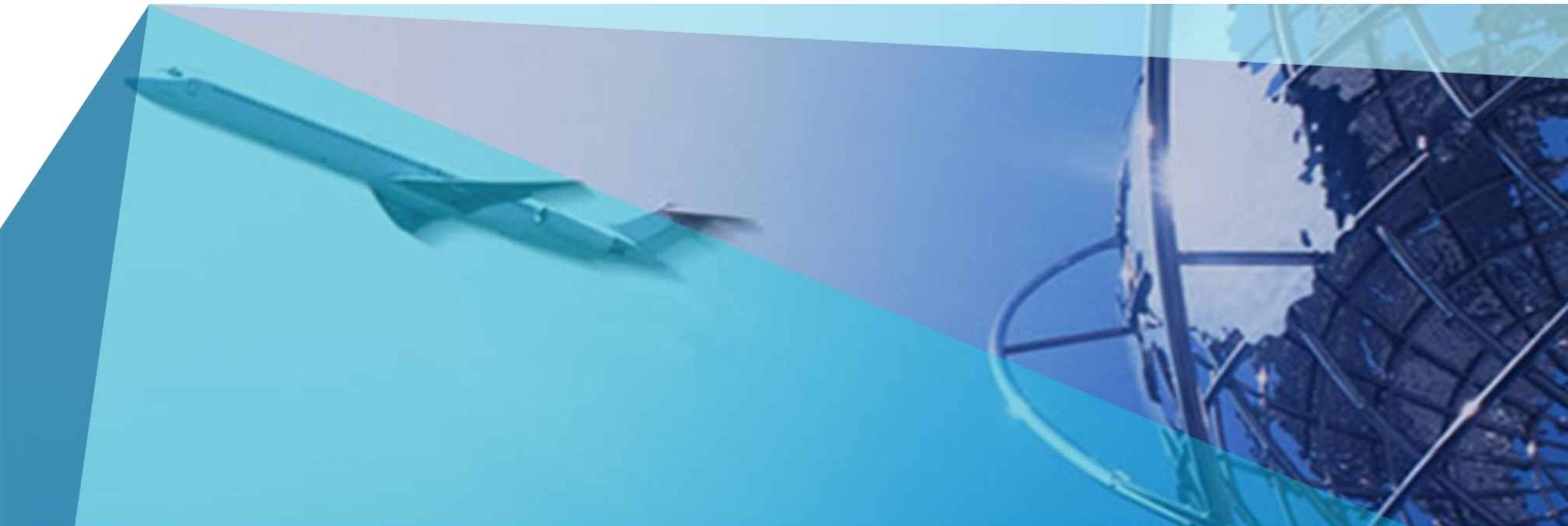


Cracking the organizational code for growth

Aerospace & Defense growth analysis

March 2013

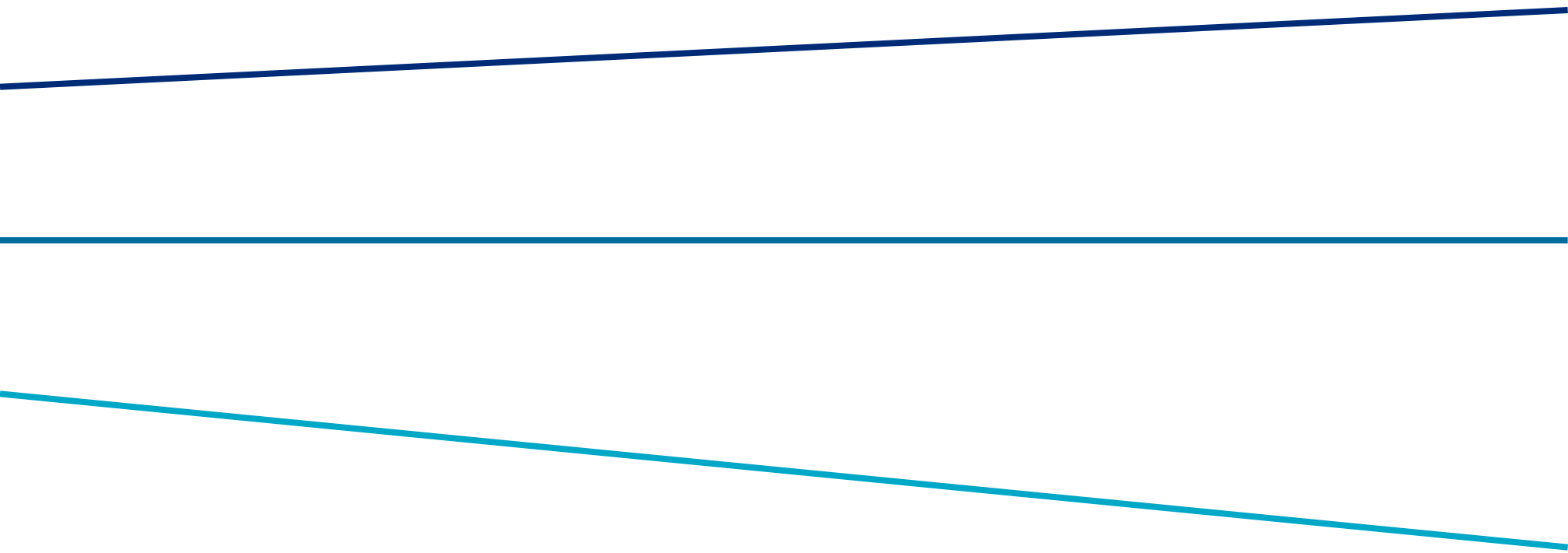


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Section 1

Key organizational challenges in the industry

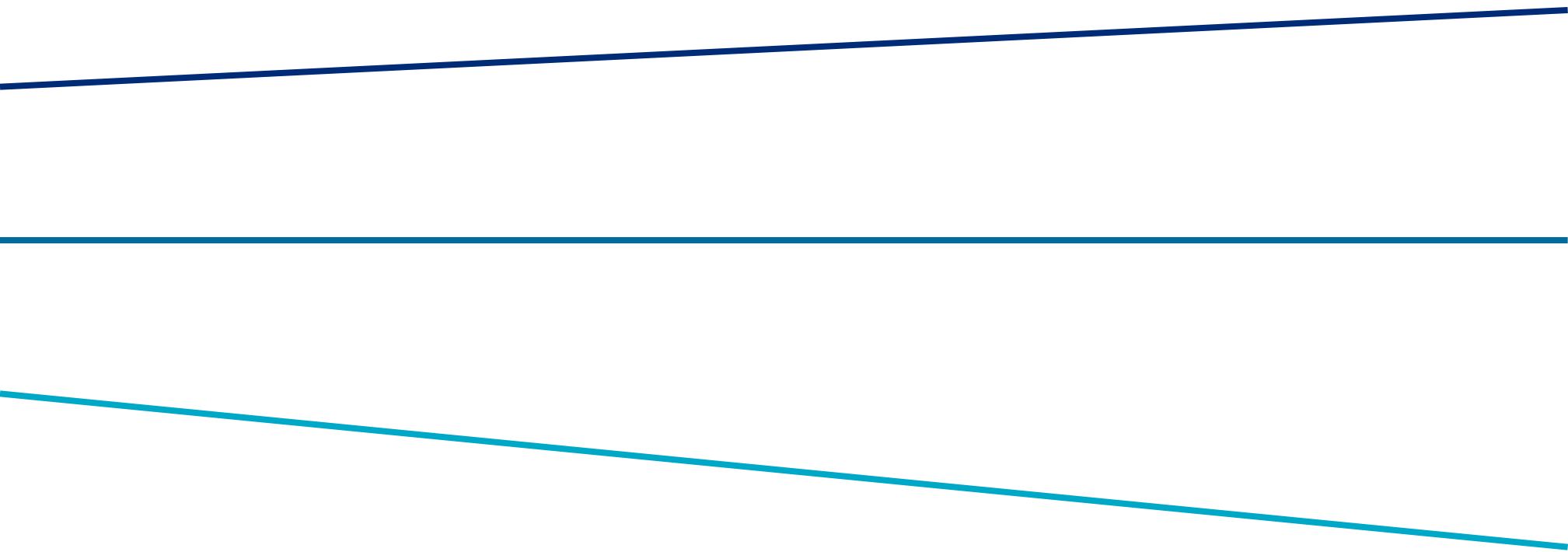


Organizing for growth in the Aerospace and defense industries

- While strategic issues impacting this sector have been analysed at length, designing and implementing the right organization remains a key lever to both enable and achieve sustainable growth
- Major A&D companies need to overcome the organizational challenges associated with:
 - **Creating the right organizational set-up to prepare the future while delivering short-term results**
 - Achieving the right power and resource distribution between:
 - Regions, business units and the corporate center (to achieve synergies and remain agile)
 - Programmes and functions (for clear lines of command and matrix ways of working)
 - Developing an efficient footprint to balance global and local needs
 - **Re-inventing their products and conception processes to create and sustain demand**
 - Design for customization to serve multiple customers using the right enabling platforms / catalogues
 - Migrating from ATA to functions and from make to systems integration
 - Implementing customer-oriented processes and developing a growth-nurturing culture
 - **Doing more without more**
 - Implementing organization and processes aimed at reducing cost and time to market
 - Gearing for growth and innovation in a very constrained environment
 - Increasing efficiency while maintaining a healthy cost base
 - **Implementing new ways of working with customers and suppliers**
 - Working with suppliers and customers in an ever more integrated manner
 - Keeping and developing critical skills and making efficient use of contractors
 - Building and executing complex deals involving offset agreements and offshoring of activities
- Oliver Wyman is currently launching a study to further understand, qualify and quantify the required organizational levers and how they impact the long-term sustainable growth prospects within the aerospace and defense industry
- The following pages provide a preliminary view of recent growth results within the sector, based on publicly available information, in order to showcase the importance of identifying the organizational levers that propelled star performers' growth trajectories

Section 2

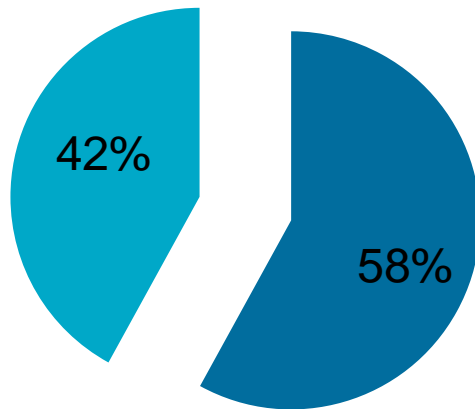
Growth performance of the key players



Top sector players

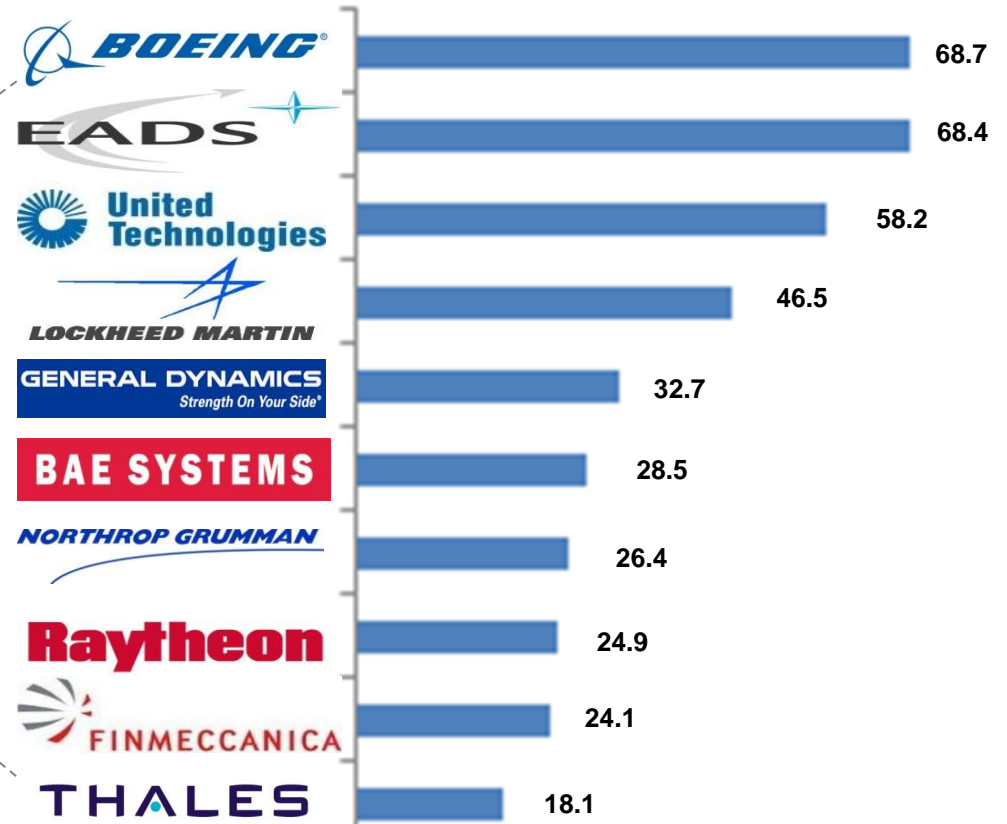
The industry is highly concentrated

2011 market influence of the top ten players



Annual average growth in the market
 ⇒ 5.7% (2006-2011)

Top ten global players in the Aerospace and Defense industry (2011 B\$)



What was the impact of the 2008 economic crisis on the industry?

While 85% managed double-digit growth pre-crisis, only 34% achieved this following the worst effects of the recession

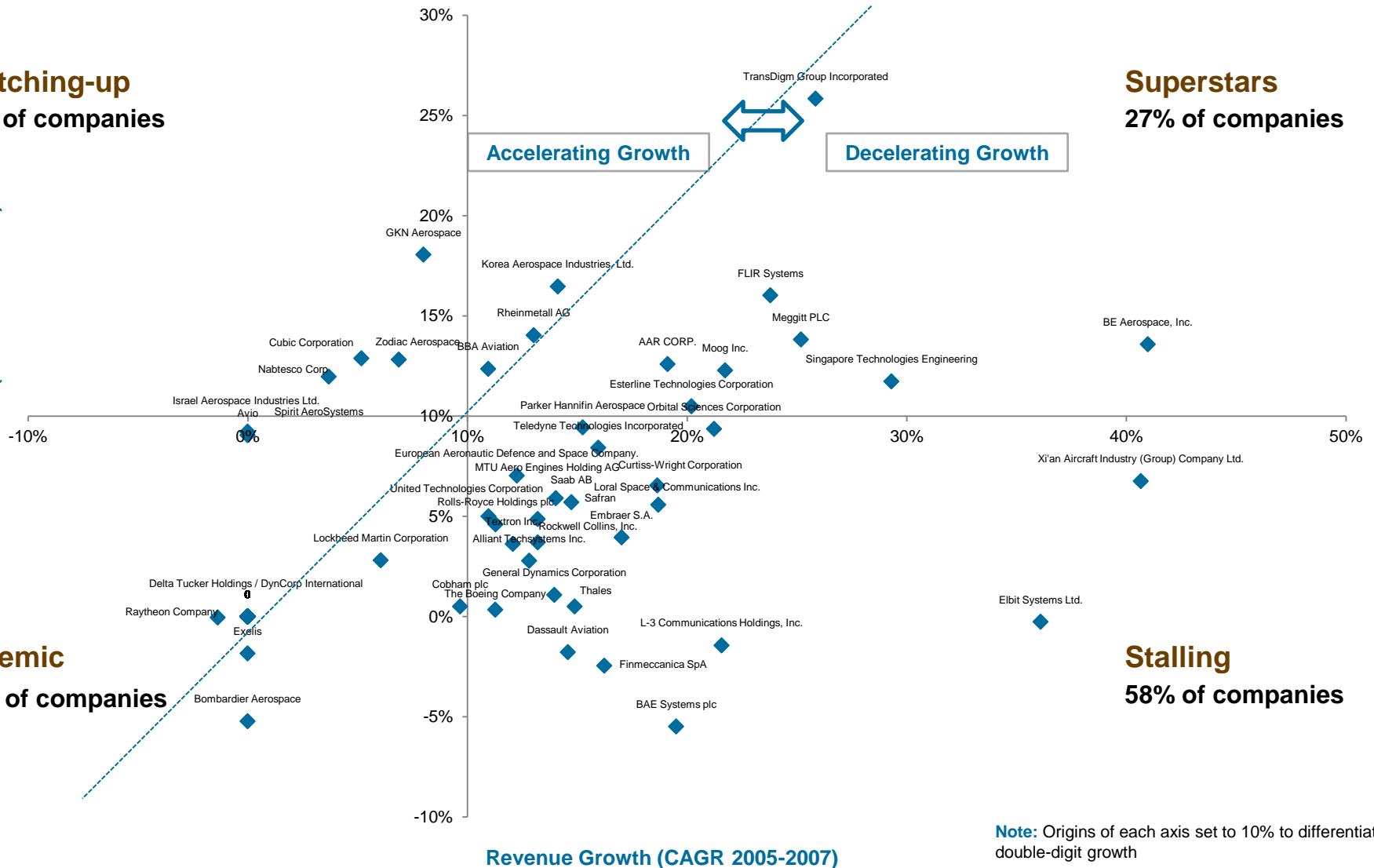
Catching-up
7% of companies

Superstars
27% of companies

Revenue Growth (CAGR 2009-2011)

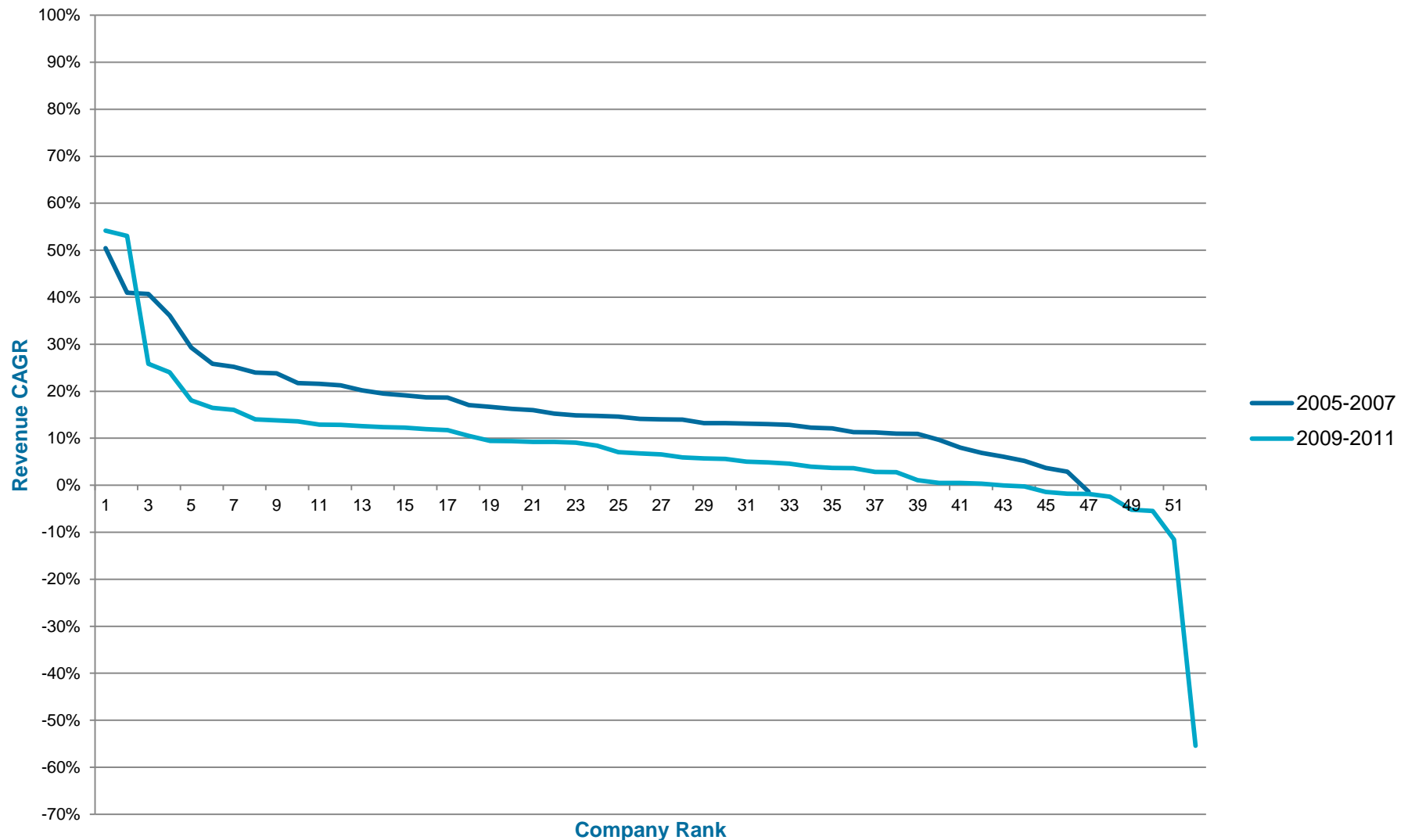
Anemic
8% of companies

Stalling
58% of companies



Aerospace & Defense: Revenue CAGR Rank

While the shape of the curve remains the same, the curve has shifted down by close to 10% - revenue growth post recession has slowed

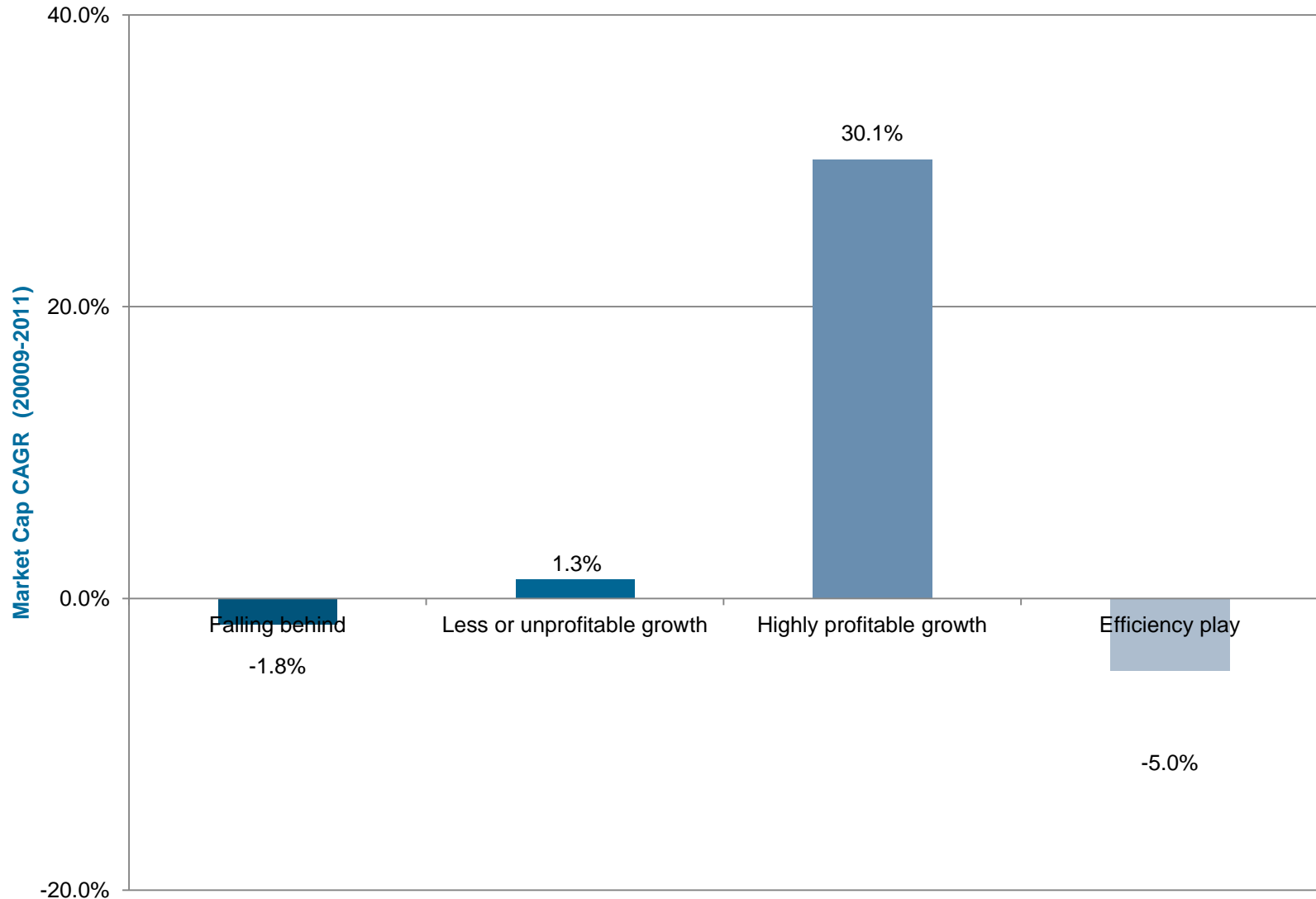


With an average revenue growth of 7% and EBITDA growth of 9%, strategies were to protect EBITDA, sometimes at the detriment of revenue



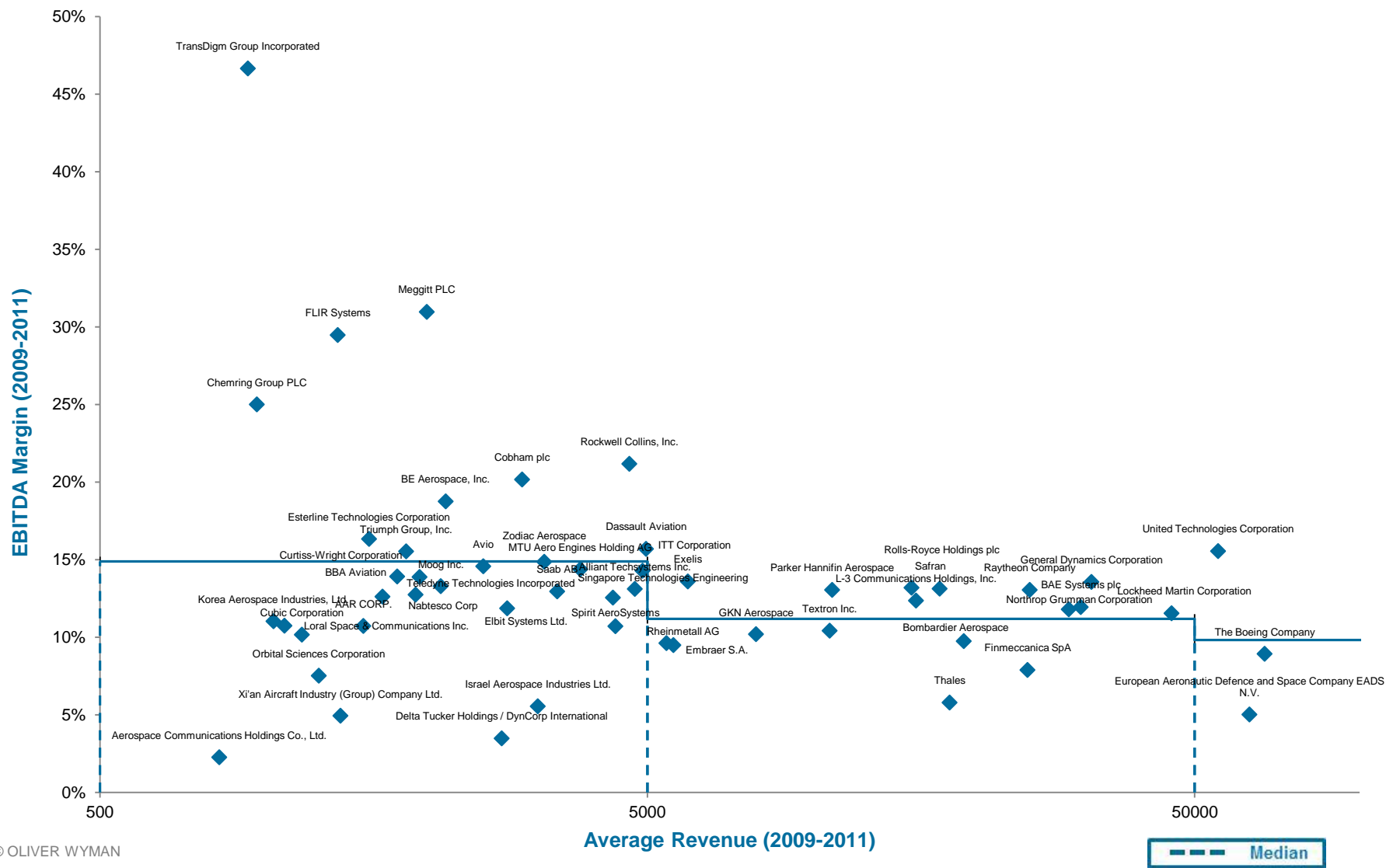
Aerospace & Defense: Market Capitalization

Companies experiencing highly profitable growth clearly outperformed the market cap growth of their competitors



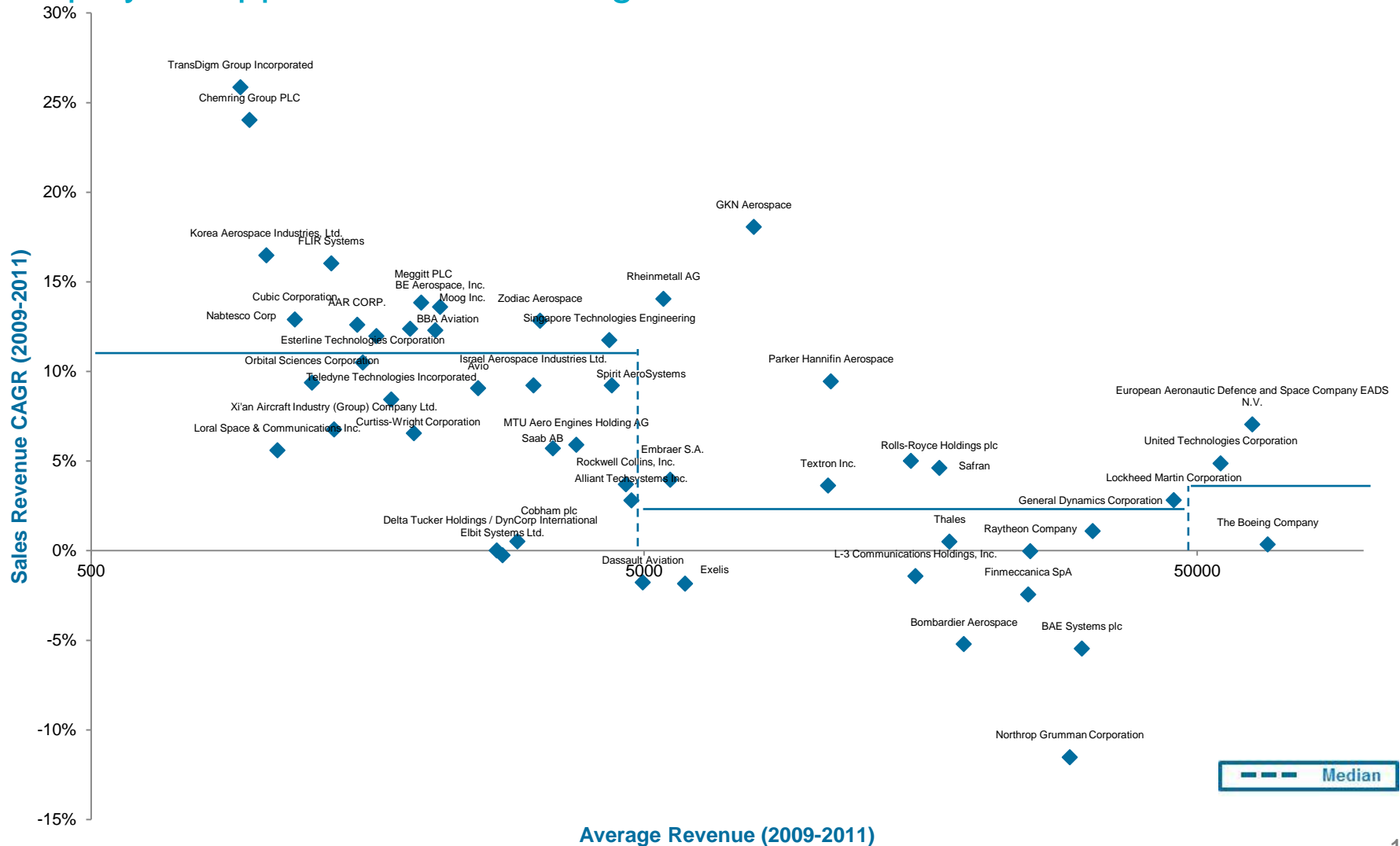
Does company size impact growth?

Smaller companies tend to display higher variability in EBITDA



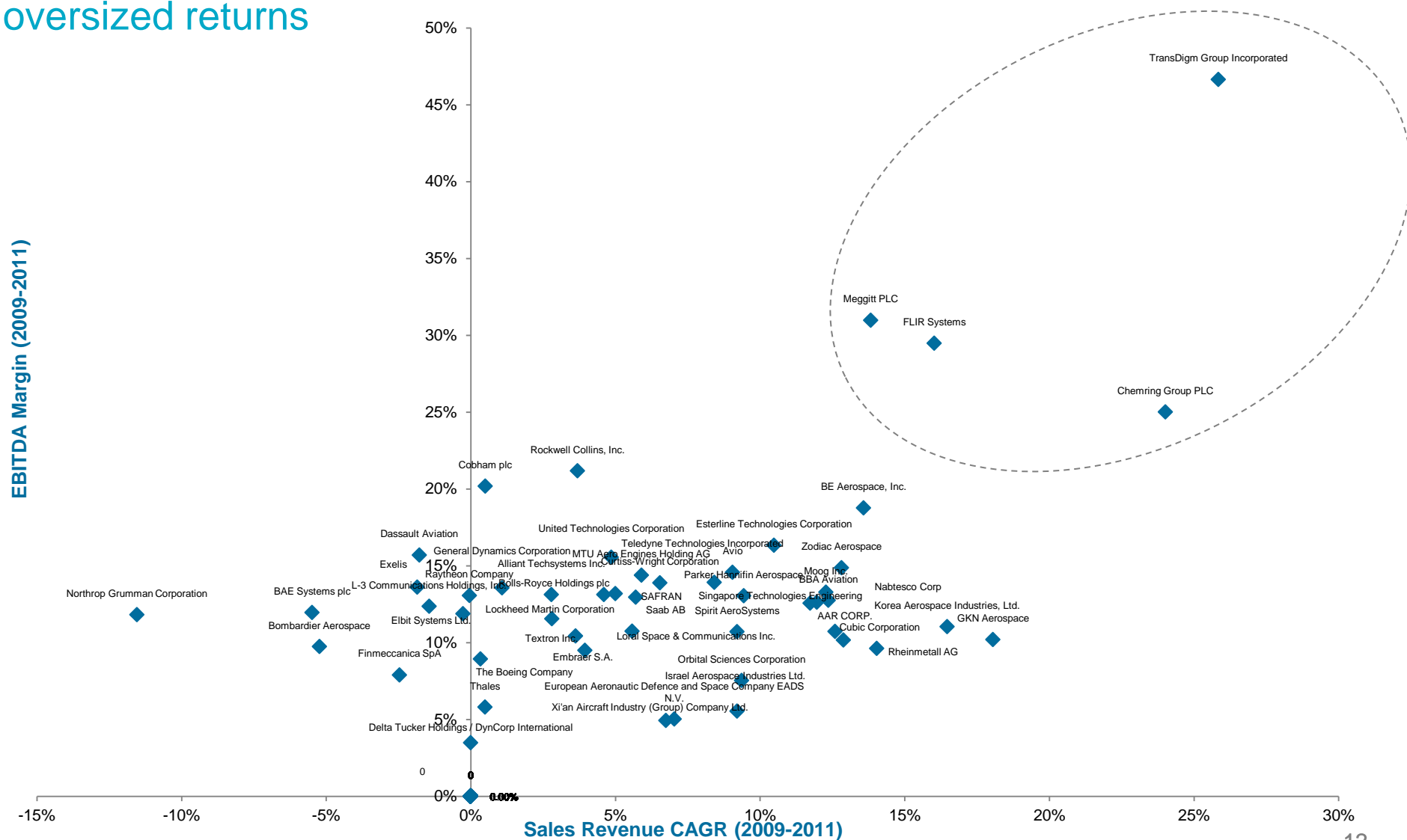
Aerospace & Defense: Revenue CAGR vs. Average Revenue

Smaller companies show agility and ability to grow at a higher rate, yet the main players still display consistent growth rates, even though lower. Mid-size players appear to be in a danger zone.



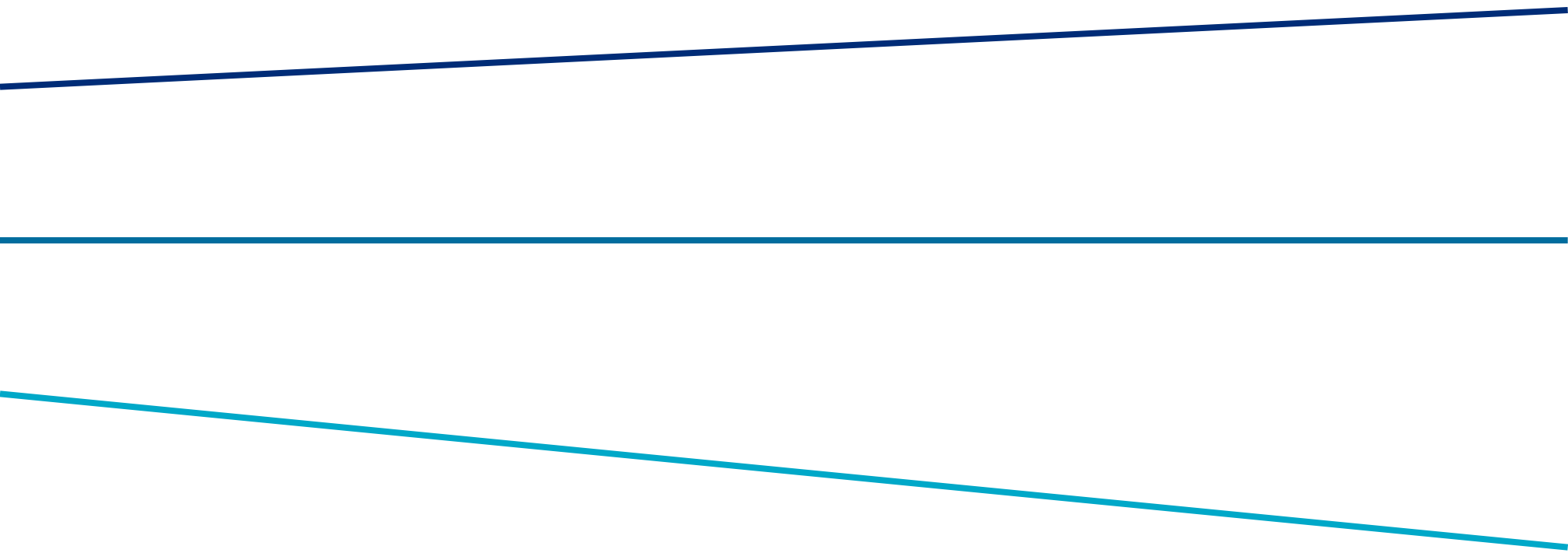
EBITDA vs. Sales Revenue

There is a consistent grouping in the area of 12 to 15% EBITDA margin, however, growth above 12% (twice the industry growth) tends to generate oversized returns



Section 3

How industry players are exploiting organizational levers



BAE Systems

COMPANY AT A GLANCE

- Sales 2011: \$28.5 Billion
- 93,500 employees
- Presence in more than 100 countries
- Second largest global defense supplier

KEY ORGANIZATIONAL ATTRIBUTES

PURPOSE / VISION

- ✓ To be the premier global defense, aerospace and security company
- ✓ To deliver sustainable growth in shareholder value through commitment to Total Performance

STRATEGY

- ✓ Support customers in safeguarding their vital interests
- ✓ Drive shareholder value by improving financial performance and competitive positions across the business
- ✓ Sustain a leadership position in the electronic warfare market
- ✓ Increase productivity and efficiency
- ✓ Improve profit and cash generation
- ✓ Increase international business

ACQUISITIONS

- ✓ Acquisition to sustain the group's position - especially for its Cyber and Intelligence division:
 - 2011: L-1 Identity Solutions, Inc.'s Intelligence Services Group
 - 2011: Norkom Group plc
 - 2011: ETI A/S
 - 2011: Stratsec.net Pty Limited

KEY ORGANIZATIONAL ATTRIBUTES (con't)

ORGANIZATION

- ✓ The business is reported through five principal reporting segments
 - Electronic Systems
 - Cyber & Intelligence
 - 3 Platforms & Services: US – UK – and International
- ✓ Executive Committee and other direct reports to the Chief Executive

TALENT

- ✓ Center for Performance Excellence dedicated to the development and transfer of best practices
- ✓ Jobs campaign through radio and social media to detect and support the talent pipeline in the US
- ✓ CEO is homegrown – was the former COO

INNOVATION

- ✓ 2011: 1,807 M\$ spent on R&D (7% of Revenue)
- ✓ BAE Systems investment in innovation (I3) is a multi-million dollar program to develop technologies
- ✓ Partnership with academia as well as small and medium size businesses

CULTURE AND VALUES

- ✓ Trusted – Innovative – Bold (challenge and initiative)
- ✓ Customer Focus, Financial Performance, Program Execution and Responsible Behavior
- ✓ Diversity (25% of BAE Board are women)

TRANSFORMATION

- ✓ In October 2011, the Group announced changes to its external reporting segments to improve performance visibility

THE BOEING COMPANY

COMPANY AT A GLANCE

- Sales 2011: \$68.7 Billion
- 175,000 employees
- Activities in more than 70 countries

KEY ORGANIZATIONAL ATTRIBUTES

PURPOSE / VISION

- ✓ People working together as a global enterprise for aerospace leadership

STRATEGY

Boeing Commercial Airplanes:

- ✓ Maximizing growth while improving efficiency
- ✓ To profitably increase production rates to deliver our 3,771-airplane backlog
- ✓ Expanding and diversifying manufacturing and engineering base to continue to grow services business

Boeing Defense, Space & Security:

- ✓ Reducing infrastructure and other costs, and further increase productivity to enable continued investment in innovation,
- ✓ Extending and grow core business by bringing capability and affordability to customers and capture additional international business

KEY ORGANIZATIONAL ATTRIBUTES (con't)

ORGANIZATION

- ✓ Two business units:
Boeing Commercial Airplanes and Boeing Defense, Space & Security
- ✓ Three shared units :
 - Boeing Capital Corporation (financing solutions)
 - Shared Services Group (for global worldwide services)
 - Boeing Engineering, Operations & Technology (innovation)

ACQUISITIONS

- ✓ Many acquisitions to enhance Boeing capabilities in strategic areas such as cyber and space technologies and special operations

TALENT

- ✓ Disciplined approach to leadership development, guided by leaders at every level of the company
- ✓ Develop people with \$150 million in internal learning programs annually
- ✓ 95% of today's senior leaders were promoted from within the company
- ✓ CEO joined in 2005 (previously CEO of 3M)

INNOVATION AND R&D

- ✓ Boeing is a leading innovator in the aviation industry
- ✓ R&D: more than 4 B\$ expensed in 2011

CULTURE AND VALUES

- ✓ Leadership, Integrity, Quality , Diversity , Customer satisfaction , Corporate citizenship and People Involvement

AIRBUS

COMPANY AT A GLANCE

- Sales 2011: \$33.1 billion
- 59,000 people worldwide
- Subsidiaries in the United States, Japan, China and India
- 16 sites in Europe

PURPOSE / VISION

- ✓ Creating the best and safest aircraft

STRATEGY

- ✓ To take the company's business excellence to a higher level
- ✓ Reinforce customer focus, innovation and quality
- ✓ To strengthen supplier management
- ✓ To encourage an environment based on teamwork

ACQUISITION

- ✓ 2011 : Satair, a leading distributor of aviation parts

INNOVATION

- ✓ More than 90 per cent of Airbus' research and technology initiatives are for the benefit of the environment
- ✓ Airbus Fly Your Ideas challenges students around the globe to develop new ideas for the eco-efficient aviation industry of the future

KEY POINTS OF THE TRANSFORMATION

ORGANIZATION

- ✓ An organization based around specific airframes with plants empowered and accountable for delivery
- ✓ Organizational emphasis on: teamwork, faster decision-making and execution, simpler ways of working and a focus on deliverables
- ✓ All engineering teams was regrouped under one single leadership.
- ✓ Creation of a procurement operations function to strengthen supplier management

TALENT

- ✓ Competency mapping to develop a complete profile for managers
- ✓ Employees are given many opportunities to progress through specialist training, regular reviews and tailored career paths
- ✓ Each year, approximately 190,000 person days are spent on activities aimed at maximizing skills and knowledge

CULTURE

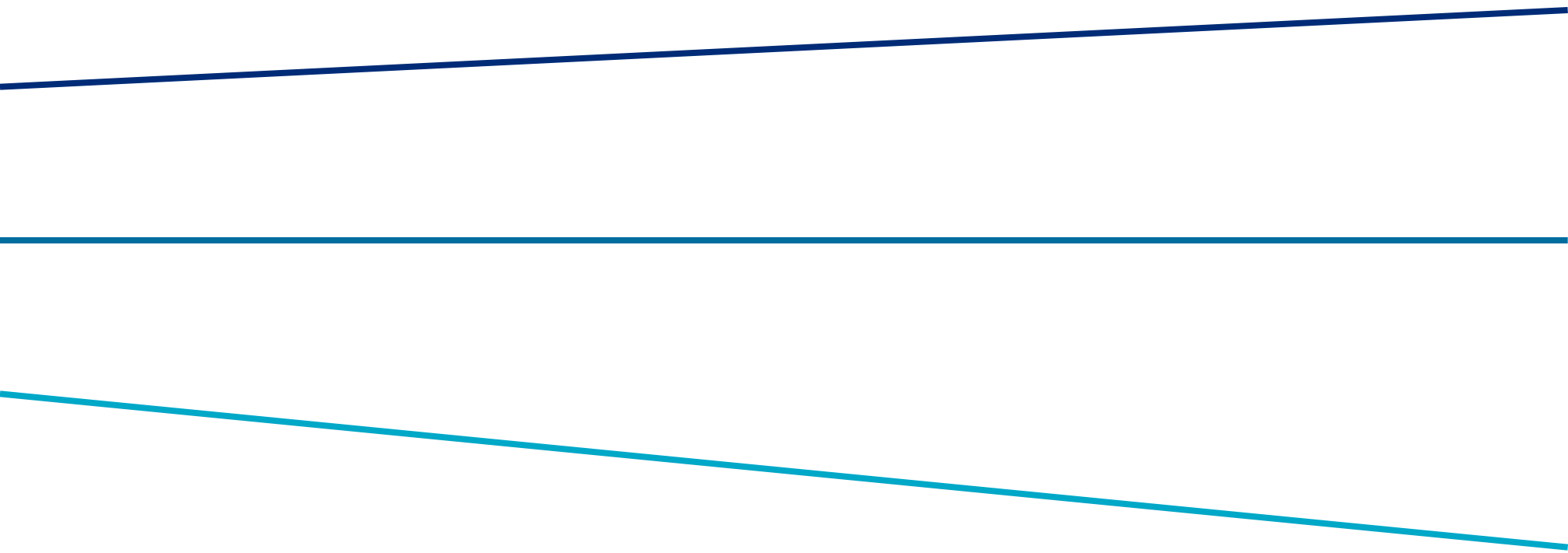
- ✓ The Airbusway sets guiding principles to develop teamwork, talent and career, drive improvement and innovation, in an effort to deliver customer value
- ✓ Diversity, safety, quality and performance

TRANSFORMATION

- ✓ New organization aims to boost Airbus' overall performance, making the company more agile
 - Lines of command have been shortened
 - Significant emphasis on the empowerment of multifunctional teams
 - Integration of the quality function at plant level

Section 4

Why participate in Oliver Wyman's study?



Why participate in Oliver Wyman's study?

To understand the organizational drivers behind the variations in growth results - looking beyond the typical strategic contributors

Reasons for participating

- The most comprehensive study in the sector on the subject
- High caliber of global corporations participating within your industry
- Privileged access to insights on the key trends to face industry challenges
- Customized report highlighting how your company's measures against best practices
- Flexible approach to optimize your involvement (a short interview or online questionnaire)
- Complimentary participation



For more info, or to register for participation, please contact us at OT@Oliverwyman.com

Cracking the Organizational Code for Growth: Feedback Report - Company X

1. Key Industry Trends

- A comprehensive view of key trends and their impact on the industry
- Perspectives on how these trends have had an impact on growth within the industry
- Conclusions as to what has contributed to the success of the "Superstars" and those companies achieving highly profitable growth

2. Customized analysis: how Company X measures up against the industry

- A detailed comparison of Company X against each of the identified organizational levers and best practices
- Comparison to peers with respect to the application of the levers and best practices and the resulting growth success

3. Key highlights and best practices

- A summary perspective of Company X relative to the industry and our best practices analysis

4. Backup

- Flat report with answers from Company X

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