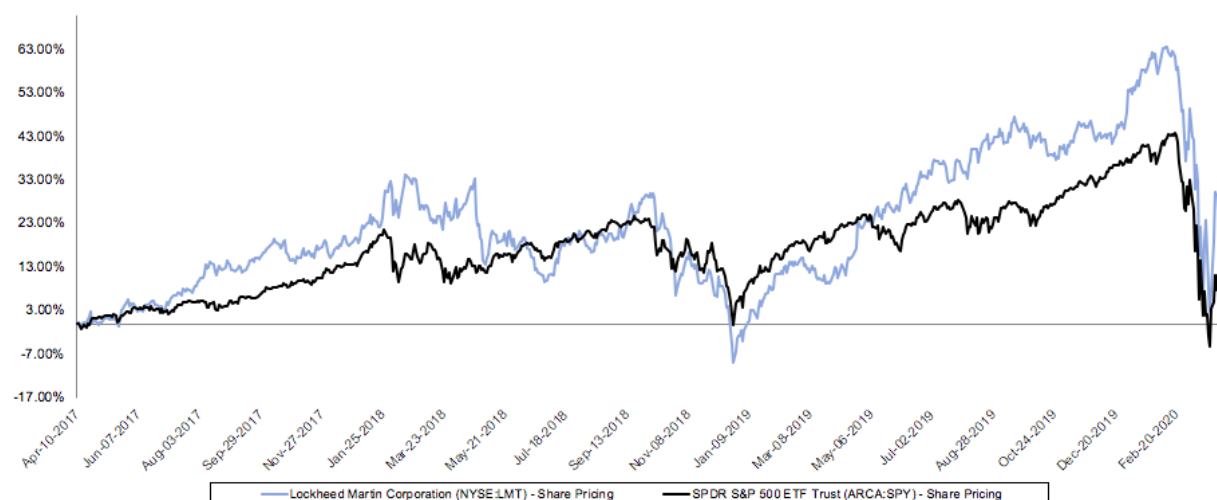


**Lockheed Martin Corporation**  
**Sector: Industrials**  
**Industry: Aerospace & Defense**



Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap	Dividend Yield	Beta
\$403.70	\$361.41	\$442.53	\$266.11	16.47 x	101.9 B	2.70%	0.96

**3 Year Price Performance:**



**Business Description:**

Lockheed Martin is a global security and aerospace company that engages in research, design, development, manufacture, integration and sustainment of advanced technology systems. Their products and services provide defense, civil and commercial applications, with their main customers being the agencies of the U.S. Government. The company is broken down into four main business segments, Aeronautics, Missiles and Fire Control, Rotary and Mission, and Space. In 2019, the company produced \$59.8 billion in net sales of which 71% come from the U.S. Government. Lockheed Martin's revenues are driven by long-term contracts and backlog orders which provide reliable future income.

**Competitive Environment:**

Government contracting is a highly competitive industry, revenues are generated and maintained through long term contracts with both domestic and international Governments. LMT competes primarily with other large US defense contractors. We identified their primary peer group as, Raytheon Technologies, General Dynamics, Northrop Grumman, and Boeing. While competitive, the industry is characterized by long term contracts with high switching costs. LMT's F-35 program for example is highly unlikely to be affected by increased competition, as switching costs in relation to aspects such as training are significant. With that being said, LMT

is heavily reliant on the US base military spending budget which is one of the most consistent items in the US budget. Moving forward, LMT's innovation and superior technology and product offerings will continue to drive value for their customers.

### **Investment Thesis:**

We view Lockheed Martin as being the most consistent and efficient government defense contractor. LMT maintains best in class operating margins and ROIC due to their continued innovation and diverse product portfolio. Their products and services are essential to the country's national security, LMT will continue to benefit from the consistency of government military spending moving forward.

In today's volatile market environment, we see it necessary to find companies with great financials that will have no trouble weathering the storm of the coronavirus. LMT's senior secured debt maintains an A3 rating by Moody's. Most importantly, we view the effect of the coronavirus on their business as minimal. LMT's products and services are essential to national security, and therefore production has been minimally affected. We view the broad based market selloff as an opportunity to buy this world class government supplier at a discount to intrinsic value.

### **Risks:**

- **Lockheed Martin is heavily dependent on the U.S. Government**
  - The company derives 71% of their total net sales from U.S. Government contracts. A decision by the U.S. Government or other governmental organizations to cut spending on this program or reduce planned orders can adversely affect the business operations.
- **Subject to a Number of Procurement Laws and Regulations**
  - The company must comply with several laws and regulations administered and performed by the U.S. Government contracts. A violation of any of these laws by the company, employees, and or joint partners can negatively affect the company brand and image.
- **Increase Competition and Bid Protests**
  - The U.S. Government has relied on competitive contract award types, including indefinite-delivery, indefinite-quantity and other multi-award contracts, which have the potential to create pricing pressure and to increase our costs.

### **Management:**

- Marillyn A. Hewson
  - Chairman, President & CEO
  - Stepping down from the CEO position as of March 16, 2020
  - Worked for Lockheed Martin for more than 35 years.
- James D. Taiclet
  - Incoming President & CEO
  - He has served as chairman, president and CEO of American Tower Corporation since 2004 and CEO since 2003.

- Kenneth R. Possenriede
  - Executive vice president and chief financial officer (CFO)
  - He previously served as vice president of Finance and Program Management at Aeronautics

**ESG:**



**OUR 2018 BUSINESS IMPACT<sup>1</sup>**

**CUSTOMERS**



**ECONOMIC IMPACT**



**SOCIAL IMPACT**



**Environment, Social and Governance (ESG) Risk Ratings** ⓘ

Total ESG Risk score  
**31** | 57th percentile  
 High

Environment Risk Score  
**7.3**

Social Risk Score  
**16.0**

Governance Risk Score  
**7.3**