



WIA Professional Development Program

From the Federal Budget to a Company's Business Forecast

Linda Karanian
Director, Human Space Flight Programs
Lockheed Martin Washington Operations

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Federal Budget Cycle and Strategic Planning

- Financial projections begin with orders forecasts and associated investments that are then broken down to sales and earnings
- At Lockheed Martin, our financial projections are based on strategic planning that looks across a 5-year window
- Strategic planning draws from several sources of information
 - President's Budget Request
 - Customers' detailed budget estimates and acquisition plans
 - Congressional appropriations activity – or inactivity
- Budget Requests and customer estimates typically include at least a 5-year run-out, but appropriations are only for one fiscal year

Federal Budget Cycle and Strategic Planning

- A company's successful pursuit of a major contract is contingent on early customer interaction and timely investment, which assumes confidence in budget projections
- Therefore, desire is for a stable budget throughout program acquisition process and program life

However, . . .

- Realities of budget uncertainties and fluctuations add to challenge of company financial forecasting
- Short-term nature of federal budget appropriations results in
 - Relatively “intense” corporate financial planning across 2-year period
 - “Informational” planning for last 3 years in 5-year window

Decision to Pursue Contracting Opportunities

- Decision to invest in program pursuit is based on two considerations
 - Probability of program occurrence - P_p
 - Probability of program win – P_w
- At LM, Market Analysis budget and company overhead \$s are allocated to conduct early assessments of P_p and P_w prior to release of Request for Proposal
- If $P_p \times P_w$ is sufficiently high, program pursuit will begin and company investments - IR&D and Bid & Proposal \$s - will be made to position for program capture

Financial Planning During Administration Transition

- Every 4 or 8 years, when we transition to a new Administration, the landscape changes
 - Federal budget cycle often shifts to later schedule
 - Leadership in government agencies changes
 - New acquisitions and ongoing programs are subject to scope or funding changes - or cancellation
- Makes it challenging to plan more than one Administration away
- Changes in Administration can dramatically impact stock performance in large corporations, especially defense contractors

Planning for Long-term Procurement Cycles

- If a company has an innovative idea for a new government program, it typically takes 4 years from concept to contract award

- Comes close to falling outside 5-year planning window



Introduce concept to gov't agency



Gov't review and analysis of alternatives



President's Budget Request



Appropriations process



Budget approved



Procurement cycle



Contract Award

- Careful strategic planning is necessary to phase investment to minimize financial risk while positioning for program capture

Summary

- Challenges are inherent for government contractors in forecasting financial performance over the long-term due to uncertainties in Federal budget outlook
- However, close tracking of trends in the budget and proven strategic planning processes adopted by industry go far to limiting financial risk
- Wall Street and our shareholders are watching us closely, so we're highly motivated to succeed in our business planning!