

Lockheed Martin Corporation

2<sup>nd</sup> Quarter 2022

# Earnings Results Conference Call

Tuesday, July 19, 2022

11:00 AM ET

Webcast login at:

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July 19, 2022 at: [www.lockheedmartin.com/investor](http://www.lockheedmartin.com/investor)

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July 19, 2022 through midnight July 20, 2022

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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 COVID-19 or future epidemics on the company's business and financial results, including supply chain disruptions and delays, labor challenges associated with employee absences, quarantine restrictions, travel restrictions, site access, program delays, changes in customer payment policies and the impacts of potential vaccine mandates or other requirements; budget uncertainty, the risk of future budget cuts and the impacts of inflation, the debt ceiling and the potential for government shutdowns and changing funding and acquisition priorities; the company's reliance on contracts with the U.S. Government, which are dependent on U.S. Government funding and can be terminated for convenience, and the company's ability to negotiate favorable contract terms; risks related to the development, production, sustainment, performance, schedule, cost and requirements of complex and technologically advanced programs, including the F-35 program; the continued delay of the definitization and funding of the Lots 15-17 F-35 production contract; planned production rates and orders for significant programs, compliance with stringent performance and reliability standards, and materials availability; performance and financial viability of key suppliers, teammates, joint ventures and partners, subcontractors and customers; economic, industry, business and political conditions including their effects on governmental policy and government actions that disrupt the company's supply chain or prevent the sale or delivery of its products (such as delays in approvals for exports requiring Congressional notification); trade policies or sanctions (including potential Chinese sanctions on the company or its suppliers, teammates or partners, U.S. Government sanctions on Turkey and its removal from the F-35 program, and potential indirect effects of sanctions on Russia to our supply chain); the company's 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 and planned orders; the competitive environment for the company's products and services, including competition from emerging competitors including startups and non-traditional defense contractors; the timing of contract awards as well as the timing and customer acceptance of product deliveries and performance milestones; the company's ability to develop new technologies and products, including emerging digital and network technologies and capabilities; the company's ability to attract and retain a highly skilled workforce, the impact of work stoppages or other labor disruptions; cyber or other security threats or other disruptions faced by the company or its suppliers; the company's ability to implement and continue, and the timing and impact of, capitalization changes such as share repurchases and dividend payments; the company's ability to recover costs under U.S. Government contracts, the mix of fixed-price and cost-reimbursable contracts, risks related to losses on fixed-price development programs, and the impacts of cost overruns and inflation; the accuracy of the company's estimates and projections; the impact of pension risk transfers, including potential noncash settlement charges, 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; realizing the anticipated benefits of acquisitions or divestitures, investments, joint ventures, teaming arrangements or internal reorganizations, and market volatility affecting the fair value of investments in the company's Lockheed Martin Ventures Fund that are marked to market; the company's efforts to increase the efficiency of its operations and improve the affordability of its products and services; the risk of an impairment of the company's assets, including the potential impairment of goodwill recorded at the Sikorsky line of business; the availability and adequacy of the company's insurance and indemnities; the company's ability to benefit fully from or adequately protect its intellectual property rights; procurement and other regulations and policies affecting the company's industry, export of its products, cost allowability or recovery, preferred contract type, and performance and progress payments policy; climate change and changes to laws, regulations, policies, markets and customer requirements in response to climate change concerns; changes in accounting, U.S. or foreign tax, export or other 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 the company has failed to comply with law, other contingencies and U.S. Government identification of deficiencies in its 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 company'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 company's Annual Report on Form 10-K for the year ended Dec. 31, 2021 and subsequent quarterly reports on Form 10-Q. The company'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 company'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 company 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.



# Second Quarter Results

*Strong operating margin and solid free cash flow generation*

Generated Sales of  
**\$15.4 Billion**

Achieved Segment  
Operating Profit\* of  
**\$1.7 Billion**

with Segment Operating  
Margin\* of  
**11.0%**

and Earnings Per Share of  
**\$1.16**

Delivered  
**\$1.0 Billion**  
in Free Cash Flow\*

Continued Capital Deployment  
Strategy with  
**\$356 Million**  
of Share Repurchases

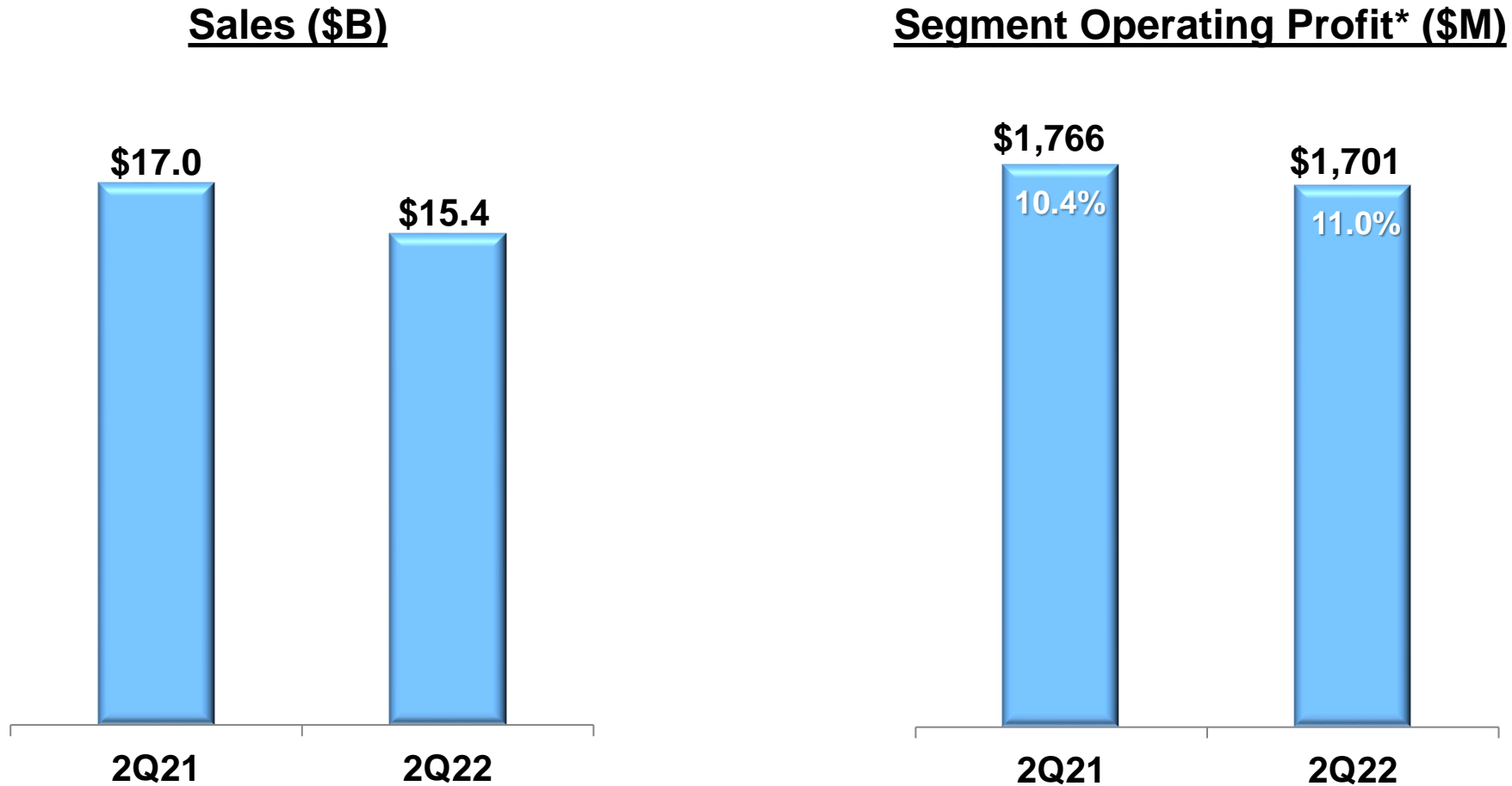
And Dividends of  
**\$744 Million**

## Revised Full Year Outlook



# 2Q Sales and Segment Operating Profit

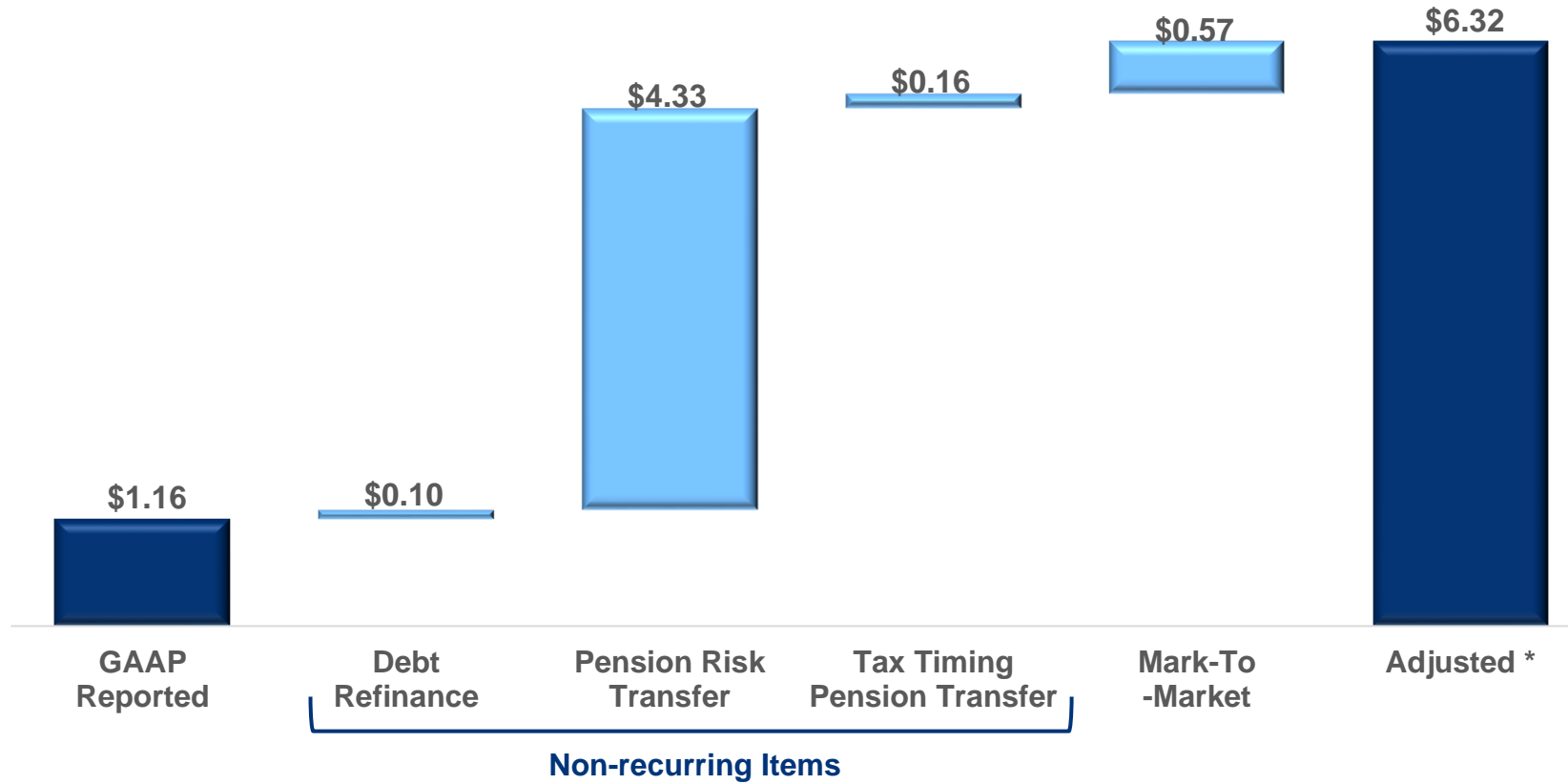
July 19, 2022



**Volume Impacted by Supply Chain and F-35 Contract Timing;  
Strong Operating Margins**

# 2Q Adjusted Earnings Per Share

July 19, 2022



**\$5.16 of Non-Operational Impacts in the 2nd Quarter**

# Cash Returned to Shareholders

(\$M)

**Total Cash Returned  
2<sup>nd</sup> Quarter**

**Total Cash Returned  
Year-To-Date**

**107%**

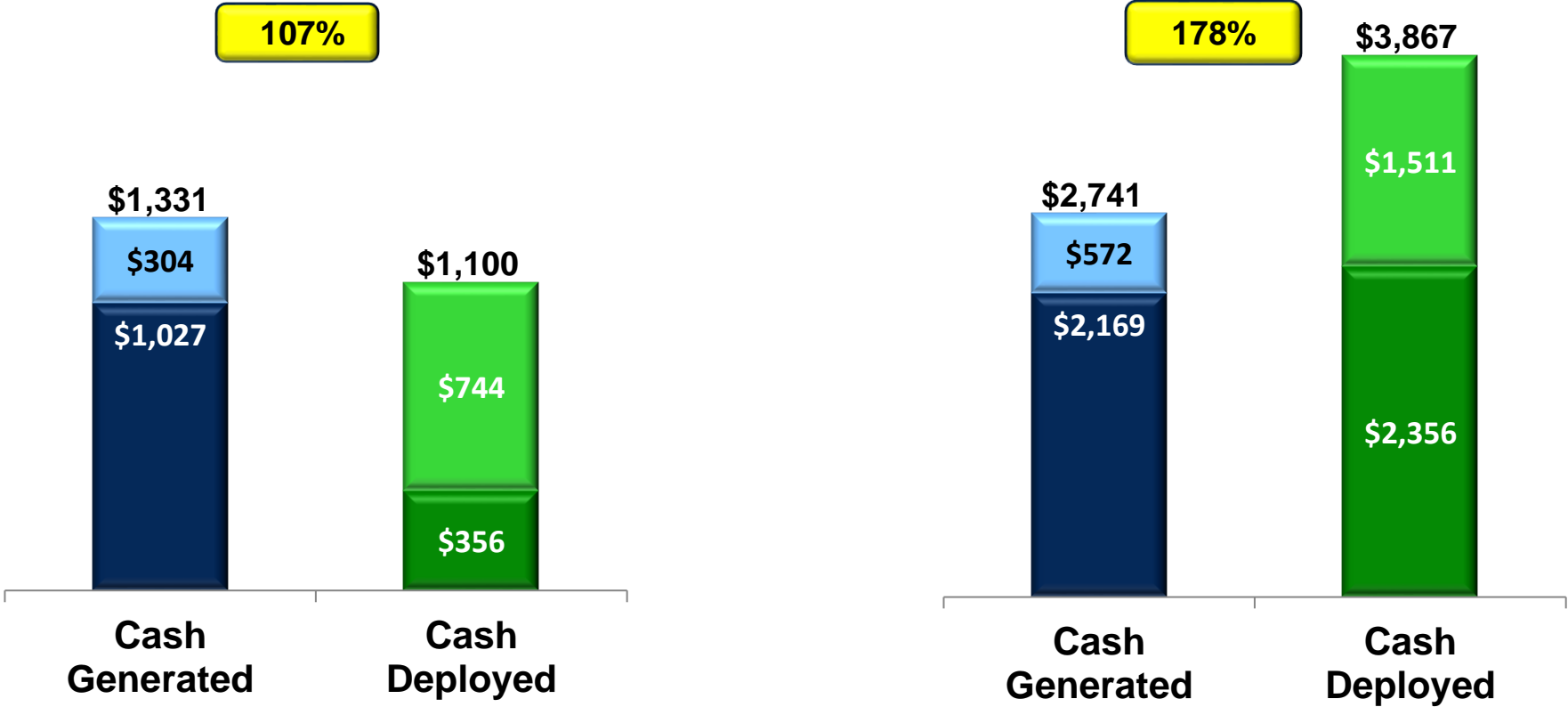
**178%**

**Cash from Operations**

- Capital Expenditures
- Free Cash Flow\*

**Total Cash Returned**

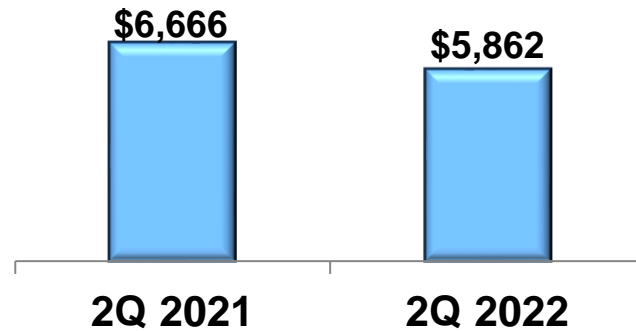
- Dividends
- Share Repurchases



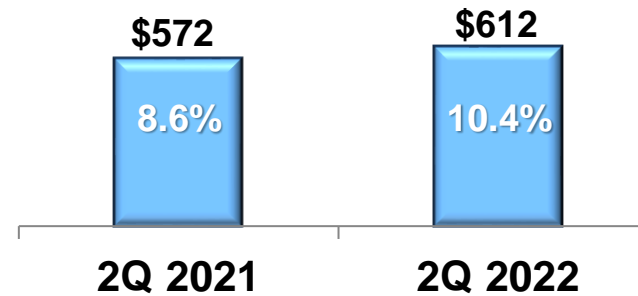
**YTD 178% of Free Cash Flow Returned to Shareholders**

(\$M)

## Revenue



## Operating Profit



Jordan Signed Letter of Offer & Acceptance for F-16 Block 70 Aircraft

## 2Q Drivers

### Revenue: Decreased 12% YoY

- F-35 Production Decrease
- Partially Offset by Classified Volume

### Operating Profit: Increased 7% YoY

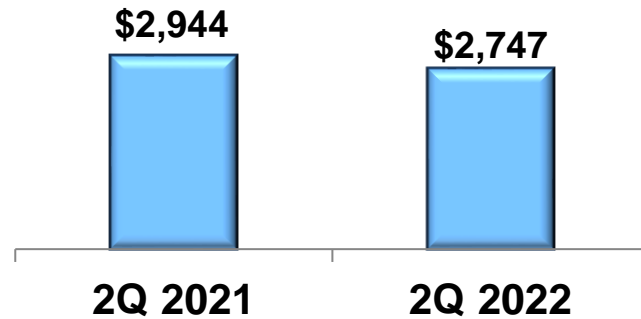
- Margin Increased Due to Improved Classified Program Performance

# 2Q Results - Missiles & Fire Control

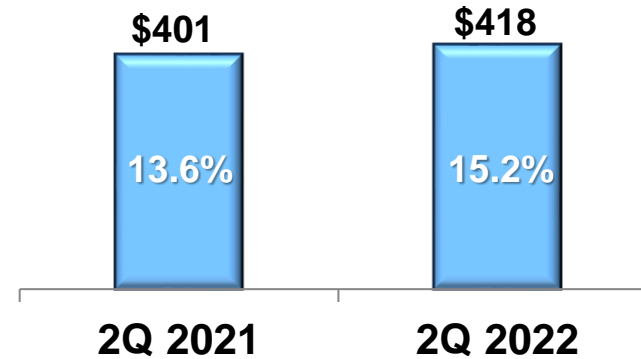
July 19, 2022

(\$M)

## Revenue



## Operating Profit



\$1.6B of THAAD Contract Awards

## 2Q Drivers

### Revenue: Decreased 7% YoY

- Lower Sustainment (Afghan. Withdrawal)
- Reduced Tactical & Strike Missile Volume

### Operating Profit: Increased 4% YoY

- Higher Profit Rate Adjustments and Contract Mix

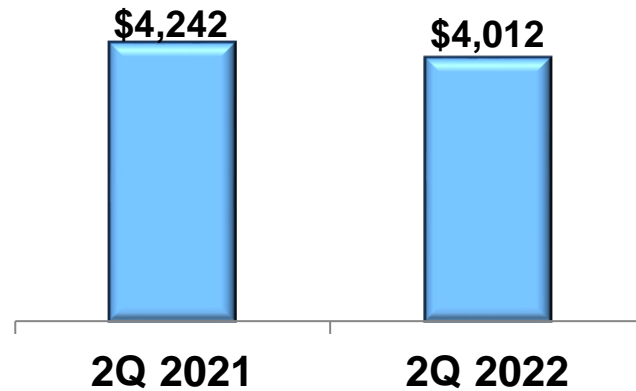


# 2Q Results - Rotary & Mission Systems

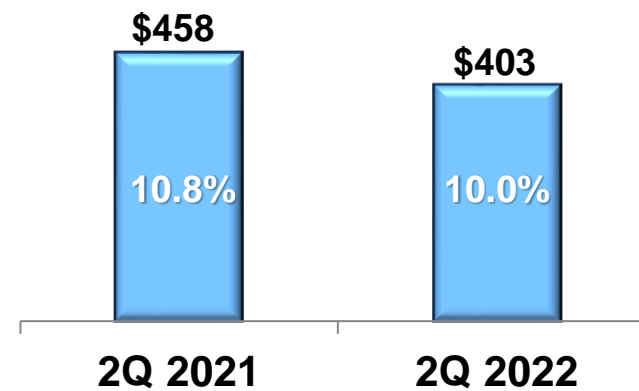
July 19, 2022

(\$M)

## Revenue



## Operating Profit



## 2Q Drivers

### Revenue: Decreased 5% YoY

- Lower Sikorsky & Mission Systems Volume

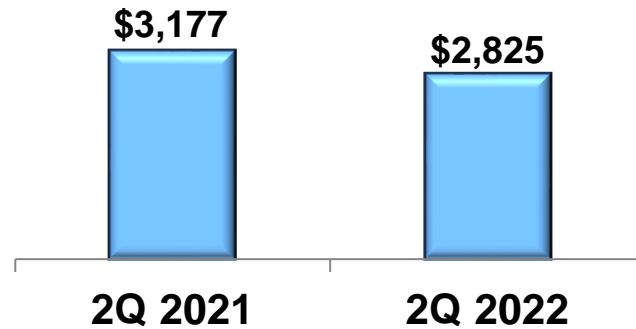
### Operating Profit: Decreased 12% YoY

- Volume Impact and Lower Profit Rate Adjustments

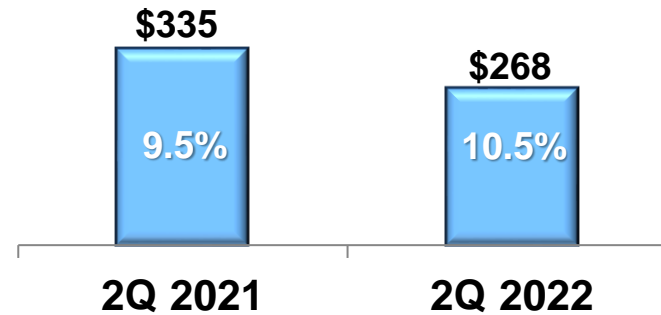
**CH-53K King Stallion  
Achieved Initial Operating Capability**

(\$M)

## Revenue



## Operating Profit



## 2Q Drivers

### Revenue: Decreased 11% YoY

- AWE Contract Closeout Drove Reduction
- Partially Offset by NGI Volume

### Operating Profit: Decreased 20% YoY

- Timing and Mix of ULA Launches
- Lower Profit Rate Adjustments

### Artemis I (Orion Capsule) Successful Wet Dress Rehearsal

(\$M, Except EPS)

	Prior Outlook	July Update
<b>Sales</b>	~\$66,000	~\$65,250
<b>Segment Operating Profit*</b>	~\$7,175	~\$7,175
<b>Total FAS / CAS Pension Adj.</b>	~\$2,260	~\$740
Add: Pension Settlement Charge	-	\$1,470
<b>Total FAS / CAS Pension Adj. – Adjusted*</b>	~\$2,260	~\$2,210
<b>Diluted EPS</b>	~\$26.70	~\$21.55
<b>Cash From Operations</b>	≥ \$7,900	≥ \$7,900
Capital Expenditures	~(\$1,900)	~(\$1,900)
<b>Free Cash Flow*</b>	≥ \$6,000	≥ \$6,000

	<u>Diluted EPS</u>	
<b>April 2022 Outlook</b>	<b>~\$26.70</b>	
<b>One-Time Pension Settlement</b>	<b>(4.33)</b>	} Pension Risk Transaction
<b>FAS/CAS Income (Remeasurement)</b>	<b>(0.15)</b>	
<b>YTD LM Ventures/Deferred Comp., Mark-to-Market</b>	<b>(0.57)</b>	
<b>Debt Refinancing</b>	<b>(0.10)</b>	
<b>July 2022 Outlook</b>	<b>~\$21.55</b>	

**Performance Remains Solid;  
EPS Outlook Updated for Non-Operational Items**

(\$M)

	Prior Guidance		July Guidance	
	Sales	Segment Operating Profit *	Sales	Segment Operating Profit *
AERO	~27,300	~2,870	~26,750	~2,870
MFC	~11,300	~1,615	~11,200	~1,615
RMS	~16,250	~1,660	~16,150	~1,660
SPACE	~11,150	~1,030	~11,150	~1,030
<b>LM TOTAL</b>	<b>~\$66,000</b>	<b>~\$7,175</b>	<b>~\$65,250</b>	<b>~\$7,175</b>

**Sales Reflect Supply Chain Variability and Customer Delays;  
Maintaining Profit with Program Performance and Affordability Measures**





**Solid Operational Performance in 2<sup>nd</sup> Quarter**



**Revised 2022 Financial Outlook**



**Supporting Customer Missions With  
Signature Programs and Technology Focus**



**Strong Fundamentals Drive Long-Term  
Value Creation**



# Financial Appendices

## 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 management 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, the company's definitions for non-GAAP measures may differ from similarly titled measures used by other companies or analysts.

## Free Cash Flow

Free cash flow is cash from operations less capital expenditures. The company's capital expenditures are comprised of equipment and facilities infrastructure and information technology (inclusive of costs for the development or purchase of internal-use software that are capitalized). The company uses free cash flow to evaluate its business performance and overall liquidity and is a performance goal in the company's annual and long-term incentive plans. The company believes free cash flow is a useful measure for investors because it represents the amount of cash generated from operations after reinvesting in the business and that may be available to return to stockholders and creditors (through dividends, stock repurchase and debt repayments) or available to fund acquisitions. The entire free cash flow amount is not necessarily available for discretionary expenditures, however, because it does not account for certain mandatory expenditures, such as the repayment of maturing debt.

## Segment Operating Profit / Margin

Segment Operating Profit represents operating profit from the company's business segments before unallocated income and expense. This measure is used by the company's senior management in evaluating the performance of the company's business segments and is a performance goal in the company's annual incentive plan. The caption "Total Unallocated Items" reconciles Segment Operating Profit to Consolidated Operating Profit. Business Segment Operating Margin is calculated by dividing Segment Operating Profit by Sales.

## Adjusted Net Earnings and Adjusted Diluted EPS

Net earnings and diluted earnings per share (EPS) were significantly impacted by certain non-operational charges in the second quarter of 2022. Management believes the presentation of these measures adjusted for the impacts of these non-operational items is useful to investor in understanding the company's underlying business performance and comparing performance from period to period. The tax effects related to each adjustment that impacted earnings before income taxes is based on a blended tax rate that combines the federal statutory rate of 21% plus an estimated state tax rate.

## Net FAS/CAS Pension Adjustment – Adjusted

Net FAS/CAS pension adjustment has been adjusted for the second quarter 2022 noncash, non-operating pension settlement charge of \$1.5 billion. Management believes that the exclusion of the pension settlement charge is useful to understanding the company's underlying business performance and comparing performance from period to period.

	2Q 2022			2Q 2021		
	Sales	Profit	Margin	Sales	Profit	Margin
Segment Operating Profit	\$15,446	\$ 1,701	11.0%	\$17,029	\$ 1,766	10.4%
Total Unallocated Items	-	262		-	426	
Consolidated Operating Profit (GAAP)	\$15,446	\$ 1,963	12.7%	\$17,029	\$ 2,192	12.9%

(\$M, Except EPS, Margin and Effective Tax Rate)

	<u>2022 Outlook</u>
<b>Sales</b>	<b>~\$65,250</b>
<b>Segment Operating Profit*</b>	<b>~\$7,175</b>
<b>Segment Margin*</b>	<b>11.0%</b>
<b>FAS/CAS Operating Adjustment**</b>	<b>~\$1,710</b>
<b>Other, net</b>	<b>~(\$525)</b>
<b>Consolidated Operating Profit</b>	<b>~\$8,360</b>
<b>Non-Operating FAS Pension Expense**</b>	<b>~(\$970)</b>
<b>Effective Tax Rate</b>	<b>~15.2%</b>
<b>Diluted EPS</b>	<b>~\$21.55</b>
<hr/>	
<b>Pension Contribution</b>	<b>~\$0</b>
<b>Share Repurchases (\$)</b>	<b>~\$4,000</b>

(\$M)

	<b>2022 Outlook</b>
<b>Total FAS income and CAS costs</b>	
FAS pension income	~ \$ 410
Pension settlement charge	~ (1,470)
Less: CAS pension cost	~ 1,800
Net FAS/CAS pension adjustment	~ <u>\$ 740</u>
 <b>Service and non-service cost reconciliation</b>	
FAS pension service cost	~ \$ (90)
Less: CAS pension cost	~ 1,800
FAS/CAS operating adjustment	~ 1,710
Non-operating FAS pension expense	~ (970)
Net FAS/CAS pension adjustment	~ <u>\$ 740</u>

The cost components in the table above relate only to the corporation's qualified defined benefit pension plans. The corporation recognized a noncash, non-operating settlement charge of \$1,470 million in the second quarter of 2022.



