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Earnings Call

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Call Participants

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Presentation

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2025 L3Harris Technologies Earnings Call.

I would now like to turn the call over to Dan Gittsovich, Vice President, Investor Relations and Corporate Development. Dan, please go ahead.

Daniel Gittsovich

Vice President of Investor Relations & Corporate Development

Thank you, Tiffany, and good morning, everyone. Joining me are Chris and Ken. Earlier this morning, we issued our third quarter earnings release outlining our results and our increased 2025 guidance, along with a detailed presentation available on our website. We'll also be filing our 10-Q later today.

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 the 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

Thank you, Dan, and good morning. Our position as a leading defense innovator has never been stronger. The pace of change across the ecosystem is accelerating, and we're transforming to respond with speed and agility. Our purpose-built portfolio sits at the center of a mission-critical modernization efforts, supporting war fighters across every domain for the U.S. and its allies.

As the Department of War has made clear, the nation needs to transform its acquisition processes to enable an innovative, fast-moving industrial base. The goal is to shorten decision cycles, eliminate bureaucracy, deepen collaboration and deliver more resilient, rapidly deployable solutions to meet increasing demand. These dynamics underscore the essential role of a trusted, disruptive defense partner, and L3Harris is delivering innovation when and where it matters most. We are the company that has the scale and the speed of relevance, and the right mix between established primes and new technology entrants. We continue to execute well, staying tightly aligned with customer priorities and delivering solutions rapidly. That focus is translating into results.

This quarter, we delivered double-digit organic growth, 15.9% margins, and a book-to-bill of 1.2, proof that our strategy is working. Our business growth is accelerating, and we are confident in achieving our increased 2025 guidance, exceeding our original 2026 financial framework and positioning L3Harris for durable, profitable growth well beyond 2026. We are fully aligned with the administration's priorities for developing a next-generation missile defense architecture. Our actions to date advancing our missile warning and tracking franchise, and investing ahead of demand, demonstrate that L3Harris is ready to lead.

With satellites in orbit, in production and in backlog, we are building on our proven record of designing and delivering missile warning and tracking systems across multiple SDA tranches. As new contracts are awarded, we're positioned to accelerate production and integration with work on additional satellites expected to begin soon. This progress reinforces our role as a trusted proven partner in advancing the nation's layered next-generation homeland defense network.

These efforts are the product of deliberate forward-looking investments when we have conviction and customer demand. We've expanded capacity across our space portfolio from Palm Bay, Florida to Fort

Wayne, Indiana, strengthening our ability to execute as new missions are awarded. The foundation is in place. The teams are ready and when called upon, L3Harris will deliver with speed, precision and the resilience our nation demands.

Equally important in our strength is the missile and propulsion domain. Our Aerojet Rocketdyne business continues to see exceptional demand, a reflection of both near-term restocking requirements and longer-term investments in deterrence. In particular, the demand for interceptors is exceedingly strong. We are on every major interceptor program. Standard Missile, PAC-3, THAAD, as well as next-gen interceptor and glide phase interceptor. We are looking forward to continuing to work with the Department of War to address this need. We are also on critical strategic missile program such as Sentinel, as well as certain classified programs and see those growing for decades to come.

This quarter, AR reached a record financial backlog of \$8.3 billion, the majority of which is to support the increased demand for solid rocket motors. An example of expanded production in response to growing demand is for the PAC-3 missile, where we are increasing capacity. As the sole manufacturer of solid rocket motors for PAC-3, we understand our critical role in scaling capacity across our facilities to meet the heightened and sustained demand for both U.S. and allied customers. This is a positive first step as the nation looks to significantly increase missile production in the years ahead.

Reconciliation spending is pending and awards are expected soon. Against the backdrop of the continuing government shutdown, ongoing budget challenges, and the potential for a prolonged continuing resolution, we're staying focused on what we can control. Execution and readiness. We have the right portfolio, the right leadership and the right investments in place. When funding is released, we're prepared to continue to invest and move swiftly to deliver for our customers and our nation.

We agree with Treasury Secretary Bessent's push for a new wave of industrial investment. We're already executing our plan aligned with that vision. Over the past year, we've expanded our domestic manufacturing footprint in Alabama, Arkansas, Virginia, Indiana and Florida, investing in new space and solid rocket motor manufacturing capacity to meet national defense demand. We've increased capital expenditures and continue to direct a substantial portion of free cash flow towards IRAD, expansion and modernization.

But to fully realize this national reindustrialization effort, what's needed now is to convert clear demand signals into multiyear contracts that give industry the confidence to invest in scale. Our facilities, workforce and supply chain are ready. And when these demand signals are formalized, we'll move immediately to the next tier of investment and capacity expansion.

At the same time, we share Army Secretary Driscoll's sense of urgency around modernization. This call to win with silicon and software perfectly captures the transformation already underway across L3Harris. We're moving faster than ever, partnering with emerging technology companies, codeveloping AI-enabled mission systems, and fielding software-defined resilient communication equipment that can be updated as threats evolve. This is not a theoretical capability, or one that we need to validate in technology demos. It is proven and happening real-time in Ukraine, by our allies in the face of advanced Russian EW threats. This technology is integral to soldiers' survival and mission success.

Our advantage is speed and adaptability. We combine deep mission understanding with a network of agile partners from Silicon Valley to the defense tech ecosystem. As the services modernize their acquisition process, we see that as an opportunity to expand our role as a trusted integrator of choice, delivering open, software-defined, resilient capabilities at the pace of relevance. Our approach remains balanced and disciplined. Returning capital responsibly, while reinvesting in growth infrastructure that directly supports national security. We're fully aligned with the country's reindustrialization and modernization agenda, and we're ready to deliver once that demand is formalized.

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

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Thanks, Chris, and good morning, everybody. As we continue to execute on critical national security priorities, it's clear that our investments, manufacturing capacity and disciplined execution are enabling us to deliver real impact for our customers. With that momentum as our foundation, let's talk about consolidated results for the quarter.

We had \$6.6 billion in orders this quarter, resulting in a book-to-bill of 1.2. Revenue was \$5.7 billion, reflecting strong organic growth of 10%. This growth was across all 4 segments with 2 growing double digits, driven by higher volume on existing programs, new programs ramping, and increased international demand. Segment operating margin was 15.9%, up 20 bps. This marks our eighth consecutive quarter of sequential margin expansion, underscoring our consistent execution.

Margin expansion this quarter was driven by LHX NeXt cost savings, across all 4 segments, and improved program performance. Margin was slightly offset by the impacts from the higher margin CAS divestiture in Q1 '25. Non-GAAP EPS was \$2.70, up 10% year-over-year. On a pension-adjusted basis, EPS was up 15%. Free cash flow was about \$450 million, reflecting temporary customer-related delays in payment. We remain confident in achieving our 2025 cash flow guidance. Q4 reflects anticipated milestone-based payments and the timing of a tax refund now expected in the fourth quarter. Consistent with prior years, cash generation will be back-end weighted as we manage performance on a full year basis.

Turning to our segment's third quarter results. CS delivered revenue of \$1.5 billion, up 6% and driven by increased international deliveries for a resilient software-defined communication equipment and Next Generation Jammer program ramp. Operating margin increased to 26.1%. CS margin benefited from international deliveries and LHX NeXt driven cost savings. IMS revenue was \$1.7 billion, up 17%, organically due to multiple ISR classified programs ramping. Operating margin was 12%, a pro forma increase of 40 bps, excluding the CAS divestiture. SAS revenue was \$1.8 billion, up 7%, primarily driven by increased FAA volume in Mission Networks and higher volume in Airborne Combat Systems and space.

Operating margin increased to 12.1%, reflecting improved program performance on classified development programs in space, a \$20 million gain recognized in connection with monetization of legacy end-of-life assets, and LHX NeXt driven cost savings. Aerojet Rocketdyne delivered another strong quarter with organic growth of 15%, marking its second consecutive quarter of double-digit growth and record revenue. Performance was driven by higher production volumes across key missile and munitions programs and the continued ramp of new awards. This progress reflects meaningful increases in capacity and deliveries, highlighted by the Mark 72 motor, where quarterly deliveries have increased more than 400% since acquisition. Operating margin expanded 130 basis points to 12.7%, driven by improved program performance and cost efficiencies from LHX NeXt initiatives.

Now let me turn it back to Chris.

Christopher E. Kubasik

Chairman & CEO

Thanks, Ken. We are continuing to gain momentum, and this quarter underscores the strength of our long-term strategy and portfolio. A prime example is the \$2.2 billion award from South Korea secured shortly after the quarter close, to deliver a fleet of next-generation airborne early warning business jets using the Bombardier Global 6500 airplane. This landmark international award is significant not only for its scale, but also because it reinforces our position as the world's premier integrator of missionized business jets with more than 100 aircraft delivered across multiple platforms. L3Harris is platform-agnostic, having successfully partnered with multiple OEMs, including Gulfstream, Bombardier and Dassault.

We are the world's leading mission system integrator with the ability to combine advanced radar, secured communications and electronic warfare, coupled with our deep civil and military aviation certification pedigree. More than a single contract, this win lays the foundation for a long-term franchise with opportunities for sustainment, upgrade missionized variants worldwide. While it will be reflected in our fourth quarter bookings, it also signals the strong and sustained global demand for our capabilities.

Furthering our missionization franchise in August, L3Harris and Joby Aviation announced an agreement to explore a new aircraft class for defense applications. We are rapidly evolving from concepts to physical

hardware in direct support of the U.S. Army's acquisition strategy, with ground testing of the prototype hybrid aircraft already underway in preparation for a 2026 demonstration. We also secured award to provide Poland with our Viper Shield electronic warfare system for the country's F-16 aircraft upgrade program. This selection demonstrates the growing international demand for our advanced EW capabilities and strengthens our position across European defense market where this product suite has been selected by 8 countries. It's another clear example of how our innovation and ability to scale continue to differentiate L3Harris as a trusted partner to U.S. allies.

Earlier this month, we announced our award supporting NGC2, the NGC2 Manpack, the latest evolution of the Army's software-defined radio platform, delivers high data throughput and multiple transport options, ensuring resilience and interoperability across NATO and Homeland Security Networks. Our expertise is critical to this effort. By winning this award, we have an important stake in shaping the communication systems architecture. Together, these and other recent wins, both domestic and international, demonstrate the breadth and competitiveness of our portfolio. They validate the strength of our strategy, the discipline of our execution, and our ability to convert technology leadership into high-value programs that deliver profitable growth.

Of course, winning new business is only part of the equation. Execution is what ultimately drives value for our customers. A great example is the successful launch of the Navigation Technology Satellite 3. NTS-3 is an experimental navigation satellite designed to test advancements beyond today's GPS system. This milestone underscores our ability to deliver complex high-stake systems on time and on budget. Programs like NTS-3 reinforce the confidence our customers place in us and the pride our employees take in delivering for them.

One of the key enablers of that execution excellence is our Program Digital Cockpit, a one-of-the-kind innovative, integrated enterprise-wide program management platform built on Palantir's foundry infrastructure. The Program Digital Cockpit aggregates data from hundreds of sources across L3Harris' complex enterprise, providing program teams with real-time access to their most critical metrics. By leveraging automation and artificial intelligence, the platform accelerates decision-making, strengthens program execution and drives favorable program performance. Launched in March of this year, we have completed the pilot phase and are now onboarding our first tranche of programs across all segments through the end of 2025. Our strategic partnership with Palantir continues to deliver value and the Program Digital Cockpit is a clear example of how we're investing in tools that improve execution and outcomes for our customers.

Back to you, Ken.

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Thanks, Chris. Turning to guidance updates for 2025. For the total company, we are increasing revenue guidance to \$22 billion, representing full year organic growth of 6%. Just a quick comment on 2026. We'll update guidance in January, but we do expect sales for '26 to exceed our current financial framework.

We are increasing segment operating margin guidance to high 15%, driven by ongoing LHX NeXt cost savings and continued confidence in strong program execution. We now expect non-GAAP EPS in the range of \$10.50 to \$10.70 per share. We are reiterating our free cash flow guidance of \$2.65 billion. While cash generation through the third quarter was softer than expected, we remain confident in the government reopening and delivering our full year cash flow commitments. We expect strong fourth quarter cash performance above prior years.

At the segment level, we are increasing our CS revenue guidance to \$5.7 billion driven by continued strong international demand, while reaffirming our operating margin of about 25%. IMS revenue is now expected to be approximately \$6.5 billion, driven by strong demand and performance in ISR. We are increasing operating margin to the low to mid-12% range. We are increasing our Aerojet Rocketdyne revenue guidance to \$2.8 billion to \$2.9 billion, supported by higher production volumes with operating margins expected to remain in the mid-12% range. And we are reaffirming SAS prior guidance.

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

Christopher E. Kubasik

Chairman & CEO

At the start of the year, there were understandable questions about what success would look like for the defense industry and for L3Harris, especially in such a dynamic environment. As we close the third quarter, that conversation has shifted. The focus is now on potential upside and a trajectory that extends well past our 2026 financial framework. That change in tone reflects our disciplined execution and the strength of our strategy. We are turning opportunity into tangible results, both domestically and internationally, and we expect more to come as reconciliation and missile defense-related funding begins to flow.

Across the company, our leaders and employees understand the high stakes as we are transforming and acting with urgency. Our strategy is deliberate, well calibrated and delivering measurable results. It strengthens our position in the global defense market, and drives the kind of sustained growth and value creation that underpins our long-term vision for L3Harris.

Tiffany, let's open up the line for questions.

Question and Answer

Operator

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

Sheila Karin Kahyaoglu

Jefferies LLC, Research Division

Congrats guys on a good quarter. Maybe just I could start off on ISR, Chris, because I think that's the segment that's been improving the most. If you could just talk about some of your recent wins in South Korea being put in, ramp on multiple classified ISR programs you saw in the quarter. How do we think about the outlook for that segment and just runway for the business given capacity?

Christopher E. Kubasik

Chairman & CEO

Thanks, Sheila. Yes, ISR, which is part of our IMS segment, historically, was having some challenges. We made significant changes at the leadership level and we redoubled our focus on execution, and we're finally seeing it pay off. The backlog has doubled in 12 months, and the outlook is very positive. You mentioned the classified growth on multiple programs. We see that for the foreseeable future, especially as the threats continue to grow. Armed Overwatch a program that we've had for several years, we're starting to see some interest for that program internationally. We recently announced the C-130 award in Morocco. So that line of business is gaining momentum.

In Canada, there's a Strategic Tanker award that's competitive that's coming out here in the near future. We feel confident about our position there. Our business in Canada has also been selected for the F-35 depot support. And we're excited about the opportunity with Joby. We are platform-agnostic. We've historically focused on manned aircraft, but I think there could be some pretty interesting opportunities in the short term with the Army partnering with another new entrants. So I feel really good about the business. The future looks bright and the team is executing, and that leads to more business.

Operator

Our next question comes from the line of Ron Epstein with Bank of America. Please go ahead.

Ronald Jay Epstein

BofA Securities, Research Division

So just -- maybe a bigger picture kind of management question. So when you have an organization that's kind of the size of yours and the scope of yours, big company, and you're working with smaller companies that tend to be -- have the advantages are just being small, right? They can kind of move fast, make decisions quickly, that sort of thing.

How do you manage that, that when you're working with them, A, your organization can maybe benefit from their nimbleness, but your organization isn't stifling their nimbleness because by the nature of just being a big organization? That makes sense?

Christopher E. Kubasik

Chairman & CEO

Yes, it does make sense, and it's a great question. And I think we're unique in what we've been focusing on over the last several years is empowering the leadership team, eliminating bureaucracy, streamlining the layers and levels, and really getting that sense of entrepreneurship. I think it goes back several years with the Shield Capital where we currently own in excess of 40 different companies, or parts of those companies. And that really helped with the culture change because we usually have 24 or 48 hours to turn it around.

So we feel we're pretty agile. I interact and my segment presidents interact with the founders, CEOs, Chairman. We put teams together and we work rather quickly. So we've been pretty successful. And the interesting part is a fair amount of these new entrants and technology companies actually reach out to us to initiate the conversation. So I feel like we're the company of choice. And the list goes on from Shield AI to Anduril to Amazon Kuiper, Palantir, the 40 or 50 Shield capital companies. And it's working. It's part of the DNA. And I would admit it was a cultural change years ago, but people get excited and like to go fast and see the results. So far so good and maybe even better than I would have expected.

Operator

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

Myles Alexander Walton

Wolfe Research, LLC

Chris, I was wondering if you could touch on your outlook for the Golden Dome space-based competitions that you're looking at from HBTSS to space-based Interceptor to Tranche 2 Tracking Layer, and sort of maybe cadence those over the course of the year?

And then the second part of it is on the SAS business itself and the underlying margin performance. I know you've struggled a bit with some of the earlier programs. Are we through the woods on those programs? And should we take the fourth quarter margin rate as an exit rate into next year?

Christopher E. Kubasik

Chairman & CEO

Yes. Let me start with your first question, and then I'll ask Ken to comment, specifically on the margins. As we've said for several years, we feel very confident in our capabilities for, what was formerly known as Golden Dome, the missile defense architecture. HBTSS as we said, was a success, and we're waiting for the government to reopen. And I'm confident that there's a scenario where maybe we could get an award, or a competition here in the fourth quarter.

SDA Tranche 3. In that particular one, the RFP came out in April. There have been many back and forth modifications. We turned in again, the best and final in early October. And there's another example where I think we need the government to open up and get back to work and make an award. You've heard us say before, we've been on all 3 tranches. We're performing well. We think our past performance puts us in a position to win that program.

I was just at our new factory yesterday. We've already moved the Tranche 1 and Tranche 2 satellites in state-of-the-art factory of the future. We have the room, we have the equipment and the tools, and we're ready to go. So we feel really good about the space business. We've kind of held that out as the symbol of our trusted disruptor strategy, opening new markets, clearly some growing pains as we've grown from a supplier, or a subcontractor, to a prime. But we have the tools, the team and feel really good about what we've done so far and what we're going to do in the future.

Ken?

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Sure. Yes. On the second part of the question with respect to SAS margin performance. I would just say, as we've talked about the couple of the programs that we've seen some performance challenges on through the year. Those programs are maturing. I think as we've mentioned, nearing completion on some of those legacy programs. Importantly, they are opening up new continued award opportunities for us.

So from an SAS margin performance perspective, I think we expect some stability looking into 2026. I don't know that I would want to give segment guidance on what SAS margin would be for '26 at this point. But I do feel good that I think the performance is really starting to settle down, obviously, until we get some of the final integration stages behind us on a few of these programs. You don't want to declare victory, but I think we're making good progress and I look forward to continued solid performance in '26.

Operator

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

Seth Michael Seifman

JPMorgan Chase & Co, Research Division

I wanted to ask, Ken, when we think about next year and kind of the margin expansion that you're expecting, and some of the gains that have happened this year, is that a difficult headwind to overcome for 2026?

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Thanks for the question, Seth. No, I don't think so. Feeling good about our program performance opportunity in '26. We make sure we find ways to deliver on our commitments. First half of '25. We had a little bit of negative EACs. I think our negative EAC performance was negative in the first half of the year. We've turned that positive here in the third quarter. And I think just good solid performance on our programs, getting our net EACs turning back to positive. I think that should more than offset, which I wouldn't say it's noise in the system, but I don't think they're difficult to outgrow the gains here and there from nonstrategic product line or IP sales.

Again, we're focused on what we're focused on. Really trying to grow the core areas of the business. And if there's a few things here and there, we can monetize, we do it. But I think that's, to your point, mostly going to be behind us, and now it's just going to be about performing on our programs, kind of left foot, right foot, just get it done, and I think we're in a good position to do that.

Operator

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

Scott Stephen Mikus

Melius Research LLC

Just a quick question. The administration seems to want contractors to have more skin in the game. From 2022 at least through 2024, your IRAD spend as a percentage of sales, I think, declined from 3.5% to 2.4%. So next year, should we expect that IRAD spend to step up?

Christopher E. Kubasik

Chairman & CEO

The way I look at it is we have various buckets of IRAD and -- or R&D. IRAD would be one. We have contracts, known as CRAD contractor R&D. We have our Shield capital and other strategic investments that all fuel R&D. And we focus at the -- we focus on the portfolio, where we think the market is going and we double down and invest in those areas. So I don't really look at it as a percent of revenue. We look at what the opportunities are, where we want to invest. And we've had significant investments in the past. We've opened new markets and new portfolios. And once you get that situation, you don't need to continue to invest in R&D. You moved into production, and you rely on the production contracts to deliver the product the customer needs.

So it's a dialogue. We think when I look back over the last couple of years, what we've made in investments broadly, IRAD, CapEx, acquisitions, we are clearly spending the money to position this company for future growth. And I think today's results and the results year-to-date and even last year prove that it's working.

Operator

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

Michael Frank Ciarmoli

Truist Securities, Inc., Research Division

Chris, maybe just thinking about Golden Dome and space-based interceptors. Is this going to be your first foray into potentially competing as a prime for missiles? I know way back at the Investor Day after the Aerojet acquisition, you've got a lot of that in-house capability. But should we start thinking about you guys going after some of these newer programs as a prime, just given the amount of missile demand, new low-cost missiles and capacity that's needed out there?

Christopher E. Kubasik

Chairman & CEO

Yes, I'll just make a few comments and ask Ken to fill in the gaps here. But we stick with our approach of looking at the opportunity and seeing where the best value is for our customers and shareholders, whether that's priming, subbing or being a merchant supplier. The demand that we have at Aerojet Rocketdyne is significant, as I mentioned, record financial backlog, huge opportunities that you hear about every day to increase production. So we have to maybe to the earlier question, keep the company focused, where can we move the needle, where our capabilities best aligned? But we spend a lot of time talking about SBI. So Ken, do you want to update?

Kenneth L. Bedinafield

Senior VP, CFO & President of Aerojet Rocketdyne

Yes. I would just add that from a kind of market perspective at Aerojet Rocketdyne, we have significant opportunity in front of us to Chris' point. Not only in the solid rocket motor portfolio, but we've got significant backlog in the space propulsion area as well. And we're currently significantly focused on delivering the capacity that is needed by our customers. And right now, kind of that's job #1 and #2, we will certainly be evaluating how we best, to Chris' point, are positioned across space-based interceptors, and where we partner, and who we partner with and how we look at that opportunity.

But at the current time, there is significant demand for our product. We've seen a number of groundbreakings, ribbon cuttings, factories, production lines accelerating opening. And that's what we're focused on at the moment. But as we look forward, we'll certainly be continuing to firm up those partnerships around space-based interceptors.

Operator

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

Noah Poponak

Goldman Sachs Group, Inc., Research Division

I wondered if you guys could talk more about growth at Aerojet Rocketdyne over the medium term. Chris, you mentioned where the backlog is now, I'm curious how many years of backlog you want to keep? And I guess the guidance for this year, midpoint would land you around 10% growth for the year. Can that actually -- can you actually grow faster than that over the medium term, just when we speak to your customers, the types of change in production rates that they're talking about are pretty significant? And then last piece of that, Chris, what are you expecting for new competition in solid rocket motors?

Christopher E. Kubasik

Chairman & CEO

Yes. Maybe I'll go first. Look, the opportunities at Aerojet Rocketdyne and the revenue growth that we're seeing is significantly more than the business case that we evaluated a couple of years ago when we made the acquisition. There's clearly a huge demand for these existing programs in solid rocket motors. It's all about capacity. That's always been the challenge. Ken will give you a little more detail.

We are opening facilities. I was just in Camden last week. We're building new buildings. We're getting new equipment. The lead time on this sometimes is 12 to 18 months. We're investing. We're talking to the customer to formalize, as I said, the demand signal into actual multiyear contracts, but we feel really good about our portfolio. As I said, we're on every major interceptor program. And the advancements we've made with some of the tools and the technology is going to allow us to significantly increase production in the years ahead.

We're going as fast as we can. I think in many programs, we're ahead of contractual commitments. So we're going to get as many orders as we can. And we're going to deliver as quick as we can to keep that financial backlog wherever it happens to fall. But I think the next couple of years are critical as we continue to invest, working closely with the OEMs and the Department of War to prioritize which programs they want, which investments they want? I think in Camden, we have over 150 buildings. We could probably build another 50. We have more than enough land and we just need to formalize the actual contractual arrangements to accelerate. Ken.

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Yes. I'll just add. I think, Noah, it's important to remember that Aerojet Rocketdyne is not just solid rocket motors for missiles. It's also got the space propulsion business, as well as a very well-positioned in-space propulsion business that I think is poised for growth also as we look '26 and forward. So confident that we can grow Aerojet Rocketdyne for the foreseeable future at double digits. I think that, that is absolutely something that we can do.

I think if you look at Missile solutions, so the solid rocket motor business today, I think we said 17% growth in the second quarter, and it's a solid mid-teens this quarter as well. And again, if you look at the entire portfolio, I think it's a solid double-digit grower. We've certainly been leaning on, I would say, maybe a little bit of ingenuity and kind of student body left in terms of how we've been driving the capacity expansion at the moment. But to Chris' point, as some of the new production lines, and new facilities come online, it'll be a much kind of smoother delivery of that continued capacity.

So we're very satisfied with the acquisition, very, very satisfied with how it's going at the moment and look forward to continued growing business. And then importantly, delivering product to our customers so that they can get it into the war fighters' hands.

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, you gave some comments about the international business, continue to see strong NATO support. Wonder if you could just give us an update on kind of whether you're seeing more teaming operations. I know that there's a lot of talk around they want countries in Europe want their own indigenous capabilities. Just how are you able to kind of execute that and still expand your share internationally?

Christopher E. Kubasik

Chairman & CEO

Yes. Thanks, Peter. Clearly, the international budgets have increased significantly. So those countries are working on getting the best capability they can for their war fighters, resilient interoperability are critical where a lot of our portfolio aligns with that demand, and then also supporting their indigenous industrial base.

We've been partnering around the globe for decades. We have local production capabilities in all of the key countries where it makes business sense. And again, going back to our philosophy, of being indifferent as to whether it's a prime sub merchant supply relationship, we haven't seen this to be a challenge at all. It's being open to the dialogue and creativity, and the leadership team has been traveling the globe pretty much every week for the last several months.

So huge opportunities we see in Europe. We have a segment President going over there Saturday for a week or so. I just came back from the Mid-East and another one is in Korea as we speak. So we're all over the globe. I think we're the partner of choice because of our receptivity in either technology transfer, expanding the footprint, executing and delivering on our offset obligation. So we're about 22% international and we're headed towards 25% of our base. So a good opportunity.

Operator

Our next guestion comes from the line of Gavin Parsons with UBS.

Gavin Eric Parsons

UBS Investment Bank, Research Division

What's a good baseline for the Aerojet margin? I mean, do you still have legacy contracts that are dragging on that and better capacity utilization as you go forward? Or is that strong growth outlook that you talked about are going to kind of weigh on the margin?

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Yes. I don't necessarily expect that strong growth outlook will weigh on the margin. We're still working through some of the legacy contracts. It is a long-cycle business, takes, sometimes 18, 24 months to deliver on a contract. So yes, we are absolutely working through some of the legacy production. But we are transitioning into the kind of the newer signed contracts.

But I'll remind you, Aerojet is a portfolio not unlike L3Harris overall. And we have important development programs that are in the mix as well. And that's, I think, the biggest piece that kind of keeps that margin in the mid-12s, hopefully ramping as we look forward, '26 and beyond. But it's got important development cost type programs like a Next Generation Interceptor, like Sentinel Glide Phase Interceptor, really that seed corn for the future production and the future growth. And I think that portfolio kind of keeps it, I think, a very solid margin rate.

And importantly, as we get these newly signed contracts in, really starting to deliver kind of the economic margins that are important for us to be able to fund and support the investments that are needed to drive this capacity expansion that we see in order to be able to address the significant demand for the product. So I think that's the way to think about it. But Aerojet Rocketdyne is really performing very well on the programs. I think across the board between deliveries for our customers between delivering financial results, and not just capacity delivery, but also quality product safely, that's critically important as well.

Operator

Our next question comes from the line of Kristine Liwag with Morgan Stanley.

Kristine T. Liwag

Morgan Stanley, Research Division

I guess, Chris, you had called out in your prepared remarks that there's very strong demand signals and your strong book-to-bill actually reflects some of this. But it seems like there's still a schism between what these signals actually indicate, and what should have been a much higher contract award environment.

Can you talk more about what you're seeing in that gap? What would need to happen for that to close? Is this more on the government shutdown? Is it clarity regarding government priorities? Is it visibility into the supply chain? It would just be really helpful to understand where we could see another acceleration of what's already a strong book-to-bill environment?

Christopher E. Kubasik

Chairman & CEO

Yes, Kristine, good to hear from you. We missed that quarter end point with Korea, that would have got us a 1.6 book-to-bill. We're really doing a great job on the front end of the business over the last year or 2. So I'm more than satisfied with our win rates and our results in head-to-head competition.

But the government shutdown is clearly the challenge. I mean, it's disappointing where we are. And we need Congress to get together and resolve this situation. As I look at it, there's clearly incongruency within the government. The DOW wants to go fast. They meet with us all the time. We got to go quicker, and then Congress can't fund the DOW. So we're kind of stuck between those 2 situations. So it's always

baffling to me that these issues are unique to the U.S. because we all know our adversaries don't have this same challenge.

Anyway, notwithstanding that, I like our portfolio. The team is performing. We're ready to move with speed. But in the meantime, the shutdown is definitely impacting the timing of awards, and we have a handful that we just need the government to open up and have the decisions made. I think some of our export licenses for international are being slowed down and the cash collections are impacted. People are working with DFAS, but I think with all the headcount reductions and such, there's just more work than there is people to execute.

So the government needs to open. We're a government contractor. 80% of our customer isn't coming to work. It's a challenge. And we're assuming they open in November, and then we'll have a busy December to catch up on everything.

Operator

Our next question comes from the line of Richard Safran with Seaport Research.

Richard Tobie Safran

Seaport Research Partners

First, Chris, it went quickly, but I think you mentioned something about the need for multiyear contracts in your opening remarks. And I have a 2-part question on that.

First, if you consider the contracting environment and because you've been talking about like you're constantly meeting with the customers and stuff. Is this something that the government seems amenable to? Because it seems it's been reluctant to execute multiyears in the past.

And second part is multiyears typically allow you to get better pricing from suppliers. And then at least at the very least share that savings with the government. So is this change in the contracting environment might impact margins? If so, how do you think that might impact?

Christopher E. Kubasik

Chairman & CEO

No, great question. It was a sentence that I slid in there. And this deals with capacity and the need to significantly ramp up, and in some cases double, triple, quadruple production. I think I have been consistent for years that the challenge in the defense industrial base, which is why we need to reinvigorate manufacturing in America is there just is not enough manufacturing capability in the U.S. for defense products. We need more buildings, we need more equipment, and these are substantial investments, which we are willing to make.

But it's a simple business case. Ken and I are not going to spend significant amount of capital without a commitment in the form of a multiyear contract from the government. So you're right. It does give the supply chain more visibility and even allows them the potential to make investments. But if we're going to double, triple or quadruple production on certain programs, let's sign up to a 5-year, 7-year multiyear contract. And I think the entire ecosystem will look at making the investments and amortizing the cost of those investments in the form of depreciation into the products, getting the benefit of increased production and kind of see where the money lies out. But I think we're getting close.

And to your first question, I think the customers absolutely 110% behind this concept. What happened in the past in all these prior administrations and decisions are really irrelevant. And I like the new administration. They bring in a fresh -- breath of fresh air, and they kind of say, what do we need to do? They're business people, we're business people. We're in regular conversations, and we just need to get pencil to paper here and move to the next step. So I'm optimistic about the future, but that's clearly what needs to happen. And I don't see why we wouldn't get to that point. But Ken, you've been in those meetings with me. What do you think?

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Yes. I'll just add that, Rich, to your question about multiyears, I think this is a little different than what kind of traditional multiyears. This isn't for nuclear submarines or aircraft carriers. We're talking about largely missile production for which we produce the solid rocket motors and other components. And in that business, there's a pretty dynamic portfolio of products. And unfortunately, you can't just one morning produce PAC-3 motors and then flip a switch and produce standard missile motors in the afternoon. There's pretty specific production line, and we are working to kind of build some amount of common production and common capacity early in the process. But it takes some time.

And so as we invest, as we work with the suppliers, as we work to modernize and open new facilities and production lines, we really need to know what are we producing. Which products, at which rate and to what delivery schedule? And that's really what we're trying to firm up to is really aligning our investments, aligning our suppliers and their investments to our customers' needs and delivery dates so that we're all on the same page. Kind of hand in glove so to speak, in delivering what needs to occur. And so that's what we're really trying to get down to is firming up the investments rather than kind of a more traditional platform multiyear award.

Daniel Gittsovich

Vice President of Investor Relations & Corporate Development

Tiffany, let's take the last question.

Operator

Our last question comes from the line of Ron Epstein with Bank of America.

Ronald Jay Epstein

BofA Securities, Research Division

I just wanted to follow up on some of the NASA work you're doing. There's talk of kind of restructuring some of the civil NASA work. And what kind of opportunity does that present for you?

Kenneth L. Bedingfield

Senior VP, CFO & President of Aerojet Rocketdyne

Thanks, Ron. Yes. From our perspective, NASA certainly is an important customer for us, in particular, at Aerojet Rocketdyne. The RS-25 engines for the SLS system is the biggest component of our space propulsion business. We're excited that the government has provided some additional funding for SLS as a part of reconciliation and firmed up through Flight 5. We're producing engines through, I think, it's through 9 systems there.

And I think supporting not only NASA, but the government in terms of not just defense but also space exploration, and importantly, getting back to the moon and ultimately to Mars, I think, has not just exploration value but also strategic value. And we're proud to be a partner on that. And we expect it to be a solid part of that space propulsion business for a number of years to come. I think we've got multiple years of backlog in there for production of RS-25 engines, as well as other parts of the SLS program portfolio.

Christopher E. Kubasik

Chairman & CEO

All right. Let me wrap it up. As we close today's call, I want to thank all of our L3Harris employees for their commitment, resilience and passion for excellence. In today's environment, changing dynamics and challenges contest even the strongest organizations. Our teams aren't just adapting, they are embracing change while anticipating planning and executing with a focus on controlling what they can control, while I and my senior team engage with the customers globally as the evolving budgetary and threat dynamics continue

As a direct result of their dedication and readiness, we're delivering for our customers when and how it matters most. Thank you all for joining us today. We appreciate your continued interest in L3Harris, and we look forward to future discussions. Have a great rest of the day. Thank you.

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