

## Lockheed Martin Corporation

NYSE:LMT

**Analyst:** Pierre Riffard

**Sector:** Industrials

**BUY**

Price Target: \$243

### Key Statistics as of 03/18/2016

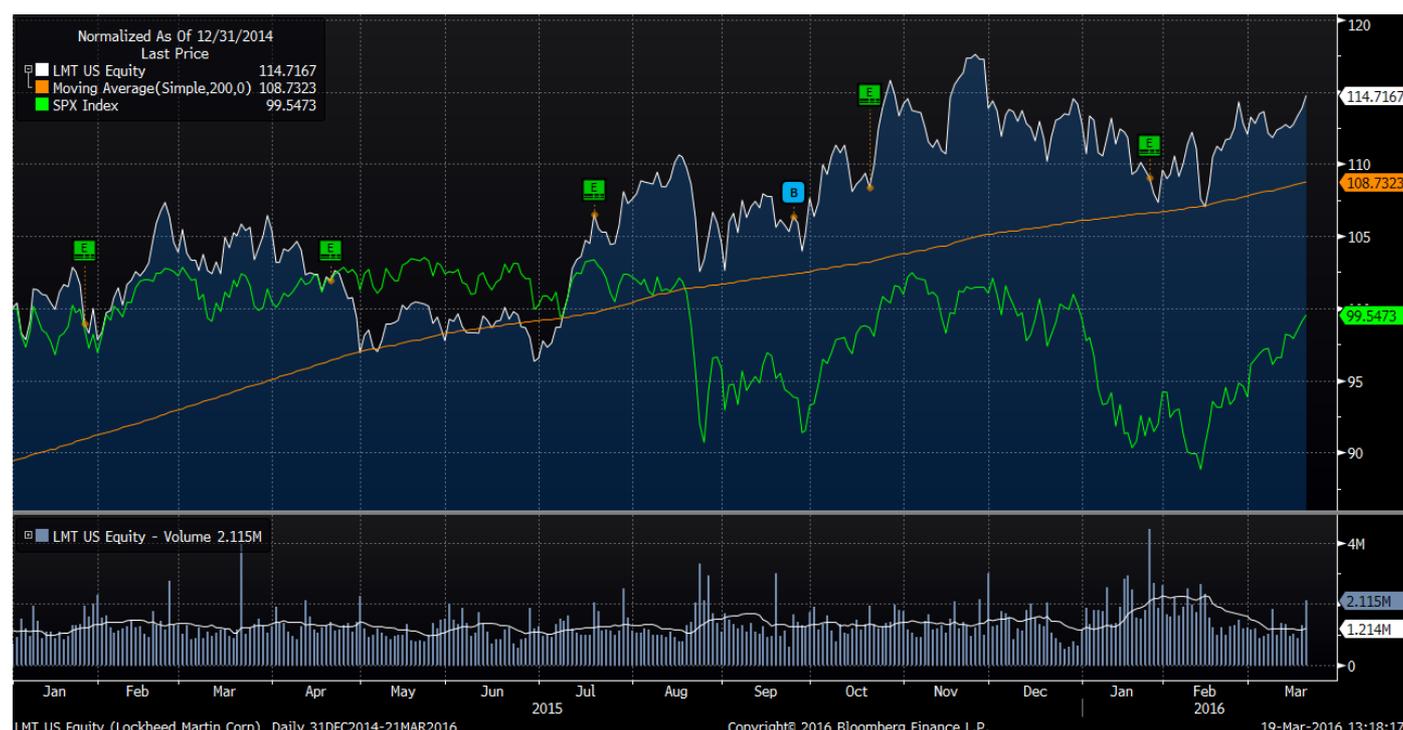
Market Price:	\$220.91
Industry:	Aerospace & Defense
Market Cap:	\$67.485B
52-Week Range:	\$181.91 - \$227.91
Beta:	0.62

### Thesis Points:

- The most diversified company among the industry, with recent acquisitions & spin-off, which reduces the unsystematic risks.
- Investing in innovative technologies and projects able to open the path for new markets.
- Improved financials making the company one of the industry's top performers.

### Company Description:

Lockheed Martin Corp. is an American global aerospace, defense, security and advanced technologies company. It is headquartered in Bethesda, Maryland and employs approximately 126,000 people worldwide. The company is principally engaged in the research, design, development, manufacture, integration and sustainment of advanced technology systems, products and services. Lockheed Martin is the world's largest defense contractor with 78% of its \$46 billion sales coming from the U.S. government. The company is operating five segments: Aeronautics, Information Systems & Global Solutions (IS&GS), Missiles and Fire Control (MFC), Mission Systems and Training (MST), and Space Systems. LMT is currently one of the most diversified aerospace & defense companies, manufacturing from warships and aircrafts to missiles, communication and radar systems. Apart from being the aerospace & defense industry leader, the company is also engaged in the Information Technology, Energy and Space markets. Contrary to most competitors, the company is greatly engaged in Emerging Technologies. In other words, an important part of Lockheed Martin's future is achieved via innovation. The company is working on solving enduring and emerging global challenges, which may open the path to new markets.



## Thesis

Lockheed Martin is the world's largest defense contractor, but it is also the most diversified and the most prepared for future growth among all the aerospace & defense companies. The defense industry is expected to return to a minimum of 3% growth in 2016, given the recent rise in global threats, and the increase in military expenditures in the U.S. and in key foreign nations. Due to its top-of-the-art and renowned products, LMT has secured future growth in product and service sales. LMT has succeeded to place itself as one of the top performers of the industry. The company is also committed in innovation and emerging technologies that have the potential to bring important sales to the company or even to create new markets. In 2015, the company generated a record \$5.1 billion from operations and returned \$5 billion to shareholders via an increasing dividend and an increasing share repurchase program strategy. The company also operated two major changes in its portfolio. First, it acquired for \$9 billion Sikorsky, which is the largest helicopter manufacturer. This acquisition added \$16 billion in backlog to LMT to reach a record of \$100 billion of backlog. The second strategic move was the decision to sell a part of its Information Services & Global Services to Leidos for \$5 billion. The company decided to separate and combine this business with Leidos to create a more diversified competitor positioned for growth. Indeed, this market was becoming more and more competitive, and margins were decreasing and expected to decrease. The stock performance over time is pretty strong. It outperformed the industry and the market, and is showing good resistance during market selloffs. LMT appeared to be a very valuable investment to hold on the long term.

## Industry Outlook

The Aerospace & Defense industry designs, manufactures, and services any type of aircrafts, and military assets including commercial planes, jet fighters, helicopters, space shuttles, tanks, armored vehicles, unmanned aircrafts, military ships, submarines, aircraft carriers, satellites, electronics, communications, softwares, missiles and any other kind of military products, commercial aircrafts or space products. Given the broad portfolio of LMT, the company is operating in every segments of that industry and its customers are both militaries and commercials. The main customers of the industry is nothing less than

governments willing to expand their military expenditures, and so are not only able but also willing to pay very high amounts to maintain their armed forces. The U.S., with a 2016 \$585 billion Defense Budget, has the world's biggest purchasing power and is the main customer of LMT. Then, one of the biggest and unique advantage the Aerospace and Defense industry has is that maturity does not actually exist. Knowing the current geopolitical situation, and even during all Mankind history, armed forces are always trying to expand. Even without will to expand, states will constantly need to equip, maintain, modernize, resupply, and inactivate military assets, which corresponds to the biggest proportion of military expenditures. In our current situation, the resurgence of global security threats, and growth in defense budget of countries like Russia, China will push the Defense budget to increase over the next years even if the next president of the United States of America is from the democratic party. According to Deloitte, the industry growth is expected to return to 3% for the fiscal year 2016.

Based on the financials of companies within the industry, we can attest that even with several cuts in the U.S. Defense budget, the growth in revenue over five years of defense companies followed a slow upward trend. The EBITDA margin increased from 13% to 14.1%. The profit margin went up from 7.15% to 7.85%. The return on assets and on equity also increased over five years, which demonstrates an efficient management of costs and capital structure even when growth sales were steady.



The stock performance of the industry outperformed the S&P500 since 2011. The S&P Aerospace & Defense index went up by 193%, whereas the market went up by 161% over five years.



## Porter's Five Forces

### Bargaining Power of Customers: **LOW**

The main customers of LMT are the U.S. government and foreign government that are in need of military products LMT is manufacturing, and as having the largest purchasing power worldwide, governments are able to pay huge amounts. Furthermore, LMT and the governments are working together on several projects, and all required R&D are paid by the government.

### Bargaining Power of Suppliers: **MEDIUM**

Suppliers are important to LMT in order to perform in time their contracts' obligations. Then, several partnerships have been made in order to work with suppliers on new projects. The competition between suppliers is high and due to the weight and influence of LMT within the industry, it is able to negotiate better terms or to change its supplier without great difficulties.

### Existing Rivalry: **HIGH**

The competition within the industry is quite high but LMT succeeded to place itself at the top of the industry, with military sales at \$35.5 billion in 2015 (Boeing military sales: \$30.7 billion). The main competitors are Boeing (NYSE:BA), Northrop Grumman (NYSE:NOC), Raytheon (NYSE:RTN), and General Dynamics (NYSE:GD). Even if the competition is high, LMT is benefitting from its influence over the industry and they are willing to make partnerships for major U.S. projects. More important, LMT, based on its portfolio, is the most diversified companies within the industry.

### Barriers to Entry: **HIGH**

The barriers to enter this market very high, and most of the companies that are succeeding have years of expertise. It requires huge capital, high-skilled engineers, designers, and workers, years of research & development, long periods of tests and relationship

with suppliers, U.S government, and foreign governments.

### Threat of Substitutes: **VERY LOW**

Such threats does not really exist. We may think about unmanned vehicles, but LMT and its competitors already are the manufacturers of such assets. The real threats relies more in innovation and on which company will deliver a new top-of-the-art and high-tech assets that governments around the world will buy at any price. On that level, the position of LMT is enviable. Indeed, innovation in emerging technologies is an essential business for LMT to prepare the future and to improve efficiency.

## Management

The management of LMT is quite resourceful and efficient based on their personal experiences within LMT, and based of their global knowledge of the market. A retired United States Air Force are part of the board of directors and can bring its influence and network to the benefit of the company. The majority of the executive officers worked for the company for several years at various positions, which is extremely beneficial to LMT's activity as executives are well aware of how the company is operating. Marillyn A. Hewson, Chairman, President and Chief Executive Officer, has served 33 years at Lockheed Martin at various positions of increasing responsibility. Furthermore, an important part of the compensations are based on bonuse and performance, giving executives incentives to be the most efficient as possible.

## Product Portfolio & Diversification

LMT product portfolio is one of the most diversified within the industry. Instead of being specialized in one or two areas like aeronautics, shipbuilding, or IT, LMT activities extends to Aerospace, Energy, Information Technology, Space, and Emerging Technologies. In other words, LMT portfolio is covering the majority of the industry's activities as well as some other industries activities.

The first and major business segment is Aeronautics. This segment is engaged in the research, design, development, manufacture, integration, sustainment, support and upgrade of advanced military aircrafts, including combat and air mobility aircrafts, unmanned vehicles and related technologies. The Aeronautics segment generated net sales of \$15.6 billion or 34% of

total sales in fiscal year 2015. The U.S. government accounted for 72% of the segment sales, and international customers accounted for 28%. The major programs include the F-35 Lightning II Joint Strike Fighter, the C-130 Hercules, the F-16 Fighting Falcon, the C-5M Super Galaxy, and the F-22 Raptor. LMT is offering “low-cost” jet fighters like the F-16 (unit cost between \$15 to 20 million), as well as the F-22 Raptor (unit price higher than \$150 million), which is the most advanced and lethal stealth fighter, or the F-35 (unit price between \$85 to \$116 million), which is the most expensive military program ever and the first fighter capable of vertical takeoff. The F-35 is generating 20% of total sales and 59% of Aeronautics sales. The production is expected to increase over the next years given the growing demand from foreign governments and the USAF inventory objective of 2,443 aircrafts (or more than \$240 billion in sales based on the unit price).

The second business segment of LMT is Information Systems & Global Solutions. It provides advanced technology systems and expertise, integrated information technology, solutions and management services for civil, defense, intelligence, and other government customers. It also provides customers with support in data analytics, data center operations and air traffic management. It generated \$5.6 billion in sales, or 12% of total sales. The U.S. government accounted for 89% of sales, whereas international customers and U.S. commercial and other customers accounted for 9% and 2% respectively.

The third segment is Mission Systems and Training (MST). MST generated \$9.1 billion or 20% of total sales in 2015. It provides design, manufacture, service and support for military and civil helicopters, ship and submarine mission and combat systems, mission systems and sensors for aircrafts, sea and land-based missile defense systems, radar systems, the Littoral Combat Ship, simulation and training services, and unmanned systems and technologies. It also supports customers in cybersecurity and provides complex mission solutions for defense applications. The U.S. government accounted for 77% in sales, whereas international and commercial customers accounted for 22% and 1% respectively. LMT is the manufacturer of the Terminal High Altitude Area Defense (THAAD), which is the only anti-ballistic missile defense system with a success rate of 100%. There is a constant and growing demand for this asset today, especially in the Middle East, Eastern Europe and Asia.

The fourth segment of LMT is Space Systems. It generated \$9.1 billion in sales or 20% of total sales in 2015. This segment is engaged in the research & development, design, engineering and production of satellites, strategic and defensive missile systems and space transportation systems. It provides network-enabled situational awareness and integrates complex global systems to gather, analyze and securely distribute intelligence data. Space Systems is also responsible for classified systems and services in support of vital national security systems. The U.S. government, including the NASA, accounted for 97% of the segment sales, and U.S. commercial customers accounted for 2% in 2015.

### **Innovative & Emerging Technologies**

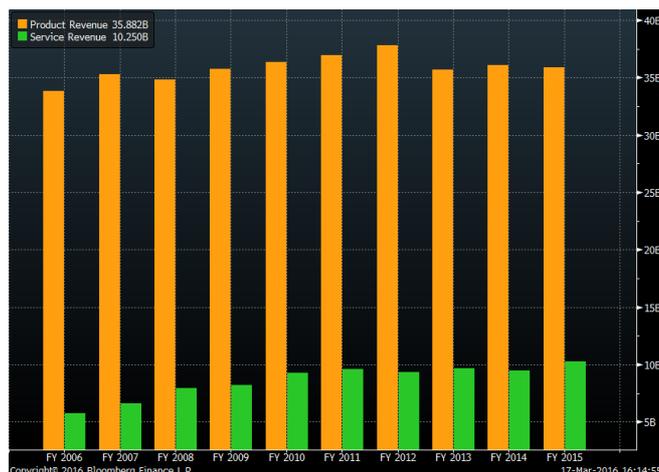
One of the competitive advantage of LMT is that the company is putting a huge importance on innovation, and on “solving enduring and emerging global challenges,” as described in the 2015 annual report. Innovation may open entirely new markets to the company, bring future growth, and gain a considerable technological advance on competitors. As of today (03/18/2016), the company is developing several emerging, profitable and publicly known technologies. On the military side, the company is at the forefront of Directed Energy. LMT has already started some successful trials of its laser weapons on the fields that can create a huge demand from military customers. The company is also at the forefront of autonomy/robotics technology. It developed a wide portfolio of air, ground and undersea autonomous vehicles that can intervene to help firefighters, or rescue teams in their operations for example. On 03/10/2016, NASA awarded LMT a \$20 million contract to develop a design for a new supersonic passenger jet. NASA selected LMT for its expertise in this area as LMT engineers were already working on new supersonic aircraft designs. On 03/16/2016, CEO and Chairman Marillyn Hewson stated that the company has made significant progress on hypersonic program and was producing an aerodynamic configuration that could reach Mach 6. The U.S. Department of Defence wants to deploy a “prompt global strike” capability that would enable it to hit targets worldwide within an hour with conventional or nuclear warheads.

The company is currently testing hybrid airships of various sizes that are able to access virtually anywhere in a wide range of weather conditions, without

requiring forward infrastructure or manpower. Such airships can open the path to a new transportation business. LMT hybrid airships can deliver cargo to remote areas with no proper infrastructure or hard weather. It can range from oil & gas exploration, or mining projects to remote villages in need of supplies. According to a declaration of Bob Boyd, LMT Hybrid Air Systems program manager, this new type of aircraft is already getting a lot of interest and can create a new market. Another under-development project that can create a huge source of revenue in the future is the fusion energy. On 10/15/2014, LMT told reporters it had made a technological breakthrough in developing a power source based on the nuclear fusion, and that it will be able to produce the first reactors around 2024. The reactor could fit on the back of a large truck and so can be used to power any kind of warships. Such technology could become a huge market for LMT, as projections show there will be a 40% to 50% increase in energy use over the next generation.

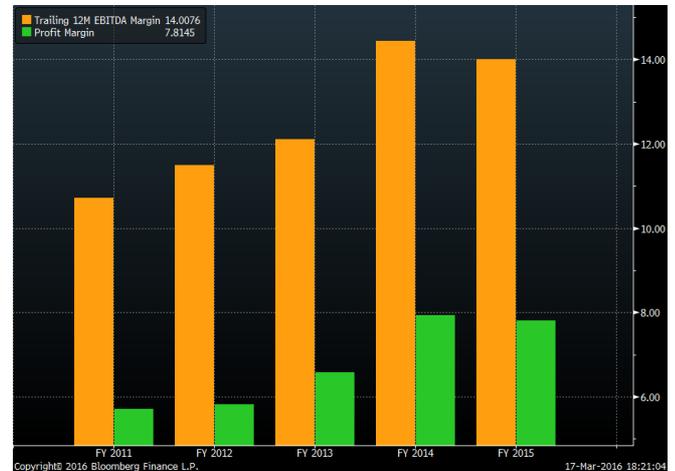
## Financials

Over 10 years, the growth in product revenue followed a small upward trend. It is primarily due to the U.S. defense budget cuts, but the growth in foreign military expenditures helped LMT and the industry to have a positive growth over the last 10 years. On the other side, the growth in service revenue was pretty good. The increase in service sales was primarily due to increased sustainment activities on Lockheed's aircrafts.



Over the last five years, LMT increased its EBITDA margin from 10.7% in 2011 to 14% in 2015. The profit margin followed the EBITDA and went up by 2.1% to reach 7.5% in 2015. Such profitability improvement were primarily due to huge performance improvement. For example, the costs of the F-35 went down by 50%

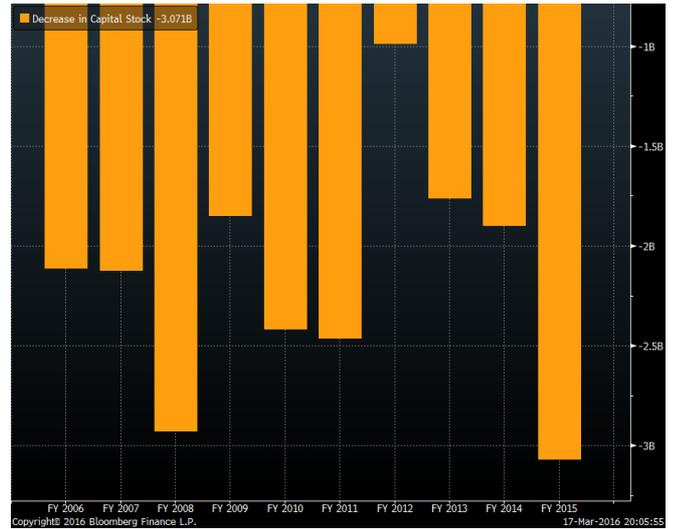
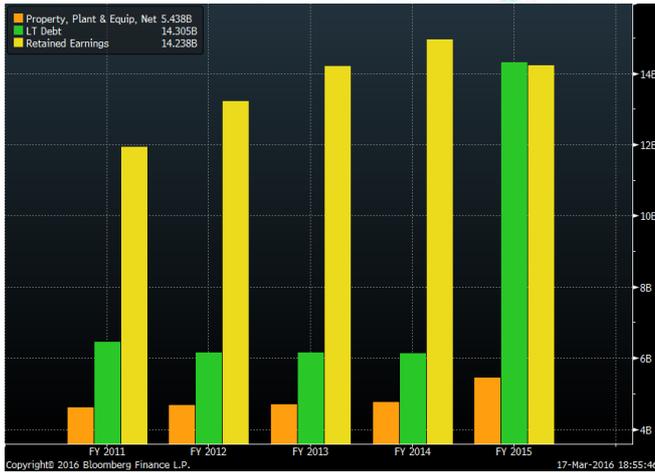
since the beginning of the program. Furthermore, on 03/08/2016, LMT announced it seeks to lay off up to 1,000 workers based on a voluntary program in its aeronautics business. The stock rose by more than 2% in reaction to the announcement.



When looking at the past five earnings, LMT is showing excellent skills in creating better-than-forecast surprises. 62.5%, 75% and 100% of its actual revenue, EBITDA, and EPS respectively exceeded analysts' estimates.



Over the past five years, the invested capital of LMT expended. NPPE slightly increased until 2014, and then increased by 14% in 2015 due to new offices abroad to improve the foreign activities, and to the acquisition of Sikorsky. Retained earnings constantly improved following the earnings' trend. Long-term debt went up by \$8 billion to reach \$14.3 billion in 2015. This debt was used to finance the Sikorsky acquisition, and decreased the overall cost of capital as LMT negotiated very good interest rates. It now represents around 29% of assets, but the D/E ratio is still very low at 0.13, well lower than the 0.21 industry average.



LMT is very efficient in generating cash and returning some to shareholders. Over five years, capital expenditures slightly diminished, but cash flow from operations, free cash flow, and unlevered free cash flow all improved. In 2015, the company generated \$5.1 billion from operations for the first time ever with \$939 million in capital expenditures. The company generated \$4.162 billion and \$ 2.766 billion in free cash flow and unlevered free cash flow respectively. As a result, LMT returned \$1.9 billion to shareholders (2015 payout ratio and dividend yield at 52% and 3.05% respectively, which are well higher than the industry average), and repurchased \$3.1 billion worth of shares. The company repurchased for \$1.9 billion and \$1.8 billion of shares in 2014 and 2013 respectively. On 09/24/2015, the Board of Directors approved another \$3.0 billion increase to its large share repurchase program.

### Cash Returned to Stockholders

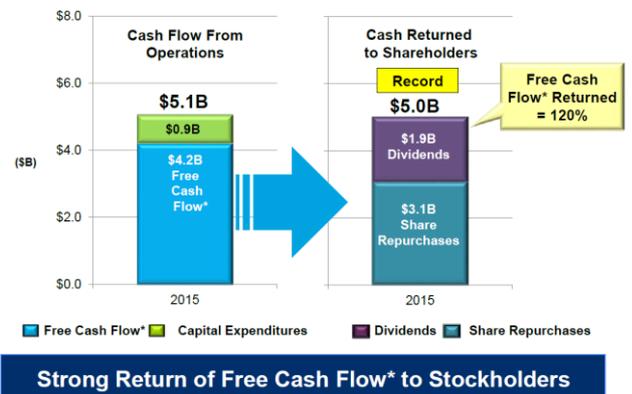
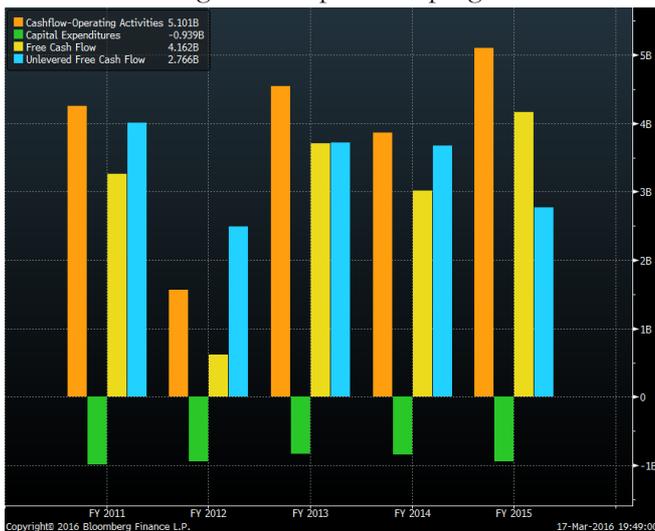


Chart 6 \*See Chart 16 for Definitions of Non-GAAP Measures January 26, 2016

### Recent Acquisition & Spin-off

Since June 2015, Lockheed Martin have taken two important strategic actions to modify its portfolio. First, Lockheed Martin completed the acquisition of Sikorsky on November, 6. Sikorsky is a military and commercial rotary-wing aircraft manufacturer leader. The acquisition cost consisted of \$9 billion funded with new debt issuances, commercial paper and cash on hand. The company used \$6 billion of proceeds borrowed under a 364-day revolving credit facility, \$2 billion of cash, and \$1 billion from the issuance of commercial paper. In Q4 2015, LMT repaid all of its credit facility outstanding borrowings with the issuance of \$7 billion fixed-interest-rate long term notes with maturity ranging from 3 years to 30 years, and interest rates ranging from 1.85% to 4.70%. We can see LMT used the current monetary policy at its advantage as it secured low interest rates. Furthermore, it generated a \$1.9 billion Net Present Value (NPV) of cash tax benefit.



- \$750 million maturing in 2018 with a fixed interest rate of 1.85% (the 2018 Notes);
- \$1.25 billion maturing in 2020 with a fixed interest rate of 2.50% (the 2020 Notes);
- \$500 million maturing in 2023 with a fixed interest rate of 3.10% (the 2023 Notes);
- \$2.0 billion maturing in 2026 with a fixed interest rate of 3.55% (the 2026 Notes);
- \$500 million maturing in 2036 with a fixed interest rate of 4.50% (the 2036 Notes); and
- \$2.0 billion maturing in 2046 with a fixed interest rate of 4.70% (the 2046 Notes).

Sikorsky responds to the strategy of expanding LMT business. According to the latest annual report, LMT is already seeing accelerated customers interest in both military and search and rescue opportunities emerging in the Middle East, Asia, and Eastern Europe. The acquisition of Sikorsky already added \$16 billion in backlog to reach almost \$100 billion in fiscal year 2015. The fact LMT acquired Sikorsky will create more value than United Technologies, which is the previous owner of Sikorsky. Since LMT is working for 40 years with Sikorsky, whose product portfolio aligns with LMT's own portfolio, opportunities of synergies and cycle time reduction will be created. In other words, LMT will be able to create economies of scale, increase efficiency and reduce overall costs. LMT will be able to use its expertise in doing business with governments to negotiate better contracts for Sikorsky, and to improve cash generation for both companies. Finally the acquisition of Sikorsky is creating innovation opportunities, which is one of the core value of LMT. The rotary wing area is in great demand and LMT wants to continue to invest in research and development. The market reaction following the acquisition announcement was positive. The stock went up from \$190 on 07/07/2015 to \$221 on 11/06/2015, when the acquisition was completed. The stock rose by 9% during the three weeks following the announcement in June.

The second strategic action put in place over the last fiscal year was the spin-off of LMT's government Information Systems & Global Solutions (IT&GS) business by separating and combining it with Leidos in a tax-free Reverse Morris Trust transaction. That merger will make Leidos the largest government services provider in the U.S, leaving LMT to focus more on complex military hardware. Leidos will finance the merger with \$3.2 billion in equity of the new combined company and with \$1.8 billion in special cash dividend to LMT. As a result, LMT shareholders will hold 50.5% of the new company's shares. Even if LMT has sold its IT&GS business, it has kept Mission IT and services, Energy Solutions and Space Services that will be consolidated in other LMT sectors. This combination is a way to create a more diversified firm positioned for growth, while unlocking value for LMT

shareholders. The new combined company will be able to provide unparalleled solutions in industries ranging from national security to health and life sciences, and will be 50.5% owned by LMT shareholders. The special cash dividends amount will be used to repay debt, and pay dividends or repurchase stocks. The spin-off will be also beneficial to LMT as the trend in revenue and margins started to decline due to an increasingly competitive environment, a continued downturn in federal agencies' IT budgets, and the fragmentation of large contracts into smaller ones awarded primarily on the basis of price. The new combined firm will become by far the largest and most developed government services provider in the marketplace, and so better prepared to face competitors.

## Competitors Comparison

When compared to competitors, LMT appeared to be one of the top performer. The sales growth Yoy is in line with the median of all the competitors. The 14.62% EBITDA margin is above the 12.92% industry median. And the 12.40% operating margin is at the top of the industry range with a median at 8.39%. Its net income margin is even 2.36% higher than the competitors' mean at 8.11%. Even when focusing on defense companies only, LMT is still part of the top performer. Its growth is in line with the industry, but both its EBITDA and operating margin are at the top of the industry range well higher than the industry mean at 14.62% and 12.40% respectively. Its net profit margin is 2% higher than the industry mean at 8.11%.

Metric	LMT	Low	Comp Range	High
Est P/E Current Yr	18.70	12.94		27.09
EV/Est EBITDA C...	11.63	6.20		16.00
Sales Growth Yo...	1.17	-16.77		25.32
EBITDA Margin (%)	14.62	3.38		15.24
LTM Operating M...	12.40	1.71		13.20

● LMT US ◆ Median

Name (IBCS Best Fit)	Sales Growth Yoy (%)	EBITDA Margin (%)	LTM Sales Growth	LTM Operating Margin	LTM Net Income Margin
Average	1.53%	12.92%	4.63%	8.39%	5.75%
100) LOCKHEED MARTIN CORP	1.17%	14.62%	1.17%	12.40%	8.11%
101) FINMECCANICA SPA	-11.38%	10.24%	-3.01%	6.86%	4.06%
102) SANE AB-AB	15.35%	9.68%	15.35%	7.67%	5.01%
103) RAYTHEON COMPANY	1.84%	13.62%	1.84%	11.55%	7.50%
104) GENERAL DYNAMICS C...	2.00%	14.74%	2.00%	13.20%	9.37%
105) BAE SYSTEMS PLC	8.79%	11.34%	8.79%	8.60%	5.83%
106) KOREA AEROSPACE IN...	25.32%	13.12%	25.32%	9.85%	6.22%
107) COBRAM PLC	11.90%	19.33%	11.90%	3.61%	0.60%
108) BOEING CLASS A	-4.64%	13.44%	-6.53%	9.15%	3.48%
109) BEIJING AEROSPACE C...	-29.77%	5.51%	-2.15%	0.96%	2.94%

(Accounting adjustments: Adjusted for abnormal items, when applicable)

## Conclusion

Lockheed Martin seems to be much better prepared for innovation and future growth than competitors. Its recent portfolio changes, and constant performance improvement makes the company one of the most profitable among the industry. With very strong cash generation, the company is able to return a large portion of cash to shareholders via both increasing

dividends and increasing share repurchase program strategy. With a continuing period operating cost to revenue converging toward the industry at 85%, which seems to be completely feasible given the improvement history of the company, plus its recent portfolio changes, and commitment to innovation, and with an additional risk premium of 1% for the potential risk innovation may cause, the current stock price appears to be a bargain. The intrinsic value is valued at \$226.06 or 2.3% higher than the current price, and the 1-year target is valued at \$243.04 or a 1-year return of 13%. Given the past stock performance, its current efficient structure and operations, and its plans for the future associated with expectations on the geopolitical situations and technological advancements, LMT appears to continue to be a resistant stock, generating high returns for investors both in terms of capital gain and dividends or stock buybacks with some huge potential of growth in the near future that are not currently priced in the stock.

**Lockheed Martin Corporation (LMT)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

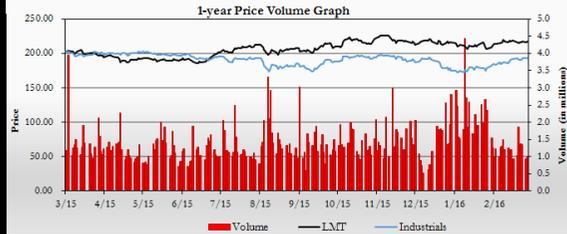
**NEUTRAL**

Analysis by Pierre Riffard  
3/18/2016

Current Price: \$220.91  
Divident Yield: 3.0%

Intrinsic Value: \$226.06  
Target Price: \$243.04

Target 1 year Return: 13.05%  
Probability of Price Increase: 92%



**Description**  
Lockheed Martin Corporation, a security and aerospace company, engages in the research, design, development, manufacture, integration, and sustainment of technology systems, products, and services worldwide.

**General Information**  
Sector: Industrials  
Industry: Aerospace and Defense  
Last Guidance: November 3, 2015  
Next earnings date: NM  
Estimated Country Risk Premium: 7.44%  
Effective Tax rate: 37%  
Effective Operating Tax rate: 44%

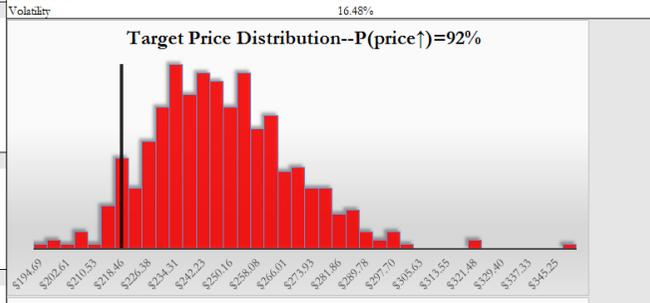
Market Data	
Market Capitalization	\$67,485.80
Daily volume (mil)	2.07
Shares outstanding (mil)	305.49
Diluted shares outstanding (mil)	314.70
% shares held by institutions	69%
% shares held by investments Managers	62%
% shares held by hedge funds	0%
% shares held by insiders	0.08%
Short interest	1.43%
Days to cover short interest	2.81
52 week high	\$227.91
52-week low	\$181.91
Levered Beta	0.63
Volatility	16.48%

**Past Earning Surprises**

Quarter ending	Revenue	EBITDA
12/31/2014	5.26%	-8.03%
3/29/2015	-1.28%	3.84%
6/28/2015	5.91%	5.73%
9/27/2015	3.05%	-14.52%
12/31/2015	-0.01%	1.61%
Mean	2.59%	-2.27%
Standard error	1.4%	3.9%

**Peers**

Raytheon Company
General Dynamics Corporation
United Technologies Corporation
Northrop Grumman Corporation
The Boeing Company
Honeywell International Inc.
Textron Inc.
L-3 Communications Holdings Inc.



**Management**

Position	Chairman, Chief Executive Of
Hewson, Marilyn	
Tanner, Bruce	
Lavan, Marianne	
Bennett, Dale	
Carvalho, Olando	
Makoske, Rod	

**Profitability**

LMT (LTM)	Industry (LTM)
ROIC	15.20%
NOPAT Margin	8.3%
Revenue/Invested Capital	1.83
ROE	17.85%
Adjusted net margin	7.8%
Revenue/Adjusted Book Value	2.30

**Invested Funds**

LMT (LTM)	Industry (LTM)
Total Cash/Total Capital	20%
Estimated Operating Cash/Total Capital	N/A
Non-cash working Capital/Total Capital	13%
Invested Capital/Total Capital	79%

**Capital Structure**

LMT (LTM)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.21
Cost of Existing Debt	4.18%
Estimated Cost of new Borrowing	4.18%
CGFS Risk Rating	A
Unlevered Beta (LTM)	0.88
WACC	8.96%

**Porter's 5 forces (scores are out of 100)**

Force	Score
Bargaining Power of Suppliers	50
Bargaining Power of Customers	71
Threat of New Competition	88
Intensity of Existing Rivalry	42
Threat of Substitutes	92
<b>Overall</b>	<b>71</b>

**Valuation**

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	1.2%	6.6%	-14.56
12/31/2016	9.1%	11.3%	11.55
12/31/2017	0.1%	11.9%	6.37
12/31/2018	5.4%	11.8%	6.07
12/31/2019	0.4%	12.1%	5.43
12/31/2020	4.2%	12.4%	5.38
12/31/2021	-6.9%	12.3%	4.44
12/31/2022	3.5%	12.2%	4.64
12/31/2023	3.5%	12.0%	4.34
12/31/2024	3.5%	11.8%	4.01
12/31/2025	3.5%	11.6%	3.73
Continuing Period	3.0%	11.4%	3.47

**Net Claims**

Period	Invested Capital	Price per share
Base Year	-\$2,348.12	\$7,163.25
12/31/2016	-\$6,565.70	\$7,365.24
12/31/2017	-\$9,224.45	\$2,875.52
12/31/2018	\$1,167.89	-\$1,135.67
12/31/2019	-\$2,580.49	-\$6,466.19
12/31/2020	\$6,469.03	-\$11,070.00
12/31/2021	\$12,080.18	-\$17,255.02
12/31/2022	\$13,096.12	-\$21,763.11
12/31/2023	\$14,733.29	-\$25,975.16
12/31/2024	\$15,691.29	-\$30,128.72
12/31/2025	\$17,162.95	-\$34,217.80
Continuing Period		

