

## Summary Details

<b>Company Name:</b>	Lockheed Martin Corporation	<b>Ticker:</b>	<b>LMT</b>
<b>Sector:</b>	Industrials		
<b>Date of Report:</b>	6/14/2023		
<b>Analyst:</b>	Krishna Rajnish Patel		
<b>Summary Recommendation:</b>	<i>Options: <b>Hold</b> / Sell All / Trim (Sell Half)</i>		<b>HOLD</b>

360 Huntington Fund Metrics	
<b>Initial Purchase Date:</b>	7/26/2015
<b>Initial Purchase Price:</b>	\$201.17
<b>360 HF old Target Price:</b>	\$567.07
<b>360 HF old Target Price:</b>	\$509.36
<b>Market Close (Prior to Earnings):</b>	\$452.55

Market Valuation Multiples	Company	Industry
<b>Price to Earnings (P/E):</b>	20.14	23.54
<b>Price to Sales (P/S):</b>	1.79	4.81
<b>Price to Book (P/B):</b>	11.88	2.11
<b>Price to Free Cash Flow:</b>	18.3	35.3
<b>EV to EBITDA (EV/EBITDA):</b>	14.68	14.59

## Company Overview

### Core Business Description

Lockheed Martin is a global security and aerospace company involved in advanced technology. The company's vision for the 21st century is to fasten the process of adopting advanced networking and leading-edge technologies into the national defense enterprise. The main areas of focus for the company are Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems and space. The company currently supplies to both U.S. and international clients with the products and services that have defense, civil and commercial applications. There are multiple projects under each segment like F-35 sustainment activity and CH-531K heavy lift helicopter which is now undergoing successful achievement of the objectives and beginning the transitions to the production stage. The company has business operations in America, Africa, Europe, Asia-Pacific and the middle east with their principal clients being agencies of the U.S. Government.

### Key Competitors

- Boeing (BA)
- Raytheon Technologies Corporation (RTX)
- General Electric (GE)
- Northrup Grumman (NOC)

## Key highlights from the 2022

- Net sales in the year 2022 were around \$66 billion which decreased a bit from the net sales of \$67 billion in the year 2021. A similar trend was also seen in the net earnings as the net earnings decreased from \$6.3 billion in 2021 to \$5.7 billion in 2022.
- Moreover, the cash from operations decreased from \$9.2 billion in the year 2021 to \$7.8 billion in the year 2022. There was a decrease seen in the free cash flow numbers as well. The company provided a reason for the decrease in the operating and the free cash flow in 2022. The decrease was mainly due to the timing of the production and the billing cycles impacting contract assets and receivables, timing of liquidation of inventories.

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#### ■ **Q4 2022 Earnings call Coverage**

- Q4 earnings call announced the continuation of an accelerated stock repurchasing program (end goal is \$14 billion) returning \$5 billion of cash to shareholders through repurchases and dividends (\$3.00) -----Total of \$10.9 billion in 2022
- Increased likelihood of trade policy fluctuations because of U.S Government sanctions on China and Russia.
- Aeronautic operations net sales during Q4 increased by 7% to \$508 million compared to the same period in 2021
- Net sales increased by \$275 million for the F-35 program due to a higher volume of contracts
- Net earnings of \$1.9 billion, or \$7.40 per share, in Q4-----Net earnings of \$5.7 billion, or \$21.66 per share in 2022
- LMT's revenue growth has been ignited by increased demand from the U.S. DOD contractors who are selling arms to Ukraine to defend against the Russian invasion.
- CEO James Taiclet stated that LMT "will continue to execute A dynamic and disciplined capital allocation program by reinvesting in [LMT] and pursuing growth opportunities and returning capital to shareholders."

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#### ■ **Q1 2023 Earnings call Coverage**

- As per the company's earning call report, it was a strong start to the year for the company with first-quarter sales of \$15.1 billion and with the free cash flow of \$1.3 billion. This was in line with the company's financial projection for the year 2023.
- Overall the company has a sales of \$15 billion in sales and \$1.7 billion in segment operating profit. Moreover the company has a earning per share of \$6.61.
- As per the FY'24 President's Budget Request or PBR, the DoD budget request is of around \$842 billion which is an increase of \$25 billion (around 3%) from the FY'23.
- Moreover, the threats by China and Russian invasion in the Ukraine is increase the demand for the effective solutions by Lockheed Martin.
- The Canadian government in January announced that it will take 88 F-35s. This is yet again another milestone in the continuing international demand for the aircraft.
- However, the company also expects a fraction of the total expected 2023 deliveries to be impacted because of the software maturation related to Technology Refresh 3 and hardware delivery timing.
- Looking at the segment wise reporting. In the first quarter the sales of the aero decreased by 2% year over year. For the year it is expected the F-35 deliveries to be lower than previously anticipated. The missiles and fire control sales decrease by 3%. The rotary and mission systems sales were down by 1% as there was a lower volume on Black Hawk production and the C6 ISR programs. The company's space segment showed good growth.
- The company's on-time delivery performance didn't get any better from the Q4 and they are not expecting a recovery till the end of the year. This is going to affect the operating margins throughout the year 2023.

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#### **Other Updates / Analysis (as Applicable)**

- Lockheed Martin missile and fire control won a \$240M contract from the Air Force Life Cycle Management Center in June 2023.
- Lockheed Martin signs CRADA with the US army in May 2023
- Lockheed Martin wins \$29.6M contract from the US Army Contracting Command, Redstone Arsenal in May 2023
- The company's current price is \$452.55, which is lower than its 50-day moving average of \$465.81 and its 200-day moving average of 460.07. The company's 52 week high is around \$508 and this high was made very recently.

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#### **Recommendation**

- Continue to hold LMT because it currently trades below the fund's target price of \$509.35. The target price has decreased from the last target price of \$567. The decrease in the target price is more since the financial numbers were not that favorable as forecasted in the year 2022. The company is showing a slow recovery in the year 2023.
  - Even though the target price has decreased, the recommendation is to hold the stock as there is a lot of potential for the company in the year 2024. The company will be benefited from the increased defense spending in the budget.
  - The company showed a disappointing performance in the year 2022 as opposed to the forecasted numbers in the last report. Moreover, due to the change in value of beta, risk-free rate, and the market risk premium the target price was impacted.
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