

Flight Plan 2013: What to Own in A&D

Continue to Favor BA, PCP, WAIR, LMT, RTN, HII

- **Top Picks for 2013** – We see opportunities in both A and D. On the commercial side, we like OE-exposed names (BA, PCP, WAIR) based on planned production rate increases. Look for ramping 787 rates to clear the backed-up supply chain inventory and drive better supplier results. For defense, our favorites are LMT, RTN, and HII based on what we expect to be above-expectations results over the course of the year and continued commitment to returning cash to shareholders.
- **Key Themes in Aero** – It's all about execution in 2013 as order flows take a step down from record years in 2011 and 2012 which helped build industry backlogs to record highs (6-7 years). With the backlogs in place, it's time for OEs to execute on planned production rates which are set to increase 10% in 2013.
- **Key Themes in Defense** – We expect an eventual budget deal to flat-line defense spending for 10 years (vs. the current plan for 2% growth). The next few weeks will be choppy as DC budget debates persist, but we still believe the market is mispricing these names as it expects perpetual declines in free cash flow vs. our expectation of resilient sales and margins further supported by positive pension dynamics (in 2014).
- **Key Themes in Bizjets** – We're in for another weak year for SMID-cabins as the industry continues to deal with tepid demand & relatively high used inventories. The large cabins are performing relatively well, with GD's G650 anchoring what we expect to be a good year for the larger jets.
- **Our 4Q12 picks & earnings cheat sheets** – We like Boeing due to our expectation that they'll change the way they present their pension & provide some clarity on the recent 787 fire. PCP likely provides color on the TIE opportunity. And LMT likely turns in a good book-to-bill on a strong contracting quarter. Our **earnings preview tool** includes company snapshots, earnings expectations, & valuation. Contact us for an interactive copy or see page 52 for hard copies.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
Boeing	BA	1	1	US\$84.00	US\$106.00	US\$5.03	US\$5.03
Rockwell Collins	COL	2	2	US\$60.00	US\$61.00	US\$4.58	US\$4.52
DigitalGlobe	DGI	2	2	-	-	US\$0.79	US\$0.74
General Dynamics	GD	1	1	US\$88.00	US\$88.00	US\$7.04	US\$6.81
Huntington	HII	1	1	US\$50.00	US\$54.00	US\$2.85	US\$2.85
Lockheed Martin	LMT	1	1	US\$108.00	US\$106.00	US\$8.37	US\$8.37
Northrop Corp	NOC	1	1	US\$78.00	US\$78.00	US\$7.43	US\$7.43
Precision Cast	PCP	1	1	US\$193.00	US\$238.00	US\$9.71	US\$9.89
Raytheon	RTN	1	1	US\$69.00	US\$69.00	US\$5.56	US\$5.56
Textron Inc	TXT	2	2	US\$28.00	US\$28.00	US\$2.04	US\$1.98
Wesco Aircraft	WAIR	1H	1H	US\$17.00	US\$18.00	US\$1.23	US\$1.25

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

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Top Pick Update: "Year of Boeing" Redux

Our "Year of Boeing" thesis didn't play out. But the fundamentals are still pointing in the right direction.

Related notes:

- 1) [In-Depth Backlog Analysis Adds Comfort to the Long Thesis](#)
- 2) [A Down Payment With More to Come](#)
- 3) [Takeaways from Seattle Visit](#)
- 4) [787 Issues Appear Manageable at This Point](#)

We were rather vocal in January that 2012 would belong to Boeing. Ramping production rates, 787 risk retirement, 737 MAX order flow, and an improving cash story underpinned our "Year of Boeing" thesis. While these fundamentals have played out, our stock call has not given investor concern over the strength of the company's backlog, the potential for peaking order rates and now non-cash pension headwinds.

We're keeping BA on TPL. The call didn't work in 2012, but the underperformance is overdone and the company's set to make some changes to the way it reports pension expense that should help investors focus on what matters: execution on the record backlog and the accompanying strong cash flow generation.

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

In our view, today's Boeing story is more about cash deployment and less about the near-term vagaries of daily order blips, 787 production rate speculation and non-cash pension expenses. The backlog and working capital are built, difficult development projects are coming to a close, and execution is in keen focus. Now it's time to generate cash returns for shareholders, and with free cash yields likely pushing the mid-teens by mid-decade (on current prices), we view this as highly likely. As such, we remain buyers of the stock and expect continued 787 execution and increasing investor confidence with the company's backlog to act as catalysts.

■ Key Investment Points:

- **Backlog** appears to support announced production rate increases given a bow-wave of aging planes and the efficiency gains offered by new products.
- **Orders** should be less important for the next several years as Boeing heads swiftly into a "backlog burn" era. In our view, building aircraft and cash deployment are what matter. The long-term demand outlook also supports production plans given the prospects of global economic growth and replacement rates.
- We expect sentiment on the **787** program to continue to improve as BA executes on the production rate ramp. With clean planes rolling off the lines, the 787 is accelerating into the sweet spot: full rate production on a locked-down design.
- The **free cash flow** story is cranking and with it come cash returns to shareholders. With the 787/747 programs winding down, R&D spending and working capital headwinds should dissipate. Boeing also benefits from production rate increases. At this point, we expect the company to generate ~\$10 in FCF /share in 2015E (~13.5% yield at current share levels).

Catalysts

- 1) 4Q earnings changes pension treatment/accounting presentation
- 2) Resolution of engineering union negotiations
- 3) Resolution of NTSB probe into 787 fire on the ground in Boston
- 4) Resolution to US budget debate
- 5) 787 production progress with 10/month targeted by year-end
- 6) Further cash deployment
- 7) Air Show this summer is relatively minor given our focus on execution at this point of the cycle (vs. orders)

Key Themes in Commercial Aero OE

Buy Ratings on BA, PCP, WAIR

Catalysts

We still prefer aero OE over aero aftermarket as large backlogs support production rates, while the aftermarket is more susceptible to macro uncertainty.

Execution of scheduled production rate ramps underpins our positive view on commercial aero OE into 2013. The major catalyst this year will be 787 monthly production rates (now at 5/month with Boeing targeting 10 by year-end) and A350 progress. The OE supply chain should receive another shot in the arm when Boeing makes the 777X and 787-10 decisions.

Cycle Phasing Benefits OEs

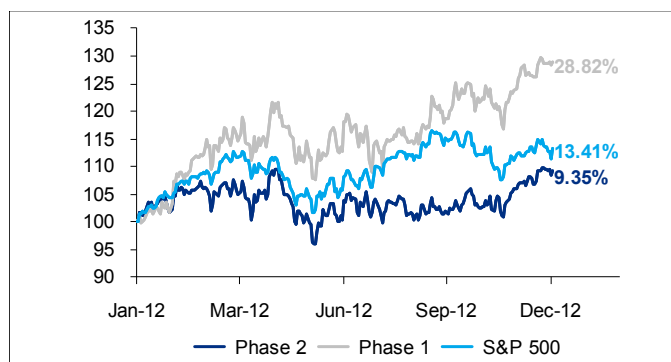
In our view, 2012 marked the beginning of Phase 2 of the aero recovery cycle in which the OEs boost production rates, benefitting the entire supply chain. We expect this dynamic to continue into 2013 as production rates march up and especially as 787 inventories continue to flush out. From our perspective, the aftermarket story incurs additional risk should the macro environment deteriorate (impacts passenger traffic and airline profits). We note that Phase 1 names outperformed Phase 2 names in three of the preceding 4 years (exception is 2011, see Figure 3).¹ With more certainty and visibility in Phase 2 names than ever before, we see room for Phase 2 outperformance in 2013.

Figure 1. Aero Recovery Cycle

	Early Cycle	Mid Cycle	Late Cycle
AMS	X		
Comm OE		X	
Bizjet OE			X

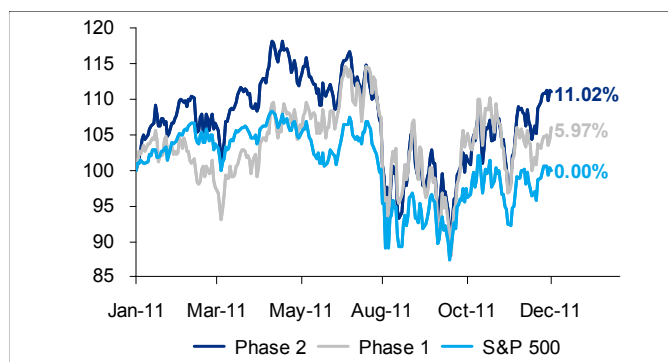
Source: Citi Investment Research and Analysis

Figure 2. Phase 1 beat Phase 2 in 2012



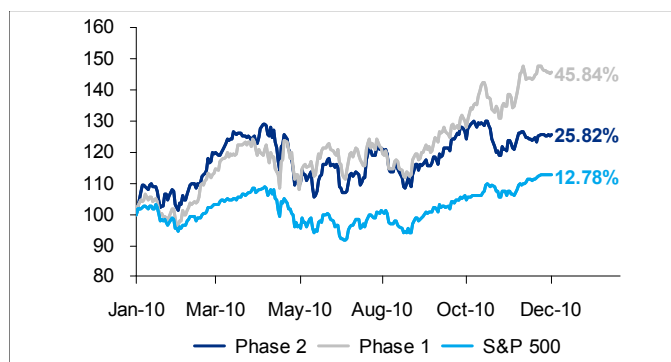
Source: Citi Research

Figure 3. Phase 2 beat Phase 1 in 2011



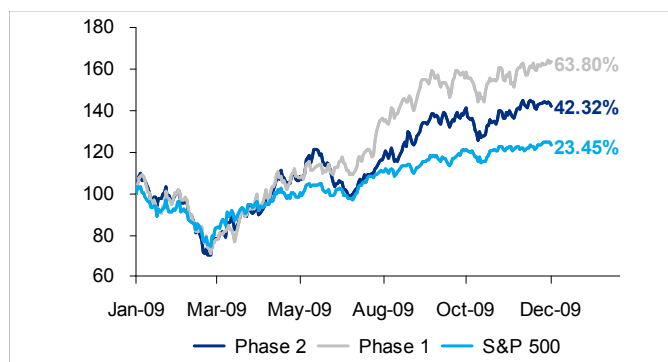
Source: Citi Research

Figure 4. Phase 1 beat Phase 2 in 2010



Source: Citi Research

Figure 5. Phase 1 beat Phase 2 in 2009



Source: Citi Research

¹ Phase 1 includes: Heico, TransDigm, B/E Aerospace, Woodward, MTU Aero, Meggitt, SAFRAN, Rolls-Royce
Phase 2 includes: Boeing, Rolls-Royce, Precision Castparts, Wesco Aircraft, Bombardier, Spirit AeroSystems, Barnes, Hexcel, Esterline Technologies Corp., Triumph Group Inc., Moog, GKN PLC

While orders are exposed to near-term macro weakness, record backlogs anchor our delivery expectations over the coming years. Our European colleagues Jeremy Bragg & Devang Doshi contributed to these sections.

As was the case in 2007-08, record backlogs buffer what should be strong production rate increases despite macro weakness.

The combined backlog for Airbus and Boeing represents 7-8 years of production. Given our global expectation of ~1x book-to-bill and modest order cancellations in 2013E and beyond (125-150 aircraft annually), we expect the backlog to remain relatively steady through 2015E.

Deliveries matter more...

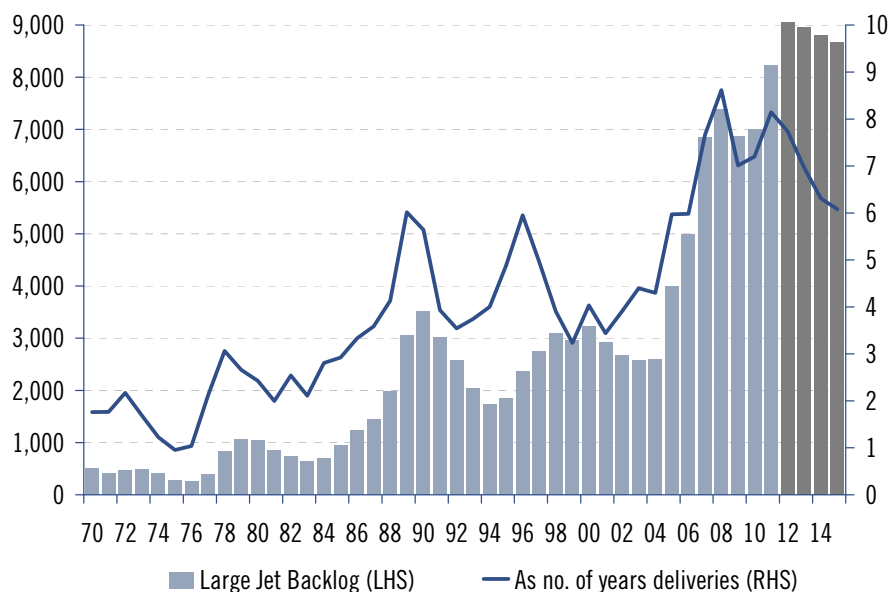
In our view, commercial aero OE is now all about executing on large backlogs, with industry-wide production rates set to increase 10% over the course of the year. We expect these increases to ripple through the supply chain, especially as 787 inventories flush out. Orders don't matter as much anymore as backlogs sit at record highs.

Record Backlogs

Backlogs hit another high watermark in 2012 (eclipsing 9,000 for the first time in history) after finishing 2011 with a record 8,386 large planes between Boeing and Airbus. Backlogs haven't been this high since 2008 which ended just above 7k aircraft (Figure 6). In our view, the same strong backlog which allowed Boeing & Airbus to weather the 2008-09 financial crisis without having to cut production rates has played an important role in 2012...and will continue to do so in 2013 as macro uncertainty lingers.

In the same way that the previous record backlog (in 2008) shielded OE fundamentals from the severe economic and financial dislocations in 2009-10, we expect much of the same over the next few years with the important distinction that the backlog has only grown, oil prices remain high, and aircraft continue to age. Based on record backlogs (now representing ~6-7 years of production), we expect production rates and deliveries to continue to increase.

Figure 6. Airbus and Boeing Order Backlog (LHS) and Backlog/Deliveries (RHS)



Source: Ascend, Citi Research estimates (from 2012)

Strong narrow-body orders on the back of the MAX and NEO introductions have driven 737/A320 backlogs out to 6-8 years (Figure 7, Figure 8).

Figure 7. Boeing Backlog by Model

Boeing	Backlog (#)	Deliveries			Yrs in current backlog	2012-15E Delivery CAGR
		2013E	2014E	2015E		
737	3,124	443	488	504	6.3	7%
747	66	23	22	18	3.1	(17%)
767	69	21	18	14	3.9	(19%)
777	366	100	100	100	3.6	6%
787	800	93	136	128	6.7	41%
Total	4,425	680	764	764	5.9 yrs	8%

Source: Citi Research, Ascend

Figure 8. Airbus Backlog by Model

Airbus	Backlog (#)	Deliveries			Yrs in current backlog	2012-15E Delivery CAGR
		2013E	2014E	2015E		
A320	3,490	470	470	470	7.5	1%
A330	306	110	118	98	2.8	(0%)
A350	572	0	10	30	10.1	NA
A380	160	26	30	35	5.1	5%
Total	4,528	606	628	633	7.2 yrs	3%

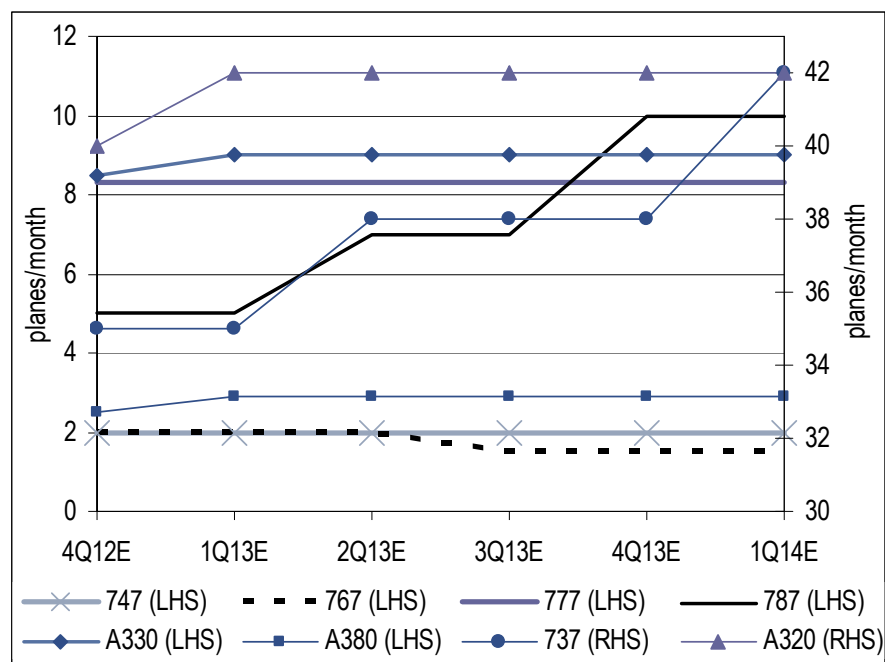
Source: Citi Research, Ascend

Production Rate Increases

The OEs are set to increase production rates by ~10% y/y in 2013, supported by record backlogs.

Burning through record backlogs requires driving production rates to record levels. A320 is almost at 42/month while the 737 plans on matching that rate by 1Q14. The most impactful production rate increase in 2013 will be the 787 which plans on doubling its monthly outflow from 5 to 10 by year-end (Figure 9).

Figure 9. Scheduled Production Rate Increases



Source: Citi Research

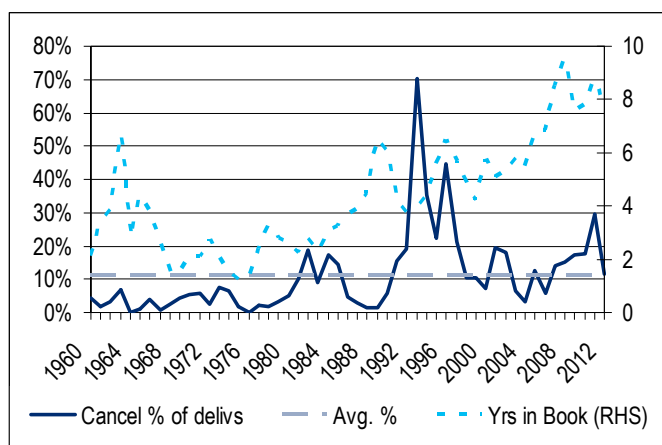
Supporting these record rate increases is the global aerospace supply chain which has been preparing for some years to hit these schedules. We've heard from Boeing, Airbus, and the suppliers that the OEs are now more involved with the supply chain than ever before given the difficult of hitting record rates. The scrutiny focuses on everything from quality, to efficiency, to financing availability. The supply chain has sounded relatively confident to-date about its ability to meet these large rates, and the 2012 production rate increases went off largely without a hitch. Still, this will be a watch item in 2013.

Cancellations Shouldn't be a Concern

As a percentage of the order book, cancellations are near all-time lows.

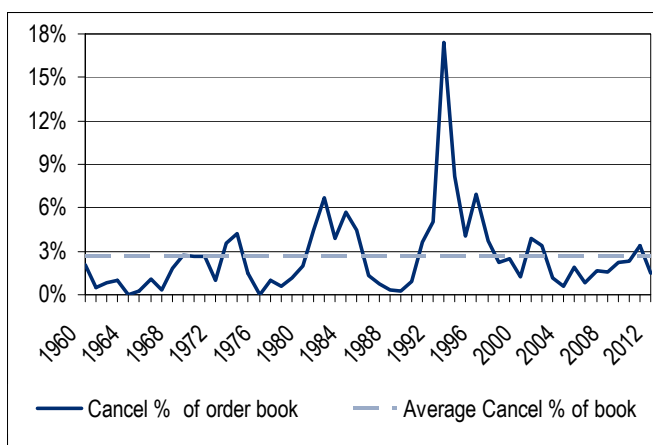
Commercial OE bears have pointed to a series of cancellation announcements over 2012 as indications that industry backlogs are weak. Still, we ended 2012 with a record backlog and less than half as many cancellations as there were in 2011. Cancellations represented 11.6% of deliveries in 2012, roughly in line with the 50-year average. These rates are off the historic highs seen in the 1990s. More importantly, the order book has never offered more visibility than it does today (Figure 10). The YTD cancellation rate as a percentage of backlog is 1.5% or 40% below the historical average (Figure 11). In our view, cancellations are in the headlines given a tough economic environment, but the backlog continues to offer more visibility for aero OEs than might be apparent in other industrial end-markets.

Figure 10. Cancellations as % of Deliveries & Order Visibility



Source: Ascend

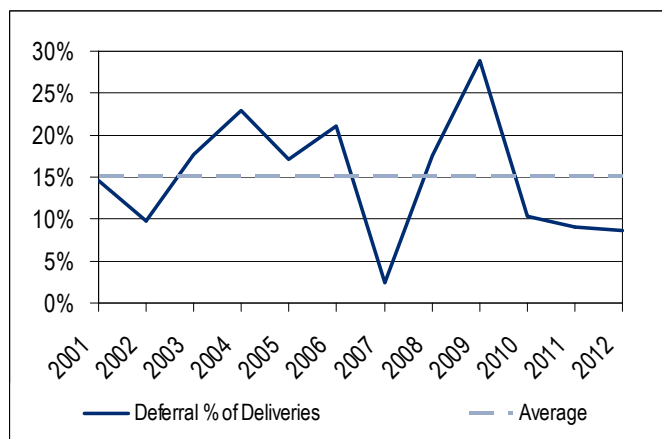
Figure 11. Cancellations as % of Order Book



Source: Ascend

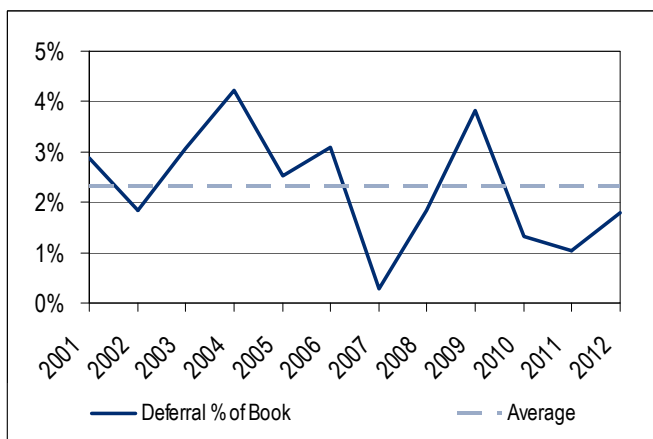
Deferral rates are also pacing below the decade's average (as a % of deliveries and as a % of the order book), although 2012 saw a small kick-up as a % of book.

Figure 12. Deferrals as % of Deliveries



Source: Ascend

Figure 13. Deferrals as % of Order Book



Source: Ascend

Delivery Expectations

We expect industry-wide deliveries to grow 9% in 2013.

We forecast Boeing deliveries to increase ~13% in 2013 driven by 787, 777, and 737. We expect 747 deliveries to fall y/y as the cargo-driven market continues to exhibit weakness. Our European colleagues forecast Airbus deliveries to grow only 5% as more of the A320's production rate increase will already be behind the company. Given a 6-9 month lead time for most aircraft, we believe that the downside risk to our 2013E forecasts is limited. In aggregate, we forecast 9% y/y delivery growth in 2013E and we see 6% average annual growth 2012-2015E (o/w Airbus is +3% and Boeing is +8%). See Figure 14 for our detailed delivery forecast.

Figure 14. Boeing + Airbus Delivery Forecast

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	2014E	2015E
737NG	173	202	212	302	330	290	372	376	372	415	443	488	504
747	19	15	13	14	16	14	8	0	9	31	23	22	18
767	24	9	10	12	12	10	13	12	20	26	21	18	14
777	39	36	40	65	83	61	88	74	73	83	100	100	100
787	0	0	0	0	0	0	0	0	3	46	93	136	128
Boeing	281	285	290	398	441	375	481	462	477	601	680	764	764
% Y/Y Change	(26%)	1%	2%	37%	11%	(15%)	28%	(4%)	3%	26%	13%	12%	0%
A320	233	233	289	339	367	386	402	401	421	450	470	470	470
A330/A340	64	75	80	86	79	85	86	91	87	99	110	118	98
A350	0	0	0	0	0	0	0	0	0	0	0	10	30
A380	0	0	0	0	1	12	10	18	26	30	26	30	35
Airbus	305	320	378	434	453	483	498	510	534	579	606	628	633
% Y/Y Change	1%	5%	18%	15%	4%	7%	3%	2%	5%	8%	5%	4%	1%
Y/Y Growth													
Narrow	(15%)	6%	13%	25%	8%	(3%)	14%	0%	2%	9%	6%	5%	2%
Wide	(13%)	(5%)	3%	22%	6%	(8%)	13%	(5%)	12%	44%	18%	16%	(3%)
% Y/Y Change	(14%)	3%	10%	25%	7%	(4%)	14%	(1%)	4%	17%	9%	8%	0%

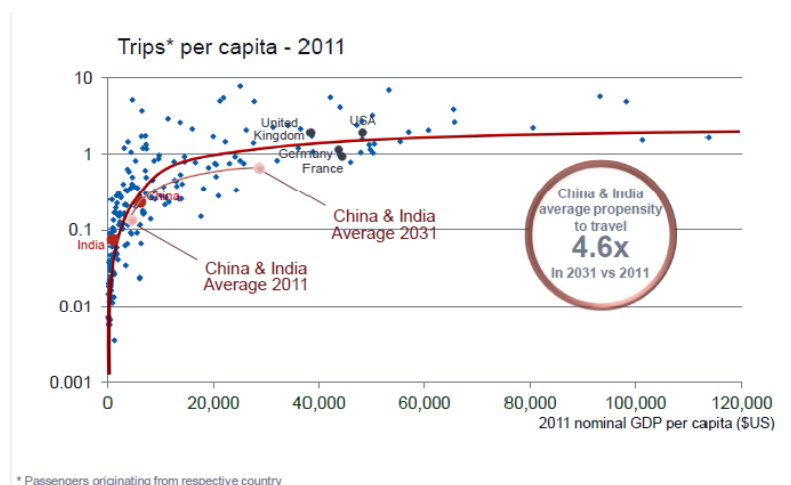
Source: Citi Research

Note: Airbus 2012 deliveries are still Citi estimates. We expect the official count on January 17.

Our positive delivery outlook is underpinned not only by the large backlogs, but by demand for new aircraft in emerging markets, where air travel demand remains relatively immature. Figure 15 shows that several large EM markets are still below the global average for passenger air trips vs. GDP per capita.

Civil Aerospace remains a structural growth story. We believe that EM demand will continue to drive structural growth, particularly in China where GDP remains strong and air travel per capital remains relatively low. Statistics suggests an increased propensity to travel as GDP per capita rises.

Figure 15. Airline Trips per Capita vs. GDP per Capita (2011).



Source: Airbus

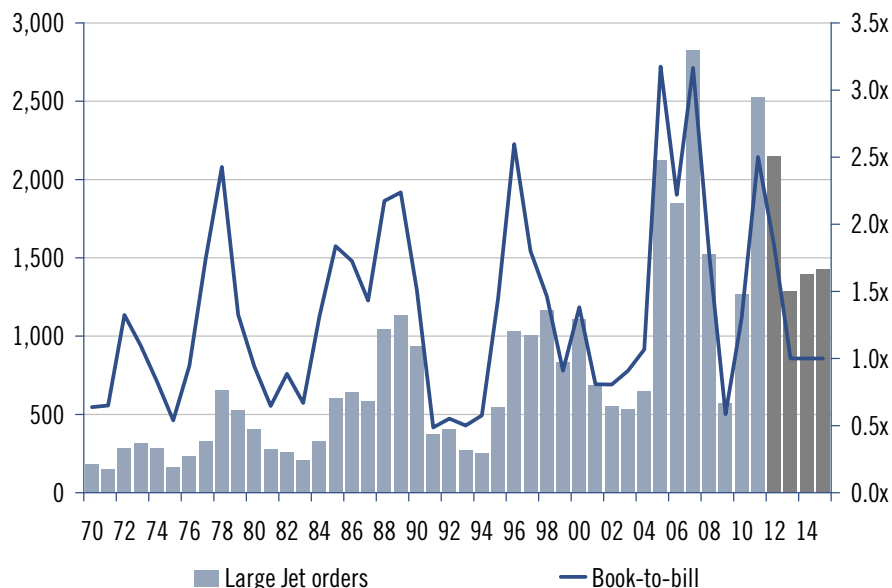
...Orders Matter Less

Boeing beat Airbus in orders in 2012 thanks to the MAX (after Airbus handily beat Boeing in 2011 due to the NEO).

One of the principal bear arguments on EADS and Boeing is that the fact that orders look to have peaked indicates an impending fall in deliveries. Due to the large order backlog, we do not believe this to be the case and believe that, whilst orders are still cyclical, deliveries should be less cyclical from now.

In 2012, Boeing beat Airbus in the order game for the first time since 2006. Total orders, however, were down 34% y/y after a record 2,529 in 2011. In our view, orders should not be the focus at this point in the cycle when the OEs have to execute on a record backlog of 9,000+. Indeed, an order slowdown does not presage a delivery slowdown.

Figure 16. Airbus and Boeing Gross Orders (LHS) and Book-to-Bill (RHS)



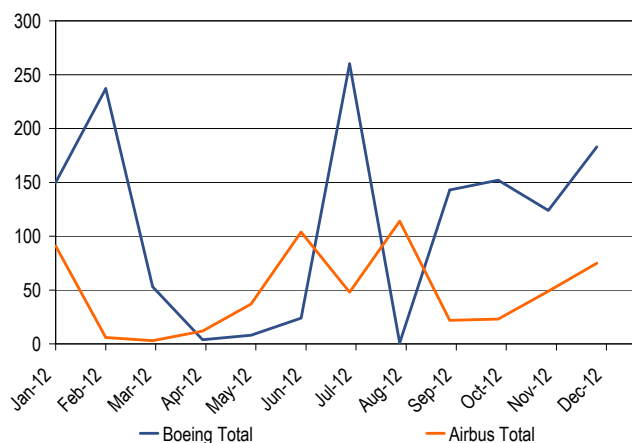
Source: Ascend, Citi Research estimates (from 2012)

Figure 17. Gross Orders by Month

Month	Boeing SA Total	Boeing TA Total	Boeing Total	Airbus SA Total	Airbus TA Total	Airbus Total
Jan-12	140	10	150	88	3	91
Feb-12	230	7	237	0	6	6
Mar-12	45	8	53	1	2	3
Apr-12	0	4	4	1	11	12
May-12	0	8	8	37	0	37
Jun-12	3	21	24	100	4	104
Jul-12	253	7	260	25	23	48
Aug-12	1	0	1	94	20	114
Sep-12	123	20	143	12	10	22
Oct-12	152	0	152	2	21	23
Nov-12	116	8	124	47	2	49
Dec-12	121	62	183	75	0	75
2011	625	296	921	1470	138	1,608
2012	1184	155	1,339	482	102	584

Source: Boeing, Airbus, Ascend; Note: SA = single-aisle; TA = twin-aisle

Figure 18. 2012 Gross Orders by Month

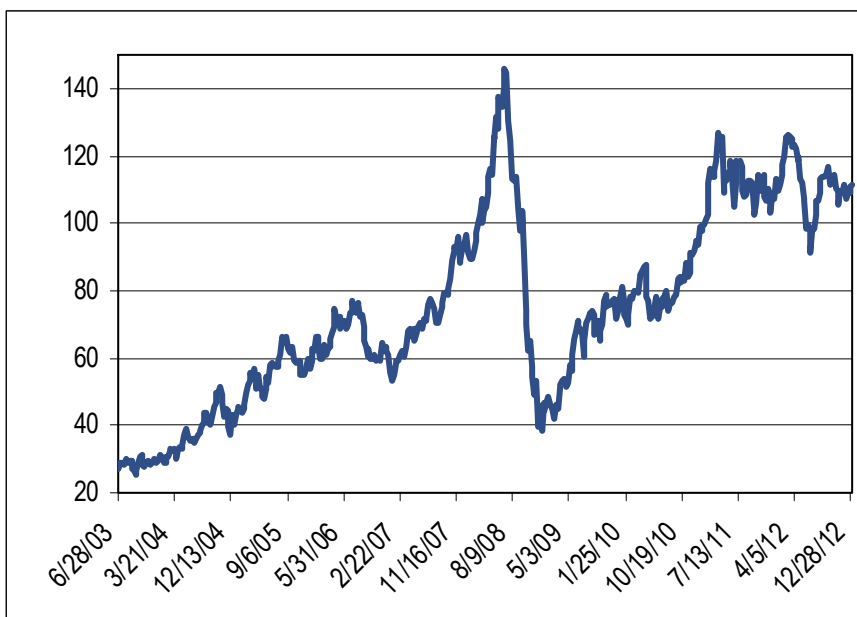


Source: Boeing, Airbus, Ascend

Still driving order flow, however, is demand to replace old, inefficient aircraft with new technology offering a significant fuel savings. With IATA estimating fuel to represent 32% of sales for the industry, we suspect that driving efficiency continues to drive replacement demand, especially in developed markets. For instance, the 737 MAX will be 13% more efficient than a 737NG delivered in 2012, 20% more efficient than a 1999-vintage NG, and 30% more efficient than a classic. Our European colleagues note that replacing an early 1980s MD80 with the forthcoming A320NEO offers a ~40% fuel saving.

Current high fuel prices mean that it makes sense for airlines to replace older fuel-inefficient aircraft with newer models. This is supportive of our positive stance on Civil Aerospace OE, where the 2 main drivers are EM demand and replacement demand in DM. We consider the “sweet spot” for fuel prices to be \$80-120/bbl.

Figure 19. Brent Crude \$/bbl (2003-date)



Source: FactSet

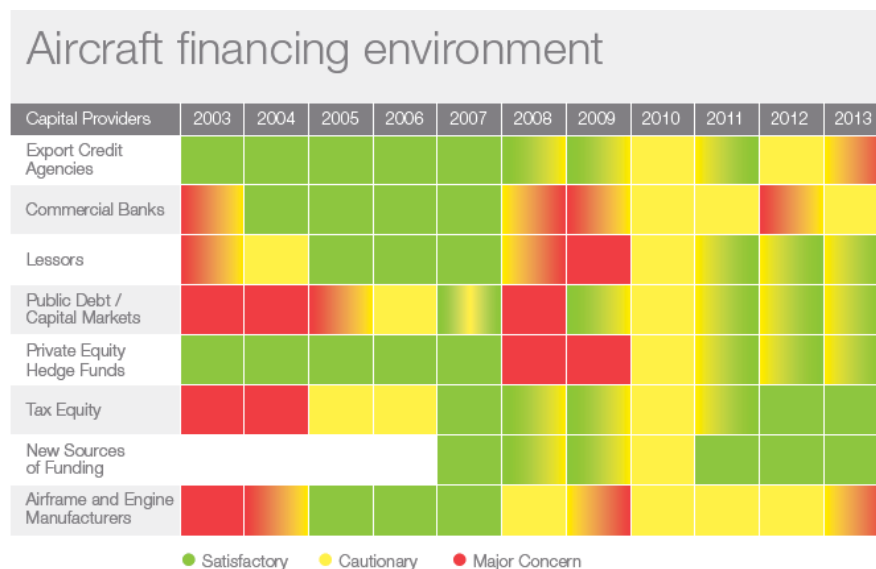
Other Demand Considerations

Manageable strains on financing

We believe that the withdrawal of some of the European banks from aircraft financing is a concern, but is manageable through new market entrants. Our last check in with Boeing Capital (BCC) in November ([Takeaways from Seattle Visit](#)) suggested that liquidity is generally available despite a couple of headwinds in 2013 including Basel III and the Aircraft Sector Understanding (ASU). BCC's 2013 outlook expects \$104b of passenger jet deliveries, with buyers becoming more reliant on lessors and capital markets.

Export Credit Agency (ECA) financing becomes more expensive in 2013 due to new rules, although Boeing expects new banks and capital markets to step up to fill some of the demand. Meanwhile, OE-provided financing is likely pressured by emerging market airlines looking for financing outside of the ECAs.

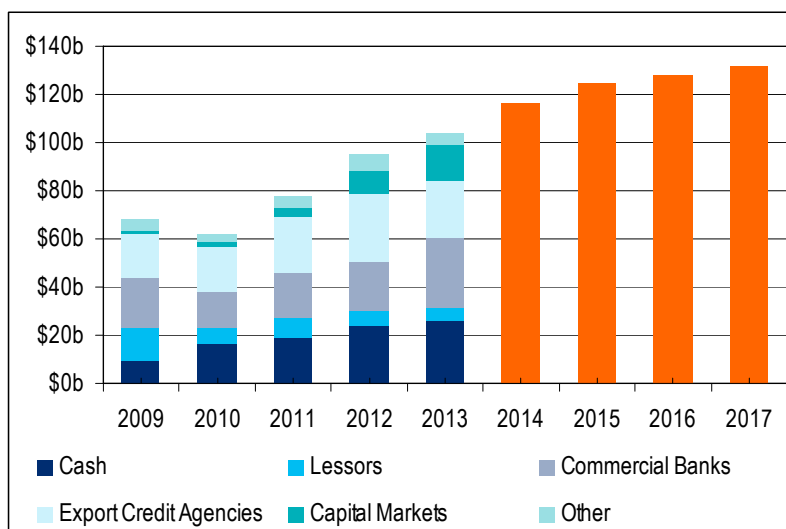
Figure 20. Boeing Capital sees some risks on the horizon, but expects other sources to step up



Source: Boeing Capital Finance Market Outlook (Dec 2012)

Boeing capital estimates that \$104bn of financing will be required for 2013E deliveries. While a number of European banks are withdrawing from the aircraft financing market due to capital pressures, new investors are entering the market including insurers and Middle Eastern and Asian investors. Aircraft remain a fungible, liquid and inherently transportable (!) asset class, particularly the latest fuel-efficient models.

Figure 21. Airline Industry Delivery Financing, 2009-2017E



Source: Boeing Capital

Customer health questions

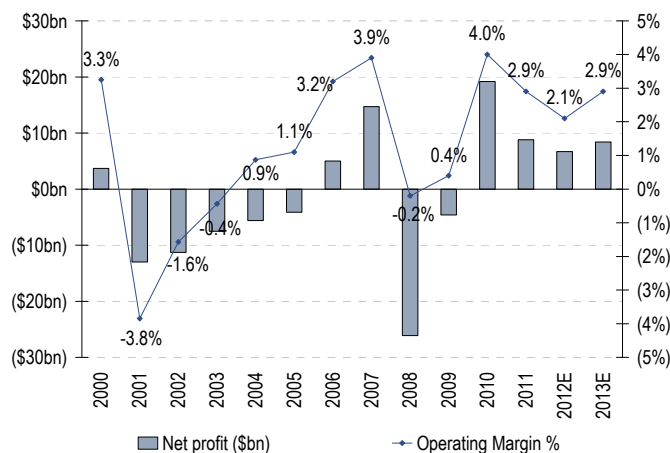
While traffic and airlines could further weaken due to the macro environment, we consider air travel a structural growth industry driven by emerging market demand.

Risks to our order outlook stem from macro uncertainty and negative leading indicators that could be foreshadowing slower traffic demand and by extension less ambitious capacity plans.

IATA marginally boosted its 2012 and 2013 profit outlook, commenting in the release that airlines are performing surprisingly well despite high oil prices and anemic global GDP growth. Restructuring actions and improved efficiency have helped the industry avoid what has typically been a collective earnings loss when GDP growth falls below 2%. IATA highlighted large airlines as being able to weather the tough environment most effectively thanks to their economies of scale. On the other hand, the release highlighted that cargo traffic is still weak, with expanding world trade favoring ocean over air freight.

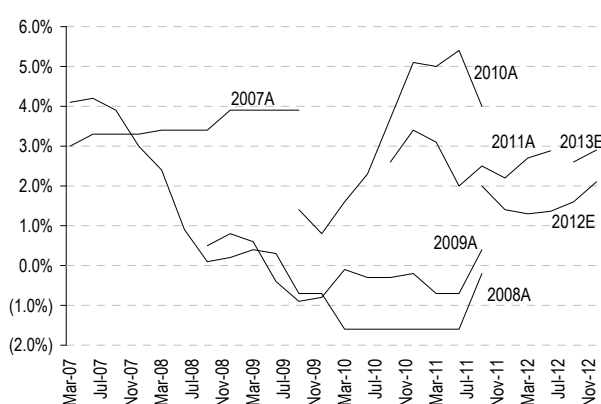
The industry is still far from being out of the woods with IATA commenting that net profit margin of 1% is below the 7-8% needed to recover cost of capital and net profit is still down y/y (\$6.7b of profits in 2012 down from \$8.8b in 2011). On the bright(er) side, North American and Latin American carriers are set to see profit increases y/y due to improved asset utilization and airline consolidation. And IATA doesn't expect to see much improvement in 2013, although the current forecast does call for net profit growth to resume.

Figure 22. Airline profits set to grow again in 2013E



Source: IATA

Figure 23. Outlook for 2012-13E improved for second time in a row



Source: IATA

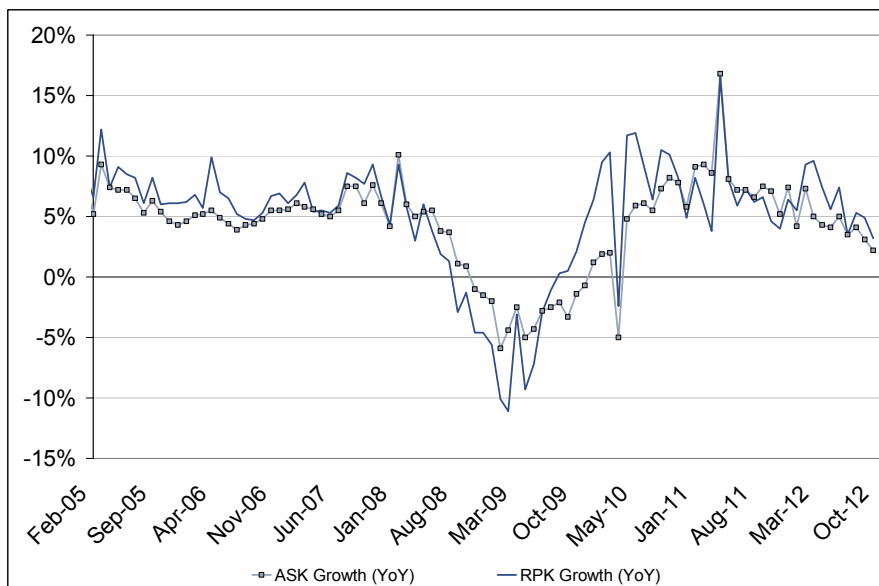
Key Themes in Aero Aftermarket

While we expect aero aftermarket growth, we prefer OE exposure heading into this part of the cycle given better visibility.

Year to date passenger (RPK) has grown by 5.3% (2.1x real GDP growth of 2.5%) and capacity is up by 4.0% YoY. This is much better than the 2-3% growth we forecast this time last year. However, growth rates have slowed in 2H12 as comps have got tougher and demand has softened. Cargo traffic, which is often a good lead indicator for passenger traffic demand, fell by 3.5% YoY in October 2012.

In our view, the commercial aero aftermarket is more susceptible to macro weakness vs. OE, but we still see fundamental building blocks of aftermarket demand contributing to growth in 2013 despite an uncertain macro backdrop.

Figure 24. Monthly passenger traffic (RPK) and capacity growth (ASK), 2005-Oct 2012



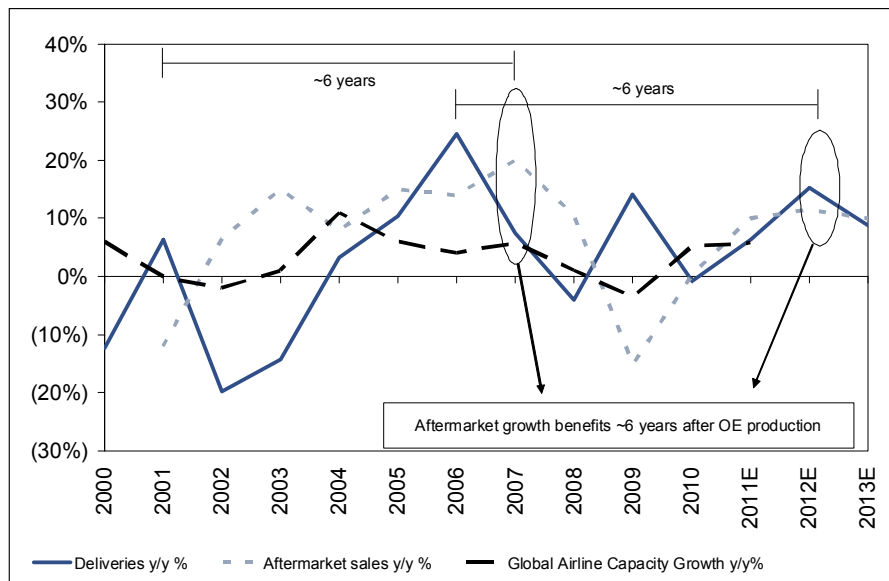
Source: IATA

Coming off the bow-wave

2012 benefitted from a bow-wave of airplanes coming in for maintenance. We don't expect a repeat in 2013.

Capacity growth is only one part of the aftermarket story, as 2012 showed when a bow-wave of aging aircraft came in for maintenance ~6 years after they were produced. Seeing as fewer planes were produced in 2007-08 vs. 2005-06, we do not expect the aftermarket to benefit as much as it did in 2012.

Figure 25. Coming off the aircraft production bow-wave in 2013



Source: Citi Research

Key Themes in Business Jets

BUY RATINGS: GD

We prefer Buy-rated GD in 2013 due to its exposure to the high end of the market (through Gulfstream) over neutral-rated COL & TXT due to their focus on smaller cabins.

The broad bizjet recovery still refuses to show itself, likely a function of the fact that SMID-cabins have turned into more of a spot market business, while new entrants and over-capacitization continue to weight on pricing.

We still don't expect a recovery in the low end of the market until 2014 at the earliest, while large-cabins are set to see a strong 2013 with new entrants (the most important being Gulfstream's G650).

The stubbornly shy business jet recovery continues to elude industry as used inventories exert pressure on pricing and as production capacity (especially among the small cabins) appears to be on the verge of some right-sizing as Hawker exits the market. We remind investors that Honeywell's 2010 forecast called for a "rather robust recovery starting in 2012," only to revise the outlook a year later to "weak but positive growth starting in 2012." At the 2012 NBAA, Honeywell's survey didn't envision growth re-accelerating until mid-decade (see: [Flying Out of a Storm \(Hopefully\) - Shallow recovery & preference for big jets](#)).

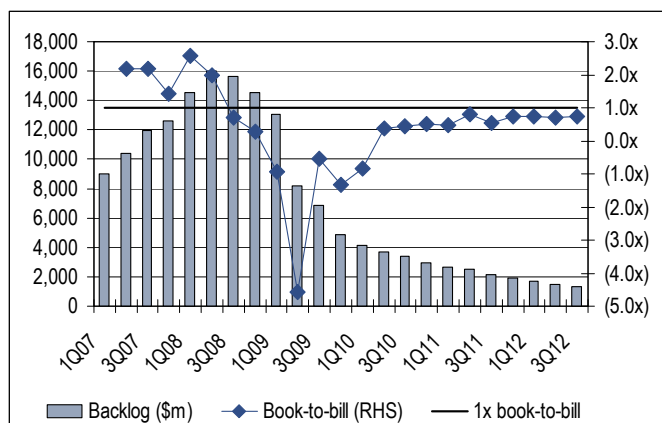
Indeed, OEs are still talking about pricing pressures, realizing disappointing margins, and the industry (at least for the small cabins) has limited visibility with orders becoming mainly turns-based. As far as we're concerned, recent commentary from Neutral-rated Textron (TXT) and Neutral-rated Rockwell Collins (COL) affirm this view that there is limited visibility into a broad-based bizjet recovery anytime soon.

Tough backlog trends for small jets

Buy-rated General Dynamics (GD) enjoys a relatively large backlog thanks to G650, which saw its first completed delivery to a customer in mid-December. In our view it enjoys a relatively inelastic customer base that is starting to deliver to customers with orders out to 2016. We note that Gulfstream's backlog was relatively resilient through the financial crisis and that it should now begin to burn off somewhat as new planes deliver (Figure 27). At the other end of the spectrum, Cessna recently reported its smallest backlog ever (Figure 26). We note that its backlog has fallen every quarter since the peak partly due to restructuring and right-sizing.

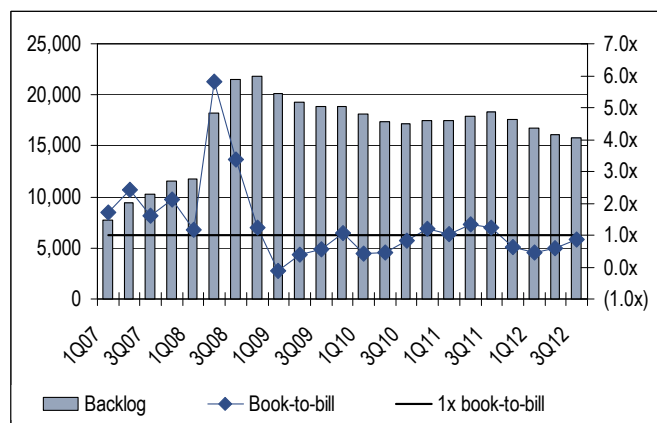
In this spot market, we do not expect SMID-cabin backlogs to reclaim better visibility anytime soon and bizjet makers aren't likely able to say with much certainty when they expect to increase production rates.

Figure 26. Cessna backlog is way below its peak w/ b2b hovering below 1x



Source: Company reports, Citi Research

Figure 27. Gulfstream's backlog is not as far below its peak and b2b trends have been generally strong in the lead-up to the G650



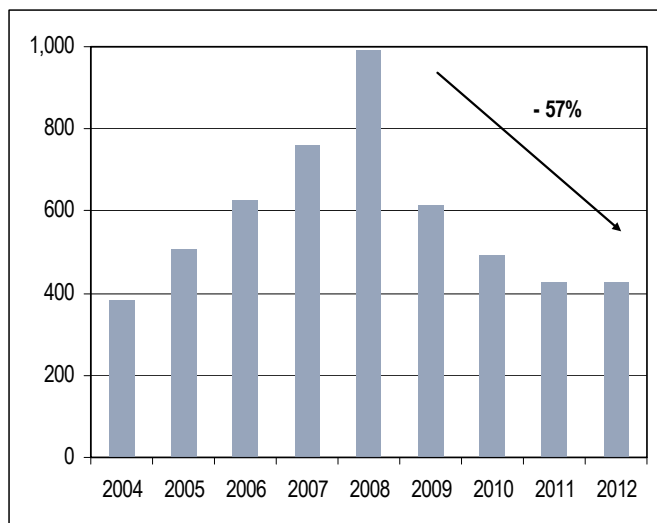
Source: Company reports, Citi Research

Tough delivery trends for small jets

Through 9M12, SMID-cabins are gaining some ground but are still well off their peaks.

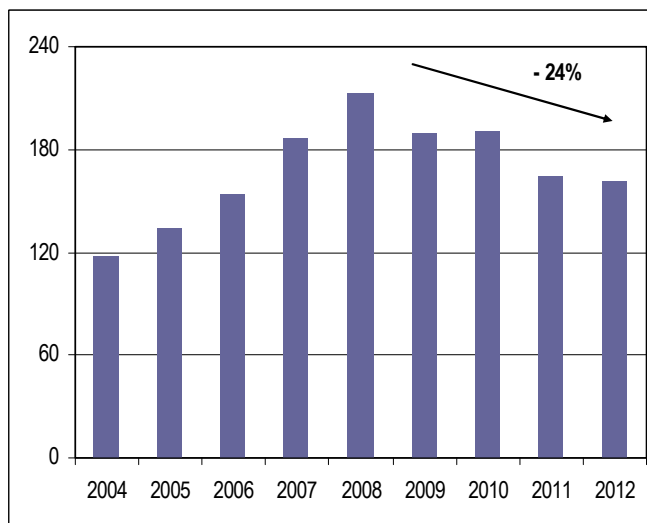
The high-end jets enjoy are outperforming their smaller brethren thanks to a core customer of wealthy individuals and large corporations remain relatively immune to market/economic gyrations. At the other end of the spectrum are the SMID-cabin jets, whose relatively elastic customer base dropped off the 2008 peak and has been slow to recover due to persistent economic uncertainty (Figure 28 - Figure 31). In our view, there is greater visibility into a large cabin recovery which could drive deliveries above previous peaks far sooner than for small or medium. Also, SMID-cabin delivery spikes in 2007-08 contribute to a large used inventory which offers a nearly 50% discount vs. new plane costs. Therefore, until we get over macro jitters and are able to work through the inventory, we are more positive on large-cabin bizjet makers (such as GD's Gulfstream).

Figure 28. Industry Deliveries through 9M



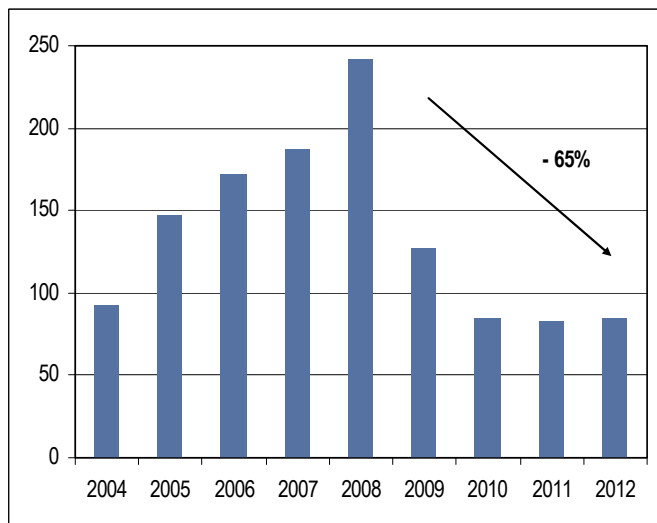
Source: GAMA

Figure 29. Large Cabin Deliveries through 9M



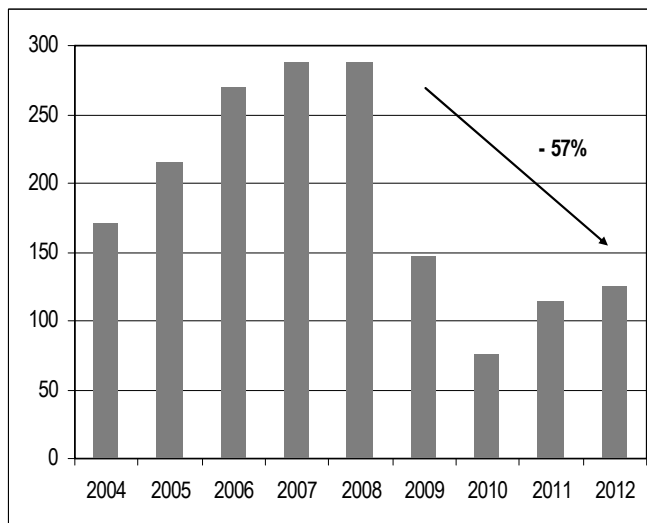
Source: GAMA

Figure 30. Medium Cabin Deliveries through 9M



Source: GAMA

Figure 31. Small Cabin Deliveries through 9M



Source: GAMA

In our view, the market myopically focuses on corporate profits as the best predictor of business jet deliveries.

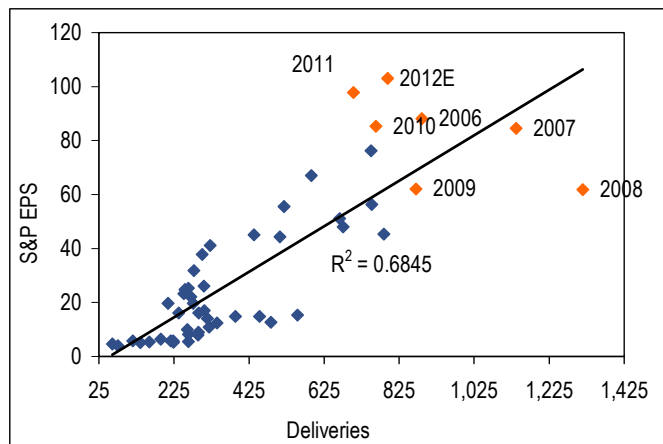
A delivery disconnect

There was a time when corporate profitability was considered the best indicator of business jet deliveries. True enough, there is a 71% correlation between deliveries and S&P 500 EPS since the 1960s. However, past performance is not necessarily a predictor of future results, as we've seen the market break the rules several times over the last 5 years. Specifically, the delivery spike in 2008 was far above where the long-run regression line would have predicted, while 2010 and 2011 underperformed the historic average. We would argue that the market is unlikely to snap back as quickly to the long-term trend this time around because corporates are generating earnings partly by reducing spending on things like business jets. For this reason, we would not be surprised if 2013 bucks the trend again (Figure 32). In fact, the correlation comes down to 59% if you only look at the data since 1990, and there is no correlation in the data since 2000.

We also consider the pattern that delivery growth has typically lagged earnings growth by a year (Figure 33). Once again, we see a disconnect forming in that strong earnings growth in 2010 did not lead to a delivery increase. And with Citi expecting relatively modest S&P 500 earnings growth through 2016 (~5% CAGR), industry deliveries are unlikely to snap back particularly soon.

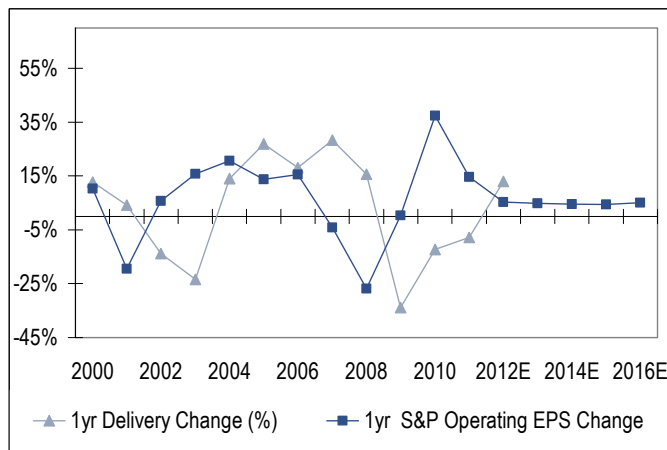
Overall, we do not believe that corporate profitability is the best predictor of business jet deliveries in a market that is still dealing with a used inventory overhang, pressured pricing, over-capacitization issues, and new entrants.

Figure 32. Deliveries vs. EPS (1963-2011)



Source: Citi Research, GAMA

Figure 33. Earnings Growth vs. Delivery Growth



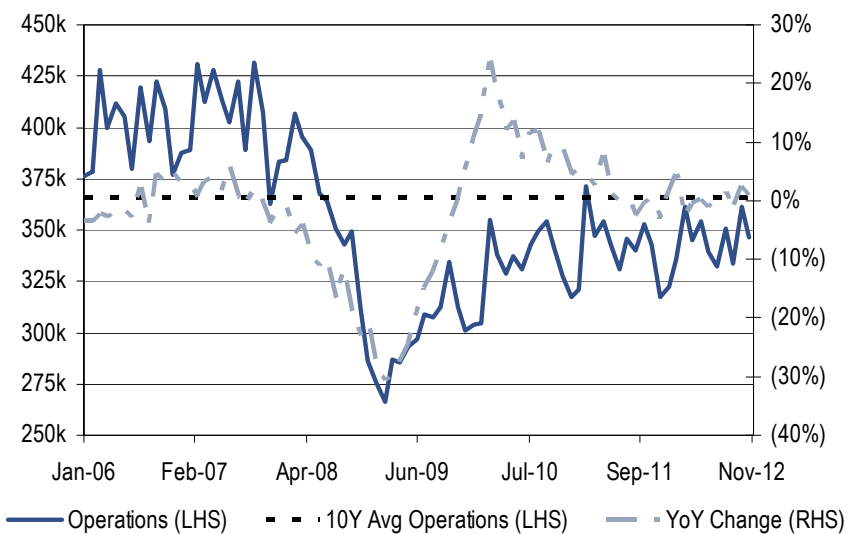
Source: Citi Research, GAMA

Utilization still slow, but there are aftermarket opportunities

Despite the soft order and production environment, aftermarket demand persists among business jet owners looking to upgrade recent purchases, or spruce up old jets they're readying for re-sale. Utilization is growing slowly driving some non-discretionary aftermarket demand as well.

Bizjet operations continue to display anemic y/y growth while hovering below 10Y averages.

Figure 34. Bizjet Operations (Jan 2006 – Nov 2012)



Source: FAA

Key Themes in Defense

BUY RATINGS: LMT, RTN, NOC, HII

Defense prime fundamentals remain intact despite budgetary concerns. This includes healthy balance sheets and strong cash flow generation. RTN is our top defense pick in 2013 due to strong international exposure and a flexible balance sheet that has yet to be deployed to the extent of its peers. We look to the March dividend decision as the next catalyst.

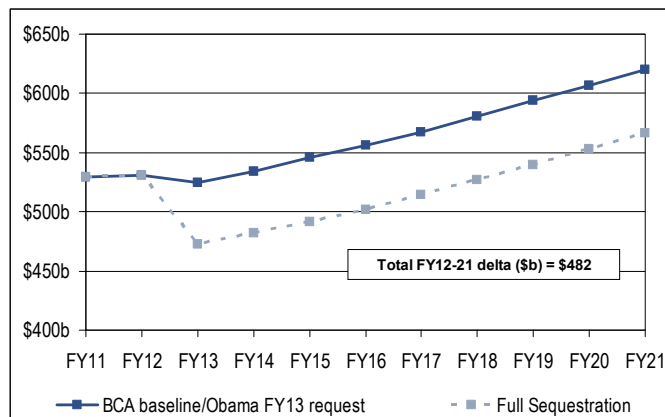
Top-line pressures persist, but defense companies are still generating attractive levels of cash and appear to be pricing in too much bad news with regards to budget outcomes (defense shares priced for perpetual reduction in FCF). While the business fundamentals certainly aren't as attractive as year's passed, we believe that performance over the last year shows how the market values and rewards resilient earnings and attractive cash returns. The early part of the year will be dominated by persistent budget debates after Congress punted sequestration to March 1 ([Fiscal Cliff Update - Our Base Case & Constructive Outlook Remain Intact](#)). Around that time we'll also get the FY14 budget proposal and the first taste of a new SecDef – assuming the Senate confirms him (see: [Who is Chuck Hagel? - A closer look at the potential next Secretary of Defense](#)).

We're relatively constructive on defense sales and margins, neither of which we expect to fall precipitously in the near-term.

1) Resilient US budgets

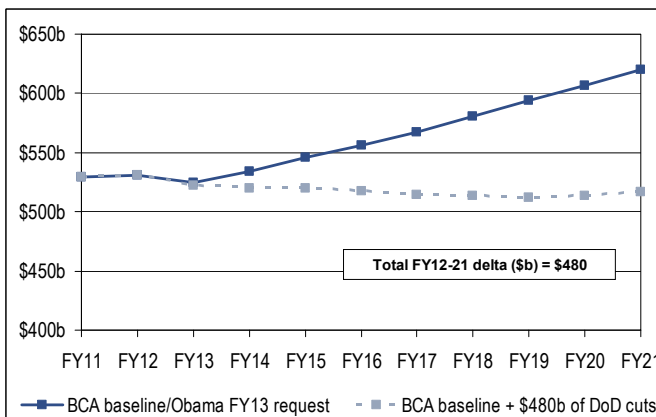
As we've described in the previous pages, we expect a debt deal that essentially flattens the US defense budget for 10Y. While no one knows what the future holds in store from a strategic/threat perspective, we do not see many opportunities for significant upside or downside movement over the horizon.

Figure 35. We don't expect: front-loaded ~\$480b over 10Y (sequester)



Source: Citi Research

Figure 36. We do expect: more manageable back-loaded ~\$480b



Source: Citi Research

The Asia Pivot

After a decade marked by two tough ground wars, the Administration and DoD are focused on pivoting away from land wars and toward air/sea capabilities with a specific focus on Asia and countering anti-access/area-denial capabilities in the region. In our view, this bodes relatively well for companies making things that fly and float vs. things that roll around on the ground (Figure 37).

Figure 37. Budget Priorities

Things that fly				Things that float				Things that roll				Space / Advanced Tech			
Program	FY13 (\$m)	y/y %	Ticker	Program	FY13 (\$m)	y/y %	Ticker	Program	FY13 (\$m)	y/y %	Ticker	Program	FY13 (\$m)	y/y %	Ticker
F-35	9,171	(1%)	LMT, NOC	VA-Class	4,258	(11%)	HII, GD	JTRS	1,053	(15%)	GD, COL	BMD	9,721	(7%)	BA, LMT, NOC, RTN
P-8A	3,258	11%	BA	DDG-51	3,515	69%	GD, HII	FMTV	377	(14%)	OSK	EELV	1,688	(2%)	LMT, BA
F/A-18	2,182	(11%)	BA, NOC	LCS	2,246	6%	LMT, Austal	Stryker	332	(57%)	GD	Aegis	1,382	(11%)	LMT, RTN
V-22	1,955	(30%)	TXT, BA	CVN RCOH	1,613	213%	HII	JLTV	117	(13%)	In development	GPS	1,264	(14%)	LMT, RTN
MQ-1/9	1,910	(8%)	General Atomics	New CVN	967	(10%)	HII	Javelin	86	(50%)	RTN, LMT	WIN-T	1,226	15%	GD, LMT
KC-46A	1,816	107%	BA					Abrams	74	(84%)	GD	SBIRS	950	(5%)	LMT
CH-47	1,462	4%	BA					FHTV	58	(91%)	OSK	AEHF	786	(17%)	LMT
C-5	1,280	10%	LMT									THAAD	778	(22%)	LMT, RTN
RQ-4	1,251	(14%)	NOC									MEADS	401	3%	LMT
AH-64	1,180	56%	BA, NOC, LMT									MUOS	167	(65%)	LMT
E-2D	1,159	(4%)	NOC									WGS	37	(95%)	BA
EA-18G	1,075	3%	BA												
H-1	852	6%	TXT												
C-130	835	(42%)	LMT												
F-22	809	(12%)	LMT												

Source: Citi Research, DoD

2) Strong International Demand

Foreigners continue to modernize their militaries in response to regional threats. In November alone, DoD has announced \$23b of potential deals for Qatar and Saudi Arabia.

We expect healthy international demand, although the market is far smaller than the US. But the Middle East and Asia likely drive continued demand for fighter jets, missile defense, and advanced electronics. Coupled with the US' push to liberalize exports, and expect growth in direct commercial (DCS) and foreign military sales (FMS). The State Department reported that it approved \$44.3b of export licenses in FY11 (+30% y/y), driven in large part by increases in DCS requests for India and Brazil. Meanwhile, the Defense Department expects almost \$60b of FMS agreements in 2012 (+71% y/y), driven by the \$29b Saudi package. Middle East nations have stepped up big-time over the last year in line with the Iran threat, with countries like UAE, Oman, Qatar, and Kuwait modernizing their fighter jet and missile defense capabilities. In fact, in November alone DoD has announced a slew of potential deals: a \$6.5b THAAD deal for Qatar, a \$9.9b Patriot deal for Qatar, a \$6.7b C-130 deal for Saudi Arabia.

3) Resilient Margins

We expect resilient margins as fiscal pressures are offset by a positive sales mix-shift.

We expect margins to remain resilient as fiscal pressures are offset by a positive mix-shift in sales (more procurement and more international). In our view, companies have also had time to anticipate the coming drawdown, so in some respects they are busy "out-cutting" the DoD by reducing headcount and closing facilities.

Structural Shift in DoD Buying Behavior

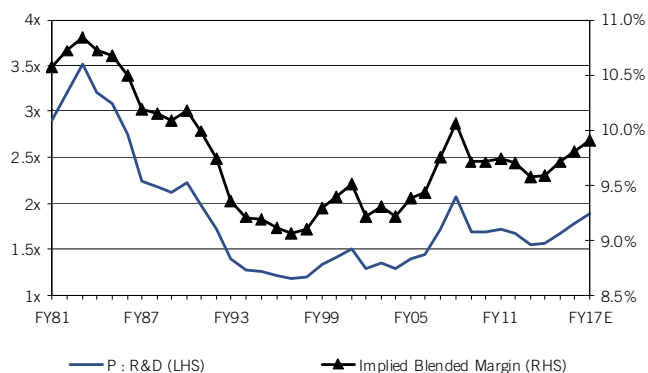
An increase in the procurement-to-R&D spending ratio likely benefits defense company margins as DoD buys more mature products to focus on today's needs vs. developing new weapons with uncertain benefits. Since defense companies typically earn higher margins on production vs. development, we see a higher margin revenue mix for defense companies going forward. We note that the FY13 Procurement to R&D spending ratio (P:R&D) is ~1.6x, but DoD forecasts it to grow to 1.89x by FY17E (was as high as 3.5x in the mid-1980s). In our view, each turn in the ratio can create 50-100 bps margin expansion.

Figure 38. Typical Defense Margin Stack

More Emphasis Here	International Production	15%+
	Domestic Production	10% to 15%
Less Emphasis Here	Low-Rate Initial Production	5% to 10%
	RDT&E	0% to 5%

Source: Citi Research

Figure 39. P:R&D Implied Defense Margin



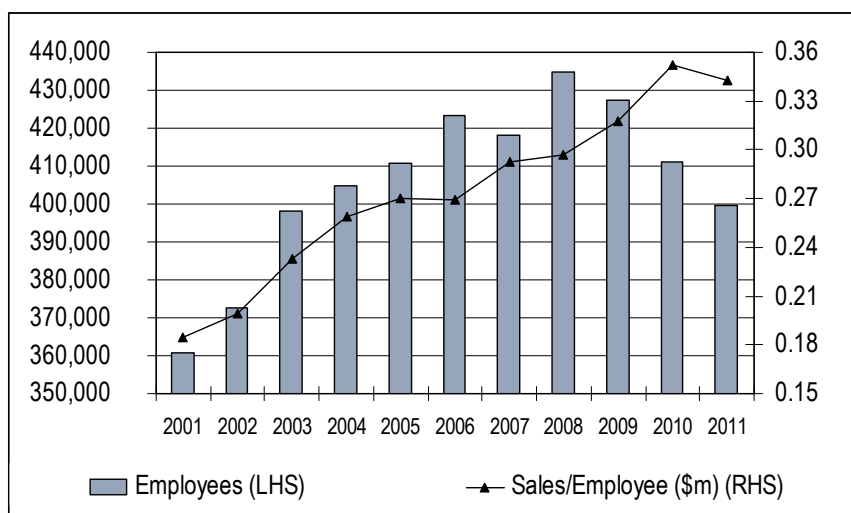
Source: Citi Research

Lower Headcount

Defense companies have been getting ahead of expected budget cuts by actively reducing headcount.

We note that the US defense industry has been steadily shedding employees since peaking in 2008. As headcount has come down, sales efficiency has increased which we expect to help support resilient margins.

Figure 40. Defense Industry Headcount



Source: Citi Research
Note: Includes LMT, RTN, NOC, HII, GD

4) Pensions still playing with valuation

Pension costs (which are largely reimbursable) make defense stocks appear more expensive than they actually are.

The US government reimburses contractors for pension costs under cost accounting standards (CAS). New pension rules passed in late December 2011 allow contractors to recover pension costs more rapidly by more closely aligning recovery rates w/ costs (harmonizing CAS w/ FAS). With companies still waiting to recover pension costs associated w/ 2008-09 market weakness, the new rules should translate to lower pension expense and better cash flow going forward. We expect companies to begin to benefit from CAS harmonization beginning in 2014, with LMT talking about having \$4b of recoverable cash coming its way in 2014-17.

From a valuation perspective, defense primes are cheaper than they appear since most sell-side estimates include FAS/CAS expense, which is mostly reimbursable. For instance, 2013 P/E is 1-3 turns lower for these names excluding pension headwind in 2012 (Figure 41). We note that this is not applicable to NOC which likely sees pension income in 2012E-2013E. Broadly speaking, 2012 defense valuation is attractive with the primes are trading at an average discount of 30% to the market on an adjusted basis vs. our expectation that defense names should trade at 20-25% given the budget environment. We note that 2013 valuation is beginning to solidify at around a 25% discount on an adjusted basis.

Figure 41. Defense Prime Comp Table

	2012				2013				2014			
	EPS	Adj. EPS	P/E	Adj. P/E	EPS	Adj. EPS	P/E	Adj. P/E	EPS	Adj. EPS	P/E	Adj. P/E
GD	\$6.99	\$6.99	10.3x	10.3x	\$7.30	\$7.30	9.8x	9.8x	\$7.54	\$7.54	9.5x	9.5x
HII	\$2.82	\$3.72	15.5x	11.8x	\$3.82	\$4.96	11.4x	8.8x	\$4.99	\$5.53	8.7x	7.9x
LMT	\$8.40	\$10.19	11.2x	9.3x	\$8.21	\$9.55	11.5x	9.9x	\$8.78	\$9.24	10.7x	10.2x
NOC	\$7.41	\$7.06	9.3x	9.7x	\$6.97	\$6.60	9.9x	10.4x	\$7.12	\$6.52	9.6x	10.5x
RTN	\$5.53	\$6.02	10.5x	9.7x	\$5.40	\$5.82	10.8x	10.0x	\$5.84	\$5.95	10.0x	9.8x
Average			11.4x	10.1x			10.7x	9.8x			9.7x	9.6x
SPX							13.4x	13.4x			12.5x	12.5x
Discount							20%	27%			22%	23%

Source: Citi Research, Thomson

Note: We use Consensus (Thomson) estimates for EPS and Citi estimates for the FAS/CAS impact to arrive at Adjusted EPS.

5) Shareholder-friendly cash deployment

In our view, resilient sales and margins combine with FAS/CAS harmonization to generate resilient cash flows.

We expect defense companies to continue generating robust cash levels due to resilient sales/margins, no material change in the cash-heavy nature of the business, and FAS/CAS harmonization (for more on FAS/CAS see: [FAS/CAS – Why You Should Care](#)). We do note, however, that there will likely be some near-term pressure from pension funding requirements driven by low discount rates. However, we see rising dividends and falling share counts driving returns during the coming slowdown. In fact, we posit that most companies are, or will be targeting ~10-12% cash returns to shareholders through a combination of dividends and share repurchases this year.

Since 2006, defense primes (GD, LMT, NOC, RTN) have returned 71% of operating cash flow to shareholders via dividends and share repurchases (50% toward repos, 21% toward dividends) (Figure 42). We expect the primes to continue returning ~60%+ of operating cash flow to shareholders through 2014E (Figure 43).

Figure 42. Defense Prime Cash Deployment (2006-11)

	GD	LMT	NOC	RTN	Total
OCF	\$17,268	\$23,377	\$14,558	\$12,782	\$67,984
Dividends	3,218	4,862	3,058	2,917	14,055
Share repos	4,776	13,909	8,127	7,594	34,406
Returned to s/h	\$7,994	\$18,771	\$11,185	\$10,511	\$48,461
<i>as % of OCF</i>	46%	80%	77%	82%	71%

Source: Citi Research, FactSet

Figure 43. Defense Prime Cash Deployment (2011-14E)

	2011	2012E	2013E	2014E
OCF	\$11,749	\$10,677	\$11,519	\$11,603
Dividends	2,899	3,425	3,383	3,900
Share repos	7,280	3,302	3,849	3,495
Returned to s/h	\$10,179	\$6,727	\$7,231	\$7,395
<i>as % of OCF</i>	87%	63%	63%	64%

Source: Citi Research, FactSet

In our view, shareholder friendly cash deployment is underpinned by our resilient OCF estimates set against relatively modest capex requirements, driving high single-digit FCF yields vs. current share prices (Figure 44).

Figure 44. Cash Flow Comp Sheet

	Dividends		Free Cash Flow						Operating Cash Flow		
	Dividends / quarter (\$)	Dividend Yield (%)	FY12E Citi (\$m)	FY12E FCF Yield	FY13E Citi (\$m)	FY13E FCF Yield	FY14E Citi (\$m)	FY14E FCF Yield	FY12E (\$m)	FY13E (\$m)	FY14E (\$m)
General Dynamics Corp.	0.51	2.84%	2,168.1	8.5%	2,965.8	11.6%	2,716.3	10.6%	2,572	3,390	3,142
Lockheed Martin Corp.	1.15	4.88%	3,226.6	10.5%	2,714.3	8.8%	2,932.6	9.5%	3,991	3,714	3,933
Northrop Grumman Corp.	0.55	3.20%	2,323.8	13.4%	1,921.6	11.1%	1,898.8	10.9%	2,710	2,322	2,299
Raytheon Co.	0.50	3.43%	990.1	5.1%	1,693.6	8.7%	1,829.1	9.4%	1,405	2,094	2,229
A&D Average		2.02%		6.7%		7.6%		8.9%			
Defense Prime Avg.		3.59%		9.3%		10.0%		10.1%			
S&P 500		2.24%									
10Y UST		1.90%									

Source: Citi Research, FactSet

Attractive dividends

The defense primes are offer attractive dividends in a low-yield environment, with LMT leading the way.

The defense primes in our coverage universe consistently increase their dividends, helping drive market-beating yields. We consider LMT the most aggressive, with its most recent increase of 15% sending the yield toward 5%. We'll have to wait until March for GD and/or RTN to raise their dividend, but we see yields of 3-4% within reach for both.

Figure 45. Defense Dividends

	GD	LMT	NOC	RTN
Current Dvd Yield	2.84%	4.88%	3.20%	3.43%
Standard Deviations from 10Y Avg Dvd Yield	1.54	2.51	1.17	1.73
Announced Quarterly DPS	\$0.51	\$1.15	\$0.55	\$0.50
Typical Dvd Raise Timing	March	September	April / May	March
Previous Increase %	8.5%	15.0%	10.0%	16.3%
Previous Increase Date	7-Mar-12	27-Sep-12	16-May-12	21-Mar-12
Consecutive Annual Dvd Increases	15	10	9	8
7Y Avg Dvd Increase	14%	21%	11%	13%
Potential New Dividend	\$0.58	\$1.40	\$0.61	\$0.56
Potential New Yield vs. Current Px	3.25%	5.93%	3.57%	3.86%

Source: Citi Research, FactSet

Leveraged buybacks

Cheap debt and under-levered balance sheets combine to create accretive leveraged buyback opportunities, with the average defense prime seeing 55% accretion.

Strong balance sheets and a focus on share repurchases are a potentially potent combination as defense primes ratchet up their debt levels and reduce their share counts. For the purposes of this simulation, the target leverage ratio of 2.8x is based on the DoD-sanctioned ratio HII was allowed when it spun off from NOC last spring. We see an average accretion opportunity of 55% among the primes when running this simulation, with NOC leading the way with a 90%+ accretion opportunity (Figure 46). General Dynamics (GD), Rockwell Collins (COL), and Lockheed Martin (LMT) have already pursued a leveraged buyback strategy to various degrees, but we see the accretion opportunities for the defense primes given historically low debt rates.

Figure 46. Leveraged Buyback Simulation (based on our coverage universe)

	GD	LMT	NOC	RTN	BA	PCP	TXT	COL	DGI
Net Debt (Cash)	1,051	1,872	406	1,577	4,604	(129)	2,835	714	326
LTM EBITDA	4,300	5,313	3,633	3,551	8,192	1,885	1,134	1,054	178
Current Net Debt/EBITDA	0.2x	0.4x	0.1x	0.4x	0.6x	(0.1x)	2.5x	0.7x	1.8x
Target Net Debt/EBITDA	2.8x	2.8x	2.8x	2.8x	2.8x	2.8x	2.8x	2.8x	2.8x
Potential Additional Debt (\$m)	10,989	13,004	9,766	8,366	18,334	5,407	340	2,237	172
Potential Shares Repurchased (m)	153	138	142	143	241	29	13	38	7
% of Float	43.7%	43.8%	60.1%	44.5%	32.2%	19.5%	0	27.7%	14.1%
Share Repo Accretion	\$5.97	\$6.61	\$11.24	\$4.62	\$2.51	\$2.40	\$0.10	\$1.73	\$0.21
Add'l Interest Expense Dilution	(\$2.46)	(\$3.34)	(\$4.44)	(\$2.06)	(\$1.53)	(\$1.98)	NA	(\$1.01)	(\$0.17)
Net Accretion (Dilution) vs. 2013E EPS	\$3.51	\$3.27	\$6.80	\$2.56	\$0.98	\$0.41	NA	\$0.72	\$0.05
% Acc (Dil) vs. 2013E EPS	46%	39%	91%	44%	19%	4%	NA	16%	4%

Source: Citi Research, FactSet
Note: Assumes 6.5% debt cost

We note that this phenomenon is not particularly new since the primes have been steadily buying down their share count and increasing debt levels over the past few years. Indeed, we first identified this potential last April around the time of the HII spin (see: [DoD Sets the Leverage Bar With NOC Spin - Potential Implications Help Diminish the Value Trap Argument](#)). And we refreshed our thesis in a deep-dive piece in May ([Leveraged Buybacks – Why You Should Care](#)).

Figure 47. Select Defense Capital Raises

Date	Ticker	Amt (\$m)	Cpn	Term	Weighted Coupon
10/20/10	RTN	600	4.88%	30Y	3.4%
		1,000	3.13%	10Y	
		400	1.63%	5Y	
11/8/10	NOC	300	5.05%	30Y	3.3%
		700	3.50%	10Y	
		500	1.85%	5Y	
7/12/11	GD	500	3.88%	10Y	2.5%
		500	2.25%	5Y	
		500	1.38%	4Y	
9/9/2011	LMT	600	4.85%	30Y	3.5%
		900	3.35%	10Y	
		500	2.13%	5Y	
11/21/11	COL	250	3.10%	10Y	3.1%
12/6/11	RTN	425	4.70%	30Y	2.8%
		575	1.40%	3Y	
11/1/12	GD	900	1.00%	5Y	2.1%
		1,000	2.25%	10Y	
		500	3.60%	30Y	
11/27/12	RTN	1,100	2.50%	10Y	2.5%

Source: Citi Research

Average accretion in is overstated to the extent that companies are unlikely to lever to the full 2.8x, but it's understated since our simulation assumes a 6.5% debt cost which is likely too high given where defense companies have recently raised debt (Figure 47).

See Figure 48 for a sensitivity analysis of how average accretion varies with leverage and debt cost. We note that the leveraged buyback exercise is at least 20% accretive at 2.0x leverage for debt costing all the way up to 10% (2x leverage is in line with CACI's recently discussed targets, see [CACI Supports Our Leveraged Buyback Thesis](#)). And at 6% cost of debt and 1x leverage, the leveraged buyback is still 11% accretive. We note that since late 2010, defense companies have accessed the fixed income markets at an average coupon of 3%, implying greater opportunity for an accretive leveraged buyback (Figure 47).

Figure 48. The leveraged buyback is still accretive even at lower target leverage levels

		Target Net Debt/EBITDA							
		1.0x	1.3x	1.5x	1.8x	2.0x	2.3x	2.5x	2.8x
Cost of Debt	2%	14%	20%	27%	34%	43%	53%	66%	80%
	3%	13%	18%	25%	32%	40%	49%	61%	74%
	4%	12%	17%	23%	29%	37%	45%	56%	68%
	5%	11%	15%	21%	26%	33%	41%	51%	62%
	6%	10%	14%	18%	24%	30%	37%	46%	56%
	7%	9%	12%	16%	21%	27%	33%	41%	50%
	8%	8%	11%	14%	19%	23%	29%	35%	43%
	9%	6%	9%	12%	16%	20%	25%	30%	37%
	10%	5%	8%	10%	13%	17%	21%	25%	31%
	11%	4%	6%	8%	11%	13%	17%	20%	25%
	12%	3%	5%	6%	8%	10%	12%	15%	19%
	13%	2%	3%	4%	5%	7%	8%	10%	13%
	14%	1%	2%	2%	3%	3%	4%	5%	7%

Source: Citi Research

Note: Average includes GD, LMT, NOC, RTN

6) Market's pricing in too much downside

The market is pricing in too much bad news into defense shares, as current valuations reveal an expectation of perpetually negative free cash flows.

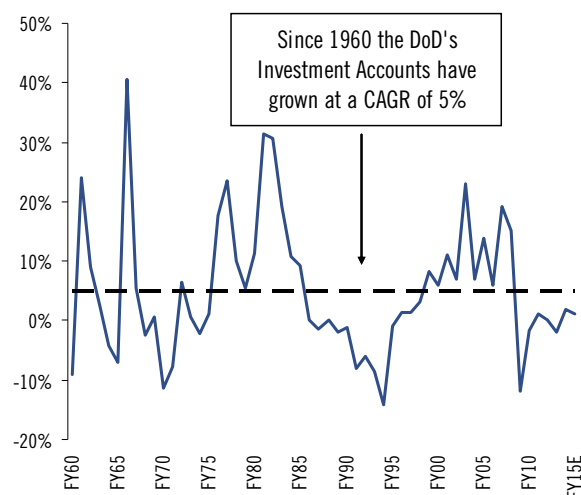
In our view, there's a disconnect between market fears and strategic realities: we think investors are pricing in negative growth (indefinitely) into defense stocks. To come to such a conclusion we compare the percentage of market cap tied to zero growth. We arrive at the zero growth market value by reversing the perpetual DCF calculation (divide 2011 UFCF by the WACC less a growth rate of zero). Our math shows that current market values imply perpetual declines in defense companies' FCF whether one uses 2011 as the base year, or averages 2008-10 (Figure 49). In our view, this is too pessimistic since DoD investment accounts grow over time; ~3-5% nominally over the long-term. This is driven by a persistent need to refresh and update military equipment (Figure 50).

Figure 49. Zero-Growth Scenario

	Zero-Growth Mkt Value (\$m)	Current Mkt Value (\$m)	Mkt Value Attributable to Zero Growth	Mkt-Implied Perpetual FCF Growth Rate
GD	\$30,192	\$25,913	116.5%	(1.4%)
LMT	\$46,306	\$30,567	151.5%	(3.2%)
NOC	\$25,747	\$17,271	149.1%	(4.0%)
RTN	\$28,799	\$19,450	148.1%	(3.5%)

Source: Citi Research, FactSet

Figure 50. Annual Investment Account Growth



Source: DoD

Summary 4Q12 Expectations

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

- We expect **LMT** (Jan 24) to post a strong book-to-bill in driven by what could be one of the company's strongest bookings quarters in 2 years (we tracked \$15b of DoD contract awards vs. \$16b in 4Q11 and \$14b in 4Q10). We expect the new CEO (Marilyn Hewson) to sound more positive on F-35 than the company has in some time driven by the LRIP 5 and 6 deals.
- We expect **BA** (Jan 30) results to reflect increased 787 deliveries which bring down commercial margins in the quarter (we remind investors that 787s delivering out of EMC make unit margins look especially weak). The primary catalyst will be how Boeing re-focuses investors on underlying performance. We expect presentation of adjusted EPS in guidance to act as a catalyst as it highlights Boeing's positive fundamentals.
- We expect **PCP** (TBA) to report positive energy and especially 787 trends as production picks up and the supply chain inventory clears. More importantly, the company will likely provide further color on the recently completed TIE acquisition including synergy expectations and market opportunities.

Figure 51. Citi Revenue Estimates vs. Consensus

	Citi Revenue Est.			Consensus Revenue Est.		
	This Quarter	Current FY	Next FY	This Quarter	Current FY	Next FY
Boeing	\$22,151	\$89,176	\$96,170	\$22,372	\$88,249	\$94,059
DigitalGlobe	\$115	\$460	\$527	\$112	\$450	\$489
General Dynamics	\$8,725	\$32,614	\$32,780	\$8,809	\$32,071	\$31,725
Huntington	\$1,650	\$6,446	\$6,365	\$1,705	\$6,570	\$6,553
Lockheed Martin	\$11,029	\$45,382	\$45,614	\$11,126	\$45,228	\$44,572
Northrop Corp	\$6,312	\$24,493	\$24,384	\$6,338	\$24,411	\$23,847
Precision Cast	\$2,082	\$8,478	\$10,906	\$2,111	\$8,402	\$9,840
Raytheon	\$6,474	\$24,837	\$25,154	\$6,412	\$24,055	\$23,601
Rockwell Collins	\$1,039	\$4,626	\$4,787	\$1,041	\$4,635	\$4,797
Textron Inc	\$3,429	\$12,921	\$13,494	\$3,440	\$12,875	\$13,543
Wesco Aircraft	\$216	\$890	\$974	\$216	\$887	\$971
Green = at least 3% above Street			Red = at least 3% below Street			

Source: Citi Research, Thomson

Upcoming Quarter Sales Commentary

DGI: We're likely more bullish on stronger commercial sales. Our estimates do not include GEOY (closing expected in 1Q).

HII: Mildly slower sales based on general budget pressure.

Upcoming Quarter EPS Commentary

GD: Our estimate includes a 23c charge in the quarter related to a debt raise (which is accretive in the out-years).

HII: We're likely more bullish on operating margins based on typical seasonality and as Ingalls books higher margins having delivered LPD-24.

TXT: Our estimate includes a previously disclosed 6c arbitration charge.

WAIR: Estimates include lower interest expense from December refi, but none of the associated fees.

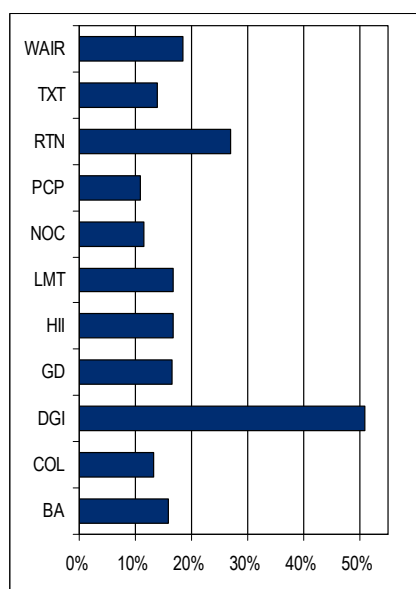
Figure 52. Citi EPS Estimates vs. Consensus

	Citi EPS Est.			Consensus EPS Est.		
	This Quarter	Current FY	Next FY	This Quarter	Current FY	Next FY
Boeing	\$1.20	\$5.29	\$6.17	\$1.20	\$5.12	\$6.32
DigitalGlobe	\$0.26	\$1.30	\$1.54	\$0.28	\$1.27	\$1.68
General Dynamics	\$1.77	\$7.70	\$8.07	\$1.94	\$7.30	\$7.54
Huntington	\$0.93	\$3.42	\$4.94	\$0.89	\$3.82	\$4.99
Lockheed Martin	\$1.75	\$8.49	\$9.67	\$1.78	\$8.21	\$8.78
Northrop Corp	\$1.76	\$7.46	\$8.09	\$1.74	\$6.97	\$7.12
Precision Cast	\$2.46	\$9.89	\$12.50	\$2.49	\$9.91	\$11.74
Raytheon	\$1.31	\$5.77	\$6.56	\$1.30	\$5.40	\$5.84
Rockwell Collins	\$0.89	\$4.52	\$5.08	\$0.90	\$4.43	\$4.90
Textron Inc	\$0.51	\$2.19	\$2.44	\$0.58	\$2.25	\$2.65
Wesco Aircraft	\$0.28	\$1.25	\$1.44	\$0.27	\$1.17	\$1.35
Green = at least 3% above Street			Red = at least 3% below Street			

Source: Citi Research, Thomson

There's a relatively high level of disagreement on DGI this Q likely due to different estimates of GEOY closing cost (magnitude & timing).

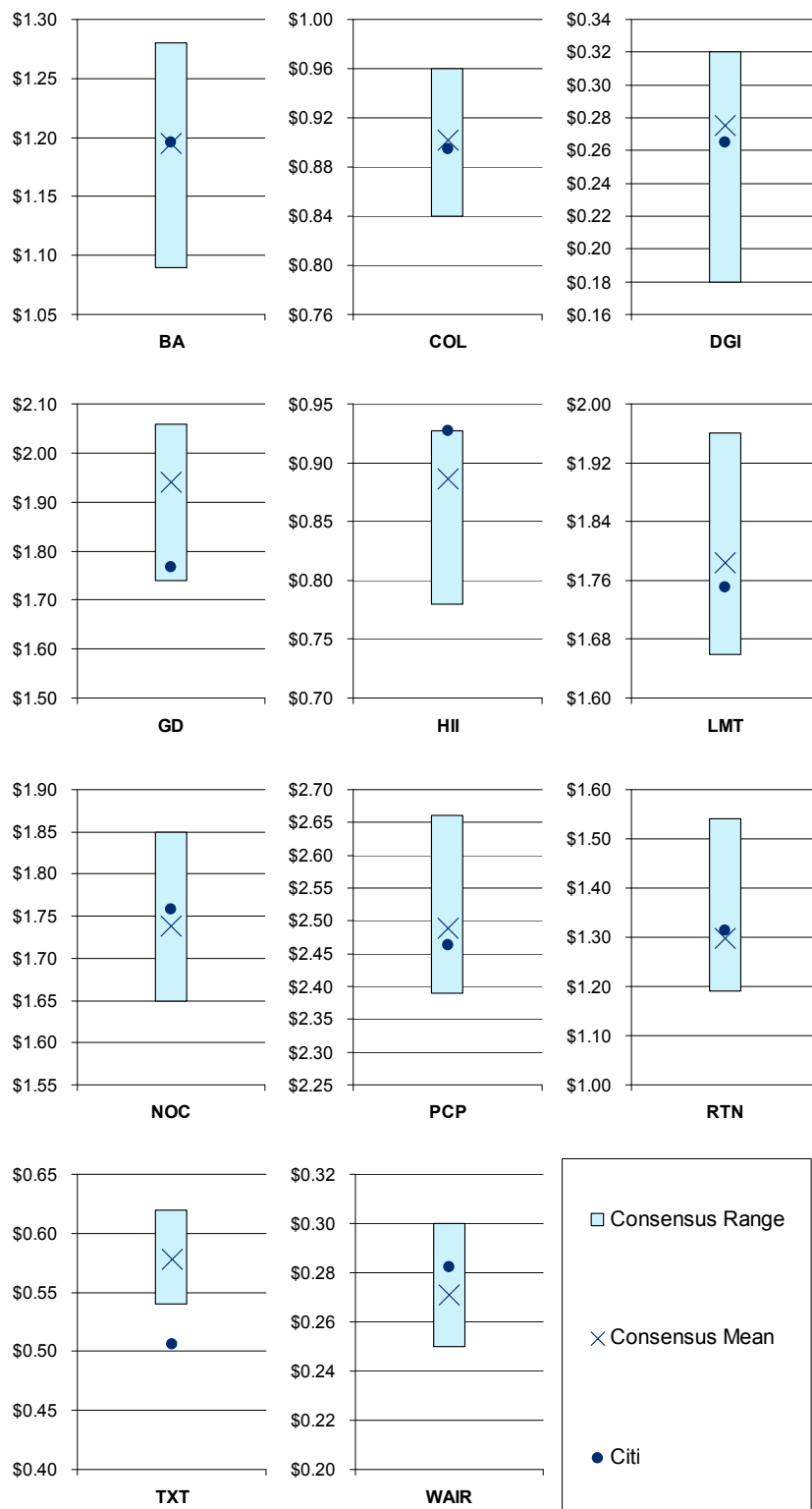
Figure 53. Consensus Range as % of Mean



Source: Citi Research, Thomson

Upcoming Q Consensus Estimate Ranges

Figure 54. Citi vs. Consensus Mean vs. Consensus Range



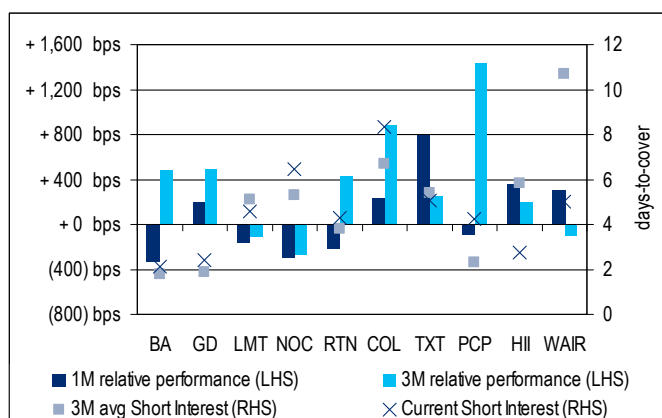
Source: Citi Research, Thomson, FactSet

Performance & Short Interest Screener

In our view, recent defense underperformance is mostly due to uncertainty over the fiscal cliff. NOC stands alone as a short-cover candidate due to recent underperformance and relatively high short interest.

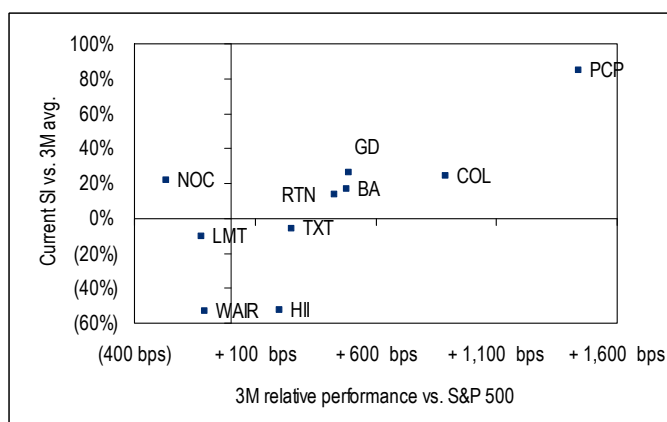
In Figure 55, we've charted out our coverage universe's 1M & 3M relative performance and short interest characteristics. In Figure 56, we've plotted relative performance (vs. S&P 500) against short interest differential to highlight what stocks could be short cover candidates this quarter. The top half of the box in Figure 56 represents stocks with higher short interest vs. their 3 month avg. The left side of the box represents stocks that have underperformed over the last 3 months. NOC stands alone as short-cover candidate due to recent underperformance and relatively high short interest. We also note that short interest in PCP and COL have built as it has outperformed over the last 30 and 90 days.

Figure 55. Relative Performance (vs. S&P 500) & Short Interest



Source: Citi Research

Figure 56. Short Interest vs. Relative Performance



Source: Citi Research

Citi vs. Street Annual Estimates

Figure 57. Citi vs. Street Annual Estimates

			Current Year Estimates			Next Year Estimates			Analyst Ratings		
			EPS			EPS					
Company	Ticker	Rating	Citi	Thomson	Var	Citi	Thomson	Var	Buy	Neutral	Sell
Boeing	BA	Buy	\$5.03	\$5.01	0.5%	\$5.29	\$5.12	3.3%	83%	14%	3%
DigitalGlobe	DGI	Neutral	\$0.74	\$0.75	-1.3%	\$1.30	\$1.27	2.1%	64%	27%	9%
General Dynamics	GD	Buy	\$6.81	\$6.99	-2.6%	\$7.70	\$7.30	5.6%	68%	18%	14%
Huntington Ingalls	HII	Buy	\$2.85	\$2.82	1.0%	\$3.42	\$3.82	-10.4%	36%	57%	7%
Lockheed Martin	LMT	Buy	\$8.37	\$8.40	-0.4%	\$8.49	\$8.21	3.3%	27%	64%	9%
Northrop Grumman	NOC	Buy	\$7.43	\$7.41	0.3%	\$7.46	\$6.97	7.0%	10%	65%	25%
Precision Castparts	PCP	Buy	\$9.89	\$9.91	-0.2%	\$12.50	\$11.74	6.5%	77%	19%	4%
Raytheon	RTN	Buy	\$5.56	\$5.53	0.5%	\$5.77	\$5.40	6.9%	33%	52%	14%
Rockwell Collins	COL	Neutral	\$4.52	\$4.43	2.0%	\$5.08	\$4.90	3.6%	53%	37%	11%
Textron	TXT	Neutral	\$1.98	\$2.04	-3.1%	\$2.19	\$2.25	-2.6%	75%	19%	6%
Wesco Aircraft	WAIR	Buy (H)	\$1.25	\$1.17	7.1%	\$1.44	\$1.35	6.8%	54%	31%	15%
Citi Coverage Average			0.3%			2.9%			31%	61%	8%

Citi Estimates vs Consensus by Rating		
Buy	0.8%	3.6%
Neutral	-0.8%	1.1%

Indicates our out of consensus view

Source: Citi Research

Key 4Q Themes to Watch

We will focus on the following key themes during the January reporting season:

1) Pensions

We'll get 2013 pension guidance on the 4Q calls. Several companies took the opportunity during the 3Q earnings season to provide some initial color on 2013 which is setting up to be another tough pension year based on low discount rates. We've typically seen actual guidance come in a bit better vs. the preliminary color (especially for the defense companies) based on pre-funding actions taken during 4Q to offset some of the impact of persistently low discount rates. The big pension watch-item this earnings season will be what Boeing decides to do with its pension expense which we expect to weigh on EPS growth in 2013. They could adopt a mark-to-market approach to neutralize some of the expense, although we expect them to adopt the simpler practice of presenting & focusing investor attention on an adjusted EPS figure. In Figure 58 we review guidance the defense primes have issued on the sensitivity of FAS pension expense to 25 bps swings in the discount rate.

Figure 58. Discount Rate Swing Impact

	Impact per 25 bps swing in discount rate(\$m)	% 2013E EBIT
LMT	125	3.0%
BA	70	1.1%
NOC	77.5	2.7%
HII	17.5	4.6%
RTN	60	2.0%

Source: Citi Research

2) DoD budget impact

Sequester is still on the books but with a new deadline of March 1 thanks to Congress' ability to kick the can (once again) with the fiscal cliff deal. We don't expect companies that issued guidance based on sequestration (like COL) to be able to upgrade its outlook based on the January 3 sequestration not happening...because it's still on the books and uncertainty still reigns. We expect an eventual budget deal in 1Q to take out an incremental \$500b of defense budget over 10 years (vs. a December Obama proposal of \$100b), essentially flat-lining the 10Y spending outlook. We still don't see fire and brimstone for defense contractors, since they still enjoy large backlogs and premium cash return metrics.

Perhaps related to the budget and election uncertainty in 4Q, DoD contracting was a bit below trend in 4Q12 vs. 4Q11 (down 19% for our coverage universe), although GD had an especially strong quarter driven by a large submarine order (Figure 59).

Sequester STILL looms thanks to the kick-the-can fiscal cliff deal reached on January 2. In our view, shorter-cycle ground & IT services programs are more at risk to backlog erosion in this environment.

We're hosting our 3rd annual DC bus tour in February, including a meeting with GD's new CEO. Please let us know if you'd like to join.

GD turned in a strong bookings quarter based on a large OH-class submarine contract. LMT contracts were up 160% q/q based on missile defense & F-35 deals.

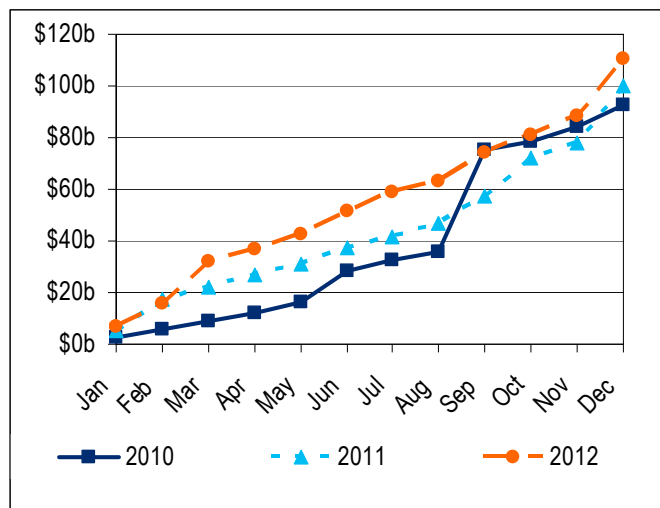
Figure 59. DoD Contract Announcements

Quarter	BA	COL	GD	LMT	NOC	RTN	TXT	HII	Total
1Q12	18,549	90	1,557	4,209	2,581	1,761	1,476	564	30,787
2Q12	3,815	37	1,145	8,229	1,043	1,430	331	2,602	18,633
3Q12	5,217	97	1,368	5,891	2,104	3,136	977	2,022	20,812
4Q12	9,002	186	3,544	15,334	699	2,915	2,196	350	34,227
q/q									
1Q12	4%	(12%)	(3%)	(74%)	54%	(47%)	210%	18%	(27%)
2Q12	(79%)	(59%)	(26%)	96%	(60%)	(19%)	(78%)	361%	(39%)
3Q12	37%	162%	19%	(28%)	102%	119%	195%	(22%)	12%
4Q12	73%	91%	159%	160%	(67%)	(7%)	125%	(83%)	64%
y/y									
1Q12	76%	1,080%	40%	(9%)	545%	68%	(61%)	76%	41%
2Q12	(1%)	174%	(16%)	67%	(31%)	(18%)	(12%)	12%	16%
3Q12	34%	(54%)	(72%)	50%	12%	22%	21%	9%	4%
4Q12	(50%)	82%	121%	(7%)	(58%)	(13%)	360%	(27%)	(19%)

Source: DoD, Citi Research

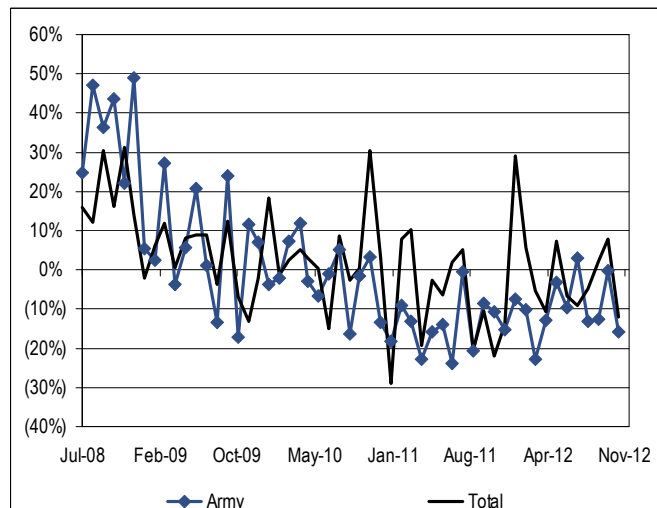
On an annual basis, 2012 was a strong year for DoD contracts in our coverage universe, with announced contract values finishing 11% above 2011 and 19% above 2010 (Figure 60). DoD investment account outlays (more closely tied to sales) were up 8% y/y in October and down 12% y/y in December, with Army underperforming the rest of the accounts (Figure 61).

Figure 60. DoD Cumulative Contract Announcements



Source: Department of the Treasury

Figure 61. DoD Quarterly Outlays



Source: Department of the Treasury

We're hosting our 3rd annual DC bus tour on Feb 13-14 during which we'll be meeting with management from NOC, LMT, SAIC, CACI, Booz. The trip will also include a meeting with GD's new CEO, Phebe Novakovic, in one of her first interactions with investors. . Please let us know if you'd like to join.

3) Aero production rates & backlog health

The supply chain is ramping to record rates and we're all focused on the 787. The next stop is 7/month by the middle of the year and 10/month by the end of 2013. Last quarter's earnings calls reported on the 787 inventory beginning to clear, which should allow the supply chain to feel more of the benefits (**PCP, WAIR, COL**).

Cancellation concerns have made investors skittish this Q w/ OE-exposed companies underperforming on fears that planned production increases aren't supported by weak backlogs. We expect Boeing to reiterate its confidence in the health of its backlog.

In our view, investors have become increasingly concerned over the health of the OE backlogs due to slowing orders and pockets of cancellations. We argue that record backlogs are a result of the OEs under-supplying the market during the recession (not necessarily on purpose) and of rising replacement demand. We think **Boeing's** production rate plans are well-supported by fundamentals and that recent cancellations are in-line with historical trends. For more, see: [In-Depth Backlog Analysis Adds Comfort to the Long Thesis](#).

4) Airline behavior & aftermarket rebound

We expect 4Q to show slowed aftermarket sales with most companies looking for a 2013 rebound.

Aftermarket sales likely slowed in 2H12 as airlines conserved cash amidst a tough and uncertain macro environment. Still, companies are looking to 2013 for some rebound as airline traffic continues to grow, as airlines catch up on some deferred maintenance, and as new regulators/airspace modernization requirements kick in.

Things began to look a bit brighter early in 4Q12...but the macro environment quickly soured as fiscal cliff uncertainty took hold.

5) Bizjet deliveries & outlook

The used inventory market had been heading in the right direction until late Fall/early Winter when things began to slow down again. We're wary of Cessna having unfilled delivery slots in 4Q as macro and fiscal cliff uncertainty took hold. We'll also hear from GD on how order trends are faring as we're wary of G650 demand cannibalizing their smaller models. The big news of the quarter should be how many completed G650s GD was able to deliver.

A looming question (still) for the SMID-cabin industry is the outcome of the Hawker bankruptcy process. At this point, Beechcraft plans to persist in turboprops, while Hawker exits the industry. We expect the Hawker inventory to continue to weigh on new jet pricing, but we consider its exit from SMID-cabin bizjets to be an overall positive.

6) New management priorities

The next defense primes to consider boosting their dividends are GD and RTN in March.

GD and LMT will be sporting new CEOs this earnings season. Both bring extensive experience leading various businesses within the company. We'll hear their priorities, with special attention to GD's new CEO Phebe Novakovic who has yet to interact extensively with investors (LMT's Marilyn Hewson was on a company conference call in November after Chris Kubasik resigned).

GD and RTN are set to increase their dividends again in March. LMT is our only company under coverage that has publicly committed to dividends over repurchases, while NOC has said it favors repurchases.

We'll be listening for any changed preferences. We'll also be listening out for M&A appetite. No management to-date has expressed a desire for a transformative transaction, and we don't expect this to change in the near-term given current budget uncertainty and new management.

Company Focus

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

Buy	1
Price (08 Jan 13)	US\$74.13
Target price	US\$106.00
from US\$84.00	
Expected share price return	43.0%
Expected dividend yield	2.6%
Expected total return	45.6%
Market Cap	US\$55,900M

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



Boeing Co. (BA) Looking for a cleaner presentation

■ **Expectations** – We're in line with the Street and our model reflects 4Q12 deliveries that were reported last Thursday. The higher number of 787 deliveries drives BCA margin pressure, while we expect BMA and NSS margins to step down after unusually strong 3Qs. Our 4Q estimates do not reflect any repurchases (we don't expect BA to begin repos until 1Q13). Key focus items this Q will be pension treatment & color on the recent 787 issues.

■ **Key Issues for the Quarter** – 1) Pension guide & potential change to pension accounting. Options range from complex (mark-to-market) to simple (adjusted EPS); 2) 787 production & BCA margins impact from higher 787 deliveries vs. guide; 3) 2013 outlook including deliveries, book-to-bill, commercial margins & defense (BDS likely flat in 2013); 4) Future cash deployment decisions after December's "down payment"; 5) When does 747 demand pick up?; 6) 787-10 & 777X timeline; 7) Defense backlog & sequester impact?; 8) 737MAX still on track for detailed design in mid-2013?; 9) Backlog stability amidst slowed orders...any open 2013 delivery slots?; 10) GenX issues & 787/747?

■ **Expected Guidance** – We expect focus to be on pension-adj EPS that more accurately reflects underlying performance. Our 2013 adj EPS est. of \$6.90 includes \$1.61 of pension costs (GAAP EPS est. is \$5.29). We wouldn't be surprised to see initial guidance fall below our est. as BA typically guides conservatively. We expect 680 BCA deliv (93 787s & 23 747s). We're likely a above Consensus on 787 as BA "fires a blank" in the 747 line & moves labor to 787 EMC.

■ **Our Investment Thesis** – Earnings visibility is supported 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 (\$20b of FCF through 2015E). 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. Look for late 2012 decisions on dividends & repos to act as catalysts.

■ Please see cheat sheet on page 52 for a snapshot heading into the Q.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.78A	1.25A	1.45A	1.83A	5.33A	5.33A
2012E	1.22A	1.27A	1.35A	1.20E	5.03E	5.01E
Previous	1.22A	1.27A	1.35A	1.19E	5.03E	na
2013E	1.23E	1.31E	1.36E	1.39E	5.29E	5.12E
Previous	1.23E	1.31E	1.37E	1.41E	5.32E	na
2014E	1.43E	1.55E	1.58E	1.62E	6.17E	6.32E
Previous	1.43E	1.56E	1.58E	1.62E	6.19E	na

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

Model Changes

Our 4Q EPS estimates drifts up slightly based on our expectation of higher defense margins offset by lower commercial sales based on disclosed 4Q deliveries which reflected a slightly different mix than what we had previously expected. Our 2013 estimates fall based on lower defense sales. Our 2014 EPS estimate increases based on higher BCA margins related to a richer mix of deliveries (we've lowered our zero-margin 747 delivery estimate). Our PT moves to \$106 with our valuation methodology now based on pension-adjusted EPS reflecting our expectation that the company and investors will begin to focus on ex-pension EPS which in our view is a better reflecting of performance.

Other Thoughts

See our note for our thoughts on the recent fire: [787 Issues Appear Manageable at This Point](#). We note that the aircraft involved in Tuesday's fuel leak at Logan was reportedly related to ground crew error and that the plane took off soon after.

Figure 62. . Model Changes & Guidance

\$millions except EPS	4Q12E		FY12E		FY13E		FY14E		FY15E	
	Old	New	Old	New	Old	New	Old	New	Old	New
Net Sales	22,274	22,151	81,670	81,547	89,823	89,176	96,884	96,170	97,099	96,359
Commercial	13,918	13,793	48,884	48,759	56,595	56,330	63,890	63,550	64,749	63,899
Defense total	8,394	8,394	32,658	32,658	33,389	33,003	33,243	32,864	32,608	32,709
Boeing Capital	101	101	426	426	404	404	404	404	404	404
Segment Margin	8.5%	8.5%	9.2%	9.3%	9.9%	9.9%	10.0%	10.0%	10.8%	10.9%
BCA margin	8.2%	8.2%	9.4%	9.4%	10.1%	10.2%	10.2%	10.3%	11.5%	11.7%
Defense margin	9.1%	9.3%	9.4%	9.5%	9.7%	9.7%	9.7%	9.7%	9.6%	9.6%
Boeing Capital	28.0%	28.0%	30.6%	30.6%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Unallocated Exp.	(423)	(423)	(1,402)	(1,402)	(2,400)	(2,400)	(2,400)	(2,400)	(2,420)	(2,420)
Pension	(200)	(200)	(808)	(808)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)	(1,800)
Total Op. Margin	6.6%	6.6%	7.5%	7.5%	7.2%	7.2%	7.5%	7.5%	8.3%	8.4%
Net Interest	(112)	(112)	(458)	(458)	(437)	(436)	(427)	(427)	(413)	(412)
Tax Rate	33.5%	33.5%	33.2%	33.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
EPS	\$1.19	\$1.20	\$5.03	\$5.03	\$5.32	\$5.29	\$6.19	\$6.17	\$7.13	\$7.19
Dil. Shares O/S	764.0	764.0	762.7	762.7	748.3	748.2	726.0	724.9	704.5	702.7

\$ millions	2012 Guidance								2012E	
	4Q11		1Q12		2Q12		3Q12		Citi	Street
Revenue	\$78,000	\$80,000	No Change		\$79,500	\$81,500	\$80,500	\$82,000	\$81,547	\$81,640
EPS	4.05	4.25	4.15		4.40	4.60	4.80	4.95	\$5.03	\$5.01
Operating cash flow	> \$5.0b		No Change		No Change		> \$5.5b		\$6,056	
BCA										
Revenue	\$47,500	\$49,500	No Change		No Change		No Change		\$48,759	
Deliveries	585	600	No Change		No Change		No Change		601	
787 + 747-8 Deliveries	70	85	No Change		No Change		No Change		77	
Operating Margin	8.5%	9.0%	No Change		~9%		No Change		9.4%	
BDS										
Revenue	\$30,000	\$30,500	No Change		\$31,500	\$32,000	\$32,500	\$33,000	\$32,658	
Operating margin	> 9%		No Change		No Change		9.25%		9.5%	

Source: Citi Research

Company Focus

- Company Update
- Estimate Change

Neutral	2
Price (08 Jan 13)	US\$27.20
Target price	-
Expected share price return	-
Expected dividend yield	-
Expected total return	-
Market Cap	US\$1,279M

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



DigitalGlobe (DGI) Increasing Focus on GEOY Deal

■ **Expectations** – We're below Street EPS despite being slightly higher on sales likely due to our assumption of higher GEOY deal-related costs in the corporate line. We note that these are costs incurred regardless of the outcome of the deal, while our estimates do not reflect the deal closing as it's still making its way through the DOJ process (expected close in mid-1Q). If the deal closes, the combined company will incur additional costs related to performance fees & refinancing. At this point, our estimates do not reflect these items.

■ **Key Issues for the Quarter** – 1) Progress on GEOY bid now that s/h have approved (we expect 1Q closing); 2) Any indication of NGA needing to trim EV more due to DoD budget uncertainty?; 3) More color on synergy opportunities & associated costs; 3) New opps & color on 12/5 USAF contract; 4) More color on sat capex plans (we assume that WV3 will be launched and GEOY2 will be put into storage); 5) Long-term EBITDA margin targets post-combination (we expect 50%+ and 56% in 2015); 6) Commercial market growth & backlog; 7) Cash slowdown from pressured budget environment; 8) More DAP demand beyond #6?; 9) M&A pipeline for tuck-ins.

■ **Expected Guidance** – We expect guidance for the combined company & some more color on synergy targets (including timing). This includes sales, EBITDA margin, and EPS impact of deal costs. We expect DGI to better lay out expected costs & likely adopt an adjusted EPS presentation that excludes deal costs. Beyond further color on the deal, we expect DGI to sound positive on the commercial market (helped by a backlog that has grown over recent quarters).

■ **Our Investment Thesis** – We believe that current valuation fairly reflects the pending deal to acquire GEOY, which we expect to go through. We expect cost synergies given business overlap, and for resultant DoD revenue streams to stabilize even though there will still have to be an annual contract renewal process. Thus, we expect recent multiple expansion to stick due to a de-risked defense business and the commercial sales picking up, driving investors to adopt a SOTP methodology to valuation. Our SOTP analysis yields a PT in line with shares' current levels.

■ Please see cheat sheet on page 53 for a snapshot heading into the Q.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	-0.03A	-0.02A	0.02A	0.10A	0.08A	-0.61A
2012E	0.08A	0.21A	0.18A	0.26E	0.74E	0.75E
Previous	0.08A	0.21A	0.18A	0.31E	0.79E	na
2013E	0.26E	0.30E	0.33E	0.41E	1.30E	1.27E
Previous	0.26E	0.30E	0.33E	0.41E	1.30E	na
2014E	0.32E	0.36E	0.32E	0.54E	1.54E	1.68E
Previous	0.32E	0.36E	0.32E	0.54E	1.54E	na

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

Model Changes

Our 2012E estimates fall as we include more deal-related costs. Our FY12-13 estimates are largely unchanged. Note that the estimates in our model do not yet reflect the GEOY acquisition which is still making its way through the DOJ process (close expected mid-1Q). Note that we analyzed the pending combination with GEOY in our [Aug 17 note](#) and we will update our estimates and PT once the deal closes.

Figure 63. Model Changes & Guidance

\$ in Millions, Except EPS	4Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$115	\$115	\$411	\$411	\$460	\$460	\$527	\$527
COGS	23.9	23.9	83.4	83.4	94.9	94.9	101.5	101.5
SG&A	36.4	40.4	139.8	143.8	145.5	145.5	154.0	154.0
Corporate	25.2	29.2	99.9	103.9	100.4	100.4	107.6	107.6
GAAP EBITDA	55.1	51.1	188.2	184.2	219.3	219.3	271.0	271.0
GAAP EBITDA Margin	48%	44%	46%	45%	48%	48%	51%	51%
Adj. EBITDA	57.0	53.0	223.7	219.7	227.7	227.7	260.3	260.3
Adj. EBITDA Margin	50%	46%	51%	50%	50%	50%	52%	52%
D&A	28.9	28.9	115.4	115.4	115.6	115.6	134.4	134.4
Interest Expense	1.0	1.0	(8.7)	(8.7)	(1.3)	(1.3)	(15.0)	(15.0)
Effective Tax Rate	42%	42%	42%	42%	41%	41%	41%	41%
EPS	\$0.31	\$0.26	\$0.79	\$0.74	\$1.30	\$1.30	\$1.54	\$1.54
Diluted Shares O/S	46.5	46.5	46.5	46.5	46.5	46.5	46.5	46.5

	2012 Guidance					
	Feb 29, 2011 4Q11 Earnings	May 1, 2012 1Q12 Earnings	July 31, 2012 2Q12 Earnings	Oct 30, 2012 3Q12 Earnings	Citi	Street
GAAP Revenue	10%	14%	16%	18-21%	21%	20%
EBITDA Margin	43%	46%	unchanged	unchanged	45%	\$55m
Adj. EBITDA Margin	50%	52%	Better	unchanged	50%	
EPS	-	-			\$0.74	\$0.75
CapEx (\$m)	\$200m	unchanged	unchanged	unchanged	\$227m	

Source: Citi Research

Company Focus

- Company Update
- Estimate Change

Buy	1
Price (08 Jan 13)	US\$70.41
Target price	US\$88.00
Expected share price return	25.0%
Expected dividend yield	3.0%
Expected total return	28.0%
Market Cap	US\$24,860M

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



General Dynamics Corp. (GD)

Some potential G650 slippage

- **Expectations** – Our top-line's light vs. the Street as we've assumed some slippage in G650 completion deliveries (~\$50m) into 2013 due the first not being delivered until 12/20. Our EPS et. includes a 23c charge related to the Qs accretive debt refi (adds ~12c to the out-years). Aero margins should bounce back q/q as 3Q's supplier R&D payments roll off. There's room to the downside for IS&T margin est. which is +150bps q/q based on better mix (more hardware). We also assume minimal share repo (\$50m worth 1c EPS).
- **Key Issues for the Quarter** – 1) New CEO priorities ie cash deployment given repo slowdown & March board meeting focusing on dividend; 2) G650 delivery slippage due to late start; 3) Aero orders & production rates (non-G650 still at ~80 in 2013?); 4) Jet Aviation outlook & impact of MRO facility sale to Cessna; 5) Nassco deal & Jones Act outlook; 6) JTRS competition; 7) Potential for more charges on rugged computer inventory (~\$25m still left); 8) Potential for impairment on electro-optical biz (\$145m of assets); 9) Defense bill adding Abrams, VCS, DDG; 9) IS&T margin outlook based on mix toward hardware; 10) M&A outlook (Tier 1 consolidation?).
- **Expected Guidance** – Expect initial guide of strong growth at aero offset by pressured Combat/IS&T & flat Marine y/y. We expect strong margin accretion at Aero based on ramping G650 sales as GD comes down the learning curve. Combat margins can also improve y/y based on higher international mix but this is a watch-item for us. We also expect Marine margins to come down absent T-AKE (worth 100 bps). We est. \$560m in repos although GD guide generally doesn't contemplate repos.
- **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 3Q12 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 beyond 30%, we see a re-rating opportunity since shares now trade at a discount to defense peers.
- Please see cheat sheet on page 54 for a snapshot heading into the Q.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.64A	1.79A	1.83A	1.68A	6.94A	7.28A
2012E	1.57A	1.77A	1.70A	1.77E	6.81E	6.99E
Previous	1.57A	1.77A	1.70A	2.00E	7.04E	na
2013E	1.82E	1.87E	1.91E	2.12E	7.70E	7.30E
Previous	1.79E	1.85E	1.89E	2.10E	7.63E	na
2014E	1.92E	1.96E	2.02E	2.17E	8.07E	7.54E
Previous	1.90E	1.95E	2.01E	2.16E	8.02E	na

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

Model Changes

Our 4Q estimate comes down based on \$50m of G650 delivery slippage and a debt deal charge of \$82m (~23c). Our 2013-14 estimates increase based on lower interest expense (worth ~13c), a recently signed contract for two Jones Act ships, offset by pressured IS&T sales and a slight slowdown in G350-550 production based on market demand and competition from G650.

Figure 64. Model Changes & Guidance

\$million except EPS	4Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	8,775	8,725	32,210	32,160	32,826	32,614	33,059	32,780
Aero	1,946	1,896	6,997	6,947	8,134	8,008	8,713	8,529
IS&T	2,769	2,769	10,209	10,209	10,133	10,022	10,017	9,856
Marine	1,674	1,674	6,602	6,602	6,581	6,605	6,556	6,622
Combat	2,386	2,386	8,402	8,402	7,978	7,978	7,773	7,773
Segment Op. Margin	12.5%	12.5%	12.1%	12.1%	12.7%	12.7%	12.9%	12.9%
Aero	15.5%	15.5%	15.6%	15.6%	17.3%	17.3%	18.0%	18.0%
IS&T	9.6%	9.6%	8.9%	8.9%	9.3%	9.3%	9.3%	9.3%
Marine	11.8%	11.8%	11.4%	11.4%	10.3%	10.3%	10.2%	10.2%
Combat	14.1%	14.1%	13.5%	13.5%	14.2%	14.2%	14.3%	14.3%
Corporate	(18)	(18)	(70)	(70)	(75)	(75)	(76)	(75)
Total Op. Margin	12.3%	12.3%	11.9%	11.8%	12.4%	12.4%	12.7%	12.7%
Interest Expense	(40)	(37)	(155)	(152)	(153)	(87)	(146)	(78)
Tax Rate	32.0%	32.0%	31.4%	31.4%	32.0%	32.0%	32.0%	32.0%
EPS	\$2.00	\$1.77	\$7.04	\$6.81	\$7.63	\$7.70	\$8.02	\$8.07
Diluted Shares O/S	354.2	354.2	355.9	355.9	350.3	350.3	343.9	343.8

\$millions	2012 Guidance								Street	Citi
	4Q11		1Q12		2Q12		3Q12			
	Low	High	Low	High	Low	High	Low	High		
Sales									32,238	32,160
Aerospace	15%		unchanged		unchanged		16% 17%			15.8%
IS&T	flat		down 5%		down 7%		down 8-9%			(9.0%)
Marine Systems	Slightly down		unchanged		unchanged		unchanged			(0.4%)
Combat Systems	\$8,500		unchanged		unchanged		unchanged			\$8,402
Segment Op Margin										12.1%
Aerospace	15%		mid 15%		mid-15%+		unchanged			15.6%
IS&T	high 9%		mid 9%		9.3%		~9%			8.9%
Marine Systems	mid/low 10%		high 10%		low 11%		mid 11%			11.4%
Combat Systems	low/mid 14%		high 13%		mid 13%		unchanged			13.5%
Interest Expense	155	160	low end		155		unchanged			\$152
Corporate	(80)		(70)		unchanged		unchanged			(70)
Tax Rate	32%		unchanged		unchanged		< 32%			31%
Diluted EPS	7.10	7.20	Lower end		7.00	7.10	7.00	7.05	\$7.00	\$6.81

Source: Citi Research

Company Focus

- Company Update
- Target Price Change

Buy	1
Price (08 Jan 13)	US\$43.30
Target price	US\$54.00
from US\$50.00	
Expected share price return	24.7%
Expected dividend yield	0.0%
Expected total return	24.7%
Market Cap	US\$2,147M

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



Huntington Ingalls Industries (HII) Ingalls margins should benefit as LPD-24 leaves the yard

- **Expectations** – We're below the Street on sales (we see down 5% y/y to finish off 2012 at down 1% y/y) but above on EPS likely due to our more robust margin estimates. At NN we see 30 bps q/q expansion as programs typically retire risk as the year progresses. We expect Ingalls margins to bounce back to 4.1% after 3Q absorbed \$20m of negative EAC adjustments largely related to LPD-24 (which delivered on Dec 7). We consider our Ingalls margin estimate achievable since 2Q achieved the same rate but with LPD-24 still in the shipyard.
- **Key Issues for the Quarter** – 1) NN margins picking up as risk is retired?; 2) Ingalls margins back on track after 3Q's LPD-24 charge (LPD 24 delivered on Dec 7); 3) 2013 outlook shows margins on track (expanding toward 9%+ by 2015) & sales targets in sight (flattish y/y); 4) Pension outlook (3Q12 implied ~\$90m expense in 2013E); 5) DDG-51 contract timing; 6) CVN-79 negotiation update & potential for FPI contract; 7) Update on Avondale options; 8) Potential for lower margins on new RCOH & VA-class contracts? We don't think the new VCS block would start until 2014 (small impact) w/ boats delivering through 2023.
- **Expected Guidance** – HII doesn't give 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 flattish sales outlook and margins of 9%+ by 2015. The 3Q call implied 2013 pension expense worsening to ~\$90m, but 4Q cash deployment & market action could move it around. Every 25 bps in DR = 23c EPS.
- **Our Investment Thesis** – We're 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 expect the US to continue to focus on power projection capabilities which implies a strong Navy.
- Please see cheat sheet on page 55 for a snapshot heading into the Q.
- **PT increase** – Our estimates are unchanged heading into 4Q, while our PT increases to \$54 as we roll our est. forward a quarter and incorporate a higher market multiple.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.92A	0.80A	1.05A	1.19A	3.97A	3.97A
2012E	0.67A	1.00A	0.26A	0.93E	2.85E	2.82E
Previous	0.67A	1.00A	0.26A	0.93E	2.85E	na
2013E	0.79E	0.81E	0.86E	0.96E	3.42E	3.82E
Previous	0.79E	0.81E	0.86E	0.96E	3.42E	na
2014E	1.12E	1.22E	1.27E	1.34E	4.94E	4.99E
Previous	1.12E	1.22E	1.27E	1.34E	4.94E	na

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

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (08 Jan 13)	US\$92.96
Target price	US\$106.00
from US\$108.00	
Expected share price return	14.0%
Expected dividend yield	4.9%
Expected total return	19.0%
Market Cap	US\$30,081M

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



Lockheed Martin Corp. (LMT)

Strong booking quarter should drive backlog towards guidance

- **Expectations** – We're mildly behind the Street likely due to our conservative margin outlook for Space Systems which we see contracting 360 bps q/q off of 3Q's ULA-related spike (although, 4Q's AEHF milestones could support the Q). We also note that ES margins have been outperforming guidance YTD with the segment's profit outlook and could drive a beat. We expect repos to be roughly flat q/q as LMT reiterated its intent to spend \$1b on repos in '12 as LMT continues to focus on DD dividend increases. B2B should look good given the \$3.8b LRIP 5 deal.
- **Key Issues for the Quarter** – 1) New CEO priorities; 2) 2013 pension outlook (3Q call est. \$700m expense @ 4% discount rate & 8% asset return; 3) Commentary on \$3.8b LRIP5 signed for 32 planes (we expect margin outlook unchanged). Pacing for next LRIPs (what's being worked on already?). Impact of Canada F-35 decision on other consortium partners. Outlook for F-35 support since DoD maybe preferring to compete it; 4) UAS opportunity given recent acquisitions (Chandler/May, CDL Sys); 5) How does increased budget clarity impact M&A priorities?; 6) B2B outlook & deals in pipeline (strong 4Q w/ Saudi C-130s & Qatar THAAD). Maintain backlog at ~\$80b?
- **Expected Guidance** – Expect in line with prelim trends mentioned on 3Q call: LSD decline in sales (assumes no sequester) & segment operating margin above 11%. We see a 2% decline in 2013E sales and 11.2% segment operating margins. Note that the prelim guidance envisioned \$700m FAS/CAS expense vs. our est. of \$600m (worth 22c in 2013E EPS). Guide will reflect ES re-org into Missiles & Fire Control (MFC) and Mission Systems & Training (MST).
- **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 > 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 ~1,500), it would still be worth at least 7.5 years of production at peak rates, with potential upside from international sales.
- Please see cheat sheet on page 56 for a snapshot heading into the Q.
- **PT decrease** – Our PT moves down to \$106 on a lower market multiple, offset by our rolling our estimates forward a quarter.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.57A	2.16A	1.99A	2.14A	7.85A	7.85A
2012E	2.02A	2.38A	2.21A	1.75E	8.37E	8.40E
Previous	2.02A	2.38A	2.21A	1.75E	8.37E	na
2013E	1.85E	2.11E	2.20E	2.33E	8.49E	8.21E
Previous	1.85E	2.11E	2.20E	2.32E	8.47E	na
2014E	2.21E	2.42E	2.49E	2.55E	9.67E	8.78E
Previous	2.20E	2.42E	2.49E	2.54E	9.64E	na

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

Model Changes

Our EPS estimates drift up mildly following the November debt exchange which creates some minor interest expense savings for LMT going forward. Our 4Q estimate is unchanged, although our cash flow estimate now includes \$225m of pre-tax cash consideration paid to the debt holders that exchanged their bonds.

Re-organization

On October 8, LMT announced it would be re-organizing its Electronic Systems business into two new segments. We will receive 2013 guidance on the call that incorporates the new segment lineup.

Figure 65. Model Changes & Guidance

\$millions, except EPS	4Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	11,029	11,029	46,112	46,112	45,382	45,382	45,614	45,614
Seg. Op. Margin	11.0%	11.0%	11.8%	11.8%	11.2%	11.2%	11.1%	11.1%
Pension	(213)	(213)	(835)	(835)	(600)	(600)	(200)	(200)
Unusual Items	0	0	(23)	(23)	0	0	0	0
Other Corp	(97)	(97)	(389)	(389)	(290)	(290)	(290)	(290)
Total Op. Margin	8.2%	8.2%	9.1%	9.1%	9.3%	9.3%	10.1%	10.1%
Interest Expense	(96)	(96)	(385)	(385)	(384)	(380)	(384)	(376)
Tax Rate	30.0%	30.0%	30.1%	30.1%	30.0%	30.0%	30.0%	30.0%
EPS	\$1.75	\$1.75	\$8.37	\$8.37	\$8.47	\$8.49	\$9.64	\$9.67
Diluted Shares	322.4	322.3	327.0	327.0	315.6	315.3	305.4	305.0

\$millions	2012 Guidance						Citi	Street		
	4Q11		1Q12		2Q12				3Q12	
	low	high	low	high	low	high			low	high
Sales	45,000	46,000	unchanged		unchanged		45,500	46,500	46,112	46,191
Aeronautics	14,300	14,550			14,100	14,350	14,150	14,400	14,325	
Space	7,550	7,800			7,750	8,000	8,000	8,250	8,105	
Electronics	14,550	14,800			unchanged		14,700	14,950	14,882	
IS&GS	8,600	8,850			unchanged		8,650	8,900	8,799	
Segment Profit	5,025	5,125	5,075	5,175	5,200	5,300	5,375	5,475	5,455	
Aeronautics	1,575	1,600	unchanged		1,625	1,650	1,635	1,660	1,658	
Space	900	925	unchanged		925	950	980	1,005	1,004	
Electronics	1,775	1,800	1,825	1,850	1,875	1,900	1,975	2,000	1,992	
IS&GS	775	800	unchanged		unchanged		785	810	801	
FAS/CAS	(835)		unchanged		unchanged		unchanged		(835)	
Other Unallocated	(290)		(340)		unchanged		(390)		(389)	
Operating profit	3,900	4,000	unchanged		4,025	4,125	4,150	4,250	4,208	
EPS	7.70	7.90	unchanged		7.90	8.10	8.20	8.40	8.37	8.40
Op CF	\$3,800		> / = \$3,800		> / = \$3,900		> / = \$4,000		\$3,994	
Segment Margin	11.2%		11.3%		11.5%		11.8%		11.8%	
Aeronautics	11.0%		unchanged		11.5%		11.5%		11.6%	
Space	11.9%		unchanged		11.9%		12.2%		12.4%	
Electronics	12.2%		12.5%		12.9%		13.4%		13.4%	
IS&GS	9.0%		unchanged		unchanged		9.1%		9.1%	

Source: Citi Research

Company Focus

■ Company Update

Buy	1
Price (08 Jan 13)	US\$67.34
Target price	US\$78.00
Expected share price return	15.8%
Expected dividend yield	3.4%
Expected total return	19.3%
Market Cap	US\$16,528M

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



Northrop Grumman Corp. (NOC) And the margins march on...

- **Expectations** – We're above Street EPS & mildly below on sales based on strong margins. We expect segment margins to accelerate mildly q/q to 11.8% driven by Aerospace margins expanding 60 bps to 11.7% based on the F18 transition having largely finished up in 3Q, which saw margins down 90 bps y/y. We estimate \$350m of share repos, worth ~4c of EPS.
- **Key Issues for the Quarter** – 1) Pension outlook (3Q guide implied breakeven in 2013 but we suspect 4Q contribs to drive flat y/y (+\$130m); 2) Impact of sequester which wasn't contemplated in 2012 guide; 3) 2013 guidance; 4) Change to L-T margin targets which are typically reassessed at year-start? (AS 11%, ES 13%, IS 9%, TS 8%); 5) Any change in cash deployment priorities (generally repo-weighted)? DVD still targeting 30-40% of adj income? 6) Congress adding back Block 30 funds...impact on guide (2012 guide contemplated cancellation); 7) Impact of CR on 2013 (we expect a slow 1H w/ sales down 2% y/y); 8) Book-to-bill (0.9x in 3Q)
- **Expected Guidance** – NOC has already said that sales will be down in 2013 due to the CR, however we expect guidance to imply some mild EPS growth likely based on share repo (we see another \$1.2b in 2013E). Margins could be a source of upside over the year but the initial guide is generally conservative (segment margin guide improved 100 bps over the course of 2012). Pension unlikely helps/hurts 2013 on a y/y basis.
- **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.
- Please see cheat sheet on page 57 for a snapshot heading into the Q.
- **PT unchanged** – Our PT remains at \$78 as we roll our estimate forward a quarter, offset by a lower market multiple.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.67A	1.81A	1.86A	2.09A	7.41A	7.41A
2012E	1.96A	1.88A	1.82A	1.76E	7.43E	7.41E
Previous	1.96A	1.88A	1.82A	1.76E	7.43E	na
2013E	1.77E	1.81E	1.91E	1.98E	7.46E	6.97E
Previous	1.77E	1.81E	1.91E	1.98E	7.46E	na
2014E	1.94E	1.98E	2.06E	2.12E	8.09E	7.12E
Previous	1.94E	1.98E	2.06E	2.12E	8.09E	na

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

Model Changes

Our estimates are unchanged heading into the quarter.

Figure 66. NOC Guidance

	2012 Guidance								Citi	Street
	4Q11		1Q12		2Q12		3Q12			
	Low	High	Low	High	Low	High	Low	High		
Sales (\$m)	\$24,700	\$25,400	unchanged		unchanged		\$25,000		\$25,054	\$25,096
Segment Op. Margin	11.0%		Mid-11%		High-11%		~12%		12.2%	
Total Op. Margin	mid/high 10%		Low 11%		Mid-11%		High-11%		12.1%	
Diluted EPS	\$6.40	\$6.70	\$6.70	\$6.95	\$7.05	\$7.25	\$7.35	\$7.40	\$7.43	\$7.41
Operating CF (\$m)	2,300	2,600	unchanged		unchanged		2,500	2,800	2,710	
FCF (\$m)	1,800	2,100	unchanged		unchanged		2,100	2,400	2,324	
Segment Sales									Citi Est.	
Aerospace	9,700	10,000	unchanged		unchanged		9,900		9,933	
Electronic	6,900	7,200	unchanged		unchanged		7,000		6,955	
Information Sys	7,400	7,600	unchanged		lower end		7,300		7,288	
Technical Svcs	2,600	2,700	unchanged		2,800 2,900		3,000		2,992	
Segment Margins										
Aerospace	low/mid 11%		mid 11%		unchanged		mid/high 11%		11.7%	
Electronic	mid/high 13%		mid 14%		low/mid 15%		low/mid 16%		16.4%	
Information Sys	mid 9%		unchanged		~10%		unchanged		10.3%	
Technical Svcs	mid 8%		unchanged		unchanged		High 8%		8.8%	

Source: Citi Research

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy	1
Price (08 Jan 13)	US\$186.77
Target price	US\$238.00
from US\$193.00	
Expected share price return	27.4%
Expected dividend yield	0.1%
Expected total return	27.5%
Market Cap	US\$27,182M

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



Precision Castparts Corp. (PCP) Getting a better feel for big TIE acquisition; PT to \$238

- **Expectations** – Our sales est. includes only a mild impact from the TIE acquisition of ~\$20m (tender completed Dec 21) vs. a fuller quarterly run-rate of ~\$265m (excluding TIE's legacy sales to PCP). We've also assumed some very mild Forged segment dilution from the acquisition. Our estimates also reflect the recently completed \$3b debt raise. Our sales estimate does not include Synchronous (uncertain if closed), which would add to the Airframe segment.
- **Key Issues for the Quarter** – 1) Margin opportunity w/ TIE acquisition (we expect dilution at first, but solid accretion potential in line with the SMC opportunity); 2) Synchronous impact on Airframe segment (announced Nov 26 w/ close by end-Dec); 3) Forged margins back on track after planned & unplanned outages; 4) 787 inventory (began to see pick-up last Q); 5) Chengde outlook as results have been disappointing to-date (on 11/28 said should see traction in next 6-9 months); 6) M&A appetite; 7) Impact of potential elimination of LIFO acctg.; 8) Positioning w/ new Hitachi-Mitsubishi JV for IGTs (impt for Asia); 9) New O&G deals in Middle East?
- **Expected Guidance** – PCP doesn't issue guidance, but we'll get commentary on the end-markets. We expect strong aero fundamentals with 787 builds continuing to synch up with Boeing's base rates. We also expect a positive energy outlook in line with what we've heard from gas industry participants over the recent months (IGT up-cycle still approaching). We expect most of the outlook to focus on how the TIE opportunity compares to SMC.
- **Our Investment Thesis** – We're positive on PCP for 3 reasons. First, the company is exposed to positive cyclical dynamics, particularly production rate increases by commercial aerospace OEMs. Second, the company should benefit from positive secular trends in energy markets, especially in emerging economies including China, India, and Mid East. Third, we expect the company to generate higher long-term margins via accretive acquisitions and robust incremental margins as capacity utilization improves. Combined, we believe this can drive ~14% annual revenue growth between FY12 and FY15E, and 170 bps segment margin expansion through FY15E.
- Please see cheat sheet on page 58 for a snapshot heading into the Q.
- **PT increases** – Our PT rises to \$238 as we roll our estimates forward a quarter & incorporate the TIE acquisition and a higher target multiple (17.25x vs. 15.5x previous based on a 1x PEG ratio).

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	1.97A	2.03A	2.12A	2.31A	8.43A	8.45A
2013E	2.35A	2.28A	2.46E	2.80E	9.89E	9.91E
Previous	2.35A	2.28A	2.43E	2.65E	9.71E	na
2014E	2.96E	3.11E	3.18E	3.25E	12.50E	11.74E
Previous	2.80E	2.94E	2.99E	3.03E	11.76E	na
2015E	3.41E	3.54E	3.58E	3.63E	14.16E	13.37E
Previous	3.16E	3.27E	3.29E	3.29E	13.00E	na

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

Model Changes

Our model now incorporates the TIE acquisition since the tender completed on 12/21. Most of the impact is only felt beginning in F4Q13 (March), with Forged sales increase but margins diluting somewhat in the near-term as TIE integrates. Our estimates also reflect the higher interest cost related to the \$3b debt raise completed on 12/17. There is upward bias to our Airframe estimates as we have yet to incorporate Synchronous Aerospace Group in the (announced 11/26) pending confirmation that the deal closed by the end of December as announced.

Figure 67. Model Changes

\$ in Millions, Except EPS	3Q13E		FY13E		FY14E		FY15E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$2,061	\$2,082	\$8,193	\$8,478	\$9,750	\$10,906	\$10,554	\$11,890
Casting	631	631	2,531	2,531	2,942	2,942	3,176	3,176
Forged	837	858	3,402	3,687	4,145	5,301	4,501	5,837
Airframe	593	593	2,260	2,260	2,663	2,663	2,878	2,878
Segment Op Margin	28.0%	27.9%	27.8%	27.5%	28.2%	27.2%	28.6%	28.0%
Casting	34.5%	34.5%	34.1%	34.1%	34.0%	34.0%	34.1%	34.1%
Forged	21.8%	21.7%	21.8%	21.5%	22.4%	21.7%	22.8%	22.8%
Airframe	30.0%	30.0%	29.9%	29.9%	30.8%	30.8%	31.6%	31.6%
Total Op Margin	26.4%	26.3%	26.2%	25.9%	26.8%	26.0%	27.3%	26.8%
Interest Expense	(8)	(5)	(20)	(30)	(13)	(71)	(13)	(62)
Tax Rate	34.0%	34.0%	33.6%	33.6%	34.0%	34.0%	34.0%	34.0%
Chengde Earnings	1	1	6	6	6	6	7	7
EPS	\$2.43	\$2.46	\$9.71	\$9.89	\$11.76	\$12.50	\$13.00	\$14.16
Diluted Shares O/S	146.0	146.0	146.2	146.2	146.2	146.2	146.2	146.2

Source: Citi Research

Most Preferred

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 (due to low natural gas prices) driving aftermarket demand, and new IGT plant construction (driving OE).

Company Focus

- Company Update
- Estimate Change

Buy	1
Price (08 Jan 13)	US\$57.74
Target price	US\$69.00
Expected share price return	19.5%
Expected dividend yield	3.8%
Expected total return	23.3%
Market Cap	US\$19,047M

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



Raytheon Co. (RTN)

Looking for slight sales growth & strong margins

■ **Expectations** – We're in line with the Street. We expect sales to be up y/y (+0.5%) for the first time YTD. Or margin est. reflects the lowest IDS margins YTD given 1-time items not repeating in 4Q, although RTN has been able to consistently beat in this segment. Another margin beat at IDS could reset Street expectations for higher. Guidance of 2012 b2b of 1.04-1.05x appears achievable at least the lower end with a 4Q b2b of 1.1x (would be in line with 4Q11). We still see some risk to NCS top-line due to exposure to short-cycle purchasing more likely to be impacted by sequester.

■ **Key Issues for the Quarter** – 1) 2013 pension outlook. We est. (\$200m) vs. 3Q12 indication of (\$300m) based on ~10%+ return & 4.25% DR. Our lower estimate is worth 21c of 2013E EPS; 2) B2B outlook including ability to reach 1.04-1.05x this year & can 2013E still be >1x?; 3) IDS growth opportunities in light of our walking away from recent mgmt meetings with impression that domestic IDS can stay flat while international grows; 4) Intl pipeline for 2013 including Turkey Patriot delays due to Syria fighting; 5) Margin drivers heading into 2013 & ability to continue to outperform; 6) Expectations for March board meeting at which RTN typically boosts its DVD.

■ **Expected Guidance** – We expect RTN to again initiate guidance of flattish sales in 2013, although we see room for upside over the year as recently signed international deals begin to deliver. Initial total margin guidance is probably conservative at ~11% vs. our estimate of 12.1% for the year (margins typically outperform initial targets throughout the year). RTN has also said that OCF could be similar y/y in 2013 (2012 guided to 1.8-2b). Street likely expects (\$300m) pension expense.

■ **Our Investment Thesis** – We believe RTN's diversified product mix (> 8,000 programs, 15,000 contracts, with no single program comprising more than 5% total revenue) provides insulation from program cuts. Above-average margins (+200 bps vs. industry) are due to RTN's mature portfolio & its international exposure (~30% vs. peers closer to 10%). At this point, we expect the company to continue to post industry leading margins given product mix & management's focus on execution. RTN is also well positioned in a budget-constrained environment that seeks to improve capabilities of older platforms, rather than buy new ones.

■ Please see cheat sheet on page 59 for a snapshot heading into the Q.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	1.06A	1.23A	1.43A	1.58A	5.28A	5.28A
2012E	1.33A	1.41A	1.51A	1.31E	5.56E	5.53E
Previous	1.33A	1.41A	1.51A	1.31E	5.56E	na
2013E	1.32E	1.40E	1.45E	1.61E	5.77E	5.40E
Previous	1.33E	1.40E	1.45E	1.61E	5.78E	na
2014E	1.54E	1.61E	1.63E	1.78E	6.56E	5.84E
Previous	1.54E	1.61E	1.64E	1.78E	6.56E	na

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

Model Changes

Our estimates are largely unchanged. Our 2013 estimate drifts down slightly as 4Q's \$500m discretionary pension contribution flows through.

See our November note for more on our meetings this quarter with RTN management: [Raytheon Co. \(RTN\) - A High Altitude Margin Missile; Mgmt Meetings Support Our Buy](#)

Figure 68. Model Changes & Guidance

\$millions, except EPS	4Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	6,474	6,474	24,449	24,449	24,837	24,837	25,154	25,154
Segment Op Margin	12.5%	12.5%	13.0%	13.0%	12.8%	12.8%	12.9%	12.9%
Pension Expense	(64)	(64)	(252)	(252)	(200)	(200)	(50)	(50)
Total Op Margin	11.2%	11.2%	12.1%	12.1%	12.1%	12.1%	12.8%	12.8%
Interest Expense	(50)	(50)	(199)	(199)	(213)	(213)	(213)	(213)
Tax Rate	32%	32%	32%	32%	32%	32%	32%	32%
EPS	\$1.31	\$1.31	\$5.56	\$5.56	\$5.78	\$5.77	\$6.56	\$6.56
Diluted Shares O/S	333.0	333.0	334.8	334.8	322.5	322.5	307.5	307.5

\$millions	2012 Guidance								Citi	Street
	4Q11		1Q12		2Q12		3Q12			
	Low	High	Low	High	Low	High	Low	High		
Sales	24,500	25,000	unchanged		unchanged		24,300	24,700	24,449	24,391
IDS	4,800	5,000					5,000	5,100	5,080	
IIS	2,900	3,100					3,000	3,100	3,006	
MS	5,500	5,700					5,600	5,700	5,664	
NCS	4,200	4,400					4,000	4,100	4,052	
SAS	5,100	5,300					5,200	5,300	5,291	
TS	3,200	3,400					3,200	3,300	3,248	
Elims	(1,800)	(1,900)					unchanged		(1,893)	
Total Op Margin	10.9%	11.1%	11.1%	11.3%	11.3%	11.5%	11.8%	12.0%	12.1%	
IDS	15.9%	16.1%	16.5%	16.7%	17.2%	17.4%	18.2%	18.4%	18.3%	
IIS	7.5%	7.7%	7.7%	7.9%	unchanged		7.8%	8.0%	8.0%	
MS	11.9%	12.1%	12.1%	12.3%	unchanged		12.6%	12.8%	12.8%	
NCS	13.4%	13.6%	13.1%	13.3%	unchanged		12.1%	12.3%	12.3%	
SAS	13.2%	13.4%	unchanged		13.5%	13.7%	14.1%	14.3%	14.3%	
TS	7.8%	8.0%	8.0%	8.2%	unchanged		8.3%	8.5%	8.5%	
Elims	(225)	(235)	(215)	(225)	unchanged		(205)	(215)	(211)	
FAS/CAS		(284)	unchanged		unchanged		(252)		(252)	
Interest Expense	(190)	(200)	unchanged		unchanged		unchanged		(191)	
Tax Rate	~32%		unchanged		unchanged		unchanged		31.8%	
Diluted EPS	4.90	5.05	5.00	5.15	5.15	5.30	5.36	5.46	5.56	5.53
Adjusted EPS	5.45	5.60	5.55	5.70	5.70	5.85	5.85	5.95	6.10	
Diluted Shares	334	340	334	336	334	335	unchanged		334.8	
Op CF	1,600	1,800	unchanged		1,700	1,900	1,800	2,000	\$1,405	

Source: Citi Research

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Neutral	2
Price (08 Jan 13)	US\$59.21
Target price	US\$61.00
from US\$60.00	
Expected share price return	3.0%
Expected dividend yield	2.2%
Expected total return	5.2%
Market Cap	US\$8,182M

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



Rockwell Collins, Inc. (COL)

Tough sales but resilient margins

■ **Expectations** – We're below Street EPS on flat segment margins y/y in both segments. While CS sales are flat y/y as the Hawker impact continues to be felt, we expect GS sales to be down ~10% driven by terminations and program terminations. COL has said that GS will not begin to feel the positive impact of 4Q's restructuring charge until 2H13. Our est. also includes \$200m of share repo (worth ~1c EPS). We note that Consensus might be a bit high as COL has talked down margins over the Q.

■ **Key Issues for the Quarter** – 1) Change in FY13 guidance? Sequester, CR & econ uncertainty as overhangs (GS guide is down 10% with unclear impact from sequester); 2) New CS announcements in the pipeline: PLF & any more MAX?; 3) Airspace mandates coming through to drive AMS growth; 4) Any plans for an analyst day (somewhat signaled on 4FQ call); 5) A-T OE margins w/ BA reportedly charging for IP on designed-in components; 6) When back to 10%+ EPS growth target; 7) 787 inventory synch-up; 9) Cash deployment priorities & views on leveraging up to repo shares; 8) Firestorm (needed to hit Surface guidance); 9) M&A environment; 10) JTRS status.

■ **Expected Guidance** – COL has been out this quarter sounding like its FY13 guide (initially issued on 9/21 and reiterated on the 4FQ call) was still achievable. Moving pieces to the guide still include how sequester is playing out & how COL's plans on the repurchase are evolving (and whether there might be room for more debt). We note that COL hasn't changed its annual guide on the 1Q call for the last 2 years.

■ **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.

■ Please see cheat sheet on page 60 for a snapshot heading into the Q.

■ **PT increase** – Our PT increases to \$61 as we roll our estimates forward a quarter and enrich our SOTP PE calculation with commercial now representing 53% of EBIT.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.86A	1.09A	1.14A	1.06A	4.15A	4.41A
2013E	0.89E	1.06E	1.19E	1.38E	4.52E	4.43E
Previous	0.95E	1.07E	1.19E	1.38E	4.58E	na
2014E	1.14E	1.25E	1.29E	1.39E	5.08E	4.90E
Previous	1.15E	1.26E	1.30E	1.41E	5.12E	na
2015E	1.22E	1.36E	1.42E	1.55E	5.55E	5.30E
Previous	1.22E	1.35E	1.41E	1.55E	5.53E	na

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

Model Changes

We've lowered our margin estimates for 1Q in both segments due to slightly weaker sales (GS down 10% y/y and CS flat). We have also shaved some growth off our government outlook and added to air transport top-line due to better visibility on new product entrants.

Figure 69. Model Changes

\$ millions except EPS	1Q13E		FY13E		FY14E		FY15E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$1,046	\$1,039	\$4,656	\$4,626	\$4,830	\$4,787	\$4,968	\$4,975
Air Transport	\$277	\$277	\$1,227	\$1,227	\$1,319	\$1,324	\$1,375	\$1,415
A-T OEM	143	143	628	628	694	694	727	751
A-T AMS	116	116	524	524	559	564	590	606
WB IFE	18	18	75	75	66	66	57	57
Biz/Regional Jet	\$234	\$234	\$1,064	\$1,064	\$1,145	\$1,145	\$1,221	\$1,227
BJ/RJ OEM	132	132	619	619	677	677	731	731
BJ/RJ AMS	102	102	445	445	468	468	490	495
Total OE	\$275	\$275	\$1,247	\$1,247	\$1,371	\$1,371	\$1,458	1,482
Total AM	\$218	\$218	\$969	\$969	\$1,027	\$1,031	\$1,080	1,101
Commercial Sys	\$511	\$511	\$2,291	\$2,291	\$2,464	\$2,469	\$2,596	\$2,641
Avionics	307	307	1,382	1,382	1,422	1,413	1,432	1,431
Communication	132	131	596	592	602	591	610	599
Surface Solutions	45	45	186	186	172	168	172	167
Navigation	50	44	199	173	171	147	159	136
Government Sys	\$535	\$527	\$2,364	\$2,334	\$2,366	\$2,319	\$2,372	\$2,334
Comm. Margin	21.3%	19.8%	22.7%	22.5%	24.0%	24.0%	24.6%	24.6%
Govt Margin	20.5%	20.0%	21.1%	21.0%	21.0%	21.0%	21.0%	21.0%
Segment Op Margin	20.9%	19.9%	21.9%	21.7%	22.5%	22.6%	22.9%	22.9%
Corporate Expense	(\$18)	(\$18)	(\$79)	(\$79)	(\$82)	(\$81)	(\$84)	(\$85)
Total Op Margin	19.2%	18.2%	20.2%	20.0%	20.8%	20.9%	21.2%	21.2%
Interest Expense	(6)	(6)	(26)	(26)	(26)	(26)	(25)	(25)
Tax Rate	32%	32%	32%	32%	32%	32%	32%	32%
EPS	\$0.95	\$0.89	\$4.58	\$4.52	\$5.12	\$5.08	\$5.53	\$5.55
Diluted Shares O/S	138.8	138.8	135.6	135.6	130.3	130.3	126.3	126.3

Source: Citi Research

Company Focus

- Company Update
- Estimate Change

Neutral	2
Price (08 Jan 13)	US\$26.36
Target price	US\$28.00
Expected share price return	6.2%
Expected dividend yield	0.3%
Expected total return	6.5%
Market Cap	US\$7,429M

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



Textron Inc. (TXT) Expecting a tough bizjet quarter

- **Expectations** – Our 4Q EPS est. includes a 6c arbitration charge (previously disclosed in mid-November). We're also at the lower end of Cessna margin guidance for 2012 (3.5-4.5%) given slow trends in the bizjet space and the Obama re-election likely impacting ordering decisions. However, we're still estimating 33% q/q growth (+2% y/y) at Cessna due to 4Q-loaded deliveries. We would not be surprised if Cessna carried white-tails into 2013.
- **Key Issues for the Quarter** – 1) Cessna margin & outlook given macro/election/fiscal cliff...impact on order/delivery activity? White tails & production rates in 2013E?; 2) Bell margins overcoming higher commercial mix & V-22 MYP outlook given NDAA; 3) Systems outlook under new mgmt (had talked about LDD L-T target, but HSD appears more likely); 4) Cessna China outlook given recent JVs to assemble Caravans & XLS; 5) UAV support/maintenance opps (lost \$950m contract) ; 6) SFW status (India follow-on, Saudi, Korea, Thai, F35?); 7) Common Unmanned Surface Vessel opps; 8) TAPV pricing concerns due to deal being won under previous mgmt.
- **Expected Guidance** – Expect 2013E EPS guidance of \$2.00-2.20 based on better Cessna (more large cabins vs. flat deliveries/production) & Bell (better commercial deliveries). Expect flattish Systems & Industrial top-line & margins. Cessna margins likely continue to improve due to cost reduction efforts, although they'll ramp over the year due to low 1H volumes. We expect Bell margin pressure due to higher commercial mix. A better EPS guide would likely come from TFC.
- **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 commercial appears to be in a better position today & we expect it to grow. But Bell military will see some headwinds come 2015 when the 1st V-22 contract ends, while Systems' outlook is relatively resilient based on some recent wins. Based on uncertainty at Cessna (new competitors, weaker demand) and defense uncertainty (faces some production cliffs), current valuation fully reflects opportunities in front of TXT in our view.
- Please see cheat sheet on page 61 for a snapshot heading into the Q.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.10A	0.29A	0.45A	-0.06A	0.79A	1.31A
2012E	0.41A	0.58A	0.48A	0.51E	1.98E	2.04E
Previous	0.41A	0.58A	0.48A	0.57E	2.04E	na
2013E	0.40E	0.53E	0.55E	0.71E	2.19E	2.25E
Previous	0.40E	0.53E	0.55E	0.71E	2.19E	na
2014E	0.49E	0.60E	0.60E	0.75E	2.44E	2.65E
Previous	0.49E	0.60E	0.60E	0.75E	2.44E	na

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

Model Changes

Our 4Q estimate now includes a previously disclosed 6c arbitration charge, worth 80 bps of total margin. Our estimates also incorporate balance sheet & cash flow details contained in the recent 10Q and reflect our outlook for a slower wind-down of TFC receivables as the portfolio shrinks to contain only captive business. Our cash flow from operations estimate is largely unchanged.

Figure 70. Model Changes & Guidance

\$ millions, except EPS	4Q12E		2012E		2013E		2014E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$3,429	\$3,429	\$12,304	\$12,304	\$12,921	\$12,921	\$13,494	\$13,494
Cessna	1,035	1,035	3,245	3,245	3,512	3,512	3,801	3,801
Bell	1,165	1,165	4,290	4,290	4,664	4,664	4,901	4,901
Systems	520	520	1,686	1,686	1,703	1,703	1,673	1,673
Industrial	686	686	2,880	2,880	2,882	2,882	2,948	2,948
Finance	22	22	202	202	160	160	171	171
Manuf. Op. Margin	9.2%	9.2%	9.1%	9.1%	9.1%	9.1%	9.5%	9.5%
Cessna	5.6%	5.6%	3.6%	3.6%	4.9%	4.9%	6.0%	6.0%
Bell	14.0%	14.0%	14.6%	14.6%	13.7%	13.7%	13.6%	13.6%
Systems	8.8%	8.8%	8.4%	8.4%	8.5%	8.5%	9.0%	9.0%
Industrial	6.8%	6.8%	7.6%	7.6%	7.3%	7.3%	7.3%	7.3%
Finance	0.0%	0.0%	30.6%	30.6%	20.0%	20.0%	10.0%	10.0%
Segment Op. Margin	9.1%	9.1%	9.5%	9.5%	9.3%	9.3%	9.5%	9.5%
Corporate	(30)	(30)	(135)	(135)	(145)	(145)	(145)	(145)
Total Op. Margin	8.3%	7.5%	8.4%	8.1%	8.1%	8.1%	8.4%	8.4%
Interest Expense	(36)	(35)	(141)	(140)	(111)	(110)	(89)	(90)
Tax Rate	32.0%	32.0%	32.1%	32.1%	32.0%	32.0%	32.0%	32.0%
EPS	\$0.57	\$0.51	\$2.04	\$1.98	\$2.19	\$2.19	\$2.44	\$2.44
Diluted Shares O/S	296.9	296.9	296.0	296.0	292.8	292.8	290.6	290.6

	2012 Guidance								2012 Est.	
	4Q11		1Q12		2Q12		3Q12		Citi	Street
	Low	High	Low	High	Low	High	Low	High		
Sales (\$M)	~\$12,500		unchanged		unchanged				\$12,304	\$12,281
Diluted EPS	\$1.80	\$2.00	unchanged		unchanged		\$1.95	\$2.05	\$1.98	\$2.05
Mfg. CF (pre-pension)	\$700	\$750	unchanged		unchanged		unchanged		\$726	
By Segment										
Cessna Sales	~\$3,400		unchanged		unchanged		~\$3,300		\$3,245	
Cessna Margins	3.5%	4.5%	unchanged		unchanged				3.6%	
Bell Sales	~\$4,200		unchanged		unchanged		higher		\$4,290	
Bell Margins	13%	14%	unchanged		unchanged		14.5%		14.6%	
Systems Sales	~\$1,900		unchanged		unchanged		\$1,700	\$1,800	\$1,686	
Systems Margins	9.5%	10.5%	unchanged		unchanged		lower		8.4%	
Industrial Sales	~\$2,800		unchanged		unchanged		~\$2,900		\$2,880	
Industrial Margins	6.5%	7.5%	unchanged		unchanged		7.5%		7.6%	
Finance Sales	~\$200		unchanged		unchanged				\$202	
Finance Profit	breakeven		profitable		unchanged				62	

Source: Citi Research

Company Focus

- Company Update
- Target Price Change
- Estimate Change

Buy/High Risk	1H
Price (08 Jan 13)	US\$13.43
Target price	US\$18.00
from US\$17.00	
Expected share price return	34.0%
Expected dividend yield	0.0%
Expected total return	34.0%
Market Cap	US\$1,242M

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



Wesco Aircraft (WAIR)

Waiting for that aero production rate pick-up

- **Expectations** – We're in line with Street as we see 12% y/y sales growth and 22% EBIT margins in F1Q13. We note that EBIT margin is down y/y based on the margin-dilutive Interfast acquisition (which we expect to pick up by end of F2Q. Also note that our estimates reflect mildly lower interest expense based on the Dec 7 refi, but do not reflect any of the associated fees.
- **Key Issues for the Quarter** – 1) Build rates picking up & driving ad hoc & improved pricing? Any shortages in the supply chain that could foretell higher ad hoc demand?; 2) MRO progress (won't move needle in FY13 but why the delays & visibility into FY14); 3) Updated Interfast synergy targets (current target of Feb); 4) Refi impacts including charges, amortization schedule (will WAIR pre-pay?) & interest rate savings (we assume ~100 bps); 5) Military outlook (seeing any effects of sequestration?); 6) Update on overall strategy (still focus on shift to higher-visibility JIT/LTA business?); 7) Disintermediation behavior among Boeing suppliers.
- **Expected Guidance** – We expect WAIR to boost adj EPS guidance of \$1.14-1.19 by 2-3 cents based on the refi coming with a lower interest rate. We do not think WAIR will be in a position at this point of their FY to boost sales. We note that WAIR left FY12 guidance unchanged in the F1Q12 earnings release.
- **Our Investment Thesis** – WAIR offers revenue & earnings visibility due to announced production rate increases, although this likely costs margin as the company shifts contract structures. We expect cross-selling & adjacent mkts 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 as increasing build rates stretch out the supply chain.
- Please see cheat sheet on page 62 for a snapshot heading into the Q.
- **PT increases** – Our PT moves to \$18 as we roll forward our estimates, incorporate a higher target multiple (higher S&P multiple & richer mix of commercial vs. military).

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2012A	0.26A	0.22A	0.24A	0.29A	1.00A	0.99A
2013E	0.28E	0.30E	0.33E	0.34E	1.25E	1.17E
Previous	0.28E	0.30E	0.32E	0.33E	1.23E	na
2014E	0.35E	0.35E	0.37E	0.38E	1.44E	1.35E
Previous	0.34E	0.34E	0.36E	0.37E	1.42E	na
2015E	0.39E	0.41E	0.42E	0.43E	1.65E	1.62E
Previous	0.39E	0.40E	0.42E	0.43E	1.64E	na

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

Model Changes

Our EPS estimates drift mildly upwards based on lower interest expense from the Dec 7 refinancing. Our estimates do not yet reflect any of the associated fees.

Figure 71. Model Changes & Guidance

\$ millions except EPS	1Q13E		FY13E		FY14E		FY15E	
	Old	New	Old	New	Old	New	Old	New
Net Sales	\$216	\$216	\$890	\$890	\$974	\$974	\$1,059	\$1,059
Gross Margin	36.9%	36.9%	37.6%	37.6%	38.3%	38.3%	38.9%	38.9%
SG&A %	15.6%	15.6%	15.2%	15.2%	15.0%	15.0%	14.7%	14.7%
GAAP EBIT Margin	21.2%	21.2%	22.4%	22.4%	23.3%	23.3%	24.2%	24.2%
Adj. EBIT Margin	22.0%	22.0%	23.2%	23.2%	24.0%	24.0%	24.9%	24.9%
Net Interest Exp.	(7)	(6)	(27)	(24)	(23)	(20)	(19)	(18)
Tax Rate	35.3%	35.3%	35.3%	35.3%	35.2%	35.2%	35.2%	35.2%
Adj EPS	\$0.28	\$0.28	\$1.23	\$1.25	\$1.42	\$1.44	\$1.64	\$1.65
Diluted Shares O/S	96.2	96.2	96.4	96.4	96.9	96.9	97.4	97.4

\$millions	FY13				Comments
	F4Q12 Guide		Street	Citi	
	low	high			
Sales (\$m)	865	890	885.9	889.8	FY13 org. growth in mid/high SD. Flat military.
y/y growth	11.4%	14.7%	14.1%	14.6%	
Diluted EPS	\$1.08	\$1.12		\$1.19	
Adj. Diluted EPS	\$1.14	\$1.19	\$1.17	\$1.25	
Diluted shares (m)	92.9	96.6		96.4	

Source: Citi Research

Figure 72. BA Earnings Preview Sheet

Citi Research

Boeing Earnings Preview

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1/8/2013

Boeing

Ticker	BA
Rating	Buy
Risk	N/A
Target Price	\$106.00
Current Dividend Yield	2.5%
Expected Total Return	45.6%

Expectations

We're in line with the Street and our model reflects 4Q12 deliveries that were reported last Thursday. The higher number of 787 deliveries drives BCA margin pressure, while we expect BMA and NSS margins to step down after unusually strong 3Qs. Our 4Q estimates do not reflect any repurchases (we don't expect BA to begin repos until 1Q13). Key focus items this Q will be pension treatment & color on the recent 787 issues.

Key Issues for the Quarter

1) Pension guide & potential change to pension accounting. Options range from complex (mark-to-market) to simple (adjusted EPS); 2) 787 production & BCA margins impact from higher 787 deliveries vs. guide; 3) 2013 outlook including deliveries, book-to-bill, commercial margins & defense (BDS likely flat in 2013); 4) Future cash deployment decisions after December's "down payment"; 5) When does 747 demand pick up?; 6) 787-10 & 777X timeline; 7) Defense backlog & sequester impact?; 8) 737MAX still on track for detailed design in mid-2013?; 9) Backlog stability amidst slowed orders...any open 2013 delivery slots?; 10) GenX issues & 787/747?

Expected Guidance

We expect focus to be on pension-adj EPS that more accurately reflects underlying performance. Our 2013 adj EPS est. of \$6.90 includes \$1.61 of pension costs (GAAP EPS est. is \$5.29). We wouldn't be surprised to see initial guidance fall below our est. as BA typically guides conservatively. We expect 680 BCA delivs (93 787s & 23 747s). We're likely a above Consensus on 787 as BA "fires a blank" in the 747 line & moves labor to 787 EMC.

Our Investment Thesis

Earnings visibility is supported 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 (\$20b of FCF through 2015E). 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. Look for late 2012 decisions on dividends & repos to act as catalysts.

Summary Financial Performance and Our Estimates

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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	19,555.0	20,008.0	22,150.9	13%
y/y growth	18.2%	12.9%	13.3%	
Consensus Revenue (mean)			22,372	
y/y growth			14.4%	
Operating Income	1,597.0	1,564.0	1,467.5	(8%)
y/y growth	45%	-8.8%	-8.1%	
Operating Margin	8.2%	7.8%	6.6%	(154 bps)
Segment Profit				
Boeing Commercial Airplanes	981.0	1,153.0	1,134.9	16%
Boeing Military Aircraft	374.0	445.0	361.5	(3%)
Network & Space Systems	170.0	161.0	151.7	(11%)
Global Services & Support	321.0	221.0	264.2	(18%)
Boeing Capital Corp.	(8.0)	33.0	28.3	NM
Other	43.0	(74.0)	(50.0)	NM
Interest Expense	(124.0)	(115.0)	(112.2)	-10%
Pretax Income	1,444.0	1,466.0	1,373.3	-5%
Tax Rate	3.9%	29.5%	33.5%	2,955 bps
Net Income	1,387.0	1,034.0	913.3	(34%)
Diluted Shares	757.1	765.2	764.0	1%
Diluted EPS	\$1.83	\$1.35	\$1.20	(35%)
Guidance			\$0.96 - 1.11	
Consensus EPS (mean)			\$1.20	
Street High Estimate			\$1.28	
Street Low Estimate			\$1.13	

Conference Call Logistics

Earnings Date	1/30/13 (Wed)
Conference Call Time	10:30 AM
Dial In Number	612-332-0637
Password	Boeing

Stock Set-up

Avg. Stock Impact Last Ten Earnings	1.5%
3-Month Performance:	
Absolute	4.6%
vs. S&P500	+ 480 bps
Short Interest (Days to Cover):	
Current	2.1
3-Mo. Average	1.8
Analyst Sentiment:	
Buy	76%
Sell	19%
Held	5%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.12	\$1.35	(0.2%)
06/30/2012	\$1.13	\$1.27	2.8%
03/31/2012	\$0.94	\$1.22	5.3%
12/31/2011	\$1.00	\$1.83	0.6%

Valuation Summary

Price/Earnings	
FTM	13.8x
FY2	13.9x
FY3	11.4x
P/E vs. S&P 500 (premium/discount)	
FTM	3.4%
FY2	12.4%
EV/EBITDA	7.4x

Note: Valuation based on Jan 08, 2013 price of \$74.13

	Q1 2013E	2012E	2013E
Revenue	21,388.9	81,546.9	89,175.5
y/y growth	10.3%	18.6%	9.4%
Consensus Revenue (mean)	21,111	81,640	88,249
y/y growth			8.1%
Operating Income	1,524.9	6,149.5	6,455.8
y/y growth	-2.9%	5.2%	5.0%
Operating Margin	7.1%	7.5%	7.2%
Segment Profit			
Boeing Commercial Airplanes	1,352.7	4,579.9	5,741.7
Boeing Military Aircraft	397.6	1,606.5	1,638.6
Network & Space Systems	143.7	511.7	586.5
Global Services & Support	235.6	976.2	967.7
Boeing Capital Corp.	30.3	130.3	121.2
Other	(50.0)	(253.0)	(200.0)
Interest Expense	(110.2)	(458.2)	(437.5)
Pretax Income	1,432.7	5,748.3	6,090.3
Tax Rate	35.0%	33.2%	35.0%
Net Income	931.3	3,838.3	3,958.7
Diluted Shares	757.3	762.7	748.2
Diluted EPS	\$1.23	\$5.03	\$5.29
Guidance		\$5.06 - 5.26	
Consensus EPS (mean)	\$1.21	\$5.01	\$5.12
Street High Estimate	\$1.30	\$5.12	\$5.74
Street Low Estimate	\$1.12	\$4.83	\$4.68

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 73. DGI Earnings Preview Sheet

Citi Research

DigitalGlobe Earnings Preview

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Jonathan Raviv
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1/8/2013

DigitalGlobe

Ticker DGI
Rating Neutral
Risk N/A
Target Price 0
Current Dividend Yield -
Expected Total Return

Expectations

We're below Street EPS despite being slightly higher on sales likely due to our assumption of higher GEOY deal-related costs in the corporate line. We note that these are costs incurred regardless of the outcome of the deal, while our estimates do not reflect the deal closing as it's still making its way through the DOJ process (expected close in mid-1Q). If the deal closes, the combined company will incur additional costs related to performance fees & refinancing. At this point, our estimates do not reflect these items.

Key Issues for the Quarter

1) Progress on GEOY bid now that s/h have approved (we expect 1Q closing); 2) Any indication of NGA needing to trim EV more due to DoD budget uncertainty?; 3) More color on synergy opportunities & associated costs; 3) New opps & color on 12/5 USAF contract; 4) More color on sat capex plans (we assume that WV3 will be alunched and GEOY2 will be put into storage); 5) Long-term EBITDA margin targets post-combination (we expect 50%+ and 56% in 2015); 6) Commercial market growth & backlog; 7) Cash slowdown from pressured budget environment; 8) More DAP demand beyond #6?; 9) M&A pipeline for tuck-ins.

Expected Guidance

We expect guidance for the combined company & some more color on synergy targets (including timing). This includes sales, EBITDA margin, and EPS impact of deal costs. We expect DGI to better lay out expected costs & likely adopt an adjusted EPS presentation that excludes deal costs. Beyond further color on the deal, we expect DGI to sound positive on the commercial market (helped by a backlog that has grown over recent quarters).

Our Investment Thesis

We believe that current valuation fairly reflects the pending deal to acquire GEOY, which we expect to go through. We expect cost synergies given business overlap, and for resultant DoD revenue streams to stabilize even though there will still have to be an annual contract renewal process. Thus, we expect recent multiple expansion to stick due to a de-risked defense business and the commercial sales picking up, driving investors to adopt a SOTP methodology to valuation. Our SOTP analysis yields a PT in line with shares' current levels.

Summary Financial Performance and Our Estimates

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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	97.7	107.2	115.4	18%
y/y growth	16.7%	30.9%	18.1%	
Consensus Revenue (mean)			112	
y/y growth			14.4%	
Operating Income	15.3	16.7	22.2	45%
y/y growth	34%	377.1%	45.1%	
Operating Margin	15.7%	15.6%	19.2%	358 bps
Segment Profit				
Commercial	11.8	11.3	12.4	4%
Defense & Intel	41.2	51.3	55.2	34%

Interest Expense	(4.0)	(1.9)	(1.0)	-75%
Pretax Income	11.3	14.1	21.2	88%
Tax Rate	57.5%	39.7%	41.9%	(1,562 bps)
Net Income	4.8	8.5	12.3	157%

Diluted Shares	46.0	46.5	46.5	1%
Diluted EPS	\$0.10	\$0.18	\$0.26	154%
Guidance			n/a	

*Implied guidance

Consensus EPS (mean)
Street High Estimate
Street Low Estimate

\$0.28
\$0.32
\$0.18

Conference Call Logistics

Earnings Date	2/27/13 (est.)
Conference Call Time	TBA
Dial in Number	TBA
Passcode	TBA

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.8%)
3-Month Performance:	
Absolute	28.6%
vs. S&P500	+ 2,890 bps
Short Interest (Days to Cover):	
Current	21.5
3-Mo. Average	15.3
Analyst Sentiment:	
Buy	64%
Hold	27%
Sell	9%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$0.13	\$0.18	10.5%
06/30/2012	\$0.11	\$0.21	(5.4%)
03/31/2012	\$0.02	\$0.08	10.5%
12/31/2011	\$0.12	\$0.10	(15.7%)

Valuation Summary

Price/Earnings	
FTM	21.5x
FY2	21.4x
FY3	27.8x
P/E vs. S&P 500 (premium/discount)	
FTM	61.2%
FY2	73.5%
EV/EBITDA	8.3x

Note: Valuation based on Jan 08, 2013 price of \$27.2

Q1 2013E	2012E	2013E
109.1	411.4	459.7
25.4%	21.2%	11.7%
106	408	450
		10.4%
21.1	68.8	103.7
108.6%	151.1%	50.7%
19.3%	16.7%	22.6%
8.2	36.9	47.1
53.5	194.9	222.9

(0.8)	(8.7)	(1.3)
20.3	59.0	102.4
41.0%	42.0%	41.0%
12.0	34.2	60.4

46.5	46.5	46.5
\$0.26	\$0.74	\$1.30
	n/a	

\$0.26
\$0.33
\$0.21
\$0.75
\$0.79
\$0.65
\$1.27
\$1.45
\$1.13

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 74. GD Earnings Preview Sheet

Citi Research

General Dynamics Earnings Preview

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1/8/2013

General Dynamics

Ticker GD
Rating Buy
Risk N/A
Target Price \$88.00
Current Dividend Yield 2.8%
Expected Total Return 28.0%

Expectations

Our top-line's light vs. the Street as we've assumed some slippage in G650 completion deliveries (~\$50m) into 2013 due the first not being delivered until 12/20. Our EPS et. includes a 23c charge related to the Qs accretive debt refi (adds ~12c to the out-years). Aero margins should bounce back q/q as 3Q's supplier R&D payments roll off. There's room to the downside for IS&T margin est. which is +150bps q/q based on better mix (more hardware). We also assume minimal share repo (\$50m worth 1c EPS).

Key Issues for the Quarter

1) New CEO priorities ie cash deployment given repo slowdown & March board meeting focusing on dividend; 2) G650 delivery slippage due to late start; 3) Aero orders & production rates (non-G650 still at ~80 in 2013?); 4) Jet Aviation outlook & impact of MRO facility sale to Cessna; 5) Nassco deal & Jones Act outlook; 6) JTRS competition; 7) Potential for more charges on rugged computer inventory (~\$25m still left); 8) Potential for impairment on electro-optical biz (\$145m of assets); 9) Defense bill adding Abrams, VCS, DDG; 9) IS&T margin outlook based on mix toward hardware; 10) M&A outlook (Tier 1 consolidation?)

Expected Guidance

Expect initial guide of strong growth at aero offset by pressured Combat/IS&T & flat Marine y/y. We expect strong margin accretion at Aero based on ramping G650 sales as GD comes down the learning curve. Combat margins can also improve y/y based on higher international mix but this is a watch-item for us. We also expect Marine margins to come down absent T-AKE (worth 100 bps). We est. \$560m in repos although GD guide generally doesn't contemplate repos.

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 3Q12 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 beyond 30%, we see a re-rating opportunity since shares now trade at a discount to defense peers.

Summary Financial Performance and Our Estimates

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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	9,147.0	7,934.0	8,724.8	(5%)
y/y growth	6.3%	1.0%	(4.6%)	
Consensus Revenue (mean)			8,809	
y/y growth			(3.7%)	
Operating Income	950.0	905.0	1,074.5	13%
y/y growth	(12%)	-9.3%	13.1%	
Operating Margin	10.4%	11.4%	12.3%	193 bps
Segment Profit				
Aerospace	73.0	261.0	293.8	NM
Information Systems & Tech.	315.0	201.0	265.8	(16%)
Marine Systems	190.0	186.0	196.7	4%
Combat Systems	388.0	274.0	336.5	(13%)
Interest Expense	(38.0)	(39.0)	(37.0)	-3%
Pretax Income	911.0	863.0	919.8	1%
Tax Rate	33.8%	30.5%	32.0%	(181 bps)
Net Income	603.0	600.0	625.5	4%
Diluted Shares	359.4	352.8	352.8	(1%)
Diluted EPS	\$1.68	\$1.70	\$1.77	5%
Guidance			\$1.96 - 2.01	
			*Implied guidance	
Consensus EPS (mean)			\$1.94	
Street High Estimate			\$2.06	
Street Low Estimate			\$1.74	

Conference Call Logistics

Earnings Date	1/23/13 (Wed)
Conference Call Time	11:30 AM
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.9%)
3-Month Performance:	
Absolute	4.6%
vs. S&P500	+ 490 bps
Short Interest (Days to Cover):	
Current	2.4
3-Mo. Average	1.9
Analyst Sentiment:	
Buy	50%
Hold	39%
Sell	11%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.78	\$1.70	(2.2%)
06/30/2012	\$1.74	\$1.77	(2.2%)
03/31/2012	\$1.69	\$1.70	(3.6%)
12/31/2011	\$1.99	\$1.68	0.3%

Valuation Summary

Price/Earnings	
FTM	9.6x
FY2	9.6x
FY3	9.2x
P/E vs. S&P 500 (premium/discount)	
FTM	(28.2%)
FY2	(22.2%)
EVE/EBITDA	6.1x

Note: Valuation based on Jan 08, 2013 price of \$70.41

	Q1 2013E	2012E	2013E
Revenue	7,876.2	32,159.8	32,613.7
y/y growth	3.9%	(1.6%)	1.4%
Consensus Revenue (mean)	7,687	32,234	32,071
y/y growth			(0.5%)
Operating Income	964.8	3,809.5	4,055.1
y/y growth	12.2%	-0.4%	6.4%
Operating Margin	12.2%	11.8%	12.4%
Segment Profit			
Aerospace	313.9	1,082.8	1,383.0
Information Systems & Tech.	233.0	910.8	932.1
Marine Systems	172.1	750.7	679.5
Combat Systems	263.9	1,135.5	1,135.6
Interest Expense	(23.0)	(152.0)	(86.5)
Pretax Income	941.8	3,531.8	3,968.6
Tax Rate	32.0%	31.4%	32.0%
Net Income	640.5	2,423.5	2,698.6
Diluted Shares	352.8	355.9	350.3
Diluted EPS	\$1.82	\$6.81	\$7.70
Guidance		\$7.00 - 7.05	
Consensus EPS (mean)	\$1.70	\$6.99	\$7.30
Street High Estimate	\$1.79	\$7.10	\$7.65
Street Low Estimate	\$1.56	\$6.77	\$6.75

Conference Call Logistics

Earnings Date	1/23/13 (Wed)
Conference Call Time	11:30 AM
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.9%)
3-Month Performance:	
Absolute	4.6%
vs. S&P500	+ 490 bps
Short Interest (Days to Cover):	
Current	2.4
3-Mo. Average	1.9
Analyst Sentiment:	
Buy	50%
Hold	39%
Sell	11%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.78	\$1.70	(2.2%)
06/30/2012	\$1.74	\$1.77	(2.2%)
03/31/2012	\$1.69	\$1.70	(3.6%)
12/31/2011	\$1.99	\$1.68	0.3%

Valuation Summary

Price/Earnings		
FTM		9.6x
FY2		9.6x
FY3		9.2x
P/E vs. S&P 500 (premium/discount)		
FTM		(28.2%)
FY2		(22.2%)
EV/EBITDA		6.1x

Note: Valuation based on Jan 08, 2013 price of \$70.41

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 75. HII Earnings Preview Sheet

Citi Research

Huntington Ingalls Earnings Preview

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1/8/2013

Huntington Ingalls

Ticker HII
Rating Buy
Risk N/A
Target Price \$54.00
Current Dividend Yield 0.9%
Expected Total Return 24.7%

Expectations

We're below the Street on sales (we see down 5% y/y to finish off 2012 at down 1% y/y) but above on EPS likely due to our more robust margin estimates. At NN we see 30 bps q/q expansion as programs typically retire risk as the year progresses. We expect Ingalls margins to bounce back to 4.1% after 3Q absorbed \$20m of negative EAC adjustments largely related to LPD-24 (which delivered on Dec 7). We consider our Ingalls margin estimate achievable since 2Q achieved the same rate but with LPD-24 still in the shipyard.

Key Issues for the Quarter

1) NN margins picking up as risk is retired?; 2) Ingalls margins back on track after 3Q's LPD-24 charge (LPD 24 delivered on Dec 7); 3) 2013 outlook shows margins on track (expanding toward 9%+ by 2015) & sales targets in sight (flatish y/y); 4) Pension outlook (3Q12 implied ~\$90m expense in 2013E); 5) DDG-51 contract timing; 6) CVN-79 negotiation update & potential for FPI contract; 7) Update on Avondale options; 8) Potential for lower margins on new RCOH & VA-class contracts? We don't think the new VCS block would start until 2014 (small impact) w/ boats delivering through 2023.

Expected Guidance

HII doesn't give 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 flattish sales outlook and margins of 9%+ by 2015. The 3Q call implied 2013 pension expense worsening to ~\$90m, but 4Q cash deployment & market action could move it around. Every 25 bps in DR = 23c EPS.

Our Investment Thesis

We're 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 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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	1,735.0	1,596.0	1,649.8	(5%)
y/y growth	(0.1%)	0.2%	(4.9%)	
Consensus Revenue (mean)			1,705	
y/y growth			(1.7%)	
Operating Income	114.0	66.0	101.1	(11%)
y/y growth	10%	-40.0%	-11.3%	
Operating Margin	6.6%	4.1%	6.1%	(44 bps)
Segment Profit				
Ingalls	15.0	1.0	29.1	94%
Newport News	102.0	88.0	92.0	(10%)
Interest Expense	(29.0)	(29.0)	(29.6)	2%
Pretax Income	85.0	37.0	71.5	-16%
Tax Rate	30.6%	64.9%	35.0%	441 bps
Net Income	59.0	13.0	46.5	(21%)
Diluted Shares	49.7	50.3	50.1	1%
Diluted EPS	\$1.19	\$0.26	\$0.93	(22%)
Guidance			n/a	
*Implied guidance				
Consensus EPS (mean)			\$0.89	
Street High Estimate			\$1.01	
Street Low Estimate			\$0.78	

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	0.3%
3-Month Performance:	
Absolute	1.8%
vs. S&P500	+ 200 bps
Short Interest (Days to Cover):	
Current	2.7
3-Mo. Average	5.8
Analyst Sentiment:	
Buy	56%
Hold	44%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$0.82	\$0.74	(5.0%)
06/30/2012	\$0.69	\$1.00	4.1%
03/31/2012	\$0.70	\$0.67	(5.7%)
12/31/2011	\$0.94	\$1.44	6.8%

Valuation Summary

Price/Earnings		
FTM		11.5x
FY2		11.5x
FY3		8.8x
P/E vs. S&P 500 (premium/discount)		
FTM		(14.2%)
FY2		(6.5%)
EV/EBITDA		-

Note: Valuation based on Jan 08, 2013 price of \$43.3

	Q1 2013E	2012E	2013E
Revenue	1,613.2	6,534.8	6,445.6
y/y growth	2.9%	(0.6%)	(1.4%)
Consensus Revenue (mean)	1,603	6,588	6,570
y/y growth		(0.3%)	
Operating Income	89.7	353.1	377.9
y/y growth	12.1%	-11.7%	7.0%
Operating Margin	5.6%	5.4%	5.9%
Segment Profit			
Ingalls	29.4	88.1	131.2
Newport News	84.8	350.0	344.8
Interest Expense	(29.4)	(117.6)	(117.0)
Pretax Income	60.2	235.5	260.9
Tax Rate	35.0%	39.5%	35.0%
Net Income	39.2	142.5	169.6
Diluted Shares	49.8	50.0	49.6
Diluted EPS	\$0.79	\$2.85	\$3.42
Guidance		n/a	
Consensus EPS (mean)	\$0.80	\$2.82	\$3.82
Street High Estimate	\$0.94	\$2.93	\$4.75
Street Low Estimate	\$0.69	\$2.71	\$3.42

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	0.3%
3-Month Performance:	
Absolute	1.8%
vs. S&P500	+ 200 bps
Short Interest (Days to Cover):	
Current	2.7
3-Mo. Average	5.8
Analyst Sentiment:	
Buy	56%
Hold	44%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$0.82	\$0.74	(5.0%)
06/30/2012	\$0.69	\$1.00	4.1%
03/31/2012	\$0.70	\$0.67	(5.7%)
12/31/2011	\$0.94	\$1.44	6.8%

Valuation Summary

Price/Earnings		
FTM	11.5x	
FY2	11.5x	
FY3	8.8x	
P/E vs. S&P 500 (premium/discount)		
FTM	(14.2%)	
FY2	(6.5%)	
EV/EBITDA		-

Note: Valuation based on Jan 08, 2013 price of \$43.3

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 76. LMT Earnings Preview Sheet

Citi Research

Lockheed Martin Earnings Preview

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1/8/2013

Lockheed Martin

Ticker	LMT
Rating	Buy
Risk	N/A
Target Price	\$106.00
Current Dividend Yield	4.9%
Expected Total Return	19.0%

Expectations

We're mildly behind the Street likely due to our conservative margin outlook for Space Systems which we see contracting 360 bps q/q off of 3Q's ULA-related spike (although, 4Q's AEHF milestones could support the Q). We also note that ES margins have been outperforming guidance YTD with the segment's profit outlook and could drive a beat. We expect repos to be roughly flat q/q as LMT reiterated its intent to spend \$1b on repos in '12 as LMT continues to focus on DD dividend increases. B2B should look good given the \$3.8b LRIP 5 deal.

Key Issues for the Quarter

1) New CEO priorities; 2) 2013 pension outlook (3Q call est. \$700m expense @ 4% discount rate & 8% asset return; 3) Commentary on \$3.8b LRIP5 signed for 32 planes (we expect margin outlook unchanged). Pacing for next LRIPs (what's being worked on already?). Impact of Canada F-35 decision on other consortium partners. Outlook for F-35 support since DoD maybe preferring to compete it; 4) UAS opportunity given recent acquisitions (Chandler/May, CDL Sys); 5) How does increased budget clarity impact M&A priorities?; 6) B2B outlook & deals in pipeline (strong 4Q w/ Saudi C-130s & Qatar THAAD). Maintain backlog at ~\$80b?

Expected Guidance

Expect in line with prelim trends mentioned on 3Q call: LSD decline in sales (assumes no sequester) & segment operating margin above 11%. We see a 2% decline in 2013E sales and 11.2% segment operating margins. Note that the prelim guidance envisioned \$700m FAS/CAS expense vs. our est. of \$600m (worth 22c in 2013E EPS). Guide will reflect ES re-org into Missiles & Fire Control (MFC) and Mission Systems & Training (MST).

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 (div yields ~5%), with the company sticking by its goal of returning > 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 ~1,500), 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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	12,211.0	11,869.0	11,029.0	(10%)
y/y growth	(4.3%)	(2.1%)	(9.7%)	
Consensus Revenue (mean)			11,126	
y/y growth			(8.9%)	
Operating Income	1,082.0	1,098.0	901.3	(17%)
y/y growth	(3%)	5.5%	-16.7%	
Operating Margin	8.9%	9.3%	8.2%	(69 bps)
Segment Profit				
Aeronautics	461.0	415.0	404.0	(12%)
Electronic Systems	431.0	509.0	416.3	(3%)
IS&GS	254.0	209.0	196.1	(23%)
Space Systems	258.0	301.0	195.0	(24%)
Interest Expense	(96.0)	(97.0)	(95.9)	0%
Pretax Income	966.0	1,046.0	806.0	-17%
Tax Rate	27.7%	30.5%	30.0%	226 bps
Net Income	698.0	727.0	564.2	(19%)
Diluted Shares	326.7	328.3	322.3	(1%)
Diluted EPS	\$2.14	\$2.21	\$1.75	(18%)
Guidance			\$1.59 - 1.79	
			*Implied guidance	
Consensus EPS (mean)			\$1.78	
Street High Estimate			\$1.96	
Street Low Estimate			\$1.66	

Conference Call Logistics

Earnings Date	1/24/13 (Thu)
Conference Call Time	3:00 PM
Dial in Number	877-844-6881
Passcode	Lockheed Martin

Stock Set-up

Avg. Stock Impact Last Ten Earnings	0.5%
3-Month Performance:	
Absolute	(1.5%)
vs. S&P500	(120) bps
Short Interest (Days to Cover):	
Current	4.6
3-Mo. Average	5.1
Analyst Sentiment:	
Buy	21%
Hold	74%
Sell	5%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.84	\$2.21	2.1%
06/30/2012	\$1.91	\$2.38	1.0%
03/31/2012	\$1.91	\$2.38	0.8%
12/31/2011	\$1.94	\$2.14	0.9%

Valuation Summary

Price/Earnings		
FTM		11.3x
FY2		11.3x
FY3		10.6x
P/E vs. S&P 500 (premium/discount)		
FTM		(15.2%)
FY2		(8.1%)
EV/EBITDA		5.9x

Note: Valuation based on Jan 08, 2013 price of \$92.96

	Q1 2013E	2012E	2013E
Revenue	10,590.5	46,112.0	45,381.9
y/y growth	(6.2%)	(0.8%)	(1.6%)
Consensus Revenue (mean)	10,801	46,189	45,228
y/y growth			(2.1%)
Operating Income	939.7	4,208.3	4,200.0
y/y growth	-6.9%	5.7%	-0.2%
Operating Margin	8.9%	9.1%	9.3%
Segment Profit			
Aeronautics	359.2	1,658.0	1,574.7
Electronic Systems	441.6	1,992.3	1,898.7
IS&GS	166.5	801.1	722.2
Space Systems	195.0	1,004.0	894.4
Interest Expense	(96.0)	(384.9)	(380.2)
Pretax Income	844.4	3,917.0	3,822.3
Tax Rate	30.0%	30.1%	30.0%
Net Income	591.1	2,737.2	2,675.6
Diluted Shares	319.2	327.0	315.3
Diluted EPS	\$1.85	\$8.37	\$8.49
Guidance		\$8.20 - 8.40	
Consensus EPS (mean)	\$1.92	\$8.40	\$8.21
Street High Estimate	\$2.09	\$8.57	\$8.65
Street Low Estimate	\$1.72	\$8.27	\$7.89

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 77. NOC Earnings Preview Sheet

Citi Research

Northrop Grumman Earnings Preview

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1/8/2013

Northrop Grumman

Ticker NOC
Rating Buy
Risk N/A
Target Price \$78.00
Current Dividend Yield 3.2%
Expected Total Return 19.3%

Expectations

We're above Street EPS & mildly below on sales based on strong margins. We expect segment margins to accelerate mildly q/q to 11.8% driven by Aerospace margins expanding 60 bps to 11.7% based on the F18 transition having largely finished up in 3Q, which saw margins down 90 bps y/y. We estimate \$350m of share repos, worth ~4c of EPS.

Key Issues for the Quarter

1) Pension outlook (3Q guide implied breakeven in 2013 but we suspect 4Q contris to drive flat y/y (+\$130m); 2) Impact of sequester which wasn't contemplated in 2012 guide; 3) 2013 guidance; 4) Change to L-T margin targets which are typically reassessed at year-start? (AS 11%, ES 13%, IS 9%, TS 8%); 5) Any change in cash deployment priorities (generally repo-weighted)? Dvd still targeting 30-40% of adj income? 6) Congress adding back Block 30 funds...impact on guide (2012 guide contemplated cancellation); 7) Impact of CR on 2013 (we expect a slow 1H w/ sales down 2% y/y); 8) Book-to-bill (0.9x in 3Q)

Expected Guidance

NOC has already said that sales will be down in 2013 due to the CR, however we expect guidance to imply some mild EPS growth likely based on share repo (we see another \$1.2b in 2013E). Margins could be a source of upside over the year but the initial guide is generally conservative (segment margin guide improved 100 bps over the course of 2012). Pension unlikely helps/hurts 2013 on a y/y basis.

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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	6,506.0	6,270.0	6,312.0	(3%)
y/y growth	(24.4%)	(5.2%)	(3.0%)	
Consensus Revenue (mean)			6,338	
y/y growth			(2.6%)	
Operating Income	799.0	736.0	714.3	(11%)
y/y growth	1%	-10.8%	-10.6%	
Operating Margin	12.3%	11.7%	11.3%	(97 bps)
Segment Profit				
Information Systems	196.0	170.0	172.1	(12%)
Aerospace	314.0	288.0	299.5	(5%)
Technical Services	67.0	62.0	57.6	(14%)
Electronic Systems	256.0	279.0	284.9	11%
Ships				NA
Interest Expense	(53.0)	(53.0)	(54.2)	2%
Pretax Income	782.0	695.0	658.1	-16%
Tax Rate	29.7%	34.0%	34.0%	433 bps
Net Income	550.0	459.0	434.3	(21%)
Diluted Shares	262.7	252.1	247.0	(6%)
Diluted EPS	\$2.09	\$1.82	\$1.76	(16%)
Guidance			\$1.68 - 1.73	
			*Implied guidance	
Consensus EPS (mean)			\$1.74	
Street High Estimate			\$1.85	
Street Low Estimate			\$1.65	

Conference Call Logistics

Earnings Date	1/24/13 (est.)
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.2%)
3-Month Performance:	
Absolute	(3.0%)
vs. S&P500	(270) bps
Short Interest (Days to Cover):	
Current	6.5
3-Mo. Average	5.3
Analyst Sentiment:	
Buy	13%
Hold	69%
Sell	19%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.69	\$1.82	(0.5%)
06/30/2012	\$1.61	\$1.88	(0.4%)
03/31/2012	\$1.59	\$1.96	0.4%
12/31/2011	\$1.67	\$2.09	2.1%

Valuation Summary

Price/Earnings	
FTM	9.7x
FY2	9.7x
FY3	9.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(27.5%)
FY2	(21.5%)
EV/EBITDA	4.9x

Note: Valuation based on Jan 08, 2013 price of \$67.34

	Q1 2013E	2012E	2013E
Revenue	5,903.2	25,054.0	24,493.0
y/y growth	(4.8%)	(5.1%)	(2.2%)
Consensus Revenue (mean)	6,031	25,084	24,411
y/y growth			(2.7%)
Operating Income	697.9	3,020.3	2,860.9
y/y growth	-12.3%	-7.8%	-5.3%
Operating Margin	11.8%	12.1%	11.7%
Information Systems	162.2	749.1	660.0
Aerospace	282.5	1,158.5	1,174.2
Technical Services	56.7	263.6	242.7
Electronic Systems	249.7	1,143.9	1,044.7
Interest Expense	(54.0)	(212.2)	(216.7)
Pretax Income	650.8	2,836.1	2,672.2
Tax Rate	34.0%	33.7%	34.0%
Net Income	429.5	1,879.3	1,763.7
Diluted Shares	242.7	253.0	236.6
Diluted EPS	\$1.77	\$7.43	\$7.46
Guidance		\$7.35 - 7.40	
Consensus EPS (mean)	\$1.71	\$7.41	\$6.97
Street High Estimate	\$1.82	\$7.52	\$7.50
Street Low Estimate	\$1.58	\$7.32	\$6.30

Conference Call Logistics

Earnings Date	1/24/13 (est.)
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.2%)
3-Month Performance:	
Absolute	(3.0%)
vs. S&P500	(270) bps
Short Interest (Days to Cover):	
Current	6.5
3-Mo. Average	5.3
Analyst Sentiment:	
Buy	13%
Hold	69%
Sell	19%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.69	\$1.82	(0.5%)
06/30/2012	\$1.61	\$1.88	(0.4%)
03/31/2012	\$1.59	\$1.96	0.4%
12/31/2011	\$1.67	\$2.09	2.1%

Valuation Summary

Price/Earnings	
FTM	9.7x
FY2	9.7x
FY3	9.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(27.5%)
FY2	(21.5%)
EV/EBITDA	4.9x

Note: Valuation based on Jan 08, 2013 price of \$67.34

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 78. PCP Earnings Preview Sheet

Citi Research

Precision Castparts Earnings Preview

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Jonathan Raviv
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1/8/2013

Precision Castparts

Ticker	PCP
Rating	Buy
Risk	N/A
Target Price	\$238.00
Current Dividend Yield	0.1%
Expected Total Return	27.5%

Expectations

Our sales est. includes only a mild impact from the TIE acquisition of ~\$20m (tender completed Dec 21) vs. a fuller quarterly run-rate of ~\$265m (excluding TIE's legacy sales to PCP). We've also assumed some very mild Forged segment dilution from the acquisition. Our estimates also reflect the recently completed \$3b debt raise. Our sales estimate does not include Synchronous (uncertain if closed), which would add to the Airframe segment.

Key Issues for the Quarter

1) Margin opportunity w/ TIE acquisition (we expect dilution at first, but solid accretion potential in line with the SMC opportunity); 2) Synchronous impact on Airframe segment (announced Nov 26 w/ close by end-Dec); 3) Forged margins back on track after planned & unplanned outages; 4) 787 inventory (began to see pick-up last Q); 5) Chengde outlook as results have been disappointing to-date (on 11/28 said should see traction in next 6-9 months); 6) M&A appetite; 7) Impact of potential elimination of LIFO acctg.; 8) Positioning w/ new Hitachi-Mitsubishi JV for IGTs (impt for Asia); 9) New O&G deals in Middle East?

Expected Guidance

PCP doesn't issue guidance, but we'll get commentary on the end-markets. We expect strong aero fundamentals with 787 builds continuing to synch up with Boeing's base rates. We also expect a positive energy outlook in line with what we've heard from gas industry participants over the recent months (IGT up-cycle still approaching). We expect most of the outlook to focus on how the TIE opportunity compares to SMC.

Our Investment Thesis

We're positive on PCP for 3 reasons. First, the company is exposed to positive cyclical dynamics, particularly production rate increases by commercial aerospace OEMs. Second, the company should benefit from positive secular trends in energy markets, especially in emerging economies including China, India, and Mid East. Third, we expect the company to generate higher long-term margins via accretive acquisitions and robust incremental margins as capacity utilization improves. Combined, we believe this can drive ~14% annual revenue growth between FY12 and FY15E, and 170 bps segment margin expansion through FY15E.

Summary Financial Performance and Our Estimates

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

	Q3 2012	Q2 2013	Q3 2013E	Y/Y Change
Revenue	1,816.8	1,930.5	2,082.1	15%
y/y growth	14.2%	7.9%	14.6%	
Consensus Revenue (mean)			2,111	
y/y growth			16.2%	
Operating Income	459.0	498.4	548.5	19%
y/y growth	19%	14.1%	19.5%	
Operating Margin	25.3%	25.8%	26.3%	108 bps
Segment Profit				
Investment Cast Products	193.0	208.8	217.6	13%
Forged Products	172.6	155.2	186.2	8%
Fastener Products	124.1	166.6	177.9	43%

Interest Expense	(2.4)	(1.8)	(5.1)	111%
Pretax Income	460.7	497.8	544.7	18%
Tax Rate	33.0%	33.0%	33.9%	91 bps
Net Income	309.0	333.3	359.5	16%

Diluted Shares	145.6	146.4	146.0	0%
Diluted EPS	\$2.12	\$2.28	\$2.46	16%
Guidance			n/a	

*Implied guidance

Consensus EPS (mean)

Street High Estimate	\$2.66
Street Low Estimate	\$2.36

Conference Call Logistics

Earnings Date	1/22/13 (est.)
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	0.4%
3-Month Performance:	
Absolute	14.2%
vs. S&P500	+ 1,440 bps
Short Interest (Days to Cover):	
Current	4.2
3-Mo. Average	2.3
Analyst Sentiment:	
Buy	72%
Hold	28%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$2.34	\$2.27	3.2%
06/30/2012	\$2.36	\$2.35	(1.9%)
03/31/2012	\$2.27	\$2.31	0.5%
12/31/2011	\$2.21	\$2.12	(5.6%)

Valuation Summary

Price/Earnings	
FTM	16.5x
FY2	15.9x
FY3	14.0x
P/E vs. S&P 500 (premium/discount)	
FTM	23.4%
FY2	29.1%
EV/EBITDA	13.1x

Note: Valuation based on Jan 08, 2013 price of \$186.77

Q4 2013E	2013E	2014E
2,495.6	8,477.9	10,906.5
28.1%	17.3%	28.6%
2,353	8,402	9,840
		17.1%
636.1	2,198.5	2,832.4
27.8%	21.2%	28.8%
25.5%	25.9%	26.0%
230.7	863.2	1,000.3
255.3	792.4	1,150.7
185.0	675.8	819.0

(17.8)	(25.9)	(64.2)
619.5	2,178.2	2,773.9
33.9%	33.6%	33.9%
408.9	1,445.7	1,831.1

146.0	146.2	146.5
\$2.80	\$9.89	\$12.50
	n/a	

\$2.81	\$9.91	\$11.74
\$3.06	\$10.25	\$12.54
\$2.63	\$9.63	\$11.01

Conference Call Logistics

Earnings Date	1/22/13 (est.)
Conference Call Time	TBD
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	0.4%
3-Month Performance:	
Absolute	14.2%
vs. S&P500	+ 1,440 bps
Short Interest (Days to Cover):	
Current	4.2
3-Mo. Average	2.3
Analyst Sentiment:	
Buy	72%
Hold	28%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$2.34	\$2.27	3.2%
06/30/2012	\$2.36	\$2.35	(1.9%)
03/31/2012	\$2.27	\$2.31	0.5%
12/31/2011	\$2.21	\$2.12	(5.6%)

Valuation Summary

Price/Earnings	
FTM	16.5x
FY2	15.9x
FY3	14.0x
P/E vs. S&P 500 (premium/discount)	
FTM	23.4%
FY2	29.1%
EV/EBITDA	13.1x

Note: Valuation based on Jan 08, 2013 price of \$186.77

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 79. RTN Earnings Preview Sheet

Citi Research

Raytheon Earnings Preview

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1/8/2013

Raytheon

Ticker	RTN
Rating	Buy
Risk	N/A
Target Price	\$69.00
Current Dividend Yield	3.4%
Expected Total Return	23.3%

Expectations

We're in line with the Street. We expect sales to be up y/y (+0.5%) for the first time YTD. Or margin est. reflects the lowest IDS margins YTD given 1-time items not repeating in 4Q, although RTN has been able to consistently beat in this segment. Another margin beat at IDS could reset Street expectations for higher. Guidance of 2012 b2b of 1.04-1.05x appears achievable at least the lower end with a 4Q b2b of 1.1x (would be in line with 4Q11). We still see some risk to NCS top-line due to exposure to short-cycle purchasing more likely to be impacted by sequester.

Key Issues for the Quarter

1) 2013 pension outlook. We est. (\$200m) vs. 3Q12 indication of (\$300m) based on ~10%+ return & 4.25% DR. Our lower estimate is worth 21c of 2013E EPS; 2) B2B outlook including ability to reach 1.04-1.05x this year & can 2013E still be >1x?; 3) IDS growth opportunities in light of our walking away from recent mgmt meetings with impression that domestic IDS can stay flat while international grows; 4) Intl pipeline for 2013 including Turkey Patriot delays due to Syria fighting; 5) Margin drivers heading into 2013 & ability to continue to outperform; 6) Expectations for March board meeting at which RTN typically boosts its DVD.

Expected Guidance

We expect RTN to again initiate guidance of flattish sales in 2013, although we see room for upside over the year as recently signed international deals begin to deliver. Initial total margin guidance is probably conservative at ~11% vs. our estimate of 12.1% for the year (margins typically outperform initial targets throughout the year). RTN has also said that OCF could be similar y/y in 2013 (2012 guided to 1.8-2b). Street likely expects (\$300m) pension expense.

Our Investment Thesis

We believe RTN's diversified product mix (> 8,000 programs, 15,000 contracts, with no single program comprising more than 5% total revenue) provides insulation from program cuts. Above-average margins (+200 bps vs. industry) are due to RTN's mature portfolio & its international exposure (~30% vs. peers closer to 10%). At this point, we expect the company to continue to post industry leading margins given product mix & management's focus on execution. RTN is also well positioned in a budget-constrained environment that seeks to improve capabilities of older platforms, rather than buy new ones.

Summary Financial Performance and Our Estimates

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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	6,441.0	6,045.0	6,473.8	1%
y/y growth	(6.4%)	(1.4%)	0.5%	
Consensus Revenue (mean)			6,412	
y/y growth			(0.5%)	
Operating Income	860.0	786.0	728.3	(15%)
y/y growth	7%	8.4%	-15.3%	
Operating Margin	13.4%	13.0%	11.2%	(210 bps)
Segment Profit				
Integrated Defense Systems	236.0	240.0	238.7	1%
Intelligence & Info. Systems	74.0	60.0	56.2	(24%)
Missile Systems	209.0	189.0	185.6	(11%)
Network Centric Systems	175.0	131.0	129.6	(26%)
Space and Airborne Systems	214.0	190.0	189.6	(11%)
Technical Services	84.0	64.0	65.1	(23%)
Interest Expense	(42.0)	(46.0)	(47.7)	13%
Pretax Income	821.0	745.0	654.2	-20%
Tax Rate	32.4%	31.8%	32.0%	(40 bps)
Net Income	546.0	501.5	437.3	(20%)
Diluted Shares	345.1	333.0	333.0	(4%)
Diluted EPS	\$1.58	\$1.51	\$1.31	(17%)
Guidance			\$1.11 - 1.21	
			*Implied guidance	
Consensus EPS (mean)			\$1.30	
Street High Estimate			\$1.42	
Street Low Estimate			\$1.20	

Conference Call Logistics

Earnings Date	1/24/13 (Thu)
Conference Call Time	9:00 AM
Dial in Number	TBD
Passcode	TBD

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(0.3%)
3-Month Performance:	
Absolute	4.1%
vs. S&P500	+ 430 bps
Short Interest (Days to Cover):	
Current	4.3
3-Mo. Average	3.8
Analyst Sentiment:	
Buy	33%
Hold	61%
Sell	6%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.28	\$1.51	1.1%
06/30/2012	\$1.22	\$1.41	(0.9%)
03/31/2012	\$1.16	\$1.33	1.9%
12/31/2011	\$1.34	\$1.58	0.4%

Valuation Summary

Price/Earnings	
FTM	10.7x
FY2	10.7x
FY3	9.9x
P/E vs. S&P 500 (premium/discount)	
FTM	(20.0%)
FY2	(13.4%)
EV/EBITDA	5.7x

Note: Valuation based on Jan 08, 2013 price of \$57.74

	Q1 2013E	2012E	2013E
Revenue	5,898.3	24,448.8	24,837.2
y/y growth	(0.7%)	(1.6%)	1.6%
Consensus Revenue (mean)	5,811	24,386	24,055
y/y growth			(1.4%)
Operating Income	706.1	2,962.3	2,999.4
y/y growth	0.0%	3.7%	1.3%
Operating Margin	12.0%	12.1%	12.1%
Integrated Defense Systems	213.4	930.7	904.0
Intelligence & Info. Systems	56.8	239.2	240.2
Missile Systems	171.8	723.6	727.9
Network Centric Systems	131.6	499.6	529.0
Space and Airborne Systems	170.1	756.6	742.0
Technical Services	62.5	275.1	267.4
Interest Expense	(50.6)	(190.7)	(204.7)
Pretax Income	652.4	2,755.2	2,782.7
Tax Rate	32.0%	31.8%	32.0%
Net Income	436.2	1,860.8	1,862.2
Diluted Shares	329.3	334.8	322.5
Diluted EPS	\$1.32	\$5.56	\$5.77
Guidance		\$5.85 - 5.95	
Consensus EPS (mean)	\$1.26	\$5.53	\$5.40
Street High Estimate	\$1.33	\$5.66	\$5.78
Street Low Estimate	\$1.13	\$5.45	\$4.89

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 80. COL Earnings Preview Sheet

Citi Research

Rockwell Collins Earnings Preview

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Jonathan Raviv
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1/8/2013

Rockwell Collins

Ticker COL
Rating Neutral
Risk N/A
Target Price \$61.00
Current Dividend Yield 2.0%
Expected Total Return 5.2%

Expectations

We're below Street EPS on flat segment margins y/y in both segments. While CS sales are flat y/y as the Hawker impact continues to be felt, we expect GS sales to be down ~10% driven by terminations and program terminations. COL has said that GS will not begin to feel the positive impact of 4Q's restructuring charge until 2H13. Our est. also includes \$200m of share repo (worth ~1c EPS). We note that Consensus might be a bit high as COL has talked down margins over the Q.

Key Issues for the Quarter

1) Change in FY13 guidance? Sequester, CR & econ uncertainty as overhangs (GS guide is down 10% with unclear impact from sequester); 2) New CS announcements in the pipeline: PLF & any more MAX?; 3) Airspace mandates coming through to drive AMS growth; 4) Any plans for an analyst day (somewhat signaled on 4FQ call); 5) A-T OE margins w/ BA reportedly charging for IP on designed-in components; 6) When back to 10%+ EPS growth target; 7) 787 inventory synch-up; 9) Cash deployment priorities & views on leveraging up to repo shares; 8) Firestorm (needed to hit Surface guidance); 9) M&A environment; 10) JTRS status.

Expected Guidance

COL has been out this quarter sounding like its FY13 guide (initially issued on 9/21 and reiterated on the 4FQ call) was still achievable. Moving pieces to the guide still include how sequester is playing out & how COL's plans on the repurchase are evolving (and whether there might be room for more debt). We note that COL hasn't changed its annual guide on the 1Q call for the last 2 years.

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

	Q1 2012	Q4 2012	Q1 2013E	Y/Y Change
Revenue	1,094.0	1,266.0	1,038.7	(5%)
y/y growth	(0.9%)	(2.3%)	(5.1%)	
Consensus Revenue (mean)			1,041	(4.8%)
y/y growth				
Operating Income	200.0	284.0	189.1	(5%)
y/y growth	2%	13.1%	-5.5%	
Operating Margin	18.3%	22.4%	18.2%	(8 bps)
Segment Profit				
Commercial systems	101.0	122.0	101.2	0%
Government systems	117.0	175.0	105.5	(10%)
Interest Expense	(6.0)	(7.0)	(6.4)	7%
Pretax Income	194.0	220.0	182.7	-6%
Tax Rate	33.0%	30.9%	32.0%	(99 bps)
Net Income	130.0	152.0	124.2	(4%)
Diluted Shares	151.1	143.8	138.8	(8%)
Diluted EPS	\$0.86	\$1.06	\$0.89	4%
Guidance			n/a	
			*implied guidance	
Consensus EPS (mean)			\$0.90	
Street High Estimate			\$0.96	
Street Low Estimate			\$0.84	

Conference Call Logistics

Earnings Date	1/18/13 (Fri)
Conference Call Time	9:00 AM
Dial in Number	888-633-3299
Passcode	8343-5984

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(1.4%)
3-Month Performance:	
Absolute	8.6%
vs. S&P500	+ 890 bps
Short Interest (Days to Cover):	
Current	8.3
3-Mo. Average	6.7
Analyst Sentiment:	
Buy	44%
Hold	56%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.11	\$1.06	1.9%
06/30/2012	\$1.15	\$1.14	(4.8%)
03/31/2012	\$1.15	\$1.14	(4.8%)
12/31/2011	\$1.09	\$1.09	5.5%

Valuation Summary

Price/Earnings	
FTM	12.9x
FY2	12.1x
FY3	11.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(3.1%)
FY2	(1.8%)
EV/EBITDA	8.4x

Note: Valuation based on Jan 08, 2013 price of \$59.21

	Q2 2013E	2013E	2014E
	1,104.5	4,625.7	4,787.5
	(4.9%)	(2.1%)	3.5%
	1,135	4,635	4,797
			3.5%
	218.6	927.3	998.7
	-0.6%	-1.5%	7.7%
	19.8%	20.0%	20.9%
	122.0	516.4	593.1
	115.5	489.5	486.9
Interest Expense	(6.6)	(26.4)	(26.2)
Pretax Income	212.0	900.9	972.5
Tax Rate	32.0%	32.0%	32.0%
Net Income	144.2	612.6	661.3
Diluted Shares	136.1	135.6	130.3
Diluted EPS	\$1.06	\$4.52	\$5.08
Guidance		\$4.30 - 4.50	
Consensus EPS (mean)	\$1.06	\$4.43	\$4.90
Street High Estimate	\$1.10	\$4.58	\$5.20
Street Low Estimate	\$1.01	\$4.25	\$4.50

Conference Call Logistics

Earnings Date	1/18/13 (Fri)
Conference Call Time	9:00 AM
Dial in Number	888-633-3299
Passcode	8343-5984

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(1.4%)
3-Month Performance:	
Absolute	8.6%
vs. S&P500	+ 890 bps
Short Interest (Days to Cover):	
Current	8.3
3-Mo. Average	6.7
Analyst Sentiment:	
Buy	44%
Hold	56%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$1.11	\$1.06	1.9%
06/30/2012	\$1.15	\$1.14	(4.8%)
03/31/2012	\$1.15	\$1.14	(4.8%)
12/31/2011	\$1.09	\$1.09	5.5%

Valuation Summary

Price/Earnings	
FTM	12.9x
FY2	12.1x
FY3	11.3x
P/E vs. S&P 500 (premium/discount)	
FTM	(3.1%)
FY2	(1.8%)
EV/EBITDA	8.4x

Note: Valuation based on Jan 08, 2013 price of \$59.21

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 81. TXT Earnings Preview Sheet

Citi Research

Textron Earnings Preview

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Jonathan Raviv
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1/8/2013

Textron

Ticker	TXT
Rating	Neutral
Risk	N/A
Target Price	\$28.00
Current Dividend Yield	0.3%
Expected Total Return	6.5%

Expectations

Our 4Q EPS est. includes a 6c arbitration charge (previously disclosed in mid-November). We're also at the lower end of Cessna margin guidance for 2012 (3.5-4.5%) given slow trends in the bizjet space and the Obama re-election likely impacting ordering decisions. However, we're still estimating 33% q/q growth (+2% y/y) at Cessna due to 4Q-loaded deliveries. We would not be surprised if Cessna carried white-tails into 2013.

Key Issues for the Quarter

1) Cessna margin & outlook given macro/election/fiscal cliff...impact on order/delivery activity? White tails & production rates in 2013E?; 2) Bell margins overcoming higher commercial mix & V-22 MYP outlook given NDAA; 3) Systems outlook under new mgmt (had talked about LDD L-T target, but HSD appears more likely); 4) Cessna China outlook given recent JVs to assemble Caravans & XLS; 5) UAV support/maintenance opps (lost \$950m contract); 6) SFW status (India follow-on, Saudi, Korea, Thai, F35?); 7) Common Unmanned Surface Vessel opps; 8) TAPV pricing concerns due to deal being won under previous mgmt.

Expected Guidance

Expect 2013E EPS guidance of \$2.00-2.20 based on better Cessna (more large cabins vs. flat deliveries/production) & Bell (better commercial deliveries). Expect flattish Systems & Industrial top-line & margins. Cessna margins likely continue to improve due to cost reduction efforts, although they'll ramp over the year due to low 1H volumes. We expect Bell margin pressure due to higher commercial mix. A better EPS guide would likely come from TFC.

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 commercial appears to be in a better position today & we expect it to grow. But Bell military will see some headwinds come 2015 when the 1st V-22 contract ends, while Systems' outlook is relatively resilient based on some recent wins. Based on uncertainty at Cessna (new competitors, weaker demand) and defense uncertainty (faces some production cliffs), 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

	Q4 2011	Q3 2012	Q4 2012E	Y/Y Change
Revenue	3,254.0	3,000.0	3,428.9	5%
y/y growth	4.1%	6.6%	5.4%	
Consensus Revenue (mean)			3,440	
y/y growth			5.7%	
Operating Income	(3.0)	244.0	255.9	NM
y/y growth	(104%)	9.4%	8630.7%	
Operating Margin	-0.1%	8.1%	7.5%	756 bps
Segment Profit				
Cessna	60.0	30.0	57.9	(3%)
Bell	167.0	165.0	163.1	(2%)
Textron Systems	(8.0)	21.0	45.5	NM
Industrial	49.0	38.0	46.3	(5%)
Finance	(232.0)	28.0		
Interest Expense	(27.0)	(35.0)	(35.1)	30%
Pretax Income	(30.0)	209.0	220.8	NM
Tax Rate	NA	32.1%	32.0%	NA
Net Income	(17.0)	142.0	150.1	NM
Diluted Shares	292.5	296.9	296.9	2%
Diluted EPS	(\$0.06)	\$0.48	\$0.51	NM
Guidance			\$0.48 - 0.58	
Consensus EPS (mean)			\$0.58	
Street High Estimate			\$0.62	
Street Low Estimate			\$0.53	

Conference Call Logistics

Earnings Date	1/23/13 (Wed)
Conference Call Time	8:00 AM
Dial in Number	(800) 230-1059
Passcode	Textron

Stock Set-up

Avg. Stock Impact Last Ten Earnings	3.9%
3-Month Performance:	
Absolute	2.2%
vs. S&P500	+ 250 bps
Short Interest (Days to Cover):	
Current	5.1
3-Mo. Average	5.4
Analyst Sentiment:	
Buy	67%
Hold	33%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$0.51	\$0.48	(5.7%)
06/30/2012	\$0.51	\$0.48	11.5%
03/31/2012	\$0.44	\$0.58	(3.6%)
12/31/2011	\$0.35	\$0.41	14.6%

Valuation Summary

Price/Earnings	
FTM	11.7x
FY2	11.7x
FY3	10.0x
P/E vs. S&P 500 (premium/discount)	
FTM	(12.4%)
FY2	(4.9%)
EV/EBITDA	8.7x

Note: Valuation based on Jan 08, 2013 price of \$26.36

	Q1 2013E	2012E	2013E
Revenue	2,928.6	12,303.9	12,920.8
y/y growth	2.5%	9.1%	5.0%
Consensus Revenue (mean)			
y/y growth			4.7%
Operating Income	210.5	1,001.9	1,052.2
y/y growth	-0.7%	110.0%	5.0%
Operating Margin	7.2%	8.1%	8.1%
Segment Profit			
Cessna	7.1	116.9	172.6
Bell	144.2	625.1	638.8
Textron Systems	34.9	141.5	144.7
Industrial	54.3	218.3	209.1
Finance	6.2	62.0	31.9
Interest Expense	(33.9)	(140.1)	(110.0)
Pretax Income	176.6	861.8	942.2
Tax Rate	32.0%	32.1%	32.0%
Net Income	120.1	584.7	640.7
Diluted Shares	296.9	296.0	292.8
Diluted EPS	\$0.40	\$1.98	\$2.19
Guidance		\$1.95 - 2.05	
Consensus EPS (mean)		\$2.04	\$2.25
Street High Estimate		\$2.09	\$2.40
Street Low Estimate		\$2.00	\$2.11

Source: Citi Research, Factset, Bloomberg, Company Reports

Figure 82. WAIR Earnings Preview Sheet

Citi Research

Wesco Aircraft Earnings Preview

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1/8/2013

Wesco Aircraft

Ticker WAIR
Rating Buy
Risk High Risk
Target Price \$18.00
Current Dividend Yield -
Expected Total Return 34.0%

Expectations

We're in line with Street as we see 12% y/y sales growth and 22% EBIT margins in F1Q13. We note that EBIT margin is down y/y based on the margin-dilutive Interfast acquisition (which we expect to pick up by end of F2Q. Also note that our estimates reflect mildly lower interest expense based on the Dec 7 refi, but do not reflect any of the associated fees.

Key Issues for the Quarter

1) Build rates picking up & driving ad hoc & improved pricing? Any shortages in the supply chain that could foretell higher ad hoc demand?; 2) MRO progress (won't move needle in FY13 but why the delays & visibility into FY14); 3) Updated Interfast synergy targets (current target of Feb); 4) Refi impacts including charges, amortization schedule (will WAIR pre-pay?) & interest rate savings (we assume ~100 bps); 5) Military outlook (seeing any effects of sequestration?); 6) Update on overall strategy (still focus on shift to higher-visibility JIT/LTA business?); 7) Disintermediation behavior among Boeing suppliers.

Expected Guidance

We expect WAIR to boost adj EPS guidance of \$1.14-1.19 by 2-3 cents based on the refi coming with a lower interest rate. We do not think WAIR will be in a position at this point of their FY to boost sales. We note that WAIR left FY12 guidance unchanged in the F1Q12 earnings release.

Our Investment Thesis

WAIR offers revenue & earnings visibility due to announced production rate increases, although this likely costs margin as the company shifts contract structures. We expect cross-selling & adjacent mkt's 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 as increasing build rates stretch out the supply chain.

Summary Financial Performance and Our Estimates

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

	Q1 2012	Q4 2012	Q1 2013E	Y/Y Change
Revenue	192.6	212.2	215.5	12%
y/y growth	11.0%	17.0%	11.9%	
Consensus Revenue (mean)			216	
y/y growth			12.4%	
Operating Income	46.0	43.8	47.4	3%
y/y growth	8%	1.3%	3.0%	
Operating Margin	23.4%	20.0%	21.2%	(219 bps)
Segment Profit				
North America	41.9	35.3	40.7	(3%)
Rest of World	4.9	8.6	7.5	54%

Interest Expense	(6.5)	(6.5)	(6.4)	-2%
Pretax Income	38.5	34.8	39.4	2%
Tax Rate	39.9%	22.5%	35.0%	(486 bps)
Net Income	24.3	27.4	27.2	12%

Diluted Shares	95.0	96.2	96.2	1%
Diluted EPS	\$0.26	\$0.29	\$0.28	10%
Guidance			n/a	

Consensus EPS (mean)	\$0.27
Street High Estimate	\$0.30
Street Low Estimate	\$0.25

Conference Call Logistics

Earnings Date	1/29/13 (Tue)
Conference Call Time	5:00 PM
Dial in Number	866-825-3308
Passcode	4182-6718

Stock Set-up

Avg. Stock Impact Last Ten Earnings	(2.0%)
3-Month Performance:	
Absolute	(1.3%)
vs. S&P500	(110) bps
Short Interest (Days to Cover):	
Current	5.0
3-Mo. Average	10.7
Analyst Sentiment:	
Buy	56%
Hold	44%
Sell	0%

Recent Earnings Trends

FQ End	Cons.	Reported EPS	Stock Move
09/30/2012	\$0.24	\$0.29	(0.4%)
06/30/2012	\$0.23	\$0.24	(3.8%)
03/31/2012	\$0.26	\$0.22	(12.2%)
12/31/2011	\$0.23	\$0.26	5.0%

Valuation Summary

Price/Earnings	
FTM	11.1x
FY2	9.9x
FY3	8.5x
P/E vs. S&P 500 (premium/discount)	
FTM	(16.9%)
FY2	(19.9%)
EV/EBITDA	-

Note: Valuation based on Jan 08, 2013 price of \$13.43

	Q2 2013E	2013E	2014E
Revenue	219.3	889.8	974.0
y/y growth	20.4%	14.6%	9.5%
Consensus Revenue (mean)	214	887	971
y/y growth			9.5%
Operating Income	50.1	206.2	233.6
y/y growth	33.7%	26.0%	13.3%
Operating Margin	22.1%	22.4%	23.3%
Segment Profit			
North America	42.7	175.4	
Rest of World	8.4	34.7	
Interest Expense	(5.9)	(23.6)	(19.8)
Pretax Income	42.6	176.0	207.2
Tax Rate	35.0%	35.0%	35.0%
Net Income	29.2	120.5	140.0
Diluted Shares	96.4	96.4	96.9
Diluted EPS	\$0.30	\$1.25	\$1.44
Guidance		\$1.14 - 1.19	
Consensus EPS (mean)	\$0.28	\$1.17	\$1.35
Street High Estimate	\$0.30	\$1.24	\$1.42
Street Low Estimate	\$0.26	\$1.08	\$1.22

Source: Citi Research, Factset, Bloomberg, Company Reports

Best Ideas: Relative & Absolute Calls

Summary — We name PCP a Most Preferred stock relative to our fundamental analyst coverage for the next 3 Months, replacing BA, which we last selected on 16 Nov 2012.

Rationale — We are re-establishing PCP as a most preferred as internal restrictions required that we temporarily suspend the call in November-December. We are also extending our absolute long call on Boeing and leaving it on Top Picks Live as we still positive developments coming out of earnings and an eventual resolution to the engineering union contract negotiations.

Boeing Co.

Catalyst and Thesis — In our view, the Boeing story is more about cash deployment and less about the near-term vagaries of daily order blips, 787 production rate speculation and non-cash pension expenses. The backlog and working capital are built, difficult development projects are coming to a close, and execution is in keen focus. We expect BA to generate ~\$10 in FCF/share in 2015E (~14% yield at current share px) and continued shareholder-friendly deployment decisions in 2013.

Precision Castparts Corp.

Catalyst and Thesis — In our view, PCP benefits from having aero visibility given scheduled production ramps (we see a 40% increase over the next few years). We expect PCP will be able to absorb the demand without adding significant capacity, driving incremental margins above 30%. We also see core aero business being supplemented by energy demand benefitting from positive dynamics in coal and natural gas pricing, contributing to IGT use. Catalysts include 787 production ramp and IGT/energy orders picking up.

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; and 5) The outlook for shareholder friendly cash deployment in the form of higher dividends and share repurchases.

Valuation

We apply a sum-of-the-parts valuation methodology to Boeing. To the commercial business (65% of 2013 segment income) we apply a 15x FTM P/E multiple, in line with commercial aerospace peers. In our view, a premium multiple is warranted due to the production up-cycle we're embarking upon as well as the relative resiliency of the commercial aerospace market. We apply a 10.2x multiple to the defense business, representing a ~20% discount to the market. This is a slight premium to our target defense multiple (25% discount) due to BDS' premium backlog visibility and international content. This gives us a blended target multiple of 13.3x, which we apply to our pension-adjusted 2014 EPS estimate to yield our \$104 PT. We expect Boeing and investors to begin to focus on pension-adjusted EPS which more accurately reflects underlying performance.

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.

On July 23, 2012, the company offered ~\$900m (\$720m net of cash) for its primary competitor GEOY in a bid to right-size the commercial satellite industry. The deal is set to close in late 4Q12 or early 1Q13.

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, if the company lost operational capabilities of any of its satellites, or if the proposed acquisition of the company by competitor GeoEye were to dissolve.

Valuation

This company has a Neutral rating. We have not assigned a target price and therefore no valuation methodology is applicable.

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. The company has also made a bid for its chief competitor, GEOY, a deal which involves numerous stakeholder approvals. While we expect the deal to ultimately go through in late 2012 or early 2013, there are still risks around the process.

We would become more positive on shares if commercial opportunities exceeded our expectations or if expected synergies from the pending GEOY acquisition exceeded initial targets. We could become more negative if the EV contract came under pressure once again or if the commercial market was 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 30% discount to the market multiple to arrive at our target defense multiple of 9.2x due to GD defense's less certain outlook.

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 = 9.2x, applied to 69% of income
- Commercial multiple = 15x, applied to 31% of income

The result is a blended multiple of 11x, 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. Our price target implies a 6.5x 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 \$54 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 aren't returning 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 10.5x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$106.

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 ongoing 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 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. In our view, NOC should trade at a premium to peers given growth opportunities in manned & unmanned fighters and targeted cash returns to shareholders. 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 a target multiple of 10.6x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$78.

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 (62% of FY12 sales) and power (21%) 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. In August 2011, PCP bought Primus International for \$900m, adding to its aerospace components portfolio.

PCP generated \$7.2b in sales in FY12 (March), up 16% y/y, with 26.8% 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 \$238 is derived by applying a 17.25x multiple to our FTM EPS est. 12 months from now. Our target multiple is based on a 1x PEG ratio, in line with where PCP has typically traded at similar points in the cycle. Excluding the TIE acquisition, we estimated 15.5% annual EPS growth FY12-FY15E driven by positive dynamics in the aero and energy end-markets and attractive incremental margins. TIE drives this growth to 19% annually. Our target multiple is based on an average of pre- and post- acquisition EPS growth outlook as we believe the market should give PCP credit for making accretive acquisitions which is part of its business model. Our PT equates to 12.2x EV/EBITDA (using our LTM EBITDA estimate 12 months from now) vs. a 10-year average of 10x. In our view, the premium valuation is deserved given that we're heading into production rate increases. We note that our target multiples are representative of PCP's average valuation realized 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 premium (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 10.5x to our FTM pension-adjusted EPS estimate to arrive at our price target of \$69.

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 \$4.7b in FY11 with segment operating margins of 21%.

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 13.5x multiple, representing a 10% discount to our target commercial multiple of 15x due to COL's exposure to the relatively weak SMID-cabin bizjet market as well as a new competitive challenge from Garmin. 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 10x multiple to COL's defense business, representing a 25% discount to the market. The result is a blended multiple of 11.7x applied to our FTM EPS estimate 12 months from now, yielding a \$61 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. We apply a target multiple of 12.8x FTM PE to Cessna, representing a discount to our target commercial multiple of 15x

given the low margins and pressured outlook in the SMID cabin bizjet business. Our Bell target multiple of 11.4x is a blend of military (70%) and commercial (30%). Our Systems multiple is 9.2x, representing a 30% discount to the market, in line with where we believe a ground-exposed defense business should trade. Our Industrial PE target is 13.1x based on the S&P 500's 3Y average. For the company's finance business, we use a 7.5x multiple given the valuation levels of a broad selection of financial companies. The resulting blended multiple of 11.5x yields our \$28 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. It completed its IPO on August 2, 2011.

Since 1986, Wesco has generated a ~15% sales CAGR. In FY12 (September), WAIR generated \$776m of sales (+9% y/y) at 21.1% adjusted operating margins.

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 valuation methodology is driven by a SOTP approach based on WAIR's business exposure of ~60% commercial and ~40% military.

Our commercial multiple of 13.5x is at a slight discount to where industrial distributors have historically traded on a relative basis (a 7% premium to the S&P 500 over the last 10 years). We believe that WAIR commercial should trade at a discount to the group in light of its relative immaturity as a publicly held company and its majority private equity ownership (Carlyle owns 62%) which could create an overhang on shares. Our military multiple is 10.5x, based on a 20% discount to the market. This is a premium to where we believe defense primes should trade in the current budget environment (25% discount) because of WAIR's exposure to airborne assets and long-term growth platforms (such as F-35).

We apply our blended multiple of 12.3x to our FTM EPS estimate a year from now, to arrive at our PT of \$18.

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

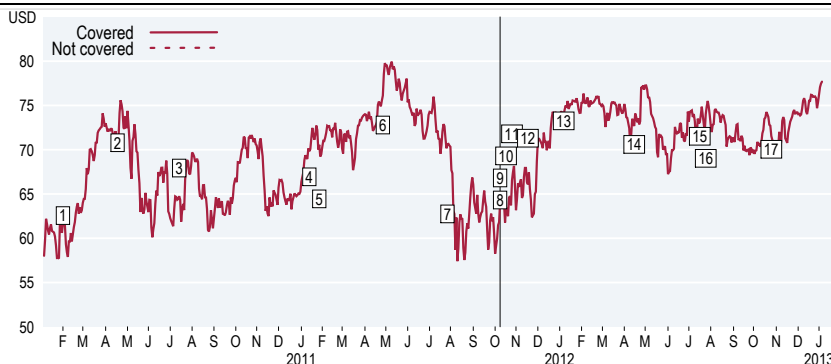
Boeing Co. (BA)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	31-Jan-10	2H	*59.00	60.60
2	19-Apr-10	2H	*73.00	70.96
3	14-Jul-10	*1H	*80.00	64.75
4	13-Jan-11	1H	*85.00	69.83
5	27-Jan-11	1H	*84.00	70.56
6	27-Apr-11	1H	*90.00	76.12

* Indicates change

	Date	Rating	Target Price	Closing Price
7	27-Jul-11	1H	*85.00	70.63
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	85.00	61.81
10	18-Oct-11	1	*87.00	63.47
11	26-Oct-11	1	*78.00	66.56
12	17-Nov-11	1	*82.00	66.09

	Date	Rating	Target Price	Closing Price
13	6-Jan-12	1	*87.00	73.98
14	16-Apr-12	1	*89.00	72.68
15	17-Jul-12	1	*93.00	73.11
16	25-Jul-12	1	*89.00	74.03
17	25-Oct-12	1	*84.00	71.54

Rating/target price changes above reflect Eastern Standard Time

Boeing Co. (BA)

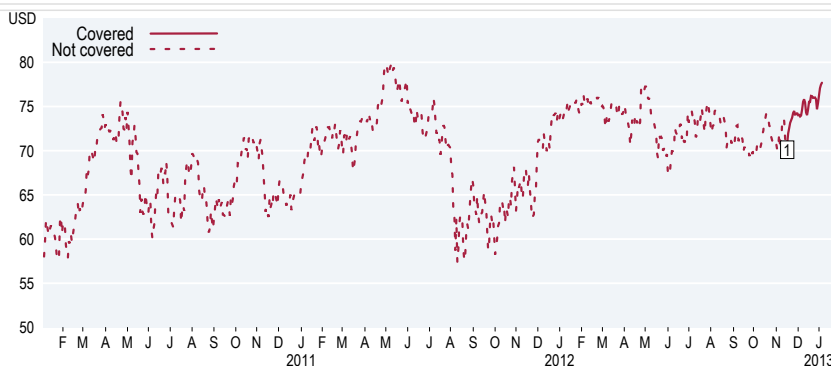
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	16-Nov-12	*ADD MP	-	70.77

* 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	6-May-10	2M	*\$64.00	61.64
2	15-Jul-10	*2H	*\$61.00	56.06
3	18-Jul-10	2H	*\$60.00	54.16
4	25-Aug-10	2H	*\$62.00	53.55
5	14-Oct-10	2H	*\$64.00	60.22
6	21-Jan-11	2H	*\$66.00	63.71

* Indicates change

	Date	Rating	Target Price	Closing Price
7	25-Apr-11	2H	*\$68.00	61.88
8	22-Jul-11	2H	*\$65.00	57.41
9	18-Sep-11	2H	*\$61.00	56.21
10	5-Oct-11	2H	*\$57.00	54.12
11	8-Oct-11	Stock rating system changed		
12	8-Oct-11	*2	57.00	54.85

	Date	Rating	Target Price	Closing Price
13	19-Jan-12	2	*\$61.00	59.96
14	16-Apr-12	2	*\$63.00	57.50
15	14-Jun-12	2	*\$56.00	50.07
16	16-Oct-12	2	*\$59.00	54.56
17	26-Oct-12	2	*\$60.00	54.30

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

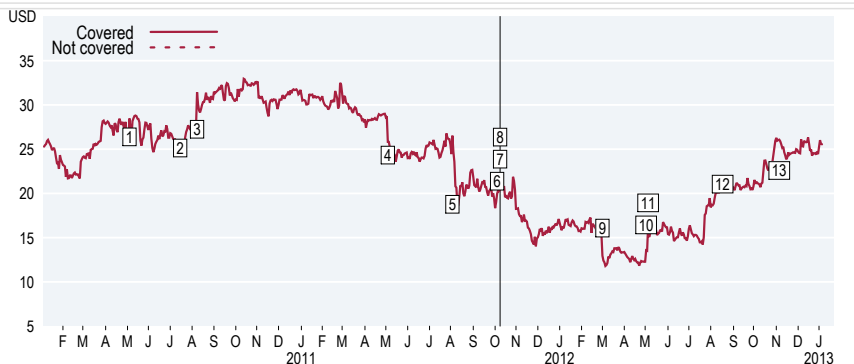
DigitalGlobe (DGI)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



	Date	Rating	Target Price	Closing Price
1	5-May-10	2H	*\$29.00	28.47
2	15-Jul-10	2H	*\$30.00	25.82
3	9-Aug-10	2H	*\$34.00	31.44
4	4-May-11	2H	*\$32.00	25.83
5	3-Aug-11	2H	*\$30.00	26.53

* Indicates change

	Date	Rating	Target Price	Closing Price
6	5-Oct-11	2H	*\$22.00	19.94
7	8-Oct-11	Stock rating system changed		
8	8-Oct-11	*2	22.00	20.17
9	1-Mar-12	2	*\$14.75	12.96
10	2-May-12	2	*\$15.00	13.57

	Date	Rating	Target Price	Closing Price
11	4-May-12	2	*\$17.00	16.44
12	17-Aug-12	2	*\$24.00	21.01
13	6-Nov-12	2	-	26.07

Rating/target price changes above reflect Eastern Standard Time

DigitalGlobe (DGI)

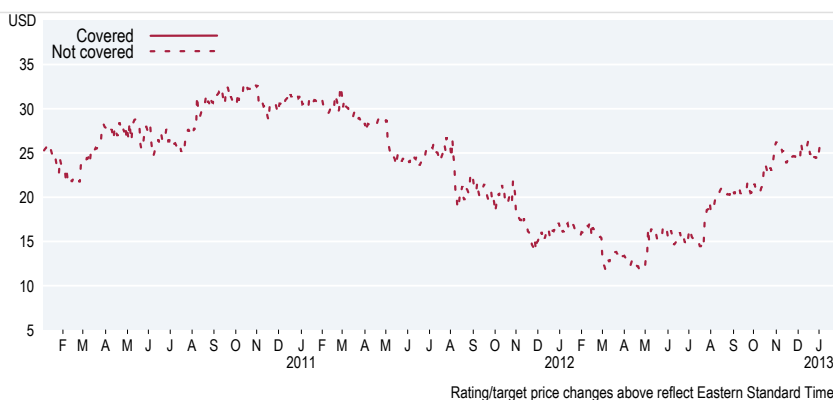
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010



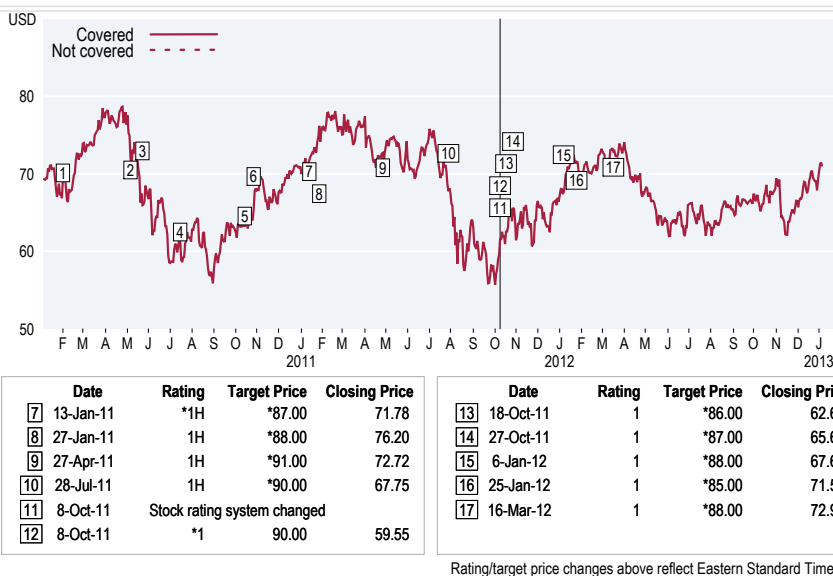
General Dynamics Corp. (GD)

Ratings and Target Price History

Fundamental Research

Analyst: Jason Gursky

Covered since July 15 2010



Date	Rating	Target Price	Closing Price
1 1-Feb-10	3M	*63.00	69.43
2 6-May-10	3M	*67.00	72.06
3 24-May-10	*2M	67.00	65.96
4 15-Jul-10	*2H	*69.00	61.47
5 14-Oct-10	2H	*71.00	63.17
6 27-Oct-10	2H	*75.00	65.42

Date	Rating	Target Price	Closing Price
7 13-Jan-11	*1H	*87.00	71.78
8 27-Jan-11	1H	*88.00	76.20
9 27-Apr-11	1H	*91.00	72.72
10 28-Jul-11	1H	*90.00	67.75
11 8-Oct-11	Stock rating system changed		
12 8-Oct-11	*1	90.00	59.55

Date	Rating	Target Price	Closing Price
13 18-Oct-11	1	*86.00	62.64
14 27-Oct-11	1	*87.00	65.61
15 6-Jan-12	1	*88.00	67.62
16 25-Jan-12	1	*85.00	71.57
17 16-Mar-12	1	*88.00	72.90

General Dynamics Corp. (GD)

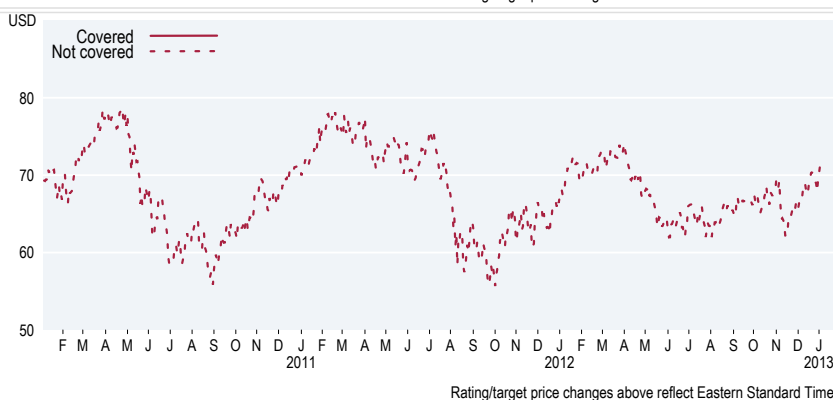
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Jason Gursky

Covered since July 15 2010

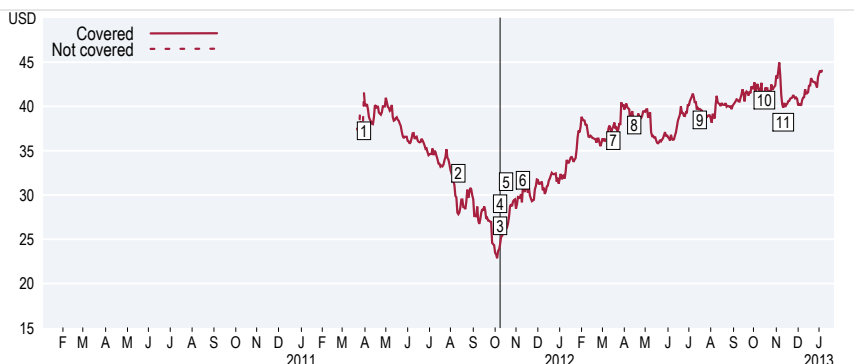


Huntington Ingalls Industries (HII)

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		
4	8-Oct-11	*1	35.00	23.85

* Indicates change

	Date	Rating	Target Price	Closing Price
5	18-Oct-11	1	*\$32.00	26.47
6	10-Nov-11	1	*\$36.00	31.00
7	16-Mar-12	1	*\$45.00	37.75
8	16-Apr-12	1	*\$46.00	38.47

	Date	Rating	Target Price	Closing Price
9	17-Jul-12	1	*\$47.00	39.71
10	16-Oct-12	1	*\$52.00	40.99
11	12-Nov-12	1	*\$50.00	39.87

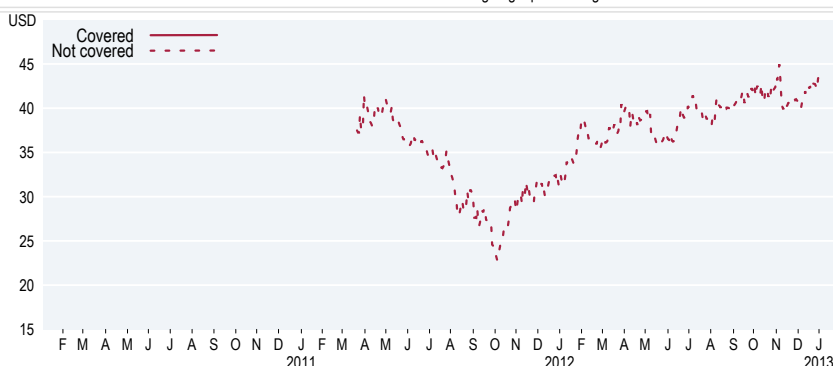
Rating/target price changes above reflect Eastern Standard Time

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

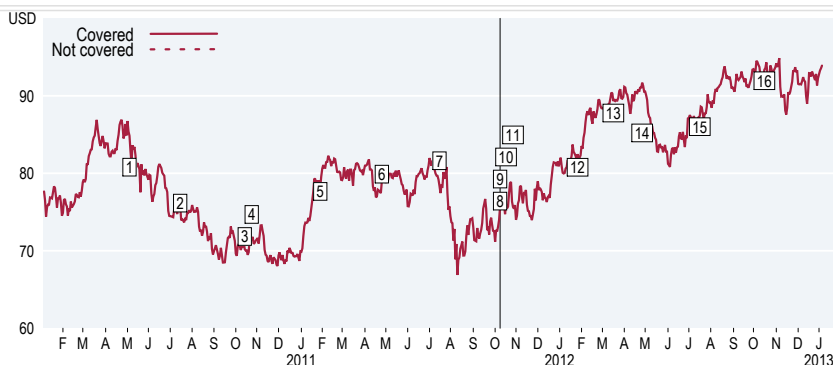
Rating/target price changes above reflect Eastern Standard Time

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	5-May-10	1M	*\$95.00	84.84
2	15-Jul-10	*1H	*\$97.00	75.95
3	14-Oct-10	1H	*\$91.00	70.20
4	24-Oct-10	1H	*\$88.00	71.78
5	28-Jan-11	1H	*\$100.00	78.20
6	26-Apr-11	1H	*\$104.00	79.04

* Indicates change

	Date	Rating	Target Price	Closing Price
7	15-Jul-11	1H	*\$102.00	78.37
8	8-Oct-11	Stock rating system changed		
9	8-Oct-11	*1	102.00	74.00
10	18-Oct-11	1	*\$92.00	75.98
11	27-Oct-11	1	*\$89.00	75.65
12	26-Jan-12	1	*\$92.00	82.47

	Date	Rating	Target Price	Closing Price
13	16-Mar-12	1	*\$108.00	89.32
14	26-Apr-12	1	*\$105.00	91.70
15	17-Jul-12	1	*\$103.00	87.43
16	16-Oct-12	1	*\$108.00	93.37

Rating/target price changes above reflect Eastern Standard Time

Lockheed Martin Corp. (LMT)

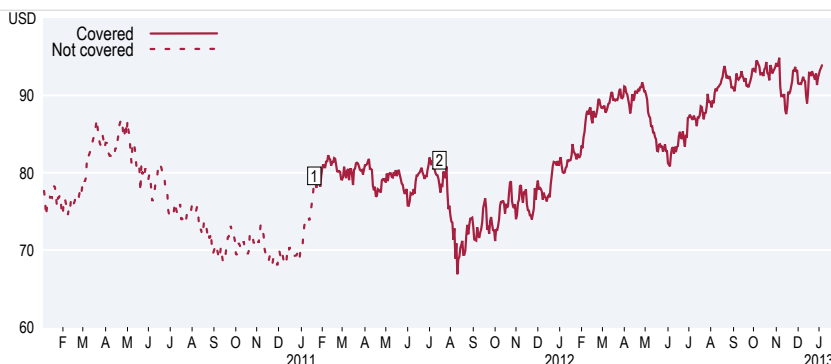
Ratings and Target Price History

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]	26-Feb-10	2M	*\$6.25	55.57
[2]	6-May-10	2M	*\$6.60	58.67
[3]	15-Jul-10	*1H	62.60	51.36
[4]	27-Oct-10	1H	*\$6.22	55.68
[5]	10-Feb-11	1H	*\$7.11	64.55

* Indicates change

	Date	Rating	Target Price	Closing Price
[6]	31-Mar-11	1H	*\$7.00	62.71
[7]	28-Apr-11	1H	*\$7.90	63.09
[8]	15-Jul-11	1H	*\$8.00	64.62
[9]	27-Jul-11	1H	*\$8.00	62.68
[10]	8-Oct-11	Stock rating system changed		

	Date	Rating	Target Price	Closing Price
[11]	8-Oct-11	*1	80.00	52.81
[12]	18-Oct-11	1	*\$7.10	54.40
[13]	27-Oct-11	1	*\$6.90	57.64
[14]	16-Oct-12	1	*\$7.80	70.36

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

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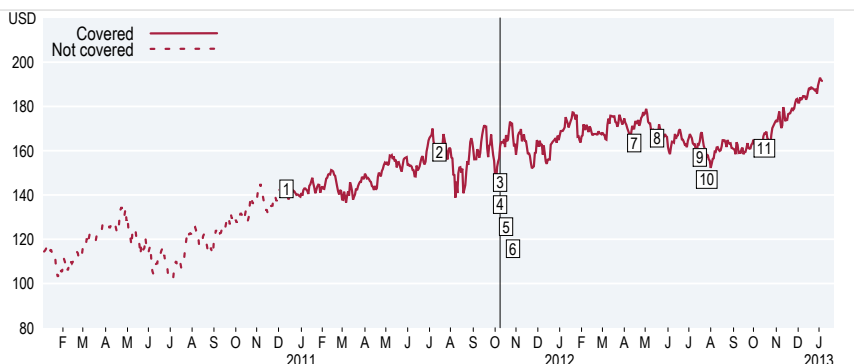
* Indicates change

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
3	8-Oct-11	Stock rating system changed		
4	8-Oct-11	*1	188.00	156.47

* Indicates change

	Date	Rating	Target Price	Closing Price
5	18-Oct-11	1	*192.00	167.08
6	27-Oct-11	1	*194.00	166.47
7	16-Apr-12	1	*199.00	170.02
8	17-May-12	1	*198.00	166.54

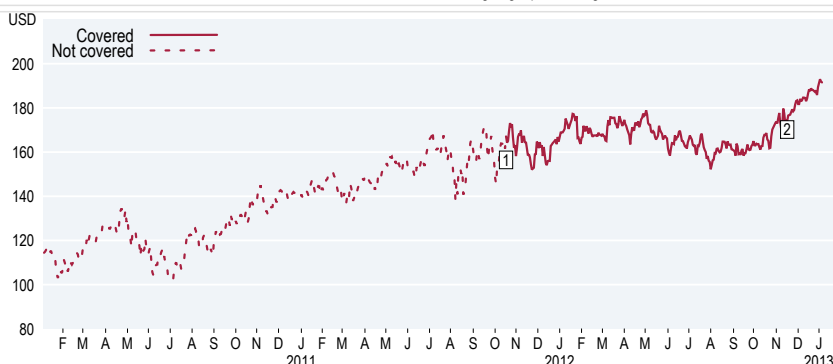
	Date	Rating	Target Price	Closing Price
9	17-Jul-12	1	*204.00	164.24
10	26-Jul-12	1	*189.00	156.95
11	16-Oct-12	1	*193.00	167.77

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

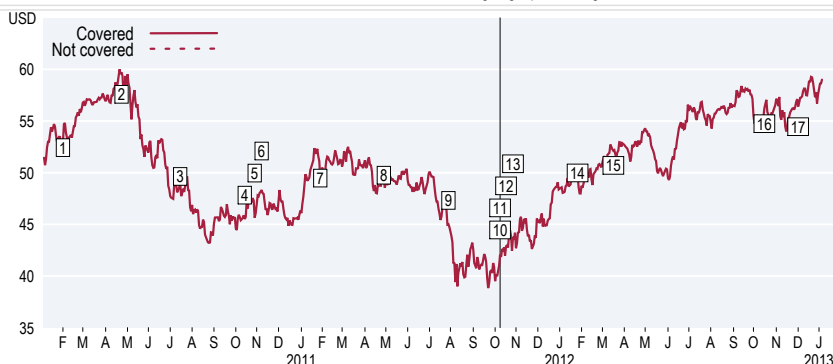
	Date	Rating	Target Price	Closing Price
2	16-Nov-12	*REM MP	-	174.05

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	1-Feb-10	2M	*57.00	52.96
2	23-Apr-10	2M	*61.00	59.72
3	15-Jul-10	*1H	*60.00	49.02
4	14-Oct-10	1H	*58.00	45.52
5	28-Oct-10	1H	*56.00	45.64
6	8-Nov-10	1H	*58.00	48.33

* Indicates change

	Date	Rating	Target Price	Closing Price
7	28-Jan-11	1H	*62.00	49.48
8	28-Apr-11	1H	*64.00	49.25
9	28-Jul-11	1H	*62.00	45.02
10	8-Oct-11	Stock rating system changed		
11	8-Oct-11	*1	62.00	41.00
12	18-Oct-11	1	*59.00	42.88

	Date	Rating	Target Price	Closing Price
13	27-Oct-11	1	*56.00	43.79
14	26-Jan-12	1	*59.00	49.89
15	16-Mar-12	1	*64.00	52.12
16	16-Oct-12	1	*68.00	56.23
17	3-Dec-12	1	*69.00	56.41

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
2	18-Oct-11	*REM MP	-	42.88

* Indicates change

	Date	Rating	Target Price	Closing Price
3	21-Oct-11	*ADD MP	-	43.97
4	16-Apr-12	*REM MP	-	52.60

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	12-Feb-10	Coverage terminated		
2	13-Dec-10	2H	*26.00	23.66
3	20-Jul-11	2H	*28.00	24.43
4	6-Sep-11	2H	*18.50	15.11

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Oct-11	Stock rating system changed		
6	8-Oct-11	*2	18.50	18.34
7	18-Oct-11	2	*18.70	18.66
8	19-Oct-11	2	*21.00	18.59

	Date	Rating	Target Price	Closing Price
9	26-Jan-12	2	*25.00	24.74
10	18-Apr-12	2	*27.00	26.65
11	16-Oct-12	2	*28.00	26.46

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

	Date	Rating	Target Price	Closing Price
2	16-Apr-12	*REM LP	-	27.01

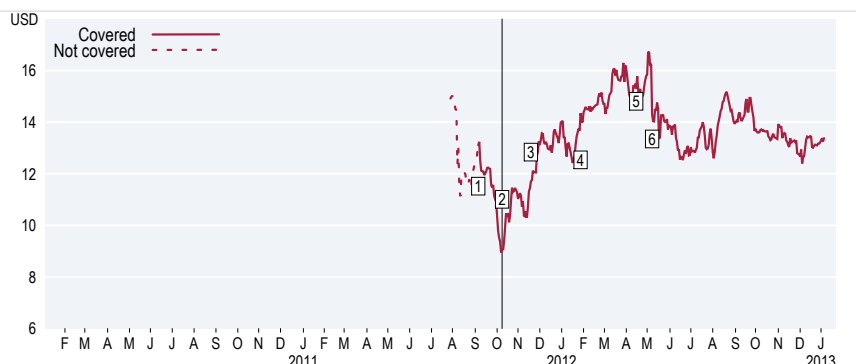
Rating/target price changes above reflect Eastern Standard Time

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

	Date	Rating	Target Price	Closing Price
5	16-Apr-12	1H	*19.50	15.30
6	8-May-12	1H	*17.00	14.29

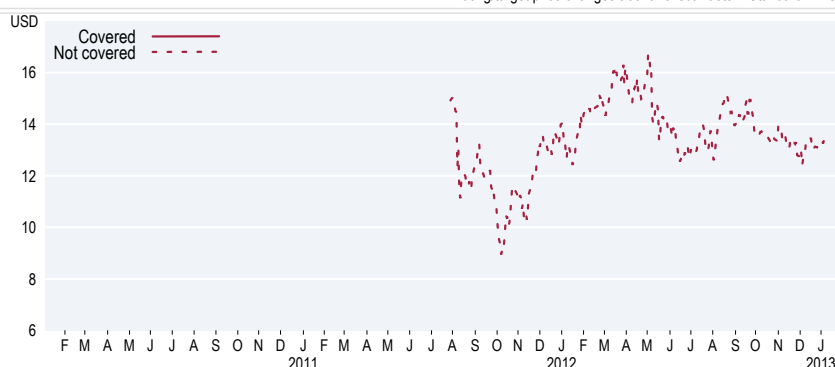
Rating/target price changes above reflect Eastern Standard Time

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

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Data current as of 31 Dec 2012

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