

SCOTT SELLE, CHAIRMAN
INDUSTRIAL COMMITTEE OF AMMUNITION
PRODUCERS (ICAP)

CONSOLIDATED SECTOR REPORT
15 OCTOBER, 2015

ICAP

- Industrial Committee of Ammunition Producers
- Objective: Forum for open exchange of USG and industry views related to DoD ammunition
 1. Review and discuss Government ammunition acquisition policies, procedures, and actions
 2. Report on health of ammunition industry sectors
 3. Identify impediments to sustaining a responsive ammunition industrial base
 4. Provide platform for identifying ammo life-cycle issues, from development through disposal

Membership & Participation

- ICAP is formed from the National Defense Industrial Association (NDIA) corporate membership consisting of executives from defense industry producers of ammunition and ammunition components
 - 8 ammunition enterprise sectors
- PEO Ammunition and GG, Joint Munitions Lethality & Life Cycle Command
- Other USG and industry stakeholders
 - USG and industry participation encouraged

ICAP Sectors

- **Propellants & Explosives**
 - David Siggers, President, Spectra Technologies, LLC
- **Systems, Fuzes, Sensors & Electronics**
 - Todd Anderson, President, AMTECH Corporation
- **Large Caliber Ammo & Bombs**
 - Paul Izzo, President, American Ordnance, LLC
- **Demilitarization**
 - Jeff Brunozzi, VP/GM, Large Caliber Ammunition, General Dynamics Ordnance & Tactical Systems

Four New Sector Leaders

ICAP Sectors

- **Small & Medium Caliber Ammo**
 - Kent Holiday, VP/GM Orbital-ATK Small Caliber Systems
- **GOCOs**
 - Todd Hayes, General Manager, BAE Systems - Holston
- **Warheads & Rockets**
 - Tom Rudy, VP/GM, Day & Zimmermann
- **Pyrotechnics**
 - Bill Stewart, Marketing Manager, Stressau Laboratories

*Over 30 Active Sector Participants Representing
Majority of U.S. Ammunition Enterprise*

Milestones & Accomplishments

- Increase in air-delivered munitions driving unplanned favorable bomb fuze demand
- Orbital-ATK successfully completed first production LAT for Precision Guidance Kit (PGK)
- FMU-139 D/B fuze contract awarded to Orbital ATK
 - FMU-139 D/B fuze will replace FMU-139 C/B, FMU-152, and FMU-143 for both Navy and Air Force

Systems, Fuzes, Sensors & Electronics

Milestones & Accomplishments

- Two prime contractors, GD-OTS and Expal-USA awarded Conventional Ammunition Demilitarization Contract (CAD) in June
 - 5-year contract with maximum value estimated \$382 million
- M6 Propellant Disposal contract also awarded in June (major milestone for Mindon clean-up)
- NDIA Global Demil Symposium scheduled for December 7-9, Parsippany NJ

Demilitarization

Milestones & Accomplishments

- Nammo Talley awarded 5-year IDIQ for SMAW SLM ammunition with max value \$97 million
- American Ordnance awarded largest order in ~20 years for BGM-71 TOW missile tip charges
- Javelin JV awarded \$42 million FMS (Jordan and Estonia) for Javelin Block1 missiles
- GD-OTS awarded \$128 million FMS for Hydra 70mm grains and rockets (KSA, Iraq, Pakistan)

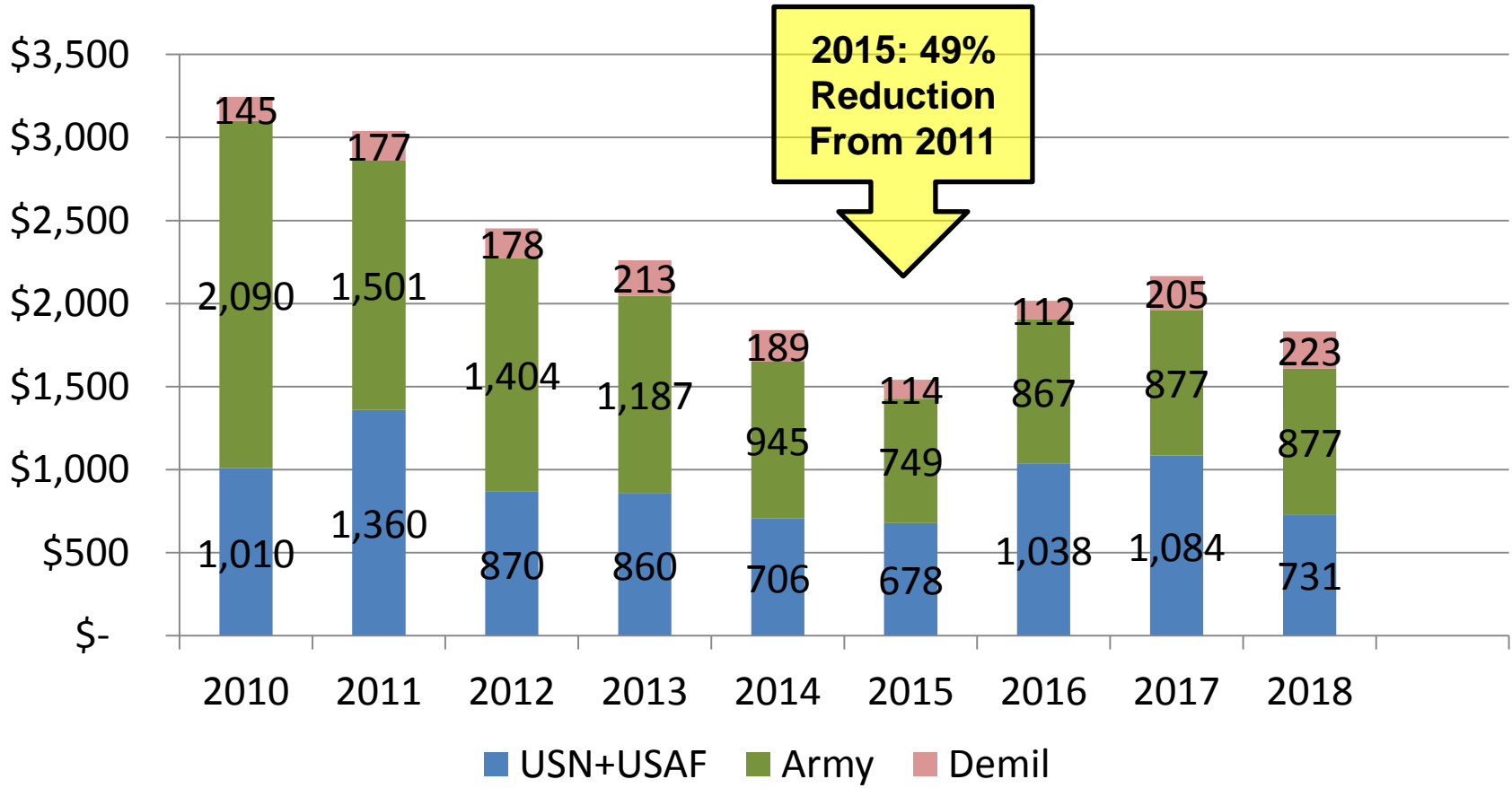
Warheads & Rockets

Current Issues

- DoD ammunition budget “valley” during FY14-16
 - Industrial base sustainment
 - Sub-tier supplier risk management
 - Certain lines more severely impacted (i.e. rockets)
- International competitiveness
- Audit overload / audit backlog
- Raw material obsolescence
- Delays for major contract awards
- Equitable R&D funding
- USG Technical Data Packages

Conventional Ammo Budget

\$MUSD

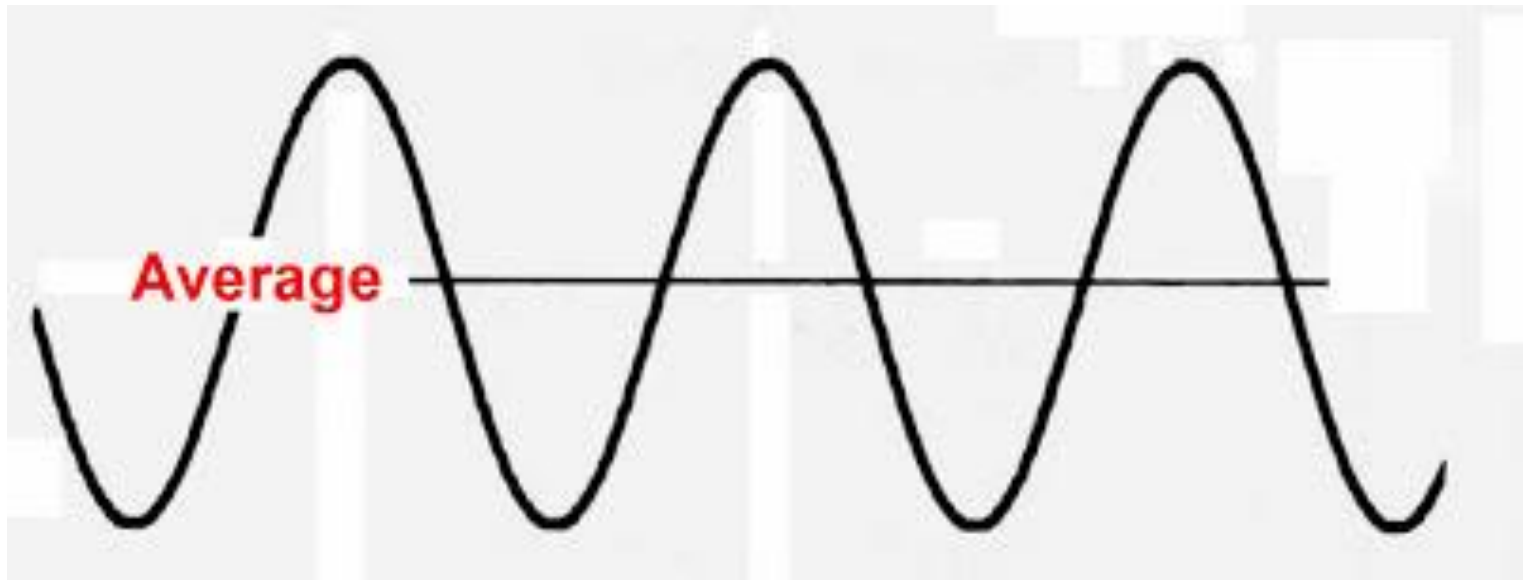


Source: PEO Ammo; 04 Aug 2015

Industry Response To Ammo Budget

- Lobbying to protect funding, prevent shutdown
 - Letter writing
 - Capital Hill visits
 - Onsite visits (Congress, Senate, professional staff, HAC/SAC/HASC/SASC staff)
 - Discussion: What level of coordination is appropriate (with PEOs) for industry lobbying efforts?
 - Discussion: Impact of CR vs approved budget
 - Discussion: What level of planning is appropriate in advance of possible USG shutdown?
 - Example: Lack of QARs disrupt downstream deliveries

Minimizing Risk In Ammo Enterprise



*Ramp-Up Followed By Major Decline
During Time Periods of Major Conflict*

USG Buying Components Versus Systems To Sustain Industrial Base

■ Pros

- USG insight into sub-tier supply chain
- Lower initial price
- Ability to protect very specific and unique lines of supply

■ Cons

- Accountability for finished product quality
- More complex logistics
- Sustaining competence for system integration
- Energetic shelf life and sub-detail obsolescence
- Higher total cost
 - Margin on margin cost
 - Less competition

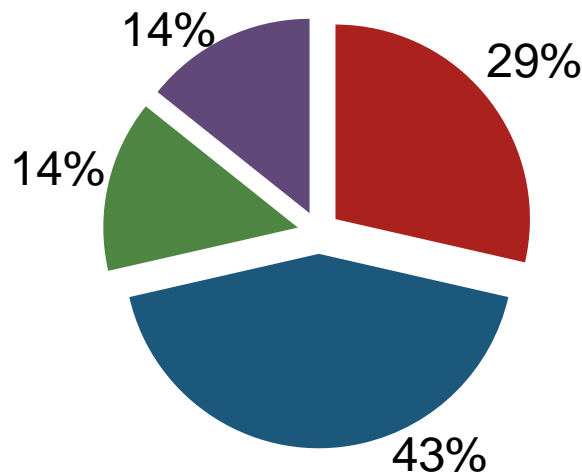
Current Issues

- DoD ammunition budget “valley” during FY14-16
- **International competitiveness**
 - Access to international markets (logistics, ITAR, etc)
- Audit overload / audit backlog
- Raw material obsolescence
- Delays for major contract awards
- Equitable R&D funding
- USG Technical Data Packages

Industry Response For Int'l Growth

- Significant efforts growing international sales

Importance of International Sales



% of 2015 Sales From Int'l

- None 0%
- Low 1-20%
- Significant 21-50%
- Majority >50%
- N/A or Confid

43% of ICAP Members Report "Significant" International Sales in 2015 (21-50% of Total)

Concerns Re: Int'l Growth

- Army interpretation of 10 USC 4687 “Sale of excess, obsolete, and unserviceable” ammo prevents sale of excess energetics for commercial and foreign DCS
 - In some cases (i.e. CH-6) no other source exists
- Slow regulatory approval process (ITAR, etc)
 - BATFE approval to register and transfer/export products is slow, delays deliveries, causes late order penalties, and impacts competitive position
 - No sector members reporting “breakthrough” progress on resolving DOT and ATF problem

Concerns Re: Int'l Growth

- High price of “The Eagle” versus international alternatives
 - “You get what you pay for”
 - Relevance to non-standard ammunition procurements by USG
- Political barriers adversely impact competitiveness in several potential markets (Ukraine, etc.)
 - Industry is probably in better position to address/resolve this issue than joint Ammo management commands

Current Issues

- DoD ammunition budget “valley” during FY14-16
 - International competitiveness
 - Audit overload / audit backlog
 - Raw material obsolescence
 - Delays for major contract awards
 - Equitable R&D funding
 - USG TDPs
- Close these concerns with continued monitoring and/or discussion?

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- **USG Technical Data Packages**

Technical Data Packages

- Timing of TDP availability for enhancing multiple source competitiveness for ammo procurements
 - Discussion: In order to enable more realistic assessment of opportunities, improve credibility of alternate sources, and enhance competitiveness, can ARMY and other USG TDPs be made available to competent sources at time of “Sources Sought” notice or when RFI is issued?
 - Discussion: Proactive funding for TDP improvements