

Lockheed Martin turns to energy to juice growth

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The worlds biggest defense contractor is showing more interest in the energy business than ever before.

With U.S. spending on defense declining, Lockheed Martin (LMT) is increasingly using its expertise in developing and building jet fighters, warships and satellites to help utilities and industrial customers produce and use energy more efficiently, and protect against cyber-attacks.

Energy is certainly an area of growth for us, Lockheed Martin CEO Marillyn Hewson told reporters at the corporations media day outside Washington. In a relative sense, its not a large business for us, but its a growing business for us. So, well continue to invest in that area.

Lockheed Martins not alone among defense contractors looking to energy for a boost in earnings. Boeing(BA), for example, also provides expertise in electric-grid management and cyber-security, and conducts research in energy storage, as well. But Lockheed Martin has been among the most active lately.

Eight of the 10 largest utilities in the U.S. use Lockheed Martin to help manage their operations, which have become increasingly complex with the emergence of wind and solar power, smart meters and sluggish demand for electricity. Among them is Dominion Resources. Earlier this month, the Virginia-based utility and Lockheed Martin announced a collaboration on technology that would enable remote detection of power outages for faster response.

All told, Lockheed Martins energy-efficiency services are saving its electric and gas utility customers more than 1 million megawatt-hours of electricity and more than 10 million therms of gas, enough energy to power nearly 100,000 homes, according to Hewson.

Thats where were seeing our biggest growth, said Frank Armijo, Lockheed Martins vice president for energy solutions. Weve seen 35% growth over the last five years. We continue to see ourselves as a technology leader, as an integrator. Were helping drive energy reductions.

The defense giants pursuit of innovative energy technologies - some call them disruptive, in a good sense - doesnt stop there. Last year, Lockheed Martin bought the assets of an MIT spinoff, Sun Catalytix, to develop batteries for grid- and commercial-scale storage. Such batteries are considered to be the big breakthrough needed to make solar, wind and other forms of renewable energy reliable around the clock.

With the Sun Catalytix acquisition, Lockheed Martin now has capability in every segment of the energy market - from generation and management to storage and security, Hewson said.

Other, longer-term energy ventures are also underway at Lockheed Martin, including a bid to build a fusion reactor within 10 years and a demonstration project off the coast of China that will leverage differences in ocean temperatures to produce electricity.

The interest in energy at Lockheed Martin isnt sudden; the company has been dabbling in energy technologies like ocean thermal energy and fusion energy for decades.

I think the key is (energy) is a domain where the corporation is really historically comfortable, and thats what really makes a difference, said Dan Heller, vice president for new ventures in Lockheed Martins Missile Systems and Training division. Its not like were jumping into something we havent touched in the last 40 years.

What does Wall Street think of Lockheed Martins energy businesses?

Its probably not going to move the needle, honestly, Christopher DeNicolo, a credit analyst with Standard & Poors Ratings Services, said of the impact of energy on a company with an estimated \$45 billion in annual revenue.

But DeNicolo adds, If they think they can do it without much investment, its probably worth it for them. And if theyve already invested in all of that technology, they might as well try to monetize some of it.

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