

Industrials

Huntington Ingalls Industries
(NYSE: HII)

Target Price: \$271 - \$281
Current Price: \$211.45



Analysts

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Investment Thesis

We recommend a **BUY** rating on Huntington Ingalls Industries. Our valuation shows that Huntington Ingalls is currently trading at almost 30% below the target price. We believe it is poised for growth and continual market share superiority.

Thesis Drivers

Dominant market share: Huntington is a dominant force in the production of U.S. Navy surface combatants with a 70% naval fleet makeup. This long-standing relationship and revenue stream allows Huntington to have consistent revenue from the Department of Defense and has allowed them to grow and revolutionize maritime combat.

Geopolitical tension: War is on the cusp of occurring in the South China Sea due to tensions rising between China and Taiwan. This altercation could cause an increase in the demand for Huntington products since the United States is siding with Taiwan by denouncing the aggression of China.

Thesis Risks

Revenue sources: Due to the nature of the aerospace and defense industry, the United States government represents almost all of Huntington's revenue. This could be a large potential risk if defense spending were to be cut by Congress.

Commodity price volatility: Huntington's main input and cost for the production of aircraft carriers, assault ships, and submarines is steel. Due to this main input being susceptible to market swings, it leaves Huntington relying on stable pricing to maintain good margins and growth.

Valuation Summary

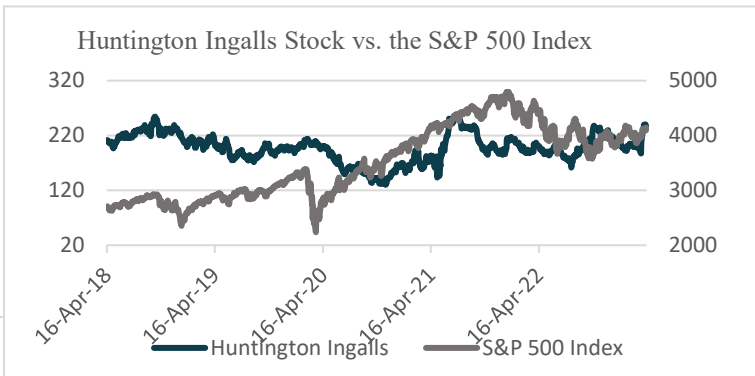
| | |
|--------------------------------|-----------------|
| Discounted Cash Flow Analysis: | \$276.21 |
| Relative EV/EBITDA Model: | \$223.45 |
| Dividend Discount Model: | \$197.27 |

Company Overview

Huntington Ingalls Industries, Inc. is a global defense contractor and the largest shipbuilding company in the United States. It operates through the following business segments: Ingalls, Newport News, and Mission Technologies. Its Ingalls and Newport News segments focus on manufacturing, while the Mission Technologies segment provides services such as reconnaissance and surveillance. Huntington Ingalls was founded on August 4, 2010, as a spinoff of Northrop Grumman. The company is headquartered in Newport News, VA.

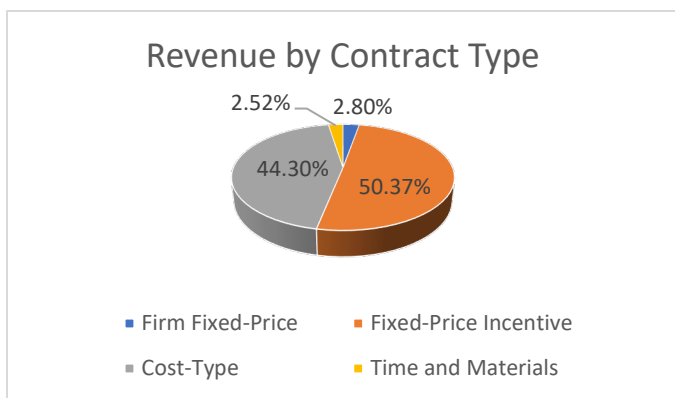
Statistical Highlights

| | |
|---------------------------|----------------------|
| Stock Price | |
| 52-Week Range: | 194.36-260.02 |
| Financials | |
| Market Cap: | 8,515M |
| WACC: | 6.81% |
| Beta: | 0.69 |
| 2022 Sales: | 10.676M |
| 2023E Sales: | 11.744M |
| LTM EPS: | 14.44 |
| 2022 Dividend Yield: | 2.36% |
| Margins and Ratios | |
| Gross Margin: | 16.84% |
| Profit Margin: | 5.42% |
| ROA: | 18.11% |
| Quick Ratio: | 0.38 |
| Debt-to-Equity: | 0.72 |
| EV/EBITDA Ratio LTM: | 12.5 |



Revenue Segments

Huntington Ingalls Industries, Inc. generates its revenue from three segments. Huntington Ingalls has named these segments Ingalls, Newport News, and Mission Technologies. Huntington Ingalls Industries, Inc. develops most of its revenue from United States government contracts attributed to the U.S. Navy, U.S. Coast Guard, the Department of Defense, the Department of Energy, and other federal agencies. In the most recent fiscal year of 2022, Huntington Ingalls Industries had approximately 99.5% of its revenues from the United States Government.¹ These revenues come from selling contracts for Huntington to complete their projects. The contract types are firm-fixed price, fixed-price incentive, cost-type, or time and materials. The breakdown of each contract type’s contribution to total revenue is shown as follows:



Data from Krause Fund Model – Historical data from 10-K

Contract Type Explanation

Firm Fixed Price Contracts

These contracts are made between Huntington Ingalls and another party with a predetermined price.

Fixed-Price Incentive Contracts

These contracts function similarly to firm-fixed price, but Huntington may receive incentive payments or incur financial penalties based on the company’s performance during production.

Cost-Type Contracts

These contracts allow Huntington to be paid based on the costs associated with the production process. The buyer assumes more risk in these contracts, which are more common in experimental and newer technologies.

Time and Materials Contracts

These contracts ensure that Huntington Ingalls has direct labor costs covered hourly, plus any material costs.

Ingalls

In 2022, the Ingalls segment accounted for 23.8% of Huntington’s total revenue.¹ This segment specializes in small-medium-sized military ships. The three products attributable to total revenue from the Ingalls segment are Amphibious Assault Ships, Surface Combatants, and Coast Guard Cutters. Huntington Ingalls reports both Surface Combatants and Coast Guard Cutters as joint revenue. The U.S. Government makes up 100% of the customer base for these revenues. Within the Ingalls segment, the Amphibious Assault Ships make up 55.43% of Ingalls’s revenue, while the combined revenue of the Surface Combatants and Coast Guard Cutters make up 44.57% of Ingalls’s revenue.¹ The contract type of Ingalls is broken down into 0.31% fixed term-price, 93.05% fixed-price incentive, and the remaining 7.11% in cost-type contracts.¹

Ingalls Projection

On March 31st, the United States Navy awarded Huntington Ingalls a \$1.54B fixed-price incentive contract to build an amphibious transport dock, “LPD 32.”² Out of the \$1.54B, Ingalls was initially awarded a \$240M advance from the Navy in June 2022, and the remaining \$1.3B in March. This contract alone would make up more than half of 2022’s segment revenue. Our group believes that, because of the Navy’s reliance on Huntington for new projects, this segment will continue to grow 15% in 2023 at a compound annualized growth rate (CAGR) of 8.59%.

Newport News

In 2022, Newport News made up 54.1% of Huntington’s total revenue.¹ The Newport News segment focuses on ships larger than the Ingalls segment. This segment’s three products are Aircraft Carriers, Submarines, and classified products. Aircraft Carriers make up 54.7% of segment revenue, while Submarines and classified products make up 34.2% and 11.1%, respectively. The United States Government makes up 99.9% of customers, with the other 0.01% being commercial customers. The contract type for this segment is broken down into 0.24% firm-fixed price, 51.42% fixed-price incentive, and the remaining 48.26% from cost-type contracts.¹

Mission Technologies

In 2022, Mission Technologies made up 22.1% of Huntington’s total revenue.¹ This segment has been the significant driver for Huntington’s service revenues, as it is the company’s technology and consulting segment. Historically, Mission Technologies has provided the services of mission-based solutions, government and energy services, and oil and gas services. However, the sales from government and energy services have been declining since 2019, and the company reported \$0 in total sales from this line. Mission-Based solutions make up 81.69% of Mission Technologies’ revenue, while oil and gas services make up 18.31%. The contract type for this segment is broken down into 12.2% from firm-fixed

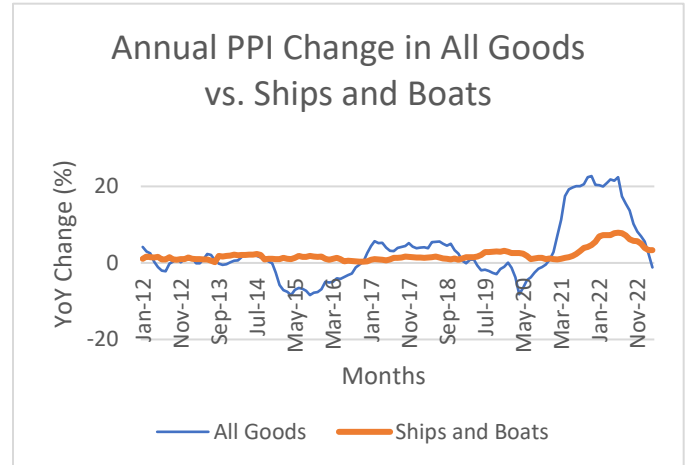
price, 75.96% from cost-type, and 11.85% from time and materials.¹

The revenue generated by Huntington is not cyclical and is driven based on the timing of government contract awards, the incurrence of contract costs, contract estimation, and delivery of the product. The time frame of building a nuclear and non-nuclear ship can extend to over five years, demonstrating the immense amount of time it takes to design, construct, and deliver a U.S. military ship. In 2022, about 50% of revenue was under fixed-price incentive contracts, 44% were cost-type contracts, 3% under time and material contracts, and 3% under firm fixed-price contracts. It is crucial to analyze the contract breakups for aerospace and defense contractors since the main inputs for many are commodities and, in turn, can fluctuate during times of economic distress. Having a high percentage of non-fixed contracts is more favorable for Huntington Ingalls Industries since it can pass the cost of raw materials onto the consumer. The United States is the sole nation of Huntington products and services.

Economic Analysis

Inflation

Inflation is the devaluation of a currency, decreasing a company's purchasing power with the respective currency. Purchasing the necessary raw materials in the aerospace and defense industry is essential to overall revenue, as the goods require extensive upfront inputs. Because of the necessity of large amounts of commodities, inflation is a key economic factor in the health of Huntington Ingalls's operations. The Consumer Price Index (CPI) and the Producer Price Index (PPI) are two economic indicators used to measure inflation. Because our group is examining inflation based on the price of producer inputs, we will analyze PPI only. In March 2023, the preliminary change in price across all commodities was a 1.2% decrease from March 2022.³ Within ships and boats; there was a preliminary change of a 3.3% increase. Since January 2012, there has been an average annual change in PPI of 2.79%, whereas ships and boats see an average change of 2.06%. Despite the PPI increase across all goods being higher than those in ships and boats, both have increased quickly over the past few years. We expect inflation to remain above 2% through our projection period as geopolitical conflict increases the commodities with ships and boats. This prediction could cause problems for Huntington Ingalls because more than half of the company's contracts are classified as a fixed cost. With rising input prices for projects that take over a year, the agreed-upon price in fixed contracts becomes relatively lower. This change causes Huntington Ingalls to have fixed revenues on these projects while paying more to complete their processes. Below is a chart comparing the change in commodity prices against the change in ship and boat prices.



Source: 11

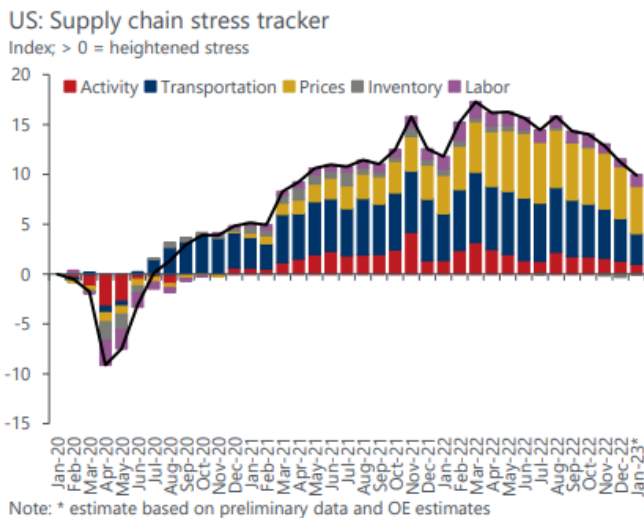
GDP Growth

Gross domestic product (GDP) measures a country's total value of finished goods and services. The industrial sector is closely correlated with GDP changes, as the sector is highly cyclical. Because of its correlation with GDP, we have chosen the measure to be a significant one to forecast for our report. Over the next 12 months, we expect there to be low, if any, GDP growth. J.P. Morgan's research estimates United States GDP growth to be only 1.0%.⁴ High federal funds rates, energy costs, and struggling supply chain and global trade infrastructure are large drivers of this low growth. The Conference Board estimates exports to drop 2% YoY in Q1 and Q2 of 2023. The same estimates expect exports to not increase until late 2023 into early 2024. On the other side, imports will be down 1.0% and 1.7% in Q1 and Q2 of 2023, respectively. Imports are not expected to pick up again until Q4 of 2023. Given the effects, our GDP estimates are significant to the industrial sector, and our relevant 12-month GDP growth is pessimistic. Over the next 2-3 years, we expect lagging effects, such as sticky inflation and unemployment, to have more effect on markets. Other effects, such as the Producer Price Index, are expected to affect the employment rate and production. The effects of the increase in PPI are not yet apparent in the economy, but we believe that, without a decrease in the federal funds rate, the effects will reveal themselves sometime in 2024.

Supply Chain and Chinese Manufacturing

The Russia-Ukraine conflict and China's Covid-19 restrictions have been at the forefront of supply chain problems since 2020; however, they have begun improving. China has had a zero-covid policy which has resulted in various lockdowns. For example, when Shanghai was in lockdown in April (2022), many tech companies could not receive imports. The state of supply chain problems is highly reliant on China's policies and the ability of the US to receive imports from China. This factor

is important to industrials because the industrials sector depends on transferring these goods and acquiring the materials necessary for subsectors within the industrials sector. Currently, supply chain disruption has become a norm for almost all manufacturing companies, directly affecting production and profit. Most manufacturing companies a part of the Manufacturing Alliance have reported a negative impact on profits of up to 13%.⁶ One of the most impactful aspects of supply chain is the increasing shipping costs. This can be seen in the chart from Oxford Economics’ research on the supply chain below, as shipping costs are one of the top operational concerns. We predict that the supply chain issues such as high shipping costs, shipping congestion, shortages, and delivery disruptions will continue into the start of 2023. However, we think these problems will work themselves out as restrictions are lifted, and companies continue looking for alternatives. By the end of 2023, supply chain issues will be less of an expense to companies.



Source: 7

Geopolitical Conflict

Given that Huntington Ingalls is the leading defense contractor for the U.S. Navy, it is necessary to analyze the factors that play into why the Navy would buy goods from Huntington. In January 2023, four-star Air Force General Mike Minihan wrote to all his air commanders that he expects the United States to engage in combat with China in 2025. His reasoning was based on the upcoming United States and Taiwan elections. In the same month, the Chinese military conducted drills around Taiwan by deploying 71 aircraft and nine naval vessels close to Taiwan. If the United States engages in war with China as General Minihan predicts, the country will have to cross the Pacific Ocean. Because Huntington is the primary supplier of warships to the United States Navy, there is a high chance the U.S. will call on Huntington to supply the ships used in the battle against China. We expect defense spending from the United States to increase through at least 2025 as geopolitical tensions rise.

Unemployment

Labor shortages threaten the industrial sector; too many open positions and too few looking to fill them. For Huntington Ingalls, making advanced ship technology requires a specific skill set that is uncommon within the broader labor market. If unemployment within the industrials sector increases, we expect Huntington to suffer even more shortages. As much of the industrial sector becomes more capital-intensive and less labor-intensive, companies will be looking to invest more in technology that can fill some of these open positions that people aren’t flocking to as frequently as they used to.

Capital Markets Forecast

Since January 1st, 2022, the past twelve months of the aggregate performance of the industrial sector has not been positive. The industrial sector saw a sharp decline and a sharp climb in 2022. Between the start of 2022 to mid-June, The Vanguard Industrial Index Fund (\$VIS) fell over 20%. From the lows in June, it climbed over 18% through August. From mid-August to mid-September, it fell again to prices lower than June lows. Lastly, the index increased in price by 21% between mid-September and the beginning of December. \$VIS has been nothing if not volatile but has only returned -0.64% since the start of 2022 – as of January 31st, 2022.¹⁰ As choppy as the index has been, the S&P 500 has shown even worse returns. The S&P 500 ETF Trust (\$SPY), an index intended to proxy the entire market, has returned -12.3%.¹⁰ The simple deduction from these two observations is that the industrials sector outperformed the market, making it a relatively strong performer. While this may be true, this deduction is backward-looking, and the purpose of our eventual recommendation is a forward-looking statement.

Industry Summary

The aerospace and defense industry comprises companies that produce and sell equipment for military use. The players in this sector produce goods and services for four areas: land, air, sea, and, recently, outer space. Namely, Huntington Ingalls is a prominent company producing equipment for sea use. The aerospace and defense industry companies primarily make their revenues from being awarded contracts, either through government agencies or other parties. Though there are many types, these contracts are an agreement between two groups that provides certainty that the goods and/or services will be produced.

Contract Type Analysis

Because Huntington Ingalls’ revenue streams depend entirely on contracts with other parties, many of the company’s risks and opportunities are associated with the contract types.

Firm Fixed-Price Contracts

These types of contracts are most used for repeated, predictable projects. Firm fixed-price contracts also simplify the contracting process. No open-ended element requires either party to count on the other. A change in material or labor cost will not affect the overall agreement between two parties, making it the most conservative agreement. Because of their nature, the services provided by the Mission Technologies segment use most of the firm fixed-price contracts, despite this type making up only 2.80% of all contracts Huntington owns.¹

Fixed-Price Incentive Contracts

These contracts have an open-ended element based on production costs. Within them, there is a predetermined formula that relates the negotiated cost with the target price of the project. This formula allows the producer to adjust for changes in input prices during the production process. Huntington Ingalls can receive a financial benefit or incur financial losses if the production prices are lower or higher than the agreed-upon amount, hence the “incentive” part of the contract name. The costs and time of delivery of the products within the contract are entirely up to Huntington’s efficiency and are thus, the riskiest contracts for Huntington to pursue. Fixed-price incentive contracts make up 50.37% of Huntington’s total contracts.¹ Because these contracts make up more than half of total contracts, both Huntington and the buying parties are confident in the company’s production efficiency.

Cost-Type Contracts

These contracts ensure that Huntington is reimbursed for all costs associated – up to the predetermined extent – with the production of its goods. Cost-type contracts may also come with a fee Huntington incurs. Because the buyer agrees to pay for all production costs, these contracts are the riskiest for the receiver of the goods. Cost-type contracts are mostly used in relatively unpredictable and/or uncommon projects. Because these contracts are the second-most common, the parties buying them are willing to fund Huntington’s experimental projects.

Time and Materials

These contracts ensure that all material costs and an hourly wage rate. These contracts are most common when performing projects without determined total costs and time. These contracts only make up 2.52% of Huntington’s total contracts and are the smallest percentage of Huntington’s contracts.¹ We believe this shows that Huntington’s projects are relatively predictable, as neither the company nor the buyers pursue these contracts frequently.

Porter’s Five Forces

Threat of Competition: Low

Due to ever-changing technology, competition in the aerospace and defense sector is a notable concern for many companies. However, due to the nature of Huntington’s business lines and the capital and labor required to enter the market, competitors

are unlikely to enter the shipbuilding space. Large conglomerate aerospace and defense companies lack focused expertise in shipbuilding, especially nuclear-powered submarines and aircraft carriers. Due to the nature of this industry, there are generally a few firms that can even attempt to produce these complex and large-scale operations.⁵ The main direct competitor to Huntington is General Dynamics, which specializes in producing military ships, but only constructs certain submarine models and small to mid-sized vessels.¹⁰

Bargaining Power of Buyers: High

For the defense industry, the United States Department of Defense is the main buyer, which means there is low negotiating power for defense companies. Since defense budgets dictate the spending per year for new equipment and technologies, a declining budget could shake the defense industry and cause issues in maintaining growth and company operations. To combat these potential budget cuts, long-term contracts for multi-year projects allow for greater predictability. Backlogs are prevalent in this industry which aids in the stability of revenue and contract awards from the Pentagon.⁵

Bargaining Power of Suppliers: Moderate

The main input for Huntington’s aircraft carriers, submarines, and assault ships is steel, a cyclical commodity. This puts pressure on companies like Huntington to obey market swings, which will directly impact the cost of goods sold and, in turn, lower revenue. Huntington currently only uses one supplier for their steel which means that the supplier has an increase in their bargaining power. This supplier could try and raise prices since Huntington can only buy from certain government-approved companies. Price increases could affect contract covenants and stipulations, which would eventually be passed onto the customer and affect contract awards.

Threat of New Entrants: Low

The threat of new competitors into the defense industry is incredibly low due to extremely high barriers to entry. This sector requires high capital contributions, long lead times, and strict regulations. New competitors must abide by many regulatory and governmental guidelines especially in competition with Huntington’s nuclear-powered ship operations. The long build times alone would cause a new competitor to take a loss for years before turning a profit, even if they would be awarded a contract with no proven track record or battle-tested product. A newly established competitor would also struggle to get defense contracts because they would work to stay price competitive and have been unable to perfect production and organizational efficiency.

Threat of Substitutes: Low

The threat of substitutes is almost nonexistent due to the nature of the product and the defense industry. Since the United States wants to maintain dominance in all aspects of military capabilities. Any developments made in this space in terms of

research and development and usually government-sponsored which aids in the low rating for substitutes of the products made by Huntington. Due to the U.S. military superiority, it is unlikely that the U.S. will look to replace aircraft carriers, submarines, and assault ships.⁵

SWOT Analysis

Strengths:

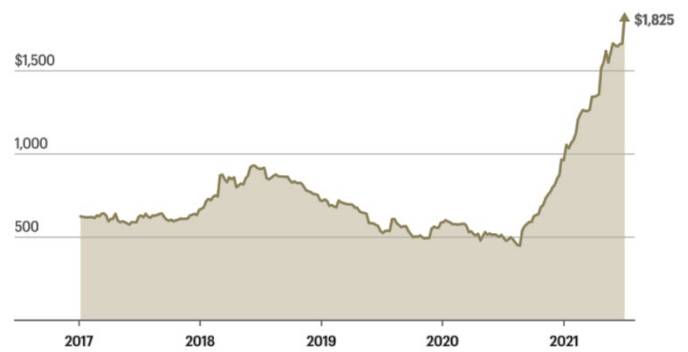
Huntington Ingalls has a large majority market share in the United States naval fleet production. This has allowed Huntington to maintain strong and stable year-over-year revenue growth by obtaining new contracts through the Department of Defense.¹³ HII is the only company capable of building, refueling, and inactivating the Navy's nuclear-powered aircraft carriers. Huntington is also the only shipbuilder of large deck amphibious assault ships and other specialized warfare ships such as landing platform helicopters (LPHs) and Landing Platform Docks (LPDs).¹⁵ Huntington's submarine development separates them from competitors since they are one of two companies that can design and build nuclear-powered submarines for the United States Navy. Huntington has also noted in their most recent 10-K that they are well positioned to obtain future government contracts for all naval and coast guard ship needs.¹

Weaknesses:

A prevailing weakness for Huntington is being susceptible to military budget swings. Since approximately 99.5%¹ of its revenues are generated by U.S. contracts, Huntington is open to low sales if the Department of Defense awards contracts to competitors and other shipbuilding companies.

Another weakness for Huntington within its shipbuilding segment is the heavy reliance on steel and the vulnerability to steel price changes, especially during high inflation, which the United States has experienced in the past few years. Steel prices have risen since pre-pandemic levels. However, Huntington works avidly to hedge times like this by negotiating long-term steel and other raw materials agreements to avoid inflation. They also implement price escalation provisions in some contracts to push extreme price increases back onto the customer. A point of concern regarding Huntington's steel purchases is that they only have one supplier for their raw material needs. The U.S. Government requires that suppliers of designated materials be approved before purchase which shrinks the supplier pool for companies within the aerospace and defense industry.¹

Price of steel continues to soar
Hot-Rolled Coil Steel Futures Continuous Contract



Source: 11

Opportunities:

An opportunity for Huntington to participate is an increase in sales due to conflict within the South China Sea between China and Taiwan. Tensions have been rising recently, and because Taiwan is much smaller both in land size and military presence, the United States has condemned the aggressive actions of China trying to take over Taiwan. Due to the amphibious nature of this conflict, Huntington is set to have increased orders from the navy to try and defend Taiwan if China tries to initiate military action.

Threats:

One possible threat for Hunting Ingalls is the political implications that exist within the industry they sit in. Because Huntington is so heavily reliant on government spending to fuel revenue growth, if Congress were to cut back on military spending, this would directly impact Huntington. However, the Department of Defense has projected its budgetary needs for the Navy to increase in the current and next fiscal year. Specifically, an increase in Procurement of \$4,528 million and Operation & Maintenance of \$4,503 million between 2023 and 2024.¹³ These segments of the navy's budget are represented where Huntington generates its revenue with shipbuilding and maintenance on existing ships.

Competitor Analysis

Huntington competes in a unique atmosphere within the aerospace and defense industry. They have few direct competitors due to the nature of their business model in shipbuilding, but they do compete with larger defense companies too. The main competitor to Huntington is General Dynamics because they are one of the only other large ship manufacturers for the military. It is important to note the table below depicts how Huntington stacks up against other defense companies through metrics such as earnings before interest taxes depreciation and amortization (EBITDA), enterprise value, and fiscal year-end sales. Huntington is the smallest on this list, but because of their large market share they are poised to grow steadily. Due to the size of the large defense companies, Huntington could be a potential acquisition in the distant future

as they become a more prevalent figure in the overall defense industry.

| | EBITDA | Ent. Value | Sales (FYE) |
|-------------------------------|--------|------------|-------------|
| Huntington Ingalls Industries | 874 | 10,970 | 10,676 |
| General Dynamics | 5,095 | 73,782 | 39,407 |
| L3Harris Technologies | 3,090 | 45,217 | 17,062 |
| Northrop Grumman | 4,943 | 84,325 | 36,602 |
| Lockheed Martin | 9,905 | 138,000 | 66,146 |
| Honeywell International Inc. | 8,438 | 143,500 | 35,453 |
| Raytheon Technologies | 9,094 | 181,400 | 67,074 |

Data from FactSet

Valuation Analysis

Discounted Cash Flow (DCF) & Economic Profit (EP)

The discounted cash flow (DCF) and economic profit (EP) models are intrinsic valuation methods that determine an implied share price for a given company. For Huntington, a 10-year projection period was used to forecast free cash flows. For the DCF model, the cash flows were discounted to the present day by a WACC of 6.38%. Free cash flow figures were calculated by finding the net operating profit less adjusted taxes (NOPLAT) and subtracting the change in invested capital. The EP model was created by forecasting Huntington's future economic profit and discounting these numbers by the WACC. Each projection year's EP was calculated by taking the beginning invested capital and multiplying it by the difference between the return on invested capital (ROIC) and WACC. The values were summed up, and then the last fiscal year ending's invested capital was added, for both models' non-operating adjustments were made to determine the value of equity. The equity value was then divided by the number of shares outstanding to yield an implied share price of \$276.16 for both models. We believe this valuation method best represents the target price for Huntington because it is the most flexible and versatile valuation method. This is due to it being able to change if slight adjustments are needed based on company-specific or market-wide changes. The target range for Huntington is \$271 - \$281, given a \$5 cushion in either direction of the implied share price from these models.

Dividend Discount Model (DDM)

The dividend discount model is an intrinsic valuation method based on Huntington's ability to pay future dividends to shareholders. When analyzing the past ten years of financial statements, Huntington has steadily increased dividends since 2015 by about \$0.40 per common share. In the next ten years, we project a similar-sized increase between \$0.30 - \$0.40 per common share. After discounting the projected dividends, an implied share price of \$197.27 was found. Due to the unknown nature and difficulty in predicting dividend patterns, we do not put as much weight on this valuation method. We emphasize the DCF and EP models and the relative valuation model.

Relative Valuation

For the relative valuation model, we used companies competing with Huntington in the shipbuilding and defense industry. These companies are Lockheed Martin, L3Harris Technologies, Northrop Grumman, General Dynamics Corporation, Honeywell International Inc., and Raytheon Technologies. For this valuation model, we used four different metrics: P/E (2023 EPS), P/E (2024 EPS), PEG (2023 EPS), and PEG (2024 EPS). Our P/E model determined that the PEG ratio metrics were extremely low compared to the current Huntington share price. This could be attributed to the size discrepancies in some of the comparable companies since some are larger conglomerate defense firms that have higher estimated 5-year EPS growth due to the large variations in prices from the P/E and PEG metrics we have chosen to average the P/E metrics for years 2023 and 2024 to determine an implied share price of \$240.42.

WACC

Huntington's weighted average cost of capital (WACC) is 6.34%. This is calculated by using the cost of equity of 7.03% and an after-tax cost of debt of 4.73%, along with the market value weights for equity and debt, which are 70% and 30%, respectively. The WACC for Huntington Ingalls Industries was used as the discount factor for the DCF/EP valuation model.

Cost of Equity

The cost of equity is calculated using the capital asset pricing model and produced a value of 7.08%. The risk-free rate of 3.74% was used, and this number was derived from a 30-year U.S. treasury. The beta used is the weekly 2-year beta from Bloomberg which is 0.69. The final variable needed is the equity risk premium which is 4.88% and was taken from the Damodaran April trailing 12 month with an adjusted payout.

Cost of Debt

The pre-tax cost of debt was found by taking the implied yield-to-maturity (YTM) on a 7-year corporate bond taken from FINRA. Huntington did not have a 10-year maturity corporate bond, so a 7-year was selected as the value for the pre-tax cost of debt. We believe this is a reasonable substitute and provides an accurate picture of debt issuances for HII. The pre-tax cost

of debt is 5.63%, and this was multiplied by (1-marginal tax rate) to find an after-tax cost of debt equaling 4.73%.

Sensitivity Tables

Beta vs Risk-Free Rate

Beta and Risk-Free Rate are both highly important inputs for the WACC calculation. Beta is the measure of risk for a given stock compared to the overall market. Huntington Ingalls has a current Beta of 0.63, which means it is less risky than the overall market. Risk-Free Rate is the theoretically risk-free investment return which is denoted by the yield on a 30-year U.S. treasury bond. When constructing our model and sensitivity table, the yield was 3.82%.

Constructing a sensitivity table to test these variables against each other depicts how they impact the stock's intrinsic value. As both variables increase, the dollar value of the share decreases. Conversely, when both variables decrease, the share dollar value increases. The stock price range extracted from this table is \$187.51 – \$521.82.

| | | Beta | | | | | | |
|----------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | | 0.33 | 0.43 | 0.53 | 0.63 | 0.73 | 0.83 | 0.93 |
| Risk Free Rate | 287.81 | | | | | | | |
| | 3.52% | 521.82 | 440.57 | 376.86 | 325.59 | 283.47 | 248.28 | 218.45 |
| | 3.62% | 503.40 | 426.29 | 365.46 | 316.30 | 275.75 | 241.77 | 212.90 |
| | 3.72% | 485.96 | 412.68 | 354.56 | 307.36 | 268.31 | 235.48 | 207.51 |
| | 3.82% | 469.43 | 399.70 | 344.10 | 298.77 | 261.13 | 229.39 | 202.28 |
| | 3.92% | 453.74 | 387.31 | 334.08 | 290.50 | 254.19 | 223.49 | 197.21 |
| | 4.02% | 438.82 | 375.46 | 324.45 | 282.53 | 247.49 | 217.78 | 192.29 |
| | 4.12% | 424.62 | 364.13 | 315.21 | 274.85 | 241.00 | 212.24 | 187.51 |

Marginal Tax Rate vs. Pre-tax Cost of Debt

The pre-tax cost of debt is an important metric for all companies to examine because of the amount of debt on their balance sheet. The marginal tax rate is also something to be aware of because a varying tax rate can impact a company's net income and trickle down retained earnings.

When the tax rate for a given company goes up, it lowers the earnings and cash flows. An increase in the tax rate also lowers the after-tax cost of debt. A higher tax rate, all else equal, will cause the WACC to go down. In the sensitivity table for Huntington, they are offsetting each other due to Huntington having a lot of debt; it is, in turn, giving a higher value. The stock price range extracted from this table is \$274.93 – \$301.06.

| | | Marginal Tax Rate | | | | | | |
|----------------------|--------|-------------------|--------|--------|--------|--------|--------|--------|
| | | 12.92% | 13.92% | 14.92% | 15.92% | 16.92% | 17.92% | 18.92% |
| Pre-tax Cost of Debt | 287.81 | | | | | | | |
| | 5.33% | 294.01 | 295.16 | 296.32 | 297.49 | 298.67 | 299.86 | 301.06 |
| | 5.43% | 290.72 | 291.87 | 293.02 | 294.19 | 295.37 | 296.55 | 297.75 |
| | 5.53% | 287.47 | 288.62 | 289.77 | 290.93 | 292.10 | 293.29 | 294.48 |
| | 5.63% | 284.27 | 285.41 | 286.56 | 287.72 | 288.89 | 290.06 | 291.25 |
| | 5.73% | 281.11 | 282.25 | 283.39 | 284.55 | 285.71 | 286.88 | 288.07 |
| | 5.83% | 278.00 | 279.13 | 280.27 | 281.42 | 282.57 | 283.74 | 284.92 |
| | 5.93% | 274.93 | 276.05 | 277.18 | 278.33 | 279.48 | 280.64 | 281.82 |

CV Growth of NOPLAT vs. WACC

The weighted average cost of capital (WACC) and the continuing value growth of NOPLAT are important inputs into our model. They can greatly affect the output of the final implied share price due to slight changes in numbers within the DCF and EP model. Since the WACC can fluctuate based on the risk-free rate, cost of debt, and market risk premium, it is essential to see how it can affect the overall valuation output. Predicting the continuing value growth of NOPLAT is challenging due to the distant future timeline of projections. Even though it is harder to predict, it is essential to examine since continuing value makes up roughly 70% of the enterprise value. The stock price range extracted from this table is \$238.85 – \$326.98.

| | | CV Growth of NOPLAT | | | | | | |
|------|--------|---------------------|--------|--------|--------|--------|--------|--------|
| | | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% |
| WACC | 276.22 | | | | | | | |
| | 6.08% | 304.09 | 307.40 | 310.89 | 314.57 | 318.47 | 322.60 | 326.98 |
| | 6.18% | 291.81 | 294.78 | 297.90 | 301.19 | 304.67 | 308.35 | 312.25 |
| | 6.28% | 280.15 | 282.80 | 285.60 | 288.54 | 291.64 | 294.91 | 298.38 |
| | 6.38% | 269.06 | 271.43 | 273.93 | 276.55 | 279.31 | 282.22 | 285.29 |
| | 6.48% | 258.50 | 260.62 | 262.84 | 265.18 | 267.63 | 270.21 | 272.94 |
| | 6.58% | 248.44 | 250.33 | 252.30 | 254.37 | 256.55 | 258.84 | 261.25 |
| | 6.68% | 238.85 | 240.52 | 242.27 | 244.10 | 246.02 | 248.04 | 250.17 |

CV ROIC vs. Depreciation Rate

The continuing value of return on invested capital (ROIC) and depreciation rates are crucial assumptions to determine an implied share price. The depreciation rate is essential for a defense company due to the large amount of machinery and buildings needed to produce these massive ships and submarines. The stock price range extracted from this table is \$239.66 – \$302.61.

| | | CV ROIC | | | | | | |
|-------------------|--------|---------|--------|--------|--------|--------|--------|--------|
| | | 6.65% | 7.15% | 7.65% | 8.15% | 8.65% | 9.15% | 9.65% |
| Depreciation Rate | 276.22 | | | | | | | |
| | 5.47% | 239.66 | 252.26 | 263.20 | 272.81 | 281.30 | 288.87 | 295.65 |
| | 5.97% | 240.75 | 253.34 | 264.29 | 273.89 | 282.39 | 289.95 | 296.74 |
| | 6.47% | 241.86 | 254.45 | 265.40 | 275.01 | 283.50 | 291.07 | 297.85 |
| | 6.97% | 243.00 | 255.60 | 266.55 | 276.15 | 284.65 | 292.21 | 299.00 |
| | 7.47% | 244.17 | 256.77 | 267.72 | 277.32 | 285.82 | 293.39 | 300.17 |
| | 7.97% | 245.37 | 257.97 | 268.92 | 278.52 | 287.02 | 294.59 | 301.37 |
| | 8.47% | 246.60 | 259.20 | 270.15 | 279.76 | 288.25 | 295.82 | 302.61 |

Risk-Free Rate vs. Net Marginal Tax Rate

The net of our marginal tax rate takes into account the provisions allowed against the United States tax rate by taxes paid in foreign countries. The net marginal tax rate is important in both determining net income and projected cash flows. The risk-free rate helps determine the cost of equity in the WACC, making the present value of a company's future cash flows less if the risk-free rate is higher. The stock price range extracted from this table is \$245.17 – \$295.08.

| | | Risk-Free Rate | | | | | | | |
|-----------------------|--------|----------------|--------|--------|--------|--------|--------|--------|-------|
| | | 276.16 | 3.44% | 3.54% | 3.64% | 3.74% | 3.84% | 3.94% | 4.04% |
| Net Marginal Tax Rate | 6.87% | 289.60 | 281.52 | 273.73 | 273.73 | 258.95 | 251.95 | 245.17 | |
| | 7.62% | 290.50 | 282.38 | 274.54 | 274.54 | 259.70 | 252.66 | 245.85 | |
| | 8.37% | 291.41 | 283.24 | 275.36 | 275.36 | 260.44 | 253.37 | 246.53 | |
| | 9.12% | 292.32 | 284.10 | 276.19 | 276.19 | 261.19 | 254.08 | 247.22 | |
| | 9.87% | 293.23 | 284.98 | 277.02 | 277.02 | 261.95 | 254.81 | 247.90 | |
| | 10.62% | 294.16 | 285.86 | 277.86 | 277.86 | 262.71 | 255.53 | 248.60 | |
| | 11.37% | 295.08 | 286.74 | 278.70 | 278.70 | 263.48 | 256.26 | 249.29 | |

CV Growth of NOPLAT vs. CV ROIC

The continuing value growth of net operating profit less adjusted tax (NOPLAT) and continuing value of return on invested capital (ROIC) are important assumptions for the DCF and EP models. They help determine the continuing value, which makes up most of the implied equity value and thus greatly impacts the implied share price. The stock price range extracted from this table is \$241.56 – \$312.50.

| | | CV Growth of NOPLAT | | | | | | | |
|---------|-------|---------------------|--------|--------|--------|--------|--------|--------|-------|
| | | 276.16 | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% | 2.80% |
| CV ROIC | 6.65% | 241.56 | 242.00 | 242.46 | 242.94 | 243.45 | 243.98 | 244.55 | |
| | 7.15% | 251.85 | 253.02 | 254.24 | 255.53 | 256.89 | 258.32 | 259.83 | |
| | 7.65% | 260.79 | 262.60 | 264.49 | 266.48 | 268.58 | 270.79 | 273.12 | |
| | 8.15% | 268.64 | 271.00 | 273.48 | 276.09 | 278.83 | 281.72 | 284.78 | |
| | 8.65% | 275.58 | 278.43 | 281.43 | 284.58 | 287.90 | 291.40 | 295.09 | |
| | 9.15% | 281.76 | 285.05 | 288.51 | 292.15 | 295.97 | 300.01 | 304.27 | |
| | 9.65% | 287.30 | 290.98 | 294.86 | 298.93 | 303.21 | 307.73 | 312.50 | |

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the student's skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers, or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Huntington Ingalls, Incorporated
Revenue Decomposition

| Fiscal Years Ending Dec. 31 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--|-----------------|-----------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Ingalls | | | | | | | | | | | | | |
| Revenue Type | | | | 31-Dec-23 | 31-Dec-24 | 31-Dec-25 | 31-Dec-26 | 31-Dec-27 | 31-Dec-28 | 31-Dec-29 | 31-Dec-30 | 31-Dec-31 | 31-Dec-32 |
| Product Type | | | | <u>Short Term</u> | | | <u>Mid-Term</u> | | | <u>Long-Term</u> | | | |
| Product Sales | 2,462.00 | 2,357.00 | 2,372.00 | 2,727.80 | 3,136.97 | 3,529.09 | 3,970.23 | 4,367.25 | 4,803.98 | 5,044.17 | 5,296.38 | 5,508.24 | 5,728.57 |
| Service Sales | 212.00 | 156.00 | 186.00 | 213.90 | 245.99 | 276.73 | 311.32 | 342.46 | 376.70 | 395.54 | 415.32 | 431.93 | 449.20 |
| Intersegment | 4.00 | 15.00 | 12.00 | 13.80 | 15.87 | 17.85 | 20.09 | 22.09 | 24.30 | 25.52 | 26.79 | 27.87 | 28.98 |
| Sales and Service Revenues | 2,678.00 | 2,528.00 | 2,570.00 | 2,955.50 | 3,398.83 | 3,823.68 | 4,301.64 | 4,731.80 | 5,204.98 | 5,465.23 | 5,738.49 | 5,968.03 | 6,206.75 |
| | 4.81% | -5.60% | 1.66% | 15.00% | 15.00% | 12.50% | 12.50% | 10.00% | 10.00% | 5.00% | 5.00% | 4.00% | 4.00% |
| Major Programs | | | | | | | | | | | | | |
| Amphibious Assault Ships | 1,403.00 | 1,328.00 | 1,415.00 | 1,627.25 | 1,871.34 | 2,105.25 | 2,368.41 | 2,605.25 | 2,865.78 | 3,009.07 | 3,159.52 | 3,285.90 | 3,417.34 |
| Surface Combatants and Coast Guard Cutters | 1,267.00 | 1,179.00 | 1,138.00 | 1,308.70 | 1,505.01 | 1,693.13 | 1,904.77 | 2,095.25 | 2,304.77 | 2,420.01 | 2,541.01 | 2,642.65 | 2,748.36 |
| Others | 8.00 | 21.00 | 17.00 | 19.55 | 22.48 | 25.29 | 28.45 | 31.30 | 34.43 | 36.15 | 37.96 | 39.48 | 41.06 |
| Total Ingalls | 2,678.00 | 2,528.00 | 2,570.00 | 2,955.50 | 3,398.83 | 3,823.68 | 4,301.64 | 4,731.80 | 5,204.98 | 5,465.23 | 5,738.49 | 5,968.03 | 6,206.75 |
| | 4.81% | -5.60% | 1.66% | 15.00% | 15.00% | 12.50% | 12.50% | 10.00% | 10.00% | 5.00% | 5.00% | 4.00% | 4.00% |
| Newport News | | | | | | | | | | | | | |
| Revenue Type | | | | | | | | | | | | | |
| Product Sales | 4,312.00 | 4,543.00 | 4,821.00 | 5,206.68 | 5,571.15 | 5,905.42 | 6,259.74 | 6,635.33 | 7,033.45 | 7,385.12 | 7,754.37 | 8,064.55 | 8,387.13 |
| Service Sales | 1,247.00 | 1,109.00 | 1,026.00 | 1,108.08 | 1,185.65 | 1,256.78 | 1,332.19 | 1,412.12 | 1,496.85 | 1,571.69 | 1,650.28 | 1,716.29 | 1,784.94 |
| Intersegment | 12.00 | 11.00 | 5.00 | 5.40 | 5.78 | 6.12 | 6.49 | 6.88 | 7.29 | 7.66 | 8.04 | 8.36 | 8.70 |
| Sales and Service Revenues | 5,571.00 | 5,663.00 | 5,852.00 | 6,320.16 | 6,762.57 | 7,168.33 | 7,598.43 | 8,054.33 | 8,537.59 | 8,964.47 | 9,412.69 | 9,789.20 | 10,180.77 |
| | 7.42% | 1.65% | 3.34% | 8.00% | 7.00% | 6.00% | 6.00% | 6.00% | 6.00% | 5.00% | 5.00% | 4.00% | 4.00% |
| Major Programs | | | | | | | | | | | | | |
| Aircraft Carriers | 3,056.00 | 3,073.00 | 3,203.00 | 3,459.24 | 3,701.39 | 3,923.47 | 4,158.88 | 4,408.41 | 4,672.92 | 4,906.56 | 5,151.89 | 5,357.96 | 5,572.28 |
| Submarines | 1,727.00 | 1,917.00 | 2,002.00 | 2,162.16 | 2,313.51 | 2,452.32 | 2,599.46 | 2,755.43 | 2,920.75 | 3,066.79 | 3,220.13 | 3,348.94 | 3,482.89 |
| Other | 788.00 | 673.00 | 647.00 | 698.76 | 747.67 | 792.53 | 840.09 | 890.49 | 943.92 | 991.12 | 1,040.67 | 1,082.30 | 1,125.59 |
| Total Newport News | 5,571.00 | 5,663.00 | 5,852.00 | 6,320.16 | 6,762.57 | 7,168.33 | 7,598.43 | 8,054.33 | 8,537.59 | 8,964.47 | 9,412.69 | 9,789.20 | 10,180.77 |
| | 7.42% | 1.65% | 3.34% | 8.00% | 7.00% | 6.00% | 6.00% | 6.00% | 6.00% | 5.00% | 5.00% | 4.00% | 4.00% |
| Mission Technologies | | | | | | | | | | | | | |
| Revenue Type | | | | | | | | | | | | | |
| Product Sales | 76.00 | 100.00 | 90.00 | 117.00 | 140.40 | 161.46 | 185.68 | 204.25 | 224.67 | 241.52 | 253.60 | 266.28 | 279.59 |
| Service Sales | 1,052.00 | 1,259.00 | 2,181.00 | 2,835.30 | 3,402.36 | 3,912.71 | 4,499.62 | 4,949.58 | 5,444.54 | 5,852.88 | 6,145.53 | 6,452.80 | 6,775.44 |
| Intersegment | 140.00 | 117.00 | 116.00 | 150.80 | 180.96 | 208.10 | 239.32 | 263.25 | 289.58 | 311.29 | 326.86 | 343.20 | 360.36 |
| Sales and Service Revenues | 1,268.00 | 1,476.00 | 2,387.00 | 3,103.10 | 3,723.72 | 4,282.28 | 4,924.62 | 5,417.08 | 5,958.79 | 6,405.70 | 6,725.98 | 7,062.28 | 7,415.40 |
| | -3.13% | 16.40% | 61.72% | 30.00% | 20.00% | 15.00% | 15.00% | 10.00% | 10.00% | 7.50% | 5.00% | 5.00% | 5.00% |
| Major Programs | | | | | | | | | | | | | |
| Mission Based Solutions | 540 | 1,034 | 1,950 | 2,535 | 3,042 | 3,498 | 4,023 | 4,425 | 4,868 | 5,233 | 5,495 | 5,769 | 6,058 |
| Government and Energy Services | 235.00 | 14.00 | - | | | | | | | | | | |
| Oil and Gas Services | 493.00 | 428.00 | 437.00 | 568 | 682 | 784 | 902 | 992 | 1,091 | 1,173 | 1,231 | 1,293 | 1,358 |
| Total Mission Technologies | 1,268.00 | 1,476.00 | 2,387.00 | 3,103 | 3,724 | 4,282 | 4,925 | 5,417 | 5,959 | 6,406 | 6,726 | 7,062 | 7,415 |
| | -3.13% | 16.40% | 61.72% | 30.00% | 20.00% | 15.00% | 15.00% | 10.00% | 10.00% | 7.50% | 5.00% | 5.00% | 5.00% |
| Total (Less Intersegment Revenues) | | | | | | | | | | | | | |
| Revenue Type | | | | | | | | | | | | | |
| Product Sales | 6,850.00 | 7,000.00 | 7,283.00 | 9,275.66 | 10,667.01 | 11,520.37 | 12,326.80 | 13,189.67 | 13,981.05 | 14,680.10 | 15,414.11 | 16,030.67 | 16,671.90 |
| Service Sales | 2,511.00 | 2,524.00 | 3,393.00 | 3,103.10 | 3,568.57 | 3,854.05 | 4,123.83 | 4,412.50 | 4,677.25 | 4,911.11 | 5,156.67 | 5,362.94 | 5,577.45 |
| Sales and Service Revenues | 9,361.00 | 9,524.00 | 10,676.00 | 11,743.60 | 13,505.14 | 14,585.55 | 15,606.54 | 16,699.00 | 17,700.94 | 18,585.98 | 19,515.28 | 20,295.89 | 21,107.73 |
| | 5.19% | 1.74% | 12.10% | 10.00% | 15.00% | 8.00% | 7.00% | 7.00% | 6.00% | 5.00% | 5.00% | 4.00% | 4.00% |

Huntington Ingalls, Incorporated

Income Statement

| Fiscal Years Ending Dec. 31 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|---|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| As Reported Annual Income Statement | | | | | | | | | | | | | |
| Report Date | | | | | | | | | | | | | |
| Sales and service revenues | | | | | | | | | | | | | |
| Product sales | 6850 | 7000 | 7283 | 9,276 | 10,667 | 11,520 | 12,327 | 13,190 | 13,981 | 14,680 | 15,414 | 16,031 | 16,672 |
| Service revenues | 2511 | 2524 | 3393 | 3,103 | 3,569 | 3,854 | 4,124 | 4,413 | 4,677 | 4,911 | 5,157 | 5,363 | 5,577 |
| Sales and service revenues | 9361 | 9524 | 10676 | 12,379 | 14,236 | 15,374 | 16,451 | 17,602 | 18,658 | 19,591 | 20,571 | 21,394 | 22,249 |
| Cost of sales and service revenues | | | | | | | | | | | | | |
| Cost of product sales | 5374 | 5665 | 5867 | 7,678 | 8,830 | 9,536 | 10,298 | 11,019 | 11,680 | 12,376 | 12,995 | 13,515 | 14,056 |
| Depreciation | 191 | 207 | 218 | 233 | 249 | 267 | 285 | 305 | 327 | 349 | 374 | 400 | 427 |
| Amortization | 56 | 86 | 140 | 128 | 109 | 99 | 80 | 60 | 51 | 43 | 36 | 31 | 26 |
| Cost of service revenues | 2070 | 2198 | 3011 | 2,840 | 3,266 | 3,527 | 3,809 | 4,076 | 4,320 | 4,578 | 4,807 | 4,999 | 5,199 |
| Income from operating investments, net | 32 | 41 | 48 | 50 | 52 | 55 | 57 | 59 | 62 | 65 | 68 | 71 | 74 |
| Other income and gains, net | 1 | 2 | 1 | - | - | - | - | - | - | - | - | - | - |
| General and administrative expenses | 904 | 898 | 924 | 929 | 1,068 | 1,153 | 1,234 | 1,321 | 1,400 | 1,470 | 1,543 | 1,605 | 1,669 |
| Goodwill impairment | 0 | 0 | 0 | - | - | - | - | - | - | - | - | - | - |
| Operating income | 733 | 427 | 467 | 521 | 661 | 737 | 687 | 762 | 819 | 710 | 748 | 773 | 798 |
| Other income (expense) | | | | | | | | | | | | | |
| Interest expense | -114 | -89 | -102 | (141) | (175) | (200) | (179) | (184) | (188) | (188) | (184) | (180) | (176) |
| Non-operating retirement benefit | 119 | 181 | 276 | - | - | - | - | - | - | - | - | - | - |
| Other, net | 6 | 17 | -20 | - | - | - | - | - | - | - | - | - | - |
| Earnings before income taxes | 810 | 622 | 719 | 380 | 486 | 537 | 508 | 578 | 631 | 522 | 564 | 593 | 622 |
| Federal and foreign income taxes | 114 | 78 | 140 | 60 | 77 | 86 | 81 | 92 | 100 | 83 | 90 | 94 | 99 |
| Net earnings | 696 | 544 | 579 | 440 | 564 | 623 | 588 | 670 | 732 | 605 | 653 | 687 | 721 |
| | | | | | | | | | | | | | |
| Year end shares outstanding | 40.5 | 40 | 39.9 | 39.86 | 39.40 | 39.12 | 38.94 | 38.82 | 38.75 | 38.71 | 38.71 | 38.71 | 38.71 |
| Net earnings (loss) per share - basic | 17.14 | 13.5 | 14.44 | 11.05 | 14.30 | 15.92 | 15.11 | 17.25 | 18.88 | 15.64 | 16.88 | 17.75 | 18.62 |
| Weighted average shares outstanding - basic | 40.6 | 40.3 | 40.1 | 39.88 | 39.63 | 39.26 | 39.03 | 38.88 | 38.79 | 38.73 | 38.71 | 38.71 | 38.71 |
| Dividends per common share | 4.23 | 4.6 | 4.78 | 5.24 | 5.65 | 6.05 | 6.44 | 6.82 | 7.20 | 7.57 | 7.95 | 8.32 | 8.69 |

Huntington Ingalls, Incorporated
Balance Sheet

| Fiscal Years Ending Dec. 31 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Assets | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | |
| Cash and cash equivalents | 512 | 627 | 467 | 17 | 257 | 129 | 554 | 1,007 | 1,572 | 1,896 | 2,199 | 2,498 | 2,775 |
| Accounts receivable, net | 397 | 433 | 636 | 614 | 706 | 762 | 816 | 873 | 925 | 972 | 1,020 | 1,061 | 1,103 |
| Contract assets | 1,049 | 1,310 | 1,240 | 1,484 | 1,707 | 1,843 | 1,972 | 2,110 | 2,237 | 2,349 | 2,466 | 2,565 | 2,667 |
| Inventoried costs, net | 137 | 161 | 183 | 330 | 379 | 409 | 438 | 469 | 497 | 522 | 548 | 570 | 593 |
| Deferred income taxes | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Prepaid expenses and other current assets | 349 | 259 | 220 | 146 | 179 | 196 | 194 | 216 | 233 | 212 | 226 | 237 | 247 |
| Income taxes receivable | 171 | 209 | 170 | 91 | 116 | 128 | 121 | 138 | 150 | 125 | 134 | 141 | 148 |
| Assets held for sale | 133 | - | - | - | - | - | - | - | - | - | - | - | - |
| Prepaid expenses and other current assets | 45 | 50 | 50 | 55 | 63 | 68 | 73 | 78 | 83 | 87 | 91 | 95 | 99 |
| Total current assets | 2,444 | 2,790 | 2,746 | 2,590 | 3,228 | 3,341 | 3,974 | 4,675 | 5,465 | 5,950 | 6,459 | 6,930 | 7,386 |
| Noncurrent Assets | | | | | | | | | | | | | |
| Land and land improvements | 309 | 329 | 344 | 396 | 455 | 512 | 576 | 633 | 665 | 698 | 733 | 770 | 808 |
| Buildings and leasehold improvements | 2,442 | 2,643 | 2,805 | 3,029 | 3,241 | 3,436 | 3,642 | 3,861 | 4,054 | 4,256 | 4,469 | 4,693 | 4,927 |
| Machinery and other equipment | 2,017 | 2,058 | 2,122 | 2,759 | 3,310 | 3,807 | 4,378 | 4,816 | 5,056 | 5,309 | 5,575 | 5,853 | 6,146 |
| Capitalized software costs | 234 | 226 | 246 | 271 | 311 | 336 | 360 | 385 | 404 | 424 | 445 | 468 | 491 |
| Total property, plant, and equipment | 5,002 | 5,256 | 5,517 | 6,454 | 7,318 | 8,091 | 8,955 | 9,694 | 10,179 | 10,688 | 11,223 | 11,784 | 12,373 |
| Accumulated depreciation and amortization | (2,024) | (2,149) | (2,319) | (2,552) | (2,802) | (3,068) | (3,354) | (3,659) | (3,986) | (4,335) | (4,708) | (5,108) | (5,536) |
| Net Noncurrent Assets | 2,978 | 3,107 | 3,198 | 3,902 | 4,516 | 5,022 | 5,602 | 6,035 | 6,194 | 6,353 | 6,514 | 6,676 | 6,837 |
| Other Assets | | | | | | | | | | | | | |
| Operating lease assets | 192 | 241 | 282 | 330 | 374 | 414 | 458 | 496 | 520 | 546 | 574 | 602 | 632 |
| Goodwill | 1,617 | 2,628 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 | 2,618 |
| Other intangible assets, net of accumulated amortization | 512 | 1,159 | 1,019 | 891 | 782 | 683 | 603 | 543 | 492 | 449 | 413 | 382 | 356 |
| Pension plan assets | - | 281 | 600 | 620 | 641 | 663 | 685 | 708 | 732 | 757 | 782 | 809 | 836 |
| Deferred tax assets | 133 | - | - | - | - | - | - | - | - | - | - | - | - |
| Miscellaneous Other Assets | | | | | | | | | | | | | |
| Debt issuance costs | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Miscellaneous other assets excluding debt issuance costs | 281 | 421 | 394 | 409 | 470 | 507 | 543 | 581 | 616 | 647 | 679 | 706 | 734 |
| Total other assets | 2,735 | 4,730 | 4,913 | 4,868 | 4,885 | 4,885 | 4,907 | 4,946 | 4,978 | 5,017 | 5,066 | 5,117 | 5,177 |
| Total Assets | 8,157 | 10,627 | 10,857 | 11,359 | 12,629 | 13,248 | 14,482 | 15,656 | 16,637 | 17,320 | 18,039 | 18,723 | 19,400 |
| Liabilities | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | |
| Trade accounts payable | 460 | 603 | 642 | 664 | 764 | 825 | 882 | 944 | 1,001 | 1,051 | 1,103 | 1,148 | 1,193 |
| Accrued employees' compensation | 293 | 361 | 345 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 |
| Short-term debt and current portion of long-term debt | - | - | 399 | - | - | - | - | - | - | - | - | - | - |
| Current portion of postretirement plan liabilities | 133 | 137 | 134 | 139 | 143 | 148 | 153 | 158 | 164 | 169 | 175 | 181 | 187 |
| Current portion of workers' compensation liabilities | 225 | 252 | 229 | 237 | 245 | 253 | 261 | 270 | 279 | 289 | 299 | 309 | 319 |
| Advance payments and billings in excess of revenues | 585 | 651 | 766 | 718 | 826 | 892 | 955 | 1,021 | 1,083 | 1,137 | 1,194 | 1,241 | 1,291 |
| Income taxes payable | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Liabilities held for sale | 68 | - | - | - | - | - | - | - | - | - | - | - | - |
| Other current liabilities | 462 | 423 | 380 | 382 | 439 | 474 | 507 | 543 | 576 | 604 | 635 | 660 | 686 |
| Total Current Liabilities | 2,226 | 2,427 | 2,895 | 2,405 | 2,683 | 2,858 | 3,025 | 3,203 | 3,368 | 3,516 | 3,671 | 3,804 | 3,943 |
| Noncurrent Liabilities | | | | | | | | | | | | | |
| Long-term debt | 1,686 | 3,298 | 2,506 | 3,110 | 3,557 | 3,185 | 3,278 | 3,335 | 3,336 | 3,269 | 3,205 | 3,131 | 3,053 |
| Pension plan liabilities | 960 | 351 | 214 | 336 | 356 | 377 | 397 | 416 | 458 | 458 | 458 | 458 | 458 |
| Other postretirement plan liabilities | 401 | 368 | 260 | 408 | 433 | 458 | 482 | 505 | 556 | 556 | 556 | 556 | 556 |
| Workers' compensation liabilities | 511 | 506 | 463 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 |
| Long-term operating lease liabilities | 157 | 194 | 246 | 300 | 347 | 386 | 431 | 464 | 476 | 489 | 501 | 514 | 526 |
| Deferred tax liabilities | - | 313 | 418 | - | - | - | - | - | - | - | - | - | - |
| Other long-term liabilities | 315 | 362 | 366 | 437 | 502 | 542 | 580 | 621 | 658 | 691 | 726 | 755 | 785 |
| Total Noncurrent Liabilities | 4,030 | 5,392 | 4,473 | 5,052 | 5,656 | 5,410 | 5,629 | 5,803 | 5,946 | 5,924 | 5,907 | 5,875 | 5,840 |
| Total Liabilities | 6,256 | 7,819 | 7,368 | 7,457 | 8,339 | 8,268 | 8,654 | 9,006 | 9,314 | 9,440 | 9,578 | 9,679 | 9,782 |
| Stockholders' Equity | | | | | | | | | | | | | |
| Common stock | 1,973 | 1,999 | 2,023 | 2,036 | 2,050 | 2,064 | 2,077 | 2,091 | 2,105 | 2,119 | 2,133 | 2,147 | 2,162 |
| Retained earnings / deficit | 3,533 | 3,891 | 4,276 | 4,507 | 4,848 | 5,234 | 5,572 | 5,977 | 6,429 | 6,742 | 7,087 | 7,453 | 7,837 |
| Treasury stock | (2,058) | (2,159) | (2,211) | (2,307) | (2,371) | (2,415) | (2,444) | (2,463) | (2,476) | (2,476) | (2,476) | (2,476) | (2,476) |
| Accumulated other comprehensive income / loss | (1,547) | (923) | (599) | (599) | (599) | (599) | (599) | (599) | (599) | (599) | (599) | (599) | (599) |
| Total stockholders' equity | 1,901 | 2,808 | 3,489 | 3,638 | 3,928 | 4,284 | 4,606 | 5,006 | 5,459 | 5,785 | 6,145 | 6,525 | 6,923 |
| Total Liabilities and Stockholders' Equity | 8,157 | 10,627 | 10,857 | 11,096 | 12,267 | 12,552 | 13,261 | 14,012 | 14,773 | 15,225 | 15,723 | 16,203 | 16,706 |

Huntington Ingalls, Incorporated
Historical Cash Flow Statement
Fiscal Years Ending Dec. 31
2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022
(\$ in millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|-------------|
| Net cash provided by / used in operating activities | 332 | 236 | 716 | 828 | 822 | 814 | 914 | 896 | 1093 | 760 | 766 |
| Net earnings / loss | 146 | 261 | 338 | 404 | 573 | 479 | 836 | 549 | 696 | 544 | 579 |
| Adjustments to reconcile to net cash provided by / used in operating activities | 315 | 174 | 268 | 313 | 298 | 465 | 244 | 386 | 328 | 430 | 436 |
| Depreciation | 165 | 206 | 166 | 154 | 163 | 165 | 167 | 180 | 191 | 207 | 218 |
| Amortization of purchased intangibles | 19 | 20 | 28 | 26 | 23 | 40 | 36 | 47 | 56 | 86 | 140 |
| Amortization of debt issuance costs | 9 | 9 | 11 | 8 | 5 | 6 | 4 | 3 | 7 | 8 | 8 |
| Provision for doubtful accounts | 0 | 0 | 0 | 0 | 0 | 10 | -4 | -6 | -1 | 7 | -7 |
| Stock-based compensation | 41 | 44 | 34 | 43 | 36 | 34 | 36 | 30 | 23 | 33 | 36 |
| Excess tax benefit related to stock-based compensation | 0 | -24 | -39 | -33 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred income taxes | 79 | -28 | -22 | -15 | 85 | 184 | 10 | 97 | 23 | 98 | 2 |
| Proceeds from insurance settlement related to investing activities | 0 | -58 | 0 | -21 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairment of goodwill and intangible assets | 0 | 0 | 47 | 102 | 0 | 0 | 0 | 29 | 0 | 0 | 0 |
| Loss on early extinguishment of debt | 0 | 0 | 37 | 44 | 0 | 22 | 0 | 0 | 21 | 0 | 0 |
| Gain on disposition of assets | | | | | | | | | | | |
| Loss / gain on investments in marketable securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -17 | -19 | 25 |
| Asset impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 13 | 0 | 0 |
| Change in | | | | | | | | | | | |
| Increase / decrease in accounts receivable | -194 | -218 | 140 | -41 | -22 | -35 | 195 | -51 | -70 | 58 | -196 |
| Contract assets | 0 | 0 | 0 | 0 | 0 | 0 | -242 | 32 | 22 | -126 | 70 |
| Inventoried costs | 116 | 51 | 53 | 54 | 75 | 18 | 40 | -11 | 11 | -25 | -22 |
| Prepaid expenses and other assets | 6 | -15 | 7 | -31 | -17 | -52 | -40 | -93 | -62 | -88 | 20 |
| Increase / decrease in accounts payable and accruals | -14 | 69 | -86 | 97 | -41 | 102 | 335 | 4 | 344 | 45 | 6 |
| Retiree benefits | -43 | -86 | -4 | 32 | -44 | -163 | -454 | 80 | -176 | -78 | -127 |
| Other non-cash transactions, net | 2 | 5 | 6 | 5 | -14 | 4 | -5 | 6 | 12 | 10 | 14 |
| Net cash provided by / used in investing activities | -162 | -81 | -437 | -141 | -653 | -349 | -476 | -627 | -759 | -1954 | -268 |
| Additions to property, plant, and equipment | -162 | -139 | -165 | -188 | -285 | -382 | -463 | -530 | -353 | -331 | -284 |
| Decrease in restricted cash | | | | | | | | | | | |
| Grant proceeds for capital expenditures | 0 | 0 | 0 | 0 | 0 | 21 | 61 | 94 | 17 | 20 | 12 |
| Acquisitions of businesses, net of cash received | 0 | 0 | -272 | -6 | -372 | 3 | -77 | -195 | -417 | -1643 | 0 |
| Investment in affiliates | 0 | 0 | 0 | 0 | 0 | 0 | -10 | 0 | 0 | -22 | -5 |
| Proceeds from disposition of assets | 0 | 0 | 0 | 32 | 4 | 9 | 13 | 0 | 0 | 20 | 0 |
| Proceeds from insurance settlement related to investing activities | 0 | 58 | 0 | 21 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investing activities, net | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 4 | -6 | 2 | 9 |
| Net cash provided by / used in financing activities | -28 | -169 | -332 | -783 | -343 | -484 | -899 | -434 | 103 | 1309 | -658 |
| Proceeds from issuance of long-term debt | 0 | 0 | 600 | 600 | 0 | 600 | 0 | 0 | 1000 | 1650 | 0 |
| Repayment of long-term debt | -29 | -51 | -679 | -995 | 0 | -600 | 0 | 0 | -600 | -25 | -400 |
| Proceeds from line of credit borrowings | 0 | 0 | 0 | 0 | 0 | 0 | 95 | 5119 | 385 | 0 | 24 |
| Repayment of line of credit borrowings | 0 | 0 | 0 | 0 | 0 | 0 | -95 | -5119 | -385 | 0 | -24 |
| Debt issuance costs | 0 | -5 | -12 | -21 | 0 | -12 | 0 | 0 | -13 | -22 | 0 |
| Tender premiums and fees related to early extinguishment of debt | 0 | 0 | -31 | -33 | 0 | -15 | 0 | 0 | -15 | 0 | 0 |
| Net borrowings on commercial paper | | | | | | | | | | | |
| Dividends paid | -5 | -25 | -49 | -81 | -98 | -115 | -132 | -149 | -172 | -186 | -192 |
| Repurchases of common stock | -1 | -119 | -138 | -232 | -194 | -286 | -742 | -262 | -84 | -101 | -52 |
| Employee taxes on certain share-based payment arrangements | 0 | 0 | -64 | -54 | -51 | -56 | -25 | -23 | -13 | -7 | -14 |
| Proceeds from stock option exercises | 7 | 7 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from issuance of note payable to former parent | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Excess tax benefit related to stock-based compensation | 0 | 24 | 39 | 33 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment of notes payable to former parent and accrued interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend to former parent in connection with spin-off | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net transfers from / to former parent | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Change in cash and cash equivalents | 142 | -14 | -53 | -96 | -174 | -19 | -461 | -165 | 437 | 115 | -160 |
| Cash and cash equivalents, beginning of period | 915 | 1057 | 1043 | 990 | 894 | 720 | 701 | 240 | 75 | 512 | 627 |
| Cash and cash equivalents, end of period | 1057 | 1043 | 990 | 894 | 720 | 701 | 240 | 75 | 512 | 627 | 467 |

Huntington Ingalls, Incorporated
Forecasted Cash Flow Statement

| Fiscal Years Ending Dec. 31 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <i>(\$ in millions)</i> | | | | | | | | | | |
| Net cash provided by / used in operating activities | 357 | 876 | 990 | 981 | 1,020 | 1,133 | 974 | 1,001 | 1,067 | 1,121 |
| Net Income | 440 | 564 | 623 | 588 | 670 | 732 | 605 | 653 | 687 | 721 |
| Adjustments to reconcile to net cash provided by / used in operating activities: | | | | | | | | | | |
| Depreciation | 233 | 249 | 267 | 285 | 305 | 327 | 349 | 374 | 400 | 427 |
| Amortization | 128 | 109 | 99 | 80 | 60 | 51 | 43 | 36 | 31 | 26 |
| Deferred income taxes | - | - | - | - | - | - | - | - | - | - |
| Changes in assets and liabilities: | | | | | | | | | | |
| Accounts Receivable | 22 | (92) | (56) | (53) | (57) | (52) | (46) | (49) | (41) | (42) |
| Contract assets | (244) | (223) | (137) | (129) | (138) | (127) | (112) | (117) | (99) | (103) |
| Inventoried costs | (147) | (49) | (30) | (29) | (31) | (28) | (25) | (26) | (22) | (23) |
| Prepaid expenses and other assets | 74 | (34) | (17) | 2 | (22) | (17) | 22 | (14) | (11) | (11) |
| Pension plan assets | (20) | (21) | (22) | (22) | (23) | (24) | (25) | (26) | (26) | (27) |
| Pension plan liabilities | 122 | 20 | 21 | 20 | 19 | 42 | - | - | - | - |
| Miscellaneous other assets excluding debt issuance costs | (15) | (61) | (38) | (36) | (38) | (35) | (31) | (32) | (27) | (28) |
| Accounts payable | 22 | 100 | 61 | 58 | 62 | 57 | 50 | 53 | 44 | 46 |
| Accrued employees' compensation | (79) | - | - | - | - | - | - | - | - | - |
| Current portion of postretirement plan liabilities | 5 | 5 | 5 | 5 | 5 | 5 | 6 | 6 | 6 | 6 |
| Current portion of workers' compensation liabilities | 8 | 8 | 8 | 9 | 9 | 9 | 9 | 10 | 10 | 10 |
| Advance payments and billings in excess of revenues | (48) | 108 | 66 | 62 | 67 | 61 | 54 | 57 | 48 | 50 |
| Other Current Liabilities | 2 | 57 | 35 | 33 | 36 | 33 | 29 | 30 | 25 | 26 |
| Other postretirement plan liabilities | 148 | 24 | 26 | 24 | 23 | 51 | - | - | - | - |
| Workers' compensation liabilities | (2) | - | - | - | - | - | - | - | - | - |
| Long-term operating lease liabilities | 54 | 47 | 39 | 45 | 33 | 12 | 12 | 12 | 12 | 12 |
| Deferred Tax Liability | (418) | - | - | - | - | - | - | - | - | - |
| Other long-term liabilities | 71 | 66 | 40 | 38 | 41 | 37 | 33 | 35 | 29 | 30 |
| Net cash provided by / used in investing activities | (985) | (908) | (812) | (909) | (777) | (509) | (535) | (562) | (590) | (619) |
| Property, Plant & Equipment | (937) | (864) | (773) | (865) | (739) | (485) | (509) | (534) | (561) | (589) |
| Goodwill | - | - | - | - | - | - | - | - | - | - |
| Operating lease right-of-use assets | (48) | (44) | (40) | (44) | (38) | (25) | (26) | (27) | (29) | (30) |
| Net cash provided by / used in financing activities | (86) | 174 | (638) | (174) | (213) | (277) | (346) | (358) | (382) | (399) |
| Proceeds from issuance of long-term debt | 604 | 447 | (372) | 92 | 57.54 | 1 | (67) | (64) | (74) | (77) |
| Short-term debt and current portion of long-term debt | (399) | - | - | - | - | - | - | - | - | - |
| Dividends paid | (209) | (223) | (237) | (251) | (264.86) | (279) | (293) | (308) | (322) | (336) |
| Repurchases of common stock | (96) | (65) | (44) | (29) | (19) | (13) | - | - | - | - |
| Common Stock | 13 | 14 | 14 | 14 | 13.82 | 14 | 14 | 14 | 14 | 14 |
| Employee taxes on certain share-based payment arrangements | - | - | - | - | - | - | - | - | - | - |
| Proceeds from stock option exercises | - | - | - | - | - | - | - | - | - | - |
| Proceeds from issuance of note payable to former parent | - | - | - | - | - | - | - | - | - | - |
| Excess tax benefit related to stock-based compensation | - | - | - | - | - | - | - | - | - | - |
| Repayment of notes payable to former parent and accrued interest | - | - | - | - | - | - | - | - | - | - |
| Dividend to former parent in connection with spin-off | - | - | - | - | - | - | - | - | - | - |
| Net transfers from / to former parent | - | - | - | - | - | - | - | - | - | - |
| Change in cash and cash equivalents | (714) | 142 | (461) | (102) | 31 | 346 | 93 | 82 | 95 | 103 |
| Cash and cash equivalents, beginning of period | 467 | (247) | (105) | (566) | (668) | (637) | (291) | (198) | (117) | (21) |
| Cash and cash equivalents, end of period | (247) | (105) | (566) | (668) | (637) | (291) | (198) | (117) | (21) | 81 |

Huntington Ingalls, Incorporated
Common Size Income Statement

| <i>Fiscal Years Ending Dec. 31</i> | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--|---------|---------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Sales and service revenues | 9361 | 9524 | 10676 | 12,378.76 | 14,235.57 | 15,374.42 | 16,450.63 | 17,602.17 | 18,658.30 | 19,591.22 | 20,570.78 | 21,393.61 | 22,249.36 |
| Product sales | 73.18% | 73.50% | 68.22% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% | 74.93% |
| Service revenues | 26.82% | 26.50% | 31.78% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% | 25.07% |
| Sales and service revenues | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| Cost of sales and service revenues | | | | | | | | | | | | | |
| Cost of product sales | 57.41% | 59.48% | 54.96% | 62.02% | 62.02% | 62.02% | 62.60% | 62.60% | 62.60% | 63.17% | 63.17% | 63.17% | 63.17% |
| Cost of service revenues | 22.11% | 23.08% | 28.20% | 22.94% | 22.94% | 22.94% | 23.16% | 23.16% | 23.16% | 23.37% | 23.37% | 23.37% | 23.37% |
| Income from operating investments, net | 0.34% | 0.43% | 0.45% | 0.40% | 0.37% | 0.36% | 0.35% | 0.34% | 0.33% | 0.33% | 0.33% | 0.33% | 0.33% |
| Other income and gains, net | 0.01% | 0.02% | 0.01% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| General and administrative expenses | 9.66% | 9.43% | 8.65% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% | 7.50% |
| Goodwill impairment | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Operating income | 7.83% | 4.48% | 4.37% | 4.21% | 4.64% | 4.80% | 4.18% | 4.33% | 4.39% | 3.62% | 3.63% | 3.61% | 3.59% |
| Other income (expense) | | | | | | | | | | | | | |
| Interest expense | -1.22% | -0.93% | -0.96% | -1.14% | -1.23% | -1.30% | -1.09% | -1.05% | -1.01% | -0.96% | -0.89% | -0.84% | -0.79% |
| Non-operating retirement benefit | 1.27% | 1.90% | 2.59% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other, net | 0.06% | 0.18% | -0.19% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Earnings before income taxes | 8.65% | 6.53% | 6.73% | 3.07% | 3.42% | 3.49% | 3.09% | 3.28% | 3.38% | 2.67% | 2.74% | 2.77% | 2.79% |
| Federal and foreign income taxes | 1.22% | 0.82% | 1.31% | 0.49% | 0.54% | 0.56% | 0.49% | 0.52% | 0.54% | 0.42% | 0.44% | 0.44% | 0.44% |
| Net earnings | 7.44% | 5.71% | 5.42% | 3.56% | 3.96% | 4.05% | 3.58% | 3.80% | 3.92% | 3.09% | 3.18% | 3.21% | 3.24% |

Huntington Ingalls, Incorporated
Common Size Balance Sheet

| Fiscal Years Ending Dec. 31 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Assets | | | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | | | |
| Cash and cash equivalents | 5.47% | 6.58% | 4.37% | 0.13% | 1.80% | 0.84% | 3.37% | 5.72% | 8.43% | 9.68% | 10.69% | 11.68% | 12.47% |
| Accounts receivable, net | 4.24% | 4.55% | 5.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% | 4.96% |
| Contract assets | 11.21% | 13.75% | 11.61% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% | 11.99% |
| Inventoried costs, net | 1.46% | 1.69% | 1.71% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% | 2.66% |
| Deferred income taxes | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Prepaid expenses and other current assets | 3.73% | 2.72% | 2.06% | 1.18% | 1.26% | 1.28% | 1.18% | 1.23% | 1.25% | 1.08% | 1.10% | 1.11% | 1.11% |
| Income taxes receivable | 1.83% | 2.19% | 1.59% | 0.73% | 0.81% | 0.83% | 0.74% | 0.78% | 0.81% | 0.64% | 0.65% | 0.66% | 0.67% |
| Assets held for sale | 1.42% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Prepaid expenses and other current assets | 0.48% | 0.52% | 0.47% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% | 0.44% |
| Total current assets | 26.11% | 29.29% | 25.72% | 20.92% | 22.67% | 21.73% | 24.16% | 26.56% | 29.29% | 30.37% | 31.40% | 32.39% | 33.20% |
| Noncurrent Assets | | | | | | | | | | | | | |
| Land and land improvements | 3.30% | 3.45% | 3.22% | 3.20% | 3.20% | 3.33% | 3.50% | 3.60% | 3.56% | 3.56% | 3.56% | 3.60% | 3.63% |
| Buildings and leasehold improvements | 26.09% | 27.75% | 26.27% | 24.47% | 22.77% | 22.35% | 22.14% | 21.93% | 21.73% | 21.73% | 21.73% | 21.93% | 22.15% |
| Machinery and other equipment | 18.89% | 19.28% | 19.88% | 22.28% | 23.25% | 24.76% | 26.61% | 27.36% | 27.10% | 27.10% | 27.10% | 27.36% | 27.62% |
| Capitalized software costs | 2.19% | 2.12% | 2.30% | 2.19% | 2.19% | 2.19% | 2.19% | 2.19% | 2.17% | 2.17% | 2.17% | 2.19% | 2.21% |
| Total property, plant, and equipment | 46.85% | 49.23% | 51.68% | 52.14% | 51.41% | 52.62% | 54.44% | 55.08% | 54.56% | 54.56% | 54.56% | 55.08% | 55.61% |
| Accumulated depreciation and amortization | -18.96% | -20.13% | -21.72% | -20.62% | -19.68% | -19.96% | -20.39% | -20.79% | -21.36% | -22.13% | -22.89% | -23.88% | -24.88% |
| Net Noncurrent Assets | 27.89% | 29.10% | 29.96% | 31.52% | 31.73% | 32.67% | 34.05% | 34.29% | 33.19% | 32.43% | 31.67% | 31.20% | 30.73% |
| Other Assets | | | | | | | | | | | | | |
| Operating lease assets | 1.80% | 2.26% | 2.64% | 2.67% | 2.63% | 2.69% | 2.78% | 2.82% | 2.79% | 2.79% | 2.79% | 2.82% | 2.84% |
| Goodwill | 15.15% | 24.62% | 24.52% | 21.15% | 18.39% | 17.03% | 15.91% | 14.87% | 14.03% | 13.36% | 12.73% | 12.24% | 11.77% |
| Other intangible assets, net of accumulated amortization | 4.80% | 10.86% | 9.54% | 7.20% | 5.49% | 4.44% | 3.67% | 3.08% | 2.64% | 2.29% | 2.01% | 1.79% | 1.60% |
| Pension plan assets | 0.00% | 2.63% | 5.62% | 5.01% | 4.50% | 4.31% | 4.16% | 4.02% | 3.92% | 3.86% | 3.80% | 3.78% | 3.76% |
| Deferred tax assets | 1.25% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Miscellaneous Other Assets | | | | | | | | | | | | | |
| Debt issuance costs | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Miscellaneous other assets excluding debt issuance costs | 2.63% | 3.94% | 3.69% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% | 3.30% |
| Total other assets | 25.62% | 44.30% | 46.02% | 39.32% | 34.32% | 31.77% | 29.83% | 28.10% | 26.68% | 25.61% | 24.63% | 23.92% | 23.27% |
| Total Assets | 76.41% | 99.54% | 101.70% | 91.77% | 88.71% | 86.17% | 88.03% | 88.94% | 89.16% | 88.40% | 87.69% | 87.52% | 87.19% |
| Liabilities | | | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | | | |
| Trade accounts payable | 4.31% | 5.65% | 6.01% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% | 5.36% |
| Accrued employees' compensation | 2.74% | 3.38% | 3.23% | 2.15% | 1.87% | 1.73% | 1.62% | 1.51% | 1.43% | 1.36% | 1.29% | 1.24% | 1.20% |
| Short-term debt and current portion of long-term debt | 0.00% | 0.00% | 3.74% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Current portion of postretirement plan liabilities | 1.25% | 1.28% | 1.26% | 1.12% | 1.01% | 0.96% | 0.93% | 0.90% | 0.88% | 0.86% | 0.85% | 0.84% | 0.84% |
| Current portion of workers' compensation liabilities | 2.11% | 2.36% | 2.14% | 1.91% | 1.72% | 1.65% | 1.59% | 1.54% | 1.50% | 1.47% | 1.45% | 1.44% | 1.43% |
| Advance payments and billings in excess of revenues | 5.48% | 6.10% | 7.17% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% | 5.80% |
| Income taxes payable | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Liabilities held for sale | 0.64% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other current liabilities | 4.33% | 3.96% | 3.56% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% | 3.08% |
| Total Current Liabilities | 20.85% | 22.73% | 27.12% | 19.43% | 18.84% | 18.59% | 18.39% | 18.20% | 18.05% | 17.95% | 17.85% | 17.78% | 17.72% |
| Noncurrent Liabilities | | | | | | | | | | | | | |
| Long-term debt | 15.79% | 30.89% | 23.47% | 25.12% | 24.99% | 20.72% | 19.92% | 18.95% | 17.88% | 16.69% | 15.58% | 14.63% | 13.72% |
| Pension plan liabilities | 8.99% | 3.29% | 2.00% | 2.71% | 2.50% | 2.45% | 2.41% | 2.36% | 2.45% | 2.34% | 2.23% | 2.14% | 2.06% |
| Other postretirement plan liabilities | 3.76% | 3.45% | 2.44% | 3.30% | 3.04% | 2.98% | 2.93% | 2.87% | 2.98% | 2.84% | 2.71% | 2.60% | 2.50% |
| Workers' compensation liabilities | 4.79% | 4.74% | 4.34% | 3.72% | 3.24% | 3.00% | 2.80% | 2.62% | 2.47% | 2.35% | 2.24% | 2.16% | 2.07% |
| Long-term operating lease liabilities | 1.47% | 1.82% | 2.30% | 2.42% | 2.44% | 2.51% | 2.62% | 2.64% | 2.55% | 2.49% | 2.44% | 2.40% | 2.36% |
| Deferred tax liabilities | 0.00% | 2.93% | 3.92% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Other long-term liabilities | 2.95% | 3.39% | 3.43% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% | 3.53% |
| Total Noncurrent Liabilities | 37.75% | 50.51% | 41.90% | 40.81% | 39.73% | 35.19% | 34.22% | 32.97% | 31.87% | 30.24% | 28.72% | 27.46% | 26.25% |
| Total Liabilities | 58.60% | 73.24% | 69.01% | 60.24% | 58.58% | 53.78% | 52.61% | 51.16% | 49.92% | 48.19% | 46.56% | 45.24% | 43.97% |
| Stockholders' Equity | | | | | | | | | | | | | |
| Common stock | 18.48% | 18.72% | 18.95% | 16.45% | 14.40% | 13.42% | 12.63% | 11.88% | 11.28% | 10.82% | 10.37% | 10.04% | 9.72% |
| Retained earnings / deficit | 33.09% | 36.45% | 40.05% | 36.41% | 34.06% | 34.05% | 33.87% | 33.96% | 34.46% | 34.41% | 34.45% | 34.84% | 35.22% |
| Treasury stock | -19.28% | -20.22% | -20.71% | -18.63% | -16.66% | -15.71% | -14.86% | -14.00% | -13.27% | -12.64% | -12.04% | -11.58% | -11.13% |
| Accumulated other comprehensive income / loss | -14.49% | -8.65% | -5.61% | -4.84% | -4.21% | -3.90% | -3.64% | -3.40% | -3.21% | -3.06% | -2.91% | -2.80% | -2.69% |
| Total stockholders' equity | 17.81% | 26.30% | 32.68% | 29.39% | 27.59% | 27.86% | 28.00% | 28.44% | 29.26% | 29.53% | 29.87% | 30.50% | 31.12% |
| Total Liabilities and Stockholders' Equity | 76.41% | 99.54% | 101.70% | 89.63% | 86.17% | 81.64% | 80.61% | 79.60% | 79.18% | 77.72% | 76.43% | 75.74% | 75.08% |

Huntington Ingalls, Incorporated
Value Driver Estimation

| Fiscal Years Ending Dec. 31 | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|--|---------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| NOPLAT: | | | | | | | | | | | | | |
| Revenue | 9,361 | 9,524 | 10,676 | 12,379 | 14,236 | 15,374 | 16,451 | 17,602 | 18,658 | 19,591 | 20,571 | 21,394 | 22,249 |
| Operating Expenses: | | | | | | | | | | | | | |
| Cost of product sales | 5,374 | 5,665 | 5,867 | 7,678 | 8,830 | 9,536 | 10,298 | 11,019 | 11,680 | 12,376 | 12,995 | 13,515 | 14,056 |
| Cost of service revenues | 2,070 | 2,198 | 3,011 | 2,840 | 3,266 | 3,527 | 3,809 | 4,076 | 4,320 | 4,578 | 4,807 | 4,999 | 5,199 |
| Income from operating investments, net | 32 | 41 | 48 | 50 | 52 | 55 | 57 | 59 | 62 | 65 | 68 | 71 | 74 |
| Other income and gains, net | 1 | 2 | 1 | - | - | - | - | - | - | - | - | - | - |
| General and administrative expenses | 904 | 898 | 924 | 929 | 1,068 | 1,153 | 1,234 | 1,321 | 1,400 | 1,470 | 1,543 | 1,605 | 1,669 |
| Total operating expenses: | 8,381 | 8,804 | 9,851 | 11,497 | 13,216 | 14,271 | 15,398 | 16,475 | 17,462 | 18,489 | 19,413 | 20,190 | 20,998 |
| Operating Profit | 980 | 720 | 825 | 882 | 1,020 | 1,103 | 1,052 | 1,127 | 1,196 | 1,102 | 1,158 | 1,204 | 1,252 |
| Operating Lease Implied Interest | 13 | 12 | 15 | 18 | 21 | 24 | 26 | 29 | 32 | 33 | 35 | 37 | 38 |
| EBIT | 993 | 732 | 840 | 900 | 1,041 | 1,127 | 1,079 | 1,157 | 1,228 | 1,135 | 1,192 | 1,240 | 1,290 |
| Depreciation and Amortization | 191 | 207 | 218 | 233 | 249 | 267 | 285 | 305 | 327 | 349 | 374 | 400 | 427 |
| EBITDA | 1,184 | 939 | 1,058 | 1,133 | 1,290 | 1,394 | 1,364 | 1,462 | 1,554 | 1,485 | 1,566 | 1,640 | 1,717 |
| Less Adjusted Taxes | | | | | | | | | | | | | |
| Tax Provision | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Tax on Operating Lease | 2 | 2 | 2 | 3 | 3 | 4 | 4 | 5 | 5 | 5 | 6 | 6 | 6 |
| Tax on Interest Expense | (18) | (14) | (16) | (22) | (28) | (32) | (29) | (29) | (30) | (30) | (29) | (29) | (28) |
| Tax Shield on Other Retirement Plans | 19 | 29 | 44 | - | - | - | - | - | - | - | - | - | - |
| Total Adjusted Taxes | 3 | 17 | 30 | (20) | (25) | (28) | (24) | (25) | (25) | (25) | (24) | (23) | (22) |
| Change in Deferred Tax | | | | | | | | | | | | | |
| Deferred Tax Assets | 23 | 98 | 2 | - | - | - | - | - | - | - | - | - | - |
| Deferred Tax Liabilities | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Change in Deferred Tax | (23) | (98) | (2) | - | - | - | - | - | - | - | - | - | - |
| NOPLAT: | 973 | 651 | 869 | 880 | 1,016 | 1,099 | 1,054 | 1,132 | 1,203 | 1,111 | 1,169 | 1,217 | 1,268 |
| Invested Capital: | | | | | | | | | | | | | |
| Operating Assets: | | | | | | | | | | | | | |
| Cash and cash equivalents | 512 | 627 | 467 | 17 | 257 | 129 | 554 | 1,007 | 1,572 | 1,896 | 2,199 | 2,498 | 2,775 |
| Accounts receivable, net | 397 | 433 | 636 | 614 | 706 | 762 | 816 | 873 | 925 | 972 | 1,020 | 1,061 | 1,103 |
| Contract assets | 1,049 | 1,310 | 1,240 | 1,484 | 1,707 | 1,843 | 1,972 | 2,110 | 2,237 | 2,349 | 2,466 | 2,565 | 2,667 |
| Inventoried costs, net | 137 | 161 | 183 | 330 | 379 | 409 | 438 | 469 | 497 | 522 | 548 | 570 | 593 |
| Deferred income taxes | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Prepaid expenses and other current assets | 349 | 259 | 220 | 146 | 179 | 196 | 194 | 216 | 233 | 212 | 226 | 237 | 247 |
| Income taxes receivable | 171 | 209 | 170 | 91 | 116 | 128 | 121 | 138 | 150 | 125 | 134 | 141 | 148 |
| Prepaid expenses and other current assets excluding income taxes receivable and assets held for sale | 45 | 50 | 50 | 55 | 63 | 68 | 73 | 78 | 83 | 87 | 91 | 95 | 99 |
| Total current assets | 2,660 | 3,049 | 2,966 | 2,735 | 3,407 | 3,537 | 4,168 | 4,891 | 5,698 | 6,161 | 6,685 | 7,167 | 7,633 |
| Operating Liabilities: | | | | | | | | | | | | | |
| Trade accounts payable | 460 | 603 | 642 | 664 | 764 | 825 | 882 | 944 | 1,001 | 1,051 | 1,103 | 1,148 | 1,193 |
| Accrued employees' compensation | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 | 235 |
| Current portion of workers' compensation liabilities | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 | 216 |
| Other current liabilities | 462 | 423 | 380 | 382 | 439 | 474 | 507 | 543 | 576 | 604 | 635 | 660 | 686 |
| Total Current Liabilities: | 1,373 | 1,477 | 1,473 | 1,497 | 1,654 | 1,750 | 1,841 | 1,938 | 2,027 | 2,106 | 2,189 | 2,258 | 2,331 |
| Operating Working Capital | (1,328) | (1,427) | (1,423) | (1,442) | (1,590) | (1,682) | (1,768) | (1,860) | (1,944) | (2,019) | (2,098) | (2,163) | (2,232) |
| Net PP&E | 2,978 | 3,107 | 3,198 | 3,902 | 4,516 | 5,022 | 5,602 | 6,035 | 6,194 | 6,353 | 6,514 | 6,676 | 6,837 |
| Long-Term Assets: | | | | | | | | | | | | | |
| Land and land improvements | 309 | 329 | 344 | 396 | 455 | 512 | 576 | 633 | 665 | 698 | 733 | 770 | 808 |
| Buildings and leasehold improvements | 2,442 | 2,643 | 2,805 | 3,029 | 3,241 | 3,436 | 3,642 | 3,861 | 4,054 | 4,256 | 4,469 | 4,693 | 4,927 |
| Machinery and other equipment | 2,017 | 2,058 | 2,122 | 2,759 | 3,310 | 3,807 | 4,378 | 4,816 | 5,056 | 5,309 | 5,575 | 5,853 | 6,146 |
| Capitalized software costs | 234 | 226 | 246 | 271 | 311 | 336 | 360 | 385 | 404 | 424 | 445 | 468 | 491 |
| Other Assets: | | | | | | | | | | | | | |
| Operating lease assets | 192 | 241 | 282 | 330 | 374 | 414 | 458 | 496 | 520 | 546 | 574 | 602 | 632 |
| Other intangible assets, net of accumulated amortization | 512 | 1,159 | 1,019 | 891 | 782 | 683 | 603 | 543 | 492 | 449 | 413 | 382 | 356 |
| Deferred tax assets | 133 | - | - | - | - | - | - | - | - | - | - | - | - |
| Total Long-Term Assets: | 5,839 | 6,656 | 6,818 | 7,675 | 8,474 | 9,187 | 10,016 | 10,733 | 11,192 | 11,684 | 12,209 | 12,768 | 13,361 |
| Workers' compensation liabilities | 511 | 506 | 463 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 | 461 |
| Other long-term liabilities | 315 | 362 | 366 | 437 | 502 | 542 | 580 | 621 | 658 | 691 | 726 | 755 | 785 |
| Total Long-Term Liabilities: | 826 | 868 | 829 | 898 | 963 | 1,004 | 1,042 | 1,082 | 1,119 | 1,152 | 1,187 | 1,216 | 1,246 |
| PV of Operating Leases | 157 | 194 | 246 | 300 | 347 | 386 | 431 | 464 | 476 | 489 | 501 | 514 | 526 |
| Invested Capital | 6,820 | 7,662 | 8,010 | 9,538 | 10,089 | 11,138 | 12,378 | 13,362 | 13,845 | 14,377 | 14,938 | 15,551 | 16,195 |
| NOPLAT | 973 | 651 | 869 | 880 | 1,016 | 1,099 | 1,054 | 1,132 | 1,203 | 1,111 | 1,169 | 1,217 | 1,268 |
| Change in IC | (225) | (842) | (348) | (1,528) | (551) | (1,049) | (1,240) | (984) | (483) | (532) | (561) | (613) | (644) |
| FCF | 748 | (191) | 521 | (647) | 465 | 50 | (185) | 147 | 720 | 579 | 608 | 604 | 624 |
| Return on Invested Capital (ROIC): | | | | | | | | | | | | | |
| NOPLAT | 973 | 651 | 869 | 880 | 1,016 | 1,099 | 1,054 | 1,132 | 1,203 | 1,111 | 1,169 | 1,217 | 1,268 |
| Beginning IC | 6,595 | 6,820 | 7,662 | 8,010 | 9,538 | 10,089 | 11,138 | 12,378 | 13,362 | 13,845 | 14,377 | 14,938 | 15,551 |
| ROIC | 14.75% | 9.54% | 11.34% | 10.99% | 10.65% | 10.89% | 9.47% | 9.15% | 9.00% | 8.02% | 8.13% | 8.15% | 8.15% |
| Economic Profit (EP): | | | | | | | | | | | | | |
| Beginning IC | 6,595 | 6,820 | 7,662 | 8,010 | 9,538 | 10,089 | 11,138 | 12,378 | 13,362 | 13,845 | 14,377 | 14,938 | 15,551 |
| x (ROIC - WACC) | 8.37% | 3.16% | 4.95% | 4.61% | 4.27% | 4.51% | 3.08% | 2.76% | 2.62% | 1.64% | 1.75% | 1.77% | 1.77% |
| EP | 552 | 216 | 380 | 369 | 408 | 455 | 344 | 342 | 350 | 227 | 251 | 264 | 276 |

Huntington Ingalls, Incorporated

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

| | |
|-----------------------|--------------|
| Risk-Free Rate | 3.74% |
| Beta | 0.69 |
| Equity Risk Premium | 4.88% |
| Cost of Equity | 7.08% |

ASSUMPTIONS:

U.S. 30 Year Treasury
Weekly 2-year Beta from Bloomberg
Damodaran April trailing 12 Month with adjusted payout

Cost of Debt:

| | |
|-------------------------------|--------------|
| Risk-Free Rate | 3.74% |
| Implied Default Premium | 1.89% |
| Pre-Tax Cost of Debt | 5.63% |
| Marginal Tax Rate | 15.92% |
| After-Tax Cost of Debt | 4.73% |

U.S. 30 Year Treasury

Huntington Ingalls 7-Year Corporate Bond Yield

Market Value of Common Equity:

| | |
|--------------------------|-------------------------|
| Total Shares Outstanding | 39,855,800 |
| Current Stock Price | 211.03 |
| MV of Equity | 8,410,769,474.00 |

MV Weights

70.11%

Market Value of Debt:

| | |
|-------------------------|-------------------------|
| Short-Term Debt | 399,000,000 |
| Current Portion of LTD | - |
| Long-Term Debt | 2,905,100,000 |
| PV of Operating Leases | 282,000,000.00 |
| MV of Total Debt | 3,586,100,000.00 |

29.89%

Market Value of the Firm

11,996,869,474.00

100.00%

Estimated WACC

6.38%

Huntington Ingalls, Incorporated

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

| | |
|---------------------|-------|
| CV Growth of NOPLAT | 2.50% |
| CV Year ROIC | 8.15% |
| WACC | 6.38% |
| Cost of Equity | 7.08% |

| Fiscal Years Ending Dec. 31 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|-----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|

DCF Model:

| | | | | | | | | | | |
|-----------------------|-------|-----|----|-------|-----|-----|-----|-----|-----|--------|
| Free Cash Flow (FCF) | (647) | 465 | 50 | (185) | 147 | 720 | 579 | 608 | 604 | 624 |
| Continuing Value (CV) | | | | | | | | | | 22,655 |
| PV of FCF | (608) | 411 | 41 | (145) | 108 | 497 | 375 | 371 | 346 | 12,983 |

Value of Operating Assets:

| | | |
|---------------------------|------------|-----------------------------|
| Non-Operating Adjustments | \$ 14,379 | |
| | \$ 620 | Pension Assets |
| | \$ (336) | Pension Liabilities |
| | \$ - | Excess Cash |
| | \$ (399) | ST Debt |
| | \$ (282) | PV Operating Lease |
| | \$ (2,905) | LT Debt |
| | \$ (282) | Operating Lease Liabilities |

Value of Equity

| | |
|----------------------------------|---------------|
| Shares Outstanding | 40 |
| Intrinsic Value of Last FYE | 271 |
| Implied Price as of Today | 276.46 |

EP Model:

| | | | | | | | | | | |
|-----------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-------|
| Economic Profit (EP) | 369 | 408 | 455 | 344 | 342 | 350 | 227 | 251 | 264 | 276 |
| Continuing Value (CV) | | | | | | | | | | 7,104 |
| PV of EP | 347 | 360 | 378 | 268 | 251 | 242 | 147 | 153 | 151 | 4,071 |

Total PV of EP

| | |
|-----------------------------|-------|
| Invested Capital (last FYE) | 8,010 |
|-----------------------------|-------|

Value of Operating Assets:

| | | |
|---------------------------|------------|-----------------------------|
| Non-Operating Adjustments | \$ 14,379 | |
| | \$ 620 | Pension Assets |
| | \$ (336) | Pension Liabilities |
| | \$ - | Excess Cash |
| | \$ (399) | ST Debt |
| | \$ (282) | PV Operating Lease |
| | \$ (2,905) | LT Debt |
| | \$ (282) | Operating Lease Liabilities |

Value of Equity

| | |
|----------------------------------|---------------|
| Shares Outstanding | 40 |
| Intrinsic Value of Last FYE | 271 |
| Implied Price as of Today | 276.46 |

Huntington Ingalls, Incorporated

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

| Fiscal Years Ending Dec. 31 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|

| | | | | | | | | | | |
|-----|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| EPS | \$ 11.05 | \$ 14.30 | \$ 15.92 | \$ 15.11 | \$ 17.25 | \$ 18.88 | \$ 15.64 | \$ 16.88 | \$ 17.75 | \$ 18.62 |
|-----|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|

Key Assumptions

| | |
|------------------|--------|
| CV growth of EPS | 1.00% |
| CV Year ROE | 11.05% |
| Cost of Equity | 7.08% |

Future Cash Flows

| | | | | | | | | | | |
|------------------------|------|------|------|------|------|------|------|------|------|-----------|
| P/E Multiple (CV Year) | | | | | | | | | | 14.95 |
| EPS (CV Year) | | | | | | | | | | \$ 18.62 |
| Future Stock Price | | | | | | | | | | \$ 278.33 |
| Dividends Per Share | 5.24 | 5.65 | 6.05 | 6.44 | 6.82 | 7.20 | 7.57 | 7.95 | 8.32 | 8.69 |
| Discounted Cash Flows | 4.89 | 4.93 | 4.93 | 4.90 | 4.84 | 4.78 | 4.69 | 4.60 | 4.49 | 150.32 |

Intrinsic Value as of Last FYE \$ 193.36

Implied Price as of Today **\$ 197.36**

Huntington Ingalls, Incorporated

Relative Valuation Models

| Ticker | Company | Price | EPS | | P/E | | Est. 5yr EPS gr. | PEG 23 | PEG 24 |
|--------|------------------------------|----------|---------|---------|--------------|--------------|---------------------|-------------|-------------|
| | | | 2023E | 2024E | 23 | 24 | | | |
| LMT | Lockheed Martin | \$473.39 | \$26.91 | \$27.92 | \$ 17.59 | 16.73 | 5.5 | 3.19 | 3.04 |
| LHX | L3Harris Technologies | \$194.54 | \$9.36 | \$10.60 | \$ 20.78 | 18.35 | 6.9 | 3.02 | 2.66 |
| NOC | Northrop Grumman | \$458.25 | \$22.00 | \$24.57 | \$ 20.83 | 18.65 | 4.2 | 4.98 | 4.46 |
| GD | General Dynamics Corporation | \$227.69 | \$12.77 | \$14.75 | \$ 17.83 | 15.4 | 5.9 | 3.01 | 2.60 |
| HON | Honeywell International Inc. | \$196.55 | \$9.06 | \$10.03 | \$ 21.69 | 19.6 | 6.9 | 3.16 | 2.85 |
| RTX | Raytheon Technologies | \$96.91 | \$4.28 | \$5.04 | \$ 22.64 | 19.23 | 15.9 | 1.43 | 1.21 |
| | | | Average | | 20.23 | 17.99 | | 2.68 | 2.35 |

| | | | | | | | | | |
|-----|----------------------------------|--------|-------|-------|------|------|------|-----|-----|
| HII | Huntington Ingalls, Incorporated | 211.03 | 11.05 | 14.30 | 19.1 | 14.8 | 3.62 | 5.3 | 4.1 |
|-----|----------------------------------|--------|-------|-------|------|------|------|-----|-----|

Implied Relative Value:

| | |
|-------------|-----------|
| P/E (EPS23) | \$ 223.45 |
| P/E (EPS24) | \$ 257.37 |
| PEG (EPS23) | \$ 107.13 |
| PEG (EPS24) | \$ 121.66 |

Huntington Ingalls, Incorporated

Key Management Ratios

| <i>Fiscal Years Ending Dec. 31</i> | 2020 | 2021 | 2022 | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Liquidity Ratios: | | | | | | | | | | | | | |
| Current Ratio | 1.10 | 1.15 | 0.95 | 1.08 | 1.20 | 1.17 | 1.31 | 1.46 | 1.62 | 1.69 | 1.76 | 1.82 | 1.87 |
| Quick Ratio | 0.41 | 0.44 | 0.38 | 0.26 | 0.36 | 0.31 | 0.45 | 0.59 | 0.74 | 0.82 | 0.88 | 0.94 | 0.98 |
| Cash Ratio | 0.23 | 0.26 | 0.16 | 0.01 | 0.10 | 0.05 | 0.18 | 0.31 | 0.47 | 0.54 | 0.60 | 0.66 | 0.70 |
| Asset-Management Ratios: | | | | | | | | | | | | | |
| Inventory Turnover | 68.33 | 59.16 | 58.34 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 | 37.55 |
| Days Sales Inventory | 5.34 | 6.17 | 6.26 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 | 9.72 |
| Total Asset Turnover | 1.15 | 0.90 | 0.98 | 1.09 | 1.13 | 1.16 | 1.14 | 1.12 | 1.12 | 1.13 | 1.14 | 1.14 | 1.15 |
| Accounts Receivable Turnover | 23.58 | 22.00 | 16.79 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 | 20.16 |
| Financial Leverage Ratios: | | | | | | | | | | | | | |
| Debt-to-Equity Ratio | 0.89 | 1.17 | 0.72 | 0.85 | 0.91 | 0.74 | 0.71 | 0.67 | 0.61 | 0.57 | 0.52 | 0.48 | 0.44 |
| Debt-to-Assets Ratio | 0.21 | 0.31 | 0.23 | 0.27 | 0.28 | 0.24 | 0.23 | 0.21 | 0.20 | 0.19 | 0.18 | 0.17 | 0.16 |
| Debt-to-Capital | 0.47 | 0.54 | 0.42 | 0.46 | 0.48 | 0.43 | 0.42 | 0.40 | 0.38 | 0.36 | 0.34 | 0.32 | 0.31 |
| Profitability Ratios: | | | | | | | | | | | | | |
| Return on Equity (NI/Beg TSE) | 9.90% | 6.67% | 5.45% | 4.06% | 5.08% | 5.08% | 4.69% | 5.05% | 5.22% | 4.10% | 4.29% | 4.37% | 4.45% |
| Return on Assets (NI/Total Assets) | 23.37% | 17.51% | 18.11% | 11.28% | 12.48% | 12.40% | 10.51% | 11.10% | 11.81% | 9.53% | 10.03% | 10.30% | 10.54% |
| Gross Margins (Gross Profit/Sales) | 20.48% | 17.44% | 16.84% | 15.03% | 15.03% | 15.03% | 14.25% | 14.25% | 14.25% | 13.46% | 13.46% | 13.46% | 13.46% |
| Profit Margins | 7.44% | 5.71% | 5.42% | 3.56% | 3.96% | 4.05% | 3.58% | 3.80% | 3.92% | 3.09% | 3.18% | 3.21% | 3.24% |
| Payout Policy Ratios: | | | | | | | | | | | | | |
| Dividend Payout Ratio (Dividend/NI) | 24.71% | 34.19% | 33.16% | 47.44% | 39.50% | 38.00% | 42.60% | 39.55% | 38.16% | 48.43% | 47.07% | 46.85% | 46.67% |
| Total Payout Ratio ((Divs. + Repurchases)/NI) | 36.8% | 52.8% | 42.1% | 69.1% | 51.0% | 45.0% | 47.5% | 42.4% | 39.9% | 48.4% | 47.1% | 46.9% | 46.7% |

Huntington Ingalls, Incorporated
Sensitivity Tables

| | | Beta | | | | | | |
|----------------|-------|--------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 0.39 | 0.49 | 0.59 | 0.69 | 0.79 | 0.89 |
| Risk Free Rate | 3.44% | 477.40 | 404.29 | 346.31 | 300.95 | 260.28 | 227.53 | 199.64 |
| | 3.54% | 460.91 | 391.34 | 335.88 | 292.31 | 253.12 | 221.46 | 194.42 |
| | 3.64% | 445.25 | 378.98 | 325.88 | 284.00 | 246.20 | 215.58 | 189.36 |
| | 3.74% | 430.37 | 367.16 | 316.28 | 275.99 | 239.51 | 209.88 | 184.45 |
| | 3.84% | 416.20 | 355.86 | 307.06 | 268.27 | 233.05 | 204.36 | 179.68 |
| | 3.94% | 402.70 | 345.03 | 298.19 | 260.83 | 226.79 | 199.00 | 175.05 |
| | 4.04% | 389.83 | 334.66 | 289.66 | 253.65 | 220.74 | 193.81 | 170.55 |

| | | Marginal Tax Rate | | | | | | |
|----------------------|-------|-------------------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 12.92% | 13.92% | 14.92% | 15.92% | 16.92% | 17.92% |
| Pre-tax Cost of Debt | 5.33% | 282.05 | 283.15 | 284.26 | 285.38 | 286.50 | 287.64 | 288.78 |
| | 5.43% | 278.86 | 279.96 | 281.06 | 282.17 | 283.30 | 284.43 | 285.57 |
| | 5.53% | 275.71 | 276.81 | 277.91 | 279.02 | 280.14 | 281.26 | 282.40 |
| | 5.63% | 272.61 | 273.70 | 274.79 | 275.90 | 277.01 | 278.14 | 279.27 |
| | 5.73% | 269.55 | 270.63 | 271.72 | 272.82 | 273.93 | 275.05 | 276.18 |
| | 5.83% | 266.52 | 267.60 | 268.69 | 269.79 | 270.89 | 272.01 | 273.13 |
| | 5.93% | 263.54 | 264.61 | 265.70 | 266.79 | 267.89 | 269.00 | 270.12 |

| | | CV Growth of NOPLAT | | | | | | |
|------|-------|---------------------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% |
| WACC | 6.08% | 304.09 | 307.40 | 310.89 | 314.58 | 318.48 | 322.61 | 326.99 |
| | 6.18% | 291.82 | 294.78 | 297.91 | 301.20 | 304.68 | 308.36 | 312.25 |
| | 6.28% | 280.16 | 282.81 | 285.61 | 288.55 | 291.65 | 294.92 | 298.38 |
| | 6.38% | 269.07 | 271.44 | 273.93 | 276.56 | 279.32 | 282.23 | 285.30 |
| | 6.48% | 258.51 | 260.63 | 262.85 | 265.18 | 267.64 | 270.22 | 272.94 |
| | 6.58% | 248.45 | 250.34 | 252.31 | 254.38 | 256.56 | 258.84 | 261.25 |
| | 6.68% | 238.85 | 240.52 | 242.27 | 244.11 | 246.03 | 248.05 | 250.18 |

| | | CV ROIC | | | | | | |
|-------------------|-------|---------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 6.65% | 7.15% | 7.65% | 8.15% | 8.65% | 9.15% |
| Depreciation Rate | 5.47% | 239.46 | 252.04 | 262.98 | 272.58 | 281.07 | 288.63 | 295.40 |
| | 5.97% | 240.54 | 253.13 | 264.07 | 273.67 | 282.15 | 289.71 | 296.49 |
| | 6.47% | 241.65 | 254.24 | 265.18 | 274.78 | 283.27 | 290.83 | 297.61 |
| | 6.97% | 242.79 | 255.38 | 266.32 | 275.92 | 284.41 | 291.97 | 298.75 |
| | 7.47% | 243.96 | 256.55 | 267.49 | 277.09 | 285.59 | 293.15 | 299.93 |
| | 7.97% | 245.16 | 257.75 | 268.69 | 278.30 | 286.79 | 294.35 | 301.13 |
| | 8.47% | 246.39 | 258.98 | 269.93 | 279.53 | 288.02 | 295.58 | 302.36 |

| | | Risk-Free Rate | | | | | | |
|-----------------------|--------|----------------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 3.44% | 3.54% | 3.64% | #REF! | 3.84% | 3.94% |
| Net Marginal Tax Rate | 6.87% | 289.49 | 281.40 | 273.60 | 273.60 | 258.83 | 251.82 | 245.04 |
| | 7.62% | 290.38 | 282.25 | 274.42 | 274.42 | 259.56 | 252.52 | 245.72 |
| | 8.37% | 291.28 | 283.11 | 275.23 | 275.23 | 260.31 | 253.23 | 246.39 |
| | 9.12% | 292.19 | 283.97 | 276.06 | 276.06 | 261.06 | 253.94 | 247.07 |
| | 9.87% | 293.10 | 284.84 | 276.88 | 276.88 | 261.81 | 254.66 | 247.76 |
| | 10.62% | 294.02 | 285.72 | 277.72 | 277.72 | 262.56 | 255.38 | 248.45 |
| | 11.37% | 294.94 | 286.60 | 278.55 | 278.55 | 263.33 | 256.11 | 249.14 |

| | | CV Growth of NOPLAT | | | | | | |
|---------|-------|---------------------|--------|--------|--------|--------|--------|--------|
| | | 276.46 | 2.20% | 2.30% | 2.40% | 2.50% | 2.60% | 2.70% |
| CV ROIC | 6.65% | 241.42 | 241.85 | 242.31 | 242.78 | 243.29 | 243.82 | 244.38 |
| | 7.15% | 251.70 | 252.86 | 254.09 | 255.37 | 256.73 | 258.15 | 259.66 |
| | 7.65% | 260.64 | 262.44 | 264.33 | 266.31 | 268.41 | 270.61 | 272.94 |
| | 8.15% | 268.48 | 270.84 | 273.31 | 275.91 | 278.65 | 281.54 | 284.59 |
| | 8.65% | 275.41 | 278.26 | 281.26 | 284.40 | 287.72 | 291.21 | 294.90 |
| | 9.15% | 281.59 | 284.88 | 288.33 | 291.96 | 295.79 | 299.82 | 304.07 |
| | 9.65% | 287.13 | 290.81 | 294.68 | 298.74 | 303.02 | 307.54 | 312.30 |