

Inside Lockheed Martin: Last Quarter's Progress

Jul. 30, 2025

It was an unusual quarter for Lockheed Martin. Typically a company known for slow but steady growth and reporting earnings that beat Wall Street's estimates, Lockheed shocked investors by reporting an earnings per share of \$1.46 versus last year's \$7.11. Naturally the stock fell off a cliff, dropping 10%.

The heart of the problem is the "fixed price contract" used by the government when it deals with defense firms like Lockheed (and which their CEO's have complained about for years.) Such contracts mean Lockheed must look many years into the future and accurately predict the company's costs as it invents and develops a new weapon. The "fixed price" means the government bears no risk that the weapon's costs will rise more than expected—only Lockheed does. So Lockheed tries to put enough "cost cushion" into the contracts to cover some degree of unexpected cost hikes.

At the beginning of the year, Lockheed saw costs rising "too much" on three programs, dismissed the company's Chief Financial Officer and hired a new one. The new CFO looked very hard at the programs and basically told his boss, Jim Taiclet, "We've got bigger problems than we thought." The largest program, by far, is a secret program in Aerospace that Lockheed believes will be "magical" and "game changing" in the distant (10-year) future, but whose costs are now rising much faster than predicted. This led to management taking a nearly \$1 billion hit this quarter. The other two programs were helicopter programs—one in Turkey and one in Canada. For a number of reasons including US sanctions on some Turkish companies, it was found that costs in these programs were too high. Combined, Lockheed ended up writing off about \$800 million for these programs this quarter.

Other than the write offs this quarter, the rest of Lockheed's business was quite strong. It remains on track with its F-35 delivery goal, delivering 50 aircraft this quarter. Its Missile and Fire Control segment gained 11% in revenue from increased demand for multiple missile programs. Its Space segment grew a healthy 4%. Furthermore, despite this quarter's balance sheet hit, Lockheed is maintaining its annual revenue and earnings expectations. It expects a strong second half of the year, with multiple billion-dollar-plus incoming contracts.

THAAD system: destroys incoming missiles, currently in use by U.S. Allies and in high demand

THAAD



It's not shocking that this past quarter's results led to a sell off—stocks have sold off just as much for far less “scary” news. The question becomes, “is this a one-time blip that will be resolved in the short term, making a stronger company in the future”? We strongly believe the answer is “yes”. Management was clear that the troubled programs now have new leadership and expertise involved with them, will constantly be reviewed, and that changes are being made to better assess future risk when making contracts in the first place. CEO Taiclet decided to go with a “rip the bandaid” approach by taking the full hit of the program losses this quarter. Now that it's over, business can resume even stronger than before. Lockheed remains financially strong, with a growing dividend it can easily cover. It has a backlog of \$166 billion dollars, expects a strong rest of the year, and may have a new future growth prospect in the current administration's plan of creating a “Golden Dome” around the US.