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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

Kenneth L. Bedingfield *L3Harris Technologies, Inc. - Senior VP & CFO*

Mark A. Kratz *L3Harris Technologies, Inc. - VP of IR*

CONFERENCE CALL PARTICIPANTS

David Egon Strauss *Barclays Bank PLC, Research Division - Research Analyst*

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

Michael Frank Ciarmoli *Truist Securities, Inc., Research Division - Research Analyst*

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

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

Robert Alan Stallard *Vertical Research Partners, LLC - Partner*

Robert Michael Spingarn *Melius Research LLC - MD*

Ronald Jay Epstein *BofA Securities, Research Division - MD in Equity Research & Industry Analyst*

Scott Deuschle *Deutsche Bank AG, Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Greetings. Welcome to the L3Harris Technologies Fourth Quarter 2023 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded.

It is now my pleasure to introduce your host, Mark Kratz, Vice President of Investor Relations. You may begin.

Mark A. Kratz - *L3Harris Technologies, Inc. - VP of IR*

Thank you, Rob. Good morning, everyone, and welcome to our Fourth Quarter 2023 Earnings Call. Joining me this morning are Chris Kubasik, our CEO; and Ken Bedingfield, our CFO. We've updated our quarterly earnings approach based on feedback. And yesterday evening, we published our fourth quarter earnings release detailing our financial results and guidance. We've also provided a supplemental earnings presentation on our website.

As a reminder, today's discussion will include 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 our earnings release and SEC filings.

We'll also discuss non-GAAP financial measures which are reconciled to GAAP measures in the earnings release. Specifically, I will note segment operating income, which excludes items such as impairments, the goodwill and other assets reported at the business segment level.

I would now like to turn it over to Chris and Ken for some opening remarks.

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

Okay. Thanks, Mark, and welcome, Ken, to your first L3Harris earnings call. We're excited to have you on the team.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thanks, Chris. I'm excited to be a part of the team.

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

All right. I want to start by thanking our investors and analysts for attending our Investor Day last month. We had a great turnout and appreciate the strong positive feedback from the event.

2023 marked the fourth full year since the merger and served as an inflection point in many respects. We met our financial commitments, we closed our integrating and seen the benefits of two acquisitions that are focused on national security and aligned with defense spending priorities. We announced the sale of a noncore business, further aligning our portfolio. And we returned to growth following a few years of macroeconomic disruptions.

This past year, we also strengthened our leadership team and Board of Directors, adding key talent that will help drive future value for our investors, customers and employees. This year's progress gives us confidence that we have set the foundation to achieve the financial outlook that we laid out at our Investor Day and are reaffirming today with segment-level detail.

Globally, the threat environment remains elevated, emphasizing the importance of our mission. With a national security-focused portfolio, we continue to support the U.S. and its allies, providing vital solutions for our customers' most critical missions.

Domestically, we await Congress to pass all 12 appropriation bills by the end of April, including a pending vote for an $842 billion top line defense budget, which has solid support for our programs, most notably in the areas of space, missiles, intelligence and resilient communications.

In 2023, demand remained strong. We reported a record $23 billion in orders, including key awards for the U.S. Army's manpack and leader radios, Compass Call missionized business jets and rocket motors for the Army's guided multiple launch rocket system. The orders we received in 2023 contributed to a record backlog of $33 billion, more than double the $16 billion of backlog at the time of the merger. This positive momentum continued into early 2024, underscored by the recent award for 18 satellites from the Space Development Agency for more than $900 million.

Internationally, orders were up 24%, including tactical radios, VAMPIRE systems for Ukraine and an international space award that leverages our 55-year trusted heritage to build and deliver advanced payloads for Japan's next-generation weather satellite. We are maintaining our international growth strategy and aim to improve that mix over the medium term.

Operationally, our performance-first culture has been a driving factor in meeting our financial commitments, and we are gaining momentum as we focus on profitable growth.

We're about 6 months into the Aerojet Rocketdyne integration, and we have captured the $50 million in cost synergies that we were targeting. The team is using the savings to deploy resources from across L3Harris to help improve operational performance and ultimately increase capacity. In our short time owning this business, we are seeing improvements and we are progressing towards returning to contracted production levels.

As highlighted at our Investor Day, we are executing on our LHX NeXt initiative aimed at delivering $1 billion in gross cost savings over the next 3 years. These efficiencies will optimize our infrastructure and leverage our scale, which enables us to achieve margin expansion moving forward. We executed a number of projects, including exiting facility leases, to reduce cost and overall square footage. We continue with our ERP consolidation with 10 reporting units being consolidated into 1 reporting unit earlier this month. And at the program level, our continued focus on program excellence has helped drive better EAC performance. However, we have more work to do in this area.

In 2024, we are prioritizing our focus on execution, margin expansion and growing free cash flow. Additionally, we will continue to evaluate parts of our portfolio against strategic alternatives for noncore assets.

It should be clear that we have made significant progress on the journey to transform the company. Our core businesses are aligned with our customers' priorities and provide many levers to enable us to create shareholder value. Ken will discuss our capital deployment strategy in more detail, but it is unchanged from what we discussed at Investor Day. We will invest to grow organically, to delever the balance sheet and then to return excess cash to shareholders.

Our strategy is backed by our diverse and talented team, and we continue to invest in our workforce both financially and professionally. This gives me confidence that we have the right leaders in place to execute our imperatives and drive long-term shareholder value.

With that, let me turn it over to Ken for some financial details, including our 2024 guidance.

Kenneth L. Bedingfield *- L3Harris Technologies, Inc. - Senior VP & CFO*

Thanks, and good morning, everyone. It's great to be part of the L3Harris team and working alongside Chris. Over the last 6 weeks, I have been actively engaged with the team, reviewing the business and our financial plan. I'm all in, in our approach and grow more confident with each day. We'll be on the road meeting with investors next week and attending a few conferences during the quarter, so I look forward to reengaging with you all over the coming months.

Let's start with consolidated results which were all in line with our latest guidance. We reported full year revenue of $19.4 billion, at the high end of our guidance, up 14% year-over-year and 6% organically, which was primarily from growth in our Space & Airborne Systems and Communication Systems segments. We delivered segment operating margin of 14.8%, earnings of $12.36 a share and free cash flow was just over $2 billion.

For the fourth quarter, revenue was $5.3 billion, up 17%, largely driven by the Aerojet Rocketdyne and Tactical Data Links acquisitions and continued strong growth in Space Systems and resilient Communications. Fourth quarter segment margin was 15.1%, up 50 basis points from higher volume and favorable product mix and better program performance, which all resulted in net positive EAC adjustments, the first net positive quarter since mid-2022. Fourth quarter earnings per share grew 2% to $3.35.

Let me hit on segment results before turning to 2024 guidance. SAS reported revenue of $6.8 billion for the year, up 7% as we continue to see strong growth in Space, Mission Networks and Intel and Cyber programs. I've been impressed with what we're doing in Space. To me, this demonstrates how we are thinking differently, responding quickly, making targeted investments and seeing them pay off and growing in enduring markets. It's exciting to see how much progress we've made in responsive space, where we are taking share.

Segment operating margin was 11.4% for the year, down 30 basis points, driven by growth in the early phase space programs. We are now beginning to move into the more mature production phase of these programs as we look to improve margin in 2024.

In IMS, revenue was $6.6 billion for the year, which was roughly flat. Segment operating margin was 11.2%, down 180 basis points from program challenges and lower international mix. I've looked at the changes the team has implemented throughout the year to address these operational challenges and believe that the multipronged approach, including leadership changes, training and maturing programmatic risk management processes, will improve the business going forward. We've already seen sequential improvements within the business and expect greater financial stability in 2024.

CS revenue was $5.1 billion, up 20% year-over-year with 12% organic growth. Beyond the acquisition of TDL, revenue growth was driven by higher volume of tactical communication equipment. Segment operating margin was 24.2%, flat year-over-year as higher volumes were offset by lower international mix. I will note that CS had a great Q4 with record operating margins since the merger at 26.1%.

Lastly, Aerojet Rocketdyne revenue was over $1 billion and operating margin was 11.6% for the post-acquisition period. The new leadership team at Aerojet Rocketdyne is working to drive operational improvements to increase throughput of its critical products. Expanding on Chris' comments.

Early actions the team has taken include investing in critical suppliers, deploying resources to their sites, improving processes and co-investing in supplier infrastructure. We look forward to sharing more data with you as we progress on these efforts in 2024.

Turning now to 2024 guidance, which is consistent with the framework that we presented at Investor Day. We expect $20.7 billion to $21.3 billion in revenue with organic growth in all segments. As you fill out your models, I would note that, with strong fourth quarter results at CS and some favorable SAS timing, we expect a slower top line growth rate to start the year. IMS and total company guidance also contemplates the sale of CAS in 2024 with any potential timing impact within the revenue and margin guidance ranges.

Consolidated segment operating margin is anticipated to be approximately 15% from efficiencies gained with increased volume, operational improvements and LHX NeXt cost savings. This is partially offset by a full year of Aerojet Rocketdyne. Throughout the year, margins should gain momentum driven by program ramps, international product mix and accelerating LHX NeXt cost savings.

We do have two nonoperational headwinds totaling more than $200 million. First is lower pension income, which we anticipate netting to about $300 million this year; and second is an anticipated $650 million in interest expense. With taxes and share count, we anticipate non-GAAP EPS to grow to a range of $12.40 to $12.80. We should see it grow ratably across the quarters, ultimately reflecting a sequential build much like we saw in 2023.

We closed out 2023 with solid working capital improvement, coming down from elevated levels during the pandemic. The team and I are keenly focused on this as we aim to grow free cash flow over the next several years. For 2024, we expect free cash flow of approximately $2.2 billion, up 10%, driven by earnings growth and continued balance sheet efficiency.

At a segment level, we expect SAS revenue of $6.9 billion to $7.1 billion, with operating margin in the mid- to high 11% range. IMS revenue is anticipated to be $6.4 billion to $6.6 billion, with operating margin in the low to mid-11% range, driven by lower-than-historical international mix. We expect CS revenue of $5.3 billion to $5.4 billion with operating margin in the low to mid 24% range. And for Aerojet Rocketdyne, we anticipate revenue of $2.4 billion to $2.5 billion and operating margin in the high 11% range.

As Chris mentioned, our capital allocation priority remains focused on first paying down debt to achieve a leverage ratio of less than 3.0, and then a shift to returning all excess cash to shareholders through dividends and share repurchases.

On the dividend, we continue to target a payout ratio of 35% to 40% of free cash flow. For share repurchases, I will note that we returned over $0.5 billion in 2023, we are targeting a similar amount in 2024, and we look to accelerate buybacks in '25 and 2026.

To close out, one of the reasons I joined L3Harris was my belief that there is tremendous value potential. In my time here, I have gained more confidence that we can deliver on our 2024 and future commitments.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Scott Deuschle with Deutsche Bank.

Scott Deuschle - *Deutsche Bank AG, Research Division - Research Analyst*

Chris, can you give us an update on attrition and program performance at IMS?

And then for Ken, the IMS margin guide implies '24 segment margins, I think, will be down relative to the second half of '23. So I'd like to hear a bit more on the thinking there.

And then also for Ken, just maybe you can comment on your philosophy on guidance and where you sit on the spectrum in terms of viewing guidance as an aspiration, an operational plan, or closer to a promise.

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

All right. Thanks, Scott. Yes. Talking about IMS, if we looked at 2023, you'll see that we did improve margins in the second half compared to the first half. And as we've talked about, it is a little bit of a lumpy business based on the timing of aircraft purchases. We laid out in Investor Day that our strategy in the near term here was really to continue to have stability, especially with the program performance, and focus on margin improvement.

So to answer your question specifically here in the short term, we are seeing better program performance, and I think that's what gives us confidence in the opportunities, not only for 2024, but the next several years.

The attrition is definitely slowing down. We've been successful in hiring new people, training new employees. And I think that's starting to be reflected in our performance. And equally as important is suppliers, and maybe more specifically in this case, our subcontractor's performance is starting to improve as we got through those macroeconomic disruptions. The bidding rigor is improving. We've lowered the delegations of authority, so more bids are being reviewed not only at the segment level, but the corporate level.

And we have at least one instance in the fourth quarter where we no-bid a fixed price development program. And I've been talking about this for at least a year, and we will continue to no-bid programs where the contract type is not appropriate for the risk we're assuming. And I said it in December, and I'll say it again. I will sacrifice revenue for earnings and cash every day of the year, and we will continue to do so until that changes. And of course, we're making structural changes to the business.

In the midterm, I see upside to the margins as we're going to grow internationally at IMS. We're looking at about 25% international this year. I see that getting into the 30% range in a couple of years, driven by WESCAM and international business jets. In fact, this quarter already, a European customer has awarded a $300 million award to us for aircraft missionization, and that will be accretive to our margins.

And then when we -- I'm sure we'll talk more about LHX NeXt in the time that remains, but I think this segment is clearly ripe for opportunities. We laid out the fact, despite all the good work we've done in the last 4 years, we still have 100 facilities, we still have eight different ERP vendors, and we have 24 reporting units. I did mention that 10 of those, in my comments, were migrated into 1, so we're making progress. And the team has taken action, takes some investment on our part, but I like the momentum and the path that we're on.

So maybe with that, Ken, do you want to continue?

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Sure. Thanks for the question, Scott. And I think Chris said it well. I'll just add a couple of points. One, the guidance for IMS does assume the CAS divestiture during 2024. CAS does have higher average margins than IMS as a segment, so that's a little bit of a headwind at a margin level for IMS.

In terms of timing, we did have some large aircraft procurements in the first half of '23. Nothing in the second half of 2023. So that helped the margin pick up a little bit in the second half of '23 as well as solid program performance. We do see, again, it stabilizing as we look forward, and we look forward to the team delivering on that.

And then thirdly, I guess what I would say is the EO product line tends to build throughout the year. That's got solid commercial-like margins, and so we'll see that more likely contributing in the second half as well.

With respect to the second part of your question on guidance philosophy, I'll just say, look, again, I'm excited to be a part of the team. We've spent a lot of time thinking about kind of where we are and what this business can do. I think we've laid out a guidance that is something that we can meet and work to build to deliver confidence on during the year. And this is something we're putting out there and something that we intend to deliver on.

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*

At the investor conference, you talked about looking to 2026, and basically, there was a 100 basis point upside guide to each of the segments. But when you look across them, the opportunity there, it can't be uniform. So perhaps you can help us think through, when you look at each of the segments, where's opportunity for more? And maybe in some cases, it might be more difficult to get to that number.

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

Yes, Doug, let me take that one. Yes. Let me start with where we are on margins. I mean, we have well documented that our margins have declined the last couple of years. We acknowledge we've had some performance issues across the portfolio. But I also want to mention that we have consciously made investments in some high-growth programs and businesses, which impacted the margins in the short term, but we believe create value in the long term. And I think Space is probably the best example that we keep highlighting in that regard.

Investor Day, we did step up our cost savings goal to $1 billion gross run rate savings by the end of '26. That goes across the entire enterprise. We're calling that program LHX NeXt, as you well know. And look, I agree with you that there's differences by segment for a variety of reasons, and we're setting out a framework 3 years out, so we put the 100 basis points is kind of the floor.

If I go through them maybe in some form of order relative to the ability to realize the 100 basis points either early or exceed it, I'd like to start with Communications Systems. I think we all know that, that has a commercial business model and the potential for more international growth. I think those will be key drivers.

We run that like a commercial factory, where we make the radios, we look at the quality, the cost of poor quality, the roll throughput yield. We're making investments In equipment and training that give us potential upside. And in that regard, pretty much every dollar falls to the bottom line. We're also looking at the models and seeing if we can be more aggressive on increasing our software sales, as an example, in addition to the hardware. So CS would probably be at the top of my list.

Aerojet Rocketdyne, we've only had it for 5 months. We're starting to see some improvements. Big volume increase, big investment in capacity. And negotiating new contracts, maybe I'll just mention now. Since owning them, we've already turned in 200 proposals for over $13 billion. Of course, we have to win them and negotiate them, but clearly, the demand is outweighing the supply. So feel good about the potential there and the ability to return to their historical margins or even better.

Scott asked about IMS. I think I laid that out. I think there's upside there with the shift to international. Again, we have the WESCAM business that provides designs and builds and delivers turrets or cameras or gimbals, whatever you want to call them. Again, that's a commercial business model, which has accretive margins to the business. And end of the day, it comes down to stabilizing the volatility and the program performance. And I think with some leadership changes and better negotiations on new contracts, we should be in a better shape there.

And then, of course, Space or SAS. It does have the highest mix of cost-plus contracts, Doug, as you know. So most of those savings go back to the customer. But again, the investments that we've made to get into some of these new markets, such as Space, will be decreasing or have decreased.

So I don't know if that gives you a little more granularity. I think as we get closer to 2026, we'll be able to be more specific. But the 100 basis points is the floor, and that's kind of my order of how I'd put them. I don't know, Ken, if you agree or have different thoughts there.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

No, I think you hit it well.

Operator

Our next question comes from the line of Ron Epstein with Bank of America.

Ronald Jay Epstein - *BofA Securities, Research Division - MD in Equity Research & Industry Analyst*

Yes. One of the big focuses at the Investor Day was the Space business. And maybe if you can give us maybe a deeper dive into how that's going, your work on the SDA transport and tracking layers, and maybe continued opportunities for growth in that business.

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

Yes. Space, we keep talking about Space and highlighting that as kind of the model for our Trusted Disruptor strategy. So we have won -- we're really just on the tracking for SDA. So we won Tranche 0, we won Tranche 1. And as I mentioned just a couple of weeks ago, we were awarded Tranche 2. So I think we've gone from 4 satellites to 8 satellites to 18. So -- and there will be a Tranche 3 and beyond, I would expect.

I can tell you that in each of those successive contracts, the margins that we bid and expect have increased, which was part of our strategy. So the team is performing well. We have satellites waiting to be launched. So we're looking at these annuity, long-cycle consolations.

And we've talked about the missions really migrating from the air domain to the space domain, and I think we're seeing it here. And these satellites will have single-digit useful lives and they'll need to be repopulated over time. So I kind of look at this as an annuity, where in several years, the Tranche 0 satellites will deorbit and they'll need additional satellites to be launched. So 3 for 3, quite proud of the team, and I think our customers obviously pleased with our performance.

I did mention we do have a pretty good business in weather satellite, so it was exciting to see us get some international opportunities. You don't necessarily see that all the time in the Space business. So that's some additional growth. And we still provide payloads for exquisite satellites where we're a sub to the primes. Most of those are classified.

So pretty good backlog. We also mentioned at Investor Day, we're investing in building a satellite factory here in Florida, and that ground has been broken, and we're excited about that. So we'll be able to turn satellites at a pretty quick pace here in the near term.

Operator

The next question is from the line of David Strauss with Barclays.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

So Chris, I guess following up on Ron's question, SAS, I think in '23, you did something like 8% organic growth. It looks like your guidance for this year is only 2% organic growth. So if you could touch on the slowdown there that you're anticipating, I guess, broken out between Space and maybe the avionics piece of the business.

And then could you also touch on the forecast for Aerojet this year? It looks like if you just kind of annualize the run rate of sales, you're not really anticipating any growth at all out of Aerojet this year.

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

All right, David. No, good question. Yes. So if I look at SAS, we have several sectors there. Two of them, relatively large, are flat. The air domain that we've talked about is a flat business. It's a good business with good margins. This is where we perform on mission systems for F-35, F-16, F-18, some classified platform, but a relatively flat market. And as I just mentioned, those missions are migrating into Space in some cases. So that's how we see that playing out.

Mission Networks, which does a lot of work for the FAA, is a very solid business. Good margins, but that's traditionally a pretty flat business for the foreseeable future, especially given some of the budget pressures at the FAA. So that's two of our segments -- or two of our sectors. Space is growing and Intel and Cyber are growing as well.

Just as an aside, I mentioned a lot of this -- more of this business is cost-plus than most. So as we continue to reduce cost, I think David, sometimes -- not sometimes, it always does ultimately reduce your revenue a little bit as well. So the good news of taking out costs, you get the higher margins. And as I continue to say, revenue is interesting, but I'll take margins and cash and EBIT every day, and that's a little bit of the headwind. So that's how I see SAS coming out where it does.

And second question on Aerojet Rocketdyne. Interesting that you say that because nobody really knows what their 2023 revenue is. We will disclose that in the 10-K. They only reported the first quarter, there were 4 months that weren't reported and then reported the 5 months. Anyway, when you see those numbers, you will see that we're right around 5% top line growth. 2024 compared to the pro forma 2023, Aerojet disclosed 3 months. We disclosed 5. The 4 fell through the cracks just based on how the accounting works. So we'll put that all in there, and you'll see the 5% growth.

Operator

The next question is from the line of Michael Ciarmoli with Truist Securities.

Michael Frank Ciarmoli - *Truist Securities, Inc., Research Division - Research Analyst*

Maybe, Chris, just to stay on Aerojet. Looks like, I think you said you got all $50 million of cost synergies achieved. I mean, it sounds like that was a lot of low-hanging fruit public company costs. Is there more there? I mean, is that layered into the NeXt initiative?

And then I guess just on NeXt, what flowed through in the quarter? I mean, we saw the $47 million in cost. What did you net out in savings? I think the goal is $175 million for the year. And does one segment maybe benefit disproportionately as you progress through NeXt?

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

Yes, I'll take the first part and ask Ken to chime in on the second part. Yes, the $50 million, we did go quickly to realize it. It obviously was a little more lower-hanging fruit than not, but still takes a lot of time and effort, and we executed. And we absolutely expect to get a little more out relative to what I'd call the integration. I mean, there's more work to do on the IT systems and tools.

We have already aligned them on policies and procedures. All the personnel are already on our payroll systems, our benefit plans and that type of stuff. So yes, we think there's probably an additional $20 million or $30 million that we can get that I would call integration that will just roll into LHX NeXt.

But Ken?

Kenneth L. Bedingfield *- L3Harris Technologies, Inc. - Senior VP & CFO*

Yes. No, I agree on that front. I would say the team did a great job of working aggressively to get on top of the initial integration cost savings. We did hit that target. We're continuing to drive for more. But at this point, the primary focus is really around some of the operational efficiencies, working to drive the throughput through the business and getting what were some bottlenecks to increase production out of the way so that we can deliver these critical capabilities to our customers at Aerojet.

So great work by the team certainly continues. And as Chris mentioned, we'll continue to drive opportunity for further, not only integration, but I would say at this point, more importantly, operational efficiencies, again, to drive volume.

In terms of LHX NeXt, what I would say is we are very consistent at this point with what we discussed at Investor Day. The gross run rate of $1 billion savings we talked about, to your question, $175 million of margin improvement exiting 2024. And I think we see that across the business. I don't necessarily see any individual sector that will benefit first from that. I think Chris talked about the margin opportunity at the sectors through 2026 and getting to our 16% margin framework.

But in terms of LHX NeXt, a lot of confidence in the program, confidence in the team. We have set an initial target out there. As we started to work through it, we saw the ability to drive further savings out of that. I've got confidence that we're working to drive at least to that level of savings. And I think, again, all of the segments should see the benefit of that here in 2024.

Operator

The next question is from the line of Peter Arment with Baird.

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

Welcome, Ken. Ken, maybe just on guidance, if there -- could you maybe level-set us just on cadence, first half versus second half, anything to really call out?

And then also it was highlighted at the Investor Day that working capital would certainly be a positive contributor on -- in cash over the kind of the guidance period. How are you thinking and seeing any opportunities from a working capital perspective and maybe just one capital profile going forward?

Kenneth L. Bedingfield *- L3Harris Technologies, Inc. - Senior VP & CFO*

Sure. Thanks, Peter. Appreciate the question. Yes, in terms of cadence, I would say, as we look at 2024, we think the revenue growth itself should be relatively steady throughout the year, probably a relatively even split, 50-50 between the first half and the second half in terms of growth from 2023 quarter-by-quarter. Probably a little more of an accelerated ramp on the revenue side starting in the second quarter.

In terms of EPS, I would say we'll kind of follow the margin trend. I talked about the margins would be a little bit slower in the first half of the year as we saw a strong performance in the fourth quarter kind of across the board at the segments. And so we expect that to kind of build momentum as we work through the year. That margin momentum should fall through to EPS. And again, we'll probably see that kind of build sequentially quarter-over-quarter through the year over 2023.

And then from a free cash flow perspective and on the working capital question, I would say the free cash flow profile will continue to be weighted towards the second half of the year. And on working capital, I think the team did a great job in driving down our working capital at the end of '23, but the work is never done. We'll continue to try to improve that in 2024.

But we've got a lot of confidence in our growing free cash flow. We talked about 10% free cash flow growth. That will be driven by certainly the margin growth, the margin improvement on growing revenues as well as continued and disciplined balance sheet management.

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

And I'll just chime in, Peter. The continuing resolution, while we've had one every year since 2010, and I think we and the industry know how to deal with it, it does tend to slow things down really from a customer perspective. So as I mentioned, we are under a CR through March. Hopefully, we'll get a defense budget and 11 other appropriation bills pass so we can get back to normal. But that causes a little bit of the slow start, unfortunately, like it does pretty much every year for the last 13.

Operator

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

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

I wonder if you could talk in the Communications business, where 2023 ended up on tactical radio sales and what you expect in 2024 for domestic and international, and kind of the trajectory for each of those.

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

Yes. Let me take that. We actually had a pretty -- we had a great year in CS and especially tactical radios specifically. The interesting thing here, as we talk about the margins, is really the mix between the DoD and the international. So when I looked at the first 2 quarters, we were heavily weighted towards international versus domestic, and then it flipped again in Q3, 4. And we'll start 2024 with a little more domestic deliveries in commercial and then it flips in the back half.

So we had a we had a record year when it came to revenue in TCOM. I think the business is really coming together quite nicely. We've overcome most of the supply chain challenges. I know when we talked in the past, we literally had hundreds of key suppliers that we were tracking, now we're down to just a handful. So the results are getting better. We're getting dual sources. And in fact, we've recently had some wins in some new markets that we've been informed of we're not authorized to disclose them quite yet, but there's a lot of good news coming out of TCOM.

Operator

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

Robert Michael Spingarn - *Melius Research LLC - MD*

Welcome, Ken.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thanks, Rob.

Robert Michael Spingarn - *Melius Research LLC - MD*

So Chris, Ken touched on this, but maybe a quick operational update on Aerojet, but more in the context of some of these supply chain bottlenecks that are still there. Now obviously, this started well before your acquisition and part of the value proposition there is getting it back on pace, but a couple of things.

Does it make any sense to bring any of the problem suppliers in-house? And then Lockheed's talking about standing up a third supplier, Anduril is building a business. So I wanted to see how you think about the longer-term market share implications if others come in.

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

Yes. Thanks, Rob. Let me start -- cover a couple of things and work in specifically your question. The demand, I mentioned earlier, there's more demand than there is supply, which is a great thing when we look back on the acquisition. And to repeat myself, 200 proposals for $13 billion is something we would have never expected in just a 6-month period.

The infrastructure, great progress. We've got the $50 million. We've got the policies. We've got the personnel. The IT systems are in work. And in fact on the talent front, the attrition at Aerojet Rocketdyne has dropped by 1/3 overall and 50% for the engineers. We do these regular surveys. There's just a lot of enthusiasm and excitement about the acquisition, the strategy. And I think it's a tribute to the team that shows how we successfully have integrated them and welcomed them into L3Harris.

Going back to the demand, it's all about capacity. We've talked about the DPA investment for $216 million focused on GMLRS and Javelin and Stinger. In fact, we've already acquired a building in Huntsville, Alabama. Our capacity and footprint there is 4x, and that will ultimately -- it is, but will ultimately be our inert center of excellence, which is great.

The challenges are really at the sub-tier suppliers, as you said. I don't think it makes a lot of sense to bring them in-house. We've actually invested in some of these, not as an ownership, but by helping them with tooling and capital. Our customers have also -- our end customer and our immediate prime customers have also invested.

So as we've said, there's a little bit of a chokepoint here at the sub-tier. Personally, I think over time, a third solid rocket motor provider is fine. We don't shy away from competition. But that doesn't really solve the problem because at the end of the day, everybody's going to be going to the same sub-tiers, for the cases, for the igniters, for the nozzles and such. So we have to fix the sub-tier. We're doing our part by helping them out financially, getting the equipment, improving their -- the capacity. And we started to see it.

There is a big well documented, I think we call it backlog for undelivered motors, and we're chipping away at that, as I mentioned. And once we get these facilities and equipment up and running, I think it's going to look pretty good. And yes, there's a lot of people trying to get into this market now, which is fine. It's a high-growth market, and in my mind, reaffirms the rationale and the value potential from this acquisition.

Operator

The next question comes from the line of Myles Walton with Wolfe Research.

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

Ken, I'm hoping you can provide a few of the cash details on the surface, the Section 174 impact for '23 and '24, maybe what the benefit would be if they retroactively reversed it, what you've paid and what you could get back.

And then maybe just also as it relates to stripping out from the cash numbers, is it just the $220 million for LHX NeXt that you laid out at Investor Day? Or are there other adjustments we should consider?

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thanks, Myles. Let me -- I'll talk about 174 a little bit first and then get into the second part of the question. So let me just start by saying we've got a great tax team that works really hard every day to drive value for the business. And one of the things that I think they do well and we do well in supporting them is getting them really integrated with the businesses so that we get all the data, we get all the information needed to support our R&D deductions and credits.

We work very closely with the IRS team to validate what we've got and what we're doing and how all that works. And I think we've done a great job. This is a business that invests heavily in R&D to drive future capability and future growth, and we'll continue to do that, and we'll continue to see that benefit.

In terms of the cash profile, what I'll say is that, in '23, we're able to catch up a little bit on some tax payments from a timing perspective. In terms of the new amortization of Section 174, we're able to kind of catch back up to being current through the end of '23 on the impact -- the cash impact of that.

And then in terms of the new legislation that's working through, I'll say we're tracking that carefully, keeping an eye on it. The impact of that, if it is passed into law, would be positive for us from a cash perspective.

And I don't want to put a number on it, but as currently drafted, would have some retroactive impact for, I believe, it's '22 and '23. So positive on cash. And then I think there would ultimately be a little bit of a rate headwind as we look forward. But I would say we'd be very willing to trade that little bit of rate benefit for the cash benefit that we see.

And then in terms of kind of free cash flow guide for 2024 and the adjustments. At this point in time, what we're looking at in terms of what that would be adjusted for would largely be the LHX NeXt onetime implementation cost. To your question, I think that should be the largest item there.

Operator

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

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

One for you, please. You mentioned international mix within IMS. More broadly, what are you seeing in the international pipeline? And how are you thinking about the timing of that conversion?

And just thinking about the overall 3% organic growth guidance for '24, how does internal track relative to domestic, and what are the broader margin implications?

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

Yes. Thanks for the question. I mean, obviously, the broader margin implication is we tend to have higher margins in international than domestic, just like we do with commercial. So I see an increase -- slight increase year-over-year. We're kind of hanging around the 22%, 23% of our revenue comes from international, maybe a little uptick in '24, '25 and '26. But every point helps.

I think it comes down to this -- the one that's going to move the needle a little bit is going to be the supplementals. And we haven't talked a whole lot about DC in the budget. But there is a supplemental out there for Ukraine, Taiwan and Israel put out last year for $110 billion. I think about $58 billion is targeted for the DoD. It's all tied up in politics as it relates to border security.

But I think at the end of the day, we need to get these things passed because it's really just backfilling the stockpile that we've already given into several of the countries I mentioned. So hopefully, we get that behind us, and that will solidify our growth opportunities in those regions specifically.

So as I look at each of the segments. Aerojet, as you know, most of that goes through a couple of primes. So we actually don't have any international revenue the way we disclose it for Aerojet, notwithstanding that several of these products get deployed from -- but from our perspective, we just sell them to 2 or 3 primes and then they put them wherever they need to go. So we just call that domestic for what that's worth.

IMS, I talked about WESCAM and bizjets, I see upside there. SAS, it's really given the classified nature of so many things they do. We have an occasional space satellite, like I mentioned, in Japan. Some of the avionics stuff goes international as well. And then CS has the highest percentage of international mainly coming out of the tactical radio business.

And when I look at what we've done in Ukraine and what's needed in Europe and the Mid East and the Far East, it's looking rather positive. So I hope that help, Sheila.

Mark A. Kratz - *L3Harris Technologies, Inc. - VP of IR*

Rob, we're coming up on the hour, so maybe we'll take our last question this morning.

Operator

Sure. Our last question comes from Robert Stallard with Vertical Research Partners.

Robert Alan Stallard - *Vertical Research Partners, LLC - Partner*

Welcome back, Ken.

Kenneth L. Bedingfield - *L3Harris Technologies, Inc. - Senior VP & CFO*

Thank you.

Robert Alan Stallard - *Vertical Research Partners, LLC - Partner*

Chris, probably a question for you. Your counterpart at Lockheed Martin, Jim Taiclet was kind of talking about structural problems in the defense industry with regard to pricing and contracting and whether that could change in the future. I was wondering if you have any issues lingering in the L3Harris portfolio that maybe fits that criteria. But on the flip side, do you see the opportunity to grow more sort of commercial terms contracts in the future?

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

Yes. Good question, Robert. Look, we've all been in this industry for decades, and it kind of goes in cycles where everybody thought fixed-price development programs was a good idea in the '70s and '80s, and then it migrates back to cost-plus and goes the other way. Just kind of have to understand where the customer is and figure out where they're going. There's lots of opportunities to interface with them.

We're we've been successful with our commercial business models that I've mentioned. I think there's more that we can look at in that regard. I think more and more things are moving towards software, and I think it's a new area. I think the DoD has to figure out how to buy software and we have to figure out how to sell software. There have been some cases where it's done. But again, that's probably a different business model than your traditional cost-plus, truth in negotiation type regulations may not make sense. And I think that's what a lot of the new entrants are also struggling with, to figure out how to get into those markets.

So look, we all get to draft RFPs. We review them, we push back and sometimes you just have to no-bid. And one of these days, the entire industry is not going to bid on a fixed-price development contract and the DoD will change. But when you get 1 or 2 bids, they're going to make the award, and we're doing our best to balance the risk with the financial upside that we have, so probably a little more disciplined.

But this has been an ongoing debate probably for decades, and we continue to engage with the customer, and I think they appreciate and understand where the industry is coming from. So we'll see what happens in the months and years ahead.

So look, before I sign off, I really would like to take a moment and thank our 50,000 employees for their focus on performance and execution throughout the year. Clearly, this is impossible without them, and they're critical to our success in meeting not only our shareholders, but our customer commitments.

So really appreciate everybody joining the call. Ken, again, welcome to the team. And we'll be talking to you all soon. 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.
