

Cowen and Company
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Thanks, Roman and Cowen and Company, for this annual standout Defense and Aerospace Conference.

Pleased to join my colleagues -- the leaders of the three most prominent of our defense and aerospace associations: former Secretary of the Army Eric Fanning and the CEO of AIA; General Hawk Carlisle, former Air Combat Commander and CEO of NDIA, and the Honorable David Berteau, former Assistant Secretary of Defense and now CEO of the Professional Services Council.

We will each make short opening comments; then I will ask a couple of questions and then open it to the audience.

I reviewed my predictions made at last year's session - and to give you confidence in what I am going to say today - I got the "big stuff" right---

- We would start the year in a continuing resolution- though I never would have predicted it would go this long;
- That we would get a nice plus-up in the defense budget from the new Administration, which we did for FY17;

- That FY18 and the FYDP would be well above previous plans;
- That the deficit hawks would get amnesia - which they have with the tax cut, and increased discretionary spending;
- That “entitlements” would be hands off - which they are;
- And that many campaign statements would go to the dust bin of history - which they have.

Where was I was a bit off -- I felt the new Mattis national defense strategy would revert to the two-war strategy - what previously was called “defeat and deny,” and that would require a strong nuclear deterrent, increased warfighting readiness, and a much more lethal conventional force.

The new strategy focuses on what they term “big power” conflict with Russia and China, and with smaller regional concerns like Iran and North Korea. They label it “defeat and deter.” But it still requires a strong nuclear deterrent, increased warfighting readiness and a much more lethal conventional force.

There is an intense focus on the new domains of potential conflict: cyber, space, artificial intelligence and weapons of mass destruction. And Secretary Mattis continues to push reforms, as there is a consensus that current processes and procedures have grown cumbersome, risk averse, time consuming, and costly.

The recently released Nuclear Posture Review and National Defense Strategy requires a robust recapitalization of the nuclear deterrent to include command and control; a larger naval fleet for the Indo-Pacific strategy as well as an Air Force with greater range and payload; a more lethal ground force and accelerated developments in autonomous systems, artificial intelligence, missile defense, space, hypersonics and advanced computing.

But you need budgets that are longer than one year to get all this done. The topline is moving in the right direction starting with the \$25 billion plus up in FY17, what is agreed now at \$80 billion over the caps in FY18 with \$70 billion more for OCO; another \$85 billion over the caps in FY19 with another \$70 billion for OCO and Mattis believes he has a commitment from the President for a 5% real growth budget each year of the rest of the FYDP. That's real money by any standard. And Roman put out a superb research piece on the numbers – the two appropriations bills – this morning.

And it's clear the outlays - which are contractor's revenues - are beginning to catch up. The decline that started in FY13 bottomed out in FY15, started a gradual climb in FY16; had a nice jump in FY17 and the climb is accelerating. Another reason I am optimistic is there are significant pent-up prior year obligations that are much higher than initially estimated due to multi-year CRs. The unobligated balances are particularly high in the investment accounts right now running about \$120 billion.

So the strategy is set, the money is coming, and how do you make it happen? People.

As someone who tracks the Senate confirmation process closely and has been engaged in it for decades, the Department of Defense is continuing its long tradition of getting the “A” team in terms of political appointees.

DOD has about 58 positions that require Senate confirmations. As of today: 34 are confirmed and on the job, including Eric and David’s replacements; 7 are pending on the Senate calendar awaiting confirmation, including Mike Griffin who will become the new Under for Research and Engineering, and Jay Gibson who will become the new Chief Management Officer and the number 3 most senior person in the pentagon -- what I call essentially the second Deputy Secretary of Defense on the management side.

And there are 7 more pending in the SASC.

That’s a grand total of 48. So there are 10 to go. I know the personnel team is far down the road on most all of them.

A year into the new Administration, DOD is the only Cabinet department with a significant percentage of their political appointees confirmed. For the rest, it’s still what I predicted last year as the “all ahead slow” on Senate confirmations.

Altogether, we have a new strategy, a growing bank account, and a large contingent of strong leaders. Let me now turn to my colleagues to tell you what it all means.

Let’s start with Eric, then Hawk and then David.

Thank you. Let me pose the first questions to all of you:

What are the implications for our industry in the Administration's approach to trade, China especially, and are we entering an era when there are going to be additional restrictions different from what the defense and aerospace companies have typically enjoyed in a "free trade" environment? Dave, Hawk and then Eric.

Now individual questions: Eric - what does the proposed Army modernization organization mean for our companies in the short and long term?

David - how will the new AT&L reorganization affect our industries, particularly the service companies?

Hawk - what do you think will come from the Administration's industrial base review and what will change, if anything?

[Open the floor for questions.]