



LOCKHEED MARTIN (LMT)

Business Model

Lockheed Martin is the largest defense contractor globally and has dominated the Western market for high-end fighter aircrafts since being awarded the F-35 program contract in 2001. Lockheed's largest segment is Aeronautics, which is dominated by the massive F-35 program. Lockheed's remaining segments are rotary & mission systems, which is mainly comprised of the Sikorsky helicopter business; missiles and fire control, which creates missiles and missile defense systems; and space systems, which produces satellites and receives equity income from the United Launch Alliance joint venture.

The Company in a Nutshell

- With terrorists' threats growing, we expect LMT to leverage its expertise in defense across the world.
- LMT has become THE defense company to the U.S. government and the go-to for fighter aircrafts.
- Payout ratios are under control and LMT continues to reward shareholders handsomely.

Investment Thesis

LMT now benefits from more lax international sales regulations. As geopolitical tensions continue to rise around the globe, Lockheed Martin is in a favorable position to offer its products to other countries. LMT counts on its F-35 fighter aircraft program and missile defense to grow in the upcoming years. After Russia's invasion, Congress set FY22 defense funding \$40B above FY21. We see another large U.S. defense spending increase of at least \$40B for FY23. LMT will benefit from this ramp-up as a key provider of missile systems that Ukraine and U.S. allies are now ordering in large numbers. There are very few competitors in these markets and LMT is increasing its order backlog at a rapid pace. LMT might be a mature company, but if it remains agile there are still many runways to run! LMT exhibits a strong dividend triangle, which adds confidence to future growth. Finally, it seems that a bolstered defense capability can act as a more effective deterrent than diplomacy!

VALUATION

Dividend Growth Rate Years 1-10: 8%

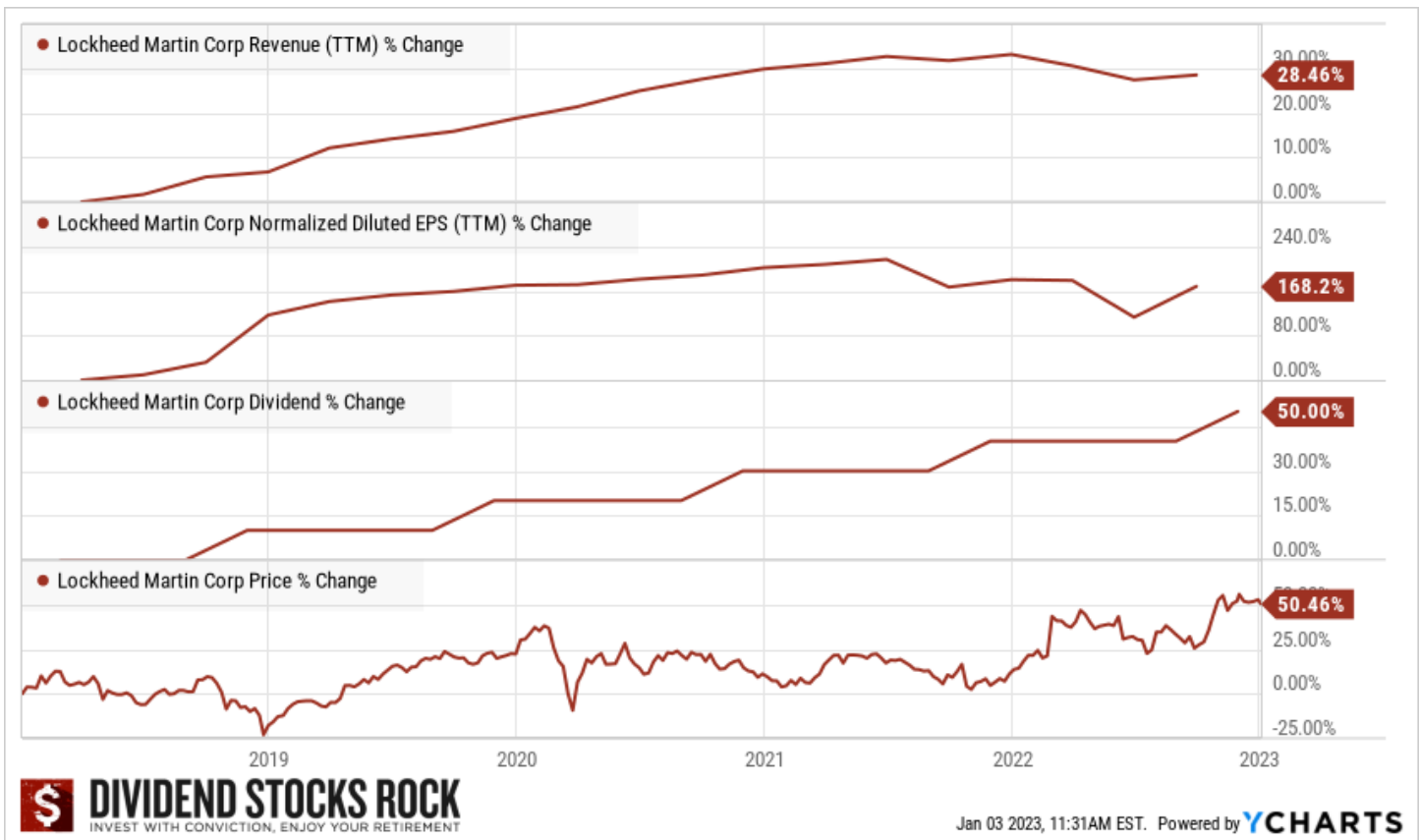
Terminal Dividend Growth Rate: 6.50%

	Discount Rate (Horizontal)		
Margin of Safety	9.00%	10.00%	11.00%
20% Premium	\$572.54	\$408.96	\$318.08
10% Premium	\$524.83	\$374.88	\$291.57
Intrinsic Value	\$477.12	\$340.80	\$265.07
10% Discount	\$429.41	\$306.72	\$238.56
20% Discount	\$381.70	\$272.64	\$212.05



DSR STOCK CARD

01/04/2023



Potential Risks

LMT operates in a semi-monopoly (who else is making F-35's?), thus it only has one large customer. The company experienced significant difficulty in growing its revenues prior to the acquisition of the Sikorsky Aircraft helicopter division, and it is unsure whether LMT will be able to grow Sikorsky helicopter revenues in such a competitive environment. Even the cost and performance of their F-35 program has been criticized. There is also a large new player in the market with the merger of Raytheon and United Technologies. LMT has a large pension plan burden, which weighs heavily on the company's balance sheet. Finally, LMT's contracts have fixed pricing, which would usually be good, but not in a high inflationary environment!

Dividend Growth Perspective

LMT has increased its dividend each year since 2004. It seems that it is navigating the perfect storm: as conflicts are rising around the globe, Congress has accepted Lockheed Martin's efforts to seek out international opportunities. We expect LMT to not only grow its earnings in the coming years, but also to increase its revenues. LMT just rewarded shareholders with a solid 7% dividend increase from \$2.80 to \$3.00. Shareholders can expect a high single-digit dividend growth rate along with continued growth in the market value of the company.