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NOC.N - Q3 2025 Northrop Grumman Corp Earnings Call

EVENT DATE/TIME: OCTOBER 21, 2025 / 1:30PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to Northrop Grumman's third-quarter 2025 conference call. Today's call is being recorded. My name is Bella, and I will be your conference 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, Bella, and good morning, everyone, and welcome to Northrop Grumman's third quarter of 2025 conference call. Before we start, 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 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; and Ken Crews, our CFO. At this time, I'd like to turn the call over to Kathy. Kathy?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Thanks, Todd. Good morning, everyone, and thank you for joining our call. Disciplined execution of our business strategy has continued to position us well as global defense demand grows and our customers transform the way they acquire capability. We continue to prioritize providing technology leadership to our customers through innovation in both the way we do business and the capabilities we deliver.

In doing so, we are building a strong backlog of future business. We are also performing well on our current programs, building the capacity for sustainable growth, and transforming our operations by embracing digital technologies to deliver with speed, quality, and affordability.

The Northrop Grumman team delivered another strong quarter of performance, amidst a dynamic global environment. We achieved mid-single-digit growth, expanded our segment operating margin, and grew free cash flow year-over-year. These results are aligned to our long-term financial outlook.

The investments we have been making in capacity and capability over the last six years enables us to deliver with urgency against our customers' highest priorities. In fact, we achieved an exceptionally strong book-to-bill of 1.17 in the quarter. Our organic growth rate was 5% year-over-year, and our international growth rate was 32%.

It is also worth noting that apart from our Space segment, where we continue to have a challenging compare related to the wind down of two large programs, revenue growth was approximately 9%. Despite strong growths in the quarter, we are revising our full year revenue guidance down due to delayed timing on certain awards and programs.

In addition, the team delivered another outstanding quarter of operating performance. Segment operating margin increased to 12.3% in Q3, which drove a 10% year-over-year increase in earnings per share. We also increased our free cash flow by 72% year-over-year and are on track to meet our full-year guidance.

In the quarter, we made significant strides across multiple programs to position our company for the future. Last month, the second B-21 aircraft entered flight test, another significant milestone for the program as we continue to gain momentum. This starts a new phase of the test program, transitioning from general flight performance evaluation, to integrating weapons and mission systems.

Our testing campaign also involves multiple B-21 aircraft undergoing ground tests prior to flying, which is validating performance and minimizing risks. With the progress we've made, we remain on track to receive the LRIP Lot 3 and Lot 5 Advanced Procurement awards later this year.

We continue discussions with the Air Force on the framework for an agreement to accelerate the B-21 production rate. If an agreement is reached, as previously disclosed, we expect to deploy additional investment to achieve the increased rate with the opportunity to earn improved returns.

We've also made important progress on missile defense programs that can support emerging requirements. In the quarter, we received a multi-billion dollar extension on the Ground-Based Midcourse Defense Weapon System contract. This contract award extends our period of performance through 2030, to provide new GMD capabilities.

GWS is an integrated system designed to protect the U.S. from long-range ballistic missile threats. System enhancements include integrating the Next Generation Interceptor into the GMD system, updating launch equipment, and advancing the communication capabilities between the GWS and the interceptor fleet.

In addition, IBCS continues to be an effective and ready-now solution to meet the global air and missile defense mission. In this quarter, IBCS successfully completed live fire testing events for both Poland and the U.S. Army customers, continuing its record of strong performance in operational tests. With these latest events, IBCS is now 32 for 32 in successful flight tests.

We are also advancing the capability to introduce cloud and mobile technologies into IBCS, as well as enhanced artificial intelligence. We have demonstrated our ability to rapidly adapt to changing mission requirements, adding new operations capabilities through software in a matter of hours to effectively defeat evolving threats.

I have previously outlined the investments we've made in solid rocket motor capacity and capabilities over the last several years. Leveraging those investments in the quarter, our GEM-63XL rocket boosters played a crucial role in powering a ULA Vulcan rocket that delivered the third batch of Amazon Kuiper satellites to orbit. With additional launches in backlog, the Kuiper program is poised to be a key growth driver for the company going forward.

Additionally, we've self-funded investments in tactical solid rocket motor capabilities that have enabled us to pursue, and win, second source opportunities. Recently, we were selected by the Navy as the second supplier for the SM-6 missile. This is one of several initiatives, including the 21-inch motor award that we discussed on our last call, that we've undertaken to enhance our SRM competitiveness and broaden our market presence.

There are many notable accomplishments from the quarter, but let me now take a step back for a moment and talk about the transformation that is underway in the Department of War, and how they acquire capability, and what they seek from an industry partner like Northrop Grumman.

I noted earlier that we are innovating, both in the capabilities we deliver and the ways we work. We are bringing proposals forward to accelerate our programs, embrace new technology, and partner more effectively. We also continue to invest in American factories and workers, where we design and build the most advanced systems and technologies in support of our nation's warfighters.

Over the past two years, we've allocated over 4% of our sales towards capital expenditures, well above industry averages. This investment is essential in providing the capacity to meet demand for next-generation aircraft capabilities, ramping up production in munitions and propulsion, laying the foundation for significant growth in microelectronics, and expanding production facilities to deliver hundreds of satellites and aircraft.

We have also invested over $2 billion in the infrastructure and development of our enterprise-wide digital ecosystem, that continues to yield phenomenal results, as we test and prove that digital models have extremely high correlation with the physical products we are delivering. This is game-changing for the way we design, build, and produce our products. It opens paths for more affordable solutions for our customers and more predictable and improved returns for our shareholders.

And as we look even further over the horizon, to 5 or 10 years into the future and beyond, our team of world-class engineers is undertaking research and development and pushing technology boundaries today, that will support our competitiveness tomorrow.

Over the past two years, we've invested over $2.1 billion in IRAD to maintain our technology leadership and for continuous innovation to disrupt the market, and ourselves, with the objective of maintaining long-term sustainable advantage for our warfighters and policymakers.

As I mentioned earlier, we are exploring creative ways to bring solutions to market faster and focusing on priority areas such as: the development and fielding of multi-function sensors, new and innovative ways to incorporate AI into our solutions, and developing and fielding new, smarter weapon systems that bring unmatched superiority on the battlefield...to name just a few.

The themes we are seeing in the U.S. are also true in the international market. Our allies are committed to modernizing their armed forces and investing in deterrent capabilities. And the current geopolitical environment has increased the urgency for them to act now. This is being reflected in a significant increase in defense spending that is expected to carry well into the next decade.

Allied nations are prioritizing investments in air and missile defense, ground-based radars, airborne ISR, and other advanced weapon systems to enhance their ability to deter and defend against conflict. This growing demand presents substantial opportunities for our company, and we are well-positioned to deliver solutions that meet the evolving needs of our customers worldwide. These factors contributed to our international sales growing 20% year-to-date.

Before I turn to 2026, let me address the U.S. government shutdown. It is unclear how long it might persist, but we are hopeful it will be resolved in the near term. Assuming it is, we do not anticipate any significant impact on our financial results. In the meantime, we remain focused on executing our programs and delivering on our commitments.

Looking longer-term, there continues to be strong bipartisan support for national security priorities, with robust levels of investment provided through reconciliation and being considered for FY26 appropriations. We believe this continued commitment to funding will result in a long tail of demand as resources are allocated and invested into the industrial base. Our confidence in these underlying trends reaffirms our outlook and positions us well for sustained growth.

As we look ahead to the new year, I'd like to take a moment to provide you with some color on how we're thinking about 2026. We expect mid-single digit organic sales growth, supported by growth in all four of our segments. This top-line growth will, in turn, enable us to also grow segment operating income. We expect a segment OM rate in the low to mid 11% range.

Lastly, as we look at cash, we are reaffirming our existing outlook range for 2026 free cash flow of $3.1 billion to $3.5 billion. I'd note that these estimates are not inclusive of a potential win on F/A-XX, or an acceleration of the B-21 production rate. And as usual, we plan to provide formal guidance during our Q4 earnings call in January.

So in summary, I'd like to emphasize our unwavering commitment to our technology-focused business strategy, which continues to drive our profitable growth. We're experiencing an unprecedented demand environment, and our capital deployment strategy is enabling us to meet this demand and prepare us for opportunities in the future. As we move forward, our primary focus remains disciplined execution of our strategy and creating lasting value for both our customers and our shareholders. So now let me hand it over to Ken to provide more detail on the quarter's financial results.

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

Thank you, Kathy, and good morning, everyone. As you just heard from Kathy, we delivered another strong quarter of financial performance. Let's begin on slide 4, which shows our top-line results for the quarter.

Third quarter sales were $10.4 billion, up 4% compared to the prior year, and up 5% on an organic basis. We continue to expect further acceleration in Q4, with all segments returning to growth, both sequentially and on a year-over-year comparison.

Aeronautics generated third-quarter sales of $3.1 billion, up 6% compared to the prior year. Higher sales were driven by the ramp on TACAMO and higher volume on the F-35 program, partially offset by lower sales on F/A-18 as the program winds down.

Sales at DS were exceptionally strong in Q3, accelerating to nearly $2.1 billion. Sales were higher across the DS portfolio, including on ammunition and weapons programs, IBCS and Sentinel. In total, DS sales grew by 14% compared to Q3 of last year, and by 19% organically.

Mission Systems continues to deliver unmatched technological innovation at a rapid rate. This is reflected by further growth on restricted microelectronic programs in Q3, which led the segment to another quarter of double-digit sales growth. Sales were also higher in marine systems and on international programs, building on the strong momentum from the first half of the year.

And at Space Systems, Q3 sales grew on a sequential basis again this quarter, rising to $2.7 billion. On a year-over-year basis, sales were down mid-single-digits as expected, and we have now nearly lapped the top-line headwinds we've been experiencing on two programs for the past 18 months. Looking forward, we believe that Space is poised to return to growth, given our positioning and opportunities in this arena.

Moving to the bottom line on slide 5, operational performance was outstanding again in Q3. Segment operating income increased by 11% year-over-year, and our segment operating margin rate increased 80 basis points to 12.3%. AS operating income dollars were relatively flat compared to a year ago, and operating margin rate was 9.7%. This was driven by strong operating performance on mature production programs, as well as lower net profitability adjustments.

As we do every quarter, we reviewed our estimate to complete the LRIP phase of the B-21 program and made no significant changes to the previously recognized loss. However, we experienced higher than expected costs to produce the EMD flight test aircraft, which increased our estimate to manufacture the LRIP units. This increase was largely offset by a reduction in our expected loss on remaining LRIP lots due to a contract restructure that occurred during the quarter.

Turning to DS, quarter three margins improved to 11.4%, driven by strong operational performance and higher net favorable EAC adjustments. While the Q2 margin outperformance was driven by Sentinel, this quarter's strength was broad-based, with higher margin rates in each of the business areas.

Mission Systems operating income increased 32%, and their Q3 segment OM rate increased nearly 300 basis points to 16.7%. This performance was enabled by intentional steps this team has taken to drive efficiencies, mitigate risk, and increase factory utilization, which drove a $68 million favorable EAC adjustment in the restricted advanced microelectronics portfolio. And Space Systems also had a solid quarter of operational performance, generating an operating margin rate of 11%.

These strong bottom-line results drove higher earnings per share, as shown on slide 6. Third quarter diluted earnings per share were $7.67, an increase of 10% compared to Q3 of 2024. In addition to strong segment results, mark-to-market gains on marketable securities increased by $0.35 compared to Q3 of last year. These benefits, along with higher net pension income, were partially offset by higher corporate unallocated expenses and a higher federal tax rate as previously disclosed.

As we reflect on our performance to date and expectations for Q4, we have a few updates to our company-level guidance as shown on slide 7. For sales, we are adjusting our outlook to a range of $41.7 billion to $41.9 billion, reflecting approximately 8% Q4 growth at the midpoint. We continue to expect a ramp in Q4 sales in all four segments, but at a slightly lower rate compared to our prior expectations.

Importantly, we are maintaining our segment operating income dollar guidance range, despite the lower sales volume. This results in a segment OM rate that is roughly 10 basis points higher than our prior guidance at the midpoint. It is a testament to the team's continued focus on disciplined program execution and driving efficiencies throughout the business.

Moving to earnings per share, we are increasing our guidance by $0.65, now to a range of $25.65 to $26.05. The increase is driven by several factors. First, we are lowering our expectations for other corporate unallocated expenses to $250 million, a reduction of $30 million driven by lower unallowable costs.

Secondly, we have slight revisions to our expectations for pension income and the effective tax rate, each providing a modest boost to EPS. And as I mentioned, we experienced a return on marketable securities in the quarter which totaled roughly $80 million. Given market volatility, we have not assumed the entire Q3 gain in our full-year guidance expectations.

Rounding out our company-level guidance is cash flow. We are reaffirming our free cash flow expectations of $3.05 billion to $3.35 billion. Third quarter free cash flow of $1.3 billion was well ahead of the past few years, and we continue to expect the largest quarter of cash generation in the fourth quarter, consistent with our seasonal pattern.

In addition, the unique factors driving year-end cash as outlined during the Q2 call remain intact, including lower Q4 cash tax payments, higher milestone payments, and inventory liquidations at AS. For the year, our guidance represents 22% annual free cash flow growth at the midpoint, making a third consecutive year of free cash flow growth greater than 20%.

Turning to segment-level guidance on slide 8, we are reaffirming our top-line guidance for DS and Space, as they performed in line with our expectations in Q3, and we have not changed our view on their sales ramp in Q4. For Aeronautics, we are lowering top-line guidance to the high $12 billion range.

As we outlined on our Q2 earnings call, the second-half ramp at AS is based on higher B-21 volume, ramp on new program wins including TACAMO, and normal production volume that is seasonally weighted towards the end of the year. And while all these factors remain intact, we are projecting a modestly lower sales level due to delayed timing on certain programs.

In addition, we are increasing our expectations for intercompany sales, driven by higher activity on restricted programs throughout the portfolio. These are partially offset by an increase to our sales guidance expectations at MS, based on the strength of their year-to-date results and expectations for continued growth in Q4. As a result, we now expect MS sales in the mid $12 billion range.

With respect to segment operating margin rates, we have one update this quarter related to DS. As I mentioned, they delivered another strong quarter of operational performance, and as a result, we are increasing the OM rate expectation to the high 10% range.

Before concluding my prepared remarks, I wanted to build on Kathy's comments regarding our 2026 outlook. First, sales growth next year is expected to be more balanced across each of the segments, with each contributing to growth. Secondly, operating income is expected to grow compared to 2025, and we don't anticipate a repeat of the large EAC adjustments we experienced this year on B-21, Sentinel, and Microelectronics. Adjusting for these items, our outlook for "low to mid 11%" margins would represent an increase compared to 2025.

I'd also like to share our latest projections for 2026 net pension income based on current market conditions. As we typically do this time of year, we've included a 2026 pension income sensitivity grid on slide 10. Year-to-date through September, asset returns were just north of 9%, slightly better than our initial expectations, and discount rates were down 25 basis points. This combination will result in a modest increase to 2026 net pension income compared to our prior projections, depending on where we end the year. Importantly, our pension plans remain fully funded, and we continue to project minimal cash contributions over the next several years.

So in conclusion, we believe we are well positioned for a broad range of new opportunities. We remain focused on growing our business, delivering strong operational performance, and generating cash flows that allow us to execute our business strategy. With that, let's open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

Kristine Liwag, Morgan Stanley.

Kristine Liwag - *Morgan Stanley - Analyst*

Hi. Good morning, everyone. Kathy, Ken, for the F/A-XX and the B-21 acceleration, can you provide more color on what that could mean for your 2026 outlook and what's included?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

So Kristine, as I noted in my comments, we, at this point, have not included either in our 2026 outlook. F/A-XX clearly would come with increased revenue from what we have provided in that outlook. We expect that it would be somewhat dilutive to overall company earnings, just because it would be development revenue which tends to be lower margin than our overall, but it is a cost-plus program. So we expect a reasonable return if we were to win that program.

And it would require some investment, so the CapEx, we would determine based on our profile to build out and prepare for execution. Over the long run, we expect if we were to win that program that it would be accretive to the company, and we very much look forward to the opportunity.

On B-21 ramp, similar circumstances. We have not included that in our outlook, it would be upside to revenue. It would increase our amount of sales, which in the early days, as you know, on production are at the zero margin, and we would expect to need to invest in that ramp through CapEx. But again, over the long term, as we've said before, we would expect to have increased returns to offset the cost of that additional investment. And so we would update our guidance if and when we have clarity on either of those opportunities.

Kristine Liwag - *Morgan Stanley - Analyst*

Great. Super helpful. And for a follow-up, can I ask something about the supply chain? Rare earths continued to be a watch item for the industry. Can you talk a little bit more about your sorting strategy, how to mitigate supply chain risks? And if there are any watch items that could potentially affect your 2026 outlook?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. Fortunately, our team has the two foundries in the United States where we design, produce, and package microelectronics. So our dependency there on rare earths has been mitigated by looking through our supply chain and getting well ahead of our sources of supply to ensure that we can produce those electronics.

We are very pleased that the U.S. government is actively working to set up additional sources of supply, including in the U.S., and working partnerships with our allies for them to also invest in these capabilities in their country. This will just create more sources for us to draw upon and make the U.S. more competitive in being able to provide these microelectronics for national security purposes into the future.

Operator

Ron Epstein, Bank of America Merrill Lynch.

Ronald J. Epstein - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Good morning, all. Kathy, can you maybe pull back the curtain a little bit more on B-21. I mean, how is it going with a potential increase in the build rate on that aircraft, and so on and so forth? Because if that were to play out, it is material for you guys.

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. So, we are in active discussions with the customer that would enable that acceleration of production rate. And as I noted in our Q2 call, that the dollars to support the acceleration are included in the reconciliation bill. So, the actual production rates, the timing, and ultimately the outcome of those negotiations with the Air Force, would define what that financial profile looks like. It's too early for me to speculate on that.

We are in the midst of those discussions. They've been held up a bit because of the government shutdown and the availability of resources to continue those discussions during this time, but we expect those to resume. And we still expect that in the coming months, we would have more clarity on what that acceleration might look like.

Ronald J. Epstein - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Got you. And then maybe as a quick follow-on. In your prepared remarks, you talked about some program award delays. What's driving that? Because the administration has been pushing hard for speed on acquisitions, so just curious where that's coming from?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. I think with any new administration, it takes time to come in and make determinations of where to allocate resources and then to do the appropriate reviews and governance to make those decisions. We are certainly seeing, in recent weeks, the government shutdown having some impact on the government's ability to move quickly, to make decisions, and have the right resources available.

So we're all hopeful that the shutdown can come to a quick resolution, and that we can resume work on some of these important decisions that would open up the spend plan and ultimate awards that will come from the government as they seek to move forward quickly.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Thanks very much and good morning. Kathy, I wonder if you could talk a little bit about the opportunity in Golden Dome and missile defense in Space. And you've been doing some work with the SDA, but if you could talk about the sort of the state of maturity and state of technology on missile readiness satellite, or missile-warning satellites. And if you see the current kind of tracking layer SDA or HBTSS being kind of the nucleus of what's ultimately going to drive missile warning for Golden Dome? Or is it going to come from elsewhere?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Well, let me start by saying that we're very pleased to see the urgency the administration is placing on protecting the homeland and the set of opportunities that that creates. It's a very broad-based set of opportunities. The architecture and spend plan for Golden Dome are not public, so I won't comment on those specifically. But we do understand the challenges of creating a missile defense, both warning layer and set of interceptors that would defend the homeland. And we are providing some high-fidelity operational analysis that can help the customer understand those requirements, as well as ourselves, as we define what our offerings might look like.

We see this being a number of components to an architecture that range from existing programs where there may be additional opportunity to new programs. And I think you'll see more clarity coming from the department as they share more information on that architecture and spend plan in the coming months.

Seth Seifman - *JPMorgan Chase & Co - Analyst*

Okay. Great. And then just as a quick follow-up. Maybe, I think you mentioned earlier, if the government shutdown ends relatively soon that we shouldn't see much impact, but we're -- sometimes it seems like we're in unusual times. At what point does the duration of the shutdown become more of a concern in terms of something that -- where we might see an impact?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yeah. As I mentioned, the guidance that we updated for 2025 includes what we can foresee, including some of the delays that we talked about on program awards and timing. But at the same time, we are assuming that this only goes a few more weeks, say, around mid-November. If it goes beyond that, we may start to see some additional delays in getting funding on contracts, or even delays in receiving payment before year-end, that could impact our cash flows for the year.

We don't anticipate that at this time but it's certainly something we're watching. And so we're very hopeful, as I said, that the government will agree to reopen soon, even if under a continuing resolution.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies LLC - Analyst*

Good morning and thank you. Kathy, maybe if we could talk about the Aero outlook for '25. It seems down slightly, but B-21 award timing seems unchanged. So what was the shift there? And what was delayed in terms of certain awards? And how do we think about that recapture in '26? And just on B-21, how do we think about the free cash flow impact as it relates to CapEx in '26?

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

Good morning Sheila, this is Ken. I'll take that one. In terms of AS and the drivers across the 2025 sales profile, it was really -- it was timing of production activity. So don't view it as lost sales, but just timing of sales. The other aspect is on B-21, as we made the adjustment, the topline implications regarding percentage of completion method, that created some additional top line headwinds for both the quarter and the year.

As we think about 2026, we continue to see the strength in B-21 continuing to be a grower -- a contributor to AS' growth. In terms of the free cash flow with B-21, again, we're holding our overall guidance for 2026. When we think about the future and cash flow, we'll provide more clarity, because as Kathy mentioned, we are in the midst of multiple discussions that will ultimately determine the cash flow of the program, and that will be driven by, as we come to conclusions and understanding, if we do, on the ramp and rate discussions.

Operator

Ken Herbert, RBC.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Yeah, hi. Good morning, Kathy and Ken, I wanted to ask on IBCS. Kathy, you continue to call out success with that program. Obviously, it sounds like it's ramping in Poland. You've got some installations ramping here. How do you think about that program and the growth into '26, in particular?

But then also, we're hearing that that program, in particular, is very well suited, perhaps for some of the Golden Dome applications. Can you just comment on those discussions and how you view IBCS, in particular, with that opportunity?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. We are very bullish on IBCS growth opportunities, both domestically as you pointed out. It is a system that is able to integrate disparate sensors and kinetic effectors to enable visibility of the battlefield, and then to provide as a fire control system that has application to protecting our home land, just as it has application for our international partners in that same vein.

So we've talked previously about having over a dozen countries now that have expressed varying levels of interest in the program, particularly as we look at the success that we've now demonstrated in Poland. As I spoke about in our comments today, that is a live fire example of how IBCS can be used in a home land protection scenario.

And of course, the U.S. has forward deployed the system, and I talked about the operational test that it has performed for forward deployment in both INDOPACOM and the European theater.

Ken Herbert - *RBC Capital Markets Inc - Analyst*

Can you talk about when we could expect other incremental orders internationally, in particular, as you talk to those 12 countries?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yeah. We expect those to phase in over a multi-year period, but starting in 2026, and we do expect IBCS to be a significant double-digit growth driver for us in next year's outlook.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Good morning. Ken, can you give any quantitative details on the two B-21 financial items in the quarter between the higher EMD flight test costs and the contract restructure? It sounds like it was close to zero on the net amount, but just curious how large the gross numbers were for each of those two items?

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

Yes, Scott, you're correct. In terms of the cost growth that we baked in from lessons learned on the B-21 LRIPs, offset by the restructure activity. It is from a materiality perspective, a very low number. So, it essentially washes themselves.

Scott Deuschle - *Deutsche Bank AG - Research Analyst*

Okay. And then, Kathy, sorry if I missed this, but can you give us any sense for how international book-to-bill has trended on a year-to-date basis?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. International book-to-bill remains very solid, as I noted. We have 20% sales growth year-to-date. And our international book-to-bill coming into the year was 1.4, and this year -- Todd?

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

So this year, we started off at about 1.45, Scott. And when you look at quarter two and quarter three, it is timing dependent. So overall, we're roughly slightly lower than 1, but we built a strong backlog last year that's leading to the growth this year.

As Kathy mentioned, we had 20% year-over-year growth or year-to-date growth. And then on top of that, we had about 30% growth within the quarter alone.

Operator

Rich Safran, Seaport.

Richard Safran - *Seaport Research Partners - Analyst*

Good morning, everyone. Thank you. So I think it was last month the Secretary of Defense made some comments about requesting industry make significant capacity increases in missile production. I think this is going well beyond just Golden Dome.

I was kind of curious what this means for Northrop Grumman. Do you have any plans to undertake further capacity increases that might require incremental CapEx? And is there any timeline associated with planned increases?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes, Rich, thanks for the question. As I've outlined in a few of our calls, over the last six quarters or so, we have already invested in expanding capacity that includes for our tactical missile solid rocket motors where we've more than doubled capacity. And we are already breaking ground on another facility that would bring more capacity online in about two years.

Right now, we have more capacity than we have orders. And so we are in the process of being qualified on additional missile systems. As I talked about in today's call, we have been awarded a couple, and we are in the process of qualification for a handful more. And those would utilize that capacity we've already brought online, but we foresee continued demand growth, which is why we've broken ground on yet another facility.

In addition, we are building out our capacity for larger solid rocket motors. We've talked about that for multiple purposes, including U.S. national security applications, but also commercial applications in Space Launch, as I spoke about today with our GEM-63XL rocket motors that are fueling the ULA launches for the Kuiper satellites.

And so we are already through a significant amount of Northrop Grumman-funded investment in that capacity, but we do have some that you will see committed in our CapEx numbers in '26 and '27 as well.

Richard Safran - *Seaport Research Partners - Analyst*

Okay. And then quickly here, I saw you made a bit of an announcement on Lumberjack. And I'm wondering if you'd discuss what the opportunity set for this program is, what's the domestic and international potential? And when this program might have an impact on the P&L?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes. Lumberjack is an exciting new offering. We are developing that out of our Mission Systems segment. And it is a ground launched opportunity for counter-UAS. It is -- it has communication sensors., it is targetable. And we see this as an advancement of our small microelectronics processing capabilities and communication put on to an innovative platform that we've worked with partners for -- to keep the cost very low and keep it competitive for what we see as the attritable market.

We have introduced this capability. It's about a TRL-6 now, and we are working to find our first customers for it, but we also see there to be international opportunity. We clearly need to go through export for the product line, but those are all steps ahead that we look to continue through 2025 into 2026.

Operator

Gavin Parsons, UBS.

Gavin Parsons - *UBS AG - Analyst*

Good morning. Kathy, you pointed out that you guys spend more on CapEx than most of your peers in the industry. Does that enable more than maybe mid-single digit growth over the long term?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

We believe that it can. We certainly have invested with the intention of driving significant growth. And that has started to come to fruition in some of our segments. You saw, DS in particular, with a very solid growth rate last year and this , and it is reflective of that investment. I was just talking about, not only in the capacity for munition and tactical missiles, but also the research and development that we're doing on new and innovative solutions, or in addition to solutions we already have like IBCS, the investments we're making in modernizing that.

So I think it's a good case study of where we have put that investment in and been able to generate those higher levels of growth. And of course, we're working to do that across all of our segments.

Operator

Rob Stallard, Vertical Research.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Thanks so much. Good morning. Kathy, I just wanted to follow up on your initial comments. One of the members of the administration had said recently that they thought that U.S. defense companies should do a little more research and a little fewer stock buybacks. I was wondering if this is essentially a trial balloon or whether there are active discussions with the customer about this?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

We certainly have discussions with the customer where they have shared their desire for industry to see the growth opportunities that would lead us to invest, and that those would be profitable growth opportunities, and we share in that sentiment.

And as I have shared with you today, I've also shared with the leaders in the Department of War, that we have been doing that. That those higher levels of investment above industry average were because we saw that same vision, that if we invested we would have greater opportunity for growth and returns.

And so I've articulated that we have a number of discussions underway, B-21 acceleration and other new areas. That is the core of the conversation that we, and I believe my industry peers, are having with the Department.

Robert Stallard - *Vertical Research Partners LLC - Analyst*

Okay. And then a quick follow-up to that, though. I may be wrong, but it would appear fairly new, though, that they would be perhaps putting some restrictions around returns to shareholders. How would you feel about that?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

We have not had any discussions with members of the administration that would suggest that that is their intent. I think that we all are aligned, meaning my company and our customers, that the best mechanism is to incentivize that investment through the opportunities for a clear demand signal that reflects in sales growth and increased returns. And that if those conditions exist, it is in our best interest, and we will continue to do what we have done, which is invest in that future.

Operator

Scott Mikus, Melius Research.

Scott Mikus - *Melius Research LLC - Equity Analyst*

Good morning, Kathy and Ken. Just a quick question on B-21. You kind of referenced that the reconciliation funding, I think there's $4.5 billion there, is for the acceleration of the production rate. So just to be clear, would actually increasing the program of record to 150 or 200 units be a completely separate negotiation, potentially with additional financial benefits for the firm?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yes, that would be a separate discussion. That decision has not yet been made by the department and if it were to be made, then it would factor into an additional look at what the long-term opportunity is on the program.

Operator

Myles Walton, Wolf Research.

Myles Walton - *Wolfe Research LLC - Analyst*

In terms of the fourth quarter implied sequential revenue growth, it looks like Aero is carrying most of that load. Are there extra working days in the fourth quarter that maybe help the overall double-digit sequential revenue growth, and/or within Aeronautics, is there something that you think releases here in the fourth quarter that maybe wasn't releasing in the third quarter?

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

So to answer your question around additional working days, there is one additional working day in Q4. However, that's not the primary driver. As we discussed in my prepared remarks, and even last quarter, the real growth that is driving the ramp for AS is driven really by three factors. The first one is, with the awards that we discussed in our prepared remarks, there will be inventory liquidations that drive that increased revenue. At the same time, just natural progression of new program wins in production, like TACAMO.

And then the last factor is going to be on their mature production programs, just real timing associated with supplier performance and material deliveries. And so yes, while there is an extra working day, it's really driven by the three factors that I mentioned.

Myles Walton - *Wolfe Research LLC - Analyst*

Okay. And no impact from the Boeing strike or anything like that?

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

No. No impacts.

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Operator

Peter Arment, Baird.

Peter Arment - *Robert W. Baird & Co Inc - Analyst*

Yeah. Good morning, Kathy, Ken. Kathy, could you give us an update on just kind of the long-term production ramp plans in solid rocket motors? I know you've kind of looking -- investing quite a bit there, but there's also a lot of defense, sort of tech upstarts or Space tech upstarts. And just how those kind of -- those upstarts are factoring into kind of your plans or whether they're just on different levels in terms of the solid rocket motor output?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Yeah. Peter, I would say that we are focused on qualifying ourselves to be a provider on weapons where we have not historically been a provider. And that capacity investment that I mentioned earlier in the call is enabling us to be ready now as those decisions are made to bring our production online.

For many of the other companies that are looking to enter this space, it's going to take them time to build the capacity, to get qualified on these weapons, and to enter the space. So, our focus has been to continue to be ahead in being able to provide optionality to the Department of War, as well as our primes, who are looking for additional sources of supply.

Peter Arment - *Robert W. Baird & Co Inc - Analyst*

Appreciate it. And just a quick follow-up. On B-21, just to be clear, is Lot 3 in your 2026 guidance, we know it's not in '25, correct?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

So the Lot 3 award and the Lot 5 advanced procurement is anticipated to be received in the fourth quarter of 2025. The vast majority of the expenditures, so sales recognition would not start until 2026.

Operator

Michael Ciarmoli, Truist Securities.

Michael Ciarmoli - *Truist Securities - Analyst*

Morning, guys. Thanks for taking the questions. Maybe just one question, two items. I guess, Kathy, on Beacon, it looks like the testing is ramping up there. You've got six partners now. So, just trying to think about how that impacts future financial performance, contributions to growth.

And then maybe in the same vein, on the microelectronics it looks like you're opening up some of your capacity for industry. Does that give a little bit more of a boost to MS margins going forward, if you kind of soak up some of that excess overhead?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Well, let me start with Beacon. We are very excited about this capability. It is opening up opportunities for us to partner and have demonstrated capability, not only leveraging the platform work that we have been doing to demonstrate acceleration of our ability to build autonomous systems, but also the integration of the capabilities inside the platform that gives us its mission capability.

And that's what Beacon is helping us to do, to look at innovations in autonomy weapons integration, mission systems integration, all of which then support a mission-capable platform. And those investments that we are making are in alignment, and in conjunction with partners, as you mentioned, and large numbers of partners.

We are not at this stage picking winners. We're simply understanding the marketplace and the capabilities that we can bring to bear because we expect a number of new competitions in this space, including U.S. services, the Air Force, the Navy and now the Army, but also international partners that are looking to build upon their combat collaborative aircraft fleet.

With regard to your second question, around microelectronics, we have opened up our foundries to additional customers, as more and more U.S. companies are looking to have domestic sources. Our two foundries produced some of the most advanced microelectronics in the world, and we are happy to offer that capacity more broadly.

Since we have done that, we've had significant interest. And so we are in the process of working through that pipeline. We already do about $1 billion a year for sales to ourselves and existing customers, largely in the national security space. So we'd be building on that foundation as we move forward with additional customers, including commercial customers.

Operator

Doug Harned, Bernstein.

Doug Harned - *Bernstein - Analyst*

Thank you. Good morning. So can you give us an update on Sentinel? It's going through this whole restructuring process, you've talked about it before. And basically trying to understand, as the timing for IOC has moved back, how does that affect your thinking and when you would be going into production mode?

And then also, are there any aspects of the restructuring, or the issues they've had, that tied in any Northrop Grumman performance? And then on the other side, does this open up potentially some opportunities for expanded work scope for you?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

There's a lot to unpack there. Let me start by saying that we are partnering with the Air Force on an execution framework to complete the restructure of the program. In the meantime, we are working on executing the program. And there have been a number of key decisions that the Air Force has announced recently, like creating new silos rather than refurbishing Minuteman III silos, or the resumption of work on the design of those silos. Those all have a positive impact on our ability to move cost and schedule more aggressively.

We also, in the program restructure, are looking to establish a new program baseline, which will define the timing of events including completion of the development program, but when we would start production. And that's subject to future communications because it is in work as part of that restructure.

The important thing is that we continue to make good progress on the program. So we had announced in this last quarter that we completed the full-scale qualification test of the Stage 2 solid rocket motors, that's part of the missile. We also just yesterday announced that we completed the critical design review for the Sentinel launch support system, and that paves the way for all of our system build, test, and qualification that underpins the Sentinel program.

So we're really encouraged with how things are progressing, both in alignment with the U.S. government on how do we accelerate the program from the Nunn-McCurdy baseline, but also executing on the milestones that are right in front of us.

Doug Harned - *Bernstein - Analyst*

Because also, there's some substantial new money coming in in the '26 budget, and is that funding that you expect would go more to Air Force, I'm probably using the wrong language here, but logistics building out what the silo profile could look like? Or do you expect some of that money to be coming to Northrop Grumman and perhaps add to growth?

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

On this program, we see likely both to need funding. The U.S. government contribution spans well beyond the U.S. Air Force in terms of support from the Army Corps of Engineers, for example, and other government entities. And so they likely would need portions of that funding to support their work scope on the program, but we do expect the industry team also to support them in executing those funds that have been provided in reconciliation.

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

All right. We're going to have to leave it there. I'll turn it over to Kathy here for closing comments.

Kathy Warden - *Northrop Grumman Corp - Chair of the Board, President, Chief Executive Officer*

Great. Well, thank you all for joining our call today. I'm pleased with the momentum we have. Rounding out 2025, our focus will be on having a strong finish to the year, and we really look forward to updating you again in the new year and providing some clear 2026 guidance in our call in January. So until then, be safe.

Operator

Ladies and gentlemen, thank you all for joining, and you may now disconnect. Everyone, have a great day.
