Inside Lockheed Martin: Last Quarter's Progress.

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Lockheed's second quarter saw revenues fall 9%, roughly the same as last quarter, with sales down in every business segment. Close to half of the drop in revenues was due to the stalled negotiations of the next batch of F-35 planes with the US government and half was due to the timing of projects and supply chain problems. It's become clear to Lockheed that both supply chain problems and difficulty in hiring labor will persist throughout the year, causing management to decrease their full year sales outlook. Despite lower sales, Lockheed increased its profitability, showcasing that its attempts at resolving supply issues and running operations efficiently are paying off.

The biggest news of the quarter was that a handshake agreement was finally reached between Lockheed Martin and the US government for the next 3 years of production lots for the F-35 for a total of 375 planes. A combination of the pandemic, supply chain problems, and inflation caused lengthy negotiations for this next contract. The result is slightly lower numbers of planes built in 2023 and 2024 (about 3-9 planes less) before ramping back up to the expected number of planes built in 2025. One of the problems the F35 program faced over the past couple of years is a lack of available spare engines and other parts required for maintenance of the plane. If a plane needs a new engine but its not available due to supply problems and a lack of hired labor required to produce and install those engines, that plane sits idle in the field, losing money. The government's solution—lowering the number of planes ordered over the next couple of years—isn't a "we don't want the F-35" issue, it's a "we want all the F-35s we can get but we also need to be able to use all the F-35s we can get" issue.

F-35A Lightning II aircraft. Photo: Staff Sgt. Madelyn Brown/US Air Force

The defense environment the last couple of years hasn't been the strongest for Lockheed. Defense budgets have flattened as the world has been in a somewhat calm period in terms of warfare and the US' withdrawal of troops in Afghanistan slowed business growth down. In just a few short months, however, the global security environment has changed. The US and allies are responding to Russia's invasion of Ukraine. Tensions in the Western Pacific have increased after talk and actions from China and North

Korea. Governments around the world are shifting gears and really evaluating their defense needs. As CEO Jim Taiclet points out, though, “the clutch isn’t engaged yet”. There are a lot of discussions being had about future purchases but no concrete contracts yet. That will take another year or two. In the meantime, Lockheed will focus on its profitability, on resolving its supply chain problems, and on returning over 100% of free cash flow to investors through share buybacks and dividends to be in a great position once “the clutch is engaged”.