

Inside Lockheed Martin: major goals, and last quarter's progress.

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- Second quarter results beat expectations, with higher sales, profitability, and order backlog than last year.
- Successful minimization of COVID impacts so far. It looks likely that this will continue, as management increased the sales outlook for 2020.
- New CEO Jim Taiclet starts career off with a successful quarter and talks about his high-level plans and ideas for Lockheed.

Three months ago, in the middle of the Virus Shutdown, Lockheed Martin slightly lowered its 2020 sales expectations, in an abundance of caution due to the unknowns surrounding COVID disruptions. Today, after reporting a blowout quarter, it raised its 2020 sales expectations by a couple percentage points. While the rest of 2020 is still a big question mark, and this year has taught us nothing if not to expect the unexpected, Lockheed proved that it can successfully endure COVID and government shutdowns. Revenue increased 12%, operating profits grew 15%, all 4 business segments showed growth from a year ago, and the company achieved a new record backlog of \$150 billion, the 8th quarter in a row of backlog growth. Lockheed added \$22 billion in new orders over the quarter, and the breakdown of June's orders by product and customer below shows the diversity of the company.

Lockheed Martin Sales Driven By F-35 And Patriot



Figure 1: Lockheed Martin contracts in June (Source: AeroAnalysis)

This earnings call was particularly interesting not only for the good financial results, but because it was Jim Taiclet's first call as the new CEO. Taiclet is a former Air Force pilot who worked in the aerospace industry early on in his career at Pratt & Whitney and at Honeywell, but most recently was CEO of American Tower for the last 20 years, transforming it into one of the largest global telecommunications companies in the world and raising its market cap from \$2 billion to \$100 billion. Here are Mr. Taiclet's rough answers to some key questions asked on the call:

On his long-term plan as CEO:

"I plan to continue Lockheed's legacy as well as pursue a long-term strategy to support what I call the 21st century war-fighter concept. That concept brings lessons in the latest technologies from the broader tech sector to the defense industrial base."

On the hypothetical declining defense budget, especially given November outcomes:

"I try not to speculate on the behavior of people that are going to make decisions that we can't predict. We're getting the company ready for any scenario: stable, rising, or declining defense budgets."

On where his specific leadership and experiences can most benefit the company:

"Helping to connect equipment, systems, and communication networks. We need our satellites to connect to F-35's, which connect to missile defense systems to hit incoming threats. That's what our customer really wants, and no one company is providing that solution right now."

It's clear that Taiclet expects the future Lockheed Martin to be fully integrated in the latest tech: 5G networks, autonomous vehicles, AI, edge computing, etc. As defense analyst Marcus Weisgerber noted, "Taiclet wants to help build a 5G network that the Pentagon can use to connect all its weapons and retain military advantage over China." Given his experience in both the defense and tech worlds, he may be the man for the job.