

# News & Views:

## Aerospace & Defense

*An Informational Resource*

### Boeing to Close Wichita Facility

Boeing's Defense, Space & Security facility in Wichita, Kansas will close by the end of 2013—affecting more than 2,160 employees.

Contracts in Wichita have matured, programs have come to a close or are winding down, and the site does not have enough sustainable business on the horizon to remain profitable.

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### Defense Contractors Vie for FAA Data Contract

The contract to build the Federal Aviation Administration's proposed data communications systems will be awarded in June. One of three defense companies will land the so-called NextGen program: ITT Exelis Inc, Harris Corp and Lockheed Martin Corp.

A key system upgrade will be the replacement of voice with digital data for many of the communications between pilots and air traffic controllers. The new systems transition from an air traffic control system based on radar to one based on satellite technology.

But with \$600 billion in Defense Department reductions mandated by Congress, many are concerned that NextGen will suffer significantly. While the FAA hasn't given the dollar value of

the contract, industry experts say it totals at least one billion dollars. The contractors who have confirmed their bids all have longtime ties with the FAA.



For the ITT Exelis team—which includes Airbus, Rockwell Collins Inc, United Parcel Service Inc and air carrier United Continental Holdings Inc.—the contract represents an entre' into new international business.

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### A&D Contractors Set up Shop in Mexico

A growing number of U.S. high-tech companies are locating factories in Mexico, including those in the aerospace industry. Until recently, many of them opted to locate in China. But now, even low-tech U.S. businesses, which had relocated their factories from Mexico to Asia, are returning to Mexico. With rising wages in Asian countries and a resurgent American auto industry, Mexico is once again a favored

manufacturing location.

Today's factories are designed, built and managed so that they can operate virtually anywhere. Now the determining factors have more to do with market conditions, exchange rates, and logistics—all are now favoring Mexico thanks to it being close to the U.S. and ports serving Asia.

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## “Defense Budget Cuts Stifling”

Pending cuts to the U.S. military budget will “stifle the ability of the defense industry to deliver innovation and urgent wartime capabilities,” according to a defense industry task force composed of three groups: the Aerospace Industries Association, National Defense Industrial Association and the Professional Services Council. The proposed cuts by the Obama administration total about one trillion dollars over the next ten years.



A report commissioned by the three

groups noted that corporations are already downsizing in advance of the pending cuts, which is comprising national security in many ways: companies are curtailing new investments in plant, personnel, research and development; many companies believe capital markets will move money from the U.S., having an adverse

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Boeing says it will continue to be a major employer in Kansas since it anticipates a growing demand for its commercial and defense products there. Only three states generate more Boeing revenues than Kansas from the company's 475 Kansas-based suppliers.

impact on smaller businesses in particular, including a rise in the unemployment rate.

In spite of this, these groups remain hopeful that the negative impacts of the spending cuts in the U.S. could be eased if the Defense Department buys wisely and rewards needed innovation.

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As a result, more than 50 aerospace and defense companies, mostly American, have begun operations in Baja California this past decade, according to Mexico's trade ministry.



Many of the workers are engineers, technicians and software developers whose salaries are about half of those in the U.S.

## A&D Stocks Review

While there has been much turbulence in the stock market in the past year, there have been a few bright spots for investors in aerospace and defense companies. Suppliers of aerospace components, in general, fared very well last year. Airbus and Boeing, in particular, enjoyed increased output and orders that have created production backlogs.

Meanwhile, the aircraft builders buying their components had mixed results. On the plus side was EADS, Airbus' parent company, which had a great year—followed by Boeing. On the other hand, the number 3 and 4 companies, Embraer and Bombardier, saw their stocks sink 14 percent and 19 percent, respectively.

Defense contractors also had mixed results. Despite the looming defense cuts, some defense contractor stocks did well: Lockheed Martin (+16 percent), Raytheon (+4 percent) and Qinetiq Group (+2 percent). However, most in this sector, recorded down years: Huntington Ingalls Industries, BAE Systems, General Dynamics, L-3 Communications, and Northrop Grumman.

This should be a good year for commercial aircraft builders based on projected deliveries of both narrow and wide-body jets over the next three years.



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To learn more about **P2R Associates**—please contact Gordon Cole at (248) 348-2464 or [gcole@p2rassociates.com](mailto:gcole@p2rassociates.com).

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