

Lockheed Martin Corporation

4th Quarter and Full Year 2018

Earnings Results Conference Call

Tuesday, January 29, 2019

11:00 a.m. ET

Webcast login at: www.lockheedmartin.com/investor

Webcast replay & podcast available by 1:00 p.m. ET

Tuesday, January 29, 2019 at: www.lockheedmartin.com/investor

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

January 29, 2019 through midnight January 30, 2019

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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; affordability initiatives; the risk of future sequestration under the Budget Control Act of 2011 or other budget cuts; and the impact of government shutdowns, including the possibility that DoD funds are diverted or the risk of nonpayment if we work on unfunded contracts to seek to maintain their projected cost and schedule profiles during any shutdown, and the existing delay in obtaining export licenses as a result of the recently-ended shutdown; 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 (including Congressional actions to prevent the sale or delivery of our products, such as F-35 aircraft to Turkey), or other trade policies or sanctions (including potential sanctions on the Kingdom of Saudi Arabia); 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; its ability to recover investments, which is frequently dependent upon the successful operation of ventures that it does 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, aggressive pricing in the absence of cost realism evaluation criteria, 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 and the timing and impact of capitalization changes such as share repurchases, dividend payments, and pension funding; 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 projections; 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 and intangible assets, investments or other long-term assets, including the potential impairment of goodwill, intangible assets and inventory recorded as a result of the acquisition of the Sikorsky business and the potential further impairment of its equity investment in Advanced Military Maintenance, Repair and Overhaul Center LLC (AMMROC); the adequacy of the corporation's insurance and indemnities; the effect of changes in (or in the interpretation of) procurement and other regulations and policies affecting the corporation's industry, including export of our products from the U.S. and other countries, cost allowability or recovery, aggressive government positions with respect to the use and ownership of intellectual property and potential changes to the Department of Defense's acquisition regulations relating to progress payments and performance-based payments; the effect of changes in accounting, taxation, or export regulations; and the outcome of legal proceedings, bid protests, environmental remediation efforts, government investigations or government allegations that the corporation has 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, 2017 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, or through the website maintained by the SEC at 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 are intended to be subject to the safe harbor protection provided by the federal securities laws.

2018 Overview



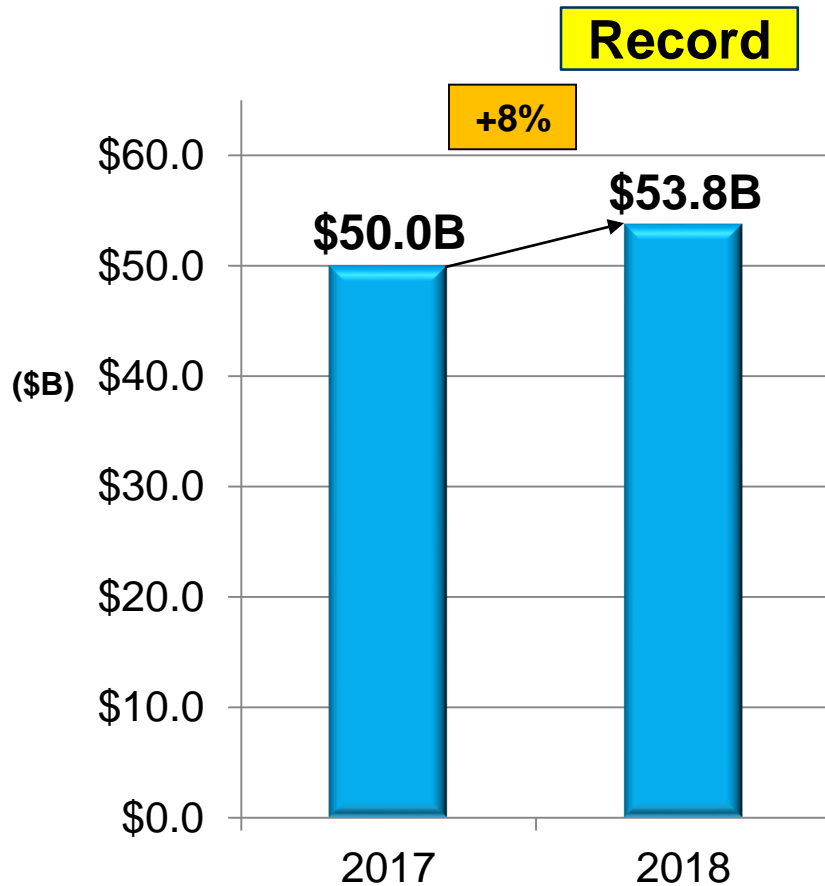
- **Achieved Sales of \$53.8 Billion**
- **Achieved Segment Operating Profit* of \$5.9 Billion and Earnings Per Share from Continuing Operations of \$17.59**
- **Generated \$3.1 Billion in Cash from Operations after \$5.0 Billion of Annual Pension Contributions**
- **Returned \$3.8 Billion of Cash to Stockholders, Including Repurchasing 4.7 Million Shares for \$1.5 Billion**
- **Achieved Record Backlog of \$130 Billion**

Strong Performance in 2018

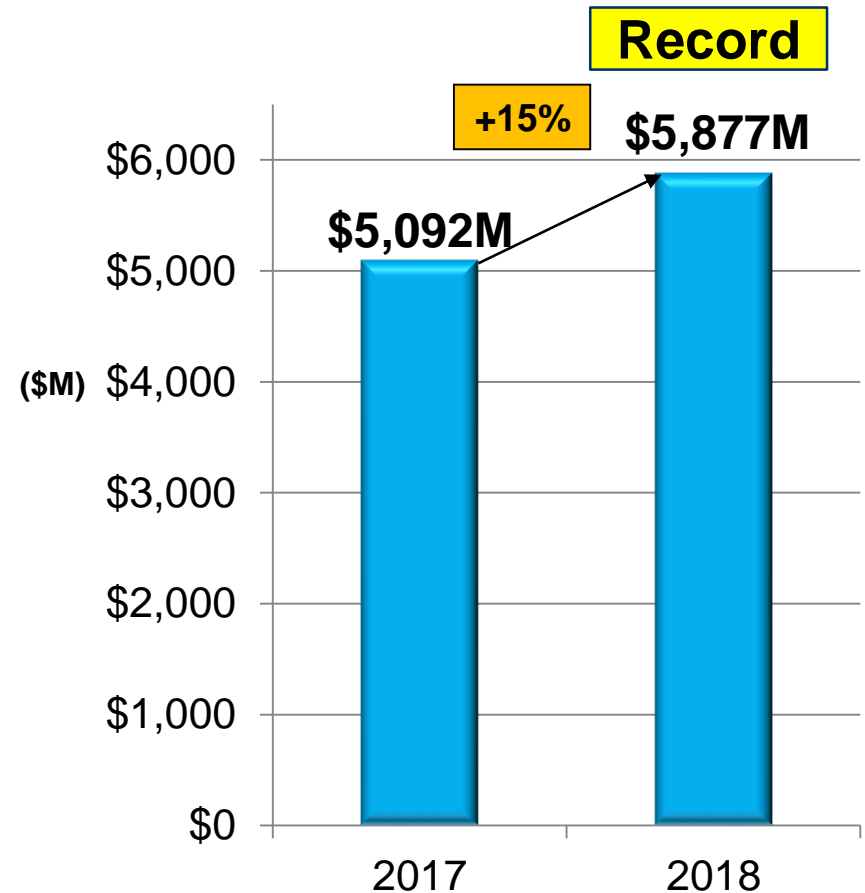
Sales and Segment Operating Profit



Sales



Segment Operating Profit*



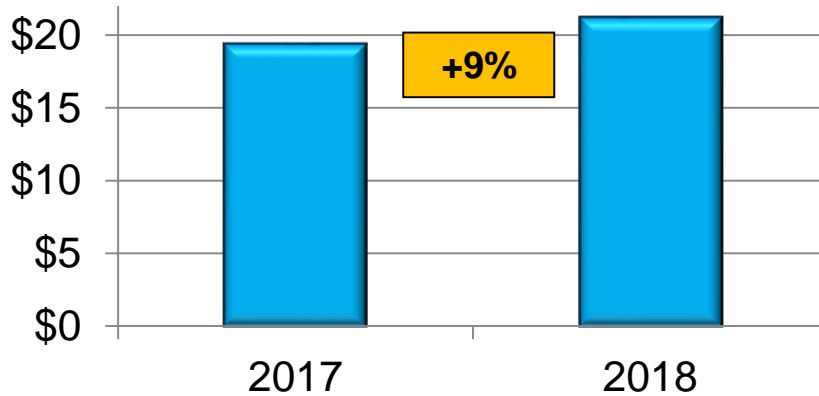
Strong Growth in 2018...Well Positioned for 2019

Sales by Segment

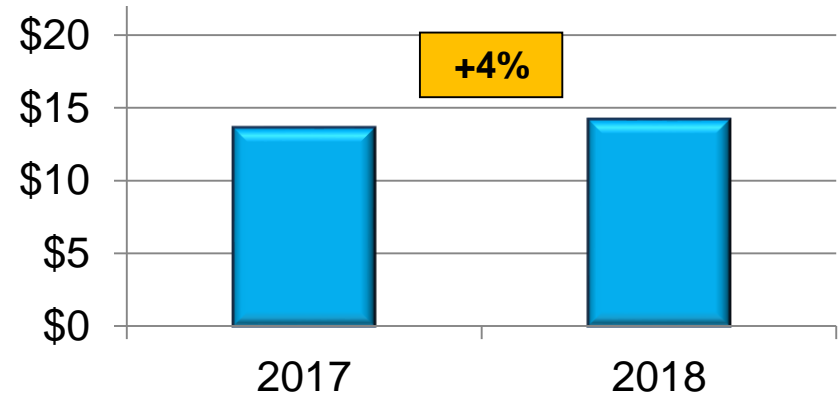
(\$B)



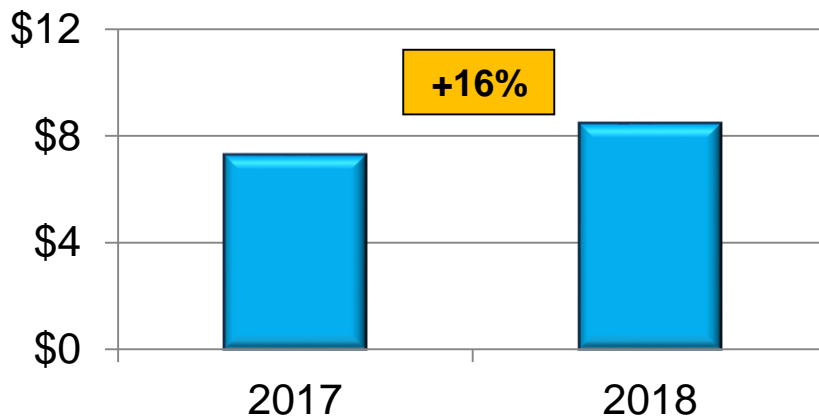
Aeronautics



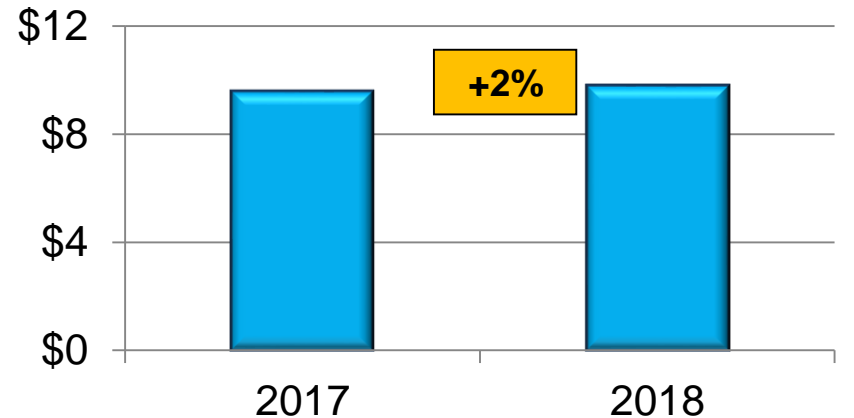
Rotary and Mission Systems



Missiles and Fire Control



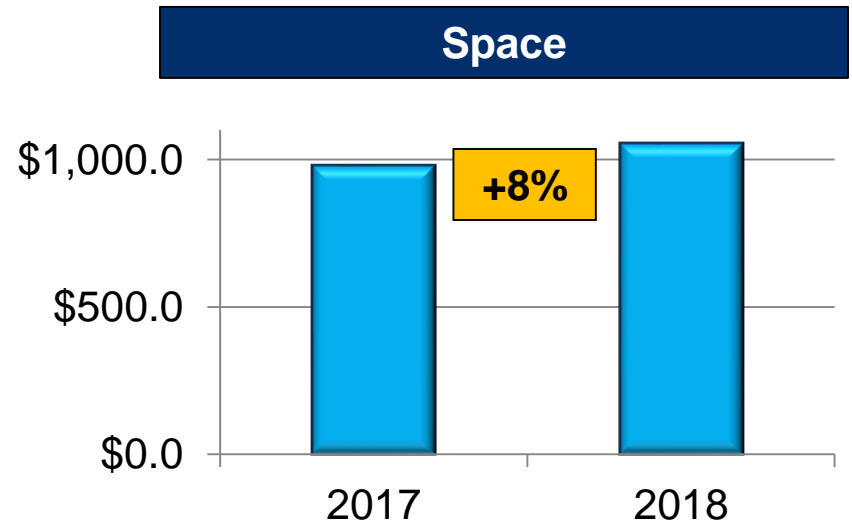
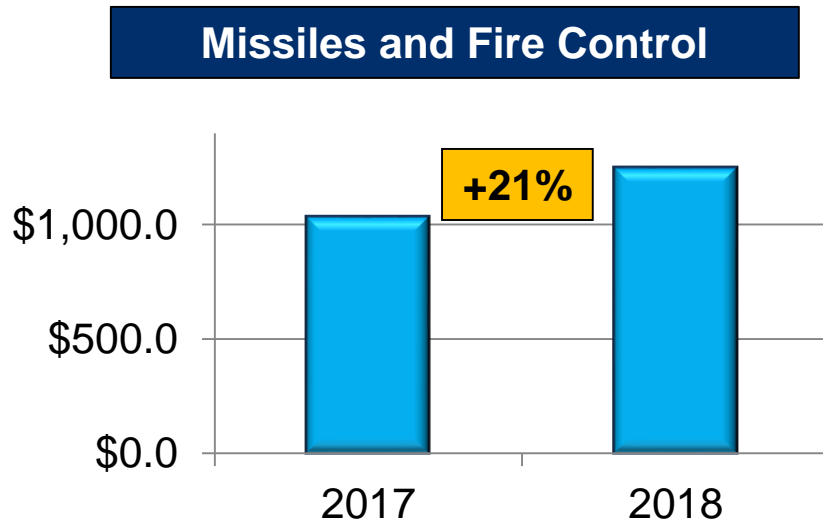
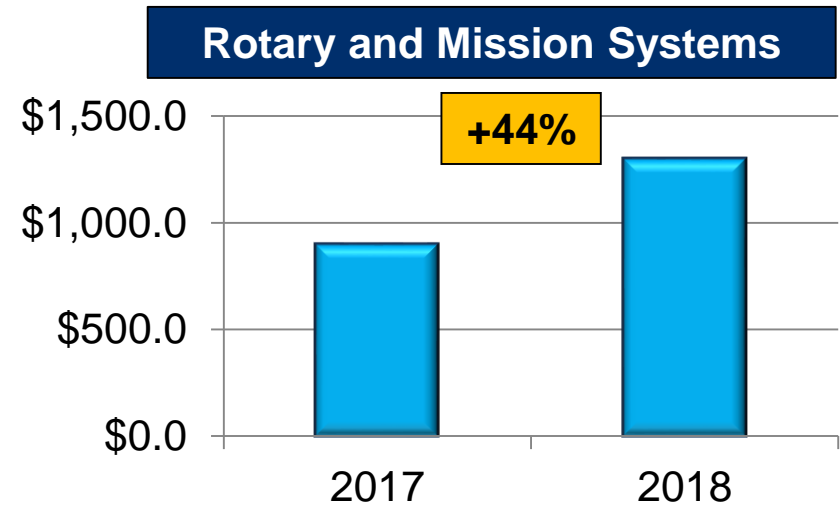
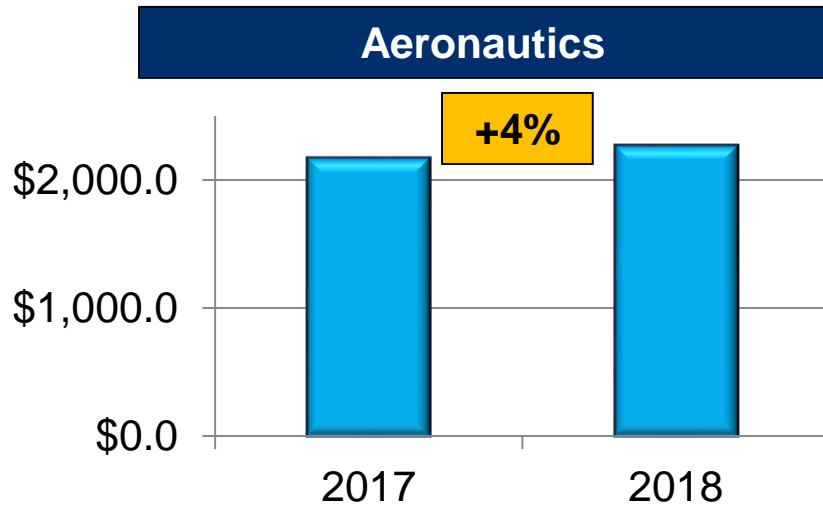
Space



Year Over Year Growth in All Business Areas

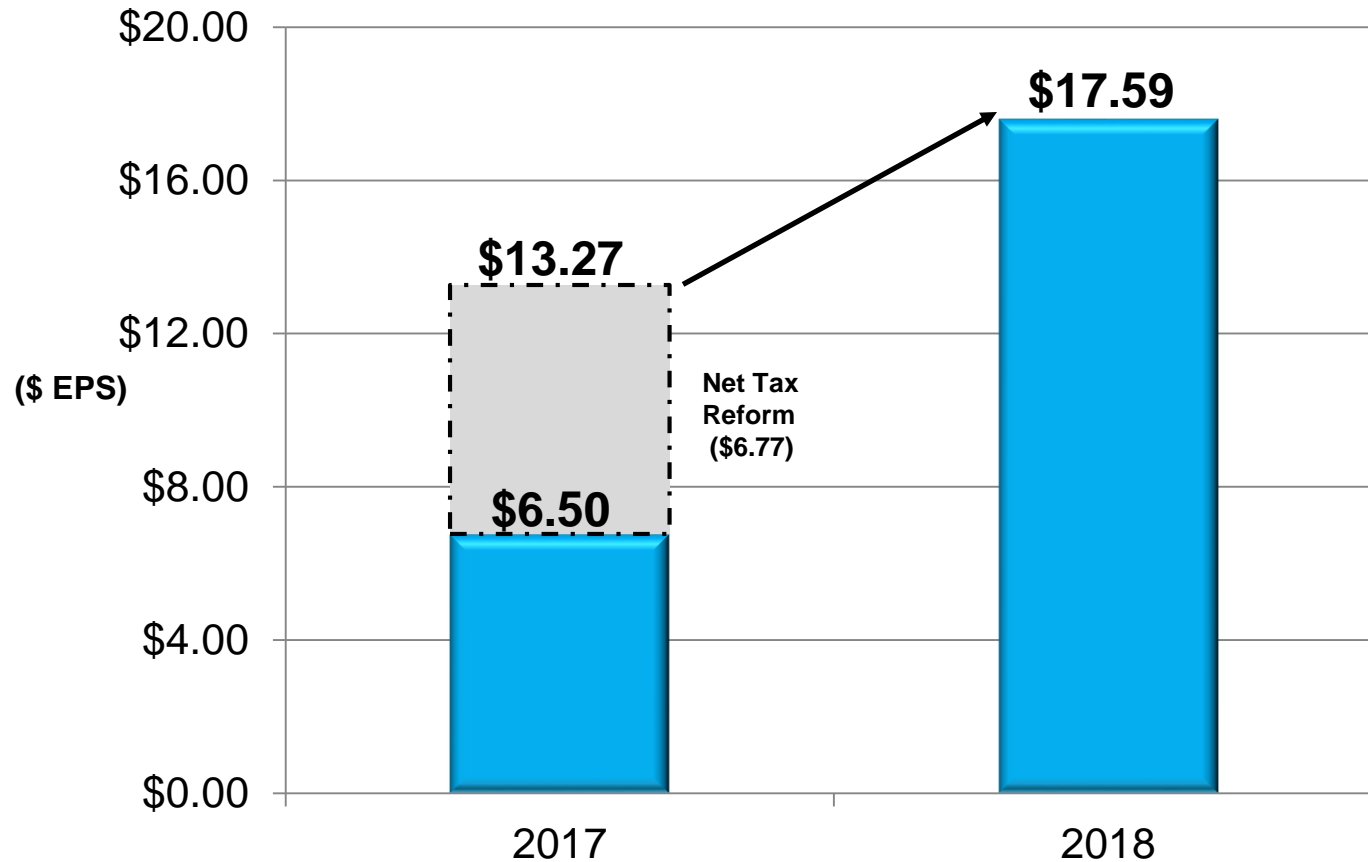
Segment Operating Profit* by Segment

(\$M)



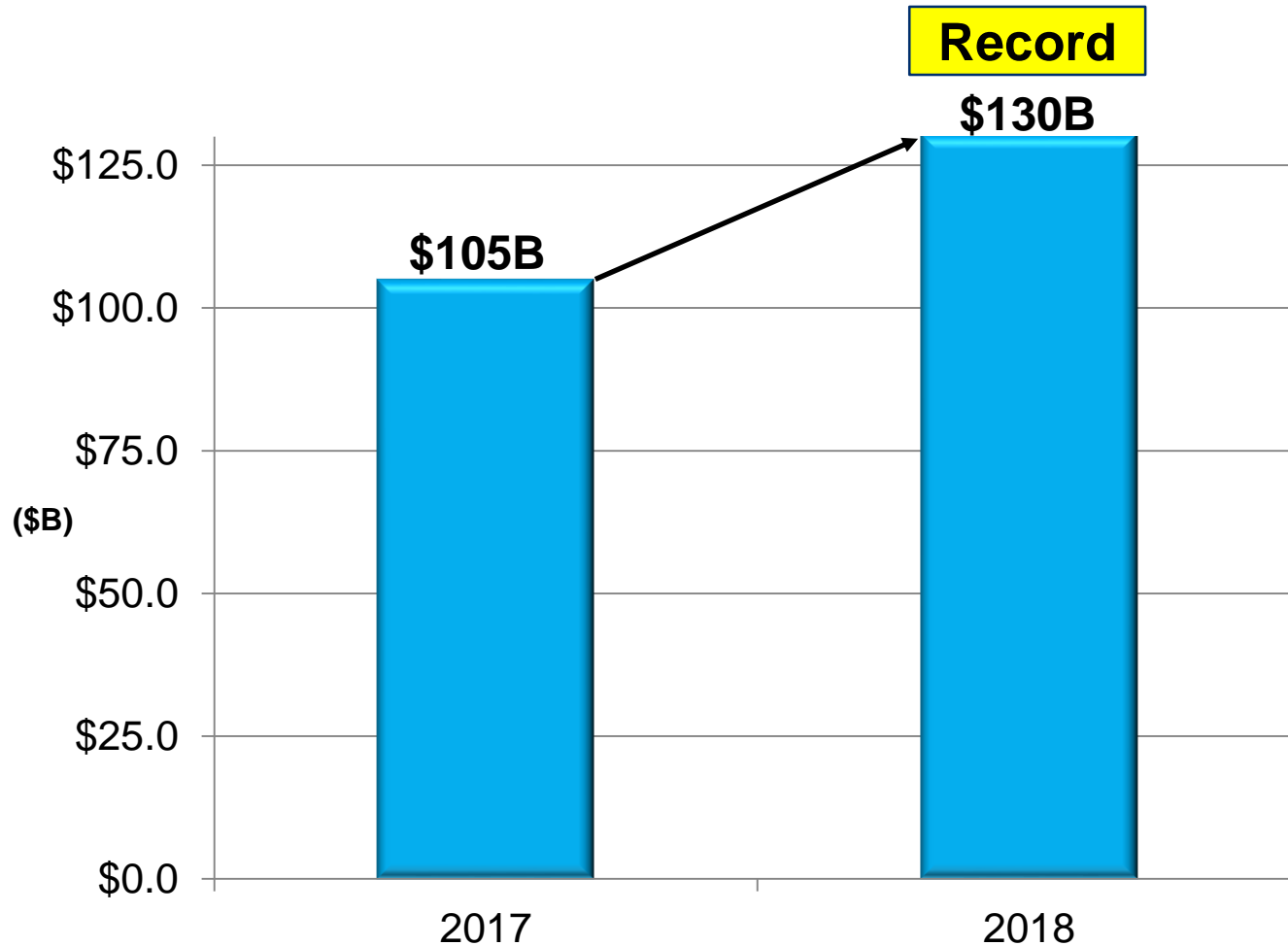
Year Over Year Growth in All Business Areas

Earnings Per Share*



Significant Growth in Earnings Per Share

Backlog



New Record Backlog Levels in 2018

2019 Outlook

(\$M, Except EPS)



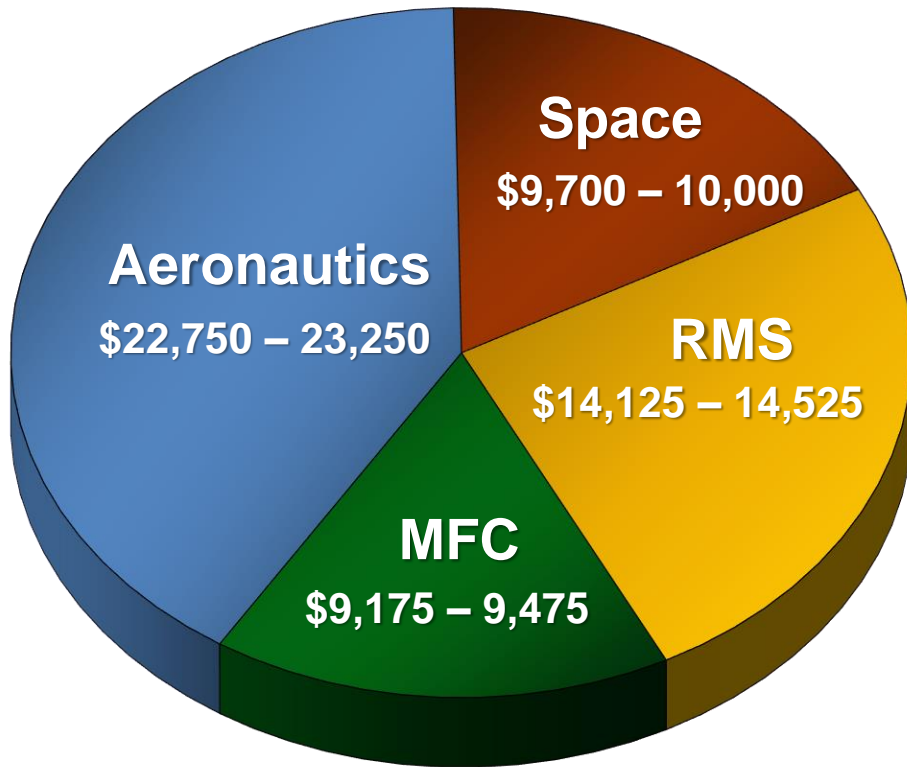
| | <u>2019 Outlook</u> |
|---|----------------------------|
| Sales | \$55,750 - \$57,250 |
| Segment Operating Profit* | \$6,000 - \$6,150 |
| Net FAS/CAS Pension Adjustment** | ~ \$1,475 |
| EPS from Continuing Operations | \$19.15 - \$19.45 |
| Cash from Operations | ≥ \$7,400 |

2019 Outlook

(\$M)

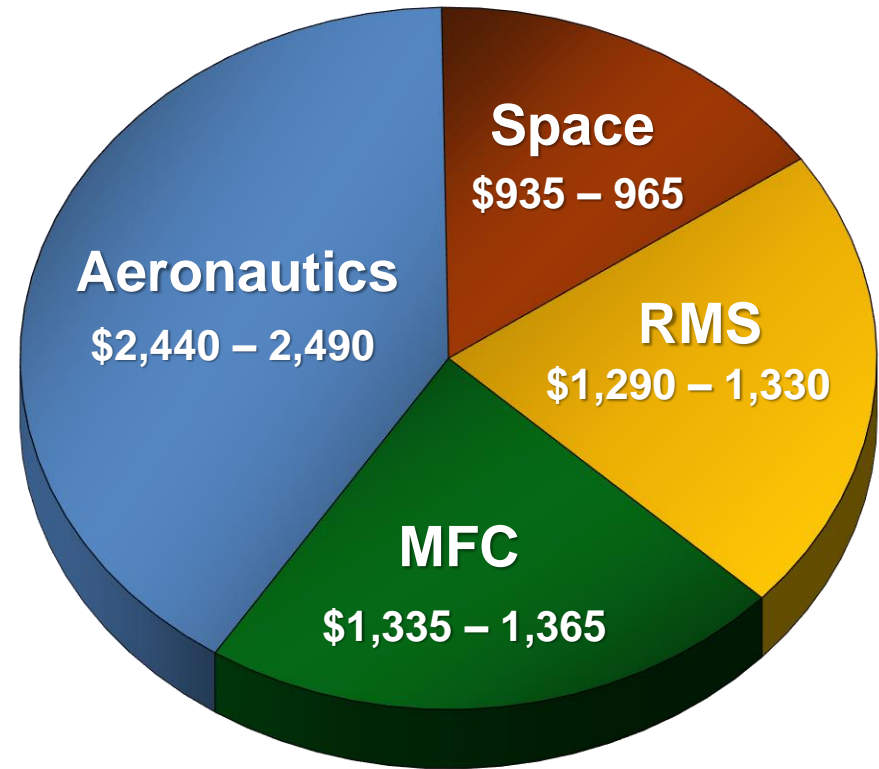


Sales



\$55,750 – 57,250M

Segment Operating Profit*



\$6,000 – 6,150M

2019 Net FAS/CAS Adjustment Outlook*

(\$M)



| | |
|------------------------|------------------|
| October Outlook | ~ \$1,500 |
|------------------------|------------------|

| | |
|---|----------------|
| 2018 Actual Return on Plan Assets (-5% vs. 1%) | ~ (120) |
|---|----------------|

| | |
|--|-------------|
| Discount Rate Change (4.25% vs. 4.125%) | ~ 60 |
|--|-------------|

| | |
|----------------------|-------------|
| Other Updates | ~ 35 |
|----------------------|-------------|

| | |
|--------------------------------------|----------|
| Pension Transfer Transactions | - |
|--------------------------------------|----------|

| | |
|-------------------------|------------------|
| January Guidance | ~ \$1,475 |
|-------------------------|------------------|

Pension Liability Transfer Transactions



- **Closed on Two Pension Risk Mitigation Transactions in December**
- **~41,000 current retirees, or just over 25% of retired pension population**
 - **Amount and Timing of Benefit Payments are Unchanged**
- **Insulates LMT from Future Volatility on ~\$2.5B of Pension Obligations**
 - **Enables \$25M of Annual Savings from PBGC Fees**
- **Option to Settle ~\$800M of Plan Liabilities with USG in the Future**
 - **Acceleration of CAS Pre-Payment Credits**
 - **Results in Higher Cash From Operations in Year of Settlement**

**Migrating Pension Liabilities to Better
Focus on Core Mission**

Summary



- **Outstanding 2018 Operational and Financial Performance**
- **Record Backlog Across Broad Portfolio**
- **2019 Outlook Delivering Continued Growth and Long-Term Value Creation**

2018 Full Year Strength Continuing into 2019



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.

Adjusted EPS

Adjusted EPS refers to GAAP EPS from Continuing Ops plus the net one-time charge due to Tax Reform.

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) | <u>2019 Outlook</u> |
| Sales | \$55,750 - \$57,250 |
| Segment Operating Profit | \$6,000 - \$6,150 |
| Net FAS/CAS Operating Adjustment | ~ 2,050 |
| Other, net | ~ (165) |
| Mid-Point Segment Margin | 10.8% |
| Consolidated Operating Profit | \$7,885 - \$8,035 |

Outlook for 2019 does not reflect potential benefits, if any, from additional tax deductions for foreign derived intangible income under proposed US Treasury regulations that are expected to be released in the near future. Such proposed tax regulations, if favorable, may have a beneficial impact on our 2019 earnings, effective tax rate, and earnings per share.

| | 2018 | | | 2017 | | |
|--------------------------------------|-----------|----------|--------|-----------|----------|--------|
| | Sales | Profit | Margin | Sales | Profit | Margin |
| Segment Operating Profit | \$ 53,762 | \$ 5,877 | 10.9% | \$ 49,960 | \$ 5,092 | 10.2% |
| Total Unallocated Items | - | 1,457 | | - | 1,652 | |
| Consolidated Operating Profit (GAAP) | \$ 53,762 | \$ 7,334 | 13.6% | \$ 49,960 | \$ 6,744 | 13.5% |

Appendix

(\$M)



| | 2019 Preliminary Trends |
|--|--|
| Total FAS expense and CAS costs | |
| FAS pension expense | ~ (\$1,090) |
| Less: CAS pension cost | ~ 2,565 |
| Net FAS/CAS pension adjustment | <u>~ 1,475</u> |
| Service and non-service cost reconciliation | |
| FAS pension service cost | ~ (\$515) |
| Less: CAS pension cost | ~ 2,565 |
| FAS/CAS Operating adjustment | ~ 2,050 |
| Non-operating FAS pension cost* | ~ (575) |
| Net FAS/CAS pension adjustment | <u>~ \$1,475</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 our qualified defined benefit pension plans. The corporation expects total non-service costs for our qualified defined benefit pension plans in the table above, along with non-service costs for our other postretirement benefit plans of \$115 million, to total \$690 million for 2019.

