

Inside Lockheed Martin: Last Quarter's Progress.

Apr. 22, 2022

Lockheed reported a rare quarter in which sales declined by 8%, with every business segment declining except for Aeronautics (the F-35/F-16 department). Most of the sales decrease was explained by “program life cycle transitions” and impacts from the surge of the Omicron variant in January. For example, the Space segment was down from a year ago because of a government reorganization which postponed buying in that category. In Rotary and Mission Systems, Lockheed’s first quarter a year ago included a \$300 million Australian pilot training program which has since ended, leaving the comparable revenue number at a loss. This slightly lower revenue posted this quarter seems to be a short-term blip on the radar, though, as management expects the full year of 2022 to still see the same growth as predicted 3 months ago.

Negotiations with the US government on the next few purchase lots of F-35’s continue. CEO Jim Taiclet talked about how over the past year or so of negotiations, the costs of supplies and services keep changing due to the havoc wreaked by COVID lockdowns, so both the government and Lockheed are trying to agree upon the appropriate numbers for the next purchase. Negotiations are progressing but may impact results next quarter if an agreement is still not reached. To the company, it’s less important to see a short term impact from longer negotiations than it is to get the numbers right for the longer term purchase of the next 3 lots of fighter jets. Even if the United States ends up buying fewer F-35’s during this next purchase, Lockheed has high hopes for increasing its international business. So far in 2022, Germany and Canada chose the F-35 to upgrade its fleet. Combined these two countries are purchasing over 100 jets.

Russia’s invasion of Ukraine catapulted Lockheed’s stock higher this quarter. As Taiclet mentioned in the earnings call, “the value of strong deterrents to war has not been as great since the middle of the 20th century”. Deterring war is the mission of the company. The effects on business of Russia’s invasion are too early to be measured, but there is little doubt that defense companies such as Lockheed stand to benefit for many years because of the new environment created by Russia’s actions. European countries especially have woken up to the fact that they need to be well prepared for unprovoked invasion. Germany’s purchase of the F-35 was an early response to this realization, and we think we will see more business headed Lockheed’s way from European countries in the years to come. Taiclet remarked on the F-35’s use during the war so far:

“My interactions with pilots and commanders and senior government officials in countries, including the U.S. and Israel, and in Europe, where the F-35 has been used in either combat or combat support operations. The feedback is the aircraft is unmatched as an aircraft, especially with its fifth-generation stealth capability and be survivable in a really hostile environment. But equally exciting to the people I’ve been getting feedback from on the front, so to speak, is the ability of the F-35 to be a core sensor and a core command node and control node in a much wider network of national defense or deterrence.”

Lockheed is not only building best in class planes and weapons but connecting these assets to both “home base” and to other allies in a way that has never been done before. With the F-35 and virtually all of Lockheed’s equipment, the goal is to create better combat intelligence and get it to everyone who needs it faster than anyone else in the world. Despite this quarter’s sales setback, Lockheed is still positioned for growth in the coming years.