

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

Feb. 3, 2020

Lockheed Martin ended 2020 strongly, with 7% sales growth and 21% earnings growth. This finish helped the company set new records for annual sales, earnings, and cash from operations. Even more impressively, the good news was spread throughout the entire company: all 4 business segments had record sales, as the below graphic shows.

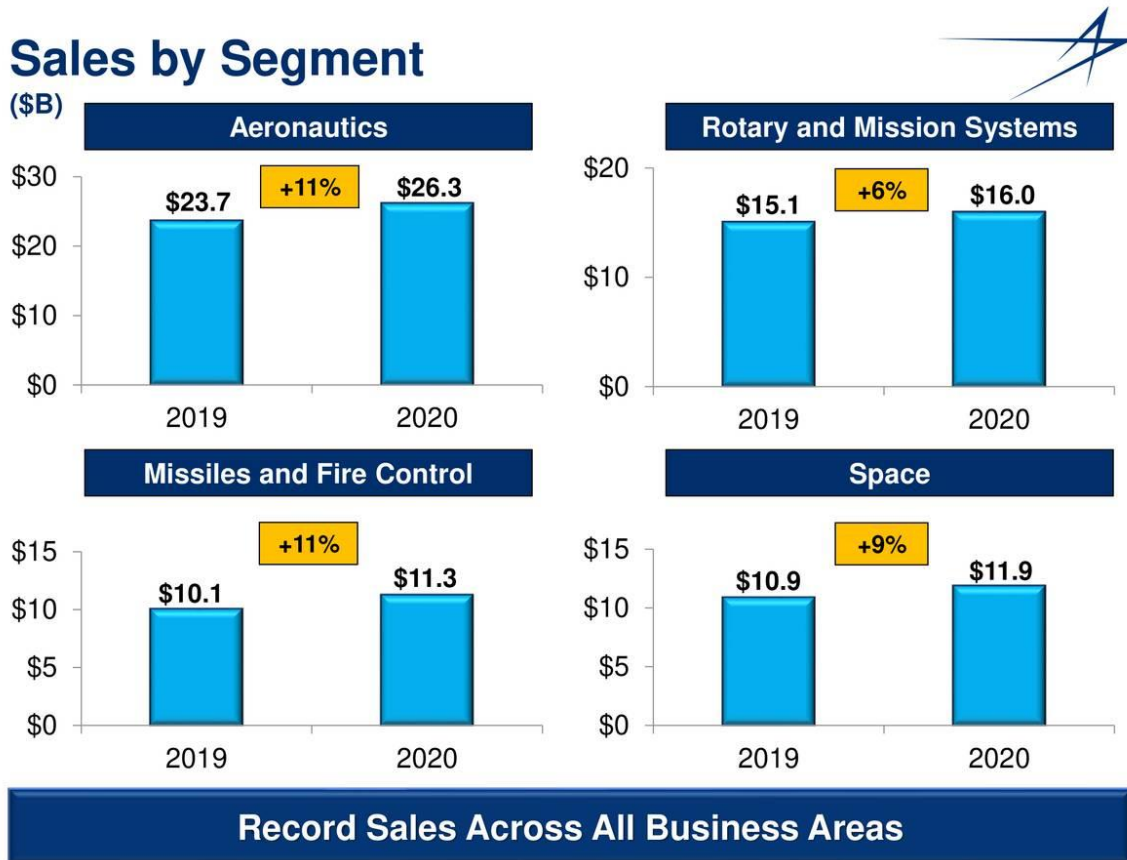
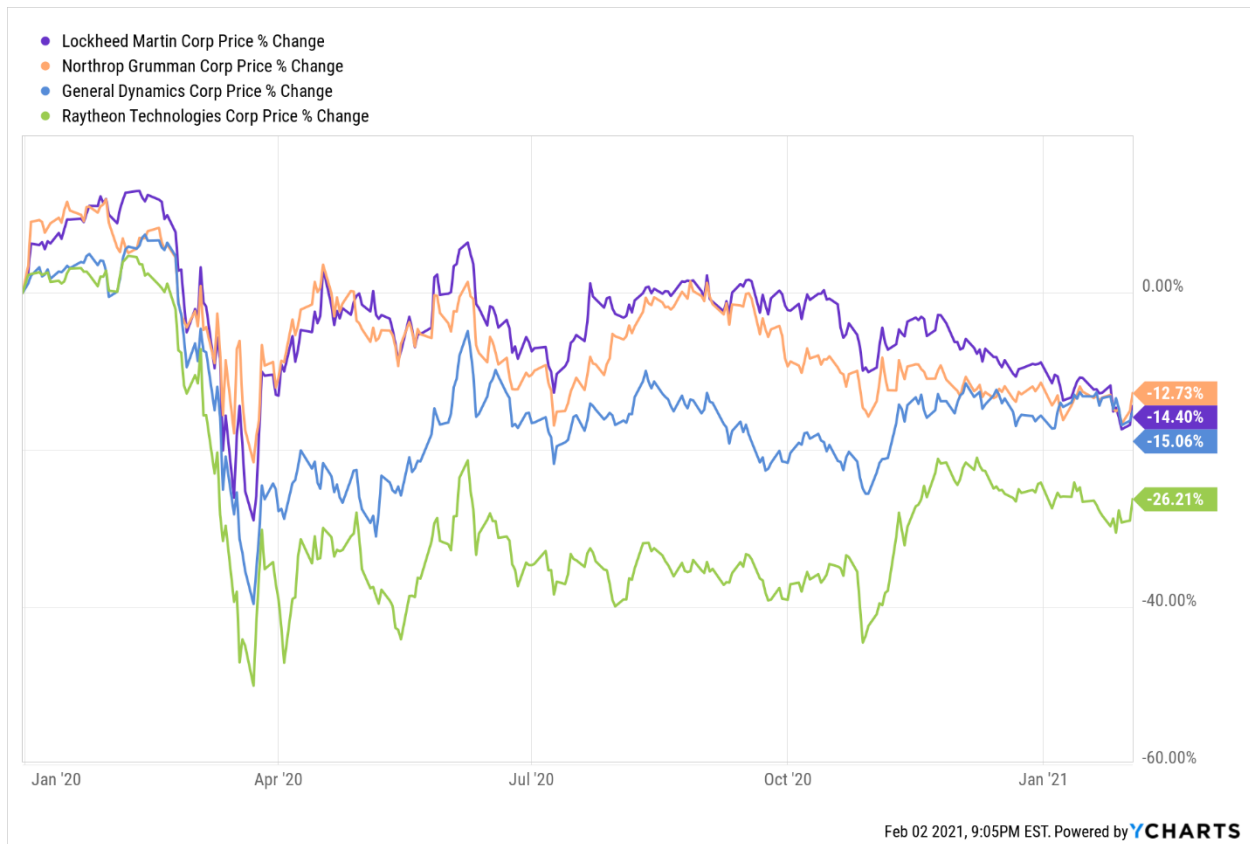


Chart 5

January 26, 2021

During the quarter, Lockheed agreed to purchase Aerojet Rocketdyne, a leader in propulsion systems. Lockheed was already using Aerojet's systems in its products, mainly in its space and missile departments. The acquisition should lower costs and get products to customers faster. Aerojet's expertise in propulsion will especially be useful in hypersonic weapon development (a leading edge of weapons technology in the years ahead.) The heat generated by hypersonic missiles is far beyond any other missile, and Lockheed needs more knowledge to overcome this challenge. Although hypersonic weapons are still very much in the development stage, it is an urgent area for U.S. investment right now, because America's big-power rivals are being aggressive in this sector. Revenue from hypersonics has the potential to double in the next few years, and the faster Lockheed overcomes the struggles of the development stage, the sooner it will become more profitable in this area.

With a truly outstanding year as the backdrop, why has Lockheed's stock price dropped 14% since the beginning of 2020?



The answer really doesn't lie in anything company specific, but instead is industry specific. As we can see in the chart above, all defense companies are down over the past year, and its mostly due to the anticipation and eventual reality of the "blue wave" in Washington. General opinion is that defense budgets for the next 4 years will be flat at best (versus the steady increases of the last 4 years). Lockheed CEO Jim Taiclet points out that President Biden's proposed national security team is very experienced and most likely will understand that the threats to the US are growing (or at least not diminishing). Like Taiclet, we think the budgets will be stable over the next 4 years, and that demand for Lockheed's products will continue to grow even in this environment.