



# Lockheed Martin Corporation

## 3<sup>rd</sup> Quarter 2019

### Earnings Results Conference Call

**October 22, 2019**

**11:00 am ET**

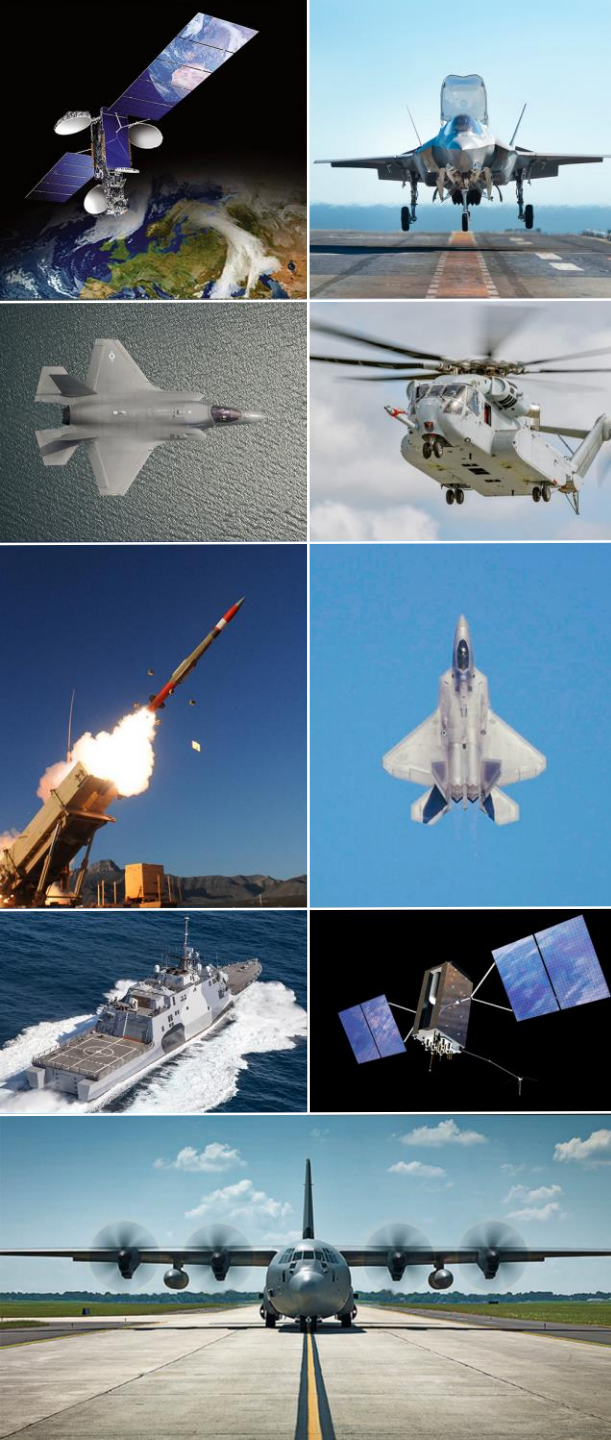
Webcast login at: [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)  
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# Forward-Looking Statements



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: 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; the impact of continuing resolution funding mechanisms and the potential for a government shutdown (including the potential that we work on unfunded contracts to preserve their cost and/or schedule); 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, ventures, 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); trade policies or sanctions (including the impact of U.S. Government sanctions on Turkey and Turkey's removal from the F-35 program 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 increased 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 ventures that we do not control and our ability to recover our investments; realizing the anticipated benefits of acquisitions or divestitures, 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 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 our equity investment in Advanced Military Maintenance, Repair and Overhaul Center LLC (AMMROC); the availability and adequacy of our insurance and indemnities; 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, aggressive government positions on the use and ownership of intellectual property and potential changes to the DoD's acquisition regulations relating to progress payments and performance-based payments and a preference for fixed-price contracts; the effect of changes in accounting, taxation, or export laws, regulations, and policies; 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 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 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, 2018 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 are intended to be subject to the safe harbor protection provided by the federal securities laws.

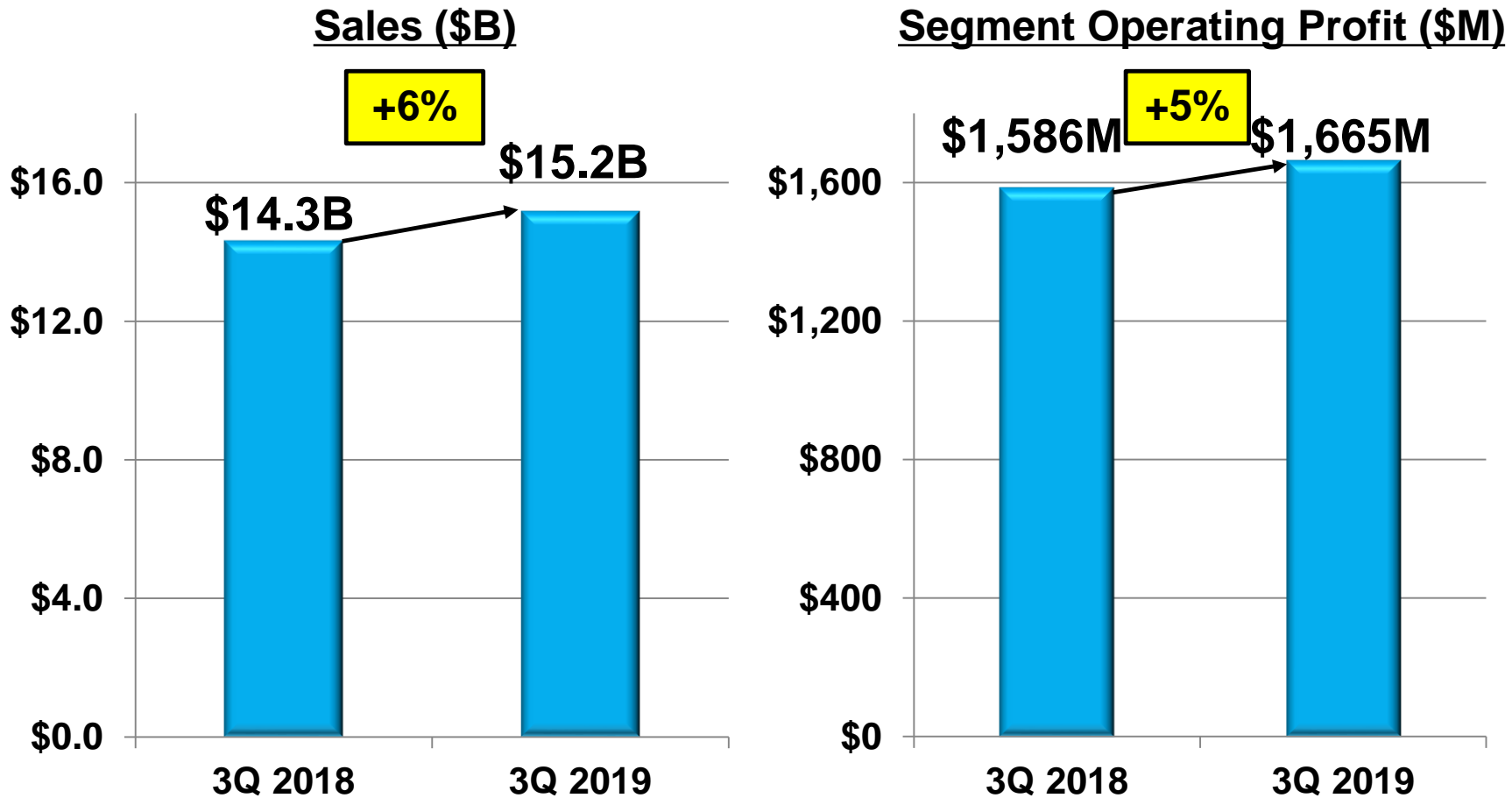
# 3Q 2019 Overview



- **Achieved Sales of \$15.2 Billion**
- **Achieved Segment Operating Profit\* of \$1.7 Billion and Earnings Per Share of \$5.66**
- **Generated \$2.5 Billion in Cash from Operations**
- **Returned ~\$830 Million of Cash to Stockholders through Dividends and Share Repurchases**
- **Record Backlog for Five Consecutive Quarters**
- **Updated Outlook for 2019 and Provided 2020 Financial Trends**

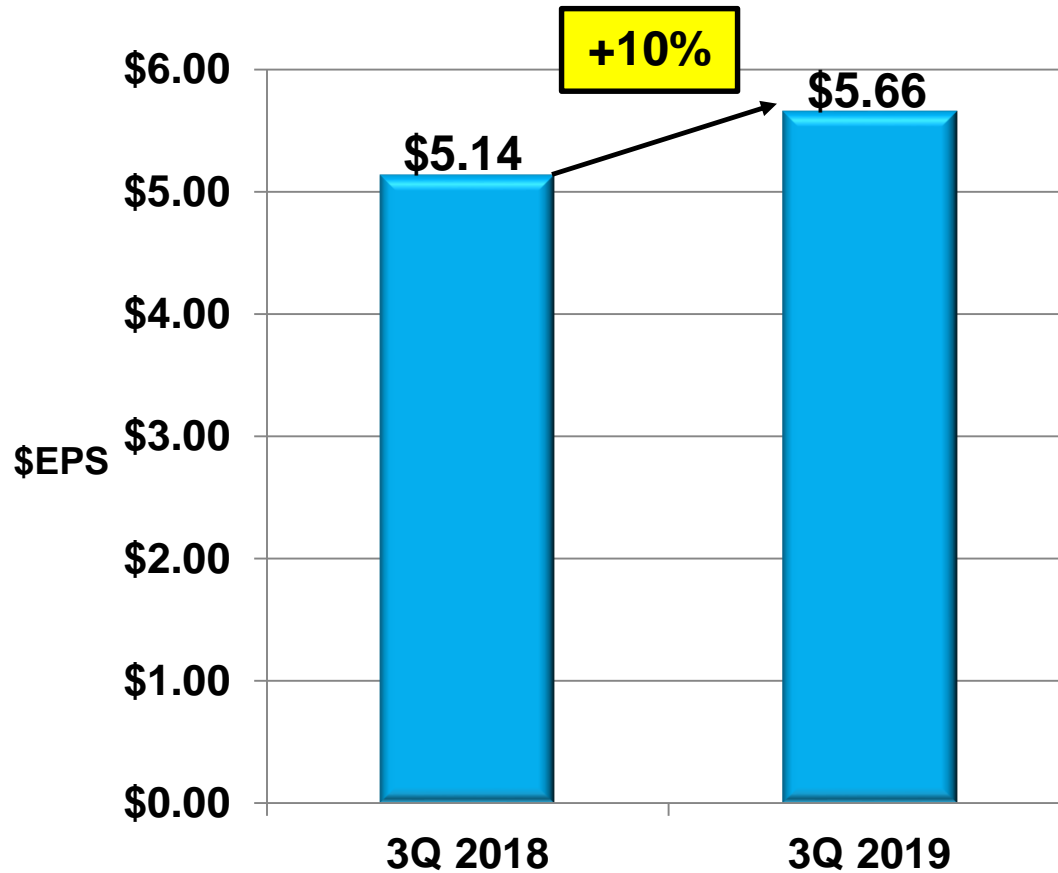
**Strong Quarterly Financial Results**

# 3Q Sales and Segment Operating Profit\*



**Year-over-Year Increases for  
Sales and Segment Operating Profit**

# 3Q Earnings Per Share



**Continued Growth in Earnings Per Share**

# 2019 Outlook Update

(\$M, Except EPS)



|   | <b>Prior<br/>Outlook (July)</b> | <b>October 2019<br/>Outlook</b> |
|---|---------------------------------|---------------------------------|
| <b>Sales</b>                            | <b>\$58,250 – \$59,750</b>      | <b>~ \$59,100</b>               |
| <b>Segment Operating Profit*</b>        | <b>\$6,325 – \$6,475</b>        | <b>~ \$6,425</b>                |
| <b>Net FAS/CAS Pension Adjustment**</b> | <b>~ \$1,475</b>                | <b>~ \$1,475</b>                |
| <b>Diluted EPS</b>                      | <b>\$20.85 – \$21.15</b>        | <b>~ \$21.55</b>                |
| <b>Cash from Operations</b>             | <b>≥ \$7,600</b>                | <b>≥ \$7,600</b>                |

# 2019 EPS Outlook Reconciliation



## Diluted EPS

**July 2019 Outlook**

**\$20.85 - 21.15**

**Operational Performance / Volume / Margin**

**0.07**

**Tax Rate / Other**

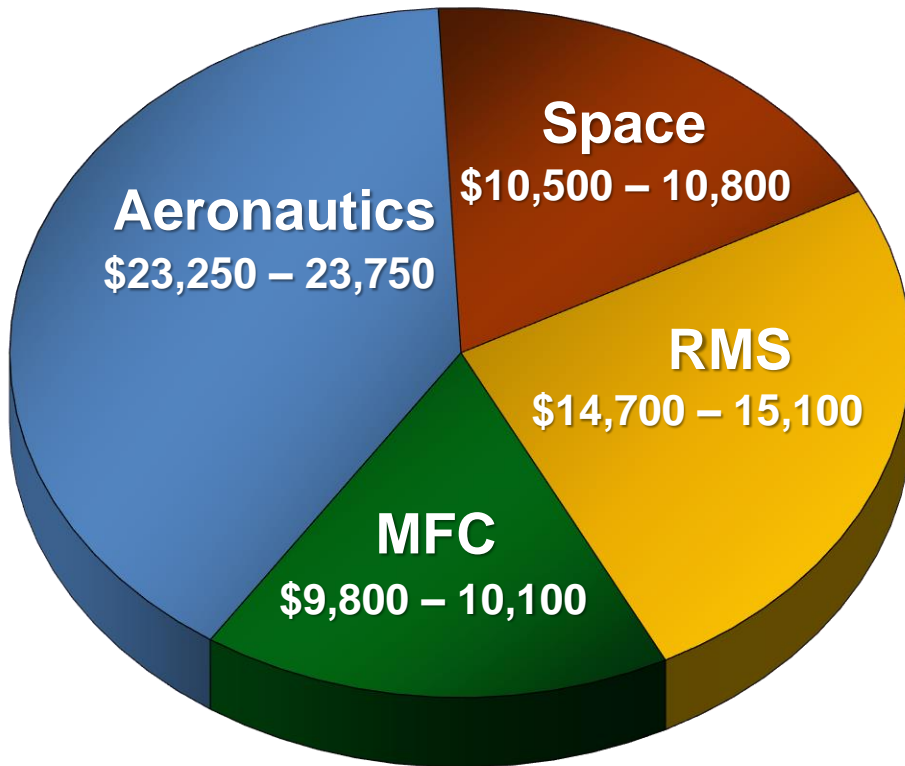
**0.48**

**October 2019 Outlook**

**~\$21.55**

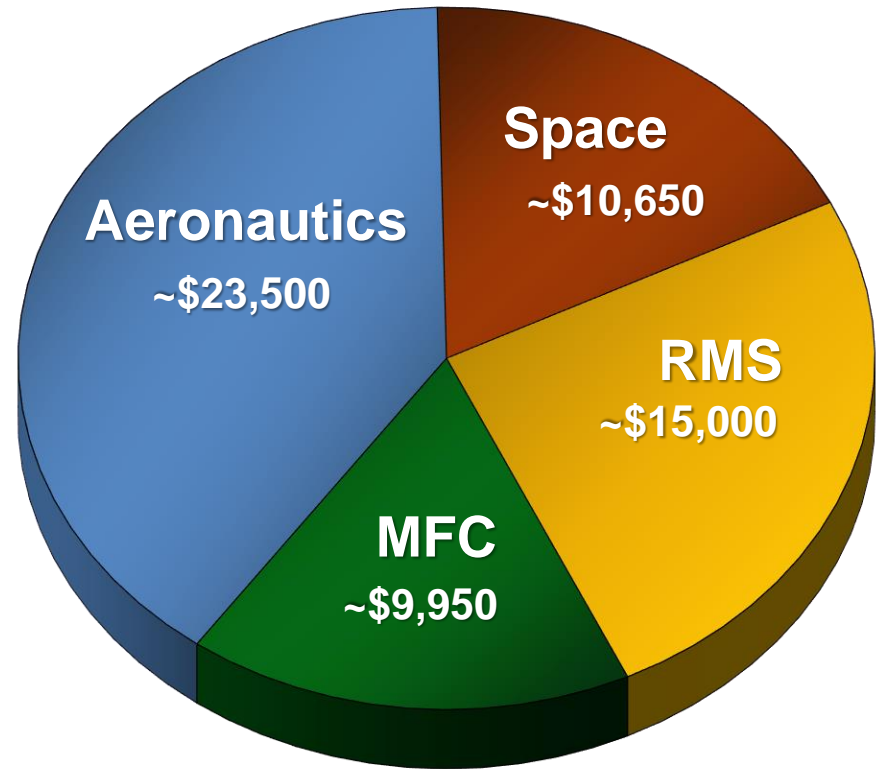
# 2019 Sales Outlook (\$M)

## Sales (Prior)



**\$58,250 – 59,750M**

## Sales (Current)



**~\$59,100M**

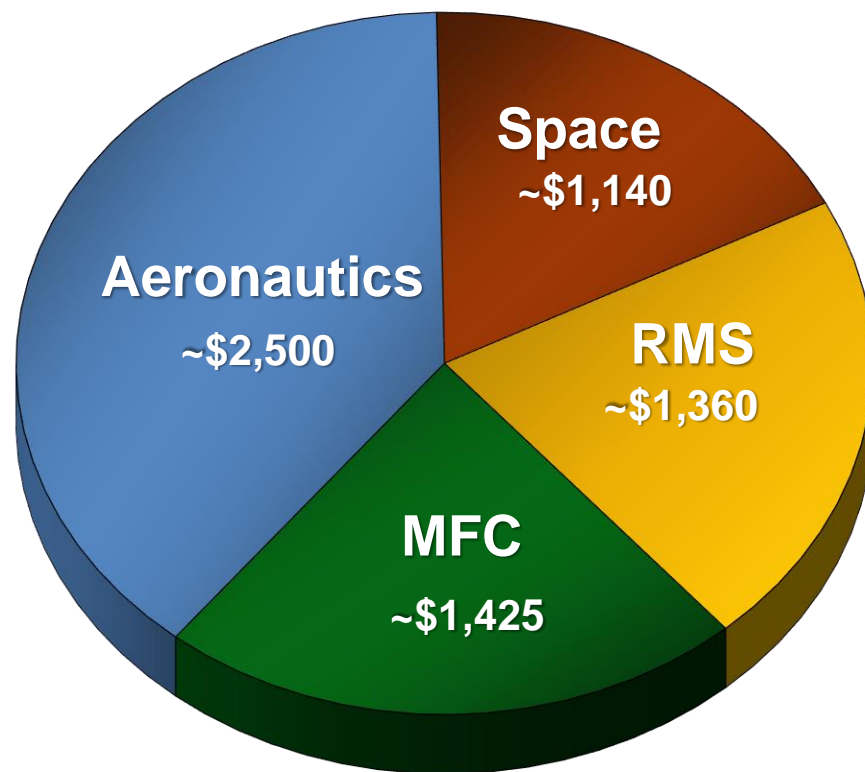
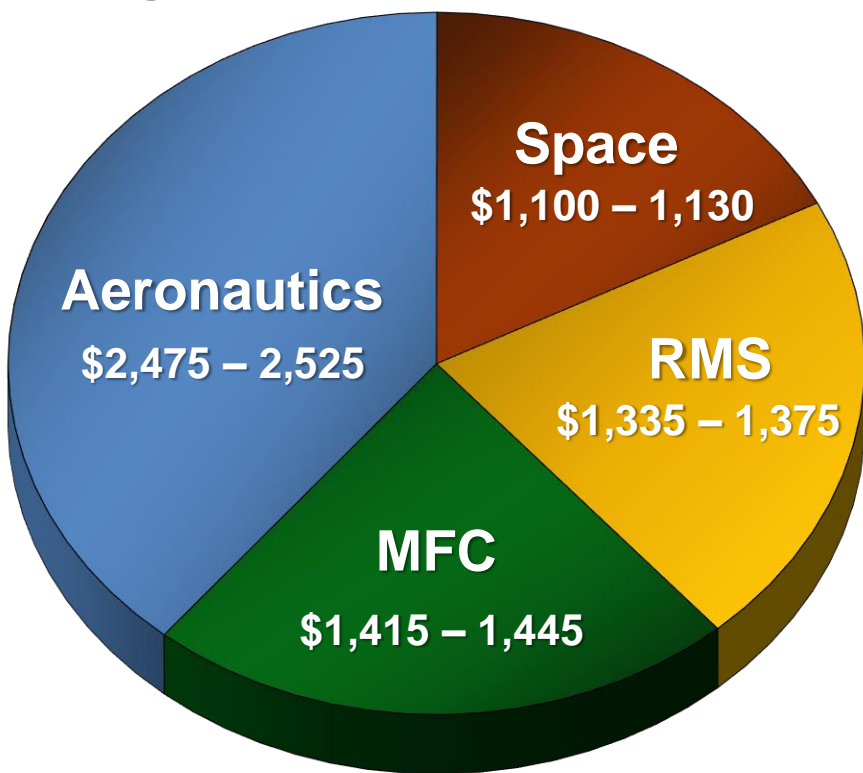
**Full Year Sales Above Prior Outlook Mid-Point**



# 2019 Segment Operating Profit\* Outlook (\$M)

## Segment Op Profit (Prior)

## Segment Op Profit (Current)



**\$6,325 - 6,475M**

**~\$6,425M**

**Full Year Segment Operating Profit Above Prior Outlook Mid-Point**

# Preliminary Trends – 2020



## 2020 Outlook

- Sales Increase to ~\$62B
- Segment Operating Margin\* 10.5% – 10.8%
- Cash from Operations  $\geq$  \$7.2 Billion
- Pension Funding Requirement ~\$0.5 Billion
- Share Repurchases  $\geq$  \$1.0 Billion
- Debt Maturity ~\$1.3 Billion

## FAS/CAS Outlook\*\*

- 2020 Net FAS/CAS Pension Adjustment ~\$2.1B
  - Assumes 3.25% Discount Rate at Year-End 2019
  - Assumes 15.0% Return on Plan Assets in 2019
  - Assumes 7.0% Long-Term Return on Assets

**Continued Strong Growth in 2020**

# Summary



- **Strong Year to Date Performance Across All Business Areas**
- **Updated Outlook for 2019 Financial Metrics**
- **2020 Preliminary Trends Support Continued Growth**

**Delivering Results and Providing Long-Term  
Value to Shareholders**



# 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.

## 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 (July)</u> | <u>2019 Outlook (October)</u> |
|--------------------------------|----------------------------|-------------------------------|
| Sales                          | \$58,250 – 59,750          | ~\$59,100                     |
| Segment Operating Profit       | \$6,325 – 6,475            | ~\$6,425                      |
| Mid-Point Segment Margin       | 10.8%                      | 10.9%                         |
| FAS / CAS Operating Adjustment | ~2,050                     | ~2,050                        |
| Other, net                     | ~(115)                     | ~(125)                        |
| Consolidated Operating Profit  | \$8,260 – 8,410            | ~\$8,350                      |

|                                      | <u>3Q 2019</u> |               |               | <u>3Q 2018</u> |               |               |
|--------------------------------------|----------------|---------------|---------------|----------------|---------------|---------------|
|                                      | <u>Sales</u>   | <u>Profit</u> | <u>Margin</u> | <u>Sales</u>   | <u>Profit</u> | <u>Margin</u> |
| Segment Operating Profit             | \$ 15,171      | \$ 1,665      | 11.0%         | \$ 14,318      | \$ 1,586      | 11.1%         |
| Total Unallocated Items              | -              | 440           |               | -              | 377           |               |
| Consolidated Operating Profit (GAAP) | \$ 15,171      | \$ 2,105      | 13.9%         | \$ 14,318      | \$ 1,963      | 13.7%         |

# Appendix I

(\$M, Except EPS)



## 2019 Outlook (October)

|  |                  |
|--|------------------|
| <b>Sales</b>   | <b>~\$59,100</b> |
| <b>Segment Operating Profit*</b>                         | <b>~\$6,425</b>  |
| <b>Segment Margin*</b>                                   | <b>10.9%</b>     |
| <b>FAS/CAS Operating Adjustment</b>                      | <b>~2,050</b>    |
| <b>Other, net</b>  | <b>~(125)</b>    |
| <b>Consolidated Operating Profit</b>                     | <b>~\$8,350</b>  |
| <b>Non-Operating FAS Pension Expense</b>                 | <b>~(575)</b>    |
| <b>Non-Service Costs for Other Post Retirement Plans</b> | <b>~(115)</b>    |
| <b>Diluted EPS</b>                                       | <b>~\$21.55</b>  |

# Appendix II

(\$M)



|  | <u>2019 Outlook</u> |   | <u>2020<br/>Preliminary<br/>Trends</u> |
|--|---------------------|---|--|
| <b>Total FAS expense and CAS costs</b>             |                     |   |  |
| FAS pension expense                                | (\$1,090)           | ~ | (\$100)                                |
| Less: CAS pension cost                             | 2,565               | ~ | 2,200                                  |
| Net FAS/CAS pension adjustment                     | <u>\$1,475</u>      | ~ | <u>2,100</u>                           |
| <b>Service and non-service cost reconciliation</b> |                     |   |  |
| FAS pension service expense                        | (\$515)             | ~ | (\$100)                                |
| Less: CAS pension cost                             | 2,565               | ~ | 2,200                                  |
| FAS/CAS Operating adjustment                       | \$2,050             | ~ | 2,100                                  |
| Non-operating FAS pension expense*                 | (575)               | ~ | 0                                      |
| Net FAS/CAS pension adjustment                     | <u>\$1,475</u>      | ~ | <u>\$2,100</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 its qualified defined benefit pension plans. The corporation expects total non-service costs for its qualified defined benefit pension plans in the table above, along with non-service costs for its other postretirement benefit plans of \$115 million to total \$690 million in 2019 and \$50 million to total \$50 million in 2020.

The corporation currently expects a total net FAS/CAS pension benefit of approximately \$2.1 billion in 2020. This estimate assumes a 3.25% discount rate (a 100 basis point decrease from the end of 2018), a 15% return on plan assets in 2019, and a 7.0% expected long-term rate of return on plan assets in future years, among other assumptions. A change of plus or minus 25 basis points to the assumed discount rate, with all other assumptions held constant, would result in an incremental increase or decrease of approximately \$15 million to the estimated net 2020 FAS/CAS pension benefit. The impact of changes in the discount rate is significantly less than in prior years (i.e., \$15 million for 2020 compared to \$120 million for 2019) due to the completion of the planned freeze of the corporation's salaried pension plans effective January 1, 2020, which was previously announced on July 1, 2014. A change of 100 basis points to the return on plan assets in 2019 only, with all other assumptions held constant, would impact the net 2020 FAS/CAS pension benefit by approximately \$15 million. The corporation expects to make contributions of approximately \$500 million to its qualified defined benefit pension plans and anticipates recovering approximately \$2.2 billion of CAS pension cost in 2020. The corporation will complete the annual remeasurement of its postretirement benefit plans, including updating its assumptions, and its estimated 2020 FAS/CAS pension adjustment on December 31, 2019. The final assumptions and actual investment return for 2019 may differ materially from those discussed above.

