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LHX.N - Q1 2023 L3Harris Technologies Inc Earnings Call

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OVERVIEW:

Co. reported 1Q23 non-GAAP EPS of $2.86.

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Mark Kratz

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PRESENTATION

Operator

Greeting. And welcome to the L3Harris Technologies' First Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

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

Mark Kratz

Thank you, Rob. Good morning, and welcome to today's call. Joining me are Chris Kubasik, our CEO; and Michelle Turner, our CFO. During our discussion, we may reference our investor letter that we published on our website yesterday. We're listening to investor feedback and have made some enhancements. Given the detail in this letter, this call will primarily be focused on answering questions.

We may also discuss certain matters that constitute forward-looking statements. These statements involve risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please reference the safe harbor provision found in the investor letter and our SEC filings. Lastly, we will frequently discuss non-GAAP financial measures, which are reconciled to comparable GAAP measures in the investor letter.

Before moving to questions, I'd like to turn it over to Chris for some opening remarks.

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

Okay. Good morning, and thanks, Mark, and welcome aboard. We've been focusing on execution under our Performance First imperative and I'm pleased with our results. The first quarter was strong in many respects as we continue to build momentum with our trusted disruptor strategy resulting in record orders and record backlog. Improving macro trends serve as a positive backdrop, including the president's 2024 budget request released to Congress in March. We are well aligned with the priorities in the national defense strategy, which is reflected in robust funding in major areas for us, including space and joint force capabilities as well as missiles and munitions given our pending acquisition of Aerojet Rocketdyne.

Our goal for Q1 was to grow the top line, meet the EPS number and have positive cash flow. The team rallied and delivered on all counts. For a third consecutive quarter, we had top line growth, a 9% increase with each segment growing. Operating income was up in two of the three segments despite the usual headwinds. However, we came in line with where we thought we would be to begin the year. This resulted in EPS of $2.86 and we anticipate building from there. Free cash flow came in at over $300 million, a significant improvement from a year ago, and we also front-loaded our share repurchase commitment for the year.

We received a second request from the FTC in March, which was followed by the Aerojet Rocketdyne shareholder approval vote the following day. Both of these outcomes were expected, and we are responding to the FTC. We still anticipate the deal will close later this year.

First quarter results, our differentiated winning strategy and the overall business environment led us to reaffirm our 2023 guidance with the recognition that record orders and strong revenue growth to date could support a bias towards the higher end of our revenue guidance range should these trends continue. We still have work to do on profitability, but with abating macro headwinds, operational improvement initiatives and accelerating sequential growth in product-centric businesses, we remain committed to our full year EPS guidance.

So we're off to a strong start, and I'd like to recognize our employees for continuing to prioritize Performance First in everything they do. With that, let's open the lines for questions, Rob.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Matt Akers with Wells Fargo.

Matthew Carl Akers - *Wells Fargo Securities, LLC, Research Division - Senior Equity Analyst*

I wanted to put maybe a finer point on the Rocketdyne timing. Have you, I guess, substantially complied with the FTC's second request you had, if not, sort of how much is left there? I think that's what starts the clock for that review.

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

Yes, Matt, thanks for the question. We're gathering the data as you would anticipate. It's usually about a 3- to 4-month process. So we got the second request mid-March. So that would kind of suggest a June submission, both for us and I know Aerojet Rocketdyne is doing the same thing. I have a feeling they'll probably submit a little earlier than us given they've already done this once.

So the reason I'm confident in the 2023 close, really comes down to the FTC's evaluation of this transaction. And when we look at it, we do not compete with Aerojet Rocketdyne. I mean plain and simple, they make rocket motors and rocket engines, and we do not. And that term is known as horizontal competitiveness, and there is none. We are not a customer of theirs, they are not a customer of ours, which is the term of art the FTC and lawyers use as vertical competition.

So I look at this and say, if there's no vertical competition and no horizontal competition, we'll submit the data, we'll certify the information and we'll let the process run. I think I'll just take a minute -- since I'm not sure I'll get any more Aerojet questions today. And I just think there's an incredible amount of confusion mainly in D.C. whether it's the DoD, the FTC or members of Congress. And there are three terms that are used interchangeably that mean completely different things, and that is consolidation, merger and acquisition.

And consolidation, in my opinion, is when two companies with similar capabilities combine. And I think back 25 years to McDonnell Douglas and Boeing, and they consolidate it. And nobody can dispute that after that transaction closed, there was one less commercial and military aircraft provider, and that's not what we're talking about today. A merger, I think a good example is obviously L3 and Harris. Two companies that are complementary, came together, which is now why we have capabilities in space, air, land, sea and cyber domains.

Significant revenue synergies, significant cost synergies, over $650 million of cost savings that we shared with our shareholders and the DoD, and resulted in a stronger company, in this case, providing more competition within the defense industrial base. And then Aerojet Rocketdyne is an acquisition. It's about 10% of our enterprise value. It's all cash. It's putting us into new markets that I mentioned already, that we believe are growth markets, as highlighted in some of the recent budget decisions and fills in a gap in our portfolio.

So I just felt I wanted to clarify that point, and that is what gives me confidence that this deal will close in the second half of '23.

Operator

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

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

Chris, nice seeing you on CNBC last night. I know they let anyone on these days, so nice that they got an upgrade with you. But in all seriousness, good quarter, and you called out space in addition to Aerojet on that segment. Your space business, $1.5 billion of new prime space awards. What types of opportunities are you seeing in the market? And has there been a shift in the competitive backdrop given some of the moves to smaller space systems? And then where do you think LHX is gaining share? And tied to that, there were a number of international awards within space, is there a shift in the dynamics that you're seeing, just given space has become more open to the U.S. working with Allies?

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

Okay. Well, thank you, Sheila. I was actually in Clifton, New Jersey, all day with our electronic warfare team, so just a short drive to get on TV. So thank you for that. Let me kind of kick this off and then I'll ask Michelle to give a little more detail. And I really want to step back and think of space and space domain and how it aligns with the strategy that we've been talking about since the merger.

So a few fun facts at the date of the merger, there were actually 0 L3Harris or legacy company satellites in orbit. Today, there are 7 that we have built, obviously, as a prime. And we have 33 in backlog, as a prime, that will be launched over the next couple of years. So when we look back, we saw this as a growth market several years ago, which it is. We invested R&D and capital and facilities and tooling to position ourselves for growth. And the discussion aligned with what we've been saying for several years was to move up the food chain and become a prime by providing disruptive technologies and alternatives to our customers.

And I think as we sit here today, we can see that, that strategy, that investment is starting to pay off. We're probably best known recently for the work we're doing with the Missile Defense Agency and the Space Development Agency, launches that will be coming up in the next year or so. But we're also a market leader in weather and ISR and also space exploration. And I appreciate you highlighting the fact that we're growing internationally as well. You don't always think of space as an international growth opportunity, but the team has a global reputation of delivering on time and having quality products, and we're seeing that being recognized around the globe. So Michelle, do you want to maybe give more detail?

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

Yes. So I'll add some color in terms of our strategy in action and some of the numbers, Sheila. So thanks for highlighting this. So over the last 6 months, we've submitted over $7 billion in space proposals, booking $1.5 billion within Q1. So we're super excited about this. Book-to-bill over 2.0 within this sector. Kelly and her team are doing an amazing job in terms of recognizing the current environment within the U.S.

But also to your point, Sheila, around expanding the aperture in terms of international exposure as well, half of the $1.5 billion in bookings are international in nature. And so when we think about margins within this space, this is where Kelly and the team are thinking differently, in terms of leveraging our domestic footprint to be able to drive shareholder value in a different way across the globe. So we're excited about this. Double-digit growth from a revenue perspective, we expect this to continue to be a tailwind for us within '23 and beyond.

Operator

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

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

Chris, in the supply chain, it's encouraging to see that the market conditions for electronic components are improving, your critical part shortage is declining and alternative parts are increasing. So is this tracking better or worse or as you expected? And if we continue to see the supply chain improvement accelerate, could we see upside to your full year guide beyond the upper end?

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

Yes. Thanks, Kristine. I believe the worst is behind us relative to all the macro headwinds we've talked about, supply chain attrition and inflation. But to your question specifically on supply chain, I'm proud of the team because these alternative parts just don't happen. We took a fair amount of talent and expense to redesign our products, if you will, designed for availability. And the team has done an amazing job. And as we highlighted in our letter, we now have 1,300 alternative parts that weren't originally designed into our products. So that's been able to allow us to grow, as you saw in the quarter and maybe position us for continued growth for the rest of the year.

I think after the last few years, I hate to predict anything because it's hard to predict what's going to happen day to day or month to month, but I feel real good about the opportunities and the positioning. And we referenced -- we've signed a strategic agreement with a major microelectronic chip providing company. The benefit for us is that it gives us assured availability and kind of moves us up and out of the allocation process, which is always an uncertainty kind of day by day. And in exchange for that, we're sitting down and sharing with them our technology road map and working collaboratively as we design new products, taking advantage of some of their more advanced technologies.

So long way of saying, we're happy with the first quarter. We have good visibility for Q2 and beyond. And if we continue with this momentum, it's possible we could see outperformance.

Operator

Our next question is from the line of Scott Deuschle with Credit Suisse.

Scott Deuschle - *Crédit Suisse AG, Research Division - Research Analyst*

Michelle, could you lay out what drove the softer margins in IMS?

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

Absolutely.

Scott Deuschle - *Crédit Suisse AG, Research Division - Research Analyst*

IMS and CS this quarter and then walk through the factors that unlocked the implied margin improvement in the second half. Maybe you can touch on the dynamics of backlog or pricing, that will also be very helpful.

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

So we're getting a little bit of feedback, Scott, but I think what you're asking about is IMS margins and back half improvement for overall enterprise?

Scott Deuschle - *Crédit Suisse AG, Research Division - Research Analyst*

Yes, that's right.

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

Yes, absolutely. So before I jump into the margins, I just want to kind of set the stage in terms of how we set the expectations for our team within Q1. We really had three objectives. One was to grow top line. The second was to meet our EPS and the third was to improve on our cash position from last year, and we met all three of those. And so to your point, Q1 margins did come in light. They were aligned with expectations, however. And so I think it's important to go back to what we talked about in our last earnings call, where we talked about having a more balanced plan this year.

And in terms of revenue and EBIT, the expectations was revenue would be balanced with our first half margins being lower and accelerating in the second half, really driven by two things. One is around our higher-margin product deliveries. So as we see the supply chain constraints continue to ease, we expect that our product deliveries are going to continue to improve, which is going to drive margins in the second half of the year. The second is related to our fixed price backlog, and we talked about this a little bit in Q4.

But aligned with our -- the macro headwinds that have been experienced across the industry and the higher inflationary environment, we experienced this particularly acutely within three of our sectors, which we talked about within the letter, EW, IVS and ISR. We expect that this is going to continue to dissipate as we start to see some of the actions that we take -- we took at the end of last year start to pay dividends in the second half of this year. So we have a path to getting to the margins in the second half.

And one other thing I would note in terms of Q1 is our Q1 margins were a bit deflated by lumpy aircraft revenue recognition within our ISR business. When you look at this, it's about a 40 to 50 basis point impact within the quarter. So we expect as this normalizes, that's also going to help our EBIT in the -- second half EBIT margins in the second half of the year. And then to your question specifically, Scott, on IMS, there's two pieces there. One is the mix.

And for those that have been on this journey with us, you're familiar with our lumpy aircraft revenue recognition. So as I talked about from an enterprise perspective, in Q1, this had -- this dynamic played out for us. We did recognize the C3D order from the Air Force. And as a result, that aircraft revenue had an impact in terms of lower margins within the quarter. So we expect that that's going to continue to improve throughout the year as we work on the missionization of those aircraft.

The second piece is related to the fixed price backlog that I talked about. This was an acute impact within our ISR business. And so you may remember, we talked about attrition concerns that we had in Q4 along with the macro headwinds. Where we sit today within Q1, we are seeing improvement, and we have seen our attrition stabilize, and this is good news in terms of seeing the light at the end of the tunnel. And so we expect that the attrition and the performance is going to stabilize, then we'll see less of those negative EAC impacts as we make our way through the year.

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

Yes. I think I'll just chime in, Scott, a little bit more. And look, none of us are happy where we are in Q1 with the margins, but it's exactly what we had planned and we clearly have a ramp to get to 15.5% by the end of the year, which we will. We kind of teased out in the letter a little bit about our enterprise transformation. And I just wanted to talk briefly about that.

It's actually been less than 4 years ago that we had the merger. And what I call phase 1 was our 3-year integration, which I highlighted is very, very successful with over $650 million of savings. But that was really just phase 1, right? That was harmonizing the benefits, closing down headquarters, consolidating segments, taking advantage of the enterprise relative to supply chain, rebidding contracts. And it's water under the bridge, but still proud of what the team was able to accomplish, especially during COVID.

So the natural evolution under our continuous improvement mindset is to move into phase 2. And we've really looked at the success of our trusted disruptor strategy and how it's being embraced by our customers and suppliers, and we're applying it to ourselves, how do we disrupt ourselves and how do we get better and more efficient. So we just completed about a 10-week sprint to highlight and confirm that there are opportunities for us. And we're trying to figure out how we're going to function differently, and really rethink every function and everything we do.

Easy example would be on real estate, especially as we've supported and embraced the remote and hybrid world, we don't need nearly as much office space as we used to, and there's a clear opportunity for savings. We're looking at functional costs. We're looking at what we do. We started using, as everybody has, I'm sure, bots to remove some of the manual labor and actually provide some savings. And also, our indirect procurement strategy, just to name a few other things.

So now that the sprint is complete, we're in the design phase of the program. And on our next call, we plan to give you some actual tangible numbers and tangible time frame to show how this is going to make L3Harris an even better company and contribute to our already industry-leading margins. So the entire leadership team is excited about this project. And I think we're off to a good start and more to come in 90 days.

Operator

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

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

I want to add some working capital, and I'm sure Michelle want to weigh in. I know you've kind of focused on driving the metrics lower over the last few years, and last year, you obviously built up some inventory. Maybe you could just update us, I know working capital was less of a use this quarter. But maybe whether you think the 53 days that you kind of ended in 2021, is that still something you can target this year? And ultimately, do you think you can get into the 40 days soon?

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

Yes, Peter, the short answer is we expect to get back to the 53, 54 levels by the end of this year. And so what you saw in Q1, we're really proud of the teams, we saw working capital improved by about $300 million year-on-year. That's about an 8-day improvement from where we were at this point at the end of Q1 '22, really driven by receivables. And I just want to highlight, this is a great example of our Performance First initiative in action.

So many thanks to our finance, program management and contract teams for implementing what we affectionately call Money Mondays, which is really focused on truncating our billing and invoicing processes to drive a more efficient use of our working capital. As a result, we were able to improve our DSO by 2 days from the same period last year.

And so to your point about getting to the 53, 54 by the end of this year, we have to drive about $300 million of improvement between Q1 and the end of the year. And this is predominantly going to come from inventory, almost equally split between our product inventory, which is going to be driven by the easing of supply chain constraints, being able to ramp our deliveries in the second half of the year. But also around our performance-based milestones on some of the new program wins that we have. The Space business is a great example of that, where we're negotiating and getting cash upfront as a result of some of these new orders, but then also executing on those programs are going to deliver cash for us in the second half as well.

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

Yes. And Peter, clearly, working capital is a top priority. It's something we brief our Board at each and every meeting and -- because we have our monthly reviews, it's something that Michelle, I and the team look at. I don't think it was surprising to see it -- the working capital days grow in the last couple of years. We were taking the approach to get all the parts we could pretty much at any cost, and that resulted in a buildup of inventory. We're much more confident in our ability now to plan and have alternatives to parts. So you'll see that contribute as we bring down the working capital days.

And if you recall, we were very aggressive, and continue to be, in negotiating performance-based payments versus progress payments on time that we see the cash for specific performance milestones. And I view that as an opportunity. I think it's fair to say there are certain programs that are behind schedule, either due to our performance or suppliers' performance. And that's fine. We've identified it, and we're working it, and that gives me even further confidence that we'll be able to hit our numbers as we continue to perform and tie the cash to those milestones. So thanks for the question, Peter.

Operator

The next question is from the line of Doug Harned from Bernstein.

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

As you work through the process on Aerojet Rocketdyne, how are you thinking about divestitures at this point? Things stand out that like commercial aircraft simulation and training, public safety. So how are you thinking about kind of the timing of when you might do a divestiture and what the size might be? And how do you decide what fits?

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

Yes. Well, Doug. And yes, we've talked about the need to divest to generate cash to help fund the Aerojet Rocketdyne acquisition. So yes, we're not going to actually disclose what we've decided as noncore, but we have a regular process to review our portfolio and see as the company evolves, we're becoming more and more of a government or defense contractor. So we want things that align with the rest of the portfolio where we have synergies and the ability to share technologies and processes.

We closed a real small one for $70 million. But for the larger ones, there's a process going on. We wanted to get through the first quarter, right, to update with current financial results and show that these are good, if not, great businesses. And it's the usual analysis is we have good businesses and are there better owners for those businesses. We're not at all in a fire sale situation. We're going to take our time, and we're going to get the maximum value for those properties. And I'd hope we could probably sign and announce something this year, maybe close one in Q4 or early 2024.

But we'll run the process. We get a lot of inbound calls, especially after something like this, where I say what I just said. But there's interest in our portfolio, I'll just leave it at that, and I'm confident we'll be able to get some proceeds. And I think I previously said about $1 billion of proceeds from this process, meaning two or three divestitures. So I'll stay committed to that number.

Operator

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

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

If it's okay I'd like to return to the subject of bookings and the 1.3 book-to-bill you did in the quarter. I thought you might talk about full year bookings expectations. And then if we start to think longer term period of growth and the opportunity set, I was kind of wondering if you what you're thinking about if book-to-bill should be better than 1.0 in this growth period?

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

Yes. Thanks, Rich. I mean we always set our internal goals and aspirations to be more than 1.0 on book-to-bill. It's kind of hard to grow if you're not booking more orders than the revenue you're recognizing. I think the 1.3 was -- is absolutely a great way to start the year. When we talked last time, this is the impact of a continuing resolution, right? And until the CR gets broken loose, which it did, we'll start to see the money flow. And as I've said before, the only one who dislikes the CR, more than industry is the Department of Defense.

So I think we're off to a really good start. The president's budget request of $842 billion is 3% growth, as you know, Rich. And when you peel it back 4% on the investment accounts. You couple that with what we've been able to do internationally the last several years, the interest in TACOM, the Space International, you would clearly expect that we'll be over 1.0 for book-to-bill for the year. And aspirationally, I'd like to be at least at 1.05 and maybe even 1.1. But it's somewhat lumpy, right, as you know, and it depends on we only talk and record the funded backlog. So that always has a little bit of a difference maybe relative to other companies.

But we're feeling really, really good. And I think the key message here is this just confirms that our strategy is working and the customers appreciate and recognize what we're trying to do. Sometimes, we have more innovative solutions. The focus is on speed and schedule and cost, so we kind of mix those in, and we've been pretty aggressive in pursuing different markets and different technologies.

I will also say that Michelle and I and the team spend a lot of time focused on risk management, and we had two opportunities in the quarter that were pretty exciting to us. But when the final RFP came out, there were fixed price development with fixed priced options, and we chose not to bid those for obvious reasons. It's very hard to commit to a fixed price development program when you don't know the spec. I think we all look back at all the write-offs and losses and, more times than not, they're tied to that. So we will not be playing that game.

I've elevated it to, what I think, is the highest levels within the Pentagon and the RFPs come out, we're not going to bid. And I would think, over time, others aren't going to bid. And ultimately, we'll go back to the appropriate contracting vehicle for the appropriate opportunity. So kind of a roundabout answer there, Rich, but I wanted to cover a few of those points.

I guess I'll just maybe throw in the pending acquisition of Aerojet Rocketdyne. I mean by all accounts, it's not always easy to look and compare apples-to-apples. But the munitions line in '24 appears to be at least 20% higher than '23. So I think we all know the need and the desire for these munitions for not only current threats, but future threats, in addition to refill in the stockpile. So I think the acquisition in December made a heck of a lot of sense. And I think when you look at the budget, it makes even more sense. So I'll just leave it at that.

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

And Rich, just the international part of it. 30% of our $5.8 billion of record orders within the quarter were international, and the book-to-bill was over 1.5 for international. So it really speaks to what Chris was alluding to in terms of the strategy is working.

Operator

The next question is from the line of Michael Ciarmoli with Truist Securities.

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

Maybe kind of a number of things, Chris. But maybe just to go back to Aerojet. Pretty well publicized about some of the capacity challenges and production challenges they're having. They just got this award from the DoD for $215 million to enhance their capabilities in production. I guess one of the overhangs or concerns out there was how much cash you guys were going to have to invest in that business. So clearly, this potentially alleviates your CapEx.

But I guess I'm trying to figure out, when can you guys start working together? Do you have to wait for this to close? Because I would imagine you guys would want to have some strategic input in terms of how they're building out or investing into the facilities to ramp up production. And I guess, just also staying on Aerojet, you mentioned divestitures. And I just wondered, does the -- do the big lower-stage space engines fit in your portfolio? Or when you talk about these divestitures is, can something fall out of Aerojet?

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

Let me try to address them. Yes, relative to working together, there's some pretty clear rules that are called gun jumping, and we're very conscious, as is Aerojet Rocketdyne, not to trip over those thresholds. So we can not actually work together and help them relative to the DPA money. We're aware of it. We have the ability to review the documents. But Eileen is running her company, I'm running my company. And until we close, we can't really change that. And that's been around forever with all acquisitions, mergers and consolidations, but all the more reason to get this transaction approved in a timely manner so that we can start working on that.

The Defense Production Act, DPA, it's actually been around since the '50s. So this is a pile of money, a bucket of money that the DoD has, and it's really there to help strengthen the resiliency of the defense industrial base. And with the focus on manufacturing and capability of these key technologies, I was pleased to see that they received this money. I know the team has been working on this for probably a year there at Aerojet Rocketdyne. It's unrelated to the acquisition. But it is in support of their growth.

It highlights to me the critical nature of these technologies and the DoD need for this company to be successful. And this money, I view, as maybe a little more tactical relative to increasing both the physical and the digital infrastructure of Aerojet Rocketdyne. Our acquisition being more, less tactical and more strategic will assure a strong industrial base, a more viable competitor. And I think it's great news for Aerojet Rocketdyne and great news for the Department of Defense.

And I'm pretty sure they have pretty thorough plans and a competent leadership team on how best to spend this money to optimize both capacity, digital engineering and moving a couple of production lines for the growth that we talked about. So relative to the divestitures, yes, we're not -- everything I was talking about would be legacy L3Harris. So clearly, the space propulsion stays once the deal closes.

Operator

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

Peter John Skibitski - *Alembic Global Advisors - Senior Analyst*

Maybe, Michelle, on capital allocation, as Chris alluded to in his remarks, you guys went pretty heavy on repurchases to start the year, pretty close to your $0.5 billion target for the full year. How are you thinking about allocation now on the balance of the year? Because I know you do have some debt maturing this summer, I think. So do you look to address that? Or are you looking at other options?

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

Pete, so we don't anticipate any changes to our previous commentary in terms of capital allocation. Longer term, we expect to have a fairly balanced approach, and we've added some color to this within our investor letter in terms of buybacks, dividends and acquisitions. To your point about the Aerojet acquisition, we do anticipate that still closing this year. And as a result, our leverage ratio will get close to 4, with about $14 billion of debt. And so we are targeting over the next couple of years to bring that back down to below 3.

So for this year, we're anticipating still the $500 million of share buybacks. So another $100 million to go based on the $400 million that we did within Q1, along with the dividends being consistent with what we previously communicated. In terms of the debt, we do expect to pay that down within June. And so you should see that play out consistent with what we shared before.

Operator

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

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

Hello?

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

Hello, can you hear us?

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

I can hear you. sorry. So just to maybe wrap things up on the whole Aerojet topic. Let's assume things do get done, the deal is completed in the second half of this year, do you anticipate any further significant M&A in the medium-term time frame?

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

Yes. I think that's an easy one, Rob. So just picking up where Michelle left off, the answer would be no. We'll have close to $13 billion, $14 billion of debt. And as we've said previously, we'll be using our free cash flow to reduce that debt to maintain our investment credit rating. So no. No is the answer. And a couple of years down the road, we can relook at that. But we want to keep a strong balance sheet, focus on execution.

We really -- going back to December, there were three things that were a challenge, whether reality or perceived, and that was how could you integrate ViaSat, fix your operational issues and buy Aerojet Rocketdyne at the same time. I'm pleased to report on ViaSat that the integration is going well. It looks like both the revenue and the cost synergies will meet or exceed our business case, so that is exciting. We're about 6 months ahead of schedule relative to consolidating facilities. We have a 4-phase process. So the risk of moving is reasonably low.

We're in the middle of the first phase. So we'll basically take the four major product lines one by one and that could be done by the end of this calendar year, which again is ahead of schedule. And the customer feedback and the interactions has been real exciting relative to these new capabilities. And we talked briefly about the Link 16 in Space. And I'm pleased to say for the first time ever, Link 16 is in space, based on some recent payloads that were launched. So probably a little early to say that the ViaSat is done, but it's on a really good track. And I would think we kind of have that behind us.

I think on the operational challenges, again, really proud of this team in this quarter. It feels like we've turned the corner. A lot of this -- and I know it was -- nobody wanted to keep hearing about the products and 25% and revenue recognition and such, but it was unique compared to the rest of the industry. And now that we're getting the supplies in, we're redesigning products. You're seeing that in the top line and you'll see that in the bottom line as well. And then by the time the deal closes, the focus for my team and others will be on Aerojet Rocketdyne.

So January 1, a lot of questions, a lot of uncertainty, and I think we're knocking these issues out one by one over a 12-month period. And by the time we get to 24, we're going to have a lot of momentum behind us. So I hope that helps.

Maybe we have time for -- looks like one last question or -- that was it. All right. No other questions in the queue. So look, I appreciate everybody participating and calling in and asking the questions. And we look forward to engaging with you in the months ahead. Have a great weekend. Thanks.

Operator

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