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PRESENTATION

Operator

Greetings. Welcome to the L3Harris Technologies First Quarter Calendar Year 2022 Earnings Call. (Operator Instructions) Today's call will be focused on questions and answers following brief opening remarks. (Operator Instructions) As a reminder, this conference call is being recorded.

It is now my pleasure to introduce your host, Rajeev Lalwani, Vice President of Investor Relations. You may now begin.

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

Thank you, Rob. Good morning, and welcome to our first quarter 2022 earnings call. On the call with me today are Chris Kubasik, our CEO; and Michelle Turner, 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 Investor Letter 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.

And as a reminder, at the start of the year, we began reporting our results in our realigned 3-segment structure that shifts pension items to the corporate level.

With that, I'll turn it over to Chris for a few comments.

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

Okay. Well, thank you, Rajeev, and good morning, everyone. As you saw, we released our results after the market closed yesterday in our new streamlined format. We're always looking at ways to improve and challenge the status quo. So instead of issuing a press release at 7:30 this morning and have Michelle and I read prepared remarks, which were very similar to the press release and maybe with some added color, and then having you follow along with our web charts, which are just a graphic depiction of what we were going to say anyway, we thought we'd try something new and come out with what we're calling our Investor Letter and putting everything in one document. And that allows us all the time today to focus on the questions and talk about what's on your mind.

So just real quickly, the first quarter results are consistent with our prior commentary of a back-half 2022 weighted revenue and margin plan. This will also be the case with our free cash flow as well. And for the full year, we're reiterating our guide across the board as we continue to advance our strategy in a dynamic environment, whether it's from the pandemic or the global threats in Eastern Europe and elsewhere.

So before opening the line to questions, I'd like to express our steadfast support to the people of Ukraine. I think we all agree, their unwavering strength and resilience are a motivating force behind our mission here at L3Harris.

So with that, Rob, let's open the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Robert Spingarn with Melius Research.

Robert Michael Spingarn - *Melius Research LLC - MD*

Chris, I wanted to ask you, really, a general question, to just elaborate on your Agile Development Group and the strategy behind the partnership with Shield Capital, but then something more specific on the flight test status for your integrated core processor for the F-35 Tech Refresh 3 and the possibility that delays on TR3 might push Block 4 out to fiscal '29 and how all this impacts the revenue backed up that you've previously talked about between TR2 and TR3?

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

Okay. Why don't I take F-35 first, and then I'll ask Michelle to give you some of the financial numbers on F-35, then I'll come back and do ADG and Shield.

So yes, we talk about F-35 each quarter, appropriately so. And I'll say this, last quarter is probably the best quarter we've had in a while. We're progressing through the integration and test, which we all know is the most challenging part of any development program. And the integrated core processor did begin safety-of-flight testing earlier in March. So that is a good sign and progressing well.

I do want to highlight, we do also have the Panoramic Cockpit Display, which just completed its safety of flight. And then the Aircraft Memory System completed its full qualification test. So everything is tracking well to the first flight. We just provide this to Lockheed, and I think in 2023 is going to be the first flight of the aircraft. So all seems to be going well.

On the contractual side, we secured a contract for ICP for Lot 16 and for AMS and PCD on Lots 16 and 17. So we're getting to production contracts, and we're going to be ready to hit the ground running as we complete these tests.

So as you'd expect, we're investing R&D and capital to continue to support the program and find more efficient ways to meet these commitments. And I do want to recognize the team because we are working effectively 3 shifts and weekends. This is the highest priority for everyone. And we've had customer visits, and they've been very complementary of the workforce and the progress that we're making. So Michelle?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. So just to add a little bit of color from a financial perspective. So our overall Mission Avionics sector is going to be down mid-single digits, consistent with what we shared before. The F-35 development is going to be down low double digits before we get into the -- we ramp from a production perspective. So we anticipate going into next year that we'll be flattish to up a couple of percent.

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

Yes. So let me go back to the first question about the Agile Development Group and our investment in Shield. So you've heard us talk about our strategy of being a trusted disruptor investing more in R&D as a percentage of revenue than most, trying to prime more contracts and embracing the new entrants that are disrupting the marketplace and the DoD.

So we set up the Agile Development Group. It is an entity that had previously existed. So some of this is just kind of branding it and giving it the recognition it deserves. We have a couple of thousand engineers in this group. Their R&D is double digits as a percentage of revenue. And they're really the front end of the business. And they've been working with speed and agility and innovation.

Most of their focus has been on modular open systems, which has been embraced by our customer. And it's hard to give examples because a lot of what we're doing is in the classified arena, initially focused on the air domain. We're also doing some interesting development on new and creative weapon systems. So they're the front end.

And as we get these contracts out of development and into production, they'll hand these off to another entity who is world-class at producing them. So I don't think it's the most unique thing in the industry, but it's something we thought made sense, and they're off to a pretty good start. I've spent a lot of time in D.C. And the customers have been excited about it and have even come down and visited our facilities and generally very impressed with how we're moving along.

Now Shield Capital is a venture capital firm. They raised $125 million. We're their largest strategic partner. And the thought process there was trying to find a way to get these new start-up technology companies, which I differentiate from small businesses, small businesses as a compliance, contractual compliance, and usually applies to service contracts. These are mainly Silicon Valley high-tech start-up companies who have great commercial technologies that want to support the Department of Defense.

And it's hard for these companies to get programs of record, so we're embracing and working with them. So we will make investments, either co-invest or through Shield in these companies, which is secondary to the goal of making this strategic investment, and that's to get this technology into our systems quicker, faster, more affordable and meet the warfighter needs. So very excited about that, and we'll keep you updated as that progresses in the years ahead.

Operator

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

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

Thanks so much for the bold, new, efficient format. I like it. I think Slide 16 or Page 16 is my favorite, though. So Chris, since the last time we spoke, there's been a lot of change. The budget came out. It was more robust of an outlook than we thought, coupled with NATO members stepping up defense spending.

So given your ability to be perhaps more nimble than others, what are you seeing in terms of incremental opportunities? And how do you think that could impact the intermediate growth profile of LHX?

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

Okay. Well, thanks, Sheila. We'll obviously welcome all feedback on the new investor letter. But I think we got a lot of positive feedback, giving you 15 hours to read it instead of 1 hour. So hopefully, that was helpful.

Yes, on Ukraine -- and I'll just say Ukraine and the whole region, the breaking news yesterday was you saw the White House asked Congress for an additional $33 billion of funding. And when you look into the details, which I know will evolve over time, $20 billion is for defense. And of that, $6 billion is the USAI, which is the Ukraine Security Assistance Initiative, and $6 billion is FMS. And those are 2 vehicles and processes that we're very familiar with, and we've used over the last several years or decades in supporting Ukraine. So I think we understand how that process works, which, of course, is very important.

The $6 billion compares to $300 million last year. So this is a significant increase. And we just need to see how long it's going to take to get this bill passed. As we read it, it appears to have a lot more flexibility for acting quickly to get these contracts moving.

So as you would imagine, we're in discussion with several customers in the region and here in the U.S. There's lots of opportunities for L3Harris. When you think of secured communications, I think it's been pretty well publicized, the importance of having secured communications. And that's worked well with Ukraine, a longtime customer of ours. I think you can read and see that the Russians are having difficulty with the communication. So I think that positions us well.

We have, just under the whole ISR, situational awareness, whether it's space ISR, air ISR, even the EO/IR turrets out of WESCAM are examples of things that I think could be needed and, of course, night vision goggles. So we're really not able to give a lot of details, as you would imagine. But I think, broadly, we're well situated. And many of these capabilities are in our sweet spot, even including EW, electronic warfare.

So I think over the midterm, we continue to believe low to mid-single digits is the right guide at this point in time. We are starting to get demand signals. We're responding to RFIs. But I do like the tailwinds, and I think more to come over the next several quarters.

I will say relative to being more agile or nimbler, I can't give you the specifics, but I can tell you, within 15 days from receiving a request, we were able to ship product to help with the conflict. And just so you know, a lot of this is reprioritization, right? So we have other customers who are willing to give up their products, to get them over in the region. And then we have to obviously backfill those as well.

So I don't know if that got to all your point, Sheila, but that's -- I think we're well situated.

Operator

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

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

Chris, I'd reiterate the -- thanks for this new format and the timing, especially, is very helpful. In terms of my question, inflation obviously is a big issue across the world at the moment. And in relation to defense, there's obviously been some concern about how this could flow through on fixed-price contracts. So I was wondering if you could comment on that. And what sort of alleviation L3Harris might have to this issue?

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

Okay. Well, thank you. No, inflation is a challenge for all of us and, I think, all industries. And I think a lot of people immediately jumped to the traditional supply chain and materials, which obviously gets the attention. But I also believe -- and we're planning for wage and labor inflation as well as the job market gets tighter. So I think we look at it more broadly.

When I look at our backlog and our portfolio, we have about 25% of our contracts are cost-plus, cost reimbursable. So the way those are designed, the added cost to flow through to our end user. And I think that's one of the reasons you see the budget increase, although I don't think anyone believes it's large enough to absorb all the inflationary headwinds.

We have about 25% of our business through the -- not only commercial products, but the commercial business model that we've talked about, whether it's our WESCAM turrets or TACOM radios and such. So similar to other industries, at the right time, you increase your prices to take that on.

So the real risk, if you will, is the 50% that's firm, fixed price. As you know, we don't have a lot of multiyear backlog, but we do have a little over 12 months of backlog. So in that case, it is a headwind. So in a lot of those contracts, there's escalation clauses. The reality is those indices are probably less than the real inflation, but that does absorb some of the headwind.

We've talked about e3 and some of the initiatives we're taking there. We've doubled down on that effort and are going to have to continue to find ways to be more efficient. We're really embracing and rolling out digital engineering. We're investing in more machinery and tooling to be more efficient. So that's going to be the challenge.

And then on new bids, which we do several. Michelle and I seems like every day are reviewing another proposal. We have to build those costs into the bids going forward, obviously. So that's how we address it. And it's given us a little bit of headwind, as you see here, in the quarter.

I don't know, Michelle, if you want to maybe quantify it?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. So I would just characterize it's very consistent with what we shared in our previous guidance. And the other thing I would say is that, from a 2022 perspective, we've locked in most of our supply pricing. So we've mitigated most of the risk, consistent with what we put into the guidance, although I will say that this environment is becoming more elongated. So as we're thinking about our strategic planning, this is certainly going to be a headwind as we think about 2023.

Operator

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

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

Thank you for the very efficient format, both last night and in your opening comments. I had a couple of questions related to one another. So if you could just broadly characterize kind of how LHX fared in the FYDP forecast? An open-ended question. If you could talk about radios. You've won a number of IDIQs, night vision, what have you. So take it as far as you'd like, but talk to us about the FYDP and how you guys are positioned?

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

Okay. Did you have more? Or just -- is that your only question?

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

Meaning of life and other questions as well, but we can defer that.

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

Okay. Yes. I mean, as we saw -- the good news is we did get a 2022 budget finally. We've talked, at length, of challenges. It's taken 165 days to get a budget. But nonetheless, we did get a budget. Now we're starting to see some contracts and activity pick up at a quicker pace.

For '23, I think we've all seen, just focused on the top line, the $773 billion top line. In my discussions with several customers and members of Congress, I believe that number is actually going to go up during the conferencing process. I think we've seen about $20 billion on the UPL list, the Unfunded Priority List. And I think the majority of that is going to be ultimately rolled into the final 2023 budget.

Relative to -- I'll just go to the Unfunded Priority List first. You did mention night vision. That was in the budget as zero. It was zeroed out. But ourselves and our competitor are aggressively working the Hill to get that funding back in, with the concurrence of the Army. We generally don't go to the Hill without our customers' support.

So the fact that, that's on the UPL list, I think, is a positive. So that was probably the one thing that caught our eye on the negative side. But on the positive side, I'll let Michelle talk a little bit about the IDIQs.

Everything we looked at seemed to align well with what we wanted. I mean, we track all of our current programs, but we also look at new opportunities. We're very aggressive in bidding, opening the aperture and looking for new opportunities. And we like to make sure those opportunities are funded, even though they're competitive because, over the long run, we think we're well positioned to win some of those.

The only thing I'd just also throw out beyond DoD is NOAA. I mentioned that we're well positioned with the next-gen weather satellites. The NOAA budget went up 17% '23 over '22. NASA is up 8%. Even the FAA, where we do a lot of work, is up 4%.

So when I look at DoD, NOAA, NASA, FAA, and then I think we've all been following the international budgets are trending up, especially in the NATO countries. I just see this as a lot of positive tailwinds that put us in a good position to continue to grow for the foreseeable future.

But maybe I'll give it to Michelle to give a little more color.

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. No, I agree. I think often, in recent discussions, our radio business has been overshadowed by our supply chain challenges. But when you look at the predictive indicators, whether we're talking about the budgets with double-digit growth on our handhelds or the IDIQs that we received within first quarter. $10 billion of IDIQs really speak to a predictive indicator on the overall growth within this business.

And so we're excited about the near term. Going back to Sheila's question around the immediate opportunities that we're getting from the conflict environment as well, all of the macro indicators would suggest that we're going to have a tailwind related to this business. So we're excited about what's to come. We do need to get through the hurdle, however, with the immediate supply chain challenges.

Operator

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

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

I appreciate the new format like everyone else. I think it's really efficient. Chris, I guess my question is just leaving off from what Michelle just mentioned on the supply chain. Just your comfort level around kind of things improving in the second half. And then also just how it relates to maybe you taking a more cautious approach and carry more inventory as we kind of look towards this kind of building budget environment and just kind of have -- adjusting case supply versus kind of targeting your working capital days that you've been highly focused on?

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

Yes, thanks. No, that's a great question. Clearly, that's the #1 risk that we're all following and have been talking about for at least the last 9 months and maybe longer. But to put it in perspective, from last time we had a conversation, I would say it's about the same. It feels like we're making progress.

Every day is different. We get 2 steps forward, 1 step back. I think the only thing that's changed in my mind is maybe the length of the recovery. There's a belief that this was going to all be behind us in 2022. I think it's going to go into 2023.

And again, when I look at supply chain, I put it in 3 buckets: we have inflation, we have materials and we have labor. I think I've covered the inflation in a prior question. But again, we're kind of in the mid- to high single-digit rates, depending on which index you're looking at. And we know it's going to come back down to lower single digits. But I'm thinking it's 2023, where, previously, people might have projected fourth quarter of this year.

The materials is mainly the electronic components. We've talked about our investments in a variety of tools, data analytics. And those processes are paying off as we get better visibility. But at the end of the day, the lead times continue to extend. And even the freight and shipping challenges are adding to the complexity, just getting the products into the country and, of course, the increased cost of just shipping everything.

And labor -- the labor shortage. I think the attrition is up pretty much across our industry, and that's something we've got to figure out how to address. But I think the labor shortage is even more significant within the supply chain, so therein lies the challenge.

We've been very successful in our new college grad recruiting. So that's working well from our perspective. But I'd say, feel about same as I did 90 days ago. Just a little longer recovery is the way I think I would summarize it.

I don't know, Michelle, if there's more?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. Yes. So I can add a little bit from a numbers perspective. But I do -- just because of the complements that we received on the Investor Letter, I do want to thank Rajeev and the IR team, along with our controller team, communications and legal, a lot of collaborative effort went into creating this. And we feel like it's really a win on many levels.

But the one that I would highlight for this group is really how we're living into our DNA of being a trusted disruptor across the organization. So it's not just about our products and technologies, it's about how each and every one of us show up differently to ensure we're a differentiator.

So on the supply chain front, just to put some context from a numbers perspective, in first quarter, we expect this is going to be slightly under $100 million in terms of the top line impact. We expect that that's going to be fairly consistent in Q2, with the recovery happening in the second half and into 2023.

And so to Chris' point, I think it's very consistent with what we -- where we were at in January, except with a potential elongation into 2023 as well. But I do think it's also really important going back to the budget conversation to note that this is all about timing, in particular, within tactical radios. The demand for our products remain very strong. And so it's really about getting through this short-term lift from a supply chain perspective.

Operator

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

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

I'd like to continue on the tactical radio side because when I think of the products that you've got here, I mean, this is sort of the -- I think of it kind of post-jitter's world, where you're trying to have common waveforms. So you need a lot of interoperability.

So it means you have to -- and my sense is it means you have to really outfit large portions of the military. And when you think about the IDIQs you've gotten, can you talk about how those -- how you expect those to play out in terms of, in a sense, completing the deployment over time of the radios that the Army, the Marines, that they need over time? And then second, how do you think about the conversion of those IDIQs into revenues in terms of your share, in terms of the timing of individual awards?

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

Yes. No, Doug, great, great questions. Yes. So we can -- let me take the first part, maybe at a higher level, and Michelle can give you some of the actual numbers that show you what we're doing relative to orders and revenue kind of quarter-by-quarter and the outlook.

So no, look, you're absolutely right on the importance of these radios and the resilient communications. A lot of our R&D goes into new waveforms. And as we've said before, the modernization is still in the early phases. So we talked about the SOCOM 2-channel multiband handheld. That's an almost $400 million IDIQ. It's a little over halfway utilized, which still means there's a couple of hundred million dollars of opportunity.

And SOCOM is a great customer. And a lot of our radios start there and then migrate into the other services and even internationally. The -- that was the handheld. They also -- we also have a single -- these are both single awards, which means we get, obviously, up to the IDIQ ceiling limit, $550 million for the Manpack. And again, that's about halfway through the spend. So clearly, lots of opportunities in SOCOM, and it's 100% LHX.

When we go into the -- some of the tactical radios for the Marines, we had a 2-channel handheld opportunity there. That was competitive, winner-take-all, again, single award, $750 million that we won. And that's really just getting started. We've had tens of millions of dollars on that so far.

I think the ones you read more about and hear about are the dual awards. So if you look at the Army Rifleman, that's one where we're 1 of 2. And same with the Manpack. And again, those were just awarded recently in a recompetition. But those ceiling limits go over a decade, just shy of $4 billion and $12.7 billion.

So the -- step one, as you know, is to win the IDIQ, kind of call that the hunting license. And then you go task order by task order, year by year. So we're in really good position. And the modernization will continue. Secured comps and situational awareness are 2 key things you need in any conflict.

Before handing to Michelle, I will point out, notwithstanding some of the headwinds and volatility in our tactical comm revenue, we still have not missed a customer delivery. So the team is doing a great job every day, different parts come in, get deferred, makes for a challenge.

I will point out, we did increase our inventory, about $30 million just in TACOM, as we are trying to get more and more of the electronic components in sooner rather than later. But as you know, the lead times are now 6 to 12 months, much more than they used to be.

So Michelle, you want to give more color?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. And just to put some context around the inventory builds. We did build inventory across the enterprise by about $100 million, what we call smart inventory, in terms of solidifying the second half revenue growth. So I think that's a good callout, Chris.

But on the IDIQs, we did have 4 substantial IDIQs from a land radio perspective within first quarter. The first one, a $6 billion 10-year dual-source IDIQ. So to Chris' point, based on history and how that plays out, we would expect to get half of that in terms of as the funding comes in.

And just a reminder, in terms of how we do our backlog, our backlog does not assume these IDIQs until they're funded. And so part of what we saw play out within Q1 on the book-to-bill being right around 1 did not include any of the funding upside that we would anticipate as we add -- as funding is added to these IDIQs.

And then just a couple of other notes. We did book a $3.7 billion from a 5-year Navy multiservice. This is a sole-source IDIQ, so that would be 100% coming to L3Harris. Similarly, a $750 million 10-year award with Marine Corps, that was a competitive award. And then the final one was a $300 million SOCOM award, another sole source. So of the 4 booked, all were sole source, except for the first one, which was dual source. So again, continue to have really strong predictive indicators in terms of our demand for radios.

Operator

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

Richard Tobie Safran - *Seaport Research Partners - Research Analyst*

So I wanted to ask you, you've been talking about the bookings. Book-to-bill was about 1.0 in the quarter. Your comments about continuing to grow, it just seems an understatement to say you're optimistic about demand, given the global increases in defense spending and the upward trajectory of new awards.

So what does it say about book-to-bill for the -- how book-to-bill for '22 ends up? I mean, are we talking about an improving outlook here? Do you see international as a bigger driver of your bookings now? And I guess, if you could offer a comment on maybe how you're thinking about now, what '23 bookings might look like. Anything you could offer there, I think, would be helpful.

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

Okay. Well, Richard, it's always good to hear from you. Yes. We -- the first quarter was 0.98 book-to-bill, and that's really funded book-to-bill, as Michelle explained. So maybe a little more conservative than the way others look at it.

Look, we've got a plan of about 1.05 book-to-bill. So we're looking at being over 1.0 each of the next 3 quarters. We might be a tad on the conservative side, but we did have a CR through mid-March. And now we have to actually convert these into actual contracts. So that's the process we're going through.

I see international as a tailwind as well. We have some great opportunities for international ISR. We have our EO/IR turrets. And we just have to go through the process. We have congressional notifications and dealing with foreign governments and their approval process.

So we think we're in a good position. A lot of these are sole sourced that we're just going through the contracting and export and approval process, and I would expect those to close as planned. So hopefully, over -- in the 1.05 range for this year. We haven't given a lot of insight into '23, but we kind of use that as probably a benchmark for '23 as well.

Because they keep -- we keep talking about the tailwinds each and every day, there's -- everything seems to be positive relative to the demand signals that we're getting. We just have to win and then move forward.

In fact, we we're going to be announcing, but the Navy announced something that we're quite excited about. That was a recent award known as SPEIR, which is the Shipboard Panoramic Electro-Optical Infrared System. And why I want to bring this up is it aligns perfectly with our strategy, which is to invest upfront in R&D, prime more opportunities and then embrace new entrants or flip the paradigm and have some of the more legacy primes on our team.

So we'll get a press release out on this one shortly, but it's a $200 million EMD opportunity and just under $600 million with options. And that's just for 21 ships for the U.S. Navy. We believe it could be upwards of 100 ships. And of course, we have the international market.

So it's a competitive win. We started this actually 6 years ago by investing our IRAD or R&D on passive targeting, 8 different businesses within L3Harris working together collaboratively. This is a multibillion-dollar opportunity that we're really excited about, and it provides 360 EO/IR passive detection and tracking, which is what our Navy needs.

If you want to put it under the JADC2 umbrella or whatever, this is a big deal. It's modular, it's open systems, and it's something that you'll see more in the days ahead. And then we're waiting for award on something called Spectral with the Navy, which is the next-gen SIGINT, the information operations and the electronic attack solutions.

So all these things -- and that has at least 4 bidders. But we're going after these things, and it aligns with our strategy. And these will start to give us more tailwind and confidence in our growth profile.

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. And just to add a couple of additional words to that because this is part of our second half growth. We are anticipating international ISR missionization programs in the second half as well. And so specifically to the question on international, we did land within Q1 with a book-to-bill over 1.0, it's 1.08 from an international perspective, with 4% growth. And so I think that speaks to the -- another predictive indicator in terms of our strategy is working.

And then on the space side, clearly continues to be a growth engine for us. We are anticipating the announcement of award on SDA Tracking Tranche 1 as well. And so that's another competitive award that we're anticipating in the second half of the year.

Operator

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

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

Mix, I wanted to touch on it. I think it was a -- it sounds like it was a benefit to IMS in the quarter, but a negative on SAS. And I think for the full year, it's supposed to be a headwind to both of those segments.

So if you could just touch on kind of the big moving pieces when we think about the mix and the impact on margins. And then could you also just touch on the size within -- I think it's within IMS now, Commercial Aviation, how big that business actually is now, given you've sold off a decent chunk of it? And where that, I guess, that stands relative to like-for-like pre-pandemic levels?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. David, so I'll start, and then Chris can jump in. From an overall mix perspective, to your point, our segment margins came in at 16%. You'll know that our guide is 16% to 16.25%, so we came in on the low end of that. But to your point, there was certainly some mix variation when you looked across our segments.

So I'll start with IMS. They had a really strong quarter, landing at 14.8% and comparative to our guide of 13.5% to 13.75%, really strong execution. So big complements to Luke and our ISR team, but also overall program mix within our Commercial Aviation business. So compliments to Alan and his team as well.

This is the fourth consecutive quarter of double-digit growth within our commercial aviation sector, and we're expecting that to continue to grow in the second half as well. And so really strong EAC performance. We do expect that to modulate a bit as we get into second half to align with the guide that we provided.

And then to your point, the opposite dynamic is actually playing out within SAS. So we landed Q1 at 11.9% versus a guide of 12.5% to 12.75%, which implies that there is going to be increased expectations from a productivity perspective and mix.

Now we did have a really strong quarter from a space perspective within SAS. That's a lower-margin business for us with a lot of the new program wins within it. So we expect that, coupled with our e3 savings, to help that business in the second half of the year.

And then finally, from a CS perspective, we talked a lot about supply chain today, but that was clearly a headwind within Q1. We do expect with the volume recovery in the second half that they're going to be able to get to the overall guide of 24.25% to 24.50%.

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

Yes. And just to -- on the Commercial Aviation, we're right about $500 million of revenue this year is the outlook; pre-pandemic, that was in the $900 million range for our Commercial Training business. So we're continuing to be patient and take advantage of the rebound, which should be coming soon. We had previously divested the military training, so $900 million to $500 million there.

And I'll just foot stomp, the space business is really doing well, well over $2 billion of revenue, double-digit growth. And I just think we're in the sweet spot, whether it's prime in these responsive space opportunities, such as SDA and HBTSS that we've talked about, some classified opportunities, GPS and the NTS3, which is the next generation of GPS, the weather satellites I mentioned, but also the exquisite satellites, where we are a sub to other companies and provide our payload.

So we're going to take this work each and every time. Might be a little headwind on the margins, but it positions us long term for growth and follow-on opportunities.

Operator

Our final question comes from Michael Ciarmoli of Truist.

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

I love the new format. Chris, just -- and maybe, Michelle, back to the international and the demand environment, I guess, if we looked at the growth trajectory really in the industry prewar, it was really going to be driven by U.S. DoD modernization, next-generation programs in this R&D phase shifting to production. But I guess, given what we're seeing with NATO and the increases in their spending plans as a percent of GDP, are you guys seeing more tangible evidence?

And you pointed out that 1.08 book-to-bill, that there could be an increase for higher-margin legacy systems as you go forward, and that could potentially provide some structural margin tailwinds as you move into kind of this medium term if these European NATO countries really need to recapitalize their business -- or their industrial base, rather.

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

Yes. No, Michael, that's a great question on the legacy systems. I think we're all learning if the system is out of production now, I think it's almost impossible to restart some of these weapon systems that you read and hear about haven't been in production for a decade. So being able to restart something, I think, is difficult. If it's something that's currently operational, but maybe an older version or something, I think those are going to be easier to deploy.

Again, with the supply chain headwind, I think that is going to be the challenge. I don't think anyone in the industry has a lot of these products lying around in their warehouse as we look for demand signals and contracts. Now what we're seeing is the customer who's been depleting their inventory, so we're more in a restocking situation.

So look, I'm real optimistic about our international opportunities. I think we are unique relative to other companies because we have a combination of products, and we use a global distribution network. And then we have our more traditional business development staff with in-country executives in focus countries, about 10 focus countries, where we're focused where we think these opportunities for growth are.

So I'm increasingly optimistic about what we've done in international. It's a larger percentage of our company each and every quarter. I think this quarter, maybe in the 23% range. So more to come. And now that COVID is easing, a lot of us are going to be traveling around the globe more and more to continue to build these relationships and try to close deals.

So with that, let me just say, first of all, I appreciate the feedback on our new format. So I think we're going to do this again and continue to do it, at least for the rest of the year, and see if we can come up with something even more creative.

I know our customers are under a lot of stress, and we're all working in the industry to support our customers. I mentioned the Agile Development Group and Shield, but this is a result of listening to our customer and hearing what they want and then taking action.

So a lot of this, I have to credit our customers for saying they want new entrants. They want innovation. They want to work with Silicon Valley-type companies. So we're trying to adapt to that. And of course, I have to thank the employees, the dedication, the hard work, the innovative spirit. It's all inspiring. I feel like we've got a lot of momentum, a lot of excitement and really looking forward to wrapping up a solid 2022.

I will just say in closing that we'll continue our humanitarian efforts for the people of Ukraine. We'll keep working with DoD, NATO allies and others to support this mission and deal with the conflict at hand.

So thank you for joining the call, and we'll wrap up a little earlier than normal. Have a great weekend, and talk to you in a couple of months. Bye.

Operator

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