Long-Term Impacts of Military Drawdown on the Industrial Base

Capt. Anton H. Martyn
Advisor: Dr. William Cunningham
Department of Operational Sciences (ENS)
Air Force Institute of Technology

Introduction
- Procurement budget declining as a result of the Budget Control Act of 2011
- Increasing fixed costs
- Defense industry is already highly concentrated

Problem Statement
- Historically, firms have coped by consolidating, diversifying, or exiting the defense sector
- Concentrated state of defense industry precludes further mergers
- Loss of prime contractors could result in lost production capability or inadequate surge capacity

Research Questions:
1. Will a military drawdown impact the financial ratios: debt-to-equity, price-to-earnings, and current ratio, of large prime contractors?
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Methodology:
Using JMP, complete a linear regression on the financial performance measures of 13 large prime contractors with regard to defense procurement spending

Dependant Variables Tested:
1. Debt-to-Equity Ratio (D/E)
2. Price-to-Earnings Ratio (P/E)
3. Current Ratio (CR)
4. Profit Margin
5. Revenue
6. Revenue Growth (year-over-year)

Results of Regression Models:
1. Debt-to-Equity Ratio (D/E)
   - \( p = .0575 \)
2. Price-to-Earnings Ratio (P/E)
   - \( p = .0057 \)
3. Current Ratio (CR)
   - \( p = .2374 \)
4. Profit Margin
   - \( p = .1870 \)
5. Revenue
   - \( p = .0196 \)
6. Revenue Growth (year-over-year)
   - \( p = .0116 \)

General Conclusions
1. Only significant events had much impact on D/E, CR, and Profit Margin, beyond historical performance
2. Procurement accounted for a very small portion of financial performance measure variability.
3. Industrial base is well-equipped to absorb procurement reduction as a result of the Budget Control Act of 2011
4. No indication of worsening conditions due to procurement

Future Research
- Cost driver study to identify factors beyond procurement
- Compare the performance of parent companies and their defense subsidiaries
- Analyze fewer companies over longer time periods