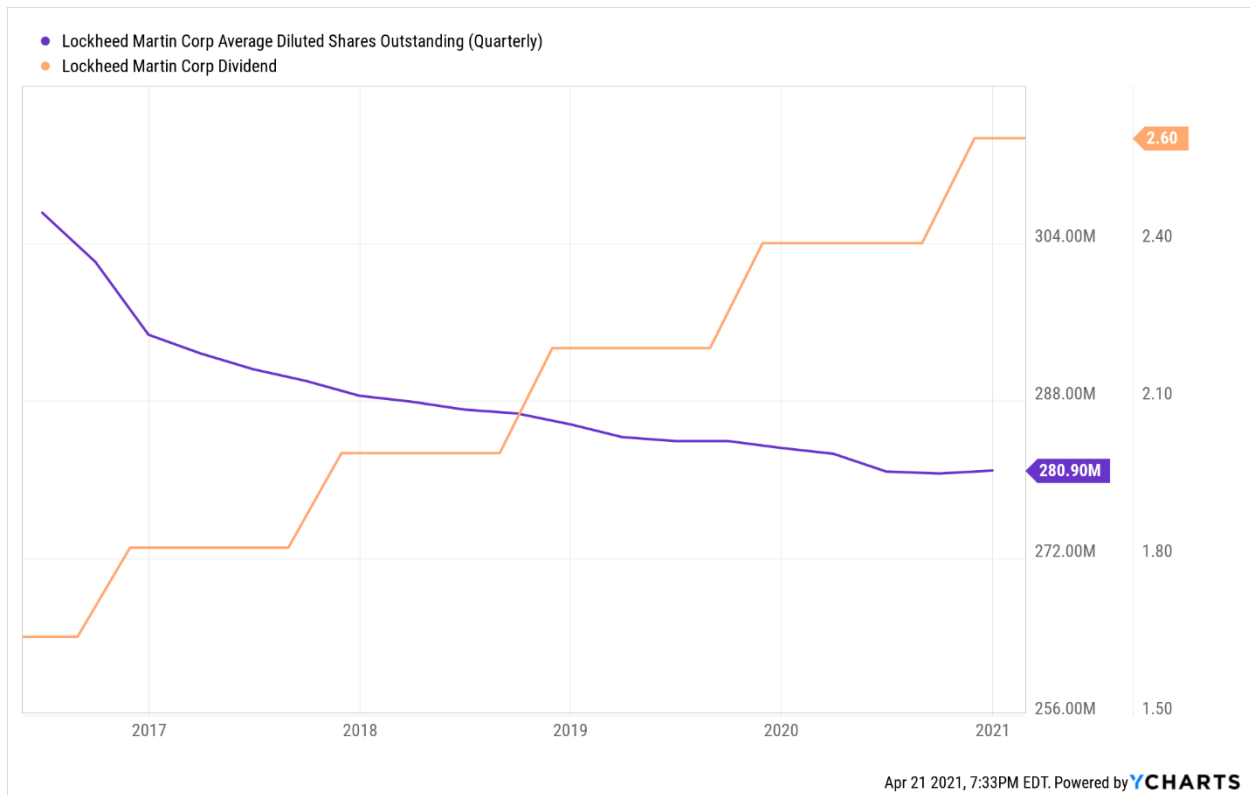


Inside Lockheed Martin: Last Quarter's Progress.

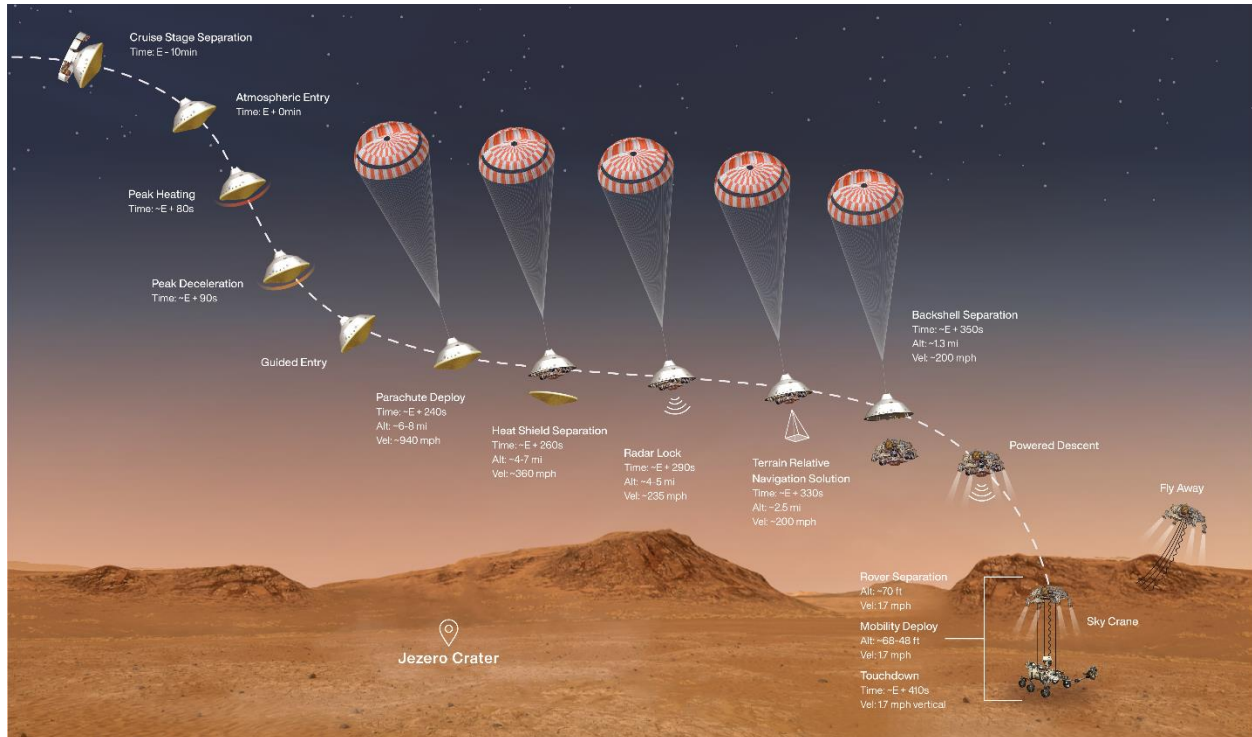
Apr. 22, 2021

Coming off of a record 2020, Lockheed Martin posted solid results for the first quarter of 2021. Revenue grew 4% and earnings grew 8%, with Rotary and Mission Systems (its helicopter division) leading the charge this quarter at 10% growth. The company continues to generate cash at healthy levels and increased its share buyback program, hitting \$1 billion worth of buybacks. This past quarter Lockheed returned 119% of free cash flow to shareholders through the dividend and buybacks, continuing its trend of increasing shareholder returns.



Lockheed's Space division has quietly become one of the biggest future growth opportunities for the company over the last few years. Its strong order book has been "mostly planned, but frankly, some of it was nice surprises", according to CFO Ken Possenriede. This past quarter, Lockheed won an award for developing a next-generation missile interceptor, which would have the capability to respond to multiple incoming threats with a single interceptor. It also announced an agreement with commercial telecommunications firm Omni Space to collaborate on a communications network involving both satellites and ground-based wireless technology. Lockheed designed the aeroshell of the Mars rover Perseverance and the first ever drone helicopter that landed and flew on the planet in February. The entry and landing of the rover was one of the most important and stressful aspects of the mission. The time it takes from when the rover enters Mars' atmosphere to when it successfully lands is called the "7 minutes of terror" due to the tough landing conditions and the fact that the landing happens faster than radio signals can reach Earth. The aeroshell that Lockheed developed must withstand the heat and friction

caused from Mars' atmosphere slowing the aircraft down from an entry speed of 13,000 miles per hour. It is truly an impressive feat of engineering.



With the addition of a Space Force and talk of commercial flights to the moon, Space has been a busy market recently. Just a few days ago, it was announced that SpaceX had won the award to build the next lunar lander. One analyst asked Lockheed's management, "with SpaceX and all the other start-ups in the Space arena coming on strong, how do you think Lockheed fits in?" CEO Jim Taiclet's response was essentially, "80% of our Space revenue comes from national security, missile defense, and classified operations. The remaining 20% is on the more commercial side where you are seeing the action these days. We are participating in this segment and you will see action from us in the commercial side, but we have a strong leadership position in the remaining 80% of our business that those newer firms can't compete with us on".

The strength seen in all of Lockheed's business segments in the past few years, not just Aeronautics and the newsworthy F-35 program, bode well for the future. The preliminary US budget for defense in 2022 is roughly flat with 2021's budget. While this differs from the Trump era of increasing defense budgets, it is very much what Lockheed expected and built into its plans for the next few years. We expect to see continued revenue growth, strong cash generation, and emphasis on returning that cash to shareholders regardless of the defense spending slowdown of the moment.

And there is one more thing we expect to see. As Mr. Taiclet said, "We are back in an era of great-power competition." That was a polite way of saying that China and Russia do not regard themselves as America's friends, and both nations are increasingly aggressive about using their military power to intimidate those who might stand in their way. Lockheed stands right in the middle of America's first line of defense against such threats. We suspect that global events may very well mean that defense spending slowdown "of the moment" will turn out to have a short life.

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