

Initiating Coverage:

# Lockheed Martin

## A Rocky Start on the Way to the F-35 Promise Land

**Key Take-away:** LMT is positioned for a great couple of years, with a record backlog of \$165.7b, mainly attributed to impressive demand for their F-35 program, and their proven ability to capture global market share in a time when it is most valuable. Despite setbacks in their F-35 program leading to unrecognized revenue of 450M in Q3, LMT was able to increase revenue by 1% YoY due to the overall success of their other programs and sustainment contracts. However, potential headwinds of rising production costs due to tariffs and supply chain disruptions may adversely affect LMT’s short-term profitability.

**F-35 Program Developments:** The F-35 Program is a part of LMT’s Aeronautic department and is their current largest program, accounting for 26% of consolidated sales YoY. In Q3, LMT was not able to recognize revenue from lots 17-18 due to contract negotiations being ongoing with the US government, and thus put a strain on their cash flow. Although authorization and funding are expected to be finalized in Q4, this holds a massive \$2b liability over LMT in the case of termination. This also leaves room for concern that the department might be having trouble meeting the rampant demand for the jets in a cost-efficient manner, which would slow their ability to recognize future revenue and decrease profit margins.

**Growing International Market Share:** In recent years LMT has made it a goal to gain more foreign government business and has been extremely successful. Just this year they have secured LOA’s from 3 different countries, bringing the total number of nations in their F-35 program to 19. Roughly 26% of their consolidated sales come from international business, which is a significantly higher percentage than other comparable US defense companies. This expansion will be increasingly useful as foreign countries build their defenses and become less reliant on the US military for protection

**Results of Global Conflicts:** In months leading to 2025 there were two major conflicts to look at, namely the Russia-Ukraine War and Israel-Palestine conflict. The Russia-Ukraine War has been ongoing for years, and due to billions worth of weaponry sent to Ukraine from US stockpiles there is a need for replenishment. As LMT is the DoD’s biggest defense contractor, it is likely that they will see much of this business, as they have already started to in their backlog. LMT offers a variety of services and products to Israel through Foreign Military Sales (FMS) and is thus likely to see more business in the event Israel decides to expand their defense arsenal.

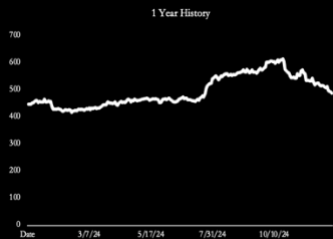
**Valuation:** We initiate coverage with a \$580 PT.

## Peer Comparisons

Consortium Equity Research  
Industrials | Defense  
December 29<sup>th</sup>, 2024

Stock Rating:	Overweight
Price Target:	\$580.00
Price:	\$488.97
Potential Upside:	20.3%
Ticker:	\$LMT

Market Cap:	\$115.9b
Shares Outstanding:	237mm
Free Float (%):	99.93%
Dividend Yield:	2.70%



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## Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Northrop Grumman Corporation (NYSE:NOC)	\$ 68,410	\$ 81,590	28.9x	\$ 41,000	\$ 4,653
Raytheon Technologies Corporation (NYSE:RTX)	\$ 155,040	\$ 192,100	33.6x	\$ 79,042	\$ 12,211
General Dynamics Corporation (NYSE:GD)	\$ 72,490	\$ 81,560	20.1x	\$ 46,046	\$ 5,667
L3Harris Technologies, Inc. (NYSE:LHX)	\$ 40,500	\$ 52,870	33.8x	\$ 21,142	\$ 3,184
<b>Lockheed Martin Corporation (NYSE:LMT)</b>	<b>\$ 115,910</b>	<b>\$ 132,080</b>	<b>17.7x</b>	<b>\$ 71,285</b>	<b>\$ 10,393</b>

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Northrop Grumman Corporation (NYSE:NOC)	17.5x	16.9%	11.4%	8.0%	4.3%
Raytheon Technologies Corporation (NYSE:RTX)	15.7x	19.2%	15.4%	10.0%	14.7%
General Dynamics Corporation (NYSE:GD)	14.4x	15.6%	12.3%	10.4%	8.9%
L3Harris Technologies, Inc. (NYSE:LHX)	16.6x	26.4%	15.1%	8.8%	8.9%
<b>Lockheed Martin Corporation (NYSE:LMT)</b>	<b>12.7x</b>	<b>12.0%</b>	<b>14.6%</b>	<b>12.4%</b>	<b>5.5%</b>

High	17.50x	26.4%	15.4%	12.4%	14.7%
75th Percentile	16.61x	21.0%	15.1%	10.4%	8.9%
<b>Average</b>	<b>15.38x</b>	<b>18.3%</b>	<b>13.8%</b>	<b>9.9%</b>	<b>8.5%</b>
<b>Median</b>	<b>15.70x</b>	<b>17.4%</b>	<b>14.6%</b>	<b>10.0%</b>	<b>8.9%</b>
25th Percentile	14.40x	14.7%	12.3%	8.8%	5.5%
Low	12.70x	12.0%	11.4%	8.0%	0.0%

## Lockheed Martin Valuation

Implied Enterprise Value (25th Percentile)	\$	149,659
<b>Implied Enterprise Value (Median)</b>	<b>\$</b>	<b>163,170</b>
Implied Enterprise Value (75th Percentile)	\$	172,628

Implied Share Price (25th Percentile)	\$	563.25
<b>Implied Share Price (Median)</b>	<b>\$</b>	<b>620.25</b>
Implied Share Price (75th Percentile)	\$	660.16

Source: Yahoo Finance

## Company Overview

**Company Description:** LMT is an aerospace and defense company whose operations are split into 4 business segments: Aeronautics, Missiles and Fire Control (MFC), Rotary and Mission Systems (RMS), and Space. LMT primarily services government agencies, with their biggest source of revenue coming from the US government, making up roughly 74% of consolidated sales. The US government also plays a role in LMT's international sales, as 75% of LMT's foreign business is processed through the US in the form of Foreign Military Sales.

**Aeronautics:** Aeronautics is the core of LMT, focused on advanced military and mobility aircrafts and making up 38% of the company's consolidated sales. The department is also home to LMT's very own "skunk works", which is a program that's focused on technological advancements that allow LMT to stay ahead of their competition. The most notable program is the F-35 program which makes up 64% of Aeronautics' sales. The program has seen recent hiccups but are expected to be temporary, and with the massive demand this program has brought in recent years, its development will be a key driver for the company's overall success.

**Missiles and Fire Control (MFC):** MFC builds systems for missile defense, air-to-ground precision strikes, and fire control. The departments most notable missile defense programs are the PAC-3 and THAAD which have both seen slightly decreased demand this year. However, there has been an increased margin profile due to

lower than expected costs, boosting profit and booking rate adjustments. The department has also seen increased demand for long-range missile launching systems such as the JASSM and LRASM.

**Rotary and Mission Systems (RMS):** RMS offers products that help governments with military logistics and preparation, and it has seen significant growth this year with net sales up 13% when comparing the first 9 months of 2023 to that of 2024. The change is attributed to increases in popularity for the IWSS program, which is a land and sea-based missile defense system, and Sikorsky helicopter program, which includes aircrafts used for heavy lifting.

**Space:** The space business segment focuses on the production of satellites, space transport systems, and advanced strike and defense systems. Sales are up 3% in the first 9 months of 2024 as compared to 2023, with a corresponding 11% increase in operating profit. The key factor leading to this is an increase in volume for missile defense systems like the hypersonic and FBM programs. Despite the department performing well overall, it should be noted that the Orion program, used for low-orbit exploration missions, saw decreased sales and lower profit from booking rate adjustments.

## Industry Overview

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**Where the DoD is headed:** The expected budget for the DoD in 2025 is \$850b, a 4% increase from 2024. Given that 64% of LMT's consolidated sales come from the DoD, it is safe to say the increase will generally benefit the company. President-elect Trump is notoriously pro military spending which makes the coming 4 years look promising, at least in this aspect. However, Trump's close friend Elon Musk, who is now head of the new department of government efficiency, has continually criticized the inefficiencies in military spending, including the F-35 program, which is potentially concerning for LMT. At this point in time, it's uncertain the material impact that this department will have, or if it would affect LMT, but having one of Trumps closest allies being anti-military spending could neutralize Trumps traditional stance.

**Tariff and Foreign Policy Implications:** Aerospace and Defense companies have quite complex supply chains due to the rare materials required and the general nature and scale of their operations, which often leaves them exposed to rising production costs brought on by tariffs. While not in play yet, Trump has made numerous claims of the different tariffs he will implement when in office. Many of the proposed plans would adversely affect LMT's profit margin by raising the costs of raw materials. In the case of tariff implementations, LMT could likely pass the cost onto the governments it services, however, it will be difficult to quickly renegotiate existing contracts, thus leading to short-term losses. These tariffs would not lead to long-term decreased profitability, but if the tariffs lead to hostility between the US and other countries, then it might affect long-term market share.

**New Administration's Stance on Global Conflicts:** There is no doubt that geopolitical tension is good for military defense companies such as LMT, however, highly escalated war is not. Trump has criticized funding to Ukraine and stated that he would end the Russia-Ukraine War on day one of his presidency. Depending on how the war is ended, this could net benefit LMT due to reduced supply chain disruptions. Trump also supports Israel and will continue to do so in their fight against Hamas, which could lead to increased demand for LMT and their services in the case of further escalation. Overall, so long as neither conflict escalates to the point that it would significantly disrupt LMT's supply chain, the continued survival of the conflicts keeps demand high and doesn't significantly hurt margins.

## Investment Theses

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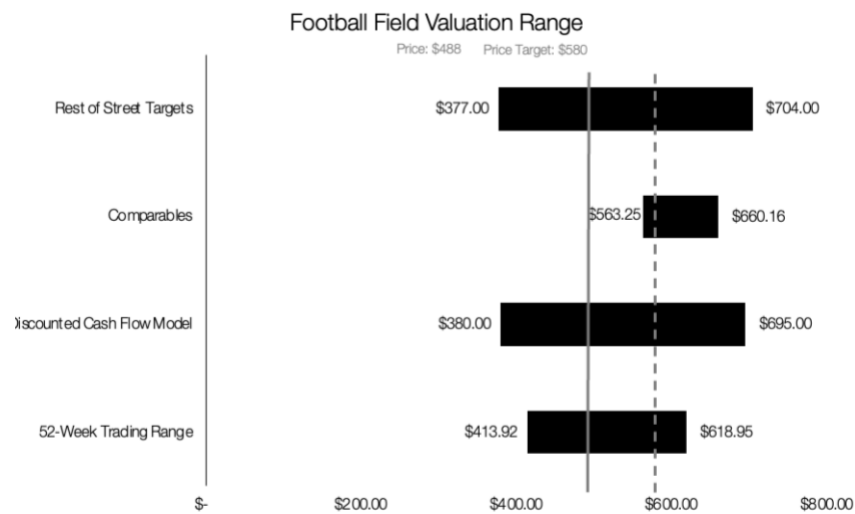
**Global Expansion:** In recent years LMT has proven their ability to capture global market share in the Aerospace and Defense industry, which is increasingly important as geopolitical tension stays high. With programs such as F-35, THAAD, PAC-3, and Sikorsky helicopter, LMT has not only tapped into demand from new countries but has also seen growth from the foreign countries it currently services. Since most of these sales are through FMS, LMT can keep their top tier relationship with the US while still gaining business from other markets. This continued expansion into the global defense market will allow LMT to reap higher rewards than its comparable peers as foreign governments continue to spend more building their military.

**F-35 Program Bounce Back:** After a disappointing performance from the F-35 program in Q3 due to lack of authorization and funding for Lot 17-18, all eyes will be on its upcoming results. Signs of delays in contract negotiation or project advancement will adversely affect LMT in the short term. In the long run, so long as LMT can work out any kinks with the program and avoid a complete failure, they will have a strong revenue stream from the program for years to come. This is mainly because LMT has proven to have a strong control of cash flow management which allows them to mitigate effects of short-term losses and still make returns to shareholders in the form of dividends and common stock buybacks. LMT's ability to improve the programs cost and time efficiencies will be essential for their success in the coming years, especially considering the fact this program alone makes up 26% of sales. Headwinds indicated raised production costs, however, through increased volume and effective working capital management LMT can maintain a steady cash flow until contracts are renegotiated and costs are normalized.

**US Competition with China:** It goes without saying that whether acknowledged or not, the US military is in constant competition with that of other countries, especially China. In Mid-November of 2024 China held a Military showcase for its most advanced military fighter jets. Given LMT's "skunk works" is responsible for keeping LMT's, and therefore the US military's, aviation state of the art, this showcase helps emphasize the importance LMT holds in keeping the US military competitive. This need for LMT's innovative abilities is what allows them to continually grow demand for their products and overall stay a necessity for the DoD. Continuing to be the DoD's biggest contractor gives LMT an edge over their competition, especially as US Military demand continues to expand in the form of US stockpile replenishment and overall defense expansion.

Price Target & Valuation

Our analysis gives (\$LMT) a price target of \$580 and an overweight rating.



Potential Downsides to Our Rating

**New Administration Uncertainty:** With a second Trump administration incoming, there are still a lot of variables that can drastically impact LMT and their profitability. Implementation of tariff policies will more than likely raise production costs, hurting margins, but to what extent will depend on the exact policies and how/when they are enacted. Also, if the tariffs and negotiations that follow lead to tension between the US and other foreign countries, LMT could be sanctioned and have FMS restricted, as currently seen in the relationship between US and Taiwan. Trump has also made it clear that he wants NATO countries spending more on their military defenses, which should benefit LMT given their track record with servicing the countries. However, depending on the tone of how this goal is accomplished it could hurt LMT’s relationship with the countries and thus reduce their global market share.

**Supply Chain Disturbances:** As stated before, LMT has a large and complex supply chain that relies upon other businesses and obtaining rare natural materials, which leaves them exposed to small kinks. While LMT does have a relatively strong supply chain, with most operations being done in the US and EU, they are still affected by conflict in other parts of the world. The Russia-Ukraine War has caused slight disruptions over the years which could worsen if escalated. Although the Middle East conflict did not cause much disruption, a severe escalation would

Our Price Target: **\$580**

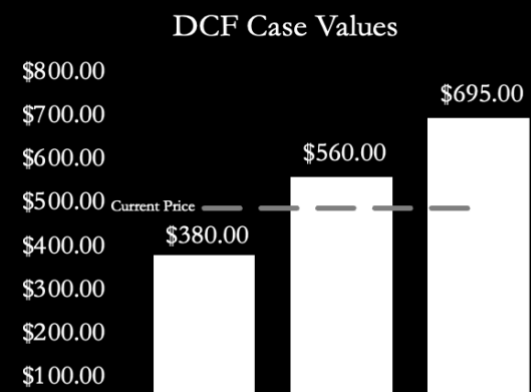
Our PT is based on successful contract authorization for lot 17-18, continued increase in global and domestic demand for key projects such as LRASM, JASSM, Sikorsky helicopter, and F-35. This price assumes minimal tariffs and minor supply chain disruptions, resulting in moderately higher cost of production. This is offset by continued profit margin growth in the MFC and RMS segments as well as resolved cost inefficiencies seen in the F-35 program in Q3.

Our Upside Case: **\$670**

Our upside case is based on successful contract authorization for lot 17-18, heightened demand for core projects, and continued geopolitical tension without resulting in supply chain disruptions. This price assumes an implementation of targeted tariffs which only slightly raise LMT’s cost of production, which are more than offset by other programs improved cost efficiencies. In this case we assume LMT significantly improves cost and time efficiencies in F-35 program, thus resulting in higher recognized revenue and profit margins.

Our Downside Case: **\$380**

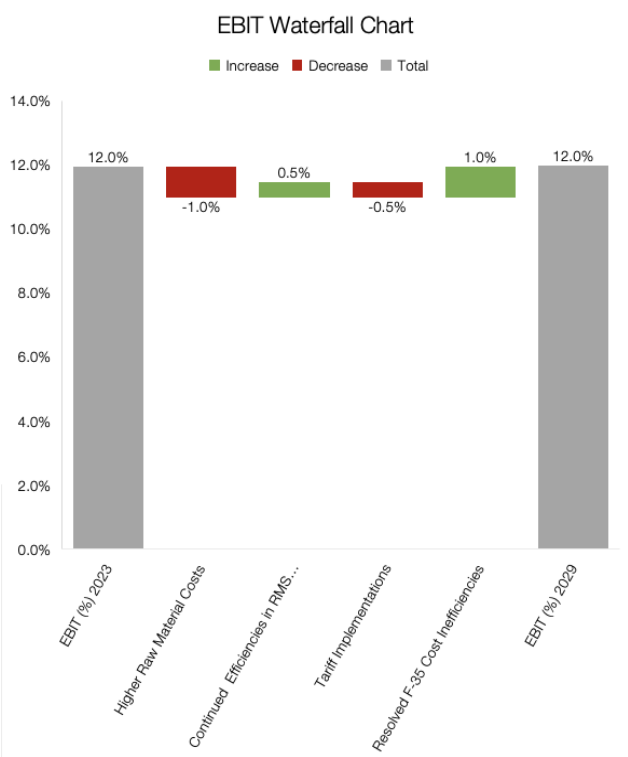
Our downside case involves denial of authorization for lot 17-18, slowing demand for core programs due to economic downturn, and a rise in geopolitical conflict leading to vast supply chain disruptions. This price also assumes tariffs that significantly raise raw material costs.



lead to slower production and heightened material costs until an alternative supply chain is found or the conflict is resolved.

**US Government Reliance:** With 74% of LMT’s consolidated sales coming from the US government, and 75% of their remaining sales being FMS contracted through the US government, it is evident that LMT is reliant on US business to stay afloat. It is unlikely that LMT would see a significant reduction in the amount of business they get from the DoD, however, it wouldn’t be unheard of for the US government to try and restrict FMS. While Trump is generally in favor of arm sales, given the recent events in the Middle East, it wouldn’t be wild to think he might be stricter with FMS to Middle Eastern countries. Restrictions on LMT’s FMS would not only hurt the company’s short-term revenue, but would also have lasting affects due to the resulting reduced market share.

Projections



Income Statement (\$mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	67,571	71,000	74,335	77,849	81,554	4.8%
EBITDA	9,528	9,191	10,853	11,366	11,907	5.7%
EBIT	8,098	7,721	9,292	9,731	10,194	5.9%
EBIAT	6,611	6,888	6,315	5,732	6,920	1.1%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	14.1%	12.9%	14.6%	14.6%	14.6%	14.2%
EBIT Margin	12.0%	10.9%	12.5%	12.5%	12.5%	12.1%
Revenue Growth	-	5.1%	4.7%	4.7%	4.8%	4.8%
EBIT Growth	-	-4.7%	20.3%	4.7%	4.8%	6.3%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	31.2x	20.9x	17.7x	16.9x	16.1x	20.6x
EV/Sales	2.0x	1.9x	1.8x	1.7x	1.6x	1.8x
EV/EBITDA	13.8x	14.3x	14.3x	11.6x	11.1x	13.0x
FCF Yield	3.2%	4.8%	5.6%	5.9%	6.2%	5.1%

About \$LMT

Lockheed Martin Corporation is an American based aerospace and defense company. It is one of the largest defense contractors in the world, primarily servicing government clients, including the US Department of Defense, various federal agencies, and international military organizations. Their 4 main areas of focus include Aeronautics, Missiles and Fire Control, Rotary Mission Systems, and Space. The company was formed in 1995 through the merger of Lockheed Corporation, an aircraft manufacturer, and Martin Marietta, a producer of aerospace and defense technology.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities.

**Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

## Appendix

DCF Analysis (\$mm)											
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
	12/31/2019	12/31/2020	12/31/2021	12/31/2022	12/31/2023	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029
Stub						0.02	0.02	0.02	0.02	0.02	0.02
Discount Period						0.01	0.52	1.52	2.52	3.52	4.52
Revenue	59,812.00	65,398.00	67,044.00	65,984.00	67,571.00	71,000.00	73,614.48	76,339.85	79,181.11	82,143.45	85,232.35
Revenue Growth	-	9%	3%	-2%	2%	5%	4%	4%	4%	4%	4%
Aeronautics	23,693	26,266	26,748	26,987	27,474	27,915	28,892	29,903	30,950	32,033	33,154
MFC & RMS	25,259	27,252	27,465	27,492	27,465	30,165	31,673	33,257	34,920	36,666	38,499
Space	10,860	11,880	11,814	11,532	12,605	12,920	13,049	13,180	13,311	13,445	13,579
EBIT	7,241	8,235	7,550	6,680	8,098	7,721	8,466	8,779	9,106	9,446	9,802
EBIT Margin	12%	13%	11%	10%	12%	11%	12%	12%	12%	12%	12%
Tax Expense	1,011	1,347	1,235	948	1,178	1,110	1,228	1,273	1,320	1,370	1,421
Effective Tax Rate	14%	16%	16%	14%	15%	14%	15%	15%	15%	15%	15%
NOPAT	6,230	6,888	6,315	5,732	6,920	6,611	7,238	7,506	7,785	8,077	8,380
D&A	1,189	1,290	1,364	1,404	1,430	1,491	1,546	1,603	1,663	1,725	1,790
Capex	1,484	1,766	1,522	1,670	1,691	1,500	1,840	1,908	1,980	2,054	2,131
Changes in NWC	1,418	2,322	373	(714)	(1,520)	1,065	1,104	1,145	1,188	1,232	1,278
UFCF	6,164	7,444	5,166	3,348	3,709	5,537	5,839	6,056	6,281	6,516	6,761
PV of FCF						5,534	5,647	5,489	5,336	5,189	5,047
Weighted Average Cost of Capital (\$mm)						Terminal Value			Terminal Value		
						Perpetuity Growth Method			Exit Multiple Method		
						2029 FCF			2029 EBITDA		
Market Risk Premium						5.00%			11,592		
Beta						0.47			12.7x		
Risk Free Rate						4.59%			147,213		
Cost of Equity						6.11%			\$109,895		
Weighted Average Cost of Debt						5.50%			\$32,242		
Tax Rate						14.50%			\$109,895		
Cost of Debt						0.58%			\$142,136		
Total Equity						\$115,704			(-) Debt		
Total Debt						\$16,169			(+/-) Cash		
Equity/Total Capitalization						87.74%			Implied Equity Value		
Debt/Total Capitalization						12.26%			Diluted Shares Outstanding		
WACC						6.68%			Implied Share Price		
						Upside/Downside			Upside/Downside		
						Implied BF EV/EBIT			Implied PGR		
						Blended Share Price					
						Perpetuity Growth Method			50%		
						Exit Multiple Method			50%		
						Blended Share Price			\$560.48		
						Upside/Downside			15%		