

# Mu Capital Group



20/10/2021

LMT

## LOCKHEED MARTIN CORPORATION

ONE OF THE STRONGEST PLAYERS IN A GROWING INDUSTRY,  
LOCATED IN A UNIQUE AND ENVIABLE POSITION TO ITS PEERS,  
WITH SEVERAL EXPECTED GROWTH OPPORTUNITIES IN DIFFERENT  
SECTORS.

### COMPANY OVERVIEW

Lockheed Martin is an American aerospace, arms, defence, information security and technology corporation formed by the merger of Lockheed Corporation and Martin Marietta in 1955. It is the largest defence contractor globally, worth 101.25 bn USD, and it dominates the Western market for high-end fighter aircraft.

The majority of Lockheed Martin's business is with the U.S. Department of Defence and U.S. federal government agencies. In addition, Sikorsky (a Lockheed Martin Company) provides military and rotary-wing aircrafts to all five branches of the U.S. armed forces, as well as military services and commercial operators in 40 nations. The remaining portion of Lockheed Martin's business consists of international government and commercial sales of products, services, and platforms.

Lockheed consists of four segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems and Space.

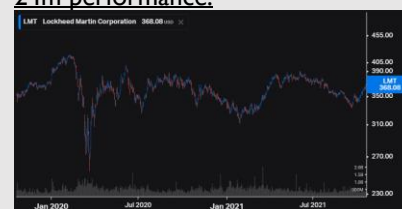
- **Aeronautics** - approximately \$26.3 billion in 2020 sales which includes the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles and related technologies
- **Missiles and Fire Control** - approximately \$11.2 billion in 2020 sales that provides air and missile defence systems, tactical missiles, air-to-ground precision strike weapon systems, logistics, fire control systems, mission operations support, engineering support and integration services, manned and unmanned ground vehicles, and energy management solutions.
- **Rotary and Mission Systems** - approximately \$16 billion in 2020 sales, which includes the design, manufacturing, servicing, and supporting of various military and commercial helicopters, surface ships, sea and land-based missile defence systems, radar systems, sea and air-based mission and combat systems, command and control mission solutions, cyber solutions, and simulation and training solutions.
- **Space** - approximately \$11.9 billion in 2020 sales which includes the research, development, design, engineering and production of satellites, space transportation systems, and strategic advanced strike and defensive systems. Space provides network-enabled

Price (20/10/21)	\$371.07
Market Cap (bn)	\$102.76
EV (bn)	\$110.50
Beta (5Y monthly)	0.97

### Industry & Natural Resources

Mean Price Target	\$420.5
% Upside	13.32%

#### 24m performance:



#### Market Data:

52- Week Range	[319.81-396.99]
Shares Out. (bn)	0.276
P/E (ttm)	14.20x
PEG (5-yr expected)	1.23
EPS (ttm)	\$25.51
EPS growth	11.74%
Div./Yield	\$2.60/2.9%
Payout ratio	39.67%

#### Profitability:

Profit margin	10.69%
Op margin	11.02%
ROA (ttm)	11.11%
ROE (ttm)	139.53%

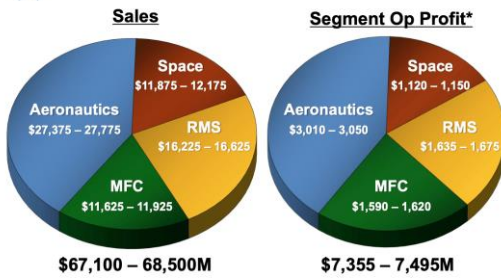
#### Financial Data:

Revenue (bn)	\$66.81
Revenue growth	6.19%
EBITDA (bn)	10.23
EBITDA growth	4.83%
EBITDA margin	15.19%

#### Leverage:

Net debt (bn)	9.01
Total debt/equity	1.866x
Current ratio	1.36
Cash ratio	0.2

**2021 Outlook**  
(\$M)



situational awareness and integrates complex space and ground global systems to help customers gather, analyse and securely distribute critical intelligence data. Space is also responsible for various classified systems and services in support of vital national security systems.

**INVESTMENT RATIONALE**

Lockheed Martin is a well-diversified company, with no single sector dominating its business. Therefore, it has four equally lucrative opportunities for growth. In aeronautics, Lockheed is paving the way for more a more sustainable way to operate a military. From constructing an advanced bioenergy plant, to the first military-grade helicopter that can run on biofuel, as the US pushes towards a more sustainable future, the military will need to adapt with the rest of the country, and Lockheed is providing these solutions.

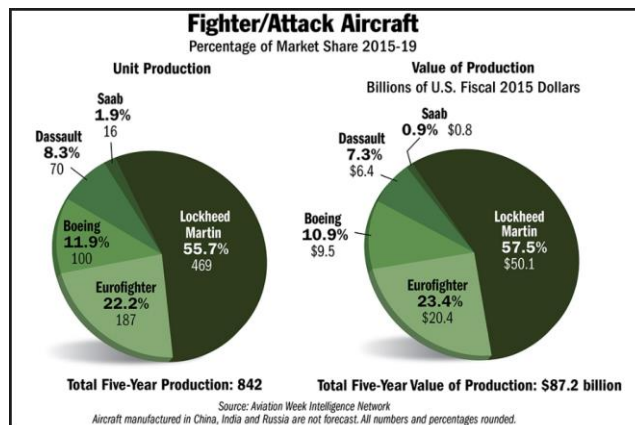
While the COVID pandemic comes to an end, we are beginning to see subdued political tensions bubble up again - in particular, China's flexing of military muscle over Taiwan, Hong Kong, and the South China Sea. As Taiwan's main ally, the US is upgrading its defence systems at home and abroad, creating the need for missile systems. Lockheed has recently been awarded \$62 million to progress to the next phase of construction of a state of the art system. As the new arms race slowly comes into gear, Lockheed Martin will be one of the main suppliers and researchers for the US and its allies.

Despite Blue Origin and SpaceX's huge gains in the space industry, space travel is an inherently un-profitable sector, and therefore reliant on government research grants and funding. Due to the tight regulation of the space industry, Lockheed Martin holds an enviable position as a regular supplier of satellite technologies to NASA and the US government. As interest in space travel increases, along with further innovations in 5G and cybersecurity, Lockheed is uniquely positioned to capture a huge share of this soon-to-be rapidly expanding market.

**MARKET POSITION**

Lockheed Martin acts as one of the, if not the main player in the aerospace, arms, and defence industry. Lockheed maintains its position as the largest defence contractor for the US military, and the largest arms producing/military services company in the world, with a revenue of \$65.4 billion in 2020, the largest in the industry.

Within the defence industry, Lockheed Martin's main competitors include Raytheon Technologies, Boeing, and Northrop Grumman. In fighter aircraft, Lockheed have a 55.7% market share in unit production, and 57.5% share



in value of production between 2015-2020, beating Boeing's 11.9% and 10.9% respectively. As of October 2021, Lockheed has been awarded an exclusive contract valued at \$539 million by the US Department of Defence for the modification and delivery of the new ARTS-V2 radar system which helps strike ploys operate in hostile areas.

Lockheed Martin also reigns the largest helicopter manufacturer in the world, by a 4% margin, through its subsidiary Sikorsky Aircraft. Despite competition from Airbus and Raytheon, they once again run ahead with the production of the first biofuel-powered heavy helicopter, the S-92. The recent completion of the largest ever military helicopter, the CH-52K King Stallion, beat Boeing's CH-47 Chinook for a contract for the US Marines, creating a practical monopoly on heavy lift helicopters within the US military.

Whilst the commercial aerospace industry slowed during the COVID-19 Pandemic, the defence industry managed to weather most of the storm. The post-COVID spending boom as well as military-friendly policies of Joe Biden contribute to an optimistic future for the industry. Indeed, the US defence market is expected to grow from \$714 billion in 2020, to \$900 billion by 2030, and is poised to witness a CAGR of 2% over the given time period.

## MANAGEMENT STRUCTURE

Lockheed Martin has a strong and experienced leadership team, with many members having long-standing careers at Lockheed and experience within the aerospace industry. As well as a plethora of experience, where needed, many management figures are well-qualified academically in their field, for example:

### James D. Taiclet – CEO

Taiclet joined Lockheed as president and CEO in June 2020, having served on the board of directors since January 2018. Prior to Lockheed, he was CEO of American Tower Corp., carrying the company from a market cap of \$2 billion to over \$100 during his period of leadership. Besides a strong track record of acting as CEO, he holds both an Engineering degree and a degree in International Relations from the US Air Force Academy, demonstrating his expertise not just in business management but the aerospace industry specifically.

### John W. Mollard – CFO (Acting)

Mollard joined Lockheed in 1983 as a financial analyst and has an almost 40-year history at the company. He has held several positions in program finance, pricing, and planning functions. He served as VP of Financial Planning at the Corporate Headquarters for over 12 years, demonstrating Mollard's has a strong career at the company and his plethora of financial experience within Lockheed.

### Frank A. St. John – Chief Operating Officer

St. John has been acting as Chief Operating Officer since June 2020 and has a long and successful 30-year career at Lockheed. In his time as VP of Rotary and Mission Systems, he managed a portfolio of over 1,000 programs worth \$16 billion, including helicopters, undersea warfare, and radar.

## INTEGRITY AND ESG ANALYSIS

### Lockheed Martin Corp

Industry Group: Aerospace & Defense Country: United States Identifier: NYS:LMT

#### ESG Risk Rating

**28.6** Medium Risk



#### Ranking

INDUSTRY GROUP  
Aerospace & Defense

11 out of 91

UNIVERSE  
Global Universe

7770 out of 14465

Since 2010, Lockheed Martin has achieved an 18% energy reduction, 38% carbon emission reduction, and 22% water usage reduction. Energy usage remained constant from 2019 to 2020 as reduced employee numbers due to the pandemic led to increased air handling activity, but as life returns to normal and employees return to work, the energy reduction targets will get back on track. In 2020, Lockheed also succeeded in their goals of increasing the share of their premises certified as green buildings, reaching 3.7 million square feet, and further increasing the share of their electricity being provided by renewables, over 322,000 MWh of clean energy. The company has been placed on the annual “Climate Change A-list” by CDP, a non-profit running a globalised rating system on climate performance and environmental performance, as well as being again placed on the Dow Jones Sustainability Index for the seventh year in a row.

In terms of workplace diversity, the company is not a pioneer, but showcases similar ratios to other firms in the industry. Whilst the targets for representation of people of colour, veterans, and disabled people were met, at 28%, 22%, and 9% respectively, the representation of women still sits below the 2015 baseline, now at 23.2% of employees. However, the company has begun outreach schemes such as a hiring event with the National Society of Black Engineers, and the CEO meeting with the head of the Women Impact Network, a BRG.

Despite their ambitious goals and strong commitment to achieving them, Lockheed has faced recent legal trouble for employment discrimination and workplace safety violations, being given a total of \$922,500 in penalties in 2020. However, to deal with the issues of workplace safety, Lockheed have been sponsoring initiatives and competitions such as the Ergo Cup to innovate and create new ergonomic practices and technologies to prevent injury.

## KEY RISKS

We have identified multiple risks with Lockheed Martin:

### 1. Reliance on the US Government

As Lockheed is a large government contractor, it carries risk associated with US government instability and potential shutdown. Although recent shutdowns have been narrowly averted with the raising of the debt ceiling, this risk holds into the future. Fortunately, it is in all parties’ best interests to keep the government running, so regardless of political back and forth, in terms of serious hindrance to projects and profits this risk is minor.

### 2. Competition from new rivals

Competition from rival firms such as SpaceX and Blue Origin for large government contracts threatens LMT’s growth and their relationship with the US government. Luckily, Lockheed’s current position as the regular supplier of satellites to NASA and the US, bodes well for future contracts and the strength of their relationship with the

government. As a trusted supplier, the US government have built a long-standing relationship with Lockheed that would be unwise to break due to potential risks associated with a new supplier.

### 3. Large, expensive, long-lasting contracts

Finally, LMT deals with execution risks on their bigger contracts, given how many moving parts they entail and their enormous costs. With each project and year that passes production becomes more streamlined and intuitive, so this risk will continuously diminish.

## OPPORTUNITIES FOR GROWTH

### 1. Continued commitment from the US Government

In Q3 of 2021 alone LMT won multiple new contracts, including \$2.4 billion with the US Navy and 101 million with the US Army. There have been commitments from the current administration to continue to fund LMT's defence programs, as evidenced by the White House's 2022 budget proposal which requests \$715 billion for the Department of Defence - an \$11 billion increase from the 2021 budget. LMT's programs have been allocated over \$12 billion for the F-35 program, approximately \$3.5 billion for Sikorsky helicopters, and over \$2 billion for hypersonic programs.

### 2. A need for the US Military and NASA to innovate and modernise

The President's budget request prioritizes funding for innovation and modernization, in recognition of the need to invest in technologies and capabilities to address the power competition the nation now faces. These include areas of strength within the Lockheed Martin portfolio such as continued support for Air and Missile Defence programs and space domain initiatives.

### 3. New Acquisitions

Additionally, LMT has announced plans to acquire Aerojet Rocketdyne Holdings, Inc. Lockheed is making this move to corner the market on missile technology, providing the company a serious advantage over their few remaining competitors. This represents a post-dividend equity value of approximately \$4.6 billion, on a fully diluted as-converted basis, and a transaction value of approximately \$4.4 billion after the assumption of Aerojet Rocketdyne's projected net cash.

### 4. An emerging and booming space industry

Lockheed had projected missiles and fire control units to be its fastest-growing business for the next four years. But during the Q3 call, management said it now sees its space division as its fastest-growing business area, with 2021 growth seen in the mid-single-digit range. Lockheed earnings per share growth has averaged 24% over the past three years. On the revenue side, growth averaged 10% over the last three years.

## FINANCIAL EVALUATION

### Market Performance

After reaching an all-time high just before the COVID-pandemic, the price crashed and has fluctuated since, with a recent climb starting at the end of September. This would seem to indicate a renewed confidence in the stock, though still well under all estimates of a target price of \$420.5.



### Key Indicators and Past Performance.

Since 2016, Lockheed has shown strong, stable, and reliable revenue, EBITDA, and net income growth. This is an indicator of a company, despite difficult macroeconomic conditions, is able to fulfil demand and attract more. When we look at EBIT, we see it is negative, but growing at a higher rate very year, which indicates that the operational difficulties Lockheed is facing are being remedied.

Apart from an unusually low, but positive, profitability in 2017, Lockheed has managed to maintain a positive and growing profitability in the range 8-11% since 2016, showing the resilience of the company, and their ability to consistently turn a profit given their assets. Additionally, the extremely strong average return on equity of 126%, showing a very well-managed use of assets to make and maintain profits.

### Debt

The debt/equity ratio is very high, though in the business line Lockheed must operate in, this involves large sums of borrowing at once to begin new projects, such as a missile defence system, then once they become streamlined and get paid, the ratio will decrease.

However, the interest coverage ratio that sits consistently above 3, and in all cases since 2016 much higher, shows us Lockheed is well-situated to pay back its large debt repayments.

### Liquidity

The current ratio since 2016, whilst not outstanding, always sits above 1.00. This shows that the company should be able to cover any short-term obligations without much of a struggle. However, the very low cash ratio may be a slight cause for concern, as Lockheed operates in cycles with huge payments for large contracts and gaps in between where little cash is generated, as well as the expensive operations necessitating lots of assets being rather illiquid, may explain these ratios.

### Comparables Analysis

As previously stated, as Lockheed is such a diversified business, few companies are a direct competitor in all fields, with the two that are the most similar in terms of military and aerospace technology being Raytheon and Northrop Grumman.

Firstly, Lockheed showcases a very attractive trailing and forward P/E ratio, being lower than both competitors and

Financial Summary						
	2016	2017	2018	2019	2020	Sum of Previous 4 Quarters
Revenue	47,248	49,960	53,762	59,812	65,398	66,814
growth		5.74%	7.61%	11.25%	9.34%	2.17%
EBITDA	6,243	7,416	8,598	9,323	9,740	10,162
growth		18.79%	15.94%	8.43%	4.47%	4.33%
margin	13.21%	14.84%	15.99%	15.59%	14.89%	15.21%
EBIT	(1,215)	(1,195)	(1,161)	(1,189)	(1,290)	(1,352)
growth		-1.65%	-2.85%	2.41%	8.49%	4.81%
margin	-2.57%	-2.39%	-2.16%	-1.99%	-1.97%	-2.02%
FCF	4,126	5,299	1,860	5,827	6,417	0
growth		28.43%	-64.90%	213.28%	10.13%	-100.00%
margin	79.51%	81.83%	59.27%	79.70%	78.42%	#DIV/0!
Net Income	4,060	1,963	5,046	6,230	6,833	7,142
growth		-51.65%	157.06%	23.46%	9.68%	4.52%
margin	8.59%	3.93%	9.39%	10.42%	10.45%	10.69%
EPS	12.39	6.49	17.58	21.94	24.51	25.51
growth		-47.56%	170.71%	24.77%	11.74%	4.07%
IRR	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

CAGR Table			
	1 Year	2 Year	4 Year
Revenue	9%	10%	8%
EBITDA	4%	6%	12%
EBIT	8%	5%	2%
FCF	10%	86%	12%
Net Income	10%	16%	14%
EPS	12%	18%	19%

Fiscal Year	2016	2017	2018	2019	2020	Qs	Current (Ex-Qs)
<b>Profitability Ratios</b>							
Return on Equity	234%	-244%	348%	196%	114%	109%	
Profit Margin	9%	4%	9%	10%	11%		
Internal Rate of Return	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Asset Turnover	99%	107%	120%	126%	129%	128%	
Profitability	8%	4%	9%	10%	11%		
Leverage	2977%	-6008%	3097%	1499%	840%	798%	
<b>Liquidity Ratios</b>							
Current Ratio	1.20	1.36	1.12	1.22	1.39	1.36	
Cash Ratio	0.15	0.22	0.05	0.11	0.23	0.18	
<b>Debt Ratios</b>							
Debt to Equity	2877%	-6108%	2997%	1399%	740%	698%	
Interest Coverage Ratio	7.83	9.95	4.70	11.20	13.85	47.18	
Interest Coverage Ratio Applicable?	YES	YES	YES	YES	YES	YES	
<b>Valuation Ratios</b>							
Earnings Per Share	12.39	6.49	17.58	21.94	24.51	25.79	
Price to Earnings	-	-	-	-	-	-	14.44
PEG	-	-	-	-	-	-	1.23
PEG Including Dividends	-	-	-	-	-	-	1.00
FCF Per Share	13.62	18.21	6.48	20.52	22.84	23.17	-
Price to Free Cash Flow	-	-	-	-	16.25	16.02	16.25
Dividend Per Share	6.76	7.43	8.18	9.00	9.84	0.00	
Dividend Yield	-	-	-	-	-	-	2.65%

Company Name	Trailing P/E	Forward P/E	EV/REVENUE	EV/EBITDA	EV/EBIT	P/SALES	P/EBITDA	P/EBIT	P/FCF	P/BV	EPS Growth
Raytheon Technologies	53.73	18.12	2.6	18.07	60.49	2.19	15.11	48.23	54.52	1.89	-126.67%
Northrop Grumman	14.24	15.46	1.96	9.61	18.7	1.73	11.49	15.74	20.35	5.67	6.82%
Mean	33.985	16.79	2.28	13.84	39.595	1.96	13.3	31.985	37.435	3.78	-0.59925
Median	33.985	16.79	2.28	13.84	39.595	1.96	13.3	31.985	37.435	3.78	-0.59925
LOCKHEED MARTIN CORPORATION (KNYS:LI)	14	13	1.65	10	-9472%	1.53	10.05	-76.01	20.17	15.74	0.12
ALL FIGURES TTM (LTM).											
ALL FIGURES \$USD (In millions).											
Over/Under Valuation	0.57519494	0.21917808	0.27631579	0.24349711	3.39230681	0.21938776	0.2443609	3.37657678	0.46119941	-3.16360877	
Implied Share Price	866.95735	475.306842	458.773385	1361.67541	-284.65779	472.905876	488.069869	-156.16159	867.36895	89.136617	
Current Stock Price	371.13										
Average Implied Share Price	463.937492										
% premium to current	25.01%										

quite a bit below the industry average shown here. Additionally, Lockheed's EV/EBITDA ratio of around 10 suggests a healthy and stable company that is not overvalued, compared to its main competitor, Raytheon, having a much higher ratio.

A PEG ratio of 1.23, whilst above 1, is not a major cause for concern as the industry average seems to be much higher, with Northrop Grumman having a much higher ratio of over 6.0.

As we see, all target prices point to a share price much higher than the current price, suggesting confidence in a future rise in stock price and providing a great opportunity to invest.

## SHAREHOLDER STRUCTURE

77.8% of the company is owned by institutions and 22% by the general public. Within this, SSgA Funds Management is the largest shareholder with 14.51% followed by the Vanguard Group with 7.35%. The fact that Lockheed is part of the S&P 500 and held overwhelmingly by institutions limits downside risk.