

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

Marilyn A. Hewson, Chairman, President and Chief Executive Officer of Lockheed Martin Corporation discusses Lockheed Martin's innovation and challenges as the nation's largest defense contractor.

**Marilyn A. Hewson,
Chairman, President and Chief Executive Officer
Lockheed Martin Corporation
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DAVID RUBENSTEIN: We're very pleased tonight to have Marillyn Hewson, who is the President, Chairman, and CEO of Lockheed Martin. As I think everybody in this area knows, Lockheed Martin is based in Bethesda, and is a result of merger of Lockheed and Martin Marietta around 1995. Lockheed Martin is a company of about 100,000 employees, a market capitalization of about \$98 billion, and revenue of about \$50 billion. Marillyn is – was born in Kansas, grew up largely in Alabama, graduate of the University of Alabama with two degrees from the University of Alabama. Joined Lockheed at the time, about 35 years ago, and has had 22 different leadership positions as she rose up to become, in January of 2013, the Chairman and – the CEO and Chief Executive Officer. So, very impressive career. And thank you very much for doing this.

MARILLYN A. HEWSON: Thank you, David.

MR. RUBENSTEIN: Now, let me ask you at the beginning, since you've been the CEO, the stock has gone up roughly 330 percent, the market capitalization is up roughly 280 percent. Another company that you compete with, General Dynamics, has a female CEO as well. And their stock is up about 250 percent since she became – [laughter, cheers, applause] – the CEO. That's Phebe Novakovic. Do you think that women can run defense companies better than men, or they can run all companies better than men? [Laughter, applause.]

MS. HEWSON: I'm just looking at the audience, how many women are out there clapping. [Laughter.] But, David – [cheers] – oh. I would just say, David, it's a team sport. It isn't all about me on the performance of our company. But I'm really proud of what our team has been able to accomplish over the last five – six years. I'm in my sixth year as CEO, so.

MR. RUBENSTEIN: So, when you walk into the shareholders' meetings, do they give you a standing ovation? They must be pretty happy. [Laughter.]

MS. HEWSON: We have some happy shareholders, yes. But they always – you know, they always keep a bead on us to make sure that we're constantly creating value. So, it's what have you done for me lately? [Laughter.]

MR. RUBENSTEIN: OK. So, during the transition of the President of the United States not long ago, Donald Trump sent out a tweet saying that your biggest product, the F-35, was too expensive. And I think you were out of the county at the time.

MS. HEWSON: I was. I was in Israel, where we were delivering their first two F-35s. [Laughter.]

MR. RUBENSTEIN: So what was your reaction to the President of the United States tweeting that you were charging the U.S. government too much? Did you call him, or did you have any warning this was coming?

MS. HEWSON: Well, first of all, we needed to get those aircraft delivered. And, you know, one of the most interesting things is that Prime Minister Netanyahu, who you had here this morning to speak, he was at that event. And he asked me about the fact that our new President was going

to get a better price on those aircraft and – [Laughter] – you know, maybe he should get a rebate on the ones that we were delivering, so. [Laughter.] That presented a bit of a challenge. But, you know, we – you know, what was important was to recognize what our President-elect was communicating.

And he was trying to communicate to the American people that he was going to be – that he was going to get good deals on the equipment that he purchased, and that he was going to increase defense spending, but he was going to make sure that he spent the taxpayers' dollar wisely. And so we – I personally engaged. My team engaged. I had a chance to have a dialogue with him.

MR. RUBENSTEIN: And was that the first time you ever met him, or had you known him before?

MS. HEWSON: No, I had never known him before. But I had an opportunity with him – this was before he was President. So this was in December, before he came into his role in January. So I went to Mar-a-Largo. I went to the Trump Tower. I just started the dialogue, because what's important was for him to – for us to be able to answer his questions, for him to understand the capabilities that it was going to bring our men and women in uniform, how important it was, and then what we were doing to drive the price down.

MR. RUBENSTEIN: So you did give him a little discount?

MS. HEWSON: We drove the price down, yes. We got – you know, we got the deal done, and we did it on an accelerated fashion. And he definitely had an influence on that.

MR. RUBENSTEIN: Now, since he's been President, defense budgets have gone up. And recently the budget caps have been lifted even further. So, the record – the defense budget's now higher than it's ever been. I think over – when you count everything, over \$700 billion annually. So is this a great time to be a defense company CEO, because you got all these big budgets? And what could be better than being a defense contractor right now?

MS. HEWSON: Well, let me just put it in perspective for you. We're certainly encouraged by the fact that our country is now spending more on defense. But if you just sort of look back over the last few years, we're playing catchup in a large way. And that has impacted not only industry, but it's impacted our customers. I mean, if you look at the Department of Defense and the challenges that they've had with the budget caps and the cutback on spending, the modernization, the recapitalization of equipment has not been at the level it needs to be. So today, we're in a catchup mode in my view. And we certainly want to maintain our technological superiority over our adversaries or over the potential adversaries.

What it's meant for industry is that we managed through that downturn, just like any well-managed company – but we didn't invest at the level that we would have in terms of innovation, in terms of other areas of the business, because we were in a downcycle. Now, with the upcycle, it's time for us to really bring forth the innovations and continue to spend the efforts that we have to align with the priorities of our customers.

MR. RUBENSTEIN: Rightly or wrongly, many people in the public say, well, defense contractors are too expensive. And they don't have the best image, you might say, in some circles – maybe not in the circles you travel in. But in some circles, people would say: Defense companies are not the most popular types of companies. Do you think that's an unfair image? And why do you think that image exists in some parts of the country?

MS. HEWSON: Well, I'll start by saying I think, unfortunately, that image is something that we see for large corporations and large institutions in general today. And it's something that we face and have a dialogue around, of how do we communicate to the American people what large corporations and what large institutions do. And from a defense contractor standpoint, what's different for us is that things are much more transparent. You know, we're no different than another Fortune 500 – or Fortune 100 company that's engaged in the activities. But we're investing in the communities where we work and live. We're spending a lot on philanthropy. We're bringing a lot of economic growth. I mean, you consider – you mentioned our \$51 billion in sales. You think about the jobs we – the jobs and all that, what it does for the economy and what we invest in STEM¹ education. So, that's important.

MR. RUBENSTEIN: So, to be the CEO of a major defense company – you're the largest defense contractor of the United States government has, right? So do you need a security clearance? And how long does it take to get one of those? [Laughter.]

MS. HEWSON: Well, you know, 60,000 of our employees have security clearances. So, it's a very important element of our business. I personally have to have certain – we have sensitive and classified information that I need to be briefed on. So, I have the appropriate clearance associated with that. So, it's – you know, it's an important element of our business, the work that we do. And we have to – and particularly have to have U.S. citizens, in a large measure, working on those projects.

MR. RUBENSTEIN: So let me talk about your background, because I don't think it's as well-known as I think it should be, because it's an incredible story that, you know, you haven't advertised particularly. But you grew up in Kansas. And your father died when you were nine years old. And you had four siblings. And how did your mother support five children, father died when the kids were all very young, and he had been not a wealthy man? So, what was it like when your father died, and your mother said, we got to scrimp a bit?

MS. HEWSON: Well, it was tough, frankly. I mean, my father was – he was with the Department of the Army. And my mother was the at-home mom with five children. And we were actually in Alaska. He had been moved to Fort Richardson, Alaska at the time, when he had a sudden heart attack and died. So, I would give him a lot of credit, and my parents, because they had insurance that paid for the house and car in Kansas. So, we moved right back to Kansas, integrated back into our community there, and made our way. But, frankly, it was a – it knocked the props out of, you know, what was – we were – we were not – you know, we were an average family. But, it set us back a lot.

¹ STEM is the acronym for science, technology, engineering, math

But I give great credit to my mother, who raised five children on her own. And she just passed away a couple years ago at 97. So I mean, incredibly – life that she had.

MR. RUBENSTEIN: Wow. [Applause.]

MS. HEWSON: And she taught us –

MR. RUBENSTEIN: She was from Alabama?

MS. HEWSON: She was from Alabama. But she taught us the value of a dollar. You know, we had to learn how to economize at a very young age. She'd send us in to pay the power bill, the electric bill. She just got her kids out and said: You've got learn how to do these things, because you've got to be – it taught me to very self-reliant, I would say.

MR. RUBENSTEIN: Well, I was told that she used to say to you: Go to the grocery store. Here's \$5. And bring back \$7 of groceries. [Laughter.]

MS. HEWSON: Yes, that's true. That's very true. Learn how to economize. So I learned early how to economize, yes.

MR. RUBENSTEIN: OK. So, you went to University of Alabama. And did you get a scholarship and you didn't have to work, or did you have to work to get through college?

MS. HEWSON: Oh, no. I didn't have a scholarship. I worked nights. I worked what was called the graveyard shift, so to speak, from 11:00 at night until 7:00 in the morning. Then I went to class from 8:00 to 1:00 or 2:00. And then I'd sleep, unless I had a date. And then – [Laughter] – and then I'd go right back to work without sleeping, because you can do that when you're 18 or 19 years old. But, yes, I worked full time, paid my own way through school, finished in three and a half years. And, you know, you do what you do – what you had to do. So I – that's what I –

MR. RUBENSTEIN: OK. So you graduated.

MS. HEWSON: Yes.

MR. RUBENSTEIN: And you graduated in 1977.

MS. HEWSON: Mmm hmm.

MR. RUBENSTEIN: And then you got a master's degree at the University of Alabama as well, and you graduated in 1979. So after you graduated, did you say: I want to be the CEO of Lockheed Martin? Or what did you say? [Laughter.]

MS. HEWSON: No. I started looking for a job. I took a job as an economist here in Washington at the Bureau of Labor Statistics out of – out of college. They were in the midst of redoing the Producer Price Index. It was a good job for a grad student to come in. And so I

actually started my career here. Four years later I decided, you know, we wanted about four or five years with the government, and we looked for the next position. And I interviewed at several companies, one of which was Lockheed in Marietta, Georgia. And started there as a senior industrial engineer.

MR. RUBENSTEIN: So, have you ever run into any people from the Bureau of Labor Statistics who, you know, you were working for in those days and now you're the CEO of Lockheed Martin. Have they ever called you for a job or anything since then?

MS. HEWSON: No, but I do hear from them now and then. You know, this era of social media, and now and then I'll get an email from somebody. Or, I might run into somebody in the local area that I worked with. That was many years ago. I mean, think about it, I've been at Lockheed 35 years. So, that was a long time ago.

MR. RUBENSTEIN: But they all say they knew you were going to be successful. They always say –

MS. HEWSON: Oh, no. (Laughs.)

MR. RUBENSTEIN: They don't say that?

MS. HEWSON: No.

MR. RUBENSTEIN: So, when you went to Marietta, Georgia you worked your way up. As I said earlier, you had, I think, 22 different leadership positions. So, you must have been moving around a lot.

MS. HEWSON: Well, actually, I was in Marietta for about 13 years. Eighteen months in, I was promoted to supervisor of industrial engineering. And then about the two-year mark I was put on a general management development program. And great credit to a sponsor that – he put me forward for the program. So, I spent two years rotating around the company. And at the end of the two years, I was a manager over all of our production, estimating and budgets.

MR. RUBENSTEIN: Now, at one point your husband was unemployed. And he got a job interview with a company. And what company was that?

MS. HEWSON: Yeah, he surprised me a bit. His company went out of business. And so he was out looking for a job. We had a five-month-old baby. So, we were very much hoping he'd find a job. And it was a tough labor market at the time. But he came home one day and he said: OK, I got a job. And I said, where? And he said, at Lockheed. And I went, what? [Laughter.] You're at Lockheed. [Background noise.] Oh, sorry. I said, what? Why my company, you know? But it just turned out he went to work in the finance department. We didn't really cross paths. I was in – I was running industrial engineering by that time. But it's interesting. For about five years – he retired from Lockheed after five years. [Laughs.]

MR. RUBENSTEIN: So, you have given him a lot of credit for what you've been able to achieve, because you might describe – after he retired, he took on the role that, you know, many people might say a woman might have normally taken on, or the wife. And he took on that traditional role. Is that fair to say?

MS. HEWSON: Yes. I say he retired. I mean, our kids were three and six, two boys. And we moved from Marietta, Georgia to Fort Worth, Texas, because my job moved us. And so at that time we – you know, you know how stressful it is to have a couple of young children at home. [Laughs.] And so I said, well, why don't we try you working from home for a year? And we just never changed the model. So he became the at-home dad. You know, he was the coach. He was the scout leader. He was the – went on the field trips and he managed that, because I travel a lot in my job.

And we were maybe a new age family back then in the way that we worked, but it worked for us. And today our kids are in their 20s and they're off doing their thing, and he's – but when I said he retired, he basically at that five-year mark he got a retirement check from Lockheed Martin not long ago. So – [laughs] – so his five years, right?

MR. RUBENSTEIN: OK. Well, so I guess he's happy with the shareholder performance as well.

MS. HEWSON: Yes, he is. [Laughter.] But, you know –

MR. RUBENSTEIN: So, now let's talk a moment about the product I mentioned earlier, the fighter jets. Now, I've known for a long time there's an F-14, F-15, F-18, there was an F-22. And then you'd come up with something called the F-35. What happened between 22 and 35? [Laughter.]

MS. HEWSON: [Laughs.] Well, the fact is that aircraft are not numbered by Lockheed Martin. I mean, the U.S. government determines what the number is. So an F standing for fighter, a B for bomber, you know, the terminology is kind of general. And usually it is sequential. We had – we won the contract with our X-35, which was the experimental. You know, you named them with an X or a Y if they were experimental or a prototype. So, we named our offering in this competition. But when they announced the winner, Lockheed was the winner. And the Secretary of the Air Force said the F-35. And we were all shocked, because we thought it was going to be the F-23. So, once he named it, that's what number it became.

MR. RUBENSTEIN: You didn't want to tell him he made a mistake, I guess, since he was awarding the contract. [Laughter.] But so in the history of our country, this is the biggest defense contract ever – tens of billions of dollars, I assume. Why does it cost that much to make these planes? And what's so great about this plane? What's so unique about the F-35?

MS. HEWSON: Well, first of all, you know, when you put it in perspective, I mean, today the last lot that we negotiated, conventional basic aircraft – there's three variants, but the F-35A, which is your conventional variant of the aircraft, was priced at \$94.3 million. And we're on a

path to drive that down to \$80 million by 2020. Think about that. You know, think about if you fly – maybe you fly a Gulfstream or something like that.

MR. RUBENSTEIN: Occasionally.

MS. HEWSON: Think about what you pay for that. [Laughter.] And think about the most – think about the most sophisticated jet fighter in the world that might cost \$80 million. I mean, that’s pretty remarkable in my mind. It is the most advanced fighter in the world. It is stealth. It has sensor fusion. And not only is it, you know, a gamechanger in terms of providing air superiority, but it also can communicate with all assets on the battlefield and makes them better. So, it is basically a force multiplier. It’s a fabulous aircraft. And I don’t have to tell you that. Talk to some of the pilots that fly it.

MR. RUBENSTEIN: Well, the unique thing about the plane I thought, initially, was it was supposed to be available for the Air Force, the Navy and the Marines. So, it was a fighter pilot that would be – fighter plane that would be used for all of them. That was unique. And does it work for all the services, and each of them use that?

MS. HEWSON: Yes, absolutely. As I said, there’s three versions. So the F-35A is what the U.S. Air Force flies. And a lot of our allies and partners around the world fly that. The B is the – is the Marine Corps version, which is the short take-off and landing version. And then the C is the Navy version, which is a carrier version.

MR. RUBENSTEIN: So, suppose a foreign government calls you up and says: You know, we’d like a couple of those F-35s. Are you allowed to make it for them?

MS. HEWSON: Well, you know, it’s a government-to-government relationship. We don’t – we don’t sell direct to any country. And the program was started out with eight international partners who put money in up front for the development and helped with the requirements, so that you could get the economies of scale, the economies of commonality, you can interoperate together with those countries. We’ve had some other countries join in. So Israel, South Korea and Japan were security cooperation partners. There are other countries around the world that are very interested in it, like Belgium, and Finland, and Canada and others that haven’t signed up yet for the aircraft. But it is not a decision by Lockheed Martin to sell that aircraft. It is really a technology-released decision on the part of the U.S. government.

MR. RUBENSTEIN: Now, one of your other products is a helicopter. You bought Sikorsky Aircraft or Helicopter from United Technologies. Why did you buy it? And are they making Marine One, which is the President’s helicopter, and how much does that cost?

MS. HEWSON: Well – [Laughter] – you’re into the prices, aren’t you David?

MR. RUBENSTEIN: Well, I am.

MS. HEWSON: I mean it’s – [Laughter] –

MR. RUBENSTEIN: I'm always trying to get a – I'm always negotiating for a good deal.

MS. HEWSON: I see. [Laughter.] OK. All right. Well, first of all, yes, we bought Sikorsky. It's been about two years ago that we purchased the company. It was a great acquisition for us. They're a natural fit. It was – Sikorsky was a company that we were very interested in for a number of years. We'd been doing business with them for over 40 years, for the MH-60 Romeo helicopter and just, you know, our mission systems and their helicopters. And so when the opportunity came up, we took the opportunity to buy the company. Great integration into our company. It brings the Black Hawk helicopter. It brings the CH-53K helicopter for the Marine Corps. And, as you mentioned, the Marine One, which is a base – is based on the S-92, our commercial version, which is called the VH-92. And I would – I'm happy to say that that program is on schedule and on cost in producing that for the President.

MR. RUBENSTEIN: But costs a lot of – it costs a lot of money to make Marine One, because you got to have all kind of security things in there.

MS. HEWSON: Yes.

MR. RUBENSTEIN: So, it's not something you can sell to any other country, I assume. So you only make, what, 23 of them you're going to make, or something like that?

MS. HEWSON: Yes, that's right. Mmm hmm.

MR. RUBENSTEIN: And when are they going to be available?

MS. HEWSON: Well, we'll be – we're on a path of – they'll – you know, we'll have to go through the test flight. We had the first flight, and things like that, but it takes time for them to roll out. I think it's 2019 or so that they'll move forward. But I was going to mention to you, you know, it's based on this S-92, which is a great commercial helicopter. If you're interested in a helicopter, David, I would – I'd suggest you look at it. [Laughter, applause.] I mean, you know, I think they're only around, you know, \$35 to \$40 million. I mean, I'm sure you could do that. [Laughter.]

MR. RUBENSTEIN: Well, I'll have to negotiate. Maybe I could get something, get a good deal. Do you get a discount if you buy two or something, thought? [Laughter.]

MS. HEWSON: We can – we can do a deal, yes.

MR. RUBENSTEIN: So, what's it like to be the CEO of our nation's largest defense contractor? You get about 70 percent of your revenue, I think, from the U.S. government. And, you know, how much of your time do you have to spend with the U.S. government? How much time do you have to spend with employees, customers, outside the United States? How do you spend your time – let's say on a typical week, percentage time?

MS. HEWSON: Typical week is kind of tough to say. But I would say probably – I kind of track this just to see. But I would say somewhere between 60 to 70 percent of my time is with

the strategy of the business, the customers, and engagement around the world, traveling around the world on the customer side of the business. Because it's important, in my role, to be out meeting with not only our congressional leaders and our government leaders, to make sure we're aligned with what their needs are and their priorities, but I travel a lot outside of the United States. Thirty percent of our business is outside of the United States with governments around the world.

MR. RUBENSTEIN: I see. Now, you were recently voted the 22nd most powerful woman in the entire world – not just business, but everything. So, when you saw that, did you say: I should be higher? [Laughter.] Or did you say I should be – that's pretty high. I mean, and how does it feel to be the 22nd most powerful female in the entire planet of 3.6 billion women?

MS. HEWSON: You know, I don't focus on it that much, David. [Laughter.] I mean, I get a note from my brother that said, well, why was Oprah higher than you or something like that. But, you know, that's not something I focus – there's lots of lists. I mean, it really comes down to having the privilege of leading a national asset and a company that's doing some of the most important and interesting work in the world.

MR. RUBENSTEIN: Now, the company that you originally started at, Lockheed, was famous for having something in California called the Skunk Works. Can you describe how it got that name and what it actually does?

MS. HEWSON: Well, it's an interesting story. It was during World War II, so it was about 1943 or so, that a gentleman named Kelly Johnson, who's the father of the Skunk Works – and this is part of our aeronautics business, was given the responsibility of doing a very secret project, which was the XP-80. And you know the P-80 was a very important aircraft at that timeframe. But it was a secret project. And all of the facilities were filled. It's World War II. They're building all kinds of product, you know, to support the war effort. So they got a circus tent. And they created this secret project with a small, hand-picked group of people to work on that project in the circus tent.

Well, one of his employees, one of the engineers really liked the Li'l Abner comic strip – you know, the Andy Capp comic strip. And if you recall it, it had this secretive, mysterious place out in the forest called Skonk Works. One day the phone rang, and, you know, joking around he just picks up the phone and says: Well, this is Andy (sic; Irv) Culver of the Skonk Works. And the employees liked it so much they started calling themselves – calling their little, you know, circus tent secretive work the Skonk Works. And then it emerged to being the Skunk Works. And today, this year, we're celebrating a 75-year anniversary of the Skunk Works, that has done remarkable aircraft – the SR-71, the F-117, I mean, the – you know, the F-22. Just remarkable aircraft that have come out of that environment.

MR. RUBENSTEIN: I see. It had nothing to do with the aroma? [Laughter.]

MS. HEWSON: No. Nothing to do with that.

MR. RUBENSTEIN: OK. So you mentioned a plane, SR-71, which was a very famous plane that I think now is in the Air and Space Museum of the Smithsonian. It went at, I think, six times the speed of sound, or something like that.

MS. HEWSON: Three times, yeah.

MR. RUBENSTEIN: Very high. There's a rumor – [Laughter] – there was a rumor in the defense press somewhere that you're making in the Skunk Works an SR-72. So can you tell us right now, is that true? [Laughter.]

MS. HEWSON: You know, we are working on hypersonics. And hypersonics would be something over Mach 5². We're doing work in that technology, and it's important technology. So, that's probably all I'm going to say about it. [Laughter, applause.]

MR. RUBENSTEIN: OK. All right. OK. So, let me go back to what it's like to be a woman in your position. Do you think that there – when you started out, were you often the only woman in the room at Lockheed?

MS. HEWSON: I was, yes.

MR. RUBENSTEIN: And so was that intimidating? Or was it a kind of thing where you said, I can show them I'm better than them, the men?

MS. HEWSON: You know, I think it's like any team you come into, you have to establish your credibility, recognizing that I was a different gender so maybe the first moment I was different in that sense. But after that, once you're contributing and you're a part of the team, it was no longer a factor, for me, at least, and through my career. But what I'll tell you is really positive is that today 22 percent of our leaders are women, 24 or 25 percent of our workforce are women. So, the pipeline of women – it's no longer the only – there's only one woman in the room. We have many women leaders in the room. And it's – you know, we've come a long way on the pipeline.

Back 35 years ago, there weren't as many women coming out of engineering and other professions to come into the workforce, just as the case was for our customer. But you look at our customer today, look at our military services, how many women are involved – how many men and women. But women are in uniform and in leadership positions. It's just a pipeline issue. And we're always working on that pipeline to get more women.

MR. RUBENSTEIN: OK. Let's talk about some national issues that have been lately in the news. The tax bill. Were you in favor of the tax bill that passed the Congress?

MS. HEWSON: Absolutely. Very much so. Very much in favor of it.

² Mach 5 is five times the speed of sound.

MR. RUBENSTEIN: All right. So are you going to do anything particular with the money? You going to give money to the employees? You going to buy companies with it? What are you going to do with the extra money that you're going to get?

MS. HEWSON: Well, first off, you know, I just want to highlight, frankly, the intent, in my view, of that tax reform was to make us more competitive on the global stage. So everything about what we're doing, the savings that comes with the reduced corporate tax rate for us, is around our sustained long-term growth. I mean, that's the area that we're focused on, augmenting long-term growth and being more competitive with the products that we have. So, we are – we've already committed that this year we've increased our money toward research and development and capital expenditures by another \$200 million. We spend – this year we're going to spend about \$1.2 billion on R&D for our business.

And then we are – we've done – for our employees, we're increasing what we provide them in terms of training and education. We just recently announced an increase in the tuition reimbursement for them, so that they can get additional education. We're going beyond four-year colleges, but into special courses to certifications, so broadening that for reskilling to deal with the changes in technology that are happening and making sure that they're in that. We're giving more to STEM education initiatives from a philanthropy standpoint. We think that's an important responsibility for us.

You know, we hire 11-or-12,000 employees every year, mostly engineers. And we have 60,000 scientists and engineers. And while we can hire people into our company, they want to come to work for a company that does some of the most important work in the world, we know that that pipeline coming out of the colleges and universities in our country is not where it should be. So, we're among companies that are focused on that. And then the last thing I would say, David, is that, you know, we have a technology ventures fund, the fund where we invest in small companies, startups, that have technologies we're interested in. We're increasing our funding there. And then we're looking at other areas that we'll put those savings toward.

MR. RUBENSTEIN: All right. Let's talk about another – so you're very much in favor of it. You're going to use it intelligently, OK.

MS. HEWSON: Yes.

MR. RUBENSTEIN: Recently the President of the United States announced that he wanted to have tariffs on steel and aluminum. Now, we don't know exactly what that will mean, how the regulations will work and so forth, but this is what he's announced. Now, you are the – the U.S. government is your biggest customer. So, presumably you don't want to upset them by saying you don't like that position. On the other hand, you import an awful lot of steel and aluminum for your products. So, which side are you on those tariffs issue?

MS. HEWSON: Well, I think – you know, granted, we haven't gotten all the details that have come out yet, but just based on what we're seeing, the messaging coming out of the administration, we don't – at Lockheed Martin, we have a lot of long-term contracts. There's not going to be a direct impact on us as a company. But there could be a significant impact on our

supply chain, because they build the components that go into the products that we produce, which means they're probably buying raw materials, aluminum and steel. So, that's a watch for us. If they're – you know, if they're going to be buying them outside of the United States that has a tariff on them, that could increase the cost of our products. And so I'm concerned about that.

What I'm hopeful of, as we look at these tariffs, that we really are – that the country looks at being more targeted in the way that they're applied. I mean, do they need to be across the board to all of – all of the countries, particularly since we rely a lot on countries to be our partners and our allies in the way that we address the global security challenges. Partners are also trading partners. And I think that whole trust and partnership is an important element.

MR. RUBENSTEIN: Let's talk a moment about artificial intelligence. Presumably that's going to be very important for defense contractors, as it is for other companies. What can you tell us about what you're doing to take advantage of the revolution going on in artificial intelligence?

MS. HEWSON: Well, it's a very important area that we're investing in. You know, I mentioned hypersonics and laser weapons and autonomy and artificial intelligence is all areas for us that we think our customers are looking for solutions to use that technology. But in artificial intelligence, you can think about – we're working on a helicopter that will be unmanned out of our Sikorsky operation. And so that's an opportunity –

MR. RUBENSTEIN: Unmanned helicopter?

MS. HEWSON: An unmanned helicopter. We have other unmanned vehicles that we have. But that autonomy and using the artificial intelligence for actually flying the helicopter –

MR. RUBENSTEIN: Wow. What's the price for the unmanned? It's a little bit – [Laughter] –

MS. HEWSON: (Laughs.) This price thing, I tell you.

MR. RUBENSTEIN: All right. So, unmanned helicopter. That sounds pretty novel.

MS. HEWSON: Yeah. But even in the cockpit of our aircraft, you know, they're using artificial intelligence by fusing information in such a way that the pilot doesn't have to – you know, you can't – the human mind just can't move at the same speed as what you can get through that computing power. And so they can make the right decisions to deal with the situation. And we have – we have such things as collision avoidance. And so even on our F-16s, and we'll be putting this on our F-35, we have technology there through artificial intelligence that if a pilot doesn't realize that they're about ready to hit the ground, this aircraft will take control and avoid. We've already saved six pilots' lives with that type of technology. So, that's just a few examples of how we apply the artificial intelligence.

MR. RUBENSTEIN: And what about cyber warfare? That must be an important part of your business now. So, first of all, you presumably have products or services you provide the U.S. government. You maybe could talk a little bit about what you do. But also, you protect,

presumably, a lot of the nation's secrets in your own company. How do you make certain that our enemies around the world aren't trying to get your secrets?

MS. HEWSON: Well, I can't – I mean, they are trying to get our secrets. [Laughs.] I mean, this is a constant threat that a company like ours and many companies have in the U.S., of other countries trying to get at our secrets. But what I would say is for Lockheed Martin – we've been involved in protecting our systems and governance systems for many, many years – long before the term cyber was even coined. I mean, it's an important element of business for us. And we take it very seriously, because we know that we are a target, and government customers are a target. So we have – we've invested a lot in the technologies to protect that. But I think it's a constant – you know, these threats are advanced and they're asymmetric, and they're constantly changing. And it's really important for us to stay on top of that and keep investing in it.

I would – you know, as I – as I think about, you know, what – from the standpoint of cybersecurity, another area that's really important is that we have good information sharing – that if we see a threat, we let our colleagues or other companies know about that. And we've done that for many years at the defense industry, but now it's being broadened more across other industries. And I think that's a very important protection element for us.

MR. RUBENSTEIN: You mentioned your colleagues in the defense industry. We have basically five defense companies in the United States. So, Lockheed Martin, Boeing, General Dynamics, Raytheon, and Boeing – did I say Boeing? Boeing –

MS. HEWSON: Northrop Grumman.

MR. RUBENSTEIN: What?

MS. HEWSON: Northrop Grumman.

MR. RUBENSTEIN: Northrop Grumman, sorry. Northrop Grumman. So five. Is that enough defense companies? I mean, don't we need 10 or 15 so we have more competition? Is five enough?

MS. HEWSON: You know, it's – I think it's up to the market forces as to whether or not, you know, if there's any consolidation or we need more. I mean, I think that's what drives it. You mentioned about how Lockheed and Martin Marietta came together in '95. I mean, there were roughly 12, 13 companies back then when we – when the defense market was going to need to be consolidated. In fact, we had – there was something called the last supper, some of you may recall this, where the leaders of those companies were brought into the Pentagon and they were told: We're not going to have enough for all of you, so you need to figure out how to get together. And that's what – that's what Martin Marietta and Lockheed did, is that's where that merger happened, and many mergers happened during that time. And so what you have today is five prime contractors, but you have a very extensive supply chain of medium and small companies. And the market forces of consolidation and things like that – I mean, that's just – that's our – that's our system. It'll adjust to the competitive environment.

MR. RUBENSTEIN: Sounds like a better outcome than the actual last supper, I guess, right? [Laughter.] OK, so you're the CEO of a major company in the Washington area – I guess one of the biggest companies in the area, and maybe in the country. Can you go just shopping anywhere without people coming up to you and asking for a job, or asking you for something? Can you – you're pretty visible – can you just go shopping the way – go to a theater, or go to a restaurant, and people bother you, or not?

MS. HEWSON: I wouldn't say bother me. I mean, we have a lot of employees and a lot of folks in this area. I don't find that intrusive. You know, I like people.

MR. RUBENSTEIN: OK. And what do you do for relaxation? Are you an exercise person? Are you a traveler? Or sports? Or whatever?

MS. HEWSON: I like to play golf. My husband and I like to get out and play some golf as relaxation. We like to travel. I mean, our family gets together and travels. I travel a lot for the job. Probably 40-50 percent of my time I travel on business travel. But one of the things we really enjoy is getting together as a family to travel, and always try to create some fun travel that our kids would find – as long as mom and dad pays for it and it's fun – they'll come. [Laughter.]

MR. RUBENSTEIN: Some people say that the higher a handicap of a CEO, the better the stock will perform. If it's a low handicap, that means the CEO is playing too much time playing golf. So –

MS. HEWSON: You're not going to ask me my handicap, are you, David? [Laughter.]

MR. RUBENSTEIN: I assume your – what your handicap is your – you're not a scratch golfer, I assume.

MS. HEWSON: No way. No, no. I don't play enough for that.

MR. RUBENSTEIN: OK. And today – [Laughter] – but it sounds like it must be pretty low. So you can beat your husband? Or is he better than you? Or?

MS. HEWSON: Well, he's better than me. But, you know, I always remind him that there's the average for women and there's the average for men. So as long as I can beat –

MR. RUBENSTEIN: All right. And if he has a close putt, do you just give it to him, or do you make him putt it out? No?

MS. HEWSON: [Laughs.]

MR. RUBENSTEIN: So today, what would you say the biggest challenge is for the U.S. defense industry? Is it budgets? Is it the President of the United States and understanding what you do? Is it foreign competition? What is the biggest challenge the U.S. defense industry has?

MS. HEWSON: Well, the challenge that we have is really the challenge our customers have. I mean, we have an environment where the threats today are so difficult around the world, the global security environment is so unpredictable and is changing so rapidly, so you have the need for solutions to address that and to stay ahead of the threat and stay ahead of the adversaries. At the same time, we have constrained budgets, and the budget pressures that we faced over the last several years. And maybe we're having to spend money on near-term getting things back up to readiness, instead of investing in what we need to, to address the power competitions that we have out there with our adversaries.

So, that then, in turn, is a challenge for industry, because if you haven't been investing along the way, we've got to – you know, we've got to move with speed, while at the time driving costs down. And what I said earlier, you know, we managed through this difficult time. We are faced with some challenges within the environment that we're in, and the way that we contract, and the defense environment, that we can't just turn on a dime and go address the speed and the – as Secretary Mattis calls, the speed of relevancy, those affordability and cost initiatives, so quickly.

MR. RUBENSTEIN: So, when you contract with the federal government, is it a cost-plus or is it a fixed-price³, typically?

MS. HEWSON: Well, it's more fixed-price than cost-plus, but both. I mean, because in our environment, you know, it's driven by how much risk there is. So, an early development program is usually cost plus, because it's – you know, you're in the midst of working on a development project. And it doesn't – it's – that's where you just pay for the cost, with some small margin associated with it. Once that risk shifts over and you're now moving more into the production of the aircraft, then it becomes fixed price. And presumably that risk transitions over to the contractor, and you would expect to have a higher fee associated with it.

MR. RUBENSTEIN: And I assume the U.S. defense industry, being the biggest in the world, produces the best products, and so forth. But who do you think is second best or third best? Is there – do you ever see the products of the Chinese defense industry or the Russian defense industry or the Israeli defense industry? Or do you have any views on who else is very good in this area?

MS. HEWSON: Well, you know, I would say that my experience over the last – you know, of my career to date, that the global competition is very significant. I mean, countries around the world are taking advantage of the technological changes that are happening. And when – if they invest more in their modernization than we do, on a – on a relative basis, then they're going to make more progress than we do. And so I think it's important that we maintain the technological superiority, that we provide our men and women with the best equipment that they can have, in order to address the threat.

³ Fixed price means that a price has been set for goods or services, and in most circumstances no bargaining is permitted over that price. The price is held constant regardless of the cost of production. Cost plus pricing, often used in government contracts, refers to a contract where the price is based upon the actual cost of production and any agreed upon rates of profit or fees.

MR. RUBENSTEIN: OK. I mentioned earlier, since you became the CEO your stock is up 330 percent. If I bought some stock tomorrow, would I also see a very significant gain in four or five years – [Laughter] – or you think it’s – the prices are already so high for the defense stocks?

MS. HEWSON: Well, David, I’m not going to advise you on stock price today. [Laughter.] I think you’re really good at that. But I would tell you this, for our company we are always focused on creating shareholder value. So, just know that’s our commitment and we’re going to drive the company for growth and for innovation and for shareholder value.

MR. RUBENSTEIN: OK. Well, as long as you’re the CEO I’d probably be happy to be an investor. But how long might you be the CEO? Do you – [Laughter] – do you have any plans? If the President of the United States called you and said: I’d like you to be Secretary of Defense or something like that, would you entertain that? Or you’re going to stay where you are for a while?

MS. HEWSON: Well, in our company, I mean, I feel very privileged. I love the work that we do, the team of remarkable people that I work with that, you know, have the highest integrity, they are so dedicated and so talented. I love working at Lockheed Martin. And I serve at the pleasure of the board of directors. So, how long I work will be up to them. But today, I’m really enjoying the work that I’m doing, and I have no intention of stepping down from my role.

MR. RUBENSTEIN: Right. Whenever you do step down – at some point you might step down – at some point – 10 years, 15, 20 years. Would you consider the higher calling of private equity? [Laughter, applause.]

MS. HEWSON: Well, you know, as I told you, I have a passion for business. I might very well consider that, David.

MR. RUBENSTEIN: OK. All right. Well, whenever you do step down, please let me know and I’ll be happy to talk to you.

MS. HEWSON: OK. [Laughter.]

MR. RUBENSTEIN: Thank you very much.

MS. HEWSON: Thank you. [Applause.]



Marillyn A. Hewson
Chairman, President & Chief Executive Officer of Lockheed Martin Corporation

Marillyn A. Hewson is Chairman, President and Chief Executive Officer of Lockheed Martin Corporation. She previously held a variety of increasingly responsible executive positions with the Corporation, including President and Chief Operating Officer and Executive Vice President of Lockheed Martin's Electronic Systems business area.

Ms. Hewson joined Lockheed Martin more than 30 years ago as an industrial engineer. During her career she has held several operational leadership positions, including President of Lockheed Martin Systems Integration; Executive Vice President of Global Sustainment for Lockheed Martin Aeronautics; President and General Manager of Kelly Aviation Center, L.P., an affiliate of Lockheed Martin; and President of Lockheed Martin Logistics Services. She has also served in key corporate executive roles, including Senior Vice President of Corporate Shared Services; Vice President of Global Supply Chain Management; and Vice President of Corporate Internal Audit.

Ms. Hewson has served on numerous boards and currently sits on the Board of Directors of DowDuPont, the Congressional Medal of Honor Foundation, the Board of Governors of the USO, and the Board of Directors of Catalyst. She is a member of The University of Alabama's President's Cabinet and also serves on the Board of Visitors of the Culverhouse College of Commerce and Business Administration.

Ms. Hewson is a former Chair and current Member of the Executive Committee of the Aerospace Industries Association, a Fellow of the Royal Aeronautical Society, an Associate Fellow of the American Institute of Aeronautics and Astronautics, and a Member of the International Institute for Strategic Studies. She is a Director of the Atlantic Council's International Advisory Board and a Vice Chair of the Business Roundtable. Ms. Hewson also serves on the Board of Trustees of King Abdullah University of Science and Technology in the Kingdom of Saudi Arabia and Khalifa University for Science and Technology in the United Arab Emirates.

In 2017, Fortune magazine identified Ms. Hewson as No. 3 on the “50 Most Powerful Women in Business.” She has also been recognized as a Top 10 “Businessperson of the Year” by Fortune, as one of the “World’s 100 Most Powerful Women” by Forbes, and as one of the “Bloomberg 50” – the leaders who defined 2017.

Born in Junction City, Kansas, Ms. Hewson earned her Bachelor of Science degree in business administration and her Master of Arts degree in economics from the University of Alabama. She also attended the Columbia Business School and Harvard Business School executive development programs.