Ladies and gentlemen, thank you for standing by and welcome to the Lockheed Martin, Third Quarter 2019 Earnings Results Conference Call.

For the conference, all the participant lines will be in a listen-only mode. There will be an opportunity for your questions and instructions will be given at that time. [Operator Instructions]. As a reminder, today's call is being recorded.

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

Greg Gardner

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

Statements made in today's call that are not historical facts 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 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'd like to turn the call over to Marillyn.

Marillyn Hewson

Thanks Greg. Good morning everyone and thank you for joining us today on our third quarter 2019 earnings call as we review our quarterly results, our key accomplishments and discuss our preliminary outlook for 2020.

As today's release illustrates, we had another quarter of strong results; financially, strategically and operationally. These results reflect the continued strength of our core legacy programs with recent strategic wins contributing additional growth.

Our focus on program execution and investments in long term growth capabilities have our team well positioned for the future. Ken will discuss our financial results in more detail and provide preliminary trending data for 2020.

First, I'd like to begin by highlighting a few of the elements that drove our strong third quarter performance. Sales this quarter exceeded last year's third quarter by 6%. Year-to-date we are nearly 12% over our 2018 results.

Missiles and Fire Control have the highest overall growth this quarter as deliveries of tactical and strike weapons, development work on new hypersonic programs, and PAC-3 missile production grew from last year.

Our Aeronautics business area also saw strong sales growth in the F-35 development, sustainment and production and we increased our joint strike fighter deliveries to 28 aircrafts this quarter compared to 20 in last year's third quarter.

Our space team saw a continued growth from recent strategic wins in their Overhead Persistent Infrared or OPIR contract, the GPS III satellite production program and new hypersonic wins in their portfolio.

This quarter we added over $600 million to our backlog, which now exceeds $137 billion and has reached a record level for the 5th consecutive quarter. Our segment profit grew by comparable amounts with the third quarter results improving 5% over the 2018 third quarter, and we had a strong quarter of cash generation achieving $2.5 billion of cash from operations. We now have brought in over $5.8 billion of operating cash year-to-date, keeping us on pace to deliver at least $7.6 billion in cash from operations for the year.

Our team continues to drive growth and performance in all financial metrics with a portfolio of products, technologies and services that are in great demand by our customers and which continue to provide long term value to stockholders.

Turning to cash deployment during the quarter, our Board of Directors approved two key actions demonstrating our commitment to returning cash to stockholders. First, the dividend was increased by 9% to $2.40 per share quarterly and $9.60 annually, continuing our commitment to providing shareholders a strong dividend.

Second, our share repurchase authority was increased by $1 billion, bringing our total repurchase authority to $3.3 billion at the end of the third quarter. The recent actions taken by our Board will position us to continue our shareholder friendly focus on returning cash to stockholders through dividends and share repurchases.

Turning back to our business areas, I will touch on some significant operational and strategic accomplishment in just a moment, but I want to first highlight a few of the notable new business wins and follow-on awards that have helped position us for long term growth.

I'll start this quarter with our Rotary and Mission Systems Organization. This integrated warfare systems and sensors line of business was selected by the U.S. Army to develop a Sentinel A4 radar system. The Sentinel A4 radar replaces the current A3 variant and will provide improved air and missile defense against low flying, unmanned aerial systems, cruise missiles and other threats.

The initial $280 million award is to develop and deliver 18 new A4 System. The army's plan of record is to upgrade 199 A3 Radars, but use Sentinel A4s, with a total potential value of approximately $3 billion over the life of the contract, from sales to domestic and international customers.

This strategic win provides the corporation with a new growth opportunity, building upon our successes in the Space Fence Long Range Discrimination Radar and Homeland Defense Radar programs, and I'm very pleased to add this program to our portfolio.

RMS also announced the award of two contracts totaling over $500 million to evolve and improve the U.S. Ballistic Missile Defense System for the Missile Defense Agency. Our command, control, battle management and communications contract or C2BMC a legacy program dating back over 15 years, received a $320 million award to enhance the MDA's Ballistic Missile Defense System, integrating our long range discrimination radar and other new sensors into the solution, providing advanced tracking capabilities for emerging threats and further hardening the cyber security posture of the system. C2BMC is a cornerstone of the nation's layered air and missile defense network and we are excited to evolve this critical capability.

Separately the Missile Defense Agency awarded RMS a $240 million contract to support the modeling and simulation framework for the Ballistic Missile Defense System. This new contract will test the operational effectiveness and performance of fielded ballistic missile defense equipment and evaluate new conceptual architectures to help ensure the war fighter receives the most effective solution possible.

In Aeronautics, our F-35 teams received notification from the state department of the approval for the proposed foreign military sales to Poland. The notification includes the procurement of 32 conventional takeoff and landing or CTOL variant, with a total potential value of approximately $6 billion.

The F-35 CTOL once deployed will integrate seamlessly with the Polish Air Forces existing 48 aircraft F-16 fleet and would replace aging fourth generation legacy aircrafts. We're proud of our long standing partnership with the Polish government and industry and look forward to continuing that relationship as we deliver this unrivaled fighter jet to this important NATO allay.

Our F-35 team was also awarded a $2.4 billion IDIQ contract for continued sustainment support to provide initial spare parts for our U.S. Marine Corp, Navy and Air Force Aircraft, as well as for partner countries and other international customers over a two year period.

Keeping with Aero, our F-16 program received a formal $800 million award for the production and delivery of 14 state of the art, Block 70 Fighter Jet to the Slovak Republic following the notification we discussed last year. The award brings our F-16 backlog to 30 aircraft with Bahrain and the Slovak Republic as our latest customer nation, and we are pleased to have the opportunity to help provide security products to these important allies. We are excited with the opportunities we see ahead of us in the F-16 pipeline and we look forward to building this remarkable aircraft for years to come.

In Missiles and Fire Control, we received a $1.4 billion order to provide Terminal High Altitude Area Defense or THAAD interceptor support to the Kingdom of Saudi Arabia and this announcement brings the total awarded value of the KSA THAAD program to over $3.5 billion.

Moving forward to our Space business area, we received a $2.7 billion award to deliver the first three Orion spacecraft to support NASA’s Deep Space Exploration objectives for the second order of 3 Orion vehicles planned in fiscal year 2022. Orion is the NASA’s spacecraft that will carry astronauts from earth to the moon and bring them safely home as part of the Artemis Lunar Exploration Program.

NASA has expressed a commitment to land the first woman and the next man on the moon by 2024 and Orion is the planned delivery vehicle. The goals of the Artemis program are to demonstrate new and innovative capabilities with the ultimate objective to provide the technologies and experiences to launch a mission to explore Mars in the 2030s.

We're excited that the Orion has been identified as the space craft to deliver these brave astronauts to lunar and one day Martian orbits and bring them safely home to earth. And just after the close of the third quarter, our space business area received a $495 million award with a potential for over $1.2 billion of value on the Trident II program. The award is for the production and deployed system support for the Trident D5 submarine-launched ballistic missile system, a program we've been leading for over 60 years.

These announcements reflect the long-term investments we have made to develop new technologies, leading to new franchise programs and innovations to enhance legacy products providing us with the continued growth opportunity for the future.

Turning briefly to budget, the Bipartisan Budget Act of 2019 was an entered law during the third quarter and established increased spending levels for discretionary defense budgets and total national security spending for FY 20 and FY 21 efficiently eliminating the constraints imposed by the Budget Control Act of 2011.

Both chambers of Congress had advanced appropriations bills in support of this budget increases, and in both versions our programs are well supported. Final legislation approving these funds has yet to be passed and the federal government is currently operating under a short term continuing resolution for fiscal year 2020 that is set to expire on November 21.

The CR limits the Department of Defense Authorization to previous fiscal year levels until an appropriations bill can be signed into law, but the large portion of our backlog were already funded from prior fiscal years. We do not expect any impact to our 2019 financial outlook from this current short term CR.

Should the continuing resolution and its associated budget constraints be extended beyond November 21, we could experience some level of impact to our 2020 trending data depending on the duration of the CR.

Moving on, I'd like to highlight several significant events form across the corporation that occurred during the past quarter, which demonstrate our strong operational performance. In missiles and Fire Control, we are excited by two expansions we are undertaking to accommodate planned growth in our tactical missile and air missile defense lines of business.

In August we opened a new 30,000 square foot facility in Texas to support production of PAC-3 missiles, THAAD interceptors and guided multiple launch rocket systems.

In September we broke ground on a new Long Range Fires Production facility in Arkansas which will add 70,000 square feet to the current property and allows us to accommodate increased production demand in our army tactical missile system and other Precision Fires Program.

And in our Space business area this quarter, I was extremely proud to attend the official groundbreaking ceremony announcing Northern Alabama as our flagship location for the corporations hypersonic strike work, establishing a new facility for the engineering and manufacturing of hypersonic weapons. These three actions reflect our commitment to investing in legacy program, as well as emerging technology to support the current and future needs of our customers.

In Rotary and Mission Systems, our Sikorsky team completed an extensive set of testing for our combat rescue helicopter to successfully achieve the milestone C decision moving the program into the low rate initial production phase of the contract. The joint Sikorsky and U.S. Air Force test team executed over 70 hours of envelope expansion flight, validating the modifications to the venerable Black Hawk platform that will allow it to perform its importance search and rescue mission.

The U.S. Air force plan of record is to revive 113 helicopters with five aircrafts currently in various stages of production. With enhanced avionics, improved offensive and defensive capabilities, and a new fuel system that nearly doubled capacity, the combat rescue helicopter has now been deemed capable of fulfilling its crucial mission to save down war fighters anytime, anywhere around the world.

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

Ken Possenriede

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

Let’s begin with chart three and an overview of our results for the quarter.

Sales segment operating profit, cash from operations and earning per share continued to be strong. We generated $2.5 billion of cash from operations and we continued our cash deployment actions in the quarter, returning nearly $830 million of cash to our shareholders through a combination of dividends and share repurchases, and we grew our backlog to $137.4 billion representing the 5th consecutive quarter in a row of record backlog.

Based on the strength of our third quarter performance, we've updated our financial metrics for 2019. In addition, we’ll be discussing how our performance this year is carrying over into 2020 with our preliminary financial trends.

Turning to chart four, we compare our sales and segment operating profit in the third quarter of this year with last year's results. As I mentioned earlier this year, for comparison purposes the third quarter of this year had 13 weeks in the accounting period, while last year's third quarter had 14 weeks in the accounting period. Even without the extra week in the quarter, our results exceeded last year.

Sale grew 6% compared with the same quarter last year to $15.2 billion continuing the strength we had in the first two quarters, while segment operating profit increased 5% over last year's levels to nearly $1.7 billion. Year-to-date all four business areas contributed to the significant increases in both sales and operating profits.

On chart five we'll discuss our earnings per share in the quarter. Our EPS of $5.66 was $0.52 or 10% higher than our results last year driven by operational performance.

Moving on to chart six, we provide our revised outlook for 2019. With just one quarter left in the year, we are providing a point estimate of results for the entire year versus the ranges we have provided in previous quarters.

We expect sales to be approximately $59.1 billion for the year, above the mid-point of guidance range we provided last quarter. At $6.4 billion our forecasted segment operating profit is above the mid-point of the guidance range last quarter, resulting in a 10.9% margin. This puts our sales approximately 10% above 2018 results and segment operating profit approximately 9% above last year.

Moving on our FAS/CAS pension adjustment, it remains unchanged at a little less than $1.5 billion. Our earnings per share is expected to be around $21.55, above the high end of our pervious guidance range driven by a lower tax rate than earlier estimate and the continued performance across our businesses. Cash from operations remains at equal to or greater than $7.6 billion, which has increased in the first two quarters of 2019 from the $7.4 billion outlook in January.

Chart seven provides a reconciliation of our earnings per share outlook this quarter compared to last quarter. Operational performance is expected to drive approximately $0.07 increase in the EPS from an advised outlook for segment operating profit as a result of higher sales volumes in our business area.

Tax predominately makes up the remaining $0.48 in EPS with most of that increase coming from a lower tax rate as we continue to reflect the latest benefits from the city with the foreign derived intangible income deduction that we discussed earlier this year. We now expect our full year effective tax rate to be approximately 13%. Together these changes represent an expected 55% improvement from the mid-point of the EPS range we provided last quarter to a new outlook of $21.55 per share.

Chart eight shows our new outlook for sales by business area for the year. Our point estimate for sales outlook is above the midpoint point of our last guidance increase to $59.1 billion. On chart nine, we've provide a similar view of our new outlook for segment operating profit by business area for the year.

Like our sales, segment operating profit is above the mid-point of the guidance range from last quarter. RMS is slightly above their mid-point and space's latest outlook shows them exceeding the high end of their prior range.

On chart 10 we provide a preliminary look at our 2020 trends. We expect our 2020 sales to be approximately $62 billion, 5% growth over our current outlook for 2019 sales. We expect our segment operating margin will be between 10.5% and 10.8%. This marginal level assumes similar performance in our legacy programs in all business areas, with some dilution from the continued growth in new start programs we have recently won.

We estimate that our cash from operations will be equal to or greater than $7.2 billion, inclusive of our of our required $500 million pension contribution for next year. We also plan to have at least $1 billion in share repurchases, the same level as we expect to have in 2019, more than offsetting any planned share issuances in the year.

And similar to 2019, we have a debt maturity coming the next year; its approximately $1.3 billion. Just to note, our 2020 trending data does not include any impact regarding the recent potential sanctions or other actions the government may take with respect to Turkey. We will continue to evaluate any potential impacts to our program.

Moving to our FAS/CAS outlook, we expect our net 2020 FAS/CAS adjustment will be approximately $2.1 billion or about $600 million higher than the adjustments for 2019. This adjustment reflects the final phase of the planned freeze of our salary pension plans that we previously disclosed.

This estimate assumes a discount rate at the end of the year of 3.25% or 100 basis points below the 2018 rates. Based on our performance to-date we are assuming a 15% return on our assets for the full year. And going forward we are maintaining our long term asset return assumption of 7% per year.

And finally on chart 11, we have our summary. We've seen strong performance from all of our business areas this year and I'm especially pleased with our record backlog throughout the year. Our updated financial metrics anticipates strong full year results and we expect to see continued growth into 2020 based on our portfolio of legacy program, new wins and strategic investments that have continued to grow our backlog through the year and across our portfolio.

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

Question-and-Answer Session

Operator

Thank you [Operator Instructions]. And first from the line of Rich Safran with Buckingham Research. Please go ahead.

Rich Safran

Marillyn, Ken, Greg, good morning! How are you?

Marillyn Hewson

Good morning.

Ken Possenriede

Good morning.

Rich Safran

So either Marillyn or Ken, a question on your 2020 guide with a few parts to it. You know you are guiding to 5% growth. You just covered that next year. Now, always to the best you can, could you discuss the segments you expect to see the most growth from next year? What the primary drivers are, the 5% growth and where you see some possible upside? And on margins, I just wanted to ask. Your guide for next year just seems a little bit light relative to where expectations were and I thought maybe you could discuss what's driving that? Thanks.

Ken Possenriede

You bet, thanks Rich. It’s probably best I take that question and if you don’t mind Rich, I’ll give you some color and you can go across all business areas.

So I'll start with Aero. You know next year we see mid-single digit growth across the business areas for Aeronautics. F-35 – we see growth on F-35 similar to the Aero growth, that mid-single digits.

Development and sustainment, we see that growing faster than production. We see strong growth at IFG and that's specifically F-16. You heard Marillyn mention we've got the Slovak Republic order behind us, we are now starting to build [indiscernible] Jets that we'll start delivering out in late 2021 and we've got strong [mod] [ph] work there.

And we also see strong growth at Skunk Works. If you recall, we talked about the classified program we won. The Skunk should grow double digit sales next year.

And finally for Aeronautics, at AMMM, no surprise. We see sales decline in 2020 compared to 2019. If you recall we are going to deliver 28 C-130s this year, forecasting around 25 next year and a reduction in 2021 to about 23. So you'll see mid-single digits decline in sales there, so just to summarize again for Aeronautics, mid-single digit growth.

At Missiles and Fire Control, it will be our fastest growing business area again. We see low mid-digit growth. We see strong growth at strike weapons specifically in precision fires and JASSM we also see strong growth in integrated Air and Missile Defense and that would THAAD and PAC-3.

At RMS we see low single digit growth. We're finally starting to see some strong growth at Sikorsky. Think of that as MH-60 combat search and rescue and the presidential helicopters VH-92 programs. That will more than offset. We see declines in our IWSS business. Think of that as Littoral Combat Ship and the domestic piece of Aegis.

And in space we see growth, which last year at the time we would not have seen [indiscernible] we were going to see growth at space. And if you recall we talked about our strong order book this year and the lion share of that up-side was at space and we are continuing to see that in the future.

The upsides are in hypersonics programs and think of the space transportation segment of that business, so Orion and [OPIR] [ph]. OPIR is growing and that is slightly offsetting declines and think of some of our historical programs that are starting to wind down like [indiscernible] and Advanced [DHS] [ph]. So net, we see roughly 5% growth for the corporation.

Going to profit margins, we see Aeronautics having similar margins as they did in 2019. F-35 profits will grow at the same rate as sales, so think of that as mid-single digit. As I mentioned with sales, development sustainment is growing faster than production and therefore dilutive in nature.

I mentioned the Skunk's. So the Skunk's is growing. Their profit, their absolute profit dollars will be growing, but that is also dilutive in nature, so you'll see basically mid-single digits at Aeronautics.

Missiles and Fire Control, we see right now less risk retirement in 2020 than we saw in 2019, and as we've talked about the classified program that we won and that will continue to grow as will other development programs ramping-up so that they have dilutive margin. Missiles and Fire Control we see overall we'll have lower margins in 2020 than in 2019.

RMS – we are seeing similar to or slightly higher margins in 2020 compared to 2019. That's driven by our training business and our Sikorsky piece of the business.

And finally at Space, we also see like Missiles and Fire Control less risk retirements are forecasted in 2020 and also the new program starts. And on ULA, we see similar earnings in 2020 as we did in 2019.

So overall also we see space like Missiles and Fire Control will have lower margins in 2020 than we had in 2019. Hopefully, that gave you enough color Rich.

Operator

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

Myles Walton

Great, thanks. Good morning! Marillyn I was hoping you could talk about the F-35 and in the context of any risk you are managing around Turkey. Obviously, you've excluded it from the guidance, but Ellen Lord I think this week mentioned that Lockheed is actually the agent for reassigning the work that might be or is being sourced outside of what's being done instead of Turkey to other players. Can you clarify for us if that means that Lockheed is just the agent for resourcing network or if there's any risk that you are carrying in that transition as well?

Marillyn Hewson

Thanks for the question Myles and I think probably the broader answer beyond just F-35, I'll ask you Ken maybe to weigh in on the balance of the portfolio, because we've had some questions from others about it. This might be a good time to cover Turkey all up.

But as you know, back in July the Department of Defense announced the exclusion of Turkey from the F-35 program and that included the in-country suppliers, with the target date of March of 2020. So we've been working closely with the U.S. government for several months for quite some time on establishing alternate sources of supply in the United States to be able to quickly take the place of the current contributions that Turkey is providing to the program in terms of components and parts, etcetera, and all throughout that we continue to evaluate our supply chain.

We are you know or as the prime contractor for those sources of supply, we are doing that work, yes. I mean if that's – if I've understood you question, do we have the responsibility? We do, and we're working with, of course we have some major contractors that have work in country as those Pratt & Whitney which we don't oversee. Pratt & Whitney has their own responsibility for that.

So we are the agents reassigning the work and we've been working on it for some time. But in terms of the risk associated with it, we have a contract modification from the U.S. government that covers all that risk. Because this is a decision by the U.S. government to take Turkey out of the program and so for that purpose, even though we are the ones that are reassigning the work, we have coverage from the contract at the same point.

Ken, I think it might be helpful also to kind of give some color on the rest of the work that we have in Turkey at this point.

Ken Possenriede

You bet. Good morning Myles. You know we had the disclaimer in our earnings release talking about you know 2020 no impact to our related to Turkey. Let me just give you some color and I'll take about four areas.

So the first one is and this is, one of it is related to F-35 so its exports and so this is the delivery of aircraft to Turkey for the F-35 program and that's by far the largest item here. And I think you know our F-35 contract with Turkey is a partner agreement, so you know they are one of the partner countries through the U.S. government.

We have - the U.S. government has documented that Lockheed Martin will not absorb any impact from planes we've built or are currently building for Turkey. So we believe we are covered here, and I'm sure you saw on our balance sheet some growth in our contract assets. Part of that growth is because we're still working through with the U.S. government to get a contract mark from them for this work, so we can bill and collect for that. Other exports to Turkey from the other business areas really are not material, so there's really no impact to us there.

The second item is we have a few Turkish military programs that would be impacted by any continuing imposition of the sanctions and work returns, currently reviewing them to determine the financial impact; and one of which is we have a – it could potentially have to get back a cash advance, an advance payment that's not material in nature and we do know that any inability to perform due to U.S. government sanctions, we would have a backlog adjustment. Think of that as about $900 million you know ball park, that’s in $1 billion, but that’s more a you know a book keeping element at this stage, but net-net on these Turkish military programs for 2020, we don't see any real impact to sales, our profits or our cash, even the cash advances, it would not be material to us.

The third area is we have a joint venture in Turkey with a company called the Alpata Group; it’s the Alp Aviation. Think of that as Alp manufacturers finished precision parts and mechanical assemblies and have scope for the F-35 and Black Hawk production, and we have an equity stake in this joint venture and think of that as about $40 million.

We also recognize equity earnings and they are less than $10 million a year, so really not a large amount. So you know at this time if Alp would be prohibited from selling component parts to the Ministry of National Defense, however unless reciprocal sanctions are implemented, Alp should be able to continue to sell component parts to support this. They won't be for F-35; we're working through that. This is for Pratt & Whitney components, we’re working through that. So right now we don't think to be a material impact there either.

And then the last one is the Turkish suppliers that are actually supporting U.S. programs and that's more than just F-35. So you know the way the sanctions are written, transactions and activities for the conduct of the official business of UST by Lockheed Martin, they'd still be authorized. But independent of the sanctions we're still working second source supply contract as Marillyn mentioned and they are underway and we are working that to wind those down in the 2020 time period.

And as Marillyn mentioned, we've been partnering closely with the U.S. government and our supply chain to minimize the impact on the F-35 program. We've been working hard to establish alternate sources of supply in the U.S. The first – second choices will all be U.S. based to quickly as possible to accommodate Turkey's current contributions for the program and we’ll continue working with the U.S. government to understand any potential impacts.

Lastly, you know even if the current sanctions are lifted, we’re mindful of the potential for congressional legislation or the implication of CAATSA, which is the Countering America's Adversaries Through Sanctions Act related to Turkey's purchase and that's due to the S-400 system, but we'd speculating at this time at any impacts at this point. So hopefully that helped to answer the question.

Operator

Next we'll go to Sheila Kahyaoglu with Jefferies; please go ahead.

Sheila Kahyaoglu

Good morning Marillyn and Ken! Thank you very much.

Ken Possenriede

Good morning.

Sheila Kahyaoglu

In the past you've talked about a three year cash flow target and with operating cash flow bought in 2020 expansion contribution. How do we think about the longer term drivers of free cash flow and the off-set in '21 given a pension step-up and just moving pieces on CapEx and working capital. I'm asking you to build a model Ken, so.

Ken Possenriede

Okay, thanks Sheila. You know so if you go back, I think Bruce [ph] teased us up about a year ago and what he saw you know based on what we did on our long range plan, about $7 billion – he said $7 billion in 2020, 2021 and you know right now as we see $7.2 billion with inclusive of the $500 million pension contribution. I'll remind everybody, that's up about $300 million.

The pension contribution is up about $300 million due to the returns we had in 2018. So we've done a nice job working our way through working capital and I mentioned you know six months ago, seven months ago that that's a priority of ours this year.

You know the best we could see this year right now for 2021 and 2022, we will be north of $7 billion. Not sure how much north of $7 billion, but we'll be north of $7 billion and right now it looks like our pension contribution is out in 2021 and 2022 based on you know the assumptions we've made would be about $2 billion in pensions.

So again, I think we've done a nice job of continuing to grow our cash and you know we'll refine that over the next couple of months and when we give you guidance in January.

Operator

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

Noah Poponak

Hey, good morning everyone.

Ken Possenriede

Good morning.

Noah Poponak

So just coming back to the 2020 revenue outlook, you know it's a company that grew revenue in a lot of years in the past; five to seven or outlay growth was negative. You know you had this type of growth where you were projecting a 5% type growth rate, 2016, 2017 when outlays were still declining. You know you did something closer to 10, 2018, 2019 when the bookings really started to ratchet up and you've now got the trailing 12 month book-to-bill and the recent backlog growth basically is as good as it's ever been in history the company, trailing 12 month Book-to-bill at 1.5.

So unless it is a longer dated backlog than ever or if there's just a handful of specific programs that come out of the P&L completely in 2020 that were already out of the backlog, you gave a pretty extensive list of new wins recently in the prepared remarks. I'm just struggling mightily to match up this backlog change with this revenue growth projection.

Ken Possenriede

Well Noah, its Ken. I think I'll take this and I'll try to relieve your struggling the best I can. So you know we talked about backlog. We see back log into this year. Probably it's going to continue to grow based on the orders we believe we're going to receive in the fourth quarter, the biggest one being into the block by once we get that definite size and we're very close, so we'll be…

Noah Poponak

So it is going to grow again in the fourth quarter?

Ken Possenriede

Yeah, so $140 billion – we'll be up to about $140 billion and you look at the increase we had this year over what our plan was, think of that as about $17 billion. Think of the $17 billion, about $7.5 billion of that were pull-in's from 2020 into 2019; think of that as the advance AWE.

We got three years' worth of quarters this year rather than the one, so that piece is longer. Think of the block by, which is overall $35 billion give or take. That'll be over a three year period. We're going to get to multi-year three in the fourth quarter for the C-130. That is over a longer period of time.

If I go back to the $17 billion, the remainder is about $9.5 billion. Those are just pure upsides that we did not plan for. So we have guided from the start of the year to now, increased our guidance by $2.6 billion. Think of that $2.6 billion came from the $9.5 billion of upside of orders that we had and back to your comment, in the $140 billion, the gestation period if I could call it that, is a longer period than we have historically seen.

Operator

Our next question is from Jon Raviv with Citi; please go ahead.

Jon Raviv

Hey, thanks everyone and good morning.

Ken Possenriede

Hi Jon.

Jon Raviv

Marillyn, what is your – kind of a broad question here, but what's your perspective on your position in the industry. I get the sense that there's always some shifts in terms of industrial structure, in terms of who is the platform provider, a platform integrator and technology enabler. Any perspectives on that kind of dynamic and what that means for your – you know when you say long term growth, you know what is that, is that 22 or do we have a line of sight a little bit beyond that at this point. Thank you.

A - Marillyn Hewson

Thanks for the question Jon. I guess you know as I look at where we are today, I mean we have transitioned our portfolio over the last few years, several years, toward a more platform provider. We used as you would call, IS & GS, which was a very strong services component of the portfolio. At the time that we divested that element, we brought in Sikorsky, a platform based program. You know in addition to that, of course we got our sensors, our tactical missiles even though sometimes a lot of components that go on those platforms, but if you just look at it from that standpoint you could even argue to some extent that those are the platforms.

When you look at the growth for the company, F-35 of course is going to be a major element of growth for the next five to 10 years. We know that from ramping up production for the payment of the aircraft. But in addition to that, when you look at Sikorsky, the CH-53K, the combat rescue helicopter, even the presidential helicopter are all programs that'll be into production and our platforms for us going forward. We've got – we're looking forward to downstream from hypersonics production that we hope will ramp up. You know we got a lot of developmental wins that we’ve had and we expect to be moving more into production there.

Future of Vertical Lift is another area. When you look at the light and medium lift helicopters that we're competing for on Future of Vertical Lift platform based, our F-16 resurgence, as you heard from Ken, you know we were able to get a handshake agreement on our multiyear three for the C-130J in the last month or so; Orion, which again is another important platform in the Space exploration arena.

So you know that to us, that is where the elements of growth are and certainly on those platforms we do more than just the frames with our systems and sensors and weapon systems, etcetera that are part of our overall; that's pretty important.

When you look at just the area of missile defense side, what we’re doing on PAC-3, on THAAD, all of the growth that we see in those arenas, as well as you know Aegis Systems and so I would just argue that you know for us that’s the growth. They all come with autonomy and AI and you know software development elements of them. So those are important and I just – I don't – I want to put stomp again. It’s a big win we just had on the Sentinel A4 radar. I mean that was a great win for us as a company to go along with several other radars that we have. So hopefully that answers your question Jon.

Operator

Next we’ll go to David Strauss with Barclays; please go ahead.

David Strauss, your line is open. If you’re on mute possibly?

David Strauss

Hi, can you hear me?

A - Ken Possenriede

We can, yes. Hi David!

David Strauss

Okay, great, great, thanks for thanks for taking the question. So I wanted to ask you about your guidance for the full year for ‘19 since it implies a pretty big margin step down in the fourth quarter. It looks like somewhat close to you know kind of high 9% to 10% for the segments. Can you touch on that?

And then also on your operating cash flow outlook, as we think about ‘20 and ’21, can you talk a little bit about working capital? The best I can tell, it seems to imply not much of a working capital improvement in – you know there’s a fairly big working capital burn in ‘20 again also, but you know also the working capital build in ’19. Thanks.

Ken Possenriede

You bet! Okay David, its Ken, I'll take that. So I’ll go around the business areas for the fourth quarter on margins. So at aeronautics, we’re seeing similar margins that we’ve basically had for the rest of the year, so I think that aeronautics is in line with the rest of the year.

Missiles and Fire Control, your right, it is down, and if you recall what we talked about in the first and the second quarter, we had step-ups of risk retirement planned in the third and the fourth quarter and based on where we were in the production cycle of those products, it made sense for us to do those risk retirements earlier in the year than later in the year. And if you compare that to last year from a timing standpoint, we had more step-ups in the fourth quarter than we’re going to have this year. So it’s just basically timing of you know the production cycle on missiles and Fire Control.

RMS is like aeronautics. Its similar sales growth, similar profit growth, so that's in line with pretty much with what we've done in previous years. And then lastly Space, it’s similar to missiles and Fire Control and I’ll give a plug to our Advanced EHF program. They are having an absolute tremendous year. They had enormous risk retirements in the year and we're just not going to replicate that out in the fourth. Also ULA earnings will be lower in the fourth quarter this year compared to earlier and last year.

And then on cash, so you know I think I have a different view David. We are going to reduce working capital significantly in fourth quarter. We had to build-up in the first half of the year and in the third quarter we only grew working capital by $30 million and line of site for 2020 right now with the 5% growth, we're only see growing working capital by about a $100 million and most of that will be in contract assets and in inventory.

So as we continue to focus on working capital, we are seeing the improvements here and that's why we too our trend data from $7 billion to $7.2 billion and when Sheila asked the question for the out years, we see a line of site of doing better than what we forecasted in 2021 and 2022 on cash basis, relative to what we disclosed last year.

Operator

Next we'll go to Cai von Rumohr with Cowen & Company; please go ahead.

Cai von Rumohr

Yes, thank you very much. So you've had a lot of good growth in terms of wins and hypersonics; you mentioned Skunk Works. Can you give us some numbers in terms of what percentage is classified work of your sales today and the expected growth rate next year and then kind of tied into this whole issue, some of us has felt that the sales growth number would be a little bit higher for next year. If you were going to have an opportunity in sales next year where would it be? Thanks so much.

Ken Possenriede

You bet Cai. Yeah, unfortunately our customer frowns upon us, spiking at our classified. But what I can say is you know just based on what we're seeing and what I described earlier, you know because of the Skunk's and because of the classified program at Missiles and Fire Control, they are growing faster than the corporation and I would say that is one of the opportunities that we do have.

I'd say the other opportunity and again I think I gave color on the last call in terms of hypertonic sales. So we see sales this year in hypertonic around $600 million. Best of what we see today, best of our ability to what we see today is for next year hypersonic round numbers, it's about $1 billion. But just for everybody's benefit, these are not for the most part program of record.

As Marillyn mentioned, we are still in the prototype phase and we'll start doing first launches starting next year out into it 2022. It is possible that you know because of the investments we've made in strike's hypersonics and in counter hypertonics, which really haven't been any program yet on counter hypersonics.

There is some likelihood we may see some opportunities there in counter hypertonics as well. So it could be in classified and it could be in counter hypertonics.

Marillyn Hewson

I would just add, you know when you look at growth, I mean this year we are planning to deliver 131 F-35. It's going to ramp up to over 140 and so that still continues to be our big growth area and then as mentioned earlier the Sikorsky program was CH-53K and CRH and the combat rescue helicopter and our missile defense was PAC-3 and THAAD. Those are the key growth areas as we look at them and continue to grow in F-16, C-130, as well as the hypertonics growth.

So we got a lot of solid growth programs. I think you know strong 5% growth is you know as I look over the history of our corporation over the last 10 years, I feel really good about the growth that we are seeing as we go into 2020.

Operator

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

Peter Arment

Yeah! Good morning Marillyn and Ken. Ken, I guess this question is for you. We're really testing your long-term forecasting here. But I guess when I look at Aeronautical margins, if we look back at the last cycle you know, the segment kind of peak around with F-22 production, and you know does the same apply here when we're thinking about F-35 deliveries or is this now changing just given the growth you're highlighting with Skunks and some of the sustainment work that's ramping. Just maybe, just a profile of how you think about margin profiles in the improvements that we kind of evolve in the forecasting? Thanks.

Ken Possenriede

You bet. So Peter, thanks for the question. Yeah, I'll start with 2020. Again, it just summarized that we're seeing similar margins at Aeronautics next year than we saw this year. I'd say you got the sustainment which as we've mentioned, and you probably seen in the press, will continue to grow, but for the most part of annual buys, and we put a proposal, an unsolicited proposal on the table for a 5 year PBL. So think of that as performance-based logistics.

There is some interest in the government; we're working through that now, socializing that now. That would give us an opportunity for sustainment and not be dilutive to margins, and so think of that as we're putting more risk on industry, so industry would invest, industry would commit to the metrics and with that there should be additional rewards.

So I think the opportunity also in Aeronautics would be as once these classified program in the Skunk's starts getting multiple customers and it starts going into production. There should be some margin improvement there that could be similar to margins on the rest of Aeronautics that would help with some margin expansion there.

And as I've mentioned earlier on the F-35 production deals, we feel good with the deals we're getting with the customer. We think they're fair and reasonable, they're balanced and we're now going through some housekeeping on the Block buy and hopefully we have that definitized in the next week or two, and we'll start performing on that. And if we perform, there is opportunity for margin expansion there as well.

Operator

Next we'll go to Carter Copeland with Melius Research; [lease go ahead.

Carter Copeland

Hey, thanks for the time. Just a couple, just quick ones here in the interest of time. One, Ken, on the program charge you called out in the release on MFC, was that related to the same program you guys have disclosed before or was that something new?

And then secondly on the F-16 pipeline, what – you know from a production rate standpoint or I guess aggregate volume standpoint, what do you see beyond what you've talked about here and the 30 aircraft and potentially going to other customers? Thanks.

Ken Possenriede

Thanks Carter. I'll hit the second one first and then I'll do the charge, because that will be probably a less of a long-winded answer.

So F-16, you know right now in backlog as Marillyn mentioned, we have 30 aircraft. First one gets delivered, Bahrain gets delivered. I had to be in the same country by last day of the year of 2021. We see production build of roughly one month. Right behind that we're hopeful – you've probably seen in the press, Bulgaria. Bulgaria once – it looks like they won eight aircraft, so we're in the process of working through that.

In our plan we see countries like Morocco and other countries out in the Far East that in aggregate could grow our backlog by another 60 aircraft, and if you think through that, that will start ramping up that production line to three a month.

There is other interest out there, the countries in the Middle East. There is discussion about another country in the Far East that could want as many as 66, and we'll see where that goes, but all those aircraft would be built in Greenville and right now we think we have capacity to build four a month, and like I said, we'll start with one a month and that would be frankly good problem to have.

The other wild card is, we've announced our Indian variant that we're going to propose, which is the F-21. We're going to build that airplane in India if we're fortunate enough to win that program, but that program would be worth $10 billion to $15 billion, so great opportunity out there. There is other mod work out there as well, that there are customers that will elect to keep their current aircraft and will modify those aircraft, so we see a great future for F-16.

Regarding the charge we took at Missiles and Fire Control, it actually is – it is actually a different program than what we had. It was a modest charge and we think from a performance standpoint with balance sheet reserves and the charge we took, we think we won't be talking about that program anymore.

Operator

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

Joe DeNardi

Yeah, thanks, good afternoon. Maybe Marillyn or Ken, I think it seems like international demand for F-35 has maybe pleased you guys positively or had been a positive surprise of late as the prices come down there. Can you just talk about what the pipeline looks there?

And then what the conversations are with the DoD in terms of what peak production would be? I think at one point there were some discussion about taking it to 182 to 185, just a little more color there. Thank you.

Ken Possenriede

Sure, I'll take that Joe. So yeah, we are very happy with where the F-35 program is going internationally. You saw Japan announced an additional 105 aircraft, on top of the aircraft they originally committed to. Singapore has announced an interest in buying the aircraft. It will be for a modest amount to start, but that's a great start.

And Japan actually said they want to buy some Bs [ph]. It's likely Singapore who will buy some Bs. We're pleased with the award we got for Belgium for

34 aircraft. We are in a competition now for Finland and Switzerland, will continue to shape those and you're exactly right we got to the $80 million aircraft earlier than we thought. It's in lot 13 which will certainly help with those opportunities.

We're in the competition with Canada, which could buy up to 100 aircraft. We're feeling good about that. We don't think we're out of the German competition yet, so we're still continuing to shape that. We heard about Poland. Poland wants to buy 32 aircraft, so we think there is a strong pipeline out there for the F-35.

Regarding capacity, you got it, right. So if you look at the FACO the final assembly and checkout at Fort Worth, the one in Italy and the one in Japan, we see capacity right now as we continue to build that out in Fort Worth to be about 180, 185 aircraft. So we got ways to go.

Greg Gardner

Hey John, this is Greg. I think we’ve come up on the top of the hour here, so I'll turn it back over to Marillyn for some final thoughts.

Marillyn Hewson

Thanks Greg. Well, let me just end by restating that we really completed another strong quarter of financial and operational performance, and as you heard we have a record backlog, we are focused on program execution and with a strong demand for our portfolio of products and services. We believe we're well positioned for a successful closure of 2019 and continued growth in 2020.

So we appreciate you all joining us on the call today and we look forward to speaking with you at our next earnings call in January. John, that concludes our call today.