Addressing the Munitions Shortfall – A Multi-Pronged Production Drive is Underway

- **Major Systems:** DoW has entered into Long Term (7 yr) Framework Agreements (Mostly Undefinitized) with Primes on Major Missile and Missile Defense Systems and Subsystems
  - Possibility automakers can shift toward more rapid, commercial production
- **High/Low Mix:** DoW using framework agreement model to develop suite of lower-cost strike weapons with non-traditional firms: Anduril, Covenant, Castelion, CoAspire, Zone 5 and Leidos
- **Solid Rocket Motors and Supply Chain Base:** DoW funding new entrants and onshoring of SRM capabilities through various funding vehicles; DoW taking ownership interests in new facilities
- **Defense Production Act (DPA)** invoked to allow more industry cooperation (voluntary agreements)

- ***Speed Realism – The Time Frame for Meaningful Production Increases; Is Surge Capacity an Option?***
- ***Serious Issues of Funding Sustainability in FY 2027 and Beyond***
  - **FY 2027 Budget Request = $70 billion for munitions procurement (188% increase over FY 2026) and $85.8 billion for missile defense and defeat**
- ***Customer Behaviors: While Newer Entrants are Engaged in New "Lower-Cost" Systems, Where's the Competition for Higher End Exquisite Systems?***
- ***What's the Role for Allies – Co-Production, Licensing, Continued FMS?***

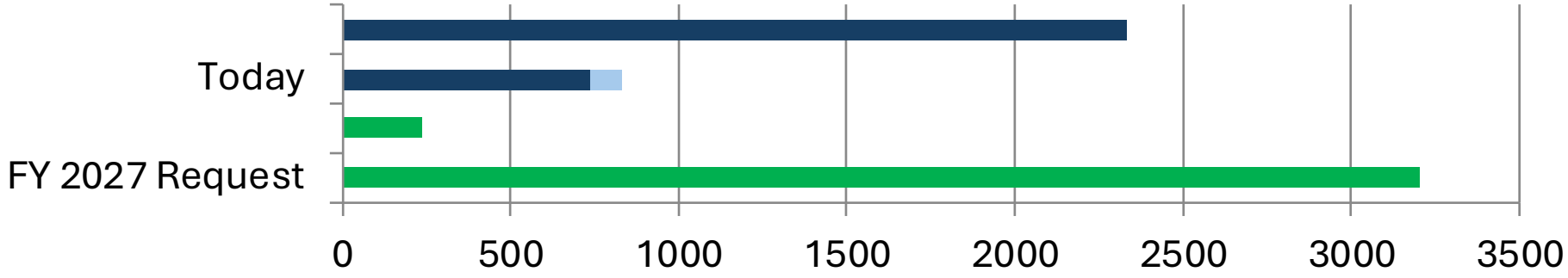
Munitions status across nine categories

Category	Example	Status
Ballistic missile defense	Patriot, THAAD, SM-3	Heavily used, no substitutes
Long-range ground attack	Tomahawk, JASSM, PrSM	Heavily used, some substitutes
Long-range anti-ship	LRASM	Building from low level
Drone defense	APKWS	Building
Ground munitions	Javelin, 155mm artillery	Rebuilding from Ukraine transfers
Bunker busters	MOAB, Massive Ordnance Penetrator	Into mainstream
Air-to-air	AIM-9, AIM-120	No recent usage
Short-range anti-ship	Harpoon, Naval Strike Missile	No recent usage
Short-, medium-range ground attack	JDAM, JSOW	Prior wars built capacity

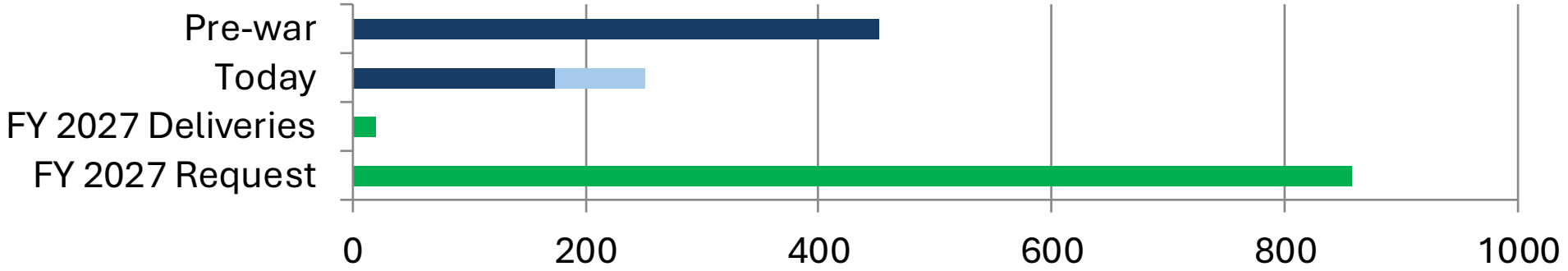
Why are munitions inventories low?

- The war against Iran is an important driver.
- The post-Cold War strategy required fewer munitions.
- The industrial base was designed for efficient peacetime production, not surge.
- Munitions compete poorly in the Pentagon's budget process.
- The use of munitions in recent conflicts reduced inventories.
- Transfers to Ukraine are a minor factor, with one important exception (Patriot).

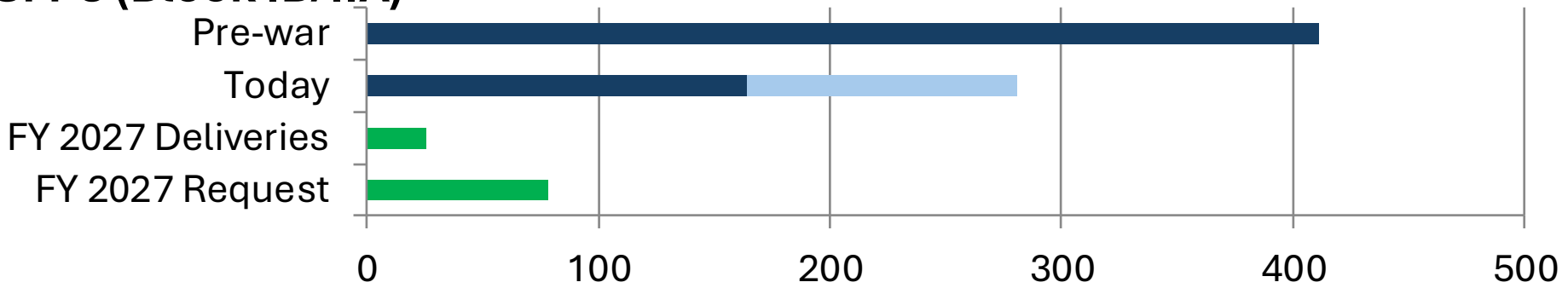
Patriot



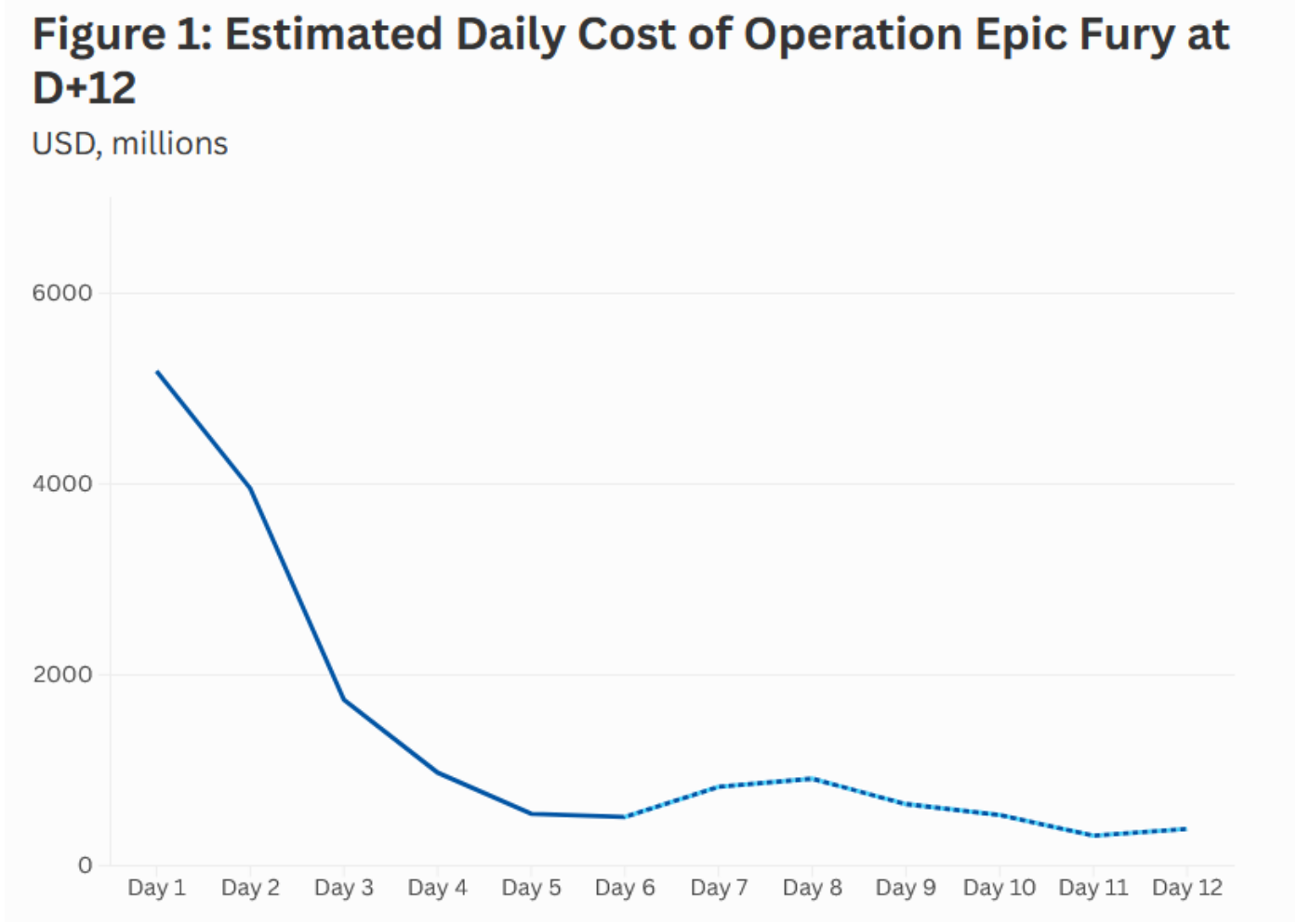
THAAD



SM-3 (Block IB/IIA)



Air War: Shift from long-range/expensive munitions to short-range/inexpensive munitions

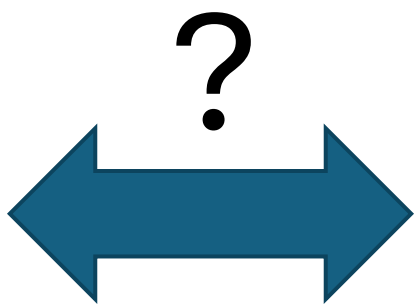


CSIS
CENTER FOR THE INDUSTRIAL BASE

The Industrial Mobilization Gap: Months 3-12

Months 1 and 2

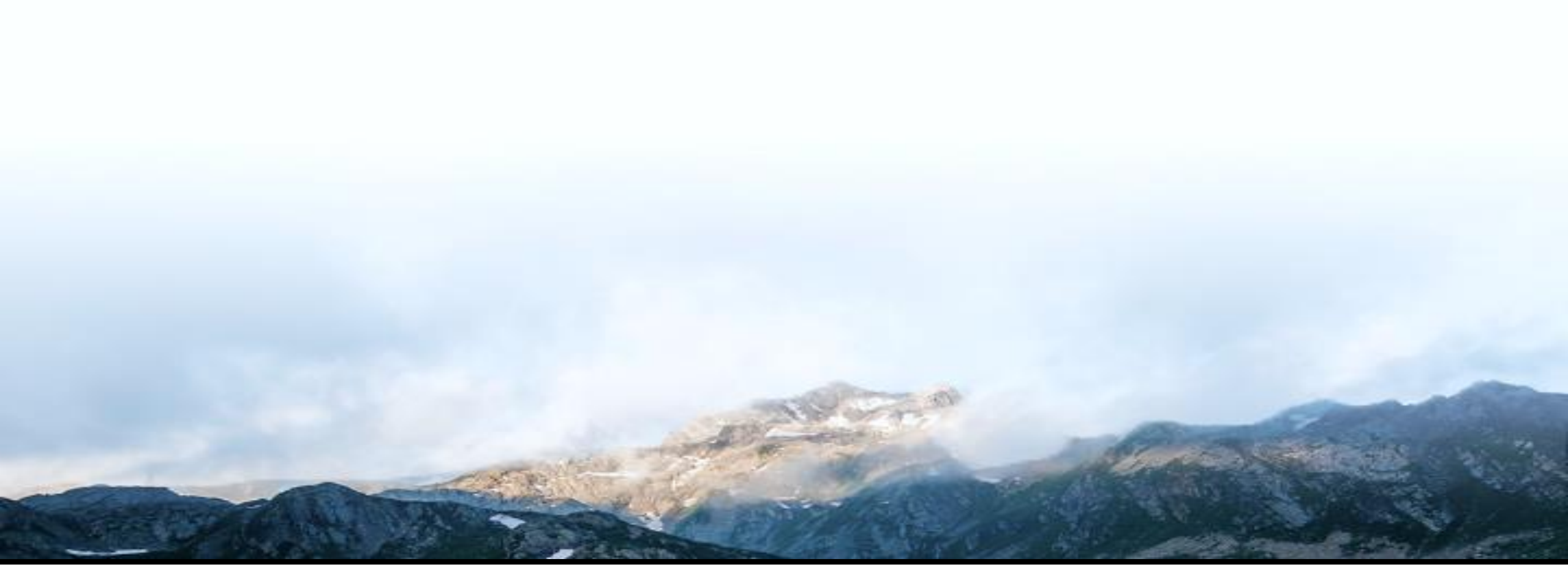
- War stocks
- Prepo
- Training pools
- Depot pools
- Global sourcing



Month 12+

- Industrial surge begins arriving

High-low mix, foreign sources, improvised platforms



CAPSTONE PARTNERS

2026 Stimson Center: U.S. Munitions Shortfall

Tess Oxenstierna, Group Head & Managing Director, Aerospace, Defense, Government & Security

Aerospace, Defense, Government & Security M&A

Long tail of the market composes majority of ADGS dealmaking

Q2 2026 ADGS Industry M&A Overview



+30.6%

YOY Increase in Deal Volume



$91.3B

Total Disclosed Transaction Enterprise Value



$877.9M

Average Enterprise Value



73.5%

Middle Market Composition



62.7%

Strategic Buyers



37.3%

Financial Buyers



11.4x

Average EBITDA Multiple



4.5x

Average Revenue Multiple

Source: Capital IQ and Capstone Partners

U.S. Military Rationalizes Stockpile Investments

Operation Epic Fury provides expensive lessons in modern warfare

Munitions Constitute ~1/3 of Epic Fury's Cost

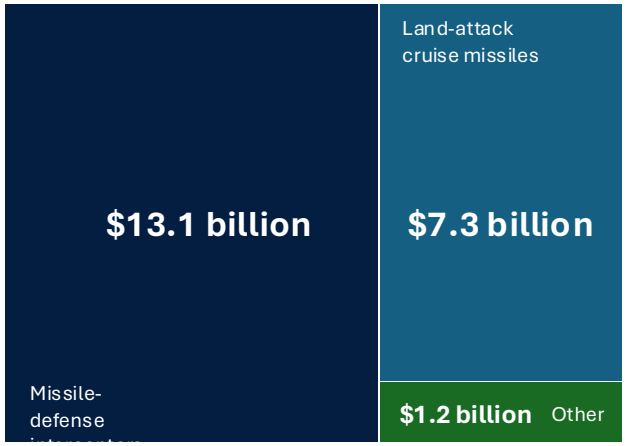
Over-the-Horizon Emphasis

- *Avoidance of boots-on-the-ground resulted in continuous high-tempo action exceeding than **13,500 strikes in the first 38 days** of combat operations.*
- *Congressional Budget Office (CBO) estimates the U.S. had "probably used between one-half and two-thirds" of its inventory of certain missile interceptors.*

Large-Scale Attritive Warfare Exposes Conventional Vulnerabilities

- *U.S. and regional allies intercepted more than **6,000 one-way attack drones** and more than **1,500 ballistic missiles** in the opening 38 days of the operation.*
- *Missile interception **cost ratios approaching 200:1** have reconstituted the math behind conventional warfare methods.*
- *Requirement to adapt to the rising cost of asymmetric warfare and preparations for near-peer conflict in Europe and Southeast Asia have **bifurcated munitions investment** between exquisite replenishment and autonomous systems.*

Estimated Munitions Expenditure during Operation Epic Fury



Select Replenishment-Related Funding Programs Total Tens of Billions of Dollars

Date	Munition Type	Recipient	Value
Sept 2026	**Patriot Advanced Capability-3 (PAC-3)**	*L3Harris (NYSE:LHX)*	**$4.7 billion**
Aug 2026	**BGM-109 Tomahawk Land Attack Missile (TLAM)**	*Raytheon (NYSE:RTX)*	**$22.9 billion**
Aug 2026	**Terminal High Altitude Area Defense (THAAD)**	*Northrop Grumman (NYSE:NOC)*	**$1 billion**
Jan 2026	**155mm**	*Hanwha Aerospace (KOSE:A012450)*	-
Sept 2025	**FGM-148 Javelin**	*Lockheed Martin (NYSE:LMT)* *Raytheon (NYSE:RTX)*	**$900.5 million**
Sept 2025	**Patriot Advanced Capability-3 (PAC-3)**	*Lockheed Martin (NYSE:LMT)*	**$9.8 billion**
Aug 2025	**155mm**	*CSG (ENXTAM:CSG)*	**$635 million**

Company Filings, Congressional Budget Office, U.S. Congress, U.S. Department of War, and Capstone Partners

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