



Bulldog Investment Company

Bull and Bear Presentation



Game Plan

Base	Bull	Bear
Company Overview	Economic Moat	Competitor Analysis
Revenue Breakdown	Growth Opportunities	Risk Factors
Interpretation of Financial Statements	Valuation	Valuation
Management & Capital Allocation	Suggestion	Suggestion
Value Bands & Intraportfolio Analysis		



Base Team

Neutral



Overview

Hayden Martin



Company Information

- Ticker symbol: LMT
- Current price: \$407 per share
- Market cap: \$103B
- Employees: 116k
- Headquarters: Bethesda, Maryland



Our Position

- # of Shares: 300
- Cost for position: \$101,786.80
- Market value of position: \$122,100.00
- Unrealized return: \$20,313.20 or 43.38%
- Weighting: 12.54%



What they do

- LMT is a defense contractor that designs, develops and manufactures products and services primarily to the US Government and allies
- These products are Aircraft, Spacecraft and Missiles.
- LMT also delivers 5G network solutions and provides secure connectivity across terrestrial and space-based networks



52-Week Price Chart

High	\$501.41
Current	409.42
Low	\$386.29



Revenue Breakdown

Dylan Swanson



Contracting Process

1. A contract is posted to the Department of Defense.
2. Contractors analyze contract opportunities and obligations.
3. Contractors prepare a detailed bid and technical proposal.
4. DoD will negotiate contract terms with bidder/s before signing agreement.
5. Execute

Prime vs. Subcontractors

Prime

- Oversee entire operation
- Provides broad range of products/ services

Subcontractor

- Hired by Prime contractors
- Specialized products/ services

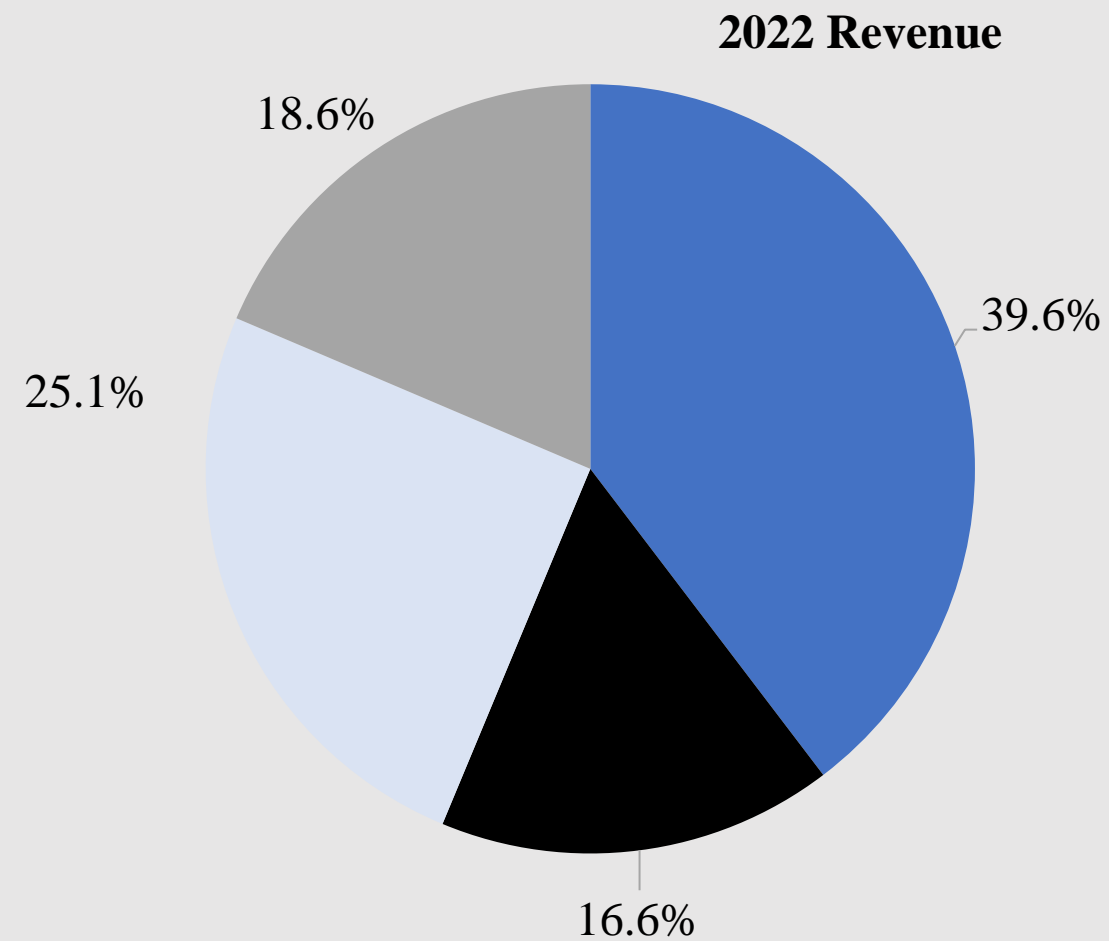
Reportable Segments

Aeronautics

Rotary & Mission
Systems

Space

Missiles & Fire Control



Aeronautics

Aeronautics Segment:

- 40% of net sales

Provides:

- Military aircraft
- Combat & air mobility aircraft, and unmanned air vehicles

Programs include:

- F-35 Lightning
- C-130 Hercules
- F-16 Fighter Falcon
- F-22 Raptor
- Etc.

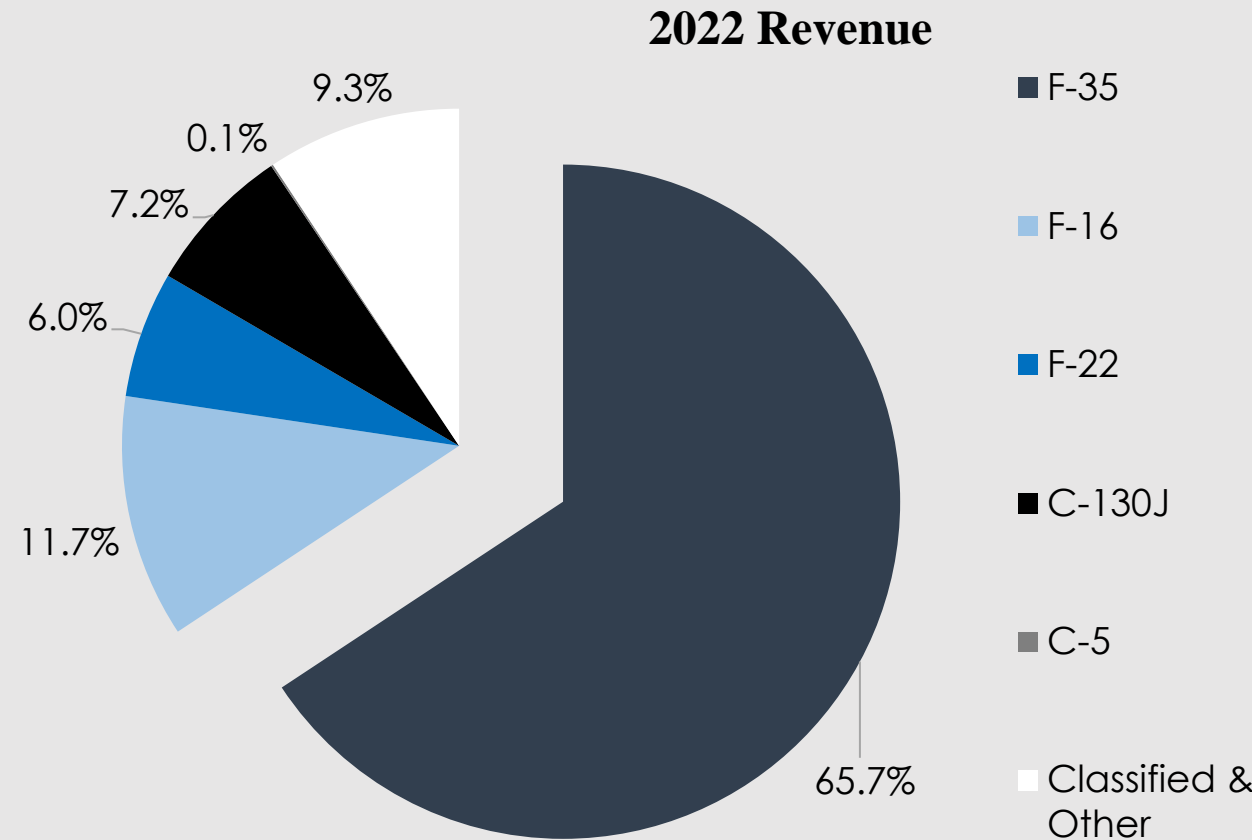


F-35 Lightning 2

65.7% of Aeronautics revenue

27% of company wide revenue

- World's most dominant fighter jet
- Largest contract for Lockheed Martin
- Had the contract since 2001 (Prime)



Rotary and Mission Systems

Rotary and Mission Systems Segment:

- 25% of sales

Products:

- Helicopters
- Surface ships
- Radar systems
- Cybersecurity systems
- Missile Defense Systems

Programs Include:

- Sikorsky Helicopter
- Blackhawk Helicopter
- Seahawk
- Integrated Warfare Systems
- Etc.



Space

Space:

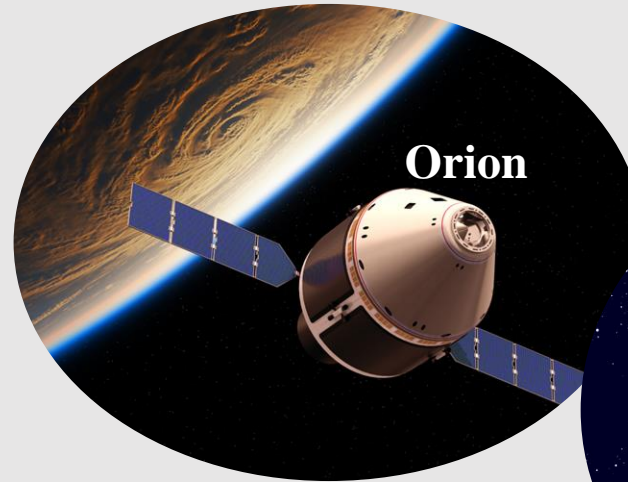
- 19% of sales

Products:

- Satellites
- Defense Systems
- Transportation Systems

Programs Include:

- Orion
- SBIRS
- NGI – Next Gen Interceptor
- Classified Programs
- Etc.



Missiles & Fire Control

Missiles & Fire Control:

- 17% of sales

Products:

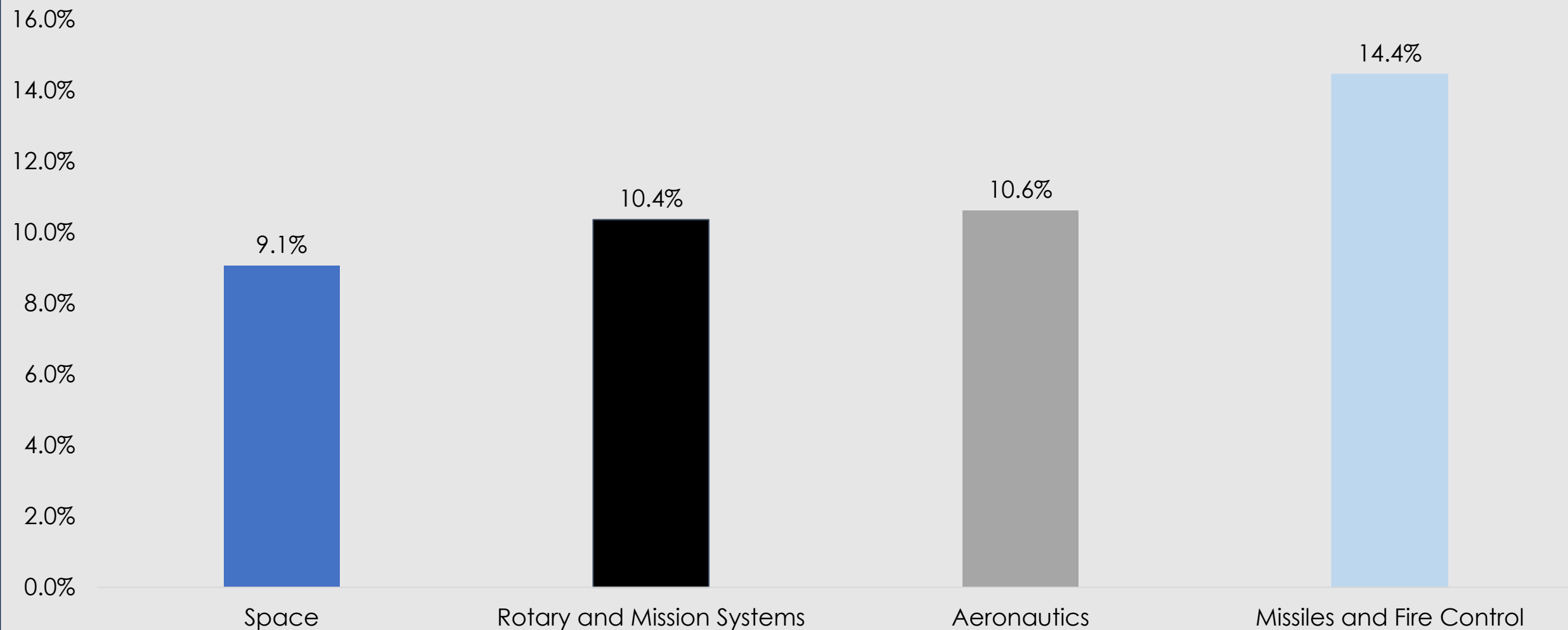
- Missile Defense Systems
- Fire Control Systems
- Manned & Unmanned Ground Vehicles
- Engineering Support
- Munitions

Programs:

- Precision Strike Missile
- Guided Multiple Launch Rocket System
- Javelin
- PAC – 3
- Etc.

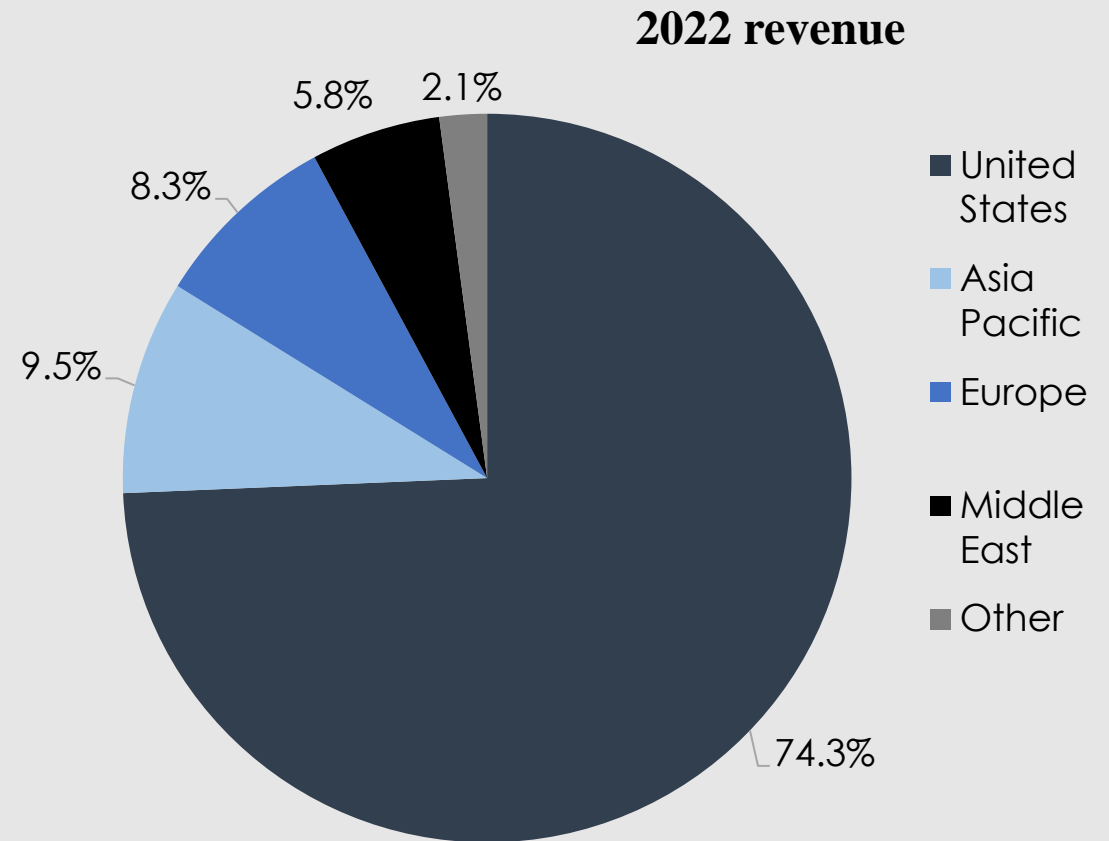


Operating Margin by Segment



Revenue by Geography

- Foreign contracts are mostly contracted through United States Government
- Works with other government bodies to regulate foreign sales not contracted through the DoD



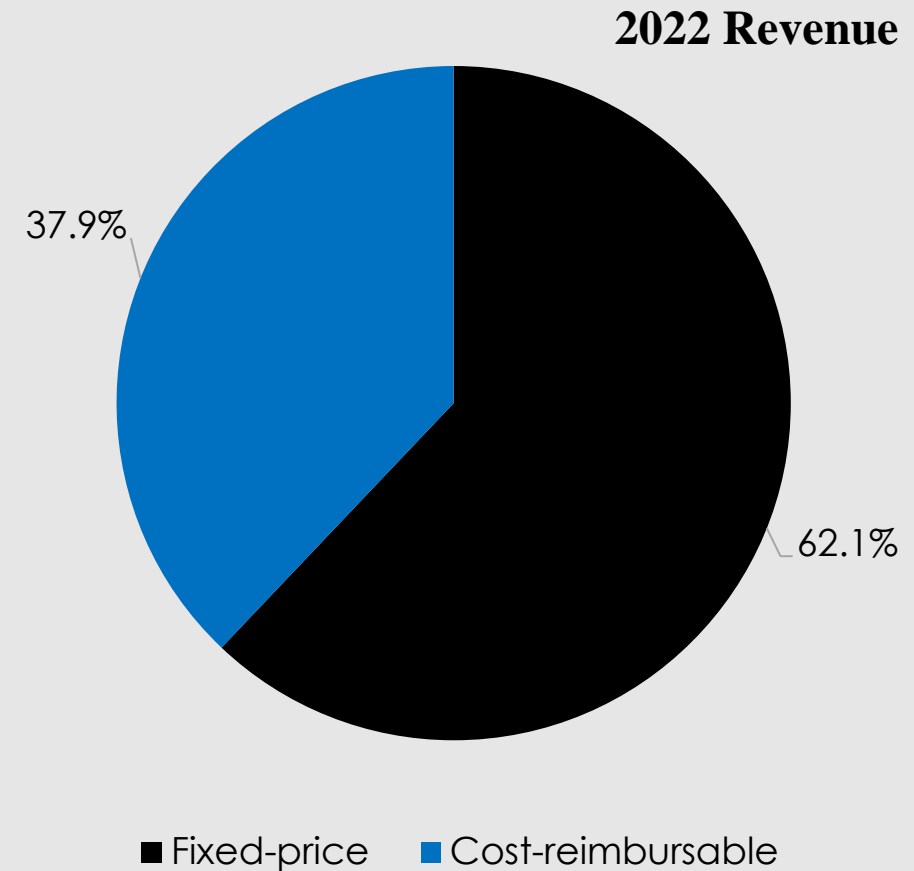
Revenue by Contract Type

Fixed Price

- Pre-determined price

Cost Reimbursable

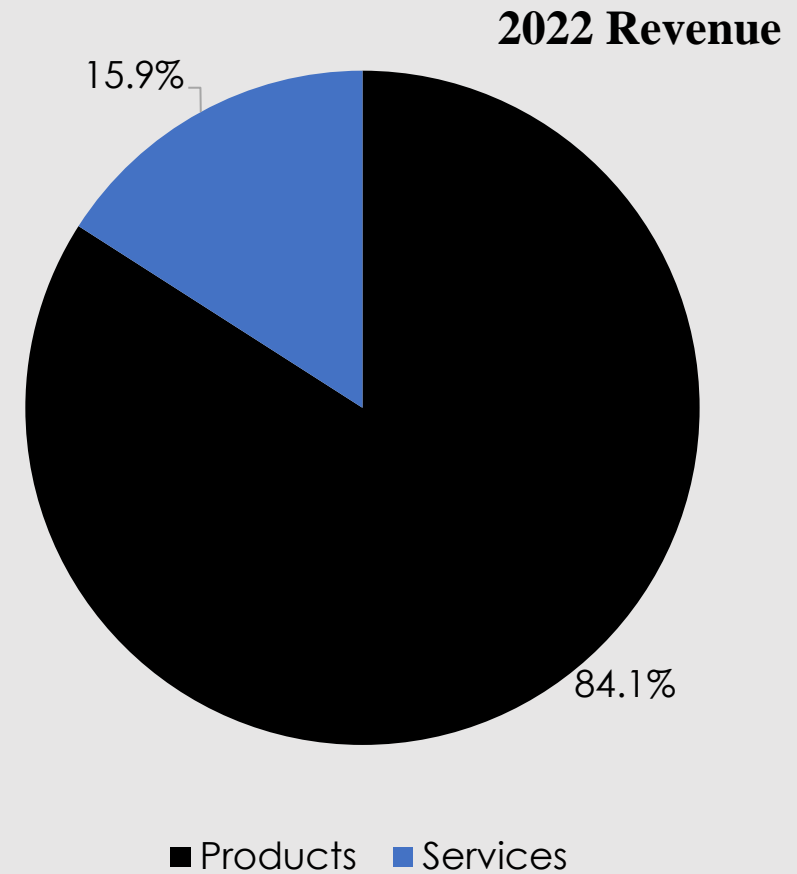
- Cost + fee up to a predetermined ceiling



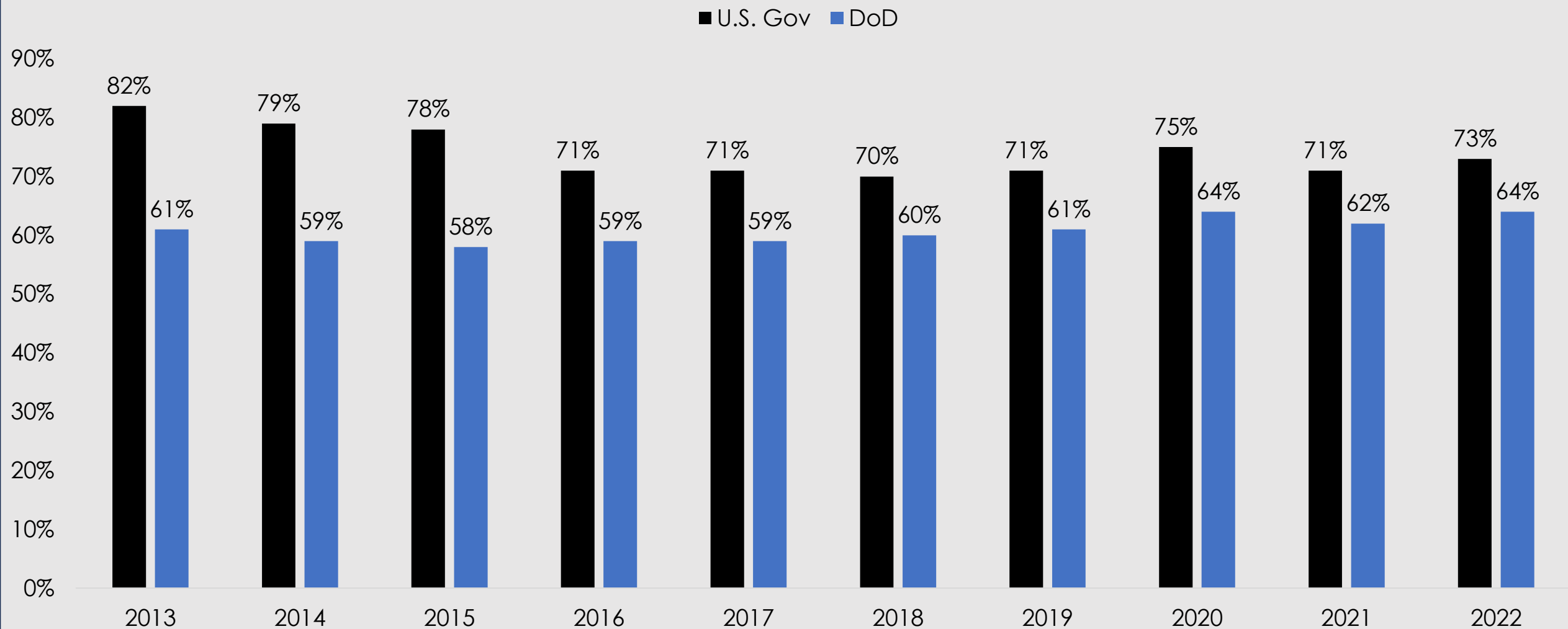
Revenue by Product Type

Services Offered:

- Logistics
- Defense
- Cyber-Security
- Technical
- Scientific
- Engineering
- Management



Largest Customer/s Mix



Accounting Standards

- Must comply with **DCAA Cost Accounting Standards (CAS)**
- Must Comply with **Federal Acquisition Regulation (FAR)**
- Must comply with **Generally Accepted Accounting Principles (GAAP)**

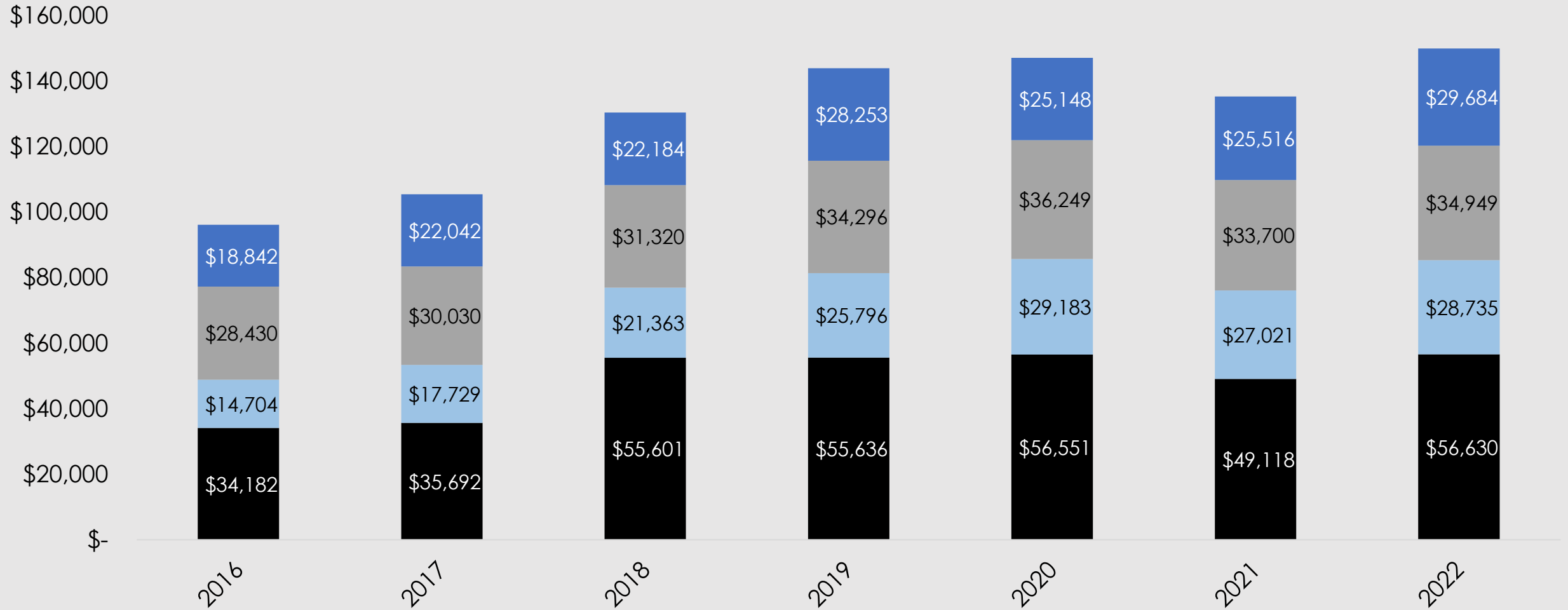
Backlog

- Revenue is recorded in backlog when orders are placed
- Orders placed that are yet to be fulfilled
- Revenue is typically recognized as performance obligations are met using **percentage-of-completion cost-cost principles**
- High level of visibility into future cash flows

Backlog

In Millions of U.S Dollars

■ Aeronautics ■ Missiles and Fire Control ■ Rotary and Mission Systems ■ Space



Management & Capital Allocation

Dylan Swanson



Executives



Frank St. John
COO

- COO since 2020
- 35+ Years with Lockheed Martin



Jim Taiclet
*Chairman, President, and
CEO*

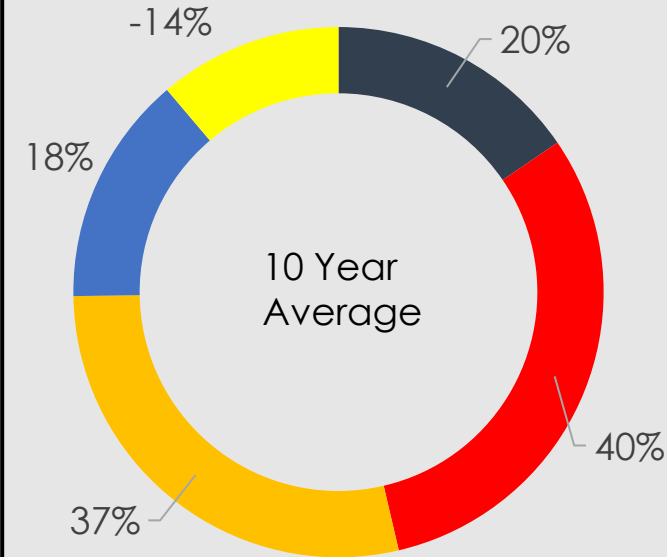
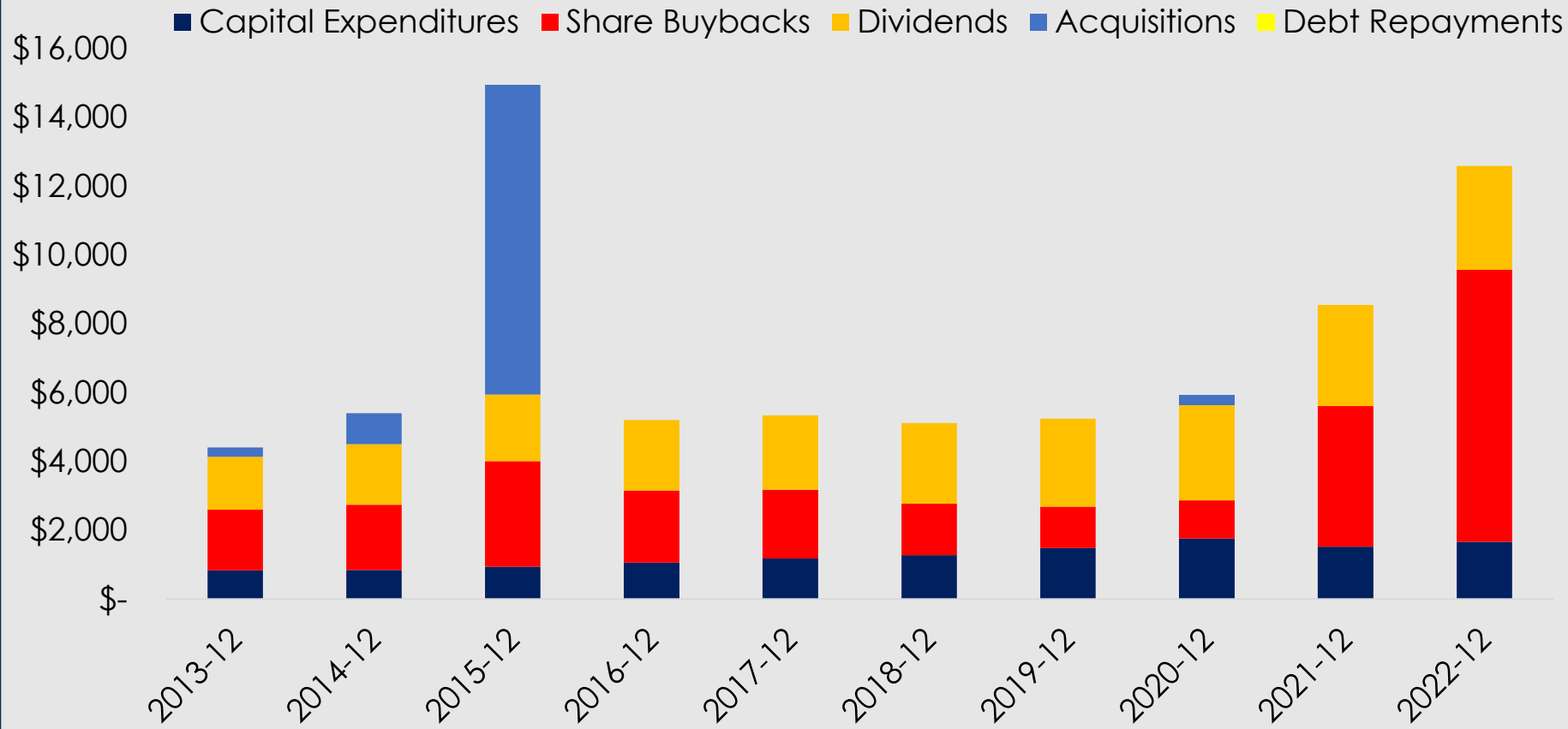
- CEO since 2020
- CEO at American Tower Prior



Jay Malave
CFO

- Joined Lockheed in 2022
- CFO at L3Harris

Capital Allocation



Shares Repurchases

Share Repurchases to Revenue

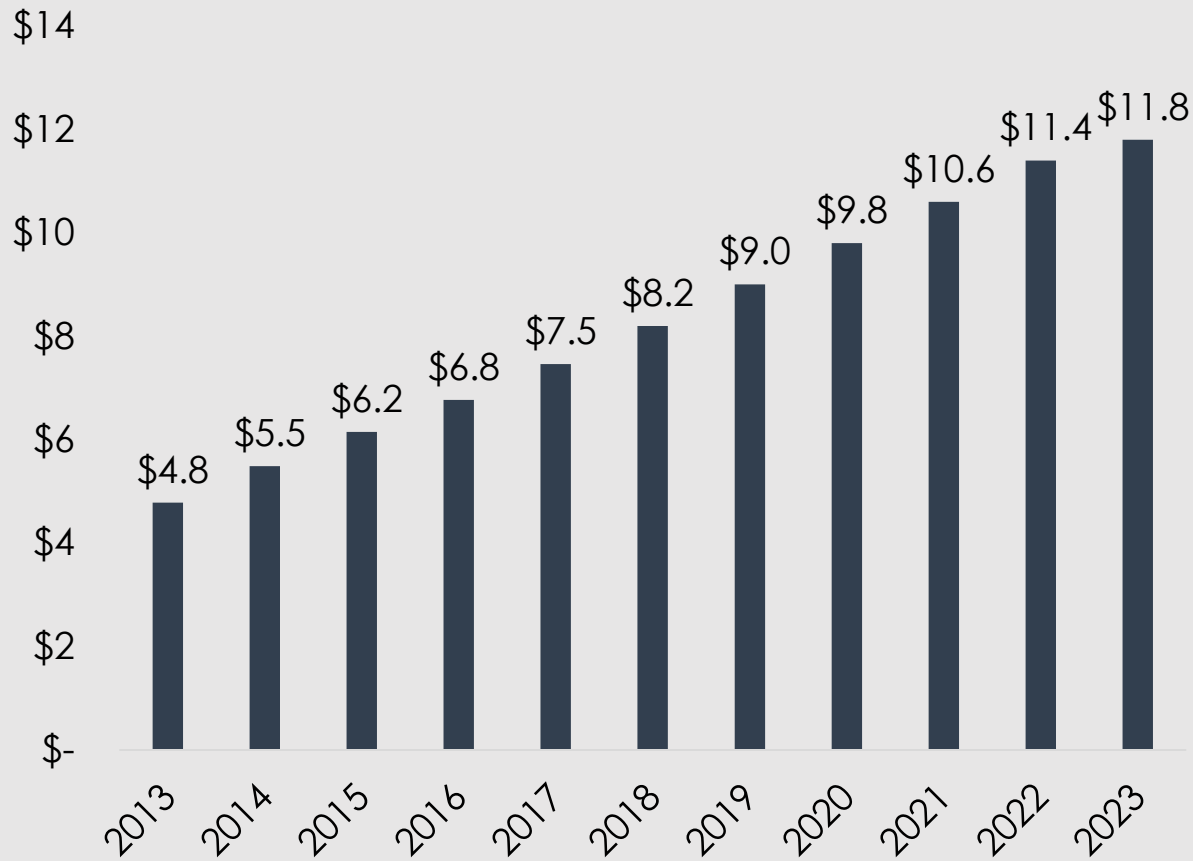


Shares Outstanding

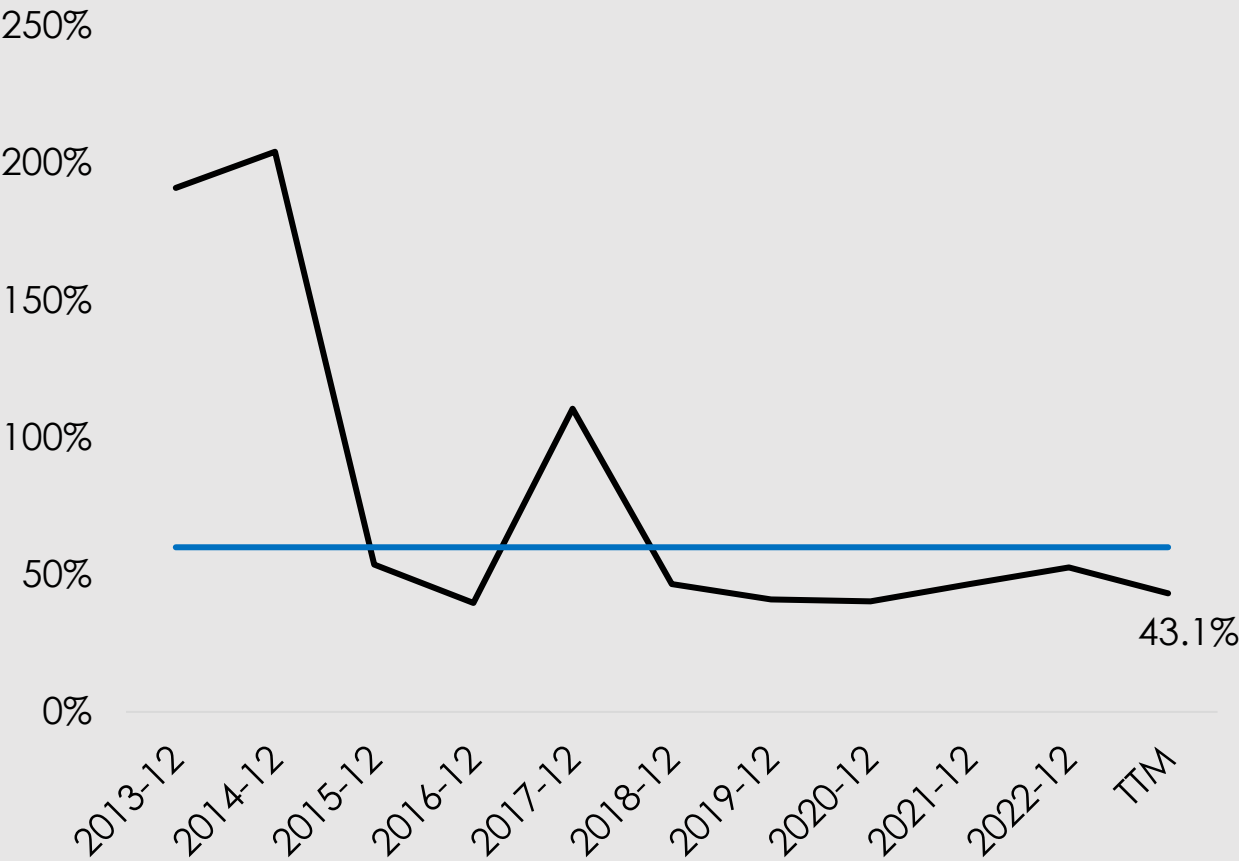


Dividends

Dividends Per Share



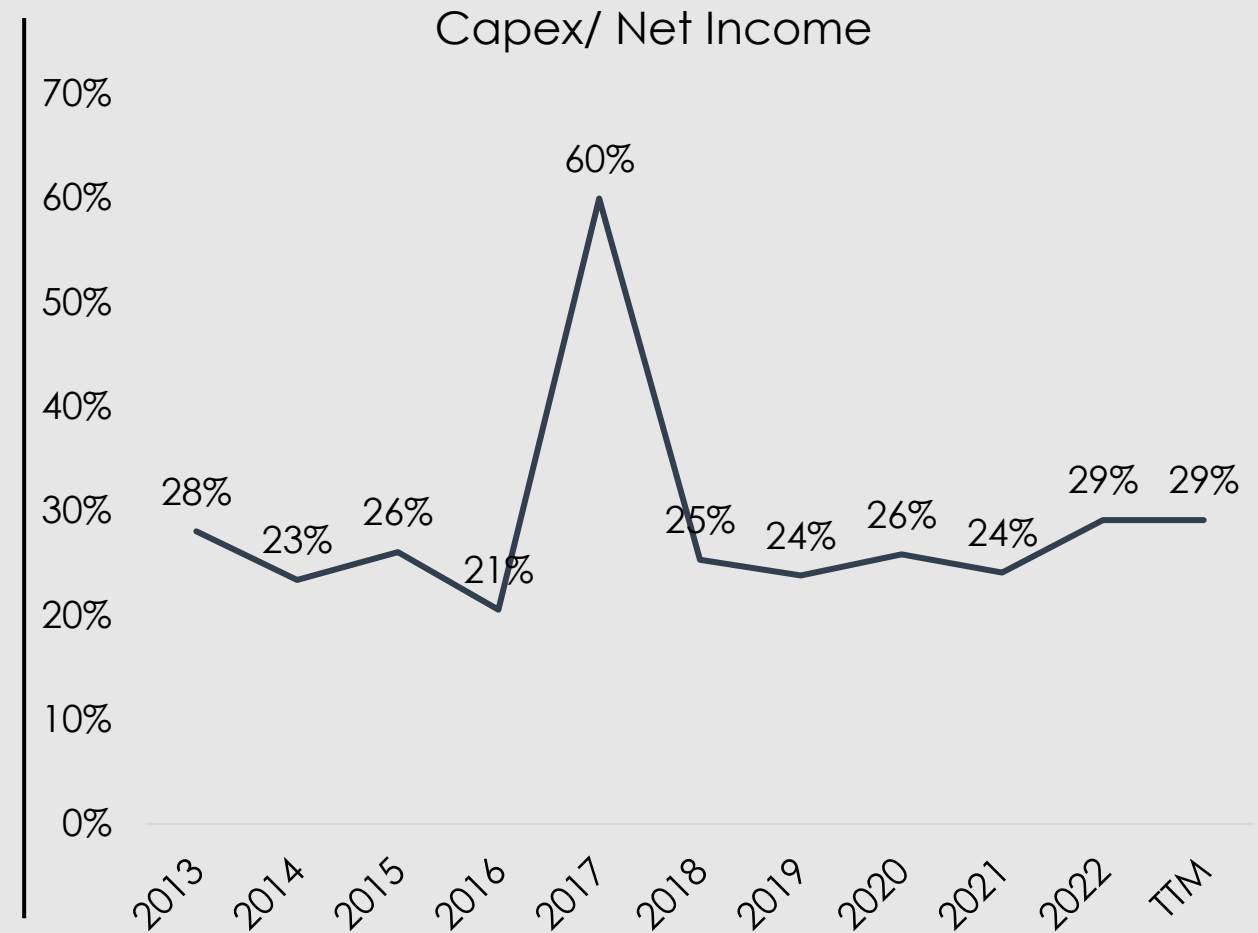
Dividend Payout Ratio



Capital Expenditures

Recent Capital Expenditures Projects:

- Advance Technology
- Expand Production Capacity



Interpretation of Financial Statements

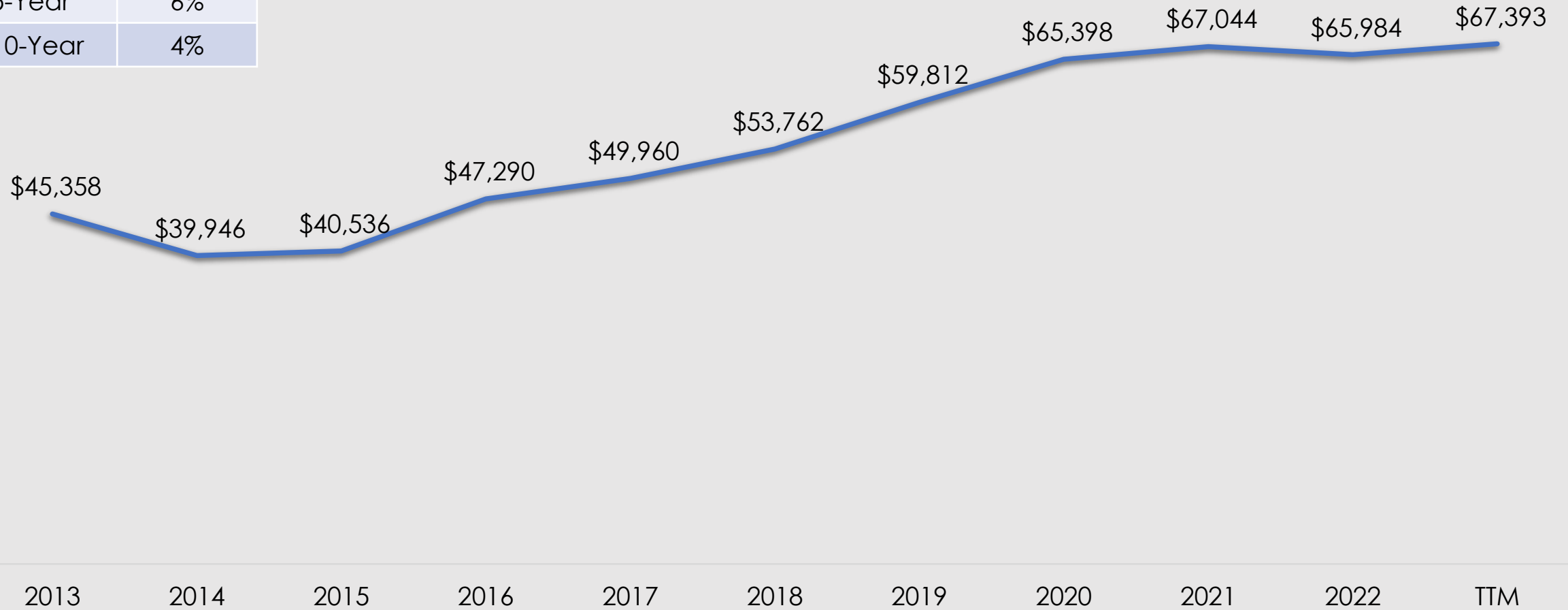
William Errett



Revenue

In Millions of U.S. Dollars

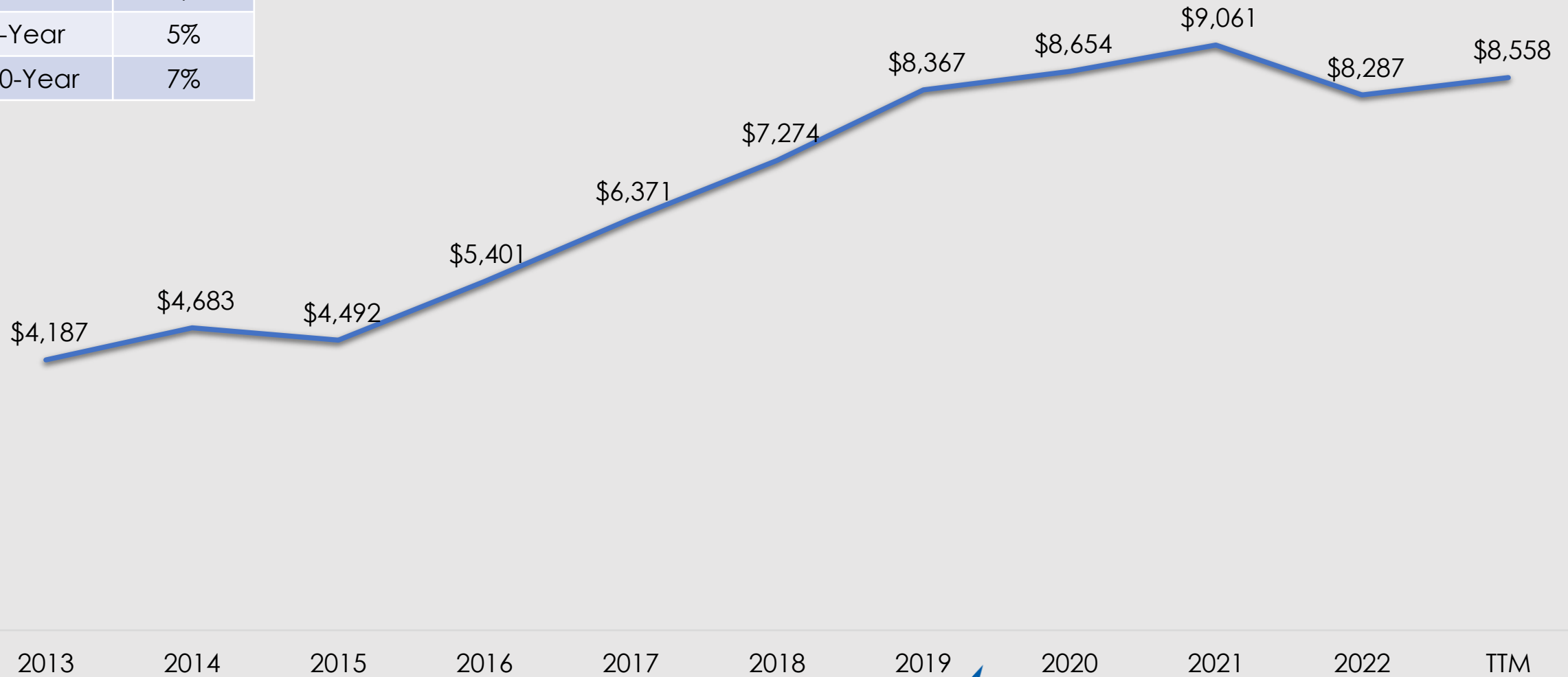
CAGR	
3-Year	3%
5-Year	6%
10-Year	4%



Gross Profit

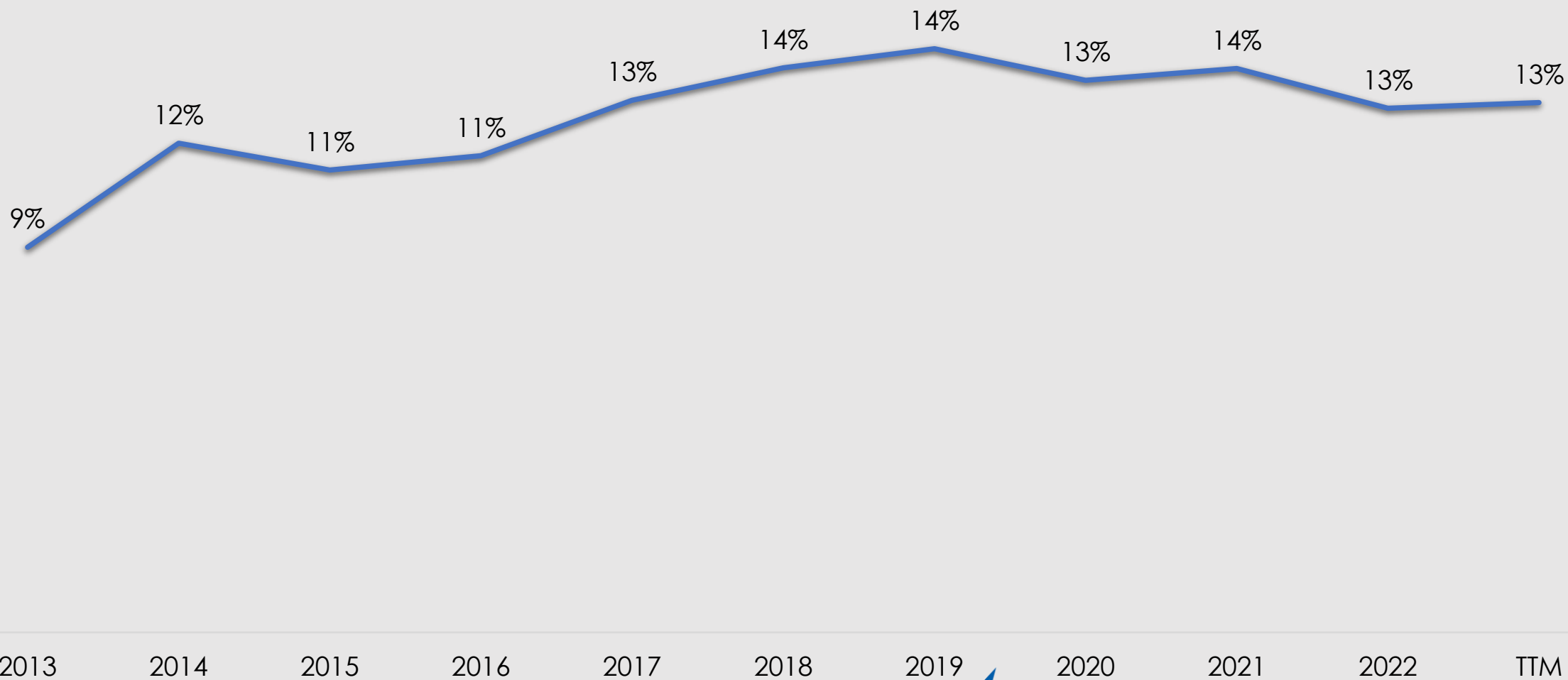
In Millions of U.S Dollars

CAGR	
3-Year	0%
5-Year	5%
10-Year	7%

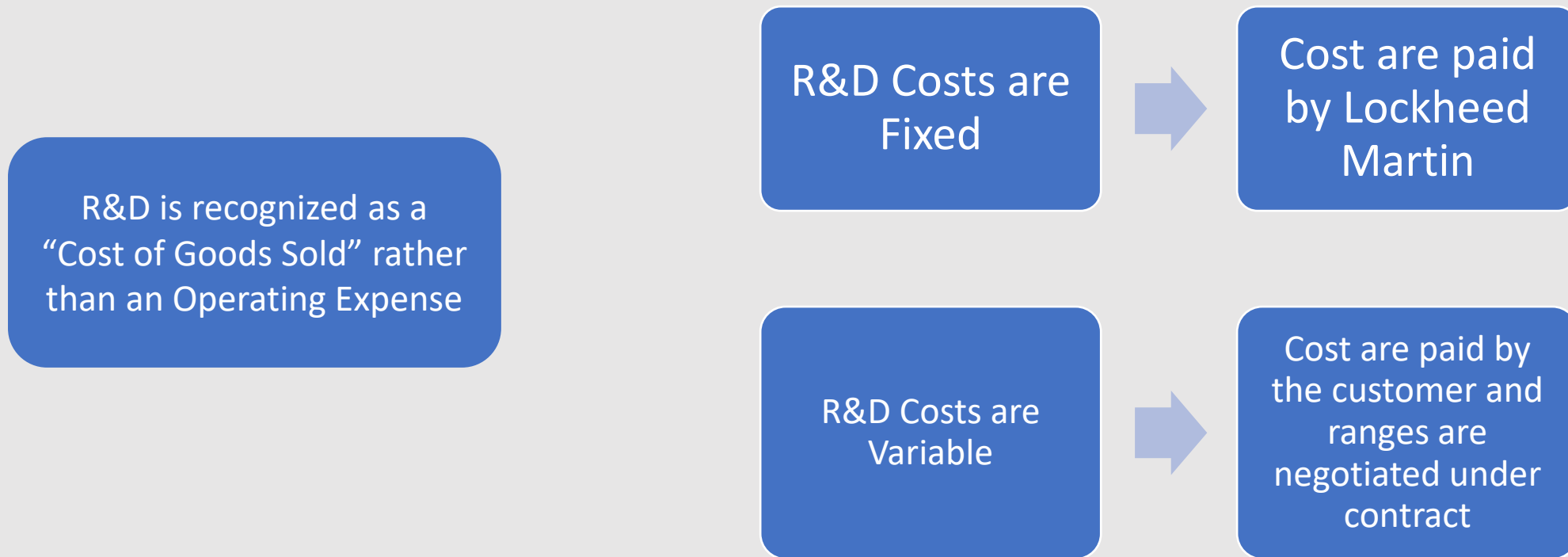


Gross Margin

>40% Threshold



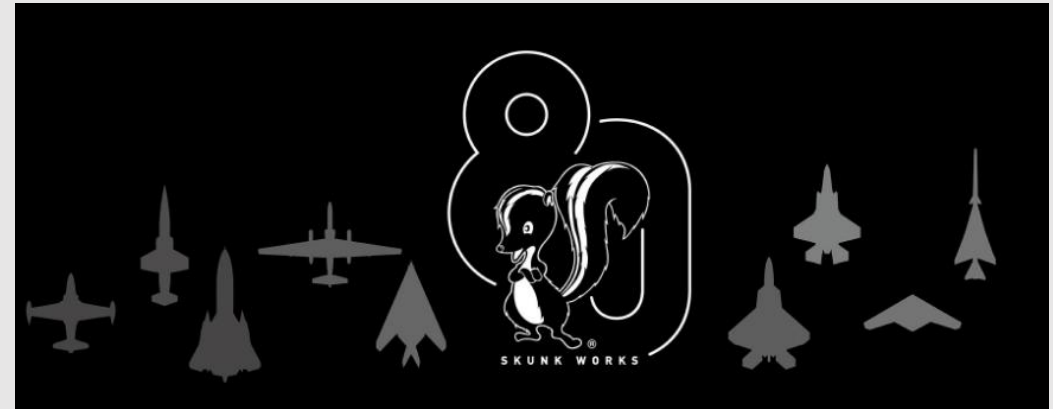
Recognition of Research and Development (R&D)



Recognition of Research and Development (R&D)



F-35 has well known R&D costs after decades of production



Classified Programs do not have predictable R&D costs

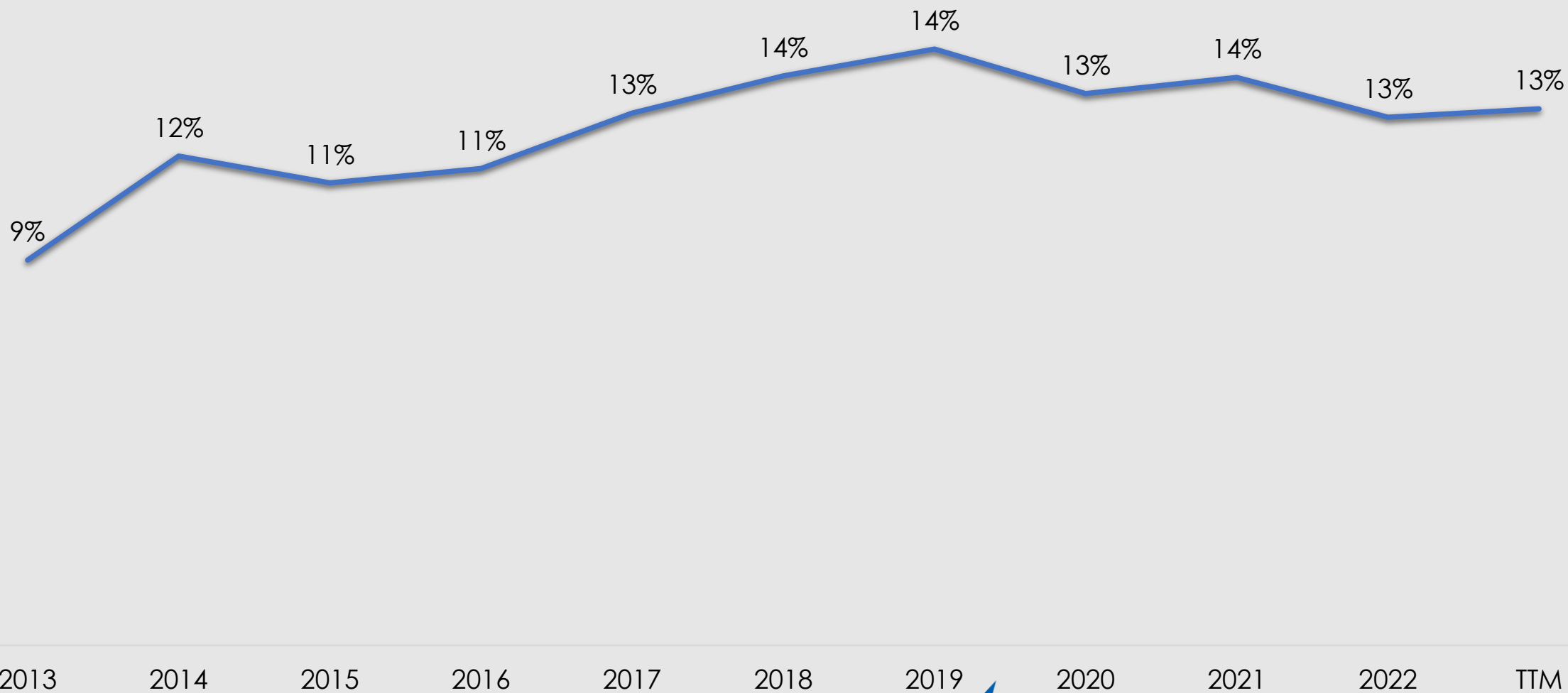
Operating Profit In Millions of U.S Dollars

CAGR	
3-Year	-1%
5-Year	6%
10-Year	7%



Operating Margin

>20% Threshold



Pension Adjustments

- Lockheed Martin has pension adjustments which can boost the GAAP Earnings for the business
- This can hide the true earning power of the business

GAAP = Generally
Accepted Accounting
Principles

CAS = Cost
Accounting
Standards

Pension Adjustments



Segment Operating Profit

In Millions of U.S Dollars

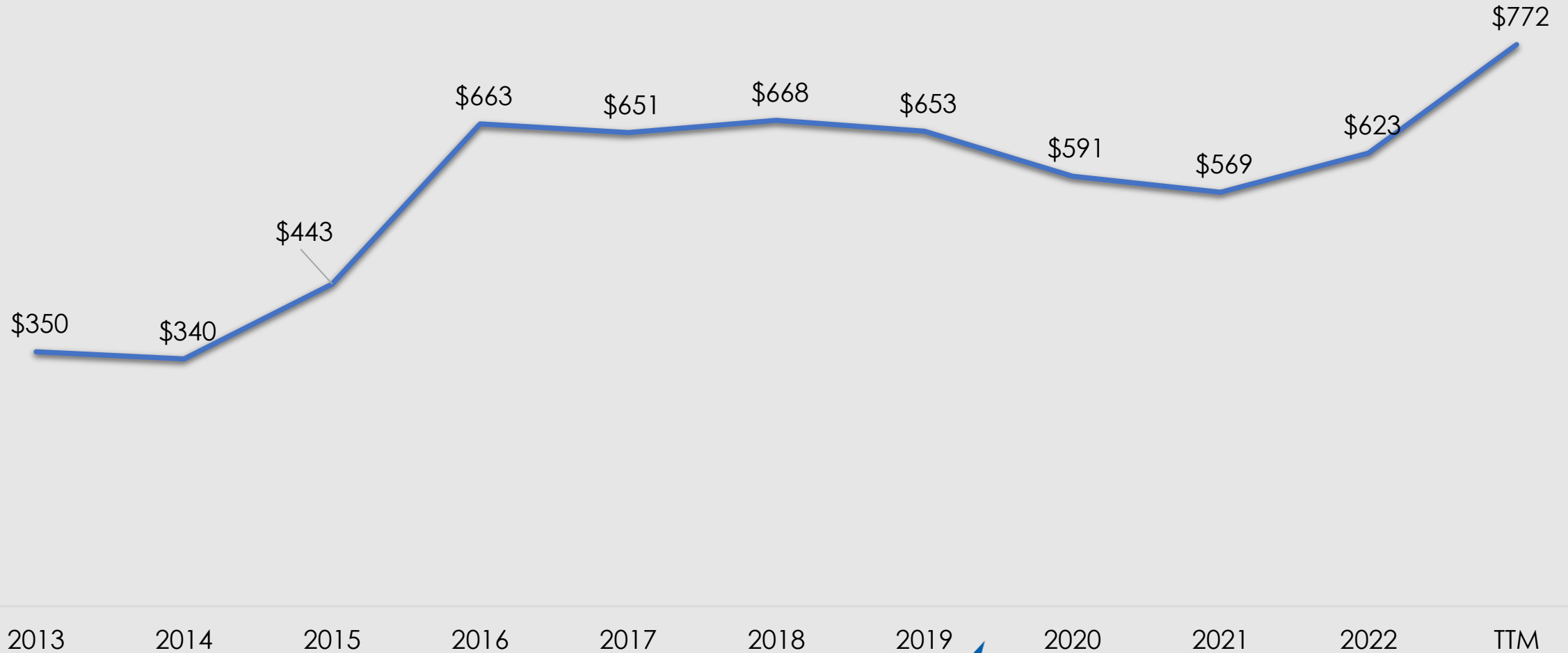
CAGR	
3-Year	3%
5-Year	7%
10-Year	2%



Segment Operating Margin

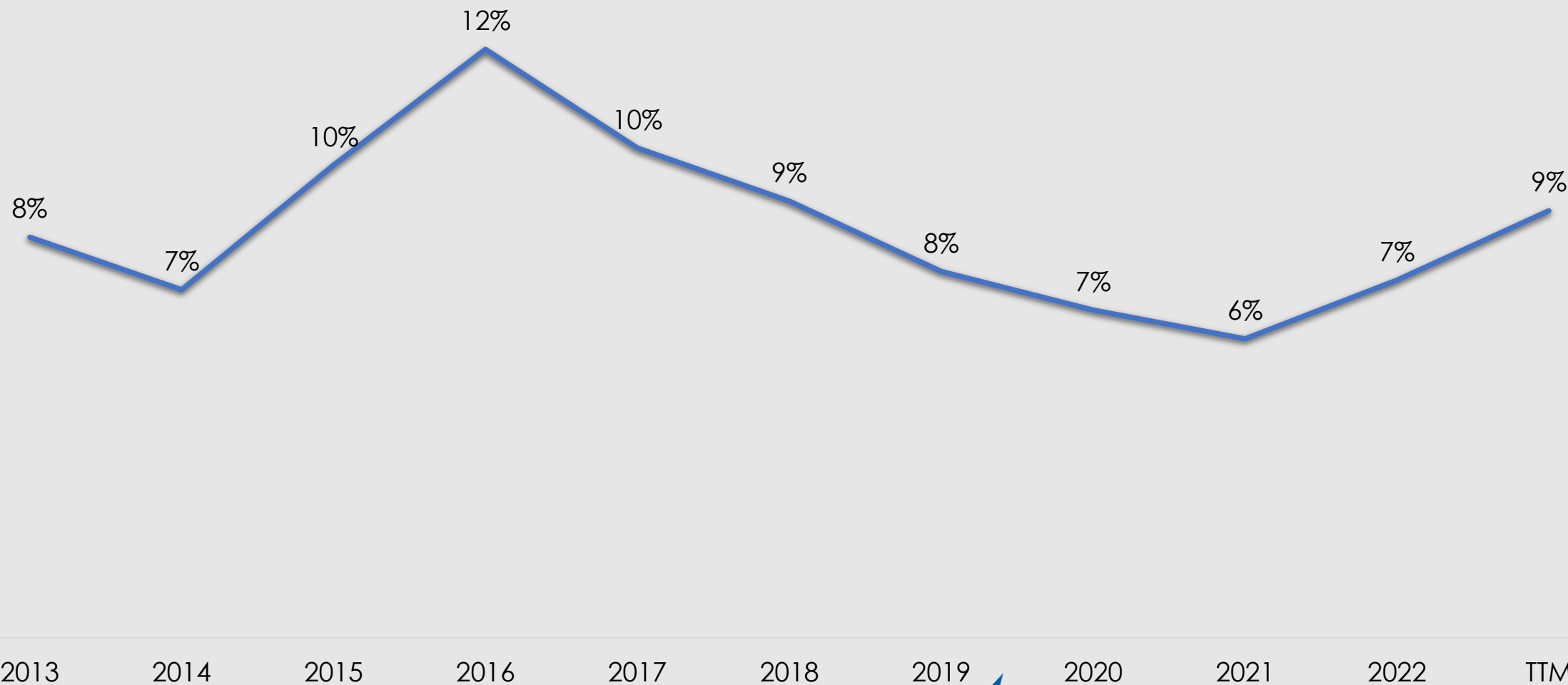


Interest Expense In Millions of U.S Dollars

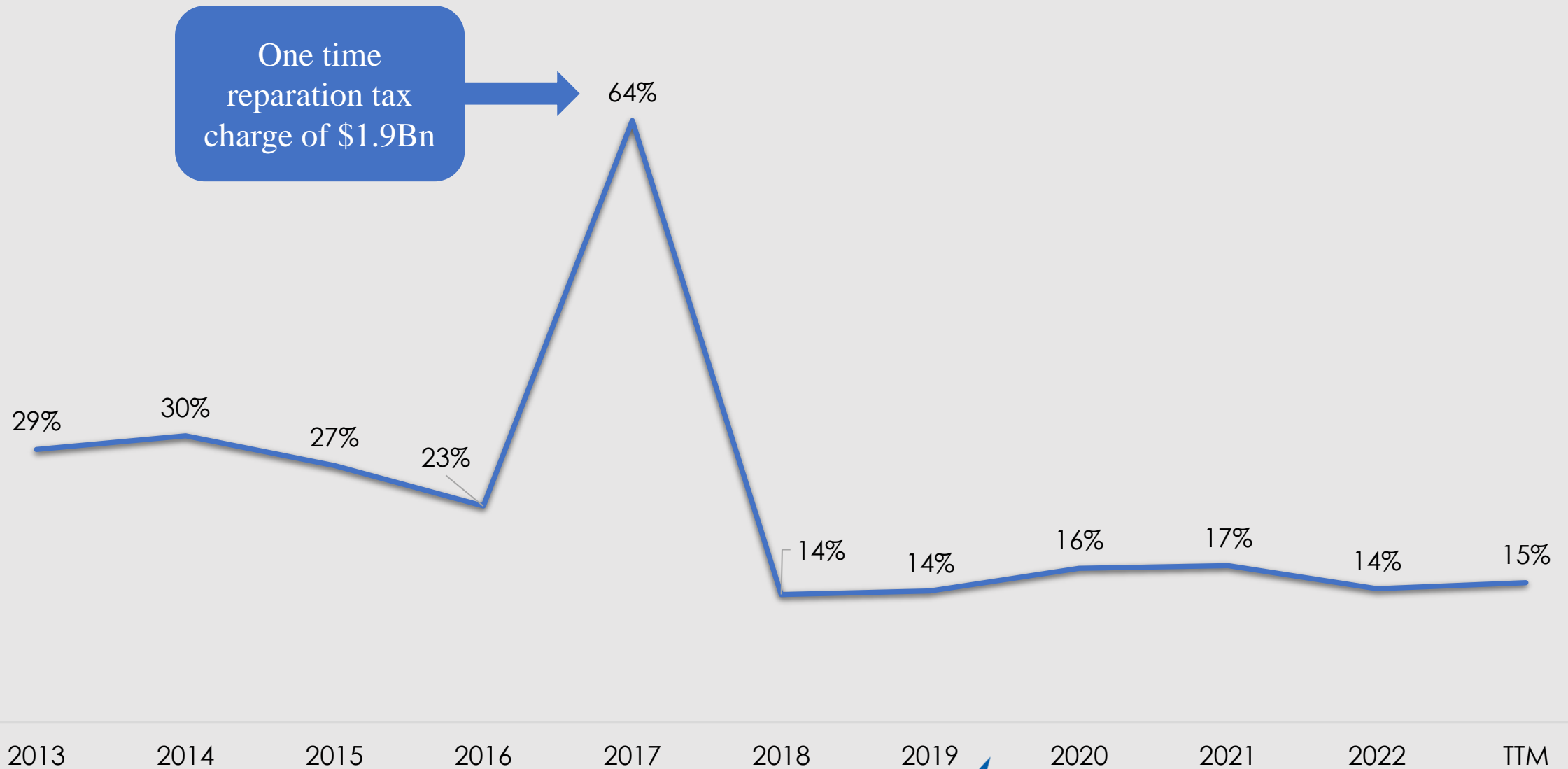


Interest Expense as a % of Operating Income

<15% Threshold



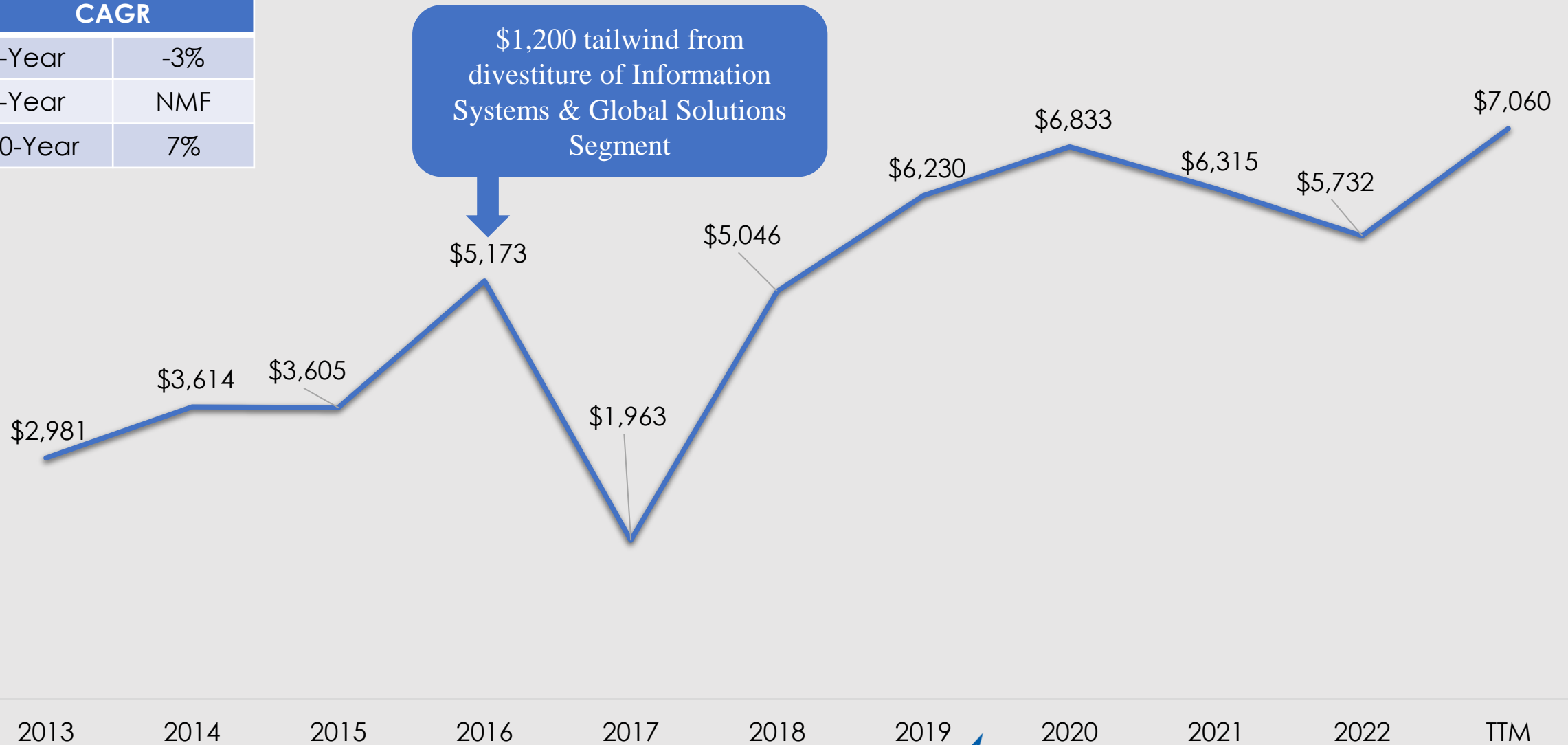
Tax Rate



Net Income

In Millions of U.S Dollars

CAGR	
3-Year	-3%
5-Year	NMF
10-Year	7%



Net Margin

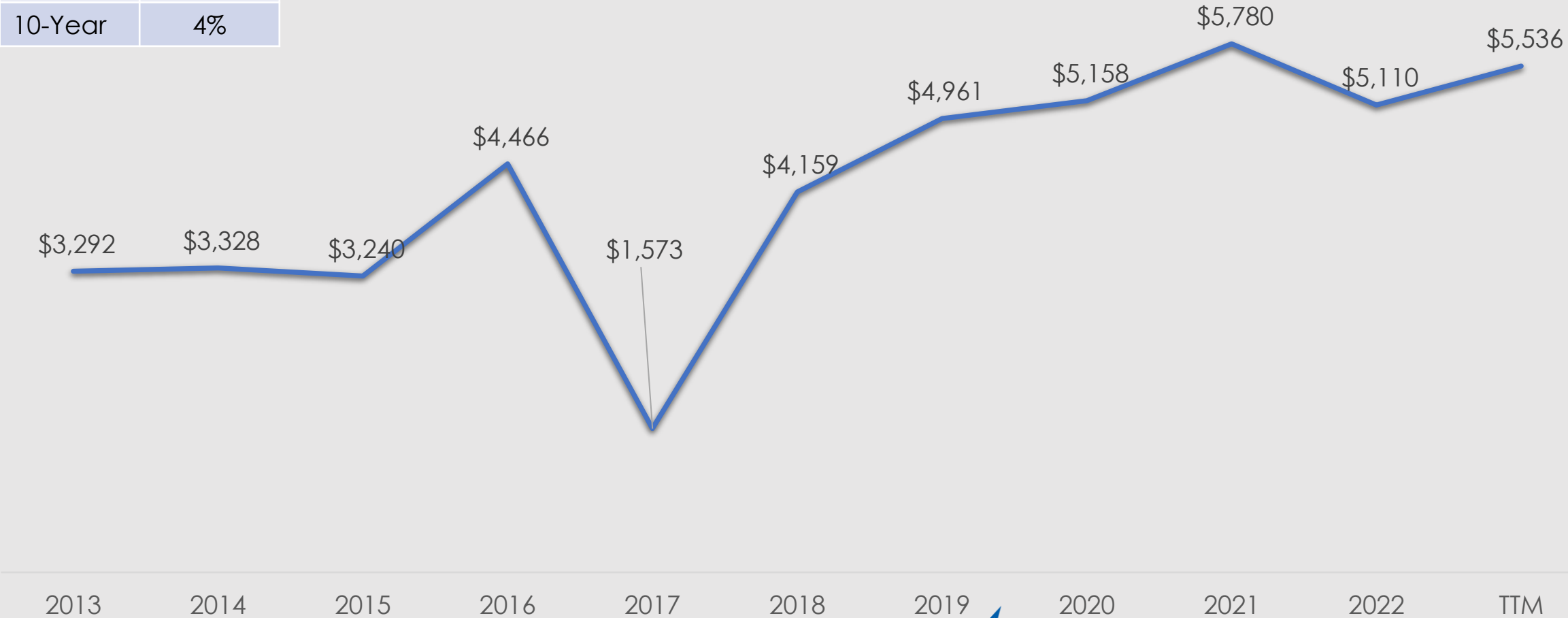
>10% Threshold



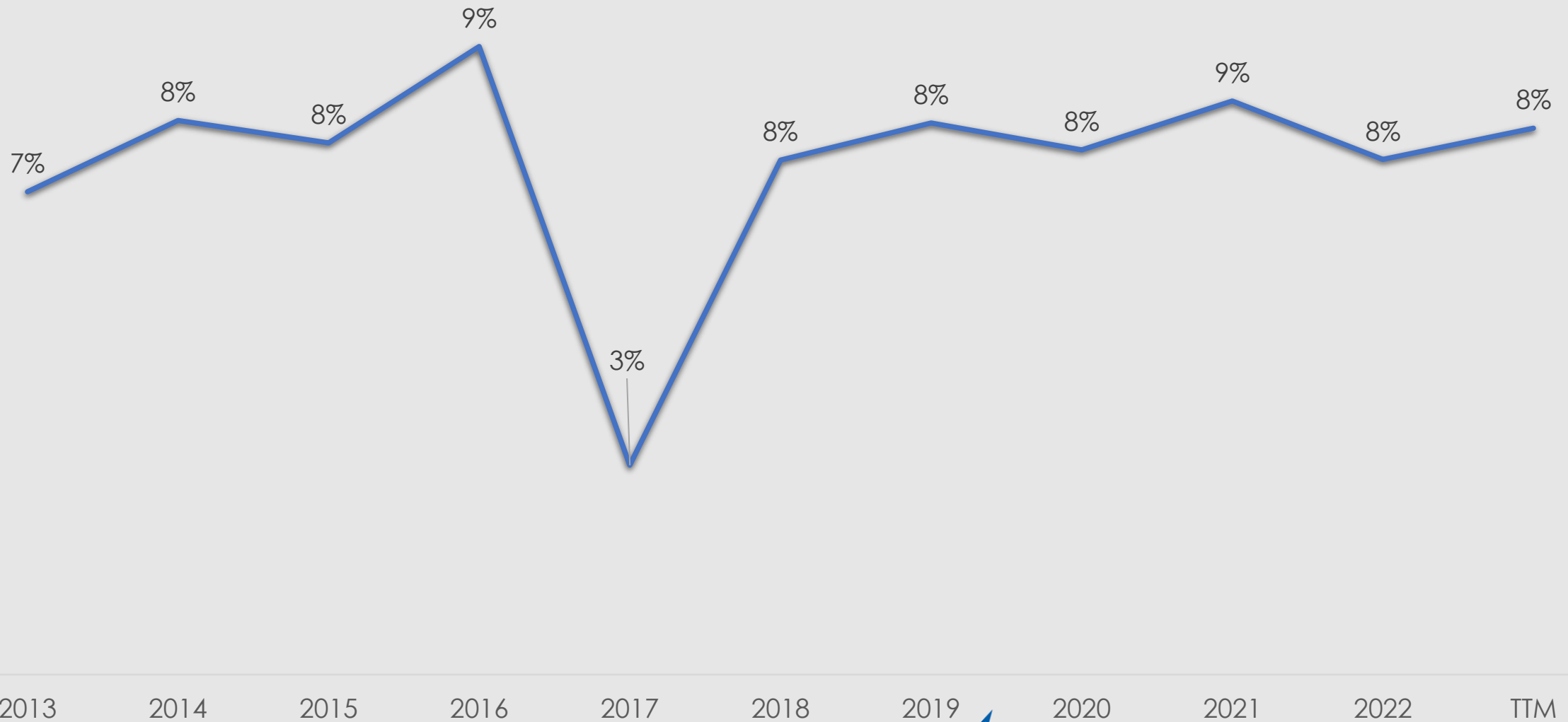
Pension Adjusted Net Income In Millions of U.S Dollars

(Pre-Tax Income – Pension Adjustment) * (Tax Rate – 1)

CAGR	
3-Year	1%
5-Year	NMF
10-Year	4%

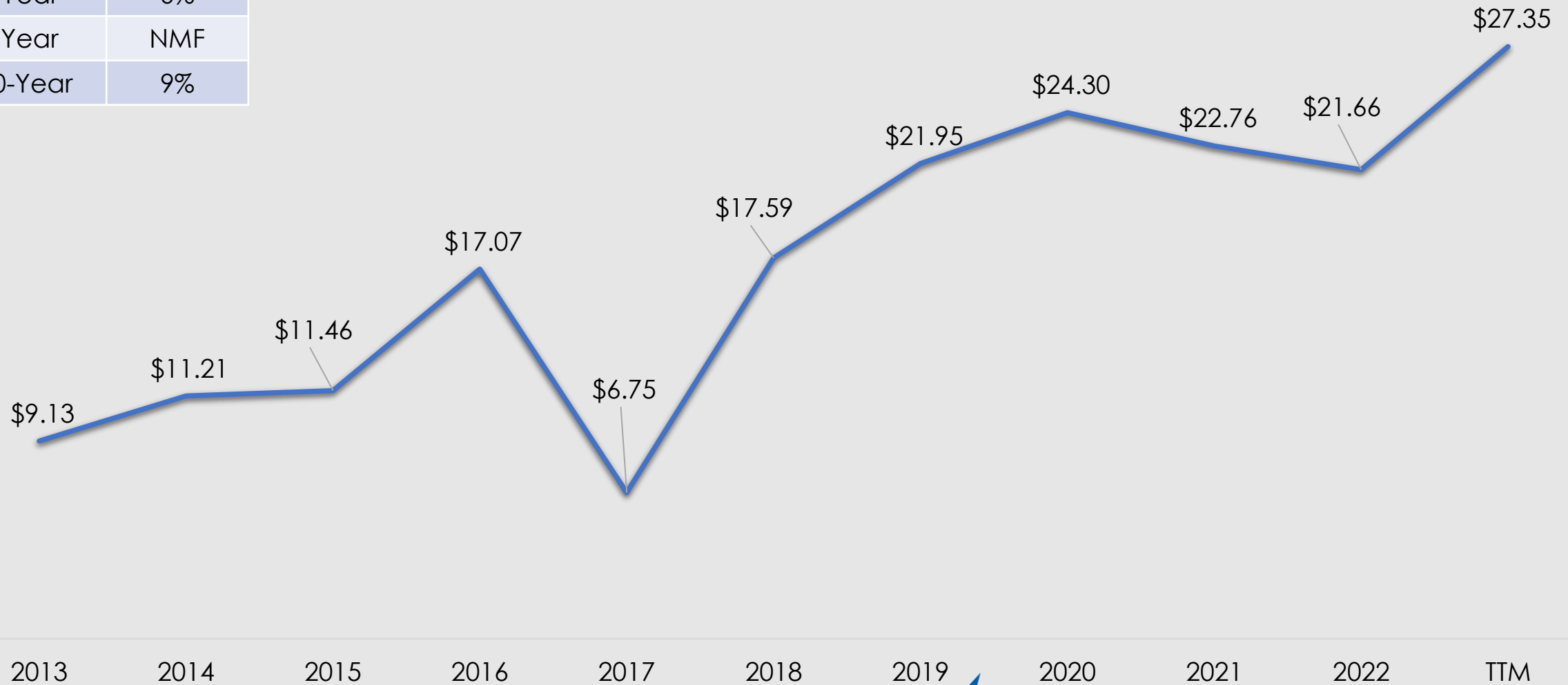


Pension Adjusted Net Margin



Earnings Per Share

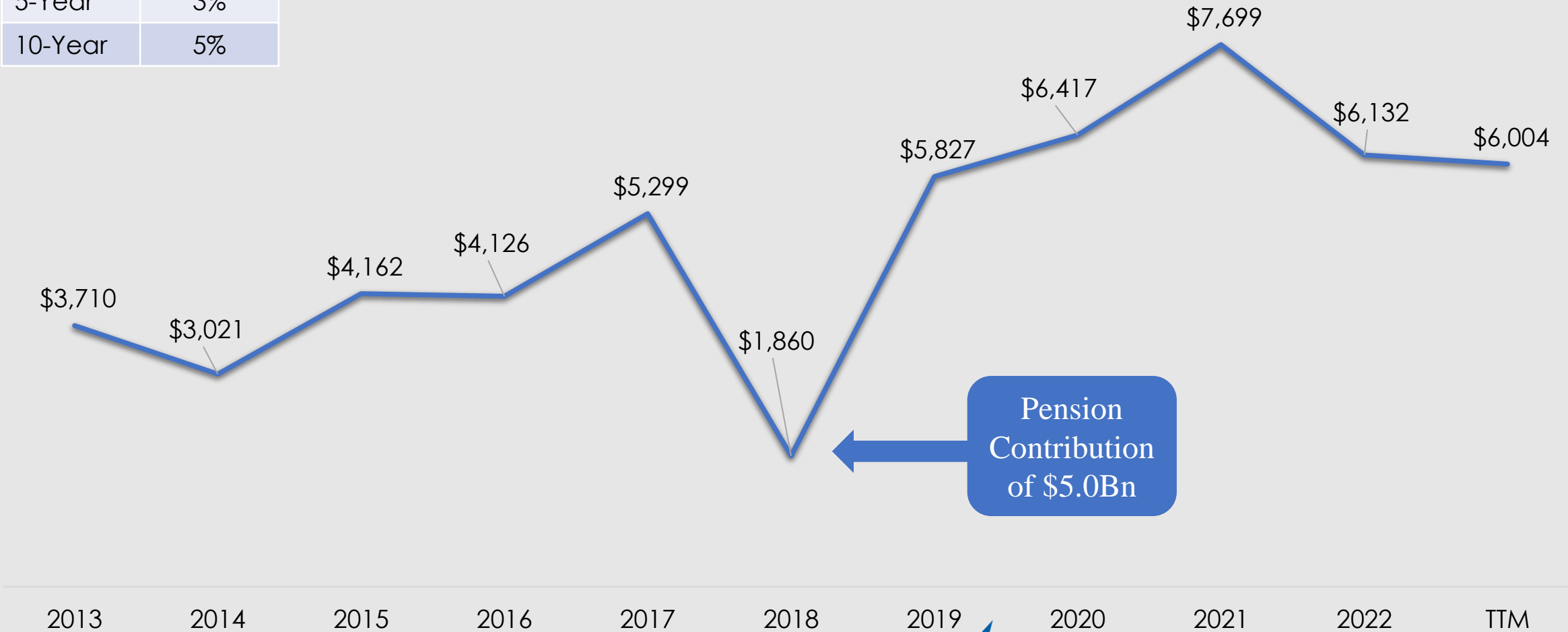
CAGR	
3-Year	0%
5-Year	NMF
10-Year	9%



Free Cash Flow

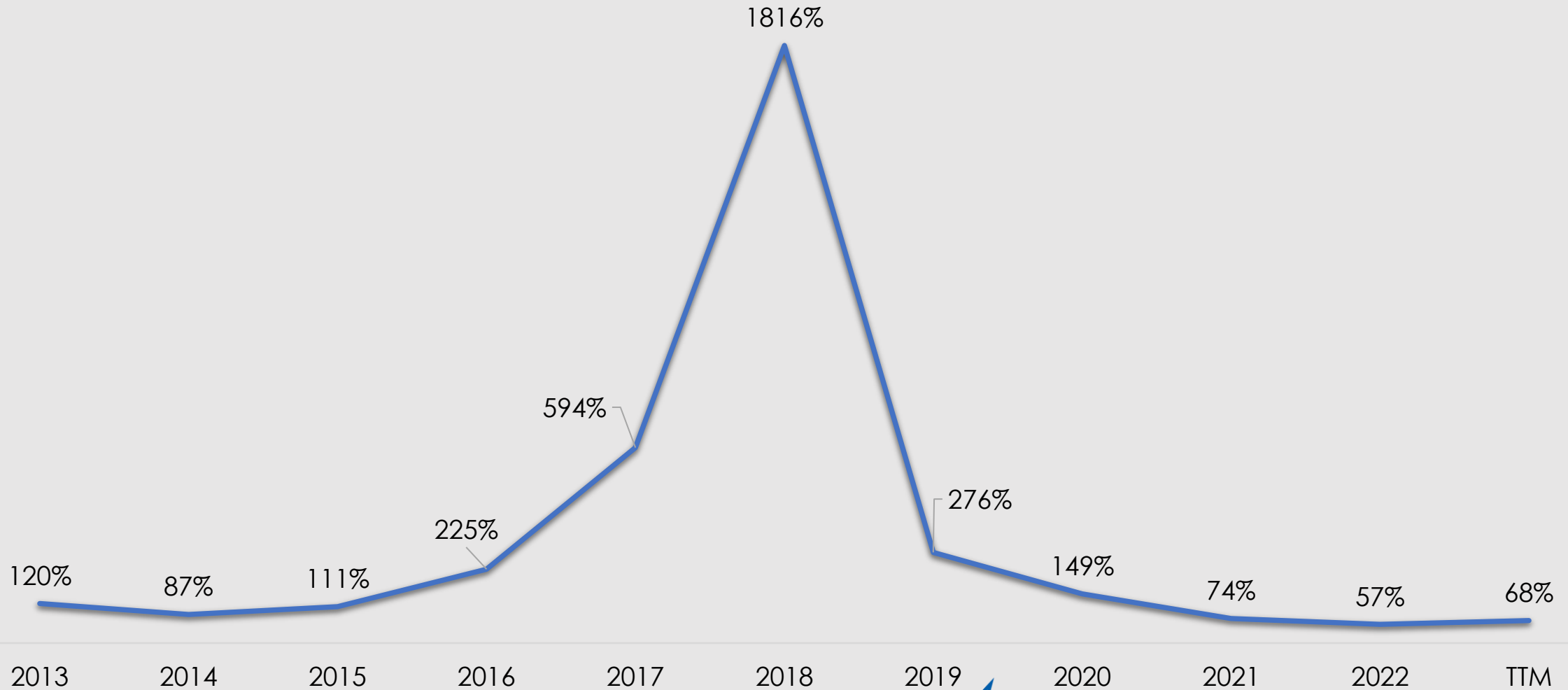
In Millions of U.S Dollars

CAGR	
3-Year	2%
5-Year	3%
10-Year	5%



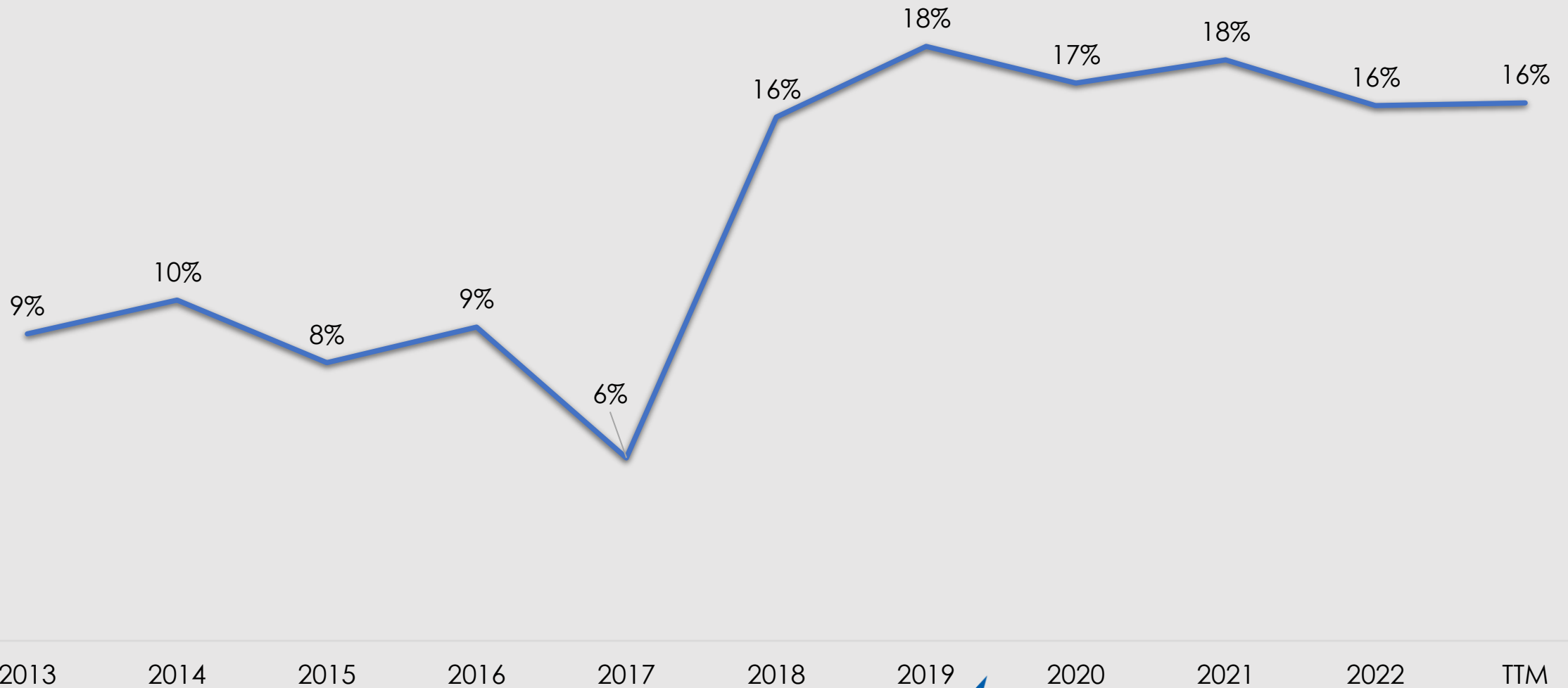
Return on Equity (ROE)

>15% Threshold



Return on Capital (ROC)

>15% Threshold



Obligation Ratio

In Millions of U.S Dollars

Debt	17,545
(+) Leases * 7	1,342
(+) Preferred Stock	0
(+) Pension Shortfall	5,373
(-) Cash	3,673
(÷) Net Income	7,060

2.9x Obligation Ratio < 5.0x

PASSES

Debt Maturity Schedule

In Millions of U.S Dollars

Year	Amount
2023	\$118
2024	\$0
2025	\$500
2026	\$1,000
2027	\$750
Beyond	\$13,179

Interest rates ranging
from 1.85% to 5.90%

Largest Due in 1 year is
\$1,598

Value Bands & Intraportfolio Analysis

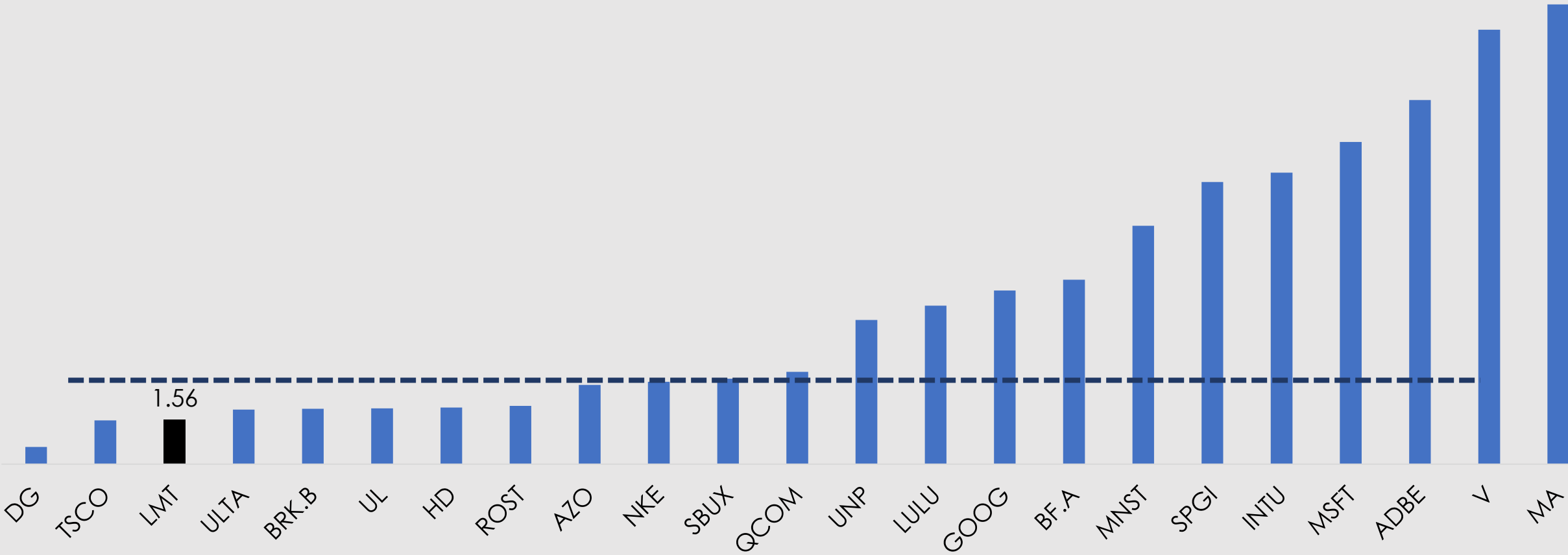
Hayden Martin



Price to Sales

3.23x Median

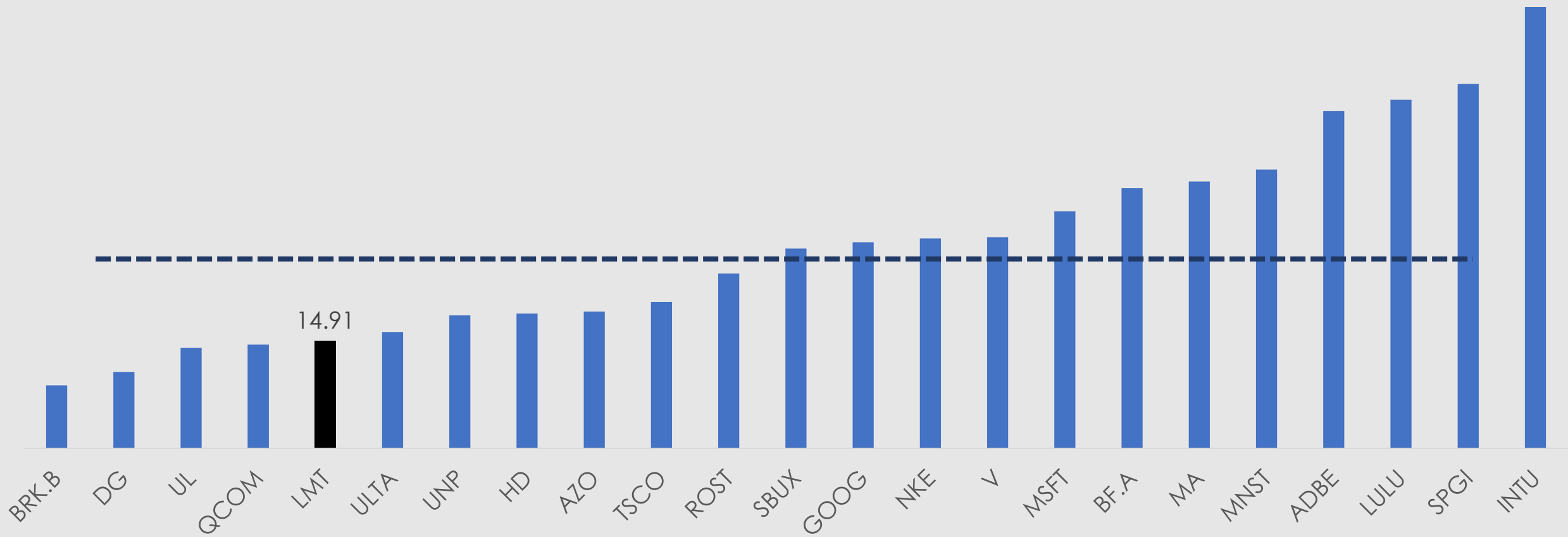
1.56



Price to Earnings

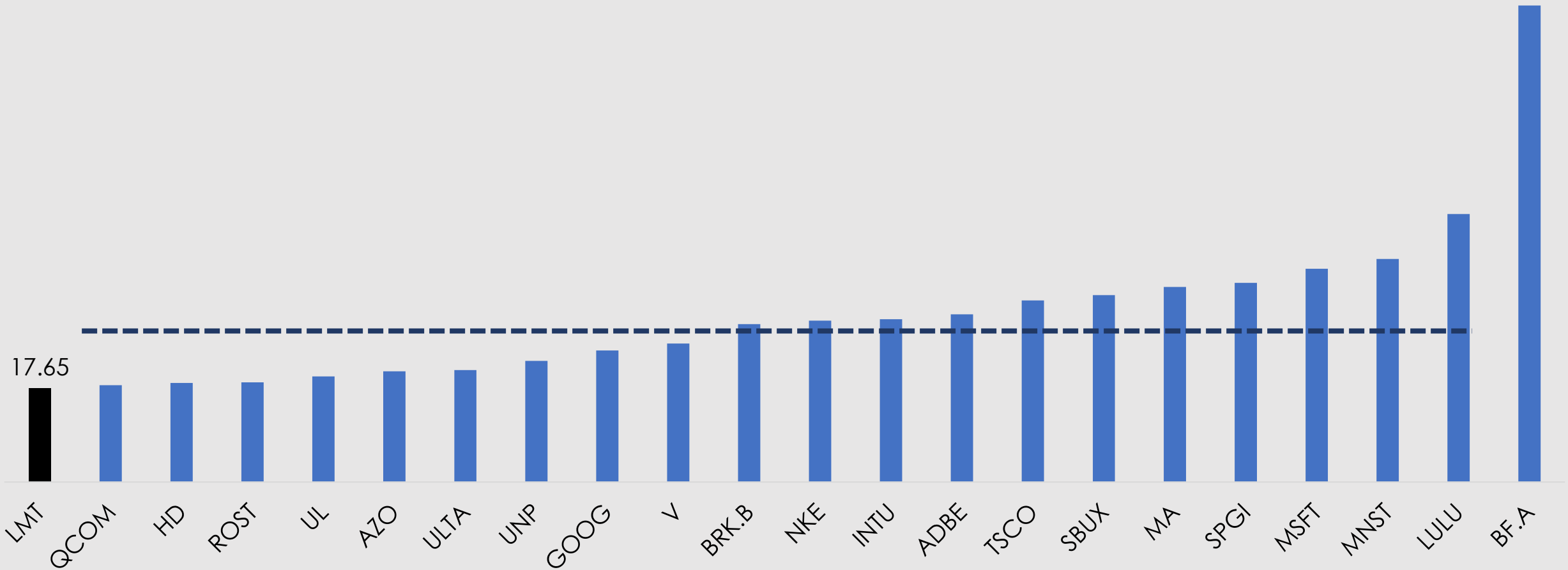
27.78x Median

14.91



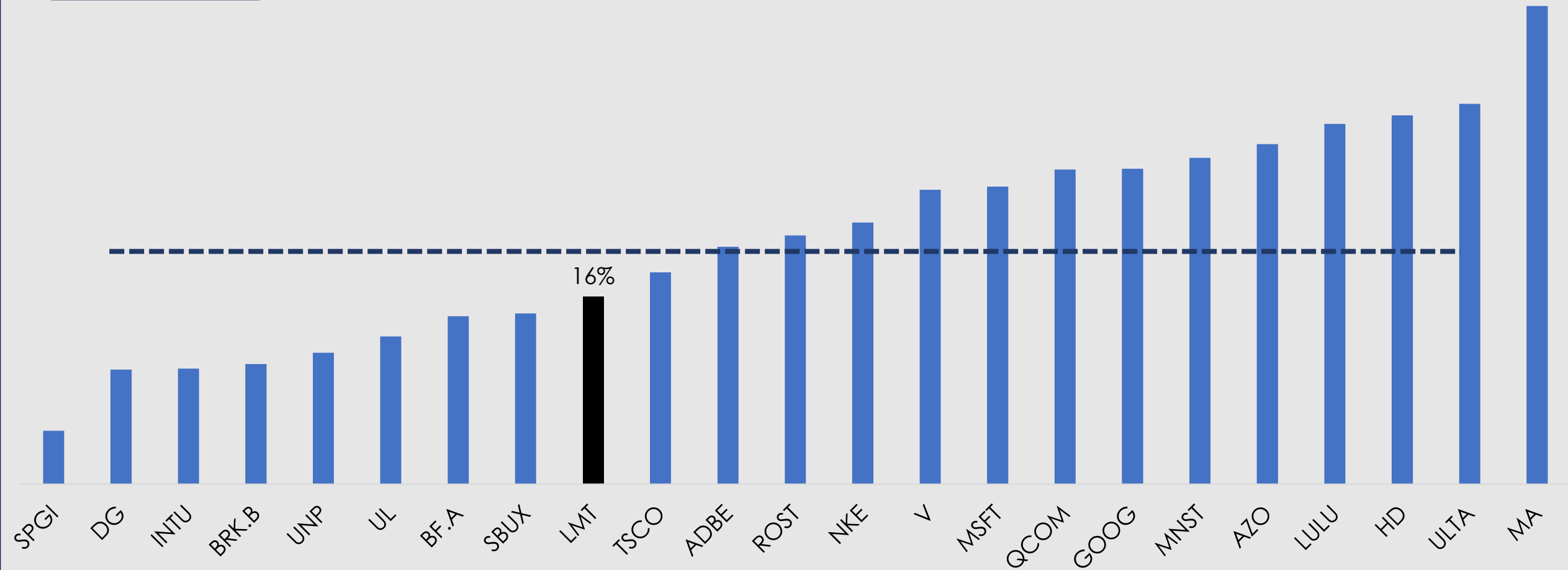
Price to Free Cash Flow

30.34x Median

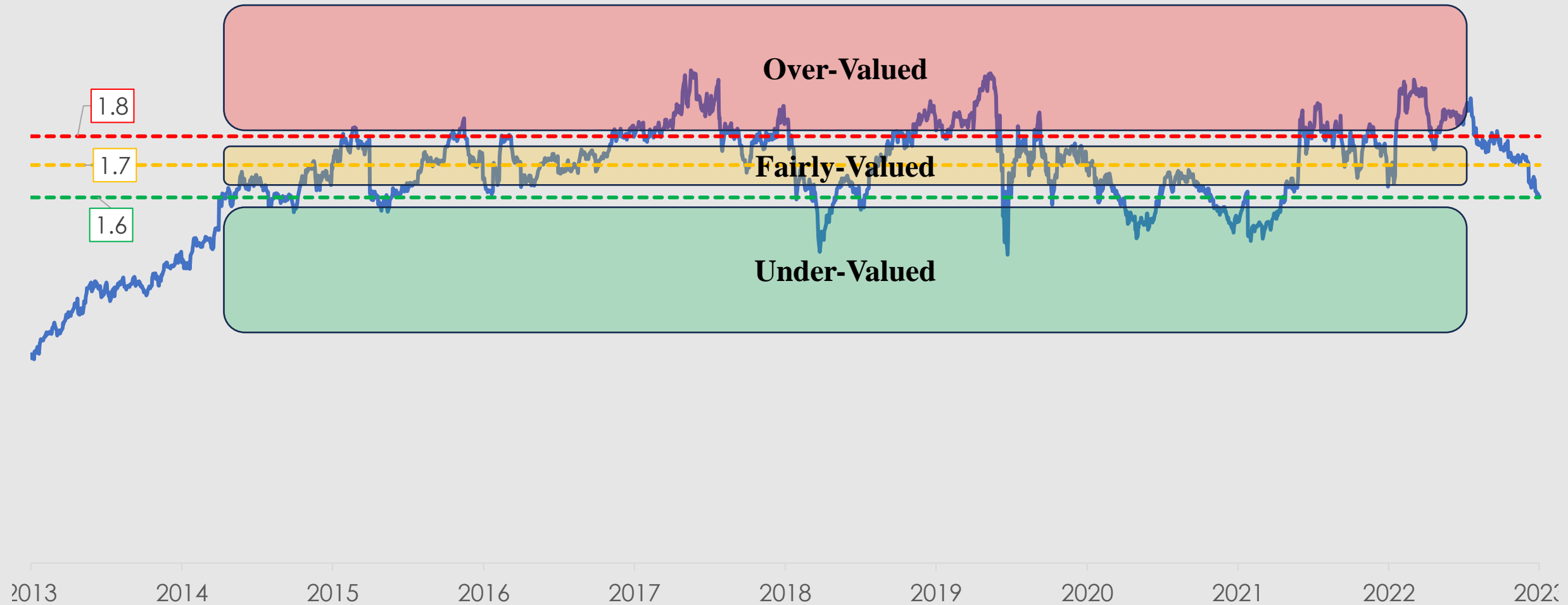


Return on Capital (ROC)

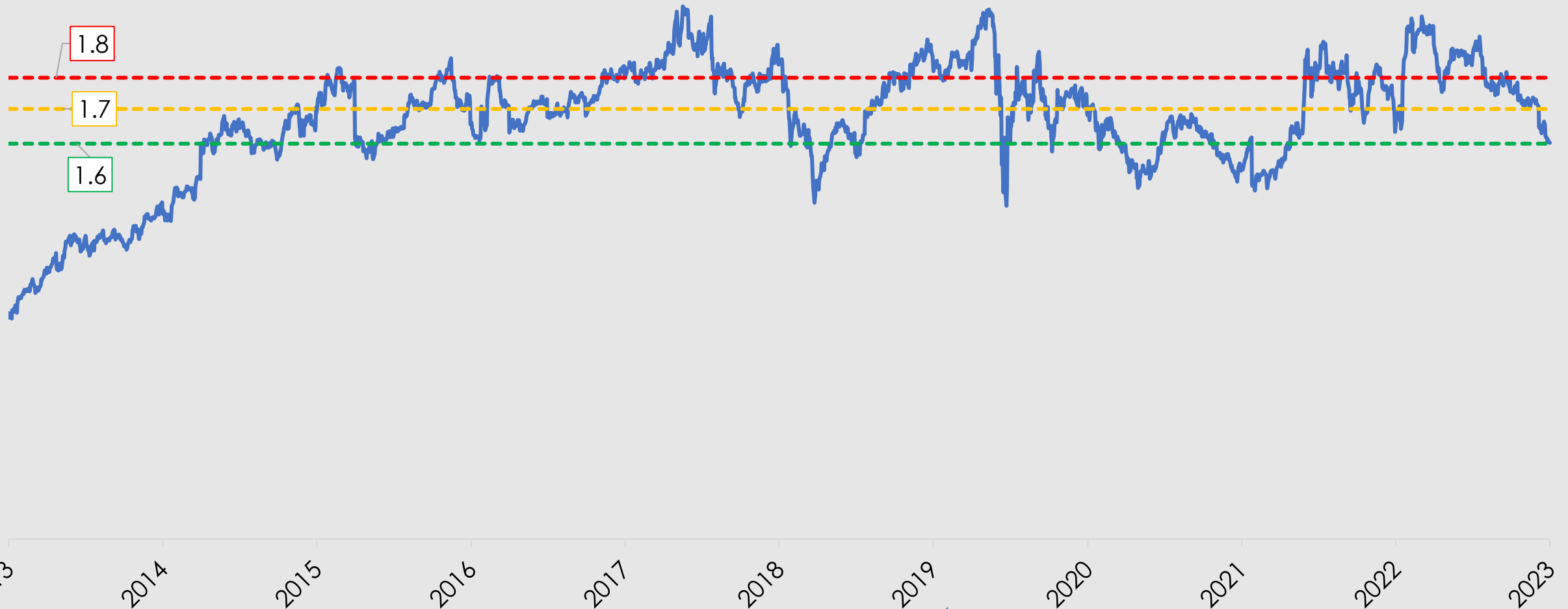
23% Median



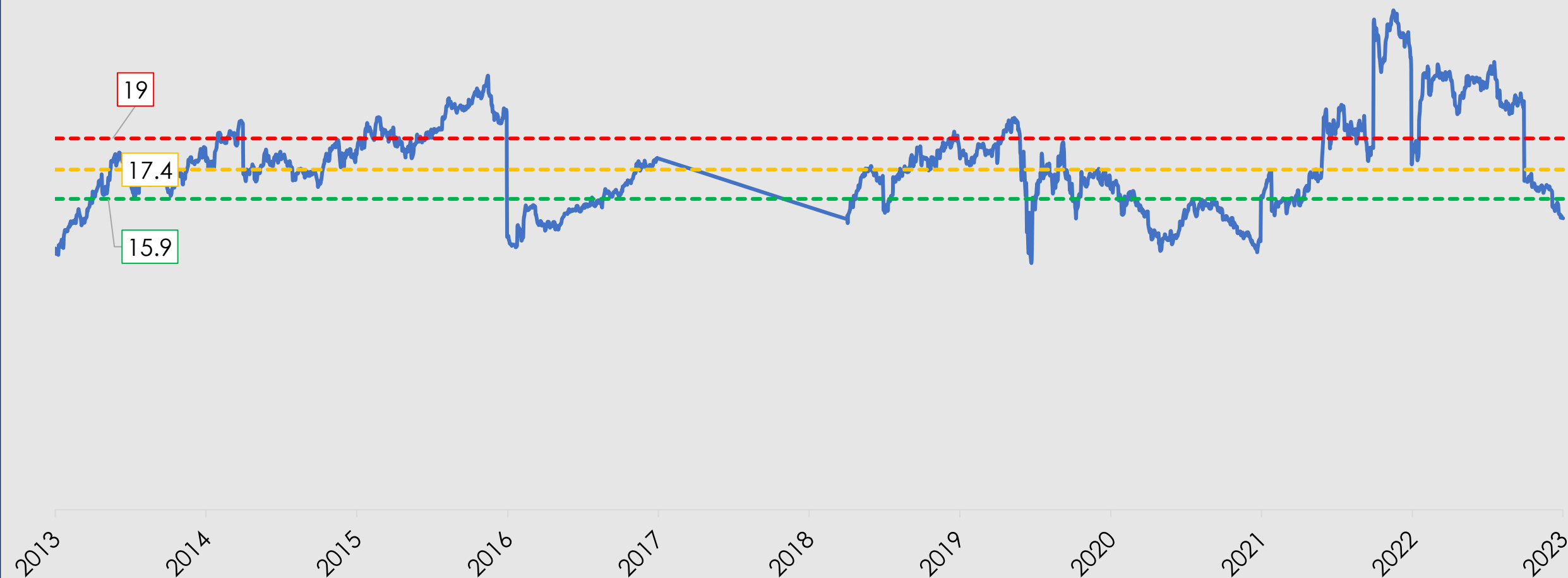
Value Bands



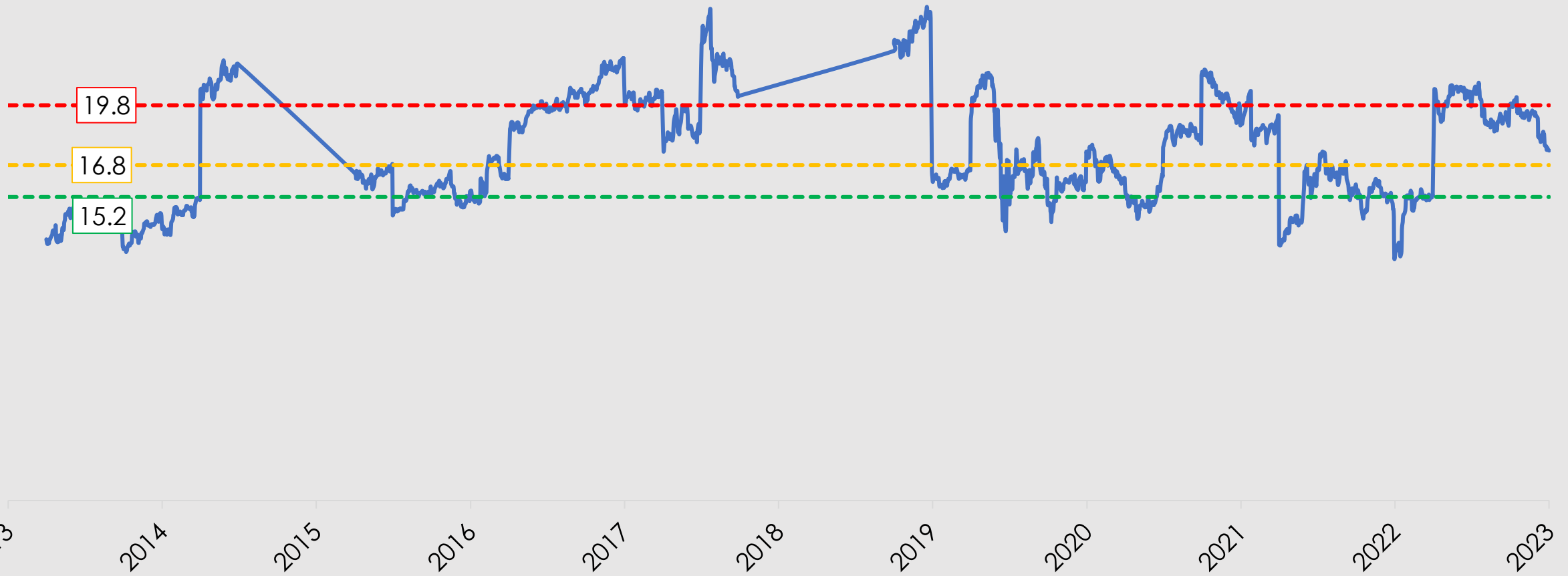
Price to Sales



Price to Earnings



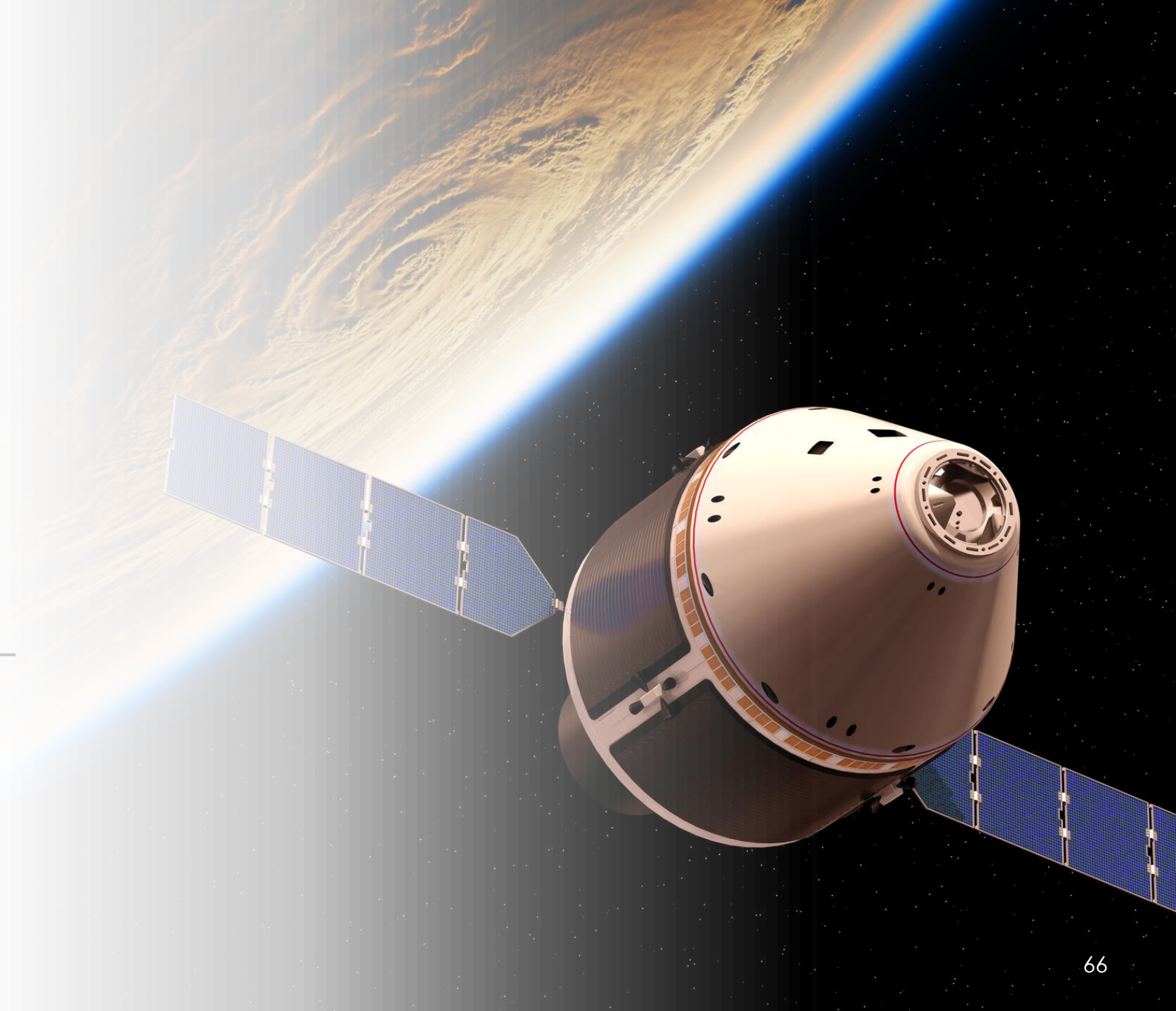
Price to Free Cash Flow





Bear Team

Negative



Competitor Analysis

Jake Gray



Competitors

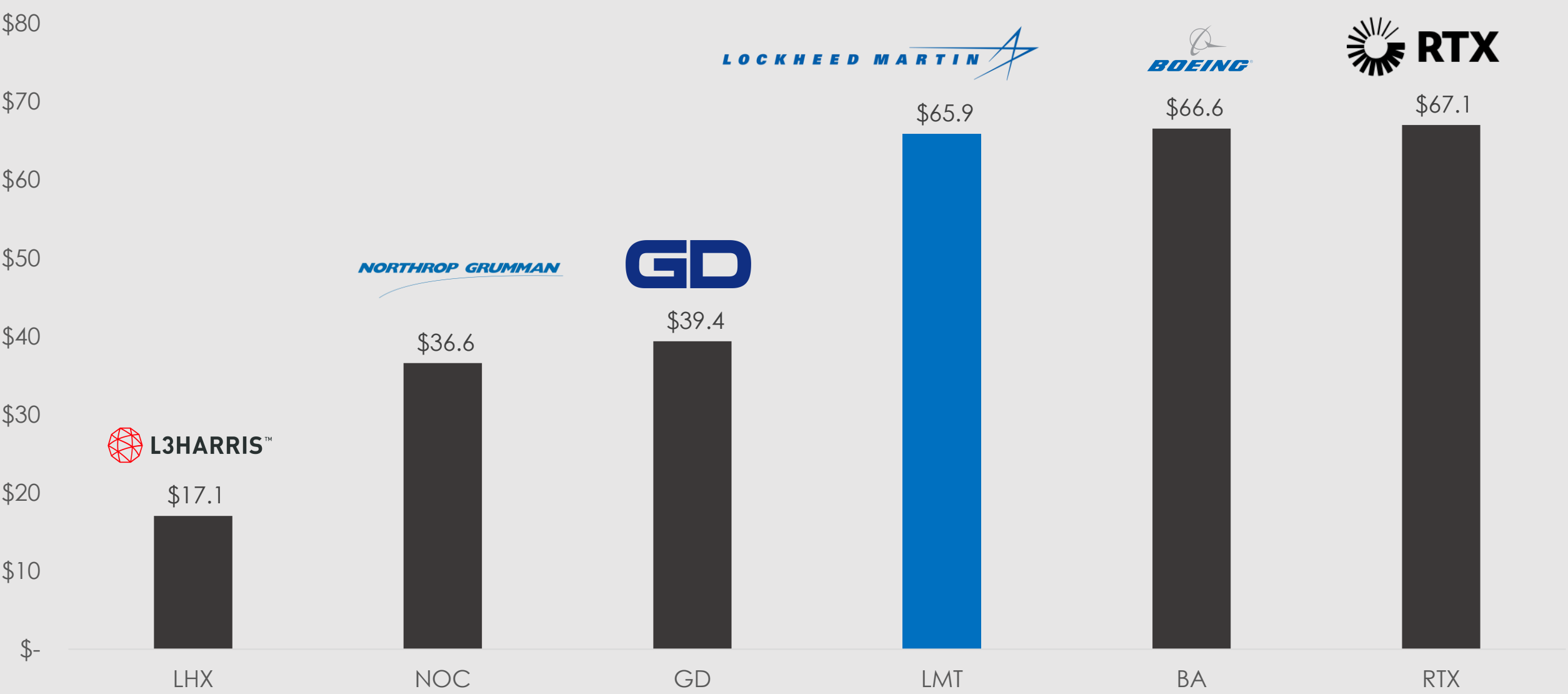


NORTHROP GRUMMAN



Revenue (2022)

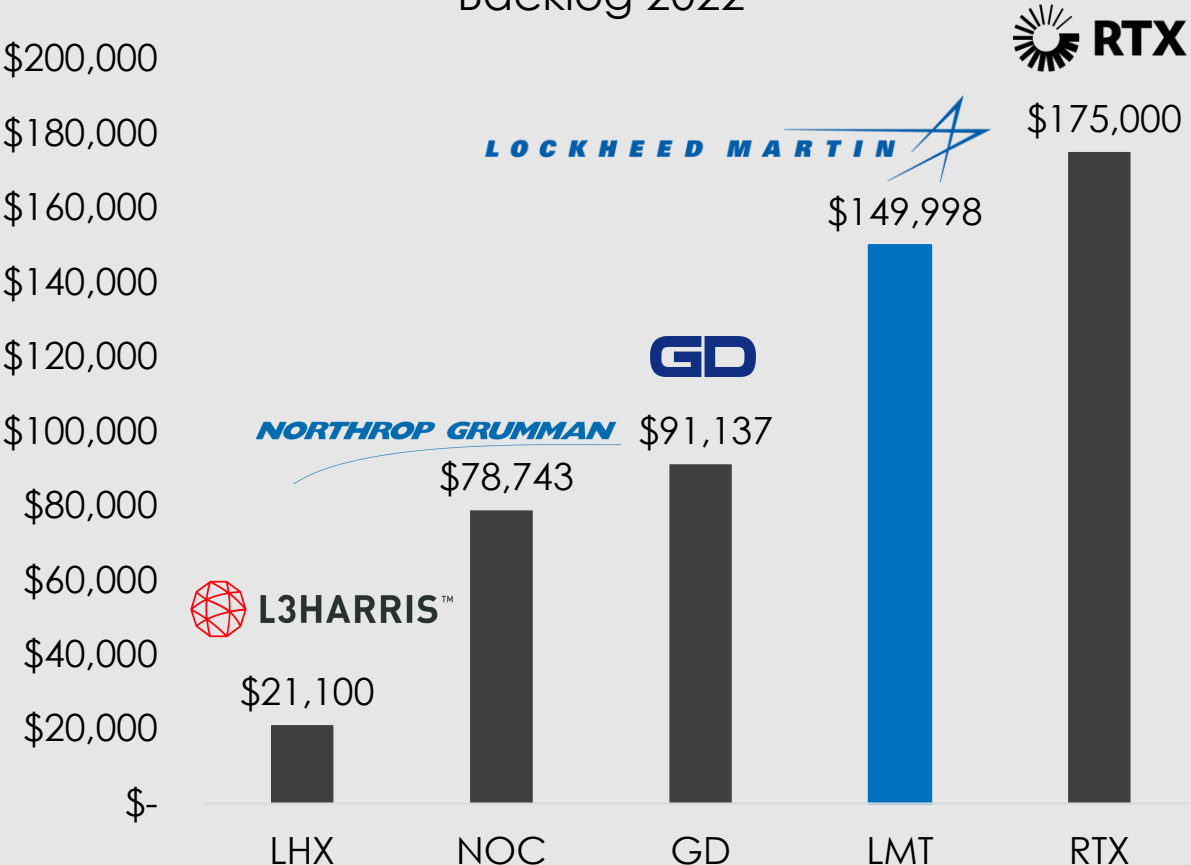
In Billions of U.S Dollars



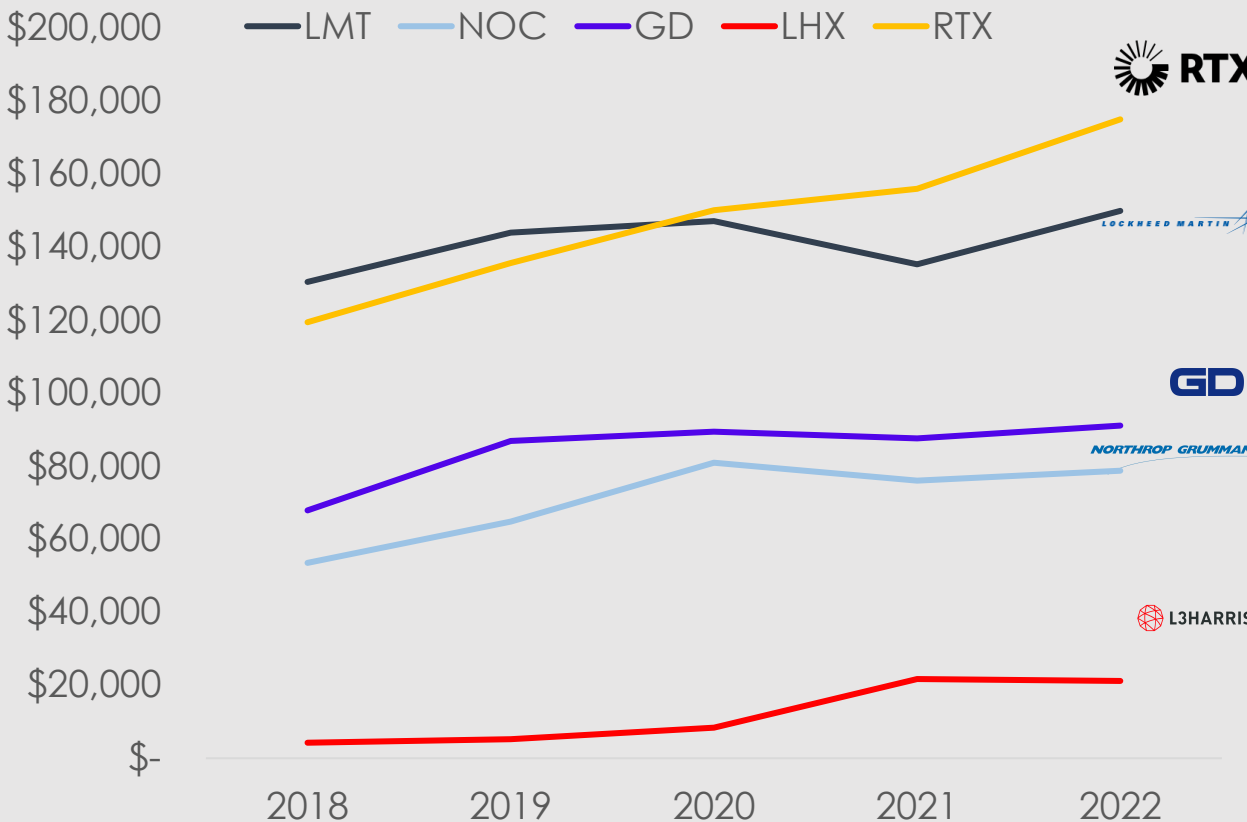
Backlog

In Millions of U.S Dollars

Backlog 2022

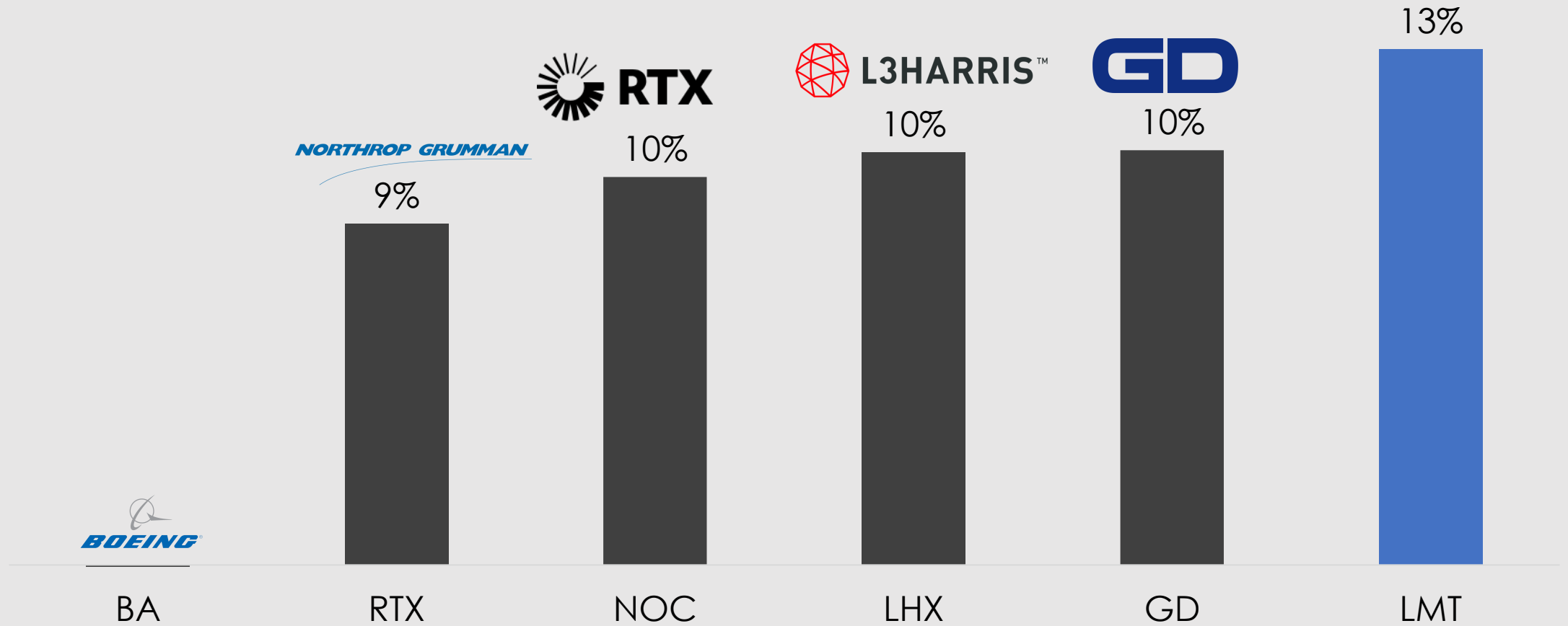


Backlog (5 Years)



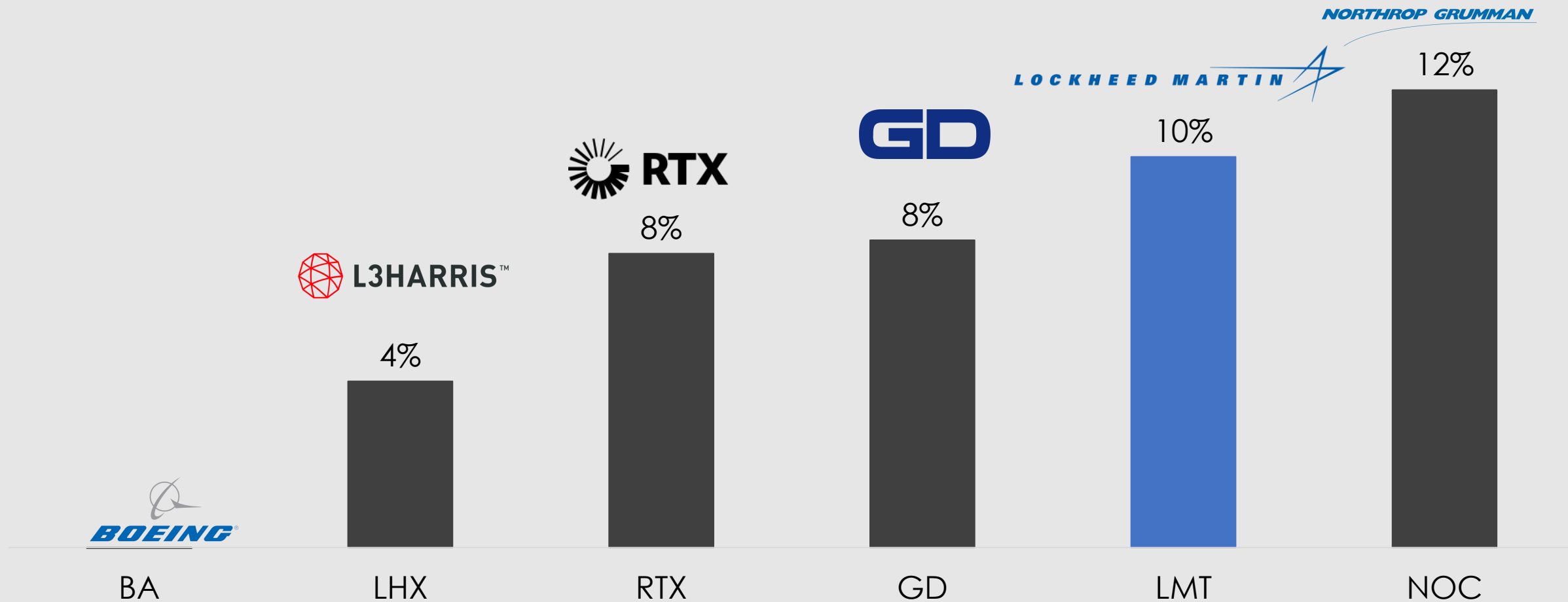
Operating Margin

LOCKHEED MARTIN 

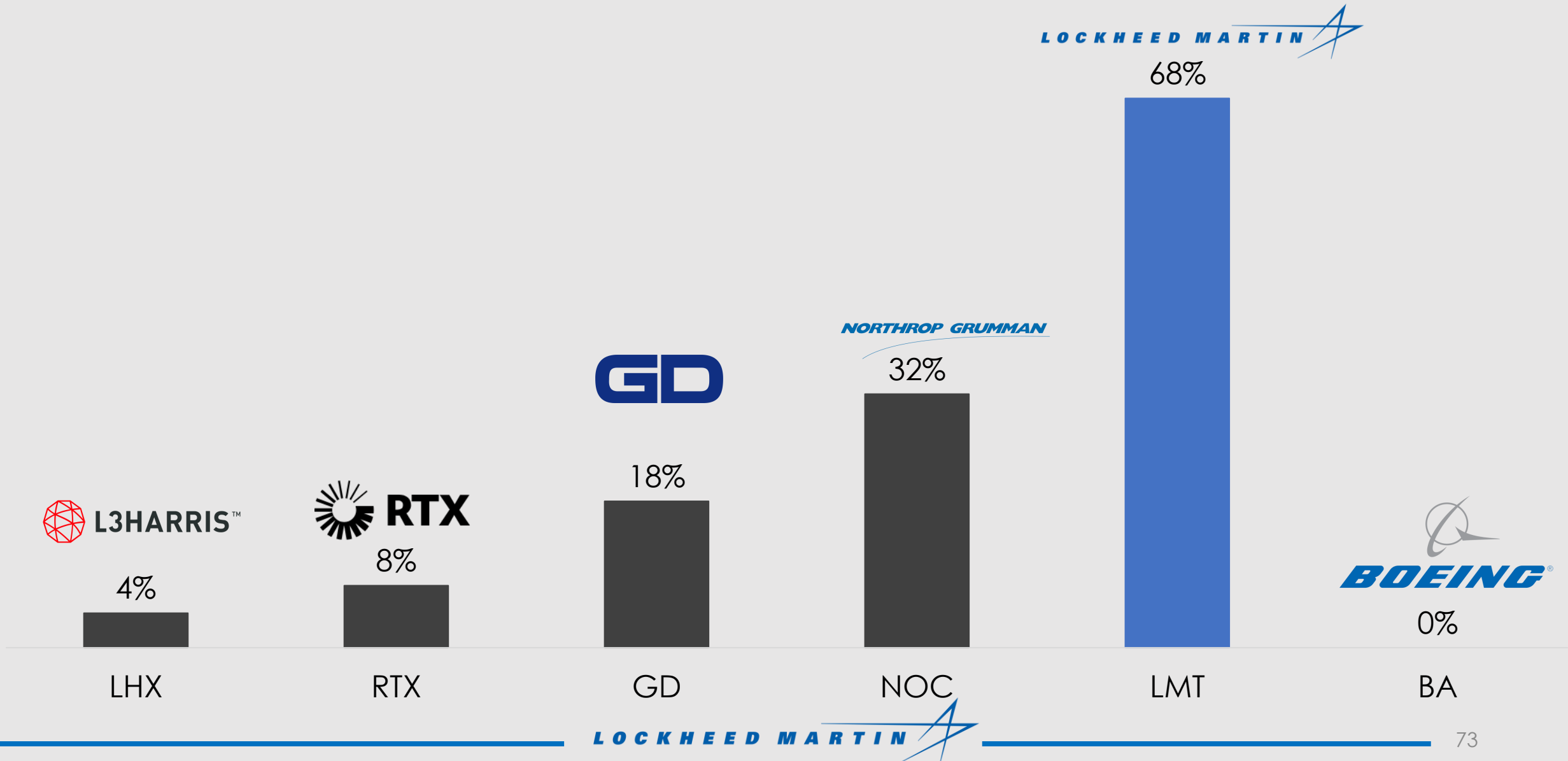


LOCKHEED MARTIN 

Net Margin

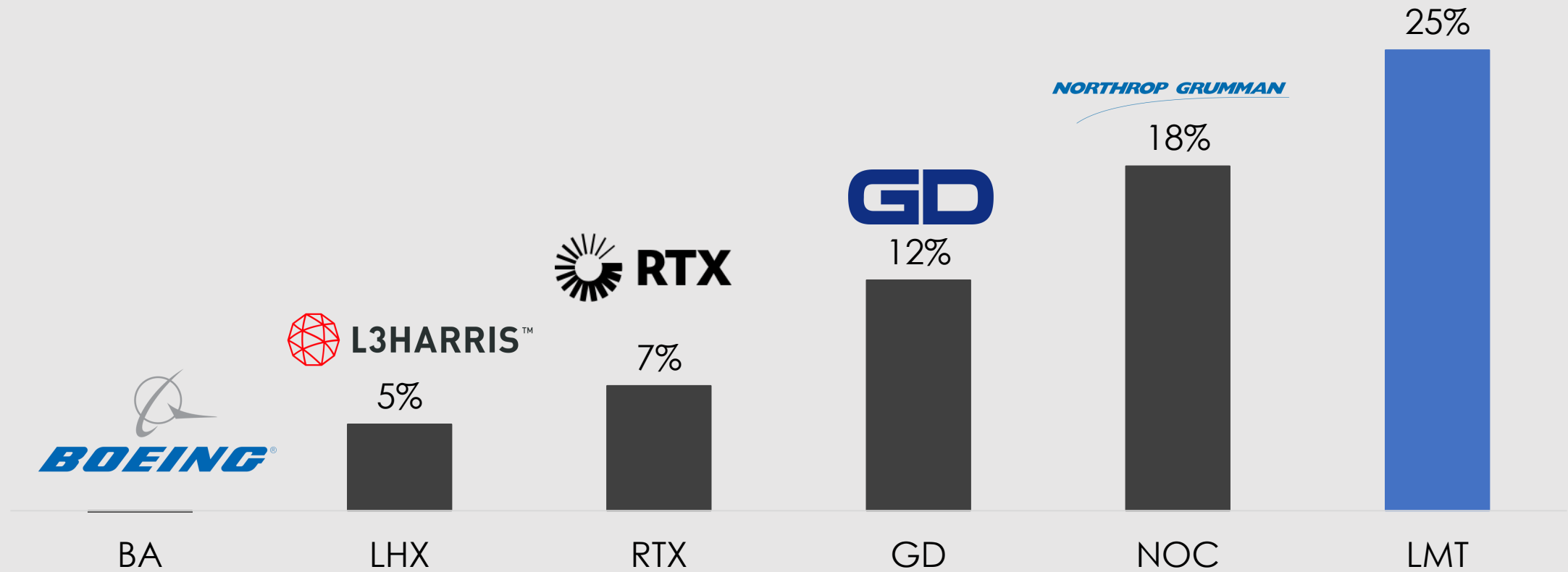


Return on Equity



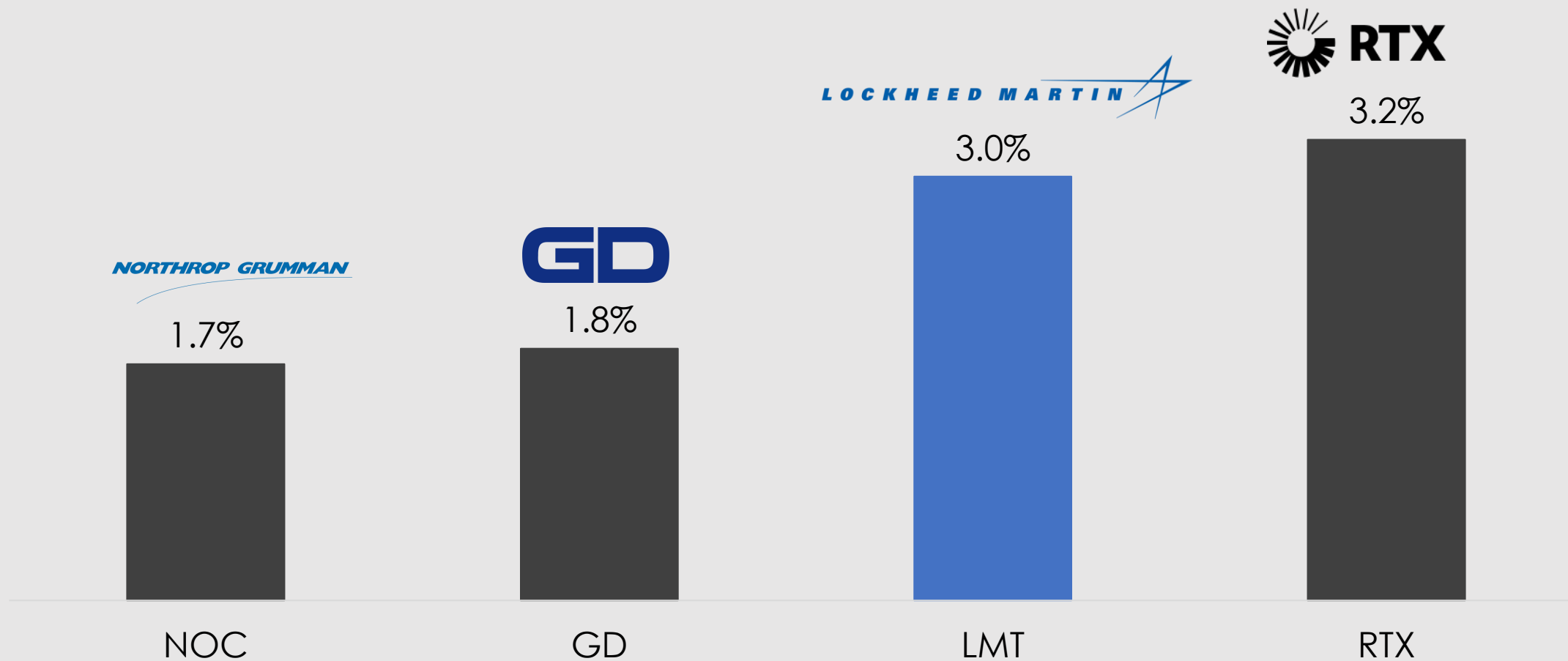
Return on Capital

LOCKHEED MARTIN 

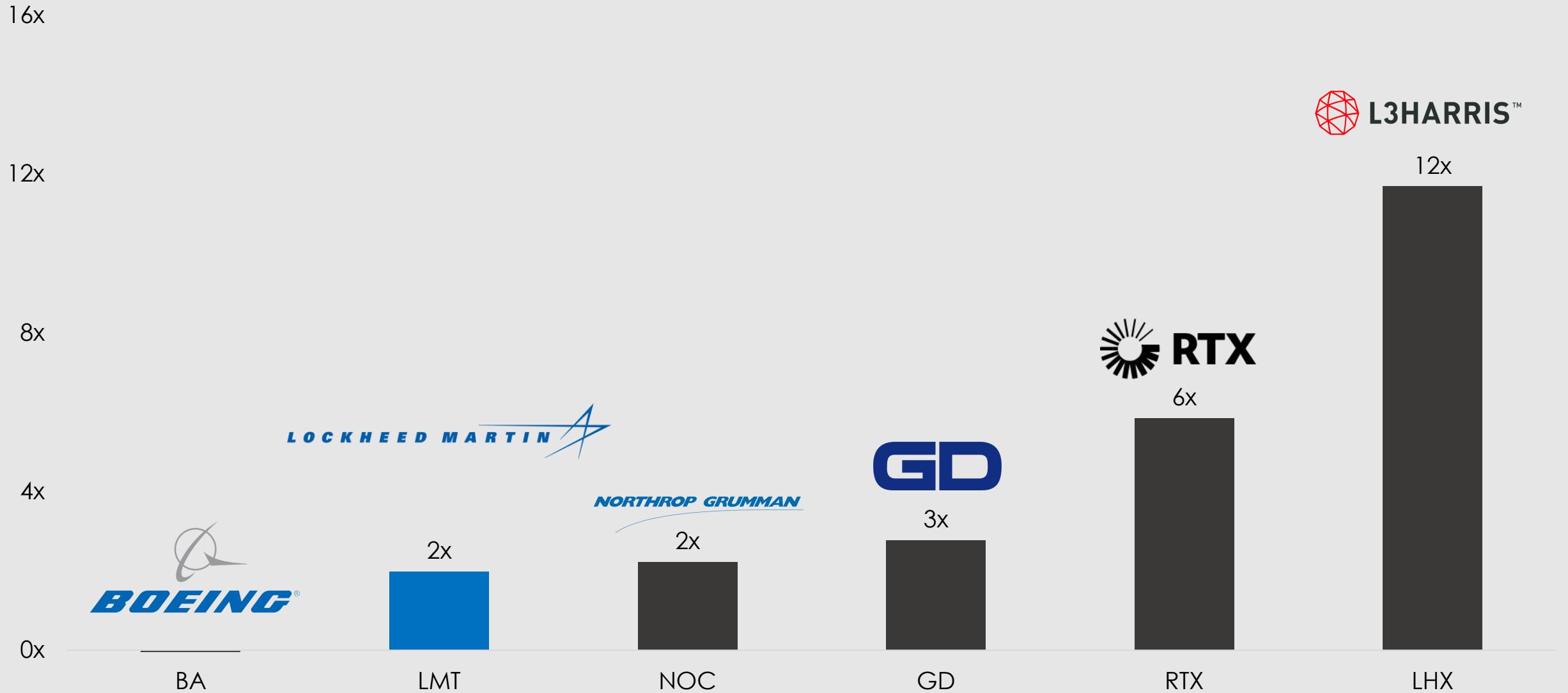


LOCKHEED MARTIN 

Dividend Yield%



Obligation Ratio



Risk Factors

Joaquin Rodriguez



TR-3: Tech Refresh 3

TR-3:

- Critical computer processing electronics upgrade

Upgrades:

- New sensor suites, more long-range precision weapons, improved electronic warfare features, more powerful data fusion, and increased cross-platform interoperability.



TR-3: Delay

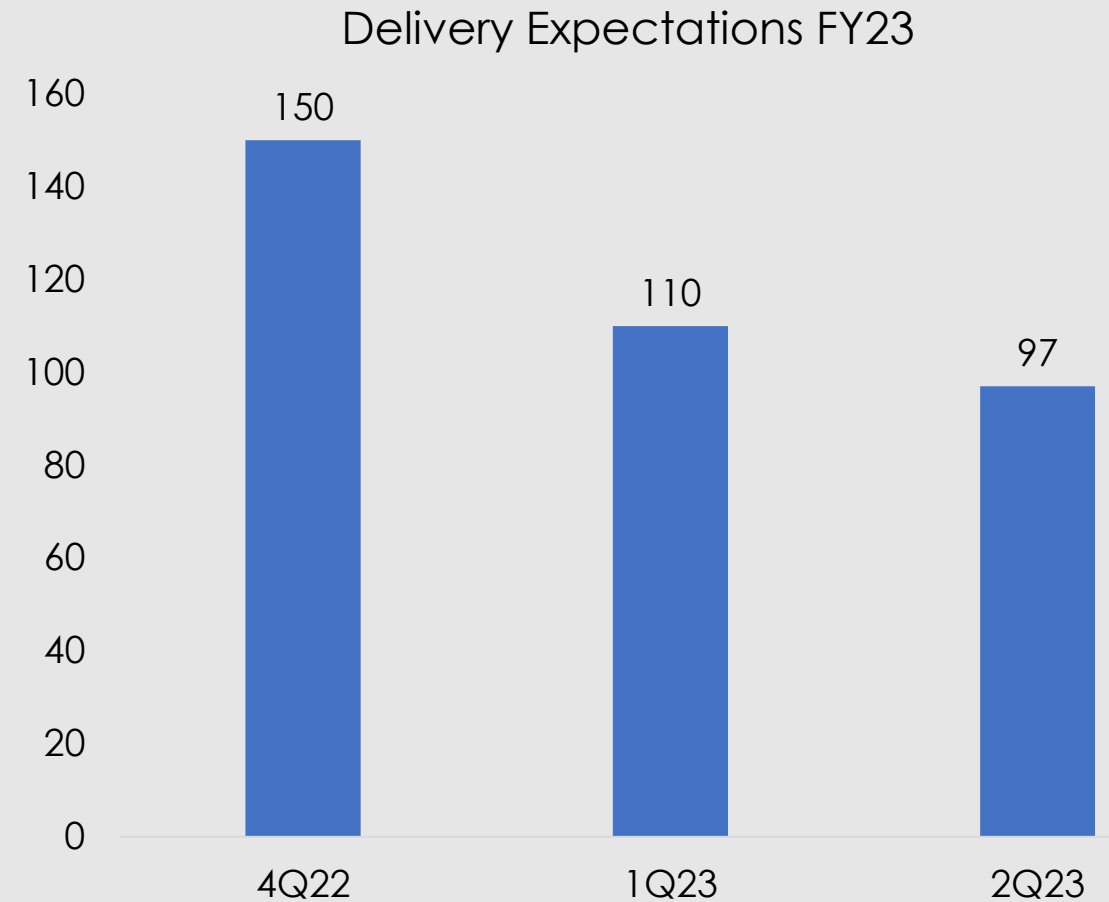
Reasons for Delay:

- Late hardware deliveries
- Subcomponents to that hardware were also late
- Compression of time for flight testing
- Government and industry wanted to try to keep the original schedule



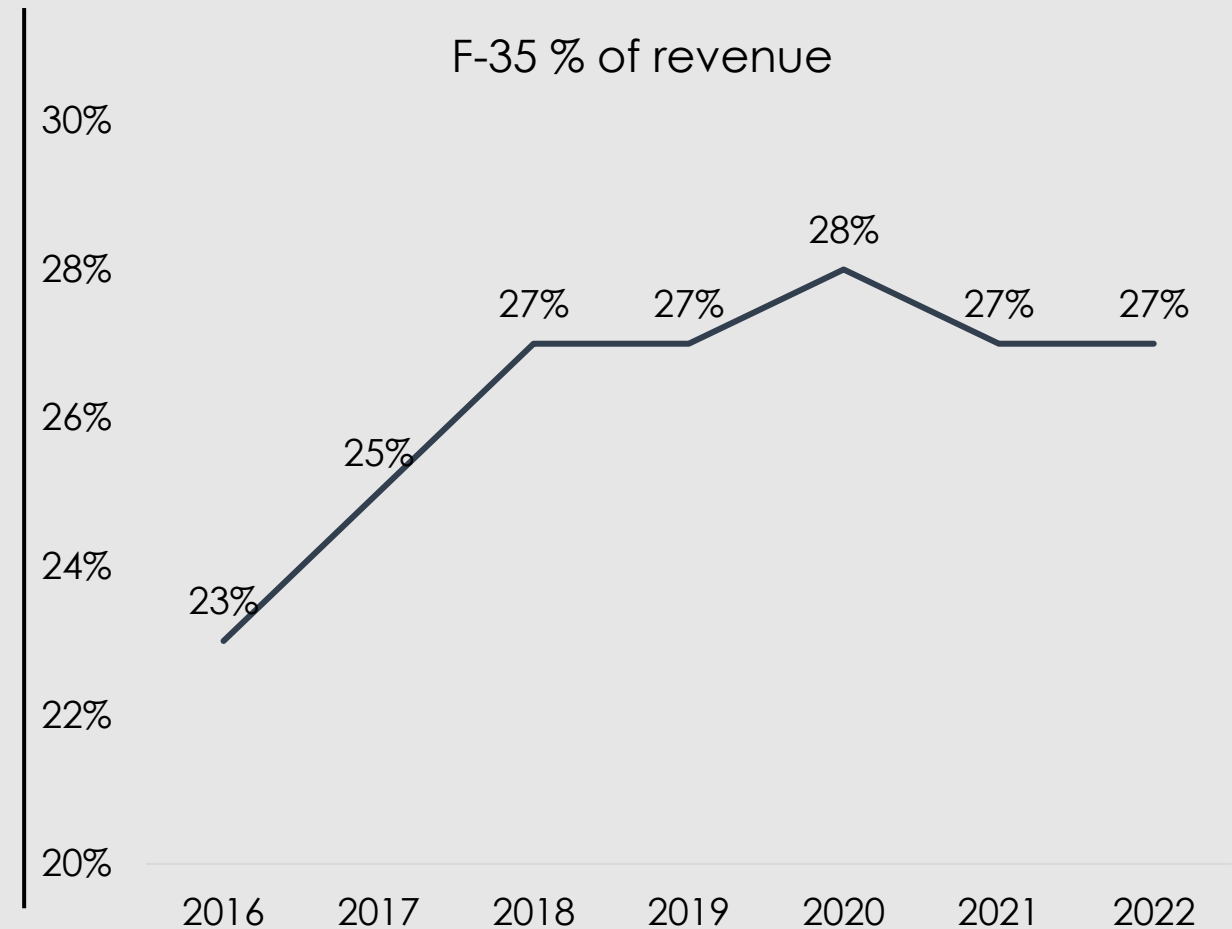
F-35 Delivery Delays

Management has consistently downgraded guidance for F-35 deliveries in the past 2 quarters.



F-35 Dependency

- Increasing % of sales
- Concentration Risk
- Program delays can impact percentage of backlog recognized



Impact of Delivery Delays

- No impact to margins, impact of -1% of aeronautics revenue
- Impact on total revenue of -0.5%
- At 150 production capacity
- Percentage of Completion basis

FY23 Aeronautics Guidance

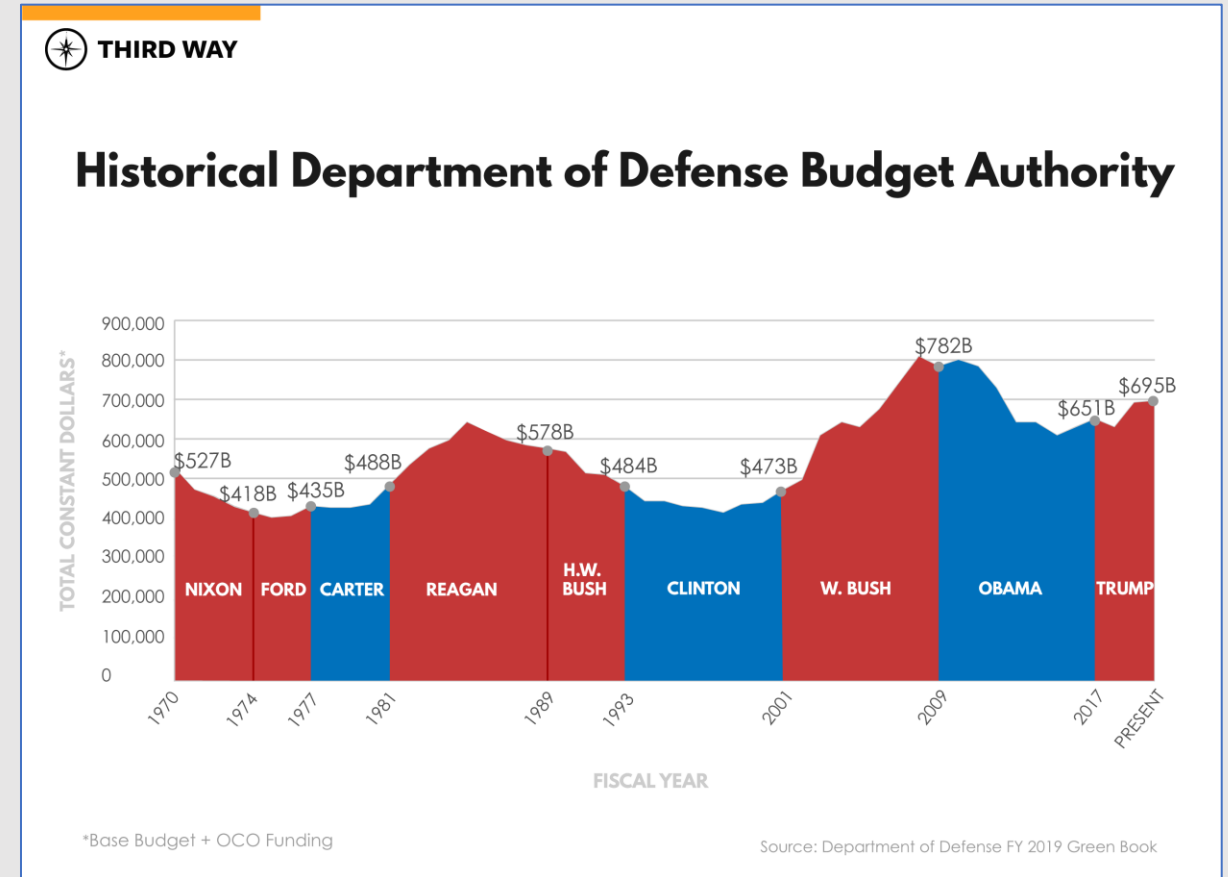
Revenue	Low	Mid	High
1Q23	\$26,800	\$26,900	\$27,000
2Q23	\$26,500	\$26,650	\$26,800

Profit	Low	Mid	High
1Q23	\$2,805	\$2,815	\$2,825
2Q23	\$2,775	\$2,790	\$2,805

Margin	Low	Mid	High
1Q23	10.4%	10.4%	10.4%
Current	10.4%	10.4%	10.4%

New Political Regime

- Upcoming 2024 Presidential Elections
- New presidents can impact the Department of Defense budget



Future Vertical Lift Initiative

- Bell Textron was recently awarded the contract for a component of the Future Vertical Lift Initiative (FLRAA)
- This program is to rebuild the entire U.S.A's rotary fleet
- Lockheed was the only other bidder
- Threat to Lockheed's rotary dominance



Valuation

Dylan Swanson

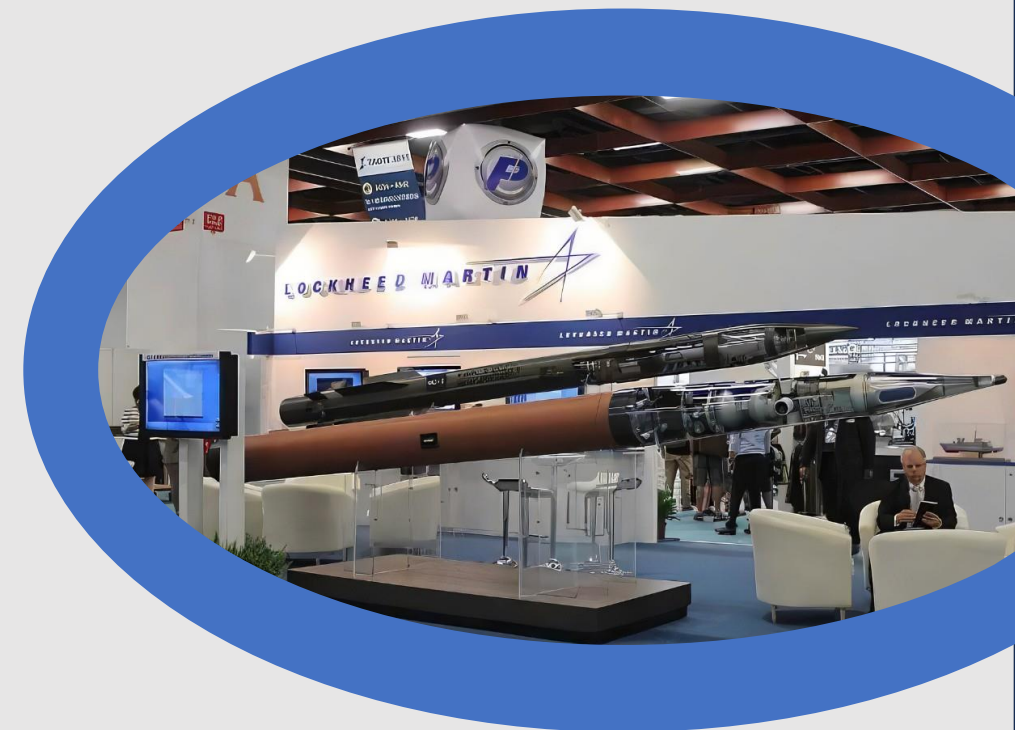


Valuation Methods

Multiples

2 Stage DCF

Earnings Growth



5-Year EPS Model

Ticker: LMT

Price: \$397.35

Discount rate:

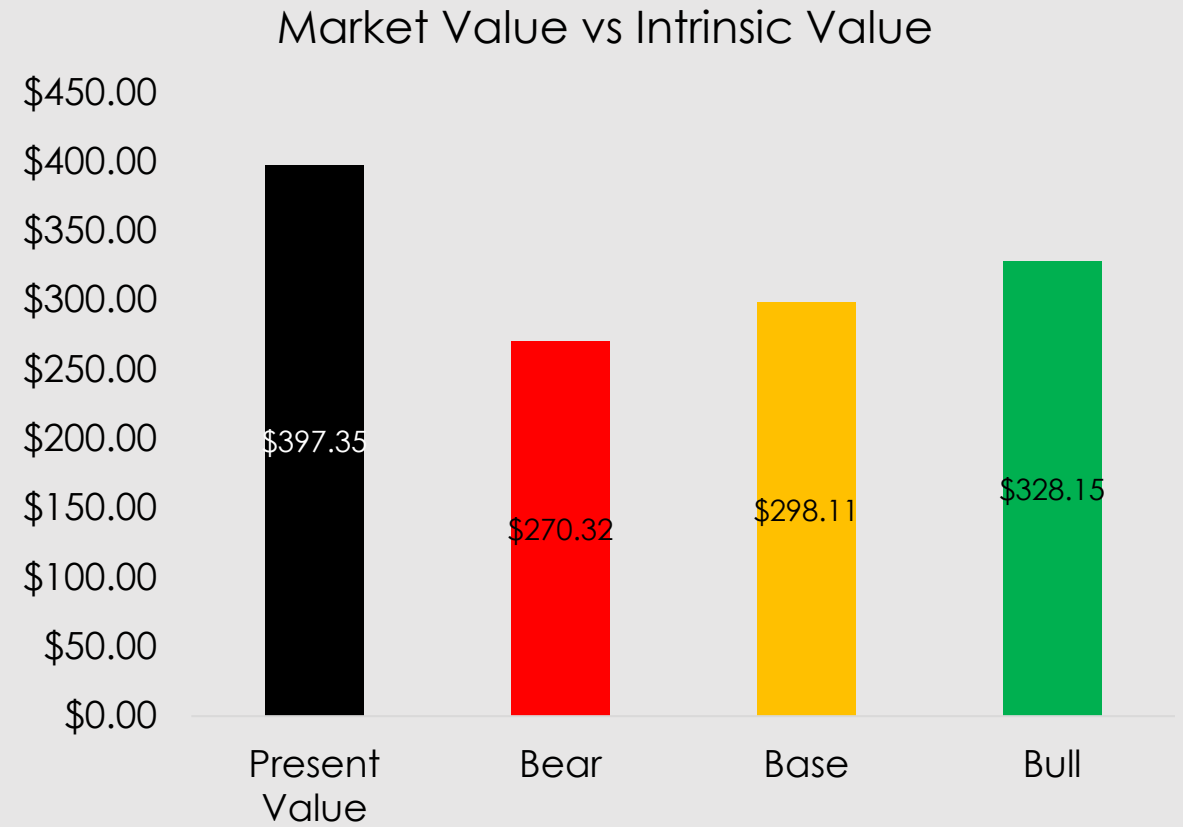
10%

5 Year Discounted Cash Flow

Ticker:		LMT										
Price:		\$397.35										
5 Year Discounted Cash Flow												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	12.0x	\$348.28	\$216.25	(12.4)%	(2.6)%
		\$27.36	\$26.81	\$27.35	\$27.90	\$28.45	\$29.02	15.0x	\$435.35	\$270.32	9.6%	1.8%
			-2%	2%	2%	2%	2%	18.0x	\$522.41	\$324.38	31.5%	5.6%
Base	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	12.0x	\$384.09	\$238.49	(3.3)%	(0.7)%
		\$27.36	\$27.36	\$28.45	\$29.59	\$30.78	\$32.01	15.0x	\$480.11	\$298.11	20.8%	3.9%
			0%	4%	4%	4%	4%	18.0x	\$576.13	\$357.73	45.0%	7.7%
Bull	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	12.0x	\$422.79	\$262.52	6.4%	1.2%
		\$27.36	\$27.91	\$29.58	\$31.36	\$33.24	\$35.23	15.0x	\$528.48	\$328.15	33.0%	5.9%
			2%	6%	6%	6%	6%	18.0x	\$634.18	\$393.78	59.6%	9.8%

Results

Total RoR Sensitivity				
P / E	Est. EPS growth rate			
		1%	3%	5%
	12.0x	(2.6)%	(0.7)%	1.2%
	15.0x	1.8%	3.9%	5.9%
	18.0x	5.6%	7.7%	9.8%



GuruFocus DCF

Growth Stage Rate	4.0%
Terminal Stage Rate	4.0%
Discount Rate	10.0%

-20% Margin of Safety



Conclusion

- Negative Margin of Safety
- Very Wide Moat
- Risk are not strong enough to consider selling
- True Compounder

HOLD



Bull Team

Positive



Economic Moat

Pablo Samanez



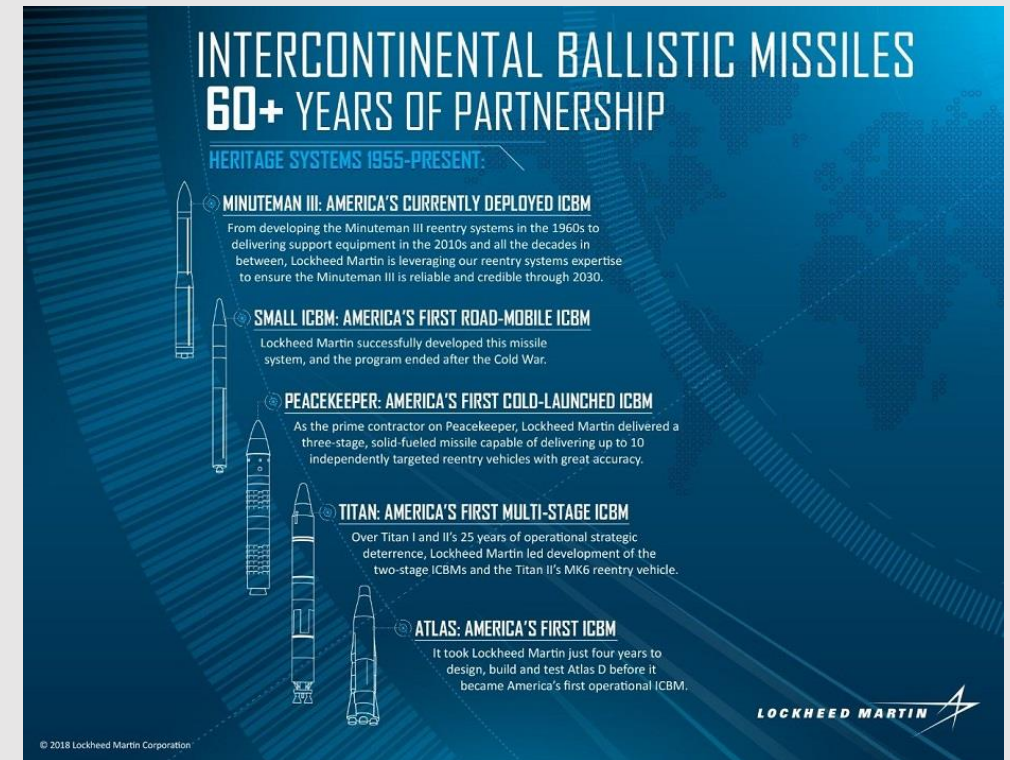
Intangible Assets

Intellectual Property:

- Patents domestically and internationally – 6,841 active globally
- Trade secrets guaranteed by the government
- Copyrights - Specialized Software
- Classified projects – can't disclose to competitor

Unique Economics:

- Sticky Customers – The U.S Government loves weapons
- Barriers to Entry – This is a highly regulated industry



Intangible Assets

Product Complexity

- Extremely sophisticated products
- Products require mass amounts of R&D
- Ability to take on sunk cost

Contract Structure

- Long procurement cycle = long term contract
- High visibility into future revenues



Switching Costs

Mission Critical:

- It takes time to learn new equipment & systems
- Product failure can cost not only money and time, but lives
- It is difficult to switch cyber-security systems



Cost Advantages

Economies of Scale:

- Spread high fixed costs over a wide base of products
- Able to spend massive amounts on Research & Development and still have low unit costs

The Evolution Of The F-35's Unit Cost

Estimated unit cost of the F-35A by low rate initial production contract (in million U.S. dollars)*



* LRIP-1 to 9 excludes the costs of the engine.



Sources: Lockheed Martin, Jane's 360, Aviation Week, FlightGlobal, Military.com

Forbes statista

Growth Opportunities

Pablo Samanez



Growth Opportunities Covered

Aeronautics

Rotary & Mission Systems

Space

Classified Programs

Defense Spending

Missiles & Fire Control

F-35 Lightning Fighter Jet

New Awards:

- Romania plans to buy 32 F-35s for \$6.5 Bn
- Not to be delivered until 2030
- Israel plans to buy 25 F-35s for \$3bn

Expected Long-Term U.S. F-35 Installed Base



Classified Programs

In Millions of U.S Dollars

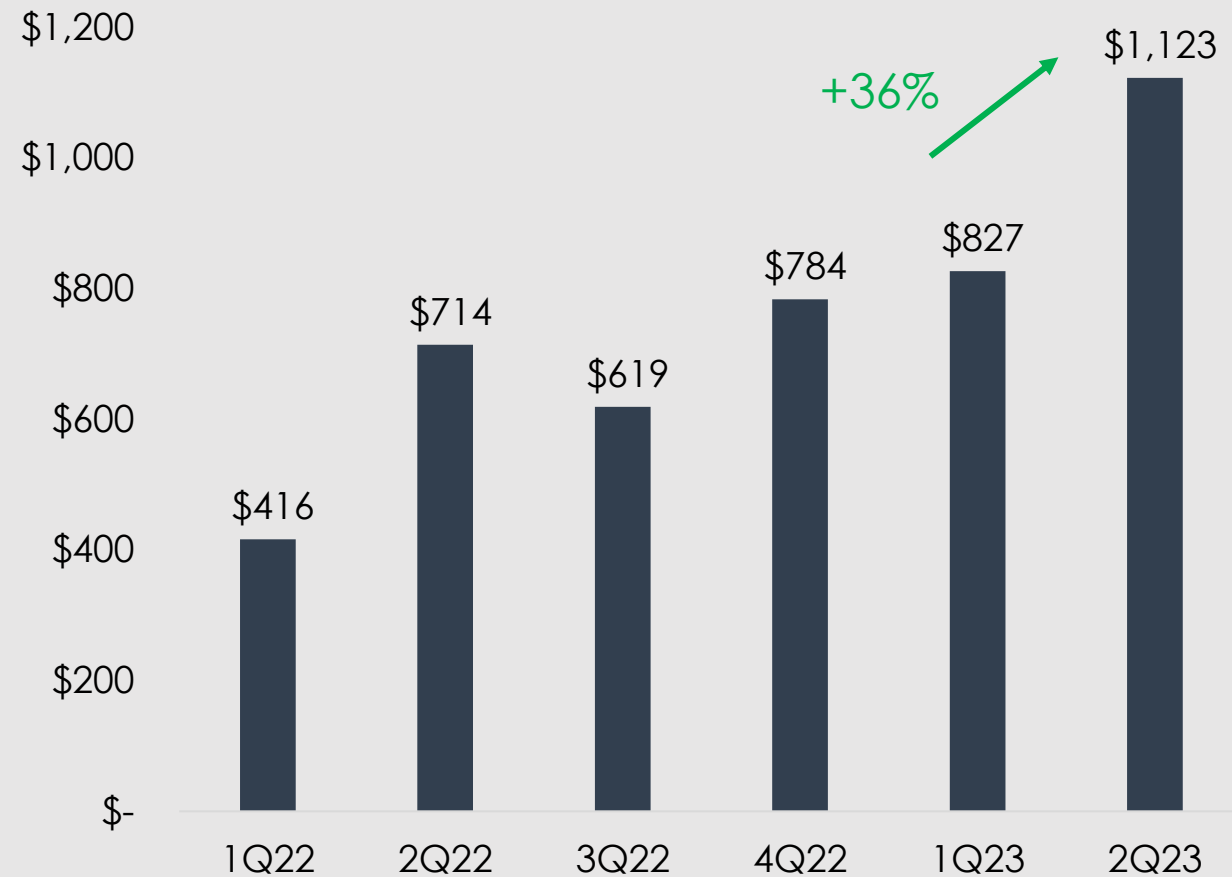
Skunk Works

- Classified government programs
- 85% classified

N-GAD (Next Generation Air Dominance)

- Advanced stealth, autonomy, and sensor fusion technologies
- Hypersonic defense aircrafts
- Hypersonic commercial aircrafts

Classified Aeronautics Revenue



Missile & Fire Control

In Millions of U.S Dollars

- Growth in “munitions” or missiles
- Increased development in PAC -3
- The war in Ukraine
- Increased Backlog = Increased Sales



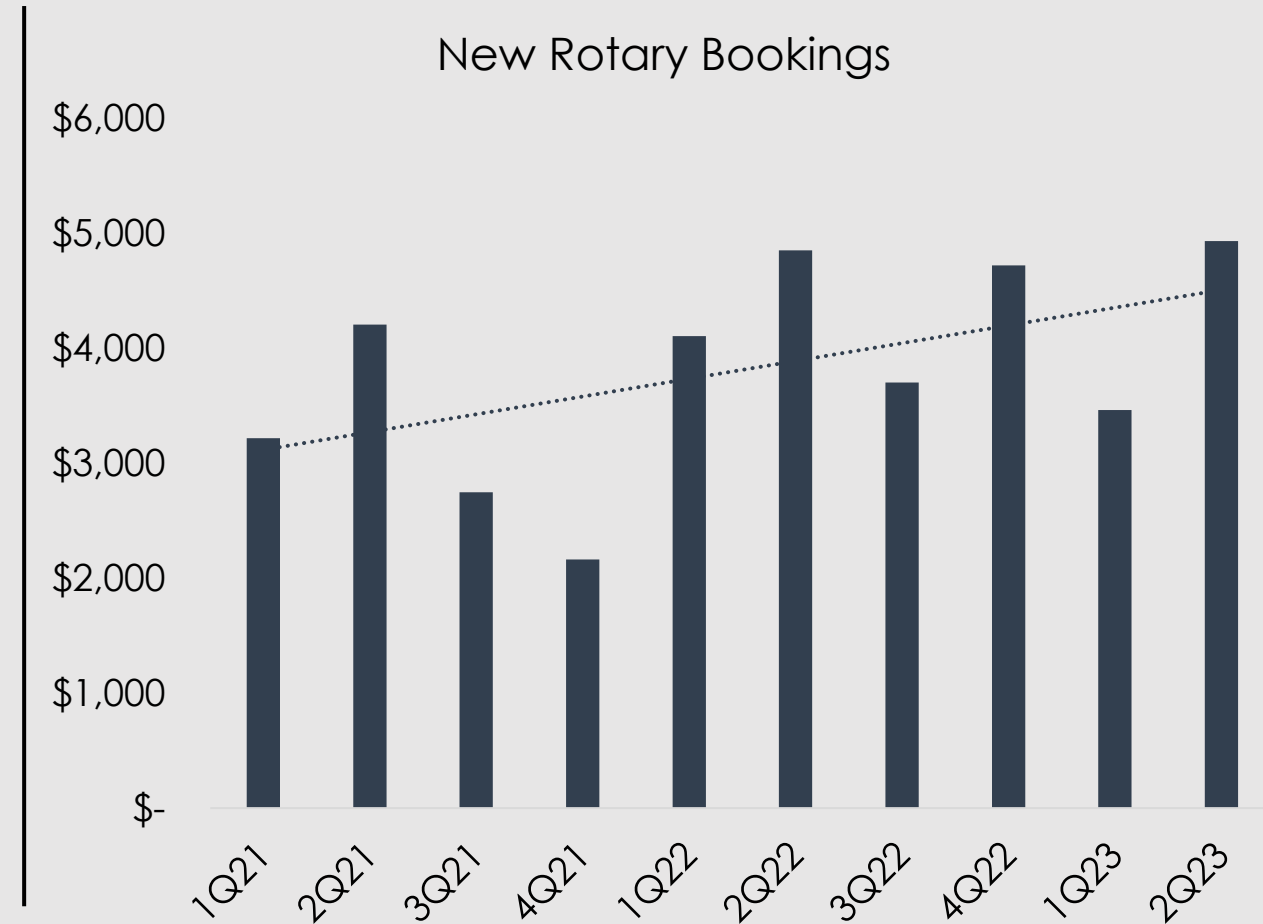
MFC Backlog



Rotary and Mission Systems

In Millions of U.S Dollars

- Higher production volume for the CH-53K
- Israel recently signed a letter of acceptance for Lockheed to produce 20 CH-53K helicopters.
- International growth.
- International represents 28% of Rotary and Mission sales



Space

Space Exploration and Commercialization:

- Expanding participation in space exploration, including missions to the Moon and Mars.
- Capitalizing on the growing commercial space industry through satellite deployment and space tourism ventures.

Programs:

- Artemis program
- First cislunar transporter

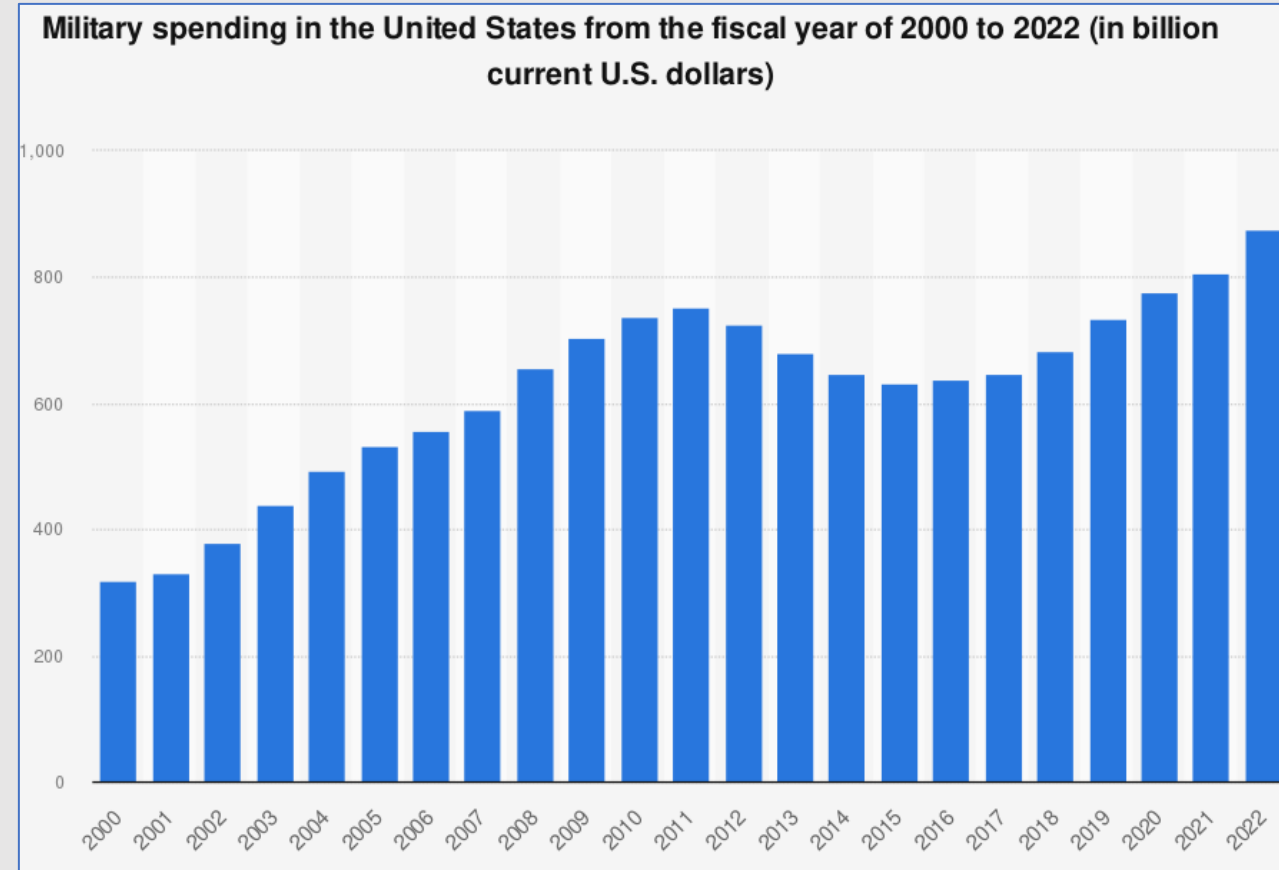
Recently:

- Raised guidance for revenue by ~ \$750 mn
- Received \$1.5 billion to develop and operate 72 Beta satellites
- Enhancements to Trident 2 D5 Ballistic Missile



General Defense Spending

- Defense spending in Romania increased to 2.5% of GDP from 2% - \$6.25 Billion
- NATO military budget for 2023 set at \$2 trillion, increase of 26% over 2022
- DoD budget increased 3% for 2023



Valuation

William Errett



Bull Thesis

- Lockheed Martin will persist through operating and supply chain issues to realize the whole amount expected in backlog
- Lockheed Martin will be running at their long-term rate for F-35's and other projects in the future
- Government spending on defense remains high as tensions are elevated in Eastern Europe
- Lockheed Martin continues to be a wide moat business with strong pricing power



EPS Growth Rates

	Net Income Growth	Share Repurchases	EPS Growth
Bear	1%	2%	3%
Base	2%	3%	5%
Bull	3%	4%	7%

EPS Model

Ticker: LMT

Price: \$397.35

5 Year Discounted Cash Flow

10% Discount Rate

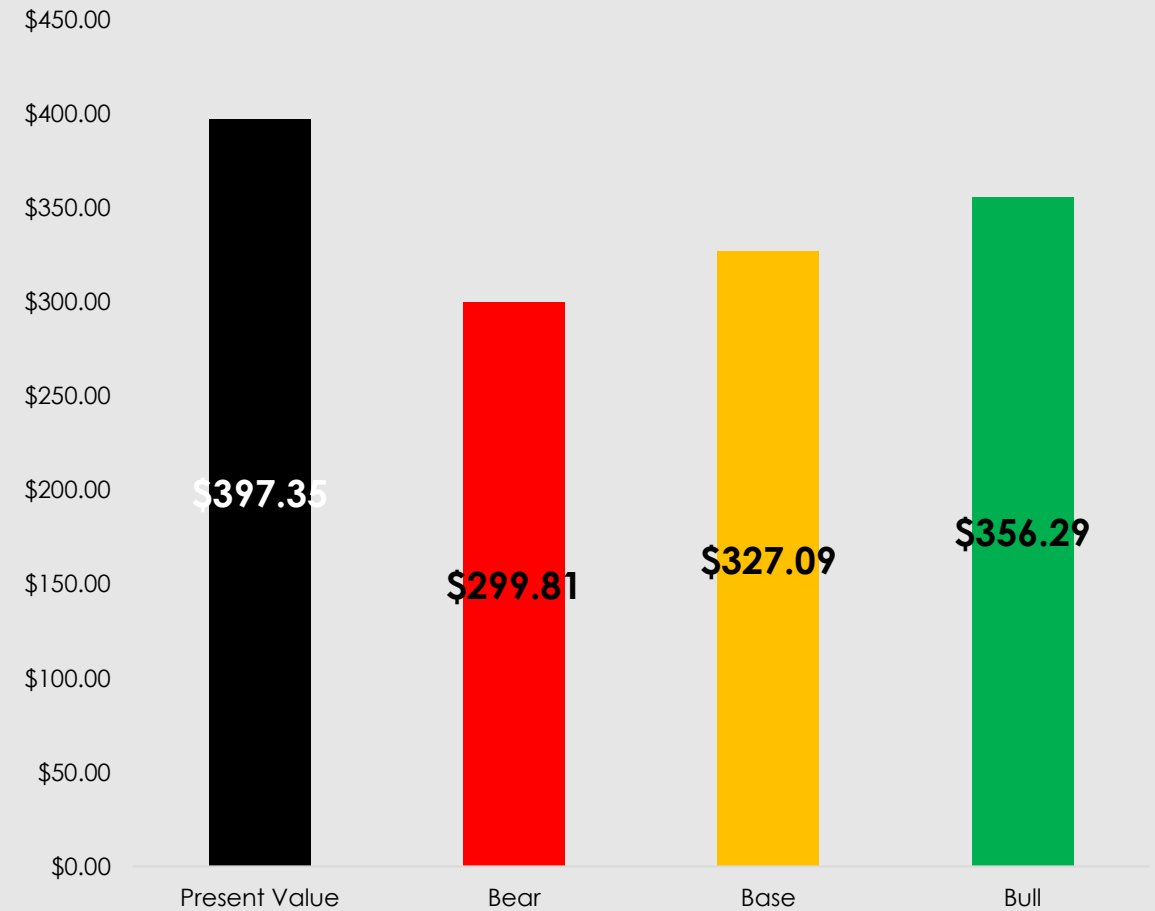
							Total Return			Annual		
							P/E	Price	PV	5 YR Return	Return	
Bear		<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	14.0x	\$422.49	\$262.33	6.3%	1.2%
	EPS	\$27.36	\$26.81	\$27.62	\$28.45	\$29.30	\$30.18	16.0x	\$482.85	\$299.81	21.5%	4.0%
			(2.0)%	3.0%	3.0%	3.0%	3.0%	18.0x	\$543.20	\$337.29	36.7%	6.5%
Base		<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	14.0x	\$460.93	\$286.20	16.0%	3.0%
	EPS	\$27.36	\$27.09	\$28.44	\$29.86	\$31.36	\$32.92	16.0x	\$526.78	\$327.09	32.6%	5.8%
			(1.0)%	5.0%	5.0%	5.0%	5.0%	18.0x	\$592.63	\$367.97	49.1%	8.3%
Bull		<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	14.0x	\$502.09	\$311.76	26.4%	4.8%
	EPS	\$27.36	\$27.36	\$29.28	\$31.32	\$33.52	\$35.86	16.0x	\$573.81	\$356.29	44.4%	7.6%
			0.0%	7.0%	7.0%	7.0%	7.0%	18.0x	\$645.54	\$400.83	62.5%	10.2%

Results

Total RoR Sensitivity

		Est. EPS growth rate		
		2.0%	3.8%	5.6%
P / E	14.0x	1.2%	3.0%	4.8%
	16.0x	4.0%	5.8%	7.6%
	18.0x	6.5%	8.3%	10.2%

Market Value vs Intrinsic Value



Recommendation

- Due to our Margin of Safety (MoS) of -21% we recommend to **HOLD** Lockheed Martin
- This would keep Lockheed Martin as a 12% Position with 300 Shares
- Lockheed Martin has a strong moat, stable economics, and a clear path to improve on deliveries
- Let this business continue to compound



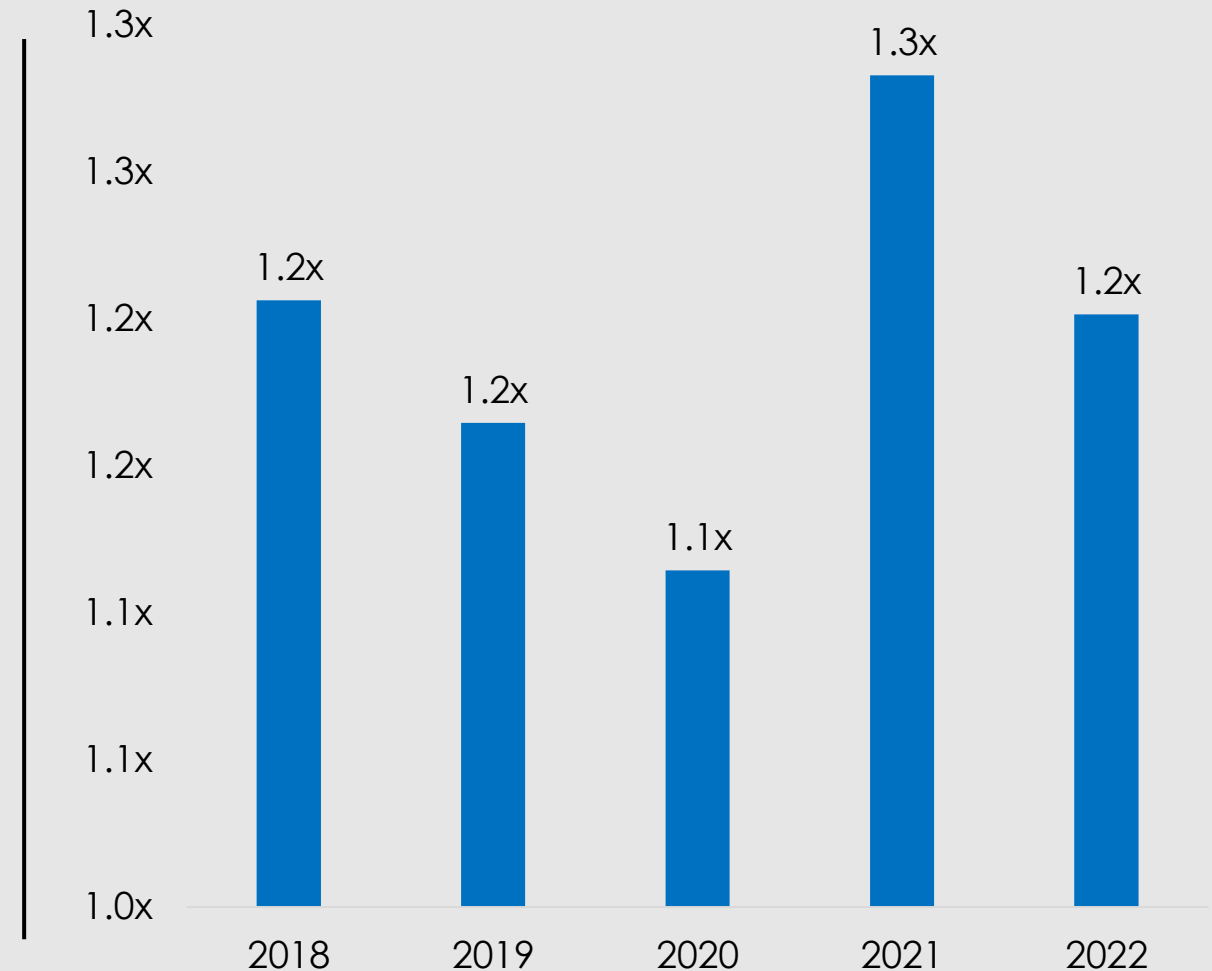
Questions?



Realized to Guided Ratio

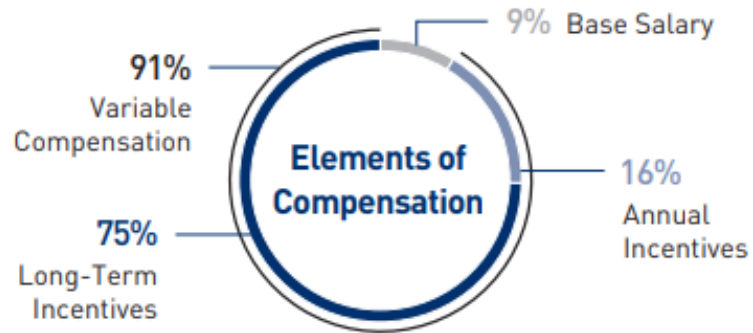
Realized Sales/ Guided Sales

- Sales that are realized are divided against sales that were previously expected in backlog
- KPI (Key Performance Indicator) for the execution of deliveries
- Higher = Better Backlog Conversion

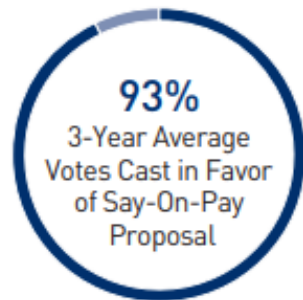


Compensation Structure

2022 CEO TARGET OPPORTUNITY MIX



3-YEAR SAY-ON-PAY RESULTS



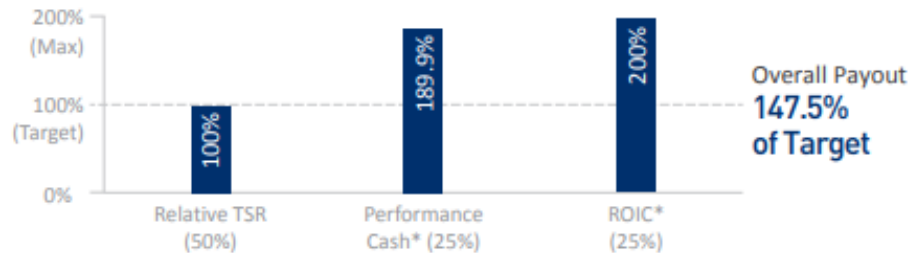
2022 ANNUAL INCENTIVE

Component Weightings and Achievements



2020-2022 LONG-TERM INCENTIVES

Component Weightings and Achievements

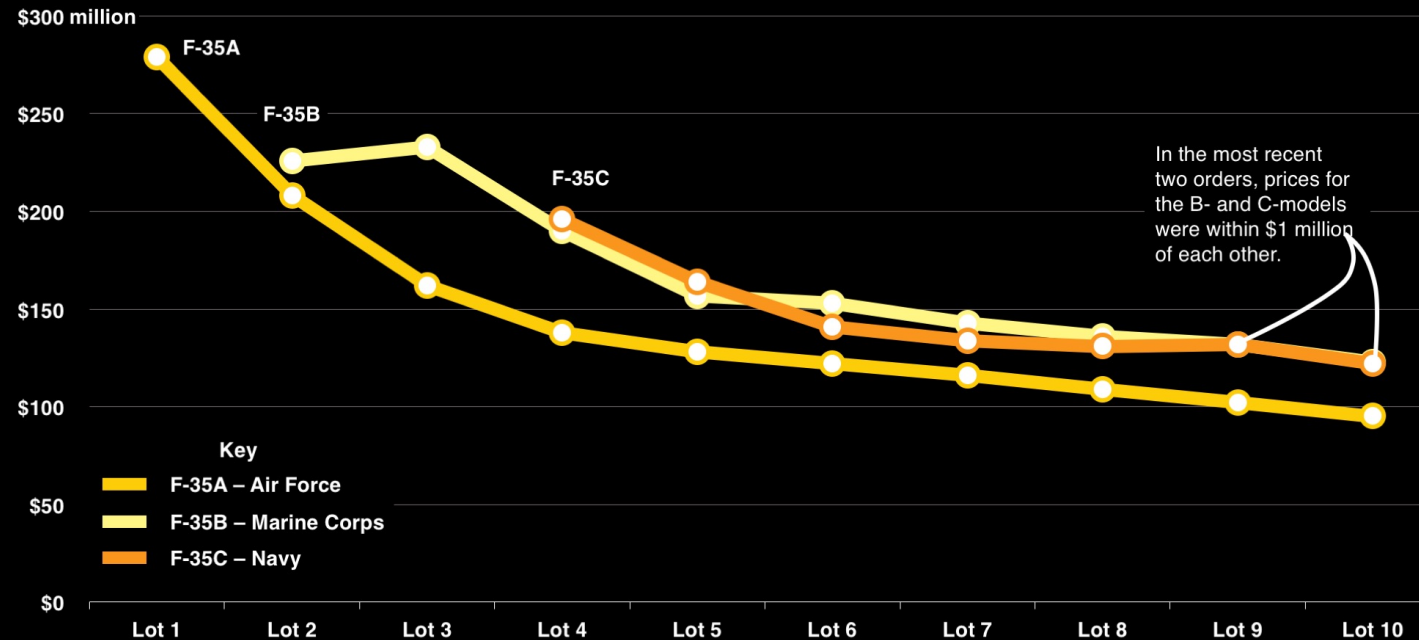


* See Appendix A for the definitions of Non-GAAP measures.

Cost of F-35 Models

The cost of some F-35s fell more quickly than others

The Air Force took the lead in development and had the highest per-plane price in its first order. But its conventional takeoff and landing variant is now the cheapest of the three models.



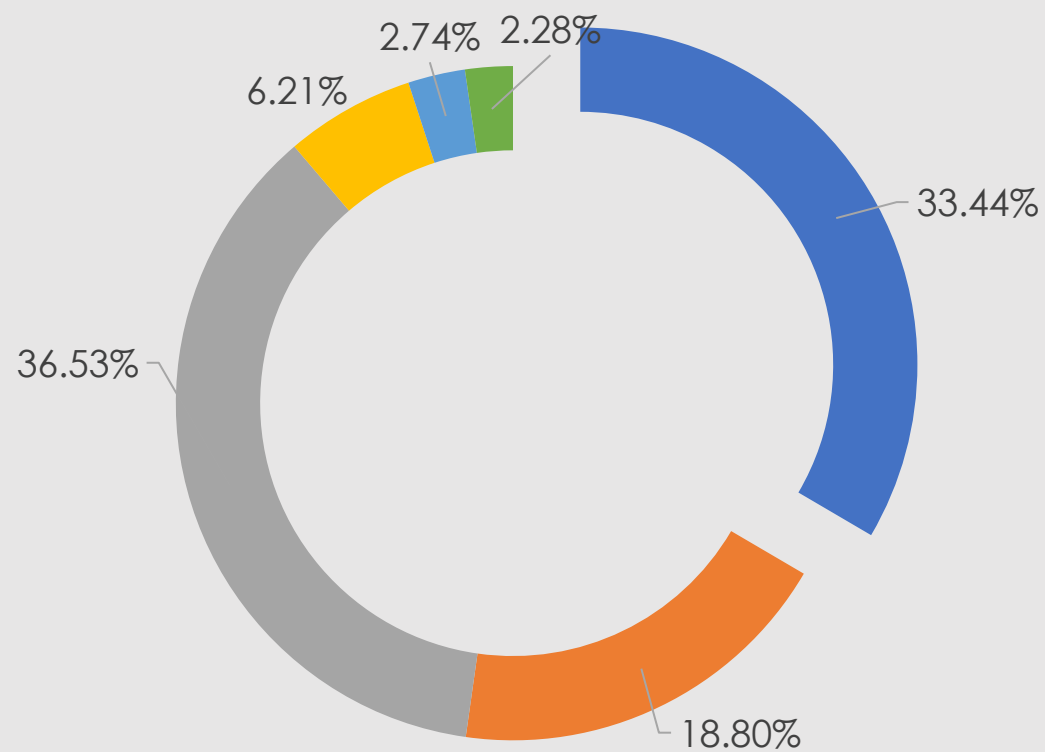
All prices are in 2016 dollars

D Caroline Houck | Defense One | defenseone.com

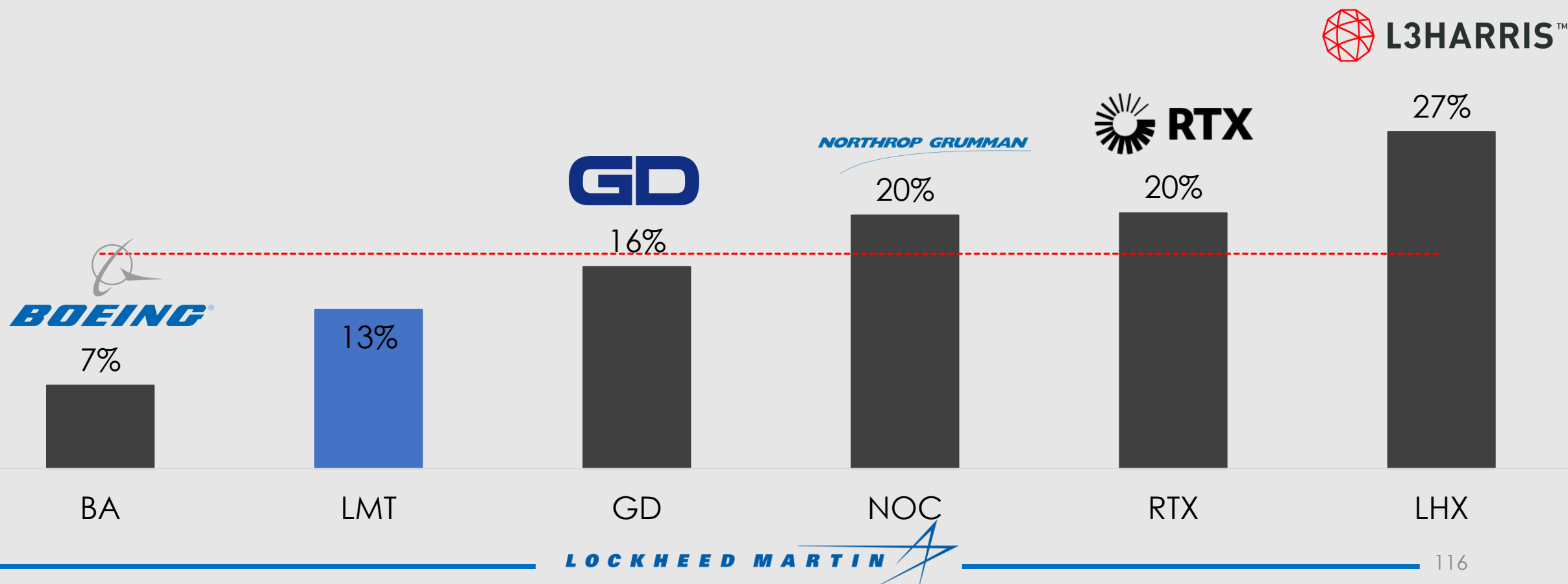
Source: Pentagon, F-35 Program Office, Lockheed Martin

Aerospace & Defense Market Share

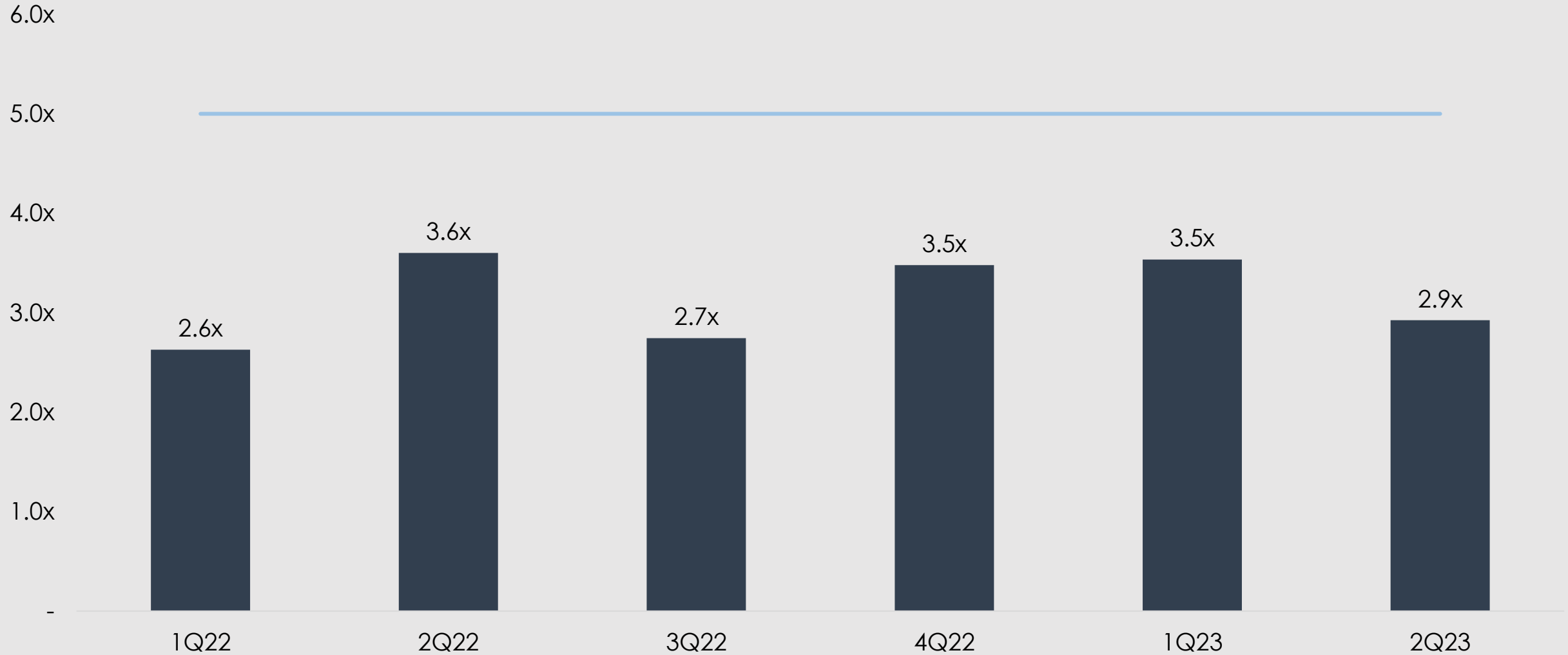
■ Lockheed Martin ■ Northrop Grumman ■ Boeing Company ■ Textron Inc. ■ Elbit Systems ■ Other



Gross Margin

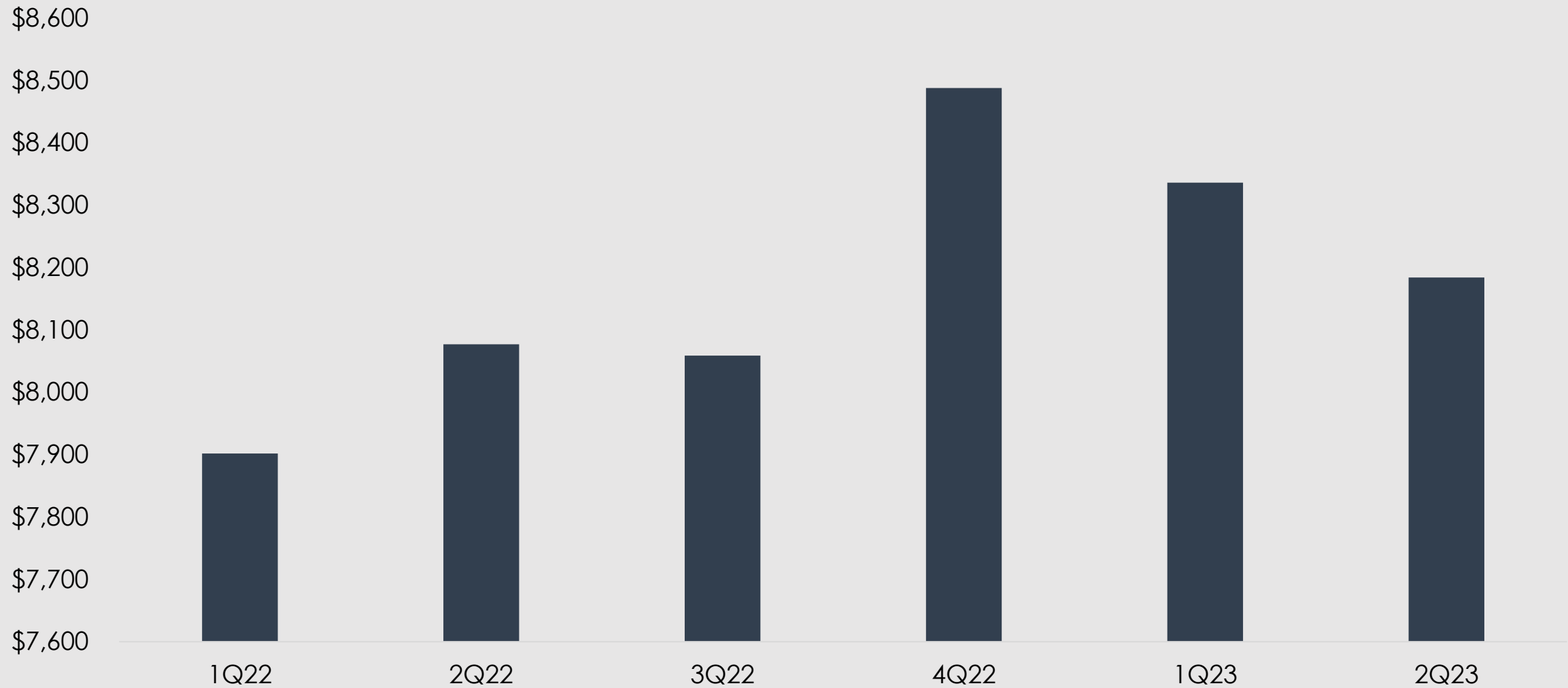


Obligation Ratio + pension SF

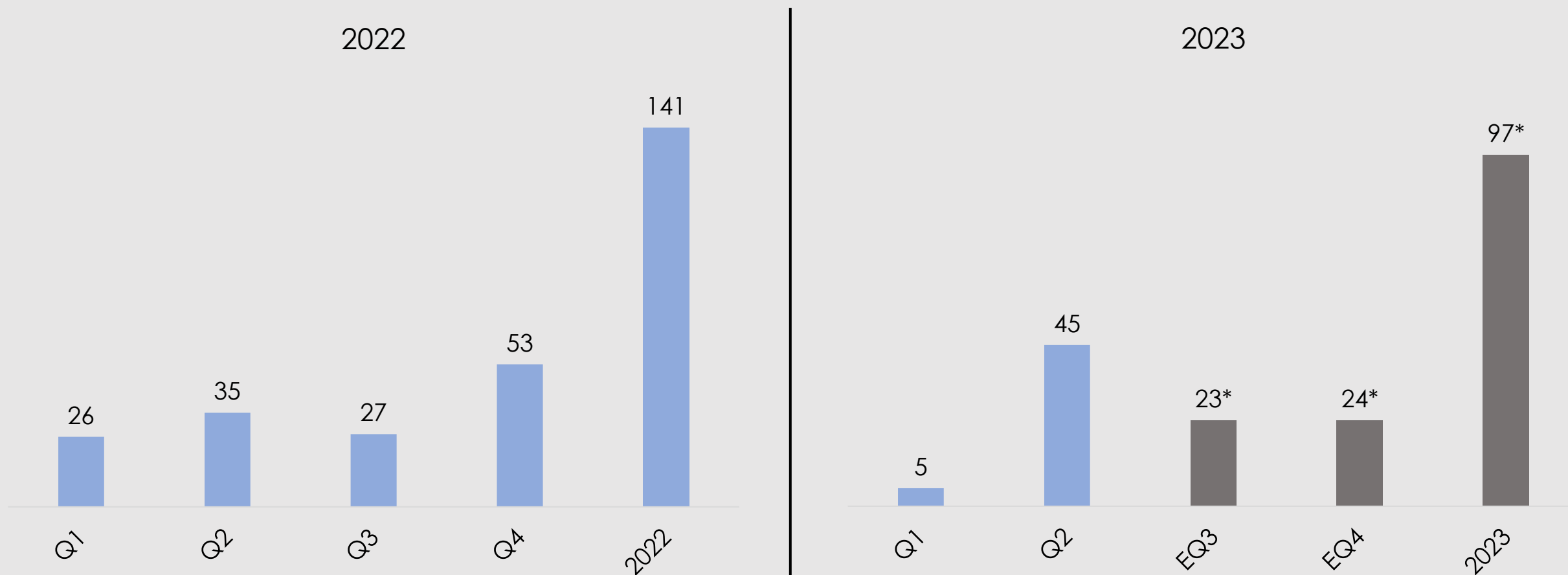


Pension Funding Shortfall

In Millions of U.S. Dollars



F-35: Deliveries Made



Projected

Future Vertical Lift Initiative

FVL is an ambitious plan to replace all of the US Department of Defense's helicopters with next-generation rotorcraft. The FVL initiative was born, in part, as a result of increasing concerns by the Vertical Flight Society and its members that DoD was no longer making adequate investments in new rotorcraft programs, and was too focused on upgrades and modernization activities for existing platforms. This reached a crisis point after hundreds of helicopters and lives were lost in the conflicts in Afghanistan and Iraq, and huge gaps were exposed between the legacy rotorcraft fleet's capabilities and the commanders' needs for speed, range, altitude, automation, connectivity, reliability and maintainability.

Cost to Produce a F-35

The Evolution Of The F-35's Unit Cost

Estimated unit cost of the F-35A by low rate initial production contract (in million U.S. dollars)*



* LRIP-1 to 9 excludes the costs of the engine.



@StatistaCharts

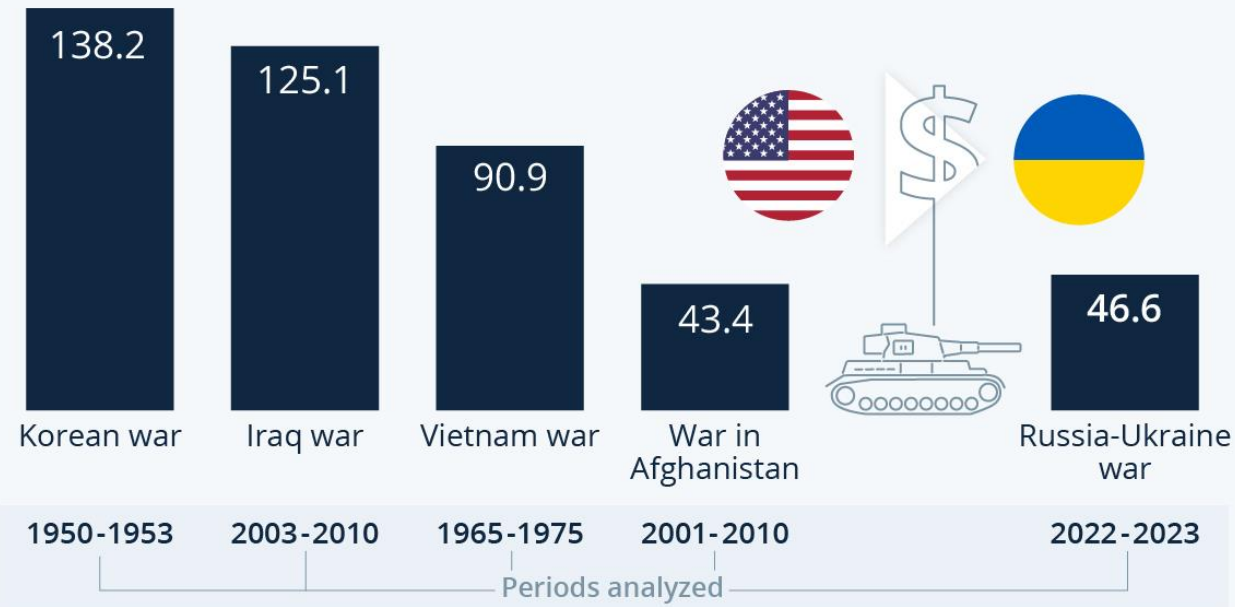
Sources: Lockheed Martin, Jane's 360,
Aviation Week, FlightGlobal, Military.com

Forbes statista

U.S. Military Foreign Aid

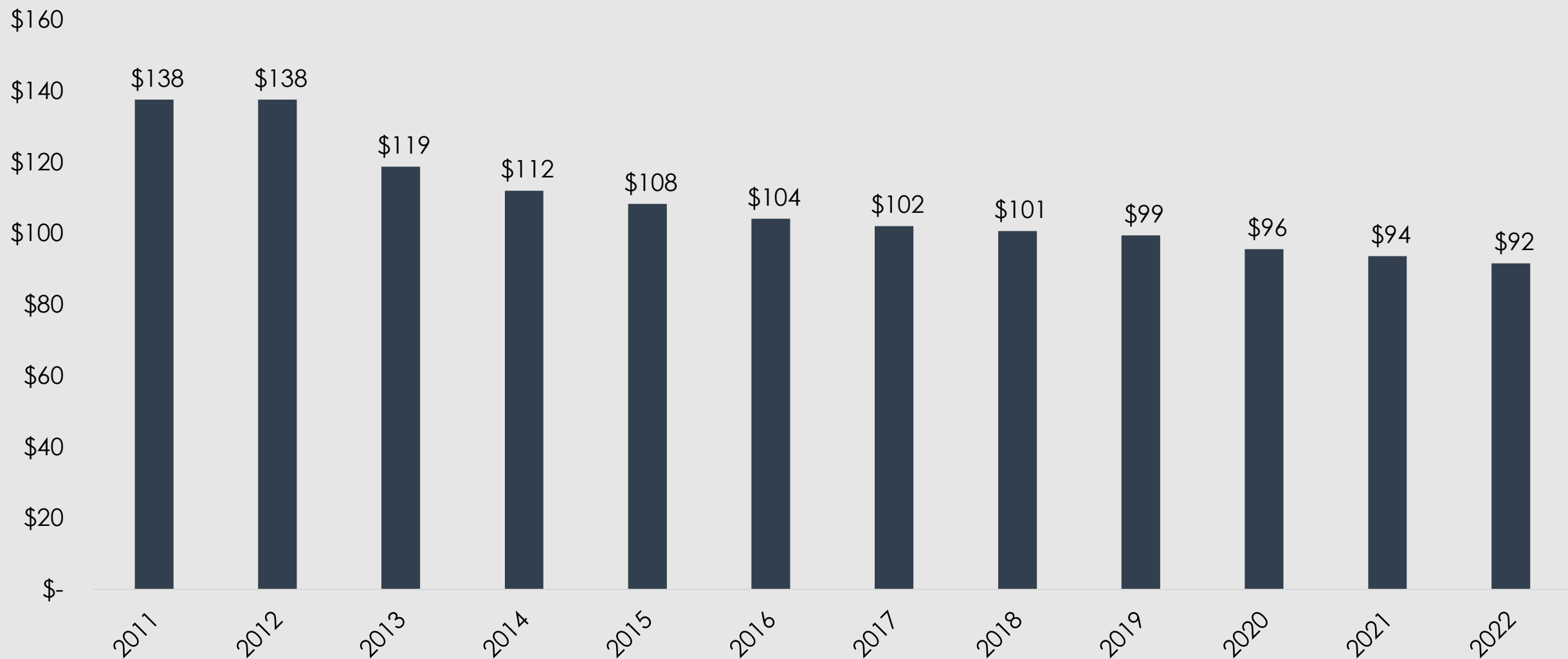
Ukraine: U.S. Military Aid Exceeds Costs of Afghanistan

Annual average U.S. military spending, by war vs. U.S. military aid to Ukraine (in billion U.S. dollars, in 2022 prices)*



F-35 Price

In Millions of U.S Dollars



Cost Advantages

R&D Costs:

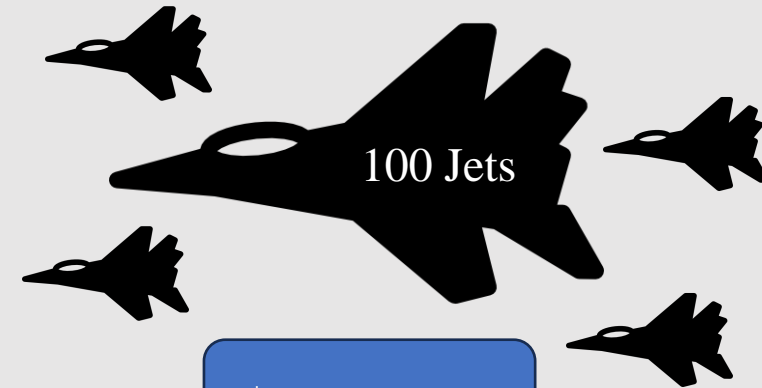
\$100 Bn



Unit R&D
Costs:

\$20 Bn per jet

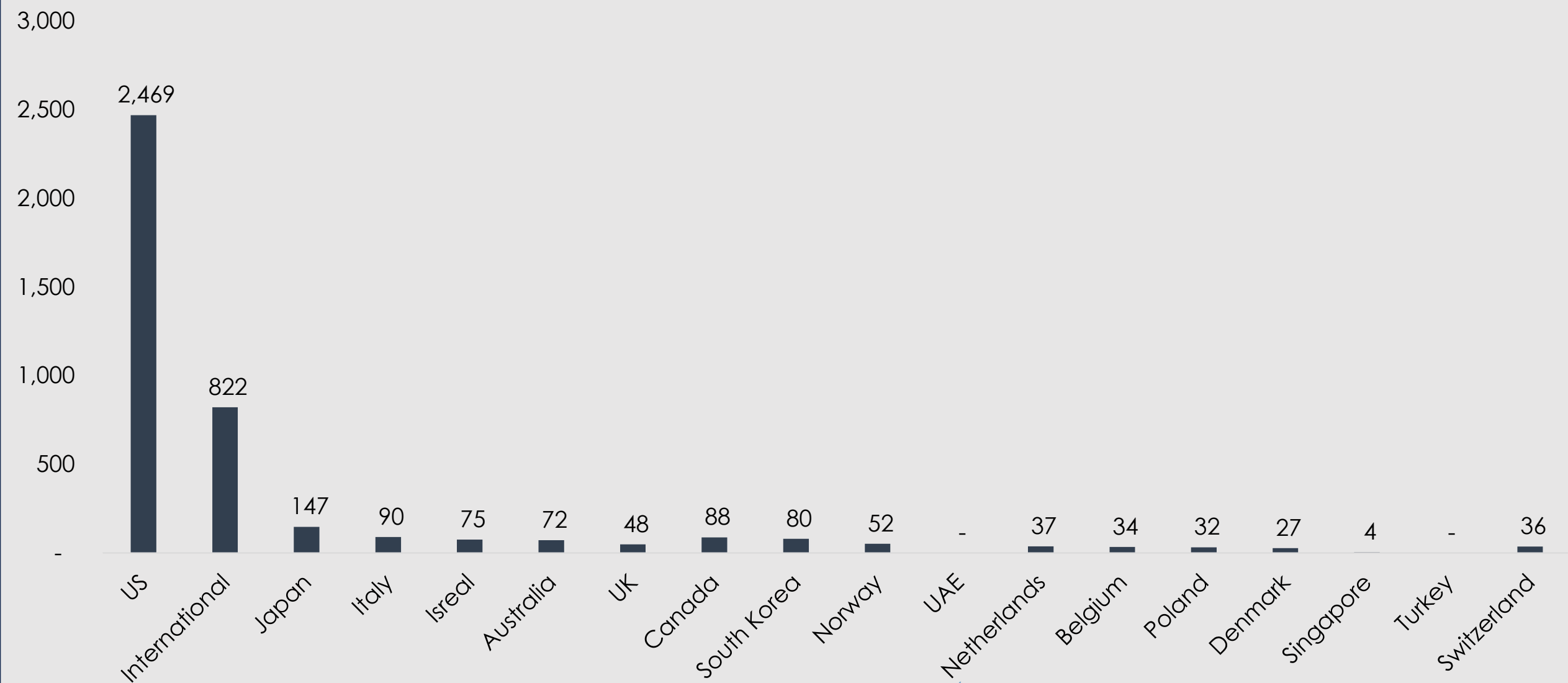
\$100 Bn



\$1 Bn per jet

The more jets produced,
the lower cost per jet

Planned F-35 deliveries



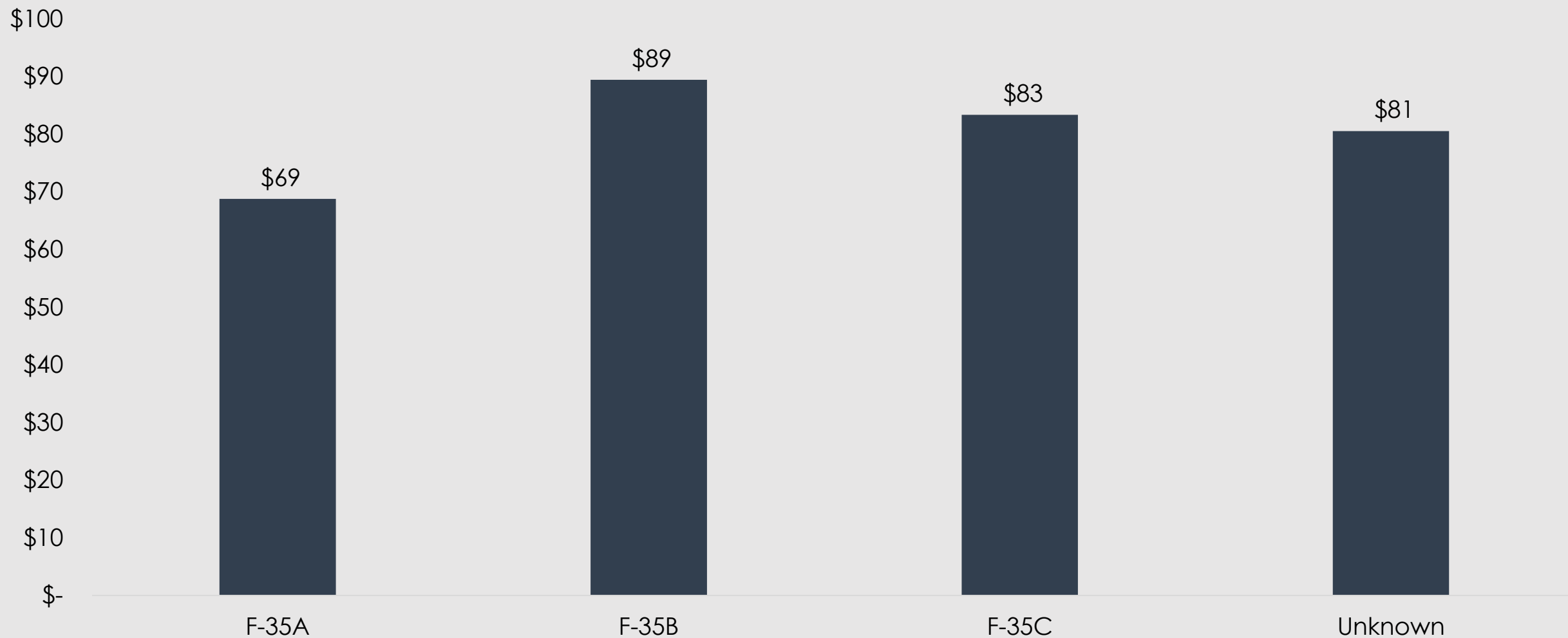
Aeronautics Unit Cost

In Millions of U.S Dollars

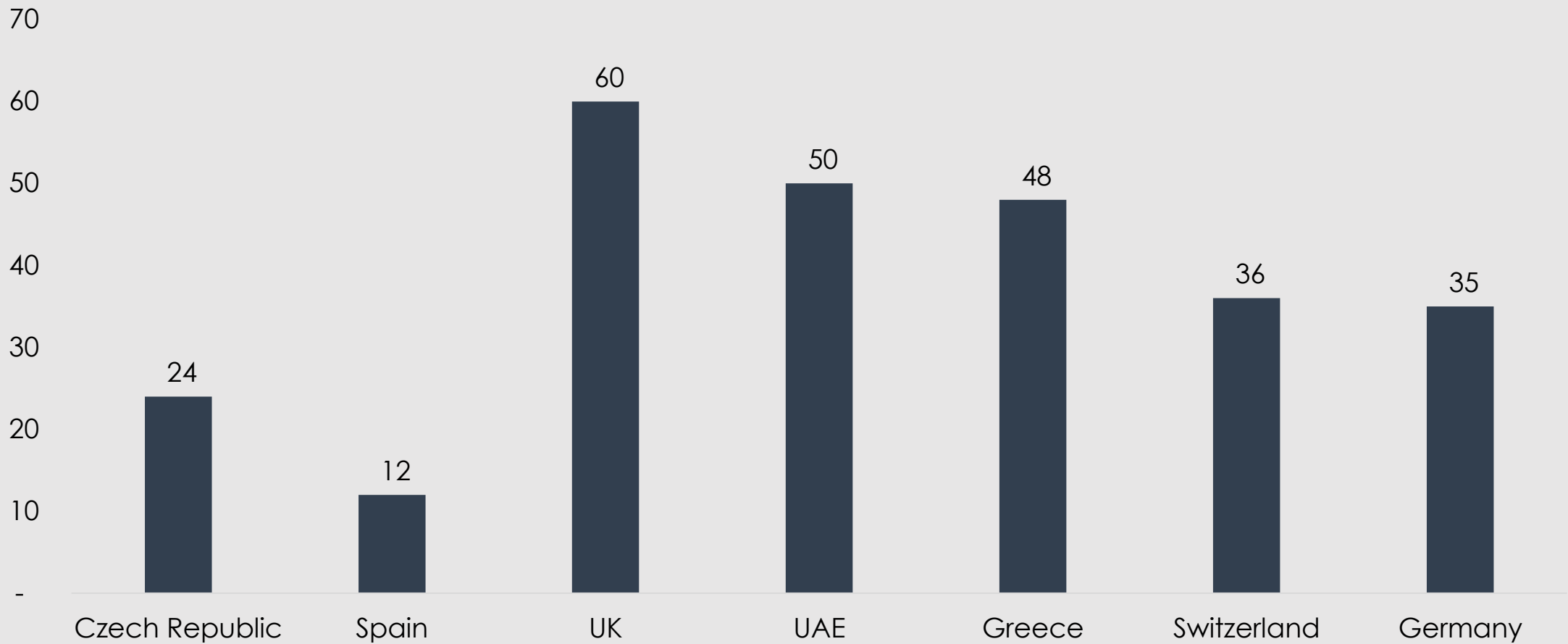


F-35 Models Unit Cost

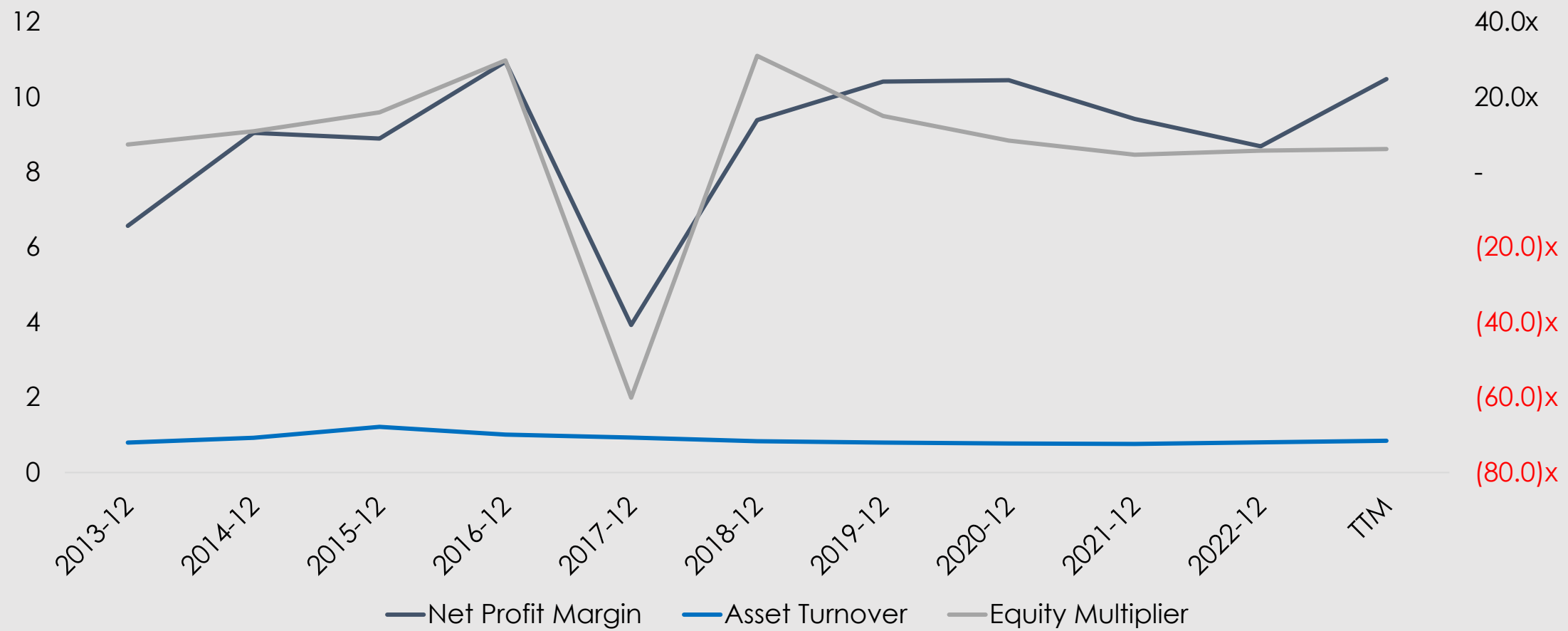
In Millions of U.S Dollars



Potential F-35 Awards



Dupont Analysis



F-35 Deliveries

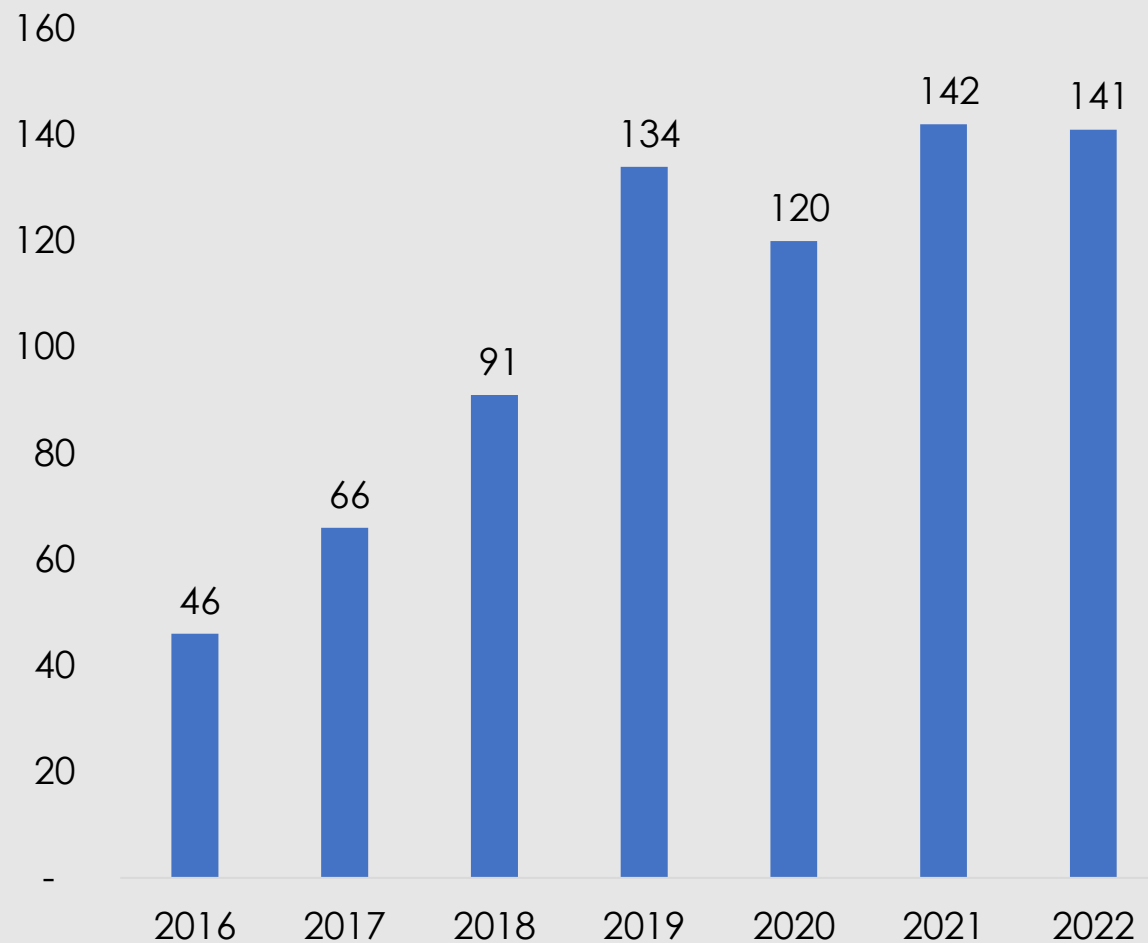
Increased production abilities over time



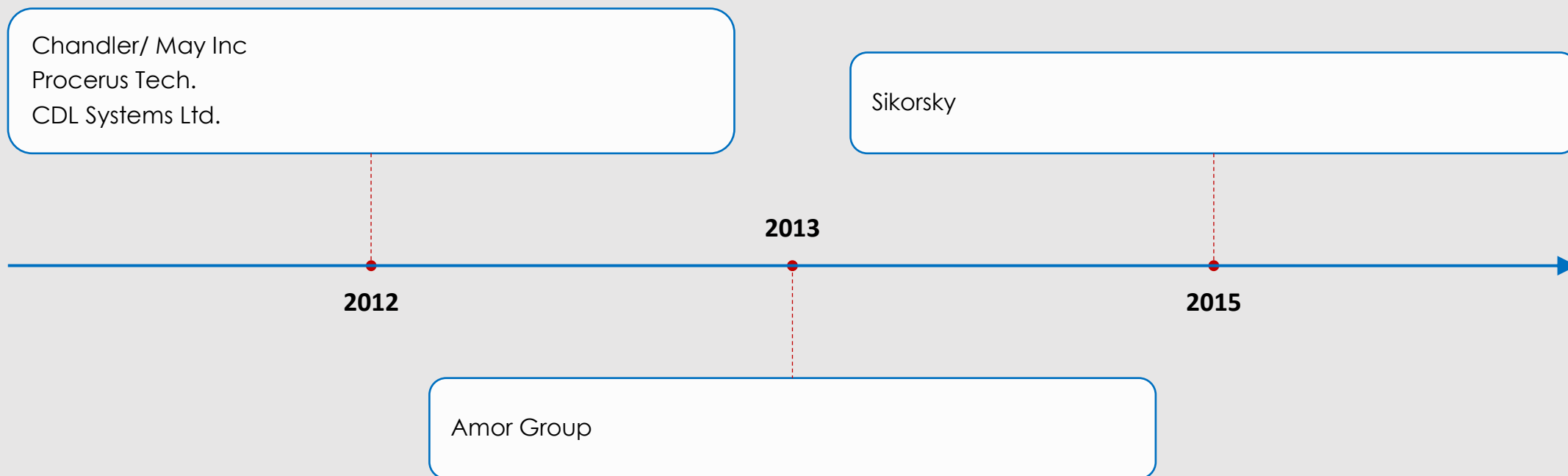
Cost saving over time



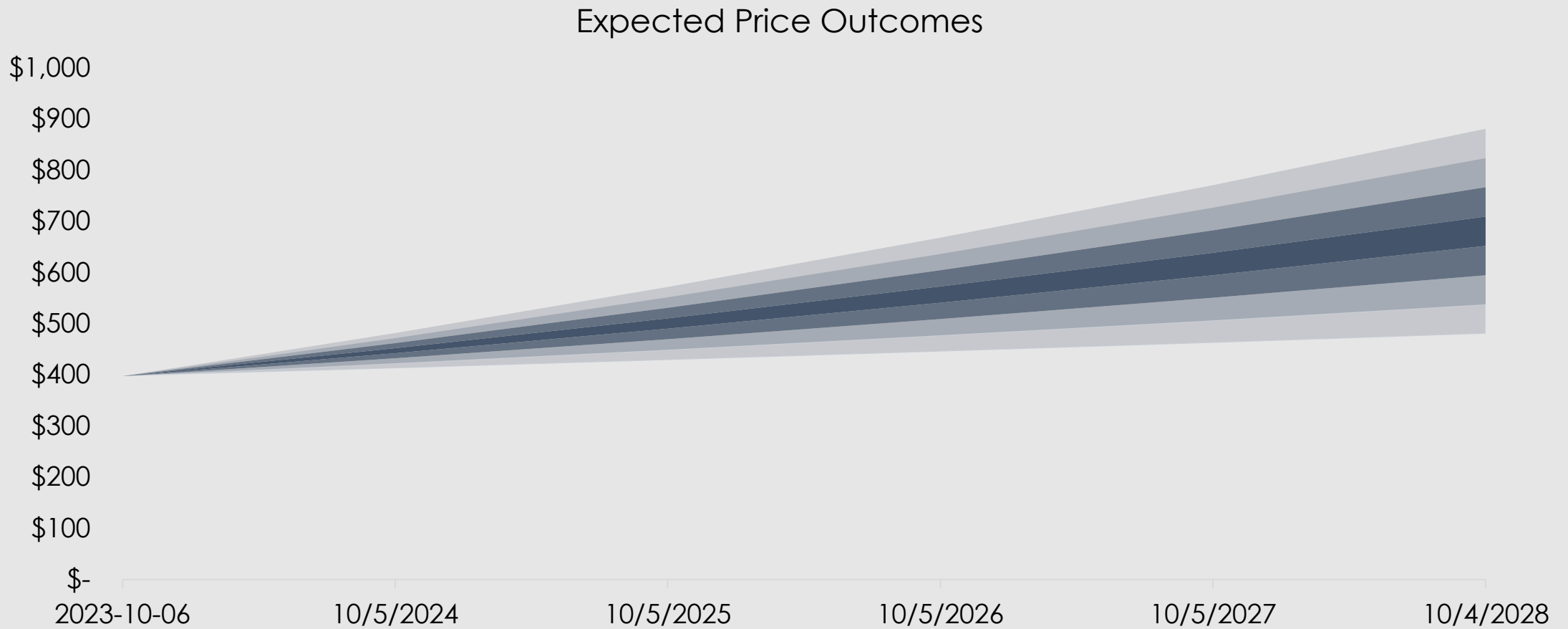
Leading edge products



Acquisitions



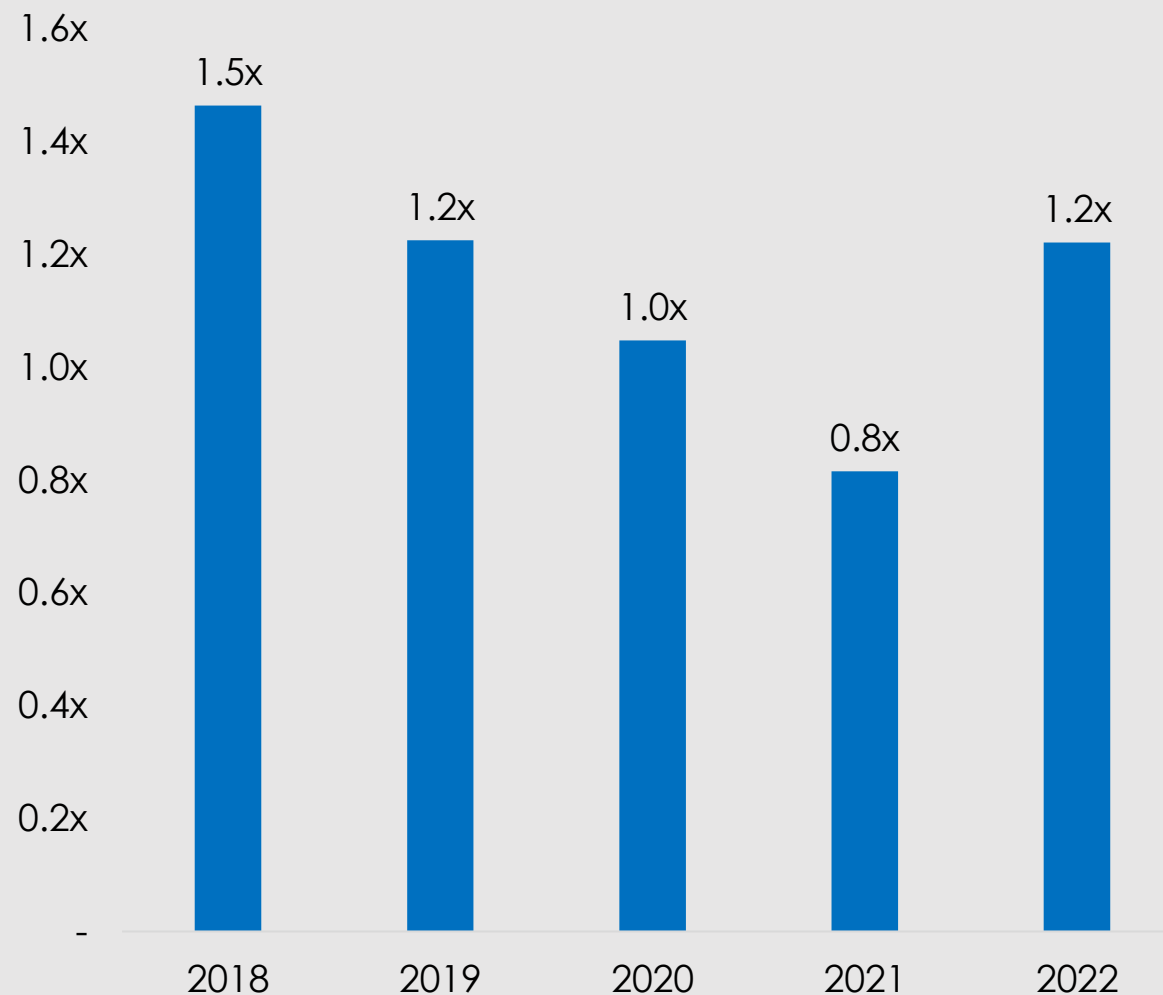
Bear – Expected Price Outcomes



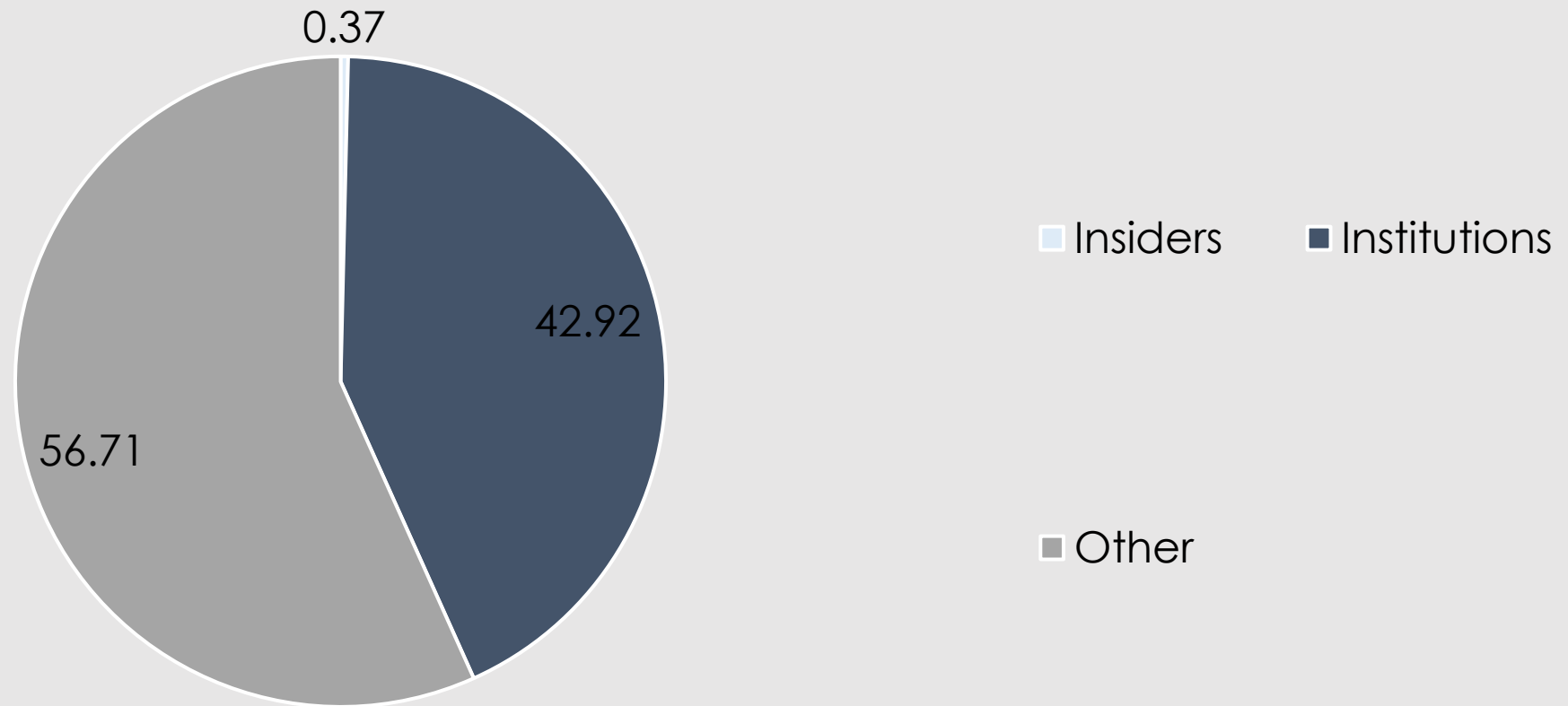
Book to Bill Ratio

Orders Received/ Orders Filled

- The value of new orders is divided against the value of past orders
- KPI (Key Performance Indicator) that evaluates new demand for products
- Higher = More Demand



Insider Ownership



Backlog Conversion

