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| **Company: Lockheed Martin** | **Ticker: LMT Current Price: $ 308.21** | **Industry: Aerospace & Defense**  |
| Target Price: 340Stop Loss: $255 (15%)52 Week High/ Low: $322.19 / $236.21 | TTM P/E: 17.86Forward P/E: 21.6EPS: $3.68 | Beta: 0.80Credit Rating: BBB+ (S&P)Rating Outlook: Stable | Market Cap: $87bAvg Vol (12 M): 1.1 milDividend Yield: 2.33% |

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| **Company Background:**  |
| Lockheed Martin Space Systems Company designs, develops, tests, manufactures, and operates technology systems for space flight systems. Its products include human space flight systems, remote sensing, navigation, meteorological and communications satellites and instruments, space observatories and interplanetary spacecraft and missile defense systems. The company is based in Littleton, Colorado. Lockheed Martin Space Systems Company operates as a subsidiary of Lockheed Martin Corporation. |
| **Industry Outlook:**  |
| * Growth in the Defense sub-sector is expected to be primarily driven by the newly elected US Administration’s increased focus on strengthening the nation’s military.
* Rising global tensions has led to international demand for defense and military products is increasing in the Middle East, Eastern Europe, North Korea, and the East and South China Seas. This is in turn resulting in increased defense spending globally, especially, in the United Arab Emirates (UAE), Saudi Arabia, India, South Korea, Japan, India, China, Russia – many of these countries have already started to increase purchases of next generation military equipment.
* Following multiple years of positive, but a subdued rate of growth, the report forecasts the sector revenues will likely grow by about 2.0 percent in 2017.
* The top 100 aerospace & defense (A&D) companies accounted for $709 billion in revenue, resulting in $69 billion in profits for 2016 – an increase from $689 billion in revenue and $64 billion in profits compared with 2015.
* President Trump included an increase in defense spending of about $25 billion in 2017 and is also looking for a 10% increase in US defense spending for 2018
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| **Investment Thesis:**  |
| * The United States has been at war for 93% of its existence. This will likely continue for the next 10+ years with the constant threat from North Korea, Russia, Iran, and potential emerging threats in Africa and South America. Further non-nation states, such as ISIS and other fundamentalists continue their threat of global violence.
* With a Republican currently in the White House and a Republican controlled Congress, there will be continued growing investments into the military and defense funding.
* LMT should grow at a faster rate than other defense firms thanks to F-35 and a turnaround at Sikorsky.
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| **Investment Risks:**  |
| * Peace in the U.S. and international markets could adversely affect its business and financial results.
* US Government Sequestration and/or significant budget cuts to defense spending.
* LMT faces difficult commercial helicopter market and margins and revenues at Sikorsky may struggle.
* Slower production ramp for the F-35 will restrain revenue and tougher contract terms will hit operating margins.
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| **Most recent quarter financial highlights (Jul - Sep 2017):**  |
| * Shares of Lockheed Martin were nearly 1.5% lower in pre-market trading after the company said it had third-quarter earnings that just missed analyst estimates.
* The company said it expects full-year sales of $50.0 to $51.2 billion, up from earlier estimates of $49.8 to $51.0 billion, and earnings per share of $12.85 to $13.15, versus $12.30 to $12.60.
* Shares of the defense company have gained 28.3% for the year to date, while the S&P 500 is up 14.6% for the same period.

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| **Financial Performance:** | **Discounted Cash Flow**  |
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| In Millions of USD | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 Est | 2018 Est |
| Revenue  | 47,182 | 45,358 | 45,600 | 40,536 | 47,248 | 50,615 | 51,332 |
| Operating Profit | 4,177 | 4,519 | 5,374 | 4,492 | 5,142 | 5,399 | 5,612 |
| Net Income  | 2,732 | 3,911 | 3,678 | 3,179 | 3,722 | 3,769 | 3,818 |
| Revenue Growth % | 1.5% | -3.9% | 0.5% | -11.1% | 16.6% | 7.1% | 1.4% |
| EBITDA% | 11.5% | 14.4% | 14.6% | 14.4% | 14.2% | 13.9% | 14.1% |
| Operating Profit % | 8.9% | 10.0% | 11.8% | 11.1% | 10.9% | 10.7% | 10.9% |
| Net Income Margin | 5.8% | 8.6% | 8.1% | 7.8% | 7.9% | 7.4% | 7.4% |
| D/E | 990.2 | 6.4 | 9.9 | 14.9 | 28.8 | n/a | n/a |
| EPS | 8.32 | 9.85 | 11.41 | 10.10 | 12.28 | 12.96 | 13.44 |
| PE Ratio  | 11.09 | 15.09 | 16.88 | 21.50 | 20.35 | 23.77 | 22.90 |
| Current Ratio | 1.0 | 1.2 | 1.1 | 1.1 | 1 | n/a | n/a |
| ROE | 527.9 | 148.4 | 86.9 | 111.0 | 230.1 | n/a | n/a |
| ROA | 7.17 | 9.83 | 9.87 | 8.35 | 10.92 | n/a | n/a |
| Dividend Per share  | 4.15 | 4.78 | 5.49 | 6.15 | 6.77 | 7.40 | 8.17 |
| FCF | 619 | 3,710 | 3,021 | 4,162 | 4,126 | 5,222 | 4,261 |

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|  | 2012-16 | 2017-21 |
| Avg Revenue growth  | 3% | 7.5% |
| Avg EBITDA Margin  | 13.82% | 15.25% |
| Avg Net Income Margin  | 9.0% | 10% |
| Avg Debt/Equity  | 210.04 |  |
| Avg FCF / Margin  | 7.41% | 8.88% |
| Cost of Debt | 2.5% |
| Tax Rate | 28% |
| Cost of Equity  | 7.5% |
| WACC | 6.8% |
| Perpetuity growth rate  | 3% |

**Analyst Opinion**

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| --- | --- | --- |
| Buy:11 | Hold: 13 | Sell:0 |
| Target Price Range | 291-363 |  |
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| Source: Bloomberg |

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| **Relative Valuation** | **Total Return** |
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|  | GD | Lockheed  | Raytheon | UTC | Industry Avg.\* |
| P/E | 21.24 | 25.03 | 25.87 | 18.10 | 29.42 |
| P/B | 6.25 | 60.69 | 5.42 | 3.48 | 19.94 |
| Dividend Yield  | 1.57 | 2.52 | 1.7 | 2.36 | 1.33 |
| Revn Grth  | -1.27 | 9.6 | 4.2 | 2.7 | 3.41 |
| NI Grth  | 2.19 | 85.86 | 25.2 | 3.47 | 25.45 |
| Operating Margin  | 13.74 | 11.74 | 13.46 | 14.28 | 9.23 |
| Debt / Equity  | 37.74 | 945.2 | 52.53 | 86.66 | 269.63 |
| Market Cap | 63.77 B | 91.56 B | 54.39 B | 94.41 B | 44.33 B |
| Revenue TTM | 31.353 B | 47.248 B | 24.069 B | 57.244 B | 28.40 B |
| Net Income TTM | 3.062 B | 3.753 B | 2.173 B | 5.436 B | 1.73 B |
| FCF TTM | 979.25 M | 2.27 B | 1.04 B | 3.43 B | 2.35 B |

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|  | LMT | SPDR A&D ETF | S&P 500 |
| YTD | 27.2% | 29.34 | 11.90 |
| 2016 | 18.2% | 21.47 | 9.54 |
| Last 3 Years  | 22.4% | 70.01 | 24.61 |
| Last 5 Years  | 29.6% | 191.8 | 71.46 |

**CSR Characteristics**

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|  | LMT | Industry  |
| Governance Disclosure Score | 66.07 | 54.82 |
| ESG Disclosure:  | 49.12 | 33.60 |
| Social Disclosure Score | 49.12 | 35.67 |
| Environmental Disclosure Score | 48.84 | 31.30 |

Data: Bloomberg |