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LHX.N - Q2 2023 L3Harris Technologies Inc Earnings Call

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OVERVIEW:

Company reported cash flow of $300 million.

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PRESENTATION

Operator

Greetings. And welcome to the L3Harris Technologies Second Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

At this time, it is now my pleasure to introduce your host, Mark Kratz, Vice President, Investor Relations. Thank you. You may now begin.

Mark Kratz

Thank you, Rob. Good morning, and welcome to today's call. Joining me are Chris Kubasik, our CEO; and Michelle Turner, our CFO. During our discussion, we may reference the investor letter that we published on the website yesterday. As always, this call will primarily be focused on answering questions.

As you can imagine, given the news, we have a busy day, so we're going to hold the call to 40 minutes this morning. I will be available throughout the day for follow-ups. During the call, we may discuss certain matters that constitute forward-looking statements. These statements involve risks, assumptions and uncertainties that could cause actual results to differ materially. For more information, please reference the safe harbor provision found in the investor letter and our SEC filings.

We will also discuss non-GAAP financial measures which are reconciled to comparable GAAP measures in the investor letter. Lastly, we conducted an investor perception study in the second quarter and recently reviewed the results with the Board. I want to thank those who participated and we are incorporating your feedback.

Before moving to questions, I'd like to turn it over to Chris for some opening remarks.

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

Okay. Thanks, Mark, and good morning, everyone. Yesterday marked a significant milestone for L3Harris and our acquisition of Aerojet Rocketdyne. Our investor letter disclosed that the FTC will not block our acquisition. This is one of the final closing conditions for the transaction, and we are moving forward to close in the next day or so. I look forward to extending a warm welcome to Aerojet's team of over 5,000 employees who will soon become part of L3Harris. This acquisition represents a pivotal moment for both our company and the defense industry and is poised to generate shareholder value beyond initial expectations.

Budgets are increasing for munitions and the DoD has committed DPA, Defense Production Act funding for the expansion and modernization of Aerojet Rocketdyne's operations. Upon closing, this acquisition will strengthen the defense industrial base, foster healthy competition and accelerate innovation in support of the war fighter.

In conjunction with this exciting news, we continue to focus on execution across the enterprise and have delivered on our financial commitments again in the second quarter. Our results reflect the momentum we have been building over the last year as the team delivered the fourth consecutive quarter of top line growth, which accelerated to 13% with increases in each segment. We don't talk much about our sectors, but 13 of the 14 grew their top line in Q2 and 13 of 14 had a book-to-bill greater than 1.0. This gives me confidence that we've been investing in the right technologies and we are aligned with customer priorities.

Operating income was up 7% and margins expanded 50 basis points sequentially as we had anticipated. In total, we delivered earnings of $2.97 per share ahead of consensus and free cash flow was positive, in line with prior commentary at over $300 million.

Given our performance to date, we are increasing revenue and EPS guidance for the year and reiterating our free cash flow commitment. With easing supply chain constraints, operational improvement initiatives, and accelerating sequential growth in product-centric businesses, we remain focused on delivering second half results for 2023.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Peter Arment with Baird.

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

Chris, congratulations on the Aerojet deal. If it's okay, I wanted to kind of focus on that versus asking a question about the quarter. But maybe to start, maybe you could just give us high level, walk us through kind of the go-forward plan on Aerojet, and did you have to sign any consent agreements? And any comments you would like to talk about on integration would be helpful.

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

Okay. Well, thanks, Peter. Just as a reminder, we -- we announced -- signed and announced the deal back in December. We received our second request in mid-March. And here we are 7.5 months later, ready to close the transaction. So it really was a great team effort. I'm not sure everyone appreciates how much time and effort it takes to go through that process. So a special call out to the L3Harris team because all this was in addition to their day jobs. The IT organization going back years, searching e-mails, texts, legal, finance, contracts, and a lot of our external partners. So very proud of the team to be where we are in relatively pretty short period of time.

It was a very thorough review by the FTC, as you can imagine. And obviously, the DoD, Department of Defense would have had some input. So we responded to all inquiries and we are where we are today. So we put out that announcement as the waiting period had expired yesterday. Over the next day or so, we have to finalize the financing and then close the transaction. And I think we're going to be in a good shape to hit the ground running.

Relative to your question about the consent agreement, we did not negotiate or sign a consent agreement. We gave assurances to the DoD that we would be a merchant supplier of rocket motors and rocket engines. We have a long legacy of being a merchant supplier, and we'll continue with that model once we close Aerojet Rocketdyne. I can assure you, we are highly motivated to sell rocket engines and rocket motors to anyone who wants to buy them within the rules globally. So some of the theories that were bounced around never made a heck of a lot of sense to me, to be honest to you, we bought this company to sell engines and motors and that's what we're going to do.

We'll be ready to hit the ground running on day 1. We did have integration office with representatives from both teams. So a lot of time and effort on planning and again, given the L3Harris merger, we had a playbook that we'll use. This is obviously an acquisition, but every function, every decision has been made. We're ready to go on day 1. So thanks, Peter. Appreciate the kind comments.

Operator

The next question comes from the line of Seth Seifman with JPMorgan.

Seth Michael Seifman - *JPMorgan Chase & Co, Research Division - Senior Equity Research Analyst*

Yes, congratulations, Chris and Michelle. Maybe I'll just continue along the Aerojet line here. I guess, Chris, it kind of seems to me that the Defense Department has had a problem sourcing solid rocket motors and L3Harris has kind of raised their hand and volunteered to help solve that problem. So now it's got to get solved. And so as you think about Aerojet and we've seen various complaints from their customers over the years and kind of a perceived lack of investment. If you could talk to us about how you plan to address those issues, both from an operational standpoint. And then from an investment standpoint, I think we've all seen the $215 million that they got. I think that's focused primarily on GMLRS, Javelin, Stingers, but there's also standard missile PAC-3 THAAD. So thinking about those programs as well and what the investment requirements are.

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

Okay. No, again, thanks, Seth. Yes, we did raise our hands but to help, but we had a pretty active M&A process, and there were several companies or a handful of companies that we thought made a lot of sense. And one of those, of course, was the TDL line of Viasat and of course, Aerojet Rocketdyne. And as I've said before, and I know there was feedback it was kind of unusual that both properties came to market in the same quarter. So it fits in strategically, in my opinion.

So we're always available to help the DoD. But the strategic rationale for Aerojet Rocketdyne continues to be entry into new markets. These are growth markets as you well know, with -- especially on the weapon side, and it's well aligned with the government priorities I already mentioned. From when we announced it to where we are today, significant increases in the budget. And as you mentioned, the DPA money over and above maybe what we had planned.

So I think that makes a lot of sense. We've been impressed as we've gone out to the sites with the talent and the skill of the workforce at these sites. And as you would expect, the majority of those key individuals, hopefully, all of them will be staying with the merger. And I think as of last night, the top 100 or so individuals we identified over 98% have agreed to stay with the company. So I was excited to see that.

I think Hypersonics is going to be a capability that is very exciting, doesn't get a whole lot of press, but longer term, when I look at where things are headed, I think the -- or soon to be our capability in Hypersonics, it actually sounds pretty good. Our Hypersonic capability is going to be a differentiator and I think continue to disrupt the market.

The -- used to answer a lot of questions about the backlog and whether we're short cycle, long cycle. But this clearly brings some long-cycle backlog to L3Harris gives us more earnings visibility and the business case that we laid out back in December with the accretion of EPS and free cash flow in the first full year and first full second year continue to remain in place or maybe slightly better.

So relative to your question on operations, we obviously comply with the rules. There's this concept known as gun-jumping, which is something you don't want to do. So we did not gun jump, which means we really couldn't get too involved in their businesses. But through the diligence process, we were able to engage with their team. They have a plan to go forward that we've reviewed. It's a real focus on deliveries and quality of critical missile programs. You mentioned a fair amount of those. And most of that surrounds the modernization of the Camden Arkansas production operations and expanding production across other sites. And as you mentioned, the DPA, the $215 million, we've looked at that plan. That money will go mainly to those facilities and the programs you mentioned, but it also money in there to digitize their engineering. So we're quite excited about that.

So we've developed some tools since the merger to improve operations and processes. We utilize capability modeling. We have zero defect planning, just as a couple of examples. So we're going to take those processes and merge them into what Aerojet has, and we'll be ready to hit the ground running on day 1. We'll be at the key sites and we have a plan to execute. It's going to take some time, as you would imagine. But they're excited about the acquisition. We're excited about it. And next 48 hours or so, we just want to close it and get ready to go from there. So thanks, Seth.

Operator

Our next question is from the line of Robert Spingarn with Melius Research.

Robert Michael Spingarn - *Melius Research LLC - MD*

Sticking with the topic at hand, I wanted to ask a financial question. Given that you've just updated guidance, but yet you're going to close this in the next day or 2. I was wondering, Chris, if either you or Michelle, could talk about the guidance with Aerojet included for the rest of the year, both from a P&L perspective? And then just maybe to follow on to Seth's question on a CapEx or investment perspective for the rest of '23. And then in that CapEx vein, how do you think about that long term?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. So I'll start, Rob, good morning and thanks for joining. So as Chris pointed out, we're focused on closing the deal first and then welcoming all the new Aerojet employees for the day 1 celebratory events. So we certainly are going to get to the guide. We do plan to update the guidance on October for the 5 months remaining as part of our Q3 earnings call. And then, of course, for 2024, that will be part of our January update, consistent with the rest of our portfolio.

Once we have officially closed, we will be reviewing the forecast and the assumptions. But high level, we do anticipate revenue to be around $1 billion for the remainder of the year, but we don't anticipate a material contribution to earnings as we anticipate the income contribution will offset the interest expense from the incremental debt.

To Chris' point around the value creation, I do just want to remind everybody what we had shared previously, which is consistent with where we stand today, EPS accretion within year 1, along with free cash flow within year 2.

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

Yes. And I think we'll give more and more details at the next earnings call. We will have had 2 months of actual results and we can give guidance for the remainder of the year, which, of course, is only 3 more months. And I think it's all about January of '24 when we give guidance for '24 for L3Harris. And this will be a separate segment, as we've said before, so you'll have visibility to the growth and the profitability for all 4 segments.

And I was going to mention this at the end, but I know there's several calls going on, so I'll just do it now. We are going to have an Investor Day in December, something that we've wanted to do, but we didn't want to schedule until we had confidence that the deal was going to close. So we'll get something out here in the weeks ahead on a date and the location, but at that time, we're going to give you a deeper insight to Aerojet

Rocketdyne, update and refresh how our trusted disruptor strategy is performing and then some of the other organic growth drivers that we have in our portfolio. So more to come, but we look forward to seeing, hopefully, everybody in person in December.

Operator

Our next question comes from the line of Doug Harned with Bernstein.

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

I want to switch gears a little bit here. When -- if you look at where a lot of things are going right now in DoD and elsewhere. With the TDL acquisition, in principle, having Link 16 combined with other assets you've got in comms, space, IMS, it should put you in a pretty interesting position to provide some really integrated system solutions. Now I'm just interested in how you see the opportunity there. How large could that be if, in fact, you see that.

And then trying to -- assuming you do, trying to make that work, how do you go after something when this is a company that historically you've operated in many small silos as businesses, and this would involve really an integrated approach that I don't think we've seen so much in the past here.

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

Okay. Well, thanks, Doug. Yes, a lot of questions there. Look, I think the bottom line here is the TDL acquisition is really looking better than maybe we had expected. It's probably too early to declare success, but we're off to a real strong start. I'll just pick up on the operations first and then get to your more strategic question, but part of the plan was to integrate and move the production to Salt Lake City, where we have our BCS, broadband communication systems sector headquartered, which will co-locate these properties.

So as of today, we've actually moved more than half of the production lines successfully. We're slightly ahead of schedule, which is always good. And we've already built first articles with no issues related to the production lines that we've moved. So we kind of expected that to be the case, but it's never easy to move a production line or several production lines, but that's going better than planned and actually more employees have agreed to relocate than we had planned for, which I think is contributing to the success. Sam Mehta, our segment President and I will be out there next week for a few days and the topics you're talking about are clearly on the agenda.

I think on an integrated approach, our company does this probably better than anyone. We've had some successes over the last year or so on some significant classified programs on optionally manned fighting vehicle on spear for the Navy and each and every one of these have in excess of 7 or 8 different L3Harris entities working collaboratively across multiple segments.

So we think all the challenges that companies have working internally, whether it's the internal accounting, the cost transfer, who gets credit for the bonuses, all the reasons why people have a hard time working collaboratively, we've been able to fix. And I think that's going to really set us up well for exactly what you're talking about.

I mean the customer interest has been very, very strong. And most of the discussions have focused on how we integrate the BCS wave forms with the Link 16 capabilities. We talk about Link 16 having the footprint in over 20,000 platforms. So the boxes to put it crudely are already there, and it's just a matter of taking those capabilities and integrating them and then also possibly enhancing the Link 16 capabilities.

I think -- well, that sounds like a lot of words. What we were excited about, and we put in the investor letter, is that near the end of the quarter, we won specifically TDL, $150 million competitive prime award for MIDS and MIDS is the multi-functional information distribution system as part of the joint tactical radio program. This was the largest production order ever, it is about 3x larger than anything we've ever received. And I think that's a tangible example of the customer excitement and the capabilities. Obviously, we have strong backlog as a result of that order and that one business. And as I said, I couldn't be more pleased with this acquisition and still more to do, but everything is looking good so far. So hopefully, that helps, Doug.

Operator

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

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

Sure. I wanted to ask specifics on margins in the quarter and how we think about the second half. So I guess first up on Q2, CS performance was pretty good, tracking ahead of your full year. How do we think about mix benefits, the normalization of supply chain and the sustainability of 25%-plus margins in CS. And then additionally, if we could dig into the operational items within IMS and what drives the sequential step up in the second half?

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Sheila, thanks for the question. So I will start with our overall enterprise margins and then peel the onion a bit from a segment perspective because there's a lot of good work that's happening across the portfolio. So to your point, our Q2 margins did come in at 14.8%. This is a 50 basis point improvement from Q1. And I just want to note that this is also consistent with what we've previously communicated in terms of sequential margin improvement expected throughout the year. And this will land us in a place from our updated guidance of getting us to our 15% expectations, which again continues to be industry-leading in terms of margin performance.

One thing I want to highlight from an overall portfolio perspective, is key to this result within Q1, and it's also been a drag over the last couple of years is our overall EAC performance. And this is important because 75% of our portfolio is driven by programs, right, which is driven by EACs. And so it impacts our bottom line. So aligned with this, Q2 was the first quarter that we saw our EAC trend trajectory start to improve since the second half of 2021. So you may recall this is when the macro environment challenges started across all industries. It started to permeate within supply chain, then we saw the issues with labor and inflation that permeated throughout 2022.

And so where we sit today, specifically within CS and kudos to Sam Mehta and the CS team delivered really strong margins within the quarter, a 200 basis point improvement from Q1, really driven by all the resilient supply chain actions that we've taken. You've heard us talk about this over the last 12 to 18 months, but also the easing of the electronic component shortages, and we also have the benefit of increased software mix within the quarter. So really strong delivery for Q2. As we look at full year, we expect second half for CS to be consistent with first half with Q3 being a bit lighter in terms of domestic mix with that ramping within fourth quarter.

From an IMS perspective, we did continue to see an impact from increased domestic ISR mix. This, along with some operational challenges on fixed-price development programs at a couple of our remote sites permeated and had an impact within the quarter. John Rambo and our IMS team are addressing these issues. They're predominantly related to talent and learning loss and efficiencies and we expect the results of these actions to have a positive impact as we progress towards the end of the year.

In regards to the second half ramp, again, this is consistent in terms of the initial guidance that we laid out, but it's really driven by 2 things. One is around this continual improvement in terms of EAC performance, as I noted, we saw this start to trend upward within Q2. We expect that trend to continue as we are working through that fixed price backlog that has been impacted by these macro issues over the last 12 to 18 months. And the second is driven by our product deliveries consistent with what we've experienced in the past, we expect our product deliveries to be higher in the second half, high single digits, which is going to be able to deliver on the margin expectations.

The other thing I would note is within Q4, we do have a higher mix of our international product sales. And so you'll see this play out both within TCOM and WESCAM. So from a modeling perspective, expect that fourth quarter margins are going to be better than Q3.

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

And I'll just chime in. I think we tried to highlight within IMS, the challenges on these few select programs were we're within the ISR and the maritime sectors. I will say that there continues to be a lot of demand for those products and capabilities. We do a fair amount of undersea test ranges for the U.S. Navy, and we've been successful in winning work just recently for the similar capability in Australia.

We've talked about Compass Call here for the U.S. Air Force. There's similar capabilities for European country that will be mainly focused on modernizing the aircraft, which will have higher margins since the aircraft have already been procured. We're continuing to pursue undersea test range and sensing capability here in the U.S. Navy kind of a follow-on to something that we started winning 4 or 5 years ago.

We talked about the business jets and the strategy years ago to start missionizing business jets. We have an opportunity in the Far East. We have another opportunity in Europe. And then here in the U.S., you saw that we won the ATHENA-R program, which we're very excited about. I think the other day, we announced that we're teaming with another OEM on ATHENA-S, we kind of hope to win 1 of the 2, and now we're going to go 2 for 2.

And then the Army has a program known as HADES, which could be up to 10 aircraft. So there's a lot of opportunities in how I want to tie this back to the margins is IMS has the longer-cycle backlog relative to the other businesses, they see us in particular. They have a lot of fixed-price contract, probably some fixed price development programs, which I think I've publicly said, we're really going to be selective on bidding going forward, especially when the customer is asking for a fixed price production or low rate production, simultaneous with development. That's just a bad business and makes no sense. We're going to continue to push back and not bid those because very hard to price something that you haven't developed, but I have discussions on that topic regularly with our customers, and we will continue to no bid those until the contracting vehicle is appropriate.

So I throw that in that some of these challenges, which Michelle laid out well is really the lagging effect of attrition and inflation because of the long cycle business. We've taken those lessons that we've learned or we've more bluntly or clearly updated these bids based on the latest performance, the latest cost. So every single program I mentioned is double digit and sometimes more than double-digit margins or higher double digits. So we get those wins, we'll get those in backlog, and that gives me confidence that we'll be able to improve the margins in IMS with John and his team.

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. The only other thing I would add to that is just as a reminder, when we set out our guidance this year, we were purposeful not including any international binary events. We still have a strong pipeline that we're chasing there. Just the recognition that we know we've disappointed historically when we put those in and then not been able to get them over the goal line because of the timing constraints. And so we continue to have a strong backlog there as we -- our pipeline as we look into 2024 and beyond.

Operator

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

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

Chris, I was wondering if you could add more color on the strong first half book-to-bill at space in particular. And I know you guys have obviously done well with some of the low earth orbit awards, but it seems like there's a lot of other things going on for you in space as well. So wondering if you could talk more about what you're winning there and kind of your approach, how you're winning it and how big the opportunity set is there?

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

Yes. Thanks, Pete. We've talked about this trusted disruptor strategy at the L3Harris level. And as you would expect, it really flows down to each and every one of the sectors. And I mentioned we have 14 sectors when we closed Aerojet Rocketdyne will be up to 16 sectors as they'll have 2 sectors within that segment. But it's hard to think of a better example than maybe space where they really been able to embrace this strategy and execute upon it. And at the highest level, we talk about doing more prime work with the end users being more innovative, being more agile. And I would just sounds like buzzwords, but it's clearly working in space. And to back it up, at the time of the merger, we had 5 satellites, mainly experimental demo satellites under contract.

And today, we have over 50 contracts for satellites. I mean that's a 10x in 4 years, which I think reinforces what's implied in your question that what we're doing is working. We actually have 2 classified operational constellations. Again, 5 years ago, we didn't have any. We might have had parts on other people's satellites on their constellation. So we really have disrupted this market and we're viewed as a prime and a legitimate competitor, and we're winning and we're performing. We've invested a fair amount in R&D to get us in this position in capital. We're actually facilitizing -- we have 2 facilities, one in Fort Wayne, Indiana that we expanded and one here down in Palm Bay, Florida for satellite manufacturing.

So we're investing capital for growth, which will allow us to continue to perform. I mean, just since the merger, our revenue is up in space alone, over 50%. We have record backlog. We have solid execution. We can always do better. We've had some challenges with certain suppliers. We don't call anybody out by name, but we just kind of work with those companies to bring them along.

So in the space world, it all comes down to launches. We have a bunch of launches coming up in October, and that's where the money hits the road. We're excited about a launch we have co-manifested payloads, both our SDA Tranche 0 satellites will be going up with the MDA's HBTSS satellites. So I think that worked out real, real well. Upcoming opportunities. We do a lot of work going back decades for NOAA for their weather satellites, about $700 million opportunity coming up this year. We feel really good about that. It's called the sounder program, as always, a lot of classified opportunities, which I know is never satisfying for you and others to hear, but they are there.

The SDA tranche 2 for tracking the RFP is coming out. So we'll be prepared to respond there. And I think at the end of the day, you hear me talk a lot about prioritization and aligning with customers' needs. Secretary Kendall, the Air Force their #1 operating imperative is all about space. So we have the mission sets. We have the phenomenology's, we've adapted to the rapid acquisition process, and we've been quite successful. So I couldn't be more proud of the team. And it's just one example where the strategy has been laid out, it's been executed, and it's working. So more to come.

Michelle L. Turner - *L3Harris Technologies, Inc. - Senior VP & CFO*

I would just add to that, because along with the top line, this team is also fully embracing our performance first initiative. They're also driving really strong cash performance as well. So 9-day working capital improvement within from Q1 to Q2. And so kudos to Ed and Kelly in the Space chain because sometimes it's easier to grow the top line without doing the cash along with it, and they fully embraced all the financial metrics to really drive this business.

Mark Kratz

Rob, in the interest of time and to stop at 40 minutes, we'll go ahead and take the last question this morning.

Operator

Our final question is from Myles Walton with Wolfe Research.

Myles Alexander Walton - *Wolfe Research, LLC - MD & Senior Analyst*

Chris, I wanted to ask about TDL, but the sales and the margin side. I think the sales year-to-date since you're going down about 10%, did the MIDS contract you mentioned, turned that around and get you back above a $400 million sort of run rate where you acquired it. And then on the margin side, if I strip out some of the market loss-making contracts, the margins look a bit light, is there a case for a significant margin expansion once those MIDS drop in.

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

Yeah. Thanks, Myles. No, good questions. Yes, we see a path to $400 million or more of revenue for TDL. It's a little bit of a slower start. But with the MIDS win I mentioned and some of the other opportunities we're pursuing, we definitely see a second half ramp coming with MIDS. I think this is lot #11. So it's been a long production cycle as we've mentioned, a long legacy program.

And I think same similarly on the margins as part of the move we're going to have some efficiencies, not only in labor but overhead and facilities. So we'll start to see the synergies, if you will, kick in and further upward margin potential. And again, this will all be mainly in our Salt Lake City. It's all about base and the ability to win new programs. I'll also throw in there that one of my programs I've talked about for years, next-gen Jammer, that work would be done in Salt Lake City as well. And that's been a several year process, as you know. There was an independent review team that finally came out with their report with no substantive changes. We've turned in our proposal and we're hoping to here by the end of September.

So I just throw that in Myles because it's in the same facility and gives us a larger base, if you will, to absorb the overhead, thereby creating other opportunities for margin expansion. So thank you very much.

I guess with that, we'll just wrap up the call. Again, apologies to cut it a little bit short, but Mark and his team will be available all day. And Michelle and I have to go work some acquisition-related tasks, because I hope you can appreciate. So thanks for dialing in. And again, we'll get you more information about the Investor Day in December, and have a great rest of the week. Thanks.

Operator

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