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*Earnings Call*

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# Call Participants

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# Presentation

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## Operator

Greetings. Welcome to the L3Harris Technologies Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded.

It is now my pleasure to introduce your host, Tony Calderon, Vice President, Investor Relations and Corporate Development. Thank you. Tony, you may now begin.

## Tony Calderon

Thank you, Tiffany, and good morning, everyone. Joining me are Chris and Ken. Earlier this morning, we issued our fourth quarter earnings release outlining our results and our 2026 guidance, along with the presentation available on our website.

Before we begin, please note that today's discussion will include forward-looking statements subject to risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please refer to our earnings release and SEC filings. We will also discuss non-GAAP financial measures, which are reconciled to GAAP measures in the earnings release.

With that, let me turn it over to Chris.

## Christopher E. Kubasik

*Chairman & CEO*

Thanks, Tony, and good morning, everyone. We wrapped up 2025 by continuing to execute with speed and discipline, meeting our customer commitments, improving on-time delivery and investing to increase production capacity while delivering strong fourth quarter and full year results. We ended the year with a record order book and strong demand signals from our customers. All of this is positioning us for sustained growth going forward.

We are equally focused on how we evolve our business. Over the past 6 years, we have aligned our portfolio to the fastest-growing defense priorities with a vision of the future of warfare. As a result, we have acquired and divested billions of dollars of businesses, including our recently announced sale of a majority stake in our civil Space Propulsion and Power business. 60% of this business is being sold to AE Industrial Partners. AE's multiple investments in space assets make them an effective steward to scale the business and unlock its value for our shareholders. This transaction enables us to sharpen our focus on our priorities for the Department of War and our allies.

We have continued to improve our operational agility and market position. We reorganized our businesses from 4 segments to 3 in order to align technology and business models. And we announced our intention to pursue an initial public offering of our Missile Solutions business in the second half of 2026.

The Department of War is the anchor investor, creating a \$4 billion-plus revenue majority-owned public company with sustainable double-digit growth. This new company will deliver critical propulsion systems at unprecedented speed and scale as well as other Missile Solutions such as air launched effects, IR seekers and weapon release systems. This is an example of the strategic partnerships we have pursued to drive business growth and address critical needs for our customers.

We spent time in the Pentagon and listened to the DoW's needs to significantly expand missile production. And we responded, negotiating a novel partnership structure that benefits the warfighter, taxpayer and our shareholders. We, along with our supply chain, will build production capacity faster than anyone in the industry to meet the demand signal.

The U.S. government is planning to make a financial investment in a new company critical to our national security. Their stake is solely economic. They want greater capacity quickly and a return on their investment. The strategy is straightforward. Construction began last year to expand capacity on large solid rocket motors and certain tactical rocket motor programs.

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The government invests now, allowing us to further increase capacity for critical interceptor programs such as THAAD, PAC-3 and standard missile. There is no waiting for contracts or acquisition funding. The investment gives us the confidence to build today while the long-term contracts are being negotiated and finalized. Capacity is now the most important capability.

Our actions are deliberate. We are leading the industry to meet the needs of our customers. We are strengthening the industrial base, reinvigorating competition following decades of consolidation and unlocking value for our shareholders.

In our industry, the year unfolded against one of the most demanding defense and security environments in decades. It was complex, competitive and rapidly evolving. Speed and execution mattered. Against that backdrop, our workforce delivered. So thanks to them for our best year ever. We met our commitments to warfighters, to customers who measure value in deliveries and not intentions, and to the DoW by strengthening the supply chain that underpins national security.

Delivering on our commitments resulted in record orders, solid organic growth, expanding margins and strong cash flow generation. Doing what we say we're going to do is fundamental to how we run the company. Our portfolio is directly aligned with the fastest-growing customer missions, space sensing, missile defense, resilient communications, aircraft ISR missionization and kinetic effects. That alignment is deliberate and informs where we invest, how we come to market and how we engage with customers.

Our mission relevance is seen in our record order book and strong organic growth. We executed on our programs, stabilizing challenging space programs, clearing delinquent rocket motor deliveries dating back to the time of our acquisition and realizing efficiencies through LHX NeXt. These outcomes reflect disciplined execution, technical credibility and our ability to deliver at speed and scale in direct alignment with evolving customer requirements.

Undoubtedly, what stood out the most in 2025 was the pace and urgency of customer demand. Threat environments evolved faster than recent history and expectations shifted just as quickly. Customers require advanced capability at speed and scale. We have the competitive advantage in this environment as the agile, trusted disruptor.

We also deepened our role as a trusted international partner. We won key awards in Europe and Asia, leveraging a global supply base and investing in local industry to scale capacity. We have localized production across the globe, enabling us to meet customer needs during production and during the long sustainment tail. These efforts reinforce our commitment to strengthening global security through interoperable solutions and partnerships.

We secured awards that reflected the full breadth of our capabilities and our ability to consistently bring the right technologies to the table and translate them into customer-aligned solutions. These wins underscore customer confidence in our technical depth, disciplined execution and our ability to deliver integrated mission-ready capabilities. All of this resulted in record backlog and order book this year with an overall book-to-bill of 1.3x and backlog in excess of \$38 billion.

Let me highlight a couple of our key wins this quarter. At the start of the fourth quarter, we secured a landmark \$2.2 billion award from South Korea for next-generation airborne early warning missionized business jets. Also during the quarter, we were awarded an international weather satellite program for approximately \$200 million and multiple international tactical communications and software-defined radio orders in the quarter totaling over \$200 million.

At the end of 2025, we strengthened our leadership in space-based missile defense with the award of an SDA contract valued at approximately \$850 million to deliver 18 satellites for the Tranche 3 tracking layer. Building on a proven track record as the only company awarded contracts across all 4 tranches, this milestone reinforces our alignment with national defense priorities and underscores our ability to deliver trusted, resilient integrated spacecraft architectures. The continued technology maturation for this contract as well as production synergies positions us very well for the HBTSS award.

And following the quarter, we were selected to deliver multi-aircraft special mission business jets for an international customer with a potential value of over \$2 billion. An initial order of over \$700 million will be booked in the first quarter of 2026.

Our 2026 guidance exceeds our ambitious targets for revenue, margin and free cash flow that we laid out at our last Investor Day in December 2023. Our record backlog and robust order outlook underpins our 2026 industry-leading 7% organic growth. We also exceeded our LHX NeXt, \$1 billion savings commitment 1 year ahead of plan. Many doubted our ability to meet these targets, but today's guidance exceeds the 2026 financial framework and is a result of our relentless focus on leadership, talent, accountability, culture, operational excellence and disciplined execution.

Our 2026 guidance that Ken will take you through momentarily is the foundation for a new 2028 financial framework that we will announce at our upcoming Investor Day in February. With that, I'll turn it over to Ken.

**Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Thanks, and good morning, everyone. Turning to the financial results for 2025. Revenue was \$21.9 billion, up 5% organically with growth in all 4 segments. Adjusted segment operating margin was 15.8%, up 40 basis points, reflecting continued cost efficiencies and strong program and product delivery execution.

Non-GAAP EPS was \$10.73, an increase of 11% over 2024. Adjusted free cash flow grew to \$2.8 billion, representing an increase of greater than 20%, driven by earnings growth, effective working capital management and the benefit associated with favorable tax planning strategies and tax reform. For the fourth quarter, revenue was \$5.6 billion, up 6% organically with a segment operating margin of 15.7%, up 40 bps. Non-GAAP EPS was \$2.86, up 10% year-over-year.

Turning to our segment results. For 2025, CS delivered revenue of \$5.7 billion and margins of 25.2%, 4% growth and 50 bps of margin expansion. In the fourth quarter, CS delivered revenue of \$1.5 billion, up 3%, driven by increased international deliveries for software-defined resilient communications as well as Next Generation Jammer program ramp. Q4 operating margin increased to 24.9%, up 50 basis points. CS margin benefited from LHX NeXt.

In 2025, IMS delivered revenue of \$6.6 billion, 8% organic growth and margin of 12.2%. In the fourth quarter, IMS revenue was \$1.7 billion, up 11% organically due to ramping activity on classified ISR programs and our airborne early warning and control aircraft for the Republic of Korea. Q4 operating margin was 11.1%, down 270 basis points, with the reduction largely reflecting the CAS divestiture and unfavorable program performance in Maritime.

For 2025, SAS delivered revenue of \$6.9 billion and margin of 12.3%. For the fourth quarter, SAS revenue was \$1.7 billion, up slightly, primarily driven by increased FAA volume in Mission Networks, partially offset by lower classified program volume in Space and Intel and Cyber. The government shutdown delayed awards and limited additional revenue growth in the quarter and the year. Q4 operating margin increased to 13.7%, up 290 basis points, reflecting stabilized performance on classified space programs and LHX NeXt benefits.

For 2025, Aerojet Rocketdyne delivered 12% organic revenue growth with revenue in excess of \$2.8 billion and margin of 12.5%. For the fourth quarter, AR delivered another strong quarter with organic growth of 12%, marking its third consecutive quarter of double-digit growth. Performance was driven by higher production volumes across key missile ammunitions programs and the continued ramp of new awards. Q4 operating margin expanded by 130 basis points to 11.8%, benefiting from higher volumes and LHX NeXt. Great results by each of the segments.

Now I'd like to highlight key terms of the Department of Wars planned investment. This is a \$1 billion preferred security invested directly into the Missile Solutions business. The security converts at a 20% discount to the IPO price plus 3% detachable warrants priced at a premium. We are planning for an IPO in the second half of 2026, and the DoW is expected to hold a single-digit equity ownership stake.

As a reminder, Missile Solutions will remain a consolidated segment into our financials following the planned public offering. This business will continue to be a part of LHX and will take advantage of our enterprise services and support structure.

Turning to guidance for 2026. We expect revenue of \$23 billion to \$23.5 billion, representing organic growth of 7% at the midpoint. Segment operating margin is anticipated to be low 16%, supported by strong program execution and investments to drive continued transformation and cost structure efficiency. Free cash flow is expected to be \$3 billion, driven by growth, higher profitability and disciplined working capital management even as we increase our CapEx to approximately \$600 million.

We are transitioning our diluted EPS guidance from a non-GAAP to a GAAP basis now that we have completed the implementation portion of the LHX NeXt program. Our GAAP diluted EPS is expected to be in the range of \$11.30 to \$11.50, solid growth even from our non-GAAP diluted EPS in 2025.

Our guidance reflects appropriate risk posture early in the year and the dynamics associated with administration priorities. It includes a full year of Space Propulsion and Power Systems business as we continue to work towards closing the transaction expected in the second half of the year. Consistent with prior practice, we will update as necessary upon the transaction closing.

At the segment level, Space & Mission Systems, or SMS, formed primarily from IMS and SAS delivers critical multi-domain defense solutions in a traditional prime business model. SMS revenue is expected to be approximately \$11.5 billion, driven by strength in ISR aircraft missionization and space solutions. Operating margin is expected to be in the mid-10% range.

Communications & Spectrum Dominance or CSD, brings our former CS segment together with our WESCAM sensor business and other EW programs from across the company to deliver primarily commercial products at commercial margins. CSD revenue is projected at approximately \$8 billion, driven by growth in EW programs, and communication and airborne EO/IR sensor products with operating margin of about 25%.

Missile Solutions or MSL, combines Aerojet with critical missile systems, including air launched effects, IR seekers and other advanced technologies, creating a focused high-growth business underpinned by scaled capital investment. MSL revenue is anticipated to be approximately \$4.4 billion with margins in the mid-12% range, supported by continued growth in solid rocket motor production. And for modeling purposes, this would convert to EBITDA of approximately \$620 million.

Our capital deployment strategy reflects our commitment to investing in the business while delivering value to our shareholders. Our approach to dividends is unchanged, and the number of shares outstanding is expected to be relatively consistent with year-end 2025.

With that, I'll turn it back to Chris.

**Christopher E. Kubasik**

*Chairman & CEO*

Thanks, Ken. Our results and actions position us for the next phase of growth. We are more agile, and we're able to allocate capital dynamically, partner strategically and adapt our portfolio as markets evolve. And we are strengthening our foundation for long-term performance by transforming our company, evolving our operating system and adopting AI. Most important, our actions ensure that we remain a trusted partner for our customers and continue to disrupt with a focus on long-term value creation for all stakeholders.

Tiffany, let's go to Q&A.

## Question and Answer

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### Operator

[Operator Instructions] Our first question today comes from the line of Kristine Liwag with Morgan Stanley.

### **Kristine T. Liwag**

*Morgan Stanley, Research Division*

Chris and Ken, thank you for the additional color you provided on the Missile Solutions business this morning. Considering the strong demand for this product, should we continue to see long-term agreements similar to what was announced on PAC-3 and THAAD? Or is this satisfied by the IPO plans with the U.S. government? And also a follow-up to that is you've called out double-digit growth for this business, but demand is very strong. In the next 3 to 5 years, and maybe it's too premature to think about it like that, but is this something that could grow 3 to 5x larger?

### **Christopher E. Kubasik**

*Chairman & CEO*

All right. Kristine, thank you for the question. Look, everything is tracking as we've been talking about. We were excited to hear this morning that Lockheed Martin reached an agreement on THAAD. As you know, we're the only provider of the propulsion and DAC systems for THAAD. And obviously, we're going to be glad to support Lockheed Martin and the end customer.

So absolutely, this is what all of the industry has been discussing with the DoW over the last half year or so, and we're starting to see these transactions take form. Yes, once we get the several billion dollars and start with the facilitation, building in excess of 60 factories over 1 million square feet, ordering the equipment and our supply chain doing the same. I think there's a lot of upside and potential, as you would expect, we'll file a Form S-1 as part of the IPO process later this year, and it will provide a lot more information and details and highlight the potential upside.

### **Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Yes. I'll just add, Kristine, as Chris mentioned, we're absolutely excited about the framework agreements that have been signed between the Department of War and Lockheed on both PAC-3 and THAAD. We are working closely with our customer as well as the end user to make sure that we're very closely aligned, in particular, those customers that are working closely with the Department of War on the acceleration and the scaling and getting the agreements signed. We've been investing and, again, working closely to modernize production lines for THAAD and PAC-3. We'll continue to do that, and we'll take some of the lessons learned from that to scale across all of the MAC, munitions acceleration programs.

And as we look at this, I don't want to put a number out there on tripling, but we do think that this business, as we combine Missile Solutions is one that can grow at a double-digit CAGR for some period to come. We've studied the market. We've studied the demand. We've had some outside parties come in and do an independent look just to make sure we're looking at it correctly. And we do see this business as able to grow double digits for the foreseeable future.

### Operator

Our next question comes from the line of Myles Walton with Wolfe Research.

### **Myles Alexander Walton**

*Wolfe Research, LLC*

First one was on CapEx. It's obviously higher 2.5% of the '26 sales or thereabouts. Is there a much bigger step-up happening in the future? It's -- I guess a smaller step-up than I would have expected for the multibillion-dollar investment required in Missile Solutions?

**Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Yes, Myles, I can take that one. Yes, we're stepping up CapEx in 2026 to about 2.5% of sales or \$600 million. I think that's something like 35% or 40% increase from 2025. As we do that, we're still holding to our 2026 free cash flow guidance of \$3 billion. And looking forward, I'm not going to put a number on 2027 CapEx at this point. But we're certainly thinking about it in terms of as we capacitize to deliver, how will we be able to pull cash on some of these new production programs to be able to offset some of that CapEx that we're needing to invest upfront, we'll certainly be working with the entire supply base to make sure that we're going at this together.

And suffice it to say, I think that this is kind of a onetime capital investment to really and truly modernize how solid rocket motors are produced at speed and at scale and at a rate that, quite frankly, the customers haven't gotten to date out of the SRM supply base. And there is a lot of demand, and we're looking to help to fill that as quickly as possible to get that product into the hands of the warfighter. So we think there's a durable long-term benefit to this capital investment. But again, we'll certainly be working to maximize cash inflows as we look at those CapEx requirements in '27 and '28.

**Christopher E. Kubasik**

*Chairman & CEO*

And I'll just add, Myles, as you know, we purchased Aerojet Rocketdyne 2.5 years ago. And on day 1, we started investing. So there's been well over \$0.5 billion of CapEx spent at Aerojet over the past 2.5 years. So when we made this acquisition, we knew it was a race. We started on day 1, and we sure plan to win the race.

**Operator**

Our next question comes from the line of Noah Poponak with Goldman Sachs.

**Noah Poponak**

*Goldman Sachs Group, Inc., Research Division*

Ken, just a quick point of clarification. The comment you made about your -- about the expectation of the government or Pentagon stake in Missile Solutions is that it would be a single-digit percentage of the enterprise value of Missile Solutions. Just want to make sure that's what you meant. And then just as a second question, to your point on still doing the \$3 billion with the higher CapEx, that implies your cash from ops is growing year-over-year quite a bit faster than your segment EBIT. If you could just break down the pieces of why that's happening.

**Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Sure. Yes. On the first question, yes, I did, in fact, mean single-digit stake -- single-digit ownership stake in the business. And on the second question, look, in terms of our cash from ops and our free cash flow, we're certainly laser-focused on ensuring that we deliver the cash out of the earnings that we generate.

And as we look at 2026, we're very comfortable that we can accommodate the additional CapEx requirements as we look, again, at investing in the business to support our customers and to drive the needed capacity increases in our products. And I should say that's really across the L3Harris portfolio. We focus often on solid rocket motors, but there are demands for a number of our products, as Chris mentioned in his comments.

And look, disciplined working capital management, certainly working all aspects of the contractual deals with our customers as well as our suppliers to make sure that we can deliver the cash at \$3 billion for 2026.

**Operator**

Our next question comes from the line of John Godyn with Citigroup.

**John David Godyn**

*Citigroup Inc., Research Division*

There's obviously a lot of excitement around Missile Solutions. But we do get questions on RemainCo and what the revenue outlook for RemainCo, LHX RemainCo might look like over the next couple of years and points of leverage to what could be a very large defense budget on the horizon. I'm sure we're going to get more detail at the Investor Day, but I'd love to just kind of give you a chance to speak to what the revenue growth rate might look like, whether you envision it accelerating from here and what points of leverage remain in the business even when you IPO the sort of most exciting, fastest-growing part?

**Christopher E. Kubasik**

*Chairman & CEO*

John, thanks for the question. And I appreciate the focus on RemainCo because that's a big part of big part of L3Harris. And as Ken said, and we've said over the last several weeks, we will continue to consolidate own and control MSL even after the IPO. So we're looking at solid mid-single-digit growth, a little faster, I think, than the rest of industry and hopefully, faster than the market in total.

As I said in my prepared comments, I really like our portfolio. We spent a lot of time realigning this over the last 5 or 6 years. And I would look at our capabilities, I look at our capacity. We've talked about building new factories for space. The SDA win is a big win for us, 4 in a row. HBTSS is coming, a lot of classified work.

So when I look at what we have in Space, what we have in the airborne domains, even Maritime, maybe not as a prime, but supporting a lot of the new construction, I think we're well positioned. The accelerant will be -- we need to see the 2027 Defense Budget, the PBR, President's Budget Request has yet to be submitted to Congress. I think sometime in March is what people are saying. And if that's, in fact, \$1.5 trillion, I'll be as excited as everybody else in the industry, and it could even be further upside. 7% is the midpoint of a range. So I really like our portfolio. I love our backlog, and I think we're well positioned.

**Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Yes. I would just add, John, to that. If we do see a significantly increased defense budget in FY '27, our expectation certainly is that as we look at upside to growth, we would expect L3Harris to be able to deliver on that quicker given our kind of agile nature and our ability to crank up production given some of the investments that we've made in the business, whether that's in space satellites related to missile defense for America, whether that's in communications or even as we scale the solid rock motors.

**Operator**

Our next question comes from the line of Peter Arment with Baird.

**Peter J. Arment**

*Robert W. Baird & Co. Incorporated, Research Division*

Nice results. Chris, regarding the Golden Dome and SDA, you've been very successful in all the SDA kind of programs that you highlighted and another great win in December. But how do we think about kind of the total opportunity? Or can you quantify kind of what Golden Dome looks like for L3Harris when we think about that?

**Christopher E. Kubasik**

*Chairman & CEO*

Absolutely. Golden Dome was set up as part of an executive order probably about a year ago today. We've been tracking as you have, all the progress under general group line and setting them up as a DRP and the budget. \$155 billion of reconciliation money, which contains \$25 billion just for Golden Dome. So when you look at the 3 pieces, there's space-based interceptors, which I think will be the slowest to develop over time and probably began with development programs. We are taking a merchant supplier approach with space-based interceptor. We have some great technologies that everybody wants.

And I think part of our strategy and the portfolio allows us to prime sub or via merchant supplier. So that's how we're going to play in that. We talked about the actual satellite architecture. I think we're in a really good position as evidenced by what we've won to date, as you said, Peter, and we just need to wait for more awards and more RFPs. I think the government shut down, as we said, probably set back the space force 45 days or so, but they did come out with an architecture. We have our capabilities, and we'll be ready to respond quickly. Again, we've invested. We built the facilities, and we have state-of-the-art modern factories to crank out these satellites at the right time.

And then everything else under Golden Dome, a lot of this deals with the missile defense and the interceptors, which I think we've covered under the THAAD, PAC-3 umbrella. We also have hypersonic capabilities and large solid rocket motors as well. So I believe we're in really good shape relative to each and every piece. And we have the capabilities. We can go fast, as Ken said, and we're just ready to get some awards and respond to some proposals.

**Operator**

Our next question comes from the line of Sheila Kahyaoglu with Jefferies.

**Sheila Karin Kahyaoglu**

*Jefferies LLC, Research Division*

I wanted to ask another business question. You mentioned international tactical comms in your prepared remarks. How robust has that growth been in '25 and expectations over the next few years? And how are you balancing the domestic side of tactical, just thinking about the multiyear outlook there?

**Christopher E. Kubasik**

*Chairman & CEO*

Yes. No, thank you, Sheila. I'm glad you asked the question. We still think we have the best and only resilient com capability. It's going to be critical to the future of warfare. On the international, you read a lot about it. We continue to win a lot of business in 2025. We think we're going to continue to win some business in '26. We're in discussions with a lot of countries around the world. And you have to balance all the political rhetoric with the operational needs. At the end of the day, these countries need resilient comms, and they need interoperability.

Our strategy has been and is actually increasing with more and more localization. We utilize in-country partnerships. We're making investments in country. We're transferring technology as appropriate. And we will have more international software-defined radios in 2026 than we will in 2025. So that's growing on that front.

Domestically, there's a lot being reviewed mainly by the Army. I do like the fact that they're running experimentation, they're doing demos, and they're going to make the decision based on the capability. We continue to believe we have the best capabilities by far. Again, our radios are software-defined. So we've been investing and upgrading them with new capabilities.

And look, at the end of the day, the soldiers want to carry 1 radio. We don't want to go backwards where people are carrying 2 or 3 or 4 radios. So the fact that we have the software-defined radios is a huge advantage for us. We've invested in the past. We've leveraged the commercial business model. We can scale, and we have a state-of-the-art factory in upstate New York. So I'm optimistic about the future.

**Operator**

Our next question comes from the line of Gautam Khanna with TD Cowen.

**Gautam J. Khanna**

*TD Cowen, Research Division*

Just following up on the last question. As we think about some of the things that did not get funded as well in the '26 request, things like Armed Overwatch and some of the U.S. military radios. I'm just curious, do you anticipate that we'll start to see some of that stuff get funded in the '27 request? Do you have any

indication either way? And then just as a follow-up, obviously, the compare on margins, there were some asset gains in 2025. I'm just curious if you could talk about sort of what's driving the margin improvement in 2026.

**Christopher E. Kubasik**  
*Chairman & CEO*

Yes. Thanks, Gautam. We don't actually have insight into the '27 budget, as you would expect. But if it is, in fact, going to be \$1.5 trillion, I got to believe that the needs for, like I've said, the space sensing, the resilient comms, kinetic effects and such are in our sweet spot, and these will, in fact, be funded.

Finding the budget as it relates to these HMS software radios is on a variety of different line items. Again, we feel that our hardware is needed, that our capability and the network is needed, and we're willing and able to compete with any and all newcomers and incumbents to prove our capabilities. So I'm feeling pretty good about the potential there, but we need to see how this plays out over the next several months.

**Kenneth L. Bedingfield**  
*Senior VP, CFO & President Missile Solutions*

And to the second part of the question, Gautam, I would say as a part of our strategy and including LHX NeXt, and how we do things differently and most efficiently, we've certainly been focused on investing in the business where we see future opportunities and growth. And as a part of that, where we see some product lines that are, I'll say, legacy or that we're not investing in that are less core to our strategy and our growth, we've focused on trying to monetize some of those, for other folks who may see those as more attractive in terms of longer-term sustainment tails or what aligns better with their business model.

In terms of 2026 margin improvement, I largely see it falling on to our team to deliver on our programs and our product deliveries. We're not projecting a lot of product line sales or gains relative to that in 2026. This is going to be about execution, product delivery, program delivery. And that's how we plan to get to that increased margin in '26. I think we've got confidence.

We're projecting to be, I think, positive EACs for 2025, and that puts us on a good trajectory for '26. I think we've gotten some program challenges understood and behind us, and we've stabilized a few programs that we had been quite frankly, challenged with in parts of '24 and into '25. So feel good. I think we got the right team, and we can deliver on those commitments largely by performing on the business, performing on our programs, getting the product delivered and getting to our low 16% margin rate in 2026.

**Christopher E. Kubasik**  
*Chairman & CEO*

I'll just clarify in my comments, I talked about LHX NeXt finishing a year early. That was a top-down approach, as you know, for 2 years to take out significant over billions of dollars of cost to streamline the business. That is now part of our DNA. It's going to be embedded into our operations as part of our ongoing continuous improvement program. So the concepts and the philosophy of continuous improvement, efficiency, cost savings will continue. It just won't be called out as a separate top-down initiative. It will be into the day-to-day operations of the business. So another potential tailwind to higher margins.

**Operator**

Our next question comes from the line of Scott Mikus with Melius Research.

**Scott Stephen Mikus**  
*Melius Research LLC*

And bookings were very strong in the quarter and the year. But given the shutdown, a lot of the funding from last year was delayed and the One Big Beautiful Bill funding is yet to be put on contract. I'm just

curious where do you expect book-to-bill to come in for the year? And could you maybe parse that out by the new segments?

**Christopher E. Kubasik**

*Chairman & CEO*

Yes. I think you're right on the funding. I think right now, we're waiting for -- I think the Department of Water has to provide a spend plan for the \$155 billion reconciliation back to Congress. And then once that occurs, the money will be allocated and start to flow.

We did end the year at 1.3x book-to-bill. We generally don't guide book-to-bill, but I would think it would be at least 1.1x or larger. But again, we need to get the '26 appropriations passed. We've got to see the '27 PBR, but we feel good about it, and we always plan to book more orders and revenue. We're going to grow 7% midpoint. We're going to grow orders double digits.

**Operator**

Our next question comes from the line of Seth Seifman with JPMorgan.

**Seth Michael Seifman**

*JPMorgan Chase & Co, Research Division*

Maybe just a quick question and a clarification. I guess from the question, the CSD business and kind of healthy margin there, 25%. How do you think about the sustainability of that margin going forward? Is that a segment where given the model, there's potential for margin expansion? Or is it at a place where that's about as healthy as things can get? Or are there various pressures out there from mix or anything else?

**Christopher E. Kubasik**

*Chairman & CEO*

All right. And the clarification?

**Seth Michael Seifman**

*JPMorgan Chase & Co, Research Division*

The clarification, we talked earlier about the lower funding in the request for tactical radios. Do you, in fact, have a good sense of how everything shook out in appropriations for tactical?

**Christopher E. Kubasik**

*Chairman & CEO*

Okay. Let me take those. Yes, on CSD, the nice thing now is we have a majority of our commercial businesses in the same segment. And I think that's what unique about L3Harris. And I think Ken said it well. We have the traditional prime business models. We have the commercial business models. And then, of course, we have the high-growth top line MSL.

So yes, we are constantly looking to improve our margins. And I think with the commercial business model, with the volume and the efficiency, even the upcoming adoption and utilization of AI, there's always potential to increase on those particular opportunities. So I'm really optimistic about it, and there will be best practices shared within the commercial business model segment that has only been formed about 4 weeks ago. So there's absolutely upside in that regard.

And yes, shaking out on the 2026, like I said, there has been some reductions in some of the tactical radio line items. They are kind of peanut buttered throughout. So you have to piece them together. Some are competitive, which we plan to win. And we're still optimistic that we can grow our tactical radio business in 2026, and that is our plan.

**Kenneth L. Bedingfield**

*Senior VP, CFO & President Missile Solutions*

Yes. I'll just add maybe just a couple of things, Seth. In terms of CSD and the 25% margin rate that we're forecasting for '26, I think we certainly feel good about that in terms of, look, it's a commercial model. We invest. We bring the product forward. And we will continue to invest in that business to continue to modernize our products and ensure that they meet the ever-changing demands of the warfighter.

And as we make those commercial type investments, they certainly are -- or they do offset some of that margin as you think about that model. We certainly accommodate that within the 25%. Is there the opportunity to see some of that go up, as Chris mentioned, as we continue to modernize and continue to think about how we operate the business? Sure. But we'll also think about that as giving us the ability to continue to invest in the growth of that business.

And I think that ties into -- a bit into your question on the radios. We certainly continue to invest in modern waveforms. Certainly into the software-defined radios themselves and certainly into our relationships with partners around the globe that are able to procure U.S. radios from L3Harris that are, again, resilient and interoperable, and able to enable us to have steady throughput in the factory, even as we think about on the domestic side, reallocating some of our resources to support programs like NGC2 from HMS Manpack and COTS and then filling in the production for our international partners who really want to get their hands on, again, those interoperable L3Harris radios. So it's been a good model for us.

**Operator**

Our next question comes from the line of Doug Harned with Bernstein.

**Douglas Stuart Harned**

*Bernstein Institutional Services LLC, Research Division*

On Space, I wanted to understand a little bit more about what your production plans are ramps in Palm Bay and Fort Wayne. And then how you think about it in the context of your broader space business? You mentioned, as we know, you've been on every one of the tranches for the tracking layer. But when you look at Tranche 3, there are 3 of your peers also on there. So I'm trying to understand how you see the tracking layer evolving over time from a competitive and industrial participation standpoint, and how that ties in with your thinking about production ramps in your new facilities?

**Christopher E. Kubasik**

*Chairman & CEO*

Okay. Doug, thanks for the question. Yes, there were 72 tracking satellites awarded. I think in our meetings with the customers over the last year or so, the #1 focus is speed followed closely by scale. So we've made the investments over 200,000 square feet, as you said, in Fort Wayne, Indiana and Palm Bay. We have the capacity to quickly turn these satellites and meet the schedules and commitments that we've made to.

The supply chain is always critical in the satellite manufacturing business. I think with all this ramp, that seems to be the challenge that the entire industry is facing in getting these second and third tier suppliers, the scale and the ability to perform and meet their commitments. So we envision increased revenue in both of those factories as we start to fill them up. Looking forward to getting HBTSS for however many satellites that turns out to be. And there's a lot of work going on, Doug, in the classified arena.

So Golden Dome is starting to fill in. And like I said, we've made the investments. We have the capacity. And I think the DoW is going to look for companies that have the capacity. They don't have time to wait for people to build buildings and go from 1 or 2 demos to 18 or 36 a year. So I think the strategy has worked. And again, being a little further ahead several years back, we're perfectly positioned for this growth.

**Operator**

Our next question comes from the line of Robert Stallard with Vertical Research.

**Robert Alan Stallard**

*Vertical Research Partners, LLC*

Chris and Ken, you've laid out some pretty interesting growth opportunities ahead, but I suppose all of this is dependent on your supply chain and your personnel. So how do you feel about the capacity of the suppliers and your internal staffing to deal with this trajectory that's ahead of us?

**Christopher E. Kubasik**  
*Chairman & CEO*

I'll take first shot. Good to hear you. Personnel has not been an issue. I think we're one of the hottest companies in the defense industry for people to work for. We have a very active recruiting, both on-campus and experienced hires. So no issue filling the workforce. We are spending a lot of time with almost half of our employees being engineered engineers, how do we enable the engineers, AI-enabled to be more efficient to get more productivity -- without necessarily having to add a significant amount of people. We're using more and more robotics in our factories, including in the Missile segment as well.

On the supply chain, I think they have now seeing the demand signals where historically, they were sole providers to the entire industry. I think we're seeing 2 and 3 different suppliers out there. There's a ton of private equity money looking for things to do. And every time we meet with them, we tell them start a second, third-tier supplier for the defense industry. The world needs a lot more there. So I think it's healthier than it used to be. It got through COVID. They're investing now that they see the demand signal. And I think as a country, we're close to being able to hit on all cylinders. But as always, they have to be able to hire, they have to be able to invest and perform. And I think this administration is doing a good job setting us all up for success.

**Kenneth L. Bedingfield**  
*Senior VP, CFO & President Missile Solutions*

Yes. Thanks, Chris. And maybe I'll just comment a little bit further on supply chain at MSL, just given the rapid growth that we are projecting there. And I'll just say we've significantly matured our approach to supply chain, our supply chain organization and the relationships with our suppliers where we really are thinking about our suppliers as partners on this path that we see of growth and getting the additional capacity to our customers, and less about a vendor or a transactional type relationship.

So we're working very closely with all of the key suppliers. I would say, in that particular business, we're certainly one of their, if not their largest customers, certainly for these types of products. We certainly intend to keep it that way with the growth that we project. And as Chris mentioned, in helping our customer get the missiles they need into the hands of the warfighter. And for us, solid rocket motors into the hands of our customers, we are essentially in a race, both to get those in the hands of the customer as well as stay ahead of the competition. And we do intend to win that race and working very closely with our supply chain is a key part of that strategy.

**Tony Calderon**

Tiffany, we will now take the last question.

**Operator**

Our final question comes from the line of Michael Ciarmoli with Truist Securities.

**Michael Frank Ciarmoli**  
*Truist Securities, Inc., Research Division*

Nice results. Just Chris or Ken, a little bit more detail on maybe unwinding Aerojet and MSL now. You'll have the majority stake. In the past, you've talked about having all the capabilities or the majority of capabilities under one roof to compete as a prime. Is this still going to be the case? Or is MSL going to be a 100% merchant supplier model? And if so, were there any stipulations or conditions kind of mandated by the DoW to that end?

**Christopher E. Kubasik**  
*Chairman & CEO*

Thanks, Mike. There were no stipulations from DOW with regards to that question. They want competition. They want scale, they want speed, and that's what we that's we plan to focus on. Yes, it's interesting. I think this -- when you look at this \$4 billion-plus entity, a lot of the focus is on solid rocket motors. But we did talk about seekers. We've been investing hundreds of million dollars in developing seekers. We have weapon release. So it's kind of a one-stop shop relative to missiles, but really as a supplier.

There generally are a lot fewer new start missile programs as a prime. But if that's something we choose to do strategically, we have the ability to do it. My honest assessment is we have so much work, so much growth. We try to focus on what we do well and how we can grow the top line, the bottom line and generate cash. And we're not going to spend a lot of time getting distracted or chasing the shiny objects.

So we have more than enough work. I'm excited about the 60-plus buildings, the equipment, the robotics, the increase in the workforce. But we'll see what they need. And if we can support the customer, we always look to see and what role is best. Sometimes it's a merchant supplier, sometimes it's a prime, sometimes it's a sub. But nothing out there in the near term to focus on in that regard.

So I appreciate the last question. In closing, 2025 was our best year ever. We reinforced the durability and alignment of our portfolio, the strength of our execution and the discipline of our strategy. We took deliberate actions at the beginning of this year to evolve and position ourselves for the future.

As we build on the momentum from 2025, we enter the next phase as the industry's most focused, agile and resilient company, confident in our ability to drive sustainable growth, deliver strong results and to continue to create long-term value for our customers, shareholders and employees.

I want to thank you all for joining today's call. We look forward to seeing you on February 25 at our 2026 Investor Day in New York City. Till then, stay safe and warm. Thank you.

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