](#)
- [Target Price Change](#)

Buy	1
Price (13 Apr 12)	US\$38.73
Target price	US\$46.00
	from US\$45.00
Expected share price return	18.8%
Expected dividend yield	0.0%
Expected total return	18.8%
Market Cap	US\$1,913M

Price Performance (RIC: HII.N, BB: HII US)



Huntington Ingalls Industries (HII) Estimates Unchanged

- Our PT increases slightly as we roll our estimates forward a Q, offset by the lower market multiple. We note that HII reported 4Q11 earnings in late March and will not report 1Q12 until May 9.
- Please see cheat sheet on page 14 for more details heading into earnings.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.92A	0.80A	1.05A	1.19A	3.97A	3.97A
2012E	0.62E	0.71E	0.77E	0.94E	3.05E	2.99E
Previous	0.62E	0.71E	0.77E	0.94E	3.05E	na
2013E	0.94E	0.95E	0.99E	1.07E	3.95E	3.94E
Previous	0.94E	0.95E	0.99E	1.07E	3.95E	na
2014E	1.15E	1.22E	1.26E	1.32E	4.95E	4.80E
Previous	1.15E	1.22E	1.26E	1.32E	4.95E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Buy	1
Price (13 Apr 12)	US\$89.30
Target price	US\$108.00
Expected share price return	20.9%
Expected dividend yield	4.5%
Expected total return	25.4%
Market Cap	US\$28,991M

Price Performance (RIC: LMT.N, BB: LMT US)



Lockheed Martin Corp. (LMT) Tweaked margins w/ all eyes still on JSF

- We've tweaked our margin estimates, including a ~20 bps improvement in Space for the year due to 1Q's MUOS launch & AEHF delivery, as well as AEHF's scheduled launch in April (we expect these achievements to further retire some risk). The overall effect on our EPS estimates, however, is relatively mild. Our PT is unchanged as our quarterly roll-forward is offset by a lower market multiple.
- Please see cheat sheet on page 15 for more details heading into earnings.

Figure 24. Model Changes & Guidance

Millions, except EPS	1Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	10,614	10,614	45,570	45,570	45,968	45,968	46,386	46,386
Q/Q Change	(13.1%)	(13.1%)	-	-	-	-	-	-
Y/Y Change	(0.1%)	(0.1%)	(2.0%)	(2.0%)	0.9%	0.9%	0.9%	0.9%
Seg. Op. Margin	10.8%	10.9%	11.1%	11.2%	11.1%	11.1%	10.9%	10.9%
Aero	10.8%	10.9%	11.1%	11.2%	11.0%	11.0%	10.9%	10.9%
Electronics	12.0%	12.1%	12.4%	12.4%	12.3%	12.3%	12.0%	12.0%
IS&GS	8.5%	8.7%	8.9%	8.9%	8.8%	8.8%	8.7%	8.7%
Space	11.2%	11.4%	11.4%	11.6%	11.3%	11.3%	11.1%	11.1%
Pension	(209)	(209)	(835)	(835)	(500)	(500)	(200)	(200)
Unusual Items	0	0	0	0	0	0	0	0
Other Corp	(74)	(74)	(297)	(297)	(207)	(207)	(208)	(208)
Total Op. Margin	8.1%	8.3%	8.6%	8.7%	9.5%	9.5%	10.0%	10.0%
Interest Expense	(95)	(95)	(381)	(381)	(207)	(207)	(381)	(381)
Tax Rate	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
EPS	\$1.65	\$1.69	\$7.79	\$7.85	\$9.09	\$9.09	\$10.10	\$10.10
Diluted Shares	324.6	324.6	320.0	320.0	307.8	307.8	295.6	295.6

Millions	2011 Actual	2012 Guidance		Citi	Consensus
		4Q11	low		
Sales	46,499	45,000	46,000	45,570	45,619
Aeronautics	14,455	14,300	14,550	14,164	
Space	8,134	7,550	7,800	8,016	
Electronics	14,529	14,550	14,800	14,375	
IS&GS	9,381	8,600	8,850	9,015	
Segment Op Profit	5,281	5,025	5,125	5,098	
Aeronautics	1,639	1,575	1,600	1,581	
Space	989	900	925	930	
Electronics	1,779	1,775	1,800	1,783	
IS&GS	874	775	800	804	
Diluted EPS from cont. ops	7.85	7.70	7.90	7.85	7.87
Segment Margin	11.4%	11.2%		11.2%	
Aeronautics	11.3%	11.0%		11.2%	
Space	12.2%	11.9%		11.6%	
Electronics	12.2%	12.2%		12.4%	
IS&GS	9.3%	9.0%		8.9%	

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.57A	2.16A	1.99A	2.14A	7.85A	7.85A
2012E	1.69E	1.99E	2.07E	2.11E	7.85E	7.88E
Previous	1.65E	1.99E	2.06E	2.10E	7.79E	na
2013E	1.96E	2.31E	2.39E	2.44E	9.09E	8.50E
Previous	1.96E	2.31E	2.39E	2.44E	9.09E	na
2014E	2.29E	2.56E	2.62E	2.64E	10.10E	9.44E
Previous	2.29E	2.56E	2.62E	2.64E	10.10E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Buy	1
Price (13 Apr 12)	US\$60.81
Target price	US\$69.00
Expected share price return	13.5%
Expected dividend yield	3.3%
Expected total return	16.8%
Market Cap	US\$15,385M

Price Performance (RIC: NOC.N, BB: NOC US)



Northrop Grumman Corp. (NOC)

Tweaking estimates for a more back-loaded year

- We've further back-loaded our sales estimate due to our expectation of an unseasonably heavy 2H due to the slowed contracting environment, delays (ie NATO AGS), and delivery timing (ie F-35 LRIP5 not being recognized until 2H delivery). This causes our 1Q12 EPS estimate to fall while our out-year EPS estimates remain roughly in line. Our PT is unchanged as our quarterly roll-forward is offset by a lower market multiple.

- Please see cheat sheet on page 16 for more details heading into earnings.

Figure 25. Model Changes & Guidance

	1Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
<i>\$ millions except EPS</i>								
Net Sales	\$6,312	\$6,154	\$25,221	\$25,147	\$25,089	\$25,089	\$25,015	\$25,012
Information Systems	1,824	1,795	7,466	7,466	7,257	7,255	7,077	7,075
Aerospace	2,467	2,370	9,841	9,762	9,951	9,951	10,038	10,039
Technical Services	727	711	2,719	2,719	2,645	2,645	2,604	2,600
Electronic Systems	1,784	1,756	7,153	7,153	7,184	7,185	7,238	7,239
Segment Op. Margin	11.3%	11.3%	11.2%	11.2%	11.4%	11.4%	11.4%	11.4%
Information Systems	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%	9.5%
Aerospace	11.5%	11.5%	11.6%	11.6%	11.7%	11.7%	11.6%	11.6%
Technical Services	8.3%	8.3%	8.5%	8.5%	8.6%	8.6%	8.7%	8.7%
Electronic Systems	13.5%	13.6%	13.6%	13.7%	13.8%	13.8%	13.8%	13.8%
Unallocated	(38)	(37)	(151)	(151)	(138)	(138)	(158)	(158)
Pension	33	33	130	130	220	220	220	220
Total Op. Margin	11.1%	11.2%	11.1%	11.1%	11.7%	11.7%	11.6%	11.6%
Net Interest Exp.	(55)	(55)	(220)	(220)	(220)	(220)	(220)	(220)
Tax Rate	34.3%	34.3%	34.3%	34.3%	34.3%	34.3%	34.3%	34.3%
EPS	\$1.65	\$1.61	\$6.72	\$6.71	\$7.54	\$7.54	\$8.04	\$8.04
Diluted Shares O/S	258.5	258.5	252.5	252.5	235.8	235.8	218.4	218.4

	2011	2012 Guidance		Citi	Consensus
	Actual	Low	High		
Sales (\$m)	\$26,412	\$24,700	\$25,400	\$25,147	\$25,075
Segment Op. Margin	12%	11.0%		11.2%	
Total Op. Margin	12%	mid/high 10%		11.1%	
Diluted EPS (cont. ops)	\$7.41	\$6.40	\$6.70	\$6.71	\$6.57
Operating CF (\$m)	2,115	2,300	2,600	2,460	
FCF (\$m)	2,787	1,800	2,100	2,020	
Segment Sales				Citi Est.	
Aerospace	\$9,964	9,700	10,000	\$9,762	
Electronic	\$7,372	6,900	7,200	\$7,153	
Information Sys	\$7,921	7,400	7,600	\$7,466	
Technical Svcs	\$3,193	2,600	2,700	\$2,719	
Segment Margins					
Aerospace	12.2%	low/mid 11%		11.6%	
Electronic	14.5%	mid/high 13%		13.7%	
Information Sys	9.7%	mid 9%		9.5%	
Technical Svcs	8.1%	mid 8%		8.5%	

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.67A	1.81A	1.86A	2.09A	7.41A	7.41A
2012E	1.61E	1.57E	1.71E	1.83E	6.71E	6.57E
Previous	1.65E	1.63E	1.71E	1.75E	6.72E	na
2013E	1.80E	1.84E	1.92E	1.99E	7.54E	6.78E
Previous	1.80E	1.84E	1.92E	1.99E	7.54E	na
2014E	1.92E	1.97E	2.05E	2.11E	8.04E	6.99E
Previous	1.92E	1.97E	2.05E	2.11E	8.04E	na

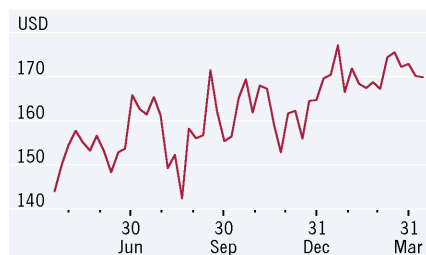
Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change
- Best Ideas

Buy	1
Price (13 Apr 12)	US\$169.95
Target price	US\$199.00
	from US\$194.00
Expected share price return	17.1%
Expected dividend yield	0.1%
Expected total return	17.2%
Market Cap	US\$24,670M

Price Performance (RIC: PCP.N, BB: PCP US)



Precision Castparts Corp. (PCP) Tweaking sales expectations

- We've tweaked our sales expectations for F4Q12, as our EPS estimates remain mostly unchanged. Note that we have not yet incorporated RathGibson into our estimates which we believe could be 6-14c accretive to FY13 EPS. The deal is expected to close in F1Q13 (June). Our PT increases as we roll our estimates forward a Q.
- PCP remains one of our favorite names as we head into Phase 2 of the Aerospace recovery cycle in which production rates pick up. We also like PCP based on what we feel is an underappreciated energy business positioned to take advantage of oil & gas demand and a secular shift toward increased IGT use (driving aftermarket demand) and IGT plant construction (driving OE).
- Please see cheat sheet on page 17 for more details heading into earnings.

Figure 26. Model Changes

\$ in Millions, Except EPS	4Q12E		FY12E		FY13E		FY14E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$1,891	\$1,903	\$7,173	\$7,184	\$8,394	\$8,403	\$9,465	\$9,469
Casting	600	604	2,324	2,328	2,686	2,693	3,042	3,048
Forging	810	822	3,141	3,153	3,550	3,578	3,954	3,982
Fasteners	482	477	1,708	1,703	2,158	2,133	2,468	2,438
Q/Q Change	4.1%	4.7%	-	-	-	-	-	-
Y/Y Change	12.9%	13.6%	15.3%	15.5%	17.0%	17.0%	12.8%	12.7%
Segment Op Margin	27.4%	27.4%	26.8%	26.8%	27.9%	27.9%	28.2%	28.2%
Casting	33.5%	33.5%	33.2%	33.2%	33.5%	33.5%	33.5%	33.5%
Forging	22.5%	22.5%	21.5%	21.5%	22.8%	22.8%	23.0%	23.0%
Fasteners	28.0%	28.0%	28.1%	28.1%	29.3%	29.3%	30.0%	30.0%
Total Op Margin	25.7%	25.7%	25.1%	25.1%	26.4%	26.3%	26.8%	26.8%
Interest Expense	(2.9)	(2.9)	(12.9)	(12.9)	(11.7)	(11.7)	(11.7)	(11.7)
Tax Rate	33.3%	33.3%	33.1%	33.1%	33.5%	33.5%	33.5%	33.5%
EPS	\$2.24	\$2.25	\$8.36	\$8.37	\$10.15	\$10.15	\$11.68	\$11.68
Diluted Shares O/S	146.2	146.2	145.6	145.6	146.5	146.5	146.5	146.5
Y/Y Sales %	4Q12E		FY12E		FY13E		FY14E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	12.9%	13.6%	15.3%	15.5%	17.0%	17.0%	12.8%	12.7%
Casting	7.3%	8.1%	10.9%	11.1%	15.6%	15.7%	13.3%	13.2%
Forging	5.0%	6.5%	13.0%	13.4%	13.0%	13.5%	11.4%	11.3%
Fasteners	39.8%	38.4%	27.0%	26.7%	26.4%	25.2%	14.3%	14.3%

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.65A	1.70A	1.80A	1.87A	7.01A	7.01A
2012E	1.97A	2.03A	2.12A	2.25E	8.37E	8.38E
Previous	1.97A	2.03A	2.12A	2.24E	8.36E	na
2013E	2.36E	2.49E	2.60E	2.70E	10.15E	10.03E
Previous	2.35E	2.49E	2.60E	2.70E	10.15E	na
2014E	2.81E	2.92E	2.96E	2.99E	11.68E	11.51E
Previous	2.81E	2.92E	2.96E	2.99E	11.68E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

Company Update

Buy	1
Price (13 Apr 12)	US\$52.53
Target price	US\$64.00
Expected share price return	21.8%
Expected dividend yield	3.3%
Expected total return	25.1%
Market Cap	US\$17,854M

Price Performance (RIC: RTN.N, BB: RTN US)



Raytheon Co. (RTN) Estimates Unchanged

- Our estimates are unchanged although our model now incorporates the recently announce 16% dividend boost. Our PT is unchanged as our quarterly roll-forward is offset by a lower market multiple.
- Please see cheat sheet on page 18 for more details heading into earnings.

Figure 27. Guidance

\$millions		2012 Guidance			
		4Q11			
	2011A			Citi	Consensus
Sales	24,857	24,500	25,000	24,325	24,515
Integrated Defense Systems	4,958	4,800	5,000	4,886	
Intelligence & Info. Systems	3,015	2,900	3,100	2,963	
Missile Systems	5,590	5,500	5,700	5,630	
Network Centric Systems	4,497	4,200	4,400	4,160	
Space and Airborne Systems	5,255	5,100	5,300	5,269	
Technical Services	3,353	3,200	3,400	3,259	
Corp/Eliminations	(1,811)	(1,800)	(1,900)	(1,841)	
Total Operating Margin	11.5%	10.9%	11.1%	11.3%	
Integrated Defense Systems	16.9%	15.9%	16.1%	16.3%	
Intelligence & Info. Systems	5.3%	7.5%	7.7%	7.8%	
Missile Systems	12.4%	11.9%	12.1%	12.1%	
Network Centric Systems	14.8%	13.4%	13.6%	13.7%	
Space and Airborne Systems	13.6%	13.2%	13.4%	13.6%	
Technical Services	9.3%	7.8%	8.0%	8.0%	
Corp/Eliminations	(190)	(225)	(235)	(231)	
FAS/CAS	(337)	(284)		(284)	
Interest Expense	(155)	(190)	(200)	(196)	
Tax Rate	29.5%	~32%		32.0%	
Diluted EPS	5.28	4.90	5.05	5.06	5.05
Adjusted EPS	5.90	5.45	5.60	5.64	
Diluted Shares	354	334	340	334.0	
Operating Cash Flow (incl. pension)	\$2,908	1,600	1,800	\$1,764	

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.06A	1.23A	1.43A	1.58A	5.28A	5.28A
2012E	1.14E	1.20E	1.27E	1.46E	5.06E	5.06E
Previous	1.14E	1.20E	1.27E	1.46E	5.06E	na
2013E	1.42E	1.47E	1.48E	1.61E	5.97E	5.57E
Previous	1.42E	1.47E	1.48E	1.61E	5.97E	na
2014E	1.64E	1.71E	1.73E	1.89E	6.96E	6.08E
Previous	1.64E	1.71E	1.73E	1.89E	6.96E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Target Price Change
- Estimate Change
- Best Ideas

Neutral	2
Price (13 Apr 12)	US\$57.00
Target price	US\$63.00
from US\$61.00	
Expected share price return	10.5%
Expected dividend yield	1.7%
Expected total return	12.2%
Market Cap	US\$8,472M

Price Performance (RIC: COL.N, BB: COL US)



Rockwell Collins, Inc. (COL)

Est. Unchanged as we Monitor SMID Cabin Bizjets & Defense

- We are maintaining our estimates for COL, although we've tweaked our CF cadence in FY12 to be more 2H-loaded as new platforms begin selling and some inventory releases (we still expect inventory to be up y/y due to deferred engineering). Our PT increases as we roll our estimates forward a Q.
- Please see cheat sheet on page 19 for further thoughts heading into earnings.

Figure 28. FY12 Guidance Trajectory

Y/Y%	9/14/2011		FY12 Guidance		Street	Citi Est.
	Low	High	1Q12	2/23/12 Barcap		
Air Transport OE	-	-				14%
Air Transport Aftermarket	-	-				12%
Wide-body IFE products	(15%)					(15%)
BizJet/Regional OE	-	-				13%
BizJet/Regional Aftermarket	-	-				14%
Commercial OE	low teens					14%
Commercial Aftermarket	low dbl digits					13%
Commercial Systems	low dbl digits		unchanged			12%
Avionics	mid-single					7%
Communications	down mid-single					(8%)
Surface Solutions	down low DD			down high DD		(21%)
Navigation Products	down 25%					(25%)
Government Systems	down low single		unchanged			(4%)
Sales (\$m)	\$4,900	\$5,000	unchanged		\$4,945	\$4,932
Total Sales (y/y %)	2.6%				0.3%	2.6%
Commercial Margin Growth	+ 250 bps y/y					254 bps
Government Margin Growth	Steady					(14 bps)
Segment Margins	20.5%	21.5%	unchanged			21.2%
EPS	\$4.40	\$4.60	unchanged		\$4.48	\$4.51
EPS (y/y %)	12%	17%			14%	14%
CF Operations (\$m)	\$625	\$725	unchanged			\$645
R&D (\$m)	\$900		unchanged			\$937
Capex (\$m)	(\$150)		unchanged			(\$157)
Tax Rate	30%		unchanged			30%

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.95A	0.96A	1.01A	1.02A	3.94A	4.06A
2012E	0.86A	1.09E	1.20E	1.37E	4.51E	4.48E
Previous	0.86A	1.09E	1.20E	1.37E	4.51E	na
2013E	1.03E	1.17E	1.29E	1.39E	4.88E	5.03E
Previous	1.03E	1.17E	1.29E	1.39E	4.88E	na
2014E	1.20E	1.31E	1.41E	1.53E	5.44E	5.59E
Previous	1.20E	1.31E	1.41E	1.52E	5.44E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Company Update
- Estimate Change

Neutral	2
Price (13 Apr 12)	US\$26.85
Target price	US\$25.00
Expected share price return	-6.9%
Expected dividend yield	0.3%
Expected total return	-6.6%
Market Cap	US\$7,513M

Price Performance (RIC: TXT.N, BB: TXT US)



Texttron Inc. (TXT) Higher Stock Price = Higher Dilution

- We've reduced our 1Q12 and 2012 EPS estimates by 1c due to the higher stock price over the quarter driving more dilution from the outstanding convertible (our old estimates contemplated 16m dilutive shares in 1Q vs. our new estimate of 22m dilutive shares). This lowers our 2012 EPS estimate although we're not changing our 2-4Q dilution expectations at this time. Our PT is unchanged as our quarterly roll-forward is offset by a lower market multiple.

- Please see cheat sheet on page 20 for more details heading into earnings.

Figure 29. Model Changes & Guidance

\$ millions, except EPS	1Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$2,710	\$2,710	\$12,421	\$12,421	\$13,019	\$13,019	\$13,515	\$13,515
Cessna	\$632	\$632	\$3,422	\$3,422	\$3,657	\$3,657	\$3,883	\$3,883
Bell	\$909	\$909	\$4,211	\$4,211	\$4,545	\$4,545	\$4,776	\$4,776
Systems	\$431	\$431	\$1,808	\$1,808	\$1,771	\$1,771	\$1,749	\$1,749
Industrial	\$719	\$719	\$2,803	\$2,803	\$2,855	\$2,855	\$2,912	\$2,912
Finance	\$19	\$19	\$178	\$178	\$192	\$192	\$195	\$195
Manuf. Op. Margin	7.7%	7.7%	9.0%	9.0%	9.3%	9.3%	9.6%	9.6%
Cessna	0.0%	0.0%	4.4%	4.4%	5.6%	5.6%	6.7%	6.7%
Bell	12.8%	12.8%	13.7%	13.7%	13.5%	13.5%	13.5%	13.5%
Systems	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Industrial	6.5%	6.5%	6.7%	6.7%	6.7%	6.7%	6.8%	6.8%
Corporate	(36)	(36)	(145)	(145)	(145)	(145)	(145)	(145)
Total Op. Margin	6.3%	6.3%	7.7%	7.7%	8.1%	8.1%	8.5%	8.5%
Interest Expense	(36)	(36)	(137)	(139)	(119)	(121)	(106)	(109)
Tax Rate	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
EPS	\$0.31	\$0.30	\$1.89	\$1.88	\$2.15	\$2.15	\$2.40	\$2.40
Diluted Shares O/S	294.3	300.3	294.3	295.8	294.3	294.3	294.3	294.3

	2010		2011		2012 Guidance		2012	
	Actual	Actual	Actual	Actual	Low	High	Citi	Street
Sales (\$M)	\$10,525	\$11,275			~\$12,500		\$12,421	\$12,318
Diluted EPS ex-Special Charges	\$0.81	\$0.79			\$1.80	\$2.00	\$1.87	\$1.90
Manufacturing CF (pre-pension)	\$759	\$1,000			\$700	\$750	\$745	
By Segment								
Cessna Sales	\$2,563	\$2,990			~\$3,400		\$3,422	
Cessna Margins	(1.1%)	2.0%			3.5%	4.5%	4.4%	
Bell Sales	\$3,241	\$3,525			~\$4,200		\$4,211	
Bell Margins	13.2%	14.8%			13%	14%	13.7%	
Systems Sales	\$1,979	\$1,872			~\$1,900		\$1,808	
Systems Margins	11.6%	7.5%			9.5%	10.5%	10.3%	
Industrial Sales	\$2,524	\$2,785			~\$2,800		\$2,803	
Industrial Margins	6.4%	7.3%			6.5%	7.5%	6.7%	
Finance Sales	\$218	\$103			~\$200		\$178	
Finance Profit	(\$237)	(\$333)			breakeven		0	

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.10A	0.29A	0.45A	-0.06A	0.79A	1.31A
2012E	0.30E	0.44E	0.48E	0.65E	1.88E	1.91E
Previous	0.31E	0.44E	0.49E	0.65E	1.89E	na
2013E	0.42E	0.50E	0.53E	0.69E	2.15E	2.28E
Previous	0.42E	0.50E	0.54E	0.70E	2.15E	na
2014E	0.47E	0.56E	0.60E	0.76E	2.40E	2.70E
Previous	0.47E	0.57E	0.60E	0.77E	2.40E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Company Focus

- Best Ideas
- Company Update
- Target Price Change
- Estimate Change

Buy/High Risk	1H
Price (13 Apr 12)	US\$15.49
Target price	US\$19.50
from US\$17.00	
Expected share price return	25.9%
Expected dividend yield	0.0%
Expected total return	25.9%
Market Cap	US\$1,328M

Price Performance (RIC: WAIR.N, BB: WAIR US)



Wesco Aircraft (WAIR) Tweaking Estimates & Raising PT

■ We've tweaked estimate to reflect our increased confidence in positive out-year commercial aero growth and the accompanying sales leverage. We've also updated our model to reflect details contained in the 10-Q. Our PT increases as we roll our estimates forward a Q, as we increase our target multiple for the company (to 15x) in line with our target for commercial aero suppliers (especially those exposed to the ramping OE cycle), and as our out-year estimate come up slightly.

■ Please see cheat sheet on page 21 for more details heading into earnings.

Figure 30. Model Changes & Guidance

\$ millions except EPS	2Q12E		FY12E		FY13E		FY14E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$191	\$191	\$788	\$787	\$835	\$835	\$895	\$907
Q/Q Change	(0.9%)	(1.0%)	-	-	-	-	-	-
Y/Y Change	8.5%	8.3%	10.9%	10.8%	5.9%	6.1%	7.2%	8.6%
Gross Margin	38.7%	38.8%	38.5%	38.5%	38.6%	38.8%	38.7%	38.9%
SG&A %	15.1%	15.1%	14.8%	14.8%	14.4%	14.4%	14.3%	14.2%
GAAP EBIT Margin	23.6%	23.7%	23.7%	23.8%	24.2%	24.4%	24.4%	24.7%
Adj. EBIT Margin	24.1%	24.1%	24.2%	24.2%	24.7%	24.9%	24.8%	25.1%
Net Interest Exp.	(6)	(6)	(25)	(25)	(21)	(21)	(17)	(16)
Tax Rate	39.1%	39.1%	39.3%	39.3%	39.1%	39.0%	38.7%	38.7%
Adj EPS	\$0.26	\$0.26	\$1.07	\$1.07	\$1.20	\$1.21	\$1.32	\$1.36
Diluted Shares O/S	95.7	95.7	95.7	95.7	96.0	96.0	96.5	96.5

\$ millions	FY11 Actual	FY12 Guidance		Consensus	Citi
		F4Q11	F1Q12		
Sales (\$m)	710.9	low 760 high 785	unchanged	784.8	787.3
y/y growth	8.4%	6.9% 10.4%		10.4%	10.8%
Diluted EPS	\$0.81	\$0.98 \$1.02		\$1.06	\$1.03
Adj. Diluted EPS	\$0.97	\$1.03 \$1.07			\$1.07
Diluted shares (m)	93.2	92.6 95.8			95.7

Source: Citi Investment Research and Analysis

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.25A	0.25A	0.23A	0.24A	0.97A	0.97A
2012E	0.26A	0.26E	0.27E	0.29E	1.07E	1.06E
Previous	0.26A	0.26E	0.27E	0.29E	1.07E	na
2013E	0.28E	0.29E	0.31E	0.33E	1.21E	1.25E
Previous	0.28E	0.29E	0.30E	0.32E	1.20E	na
2014E	0.33E	0.33E	0.34E	0.35E	1.36E	1.42E
Previous	0.32E	0.32E	0.33E	0.35E	1.32E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

Best Ideas Update

Summary — We name COL a Least Preferred stock relative to our fundamental analyst coverage for the next 3 Months, replacing TXT, which we last selected on 06 Jan 2012.

Furthermore, we remove RTN as a Most Preferred stock and COL as a Least Preferred stock relative to our fundamental analyst coverage for the next 3 Months, which we last selected on 06 Jan 2012.

Rationale — We're closing the RTN-COL pair, and replacing TXT with COL vs. PCP as we expect Phase 2 exposed aero companies (PCP) to outperform Phase 3 exposed companies (COL).

Rockwell Collins, Inc.

(COL.N; US\$57.00; 2)

Catalyst and Thesis — In our view, COL is a better late-cycle commercial play given its bizjet exposure, where it faces an uncertain SMID-cabin bizjet recovery & new competition from Garmin. COL is also more exposed to ground forces than its defense peers (although its defense business does enjoy commercial-type margins), creating the potential for further weakness as its products lose some popularity as the US winds down various military engagements. We look to new product announcements & bizjet demand as catalysts.

Boeing Co.

Company description

Headquartered in Chicago, Illinois, Boeing (BA) provides a diverse set of products and services to the aerospace and defense market. The company operates in three lines of business: Boeing Commercial Airplanes, Boeing Defense, and Boeing Capital. It is one of two major commercial airplane manufacturers in the world (the other is Airbus), and one of three major defense fixed-wing aircraft makers in the United States (the others are Lockheed Martin and Northrop Grumman). Boeing also builds military helicopters. The company merged with one of its major rivals, McDonnell Douglas, in 1997 in a \$13b stock-swap.

As a result of its vast footprint, Boeing can be engaged in several massive competitions simultaneously. Today, Boeing is competing with Airbus on narrow and wide-body commercial airplanes, and with Lockheed Martin on fighter jets. Boeing also provides numerous support and integration services to its commercial and defense customers. The company generated 2010 sales of \$64b and operating margins of 7.7%.

Investment strategy

We rate Boeing (BA) Buy (1). We recommend building positions in the company in light of our positive view on: 1) The aerospace cycle given strong backlogs and persistent demand for fuel-efficient aircraft; 2) Improved earnings visibility given recent announcements to hike production rates on their more profitable planes; 3) Improved cash flow visibility given the wind-down of the 787 and 747-8 development programs, which by our estimate should release working capital; 4) A resilient outlook for the defense business given the company's participation in several high profile contests.

Valuation

In our view, BA shares should trade in line with commercial aerospace peers in light of the market's focus on the commercial side of BA's business. We find peers currently trade at a FTM P/E of 15x, a premium to the market which in our view is driven by aerospace's resiliency. Our target price of \$89 applies a 15x multiple to our FTM EPS estimate one year from now.

Risks

The commercial aerospace industry is intrinsically risky given its vulnerability to unpredictable shocks that cannot be incorporated into earnings models, such as terrorism, volatile oil prices, and epidemics. Furthermore, the industry is highly correlated to economic growth, and relies on economic expansion for air traffic growth. The company's other exposure is the defense market, which is subject to changes in public opinion, global threats to the U.S. and its allies, the state of the federal budget, and the condition of existing U.S. and allied military equipment.

Boeing's shares may materially underperform our target price should the broader economy slip back into recession, resulting in decreased airline traffic and plane orders. Shares would also underperform to the extent that DoD budgets were severely cut. The company is also subject to intense commercial competition with Airbus, especially in the narrow-body segment, where defending market share could come at the expense of margin. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

DigitalGlobe

Company description

Headquartered in Longmont, CO, DigitalGlobe is a leading provider of commercial high-resolution earth imagery products and services derived from the three-satellite constellation it owns and operates. These satellites are used for specific customer tasking and to produce general content loaded into the company's proprietary ImageLibrary, which houses satellite images covering 600 million square kilometers. Image distribution occurs through several channels, including direct tasking arrangements to web services, desktop applications, DVD/CDs, and consumer electronic devices.

The company's top customer segment is defense and intelligence, which represented 77% of 2011 GAAP revenue. Within the segment, the primary buyer is the US National Geospatial-Intelligence Agency (NGA) which represents 60% of 2011 GAAP revenue. The company also sells to internet portals, energy, telecommunications, utility, and agricultural industries. The company employs 708 full-time employees with no collective bargaining agreements. In 2011, the company generated \$340m in sales and 42% EBITDA margins.

Investment strategy

We rate DigitalGlobe (DGI) shares as Neutral. We are constructive on the company's position in the commercial defense satellite business given that it offers a low-cost solution for the growing intelligence and surveillance needs of the US and its allies, however the EnhancedView contract with the National Geospatial Intelligence Agency (NGA) could see some weakness over the coming years as the NGA looks to trim its budget.

As such, the company is looking to supplant slow NGA business with commercial and international demand, which is still developing but has seen some success of late. While these opportunities could offer material upside going forward, there is no guarantee that these markets will develop to a size that offers sustainable growth opportunities, especially in a weakened macro environment and set against a weakened core business. As such, shares appear to fully reflect these near-term growth opportunities and the risks to the company's longer-term growth story.

We would become more positive on shares if the company's commercial business develops new markets and/or products that allow for better than expected secular growth, or if the company is able to sign a significant number of new Direct Access Program (DAP) customers. We would become more negative if the EV program were cut substantially, if commercial development costs more or takes longer than expected, or if the company lost operational capabilities of any of its satellites.

Valuation

Our target price of \$14.75 is derived using a 5.1x EV/EBITDA multiple applied against our FTM adjusted EBITDA estimate. This multiple represents a discount to the broader defense space due to DGI's high contract concentration and pressure on the EnhancedView program.

Risks

Risks revolve around DGI's relatively small market capitalization, a limited public company history, a high yield balance sheet, historically cyclical cash flows, and a concentrated shareholder group. Furthermore, the company is also subject to

significant customer concentration with the NGA, pricing and competitive considerations, and the risk of impairment of the ImageLibrary or the company's satellites.

We would become more positive on shares if commercial opportunities exceed our expectations. We could become more negative if the EV contract was substantially reduced or if commercial market were slower to develop than expected. If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

General Dynamics Corp.

Company description

Headquartered in Falls Church, Virginia, General Dynamics has four main business segments. Aerospace designs, manufactures, and provides services for mid-size and large-cabin business aircraft. Combat Systems provides land-based and amphibious armored vehicles, power trains, turrets, munitions, and gun systems. Information Systems and Technology (IS&T) provides specialized data acquisition and processing, advanced electronics, battlespace information networks, and management systems. Marine Systems designs and builds submarines, surface combatants, auxiliary ships and large commercial vessels. Approximately 70% of the company's sales are to the U.S. government and 10% to international defense customers, with the remaining 20% attributed to an even mix of U.S. commercial and international customers. In 2011, the company generated \$32.7b in sales and 11.7% total operating margins.

Investment strategy

We rate the shares of General Dynamics (GD) Buy (1) due to attractive dynamics in the large-cabin bizjet market in which GD's Aerospace segment (Gulfstream) operates. Namely we see steady demand for Gulfstream's in-production platforms due to the relative inelasticity of demand of the large-cabin customer. We expect the new G650 to offer upside to this flat sales outlook for the rest of the portfolio, likely beginning in 2012. All in, we believe these dynamics drive growth in GD's Aerospace segment.

At the same time, we see flattish demand at its defense business. This includes the Joint Tactical Radio Systems (JTRS) and Warfighter Information Network-Tactical (WIN-T), both of which should see increased demand over the coming years, as well as the marquee Stryker and Abrams platforms which continue to find support at DoD.

We have a neutral outlook on shipbuilding, due to cost pressures offset by our expectations that DoD will continue to feed work to GD shipyards on account of preserving the industrial base. Commercial opportunities provide potential upside to GD's marine business.

As a result of these dynamics we expect Aerospace profits to grow to roughly 30% of GD sales over the next few years, warranting a re-rating of shares from a valuation perspective due to the increased commercial exposure.

Valuation

Historically, shares of GD have traded at 14x FTM P/E and at a 12% discount to the S&P500. While we concede that defense industry multiples are not likely to return to

levels seen during the recent war build-up, we do argue that they should return to the levels seen during the Post-Consolidation & Stable Demand era between 1995 and 2001 – a period that best reflects the current environment, in our view. During this period, ex-the dotcom bubble, defense shares traded at a 25% discount to the S&P 500. We apply a 25% discount to the market multiple of 13x to arrive at our target defense multiple of 9.8x.

For the company's commercial aerospace business, we apply a multiple in line with a basket of commercial aerospace companies (15x). Our blended target multiple is calculated as following:

- Defense multiple = $75\% \times 13x = 9.8x$, applied to 71% of income
- Commercial multiple = 15x, applied to 29% of income

The result is a blended multiple of 11.3x, below the 10-yr average of 14x likely due to the premium assigned to defense during wartime. Applied to our FTM EPS estimate twelve months from now, we arrive at our price target of \$88. On an EV/EBITDA basis, our price target implies a 6.7x EV/EBITDA multiple, vs. the 10-yr average of 9.5x.

Risks

GD's strengths (large capitalization, low earnings and share price volatility, investment grade balance sheet, and historically strong cash flows) are offset by the risk inherent in having ~70% of revenues tied to one customer (a fiscally pressured US government), and by being exposed to inherently risky aircraft development programs.

Risks to the upside include on-going conflicts requiring defense spending on vehicles and munitions beyond our current expectations. There may also be a sooner-than-expected broad revival in business jet demand and commercial shipbuilding.

Risks to the downside include a further deterioration of global economic environment, both of which would put pressure on government spending and negatively impact domestic and international sales (commercial and government). Defense acquisition reform could also become a negative for industry margins, although we are not overly concerned with its current iteration. Also, an end to the current conflicts may further erode the need for land-based combat systems, while strategic priorities may obviate the need for major naval platforms. Aircraft development programs can also slip schedule- and cost-wise due to unforeseen contingencies.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Huntington Ingalls Industries

Company description

Huntington Ingalls Industries builds aircraft carriers, submarines, surface combatants, and amphibious ships for the US Navy and Coast Guard. Employing ~38,000, HII's shipyards have been in the business for over a century. As Northrop Grumman's (NOC) shipbuilding segment since 2001, HII maintained yards in

Virginia, Louisiana, and Mississippi. In July 2010, NOC announced it was exploring strategic alternatives for its shipbuilding segment, including either a spin or a sale. NOC reasoned that separating the businesses would allow each to focus on what they do best: NOC on defense electronics and aerospace engineering; HII on the capital-intensive and long-lead shipbuilding business. HII spun off from NOC and began trading as a standalone entity on March 31, 2011. HII's three major yards are in Newport News (VA), Pascagoula (MS), and Avondale (LA). HII will close Avondale in 2013 and consolidate Gulf Coast activities into Pascagoula. Newport News is one of only two of the nation's nuclear-capable shipyards. It's the nation's only carrier manufacturer, and one of the two submarine builders. The other is General Dynamics Marine Systems. The Gulf Coast yards are currently located in Louisiana and Mississippi, but will be consolidated in Mississippi come 2013. The yards are marked by historic margin underperformance due to some weak bids and natural disasters. They produce non-nuclear powered surface combatants (i.e. destroyers), amphibious warfare ships (the only builder), and support vessels.

HII generated 2011 sales of \$6.57b with 6% margins.

Investment strategy

We rate the shares of Huntington Ingalls Industries (HII) Buy (1) as the company, in our view, is likely to generate earnings growth primarily from segment margin expansion at the Ingalls yards as low/zero-margin ships deliver out of backlog and are replaced by new, more profitable contracts. In this way, HII represents one of the only turn-around stories in our coverage universe. And while we do expect headline noise surrounding the Navy's shipbuilding accounts (especially Aircraft Carriers), we highlight the long-run nature of shipbuilding contracts which help provide some stability to HII's top-line.

Valuation

Our target price of \$46 is derived by applying a 9.8x multiple to our pension-adjusted FTM EPS est. 12 months from now. This represents a ~25% discount to the market, in line with where defense shares have historically traded during spending environments similar to this one (slowing demand). We assign an in-line defense multiple seeing as HII's revenue concentration (downward pressure on valuation) is offset by its above-average margin expansion opportunity (upward pressure on valuation). We also believe investors will increasingly use FAS / CAS adjusted EPS vs. GAAP EPS for valuation purposes in light of the December 2011 harmonization ruling, which in our view cements the adjusted numbers as the more "normalized" earnings stream for defense companies.

Risks

We believe the relatively levered business is offset by positive cash flow dynamics due to improving operations and recoverable restructuring costs. Execution risk is mitigated by what we consider to be an achievable path for getting back to industry-standard margins (HII's comparable already does 9-10% margins while HII's poorly priced ships are scheduled to deliver by 2013). And in our view, heavy customer concentration (almost 100% US Navy or Coast Guard) is offset by strong revenue visibility. However, this is reliant on a smooth wind-down at Avondale, which could incur higher than expected restructuring costs related to employee retention and work delays through 2013.

A pending False Claims Act complaint regarding misuse of Hurricane Katrina funds is another source of risk, although the company believes the claims are not likely to result in a material adverse effect. Other risks include: reduced requirements from

shifts in military strategy; a competitive contracting environment; new Naval shipbuilding priorities eating into existing procurement plans (Virginia-class); and rising competition from in-sourced work at Navy shipyards. Budget pressure is also a risk given the high price tag of most Naval platforms, making them a relatively easy target for cuts. History also tells us that acts of god can negatively affect shipbuilding, especially in the Gulf Coast.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Lockheed Martin Corp.

Company description

Headquartered in Bethesda, Maryland, Lockheed Martin Corporation (LMT) has significant presence in almost every aspect of the defense acquisition process: research, design, development, manufacture, integration, operation, sustainment, maintenance, and services. The company's primary customer is the U.S. government (84% 2010 sales), with foreign governments (15%), and commercial customers rounding out the addressable market. Formed by the 1995 merger of Lockheed Corporation and Martin Marietta, Lockheed is the largest pure-play defense contractor by market capitalization. The company generated 2010 sales of \$45.8b and segment operating margins of 10.9%.

Investment strategy

We rate the shares of LMT with a Buy (1) given our view that it is well positioned to benefit from the Department of Defense's shift in spending behavior that favors procurement vs. development projects. We also expect the company to outgrow competitors over the next several years due to significant presence on missile defense and especially fighter jet platforms. Additionally, we expect investors to re-rate shares higher once concerns over the company's marquee Joint Strike Fighter (JSF) program and the direction of DoD budget levels recede.

In our view, growth out-performance is likely to be driven by JSF production ramps, classified satellite projects, and foreign missile defense orders. Additionally, we believe recent headlines that question the future of the JSF program are overblown given the strategic importance of the platform and that dramatic DoD budget cuts are unlikely given the current geopolitical environment, the stickiness of budgets, and historic patterns of budget declines. As such, we expect defense company shares to re-rate higher over time and for LMT to participate in the process.

Valuation

Over the past decade, LMT shares have historically traded at 16x and roughly flat to the S&P 500. While we concede that defense industry multiples are not likely to return to levels seen during the last decade, we do argue that they should return to the levels seen during similar demand environments of the past, specifically the Post-Consolidation & Stable Demand era between 1995 and 2001, a period that best reflects the current environment, in our view. During this period (ex-the dotcom bubble) defense shares traded at a 25% discount to the S&P 500 (14x). We believe LMT should trade at a mild premium (at a 20% discount to the market) due to the robust dividend, the long-term sales and earnings growth potential embedded in the F-35 program, and a robust international business. We also believe investors will

increasingly use FAS / CAS adjusted EPS vs. GAAP EPS for valuation purposes in light of the December 2011 harmonization ruling, which in our view cements the adjusted numbers as the more “normalized” earnings stream for defense companies. We therefore apply our target multiple of 10.4x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$108.

Risks

Strength derived from Lockheed Martin's large capitalization, low earnings and share price volatility, investment grade balance sheet, and historically strong cash flows, are offset by the fact that 90% of its revenues are tied to a US government customer. Domestic fiscal pressures are the most prominent downside risk, as a significant reduction in government spending would negatively impact domestic and international sales. And although we do not judge its current iteration as a major threat, acquisition reform could become a negative for industry margins. Upside and downside risks also emanate from geopolitical events impacting alliance structures and cross-border relationships, which would change defense spending habits and thus impact industry multiples. The company's marquee program, the F-35 JSF, is facing negative headlines and Congressional heat over its cost, and runs the risk of being slowed/delayed (although we do not believe the program will erode significantly due its strategic importance).

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Northrop Grumman Corp.

Company description

Northrop Grumman (NOC) is a major defense contractor to the United States providing electronics, aerospace engineering, radars, and cybersecurity solutions. NOC recently moved its corporate headquarters to Virginia from Los Angeles in order to be closer to its primary customer. While the US government accounts for almost 90% of NOC sales, the company is notably diversified, with no single product or service accounting for over 10% of total revenue. In January 2009, the company streamlined its operations, reducing the number of business segments from seven to five, and in March 2011 it spun off its shipbuilding business (into Huntington Ingalls Industries) reducing the segment count to four. In 2011, company-wide sales were \$26.4b with operating margins of 12.4%.

Investment strategy

We rate NOC Buy (1) as we expect the top-line to be driven by fighter jets (F-35 and F/A-18) and global UAV sales (especially Global Hawk). We also expect on-going cost-savings activities to yield margin improvement over the next several years, set against strong cash flows that support healthy dividends and share repurchases.

Valuation

Historically, NOC shares have traded at 14x FTM EPS estimates and at a 30% discount to the S&P 500. While we concede that defense industry multiples are not likely to return to levels seen during the most recent war build-up, we do argue that they should return to the levels seen during the spending era that best reflects the current environment, specifically the post-consolidation, stable demand environment era between 1995 and 2001. At that time (ex-the dotcom bubble), defense shares

traded at a 25% discount to the market (S&P 500 currently trades at ~13x). We also believe investors will increasingly use FAS / CAS adjusted EPS vs. GAAP EPS for valuation purposes in light of the December 2011 harmonization ruling, which in our view cements the adjusted numbers as the more "normalized" earnings stream for defense companies. We therefore apply our target multiple of 9.8x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$69.

Risks

Northrop's large capitalization, low earnings and share price volatility, investment grade balance sheet, and historically strong cash flows, are offset by the fact that ~91% of its revenues are tied to one customer: the US government (mostly the Defense Department). Risks to the downside include a further deterioration of global economic environment and the domestic fiscal situation, both of which would put pressure on government spending and trading multiples. And although we do not judge its current iteration as a major threat, acquisition reform and pentagon-led efficiency drives could become a negative for industry margins. Also, strategic priorities may reduce the need for major platforms, including the F-35 JSF which faces negative headlines and congressional heat over its cost (although we expect NOC to be able to offset some of the weakness with its F/A-18 content). Further downside risks emanate from geopolitical events which could impact defense spending habits and industry multiples.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, the stock could have difficulty achieving our target price/outperform it.

Precision Castparts Corp.

Company description

Precision Castparts (PCP) is a major supplier of components to the aerospace (57% of FY11 sales) and power (22%) markets. PCP's core competencies include offering best-value components made possible by running lean, integrated capabilities among its castings, forgings, and fastener segments.

Historically, the company has been a serial acquirer, adding complementary and new capabilities. PCP bought Wyman-Gordon in November 1999 and became a leading supplier of forged components for aircraft engines and related applications. In the wake of the commercial aerospace down cycle in the early 1990s, PCP expanded into the industrial gas turbine (IGT) sector. It also added several businesses producing equipment and components for the fluid handling, automotive, medical technology, pulp and paper, and other industrial markets. The 2003 acquisition of SPS Technologies for \$706m boosted exposure to the aerospace, automotive, and general industrial markets.

The company refocused on aerospace following the fluid management divestiture in FY05, followed up by other aerospace-focused acquisitions since then. In August 2005, PCP acquired Special Metals Corp (SMC) for \$550m to provide nickel-based billet for forging operations. In August 2009, the company paid \$850m for Carlton Forge Works, a seamless rolled ring manufacturer for aerospace and IGT applications. In January 2010, PCP paid \$355m for 49% of Chengde Steel Tube, a manufacturer of seamless pipes for energy applications.

PCP generated \$6.2b in sales in FY11 (March), up 14% y/y, with 26% segment operating margins.

Investment strategy

We rate the shares of Precision Castparts Buy (1). PCP has significant exposure to the commercial aerospace cycle (57% sales) and it has high operating leverage resulting in incremental margins of ~30-40%. Given our view that we have exited the low point of the commercial aerospace cycle and are now heading toward well – telegraphed production rate increases, we believe that PCP should trade at a premium to the market. In addition, we believe there is growth potential in the energy markets demand, especially for seamless pipe in India and China, as well as industrial gas turbines (IGTs) domestically and internationally. We also have high regard for management based on the impressive integration of recent acquisitions and sustaining strong profitability.

Valuation

Our target price of \$199 is derived by applying a 17x multiple to our FTM EPS est. 12 months from now. Because the company is set to participate in forthcoming aircraft production ramps and an increase in energy market demand, we consider this premium to be appropriate. This equates to 11.4x EV/EBITDA (using our LTM EBITDA estimate 12 months from now) vs. a 10-year average of 10x. We note that our target multiples are representative of the average values at which PCP traded in anticipation of Boeing delivery ramps in the previous up-cycle (2004-2008).

Risks

PCP's market capitalization and strong earnings/revenue visibility given commercial aerospace OEM ramps are offset by a relatively narrow customer base, with ~14% of sales made to GE, ~8% to United Technologies and Rolls-Royce, and a significant portion to Boeing. We note, however, that most of PCP's customers are large, well-financed businesses with the ability to weather economic cycles.

Other risks, which may prevent shares from reaching our target price, include persistent global economic weakness affecting all of PCP's end-markets, highlighted by ~80% of sales being made to the cyclical aerospace and power markets. Furthermore, significant exposure to oft-delayed new aerospace platforms can materially affect the timing of revenue growth. Softer than expected defense budgets given fiscal pressures could also be a headwind with 12% of PCP's sales made to military customers. PCP is also vulnerable to losing market share to companies that sell reverse-engineered components at discount prices. And although the current management has a strong track record of integrating acquisitions, there is integration risk associated with PCP's numerous transactions. Meanwhile, CEO Mark Donegan's strong leadership style is both a strength and cause for some concern, as the management team may lack some depth.

Raytheon Co.

Company description

Headquartered in Waltham, Massachusetts, Raytheon (RTN) develops and produces products and services primarily for the defense market. The company focuses on a diverse set of platforms and components including missiles (i.e. Patriot, Standard Missile), radars, optical sensors, and communication systems. The company has ~15,000 contracts across 8,000 programs, protecting it from outsized

exposure to any one marquee platform. It also has one of the largest international exposures among prime defense contractors, with international representing ~25% of sales ~30% of backlog. The company generated 2011 sales of \$24.9b and operating margins 11.5%.

Investment strategy

We rate RTN Buy (1) as we consider the company an important part of the defense value chain spanning diverse products including radars, sensors, and integrated electronic systems, giving the company broad exposure to numerous programs. We recommend building positions in the company given our view that it is well positioned to outgrow competitors over the next several years while posting resilient margins, and that investors are likely to re-rate shares higher once the company's higher growth and margin profiles are appreciated.

In our view, relative growth out-performance is likely driven by the combination of a platform agnostic portfolio less susceptible to large program cancellations, and by international exposure mostly in missile systems. RTN's force multiplying electronics are also well-suited for a pressured fiscal environment in which the customer is looking to get the best bang for its buck. Further tailwind could come from airborne radars as the company looks to take international market share and from persistent surveillance platforms. We also believe that concerns over dramatic cuts to DoD budgets are unfounded given the current geopolitical environment, the stickiness of budgets, and historic patterns of budget declines.

Valuation

Historically, shares of RTN have traded at 14x and at a 20% discount to the S&P 500. While we concede that defense industry multiples are not likely to return to levels seen during the most recent war build-up, we do argue that they should return to the levels seen during the post-consolidation, stable demand environment era between (1995-2001), a period that best reflects the current environment. During this period (ex-the dotcom bubble) defense shares traded at a 25% discount to the market. We believe that RTN should trade at a slight premium (ie a 20% discount) due to its diversified portfolio, its higher margin profile, and its industry-leading international exposure. We also believe investors will increasingly use FAS / CAS adjusted EPS vs. GAAP EPS for valuation purposes in light of the December 2011 harmonization ruling, which in our view cements the adjusted numbers as the more "normalized" earnings stream for defense companies. We therefore apply our target multiple of 10.4x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$64.

Risks

RTN's large capitalization, earnings and share price volatility, investment grade balance sheet, and historically strong cash flows are offset by ~88% of its revenues being tied to one customer: the US government, and primarily the Defense Department. Risks to the downside include a further deterioration of global economic environment and the domestic fiscal situation, both of which would put pressure on government spending and trading multiples. And although we do not judge its current iteration as a major threat, acquisition reform could become a negative for industry margins. Meanwhile, both upside and downside risks emanate from geopolitical events which would change defense spending habits and industry multiples.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Rockwell Collins, Inc.

Company description

Headquartered in Cedar Rapids, Iowa, Rockwell Collins designs and produces communication and aviation electronics for commercial and military customers. While it focuses primarily on aviation, Government Systems also offers land and sea-based products including handheld GPS devices, ruggedized computers, and tactical radios. The company also provides maintenance service and support through a global network of service centers. COL generated sales of \$4.8b in FY11 with segment operating margins of 20%.

Investment strategy

We rate COL as Neutral as the risk/reward on the shares appears fairly balanced at this point. We view COL as a well-diversified competitor with particular strengths in aviation electronics on large, regional, and business jets, as well as in communications and electronics systems for air and land-based defense platforms.

At this point, we expect the company's government systems business (~60% of sales) to be pressured by troop withdrawals and exposure to land-based capabilities/platforms. On the other hand, we expect the airborne government business to continue to grow driven by retrofits and upgrades. We are also less constructive on the commercial business due to limited visibility of a recovery in the small and mid-cabin bizjet market, as well as new competition in the cockpit avionics market.

We would become more positive on shares should the SMID bizjets recover faster than expected. We would become more negative on shares should continued economic uncertainty further delay OE production growth or should the company lose market share to new competition. We would also become more negative should COL's relatively high government margins (20%) be squeezed by a tight budget environment.

Valuation

Our SOTP approach separates the business into commercial and government income. For commercial, we apply a 15x multiple, in line with a basket of commercial aerospace companies. For defense, we argue that defense companies should trade at levels seen during the Post-Consolidation & Stable Demand era between 1995 and 2001, a period that in our view best reflects the current environment. During this period (ex the dotcom bubble), defense shares traded at a 25% discount to the S&P 500. While Rockwell's land exposure is a drag on valuation, we believe this is offset by its largely fixed-price defense portfolio (80%). Therefore, we assign a 9.5x multiple to COL's defense business, representing a 25% discount to the market multiple of 13x. Our blended target multiple is calculated as following:

- Defense multiple = $75\% * 13x = 9.75x$, applied to 54% of income (FY12E).
- Commercial multiple = 15x, applied to 46% of income (FY12E).

The result is a blended multiple of 12.2x applied to our FTM EPS estimate of \$5.20 (12 months from now), yielding a \$63 price target.

Risks

COL's market capitalization, earnings and share price volatility, investment grade balance sheet, and historically robust cash flows, are offset by significant customer concentration (the US Government accounts for ~40% of sales). Risks to the downside include the commercial aerospace industry being intrinsically risky due to its exposure to global growth, consumer sentiment, volatile commodity prices, and unpredictable shocks affecting air traffic and utilization such as terrorism and epidemics. On the defense side, the domestic fiscal situation and developments on the battlefield are the most prominent risks, as significant reduction in government spending would negatively impact sales. Upside and downside risks emanate from geopolitical events which would change defense spending habits. A significant platform for long-term growth, JTRS, also faces negative sentiment related to affordability and performance shortfalls. Risks to the upside include valuation attracting take-out opportunities, and a more pronounced snap back in small/mid-size bizjet demand.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, we believe the stock will likely have difficulty achieving our target price or could outperform it.

Textron Inc.

Company description

Headquartered in Providence, Rhode Island, Textron (TXT) is a diversified manufacturer manufacturing a variety of industrial goods. Once a far-flung conglomerate, the company has streamlined into five operating segments: Cessna (business jets), Bell (helicopters), Textron Systems (UAVs, armored security vehicles, precision weapons), Industrial (automotive parts, golf carts, turf-care, tools), and Finance. The Finance segment has been in wind-down mode since December 2008, when the company decided to exit all lines of financing business not associated with sales of Textron-made products (bizjets & golf carts). The company generated \$11.3b in sales in 2011 with 4.2% operating margins.

Investment strategy

We rate shares of TXT as Neutral given our concerns about the pace of recovery at Cessna and the potential that consensus estimates will head lower for 2012 and 2013 over the next several months. In our view, current valuation level is appropriate in light of the uncertainty facing the company, including a rebound in the small-cabin business jet market and broader macroeconomic weakness impacting the company's industrial businesses.

Valuation

In our view, a sum-of-the-parts methodology is appropriate at this time given the varying stages of recovery at each of the company's businesses, and it should give investors a better sense of break-up value. To calculate our target price, we apply varying multiples to the company's different business lines. In the case of the commercial business, we use the three-year average FTM PE multiple for the S&P500 of 13.7x. For the company's defense businesses, we use an 8.8x multiple, which represents a 30% discount to the market, in line with where we believe a

ground-exposed company should trade. For the company's finance business, we use a 7.5x multiple given the valuation levels of a broad swath of financial companies. The resulting blended multiple is 11.7x, which yields our \$25 PT when applied to our FTM EPS estimate twelve months from now.

Risks

Strong brand recognition and relatively broad end-market exposure are offset by limited end-market visibility (i.e. bizjets) and risks associated with other elements of the portfolio (i.e. finance and end-market industrial demand). Aviation and helicopter sales could experience further weakness based on economic pressure and increased competition. And in our view, Cessna's small-cabin bizjets are still relatively out-of-favor given macro uncertainty. The finance segment may also be volatile due to broader market gyrations impacting valuation and liquidation pace, despite the segment being in wind-down mode. Meanwhile, US Government spending (31% of revenues) is under increasing fiscal pressure which could result in program cancellations or delays, including the V-22 Osprey. As war op tempo slows, war budgets may also move away from TXT. Meanwhile, there is headline risk associated with Systems' Sensor Fuzed Weapon, which some consider a banned cluster munition.

We would become more negative if op tempo decreased faster than anticipated, the bizjet recovery was delayed beyond 2012, or commercial demand for new aircraft was slower to materialize than expected. We would become more positive if the small-cabin market improved faster than expected and if evidence emerged of Bell's ability to recapture commercial market share. If the impact on the company from any of these factors proves to be greater than we anticipate in either direction, the stock will likely have difficulty achieving our target price.

Wesco Aircraft

Company description

Headquartered in Valencia, California, Wesco Aircraft is one of the world's largest distributors and providers of supply chain management services to the global aerospace industry. Primary customers include aerospace OEMs such as Airbus, Boeing, Alenia, Spirit, Bell, Gulfstream, EADS, and Lockheed, with the business split roughly evenly between commercial and military end-markets. The company employs 1,000 and supplies more than 450,000 SKUs to over 7,200 customers in support of almost all major Western aircraft programs. Highly engineered fasteners represent 66% of company sales, with the balance made up of other core hardware products (14%), electronic components (11%) and bearings (7%).

Wesco is a family affair, as it was founded as a scrap metal dealer in 1953 by Jack Snyder, the father of the current Chairman and CEO, Randy Snyder, who has held the position since 1977. Upon Randy's assumption of the CEO role, he redefined Wesco as an aerospace hardware distributor, and in 1993 WAIR began providing JIT ("just in time") inventory management services. In June 2008, the company purchased Airtechnics (now referred to as Electronic Products Group) to broaden its product base. The company has a presence in 10 countries, with sales and stocking locations in the US, UK, and France and proposed locations in Mexico.

Since 1986, Wesco has generated a ~15% sales CAGR. In FY11 (September), WAIR generated \$711m of sales (+8% y/y) at 22.7% operating margins, representing the company's strongest sales performance to-date. The company completed its IPO on August 2, 2011.

Investment strategy

We rate Wesco Aircraft (WAIR) Buy/High Risk (1H). We recommend building positions in the company in light of our positive view on: 1) Cyclical trends with new commercial platform introductions and planned production ramps; 2) Secular trends given the opportunity to consolidate parts of the aerospace distribution market and increase cross-selling to current customers; 3) Attractive cash flow trends due to cyclical dynamics contributing to reduced leverage and creating acquisition opportunities in a fragmented market.

Valuation

Our \$19.50 price target is derived using the our target commercial aero multiple of 15x applied against our FTM EPS estimate a year from now. In our view, it is appropriate to use this multiple given the company's robust revenue and earnings visibility in the face of approaching commercial aerospace production rate increases which are likely to prove less volatile than the broader economy given large backlogs at the commercial OEMs.

Risks

We rate WAIR High Risk based on the company's exposure to an intrinsically risky commercial aerospace market given its vulnerability to unpredictable shocks that cannot be incorporated into earnings models, such as terrorism, volatile oil prices, and epidemics. Furthermore, the industry is highly correlated to economic growth, and relies on economic expansion for traffic to grow. The company's other exposure is the defense market, which is subject to changes in public opinion, global threats to the U.S. and its allies, the state of the federal budget, and the condition of existing U.S. and allied military equipment. Wesco's shares may materially underperform our target price should the broader economy slip back into recession, resulting in decreased airline traffic, weaker backlogs, and reduced plane orders. Shares would also underperform to the extent that DoD budgets were cut beyond our current expectations. Finally, shares could underperform should the OEs look to further disintermediate distributors in an attempt to lower costs. If the impact on the company from any of these factors proves to be greater than we anticipate, we believe the stock will likely have difficulty achieving our target price.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

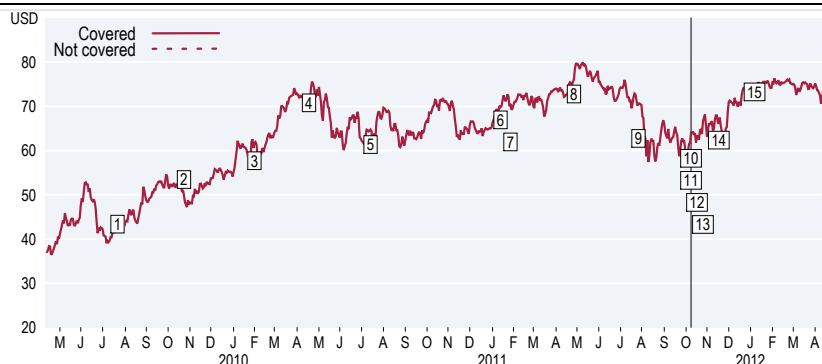
IMPORTANT DISCLOSURES

Boeing Co. (BA)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	22-Jul-09	2H	*41.00	42.00
2	23-Oct-09	2H	*50.00	49.89
3	31-Jan-10	2H	*59.00	60.60
4	19-Apr-10	2H	*73.00	70.96
5	14-Jul-10	*1H	*80.00	64.75

* Indicates change

	Date	Rating	Target Price	Closing Price
6	13-Jan-11	1H	*85.00	69.83
7	27-Jan-11	1H	*84.00	70.56
8	27-Apr-11	1H	*90.00	76.12
9	27-Jul-11	1H	*85.00	70.63
10	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
11	8-Oct-11	*1	85.00	61.81
12	18-Oct-11	1	*87.00	63.47
13	26-Oct-11	1	*78.00	66.56
14	17-Nov-11	1	*82.00	66.09
15	6-Jan-12	1	*87.00	73.98

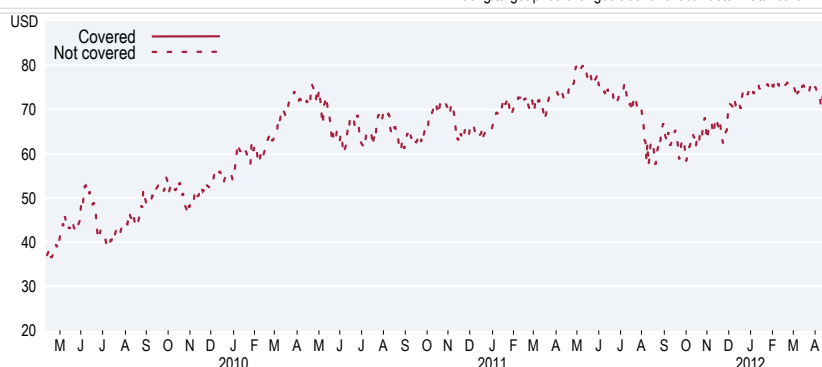
Rating/target price changes above reflect Eastern Standard Time

Boeing Co. (BA)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



* Indicates change

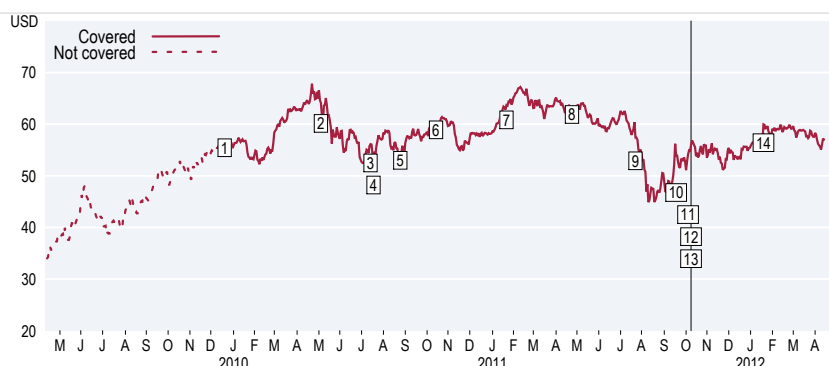
Rating/target price changes above reflect Eastern Standard Time

Rockwell Collins, Inc. (COL)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	20-Dec-09	*2M	*\$7.00	55.99
2	5-May-10	2M	*\$64.00	64.11
3	14-Jul-10	*2H	*\$61.00	56.13
4	18-Jul-10	2H	*\$60.00	54.16
5	25-Aug-10	2H	*\$62.00	53.55

* Indicates change

	Date	Rating	Target Price	Closing Price
6	14-Oct-10	2H	*\$64.00	60.22
7	21-Jan-11	2H	*\$66.00	63.71
8	25-Apr-11	2H	*\$68.00	61.88
9	22-Jul-11	2H	*\$65.00	57.41
10	18-Sep-11	2H	*\$61.00	56.21

	Date	Rating	Target Price	Closing Price
11	5-Oct-11	2H	*\$57.00	54.12
12	8-Oct-11	Stock rating system changed		
13	8-Oct-11	*2	57.00	54.85
14	19-Jan-12	2	*\$61.00	59.96

Rating/target price changes above reflect Eastern Standard Time

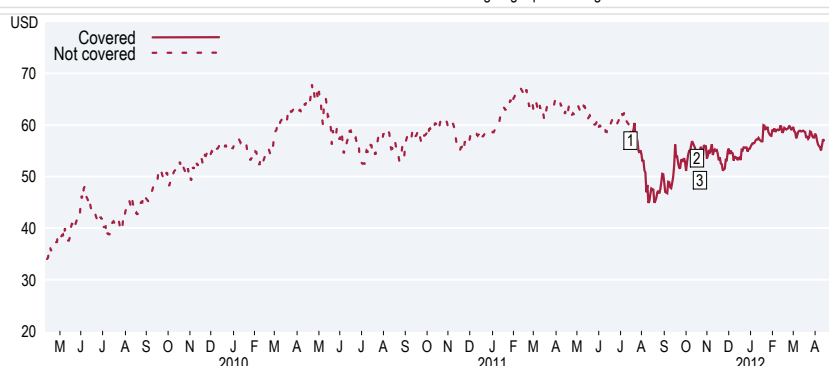
Rockwell Collins, Inc. (COL)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	15-Jul-11	*ADD LP	-	58.68

* Indicates change

	Date	Rating	Target Price	Closing Price
2	18-Oct-11	*REM LP	-	54.48

	Date	Rating	Target Price	Closing Price
3	21-Oct-11	*ADD LP	-	55.16

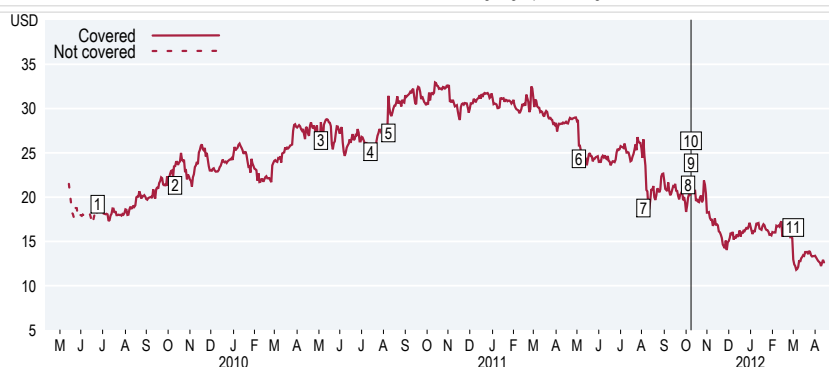
Rating/target price changes above reflect Eastern Standard Time

DigitalGlobe (DGI)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	24-Jun-09	*2S	*\$21.00	18.62
2	11-Oct-09	*2H	*\$26.00	23.55
3	5-May-10	2H	*\$29.00	28.47
4	14-Jul-10	2H	*\$30.00	25.59

* Indicates change

	Date	Rating	Target Price	Closing Price
5	9-Aug-10	2H	*\$34.00	31.44
6	4-May-11	2H	*\$32.00	25.83
7	3-Aug-11	2H	*\$30.00	26.53
8	5-Oct-11	2H	*\$22.00	19.94

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	Stock rating system changed		
10	8-Oct-11	*2	22.00	20.17
11	1-Mar-12	2	*\$14.75	12.96

Rating/target price changes above reflect Eastern Standard Time

DigitalGlobe (DGI)

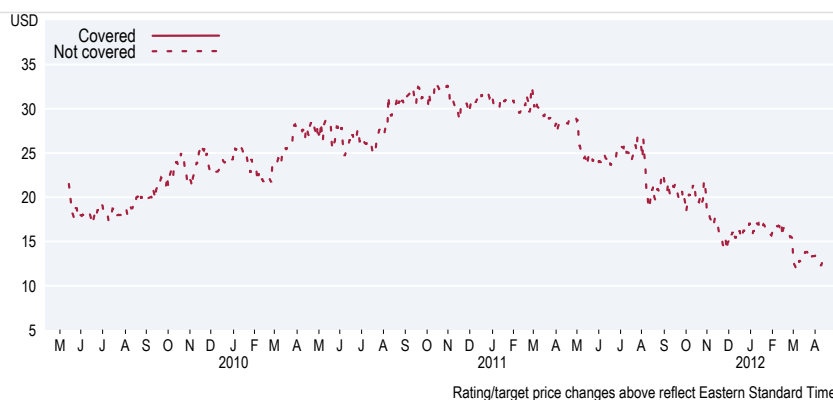
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



* Indicates change

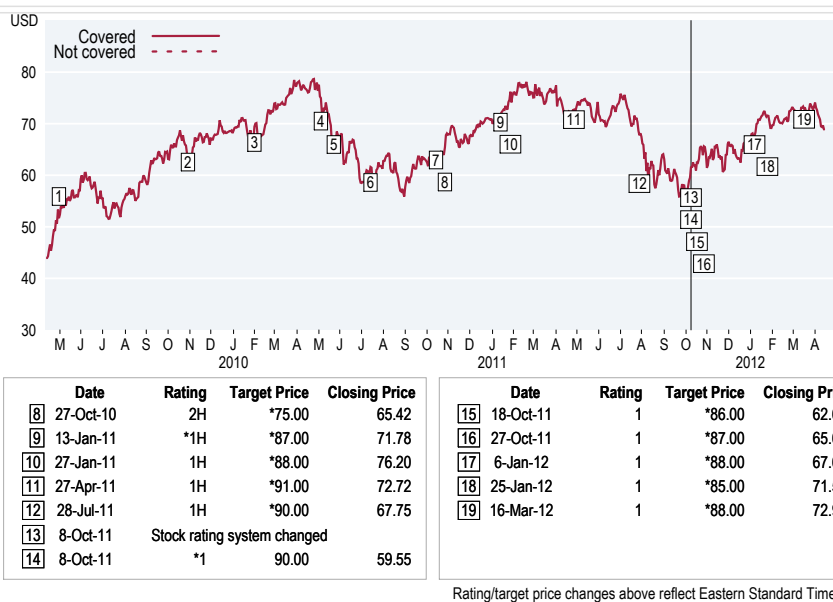
General Dynamics Corp. (GD)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



* Indicates change

Date	Rating	Target Price	Closing Price
1 30-Apr-09	3M	*45.00	51.67
2 29-Oct-09	3M	*59.00	63.65
3 31-Jan-10	3M	*63.00	66.85
4 5-May-10	3M	*67.00	74.96
5 24-May-10	*2M	67.00	65.96
6 14-Jul-10	*2H	*69.00	61.61
7 14-Oct-10	2H	*71.00	63.17

Date	Rating	Target Price	Closing Price
8 27-Oct-10	2H	*75.00	65.42
9 13-Jan-11	*1H	*87.00	71.78
10 27-Jan-11	1H	*88.00	76.20
11 27-Apr-11	1H	*91.00	72.72
12 28-Jul-11	1H	*90.00	67.75
13 8-Oct-11	Stock rating system changed		
14 8-Oct-11	*1	90.00	59.55

Date	Rating	Target Price	Closing Price
15 18-Oct-11	1	*86.00	62.64
16 27-Oct-11	1	*87.00	65.61
17 6-Jan-12	1	*88.00	67.62
18 25-Jan-12	1	*85.00	71.57
19 16-Mar-12	1	*88.00	72.90

Rating/target price changes above reflect Eastern Standard Time

General Dynamics Corp. (GD)

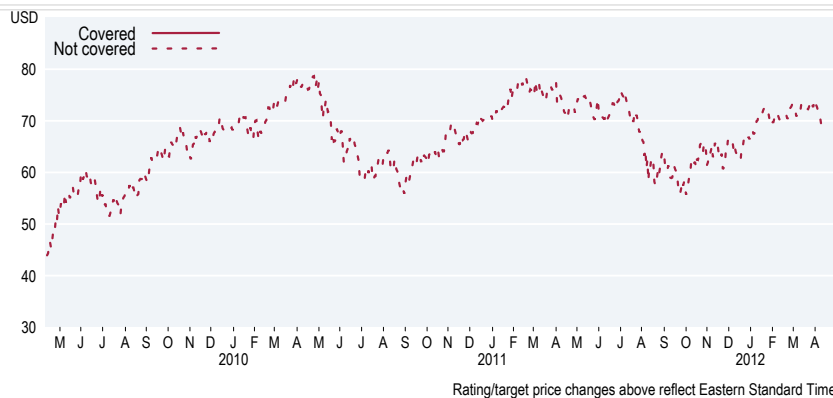
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



* Indicates change

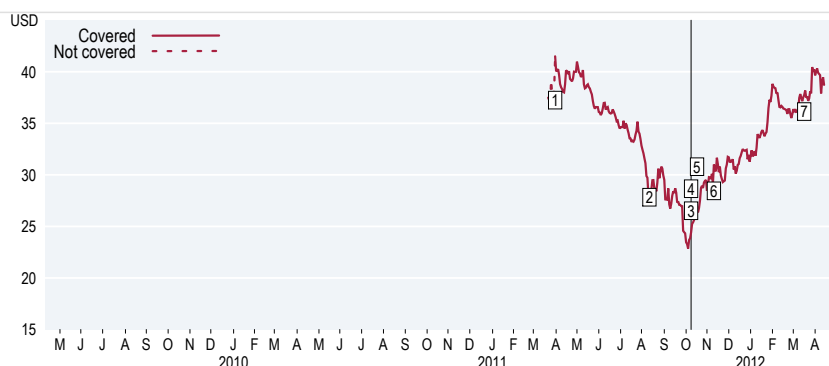
Rating/target price changes above reflect Eastern Standard Time

Huntington Ingalls Industries (HII)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since March 31 2011



	Date	Rating	Target Price	Closing Price
1	31-Mar-11	*1M	*44.00	41.50
2	11-Aug-11	1M	*35.00	27.83
3	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
4	8-Oct-11	*1	35.00	23.85
5	18-Oct-11	1	*32.00	26.47
6	10-Nov-11	1	*36.00	31.00

	Date	Rating	Target Price	Closing Price
7	16-Mar-12	1	*45.00	37.75

Rating/target price changes above reflect Eastern Standard Time

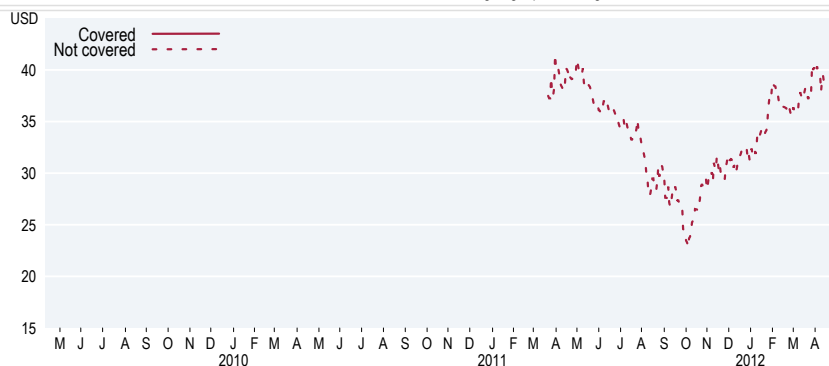
Huntington Ingalls Industries (HII)

Ratings and Target Price History Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since March 31 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lockheed Martin Corp. (LMT)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	21-Apr-09	2M	*78.00	76.04
2	31-Aug-09	*1M	*90.00	74.98
3	20-Oct-09	1M	*86.00	71.99
4	5-May-10	1M	*95.00	84.84
5	14-Jul-10	*1H	*97.00	75.50
6	14-Oct-10	1H	*91.00	70.20

* Indicates change

	Date	Rating	Target Price	Closing Price
7	24-Oct-10	1H	*88.00	71.78
8	28-Jan-11	1H	*100.00	78.20
9	26-Apr-11	1H	*104.00	79.04
10	15-Jul-11	1H	*102.00	78.37
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*1	102.00	74.00

	Date	Rating	Target Price	Closing Price
13	18-Oct-11	1	*92.00	75.98
14	27-Oct-11	1	*89.00	75.65
15	26-Jan-12	1	*92.00	82.47
16	16-Mar-12	1	*108.00	89.32

Rating/target price changes above reflect Eastern Standard Time

Lockheed Martin Corp. (LMT)

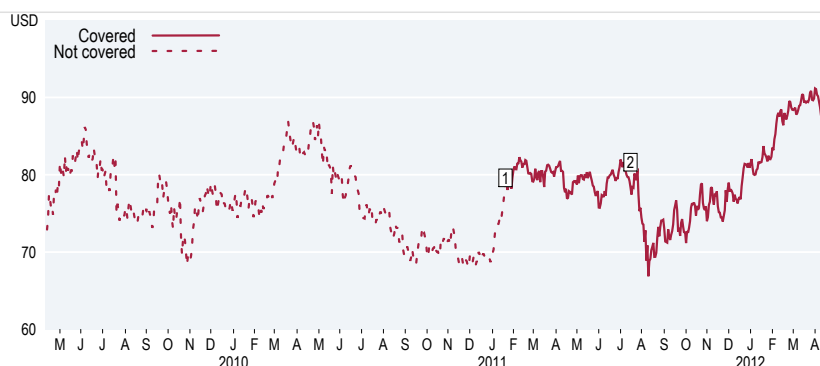
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
[1]	20-Jan-11	*ADD MP	-	79.32

* Indicates change

	Date	Rating	Target Price	Closing Price
[2]	15-Jul-11	*REM MP	-	78.37

Rating/target price changes above reflect Eastern Standard Time

Northrop Grumman Corp. (NOC)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
[1]	22-Apr-09	2M	*43.54	43.34
[2]	23-Oct-09	2M	*46.27	45.05
[3]	25-Feb-10	2M	*56.25	55.45
[4]	5-May-10	2M	*62.60	60.67
[5]	14-Jul-10	*1H	62.60	51.70

* Indicates change

	Date	Rating	Target Price	Closing Price
[6]	27-Oct-10	1H	*66.22	55.68
[7]	10-Feb-11	1H	*77.11	64.55
[8]	31-Mar-11	1H	*76.00	62.71
[9]	28-Apr-11	1H	*79.00	63.09
[10]	15-Jul-11	1H	*83.00	64.62

	Date	Rating	Target Price	Closing Price
[11]	27-Jul-11	1H	*80.00	62.68
[12]	8-Oct-11	Stock rating system changed		
[13]	8-Oct-11	*1	80.00	52.81
[14]	18-Oct-11	1	*71.00	54.40
[15]	27-Oct-11	1	*69.00	57.64

Rating/target price changes above reflect Eastern Standard Time

Northrop Grumman Corp. (NOC)

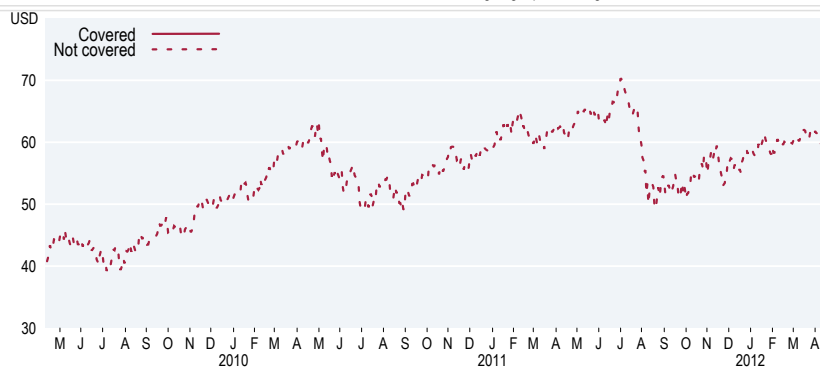
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



* Indicates change

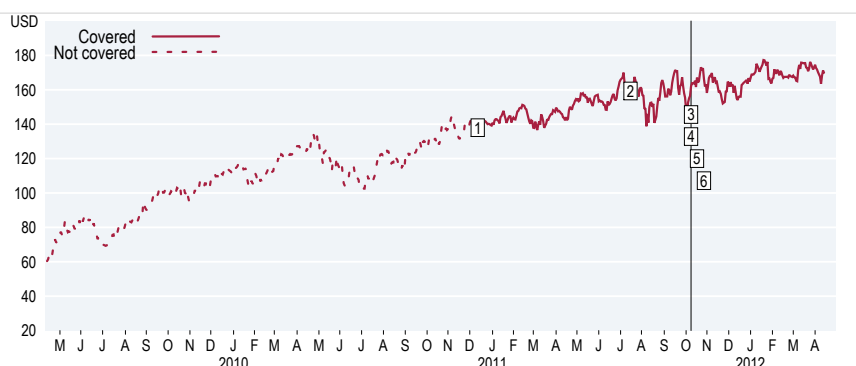
Rating/target price changes above reflect Eastern Standard Time

Precision Castparts Corp. (PCP)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since December 13 2010



	Date	Rating	Target Price	Closing Price
1	13-Dec-10	*1M	*173.00	142.01
2	15-Jul-11	1M	*188.00	161.48

* Indicates change

	Date	Rating	Target Price	Closing Price
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*1	188.00	156.47

	Date	Rating	Target Price	Closing Price
5	18-Oct-11	1	*192.00	167.08
6	27-Oct-11	1	*194.00	166.47

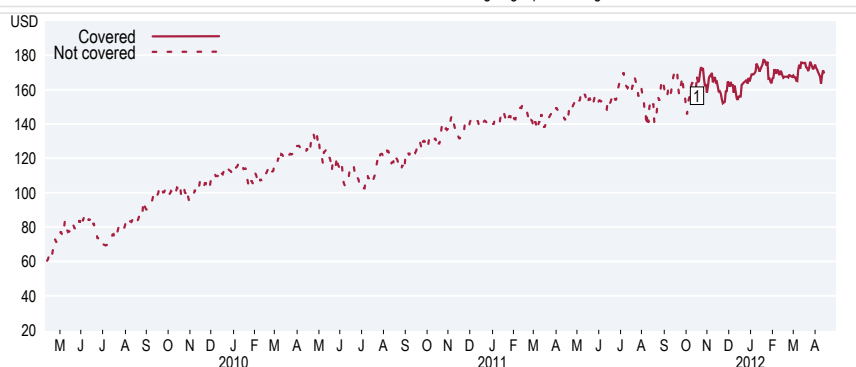
Rating/target price changes above reflect Eastern Standard Time

Precision Castparts Corp. (PCP)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jason Gursky

Covered since December 13 2010



	Date	Rating	Target Price	Closing Price
1	18-Oct-11	*ADD MP	-	167.08

* Indicates change

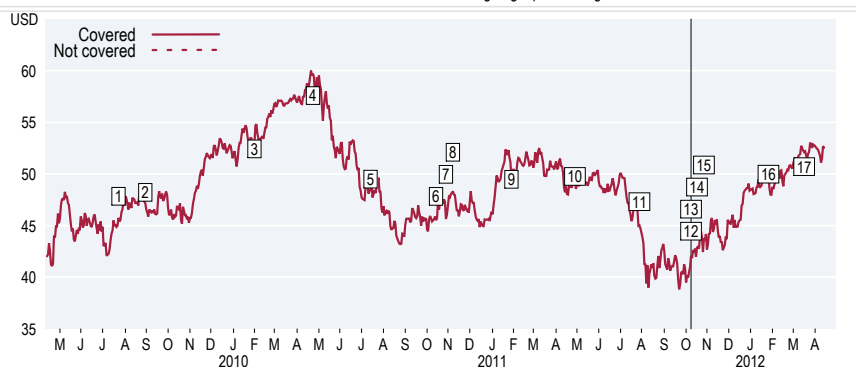
Rating/target price changes above reflect Eastern Standard Time

Raytheon Co. (RTN)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	23-Jul-09	1M	*52.00	45.75
2	31-Aug-09	*2M	52.00	47.18
3	31-Jan-10	2M	*57.00	52.43
4	23-Apr-10	2M	*61.00	59.72
5	14-Jul-10	*1H	*60.00	48.57
6	14-Oct-10	1H	*58.00	45.52

* Indicates change

	Date	Rating	Target Price	Closing Price
7	28-Oct-10	1H	*56.00	45.64
8	8-Nov-10	1H	*58.00	48.33
9	28-Jan-11	1H	*62.00	49.48
10	28-Apr-11	1H	*64.00	49.25
11	28-Jul-11	1H	*62.00	45.02
12	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
13	8-Oct-11	*1	62.00	41.00
14	18-Oct-11	1	*59.00	42.88
15	27-Oct-11	1	*56.00	43.79
16	26-Jan-12	1	*59.00	49.89
17	16-Mar-12	1	*64.00	52.12

Rating/target price changes above reflect Eastern Standard Time

Raytheon Co. (RTN)

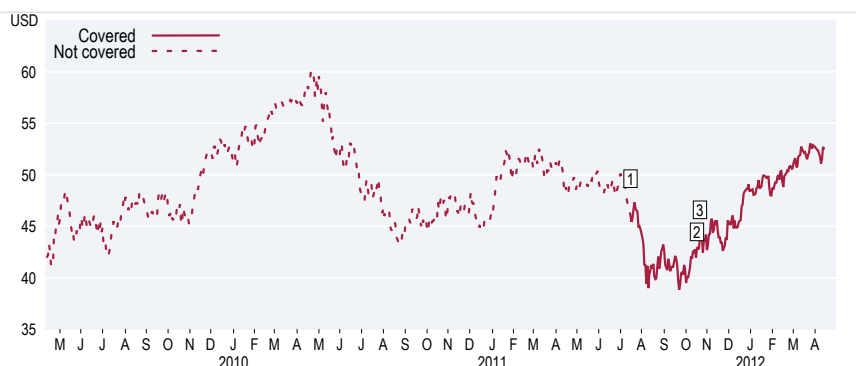
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	15-Jul-11	*ADD MP	-	46.05

* Indicates change

	Date	Rating	Target Price	Closing Price
2	18-Oct-11	*REM MP	-	42.88

	Date	Rating	Target Price	Closing Price
3	21-Oct-11	*ADD MP	-	43.97

Rating/target price changes above reflect Eastern Standard Time

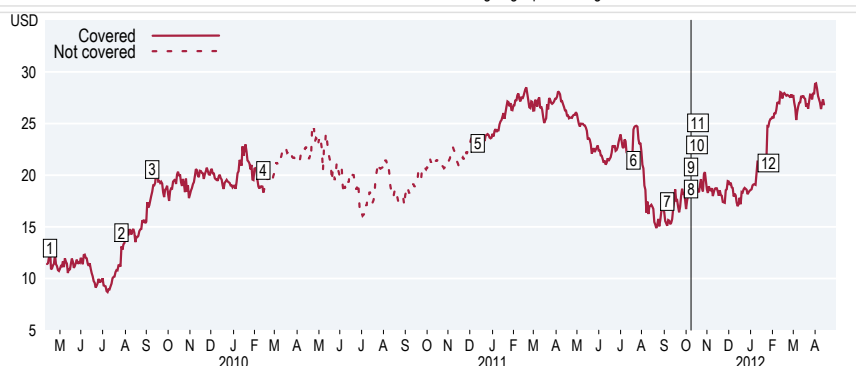
Textron Inc. (TXT)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since December 13 2010



	Date	Rating	Target Price	Closing Price
1	14-Apr-09	*2H	*12.00	11.40
2	28-Jul-09	2H	*15.00	13.11
3	9-Sep-09	2H	*20.00	18.41
4	12-Feb-10	Coverage terminated		

* Indicates change

	Date	Rating	Target Price	Closing Price
5	13-Dec-10	2H	*26.00	23.66
6	20-Jul-11	2H	*28.00	24.43
7	6-Sep-11	2H	*18.50	15.11
8	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
9	8-Oct-11	*2	18.50	18.34
10	18-Oct-11	2	*18.70	18.66
11	19-Oct-11	2	*21.00	18.59
12	26-Jan-12	2	*25.00	24.74

Rating/target price changes above reflect Eastern Standard Time

Textron Inc. (TXT)

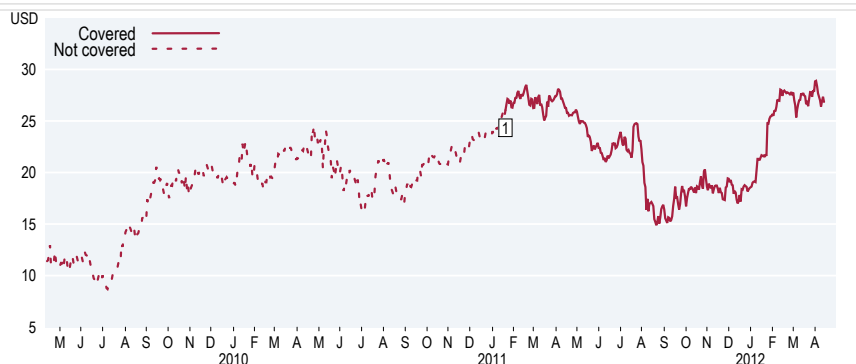
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since December 13 2010



	Date	Rating	Target Price	Closing Price
1	20-Jan-11	*ADD LP	-	26.05

* Indicates change

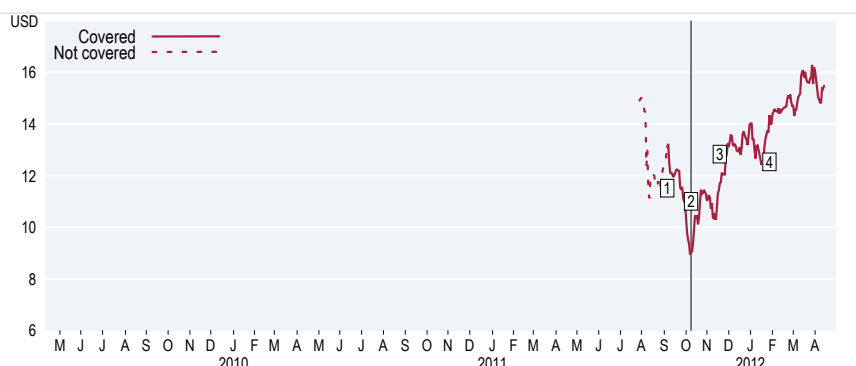
Rating/target price changes above reflect Eastern Standard Time

Wesco Aircraft (WAIR)

Ratings and Target Price History Fundamental Research

Analyst: Jason Gursky

Covered since September 6 2011



	Date	Rating	Target Price	Closing Price
1	6-Sep-11	*1H	*15.00	13.11
2	8-Oct-11	Stock rating system changed		

* Indicates change

	Date	Rating	Target Price	Closing Price
3	18-Nov-11	1H	*16.00	11.71
4	27-Jan-12	1H	*17.00	14.35

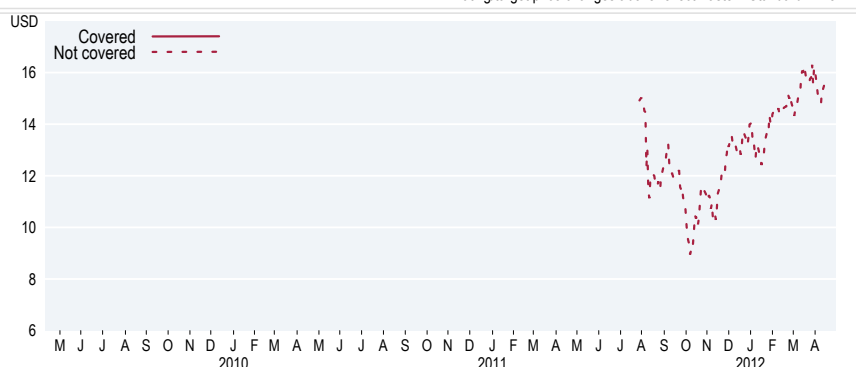
Rating/target price changes above reflect Eastern Standard Time

Wesco Aircraft (WAIR)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jason Gursky

Covered since September 6 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

DigitalGlobe Inc. may be deemed to be controlled by or under common control with Morgan Stanley due to ownership, board or other relationship. Citigroup may be deemed to control Morgan Stanley Smith Barney LLC, and Morgan Stanley Smith Barney LLC is a joint venture between Morgan Stanley and Citigroup.

An employee of Citi serves on the board of Raytheon Co.

BEST IDEAS UNIVERSE: The best ideas universe from which Boeing Co. (covered by Jason Gursky), Raytheon Co. (covered by Jason Gursky), Rockwell Collins, Inc. (covered by Jason Gursky), Precision Castparts Corp. (covered by Jason Gursky), Textron Inc. (covered by Jason Gursky) were chosen comprises: Boeing Co. (BA.N, US\$72.92), DigitalGlobe (DGI.N, US\$12.63), General Dynamics Corp. (GD.N, US\$68.88), Lockheed Martin Corp. (LMT.N, US\$89.3), Northrop Grumman Corp. (NOC.N, US\$60.81), Raytheon Co. (RTN.N, US\$52.53), Rockwell Collins, Inc. (COL.N, US\$57.0), Precision Castparts Corp. (PCP.N, US\$169.95), Textron Inc. (TXT.N, US\$26.85), Huntington Ingalls Industries (HII.N, US\$38.73) and Wesco Aircraft (WAIR.N, US\$15.49). All prices as of 13 Apr 2012.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Boeing Co., Rockwell Collins, Inc., Lockheed Martin Corp., Raytheon Co., Textron Inc., Wesco Aircraft.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Boeing Co., Rockwell Collins, Inc., DigitalGlobe, Lockheed Martin Corp., Northrop Grumman Corp., Precision Castparts Corp., Raytheon Co., Textron Inc., Wesco Aircraft.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Northrop Grumman Corp., Raytheon Co..

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Boeing Co., Rockwell Collins, Inc., DigitalGlobe, General Dynamics Corp., Lockheed Martin Corp., Northrop Grumman Corp., Precision Castparts Corp., Raytheon Co., Textron Inc. in the past 12 months.

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Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Boeing Co., Rockwell Collins, Inc., DigitalGlobe, General Dynamics Corp., Lockheed Martin Corp., Northrop Grumman Corp., Precision Castparts Corp., Raytheon Co., Textron Inc..

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<i>Data current as of 31 Mar 2012</i>	12 Month Rating			Relative Rating		
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