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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Northrop Grumman's first quarter 2025 conference call. This call is being recorded. My name is Josh, and I will be your operator today. (Operator Instructions)

I would now like to turn the call over to your host, Mr. Todd Ernst, Vice President, Investor Relations. Mr. Ernst, please proceed.

Todd Ernst - Northrop Grumman Corp - Vice President Investor Relations

Thanks, Josh, and good morning, everyone. Before we start today, matters discussed on today's call, including guidance and outlooks for 2025 and beyond, reflect the company's judgment based on information available at the time of this call. They constitute forward-looking statements pursuant to Safe Harbor provisions of federal securities laws.

Forward-looking statements involve risks and uncertainties, including those noted in today's press release and our SEC filings. These risks and uncertainties may cause actual company results to differ materially.

Today's call will include non-GAAP financial measures that are reconciled to our GAAP results in our earnings release. In addition, we'll refer to a presentation that is posted to our Investor Relations website.

On the call today are Kathy Warden, our Chair, CEO, and President; and Ken Crews, our CFO.

At this time, I'd like to turn the call over to Kathy. Kathy?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Thanks, Todd. Good morning, everyone. Thank you for joining us today for our first quarter earnings conference call. A lot has happened since our last call in January, so we're looking forward to providing you an update on the quarter and our expectations for the year.

We are operating in a rapidly evolving world, and we are managing through a dynamic U.S. defense budget environment, with the first of its kind, full-year continuing resolution. Within this environment, we continue to see strong demand signals from our global customers, resulting in another record backlog in the first quarter of \$92.8 billion, and that's inclusive of strong international bookings. As we indicated in mid-February, we've experienced delays in certain awards, which resulted in a slower sales ramp in the first quarter than we previously anticipated. We expect this to improve throughout the year.

Margin rates, setting aside the B-21 adjustment, were in line with expectations. We have updated our 2025 financial guidance, and we are re-affirming our outlook for sales and free cash flow. With a growing backlog and progress on award timing, we have confidence in achieving our outlook and remain focused on delivering transformative capabilities for our customers.

I'd like to take a minute to discuss the B-21 profit adjustment made in the quarter. As you saw in the earnings release, we recognized an additional \$477 million pre-tax loss. This is largely relating to higher manufacturing costs, primarily resulting from a process change we made to enable a higher production rate, as well as increases in the projected material costs, some of which are related to macroeconomic impacts on material prices. While I'm disappointed with this financial impact, we continue to make solid progress on the program, demonstrating performance objectives through tests, and we are progressing through the first two lots of production.

With significant learning behind us, we are ready to deliver the Air Force, this highly capable strategic deterrent. During the quarter, we continued to make significant progress on other key programs as well. On Sentinel, the U.S. Air Force and Northrop Grumman completed a successful static fire test of the Stage-One solid rocket motor for the missile in March. This critical milestone for the weapon system further validates the motors design and paves the way for the production and deployment of a safe, secure, and reliable strategic deterrent.

We are also continuing to work with the customer to identify cost and schedule efficiencies, as they evaluate requirements to balance capability, affordability, and schedule for the program.

In January, the U.S. Army awarded us a nearly \$500 million contract for IBCS. Under this award, Northrop Grumman will expand software development and include additional AI and model-based systems engineering capabilities to allow more rapid integration for the Army and our international partners. Earlier this month, we announced the opening of a state-of-the-art production and integration facility in Alabama to support accelerated modernization plans for air and missile defense systems, including IBCS.

With this investment, it doubles the size of the previous facility footprint, leverages Northrop Grumman's digital ecosystem, and gives us the ability to scale production and field new capabilities at speed. Also, we received nearly \$300 million in awards in the first quarter from the U.S. Navy to produce two additional Triton aircraft and associated support services.

We are also making good progress on delivering Tritons to Australia. The first of four was delivered last year, and the second and third aircraft have completed testing with the U.S. Navy prior to delivery to the Royal Australian Air Force this year.

Triton is playing a critical role, surveilling high-priority areas of interest in multiple regions. And it was just announced last week that Triton will soon be deployed from southern Japan to commence surveillance and information gathering operations.

I'd like to take the next few minutes to provide our view of the market outlook, for both the industry in general and Northrop Grumman more specifically. For our industry, demand ultimately stems from the global threat environment.

Over the past decade, this environment has grown increasingly complex, with the re-emergence of peer adversaries, making the pace of innovation and production crucial for deterrence. As a result, our global customers are increasing their investments in national security.

In the U.S., we continue to see signs that defense spending will increase, driven by a few ongoing developments. The first is finalization of a continuing resolution for the 2025 defense budget. This CR comes with several provisions that set it apart from previous ones.

The most notable of which are increase in the top-line over FY24 and increased flexibility with spending accounts. Meanwhile, there is a potential for additional funding through the reconciliation process, which could add up to \$150 billion to the defense budget to be allocated over multiple years.

Both the House and the Senate have passed initial legislation that lays the groundwork for this additional funding. We believe much of this will be used to support investments to maintain our nation's edge against evolving global threats.

Lastly, the administration continues to prepare their fiscal year 2026 budget request, and we are encouraged by recent commentary that suggests a continued strong commitment to national security funding at levels higher than prior projections. The administration has highlighted key priority areas such as the Triad, missile defense, and weapons systems, all of which are aligned to core capabilities of Northrop Grumman.

Additionally, the significant increase in defense investment outside the U.S. is leading to a growing pipeline of requests for our products across Europe, Asia Pacific, and the Middle East, as countries seek to protect their sovereign territories and deter aggression.

In Q1, our international sales represented approximately 14% of total sales. We have broadened our customer base, increased the number of products that we can sell internationally, and established new partnerships globally to enhance our addressable market. As a result, we continue to see opportunities to increase our international sales over the coming years. And we are making steady progress in this area, with a first quarter international book-to-bill of 1.45 times and international sales up 11% in the quarter.

International bookings were driven in part by over \$1 billion in international awards at Mission Systems. Also in the quarter, Poland signed a \$745 million letter of acceptance for 200 AARGM-ER missiles, adding to the growth potential for our Defense Systems business.

We continue to see a broad pipeline of opportunities in the areas of air and missile defense, airborne ISR and C2 systems, and ammunition across multiple markets, including newly emerging opportunities in the Middle East.

Our strategy is to compete and win in global markets through technology differentiation, bringing innovation and capability beyond what commercial alternatives can provide. To further our ability to innovate and deliver, we invested \$13.5 billion in R&D and infrastructure over the last five years. As a result, we now have the ability to scale, design, and produce while fielding new capabilities at speed.

We also have a track record of delivering defense technology that stays ahead of the pacing threats. For example, our technology is inside 90% of U.S. national security space satellites. We're a leader in low observable technology, having produced the first stealth bomber, the B-2, and now its successor, the B-21. We've delivered more than 1.3 million solid rocket motors, and we are a leader in mission systems, where we produce over 1 million secure microchips per year, some of which are 1,000 times faster than microchips in your smartphone. So as we look to the future, we are leveraging our own hardware and software capabilities to develop the next generation of systems, and we're also partnering with leading companies in areas such as AI to ensure our customers have the most advanced capabilities in the world.

In conclusion, given our key franchise program, record backlog, strong competitive position, and global market dynamics, we continue to project significant potential ahead. Our focus remains on our strategy of driving innovation, expanding our market presence, and optimizing performance to deliver profitable, sustainable growth. We are committed to our long-term vision of creating value for our shareholders, meeting our customer needs, and staying ahead in an ever-evolving global market landscape.

So with that, I'm going to turn the call over to Ken to discuss our first-quarter results and our updated guidance. Ken?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Thank you, Kathy, and good morning, everyone. I'll begin by covering our top-line results on slide 4 in our earnings deck.

First quarter sales were \$9.5 billion, down 7% compared to the prior year, and included two less working days compared to Q1 2024. Sales in the quarter were also impacted by multiple contracting delays and timing of material receipts. This sales profile was contemplated in our expectations that we shared in February.

However, as Kathy outlined, we updated our estimates to complete the LRIP phase of the B-21 program late in the quarter, which lowered sales by nearly \$100 million. As a result, Q1 sales were slightly below our expectations. However, we are still on the path to achieve our full-year sales guidance.

In total, Aeronautic sales were down 8% year-over-year due to lower B-21 sales and timing of production and material on mature programs, including F-35. DS first quarter sales increased by \$68 million, or 4%, primarily due to the continued ramp on the Sentinel program and higher volume on certain military ammunition programs.

Mission Systems sales continued to expand, up \$148 million, driven by numerous programs throughout their portfolio. Higher sales on SABR, EW, international ground-based radar, and marine programs all contributed to the 6% growth. And Space sales were lower primarily due to the previously communicated wind down of work on two programs, which totaled approximately \$230 million of year-over-year headwinds, as well as from lower volume on CRS and SDA satellite programs.

Moving to the bottom line, our first quarter segment operating income results are shown on slide 5. As previously discussed, AS adjusted their estimate to complete the LRIP phase of the B-21 program. The total loss provision was \$477 million across the five LRIP lots, which had the effect of lowering our company Q1 segment operating margin rate to 6%. At DS, first quarter 2025 segment operating income grew by 15% and their margin rate improved to 9.9%. This improvement was driven by higher volume, improved performance, and an increase in net favorable EACs.

At Mission Systems, quarter one operating margin decreased 4% due to lower volume on certain fixed price restricted production programs and investments made in connection with restricted business opportunities. These reductions were partially offset by higher net EAC adjustments.

And at Space, first quarter segment operating income was driven by lower sales volume, partially offset by improved program performance. Notably, Space's net favorable EACs improved to \$29 million in Q1, leading to an 11% operating margin rate.

Outside of the B-21 adjustment, segment operating income was consistent with the first quarter of 2024, and net favorable EACs were higher by over 30% year-over-year. This performance is driven by disciplined program execution and our focus on driving cost efficiencies in our business.

Moving to the year-over-year EPS compare on slide 6. Earnings per share were lower primarily due to the adjustment on B-21, which totaled \$2.74 per share on an after-tax basis. Lower sales volume and, as expected, higher corporate unallocated expense also contributed to the combined 25 cents of year-over-year headwind.

Before covering our updated guidance for 2025, I want to take a moment to talk about Q1 cash flow. Consistent with our seasonal pattern and expectations, first quarter results reflected a usage of cash. Operating cash outflow of \$1.5 billion reflected an increase in vendor payments, as well as lower billings and collections compared to our prior year.

We also invested nearly \$300 million in capital expenditures during the period. We continue to expect cash flow to gradually ramp throughout the year, with the largest quarter of cash generation in Q4 consistent with our historical performance. And from a capital deployment perspective, we repaid \$1.5 billion of notes that matured in January, as we indicated on our Q4 earnings call.

We also returned nearly \$800 million to shareholders in the form of dividends and share repurchases.

Turning to company guidance on slide 7, we continue to expect \$42 billion to \$42.5 billion in 2025 sales, representing 3% to 4% organic growth. Looking forward, we expect mid-single-digit sequential growth in Q2, followed by a sales ramp in the second half of the year, driven by awards booked in Q4 2024, the timing of subcontractor deliveries and material receipts, as well as from new program awards.

With respect to evolving trade policy, the vast majority of our supply chain is sourced from domestic suppliers. After a thorough review of our supply chain, we have a good understanding of the risk areas and are taking mitigation actions where possible to address them.

Full year segment operating income and EPS guidance have been updated to reflect the B-21 adjustment, which also had the effect of lowering our estimated tax rate for the year to high 16%. And we are reaffirming our 2025 free cash flow guidance range of \$2.85 billion to \$3.25 billion.

At the segment level, we are reaffirming our sales expectation at each of our segments. We continue to expect mid-single-digit growth at AS and MS driven by continued ramp on B-21, TACAMO, and multiple programs across our diverse MS portfolio. We expect DS will achieve double-digit organic sales growth this year, driven by IBCS backlog, Sentinel, and higher volume in our weapons business.

The divestiture of the Training Service Business is on track to close midyear, assume early Q3 for your modeling purposes and we continue to project Space sales of roughly \$11 billion, enabled by continued production on existing programs and new competitive wins in the restricted domain.

We have updated our OM rate expectations at AS and now expect an OM rate of low to mid 6%. We are reaffirming our margin rate expectations for the other segments, with each projected to increase from 2024 actual results.

We expect a gradual ramp in overall segment margin rates over the coming quarters driven by MS. This profile is enabled by continued strong program performance, execution of cost-saving initiatives, and seasonal volume shifts to higher-margin production programs later in the year.

To conclude, our portfolio is well aligned to customer priorities, and we will continue to drive efficiencies, manage risk, and elevate performance to deliver profitable growth over the long term. This will enable us to execute our capital deployment strategy, which prioritizes investing in innovation and capacity to meet our customer needs while returning cash to shareholders.

With that, we are ready to begin Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kristine Liwag, Morgan Stanley.

Kristine Liwag - Morgan Stanley & Co. LLC - Analyst

So Kathy, maybe on the B-21, what milestones should we watch for to track the risk retirement of the program? And regarding the macroenvironment that you've put in for the charges, how should we think about this regarding tariffs? Could there be a risk that you could see further charges on the program?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Thanks, Kristine. So let me start by talking about the phases of the program and where we are in performance. We are completing the EMD phase of the program and are in the stages of tests that prove out the objectives of the aircraft being met through those performance test milestones,

and the government has released information as we progress through the test program to help provide some transparency that the aircraft is performing in line with the modeled performance and the test objectives.

We also have started low-rate initial production. And as we've talked about, we are working through the first two lots of production in LRIP, and we have even started long lead up through lot four. So we've built a good bit of experience now in building the aircraft. And as we have progressed through the build process, we made the determination, working with the Air Force to reduce risk as we scale to the program of record, which will happen at the end of LRIP, and even to position us now to ramp above the program of record.

And those manufacturing changes and associated costs that we talked about being reflected this quarter are a result of that learning in the process of scaling. But it's good to have that learning now understood and behind us before we ramp further through LRIP and then eventually into full-rate production.

We also have the sustainment and modernization still ahead on the program. We've talked in previous calls about having started some work on modernization, and we are building out the capability to train and sustain on the aircraft as well. So those will gradually phase in over these next several years. And there isn't change based on what we're reporting this quarter in that profile for the program.

Kristine Liwag - *Morgan Stanley & Co. LLC - Analyst*

Great. Thank you, Kathy. And maybe I could follow-up on AI. You mentioned earlier that you're seeing opportunities there. Can you provide more color on where you see Northrop Grumman's strategic strengths are in AI versus commercial players or new disruptive players? How much of a game changer are your capabilities in this?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

Yes. So we have been investing in artificial intelligence as it's known today, but for decades, we've been incorporating the concept of distilling large amounts of information through automation into actionable software that helps enable a user to do everything from flying an aircraft with our autonomous aircraft, to distilling large amounts of information for targeting, to helping to assimilate situational awareness and make decisions on how to pair sensors and shooters like with the IBCS program, which I mentioned in my prepared remarks.

All of these applications of artificial intelligence help us to make our sensors, our software, more valuable for the user and to do more in short periods of time to prepare that information for the user to act more quickly. And so that is a mission expertise that we possess, and the building of that software and integration of artificial intelligence techniques is something that our team understands how to do.

But as that technology matures, we absolutely can partner with other companies who are investing, usually for commercial applications, and bring their platforms in to facilitate our software development. And that's largely what we're doing in the partnerships that we have with companies like NVIDIA.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners - Analyst*

Kathy, in your prepared remarks, you noted that it's a pretty unstable situation with your U.S. customer at the moment, but you gave us the expectation that you hope things, or expect things, to improve from here. But some of the commentary from the Pentagon suggests that there's going to be significant headcounts, and there's obviously still the potential risk of the DOGE. So what gives you the confidence that this situation, this process problem is going to improve from here?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

Well, thanks, Rob. There definitely is uncertainty in the environment, and it's in multiple forms. The one that I referred to in my prepared remarks was delays in getting new awards and those decisions being made. What I would say is we are starting to see those award decisions move forward, and that was the reason for my comments that— we expect that to improve here in the second quarter and throughout the year.

We are not seeing direct impact from the government's reduction of personnel in our ability to still deliver on programs and get through the milestones that we have on program. We are watching that. Certainly, we want to make sure that the government oversight is sufficient and there, but I also believe there is room for efficiencies. And we expect that, in some ways, the government will be able to continue their work even as they experience less personnel.

And finally, I would just say that we are looking toward the budget to provide clarity on the administration's priorities. But what we are hearing is that there is strong alignment to the areas of capability that Northrop provides, and we also are expecting the increases in top-line that I talked about in my prepared remarks. So we'll be watching all of that closely as it unfolds over the coming months.

Robert Stallard - *Vertical Research Partners - Analyst*

Okay, thanks, Kathy. Just a quick one for Ken. On the B-21 EAC adjustment, what is the anticipated cash impact from this? Is it basically the same number, but spread over time?

Ken Crews - *Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer*

So the right way to think about the cash impact due to the incremental charge is no material impact to 2025. Of the incremental charge, it will be spread primarily through '26, '27, and '28.

Operator

Ronald Epstein, Bank of America.

Ronald Epstein - *BofA Securities, Inc. - Analyst*

If we can dig a little deeper on B-21, if we peel back the onion, what changed from a quarter ago to now to make you feel like you had to do this now? And I guess that gets at how confident can we be that this is it, right? I mean, I think we've all watched the industry for a while, and it seems like these charges tend to have a tail, and that's the big fear. Are we going to get one of these every year? I mean, how should we think about it and be confident that this is it?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

The drivers of the charge were related to a process change, and that process change supports the accelerated production rates that I referenced. And so in that way, it's a very defined change, and we now understand and have the learning from making that change, and that's not something we will need to do again. This positions us to ramp to the quantities needed in full-rate production.

And even as I noted, we can ramp beyond the quantities in the program of record, which is something that we and the government decided was important for the optionality to support the scenarios that they have been looking at to increase the current build rate.

The second part of the charge that I mentioned is related to the quantity of general procurement materials, as well as the price. And there, we had underestimated the amount of consumption of those materials, as well as the price increase that we are seeing.

And so in many ways, this is a reflection of the macroeconomic environment, coupled with the learning that comes through building the aircraft, now having multiple under our belt. And the adjustment this quarter has the benefit now of having those first two lots progressing through production. So we don't expect these learnings to repeat themselves.

But of course, we've been transparent that there remain both risks and opportunities on the program as we complete the first five LRIP. Most of the change that we have experienced and that have resulted in, now the close to \$2 billion of charges, on the program are due to inflationary factors.

And so we have done our best to execute well on what we can control and at the same time, reflect those macroeconomic risks in our EAC. So we have updated those, but we will continue to monitor and mitigate those inflationary pressures as we experience them.

Ronald Epstein - *BofA Securities, Inc. - Analyst*

Got it. Got it. And then maybe as a follow-up on Sentinel, it's another program that's kind of made some headlines. How confident should we feel about the profitability on that, given the potential changes to that program?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

On Sentinel, we continue to progress well through the development phase of the program. And we, as I said, have progressed in design maturation and even testing of the missile. And so we continue to grow in confidence in the design of the system that we are building. We are partnering with the DoD and the Air Force to restructure the program. And as part of that restructuring, we are working with the Air Force on options to reduce the overall cost and schedule on the program and have identified opportunities to them to do so.

What we look at in that restructuring is to ensure that the changes in requirements are adequately reflected in the design, and ultimately in the contract, and we'll be working to do that with the government. And I would just remind you that Sentinel is a cost-plus program, and we have not yet estimated the cost associated with LRIP from a contractual standpoint.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Good morning, Kathy and Ken and Todd, maybe just a broader question, again, starting out with tariffs because it's been a hot topic this morning. How do we think about the tariff impact on the overall Northrop portfolio? And just international relationships, how that changes your potential opportunity set under the current administration?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

So Sheila, let me start with what we believe to be the impact of tariffs on our portfolio. We do directly source a small part of our supply chain, about 5% of our total spend, so less than \$1 billion annually, and it's from countries outside of the US, primarily in Europe.

When we look at the second and third tiers of our supply chain, we have purchasing agreements in place with the vast majority of those that extend over a long period of time. And we have done an assessment and believe that most of the costs that we might incur, due to trade policy, are incorporated and covered under our contracts with the U.S. government.

So we do not see, at this point in time, a significant risk to our company, related to the trade policies as we understand them today. We're going to continue to monitor that closely. And we're already taking actions to account for and mitigate the risks that we do see, particularly in availability of certain components that we need for delivering on our program.

Sheila Kahyaoglu - Jefferies LLC - Analyst

Great. And maybe if I could ask one specific question on MS margins, just at 12.9% in the quarter. They lagged the midpoint of your guidance of mid-14s. How do we think about the drivers of that? You mentioned investments and mix of microelectronics. So how do we think about the improvement in MS profitability?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Sure. Thanks for the question, Sheila. So as we mentioned in my prepared remarks, we made an investment that would generate significant value over the long-term while repaying the initial investment cost, plus our required rate of return. That was known. So we knew of that when we put our guidance forward at the mid-14% range.

So as we think forward with Mission Systems, what is driving the margin profile in the future is the ramp, particularly on their mature accretive margin programs throughout the year, as well as Mission Systems is making significant progress on efficiencies in the business.

And so as we harvest those efficiencies, it will impact our rates, which then flow through to the programs driving that improved margin profile in the second half of the year.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - Deutsche Bank AG - Analyst

Hey, good morning. Ken, are you reiterating the previous free cash flow targets for 2026, 2027, and 2028?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Yes. So let me touch on that – we are, at this moment, holding the guidance ranges that we've provided over the multi-year guidance ranges for cash flow. And we are absolutely focused on performance and rationalizing investments to execute within those ranges, Scott.

Scott Deuschle - Deutsche Bank AG - Analyst

Okay. And 2028 is still good for the \$4 billion? Or --?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Yes. At this point, we're holding all guidance.

Scott Deuschle - *Deutsche Bank AG - Analyst*

Okay. And then just on this, for 2026 and 2027, would it be reasonable to think that you're biased toward the lower end of the prior range, given these extra B-21 costs or are there mitigating offsets that we should be mindful of?

Ken Crews - *Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer*

The majority of the impact is '26, '27, and '28, but I want to highlight the fact that we, are over those periods, right, when we put the ranges together, we account for various risks and opportunities, and we are all working and executing to mitigate risk, maximize opportunities to be within those ranges.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co. - Analyst*

I'm not sure how specific it's possible to get on B-21, but if we think about the -- quantifying the portion of the charge related to the process charge versus the portion related to higher cost. And also, would the process charge have been made if there was not an intention to create some optionality about moving to a higher production rate?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

So Seth, I can't quantify because of the classification of the program what relates exactly to the process change versus the procurement material, but the first is larger than the second, which is why from the disclosure, we talk about them in that order.

And in response to your question of whether we would have made that process change, if not for the need to reduce risk as we scale to the program of record, and then ultimately to position us to grow beyond the program of record, we would not have made those changes at this time, if not for those considerations.

But we are glad that we have made them because that learning only would have compounded if we would have waited later in the program and had a higher production volume. We also believe that providing this optionality to the government now, as they are looking at force structure, was an important enabler to their derisking of options beyond the program of record. So I don't at all regret that we did this and that we did it now, and it is a good thing for the program overall to have this learning behind us.

Operator

Michael Ciarmoli, Truist Securities.

Michael Ciarmoli - *Truist Securities, Inc. - Analyst*

Just -- I hate to do it -- but to stay on B-21. Kathy, was the process change at the request of the customer or working with them to ramp faster and ultimately to deliver above the current stated volume? And then just on the consumption of material, was that -- I think you called out that you had more consumption material. Was that more just kind of thinking about scrap and waste in the process?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Yes. So we did make the decision jointly with the Air Force to make the process changes. And as I said, it really was to reduce risk, as we scale to the program of record, and to provide for options beyond the program of record. The Air Force is continuing to evaluate those options, and we'll look for more information as the budget request is finalized.

In part of your question, you also are asking about whether we saw some of the material cost increases as the result of scrap and rework. To some degree, it's really about the consumption of the material necessary in the build process, but some of that absolutely is the amount of scrap and waste that we have in the process and the estimates that we made on that early in the program versus the actual performance.

Michael Ciarmoli - Truist Securities, Inc. - Analyst

Got it. Helpful. And just if I may, I think previously, you called out maybe \$200 million in supply costs that have been removed. I mean, how are you thinking about that number, maybe with the evolution of tariffs and potentially tighter access to materials. Does that \$200 million in costs continue to stay out of the system you think?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

So we've talked about \$200 million enterprise-wide of cost efficiencies, and we do see a path to keep that cost out of the system and continue to build on it. We are driving cost out, not just through supplier engagement in constructing more efficient supplier utilization and pricing, but also through things like facility optimization, the implementation of our digital ecosystem, which is driving rework out of our system. And so those things are the bigger driver of that \$200 million cost efficiency, but certainly supplier efficiency is part of it, and we don't expect that to be impacted by tariffs.

Operator

Doug Harned, Bernstein.

Douglas Harned - Sanford C. Bernstein & Co., LLC - Analyst

On the B-21, if we look beyond the five initial LRIPs here, I guess, first, the changes that you're talking about and the costs that are coming through, should we expect any impact in the next 19 airplanes, which you've talked about before?

And then also, as you think about larger program of record. I mean, the Air Force has talked about 100 airplanes, but if I think back, I can't remember in the last 30 years that we saw a major aircraft procurement program actually end up increasing beyond the initial program of record. So is there somewhere we would see that? Have there been announcements? Or should we expect something in the budget?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Yes, Doug. So let me answer the first part of your question first about the NTE unit. So bottom line upfront, we continue to expect the NTE aircraft to be profitable. The loss largely relates to those higher manufacturing costs that I talked about from the process change we made and that near-term disruption in the associated costs will not extend into the NTE units. And we actually expect these changes will positively impact our ability to deliver the NTE units profitably.

The increases in projected cost and quantity of general procurement materials could negatively affect profitability of the units. So when you think of the NTE aircraft overall, we do still expect those to be profitable.

With regard to the Air Force messaging around increasing the quantity of B-21, and potentially the rate at which they are being built, that has been spoken about in Congressional testimony, particularly from the users of B-21, think the combatant command that is looking toward what they would like to have for completing their mission, and there have been discussions about raising the quantity. And so that is the source that you can look to, in open source, to reflect that increased demand signal that we've been talking about.

Douglas Harned - *Sanford C. Bernstein & Co., LLC - Analyst*

And then just as a follow-on, switching over to Defense Systems. You've talked about IBCS and the \$10 billion potential international demand. Can you talk about how that's proceeding and how you see that now? When we should see that impact? It seems quite substantial and positive.

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

Yes. IBCS is being fielded for the U.S. Army, including expansion of mission to include the defense of Guam. We also have Poland, as you know, that is expanding their use of IBCS. We first started with their mid-range air defense, and now we're moving to their near-range air defense.

And we've talked before about a dozen countries who have expressed interest in procuring IBCS that are in various stages of maturity in the pipeline, but we are seeing great interest there. And we continue to add additional countries that are looking to IBCS as the baseline for their architecture.

We also, as we have responded to Golden Dome's request for information, incorporated the capability of IBCS because its ability to integrate sensors and shooters is absolutely at the core of part of the underlayer for missile defense for the homeland in the U.S. as well.

Operator

Matt Akers, Wells Fargo.

Matt Akers - *Wells Fargo Securities, LLC - Analyst*

Kathy, you had mentioned at a conference in the quarter that there had been some instances of contracts that maybe have taken a little bit longer to get signed during the quarter. Can you give us kind of a quick update on that—Is that something you're still seeing or has that dynamic improved a little bit?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

We have not seen those contracts get awarded yet. We are seeing them progress, through the process of being reviewed, and we hope ultimately decided and communicated. So we are holding to the expectation that we will see some of those awards start to happen this quarter and certainly in the second half of the year.

Matt Akers - *Wells Fargo Securities, LLC - Analyst*

Yeah. Got it. And I guess any color you can add on what those contracts are, specifically, is that focused on one area of your business? Or I guess, is there anything else you can get to?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

There are actually examples in all four segments of our business. A large aircraft program in our Aeronautics business, multiple Space awards in restricted, particularly communications. We have in Mission Systems some restricted opportunities that we are anticipating will get awarded over

the summer now. And in Defense, it's largely munitions, where we have a munitions contract we expected award in the quarter and now are expecting to happen in the second or third quarter.

Operator

Myles Walton, Wolfe Research.

Myles Walton - Wolfe Research, LLC - Analyst

Thanks. Maybe for Ken, I'm not sure. In January, I knew you were looking for flat year-on-year sales growth in the quarter and then in February, you updated that, and then you came in below it. And I hear you on the EAC for the B-21, and you sort of alluded to some slowing progress in getting orders under contract, but it doesn't sound like those quarters are under contract yet, and you're looking for another decline year-on-year in the second quarter. So I guess what gives the confidence for that mid-teens acceleration you need in the second half of the year if the bookings aren't in your hand and you've kind of seen what you've seen in the first quarter?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Yeah. And so -- thank you for the question. I'll put it into three buckets in terms of what's driving the ramp in terms of the second half of the year. The first one is the large awards we received at the end of 2024 and those fall in the lines of TACAMO and IBCS, as well as international activities early around ground-based radars. Again, I'll reemphasize that's in our backlog.

And so just from a natural timing progression, when you think about ramp-up and timing of materials, that will happen in the second half of the year.

And then when we think about the natural, as part of our original assumptions, in terms of just our current backlog growing, we have planned ramps across restricted airborne sensors. We have planned ramps in terms of just timing on Sentinel. Our weapon systems across multiple activities, like AARGM and Stand-in Attack Weapon, as well as timing on Strike, and that's just a few examples. And again, that sales growth is driven by backlog.

And the other piece would be, which is primarily Space-- is new competitive awards, and --we do believe we're well positioned for those, and we do expect to hear about those in the second quarter, and then that's what drives the remaining piece of the growth profile.

Myles Walton - Wolfe Research, LLC - Analyst

So it wasn't anything in the quarter that was turned off, there was no stop works or customer decision points that were turned off, it was simply a timing of receipt of contracts?

Ken Crews - Northrop Grumman Corp - Corporate Vice President, Chief Financial Officer

Yes, it's just timing and then around the confidence piece is, when we think about it from a working capital and our inventory, once those gets awarded, we are able to reduce that working capital. So it's associated sales real time, which also gives us confidence in our profile.

Operator

Ken Herbert, RBC Capital Markets.

Ken Herbert - RBC Capital Markets - Analyst

Hey, Kathy, you called out I think, 14% of sales internationally in the first quarter. With all the strong bookings, –are you -- how should we think about now maybe any upward momentum on international, either as a mix in '25 or just absolute growth off those sales this year?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

We are starting to see a significant pipeline of demand translate into firm international bookings. I did talk about our international sales being up 11% in the quarter, perhaps even more interesting for the long term is that our book-to-bill in 2024 was 1.4 times and it was 1.45 times in the first quarter.

So we see it coming across a number of areas. We've talked already about IBCS in a dozen-or-so countries that are expressing interest. We didn't talk as much, but certainly significant interest in AARGM, and Stand-in Attack Weapon. Both AARGM and AARGM-Extended Range have been approved for export to a large number of countries, and we are in various processes of getting those awards on contract. I mentioned one in my prepared remarks. And then we also are continuing to see growth on aircraft platforms like E-2D and Triton. So it's broad-based in terms of where that international business is coming from. And yes, we see a significant portion of it in our Defense Systems business. They have had double-digit growth in international. And with the pipeline that we have in their portfolio, in particular, we expect that to continue.

Ken Herbert - RBC Capital Markets - Analyst

Thank you. Have your assumptions at all changed on F-35 international sales this year, or into 2026, as a result of any of the more recent commentary on that program?

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Our expectations have not changed. The communications that we have had with the prime are to continue producing at our max rate, which is 156 aircraft. That's what we're on contract to do, and so that's what we continue to do. And so we don't anticipate any change.

Operator

David Strauss, Barclays.

David Strauss - Barclays Capital Inc. - Analyst

Kathy, one follow-up on B-21, and then one follow-up to that. On B-21, this process change that you've put in place to allow for accelerated production or higher quantities, whatever it may be, isn't this something the Air Force should pay for? And will they ultimately pay for it, it's just they can't pay for it, given the contract structure that you're working under? That's my first one. And then second one, if you could, NGAD, F-47, could you talk about what role, if any, you have on the Boeing aircraft? Thanks.

Kathy J. Warden - Northrop Grumman Corp - Chair, Chief Executive Officer, President

Sure. So look, we made the decision jointly with the Air Force to make the change. And we believe in the long run, it's not only in the best interest of national security and providing the Department of Defense the options that they need to have a force structure that meets their expanding requirements, but also for the profitability of the program over the long haul.

And that's the decision framework that we operate within, is to think about what is needed by the nation and our shareholders. Not just each quarter, but over the long duration that this program will be adding value.

In regard to our role on NGAD, given the classification of the program, we can't disclose any information specific to the program. But you know that we are a merchant supplier of mission systems. And we remain fully committed to supplying those advanced capabilities for government customers and primes. And that our sensors are easily scaled and reconfigurable for a wide application across the variety of platforms and domains and I'll simply leave it at that.

David Strauss - *Barclays Capital Inc. - Analyst*

Okay. And any update on timing on F/A-XX?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

We -- I do not have an update to provide you. The Navy remains committed to the program and we do expect to hear something soon.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Analyst*

Kathy, quick question. Defense Systems, it looks like there was an explosion at a plant in Utah that produces solid rocket motors. So I'm just wondering how you're thinking about, that in terms of the outlook at DS. Is there any potential impact to Stand-in Attack Weapon or AARGM-ER?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

Yes. Thank you for the question. It is actually part of our Space business. This is where we build the larger solid rocket motors, not the tactical ones that go into missiles. And so it was in Promontory, Utah.

And it was a building where we produce an ingredient to our solid rocket motor propellant, but we have other sources of supply outside of Northrop Grumman that we'll be able to provide us that ingredient. So we do not expect any impact to any of our programs.

We've specifically been asked about Sentinel because Promontory is a production site for those solid rocket motors, and there is not expected to be any impact to Sentinel or any other program. And again, it would be in our Space business, not Defense Systems, so there's absolutely no correlation to programs like AARGM, AARGM-ER or Stand-in Attack Weapon.

Scott Mikus - *Melius Research LLC - Analyst*

Okay. Very helpful. Second question, DoD has highlighted a lot of need for investment in space. So is there a possibility of the classified space program that was canceled to end up being restarted under this new administration?

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

You know, certainly, the requirements are what drive the need for development and fielding of capabilities. And so to the extent that the requirement has not gone away, we do believe that programs could be re-evaluated and started under this administration to meet those requirements. Our

current year expectations don't reflect that, but certainly we continue to provide information to the government to help them understand their options space for meeting those requirements.

Todd Ernst - *Northrop Grumman Corp - Vice President Investor Relations*

We're going to have to leave it there.

Kathy J. Warden - *Northrop Grumman Corp - Chair, Chief Executive Officer, President*

Great. Well, let me wrap up by thanking you for your participation in today's call. As you sensed, we are optimistic about the continued strong demand for our products, the growing global defense budgets that we see, and the solid execution of our team across the majority of the business. And while we are disappointed with the B-21 adjustment this quarter, the underlying business fundamentals in our company are strong, and we continue to de-risk the B-21 program through the investments that we're making.

So for the remainder of the year, we're going to continue to focus on adding to our backlog, improving profitability in our business segments, and generating the cash that fuels our deployment plan. We look forward to giving you another update in the second quarter and want to thank you again for joining today's call.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for your participation.

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