Stock Report | **March 28, 2020** | NYSE Symbol: **GD** | **GD** is in the S&P 500

General Dynamics Corporation

CFRA

Recommendation STRONG BUY ★ ★ ★ ★ ★

Price USD 130.07 (as of Mar 26, 2020 4:00 PM ET)

12-Mo. Target Price USD 211.00

Report Currency USD

Investment Style Large-Cap Value

Equity Analyst Colin Scarola

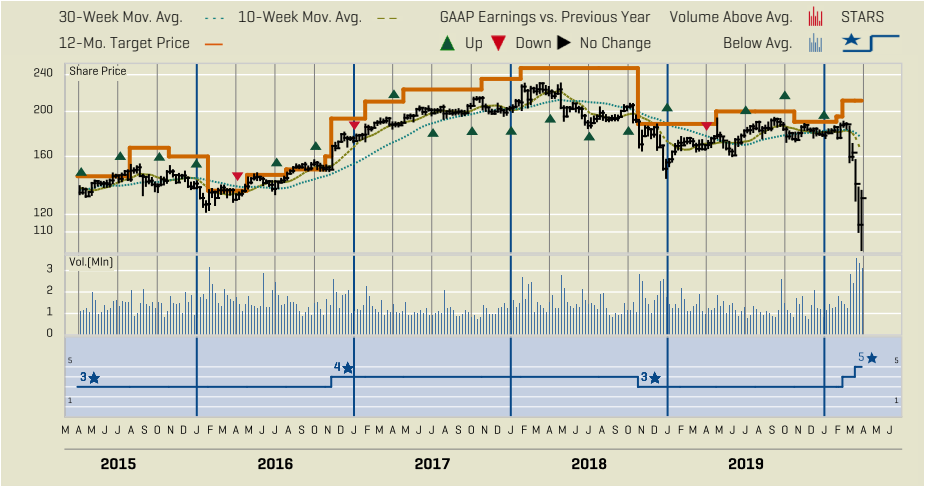
GICS Sector Industrials
Sub-Industry Aerospace & Defense

Summary This diversified aerospace & defense firm produces a wide range of products including Gulfstream business jets, Abrams tanks, nuclear submarines, and IT solutions.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

52-Wk Range	**USD 193.76 - 100.55**	Oper. EPS 2020**E**	**USD 12.89**	Market Capitalization(B)	**USD 37.66**	Beta	**-0.12**
Trailing 12-Month EPS	**USD 11.98**	Oper. EPS 2021**E**	**USD 13.86**	Yield (%)	**3.38**	3-Yr Proj. EPS CAGR(%)	**9**
Trailing 12-Month P/E	**10.86**	P/E on Oper. EPS 2020**E**	**10.09**	Dividend Rate/Share	**USD 4.40**	SPGMI's Quality Ranking	**A+**
$10K Invested 5 Yrs Ago	**$10,640**	Common Shares Outstg.(M)	**289.56**	Institutional Ownership (%)	**80**		

Price Performance



Source: CFRA, S&P Global Market Intelligence
Past performance is not an indication of future performance and should not be relied upon as such.
Analysis prepared by Equity Analyst **Colin Scarola** on Mar 17, 2020 12:21 PM, when the stock traded at **USD 127.43.**

Highlights

- 2019 revenue grew a healthy 9%, bolstered by 8% growth in DoD outlays last year. GD's growth was led by Aerospace (25% of sales, +16%) on delivery growth for its new Gulfstream G600s, and Combat Systems (18%, +12%) on strong demand for Abrams tank upgrades and Stryker combat vehicles. Marine Systems (23%, +8%) also saw strong growth on improved delivery times for Virginia-class nuclear submarines.
- Total backlog grew 28% in 2019 to a record $86.9B, driven by 66% growth in Marine backlog as the segment was awarded a $22.2B contract for new Virginia-class subs. Additionally, Aerospace and Information Technology (22% of revenue) each saw robust 15%-plus backlog growth, the former on healthy demand for Gulfstream jets due to strong corporate earnings and the latter due to the government's growing demand for cloud technology services. We expect GD to grow revenue 5% in 2020, with its private jet and DoD focused businesses seeing relative strength in a coronavirus-induced downturn, in our view.
- We expect EPS growth of roughly 8% in both 2020 and 2021, faster than revenue, as we see GD improving margins as its healthy backlog allows for greater asset utilization and higher fixed cost absorption.

Investment Rationale/Risk

- We expect attractive long-term EPS growth due to GD's strong brands, high barriers to entry, and a healthy environment for U.S. DoD spending. We also see an attractive entry point after the coronavirus sell-off sent GD shares down 32% in a month, even though we expected limited impact to earnings. GD's government contracts (64% of earnings) should see no impact from the virus, and we think its private jet business (36%) could see higher demand as more executives turn to private flying out of fear and restrictions on commercial.
- GD makes some of the most recognizable products in Aerospace & Defense -- Gulfstream jets, Abrams tanks, Electric Boat nuclear subs, etc. With the backdrop of strong long-term business air travel demand as the global economy integrates and healthy growth in U.S. DoD spending, we see GD's powerful brands delivering an outsized share of growth in key markets. We also think GD businesses have high barriers to entry, as customers generally require long track records on reliability and safety.
- Our target price is 15.2x our 2021 EPS estimate -- in line with GD's historical forward P/E average. Risks to our view include a slowdown in business aviation or key DoD contract losses.

Analyst's Risk Assessment

LOW	**MEDIUM**	HIGH

GD's primary customer is the U.S. government, from which it generates close to two thirds of revenue, and more specifically the U.S. Department of Defense (DoD), from which it generates about half its revenue. This government and DoD focus can put demand for GD's products and services at risk due to the often unpredictable nature of government budget negotiations and the shifting priorities of the political parties controlling the government. We think GD mitigates this risk with diversification into commercial products and IT solutions, which can smooth out demand when DoD faces budget constraints.

Revenue/Earnings Data

Revenue (Million USD)

	1Q	2Q	3Q	4Q	Year
2019	9,261	9,555	9,761	10,773	39,350
2018	7,535	9,186	9,094	10,378	36,193
2017	7,441	7,675	7,580	8,277	30,973
2016	7,476	7,774	7,657	7,654	30,561
2015	7,784	7,882	7,994	7,809	31,781
2014	7,265	7,474	7,751	8,362	30,852

Earnings Per Share (USD)

	1Q	2Q	3Q	4Q	Year
2021	**E** 3.14	**E** 3.35	**E** 3.56	**E** 3.81	**E** 13.86
2020	**E** 2.93	**E** 3.12	**E** 3.30	**E** 3.54	**E** 12.89
2019	2.56	2.77	3.14	3.51	11.98
2018	2.65	2.62	2.89	3.06	11.22
2017	2.48	2.45	2.52	2.10	9.56
2016	2.08	2.30	2.36	1.90	8.64

Fiscal year ended Dec 31. Next earnings report expected: Late Apr. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

Amount (USD)	Date Decl.	Ex-Div. Date	Stk. of Record	Payment Date
1.10	Mar 04	Apr 08	Apr 10	May 08 '20
1.02	Dec 04	Jan 16	Jan 17	Feb 07 '20
1.02	Aug 07	Oct 10	Oct 11	Nov 15 '19
1.02	Jun 05	Jul 03	Jul 05	Aug 09 '19
1.02	Mar 06	Apr 11	Apr 12	May 10 '19

Dividends have been paid since 1979. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.
Forecasts are not reliable indicator of future performance.

General Dynamics Corporation

Business Summary March 16, 2020

CORPORATE OVERVIEW. General Dynamics is a top-five U.S. defense contractor and also the leading maker of business jets. The company conducts business through four segments. In 2019, 66% of revenues were from the U.S. government (50% from the U.S. Department of Defense, DoD), 18% from international commercial and defense customers, and 16% from U.S. commercial customers.

Aerospace (25% of 2019 revenue) makes the well-known Gulfstream business jet. Based on revenues, Gulfstream is the world's largest producer of corporate and private jet aircraft, competing globally with other business jet producers, most notably Bombardier's Lear jet brand, Embraer, and Textron's Cessna division. Gulfstream sells business jets primarily to the high end of the market. Gulfstream has historically focused on selling its ultra-large, ultra-long-range G650, and the super-mid-size G280, which GD says offers the largest cabins, longest ranges, and fastest speeds in their respective classes. In 2014, the group introduced the G500, the G600, and G650ER. The G500 entered service in 2018 and the G600 deliveries began in August 2019. Aircraft manufacturing and outfitting accounted for about 75% of segment revenues in 2019, with aircraft services (22%) and pre-owned aircraft sales (3%) generating the remainder.

Marine Systems (23% of sales) is one of the Pentagon's two primary military shipbuilders (along side Huntington Ingalls Industries). Nuclear powered submarines accounted for 68% of 2019 segment revenue, surface combatants for 21%, and repair and other services for 11%. Major current programs include the Virginia-class and Columbia class nuclear-powered submarines and DDG-51 and DDG-1000 destroyers. GD has delivered 18 Virginia-class nuclear submarines through the program as of December 2019, with deliveries of an additional 19 in backlog scheduled to take place through 2029. Over the life of the Virginia-class submarine program, Marine Systems has driven delivery timelines from 88 months at outset to an average rate of 68 months as of 2019. Marine Systems is also designing the Columbia-class ballistic-missile submarine, a 12-boat program that the Navy considers its top priority. These submarines will provide strategic deterrent capabilities for decades and are slated to begin construction of the lead boat in the fourth quarter of 2020. Marine is also the lead designer and producer of the Arleigh Burke (DDG-51) destroyers. The group currently has been awarded contracts for 11 destroyers, with delivery through 2026.

Combat Systems (18% of sales) makes, repairs, and supports wheeled and tracked armored vehicles and munitions. Product lines include military vehicles (66% of segment revenue); Weapons systems, armament, and munitions (27%); and engineering and other services (7%). Major current programs include the Stryker, an eight-wheeled, medium combat vehicle, light armored vehicles, light tactical vehicles, and Abrams main battle tanks (upgrade programs). This segment also makes sophisticated weapon systems, including heavy machine guns, and grenade launchers, and high-speed Gatling guns for U.S. fixed-wing military aircraft, including the F-35 Join Strike Fighter program.

Information Technology (22% of sales) was formed in 2018 concurrent with the integration of CSRA, which GD acquired in April of that year to form a leading provider of IT solutions to the defense, intelligence, and federal civilian markets. GD has a premier portfolio of technology solutions to help customers across defense, intelligence, and federal civilian markets. Services include IT services and cloud infrastructure implementation. IT is currently working with DoD to migrate its applications to the cloud in a program known as milCloud 2.0.

Mission Systems (12% of sales) provides C4ISR (Command, Control, Communications, Computer, Intelligence, Surveillance, and Reconnaissance) products and systems. The segment is organized into three core capabilities: space intelligence and cyber systems; ground systems; and naval, air and electronic systems.

MARKET PROFILE. Demand for small planes, especially business jets, is primarily driven by the health of corporate budgets. As of December 2019, GD had a backlog of business jets and related services valued at roughly $13.3 billion, which grew 17% from December 2018 on strong demand for new G600s. We expect long-term demand for GD's Aviation segment to remain healthy, as we see increased utilization of business jets as the global economy continues to expand.

Demand for GD's military vehicles, subs, ships, and weapons systems is driven mainly by growth in the U.S. Department of Defense budget. Given the priorities of the current U.S. Presidential Administration, we see DoD spending remaining on a strong upward trend in the near-term. DoD outlays grew 8% in the government's FY 2019 (September) and are set to grow another 8% in FY 2020 following the budget signed by the President last year.

CATALYSTS. In April 2018, GD completed the purchase of CSRA for $9.7 billion in cash, making it the largest provider of IT services to the U.S. federal government, with estimated annual revenues of about $5 billion. GD expects the acquisition to be accretive to earnings starting in 2019, and estimates it cost synergies available at about 2% of total combined revenues for the business unit. This business unit is also expected to carry operating margins above the overall corporate average, CFRA thinks this should help drive growth in EPS over the next several years.

FINANCIAL TRENDS. Total revenue increased from $30.6 billion in 2016 to $39.4 billion in 2019, representing a 3-year compound annual growth rate (CAGR) of 9%. Adjusted pretax earnings per share, which exclude the impact of tax law changes, rose from $11.73 in 2016 to $14.40 in 2019, for a 3-year CAGR of 7%. Earnings per share have grown slower than revenues due to costs related to GD's CSRA acquisition, in our view. We think the company maintains conservative debt levels, with operating earnings covering interest expense by 12x as of Q4 2019.

Corporate Information

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Officers

Chairman & CEO
P. N. Novakovic

Senior VP & CFO
J. W. Aiken

Senior VP, General Counsel & Secretary
G. S. Gallopoulos

Board Members

C. B. Reynolds
C. D. Haney
C. H. Nye
J. G. Stratton
J. N. Mattis
J. S. Crown
L. J. Schumacher
L. L. Lyles
M. M. Malcolm
P. A. Wall
P. N. Novakovic
R. F. deLeon
W. A. Osborn

Domicile
Delaware

Founded
1952

Employees
102,900

Stockholders
10,000

General Dynamics Corporation

CFRA

Quantitative Evaluations

Fair Value Rank 4

1	2	3	4	5
LOWEST				HIGHEST

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

Fair Value Calculation USD 142.64

Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that GD is slightly undervalued by USD 12.57 or 9.7%.

Volatility LOW | AVERAGE | HIGH

Technical Evaluation NEUTRAL

Since February, 2020, the technical indicators for GD have been NEUTRAL.

Insider Activity UNFAVORABLE | NEUTRAL | FAVORABLE

Expanded Ratio Analysis

	2019	2018	2017	2016
Price/Sales	1.30	1.30	2.00	1.75
Price/EBITDA	9.34	8.97	13.42	12.80
Price/Pretax Income	12.21	11.51	15.20	14.66
P/E Ratio	14.72	14.01	21.28	19.98
Avg. Diluted Shares Outsg.(M)	291	299	305	310

Figures based on fiscal year-end price

Key Growth Rates and Averages

Past Growth Rate (%)	1 Year	3 Years	5 Years
Sales	8.72	8.79	4.99
Net Income	4.16	10.65	6.58
Ratio Analysis (Annual Avg.)			
Net Margin (%)	NM	NM	NM
% LT Debt to Capitalization	32.93	NA	NA
Return on Equity (%)	27.53	NA	NA

Company Financials Fiscal year ending Dec. 31

Per Share Data (USD)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Tangible Book Value	-29.12	-36.27	-3.99	-6.05	-4.71	-2.46	4.34	-5.81	-6.05	-3.56
Free Cash Flow	6.74	8.26	11.39	5.63	6.21	9.97	7.58	6.33	7.56	6.86
Earnings	11.98	11.22	9.56	8.64	9.29	7.83	7.03	-1.08	6.94	6.82
Earnings (Normalized)	9.03	8.60	8.36	7.36	8.07	7.01	6.38	5.11	6.45	6.15
Dividends	4.08	3.72	3.36	3.04	2.76	2.48	2.24	2.04	1.88	1.68
Payout Ratio (%)	33	32	34	35	29	32	25	NM	27	24
Prices: High	193.76	230.00	214.81	180.09	153.76	146.13	95.76	74.54	78.27	79.00
Prices: Low	152.44	143.87	172.43	121.61	130.91	93.85	64.47	61.09	53.95	55.46
P/E Ratio: High	16.2	20.5	22.5	20.8	16.6	18.7	13.6	NM	11.3	11.6
P/E Ratio: Low	12.7	12.8	18.0	14.1	14.1	12.0	9.2	NM	7.8	8.1
Income Statement Analysis (Million USD)										
Revenue	39,350	36,193	30,973	30,561	31,781	30,852	30,930	30,992	32,677	32,466
Operating Income	4,664	4,483	4,177	3,734	4,295	3,918	3,689	3,060	3,937	3,945
Depreciation + Amortization	829	763	441	453	481	496	525	590	592	569
Interest Expense	472	374	117	99	98	103	103	168	155	167
Pretax Income	4,202	4,085	4,077	3,656	4,219	3,802	3,611	473	3,718	3,790
Effective Tax Rate	17.1	17.8	28.6	26.7	28.0	29.7	31.2	180.5	31.4	30.7
Net Income	3,484	3,345	2,912	2,572	3,036	2,533	2,357	-332	2,526	2,624
Net Income (Normalized)	2,626	2,572	2,548	2,285	2,637	2,394	2,257	1,807	2,369	2,369
Balance Sheet and Other Financial Data (Million USD)										
Cash	902	963	2,983	2,334	2,785	4,888	5,301	3,296	2,649	2,613
Current Assets	19,780	18,189	18,328	16,534	14,571	17,407	18,162	15,744	15,368	14,186
Total Assets	48,841	45,408	35,046	33,172	31,997	35,337	35,494	34,309	34,883	32,545
Current Liabilities	16,801	14,739	13,099	13,450	12,445	13,751	12,259	11,620	11,145	11,177
Long Term Debt	9,010	11,444	3,980	2,988	2,898	3,392	3,908	3,908	3,907	2,430
Total Capital	27,364	24,149	15,417	14,189	14,137	15,722	18,410	15,299	17,162	16,519
Capital Expenditures	987	690	428	392	569	521	436	436	458	370
Cash from Operations	2,930	3,128	3,836	2,109	2,564	3,864	3,093	2,671	3,211	2,984
Current Ratio	1.18	1.23	1.40	1.23	1.17	1.27	1.48	1.35	1.38	1.27
% Long Term Debt of Capitalization	32.9	47.4	25.8	21.1	20.5	21.6	21.2	25.5	22.8	14.7
% Net Income of Revenue	8.85	9.24	9.40	8.42	9.55	8.21	7.62	-1.07	7.73	8.08
% Return on Assets	6.19	6.97	7.65	7.16	7.97	6.91	6.61	5.53	7.30	7.75
% Return on Equity	27.5	29.0	26.8	25.5	26.9	20.3	19.2	-3.1	19.2	20.4

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Sub-Industry Outlook

Our fundamental outlook for the Aerospace & Defense (A&D) sub-industry over the next 12-months is neutral. On the positive side, we expect higher Department of Defense (DoD) spending to drive growth for Defense businesses that make up roughly 60% of sub-industry revenues. This growth is likely to be mostly offset by a general downturn for commercial aviation businesses, in our view, though, as the global spread of coronavirus drastically reduces air travel demand and straps many airline customers. We expect an emergency relief law passed to be passed by Congress, however, which will mitigate some of the commercial downturn by backstopping airline customers.

DoD spending is the primary driver for the sub-industry, in our view, as we estimate government contracts comprise roughly 60% of aggregate revenues for A&D firms, with the vast majority being Defense related. In 2018 and 2019, U.S. Defense spending grew 6% and 9%, respectively, well above the 10-year average growth rate of 1%. This put the sub-industrys Defense businesses on sound footing to start 2020, in our view.

Our outlook for Defense remains positive, even with the recent threat of a coronavirus recession. In March 2020 the Congressional Budget Office forecast U.S. Defense spending to grow another 5% and 3% in 2020 and 2021, respectively. We expect no negative impact to this spending growth from the coronavirus. Actually, we see potential for spending to grow faster as the national health emergency increases military asset utilization. This healthy Defense environment should deliver strong earnings growth for U.S. Defense contractors in the coming year.

Beyond Defense, we estimate nearly 40% of sub-industry revenues come from commercial aerospace applications, and we see demand in this area experiencing a downturn for much of the next year. The coronavirus has led to government and business travel restrictions that have virtually shut down international commercial flights and drastically reduced domestic air travel as well. This has created a crisis for the airline industry, with most major airlines planning to park at least half their aircraft this Spring, and potentially longer if the dire demand conditions persist.

With their end-users in crisis mode, we expect commercial aerospace businesses to see significant revenue declines over the next year. Cash flow problems at airlines are likely to cause postponements or cancellations of new aircraft deliveries, hurting original equipment manufacturers like Boeing and United Technologies, as well as their suppliers. Further, the sharp drop in air travel will reduce aircraft utilization, reducing demand for aerospace businesses that focus on replacement parts and maintenance.

Although our current outlook for commercial aerospace is grim, we expect eventual passage of a large government relief package that will backstop airline customers. In late March the Administration was negotiating with Congress to pass an approximate $2 trillion coronavirus relief bill, and we expect it will include at least $50 billion in government loan guarantees and payroll grants for U.S. airlines. This money should allow the airlines to avoid failure and help them meet most of their commitments to equipment suppliers in the A&D sub-industry, softening the blow from the general downturn in demand for commercial aerospace products, in our view.

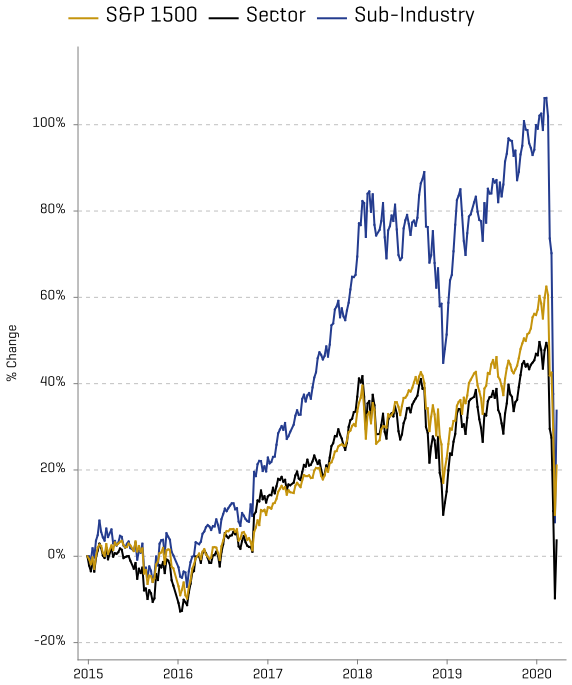
Year to date through March 20, the S&P Aerospace & Defense index fell 43.9% versus a 29.6% decline for the S&P Composite 1500.

/Colin Scarola

Industry Performance

GICS Sector: Industrials
Sub-Industry: Aerospace & Defense

Based on S&P 1500 Indexes
Five-Year market price performance through Mar 27, 2020



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
Source: S&P Global Market Intelligence

Sub-Industry: Aerospace & Defense Peer Group*: Aerospace & Defense

Peer Group	Stock Symbol	Exchange	Currency	Recent Stock Price	Stk. Mkt. Cap. (M)	30-Day Price Chg. (%)	1-Year Price Chg. (%)	P/E Ratio	Fair Value Calc.	Yield (%)	Return on Equity (%)	LTD to Cap (%)
General Dynamics Corporation	**GD**	**NYSE**	**USD**	**130.07**	**37,662**	**-24.2**	**-21.9**	**11**	**142.64**	**3.4**	**27.5**	**32.9**
Airbus SE	EADS.Y	OTCPK	USD	18.85	59,155	-42.5	-42.0	NM	NA	2.7	-33.7	85.4
BAE Systems plc	BAES.F	OTCPK	USD	6.455	20,530	-20.3	6.5	2	NA	Nil	27.5	29.4
HEICO Corporation	HEI	NYSE	USD	81.71	10,091	-20.9	-12.1	30	76.06	0.2	20.5	22.6
L3Harris Technologies, Inc.	LHX	NYSE	USD	185.00	41,319	-12.0	16.4	24	232.71	1.8	NA	21.9
Northrop Grumman Corporation	NOC	NYSE	USD	312.15	53,843	-6.6	18.3	NM	247.05	1.7	26.4	52.6
Raytheon Company	RTN	NYSE	USD	142.02	43,214	-29.1	-21.0	12	155.46	2.7	27.6	18.2
Rolls-Royce Holdings plc	RYCE.F	OTCPK	USD	4.529	8,684	-42.4	-61.1	NM	NA	Nil	59.5	122.5
Safran SA	SAFR.Y	OTCPK	USD	24.05	40,964	-33.1	-26.9	14	NA	Nil	20.1	15.7
Teledyne Technologies Incorporated	TDY	NYSE	USD	282.23	11,196	-20.5	22.8	26	283.13	Nil	16.3	20.2
TransDigm Group Incorporated	TDG	NYSE	USD	363.01	21,587	-35.7	-18.5	28	229.84	Nil	-35.8	116.8

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Analyst Research Notes and other Company News

March 12, 2020
02:58 pm ET... CFRA Lifts Opinion on Shares of General Dynamics to Strong Buy from Buy (148.45*****): The coronavirus-induced market sell-off has caused some babies to be thrown out with the bath water, in our view, and GD is one of those babies (down 31% in the last month). We estimate the company generates 64% of earnings on government contracts (military and agency), which we view as an even more reliable earnings stream now than we did at the start of the year, as the virus situation has made any reduction in government spending highly unlikely in the near-term, in our view. We estimate the other 36% of earnings come from GD's Gulfstream private jet business. Unlike the current conventional wisdom of selling Aerospace firms, however, we maintain a strong outlook for Gulfstream earnings over the next year, as we think fear of commercial air travel will likely drive greater demand for private jets. With solid potential for GD's two primary customer groups to increase spending as the virus situation unfolds, we are confident in maintaining our 2020 and 2021 EPS estimates and our 12-month price target. /Colin Scarola

February 12, 2020
11:31 am ET... CFRA Lifts Opinion on Shares of General Dynamics to Buy from Hold (186.94****): We raise our 12-month price target $16 to $211, 15.2x our 2021 EPS estimate which we initiate at $13.86. Our valuation multiple is roughly in line with GD's historical forward P/E average, as we see the company on track for 8% - 10% compound annual EPS growth over the next three years, which is about the same growth rate it has achieved over the past five years. While we don't necessarily expect GD to be the most robust grower in the Aerospace & Defense industry, we think its combination of durable earnings power, healthy growth trajectory, and a reasonable valuation will lead to the stock outperforming the S&P 500 over the next year. In our view, GD has competitive advantages through its strong commercial and defense brands, including Gulfstream jets, Abrams tanks, and Electric Boat nuclear subs, which should allow it to continue earning attractive mid-teens returns on invested capital and generating healthy long-term EPS growth. /Colin Scarola

January 29, 2020
09:19 am ET... CFRA Keeps Hold Opinion on Shares of General Dynamics (183.63***): We raise our 12-month target price to $195 from $190, valuing the shares at 15.1x our '20 EPE estimate of $12.89 (trimmed from $13.03), below peers but above GD's 3-year average, as multiples have risen. Fourth-quarter adjusted EPS of $3.51 versus $3.07 beat our $3.46 estimate and the consensus of $3.44. Revenues rose 4% and were about 1% better than we expected while EBITDA was up 6% but was about 1% lower than we expected. Strong revenue growth at aerospace (+8%) combat systems (+13%) and marine (+12%) was offset by weakness in information technology (-15%) and tepid mission systems revenue (+2.5%). Operating margins deteriorated in four of five business units. GD saw notable improvement in its debt-to-equity ratio (88% versus 106%) and its debt-to-capital (47% versus 51%). Funded backlog rose 3% to $57.5 billion and total backlog rose 22% to $126.2 billion. GD shows improvement, but we see financial performance as likely to continue to lag peers. /Jim Corridore

October 23, 2019
01:28 pm ET... CFRA Keeps Hold Opinion on Shares of General Dynamics (177.09***): We cut our 12-month target price by $10 to $190, valuing the shares at 14.6x our '20 EPS estimate of $13.03 (unchanged today), below the peer average due to a likely slower revenue and EPS growth profile. We cut our '19 EPS estimate to $3.46 from $3.53. GD third-quarter adjusted EPS of $3.14 versus $2.89 beat our $2.97 estimate and the consensus of $3.06. Revenues rose 7% and were modestly better than we expected while EBITDA rose 6% and was 2% better than we expected. GD saw strong revenue growth in aerospace (+23%) combat systems (+14%) and marine systems (+12%) offset by weak information technology (-10%) and mission systems (-0.8%). Operating margins narrowed at aerospace and combat systems units but overall operating margin was flat. Total backlog fell 3% to $67.4 billion and funded backlog fell about 1% to $54 billion. We would characterize the book-to-bill as average at 1.0x. We think defense peers on average are likely to outperform GD in Q3 EPS and backlog growth. /Jim Corridore

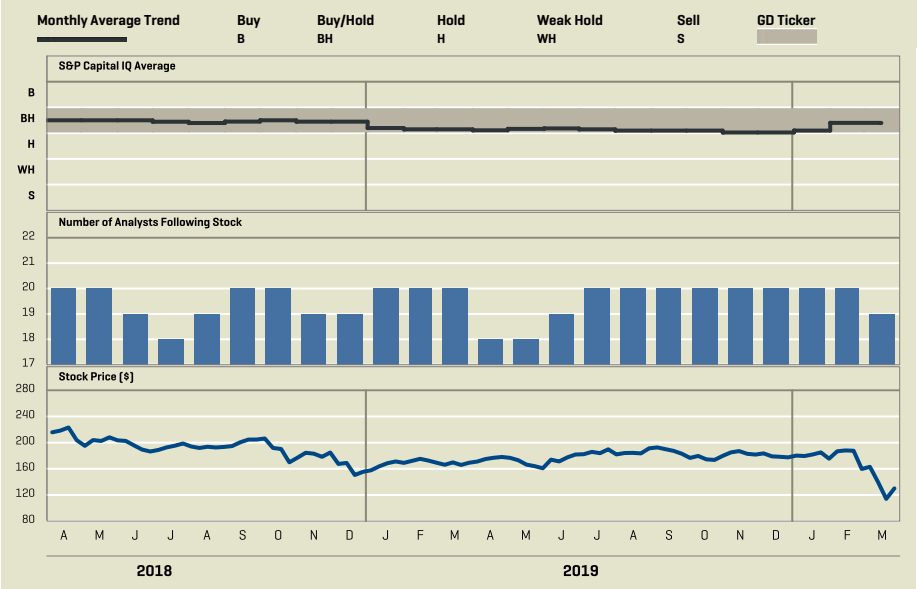
July 24, 2019
10:49 am ET... CFRA Keeps Hold Opinion on Shares of General Dynamics (187.11***): We keep our 12-month target price of $200, valuing the shares at 15.3x our '19 EPS estimate of $13.03 (raised from $12.97), in line with GD's 3-year average, but below peers due to our view that GD has a lower revenue and EPS growth profile due to its heavy exposure to government IT. We raise our '19 EPS estimate to $11.83 from $11.81. Second-quarter adjusted EPS of $2.77 versus $2.82 beat our $2.74 estimate and the consensus of $2.69. Revenues rose 4% and were 2% better than we were expecting while EBITDA fell slightly. EPS comparisons benefited from a lower tax rate and lower diluted share count. Backlog rose 2% and the aerospace book-to-bill was 1.0x down from 1.2x a year ago. We expect GD to continue to benefit from strong military funding in aerospace, combat systems and mission systems, while we see information technology segment likely to see slower growth. /Jim Corridore

April 24, 2019
09:16 am ET... CFRA Keeps Hold Opinion On Shares Of General Dynamics (182.37***): We raise our 12-month target price by $12, to $200, valuing the shares at 16.9x our '19 EPS estimate of $11.81 (trimmed from $12.38), in line with GD's five-year average, but below peers, reflecting a lower overall margin business mix. We cut our '20 EPS estimate to $12.97 from $13.36. GD first-quarter adjusted EPS of $2.56 versus $2.65 missed our $2.89 estimate but beat the consensus of $2.44. Revenues rose 23% and were about 4% ahead of our expectations, while operating margins were weaker in each of GD's five business units. Backlog rose by 11% to $69.2 billion and the book-to-bill was strong at 1.2x. Aerospace was strong led by robust demand for the G500, while IT revenues were aided by the acquisition of CSRA in April 2018. Overall, we think the company reported solid results and is likely to see operating margin expansion as it integrates CSRA and gets production volumes on the G500 up. However, we see this as mainly discounted into the current share price. /Jim Corridore

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

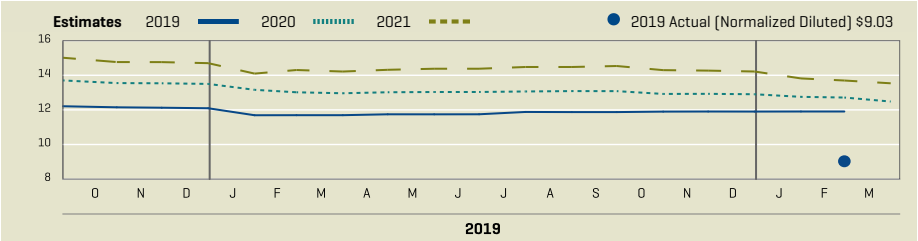
General Dynamics Corporation

Analysts' Recommendations



	No. of Recommendations	% of Total	1 Mo.Prior	3 Mos.Prior
Buy	8	42	8	5
Buy/Hold	3	16	4	2
Hold	7	37	7	11
Weak Hold	0	0	0	0
Sell	1	5	1	1
No Opinion	0	0	0	1
Total	**19**	**100**	**20**	**20**

Wall Street Consensus Estimates



Fiscal Years	Avg Est.	High Est	Low Est.	# of Est.	Est. P/E
2021	13.54	14.05	12.80	17	9.6
2020	12.48	12.93	11.15	17	10.4
2021 vs. 2020	▲8%	▲9%	▲15%	0%	▼-8%
Q1'21	2.92	3.03	2.87	4	44.5
Q1'20	2.66	2.81	2.53	15	48.9
Q1'21 vs. Q1'20	▲10%	▲8%	▲13%	▼ -73%	▼-9%

Forecasts are not reliable indicator of future performance.
Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Wall Street Consensus Opinion

BUY/HOLD

Wall Street Consensus vs. Performance

For fiscal year 2020, analysts estimate that GD will earn USD $12.48. For fiscal year 2021, analysts estimate that GD's earnings per share will grow by 8% to USD $13.54.

Glossary

STARS
Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking
(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

A+	Highest	B	Below Average
A	High	B-	Lower
A-	Above Average	C	Lowest
B+	Average	D	In Reorganization
NR	Not Ranked		

EPS Estimates
CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price
The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research
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Abbreviations Used in Equity Research Reports
CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment
Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:
★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.
★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.
★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.
★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.
★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:
In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of December 30, 2019

Ranking	North America	Europe	Asia	Global
Buy	33.4%	29.0%	41.1%	33.5%
Hold	56.1%	54.8%	46.4%	54.6%
Sell	10.5%	16.2%	12.5%	11.9%
Total	100.0%	100.0%	100.0%	100.0%

Analyst Certification:

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