

## Lockheed Martin

# 4Q23 EPS beat Street and BofAe, 2024 outlook lackluster on EPS and FCF

Maintain Rating: NEUTRAL | PO: 465.00 USD | Price: 458.76 USD

## Despite topline beat, Aero continues to suffer on F-35

Lockheed Martin (NYSE: LMT) reported 4Q23 adj EPS of \$7.90 vs STe \$7.29 vs BofAe \$7.31. Sales of \$18.9bn came above STe and BofAe of \$17.9bn. FCF of \$1.7bn came in line with Street and BofA expectations. Backlog finished 4Q23 at a record level of \$160.6bn (up 7% Y/Y). Aeronautics saw sales of \$7.6bn (above STe \$7.1bn and BofAe of \$7.0bn), slightly below 4Q22 on lower F-35 sales (-\$275mn) on lower volume offset by higher volume on development and sustainment programs. Operating margin of 10.0% was below BofAe of 10.7% and lower Y/Y on hampered F-35 profits on lower net favorable adjustments. MFC sales of \$3.2bn slightly below BofAe and down Y/Y on integrated air/missile defense programs mainly due to PAC-3 cost timing and offset by the ramp up on LRASM and JASSM. Operating margin of 12.5% came in below BofAe of 13.5% and down Y/Y on tactical/strike missile programs and classified work. RMS sales of \$4.7bn were above BofAe of \$4.4bn but down Y/Y on IWSS and MMSC. Operating margins of 12.3% were softer than BofAe 13.1%. Space sales of \$3.4bn were up Y/Y and above BofAe on the NGI program ramp up. Op margin of 9.1% above BofAe of 8.3%.

## Soft 2024 outlook for EPS and FCF

LMT provided full year 2024 outlook that was rather lackluster for adj. EPS (\$25.65-26.35 vs STe 26.74) and FCF (\$6.0-6.3bn vs STe \$6.32bn). Sales outlook of \$68.5-70.0bn bodes well with STe \$68.7bn. FY24 segment outlook is as follows: Aeronautics sales of \$27.75-28.25bn and operating profit of \$2.75-2.80bn, Missiles and Fire Control sales of \$11.9-12.1bn and operating profit of \$1.375-1.425bn, Rotary Mission Systems sales of \$16.45-16.85bn and operating profit of \$1.90-1.95bn, and Space sales of \$12.4-12.8bn and operating profit of \$1.15-1.20bn. Despite already being known, the market is concerned about 2024 Aero strength considering the F-35 TR-3 delays. We expect management to provide some qualitative color on the call and maintain a Neutral rating.

### Exhibit 1: LMT 4Q23 Results

Lockheed Martin reported 4Q23 adj. EPS of \$7.90, above Street and BofA estimates

#### Quick-take of results vs Expectations:

Adj. EPS	4Q23: \$7.90 vs BofAe: \$7.31 vs BBG: \$7.29 vs 4Q22: \$6.32 (4Q23 up 25.0% Y/Y)
Revenue	4Q23 Actual: \$18,874mn vs BofAe: \$17,850mn vs BBG: \$17,942mn vs 4Q22: \$18,991 (4Q23 down 0.6% Y/Y)
Operating Margin	4Q23 Actual: 12.1% vs BofAe: 12.6% vs 4Q22: 12.1% (7.4bps above)
Revenue by segment	Aeronautics: 4Q23: \$7,613mn vs BofAe: \$7,035mn vs 4Q22: \$7,635mn    Missiles and Fire Control: 4Q23: \$3,171mn vs BofAe: \$3,206mn vs 4Q22: \$3,287mn    Rotary and Mission Systems: 4Q23: \$4,711mn vs BofAe: \$4,440mn vs 4Q22: \$4,803mn    Space Systems: 4Q23: \$3,379mn vs BofAe: \$3,169mn vs 4Q22: \$3,266mn
Operating segment margin	Aeronautics: 3Q23: 10.0% vs BofAe: 10.3% vs 3Q22: 10.7%    Missiles and Fire Control: 3Q23 Actual: 13.5% vs BofAe: 13.0% vs 3Q22: 13.5%    Rotary and Mission Systems: 3Q23 Actual: 11.7% vs BofAe: 12.5% vs 3Q22: 12.5%    Space Systems: 3Q23 Actual: 8.4% vs BofAe: 9.0% vs 3Q22: 10.5%
FCF	4Q23 Actual: \$1,661mn vs BofAe: \$1,730mn vs BBG: \$1,736mn vs 4Q22: \$1,235mn

Source: BofA Global Research

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**Refer to important disclosures on page 3 to 5. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.**

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Timestamp: 23 January 2024 09:05AM EST

23 January 2024

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### Stock Data

Price	458.76 USD
Price Objective	465.00 USD
Date Established	19-Oct-2023
Investment Opinion	B-2-7
52-Week Range	393.77 USD - 508.10 USD
Mkt Val (mn) / Shares Out (mn)	113,818 USD / 248.1
Free Float	286.8%
Average Daily Value (mn)	464.21 USD
BofA Ticker / Exchange	LMT / NYS
Bloomberg / Reuters	LMT US / LMT.N
ROE (2023E)	82.6%
Net Dbt to Eqty (Dec-2022A)	139.0%
ESGMeter™	High

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### Glossary

IWSS – Integrated Warfare Systems & Sensors  
JASSM – Joint Air-to-Surface Standoff Missile  
LRASM – Long Range Anti-Ship Missile  
NGI – Next Generation Interceptor  
PAC-3 – Patriot Adv. Capability 3

## Price objective basis & risk

### Lockheed Martin (LMT)

We derive our PO of \$465 using a discounted cash flow (DCF) analysis that factors in a discount rate of 8.8%, an implied long-term growth rate of 2.3%, and an FCF growth rate of 5% for years 2027-2032e.

Downside risks: as LMT derives nearly 30% of revenue from the Aeronautics division, should the company run into any execution issues on the F-35 program, we believe this could materially affect the company's financials in addition to posing headline risks. Execution risk on defense programs could result in cost overruns and margin contractions. Unexpected cancellations to programs in both commercial and military could materially impact Lockheed Martin as a result. Orders from international programs are difficult to time due to the complexity of the process. Thus, we could see some lumpiness with regard to international orders.

Upside risks: F-35 program performs better than anticipated, defense spending is higher than expected, and LMT continues to buy back more shares than we forecast, driving higher EPS growth.

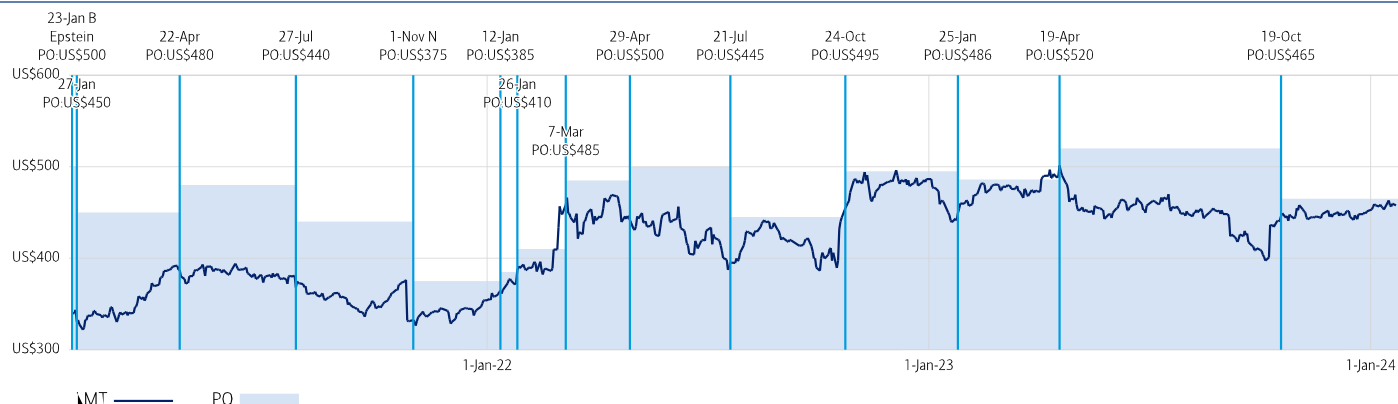
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	31	62.00%	Buy	23	74.19%
Hold	11	22.00%	Hold	9	81.82%
Sell	8	16.00%	Sell	6	75.00%

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Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
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