

GENERAL DYNAMICS CHAIRMAN AND CEO PHEBE NOVAKOVIC SEES RISE IN DEFENSE BUDGETS TO CONTINUE

Phebe N. Novakovic
Chairman and Chief Executive Officer
General Dynamics Corporation

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Excerpts from Chairman Novakovic's Remarks

Since you became chairman and chief executive officer in 2013, General Dynamics stock has gone up 100 percent. But you seldom appear on TV. How come you are relatively media shy? So it's a conscious decision based in two parts. One, I think performance speaks for itself. And absent performance, you really don't have anything to say. And results matter. And results are, at the end of the day, all that really does matter. So that's number one. Number two, I've lived in this town for a long time. And I've learned that it's best to fly underneath the radar screen. [Laughter.] So we do that. We're a quiet company. And we pride ourselves on that. We try to be low maintenance, no fuss, no muss.

Did you think a woman could become the CEO of a defense company? So I have always worked in the national security environment, which was heavily male. I never really thought about the difference between men and women in the workplace, although we are different. So I didn't really think about the maleness of the organization. What attracted me to General Dynamics is that it was different. I'm not an engineer. I have not risen through the ranks from 25-years old. I've had a fairly ... unusual background. And the CEO and chairman at the time was a trial attorney from Chicago. And I thought, oh, there's a bit of an iconoclastic culture here. And maybe there's a place for me. You know, so much in life is about finding your place, whether it's with your family, in your community, your Nation, and in your company. And there was a place for me.

Do you think having worked in the Government helps you in your current position? I think it does. From the outside looking in, Government can often seem inexplicable at best and incomprehensible at worst. [Laughter.] But when you're inside the tent, you understand the particular and peculiar demands and requirements that really are visited upon people who work in the Government. So it gave me a sense of the trials and tribulations that they have, and an intimacy with their processes, and a bit of compassion.

Is it a focus of General Dynamics management to actually get the stock price up, as opposed to focus on other things? We believe very heavily in creating shareholder value. And in my mind, you do that through excellent operations. So we are focused primarily on our operating performance, year-in, year-out, because, of course, without good operations, you don't have good earnings. And the other half of that equation is the wise deployment of capital. So to the extent that our businesses are making money, it's one of my jobs to ensure that I spend that cash wisely. And those two components of value creation have allowed us to grow our company. And we're laser-focused on operating performance – laser focused.

So you ultimately wound up to be the head of the Marine Systems division, which is the division that makes submarines, right? So how long does it take to actually build a submarine? For our attack submarines, it takes about 60 months.

And what do they actually cost to build? About \$2 billion or so.

How many workers does it take to actually build one of these? Several thousand.

And you build them where? We build some parts down in assembly and some deliveries in Newport News. And we build them in Groton, Connecticut, and Quonset Point, Rhode Island.... We also make destroyers up in Bath, Maine. In our San Diego shipyard, we build supply ships.

Will defense budgets be going up? I think defense spending will increase. And I believe that in the United States, defense spending is driven by either the threat or the perception of the threat, and the world is not a safe place. There's some bad people in it and doing bad things. And so I think we will see some growth, certainly not as we saw in percentage increases in the hot wars. But if you think about this, the land forces – particularly Army and the Marine Corps – have been in combat for a very long time.

And combat is about consumables. You're burning through your equipment. You're aging your equipment at a much faster rate. So now they need to begin to recapitalize. And they need to think about how they build for the future. And that's in the land forces where we are. The Navy has been increasing its shipbuilding funding – thanks to the support from Congress – prodigiously over the last few years. And so we participate in that as well.

What's the greatest pleasure of being the CEO of General Dynamics? The privilege of serving. I am devoted and relentlessly loyal to the people of General Dynamics. And I care desperately about what we do and what we do for our country. And there's a lot of psychic energy that you get – and I'm a big patriot. There's a lot of psychic energy that you get out of performing for those men and women who are keeping us safe.

DAVID M. RUBENSTEIN: Welcome everybody, members and guests of The Economic Club of Washington, welcome to this early morning breakfast, the 11th event of our 29th season, here in the Grand Ballroom of the Renaissance Downtown Washington, DC, Hotel. Welcome to all.

Our featured guest is Phebe Novakovic, chairman and chief executive officer (CEO) of General Dynamics. Let me give you a little bit of her background. She is somebody who actually went to high school in Northern Virginia, and then finished in San Antonio. Went to Smith College. After Smith College, and after some work in a company around the Washington area, she went to work for the CIA¹. After doing that for a number of years, she then went to get her MBA² from Wharton. And after that she went to work at OMB³ and then the Pentagon, and was recruited from the Pentagon to work at General Dynamics in 2001. And from there, she rose up to be the head of Marine Systems. And in 2012, she became the president and chief operating officer. And in January of 2013, she became the chairman and CEO. [Applause.]

PHEBE NOVAKOVIC: Boy, I must be old. [Laughter.]

¹ CIA is Central Intelligence Agency.

² MBA is Master of Business Administration.

³ OMB is Office of Management and Budget.

MR. RUBENSTEIN: So General Dynamics is a company that is actually 117-years old. It goes back to the Holland Torpedo Boat Company, if I recall correctly. It's a company with the market capitalization of about \$42 ½ billion, revenues of about \$31 ½ billion, and earnings of about \$2 ½ billion, 100,000 employees. And since Phebe became the CEO, the stock has gone up 100 percent. Yes. [Applause.] And the market –

MS. NOVAKOVIC: Excuse me, but for those of you who are shareholders, thank you for believing in us. Go ahead. [Laughter.]

MR. RUBENSTEIN: OK. And the market capitalization has gone up by about 77 percent. And she does all this from a headquarters based in West Falls Church of about 140 people. So 140 people are in West Fall Church, are running 100,000 employees. So very impressive.

So let me ask you a very serious question. All my questions are serious, but this is particularly serious. [Laughter.]

MS. NOVAKOVIC: By definition.

MR. RUBENSTEIN: You know, I'm a co-CEO of a company. And my stock has not gone up 100 percent. But if my stock had gone up 100 percent, I'd be on every TV show in the world bragging about it. How come you are relatively media shy?

MS. NOVAKOVIC: So it's a conscious decision based in two parts. One, I think performance speaks for itself. And absent performance, you really don't have anything to say. And results matter. And results are, at the end of the day, all that really does matter. So that's number one. Number two, I've lived in this town for a long time. And I've learned that it's best to fly underneath the radar screen. [Laughter.] So we do that. We're a quiet company. And we pride ourselves on that. We try to be low maintenance, no fuss, no muss. And –

MR. RUBENSTEIN: OK. So when you joined the company in 2001, did it seem realistic that a woman in a man-based industry, you would argue – some people would say all industries are male-based and male-dominated – but let's say this is particularly one that is male dominated. Did you think a woman could become the CEO of a defense company?

MS. NOVAKOVIC: So I have always worked in the national security environment, which was heavily male. I never really thought about the difference between men and women in the workplace, although we are different. So I didn't really think about the maleness of the organization. What attracted me to General Dynamics is that it was different. I'm not an engineer. I have not risen through the ranks from 25-years old. I've had a fairly – as you noted – a fairly unusual background. And the CEO and chairman at the time was a trial attorney from Chicago. And I thought, oh, there's a bit of an iconoclastic culture here. And maybe there's a place for me. You know, so much in life is about finding your place, whether it's with your family, in your community, your Nation, and in your company. And there was a place for me.

MR. RUBENSTEIN: OK. So do you think your background, having worked in Government, helps you in your current position?

MS. NOVAKOVIC: I think it does. From the outside looking in, the Government can often seem inexplicable at best and incomprehensible at worst. [Laughter.] But when you're inside the tent, you understand the particular and peculiar demands and requirements that really are visited upon people who work in the Government. So it gave me a sense of the trials and tribulations that they have, and an intimacy with their processes, and a bit of compassion.

MR. RUBENSTEIN: So, right, the stock price has gone so well. Is it a focus of General Dynamics management to actually get the stock price up, as opposed to focus on other things? Is that by happenstance it happened? Or is that really an area of your focus?

MS. NOVAKOVIC: We believe very heavily in creating shareholder value. And in my mind, you do that through excellent operations. So we are focused primarily on our operating performance, year-in, year-out, because, of course, without good operations, you don't have good earnings. And the other half of that equation is the wise deployment of capital. So to the extent that our businesses are making money, it's one of my jobs to ensure that I spend that cash wisely. And those two components of value creation have allowed us to grow our company. And we're laser-focused on operating performance – laser focused.

MR. RUBENSTEIN: So your last name is a Serbian name, right?

MS. NOVAKOVIC: Novakovic [changes pronunciation], in the other side of the Atlantic.

MR. RUBENSTEIN: All right. So how many people pronounce it correctly the first time?

MS. NOVAKOVIC: Well, Novakovic is the Americanization. But I mean, have a fairly unusual first name, Phebe, so that's pretty much all you need to know, so. [Laughter.]

MR. RUBENSTEIN: So your father came over when he was a teenager from Serbia, and ultimately went into the U.S. Army Intelligence, is that right?

MS. NOVAKOVIC: Air Force.

MR. RUBENSTEIN: Air Force Intelligence. And so when you were growing up did you have an interest in the military area?

MS. NOVAKOVIC: Well, it was the height of the Cold War, and I grew up in Germany, a little bit in Italy. And you got a very real sense of being an American. And I think that that, along with my parents' values and the gratitude that my father felt for this country and his – you know, he came here at 17 with 50 bucks in his pocket, six languages but not English. [Laughter.] And the opportunities that this country afforded him were really inculcated to me at an early age. And so I really believe in serving your Nation.

MR. RUBENSTEIN: OK. So you went to Smith College. I don't think that many people from Smith College are winding up in the CIA. So how did that – [laughter] –

MS. NOVAKOVIC: No, pretty much not. Go figure. [Laughter.]

MR. RUBENSTEIN: But when you went to work at the CIA, can you tell your Smith College classmates, or your parents, that you're going to work at the CIA? What do you tell people?

MS. NOVAKOVIC: We didn't say where we worked. We told them we worked for the Government and were pretty amorphous about it. When I resigned to go to business school, we were able to resign in open forum. So I told some of my friends and they were sort of ticked off. But you know, a minor matter. [Laughter.]

MR. RUBENSTEIN: So can you tell us any undercover agent jobs you did while you were at the CIA? [Laughter.]

MS. NOVAKOVIC: Not a chance. And I think we have the Russian ambassador here, so that wouldn't be smart. [Laughter, applause.]

MR. RUBENSTEIN: OK. All right. So I guess you won't tell us that. [Laughter.] So tell us, you went to work – after you got your Wharton MBA you went to work at OMB. Why did you decide to do that?

MS. NOVAKOVIC: Well, I needed a job, for starters. I had two children and was unemployed coming out of Wharton. I can't imagine, because I was interviewing eight months pregnant. [Laughter.] So I wanted to go work in steel, because I like to make things. And I walked into the steel interview and the guy took one look at me, his eyes went like this, and it was a quick interview. [Laughter.] So I also wanted to continue to serve. And so I joined OMB. And I was fortunate –

MR. RUBENSTEIN: What Administration was that?

MS. NOVAKOVIC: I joined under George, senior, and then continued on into the Clinton years.

MR. RUBENSTEIN: Clinton years, OK. So then you got recruited to work at the Pentagon by Secretary Cohen, or?

MS. NOVAKOVIC: Secretary Cohen and John Hamre.

MR. RUBENSTEIN: OK. And you did that for a number of years. In what area –

MS. NOVAKOVIC: Four years.

MR. RUBENSTEIN: Four years? OK. So then –

MS. NOVAKOVIC: And interestingly – well, you may not find this interesting, but it was interesting for me – my boss at the time was Rudy de Leon. And he and I stayed through the

transition with the Rumsfeld Administration, which was an interesting thing to see and experience. And –

MR. RUBENSTEIN: Because Rumsfeld was so easy to work for, or? [Laughter.]

MS. NOVAKOVIC: I actually got along with him quite well. If you intellectually engaged with him and he didn't think that you were a pushover, you did OK. And of course, my Serbian would get up a couple times, so. [Laughter.]

MR. RUBENSTEIN: OK. All right, so you decided to leave and then you – did you interview a number of defense companies? And how did you happen to go to General Dynamics?

MS. NOVAKOVIC: Well, because I thought that I actually might be able to – with a liberal arts background and this eclectic, you know, career, at best, that I might be able to do something there. It would have been the height of hubris to have assumed I ever could have been CEO. That was –

MR. RUBENSTEIN: OK. So you ultimately wound up to be the head of the Marine Systems division, which is the division that makes submarines, right? So how long does it take to actually build a submarine?

MS. NOVAKOVIC: For our attack submarines, it takes about 60 months.

MR. RUBENSTEIN: And what do they actually cost to build?

MS. NOVAKOVIC: About \$2 billion or so.

MR. RUBENSTEIN: Two billion dollars?

MS. NOVAKOVIC: Dollars.

MR. RUBENSTEIN: OK. Well, that's cheap compared to an aircraft carrier, right?

MS. NOVAKOVIC: Yes, but I have to be careful. [Laughter.]

MR. RUBENSTEIN: I understand.

MS. NOVAKOVIC: Sorry, Congressman. Yes. [Laughter.] Well, you're also our partners on the Virginia-class sub.

MR. RUBENSTEIN: OK. So the submarines you're building now –

MS. NOVAKOVIC: Two a year. And we are gearing up for the – we're in the design for the replacement of the next ballistic missile submarine.

MR. RUBENSTEIN: So these submarines, how many people typically – or maybe that's a state secret – how many people actually work on these submarines? But how long does – how many workers does it take to actually build one of these, thousands?

MS. NOVAKOVIC: Several thousand.

MR. RUBENSTEIN: And you build them where?

MS. NOVAKOVIC: Well, we build some parts down in assembly and some deliveries in Newport News. And we build them in Groton, Connecticut, and Quonset Point, Rhode Island.

MR. RUBENSTEIN: OK. And so who actually decides the name of them? Because they always seem to be named after famous Government people, but –

MS. NOVAKOVIC: The Government.

MR. RUBENSTEIN: You don't get to pick those names?

MS. NOVAKOVIC: No. [Laughter.]

MR. RUBENSTEIN: Do they have any submarines named after women?

MS. NOVAKOVIC: Yeah – so next question? [Laughter.]

MR. RUBENSTEIN: All right. Well, I guess –

MS. NOVAKOVIC: Actually, there are a few ships. We also make destroyers up in Bath, Maine. And in our San Diego shipyard we build supply ships. And one of them was named Sacagawea.

MR. RUBENSTEIN: OK.

MS. NOVAKOVIC: So there you go.

MR. RUBENSTEIN: So one of your other divisions is your aircraft division. You own Gulfstream. And that's done reasonably well.

MS. NOVAKOVIC: Mmm hmm, I'll say.

MR. RUBENSTEIN: And why do you think that the big jets have sold so well, because they've sold better than the smaller jets. You would think the opposite would be true, smaller jets being cheaper. But it seems like the bigger jets are doing quite well.

MS. NOVAKOVIC: I think, you know, when you're in the business aviation market it's highly cyclical. And if you look at our company, we've got a high beta because of the cyclicity on Gulfstream. And the defense cycles are slower, longer, more predictable. So what we have

learned to do is be a very, very good cyclical. So when demand fluctuates, which it will on occasion, we cut production faster than the demand declines, keep that production curve lower, you can keep your price up. It was hard in '08, but we acted like a good cyclical. We cut back seriously on production, maintained a fair number of earnings. Highest margins – we were up over 20 percent in margins.

MR. RUBENSTEIN: I know, I bought some of them so I realize that. [Laughter.]

MS. NOVAKOVIC: So that was all good and wholesome. And I think that these have been attractive tools for really busy people around the world as the world has gotten smaller, and U.S. and other multinational companies have to go to these places. So it's been a –

MR. RUBENSTEIN: So as we discussed, I do – I'm a very proud owner of one of your products. But as I've mentioned to you, when I bought it, it was very good, but it had a map of where I was going to fly. And then it kept saying Mecca is X number of miles away. And I kept wondering, why do I need to know how far Mecca is and what the direction is? But I realize that there were some other buyers who didn't have the last name Rubenstein, so. [Laughter, applause.]

MS. NOVAKOVIC: How insightful? [Laughter.] But you also pointed out one of the first times I met you that on the same screen, for some reason, we listed all the shipwrecks. [Laughs.] So you know where the Titanic went down, the Lusitania went down.

MR. RUBENSTEIN: Yes. Well, you have all the shipwrecks, but you didn't have any air crashes. I always –

MS. NOVAKOVIC: Gee, wonder why? [Laughter.]

MR. RUBENSTEIN: Subliminal, I guess. OK, so that – where do you make –

MS. NOVAKOVIC: Real subtle, huh?

MR. RUBENSTEIN: Where do you make those – where do you make those planes?

MS. NOVAKOVIC: Gulfstream, in Savannah, Georgia. And we also own a business called Jet Aviation, that includes aircraft management. And then we have – it's headquartered in Basel, Switzerland. And we do completions on single- and double-aisle airplanes for heads of state, high net-work individuals.

MR. RUBENSTEIN: So if somebody, let's say, buys a 747 and they want to outfit it for a head of state, that can cost \$100 million dollars or \$200 million just to outfit a plane, or?

MS. NOVAKOVIC: It costs a lot.

MR. RUBENSTEIN: A lot? OK.

MS. NOVAKOVIC: It's a good business.

MR. RUBENSTEIN: So today is the – is demand softening for Gulfstreams, or is it still in pretty good shape?

MS. NOVAKOVIC: We have a solid backlog. Our order activity is active. So we're in pretty good shape.

MR. RUBENSTEIN: So if somebody here wanted to buy one your 650s –

MS. NOVAKOVIC: Oh, come see me. [Laughter.]

MR. RUBENSTEIN: They go for –

MS. NOVAKOVIC: By the way, I was salesman of the quarter one quarter.

MR. RUBENSTEIN: Really?

MS. NOVAKOVIC: Yeah. And I didn't get a commission. [Laughter.]

MR. RUBENSTEIN: So what do they go for, for people who might be interested in buying a Gulfstream? They –

MS. NOVAKOVIC: In the upper 60s and 70, somewhere around there.

MR. RUBENSTEIN: OK. All right. So no discounts for anything?

MS. NOVAKOVIC: Friends and family, huh? [Laughter.]

MR. RUBENSTEIN: No, I guess not. OK. So you have another division.

MS. NOVAKOVIC: Like, we don't own a Gulfstream. Or we don't own a 650. That's because Gulfstream has to sell to us at cost.

MR. RUBENSTEIN: Oh, really?

MS. NOVAKOVIC: And there are paying customers out there. So buy 550s.

MR. RUBENSTEIN: So people who buy them are typically CEOs or heads of state, who buy those expensive planes?

MS. NOVAKOVIC: And high net worth individuals. What we sell a lot to are, of course, multinationals. And they build out their fleet. And they need to replenish their fleet every maybe five, six years. And so we sell them a range of products from the 650 to the 550, depending on the missions. And then we have a 280 that is largely transcontinental.

MR. RUBENSTEIN: So those planes go at roughly 94 mach or so, 94 percent of the speed of sound. Do you have any plans to make supersonic planes?

MS. NOVAKOVIC: The technology is there. There's no business case.

MR. RUBENSTEIN: So nobody –

MS. NOVAKOVIC: There are a lot of regulations – there's a big investment. And the return – the investment's here and the return is way out here because of the regulatory process that you have to go through to flyover.

MR. RUBENSTEIN: OK. And the different business is the commercial jet business. You're not in that business. You're not planning to get into that business.

MS. NOVAKOVIC: No.

MR. RUBENSTEIN: OK. And you have another division, the Combat Systems Division, which makes tanks – the Abrams tanks. So do we still need tanks in this day and age in cyber warfare? We still need tanks?

MS. NOVAKOVIC: So – [chuckles] – the way wars have been won since we have been recording history is boots on the ground. And boots on the ground are protected by tanks. So the U.S. tank capability is, I think, one of our national competitive advantages. And we upgrade it and we make sure that it's capable of defending our country.

MR. RUBENSTEIN: OK. So the Abrams tank is the main one that you're making?

MS. NOVAKOVIC: Mmm hmm. It's the only U.S. tank.

MR. RUBENSTEIN: So if you want to sell them – suppose somebody from Saudi Arabia calls up, or some other country in the world, and wants to buy them, is it hard to get the U.S. Government to approve the sale of these?

MS. NOVAKOVIC: It depends on the nation, obviously. And we only sell in accordance with U.S. policy. So there are tanks – U.S. tanks in Egypt, in Saudi, and scattered through other parts of the region. But typically – it takes a while to get the U.S. – get through the U.S. Government approvals. But we have large manufacturing businesses in multiple countries, and particularly in Canada.

And Canada has a wonderful export corporation that they call the Canadian Commercial Corporate. A handful of people that get right in with the Canadian companies, which we're a large one, and help sell Canadian product. It's terrific, and very little carrying costs. So a lot of the contracts that we have are through the Canadian Government and the Canadian Government to other foreign governments.

MR. RUBENSTEIN: I see. So you often have to deal, I assume, with Members of Congress, because they often are appropriating money for some of the things that you build. So what is your view of Members of Congress in terms of their understanding of what you do?

MS. NOVAKOVIC: I think that there are some, particularly those who are on our committees, on the defense appropriation, defense authorization committees, that fully understand what we do and the criticality of what we do, and that the U.S. cannot fight and win wars and therefore protect our country without adequate supplies. There are others, unfortunately, who I think fail to understand the gravamen of what we do, and the criticality of it. And there's almost an ideology, and it's irrespective of party.

MR. RUBENSTEIN: So do you have to spend time lobbying Members of Congress or people in the Pentagon or OMB to get approval for things? Where do you spend most of your time dealing with Government officials?

MS. NOVAKOVIC: Well, obviously with our customer, and then up on Capitol Hill. Just tell our story about what we're doing, what we're interested in, and, you know, ways that we think that we're developing and things that we can do for the armed forces. And Members of Congress have been very supportive. So we tend to have programs of record. And in Pentagon terms, that means they're established programs. We don't go up and ask for big and poriky stuff.

MR. RUBENSTEIN: So you have a pretty healthy balance sheet. And you've made some very good acquisitions over the years. I think Gulfstream you paid only \$5 billion for.

MS. NOVAKOVIC: And that turned out to be very creative – very creative.

MR. RUBENSTEIN: A very good acquisition. Are you planning any acquisitions you're going to announce today? [Laughter.]

MS. NOVAKOVIC: [Laughs.] That would be a shock to all the General Dynamics people here. [Laughter.] You know, we look, again, to invest our money cautiously and where we can ensure a return. And we're always open, but so far I haven't seen too many attractive companies at good prices.

MR. RUBENSTEIN: So the defense budget is probably going to be level for a while, I assume. It's not going to probably go up the way it was when we were in the middle of the wars in Iraq and Afghanistan. Is that a problem, or am I wrong and defense budgets will actually be going up, in your view?

MS. NOVAKOVIC: I think defense spending will increase. And I believe that in the United States, defense spending is driven by either the threat or the perception of the threat, and the world is not a safe place. There's some bad people in it and doing bad things. And so I think we will see some growth, certainly not as we saw in percentage increases in the hot wars. But if you think about this, the land forces – particularly Army and the Marine Corps – have been in combat for a very long time.

And combat is about consumables. You're burning through your equipment. You're aging your equipment at a much faster rate. So now they need to begin to recapitalize. And they need to think about how they build for the future. And that's in the land forces where we are. The Navy has been increasing its shipbuilding funding – thanks to the support from Congress – prodigiously over the last few years. And so we participate in that as well.

MR. RUBENSTEIN: So a lot of people who work in the Government I guess eventually would like to make higher salaries, so they aspire to go into the private sector. So what would be your advice for somebody who works at the Pentagon or Congress or OMB who wants to go into the Government – how do you rise up? What are the skill sets that it takes to rise up and be successful in the private sector?

MS. NOVAKOVIC: Well, I think, in my experience, I never aspired to a particular position. I did whatever job I had in front of me to the best of my ability. I shone with whatever reflected glory I had. And that's what I focused on. And opportunities then open up for you, if you're a hard worker and a good person, you play well in the sandbox. You know, we have an expression in the company, nobody's good enough to be a jerk. [Laughter.] So, you know, it's about teamwork. You know, and I'm a big believer in the criticality of the team.

I also believe in a leadership style that's fashioned around a servant leader. And we talk a lot about that internally, that we have the privilege of leading those whom we serve – those whom we serve. And we also talk a lot internally about our ethos. And as this management team came in, we spent a lot of time talking about ethos. And ethos is a more powerful word than ethic, because it means your fundamental moral character.

And we defined a series of character traits that we wanted to aspire to. We were going to treat ourselves that way, our shareholders, our customers, our employees. And that has been an important part of bringing this cohesive team together, because we're strong together. You know, you can use whatever metaphor, but if we're all in the foxhole with our guns, you know, firing at the same point, we're going to win.

MR. RUBENSTEIN: So you're the CEO of General Dynamics. And Marilyn Hewson is the CEO of Lockheed Martin. Is there opportunity for men to get ahead in this business? [Laughter.]

MS. NOVAKOVIC: Yes. We're very supportive of men. [Laughs.] You know, the beauty of being human is that we can see all of our humanity. And I think that, you know, men and women bring different things to the table. But, yes, I think men have plenty of upward potential.

MR. RUBENSTEIN: But when you're dealing with the Pentagon and you're dealing with your own executives, are you typically the only woman in the room, or is that not the case any longer?

MS. NOVAKOVIC: No, it is often the case, not exclusively, certainly not when I started out in the early '80s, which then you kind of looked around and there was never a line in the ladies' room. So that was my first indication that we got more women, there was a line. But yeah, you

know, I'm often the only woman. And I tease that there may be a lot of alpha males in the group, but there's only one alpha female. So I remind them, gently. [Laughter.]

MR. RUBENSTEIN: Right. So what is the greatest pleasure of being the CEO of General Dynamics? And what's the greatest frustration of it?

MS. NOVAKOVIC: Well, I think the greatest pleasure is the privilege of serving. I am devoted and relentlessly loyal to the people of General Dynamics. And I care desperately about what we do and what we do for our country. And there's a lot of psychic energy that you get – and I'm a big patriot. There's a lot of psychic energy that you get out of performing for those men and women who are keeping us safe.

You know, it's almost the height of self-indulgence to think about things that I don't like about the job, because I'm just frankly lucky. So you know, I'm not a big early morning person. So for you I'm up this morning. [Laughter.]

MR. RUBENSTEIN: OK. All right. Well, thank you.

Well, let me ask you, suppose the President of the United States – the next President of the United States, Hillary Clinton or Donald Trump or Bernie Sanders or whoever it might be, I don't know who it will be – he or she says to you: You know, we need somebody who's worked in the Government and who's worked in the private sector to be the Secretary of Defense. And you're a great patriot. Would you be willing to be Secretary of Defense or go into the Government?

MS. NOVAKOVIC: Well, I think I've served my time. And I think that I can continue to add value to our national security where I am. And I'm happy. And I've got more work to do there. I'm not ready to pack up my dolls and dishes yet.

MR. RUBENSTEIN: All right. So that's probably not right now.

MS. NOVAKOVIC: Not for a long time. And I'm getting older too, so you know, when you get to be a certain age you're now looking at the end of the runway, right?

MR. RUBENSTEIN: General Dynamics has been very helpful to the Kennedy Center. The president of the Kennedy Center is here, Deborah Rutter, is right there. Thank you, Deborah. And you have been a big supporter of the opera program. So do you actually like opera, or how do you know? [Laughter.] How do you happen to support opera as opposed to other things at the Kennedy Center?

MS. NOVAKOVIC: It isn't because I can sing. In fact, I'm tone deaf. But I love opera because I think the majesty of the human voice as a musical instrument is amazing. But my Serbian grandmother in the old country before the war would go to Vienna for the opening – the season. And she'd spend the season attending various operas. And when I was little, she'd put on the Victrola and we'd listen to opera. And I think she was one of the great disappointments in me, and I'm sure she had many, and one of them was that I have a very loud voice and I really stink.

[Laughter.] So I have honored both her memory and my love of that form of human expression through supporting the opera. And our people – you know, it’s interesting, our people – we get folks from all over our company coming to the opera, you know.

MR. RUBENSTEIN: Well, that’s great. And I highly recommend the Ring Cycle for anyone who hasn’t seen it yet.

Your parents are alive. They live in Villanova, Pennsylvania. So they must be very proud that you rose up to be the CEO of General Dynamics. Do they brag about it? Do they come down and ask for a ride on your Gulfstream or something? [Laughter.]

MS. NOVAKOVIC: Well, I think they are proud, but I was raised with great humility. And if you understand your own humanhood, it keeps you very humble. So they’re proud, but they also are mindful that it’s most important to be a good person. So if my mother in particular thinks I’m not being a good person, I still get smacked around – maybe not physical, but you know. I get the, well. [Laughter.]

MR. RUBENSTEIN: So you have three daughters.

MS. NOVAKOVIC: I do.

MR. RUBENSTEIN: Are any of them interested in the aerospace defense industry? Or –

MS. NOVAKOVIC: No. [Laughter.] I thought one of them wanted to join the Army, and I was – oh boy. But she decided not to because she saw that all of the jobs she was interested in were male-only. Like, she wanted to be a SEAL. She’s five foot one. But anyway, I think we got over that part. But they all do believe in service. And I think those to whom much is given much is expected. And my children are fortunate. So I expect them to give back in whatever way they can.

MR. RUBENSTEIN: So they must be proud that you’re the CEO. Do they run around telling their friends you’re the CEO of General Dynamics, or they don’t do that?

MS. NOVAKOVIC: They do. But they also keep me very humble. If they don’t like what I’m wearing, I hear about it. If my hair isn’t good, I hear about it. If I’ve said something stupid or misused – had a malapropism, misspell something, boy, they’re all over it. [Laughs.]

MR. RUBENSTEIN: You’re obviously very good at doing interviews. So might I suggest that you do more public interviews? You could do that in the future, because it would be good for your company, don’t you think?

MS. NOVAKOVIC: If and when I thought that it would benefit General Dynamics that I would – now, by the way, I do get out, just to the investors. It’s not that I’m cloistered in a nunnery. [Laughter.] But as I said, I have a philosophy that in this town, you’re better off staying low. And I love talking – I was teasing with you earlier that there are four things I can talk about ad

nauseam – my three children and General Dynamics. So I could be up here all day. You guys got all day? [Laughter.] And it's a labor of love.

MR. RUBENSTEIN: Well, I want to thank you for coming. This is a very interesting conversation. And I think you've done a great job for your shareholders. I wondered, if I wanted to buy General Dynamics stock, would I be able to get another 100 percent increase, you think, in the next year or two?

MS. NOVAKOVIC: It's what we aspire to.

MR. RUBENSTEIN: OK.

MS. NOVAKOVIC: Year or two, that's a little, you know. But you got to continue to grow. And that's the compact that we have with our shareholders.

MR. RUBENSTEIN: Well, thank you for the great job.

MS. NOVAKOVIC: I'd be happy if you'd invest, and get another Gulfstream.

MR. RUBENSTEIN: OK. Well, I'll take a look at it. Do you have any discounts? [Laughter.]

MS. NOVAKOVIC: For you, yes.

MR. RUBENSTEIN: All right. OK. I'll think about it. Phebe, I want to thank you very much for coming this morning. And let me give you a gift. On behalf of the members of The Economic Club of Washington, here is a copy of the first map of Washington, DC. [Applause.]

MS. NOVAKOVIC: Thank you, very much. [Applause.]

Phebe N. Novakovic **Chairman and Chief Executive Officer**



Phebe N. Novakovic became chairman and chief executive officer of General Dynamics on January 1, 2013. She was previously named the company's president and chief operating officer, and a member of the company's board of directors, in May 2012.

Prior to her appointment as president and chief operating officer, Ms. Novakovic was executive vice president for the Marine Systems group, responsible for the performance of three General Dynamics companies: Bath Iron Works, Electric Boat, and NASSCO⁴. Previously, Ms. Novakovic had been senior vice president – Planning and Development – since July 2005, where she was responsible for Government Relations, Communications, International, Investor Relations, and Strategic Planning. She also has served as vice president – Strategic Planning, a position to which she was appointed in October 2002.

⁴ NASSCO is National Steel and Shipbuilding Company.

Before joining General Dynamics, Ms. Novakovic served as the Special Assistant to the Secretary and Deputy Secretary of Defense from 1997 to 2001. In that capacity, she was responsible for managing processes for all major U.S. Department of Defense budget and policy decisions for the Secretary and Deputy Secretary of Defense.

Ms. Novakovic also worked for the Office of Management and Budget, where she served in a number of capacities, culminating in her selection as Deputy Associate Director for National Security, where she was responsible for managing and submitting the President's budget for the Department of Defense and U.S. Intelligence Agencies. From 1983 to 1986, she served as an operations officer for the Central Intelligence Agency. Ms. Novakovic began her career in 1979 as an analyst for the McLean Research Center, where she performed operational analyses on Department of Defense weapon systems.

Ms. Novakovic was elected to the board of directors of Abbott Laboratories (NYSE: ABT) in 2010. She serves on the boards of trustees of Northwestern University (Evanston, Ill.) and Ford's Theatre, and on the boards of directors for several charitable organizations, including the Congressional Medal of Honor Foundation and the National Military Family Association. She is also a member of the Council of Trustees for the Association of the United States Army.

Ms. Novakovic received her Master of Business Administration from the University of Pennsylvania's Wharton School in 1988; she completed her undergraduate studies at Smith College in 1979.