Ladies and gentlemen, thank you for standing by. Welcome to the Lockheed Martin Corporation First Quarter 2019 Earnings Results Conference Call. [Operator Instructions]. As a reminder, today's call is being recorded.

I'll turn the conference now to Mr. Greg Gardner, Vice President of Investor Relations. Please go ahead, sir.

**Greg Gardner**

Thank you, John, and good morning. I'd like to welcome everyone to our first quarter 2019 earnings conference call. Joining me today on the call are Marillyn Hewson, our Chairman, President and Chief Executive Officer; and Ken Possenriede, our Executive Vice President and 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. 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 Marillyn.

**Marillyn Hewson**

Thanks, Greg. Good morning, everyone, and thank you for joining us today in our first quarter 2019 earnings call. As today's release illustrates, we had exceptionally strong results this quarter, financially, strategically and operationally. These results reflect the quality of our workforce, the strength of the corporation and the focus we all have on delivering value to our customers and stockholders. My thanks goes to everyone in the company for their contributions in driving this outstanding performance. This performance from across the corporation and expectations for the remainder of 2019 enable us to increase our full year outlook for sales, operating profit, earnings per share and cash from operation.

Our first quarter results and increased full year outlook reflect the execution of our entire team as each of our 4 business areas were able to contribute to our improved financial outlook. Our backlog grew to a new record level, another sign of the strength provided by our broad portfolio of products and services. Ken will discuss our financial results in more detail, but I would like to begin by highlighting a few of the elements that drove our exceptional performance.

Sales this quarter exceeded last year's first quarter by 23%, with each business area growing revenue significantly from the first quarter of 2018. The growth was led by Missiles and Fire Control as deliveries of tactical and strike weapons, particularly in our Precision Fires organization, and our PAC-3 missiles grew from last year. Our Aeronautics business area also strong saw strong sales growth as we continue to increase production of our F-35 Joint Strike Fighter and delivered 26 aircraft this quarter compared to 14 in last year's first quarter.

Our segment operating profit increased by more than 30% year-over-year as strong performance across the board contributed to the growth. Missiles and Fire Control experienced outstanding operational performance over multiple programs, which allowed them to complete the retirement of risk items planned for later in the year. And similarly, in Space, our government satellites team producing the fifth and sixth spacecraft in the advanced extremely high frequency constellation was able to complete crucial testing milestones ahead of schedule as well as achieve program efficiencies to increase margins this quarter. These strong results in sales and earnings and our focus on maximizing cash returns also allowed us to increase our full year outlook for cash from operations.

Our team continues to drive growth and performance in all financial metrics with a portfolio of products, technologies and services that are in great demand by our customers and continue to provide value to our stockholders. I'll touch on some significant performance milestones in just a moment, but I want to first highlight a few of the notable new business items that demonstrate the lasting importance and strength of our deep legacy portfolio.

In Aeronautics, our F-16 team received 2 notifications from the State Department of the approvals for F-16 Foreign Military Sales to Morocco. The first is for a potential sale of 25 new F-16 Viper aircraft and related equipment with an estimated value of $3.8 billion. The second State Department approval will allow us to upgrade Morocco's existing 23 F-16 aircraft to the modernized Viper configuration. This opportunity has a total estimated value of nearly $1 billion and once definitized, Morocco will be the fifth international customer to upgrade its legacy F-16 fleet to this enhanced version of the Fighting Falcon. These notifications, coupled with the recent announcements from Bahrain, Slovakia, Bulgaria and Greece, on planned future new F-16 aircraft production and upgrades shows the enduring support of this venerable fourth-generation fighter.

In Missiles and Fire Control, we received a contract award for over $1.1 billion from the U.S. Army for lot 14 of Guided Multiple Launch Rocket System munitions and associated equipment. Demand for this program has increased significantly, both domestically and internationally, and we now anticipate that we will deliver nearly 5x the number of rockets and launcher pods this year than we did just two years ago.

Rotary and Mission Systems saw a continued strong interest from several international customers this quarter. RMS received a $200 million award from the Japan Maritime Self-Defense Force for development and integration of the Aegis Weapon System on new Japanese ships. RMS has already delivered the Aegis Combat System to 4 of Japan's Kongo-class and 2 of their Atago-class destroyers, and we will now provide this capability for an additional 2 Atago ships, continuing a relationship that began over 30 years ago.

RMS' Sikorsky line of business was awarded a contract from Poland to build 4 S-70is, our international BLACK HAWK helicopter variant, for the country's special operations forces missions. The award announced by the nation's prime minister at a signing ceremony inside the Sikorsky production center in southern Poland follows delivery of 2 S-70is to the Polish national police in November of last year and continues our 10 years of Sikorsky helicopter production in Poland.

Keeping with Sikorsky, the State Department announced a potential $2.6 billion Foreign Military Sale to India for 24 MH-60R SEAHAWK helicopters. This Romeo version of the BLACK HAWK is the world's most advanced maritime helicopter, and this contract, once definitized, will allow us to deliver unparalleled anti-submarine warfare and anti-surface weapon capabilities to the government of India.

And in our Space business area, the United Kingdom's Ministry of Defense awarded us a contract worth approximately $3.6 billion to oversee the operation of the MOD's atomic weapons establishment sites for another 3 years. We are honored to continue to support the U.K. government's important mission as part of the AWE Management Limited venture with our strong focus on security and safety. These announcements reflect the continued demand both domestically and internationally for our portfolio of products and services. Our legacy platforms remain vibrant, and our focus on innovation and new technologies provides us with growth opportunities for the future.

Moving briefly to the defense budget. The president submitted the FY '20 presidential budget in March with a total defense request of $750 billion. Included in this request is $718 billion for DoD total funding, an increase of nearly 5% from the 2019 enacted appropriation level. The FY '20 submission continues to focus on missile defense, nuclear, space, cyber, joint lethality and intelligence capabilities in support of a national defense strategy, and we have demonstrated that our portfolio remains well aligned with these priorities. To achieve the funding objectives contained in the administration's request, Congress will ultimately need to pass legislation to raise the Budget Control Act ceiling, which are still in effect for discretionary defense spending in FY '20 and FY '21.

We are encouraged by recent congressional support for raising the spending caps. However, we expect significant discussions to take place before the budget process will be finalized. We have seen strong bipartisan support for national security initiative and the recapitalization of our nation's armed forces over the past several budget cycles as well as for our programs in general, and we are hopeful the fiscal year '20 process results in a similar outcome.

Moving on. I would like to highlight several significant events that occurred across the corporation during the past quarter. Beginning with an update on our F-35 program we saw several important milestones and accomplishments take place this quarter that spotlight the program's maturity and the continuing support we see from the international community. First, a truly significant event took place in February as a department of The Navy declared initial operational capability or IOC for its fleet of carrier-variant F-35, deeming the F-35Cs are ready for combat.

Beginning with the U.S. Navy's receipt of its first F-35C test aircraft, the joint government and industry team embarked on a rigorous path to IOC, including participation by 2 carrier vessels, 3 squadrons, multiple sea trials and significant logistics and support effort, which resulted in 10 F-35C jets from the Strike Fighter squadron 147, the Argonauts, being declared ready for operations. Preparations can now begin for the first carrier deployment aboard the USS Carl Vinson, and this achievement will mark the first time in over half a century the U.S. Marine Corps, Navy and Air Force will all be mission-ready and combat-capable with the same family of fighter jets, a tremendous achievement for the entire F-35 team.

Keeping with the Joint Strike Fighter. I was proud to attend the ceremony this January to celebrate the rollout of the first operational F-35A or conventional takeoff and landing variant for the Royal Netherlands Air Force, becoming the third overall plane to be delivered to the Dutch. The Netherlands has been an F-35 partner since the plane's inception and continues to be a strong advocate for the program. The first 2 CTOL aircraft were delivered in 2013, and we are concurrently supporting operational testing, and this latest addition to the Dutch fleet will ferry to Luke Air Force

Base to be used in pilot training. The Netherlands Air Force, with its plan to acquire 37 jets and its role as a sustainment hub in the European region, is a key partner in the F-35 community, and we are honored to help support their national security objectives.

Moving to Missiles and Fire Control. We are very pleased to see the first and second tranche of orders from the Kingdom of Saudi Arabia to procure our Terminal High Altitude Air Defense or THAAD air and missile defense system. In March, we received the initial order for over $900 million for initial tooling and front-end procurement items. And on April 1, just after our quarter closed, we were awarded second order for approximately $2.5 billion to supply interceptors and equipment to support KSA and U.S. government THAAD batteries. These orders are the most recent actions following the U.S., Saudi Arabia announcements in 2017 and support the beginning of the development and deployment of the 7 planned Kingdom of Saudi Arabia THAAD battery installations.

In Rotary and Mission Systems, our Sikorsky team celebrated a key milestone with the first flight of the SB>1 DEFIANT helicopter, a revolutionary aircraft developed jointly by our Sikorsky organization and Boeing. The DEFIANT is designed to fly at twice the speed and with twice the range of conventional helicopters, taking advantage of our innovative X2 Technology and coaxial rotor blade design. The SB>1 is currently participating in the U.S. Army's joint multiple role technology demonstrator program, helping to find the requirements for medium-lift utility helicopters for the Army's Future Vertical Lift program.

I'll close with our Space business area, which received an order for over $800 million from the U.S. Navy to design, develop, build and integrate technologies to support the flight test demonstration of a new hypersonic boost glide weapon system. Lockheed Martin Space was awarded the Navy's conventional prompt strike weapons contract and will provide flight articles and support equipment for the system's flight test. This order follows 3 previous awards the corporation has received on hypersonic weapons: the Tactical Boost Glide contract, the Hypersonic Conventional Strike Weapon or Hacksaw program and the Air-launched Rapid Response Weapon or ARROW program. These wins are being performed in 3 of our 4 business areas with a cumulative value of our hypersonic strike weapon awards now exceeding $2.5 billion across the corporation. Air and missile defense and hypersonic weapons are key priorities of the Department of Defense's national defense strategy and missile defense review, and we look forward to continuing to lead the development of these emerging technologies in support of the customers' missions.

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

**Kenneth Possenriede**

Thanks, Marillyn, and good morning, everyone. 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. Sales and segment operating profit were both higher than our expectations for the quarter, which also drove additional cash. We returned over $900 million to our stockholders in the quarter, nearly 2/3 through dividends and 1/3 in share repurchases. We also achieved another quarter of record backlog totaling $133.5 billion. And based on the strong first quarter results, we have increased our outlook for sales, segment operating profit, earnings per share and cash from operations for the year. We had a tremendous start to the year, and we will discuss these metrics in more depth on the upcoming charts.

On Chart 4, we compare our sales and segment operating profit in the first quarter of this year with last year's first quarter results. I'll note for comparison purposes that each quarter of this year has 13 weeks in the accounting period while last year's first quarter had 12 weeks. This will reverse itself in the third quarter, which last year had 14 weeks in the accounting period. However, even without the extra week in the first quarter, our results well exceeded our expectations. Sales grew 23% compared with the same quarter last year to $14.3 billion while segment operating profit increased 31% over last year's level to $1.7 billion.

On Chart 5, we show the sales growth for first quarter by business area as compared to last year's first quarter. All the business areas experienced double-digit growth. Aeronautics and Missiles and Fire Control experienced the highest growth in the quarter with 27% and 40%, respectively. Aeronautics sales growth was driven primarily by F-35 production and sustainment volume while Missiles and Fire Control was driven by multiple programs, including precision fires, PAC-3, THAAD and hypersonics.

Rotary and Mission Systems had 17% growth with contributions from all lines of business. Space also had strong growth of 13% driven by government satellite programs and new starts, including next-gen OPIR.

On Chart 6, we compare segment operating profit by business area in first quarter 2019 versus our results in first quarter 2018. Segment operating profit was up considerably in the quarter compared with last year's results. Here, Missiles and Fire Control had the largest increase in operating profit, 60% higher than last year. This increase reflects volume related to the sales I just discussed and the timing of risk retirements across the tactical and integrated air and missile defense portfolios.

Aeronautics grew its operating profit by 23% due to higher volume on F-33 -- F-35 production contracts and risk retirements. RMS grew operating profit by 22% due to higher volume on mission systems at Sikorsky and risk retirements at IWSS, and this was slightly offset by a reserve taken on a ground-based radar program. And Space also increased operating profit by 27% mainly due to risk retirements on AEHF and volume on government satellite programs.

Turning to Chart 7. We'll discuss our earnings per share in the quarter. Our EPS of $5.99 was 49% higher than our results last year driven by a few items: first, the higher segment operating profit that I just discussed. In addition, it reflects the benefit of a lower tax rate that includes additional tax deductions for the foreign-derived intangible income or FDII that we highlighted as an opportunity in the fourth quarter of 2018. I will talk more about this on a later slide. Lastly, a onetime noncash earnings benefit from a property sales that had previously occurred.

Turning to Chart 8. We'll discuss the cash returned to our shareholders in the quarter. Subtracting out our capital expenditures from approximately $1.7 billion of cash from operations in the quarter, our free cash flow was approximately $1.4 billion. We returned nearly 70% of our free cash flow to our stockholders in the quarter between share repurchases and dividends. As I mentioned, we are increasing our full year cash from operations outlook from greater than or equal to $7.4 billion to greater than or equal to $7.5 billion now that we have greater visibility into the year and a quarter of strong performance. We are on track for our continued investment in the business through capital expenditures with $1.7 billion planned for the year, which, as usual, is proportionately higher in the second half of the year. For the full year, we are progressing toward our cash deployment goals.

Chart 9 provides our updated guidance for the year. We are increasing our sales outlook by $1 billion based on higher expectations for all of our business areas for the rest of the year. We are increasing our segment operating profit outlook by $100 million due to higher sales volume across all 4 business areas. There is no change to our net FAS/CAS adjustment. We are increasing earnings per share expectations by $0.90. I will provide more detail into this increase on the next chart. And for cash from operations, we are increasing our outlook by $100 million to greater than or equal to $7.5 billion.

Chart 10 provides a reconciliation of our current and prior earnings per share outlook for the year. Our segment operating profit improvement drives a $0.27 increase in our EPS. Updates to our revised estimated effective tax rate from approximately 17.5% to 15.5% for the year, along with miscellaneous items, drive a $0.50 addition in EPS. The property sale from a prior period that we've noted in our press release add $0.13, resulting in a total increase of $0.90 and a new EPS outlook of greater than $20, with a range of $20.05 to $20.35.

On Chart 11, we show our revised sales outlook by business area. As I discussed on a prior chart, we increased our sales outlook in all of our business areas: an increase of $425 million in Missiles and Fire Control; $225 million in RMS; $200 million in Aeronautics; and in Space, $150 million, for a total increase of $1 billion above the outlook we provided on our last call.

Chart 12 provides the updated segment operating profit outlook by business area. And consistent with our sales outlook, each business segment increased their operating profit for the year: Missiles and Fire Control by $40 million, $25 million each for RMS and Space and $10 million for Aeronautics, totaling to an increase of $100 million above last quarter's outlook.

And finally, on Chart 13, we have our summary. We're off to a very good start in 2019 with strong financial performance across our portfolio. We continue to see strength in our current level of our backlog as well as our future growth prospects across the entire portfolio. And based on the results of the quarter, we increased our full year outlook for sales, segment operating profit, earnings per share and cash from operations.

And with that, we're ready for your questions. John?

**Question-and-Answer Session**

**Operator**

[Operator Instructions]. First from the line of Rob Spingarn with Crédit Suisse.

**Robert Spingarn**

Even without the extra week, I think your sales growth was about 14%, the highest in 15 years by our records. And I wanted to drill down a bit, if I could, into MFC, which seems to be the growth leader, and that would -- may have had the easiest comp for the year in this first quarter. I think you're targeting 15% for the year, highest among the segments. So Marillyn, you and Ken called out a bunch of programs that are driving that strength. But there's -- some of these wins are very recent, probably aren't in there yet, like Saudi THAAD, and I think there's a bunch of opportunity coming up with the Army. There's a new PAC-3 interceptor, PrSM, the mobile medium-range missile, among others. How do we think about MFC's growth with all of that opportunity and what you recently won? How long -- how sustainable is this beyond this year?

**Kenneth Possenriede**

Rob, it's Ken. I'll take that. So interesting question, Rob. And the way I'd answer it is we've talked about our capital expenditures this year of $1.7 billion, which are up quite a bit from previous years, and we see that growth into the future, mainly next year. I'd say a good chunk of that increase is due to our capacity build at Missiles and Fire Control, and that's across the portfolio for the strike weapons business. And the key there is we've worked very closely with our customer set, in line with them when we were building out that capacity. So we see strong growth in Hellfire, in JASSM, in IAMD. And from a PAC-3 standpoint, we see strong growth. You mentioned THAAD Saudi. So you are correct, we just booked that order. So Marillyn mentioned we booked the front-end obsolescence piece of that. In the second quarter, we'll book the interceptors for Saudi plus the Lot 11 interceptors. In the third quarter, we should be booking -- second or third quarter, we should be booking the localization work for Saudi Arabia. And then out in the 2021 time period, we'll book the rest of the interceptors, as Marillyn mentioned, the 7 batteries. So at least in the next couple of years, we see strong growth continuing at Missiles and Fire Control.

**Operator**

Our next question is from Seth Seifman with JPMorgan.

**Seth Seifman**

Good morning and great quarter. Just to follow up maybe a little bit more on Missiles and Fire Control. We saw the strong profitability in the quarter. And when we look back in the period, kind of 2012, 2013, 2014, kind of seeing upper teens type margin from that business, and I think our understanding was always that the mix toward new programs was going to push that into the 14%, 15% range, more in accordance with your guide this year. But maybe if you could talk about the sustainability of the Q1 profitability and why we shouldn't think that, that margin is going to be significantly higher going forward.

**Kenneth Possenriede**

Seth, it's Ken. I'll take that. So if you look at the first quarter, we had a couple of things going. So we did have a lion's share of our profit step-ups, risk retirements occurring in the first quarter. But what also happened in the quarter, we looked at some of our risk retirements that were planned later in the year, and it actually did make sense for us to take those steps in the first quarter. So if you look across the portfolio, it's apparent to us -- based on the first quarter results, we did take our outlook up from a profit standpoint for PAC-3 and THAAD, and that is mainly driven by performance and volume.

And looking at our tactical and strike missiles portfolio, some of that growth was for performance and volume, but some of it was mainly for volume. So if you think about some of the starts -- the new starts in that part of the portfolio, namely hypersonics, that is going to continue to grow over time. That will be dilutive to margins. And also, the classified program that we talked about in the past, we're starting to see some volume growth there, but that will be dilutive in the future. So we see for the rest of the year with Missiles and Fire Control being a little north of 13% margin, so not what we saw in the first quarter for the reasons I described.

**Operator**

And we'll go to Rich Safran with Buckingham Research.

**Richard Safran**

Ken, I guess I would just like to follow up on those comments that you just made about margins and the bit of dilution I think you're seeing from the influx of new development programs. Now you did mention that it was going to be dilutive going forward, but I'm also wondering though if that's pointing to future growth and margin expansion. And are there other elements -- everybody looks at margins as sort of a surrogate for cash. Are there other elements of cash that gives you confidence going forward? And as always, if you're seeing this growth in -- with new programs, I'm wondering what that might imply for your long-term cash flow outlook.

**Kenneth Possenriede**

Thanks, Rich. Yes. So we have had a concerted effort on our working capital. And you did see some of the benefits of that this year, so we feel good about what we're doing to manage the balance sheet from a working capital standpoint. So we still feel good about where we're going in the future for next year and the year after, at, round numbers, about $7 billion each in 2020 and 2021. We're also working the international angle, and we should see some potential advanced payments in the future. And we do see some upside from a margin standpoint going forward.

**Marillyn Hewson**

Just to add to that, too, Ken. I mean as we see these development programs, as they go through their longer cycle and get into production, we'll see margin improvements.

**Kenneth Possenriede**

We'll see margin expansion as well. Thank you, Marillyn. Yes.

**Operator**

Our next question is from Ron Epstein with Bank of America Merrill Lynch.

**Ronald Epstein**

Marillyn, you mentioned in your prepared remarks about hypersonics and what is going on there for the company. I understand a lot of that is classified so you're limited in what you can say, but can you give us a broader feel about how that market's developing? And maybe more color on how it's developing for Lockheed.

**Marillyn Hewson**

Sure. Thanks for the question, Ron. I guess the first thing I would say is that we've been investing in hypersonics for many, many years. And as a result of that, I think that's why we're leading in this front end of being able to bring capability forward. In terms of how the market is developing, it's basically threat-driven. If you look at what was in the national defense strategy, what's in the missile defense review, what you're seeing, our near-peer competition with China and Russia, I mean it's clearly a growing need for us to be able to not only address hypersonics but counter hypersonics as well. And so we are investing in both of those areas. We're bringing capabilities forward in both of those areas. And as I expressed in my earlier remarks, it's across 3 of our 4 business areas. Of course, the fourth business area will be working on some of the communications elements of that as well. And so frankly, it's an important investment area for us for many years as a corporation. And as we collaborate across our business areas and across our corporation, I think we're bringing the best solutions forward to our customer.

**Operator**

And next, we go to Doug Harned with Bernstein.

**Douglas Harned**

I wanted to switch over to F-35. You're seeing good growth there, but when you look at where the 2020 budget is, it cuts numbers back to 78. But then on the other hand, you've got a letter from 103 house members wanting to raise that to 102. And then we've got the issues around the Turkey order and then maybe some risks around Italy and Canada. So what I'm trying to understand is when you look at the plan that you have for taking production rates up over the next few years, how important are these potential shifts up and down. How do you think through where this could end up on the high end or on the lower end when you plan?

**Marillyn Hewson**

So let me just start with that, and then, Ken, you can add on to my comments. I guess the first thing I would say, Doug, is that we are continuing to see increased opportunities for the F-35. There's strong international demand. Certainly, as the domestic demand with the U.S. services is strong, the Department of Defense has been very clear that they're going to stay on their full procurement plan for that jet. They don't have any intention to pull away from that at all, so we see that going forward. How they manage what they buy year-to-year, that's always been a challenge as they look at what their overall needs are relative to the budgets that they have to work with.

So I think that's going to continue, but what we're really seeing is the list of interested countries is continuing to grow. And you probably heard the Admiral Winter who is the Program Executive Officer recently comment a couple of weeks ago, he mentioned Poland and Romania, which are among the others that we’re well aware of having competitions and having expressed their interest in the program going forward. So it's -- there's continued interest. Even the existing partners are expanding their needs, say Japan, for example. We're seeing a lot of other countries continue.

So it is a -- it's certainly an opportunity for us to address the growing demand. We frankly have great capacity on this program. We've got facilities that -- in place that we're going to be in position to produce over 180 aircraft a year. We're prepared to do that. And so we see a lot of opportunities beyond the current program of record, which is something like 3,300 aircraft already, and it's growing. So I don't see a concern about that. Well, certainly, the government -- the JPO will have to figure out what -- how they manage what aircraft they buy at what point in time as countries look at their procurement decisions or as things change amongst some of the partners that we have. But I think they're managing that risk quite well and the demand is very strong. Want to add to that, Ken?

**Kenneth Possenriede**

Yes. The only thing I'd say and it's just -- if you think about the countries you describe, Doug. Turkey, an important ally of ours at least today, is -- if I remember this right, in the block buy, it's 8 aircraft per lot. Right now, Canada is not even in those numbers. Italy is an important ally. We're hopeful that they do continue on the program, but in the grand scheme of things, not a material number of aircraft. I think the frustrating piece for us is the United States Air Force. And we'll continue working with our customer and with representatives in the government on what's the right path forward there, and we'll continue to drive the price of the airplane down. We see a path too on LRIP 14, which is -- will be ordered in 2020 and delivered in 2022, will be below $80 million an aircraft for the A variant. And we'll continue driving down sustainability cost to where we get to $15,000 a flight hour by 2025. We're confident about hitting those numbers.

**Marillyn Hewson**

I think it's $25,000.

**Kenneth Possenriede**

Sorry, $25,000, excuse me, by 2025.

**Operator**

And next, we go to George Shapiro with Shapiro Research.

**George Shapiro**

Ken, on the F-35, you clearly raised the margin on that program. Can you tell us where -- which block and where we might be on that? And then on the $50 million charge of the ground-based radar that you alluded to, what was that? And have there been other charges on that program in the past?

**Kenneth Possenriede**

You bet. Yes, George, you're right. On F-35, we did raise margins. It was mainly on looking at LRIP 10, looking at block buy and on some of our sustainment programs. And going forward, we're looking at steps on some of our other production programs, including LRIP 11, and we'll see how we're doing from a performance standpoint. So you've got that right from an F-35 perspective.

So on the radar program, that is out of our RMS business, and we've had some issues from a software verification standpoint and fixes, installation and checkout and integration and test efforts. No, this was not our first write-off on this program. Going forward though, we feel pretty good. And if you look at some of the things that we have to do, for the rest of this year, we'll be doing software verification. Integration and test completion will be done. We'll deliver a secondary array later this year, and that will ultimately get us to delivering our radar -- the radar by the end of 2020. So going forward, we feel good about where we are on this program.

**Operator**

Our next question is from Cai von Rumohr with Cowen and Company.

**Cai von Rumohr**

So DoD is increasingly using classified orders to buy equipment to enhance security. Can you give us a rough sense in terms of what percent of your revenues or your backlog is classified? And maybe any color you might be willing to offer regarding in what areas of your business do you have more classified programs?

**Kenneth Possenriede**

Cai, it's Ken. It will be hard for us to tell you how much of that's in our backlog. But you should think of -- based on who we are, it's across our portfolio. We have a strong presence in Space. We have a strong presence in Missiles and Fire Control. It goes without saying, ADP, our Skunk Works has a strong presence doing classified work. And frankly, it's growing, and it's an important piece of our portfolio.

**Operator**

Next question is from Rajeev Lalwani with Morgan Stanley.

**Rajeev Lalwani**

Ken, I wanted to just come back to the guide and the performance in 1Q. Obviously, a good start to the year. It seems like you're highlighting a good portion of the strength to be timing-related. Can you just talk a bit more about why that is? I mean it seems like you're maybe expecting just a lot lower growth in the back half of the year. Are you being conservative? Are you concerned about budget? Just some more color there to get comfortable with the path ahead.

**Kenneth Possenriede**

You bet. So yes, if you go around the business, and I'll talk to this as our surprise and not so much year-over-year, but looking at ARROW, strong performance mainly in F-35. And looking at the back half of the year, it warranted taking our guidance up mainly -- in Aeronautics mainly driven by

F-35. But also, back to Cai's question, some of that growth we did see in ADP, in our classified growth, which is dilutive. So that's why we only took our profit up the $10 million, and we took our sales up to $100 million. What I would say is, just recently coming from Aeronautics and looking at F-35, on the whole, we have comfort about the guidance that we're providing on F-35 right now. There may be potentially some upside. We'll see that in the next couple of quarters, but right now, we feel pretty good about Aeronautics.

I think I gave enough color on Missiles and Fire Control, and we do see strong growth there. But in the back half of the year, it is lower, and we'll address that as time goes on. From an RMS perspective, from a guidance standpoint, we did take our guidance up driven by -- mainly driven by radar programs. In some -- to some extent, Sikorsky, we are seeing stronger growth at Sikorsky. But I will note just based on helicopter deliveries this year on the BLACK HAWK and frankly, there are none for MH-60 this year or CH-53 this year, year-over-year, Sikorsky is still down in sales. And from a Space standpoint, beginning of the year, we saw them as flattish. We now see them growing roughly 2%, and that's in the new start for OPIR, GPS III and space missile defense. But as you said, more of it in the front end than in the back end, and we'll take a look at this again in the second quarter.

**Operator**

Our next question is from Myles Walton with UBS Securities.

**Myles Walton**

In the back of the press release, from the risk section, I noticed you expanded the commentary around delays due to governmental policy, in particular congressional notification delays to Saudi and UAE for the first time. It's obviously not holding you back. Your sales and bookings look great. But I'm just curious, is that -- are you seeing it? Or are you anticipating it? And is it both for military sales as well as through a commercial sales process?

**Kenneth Possenriede**

Myles, I'll take that. It's Ken. So we're not seeing it today, so it probably would be more in the future. So pick C-130Js for Saudi Arabia. We've been in conversations with the Kingdom, frankly, probably over the last 2 years. They have a desire to buy 23 variants of the C-130J aircraft. It still has not been approved by the United States government, so we're still sorting that -- excuse me, it has been approved by the United States government, but we're still sorting out when that can happen. So I think it's more anticipatory than what we have seen in the past.

**Marillyn Hewson**

If I could just add on to that. I mean we did get congressional notification get through that some years ago. But to Ken's point, it's been a number of years ago, and they've only bought 2 of the 25 they were authorized for. So we're in discussions with them. But if you think about some of the risk of sanctions against some of the munitions or something along that line, I mean, we conform with the policies of the U.S. government. So any changes in quantity that they might purchase will line up with U.S. policy. But as Ken said, we currently have orders on the books, and we're looking to fill those orders, and we don't see any changes to that guidance right now. So it's just acknowledging to a stockholder that there is risk, but we're not seeing that risk materialize yet.

**Operator**

Next question is from Rob Stallard with Vertical Research.

**Robert Stallard**

On the F-35, you mentioned how the aftermarket had contributed in the first quarter. I was wondering what your expectation might be for F-35 support revenues this year and what that program could grow to over time.

**Kenneth Possenriede**

Sure. Rob, it's Ken. I'll take that. So yes, we do see sustainments going to grow this year, and it'll grow double digits. I don't think there's any question about that. And I do believe, based on conversations with the customer, we will continue to see growth in our sustainment. We'll continue to stand up basis in order to support the needs of having available aircraft out there. You'll see spares and parts continue to grow. We've talked a lot about the modernization of F-35 program, so you'll start seeing aircraft that are in the field, that are deployed out in the field will start to be modernized. So yes, in the foreseeable future, we continue to see growth in the sustainment of the F-35 program from a sales standpoint.

**Operator**

And we'll go to Sheila Kahyaoglu with Jefferies.

**Sheila Kahyaoglu**

Just broader picture, going back to the growth question, the expectation of 6% -- 6% to 8% top line growth for the year. You're still growing at impressive mid-teens rate on an adjusted basis in the quarter. How do we think about the multiyear outlook in terms of growth? And maybe what's changed? Are there any new program wins? Any international wins? Or is it a delta versus what you're seeing in outlays on the budget?

**Marillyn Hewson**

Well, Sheila, thank you for the question. Let me just start by outlining for you the key areas of growth that we see, and then Ken can give some more color to that. I mean, first of all, I already mentioned earlier about the growth on the F-35. We consider that as a true growth engine for us for the next -- for the foreseeable future. And in fact, if we just look at the international growth opportunities, half -- close to half of the orders over the next for 5 years are going to be in international marketplace. And as I mentioned, there are several more countries that are coming online that we didn't anticipate even when we looked at that a year ago.

Air missile defense is a key growth core area for us with PAC-3, THAAD, with our Aegis Combat Systems, with what we're doing with MEADS in Germany on what's called TLVS. But that area is a growth for us. Sikorsky, we continue to see growth in the Sikorsky line of business. We've got a lot of development programs, of course, that we are working on, from the CH-53K to the combat rescue helicopter, to the presidential helicopter, to also the opportunity on Future Vertical Lift. So that's a big opportunity for us.

There's resurgence in our F-16. We're not only selling new F-16s, we're upgrading F-16s, and we see more and more customers coming forward to purchase F-16s. And then there's a big potential opportunity in India. So as we look forward, there could be up to anywhere close to 400 opportunities on F-16s between those -- among those countries that we see today. So good growth there. And then, of course, we want to continue with our growth on C-130, so the multiyear C-130 as well as opportunities in the Middle East and other countries for the C-130.

Our Space business and the areas of space situational awareness and areas like that, we'll continue to see growth and then our radar systems, a lot of our sensors and opportunities. And then Ken had gone a great length talking to you a little bit about what we're doing in the Missiles and Fire Control. The real key is, if you look at our backlog, a record backlog of over $130 billion. I mean that sets us up well -- just that alone, what we've already booked in the business sets us up very well for the next few years. And then it should give you great confidence in that growth for that and then the opportunities we're seeing that aren't even yet in that backlog. Ken?

**Kenneth Possenriede**

You hit every point I was going to make, so thank you.

**Operator**

Next, we go to Noah Poponak with Goldman Sachs.

**Noah Poponak**

I'm going to follow on that because the bookings and the revenue projections both from you and the consensus don't -- are pretty far from squaring up. So 2017 book-to-bill, 1.2; 2018, 1.45; the quarter, 1.2. I think you've said the second quarter of this year would be your strongest of the year. I think you've said a lot of the 2018 booking strength isn't actually falling in 2019, and the bookings are very predictive of the revenue historically in the business. Why -- what am I missing in not believing the guidance that has the top line organic revenue growth rate decelerating to 5% to 6% the rest of the year; the consensus 2020/2021, 5% to 6%? Why shouldn't it look a lot more like the first quarter, obviously ex the week, but in the double digits, which looks a lot more like the booking strength has been for a while here?

**Kenneth Possenriede**

Yes. No. It's Ken. I'll take that. So if you go back to last year, so our bookings last year were almost $79 billion. Think about the block buy of $23 billion of bookings last year, the omnibus work that we got for 36 aircraft, the economic order quantity bookings we got. So they're all -- that's great they're all in backlog. The issue is from a capacity standpoint, from where we are with the F-35, a lot of those orders were not just LRIP 12, but for LRIP 13 and 14 and then the front end of procurement for those orders. And it's going to take us a while to have that convert to cost and to sales. And the same thing -- for the second quarter, we're going to hopefully get the block buy definitization in the second quarter, which will be a sizable order in this quarter. But from a sales standpoint, that's not going to happen for the next couple of years.

**Marillyn Hewson**

And as we highlighted in my remarks, Ken, just to add to that, we did book the 3-year award on AWE, which typically, in the past, we haven't been doing those at a 3-year tranche. So that was a good solid unexpected award to get 3 years under our belt in the first quarter as well.

**Kenneth Possenriede**

Right.

**Operator**

Next question is from Hunter Keay with Wolfe Research.

**Hunter Keay**

I'd like to discuss the Orion program for a minute. It feels like this human space exploration initiative has had a lot of starts and stops over the last 15 years or so. And you guys have noticed some top line strength there now for two quarters in a row. The question is what is the proving point on this program where it kind of becomes too hard to cancel ahead of the next period of budget pressure?

**Marillyn Hewson**

I'll give you a top-level story on that and then let -- Ken, if you have some additional to add to it. But I mean, if you look at the focus that this administration has on being leading in space, it has become a much more -- not only the exploration side, which is what Orion is focused on, but from a contested domain in terms of challenges that we see from our adversaries in space, over 70 countries have things up there in space. We've got space pads. We've got all of the satellites on the national security side that we're doing, the weather satellites. We have a range of capability across our Space business. Then when you look at the exploration side, there is a big desire for us to get to the moon and beyond. And Orion is the next spacecraft that will take astronauts to the moon and beyond -- to Mars and beyond. I mean that's our -- that's what we've been investing in, what the U.S. government's been investing in. It's held up well budget after budget because there's a strong bipartisan support for investing in that exploration opportunity. And couple that with a lot that you have heard from the administration and from NASA on where we want to go in space exploration, there's strong momentum behind it. So I think that's going to continue.

**Kenneth Possenriede**

Yes. I think the only other thing I'd add is just think where Orion is from an exploratory mission 1 and 2. If you look at exploratory mission 1, the crew module's complete. They're moving into testing. They're going to make the crew and the service modules soon. They're going to -- in the summer, that's going to get transported to NASA's Plum Brook Station, which is in Ohio for integrated environmental testing, and the launch on the SLS is driven for 2020. And EM-2, the exploratory mission two is right behind it in 2022. So there is enough momentum on this program that it's alive and well and well thought of.

**Operator**

Our next question is from Jon Raviv with Citi.

**Jonathan Raviv**

Marillyn and Ken, sort of bigger-picture question here in terms of execution and investing. Clearly, there's big growth and a lot of opportunities to come. So sort of part A is how are you executing on this big growth and aligning incentives just as you encounter some charges here and there? And then also, how are you investing at the opportunities? Specifically, how do you choose between what opportunities you pursue and which opportunities you do not pursue?

**Marillyn Hewson**

That's a great question, Jon, and it is a focus that we always have on performance and execution as a company. And I would say, just looking holistically, we're performing extremely well. I mean we do track very closely our performance in support of our customers on our programs on a regular basis, and we set a high bar obviously, even tighter requirements on our cost, schedule, quality, technical performance than even our customers do so that we get early warnings if things are going on track or whatever. And so we're performing well.

We also keep a very strong focus on our suppliers because our suppliers play a key role in our overall performance. Somewhere between 60% to 70% of our revenue is in the supply base, so we rely heavily on those enterprises to perform in what they're doing as well. And we've got a strong subcontract management team that is working closely with them to make sure that they meet their commitments on performance so that we likewise will meet our commitment.

Now on occasion, yes, we do have issues. When you're in a business like ours where you've got a portfolio of programs that are well into production, performing well, but you have new starts, very complex high-technology work that we do as a technology company start-up, there are times where we will have challenges not just in the development and complexity of the product but also in the supply base in support of that. We work through those. We put -- we have well-oiled processes in our company with program-assist teams and others that go in and work very closely at the front end of programs to address that.

In terms of alignment of incentives, I mean, absolutely, our performance is aligned -- our performance is key to us performing and achieving incentives for our teams. So I think all of that is well lined up. It's long-standing processes that we have in the company. I think that's why you see that -- across the board that we performed well as a company, and we meet our commitments. Again, we're not perfect. We have issues that arise. But when there are issues, we address them, we put the right resources around it to go address them, and we never walk away from our customer on issues when we have them.

The second point on investing, we do look where our priorities ought to be, and it comes with first aligning with the priorities of our customers. So we are constantly working closely with understanding where they're focused. If it's -- whether it's hypersonics, directed energy, whether it's what they need in advanced aircraft where they're looking at sensors and, as I mentioned, the space domain, all of those areas, we are in constant contact with our customers, understanding their priorities and aligning with our priorities. And if you look at our portfolio, how well it's been supported in the Department of Defense budget, in the government budgets that we have in the U.S. as well as our growth in our international marketplace of how we performed well in the international market with somewhere around 28% to 29% of our revenue is outside of the U.S. and then the absolute value of that is growing, I think we're well aligned in investing on the right things so that we can bring our best solutions to our customers.

**Greg Gardner**

John, this is Greg. I think we've come about the top of the hour here. So I'll turn it back over to Marillyn for final thoughts.

**Marillyn Hewson**

Well, thank you, Greg. And let me just conclude the call today at the same place that I began the call, and that is by thanking the employees of Lockheed Martin for their contributions and dedication. The company has performed with excellence, and we continue to be well positioned to deliver growth and long-term value to our customers and our shareholders.

So thank you again to all of you that joined us on the call today, and we look forward to speaking with you at our next earnings call in July. John, that concludes our call for today.