



# Lockheed Martin Corporation

**1<sup>st</sup> Quarter 2020**

**Earnings Results Conference Call**

**Tuesday, April 21, 2020**

**11:00 am ET**

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

Webcast replay & podcast available by 2:00 p.m. ET

April 21, 2020 at: [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)

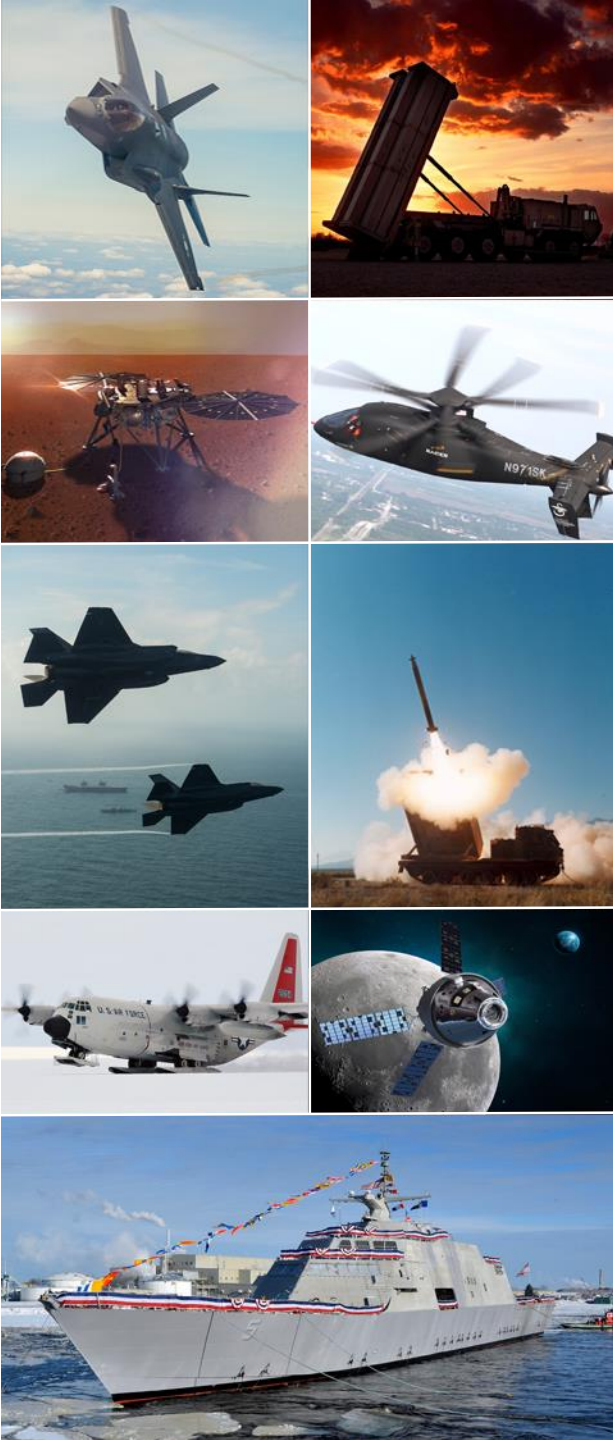
Audio replay available from 1:00 p.m. ET

April 21, 2020 through midnight April 22, 2020

Access the audio replay at:

U.S. and Canada: (866) 207-1041; International: (402) 970-0847

Replay confirmation code: 2253668



# 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 impact of the COVID-19 outbreak or future epidemics on our business, including the potential for facility closures or work stoppages, supply chain disruptions, program delays, our ability to recover our costs under contracts, changing government funding and acquisition priorities and payment policies and regulations; and potential impacts to the fair value of our assets; our 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 our ability to negotiate favorable contract terms; budget uncertainty, affordability initiatives or the risk of future budget cuts; risks related to the development, production, sustainment, performance, schedule, cost and requirements of complex and technologically advanced programs including our largest, the F-35 program; planned production rates for significant programs; compliance with stringent performance and reliability standards; materials availability; the performance and financial viability of key suppliers, teammates, joint ventures, joint venture partners, subcontractors and customers; economic, industry, business and political conditions including their effects on governmental policy and government actions that disrupt our supply chain or prevent the sale or delivery of our products (such as delays in obtaining Congressional approvals for exports requiring Congressional notification and export license delays due to COVID-19); trade policies or sanctions (including Turkey's removal from the F-35 program, the impact of U.S. Government sanctions on Turkey and potential sanctions on the Kingdom of Saudi Arabia); our success expanding into and doing business in adjacent markets and internationally and the differing risks posed by international sales; changes in foreign national priorities and foreign government budgets; the competitive environment for our products and services, including increased pricing pressures, aggressive pricing in the absence of cost realism evaluation criteria, competition from outside the aerospace and defense industry, and bid protests; the timing and customer acceptance of product deliveries; our 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 our businesses; our ability to implement and continue, and the timing and impact of, capitalization changes such as share repurchases and dividend payments; our ability to recover costs under U.S. Government contracts and changes in contract mix; the accuracy of our estimates and projections; timing and estimates regarding pension funding and movements in interest rates and other changes that may affect pension plan assumptions, stockholders' equity, the level of the FAS/CAS adjustment and actual returns on pension plan assets; the successful operation of joint ventures that we do not control and our ability to recover our investments; realizing the anticipated benefits of acquisitions or divestitures, joint ventures, teaming arrangements or internal reorganizations; our efforts to increase the efficiency of our operations and improve the affordability of our products and services; risk of an impairment of our assets, including the a potential non-cash impairment charge as early as the second quarter for our equity investment in Advanced Military Maintenance, Repair and Overhaul Center LLC (AMMROC) and the potential impairment of goodwill, intangible assets and inventory recorded as a result of the acquisition of the Sikorsky business; the availability and adequacy of our insurance and indemnities; our ability to benefit fully from or adequately protect our intellectual property rights; the effect of changes in (or in the interpretation of) procurement and other regulations and policies affecting our industry, including export of our products, cost allowability or recovery and potential changes to the U.S. Department of Defense's (DoD) acquisition regulations relating to progress payments and performance-based payments and a preference for fixed-price contracts; including the potential for DoD to temporarily modify these in response to COVID-19; the effect of changes in accounting, taxation, or export laws, regulations, and policies and their interpretation or application; and the outcome of legal proceedings, bid protests, environmental remediation efforts, audits, government investigations or government allegations that we have failed to comply with law, other contingencies and U.S. Government identification of deficiencies in our 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 differ 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, 2019. 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 this presentation. 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 are intended to be subject to the safe harbor protection provided by the federal securities laws.

# 1Q 2020 Overview



- **Achieved Sales of \$15.7 Billion**
- **Achieved Segment Operating Profit\* of \$1.7 Billion and Earnings Per Share of \$6.08**
- **Generated \$2.3 Billion in Cash From Operations**
- **Returned ~\$1.4 Billion of Cash to Stockholders**
- **Maintained Backlog of ~\$144 Billion**
- **Updated Outlook for COVID-19 Impacts**

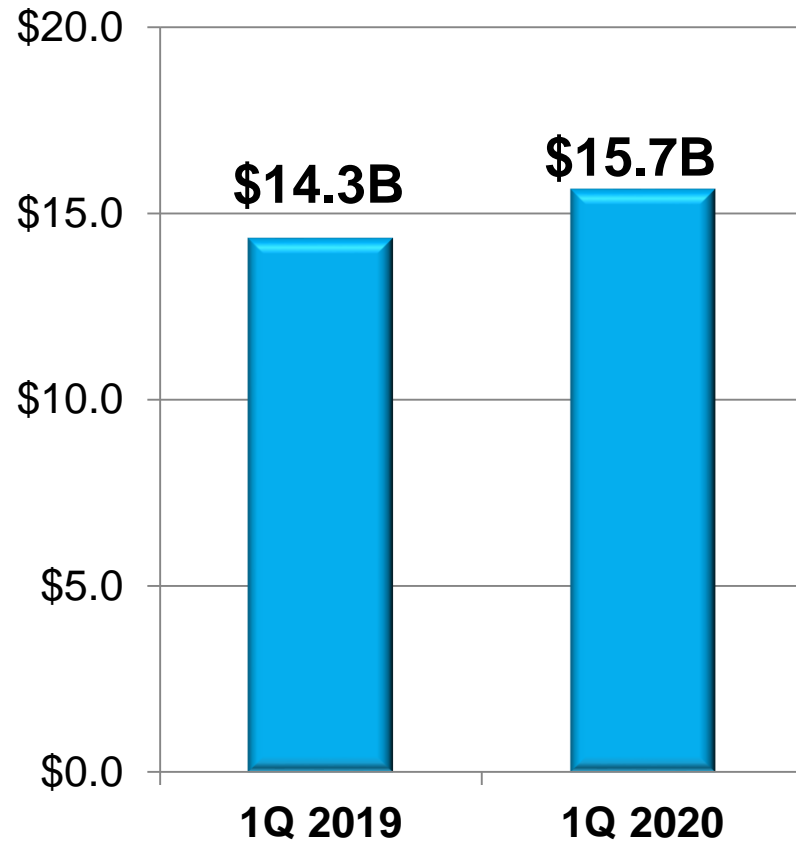
**Strong Start to 2020**

# 1Q Sales and Segment Operating Profit\*

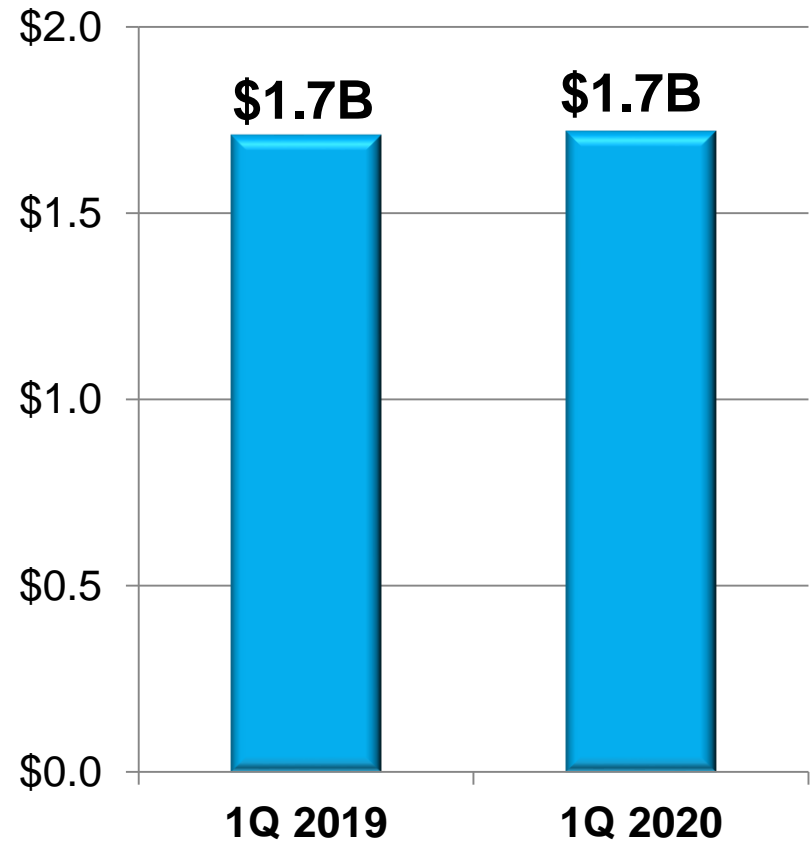
(\$B)



## Sales



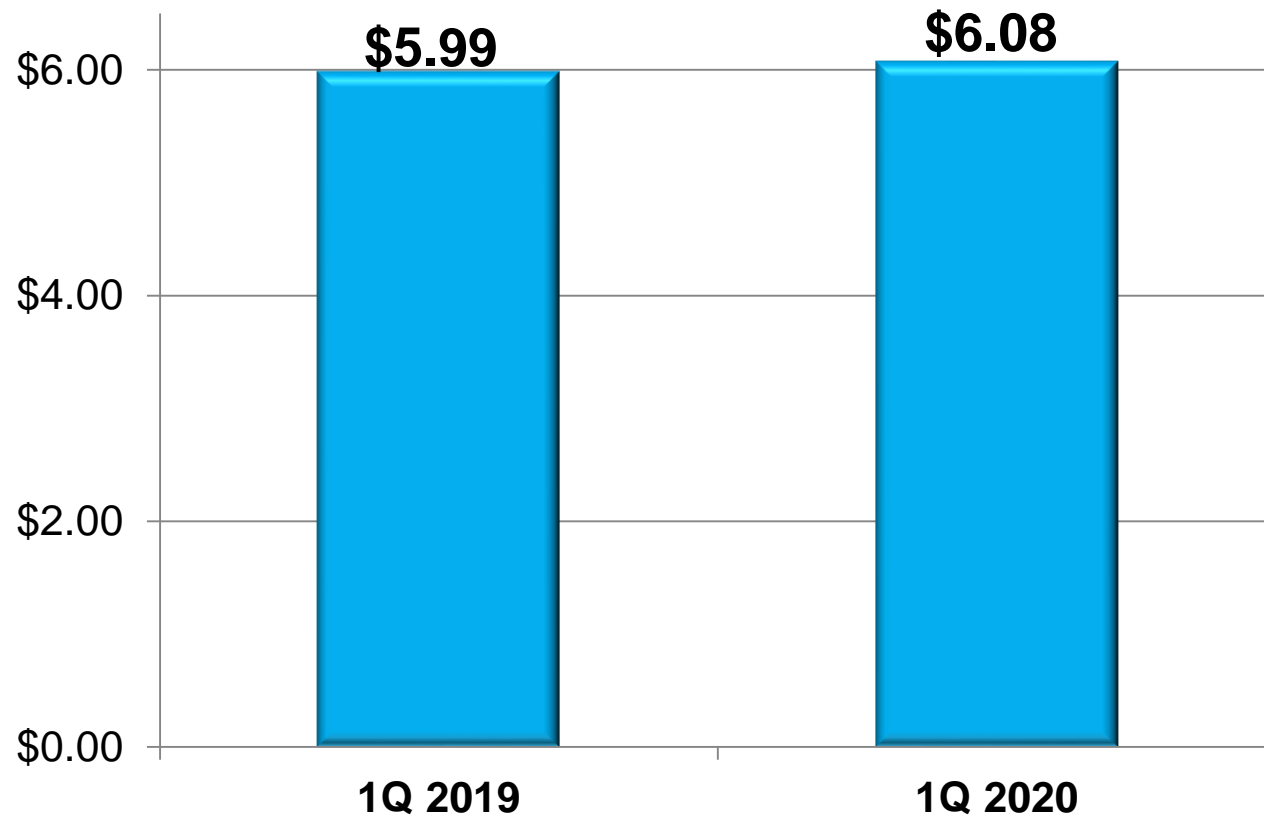
## Segment Operating Profit



**+9% Growth in Sales,  
Solid Segment Operating Profit**

# 1Q Earnings Per Share

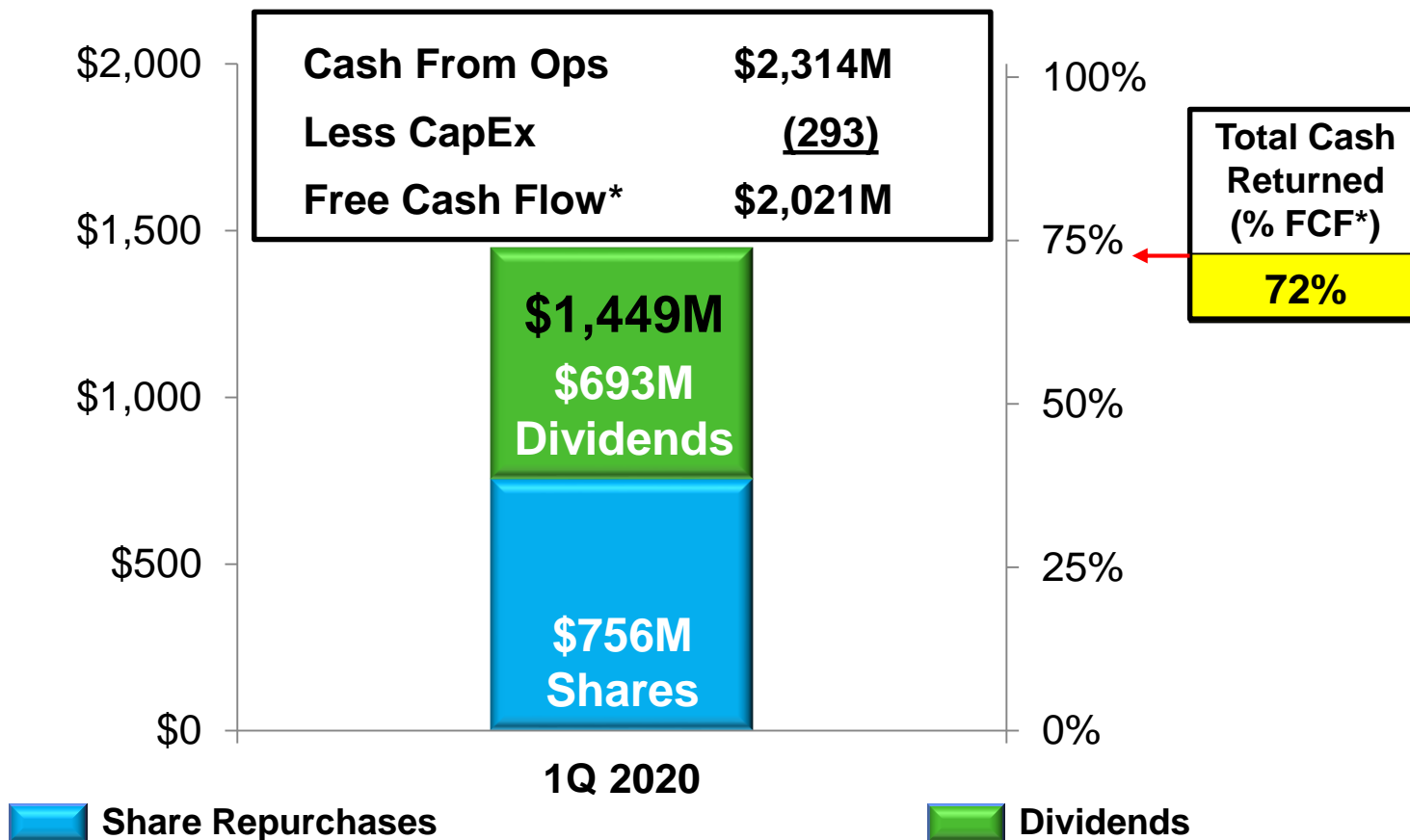
(\$EPS)



**Continued Growth in Earnings Per Share**

# Cash Returned to Stockholders

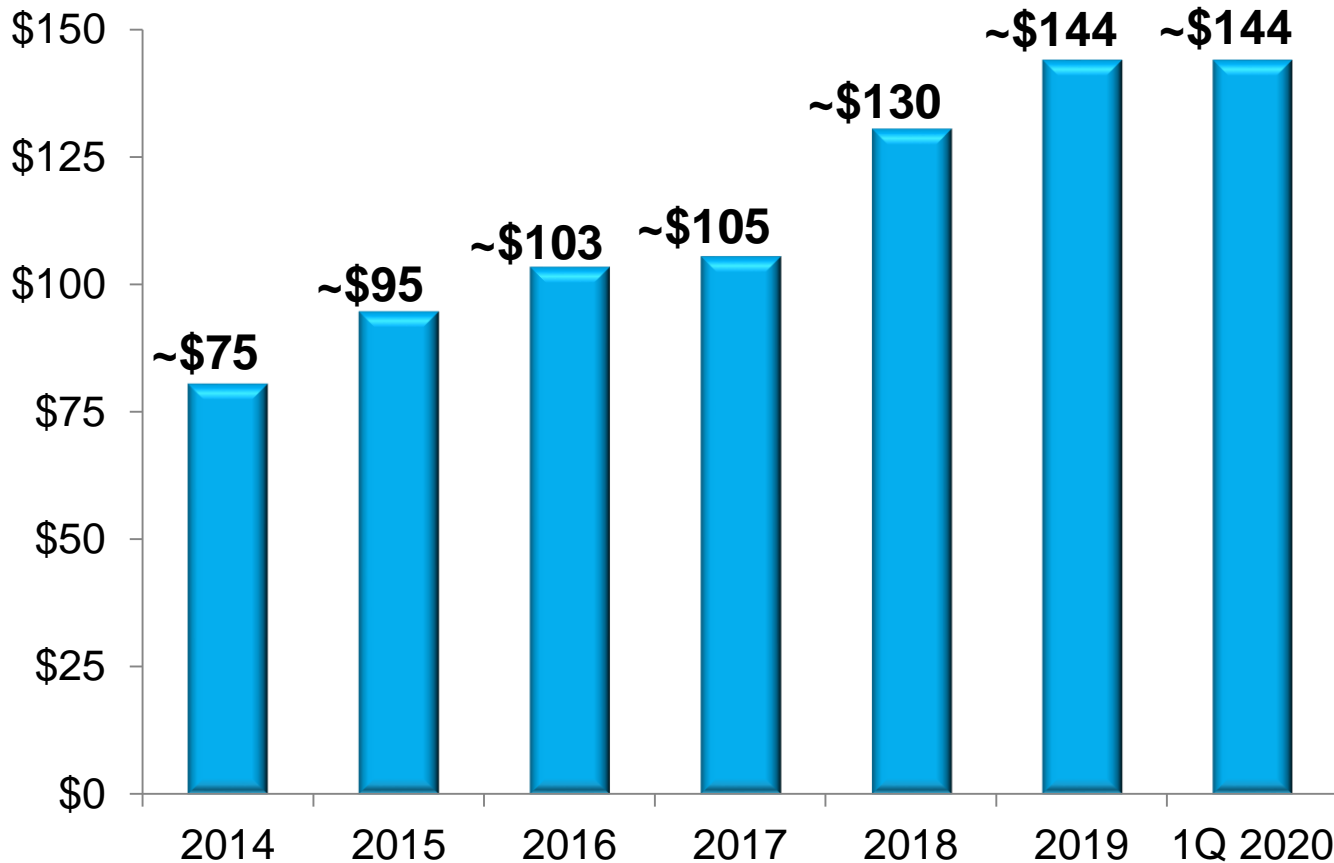
(\$M)



**No Change in Cash Deployment Strategy**

# Backlog

(\$B)



**Maintained Strong Backlog of ~\$144 Billion**

# 2020 Outlook Update

(\$M, Except EPS)



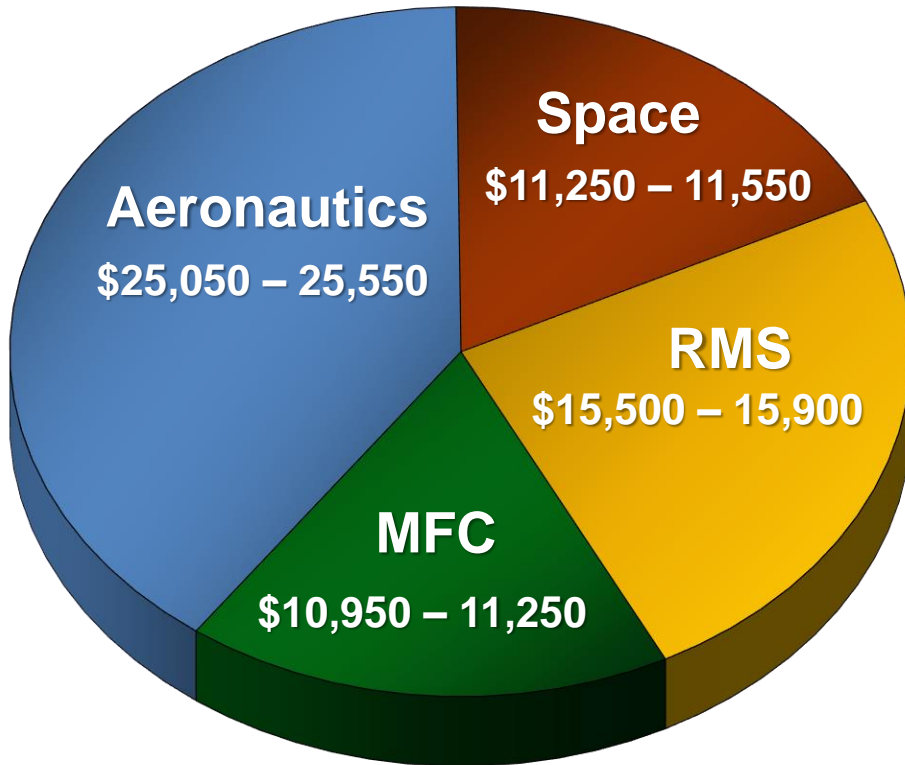
	Prior Outlook	April 2020 Outlook
Sales	\$62,750 – 64,250	\$62,250 – \$64,000
Segment Operating Profit*	\$6,800 – \$6,950	\$6,800 – \$6,950
Net FAS / CAS Pension Adjustment*	~\$2,090	~\$2,090
Diluted EPS	\$23.65 – \$23.95	\$23.65 – \$23.95
Cash From Operations	≥ \$7,600	≥ \$7,600



# 2020 Sales Outlook (\$M)

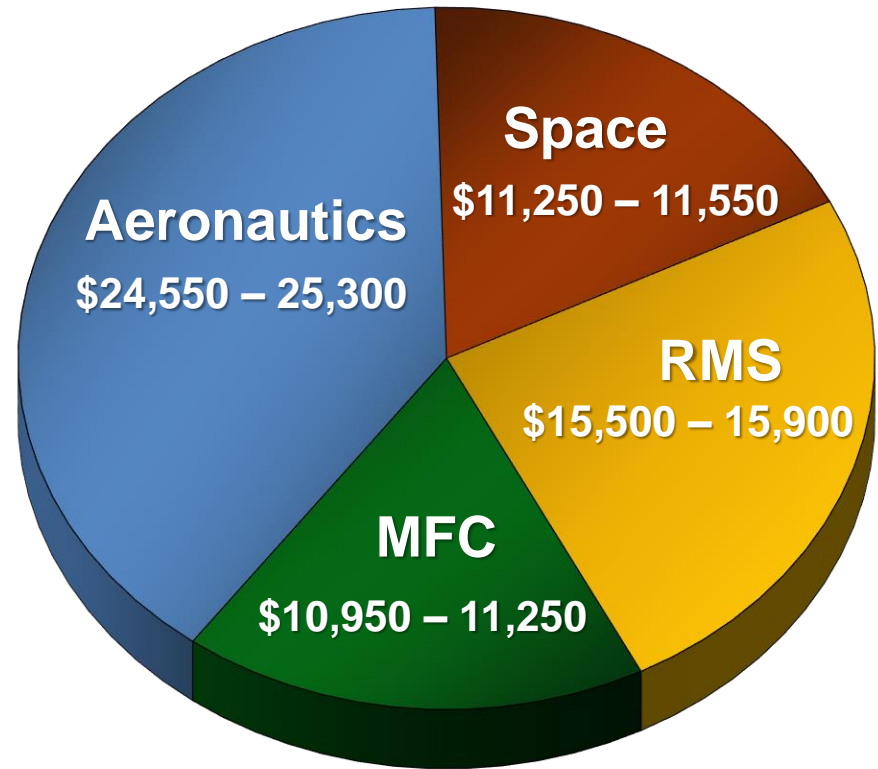


## Sales (Prior)



**\$62,750 – 64,250M**

## Sales (Current)



**\$62,250 – 64,000M**

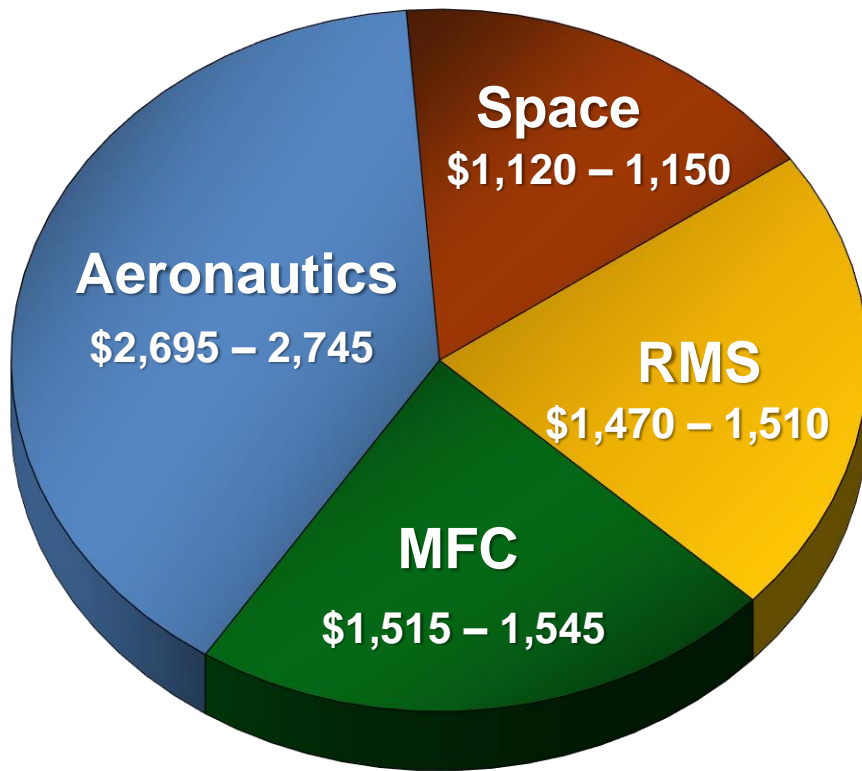
**Sales Midpoint Reduced \$375M**

# 2020 Segment Operating Profit\* Outlook

(\$M)

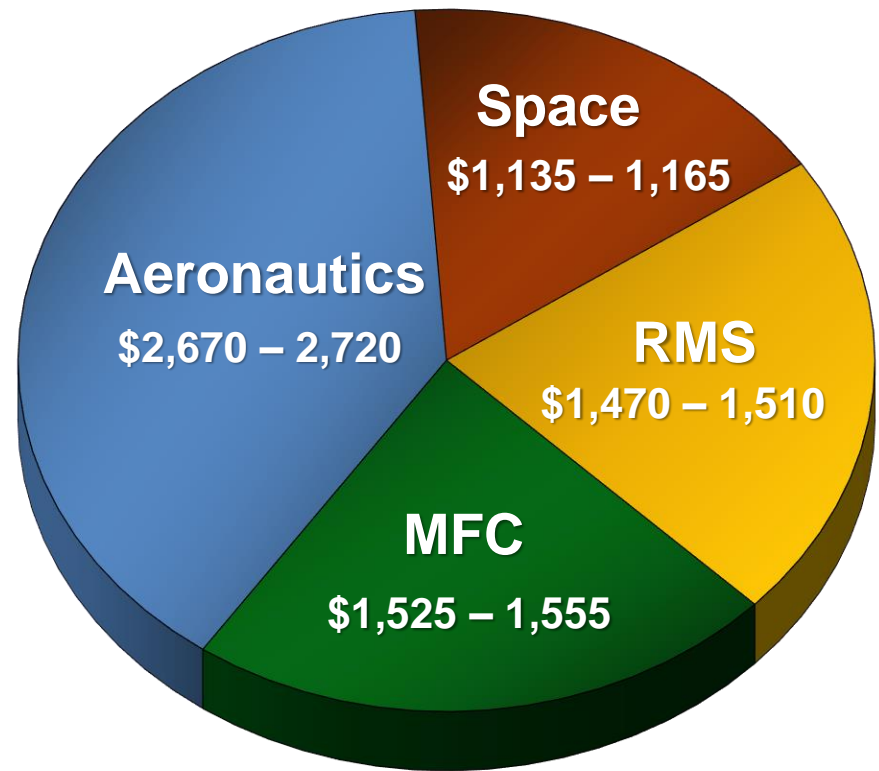


## Segment Op Profit (Prior)



**\$6,800 – 6,950M**

## Segment Op Profit (Current)



**\$6,800 – 6,950M**

**Segment Operating Profit Midpoint Unchanged**

# COVID-19 Assumptions



- **Outlook Includes All Known Operational and Financial Impacts**
  - Monitoring on Daily Basis with Focus on Operations and Supply Chain
    - Providing Increased Support to the Most Vulnerable Elements
- **DoD Leadership on Policy Changes & Impacts**
  - Maintain Essential Business Status; Recoverability of Costs
  - Progress Payment Rate Increased from 80% to 90%
    - LM Committing to Flow > \$450M of Associated Timing Benefit to Suppliers
- **CARES Act Opportunity (Cash Timing)**
  - Primarily Deferral of Social Security Tax Payments Until 2021 / 2022

**Taking Actions to Minimize Disruption During Uncertain Times**

# Summary



- **Strong 1Q 2020 Operational and Financial Performance**
- **Backlog Provides Strength for Continued Growth**
- **2020 Outlook Incorporates COVID-19 Assumptions**
  - Total Segment Operating Profit\*, EPS & Cash From Operations Unchanged
  - Sales Outlook Reduced; Growing ~6% over 2019

**Strong Performance Across Portfolio  
In Challenging Environment**



# 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.

## Segment Operating Profit / Margin

Segment Operating Profit represents the operating profit from our business segments before unallocated income and expense. This measure is used by our senior management in evaluating the performance of our business segments and is a performance goal in our annual incentive plan. 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)	<u>2020 Outlook (January)</u>	<u>2020 Outlook (April)</u>
Sales	\$62,750 – 64,250	\$62,250 – 64,000
Segment Operating Profit	\$6,800 – 6,950	\$6,800 – 6,950
Mid-Point Segment Margin	10.8%	10.9%
FAS / CAS Operating Adjustment	~\$1,875	~\$1,875
Other, net	~(\$230)	~(\$230)
Consolidated Operating Profit	\$8,445 – 8,595	\$8,445 – 8,595

	<u>1Q 2020</u>			<u>1Q 2019</u>		
	<u>Sales</u>	<u>Profit</u>	<u>Margin</u>	<u>Sales</u>	<u>Profit</u>	<u>Margin</u>
Segment Operating Profit	\$ 15,651	\$ 1,725	11.0%	\$ 14,336	\$ 1,715	12.0%
Total Unallocated Items	-	397		-	568	
Consolidated Operating Profit (GAAP)	\$ 15,651	\$ 2,122	13.6%	\$ 14,336	\$ 2,283	15.9%

# Appendix I

(\$M, Except EPS)



	<u>2020 Outlook (April)</u>
Sales	\$62,250 – 64,000
Segment Operating Profit*	\$6,800 – 6,950
Mid-Point Segment Margin	10.9%
FAS/CAS Operating Adjustment	~1,875
Other, net	~(230)
Consolidated Operating Profit	\$8,445 – 8,595
Non-Operating FAS Pension Expense	~215
Non-Service Costs for Other Post Retirement Plans	~(30)
Diluted EPS	\$23.65 – 23.95

# Appendix II

(\$M)



	<b>2020 Outlook</b>
<b>Total FAS expense and CAS costs</b>	
FAS pension income (expense)	~ \$ 115
Less: CAS pension cost	~ <u>1,975</u>
Net FAS/CAS pension adjustment	~ <u><u>\$ 2,090</u></u>
 <b>Service and non-service cost reconciliation</b>	
FAS pension service cost	~ \$ (100)
Less: CAS pension cost	~ <u>1,975</u>
FAS/CAS operating adjustment	~ <u>1,875</u>
Non-operating FAS pension credit (cost)*	~ <u>215</u>
Net FAS/CAS pension adjustment	~ <u><u>\$ 2,090</u></u>

The corporation records the non-service cost components of net periodic benefit cost as part of other non-operating expense, net in the consolidated statement of earnings. The non-service cost components in the table above relate only to the corporation's qualified defined benefit pension plans. The corporation expects total non-service income (cost) for its qualified defined benefit pension plans in the table above, along with non-service cost for its other postretirement benefit plans of \$30 million, to total non-service credit of \$185 million for 2020.



