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2017 Lockheed Martin Media Day

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Remarks as Delivered by Chairman, President and CEO Marilyn A. Hewson

Arlington, Virginia
March 21, 2017



Chairman, President and CEO
Marilyn A. Hewson

Good morning, everyone.

Welcome to Lockheed Martin's Global Vision Center.

It is a pleasure to host you here, where you can see firsthand one of our facilities dedicated to enhancing collaboration, spurring innovation, and demonstrating the unrivalled breadth of our capabilities at Lockheed Martin.

We thank you for taking time to come here to learn about our vision for the future, and how we are creating value for our customers from cutting-edge defense technologies and advanced cybersecurity, to energy efficiency and space exploration.

Throughout the day, you'll have an opportunity to hear from a wide range of our experts on critical subjects.

Yet, in all of our endeavors, I am confident that you will see a common thread: At Lockheed Martin, we are committed to putting the needs of our customers at the center of everything we do.

As we engineer and deliver innovative and affordable solutions, you will see we are a company thinking beyond tomorrow.

That's because we understand at a fundamental level, that our customers, especially those in our Armed Forces, are facing unprecedented threats, pressures, and pace of change.

For this reason, we have taken actions to reshape our portfolio to meet the challenges our nation and allies face today, while also looking far into the future to anticipate evolving threats, looming on distant horizons.

So, this morning, I want to discuss why Lockheed Martin is well positioned to lead and grow in the dynamic and demanding geopolitical environment that surrounds us.

First, I'll begin by highlighting our strategic achievements and record-setting performance in 2016.

Then, I'll discuss why the need for our integrated solutions has never been greater for the future of global security.

Third, I'll describe how our focus on innovation and our ability to perform with excellence will continue to power growth and progress for years to come.

And, finally, I'll close by taking your questions.

By nearly every measure, 2016 was an outstanding year for Lockheed Martin.

We faced one of the most complex, volatile, and unpredictable business and geopolitical environments that I've seen in my 34-year career at Lockheed Martin.

During this time we boldly reshaped our portfolio. We delivered on key programs and milestones for our customers. And we set new records for our shareholders.

This combination of strategic achievement and performance during a time of challenge and change has made me more optimistic than ever about our company's growth prospects.

When we last gathered here for Media Day, Lockheed Martin was in the midst of two far-reaching efforts to reshape our portfolio.

We were in the process of divesting our Information Systems & Global Solutions business, a transaction that has been successfully completed.

At this time last year, we were also making progress with the integration of Sikorsky.

That integration has been largely completed, leading to the creation of Rotary and Mission Systems, a business area with unrivaled technical and technological capabilities.

With these strategic moves, we have strengthened our focus on our core business.

We have also enhanced our ability to integrate complex platforms, in a way that maximizes value.

Our customers and investors around the world have already seen the benefits.

One very notable example was the unveiling of the weaponized BLACK HAWK last summer.

As a line-of-business within Rotary and Mission Systems, Sikorsky now has access to the resources and knowledge from the entirety of Lockheed Martin.

In this case, our Missiles and Fire Control team worked with the BLACK HAWK team to develop an armed helicopter that can be configured to the specific preferences of current and future customers.

This is just one of many enhanced synergies we've identified.

We will unveil more in the future.

Another measure of our performance has been our continued ability to expand our international sales.

In 2016, our sales on the international front, came to more than \$12.7 billion dollars, nearly 27 percent of our total sales.

In fact, more than 40 percent of our new business came from international customers, including a \$1.5 billion dollar contract for PAC-3 missile defense capabilities that includes foreign military sales to five nations; a \$1.2 billion dollar contract with the Republic of Korea's Air Force to upgrade 134 of their F-16 aircraft; and our selection to be the combat systems integrator for the Future Submarine Program, the largest defense capital works program in Australia's history.

These achievements are just the beginning.

We have set a strategic goal to expand our international sales to 30 percent in the next few years.

The largest driver of that international growth will be the F-35 program.

Last year alone, the F-35 program reached new agreements with Denmark, Israel, Turkey, and the Netherlands.

In fact, approximately 50 percent of all F-35 orders over the next five years are expected to come from international customers.

Our Sikorsky line-of-business is also contributing to our international growth through its military and commercial helicopter offerings.

And we expect those contributions to grow.

Sikorsky's commercial helicopters predominantly serve the oil-and-gas industry.

As many of you know, energy markets have experienced a downturn. As I have previously remarked,

although it is taking longer than we initially projected, we are confident the industry will eventually recover.

In the interim, we are focused on supporting and sustaining our current commercial helicopter fleet and diversifying into new mission areas.

Lockheed Martin's outstanding performance in 2016 was also driven in large part by our operational successes.

We maintained our leadership position in key areas, including fixed- and rotary-wing aircraft, space, missiles, air and missile defense, and mission systems.

Among our critical milestones, we marked:

- The U.S. Air Force's declaration of Initial Operational Capability for the F-35A.

- The first installation and deployment of the Terminal High Altitude Area Defense System, or THAAD, outside of U.S. territory.

- The successful completion of the Production Readiness Review for the CH-53K "King Stallion" heavy-lift helicopter, and

- Several successful space launches for high-profile programs, such as the OSIRIS-REx spacecraft and the GOES-R satellite.

Of course, it is always important to note that some of our greatest achievements cannot be celebrated publicly.

At Lockheed Martin, we've had the honor and privilege to work on a multitude of classified projects over the decades.

We continue to do so.

These programs are not only vital to our nation's security, they are an important part of our business and future.

Another key measure of our operational performance, is our ongoing effort to increase the affordability and value of our products.

Since his election, President Trump has made clear that he and his administration will be focused on ensuring that the government is a "smart buyer" getting the most for the taxpayer's dollar.

In our positive and constructive dialogues over the past few months, we were able to communicate how Lockheed Martin is fully aligned with this effort.

We recognize that, for our customers, every dollar saved is a dollar that can be directed toward purchasing new capabilities, greater flexibility, or increased interoperability – all of which can help the broader mission, or the individual warfighter, succeed.

Nowhere has this commitment to affordability been more visible than on the F-35 program.

We have teamed with government and industry to launch the "Blueprint for Affordability" and the "Sustainment Cost Reduction Initiative."

Through these efforts, we've set a goal to save our F-35 customers more than \$5 billion dollars.

We have worked diligently to drive down the cost of the F-35A – the most popular model, domestically and internationally.

We agreed to a target of \$85 million dollars or less per plane by 2019, in then-year dollars.

This would mean customers will be getting an unparalleled fifth-generation fighter for the price of a fourth-generation, legacy aircraft.

We are proving we can do it.

The F-35A is currently at its lowest price in program history, having been reduced by 62 percent since the first lot.

The culmination of our strategic achievements and operational performance across the corporation was evident in our financial results for 2016.

We set records in Sales, Earnings, and Cash from Operations. We achieved record year-end Market Cap.

And we provided a Total Stockholder Return of 18 percent, outperforming the S&P 500 and Dow Jones Industrial Average.

As impressive as these results are, however, they are now in the past and we are focused on the future.

As we consider global developments and geopolitical realities, we believe that there has never been a greater need for Lockheed Martin.

Elected leaders in government, and our men and women in uniform, face a vast array of unprecedented challenges and pressures that demand innovative solutions.

Our customers are grappling with security threats that are increasingly intercontinental, asymmetric, and unpredictable.

We have seen deliberate and repeated aggressive action and provocations from near-peer nations. We have seen volatile leaders and regimes, stoke instability in their quest for regional dominance. And we have seen non-state actors, a refugee crisis, and cyberattacks, undermine fundamental trust in democratic institutions and the rule of law.

Just last month, I attended the Munich Security Conference.

There, U.S. Secretary of Defense James Mattis commented on the volatility of the global security environment, saying:

“We all see our community of nations under threat on multiple fronts, as the arc of instability builds on NATO’s periphery and beyond.”

Another attendee was Yun Byung-se, the foreign minister of South Korea.

He warned that the Asia-Pacific region is “more turbulent than ever since the end of the Cold War.”

He then added that the world is experiencing a “kind of tectonic shift, with multiple, daunting challenges erupting simultaneously.”

These well respected leaders are not alone in their analyses.

Their concerns are echoed all over the world.

There is another common theme I hear from leaders in government and in uniform.

They are under constant and significant budget pressure.

Threats have been expanding, and budgets are strained.

Here in the United States, for the past six years, our largest customer, the U.S. Department of Defense, has endured the spending caps put in place by the Budget Control Act.

This has created severe challenges for every branch of our military.

For instance, the Marine Corps has not met its goal for flight hours since 2012. That means pilots are not getting the training time they need to prepare for the unexpected.

Another problem felt by both the Navy and Marine Corps is a lack of spare parts, which has caused aircraft to be grounded.

These are budget problems that undermine our men and women in uniform.

In Europe, the consequences of the 2008 financial crisis and weak economic growth have caused many nations to further cut defense spending, exacerbating a post-Cold War trend.

The specter of uncertainty will likely continue to loom, as leaders contend with debt crises and the pending exit of the United Kingdom from the European Union.

In the Arabian Gulf, low oil prices have impacted many of our friends and allies, even as they have had to step up military operations.

In order to maintain their strong investments in national security, many have been forced to make cuts in future defense and non-defense spending, which influences social and demographic challenges.

At Lockheed Martin, we recognize that our customers need innovative solutions, in this period of defense

cuts and budget constraints.

They're looking to us to maximize the value of every dollar, Euro, pound, yen, riyal, or dirham that they spend.

Despite these long and ongoing trends, we have proven that Lockheed Martin can meet these challenges and succeed in a constrained environment.

We can grow because of our focus on the customer, our ability to adapt and innovate, and our capacity to create and optimize interoperable platforms.

For these reasons, we believe the prospects for Lockheed Martin's growth are strong.

In fact, we are optimistic about the opportunities ahead.

First, we are seeing a new willingness and a new resolve from governments around the world, to increase their investments in defense.

President Trump's first budget proposes an important increase in defense spending above current levels.

Leaders in Congress have also expressed their support for an increase in defense spending.

The Fiscal Year 2017 conference agreement that just passed the House, contains strong support for our programs, including the F-35, UH-60 Black Hawks, C-130s, and missile defense programs.

Although the path ahead on the federal budget remains complicated, we are optimistic that this renewed emphasis on national security issues will be sustained.

Our allies, from NATO to Australia, are also recognizing new geopolitical realities, and making new calls to raise their defense spending to at least 2 percent of GDP.

In addition, as Damon Wilson of the Atlantic Council has noted, there is also a "President Trump Effect."

NATO members are considering the shifts in U.S. priorities and many see a greater need to shoulder more of their own defense burdens.

This is significant.

In fact, if NATO members fulfill their already-stated pledges to spend 2 percent of their GDP on defense, it could result in a \$100 billion dollar increase in spending across the Alliance.

A second reason for optimism is the prospect for sound policy reforms. The new Administration and the Congress have expressed support for budget stability, corporate tax reform, and the reduction of inefficient regulations and ineffective government processes.

Any and all of these measures would help our nation's defense industrial base plan for our customer's long-term needs, and would encourage increased investment and innovation.

While there is a lot of work to do in each of these areas, the result will be a stronger economy and more robust job creation.

Lockheed Martin is only one of the tens of thousands of U.S. companies poised to grow with such changes.

Most Americans are now aware that our corporate tax code is an impediment to our national competitiveness.

We have the highest corporate tax rate among the advanced economies.

We believe that bringing that corporate tax rate down and simplifying the code will energize investment and the economy.

The benefits of well-considered regulatory reform would also be significant.

As the former chair of the Aerospace Industries Association, and in my current role, I have seen how hard businesses must work to comply with complex, conflicting, and poorly conceived regulations.

Even more concerning is the fact that onerous regulatory burdens often fall hardest on small- and medium-sized businesses, many of which are our valued partners.

The aerospace and defense industry employs more than 1.7 million workers, which represents approximately 2 percent of the nation's total workforce, and a full 13 percent of U.S. manufacturing jobs.

And these are just the numbers for direct jobs.

Our industry supports another 1.1 million jobs indirectly.

Sensibly streamlining regulations and introducing robust cost-benefit analysis would increase manufacturing competitiveness and spur economic growth.

These policy discussions are especially important to our industry.

The aerospace and defense industry is the nation's leading net exporter, generating a record trade surplus of \$90 billion dollars last year.

And we are the second largest exporting industry, with 10 percent of total U.S. exports.

Increasing our competitiveness will mean more jobs and more investment.

For Lockheed Martin alone, over 90 percent of our jobs are here in the United States.

Our contributions to U.S. job creation are poised to grow.

As F-35 production continues to ramp up, we project that it will create 15,000 direct jobs and approximately 41,000 indirect jobs across America.

In fact, this new job creation can be seen in Johnstown, Pennsylvania.

We are finalizing our plans to expand production for components of the F-35 with a new, leased facility in Johnstown.

This expansion will mean 40 new jobs by the end of 2018.

And this is just one example, as we transition to full-rate production.

With a stronger aerospace and defense industry, we will strengthen both our national security and economic security.

A third reason for optimism about our company's future growth, is our long track record of innovation and our proven ability to perform with excellence.

Innovation is the lifeblood of Lockheed Martin.

We can look back on our 105 years of business, and point to Lockheed Martin technologies that changed the course of history – unrivalled and indispensable aircraft; spacecraft that have advanced scientific discovery deep into the universe; stealth technology that supports and redefines air superiority.

Our job at Lockheed Martin is to put our customers at the center of everything we do.

We know that they're often contending with such intense challenges today, that they may not always be able to focus on threats yet to come.

So we are committed to thinking beyond today to anticipate what our customers' needs might be tomorrow.

We then strive to provide them with the technological solutions and advanced capabilities they need, to keep citizens safe and nations secure.

The F-35 is a perfect example of this approach.

With its combination of speed, stealth, range, flexibility, and its integrated-defense and sensor-fusion capabilities, this aircraft provides the warfighter with capabilities that are simply unmatched.

To quote one of our customers, Air Marshal Leo Davies, chief of the Royal Australian Air Force: "The F-35 replaces nothing because it changes everything."

The game-changing impact of the F-35 was recently seen at the Red Flag exercise at Nellis Air Force Base in Nevada.

It was there that 13 F-35As notched a 20-to-1 kill ratio. And during the rigorous, round-the-clock testing,

they maintained a 90 percent mission capable rate – a key indication that they are close to becoming fully operational.

But that wasn't all.

After the exercise, Lieutenant General Jon Davis, U.S. Marine Corps deputy commandant for aviation, explained that his student pilots with 50 to 60 hours of training on the F-35B are performing like a three-year weapons school graduate when flying the aircraft.

For us, this is further testament to the F-35's value and total dominance over its rivals.

We are deeply proud of this fighter and what it will mean for the United States, our allies, and the ability for free nations to stand together in strength and confidence.

The interoperability of the F-35 also provides a critical insight into our approach to innovation and value creation.

Last year, we conducted a live-fire test in conjunction with the U.S. Navy and U.S. Marine Corps to demonstrate the integrated capabilities of the F-35.

Working together with our Aegis Weapon System, an unmodified F-35B was able to detect an over-the-horizon threat and relay information to Aegis, which was then able to engage and intercept the target.

The test proved how we can bring the tremendous capability of the F-35 together with other key systems, a truly transformative, "One Lockheed Martin" solution.

We're driving this type of collaborative innovation into every corner of the corporation, to push the breakthrough technologies that will be our growth engines of the future.

We seek to enhance and integrate our platforms, to make them more flexible, more capable, and more valuable to our customers.

One way we're doing this is by looking at our current products and capabilities, and finding ways to expand their missions to make them more capable and affordable.

By anticipating and acting on what our customers will need in the future, we can help them stay on the leading edge of technology.

A good example of this is the Hellfire missile.

We take great pride in the fact that, whenever our customer comes to us for a component change on the Hellfire, it is returned with greater capabilities than ever before.

In fact, there's not a single piece in today's model that looks like anything on the first missile.

Yet, its continued use for two decades, demonstrates that innovation often means expanded and enhanced value, rather than total replacement by a new competition.

Of course, Lockheed Martin is also thinking beyond tomorrow, to invest in transformational technologies that will define the next era of innovation.

For instance, Lockheed Martin is helping the U.S. military stay ahead of the information age.

Currently, the Air Operations Center for the United States Air Force manages virtually everything flown by U.S. military forces, collecting more than 200 different sources of data on a daily basis.

To improve the Center's ability to absorb and protect high volumes of incoming data, we're overhauling its information engine known as the Theater Battle Management Core System.

We understand our customers' need for timely and effective mission planning.

So, our team is developing a new system that will incorporate open architecture and customizable applications much like the applications you download to your mobile device.

Those applications will be able to consolidate that data and expand its ability to be mobile so warfighters can take the information on-the-go even in difficult terrains.

And the open architecture will allow for the incorporation of new software and hardware to respond quickly to new threats, such as cyber threats.

With such efforts, our goal is to help provide our customers with the ability to fully leverage fifth-generation technologies, like the advanced sensors and data fusion brought by the F-35.

We want each “smart node” on the modern battlefield to be seamlessly connected, integrating air, space, land, and the cyber realm.

By enabling what is called “multi-domain command and control,” we will bring a more holistic operational picture of the battlespace.

In turn, these advanced capabilities for collecting, managing, and processing information will enable more rapid decision-making based on the clearest possible picture.

At Lockheed Martin, we recognize that our ability to innovate and to adapt with speed and agility is the difference between life and death for our Armed Forces and for our company.

That is why we will continue to press forward the frontiers of knowledge and technological capability.

For the fourth consecutive year, we have increased our independent research and development funding – which in 2016 totaled \$988 million dollars.

And the technologies we are pursuing promise to be some of the most transformational in the 21st century – including directed energy, autonomy, hypersonics, and advanced materials and manufacturing, to name just a few.

During these remarks, I've sought to present why we're so optimistic at Lockheed Martin.

We see a world filled with unprecedented geopolitical challenges.

But we also see extraordinary opportunities to define the future.

We believe that we are well positioned to help our customers meet these challenges and that our innovative and integrated solutions will lead to safety, security, and progress for billions of people.

This is an exciting time for our company, defined by scientific breakthroughs, promising new technologies, and increasing collaboration with friends and allies around the world.

I believe you will hear these themes echoed throughout your discussions with our leaders and subject matter experts.

I hope today will deepen your understanding of our company, and help you in your research, reporting, and analyses.

Thank you again for your time.

We appreciate all you do to keep our customers, policy makers, and the public informed.

Now I'd like to take a few of your questions.

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