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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Northrop Grumman's fourth quarter 2025 conference call. Today's 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 - VP of Investor Relations*

Thanks, Josh, and good morning, everyone, and welcome to Northrop Grumman's fourth quarter 2025 conference call. Before we start, matters discussed on today's call, including guidance and outlooks for 2026 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 will refer to a presentation that is posted to our Investor Relations website.

On the call today are Kathy Warden, our Chair, CEO and President; John Greene, our CFO; and Ken Crews, our CFO, prior to January 7.

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

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Thanks, Todd. Good morning, and thank you for joining our fourth quarter and full year 2025 earnings call. The Northrop Grumman team delivered another quarter of strong operating results, generating the highest quarterly sales growth of 2025 and exceeding expectations across our key performance metrics.

Throughout the year, we kept a disciplined approach in executing our strategy, remaining true to our technology leadership and ensuring our company moves at the speed of relevance, particularly as our customers transform the way they acquire defense capabilities. This business strategy includes our capital deployment plan, which prioritizes investments in value-creating growth opportunities, of which there are many in this current environment.

Northrop Grumman's portfolio is aligned to what U.S. and international customers need right now, and we see a clear path to continued solid growth in the future. We ended the year with over $95 billion in backlog, a new company record, driven by over $46 billion in net awards in 2025. Our backlog has grown by nearly $20 billion since 2021, and our five-year average book-to-bill ratio has been 1.1 times.

Our 2025 sales and EPS both exceeded the high end of our guidance range and free cash flow was $3.3 billion for the year. This represents a 26% increase in free cash flow compared to 2024, the third consecutive year of at least 25% growth.

This strong performance provides momentum for our company in an increased demand environment and gives us continued confidence in our outlook. This confidence is rooted in our conviction that we have a talented engineering and operations team and a portfolio uniquely designed to deliver the capabilities needed by our U.S. and international customers.

In the U.S., we are aligned with the administration's and Congress' focus on expanding American manufacturing capabilities and capacity on critical programs, and ensuring technological superiority. We have purposefully built and shaped our portfolio with a focus on our customers' demand signals.

We are a leader in developing and delivering advanced, and often considered exquisite, capabilities, which are at the core of U.S. war-fighting today. However, we have also demonstrated that we can design and develop more affordable solutions that can be produced in mass and fielded quickly.

One example of this is high-volume space assets that we are building for the Space Development Agency, including our fourth quarter award for 18 Tranche 3 Tracking Layer satellites, which brings our total SDA satellite backlog to 150. Our missile tracking solution leverages our broad set of missile defense capabilities to provide global detection, warning and tracking of hypersonic weapons and advanced missiles from the earliest stages of launch through interception.

Protecting the homeland is a top priority for the Trump Administration as outlined in the recently released National Defense Strategy. In alignment with the Department of War's focus on acquisition transformation, we are transforming Northrop Grumman.

We are moving with urgency and proactively bringing innovative solutions to our customers. An example of this includes the latest advancements in our uncrewed portfolio. The first of which is Project Talon, an evolution of our Collaborative Combat Aircraft Increment I design, that strikes a balance between capability and affordability. Project Talon was designed and built in under 24 months.

To accelerate the development, we leveraged our autonomous testbed ecosystem, Beacon, which is now known as Talon IQ. Project Talon builds on Northrop Grumman’s seven decades of experience with advanced, battle-tested uncrewed systems. In December, the same month that we unveiled it, the U.S. Air Force awarded our aircraft with a designator, the YFQ-48A. This is only the third CCA platform to have this type of designation. Beyond the interest the Air Force has shown in this system, we also believe Talon will have broad global appeal.

I want to highlight a second example in our uncrewed market, which speaks to our partnership approach. We teamed with Kratos to develop a collaborative combat aircraft for the Marines and received a $231 million award late last year. The expeditionary uncrewed aircraft combines our vast experience in multifunction mission systems with Kratos' proven platform, the Valkyrie. We've completed more than 20 successful demonstrations in operationally relevant environments, and we are working to rapidly field this capability to work alongside crewed fighters.

Our focus extends well beyond developing the next generation of space and airborne uncrewed platforms. We are equally dedicated to scaling our operations across our portfolio to meet rapidly increasing demand, including critical areas like munitions.

To address the growth in munitions, we have made significant investments to expand capacity for existing programs and in support of second source initiative. Since 2021, we have successfully doubled our production capacity for tactical solid rocket motors at our ABL facility in West Virginia and are now advancing efforts to further increase that capacity by another 50%, effectively tripling our tactical SRM production capabilities at that facility by early 2027. And, we are making similar investments to expand capacity at our Elkton, Maryland site to triple capacity there by 2030. This proactive approach places us in a strong position as the weapons market continues to expand.

On one end of the spectrum, we are developing cost-effective solutions that can be quickly designed, produced, and deployed at scale. On the other end of the spectrum, we are also developing and producing unmatched strategic deterrence assets for our nation. This includes executing on numerous programs in the restricted arena, which comprises over 30% of our business.

It also encompasses emerging areas in space, which has evolved into a war-fighting domain. Space security, or capabilities to protect space assets, represents a tremendous growth opportunity for our company, given our proven technology and experience in this domain.

And these capabilities are fundamental in maintaining the most advanced military in the world. And of course our contribution to strategic deterrence also includes our work on modernization of the Triad.

Regarding status of our work on the Triad, the B-21 program is meeting key milestones, including first flight of the second aircraft in 2025. In the fourth quarter, as expected, we were awarded the LRIP Lot 3 contract, as well as advanced procurement funding for Lot 5. We continue to work closely with the Air Force on plans to increase the production rate of this program.

Our priority is to establish a mutually beneficial agreement that accelerates the delivery of this game-changing capability to our nation. Funding for this acceleration has been approved as part of the reconciliation bill, and I am optimistic that we will come to an agreement with the Air Force this quarter.

We also continue to make progress on Sentinel, advancing key aspects while partnering with the Air Force to restructure the program. In addition to continued progress on the missile, we are maturing launch silo designs and moving forward with prototyping activities in the command and launch segment of the program.

In the United States, our customers are turning to industry to move beyond traditional business models, break-down bureaucracy and increase deliveries of capabilities at a faster pace. Importantly, they have backed this request with funding, and this creates an immense opportunity for Northrop Grumman.

We are encouraged by the recent $1.5 trillion FY27 budget recommendation which indicates the potential for historic growth in defense spending. And in support of this approach, we are bringing proposals forward to accelerate our programs, embrace new ways of working, and partner more effectively with our customers.

Our company is well aligned with the administration and Congress' focus on speed, capacity, and performance, all in support of national defense. We are hopeful that FY26 defense appropriations will be completed soon, and we see strong support for the capabilities we deliver to the warfighter in the bill moving through Congress now. We also expect reconciliation investments to move forward this year.

Internationally, we are experiencing strong momentum, as allied nations increasingly invest in enhancing their national security capabilities. Our international growth strategy focuses on both exporting products manufactured in the United States, and forming industrial partnerships to develop indigenous capabilities in these nations. We are successfully executing this strategy, with international sales growing by 20% in 2025.

Demand signals remain strong, and we anticipate continued growth in 2026 and beyond. The global appetite for our technology is fueling this demand, particularly in air and missile defense systems, advanced munitions, radars, and a diverse array of airborne capabilities.

We've now received formal requests to acquire IBCS from over 20 countries and we are seeing notable progress on multiple other opportunities, including ground-based radars, where we are expecting contracts from customers in the Americas, Middle East and Asia-Pacific.

The robust global demand environment supports our 2026 guidance, which is consistent with the outlook we provided to you in October. We're positioned to deliver another strong year of sales and margin growth, enabling our ability to generate cash and invest in our business.

As a result, we expect to increase capital expenditures this year. Our focus will be on a variety of high-impact, value-generating initiatives in areas such as solid rocket motors, missile defense, advanced technologies, and restricted capabilities. These investments are intended to create long-term value for both our customers and shareholders by delivering advanced solutions quickly, enabling our military to maintain its competitive edge.

2025 was a strong year for our company, and we are well positioned to continue this success into 2026 and beyond. I'd like to thank the entire Northrop Grumman team for their contributions to our results and your dedication to our customers.

We are proud of the impact our products have on global peace and stability, and we share the sense of responsibility and urgency our customers have to provide our nation and allies the best products in the world.

Before turning the call over to Ken, I want to welcome John Greene, who joined our team as CFO earlier this month. John is an experienced CFO and has a proven track record of driving growth and operational excellence, and I look forward to working with him.

I also want to extend my deepest gratitude to Ken for his leadership and significant contributions during his more than 20-year career with Northrop Grumman. He was instrumental to our strong finish to 2025, and he has ensured a smooth transition to John.

Thank you, Ken. And I'll turn the call over to you.

Ken Crews - *Northrop Grumman Corp - Corp VP of Finance, Former Chief Financial Officer*

Good morning, everyone, and thank you, Kathy. Today, I'll walk you through our 2025 results, after which John will discuss our outlook for 2026. 2025 marks another year of strong financial performance, reflecting robust demand for Northrop Grumman capabilities and our continued focus on operational excellence.

I will begin with top line results on slide 5. Fourth quarter sales were $11.7 billion, up 10% compared to the prior year. On a sequential basis, Q4 sales accelerated 12%, consistent with the expectations we outlined on prior earnings calls, with Q4 representing 28% of our full year sales volume. Aeronautics Systems was the fastest-growing segment in the fourth quarter with sales of $3.9 billion, up 18% compared to the prior year.

The increase was driven by material timing on the F-35 program, continued ramp on TACAMO, and higher volume on the B-21 program, enabled by the liquidation of inventory associated with LRIP Lot 3 and Lot 5 advanced procurement awards received in the quarter.

At DS, Q4 sales grew by 7% on a GAAP basis, 12% organically, with broad-based growth throughout their portfolio. This included higher volume, producing solid rocket motors for the Guided Multiple Launch Rocket System, higher sales in the missile defense portfolio, primarily IBCS, and an increase on Sentinel as the program continues to ramp.

Mission Systems achieved double-digit growth in Q4, driven by strong production volume on restricted programs, F-35, SEWIP and international radar systems. And as we expected, the Space segment returned to growth in the period, with sales up 5% compared to fourth quarter of last year.

Higher sales were driven by increased production of GEM-63 motors for Amazon's Project Leo and increased volume on certain restricted programs. In total, 2025 sales were $42 billion, up 3% organically compared to the prior year, and above the high end of the guidance range we provided in Q3.

Moving to bottom line on slide 6. Strong operational performance continued in Q4, with segment operating income up 10% year-over-year and a segment operating margin rate of 11.2%. AS operating income increased by 20%, driven by higher sales volume and sound program execution, and there were no significant changes to the B-21 EAC in the quarter.

Defense Systems' operating income was down modestly, principally due to lower net EAC adjustments in the period. Higher sales volume at MS, coupled with favorable mix in the quarter, led to a 9% increase in operating income. And the Space segment had an outstanding quarter of operational performance, with operating income up 17% and an operating margin rate of 11.3%. These results were driven by higher net EAC adjustments and a more favorable contract mix.

Turning to EPS on slide 7, Q4 mark-to-market adjusted earnings per share were $7.23, up 13% compared to last year. The increase was driven by higher sales and strong segment performance.

Lastly, I'll take a moment to discuss our cash performance. We had a particularly strong quarter of cash generation in Q4, as is our seasonal pattern. For the year, we generated $3.3 billion in free cash flow, near the high end of our guidance range, up 26% compared to 2024.

I would like to conclude by expressing my sincere appreciation for the Northrop Grumman team. It has been an honor to work with so many amazing people over my 22-year tenure. I want to thank this team for their partnership and unwavering commitment to our customers, shareholders, and fellow teammates.

I would also like to congratulate John. I've enjoyed working with him over the transition period, and I am confident that the Northrop Grumman team will continue to achieve great things moving forward.

John, over to you.

John Greene - *Northrop Grumman Corp - Corporate Vice President and Chief Financial Officer*

Thank you, Ken, and good morning, everyone. It's an exciting time to join Northrop Grumman as we enter 2026 with strong momentum across our portfolio.

I'll begin on slide 8 by walking you through our guidance for 2026, including expectations for a year of broad-based growth across the portfolio. Notably, our guidance is consistent with the outlook provided in October and does not yet include an accelerated B-21 production rate.

For 2026, we expect sales to be between $43.5 billion and $44 billion, representing mid-single digit growth at the company. This is supported by strength across all four business segments and builds upon our disciplined execution and market demand. We expect Q1 sales to be up low-single digits, partially driven by fewer working days in the quarter.

Growth is expected to accelerate throughout the year, similar to the cadence experienced in 2025. On the bottom line, we remain focused on disciplined program execution and margin expansion over time, driven by cost efficiencies, operational leverage, and mix.

2026 segment operating income is projected to be between $4.85 billion and $5 billion, reflecting continued strong performance and a low-to-mid 11% segment operating margin. 2026 mark-to-market adjusted earnings per share are expected between $27.40 and $27.90, up mid-single digits. This includes our latest estimate for pension income, an effective tax rate of low-to-mid 17%, and $620 million in interest expense.

We expect roughly $280 million in other unallocated corporate expenses in 2026, a level that is reflective of our normal run rate excluding unique and extraordinary items. We are assuming our share count will remain relatively flat and 2026 free cash flow continues to be estimated between $3.1 billion and $3.5 billion. We are offsetting a higher capital spend outlook with strong operational cash flows.

Moving to segment level guidance on slide 9. AS sales are expected to grow to mid-$13 billion. This growth is supported by increased volume on programs like B-21 and TACAMO, partially offset by lower materials volumes and stable production rates on the F-35 and E-2 programs.

We also expect a modest headwind on the F/A-18 program, with the final production lot completed in the fourth quarter of 2025. Margins are projected to be low-to-mid 9%, reflecting the higher mix of development programs.

DS remains our fastest-growing segment, with sales expected to rise in the low double digits organically to the mid-to-high $8 billion range. Growth will be broad-based, driven by strong demand across weapons, missile defense, and strategic deterrence programs.

Operating margins are expected to remain steady at around 10%, comparable to the performance in 2025 absent the $76 million favorable EAC adjustment on Sentinel. MS is projected to deliver sales in the high $12 billion range, building on double-digit growth in 2025 with broad-based demand across their diverse portfolio.

Investments in digital technology and factory utilization continued to drive efficiency improvements, with margins expected to improve further into the high 14% range this year.

Space segment sales are expected to grow to approximately $11 billion in 2026. Growth drivers include higher sales on multiple restricted space and missile defense programs. We expect stable GEM-63 volumes and modest headwinds on NASA programs. Operating income is forecasted to be in the 11% range, consistent with the prior year. Lastly, intersegment eliminations are projected to be approximately $2.4 billion with a high 13% OM rate.

Turning to pension performance on slide 10. 2025 ended on a strong note with asset returns of 11.3%, improving our funding status to 106%. This year, CAS recoveries are forecasted at $245 million, slightly lower than prior projections due to our favorable funding status. We expect to make minimal annual cash contributions over the next several years, consistent with prior guidance.

I'll end my prepared remarks with a few comments on capital deployment. First, $527 million of fixed-rate debt will mature in March, and we intend to pay down the note with cash on hand. Our capital deployment strategy remains focused on driving growth and reinvesting in the business to maximize shareholder value.

In 2026, capital expenditures are projected to be $1.65 billion, approximately 4% of total sales. This represents an increase compared to prior expectations based on the strong demand environment we see ahead. These investments will enhance production capacity and support the industrial base, ensuring we're positioned to deliver growth well into the future.

Before I close, I wanted to share some personal thoughts. I'm honored to join Northrop Grumman in support of its mission at such an important and exciting time. In the coming years, I look forward to working with this outstanding management team to execute on our strategy and deliver value for our stakeholders.

In summary, 2026 is shaping up to be another year of strong growth with continued momentum across our portfolio. Before I open up the line for Q&A, I also want to thank Ken for his tremendous support during our transition.

With that, let's open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ronald Epstein, Bank of America.

Ronald Epstein - *Bank of America - Analyst*

Kathy, if we could just pick up on your remarks -- your prepared remarks on transforming Northrop Grumman. I mean, how are you broadly thinking about how a company with the breadth and depth and legacy of Northrop Grumman, and how that jives with this push towards the non-traditionals?

I mean, you pointed out a couple of the CCA programs and unmanned stuff that you've done. But I mean kind of strategically, broadly, how are you thinking about it? Because it seems like you all are doing quite well at it. But just if we could maybe, however the cliche is, double-click on that, or peel back the onion?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Yeah. Thanks, Ron, for the question. As you said, we have been transforming the way we are meeting our customers' needs. I talked about it somewhat in my prepared remarks, how our strategy for technology leadership has not changed. But we are directing that talented engineering and operations team to be able to design products that can be fielded more quickly. We're balancing the need for performance with affordability and speed to market.

And so we believe that we have all of the foundation to meet this moment, but we are directing that talent in ways that are more applicable to what this administration has a strong sense of urgency to do, which is field capability quickly.

And I'd also say that we have been investing. This is not something we've just started doing this year. As you know, we've been investing in our business to build capacity, and capacity is critical to fueling capability quickly. And we have that capacity ready to go in many areas. I talked about solid rocket motors and how we have already doubled capacity, and we'll have tripled by early next year.

I talked about the work that we are doing in space where we've gone from producing tens of satellites a year to hundreds. And we are also obviously looking to accelerate programs like B-21. And so, across this entire portfolio, we have the opportunity to lean in to moving faster and we're organizing ourselves to be able to do that.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Kathy, maybe expanding on Ron's question a little bit and your answer. The fiscal ‘27 budget provides a lot of money out there to be contracted, and as you think about your ‘26 plan and thinking about the longer-term trajectory of growth, where do you see the biggest opportunities for acceleration? And how do you balance that with some of the investments that you need for that capacity?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Yeah. Thank you, Sheila. We are absolutely taking a balanced approach to what we have incorporated into our guidance and what we still see as opportunity ahead. So, what is incorporated into our guidance is where we see clear funding and where we have accumulated backlog or we have a high expectation of award. There are a few areas that we've specifically called out, like B-21 and APEX, where we have not incorporated that yet into our guidance.

F/A-XX is the name that we use for APEX. So that is really how we are thinking about our 2026 guidance. There is a good bit of opportunity out there for our team to go capture in this opportunity-rich environment, but we have incorporated into our guidance what we clearly believe is headed toward contract or already in our backlog.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Got it. So maybe my follow-up is, as we think about ‘26 growth in the mid-single-digit range, does it accelerate from there in ‘27 as we think about international coupled onto that?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

We believe that it does based on what signals we are receiving regarding the FY27 U.S. budget and the fact that we see continued acceleration of demand internationally. I spoke to a few of the areas of growth that we expect to see. We believe we will have a book-to-bill, internationally, well above one again this year, and that positions us for growth into 2027.

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - *Morgan Stanley - Analyst*

Kathy, going back into the 2026 revenue outlook, backlog is at a new record at $96 billion as you called out. And the midpoint of your outlook provides 4% year-over-year growth. Can you talk about what's driving the significant conservatism in your outlook? What are the key variables that convert more of this backlog into revenue? And can you size the B-21 and F/A-XX, that's not in your guidance, if those contracts were to firm up, how could that change your ‘26 outlook?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So Kristine, you call it conservatism, I'll call it a balanced approach. It's a dynamic environment. And so, as we look at 2026, we believe we have invested in the areas that will see significant growth in the coming years. Munitions, which I spoke to, with our solid rocket motor capacity. Golden Dome and its associated opportunities for homeland defense. The F/A-XX program, our collaborative combat aircraft offerings. Yet, as we sit here in January, we have not yet seen those opportunities progress toward contract, and we believe that will happen over the next 24 months. The timing of that is what is much more difficult to predict as we sit here.

And so in terms of translating into 2026 sales upside, we believe there is opportunity there, but difficult to put our finger on. As we look to 2027, we feel much more confident that those opportunities will lead to increasing sales. And we're taking the long view as we always have, both in how we think about investment, but also the long-term growth trajectory of the enterprise.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

John or Ken, you got a big award on GEM-63 here in the quarter, but I believe in your prepared remarks you call for a flat volumes on that program. So can you just clarify why the volumes are flat on GEM-63 in light of that award, and should we expect growth there to reaccelerate in 2027?

Ken Crews - *Northrop Grumman Corp - Corp VP of Finance, Former Chief Financial Officer*

Yeah. As you know -- Scott, this is Ken. Historically, this is an area where we've been investing in capacity. And so, when we think about 2026, it will be flat year-over-year as we continue to expand that capacity.

To your point, in 2027, we do expect GEM-63 to continue to grow. And over the long term, it will continue to be one of the growth drivers for our Space Systems segment on top of other activities, including the restricted space security.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Okay. And then, Kathy, sorry if I missed this, but if the B-21 acceleration of work hits in the quarter, should we think about that as being potentially additive to 2026 EBIT dollars, or is it more of a wash in 2026?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So as we sit here today, we are still working through the finer points of that deal and its financial implications for the company. We do expect to invest $2 billion to $3 billion over a multi-year period. We do expect to have a better opportunity for returns on the program, again, over a multi-year period and we do expect accelerated revenue as a result, again, ramping over a multi-year period.

So you won't see a tremendous amount of impact in 2026. The greater impact of all of those components that I just outlined will happen ‘27, ‘28 and somewhat into ‘29. So hopefully, that gives you a better sense for modeling.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

If I'm correct, I don't think your prepared comments had any mention whatsoever of dividends or buybacks. I was wondering if you could give us an update on what your thoughts are there, particularly given recent commentary from the U.S. government?

John Greene - *Northrop Grumman Corp - Corporate Vice President and Chief Financial Officer*

Yeah, I'll be happy to take that. So when the team built the plan, we took a look at our capital allocation strategy and what we're seeing. And what the team saw, was robust opportunity to deliver future earnings through investment. So, we made a decision to keep the share count flat and increase our spending on property, plant and equipment in order to build out the industrial base similar to what I commented in my prepared remarks.

So the plan at this point is not to execute on additional buybacks beyond the end of this month, January. And the dividend plan will be agreed with the Board in the May time frame. So we expect, associated with the second quarter earnings, that we'll have an update on that.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Okay. And then a quick follow-up that links into that. In terms of the growth going forward, how much of this is dependent on the supply chain? Are they a pacing item here? And do you expect Northrop Grumman to have to invest its own money in the supply chain?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So as I mentioned, we are already partnering with our supply chain. As we look at capacity expansion, we do detailed operations planning with our supply chain. And in most cases, they are investing alongside of us. We do see areas that we work with the federal government that need to be shored up, not just for our contracts.

But more broadly, this tends to be at lower levels of the supply chain. Areas, like raw materials, including rare earths, and in those cases, the government often is directly engaging with those participants in the supply chain to address any shortages that we see. But most of the activity is through us and our direct work with our supply chain.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Just wanted to maybe clarify on that last question, I mean I think the assumption is that Northrop will continue to be paying dividends, I assume, right?

John Greene - *Northrop Grumman Corp - Corporate Vice President and Chief Financial Officer*

Yeah. 100%.

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Yeah. We're simply talking about – the May time frame is when our Board looks at our annual increase in the dividend, and so it would be premature to speculate on that.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Great. And then with regard to the remainder of the cash, I guess, if we -- let's say, $3.3 billion or so of cash, and then we think about the dividend. And so probably left with about $2 billion, and I think you talked about repaying $0.5 billion of debt, well over $4 billion on the balance sheet.

Do you anticipate holding more cash on the balance sheet? Do you anticipate that there might be opportunities that emerge within the year or shortly after that would require significantly more near-term capital investments? Or what would happen to the balance of this year's cash flow?

John Greene - *Northrop Grumman Corp - Corporate Vice President and Chief Financial Officer*

Yeah. Yeah, Seth, why don't I try to hit it, and then I'll get some support from Kathy. So -- in terms of the overall cash position of the company, we're in a situation where we see great opportunity to invest. So, I mentioned the increase in the capital deployment, certainly some cash will be allocated to that. We also -- as we look at our day-to-day cash position, I think there's an opportunity to maybe scale that up slightly, given the growth of the business over the past four or five years.

So we'll be looking at that. And then in the debt stack, there's some, at least one note that the coupon is over 7%. So we'll take a look at the analysis around that and see if it makes sense to deploy some cash that way.

But the great thing is -- to summarize, is the cash conversion cycle of the business is outstanding, and we'll have an opportunity to make smart decisions in terms of how we're going to deploy cash and make sure we're efficient with it.

Operator

Gavin Parsons, UBS.

Gavin Parsons - *UBS AG - Analyst*

It looks like you're absorbing higher CapEx in your free cash flow guidance this year, but do you still have line of sight to $4 billion in 2028?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So Gavin, it's a little early to project 2028 at this point based on the set of opportunities that I mentioned earlier. So with B-21, if we are afforded the opportunity to accelerate that program, it will be good for our shareholders in terms of long-term revenue profile and earnings, but we will need to invest more in facilitizing for that acceleration.

We also have a number of opportunities, and I shared some of those, that can be an award. We want to be in a position to have cash on hand to invest more in supporting those because, again, they're well aligned with the administration's priorities in homeland defense, crewed fighters and uncrewed vehicles to name just a few.

And so as we look at those sets of opportunities, likely being determined later this year into early 2027, that will really set our CapEx profile. And any increased sales and earnings that we would expect to achieve as a result of those opportunities flowing into the plan.

So I would just simply tell you our capital deployment strategy has not changed, the discipline around where we choose to invest has not changed. And as we factor those new opportunities in, we'll update ‘27 and '28 accordingly.

Gavin Parsons - *UBS AG - Analyst*

Okay. Appreciate it. And do you mind clarifying the B-21 investment comment you made, the $2 billion to $3 billion, is that before or after an acceleration?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

That is for the acceleration. So that's only if we agree to an acceleration, and it is over a multi-year period of time. So that's why I outlined for you that would be our expectation for total investment to get to the accelerated rates.

Operator

John Godyn, Citi.

John Godyn - *Citi - Analyst*

I wanted to revisit the quarterly cadence and inorganic growth, I think I heard you say that it was going to accelerate throughout the year. That's on the back of a very big 4Q number, 10% organic growth. And I wanted to just square that up a bit and explore the possibility of maybe a stronger start to the year than a sharp decel (deceleration) because it seems like you've got a lot of momentum exiting the year.

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

We did have a lot of momentum exiting the year. There are a few factors that are contributing to that profile that we talked about, which will look similar to what we experienced in 2025. One is we did have a very strong Q4 and part of that was material timing and delivery, which naturally will not reoccur in the first quarter. The second and probably most material is at the enterprise level

we have 61 working days in the first quarter. That is a very low profile. Typically, our quarters have 62, 63, or even 64 days. This year, that profile climbs, usually Q4 is our least number of working days; this year, Q1; and then we recover that in Q4. So those two things are primarily the driver for the profile this year, and we expect still to have a good growth quarter in the first quarter, just not as strong as what we expect to have later in the year.

John Godyn - *Citi - Analyst*

That's really helpful. And if we just kind of think through that throughout the year, at the end of '26 you guys will be putting up the largest organic growth on the 10% comp this year. So this two year-over-year rate is going to be quite dramatic. You've talked about positivity into '27, but it seems like you'd be exiting '26 with a lot of momentum and maybe the step up there could be quite significant. Is that the way to think about it at a high level?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

It absolutely is. The backlog growth that I talked about in 2025, that takes time to ramp as we progress through the year in 2026, particularly our Space business that had a very strong book-to-bill last year. Now we expect to see in the second half of 2026, those opportunities really ramp top-line and carry that momentum into '27, but that is true across the portfolio.

Operator

Myles Walton, Wolfe Research.

Myles Walton - *Wolfe Research LLC - Analyst*

I was curious, was there any net effect in the shutdown on the numbers, whether in the P&L or the cash flow statement, in the fourth quarter? And then, Kathy, bigger picture, if suspending this belief that the defense budget did climb 50%, that kind of seismic shift would suggest maybe a seismic shift in a company strategy as well, perhaps.

And so what, if anything, would you kind of revisit if you did have that level of step function in terms of positioning the portfolio, investing in the portfolio? And maybe just communicating what investors should be looking at, period?

Ken Crews - *Northrop Grumman Corp - Corp VP of Finance, Former Chief Financial Officer*

Miles, I'll answer the first part of that, and then I'll turn it over to Kathy. In terms of impact from shutdown, no major impact from shutdown, and that was reflected just due to the strong year-over-year growth in us exceeding the top end of our guidance range on sales, but then also the $3.3 billion of cash in Q4, creating that 26%. So overall, to the first part of your question, no material impact to 2025 based on the shutdown.

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Myles, to answer the second part of your question, we are already thinking about this accelerated growth environment, certainly a $1.5 trillion defense budget would be a significant acceleration in national security spending, one unlike any we've seen before, but the things that we are doing as a company to prepare ourselves; moving with speed, building capacity, preserving cash to ensure we can continue to deploy it back into the business to support this unprecedented growth opportunity, both in the U.S. and abroad, happening simultaneously, which is the most robust demand environment I've seen in my career.

So, it does have us thinking very differently, as I outlined both in my prepared remarks and answer to Ron's question about how we're transforming the company. This organization is well positioned because we have been working towards this moment for years. But at the same time, there is more for us to do, and we are focused on our engineering and operations talent helping to design the right solution so that we can be competitive. We are focused on performing against all of our commitments to earn the right to win new business and then, of course, positioning ourselves with the capacity to deliver and to put that capacity to work.

Operator

Ken Herbert, RBC.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Kathy, maybe just -- can you talk about what the guidance implies for international growth in 2026? And specifically, you've called out a number of quarters now, it seems like an accelerating opportunity for IBCS in particular. When could we maybe expect to see some contract announcements out that beyond, beyond obviously the customers you've already talked about?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Yeah. So, for international we expect 2026 to be a particularly strong year in awards setting us up for 2027. As I noted in my prepared remarks about IBCS, we do have 20 countries that have expressed interest. We expect the U.S. and Poland to continue to expand deployments this year. And then we have another two or three that we expect to announce awards this year, and then others to follow out of that pipeline of 20.

What I will also say, though, is our international sales growth is widespread. So, munitions is another area where we see significant growth in double-digits, and we expect that to continue. I noted some airborne radar programs that we anticipate awards on this year. We won't see so much sales impacts in '26 from those. The awards will come this year and then sales more in '27. And we also see just our base business continue to ramp in international content. So as we look at E-2D and Triton, we have international opportunities in the pipeline that will feed those production lines as well.

Operator

Richard Safran, Seaport Research Partners.

Richard Safran - *Seaport Global Securities LLC - Analyst*

I just have one two-part question on backlog, if I might. Could you discuss the quarter-over-quarter changes in backlog at Space, which I think is roughly up about $2.3 billion. Kathy, was that all from the constellation you mentioned in your opening remarks, or was there anything else?

Second part, and just to get specific on your remarks, given the strong bookings for the company in '25, book to bill of about 1.17 times. Should the expectation be better than 1.17 times for 2026, given your backlog growth comments and what you've been saying this morning?

Ken Crews - *Northrop Grumman Corp - Corp VP of Finance, Former Chief Financial Officer*

So this is Ken, I'll take that question. The drivers of Space backlog was threefold, really fourfold. –It was, we were able to secure the award for GEM-63, which is Amazon Project Leo, which will take deliveries well into the 2030s. We were also successful from a competitive award on T3TRKT, with the additional 18 satellites.

We secured another launch for CRS, and then we had significant growth in awards on our restricted portfolio. And again, as you mentioned, very strong backlog, and that's two quarters in a row for Space where they've been at 1.8 times sales or greater, which positions us well for the long term.

When we think about 2026, given the strong backlog and the fact that we have some large significant programs with existing backlog, you should anticipate that book-to-bill around 1 time sales for 2026.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - *Cowen and Company LLC - Analyst*

Congratulations, Ken. I wanted to just ask about your perspectives on, you know, LHX entered into this transaction with their missile portfolio and the government. You guys obviously have Orbital ATK. Does that transaction with LHX disadvantage Northrop in any way? And are there opportunities that you see within the portfolio for a similar type of government-led investment?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So we have been investing in our solid rocket motor capacity, and we feel we are well positioned with the capacity that we've brought online, to deliver on both our commitments and additional second source initiatives that the government has asked us be involved in.

So we are funding that capacity investment. We're not in discussions with the government about an arrangement similar to what they've entered into with L3Harris. And I would say that as we think about being positioned to compete, it's all about the munitions that you can support with your capacity. We feel good about that. It's a bunch of performance, we feel good about that. And it's about your commitment to continue to invest, and we have shown that we will do that. So we feel well positioned to compete for, what is, a very broad set of opportunities in this space. I think there's room for growth for many companies.

Operator

Douglas Harned, Bernstein.

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

On Sentinel, so the Senate Armed Services Committee has talked about now -- IOC sort of at the end of 2033. This has continued to push out, and I know a lot of this is related to Air Force infrastructure. But can you talk about how we should look at the trajectory for Sentinel revenues, and then also ultimately margins, since it has to affect the timing you're going from development into more fixed price work?

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

So Doug, as I've noted, we are in the middle of supporting the U.S. Air Force as they restructure the Sentinel program. And coming out of that, they will firm a schedule that both locks in new time ranges for milestone fee, initial operating capability, final operating capability. And so I don't want to get ahead of the Air Force in talking about that.

But certainly, as I have shared, and the Air Force has as well, we are working to accelerate the timelines that were published coming out of the Nunn-McCurdy breach two years ago. So that is the goal, and we're making good progress to identifying options to do so.

We still believe that the program will be in development for several years and not transitioning into production until later in the decade. And that production will very much be guided by the milestone achievement during development. So, that has not changed from what we've been talking about.

It doesn't really impact our guidance or outlook, because our outlooks only go out a few years. And so we believe that that transition to production is outside of that two to three-year window at this point.

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

Okay. And then on Aeronautics. The margin guidance, the low-to-mid single digit guidance for this year was a little lower than I think many of us expected. And I know you talked about there being a mix, more development work. But when you think of the outlook for Aeronautics margins, I guess, first, –what are the -- can you talk about the development work that is sort of weighing on that margin a little bit in the near term? And then should we still see the path to 10% margins in Aeronautics over the next few years?

Ken Crews - *Northrop Grumman Corp - Corp VP of Finance, Former Chief Financial Officer*

So Doug, this is Ken, I'll take that question. When you look at the margin rate that we guided to for 2026, it's really driven by two factors. The first one is, what's creating the growth for AS in 2026? It's B-21 where we -- you know the margin profile on that, where it's 0%, and then it's also driven by development programs like TACAMO.

Our mature production activities, with the higher rates, are relatively stable and flat when you think about F-35 and E-2D. So that is creating -- more of the growth is driven by those development programs, driving that rate to the low to mid 9%.

When we think about long term, absolutely, as we have the opportunities to exit the LRIP activities on B-21 and as these other development programs shift to production, we do see AS being able to continue to create accretive margins and get back to that 10%, again over the long term.

Todd Ernst - *Northrop Grumman Corp - VP of Investor Relations*

All right, Josh, we're going to have to leave it there, and I'll turn it back over to Kathy for closing comments.

Kathy J. Warden - *Northrop Grumman Corp - Chair, CEO & President*

Great, Todd, so thanks. In closing, I just want to summarize that I am optimistic about the positioning of our company as we experience the significant growth in global demand. This team is committed to meeting the needs of our customers for robust and scalable solutions that can be deployed rapidly and provide the strategic deterrence and decisive advantage they need.

And we're equally committed to turning those opportunities into value creation for our shareholders. So, thank you again for joining us on the call today. I also want to thank Ken, as this is his last call with us, and the entire Northrop Grumman team for their service to the nation. Thanks, and have a good day.

Operator

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