

Company: Lockheed Martin Corp.	Ticker: LMT	Current Price: \$ 353.36	Industry: Industrials	Sub Industry: Aerospace and Defense
Target Price: \$165 Stop Loss: \$282.68 52 Week High/ Low: \$396.99 / \$ 319.81	TTM P/E: 13.3 Forward P/E: 12.7 EPS: \$25.51		Beta: 0.97 Credit Rating: A- (S&P Global) Rating Outlook: Stable	Market Cap: \$97.9b Avg Vol (12 M): 1.47M Dividend Yield: 3.08%

Company Background:

Lockheed Martin is a global security and aerospace company engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products, and services. Main areas of focus are on defense, space, intelligence, homeland security and information technology, including cybersecurity. 74% of our \$65.4 billion in net sales were from the U.S. Government, either as a prime contractor or as a subcontractor (including 64% from the Department of Defense (DoD)), 25% were from international customers (including foreign military sales (FMS) contracted through the U.S. Government) and 1% were from U.S. commercial and other customers.

Industry Outlook:

The Aerospace and Defense industry is largely defined by its high capital intensity and large government oversight. Due to the difficulty of manufacturing processes and complex supply chains, there are naturally large barriers to entry, which leads to an oligopolist industry. Contracts are typically long-term agreement with the U.S. government or other international customers. Due to the reliance on the U.S. government, lots of the businesses within this industry pay extreme attention to the U.S. defense budget as a guide for revenue growth. Even though there is concern that there is a U.S. defense budget cut because of a growing U.S. balance sheet. We believe that the priority of the U.S. defense will remain to decrease the impact of geopolitical tensions. With governments' focus on space exploration, we believe that Aerospace and Defense remains a prime beneficiary of growth related to space. Recently the industry had some complications with supply chain issues due to Covid-19 pandemic. However, we believe that it will not pose any long-term risk to companies who are largely supported by the U.S. government. Over the long-term, we expect supply chains to be restored and production growth to recover to pre-Covid levels.

Investment Thesis:

LMT remains one of the largest and strongest players within an industry that operates in a non-cyclical market. Since LMT derives 71% of its net sales from the U.S. government through long-term contracts, we believe that they are well positioned to be against headwinds brought by Covid-19 or economic downturn. LMT is in a great position to continuously benefit from its growing segments. The F-35 program is the backbone of LMT and serves as the foundation to 13 nations defense programs. This program will most likely continue to see growth over the next few decades. According to DCF valuation, we also believe that LMT is trading at a discount to its intrinsic value. Meanwhile, investors are worried about supply chain issues and negative effects brought by Covid-19. LMT remains integrated in some of the world's most important programs and we believe that LMT's strong financials and intelligent management team will continue to add shareholder value.

Investment Risks:

- Execution: Poorly executed development programs would financially strain Lockheed and supply chain issues would prevent Lockheed from meeting contractual obligations.
- Budget: 74% of sales derived from the U.S. government contracts and there is budget uncertainty and risk of future budget cuts.
- Geopolitical Tension: 25% of sales were to international customers and are all subject to approval from the U.S. government. Alliances may break down (sanction on Turkey). On July 17, 2019, the U.S. Government suspended Turkey's participation in the F-35 program and initiated the process of formally removing Turkey from the program.

3-5 take away from last quarter investor call transcript:

- U.S. Department of Defense proposed \$715B for fiscal 2022 budget; \$11B increase from 2021
- executed \$500M of share repurchases and distributed \$721M in dividends
- produced \$1.5B of cash from operations
- made \$1.4B of accelerated payments to supply base
- Space segment grew 10% this quarter driven by growth in hypersonics, satellite activities and increased support provided to the U.K. Ministry of Defense

Financial Performance:

	2016	2017	2018	2019	2020	Q1-2021	Q2-2021
Revenue	47.3b	50.0b	53.8b	59.8b	65.4b	16.2b	17.0b
Operating Profit	7.1b	8.3b	9.3b	10.5b	10.5b	2.2b	2.2b
Net Income	5.1b	1.9b	5.0b	6.2b	6.8b	1.8b	1.8b
Revenue Growth %	16.6%	5.4%	7.1%	10.0%	8.6%	3.9%	5%
EBITDA%	15.0%	15.9%	15.8%	16.7%	15.5%	15.5%	14.8%
Operating Profit %	15.0%	16.6%	17.3%	17.6%	16.1%	13.6%	12.9%
Net Income Margin	10.8%	16.6%	17.3%	17.6%	10.4%	11.1%	10.6%
D/E	889.29	-	973.36	433.74	219.76	192.06	186.39
EPS	17.28	6.82	17.7	22.1	24.4	6.6	6.5
PE Ratio	17.83	20.95	12.84	15.35	11.92	11.71	12.15
Current Ratio	1.20	1.36	1.12	1.22	1.39	1.38	1.36
ROE	224.52	-	-	275.60	149.49	142.51	139.04
ROA	10.65	4.16	11.03	13.48	13.91	13.81	14.04
Dividend Per share	6.77	7.46	8.20	9.00	9.80	2.60	2.60
FCF	4.1b	5.3b	1.9b	5.8b	6.4b	1.5b	1.0b

Discounted Cash Flow

	2015-2020	2021-2030
Avg Revenue growth	8.67%	4.64%
Avg EBITDA Margin	14.03%	14.03%
Avg Net Income Margin	10.28%	10.30%
Avg Debt/Equity	195.15%	219.70%
Avg FCF / Margin	10.01%	10.16%
Cost of Debt		1.6%
Tax Rate		15.5%
Cost of Equity		10.1%
WACC		9.3%
Perpetuity growth rate		3.0%

Analyst Opinion

Buy:12	Hold: 8	Sell:0
	Rating	Target
S&P Net Advantage	Strong Buy	\$463.00
Morning Star	***	\$425.00
Yahoo Finance	Buy (2.2)	\$425.42

Relative Valuation

	LMT	NOC	BA	RTX	BAESY	GD	Industry Avg
P/E (Current)	11.26	14.06	--	34.64	10.24	17.26	14.58
P/B	14.99	5.15	--	1.86	2.63	3.61	4.71
Dividend Yield	3.16	1.75	--	2.33	4.27	2.40	2.32
PEG Ratio	3.65	2.68	--	1.05	2.06	1.99	1.91
EPS	24.40	19.08	-20.88	-2.59	0.52	11.04	5.26
Rev Grth	9.34%	8.74%	-24.04%	24.78%	5.31%	-3.62%	3.99%
NI Grth	9.68%	41.86%	-1766.82%	--	-11.99%	-9.10%	-288.83%
Operating Margin	16.09%	11.05%	-12.30%	6.66%	27.33%	10.90%	9.96%
Debt / Equity	219.76%	149.99%	--	45.78%	135.74%	94.07%	107.54%

Total Return %

	LMT	Industrials Sec.	S&P 500
YTD	-5.91	33.80	36.46
2020	-20.90	4.26	15.69
Last 3 Years	3.34	10.95	17.16
Last 5 Years	10.37	13.35%	17.69%

CSR Characteristics

	LMT	Industry
ESG Disclosure:	74	39
Governance Disclosure Score	80	43
Social Disclosure Score	65	34

Market Cap	98.01B	57.38B	131.90B	132.08B	24.84B	55.38B	83.27B	Environmental Disclosure Score	74	40
Revenue TTM	65.40B	36.80B	58.16B	56.59B	24.75B	37.92B	46.60B	Prepared by Team Blue (Sep 27, 2021) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance		
Net Income TTM	7.38B	4.54B	504.63M	6.10B	2.04B	3.25B	3.97			
FCF TTM	6.42B	2.88B	-19.71B	1.81B	770.31M	2.89B	-0.825B			
*Industry Avg. includes companies listed										