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Earnings Call

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Presentation

Operator

Greetings. Welcome to the L3Harris Technologies First Quarter 2026 Earnings Conference Call. [Operator Instructions] As a reminder, this call is being recorded.

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

Tony Calderon

Vice President of Investor Relations & Corporate Development

Thank you, Tiffany, and good morning, everyone. Joining me today are Chairman and CEO, Chris Kubasik; and CFO, Ken Sharp.

Earlier this morning, we published our first quarter earnings release detailing our financial results and updated 2026 guidance. We also filed our 10-Q and provided a supplemental earnings presentation on our website.

Before we begin, please note that today's discussion will include forward-looking statements subject to risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please refer to our earnings release and SEC filings.

We will also discuss non-GAAP financial measures, which are reconciled to GAAP measures in the earnings release.

With that, let me turn it over to Chris.

Christopher E. Kubasik

Chairman & CEO

Thanks, Tony, and good morning, everyone. I'd like to start by thanking Ken Bedingfield for his 2-plus years as CFO and for taking on the Missile Solutions segment President role this past year. Ken is now focused full time on expanding solid rocket motor production capacity in support of the Munitions Acceleration Council programs.

I would also like to welcome our new CFO, Ken Sharp, to today's call. He joined the team in mid-March and has hit the ground running. I continue to believe L3Harris attracts the best talent in the industry, and I'm excited about what we are building here.

Also, I'd like to thank our employees for a great first quarter, one of the best we've had and especially those employees that are forward deployed supporting our warfighter.

The global security environment is evolving rapidly, and the implications for our customers are increasingly clear. Across the Middle East, Europe and the IndoPacific, the threat environment is driving greater urgency around readiness, resilience and modernization. Our customers are focused on capabilities that can be quickly fielded, and they are looking for partners that can deliver. This positions us well to drive industry-leading growth.

Our strategy is aligned with customer demand. The Trump administration has made it clear that rebuilding the defense industrial base is a national security imperative. The Pentagon and Congress are increasingly supportive of multiyear procurement authorities and other mechanisms to improve throughput across the ecosystem.

In support of that imperative, there has been a step change in the DoW budget request driven by the need for affordable solutions that can be produced at speed and scale. With a \$1.1 trillion base budget request and the \$350 billion in reconciliation funding, the proposed budget sends a strong signal that our nation must invest in the industrial base.

Specifically, the President's request reinforces demand signals for critical missiles and munitions, SDA tracking layer, Compass Call business jets and tactical communication modernization, all of which align with our core strengths.

At the same time, our allies are expanding their defense budgets. There is a greater urgency around modernization in Europe and other key international markets. Our international book-to-bill was 2.2 for the quarter.

Over the past 5 years, we have embraced a unique Trusted Disruptor strategy that positions us between traditional primes and the new defense tech companies. We are delivering at the scale expected of a prime, combined with the agility and rapid missionization of new defense tech companies. Our consistently strong financial results demonstrate the success of our strategy. Everything we've done for the past 5 years is positioning us for sustained growth for the next decade. We have purposefully positioned ourselves around the fastest-growing priorities, including space sensing and missile defense, aircraft ISR missionization, resilient communications and missiles and munitions.

Our customers are moving with urgency. They need capability delivered at speed, at scale and with proven performance. We are aligned with those requirements, and we are executing against them now. Capacity is the new capability, and that is what L3Harris has.

So let's get into the details. Our backlog has almost doubled to over \$40 billion, and that does not yet include the \$25 billion of orders for the Munitions Acceleration Council programs, which are currently in negotiations. This record-breaking backlog also positions us to be more durable and predictable as we've increased to 2x revenue coverage.

In Q1 2026, revenue grew over \$600 million or 15% organically. Revenue has now grown organically in 9 of the last 10 quarters. Our operating income increased by \$125 million. We continue to expand and deliver industry-leading margins, underpinned by strong program performance even as we continue to accelerate investments in our business. Segment operating margins have now increased for the 10th consecutive quarter.

Our focus on transformation and being agile meant reducing unnecessary costs and streamlining our operations. Revenue per employee has increased by almost 25% over the past couple of years, driven by productivity improvements and aided by investments in technology, including AI.

Earlier this year, we entered into an agreement to sell 60% of our Space Propulsion & Power Systems business, announced and closed a novel partnership receiving a \$1 billion investment from the Department of War and filed a confidential Form S-1 with the SEC last night to take our Missile Solutions segment public. We accomplished all of this while delivering an impressive first quarter.

Key orders this quarter highlight our strategy in action. We achieved a 1.4 book-to-bill with awards in missionized aircraft, solid rocket motors and software-defined communication products. Within Space & Mission Systems, we built on our fourth quarter marquee win, the South Korea Airborne Early Warning and Control Aircraft program. We won another international multi-aircraft missionized business jet program just a few months later. This award with a NATO ally is valued at more than \$2.2 billion with an initial \$726 million order booked in the quarter.

We also secured the strategic tanker and transport capability award in Canada with 2 contracts totaling approximately \$700 million to support the Royal Canadian Air Force.

Within resilient communications, international demand for software-defined tactical communication products remains very strong. This quarter, we booked \$460 million of international orders with 3 NATO member countries who prioritize resilient, low probability of detect communications in contested environments.

In missile warning and missile defense, we've invested in building differentiated positions. To date, we've secured 56 SDA tracking satellites, driving growth in our Space & Mission Systems business. We submitted our HBTSS follow-on proposal and look forward to a midyear award.

Within our ISR business, we have produced over 100 missionized business jets over the past decade. In the quarter, we delivered the first 2 Peregrine business jets to the Royal Australian Air Force to advance their airborne ISR and electronic warfare capabilities. Our business continues to grow with 20 missionized business jets in production.

Turning to resilient communications. We have an installed base of 1 million software-defined radios worldwide. We are well positioned to increase that by 20% over the next couple of years, supporting customer needs for secure upgradable systems that operate seamlessly in contested environments.

Our Missile Solutions strategy, including the \$1 billion Department of War investment, which we received in April and our planned IPO represents a thoughtful and creative evolution in how we are positioning the business. We designed this model intentionally to move faster, unlock incremental shareholder value and align more closely with customer priorities in a rapidly evolving environment.

We continue to move quickly to accelerate the expansion of solid rocket motor capacity. Our customers are taking note of our investments, all of which are reflected in our 2028 financial framework. In February, we proudly hosted the Secretary of War in Camden, Arkansas to highlight the progress on our solid rocket motor capacity expansion and to meet our patriotic workforce.

Our Missile Solutions business is making excellent progress. Our team is in place. The S-1 is filed, negotiations on multiyear procurement frameworks are progressing, and we expect definitized contracts later this year.

Our new missile company will be named AXYV, spelled A, X, Y, V. The AXYV name is inspired by the engineering of missile guidance positioning. The A for axes of X and Y and the V for the velocity of the missile trajectory. AXYV conveys how we think about the business with clarity of strategy, certainty of direction and focus on agile execution. The company is built for momentum with a portfolio designed to deliver at scale.

As you can see, we delivered a strong first quarter, reinforcing our line of sight to our 2026 commitments and the 2028 financial framework. Let me turn it over to Ken, who will walk us through our performance for the quarter and the momentum we are seeing across the portfolio.

Kenneth P. Sharp
Senior VP & CFO

Thank you, Chris. I would like to start by saying it is an honor to join the L3Harris team at such a pivotal time. I'm excited to contribute to a mission that plays such a critical role in supporting the men and women who serve our country as well as those of our allies. I also want to sincerely thank the entire L3Harris team for such a warm welcome.

Our strategy as Trusted Disruptor continue to drive strong financial results. We have the capability to invest and deliver at scale while having a commercial mindset to anticipate customer needs, innovate and rapidly bring solutions to the warfighter. This approach has allowed us to outperform our legacy peers over the last couple of years as we have fundamentally changed our processes, cost structure and strategic focus. You can see this in the multiyear financial proof points Chris highlighted earlier.

Revenue grew as reported over \$600 million to \$5.7 billion, yielding 15% organic growth. We experienced particular strength in our Space & Mission Systems and Missile Solutions segments. We also continue to experience strong international demand with growth accelerating over 20% as our allies modernize their technologies and invest more heavily in their national defense.

Segment operating income increased \$125 million to \$902 million. The increase was due to revenue volume, improved program performance and higher monetization of legacy assets, partially offset by higher growth in businesses with lower average margin and increased investment in research and development. Segment operating margin was 15.7%, up 10 basis points from the prior year.

GAAP earnings per share of \$2.72 was up 33% year-over-year. The increase reflects higher operating income, lower interest expense and a lower effective tax rate, partially offset by lower pension income.

Free cash flow was an outflow of \$187 million, driven by working capital timing. The Q1 free cash flow is typical of our trends.

As a reminder, we now report on a GAAP basis for both segment operating income and earnings per share. This change reflects our continued commitment to enhancing transparency and further improving the quality of our earnings. I would also note that the prior year quarter had fewer working days. Lastly, our investment in innovation and capacity, which are hallmarks of our Trusted Disruptor strategy, increased 44% in the quarter.

Turning to our segment results. Space & Mission Systems delivered revenue of \$3 billion, up 24% year-over-year, driven by strength in a number of our sectors. Space & Mission Systems revenue benefited from a milestone associated with procurement of material on a new classified program. Segment margin increased 60 basis points due to improved program performance, partially offset by increased material purchases and increased investment in research and development.

Communications & Spectrum Dominance delivered revenue of \$1.9 billion, up 3%, driven by increased volume of Resilient Communications products, night vision devices and the ramp-up on the next-generation jammer electronic warfare program. Segment operating margin increased 60 basis points due to higher sales of Resilient Communication products, night vision devices and a favorable legal settlement. This was partially offset by higher investments in customer demonstrations, prototypes and research and development.

Turning to Missile Solutions. Revenue was \$1 billion, up 18%. And segment margin was 12.5%, up 110 basis points. Revenue increased on higher production volumes across key missile munitions and space propulsion programs. Missile's segment margin increased due to mix and volume and a gain on the sale of legacy assets, partially offset by net unfavorable EAC adjustments.

Now let me turn the call back to Chris.

Christopher E. Kubasik
Chairman & CEO

All right. Thanks, Ken. Let me highlight a few examples that demonstrate our agile approach to innovation and growth. Within our missile warning and missile defense business, the DoW jointly recognized the government and our Space Systems team with the 2025 David Packard Excellence in Acquisition award. This award acknowledged the success of this joint team on the HBTSS program. The system successfully demonstrated tracking against the hypersonic target. It's proven and ready to defend the nation.

Turning to the threat from unmanned aircraft systems. We anticipated a need for low-cost counter UAS system. As a result, we invested ahead of need to develop this capability and converted an existing factory to integrate our VAMPIRE counter drone systems. We are positioned to capitalize on the rapidly expanding pipeline for these critical counter drone systems. Our VAMPIRE system is combat proven with hundreds of successful drone engagements, providing a modular, highly effective, low-cost per kill solution.

And we supported the successful Artemis II mission contributing over 100 critical subsystems and components, including propulsion communications and critical systems for the first crewed Lunar mission in more than 50 years. This mission demonstrates the breadth and depth of our engineering talent and our ability to support some of the most complex missions in the world and beyond.

Taken together, these examples highlight a consistent theme. We are aligned to the most important missions, delivering capabilities needed today and building the capacity required to sustain that growth over time.

Back to you, Ken.

Kenneth P. Sharp
Senior VP & CFO

Perfect, Chris. Turning to our 2026 guidance on Slide 10. We are reaffirming the full year revenue guidance of \$23 billion to \$23.5 billion, representing 7% organic growth at the midpoint. We are

maintaining our segment operating margin guidance of low 16%. We are increasing both the bottom end and top end of our GAAP EPS range by \$0.10 to \$11.40 to \$11.60. We are reaffirming our free cash flow guidance of \$3 billion. Our cash generation will be weighted to the back half of the year.

At the segment level, we are reaffirming our revenue and segment margin guidance. Our 2026 guidance and 2028 framework continue to include Missile Solutions as it exists today. Consistent with our past practices, we do not contemplate impacts from the planned Missile Solutions IPO, the Department of War investment or the planned sale of a majority stake in our Space Propulsion business. When these transactions occur, we will update our guidance accordingly.

Moving to our supplemental guidance. Our nonservice pension income increased \$20 million to \$290 million and total pension income to \$310 million.

With that, Tiffany, please open the line for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of John Godyn with Citigroup.

John David Godyn

Citigroup Inc., Research Division

I wanted to ask about SMS and CSD. And I'm reminded of a very cool chart you guys had at the Investor Day that showed that growth versus valuation and it implied that SMS multiyear growth was going to be considerably higher than CSD. When I look at the consensus estimates that are out there, it's pretty tightly packed. So I'd love to just maybe use the opportunity to chat about SMS and what that growth profile might look like over the next couple of years and understand if there's upside to that growth over time, how you guys see it?

Christopher E. Kubasik

Chairman & CEO

All right. Thank you, John. This is Chris here. Yes, I appreciate you referring back to that chart. I think that was an important chart and something people want to go back and reference. But yes, SMS had a great first quarter, as you saw, and the pipeline is very strong. ISR business about a decade ago, we started investing to position ourselves for missionized business jets. Perfect example was the Korea -- South Korea award in Q4. We talked about the NATO country.

And it all started with Compass Call. We currently have 10 under contract today. And if you look at the budget request, you'll see another 12, bringing the fleet to a potential for 22, and I believe many, many more.

So I think what's unique about this market and just ISR alone is how well we perform and how quickly we move as a team. Specifically, we can basically take a commercial aircraft and in 18 months, missionize it, which is unheard of for a military aircraft.

So everyone is wanting early warning systems. I think this is one of the best platforms out there. And I think the future of ISR is very bright as a result of that, just that one market.

Space, we've talked a lot about space. This is another decision strategically we made about 5 years ago to invest into space to be a prime satellite manufacturer. We've won every SDA competition. We followed -- as I mentioned, we submitted a proposal for the follow-on to HBTSS. We would expect to win that here, hopefully, in a few months, and the space business is growing quite well.

In maritime, which is also part of SMS, there's been a huge increase in the budget for Navy and Navy ships. So we have the acoustics, the optical platform management and communication systems. So absolutely, we stand by the guidance we gave for the year, which I think is better than most out there, and we'll continue to monitor and see if any adjustments are appropriate as the year progresses.

Operator

Our next question comes from the line of Ronald Epstein with Bank of America.

Ronald Jay Epstein

BofA Securities, Research Division

Chris, could we go a little deeper on what's going on in the Space business? I mean there was so much growth there. And I don't know what you can say around Golden Dome and what's going on there, but I'm certain if you can give any more color on that, everybody would appreciate it.

Christopher E. Kubasik

Chairman & CEO

Yes, Ron, I think I'd just kind of put it into 2 big buckets. We have missile warning and missile tracking is kind of one line of business, and we have the classified work, which I'll give you some insight, which will probably be unsatisfying. But nonetheless, those 2 lines are growing very, very well.

I think Golden Dome, there's been a lot of opportunities there. It's taken a while for the monies to be identified and freed up so that the Space Force can go ahead and start the acquisition process. I mentioned, the RFP came out for the HBTSS follow-on. We, and I'm sure others have submitted their proposals, and that's currently under evaluation. There are some other capabilities that are classified that fall under the broad Golden Dome umbrella.

But let me just say with our capabilities, we're responding to RFPs and our ability to build these satellites relatively quickly, affordably and get them launched and performing, I think, is a differentiator. Actually, later this year, our customer will be launching the Tranche 1 8 satellites, and I think that will be pretty exciting.

On the classified, I can tell you that we have been awarded a sole-source contract for \$600 million with the potential for billions of dollars of follow-on. And that is a result of our past performance, a creative innovative solution that is working and is pretty much a game changer.

So at least I acknowledge -- I have to acknowledge the customers are doing what they said, and they are going to reward and recognize those companies that are, in fact, performing. And in this environment where speed and capacity matter, we have the factories. We've talked about the 200,000 square foot investment we made a few years ago. We are performing. And I believe that positions us well for growth.

I do like to point out on the HBTSS, which is probably why we won that award, it demonstrated capability, the only one to my knowledge that did. So that's why I'm optimistic that we should win the next award.

Operator

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

Myles Alexander Walton

Wolfe Research, LLC

Chris, on the topic of awards, you mentioned \$25 billion of orders pending with the Munitions Acceleration Council. Do you expect those negotiations to wrap up in the next quarter or 2 quarters? Is this going to flow through quickly in one fell swoop? Or is it more the visibility of the pipeline and it will come out over time?

Christopher E. Kubasik

Chairman & CEO

Yes. Thanks, Myles. So step one is the framework agreement, which I have to admit in my decades of being in this industry is a new concept. I would think of that as kind of a term sheet, if you will. So we are in negotiations, again, as a supplier providing the solid rocket motors to the 2 major primes, Lockheed and Raytheon specifically. So they have announced their framework deals. They tend to be 7 years for most of these MAC programs, like a PAC-3 and a THAAD and maybe some are 5-year programs or framework. So they have theirs in place. We're close to finalizing those frameworks as, I guess, this would be a subcontractor framework with the prime. So that should occur here in the near future. And there, we're basically agreeing on the pricing and the schedule and some of the key terms.

Those documents will allow us and give us confidence to continue to invest even though we have been investing to accelerate our investments, \$1 billion from the DoW is additional cash that accelerates that investment. And then the next step will be for the primes to go ahead and turn their framework agreements into contracts. And then I think shortly after that, we would turn ours into contracts.

So we're targeting the end of the calendar year. We have plenty of business and backlog that we're executing upon. This would be the next tranche. So I don't see any line breaks or anything. In fact, we'll be ramping up. So I have to give the Department of War credit for their innovative approach to acquisition here. What is going on now has never been done in the history of our country, and they

are going fast. We and the rest of the defense industrial base are keeping up with them to the best of our ability. I think it's a once-in-a-lifetime opportunity, and we are seeing a major shift all for the positive going forward.

The budgets are up. We have the new technology, it's performing. Demand is up. And at the end of the day, you need the capacity to build all this stuff. We have the capacity, and we are even increasing it more. So I feel pretty good about where we are, Myles, and I appreciate the question.

Operator

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

Sheila Karin Kahyaoglu

Jefferies LLC, Research Division

Chris, maybe digging into Ron's question a bit more. You had such stellar growth in Space & Mission Systems. Can we talk about the ISR portfolio, how that did? Was it -- how is it growing? How is South Korea coming in? And can you maybe talk about the international pipeline there?

Christopher E. Kubasik

Chairman & CEO

Yes. Thank you, Sheila. Yes, ISR has been a complete turnaround over the last couple of years, and it's both domestic and international. So I mean let me start with the domestic side. There are a fair amount of classified programs that we are working on. Again, we are platform agnostic. We are taking anything from, as you know, crop dusters all the way up to major large commercial aircraft and missionizing, modernizing as we've always done.

So there probably isn't a platform we haven't worked on. I mentioned 100 different aircraft in the past decade. I highlighted Compass Call as an example, we can get this budget passed in an additional 12. That is a big deal for us. That's how I kind of see the domestic side.

On the international, we were just reviewing the other day. We have about a \$40 billion pipeline just on ISR international to answer your question. And when you look at South Korea, and I only highlight that, which I know is in the fourth quarter, but I think everyone on this call knows how long and how hard it takes to close these international deals to have a marquee win like that and literally months later to get a call from a NATO customer based on that award and all the great work we're doing is unheard of in my career.

So we have the momentum. There are other international opportunities. Like I said, everybody wants early warning systems. And airborne aircraft by modifying a commercial plane seems to be the best, quickest way to get that capability. And I think that speaks for a bright future, and that's why you see the growth for not only '26, but all the way through the '28 framework that we laid out 2 months ago.

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 about the communications business and kind of what you learned and what your takeaways were from the budget request, both, I guess, in terms of the traditional programs in the Army and the Marines, but also this new C2 infrastructure and C2 transport lines in the Army budget with some significant resources. How do you think about those and your ability to participate there?

Christopher E. Kubasik

Chairman & CEO

Okay. Thank you, Seth. I was kind of hoping I get that question. We'll start domestically with the Army HMS program. And this has been a long legacy for L3Harris. And happy to report that in 2027, the budget

is \$515 million -- \$515 million in '27. I think there were concerns, including myself, that early on the President's budget request or discussions were that, that would be cut significantly. So \$515 million is a big deal. And I think even more impressive is that similar amounts are outlined for the next 5 years. So Army HMS is well funded and hopefully eliminates a lot of the concerns out there about the future of that portfolio.

When you switch to the Marines, 2026 was a little bit of an off year. Their budget was down to \$200 million. As of today, they have requested \$750 million. So \$200 million to \$750 million for the Marines. They love our software-defined radios. They see the need for resilience in dangerous and contested environments. We add in our stealth waveforms and the affordability of these compared to maybe other options out there gives me a lot of confidence that at least the domestic side is looking good.

You may recall, we won a sole-source IDIQ a couple of years ago for the Marines. I just point that out because clearly, the vehicle is in place -- contractual vehicles in place if they want to move quickly.

So this continues to demonstrate the power of the commercial business model that we've talked about at least for a decade, and we'll continue to talk about it. We've had it for close to 20 years. It's working. And I think this kind of budget, this kind of demand signal is a tribute to the commercial business model, which is why I've been advocating for more and more commercial opportunities for the defense industrial base to compete on in a level playing field.

The other piece that gets a lot of attention, rightfully so, is NGC2. That is a large budget, \$2.8 billion to be specific. We are absolutely supportive of the NGC2 strategy and initiative. There is a transport layer as they call it, which is basically where our software-defined radios, I think, will play nicely. We've already been awarded 2 contracts under NGC2 for the transport, admittedly not huge contracts, but still 2 pretty early on. The rest of the money is also associated with the infrastructure. So the Army and other companies, we're working with the Army and other NGC2 companies to ensure that our products and radios can seamlessly integrate into an open systems architecture that is currently being developed.

So I feel pretty confident and optimistic about our radio business, whether you look at the domestic side or internationally. I guess I'll just switch internationally. And as I highlighted in my prepared comments, there were 3 NATO allies, I'll mention them by name, the Czech Republic, Germany and Poland, who are, in fact, buying our products. Belgium and Netherlands are other opportunities we're working on. Those are targeted for Q4 of this year.

And all these programs, as we've talked about, are 10-year modernizations. They have road maps. We can see the quantities. We can see how our new products and investments are paying off. And in general, all these countries are about 20% complete. So there's a pretty long runway ahead of us. And as I mentioned, 2.2 book-to-bill international, there's been concerns whether anyone, including us, can grow internationally for all sorts of political and other reasons. But as we've said, at the end of the day, they want the best technology, and we are winning business in those countries with indigenous capabilities in head-to-head competition. Ken, over to you.

Kenneth P. Sharp
Senior VP & CFO

All right. Just a quick add, Chris. One, there's spectacular radios, and they're great to have them in the hands of the warfighter. But we do expect the business to accelerate as the year progresses and get to our kind of guidance estimate.

Operator

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

Douglas Stuart Harned
Bernstein Institutional Services LLC, Research Division

I wanted to continue on this theme on communications. So in the past, I mean, part of what's enabled you to get the margins you've gotten in the radios has been your own investment, your own IP. You said

this quarter that you had higher R&D spend in both SMS and CSD. Can you talk about how you're looking at your own R&D investment going forward, kind of what percentage of revenues you see that moving forward at? And then how you see that being used kind of across your portfolio?

Christopher E. Kubasik
Chairman & CEO

Thanks for that question, Doug. Yes, we're proud of the fact that we were able to increase our margins while investing. It is a huge growth market. I think nobody denies that there is a huge demand, and this is kind of a once-in-a-generation opportunity to build backlog and to differentiate ourselves. So we are absolutely investing.

In the radio business specifically, we'll be rolling out a new radio shortly. We call it the Falcon 5 following on from the Falcon 4, but it's got some great new technologies that I think will be well received. And the main focus there is on the high data rate, which is -- which again is a need and a desire by the customer. So we've made those investments to allow for that to occur.

And as everything, these are all 10-year modernization cycles. I mentioned that the international is about 20% complete. I think when I look at the domestic market, they're maybe halfway through their modernization. So these go in 10-year cycles, we've been investing. We're increasing. And as we roll out these new capabilities, I think it's going to obviously increase our market share. So there's been no cutting back relative to that.

We stick kind of in that 2.5% to 3% of revenue for our R&D. But the reality is we'll do whatever it takes based on the demand and the opportunities. As we've talked before, we have well over \$1 billion of CRAD contracts. So in some cases, the customer gives us R&D contracts. I'd put that on top of it. So we kind of kick around \$2 billion or so a year we're spending in R&D, and we throw in the Shield capital investments is another way of accelerating it. So really don't look at it from a specific account, but we are spending all in maybe 10% of revenue, in my opinion, on innovation, growth and R&D. So hopefully, that helps, Doug.

Operator

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

Noah Poponak
Goldman Sachs Group, Inc., Research Division

Chris, on the surface, the high rate of organic revenue growth and new order bookings growth in the quarter makes the reiteration of revenue guidance look a little conservative. I know you have the nonlinear working weeks. If you guys could just talk through how much -- was there a pull forward? Is there conservatism? Is it just the math of the working weeks?

And then, Chris, you referenced your backlog coverage now being meaningfully higher. Does that make you feel more like there's upside risk to the near term or more like the existing growth has longer duration?

Christopher E. Kubasik
Chairman & CEO

Yes. Thanks for that, Noah. It definitely gives me confidence that the duration, the longer duration of revenue growth. And as I mentioned, once we get these MAC programs in, you can see \$60 billion to \$70 billion of backlog in the next 12 months for L3Harris, which if you go back not that long ago, is pretty darn impressive.

So as I reiterated, everything we've been doing over these last 3 to 5 years had a purpose to align with the strategy that we've laid out called the Trusted Disruptor, which I know not everybody understands what it means. But whether you understand what it means or not, you can't argue with the financial results, not this quarter, but for the last 3 years. We're growing, we're adding backlog. And if we can end the year or the next 12 months with \$60 billion to \$70 billion of backlog, that gives me a lot of confidence

in the future of growth and the visibility. And of course, we always have the potential to try to accelerate and pull some of that stuff forward.

So I think I'll ask our new CFO since I defer to my CFOs on guidance adjustments and take their recommendations. It sounds like they wanted us to increase revenue. Why didn't you do that, Ken?

Kenneth P. Sharp

Senior VP & CFO

All right. Thanks, Chris. So look, it's absolutely a great quarter, great start to the year. I mean, 15% organic revenue growth, margin expansion, 33% EPS growth. So I can understand why you're asking the question.

I will add, we did increase EPS. So I'll take credit for the \$0.10 increase there.

But just to give you a couple of thoughts, right? I'm 45 days into the job. We're in the first quarter. We got a lot of road in front of us. We feel incredibly confident with the business. So I think you'll see us in July. It's a great question to ask then. Hopefully, we'll have made some moves there. But I do think there's a level of conservatism in there.

The extra productive days, it's really hard to exactly put your finger on the dollar amount, but I think it's a couple of percentage points at the end of the day to maybe think \$200 million-ish in revenue. That really wasn't the driver in the quarter. It's a great business doing really solid performance.

Christopher E. Kubasik

Chairman & CEO

Yes. I'll just add in, Noah. We stick with our guidance for the full year, which is around 7%. And it's one of these damned if you do, damned if you don't. If we ended the quarter flat, you'd be asking how the heck are you going to get to 7%. We come out at 15%, gives you a heck of a lot more confidence in getting to 7%. So I kind of like to start having not had this experience much, start the year with a great first quarter, have an awesome second quarter and then see where we are and give you guys an update.

But a lot of things still in the works. So we need to win some more continue to perform, and we're feeling pretty pleased with how we came out so far this year.

Operator

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

Robert Alan Stallard

Vertical Research Partners, LLC

Chris, you highlighted how classified work contributed to the strong growth in SMS. But I was wondering if you could give us an update on how big classified is as a percentage of the overall company and whether you think it's going to grow faster or slower than the overall company?

Christopher E. Kubasik

Chairman & CEO

Yes. Thanks for that, Robert. I know it's never satisfying when you give the classified answer. And actually, more and more programs are becoming classified that weren't historically. But we're kind of hanging out right around 25% to 30%. I mean, the actual number is 28%. I'm not sure why I didn't tell you that. 28%, which is an increase from the prior year.

So we see international growing. We see classified growing. I mean, really, everything is growing. And again, that's a result of getting this portfolio in shape over the last 5 years. I know there was a lot of concern about some of the acquisitions. We only made 2, and they're both blowing away the business case. And we said at the time that we made these. We thought they aligned with the future of warfare. It appears that they are. And the stuff we divested and we'll continue to look to monetize are either not core

to L3Harris and belong with a better owner. And I really like the portfolio, and I think that's why you're seeing these kind of results, and we'll continue to see how we make our 2028 framework.

Operator

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

Peter J. Arment

Robert W. Baird & Co. Incorporated, Research Division

Chris, I don't think anyone would question the demand signals on supporting these multiyear agreements. But maybe you could just give us a little color on like how L3 is protected on the downside if there are changes thinking out. I know you probably thought a lot about that, but just curious to your thoughts.

Christopher E. Kubasik

Chairman & CEO

Yes. Thanks, Peter. No, I mean, that's absolutely a key focus of these negotiations. And the DoW understands we're leaning forward as is the entire defense industrial base. We may have started sooner than the rest, but everybody understands that it's more like a commercial world, right? You make the investments to get the long-term returns. And these 5 and 7-year deals, I think, are a big deal. I mean there's bipartisan support for this, especially on missiles and munitions.

And then it's hard to predict the future. Hopefully, a lot of this will be funded through the reconciliation. That is 10-year money. So you could argue that, that could be covered in that. But yes, there will be protections for changes in quantities. And I guess, in the unlikely event that a program is no longer funded or needed. But given the demand signal, it's hard to imagine that, that would occur at least in where we're focused, which, of course, is missiles and munitions. So that will be the next step.

The framework agreement, obviously, at a high level, there's an agreement relative to that. Now we just need to reduce it to writing. So great question, but clearly, that's on the top of everybody's list for the entire industry. And I think we're all going to be aligned and get the protections we need.

Operator

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

Scott Stephen Mikus

Melius Research LLC

Going back to Peter's question, I'm just curious at Missile Solutions, you have an aggressive volume ramp over the next decade. Just curious, how much of your material spend at Missile Solutions is with sole-source suppliers? And when you firm up your multiyear agreements with the Department of War, are you also going to lock in those key suppliers so you're protected on inflationary pressures?

Christopher E. Kubasik

Chairman & CEO

Yes. Thanks, Scott. The answer is yes to the second part. In fact, we've had long-term agreements with the majority of our top suppliers. We're working with them, as you would imagine, to allow them to ramp up as well. And many of those suppliers are making investments on their own. And of course, the Department of War is also helping them either with equity investments or loans.

So I think that's going to be, as you suggest, implied in your question, that's going to be a key really to all of us to ramping is the supply chain. And again, that was one of the first discussions going back almost a year with the DoW. They understand the need for the supply chain. And in fact, we are part of the supply chain as a first-tier supplier with the SRMs to the missile primes.

Sole source, maybe at the time of the acquisition, there were a lot of sole-source providers. I don't think we really have anything significant at this time. We have clearly focused on getting multiple suppliers,

especially with cases, nozzles and igniters. And there's several products that -- or components that we ourselves are investing in to have an additional second or third source of supplier.

So look, we're not afraid to make any changes that we need to find a way to grow this business. And you would imagine people are knocking our door trying to work for us. And look, the companies that are willing to invest and play along with what we're trying to accomplish are going to get more and more work. But that's going to be the key. I would think by the end of the year, if not already, we don't have any single sources of supply.

Operator

Our next question comes from the line of Peter Skibitski with Alembic Global.

Peter John Skibitski

Alembic Global Advisors

Chris, I was wondering if I could double-click one last time on space, particularly on the space pipeline. You talked about the aircraft ISR pipeline that's very robust. I'm wondering if you're seeing the space pipeline, kind of excluding even HBTSS, if you're seeing the space pipeline really growing meaningfully because it seems like the administration is putting a lot of emphasis on space surveillance, that mission area, maybe expanding that, that might be classified, but also kind of this AMTI kind of moving AMTI from aircraft to space. And so I'm just wondering if you're seeing a real expansion of the pipeline there. And you talked about the \$600 million award, maybe that's in one of those 2 areas. But if we might see some increased order flow even beyond HBTSS over the next 12 months or so?

Christopher E. Kubasik

Chairman & CEO

Yes. No, thanks, Pete. And I can assure you the pipeline here, as I'm looking at is in the tens of billions of dollars. A lot of what I talk about is the LEO, the low earth orbit. There are opportunities that we are currently working on and bidding that are both MEO and GEO orbits that, as you would imagine, are all classified.

There really isn't a big international market, if I'm honest, with the space. There's a few things that we're doing there. But it's all going to be Air Force, Space Force, as you suggested. And there's a lot of competitions coming up and our past performance seems to be positioning us well, and there's absolutely a commitment.

I'd say the last 3 to 5 years, there's been a lot of one-off demos. I'd hate to go back to HBTSS, but that was one satellite, and it worked. So now they're ramping that up with a follow-on. That type of approach is occurring throughout that portfolio.

So big focus on missile warning, missile defense, hypersonics, classified. Some of the areas you mentioned, I can assure you we have the capability. And again, we don't prime everything. There's a few things where we're working as a subcontractor based on our payload capabilities. And then there's a few places we're a merchant supplier, which is kind of nice because you get on whatever team wins.

So it looks good. The team just has to continue to perform. We'll get these things launched and the future is bright. I wish I could tell you more, but this is really a classified area, and I think the financial results speak for themselves.

Tony Calderon

Vice President of Investor Relations & Corporate Development

Tiffany, we'll now take the last question.

Operator

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

Gautam J. Khanna

TD Cowen, Research Division

In the quarter, and just kind of what's embedded in the guidance for the year with respect to asset sales? And also if you could maybe quantify the legal settlement just so we can get a better sense of the underlying...

Christopher E. Kubasik

Chairman & CEO

Can you start from the beginning? We kind of lost the first 20 seconds or something.

Gautam J. Khanna

TD Cowen, Research Division

No problem. I was wondering if you could give us some color on the asset sale in the quarter, the legal settlement? And what's sort of embedded for asset sales throughout the year? And kind of how far along are we in that process of portfolio shaping?

Kenneth P. Sharp

Senior VP & CFO

Sure. Just maybe some quick color. We're, I think, routinely look at our shop floor space, where the products are in their life cycle. Clearly, we want to continue to keep the floor space focused on things that are higher growth, innovative, delivering capability for the customer. From time to time, I would say we get products that are probably 20, 30-year maturity. They don't grow really fast. They're great products. They just probably belong in somebody else's portfolio. So we tend to look to move those out, free up the shop floor space and really keep our workforce focused on kind of innovative products.

In the quarter, I would say it's, call it, 30, 40 basis points of margin, give or take in the missiles business that popped through. We also -- if you look, we also had negative adjustments on EACs in there as well. So they kind of offset one another.

For the full year, I mean, we'll certainly update as we go. I don't think we have any specifics around product line sales built into our guidance at this point.

Christopher E. Kubasik

Chairman & CEO

Okay. Well, as we close today's call, I want to again thank our employees for their continued focus and dedication in a dynamic and demanding environment. We have several factories working 3 shifts, so your efforts are much appreciated. Their work directly supports the men and women who are bravely serving our nation.

Supporting the war fighter is at the core of everything we do, and we remain mindful of their safety and well-being during these times.

So thank you all for joining us today, and we look forward to talking to you in the weeks and months ahead.

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