

Lockheed Martin Corporation (NYSE:LMT)

Nov 25th, 2023

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Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

Valuation

Recommendation

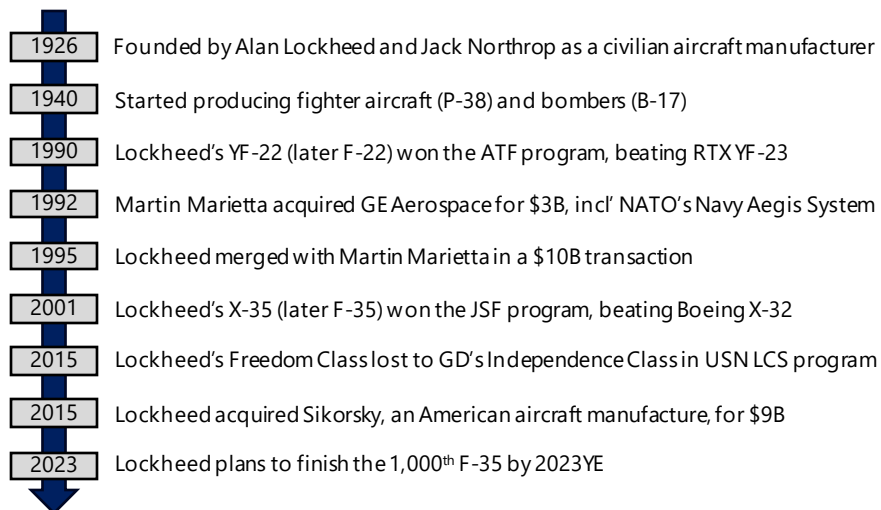
Company Overview

Lockheed Martin Corporation (NYSE:LMT) *(in millions of USD, except per share data)*

Business Description

- Lockheed Martin is an American aerospace, arms, defense, and cybersecurity company with interests worldwide
- The company was formed after the merger between Lockheed Corporation and Martin Marietta in 1995
- They are the world's largest defense company by market capitalization and US government's largest contractor
- The firm employs 116,000 employees across 52 countries with 400+ facilities globally
- Company operates through 4 segments: Aeronautics, Missiles And Fire Control, Rotary and Mission Systems, and Space

Business Model Evolution Timeline



Key Management Personnel



Name	Jim Taitlet	Frank St. John	Jay Malave
Position	CEO, President	COO	CFO
Years Exp.	26	35	8.5
Previous Roles	CEO of American Tower Corp.	VP of Rotary and Mission Systems	CFO of L3Harris

Capitalization Table

Share Price (November 20, 2023)	\$443.81
Basic Shares Outstanding	248
Market Capitalization	\$110,109
Plus: Total Debt	\$17,389
Less: Cash	(\$3,551)
Plus: Preferred Stock	--
Plus: Minority Interest	--
Enterprise Value	\$123,947

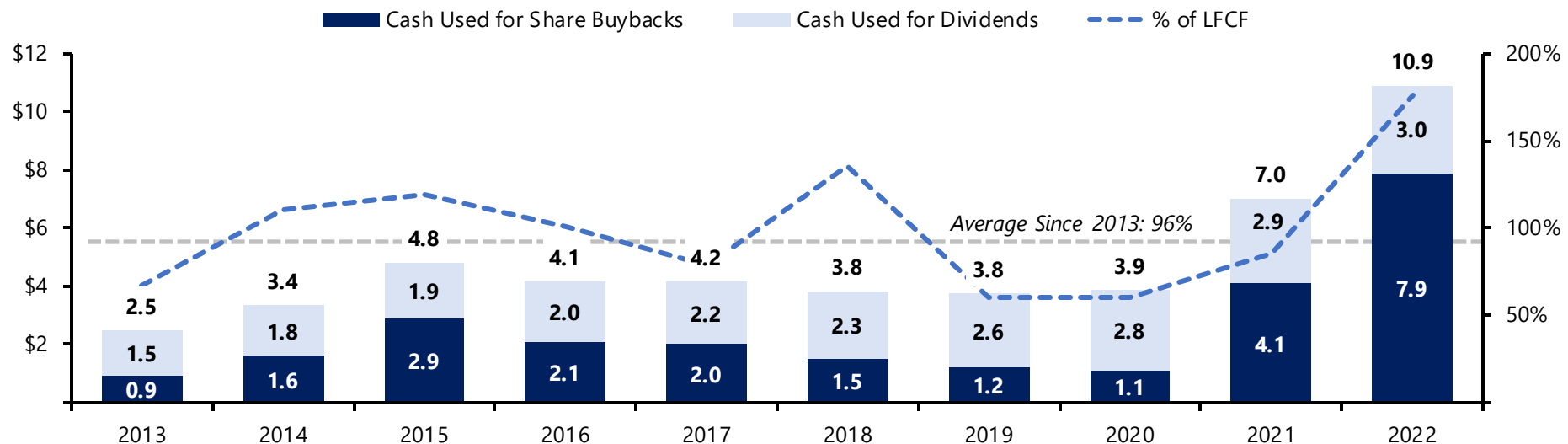
Company Overview

Lockheed Martin Corporation (NYSE:LMT) (in billions of USD, except per share data)

Price Volume Chart (3-Year)



Return of Value to Shareholders



Company Overview

Lockheed Martin Corporation (NYSE:LMT) (in billions of USD, except per share data)

Segment Details (% of FY2022 revenue)

Aeronautics (\$27.24B, 39.4%)

Designing and manufacturing jet-engine and propeller aircrafts, including both two US 5th gen fighters and spy jets



F-35



F-22



F-117



SR-72



SR-71



U-2

Rotary And Mission Systems (\$18.08B, 26.1%)

Designing, manufacturing, and servicing training systems, laser weapons, helicopters, radar systems, and integration software



F-35 Training Systems



Airborne Laser Weapon System



CH-53 Super Stallion



UH-60 Black Hawk



AN/TPQ-53 Radar



Navy Aegis System

Missiles And Fire Control (\$11.94B, 17.3%)

Designing and manufacturing missiles and fire control systems



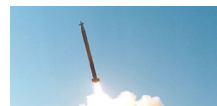
Javelin



Precision Strike Missile



JASSM



GMLRS



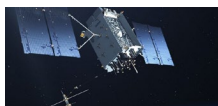
ATACMS



Apache Fire Control

Space (\$11.91B, 17.2%)

Researching, developing, manufacturing, and servicing satellites and hypersonic weapons



GPS III



LRHW



JASSM



Callisto



LM400



MUOS

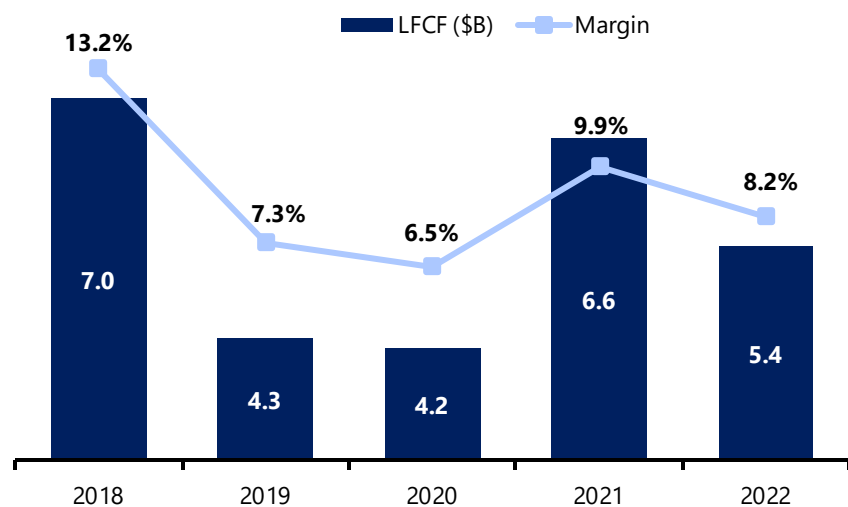
Company Overview

Management and Capital Allocation *(in billions, except per share data)*

Overview of LMT's Management

Name	Position	Years Exp.	Biography
Doug Wilhelm	VP & GM of F-35 Program	16	<ul style="list-style-type: none"> Previously Director, International Programs at Lockheed Martin Has led critical initiatives for Lockheed Martin such as the Deepwater C4ISR system
John Clark	VP & GM of Skunk Works	25	<ul style="list-style-type: none"> Previously VP of Engineering and Technology at Lockheed Martin
Stephanie Hill	EVP, Rotary & Mission Systems	17	<ul style="list-style-type: none"> Previously SVP of Enterprise Business Transformation at Lockheed Martin Member of the Board of Directors of S&P Global and Project Lead the Way
Dean Acosta	Senior VP, CCO	20	<ul style="list-style-type: none"> Previously CCO at Resideo, VP of Global Communications at Honeywell Worked at NASA, Boeing Space Exploration, and Lockheed Martin in prior positions
Tim Cahill	Executive VP, MFC Division	29	<ul style="list-style-type: none"> Has spent a majority of professional career in various roles at Lockheed Martin MS, Aeronautical Engineering from Purdue & MBA from Stanford
Yvonne Hodge	Senior VP, & CIO	22	<ul style="list-style-type: none"> Previously spent 24 years in various roles at AT&T ending as VP of Operations Has been Lockheed Martin CIO for 20 years

Historical Levered Free Cash Flow



Historical Return on Invested Capital (ROIC)

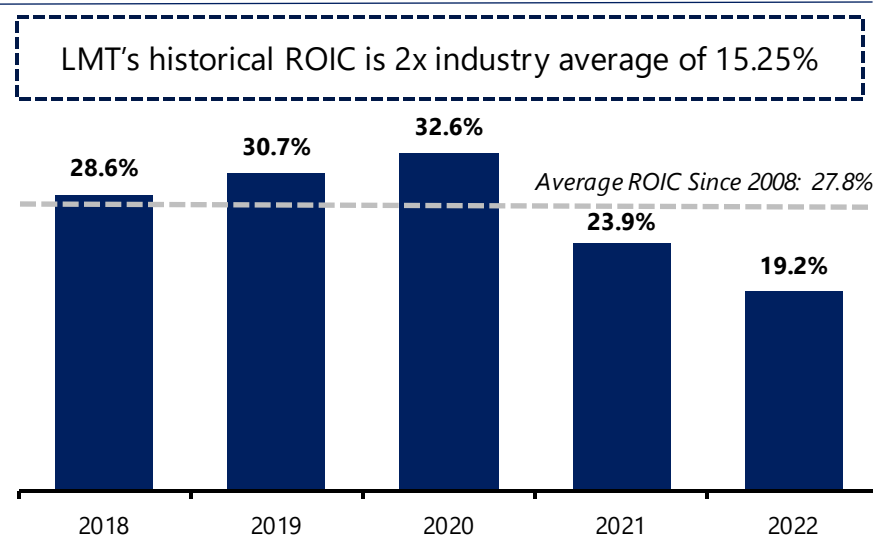


Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

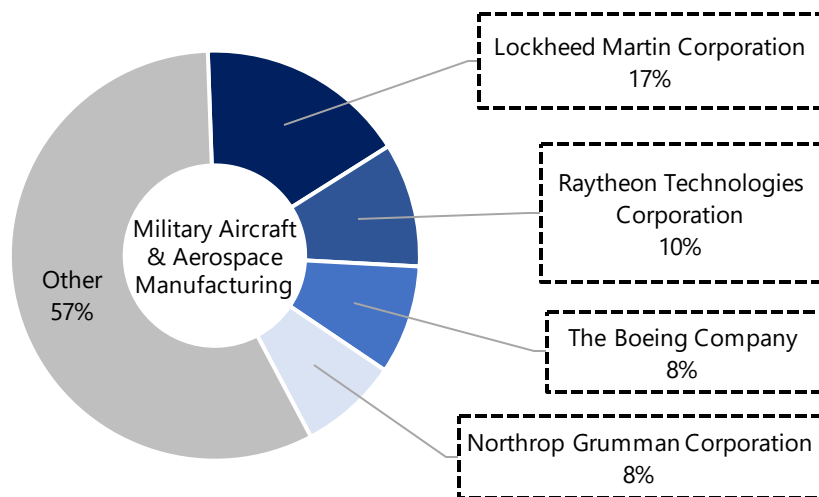
Valuation

Recommendation

Industry Overview

Companies Benefit From High Barriers to Entry

Competitive Landscape



Highly-Regulated Industry & Govt. Support

- The geopolitical impact of products such as missiles and fighter jets demand extensive government regulation to ensure safe use
- Considering the industry's environmental impact, companies are subject to environmental regulations affecting waste discharge
- As such, the highly-regulated nature of the industry allows it to receive extra support from governments and supranational organizations such as the European Union
- Support comes in the form of product development, production, marketing, and sales
- Governments also account for the majority of defense sales

High Operating Costs Protect Top Industry Players

Skilled Labour Required



- Top industry players sell innovative and technologically advanced products requiring extensive R&D
- These processes demand large amounts of human capital and knowledge
- Thus, the cost of this labour is high; wages in 2023 equated to 14.6% of revenue, which is relatively higher than the general US manufacturing sector

High Input Costs



- Input costs in 2023 equated to 47.6% of total revenue
- The industry operates under a complex supply chain consisting of expensive equipment purchases, material for products, and other inputs
- Companies are subject to price fluctuation throughout the supply chain; switching suppliers is difficult due to cost constraints

Resiliency Against Economic Cyclicity

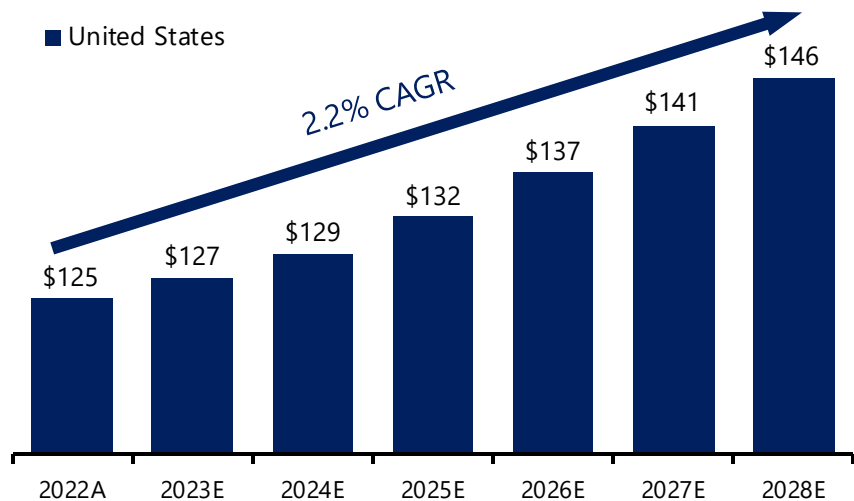


- Contracts signed in the industry are mostly long-term, providing contractors with guaranteed cash flows over many years
- This provides contractors with the funds to last through regular cycles of economic downturn
- However, newer companies struggling to sign onto significant deals may not have enough capital to maintain growth and operations in a downturn

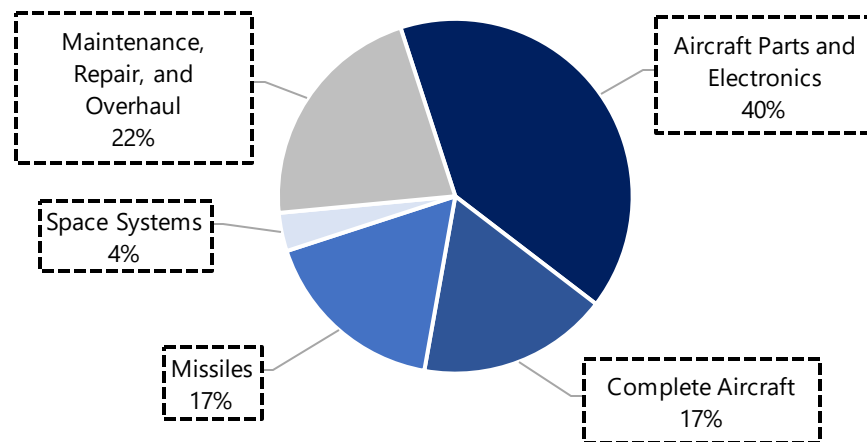
Industry Overview

An Innovative and Mature Industry Backed by High Government Demand *(in billions of USD, except per share data)*

Military Aircraft & Aerospace Manufacturing Revenue



Industry Revenue Segmentation



Continuous Demand for Innovation due to Dynamic Geopolitical Environment

- Rising geopolitical tensions in Eastern Europe and the Middle East have caused global powers such as the United States to increase defense spending
- Given the nature of these conflicts, larger countries are looking to bolster their aerospace capabilities by modernizing their fleet of military aircraft and implementing new software into mission systems for improved performance
- In response, companies such as Lockheed have been signing major deals with world governments to manufacture, test, and deliver new aerospace products to phase out older models – Lockheed’s Skunk Works division has been at the forefront of this aerospace innovation
- Deliveries for Lockheed’s F-35 fighter jet are scheduled until 2027 with the United States pursuing an ambitious aerospace modernization program and the United Kingdom planning to have fully operational F-35 fleets by 2030
- Following Russia’s invasion of Ukraine in 2022, Western European countries such as Germany, Belgium, Romania, Italy, Poland, Norway and Sweden have increased their defense capabilities
- Demand from smaller countries is fulfilled through imports from larger countries, most notably the United States; with the recent onset of conflicts in Israel, the United States has pledged to provide military aid using these imports

Industry Overview

Profiles of Leading Competitors and Commentary (in billions of USD, except per share amounts)






Company	Revenue (LTM \$B)	EBITDA Margin (%)	Commentary on Strategy	Comparability to LMT (out of 10)	Threat to LMT (out of 10)	Revenue Segment (most recent FY)
 GENERAL DYNAMICS	\$41.5	11.6%	<ul style="list-style-type: none"> IT is the largest segment after the 2018 \$9.7B CSRA acquisition, competing with Lockheed's rotary segment Outside of IT, GD focuses less on R&D Naval system is the 2nd largest segment, competed with Lockheed in USN LCS program Producer of F-16 and Gulfstream 	6	5	Technology – 31.7% Marine – 28.0% Aerospace – 21.8% Combat Systems – 18.5%
 RTX	\$67.1	13.5%	<ul style="list-style-type: none"> In 2020, Raytheon merged with UTC (a major aircraft engines manufacturer) to form RTX. 2 largest segments focus on aircraft engines (incl' F-35) and aerospace communication systems for both military and civilian uses Competing with Lockheed on Stinger missile's replacement 	7	7	Aeronautics – 29.3% Engine – 29.2% Space – 20.4% Missile – 21.1%
 NORTHROP GRUMMAN	\$38.7	18.5%	<ul style="list-style-type: none"> Highest LTM R&D (\$7.3B) in the group Sole bidder for USAF's next new intercontinental ballistic missile system Aeronautics is the 3rd largest segment Competed with Lockheed in F-35 development 	6	7	Space – 31.7% Aeronautics – 27.2% Mission System – 26.8% Defense – 14.3%
 L3HARRIS™	\$18.7	14.9%	<ul style="list-style-type: none"> Acquired some "high tech" Lockheed business units in 1997, according Lockheed's 1997 10K Generates the most revenue from electronic warfare components and command control systems, competing with Lockheed's Rotary And Mission Systems. 	5	5	Integrated Mission – 40.2% Space & Airborne – 35.2% Communication – 24.6%
 BOEING	\$75.8	3.8%	<ul style="list-style-type: none"> Overweight in civilian aircraft sales/services Producer of F/A-18 and F-15 fighters Producer of the International Space Station and the X-37B autonomous spacecraft 	4	6	Defense - 34.7% Commercial – 28.7% Global Services – 26.3% Boeing Capital – 0.3%

Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

Valuation

Recommendation

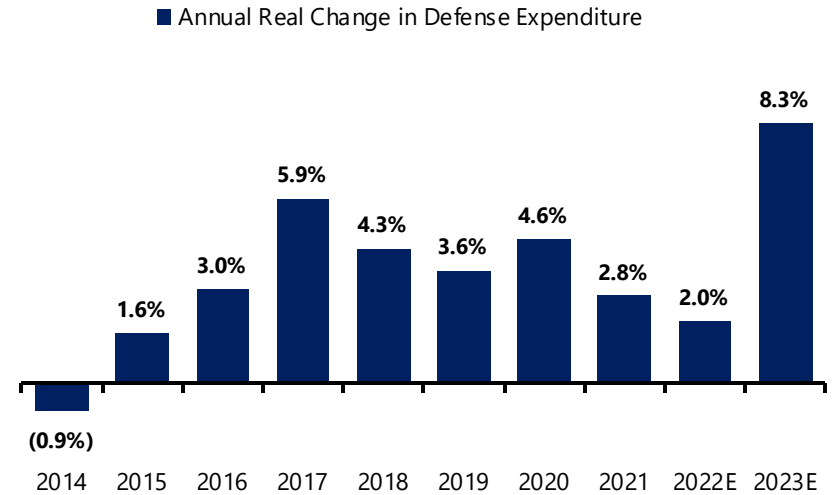
Investment Thesis I

Positioned to Capitalize on Higher Global Defense Spending

NATO Defense Budgets Positioned to Grow

- In 2014, NATO recommended member nations increase defense spending to 2% of national GDP by 2024
- As of 2023, only 11 nations have met this target
- NATO intends on making the 2% goal a minimum requirement for defense spending, providing potential for greater growth in government spending towards contracts with Lockheed
- Since February 2022, NATO countries partnering with Lockheed have increased defense spending by 12%
- This turn towards higher military spending during times of growing geopolitical tensions is not uncommon, as NATO historically imposed a defense budget of 3% of GDP in the 1980s in response to growing tensions in Europe, the Middle East, and Asia

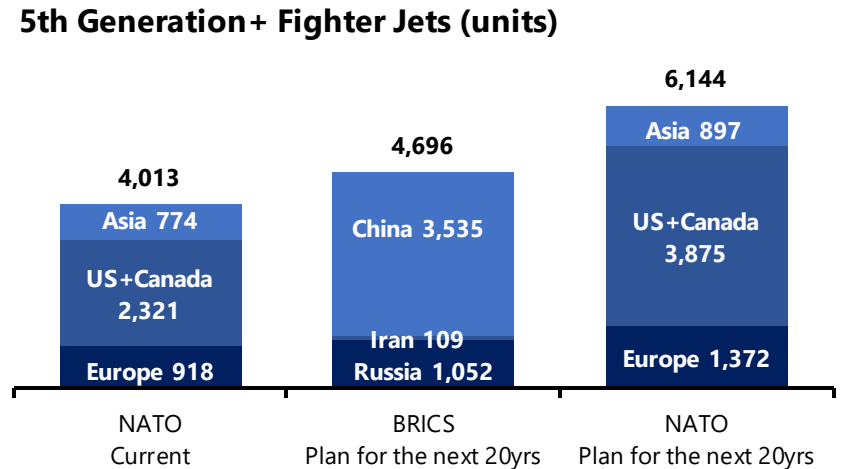
NATO Europe and Canada Defense Expenditure



Aeronautics Sector Expanding

- Popular products such as the F-35 and F-22 fighter jets have historically experienced backlog due to the lengthy deal process with federal governments
- However, Lockheed will be expecting an expanding Aeronautics sector, as its contracts for the C-130 Hercules aircraft, F-22 fighters, and F-35s are fixed firm price contracts
- These contracts provide a 10% operating margin and are expected to be accretive to Lockheed's Aeronautics segment
- Lockheed currently produces 156 F-35s per year, with ongoing discussion of increasing capacity

NATO Plan To Out-Produce BRICS



NATO Europe and Canada Defense Expenditure shows Annual Real Change in Defense Expenditure, based on 2015 Prices and Exchange Rates

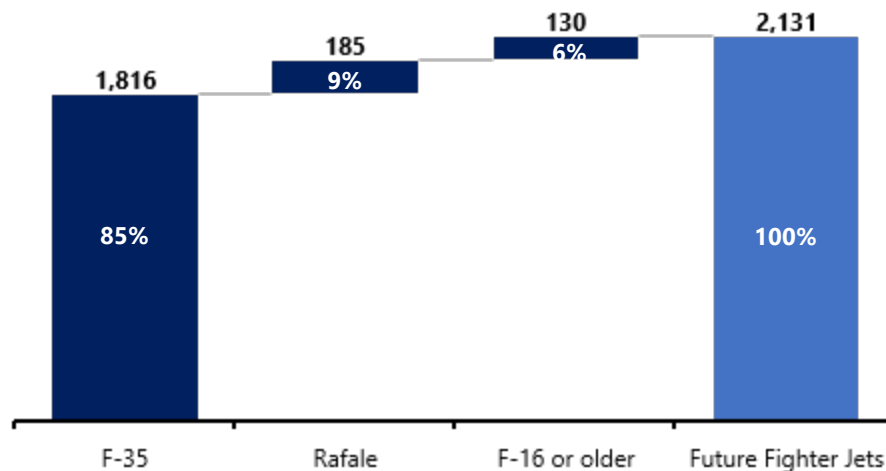
Investment Thesis I

Positioned to Capitalize on Higher Global Defense Spending *(in billions of USD, except per share data)*

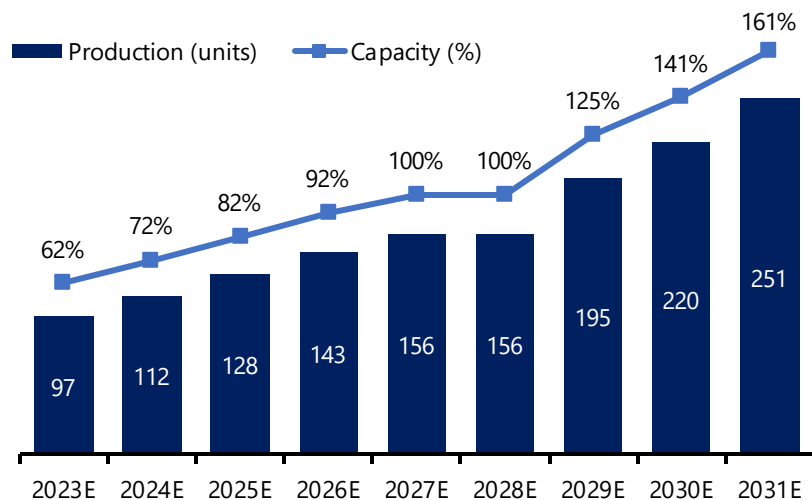
F-35: The Industry Standard in Defense Aircraft

- In 2001, Lockheed Martin was awarded the Joint Strike Fighter System Design and Development contract for their F-35 Fighter Jet prototype, winning against competitors such as Boeing, Northrop Grumman, and McDonnell Douglas
- The F-35's present success is partly a result of financial backing from world powers such as the United States, United Kingdom, Italy, the Netherlands, Canada, Australia, Norway, and Denmark
- The F-35 aircraft serves as a replacement for older models such as the F-16 and F-22, all while combining functions such as radar undetectability and compatibility with different systems
- After being declared operational in 2015, the F-35 has steadily gained popularity with militaries globally

What is the Plan for 2050? – 85% F-35



Annual Production Rate and Capacity of F-35s



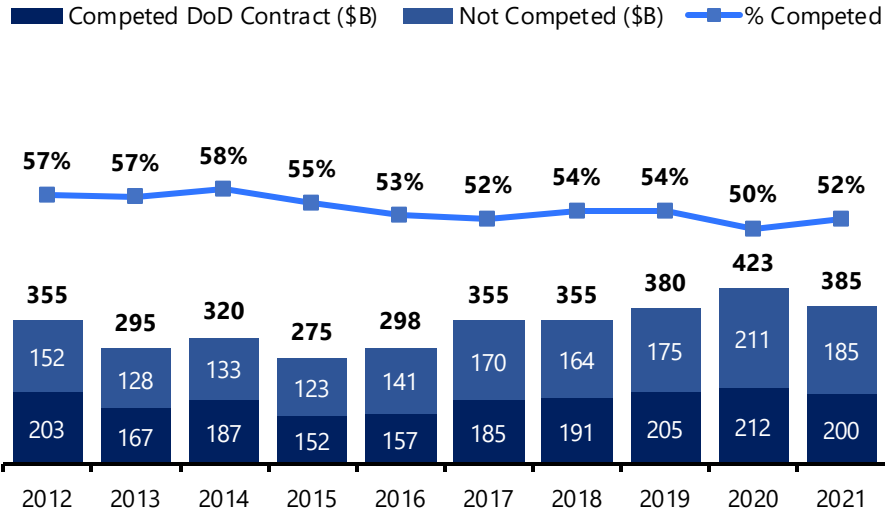
International Interest in F-35 Sales, Since 2022

Customer	Timing	Status	# Aircraft	Contract Value (\$B)
Finland	Feb 2022	Finalized	64	9.4
Greece	Jun 2022	Requested	20	NA
Germany	Jul 2022	Finalized	35	8.4
Switzerland	Sept 2022	Finalized	36	6.3
Canada	Jan 2023	Finalized	88	15.0
Singapore	Feb 2023	Finalized	8	NA
Czech Republic	Jun 2023	Pending	24	5.6
Israel	Jul 2023	Pending	25	3.0
Romania	Aug 2023	Pending	32	6.5
South Korea	Sept 2023	Pending	25	5.1

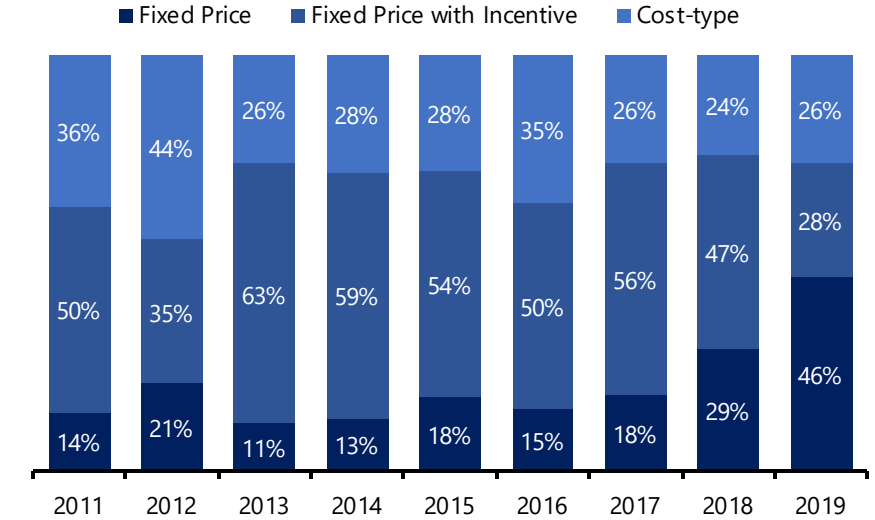
Investment Thesis II

Fewer Competing Contracts → Emphasis on R&D Efficiency (LMT's Expertise) *(in billions of USD, except per share data)*

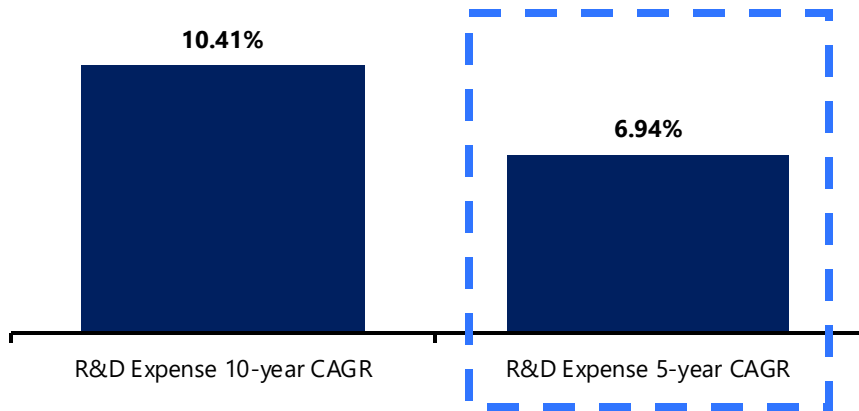
There is Fewer DoD Contract Bidding Wars



Fixed Contract = Guaranteed Cash Flow



LMT Responded with Caution Relating to R&D



LMT Possesses Superior "Returns on R&D"

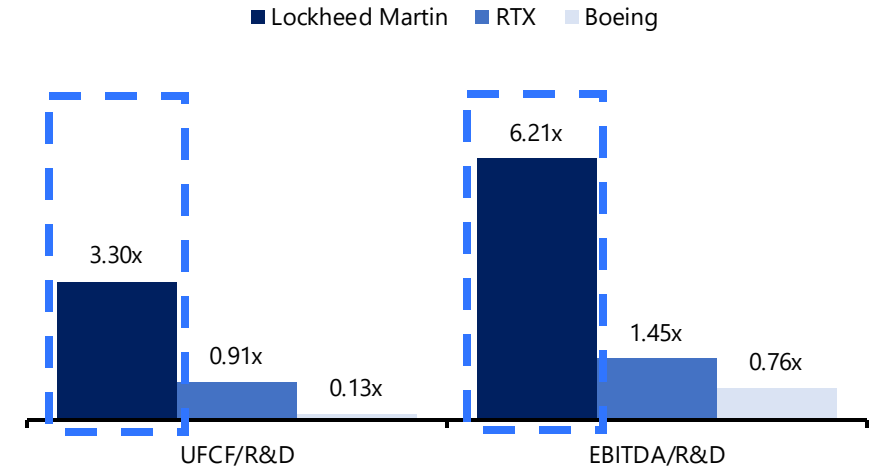


Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

Valuation

Recommendation

Short-Term and Long-Term Risks

Risks and Catalysts

Risks



Consolidation Leading to Fiercer Competitions

Blueprints submitted by contractors became harder to differentiate after consolidations. In 1990, 7 contractors submitted proposals for F-22, and only 4 remain today.



Overreliance on US Government

In 2022, 73% of Lockheed's net sales came from the US government. This overreliance presents significant risk during times of uncertainty (i.e. threat of Congress shutdown on November 17, Pentagon failed annual audit).



Increasing Critical Mineral Shortage

In Aug-23, China restricted gallium and germanium to the US and both are used in radar manufacturing. LMT is the US military's largest radar contractor.

Mitigating Factors



Reduced Necessity to Back Multiple Proposals

Fewer contractors lead to a higher chance of being selected for prototype development, reducing the need to back multiple proposals.



Other Countries are Stepping Up Defense Spending

Countries such as Finland and Switzerland have recently become new Lockheed F-35 customers. Lockheed's percentage of net sales from the US government has also been decreasing over the last 10 years.



IRA Incentivizes Mining Exploration and Production

The 2022 US Critical Mineral List comprises of 50 minerals including gallium and germanium. Production of these 50 minerals is subsidized by the IRA.

Likelihood and Impact



Consolidation Leading to Fiercer Competitions



Overreliance on US Government



Increasing Critical Mineral Shortage

Short-Term and Long-Term Catalysts

Risks and Catalysts

Catalysts

Global Geopolitical Events



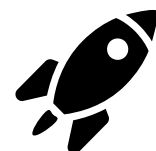
- Ongoing conflicts such as the Russian invasion of Ukraine and the most recent conflict in Israel have increased the current demand for aerospace and defense technology
- As governments start providing military aid to each other, trusted companies such as Lockheed provide munitions restocking worth billions of dollars
- These countries also hold a long-term focus on areas of potential future conflict such as Taiwan as well as ongoing conflicts in the Middle East, which will likely provide steady demand into the future

Share Repurchases Drive Increases in Shareholder Value



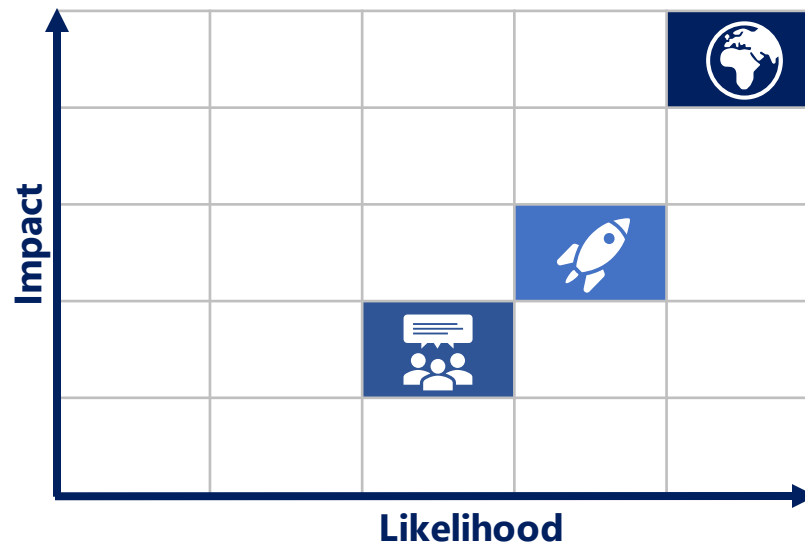
- At their most recent earnings call on October 17, 2023, Lockheed discussed their intention to repurchase company shares
- They expect to increase Free Cash Flow to shareholders by 150%

Renewed Anticipation Towards Space Exploration



- Recent missions such as India's historic Moon landing and the United States' Artemis program show renewed interest in Space capabilities
- Lockheed is a primary contractor involved with the Orion spacecraft, which is being used in NASA's Artemis program; in 2025, it will be carrying the first people to the Moon in 53 years, since 1972

Likelihood and Impact



Global Geopolitical Events



Share Repurchases Drive Increases in Shareholder Value



Renewed Anticipation Towards Space Exploration

Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

Valuation

Recommendation

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Comparable Company Analysis (in millions of USD, except per share data)

Company Name	Share Price	Revenue			EBITDA			EPS (\$/share)		
	(\$/share)	FY' 22	FY' 23	FY' 24	FY' 22	FY' 23	FY' 24	FY' 22	FY' 23	FY' 24
RTX Corporation	\$79.17	\$67,074	\$73,251	\$78,907	\$11,931	\$12,605	\$13,696	\$4.78	\$5.01	\$5.44
Northrop Grumman	\$465.82	\$36,602	\$39,088	\$41,086	\$4,943	\$5,286	\$5,762	\$25.54	\$22.79	\$24.23
General Dynamics	\$245.78	\$39,407	\$42,832	\$45,828	\$5,095	\$5,285	\$6,014	\$12.19	\$12.57	\$14.87
L3Harris Technologies	\$186.48	\$17,062	\$19,369	\$21,354	\$3,514	\$3,488	\$3,938	\$12.90	\$12.34	\$13.24
Upper Limit	\$465.82	\$67,074	\$73,251	\$78,907	\$11,931	\$12,605	\$13,696	\$25.54	\$22.79	\$24.23
Mean	\$244.31	\$40,036	\$43,635	\$46,794	\$6,371	\$6,666	\$7,353	\$13.85	\$13.18	\$14.45
Median	\$216.13	\$38,005	\$40,960	\$43,457	\$5,019	\$5,286	\$5,888	\$12.55	\$12.46	\$14.06
Lower Limit	\$79.17	\$17,062	\$19,369	\$21,354	\$3,514	\$3,488	\$3,938	\$4.78	\$5.01	\$5.44

Lockheed Martin	\$443.81	\$65,984	\$66,704	\$70,750	\$9,752	\$9,883	\$10,244	\$22.74	\$27.33	\$26.84
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Company Name	Enterprise Value	Equity Value	EV/Revenue			EV/EBITDA			P/E		
			FY' 22	FY' 23	FY' 24	FY' 22	FY' 23	FY' 24	FY' 22	FY' 23	FY' 24
RTX Corporation	\$146,561	\$113,584	2.7x	2.0x	1.9x	15.1x	11.7x	10.8x	33.7x	16.4x	16.6x
Northrop Grumman	\$83,435	\$70,242	2.7x	2.1x	2.0x	10.7x	15.7x	14.4x	15.5x	20.4x	19.2x
General Dynamics	\$76,597	\$66,952	2.0x	1.8x	1.7x	14.8x	14.4x	12.7x	20.7x	19.5x	16.5x
L3Harris Technologies	\$49,218	\$35,345	2.8x	2.5x	2.3x	13.0x	14.1x	12.5x	35.9x	15.0x	14.0x
Upper Limit	\$146,561	\$113,584	2.8x	2.5x	2.3x	15.1x	15.7x	14.4x	35.9x	20.4x	19.2x
Mean	\$88,953	\$71,531	2.6x	2.1x	2.0x	13.4x	14.0x	12.6x	26.4x	17.8x	16.6x
Median	\$80,016	\$68,597	2.7x	2.1x	1.9x	13.9x	14.3x	12.6x	27.2x	17.9x	16.5x
Lower Limit	\$49,218	\$35,345	2.0x	1.8x	1.7x	10.7x	11.7x	10.8x	15.5x	15.0x	14.0x

Lockheed Martin	\$123,947	\$110,109	2.1x	1.9x	1.8x	15.1x	12.5x	12.6x	22.3x	16.4x	16.6x
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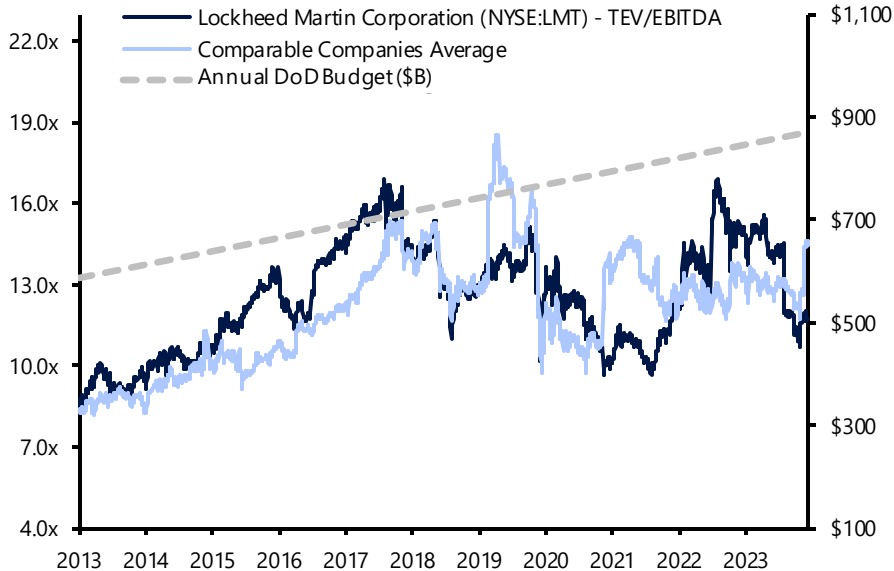
Valuation

Comparable Company Analysis (in millions of USD, except per share data)

Valuation Metric	Multiple			Implied Share Price			Implied Return		
	Lower Limit	Mean	Upper Limit	Lower Limit	Mean	Upper Limit	Lower Limit	Mean	Upper Limit
P/E FY' 23	15.0x	17.8x	20.4x	\$411.14	\$486.66	\$556.50	(7.4%)	9.7%	25.4%
EV/EBITDA FY' 23	11.7x	14.0x	15.7x	\$405.91	\$496.55	\$565.89	(8.5%)	11.9%	27.5%
P/E FY' 24	14.0x	16.6x	19.2x	\$376.34	\$444.21	\$514.05	(15.2%)	0.1%	15.8%
EV/EBITDA FY' 24	10.8x	12.6x	14.4x	\$384.72	\$459.60	\$535.41	(13.3%)	3.6%	20.6%

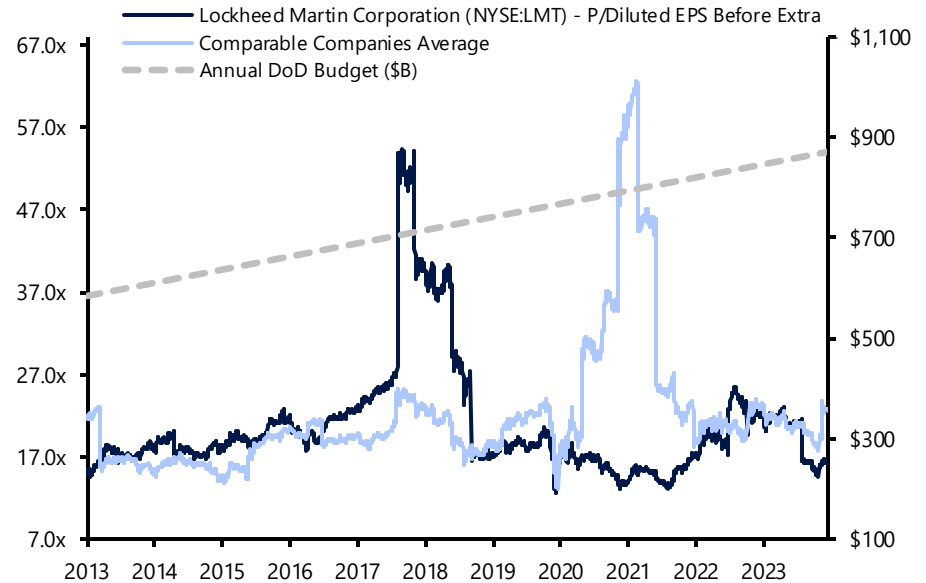
Historical NTM EV/EBITDA

- Increase in early 2016 due to a variety of awarded contracts as well as a streamlined tax filing process
- Decrease in 2021 a result of \$4.9 billion in pension obligations transferred to Athene Holding Ltd.



Historical NTM P/E Multiple

- Net income and profit margin decreased in 2017 due to the absence of "discontinued operations" and the space systems division
- Spike in 2022 attributed to FTC blocking Aerojet Rocketdyne acquisition
- LMT has maintained a lower multiple through higher EPS



Valuation

Discounted Cash Flow Analysis (in millions of USD, except per share data)

DCF Valuation Assumptions

- Revenue is based on a segmented price volume analysis, with an emphasis on key products in their MSE and Aeronautics segments
- Forecasted capacity expansion for the HIMARS and PAC-3 occurring in 2024, and 2025 with returns starting in 2026
- Forecasted capacity expansion beginning in 2025 for the F-35, and ending in 2028, with the cash flow impact occurring over the remaining three years
- WACC: 8.1%
- Exit Multiple: 11x
- Gordon Growth: 1.9%
- FDSO: 250.4
- Statutory Tax Rate: 21%

Discounted Cash Flow Analysis	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	\$53,762	\$59,812	\$65,398	\$67,044	\$65,984	\$66,704	\$70,750	\$75,391	\$81,100	\$84,498	\$88,593	\$101,200	\$110,675	\$121,892
% growth	7.6%	11.3%	9.3%	2.5%	(1.6%)	1.1%	6.1%	6.6%	7.6%	4.2%	4.8%	14.2%	9.4%	10.1%
Cost of Goods Sold	46,488	51,445	56,744	57,983	57,697	58,299	62,119	66,156	71,125	74,063	77,608	88,347	96,288	105,680
Gross Profit	\$7,274	\$8,367	\$8,654	\$9,061	\$8,287	\$8,405	\$8,632	\$9,235	\$9,975	\$10,436	\$10,986	\$12,852	\$14,388	\$16,212
% margin	13.5%	14.0%	13.2%	13.5%	12.6%	12.6%	12.2%	12.3%	12.3%	12.4%	12.4%	12.7%	13.0%	13.3%
EBITDA	\$8,495	\$9,734	\$9,934	\$10,487	\$9,752	\$9,883	\$10,244	\$11,839	\$12,852	\$13,433	\$13,969	\$15,669	\$17,508	\$19,475
% margin	15.8%	16.3%	15.2%	15.6%	14.8%	14.8%	14.5%	15.7%	15.8%	15.9%	15.8%	15.5%	15.8%	16.0%
% growth	19.4%	14.6%	2.1%	5.6%	(7.0%)	1.3%	3.7%	15.6%	8.6%	4.5%	4.0%	12.2%	11.7%	11.2%
Other Operating Expenses	(\$60)	(\$178)	\$10	(\$62)	(\$61)	(\$74)	(\$79)	(\$84)	(\$90)	(\$94)	(\$99)	(\$113)	(\$123)	(\$136)
Operating Income	\$7,334	\$8,545	\$8,644	\$9,123	\$8,348	\$8,479	\$8,710	\$9,320	\$10,066	\$10,530	\$11,084	\$12,965	\$14,511	\$16,348
% margin	13.6%	14.3%	13.2%	13.6%	12.7%	12.7%	12.3%	12.4%	12.4%	12.5%	12.5%	12.8%	13.1%	13.4%
Taxes	1,540	1,794	1,815	1,916	1,753	\$1,781	\$1,829	\$1,957	\$2,114	\$2,211	\$2,328	\$2,723	\$3,047	\$3,433
Tax Impacted Profit	\$5,794	\$6,751	\$6,829	\$7,207	\$6,595	\$6,699	\$6,881	\$7,362	\$7,952	\$8,319	\$8,757	\$10,243	\$11,464	\$12,915
% margin	10.8%	11.3%	10.4%	10.7%	10.0%	10.0%	9.7%	9.8%	9.8%	9.8%	9.9%	10.1%	10.4%	10.6%
Less: Capital Expenditures	(1,278)	(1,484)	(1,766)	(1,522)	(1,670)	(2,001)	(2,123)	(4,523)	(4,866)	(5,070)	(4,873)	(3,036)	(3,320)	(3,413)
Plus: Depreciation & Amortization	1,161	1,189	1,290	1,364	1,404	1,403	1,534	2,520	2,787	2,903	2,885	2,704	2,997	3,128
Changes in Net Working Capital	48	(426)	74	571	(670)	(678)	(226)	(247)	(304)	(180)	(217)	(664)	612	137
Unlevered Free Cash Flow	\$5,725	\$6,030	\$6,427	\$7,620	\$5,659	\$5,423	\$6,067	\$5,111	\$5,568	\$5,972	\$6,551	\$9,247	\$11,753	\$12,766
% margin	10.6%	10.1%	9.8%	11.4%	8.6%	8.1%	8.6%	6.8%	6.9%	7.1%	7.4%	9.1%	10.6%	10.5%
% growth		5.3%	6.6%	18.6%	(25.7%)	(4.2%)	11.9%	(15.8%)	8.9%	7.2%	9.7%	41.1%	27.1%	8.6%
Stub Year						0.11	1.11	2.11	3.11	4.11	5.11	6.11	7.11	8.11
PV of Unlevered Free Cash Flow						\$604	\$5,563	\$4,336	\$4,369	\$4,335	\$4,399	\$5,743	\$6,753	\$6,785

Valuation

Discounted Cash Flow Analysis Summary

Valuation Summary: Exit Multiple

Present Value of Projection Period	\$42,887
<i>% of Enterprise Value</i>	27.4%
Terminal Value	
Final Year EBITDA	\$19,475
Final Year UFCF	\$12,766
Terminal Value EBITDA	\$214,229
Implied EV/UFCF	16.8x
Implied Gordon Growth Rate	2.0%
PV of Terminal Value	\$113,863
<i>% of Enterprise Value</i>	72.6%
Enterprise Value	\$156,751
Less: Debt	(\$17,389)
Plus: Cash	\$3,551
Equity Value	\$142,913
Basic Shares Outstanding	248
Plus: Dilutive Securities	2.30
Fully Diluted Shares Outstanding	250
Implied Share Price	\$570.75
Implied Upside	28.6%

Valuation Summary: Gordon Growth

Present Value of Projection Period	\$42,887
<i>% of Enterprise Value</i>	27.9%
Terminal Value	
Final Year EBITDA	\$19,475
Final Year UFCF	\$12,766
Terminal Value Gordon Growth	\$208,749
Implied EV/UFCF	16.4x
Implied EV/EBITDA	10.7x
PV of Terminal Value	\$110,951
<i>% of Enterprise Value</i>	72.1%
Enterprise Value	\$153,838
Less: Debt	(\$17,389)
Plus: Cash	\$3,551
Equity Value	\$140,000
Basic Shares Outstanding	248
Plus: Dilutive Securities	2.30
Fully Diluted Shares Outstanding	250
Implied Share Price	\$559.11
Implied Upside	26.0%

		WACC				
		7.00%	7.50%	8.00%	8.50%	9.00%
Terminal Multiple	9.0x	\$529.11	\$510.04	\$491.74	\$474.15	\$457.26
	10.0x	\$574.03	\$553.30	\$533.40	\$514.28	\$495.91
	11.0x	\$618.95	\$596.56	\$575.06	\$554.41	\$534.57
	12.0x	\$663.88	\$639.82	\$616.72	\$594.54	\$573.23
	13.0x	\$708.80	\$683.07	\$658.38	\$634.66	\$611.89

		WACC				
		7.00%	7.50%	8.00%	8.50%	9.00%
Terminal Growth Rate	1.00%	\$620.49	\$561.32	\$510.81	\$467.22	\$429.25
	1.50%	\$668.23	\$600.40	\$543.22	\$494.40	\$452.27
	2.00%	\$725.52	\$646.58	\$581.03	\$525.76	\$478.57
	2.50%	\$795.54	\$702.00	\$625.71	\$562.35	\$508.93
	3.00%	\$883.06	\$769.74	\$679.34	\$605.59	\$544.34

Street Views

Lockheed Martin Corporation (NYSE:LMT)

Lockheed Martin Equity Research Highlights

Company	Report date	Target Price	Rating	Valuation Method	Research Highlights
	October 17, 2023	\$450	Hold	Comparable Multiples	<ul style="list-style-type: none">“In an upside scenario, we see upside to \$486, based on a 18x multiple on higher \$27/share in 2024 FCF.”
	October 17, 2023	\$475	Buy	Comparable Multiples	<ul style="list-style-type: none">“Shareholder-friendly capital allocation strategy on the back of the strong FCF generation will continue the positive sentiment.”
	October 18, 2023	\$455	Buy	Comparable Multiples	<ul style="list-style-type: none">“We see segment margins (in 2025) up 40bps on a 5% revenue lift. Suggesting a 2025 EPS of \$28.85/share.”
	October 18, 2023	\$481	Hold	Comparable Multiples	<ul style="list-style-type: none">“We see a path in FCF growth to \$6.4B from just over \$6.2B this year. This is based on our estimate for 4% sales growth.”

Table of Contents

Lockheed Martin Corporation (NYSE:LMT)

Company Overview

Industry Overview

Investment Thesis

Risks and Catalysts

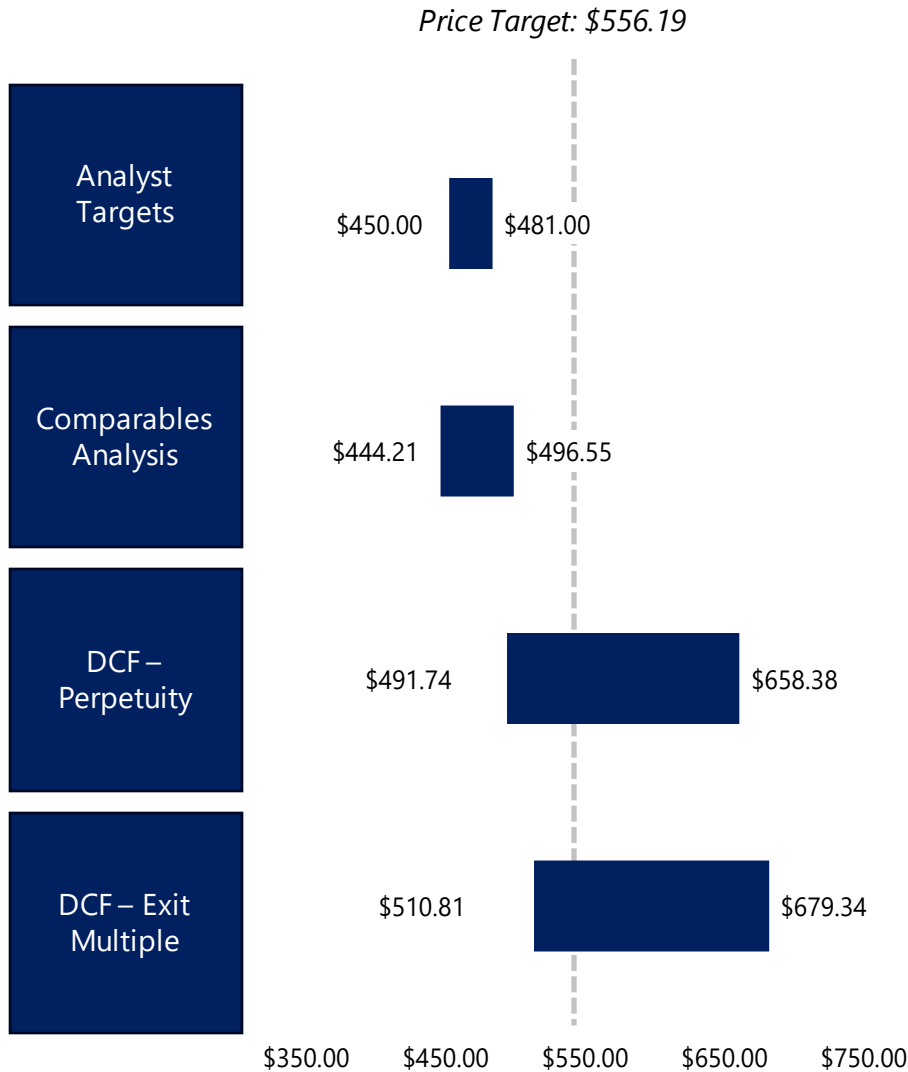
Valuation

Recommendation

Recommendation: BUY

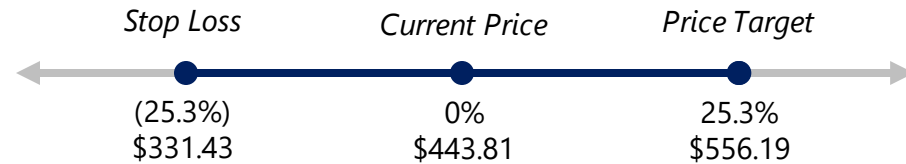
Lockheed Martin Corporation (NYSE:LMT)

Football Field Analysis

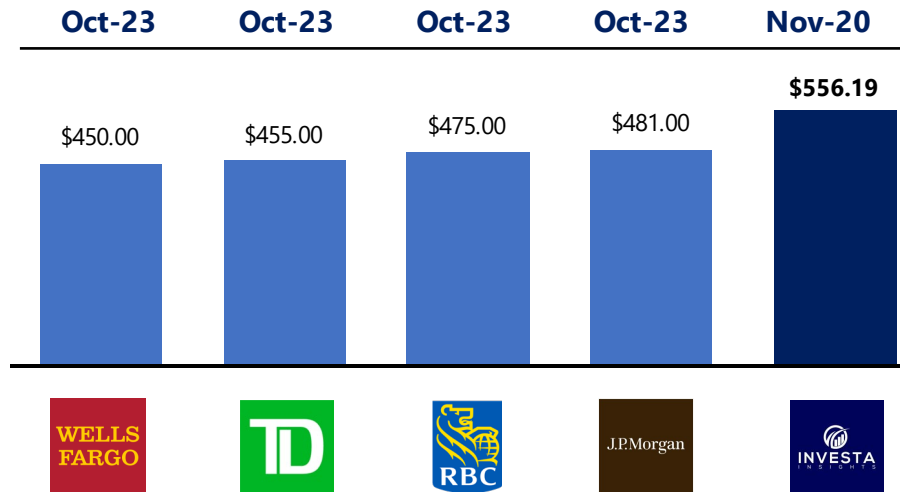


Weighted Valuation (November 20th, 2023)

Analysis	Price	Weight	Upside
DCF, Exit Multiple	\$570.75	50%	28.6%
DCF, Perpetuity	\$559.11	40%	26.0%
Comparables	\$471.75	10%	6.3%
Weighted Average	\$556.19	100%	25.3%



Selected Brokerage Summary

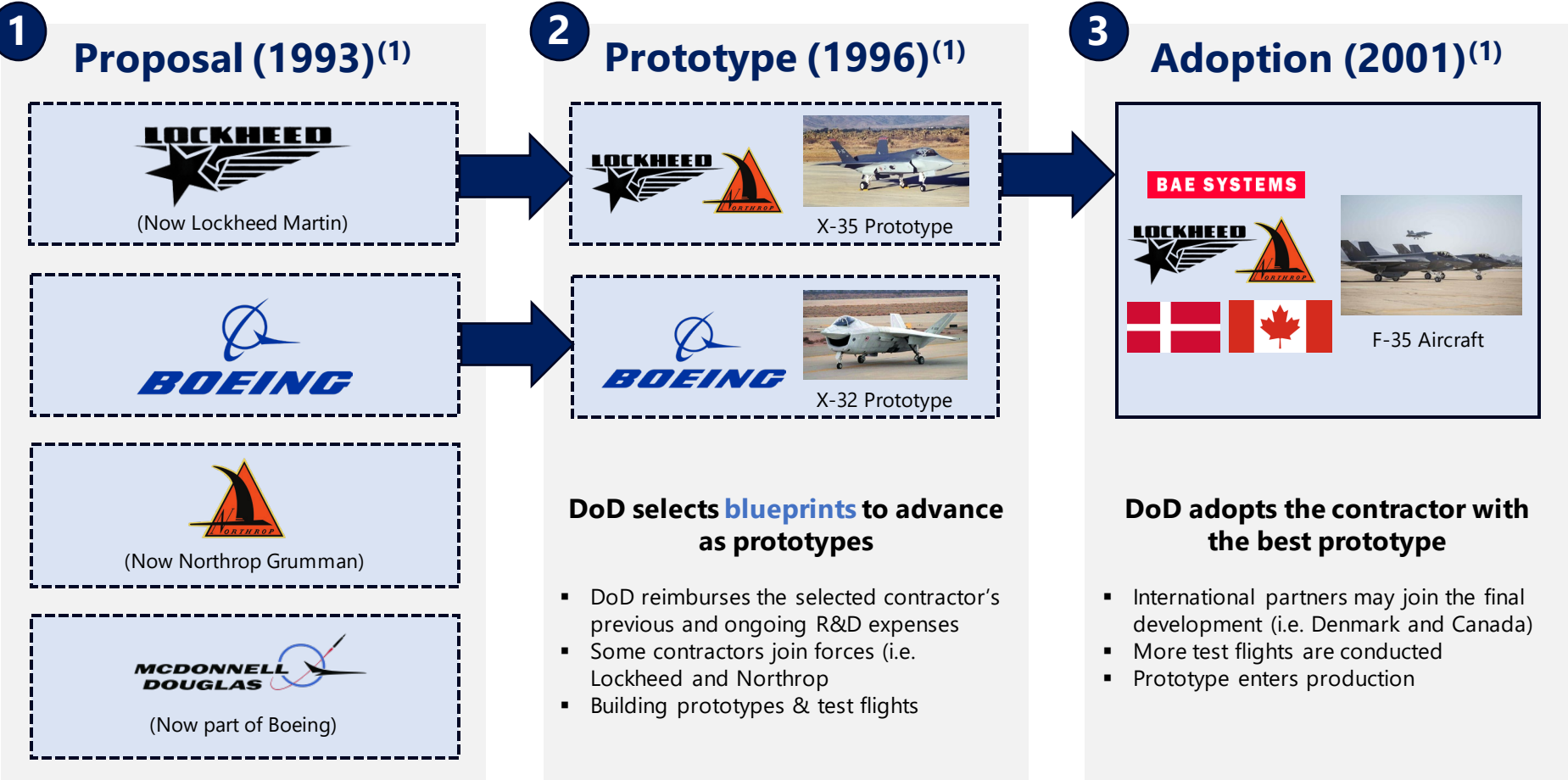


Appendix A

Department of Defence Bidding Process (Starting year for stage of development) ⁽¹⁾

F-35: A Case Study

DoD will first release a **list of requirements** (e.g. stealth fighter capable of short take-off and vertical landing) for a **new program** (e.g. Joint Strike Fighter, or "JSF")



Appendix B

Skunk Works Lead to R&D Efficiency

Skunk Work Is A Black Box Working for Lockheed

85% of Skunk Works projects are classified

100% Lockheed Martin owned, formally called Lockheed Advanced Development Projects

14 rules set by the founder, Clarence "Kelly" Johnson, ensure rapid prototyping, minimal bureaucracy, and innovation

Concept is Proven and Adopted By Others

- Concept of Skunk Works was introduced in 1939, as Lockheed entered the defence market
- During WWII, Skunk Works developed P-80, allies' first fighter jet
- Ever since, this concept of secret department was adopted by:



Strong R&D Track Record

Fighter Jets	
	F-35 Lightning First Supersonic short take off fighter
	F-22 Raptor First 5 th gen fighter
	F-117 Nighthawk First stealth fighter
Spy Jets	
	SR-72 Dark Star (E) Successor to SR-71
	SR-71 Blackbird Successor to U-2
	U-2 Dragon Lady First high-altitude spy jet



		
B-2	F-16	F-18



Appendix C

WACC Build (in millions of USD, except per share data)

Company Name	Region	Debt	Equity	Average Tax Rate	Debt/Equity	Debt/Capital	Levered Beta	Unlevered Beta	
RTX Corporation	United States	\$36,783	\$113,584	20.4%	32.4%	24.5%	0.73	0.58	
Northrop Grumman	United States	\$15,593	\$70,242	15.5%	22.2%	18.2%	0.44	0.37	
General Dynamics	United States	\$10,997	\$66,952	16.4%	16.4%	14.1%	0.78	0.69	
L3Harris Technologies	United States	\$14,272	\$35,345	15.2%	40.4%	28.8%	0.68	0.51	
Risk Premium for Equity				Average	16.9%	27.8%	21.4%	0.66	0.54
Market Risk Premium	6.7%			Median	16.0%	27.3%	21.3%	0.71	0.55
Average Unlevered Beta	0.54								
Levered Beta	0.48								
Equity Risk Premium	3.2%								
Capital Structure									
		Current	Target						
Market Value of Debt	\$15,154	12.1%	12.1%						
Market Capitalization	\$110,004	87.9%	87.9%						
Total Capitalization	\$125,159	100.0%	100.0%						
Debt / Equity		13.8%	13.8%						
Weighted Average Cost of Capital									
		Weight	Cost						
Debt Capital		12.1%	5.4%						
Equity Capital		87.9%	8.5%						
				Cost of Equity					
				Risk Free Rate					5.2%
				Equity Risk Premium					3.2%
				Country Risk Premium					0.0%
				Cost of Equity					8.5%
				Cost of Debt					
				Pre-Tax Cost of Debt					6.9%
				Tax Rate					21.0%
				After-Tax Cost of Debt					5.4%
				Weighted Average Cost of Capital					8.1%

Appendix C

Income Statement (in millions of USD, except per share data)

Income Statement	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue	\$53,762	59,812	65,398	67,044	65,984	66,704	70,750	75,391	81,100	84,498	88,593	101,200	110,675	121,892
% growth		11.3%	9.3%	2.5%	(1.6%)	1.1%	6.1%	6.6%	7.6%	4.2%	4.8%	14.2%	9.4%	10.1%
Cost of Goods Sold	46,488	51,445	56,744	57,983	57,697	58,299	62,119	66,156	71,125	74,063	77,608	88,347	96,288	105,680
Gross Profit	\$7,274	\$8,367	\$8,654	\$9,061	\$8,287	\$8,405	\$8,632	\$9,235	\$9,975	\$10,436	\$10,986	\$12,852	\$14,388	\$16,212
% margin	13.5%	14.0%	13.2%	13.5%	12.6%	12.6%	12.2%	12.3%	12.3%	12.4%	12.4%	12.7%	13.0%	13.3%
Other Operating Expenses	(60)	(178)	10	(62)	(61)	(74)	(79)	(84)	(90)	(94)	(99)	(113)	(123)	(136)
Operating Income	7,334	8,545	8,644	9,123	8,348	8,479	8,710	9,320	10,066	10,530	11,084	12,965	14,511	16,348
% margin	13.6%	14.3%	13.2%	13.6%	12.7%	12.7%	12.3%	12.4%	12.4%	12.5%	12.5%	12.8%	13.1%	13.4%
Interest Expense	\$668	\$653	\$591	\$569	\$623	\$821	\$807	\$789	\$879	\$977	\$1,057	\$1,066	\$1,015	\$966
Other Non Operating Expenses	828	651	(182)	1,004	1,045	(226)	303	351						
EBT	5,838	7,241	8,235	7,550	6,680	7,884	7,601	8,179	9,187	9,553	10,028	11,899	13,497	15,381
% margin	10.9%	12.1%	12.6%	11.3%	10.1%	11.8%	10.7%	10.8%	11.3%	11.3%	11.3%	11.8%	12.2%	12.6%
Income Tax Expense	\$792	\$1,011	\$1,347	\$1,235	\$948	\$1,143	\$1,102	\$1,186	\$1,332	\$1,385	\$1,454	\$1,725	\$1,957	\$2,230
Earnings From Operations	\$5,046	\$6,230	\$6,888	\$6,315	\$5,732	\$6,741	\$6,498	\$6,993	\$7,855	\$8,168	\$8,574	\$10,174	\$11,540	\$13,151
Earnings of Discontinued Ops.	--	--	(55)	--	--	--	--	--	--	--	--	--	--	--
Net Income	\$5,046	\$6,230	\$6,833	\$6,315	\$5,732	\$6,741	\$6,498	\$6,993	\$7,855	\$8,168	\$8,574	\$10,174	\$11,540	\$13,151
% margin	9.4%	10.4%	10.4%	9.4%	8.7%	10.1%	9.2%	9.3%	9.7%	9.7%	9.7%	10.1%	10.4%	10.8%
Basic EPS	\$17.62	\$22.03	\$24.42	\$23.35	\$22.74	\$27.33	\$26.84	\$29.38	\$33.61	\$35.52	\$37.92	\$46.37	\$54.53	\$65.32
Diluted EPS	\$17.45	\$21.85	\$24.24	\$22.91	\$21.94	\$26.98	\$26.47	\$28.92	\$32.99	\$34.82	\$37.06	\$44.88	\$52.45	\$62.16

Appendix C

Balance Sheet (in millions of USD, except per share data)

Balance Sheet	2018A	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
ASSETS														
Cash And Equivalents	\$772	\$1,514	\$3,160	\$3,604	\$2,547	\$2,739	\$548	\$670	\$1,642	\$2,722	\$4,017	\$2,451	\$2,681	\$1,566
Accounts Receivable	11,916	11,431	11,523	12,542	14,823	14,008	14,858	15,832	17,031	17,745	18,605	21,252	22,135	23,769
Inventory	2,997	3,619	3,545	2,981	3,088	3,615	3,851	4,102	4,410	4,592	4,812	5,478	5,970	6,552
Other Current Assets	418	531	1,150	688	533	705	748	797	857	893	937	1,070	1,170	1,289
Total Current Assets	\$16,103	\$17,095	\$19,378	\$19,815	\$20,991	\$21,067	\$20,005	\$21,400	\$23,941	\$25,951	\$28,370	\$30,250	\$31,956	\$33,176
Plant, Property & Equipment	\$6,124	\$6,591	\$7,213	\$7,597	\$9,075	\$10,056	\$11,074	\$13,472	\$16,051	\$18,738	\$21,272	\$22,243	\$23,306	\$24,398
Long-term Investments	1,200	1,200	784	689	685	685	685	685	685	685	685	685	685	685
Goodwill	10,769	10,604	10,806	10,813	10,780	10,780	10,780	10,780	10,780	10,780	10,780	10,780	10,780	10,780
Intangibles	3,941	3,724	3,698	3,483	3,378	3,800	4,252	4,747	5,259	5,794	6,353	6,977	7,650	8,381
Deferred Tax Assets, LT	3,208	3,319	3,475	2,290	3,744	3,433	3,641	3,880	4,174	4,349	4,560	5,209	5,696	6,274
Other Intangibles	3,531	4,995	5,356	6,186	4,227	4,890	5,564	6,334	7,106	7,911	8,754	9,717	10,740	11,883
Total Assets	\$44,876	\$47,528	\$50,710	\$50,873	\$52,880	\$54,710	\$56,002	\$61,299	\$67,996	\$74,207	\$80,773	\$85,861	\$90,813	\$95,577
LIABILITIES														
Accounts Payable	\$2,402	\$1,281	\$880	\$780	\$2,117	\$1,658	\$1,767	\$1,882	\$2,023	\$2,107	\$2,207	\$2,513	\$2,739	\$3,006
Accrued Exp.	2,122	2,466	3,163	3,108	3,075	2,977	3,158	3,365	3,620	3,772	3,954	4,517	4,940	5,441
Revolver	600	--	--	--	--	--	--	--	--	--	--	--	--	--
Current LTD And Leases	900	1,250	500	--	327	--	--	--	--	--	--	--	--	--
Unearned Revenue	6,491	7,054	7,545	8,107	8,488	8,078	8,568	9,130	9,821	10,233	10,729	12,255	13,403	14,761
Other Current Liabilities	1,883	1,921	1,845	2,002	1,880	2,053	2,177	2,320	2,495	2,600	2,726	3,114	3,406	3,751
Total Current Liabilities	\$14,398	\$13,972	\$13,933	\$13,997	\$15,887	\$14,766	\$15,670	\$16,697	\$17,960	\$18,711	\$19,617	\$22,399	\$24,487	\$26,959
Long-Term Debt	\$12,604	\$11,404	\$11,669	\$11,670	\$15,429	\$16,883	\$14,858	\$16,195	\$18,365	\$20,065	\$21,491	\$20,453	\$19,450	\$18,564
Other Non-Current Liabilities	16,425	18,981	19,070	14,247	12,298	12,298	12,298	12,298	12,298	12,298	12,298	12,298	12,298	12,298
Total Liabilities	\$43,427	\$44,357	\$44,672	\$39,914	\$43,614	\$43,947	\$42,826	\$45,190	\$48,623	\$51,074	\$53,406	\$55,151	\$56,236	\$57,821
Common Stock	\$281	\$280	\$279	\$271	\$254	\$254	\$254	\$254	\$254	\$254	\$254	\$254	\$254	\$254
Additional Paid In Capital	--	--	221	94	92	92	92	92	92	92	92	92	92	92
Retained Earnings	15,434	18,401	21,636	21,600	16,943	18,440	20,853	23,786	27,050	30,810	35,045	38,387	42,254	45,433
Comprehensive Inc. and Other	(14,321)	(15,554)	(16,121)	(11,006)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)	(8,023)
Total Common Equity	\$1,394	\$3,127	\$6,015	\$10,959	\$9,266	\$10,763	\$13,176	\$16,109	\$19,373	\$23,133	\$27,368	\$30,710	\$34,577	\$37,756
Minority Interest	55	44	23	--	--	--	--	--	--	--	--	--	--	--
Total Equity	\$1,449	\$3,171	\$6,038	\$10,959	\$9,266	\$10,763	\$13,176	\$16,109	\$19,373	\$23,133	\$27,368	\$30,710	\$34,577	\$37,756
Total Liabilities And Equity	\$44,876	\$47,528	\$50,710	\$50,873	\$52,880	\$54,710	\$56,002	\$61,299	\$67,996	\$74,207	\$80,773	\$85,861	\$90,813	\$95,577

Appendix C

Cashflow Statement (in millions of USD, except per share data)

Cashflow Statement	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Income	\$6,741	\$6,498	\$6,993	\$7,855	\$8,168	\$8,574	\$10,174	\$11,540	\$13,151
Depreciation & Amortization	1,403	1,534	2,520	2,787	2,903	2,885	2,704	2,997	3,128
Stock-Based Compensation	227	241	257	276	288	301	343	374	410
Changes in Working Capital Assets	116	(1,129)	(1,274)	(1,567)	(932)	(1,123)	(3,447)	(1,476)	(2,335)
Changes in Working Capital Liabilities	(384)	414	465	572	340	410	1,256	940	1,113
Change in Unearned Rev.	(410)	490	562	691	411	496	1,527	1,147	1,358
Change in Inc. Taxes	311	(208)	(239)	(294)	(175)	(211)	(649)	(488)	(577)
Changes in Other Assets	(327)	--	--	--	--	--	--	--	--
Cash from Operations	\$7,677	\$7,840	\$9,284	\$10,320	\$11,003	\$11,331	\$11,908	\$15,035	\$16,248
Capital Expenditure	(\$2,001)	(\$2,123)	(\$4,523)	(\$4,866)	(\$5,070)	(\$4,873)	(\$3,036)	(\$3,320)	(\$3,413)
Purchase of Intangibles	(1,467)	(1,557)	(1,659)	(1,784)	(1,859)	(1,949)	(2,226)	(2,435)	(2,682)
Cash from Investing	(\$3,469)	(\$3,679)	(\$6,182)	(\$6,650)	(\$6,929)	(\$6,822)	(\$5,262)	(\$5,755)	(\$6,095)
Repayment of Short Term Debt	--	--	--	--	--	--	--	--	--
Repayment of Long Term Debt	(506)	(2,025)	(1,962)	(1,331)	(1,300)	(1,074)	(1,038)	(1,003)	(886)
Issuance of Short Term Debt	--	--	--	--	--	--	--	--	--
Issuance of Long Term Debt	1,960	--	3,300	3,500	3,000	2,500	--	--	--
Repurchase of Common Stock	(2,500)	(1,800)	(1,800)	(2,156)	(2,000)	(2,000)	(4,000)	(5,000)	(7,200)
Common Dividends Paid	(2,970)	(2,527)	(2,518)	(2,710)	(2,695)	(2,641)	(3,174)	(3,046)	(3,183)
Cash from Financing	(\$4,016)	(\$6,352)	(\$2,980)	(\$2,697)	(\$2,995)	(\$3,215)	(\$8,212)	(\$9,049)	(\$11,269)
Net Change in Cash	\$192	(\$2,191)	\$121	\$973	\$1,079	\$1,295	(\$1,566)	\$231	(\$1,115)
Beginning Cash	2,547	2,739	548	670	1,642	2,722	4,017	2,451	2,681
Ending Cash	\$2,739	\$548	\$670	\$1,642	\$2,722	\$4,017	\$2,451	\$2,681	\$1,566
EBITDA	\$9,883	\$10,244	\$11,839	\$12,852	\$13,433	\$13,969	\$15,669	\$17,508	\$19,475
LFCF	\$5,676	\$5,717	\$4,760	\$5,454	\$5,933	\$6,459	\$8,872	\$11,715	\$12,835

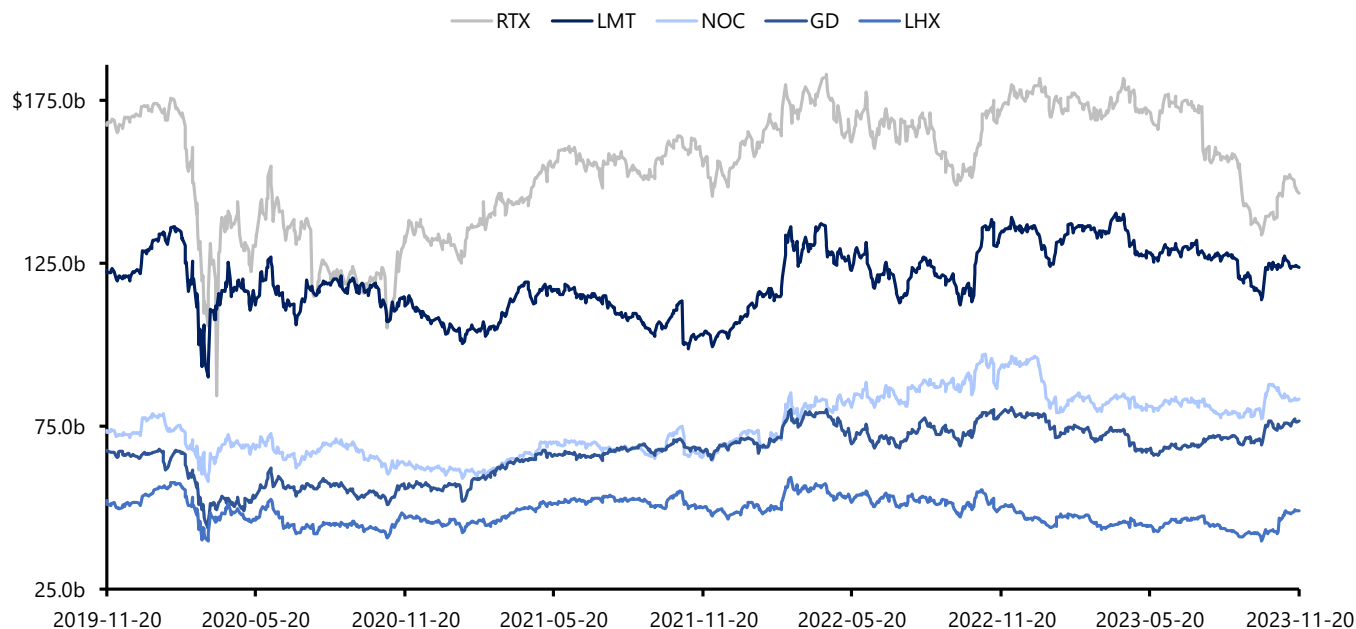
Appendix D

Segment Breakdowns (in millions of USD, except per share data)

Capital Allocation by Company

	<u>RTX</u>	<u>LMT</u>	<u>NOC</u>	<u>GD</u>	<u>LHX</u>
Share Price (November 20, 2023)	\$79.17	\$443.81	\$465.82	\$245.78	\$186.48
Shares Outstanding	1,435	248	151	272	190
Market Capitalization	\$113,584	\$110,109	\$70,242	\$66,952	\$35,345
Plus: Net Debt	\$31,327	\$13,838	\$13,193	\$9,645	\$13,773
Plus: Preferred Stock	--	--	--	--	--
Plus: Minority Interest	\$1,650	--	--	--	\$100
Enterprise Value	\$146,561	\$123,947	\$83,435	\$76,597	\$49,218

Historical Enterprise Value by Company



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