

# UConn Student Managed Fund Analyst Report

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Lockheed Martin NYSE: LMT		Recommendation: Buy
Target Price: \$521.60	Market Cap: \$119.52B	P/E Ratio: 21.64
Current Price: \$477.09	Dividend Yield: 2.55%	EV/EBITDA: 18.6x
Stop Loss: \$357.71	Beta: .86	EBITDA Margin: 14.4%
52 Week High/Low: \$498.95/ \$373.67	ROE: 56.7%	Gross Margin: 12.7%

## Company Background:

Global defense contractor supplying governments and commercial clients with state-of-the-art defense products, systems and services.

## Industry Outlook:

Defense spending across the globe is increasing due to geopolitical turmoil. In place military equipment for most NATO countries is outdated and needs to be replaced with modern technological products.

## Investment Thesis:

Reliable cashflows, ongoing appeal for stealth helicopter and F-35 fighter jets, and increased defense spending within NATO countries.

## Investment Risks:

High dependence on U.S defense budget, roughly 70% of revenue. Government can cancel contracts at any time, and increased competition and bid protests can lower margins.

## Financial Performance

<i>(in \$ millions)</i> Filing Year	Historical Period				
	FY18	FY19	FY20	FY21	FY22
<b>Net Sales</b>					
Products	45,005	50,053	54,928	56,435	55,466
% Growth	5.89%	11.22%	9.74%	2.74%	-1.72%
Services	8,757	9,759	10,470	10,609	10,518
% Growth	17.42%	11.44%	7.29%	1.33%	-0.86%
<b>Total Net Sales</b>	<b>53,762</b>	<b>59,812</b>	<b>65,398</b>	<b>67,044</b>	<b>65,984</b>
% Growth	7.61%	11.25%	9.34%	2.52%	-1.58%
<b>Cost of Sales</b>					
Products	(40,293)	(44,589)	(48,996)	(50,273)	(49,577)
% Margin	-61.06%	-67.58%	-74.25%	-76.19%	-75.13%
Services	(7,738)	(8,731)	(9,371)	(9,463)	(9,280)
% Margin	-11.73%	-13.23%	-14.20%	-14.34%	-14.06%
Severance and other charges	(96)	-	(27)	(36)	(100)
% Margin	-0.15%	0.00%	-0.04%	-0.05%	-0.15%
Other Unallocated Net	1,639	1,875	1,650	1,789	1,260
% Margin	2.48%	2.84%	2.50%	2.71%	1.91%
<b>Total Cost of Sales</b>	<b>(46,488)</b>	<b>(51,445)</b>	<b>(56,744)</b>	<b>(57,983)</b>	<b>(57,697)</b>
% Margin	-70.45%	-77.97%	-86.00%	-87.87%	-87.44%
<b>Gross Profit</b>	<b>7,274</b>	<b>8,367</b>	<b>8,654</b>	<b>9,061</b>	<b>8,287</b>
% Margin	11.02%	12.68%	13.12%	13.73%	12.56%
Other Income (Expense), net	60	178	(10)	62	61
% Margin	0.09%	0.27%	-0.02%	0.09%	0.09%
<b>EBIT</b>	<b>7,334</b>	<b>8,545</b>	<b>8,644</b>	<b>9,123</b>	<b>8,348</b>
% Margin	11.11%	12.95%	13.10%	13.83%	12.65%
Tax Expense	792	1011	1347	1235	948
Effective Tax Rate	10.80%	11.83%	15.58%	13.54%	11.36%
<b>NOPAT</b>	<b>6,542</b>	<b>7,534</b>	<b>7,297</b>	<b>7,888</b>	<b>7,400</b>
% Margin	9.91%	11.42%	11.06%	11.95%	11.21%
<b>ADD: Depreciation &amp; Amortization</b>	<b>1,161</b>	<b>1,189</b>	<b>1,290</b>	<b>1,364</b>	<b>1,404</b>
% Margin	1.76%	1.80%	1.96%	2.07%	2.13%
<b>LESS: CAPEX</b>	<b>1,278</b>	<b>1,484</b>	<b>1,766</b>	<b>1,522</b>	<b>1,670</b>
% Margin	1.94%	2.25%	2.68%	2.31%	2.53%
<b>LESS: Change in NWC</b>	<b>(396)</b>	<b>844</b>	<b>(74)</b>	<b>(565)</b>	<b>337</b>
% Margin	-0.60%	1.28%	-0.11%	-0.86%	0.51%
<b>Unlevered Free Cash Flow</b>	<b>6,821</b>	<b>6,395</b>	<b>6,895</b>	<b>8,295</b>	<b>6,797</b>

## Valuation: Discounted Cash Flow Analysis

Projection Period							
FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
56,575	58,273	60,021	61,821	63,676	65,586	67,554	69,581
2%	3%	3%	3%	3%	3%	3%	3%
10,728	11,050	11,382	11,723	12,075	12,437	12,810	13,195
2%	3%	3%	3%	3%	3%	3%	3%
<b>67,304</b>	<b>69,323</b>	<b>71,402</b>	<b>73,545</b>	<b>75,751</b>	<b>78,023</b>	<b>80,364</b>	<b>82,775</b>
2.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
(51,151)	(52,685)	(54,266)	(55,894)	(57,571)	(59,298)	(61,077)	(62,909)
-76.00%	-76.00%	-76.00%	-76.00%	-76.00%	-76.00%	-76.00%	-76.00%
(9,423)	(9,705)	(9,996)	(10,296)	(10,605)	(10,923)	(11,251)	(11,589)
-14.00%	-14.00%	-14.00%	-14.00%	-14.00%	-14.00%	-14.00%	-14.00%
7	7	7	7	7	7	7	7
0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
1,683	1,733	1,785	1,839	1,894	1,951	2,009	2,069
2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
<b>(58,884)</b>	<b>(60,651)</b>	<b>(62,470)</b>	<b>(64,345)</b>	<b>(66,275)</b>	<b>(68,264)</b>	<b>(70,312)</b>	<b>(72,421)</b>
-87.49%	-87.49%	-87.49%	-87.49%	-87.49%	-87.49%	-87.49%	-87.49%
<b>8,076</b>	<b>8,319</b>	<b>8,568</b>	<b>8,825</b>	<b>9,090</b>	<b>9,363</b>	<b>9,644</b>	<b>9,933</b>
12%	12%	12%	12%	12%	12%	12%	12%
6	6	6	7	7	7	7	7
0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
<b>8,749</b>	<b>9,012</b>	<b>9,282</b>	<b>9,561</b>	<b>9,848</b>	<b>10,143</b>	<b>10,447</b>	<b>10,761</b>
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
8,076	8,319	8,568	8,825	9,090	9,363	9,644	9,933
12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
<b>7,403</b>	<b>7,626</b>	<b>7,854</b>	<b>8,090</b>	<b>8,333</b>	<b>8,583</b>	<b>8,840</b>	<b>9,105</b>
11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
1,346	1,386	1,428	1,471	1,515	1,560	1,607	1,656
2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
1,683	1,733	1,785	1,839	1,894	1,951	2,009	2,069
2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
168	173	179	184	189	195	201	207
0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
<b>6,899</b>	<b>7,106</b>	<b>7,319</b>	<b>7,538</b>	<b>7,764</b>	<b>7,997</b>	<b>8,237</b>	<b>8,484</b>

### Implied Perpetuity Growth Rate and WACC

WACC	7.00%
Perpetuity Growth Rate	2.00%
Terminal Value	\$173,082.60

### Implied Equity Value and Share Price

PV of FCF	\$45,311.61
PV of TV	\$100,735.65
Enterprise Value	\$146,047.26
Less: Debt	\$15,429.00
Add: Cash & Equivalents	\$2,547.00
Equity Value	\$133,165.26
Shares Outstanding	255.3
Implied Share Price	\$521.60
Current Price	\$470.09
Margin of Safety	10.96%

### Sensitivity Analysis

		WACC				
		6.00%	6.50%	7.00%	7.50%	8.00%
Growth Rate	1.00%	\$555.57	\$499.40	\$452.62	\$413.06	\$379.17
	1.50%	\$604.69	\$538.28	\$483.97	\$438.74	\$400.48
	2.00%	\$666.08	\$585.81	\$521.60	\$469.09	\$425.34
	2.50%	\$745.02	\$645.21	\$567.59	\$505.51	\$454.72
	3.00%	\$850.26	\$721.59	\$625.08	\$550.02	\$489.97

### Relative Valuation

Name	Net Debt/Equity (%)	Total Debt/Total Assets (%)	EBITDA/ Interest Expense (x)
Median	59.76	27.79	10.73
LOCKHEED MARTIN CORP	153.25	31.67	13.51
NORTHROP GRUMMAN CORP	74.13	31.83	10.42
RAYTHEON TECHNOLOGIES CORP	37.24	21.31	8.83
GENERAL DYNAMICS CORP	59.76	23.92	13.77
L3HARRIS TECHNOLOGIES INC	37.08	23.23	11.04
BOEING CO/THE	#N/A N/A	42.73	-0.86

Ticker	Name	Mkt Cap (USD)	EBITDA / Iexp	Total Debt to EV LF	B/Est P/E:2FY	FCF Yld LF	P/FCF LF	Debt/EBITDA LF	EBITDA to Net Sales LF	EV/EBITDA T12M LF	Net Debt/EBITDA (x)	Total Debt/EBITDA (x)
None (6 securities)	Median	94737.99	10.73	0.17	17.01	4.04	25.64	2.82	13.80	18.61	2.24	2.52
LMT US Equity	LOCKHEED MARTIN CORP	120012.71	13.51	0.12	17.08	4.78	20.92	1.72	14.39	14.13	1.33	1.56
NOC US Equity	NORTHROP GRUMMAN CORP	69463.27	10.42	0.17	18.60	1.76	56.78	2.82	12.84	19.20	2.30	2.82
RTX US Equity	RAYTHEON TECHNOLOGIES CORP	143345.81	8.83	0.20	16.94	3.29	30.36	3.56	14.09	18.61	2.33	2.85
GD US Equity	GENERAL DYNAMICS CORP	62751.18	13.77	0.17	15.47	5.06	19.75	2.42	13.52	15.54	2.18	2.42
LHX US Equity	L3HARRIS TECHNOLOGIES INC	40053.13	11.04	0.16	15.93	4.80	20.82	3.77	16.08	22.54	2.24	2.52
BA US Equity	BOEING CO/THE	126820.81	-0.89	0.35	36.08	1.98	50.51		0.75		#N/A N/A	#N/A N/A