

Exercise 6 — Big 5 Defense Contractor Share Price

Forecasted Impact of Defense Budget Decline (2026–2046)

Prepared: April 2026 • Companion to Exercise 6 — Forecasted Public Sector Expenditures and Headcount

Assumptions & Valuation Methodology

This table forecasts the 2046 share price for each of the five largest U.S. defense contractors under the defense budget scenario developed in Exercise 6. The national defense budget is projected to decline from \$892B in 2026 to approximately \$474B in 2046 — a reduction of 47% — driven entirely by the erosion of income tax revenue caused by AI and robotics-driven private-sector employment displacement.

Assumption 1 — Defense revenue scales with the budget: Each company's DoD-derived revenue declines proportionally with the Exercise 6 defense budget trajectory.

Assumption 2 — Non-defense commercial revenue holds constant: Commercial aviation, Gulfstream business jets, and other non-defense segments are held flat in real terms (no growth, no contraction).

Assumption 3 — Terminal P/E reflects zero-growth: Current P/E multiples embed growth expectations. By 2046, with no foreseeable increase in defense revenue beyond that year (per exercise instruction), a terminal P/E is applied using a zero-growth perpetuity model: Terminal P/E = 1 / cost of equity (~8%), yielding ~12.5× for pure defense and ~18× for commercial businesses. Each company's blended terminal P/E reflects its defense/commercial mix.

Net margins are held constant at approximate 2025/2026 levels (7.5% for defense-pure; 9.5% for RTX reflecting commercial mix; 3% recovery for Boeing). Shares outstanding are assumed roughly constant.

Forecasted Share Prices — Big 5 Defense Contractors

Current prices as of April 9, 2026. Forecasted 2046 prices reflect the defense budget scenario from Exercise 6.

Company (Ticker)	2026 Share Price	2046 Forecasted Share Price	Price Change	Valuation Rationale
Lockheed Martin Corporation NYSE: LMT Defense exposure: 87%	\$624	\$212	-66%	Overwhelmingly defense-dependent (~87% effective exposure including FMS). Revenue falls from ~\$73B to ~\$43B as DoD budget contracts 47%. Terminal P/E compresses from 23× to ~13× as growth evaporates.
RTX Corporation NYSE: RTX Defense exposure: 40%	\$198	\$75	-62%	Despite large commercial aviation division (Pratt & Whitney engines), current P/E of ~34× reflects growth premium that collapses at zero-growth. Defense Raytheon segment (~40% of revenue) declines materially; terminal P/E of ~16× on blended mix produces large price fall.
Northrop Grumman Corporation NYSE: NOC Defense exposure: 97%	\$690	\$198	-71%	Most defense-dependent of the five (~97% US government). Revenue falls from ~\$43B to ~\$23B. Terminal P/E compresses to ~13× (zero-growth perpetuity). The B-21 and Sentinel ICBM programs sustain revenue longer but cannot offset the structural budget decline.
General Dynamics Corporation NYSE: GD Defense exposure: 55%	\$346	\$171	-51%	Most diversified of the defense-pure players: Gulfstream business jets (~45% of revenue) provide a commercial buffer. Defense exposure (Marine, Combat, Technologies) still large enough to drive ~51% price decline. Terminal P/E blends to ~15× reflecting partial commercial protection.
The Boeing Company NYSE: BA Defense exposure: 28%	\$212	\$152	-28%	Least defense-exposed of the Big 5 (~28% effective DoD dependency). Commercial aviation (~72% of revenue) buffers the defense decline significantly. Currently unprofitable; modeled at

Company (Ticker)	2026 Share Price	2046 Forecasted Share Price	Price Change	Valuation Rationale
				~3% recovery margin. Smallest absolute and proportional price decline of the group.

Key Observations

Northrop Grumman faces the steepest decline (-71%). With 97% government/defense revenue and a portfolio almost entirely dependent on programs like the B-21 bomber and Sentinel ICBM, there is virtually no commercial buffer. Revenue roughly halves over the forecast period.

Boeing is the most insulated (-28%). Commercial aviation accounts for ~72% of Boeing's revenue. The defense decline affects only the Defense, Space & Security segment. Boeing's current unprofitability means the base for comparison is also lower.

Multiple compression is a major driver. Even companies whose revenue doesn't fall dramatically (RTX, Boeing) suffer large price declines because their current P/E ratios price in growth that no longer exists. RTX at 34x today compresses to ~16x in 2046, compounding the revenue decline.

Combined market cap destruction would be historic. The Big 5 together have a combined current market cap of approximately \$600B. Under this scenario, that falls to roughly \$200-\$220B by 2046 — a loss of ~\$380B in market value across the sector.

Important Disclaimers

¹ **Not investment advice:** This is a scenario-based illustration derived mechanically from the Exercise 6 defense budget forecast. It should not be construed as a recommendation to buy, sell, or hold any security. Actual share prices will depend on factors not modeled here.

² **Countermeasures not modeled:** Companies will adapt — pursuing international sales, diversifying into commercial markets, restructuring costs, and acquiring commercial capabilities. These actions could materially reduce the declines shown.

³ **International demand excluded:** Allied defense spending (NATO, Indo-Pacific) is growing rapidly and could partially offset U.S. DoD budget declines for contractors with strong export programs, particularly Lockheed (F-35) and RTX (Patriot).

⁴ **Discount rate sensitivity:** A 6% cost of equity would produce a terminal P/E of ~16.7x; a 10% rate would produce ~10x. The results are sensitive to this assumption.

⁵ **Sources:** Share prices: Yahoo Finance, Google Finance, Robinhood (April 9, 2026). Revenue and defense dependency: Fed-Spend.com, Quincy Institute, TenderAlpha, company annual reports. Defense budget trajectory: Exercise 6 of this research series.