Inside Lockheed Martin: Last Quarter's Progress.

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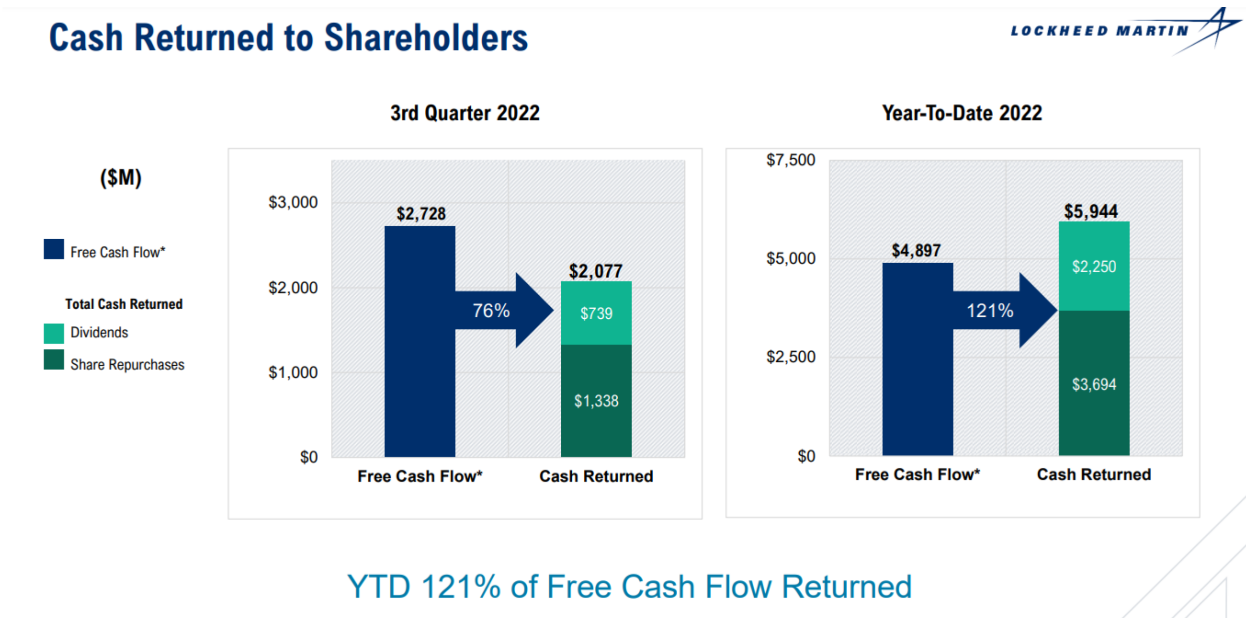
Lockheed Martin has been stuck in the trenches for the past couple of years, recording either slightly positive or slightly negative sales growth each quarter, but overall remaining flat. Blame this on a not-so-aggressive defense budget environment paired with the unusual and pervasive supply chain issues brought about by the lockdowns. We've commented in the past about how Lockheed's management has been using this time to continue working on areas for future growth, company efficiencies, and increasing shareholder returns. This past quarter, while still working on those "sluggish growth" problems, management raised the dividend 7%, a healthy increase given the market conditions, and increased its share buyback plan to $14 billion, or 10% of the company, starting with a doubling of buybacks in 2022 alone. Relatively new CEO Jim Taiclet remarked, "when I was at American Tower, we focused completely on free cash flow per share growth, and that got us through 18 years of up and down cycles, the Great Recession, and numerous other struggles. That's the right metric for Lockheed, too."



While bottom line business growth this past quarter was sluggish, Lockheed expects to return to meaningful growth by 2024, when several of its business segments are expected to have "wins" at the same time. The F-35 program is back on track, with the US Government finalizing its next purchase after 9 months of negotiating and the Swiss becoming the 15th international customer. Not only will production of the jets lead to revenue growth, but sustainment revenues are expected to pick up in 2024 as well. Its PAC-3 program, one of its biggest missile products, as expected to pick up by 2024. Several classified programs are seeing growth in the next few years as well.

A lot of people wonder if the Ukraine War has affected Lockheed and other defense companies. Last quarter, Taiclet mentioned that although conversations around orders were happening, "the clutch has not been engaged yet". This quarter "the clutch is engaging but we're in low gears". This was Mr. Taiclet's diplomatic way of saying that despite its big talk, the government has been moving in slow motion, as usual, when it comes to making accelerated defense spending actually happen. But the pressure to accelerate that spending looks too strong to be ignored much longer, both here and overseas. (Other nations have also adjusted defense spending higher, with an additional $60 billion planned for the next 5 years that wasn't there before the Ukraine War.) Lockheed Martin grew its backlog by $5 billion this quarter, the most in a while.

Lockheed's stock jumped after earnings at the prospect of the light at the end of the tunnel. Everything points to that re-acceleration of growth in the future. While LMT stock is sure to experience the usual roller coaster between now and 2024, the operating business is on the right trajectory and is handing out a lot of cash to its shareholders in the meantime.