

Stock Rating

BUY

Lockheed Martin Corporation
(NYSE: LMT)

Target Price: \$558 - \$564
Current Price: \$465.77

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Investment Thesis

We recommend a **BUY** rating on Lockheed Martin Corporation with potential upside of 26% - 30%. We believe that the company is well-positioned for exponential growth, driven by a resilient defense backlog, innovation in next gen technologies, and disciplined capital allocation.

Thesis Driver

Limited Growth Catalysts

Lockheed Martin has a dominant position in the defense aerospace sector. Revenue growth is expected to stay generally sustained due to flat U.S. defense budgets. The F-35 program which headlines Lockheed martin has had extended project timelines. All those factors limit the potential of revenues.

Geopolitical Tension:

Geopolitical tension fuels revenue for Lockheed Martin with tensions rising across the globe. U.S. - China tensions along with increased tensions in South America support a long-term demand for defense systems. Revenue acceleration is limited due to government procurement cycles take years to translate into earnings.

Thesis Risks

Faster F-35 Production

Revenues have been weighed down by delays in the F-35 Program related to hardware and software integration. Current expectations assume a gradual recovery that limited revenue expansion. If Lockheed Martin can resolve the issues deliveries of the jet could increase and convert backlog into revenue.

Program Delays or Cost Overruns

Lockheed's financial performance is extremely sensitive to the execution of multiyear defense programs. Notably the F-35, Hypersonics, and Missile Defense Systems. Any slippage or integration challenges could delay payments and revenue recognition to future years.

Valuation Summary

Discounted Cash Flow: \$558.69
Relative PE (EV/REV): \$564.55

Company Overview

Lockheed Martin is the worlds largest defense contractor among the U.S. and Allied Nations. The company's defense portfolio is headlined by the F-35 program. Lockheed operates through four business segments (Aeronautics, Missiles & Fire Control, Rotary & Mission Systems, and Space). All four segments are tied to long-duration government programs. Approximately 70% of revenue is derived from the U.S. Department of War

Statistical Highlights

Stock Price

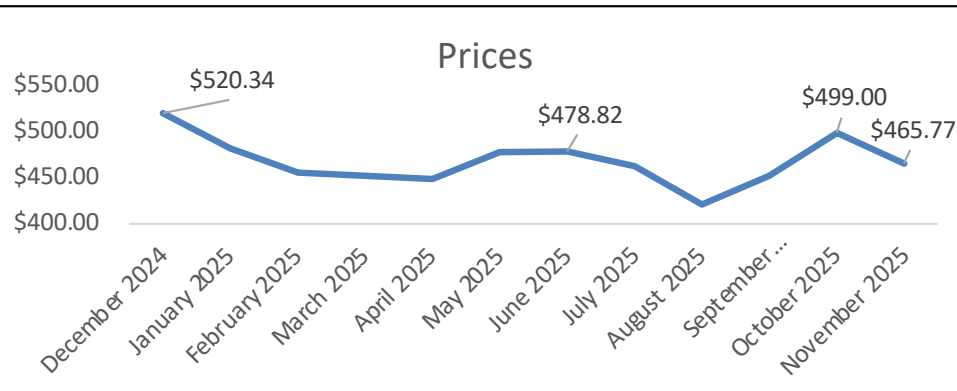
52-Week Range: \$410.11 – \$561.35
YTD Performance: 4.15%

Financials

Market Cap: \$105.48B
Shares Outstanding: 232M
2024 Revenue: \$71,043B
2024 Net Income: \$5,336B
2024 EPS: \$22.31
2024 Dividend Yield: 2.96%
2024 P/E: 21.78
WACC: 9.39%
Beta: 1.05

2024 Margins & Ratios

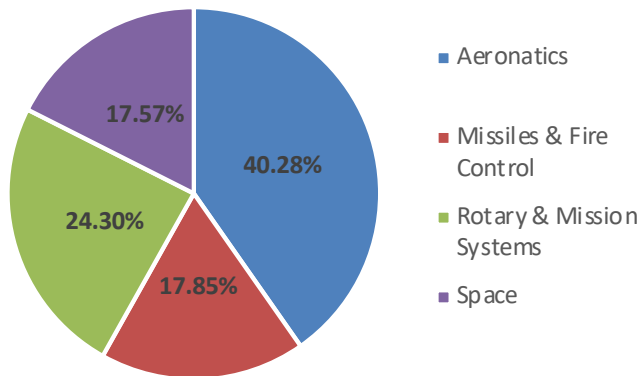
Gross Margin: 11.89%
Profit Margin: 7.51%
ROA: 9.87%
ROE: 81.04%
Quick Ratio: 0.95%
Debt-to-Equity: 323.07
2024 EV/Revenue: 1.87



Investment Thesis

Revenue Segment

Lockheed Martin generates its revenue from four main units. Aeronautics is the largest division driven by aircrafts and classified aircraft development. Missiles & Fire Control provides both Air and Missile defense systems. Rotary & Mission systems delivers naval systems and helicopters. Space encompasses satellites, strategic missile programs and classified national security space work. All four segments form a diversified portfolio of U.S. and Allied Defense.



Aeronautics

In 2024, Aeronautics remained the flagship division of Lockheed, driven by the F-35, F-22, F-16, C-130J, and a growing suite of classified programs within Skunk Works. The F-35 program accounted for 26% of total company revenue and 65% of Aeronautics' revenue in 2024. Aeronautics backlog climbed 4.3% to \$62.8 billion, reflecting international demand and sustained multi-year awards. Total segment revenue increased 4.2% year-over-year to \$28.6 billion, highlighting resilience and consistent platform demand. Operating profit declined to \$2.52 billion from \$2.83 billion, primarily due to a \$555 million reach-forward loss [3]. Overall, the division continues to expand long-term modernization opportunities.

Rotary & Mission Systems

In 2024, Rotary and Mission Systems remained a core division for Lockheed, supported by the Black Hawk, Seahawk, CH-53K, and Aegis Combat Systems [2]. RMS generated \$17.3 billion in revenue, a 6.3% year-over-year increase, driven by shipbuilding systems, radar demand, and naval modernization. Operating profit increased \$1.92 billion in 2024 from \$1.87 billion, demonstrating stable margin performance despite supply chain pressures[3]. RMS continues to expand its opportunities in integrated warfare systems and long-term defense contracts

Missiles & Fire Control

In 2024, Missiles and Fire Control was a critical division for Lockheed, anchored by the PAC-3, HIMARS, THAAD, and Hellfire programs. Missiles & Fire Control delivered \$12.7 billion in revenue, a 12.7% year-over-year increase driven by missile defense demand and international orders. MFC had a sharp decline in Operating Profit to \$413 million from \$1.54 billion due to a \$1.4 billion reach forward loss on a classified program [3]. Despite pressure on margins, MFC is expanding opportunities in precision strike, air and missile defense, and increased global demand for long-range fire control. Looking ahead, Missiles & Fire Control is aligned with the rising geopolitical threats that are reshaping global defense spending.

Space

In 2024, Space remained a strategic growth pillar for Lockheed through programs such as the Trident II D5, Orion, NGI, and multiple classified programs. Revenue for the segment was \$12.3 billion, which reflected stable performance amid program transitions. Operating profit increased slightly to \$1.23 billion from \$1.16 billion, reflecting improved execution across space-based assets [3]. The demand for satellites, early-warning systems, and missile defense continues to accelerate. With hypersonic defense priorities expanding, the space division is well-positioned for long-term modernization and national security growth.

Cost Analysis

Lockheed Martin's cost structure reflects that of a complex defense contractor among long-term U.S and international governments. The company's cost of sales reached \$65.1 billion against revenue of \$71 billion. Cost of Sales is roughly 90% of revenue with business segments of Aeronautics, MFC, RMS and, Space having \$26.1 billion, \$12.3 billion, \$15.4 billion and, \$11.3 billion respectively as costs for each segment. Operating profit decreased to \$7 billion from \$8.5 billion largely due to reach-forward losses among the segments from classified programs. Profit fell in both Aeronautics and Missiles & Fire Control illustrating cost overruns and fixed-price pressure affecting profitability. Despite the pressures Lockheed maintained a strong financial position supported by increased demand and high-backlog levels. The company is continuing to invest in long-term capability with \$1.45 billion in capital expenditures and \$1.56 billion in depreciation and amortization [3]. These factors support modernization of product lines especially with the F-35 program and future programs in hypersonics and classified space systems. The company has stable growth among economic pressures.

Contract Type

Lockheed Martin's business is primarily driven by fixed-price and cost-reimbursable contracts that each have financial implications and risk exposure. Fixed-Price contracts include firm fixed price (FFP) and fixed price incentives (FPI) contracts that provide a predetermined revenue amount. Under FFP contracts, Lockheed must perform at the agreed price regardless of its incurred costs. FPI contracts allow for sharing of cost savings and overruns. Cost-Reimbursable contracts cover allowable costs plus a negotiated fee. These contracts include cost-plus-fixed-fee (CPFF), cost-plus-award-fee (CPAF), cost-plus-incentive fee (CPIF). These contracts limit Lockheed Martin's exposure to cost spikes but also cap profitability. These types of contracts stabilize cash flow and reduce risk. Lockheed Martin frequently begins projects with cost-reimbursable before switching to a fixed-price contracts.

Capital Structure

Lockheed Martin's capital structure is heavily reliant on long-term debt with a small equity base. The company reported \$19.6 billion in long-term debt, which is an increase from \$17.3 billion the year prior. Lockheed Martin has \$49.3 billion in total liabilities compared to only \$6.3 billion in stockholders' equity, which results in a highly leveraged structure with liabilities making up nearly 90% of total capitalization. Lockheed Martin has significant non-debt obligations, including \$4.8 billion in accrued pension liabilities. The company's financing activities reinforce its capital allocation, including issuing \$3 billion in senior unsecured notes and repaying \$168 million of maturing debt. This demonstrates access to fixed-rate credit markets. The company returned capital to shareholders through share repurchases and by paying dividends. Lockheed Martin has liquidity to support its operations and interest obligations with \$2.5 billion in cash and cash equivalents [3]. Overall, Lockheed Martin's capital structure reflects a balance of high leverage and predictable cash flows.

Ticker	LMT	RTX	GD	NOC	LHX
LT Credit Rating	A-	BBB+	A	BBB+	BBB

Lockheed Martin had \$643 million in current maturities of long-term debt. This was a significant increase from \$168 million in 2024. The jump reflected the timing of scheduled note repayments. The amount is modest compared to the long-term borrowing of \$19.6 billion. The manageable size of current maturities combined with \$2.5 billion in cash on hand and \$7 billion in operating cash flow, positions Lockheed Martin to meet its debt obligations with the repayment schedule below [3].

Year	2025	2026	2027	2028	2029	2030	2031	2032	2033
Dollars (mm)	\$500	\$1,000	\$750	\$500	\$650	\$400	\$0	\$800	\$1,000

Payout Policy & Shareholder Management

Lockheed Martin's payout policy is centered on returning a substantial amount of free cash flow to shareholders through share repurchases and dividends. In 2024, the company generated \$5.29 billion in free cash flow and used \$6.7 billion towards dividends and share repurchases [3]. Management has a balanced capital framework that sustains an investment-grade profile as seen in the table. Lockheed Martin uses its funds for strategic program investments and returning excess cash to shareholders. The approach allows Lockheed Martin to maintain financial flexibility and support shareholder value.

Ticker	LMT	RTX	GD	NOC	LHX
Dividend Per Share	12.75	2.72	6.00	9.24	4.80
Dividend Yield	2.96%	1.55%	1.74%	1.66%	1.66%

Lockheed Martin's shareholder return strategy uses dividends as a central component. In 2024, Lockheed Martin paid \$3.1 billion in dividends, which translates to \$12.75 dividend per share. Quarterly dividends were \$3.15 for the first 3 quarters and \$3.30 in the last quarter [3]. This is a continuing trend of annual dividend increases. The annual dividend increase reflect the company's confidence in the durability of cash generation and its strong defense backlog. The payout level is consistent with management guidance on delivering reliable payouts to shareholders and preserving flexibility for capital investments.

Lockheed Martin also uses share repurchases as the other component of the payout strategy. Lockheed Martin repurchased 7.5 million shares in 2024 for \$3.7 billion. This was a decrease from the year prior, where 13.4 million shares were repurchased for \$6 billion. The repurchases reduced the weighted average share count and provided a meaningful lift to EPS even with decreased net earnings. EPS in 2023 was \$27.55 and fell to \$22.31 from reduced earnings of \$6.92 billion to \$5.34 billion, respectively [3]. The reduced share count helped offset the earnings balance.

Ticker	LMT	RTX	GD	NOC	LHX
EPS (23)	27.55	2.23	12.02	13.53	6.44
EPS (24)	22.31	3.55	13.63	28.34	7.87

Industry Analysis

The aerospace and defense sector plays a pivotal role in national security and geopolitical power projections. The industry encompasses complex, high-value activities ranging from research and development to production, integration, and long-term sustainment of advanced

military infrastructure ranging from fighter aircraft, missile systems, space assets, and integrated defense networks. The sector operates within a long-duration procurement cycle, where revenue visibility is enhanced by multi-year government contracts and international defense partnerships. Persistent global tensions, heightened competition among powers, and rising defense spending have catalyzed renewed investment in military modernization and optimization. This environment supports secular top-line growth across prime contractors like Lockheed Martin, which leverage established relationships with the U.S Department of War and allied nations to secure valued, recurring contracts. The combination of elevated geopolitical risk and structural barriers to entry positions the company for sustained cash flow generation and supports foreseeable valuation resilience among established defense primes [4].

Industry Outlook: Positive

We expect the aerospace and defense industry to experience sustained growth in both the near and long term, driven by escalating geopolitical tensions, technological advancements that unlock new market opportunities, and increased global demand for military modernization.

Industry Trends

The aerospace and defense industry is undergoing a resurgence, fueled by heightened global conflicts and expanding defense budgets. Modernization priorities are shifting toward artificial intelligence, autonomous systems, and space-based capabilities. Concurrently, industry leaders are strengthening supply chains in response to recent disruptions, while record backlogs and growing international demand signal sustained momentum through 2025 and beyond [4].

Competitors

The aerospace and defense industry is highly competitive. Lockheed Martin’s peers include L3Harris Technologies, Northrop Grumman, RTX, and General Dynamics. While competition for U.S government contracts is intense, it is often balanced by strategic collaboration among major contractors to jointly deliver advanced defense solutions.

Company	Sales (mm)	Net Margin
LMT	\$71,043.00	6.97%
RTX	\$80,738.00	9.68%
NOC	\$41,033.00	10.17%
GD	\$47,716.00	7.93%
LHX	\$21,325.00	7.04%
Average	\$52,371.00	8.36%

Advanced Programs & Emerging Technologies

Lockheed Martin’s F-35 Lightning II remains the center of its defense portfolio, providing unmatched stealth, sensor integration, and networked warfare capabilities. Its dual role as both a frontline fighter and an intelligence-sharing hub was recently validated in NATO exercises, where the aircraft coordinated multi-domain operations using real-time data. This reinforced not only its strategic importance in modern coalition warfare but also its status as the preferred fifth-generation fighter among U.S. allies, helping drive sustained international demand.

Alongside the F-35, Lockheed is expanding into next-generation technologies through strategic partnerships in quantum computing and AI, including collaborations with PsiQuantum and Google Public Sector. These initiatives aim to enhance mission planning, simulation, and secure data sharing and position the company to lead in future defense concepts.

Additionally, the Sikorsky division and advanced sensor programs like the IRST21 continue to diversify revenue, while strong foreign military sales and a robust backlog support long-term growth and cash flow visibility.

Porter’s 5 Forces

Threat to Competition: Moderate

Competition remains strong among major defense contractors Northrop Grumman, RTX, General Dynamics, and L3Harris Technologies, all vying for high-value U.S. defense contracts. Lockheed Martin’s leadership in key programs like the F-35 and its sizable backlog provide an advantage but shifting defense priorities and procurement trends continue to pose competitive risks. The outlook for next-generation contract awards remains highly dynamic heading into 2026.

Bargaining Power of Customer: High

Lockheed Martin depends heavily on the U.S. Department of Defense for over 70% of its revenue, giving the government significant negotiating power. Fixed-price and incentive-based contracts limit pricing flexibility, and future program funding will continue to be shaped by budget constraints, evolving defense priorities, and political factors through 2026.

Bargaining Power of Suppliers: Moderate

The technical complexity and regulatory requirements of defense programs generally limit supplier leverage. However, ongoing supply chain disruptions, especially in specialized electronics and materials, have heightened risks related to lead times and cost pressures. Lockheed Martin is addressing these challenges by reinforcing key supplier relationships, expanding inventory buffers, and investing in supply chain resilience.

Threat of Substitutes: Low

There are currently no direct substitutes for high-end defense platforms such as fifth-generation fighter jets, missile defense systems, or strategic space capabilities. While emerging technologies like cyberwarfare, autonomous drones, and electronic warfare are reshaping modern conflict, these systems remain complementary rather than replacement solutions. Lockheed Martin is actively investing in these evolving domains, ensuring continued relevance as defense priorities shift toward multi-domain operations.

Threat of New Entrants: Low

The defense industry's high barriers to entry, including capital intensity, strict regulation, and long development cycles, limit new competition. Established players like Lockheed Martin also benefit from decades-long government relationships, making meaningful entry by newcomers highly unlikely.

Looking ahead, we expect interest rates to stabilize or gradually decline into 2026 and beyond as inflation moderates, which would provide a more favorable borrowing environment for Lockheed Martin and its customers.

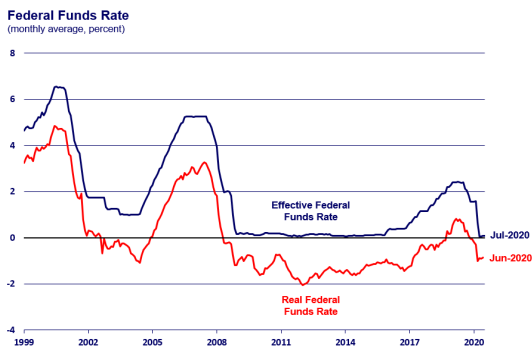
GDP Growth & Aerospace Sector Contribution

The U.S. economy continues to demonstrate resilience heading into 2026, with Q2 GDP expanding at an annualized rate of 3.8%, the strongest growth since late 2023, driven by strong consumer spending and higher-than-expected levels of business investment. Looking ahead, GDP growth is expected to moderate to around 1.8%–2.0% in 2025, with 2026 forecasts ranging from 1.5% to 2.1%, depending on inflation, interest rates, and fiscal policy. Some economists remain more optimistic, projecting a temporary rebound to 3–4% if conditions stabilize [8]. The aerospace and defense sector remains a major driver of U.S. economic output, contributing more than \$400 billion annually and supporting over 2.2 million jobs. In 2024, U.S. aerospace and defense exports reached approximately \$138.7 billion, generating a trade surplus of nearly \$74 billion, underscoring the sector's dominance in global markets. Top export destinations include France, Germany, Brazil, China, and the United Kingdom, driven by demand for fighter jets, missile systems, space platforms, and other high-tech defense solutions. Defense spending accounted for roughly 3.4% of U.S. GDP in 2024, nearly \$1 trillion in government outlays, and remains proportionally higher than any other G7 nation. With rising geopolitical tensions, NATO rearmament, and persistent investment in next-generation capabilities such as hypersonics, space systems, and AI-enabled platforms, the aerospace and defense industry is expected to remain a cornerstone of U.S. GDP growth and export performance through 2026 and beyond [4].

Economic Analysis

Interest Rates

Interest rates continue to influence Lockheed Martin's financing costs and government defense spending trends. As of November 2025, the Federal Reserve has reduced the federal funds rate to 3.75%–4.00% as inflation pressures ease [1] [8] [17]. For our valuation model, we used the 2-year Treasury note rate of 3.48% as the risk-free rate, reflecting current short-term market yields and aligning with our forward-looking cost of capital assumptions.



Given Lockheed Martin's capital-intensive operations and roughly \$19.6 billion in long-term debt, higher interest rates moderately elevate the company's cost of capital, though this is partially mitigated by its A credit rating. With approximately 73% of revenue tied to U.S. government contracts, rising rates can increase pressure on federal budgets through higher debt servicing costs. However, due to elevated geopolitical risks and sustained defense priorities, we do not anticipate a meaningful reduction in procurement spending. [5]

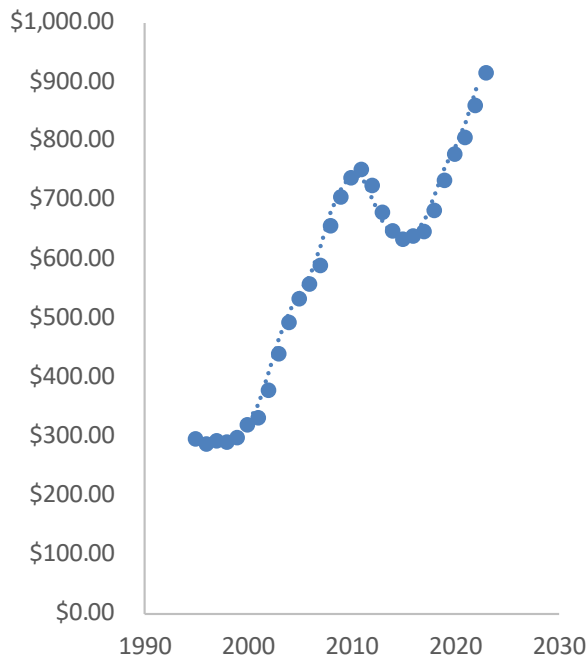
Inflation Impact

Inflation erodes purchasing power and raises input costs, particularly for raw materials, a significant expense in the aerospace and defense industry. While Lockheed Martin has noted that the defense sector is generally less sensitive to inflation than other industrial sectors due to long-term, cost-adjusted government contracts, persistent inflation can still pressure key suppliers and subcontractors, potentially affecting program costs and schedules.

As of now, inflation is around 3.10%, which, while down from recent highs, remains elevated compared to pre-pandemic levels. Inflation trends continue to guide Federal Reserve policy, influencing interest rates and government spending. Key indicators such as the Consumer Price Index (CPI) and Producer Price Index (PPI) reflect this ongoing environment of moderated but still significant inflation, making it an important macroeconomic factor for Lockheed Martin and the broader industry [8] [17].

Following the inflation peak in 2022, when Producer Price Index (PPI) inflation reached nearly 20%, cost pressures have continued to normalize, with PPI expected to hold around 2.5–2.7% entering 2026. Meanwhile, U.S. defense spending growth has leveled off from over 10% increases in 2022 to a more sustainable 3–4% range heading into 2026. This normalization in both input costs and defense budget growth suggests a more stable macroeconomic environment for Lockheed Martin, characterized by improved supplier cost visibility, steady government demand, and a favorable backdrop for margin recovery and operational reliability across major programs [8] [17]

U.S. Defense Spending



Geopolitical Conflict Outlook

Geopolitical tensions remain a core demand driver for Lockheed Martin, as global conflict and strategic competition continue to push governments to increase defense spending and modernize military capabilities. Lockheed stands to benefit through expanded production of advanced strike, missile defense, ISR, and fighter platforms across multiple regions.

Russia-Ukraine War

The ongoing conflict in Ukraine has accelerated U.S. and NATO procurement of missile defense systems, precision strike weapons, and munitions. Lockheed's production of HIMARS launchers, Javelin missiles, and F-35 components directly supports both Ukrainian needs and NATO stockpile replenishment.

Middle East Instability

Escalating threats from Iran and its proxy networks continue to drive demand for air and missile defense systems in the Middle East. Lockheed supplies THAAD, Patriot components, and supports Iron Dome integration, strengthening defense partnerships with Israel, Saudi Arabia, and the UAE. These ongoing tensions present recurring opportunities for sustainment, upgrades, and foreign military sales.

North Korea's Missile Expansion:

North Korea's continued missile launches have heightened security concerns for South Korea and Japan. Lockheed's THAAD, Aegis Combat System, and advanced radar solutions are crucial to regional missile defense architecture, linking directly to potential contract increases for system upgrades and interoperability enhancements.

Cybersecurity and Space Threats:

Adversary development of anti-satellite systems and state-linked cyberattacks has elevated demand for secure space systems and resilient cyber defense. Lockheed is responding by advancing satellite-based ISR, AI-driven threat detection, and classified cyber capabilities, which align with Pentagon priorities and emerging multi-domain operational concepts.

Rising global tensions and conflict are driving sustained defense spending and modernization. With a leading portfolio in areas like air power, missile defense, and space systems, Lockheed Martin is well-positioned to benefit from increased U.S. and allied demand across key regions.

Valuation Analysis

Revenue

Lockheed Martin's revenue decomposition shows a stable diversified growth profile across the four major segments that supports the long-term durability

Supply Chain Outlook

Supply chain challenges continue to affect the aerospace and defense industry heading into 2026, particularly in areas such as propulsion systems, advanced electronics, and missile components. While conditions have improved since the height of pandemic disruptions, labor shortages, supplier consolidation, and material lead-time constraints persist across the sector. Major defense contractors, including Lockheed Martin, Northrop Grumman, RTX, and General Dynamics, have all experienced schedule delays or cost pressures tied to these bottlenecks. Lockheed has responded by increasing inventory buffers, expanding digital supply chain visibility, and investing in automation to enhance resilience and throughput. While moderate improvements are expected in late 2025 and into 2026, production timelines remain sensitive to both workforce availability and critical component sourcing.

of the company's cash flows. Aeronautics is the largest contributor growing from \$28.62 billion in 2024 to \$55.95 billion in the terminal year. The second largest contributor is Rotary & Mission Systems that we grew from \$17.3 billion in 2024 to \$23.7 billion in the terminal year. Missiles & Fire Control had the largest growth opportunities due to the political climate and in 2024 revenue was \$12.7 billion that grew to \$29.6 billion in the terminal year. Space which is the newest segment had revenues of \$12.5 billion that grew to \$17.6 billion in the terminal year [3]. The decomposition of revenue shows a mid-single-digit consolidated growth in the total revenues of the company.

For our valuation, we decomposed all the revenues among the four business segments into the products and services for each segment. We then took the average growth rate leaving out the outliers and then grew the revenues at that growth rate over the valuation period to create the overall revenue for Lockheed Martin.

Cost of Sales

Lockheed Martin's guidance on Cost of Sales is not published considering some projects are classified. Their Cost of Sales has remained constantly high over the last 10 years that reflects the intense resources of a large-scale defense contractor. The historical analysis showed that cost of products sold has averaged ~87% of product revenue and cost of services averaged ~88% of revenue. These ratios indicate that most of Lockheed's revenue is absorbed by the production process. Because the percentages have been steady, we used the historical average as the basis for forecasting total cost of sales in the valuation model. Using this normalized structure for cost provided a consistent and reliable framework for future periods. Ultimately, Lockheed's high-cost profile reinforces the disciplined management in sustainable profitability.

Capital Expenditures

In our valuation we estimated that capital expenditures by using the 10-year average of CAPEX-PPE because Lockheed's capital expenditures are related to their equipment and infrastructure. Using the historical average results in lower spending than management guidance but gives a more conservative approach. By using this average, it aligned closely with the Lockheed's long-term reinvestment plans.

Cost of Equity

Lockheed Martin's cost of equity was calculated using market-based inputs. We used the 10-year treasury yield that gave us a risk-free rate of 4.15%. That reflects the long-term rate for discounting. The beta was sourced

From Bloomberg, the raw beta was 1.08 reflecting Lockheed's sensitivity to the overall market movements. The equity risk premium was sourced from Damodaran latest estimate of 3.73% which is a standard in valuation. This gave us a Cost of equity of 10.03% [10] [11].

Cost of Debt

The cost of debt for Lockheed Martin was calculated using the risk-free rate of 4.15% as stated in the cost of equity equation. The implied default spread of 0.68% gave a pretax cost of debt of 4.84% then using the 18% marginal rate ending with an after-tax cost of debt at 3.97%.

Weighted Average Cost of Capital

Lockheed Martin's weighted average cost of capital (WACC) was calculated using the market value weight of equity to the power of the cost of equity plus the market value of debt to the power of the cost of debt. That gave Lockheed Martin a WACC of 9.86%. Lockheed Martin does not issue any preferred stock that was not included in the calculation of WACC.

Discounted Cashflow & Economic Profit

Our DCF model was driven by the free cash flows that grew from \$3.18 billion to \$12.36 billion in the terminal year. We applied a 2.5% growth rate to sustain long-term defense spending. The cash flows were discounted by the 9.86% WACC that gave a present value of operating assets at ~\$126.4 billion. After making non-operating adjustments of -\$1.83 billion we arrived at an equity value of \$124.54 billion. Dividing the equity value by the shares outstanding and applying a partial year adjustment we arrived at an implied share price of \$558.69.

Our Economic Profit (EP) model had a starting value of \$7.77 billion in 2025 that grew to \$11.95 billion in the terminal year. After discounting the EP by the 9.86% WACC. The total present value of EP was \$122.24 billion then adding the invested capital of the prior fiscal year of \$4.13 billion gave a value of operating assets of ~\$126.4 billion after making the same non-operating adjustments we arrived at an equity value of \$124.5 billion. The equity value was divided by the total shares outstanding then a partial year adjustment was made gave an identical share price to our DCF model of \$558.69.

The DCF and EP models came to identical implied share prices that reinforces the reliability of the valuation. The alignment of the models happened because the key drivers remain the same in each model and that the FCF and EP are consistent with the cost of capital.

Relative Valuation

For our relative valuation, we used the P/E multiple and the EV/Revenue Multiple both are used in the defense industry. Our peer companies were L3Harris (LHX), Northrop Grumman (NOC), RTX (RTX) and General Dynamics (GD). These represent the large defense primes with the same government contracts that Lockheed bids for. We used the peer's P/E and EV/Revenue multiples to get an implied valuation range.

Using the peer average forward multiples of 25.26x (2025) and 22.47x (2027). These multiples gave us a valuation range of \$702.46 – \$658.84, respectively. These valuations are considerably higher than the DCF valuation and Lockheed's current price. This is due to Northrop Grumman and RTX elevated multiples and typically the market gives a higher multiple on P/E.

The EV/Revenue approach produced a conservative and realistic implied price of \$564.55. The EV/Revenue multiple works well for defense contractors since visibility is high in their revenue streams. Using this valuation technique avoids the increased multiples typically seen in earnings. Given the stability of defense revenues and comparability among peers. The EV/Revenue method provides the most accurate relative valuation to for Lockheed Martin.

Dividend Discount Model DDM

Our dividend discount model used the projected dividends and a P/E multiple using the terminal year EPS. The model used a 27.4% terminal ROE, and our 10.03% cost of equity as explained. The DDM model generated an implied share price of \$335.31 and with partial year adjustment an intrinsic price of \$353.80. The DDM is significantly less than our DCF and Relative P/E models due to the fact it only uses cash flows returned to the shareholders. It naturally produced a lower price as Lockheed Martin uses profits for reinvestment and share repurchases. In contrast the DCF model used the full value of free cash flows and retained earnings to generate an intrinsic value of Lockheed Martin. Similarly, the relative P/E model incorporates the market expectations of earnings rather than the dividend payouts. This leads to a higher valuation. The DDM model highlights that Lockheed Martin reinvests in repurchases and the company than their dividend payout.

Sensitivity Analysis

CV Year ROIC Vs. WACC

The sensitivity table illustrates how Lockheed Martin's intrinsic value reacts to changes in the WACC and continuing-value ROIC. As expected, the valuation increases either when the WACC decreases, or the CV ROIC increases. The output range is tight \$549.18 - \$568.85 indicating that under varied assumptions the valuation range remains stable around the base DCF valuation. The table provides confidence that the valuation is well-anchored and not entirely dependent on a single variable.

		CV Year ROIC							
		558.69	111.48%	112.48%	113.48%	114.48%	115.48%	116.48%	117.48%
WACC	9.74%	568.85	568.92	568.99	569.05	569.12	569.19	569.25	
	9.78%	565.41	565.48	565.55	565.62	565.68	565.75	565.81	
	9.82%	562.02	562.09	562.15	562.22	562.29	562.35	562.41	
	9.86%	558.66	558.73	558.79	558.86	558.92	558.99	559.05	
	9.90%	555.34	555.41	555.47	555.54	555.60	555.66	555.73	
	9.94%	552.05	552.12	552.19	552.25	552.31	552.38	552.44	
	9.98%	548.80	548.87	548.93	549.00	549.06	549.12	549.18	

Aeronautics Sales Growth Vs. CV Growth of NOPLAT

This sensitivity table evaluated how the intrinsic value responds to the changes in aeronautics product sales growth and continuing value growth of NOPLAT. The results show a clear pattern that higher long-term growth on both variable increases the valuation and the opposite is true. The range spans from \$542.95 – \$576.35 and the DCF range sits right in the middle. The table is useful because aeronautics products are the company's largest segment and small changes could influence results. The sensitivity table highlights that long-term performance depends on segment level execution.

		Aeronautics Product Sales Growth							
		558.69	5.60%	5.70%	5.80%	5.88%	6.00%	6.10%	6.20%
CV Growth of NOPLAT	2.20%	542.95	544.20	545.46	546.48	548.01	549.30	550.59	
	2.30%	546.89	548.15	549.42	550.44	551.99	553.29	554.60	
	2.40%	550.93	552.20	553.48	554.52	556.08	557.40	558.72	
	2.50%	555.08	556.36	557.66	558.70	560.28	561.61	562.95	
	2.60%	559.34	560.64	561.95	563.01	564.60	565.94	567.29	
	2.70%	563.72	565.04	566.36	567.43	569.04	570.39	571.76	
	2.80%	568.23	569.56	570.90	571.97	573.60	574.97	576.35	

CV Growth of NOPLAT Vs. WACC

This sensitivity table illustrates the impact of CV Growth of NOPLAT and WACC. Both variables are key assumptions in the DCF model. The valuation was as expected lower WACC and higher CV Growth generated higher valuations. The results spanned a wider range and shows the influence these two variables have on the valuation. The base DCF valuation sits in the middle range of the sensitivity range showing that the assumptions are balanced. This sensitivity analysis is valuable because it demonstrates the interaction between discount rates and long-term growth.

WACC	558.69	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
9.74%		538.91	548.31	558.33	569.05	580.54	592.88	606.17
9.78%		535.90	545.17	555.05	565.62	576.94	589.09	602.17
9.82%		532.91	542.06	551.81	562.22	573.37	585.34	598.22
9.86%		529.96	538.98	548.60	558.86	569.85	581.64	594.32
9.90%		527.04	535.94	545.42	555.54	566.36	577.98	590.46
9.94%		524.15	532.93	542.27	552.25	562.92	574.36	586.65
9.98%		521.29	529.94	539.16	549.00	559.51	570.78	582.89

Cost of Equity Vs. WACC

The sensitivity table highlights how Lockheed Martin's intrinsic price changes with variations in the cost of equity and WACC. As the cost of equity increases so does the WACC which decreases the intrinsic price of the stock. This sensitivity table highlights that the valuation is only moderately sensitive to the variables. The base DCF valuation sits near the middle, so the valuation is balanced and a realistic assessment of the equity market risk.

WACC	558.69	9.70%	9.80%	9.90%	10.03%	10.10%	10.20%	10.30%
9.74%		567.74	568.14	568.54	569.06	569.34	569.73	570.13
9.78%		564.32	564.71	565.11	565.62	565.90	566.29	566.69
9.82%		560.93	561.32	561.71	562.22	562.50	562.89	563.28
9.86%		557.57	557.97	558.36	558.86	559.14	559.53	559.92
9.90%		554.26	554.65	555.04	555.54	555.81	556.20	556.59
9.94%		550.98	551.37	551.75	552.25	552.52	552.91	553.29
9.98%		547.73	548.12	548.50	549.00	549.27	549.65	550.04

Aeronautics Sales Growth Vs. Depreciation %

This sensitivity table analyzes how Lockheed Martin's intrinsic value responds to changes in sales growth in the aeronautics segment and depreciation as a percent of PPE. Both assumptions directly affect profitability and reinvestment. The analysis shows that when aeronautics increases the valuation increases. In contrast the depreciation rate has only a modest effect on the intrinsic price. This indicates that the model is not overtly sensitive to changes in depreciation.

Aeronautics Product Sales Growth

Depreciation %	558.69	5.00%	5.25%	5.50%	5.88%	6.00%	6.25%	6.50%
15.00%		546.61	549.70	552.85	557.75	559.33	562.67	566.07
16.00%		546.96	550.05	553.20	558.11	559.69	563.02	566.42
17.00%		547.24	550.33	553.48	558.38	559.96	563.30	566.69
18.90%		547.56	550.65	553.80	558.70	560.28	563.62	567.02
20.00%		547.65	550.74	553.89	558.79	560.37	563.71	567.11
21.00%		547.68	550.77	553.92	558.82	560.40	563.74	567.14
22.00%		547.66	550.76	553.91	558.81	560.39	563.72	567.12

CV Growth of NOPLAT Vs. Beta

The final sensitivity analysis explores how the CV growth of NOPLAT and Beta affects the intrinsic value of Lockheed. Both the variables determine the long-term discounting of assumptions. A lower beta reduces the cost of equity and WACC which produces the higher valuations. While a higher beta reduces the intrinsic value of the stock. The valuation range is the largest of the sensitivity tables which shows that Lockheed Martin is sensitive to the market.

Beta	558.69	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
0.90		604.98	617.57	631.11	645.71	661.49	678.60	697.23
0.95		582.14	593.58	605.84	619.03	633.24	648.59	665.25
1.00		560.90	571.31	582.45	594.40	607.23	621.06	636.01
1.08		529.81	538.83	548.43	558.69	569.67	581.45	594.12
1.15		505.19	513.17	521.65	530.68	540.31	550.61	561.64
1.20		488.90	496.23	504.01	512.27	521.07	530.45	540.48
1.25		473.58	480.33	487.47	495.06	503.11	511.68	520.82

Conclusion

We recommend a **BUY** rating on Lockheed Martin due to current geopolitical conflicts around the world and the need for more robust missile defense systems. We believe Lockheed Martin comes with the potential upside of 19%

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the student's skills, knowledge, and abilities. Members of the Krause Fund are not registered investment advisors, brokers, or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Lockheed Martin Corporation
Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Total net sales	\$ 39,946	\$ 39,510	\$ 47,290	\$ 49,960	\$ 53,762	\$ 59,812	\$ 65,398	\$ 67,044	\$ 65,984	\$ 67,571	\$ 71,043	\$ 75,065	\$ 79,364	\$ 83,964	\$ 88,887	\$ 94,160	\$ 99,812	\$ 105,874	\$ 112,379	\$ 119,365	\$ 126,872
Products	34984	33842	40081	42502	45005	50053	54928	56435	55466	56265	59277	62,466	65,860	69,474	73,323	77,427	81,803	86,472	91,456	96,779	102,468
Services	4962	5668	7209	7458	8757	9759	10470	10609	10518	11306	11766	12,599	13,505	14,490	15,563	16,733	18,009	19,402	20,923	22,586	24,405
Cost of sales	\$ (34,359)	\$ (35,018)	\$ (40,674)	\$ (42,394)	\$ (45,327)	\$ (50,256)	\$ (55,454)	\$ (56,619)	\$ (56,293)	\$ (57,662)	\$ (62,554)	\$ (64,217)	\$ (67,897)	\$ (71,833)	\$ (76,046)	\$ (80,559)	\$ (85,397)	\$ (90,585)	\$ (96,153)	\$ (102,133)	\$ (108,560)
Severance charges	0	-82	-80	0	-96	0	-27	-36	-100	-92	-87	-72	-77	-81	-86	-91	-96	-102	-108	-115	-122
Other unallocated, net	-96	-47	1008	1501	1639	1875	1650	1504	1012	1233	1043	1452	1535	1624	1719	1821	1930	2047	2173	2308	2453
Products - Total operating costs and expenses	-30079	-30065	-35179	-37222	-39132	-43400	-47706	-48653	-47953	-48776	-53293	-54512	-57474	-60627	-63987	-67568	-71387	-75461	-79811	-84456	-89420
Services - total operating costs and expenses	-4184	-4824	-6423	-6673	-7738	-8731	-9371	-9434	-9252	-10027	-10217	-11084	-11881	-12748	-13692	-14721	-15844	-17069	-18407	-19870	-21470
Gross profit	\$ 5,587	\$ 4,492	\$ 6,616	\$ 7,566	\$ 8,435	\$ 9,556	\$ 9,944	\$ 10,425	\$ 9,691	\$ 9,909	\$ 8,489	\$ 10,848	\$ 11,468	\$ 12,131	\$ 12,841	\$ 13,601	\$ 14,415	\$ 15,289	\$ 16,226	\$ 17,232	\$ 18,313
Depreciation & Amortization	994	1026	1215	1195	1161	1189	1290	1364	1404	1430	1559	1650	1672	1695	1719	1742	1766	1791	1815	1840	1866
Other income / expense, net	329	220	487	373	60	178	-10	62	61	28	83	-100	-23	63	158	263	379	506	666	802	951
Operating profit	\$ 4,264	\$ 3,246	\$ 4,914	\$ 5,998	\$ 7,214	\$ 8,189	\$ 8,664	\$ 8,999	\$ 8,226	\$ 8,451	\$ 6,847	\$ 9,298	\$ 9,818	\$ 10,373	\$ 10,964	\$ 11,595	\$ 12,270	\$ 12,991	\$ 13,745	\$ 14,590	\$ 15,496
Interest expense	-340	-443	-863	-651	-668	-653	-591	-569	-623	-916	-1036	-853	-878	-904	-933	-963	-995	-1030	-1067	-1106	-1148
Interest Income	5	30	-471	-847	-828	-651	182	-1004	-1045	507	243	-474	-501	-530	-561	-594	-630	-668	-709	-753	-801
Earnings before income taxes	\$ 3,919	\$ 2,773	\$ 4,722	\$ 6,194	\$ 7,374	\$ 8,187	\$ 7,891	\$ 9,434	\$ 8,648	\$ 7,028	\$ 6,054	\$ 7,971	\$ 8,440	\$ 8,938	\$ 9,470	\$ 10,038	\$ 10,645	\$ 11,294	\$ 11,969	\$ 12,730	\$ 13,547
Income tax expense	-1424	-1173	-1093	-3356	-792	-1011	-1347	-1235	-948	-1178	-884	-1435	-1519	-1609	-1705	-1807	-1916	-2033	-2154	-2291	-2438
Net earnings from continuing operations	2495	1600	3629	2838	6582	7176	6544	8199	7700	5850	5170	6536	6920	7330	7766	8231	8729	9261	9814	10439	11108
Net earnings / loss from discontinued operations	361	479	1512	73	0	0	-55	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net earnings	\$ 2,856	\$ 2,079	\$ 5,141	\$ 2,911	\$ 6,582	\$ 7,176	\$ 6,489	\$ 8,199	\$ 7,700	\$ 5,850	\$ 5,170	\$ 6,536	\$ 6,920	\$ 7,330	\$ 7,766	\$ 8,231	\$ 8,729	\$ 9,261	\$ 9,814	\$ 10,439	\$ 11,108
Per share																					
Basic	8.87	6.73	17.55	10.13	22.70	25.40	23.04	30.15	30.18	24.26	21.98	27.81	29.32	31.06	32.91	34.88	36.99	39.24	41.59	44.23	47.07
Dividends per Share																					
Total Shares Outstanding	316.0	305.0	290.0	285.0	283.0	281.0	280.0	271.0	254.0	240.0	234.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0
Weighted Average Shares Outstanding	322.1	309.0	292.9	287.4	289.9	282.5	281.6	271.9	255.1	241.1	235.2	235.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0	236.0
Dividends per Share					\$ 8.29	\$ 8.03	\$ 9.87	\$ 10.85	\$ 11.87	\$ 12.73	\$ 13.07	\$ 11.74	\$ 12.43	\$ 13.17	\$ 13.95	\$ 14.79	\$ 15.68	\$ 16.64	\$ 17.63	\$ 18.76	\$ 19.96

Lockheed Martin Corporation
Historical Cash Flow Statement

Fiscal Years Ending Dec. 31	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net cash provided by operating activities	3866	5101	5189	6476	3138	7311	8183	9221	7802	7920	6972
Net earnings	3614	3605	5173	1963	5046	6230	6833	6315	5732	6920	5336
Adjustments to reconcile net earnings to net cash provided by operating activities	252	1496	16	4513	-1908	1081	1350	2906	2070	1000	1636
Depreciation and amortization	994	1026	1215	1195	1161	1189	1290	1364	1404	1430	1559
Stock-based compensation	164	138	149	158	173	189	221	227	238	265	277
Equity method investment impairment					0	0	128				
Tax resolution related to former IS&GS business					0	0	55				
Deferred income taxes	-401	-445	-193	3448	-244	222	5	-183	-757	-498	-588
Pension settlement charge	119					0	0	1665	1470	0	0
Severance charges / credits	0	102	99	0	96	0	27	36	100	92	87
Gain on property sale		0	0	-198	0	-51					
Gain on divestiture of IS&GS business segment	0	0	-1201	-73							
Gain on step acquisition of AWE	0	0	-104								
Changes in assets and liabilities	-624	675	51	-17	-3094	-468	-376	-203	-385	-289	301
Net cash used for / provided by investing activities	-1723	-9734	-985	-1147	-1075	-1241	-2010	-1161	-1789	-1694	-1792
Capital expenditures	-845	-939	-1063	-1177	-1278	-1484	-1766	-1522	-1670	-1691	-1685
Other, net	-878	-8795	78	30	203	243	-244	361	-119	-3	-107
Net cash used for / provided by financing activities	-3314	4277	-3457	-4305	-4152	-5328	-4527	-7616	-7070	-7331	-4139
Repayments of / proceeds from commercial paper, net			0	0	600	-600					
Repayments of long-term debt	0	9101	-952	0	-750	-900	-519	-500	3961	1860	2802
Proceeds from borrowings under revolving credit facilities	0	6000									
Repayments of borrowings under revolving credit facilities	0	-6000									
Repurchases of common stock	-1900	-3071	-2096	-2001	-1492	-1200	-1100	-4087	-7900	-6000	-3700
Dividends paid	-1760	-1932	-2048	-2163	-2347	-2556	-2764	-2940	-3016	-3056	-3059
Other, net	346	179	-161	-141	-163	-72	-144	-89	-115	-135	-182
Proceeds from stock option exercises	308	174									
Other, net	38	5									
Net change in cash and cash equivalents	-1171	-356	747	1024	-2089	742	1646	444	-1057	-1105	1041
Cash and cash equivalents at beginning of period	2617	1446	1090	1837	2861	772	1514	3160	3604	2547	1442
Cash and cash equivalents at end of period	1446	1090	1837	2861	772	1514	3160	3604	2547	1442	2483

Lockheed Martin Corporation
Forecasted Cash Flow Statement

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Cash Flows from Operating Activities										
Net Income	\$ 6,536	\$ 6,920	\$ 7,330	\$ 7,766	\$ 8,231	\$ 8,729	\$ 9,261	\$ 9,814	\$ 10,439	\$ 11,108
Depreciation & Amortization	1,650	1,672	1,695	1,719	1,742	1,766	1,791	1,815	1,840	1,866
Deferred Income Taxes	302	320	339	359	380	403	428	1,026	-	-
Change in Receivables	(389)	(157)	(168)	(180)	(192)	(206)	(221)	(237)	(255)	(274)
Change in Contract Assets	233	(729)	(780)	(835)	(894)	(958)	(1,028)	(1,103)	(1,184)	(1,273)
Change in Inventories	(1,340)	(276)	(295)	(316)	(338)	(362)	(389)	(417)	(448)	(481)
Change in Other Current Assets	(220)	(46)	(49)	(53)	(56)	(61)	(65)	(70)	(75)	(80)
Change in Other Noncurrent Assets	(343)	(357)	(372)	(387)	(403)	(420)	(437)	(455)	(473)	(493)
Change in Accounts Payable	(175)	117	125	134	144	154	165	177	190	205
Change in Other Current Liabilities	(3,220)	801	856	917	982	1,052	1,129	1,211	1,301	1,398
Change in Accrued Pension Liabilities	(479)	(479)	(479)	(479)	(479)	(479)	(479)	(479)	(479)	(479)
Change in Other Postretirement Benefits	(545)	(545)	(545)	(545)	(545)	(545)	(545)	(545)	(545)	(545)
Net Cash Provided by Operating Activities	\$ 2,009	\$ 7,242	\$ 7,658	\$ 8,100	\$ 8,572	\$ 9,074	\$ 9,611	\$ 10,739	\$ 10,312	\$ 10,952
Cash Flows From Investing Activities										
Capital Expenditures	(1,770)	(1,794)	(1,819)	(1,844)	(1,869)	(1,895)	(1,921)	(1,948)	(1,975)	(2,002)
Purchases of Intangibles	183	183	183	183	183	183	183	183	183	183
Net Cash Provided By Investing Activities	\$ (1,587)	\$ (1,611)	\$ (1,636)	\$ (1,661)	\$ (1,686)	\$ (1,712)	\$ (1,738)	\$ (1,765)	\$ (1,791)	\$ (1,819)
Cash Flows From Financing Activities										
Proceeds From Long-Term Debt	(1,994)	514	548	585	625	668	713	763	816	873
Dividends Paid	(2,772)	(2,935)	(3,108)	(3,293)	(3,490)	(3,701)	(3,927)	(4,162)	(4,427)	(4,710)
Share Repurchases	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Net Cash Provided by Financing Activities	\$ (5,766)	\$ (3,420)	\$ (3,560)	\$ (3,708)	\$ (3,865)	\$ (4,034)	\$ (4,214)	\$ (4,399)	\$ (4,611)	\$ (4,837)
Net Change in Cash	(5,344)	2,210	2,463	2,732	3,020	3,328	3,659	4,575	3,910	4,296
Beginning Cash Balance	2,483	(2,861)	(650)	1,812	4,544	7,564	10,893	14,552	19,127	23,037
Ending Cash Balance	\$ (2,861)	\$ (650)	\$ 1,812	\$ 4,544	\$ 7,564	\$ 10,893	\$ 14,552	\$ 19,127	\$ 23,037	\$ 27,333

Lockheed Martin Corporation
Common Size Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
Total net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Products	83.99%	84.18%	84.06%	83.27%	83.44%	83.22%	82.98%	82.74%	82.49%	82.23%	81.96%	81.67%	81.38%	81.08%	80.76%
Services	16.01%	15.82%	15.94%	16.73%	16.56%	16.78%	17.02%	17.26%	17.51%	17.77%	18.04%	18.33%	18.62%	18.92%	19.24%
Cost of sales	84.79%	84.45%	85.31%	85.34%	88.05%	85.55%	85.55%	85.55%	85.55%	85.56%	85.56%	85.56%	85.56%	85.56%	85.57%
Severance charges	0.04%	0.05%	0.15%	0.14%	0.12%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Other unallocated, net	2.52%	2.24%	1.53%	1.82%	1.47%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%	1.93%
Products - Percent of Products Sales	86.85%	86.21%	86.45%	86.69%	89.91%	87.27%	87.27%	87.27%	87.27%	87.27%	87.27%	87.27%	87.27%	87.27%	87.27%
Services - Percent of Service Sales	89.50%	88.92%	87.96%	88.69%	86.83%	87.98%	87.98%	87.98%	87.98%	87.98%	87.98%	87.98%	87.98%	87.98%	87.98%
Gross profit	15.21%	15.55%	14.69%	14.66%	11.95%	14.45%	14.45%	14.45%	14.45%	14.44%	14.44%	14.44%	14.44%	14.44%	14.43%
Depreciation & Amortization	1.97%	2.03%	2.13%	2.12%	2.19%	2.20%	2.11%	2.02%	1.93%	1.85%	1.77%	1.69%	1.62%	1.54%	1.47%
Other income / expense, net	0.02%	0.09%	0.09%	0.04%	0.12%	0.13%	0.03%	0.08%	0.18%	0.28%	0.38%	0.48%	0.59%	0.67%	0.75%
Operating profit	13.25%	13.42%	12.47%	12.51%	9.64%	12.39%	12.37%	12.35%	12.33%	12.31%	12.29%	12.27%	12.23%	12.22%	12.21%
Interest expense	0.90%	0.85%	0.94%	1.36%	1.46%	1.14%	1.11%	1.08%	1.05%	1.02%	1.00%	0.97%	0.95%	0.93%	0.91%
Other non-operating income / expense, net	0.28%	1.50%	1.58%	0.75%	0.34%	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%
Earnings before income taxes	12.07%	14.07%	13.11%	10.40%	8.52%	10.62%	10.63%	10.65%	10.65%	10.66%	10.66%	10.67%	10.65%	10.66%	10.68%
Income tax expense	2.06%	1.84%	1.44%	1.74%	1.24%	1.91%	1.91%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%	1.92%
Net earnings from continuing operations	10.01%	12.23%	11.67%	8.66%	7.28%	8.71%	8.72%	8.73%	8.74%	8.74%	8.75%	8.75%	8.73%	8.75%	8.76%
Net earnings / loss from discontinued operations	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net earnings	9.92%	12.23%	11.67%	8.66%	7.28%	8.71%	8.72%	8.73%	8.74%	8.74%	8.75%	8.75%	8.73%	8.75%	8.76%

Lockheed Martin Corporation
Value Driver Estimation

Fiscal Years Ending Dec. 31	2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
NOPLAT:	\$ 6,693	\$ 7,495	\$ 7,156	\$ 6,837	\$ 5,889	\$ 8,184	\$ 8,635	\$ 9,116	\$ 9,630	\$ 10,181	\$ 10,771	\$ 11,403	\$ 12,652	\$ 12,326	\$ 13,077
Revenues	65,398	67,044	65,984	67,571	71,043	75,065	79,364	83,964	88,887	94,160	99,812	105,874	112,379	119,365	126,872
Cost of Products Sold	47,706	48,653	47,953	48,776	53,293	54,512	57,474	60,627	63,987	67,568	71,387	75,461	79,811	84,456	89,420
Cost of Services Sold	9,371	9,434	9,252	10,027	10,217	11,084	11,881	12,748	13,692	14,721	15,844	17,069	18,407	19,870	21,470
Implied Interest on Operating Leases	53	54	69	59	54										
EBIT	8,374	9,011	8,848	8,827	7,587	9,469	10,010	10,588	11,208	11,871	12,581	13,343	14,161	15,039	15,982
Income Tax Provision	1,347	1,235	948	1,178	884	1,435	1,519	1,609	1,705	1,807	1,916	2,033	2,154	2,291	2,438
Tax Provision/(Shield) on Other-Unallocated	(312)	(281)	(186)	(231)	(184)	(273)	(289)	(305)	(323)	(342)	(363)	(385)	(409)	(434)	(461)
Tax Provision/(Shield) on Severance Charge	5	7	18	17	15	14	14	15	16	17	18	19	20	22	23
Tax Provision/(Shield) on Other Income	2	(12)	(11)	(5)	(15)	19	4	(12)	(30)	(49)	(71)	(95)	(125)	(151)	(179)
Tax Provision/(Shield) on Non-Operating In	(34)	188	192	(95)	(43)	89	94	100	105	112	118	126	133	142	151
Adjusted Taxes	1,686	1,333	935	1,491	1,110	1,586	1,695	1,811	1,936	2,070	2,214	2,368	2,534	2,713	2,905
Change in Deferred Taxes	5	(183)	(757)	(498)	(588)	302	320	339	359	380	403	428	1,026	-	-
Invested Capital (IC):	\$ 7,351	\$ 7,309	\$ 7,181	\$ 6,441	\$ 4,129	\$ 9,132	\$ 9,316	\$ 9,525	\$ 9,761	\$ 10,025	\$ 10,321	\$ 10,651	\$ 11,017	\$ 11,422	\$ 11,871
Operating Working Capital	924	1,801	2,439	1,848	(202)	4,529	4,788	5,066	5,363	5,681	6,022	6,387	6,780	7,201	7,654
Operating Working Assets	16,007	16,486	18,859	19,417	19,802	21,357	22,580	23,888	25,289	26,789	28,397	30,122	31,973	33,960	36,096
Normal Cash	939	963	948	970	1,020	1,078	1,140	1,206	1,276	1,352	1,433	1,520	1,614	1,714	1,822
Accounts Receivables	1,978	1,963	2,505	2,132	2,351	2,740	2,897	3,065	3,244	3,437	3,643	3,864	4,102	4,357	4,631
Contract Assets	9,545	10,579	12,318	13,183	12,957	12,724	13,453	14,233	15,067	15,961	16,919	17,947	19,050	20,234	21,506
Inventories	3,545	2,981	3,088	3,132	3,474	4,814	5,090	5,385	5,701	6,039	6,402	6,790	7,208	7,656	8,137
Operating Working Liabilities	15,083	14,685	16,420	17,569	20,004	16,828	17,792	18,823	19,927	21,109	22,376	23,735	25,193	26,759	28,442
Accounts Payable	880	780	2,117	2,312	2,222	2,047	2,164	2,289	2,424	2,567	2,721	2,887	3,064	3,255	3,459
Customer Advances	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Contract Liabilities	13,053	13,217	13,770	14,625	17,198	13,978	14,778	15,635	16,551	17,533	18,586	19,714	20,926	22,227	23,625
Net PPE	1,150	688	533	632	584	804	850	899	952	1,008	1,069	1,134	1,203	1,278	1,358
Long-Term Operating Assets	5,277	4,820	4,209	3,961	3,747	3,799	3,678	3,560	3,447	3,337	3,231	3,130	3,034	2,943	2,858
Intangibles	3,012	2,706	2,459	2,212	2,015	1,832	1,649	1,465	1,282	1,099	916	733	550	366	183
Operating Leases	1,115	1,426	1,217	1,117	1,148	1,164	1,180	1,196	1,213	1,229	1,246	1,263	1,281	1,299	1,316
Other Current Assets	1,150	688	533	632	584	804	850	899	952	1,008	1,069	1,134	1,203	1,278	1,358
Free Cash Flow (FCF):															
NOPLAT	6,693	7,495	7,156	6,837	5,889	8,184	8,635	9,116	9,630	10,181	10,771	11,403	12,652	12,326	13,077
Change in IC	565	(42)	(128)	(739)	(2,312)	5,002	184	209	236	265	296	330	366	406	448
FCF	\$ 6,128	\$ 7,537	\$ 7,284	\$ 7,577	\$ 8,202	\$ 3,182	\$ 8,450	\$ 8,907	\$ 9,395	\$ 9,917	\$ 10,475	\$ 11,074	\$ 12,286	\$ 11,920	\$ 12,628
Return on Invested Capital (ROIC):															
NOPLAT	6,693	7,495	7,156	6,837	5,889	8,184	8,635	9,116	9,630	10,181	10,771	11,403	12,652	12,326	13,077
Beginning IC	6,786	7,351	7,309	7,181	6,441	4,129	9,132	9,316	9,525	9,761	10,025	10,321	10,651	11,017	11,422
ROIC	98.63%	101.95%	97.91%	95.22%	91.43%	198.21%	94.56%	97.85%	101.11%	104.31%	107.44%	110.48%	118.80%	111.88%	114.48%
Economic Profit (EP):															
Beginning IC	6,786	7,351	7,309	7,181	6,441	4,129	9,132	9,316	9,525	9,761	10,025	10,321	10,651	11,017	11,422
x (ROIC - WACC)	0.89	0.92	0.88	0.85	0.82	1.88	0.85	0.88	0.91	0.94	0.98	1.01	1.09	1.02	1.05
EP	6023.9696	6769.6048	6435.436	6129.3118	5254.156	7777.1414	7734.0667	8197.0896	8691.0942	9218.5854	9782.2899	10385.177	11601.992	11239.218	11950.117

Lockheed Martin Corporation

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity:

Risk-Free Rate	4.15%
Beta	1.08
Equity Risk Premium	5.44%
Cost of Equity	10.03%

Cost of Debt:

Risk-Free Rate	4.15%
Implied Default Premium	0.68%
Pre-Tax Cost of Debt	4.84%
Marginal Tax Rate	18%
After-Tax Cost of Debt	3.97%

Market Value of Common Equity:

Total Shares Outstanding	235.20
Current Stock Price	\$505.31
MV of Equity	118,848.91

MV Weights

97.24%

Market Value of Debt:

Short-Term Debt	0
Current Portion of LTD	2222
Long-Term Debt	0
PV of Operating Leases	1148
MV of Total Debt	3,370.00

2.76%

Market Value of the Firm

122,218.91

100.00%

Estimated WACC

9.86%

Lockheed Martin Corporation

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:

CV Growth of NOPLAT	2.50%
CV Year ROIC	114.48%
WACC	9.86%
Cost of Equity	10.03%

Fiscal Years Ending Dec. 31	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
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DCF Model:

Free Cash Flow (FCF)	3182.0	8450.3	8906.8	9394.7	9916.6	10475.2	11073.5	12286.3	11920.1	12628.2
Continuing Value (CV)										173743.2
PV of FCF	2896.3	7001.3	6717.0	6449.0	6196.2	5957.7	5732.6	5789.5	5112.7	74521.1

Value of Operating Assets:	126373.4
Non-Operating Adjustments	-1834.0
Other Non-Current Assets	8403.0
Accrued Pension Liabilities	-4791.0
Other Post Retirement Liabilities	-5446.0
Value of Equity	124539.4
Shares Outstanding	235.2
Intrinsic Value of Last FYE	\$ 529.50
Implied Price as of Today	\$ 558.69

EP Model:

Economic Profit (EP)	7777.1	7734.1	8197.1	8691.1	9218.6	9782.3	10385.2	11602.0	11239.2	11950.1
Continuing Value (CV)										162321.0
PV of EP	7079.0	6407.9	6181.8	5966.0	5760.0	5563.6	5376.3	5467.0	4820.7	69622.0

Total PV of EP	122244.3
Invested Capital (last FYE)	4129.1
Value of Operating Assets:	126373.4
Non-Operating Adjustments	-1834.0
Other Non-Current Assets	8403.0
Accrued Pension Liabilities	-4791.0
Other Post Retirement Liabilities	-5446.0
Value of Equity	124539.4
Shares Outstanding	235.2
Intrinsic Value of Last FYE	\$ 529.50
Implied Price as of Today	\$ 558.69

Lockheed Martin Corporation

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
EPS	\$ 27.81	\$ 29.32	\$ 31.06	\$ 32.91	\$ 34.88	\$ 36.99	\$ 39.24	\$ 41.59	\$ 44.23	\$ 47.07
Key Assumptions										
CV growth of EPS	3.00%									
CV Year ROE	27.40%									
Cost of Equity	10.03%									
Future Cash Flows										
P/E Multiple (CV Year)										12.67
EPS (CV Year)										\$ 47.07
Future Stock Price										\$ 596.29
Dividends Per Share	\$ 11.74	\$ 12.43	\$ 13.17	\$ 13.95	\$ 14.79	\$ 15.68	\$ 16.64	\$ 17.63	\$ 18.76	
Discounted Cash Flows	\$ 10.67	\$ 10.27	\$ 9.89	\$ 9.52	\$ 9.17	\$ 8.84	\$ 8.52	\$ 8.21	\$ 7.94	\$ 252.28
Intrinsic Value as of Last FYE	\$ 335.31									
Implied Price as of Today	\$ 353.80									

Lockheed Martin Corporation

Relative Valuation Models

Ticker	Company	Price	EPS		P/E 25	P/E 26	Rev 24	EV 24	EV/Rev
			2025E	2026E					
LHX	L3 Harris Technologies	\$289.10	\$10.62	\$12.41	27.22	23.30	21.3	52.93	2.48
NOC	Northrop Grumman	\$583.45	\$25.94	\$28.83	22.49	20.24	41.0	83.17	2.03
RTX	RTX	\$178.50	\$6.19	\$6.80	28.84	26.25	80.7	194.97	2.41
GD	General Dynamics	\$344.90	\$15.35	\$17.17	22.47	20.09	47.7	82.09	1.72
			Average		25.26	22.47	103.29	2.16	
LMT	Lockheed Martin Corp	\$505.31	\$27.81	\$29.32	18.2	17.2	71.0	0.3	0.2
Implied Relative Value:									
P/E (EPS25)			\$ 702.46						
P/E (EPS26)			\$ 658.84						
EV/REV (24)			\$ 564.55						

Lockheed Martin Corporation
Sensitivity Tables

		CV Year ROIC							
		558.69	111.48%	112.48%	113.48%	114.48%	115.48%	116.48%	117.48%
WACC	9.74%	568.85	568.92	568.99	569.05	569.12	569.19	569.25	
	9.78%	565.41	565.48	565.55	565.62	565.68	565.75	565.81	
	9.82%	562.02	562.09	562.15	562.22	562.29	562.35	562.41	
	9.86%	558.66	558.73	558.79	558.86	558.92	558.99	559.05	
	9.90%	555.34	555.41	555.47	555.54	555.60	555.66	555.73	
	9.94%	552.05	552.12	552.19	552.25	552.31	552.38	552.44	
	9.98%	548.80	548.87	548.93	549.00	549.06	549.12	549.18	

		Cost of Equity							
		558.69	9.70%	9.80%	9.90%	10.03%	10.10%	10.20%	10.30%
WACC	9.74%	567.74	568.14	568.54	569.06	569.34	569.73	570.13	
	9.78%	564.32	564.71	565.11	565.62	565.90	566.29	566.69	
	9.82%	560.93	561.32	561.71	562.22	562.50	562.89	563.28	
	9.86%	557.57	557.97	558.36	558.86	559.14	559.53	559.92	
	9.90%	554.26	554.65	555.04	555.54	555.81	556.20	556.59	
	9.94%	550.98	551.37	551.75	552.25	552.52	552.91	553.29	
	9.98%	547.73	548.12	548.50	549.00	549.27	549.65	550.04	

		Aeronautics Product Sales Growth							
		558.69	5.60%	5.70%	5.80%	5.88%	6.00%	6.10%	6.20%
CV Growth of NOPLAT	2.20%	542.95	544.20	545.46	546.48	548.01	549.30	550.59	
	2.30%	546.89	548.15	549.42	550.44	551.99	553.29	554.60	
	2.40%	550.93	552.20	553.48	554.52	556.08	557.40	558.72	
	2.50%	555.08	556.36	557.66	558.70	560.28	561.61	562.95	
	2.60%	559.34	560.64	561.95	563.01	564.60	565.94	567.29	
	2.70%	563.72	565.04	566.36	567.43	569.04	570.39	571.76	
	2.80%	568.23	569.56	570.90	571.97	573.60	574.97	576.35	

		Aeronautics Product Sales Growth							
		558.69	5.00%	5.25%	5.50%	5.88%	6.00%	6.25%	6.50%
Depreciation %	15.00%	546.61	549.70	552.85	557.75	559.33	562.67	566.07	
	16.00%	546.96	550.05	553.20	558.11	559.69	563.02	566.42	
	17.00%	547.24	550.33	553.48	558.38	559.96	563.30	566.69	
	18.90%	547.56	550.65	553.80	558.70	560.28	563.62	567.02	
	20.00%	547.65	550.74	553.89	558.79	560.37	563.71	567.11	
	21.00%	547.68	550.77	553.92	558.82	560.40	563.74	567.14	
	22.00%	547.66	550.76	553.91	558.81	560.39	563.72	567.12	

		CV Growth of NOPLAT							
		558.69	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
WACC	9.74%	538.91	548.31	558.33	569.05	580.54	592.88	606.17	
	9.78%	535.90	545.17	555.05	565.62	576.94	589.09	602.17	
	9.82%	532.91	542.06	551.81	562.22	573.37	585.34	598.22	
	9.86%	529.96	538.98	548.60	558.86	569.85	581.64	594.32	
	9.90%	527.04	535.94	545.42	555.54	566.36	577.98	590.46	
	9.94%	524.15	532.93	542.27	552.25	562.92	574.36	586.65	
	9.98%	521.29	529.94	539.16	549.00	559.51	570.78	582.89	

		CV Growth of NOPLAT							
		558.69	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%
Beta	0.90	604.98	617.57	631.11	645.71	661.49	678.60	697.23	
	0.95	582.14	593.58	605.84	619.03	633.24	648.59	665.25	
	1.00	560.90	571.31	582.45	594.40	607.23	621.06	636.01	
	1.08	529.81	538.83	548.43	558.69	569.67	581.45	594.12	
	1.15	505.19	513.17	521.65	530.68	540.31	550.61	561.64	
	1.20	488.90	496.23	504.01	512.27	521.07	530.45	540.48	
	1.25	473.58	480.33	487.47	495.06	503.11	511.68	520.82	