



Northrop Grumman & Orbital ATK M&A Analysis

Govini

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Northrop Grumman's acquisition of Orbital ATK is one of many strategic investments being made by industry that will reshape the competitive landscape of the defense industrial base. Orbital ATK offers Northrop access to platforms, which provides full integration capabilities in high growth segments. The first two segments, Guided Missiles and Space Vehicles, are critical to strategies for developing offsetting capabilities in the next highly contested domain space. The third segment, Munitions, is a source of steady cash flow.

This analytic report presents Govini's Northrop Orbital ATK Acquisition Taxonomy , a roadmap for tracking how Northrop will leverage Orbital ATK's existing technology and market presence to build competitive solutions that will fundamentally alter the competitive landscape.

Key Findings :

Orbital ATK averaged \$2.2 billion in annual capture of unclassified contract obligations over the last five years, with 49.1 percent coming from Munitions, 37.2 percent from Space Vehicles and 13.7 percent from Guided Missiles. Its annual contracts were 21.9 percent higher in FY16 than in FY13, signaling a strong rebound from sequestration with growth coming from Space Vehicles, followed by Guided Missiles and then Munitions.

Orbital ATK's 8 percent growth in Space Vehicle capture significantly outpaced the overall market, with nearly all of its contract obligations coming from NASA. Orbital ATK is positioning itself for future growth as agencies embrace reusable platforms. The combined entity surpasses two peers, SpaceX and the Aerospace Company. Spending on

Space Vehicles increased by an annual rate of 2.6 percent. Orbital ATK is the fifth largest vendor in the Guided Missiles segment, capturing \$1.4 billion over the last five years. Nearly all of its capture comes from Guided Missiles Platforms, which is the ingredient necessary for Northrop to become a full integrator.

The acquisition puts Northrop's Guided Missile capture on par with Boeing, its direct competitor for replacing the aging Minuteman III intercontinental ballistic missile system. Spending on Guided Missiles increased by an annual rate of 5.5 percent.

Orbital ATK is the dominant leader of the Munitions market, accounting for 22.2 percent of total segment spending. Boeing, the second largest vendor, accounts for only 13.4 percent of segment spending. Orbital ATK gains its competitive advantage from Small-Medium Caliber Ammunition and Artillery sub-segment spending, accounting for 57.3 percent and 33.7 percent respectively.

Orbital ATK's strong competitive position in Munitions is advantageous especially given the strong growth in segment spending. Total spending increased the most of all three segments by an annual rate of 5.6 percent over the last five years and is poised to continue its growth in future years.

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