

General Dynamics (GD)

Overview & Current Events

General Dynamics is a large aerospace and defense company. The company's largest customer is the United States government. The US government accounts for 60% of the company's sales. General Dynamics was founded in 1955 and has a market cap of \$42.7 billion.

General Dynamics reported (4/27/16) earnings-per-share growth from continuing operations of 9.3% in its most recent quarter. 6.7 percentage points of this growth is the result of extensive share repurchases. General Dynamics' management continues to return cash to shareholders through its 2.2% dividend yield and share repurchases.

Competitive Advantage & Recession Performance

General Dynamics' primary competitive advantage is its excellent research and development department and manufacturing capabilities. The company receives funds from the United States government for research and development, but also spends around \$300 million a year in excess of this on research and development. A large part of General Dynamics' competitive advantage is its connections and favorable relationship with the US government.

General Dynamics performed well through the Great Recession. The company saw EPS increase each year during the Great Recession. The company's business is much more correlated with US military expenditures than with the economic environment.

Growth Prospects, Valuation, & Catalyst

I expect General Dynamics to provide total returns of 9% to 12% a year from: 3% share count reductions, 2% to 4% revenue growth, 2% to 3% margin growth, and ~2% dividend yield.

The company's growth is a function of intelligent capital allocation. Management distributes the bulk of earnings to shareholders through dividends and share repurchases. Organic growth will come primarily through continued government military contracts.

General Dynamics is currently trading for a price-to-earnings ratio of 15.1. The company's historical price-to-earnings ratio has ranged from ~10 to 17 for much of the last 20 years. Investors are unlikely to realize long-term gains from P/E ratio expansion, but General Dynamics does have good total return potential due primarily to its earnings-per-share growth prospects.

Key Statistics, Ratios, & Metrics

Maximum Drawdown¹:	61%	10 Year EPS Growth Rate:	8.9% per year
Dividend Yield:	2.2%	10 Year Dividend Growth Rate:	11.3% per year
Most Recent Dividend Increase:	10.1%	10 Year Historical Avg. P/E Ratio:	12.9
Estimated Fair Value:	\$140/share ²	10 Year Annualized Total Return:	10.6%
Dividend History:	37 years without a reduction		

¹ Since year 2000. Maximum drawdown occurred in March of 2009 (Great Recession low)

² Currently trading for \$140.23 per share