



Lockheed Martin 3rd Quarter 2014 Financial Results Conference Call October 21, 2014 11:00 a.m. EDT



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October 21, 2014

Forward Looking Statements



Our presentation contains “forward-looking statements” or projections based on Lockheed Martin’s current expectations and assumptions. 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 availability of funding for the Corporation’s products and services; changes in customer priorities and requirements including declining budgets resulting from affordability initiatives, our dependence upon U.S. Government contracts, (e.g., the F-35 program), the deferral or termination of awards, budget uncertainty arising from sequestration or Congressional actions intended to replace sequestration, U.S. Government operations under a continuing resolution, any future shutdown of U.S. Government operations, and the success of our strategy to mitigate some of these risks by focusing on expanding into adjacent markets and growing international sales; lower demand for services due to improved product field performance requiring less service support; lower in-theater support as troop levels are drawn down; and increased re-competition coupled with the fragmentation of large contracts into multiple smaller contracts that are awarded primarily on the basis of price; the accuracy of the Corporation’s estimates and assumptions; the ability to implement, pace and effect of capitalization changes; difficulties in developing and producing operationally advanced technology systems, cyber security or other security threats, information technology failures, natural disasters, public health crises or other disruptions; the timing and customer acceptance of product deliveries; materials availability and the performance of key suppliers, teammates, joint venture partners, subcontractors, and customers; charges from any future impairment reviews that may result in the recognition of losses and a reduction in the book value of goodwill or other long-term assets; the future effect of legislation, rulemaking, and changes in accounting, tax, defense procurement, changes in policy, interpretations, or challenges to the allowability and recovery of costs incurred under government cost accounting standards, export policy, changes in contracting policy and contract mix; the future impact of acquisitions or divestitures, joint ventures, teaming arrangements, or internal reorganizations; compliance with laws and regulations, the outcome of legal proceedings and other contingencies, and U.S. Government identification of deficiencies in the Corporation’s business systems; the competitive environment for the Corporation’s products and services, and potential for delays in procurement due to bid protests; the Corporation’s efforts to increase the efficiency of its operations and improve the affordability of its products and services including difficulties associated with: moving or consolidating operations; reducing the size of the workforce; providing for the orderly transition of management; attracting and retaining key personnel; and supply chain management; and economic, business, and political conditions domestically and internationally (Including potential impacts resulting from tensions over Ukraine) and the Corporation’s increased reliance on securing international and adjacent business. Except where required by applicable law, we disclaim any duty to update these forward-looking statements.

Our SEC filings (found at www.lockheedmartin.com/investor, or through the website maintained by the SEC at www.sec.gov), including, our Annual Report on Form 10-K for the year ended Dec. 31, 2013, contain more information on the types of risks and other factors that could adversely affect these statements.

3Q 2014 Overview



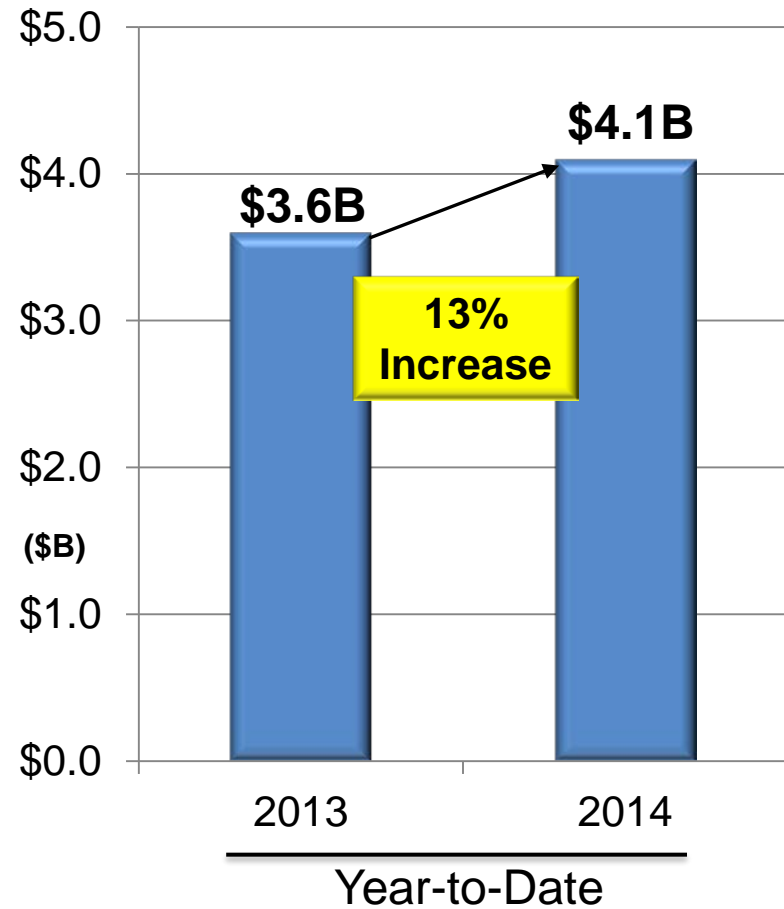
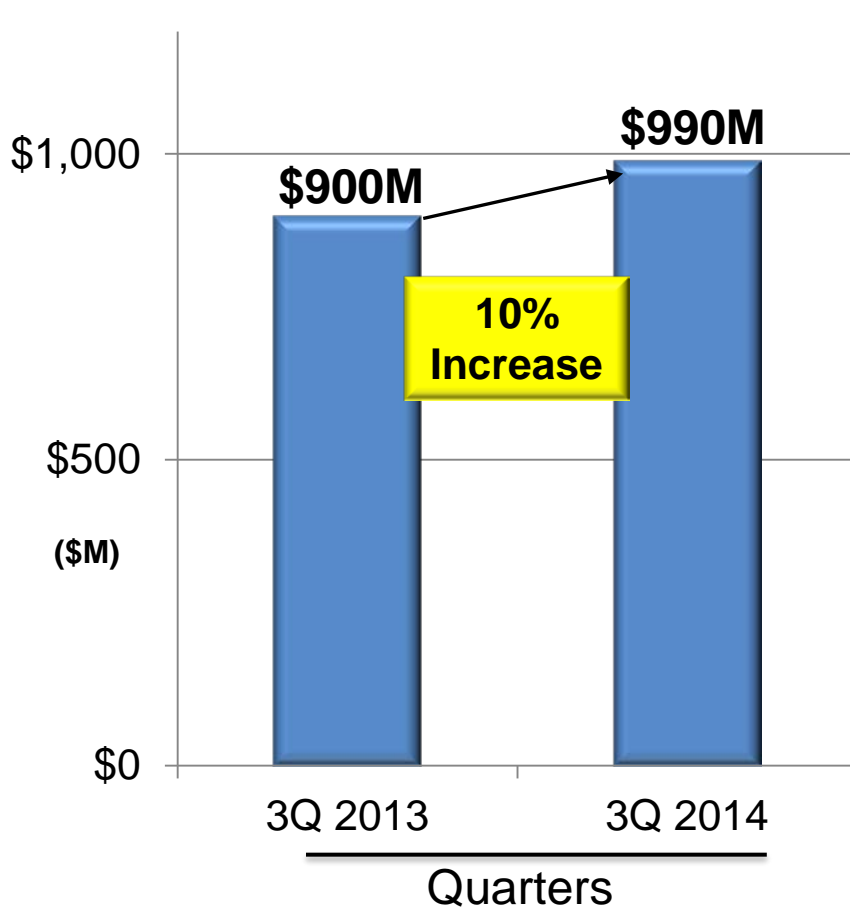
- **HATFA* Legislation Enacted in August**
- **Achieved \$11.1 Billion in Sales**
- **Achieved Segment Operating Profit** of \$1.3 Billion**
- **Increased Net Earnings From Continuing Operations by 5% to \$888M**
- **Increased Earnings Per Share From Continuing Operations 7% to \$2.76**
- **Generated \$990 Million in Cash From Operations**

Solid Quarterly Results

* Highway and Transportation Funding Act of 2014

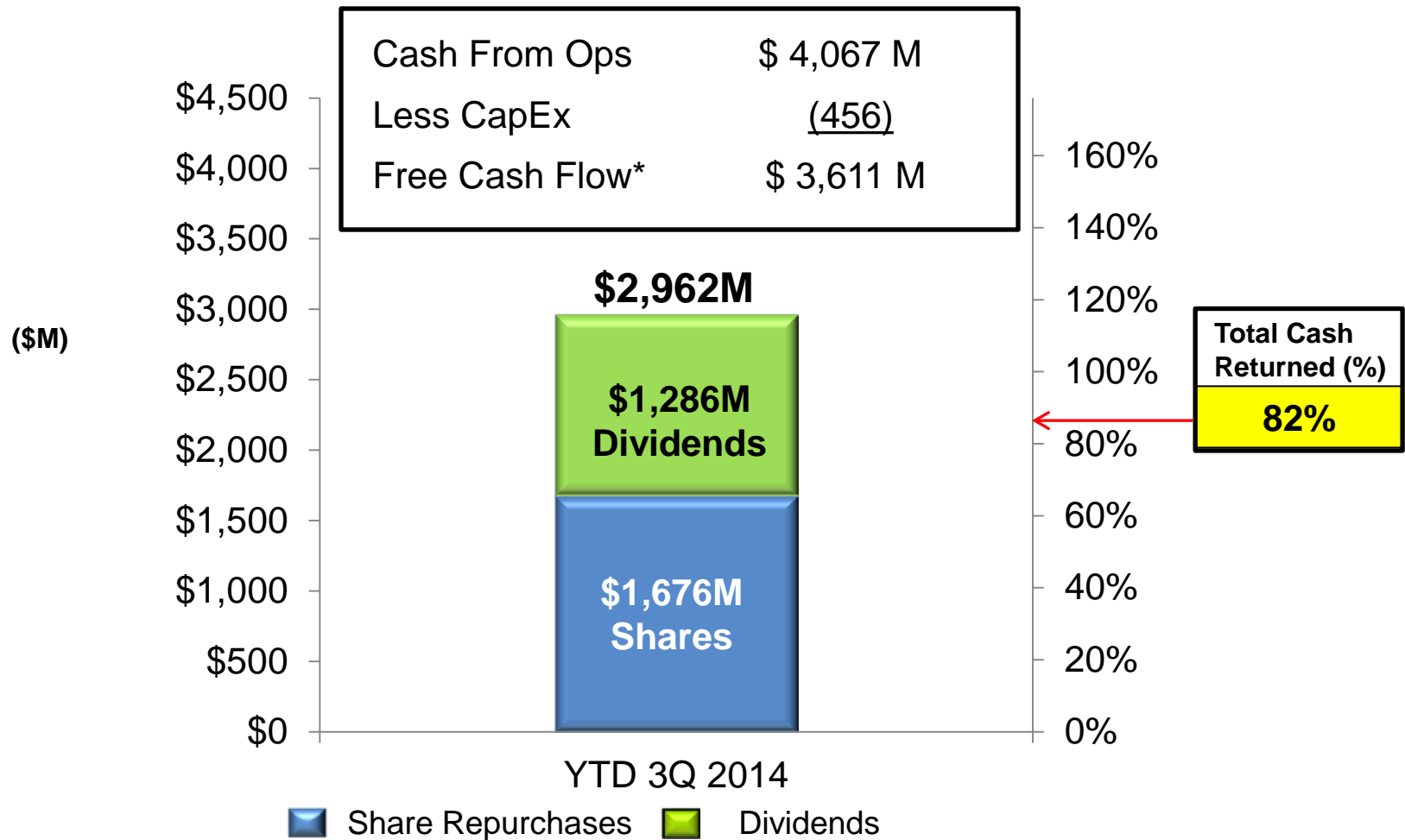
** See Chart 15 for Definitions of Non-GAAP Measures

Cash From Operations



Strong Cash Generation Continues

Cash Returned to Shareholders



Continued Commitment to Balanced Cash Returns to Shareholders

* See Chart 15 for Definitions of Non-GAAP Measures

HATFA Legislation Enactment



- **HATFA Legislation Enacted After July Earnings Release**
 - **Lowers CAS Cost and ERISA Funding Requirements**
- **Effects of Lower CAS Cost and ERISA Funding Include:**
 - + Reduced Pension Funding Requirements in Near-Term**
 - + Improved Competitiveness & Customer Funding Profiles**
 - (-) Delayed Recovery of Pension Contributions**
 - (-) Lower Reported EPS in Near-Term**

Neutral Economics / Negative Impact on Near-Term GAAP Earnings

Pension Recovery / Funding Comparison

See Chart 14 for Significant Underlying Assumptions



2015 - 2017

	<u>Before HATFA</u>	<u>After HATFA</u>
CAS Cost / Recovery	~ \$7.3B	~ \$5.8B
Pension Funding	~ <u>(\$3.5B)</u>	~ <u>(\$1.0B)*</u>
Pre-Tax Pension Cash Flow	~ \$3.8B	~ \$4.8B

- \$4.8B in Prepayment Credits Being Recovered Through 2017
- \$8B+ in Prepayment Credits Recovered by 2020

Cash From Ops \geq \$15B Over Next 3 Years (2015-2017)

* Anticipate Contributing \$1.0B to the Pension Trust During 4Q14

2014 Outlook Update

(\$ Million, Except EPS)



	<u>Prior (July)</u>	<u>Current (Oct)</u>
Orders	\$41,500 - 43,000	\$41,500 - 43,000
Sales	\$44,000 - 45,500	~ \$45,000
Segment Operating Profit*	\$5,375 - 5,525	~ \$5,500
<u>Unallocated Corp Inc / (Exp)</u>		
FAS/CAS Pension Income	~ 445	~ 375
Other, Net	~ (345)	~ (275)
Operating Profit	\$5,475 - 5,625	~ \$5,600
EPS	\$10.85 - 11.15	~ \$11.15
Cash From Operations	≥ \$4,800	≥ \$3,800

Current Cash From Ops Outlook Includes \$1B Incremental Contribution to Pension Trust in 4Q14

Preliminary 2015 Trends



- **2015 Sales Decline at Low-Single Digit Rate From 2014 Level**
- **Consolidated Segment Operating Margin* of 11.5 - 12.0%**
- **FAS/CAS Pension Adjustment Favorable ~\$650M Income**
 - **Assumes 4.25% Discount Rate at Year-End 2014**
 - **Assumes 8.0% Return on Assets in 2014**
 - **Assumes ~ \$1B of Incremental Pension Funding in 4Q 2014**
 - **No Additional Funding Anticipated Between 2015 – 2017**
- **Anticipate At Least \$2B in Share Repurchases**

Increased Cash Deployment Actions Beginning in 2015

* See Chart 15 for Definitions of Non-GAAP Measures



- **Solid Quarter and Year-to-Date Performance**
- **Well Positioned For Achievement of Full Year Goals**
- **Continued Commitment to Delivering Cash to Shareholders**

Continued Strong Performance

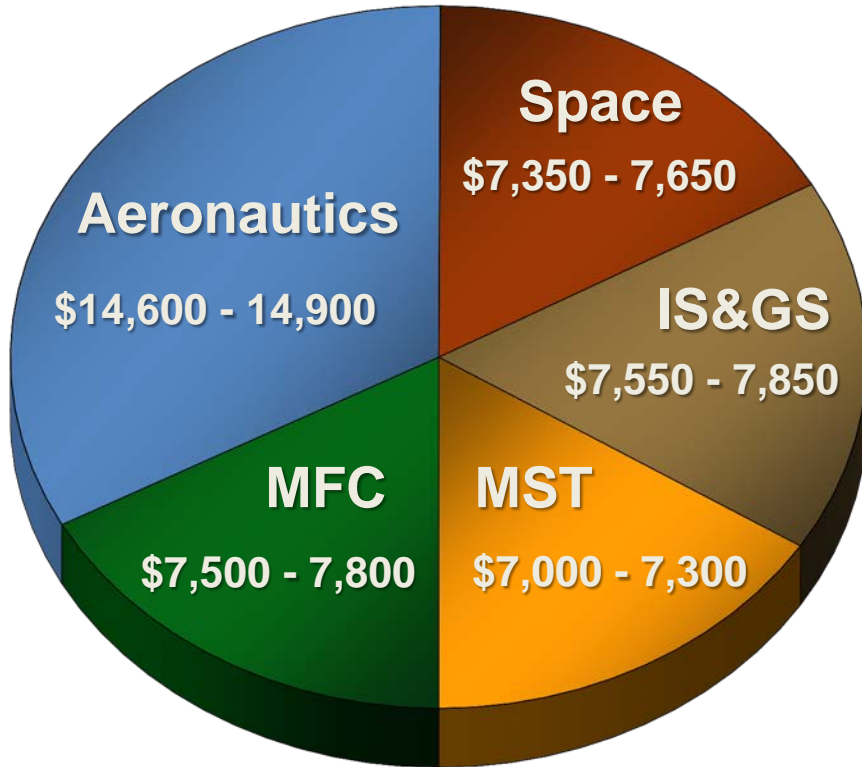
Financial Appendix

2014 Sales Outlook

(\$M)

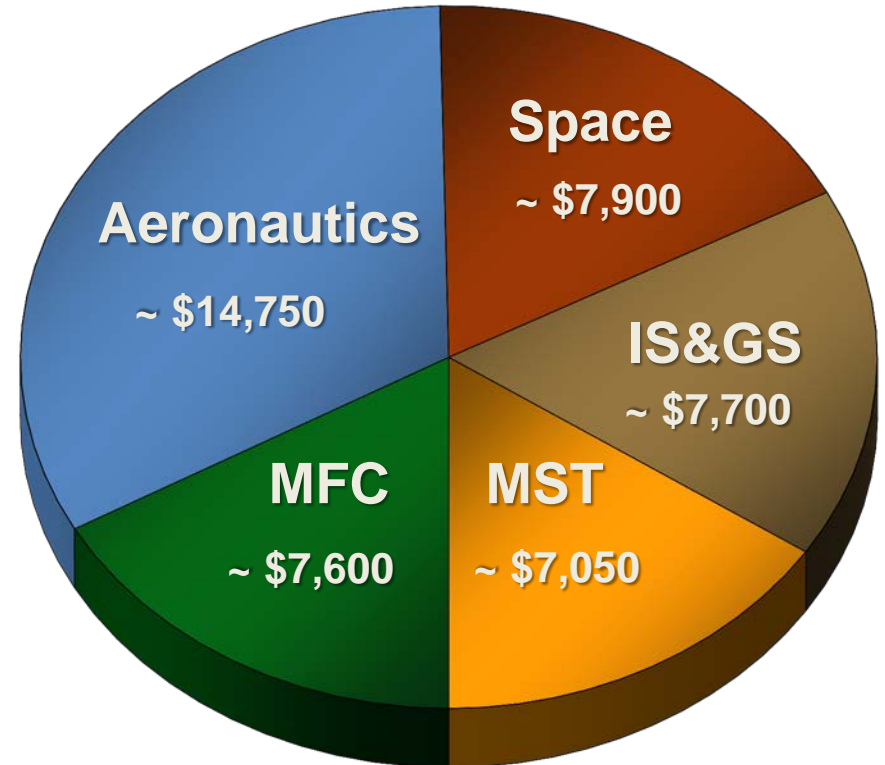


Sales (Prior)



\$44,000 - 45,500M

Sales (Current)



~ \$45,000M

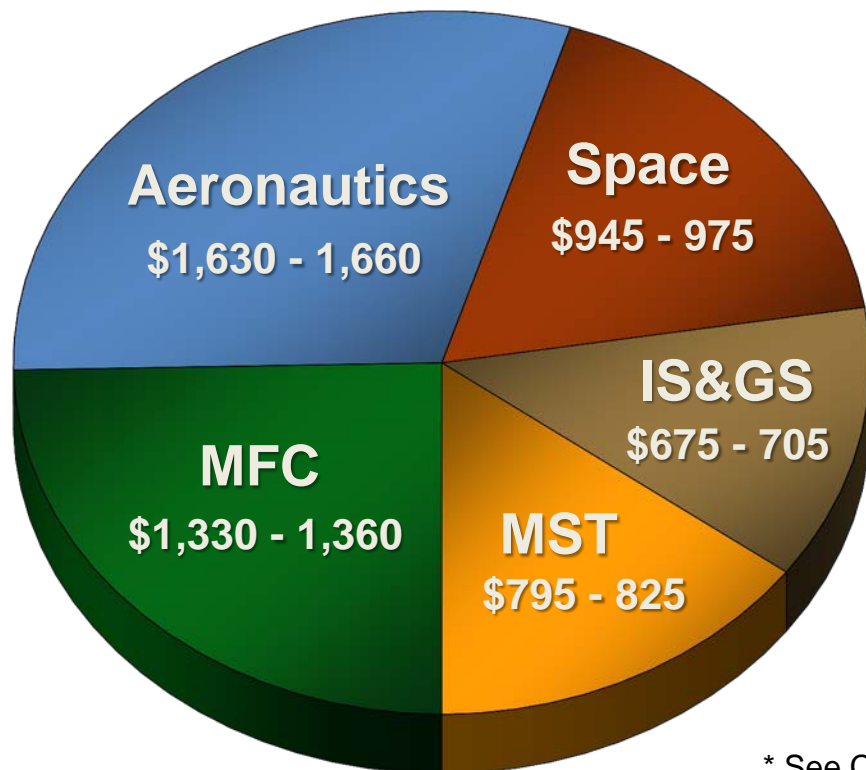
Space Update Includes ~ \$100M Benefit from Acquisitions

2014 Segment Operating Profit* Outlook

(\$M)

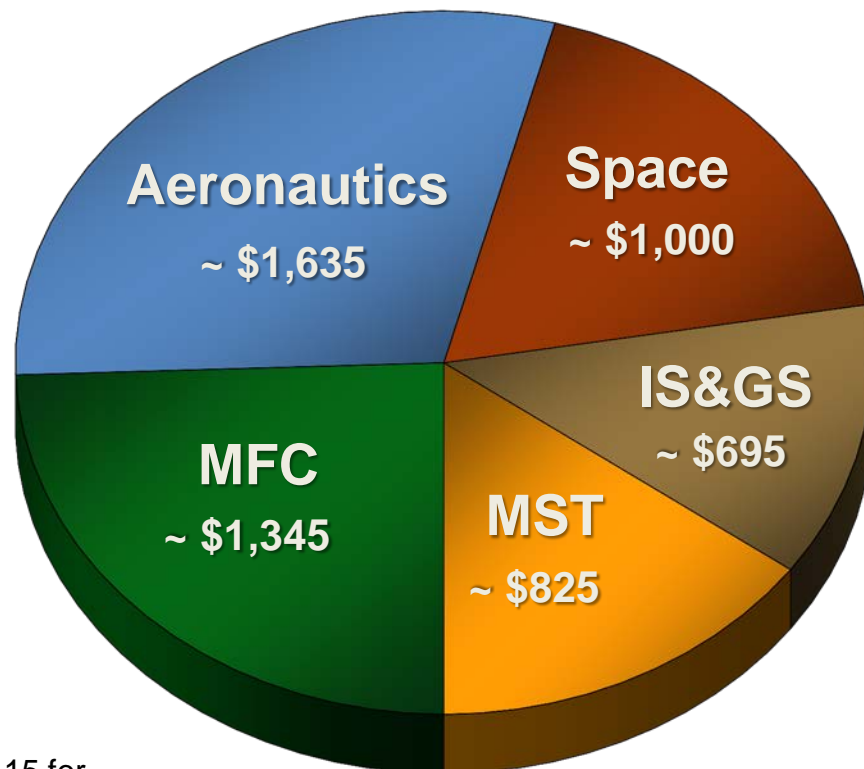


Segment Op Profit (Prior)



\$5,375 - 5,525M

Segment Op Profit (Current)



~ \$5,500M

* See Chart 15 for
Definitions of Non-GAAP
Measures

Space Update Includes Acquisitions & Performance Improvements

Significant Pension Projection Assumptions



- **Annual Actual Investment Returns of 8.0%**
- **ERISA/PPA Funding Discount Rate at ~ 6.5%**
 - Declines ~ 20bps Annually Through 2017
- **New Mortality Table Effective in 2016 for ERISA/PPA**
 - Effective July 1, 2014 for FAS, and January 1, 2015 for CAS

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.

Free Cash Flow

Lockheed Martin defines Free Cash Flow (FCF) as Cash from Operations, less Capital Expenditures.

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, net" 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>2014 Outlook (July)</u>			<u>2014 Outlook (October)</u>		
Sales	\$44,000 – 45,500			~\$45,000		
Segment Operating Profit	\$5,375 - 5,525			~\$5,500		
Mid-Point Segment Margin	12.2%			12.2%		
Consolidated Operating Profit	\$5,475 - 5,625			~\$5,600		

	<u>3Q 2014</u>			<u>3Q 2013</u>		
	<u>Sales</u>	<u>Profit</u>	<u>Margin</u>	<u>Sales</u>	<u>Profit</u>	<u>Margin</u>
Segment Operating Profit	\$ 11,114	\$ 1,346	12.1%	\$ 11,347	\$ 1,455	12.8%
Total unallocated, net	-	46		-	(201)	
Consolidated Operating Profit (GAAP)	\$ 11,114	\$ 1,392	12.5%	\$ 11,347	\$ 1,254	11.1%

