

Inside Lockheed Martin: Last Quarter's Progress.

Jan. 30, 2023

Despite a stronger than expected end to the year (revenue up 7% in the fourth quarter), Lockheed still reported a slight decline in revenues for the full year of 2022. This was very much expected, as management has been clear that it doesn't expect a return to growth until 2024. A couple hiccups occurred during the quarter. A landing mishap with the F-35's engine, made by Pratt and Whitney, at a Texas Air Force base caused a temporary suspension of flight operations and engine deliveries until the issue is resolved. Lockheed's helicopter unit, Sikorsky, lost out on a competition for the Army's next Long-Range Assault Aircraft (a mix between a plane and a helicopter) and filed a protest to have the selection process re-looked at, with a decision to be made by April 7. The first issue is very much a short term hiccup, expected to resolve itself during the next few months, and the second issue, while its never good to lose out on future revenue, is only one of many large revenue opportunities on the horizon for Lockheed over the next several years.

Now that we've gotten the "bad news" out of the way with, we'll move on to the highlights of the quarter. Lockheed had a record setting number of orders during the year, ending at 11% growth from 2021. This included \$1.5 billion of orders attributed to Ukraine-related activities. In December, Congress signed into law the 2023 spending bill, which included a 10% increase in spending for national defense, above the President's original request. Lockheed successfully tested its first full prototype of an operational hypersonic missile, travelling 5x the speed of sound. Hypersonics may be one of the larger contributors to growth in the decades ahead, and Lockheed is positioning itself as the leader in hypersonic development.

In its Aeronautics segment, it finalized the next two purchase lots of the F-35 with the US government for up to 398 jets. Almost more significant than the programs success in moving forward in the US were Canada and Germany's announcements to choose the F-35 as their next generation jet. They were a two of the larger "holdout" Western powers to join the program, and after extensive analysis by their respective governments, both came to the conclusion that the F-35 not only was the best jet operationally but that it would be less costly to acquire, maintain, and sustain over the jet's lifetime. This last part is a big deal, as the price tag historically was a major sticking point for the program and Lockheed's team has worked incredibly hard on getting that price tag down.

"Canada is confident that the F-35 represents the best fighter jet for our country at the best price for Canadians. During the finalization phase of the procurement process, the U.S. government and Lockheed Martin with Pratt & Whitney successfully demonstrated that an agreement to purchase the F-35 fighter jets meets Canada's requirements and outcomes, including value for money, flexibility, protection against risks, performance, and delivery assurances." --Canadian government press release

Metrics like this show that Lockheed is well on its way to "re-cranking the growth cycle" in 2024. We'll sit back and watch until then, content with its solid action plan of returning more money to shareholders through dividend increases and buybacks in the meantime.