Good day everyone and welcome to the Lockheed Martin Second Quarter 2020 Earnings Results Conference Call. Today's call is being recorded. At this time, for opening remarks and introductions, I'd like to turn the call over to Mr. Greg Gardner, Vice President of Investor Relations. Please go ahead, sir.

Greg Gardner

Thank you, John, good morning. I'd like to welcome everyone to our second quarter 2020 earnings conference call. Joining me today on the call are Jim Taiclet, our President and Chief Executive Officer; and Ken Possenriede, our Chief Financial Officer.

Statements made in today's call that are not historical fact are considered forward-looking statements and are made pursuant to the safe harbor provisions of Federal Securities Law. Actual results may differ materially from those projected in the forward-looking statements. Please see today's press release and our SEC filings for a description of some of the factors that may cause actual results to differ materially from those in the forward-looking statements. We have posted charts on our website today that we plan to address during the call to supplement our comments. These charts also include information regarding non-GAAP measures that may be used in today's call. Please access our website at www.lockheedmartin.com and click on the Investor Relations link to view and follow the charts.

With that, I'd like to turn the call over to Jim.

James Taiclet

Good morning, everyone, and thank you for joining us today. It's a pleasure to be here on my first Lockheed Martin's earnings call, and I look forward to working with all of you. I hope this call finds you and your families safe and healthy. The world continues to combat the coronavirus outbreak while it is striving to recover and sustain economic activity. Our primary objective at Lockheed Martin is to ensure the health and welfare of our employees and their families, our teammates, customers, and communities. We remain vigilant taking the necessary steps to help protect our workforce while producing the products and solutions our customers need to achieve their important readiness objectives. Our business areas have taken actions including implementing alternative work schedules, health and safety checks at our facilities, and telework wherever possible.

Most recently, our Aeronautics team established a rotational facility plan for our F-35 production line, allowing us to continue to manufacture the aircraft while practicing social distancing and completing regular deep cleanings. The corporation also continues to support our critical industrial base suppliers, frontline medical workers, and our local communities with COVID-19 relief and response.

In March, the Department of Defense announced it would increase progress payment rates to large businesses from 80% to 90% accelerating payments for the completion of work in recognition of the challenges posed by COVID-19. The DoD's expectation was that prime contractors would flow these accelerated payments to the supply chain. Through the second quarter Lockheed Martin has flowed all of the accelerated payments the corporation has received from the Department of Defense, $1.3 billion in total to our supply chain. In this process, we've given priority to small and vulnerable suppliers as we continue our efforts to promote a healthy and sustainable defense industrial base.

We've also continued to support our local communities and to date have made substantial donations to non-profit organizations involved in COVID-19 related relief and assistance with emphasis on veterans and military families.

And as a global organization employing thousands across the world, we are supporting related initiatives in 15 different countries, including donations to food banks, healthcare facilities, distance learning, and research efforts to help combat this disease.

This corporation has hired more than 9,000 new employees across United States since the crisis began and is advertising for another 3,000 positions. We remain on track with plans to hire approximately 12,000 employees during 2020. And across the country, we produced more than 65,000 protective gowns and 30,000 face shields, and we've donated PPE at 174 locations where frontline medical workers are caring for COVID-19 patients and others of risk.

Through all these initiatives, Lockheed Martin remains committed to supporting our employees, our suppliers, and communities in which our company operates through the course of this ongoing pandemic.

Ken will review our first quarter financials and updated full-year outlook in more detail in a few minutes. As you've seen from our press release, we had a very strong quarter financially despite the effects of the coronavirus. Mitigation plans put in place by each of our business areas, their teammates and supply chain, the international community, as well as strong support from the Department of Defense and broad U.S. government actions have allowed us to minimize the financial impacts on our company. This coupled with outstanding operational performance have enabled us to increase our full year outlook for sales, earnings, EPS, and cash from operations.

Sales in the quarter were 12% greater than last year, as all the four business areas increased from 2019. Our segment operating profit results were also strong, growing 15% year-over-year, driven by both higher sales growth and an increase in segment profit margin to 11%. We had a strong quarter of cash generation, bringing in over $2.2 billion of cash from operations and executed our balanced cash deployment strategy.

Moving to new business activities, we received nearly $22 billion in orders this quarter, raising our backlog to over $150 billion, a new high watermark. Our Aeronautics business area led the company with over $9 billion of orders, including $7 billion of total orders booked for the F-35. We were able to add 84 jets to the program with the finalization of two Lot 14 production contracts, bringing the current number of planes in our backlog to 411 aircraft.

Our F-35 team also added approximately $1 billion in combined sustainment and development awards this quarter as well. Missiles and Fire Control also had a strong quarter, with the Defense Department announcing several PAC-3 awards, including one for over $6 billion to supply PAC-3 MSE interceptors, launcher modification kits, and associated equipment to support the United States and foreign military sales customers across multiple contract years. These awards demonstrate the global demand for PAC-3 MSE interceptors and to meet that demand this year, we began work on an 85,000 square foot building expansion at our Camden, Arkansas facility. The building is expected to be completed by fourth quarter 2021 with operations they're beginning in the first quarter of 2022.

Our Rotary and Mission Systems secured orders of over $1 billion to support and supply 24 MH-60 Romeo helicopters to the Government of India. These Sikorsky SEAHAWK aircraft will provide Maritime Anti-Surface and Anti-Submarine Warfare capabilities to India, as well as cargo, utility, and search and rescue missions. And our Space business area added multiple orders including a classified award for over $1 billion. In total, the corporation grew orders 23% above second quarter 2019 and achieved a companywide book-to-bill ratio of nearly 1.4 for the quarter.

I'll touch briefly now on the Department of Defense budgets as both the House and Senate Armed Services Committees have completed the respective markups of the fiscal year 2021 National Defense Authorization Act. Each version adheres to the Bipartisan Budget Act of 2019 spending targets and equal approximately $740 billion for national defense. Appropriation committees from each chamber are in the process of drafting the funding legislation to accompany the authorization.

There are encouraging elements for our portfolio as the Senate version confirmed that the national defense strategy remains the roadmap for the armed services, and the bill was passed with strong bipartisan support. Our portfolio was well supported in the Senate version for the recommended increase of 16 F-35 aircraft above the President's request, additional funding for Missile Defense priorities including an 8 THAAD battery, and increased funding for the Homeland Defense Radar-Hawaii program. Congress will continue with the authorization and appropriation phases. We look forward to the finalization of the process and supporting our warfighters needs.

Moving on, I'd like to highlight several significant events that occurred across the corporation during the past quarter. Beginning with Aeronautics, the F-35 team achieved another operational milestone, as our United Kingdom partner celebrated the initial carrier deployment of its 617 Squadron. This legendary unit, known as the Dambusters from their exploits in World War II is now aboard the HMS Queen Elizabeth aircraft carrier. The Squadron will now begin a series of flight trials demonstrating the jets ability to defend the carrier who Combat Air Patrols, rapid deployment and interoperability with other U.K. Naval assets. This is all in preparation for their second embarkation later in the year, when the Squadron will join the carrier and her task group for a large multinational training exercise with U.S., European and NATO partners.

The ship will then set sail again next year for her maiden Global Carrier Strike Group 21 deployment. We're proud to provide this unrivaled fifth generation aircraft to help support our U.K. partner in the security of their nation.

Moving to RMS, our radar surveillance systems team achieved two notable milestones this quarter. In April, they successfully completed the Sentinel A4 Radar Program preliminary design review, following successful system requirement and system functional reviews, which took place earlier this year.

So just four months after the initial contract award, the Sentinel team has already achieved several key milestones as it progresses the critical design review phase later this year, and then in a fabrication, demonstration and test. The Sentinel A4 Radar replaces the current A3 variant and will provide improved Air and Missile Defense against low flying unmanned aerial systems, cruise missiles, drones and other threats. For the program of record of approximately 200 systems plus international partnerships the Sentinel Program alone has a total potential contract value of over $3 billion.

RMS also delivered to the U.S. Army, the first AN/TPQ-53 radar system, which is equipped with Gallium Nitride to provide additional power and enhanced counter fire target acquisition capabilities. The TPQ-53 radar locates and tracks enemy indirect fire, neither a 360 degree or a 90 degree mode and it was first deployed in 2010 to Iraq and Afghanistan, where it delivered outstanding performance and reliability to defend our troops. We are currently in [4A] production to provide approximately 190 units with a contract value at $1.6 billion.

The both the Sentinel A4 and the TPQ-53 are part of Lockheed Martin's open scalable radar architecture, the cornerstone of each of these systems design, which allows for upgrades that will not only extend the lives of the radars but evolve their capabilities over the next 40 or so years.

In Missiles and Fire Control, our Air and Missile Defense line of business mark the delivery of the 500 FAD interceptor to the U.S. Army. The FADprogram is a key part of the U.S. Missile Defense System has been selected by multiple international partners to support their national security. MFC continues to expand our production facilities to accommodate that demand.

This quarter our space business area, as part of the Blue Origin National Team in this really is exciting and was down selected for the next phase of the human landing system for NASA's Artemis program. The Artemis program is the country's ambitious endeavor to land humans on the moon in 2024 and return them safely to Earth.

Leveraging designs and technologies used on our Orion program, Lockheed Martin will produce the crew ascent element, the vehicle which will transport astronauts from the lunar surface to begin their journey back to earth. We look forward to supporting this remarkable mission and continue long running out of legacy of supporting NASA mission.

Before I turn over the call to Ken, I'd like to take a moment to thank Marillyn Hewson for her years of leadership and express how honored I am to have the opportunity to lead Lockheed Martin, a company that I consider a national asset.

My experiences as an Air Force pilot, flying Lockheed Martin Aircraft and Operation Desert Shield helped shape my belief that helping to provide for the defense of our nation and its allies, is one of the most important endeavors that one can undertake.

When presented with the opportunity to become President and Chief Executive Officer here, I viewed it not as a job offer but as a call to service. Moreover, Marillyn and her Executive Team has positioned the company for even greater success for the future, and I'm eager to deliver on that prospect.

Since becoming CEO about a month ago, I've met Hewson virtually with a significant number of our key government customers to introduce myself, reaffirm our commitment to performance and affordability and get their feedback. I've been pleased with the broad response of confidence and Lockheed Martin is a key partner, but also the candid discussions on the challenges we jointly face in the National Security Space.

There's great appreciation for the technologies and solutions we provide. And we have a long heritage of innovation for our customers. I plan to continue this legacy as well as pursue a long-term strategy to deliver enhanced capabilities to support what I call the 21st century war-fighter concept.

That concept endeavors to bring relevant lessons in the latest technologies from the broader tech sector to the defense industrial base. I believe Lockheed Martin is uniquely positioned to address this and other evolving security needs of our nation and its allies. And I'm excited to have this opportunity. I've also had the chance to meet with many of you in our Investor Community in recent weeks that engage in conversations and I look to continuing that dialogue. As you can tell, I'm quite convinced that we can further leverage our key platform positions and broad portfolio to drive a long-term value to our shareholders while furthering both National Defense and Scientific Discovery.

With that, I'll turn the call over to Ken.

Kenneth Possenriede

Well, thank you, Jim, and welcome aboard, and good morning to everyone. As Jim noted, I also hope that each of you are doing well and staying safe. As I highlight our key financial accomplishments, please follow along with the web charts that we've included with our earnings release today. So let's begin with Chart 3 and an overview of our results for the quarter.

We saw strong results and year-over-year growth in sales, segment operating profit, cash from operations and earnings per share this quarter. We delivered \$16.2 billion in sales, \$1.8 billion in segment operating profit and \$5.79 in earnings per share, which included a non-cash charge related to an international joint venture that we are now exiting.

We generated \$2.2 billion of cash from operations and we continue to execute our balance cash deployment plan for 2020 returning almost \$1 billion to our shareholders. We achieved a new record backlog of greater than \$150 billion exceeding our all time high for the corporation for the eighth consecutive quarter.

We have updated our full year guidance increasing our estimates for sales, earnings and operating cash flow as COVID-19 mitigation plans and our outstanding performance and minimize our year-to-date impacts. Overall, it was a strong quarter for the business in challenging times.

Turning to Chart 4, we compare our sales and segment operating profit this year with last year's results. Sales grew 12% to $16.2 billion led by volume in Aeronautics and Missiles and Fire Control, while segment operating profit increased 15% led by earnings growth and Aero and RMS.

The resulting segment operating margin was a strong 11% for the second quarter. These results include the impacts caused by COVID-19 and reflect the proactive efforts of Lockheed Martin in our customers to mitigate these disruptions, particularly as they apply to our supply chain. And as we have closely monitored this evolving situation, it has become apparent that some of the impact we anticipated will be realized in the second half of 2020 versus being contained primarily in 2Q.

Chart 5 shows our earnings per share for 2Q, 2020. Our EPS of $5.79 was up $0.79 over results of last year, driven by our sales volume increase favorable performance and additional FAS/CAS income and excluding the $0.34 for the impairment of the international joint venture we are exiting, the second quarter earnings per share would have been $6.13.

On Chart 6, we will discuss in more detail the cash returned to our shareholders this quarter. We also had a strong quarter of cash flow generating $2.2 billion in cash from operations. We continue to invest in capital projects to support long-term growth, which resulted in over $1.8 billion of free cash flow.

We paid out dividends of $2.40 per share and repurchased $259 million worth of shares. And year-to-date, we have now repurchased over $1 billion in shares fulfilling our 2020 outlook. Our ability to consistently generate strong cash flow allows us to continue with our long standing balanced cash deployment strategy.

Let's move on to Chart 7, strong operational performance in all business areas have allowed us to increase our outlook for all financial metrics, as we continue to implement mitigation actions to combat the coronavirus. We are now projecting full year sales growth of 7% over 2019 with consistent segment profit margins, and we've increased our cash flow by $400 million to greater than or equal to $8 billion.

On Chart 8, we will break out the increased sales guidance by business area. We have adjusted our estimates for Aeronautics, Space and RMS, increasing the midpoint of our sales range by $1.125 billion. And based on our current assessment of the full year, while COVID-19 has caused disruption in our supply chain and as some of our key locations, we have had non-COVID performance that has offset the impacts and gives us confidence to increase our 2020 outlook.

On Chart 9, we show the corresponding increases to segment operating profit by business area, again led by Aeronautics, Space and RMS. And in total, we have raised the midpoint of our segment operating profit guidance by $100 million.

And to conclude, on Chart 10, we have our summary. We had a strong quarter, both operationally and financially and we have increased our full year outlook for all metrics. We had another quarter of backlog growth, our eighth in a row, a reflection of the strength provided by our broad portfolio. We continue to closely monitor the environment and evolving conditions in our business related to COVID-19. And we remain committed to providing long-term value to our customers and our shareholders.

And with that, John, we are ready to begin the Q&A.

Question-and-Answer Session

Operator

[Operator Instructions]. We ask you, please limit yourself to one question, if you have any follow-up questions, you can place yourself back into the queue.

And first, with the line of David Strauss with Barclays Bank. Please go ahead.

David Strauss

Thanks. Good morning.

James Taiclet

Good morning.

David Strauss

Hey, Jim, to follow up on some of your comments, I wanted to ask you how do you see Lockheed portfolio positioned to perform relative to peers, if you look out at potentially a tougher budget environment over the near term, and how you're thinking about sustaining the Company's peer leading growth into the longer term, if you could take this both from an R&D

perspective as well as how you will evaluate investment decisions from a return perspective? Thanks.

James Taiclet

Sure, David, good morning. This company to me is incredibly well positioned for any reasonable range of outcomes in defense spending in the economy over the next few years as well as -- as breadth of product and service that is really essential to the National Defense strategy. So when you put the two things together, I think the company, vis-à-vis peers is incredibly well positioned relative to others. The backlog of $150 billion is equipment and services that the customer needs, they've already signed up and budgeted for.

And again, there are ways to solve both opportunity sets. One is if there's a rising defense budget or stable one, we can continue to deliver on that backlog just as it's contracted, but if it changes, those requirements are still going to need to be met. And because of our platform position, David, we can extend and broaden the capabilities of existing platforms, make sure that their life can be extended while at the same time of being upgraded to whatever standard is required at that point in time.

So, I think the breadth of the Company's portfolio of products, services, and domains that we operate in is going to position us well even at a downturn, frankly. Secondly, on long-term growth, that's -- the threats aren't going away. Defense is going to have to be supported, I think in any reasonable person's view going forward, especially if those people are in positions of responsibility no matter what party they may come from. So I view that defense has got to be an important priority for the country. Going forward, there may be a mix change, if you will, but it's still going to be an important priority.

Again, the benefit of coming in the door here is the existing portfolio position of the company across the services, domains, international space, et cetera. That broad platform is a risk mitigator in my opinion, to a downturn and say the defense spending trajectory.

So on the upside, the innovation gene at this company is fantastic. So when you can apply that innovation genetic framework to the broad portfolio that we have and I hope bring in some tech industry practices and maybe some new partnerships and technologies to augment that I think the upside for long-term growth is really tremendous.

And on the R&D front, if we can get our customers convinced that certain types of independent research and development needs to be compensated for perhaps new ways by the government, so the companies like ours and others can take risks, so we can bring in partners that are willing to take risk, at least knowing they may have a path to compensation at the end of the day, and then we're going to be able to accelerate our growth.

So we're in a great position to try to work in any environment I think, whether it's defense spending, technology deployment, I've got an idea called 5G.mil that we're going to try to figure out how to create and really bring that technology as just one example, entire [ph]space and drive performance at this company as a result of that.

David Strauss

And Jim, just quick follow up there. How do you -- based on your time at American Tower, how do you measure success from a financial perspective? I think there you really emphasized free cash flow and free cash flow per share and return on invested capital, are you going to apply the same kind of framework at Lockheed?

James Taiclet

Yes, I'm pleased to say that Ken's already applying it as we speak and before I got here, so I was really glad to see that that's a capital allocation decisions have historically been made here. I think that my experience at American Tower, we used a wide variety of vehicles to deploy capital, get others to do it on our behalf and in partnership with us. And maybe we can add some of those elements here, and some might be pre-existing relationships in the tech sector and telecom to join us in some of this investment profile. But, I do think that that we can continue to drive cash flow per share growth here and ROIC stability or expansion at the same time we did at American Tower over a 20-year period. And I think we can do it here too.

Operator

Our next question from Robert Spingarn with Credit Suisse. Please go ahead.

Robert Spingarn

Well, good morning.

James Taiclet

Hi.

Robert Spingarn

Welcome, Jim. Very nice first quarter out of the gate. I have a couple of quick things for Ken on the guide. So Ken, MFC was the one segment where you didn't change the guidance, you had this good bookings quarter, and I guess growth declines a little bit in the second half. Is this a result of COVID? Is it just where the business is? When would -- might it re-accelerate to double-digits? And then just separately, I wanted to ask you what you've got embedded in the guide for F-35 production sustainment and development?

James Taiclet

You bet.

Kenneth Possenriede

Good morning, Rob. So yes, Missiles and Fire Control is the one that we did not adjust guidance. So, you're exactly right. Just to remind everybody, it is still our fastest growing business area, still most profitable business area. But going around the horn, and it's a little bit of what I talked about in the first quarter, our biggest concern from a COVID impact standpoint was clearly at Aeronautics and clearly the main driver -- main concern at Aeronautics is F-35, and we've done a good job of anticipating that in the quarter and hence the results you saw in the quarter.

We had really strong results at Missiles and Fire Control in the second quarter frankly and in the first half. You're right, if you look at where we're going, we’re holding guidance. We do see COVID impacts. This is a very high-volume business, so we are starting to see some pressure on Hellfire deliveries and ATACM deliveries regarding -- and mainly driven by COVID.

But, we're going to be up year-over-year mid-single digit from a growth standpoint in the second half, so still pleased with the trajectory of where the business is going.

Let's see your second question on guidance for F-35. Yes, second quarter, we saw strong growth across F-35. Follow on modernization we’ve received some awards in the quarter that resulted in strong sales growth year-over-year. In fact, we'll see that into the second half of the year.

Production, if you recall, we had a little bit of a slow start in the first quarter and that was basically timing of supplier payments to us that picked up in the second quarter, but really strong production growth in the second quarter and sustainment is up as well.

And so for the year, we're looking at double-digit growth for F-35. Overall, we're seeing development up really strong, sustainment really strong and production mid single-digits, which is higher than what we thought.

Operator

Our next question is from George Shapiro with Shapiro Research. Please go ahead.

George Shapiro

Yes, good morning.

James Taiclet

Good morning.

George Shapiro

Ken, I wanted to pursue a little bit more Aeronautics, F-35 you had an incremental margin of like 18.5% in the quarter. So obviously, it must have raised the margin if you can share how much the margin went up. And then my second question, if you look at your implied guidance at the high end, the second half of the year has only 3% growth in aero, way down from 15.5% in the first half. And the margin is implied at about 10.6%. So is that just being conservative or are we starting to really see some slow down there? Thanks.

Kenneth Possenriede

Thank you, George. So yes, in the quarter, F-35 was up very, very strong on the top line growth, there production was up strong sustainment of strong as I mentioned on the previous question. If you look at margins, from a production standpoint, they were strong double-digit. We had some risk retirements on a few of our production lots. So it wasn't just [blocked by] but it was a few of our previous lots that actually are still open.

So we had some retirements, their development so FCD, the FCD has wound down. That was a low margin business for us. And now, we're embarking on follow on modernization with our customer. And we're seeing strong -- though its cost plus we are seeing stronger margins that we did on FCD think of those as high single-digit margins.

And then on sustainment, we had a variety of risk retirement, not one single sustainment program that I could spike out, but there's a variety of sustainment programs that had some risk retirements in the quarter so, so you're right on that a strong quarter from a margin standpoint.

Second half, we're not anticipating the risk retirements that we had in the -- in this quarter George and your other question was looking at the high end of the guidance. So though we think we have done a very good job with our customer mitigating a lot of the risks due to COVID in the second quarter, where we are starting to see risks specifically in Texas and specifically in our supply chain due to COVID.

And we do anticipate seeing a couple of hundred million dollar impacts specifically on F-35 production, top line due to COVID risks. And so to your question is that being conservative, it's only conservative if COVID does not happen, but if it happens, we feel comfortable with our midpoint of guidance and our high end of guidance.

Operator

And next we go to the line of Jonathan Raviv with Citi. Please go ahead.

Jonathan Raviv

Thank you and welcome Jim looking forward to working with you hope everyone as well.

James Taiclet

Thank you.

Jonathan Raviv

Just thinking about cap allocation, I know you guys have reiterated your balanced capital strategy. When I think back to the last time this industry faced the potential political change, high deficits, potential budget pressure, the capital allocation strategy looked to get a little bit imbalanced. So just any more further perspective on how capital allocation strategy can shift and flex, if the reality on the ground changed and what might be different today versus let's say 10 years ago, 10 years ago, you're having to repo pretty big dividend on a relative basis, CapEx fell a lot, whereas now CapEx is still at a pretty high level. So because we've been your -- very unlevered balance sheet as well, and to think about how capital allocation plays a role in a pressured budget environment? Thank you.

Kenneth Possenriede

Thanks, Jon. Hi, good morning. It's Ken, I hope you're well as well. So I'll take that, Jon, we're committed to providing still significant portion of our cash flow to our shareholders that's regardless of, what happens, what this downturn looks like. But, I'll – I will start with cash. And we just took our cash up to the greater than or equal to $8 billion this year. We have some tailwinds. And frankly, this year we have some headwinds and with that balance in what we see, with our working capital improvements, we were comfortable doing that. One thing I'll say going out to the future, and it's based on our strong backlog and it's what I'll call our culture of cash.

I've mentioned in the past that we're comfortable right now even with the headwinds that we see out in 2021 of $7.7 billion based on what we see right now, we're comfortable taking that up $100 million to $7.8 billion. And then out to 2022 we talked about the pre-tax change for the amortization of R&D that we saw a path to roughly $7.8 billion in 2022. We're comfortable today taking that up another $100 million. So think of just cash that could be used for internal investments and for cash deployment up $400 million this year up $100 million next year, and up $100 in 2022.

We've talked about capital this year and next year are probably the highest capital spends we're going to have think rough numbers, about [$1.07] billion this year, though, there is an appetite to spend more at the business areas, but right now, we're forecasting [$1.07] billion and probably [$1.07] billion next year, which gives us still very strong, free cash flow going forward. We're committed to the dividend, there's absolutely no question. That is our priority. And we don't see that changing in the future.

Jim and I will go to the Board to recommend a change to our dividend rate in the September timeframe for the next four quarters. Based on what we see today, it's -- for planning purposes, we should assume high single-digit increases. I think for planning purposes. That's what we'll plan going out into the futures. I still think repos, repos has a place for us. We've talked about the $1 billion this year, we've done about [$1.01ish] billion through July, we're now going to pause at least in the near-term, it makes sense for us to do that based on this COVID environment.

And just from a planning standpoint, we should assume $1 billion in 2021 and 2022. And think of that is to prevent dilution in our share count. And as you mentioned, and Jim has talked about this other investments we need to make. We have the balance sheet to do that we have the cash flow to do that. And you saw in the second quarter, we did flow of [$1.150] billion a debt. We did that opportunistically got a great yield on that money. And we're -- we'll continue looking at whether it makes sense for us to go into the debt market, whether it's for organic or inorganic investments.

James Taiclet

So Jon, this is Jim. Ken just gave you a great landscape picture of the whole the scenery here, and I can go ahead and pick up on one thing he did say about maybe something you were looking for in your question, too, is, what would we do different potentially in a downturn on capital allocation, and just to recap the dividends there it's going to be a growing dividend in our view at least Ken and mine and the Board I expect would agree with us.

But in a downturn in my historical, recent experience, and my philosophy here is that may be also presenting an opportunity for us if there is a downturn, we're going to look at the silver linings that may be there. And whether it's M&A and other investments. So if you add together the scale of Lockheed Martin in the cash flow that comes from that, they can just define the backlog on top of it the extends out into time and the balance sheet strength that we have, there could be opportunities for us to act in a time period where asset prices are depressed for things that we may want to bring into the company or JV with or whatever.

And so that's just another way to picture it, is it the strength and the breadth and the foundation this company allow -- could allow us as it did in my prior experience to get assets we really wanted. That might be even more available at attractive prices, which then drive the nice ROI that you want the cash flow growth to come with it?

Operator

[Operator Instructions]. And then next we’ll go with the line of Richard Safran with Seaport Global. Please go ahead.

Richard Safran

Thanks. Jim, Ken, Greg, good morning. How are you?

James Taiclet

Good, Rich. Good morning.

Richard Safran

So if you mentioned this in your opening remarks, I apologize. I missed it. Hopefully we have a fiscal ‘21 budget in place by starting the fiscal year. But, what I wanted to focus on was -- and what I wanted to ask you was about the global settlement you've talked about, and I'm sure you're aware that there's also been chatter about additional stimulus funding. So what I was looking for, is if there's any risk to your cash flows, and sales guide if there actually isn't a global settlement endorsed and or stimulus funding, I'm just curious about what assumptions are embedded in the new guide and what you're expecting from the settlement?

James Taiclet

Yes, good morning, Rich, I'll take that. So you're right. We have provided [OSD] the Department of Defense [indiscernible] based on what we see as impacts to Lockheed Martin and its supply chain that go out to September. We just had a few internal conversations and we're starting to have conversations with the customer probably make sense since that is already stale, this is a fluid situation probably makes sense for us to update that rough order of magnitude and it may make sense for it to -- for us to extend it beyond September.

We'll go through that with them. Regarding what, what we're assuming from a sales and margin standpoint, what we're generally seeing Rich, is these impacts are out farther than we thought the three months ago, and probably more in the '21 time period. And maybe a little bit in the fourth quarter of this time period.

So if there is not a deal, the grand deal, I think, the next course of action would be for us to go work individually with our respective customers to negotiate on a case-by-case basis, what the impacts are to us. And what are not, the issue is going to be, the available funding for that. If there's not funding, these are all allowable costs. And, then the question becomes -- we put that into our forward pricing rates, and there might be some modest impacts to a couple of our programs but that would be probably more at the profit level, not at the top line. And right now we don't see that playing out as advertised. So it's fluid and we're working through this with our customers.

Kenneth Possenriede

Seems like the summary is that the 2020 guidance is not greatly affected in either direction, whether the stimulus goes through or not.

Operator

Our next question from Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr

Yes, thank you very much. Jim you come from a tech background. You talked about, seeing opportunity to adopt some practices from commercial technology at Lockheed Martin, potential for partnerships A program you mentioned 5G.mil, could you expand a little bit in terms of how would you bring commercial technology into the company, and what would you expect to gain from it?

James Taiclet

Sure, Cai. There's a number of approaches to this. Again, in my previous experience, we were embarking on this for commercial 5G applications, which is Internet-of-Things at scale including autonomous land and air vehicles. So that's happening in the tech sector now. So there's a 5G standards of that there's computing, which is storage and processing of data that's moving to the edge of the network and intermediate places from data centers to the edge.

And there's the autonomous vehicle infrastructure and devices, we call them edge devices over in the tech side, that are being built, you think of them as the driverless car, et cetera, et cetera. So all of those elements are being processed a page, it's going to take time, by the way to do any of this in the commercial space.

And those practices can be brought over, I think, to the defense industrial base. But only quickly if our customer comes along with us and changes some of the procurement practices, how we can get paid for things, there's a licensing regime that you may be aware of in the telecom space, particularly that enables global standards to be built. And then each participant or competitor designed to that global standard. That's how you can get 2G, 3G, 4G, 5G done in a space of 20 years when it takes that long to get one defense program done.

So those are the kind of practices I think we can migrate over with some of those partners that are working on these things on the commercial side. Now, again, this is a long cycle initiative. Is it is on the commercial industry to it's going to require cooperation with our customer, and they're authorizing us to try some of these things. Because no one's going to take any risk on the defense industrial base by implementing these technologies in a different way. If they're not sure they're going to get paid for it.

So we've got a lot to do. But frankly, it -- in American Tower we endeavor to change the industry to go from where transmission sites for telecom networks were non-performing cost centers inside the telephone companies and we converted them through commercial practices and basically, sale leaseback type of approach. We turn those assets into performing assets for commercial companies like ours that were able to create value for shareholders over a long arc of time.

So this can be done. But it's going to take time, it's going to require just like it required American Tower, the cooperation of our customers, who were then the telephone companies to work with us and engage in this. And the only reason they did was because they could deploy their networks faster, get capital from us to do it and also to have a lower total cost of ownership for the site over time.

And when you multiply that by, we have 180,000 sites back in my prior company, we basically help change the industry, not just us, but around the world. That's the kind of aspiration we have here at Lockheed Martin, and we are in a position to do it, and I would argue a way better position than we ever were back in the in the tower and digital infrastructure industry 15, 20 years ago.

So that's the aspiration, Cai how to do it we know, we've got a great example on commercial telephony and technology and how they collaborate through standards bodies and other mechanisms in JVs and alliances to get this done. And so those are the kinds of practices we can bring over. It's not easy. It's not going to happen in a hurry. But the benefit again, Lockheed Martin has is the backlog is so strong on what I call the product centric way of doing defense industrial based business, that we've got time. And we can perform as we try to also move the industry towards a network centric way of doing business.

Operator

Our next question is from Seth Seifman with J.P. Morgan. Please go ahead.

Seth Seifman

Thanks very much, and good morning.

James Taiclet

Good morning.

Seth Seifman

Ken, I wanted to just follow up quick, maybe on Rich's question about a settlement and the industry has been fairly vocal about this being important. You guys have mentioned that there's not very much impact one way or the other on the guidance for 2020. So should we think about it, then as you know, if it is important, and it's not important for 2022, so we think about it as being something that's important for 2021.

And maybe if you could explain to us a little bit about the mechanics of, then there is a settlement sort of what happens is that, is that cash that the company has been missing out on this year, that will come at some point, perhaps next year, how should we think about the mechanics of how that all runs through the P&L?

Kenneth Possenriede

Yes so, whether it hits this year, next year or all years Seth it is important, it's important to the industry. And it's not just Lockheed Martin it would be across our entire supply base. As I mentioned this is fluid, it's got a lot of moving parts. It probably just for our financials, it will -- it modestly in the second half of the year, but then probably hit more and ripple through the supply chain in the first half of 2021 is our best assessment.

Mechanically, the way this could work if it was a big settlement, we still have to go through the details, but I'm guessing that the expectation would be so pick the F-35 a brand settlement, I think the expectation internally just from a program performance standpoint and at the customer level, they would want those costs and those budgets if you will to flow into those respective programs.

I'm going to speculate that there probably would be some kind of clip level, from a dollar threshold standpoint that we would utilize with the customer set of what gets flow to the program. So there probably is a point where it's going to be a diminishing return and cost more to implement that across programs and not.

Assuming if there's not a grant deal I think what you would see is each program would deal with a case-by-case and then mechanically, that's how that would happen. And it would be a sales impact, a cash impact and an EBIT impact across each respective programs. But, what you're talking about ballpark -- whatever our number is, it's -- we're a $65 billion, round up to $65 billion company. It's not going to be that material to our bottom line specifically if it's over a multitude of years. So we'll see, we'll see where this goes. I think this has got to take some time to play out still.

Operator

Next we'll go to Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Hey, good morning, everybody.

James Taiclet

Good morning.

Noah Poponak

So you feel that a number of questions here on what your business could look like for your capital deployment could look like in the hypothetical that the defense budget declines. And so I wanted to ask you the question, do you think the defense budget will decline? And we all obviously can -- and have a view on that based on the inputs that are visible to us, but I'm assuming you all have more insight into the geopolitical landscape and then maybe what both sides of the [IO] are thinking right now and in the committee's, but also in the potential presidential platform. So maybe beyond just the standard, world a dangerous place so. What is your view on whether or not defense spending goes down and if it were to actually grow? What specifically could make that happen from here?

James Taiclet

Noah, it's Jim. I tried to not speculate on the behavior of people that are going to make independent decisions that we can't predict. So we're just getting the company ready for either scenario frankly, if it's stable, slightly rising or moderately rising defense budget, we know how to handle that. But if it's a declining defense budget, we're planning for that too. So we can't predict one way or the other that the behavior of human beings, whether it's six months from now, or whenever they're going to make these kinds of decisions, but what we can do is prepare for both scenarios. And that's exactly what we're doing.

All of our BAs are looking at all their programs and saying if and they're planning this under Ken's guidance, if there's a downturn in defense defending, which I've asked every BA to look at and get back into the integrated plan, if in that scenario, it's a red team kind of an exercise, what would we do? It's a contingency plan that says, okay, we would offer with -- to our customers to say, look if your budget is x minus y. This is what we think you should do with our products and programs for extending lives and other things like that.

And with the backlog we have in the orders in track and the production lines that are going into supply chains that operate is going to be two to three years before those defense budget cuts actually flow into the defense industrial base production line. So we've got time to work with a customer to make sure that that they can have their contingency plan and we're behind and we're working with them 100%.

Operator

Next, we'll go to Myles Walton with UBS. Please go ahead.

Myles Walton

Great, thanks. Good morning.

James Taiclet

Good morning.

Myles Walton

Jim, I'm curious. If you look at from an operating segment level, where do you think your leadership might have the most impact from what you're bringing to the table, which are your technology partnerships, lessons learned that vertical integration from an M&A perspective? And how would that manifest would it be, faster growth, better margins, maybe just, where you think you could have the bigger impact, maybe one level down at the organization?

James Taiclet

So by operating segment, each of those businesses with the corporate support they've had, they're great at what they do, I'm probably not going to make a better missile design than people in MFC can make so, what I think my benefit or add value added might be as cross cutting those BAs in a way that hadn't been done before here or anywhere else. And then linking them with a customer to do what the customer is literally asking us for, which is how do we connect equipment, systems, communication networks, across what they call domains.

So how can I have satellite, get a signal from an F-35, then goes back to a ground based Missile Defense System to hit incoming threat to, up one of our installations? That's what they really want. Not any single one of our business areas or any other companies, frankly, I think could give them that, that solution. So we're working with, our recently hired CTO who was previously running DARPA to look horizontally across what are the missions that the DoD and our allies need to do? And what BAs and what BAs do we have the assets, resources and time technical capabilities to provide them that horizontal solution.

So our typical backlog, we're providing what I call vertical solutions, we're providing products, platform, services, generally to one service, the F-35 and exception of course, but to one service, maybe just the one country, but we're going to need to link across services better we're going to need to link across our allies better. And we're -- and that's what this network solution is really about in my mind.

So that's what I think Myles we can bring our tech world partners and, and U.S. and other allied countries, companies into this to make us better horizontally. I'm not sure they can even make us all that better, vertically, all that often, but horizontally, I think we can. And that's where you bring in the AI the 5G, the distributed computing, things like that.

Some of our vertical technologies like hypersonic, we're going to do just fine in that, now we may buy individual M&A opportunities or targets to be able to fill ourselves in or do more mission system work in a technology like that, but I think it's more horizontal than vertical Myles to be answered quickly.

Operator

Our next question is from Peter Arment with Baird. Please go ahead.

Peter Arment

Yes, thanks. Good morning Jim. Ken, can I ask you a question on just the order environment? You had a really strong quarter. I think Jim mentioned $22 billion in orders of 1.4 book-to-bill, but maybe you could just highlight some of the international pursuits that are still in front of you. And if you are seeing any kind of delays or chatter because of COVID-19, and maybe just how that -- will you expect to still come in this year in 2020? Thanks.

Kenneth Possenriede

Thanks. Good morning, Peter. Thanks for the question. Yes, we still see some great opportunities out there specifically, internationally. We're not seeing that much slipped to the right, I'd say the only thing we may be seeing to the right, are the requests for proposal, solicitations we are moving to the right but they are holding firm to the end dates.

But to answer your question specifically, a couple of things that we have out there that are quite large or we have a indefinite quantity and definite delivery F-16 order coming. The [indiscernible] key customer is Taiwan, and another country customer that should get announced sometime in this quarter.

Think of that as an additional 90 aircraft for F-16 which we're quite pleased with. There is a C-130. Indonesia order that we're also anticipating happens later this year. There is some follow on work for the recently announced India Navy's MH-60R program that we got earlier, those are the main -- mainly the large ones we also have an [indiscernible], Japan order that we're anticipating later this year.

And then of course there's a variety of F-35 production orders that we plan to book later this year that rough numbers 40% of those quantities will be of international nature. Going into next year, we see -- we also continue to see some strong demand for specifically F-16, our Integrated Air and Missile

Defense. In parallel with our customer, we're pursuing a CH-53K order in Germany and in Israel that should get -- we'll shape that this year and hopefully get that award in a competition sometime next year. So there are a lot of international opportunities out there and really not seeing a lot of slowdown in -- from an order book standpoint.

James Taiclet

John, I think we have time for one more question.

Operator

Great. And that will be from Robert Stallard with Vertical Research. Please go ahead.

Robert Stallard

Thanks so much, and good morning.

James Taiclet

Good morning.

Robert Stallard

[indiscernible] I think is the way you guys describe it. I think just like to follow up on what Noah was asking about, not asking you to necessarily speculate on where the U.S. Defense budget could go to. But maybe to follow up on your introductory comments about the challenges in National Security, are these challenges around resources or is it around your folding the capabilities the U.S. will need to address national security threats going forward? And also could you elaborate a little bit more on that. Thank you.

James Taiclet

I would characterize the challenges or the pursuits that China and Russia are taking to regain status as peer competitors, the United States in this field. And when you get into the depths of what's going on, it's concerning from someone who's been in this space, my whole career off and on.

So that's the real challenges, we've got a country that in the form of China, which is getting very aggressive in their actions, their attitudes and their aspirations and they're investing in capabilities. Some of them are symmetric, and some of them are asymmetric to find our vulnerable spots in our traditional way of running our defense operations and trying to get ahead of us in those especially vulnerable spots.

So there's got to be a lot of investment and a lot of technology investment to firm up those vulnerable places in our defense posture. And that's what I would characterize as the big challenge. And Russia on the strategic side, whether it's hypersonic missiles or other fairly strategic threat type elements is back in the game and investing too. So they may not be the great land army, they were in the 1980s and threatening Europe in that way. But they've gone to a technological threat posture, which allows them to do it from a greater distance. And we'll look with a much smaller military organization, if you will.

Greg Gardner

And gentlemen, just past the hour, so I think I will turn it back over to Jim now for some final thoughts.

James Taiclet

Sure, as I conclude the call today. I do want to thank the employees of Lockheed Martin for their contributions and dedication during this time of global pandemic. They performed with excellent supporting our customers and their important missions. And I'm extremely proud of them and to be part of Lockheed Martin team now with 110,000 plus other teammates. So thank you again, everyone on the call today for joining us. We look forward to speaking with you on our next earnings call in October and have a great rest of the week.