

# Lockheed Martin Corporation

## 4<sup>th</sup> Quarter and Full-Year 2017

### Earnings Results Conference Call

January 29, 2018

10:00 am ET

Webcast login at: [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)

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# Forward-Looking Statements



This presentation contains statements that, to the extent they are not recitations of historical fact, constitute forward-looking statements within the meaning of the federal securities laws, and are based on Lockheed Martin's current expectations and assumptions. The words "believe," "estimate," "anticipate," "project," "intend," "expect," "plan," "outlook," "scheduled," "forecast" and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially due to factors such as: the corporation's reliance on contracts with the U.S. Government, which are conditioned upon the availability of funding and can be terminated by the U.S. Government for convenience, and the corporation's ability to negotiate favorable contract terms; budget uncertainty, any failure to further raise the debt ceiling, and the potential for a government shutdown; affordability initiatives; the implementation of automatic sequestration under the Budget Control Act of 2011 or Congressional actions intended to replace sequestration; risks related to the development, production, sustainment, performance, schedule, cost and requirements of complex and technologically advanced programs including the corporation's largest, the F-35 program; economic, industry, business and political conditions including their effects on governmental policy; the corporation's success expanding into and doing business in adjacent markets and internationally; the differing risks posed by international sales, including those involving commercial relationships with unfamiliar customers and different cultures; our ability to recover investments which is frequently dependent upon the successful operation of ventures that we do not control; and changes in foreign national priorities, and foreign government budgets; the competitive environment for the corporation's products and services, including increased pricing pressures, competition from outside the aerospace and defense industry, and increased bid protests; planned production rates for significant programs; compliance with stringent performance and reliability standards; materials availability; the performance and financial viability of key suppliers, teammates, ventures, venture partners, subcontractors and customers; the timing and customer acceptance of product deliveries; the corporation's ability to continue to innovate and develop new products and to attract and retain key personnel and transfer knowledge to new personnel; the impact of work stoppages or other labor disruptions; the impact of cyber or other security threats or other disruptions to the corporation's businesses; the corporation's ability to implement and continue capitalization changes such as share repurchases and dividend payments (including the availability of sufficient net earnings to permit such distributions under Maryland law), pension funding as well as the pace and effect of any such capitalization changes; the corporation's ability to recover certain costs under U.S. Government contracts and changes in contract mix; the accuracy of the corporation's estimates and; movements in interest rates and other changes that may affect pension plan assumptions, equity, the level of the FAS/CAS adjustment and actual returns on pension plan assets; realizing the anticipated benefits of acquisitions or divestitures, ventures, teaming arrangements or internal reorganizations, and the corporation's efforts to increase the efficiency of its operations and improve the affordability of its products and services; risk of an impairment of goodwill, investments or other long-term assets, including the potential impairment of goodwill, intangible assets and inventory recorded as a result of the Sikorsky acquisition if Sikorsky does not perform as expected, has a deterioration of projected cash flows, negative changes in market factors, including oil and gas trends, or a significant increase in carrying value of the reporting unit; the adequacy of the corporation's insurance and indemnities; the effect of changes in (or the interpretation of): legislation, regulation or policy, including those applicable to procurement (including competition from fewer and larger prime contractors), cost allowability or recovery, accounting, taxation (including the impact of the Tax Cuts and Jobs Act), or export; and the outcome of legal proceedings, bid protests, environmental remediation efforts, government investigations or government allegations that we have failed to comply with law, other contingencies and U.S. Government identification of deficiencies in the corporation's business systems. These are only some of the factors that may affect the forward-looking statements contained in this presentation. For a discussion identifying additional important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see the corporation's filings with the U.S. Securities and Exchange Commission (SEC) including, but not limited to, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors" in the corporation's Annual Report on Form 10-K for the year ended Dec. 31, 2016 and subsequent quarterly reports on Form 10-Q. The corporation's filings may be accessed through the Investor Relations page of its website, [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor), or through the website maintained by the SEC at [www.sec.gov](http://www.sec.gov). The corporation's actual financial results likely will be different from those projected due to the inherent nature of projections. Given these uncertainties, forward-looking statements should not be relied on in making investment decisions. The forward-looking statements contained in this presentation speak only as of the date of its filing. Except where required by applicable law, the corporation expressly disclaims a duty to provide updates to forward-looking statements after the date of this presentation to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them. The forward-looking statements in this presentation is intended to be subject to the safe harbor protection provided by the federal securities laws.

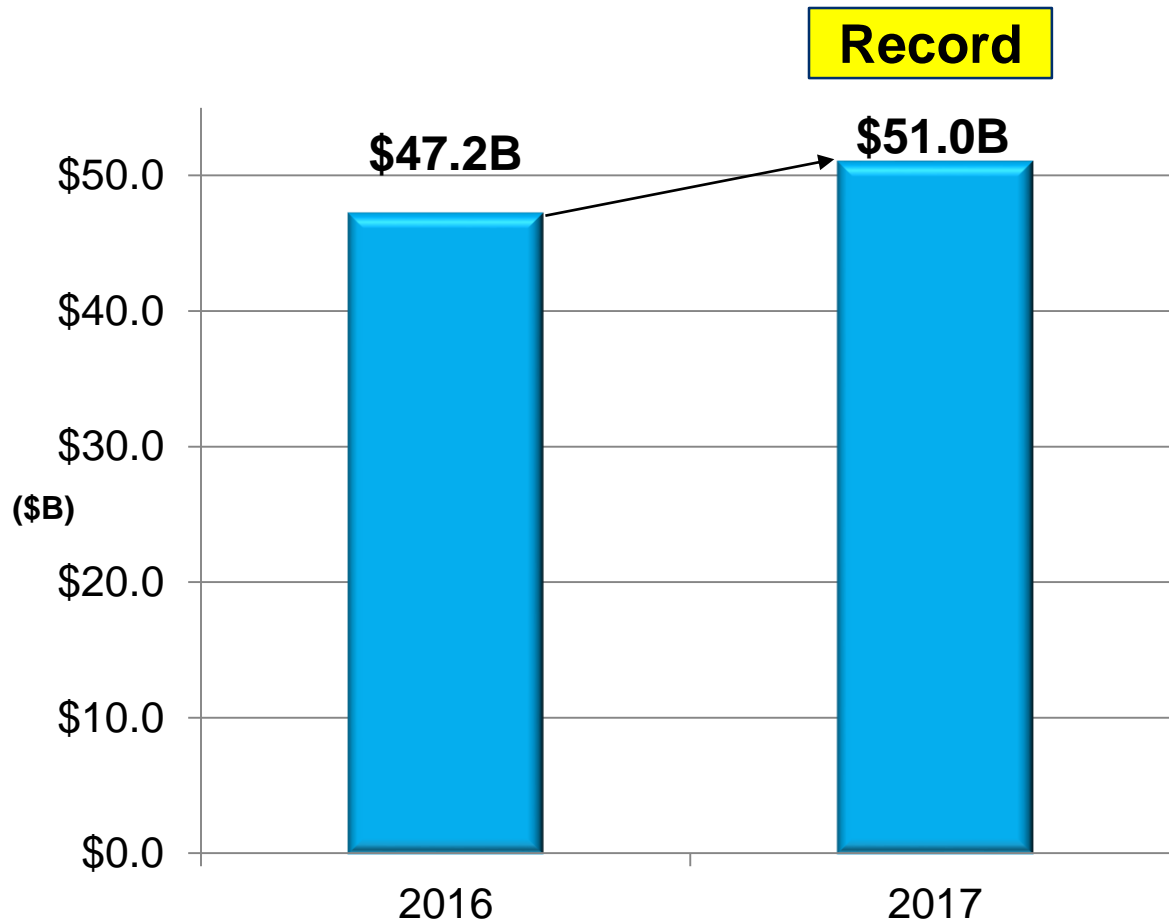
# 2017 Overview



- **Achieved Sales of \$51.0 Billion**
- **Achieved Segment Operating Profit\* of \$5.1 Billion and Earnings Per Share from Continuing Operations of \$6.64, \$13.33 Before One-time Net Tax Impact**
- **Generated \$6.5 Billion in Cash From Operations**
- **Returned \$4.2 Billion of Cash to Stockholders, Including Repurchasing 7.1M Shares for \$2.0 Billion**
- **Achieved Backlog of Approximately \$100 Billion**

**Strong Performance in 2017**

# Full-Year Sales Summary



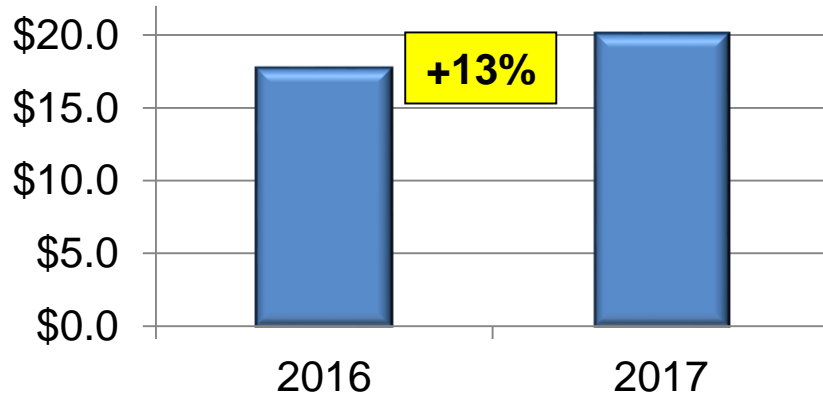
**Strong Sales Growth in 2017**

# Full-Year Sales by Segment

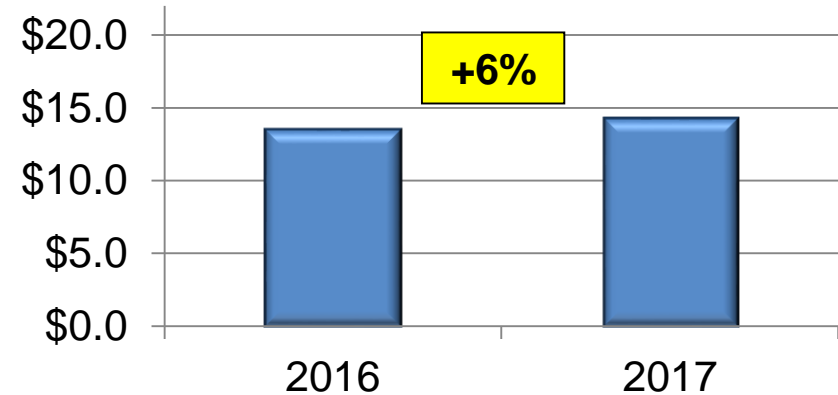
(\$B)



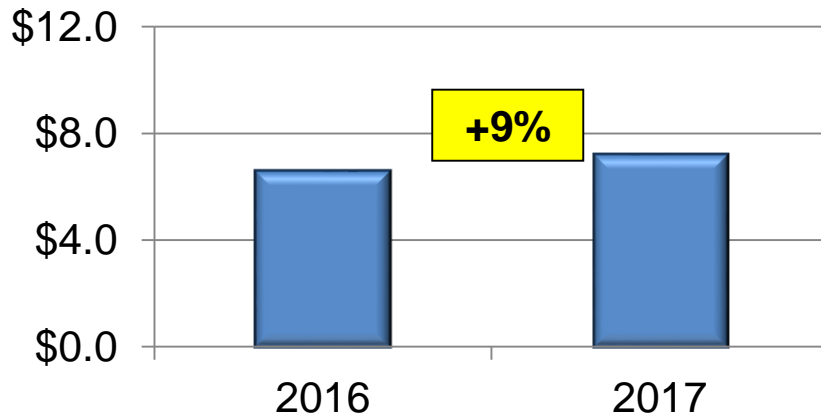
## Aeronautics



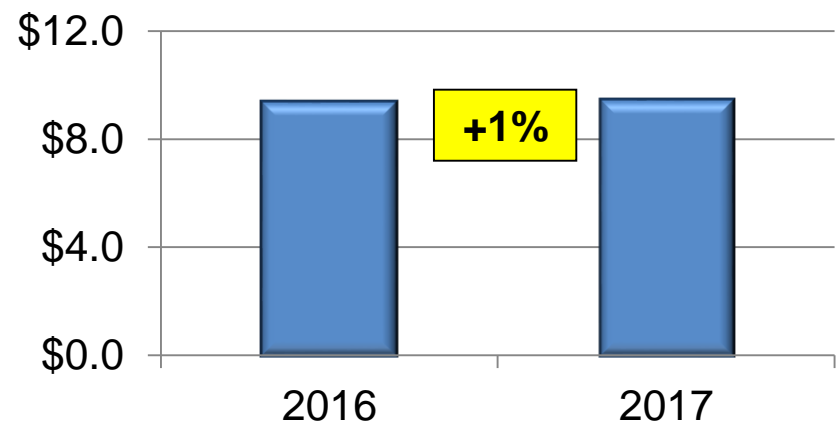
## Rotary and Mission Systems



## Missiles and Fire Control

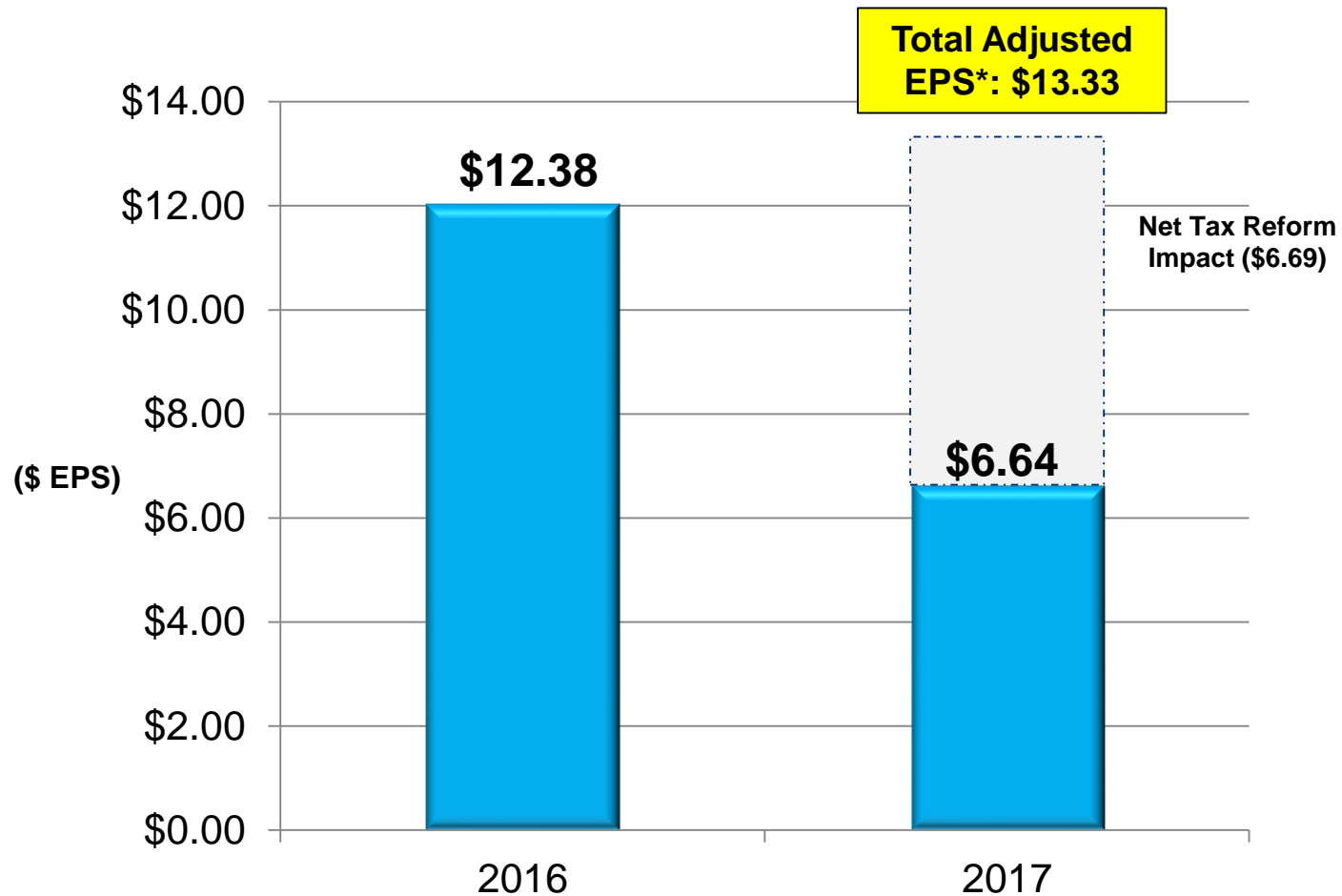


## Space



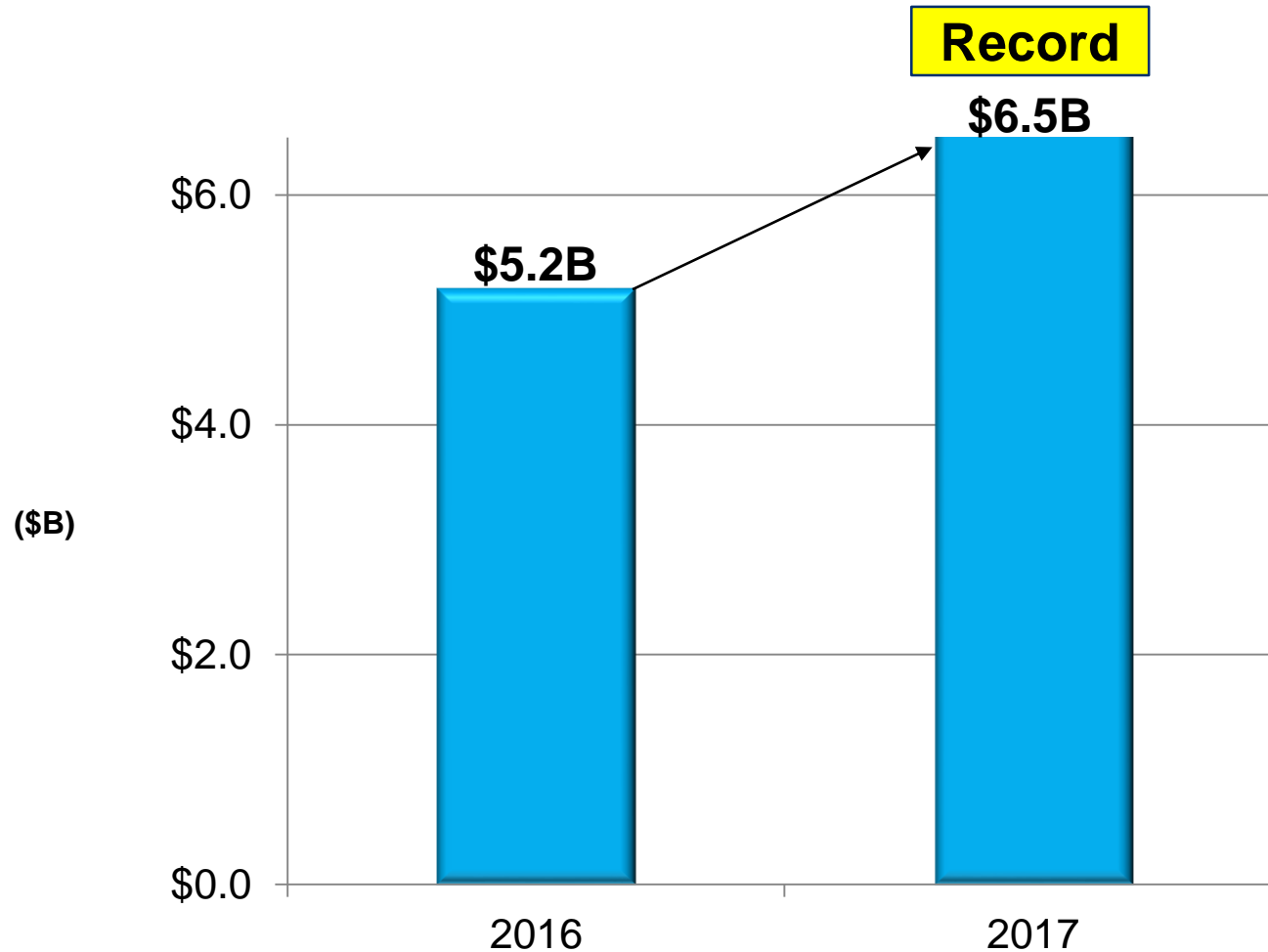
**Growth in All Business Areas**

# Earnings Per Share\*



## One-time Impact of Tax Reform to 2017 EPS

# Cash from Operations

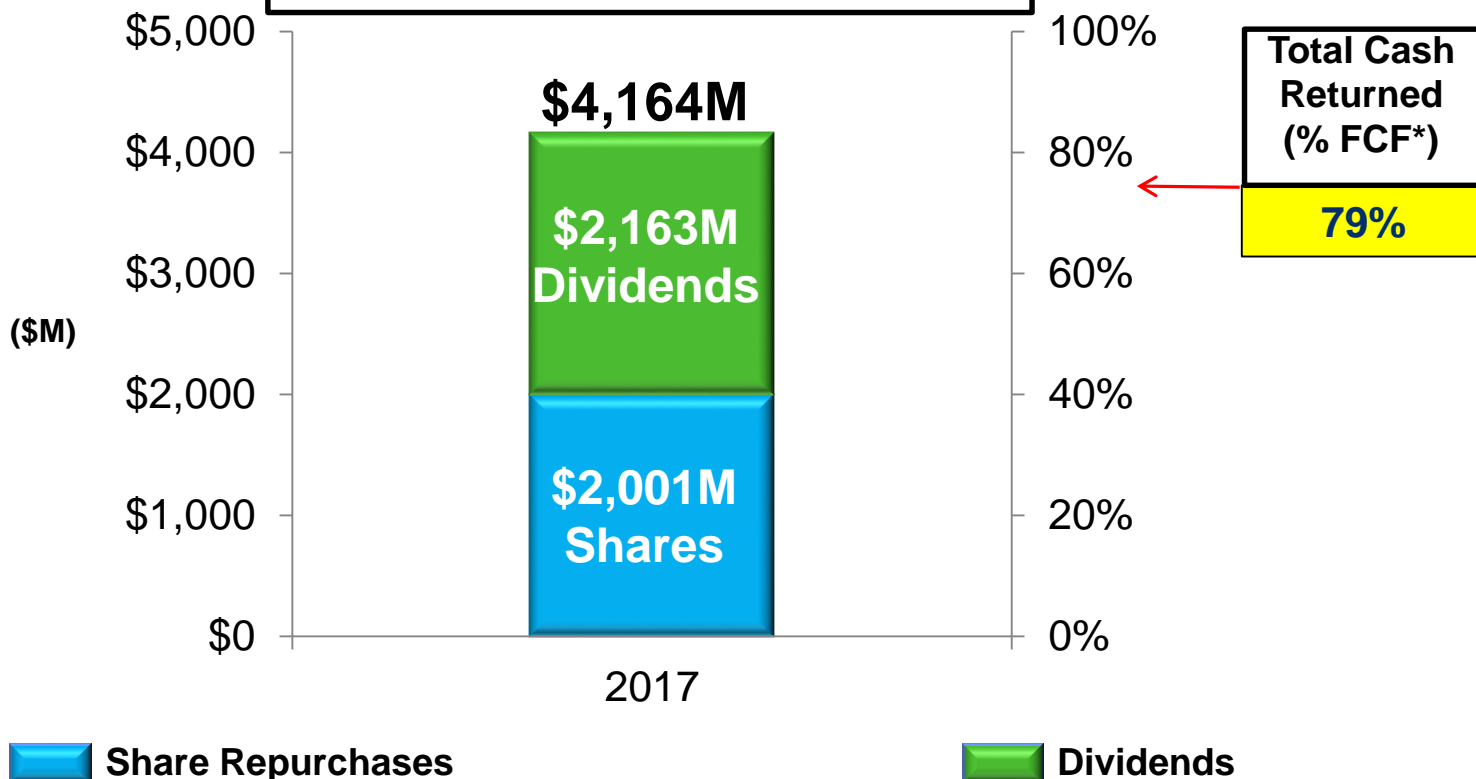


**Outstanding Cash from Operations Growth in 2017**

# Cash Returned to Stockholders - 2017



Cash From Ops	\$ 6,476M
Less CapEx	<u>(1,177)</u>
Free Cash Flow*	\$ 5,299M



**Continued Commitment to Return Cash to Stockholders**



# 2017 Pro Forma and 2018 Outlook

(\$M, Except EPS)



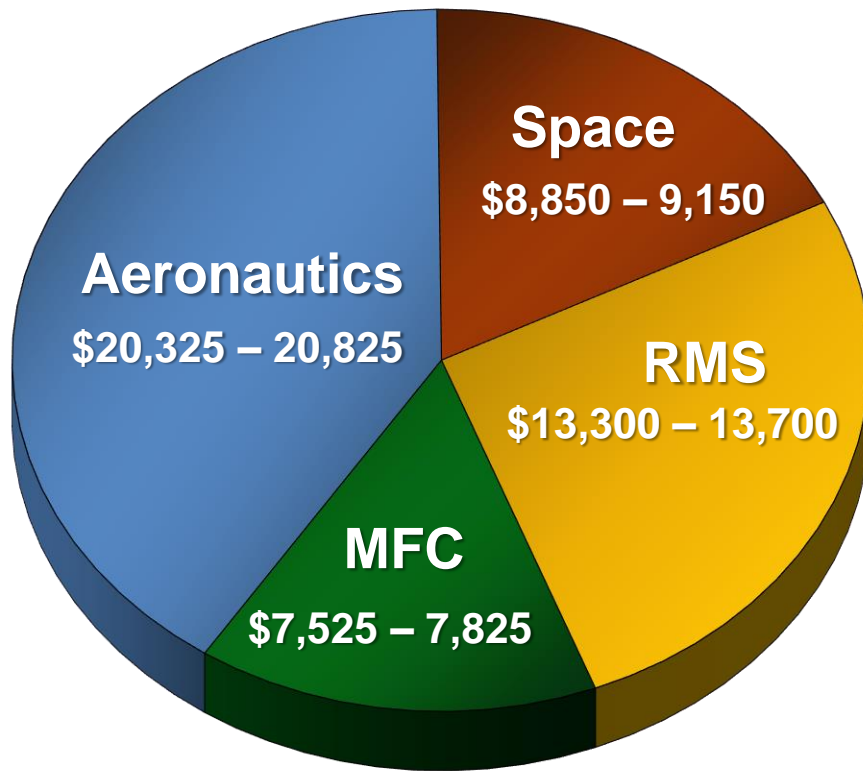
	<u>Pro Forma 2017 ASC 606</u>	<u>2018 Outlook</u>
<b>Sales</b>	<b>\$49,976</b>	<b>\$50,000 - \$51,500</b>
<b>Segment Operating Profit*</b>	<b>\$5,107</b>	<b>\$5,200 - \$5,350</b>
<b><u>Unallocated items</u></b>		
<b>Net FAS/CAS Pension Adjustment</b>	<b>876</b>	<b>~ 1,010</b>
<b>Other, net</b>	<b>(70)</b>	<b>~ (250)</b>
	<b>\$5,913</b>	<b>\$5,960 - \$6,110</b>
<b>Re-class, non-service FAS cost</b>	<b>846</b>	<b>~ 870</b>
<b>Consolidated Operating Profit</b>	<b>\$6,759</b>	<b>\$6,830 - \$6,980</b>
<b>EPS (GAAP)*</b>	<b>\$6.57</b>	<b>\$15.20 - \$15.50</b>
<b>EPS (Adjusted)*</b>	<b>\$13.31</b>	
<b>Cash from Operations</b>	<b>\$6,476</b>	<b>≥ \$3,000</b>

# 2018 Outlook

(\$M)

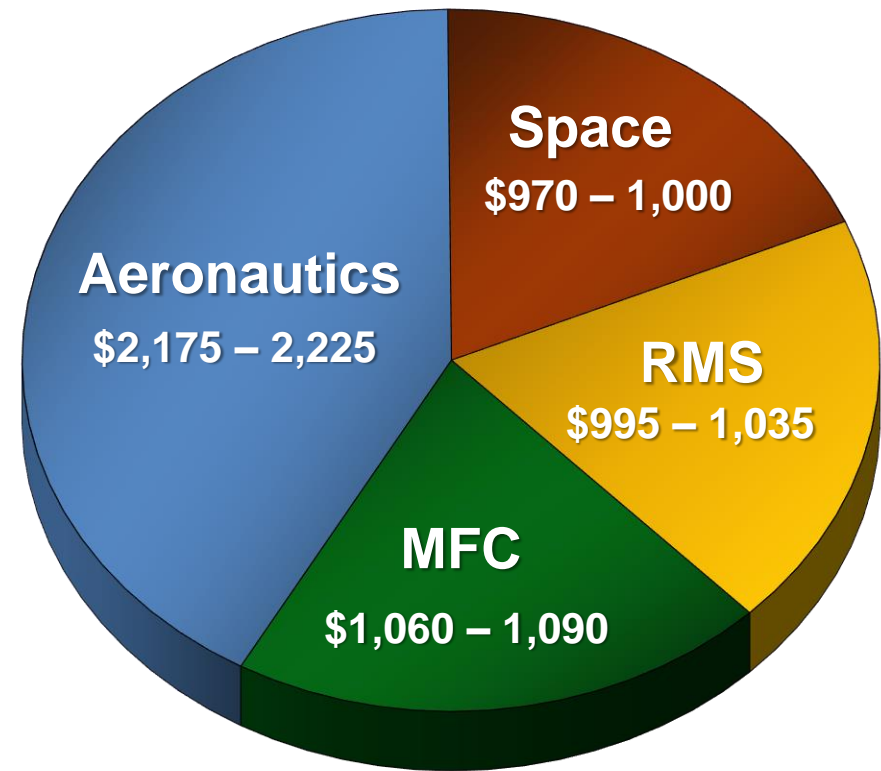


## Sales



**\$50,000 – 51,500M**

## Segment Op Profit\*



**\$5,200 – 5,350M**

# 2018 FAS/CAS Adjustment Outlook

(\$M)



**October Outlook** ~ **\$860**

**Discount Rate Change** (3.625% vs. 3.875%) ~ **(115)**

**2017 Actual Return on Plan Assets** (13% vs. 9%) ~ **75**

**Revised Longevity Assumptions** ~ **25**

**Increased 2018 Cash Contributions to ~\$5B** ~ **165**

**January Guidance** ~ **\$1,010**

# Cash From Operations Long-Term Trends

(\$B)



**UPDATED FOR TAX REFORM**

**New Goal**

**≥ \$17 Billion Cum  
For Years 2018 to 2020**

	<b>Outlook <u>2018</u></b>	<b>Cash Goal <u>2019</u></b>	<b>Cash Goal <u>2020</u></b>
<i>2018 Pension Contributions:</i>	~ \$5.0B	~ \$0	~ \$0
<b>Cash from Operations:</b>	<b>≥ \$3.0B</b>	<b>~ \$7.0B</b>	<b>~ \$7.0B</b>

**Three-Year Cash from Operations Goal**

# Summary



- **Strong 2017 Performance...Solid Foundation for 2018**
- **Accelerated Pension Contributions Providing for Future Cash Benefits**
- **Portfolio Well Aligned for Growth**
- **Investing for the Future**

**Strong Finish to 2017...  
Positioned to Deliver Results in 2018**



# Financial Appendix

# Definitions of Non-GAAP Measures



## Non-GAAP Financial Measures Disclosure

This presentation, and today's conference call remarks, contain non-Generally Accepted Accounting Principles (GAAP) financial measures (as defined by SEC Regulation G). While we believe that these non-GAAP financial measures may be useful in evaluating Lockheed Martin, this information should be considered supplemental and is not a substitute for financial information prepared in accordance with GAAP. In addition, our definitions for non-GAAP measures may differ from similarly titled measures used by other companies or analysts.

## Free Cash Flow

Lockheed Martin defines Free Cash Flow (FCF) as Cash From Operations less Capital Expenditures.

## Adjusted EPS

Lockheed Martin defines Adjusted EPS as GAAP EPS from Continuing Ops plus the net one-time charge due to Tax Reform.

	2017 EPS ASC 605	2017 Pro Forma EPS ASC 606
GAAP EPS	\$ 6.64	\$ 6.57
Net Impact of One-time Charge	\$ 6.69	\$ 6.74
Adjusted EPS	\$ 13.33	\$ 13.31

## Segment Operating Profit / Margin

Segment Operating Profit represents the total earnings from our business segments before unallocated income and expense, interest expense, other non-operating income and expense, and income tax expense. This measure is used by our senior management in evaluating the performance of our business segments. The caption "Total Unallocated Items" reconciles Segment Operating Profit to Consolidated Operating Profit. Segment Margin is calculated by dividing Segment Operating Profit by Sales. Mid-point Segment Margin represents the mid-point of the outlook range for Segment Operating Profit divided by the mid-point of the outlook range for Sales.

(\$ Millions)	2018 Outlook			2017			2016		
	Sales	Profit	Margin	Sales	Profit	Margin	Sales	Profit	Margin
Sales	\$50,000 - \$51,500			\$ 51,048	\$ 5,115	10.0%	\$ 47,248	\$ 5,100	10.8%
Segment Operating Profit	\$5,200 - \$5,350			-	806		-	449	
Mid-Point Segment Margin	10.4%								
Consolidated Operating Profit	\$6,830 - \$6,980			\$ 51,048	\$ 5,921	11.6%	\$ 47,248	\$ 5,549	11.7%

