Ladies and gentlemen, thank you for standing by, and welcome to the Lockheed Martin First Quarter 2020 Earnings Results Conference Call. [Operator Instructions].

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

**Greg Gardner**

Thank you, John, and good morning. I'd like to welcome everyone to our first quarter 2020 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. With safety and caution in mind during these unusual times, we are using a more virtual approach in exercising social distancing while conducting this call.

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 Marillyn.

**Marillyn Hewson**

Good morning, everyone, and thank you for joining us today. I hope this call finds you and your family safe and healthy as we collectively work to address the many issues brought on by the coronavirus outbreak. Our nation and the global community have seen the dramatic effects of the COVID-19 crisis. We are all saddened by the rise in illness and the tragic loss of life that has resulted from it, and our Lockheed Martin family has not been spared from this pandemic. The world continues to battle this disease, with experts predicting improvements will be seen in the coming weeks and months. And while this is certainly encouraging, we must remain vigilant to ensure progress is achieved.

The corporation is taking necessary steps to help combat this virus and keep our employees safe while assuring our customers can achieve their important readiness and mission requirements. We are beginning to experience some issues in each of our business areas related to the coronavirus, primarily in access to some locations and delays of supplier deliveries, which have caused us to adjust our full year sales outlook, and we will discuss that later in the call.

Our teams are successfully addressing many of the risks that have arisen due to the COVID-19 impacts. Our manufacturing facilities are open, and our workforce is engaged. The situation will evolve, and we will continue to monitor our business environment for areas of concern. The corporation remains committed to delivering the products and services needed for our customers and to maintaining a safe and healthy workplace for our employees.

In recognition of this unprecedented situation, the U.S. government has taken several actions that continue to reinforce the importance of our nation's defense industry. The Department of Homeland Security deems the defense industrial base to be part of the nation's essential critical infrastructure. And the Department of Defense has issued guidance that confirms the expectation that companies providing products and services in support of national security continue to maintain staffing and work schedules to perform their crucial functions. The DoD also published a deviation on progress payments memo, issuing a blanket increase to progress payment rates for both large and small businesses. Stable and reliable cash inflows provide needed visibility for all businesses and will be especially important to many small and medium-sized suppliers. These actions underscore the country's commitment to our industry and importantly, to our supply chain, which provides tremendous innovation and strength to our national security products.

The international community is also deeply affected by this crisis. And our company is committed to perform with excellence for our global customers and to support the health and well-being of our employees around the world. The corporation is taking steps to aid our employees, teammates and others. And in a few moments, I will discuss some of the actions we have taken to help provide support to those affected by this crisis.

I will touch briefly now on the Department of Defense budgets and the recent presidential budget submission. This quarter, the President submitted the fiscal year 2021 budget recommendation to Congress, consistent with the Bipartisan Budget Act of 2019 enacted values, with the total national defense request equaling approximately $741 billion. Notably, the DoD reiterated their commitment to the national defense strategy and their submission, with the space domain, air and missile defense and hypersonic programs, key pillars in their strategy and our portfolio, all receiving increases from the previous submissions. Congress will continue to process with the authorization and appropriations phases. Our programs remain well supported, and our portfolio is broad and expanding. We look forward to the finalization of the process and supporting our warfighters' needs.

Ken will review our first quarter financials and updated full year outlook in more detail in a few minutes. I would like to begin by noting that the disruptions introduced by this virus have caused us to reduce our 2020 sales expectation as production and supply chain activities have recently slowed in our Aeronautics business area. The changes in our outlook represent impacts we anticipate being recognized over the remainder of the year. We are not projecting any changes due to our expected full year operating profit, earnings per share and cash from operations outlooks that we set forth in January.

Our results this quarter were very strong. Sales in the quarter exceeded last year's first quarter by more than 9%, led by our Aeronautics team as the Aeronautics business area grew 14% from the first quarter of 2019. Our segment profit came in just above the first quarter 2019 amount as risk retirements in all business areas allowed us to exceed our expectations in this quarter. And we had a strong quarter of cash generation, bringing in over $2.3 billion of cash from operations as we look to achieve our full year target of greater than or equal to $7.6 billion.

Moving to orders and backlog. We received more than $15 billion in orders this quarter, maintaining our backlog at approximately $144 billion, our all-time high. RMS garnered the largest set of awards, with the total exceeding $7 billion, led by our Sikorsky organization, which booked over $4 billion of orders, including over $2 billion for a performance-based logistics contract for the U.S. Navy to provide sustainment services on our MH-60 SEAHAWK platform; and award of $500 million for the second low-rate initial production, or LRIP, contract for 12 combat rescue helicopters; and $470 million awards -- award for LRIP 2 of the presidential helicopter contract, adding 6 aircraft to the program and bringing the total order to 12 rotary aircraft out of a total program of record of 23 aircraft.

Aeronautics also had a strong quarter, with aggregate F-35 orders approaching $900 million. Other awards, including a new classified order, brought the Aeronautics business area total to $3.6 billion for the quarter. Missiles and Fire Control received a pair of sizable awards this quarter, led by precision fires, which booked a $1.1 billion order to supply guided multiple launch rocket systems to the U.S. Army and international customers. MFC also received an order for over $900 million to provide FAD interceptors and equipment to the U.S. Army and the Kingdom of Saudi

Arabia. And our Space business area received a fleet ballistic missile order of $600 million for continued Trident II production.

Our performance to date and resilient portfolio have positioned us to achieve strong results so far this year. The effects of the COVID-19 outbreak are being felt by our teams, but we remain committed to delivering the vital solutions that our customers require. This pandemic has caused dramatic impacts to our employees and their families, our customers, our supply chain and the communities in which we work and live. Our corporation is committed to use our know-how, resources, leadership to assist during this global crisis.

Lockheed Martin is implementing multiple actions to help support affected groups, including accelerating payments of over $150 million to our small and medium-sized supply chain partners, and we have already flowed the first $50 million of an additional $450 million in accelerated payments to our global supply base as a result of the actions taken by the Department of Defense in changing the progress payment policy that I mentioned a moment ago. We have also donated $10 million to nonprofit organizations involved in COVID-19-related relief and assistance with emphasis on veterans and military families. And we have activated a $6.5 million employee disaster relief fund to assist Lockheed Martin employees and retirees impacted by COVID-19.

In addition to supporting our global customers through our ongoing contract activity performance, we recognize that providing jobs during this period of economic downturn is also critically important. We are committed to continued hiring during this crisis and have added close to 1,000 new employees over the past few weeks, in addition to advertising for 5,000 open positions. The journey to full recovery will be one which we will all share together. Lockheed Martin is committed to performing with excellence for our stakeholders as we navigate through this crisis in the weeks and months ahead.

Moving on, I would like to highlight several significant events that occurred across the corporation during the past quarter, beginning with Aeronautics. We were excited by 2 significant milestones for the F-35 that show the program's continued maturation and ongoing demand. In February, the F-35 team celebrated surpassing 250,000 flight hours for the program, including developmental test jets, training and operational U.S. and international aircraft. The program has now trained more than 1,000 pilots and in excess of 9,000 maintainers as this unrivaled stealth fighter progresses towards full-rate production. In March, the F-35 team delivered the 500th production joint strike fighter aircraft, a conventional takeoff and landing variant for the Air National Guard. Production continues to ramp as we progress towards the joint government and industry plan of record for delivery of more than 3,300 aircraft.

Moving to RMS. This quarter, our Sikorsky line of business was down-selected in 2 key rotary wing competitions for the Future Vertical Lift program. The Sikorsky-Boeing team was awarded 1 of 2 future long-range assault aircraft contracts to continue design and risk reduction efforts on the next-generation medium-lift helicopter for U.S. forces. Our SB>1 DEFIANT offering uses our Collier award-winning X2 Technology providing enhanced maneuverability and speed. We look forward to working with our Army customer as we collectively define the next-generation assault aircraft for our warfighter.

We were also excited to be down-selected in the Future Attack Reconnaissance Aircraft Phase II competition. The Sikorsky RAIDER X rotorcraft uses the same unique technology as the SB DEFIANT -- SB>1 DEFIANT and provides the same speed and maneuverability advantages. Each of these competitions represent long-term growth opportunities, and our Sikorsky organization has been investing for years in pursuit of innovative technologies and designs to fulfill the warfighters objectives.

Our Space business area celebrated a pair of milestones this quarter as well as the first 2 GPS-III spacecraft were each separately accepted into operations by the U.S. Air Force Space Command as healthy and active, officially joining the current GPS constellation of 31 satellites. These are the first 2 of 10 modernized GPS-III space vehicles that will be deployed to enhance navigation and positioning capabilities for millions of users. The next-generation GPS-III program will deliver signals 3x more accurate than the current satellites with improved availability, reliability and anti-jamming capabilities for our military users. And we are proud to continue this legacy of innovation for our warfighters.

In Missiles and Fire Control, you may recall last quarter, we commented that Missiles and Fire Control have passed an important milestone on the U.S. Army's Precision Strike Missile, or PrSM, competition. This quarter, our tactical missiles organization performed its second consecutive successful flight test of this next-generation, long-range precision missile. Our team demonstrated the missile's flight trajectory, range in accuracy and overall missile performance from launch to the conclusion of the mission. We look forward to building on our long-running army tactical missile system legacy in preparation for our third PrSM flight test in the coming weeks as we continue to pursue this potential franchise opportunity.

And 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. Let's begin with Chart 3 and an overview of our results for the quarter.

We saw strong results in sales, segment operating profit, cash from operations and earnings per share this quarter. We generated $2.3 billion of cash from operations, and we continued our balanced cash deployment actions, returning $1.4 billion to our shareholders. Our backlog closed just above $144 billion, exceeding our all-time high for the corporation. And we have updated our outlook to include impacts from COVID-19, which we will discuss in greater detail in a moment. Overall, it was still a strong quarter for the business during uncertain and unique times.

Turning to Chart 4, we compare our sales and segment operating profit this year with last year's results. Sales grew 9% compared with last year to $15.7 billion, continuing the consistent growth of the business, while segment operating profit was $1.7 billion. The resulting segment operating margin was a strong 11% ahead of our expectations.

Chart 5 shows our earnings per share for the first quarter of 2020. Our EPS of $6.08 was up $0.09 over our results last year driven by FAS/CAS income and favorable operational performance. On Chart 6, we will discuss in more detail the cash return to our shareholders this quarter. Subtracting our capital expenditures from approximately $2.3 billion of cash from operations, our free cash flow was greater than $2 billion. We maintained our dividend to $2.40 per share, and we repurchased $756 million worth of shares. This brought our total cash return to shareholders to $1.4 billion for the quarter or 72% of free cash flow. And we see no change to the $1 billion share repurchase outlook for 2020 that we first communicated during our call last October.

Chart 7 shows our backlog balance through first quarter of 2020. While delivering our highest first quarter sales ever, we increased our backlog balance for the seventh consecutive quarter driven by bookings at Sikorsky and missile programs at Missiles and Fire Control.

Moving on to Chart 8. Based on our view of COVID-19-related potential impacts, as Marillyn noted, we are lowering the midpoint of our guidance range on sales by $375 million while holding our guidance for segment operating profit, earnings per share and cash from operations. And as we disclosed in the earnings release, our joint venture, AMMROC, in the UAE lost a key contract award after the end of the quarter, and we are still working the assessment of a potential noncash impairment that could be recorded as early as the second quarter once our review is finalized.

On Chart 9, we have shown the adjustments to our sales guidance range. Likely COVID-19 impacts on our supply chain and related potential delivery delays have caused us to reduce our full year outlook for Aeronautics. Our expectations for 2020 sales in all other business areas remain consistent with what we discussed in January.

On Chart 10, we show our outlook for segment operating profit by business area. While the guidance for profit has been lowered for aeronautics following sales, we have raised our guidance range from Missiles and Fire Control and Space, holding our total segment operating profit consistent -- constant from January's outlook.

On Chart 11, we outlined some specific assumptions we are using in our 2020 guidance related to the current impacts of COVID-19. We continue to monitor the situation daily as it remains a dynamic environment. And as Marillyn highlighted, we are proactively taking steps to help support our suppliers and teammates during this difficult time. Our current expectation is that the next few months will be the peak of disruption as the country and the rest of the world looks to successfully flatten the curve move forward. The Department of Defense and the United States government have also taken action to support our industry through policy changes and the CARES Act, and our outlook has taken into consideration these benefits. Together, these actions have allowed us to update the outlook we provided in January with minimal impacts.

And to conclude, on Chart 12, we have our summary. We believe that the first quarter of 2020 has laid the foundation for a strong year. We have a robust backlog to sustain our growth. Our sales outlook is growing year-over-year and represents an approximately 6% increase from 2019. Along with consistent profit and positive cash flow, this allows us to project strong results for 2020 for shareholders as we continue to support our employees, customers and supply chain during these difficult times.

So before we move to Q&A, I would like to take a moment to congratulate Marillyn on her upcoming transition and thank her for the outstanding leadership she has provided Lockheed Martin over the last 7.5 years. As Chairman, President and CEO, the corporation has reached new heights and delivered remarkable results from our customers and shareholders. Marillyn, during your 37 years with the company, we have all employees, customers, teammates and shareholders benefited from your dedication, inspiration and vision. You and I have worked together for 20 years, and on a personal note, I would like to add that I will also miss your friendship and partnership.

Although your presence will certainly be missed on a day-to-day basis, we look forward to continuing to work with you as Executive Chairman of the Board. And I'd also like to welcome Jim Taiclet as our incoming President and CEO, who begins on June 15. I have worked with Jim as a Board member for more than a year while I've been in my current role, and I believe he will be an outstanding leader for our company. And with that, I'd like to wish Marillyn the best of luck, and I look forward to welcoming Jim in June.

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

**Question-and-Answer Session**

**Operator**

[Operator Instructions]. And first, with the line of Joe DeNardi with Stifel.

**Joseph DeNardi**

Okay. Ken, there's language in the release and you kind of alluded to in your prepared remarks regarding the guidance and kind of reflects your current view on COVID-19. Can you talk about how sensitive the guidance is to duration? Maybe help us a little bit more with kind of what you're assuming for what a return to normalcy looks like. Do you see the effects of this in terms of fixed price contract costs increasing your ability to recover that? Just trying to understand your perspective on how this impacts kind of earnings power and cash flow power longer term.

**Kenneth Possenriede**

You bet. Thanks, Joe. So it's probably helpful we start with, once this started, what our processes were. Think of this as our battle rhythm. So once this began, we started a weekly COVID-19 impact tracking process. We put together a template, and this was generally across the board, included all the business areas. We had data that we collected that supported various internal and external reporting. In fact, we're now in a rhythm where Marillyn is now sending a memo to the SAEs, think of those as the service acquisition executives. And this is done on a weekly basis. That basically lays out all the impacts that we see, all the actions that we're taking to minimize those impacts. And think of these inputs as at the contract program level, so across the corporation. It's about 600 line items, and it's tracking real and potential Lockheed Martin supplier- and government-driven impacts.

The COVID impacts that we're seeing are reflected within this weekly template. And unfortunately, they're predominantly risk-related. Think of them as travel restrictions and site access that are most likely the common cited driver of impact. We're seeing increases in supplier shortages. And in our sites, we're seeing some absenteeism impacts. There are some opportunities that we do see that exist, Joe. From a cash flow standpoint, the customer altered the progress payment rate from 80% to 90%. And also a small nuance but important, they changed some conditions regarding progress payment rates, which will be advantageous to us. And we are now flowing this -- as Marillyn mentioned, we are flowing this all down to our supply base. Starting with our small suppliers and our vulnerable suppliers, we have a process where we work with supply chain. They tell us who those suppliers are. We work with Treasury to determine on a weekly basis the cash flow that we have that we're flowing that down. Contract actions that we're working with our customer, it's accelerated timing of the pending awards, undefinitized contract actions, or UCAs, funding, et cetera.

What we're also seeing internally is there -- we're capturing cost avoidance. So think of lack of travel, lack of business trips that we're making, lack of sponsorships, lack of air shows that we're going to. And we're capturing that and collecting that, probably not to take to the bottom line but to help with impact disruptions to our business.

You talked about the recovery of costs with the CARES Act. One of the conditions in there is we will work with the PCO and demonstrate to them a request for equitable adjustment that those costs -- those idle costs should be deemed allowable, and we'll work through that. In fact, we have a path forward on the F-35 program to do just that. So we think we're in a good position. The plan is, at least the way we see it, is we're hoping that the curve starts flattening in the second quarter, end of second quarter, and we can get to some kind of semblance of business as usual, whatever that is, starting in the third quarter.

You asked about cash, Joe, we feel really good about our cash, and I'll let somebody else -- I'll give some more color on cash for somebody else to ask the question, but we feel really good about our cash flow this year. We started the year strong, ended the first quarter strong, and we see, going forward, strong. So thanks, Joe. Stay safe.

**Operator**

And next, we'll go to Hunter Keay with Wolfe Research.

**Hunter Keay**

I guess I'm tempted to ask that cash question, but I'll let somebody else do it. I'll ask what I was going to ask you before. Can you talk about the F-16? I'd like to talk about how that move to Greenville is going for one and how you think about the F-35 in the context of the F-16 sort of a growth versus replacement-type situation, both near and medium and long term.

**Kenneth Possenriede**

Hunter, we'll give Marillyn a break since it's her last earnings call. So I'll take that. So it's going well. So as everybody is aware, I believe, we moved the F-16 program out of Fort Worth a couple of years ago. Frankly, no home because we didn't have any orders of record and Bahrain was our first customer. We moved the line to Greenville, going very well. Right now, we have Bahrain. You saw we just announced Bulgaria. We have Slovakia. We're in the throes of working with the United States government and Taiwan for them to buy 66 aircraft. There is an African country that is interested in F-16. So we're hopeful that will happen. South American country, and then there are some Southeast Asian countries that are interested in F-16 as well.

So we think the program is doing very well. The MOD programs are doing very well. Just in the spirit of COVID, we're not seeing many impacts at all on the F-16 program. So I think this is a good fourth-generation aircraft for those customers that can't afford the F-35 or, frankly, can't at this time buy the F-35. And it might be a good intermediary step for customers to go from the F-16 to F-35. So we see it frankly as complementary and not competing against themselves.

**Operator**

The next question is from Doug Harned with Bernstein.

**Douglas Harned**

First, Marillyn, it's been great working with you over the years. So just wanted to wish you all the best in the transition. I wanted to ask about international sales. And particularly, when you look at the Middle East, I thought it was encouraging that you got this award from Saudi Arabia. But when you look at oil prices where they are today, in the past, we have seen budgets contract when oil prices come down. How are you thinking about the Middle East right now given the oil price environment? And even expand that to say with coronavirus issues in other markets and budgets that may be under pressure, what are you seeing internationally in your export sales?

**Marillyn Hewson**

Well, first of all, Doug, thank you for the question. And I would say at the outset that regardless of what's happening with oil prices and other things, the threats continue to accelerate around the world. So we still have that challenge anywhere in the world. I mean it's the first order of any country that they have to protect their citizens. So a lot of the systems we sell into the Middle East are clearly defensive systems. And more than ever, that's more complex, volatile and unpredictable than it's ever been before. So that's a necessary condition that they have that national security, and I expect that will continue. We will continue on our side to drive affordability across all of our product lines to make sure that what we do offer is the best value to those countries and -- but we aren't seeing a pullback from the needs that they have today in the Middle East.

**Operator**

And next, we'll go to Sheila Kahyaoglu with Jefferies.

**Sheila Kahyaoglu**

Marillyn, you've had an amazing career, and it's apparent in Lockheed success in both the top line and operations. I guess as you exit on top, how do you think about the challenges for Jim in areas you would have liked to spend more time with on Lockheed and position better for the next 5 years? How does Lockheed continue to grow over the next decade?

**Marillyn Hewson**

Well, thank you, Sheila, for your kind comments. I would first start by saying that I think this is the right time for a transition in our company because our company is very strong and stable. We've got solid performance. We've got a very strong robust growth strategy, even again this year continuing to grow. We finished out last year with a record year, and we've had a series of a very strong record for the past few years. And we're set up well with a $144 billion backlog, which I think outlines -- that's the booked work that we have and a strong financial position.

I think as Jim steps into the role -- he's been on our Board for over 2 years, as Ken said, and he has a military background. He's worked in the industry, in Pratt & Whitney and Honeywell. He's got a lot of strong experience around our industry, our markets, our business. And so he brings that, plus the insights he's gained on our Board for the last couple of years in our strategy, our long-range plan. So I think you will see that he will continue to drive the success that we've had over the last few years. He fits very well into our culture, and we're really looking forward to -- he brings a strong acumen -- business acumen because, of course, he's himself been a CEO for the past 17 years.

In terms of priorities, we will continue to strengthen our focus on our customer. That has what's driven the success of this business is aligning with their priorities and listening to them and understanding what they need and then driving sustained profitable growth around that and delivering them the performance that they expect because they do depend on us. As we said earlier, we're an essential industry sector, and that is clearly because of the national security products and capabilities we produce. And so we know that performance and innovation for our customers has got to be continued.

And then lastly, I would just say, keeping a focus on the people in this company. We have a strong culture of -- an innovative culture of people that make the difference. And I know that as Jim comes in with his style of a value-based leader as he is and a collaborative leader that he will continue that forward. So I think you could -- that you can just look at us as being very well positioned for the future as we -- as I turn over the reins to Jim in mid-June.

**Operator**

And our next question is from Pete Skibitski with Alembic Global Advisors.

**Peter Skibitski**

Congratulations, Marillyn, on a great career. On the COVID-related sales reduction in Aerospace, I just want to make sure I understand. Was the guidance lowered there due to the international F-35 sites, Italy and Japan sites? And why were the other segments not impacted?

**Kenneth Possenriede**

Sure. Pete, it's Ken. I'll take that. So let's talk Aeronautics, and then I'll go around the other business areas. So Aeronautics, we looked at -- we started seeing that it is likely there is going to be -- and I'd say it's probable that there's going to be some supply chain disruption. What we're seeing is there's local distancing requirements that are being more stringently applied across the globe. There's workforce disruption. There are likely impacts that are happening throughout their supply tier hierarchy. There are shipping constraints. We've actually had some issues with shipping constraints. We're also finding there's likely going to be some production impacts at our site. And based on that, the analysis to date had given us concern. So we reduced our guidance at Aeronautics. And specifically, it's F-35 production. There's more analysis that we're going to do over the next couple of weeks working with our supply chain and our Fort Worth production line and our customers to set -- to determine, if any, impact, to what extent it will be on the program, including deliveries.

In fact, last night, I got some feedback from the supply chain team, and this is specific to F-35 and specific to production. We're seeing some pressure regarding supplier performance-based payment invoices. So this is -- these are invoices that they could deliver to us after they completed a milestone. There are a couple of suppliers that are going to be delinquent in April. Some of them are for administrative reasons. We'll work through that. So that's just timing. But some of them -- and some are domestic, U.S.-based, and some of them are international, that it is due to them not achieving their milestones. Some of it is going to be COVID-related, probably most of it is COVID-related. We're looking at that.

So we then did an analysis, a bunch of sensitivity analysis with the Aeronautics team. And if you look at F-35, we're seeing little to no impact to development. We're able to continue to work on follow-on modernization. That is what typically is happening on the development program. Sustainment, generally speaking, the team does not see any impact. And if they do see impact, back to Joe's question about the recoverability of the costs, we feel comfortable due to the CARES Act. If we have somebody who can't get on base to do, say, a repair, if you will, or to stand up a base and they're sent home and they're not able to do productive work at home, we are believing those costs are recoverable. And so it's all down to production. We have seen in the past some impacts at the Japanese FACO, they're up and running now; and at the Italian FACO, but on the whole, they're up and running as well. So it was our determination based on what we're seeing that it was prudent for us to take our production sales down. Hopefully, this is a conservative number, but based on what we're seeing, we think this is a good number.

You asked about the other business areas and why we're not seeing impacts there right now. So I'll start with Space. So think of their production cycle, it's a long production cycle. And generally speaking, what -- any issues that they would see in the supply chain or at our facilities, they feel they could contain. So it's low volume, certainly, relative to F-35 production line. They have an engineering workforce. They were one of the first ones to be -- they were the first ones, frankly, in our company to be impacted by this. They're now staggering their shifts. They're staggering the days that people come into the office. It is impacting some of their classified programs, but we seem to be doing a nice job working around that. So we feel good with their guidance right now.

RMS, they don't have the volume. So talk -- the manufacturing floor, they don't have the volume of Fort Worth. Think of their volume more like Marietta. And I did -- I was remiss not to talk about Marietta. So there are some suppliers where we are impacted that we are doing workarounds and we do think we have a containment plan. So we do see some modest impact at Marietta, but it's not material. So I would state that RMS is more like Marietta. So there are some issues there, but they're not material in nature. Their engineering team, so the folks that are doing engineering work at RMS, are still productive. There are some base and range closures that are impacting RMS, but we seem to have workarounds and so we don't see any impact there.

The next concern we would have is at Missiles and Fire Control. And it's just based on the -- it's a high-volume business. They have done a nice job of looking through their supply chain. They have made contact with 100% of their suppliers. And before -- last week, I would have told you, 6% are forecasting impacts. In Maryland staff meeting, we found out yesterday, it's up to 10%. So they actually have a very robust process of talking through their supply base. They had 2 suppliers that had closed operations. One of them we're still working through and working through second sources and also containment plans for them. And another one had an operation in Mexico. We worked through that and got that one open. So we feel good right now where Missiles and Fire Control as well -- where they are as well from a guidance standpoint. But that would be our next worry bead would be Missiles and Fire Control.

So net-net, we're good with guidance at the other 3. We think we've thought through the Aeronautics one -- Aeronautics issues, and we feel good about that. And just -- we've looked across the portfolio, and not just COVID-related risk, but we've looked at, call it, business as usual opportunity and risk, and we think we've box-balanced everything, and we feel good about our guidance as it stands today.

**Operator**

Next, we'll go to David Strauss with Barclays.

**David Strauss**

Congrats and well done, Marillyn. I'll take the bait, Ken, on cash. I think you were talking about a little bit more than a $700 million working capital headwind or increase this year. How are you thinking about that now on the back of COVID-19? And maybe comment on Q1, you saw a big increase in your payables balance.

**Kenneth Possenriede**

You bet. Thanks, David. So yes, we -- like I said, we feel good about cash flow this year. And I'll say it again. If it wasn't for COVID-19, we were very comfortable with taking our cash from operations up -- our cash from operations number of greater than $7.6 billion. So yes, going into the first quarter, we did increase payables. We did pay down payables in the fourth quarter. Part of the reason why Aeronautics and a couple other business areas did so well was, frankly, we got invoices -- from a timing standpoint, we got invoices in -- late in the quarter that ended up being payables, so we had abnormally high payables that also then flowed into inventory or into contract assets, which we do think is an opportunity going forward for us. So even with the COVID impacts, we do see, over time, working capital increases, specifically in contract assets, most of them in F-35, and we're working with the F-35. We think there's an opportunity there for us to reduce our contract assets.

The other thing I would state is -- why we had the high payables in the first quarter is these COVID actions that Marillyn described of us flowing money down to the supply chain really didn't start happening for the most part until we got into the second quarter. So we'll continue to flow down that committed $450 million that we got certainly through the second quarter, but David, it's likely we're going to flow that down in the third and fourth quarter as well, and we will probably take our -- what I'll call our normal payables number down in the fourth quarter and accelerate payments to the small business base and our vulnerable suppliers.

**Operator**

[Operator Instructions]. And we'll go to Rob Stallard with Vertical Research.

**Robert Stallard**

Marillyn, all the best for the future, but I have a final question for you. And it's a little bit tricky. I was wondering what's your gauge of the political environment at the moment, whether it's, what you might say, politically acceptable for the companies to be buying back stock given the crisis the country is going through.

**Marillyn Hewson**

Well, thank you for your comments, Rob, and thanks for the question. The political environment today, I know, is very difficult, particularly for companies that basically have no demand. And when everything shut down -- and I'm very pleased to be part of the conversation on the President's task force and on some other task forces our company is so that we can work with governors and the President on looking at how best to get the economy back to work in a very safe and effective way. As you know, as we've talked about, we've been running all through this time. And so we're in a position where it's a matter of sharing how we're keeping our people safe, how we're keeping our operations running, we're dealing with supply chain, a lot of the things that Ken spoke of here.

In terms of the political environment, where there are -- I think what you're referencing is where companies are going to get some kind of support from the CARES Act and other ways to help their business, and then as a result of that, would it be appropriate for them to destock buybacks. And I think you've heard all of them, at least all that I've heard, go publicly say, no, that's not their intention. They really need that funding today in order to address their business need, to address their cash needs, to address getting their folks back to work because, basically, their demand went to 0.

I think it's very different than a normal company like -- that sets out the year with a plan on cash deployment, which would be through dividends, through stock buybacks, through capital investment, through the range of things that we all do with cash, and we -- in our case, we haven't changed our process at all. I mean we made a commitment in October that we were going to do about $1 billion in stock repurchases, and that's -- that we still are holding to that for this year. And so we're very different, I think, than those who have experienced a very significant impact to their demand. Ken, I don't know if you want to add anything on that front relative to our situation on...

**Kenneth Possenriede**

You bet. Yes. So Rob, I'll give you just a little color of what we've done actually. So late last year, we entered into a 10b5-1, and think of that as an enhanced open market repurchase program. So we essentially went to the banks late last year and said, we want to buy $500 million to $600 million of stock back starting in January through July. So we're in this 10b5-1 through July. And in the first quarter, of that, we bought $256 million back of the $756 million that you heard me state we bought back in the first quarter.

Early in the year, we thought it would be advantageous just to go on autopilot, if you will, and we signed up. This would be our second one, we did one in the fourth quarter of last year, an accelerated share repurchase program. And as you know, when you commit to that, you put the money upfront, gives the bank then the discretion to buy it back when they want to buy it back. So we fronted that money, if you will, in the first quarter. And that plan goes through the end of April. So think of that in 9 days, that program is over. So that's why you saw the amount we bought back was earmarked $756 million of repos in the quarter.

As I stated, we reaffirmed -- and Marillyn just foot stomped that, we reaffirmed our $1 billion commitment, which basically will be on autopilot that will go through July. So think of us buying back another $244 million over the next couple -- next 2 months to get us to the $1 billion. And what we have done in the past, just frankly over the last couple of years, we've done this just to prevent dilution of our share count, and that's what we're committed on now. If we get out of this COVID situation, we may look at this again and readdress it and see if it makes sense to opportunistically buy our stock back if we think that makes sense. But in the meantime, while COVID is going on, our commitment is we're going to maximize our balance sheet to generate cash flow, and we're going to send as much down as we can -- and as much as we can down to our distressed vulnerable supply base and our small supply base.

While we're on capital deployment, I'll talk about dividends. It is from a planning standpoint. Our plan, subject to the Board's approval, for us still to declare and pay dividends. So that's in our modeling for the rest of the year. And I'll just remind you, we're still spending, investing in our business roughly $1.3 billion in IRAD for this year. And as I stated earlier, we're still on a path from a CapEx standpoint to spend roughly $1.7 billion on CapEx. So we're not skirting our responsibilities to our supply chain nor to the investments we believe we need to make for us to be a vibrant business going forward.

**Operator**

Next question is from Peter Arment with Baird.

**Peter Arment**

Marillyn, congratulations on all your success. Ken, maybe just a backlog question. You have stable backlog, and I think the expectation was for 2020, you'd see growth of $3 billion to $4 billion, whether that -- is that still intact? And is there any kind of international awards that are key that we should be looking at that will impact that?

**Kenneth Possenriede**

Yes. Thanks, Peter. Yes, the plan is we still think we're going to grow our backlog. I mentioned earlier for one of the questions, we're working with the -- I'll talk United States first, the United States customer. We're working with them where it makes sense for us to accelerate orders to get that into our backlog, to get that behind us. You already saw F-35 Lot 14 was in the second quarter. We got that order behind us. And that does actually have some international customers. Think of 35%, 40% of those airplanes will be going to international customers.

But there are a bunch of international orders, and I'll go through them, that we generally feel pretty good about. So Bulgaria is behind us for F-16. We got those 8 aircraft behind us. We're working with Indonesia on some C-130 aircraft. We feel good about that. Working with India, you probably saw the announcement that the money is flowing from India to the United States. So we'll now work with the appropriate government agencies to get that under contract. That's for the MH-60R multi-role helicopter program. We have a Spain F-110 frigate program we feel good about. F-16, Taiwan, I mentioned, that's a third quarter order. We still feel good about that. We also have a couple of orders for F-16 that we're working to try to shape. There's a Norway contract out in the fourth quarter.

So I'd say on the whole, we're feeling good about our order book. And in fact, because of some accelerations, we actually think we'll overachieve our orders planned this year by over $3 billion. And that's mainly driven by PAC-3, that's FY '21, where I think we're in a good spot with the customer to accelerate those orders.

**Operator**

Next question is from Carter Copeland with Melius Research.

**Carter Copeland**

Again, congratulations on all the accomplishments and the retirement. It's been quite impressive. So just want to kind of follow up a little bit on the award environment. And I think a little bit longer term, you hinted at it, Marillyn, on the plus ups and areas of emphasis and things that are in the NDS. And I just wondered if you might give us some color on how you see that influencing the opportunity pipeline that you've been talking about over the last several quarters, not just in hypersonics but also at MDA. And just anywhere you think that, that's unfolding in a way that's different as a result of the budget request.

**Marillyn Hewson**

Thanks for the question. Thanks for the comment, too, Carter. I appreciate it. Well, as I talked in my opening remarks about the FY '21 budget -- President's budget request that came out, and while the top line budget is not growing significantly, there's a little bit -- some slight growth, and so we're looking -- as we look at it. But Congress really is yet to weigh in on what's in that budget for our programs. Right now, they're well supported. But we -- often, Congress looks in and determines whether they want to do some ads and in certain areas as well. So for example, last year, they added 20 planes for the F-35. And we've seen some other areas of support from Congress over the years.

So we feel good about what's in the budget request right now. As I mentioned, it does line up with the national defense strategy. And that's exactly the areas that are lined up with our particular portfolio. There's --

the budget submission has over $3 billion in it for hypersonics, which is we've shown that we are a strong leader in that. We continue to see as we look beyond that, there's also some upside for NASA, for Orion and for some of the Mars missions. I think there's over $3 billion that was put in increase for that.

And then we continue to look at not only continued growth through the U.S. budget side but also on the international side. Now these would be FMS sales, but F-35, as you know, Poland has committed to 32 aircraft. We see opportunities with Finland, with Switzerland, with Spain potentially and other countries, we think, that are starting to show interest -- continued interest in the F-35 as a potential to meet their fighter replacement needs. And then on the missile defense arena, THAAD, PAC-3, Aegis, all continue to be growth opportunities for us. If you look on around to the Sikorsky side of the business, I mentioned the Future Vertical Lift. That's a big upside for us as potential as we see opportunities for growth there. CH-53K that we do for the Marine Corps with a 200-aircraft program of record. There's also strong interest in Germany and in Israel. And then in our Space business, we continue to see upside there in a lot of the space protection and a lot of the mission areas there for the national security space opportunities for growth.

So I feel really good about our growth opportunities as we look out even beyond this year and into the future. Space side, the next-gen OPIR and GPS are other contract opportunities that we continue to see growth. So as Ken said, we expect our backlog to grow. We expect to continue to win at a good rate on these opportunities because we have a strong portfolio. We've been investing for many years in things like hypersonics and other areas of our business that set us up well for robust growth.

**Kenneth Possenriede**

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

**Operator**

And that will be from Ron Epstein with Bank of America Securities.

**Ronald Epstein**

Marillyn, if you could speak to when you think about the impact that COVID's having on some of your international customers, meaning you've got F-35s potentially going different places in the world. And how do we think about the impact that, that could have on those deliveries of aircraft?

**Marillyn Hewson**

Well, on the international front, I think Ken talked a little bit about the fact that we have a couple of final assembly and checkout facilities on the international scene, so in Italy and in Japan. And early on, they did have some impact where they shut down for a few days or for a week, but they're back running again. We have suppliers around the world that support our F-35 program and other programs. So we watch how those suppliers are working in their various countries with whatever constraints they might have or safety protocols that are put in place. And so that's -- as Ken said, we do a very deep dive on our supply base on a weekly basis to make sure we're monitoring that, and we're addressing that. So that could potentially have some disruption for us. Similarly, we -- transportation is an area that we've been watching to make sure that we've got good transformation of the parts and components coming in.

But I think in terms of countries, it goes back to my earlier comment. Countries are still -- need to address their national security needs. So I'm not looking at it so much from an impact on what they will buy because they are staying on their procurement plans, and despite the fact that things like COVID-19 will have some impact on their economic situation just as it has in the U.S. I think it's more really around the international supply chain that we're going to keep a bead on that to make sure that those suppliers around the world continue to operate. We -- as we talk about cash deployment to our suppliers, we are getting to those international suppliers as well because they're part of our supply chain. And so to the extent that we have an opportunity to flow through and accelerate payments, we accelerate them to them as well as to our domestic suppliers in the U.S. That will continue to be the area for us. We -- they may face challenges of productivity or absenteeism and/or other constraints, and so we'll continue to watch that closely. And frankly, that's the area that we watch the most closely and why we've been so focused on it every week.

Okay. So I guess that's our last question. So let me just conclude the call today. And before I do, I know several of you, starting with Ken, know that this is my last call as President and CEO. And I appreciate your kind remarks, and I appreciate, Ken, what you said as my colleague and friend for so many years, and I appreciate your comments. But I really wanted to take this time at the end of the call just to thank the entire Lockheed Martin family for the support and dedication that they've given as the company has grown and flourished over my now 7.5 years as CEO and, moreover, over 37 years with this company.

We are a very strong corporation, and we've got a legacy of innovation and performance and a future of promise and growth. And when I think back 37 years ago when I first started as an industrial engineer supporting the production line in Marietta, Georgia, I'm reminded of a lot of hardworking and dedicated people that I worked with over my career, including the people that I work with today, the current employees that are making a difference every day in the work that we do because we do some of the most important work in the world. So it's been an honor for me to be a part of this team and this company. I've often said, I consider Lockheed Martin a national asset because we perform an important mission and support of our nation's defense and its citizens and also our allies around the world.

I also want to thank you, our investment community and our shareholders, for your participation in these calls and also for your thoughtful engagement that you've provided with our management team over the years. It's helped us as we understand what's important to you and how you look at our business and the questions that you ask. And I said earlier, I know that you will welcome Jim Taiclet to our team. I'm certain that he's going to lead the company to continued success. He has a tremendous track record of achievement that's outstanding, and he's -- as I said earlier, he joins a company with a culture of performing with excellence for our customers, our employees and our shareholders. So I assure you that Lockheed Martin will be in very good hands with Jim at the helm.

So thank you again for joining us on the call today. Our team looks forward to speaking with you on our next earnings call in July. John, that concludes our call today