Ladies and gentlemen, thank you for standing by and welcome to the Lockheed Martin Fourth Quarter and Full Year 2019 Earnings Results Conference Call. At this point, 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 over 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 fourth 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 charts on our website today that we plan to address during the call to supplement our comments. These charts also include information regarding non-GAAP measures that may be used in today's call. Please access our website at www.lockheedmartin.com and click on the Investor Relations link to view and follow the charts.

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

Marillyn Hewson

Thanks Greg. Good morning everyone. I hope you had a good start to the New Year. Welcome to our fourth quarter 2019 earnings call as we review our results, strategic new business activities, key accomplishments, and our outlook for 2020.

I will begin by expressing my gratitude to our entire Lockheed Martin team for a remarkable 2019. Over the course of the year, the corporation achieved extraordinary sales growth, earnings performance, strong cash generation, and record backlog and it was through their dedication and commitment that we were able to deliver these results. Ken will discuss our financials in more detail and provide our outlook for 2020, but I'd like to begin by discussing a few of the highlights from 2019 that drove our strong performance.

Notably, for the second year in a row, all four of our business areas grew sales, earnings, and backlog with each contributing to our record cash from operations. Sales in the fourth quarter exceeded last year's fourth quarter by 10% and pushed 2019 growth to 11% over our 2018 results.

Missiles and Fire Control had the highest overall growth in 2019, exceeding the prior year by 20%. Deliveries of tactical and strike weapons, development work on new hypersonic and classified programs, and PAC-3 missile production were the strongest contributors to the increase.

Aeronautics also saw strong sales growth in the quarter and year with 2019 annual sales finishing 12% above 2018, led by our F-35 program which grew 14% in 2019. In space, the next-generation Overhead Persistent Infrared or next-gen OPIR contract, the GPS III satellite production program, and recent hypersonic wins continue to provide increased sales volume as the business area exceeded their 2018 topline by 11%.

And Rotary and Mission Systems finished the year 6% over 2018, driven by increases in shipbuilding, radar and logistics programs.

Our segment profit grew nearly $700 million year-over-year, resulting in a segment profit margin of 11% and earnings per share of $21.95, which was another high watermark for the corporation.

This quarter, our backlog increased $6.6 billion and is now approximately $144 billion, reaching a record level for the fifth consecutive year. And we had a strong quarter of cash flows allowing us to use $1 billion to prefund our required 2020 pension contribution and a portion of our 2021 payment and still generate over $7.3 billion of cash from operations for the entire year.

Had we not made this discretionary payment to our pension trust, we would have delivered over $8.3 billion in operating cash, well in excess of our greater than $7.6 billion objective.

2019 was an extraordinary year across the corporation with our team achieving record results in sales, earnings, EPS, cash from operations and backlog. The strength of our portfolio has us well-positioned to continue delivering mission success for our customers and outstanding value to our stockholders.

Before reviewing significant accomplishments from each business area, I will start with an update on the F-35 program, which had an especially successful quarter and year. During the fourth quarter, our F-35 team delivered 51 fighter jets, bringing the total deliveries in 2019 to 134 aircraft, exceeding our joint government and industry target of 131 aircraft, a nearly 50% improvement from last year and a 200% increase from 2016.

Since the program's inception, we have delivered 491 production aircraft with 347 jets being provided to U.S. forces and the balance of 144 planes being delivered to our partner nations and international foreign military sales customers.

Keeping with the F-35, we are pleased that we finalized our agreement for last 12 and 13 this quarter, recognizing orders of approximately $5 billion and adding 112 aircraft to our backlog, bringing our backlog to 374 planes. We anticipate finalizing lot 14 in early 2020.

Our joint industry and government team has established a long-standing objective of offering the F-35A model at a flyaway cost of $80 million in lot 14. And we were able to improve on that target one year ahead of schedule. The lot 14 unit price is now below $78 million, which allows us to offer this remarkable fifth-generation fighter at a price equal to or lower than legacy fourth generation aircraft.

Internationally we were very excited to see Norway declared initial operational capability with its fleet of F-35 conventional takeoff and landing aircraft. Since the first F-35 model arrived at Ørland Main Air Station in 2017, the Norwegian Air Force has conducted a rigorous operational testing program in unique winter and northern environmental conditions and has deemed it ready for combat. Norway is the third European country and the fifth international customer to declare. [Technical Difficulty]

Operator

Ladies and gentlemen, we apologize for the inconvenience. We will be restarting the call in just a moment.

Greg Gardner

Thanks, John.

Operator

And you're reconnected please continue.

Greg Gardner

Hi, this is Greg Gardner, apologies for the technical difficulties. Thank you for your patience. We're going to commence again with the call pick it up with Marillyn talking about the F-35. Thank you. Marillyn?

Marillyn Hewson

Thanks, Greg. So I'll just pick up again some of this. I'll just repeat it's very short but I just want to cover all of the F-35 update before I move into the other operational highlights. So I'll start with an update on the F-35, which had an especially successful quarter and year.

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Internationally, we were very excited to see Norway declare initial operational capability with its fleet of F-35 conventional takeoff and landing aircraft. Since the first F-35A model arrived at Ørland Main Air station in 2017, the Norwegian Air Force has conducted a rigorous operational testing program in unique water and northern environmental conditions and has deemed it ready for combat. Norway is the third European country and the fifth international customer to declare IOC a critical milestone for Norway and the entire F-35 team.

Also this quarter, the Dutch Arm Forces welcomed the arrival of their first F-35 to sovereign soil in a celebration attended by more than 4,000 people at Leeuwarden -- I'm sorry Air Base -- Leeuwarden Air Base.

The Netherlands has been a key partner in the F-35 program and including the 8 aircraft still stationed in the U.S. for training and testing purposes has now taken delivery of 9 CTOL jets in total.

The Netherlands program of record is currently to procure 37 F-35 with the opportunity for an increased order as last October the Dutch government announced plans to purchase 9 additional jets bringing the total to potentially 46 aircraft.

Turning back to our business areas, I'd like to highlight a few of the notable new business wins and follow-on awards that have helped position us for long-term growth.

Rotary Admission Systems received an award of nearly $2 billion for the detailed design and construction of 4 multi-mission surface combatant ships for Kingdom of Saudi Arabia. This ship is a version of the Freedom variant which were a combat ship, we have been delivering to the U.S. Navy and will provide the Kingdom with the capabilities needed for both shallow water and open ocean naval operations. We are honored to support the Kingdom in their Saudi Vision 2030 objectives.

In Missiles and Fire Control the U.S. Air Force announced the finalization of the $1 billion contract for the air launched rapid response weapon effort, we were previously awarded. Our hypersonics portfolio experienced tremendous growth during 2019 with the total potential value the corporation has received now exceeding $4 billion.

Missiles and Fire Control also booked a $770 million order for PAC-3 missiles to provide additional interceptors and ground support equipment to the U.S. Army and the United Arab Emirates continuing the growth in our air and missile defense line of business.

Moving on to Aeronautics, our air mobility team was awarded their third multiyear contract for the C-130J transport aircraft approving the delivery of 50 new planes over the next few years.

The finalization of this contract added an incremental 35 aircraft and over $2 billion to our backlog in the fourth quarter with the overall value for all 50 planes expected to exceed $3.4 billion.

This award comes as the aero team celebrated the delivery of the 2600 C-130 airlifter since the program began over 60 years ago, with over 450 planes being the current J model. We are proud to be able to continue producing this venerable aircraft for our war fighters and those of the 70 nations currently operating it around the world.

And in space, we were awarded a $3.3 billion 10-year IDIQ contract for the combined orbital operations, logistics and resiliency, or COOLR program, to provide support services on several military communications satellite constellations, including our advanced extremely high-frequency spacecraft.

These satellites provide nuclear-hardened anti-jam global communications to the White House, the State Department and military users, supporting the nation's nuclear command and control system. And we are proud to be able to support the ongoing mission of this critical element of our national security. These announcements reflect the strength of our legacy programs, both domestically and internationally, as well as the impact of our continued investments in forward-looking technologies to drive long-term growth.

Turning briefly to budgets. The fiscal year 2020 Department of Defense Appropriations Act was signed into law last month and finalized defense spending for the current fiscal year. Total defense budgets have been proved for approximately $738 billion, consistent with the levels passed earlier in the Bipartisan Budget Act of 2019 and over $20 billion above FY 2019 enacted amounts.

Our programs garnered strong support across all business areas, with the legislation including nearly $3.5 billion of increased funding beyond the presidential budget request, including $2 billion for 20 additional F-35 fighter jets for a total of 98 aircraft; over $800 million for nine additional C-130J transport aircraft for a total of 20 planes and increased funding for our long-range hypersonic weapon Orion and OPIR contracts, as well as increases for several rotary aircraft programs and other initiatives across the corporation. We believe our portfolio is well positioned to address important security needs for our nation, with the increasing defense budget and these additional appropriations actions, supporting continued growth opportunities into the future.

Moving on, I would like to highlight several key accomplishments from across the corporation, that demonstrate our commitment to developing new technologies, as well as expanding the reach of our heritage solutions. I will start with Missiles and Fire Control, who passed an important milestone on a prospective new business opportunity.

Our tactical missiles team successfully tested its next-generation long-range precision missile for the U.S. Army's precision Strike missile or PrSM competition. The Missiles and Fire Control team launched PrSM from the Lockheed Martin High Mobility Artillery Rocket, or HIMARS system, successfully demonstrating accuracy and range of flight, validating HIMARS' interfaces and testing system software performance. We are excited by the prospects of this enhanced surface-to-surface system and look forward to building on our long-running Army Tactical Missile System legacy, as we progress through the upcoming procurement decision.

Moving to RMS. Our integrated warfare systems and sensors line of business was selected by the Japanese Ministry of Defense to produce two solid-state radar antenna sets for their Aegis Ashore system.

Our SPY-7 radar offers enhanced detection range and sensitivity from previous legacy radar systems and will provide continuous protection of Japan from ballistic missile threats. Our RMS team has continued to invest in new technologies, while leveraging current solutions and this new radar is a direct derivative of our long-range discrimination radar solution, a missile defense agency program of record.

Variance of the SPY-7 radar will also be incorporated into other U.S. and international solutions. And to-date this technology has been selected for 24 systems ushering in the next-generation of maritime and ground-based advanced radar technology.

Moving to Aero, this past November marked the official start of F-16 production at our Greenville, South Carolina location. Fabrication activity began for components of the center fuselage, one of the first steps in building new F-16 aircraft for the growing demand from new international customers. The first delivery for our Bahraini customer will roll off this line in late 2021 and we look forward to increasing production as new orders are added to the backlog.

I will close with our Space business area which delivered the Mars 2020 Rover Aero Shell to Kennedy Space Center in December. The Aero Shell will encapsulate the Mars 2020 Rover during its deep space mission to Mars and protect it from the intense heat as the entry system descends through the Martian atmosphere.

This Aero Shell marks the latest heat sheet ever used and will protect the vehicle from temperatures up to 3,800 degrees Farenheit. Lockheed Martin has built every Aero Shell entry system for all of NASA's 40 years of Mars explorations and we are proud to continue this legacy as we work towards a July 2020 launch.

Before I turn the call over to Ken, I'd like to reiterate my appreciation to the entire Lockheed Martin team for their contributions to an outstanding year and for helping to build a differentiating portfolio. Ken?

Ken Possenriede

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

So, let's begin with Chart 3 and an overview of our results for the year. Sales, segment operating profit, cash from operations, and earnings per share closed ahead of our expectations with record highs. We generated $7.3 billion of cash from operations after a $1 billion discretionary contribution to our pension trust this quarter. And we continued our cash deployment actions returning $3.8 billion of cash to our shareholders through a combination of dividends and share repurchases. We again grew our backlog to $144 billion, a new record high watermark. In summary, it was an outstanding year for the business.

Turning to Chart 4, we compare our sales and segment operating profit this year with last year's results. Sales grew 11% or $6 billion compared with last year to $59.8 billion, continuing the strong performance over the first three quarters, while segment operating profit increased 12% or $700 million over last year to nearly $6.6 billion.

On Chart 5, we compare sales by business area with last year's results. And as Marillyn mentioned, all four of our business areas experienced strong sales growth in 2019, led by Missiles and Fire Control of 20%, which was driven by a production volume in tactical and strike missiles and air and missile defense. And for the first time, all four business areas delivered sales above $10 billion.

On chart 6 we'll discuss our segment operating profit by business area. Following sales, all four of our business areas also increased profit in 2019 and the corporation ended the year with total segment operating profit 12% above 2018 levels.

Chart 7 shows our earnings per share for 2019. Our EPS of $21.95 was up $4.36 or 25% higher than our results last year, driven primarily by operational performance.

Moving on to chart 8, and as previously noted by Marillyn, backlog has increased again to a record high for the fifth consecutive year. All four business areas increased backlog in 2019 with the largest increases coming from space, driven by strategic missiles and at Missiles and Fire Control, driven by air and missile defense. We had a strong book-to-bill ratio of 1.4 for the quarter and 1.2 for the year.

On chart 9, we will discuss the cash return to our shareholders in 2019. Subtracting our capital expenditures from approximately $7.3 billion of cash from operations, our free cash flow is greater than $5.8 billion. We increased our dividend by 9% and exceeded our share repurchase objective by $200 million in the fourth quarter. This brought our total cash return to shareholders to $3.8 billion for the year or 64% of free cash flow, providing strong returns consistent with our historical cash deployment actions.

Moving on to chart 10. We provide an update to our 2020 trending data with our revised outlook for the year ahead. Our outlook for sales ranges from $62.75 billion to $64.25 billion, which is an increase from the $62 billion we first indicated last quarter. The midpoint of this range represents a 6% increase over 2019 results. The range of segment operating profit is estimated to be between $6.8 billion and $6.95 billion.

Our estimated FAS/CAS pension adjustment is just above $2 billion. Our estimated range for 2020 earnings per share grows to between $23.65 to $23.95 per share. The midpoint of this range represents a 7.7% increase over 2019 results. Cash from operations is now projected to meet or exceed $7.6 billion and I'll discuss this in greater detail on the following chart.

On chart 11, we will walk through our future cash expectations, folding in the $1 billion discretionary pension payment we made last quarter. Strong operational cash performance and a continued focus on working capital management allowed us to increase our cash outlook for 2020 to greater than or equal to $7.6 billion, a $100 million increase to the combined 2019 and 2020 outlook we provided in October. And we now see approximately $7.7 billion of cash flow from operations in 2021, a $700 million increase bringing our three-year expectation to $800 million greater than our prior assessment.

On chart 12, we break down our sales and segment operating profit outlook by business area. All four business areas are positioned for continued sales growth in 2020 led by Missiles and Fire Control at 10%. Segment operating profit growth is projected to grow at approximately 5% in the aggregate with our largest growth in aeronautics at 8%.

And finally on Chart 13, we have our summary. We believe 2019 was an exceptional year for Lockheed Martin. Our key results exceeded previous highs and have positioned us well for continued growth and value creation in 2020. And as we discussed earlier, our focus on innovation and investment has resulted in strategic new business opportunities and a robust legacy of programs.

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

Question-and-Answer Session

Operator

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

Rob Stallard

Thanks so much. Good morning.

Marillyn Hewson

Good morning, Rob.

Ken Possenriede

Good morning, Rob.

Rob Stallard

Quick question for Marillyn. On the F-35. You mentioned in the release that your guidance had a bit of a caveat regarding Turkey. I was wondering if you could give us an update on the progress in allocating those Turkish delivery slots. And also realigning the supply chain?

Marillyn Hewson

Sure. Thanks for the question, Rob. I would just say, we've been working with the U.S. government for several months on addressing how we're going to manage the eight aircraft that were slotted for Turkey that have been delivered for Turkey as well as looking at alternate suppliers for the Turkey suppliers.

And so in terms of the Lot – the upcoming lots, we have a lot of demand for the aircraft as you are well aware and we've had the congressional ads that will offset those needs from Turkish – the Turkish aircraft delivery. So I think we've got it well solutioned. Anything you want to add to that Ken?

Ken Possenriede

Yes. Just – Rob just from the revenue side, Marilyn's got it right. So the United States government for the ones we've delivered in sub to date, which would be the Lot 10 Lot 11 aircraft. There are earmarked for the United States government. In lot 12 through 14, the block buy each of those lots eight aircraft were earmarked for Turkey for a total of 24. The congressional adds for the most part we'll take care of that. So we're in good shape with the block buy.

We'll now work Lot 15. We just got the RFP from U.S. government. So I think from a revenue standpoint, we're in great shape. We have other customers that are coming in. Japan as you recall, want to order an additional 105, we have Belgium. We're in a competition for Finland, Switzerland and Canada. We feel good about those, especially as Marillyn mentioned, the $80 million aircraft, we got there a year ahead of time. And you probably saw in the press the polls want to buy 32 aircraft. So I think from a revenue side, it's well in hand.

From a supply standpoint, almost all supply out of Poland will – excuse me, out of Turkey will be removed by March of 2020. There'll be a handful of suppliers that we'll continue to work with – through December 20th. And as I mentioned we got the Lot 15 RP, so we'll sort all that out post-2020 as we go on. But I think we're in a much better spot now than we were with the Turkey situation.

Rob Stallard

Thank you very much.

Operator

[Operator Instructions] And we will move to Myles Walton with UBS. Please go ahead.

Myles Walton

Thanks and good morning. Can you laid out the 3-year cash outlook the update with the $800 million of incremental. I'm just curious, could you give us the backbone on the net pension recovery in there?

And how much change you mentioned contributions came down, but it also looks like your CAS recovery came down. So just trying to piece out of that $800 million, how much is from your operations? Thanks.

A – Ken Possenriede

You bet, Myles. So yes, I think we should start with how we ended the year with cash that got us to making the voluntary pension contribution. So we ended -- you guys recall, we ended the third quarter up in working capital by $1.2 billion.

Fourth quarter from third quarter, we actually reduced our working capital by $500 million. So for the year, we were just south of growing our working capital by $700 million.

So with that strong cash generation in the fourth quarter, we thought it was prudent to make the pension contribution of $1 billion. And so if you go forward and look at 2020 and beyond Myles, and also recall our Lockheed

Martin investment company we -- our returns were superior to what we assumed back in October or frankly what we assumed in the beginning of the year. They ended the year at 20% returns on their assets.

So with all that our cash contributions came down in 2020 to just south of $2 billion. We do not -- we're not required to make a pension contribution this year. So going forward our CAS recoveries look like there'll be about $2 billion in 2021.

Our pension contribution recall the last time we spoke regarding 2021, we thought our pension contribution would be $2 billion by making the $1 billion pension contribution not only eliminated 2020 pension contribution, it reduced the $2 billion pension contribution by $0.5 billion, but also because of the great returns we made in last year. It looks like our pension contribution now in 2021 as we see it is below $1 billion.

And just going out to 2022 and then I'll stop. Looks like our CAS recoveries will be roughly $2.2 billion and that $2 billion pension contribution in 2022 that we discussed in October looks like, it's about $1.7 billion, $1.75 billion.

So a lot of it is improvement, volume improvement, margin improvement throughout the business, but some of it also is due to the returns we made on our pension in the past.

Operator

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

Rob Spingarn

Hi good morning.

Ken Possenriede

Good morning.

Rob Spingarn

Marillyn, Ken you both went through a lot of detail on the international successes on aircraft and ship platforms. And Marillyn you sort of previewed the question, I want to ask when you talked about Japanese ages, but I wanted to talk about your recent modernization wins at DoD. They're sizable. You've had things like hypersonics and AM260 at MFC, Central Radar at RMS. And I wanted to see how these might translate to even greater longer-term market share internationally, or are they too strategic to export?

Marillyn Hewson

Well, that's a great question, Rob. I mean, we're always working with the U.S. government. As we look at these systems, we're always looking at what systems could potentially be provided to our allies and to increase their defense capability and capacity.

So without hitting each one of these specifically that you outlined, I mean, just -- I think the Aegis Systems is a good example. When you look at some of our increases in things like PAC-3 and FAD and now with the radar capabilities, I mentioned, the opportunities that we have on Long Range Discriminating Radar. It's all in our planning that, when we work with the U.S. government, that we make sure that we have an opportunity to consider not only the needs of the U.S. government, but on many of these systems, what they could provide to the international community.

And as you can see, with our very robust backlog, about $144 billion, it gives us an opportunity to not only perform on that work that we have, but to continue to invest in new technologies and new capabilities. And that's what we've been doing for a number of years. We have highlighted areas in the radar arena and hypersonics and directed energy.

And a whole range of systems and capabilities that we recognize, we've got to constantly provide our customers with the advantages that they need over our adversaries. And so, we're always looking well ahead of now to invest in it. And we think that, with that, it is with an eye towards being able to support our international customers as well.

Operator

Next question is from Ron Epstein with Bank of America Merrill Lynch. Please go ahead.

Ron Epstein

Yes. Good morning.

Ken Possenriede

Good morning.

Marillyn Hewson

Good morning.

Ron Epstein

I was wondering if we could just walk through a little bit. When we think about the F-35 program, as we go into 2020 and maybe even beyond, how you think about the mix between OE and sustainment? I mean, there's been a lot of, I guess, press about the sustainment going from something like the total flight hour cost at $35,000 per hour going down to $25,000 per hour. I mean, how does that impact the program? And how should we think about as we model F-35 in the 2020 and beyond, the mix between OE and sustainment?

Ken Possenriede

Sure. Hey, Ron, it's Ken. I'll take that. So, yes, in 2020, if you look just macro at F-35 we see --we actually see pretty strong growth year-over-year. Sales are going to be up about 8%. Think of that as --the lion's share is still production. So, production year-over-year will be about 8%. But we still see development work, even with SDD winding down, with follow-on modernization and other development activities. We'll see development this year grow from 2019 about 10%.

From a sustainment standpoint, we're still on these annualized buys and we're still standing up bases. And we've talked about the performance-based logistics proposal, that white paper that we put in, so we'll see high single-digit growth in sustainment. And if we continue on these annualized buys. It will still continue to grow.

You'll see sustainment over time become the fastest piece of our --of the F-35 program. It will likely double in size from a sales perspective in the next five years. And potentially throughout the next decade, could double or triple from where it is today. But I think the PBL is an interesting concept and we're starting to have that conversation with the customer. And it basically is to talk about what you just described is to accelerate to get the cost per flight hour of maintaining the aircraft down to what the customer would see as an affordable level, but also the availability of the aircraft to get that up to levels that are more like fourth-generation aircraft and the owners then would be on industry -- the risk would be on industry.

We would do the investing for the -- for our customer set we would have the infrastructure in place. And assuming we performed, we would sign up to these service levels, we would expect a return that's more in line with that type of contract.

We're hopeful we'll be able to get to the table with the customer in 2020 and shape this thing and hopefully be able to get a deal that's acceptable to both parties. But you're right, in the future, you'll see sustainment grow faster than the rest of F-35, at least in the short-term, it will still be production until we get to capacity which should be peak capacity which should be 2023, 2024.

Marillyn Hewson

But I would add there's continued demand around the world and as we continue to -- we're now at a very affordable unit price on the aircraft. And as long as we can offset the development cost that will come as we continue to upgrade the aircraft and then drive the sustainment costs down, I think we see an outlook of great opportunities for the aircraft around the world.

Ken Possenriede

That's right.

Operator

[Operator Instructions] And next will be Noah Poponak with Goldman Sachs. Please go ahead.

Noah Poponak

Hello everyone.

Marillyn Hewson

Hey.

Ken Possenriede

Hey, how are you doing, Noah?

Noah Poponak

Doing well. How are you Ken?

Ken Possenriede

Okay. Thanks.

Noah Poponak

So, I wanted to stay on the multiyear cash flow discussion. I could sort of see the investor question that was previously does it grow in 2021 because of the contribution step-up moving to 2022 with the contribution step-up now there year-over-year.

So, one do you grow cash from ops year-over-year in 2022? And I think you have five-year internal planning. So, maybe you could speak to -- can you grow cash flow every year in the five-year period because that just remains a big investor question?

And then having given the pension pieces I wondered if you could also speak to capital because that came in a little light for the year? That'd be very helpful. Thank you.

Ken Possenriede

Thanks Noah. Just a clarifying point from a long-range plan standpoint we do current year plus three years out. But I will give you a little -- I'll try to give you a little color 2023 and beyond, but I don't have an absolute number for you.

So, I think you wanted to start with 2022 since I gave you color up to 2021. And that's actually a timely point right now not just because of pension funding, CapEx, but just from a cash-generation dynamics including the pre-funding looking at growth our focus on working capital. It basically would all point to cash from operations out in 2022 frankly being north of our 2021 number. We see a path to greater than and equal to 77.

There is one issue that it's worth talking about now and it's the remnant from the Tax Reform Act of 2017. The law has a provision that kicks-in and it kicks-in in 2022 which requires research and development expenses to be capitalized rather than being expensed. Right now though the law is -- it's still a little bit vague what the exact definition of R&D is. And believe it or not I've actually read the legislation myself and I do see some vagueness in there. But in the interest of transparency it's probably good. We talk about that now.

So if the IRS made the determination that the law applies to all R&D expenses, it probably would take our cash number down. So this would be things we are expensing now that we would have to amortize over five years. It would take our cash from ops in 2022 probably down to about $6.5 billion. But I'll say this it doesn't seem logical to us that that was their intent and if it was just a subset of the R&D, we still see a path to getting north of $7 billion. So we're still working through this.

So just to summarize north of $7.7 billion if it's -- the way things have been operating in the past. If this R&D tax bill kicks in it will be probably in the mid-range of $6.5 billion. And if it's a subset of that, we still see north of $7 billion. But operationally we're still -- it's going to generate a lot of cash. We still have a focus on working capital.

You talked about CapEx, you're right it was a little light this year. So we ended the year at roughly $1.5 billion. Because of the things we've discussed in the past, the buildings that we're building in the business areas. We'd see CapEx in 2020 at about $1.7 billion next year probably comparable about $1.7 billion. And then what we know today, it would start tapering down. It will be below $1.7 billion.

Last point you asked about was 2023 and beyond. Just talking about Sikorsky, you'll start seeing a lot of those programs going into production; you'll start seeing F-35. We'll continue to reduce contract assets so we see -- though I don't have an absolute number for you, we see strong cash flow generation out in that time period as well.

Operator

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

Jon Raviv

Hey, thanks everyone. I won't ask you about 2025 and beyond if that's okay. I spare you from that for now. But in the context of all that cash coming in what about cash going out? Leverage is noticeably low; you highlighted returning 64% of free cash flow to shareholders. It's been higher in years past, but I know your stock's been lower in years past. So just how do you think about capital allocation going forward given all these dynamics?

Ken Possenriede

Sure. So let's start John. Let's start with 2020. For planning purposes, we're assuming share repos of about $1 billion we're assuming we do increase the dividend. For planning purposes that would $0.20 a quarter or $0.80 similar to what we -- per share what we did in 2019. So around numbers and eight-plus percent increase in the dividend, we do have another tranche of debt that matures in 2020 it's $1.250 billion I believe it's the second tranche of Sikorsky. For planning purposes, we're assuming we let that mature and pay it back. Our treasury organization is constantly looking at whether it makes sense to refi or look at our entire debt on the balance sheet, whether a debt exchange makes sense. We'll go through that through the year. We will be opportunistic like we were in the fourth quarter of last year, where it makes sense from a share repo standpoint. In fact, we did our first accelerated share repurchase program. It went very well in the fourth quarter last year. And as you recall 2018 with our stock price down, nothing to do with our fundamentals but with what was going on with the market. We were very opportunistic in terms of that.

And so we'll see going forward where it makes sense to do that. What we didn't talk about is inorganic growth. Marillyn has – we meet at least eight times a year with the senior leadership team to look at a pipeline in terms of things that make sense for us to invest in or frankly to divest in.

And as you said we do have the firepower on our balance sheet to go do that. I'll remind you that we got a credit rating increase by all three agencies. So with debt being cheap, if there is something out there from an inorganic standpoint that fits within where we think we need to go with our portfolio, we would be inclined to do that.

Marillyn Hewson

But I would just remind you that we really are happy with our current portfolio. We don't see any gaps right now. But we'll as Ken said, constantly keep a screen on it as we always do.

Operator

Next we'll go to George Shapiro with Shapiro Research. Please go ahead.

George Shapiro

Yes, good morning.

Marillyn Hewson

Good morning.

Ken Possenriede

Hi, George.

George Shapiro

A couple of questions. MFC and space backlog were up well north of 20%. Why isn't the growth rate greater in 2020? And then also if you can just go through the balance sheet a little bit. There was a big increase in inventories maybe partly offset by contract assets. And likewise accounts payable were way down maybe offset a little bit from liabilities. Maybe just walk through what's actually going on in the balance sheet as well? Thanks.

Ken Possenriede

You bet, George. It’s Ken. I’ll handle that. So you asked about Space and Missiles and Fire Control and you're right. So our – we overachieved our orders planned this year by north of $20 billion. And two of the big drivers were exactly that Space and Missiles and Fire Control.

But I think what you need to do is look at the detail of what some of those programs are. So at Missiles and Fire Control a big driver of what went into backlog would be THAAD KSA and PAC-3 Poland. And those will be multi-year programs going forward. So you will not see a burn down like some of the tactical strike weapons programs integrated air and missile defense backlog will take longer to convert to sales.

Same with Space. Space is a platform business. And you have – recall I talked about in the past the, the multiyear, the three years of AWE we got. So we will not get an order this year on AWE. We also got some big orders on Orion and OPIR which would take longer to convert to sales.

Regarding the balance sheet, you're right George. We did have some inventory growth in 2019. But the way we look at it, I kind of look at contract assets and inventory and frankly, put them together. So we actually had contract assets decrease in 2019 by roughly $400 million. Inventory for the year roughly grew $600 million.

So I would say from an asset standpoint, we had 11% sales growth. Think of that as roughly $6 billion of sales growth from 2019 to 2020. We grew contracted assets and inventory by only $200 million.

Going forward, we do see contract assets increasing in 2021. And we see working capital in 2020 growing by rough numbers it will be comparable, little bit more than this year. But remind you, we're growing sales by roughly $3.5 billion. So that's in-line with what we've had in the past.

And then 2021, we see a marked improvement from a working capital standpoint. We will only grow working capital by say, $200 million. This is our plan today, but we'll continue to try to perform on that. And with our focus on working capital one of the main places that we will work is in contract assets in 2020 and 2021.

Operator

Next we go to you Cai von Rumohr with Cowen & Company. Please go ahead.

Cai von Rumohr

Yes. Thanks so much. Everybody has talked about cash flow. I'm more interested in kind of what you do with it because your net debt-to-cap is now 1.4, if you increase your dividend 10%.

If you buy $1.5 billion in stock every year, you're basically going to burn through like $4 billion in debt. So, where are we going here over the next couple of years? Do you want this net debt-to-cap ratio to go below one, or are you going to deploy the cash? And if so, what are your relative priorities? Thanks.

Ken Possenriede

So Cai, as I mentioned earlier, I think our priority is -- or from a plan standpoint, the debt on the balance sheet as it matures our plan would be to pay it off. We will certainly look at whether it makes sense to refi in this low interest rate environment. We certainly will look at talking to the owners of our stock as we go around this year to talk to our shareholders.

What type of dividend increase is acceptable to them for them to continue to be interested in our stock, the last couple of years though, we've planned for $1 billion of share repos, we have overachieved. We've opportunistically in the last two years have bought back more stock than we planned. There is some likelihood, we would do that as well and that -- we'll decide on that.

We talked about in the past about our portfolio as Marillyn mentioned, we're very pleased with our portfolio. But if something out there makes sense for us to acquire, we have the firepower to do that.

If you look at the composition who owns our stock, it's almost 50%, our yield, investors. So we will certainly pay attention to our yield. Even with the high appreciation of our stock, we still have a very strong dividend yield relative to our share price. But I think the net is, we're not going to let cash -- we've demonstrated this over the last couple of years, we're not going to let cash sit on our balance sheet, we will use it.

Operator

And next question is from Doug Harned with Bernstein.

Doug Harned

Thank you. Good morning.

Ken Possenriede

Good morning, Doug.

Doug Harned

I wanted to go back to the F-35 sustainment? Because I wanted to make sure I understood how the math works out here, because if I think of in a broad sense and I'll put PBL aside for the moment. But if I think in a broad sense about sustainment activity being somewhat proportional to the fleet size and if, right now, you're still building out depots.

So there's, I would think, a surge in sustainment work at the current time for that. And then, if you have to bring down dollars per flight hour over the next few years, how does this -- how do you get to a doubling or tripling of sustainment revenues in the next five years? I'm just trying to figure out how this all flows?

Ken Possenriede

Okay. You bet, Doug. So, yes, a lot going on. So, just for completeness this year, we see sustainment growing, not quite double digits, but close to double digits. So, there are roughly 21 bases that are stood up. We still have quite a few to stand up. We have a large number of 491 aircraft out in the fleet through year-end. We're going to deliver 140 aircraft this year, rough number's 160 next year; '22, 165 and then we'll start getting up to the 170, 175, 180 aircraft delivered. We'll continue, as you said, drive down the price per flight hour from roughly $35,000 to $25,000.

What I'd like to remind you though is, half of that is the government cost, half of that is our cost, but you will still continue to need sparing. Marillyn mentioned the modernization work that is continuing. You will start to see, from a sales or revenue standpoint, more modernization sales and sustainment, once we have these depots up and sparing rather than the cost of standing up the depot. So, going forward, you will see a sizable ramp in modernization cost, where the customer working with us deems which aircraft it makes sense to modernize and then the spare of the fleet.

Operator

Next we'll go to Seth Seifman with JPMorgan. Please go ahead.

Seth Seifman

Okay. Thanks very much and good morning.

Ken Possenriede

Hi, Seth. Good morning.

Seth Seifman

Can you mention the outperformance on the orders this year? I guess, first of all, where do you expect to exit the year in terms of backlog relative to last December 31? And then, in Missiles and Fire Control, when do you anticipate that the margin rate there would stabilize and then maybe start to move in the other direction?

Ken Possenriede

Got you. Okay. So, we actually see what we know today, we see our backlog this year growing roughly $3 billion, $4 billion. If you think about our orders, orders this year will not -- probably not be as strong as they were in 2019, but you do have some notable orders this year. So, this year we have three F-16 production orders in 2020; Bulgaria, Taiwan, and Morocco. We'll definitize F-35 Lot 14 this year. In the fourth quarter, we have F-35 Lot 15. There is a variety of hypersonics awards that will come out this year. We have the Indian Navy MH-60R that will occur, the Seahawk, PBL. So, our book-to-bill the way we see it this year is a little bit over 1, it's 1.06. So, we will grow backlog this year to roughly 1.47, 1.48.

Regarding Missiles and Fire Control, we've talked about this in the past; you do have the development program -- the classified development program that is kicking in. It will continue to grow for the next couple of years. We've talked about some of the risk retirements that we've had in the past. Some of those will not occur this year, but it's probably next year or the year after that we would see the -- our margins start to stabilize on Missiles and Fire Control. There will be other new prototype programs.

So, if you think about hypersonics, especially in Missiles and Fire Control, it is strike hypersonics. We really were investing in the counter hypersonics, but we really haven't seen any orders there yet. Would not surprise us if we're put under contract this year and going forward for counter and those will be dilutive to margins as well.

Greg Gardner

Hey John, this is Greg. We're at the top of the hour. So, I think I'll turn it back over to Marillyn for some final thoughts.

Marillyn Hewson

Thanks. Let me wrap it up and conclude the call today again by thanking our 110,000 Lockheed Martin employees for their remarkable efforts over the course of 2019 because it was a year that we delivered outstanding strategic operational and financial performance. Our corporation continues to excel and attributes we most value and that's providing critical solutions to our customers and returning value to stockholders.

So, thank you again for joining us on the call today. We look forward to speaking to you with you at our next earnings call in April. John that concludes our call today.