

*Inside Lockheed Martin: Last Quarter's Progress.*

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Lockheed Martin had a pretty typical quarter for them: revenue up 5% and income up 12%. All four business segments exceeded 2020 levels, but its Space department led the way with 10% growth. Even in today's flat defense budget, the US has been prioritizing missile defense systems, including hypersonic weaponry, part of Lockheed's space division. The preliminary 2022 US Department of Defense budget is \$715 billion, only 1.5% higher than the 2021 budget, but all of Lockheed's programs remain well supported on the Hill.

Highlights from the quarter include:

- Switzerland became the 15<sup>th</sup> international customer of the F-35, Lockheed's fifth generation fighter jet. The F-35 beat out 4 other competitors, with the Swiss government citing that it offered the lowest cost, both initially and operationally, across all the competing programs.
- NASA picked Lockheed to build spacecraft for 2 separate missions to Venus: one which will study the atmosphere and the other which will study the surface. This will mark the first time in over 30 years the US has returned to Venus.
- Lockheed participated in a warfare exercise called Northern Edge 21, an exercise which tested products across all 4 business segments and across a very large geographic area. The point of the exercise was to test the interconnectedness of different weapons, jets, and satellites, which is something that CEO Jim Taiclet has been focused on improving since he became CEO a year ago.

For years now, a criticism of Lockheed's F-35 program has been the high cost of the planes, both for the initial purchase and the cost of operating and maintaining the plane. When a Wall Street analyst on the earnings call asked Taiclet about progress on reducing the overall costs of the F-35, Taiclet's response got right to the point.

"We continue to invest in improving the cost of the F-35. But let me talk to you from the perspective of the pilots and commanders on the front line, actually using the planes. First, look at the performance of the plane, meaning how long until you it "fails" and you have to get a spare plane that day. It's double the contractual requirement. Pilots are twice as likely to get into the F-35 for an assignment on any given day than any other previous generation plane. On top of that, it's twice as reliable as previous generations. The people using the F-35 every day will tell you its head and shoulders above legacy aircraft".

At Outlook, we've seen statements like this many times over the years. It's similar, for example, to hospital administrators questioning heart surgeons about the cost or operations of their favorite operating machinery. The real test of a product is on the front line and the success rate and performance of the surgeon is what matters most. It's certainly true for the F-35 that pilots who fly the F-35 versus previous generations will choose the F-35 every time. It will continue to be a long lasting, revenue generating program for Lockheed for years to come.

Lockheed Martin continues to press forward with successes each quarter in every business segment. It's making progress on its "21<sup>st</sup> century warfare" model, which is essentially connected weaponry that can perform quicker and more accurately based on better communication. Lockheed's clients—both U.S. and allied governments—are showing continuing strong interest in its legacy programs as well as its newest

programs. With the global “big picture” of growing tensions and conflicts with China and Russia on top of continuing smaller-scale threats, Lockheed remains the “indispensable company” in the defense and deterrence industry.

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