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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 2024 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 Corporation - VP of Investor Relations

Thanks, Josh, and good morning, everyone, and welcome to Northrop Grumman's fourth quarter 2024 conference call. Before we start, due to technical issues with our provider, we have provided new dial-in information for the analysts, so please use that to dial into the call.

Moving on, matters discussed today 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 J. Warden - *Northrop Grumman Corporation - Chair, CEO & President*

Thanks, Todd, and good morning, everyone. Thank you for joining us. At Northrop Grumman, we remain steadfast in our mission to innovate and deliver cutting-edge technologies that enhance national security for the U.S. and our allies. We are harnessing our investments to manufacture, at scale, the integrated hardware and software solutions that give our customers an advantage.

Our strategy, which is based on technology differentiation, has resulted in another year of strong financial performance. We set a new record backlog, including significant new competitive wins and follow-on awards.

We ended the year with a backlog of approximately \$91.5 billion and a book-to-bill ratio at 1.23x, providing a solid foundation for future growth. This was driven in part by a new competitive win on the TACAMO program and an award for the second LRIP lot on B-21 in the fourth quarter. Over the past three years, our book-to-bill is 1.15x, reflecting strong ongoing demand for our capabilities across U.S. and international markets.

In the fourth quarter, we also booked \$900 million for the next iteration of Poland's IBCS system, bringing our international book-to-bill ratio for the year to 1.4x.

Given this strong demand, we now expect our international business to accelerate and grow faster than U.S. sales in 2025. Our proven ability to grow backlog and deliver key capabilities to our customers has led to another year of strong top-line growth, with 2024 sales up more than 4%, building on the momentum over the last five years, where our top line has grown by 30% organically.

Meanwhile, our focus on performance and driving efficiencies in our business is leading to margin expansion, with segment operating margin dollars growing faster than sales. And our free cash flow performance for the year was outstanding, increasing 25% year over year to over \$2.6 billion at the high end of our guidance range.

As we look forward, our guidance reflects our expectation for continued solid organic growth of 3% to 4%, further segment margin expansion, and double-digit free cash flow growth again in 2025.

This guidance is consistent with the outlook we provided you in October. At Northrop Grumman, our portfolio is well-positioned to provide critical deterrence capabilities and differentiating technology that address peer threats and achieve the shared goals of equipping the world's greatest military, reaching new frontiers in space, and improving the ways industry and government do business.

We look forward to partnering with the Trump administration to accomplish these objectives. We expect Congress to complete FY25 appropriations this spring, which is assumed in our guidance. As discussions continue regarding the U.S. defense budget and potential additional investments, we continue to see strong bipartisan support for national security. And global defense budgets are growing as our allies seek to counter aggression from increasingly sophisticated threats.

This is driving an increase in demand, particularly in areas such as crewed and uncrewed aircraft, advanced weapons and missile defense. These dynamics give us confidence in our strong international growth outlook.

At our core, we are a technology company, and we are well-positioned on programs that are essential to the U.S. and our allies' national security. More than just an integrator, we possess technology depth throughout Northrop Grumman, not only in what we produce, but in how we produce it.

This combination allows us to compete and win on priority programs and support our customers' goal of peace through strength. One example is our government-trusted design and development of specialized microelectronics for the Department of Defense through our accredited foundries.

In our Microelectronics Center, we build on our path to innovate for the future and continually disrupt our own technology to bring unmatched capabilities to the U.S. military. Our terahertz microchip - which operates at 1 trillion cycles per second - is the fastest in the world, according to the Guinness World Record. This type of innovation is realized through material science, new hardware design and manufacturing techniques, and advanced software development.

All capabilities that we have built and refined over time and possess at scale, so we can deliver for our customers' most challenging missions.

As a result of having this capability, our microelectronics business grew over 20% in 2024. And equally important, it creates competitive advantages for Northrop Grumman by providing mission-critical technologies that flow upwards through our value chain, are married with missionized software and then are designed into product areas, such as sensors, communications, processing, and security solutions.

We deliver these game-changing capabilities as a prime contractor on platforms we build and also offer them as a trusted supplier to other platform manufacturers. As technological change accelerates, it becomes more important that we continue to deliver technology discriminators, whether that's tying together capabilities for family-of-system solutions or developing additional use cases for our missionized AI that enhance our solutions or accelerate decision-making.

We are leveraging our own hardware and software and also partnering with leading companies in areas such as AI to ensure our customers have the most advanced equipment in the world. Innovation and having the capabilities to meet our customer needs are important, but the ability to scale production and field new systems at speed are core to ultimate mission success.

As we've grown our capacity, we've also been implementing advanced manufacturing techniques, automation, and digital factories across our company. We are designing, manufacturing, and sustaining our next-generation systems with digital ecosystems that are improving our agility and efficiency and therefore, lowering our costs and time to field. These new manufacturing technologies, along with the capacity investments we've made, enable us to rapidly ramp production.

We've done this in areas like solid rocket motors, advanced weapons, and satellite manufacturing. And these investments also allow us to more seamlessly transition major programs from design to production, like we've done with the B-21, all of which have been and will continue to be important drivers of growth for our company.

Next, I'd like to update you on the plans we've previously shared to drive margin expansion. We continue to expect favorable mix to be a driver as we ramp on production programs and grow our international sales over the next several years. Beyond this, we are taking proactive actions to drive efficiencies across the company.

These actions include implementation of digital toolsets that reduce process time, automate tasks, and maximize output for our technical team. We're streamlining our organizational structure, optimizing our supply chain spend, and reducing costs through improved utilization of our resources and facilities.

We removed over \$200 million of cost in the enterprise in 2024 alone. We have a laser focus on performance excellence, driven by delivering first-time quality and robust risk management processes.

Altogether, these cost efficiency initiatives, mix shifts, and focus on performance, give us confidence we can reduce cost to the taxpayer, while also enhancing segment margins as we progress through this decade. This margin expansion, coupled with continued growth in our business and reduced capital investment are the drivers of our multi-year free cash flow growth outlook.

We continue to pursue a balanced capital deployment strategy that supports our customers' requirements and returns cash to shareholders. Over the past two years, we've invested over \$3.5 billion in CapEx to expand our capacity and implement the advanced manufacturing lines across our company. And we are planning to invest another \$1.5 billion in 2025.

We've also delivered over 100% of free cash flow to shareholders last year. We continue to believe we have the best portfolio that is aligned to our customers' highest priority missions. However, as we always do, we continuously evaluate the portfolio to ensure that we are investing in the businesses that are core to achieving our strategic vision.

This includes assessing any gaps that may emerge over time or businesses that may make sense to exit. With this in mind, we've decided to exit our Training Services business that is part of the Defense Systems segment.

Today, we announced that we have signed an agreement to sell the business to Serco Inc. for \$327 million, and we forecast this transaction to close towards the middle of the year. This is an important capability for our customers, and we expect the team to continue to deliver world-class training services under new leadership, allowing us to focus on our core business.

2024 was marked by strong program execution, compelling financial performance, implementation of operational improvements, and impactful strategic initiatives that have positioned us for long-term success. Our ability to capitalize on opportunities and deliver exceptional results is a direct testament to the hard work and dedication of every member of our company. Our strategic priorities remain focused on fostering innovation, enhancing operational excellence, and expanding our impact for our customers.

So with that, I'll turn the call over to Ken to discuss our fourth quarter and full-year financial results as well as our 2025 guidance. Ken?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

Thank you, Kathy, and good morning, everyone. As Kathy outlined, we delivered another strong year of financial performance in 2024, delivering on or exceeding the financial commitments that we communicated a year ago.

This sustained performance is a reflection of our strategic positioning, continued focus on operational excellence, and disciplined approach to financial management. We continue to see robust and enduring demand for our capabilities in both domestic and international markets. Reflecting this demand, we booked \$17.3 billion in new awards in the fourth quarter and approximately \$51 billion for the full year.

This led to a record backlog of over \$91 billion, an increase of 9% compared to last year, positioning the company for continued growth. Moving to top line, we generated sales of \$10.7 billion in quarter four and \$41 billion for the year. 2024 sales increased by 4.4%, with growth across three of our four businesses.

Transitioning to segment performance, NGAS grew to \$12 billion in 2024, an increase of 12% compared to the prior year. Sales volume increased throughout the portfolio and was driven by the production ramp on B-21 and from higher activity on the F-35 program.

Sales were also higher on autonomous programs such as Triton and Global Hawk. And we saw higher volume on E-2 sustainment and modernization work. DS posted sales growth of 3%, driven by higher sales on Sentinel, advanced weapons and ammunition programs, partially offset by lower volume due to the completion of an international training program.

Mission Systems sales increased by 5%, led by higher volume on advanced and microelectronics and technology programs. And in the Space segment, 2024 sales were down modestly, as expected compared to the prior year due to the wind down of a restricted program and NGI.

As we previously stated, the remaining Space portfolio grew at mid-single digits in 2024, driven by higher sales on Space Development Agency satellite programs and numerous other programs. Turning to the bottom line, 2024 segment operating income was over \$4.5 billion, and our segment operating margin rate expanded to 11.1%.

Margins improved due to the proactive steps we've taken to further enhance performance and drive efficiencies across our business, as Kathy described earlier in the call. This performance led to an increase in net favorable earnings adjustments totaling \$350 million for the year.

Strong segment performance was the driver for higher year-over-year earnings per share, as shown on slide 6 in our earnings deck. 2024 mark-to-market adjusted EPS was \$26.08 and exceeded the high end of our guidance range provided in October. Higher net pension income and a lower share count also provided an uplift.

Moving to cash. We had an excellent quarter of cash generation in Q4, as is our historical pattern. Our full year operating cash flow was \$4.4 billion, and we invested roughly \$1.8 billion in capital expenditures. This resulted in over \$2.6 billion in 2024 free cash flow, near the high end of our guidance range, and up a notable 25% compared to 2023. Next, I would like to provide an update on our pension results and multi-year estimates.

Asset returns in 2024 were 4.7%, below our long-term expected rate of return of 7.5%. Meanwhile, the FAS discount rate increased by roughly 60 basis points to 5.73%, more than offsetting the impact from lower asset returns. The net result, along with updated census data, is a 2024 mark-to-market after-tax benefit of \$332 million or \$2.26 a share.

Looking forward, these results translate to slightly higher expected CAS recoveries and a reduced FAS pension benefit, lowering overall net pension income compared to the prior outlook. Importantly, our pension plans remain fully funded, and we continue to project minimal cash pension contributions over the next several years.

Before covering our 2025 guidance, I'll highlight recent changes to our portfolio. In addition to the upcoming divestiture of the Training Services business, which has an annual run rate of \$300 million in sales, the Strike and Surveillance Aircraft Services business unit has been realigned from Defense Systems to Aeronautic Systems, effective January 1st of this year.

This business provides a variety of support and sustainment activities, primarily on aircraft programs in our AS portfolio. This now aligns the full product life cycles of Northrop Grumman aircraft, allowing for more seamless development and sustainment of next-generation aircraft. These actions, coupled with the completion of an international training program, create a portfolio at DS that is now centered around strategic deterrence, advanced weapons, and missile defense.

Fourth quarter and 2024 results have been reported in the prior organization structure, and we've provided a few tables in our earnings release and slide deck that recast sales and margins for current and historical periods. Moving forward, we'll report first quarter 2025 results and beyond in the new structure. And our 2025 segment guidance also reflects the new structure inclusive of the divestiture.

Turning to 2025, our segment guidance is included on slide 8 in our earnings deck. Aeronautic sales are expected to be in the low \$13 billions, representing mid-single-digit growth. This includes nearly \$400 million of sales from the realignment previously mentioned. Aeronautics margins are expected in the mid to high 9% range and reflect higher sales on the LRIP phase of B-21.

2025 DS sales are projected in the low \$8 billions. We expect DS to be our fastest-growing business in 2025 with double-digit organic sales growth, driven by higher sales on Sentinel, IBCS, and our diverse weapons portfolio. Segment operating margin at DS is expected to grow faster than sales with an OM rate of mid to high 9%.

Sales at Mission Systems are projected to grow mid-single digits again in 2025, with sales reaching approximately \$12 billion. And operating margins are expected to expand approximately 50 basis points to mid-14%, as productivity initiatives continue to drive improved performance.

We expect sales in the Space Segment of roughly \$11 billion, reflecting a year-over-year headwind of \$900 million from the wind down of our work on the restricted space and NGI programs. And we expect an OM rate of high 10% at Space, ahead of where we ended 2024. At the company level, our 2025 guidance is consistent with the outlook we provided on our Q3 call. Full-year sales are expected to grow 3% to 4% on an organic basis with first quarter sales and margins comparable to Q1 of last year.

Keep in mind, the first quarter year-over-year company sales growth will be flat due to the program wind-downs in Space, with the majority of the year-over-year growth occurring in the second half of the year. Full-year segment margins are projected to expand roughly 10 basis points with margins also ramping throughout the year.

This year-over-year expansion is driven by the continuation of our efficiency and productivity initiatives as well as international growth. Our guidance for mark-to-market adjusted EPS is \$28.05 at the midpoint, up more than 7% year over year. Next, I want to take a moment to highlight several contributing factors to this outlook.

First, the total FAS/CAS pension adjustment is projected at \$800 million, down \$60 million compared to our prior outlook in Q3. Second, we are projecting corporate unallocated expenses of \$280 million this year, up compared to our 2024 results and reflective of a normalized level of recurring expenses. The primary drivers of the reduced 2024 expense were state tax and environmental-related benefits that are not expected to recur in 2025.

Third, we expect a pre-tax gain from the Training Service divestiture of \$205 million, which will also flow through corporate unallocated. Our 2025 estimated tax rate is projected at low to mid-17%. And we are reaffirming our 2025 free cash flow guidance range of greater than 15% growth at the midpoint.

Speaking of cash, due to our strong performance in 2024, we ended the year with a cash balance of nearly \$4.4 billion. In early January, we repaid \$1.5 billion of notes that matured. This year, our investments in R&D and CapEx are projected at over \$2.5 billion, and we expect to return 100% of our free cash flow to investors. As we look ahead, there are many opportunities in front of us. The foundation we have built sets the stage for continued growth and value creation.

Our investments in advanced technologies, forward-thinking strategies, and disciplined financial management, ensure we are well prepared to capitalize on emerging opportunities. I'm confident that together, we will continue to deliver outstanding results for all of our stakeholders. With that, let's open the call to questions.

Operator

(Operator Instructions) Ronald Epstein, Bank of America.

Ronald Epstein - Bank of America - Analyst

Good morning. So, there's been a lot of talk lately about an Iron Dome. Given the kind of work that you guys do both in space and missile protection and so on and so forth, missile defense, can you give us any thoughts on how you're thinking about Iron Dome?

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

Yeah. Thanks, Ron. So, we welcome the urgency that the Trump administration is placing on protecting the homeland from escalating global missile threats. We think it is very timely. And as you've noted, we do offer end-to-end integrated air and missile defense capabilities.

Just a few examples that might be relevant to a U.S. Iron Dome include capabilities that can disrupt missile launch. So, this is a capability left of launch. We also have satellite-based missile detection and tracking and we have interceptors for hypersonic weapons under development. And this, of course, is all in addition to the air and missile defense command and control systems that we build.

So when you think about an architecture to defend the U.S., particularly with the range that these missiles will need and the advanced threats that are emerging with hypersonic weapons, we think we're very well-positioned to support that architecture.

Ronald Epstein - Bank of America - Analyst

Got it. And then maybe just one quick follow-on. When we think about growth in 2025, how much of a contributor is B-21 and GBSD?

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

Both will contribute to growth in 2025. Both are more modest than the growth rates that they've experienced in the past just because of the place that they are in their life cycle. And so we do continue to expect those to be less than 10% of sales in the company, but continuing to gradually increase from '24 into '25.

Operator

Scott Deuschle, Deutsche Bank.

Scott Deuschle - Deutsche Bank - Analyst

Kathy, if the Air Force were to elect to accelerate production on B-21, would the incremental units that get accelerated have similar unit pricing as the existing aircraft in those Lots? Or would that be more of an open negotiation for any accelerated units?

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

We would work with the Air Force to look at when those units would come into the contract. And obviously, we are accumulating more and more actual performance to help inform discussions with them about the right pricing. So it would be premature for me to comment on where we expect that to land, but it would be a discussion.

Scott Deuschle - Deutsche Bank - Analyst

Okay. And then, Ken, the guide implies some pretty solid margin expansion at Mission Systems. Maybe you could talk a little bit through the specific drivers that are supporting that margin expansion?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

Thanks for the question, Scott. And as you mentioned, when we looked into 2025, the expansion of margins at Mission Systems is about 50 basis points. Really proud of the Mission Systems team, particularly if you look at 2024, we had some as we scaled the business, initial headwinds in Q2 and if you look at their performance since Q2 it's grown and done -- they have done exceptionally well, ending the year with a 14.9% booking rate in quarter four.

As we look forward, we're continuing to see the performance improvements driven by multiple factors. It's continuing to drive cost out of the business, leveraging the improvements that we made in our factories.

As we progress and the business has scaled, we have made sure that we've developed our team in terms of being able to operate in a more effective and efficient manner as we produce those products.

And then obviously, the various digital technologies and the focus on cost reductions. And if you look at Mission Systems, they have focused on reduced costs. And even as a percentage of G&A, we're seeing it continuously reduced. And so those are some of the primary drivers that give us confidence in terms of their ability to expand margins in '25.

Operator

Sheila Kahyaoglu, Jefferies.

Sheila Kahyaoglu - *Jefferies - Analyst*

Kathy, I think you called out in your script, \$900 million of headwind from NGI and classified when it comes to Space. Implies the rest of the business is growing 2%. How are you thinking about just growth from LEO, GEO, NASA programs? And how -- as a follow-up to that, when does the segment return to margin expansion or growth?

Ken Crews - *Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer*

So in terms of margin expansion, I'll take your second question first with Space is, as you've seen, year-over-year significant improvements when we think about earnings adjustments from what we saw in 2023 to 2024, and that's focused on the performance elements and then driving efficiencies and reduced costs. And we continue to expect that focus and improvements from those efficiency initiatives.

And as I mentioned in my prepared remarks, is, we do expect Space to continue to expand margins and deliver in 2025 above what they delivered in 2024 at the high 10% range. And in terms of what's driving Space overall growth, is, we do have -- I just want to clarify, the \$1.5 billion of 2025 sales. That became a headwind with about \$600 million in '24 with \$900 million in '25.

That \$900 million is primarily focused on the first half of the year, and we expect Space to contribute to growth, or return to growth, towards the end of 2025 and then continue that expansion into 2026. The primary drivers of driving the growth overall is strategic comms, restricted space, the continued expansion of propulsion systems is what's driving that growth.

Operator

Douglas Harned, Bernstein.

Douglas Harned - *Bernstein - Analyst*

On Defense Systems, you've made a number of changes there. Kathy, could you describe what the what we should think of as Defense Systems. sort of the theme there? In other words, it's much different than it was just a year ago. What are you trying to do with that segment?

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

Yeah. So we have transitioned that segment over the course of the last year with the divestiture of Training Services and the movement of the Sustainment portfolio into our AS business. The Defense Systems now is largely a strategic missiles, tactical weapons and command and control business. And so that aligns their customer focus, more simply. It also creates synergy across those three businesses, as you would expect. It's the life cycle of missile defense if you will. And so we're excited about that.

But I also will say this synergy with AS to receive that Sustainment business, which is largely work on either existing or soon to be fielded AS systems, allows us to complete that life cycle within the AS business, looking at Sustained systems and what's required to modernize them. So we think this is beneficial to both segments in terms of the movements that we've made.

Douglas Harned - *Bernstein - Analyst*

And then related to that, the rocket motors has been a big issue kind of industry-wide. Clearly, you have your own capability there. How do you see the rocket motor portion of that business, both in terms of if there's any bottleneck or any constraints for what you're trying to do, but also externally the ability to grow sales there?

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

So our solid rocket motor business, sitting inside of Defense Systems, is mostly focused on tactical weapons, and we have been growing that capacity and continue to execute funding to add to the capacity in the late '26 time frame. We believe that the demand will be there to consume all of that capacity and probably continue to require more over time, but we are taking this in incremental steps to make sure that we don't get out ahead of capacity.

And it's a whole variety of systems that we're supporting. It's often talked about as driven by stockpile replenishment of weapons that are being expended in regional conflicts, but it's also supporting new weapons that will be fielded to go into production in the later part of this decade. And so that business is very diverse in terms of its pipeline and channels to market.

Operator

Seth Seifman, JPMorgan.

Seth Seifman - JPMorgan - Analyst

Kathy, in this administration and also some of the folks around it have been pretty vocal about looking to - I'm sure you've gotten questions over the years about defense start-ups and commercial technology. It seems like there is an effort in this administration to kind of accelerate both tapping into commercial technology and tapping into the capital that's in the commercial world.

I guess how does that make you think about anything related to the portfolio and what should be in it, what shouldn't be in it, where the focus should be, Northrop's own capital deployment, and any of those kind of big picture issues?

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

Yeah. Look, first of all, we embrace new entrants into the space. We often, and in this case, are teaming with companies that bring new ideas or new technology. It does not cause me to question our strategy on technology differentiation, but it certainly does sharpen our focus on where we should invest relative to the competitive landscape.

And as I think about how this might evolve over time, the defense landscape is continuing to grow both domestically and internationally. We are advancing into new technology areas, and I think there's room for all of us to work together to provide the U.S. and our allies what they need.

Seth Seifman - JPMorgan - Analyst

Great. And then just as a follow-up, you talked about international growing faster this year. And given the mix with Space that's that makes a lot of sense. When we look at it further, I guess, international had been running about \$5 billion of sales. When you think longer term, is there either a dollar number or a percentage that you think about like later on in the decade?

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

Yeah. Well, this year, we're expecting growth to accelerate, as I said, and we expect double-digit growth this year. And we see a path for that continuing for multiple years. Based on the backlog we've built, I noted that we had a 1.4x book-to-bill in international in 2024, and we have a strong pipeline emerging across a wide variety of products, IBCS, E-2D, Triton, just to name a few. And so as those mature in the pipeline, turn into awards and backlog, we could see the path to continue to grow international above U.S. sales growth rates.

Operator

Matt Akers, Wells Fargo.

Matt Akers - Wells Fargo - Analyst

I wanted to ask about Sentinel and just if you've heard anything new around the program review there. And as you think of kind of the long-term outlook, is there – would you say there's risk to the downside there – if that program sort of gets shifted out? Or is there risk to the upside if it sort of doesn't? Or do you think it's sort of well-calibrated?

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

Well, let me directly answer your question first, and then I'll provide a little more context. We think that it's well calibrated in the outlook that we have provided. You'll recall last year, we made some adjustments in both awards and booking rates that indicated our best estimates of the profile of how that program will be executed, even through the restructure, and that indeed is still what we believe today. We are working with the government on the restructure, but in the meantime, we are performing and meeting important milestones on the EMD contract.

The government has said that they project the restructure to take 18 to 24 months, so we are still very much in that window. And we are -- even though they have paused work on some small infrastructure efforts in the command and launch segment, that is reflected in what we have shared with you. We currently expect our 2025 Sentinel revenue to be in the mid-single-digit percentage of total revenue, as I said, and continuing to grow from '24 into 2025.

Matt Akers - Wells Fargo - Analyst

Yeah. Okay. And then I guess the free cash flow outlook on slide 11. Just if I look at the years, I mean '25 much bigger step-up than '26, '27, I know the pension starts to be kind of less of a tailwind after this year. But just curious if there are any other kind of moving pieces that kind of the growth slows down after '25?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

So what you're seeing in 2025 is a few things. It's the continuing management and robust management of our balance sheet and the working capital as well as the profitable growth of the business and converting those margins to cash quickly.

To your point, we also see tailwinds near-term from CAS, but also our more normalized level of investments and capital expenditures. And then when you move past 2025 into '26 and beyond, we have -- it's really driven by the overall growth of the business and continuing to manage our working capital, which I consider best-in-class. We're in the low-single-digits when you think about adjusted working capital as a percentage of sales.

And so it's really making sure that we continue to stay diligent managing the balance sheet and then as we grow the business, converting those margins to cash quickly, which is why it more normalizes with the overall growth rate of the business.

Operator

Gavin Parsons, UBS.

Gavin Parsons - UBS - Analyst

Aeronautics margin pressure, not too much year-over-year in 2025, given the B-21 ramp. I mean is there any change in the dilution consideration there? Or is that just kind of being offset by better performance in the core Aeronautics segment?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

So you've highlighted in 2024, extremely proud of the team and what they've been able to accomplish even as B-21 has continued to ramp, driving efficiencies and implementing performance improvement initiatives across the portfolio. And we've been able to maintain earlier in the quarter -- early first three quarters double-digit returns, with quarter four slightly diluted just based on timings of mix.

As we look to 2025 is, you hit it, is we're continuing to expand on B-21. But the team has opportunities given those efficiencies to continue to drive performance improvements and allow us to maintain that mid to high-9% level of returns.

Gavin Parsons - UBS - Analyst

Okay. Great. How big is the microelectronics business?

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

The Microelectronics Center is a business that feeds the rest of the portfolio, as I discussed. So, it contains our foundries and our work in developing chips. So, we actually sell most of that embedded in systems in other parts of our company or sell them directly to external entities.

So the vast majority shows up in revenue in our segments. And it's largely our Space business and our Mission Systems business where that revenue resides. It's a significant portion of both of those businesses that have value creation starting in the Microelectronics Center.

Operator

Peter Arment, Baird.

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

Kathy, Northrop won a really nice contract in December, \$3.5 billion for, I think, the follow-on for the E-6 Mercury program. Can you talk a little bit about that win? I know there also were some headlines around protests. Can you confirm whether that -- did you get protested or not? And just how do we think about the contribution of revenues going forward?

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

Yeah. We call it the TACAMO program, but it's the E-130J, and it will provide nuclear command and control for the U.S. Department of Defense. It is contracted through the Navy, it was a \$3.5 billion award. We have passed the protest period, and we are looking forward -- we have started, and we are looking forward to delivering that capability.

It basically has three major components to it. In the EMD phase of the contract, we have three systems that we will develop and build the demonstrator units, then we'll have three additional on option for test units and then an LRIP option award of six production aircraft. And so that's what is in the scope of the efforts. We expect about \$350 million in revenues this first year and then growing from there.

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

Appreciate that. And just as a follow-up. There's been a lot of kind of discussions and back and forth of whether NGAD and CCA and what -- how that's going to be reshaped and how is Northrop thinking about the opportunity for either NGAD or CCA?

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

Well, we're certainly watching that space. And as we have described before, we believe we are well positioned to offer sixth-generation aircraft based on our successful B-21 performance and experience to date. We are not laying any of that into our forecast at this moment given the uncertainty of timing.

Particularly the Air Force program, we're not a prime, but we are a contributor to the program through Mission Systems. For the Navy program, we are looking to see how that program advances through the year and would be excited to be selected if indeed that were to happen.

Operator

Michael Ciarmoli, Truist Securities.

Michael Ciarmoli - *Truist Securities - Analyst*

Kathy, could we just go back to international? You talked about the opportunities there and talked about the growth, how that will trend through the remainder of the decade. We obviously have the broad majority of NATO countries reinvesting in their own defense industrial bases.

Is there a scenario where they start to procure more domestically, maybe for newer programs? And I mean are you thinking about your international growth coming from existing legacy programs? Or is there more room for partnering as the NATO countries dial up their spending?

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

Right now, we believe that there is still a strong demand for U.S. products by the NATO countries, particularly to be able to field capability quickly, while the defense industrial base in Europe is reconstituting some of their capabilities.

And so we are looking at our pipeline, mostly inclusive of U.S. programs of record, where there is an application for those systems with NATO countries I described earlier, IBCS, E-2, and Triton, all of which fall in that category where they are now mature production programs and our NATO allies can receive them fairly quickly and get the benefit of those capabilities.

Michael Ciarmoli - *Truist Securities - Analyst*

Got it. That's helpful. And then just on -- you mentioned the new industry entrants. What about -- how are you viewing DOGE? And I know it's evolving seemingly on a regular basis here and there's a lot of different tweets. But even if we think about contracting changes, moving away from cost plus, are you seeing that risk or opportunities there?

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

Net-net, I see more opportunity working with DOGE. I believe we all see that there is room for cost efficiency in the way that we work together between industry and government. We embrace the opportunity to share some of our observations and ideas and are starting to do that.

Operator

Richard Safran, Seaport Research Partners.

Richard Safran - *Seaport Research Partners - Analyst*

So I'd like to ask you to expand a little bit more about your talk about bookings. You mentioned some of this in international. More generally, could you discuss the 2025 major opportunities that you're looking at that we should be watching. And more importantly, more specifically, your expectations for full-year bookings, if you think book-to-bill is going to remain above 1x despite a growing top line. I mean you did report some pretty strong book-to-bill numbers.

Ken Crews - *Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer*

Yeah. So, for the second part of the question first, when we think about 2025 book-to-bill, we see it more around the 1x sales, particularly in fact of the strong history of bookings, and some of those being multi-year, so we'll work against that backlog, but we'll also build it back up and be roughly around 1x sales. When we think about growth opportunities and award opportunities moving forward, we have opportunities, particularly in Space around restricted activities.

We have it on the strategic comms side. We have continued growth as we -- and awards relative to B-21 as we think about advanced procurements and continuing production activities. And then on Mission Systems, it -- it's a whole host of awards across ground-based sensors and airborne-based sensors when you think about airborne radars, EW systems, as well as communication systems.

And then DS is, we just recently received IBCS. We see IBCS continuing to grow in 2025 as well as numerous awards, particularly around weapon systems and ammunition. When we look at that, we're building the backlog. It continues to build. We've seen about 15% growth year over year on the weapon system side. And so those awards continue to roll in as well.

Operator

Jason Gursky, Citi.

Jason Gursky - *Citi - Analyst*

Kathy, you spent quite a bit of time upfront talking about the strategy of the company. I was wondering if you could just maybe comment on your top two or three priorities for the year and how you see yourself spending your time and prioritizing the thing -- the implementation of that strategy and what you're going to be really focused on this year?

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

Thanks, Jason. My priority is very much aligned with what I outlined. I believe the administration's priorities are, the first, equipping our military to be the best fighting forces in the world means advancing technologies and our strategy to provide technology differentiation, not just for the benefit of our shareholders in our company being able to grow, but for our customers to be able to fulfill their mission is our top priority.

We also are very focused on efficiency within the company, much like the administration is, and we see this as an opportunity to work together and to get more efficient. It's step function improvement in how we are able to execute work so that we can deliver for the war fighter in a more cost-effective and timely way.

And then, of course, within the company, deploying our resources to the areas that make the most impact, both for our shareholders and our customers, and we've been very focused on doing that and making smart strategic choices for capital deployment. So those are the three areas that I'm focused on and will continue to be.

Jason Gursky - Citi - Analyst

Right. Okay. Sounds great. And then just following up maybe on Seth's question about the ecosystem. And I think you gave some comments on your perspective on the evolving ecosystem.

I'm just kind of curious to what you're hearing from the customer and what you're seeing them say and do as it relates to maybe enabling some of these VC-backed defense tech companies, bringing new technologies? Are we likely to see maybe -- I don't want to say a lowering of standards, but maybe going back to lowest cost technically acceptable kinds of constructs? And what are you seeing them say and do as it relates to trying to enable some of these companies?

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

I still very much see a broad set of acquisition strategies being utilized across the Department of Defense that are matching what the government needs. Sometimes that is very capable systems that are developmental and innovative by nature.

In other cases, it relies on technology that is lower cost, more commoditized. And that has been, and I believe, will continue to be the case. And the Department is implementing strategies that allow them to embrace both, as they should. But the reality is we cannot equip the best fighting force in the world with technology that isn't leading the way, rather than leveraging what is commercially available.

Operator

Robert Stallard, Vertical Research.

Robert Stallard - Vertical Research Partners - Analyst

Kathy, just to start off. On capital deployment, with a perhaps more relaxed regulatory environment moving forward, does that open the aperture for you with regards to potentially to do more acquisitions?

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

I think it's a little early to say what the regulatory environment will look like, particularly in the area of national security. Certainly, there have been concerns voiced about over-consolidation. We have new entrants coming into the space. And so the market is opening up some. But I think that, that still will be a consideration as much for the Department of Defense as for the Department of Justice.

But with that said, we have been able to manage our portfolio well over these last several years, the acquisition of Orbital ATK, of course, was a terrific add to the company. We've done some recent divestitures, and we'll continue to be active in portfolio management in any regulatory environment where we see opportunities to create value for shareholders.

Robert Stallard - Vertical Research Partners - Analyst

Okay. And then just a quick follow-up for Ken. On the Lot 2 LRIP of B-21, were there any accounting or cash flow impacts from that milestone?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

No, we were awarded B-21 in Q4. And as we go through our normal detailed program reviews and EAC reviews, no changes there. And in terms of cash flow, again, we took the charge in 2023. Those cash flows and the associated impacts occur over a long duration when you think about the LRIP lots and all of that is accounted for in the guidance that we provide.

Operator

Gautam Khanna, TD Cowen.

Gautam Khanna - TD Cowen - Analyst

Wanted to follow-up on the Mission Systems margin expansion in 2025. Curious how much mix is a driver of it, mix of cost plus moving to fixed price, does that percentage change materially in 2025 versus '24?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

So, when we think about Mission Systems '24 to '25, not a significant portion of it is driven by mix. It's really driven by the performance and the implementation of the efficiencies. And then as we've scaled the business and as I talked about earlier, the learning and the development that has occurred, that is the driver. We do see Mission Systems in terms of mix shifting more towards FFP over the planning period, talk about the next five years, but a gradual shift in the interim.

Gautam Khanna - TD Cowen - Analyst

Got you. And then just a quick follow-up. If in fact, there is kind of an end of the Ukraine-Russia hostilities, what impact, if any, would be felt at Northrop and over what time frame? I assume at Defense Systems, but -- just what do you think of that?

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

Yeah. So, our revenue from tactical weapons and the kinds of systems that we would see being directly expended in Ukraine is less than 1% of revenue, just to give you a broad-based context. And we do believe that there will be a multi-year replenishing of stockpiles associated with those that have been depleted. So we don't see an immediate ramification.

Operator

Myles Walton, Wolfe Research.

Myles Walton - Wolfe Research, LLC - Analyst

Ken, I think when you listed the opportunity set for '25, I don't think I heard F/A-XX, I'm just curious, Kathy or Ken, how are you feeling about the timing and potential for Northrop to be a participant?

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

Yes, Myles. So, when I mentioned the Navy's next-generation fighter, we do believe that the Navy is progressing through source selection, as they had indicated, and they have also shared that we are one of the companies in the source selection. So we will continue to watch how that unfolds over the course of this year and keep you updated. There's not much more I can say about it given the restricted nature of the procurement.

Myles Walton - Wolfe Research, LLC - Analyst

Got it. Okay. And then maybe, Ken, on the free cash flow side, thanks for updating for 2027. There has been a \$4 billion target for 2028. Does the trajectory still align with that \$4 billion 2028 target in the future?

Ken Crews - Northrop Grumman Corporation - Corporate Vice President & Chief Financial Officer

Yes. When we look out in the future and projected cash flows, we are on track to achieving the \$4 billion in 2028, so no change there.

Todd Ernst - Northrop Grumman Corporation - VP of Investor Relations

Hey, Josh, we're going to leave it there. I'll turn it over to Kathy for closing remarks.

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

Great. Thanks, Todd. So I want to close by acknowledging the just extraordinary accomplishments of our team in 2024, and I'm particularly grateful for the commitment of our team members in the LA area. I think many of you know, we have over 13,000 employees in that area who are dealing with the wildfire devastation in their local community, and we are so appreciative that they continue to come to work every day and support our mission.

Our company's innovation, people, investments, and commitment, they sit at the core of this nation's ability to maintain peace through strength. And so we remain focused on helping our customers succeed in their most challenging missions. And we're really excited about the year ahead. So, thank you for joining today's call. We look forward to talking with you again soon.

Operator

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

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