

COMPANY PROFILE

# Lockheed Martin Corporation

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## COMPANY OVERVIEW

Lockheed Martin Corporation (Lockheed Martin or 'the company') is a global security and aerospace company principally engaged in the research, design, development, manufacture, and integration of advanced technology systems, products, and services. The company primarily operates in the US where it is headquartered in Bethesda, Maryland.

The company reported revenues of (US Dollars) US\$47,248 million for the fiscal year ended December 2016 (FY2016), an increase of 16.6% over FY2015. In FY2016, the company's operating margin was 11.7%, compared to an operating margin of 11.6% in FY2015. In FY2016, the company recorded a net margin of 11.2%, compared to a net margin of 8.9% in FY2015.

## KEY FACTS

<b>Head Office</b>	Lockheed Martin Corporation 6801 Rockledge Drive Bethesda Maryland Bethesda Maryland USA
<b>Phone</b>	1 3018976000
<b>Fax</b>	
<b>Web Address</b>	<a href="http://www.lockheedmartin.com">www.lockheedmartin.com</a>
<b>Revenue / turnover (USD Mn)</b>	47,248.0
<b>Financial Year End</b>	December
<b>Employees</b>	97,000
<b>New York Stock Exchange Ticker</b>	LMT

## SWOT ANALYSIS

Lockheed Martin Corporation (Lockheed Martin or 'the company') is a global security and aerospace company principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. A diversified and well spread revenue base enhances Lockheed Martin's operational flexibility enabling it to reach out to a wider customer base and reduce negative impact of downturn in any particular market segment. However, intense competition may negatively impact the company's operations and its financial condition.

<p><b>Strength</b></p> <p>Diversified business portfolio and balanced revenue streams Robust research and development capabilities Strategic investments in technological advancements</p>	<p><b>Weakness</b></p> <p>Heavy dependence on the US Government Pension and retirement obligations</p>
<p><b>Opportunity</b></p> <p>Robust growth forecasted for the global missile market Growing global aerospace and defense market Expanding UAV market Positive outlook of the global security services market</p>	<p><b>Threat</b></p> <p>Environmental costs Declining defense spending by the US Government Intense competition</p>

### Strength

Diversified business portfolio and balanced revenue streams

Lockheed Martin maintains well diversified business operations. The company operates through four principal business segments: Aeronautics; Rotary and Mission Systems (RMS); Space Systems; and Missiles and Fire Control (MFC). Aeronautics is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, and related technologies. The company's RMS segment provide design, manufacture, service and support for a variety of military and commercial helicopters; ship and submarine mission and combat systems; mission systems and sensors for rotary and fixed-wing aircraft; sea and land-based missile defense systems; radar systems; the Littoral Combat Ship (LCS); simulation and training services; and unmanned systems and technologies. The Space Systems segment is engaged in the design, research and development, engineering, and production of satellites, strategic and defensive missile systems, and space transportation systems. The company's MFC segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; and fire control systems.

In addition, the company has balanced revenue streams. Lockheed Martin's Aeronautics business segment contributed 37.6% of its total revenues during FY2016, followed by Rotary and Mission Systems

(28.5%), Space Systems (19.9%), and Missiles and Fire Control (14%). Hence, a diversified and well spread revenue base enhances Lockheed Martin's flexibility enabling it to reach out to a wider customer base and reduce any negative impact of a downturn in any particular market segment.

#### Robust research and development capabilities

Lockheed Martin has a strong emphasis on research and development (R&D). The company conducts research and development activities under customer-sponsored contracts and with its own independent research and development funds. The company spent \$988 million in FY2016, \$817 million in FY2015, and \$733 million in FY2014 on R&D. For instance, in February 2017, the company introduced the LM-100J commercial freighter, the latest member of the C-130J Super Hercules family. Similarly, in November 2016, the company launched the WorldView-4 commercial remote sensing spacecraft for DigitalGlobe. Also, during September 2016, the company launched its first F-35A Lightning II for Japan Air Self Defense Force (JASDF). Further in September 2016, the company is also set to launch the WorldView-4 high-resolution imaging satellite for DigitalGlobe aboard a United Launch Alliance Atlas V rocket. Furthermore, in September 2016, Lockheed Martin launched NASA's OSIRIS-REx spacecraft from Cape Canaveral Air Force Station, Florida.

Later, in August 2016, Lockheed Martin established a research and development (R&D) facility in Melbourne. In July 2016, the company launched a European-built Sikorsky BLACK HAWK helicopter at the Farnborough International Airshow. Also, in June 2016, Lockheed Martin announced the launch the fifth Mobile User Objective System (MUOS) secure communications satellite, MUOS-5. In November 2015, Lockheed Martin, Exechon and Injaz National formed a new joint-venture company in the UAE focused on advanced machining technology. Thus, strong R&D capabilities allow Lockheed Martin to develop proprietary products, strengthen its product portfolio, and have an advantage over its competitors.

#### Strategic investments in technological advancements

Lockheed has been a part of some of the US' prominent technological programs. For instance, the company's aeronautics segment's major programs includes: F-35 Lightning II Joint Strike Fighter - international multi-role, fifth generation stealth fighter; F-22 Raptor - air dominance and multi-mission fifth generation stealth fighter; F-16 Fighting Falcon - low-cost, combat-proven, international multi-role fighter; C-130 Hercules - international tactical airlifter; and C-5M Super Galaxy - strategic airlifter. Further, Lockheed Martin provides support and sustainment services for the C-130J Super Hercules, upgrade and support services for the legacy C-130 Hercules worldwide fleet, and modernization of Galaxy aircraft to the C-5M Super Galaxy configuration.

In addition to the above aircraft programs, the company is also involved in advanced development programs incorporating robust design and rapid prototype applications. For instance, Lockheed Martin's advanced development programs (ADP) organization, which includes the Skunk Works, is focused on future systems, including unmanned aerial systems and next generation capabilities for long-range strike, intelligence, surveillance, reconnaissance, situational awareness, and air mobility. Additionally, the company continues to explore technology advancement and insertion in existing aircraft, such as the F-35, F-22, F-16, C-130, U-2, and P-3. Lockheed Martin is also involved in numerous network-enabled activities that allow separate systems to work together to increase effectiveness, and continue to invest in

new technologies to maintain and enhance competitiveness in military aircraft design and development. Thus, extensive technological advancements help to enhance product offerings of the company and to strengthen competitive edge over its competitors.

## **Weakness**

### Heavy dependence on the US Government

The company depends heavily on the US Government. In FY2015, about 73.1% of the company's net sales were from the US Government, either as a prime contractor or as a subcontractor, 26.9% were from international customers (including foreign military sales (FMS) funded, in whole or in part, by the US Government).

Furthermore, the existing US Government contracts are subject to continued appropriations by Congress and may be terminated or delayed if future funding is not made available. Hence, the dependence on the US Government would expose the company to the defense approvals, Congressional appropriations and numerous regulations in the US. Hence, the overdependence on one customer for majority of its revenues, could affect the growth prospects of Lockheed Martin.

### Pension and retirement obligations

The portfolio of pension and retirement plan assets of the company registered huge losses in FY2015. The plan assets of the company decreased from \$32,096 million at the beginning of the year to \$31,417 million at the end of FY2016. During the same period, the company made contributions of \$2,172 million related to its qualified defined benefit pension plans. During FY2016, the company's total unfunded status of pension obligations stood at \$13,647 million.

Thus, sizeable unfunded post-retirement benefits would force the company to make periodic cash contributions towards bridging the gap, which would reduce cash available for growth plans.

## **Opportunity**

### Robust growth forecasted for the global missile market

The global missile market is expected to register high growth in the coming years. According to industry estimates, the global missiles and missile defense systems market, valued at \$23.7 billion in 2015, is projected to grow at a compound annual growth rate (CAGR) of 4%, to reach a value of \$36 billion in 2025. Furthermore, Asia Pacific is expected to account for the largest share of the total global expenditure on missiles and missile defense systems, with 39% share in the forecast period. The company's MFC segment provides air and missile defense systems; tactical missiles and air-to-ground precision strike weapon systems; logistics and other technical services; fire control systems; mission operations support, readiness, engineering support and integration services; and manned and unmanned ground vehicles. Hence, the robust outlook for the global missile market will help enhance the company's revenues from missile products thereby expanding its topline and income.

#### Growing global aerospace and defense market

The aerospace and defense market is deemed to be the revenues accrued by manufacturers from civil and military aerospace and defense procurements. Defense electronics and military aerospace are covered by the defense segment; the civil aerospace segment includes civilian planes and space equipment, but excludes military aircraft and related items. The outlook for the global aerospace and defense market is strong. According to MarketLine, the global aerospace and defense market generated total revenues of approximately \$988.7 billion in 2016. The market is expected to grow at a 5% CAGR for the 2016–21 period to reach value of approximately \$1,249.5 billion in 2021.

Lockheed Martin's is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, unmanned air vehicles, commercial applications and related technologies. Thus a growing global aerospace and defense market will help the company in increasing its topline revenues.

#### Expanding UAV market

The global market for unmanned aerial vehicles (UAVs) / drones is growing rapidly. Despite near-term US budget cutbacks, UAVs continue as the most dynamic growth sector of the world aerospace industry. According to industry estimates, the global UAV market, valued at \$8.5 billion in 2016, expected to show a robust growth in future, accounting for \$13.7 billion by 2026, thereby registering a CAGR of 5% for the period 2016-2026. In addition, North America holds an estimated share of 32% followed Europe at 31%, and Asia Pacific at 30% of the global UAV market in 2016.

Lockheed Martin's aeronautics segment is engaged in the research, design, development, manufacture, integration, sustainment, support, and upgrade of advanced military aircraft, including combat and air mobility aircraft, UAVs, and related technologies. The segment also provides logistics support and upgrade modification services for its aircraft. Hence, the growing global UAV market would increase the demand for Lockheed Martin's products and services which in turn would have a positive impact on its top line.

#### Positive outlook of the global security services market

The demand for security systems and products are increasing worldwide as governments around the world face increasingly complex threats. The increase in terrorist activities in recent years pushed the demand for strong security systems. Due to this, many countries increased their spending on new security equipment and on enhancing their security measures. According to MarketLine, the global security services industry is expected to generate total revenues of \$230.6 billion in 2016, representing a CAGR of 8% between 2012 and 2016. In addition, MarketLine estimates that the industry would increase consistently over the next five years at a CAGR of 6%, which is expected to drive the industry to a value of \$302.8 billion by the end of 2021.

The factors influencing the demand for security services include rising urbanization, the real and perceived risks of crime and terrorism, and growth of middle class with assets to protect and the means to pay for supplementary security. The positive outlook of the global security services market would drive the



demand for the company's safety security systems. The company could thus tap the growing global demand for security system to enhance its financial performance and growth prospects.

## **Threat**

### Environmental costs

Lockheed Martin's operations are subject to and affected by a variety of federal, state, local, and foreign environmental protection laws and regulations. The company is involved in environmental responses at some of its facilities and former facilities, and at third-party sites not owned by the company where it has been designated a potentially responsible party by the US Environmental Protection Agency or by a state agency. In addition, Lockheed Martin could be affected by future regulations imposed in response to concerns over climate change, other aspects of the environment, or natural resources. The company has incurred and will continue to incur liabilities under various federal, state, local, and foreign statutes for environmental protection and remediation.

The company manages various government-owned facilities on behalf of the government. At such facilities, environmental compliance and remediation costs historically have been the responsibility of the government, and the companies has relied, and continue to rely with respect to past practices, upon government funding to pay such costs. Although the government remains responsible for capital and operating costs associated with environmental compliance, responsibility for fines and penalties associated with environmental noncompliance typically are borne by either the government or the contractor, depending on the contract and the relevant facts. Some environmental laws include criminal provisions. An environmental law conviction could affect Lockheed Martin's ability to be awarded future, or perform existing US Government contracts.

### Declining defense spending by the US Government

Lockheed Martin is currently operating in an environment that is characterized by both increasing complexity in global security, as well as continuing economic pressures in the US and globally. The US Government's defense spending is a function of the country's fiscal and economic challenges. The US Government continues to focus on discretionary spending, entitlements, tax, and other initiatives to stimulate the economy, create jobs, and reduce the deficit. The defense spending of the US is expected to drop from 3.6% (\$582.4 billion) of the 2014 GDP to 3.4% (\$585 billion) in 2015–16. Further, the US President Barack Obama's budget proposes cutting security spending to 2.3% of GDP in 2024.

Thus, declining defense spending by the US Government mainly impelled by the country's fiscal and economic challenges could reduce the demand for Lockheed Martin's products and services. This in turn may negatively impact its sales volume and overall business growth.

### Intense competition

The company is primarily engaged in the research, design, development, and integration of advanced technology systems, products and services to five main operating segments of the company. The company's broad portfolio of products and services competes against the products and services of other



large aerospace, defense, and information technology companies, as well as numerous smaller competitors. The product differentiation across these markets is measured in terms of the competitive factors such as value of the company's products and services to the customer; technical and management capability; the ability to develop and implement complex, and integrated system architectures. It also competes against financing and total cost of ownership; release of technology; the company's demonstrated ability to execute and perform against contract requirements; and its ability to provide timely solutions. Lockheed Martin competes with a number of the US and international companies, including BAE Systems, Bombardier, Dassault Aviation, Leonardo, General Dynamics, Honeywell International, Northrop Grumman, Raytheon Company, Safran, Thales, The Boeing Company, and United Technologies, among others. Some of these competitors have stronger engineering, manufacturing and marketing capabilities than Lockheed Martin.

In addition, the competition for foreign sales is subject to a wide variety of additional the US Government stipulations, including export restrictions, market access, technology transfer, industrial cooperation, and contracting practices. In this regard, the company competes against both domestic and foreign companies for contract awards by foreign governments. Hence, intense competition may negatively impact the company's operations and its financial condition.

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