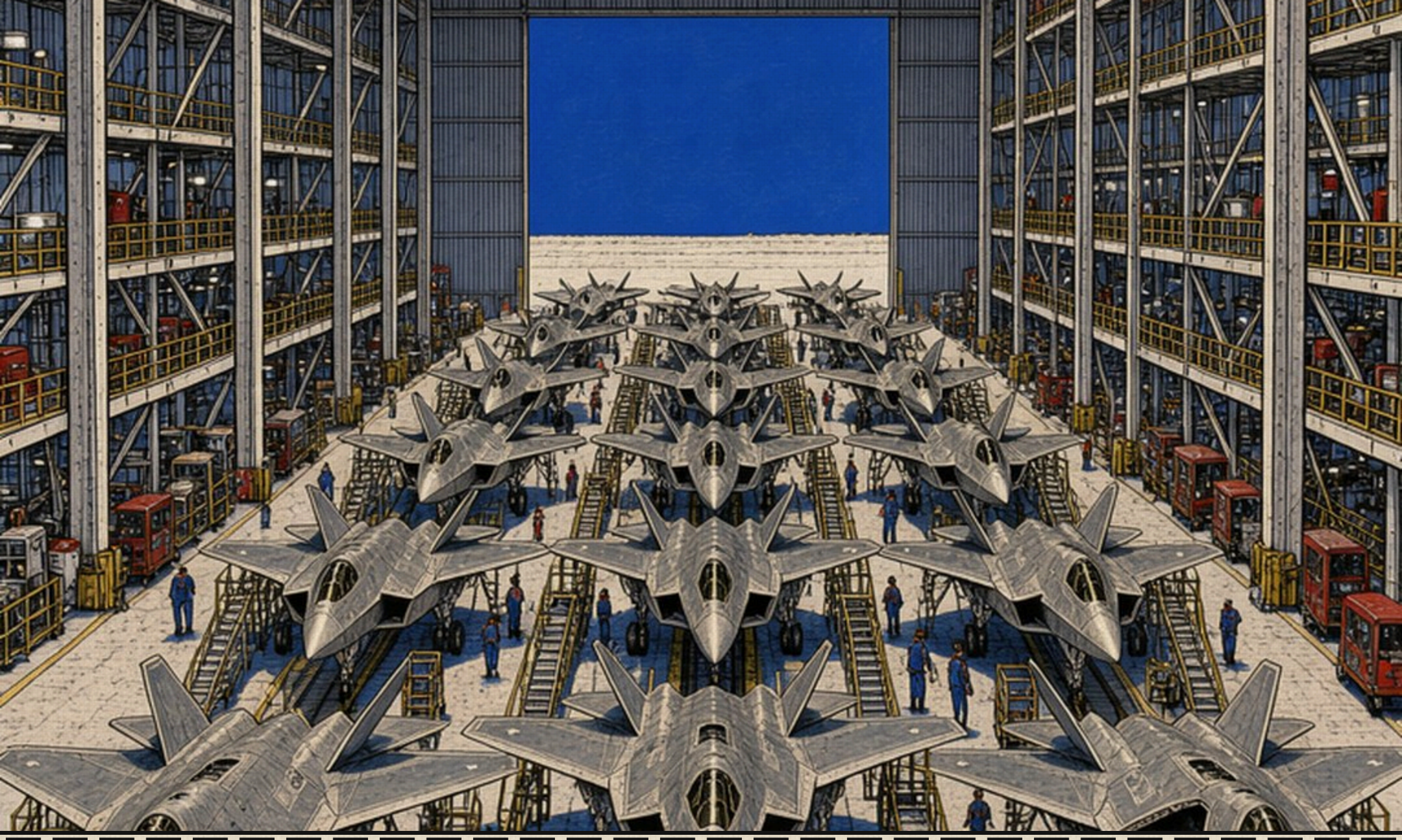
LOCKHEED

Backlog, Execution and the Arsenal Trade

A record $230bn backlog and a world that is rearming, against costly programme losses and a share price a quarter below its March high.



I

Executive Summary

Record demand, uneven execution

$230bn	**$80.8bn**
record backlog, June 2026	*2026 sales guidance (midpoint)*
$512	**16.5x**
share price, 24% below March record	*forward earnings, below the S&P 500*

Lockheed Martin has never had more work: backlog jumped to $230bn in the second quarter, and since then it has won the bulk of a $58.6bn contract to triple Patriot interceptor production. Yet the shares have lagged, because the company lost about $3.6bn on fixed-price programmes in 2024 and 2025, F-35 deliveries have slowed and Washington is pressing contractors to spend on capacity rather than buybacks.

Our view: the demand cycle is the strongest in decades and the valuation is undemanding, but execution, not orders, now decides the share price.

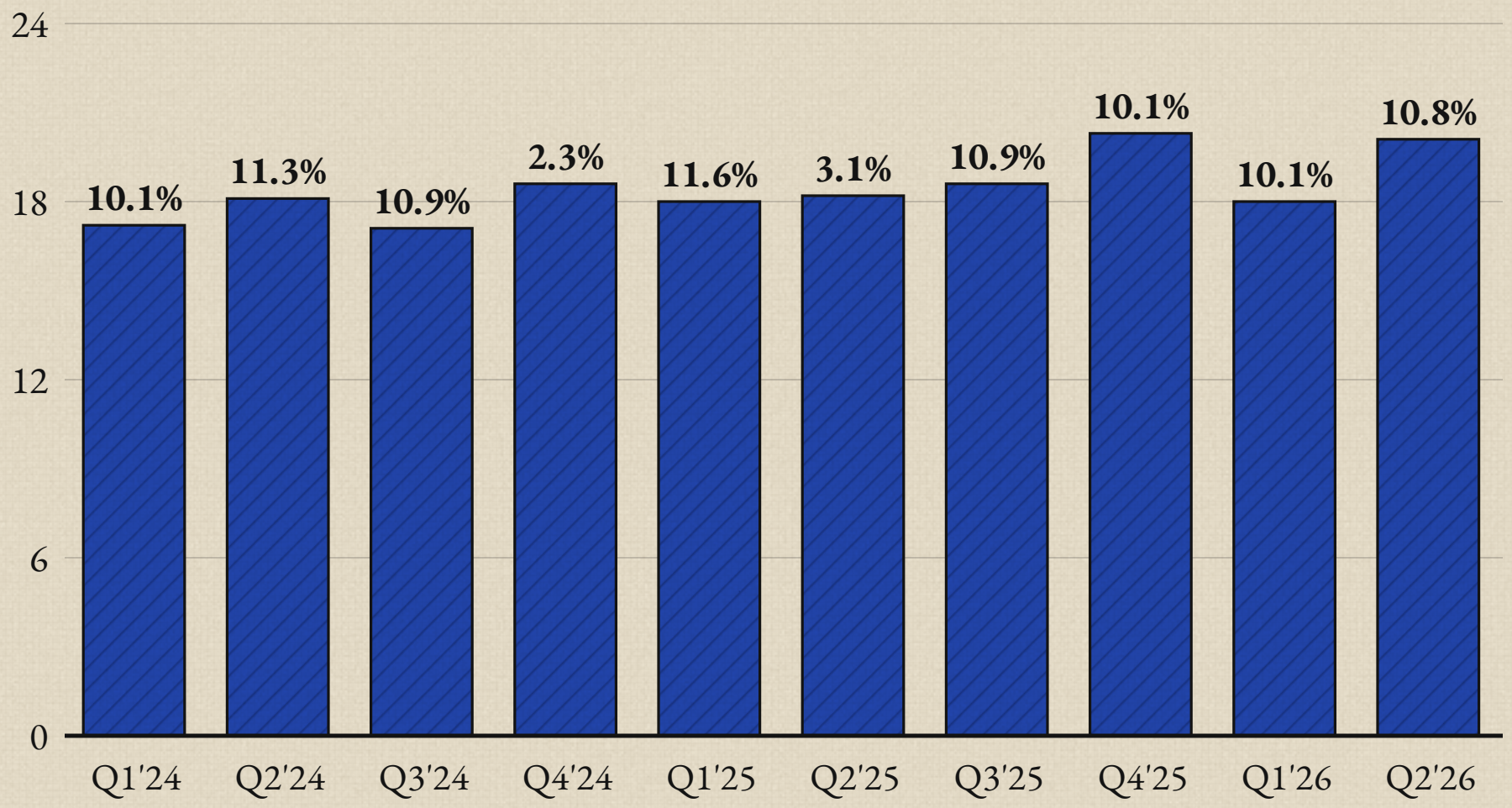
II

Results

Sales up, margins interrupted

Quarterly sales have grown from about $17bn to $20bn in two years. Twice, in late 2024 and mid-2025, losses on classified programmes cut the segment margin to about 3%; excluding those quarters it has held between 10% and 12%. Guidance for 2026 was raised in July to sales of $79.75 to 81.75bn and earnings per share of $29.95 to 30.65, against $21.49 in 2025.

Quarterly net sales ($bn) and segment operating margin



Source: Lockheed Martin quarterly results (SEC Form 8-K). Labels show segment operating margin. Q1 2026 had 12 weeks against 13 a year earlier.



III

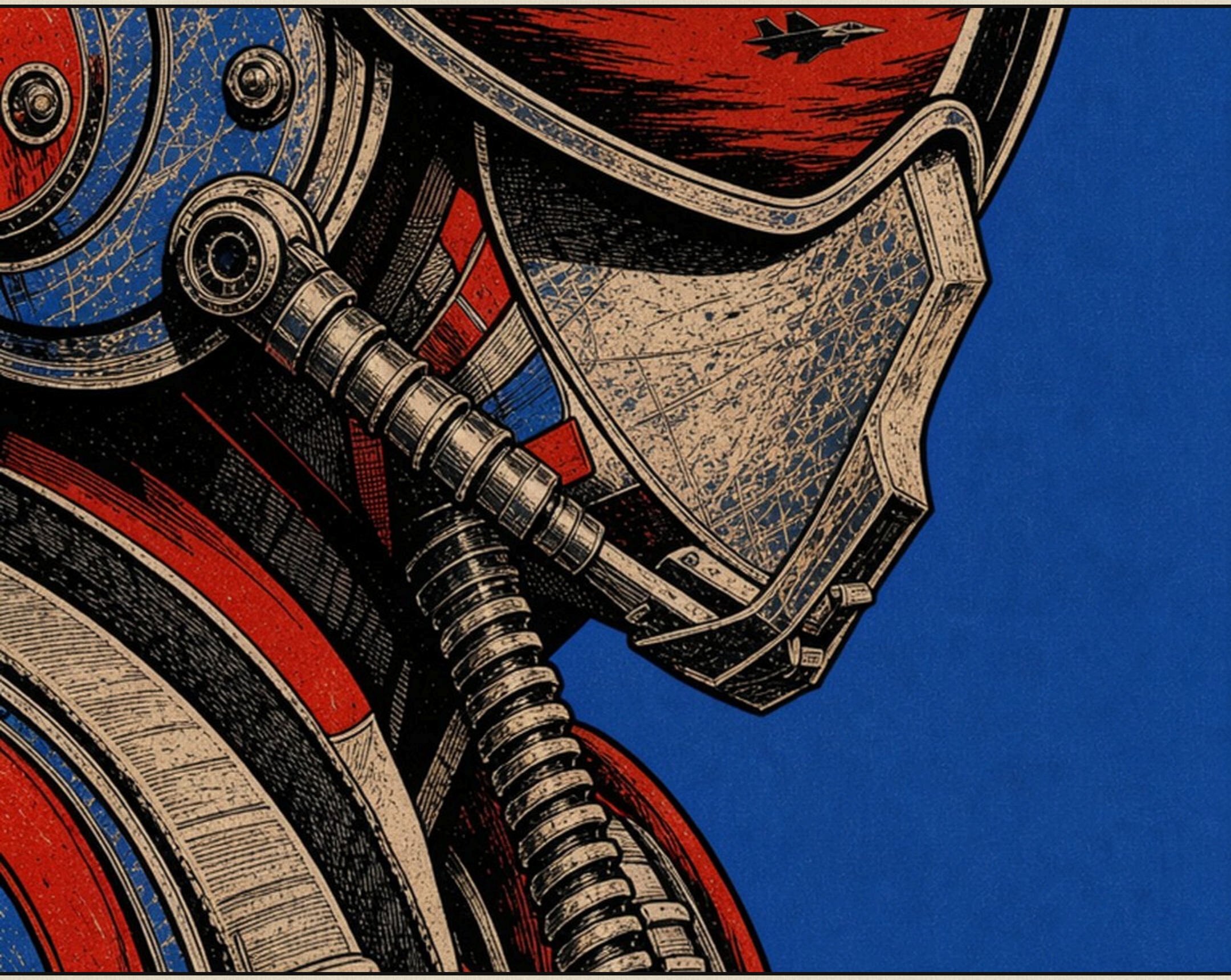
Programme Losses

The cost of fixed prices

Lockheed has taken large losses on contracts where it agreed a fixed price for work that proved harder than expected, most of them on two classified programmes. Reserves of about $1.5bn are still booked against further losses, and the company warns that more “could be material”. No new programme losses were reported in the second quarter of 2026.

Quarter	Programme	Loss
Q4 2024	MFC and Aeronautics classified programmes	$1.72bn
Q2 2025	Aeronautics classified programme	$950m
Q2 2025	Canadian Maritime Helicopter	$570m
Q2 2025	Turkish helicopter programme	$95m
Q1 2026	F-16 and C-130 net profit adjustments	$180m
Still reserved	two classified programmes	**~$1.5bn**

Source: Lockheed Martin Forms 8-K and 10-Q (Q2 2026). MFC: Missiles and Fire Control.





IV

Business Segments

Missiles carry the margin

Aeronautics, dominated by the F-35, is the largest segment but earns the lowest margin. Missiles and Fire Control is the most profitable and the fastest growing, with backlog nearly doubling in one quarter to $88bn.

Segment	2025 sales	Margin	Q2 2026 margin	Backlog
Aeronautics	$30.3bn	6.9%	9.4%	$54bn
Missiles and Fire Control	$14.5bn	13.8%	14.5%	$88bn
Rotary and Mission Systems	$17.3bn	7.6%	10.0%	$49bn
Space	$13.0bn	10.3%	10.6%	$40bn

Source: Lockheed Martin 2025 Form 10-K and Q2 2026 results. 2025 margins include programme losses. Backlog at 28 June 2026.

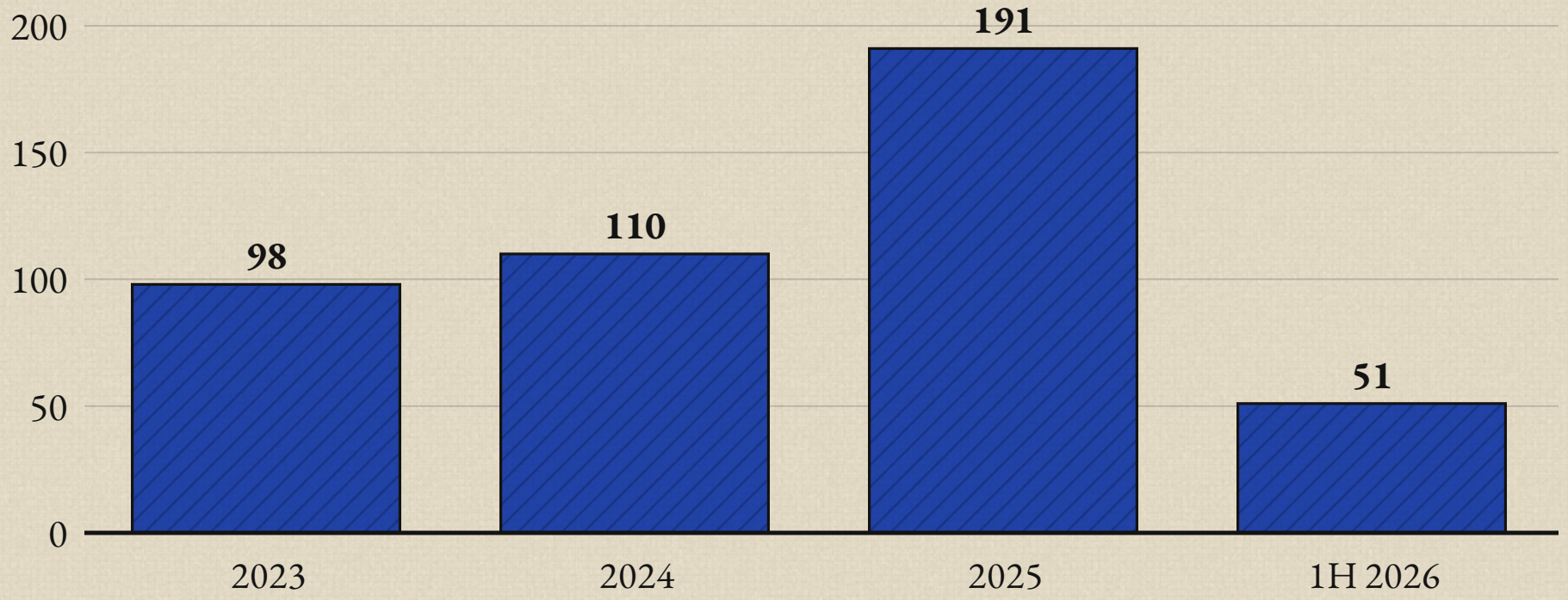
V

The F-35

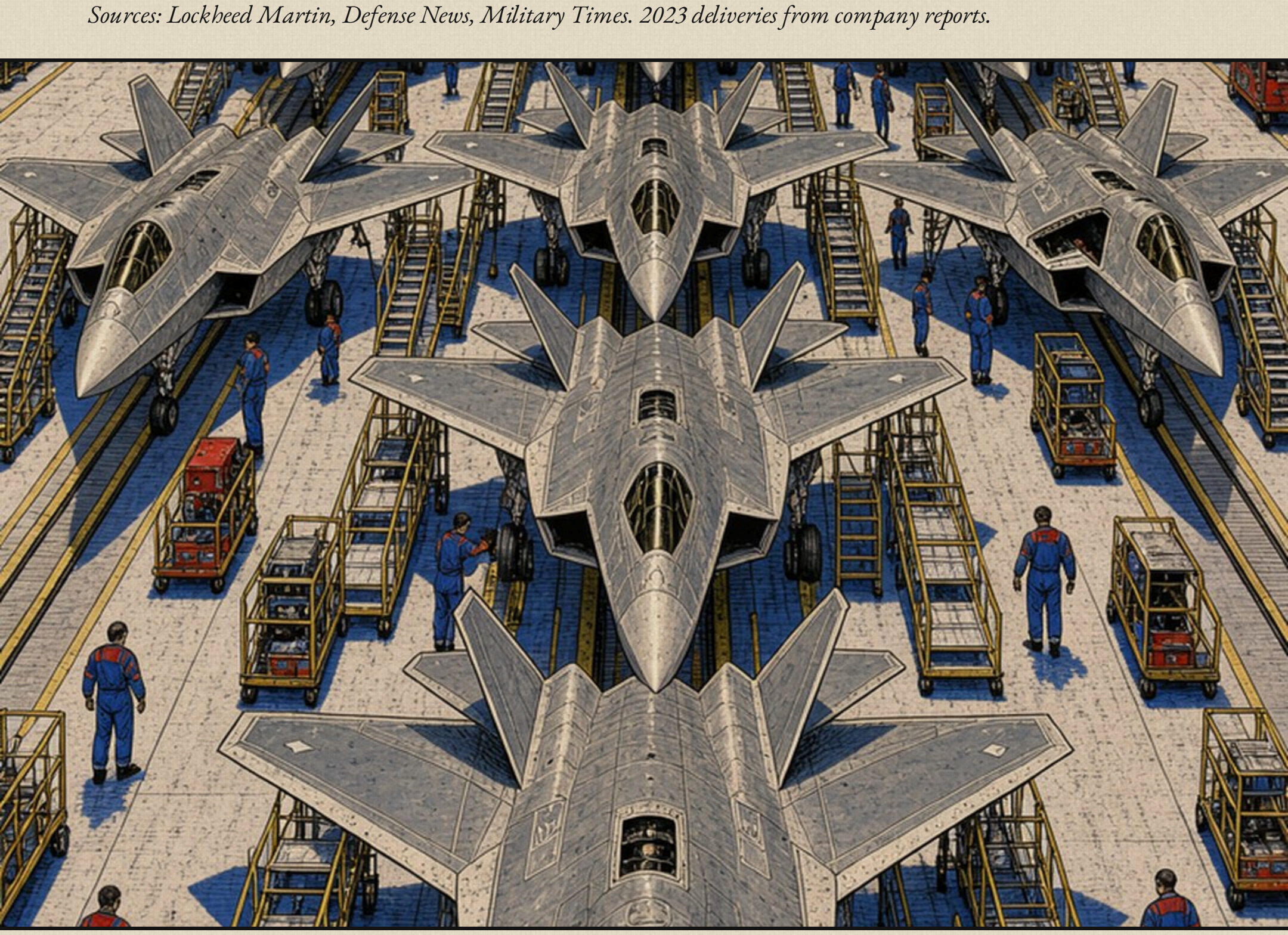
A quarter of the company

The F-35 accounts for about 27% of Lockheed's sales. Deliveries were halted for a year while a software upgrade (TR-3) was certified, then hit a record 191 jets in 2025; in the first half of 2026 they fell to 51. The US bought 47 jets in 2026, and of the 85 requested for 2027, only 32 are in the base budget. Abroad, Switzerland trimmed its order from 36 to 30 jets and Spain ruled the jet out, while Canada's review is still open.

F-35 deliveries per year



Sources: Lockheed Martin, Defense News, Military Times. 2023 deliveries from company reports.





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Missiles and Air Defence

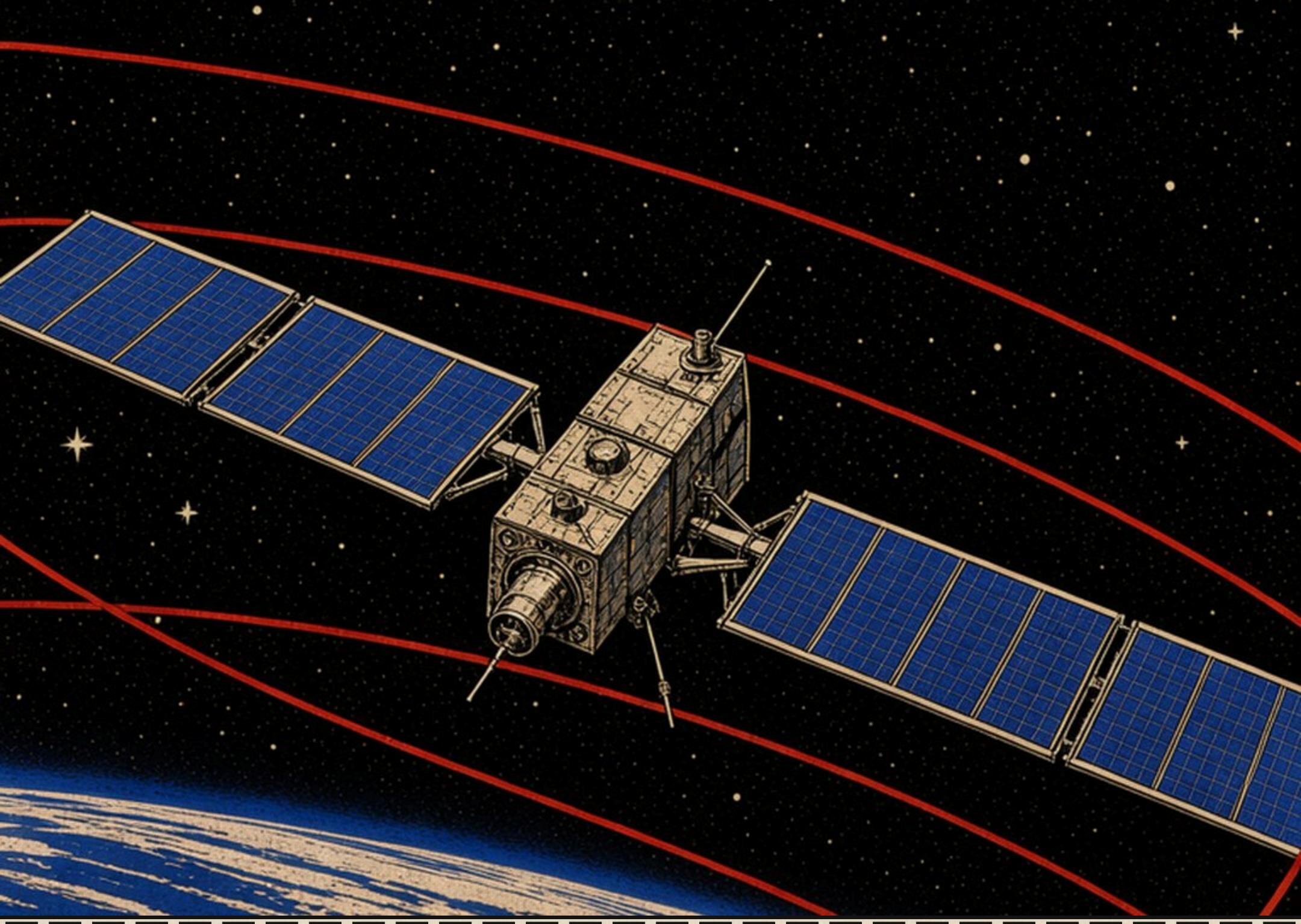
The arsenal trade

Wars in Ukraine and the Middle East have used up interceptors faster than they can be built. CSIS estimates that the Iran war used up about two thirds of US Patriot interceptors and more than a third of THAAD interceptors. Lockheed is the main beneficiary: in July it won a $58.6bn multiyear contract to roughly triple Patriot PAC-3 production, from about 600 a year, by 2030, and in June a $35bn contract to quadruple THAAD output.

Award	Value	Goal
PAC-3 MSE multiyear (Jul 2026)	$58.6bn	triple by 2030
THAAD (Jun 2026)	$35bn	quadruple production
GMLRS rockets	$3bn	sustained output

Sources: Lockheed Martin, CSIS via Military Times. The $53.9bn July portion of the PAC-3 award came after the quarter and is not in the $230bn backlog.



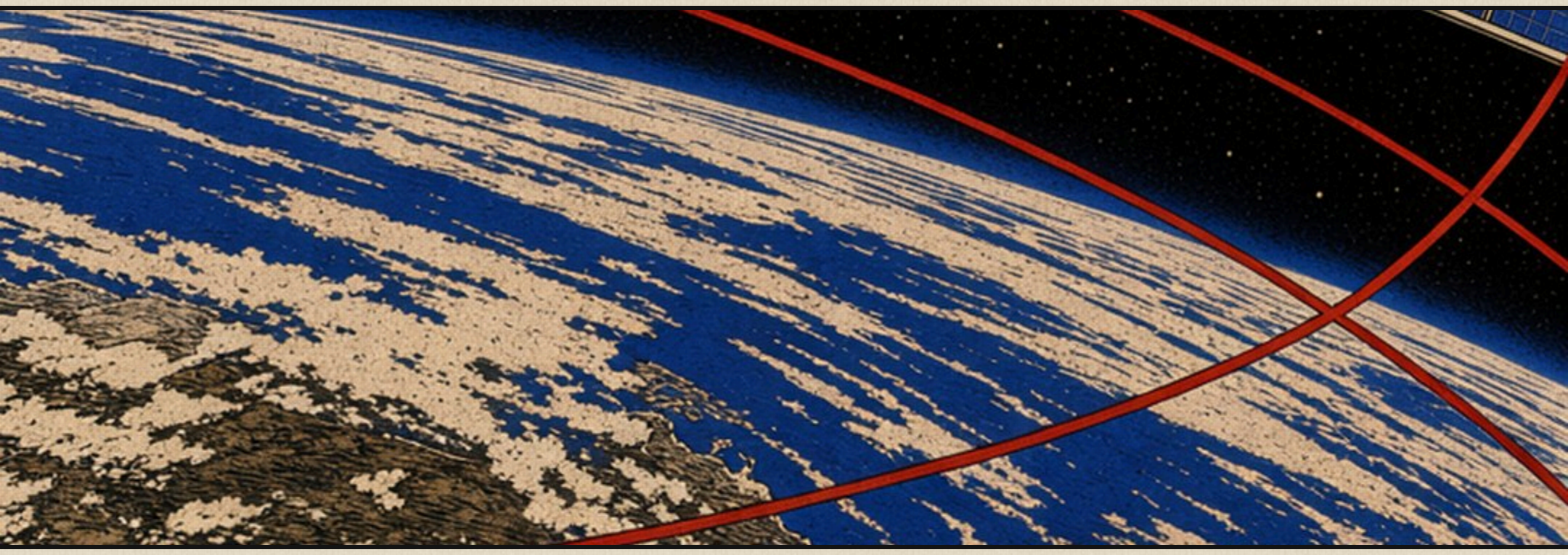


VII

Space and Golden Dome

The next frontier

Space is Lockheed's smallest segment but a growing one: it builds missile-warning satellites, the Orion capsule that carried the Artemis II crew and GPS satellites. The Golden Dome missile shield, which the Pentagon costs at $185bn (the CBO estimates far more over 20 years), is the largest new opportunity: Lockheed is one of the companies developing space-based interceptor prototypes and has won a missile-tracking satellite award worth more than $1bn. Most of the 2027 funding depends on a budget bill that Congress has not passed.



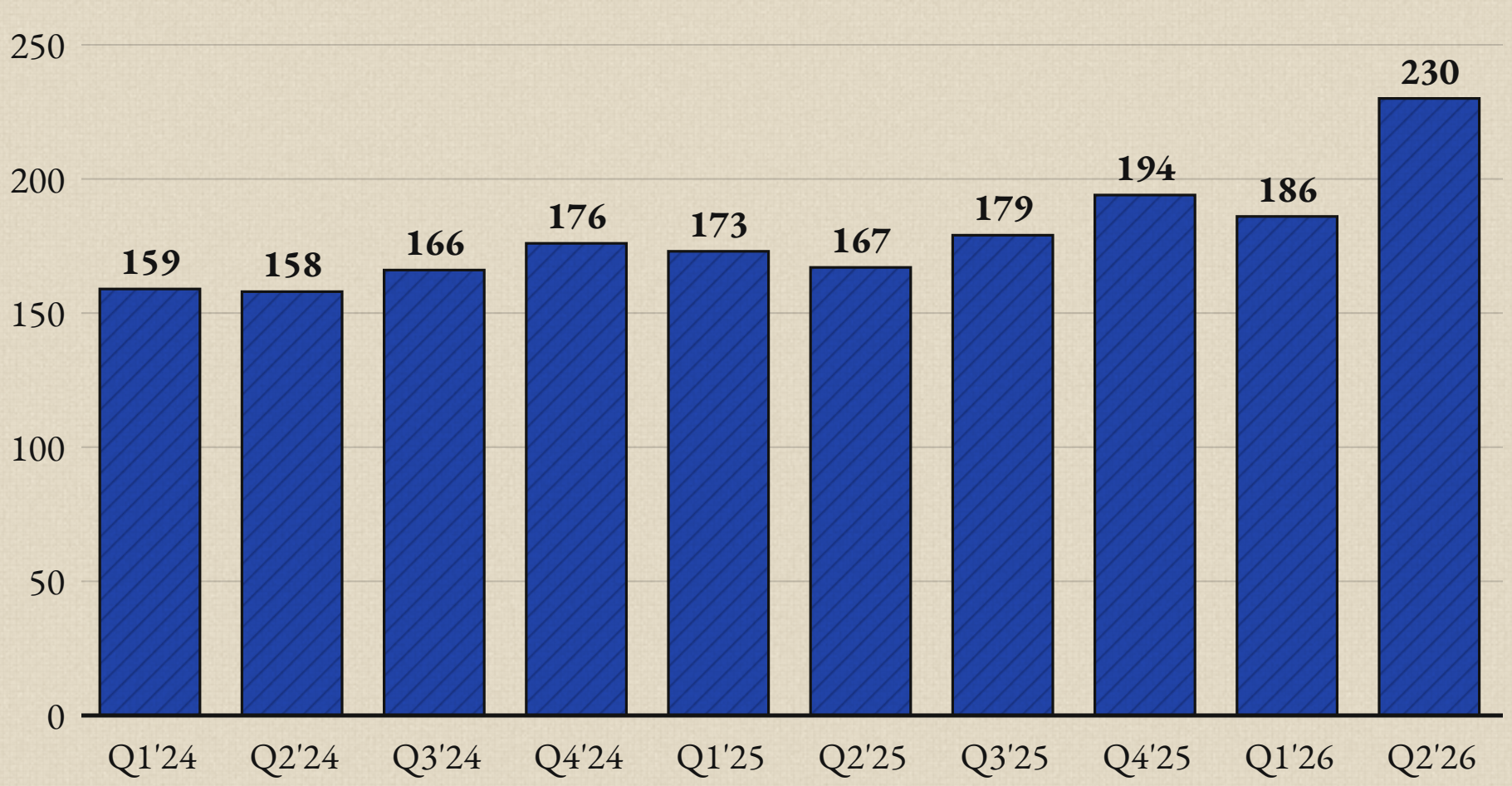
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Backlog

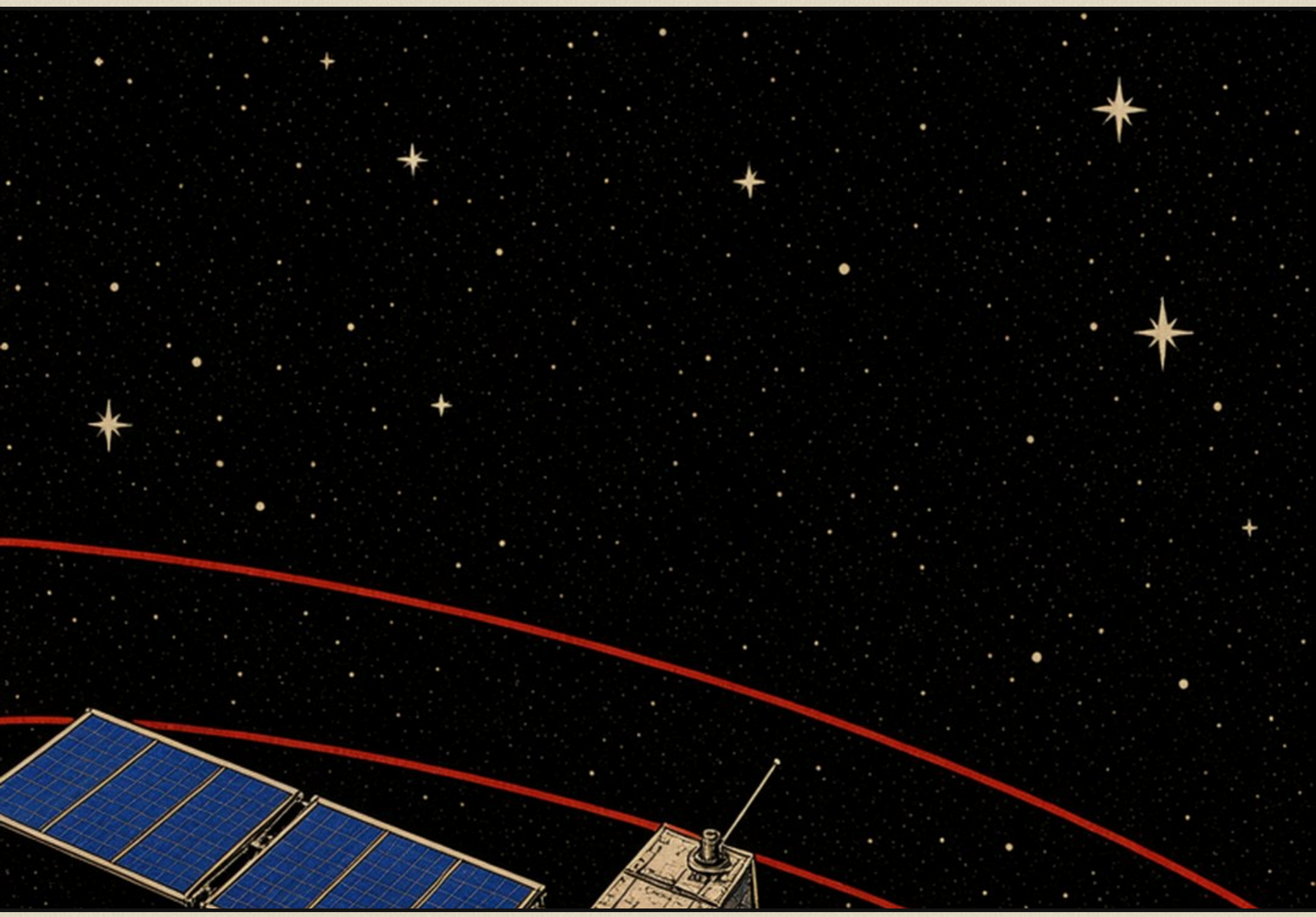
Three years of sales already signed

Backlog has risen by about $72bn in two years and now covers almost three years of sales. Missiles drove the second-quarter jump, lifting group book-to-bill to 3.2 times, and the PAC-3 award will add more in the third quarter.

Backlog at quarter end ($bn)



Source: Lockheed Martin quarterly results; Q1 and Q2 2025 from a secondary summary.



IX

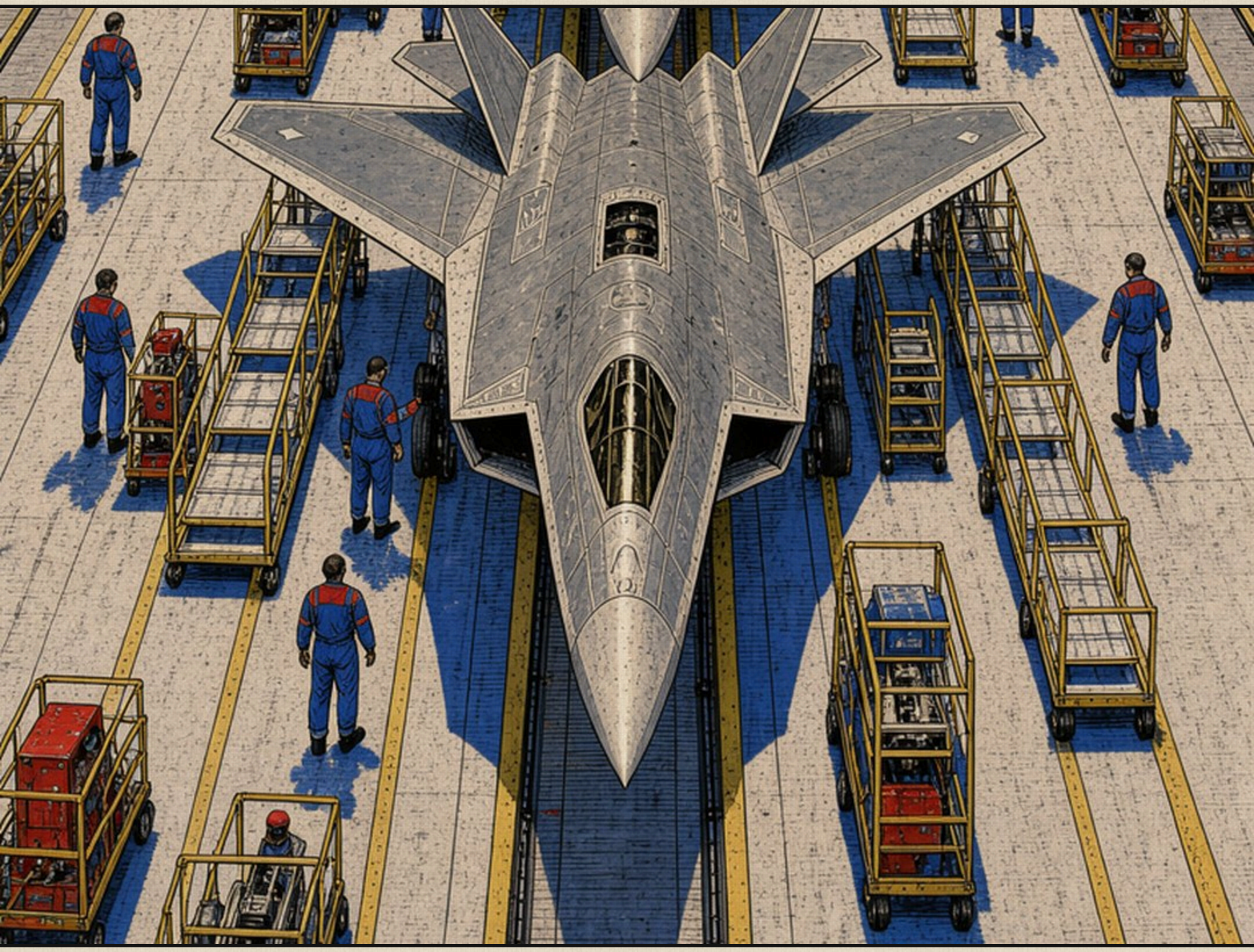
The Defence Budget

Large requests, slow money

The administration has asked for $1.5tn for defence in 2027, but $350bn of that depends on a reconciliation bill, and Congress's budget resolutions include only $60bn for defence. The 2027 year began on a stopgap bill to 11 December that excludes the multiyear munitions contracts the White House requested. Outside the US, NATO members have agreed to spend 5% of GDP on defence by 2035, but Europe is steering more of that money to European suppliers.

Item	Status
FY2027 request	$1.5tn ($1.15tn base + $350bn reconciliation)
Continuing resolution	to 11 Dec 2026; no munitions multiyears
Golden Dome	~$185bn Pentagon estimate; $17.9bn FY27 ask
NATO target	5% of GDP by 2035 (3.5% core)
EU SAFE loans	€150bn; non-EU content capped at 35%

Sources: Military Times, CSIS, Breaking Defense, NATO, European Commission.



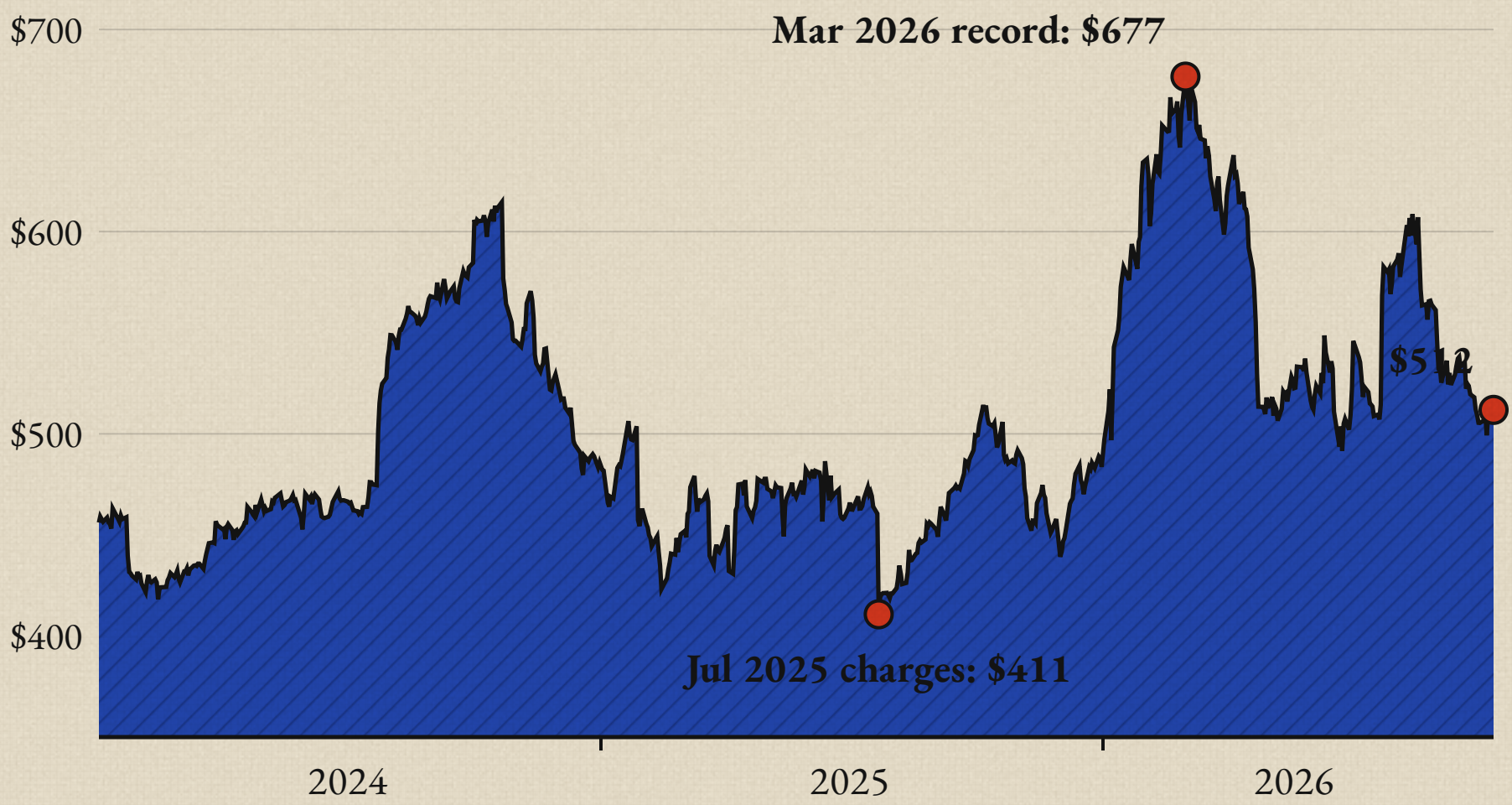
X

Share Price

Iran rally, then retreat

The shares rose 31% in January on the call for a $1.5tn budget and reached a record of $677 at the close on 2 March, after US strikes on Iran. They have since given back most of the gain and are up only about 6% this year, as the budget stalled in Congress, first-quarter results disappointed and investors moved to faster-growing technology stocks.

Lockheed Martin share price since 2024 (US$, daily close)



Source: Yahoo Finance daily closes, to 12 October 2026.



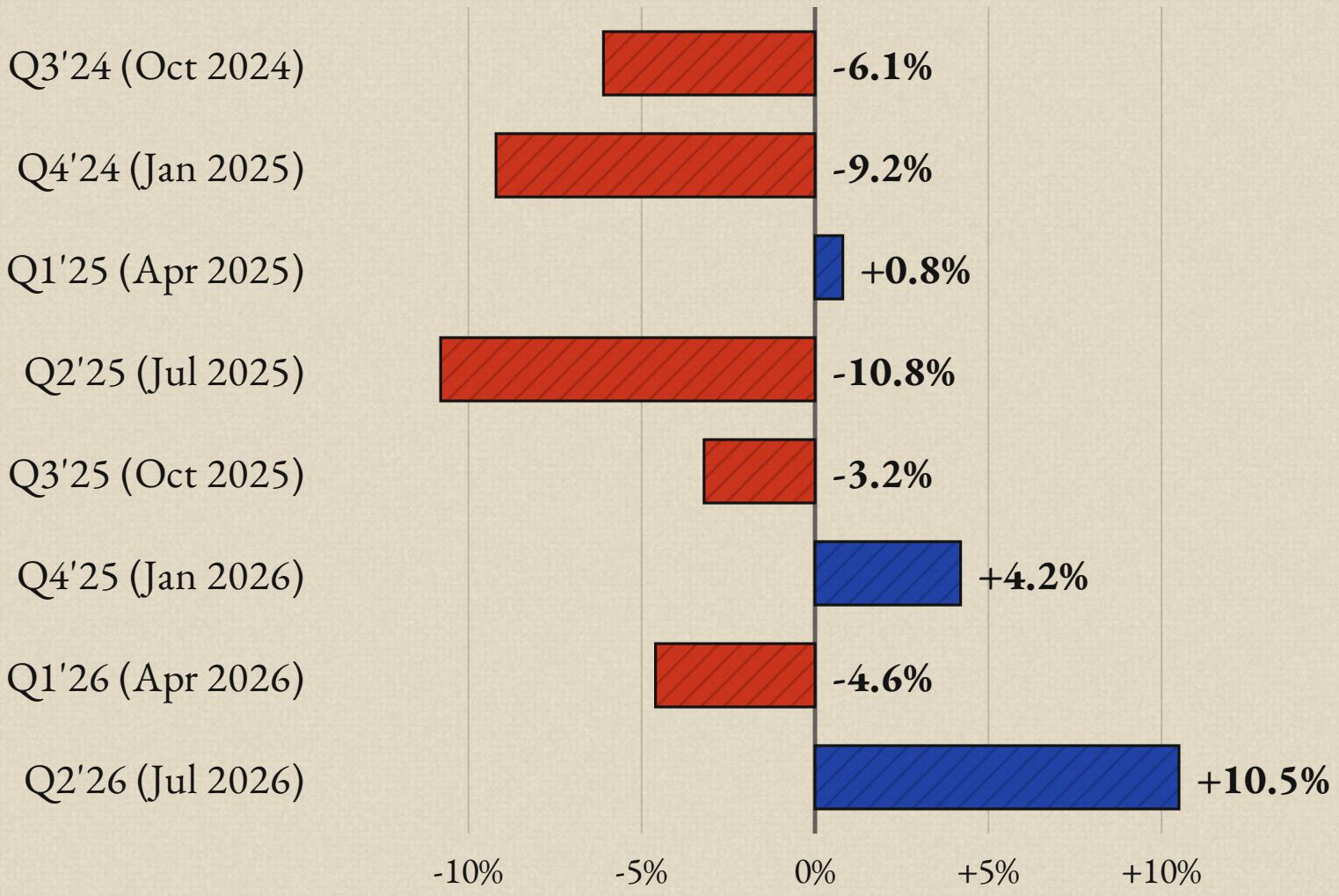
XI

Market Reactions

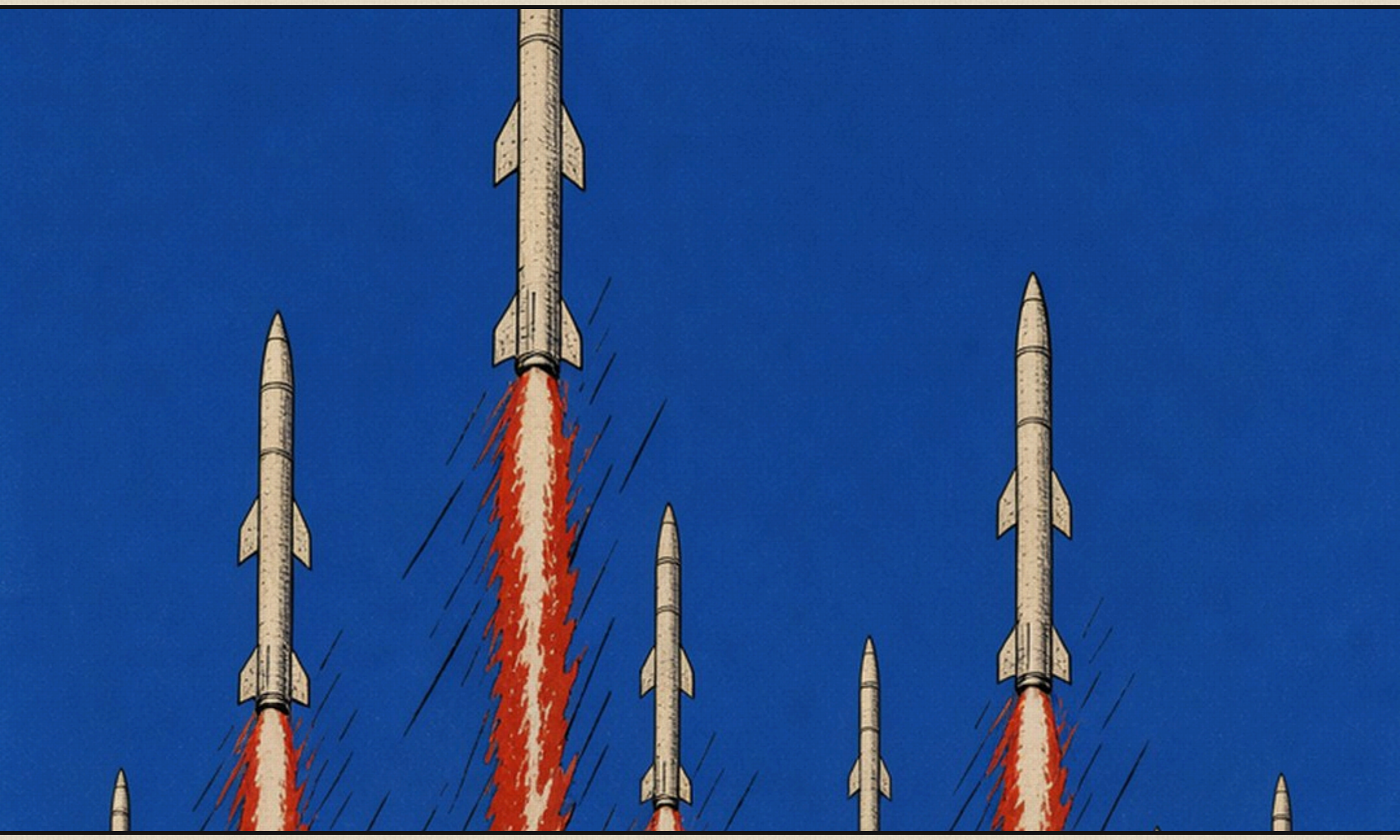
Charges punished, clean quarters rewarded

Results day has mostly been negative: the shares fell after five of the last eight reports, by as much as 11% when programme losses were announced. The best reaction, +10.5% in July, came with a record backlog, a guidance raise and no charges. Third-quarter results are due before the market opens on 22 October.

Share price change on results day



Source: Andra Markets calculation from Yahoo Finance daily closes (previous close to results-day close; Lockheed reports before the open).



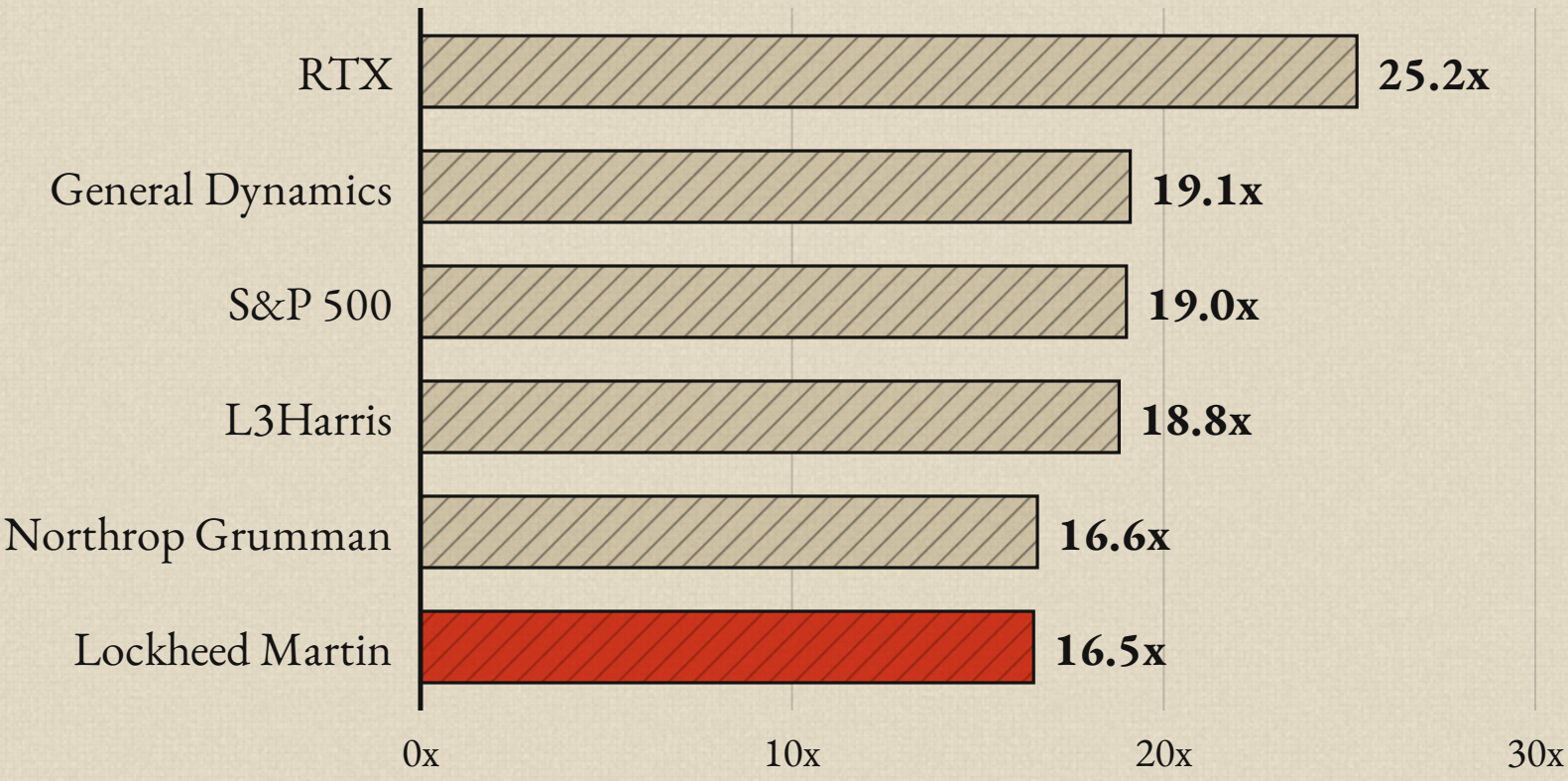
XII

Valuation and Capital Returns

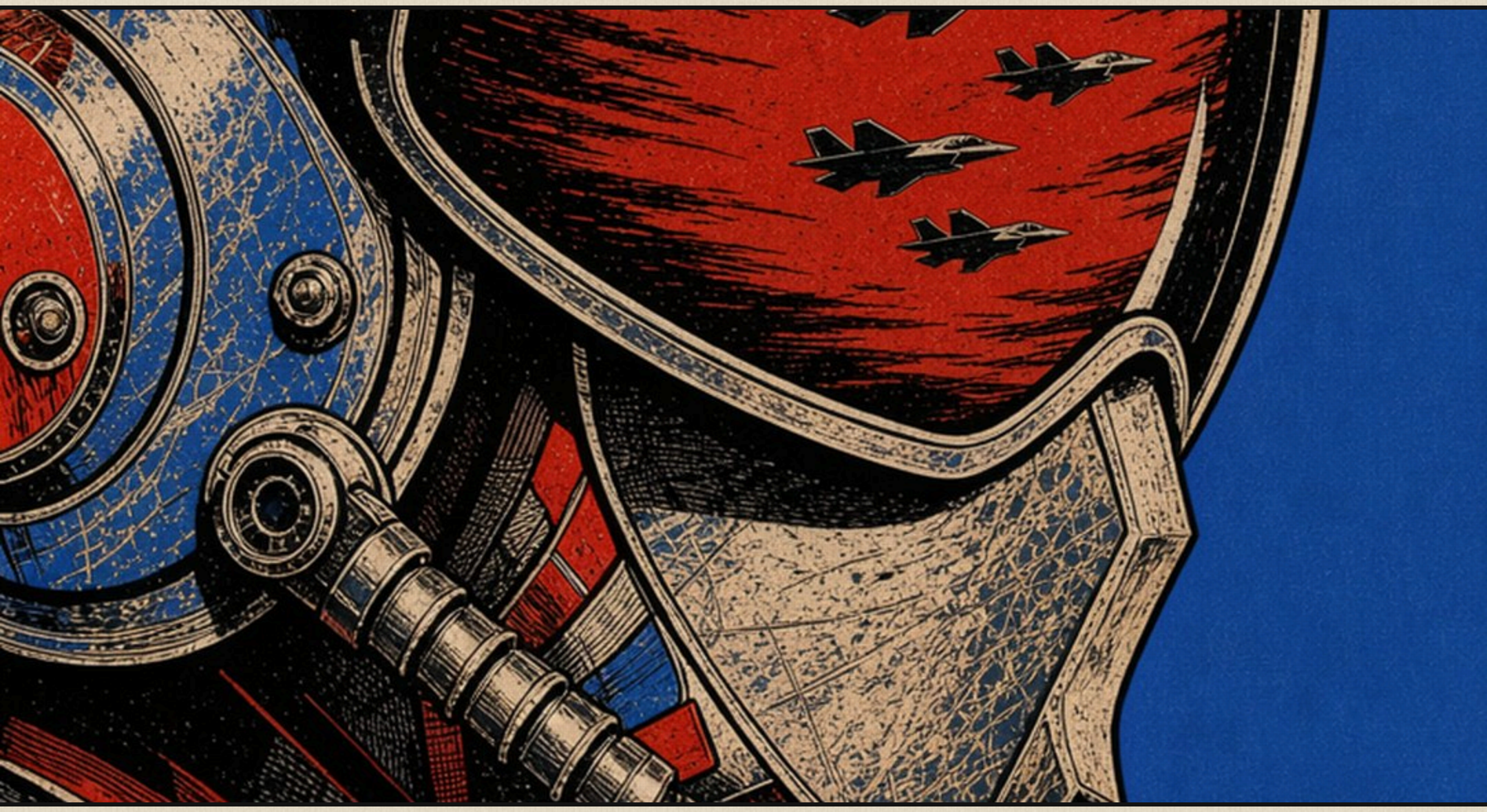
Cheap, with a new rule on buybacks

At 16.5 times expected earnings, Lockheed trades below the S&P 500 and well below RTX, with a free cash flow yield of about 6% on 2026 guidance. The dividend was raised for the 24th consecutive year, to $3.60 a quarter, a yield of about 2.8%, now well below the 10-year Treasury yield. Buybacks stopped in the first half of 2026: a January executive order restricts buybacks and dividends at contractors judged to be underperforming, and the company is investing in missile capacity instead.

Forward price / earnings (x)



Sources: StockAnalysis (12 October 2026), FactSet (S&P 500, 2 October), Lockheed Martin, White House.



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Scenarios

Twelve months ahead

We value the shares on 2027 earnings per share, assuming growth from the $30.30 midpoint of 2026 guidance.

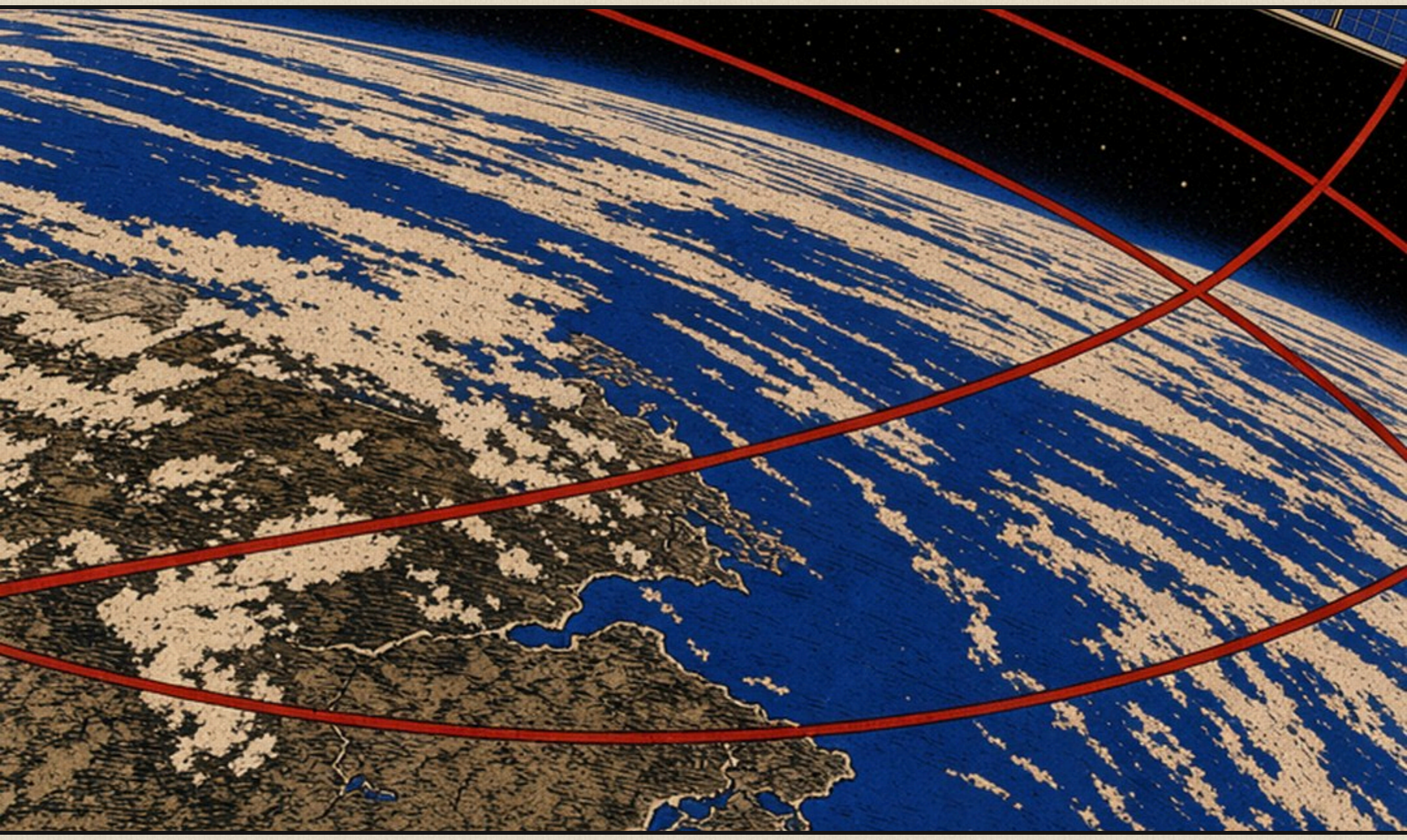
Scenario	2027 EPS	P/E	Price	Prob.
Bear: new charges, budget stalls	$30	14x	~$420	30%
Base: steady execution	$32	17x	~$544	45%
Bull: missile ramp, budget passes	$34	19x	~$646	25%
Probability-weighted			**~$532**	

Andra Markets scenarios and judgemental probabilities. Sell-side targets average about $625 to 640.

Including the 2.8% dividend, the expected return is about 7%: positive but modest, only about 2 points above a 10-year Treasury yield of about 5.2%. The case for the shares rests on execution in the next few quarters rather than on the order book, which is already exceptional.

Indicators to watch

Indicator	Warning sign
Programme charges	any new reach-forward loss
F-35 deliveries	below 150 in 2026
FY27 budget	reconciliation fails; another CR in December





XIV

Verdict

The order book is not the problem

Strong demand, fair price, execution risk

Moderately positive: a reasonable hold with modest upside; the key test is the Q3 results on 22 October

Lockheed has the order book of a wartime contractor and the valuation of a slow-growth industrial. If it delivers the missile ramp without new losses, the shares can recover towards their March level; one more large charge would keep them in the range of the past two years.

XV

Methodology and Sources

How this report was built

Financial data come from Lockheed Martin's earnings releases and Forms 10-Q and 10-K filed with the SEC (Q1 2024 to Q2 2026). Share prices are daily closes from Yahoo Finance to 12 October 2026. Valuation multiples come from StockAnalysis and FactSet. Scenarios are Andra Markets estimates with judgemental probabilities. Illustrations were generated with AI in the style of the Andra Markets series.

Principal sources. Lockheed Martin Forms 8-K, 10-Q and 10-K and press releases; CSIS via Military Times; Military Times; CSIS; Breaking Defense; Defense News; NATO; European Commission; White House; StockAnalysis; FactSet; Yahoo Finance.

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