

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

***Apr. 23, 2020***

2019's success continued this past quarter at Lockheed Martin, with sales up almost 10% and earnings and order backlog reaching record levels. The aeronautics division led the charge with a 14% sales increase, delivering its 500<sup>th</sup> F-35 aircraft. Missiles and Fire Control had a healthy 11% increase and successfully launched its second test of its new strike missile for the Army. Rotary and Mission Systems' sales were unchanged from year ago, but Lockheed's Sikorsky helicopter division is a finalist in two important design competitions that could represent long term growth opportunities in the future. In its Space division, sales were up 10% and the first 2 of 10 next generation GPS satellites for the Air Force were completed, delivering signals 3 times more accurate than current satellites.

As an essential business that supports national security, Lockheed's business operations in the first quarter were not too affected by the Virus Shutdown, although management expects negative impacts in the second quarter and possibly beyond, depending on how long the Shutdown lasts. The biggest impacts currently seen are from travel restrictions and site access. Some of Lockheed's smaller suppliers are showing signs of stress, and Lockheed is trying to help them out as much as possible by accelerating payments to them and flowing Treasury aide down to these suppliers. At this point, Lockheed has lowered its sales expectations for 2020 by about 0.5% due to COVID-19 implications.

International customers remain about 1/3<sup>rd</sup> of Lockheed's revenue, and sales to Middle Eastern countries, especially Saudi Arabia, have ramped up over the years. Due to oil's recent plunge (hurting the finances of Saudi Arabia and other oil dependent nations), this has led some on Wall Street to question the safety of Lockheed's international revenue streams. However, Lockheed hasn't seen a pullback of orders or interest in its products from the Middle East, and remarked that if anything, the situation in the Middle East is "more complex, volatile, and unpredictable" than before. The bottom line is that national security is most nations' number one priority, so Lockheed isn't too worried about a lack of demand for its products.

This sentiment proved true in the US as well, as the government submitted its preliminary 2021 budget last quarter. It increased the national defense budget, with space, missile systems, and hypersonics all receiving increased budgets from prior drafts. Demand for Lockheed's equipment will continue from both the US and allies, and Lockheed's growth outlook remains strong. As the chart shows, Lockheed has done much better than the market so far this year, since its customer is "government" rather than the private sector; but the company's great strengths have been obvious during all the years we've owned it. That will continue.

- Lockheed Martin Corp Price % Change
- S&P 500 Level % Change

