

## Defense Update

## Jeff Bialos on the possible impacts of the NDIS

Industry Overview

## Jeff Bialos on the NDIS and its implications

We hosted Jeff Bialos, partner at Eversheds Sutherland, to discuss the DoD's National Defense Industrial Strategy (NDIS) report. [For more details on the NDIS, read our key takeaways here.](#) Bialos highlighted that while the administration touts this as the first NDIS report, there have been numerous publications with a similar theme of calling out weaknesses in the Defense Industrial Base (DIB) over the past several years. The thrust of the NDIS report is that today's DIB is not sufficient to meet and surpass our pacing threat, namely China, leaving the US at a military and economic disadvantage. Bialos noted that while the report set forth a number of strong recommendations, implementation is highly budget constrained.

## Consolidation a function of the demand environment

The consolidation of the defense industry into a few large primes is a key point made several times throughout the report. However, Bialos asserted that the post "last supper" consolidation did not stem from anti-competitive practices or predatory profit-taking means. Rather, he believes consolidation following the Cold War was a function of a dwindling demand environment that could not sustain hundreds of individual players. Now that the threat environment necessitates more demand, the US DIB struggles with ramping up production lines due to years of underinvestment. Bialos asserted that if the DoD wants to see a DIB with more names, the US needs a stronger budget for RDT&E and procurement accounts. This is in line with our view that US defense must rise to ~5% of GDP or the Pax Americana world order could be at risk.

## Primes do innovate, but non-traditional will supplement

A lack of innovation is often cited as a detriment in the US DIB. However, Bialos disagrees and believes that in fact the traditional large primes have a strong history of innovation but contracting funds are not available to take advantage of that. While he does see opportunities for non-traditional defense names to enter into the market, he noted that investors should not discount the primes in the innovation arena. Despite his emphasis on the ability of the primes to create next-gen systems, he did note that at the margin, it is likely that incremental funding dollars will be directed towards non-traditional contractors as the DoD works to increase the breadth, depth, and resiliency of its industrial base.

## Implement changes at a portfolio level to reduce costs

The NDIS report does not provide any information as to funding levels required. An unclassified implementation report is expected to be released in the coming months. Bialos thinks that change is more likely to be seen at a portfolio level. He thinks looking at each class of system discretely may end up being less costly and more effective at strengthening the individual supply chains and industrial bases. A shift has already been made in funding away from the Army and towards the Navy and the Air Force (as those branches are likely to play a heightened role in any future conflicts), and Bialos expects to see this trend continue.

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DoD: Department of Defense

RDT&amp;E: Research, Development, Test and Evaluation



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