Aerospace, Defense & Government Services | Fall 2026

Naval Shipyard Update

Considerations and Trends for Private Naval Shipyards

Private U.S. naval shipyards and their supporting contractors form a critical part of the Navy's shipbuilding and repair industrial base. Government demand for new Navy and Coast Guard ships, as well as ship modernization, remains intense.

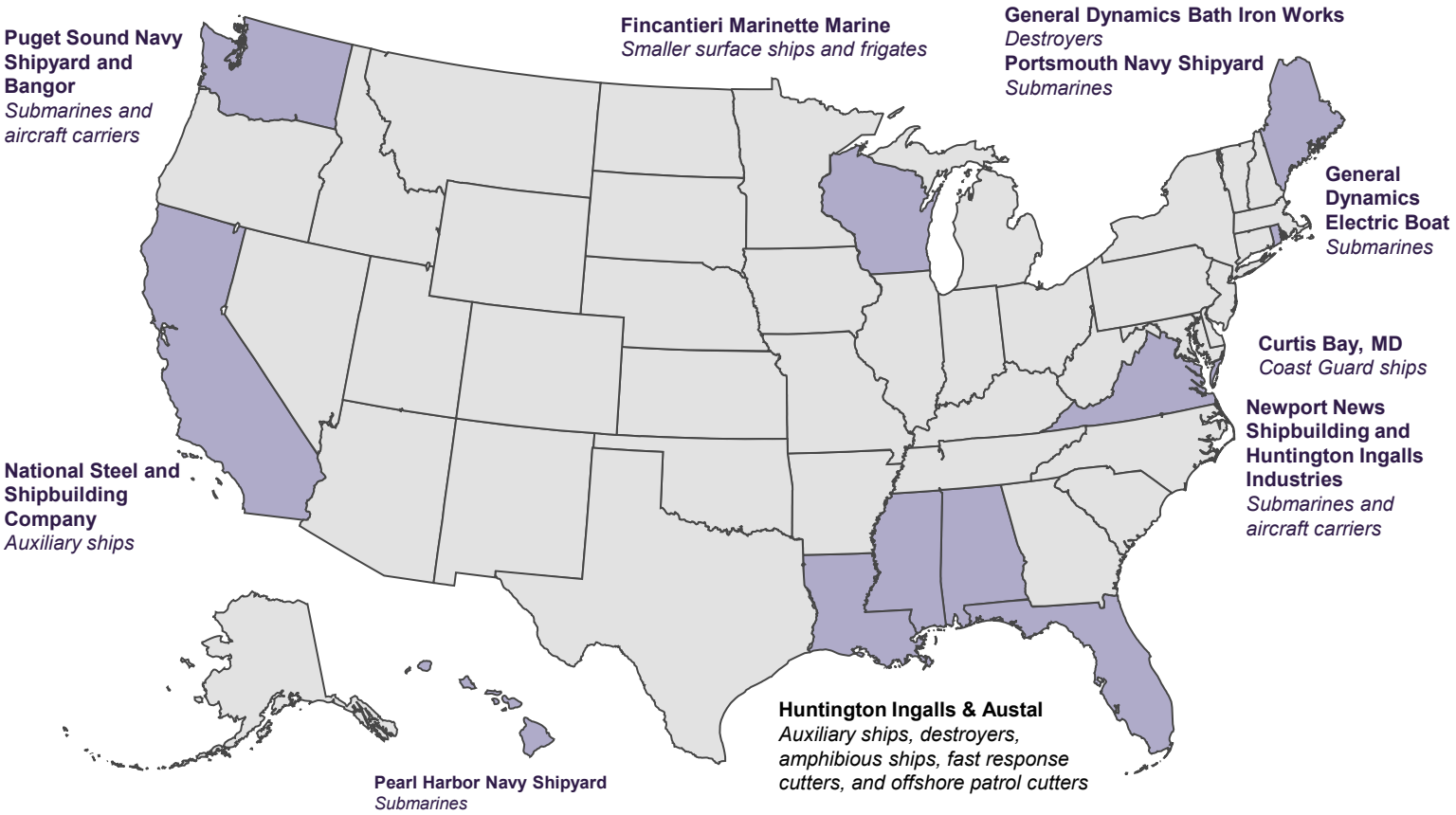
Despite this demand, the subsector faces structural and operational challenges, including workforce shortages, capacity constraints, infrastructure limitations, and schedule and cost overruns, all of which can translate into measurable business risk.

Naval shipyard contractors operate in a highly specialized, project-based ecosystem characterized by long production cycles, milestone-driven cash flows, heavy working capital, and concentrated customer exposure to the U.S. Department of War (DoW) and the large public prime contractors.

The administration also places strong emphasis on the Coast Guard (USCG). Appropriated funding is expected to support fleet modernization and improve its border security readiness in preparation for future maritime threats.

The Shipyard Landscape

In the U.S., significant expansion and reinvestment in naval shipbuilding and the defense maritime industrial base are creating more contracting opportunities, particularly in Norfolk, VA; along the Gulf Coast; in the Great Lakes; and along the West Coast from San Diego to Alaska. Assets in these regions are central to Navy and Coast Guard priorities and serve as key economic engines, driving demand and growth opportunities for shipyard contractors in support of the Navy's stated strategic priorities.



Sources: U.S. Government Accountability Office. Shipbuilding and Repair Industrial Base: Report GAO-25-106286 (2025); H.R. 7148 Consolidated Appropriations Act, 2026

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A Deep Dive into the FY 2027 Navy Shipbuilding Plan

$54.6B
FY27 new-construction funding for battle force shipbuilding (SCN)

75
Battle force ships requested across the FY27–FY31 FYDP

450
Total naval vessels planned by FY31

$268.1B
New Construction Funding through FY31

Record Setting Budget Request for FY27: the FY27 President's Budget ("PB27") requests $54.6B to fund new construction battle force shipbuilding in FY27 alone. This will fund 18 battle force ships, 16 support ships, and five unmanned platforms. Similarly, USCG Guard is budgeted to spend $14.2B in FY27.

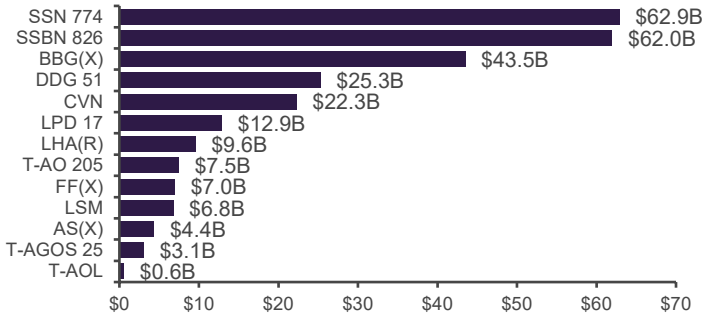
Undersea continues to be the priority: Virginia class ($62.9B) and Columbia class ($62.0B) together account for $124.9B in total funding over multiple years. This equates to roughly 47% of the $268.1B Future Years Defense Program ("FYDP") new construction total.

The FY27 plan includes five new classes: Battleship (BBG(X)), Frigate (FF(X)), Medium Landing Ship ("LSM"), submarine tender (AS(X)), and next-generation logistics ship (T-AOL). BBG(X) receives the most FYDP funding, at $43.5B.

FYDP New Construction Funding by Ship Class

Undersea programs account for $124.9B of the $268.1B five-year new-construction total.

($ in billions, FY27–FY31 requested)



Of its total $15.6B proposed FY 2027 budget, the Coast Guard intends to spend **$578.3MM** on cutters and other ships. Specifically, the request allocates **$204.0MM** for Offshore Patrol Cutter Stage 3s, **$148.0MM** for three additional Waterway Commerce Cutters, and **$121.2MM** for maintenance and service-life extensions. Further, **$80.1MM** supports boat acquisition and recapitalization, and **$25.0MM** is available for Icebreakers. This is in addition to the **$25B** in Coast Guard shipbuilding through 2034 included in the One Big Beautiful Bill.

Recent Changes

Portfolio Acquisition Executives (PAEs): The Navy has stood up seven PAEs since December 2025. The PAEs cover Robotics and Autonomous Systems, Industrial Operations, the Marine Corps, Maritime, Mission Systems, Strategic Systems Programs, and Undersea, consolidating decision authority across programs.

Supplier-funded capacity: Contract structure continues to shift away from government-funded production expansion toward suppliers investing their own capital.

Vessel construction managers (VCMs): Used on the Landing Ship Medium (LSM) and the new commercial-variant sealift ship to shorten timelines using non-developmental designs.

Incentive contracting: Columbia and Virginia class contracts are heavily incentivized for schedule performance with penalties if schedules are not met.

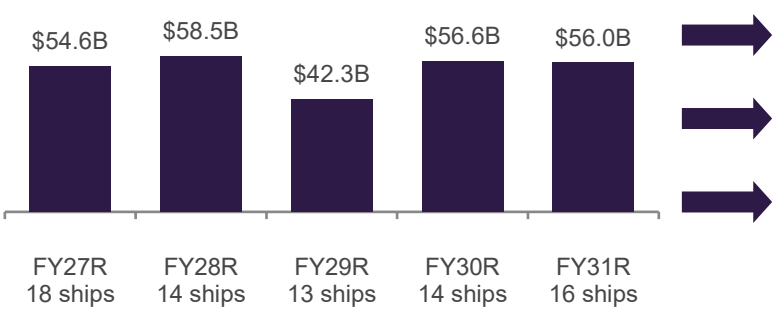
Allied and overseas fabrication: The FY27 National Defense Authorization Act ("NDAA") authority to build up to two auxiliary ships overseas and to fabricate some combatant modules (hull structures) in allied yards, with U.S. yards retaining final assembly, classified system integration, testing, and activation.

USCG workforce recovery: The Coast Guard now has the personnel to return six constrained stations to full operations in 2027. Returning the stations to full operation will increase search and rescue, maritime security and law enforcement capacity.

Annual Funding and Ship Quantities

Funding runs between $42.3B and $58.5B a year with no consistent growth trend, and the FY29 trough of $42.3B pairs with the lowest ship count in the plan at 13. Suppliers should expect an uneven award cadence.

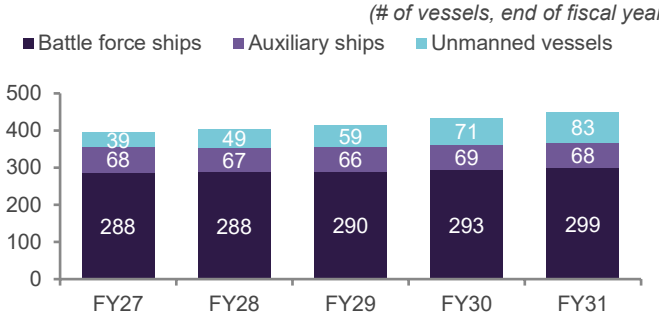
($ in billions)



Total Naval Vessel Force, FY27–FY31

Total vessel inventory grows from 395 to 450 (13.9% increase) with each vessel category increases over the five year outlook. Unmanned vessels more than double from 39 to 83 and drive 80% of the growth.

(# of vessels, end of fiscal year)



Source: U.S. Navy Shipbuilding Plan (May 2026) and the H.R. 8800 — National Defense Authorization Act for Fiscal Year 2027

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INSIGHTS INTO WHAT MAKES UP A SHIPYARD

Yard Type

Shipbuilding Yards



Definition: Responsible for constructing new hulls and installing integrated systems.

Characteristics: Very long, multi-year project cycles; high supply-chain complexity; high dependency on skilled-labor availability.

Ship Repair & Overhaul Yards



Definition: Perform maintenance, modernization, and emergent repairs.

Characteristics: Highly variable workload; shorter cycle times vs. new builds; infrastructure-dependent (e.g., dry docks); more reactive, schedule-driven operations.

Hybrid / Specialty Yards



Definition: Build specific sections, components, and systems.
Characteristics: Independently built engines, shafts, weapon systems, and HVAC

Shipyard Roles

Ship Intake (Prime) Yards



Definition: Yards that take full custody of complete naval vessels and manage full modernization or repair cycles.

Key characteristics: Full dry dock capability; manage entire ship modernization or repair cycles; hold primary contract responsibility.

Module, Block, and Component Fabricators



Definition: Firms that produce major modules, hull blocks, or systems but do not handle full ships.
Key characteristics: More predictable workflow; medium capital intensity; narrower technical specialization.

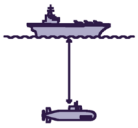
Service & Systems Contractors



Definition: Engineering, testing, coatings, logistics, and other specialized service providers supporting multiple yards.
Key characteristics: Support contracts across multiple yards; less asset-intensive; more operational flexibility.

Infrastructure

Deep-Water Yards



Water-depth capability: Can support carriers / submarines + 2 ft requirement
Supported ship types: Carriers, subs, large combatants
Risk implications: Highest CapEx; limited national competition; catastrophic risk if dredging fails.

Mid-Depth Yards



Water-depth capability: Capable of supporting medium dry docks

Supported ship types: Surface combatants, destroyers, and amphibious ships.

Risk implications: Exposure to siltation and dredging needs; moderate CapEx.

Shallow-Water Yards



Water-depth capability: Sufficient for small vessels
Supported ship types: Littoral craft, patrol craft, unmanned systems
Risk implications: Lower CapEx but limited revenue potential.

Shipyard Suppliers

Fabricators / Module Providers



Role: Design, manufacture, and integrate mission-critical ship components and assemblies.
Scope: Hull sections, piping systems, propulsion modules, combat systems, electrical harnesses, and protective coatings.

Service Providers



Role: Deliver specialized technical and operational support services.
Scope: Engineering, program management, logistics, nondestructive testing (NDT), quality assurance, and cybersecurity compliance.

Material Suppliers



Role: Provide essential raw materials, equipment, and consumables for ship construction and sustainment.
Scope: Steel, alloys, coatings, cabling, valves, electronics, software, spare parts, and MRO supplies.

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Challenges & Risks

Structural and Operational Factors

Recent reports and analyses from the Government Accountability Office (GAO) and McKinsey reveal significant challenges in the shipyard industrial base:

- Along with overall shipbuilding, U.S. naval shipbuilding capacity has eroded from about 5% of global output in the 1970s to only 0.1% in 2023.
- The shipbuilding base has not met Navy cost and schedule goals, with delays now routine because of dry-dock availability and long supply-chain lead times.
- Labor remains the primary constraint facing many shipyards, driven by poor retention and insufficient training for skilled trades.
- Many shipyards lack the infrastructure for surge requirements or unplanned repair work. Water depth determines the size of vessel a yard can service. This makes depth-related dredging cycles and infrastructure modernization plans integral to each yard.

AI and Robotics Investment

- The industry is investing heavily in artificial intelligence, highlighted by a $448M Ship OS program focused on planning and predictive maintenance.
- AI integration is also transforming repair processes, while private industry is increasingly deploying advanced robotics for welding and other functions.
- AI and digital tools are increasingly supporting autonomous vessel operations with reduced human intervention.

Program & Contract Factors

- **Funding/Appropriation Risk:** Changes in the defense budget or program reprioritization.
- **Concentrated Buyers:** Dependence on U.S. Navy / USCG / NOAA via program offices and prime contractors.
- **Long-dated projects:** 6–18 months for repairs and overhauls; 60+ months for new builds.
- **Cost Inflation & Price Protection:** Escalation clauses and hedging; fixed-price overrun risk.
- **Scope & Change-Order Discipline:** Weak baselines and controls cause margin leakage.
- **Liquidated Damages (LDs):** Disputes and delivery delays may trigger penalties.

Financial Factors

- **Backlog & Scheduling:** Backlog quantity, contract duration, diversification, mix of FFP vs. cost-plus; funded vs. unfunded.
- **Cost Risks:** Labor productivity, supply chain delays, and inflation.
- **Costs & Billing**: FFP heightens overrun risk; cost-plus reduces volatility but increases compliance. Milestone and progress payments and retainages delay cash flow collection.
- **Working Capital:** High WIP; milestone and progress billings vs. cost timing; impact of scheduling delays; all of which are potential cash traps.
- **Counterparty Risk:** Prime contractor payment practices; subcontractor health.

Regulatory & Contracting Review

- FAR / DFARS / ITAR: Flow-down clauses; audit exposure; allowability of costs.
- Cybersecurity (CMMC / NIST 800-171): A precondition to awards with potential impact of stop-work risk when nonexistent.
- Compliance history, inspection outcomes, and rework frequency are all important to avoid contract disruption.

Insurance & Environmental Review

- Environmental/ESG: Hazardous materials handling, paint emissions, wastewater, OSHA safety.
- Yards carry meaningful exposure to fire, damage, and natural disaster events, particularly given coastal locations and the value of vessels under construction.
- Emergency continuity planning is important.

Considerations for Government Contracting Leaders

1. **Target the new classes, not the incumbents**: Submarines, battleships, frigates, LSM, AS(X), and T-AOL are new starts with supplier positions still open. Incumbent-held programs like DDG 51 and LPD 17 leave far less room to displace prime positions.

2. **Price schedule risk into the bid:** Columbia and Virginia contracts are heavily incentivized for schedule performance with penalties for missed schedules. Expect this discipline to flow through to subcontract terms.

3. **Expect to fund your own capacity:** The Navy is shifting away from government-funded production expansion toward suppliers investing their own capital, moving capacity expansion onto contractor balance sheets.

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