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EDITED TRANSCRIPT

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OVERVIEW:

Co. reported 1Q21 non-GAAP EPS of $3.18 and 1Q21 YoverY organic revenue growth of about 2%.

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PRESENTATION

Operator

Greetings, and welcome to the L3Harris Technologies First Quarter Calendar Year 2021 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Rajeev Lalwani, Vice President, Investor Relations. Thank you. You may begin.

Rajeev Lalwani - *L3Harris Technologies, Inc. - VP*

Thank you, Rob. Good morning, and welcome to our first quarter 2021 earnings call. On the call with me today are Bill Brown, our CEO; Chris Kubasik, our COO; and Jay Malave, our CFO.

First, a few words on forward-looking statements and non-GAAP measures. Forward-looking statements involve risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please see our press release, presentation and SEC filings. A reconciliation of non-GAAP financial measures to comparable GAAP measures is included in the Investor Relations section of our website, which is L3harris.com, where a replay of this call will also be available.

With that, Bill, I'll turn it over to you.

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

Thank you, Rajeev, and good morning, everyone. Earlier today, we reported strong first quarter results, building on last year's progress with solid execution across all financial metrics. Organic revenue is up approximately 2% with mid-single-digit growth in our core government businesses, partially offset by COVID-related impacts of about 3 points from our commercial businesses, consistent with our expectations. This should be the last quarter of tough compares due to the pandemic, which our team has managed incredibly well, and we anticipate more stability in the affected businesses ahead. Margins expanded a robust 140 basis points to 18.9%, resulting in earnings per share of $3.18, up 14% and ahead of internal targets.

Free cash flow was $630 million supported shareholder returns in excess of $900 million, including repurchases of $700 million from our recently authorized $6 billion program, with a balance from dividends following our 20% increase in March.

Before handing over to Chris, with the transition occurring as planned on June 29, this quarter marks my 38th and final earnings call leading Harris and L3Harris as CEO. It's been rewarding nearly 10 years with the hard work and dedication of our employees. Harris grew from a small, niche, defense company to a leading mission solutions defense prime post the acquisition of Exelis and the merger with L3 with revenue today of over $18 billion.

I'm especially proud of the people at L3Harris who work hard every single day to support our customers' critical missions and deliver value to shareholders. The performance culture and the work environment we created is really special, and we recently were recognized for it by Fortune as a 100 best company to work for in 2021 and earlier this year as a world's most admired company.

As you know, I'll continue as exec Chair of the Board for another year, working closely with Chris as he becomes CEO. Last week, the independent directors of the Board unanimously endorsed the transition occurring as planned in the merger agreement, indicating their confidence and mind in Chris' ability to lead this company going forward.

The results today speak to the momentum we have in the company and the strong foundation we've built for the future. And I'm excited and optimistic about what L3Harris can accomplish in its next phase under Chris' leadership.

So with that, Chris, let me turn it over to you.

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

Okay. Well, thank you, Bill, and I appreciate your and the Board's vote of confidence and look forward to our continued partnership in your new role. As you heard at our investor briefing last month, we're excited about the potential for the company and the value creation opportunities in front of us.

The strategic priorities we develop together, as shown on Slide 3, are the foundations on which we'll deliver sustainable top line growth, steady margin expansion and robust free cash flow with industry-leading capital returns. All areas where we showed great progress in the first quarter.

In terms of the top line, our Q1 results, coupled with the Biden administration's announcement that the defense budget will continue to grow in FY '22, about 1.5 points versus FY '21, reinforces our optimism for growth.

We are encouraged by the continued focus on National Security and support for our military within the budget and believe L3Harris is well aligned with priorities that emphasize the return to peer competition and operations in increasingly contested environments. This backdrop provides us opportunities to offer our advanced and affordable solutions across all domains. We're watching closely for more details in the coming months and expect to consistently grow through our strong DoD portfolio, revenue synergies and international expansion, which stem from our R&D

investment. In the first quarter, we gained traction as we grew 4.8% in our core government businesses with international up double digits, driven by solid growth in aircraft ISR and Tactical radios.

Turning to revenue synergies. We received 8 new awards, maintaining our healthy win rate of about 70% with total awards to date of approximately $400 million. We anticipate sustaining our momentum given notable prime level awards across all domains that represent multibillion-dollar opportunities. On the space side, in addition to our recently highlighted HBTSS Responsive Satellite award with the Missile Defense Agency, our 5 decades of experience building space-based imaging systems has led to our down-select for the initial concept and design of next-generation weather imagers. This award supports NOAAs future satellite system recapitalization.

The administration's focus on climate initiatives, supported by a nearly 30% FY '22 budget increase for NOAA, reinforces the opportunity set for L3Harris as we are a leader in weather payload and ground systems, creating an opportunity of $3 billion over the next decade.

On the air side, we had strong orders on both new platforms such as the F-35 and legacy platforms, including the F-18 and F-16. In particular, we leveraged our experience with providing F-16 systems and our expertise in software-defined open systems architecture to secure a contract to develop the next-generation electronic warfare suite on international aircraft.

We can further expand our global footprint with opportunities in more than a dozen countries in the Middle East, Asia and Europe. This adds to our recent success with the U.S. Navy's Next Generation Jammer Low-Band award, for the EA-18G Growler. We're quickly establishing ourselves as a global leader in electronic warfare and aircraft survivability.

We also closed on the ISR aircraft contract with the NATO customer to missionize a series of G-550s that was still pending parliamentary approval last quarter, and we continue to work on similar opportunities for other customers, which when combined with the NATO award demonstrates our ability to expand our international footprint and represents over $3 billion in potential value over the next several years.

Moving over to the land side. We continue to make progress supporting modernization efforts on both the domestic and international fronts, including a follow-on production order under SOCOM's $255 million multichannel manpack IDIQ contract. We also received orders for our advanced radio and night vision products from Western Europe, the Middle East and Central Asia, further strengthening our international leadership.

And finally, in the sea and cyber domains, our maritime team was successful in winning 2 new prime level programs to provide imaging systems on submarines for international customers. These strategic wins highlight our ability to expand our global maritime solutions to new customers with additional follow-on opportunities to come. And while limited in what we can say due to its classified nature, our $1 billion intel and cyber business received a follow-on order to provide end-to-end mission solutions within its ground-based adjacency franchise as we continue to deliver against our customers most challenging cyber requirements.

These wins provide long-term visibility and support for our funded book-to-bill of 1.10 in the quarter. Our total backlog remains above $21 billion, up 6% year-over-year when adjusted for divestitures. In addition, with considerable recent bid and proposal activity, we're aggressively going after our 3-year $125 billion pipeline to deliver sustainable top line growth.

Shifting over to margins. This quarter, we saw the healthiest results since the merger at nearly 19%, which puts us in a strong position to meet the upper end of our full year guidance. Cost synergies of $33 million, primarily attributable to supply chain and facilities consolidation, put us well on track to deliver up to $350 million of cumulative net benefits in 2021, a year ahead of schedule.

Our E3 program also gained traction through strong program performance, factory productivity and supply chain savings, and we continue to believe that there is considerable potential beyond this year to enable another phase of cost opportunities to sustain margin expansion for L3Harris.

Lastly, we're maximizing cash flow through continued working capital and CapEx discipline, driving shareholder-friendly capital deployment. And while we're holding off on updating our $2.3 billion share repurchase target for the year based on our announced and potential divestitures, we still see considerable upside to the plan.

As an update on portfolio shaping, we've recently cleared the U.S. antitrust waiting period on both the previously announced military training and combat propulsion systems divestitures and are on track to close in the second half of the year. We're progressing on other portfolio shaping opportunities, and we'll provide more details over the coming months. And to reiterate, inclusive of divestitures, we remain on track to deliver on our $3 billion free cash flow commitment in 2022, along with double-digit cash growth on a per share basis, excluding potential tax policy impacts. So we're pleased with the execution against our strategic priorities and progress we've made at the start of the year, which gives us confidence to raise the bottom end of our EPS guidance.

So with that, I'll hand it over to Jay.

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

Thank you, Chris, and good morning, everyone. First, let me begin with a brief recap of the quarter before I get into segment results.

Organic revenue was up about 2% as growth in IMS, SAS and CS was partially offset by the expected decline in AS due to the pandemic. Overall, our core government businesses were up 4.8% reduced by about 3 points of COVID-related impacts in our commercial businesses. Margins expanded 140 basis points to 18.9%, with expansion in all 4 segments, primarily from operational excellence, integration benefits and cost management.

We did better-than-expected in the quarter from stronger E3 and cost synergies of roughly 70 basis points as well as some timing benefits from lower R&D and program mix of approximately 50 basis points. This, along with share repurchase activity led to earnings per share growth of 14% or $0.38 to $3.18, as shown on Slide 6. Of this growth, synergies and operations contributed $0.34, along with a lower share count, pension and interest totaling $0.23, which more than offset divested earnings and headwinds from pandemic-impacted end markets.

Free cash flow of $630 million was the result of solid net income drop-through as well as CapEx and working capital discipline, with days roughly steady at 55. And shareholder returns of $909 million were comprised of $700 million in share repurchases and $209 million of dividends.

Now let's turn to Slide 7 and discuss quarterly segment results. Integrated Mission Systems revenue was up 5.9%, with growth in all 3 businesses. Double-digit growth in maritime from a ramp on manned platforms, including the Columbia class submarine in Constellation-class Frigate, was complemented by growth in ISR from the NATO award carryover from last year and an Electro Optical from deliveries of our WESCAM airborne turrets to the U.S. Army.

Operating income was up 19%, and margins expanded 180 basis points to 16.5% from cost management, integration benefits and operational excellence. Funded book-to-bill was impressive at over 1.3 in the quarter.

In Space and Airborne Systems, organic revenue increased 4.1%. From responsive programs, including SDA tracking in HBTSS, driving high single-digit growth in space, as well as growth from the F-35 platform in mission avionics and double-digit classified growth in Intel and cyber. The strength was partially offset by program timing and electronic warfare.

Operating income was up 8.6%, and margins expanded 90 basis points to 19.4% from cost management including R&D timing, operational excellence and higher pension income. Funded book-to-bill was a solid 1.15 for the quarter from strong bookings in our Space and Electronic Warfare businesses. Next, Communication Systems organic revenue was up 2.9% with high single-digit growth in Tactical Communications, primarily from the continued ramp in U.S. DoD modernization. That also drove integrated vision solutions and global communication solutions up double digits.

Conversely, volume was lower on legacy unmanned platforms within broadband due to the transition from permissive to contested operating environments. And within public safety, due to anticipated COVID-related impacts, they are now showing signs of stabilization.

Operating income was up 12%, and margins expanded 240 basis points to 25.3% from operational excellence, cost of management and integration benefits. Funded book-to-bill was 0.92 for the quarter. Finally, in Aviation Systems, organic revenue decreased 8.3%, primarily driven by COVID-related impacts in our commercial aviation business, consistent with expectations and from program timing in military training.

High single-digit growth in mission networks from higher FAA volume paired with fusing and ordinates growth in defense aviation helped to offset these effects. As we move past the first quarter, we're anticipating a return to growth in this segment as we lap COVID effects while our combined government businesses continue to grow. Operating income was down 13%, primarily from the sale of our airport security and automation businesses. Margins expanded 120 basis points to 15.7% is operational excellence, cost management, including R&D timing and integration benefits more than offset COVID-related headwinds. Funded book-to-bill was 0.84 for the quarter.

Okay. Let's shift over to 2021 guidance. We're off to a strong start with our first quarter results and performance, and we're confident in our integration and operating expectations, as well as our top line growth of 3% to 5%, supported by a solid 1.10 book-to-bill this quarter. This puts us in a position to raise the bottom end of our full year EPS guidance by $0.10 inclusive of announced divestiture impacts. We'll provide a more comprehensive update later in the year.

In the interim, I'll provide some color now on the moving pieces, specifically on margins, portfolio shaping and capital returns. On margins, this strong start will likely push us toward the upper end of our range of 18% to 18.5%. We do expect margins to normalize for the balance of the year due to increases in R&D, and stronger growth in new programs with lower initial margins. Overall, the expected upside for the year from our prior midpoint is due to strong program execution and cost performance, and will be a key factor in our 2021 earnings strength.

On portfolio shaping, we now expect about $0.10 of dilution from announced divestitures net of buybacks from proceeds. And there are a few remaining businesses that are in various stages of the divestiture process, which could have a modest incremental EPS impact for the year. Lastly, as highlighted at our investor briefing. We have another significant year planned for capital returns. Embedded in our guidance is $2.3 billion of share repurchases from cash generation, which will be further augmented by over $1 billion in net divestiture proceeds. So overall, for 2021, we're confident in delivering on our commitment of double-digit annual growth in earnings and free cash flow per share.

With that, Rob, let's open up the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Congratulations, Bill, on building the company you have. And Chris, of course, we look forward to what you have in-store for us. I guess I wanted to focus on 2 businesses that are doing pretty well or accelerating. So on the international front, I think it was up double digits in the quarter. How are you thinking about the main drivers there going forward? And then maybe more on the domestic side of things, if you could focus in on the space portion of SAS, you called out growth in programs in space, but wanted to quantify overall space and just how do you think about growth drivers there going forward, just given wins with FDA or HBTSS? Lots in there, sorry.

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

Okay. Sheila, thank you very much. Let me start with international. You're right, we did have a good quarter with double-digit growth. We had book-to-bill of 1.3. As I mentioned, the aircraft ISR, the Tactical radios and maritime were the key drivers.

Looking at our pipeline, we have about $35 billion of opportunities over the next 3 years. So really impressed with the team's work as we position ourselves for future growth. It all started with the strategy that we laid out, really a 2-part strategy: one, focusing on the mission systems and the larger programs, such as the ISR platforms. We've talked about, working in tandem with our sales force, which is out there with the products. So when you look at the radios, the night vision goggles, the WESCAM EO/IR turrets, it's a nice complement. So I think the diversity of our portfolio and the geography with customers in over 100 countries, really positions us well for continued growth.

Shifting to the space question. The space business is part of SAS. I kind of look at it in 4 buckets. On the low end, we have some products, some telemetry and antennas. We do some groundwork, which I think is important to better understand the mission and to support some of these classified constellations.

They tend to be mid-single-digit growth, but it's all about the SATs. Historically, we've been on the exquisite satellites as a supplier or a subcontractor, GPS III and classified SATs come to mind, but the responsive satellites is really where we've moved the needle over the last year or so and where we're optimistic in the future. So that's the fastest-growing part of the portfolio, double-digit growth for the year.

We've talked about the Zeus program. We've talked about SDA tracking, HBTSS and a fair amount of classified bids that we're working on today. So hopefully, that gives you a little bit of granularity and insight as to how we'll grow in space.

Operator

Next question is from Robert Stallard with Vertical Research Partners.

Robert Alan Stallard - *Vertical Research Partners, LLC - Partner*

Best of luck for the future, Bill, it's been quite ride. But my question is quite simple this morning. The communications margin was very strong in the quarter. I don't know if it's a record margin. It certainly feels like it. I was wondering if there was anything unusual that pushed it this high in the first quarter? And basically, what's going to bring it down into the guidance range for the rest of the year?

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

Sure, Rob. It was -- there's nothing unusual that was in the results, a little bit of R&D timing. And so we'll see a little bit of pressure there. But the more significant kind of factor that will normalize their margins towards the balance of the year will really be related to the newer programs.

As you know, we've got the army HMS programs in the back half of the year. We also have programs like the Next-Gen Jammer in the broadband business. And so those will likely put some pressure in the back half of the year in the margins. I'll just -- the broader comment I would say is, it's a great start. Maybe this is an indication of how to think about things perhaps in the future, but we'll see a little bit of normalization here in the subsequent 3 quarters.

Operator

Our next question is from the line of Richard Safran with Seaboard Global.

Richard Tobie Safran - *Seaport Global Securities LLC, Research Division - Research Analyst*

Bill, for what it's worth, I thought you did an absolutely terrific job. So I wanted to ask about the large pipeline you've been talking about. You've had a very high win rate. I read about new starts, like the one with (inaudible), unmanned systems like NOMARS. And was wondering how this really large expansion and transformation is going to reshape the company and thinking longer term?

I mean, do you need to increase overhead and your footprint to support new customers, does CapEx increase to support manufacturing of new platforms. Does the focus of the R&D spend need to shift a bit? And I'm looking at this from a return on invested capital standpoint, trying to find out if the company is sized to support all these new efforts or maybe this is a situation where you're actually doing more with less, expanding operations only with current assets?

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

Okay. Thank you for that question. A great, great question, and it ties into the strategy that we've talked about. You mentioned NOMARS which is an interesting opportunity. That's the No Manning Required Ship, a recent DARPA win, which I think is pretty interesting relative to what the Navy is trying to accomplish because as you know, historically, they've taken manned ships and try to convert them into unmanned. And this is an early stage design program where we would be -- we're 1 of 3 winners, if you will, and it's really starting with a clean sheet of paper, how would you design a ship, knowing it was going to be unmanned from the beginning.

So in that one, it will be interesting to see how that progresses. The follow-on will be 2022, which will probably be a prototype and in that case, we team with -- we have a variety of teammates, and we would probably team with a shipbuilder. So we're not going to be investing in a shipyard in that case. I think, generally, we're pleased with the footprint and the size our facilities. We talked about space and some of the growth, and we took some existing facilities and modify them and re-laid out the footprint to optimize the flow with new tooling and such.

So we spend $1 billion a year between CapEx and IRAD. CapEx is about 2% of our revenue. I think that will drift down over time. IRAD is industry-leading at almost 4%. So the $1 billion, I think, positions us well. I do not see any increase in overhead or significant CapEx to meet our strategy. And again, most of what we're working on are the systems versus the actual platform. So it does not take up as much factory space, if you will.

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

Richard, if you think about CapEx for the moment, we -- over this next -- this year as well as the next few years, we have investments in our IT systems as we're consolidating our platforms. We also have investments as we're moving facilities and consolidating facilities. So as those trail off, that will create capacity to invest in new programs over the next few years. So we don't really see significant new requirements to -- from where we are at the levels today in CapEx.

Operator

Our next question is coming from the line of Carter Copeland with Melius.

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

Bill, echo all the congratulations on the last several years. It's been an amazing ride. Just a quick one and then one you might expand on a little bit, Chris. Do you guys have any ISR exposure to speak of in Afghanistan that makes for a headwind with the plan withdrawal? Just want to cover that base? And then Chris, I wondered if you might expand a little bit on how you think about the capture rates that are embedded kind of in that 3-year pipeline to accomplish your growth goals?

I mean, I look at some of the programs you've won and things like HBTSS and Next-Gen Jammer low band, which may not have been as traditional thought of as things you might go out and win, and it seems like those capture rates have been increasing, but I don't know if you track that or if you can speak to that?

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

Yes. Thanks, Carter. No, we do not -- the first question, we do not have exposure in ISR in the Afghanistan. Total exposure there is in the $10 million range of revenue and a fair amount of that is just ground systems, so not significant. Great question on the pipeline and the capture rates. And I think you're right. I think we've surprised people with some of the wins that we've had, but it really aligns with what we're hearing from our customers. And their change in acquisition process. They really are looking for disruptive and innovative and agile affordable solutions, and that's what we've been providing.

We do track our win rates at the company level. And you don't necessarily -- if they're too high, it suggests that we haven't opened the aperture and been as aggressive as we would like. So we track those on a segment and an overall basis and $125 billion over 3 years. If we are successful in at least 50%, that easily tracks to our mid-single-digit growth targets. And then on top of that, we have the revenue synergies that we've talked about. So we're comfortable with what we've done. We have professionalized the business development function, I believe, and we're starting to see the results from that.

Operator

Next question is from the line of Ron Epstein, Bank of America.

Ronald Jay Epstein - *BofA Securities, Research Division - Industry Analyst*

How are you thinking about opportunities in commercial space, right? I mean the space environment has been -- a business environment. Anyway, it looks like we're going through a period of change. Are there opportunities for L3 hires there? And how are you thinking about that?

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

Yes. Thanks, Ron. I think there's been some opportunities in commercial space where some of our payloads, I think we could provide to the primes as far as us investing in our own constellations or expanding capital is not currently in our strategic plan. Of course, we have exposure or capabilities that support the launch vehicles which launched both military and commercial satellites. So we have some opportunities there as well, but as far as being a prime in the commercial space market at this time, does not align with our strategic plan.

Operator

Next question is from the line of Seth Seifman with JPMorgan.

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

Congratulations to Bill and Chris. I just wanted to ask if you could provide some of the disclosure that the typically do around the tactical radios in terms of the domestic and international sales and and backlog? And then maybe you mentioned some mix shift there as HMS ramps up. At this point, roughly, what portion of the DoD, in very rough terms, Tactical sales come from army HMS? And kind of how do you expect that to evolve over the next year or two?

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

Okay. Seth, let me first start with some of the accomplishments we've had in Tactical radios, then I'll ladle the ball to Jay to give you the specific numbers. And we're off to a very good start in 2021, as you saw in the press release. On the DoD side, a couple of highlights here: the army, HMS Manpack, recently completed the IoT last year was in the process of going through the [DOT and E] test and evaluation recently. And the good news is we just received an RFP for the full-rate production.

So I think that's a great sign that the modernization is moving forward. In a month or so, the Army should be issuing its HMS leader radio RFP, again, for full-rate production. So I think that, again, is an additional positive sign. The Marines recently released an RFP for their handheld radio and the

SOCOM business has been growing. We've been meeting milestones. And in my prepared comments, I mentioned an order there for the multichannel manpack. So it just gives you some flavor as to how the business is doing on the DoD side.

Internationally, we have good visibility in Saudi. Last year, we booked $174 million order for the Ministry of National Guard. So we'll have that revenue run out. Through this year, and we're working closely with the land forces on a software-defined radio for about 5,000 initially. So that's going through the Saudi process.

Europe and U.K., we had good growth. U.K., the Morpheus program is going to replace the Bowman radio. So we're hoping to hear something later this year. So again, I feel pretty confident in what we've done. In Australia, last year, we talked about the del SIC, crypto standard upgrade in new radios for Australia. There's follow-on opportunities there. And of course, New Zealand is also a customer that we're working closely with. So kind of operationally or business development-wise, I wanted to give you some insight to what's going on, and Jay will provide you the numbers you requested.

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

Sure, Seth. So I'll give you the numbers in the format we've historically provided. Orders were up $424 million. Sales $474 million. Of the sales, DoD was $297 million. International was $177 million, and the funded backlog was $958 million. Related to your question on army modernization, about 1/3 of the DoD is army modernization. You know that will continue to grow, particularly as we go into full rate production on the army HMS modernization in the back half of this year.

Operator

Our next question is coming from the line of Myles Walton with UBS.

Myles Alexander Walton - *UBS Investment Bank, Research Division - MD & Senior Analyst*

And good luck, Bill, in your transition. And good luck, Chris, in yours. In terms of the F-35s, Chris, what better way to bring back old memories than an F-35 question. At the hearings last week, it was brought up about Tier 3 and L3Harris potentially being one of the sources of some delays there. Could you comment on the progress you're making and the recovery plan there as it relates to your subcontracting relationship?

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

Absolutely, Myles. I'll give you some background. Maybe it's going to be a longer answer than you'd like, but I think it's important to kind of calibrate everything and then I'll I'll ask Jay to maybe give you some of the financial implications.

But you're right, I personally been involved or around F-35 for 20-some years as well as many of our senior execs. So I think that that's an important point. And we all absolutely are committed to this platform, which I think is 1 of the best aircraft in the world. So L3Harris and legacy companies, we've been a supplier for over 20 years. We have a really good track record. A few months ago, we delivered our 2 million (inaudible) and we're at like 99.9% on-time delivery.

So a lot of the work historically has been with TR2, the Tech Refresh 2 weapons release displays. But your question is specific to TR3, Tech refresh 3, which is a very complicated developmental program to meet some of the new challenges that our nation faces. So you're right, we've realized some of the risks 2 main drivers. We've realized risk that we had identified and thought could occur when we bid the program.

And secondly, as it was referenced in the testimony, there have been numerous government direct changes. So those are unfortunate, but not unexpected when you're in a developmental program. We're working on 3 main products: the AMS, the Advanced Memory System; the PCD, which is the Panoramic Cockpit Display; and the ICP, which is the Integrated Core Processor. So we've been stable for the last 6 months relative to our cost. Estimates in our schedule. The AMS and PCD hardware or starting qualification and ICP is just behind that.

So when you look at how important the TR3 is, it's a step change in capability. It's half the cost of the TR2 once it gets into production, and it's been designed for easier affordability and sustainment. So we're just about ready to kick off the production phase. I will say that our past financials and our current guidance reflect our performance, we don't anticipate any changes there. And then strategically, these capabilities that we're developing are going to put us in a position to leverage this technology on other products, platforms and future program. So we're excited about that, but maybe Jay can comment more specifically on the revenue and the margin implications.

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

Yes. Just going forward, maybe over the few -- next few years, our ship set content today is a little bit over $2.5 million, around $2.6 million. With the TR3 production with lot 15, that will go to around $3 million per ship set. So as that -- again, starting lot 15, as the aircraft volumes start to flatten out, we will see growth just through higher content. It's important to keep in mind that as this modernization program, there'll probably be other modernization programs that that we'll be involved in. And of course, will also be part of sustainment program. And so we see this as continuing to drive growth. I think we'll update it as each year progresses. This year, as Chris mentioned, a little bit softer from a growth perspective, but we expect that to pick up next year.

Operator

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

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

Best of luck, Bill. I wanted to ask a question on the guidance, just so I have it straight. So the EPS guide as of now doesn't reflect the pending divestitures, but it looks like from the Slide 12 that you think you can offset the the dilution through share repo? I guess that's question number one. And then just with the divestitures all coming out of AS, what does that do to the margin profile on a go-forward basis for AS?

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

Okay. David, just to be clear on $12.85, that does anticipate or include the $0.10 of expected dilution from the announced divestitures. So that's in the $12.85, as far as the announced divestitures impact going forward on AS margins, it's about 100 basis points dilutive. So the margins on these 2 businesses composite a little bit higher than the average going forward. That will again change -- as, I guess, downstream. We'll see with organic improvements, but just baseline impact of the divestiture is about 100 basis points.

Operator

Our next question is from the line of Douglas Harned with Bernstein.

Douglas Stuart Harned - *Sanford C. Bernstein & Co., LLC., Research Division - SVP and Senior Analyst*

Bill, Jay, Chris, I mean, you've seen a lot of companies and I mean I cannot begin to count the number of situations where management has said, we have a cost reduction program in place, lay it out, they often have interesting names to them. You all have done the integration, you have the E3 program, and we're really seeing the improvement in margins. But I have to say, most of the times, you see these cost reduction programs happen. And the savings get competed away, mix changes, other costs arise.

So when you look forward, can you talk about the things that you're doing and can -- how you can really have confidence that we can see a continued progression of margin improvement?

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

Doug, thank you. First of all, it's Chris. You're right. The integration and the cost synergies, I think, has been a great success. As I mentioned, we're a year ahead of schedule. And it really goes back to -- after we announced and before we closed, we had a dedicated team the integration management office that really laid out a detailed plan to go ahead and capture these cost synergies, and that's something that Bill, Jay and I we have been meeting and continue to meet every Monday to review the progress.

And it takes time, especially something like IT because we've been consolidating our ERP systems, investing in the infrastructure and and going with new applications relative to -- so that should wrap up by the end of this year, and then we'll focus entirely on the E3 process. It's really becoming part of the culture, and we identify projects, we review them on a weekly basis. And these are just lots of singles and doubles, a couple of hundred thousand here, $1 million there, and we go sector by sector, segment-by-segment and world-class organizations continually take out 2% to 3% of their cost each and every year over and above the increase in salaries and and others.

So we're having good momentum. We have good visibility. We came out strong this quarter. You see it for the year. And my expectation is that we absorb the headwinds, and we continue to go forward. So I don't know if anyone has anything further that.

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

I'll just say, as you would expect, and as you know, it's management attention, both the synergy program and E3 operational excellence programs were in parallel pass from day 1 of the merger, we've had separate reviews and go through all of those, and these reviews are monthly. So management system we expect to continue that we had started from day 1 of the merger. And we have monthly reviews with each of our segments. As Chris mentioned, we go through the top 10 to top 15 programs on the E3 operational excellence program to make sure that they're on track. And so it's simple as management attention, focus in continuing to drive the operational foundational basics are performing better each and every day.

Operator

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

Kristine Tan Liwag - *Morgan Stanley, Research Division - Equity Analyst*

Congratulations, Bill, and good morning, everyone. Just following up on Doug's question on margins. Can you provide a little bit more color on what the E3 top programs are, what initiatives you're pursuing? And also on cost cutting, how do you know you're not cutting too much, but it ends up hampering performance in the future?

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

Yes. Thanks for the question, Kristine. I'll start and then give it over to Jay to give you the specific numbers. Well one way, I know we're not cutting and I think I said this back in the March meeting. Again, you look at what we're investing on the front end of the business in R&D and industry-leading amount, I said before, we did not cut R&D. We could have cut R&D and increase the margins further, but we aren't, we're taking a long-term approach. The investments we have in bid and proposal, of which we're submitting lots of proposals the R&D and direct sale expenditures have generally increased as we try to focus on the front end of the business.

We talked about the revenue synergies important part of our success is the workforce. And we actually started day 1 of the merger with negative synergies as we increased the cost and the benefits to make sure our workforce was fully engaged and supported. So that's the headwinds and the items I look to give me confidence that, again, we're not looking at this short term. Quite the contrary, we're looking longer term.

And we're taking an enterprise-wide approach. So we talked about shared services as an example. There's lots of companies out there. That have individual segments or sectors, doing their own processing, whether it's payables or payroll, some of this stuff isn't overly exciting, but go into a shared service concept, having single process, single systems and optimizing for the benefit of the enterprise versus individual divisions, sectors or segments is, I think, part of the strategy. And a lot of people say it, it's not easy to do, and we're doing it.

So whether it's procurement, whether it's quality, E3, shared services, all those things we're looking at at an enterprise level, taking out the inefficiencies. And there's more work to do in the years ahead, and that's what gives us confidence. But Jay, do you want to maybe give more detail?

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

As far as specific initiatives, things that you've heard of in the past, whether it should cost value engineering, supply chain, shop productivity. Just a specific example in our ISR businesses in terms of people as you would expect, it'd be all over an aircraft teardown and rebuild, it's simple things like changing the tooling so that you get a benefit in ergonomics as well as an hours reduction or minutes reduction in the rebuild of a particular aircraft. And so we've been able to take tooling, in some cases, it's customer-funded tooling on top of it, where we're able to change our processes, improve them and take costs out at the same time. So it's not a -- let's just slash cost and hopefully it's fixed. These are more systemic type reductions that we have an organization built around to drive continuous improvement and sustainable reductions.

Operator

Next question comes from the line of Peter Arment with Baird.

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

Congratulations, Bill, best of luck. Chris, on the space and airborne, margin performance continues to be really impressive. And I was thinking just about regarding your cost reimbursable mix has continued to grow quite a bit there. I think it was up 30% year-over-year. How do we think about kind of sustaining these margins with the mix shift that's happening there? Is there still a lot of E3 efforts going on? Or maybe just any color there.

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

Yes. Thanks, Peter. No, we apply E3, not only to the fixed-price contracts, but to cost plus. When we talk about the portfolio that we've built and how we're positioned in all these domains a lot of these programs that start out is cost-plus or development, I have a long light, sometimes decades, right? So they move into full-rate production. And then, of course, fair amount have potential for international export.

So we look at it as a portfolio and in a natural healthy growing business, you are going to have the headwind mix from the development programs, which we'll take every day of the week. But the rest of the portfolio is continuing to mature through its cycle. And as I mentioned, F-35 is a good example. We're getting through the TR3 and then we'll be starting production, and that program should have a lot of legs as an example.

EW is part of SAS. That's how we've had good success of late, as I mentioned, with the F-16 as a specific example. We have legacy programs on the F-18. I don't talk a whole lot about the cyber business, but that's growing. And again, there's a commercial model aspect to our cyber business that allows us to have licensing and other opportunities to grow margins. So that's pretty much how I look at it. And again, we continue to have confidence, even with the cost-plus piece of the portfolio.

Operator

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

Unidentified Analyst

This is Dan on for Gautam. So this question -- this is actually already asked for CS, but I was hoping because margins were pretty much stronger across the board. Book guidance was held. And so I was hoping maybe you could expound on why particularly at IMS and SAS, what kind of tempers that performance throughout the remainder of the year to come back into the guidance range?

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

Sure. So in SAS in particular, we expect, in their case, R&D to tick up in the back half of the year. And so that's one. And then as well as just programs growth on some of these new wins, it's going to drive margins down just on the lower initial margins, I mentioned in my prepared remarks. So for us, Dan, is just 2 factors, a tick up in R&D, and then a tick up in the lower margin new programs.

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

I'll just add, Dan, it's still early in the year. And in my comments, I suggested this gives us high confidence to be at the higher end of the range. So we'll keep it updated and let you know if changes are warranted later in the year.

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

And it's similar with IMS as well. Again, for them, it's program timing, particularly in the maritime business. There have been a lot of new wins in that sector. Chris mentioned -- we had mentioned before, things like the medium unmanned surface vehicle. Also the other programs that they've won is just going to drive a little bit lower margin in the back half of the year as we ramp up those particular programs.

Operator

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

Jonathan Phaff Raviv - *Citigroup Inc., Research Division - VP & Analyst*

Of course, congratulations to all, especially on Bill and Chris. A slightly more myopic version of Doug's question and Kristine's and the question from Dan. When you think about this year's margin, you're talking about the upper end of the guidance range for this year. Is that set a base off of which we continue to expand or should we take this year's rapid improvement as comprising maybe a couple of years of expansion such that '22 could perhaps be flattish. For example, you've mentioned several times, Jay, that you have some new programs ramping up as the year progresses. Is that going to maybe hold down some of the expansion opportunity next year?

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

Yes. So it's a little early to talk about our guidance for margins next year, but I will say that our goal is each year is to continue to drive the margins up. We've talked about a smaller ramp in expansion. But our goal always is, is that the E3 productivity operational excellence program exceeds the headwinds from mix, and that's what we look to strive for each and every year. It's going to vary from year-to-year.

So as we get into more specifics, as we put together our plan for next year, we'll be able to obviously give you more detail there, but the way you should think about it on average each year has continued to drive-up, it will slow from what we've seen in the last few years, but our expectation is to continue to grow.

Operator

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

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

And Bill, congratulations on your time and success with the company. And thanks for working with us. It was really a pleasure to work with you.

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

Thank you, Noah.

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

And Chris, all the best going forward and look forward to working with you as well.

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

Thank you. As do I.

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

Could you guys update us on the programs that had slipped last quarter that you identified? There was the ISR aircraft program that you discussed. And I think there might have been a few other smaller ones. Did those did those land in 1Q or not? And if they didn't, when do they? And with the ISR 1, my understanding was the delay was caused actually by it being sized up but that you hadn't put all of that into the guide. If you could just update us on how you're handling that in the outlook?

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

Yes, no, all those items that didn't quite cross the goal line in December were, in fact, booked in Q1. So the guide represents those programs that have been booked, the results are in the quarter and for the year. So we're very optimistic. I mean the ISR business, when you take this NATO customer, plus what we've done in Australia and here in the U.S. with the C3D program, there's still lots of legs in aircraft ISR. So everything is contained in the latest guide. And as I mentioned, there are several billion dollars of opportunity over the next couple of years as we continue to execute on these programs.

Operator

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

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

Again, congratulations to Bill, and good luck to you, Chris. These questions are -- a couple of questions for Jay. You spelled out pension income as a benefit in space, but not the other sectors. I would think other than aviation, it's pretty symmetrical. If you could just spell out how much of a contribution it was as well? And then if you could just provide how much were public safety and commercial revenue is down? And how do they -- how are they on a sequential basis? And what's the kind of rough numbers that we're at today?

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

Sure, George. So for pension, you're right. It was the largest at as but there were benefits across the portfolio, IMS benefited about 30 basis points. CS was very small, about 10% and as about 20 basis points from pension. Overall, for the company, about 30 basis points all in.

As far as the commercial businesses, PSPC was down low 20s. And the commercial aviation was down a little bit below 50%. And in the quarter. So combined, you're talking in the 30s. Sequentially, commercial aviation was slightly down from the fourth quarter. And PSPC is the same, slightly down. Some of that though is seasonality. It's not -- I don't think the compares that creates on a sequential basis.

It's better, I think, year-over-year. Fourth quarter, I think, is seasonably higher in both businesses.

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

I'll just chime in, George. Relative to PSPC, I'm sure you're seeing the $1.9 billion COVID bill has about $360 billion for state and local municipalities. And the states have full discretion, don't have to spend that money.

So I think that's going to give us more confidence in the PSPC recovery. Most of which, as you know, is with states and local municipalities. So I'm sure they're going to be trying to figure out between education, healthcare and public safety, how to spend that money, but I think just in the first quarter, we tripled the number of proposals that we submitted.

So I have confidence the second half of the year we'll start to see the recovery that Jay mentioned. And I think we're all familiar with what's going on in commercial aviation. So again, that's back-end loaded as well.

Operator

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

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

Congrats, Bill and Chris. Maybe just going back a little bit to Ron's space question and kind of tying in where Peter and John were going on margins. At the business update, kind of presentation last month, you kind of talked about within space and within the segment there around this sort of factory business model with these newer constellations laying out a path towards, I guess, 4x as many deliveries how do we think about the move in that production and the higher volumes and presumably some of the leverage you'd get year on better throughput, better purchasing? Is that going to be a big source of margin expansion outside of E3? It seems like you're taking on a much different production philosophy there?

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

Yes. Michael, well said, I think absolutely, that's going to be a contributor to our margins and coupled with volume. So we talk a lot about HBTSS, SDA we want to down select. We still want a competition. We're going to go ahead and focus on delivering those aircraft on time and getting them launched. And then that's where the real opportunity kicks in whether they keep 2 suppliers or go down to 1, there's literally 10s, if not more of satellites for decades to come. So the volume will also play into that. And part of the E3 methodology and the focus on operational excellence is really taking space and making it more of a factory type concept and mindset and we have those capabilities. We do it in other parts of the company, and we're sharing those best practices. So each and every one of those will contribute.

So thank you for that final, final question, Michael. Let me just wrap it up. I think you've heard throughout the day here that we've had a solid start to the year with exceptional execution and a healthy string of awards. Obviously, that wouldn't be possible without the dedication and hard work of our 48,000 employees. So clearly, appreciate everything they're doing.

I'm excited about the rest of the year as we finally hopefully put the pandemic-related impacts behind us. We enter the final stages of integration, and we make more progress as a unique nontraditional defense tech company.

But before concluding, I also have to thank Bill for his leadership and contribution to the company and congratulate him on a great run. So, Bill, I have enjoyed working alongside you in the last 2 years. I'm proud of what we've created together here with L3Harris and more to go. So thank you.

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

Likewise, Thank you, Chris.

Operator

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