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LHX.N - Q1 2024 L3Harris Technologies Inc Earnings Call

EVENT DATE/TIME: APRIL 26, 2024 / 12:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Greetings. Welcome to the L3Harris Technologies First Quarter 2024 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded.

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

Mark A. Kratz *- L3Harris Technologies, Inc. - VP of IR*

Thank you, Rob. Good morning and welcome to our first quarter 2024 earnings call. Joining me this morning are Chris Kubasik, our CEO; and Ken Bedingfield, our CFO. Yesterday, we published our first quarter earnings release detailing our financial results and guidance. We also provided a supplemental earnings presentation on our website.

As a reminder, today's discussion will include certain constitute forward-looking statements. These statements involve risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please reference our earnings release and our SEC filings. We will also discuss non-GAAP financial measures, which are reconciled to GAAP measures in the earnings release.

I'd now like to turn it over to Chris.

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

Thanks, Mark, and good morning, everyone. Since the merger of L3 and Harris 5 years ago and after strategic acquisitions and targeted divestitures, we have built a company with a national security focus. We have critical technologies in all domains that align to national security priorities and the global threat environment. Responsive space, resilient communications and rocket motors are critical for the future fight. The trusted disruptor strategy and our portfolio are setting the stage for L3Harris to differentiate ourselves with top line growth while simultaneously increasing our industry-leading margins.

The global security environment continues to be one with heightened tensions and regional conflict. Domestically, Congress recently passed the 2024 Appropriations Bill, which included $844 billion for defense. Our programs are well funded, and we are positioned for profitable growth across much of the enterprise. Demand remains strong for our products and solutions as we started off the year with a 1.06x book-to-bill ratio.

Internationally, we continue to see a strong and geographically diverse pipeline of opportunities. As an example, we were recently awarded a $150 million program to provide secure networking to Taiwan, displacing a long-time incumbent. This win is an integral part of our interoperability and supports the CJADC2 mission.

Turning to tactical radios. We maintain a robust international pipeline of over $10 billion, including several FMS cases, primarily for Europe, totalling more than $1 billion. These opportunities, along with the continued strong backlog, give us confidence in an international tactical radio ramp in the second half of the year. Other international opportunities are supported by the DoD's supplemental funding, particularly in Ukraine.

Earlier this week, the President signed a foreign aid package for Ukraine, Israel and Taiwan that includes $67 billion in funding for key defense programs. L3Harris has been a key supplier in Ukraine since the start of the conflict, and the need for this equipment remains strong.

Our products are being used in theatre and exceeding expectations. The supplemental bill will provide our allies access to needed capabilities while at the same time support the U.S. defense industrial base, including small and midsized businesses. With the bill just recently passed, we will give you more information during the next earnings call on the incremental opportunities that it provides. Our workforce is proud to support our country and its allies around the globe.

Turning to 2024. Our strong first quarter results reflect improvement across our diverse set of programs and products. We're executing on our contracts and improving cost and schedule performance, which helped drive net positive EACs for the second consecutive quarter. In our product businesses, we are improving quality and driving higher on-time deliveries.

Turning to programs. I see development risk abating. This is not to say that we're out of the woods on all of our development programs, but the business is performing well and the disciplined bidding focus and programmatic rigor is starting to pay off. LHX NeXt cost savings are also starting to contribute, and we see that benefit accelerating in 2024 and 2025.

Ken will cover the financials in more detail, but I wanted to highlight that revenue was up double-digit year-over-year and operating income was up $150 million, resulting in margins expanding 80 basis points to 15.1%. Given the strong start to the year, we are raising our 2024 margin EPS and revenue guidance while reaffirming our free cash flow commitments.

At our Investor Day, we committed to $1 billion in LHX NeXt gross cost savings by 2026, focused on optimizing our workforce infrastructure and supply chain. The initiative will enable us to maintain our industry-leading margins while investing in technologies, tools and systems to support our customers and employees. We are accelerating our LHX NeXt activity in 2024. And earlier this month, we implemented a workforce reduction that will result in about 5% fewer people than when we began the year. With these reductions, we are focused on eliminating noncore processes, streamlining our organizational structure to maximize efficiency and rightsizing our physical footprint.

To summarize. Our actions to date have put us ahead of our gross run rate savings target of $400 million by the end of the year. There's more work to do, and I am confident in our LHX NeXt leadership team and know that our collective efforts will yield the $1 billion savings target, as previously committed.

Operationally, we continue to make progress within our Aerojet Rocketdyne segment. Since closing the acquisition, we've implemented processes and tools, which have helped reduce late deliveries by 20%. We've returned multiple programs back to green, and we continue to work with our customers and the DoD to accelerate and improve deliveries of these critical products and to support future growth.

Aligned with that growth, it was recently announced that we were selected to be the primary propulsion provider for the Missile Defense Agency's next-generation interceptor. We anticipate this to be a multibillion-dollar opportunity over the life of the program.

Outside of operations, our finance team saw an opportunity to refinance some variable rate debt and replace it with fixed rate notes, saving 150 basis points. On capital deployment. We increased our dividend for the 23rd consecutive year, and we were able to get back into the share repurchase market in Q1, executing about half of the 2024 share repurchase target. We expect about $1 billion in gross proceeds from the previously announced divestitures, which will largely be used to reduce our leverage below our 3.0 target ratio.

We remain focused on achieving the financial framework we laid out at Investor Day, and our first quarter results are a solid step forward towards delivering on our commitments.

I'll now turn it over to Ken to provide additional perspective.

Kenneth L. Bedingfield *- L3Harris Technologies, Inc. - Senior VP & CFO*

Thanks, Chris. Let's start with consolidated results for the quarter. We reported solid gains of $5.5 billion, including over $900 million for SDA tracking Tranche 2, nearly $150 million for U.S. Marine Corps and SOCOM handheld tactical radios, and an international award for a NATO country for missionized business jets that leverages our domestic ISR capabilities.

Backlog remains at over $32 billion and supports margin expansion opportunity as we move forward given operational improvements and recent bidding discipline. Revenue grew 17% and 5% organically with growth in 3 of our 4 segments. Revenue at IMS reflects aircraft procurements in Q1 '23, resulting in lower sales in Q1 2024. As Chris mentioned, operating margins expanded to 15.1%, up 80 basis points from improved operational and program performance while also starting to see the benefits of LHX NeXt.

EPS grew 7% to $3.06 per share primarily from segment operating margin performance, partially offset by higher interest expense and lower pension income. On a pension-adjusted basis, first quarter EPS was up over 10%. Free cash was an outflow of $156 million as first quarter cash flows are typically the lowest of the year. As you will recall, we derisked 2024 cash taxes at the end of '23, and we remain confident in delivering free cash flow growth this year to $2.2 billion.

I'd now like to turn to some segment details for the quarter. I highlighted earlier that revenue grew 17% from the acquisition of Aerojet Rocketdyne and organic growth in our SAS and CS segments as we continue to see strong demand for Space Systems and Tactical Communications businesses.

On margins. We drove operational improvements throughout each of our 4 segments. In SAS, we are making progress on development programs, including the recent launch of 5 L3Harris missile-tracking satellites as part of the SDA tracking Tranche 0 and HBTSS programs. With these space investments and risk largely behind us, we are beginning to realize the benefits of the new growth areas and maturing processes as we move forward. These efficiencies were a contributing factor in expanding SAS margins by 100 basis points in the quarter.

We made progress on program performance, resulting in a $75 million improvement in net EACs versus the first quarter of 2023. These were driven by improvements in all segments as our focus on operational rigor continues to pay dividends. This was most prominent in our CS segment, where the Integrated Vision System sector saw stronger results. The Tactical Data Link business continues to perform well as we realize synergy benefits of a consolidated business within our broadband communications sector. And in Tactical Communications, which drove solid results with an increased level of lower-margin DoD deliveries, we anticipate it will continue through the first half of the year.

On capital allocation. Our plan remains the same. We will continue to focus on deleveraging the balance sheet before we look at opportunities to accelerate share repurchase beyond offsetting dilution. During the first quarter, we returned over $450 million to shareholders through dividends and share repurchases.

Moving on to 2024 guidance. We are tightening our revenue range of $20.8 billion to $21.3 billion, while we reaffirm our free cash flow commitment of $2.2 billion. We are increasing total company margin guidance for the year to greater than 15% versus prior guidance of approximately 15%. This increase is most notable in SAS, where we now expect margins of approximately 12%, up from prior guidance of mid- to high 11%. Outside of operations, we are also updating our guidance for pension income. At the end of last year, we combined the acquired Aerojet Rocketdyne pension assets with our own. Our actuarial update is more positive than our new outlook, so we have updated those figures accordingly.

Lastly on guidance. We are increasing our earnings guidance to a range of $12.70 to $13.05 per share, up from prior guidance of $12.40 to $12.80. From a modeling perspective, I would continue to point out that our CS segment will have a heavier DoD tactical mix in the first half that has less margin opportunity than international programs. Interest expense will also remain elevated in the second quarter. Both trends should reverse as we make our way into the second half of the year, along with a second half-weighted free cash flow profile. Overall, a good start to 2024, and we remain focused on executing to deliver on commitments to our customers and our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Noah Poponak with Goldman Sachs.

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

Chris, I wanted to ask, you have the trusted disruptor strategy, and you've talked about you've been trying to prime more and kind of growing the profile and the size in the sector and that's been working to a degree. Now that we're seeing, I think, some new entrants in the space, try the same thing and maybe have a little more success than they've had in the past, how do you think about that? I mean does that crowd that effort for you? Or is the pie big enough for multiple companies to do that? And then, Ken, just one clarification on the LHX NeXt. Will you -- will all of that be adjusted out of earnings? And is all of that cash or some of that noncash?

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

All right. Noah, thanks for the question. Yes, I think our strategy is working, as I said, and the portfolio is well aligned. Relative to the pie between the supplemental and the fiscal year '24 budget, we're well over $900 billion. So I think there's plenty of DoD funding.

Relative to the new entrants, which sometimes I like to think of us as one since we're 5 years old, but I know where you're going with your question. We've taken the approach to team and work collaboratively with these new entrants at the highest level. So a lot of the new entrants tend to be a little more software-focused. I think the traditional, including ourselves, are a little more hardware-focused. So we're working collaboratively.

There's been some recent awards in Q1 where we are actually a subcontractor to a new entrant that want a significant program. And sometimes, they work under us. So I would say we're embracing them and working collaboratively with them. And of course, I've talked about our Shield investments in the past and working with those venture capital companies who are much smaller but also have great technology. So I think it's working, and that's been our approach. Ken?

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. No, from an LHX NeXt perspective, we are adjusting out the implementation costs of the program and certainly then trying to leverage the benefits of LHX NeXt in the businesses. We talked about what that target looked like for 2024, and the businesses are off working hard to operationalize that and reflect that benefit in their performance. And I think you're starting to see that here in the first quarter. And then from a cash perspective, we're primarily just adjusting out the cash severance costs related to the program. And you'll see all that reflected in the schedules to the earnings release.

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

Yes. Look, we've gotten the feedback relative to our disclosures. So under Ken's leadership, we're trying to cut back on these onetime non-GAAP adjustments and be much more transparent. So I think it will be all laid out clear for you to analyze.

Operator

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

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

Chris, how does the win on NGI with your partner, how does that impact your outlook for Aerojet? And also considering as you mentioned, the fiscal '24 supplementals, do you get more bullish about your ability to hit that $26 billion target -- $23 billion, I should say?

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

$23 billion and $26 billion? Yes, absolutely. No, NGI, which is designed to protect the U.S. against evolving long-range ballistic missile threats, is a huge win for the OEM. We were a merchant supplier, as I've talked about before, on both teams. So this definitely gives us a tailwind.

When we looked -- I went back and looked at our deal model, this really was not factored in when we made the acquisition of Aerojet Rocketdyne. So from that perspective, it's going to be accretive, at least, to our own internal goals. Aerojet Rocketdyne is a great technology, especially with the large solid rocket motors. But the quantities are still to be determined. It's going to start as a development program.

We're in discussions, obviously, with the Prime. We haven't actually been awarded and signed a contract yet. But as you saw in the media, we were selected as a propulsion provider. So it's very exciting. And again, I think it will be a slower ramp as you would imagine. But '25-'26 time frame, I think we'll start to see the revenue hit our financials.

Operator

The next question comes from the line of Kristine Liwag with Morgan Stanley.

Kristine Liwag - *Morgan Stanley, Research Division - Executive Director, Head of Aerospace & Defense Equity Research and Equity Analyst*

Since you formed a new Business Review Committee back in December, can you give us any color on how progress has been? What are the key areas that have come under focus? And how this compares to your LHX NeXt pipe initiatives as well? Do they overlap?

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

Yes, Kristine, it's Chris. We did set up the ad hoc Business Review Committee of the Board comprised of 4 Board members, as you saw. We've been meeting a couple of times a month for a few hours each. And we brought through a variety of topics that have been laid out in the charter that we filed in the 8-K.

I would say from anything from operations, we've looked at the programs, they've reviewed the program review process, the bidding process, the LHX NeXt strategy and goals. They've reviewed the portfolio, our capital deployment strategy. And we're just kind of checking through the items in the charter. Some topics are one meeting, some topics are 2 meetings. I feel like we're about halfway through the process, maybe a little more.

And then probably middle of the year or so, the BRC will report out to our Board of Directors with observations and recommendations and findings. So I'd say it's been a very collaborative process. I think it's been good for the company, and it's a good way to orient some new Board members quickly about the company and what we're trying to accomplish. So I'd say all is going well to this point. So more to come.

Operator

The next question is from the line of Gavin Parsons with UBS.

Gavin Eric Parsons - *UBS Investment Bank, Research Division - Analyst*

Wanted to ask on the nearly 100 basis points of year-over-year margin expansion. If there's a way to parse that out between the drivers? I know a lot of them go hand in hand, but how much of that is NeXt versus EACs, repricing for inflation, mix and so on? Just if there's a way to think about what the drivers were in buckets.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. Gavin, it's Ken. I would say that we're seeing improvement in the kind of the high-level buckets across the board. I would say we're seeing some mix benefits in terms of, as Chris mentioned, kind of moving out of some of the development phase of contracts and into some of the more mature phase.

From a mix perspective, we are seeing some of the areas of the business that are a higher mix of cost-plus growing. So as an example, space within SAS was a strong grower and has a bit of a higher cost-plus mix. So that kind of works the other way a little bit.

But we are seeing some of the disciplined bidding start to come through in terms of confidence in our ability to perform as well as price discipline and then just performing on our programs and certainly LHX NeXt contributing. And I wouldn't want to put numbers on each of the individual buckets. But largely, as we think about kind of how you bridge from last year to this year for the most part, each of those major buckets are contributing.

Operator

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

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

Chris and Ken, you've made a lot of progress already on -- starting on LHX NeXt. And I think about 1/3 of it is tied to your gross saving targets, is tied to labor reductions. You recently made an announcement there. If you could just give us a little more color on how you think things will evolve on what's optimal for LHX and then in related to all the actions that you've been taking. Also on portfolio shaping, just in terms of any future kind of thoughts that you've had on further shaping the portfolio.

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

Yes. No. Thanks, Peter. So yes, the workforce is probably the quick hitter for what we need to do for LHX NeXt. And as you said, that got us about 1/3 of the way there. The next part is going to be a little more timely and a little more complicated. And the facilities, I think, are going to be a key part of it.

Looking at the infrastructure. We have a goal of getting from 275 facilities down to 200. We have about 7 or 8 that we've identified that we'll start the process here in the second quarter. So that will have a little bit of cost to move and relocate and consolidate, but these would be smaller entities that the business case is better to consolidate into a larger facility.

We're continuing to reduce our ERP systems. We've invested in some technology called the unified data layer to get us access by laying on top of all of our systems to be able to get data more quickly. And then, of course, we talked about the initiatives in IT. Ultimately getting, believe it or not, from 85 data centers down to 2. So that's the infrastructure. That's going to take some time, and that's why it's going to lead into 2025 and 2026.

We've already kicked off with the indirect procurement. We've effectively outsourced that, taking advantage of the buying power of that enterprise. So that's both a combination of price and quantity. So we're tracking to that. And then ultimately, we called it the supply chain, but it's really beyond the supply chain. It's the integration of all the functions that are critical to our products with the overall goal of reducing the cost of our products. So there's an engineering component, there's clearly a supply chain component, contracting and such. So that process is ongoing, but that's where we're going to get the next $600 million or so of savings.

To your question on portfolio shaping. As you know, we have 2 that are in process. I'll just give you an update there. The antenna business, which we announced, a couple of hundred million dollars that's tracking to close the middle of this year, second quarter to be specific. And then our commercial aviation is going to be more in the second half of the year. That'll give us the $1 billion of proceeds.

Relative to the rest of the portfolio, we're just taking a hard look at that. We're going to be able to hit our leverage ratio based on these 2. And to the extent we can get a good price for what we've identified as noncore, we'll do it. But too many of the offers are coming in low, and people think we're desperate to sell, and I can assure you, we're not. So we need to get better valuations before we proceed on other transactions. Otherwise, we'll keep and run the business and go forward from there.

Operator

Our next question comes from the line of Jason Gursky with Citigroup.

Jason Michael Gursky - *Citigroup Inc., Research Division - MD & Lead Analyst*

Chris, would you spend a few minutes kind of walking around the Communications business? And maybe give us some updated thoughts since you last reported out on the funding environment. We've had fiscal '24 that got passed; '25, they got introduced. We've had some supplementals as well. And just kind of give us your take on how this plays out over the next couple of years and maybe offer up some comments on Link 16 and the expected refresh of all that hardware and when that kind of hits. Just what have we learned here over the last couple of 3 months on the Communications business?

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

Yes. Thanks, Jason. So let me start with Link 16. Again, we have a footprint on 20,000 platforms, and then there's variations of Link 16 and other data links that we've developed that are going to be able to go into those platforms or footprint. So I think we're starting to see that. Our ultimate goal was to get Link 16 into space.

I can tell you for the SDA transport opportunities that are coming up, our team is going to be a merchant supplier. And as of now, it looks like we're going to be on all the teams providing Link 16-type capability and space. So we're excited about that.

Relative to the Communication Systems, I want to reiterate the opportunity that we won in Taiwan, $150 million for networking, which was a cross-company win led by our Communications segment. So that's a big deal for us. And as I mentioned, it really supports the CJADC2 initiative that our country has been talking about for quite some time.

Relative to the radios, I mean, this is just absolute good news. I know we've been talking about modernization, not only here in the U.S. but globally. And as I mentioned, we have 6 FMS cases that are currently going through the process, through the system in Europe. The backlog is going to be record backlog. Even in Q1, we were able to get the marine and the SOCOM radio orders booked.

And there's a certain capacity and ability to deliver out of our Rochester facility, And it really comes, to be honest, how quickly we can get these supplemental funds under contract and approved and delivered. And with our trusted disruptor strategy, our business model actually allows us to potentially deliver radios within a week of getting the contract, depending on the configuration in the country.

So the way I look at it, we have high confidence in the guidance we've given. We clearly have the second half ramp up. But which countries will get which radios will really be a factor of when the funding turns into a contract. And those that don't get signed and delivered in 2024 will clearly be 2025. So just feel better about the business in a huge way. And again, the products, our in-theatre being tested daily, and they're working and exceeding expectation. And the whole focus on resilient communications is paying off.

Operator

Our next question is from the line of Ken Herbert with RBC Capital Markets.

Kenneth George Herbert - *RBC Capital Markets, Research Division - MD & Aerospace & Defense Analyst*

Chris and Ken, maybe just a 2-part question. First, on the Communications segment. You, obviously, did 24% margins in the first quarter. The guidance implies some slight ramp in the second half, but it clearly sounds like with international mix and maybe a little bit of a depressed second quarter, there could be some upside to that. Can you just talk about if there's anything onetime in the segment in the first quarter? And any puts and takes there we should think about as we think about the second quarter?

And then just -- or the second half of the year. And then just at a higher level, obviously, international seems to be a growing business, maybe faster than the U.S. Can you just talk about longer term, the margin impact of the international opportunity within the CS segment but then more broadly?

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Sure. I'll take that one. So the first part of the question on CS margins. We delivered 24% margin in the first quarter, which I think was great performance by the CS team. And that does reflect a higher domestic mix than we saw late in '23 as well as a higher domestic mix than we expect to see in the second half of '24.

We did guide low to mid 24% margin for CS for '24. And I think what we're trying to communicate is that we expect the domestic mix to be kind of consistent in the second quarter with the first quarter. Solid performance could yield similar results. But in driving that margin up to the low to mid 24% for the full year, we are looking at some international opportunities to realize some additional margin benefit as we think about that kind of full year impact. And I think -- so that's what we're trying to communicate on CS margins from a Q1 and full year '24 perspective.

And then from the international side. Clearly, as Chris talked about in his prepared remarks and in response to Jason's question, a lot of international opportunity at certainly the CS segment. But as we look beyond that as well, we see international opportunity, in particular at IMS and certainly, the other segments have international components to their business. We don't necessarily track some of the ultimate end customer quite as closely in some of those. But the international margins tend to be stronger across the board.

In my remarks, I talked about an ISR program by a NATO country. We would expect that would have strong margins as we, again, think about how we make those deliveries to our international allies and our country's partners, and recognizing the different risks and channels that come with those programs that should you perform, and we expect to be able to perform, will generate higher margins for the business. So we do see that continuing to move into the business.

I will comment, CS clearly is the kind of the quickest-turn segment, the shorter-cycle segment in terms of ability to take international orders and turn it into sales. So just an example, that ISR program we talked about will be a multiyear program, and we'll see that kind of move into the revenue over a bit more time. But with that, I'll turn it to Chris for a few more comments.

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

Yes, Ken. Just as a reminder, we're in the low 20% of our revenue comes from international customers, and part of our margin improvement strategy is to grow our international business. And just as a reminder, about half of that is foreign military sales, which has margins consistent with the DoD work for the most part, and the other half is direct commercial sale. And that's where we tend to have the higher margins. But as Ken said, more international is synonymous with higher margins, and that's where our focus is. These supplementals are a big step in the right direction.

Operator

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

Gautam J. Khanna - *TD Cowen, Research Division - MD & Senior Analyst*

Can you hear me, guys?

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

Yes, we can.

Gautam J. Khanna - *TD Cowen, Research Division - MD & Senior Analyst*

Terrific. I just had 2 quick questions. First, I was wondering if you could give us more granularity on the RF tactical backlog book-to-build trends. You mentioned something on SOCOM. And if you could just talk a little bit about overall mix this year and perhaps next in that business? And then I had a question on IMS EACs and if those have turned positive? And if not, what sort of still holding that segment back with respect to kind of the profit accruals?

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. From a tactical radio perspective, I would say we're -- had a solid bookings order in the quarter. We've got a very solid backlog for that business at this point in time, looking at a multibillion dollar backlog in that business. And for a pretty quick turn, our shortest-cycle business, that is a very robust backlog at this point in time. So we're excited about the opportunities.

I would say the Marine Corps and SOCOM opportunity is a great one as we continue to expand that partnership with that very important customer for the business. We were also down-selected for the Air Force Next Gen Survival Radio, which is a great opportunity for that business to expand into a new market as well.

And then clearly, the supplemental as Chris mentioned, and the international opportunities, so I think a huge opportunity in terms of really strong backlog at the Tactical Communications business. And as Chris mentioned, a great business model that enables them to kind of turn that factory pretty quick to deliver the radios to appropriate customers as needed based on critical demand and critical needs on the battlefield.

At IMS, in terms of -- I think the question was about EACs. And I would say that as we talked about in the prepared remarks, every segment performed better from a net EAC perspective. IMS was a part of that, significantly better performance than Q1 '23. IMS is our longest-cycle business, and it takes a while to kind of turn those programs and the operations and get everything working through the system. I think IMS had great performance in the first quarter at 11.4%, working towards the guidance that we put out there for IMS for full year '24.

And strong performance on their programs, I think really starting to stabilize both the operations in terms of rates, realizing some of the benefits of LHX NeXt as well as all the hard work that the sectors within IMS segment are doing to deliver on their programs. So we're really excited about kind of the stabilization and the continued strong performance as we look out into the remaining quarters of '24.

Operator

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

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

Chris, Ken, Mark, I wanted to ask 2 things about Stand-in Attack. It was an opportunity for to be prime. And correct me if I'm wrong, I think you decided to no bid. We're hearing a lot more about too much risk being pushed to industry. One of your competitors just talked about adjusting for that in their bids. So I was curious about what your thinking is about bidding going forward. And what's the next opportunity for you to be prime?

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

Yes. Thanks, Richard. I think I've been pretty consistent on the -- on our bidding strategy. We talked about the bidding discipline. It's been referenced a few times. There's 2 things going on there. A lot of people in this industry sending an inordinate amount of time and money trying to focus on a price-to-win strategy and hiring outside consultants. And we kind of find that interesting but irrelevant, so we've taken a different approach.

What is our labor? What is our supply chain? What is overhead? And what's a reasonable fee? We add that up, and that's the bid we put in. And if it's deemed too high, we move on. And if it's appropriate based on our past performance and capabilities, we book the order. So that's a little bit of a change here over the last year or so.

But more importantly is bidding the right types of contracts. And I think in Stand-in Attack weapon, it was a fixed-price contract for development, again, with fixed priced options. And we will not bid any programs where we are asked to give a fixed price on an option for a product that's yet to be developed. It's just plain and simple common sense. I think there are some people in the department that agree with me, and maybe there are others that don't. But you see what happens. In most of these negative EACs across the industry, when you do a root cause corrective action, more times than not, it's a bad contracting vehicle. Nobody is perfect, and there are performance issues, but you cannot perform of a bad contract. And that's what we're trying to do, I guess, on next opportunities to prime.

I mean we have -- and again, we take an approach where is the best approach, either be a merchant supplier or a subcontractor or a prime based on our capabilities and what the customer needs.

There was an Armed Overwatch. We've been successful there. We just got the delivery order 3. So we're up to 25 aircraft already. HADES, which is a big opportunity for the Army. It's the High Accuracy Detection and Exploitation System. It's basically up to 14 aircraft. We're bidding a global 6,500. This aligns clearly with our ISR and other capabilities. So that would be a big win for us. We have some maritime, undersea ranges where we've primed, and there's some follow-on opportunities, a bunch in classified space. I usually get a space question for now, but I'll just plug that we had no satellites in orbit at the date of merger.

We launched 6 in the quarter, and we've been awarded 60 SATS as prime, and there's more in the pipeline. So those come to mind just off the top of my head. And of course, we have a lot of opportunities at Aerojet Rocketdyne. And those are follow-on, but those are not prime programs. So I guess, SDA. I was thinking SDA Tranche 3 for tracking. As you know, we're the only company to have been awarded Tranche 0, 1 and 2 for a total of 38 satellites. We should get an RFP in the fourth quarter for Tranche 3, and that could be another 18 satellites. So hope that helps, Richard.

Operator

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

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

I wanted to ask about the performance in the quarter. I think well above your full year guidance. So how are you thinking about that? And then if you could just touch on 2 programs out there in the press a lot where you're a supplier, F-35 Tier 3. And then how you're (inaudible) those.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. Thanks for the question, David. Appreciate it. I think you were breaking up a little bit, but I believe the question was about SAS performance in the quarter. And solid performance by the SAS team in the first quarter, 12.3% margin rate. And they are performing well on their programs. We talked a little bit about some of the drivers there, including maturing some of the development programs. And we also talked a little bit about the mix. And as space continues to grow, that's a little more cost-plus mix. That could temper a little bit of the margins in the last 3 quarters of the year.

But we did update guidance for SAS to approximately 12% on the margin rate. They were 12.3% in the first quarter, some upside from EAC adjustments. And as we saw strong program performance, you've got to kind of book that in the quarter.

You do -- it does result in a higher booking rate as you move forward, but you do pick up some cume catch adjustment that flows through in that 90-day period versus the full year impact where that gets tempered a little bit. But we're very confident in the team at SAS, and we're confident in the guide that we put out there for approximately 12%. And I know the SAS team is out there working hard as we speak to try to figure out how to drive that up from there.

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

And I think second part of your question was F-35. Our production deliveries are tracking. We have a ramp coming up in production here starting next month. So we continue to have good relations with Lockheed. In fact, I was just talking to them yesterday. They'll be starting to deliver aircraft, as you know. They'll comment on that themselves. But as they start delivering aircraft, we're going to have to ramp up even further and quicker.

And that's our plan. We've made the investments in most of the infrastructure we need. So continued improvement month-over-month, quarter-over-quarter. And it's all about the core processor, and that's where the focus of the team is.

Operator

Our next question is from the line of Matt Akers with Wells Fargo.

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

Chris, I wonder if you could comment on the international pipeline at IMS in particular. You mentioned the award in the quarter, but just curious if orders are kind of starting to move there.

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

Yes. Thanks, Matt. I mean at IMS, we did get the NATO Electronic Attack Aircraft. And this -- we were thinking back on this not that long ago. I mean this is something about 8 years ago, 9 years ago. We talked about disrupting the market, and I always give the space example. But it feels like we pretty much invented and created this biz jet ISR market. We have over 50 biz jet orders in the last 8 or 9 years on 5 different platforms.

So we have this one opportunity that I mentioned in Europe, NATO country. There's some longer-term opportunities kind of in the Mid East. These things take a year or 2 to get booked. So the biz jet market for electronic attack, ISR, whatever capabilities, are still out there. There's a huge opportunity in the Far East that we're on our third bid relative to being down-selected. So that could be a couple of billion dollars in 2025. So very excited about that.

Armed Overwatch, we're starting to get interest from international customers. Once we start making deliveries later this year or early next year, I think that market is going to pick up from the aircraft side. And we still have some C130 capabilities that I believe have some international opportunities.

Maritime, we're doing a lot of work with Australia. So we continue to see opportunities there as well. Viper Shield is actually out of SAS, but great capability on F-16 EW. So I see that growing as well. And then, of course, WESCAM with the turrets, that's just a high-growth market with opportunities pretty much all over the globe.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. Chris, maybe I'll just add real quick on to that in terms of Armed Overwatch, so beyond biz jets at IMS. We did get a delivery order 3 on that program for 9 aircraft, I think, bringing the total order to 25. And to your comments, I think as that program matures, gives us greater confidence in the international opportunities for that aircraft. So looking to the building confidence on that one.

Operator

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

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

In the past, you guys have talked about revenue synergies with a lot of discussion today focused on LHX NeXt, which is clearly great because your profit was up over 20%. So Chris, you mentioned Taiwan, and you won a bid over a 20-year incumbent. Maybe is there any way to think about potential share gains and investment? What it means for the revenue top line outlook over the next few years? I know you laid out mid-single-digit targets, but how do we think about your revenue growth and market share gains?

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

Yes. Thanks, Sheila. We're being selective in where we invest and bid. And if I look at the different domains, I think space is a perfect example where we are absolutely taking a market share. And as I said earlier, we've been awarded 60 satellites as a prime just since the merger, including 38 for SDA tracking alone.

And there's -- it's a hot market. But every couple of weeks or months, you can pick up a paper and see there's one less company in this market, a lot of [SPACs]. A lot of companies are withdrawing from that market. And we take that as a sign of our success. We're making money and we've disrupted the market. So I feel really good about what we've done in space.

The airborne domain, I think it's really going to be more with -- what I referenced with the business jets. Maybe Armed Overwatch, to a lesser degree, where again, we're filling in gaps and replacing long-term incumbents are giving them different platforms, with better capability for the missions that they want.

Our maritime work on the undersea ranges is world-class. Again, you go back 6 years, we had no work in that regard, and we found an opportunity to unseat a long-term 40-year incumbent and came up with a different solution. And it's been well received around the globe, as an example.

We've talked historically about our torpedo launch and recovery system using unmanned undersea vehicles. That market is a hot market, in my opinion. We just have to get out there and get a couple of customers, and I think that could be a real game changer for our undersea business.

On the radios. We talk about the radios, a lot of good work there. An exciting one that we haven't really talked much about is for the Air Force, which is the Next Gen Survival Radio. So we're 1 of 2 companies competing on that. And in a couple of years, we could be down-selected a new market. And another example, dislodging a long-term incumbent.

And then, of course, innovation in cyber. There's something going on there every day, and you kind of have to innovate daily to stay ahead of the threat. And we're doing that and seeing good growth and good performance in that domain as well. So I hope that answers your question.

Operator

Our last question is from Doug Harned with Bernstein.

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

Chris, when -- I mean, right now, you're looking at Aerojet Rocketdyne, and demand in that market is just getting better and better. And you talked a little bit about the NGI win earlier. But when you look at the demand there, and I think back to -- I remember a year ago talking with you about the situation at Aerojet Rocketdyne, Camden, for example, and how serious the bottlenecks were in trying to get production up?

So when you look at the business now, can you see the potential to ramp up? Can you talk about what kind of growth you could potentially get from that business? And then where you stand in the process of being able to get those bottlenecks out and really move production higher?

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

Yes. Doug, great, great question. And yes, it was about 16 months ago when we announced this acquisition. And I think I agree with you. When I look at where we are now, the business case gets better and better. The demand, there was no conflict in Israel. People thought Ukraine would be done. Nobody anticipated a $900 billion of defense spending for 2024.

So the tactical missiles, the nuclear deterrent, NGI, just tons of opportunities on SRMs. Over the long term, call it 5, 7 years, double-digit growth on the top line does not seem unreasonable to me. We have to, of course, invest in the capacity. The bottlenecks, some of them are based on low yields and performance and supply chain. I think we've made good progress in that regard, investing in our suppliers, getting additional suppliers.

I continue to think the more money the government can give to the supply chain, the better off we are. I continue to believe we don't need an additional solid rocket motor prime. What we need is someone working on the igniters, the nozzles and the cases. And I think that would help unlock the potential.

We've ordered equipment to continue to expand, whether it's mixers, ovens. They, unfortunately, tend to have a 50-, 60-week lead time, but we've placed those orders. And once we get that in, I think it's going to be -- help with the ramp. We have DPA money to build some buildings, take existing facilities and modify them. So the consolidation and piece dividend and Budget Control Act for a decade kind of stifle the ability for companies to invest and grow and inconsistent demand signals.

But right now, I think everything is a potential tailwind. And we'll have the factories digitized by the end of this year, and we're making the investments and fixing the processes. So pretty excited about it. And 2024 is kind of catch up and continue to burn down the delinquent backlog and simultaneously invest and put in processes. But I think by the time we get to 2026, 2027, if all stays as is, it's going to really turn out to be a great acquisition.

So I appreciate the question, Doug. And let me just wrap it up. And first of all, thank the workforce and the leadership team for a great first quarter. Obviously, thank you all for joining the call today. And Ken, Mark, myself and the team will be engaging with many of you in person in the months to come.

So thank you all, and have a great weekend.

Operator

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