



Investing Fundamentals – Ready to Roll!


Lockheed Martin (LMT) Stock Study & First Cut Report

November 10, 2021

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Directors, Silicon Valley Chapter



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<https://ir.safeholdinc.com/>

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What we will do this evening

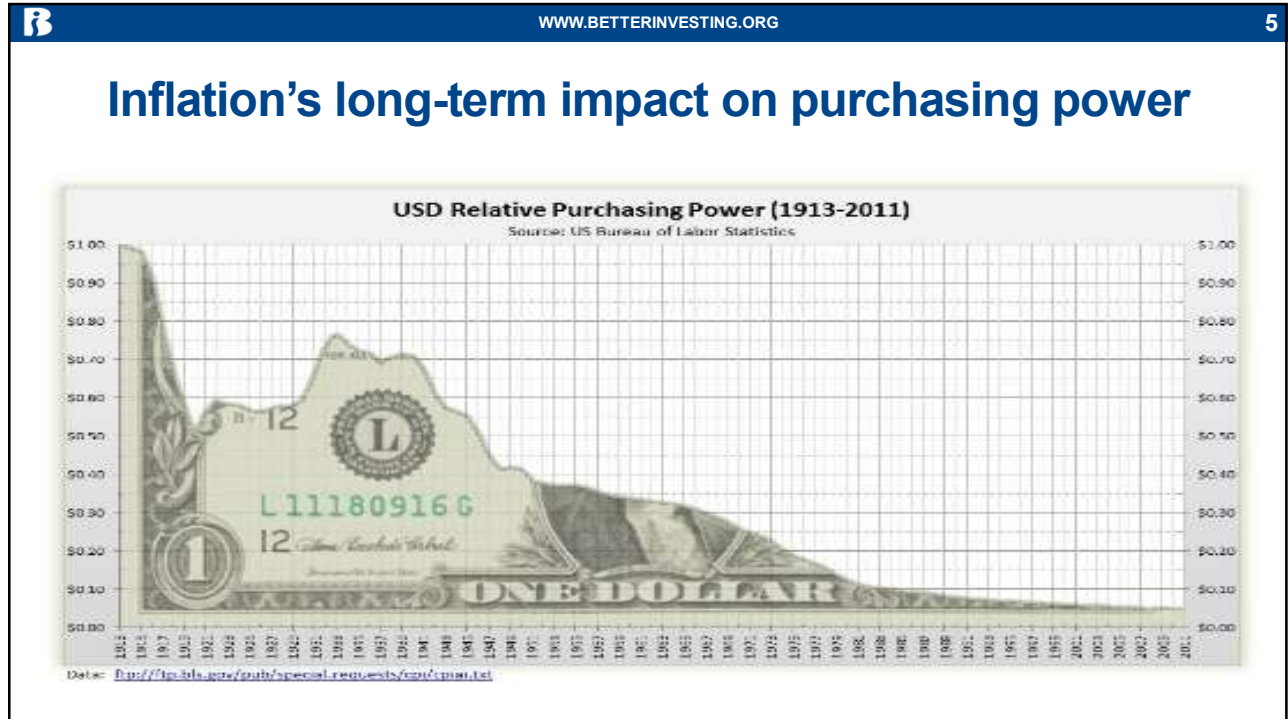
- Complete a stock study of Lockheed Martin (LMT)
(For presentation purposes, we “froze” the study at 10-27-21)
- Collect data for a First Cut Stock Study Report to submit to BetterInvesting
- Poll you for your judgments
- Go to a live SSG at the end, enter your judgments & display the final SSG
(This will show the group’s evaluation of LMT as of tonight, 11-10-21)

In your Control Panel handouts:

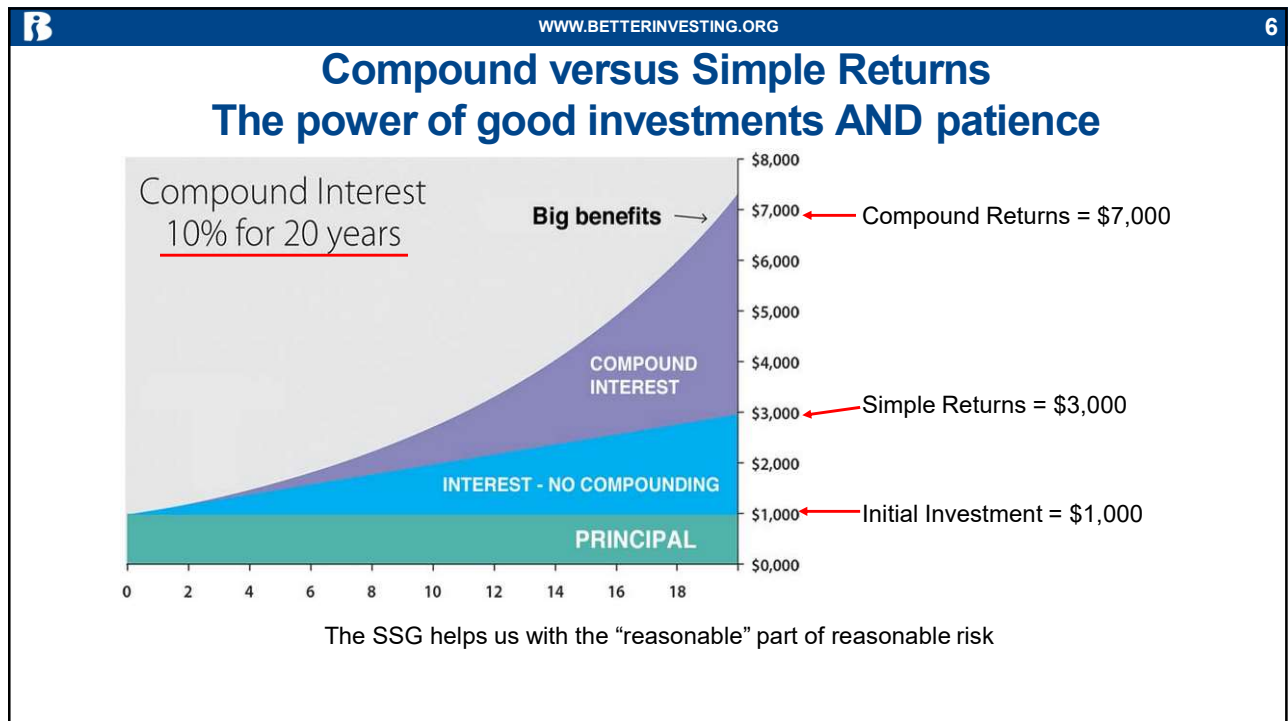
- SSG template for LMT
- First Cut Stock Study Report template
- PPT slides
- SSG Guidelines for Beginners
- Free 90-Day Digital Core Membership Certificate

Questions during presentation? – Use the Question box in your Control Panel

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Quick trick for calculating compound return doubling rates

Rule of 72	
Rate of Return	Years to Double Your Money
6%	12 Years
7%	10.3 Years
8%	9 Years
9%	8 Years
10%	7.2 Years
11%	6.6 Years
12%	6 Years
15%	4.8 Years

Formula: 72 Divided by Rate of Return = Years to Double Your Money
Example: 72 ÷ 15 = 4.8 Years

The SSG calculates Rates of Return. We can use the “Rule” of 72 to determine years to doubling

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What Does the Stock Selection Guide (SSG) Do for Us?

Helps us identify companies that could provide good compound returns

There are thousands of companies/stocks
Few are worth investing in for 5+ years

Deals first with the business quality of a company:

- Presents some key metrics about a company’s recent business success (or troubles)
- Shows whether a company’s returns have been growing (compounding) and at what rates
- Helps us avoid troubled companies
- Points to issues that need more research outside the SSG itself

Then helps us evaluate the current price of a company’s stock

- Should we buy it now or wait for a better price?
- Could the current price give us an acceptable compound return, or should we wait?

Rewards common sense and patience

- There are almost always good quality companies to be found
- Prices of good companies fluctuate, often to prices that may produce good compound returns
- We can create “what if” scenarios using the SSG to help us test our judgment about returns
- We should keep a “watch list” of good companies that aren’t selling at a good price right now

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The SSG Metrics We Evaluate


 QUALITY First
Sales and Earnings Growth
Management Stability

 If a stock (business) flunks quality, no price is good. We don't continue the study.

 If a stock (business) demonstrates quality, we continue and analyze its valuation (price & potential return).

 Valuation (Price and Potential RETURN) Second
P/E Ratios
Risk/Reward Analysis
Total Potential Compound Annual Return

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What Does the First Cut Report Do for Us? It helps us avoid snap judgments

- The FC Report asks a set of written questions which allow BetterInvesting members to explain and share their SSG analysis of a company.
- BetterInvesting publishes paired SSG-FC Reports on the BetterInvesting member website.

The FC Report questions are very useful in forcing us to think more clearly about how we complete an SSG even if we don't want to share/publish our SSG & FC report.

FC Report Questions:
How does the company make money? What is its business? Where will future growth come from?
Do we think the company is a good business (i.e., a growing business)? Why or why not?
How did we arrive at our estimates of the company's future growth rates?
How did we arrive at our estimates of future stock prices and potential returns for investors?

We will use these FC Report questions to help guide our LMT study tonight, and we will submit the finished SSG-FC Report to BetterInvesting for publication on the website.

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LMT Stock Study ↔ First Cut Report

We will go through the 5 SSG sections one by one, aided by FC questions

We will explain:

- How to interpret the wealth of historical data the SSG supplies automatically
- Guidance for judgments (estimates) we must make in each section

We will poll you for your estimates/ “judgments” about :

- LMT’s quality
- LMT’s sales growth for the next 5 years
- LMT’s earnings growth for the next 5 years
- LMT’s high PE for the next 5 years (to generate estimate of LMT’s future 5-year high price)
- LMT’s 5-year low price

We will examine:

- LMT’s predicted compound annual return, which will be based on our polled estimates
- Whether purchasing LMT stock at its “current” price would produce an acceptable compound annual return, or
- Whether LMT should perhaps go on your watch list
- Whether it would be more potentially rewarding to study other stocks and forget LMT

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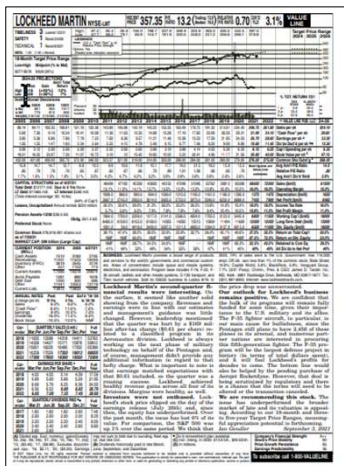
To complete our SSG, we will use:

1. BetterInvesting Online SSGPlus Tool and

2. Our Magazine, October, pages 21-25 on LMT



3. Value Line Report on LMT (9-3-21)
 Available at some libraries



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Conceptual diagram of any company's potential life cycle

LMT is a huge, "mature" company

Mature companies are often past the high P/E, high expectations phase

From Toolkit manual

LMT is also a stock with a WIDE MOAT, per Morningstar

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Let's begin our LMT study using the SSGPlus

How does the company make money? – A First Cut Question

Click on the SSG Company bar

Company: Lockheed Martin (LMT)

Closing Price: 332.32 (10/29/21)
Last Fiscal Year End: 12/2020
Industry: Aerospace & Defense
Sector: Industrials
Company Size: Large - >\$10B in Sales
Description: Lockheed Martin is the largest defense contractor globally and has dominated the Western market for high-end fighter aircraft since being awarded the F-35 program in 2001. Lockheed's largest segment is Aeronautics, which is dominated by the massive F-35 program. Lockheed's remaining segments are rotary & mission systems, which is mainly the Sikorsky helicopter business; missiles and fire control, which creates missiles and missile defense systems; and space systems, which produces satellites and receives equity income from the United Launch Alliance joint venture.

The company's business description will display

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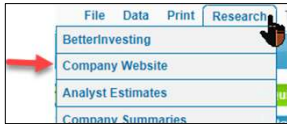
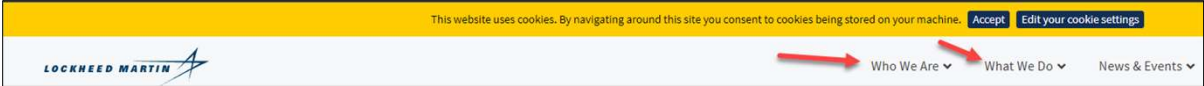
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Other sources of information about how LMT makes money

- Check the Value Line Business Box

→ **BUSINESS:** Lockheed Martin provides a broad range of products and services to the world's governments and commercial customers. Areas of concentration include space and missile systems, electronics, and aeronautics. Program base includes F-16, F-22, F-35 aircraft, ballistic and other missile systems, C-130 transport, and Titan launch vehicles. Sold its IS&GS business to Leidos 8/16. In 2020, 74% of sales were to the U.S. Government. Has 114,000 empl. Off./dir. own less than 1% of the common stock; State Street, 14.8%; Capital World, 5.8%; BlackRock, 5.9%; Vanguard Group, 7.7% (3/21 Proxy). Chrmn., Pres. & CEO: James D. Taiclet. Inc.: MD. Addr.: 6801 Rockledge Drive, Bethesda, MD 20817-1877. Tel.: (301) 897-6000. Internet: www.lockheedmartin.com.

- Using the SSG Research tab, check the LMT company website

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How Does LMT Make Money?

From *BetterInvesting Magazine* Stock to Study Article

- “LMT is the world’s largest developer and manufacturer of defense, security and intelligence products.”
- LMT is “almost entirely dependent on U.S. defense orders and, to a lesser extent, foreign military sales.”
- 74% of 2020 sales were from U.S. DOD; 25% from foreign govts; 1% from commercial customers.
- Products accounted for 84% of sales; services, for 16%

2020 Revenue:

- 40.2% from Aeronautics: fighter and transport aircraft & related services
- 24.5% from Rotary & Mission Systems: helicopters and various systems
- 18.2% from Space: satellites, space transport and defense systems
- 17.2% from Missiles & Fire Control: missiles and target systems

- Many Americans recognize LMT products: F-35 fighter jet, C-130 Hercules Transport, Black Hawk helicopters, Patriot & THAAD systems

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How Secure/Good is LMT's Business? (BetterInvesting Magazine Cont'd)

**Share price bottomed in February 2021
on worries about a Democrat as President.**

However

- LMT roots go back to 1912. Lockheed & Martin Marietta merged 1995.
- LMT Has facilities and employees in many Congressional districts.
- "Defense budgets consistently draw bipartisan support."
- Cuts historically have not targeted "advanced military technologies" like those of LMT.
- "Defense contracts typically cover several years, sometimes decades."
- LMT has enough orders to keep American-bought F-35 fighter jets and their parts & services going thru 2070 (28% of 2020 sales)
- LMT ended 2020 with \$147.1B order backlog – "not out of the ordinary."
- LMT has rebought shares of its stock "for at least 16 years" per Value Line, including \$2.5B worth starting in 2020.
- LMT wants to acquire Aerojet Rocketdyne Holdings, which is part of LMT's current supply chain. Bid is being challenged.

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 - **Quality is what we are looking for first**

The *BetterInvesting Magazine* write-up sounds interesting.

- ✓ LMT's current business seems generally healthy.
- ✓ Future growth from government customers seems secure.

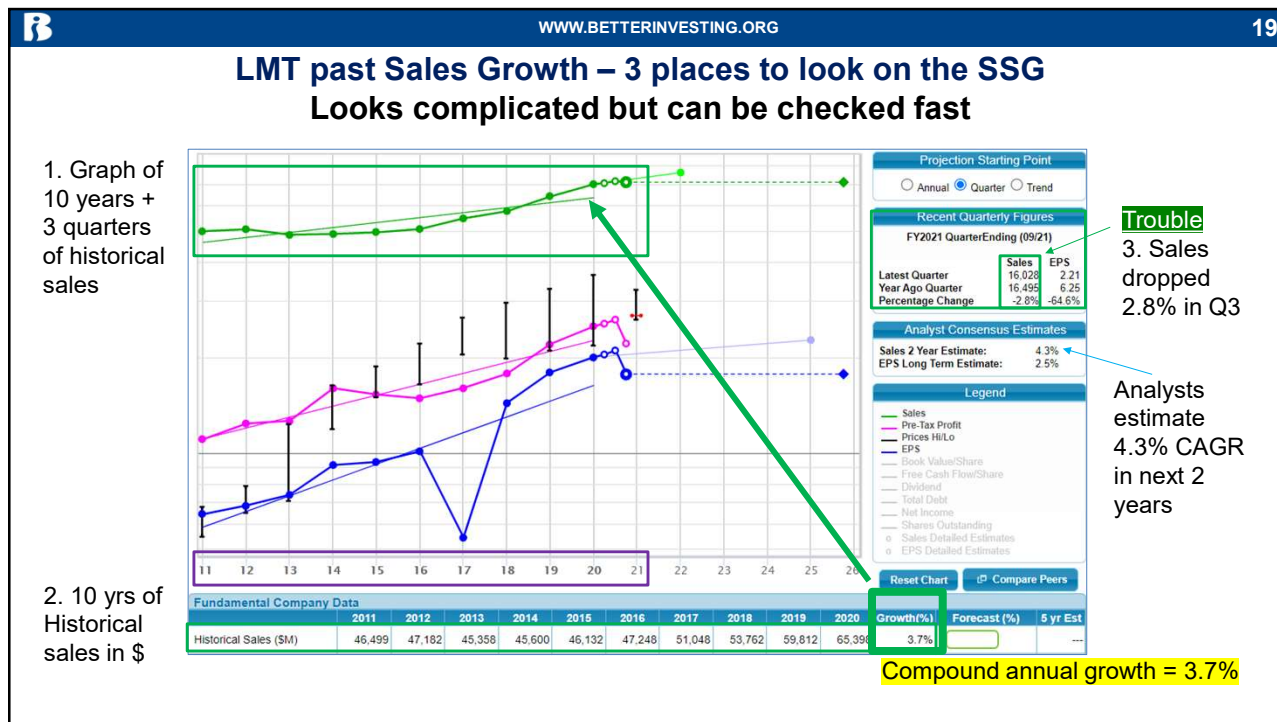
So we open up an SSG and start examining LMT's history

- How have they been doing the past 5-10 years?
- Has business been growing, shrinking, unpredictable?
- Has management been stable, unpredictable?

The SSG gives us 6 indicators

<u>Business Performance</u>	<u>Management Performance</u>
Sales growth	Pre-tax profit on sales
Earnings (profits) growth	Return on Equity
Pre-tax profit growth	Debt

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LMT historical sales: Annual growth steady. Q3 negative. Future ACE estimate = conservative

Past 10 years = 3.7% compound annual growth rate. Past 5 years = 8.4%
Most recent quarter (Oct. 2021) = - 2.8% CAGR. ACE estimate for next 2 years = 4.3% CAGR

BetterInvesting benchmarks for risk & reward

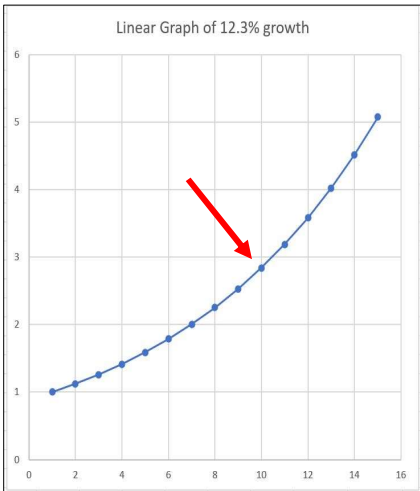
Company Sales	Company Size	Acceptable Growth	Amount of Risk	Years to Double "Rule" of 72
< \$1 billion	Small	At Least 12%	More	6 or Fewer
\$1 billion to \$10 billion	Medium	7% - 12%	Average	10 - 6
>\$10 billion	Large	5% - 7%	Less	14 - 10
LMT: \$65.4B in 2020	Huge	Mixed (2.8) to 8.4		

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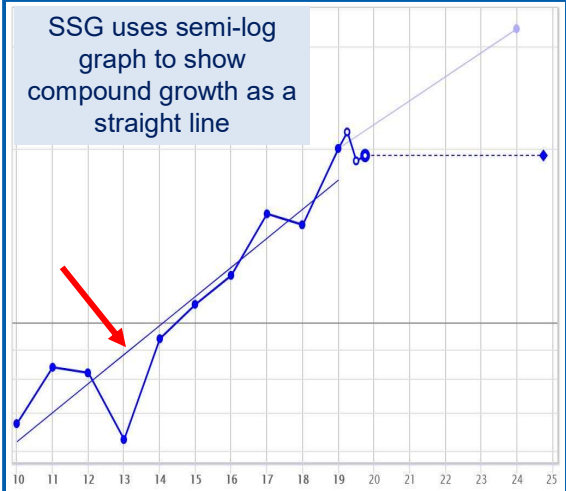
Remember – the SSG shows growth rates in compound terms
Compounding Growth trends are shown as straight lines

Shows 12.3% compound growth as curve



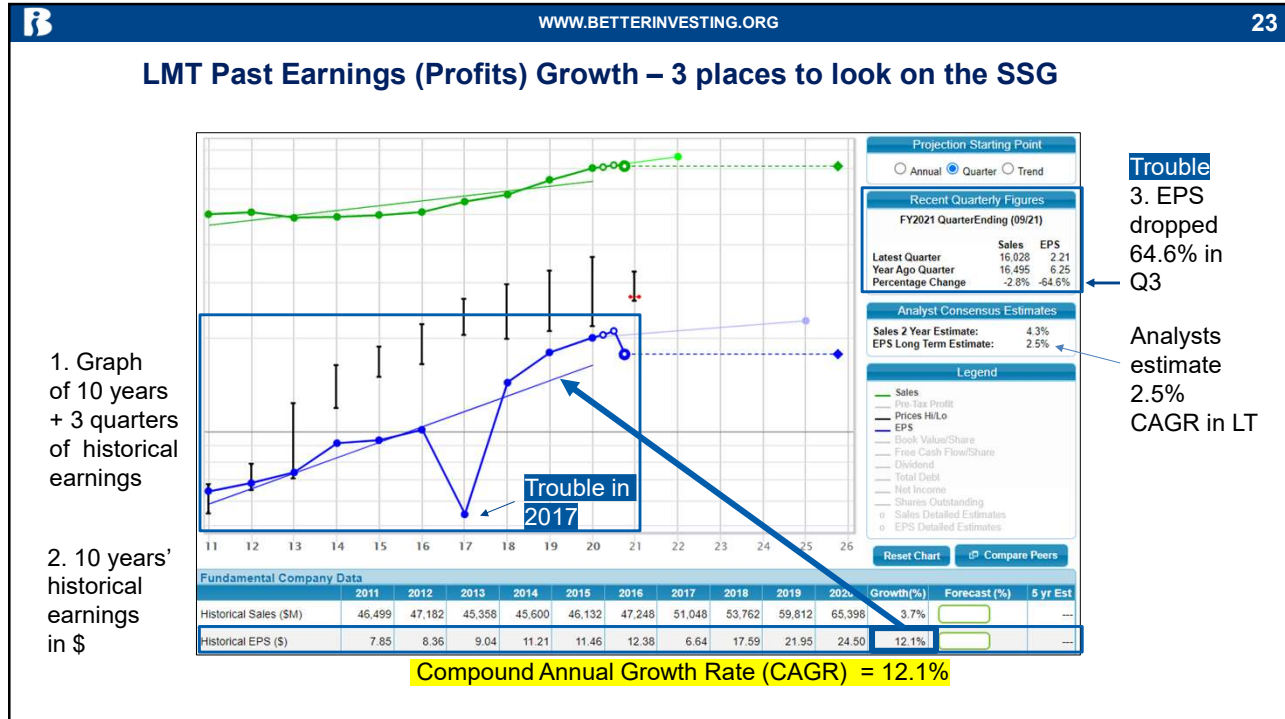
X and Y Axes Linear

SSG Semi-log graph shows 12.3% compound growth as straight line

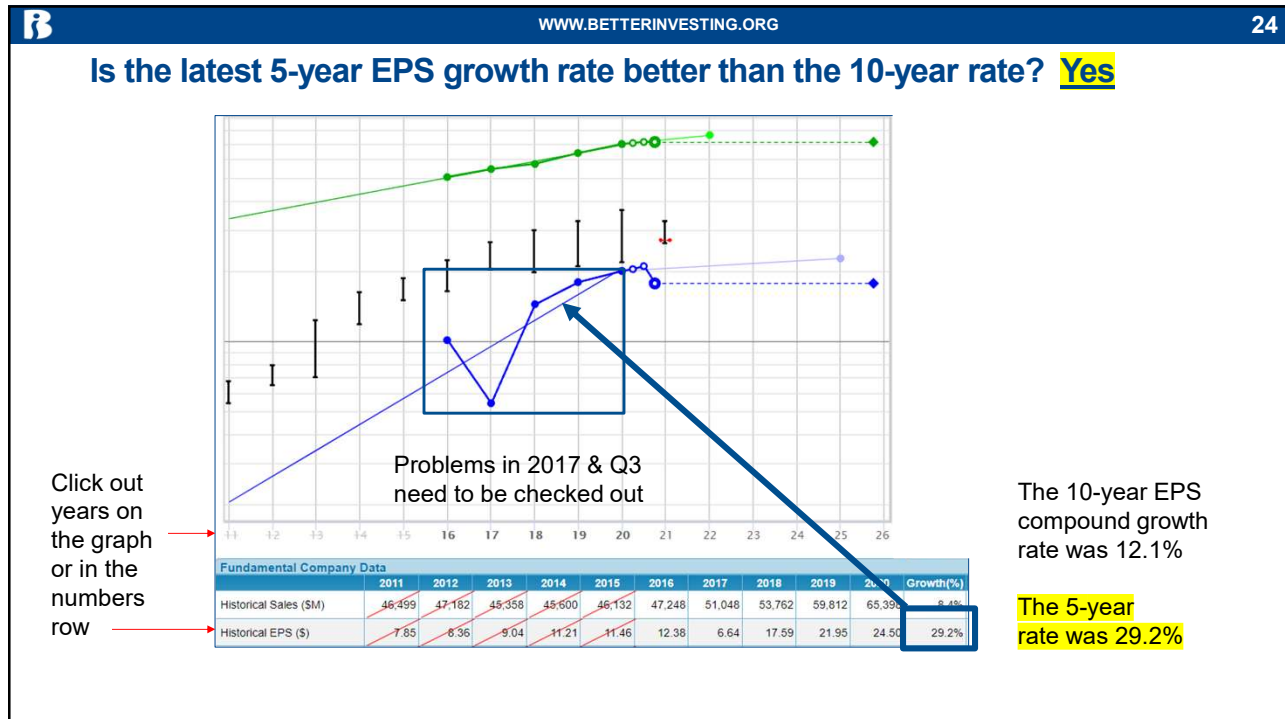


SSG X Axis Linear, Y Axis Logarithmic

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**What was the EPS trouble in 2017? It was what we call an "outlier."
 It was a one-time tax charge related to a change in federal tax laws**

In Q4 of 2017, LMT took a **one-time tax charge of \$6.69/share** related to their estimated impact of the Tax Cuts and Jobs Act.

Historical EPS (\$)	7.85	8.36	9.04	11.21	11.46	12.38	6.64	17.59	21.95	24.50
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Where to find this information about the tax charge?

File Data Print **Research**

BetterInvesting

Company Website

Analyst Estimates

Company Summaries

Filings and Transcripts

Go to the SSG Research tab > Filings and Transcripts > SEC EDGAR Filings – 10-K > 2017

Filings and Transcripts

Financial Statements

Seeking Alpha Call Transcripts

SEC EDGAR Filings - 10-K

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The 5-year EPS growth rate without 2017

No annual dot for 2017 EPS

Click out 2017 on data bar

Fundamental Company Data	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Growth(%)
Historical Sales (\$M)	46,499	47,182	45,358	45,600	46,132	47,248	51,048	53,762	59,812	65,396	8.4%
Historical EPS (\$)	7.85	8.36	9.04	11.21	11.46	12.38	6.64	17.59	21.95	24.50	19.2%

Without the one-time tax issue, the EPS compound annual growth rate drops from 29.2% to a less extreme 19.2%


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LMT historical EPS: Annual growth good. Q3 negative. Future ACE estimate = low

Past 10 years = 12.1% compound annual growth rate. Past 5 years without 2017 = 19.2%
 Most recent quarter (Oct 2021) = - 64.4% CAGR. ACE long term estimate = 2.5% CAGR

BetterInvesting benchmarks for risk & reward

Company Sales	Company Size	Acceptable Growth	Amount of Risk	Years to Double "Rule" of 72
< \$1 billion	Small	At Least 12%	More	6 or Fewer
\$1 billion to \$10 billion	Medium	7% - 12%	Average	10 - 6
>\$10 billion	Large	5% - 7%	Less	14 - 10
LMT: \$65.4B in 2020	Huge	Mixed (64) to 19.2		



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What happened in Q3 – LMT seems to be retrenching somewhat for now

Management earnings press release – posted on LMT website:

- “Re-basing” F-35 related revenue
- Withdrawal from Afghanistan
- Accelerated payments to suppliers to protect supply lines
- U.K terminated a contract to manage their nuclear deterrent programs on June 30

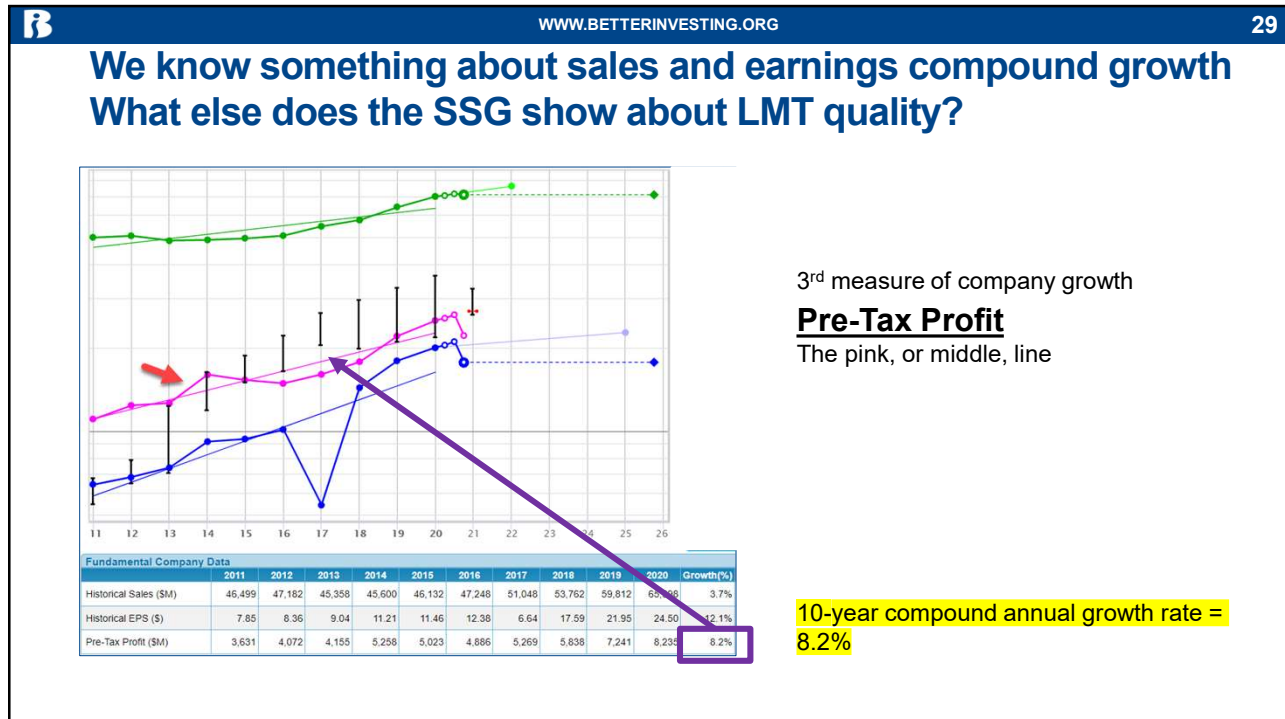
Reassessing 5-year business plan
 Flat to low single digit revenue increases for next few years
 Intends to continue dividend growth & share repurchasing

Morningstar – LMT 4 Stars, wide moat
 Decent Q3 marred by unexpected low guidance
 EPS includes a non-cash pension settlement of \$6.94. Otherwise, EPS would have increased 14.1% Y/Y
 Management seems to be flattening revenue expectations for time being
 Mstar reduced Fair Value from \$425 to \$402

Standard & Poor’s – Maintains 5-star, Strong Buy
 12-month price target of \$463
 7% 3-year compound annual EPS growth rate
 Has high priority programs & bipartisan support
 “We see true risks to LMT as poor cost execution and major bid loss.”

Value Line – Next update in December

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What is Pre-Tax Profit – PTP? Example

A company's profits before paying taxes

\$100,000 Sales and other revenue
 - 90,000 Less expenses other than taxes
 \$ 10,000 Pre-tax profit

- Because tax rates are set by government jurisdiction, they are not under a company's control.
- Competitors in different locations probably don't have the same tax rate.
- So BetterInvesting takes the tax expense out of the quality evaluation.

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Three SSG Measures of Management Quality

Evaluate Management												
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	7.8%	8.6%	9.2%	11.5%	10.9%	10.3%	10.3%	10.9%	12.1%	12.6%	11.2%	
% Return on Equity	86.2%	6880.7%	227.2%	77.5%	124.3%	154.0%	90.2%	524.1%	158.4%	138.5%	135.3%	
% Debt To Capital	86.6%	99.4%	55.6%	64.5%	83.1%	90.4%	108.0%	91.0%	80.2%	66.9%	82.1%	

If all 3 mini-graphs are green, things are moving in the right direction.

Ratio	What it measures	Industry 5-year Avg. %	LMT 5-year Avg. %	LMT Latest Full Year 2020	Our observations/analysis
% PTP on Sales	How well the company controls expenses	8.8	11.2	12.6	LMT is doing better than the industry.
% ROE	How effectively management invests its capital (your money)	62.5	135.3	138.5	LMT much higher than industry avg. 15% is good
% Debt to Capital	How effectively management controls debt	61.6%	82.1	66.9	LMT debt is high, unstable, though coming closer to industry recently.

Industry comparison next slide

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The Stock Comparison Guide

let's us compare LMT to its industry

Comparison: [New Comparison] Lockheed Martin LMT 10/27 complete w/ trend line

Industry averages: Aerospace & Defense

Growth Comparisons		
Hist. Sales Growth Rate - 10 YR (%)	3.7%	2.9%
Hist. Sales Growth Rate - 5 YR (%)	8.4%	6.1%
Estimated Sales Growth Rate (%)	4.3%	
Hist. Earnings/Share Growth Rate - 10 YR (%)	12.1%	14.2%
Hist. Earnings/Share Growth Rate - 5 YR (%)	29.2% *	8.9%
Estimated Earnings Per Share Growth Rate (%)	2.5%	

Management Comparisons		
% Pretax Profit on Sales (Last 5 Year Average)	11.2%	8.8%
% Earned on Equity (Last 5 Year Average)	213.1% **	62.5%
% Debt to Capital (Last 5 Year Average)	86.7% ***	61.6%

Most of the green boxes show where LMT beats its industry

The industry rate for 10-year earnings growth rate is higher, but LMT's 12.1 rate is good for a company its size

* We adjusted the 5-year EPS rate to 19.2%

**ROE of 138% in 2020 still too high

***Debt at 66.9% in 2020 approaching industry

Industry levels for both are also high

Note: Access to the SCG is on the SSG vertical menu.

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Definitions of BetterInvesting terminology are in the Glossary

Stock
Comparison
Guide

→

Click on the question mark in the SSG vertical menu.

Reference Materials

- Comparison Chart - CoreSSG & SSGPlus (PDF)
- SSG Guidelines for Beginners (PDF)
- SSG Calculation Reference (PDF)
- Glossary of Investing and Online Tools Terms (PDF) ← The Glossary is under Reference Materials

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🗨️ - We are looking for business quality. Do we have it in LMT?

Over the past 5 -10 years, LMT's performance has generally improved and beaten its industry. Latest quarter was disappointing. Analysts' view of future is restrained

% CAGR*		
3.7	10-year sales	Above industry average
8.4	5-year sales	Above industry average
-2.8	Q3 sales (September 2021)	
4.3	ACE 2-year sales estimate	
12.1	10-year earnings growth	Below industry average but good
19.2	5-year earnings without 2017 (outlier)	Above industry average
-64.4	Q3 earnings	
2.5	ACE long-terms earnings estimate	
11.2	Pre-tax profit on sales	Above industry average
Too high	ROE: unsteady, high	Outside industry average (even with outlier adjustment)
OK	Debt: unsteady, high, but coming down	Approaching industry average (with outlier adjustment)

*CAGR = Compound Annual Growth Rate

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POLL – Your Judgment

Do you think LMT has been a quality growth company?

The poll will show up on your screen
Make your choice and press send

Your choices will be

- Pass
- Flunk
- Not Sure

We will answer questions while we run the poll

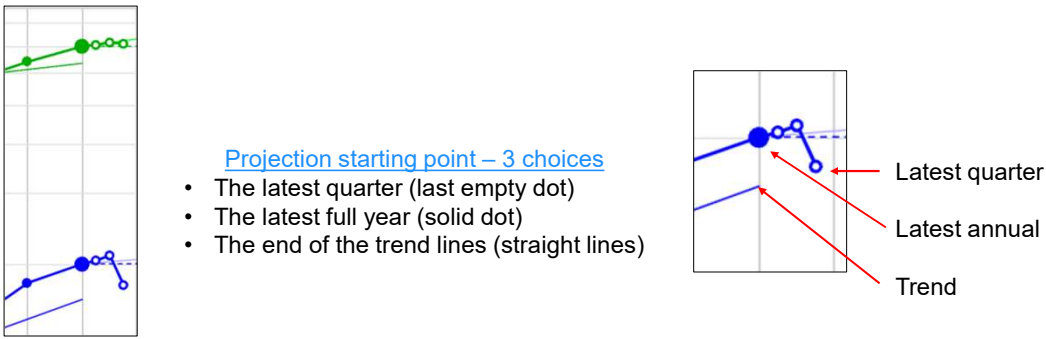
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Russell & Marion weren't sure what your quality verdict would be We continued the SSG for educational purposes

We use our judgment to construct reasonable future compound growth rates for the next 5 years.

What point on the sales/earnings graph should we start our growth projections from?



- The latest quarter (last empty dot)
- The latest full year (solid dot)
- The end of the trend lines (straight lines)

Use your Tools > Preferences menu to change the setting.

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What difference does the projection start point make?

It affects the amount (in dollars) that we estimate sales & earnings will be in 5 years.

These numbers affect upcoming SSG estimates we will make.

	Growth(%)	Forecast (%)	5 yr Est	Growth(%)	Forecast (%)	5 yr Est	Growth(%)	Forecast (%)	5 yr Est
Sales	3.7%	3.7	79,564	3.7%	3.7	78,426	3.7%	3.7	71,102
Earnings	12.1%	12.1	38.36	12.1%	12.1	43.37	12.1%	12.1	35.35

From latest quarter
From latest annual
From trend lines

Fundamental Company Data													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Growth(%)	Forecast (%)	5 yr Est
Historical Sales (\$M)	46,499	47,182	45,358	45,600	46,132	47,248	51,048	53,762	59,812	65,398	3.7%		---
Historical EPS (\$)	7.85	8.36	9.04	11.21	11.46	12.38	6.64	17.59	21.95	24.50	12.1%		---

Note: The quarter start does not always produce the highest numbers. This varies from company to company.

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Estimate sales compound growth rate over next 5 years – possible sources of help

ACE

Analyst Consensus Estimates	
Sales 2 Year Estimate:	4.3%
EPS Long Term Estimate:	2.5%

4.3% = Analysts' CAGR 2-yr estimate on the SSG


Value Line (picture next slide) \$81.5B in the 2024-26 time frame
6% CAGR

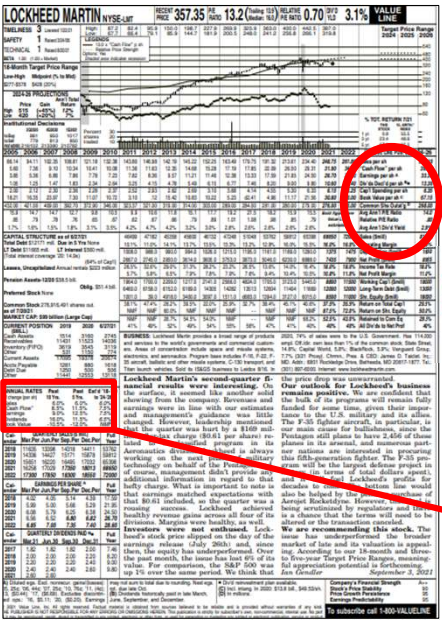
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Financial Statements					
Key Statistics					
Price Charts					

4.7% (315 SSGs between 8/1 & 10/27)

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Value Line Total Sales Projection


Sales (\$mill)	81500
Operating Margin	16.0%
Depreciation (\$mill)	1650
Net Profit (\$mill)	9655

Jot down EPS \$ while you're here

"Cash Flow" per sh	39.60
Earnings per sh ^A	33.30
Div'ds Decl'd per sh ^B	13.30

Jot down EPS % growth while you're here

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '18-'20 to '24-'26
Sales	6.0%	6.0%	6.0%
"Cash Flow"	8.5%	11.5%	7.5%
Earnings	9.0%	12.5%	7.5%
Dividends	16.0%	11.5%	6.5%
Book Value	-10.5%	-12.0%	NMF


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Quarterly data tab on the SSG – showing sales CAGR

Analyze Growth and Quality
Valuation and Return
Quarterly Data
Ratios
Notes: 1

Company: Lockheed Martin (LMT) Study not saved. Click to save. Quick Navigation

Quarterly Growth Trend Graph

Select Data Type

Quarterly

Trailing 4 Quarters

Show Reference Lines

Sales Growth

EPS Growth

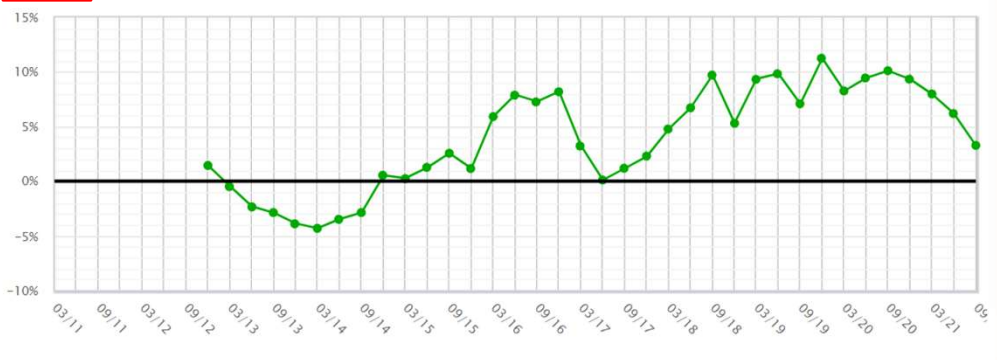
Zero Growth

Graph Options

Last 5 Years Only

Limit 50% Growth

Sales
PreTax Profit
Earnings
% PreTax Profit/Sales



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Investing Fundamentals – October 10, 2021

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POLL – Your Judgment
Your 5-year compound sales growth estimate

The poll will appear on your screen
 Make a choice and click on send

You will see these choices

Historical Rates	{	3.7% Past 10-year CAGR 8.4% Past 5-year CAGR
Analyst Estimates	{	6.0% Value Line CAGR estimate thru 2026 4.3% ACE 2-year CAGR estimate
Members' Average	{	4.7% 315 member SSGs from 8/1 to 10/27

We will answer questions during the poll

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We have our sales CAGR
Now we estimate the EPS CAGR over next 5 years – possible sources of help

ACE

Analyst Consensus Estimates	
Sales 2 Year Estimate:	4.3%
EPS Long Term Estimate:	2.5%

← 2.5% = Analysts' CAGR LT estimate on the SSG

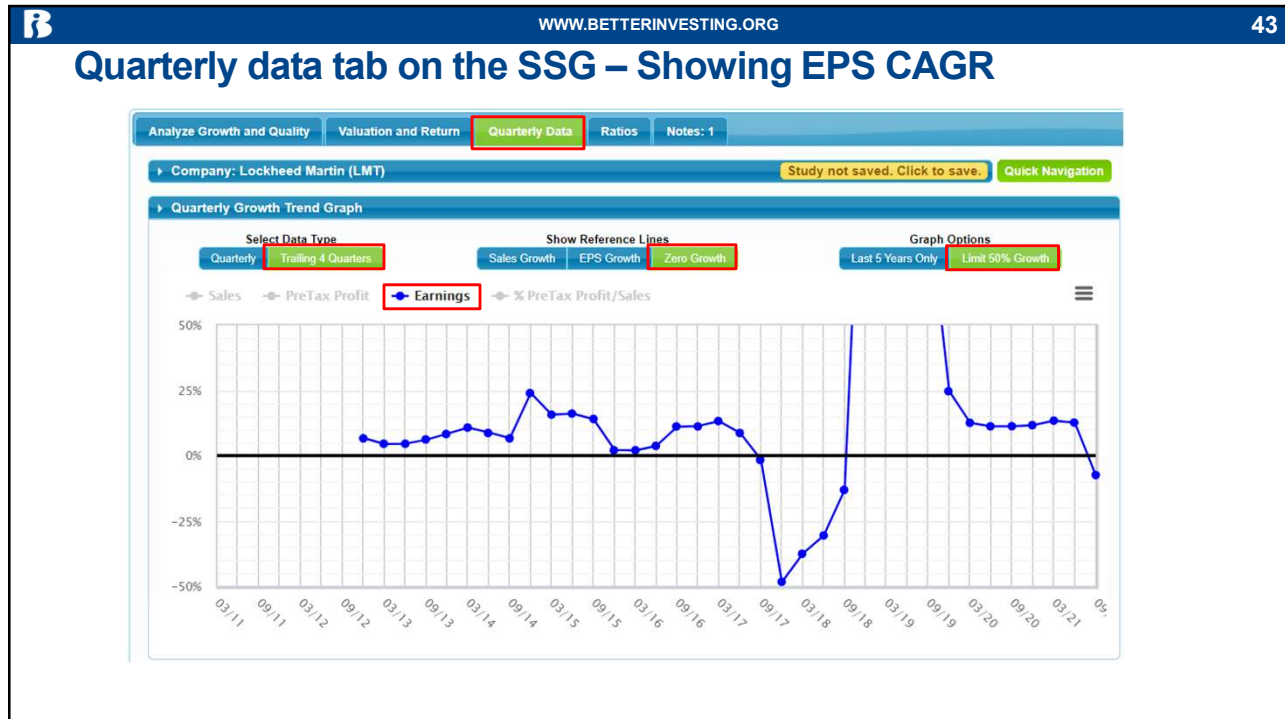
Value Line (picture slide 39) \$33.30 in the 2024-26 time frame
 7.5% CAGR

BetterInvesting Member Sentiment

File	Data	Print	Research	Tools	Logout
BetterInvesting			Company Research		
Company Website			BI Magazine		
Analyst Estimates			Member Sentiment		
Company Summaries			Search BI Website for Ticker		
Filings and Transcripts					
Financial Statements					
Key Statistics					
Price Charts					

← 5.4% 315 member SSGs 8/1 to 10/27

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POLL – Your Judgment

Your 5-year compound earnings growth estimate

The poll will appear on your screen
 Make a choice and click on send

You will see these choices

Past 10-year growth rate	12.1%	} Historical rates	
Past 5-year growth rate	19.2%		
Value Line	7.5%	} Analyst estimates	
ACE Long Term estimate	2.5%		
Members' 315 SSGs	5.4%	} Member Sentiment Average	

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We have now completed the [Q quality](#) portions of the SSG (Sections 1 & 2), & we have answers for the related First Cut questions.

[Q Summary](#)

- BetterInvesting magazine quick write-up sparked interest and justified initiating an SSG
- Sales, EPS and management evaluations show mixed picture
- Stopping now would be a valid choice. So would continuing.
- We will continue for educational purposes after the question break

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Questions or Comments?

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AFL provides supplemental health and life insurance, as well as other types of insurance.

<https://investors.aflac.com/home/default.aspx>



NNN is a REIT, a real estate investment trust which leases its properties to retail businesses.

NYSE: NNN <https://investors.nnnreit.com/investor-information/default.aspx>



SAFE is a REIT, a real estate investment trust which manages ground leases for commercial building owners.

<https://ir.safeholdinc.com/>

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R – Valuation (Price) and Potential Compound Annual RETURN

Analyze Growth and Quality Valuation and Return Quarterly Data Ratios Notes: 1

SSG Sections 3-5 (Valuation & Return)

3. PRICE EARNINGS HISTORY as an indicator of the future
4. EVALUATING RISK & REWARD over the next 5 years
5. FIVE YEAR POTENTIAL

An investor's total return = stock price appreciation + dividends

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We use PE ratios to evaluate prices (PE means Price / Earnings)

- Historical PE ratios indicate how much investors have been willing to pay in the past for \$1 worth of a company's earnings (profits).
- PEs are a rough measure of a company's current value and investor interest.

Example: Price \$20 / EPS \$2 = PE 10
Investors are willing to pay \$10 for \$1 worth of the company's EPS

What have investors paid for \$1 of LMT earnings in the past?

What might they be willing to pay in the future?

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The Effect of High PE Estimates is High Price Estimates

Hi PE Choice	Estimated Earnings	Estimated Hi Price
15	10.00	150.00
20	10.00	200.00
25	10.00	250.00
30	10.00	300.00
35	10.00	350.00
40	10.00	400.00
45	10.00	450.00

Hi PE Choice Makes a Big Difference in the Estimated High Price

The higher we estimate LMT's future high PE,
the higher the price we think investors will be willing to pay for shares of LMT


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LMT's PE history and current PE: Part 3, Columns A to E

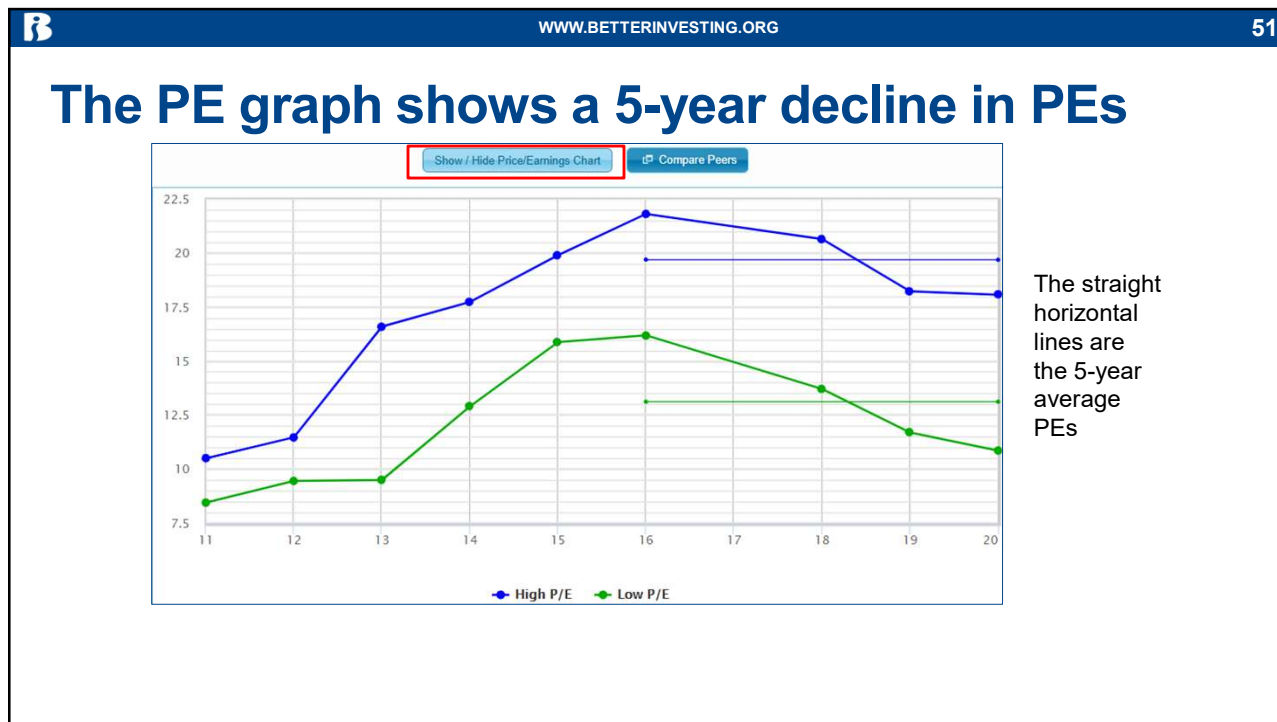
3. PRICE EARNINGS HISTORY as an indicator of the future

CLOSING PRICE (10/27/21): 330.94 HIGH THIS YEAR: 396.99 LOW THIS YEAR: 319.81

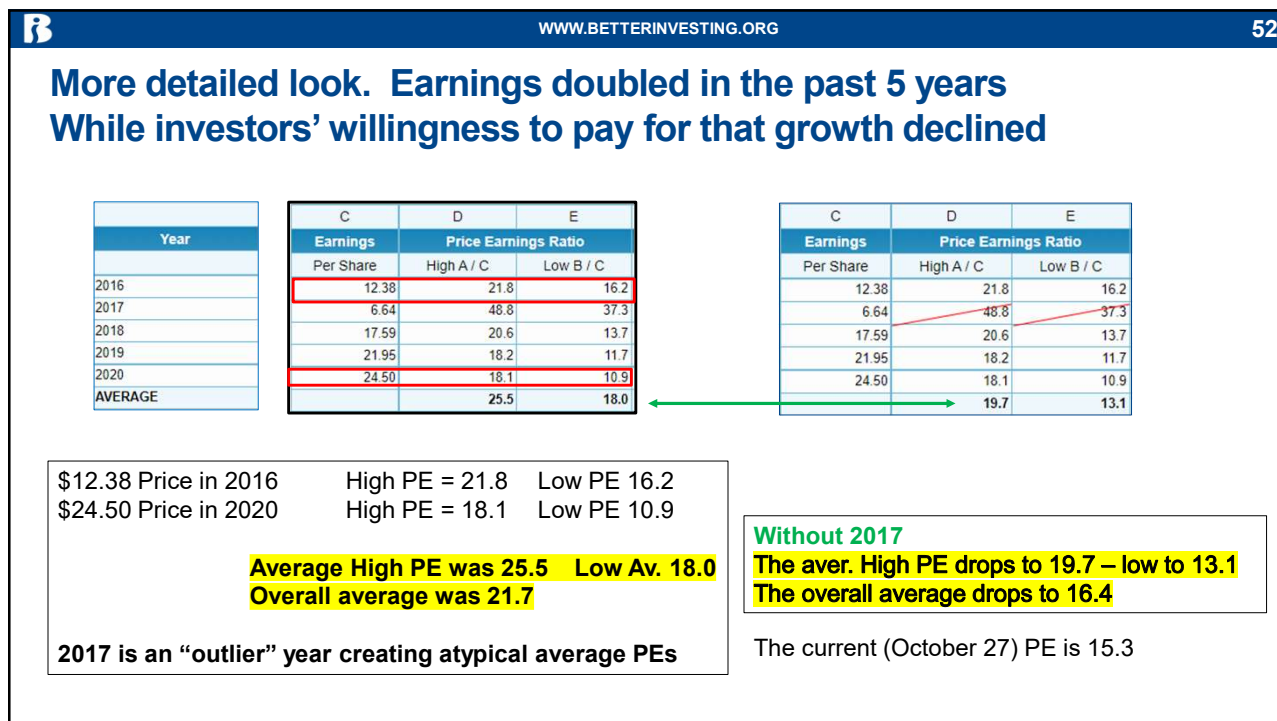
Year	Price		Earnings	Price Earnings Ratio	
	High	Low	Per Share	High A / C	Low B / C
2016	269.9	200.5	12.38	21.8	16.2
2017	323.9	248.0	6.64	48.8	37.3
2018	363.0	241.2	17.59	20.6	13.7
2019	400.0	256.8	21.95	18.2	11.7
2020	442.5	266.1	24.50	18.1	10.9
AVERAGE		242.5		25.5	18.0
CURRENT/TTM			21.67		
AVERAGE PRICE EARNINGS RATIO: 21.7			CURRENT PRICE EARNINGS RATIO: 15.3		


 Click to show chart

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We evaluated historical PEs in Part 3 – Caution is Indicated

We use that knowledge in Part 4 to estimate high and low prices 5 years ahead

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: --- X Estimate High Earnings / Share: --- = Forecasted High Price:

B. LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E: --- X Estimate Low Earnings/Share 21.67 = Forecasted Low Price: 0.0

(b) Avg. Low Price of Last 5 Years: 242.5

(c) Recent Market Low Price: 256.8

2019 Low Stock Price: 256.8 52 Week Low Stock Price: 319.8

2020 Low Stock Price: 266.1

(d) Price Dividend Will Support: $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{11.20}{3.7\%} = 304.1$

Selected Forecasted Low Price:

Part 4

A. Is for estimating high price

B. is for estimating low price

We start with the high price estimate (Part 4A) by entering our high PE estimate. We will poll you shortly

A. HIGH PRICE - NEXT 5 YEARS

Avg. High P/E: --- X Estimate High Earnings / Share: 27.72 = Forecasted High Price:

The SSG will generate the high price using our high PE multiplied by the EPS forecast we made in Part 2

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2014	2015	2016	2017	2018	2019	2020	Growth(%)	Forecast (%)	5 yr Est
45,600	46,132	47,248	51,048	53,762	59,812	65,398	3.7%	4.3	80,721
11.21	11.46	12.38	6.64	17.59	21.95	24.50	12.1%	2.5	27.72

Where the estimated future earnings originated

Gives 5 year estimated earnings

Applied to current earnings for 5 years

Estimated annual EPS compound growth projection

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The SSG will present some High PE choices

A. HIGH PRICE - NEXT 5 YEARS
Avg. High P/E: --- X Estimate High Earnings / Share: 27.72 = Forecasted High Price:

Click on the green box

Determine High Price - Next 5 Years

Forecast High Stock Price

5 Year Average High P/E: 19.7 5 Year Average P/E: 16.4 Current P/E: 15.3

Your Average High P/E Forecast: X High EPS Forecast: = High Stock Price Forecast:

Closing Price (10/27/21) 330.94

Update Study

Suggested Choices display here

Enter a PE

Your high price forecast appears here

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Poll – Your Judgment

High PE estimate (to generate the high price estimate)

The poll will show up on your screen
Make your choice and press Send

The choices you will see are:

19.7 = 5-yr average high PE (Estimated high price will be \$546.1)

16.4 = 5-yr average PE (Estimated high price will be \$454.6)

15.3 = Current PE (10-27-21) (Estimated high price will be \$424.1)

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We have our high price estimate The SSG presents 5 possible low PE or low-price estimates

Select Low Stock Price Forecast

Your Low Stock Price Forecast:

Low P/E X Low EPS Forecast: Update Low EPS Forecast using: **Auto Update to TTM EPS** (click to toggle)

Average Low P/E Forecast: X Low EPS Forecast: = Forecast Low Stock Price

5 Year Average Low P/E: 18.0 TTM EPS: 21.67 Closing Price (10/27/21): 330.94

5 Year Average P/E: 21.7
Current P/E: 15.3

Recent Market Low Price:

2019 Low Stock Price: 256.8 52 Week Low Stock Price: 319.8
2020 Low Stock Price: 266.1

Average Low Price of Last Five Years:

Price Dividend Will Support: $\frac{\text{Indicated Dividend}}{\text{High Yield}} = \frac{11.20}{3.7\%} = 304.1$

Update Study

Make your own low-price estimate
Example: Russell might put in \$231.
(30% below current price of \$331)

Pick a listed Low PE or a different low PE*
(Enter a Low PE. The SSG will generate the price).
Example: 13.1 PE x \$21.67 TTM = \$283.9

Pick a choice for recent market low price.
The SSG put in \$256.8 (Use top for other)

Pick the 5-yr average low price.
The SSG put in \$242.5 (Use top box for other)

Pick the price the dividend will support.
The SSG put in \$304.1 (Use top box for other)

*Because of 2017 EPS outlier, we revised our average low PE to 13.1 (slide 52)

Select top box to override automated choices

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Poll – Your Judgment Your Low Price Estimate

The poll will show up on your screen
Make your choice and press Send

The choices you will see are:

\$ 231.0	Russell’s 30% below the current price (\$330.94 on 10-27)
\$ 242.5	The 5-year average low price
\$ 256.8	The recent market low price (2019)
\$ 283.9	R&M’s adjusted 5-yr average low PE (13.1) x the current EPS (\$21.67)
\$ 304.1	The price the dividend will support

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**Now that we have estimated high and low prices,
the SSG generates buy, hold and sell zones. LMT is a Hold**

ZONING using 25%-50%-25% (click to toggle)

Forecasted High Price: 454.6 Minus Forecast Low Price: 256.8 = 197.8 Range. 25% of Range: 49.5

Buy Zone: 256.8 to 306.2
Hold Zone: 306.2 to 405.1
Sell Zone: 405.1 to 454.6

Closing Stock Price of 330.94 is in the **HOLD** Zone.

[Show / Hide Gain vs Loss Chart](#)

Potential Gain vs Loss

We can click open the Zone diagram:

To create this example, we used these estimates:

Projection start point = last annual dot
Sales Growth: 4.3% ACE estimate
EPS Growth: 2.5% ACE estimate
High Price: \$454.6 16.4 Av. PE x EPS forecast
Low Price: \$256.8 2019 low price

Our Poll results may create different zoning
We will use the Poll results in our First Cut

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U/D Ratio – A Reasonable Margin of Safety in our estimates
Another measure of potential gain v. loss given our estimates (judgments)

D. UPSIDE DOWNSIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$$\frac{\text{Forecasted High Price} - \text{Closing Price}}{\text{Closing Price} - \text{Forecasted Low Price}} = \frac{(454.6 - 330.94)}{(330.94 - 256.8)} = \frac{123.66}{74.15} = 1.7 \text{ To } 1$$

LMT has an upside/downside ratio of only 1.7:1 Not enough upside
BetterInvesting recommends an upside/downside ratio of at least 3:1 A
reasonable ratio for risk

What the U/D Ratio is NOT

**The Upside/Downside Ratio Is
NOT a Measure of the Odds
a Company Price Will Increase**

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Price Appreciation over next 5 years

The SSG shows how much price appreciation we can expect over the next 5 years given the estimates Marion & Russell put in.

E. PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$$\frac{\text{Forecasted High Price}}{\text{Closing Price}} = \frac{454.6}{330.94} = (1.3737 \times 100) = (137.37 - 100) = 37.4\% \text{ Appreciation}$$

Evaluating Risk At A Glance

Zone: HOLD

Forecasted High Price: 454.6

Forecasted Low Price: 256.8

Closing Price (10/27/21): 330.94

Upside Downside Ratio: 1.7 To 1

Potential Price Appreciation: 37.4%

LMT's price is projected to increase only 37.4% in total (not annually) from \$331 today to \$455 in 5 years

This does not mean LMT is a low-quality company.
It means that buying at the current price risks low potential price appreciation.

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Finally - dividends- we didn't forget them They add to the potential total return

Year	B		C		F	G	H
	Price	Low	Earnings	Per Share	Dividend	% Payout	% High Yield
					Per Share	F / C * 100	F / B * 100
2016		200.5		12.38	6.77	54.7%	3.4%
2017		248.0		6.64	7.46	112.3%	3.0%
2018		241.2		17.59	8.20	46.6%	3.4%
2019		256.8		21.95	9.00	41.0%	3.5%
2020		266.1		24.50	9.80	40.0%	3.7%
AVERAGE		242.5				58.9%	
CURRENT/TTM				21.67	11.20	51.7%	

What we would like to see
 Dividend \$ amount rising over past 5 years
 Payout ratio staying about the same or not increasing
 Yield fairly constant or rising

What happened
 Rising - good
 Trending lower - good
 Rising - good

Outlier 2017

Good history: LMT has been paying higher dividends using a smaller % of its earnings

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The last SSG estimate (Judgment)
Check and/or adjust the dividend payout ratio

B. AVERAGE YIELD - USING FORECAST HIGH P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast High P/E}} = \frac{41}{16.4} = 2.5\%$$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$$\frac{\text{Avg. \% Payout}}{\text{Forecast Average P/E}} = \frac{41}{15.85} = 2.6\%$$

The SSG uses the average payout over the past 5 years to generate the yield.
The average (58.9) is too high (2017 issue again).

We won't poll you, but 41% looks like a more solid rate for the payout ratio than the average (58.9).

Need to change the Payout Forecast.

63

R - We now have all our answers!
Our total potential return = LMT's price appreciation + dividends

C. COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Price Appreciation	6.6%
Average Yield	2.5%
Annualized Rate of Return	9.1%

COMPOUND ANNUAL RETURN - USING FORECAST AVERAGE P/E

Annualized Price Appreciation	5.8%
Average Yield	2.6%
Annualized Rate of Return	8.4%

SSG Results Summary

Zone:	HOLD
Upside Downside Ratio:	1.7 To 1
Total Return (High P/E):	9.1%
Projected Return (Avg P/E):	8.4%
Buy price to satisfy US/DS of 3 to 1 and 15% total return:	252.3
Buy Below price based on zoning selection:	306.2
Closing Price (10/27/21):	330.94

Company Sales	Company Size	Acceptable Growth	Amount of Risk
>\$10 billion	Large	5% - 7%	Less
LMT: \$65.4B in 2020	Huge	Estimated (8% - 9%)	1.7 U/D ratio at current \$

Years to Double "Rule" of 72
14 - 10
9 - 8

Using Russell's & Marion's estimates, LMT has more potential than its size category. Still not in the Buy range.

The audience SSG may be different. We will look at poll results.

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Our SSG is complete. We will use poll results to fill in the FC Report below and send it with the SSG to BetterInvesting for possible publication. Stay tuned!

1. Why we think LMT is a high-quality growth company (if we did)
2. How the company makes money
3. Our projected sales growth rate and reasoning
4. Our projected EPS growth rate and reasoning
5. What else we know about LMT quality
.....
6. Our projected high PE and reasoning
7. Our projected low price and reasoning
8. At the current price, we think the stock :
Is a buy, hold or sell
Has an upside/downside ratio of ___%
Has a potential compound annual return of ___%

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Next Step?

What you do next is all about your opinion of LMT

Q - Quality and **R - Potential Return**

Does LMT fit in your particular stock portfolio?

There are several perfectly valid alternatives depending on your needs

Our last Poll is next

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Final Poll – What will you do?

- A. Buy LMT now. The compound annual return is good enough for me.
- B. Interesting stock. I like the presenters' SSG. I'll watch for better price and a better compound annual return.
- C. Interesting stock. I'll do my own research & a different SSG.
- D. Not good enough. I'll look for other stocks

After the poll, we will go to the online SSG with poll results and take questions

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Thank you for participating!

QUESTIONS

Russell Malley lclub-ram@comcast.net
Marion Michel mar02mic@comcast.net

Round 3: Sunday, November 14, 4:00 – 5:15 pm, PT, \$10
Gain some tips from a club portfolio “Repair Shop” by Scott Horsburg, a *BetterInvesting Magazine*’s “Repair Shop” guru.
Register: <https://cachapters2021.eventbrite.com>



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