Inside Lockheed Martin: Last Quarter's Progress.

Feb. 8, 2022

Lockheed hit some mild bumps in the road in 2021, from supply chain problems to slower defense spending—but it finished on a strong note, with a quarterly profit increase of 13% helping it exceed its full year revenue goal. It ended the year with both revenue and operating profit up 3%, hitting new highs for the company. Some highlights from the quarter:

- The supply chain problems Lockheed discussed at length 3 months ago are beginning to subside. The supply chain is not back to normal, but it's getting better, allowing Lockheed to exceed expected F-35 production by 3 jets, producing 142 for the year.
- It opened its 3rd new facility, an advanced hypersonic missile production facility in Alabama. This facility joins the new spacecraft assembly facility and a Skunk Works (classified projects) facility all opened within the last year. These new facilities are expected to make products faster and cheaper.
- Lockheed added 2 new international customers to its F-35 program: Finland ordered 64 jets and Switzerland ordered 36. It gained its first international customer of its new heavy-lift King Stallion helicopter (the most powerful helicopter in the market, see picture below) when Israel signed up for the program.

During the last half of 2021, Lockheed announced its intention to buy Aerojet Rocketdyne, a key supplier of rocket motors used in both spacecraft and hypersonic weapons. A couple weeks ago, the FTC sued Lockheed to block the acquisition, citing antitrust concerns over too much consolidation in the industry. Lockheed will most likely decide not to fight the lawsuit. The money set aside for the acquisition will be used to bolster the balance sheet and add to share buybacks or dividend increases, 2 things the company is committed to during the next couple of years of slower government defense budget growth.

The chart below is a classic example of an exceptionally strong company creating free cash flow and using it to grow its payments to shareholders faster than the business itself. The purple line in the graph below shows Lockheed hitting record free cash flow last quarter. The 10-year, falling orange line shows Lockheed buying back (hence eliminating) 17% of its shares over the decade. (It bought back another $2 billion of shares on top of the dividend raise announced in September.) Finally, the "rising staircase" blue line shows Lockheed's 11% average compounded dividend growth in the decade—an impressive return to investors partly enabled by the falling orange line of fewer total shares to receive those dividends. Lockheed continues to strengthen its company, both operationally and as an investment for shareholders.