

24-Jul-2025

L3Harris Technologies, Inc. (LHX)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to the L3Harris Technologies Second Quarter 2025 Earnings Conference Call. At this time, participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. As a reminder, this call is being recorded.

It is now my pleasure to introduce your host, Dan Gittsovich, Vice President, Investor Relations. Please go ahead.

Daniel Gittsovich

Vice President, Investor Relations, Strategy and Corporate Development, L3Harris Technologies, Inc.

Thank you, Sylvie. Good morning and welcome. Joining me this morning are Chris and Ken.

Earlier today, we published our second quarter earnings release detailing our financial results and increased 2025 guidance, along with a supplemental earnings presentation available on our website. We will also file our 10-Q later today.

Today's discussion will include certain matters that constitute forward-looking statements. These statements involve risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please reference 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, I'll turn it over to Chris.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning, everyone. Our opportunity set is more robust than it's been in decades, driven by increased global threats, requiring speed, capability and modernization. These dynamics are unfolding across both US and international markets, creating a significant opportunity for companies that can move fast and deliver on time. L3Harris is uniquely positioned to lead in this environment. Our Trusted Disruptor strategy keeps us agile, and after investments in the business along with acquisitions and divestitures, our portfolio is aligned with our customers' mission critical priorities, enabling us to execute with a sense of urgency as we head into the second half of the year.

Over the last few months, I've had several meetings with senior DoD leaders, and one message is consistent and clear. Companies that deliver on schedule will be rewarded with new opportunities, such as Golden Dome and missile capacity expansion. I'm proud to say we're doing just that. For example, on F-35, our systems are ahead of need and we are off the critical path for combat capable TR-3 aircraft.

Turning to LHX NeXt savings, we set a goal of taking out \$1 billion of cost over a three year period, and we're currently tracking 40% ahead of that target and a year earlier than planned, putting us on track to achieve our 2026 margin target. At Aerojet Rocketdyne, integration is complete and we've doubled deliveries, we've doubled production rate, and we've reduced the cost of poor quality since the acquisition. This performance gives us and our customers confidence and positions us as a dependable partner.

Our second quarter results underscore strong execution and represent an inflection point for our business. We posted our highest organic growth in six quarters and achieved a record book-to-bill of 1.5x. Clear evidence of the momentum behind our strategy and the alignment of our portfolio with the future of warfare.

In May, the administration released its full fiscal year 2026 budget request, calling for about \$1 trillion in national defense funding, including \$155 billion signed into law through the recent reconciliation bill. The budget is focused in areas where we are well positioned. We're seeing accelerated investments in space-based architectures, missile systems, autonomous platforms, and software-defined capabilities, all core strengths within our company.

The Golden Dome initiative is a leading example of our alignment with US national security priorities, and momentum is building. Congratulations to General Guetlein on his confirmation as the direct reporting program manager of Golden Dome accountable for delivering key capabilities of this system within three years as a direct report to Deputy Secretary of Defense, Feinberg. His appointment marks an important milestone for one of the most consequential Homeland Security initiatives in our history. And we're excited to see a proven leader in place.

At L3Harris, we've been preparing for this eventuality. As we shared on our last call, our ability to detect hypersonic threats as a critical component of the Golden Dome architecture. We're preparing to deploy a full constellation of 40 to 45 proven HBTSS satellites in a timely manner. This isn't a coincidence, as we've invested in Florida and Indiana to scale up space sensor manufacturing and payload integration. We're ready to deliver the HBTSS constellation called for in the executive order.

Moving to ground based interceptors, our propulsion and divert and attitude control systems support nearly every US interceptor program in development or production. We are rapidly scaling solid rocket motor manufacturing to meet the nation's urgent demand, and this effort carries additional personal urgency. I made a commitment to the Deputy Secretary of Defense and the Undersecretary of Defense to increase capacity and accelerate deliveries, and I intend to keep it. In partnership with Governors Sanders and Youngkin, we're investing in Arkansas and Virginia to increase solid rocket motor deliveries and drive record production levels. We're not waiting, we're responding to the clear demand signals and delivering now.

Internationally, the outlook remains robust. NATO members are now targeting defense spending increases to 5% of GDP with much of that investment focused on restocking and modernization. This shift is already translating into meaningful orders for L3Harris and supports sustained medium to long term international growth for us. A great example, we recently secured software defined radio awards from the German and Czech Armed Forces, the type of wins that would not have been likely a decade ago. This represents not only alignment with Allied modernization priorities, but also instances where we're replacing indigenous providers. A direct result of our resilient, interoperable, battlefield proven technology and expanding global footprint.

With this backdrop, the right strategy, an aligned portfolio, strong demand, operational momentum and solid financial performance, we are highly confident in our ability to achieve our 2026 financial framework. We also see a clear path to profitable growth beyond 2026, driven by our alignment with long term defense priorities both in the US and globally.

With that, I'll turn it over to Ken.

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

Thanks and good morning, everyone. We are at the onset of a generational opportunity for L3Harris, given our capabilities and positioning across key discriminating technologies. Let's talk about consolidated results for the second quarter.

Starting with orders, we had a record \$8.3 billion this quarter, resulting in a 1.5x book-to-bill. Revenue was \$5.4 billion, reflecting strong organic growth of 6%. This growth was driven by new programs ramping and increased demand across all segments. Segment operating margin was 15.9%, up 30 basis points, marking the seventh consecutive quarter of year-over-year margin expansion. Non-GAAP EPS was \$2.78, up 16% year-over-year, and on a pension adjusted basis, EPS was \$2.42, up 22% year-over-year. Free cash flow was \$574 million, driven by increased operating income and improved working capital performance.

Turning to the segments' second quarter results. CS delivered revenue of \$1.4 billion, up 2%, driven by increased demand for resilient communication equipment and related waveforms. Operating margin remained solid at 24.4%, reflecting higher domestic volumes and LHX NeXt driven cost savings.

IMS revenue was \$1.6 billion, up 6% organically, with an operating margin of 13.2%, up 120 basis points. Revenue increased due to the ramp up of several classified ISR programs. Operating margin increased due to the monetization of legacy end of life assets, partially offset by an unfavorable EAC adjustment from the resolution of a subcontract matter related to lower utilization on the Canadian Maritime Helicopter Program. Execution performance on the program was strong. However, payment was tied to customer mission cadence, which was well below original bid expectations. The contract is nearing completion and we do not expect to see more negative EAC adjustments.

SAS revenue was \$1.8 billion, up 7% organically, primarily due to increased volume in FAA networks and improved program performance in our airborne combat systems business. Operating margin was 12.3%, down 30 basis points due to an unfavorable mix, partially offset by LHX NeXt cost savings.

Aerojet Rocketdyne delivered strong results with 12% organic growth and a 2.0x book-to-bill. Growth was driven by improved production volume across key missile programs and new program ramps. This marks the highest revenue quarter on record for AR, driven by the unprecedented demand in the Missile Solutions business that we expect to continue for an extended period. Operating margin increased 50 basis points to 13.3% due to solid performance, LHX NeXt driven cost savings, and a favorable contract resolution.

We are always striving to improve our operations, including reassessing certain unfavorable contract positions, rationalizing non-core legacy business lines and monetizing legacy assets. An example is the action we took at IMS to exit an unprofitable legacy contract position, while at the same time monetizing associated legacy assets. The resulting impacts offset and created a net favorable position for the quarter.

Now, let me turn it back to Chris.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Thanks, Ken. As we look ahead, several milestones from the quarter highlight our momentum and reinforce confidence in our long term vision. First, we secured approximately \$200 million in orders to deliver software defined interoperable communication systems to Germany. Secure resilient communications across NATO allies are critical to operational readiness, and our systems are already delivering on that mission. This award adds to recent wins for our Falcon software defined radios, including the Netherlands FOXTROT program, along with continued momentum on the US Army's HMS programs. These wins further strengthen our market leadership in

resilient communications and our TCOM sector backlog today is almost \$3 billion, a 50% increase from a few years ago.

Turning to solid rocket motors, we broke ground on a new production facility in Virginia, including a cast and assembly center. These modular robotic enabled facilities will signify greatly increase capacity, enhance efficiency and quality, and reduce product travel time distances by 90%. This complements similar expansions in Arkansas and Alabama. It's a major step forward in building out the defense industrial base and reflects the progress we've made in the short time since integrating Aerojet Rocketdyne.

Demand for solid rocket motor production continues to rise, driven by global conflicts. Our Aerojet Rocketdyne Missile Solutions business grew 15% in the quarter and is up 16% year-to-date. Growth we view as durable and likely to continue for decades. Demand is exceptionally strong and we see significant opportunities for further investment in the business, expanding manufacturing capacity, increasing the workforce and accelerating deliveries to meet long term needs and to support sustained growth.

We also continue to see strong demand across our space propulsion portfolio. This quarter, we secured a major award for our 130 upper stage RL10 engines, valued at nearly \$850 million, highlighting our trusted role in enabling space launch missions. Our ongoing partnership with Palantir on the US Army's TITAN program continues to mature. The team is nearing initial deliveries on the first four AI-defined vehicles equipped with our common data links, Link 16, secure satcom and tactical Multi-domain waveforms, enabling the Army to process targeting data faster and more effectively on the battlefield.

I'm proud to highlight our engagement with the FAA's Newark Task Force, where we played a critical role in supporting Secretary Duffy to meet his goal of enhancing the resilience of our communication networks at the Newark Airport. Our efforts were pivotal in upgrading the telecom infrastructure, ensuring robust and reliable communications for one of the nation's busiest airports.

And in the airborne domain, we delivered our second missionized Global 6500 for ISR to the Army, reinforcing our position as the world's leading bizjet missionization provider. With over 100 aircraft delivered and 14 currently under modification, our platform agnostic approach and speed to field capability continue to differentiate our offerings. Together, these awards and infrastructure investments reflect the common theme, we are accelerating the deliveries of agile, proven solutions to address current and future threats.

Back to you, Ken.

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

First, an update on LHX NeXt, then I'll move into guidance updates. The current phase of the LHX NeXt program is focused on enterprise transformation, deploying the LHX operating system, digitizing core business processes, and embedding AI-enabled tools across the business. These initiatives are not only improving execution and decision making, but they're also building a more scalable, efficient foundation for growth. We're already seeing results from improved operational performance to new business wins, and we expect these transformation efforts to drive sustained revenue growth and cash generation over the long term.

Turning to guidance updates for 2025. Our increased guidance reflects our strong first half performance and improved outlook for the rest of the year. For the total company, we are increasing revenue guidance by \$200 million, expecting strong organic revenue growth of 5% for the year. We are maintaining and are increasingly confident in our segment operating margin guidance of mid to high 15% supported by continued LHX NeXt cost savings and confidence in strong program execution.

Non-GAAP EPS guidance reflects a \$0.40 increase from strong first half operating performance and a higher revenue outlook, partially offset by a \$0.30 headwind from recent tax reform. While eliminating the requirement to capitalize and amortize R&D expenses, it has some near-term tax rate headwinds. As a result, we are raising our non-GAAP EPS guidance by \$0.10.

We are increasing our free cash flow guidance to approximately \$2.65 billion, an increase of \$200 million from a combination of operating performance and tax reform. Cash tax benefits from tax reform will continue and also drive an increased free cash flow outlook in 2026.

At a segment level, IMS revenue guidance increased \$100 million, reflecting strong performance in the ISR sector. Operating margin is now expected in the 12% range, up from the high 11% through improved program performance and LHX NeXt savings. We are increasing our revenue guidance for SAS by \$100 million, reflecting an improved outlook in space. Operating margin is expected to remain in the low 12% range. And we are reaffirming guidance for CS and AR.

Given our strong performance and this generational opportunity in defense spending growth, that we are uniquely positioned to capture, we are also updating our 2026 outlook. On Investor Day in 2023, we set our financial framework at \$23 billion in revenue, 16% segment operating margin, and \$2.8 billion in free cash flow. We continue to expect \$23 billion in revenue for 2026, reflecting 6% growth year-over-year. And we previously updated that we expect margin in the low 16% range. Now, while investing in key locations like Indiana, Arkansas, Virginia and Florida to fuel future growth from Golden Dome and rocket motor capacity increases and staying aligned with our customers' mission critical needs, we're also raising our 2026 free cash flow guidance to \$3 billion, a 13% increase year-over-year with even stronger free cash flow per share.

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

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Before we turn to questions, I want to take a step back and frame where we've been and where we're going. It's clear how far we've come. Over the past several years, we've reshaped the company through internal investments, strategic acquisitions and divestitures, building a portfolio squarely focused on national security. We've also deepened partnerships across the government and industry to accelerate innovation and mission outcomes. Our Trusted Disruptor strategy and culture is delivering and has positioned us at the right place at the right time.

We're uniquely aligned to the national security priorities of the US and its allies, whether that's resilient communications, space superiority, or replenishing and modernizing critical missile systems. The awards and milestones this quarter reflect that alignment and will meaningfully contribute to growth in the years ahead.

We've also crossed an important operational inflection point. With strong top line momentum and expanding margins, we're executing well across a diverse portfolio, delivering strong performance even as we take on increasingly complex missions.

Looking ahead, we expect consistent top line growth with industry leading margins and increasing free cash flow per share. From 2023 through 2026, our free cash flow per share will have a CAGR of 15%. We are well-positioned for sustained profitable growth over the long-term and we'll remain disciplined in our capital allocation. You can expect more details on our forward outlook at our next Investor Day to be scheduled in Q1 of 2026.

Sylvie, let's go to the Q&A, please.

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. We will now be conducting a question-and-answer session. Please limit to one question per person. One moment please while we poll for questions. Thank you.

And our first question today comes from Richard Safran at Seaport Research Partners. Please proceed with your question.

Richard Safran

Analyst, Seaport Research Partners

Q

Thanks. Chris, Ken, Dan, good morning. I have a two part LHX NeXt question. First, I thought you might explain the comment released about monetizing legacy end of life assets. I assume that's part of LHX NeXt and footprint reductions, but I thought maybe you'd correct me if I'm wrong there. Second, given your opening remarks from both of you, could you discuss a bit more about how much runway you have left on LHX NeXt cost reductions? I'm wondering if footprint reductions also are going to continue to be part of that. Thanks.

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

A

Yeah, thanks for the question, Rich. Let me focus on the asset monetization first and the footprint aspect of the question. From my perspective, I think this is really about looking at our portfolio where we are investing and where we see kind of the areas of strategic growth. And as we look at that, we do see a couple of areas where some of the product lines don't necessarily align with the areas of growth that we're investing in and really focused on. And as we see that, we look to monetize those product lines. Think of it as taking future revenue and pulling it forward a little bit. So, I think we've done a good job of that. And in terms of the footprint that's I would say more of a tangential benefit, certainly it's really about the strategy and future growth, but as we exit this product line, it will create an opportunity for us to repurpose that footprint into areas that are growing and align with the strategy.

On the next question on LHX NeXt, look, we'll continue to drive cost savings. We'll continue to drive facility consolidations and really focus on that. It'll become more of kind of our ongoing effort of operational improvement, what we call E3. But the LHX NeXt program from an implementation perspective will largely be through the system by the end of 2025.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

I'll just add on that. Yeah, Rich, just on the product line, it's really all about management focus and I want the team focused on things that are going to move the needle for our customers and shareholders. So, these are really small, immaterial product lines that have better owners, in our opinion. So we effectively are monetizing today what would have been immaterial amounts of revenue, OI, and cash over the next several years.

And I agree with Ken on LHX NeXt, we'll hit the 1.4 or greater cost savings by the end of the year. We'll declare victory on the program and make it part of our normal business cadence all while transitioning to the transformation of the company and having more of a digital ecosystem to get timely, accurate data to make our decisions. So that's how I see the future played out on LHX NeXt.

Richard Safran*Analyst, Seaport Research Partners*

Thanks to both of you. Appreciate it.

Q

Operator: Next question is from Ron Epstein at Bank of America. Please proceed.

Ronald J. Epstein*Analyst, BofA Securities, Inc.*

Yeah. Hey, good morning, guys. Thanks. Just wanted to follow up with a question on the international opportunities that you both referred to in your prepared remarks. Given the increased defense spending in Europe, what impact do you think that will have for you guys? And what opportunities are out there or kind of outsiders looking in, can we kind of keep an eye on?

Q

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

Yeah. Thanks, Ron. We're seeing solid growth internationally. We've always had about 20% of our revenue from our international customers in Europe. As I mentioned in my prepared comments, we're seeing a lot of opportunities really focused on the telecommunications, the software defined radios in countries that historically went to their indigenous providers. So, the importance of interoperability and resilience and security is making a huge difference. Our business jets, missionized business jets, we have opportunities in the Far East and also in Europe as well, so that continues to be a growth market for us. And then, of course, the Mid-East, whether we're a prime, a sub or a merchant supplier, we do get the benefits, especially with the missile production as a subcontractor go into the Mid-East and other parts of the world. So we feel very confident about our international growth, and I think it's reflected in today's results.

A

Ronald J. Epstein*Analyst, BofA Securities, Inc.*

And then, Chris, if I may as a follow on, do you think you need a bigger footprint in Europe? I mean, one of the things that we've heard discussed a lot from the European allies is just they want kind of more sovereignty. How do you think about that strategically for the company?

Q

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

Yeah, well, I mean, our strategy, Ron, has been to partner and bring the best of breed to our customers. So, while we have a footprint of employees and infrastructure in certain countries, the partnership model seems to work best. And we've had great success working with other defense and technology companies around the globe. And again, we're not averse to subcontracting to them, but more times than not, we're the prime and we put them on our team. So that's how it works. In Mid-East, we have a little more of a presence, because they like to have the technology transfer in the footprint. But we're agile and we kind of read country by country what needs to be done. If you recall, two years ago, we opened a factory in Poland for that very reason. So, we're happy with the strategy so far, but can adjust if needed.

A

Operator: Thank you. Next question will be from David Strauss at Barclays. Please proceed.

David Strauss*Analyst, Barclays Capital, Inc.*

Q

Thanks. Good morning. Thanks for taking the question. Chris, the growth and margin improvement that you predicting for forecasting for 2026, could you kind of rank by segment where you would expect to see the most growth kind of highest, the lowest, and then same from a margin improvement standpoint? Thanks.

Kenneth L. Bedingfield*Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.*

A

Yeah, David, it's Ken I can – I'll take that question. From a growth perspective, I think we're seeing growth across all four segments. I think we expect that to continue largely. But if you wanted to rank them right now with the demand we're seeing at Aerojet Rocketdyne, especially around solid rocket motor production and some of the contracts that Chris mentioned that we've signed for space propulsion, Aerojet likely would be the fastest grower. As we look at opportunities like Golden Dome and SDA Tranche 3 that we've responded to an RFP for, certainly SAS will be a strong grower, CS as it looks at continued international opportunities, and then IMS as well. So maybe that's the way to think about it, but solid growth opportunities across all four segments.

In terms of margin improvement I think really it comes down to continuing to integrate the benefits of the LHX NeXt program as well as solid program performance burning down risk on programs just performing well. And I think we're seeing that we're on a good rhythm in terms of delivery. I think it's having a couple benefits. Number one, I think it's really given the customer confidence and providing new awards and new opportunities for L3Harris. You're seeing that in the over \$8 billion of awards in the quarter as well as the solid book-to-bill. But it's also yielding itself in terms of good margin outcomes. So, kind of a win-win, and we expect that that to continue into 2026 with the low 16% margin rate.

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

And David, the commercial business model is a big contributor to our industry leading margins. And each and every segment is looking in conjunction with the DoD's desire to go faster, add more and more commercial acquisition models. So I think it's going to be a matter of which segment, which programs we can transition to more of a commercial model quicker. And that should drive the higher margin sooner. So, I think it was December 2023, we said each of the segments would grow the margins 100 basis points. We've either achieved that or tracking to that. So very proud of the team to get over 16% so quickly.

Operator: Thank you. Next question will be from Myles Walton at Wolfe Research. Please proceed.

Myles Walton*Analyst, Wolfe Research LLC*

Q

Thanks. Good morning. Chris, how quickly can you get the HBTSS Constellation contract under contract and does that become revenue in 2025? And then for Tranche 3, I think there is an October decision for that outcome. Is your 2026 confidence hinge on winning that or does the 2026 sales guidance, you have confidence even without winning Tranche 3. Thanks.

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

Yeah, thanks. Thanks, Myles. On HBTSS, as you know, the General was just confirmed. He's talking about doing a 60-day study to refine the architecture. So we'll await an RFI or an RFP to see how quickly they're going to

move. I think, given the fact that this was the only program highlighted in the executive order, we'd be hopeful that we could get something under contract by the end of the year, and maybe that contributes a little bit of the revenue for 2025 and clearly a fair amount in 2026.

T-3, it's hard to pull out one particular program and we manage more of a portfolio. But clearly we're going to make our 2026 framework, we're assuming we're going to win T-3, if we don't, we'll still find a way to get to 2026 framework. We are proud of the fact that we've had a couple of years of meeting our commitments one way or another. So, we manage the portfolio and as you said the proposals have been submitted, we're waiting for an October award. There will be three winners, I think, based on our performance, based on our cost, based on the customer's confidence and us being able to deliver on time, I'd be disappointed if we don't win that.

Operator: Thank you. Next question will be from Noah Poponak at Goldman Sachs. Please proceed.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

Hey, good morning, everyone.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning.

Noah Poponak

Analyst, Goldman Sachs & Co. LLC

I wondered, given the strength in the bookings in the quarter, I wondered Chris and Ken, if you could talk about how you expect bookings to trend through the rest of the year. I know kind of to the prior question and some others there, there's maybe some binary-ish things in there, but just curious to hear you talk through it. And then I guess given the bookings in the quarter and the last year or two and the Golden Dome opportunity, are there, is at least in the scenario analysis, that the growth rate breaks out from the 4% to 6% that you kind of have been talking about for this year, and that's implied by the \$23 billion next year, it seems like the Golden Dome opportunity could be an accelerant to that. Thanks.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah, I'll go first and then ask Ken to add a little more. Yeah, clearly, there's a ton of opportunities. We try to secure as much business as we can as quickly as we can, 1.5x is a record, I think they'll be hard to repeat in Q3 and Q4, but we have pretty good visibility and hope to be well over 1x in both of those quarters. And single large awards like T-3 or HBTSS, which could be multi-billion dollars, some of the missionization on business jets in the Mid-East or the Far-East. Again, billions of dollars of awards can move that pretty, pretty quickly. And to the extent you deliver on time, which has been our focus, it does help with the revenue recognition. So, yeah, I would hope we could potentially do more than 4% to 6%, I don't know if I'd call it a breakout, but we're highly motivated and as I said, the customer wants to reward and allocate work to companies that are delivering and we're delivering, and I expect our backlog to grow by the end of the year, and also expect that our revenue will look strong for the foreseeable future.

Ken?

Kenneth L. Bedingfield*Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.*

A

Yeah. I agree with what Chris said and from a book-to-bill or awards and backlog perspective, no, I think we're looking at a solid second half from an awards perspective. Awards are probably the hardest thing to predict in terms of timing, but certainly in terms of the number of opportunities we see in front of us, I think we're going to have a solid book-to-bill in the second half of the year. And as Chris mentioned, we should have growing backlog through to the end of 2025. So feel really good about how we're positioned. And I agree with Chris I think looking at the opportunities in front of us, it does give us, again, confidence to that \$23 billion. No single order or single award is key to hitting that number given the diversity of our portfolio. I think if a couple of things go in the right direction, we certainly got the opportunity for driving some outsized growth, not just in 2026, but as we look forward for some period of time.

Operator: Thank you. Next question will be from Douglas Harned at Bernstein. Please proceed.

Douglas S. Harned*Analyst, Bernstein Institutional Services LLC*

Q

Good morning. Thank you. On the bookings, the \$8.3 billion. Can you give us a picture of what the major pieces of that were and how that breaks down segment, given it was a big number this quarter.

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

Yeah. Good morning. Good morning, Doug. I can tell you each and every segment was over 1.0x, Aerojet almost 2x book-to-bill. SAS close behind and IMS and communications were kind of in that 1.1x to 1.3x range. So it all added up to a 1.53x book-to-bill. I'll ask Ken to maybe highlight a few of the big wins, but it was not one particular item, it was just across all 14 sectors. And yeah, you can go through the details.

Kenneth L. Bedingfield*Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.*

A

Yeah. Thanks, Chris. Appreciate it. And Doug, I would say, again, strong book-to-bill across all the segments. If you look at Aerojet with 2.0x book-to-bill, solid orders in both the missile solutions business as well as space propulsion. At SAS, really strong orders in mission networks and the work it does with FAA, and solid positioning for growth in airborne combat systems sector. IMS had strong orders at ISR as well as maritime, and then CS again we continue to see strong orders from an international perspective. I think Chris mentioned a couple, Germany and Czech Republic. So really solid performance across the board. And I think maybe more importantly, all of those orders are very aligned to the areas that we're investing in and driving the strategy towards from a growth perspective.

Operator: Thank you. Next question will be from Robert Stallard at Vertical Research. Please proceed.

Robert Stallard*Analyst, Vertical Research Partners LLC*

Q

Thanks so much. Good morning.

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

Hey, Rob.

Robert Stallard

Analyst, Vertical Research Partners LLC

Ken and Chris, just wanted to follow up on Chris' comments earlier about the customer wanting to go faster and all that. Is this coming with an embracement of risk that's appropriate? I mean, are you signing up to contracts that are perhaps a little bit racier than you perhaps would like if things weren't going so fast?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah. Thanks, Rob. I can assure you, we're not signing up to things that are riskier, racier, if that's what you said. No, there's a desire to go fast for the customer. A lot of these awards are a follow on awards change orders to existing contracts, a lot of classified work in ISR and space this quarter. And it seems like the new administration with their great business background understands business maybe better than prior administrations. And we're receiving cost plus contracts where appropriate and fixed price contracts when we move into production. Not a lot of desire to lock in long term fixed priced options for development programs that haven't been developed. So I find them so far to be quite reasonable and kind of enjoyable to work with. So somewhat refreshing in my experience.

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

Yeah, I'll just add from a contracts perspective, Rob. Moving faster doesn't necessarily mean taking more risk. I think the business deals that we're working on, we work closely with the customer. We've got a great contract team that I think negotiates good deals for us and make sure that we're thinking about the risk and making sure we sign up for the right statement of work. So, I think all of that is moving well on that front. And we're, I think this is really something that L3Harris is built for. I mean, we're able to manage risk, move fast. I think we've got more agility we've got smaller teams that look at these things, really make sure they align with the strategy, they align with our profitable growth plans. Certainly we take risk in certain areas and we work to offset that with operational performance and other parts of the portfolio. But I think it's all hanging together really nicely. And I think our risk profile as I look forward is as appropriate.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah, a lot of this comes from the basis of estimate and we've now after several years since the merger of L3 and Harris, have been able to build up some data to do a little better job with our parametric modeling and such and using AI and our digital backbone. So, we're getting better and better data to base our bids on. So, if you get the bases of estimate right, whether it's the hours or the subcontracts, it's going to make it easier to perform and make money. And that's what we're doing. We're submitting bids based on what it cost. And in some cases or a lot of cases we're winning and in some cases we're not, but we're not going to bid bad deals knowingly just to grow market share.

Operator: Thank you. Next question will be from Sheila Kahyaoglu at Jefferies. Please proceed.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Good morning, Chris and Ken. Chris, really appreciate the color around the strategy. Any way you could quantify maybe just specifically TDL and Aerojet hitting their stride with Aerojet having the highest revenue quarter. How

does that contribute or accelerate 2026 growth? And on Aerojet specifically, just increases in production, how are you thinking about the business over the next five years and the biggest growth drivers for Aerojet?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

All right. Well, thank you, Sheila. I'll say on both these acquisitions that we made in 2023, TDL and Aerojet are exceeding the business model that we built to approve and get our board of directors to approve these acquisitions. I'll give a little insight on TDL and ask Ken to talk about Aerojet and Rocketdyne. But on TDL, which you don't see the visibility, it's within the CS segment. Since acquiring them in January of 2023, the revenue has been upper single digits so both accretive to CS and accretive to L3Harris. The margins as a result of the cost synergies and consolidating the facilities in Salt Lake City, streamlining and improving the roll throughput yield and the production capability are almost at the CS segment level, so very high margins, especially on the commercial business model again. And the cash has been very strong, not even considering some of the tax benefits as a result of the way the transaction was modeled. So, as we go into a year, two-and-a-half year, we're very pleased with TDL. And again, part of that upside has been our success in getting Link 16 in the space, which had never been done before. And I think that's huge opportunities as these various comms and transport layers under Golden Dome evolve in the years ahead.

Ken, do you want talk about Aerojet Rocketdyne?

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

A

Yeah. Thanks, Chris. Yeah, from an Aerojet Rocketdyne perspective, Sheila, I would say there is just a significant amount of opportunity. And it does take investment, this is a long cycle kind of capital intensive business. I mentioned that Aerojet Rocketdyne should be the fastest grower as we look kind of 2026 and beyond. Missile Solutions is certainly a big part of that. And if you look at where we're investing we were, we did work with the government to get some Defense Procurement Act funding for programs like Javelin, Stinger and a couple others. So, we see growth in the near term, certainly in the tactical motor side, from an interceptor perspective we're on PAC-3, standard missile, and THAAD. And we're seeing growth and increased demand on the interceptor level and some of that could potentially accelerate as those are a part of the Golden Dome opportunity.

And then long term, we've been investing, we've talked about large solid rocket motors supporting programs like Sentinel, some classified programs, next generation Interceptor as well as Glide Phase Interceptor, which is technically a medium sized motor. But I would throw it in there as well as the business we have supporting Missile Defense Agency for targets that we think would be a grower related to Golden Dome and testing some of those new systems. So even within Aerojet Rocketdyne, it's a diverse portfolio. I think they're positioned very well across key and what are important missile programs and certainly those that are seeing increasing demand from the customer and we expect to drive growth for a decade or plus in some regards.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. So we're going to try to get to \$5 billion of revenue by the end of the decade. That's our aspirational goal. I think we have pretty good visibility into that. I will say when I meet with the primes and the end customers, there's no doubt nobody disputes that we have by far the best technology in this market, and I think that's been a differentiator. You heard me say we're on pretty much every interceptor in the US, whether it's in development or in production, the large solid rocket motors, I mean, we're pretty much have each and every one of those in our portfolio already. So huge, huge opportunities. Again, at the end of the day, it's about delivery and scale. You

didn't ask about the new entrants. We continue to meet with new entrants we look to partner. We welcome the competition, but when you look at the investments we're making that the primes are making and the government's making in less than two years we're going to have the facilities, the equipment to ramp up and it's going to take others half a decade or more to get there. So, I feel very, very confident that this was a good acquisition. We have a great team running it and a highly motivated workforce and couldn't be more proud of what we've done and what we're going to do in the future.

Operator: Thank you. Next question will be from Gautam Khanna at TD Cowen. Please proceed.

Gautam Khanna

Analyst, TD Cowen

Yes, good morning and great results.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Thank you.

Gautam Khanna

Analyst, TD Cowen

I have a two part question. In the President's budget request, you may have seen the military radio line items were a little bit softer in 2016, likewise Armed Overwatch and some others. I wanted to get your perspective on what the growth rate might be beyond 2026 for tactical radios and some of those other areas with the backfill from foreign or otherwise. If you could just give us some framework to think about that.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah, great. Great question. So we'll start with the radios. I'll let Ken talk about Armed Overwatch. But first of all, it is the 2026 PBR, so this is the first step of multiple step process. So, we noticed what the cuts in the HMS and the COTS line, those two line items but there's quite, quite a long way to go through the process to see where that ends up. And historically customers weigh in, members of Congress weigh in, and ultimately the end users weigh in. And so we'll see how that plays out. But when you look at the actual numbers, we're comparing two line items known as HMS and COTS to the same two in 2026, but there was a third line item added called NexGen Command and Control or NGC2. So I kind of look at those three as the telecom and the radio line items and those are on a combined basis, several hundred million more than 2025.

So, the question is what, what is in NGC2, and as we've looked at it, there is clearly a transport layer where we believe our software defined radios and our network capability and architecture capability can meet those needs and continue with the modernization. So, I think a lot of the modernization that needs to continue, we're just talking US domestic is embedded within that NGC2, and our teams are looking at how best to proceed. So, we'll monitor the situation, but we'll let you know if that plays out. I don't see this as being a significant headwind based on our performance and based on our capability. And of course, international, we've already covered – we have great opportunities there as well. So, in total, tactical comms, radios or TCOM sector continue to see growth for the foreseeable future. Haven't even mentioned the waveforms and some of the other product sales that we have with much, much higher margins.

Ken you want to talk about Armed Overwatch?

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

A

Sure. Yeah. Thanks, Gautam. From an Armed Overwatch perspective, I would say we did see that there's a dip in quantities in I think it's 2026. No concerns from our perspective. And I think a couple of things. It's a long cycle program. It doesn't impact our production flow. We've got plenty of aircraft in order and I think we've got a good delivery cadence on that. And maybe more importantly, we're seeing a fair amount of international opportunity for Armed Overwatch that we'll look to drive some awards for. And certainly if you think about the overall ISR business and as it rolls up to IMS, nothing in that profile from a funding perspective that would impact our ability for growth in the business. So, we're tracking it, looking to fill it in with some international opportunity.

Operator: Thank you. Next question will be from Seth Seifman at JPMorgan. Please proceed.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Thanks very much, and good morning, and nice results. I wanted to ask maybe if you could level set us on where things stand in the mission networks piece of the business within SAS, kind of how big is that now? And it's something that kind of thought of as maybe rolling off over time. But it seems like there's opportunity in the near term given FAA demand. And maybe the way that the FAA is looking to do things in the future opens up some longer opportunities as well. So, I guess how should we think about that piece of the portfolio?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah, thanks. Thanks. Good morning and thanks for the kind words. I'll pass it on to the team. Yeah, we don't talk much about the mission networks business. I mentioned a few things in my prepared remarks. Our specialty here is really on the telecommunications and the telecommunications infrastructure and specifically the migration from the older copper wire to fiber that you might have heard Secretary Duffy talk about. So we were able to successfully upgrade the Newark Airport, as I mentioned, which got a lot of press over the last several months. But there is literally dozens of other opportunities and literally thousands of sites that need to transition from, I'll just say, older technology to newer technology. And we're kind of in the sweet spot of doing that.

So, you've heard about the need for a brand new air traffic control system. We will not at this point have any interest in being the prime integrator or try to manage that whole portfolio. I think there's probably other companies that are better suited for that. We want to stay in our sweet spot, which is really the telecom infrastructure, the broadcast services and the data integration and data services. So all in I think this sector is right around \$1 billion or so isn't it?

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

A

Yeah.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

With good margins. And we would expect this to continue to grow. And it's part of our national security infrastructure supporting the US government. So it's a good business and clearly more upside today than maybe a year or two ago. So, the team really came through and did a great job.

Operator: Thank you. Next question will be from Scott Mikus at the Melius Research. Please proceed.

Scott Mikus

Analyst, Melius Research LLC

Q

Morning, Chris and Ken. Nice results. Chris, I wanted to ask about the Wolfpack announcement you guys came out with. You're effectively going to be competing with Lockheed and Raytheon two of Aerojet's largest customers. I'm just wondering, when you initially acquired Aerojet, was that something you decided to do more recently or has it been in the works for a long time? And then long term, what do you see as the revenue opportunity for Wolfpack, both domestically and internationally?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

All right, thanks, Scott. I wasn't sure I was going to get a Wolfpack question today, so I'm glad you keep up with our announcements. Yeah, this is something that we've been working on well before Aerojet Rocketdyne acquisition. It's a unique transformational capability. Launch effects is something that each of the DOD service branches need. And we think we have a unique offering that we've been developing, one of these will actually be a kinetic strike and the other will be more of EW falls in that attritable market everybody keeps talking about. And I think these are quite affordable relative to other products that are out there. So we're going to have to start small and build up there. We've had – we do have a hot production line. We've had demos well over 40 flights that are – that have been tested. And there's a lot of interest here domestically whether we can export or not to be determined. And this asset, depending which variation you get, obviously goes inside larger platforms. So we'll try to get a couple hundred million here in the next several years and see where it goes from there. But pretty innovative, pretty creative opportunity. And of course, with Aerojet Rocketdyne, it just gives us more and more synergy. Although these particular assets don't have a solid rocket motors in them. Probably all I can say from a technical standpoint.

Daniel Gittsovich

Vice President, Investor Relations, Strategy and Corporate Development, L3Harris Technologies, Inc.

A

Sylive, we'll take the last question.

Operator: Certainly, sir. And the last question will be Jason Gursky at Citi. Please proceed.

Jason Gursky

Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning, everybody. Ken, just a quick clarification question for you and then Chris, just a bigger picture one, if you don't mind. On the clarification one, has there been any change, Ken, to your expectations on how much of the LHX NeXt savings you'll pass on versus what gets captured by the customer? I think you've commented on that ratio in the past. And then, Chris, I was wondering if you could just spend a little bit more time on space. I know there's been quite a few questions on it today already, so I appreciate the color there. But I'm just kind of curious, the overall demand environment for space and any kinds of new projects that you might see or new technologies programs that you see on the horizon either here domestically or maybe even over in Europe. And whether your European capabilities are going to be something that they're going to spend money on in the space domain here. And whether companies like LHX NeXt you think might play a role in increased spending in Europe. Thanks.

Kenneth L. Bedingfield

Senior Vice President, Chief Financial Officer & President-Aerojet Rocketdyne, L3Harris Technologies, Inc.

A

Yeah, Jason, on your first question, in terms of LHX NeXt. No change of any significance from our expectation around margin opportunity. The program goes out and identifies cost savings opportunities and really make sure that we focus on kind of the run rate opportunities that will impact the longer term business. We work to generate those savings and then certainly flow it through our contract mix. We do expect roughly 30% to 40% of that to generate margin opportunity for us, and the remainder will be passed back to the customer through lower cost and essentially providing some benefit to the customer as well as our competitive positioning for winning new works. So, no change to the model. Different types of cost savings have different profiles to them. But overall, at a portfolio level, we still expect roughly about 30% to 40%.

And Chris?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah, Jason, great. Great question on space, we've highlighted this in the past as kind of a key part of our Trusted Disruptor strategy, how we've moved up the food chain. We don't really talk a whole lot about some of the things we do for NASA and NOAA, especially in the weather satellites and whether satellites have a significant military application in addition to all of us looking at our apps and the weather on a daily basis. So we actually see some international opportunities using our weather satellite technology, which is the same technology we used to innovate into the missile tracking missile warning. So, there's a lot of opportunities for us. We continue to stick with our strategy, and a lot of cases we're the prime now, which we weren't historically. We still sub on some of these exquisite GeoSynchronous satellites focused on our great antenna strategy or technology. And we're also a merchant supplier even on some of these transport using Link 16 and some other technologies that we've talked about. So, a lot of growth potential, I'll say, since the new administration, I think things slowed down, you'll see that and across the industry for the first six months as the new administration comes in place, till we wait for the confirmation, as we figure out what's going to happen with FDA, MDA, SSC and all these other customers that procure satellite. So, I think we're going to pick up some momentum here in the third and fourth quarters as the architectures are finalized. But we pretty much play in every orbital plane and every size and as a prime or sub and a merchant supplier. So, we're looking for good things out of space. And again, we're performing, we're delivering, and that's going to lead to more business.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

So, as we close today's call, I want to thank my leadership team and our employees for their continued focus, agility and commitment to the mission. More than 90% of my executive leadership team is new to the company or has taken on expanded roles in the last three years. The team brings a strong mix of defense industry experience, operational expertise and commitment to advancing national security priorities by investing in talent, technology and long term growth. We are fearless. We have the courage to defy the status quo and challenge conventions. We don't follow trends, we set them, and we're forging original paths that advance mission success. The progress we're making is a direct result of their teamwork, focus and their commitment.

So, thank you all for joining us today. And we look forward to connecting with many of you in the weeks ahead. Thank you.

Operator: Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.

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