

# Lockheed Martin (NASDAQ, LMT)

Sector: Aerospace and Defense



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$335.11	\$303.01	\$363.00	\$283.21	20.4x	\$87.58 B	2.5%	1.13

## Business Description

Lockheed Martin Corp. engages in the research, design, development, manufacturing, and sustainment of technology systems, products, and services. It operates through four business segments: Aeronautics, Missiles and Fire Control, Rotary and Mission Systems, and Space. They are headquartered in Bethesda, Maryland.

## Industry Trends

The aerospace and defense segment of the industrials sector has outperformed the S&P 500 year to date due to several catalysts and market trends. The largest trend comes from increases in government spending in the United States and abroad. The Department of Defense, Lockheed's largest customer, has increased its spending over the last few years, and is planning to continue this trend. In addition, international governments have been increasing their defense spending as well, leading to further growth in the industry. The industry has been consistently growing, but this growth could slow if defense spending begins to decrease.

## Investment Thesis

Lockheed Martin can provide long-term sustainable growth through its already profitable business model, significant growth opportunities, strong relationship with the U.S. government, and game changing innovation that has led to the creation of some of the most high-tech products in the industry. Lockheed has consistently performed highly and beaten expectations and won many contracts with governments throughout the world. This company-wide and industry-wide growth makes Lockheed a strong stock pick with a high chance for growth and low risk.

## Valuation Assumptions and Key Financials

WACC: 9% Current stock price: \$303.21

Terminal Growth: 3.25% Intrinsic Value: \$335.11

Upside: 10.52%

Sources: Bloomberg, Annual reports

## Corporate Social Responsibility

- Employ over 21,000 veterans and donated \$8.6M to vet programs
- Supports STEM education, especially for minorities and females
- Since 2010, reduced energy use by 23%, water use by 22% and carbon emissions by 33%

## 5-Year Stock Performance



## Competitive Analysis

Lockheed Martin's main competitors include aerospace companies like GE, Boeing and United Technologies along with defense companies like Raytheon and Aerojet. While they compete in both industries, their unmatched relationship with the U.S. Government (especially the DoD) sets them apart from the competition. LMT is the top government contractor by more than double the contracts as the next closest competitor (Boeing). Additionally, Lockheed's innovative company culture has led to incredible inventions, like the F-35, which are unmatched in today's marketplace. On top of that, government spending is increasing rapidly and is expected to continue to rise under the Trump administration.

## Competitive Advantages

LMT's unmatched relationship with the government sets them apart when bidding for new and lucrative contracts. Additionally, their innovative company mindset has led to game-changing innovation like underwater mine locators, augmented reality combat training software, autonomous war vehicles, and of course, the F-35. Their strong position in contracts around the world makes them the servicer of choice to many countries' jet fleets and leads to large recurring revenue streams. Additionally, their expertise in space exploration and communications systems positions them well to help conquer the next frontier.

## Risks

One of the biggest risks for Lockheed Martin is their large concentration of contracts with the U.S. government. Nearly 70% of their revenue is related to the defense budget, so if that was slashed we would expect a large impact on the business. Additionally, losing out on contracts is a large risk, as a win and a loss means a difference in billions of dollars of revenue. As competition increases and bid protests happen, this could pose a threat to the company's expected growth. However, their strong relationship with the US government serves as a strong mitigator. Finally, as they handle extremely classified data, any hacks or breaches could result in serious sanctions and potential problems in their strong relationship with the governments they serve. Luckily enough, they are at the cutting edge of cybersecurity, even providing protective services to the US government itself.

## Report Prepared By:

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