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LHX - Q3 2019 L3Harris Technologies Inc Earnings Call

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OVERVIEW:

Co. reported 3Q19 non-GAAP EPS of $2.58. Expects 2019 non-GAAP EPS to be about $10.00. Expects 2H19 non-GAAP EPS to be approx. $5.35.

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PRESENTATION

Operator

Greetings, and welcome to the L3Harris Technologies Third Quarter Calendar Year 2019 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Anurag Maheshwari, Vice President, Investor Relations. Thank you. You may begin.

Anurag Maheshwari - *L3Harris Technologies, Inc. - VP of IR*

Thank you, Michelle. Good morning, everyone, and welcome to our third quarter calendar year 2019 earnings call. On the call with me today is Bill Brown, CEO; Chris Kubasik, COO; and Jay Malave, CFO.

First, a few words on the forward-looking statements. Discussions today will include forward-looking statements and non-GAAP financial measures. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information, please see the press release, the presentation and our SEC filings. A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the quarterly materials on the Investor Relations section of our website, where a replay of this call also will be available.

To aid with year-over-year comparability following the L3Harris merger, discussions also will be on a combined basis with prior year results as well as year-to-date and first half 2019 results reflecting combined L3 and Harris historical operating results as if the businesses had been operating together during prior periods under the 4-segment structure.

With that, Bill, I will turn it over to you.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Okay. Thank you, Anurag, and good morning, everyone. Earlier today, we reported strong third quarter results with non-GAAP earnings per share of $2.58, up 26% on 10% revenue growth. Overall company margin increased 210 basis points to 17.4% and free cash flow more than doubled over Q3 of last year.

These results extend our strong calendar '19 performance with non-GAAP earnings per share over the first 3 quarters up 27% on 10% revenue growth and free cash flow up 73% to $1.6 billion. Funded book-to-bill was 1.13 for the quarter and 1.10 year-to-date, driving funded backlog growth of 10% versus last year and setting us up for a strong finish to the year.

So we're off to a great start as a new combined company and we're executing well against our strategic priorities. I'll begin with an update on our progress on Slide 4. And then Chris and Jay will provide details on the segment results and guidance.

First, we remain laser-focused on integration and capturing cost synergies. And we're tracking well toward achieving $80 million of growth in year savings and $200 million in gross run rate savings as we exit calendar '19, both higher than previous expectations and giving us confidence in exceeding our $500 million target in calendar '22.

In addition to cost synergy projects, we're also making good progress on our second priority of developing and institutionalizing a new enterprise-wide operational excellence program called e3. Building this muscle will be essential to driving near-term organic margin expansion and set us up to sustain the benefits of productivity well beyond the 3-year integration period, including in program execution, R&D efficiency and working capital management.

Third, we're building what we're calling a new performance culture as we pivot towards an operating company model, leveraging the power of the enterprise through shared services, shared resources and shared best practices.

At the end of September, we held our first technology summit, convening more than 200 top engineering leaders to cross-pollinate ideas, roll out our company-wide stage gate development process and detail our plan to manage R&D investments on a portfolio basis. We've also begun to institute enterprise-wide business metrics and a review cadence aimed at instilling greater rigor and accountability in our decision-making.

Fourth, we're investing smartly and aggressively in technology to grow revenue and increase share, add content and expand it to adjacencies. And while it's still early, I'm encouraged by our progress and recent success in capturing potential revenue synergies. In just 120 days since the merger, we've already submitted 14 revenue synergy-type proposals primarily in electronic warfare and space sensing domains, with a potential lifetime value of about $3 billion.

One proposal is for the U.S. Air Force F-16 electronic warfare modernization program supporting a fleet-wide 15-year upgrade cycle. Our offering combines proven EW capabilities from legacy Harris with an innovative digital signal receiver from L3 to provide the customer a high-performing, low-risk solution that we could not have created separately. In September, we were 1 of 2 companies down selected for the initial development phase. And if we ultimately prevail, we would double our addressable market and add the domestic F-16 fleet to our established international position.

From another bid, we were awarded an early study project for space-sensing technologies that combines space optics and electronic solutions from the legacy companies with the potential to grow to over $250 million in value. So a few encouraging early wins and a growing pipeline of opportunities validating the strategic growth potential of the newly merged companies.

Our fifth priority is to maximize free cash flow with shareholder-friendly capital deployment. In the quarter, we generated $618 million of free cash flow, up 123% over prior year through higher earnings, tight management of capital spending and a 2-day sequential improvement in working capital. We've also improved the linearity of cash generation with about 70% of free cash flow guidance delivered in the first 3 quarters of the year compared to less than 50% for the same period last year. And in the third quarter, we returned $922 million to shareholders, including $750 million in share repurchases, which keeps us on track to buy back 1.5 billion of shares in the second half of calendar '19.

And finally, reshaping our portfolio to focus on high-margin, high-growth, technology-differentiated businesses where we can win and generate attractive returns. While this is an ongoing process, we've begun marketing several businesses that we've assessed as non-core. And our plan is to announce transactions as they occur and use the net proceeds to repurchase shares to offset dilution.

So in summary, on the back of successful execution against our strategic priorities, strong third quarter performance and a solid backlog, we're increasing our second half guidance for non-GAAP earnings per share to $5.35 with revenue growth of 10% and free cash flow of approximately $1.35 billion, the higher end of the previous guidance range. And as we go into 2020 and assuming appropriations are enacted in line with the recent budget agreement, we continue to expect mid-single-digit-plus revenue growth and expanding margins off a higher 2019 base than we anticipated in S-4, driving double-digit cash and earnings per share growth.

So with that, let me turn it over to Chris to provide an update on operational and segment financial performance. Over to you, Chris.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Okay. Thank you, Bill, and good morning, everyone. We are performing very well right out of the gate due in large part to months of premerger work accomplished by the joint integration team.

Expanding on Bill's comments. In addition to e3 and other enterprise-wide initiatives, we are also driving a common business development capture process, we're incorporating best practices from across the company and we're focusing on a bottoms-up effort to improve working capital performance. All of these enterprise-wide initiatives are gaining momentum and expected to contribute to our future growth, profitability and cash generation.

Let me now turn to operating results by segment. On Slide 5, Integrated Mission Systems revenue grew by 10% for the quarter and 11% calendar year-to-date from strength in ISR missionization and increased global demand for Wescam turret systems. Orders were strong as we continue to solidify our position on Big Safari programs, increase share in electro-optical and enhance our unmanned maritime franchise. This resulted in a book-to-bill of 0.99 for the quarter and 1.11 year-to-date. Segment operating income was up 24% and margin expanded 160 basis points to 13.8% for the quarter, resulting in a year-to-date margin of 12.7%. This solid performance was driven by increased volume, integration savings, pension income and operational excellence, slightly offset by program mix.

In Space and Airborne Systems on Slide 6, revenue increased 20% for the quarter and was up 18% calendar year-to-date from increased content wins and a production ramp on long-term platforms including F-35, F/A-18 and F-16. In addition to sustained growth in classified space as we expand into a full mission solution provider, order momentum was broad-based, resulting in a book-to-bill of 1.05 for the quarter and 1.1 year-to-date. Segment operating income was up 38% and margins expanded 250 basis points to 19.4% for the quarter, resulting in a year-to-date margin of 18.6%. This robust performance was driven by higher volume, operational efficiencies and integration savings, partially offset by higher investments in open systems architecture and advanced space technology.

Moving to Slide 7. In Communication Systems, revenue growth was up 11% for the quarter and the year, driven by solid growth in Tactical Communications and Public Safety. Tactical grew 19% with DoD up 33% on increased modernization revenue, and international was up 9% from ongoing order security support in Eastern Europe and early adoption of the multichannel radios in Western Europe. Revenue was once again up double digits in PSPC as the business continue to gain share with utilities and state, local and federal agencies. Order momentum was even stronger with segment book-to-bill of 1.36 for the quarter and 1.09 year-to-date, as each sector is successfully executing on its strategy. Tactical is ramping up modernization in DoD and international. Broadband is maintaining the incumbency on legacy platforms. Public Safety is increasing share in utilities. And Integrated Mission Systems received ENVG-B test certification and made initial deliveries in August, resulting in a significant follow-on quarter.

Additionally, last week, we achieved an important milestone on the SOCOM handheld program with the award of a full rate production order for $86 million following a successful field test in early August. Not only is this a significant step in the $390 million sole-source program, but the core architecture of the SOCOM handheld radio is also shared by the $250 million SOCOM manpack program. The SOCOM handheld radio is also the foundational radio for the Army 2-channel and several international modernization programs. The investment in common architecture facilitates our customers' desire for interoperability and future capability.

Segment operating income was up 18% and margin expanded 140 basis points to 22.7% for the quarter, resulting in a year-to-date margin of 21.9%. This strong performance derived from higher volume and operational excellence more than offset the mix impact from the ramp in Tactical radio modernization program.

Lastly, on Slide 8. In Aviation Systems, we grew in defense while declining in commercial aviation for a net flat quarter and 9 months. The decline in commercial aviation is the result of lower volume in commercial training solutions as orders for full flight simulators continue to slip to the right. We received 3 simulator awards in the first half and we're expecting 12 in the second half. And although our pipeline remains strong, due to uncertain timing of bookings, we have now lowered our award expectation to lower single digits for the second half, which is reflected in our revised segment guidance. Aside from simulators, order strength was good, resulting in a segment book-to-bill of 1.16 for the quarter and 1.05 year-to-date. Segment operating income was up 32% and margin expanded 330 basis points to 13.4% for the quarter, resulting in a year-to-date margin of 11.5%. This performance was driven by integration savings and improved operational performance primarily in our traveling wave tube business, partially offset by mix.

I'm very pleased with our first quarter as L3Harris, with 3 of the 4 segments outperforming and more than making up for the shortfall in AS. Our customers remain supportive of the merger, both domestically and internationally and as we build a mission focused -- mission solution-focused company. And I'm increasingly encouraged by our company outlook.

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

Jesus Malave - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thank you, Chris, and good morning, everyone. Recapping third quarter results on Slide 9. Successful execution against our strategic priorities through our strong results for the quarter with revenue growing 10% and EPS increasing 26% or $0.54. Of this growth, $0.49 came from higher volume, solid program execution and integration synergies and $0.15 from pension and elimination of L3 intangibles, offset by a net $0.10 headwind from taxes, share count and interest.

On the back of this performance, we are revising our outlook for the second half as noted on Slide 10. Starting with the top line, we are tightening second half revenue to be up approximately 10%, at the midpoint of the previous range of 9.5% to 10.5% from strength in SAS and CS, offsetting lower volume in AS.

Second half total company EBIT margin is expected to be 17.1%, 40 basis points improvement from the previous guidance of 16.7% driven by higher cost synergies and pension income. This, combined with lower interest in tax expense, results in a second half EPS expectation to approximately $5.35, up $0.35 from the prior midpoint of guidance to $4.95 to $5.05. This EPS guidance also reflects $1.5 billion in share repurchases for the second half, bringing the second half share count to around 224 million shares and effective tax rate to 17% versus our prior expectation of 18%.

In the second half, we expect to generate free cash flow of approximately $1.35 billion at the high end of our prior range of $1.3 billion to $1.35 billion, driven by increased earnings and a 2- to 3-day working capital reduction from June. Capital expenditures are unchanged and expected to be $190 million or 2% of revenue.

As noted on Slide 11, for the full year, revenue is expected to be up around 10%, with EBIT margin of approximately 16.4% and EPS of about $10 per share. Full year free cash flow is expected to be approximately $2.35 billion or about $420 million higher than last year for the combined company.

Turning to the EPS bridge on Slide 12. Expected full year EPS of approximately $10 per share reflects a total increase of $2.08, with $1.74 from volume, operational improvements and cost synergies as well as $0.29 from the elimination of L3 intangibles and higher pension income and $0.05 net of interests and taxes.

Switching to the segment outlook. In IMS, revenue guidance is unchanged and up approximately 10.5% for the second half, driven by strength in airborne imaging systems and growth in ISR aircraft missionization. Segment operating margin is now expected to be approximately 13.3% versus previous guidance of 12.5%, driven by higher cost synergies and pension income. This implies full year segment revenue up approximately 11.2% with operating margin of approximately 12.7%. SAS revenue is now expected to be up approximately 15.5% in the second half versus up 11.5% previously, driven by stronger growth on long-term aircraft platforms and classified space. Segment operating margin is expected to be approximately 18.8%. This implies full year segment revenue growth of approximately 16% with operating margin of approximately 18.5%. CS revenue is now expected to be up approximately 10% in the second half versus previous guidance of 9.5%, resulting from better-than-expected modernization orders in DoD Tactical. Operating margin is now expected to be approximately 22.5% versus previous guidance of 22.1%, driven by higher volume, cost synergies and operational excellence. This implies full year segment revenue growth of approximately 10.8% with operating margin of approximately 22.1%.

Finally, with AS, we are lowering revenue guidance for the business with second half revenue now expected to be up approximately 3% versus previous guidance of up 7% driven by slower simulator sales. At this guidance, we believe that we have sufficiently derisked the uncertainty related to simulator sales. Segment operating margin is unchanged at 14%. This implies full year segment revenue growth of approximately 2% with operating margin of about 12.3%. So in summary, an improved outlook reflecting a strong start for the combined company.

With that, I'll ask the operator to open the line up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Sheila Kahyaoglu with Jefferies.

Sheila Karin Kahyaoglu - *Jefferies LLC, Research Division - Equity Analyst*

Bill, in your prepared remarks, you mentioned 14 revenue synergy proposals that totaled about $3 billion in lifetime value. As you guys have combined the 2 portfolios, how do you think about the potential wins? How do they change the growth profile of the business over maybe the coming year or 2? And where are you seeing the most opportunity?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Sheila, it's a great question. So we have 14 proposals that are in. It's very early days but we're pretty encouraged especially given the fact that we've been down selected on 2 of them. So this is, I think, good news. So when we talked about $3 billion in value, that's lifetime value, so read that over the next 10 years.

I think the way these things will work, there's a bit of an incubation period, the studies or the small awards you do receive upfront that eventually lead into bigger opportunities over time. So I think in '20, probably minimal impact, and getting to '21, maybe a little more. I think it should ramp a bit beyond that.

So I went through the 14, but there's about 80 total ideas that we're tracking here. So hopefully, we see some other good news coming over the next number of months. They broadly really come into mostly right now, electronic warfare and space-sensing domains mostly relative to leveraging complementary technologies. But it's an encouraging start and we hope to see more over time.

Operator

Our next question comes from the line of Carter Copeland with Melius Research.

Carter Copeland - *Melius Research LLC - Founding Partner, President and Research Analyst of Aerospace & Defense*

Just a couple of quick ones. One, I wondered if you could just give us some color on the slippage in the simulator sales. It just seems strange given all the talk about pilot training out there. And I wondered if maybe that's a particular customer behavior for one reason or another in the commercial realm. I just wondered if you could talk a little bit about that.

And as a secondary one, I'm just kind of curious on the efforts on e3. How does that differ from what you were each individually trying to accomplish with HBX or L365? And what's unique to the opportunity set that you think you have together?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So maybe Chris will take on the piece on the simulators. Let me hit quickly on the e3 or the OpEx program. So both L3 and Harris had operational programs. We called ours HBX, theirs was L365. And e3 really is a combination of the best across both programs. And the objective really, as I mentioned in remarks, is to develop that operational excellence and muscle to go after labor reductions, go after supply chain savings, go after improving quality performance, on-time delivery, program execution. All of those things, we need to do to keep winning over time.

So we know that there's going to be an organic margin expansion opportunity separate from cost synergies. It goes side by side with what we're doing on integration. But really over the next couple or 3 years, they'll start to merge together. And what we want to make sure is we build that muscle so that once we get beyond integration, we continue to see that regular cost takeout, improving quality well beyond integration period.

And that's really what we're trying to do. I think we're off to a great start. We've got core people work on this. We have a new hire driving this across the company doing a great job. And I think we're off to a really good start.

So I'll let Chris comment on the simulators.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Yes. Good morning, Carter. As I said in my prepared remarks, we had 3 in the first half of the year. We only had 1 in the third quarter. And while we have a lot of letters of intent signed and such, we've yet to secure those in the fourth quarter.

And I think what we're really seeing is that the airlines and the training companies are slowing down their discretionary spend probably as a result of the pending issues with the MAX aircraft. As you know, that's put financial pressures on the airlines themselves and there's still some uncertainty surrounding that.

So we've -- actually, speaking of e3, we've had a lot of progress on the simulators. We've been able to reduce the cost and the cycle time of building them. We just now need to go ahead and sell them. So still a good business, still optimistic. Just a little lumpy here in dealing with market trends somewhat outside our control.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Carter, just to add a comment there that the pipeline is pretty solid. It's just that the orders are lumpy and that the timing is difficult to predict. And so we thought it's prudent, with one quarter left, to just push it to the right and take it out of the year. We'll revisit that for 2020, but the pipeline is pretty solid.

Operator

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

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

I was kind of hoping to just get your updated thoughts on where you think you can take the total operating margin of the business long term because you're going to exit the year at this kind of 17 or a little better than 17. And then the incremental cost synergies you still have yet to achieve alone get you at least 100 basis points if not more -- higher than that.

And then Bill, you just spoke to continuing the drumbeat of operational improvement beyond the synergies. And each legacy business had a couple sort of temporarily depressed pieces that look like they were going to improve. So I mean is this a 20% sustainable -- starting 4 to 5 years out, but then sustainable operating margin business?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Look, we're very optimistic about what we've seen so far in the back half of the year as we raise our guidance on margins here in the second half. It's better than we thought. Some of it is coming from some pension good news. But the reality is I think the team is coming together very well. Chris and I have been working for a number of months here on integration. This goes back from the time we signed. And we knew we can get out of the gates quickly. We're getting out of the gates a little bit faster than we thought. So some of the ideas have been pulled forward a little bit.

Exiting the year at $200 million run rate at least puts us in something north of $200 million gross savings next year. So we will see margin expansion next year. I think it will continue to grow. We still have more gas in the tank certainly from integration savings.

Could it be the numbers you're suggesting? That's a little bit far out there. Our job is to keep driving it every day and every year. We'll see margin expansion next year. We'll see it again going into '21 and probably '22 just simply because of the tailwind behind us on integration savings.

A lot of it comes from growth and the mix of new customers and development programs. So let me keep a close track of that. We'll have to keep watching our investment in business -- in B&P activity as well as in IRAD to fund some of the revenue growth ideas. So Noah, I think we'll keep updating you over time, but we are more encouraged today about margin expansion I think we started out.

Noah Poponak - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

That's great. If I could just follow up really quickly on the Aviation Systems situation. I just want to -- I think some people have the segment growth rates modeled somewhat level next year. And so any help you can provide on how the comparisons will shake out with the simulation and training piece? And then also you have the C-17 piece coming out. Just in an effort to kind of get ahead of level setting everyone for the right order of magnitude change in that business next year would be helpful.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. So yes, C-17 drag will go away. But overall, we -- in my comments, I talk about mid-single digit plus. So just based on where we were at in the S-4, L3 was at 5%. We're at 6.5%. So it's in that range and it's coming off of a much higher base in 2019, so about $0.5 billion above the S-4. So we're still expecting good growth going into next year.

I think we'll see Communication Systems to be pretty good. It's more short cycle. We'll see IMS and space business sort of in the middle, both doing pretty well. And we'll see Aviation Systems probably being a little bit less than the other 3. Part of this, some of the trends that Chris talked about will continue into next year. I don't think I'll go into any more detail within the segment. But the reality, those are the major drivers at a pretty macro level across the 4 segments.

Operator

Our next question comes from the line of David Strauss with Barclays.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Wanted to -- 2-part question. First of all, on the margins. They're implied in the fourth quarter, lower than what you did in Q3 despite having more in the way of synergies coming through. Can you just explain what exactly is going on there?

And then on the working capital side. Jay, it looks like you were relatively flat overall in terms of working capital in the quarter. Can you just maybe update us how you're thinking about this target? I think the longer-term target you have out there to produce working capital day is from 75 down to 50 to 60 days.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So let me get the first one and I'll pass it onto Jay. So yes, we did see really good performance in Q3. It steps down sequentially in Q4, still up year-over-year. And it's really coming from higher cost synergies going from Q3 to Q4, offset by some additional investment. Quite a big chunk of investment coming in Q4 both in R&D as well as in B&P.

So there's a little bit of sloppiness here in our Q3, but we see good opportunities to invest. Investing in some of the ideas that are coming at us. We're really busy on B&P activity. And really, it's just a measure of additional step-up in investment in Q4 from Q3. So I'll let Jay hit the working capital.

Jesus Malave - *L3Harris Technologies, Inc. - Senior VP & CFO*

Sure. Just a quick one on margins, David. We did 210 basis points in Q3. We're almost 200 basis points in Q4. So expansion is fairly similar. We're just starting off a little bit of a lower base in Q4.

As far as working capital, we've got a couple of days that we achieved in the third quarter. As I mentioned, we'll be flat to maybe a day in the fourth quarter over the longer term. We're still kind of holding out to the 6, 7, 8 days of reduction to get us to the $3 billion in 2022. So really, nothing has changed from our prior communication there. Obviously, the internal objective is to do better than that. And that's what we continue to do and drive our working capital initiatives across our businesses in our sectors. But right now, we're just holding it to where we were before.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

And I'll just chime in and say the working capital improvement really begins and ends with the operations. And we have 1,200 program managers. And we are pushing down specific goals and education at the program management level in addition to the general managers and through the finance organizations. So it's part of a top-down, bottom-up effort to focus on and improve working capital.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

And Bill, just a quick follow-up of the investment. So you're talking about -- it would look like from the margin guidance, these are mostly in IMS and SAS. Is that the right way to think about it?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. That will be -- that's primarily in 2 places. Yes, correct. A little bit in CS but mostly in the other 2.

Operator

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

Richard Tobie Safran - *The Buckingham Research Group Incorporated - Research Analyst*

Bill, another philosophical or a strategic question to open up here. Could you elaborate on your building a new performance culture and grow revenue remarks on Slide 4? Now you're constantly using the word innovation, and it's clear there's been a substantial benefit from innovation. But what works against that is size. And I think you're all aware of the rule of thumb that a bigger a company gets, the less nimble and the less they are able to innovate. So you say you're going to invest in innovation. But I thought you might discuss a bit more on how you're going to incentivize and foster innovation at the much bigger L3Harris.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So Richard, that's a good question. And I won't be long-winded on it, but this is fundamentally what Chris and I and the rest of the senior team are focusing quite a bit of time on. It's just building the culture that we want to see in the organization.

Going back 8 years ago, Harris went from a holding company to an operating company. This is the path that Chris has been on. That is a clear statement of intent within the organization. It's moving towards an operating company. That means more centralized coordination of the things I talked about in my remarks: shared services, resources, technologies, talent across the organization to leverage the power of the enterprise. And there's lots of things that spill off of that that's driving a lot of change with the organization. That's fundamentally where we're heading. And I think that speaks to the culture we're trying to create.

That also flows into R&D and how we're thinking about R&D development. Again, back to where Harris was a number of years ago, we are developing R&D plans by each segment, very siloed. That's what L3 has been doing. We're moving towards more of an integrated model where we're sharing ideas across the company. We had our technologies together at the end of September, starting to share different ideas.

So how we remain innovative and agile? Look, it comes through multiple dimensions. Part of it is structural in how we set up the organization with tools for us to be able to share ideas across the enterprise on things like cyber or AI or waveforms, capabilities that really embed across all that we do. Part of it is in processes and going to a common stage gate process for developing programs, making sure there's good business cases, managing things on a portfolio so you're trading off investments across the organization. And then a lot of it is going to come from just culturally. And part of that is Jay, Chris and I being willing to step forward and invest ahead of the curve on innovation, ahead of need. We've been demonstrating a willingness to do that. And then of course, you mentioned that part of it is the type of people we're selecting, how we incentivize them.

Look, Richard, it's a long-winded answer and it went longer than I wanted to. But the reality, this is fundamental to how we're creating a different organization that we're calling L3Harris to remain agile, fast-moving especially in the world we're in today with DoD, where it's not just innovation or affordable innovation. It's affordable innovation now. It's moving quickly in delivering solutions. And that's where I think we're geared towards.

Richard Tobie Safran - *The Buckingham Research Group Incorporated - Research Analyst*

Okay. That was terrific. Just quickly here. At Space and Airborne, on the F-16 modernization program you were down selected for. Because this is a potential revenue synergy and because it sounds like a pretty large opportunity here, I'm just wondering if you could size that and give us a sense of timing.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. Look, it's going to take several years, couple of years, till the final selection occurs. I mean the fact is we got in a little bit late but we were 1 of 2 down selected for the program. Richard, as you know, we at Harris -- legacy Harris has the EW platform for international F-16s. We are not on the domestic F-16 that opens up that market. We think, over time, that could be cumulatively something like $1 billion. But it depends on how many aircraft and the cost per ship set but it's a pretty substantial opportunity. We're working at it pretty aggressively. And we're encouraged by within just a few months being down selected to be 1 of the 2.

Operator

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

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Couple of questions. First, I was wondering can you give us any sense of the size of the divestments that you guys have identified.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

No. I don't think we're going to be prepared to do that today, Gautam. What I'm very encouraged about is the fact that in a relatively short period of time, I think we've aligned across the management team and with the Board on how we're thinking about the portfolio. We're moving quickly on a number of different businesses. We'll announce the transactions as we go forward. And as we do, then I'll size them for investors. But I think it would be premature to give you any sort of a target at this point.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Okay. Secondly, just wondering you guys are running ahead of the cost targets. When will you formally address those again?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. We talk about that every earnings release, Gautam. I think we'll probably give you, as we get into '20, an update on what the '20 numbers are. Given where we're tracking, again, exiting this year at $200 million gross run rate makes '20 look pretty good. And probably at that time, we'll give you a sense as to the magnitude of the opportunity we're seeing longer term and if we are coming up above $500 million gross and if so, how much. So we'll probably shape that a little bit more early next year.

Gautam J. Khanna - *Cowen and Company, LLC, Research Division - MD & Senior Analyst*

Okay. And I was hoping you could also just walk through the legacy RF Tactical pipeline and what you're seeing there domestic, international and kind of what your expectations for bookings are over the next 12 months.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. So let me hit on that one pretty quickly. So on the Tactical side, we're seeing for the second half for the legacy RF Tactical business up low double digits, which is still pretty good growth. It was up mid-teens in the front of the year. So as we get through calendar '19, the overall Tactical business will be up sort of low- to mid-teens in that range.

DoD has been very, very strong this year. We started off in the mid-40s in the first half. It will be sort of in the mid-20s percent growth in the back half. So very good trajectory. It was up 33% as Chris mentioned in Q3. So very good numbers. But you know, we're starting to get into more tougher comparisons as we get into the fourth quarter, which is why the year-over-year is not quite as good as it was in the past but still very healthy. We're seeing a great shift towards modernization. The base revenue in DoD has been relatively stable. Modernization is coming up pretty dramatically. It's up about 2.5x over last year's. So it's moving quickly and replacing some of the readiness spend that we saw last year. So overall, DoD looks pretty good. The pipeline is about $1.7 billion. That's pretty solid.

On the international side, this year, for calendar '19, we'll be up low single digits. We were flat in the first half. We'll be up sort of around 3%, 4% in the back half of the year. Chris mentioned we're up 9% in the quarter so it was quite good. That will be down in Q4. But when you look at Q3 versus Q4 on a dollar magnitude, it will be fairly similar in size. We just had better linearity this year on our calendarization than we did last year.

So all that is really good trend. The pipeline is about $2.5 billion. It's right in line with where we were before. It's pretty resilient. This year, the story has been largely around Europe. Europe had a really good back half, both Western and Eastern Europe. But we also saw Middle East to be up quite a bit this year. We saw Asia up pretty nicely as well. So we're seeing, I think, generally good trends as we expected. Canada will be down. We knew CALA would be down a little bit.

So generally, that's kind of where we're heading. But overall, I think things are hanging in pretty well on both DoD and international for I think a very good year on Tactical.

Operator

Our next question comes from the line of Rob Spingarn with Crédit Suisse.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

I just wanted to, Jay, ask you about the free cash flow guidance and if the pension prefunding in Q3 is flatter in your cash recoveries this year at all and therefore the driver of the boosted free cash flow guide. And then how do you plan to report cash recoveries going forward and other pension line items? Would you be giving us detail as per the industry just now that they seem to be a little bit more material?

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Okay. Well, for this year, in the cash, there's really no recoveries related to this pension funding. What's driving the improvement was just a little bit better earnings and just a little bit in terms of balance sheet position than we were looking out before.

As far as going forward on there, we can take a look at just another disclosure you're looking for us to provide there. We can certainly look at that and give it to you. I think going forward, I'm not entirely clear exactly what the go-forward recovery is. So I'll just have to get back to you on that, Rob.

Robert Michael Spingarn - *Crédit Suisse AG, Research Division - Aerospace and Defense Analyst*

Okay. And then just another question on SAS growth. You called out classified space earlier in the call. Can you provide any detail on how quickly this area is growing, either in percentage terms or versus the segment as a whole?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. It's going in line with the overall segment, Rob. It's been very strong. It's been strong for multiple quarters. When we say classified space, so it's a space with a big S, meaning things in space, meaning the domain. So a lot of what we do in that area is classified. It could be ground programs. It could be space programs. And what we're finding is really good growth trends in both areas in space with a capital S as well as on ground domain.

And really, what's driving this is a shift, again, we talked about this before, from components to subsystems to full and in mission solutions. They're starting to move into various adjacent markets. So the trend has been very good. The funding has been very strong in this area. And it's been growing sort of in line with the overall segment so sort of mid-teens.

Operator

Our next question comes from the line of Jon Raviv with Citi.

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

On the free cash flow finishing this year at the high end of the range and then you also mentioned on your prepared remarks double-digit growth over the next couple of years. Just trying to -- teasing that out. That gets us above $3.1 billion in 2022. So what are your thoughts on that $3 billion target in 2022? And when could we maybe revisit that and talk about potentially some upside there?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

So John, thanks for the question. We'll probably talk more about that I would imagine next year as we close this year out and settle down the balance sheet and get ourselves organized. We'll talk more about the longer-term goal. Right now, we're still saying it's $3 billion in calendar '22. So we've had a good start. So we hit the guidance here at $2.35 billion for the year. Getting to $3 billion is another $650 million over the next 3 years. Broadly speaking, it's about a third each between earnings growth, the after-tax cost synergies beyond the 50 we're delivering this year and then working capital. Jay mentioned 6, 7 days of working capital. It's still about $35 million a day. So that's generally the math. And we'll reassess where we happen to be once we get a little more comfort in what's happening to cost synergies, what's going to promote the growth trajectory.

And really, as we start to see real traction on working capital, we had a good quarter. We are down year-over-year on working capital by about 19 days. About 10 days is inventory. That's pretty good work. So to really accelerate $3 billion will require us to do a faster job on inventory takeout. That just takes some time to go and do. Chris mentioned about some of the metrics being pushed down to the program managers. That's exactly right. It's driving accountability for that deep in the organization across all of our facilities. So I think it's going to hinge about a lot on how quickly can we take out inventory. That's what we're working on.

Jonathan Phaff Raviv - *Citigroup Inc, Research Division - VP*

Okay. And then you talked about investments a lot on this call. You talked about it a lot over the past months and quarters. Has that investing calculus changed at all if, for instance, the customer wouldn't allow you higher return if you take on more risks? Are you investing ahead of need more often today than in the past perhaps? And what could that mean for long-term profitability?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

I think we're running just shy of 4% of revenue this year. That's what we've been guiding investors to on an overall basis. I think we'll still be in that range over the next couple of years. I think the mix of where those dollars happen to go will likely shift and move around. As we move from running things locally to more as a portfolio, we'll start to see shifts in spend between programs. You may see more shift towards revenue opportunities to backstop those. Only about 10% or so of our IRAD is in support of OTAs. I mean that's certainly been a trend, but that's not going to be a big driver here.

As I mentioned, culturally, we have been willing to step up and invest ahead of the need, and we're going to continue to be able to do that. Our job is to drive operational excellence, drive cost synergies and make sure that we can invest in great return programs for share owners. And that's something that Chris and I and Jay, sitting here and looking at each other, are committed to go and do, Jon.

Operator

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

Seth Michael Seifman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Wanted to maybe ask the divestiture question in a different way. We shouldn't think of the divestitures at all as being potentially standing in the way of the $3 billion cash flow target for 2022, correct?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

That's correct. That doesn't stand in the way. Each business we have or most of them that we're thinking about generates free cash. But we think with some of the levers we can pull, we'll be able to offset any cash loss from divestitures.

Seth Michael Seifman - *JP Morgan Chase & Co, Research Division - Senior Equity Research Analyst*

Okay. And then maybe as a quick follow-up. The DoD radios, in terms of the order flow and kind of what's needed from a fiscal '20 budget, how does that shake out in terms of your visibility into your calendar/fiscal '20 based on where things stand with CR and the budget?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

No. I think what we're assuming a CR through the balance of this year, through December. If it gets deeper into 2020, it could have some impact on the DoD business mainly because it's more of a short-cycle business. But we've talked about this before. The visibility has become a lot better. We've got a good backlog. The order trends have been very good. At least the GFY '20 budget is up again for Tactical radios to about $1.1 billion from, I don't know, $900 million or so in GFY '19. There's still some unspent fund. If you go out over the flight of the next 5 years, I think the number grows to $1.6 billion, $1.7 billion, in that range.

So there's a lot of momentum here still remaining in the Tactical radio business. I think we're at the front end of the curve. From the way we see it, there's funding support. There's program momentum. There's operational execution by our team up in Rochester. That still leaves us confidence that we'll have a $1 billion business here in calendar '22 in DoD Tactical.

Operator

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

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Just to go back to the revenue synergies. I know you mentioned a couple of the programs. But can you maybe talk a little bit more about some of the opportunities you might be seeing in some of the unmanned surface or subsurface areas? I know that we've got maybe a project overlord out there.

And maybe additionally, on the revenue synergies, I know it was already being bid on L3 standalone. But how is the future vertical lift program? Does the combination make that offering a bit stronger? Or are there some synergies there? Is that a high-priority program for you guys?

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Michael, it's Chris. First, on the maritime, you're absolutely right on the unmanned opportunities. We both have surface opportunities. We submitted a proposal recently on the medium unmanned surface vehicle. And we're going to team with another contractor on the large surface vehicle.

On the undersea, we -- legacy L3 had made some investments and those are actually progressing quite well. We've been able to get some smaller awards and demonstration. So we're feeling pretty good about the investments and the opportunities in the unmanned arena.

And also relative to synergies in maritime, there are capabilities that legacy Harris had that we're now incorporating on new programs like frigate where there's 4 different shipbuilders and we're on all 4 teams with more content than had we not done the merger.

And then future vertical lift, which is -- specifically in the near term is the FARA program. Our focus there is to be one of the 2 down selects for Phase 2. We're teamed with another company who's the prime. They did the design, we did the modular open system architecture. And there is additional content from legacy Harris mainly in the EW and avionics that we're able to pull together.

So the synergy -- we're very excited about the revenue synergy. Bill mentioned the 14. But again, 120 days in, I think that's more than any of us would've predicted. We have to go ahead and execute. We got to go ahead and win these competitions. But we're both very excited about where we are today.

Michael Frank Ciarmoli - *SunTrust Robinson Humphrey, Inc., Research Division - Research Analyst*

Got it. And then just if I may, can you sort of give a general state of the union here on the continuing resolution? Should we think or do you guys envision that there will be any near-term impact in either revenues or bookings? Whether -- it doesn't look like this might get resolved by November 21. But if this drags on for 3 to 6 months, can you just maybe articulate if you expect any headwinds there?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Well, as I mentioned, we're as calibrated through calendar '19, assuming a CR goes through the end of the year. So like you were expecting, that will go beyond November 20 and go longer than that. It could go into early next year. I don't want to size it yet because we really need to see when it actually gets enacted, when the appropriations bills are enacted. We're hopeful that will happen by the end of this year. But we'll have enough time as we get into January to assess where we're at. And as we guide on '20, we'll incorporate the latest thinking out of DC on budget and budget timing.

But the reality, I think what's encouraging here is there is a top line 2-year agreement. There's a lot of alignment between House and Senate bills on funding areas. And as I look through that, we feel pretty good about the budgets as they're starting to shape up. And I'm optimistic that the overall budget will get approved. It will get approved on a timely basis, a lot of pressure on that to happen. So right now, it's not a concern for '19, and we'll revisit this in early '20.

Operator

Our next question comes from the line of George Shapiro with Shapiro Research.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Bill, just wondering that UTX has got to sell their Collins GPS business. I would think that would be pretty attractive for you and I was wondering if you'd comment on it.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

I won't. No, George. I'm not sure what UTX is going to do. I'm not really following the detail of what's happening in the regulatory process. So I really can't comment on anything that they might have to divest. I really don't have any inside knowledge on that.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Okay. And then just one for Jay. The lowered operating cash flow guidance, is that just timing of all of the onetime items that caused that kind of a drop?

Jesus Malave - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. Yes. That's exactly right, George. And if you look at it, I think if you take a look at the deal-related costs, they were, on a cash basis, $300 million plus. The good news with that is that's pretty much fundamentally behind us. And so it's not something that we'll have to worry about going forward. And what we'll have to keep track of is the cost to implement the synergies, the integration cost going forward. On a P&L basis, we'll be through the year about 250, with 200 left ago at the 450 level. And kind of the timing of that on a P&L basis is about 2/3, 1/3. On a cash flow, a little bit slower, about $375 million after tax there. And we'll be around 200-ish, I guess, this year. And again, I would say probably 60-40 in terms of cash impact between '20 and '21 there.

Anurag Maheshwari - *L3Harris Technologies, Inc. - VP of IR*

And just to add, if you're comparing it to the guide from last time, Josh, we also prefunded the pension of $300 million which was part of the operating cash flow.

George D. Shapiro - *Shapiro Research - CEO and Managing Partner*

Okay. And one quick one, if I might squeeze in. You should benefit next year from the discount rate coming down for your -- with pension income going up. Can you kind of just give us any benchmark as to how much it might change per every 25 basis point drop in DR or something along those lines?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. The 25 basis points, up or down, is about $10 million of P&L impact. The balance sheet impact is about $300 million in the liability.

Operator

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

Peter J. Arment - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

A lot of questions already asked here, but I'll just ask a quick one here, Bill, on all the investing and then just kind of highlighting, I think, these great revenue synergy proposals that have been put out. I guess what are you hearing from the customer in terms of the feedback on your investing? Obviously, it sounds very encouraging. And then anything about just share gains that you're going to be looking at.

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Well, look, I mean I'll jump in with -- and Chris can jump in as well and build on this. So Peter, look, first of all, we're very encouraged on the revenue synergies. Chris mentioned about being early in the process and we are. So there's a lot more to do. We have to go and win some things. So it's all sort of good indications. The feedback from the customers, I think, has been very good. But they've seen us do what we've been trying to do individually. And that's step up, invest in R&D, invest ahead of the need, be proactive in providing or offering solutions, being agile, moving things quickly. So overall, the feedback has been very good. And I think the fact that these revenue synergies are moving like they're moving is an indication of the trust and confidence that the customer community puts in this new company we call L3Harris. So I'll let Chris maybe build on that.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Yes. Absolutely. And I put the customers into 2 buckets, the end users, the DoD. We've had meetings as recently as last month. And they're very supportive of the merger. They like the agility. They like the significant investments that we are making.

And again, the mission solutions prime, the mission solutions provider plays in very well with the strategies that our customer has. And whether it's older platforms with new capabilities or new platforms with better capabilities, it's really in the sweet spot of where the challenges are.

And of course, we work collaboratively with a lot of other prime contractors. And again, those relationships are going well. And our capabilities that we bring to like an F-35 are appreciated and noticed. And we work collaboratively to provide those capabilities. So pleasantly surprised with the feedback. And we just have to continue to execute and deliver on time quality products.

Operator

Our next question comes from the line of Josh Sullivan with Seaport Global.

Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Just a question on the classified budget exposure. I know you provided some color there on the space exposure. But what about the rest of the classified budget? How big of an opportunity is that outside of space? And then maybe what percentage of the total portfolio at this point is coming from the classified budgets?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Yes. We kind of -- I probably can come back to you on the piece of the portfolio. We knew where legacy Harris was. I think we have to commonize our definition, but it could be in the 20% range.

The reality is when you look at the combined military and national intelligence budgets, it's north of $80 billion, $82 billion, something like that. So our piece of that or share of that still is relatively small. I think lots of opportunities to grow into it. But more importantly, the places where that budget -- or those budgets are shifting are more in line with the direction that we move. Clearly, there's been a shift towards resiliency and how you define that with space architecture. And I think we're ahead of the curve on that a little bit and we're enjoying some of the benefits of that. I think it's -- so we'll have to come back to you on what piece of our overall company is now -- part of it is definitional as well. So I think we'll come back and maybe have a different answer on that.

Joshua Ward Sullivan - *Seaport Global Securities LLC, Research Division - Director & Senior Industrials Analyst*

Okay. That's fair enough. And then just on the footprint consolidation efforts. Where are you moving faster? Are there any hurdles popping up? And I'm not sure if you mentioned but any metrics on square footage or the number of facilities maybe targeted for the end of the year?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

No. We didn't mention it. I mean we -- I think we've talked publicly that we have about 20 million square feet of space, just over 400 facilities. So we've obviously moved pretty quickly on a couple of different facilities, headquarters, facilities. We've moved pretty quickly on a few others. There's a number of projects that are working itself through the process. We're evaluating each one in turn.

The bigger ideas, the ones that are going to move the needle are the ones where we actually do production. Those do take some time to really think through, to action, to put teams against and we're right in the middle of that. When we step back, we talk about sort of the overall cost savings. We knew about half was coming from supply chain and facility rationalization. And the facility part was on the order of $30 million, $40 million, in that sort of overall magnitude. And we're making good progress. I think it's still early days in what will be a multiyear journey.

Operator

Our final question comes from the line of Rajeev Lalwani with Morgan Stanley.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

Just a couple of quick ones on the international side. Bill, can you talk about the traction you've been gaining there post the deal given the extended scale and size of the company? And maybe any color on the portion of revenues you think that could become as we look forward a couple of years?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

It's a good question. I'll start and maybe Chris can jump in here. So Rajeev, good question. So about 22% of our revenue today is coming out of the international. Again, we're still working to make sure we're harmonizing the definition of the international. So we're working on that, but it's around 22%.

We should expect that to come up over time. It's underpenetrated internationally. Combined, we've got a great position in 5 or 6 different markets. And through that combined strength in those markets, we do believe we can provide better offerings. It's something that we're working through on what the specific strategy is there. Chris is leading this with his team. But that should come up over time to sort of offset what might be a DoD flattening, if you will, in the next couple of years. So Chris, maybe jump in and say a couple of things on international.

Christopher E. Kubasik - *L3Harris Technologies, Inc. - Vice Chairman, President & COO*

Yes. Absolutely. And I put it in 3 buckets. We have 3 countries where we have a pretty big presence: in Canada, U.K. and Australia, where we have engineers and business development actually delivering and building product in country and exporting out of those countries. And those 3 are looking very good. And we've had some combined synergies from both legacy companies with those 3 countries.

We have the distribution systems the legacy Harris had in place and we're looking at some legacy L3 products going through those distributors. And then of course, we have the business development footprint in about 7 countries, mainly Far East and Mid-East. And we're very optimistic about the growth opportunities, again, bringing more capabilities to our customers. And I agree, we're 22% now, and there's an upward trajectory over the next couple of years. And we'll give you more in future calls, but good opportunity and good progress so far.

Rajeev Lalwani - *Morgan Stanley, Research Division - Executive Director*

That's great. And then real quick on the Tactical side. The DoD part of it has been incredibly strong. Is there any opportunity for the international side to maybe catch up to those sorts of growth rates over time effectively on a lagged basis?

William M. Brown - *L3Harris Technologies, Inc. - Executive Chairman & CEO*

Well, they're very different markets. They're driven by different factors. What you see in the U.S. is a shift towards modernization and upgrading legacy radios is well funded by government. So you've got different services moving at different rates, but you've got only a few services.

Internationally, we're in 100 different countries. So each one operates in different ways. But the reality of what we see is what's driving a lot of the growth right now is really coming from modernization and upgrading from what were Falcon II to Falcon III and now Falcon IV radios, moving from single-channel to 2-channel radios, really lagging and following what we see happening in the U.S. domestic market.

So typically, the way these things happen, you move from special operations in the U.S. with things like the 2-channel radio that Chris mentioned, the 2-channel manpack we're developing, the HF radio. That trickles into regular army in the U.S. It trickles into international special operations. That eventually trickles into regular forces on the international markets. That's sort of the trajectory here that we typically see. And that gives us encouragement we'll see continued growth into the future in international. I don't think it's going to be the sort of growth rates we've seen this year on DoD because they all run at different paces. But I do think that that's the general trajectory and what backstops growth in the future in international.

So just to wrap up here, thank you very much for joining the call. The progress we've seen in our first 120 days has been terrific. And our leadership team, our employees remain focused on meeting customer expectations and delivering value to shareholders while really executing extremely well in integration. I want to thank them for the hard work and for the dedication.

We feel good about our increased guidance as we enter the final innings of what has really been an exceptional year. And our relentless focus on our strategic priorities puts the company in a strong position to continue to outperform next year and beyond.

So thank you again for joining us today.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.
