

Lockheed Martin Corporation

\$LMT- Runway Clear for Takeoff

Lockheed Martin (\$LMT) reported slightly positive earnings in Q2 of 2025 despite heightened program charges, resulting from a \$150B+ backlog and renewed momentum in its flagship F-35 program. In Q2, Lockheed Martin reported **\$18.2 billion in revenue (up from \$18.1 billion in Q2 2024)** and **net earnings of \$342 million** (after recognizing around \$1.6 billion in program losses). With U.S. defense budgets rising and European allies echoing commitments via the “Coalition of the Willing” for Ukraine, multi-billion-dollar missile and aircraft contracts have been secured. We initiate \$LMT as a **BUY** with a one-year price target of **\$530**, which reflects consistent EPS growth and expansion caused by growing demand for advanced defense systems.

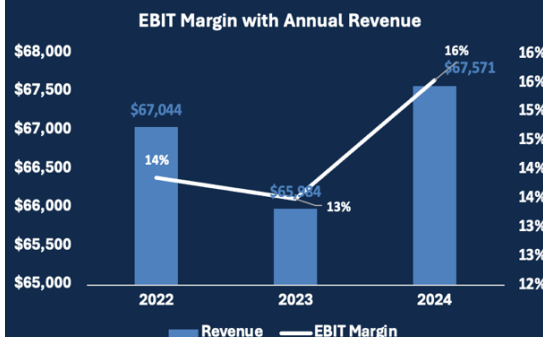
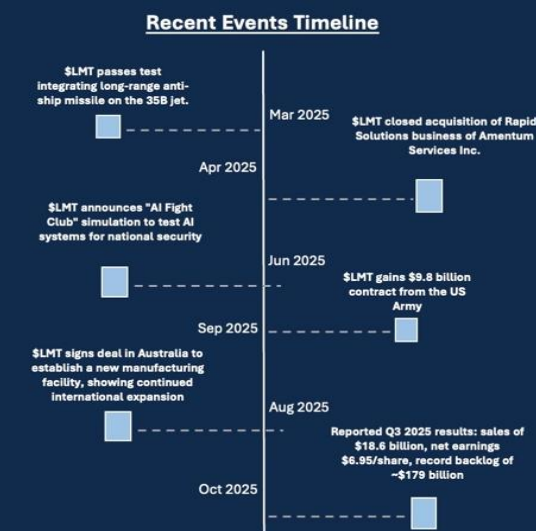
Thesis Point 1- Overseas, European NATO allies are sharply and consistently increasing their defense budgets in response to the ongoing Russo-Ukrainian war (exceeding the 2% baseline agreement within NATO), and U.S. defense firms remain the primary suppliers of air defense systems for NATO allies. As the UK and EU add to their air defense systems, which has been confirmed by a recent €2 billion pledge from European Commission President Ursula von der Leyen for Ukraine, a growing share of their increased air defense spending will certainly flow to American Original Equipment Manufacturers, especially Lockheed, which will further contribute to an upward trajectory of earnings. Arms exports by the USA increased by 21 percent between 2015–19 and 2020–24, and its share of global arms exports grew from 35 per cent to 43 per cent. Industry comparisons in the report indicate that Lockheed Martin will continue to benefit the most from these increases, expanding the firm’s reach and making it more valuable. Additionally, Lockheed has continued to secure and defend extensive contracts from the U.S. Department of Defense, including a **\$4.94 billion contract for additional Precision Strike Missiles in March 2025** and a **\$720 million award for JAGM and HELLFIRE missile production in August 2025**, which includes Foreign Military Sales for the UK and EU NATO partners.

Thesis Point 2 - Beyond wartime contracts, Lockheed’s long-term value proposition is strengthened by its more recent adoption of artificial intelligence and advanced computing through its Skunk Works division, which is its main hub for next-generation aerospace innovation. The company’s AI-enabled systems are being integrated into programs such as the F-35, hypersonic development, and autonomous reconnaissance platforms. In collaboration with NVIDIA, Lockheed is utilizing AI-driven digital twins and mission simulations to enhance production efficiency and predictive maintenance, which will improve margins across several programs. Additionally, Lockheed’s diversification into commercial space (via United Launch Alliance), missile defense modernization, and AI-powered cybersecurity provides multiple revenue streams that will remain resilient even if global conflict spending stabilizes. This diversification positions Lockheed Martin not only as a defense contractor but as a defense-technology research leader with promising growth prospects, strengthening confidence in delivering on the one-year target of \$530 target.

Company Overview - Founded in 1995, Lockheed Martin is the world’s largest defense contractor and a global leader in aerospace and security. Having been formed through the merger of Lockheed Corporation and Martin Marietta, the company is headquartered in Bethesda, Maryland, and employs over 120,000 people worldwide. Its business is divided into four main segments: Aeronautics (~40% of sales), Missiles and Fire Control (~17%), Rotary and Mission Systems (~24%), and Space (~19%). The U.S. Department of Defense is the company’s primary customer, accounting for roughly 73% of sales. For the remainder, 26% of sales are from international allied customers, and a slim portion is from commercial sales. Lockheed currently carries a record **\$166.5 billion backlog (Q2 2025)**, mainly consisting of the F-35 program, PAC-3 missile systems, and expanding space contracts. Under CEO Jim Taiclet, Lockheed has emphasized international growth and space-based defense, while consistently returning capital through dividends and buybacks.



TICKER:	\$LMT
RATING:	BUY
PRICE:	\$504.49
PRICE TARGET:	\$530
MARKET CAP:	\$117.781bn
52-W RANGE:	\$410.11-\$618.95
P/E:	16.85x
IMPLIED UPSIDE:	6%



Risk 1 Lockheed Martin's performance and profitability depend heavily on contracts with the federal government, particularly within the F-35 program, which accounts for roughly one-quarter of total revenue. The company has acknowledged ongoing challenges with software integration and production delays that have led the U.S. Department of Defense to temporarily withhold a portion of milestone payments. Because of such delays and uncertainties, costs may increase, and margins may compress under its performance-based accounting. Any further setbacks in major programs, such as schedule slippage or government funding adjustments, could result in lower earnings in the short-term and diminish investor confidence, despite stable long-term demand for defense systems.

Risk 2 Lockheed Martin faces heightened supply-chain risk, as management cites shortages in "microelectronics" and "propulsion systems." The company has continued to warn that delays with suppliers and cost inflation in labor, materials, and logistics could shrink margins, especially on fixed-price contracts where cost recovery is limited. Lockheed is taking steps to diversify its supplier base and improve inventory management; however, persistent inflation and production setbacks could constrain deliveries and worsen near-term profitability until pricing adjustments or efficiency gains take effect.

Catalysts Lockheed Martin's valuation could accelerate upward over the next 12–18 months as increased U.S. and allied defense budgets begin translating into higher backlog conversion and earnings growth. The Department of Defense's FY2026 budget proposal includes expanded funding for the highly important F-35 production, missile defense systems, and next-generation programs like the Sentinel ICBM and hypersonic weapons, which are areas where Lockheed holds leading market positions. Improved F-35 software and delivery cadence is expected to unlock withheld payments and stabilize margins, which will provide a crucial earnings tailwind. Furthermore, continued share repurchases and capital allocation indicate that management has confidence in cash flow strength. Examining both, these developments will allow Lockheed's long-term durability to be recognized for earnings and push the stock toward its expected valuation target.

Valuation

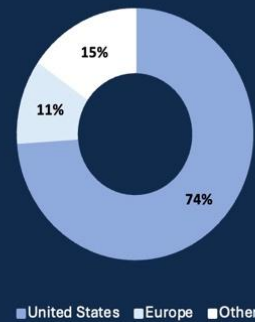
DCF Analysis (\$mm)							
	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030
	12/31/24	12/31/2025	12/31/26	12/31/27	12/30/28	12/30/29	12/31/30
Revenue	71,043	73,450	76,874	80,205	83,395	86,397	89,169
Revenue Growth	5%	3%	5%	4%	4%	4%	3%
United States	52,528	54,000	56,160	58,266	60,305	62,265	64,133
Europe	7,716	8,500	9,435	10,308	11,081	11,718	12,187
Other	10,799	10,950	11,279	11,631	12,009	12,414	12,849
EBIT	8,654	8,900	8,456	8,622	8,756	8,856	8,917
EBIT Margin	12%	12%	11%	11%	11%	10%	10%
Tax Expense	884	870	846	862	876	886	892
Effective Tax Rate	10%	10%	10%	10%	10%	10%	10%
NOPAT	7,770.00	8,030.00	7,610.48	7,759.80	7,880.84	7,970.17	8,025.18
D&A	1,213	1,250	1,307	1,343	1,376	1,404	1,427
Capex	(1,685)	(1,670)	2,306	2,206	2,085	1,944	1,783
Changes in NWC	(1,406)	300	1,537	1,263	959	626	268
UFCF	12,074	10,650	5,074	5,634	6,213	6,804	7,401
PV of FCF		10,607	4,907	5,179	5,428	5,649	5,841

Our base case DCF valuation assumes sustained increasing revenues, with total revenue increasing from \$71.0B in 2024 to \$89.2B by 2030, which is a 4.1% CAGR. EBIT margins are projected to experience a modest decline from 12.2% to 10.0%, which is from normalizing program mix and inflationary pressures that impact the entire defense supply chain. Even with this margin moderation, cash flow generation remains robust, as seen in disciplined capital expenditures averaging around 2.5% of sales and a stable tax rate near 10%. These projections give us a one-year PT of \$530, reflecting steep expansion in U.S. defense budgets and rising international procurement, particularly from European and Pacific allies, alongside continued execution on the F-35 program and missile defense systems. Refer to the appendix for a summary of our upside and downside DCF assumptions.

Conclusion

As governments' budgets around the world have pledged and allocated substantially more for air defense budgets, Lockheed's role in the industry cannot be overlooked. With several flagship programs and stable government contracts, **we initiate \$LMT with a buy rating and a one-year PT of \$530.**

Revenue Segments



Terminal Value

EV/EBITDA Exit Multiple	14.5x
Terminal Value	\$149,982
PV of Terminal Value	\$118,364
PV of Projection Period	\$37,610
PV of Terminal Value	\$118,364
Implied TEV	\$155,974
(-) Debt	\$21,638
(+) Cash	\$1,293
Implied Equity Value	\$135,629
Diluted Shares Outstanding	231
Implied Share Price	\$586.13
Upside/Downside	20.1%

Football Field Valuation Range



Risk vs. Reward - DCF Cases



Income Statement (\$mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	71,043	73,450	76,874	80,205	83,395	4.1%
EBITDA	9,867	10,150	9,763	9,965	10,133	0.7%
EBIT	8,654	8,900	8,456	8,622	8,756	0.3%
NOPAT	7,770	8,030	7,610	7,760	7,881	0.4%
Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	13.9%	13.8%	12.7%	12.4%	12.2%	13.0%
EBIT Margin	12.2%	12.1%	11.0%	10.8%	10.5%	11.3%
Revenue Growth	5.1%	3.4%	4.7%	4.3%	4.0%	4.3%
EBIT Growth	-17.6%	2.8%	-5.0%	2.0%	1.6%	-3.2%
Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	9.4x	10.7x	22.4x	20.2x	18.3x	16.2x
EV/Sales	1.9x	1.8x	1.7x	1.7x	1.6x	1.7x
EV/EBITDA	13.6x	13.2x	13.7x	13.5x	13.2x	13.5x
FCF Yield	10.6%	9.4%	4.5%	5.0%	5.5%	7.0%

Comparable Companies

\$mm

Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
RTX Corporation (NYSE:RTX)	\$240,588	\$277,210	36.8x	\$85,988	\$14,448
The Boeing Company (NYSE:BA)	\$164,669	\$198,063	-14.3x	\$75,327	-\$7,007
Northrop Grumman Corporation (NYSE:NOC)	\$86,451	\$101,469	21.8x	\$40,928	\$6,577
General Dynamics Corporation (NYSE:GD)	\$91,723	\$100,819	22.9x	\$50,273	\$6,073
Lockheed Martin Corporation	\$112,934	\$131,653	27.3x	\$73,349	\$7,257

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	Yr Rev Growth	Rate Lf
RTX Corporation (NYSE:RTX)	19.2x	20.1%	16.8%	11.7%		8.8%
The Boeing Company (NYSE:BA)	-28.3x	(0.2%)	(9.3%)	(11.8%)		2.4%
Northrop Grumman Corporation (NYSE:NOC)	15.4x	19.4%	16.1%	12.5%		(0.1%)
General Dynamics Corporation (NYSE:GD)	16.6x	15.4%	12.1%	10.3%		11.9%
Lockheed Martin Corporation	18.1x	8.3%	9.9%	8.1%		2.9%

High	19.19x	20.1%	16.8%	12.5%	11.9%
75th Percentile	18.14x	19.4%	16.1%	11.7%	8.8%
Average	8.22x	12.6%	9.1%	6.2%	5.2%
Median	16.60x	15.4%	0.0%	10.3%	2.9%
25th Percentile	15.43x	8.3%	9.9%	8.1%	2.4%
Low	-28.27x	-0.2%	-9.3%	-11.8%	-0.1%

Lockheed Martin Corporation

Implied Enterprise Value (25th Percentile)	\$	111,960
Implied Enterprise Value (Median)	\$	120,475
Implied Enterprise Value (75th Percentile)	\$	131,653
Implied Share Price (25th Percentile)	\$	395.92
Implied Share Price (Median)	\$	432.72
Implied Share Price (75th Percentile)	\$	481.02

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.33%
Beta	0.24
Risk Free Rate	4.39%
Cost of Equity	4.58%
Weighted Average Cost of Debt	4.40%
Tax Rate	10.00%
Cost of Debt	0.63%
Total Equity	\$113,820
Total Debt	\$20,345
Equity/Total Capitalization	84.03%
Debt/Total Capitalization	15.97%
WACC	5.21%

Downside Case: The downside case forecasts moderate continued growth in all three segments, for a 2.86% return to a price of \$502. Stagnation in US government contracts and an increased presence of localized defense in allied nations warrants a 14.0x exit multiple.

Upside Case: On the contrary, increased governmental contracts, continued efficiency in F-35 programs, and consistent spending in foreign countries has potential for massive appreciation in the upcoming years. With an exit multiple of 15.0x and reasonable revenue predicted from all segments, an optimistic case of 42% is not unfeasible.

Disclosures and Ratings: Bluegrass Capital Research does not hold any professional relationships with the securities mentioned in this report. Our ratings are defined as follows: **Buy** (expected to outperform the market), **Hold** (expected to perform in line with the market), and **Sell** (expected to underperform the market), typically over a 12-month horizon. This report is for educational and informational purposes only and should not be considered as financial advice.

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