

Ladies and gentlemen, thank you for standing by and welcome to the Lockheed Martin First Quarter 2018 Earnings Results Conference Call. At this time, all the participant lines are in a listen-only mode. There will be an opportunity for your questions, instructions will be given at that time. [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 would like to welcome everyone to our first quarter 2018 earnings conference call. Joining me today on the call are Marillyn Hewson, our Chairman, President and Chief Executive Officer; and Bruce Tanner, 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 results to differ materially from those in the forward-looking statements.

We have posted our 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 would like to turn the call over to Marillyn.

Marillyn Hewson

Thanks, Greg. Good morning, everyone and welcome to our call today. We are pleased to have you joining us as we review our first quarter results and some key operational accomplishments from across our Company.

I would like to take this opportunity to thank our team for their high level of performance as we continue to focus the organization on long-term growth and value creation. The corporation continues to deliver critical solutions and products to our customers while also returning value to our stockholders and I'm extraordinarily proud of our Lockheed Martin team.

As today's release details, we had a very strong quarter, operationally and financially. We will review the results in-depth a little later on the call. I'm very pleased that our strong year-to-date financial performance across all

business areas and our expectations for the remainder of 2018 have enabled us to increase our full-year outlook for sales, operating profit and earnings per share.

Our financial results and increased outlook reflect the outstanding execution across our four business segments and the strength provided by our broad portfolio of products and services. I will cover some performance highlights from our business areas in a just moment. But, first, I want to recognize, one significant operational milestone that was retained this month.

Our F-35 team celebrated the conclusion of the System Design and Development phase or SDD flight test program, fulfilling the final requirements at Naval air station, Patuxent River. Since the inception of this test program over eleven years ago, F-35 aircraft have successfully completed over 9,200 test sorties, totaling over 17,000 flight hours and satisfied over 65,000 test points, marking the conclusion of the most comprehensive complex and rigorous developmental flight test program in the aviation history.

I would like to thank the entire F-35 enterprise including industry and government teams for their dedication and diligence as this unrivalled stealth fighter jet progressive on to its next chapter.

Turning to the Department of Defense budget, we were very pleased to see Congress enact the Consolidated Appropriation Act of 2018 providing much needed funding for our nation's military and national security. Notably the 2018 Appropriations Act raised DOD based budget funding to \$600 billion over 14% above 2017 level representing the largest year-to-year increase in base budget funding for the Department of Defense in 15 years.

When coupled with the overseas contingency operations funding the total amount appropriated for defense activities rose to \$665 billion, included in this increase was a recognition of the need to significantly recapitalize our nation's forces with the investment accounts appropriated at levels over 20% greater than the previous fiscal year.

Lockheed Martin programs were especially well supported in the budget markup, with the legislation including increased funding for 20 additional F-35 fighter jets, 17 additional C-130J transport aircraft, 16 additional Blackhawk and Seahawk helicopters, two CH-53 K helicopters and increases in multiple missile production programs as well as our Orion contract.

All told key Lockheed Martin programs representing all four of our business areas received over \$7 billion of appropriations above the fiscal year 2018 budget request, a clear sign of the strong support our broad portfolio has garnered from the customer community.

I'll close my budget discussion with a look ahead to fiscal year 2019. In February Congress passed the Bipartisan Budget Act of 2018 and raised the defense budget caps in both 2018 and 2019. We were very pleased to see appropriations enacted to support the 2018 increase in base budget funding.

We are encouraged by these legislative actions that provide our military with the resources needed to enable them to fulfill their crucial mission and we are hopeful that the fiscal year 2019 funding process will follow the same positive path in the coming months.

Before addressing our business area highlights for this quarter I would like to provide you a brief update on activities relating to our opportunities in the kingdom of Saudi Arabia. Just this month I had the honor of hosting his Royal Highness, Mohammad Bin Salman the crown prince of Kingdom of Saudi Arabia at our Sunnyvale, California location.

During his visit his Royal Highness was able to see firsthand the innovative satellite technology being incorporated into two new satellites which Lockheed Martin is building to provide enhanced telecommunications capabilities in Saudi Arabia. As part of this historic tour the crown prince also saw some of our air and missile defense product line including key elements of our THAD system an important component of the joint global security announcement the U.S. and Saudi Arabia made last May.

We remain in discussions on several opportunities with the kingdom and in March we were awarded a contract for nearly \$500 million to fund long lead activities for construction of four multi mission service combatant ships a key element in the kingdom of Saudi Arabia's defensive strategy.

We look forward to continuing our more than 50 year partnership with the kingdom to help them provide for the security of their citizens and support to his Royal Highness's Saudi vision 2030 is a blueprint for transformation of their country.

Moving on I would like to highlight several operational milestones we achieved across the corporation during the recent few months. Beginning with an update on our F-35 program, during the first quarter, I was proud to represent our cooperation at the Korea roll out ceremony at our manufacturing facility in Fort Worth, Texas. The Republic of Korea and the U.S. government leaders celebrated the public debut of the first F-35 produced for the Republic of Korea Air Force.

The ceremony was attended by over 450 guests and represented a major program milestone as the Korean Air Force took delivery of the first aircraft in its 40 jet plane of record, five more will follow this year. As our production

line continues to ramp up and we progress on our 2018 goal of delivering more than 90 aircraft to our U.S. and international customers.

Keeping with our aeronautics business area, this quarter our aero team celebrated the delivery of the 400 C-130J Super Hercules as the air force special operations command received its latest Commando II special ops model of the vulnerable C-130J platform. The hallmark of the C-130J is its versatility and this aircraft supports 17 different mission configurations including this Special Forces version.

The performance of this remarkable plane has drawn global demand with operators in 17 countries. And C-130J have passed over 1.7 million flight hours supporting the varied missions. The C-130J has proven to be the tactical airlift platform of choice and we look forward to continue our global leadership in air mobility for decades to come.

Thirdly, NASA awarded our aeronautics organization and new contract to design, build in flight test, a low-boom flight demonstrator. A new supersonic X-plane, but despite flying an excessive of the speed of sound, we will produce a sonic boom that will not be disruptive to the general public. Because of noise restrictions over land air travel above Mach 1, which creates the sonic boom is currently not allowed.

This program will build on the preliminary design we started several years ago under NASA's quiet supersonic technology effort. The new demonstrator aircraft will be built in our Skunk Works facility and we look forward to its first flight in just a few years with the goal of making quiet supersonic passenger air travel of reality.

Moving to our Missiles and Fire Control business area, we saw continued demand for our air and missile defense products. Our THAAD team received an award of approximately \$460 million for the production and delivery of additional interceptors and engineering support bringing the contract value of our lot 10 program to over \$1.2 billion.

We also received an award of over \$500 million as the U.S. and international customers look to upgrade their missile defense capabilities using our PAC-3 and PAC-3 missile segment enhancement or MSE, interceptors, lot kits, spares and support equipment. Also U.S. and Polish officials signing agreement for Poland to become the fifth international PAC-3 MSE customer.

The advanced capabilities provided by our PAC-3 MSE interceptors will support the WISLA Air and Missile Defense system intended to protect Poland's armed forces, citizens and infrastructure and we're honored to have this opportunity.

Before I leave Missiles and Fire Control, I would like to commend the tactical missile team for the successful operational debut of the Joint Air-to-Surface Standoff Missile JASSM, during a recent allied strikes against Syrian chemical weapons research and storage facilities. A total of 19 JASSM stealth cruise missiles were launched marking their first use in combat and these weapons performed their missions with precision, contributing to the success of the multinational operation.

In the Rotary and Missions systems business area, the U.S navy awarded us a unique contract to develop, manufacture and deliver to high-powered laser weapons systems to eventually be field with the board surface ships. This program the HELIOS contract is initial worth \$150 million. However, with options it could increased to nearly \$950 million.

This weapon system is the first of its kind and combines laser technology, traditional sensor and systems and counter unmanned aerial system capabilities designed to help provide layered defense support.

This award is a result of our commitment to advancing technology with more than 40 years experience in this domain, including long-standing internal research and development projects as well as customers funded contracts. We are honored to be working with the navy on this program and we are excited by the opportunity this leading edge system brings.

I will close with our space business area, celebrated the successful launch of two upgraded Trident II D5 missiles, certifying the readiness of the crew and the operational performance of the strategic weapon system. The two missiles were launched from the Ohio class ballistic missile submarine USS Nebraska. And marked the 166th and 167th successful test launches since design completion in 1989, the most reliable test record for any ballistic missile of its kind.

This modernize Trident missile, will be in service with U.S Navy and United Kingdom royal navy for next two decades adding to our over 60 year heritage of support to the sea leg of the Nuclear Triad. I would like to congratulate our space organization on this significant milestone and for their long history of mission success.

I will now turn the call over to Bruce to review our first quarter financial performance and to discuss our expectations for the remainder of 2018. We will then open up the line for your questions.

Bruce Tanner

Thanks Marillyn and good morning, everyone. As I highlight our key financial accomplishments, please follow along with web charts that we included with our earnings release today.

Let's begin with chart three and an overview of our results for the quarter. It's been a very strong start to the year, sales and segment operating profit were both higher than our expectations for the quarter, while cash was in line with our expectations given the planned pension contribution we made this quarter.

We returned almost \$900 million to our stockholders in the quarter nearly \$600 million through dividends and about \$300 million in share repurchases. Based on these results, we have increased our outlook for sales, operating profit and earnings per share for the year.

On Chart Four, we compare our sales and segment operating profit in the first quarter of this year with last year's results. Sales were about 4% higher this quarter compared with last year with three of our four business areas showing growth in the quarter.

Aeronautics and Missiles and Fire Control both experience high single-digit growth in the quarter. Aeronautics was driven primarily by F-35 production volume, while Missiles and Fire Control was driven by tactical missiles and classified programs volume.

Rotary and Mission systems had double-digit growth in three of its lines of business and was partially offset by lower volume Sikorsky due to lower quantities on our government helicopter programs. As expected space was slightly lower than last year as a result of our continuing cost reduction efforts on follow-on buys of our large government satellite programs.

Segment operating profit was up considerably in the quarter compared with last year's results. RMS had the highest operating profit improvement driven by the absence of the charge taken last year, for the EADGE-T program as well as strong performance across the entire portfolio led by improved performance at Sikorsky.

Aeronautics and missiles of fire control increased due to higher sales volume and improved performance, while space was lower due to the lower sales volume and risk retirements in the quarter.

Turning to Chart Five, we will discuss our earnings-per-share in the quarter. Our EPS of \$4.02 was 50% higher than our results last year, driven by the higher segment operating profit results that I just discussed as one of the lower tax rate in the quarter as a result of the Tax Cuts and Jobs Act which was enacted in December.

On Chart Six, we show the impact of our plan pension contribution, so have on our cash from operations profile in 2018. Cash in the first quarter was significantly lower than last year as a results of contributing \$1.5 billion to our pension trust this year versus none last year. And with an additional \$3.5 billion of contribution planned for the end of the third quarter, we expect cash from operations in the next two quarters to be much lower than our historical results.

In fact, we could see negative cash from operations in the second quarter, given the plan level of contributions in that quarter, because of these contributions we expect our cash generation to be heavily weighted to the fourth quarter, all-in-all though we remain comfortable with our outlook of greater than or equal to \$3 billion in cash from operations for the year.

Chart Seven provides our updated guidance for the year. We are increasing our sales outlook by \$350 million based on higher expectations for Aeronautics, MFC and space for the rest of this year. We are increasing our segment operating profit outlook by \$115 million due to higher sales volume and improved performance and Aeronautics, MFC and RMFs.

There is no change to our other unallocated expense, or our Net FAS adjustments. We are increasing our earnings per share by \$0.60. I will provide more detail into this increase on the next chart. And we are leaving our cash from operations outlook unchanged to greater than or equal to \$3 billion.

Chart Eight, provides a reconciliation of our current and prior earnings-per-share outlook for the year. Our segment operating profit improvement drives a \$0.32 increase in our EPS, updated to our revised estimated effective tax rate for the year and some other miscellaneous changes drives \$0.28 increase in EPS, resulting in a total increase of \$0.60 than a new EPS range of \$15.80 to \$16.10.

On Chart Nine, we show our revised sales outlook by business area. We increased our sales outlook in three of our business areas an increase of \$150 million in space, \$125 million in Aeronautics, and \$75 million in Missiles and Fire Control for a total increase of \$350 million above the guidance we provided last quarter.

Chart 10 provides the updated segment operating profit outlook by business area. We increased our outlook for RMS by \$80 million. Missiles and Fire Control by \$20 million and aeronautics by \$15 million for a total increase of \$115 million above last quarter's guidance.

And finally, on Chart 11, we have our summary, we're off to a very good start to 2018 with strong financial and operating performance across our

portfolio. We continue to see strength in the current level of our backlog as well as our future growth prospects and based on results of the quarter we increased our outlook for sales, operating profit and earnings per share.

With that we're ready for your questions. John?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And first we go to the line of Ronald Epstein with Bank of America Merrill Lynch. Please go ahead.

Ronald Epstein

Yeah. Hey, good morning. Marillyn, there has been some press about Japan and the U.K. collaborating on advanced stealth fighter if you will, I don't know something kind of called sixth gen, where does Lockheed stand on that, and how does Lockheed view the market for sixth gen fighters and if you could elaborate on that?

Marillyn Hewson

Sure, thanks, Ron, thanks for the question. Well, first of all, we are excited about Japan looking forward on their next aircraft and their replacement of the F-2 and we're exploring options that we could bring forward to them in cooperation with both the Japanese and the U.S. government, but at that time that we will share relevant details around that appropriate time certainly. We do think that our leadership and experience building the fifth generation aircrafts are critical to provide cost effective capabilities that will help support Japan's future security threats as they go forward.

Ronald Epstein

And conceptually this sort of like a - how can I say, continuation of F-22, I mean, how should we think about the requirements the Japan wants vis-à-vis an F-35?

Marillyn Hewson

Well, at this point, Ron, we are waiting you know it's really a government-to-government matter, I mean they will outline what their requirements are and we have a great experience on the F-22 and on the F-35 and so they look at the capabilities they need, I think we'll have a very good competitive offering for them.

Operator

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

Cai von Rumohr

Yes, thank you so much. Just looking at your change in your EPS guide, how much of the \$80 million increase at RMS, it's from Sikorsky and why and how much of the benefit is from a lower tax rate and what is that tax rate?

Bruce Tanner

Yeah, Cai, I will take both of those. So, \$80 million at RMS, I will say the lion share of that actually is at Sikorsky. I think we are up if memory serves me right, we're up about \$50 million in the first quarter and that trend is expected to continue through the next three quarters or so, so that's the bulk of why we're seeing the increase at RMS is because of Sikorsky.

And I think there we are actually finally seeing hopefully getting a little bit of traction with some of the initiatives we put in place and some of the systems, I think that we put in place here recently, that I think are giving a greater insight hopefully into managing some cost controls than the business had previously, so we are hoping that trend continues obviously as we go up through the rest of the year.

And then I think your second question, was relative to tax rates and so forth and I think what I had said at the start of this year was we were looking somewhere between 17% to 18%, probably on the higher side of that, and fortunately we have actually had some with the benefit of the little more time looking at the act and some of our planned reductions relative to what we assumed in the act initially, we think we have got some better opportunities than we assumed in January.

As well as we been really working some of the R&D tax credit items that we always work really hard and we see some benefit coming there as well. So rather than 17 to 18, I think for the year were looking right around 16% as the effective tax rate nearly simply guidance we are provided today.

Operator

Our next question is from Pete Skibitski with Drexel Hamilton. Please go ahead.

Pete Skibitski

Yes, good morning guys. Just may be you guys could talk more about the F-35, head of the program obviously I think has made some comments about

your strategy in LRIP [indiscernible] negotiations, and I'm just wondering if you guys are satisfied getting - definitised and when do you think that might complete and what is it just like I mean for the 12 to 14 timeline.

Marillyn Hewson

So Pete, I would just take that to say that, we are in in-depth negotiations and we know that the timeline is just how those negotiations go. So in terms of the date to complete, I mean I think that's just how the negotiations go forward, it's probably better to ask the PEO from his perspective Admiral Winter what his timeline is. I think the negotiations are progressing as they should and so we feel pretty good about getting the closure in the near-term.

Bruce Tanner

The other thing I might add Pete is I think we have seen some progress here recently in concert with the joint program office closing on some open items that I think will hopefully foretell some good signs relative to getting the whole program closed in the not too distant future. I mean as far as - I think the other part of your question was relative to the block buy 12 through 14. I don't see this being an issue, at least at this point, the other 12 to 14 is more of a funding issue at this point in time, that are negotiation issue. We clearly like to get 11 behind us so we can focus on that and hopefully we are on the right path to get that done in the not too distant future.

Pete Skibitski

Okay, and how you pass this issue with a whole - the recent delivery halt.

Marillyn Hewson

We are not, we are still progressing along with joint program office on that. It's not affecting production at all, because we continue to produce the F-35, that continues and we are confident, we are going to meet our deliveries this year of over 90 aircraft for 2018. It's just a temporary suspension that they have on accepting some aircraft until we reach agreement on a contractual issue and so we are working through that contractual issue with them and you know as you know the way we recognize revenue based on cost incurred, so we are posting to head on production and sustainment of the aircraft. And we will get resolution at this soon, I'm expecting.

Operator

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

Noah Poponak

Hey good morning everyone. Marilyn I wanted to ask on the defense budget bigger picture , clearly there have been a few reasonably sizable step ups in investment spending here over the last few years, but when you are speaking to those that have been a part of that seemingly bipartisan decision, it is not discussion at this point now that we have 2018 spending where it is, is that discussion closer to hey we have now had these big step ups, we're relatively close to where we need to be relative to the capabilities we need and the recapitalization we need and we're likely to just sort of grow in line with inflation off of this reset level or is that conversation closer to hey this is great, but we're actually still far short of where we need to be for all the capabilities and recapitalization we need.

Marilyn Hewson

Well in my discussions, I think first off this increase in defense spending was tremendously welcome to our customers, you know we have been in a situation with the budget caps and others where the spending on recapitalization as well as on readiness was not at the level it needed to be. So I see that as welcomed and certainly for industry it's welcomed, in terms of the planning and stability that we can see at least for fiscal years 2018 and 2019, and we still have limiting out there this whole issue of sequestration, which everybody would like to see go away.

So I won't ignore the fact that that's sitting out there, but what I would say is that the dialogue I have is about the very difficult situation in global security around the world it's just unpredictable, there is a need to move with speed and agility to address the threats that are there, and so is it enough, I mean you know, we don't talk specific numbers and it is not that I haven't heard anybody say it's enough.

I mean there is not much there in new starts, there is not much there in recapitalization and we know that we really got to focus on that, it's all some of the near-term issues on readiness to address that, but the need for what is happening with you know what I think secretary matters called the great power competitions with Russia and China and other geopolitical rivals out there that we got to stay on our game and continue to invest.

We're doing that at Lockheed Martin, we're investing in a lot of technology that we think will be important to our customers in the near-term and in the long-term way, but the threats are not going away they are accelerating and so in my view if you just would ask my opinion we need to continue to spend more on defense.

Operator

Our next question is from Seth Seifman with JPMorgan, please go ahead.

Seth Seifman

Thanks very much and good morning, Marillyn there was some language in the most recent proxy that suggests maybe you will stay on longer as CEO than maybe the prior customs of the corporation would've indicated, can you talk a little bit about the thinking behind that and about are there one or two specific things that you are looking to accomplish in the remainder of your tenure.

Marillyn Hewson

Thanks for the question, well just speaking in terms of my tenure, I serve at the pleasure of the board as does every CEO of a public company and they determine with me on when is the right time for me to step down, so I think it was important for us in our proxy to make that clear, just because people often look at ages and where people are in their long-term program.

I'm happy to report that I celebrated 35 years with Lockheed Martin in January, so I do have a long tenure with the corporation, but I intend to stay on longer and so in terms of what I want to accomplish, I want to continue to sustain the success of this Company with the hundred thousands of men and women that are working hard every day to support our customers.

You know my focus is on how we continue to drive innovation, how we continue to drive performance, the things that we are doing to align with the needs of our customers and make sure that we're performing on the work we're doing today, but we are looking beyond today and also for our shareholders to have a disciplined approach to how we manage the company and make sure that we create shareholder value and bring value to them in the long-term.

So, in a nutshell, I serve at the pleasure of the Board. They elect me annually and I would like to continue to work for some time.

Operator

And next we will go to Rich Safran with Buckingham Research. Please go ahead.

Richard Safran

Marillynand, Bruce, Greg good morning. How are you?

Marillyn Hewson

Good morning.

Bruce Tanner

Good. Thanks.

Richard Safran

So, I would like to ask about your cash flow guidance. Bruce, you took up your numbers, operating profit sales, but you left your 2018 cash from operations guide alone. So first part is, I would like to know if you could just discuss what the thinking was there? And Marillyn, in your opening remarks you talked a bunch about the increases to the investment accounts, so as the second part planned defense spending in 2019 at least it seems to be was a bit above expectations due to lifting of the spending caps, but there wasn't any update on the long-term cash from operations guide. So I thought maybe you could discuss those two items there and how are you thinking about that?

Bruce Tanner

Yes, Richard, let me take the first part of that on cash flow guidance and you are right. We did leave 2018 alone and the thought was a pretty simple thought, I mean, nothing more complicated then, we basically did what we thought we were going to do in the first quarter and then see upside to what our expectations were in the first quarter. And therefore, we didn't increase our outlook for the year.

We have got another three quarters to go for the year. We'll watch that very closely and we'll see if how much of some of the profit improvement actually translates into higher cash improvement throughout the rest of the year and we will update you as you go there. We typically had better performance on cash flow than we said at the start of the year.

I'm not predicting that here in the first quarter yet. But, we'll see as we progress throughout the year. We said at least \$3 billion greater than or equal to that and that's still what we're seeing as we sit here today.

Marillyn Hewson

And just to answer the second part of your first question, we remain hopeful for growth, higher growth, based on the press outs on the budget for 2018 and we hope to see that in 2019 for Lockheed Martin, our programs will still be well-supported, and we will see additional opportunities there.

We don't know specifically how that will play out, because we're a long cycle business and we are going to wait on the final details and the timing of when these things are enacted and get put on contract. So we will see when the orders hit; and then, therefore, that will drive the sales and then ultimately the timing of the cash from operations.

So I can't really give you a real specific answer to that other than to say just as we always do we look at the opportunities that come. In addition to that, I might mention, there are some other discrete proposals that are in process that could also impact our projections.

As you know, we're pursuing the advanced pilot system, the TX is the terminology we typically use for it, but as well as MQ-25 and the Huey replacement and some others. So those also will have some play into our opportunities looking forward, and then the timing of cash.

Bruce Tanner

Rich, I might just add a little bit to what Marillyn said as well. She mentioned during her prepared remarks the fact that we get more than \$7 billion worth of business in the Omnibus bill that just closed, you should think of all that as essentially over and above what we were assuming when we put our guidance out previously.

So when we talked in January about having \$17 billion over the next three years roughly \$3 billion in 2018, roughly \$7 billion each in 2019 and 2020 nothing has changed to that, there as Marillyn said, there are number of awards that we are waiting on that whether if we win or lose could have some slight impact on the near-term of that.

But as we sit here today, we still feel really good about that \$17 billion over three year and again with the increase in the budget that Marillyn talked about, hopefully there are some prospects that weren't in our plan when came up with those numbers.

Operator

Next question is from Peter Arment with Baird. Please go ahead.

Peter Arment

Thanks Good morning Marillyn and Bruce. Marillyn thanks for the color on Saudi. If you guys quantified in terms of the opportunity that you are looking at there and if that's possible and then Bruce just quickly on three deliveries of the C-130 in the in the first quarter can you kind of give us a expectations for the year or may be the cadence of the year. Thanks.

Marillyn Hewson

The Kingdom of Saudi Arabia opportunity the only qualification that we have done enrolling it up as a potential was what we did last May. When the agreements were signed between the Kingdom and the United States government about opportunities and if you recall I think it was something like a \$100 billion worth of opportunities that were outlined in that rolled up agreement.

So when we looked at where our opportunities were in that form Fed, the multi mission surface combatants, to radar, to helicopters, to aero stats a range of things, we communicated that we saw a potential of \$28 billion, of course that would roll out over whatever number of years when those orders were placed, contracts signed and so forth, but that's in essence what we have communicated in terms of the size of the opportunity.

Bruce Tanner

Peter the C-130 delivers, we were a little light in the first quarter, I think that's just sort of the contractual schedule that fell in place in the first quarter, nothing unusual about that. As we look at the remaining quarters for C-130 delivery. I think they are going to average somewhere seven or eight, we might have one quarter or so, where it bounces up to nine aircraft in the particular quarter.

So much higher than what we saw in the first quarter, not a whole lot different than what we saw last year though. I will remind you though this and I appreciate the question on the deliveries, but this is one of the programs obviously that with the new revenue recognition is also being recognized on a cost-to-cost, so the timing of deliveries might not have as much impact obviously on the C-130 programs as it get in years past, just may be to state the obvious.

Operator

Next we will go to Douglas Harned with Bernstein. Please go ahead.

Douglas Harned

Thank you good morning. Looking at your Missiles and Fire Control results which you talked about higher volume on missiles for the quarter. We also saw a big backlog gain in missiles in Q4 and there is some significant budget increases in this area over the next year two years. So when you look at this stage, do you see the surge in missile demand as a short-term trend or something that is likely that persist for a longer period say five or more years? And what would drive that?

Bruce Tanner

I will take a shot at this. Look I think your observations are spot on. I know when I looked at the long-range planning our three-year plan the thing that sort of jumped off the pace to me is Missiles and Fire Controls is amongst our highest growth business areas over that three-year plan period. And that was sort of under the original President's budget without taking into consideration a number of things that fell out from the Omnibus for instance.

So I think this is a trend that we see increasing at U.S., I think it's just with the short-term or is it may be out there for five years. I think in every single missile opportunity that we have and that's always you know PAC-3, the THAAD to JASSMs, the Hellfires, GMLRS, we are looking at increasing the capacity, increasing our build rates in every single one of those categories in the not too distant future.

So I think what you are seeing is not an aberration and I would say it is going to in my judgment last longer than a shorter duration five years or so I think that's a possibility definitely Doug.

Operator

And we will go to Matt McConnell with RBC Capital Markets. Please go ahead.

Matthew McConnell

Thank you good morning. So your 10K this year had some new language about the government taking increasingly aggressive positions around intellectual property rights. Could you elaborate on what has changed or what you were referring to their and how you are reacting to that change?

Marillyn Hewson

Sure Matt, I will just take that. I mean we are seeing - it's not across the board on opportunity that we are pursuing with the U.S. government, but there have been some cases where there have been sort of an unbounded requests for all of the intellectual property rights for us to pursue an opportunity and while we may be able to commit to that from a Lockheed Martin standpoint our challenge that we outlined is that it's very difficult for us to commit to that for our supply chain.

And so we have had some recent RFPs where the intellectual property rights request is seen, in fact we did a pre-award protest for the UH-1N replacement, the Huey replacement because we could not get to a position with the U.S. government in the dialogue up to that point to be comfortable that we could certify that we could provide all of the intellectual property

that they requested, because we couldn't certify that we could bring fourth all of that for some of our subcontractors. So that's just one example there. I don't know if you want to add anything or not Bruce.

Bruce Tanner

Yes, I would just piggyback a little bit on what Marillyn said, I think the Huey replacement program is a good example where we have had the Blackhawk helicopter being supported through the Army depots for however long we have been flying or they have been flying Blackhawk helicopters probably 30 years or so, and yet the request that came with the Huey replacement program admittedly an Air force program was actually for far more data and I will say the army is using today to support those aircraft and the fleet.

So it's a little puzzle as to why the same helicopter would have two different requirements for intellectual property when the government is already supporting that aircraft to the army depots. And that's what we're talking about, it's just a little bit of a head scratcher sometimes, often times, these are existing platforms with a new request for intellectual property that's a little puzzling.

As Marillyn said, a lot of it has to do with not so much with Lockheed Martin IP as that of our subcontractors, including, more puzzling than most, a lot of software. And in some cases even some commercial software applications. So that's the reason it's mentioned in the 10-K. That's the reason we filed the pre-award protest that Marillyn said on the Huey replacement program.

Operator

Our next question is from Joe DeNardi with Stifel. Please go ahead.

Joseph DeNardi

Yeah, thanks very much. Bruce, I wondered if you could just provide some sensitivity around the pension relative to kind of performance of equity markets over the next few years? Just to assume that as we experience kind of the flat S&P for the next five years. What would that do to your cash funding requirement? Thank you.

Bruce Tanner

Hey Joe that's a good question. As we have taken a look at that. And we have mentioned in the past that we actually get to a full freeze in the pension from January 1, 2020. So it's sort of disproportionately impactful if that's the right word to use, up until 2020 and then post 2020. So we're

more sensitive as you just asked the question to asset returns in the near-term believe it or not than we are which has historically not been the case.

We typically have been more sensitive to discount rate changes, but because the sort of the length of time until the plan becomes fully frozen is getting shorter by the day. We're less sensitive to the discount rate changes between now and then. Asset returns, we have greater sensitivity too, but you shouldn't think of them as being - we have taken I'll say scenarios where we have assumed, instead of the 7.5%, we have assumed zero percent return or zero return in 2018 for instance, just for sensitivity purposes.

And then we have actually gone to some negative scenarios. It's not a huge change. You shouldn't think of it as being something that where we would have I will say changes to the \$17 billion that we talked about earlier as being a significant change to that in total outlook is the way I would characterize it.

Operator

Your next question is from Rob Stallard with Vertical Research. Please go ahead.

Rob Stallard

Thank you so much. Good morning. I thought I would ask you a quick question about GPS III and the Follow On contract there, the competition there. It looks like some of your peers may not bid for this. And I was wondering how that changes the dynamic for you to obviously increases the chance of winning. But also is there anything different in that follow-on contract that makes it less financially attractive than the current situation?

Marillyn Hewson

So, I can't speak for our competitors, but I can just tell you that we feel very confident about our proposal for the GPS III Follow On. We already submitted those, we put out a release that we have a fully compliant proposal that we have submitted and it's for us as we see it as follow-on. It's an opportunity for another 22 next generation satellites to be brought in, we have invested a lot in design with flexible, modular architecture that allows us to bring down costs. But more over that it also is at a low-risk approach to continuing the GPS III F Solution so that's one thing that I would add is that we think we are performing well on ones that we are producing today and this Follow On, I think we are well position to continue for the Follow On.

Bruce Tanner

The other thing I might add Rob is I think the reason for the competition in the first place is we didn't perform as well as we otherwise could have on the first few satellites, we had some payload issues in particular there. I will say those we think have been cleaned up, I mean we feel really, really good about the performance of the satellites we are producing now, I think the government is also aware that we are performing satellites very well as most of industry.

So not to speak for any of our competitors, but I think the fact that the program is performing extremely well right now, serves us well going to this competition and in your second part of your question sort of is a lower profitability or potential that would cause our peers or competitors not want to do this, we don't see it that way. We see it as essentially the same opportunity as what we have had in the past without a change there. So that wouldn't be a driver from my perspective.

Operator

Next we will go to Rajeev Lalwani with Morgan Stanley. Please go ahead.

Rajeev Lalwani

Hi, thanks for the question. Marillyn and Bruce just getting some of the discussion out there around the top-line trajectory on the F-35 program, can you maybe just provide some thoughts on how you see revenue growth looking over the next several years for the program and if not may be just thoughts on how it compares to the overall growth rate of the company and to the end of the decade and beyond.

Bruce Tanner

Yes. Rajeev I will take that one and Marillyn can add some top cover if she wants to, but look I think in terms of F-35, the F-35 program in general is going to grow at a faster rate than the corporation is all the way through the end of the decade. In fact I would do tell you that it's going to do that beyond the end of the decade.

We don't reach peak production volumes until I think 2023 or 2024 timeframe somewhere that timeframe, so you should think obviously we spend the dollars since F-35 is also on the cost-to-cost where were recordings sales sooner than we were getting those deliveries, so it's a little bit push to the left if you will.

But even with that you should think of that peak is sort of not occurring until past the end of this decade and then our expectation is that with sustainment, the sheer number of aircraft that are in the field growing significantly between now and then that sustainment will help position that growth in the future even when the production starts to slow down.

The last thing I would add is there is still even though as Marilyn said in her prepared remarks, we completed the STD program, there is already the idea, plans in place of the follow-on modernization of the F-35, not just for the U.S government but for international customers as well.

So there will be the sustaining level of development. Just like there is a sustaining level of development and modification work that we're currently doing and F-22's and F-16s that are decades past their peak production period. We are going to see that going for a long, long time on the F-35 program.

Marilyn Hewson

The other thing I would add Rajeev is that we currently have of course the three U.S services, the eight international partners, three for military sales partners on the program, but there is a lot of interest beyond that with many countries around the world that want to buy the F-35, and so while we have a program of record that we can talk about what we see as the production plan for that, we expect to be selling more F-35s around the world in the coming year so that will be another indicator of continued revenue from the F-35 program and production sustainment and as Bruce said continued modernization and upgrade.

Operator

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

George Shapiro

Yes, good morning Bruce it looks like you raised the margin rate on the F-35 again based on the numbers that you gave, so just wanted to validate that. And then second, could you tell us how many deliveries the Air Force currently hasn't taken and what kind of impact that might have had on cash flow in the quarter. Thanks.

Bruce Tanner

Yes, good questions George, so there was a slight pickup on the total F-35 program, I think the biggest single drivers I recall is we had some increases

once again, I think as we did last year on some of our international FACO so this is a Final Assembly and Check Out facility, those are going extremely well and this is another example of this quarter where we recognized some of the benefits of the performance we're seeing there, taking place actually greater than it was a year ago this quarter. So that's the primary reason for the upper in the F-35 program

And then that said the other question was relative to the number of aircraft that are on hold that's lost track in the quarter George, I want to say it was - I would say its mid single-digits to upper single digits, I have lost track of F-35s, so not a huge impact cash, obviously it didn't change sales or earnings because of the way we recognized revenue, but slight impact on cash although nit much because most of those withholds occurred later in the quarter where they weren't going to get collective in any event. So our expectation would be, come second quarter hopefully we have got this behind us and there will be no impact to cash in the second quarter.

Operator

Next question's from David Strauss with Barclays. Please go ahead.

David Strauss

Thanks, good morning. Wanted to try and put a finer point on the budget upside that you saw come through and what it means for growth going forward, so you have obviously you know in the past talked about growth accelerating from 2% to 3%, I'm talking top line growth accelerating from 2% to 3% this year to like 4% to 5% in 2019, given the extra \$7 billion that you saw come through in normal kind of spend rates what do think that implies for that 4% to 5% number and then as a follow-up Bruce if you could just update us on C-5 and potential resolution there. Thanks.

Bruce Tanner

David you got a good memory there, I'll give you credit for that one. The first part of your question's a really good one, I'll say this, it's at least a \$64 million question and it's a question that is almost unanswerable at this point in time, we got to see when that \$7 billion start manifesting itself in terms of contract modifications or contract awards to add those increases to our existing programs and my guess is they're all going to get phased-in differently so in some cases on some the missile and the like we are actually sort of at capacity this year.

So I would say just in general I wouldn't expect to see much of any of this shift in 2018, and my guess is it will get spread over 2019, 2020 and 2021 timeframes and maybe even a little further out than that. Let's talk the F-

35s, for instance, those I would like to think we could get them in the somewhere in the 12, 13, 14 block buy, but we are off right now going out to suppliers and sort of getting quantities of aircrafts locked down with our suppliers.

So it depends on when they gets authorized and again modded to the contracts that we already have. But, if I were a betting person, I would say you should think most of that's going to happen in 2019, 2020 and 2021 and obviously, David, I will give you the better insight because we will get better insight into it, as the year goes along, but definitely in the October timeframe when we give trend information for 2019, we'll try to talk about, what it looks like beyond 2019 at that point in time.

I think your last question is on the C-5 equitable adjustment. I literally don't think I have any news on that, David. This year, we finished delivering the last modernized C-5 aircraft, I want to say that aircraft is in, like, the third quarter of this year. My guess is, we will get a lot more action on that closure once the total program is closed if that makes sense.

So again, nothing planned from our perspective, relative to if it doesn't happen this year, it's not like that's a downer or a hit to this year because we don't have that plan this year. We haven't talked about that, frankly, in the future years as well, but we still expect we have a very good case there. So, no news to report is the short answer.

Greg Gardner

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

Operator

And that will be from Hunter Keay with Wolfe Research. Please go ahead.

Hunter Kent Keay

Hey, good morning. Thanks for getting me in. On the supersonic X-plane, is this your technology? I'm wondering if there is a remote scenario where Lockheed reenters the commercial aircraft market, if this design proves out and how your experience moving into the commercial market with the LM-100J might persuade you to do that. Thank you.

Marillyn Hewson

Well, to your point, Hunter, we do have LM-100J and we are happy to have that as a commercial offering. It's a follow-on to LM-100s that we sold to the 100 customers some years back. So having an opportunity to refresh that

we also as you have probably seen, are supporting another company that is coming out with the supersonic jet business jet offering Aerion and we are supporting them on their project with some engineering support and other things.

But in terms of our foray into the commercial aircraft aviation side, we don't read too much into this, this technology that we're working on with the low boom, I mean what we are bringing is that we can bring out Skunk Works, which is the low boom technology and a lot of other technology that we can support.

I apologize. I'm fighting a cold here, so my voice is getting a bit scratchy here, but point being what company is come to us, whether its NASA or its commercial companies is our deep knowledge and experience and technology that we can bring to support new technology. So as I mentioned earlier, we are engaged a lot in hypersonic and directed energy. And now this is a follow-on to some low boom technology work that we have done with NASA to take it to the next level.

And our Skunk Works operation is working on it; as there are a lot of our advanced technology labs across the Corporation, working lot of fascinating and interesting advanced technology to help both on the commercial and the military side.

Greg Gardner

Thanks, John this is Greg, I think we have come up at the top of the hour here. So, I'll turn it back over to Marillyn for some final thoughts.

Marillyn Hewson

Sure, I will make it brief since I'm losing my voice here. However, just thank you all for [Technical Difficulty] and by highlighting that we have an outstanding quarter and we continue to be well positioned to deliver long-term value to our customers and to our stockholders. So we look forward joining us on the next call and that concludes our call for the day John.