

News & Views: Aerospace & Defense

An Informational Resource

France to buy drones from Israel

The French Defense Ministry is purchasing the Eitan, an unmanned aircraft, from Israel—the first time the Eitan has been sold to a foreign country.

The Israeli Air Force began using the Eitan, its most advanced drone, just over a year ago. With a wingspan similar to a Boeing 737's, it can remain airborne 36 hours—carrying a

(Continued on page 2)

M&A and Foreign Markets to Spark Growth of U.S. Aerospace & Defense Contractors

Federal budgets cuts, stiffer competition, and a struggling economy have prompted cash-rich aerospace and defense executives to grow their companies via acquisitions and new markets according to business advisory firm KPMG LLP.

According to a KPMG survey, 62 percent of the A&D executives polled say their companies will be involved in a merger or acquisition as a buyer in the next two years. Meanwhile, 70 percent of them say their companies have significant cash on hand: 41 percent say they will use it for strategic acquisitions and 19 percent say they will use it to enter new markets.

Dwindling contracts, flat sales and an uncertain business outlook, have forced



contractors to think out of the box to grow. In connection with this, the survey indicates that the prevailing thought among them is to grow or die via international expansion, new product development and acquisitions/joint ventures.

Half of those polled said that foreign operations or customers will account for more than a quarter of their company's revenues in three years, an increase of

(Continued on page 2)

Inside this issue:

- France buys drones **1**
- M&A's spark growth **1**
- Defense cuts coming **1**
- Defense contractor jobs losing luster **2**
- \$34 billion wasted on contractors **2**

Significant Defense Cuts Likely

U.S. defense budget cuts are inevitable due to the U.S. budget deficit—defense represents about half of the nation's discretionary spending. But military leaders are urging Congress to protect the viability of the defense department's industrial base as it makes the spending cuts.

Not surprisingly, contractors are growing anxious about the government possibly defaulting on its debt obliga-

tions. The Aerospace Industries Association warned that a failure to come up with a viable solution could have lasting consequences.

The Professional Services Council, representing a wide swath of defense contractors, is advising its members to begin lining up now for payments to protect themselves against possible cash-

(Continued on page 2)

Defense Contractor Jobs Losing Luster

Once prized positions, defense contractor jobs are no longer synonymous with stable and long-term employment. Cost cutting and the push to increase efficiencies have changed things in this regard

over the past year or two.

Some firms have had to reduce their staffs, which in turn have caused concern about the industry losing highly skilled employees and prospects to other

fields.



A case in point is Lockheed Martin which

recently announced “voluntary layoffs” to 6,500 employees. The previous month it had announced layoffs for about 1,500 employees in its aeronautics business and 1,200 in its space systems business. Other contractors announcing layoffs include General Dynamics and Raytheon.

Expect more job instability among contractors as federal budget cuts are announced, signaling an end to the relative strength the industry has had over the past decade. As a result, those who would have considered working for a defense contractor before now have a dilemma and in the process some fear that the nation’s security could suffer. It’s a story now being told by some contractors in their lobbying efforts.

(Continued from page 1 - M&As)

about 12 percent. Foreign military sales and partnerships/joint ventures are targeted for Europe, Asia (other than China), and the Middle East.

Most of the executives cite the following as their company’s competitive advantages: quality of product and service, customer relationships, and innovation/new products. Meanwhile their greatest challenges include: total product costs, innova-

tion, and supplier capabilities.



Short-term growth will be slow according to the survey. About half of the respondents said revenue and employment levels for the coming year will be flat or will decline; even more said that employment levels won’t reach pre-recession totals for at least two years.

\$34 Billion Wasted

A congressional study reports that about \$34 billion was miss-spent on service contracts with the private sector in connection with the wars in Iraq and Afghanistan. An analysis by the bi-partisan Commission on Wartime Contracting provides details about how 18 percent of the \$200 billion in U.S. funds, spent with more than 200,000 contractors over nearly a decade, was wasted.

A lack of oversight by federal agencies is cited in the report as the primary reason for the waste and the commission warns that the waste will continue when the programs are transferred to Iraqi or Afghan control in the coming months and years.

(Continued from page 1 - Drones)

variety of equipment such as radars, sensors, cameras and missiles.

Israel is considered a leading player in the field of unmanned aerial vehicles.

(Continued from page 1 - Defense Cuts)

flow problems by the government. The uncertainty surrounding the issue just heightens the concern among contractors.



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