

Company: Lockheed Martin Corp			
Ticker: LMT Current price: \$482.06 Industry: Defense Sub-industry: security and aerospace			
Target Price: \$491.4	TTM P/E: 22.08	Beta: 0.67	Market Cap: 126.335B
Stop Loss: \$388.76	Forward P/E: 17.95	Credit Rating: A-	Avg Vol (12M): 1,689,091
52 Week High/Low: \$324.23 - \$491.16	EPS: 22.76	Rating Outlook: A-	Dividend Yield: 2.49%

Company Background: Lockheed Martin Corporation, a security and aerospace company, engages in the research, design, development, manufacture, integration, and sustainment of technology systems, products, and services worldwide. It operates through four segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space. The Aeronautics segment offers combat and air mobility aircraft, unmanned air vehicles, and related technologies. The Missiles and Fire Control segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics; fire control systems; mission operations support, readiness, engineering support, and integration services; manned and unmanned ground vehicles; and energy management solutions. The Rotary and Mission Systems segment offers military and commercial helicopters, surface ships, sea and land-based missile defense systems, radar systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions. The Space segment offers satellites; space transportation systems; strategic, advanced strike, and defensive missile systems; and classified systems and services in support of national security systems. This segment also provides network-enabled situational awareness and integrates space and ground-based systems to help its customers gather, analyze, and securely distribute critical intelligence data. It serves primarily serves the U.S. government, as well as foreign military sales contracted through the U.S. government. Lockheed Martin Corporation was founded in 1912 and is headquartered in Bethesda, Maryland.

Industry Outlook: U.S. and allied defense spending is likely to see multi-year acceleration in the wake of Russia’s atrocities against Ukraine. We see increasing bipartisan support for military build-up after diplomacy failed to prevent the invasion, and China’s recent military threats against Taiwan are persuading even more previous defense doves in Congress to support a build-up and deterrence strategy, in our view. In March 2022, the Democrat-controlled Federal government belatedly finalized FY22 (Sep.) defense funding with 6% Y/Y increase, and when factoring in separate Ukraine defense aid we estimate the growth at 9%. This is well above the 2% average increase for the last two Trump-era budgets, and our forecast is for at least 5% annual defense spending growth thru 2025.

Investment Thesis: Our Hold rating reflects a healthy long-term outlook for U.S. and allied defense spending and LMT’s attractive capital return programs, balanced against high risk of market share and margin decline. LMT’s relative lack of exposure to advanced unmanned aircraft, as well as its huge scale (nearly twice the sales of the next largest defense contractor), put it at high risk of continuing to underperform defense spending growth, in our view. About 63% of sales also come from fixed-price contracts, many of which are long-term without adjustments for higher than expected inflation. This puts margins at risk in the current red hot inflation environment. LMT now strikes us as a highly mature firm that won’t generate much if any long-term organic growth, but that still generates ample free cash flow for shareholders. In October, the dividend was raised 7% and LMT announced a new \$14B share repurchase program. A key risk for LMT shares is P/E multiple compression, which often happens to maturing companies with slowing growth. On the upside, LMT generates material revenue from classified programs, which may unexpectedly accelerate in future periods.

3-5 take away from last quarter investor call transcript:
 “Lockheed Martin delivered a solid quarter, highlighted by strength in free cash flow, orders, and operating margins, that positions us well to achieve our full-year commitments,” said Lockheed Martin Chairman, President and CEO James Taiclet.
 “Our continuing ability to deliver strong financial performance in turn enables further investments in the 21st Century Security technologies essential to support our customers in conducting effective Joint All-Domain Operations. These technologies include hypersonics, directed energy, and autonomy, as well as cutting edge digital capabilities in our evolving 5G.MIL® open standards-based architecture. In addition, we are investing in production and sustainment capacity for the solutions needed now to defend our allies and our nation, including F-35, Javelin and HIMARS. Moreover, we today announced an additional \$14 billion in share repurchase authority to go with our recently increased, industry-leading dividend for the benefit of our investors.” CEO James Taiclet

Financial performance:							Discounted Cash Flow:		
	2017	2018	2019	2020	2021	2022		2018-2022	2023-2031
Revenue	49,960.0	53,762.0	59,812.0	65,398.0	67,044.0	64,722.0	Avg Revenue Growth	7.3%	7.8%
Operating Profit	6,371.0	7,370.0	8,367.0	8,681.0	9,097.0	8,407.0	Avg Gross Margin	13.65%	13.52%
Net Income	1,963.0	5,046.0	6,230.0	6,833.0	6,315.0	5,869.0	Avg EBITDA Margin	14.2%	13.6%
Revenue Growth (%)	5.6%	7.6%	11.3%	9.3%	2.5%	(2.4%)	Avg NOPAT Margin	-	-
EBITDA%							Avg FCF/Margin	8.84%	6.04%
Operating Profit %	12.8%	13.7%	14.0%	13.3%	13.6%	13.0%	Tax Rate	24.8%	
Net Income Margin	3.9%	9.4%	10.4%	10.4%	9.4%	9.1%	WACC	-	4.7%
D/E							Perpetuity Growth Rate	-	1.8%
EPS	\$6.82	\$17.74	\$22.09	\$24.4	\$22.85	\$21.92	Analyst Opinion		
PE Ratio							Buy:	Hold:	Sell:
Current Ratio	1.4x	1.1x	1.2x	1.4x	1.4x	1.3x		Rating	Target
ROE	455.4%	1,499.6%	269.7%	149.6%	74.3%	54.4%	S&P Net Advantage	Hold	\$404
ROA	7.4%	9.1%	10.4%	11.3%	9.6%	9.0%	Bloomberg	Buy	-
Dividend/share	10.1%	10.1%	9.8%	9.3%	8.5%	8.0%	Yahoo Finance	Buy	\$459
FCF	1,512.8	3,839.0	3,871.1	4,997.8	4,841.5	5,719.1			

Relative Valuation													Total Return %			
Company Information		Financial Metrics			Valuation Metrics				Operational Metrics					LTM	Industry Sec	S&P 500
Ticker	Firm	Market Cap	BV of Equity	Total Assets	P/Sales	P/B	P/E	P/FCF	Gross Margin	EBIT Margin	ROE	ROA	YTD			
LMT	Lockheed	\$127.27	\$45.66	\$50,710	2	10.56	22.29	15.19	12.99	13.72	54.35	11.37	2021	+23.89%	+18.19%	-13.83%
NOC	Northrop	\$81,619.62	\$90.12	\$42,579	2.35	5.88	15.1	149.42	20.45	24.25	42.36	13.07	Last 3years	+82.49%	+96.37%	10.43%
RTX	Raytheon	\$138,406.22	\$47.74	\$162,153	2.13	1.97	31.4	46.19	20.49	16.29	6.24	2.80	Last 5 years	+101.36%	+96.37%	10.48%
BA	Boeing	\$87,853.88	\$29.72	\$152,136	1.43	0.00	At Loss	0.00	-1.41	-7.33	0.00	-6.08	CSR Characteristics			
Mean		77,001.75	38.45	101,894.50	1.98	4.60	22.93	52.70	13.13	11.73	25.74	5.29	ESG Disclosure	30.33	34.79	
Median		84736.75	46.7	101423	2.065	3.925	22.29	30.69	16.72	15.005	24.3	7.085	Governance Disclosure Score	7.2	7.8	
													Social Disclosure Score	15.9	11.79	
													Environmental Disclosure Score	5.3	15.2	

*Industry Avg. includes companies listed

-Prepared by MSFRM Fund 2 (DATE) using Bloomberg, S&P Net Advantage, Morningstar, Yahoo Finance