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L3Harris Technologies, Inc. (LHX)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone. Welcome to the L3Harris Technologies Third Quarter 2024 Earnings Call. At this time, all participants are in a listen-only mode. Later, you will have the opportunity to ask questions during the question and answer session. [Operator Instructions]

Now, at this time, I'll turn things over to Mr. Dan Gittsovich, Vice President, Investor Relations. Please go ahead, sir.

Daniel Gittsovich

Vice President-Investor Relations, Strategy and Corporate Development, L3Harris Technologies, Inc.

Thank you, Bo. Good morning and welcome to our third quarter 2024 earnings call. Joining me this morning are Chris and Ken. Yesterday, we published our third quarter earnings release detailing our financial results and guidance. We've also provided a supplemental earnings presentation on our website.

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 will also discuss non-GAAP financial measures, which are reconciled to GAAP measures in the earnings release.

With that, I'll turn it over to Chris for some opening remarks.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Good morning, everyone, and thanks, Dan. We had a very strong quarter and our strategy is delivering results. We achieved record order volume, an impressive book-to-bill, robust segment operating margins and solid free cash flow. We're proud of the progress we've made so far this year and are confident that we are on track to deliver on the commitments we made to our stakeholders.

Our customers tell us that we're agile, fast and fully aligned with their priorities. This empowers us to deliver the right capabilities at the right time, meeting the evolving needs of our nation and its allies. Our business model enables us to operate as either a prime, a sub or a merchant supplier, offering commercial pricing or utilizing the traditional government acquisition approach. This flexibility and our platform-agnostic approach gives us a unique advantage in rapidly adapting to the changing threat environment and addressing our customers' mission-critical needs. It also enables us to effectively partner with new entrants and non-traditional contractors.

We've made key acquisitions, including Aerojet Rocketdyne and Tactical Data Links, while simultaneously divesting non-core assets. These moves have allowed us to further hone our portfolio, to reinforce our national security focus. Our capabilities in areas like resilient communications, munitions, space, ISR and passive sensing are innovative, allowing us to deliver solutions across all domains and providing our customers with superiority across the entirety of the electromagnetic spectrum. Our diversified portfolio limits our reliance on a single program, enabling steady growth with lower variability and a greater ability to manage risk over the long term.

Partnerships are a hallmark of our Trusted Disruptor strategy. On Wednesday, we announced a strategic partnership with Palantir, working together to deliver advanced solutions to our customers. In fact, yesterday the

White House ordered the Pentagon and the intel agencies to increase the use of AI. So, I feel we're well positioned in this evolving market.

We continue to focus on profitable growth. This approach allows us to grow while delivering sustained margin improvement, which will drive financial outperformance. Growth for growth's sake is not our strategy. We prioritize profitable growth that drives appropriate returns and cash generation.

Our strategy to act as a sub or a merchant supplier also enables us to participate in key strategic programs, even when we choose not to prime. I'm pleased to report that we've made considerable progress on our innovative LHX NeXt program to transform L3Harris and how we operate.

Ken, would you like to elaborate?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

Thanks, Chris.

We're on track to exceed our 2024 run rate cost savings target of \$400 million and now expect to achieve at least \$600 million by the end of the year. We are also confident in our ability to reach our \$1 billion cost savings target a year early and our pipeline provides opportunity for additional cost savings to exceed the \$1 billion target.

The accelerated savings give us confidence that we will surpass the segment operating margin target of 16% that we set at our Investor Day and we now expect to achieve at least 16% in 2026. This performance highlights our ongoing commitment to transforming the way we work, improving operational efficiency and program management, as well as aggressively managing all costs, delivering value to our shareholders. We are realizing the power of real-time data across all of our systems, ERP, manufacturing, engineering, to name a few, and even our products for better decision-making.

Moving into the next phase of LHX NeXt, our primary focus has shifted from workforce optimization to strengthening supply chain management and modernizing our digital infrastructure. By leveraging the scale of our enterprise using modern AI-enabled tools from partners like Palantir, we are improving cost, quality and delivery times for our customers. At the same time, this creates demand stability for our suppliers, giving them the opportunity to grow alongside us. Supply chain management is becoming a competitive differentiator.

Back to you, Chris.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

We had several key wins during the quarter. In our communications segment, we won a \$600 million Next Generation Jammer contract. Following the cost-plus development phase, it will enable L3Harris to establish a long-term jamming franchise worth billions of dollars in high margin production of airborne pods. These types of wins are critical to driving sustained long-term profitable growth and reinforce the strength and diversity of our technology portfolio.

Another highlight this quarter was securing one of two positions on a \$1.2 billion IDIQ contract with the U.S. Navy to provide support for the P-8A Poseidon fleet. This contract strengthens our relationship with the Navy within the ISR sector. On the international front, we were awarded three contracts for software defined tactical radios by

NATO allies totaling over \$400 million. We began deliveries in the quarter, again, displaying the speed at which we can provide capabilities to our customers.

The international demand for these resilient software defined radios with our proprietary waveforms highlights our leading capability in low probability of detect and low probability of intercept communications. This is driving our allies to choose L3Harris solutions over indigenous products with increased frequency.

Over the last several years, we have strategically invested in a new mission set, bringing important capabilities in space-based missile warning and missile tracking, leading to orders for 50 satellites, 5 of which are in orbit. Our advanced solid rocket motor technology also plays a critical role in this mission set, demonstrating our leadership in advanced missile and missile defense technology, including hypersonics, counter-hypersonics and precise attitude control.

This is illustrated by our recent win on the Glide Phase Interceptor contract as part of an industry team, where we will provide two critical propulsion systems, including a large solid rocket motor for the first stage and an advanced motor to power the third stage of the interceptor missile. This interceptor will defense against hypersonic glide vehicles, a real threat in today's environment.

The Glide Phase Interceptor award establishes another long term propulsion franchise alongside our Next Generation Interceptor win earlier this year, where we were a part of a different industry team.

With that, I'd like to turn it back to Ken.

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

As we look ahead to next year, we anticipate growth across key financial metrics, including revenue, segment operating margin, EPS, and free cash flow. We're on track to achieve our 2026 framework of \$23 billion in revenue, at least 16% segment operating margin and \$2.8 billion in free cash flow. We do expect the growth rate in 2026 to exceed 2025 given budgetary and political dynamics over the next few months. We'll provide more detailed 2025 guidance in January, but these commitments are a testament to our ongoing focus on disciplined growth and profitability.

Our financial framework anticipates mid-single digit organic revenue growth, continued margin expansion and low-double digit free cash flow growth as we achieve our targets. As we reach our near-term target debt leverage ratio of 3.0 and deploy excess capital to repurchase shares, our free cash flow per share growth will accelerate into the mid-double digits over our 2023 baseline.

Let's dive into consolidated results for the third quarter, our fifth straight quarter of strong delivery of financial results versus expectations. We're continuing to see strong demand across the board, with new awards totaling over \$7 billion this quarter. This allowed us to achieve an overall company book-to-bill of 1.4, with all four segments delivering book-to-bill of at least 1. Our Aerojet Rocketdyne and Communication Systems segments had particularly strong bookings this past quarter, with both recording book-to-bill well above 1.5. Our total backlog has now reached a new record of \$34 billion.

Turning to the financials, consolidated revenue increased by 8% in the third quarter. Operating margins improved to 15.7%, an impressive 70 basis point increase, driven by continuing program execution and operational performance, with strong contributions from LHX NeXt. Non-GAAP EPS grew by 5% and, on a pension-adjusted basis, our EPS increased by 8%. Our performance so far in 2024 puts us on track to achieve the top end of our

full year guidance range of 9% to 11% pension-adjusted EPS growth. We believe this is the best economic measure of our earnings per share, highlighting how our disciplined focus is delivering strong bottom line results.

We recognize the need to take on risk to grow and, as you can see from this quarter's results, we are managing our portfolio to enable profitable growth and limit risk to digestible single digit and low-double digit millions. We generated over \$700 million of free cash flow this quarter with adjusted free cash flow of \$728 million, primarily driven by increased operating income and effective working capital management. And we reduced overall debt by \$325 million during the quarter, reducing our net leverage to 3.1, nearing our target.

Turning to segment performance, we saw strong growth in CS, with revenue up 10%, supported by increased domestic and international demand for resilient communications equipment and related waveforms, as well as higher volumes for night vision devices.

At IMS, revenue was up 7% year-over-year. This was driven by increased volume of avionics products, higher aircraft integration volume for international and domestic customers, and increased volume for advanced electronics for space and munitions programs.

SAS revenue was about flat due to the divestiture of the antenna business in Q2, lower F-35 related volumes as TR-3 development ramps down and a few challenges on classified development programs in our space business. This was offset by classified program growth in Intel and Cyber, and increased volume supporting FAA mission-critical safety of flight networks. On an organic basis, revenue growth for SAS was 2%.

Aerojet Rocketdyne contributed approximately \$600 million to our overall revenue this quarter. We are pleased with the segment's performance and have booked significant new business to support future profitable growth, as Chris mentioned.

All right. Now turning our attention to margins. CS delivered excellent margins of 26%, a 350-basis-point improvement year over year, driven by strong performance from higher volumes, favorable high margin international mix, proprietary waveform license sales and LHX NeXt cost savings. Waveform sales, a focused effort in the last few years, are demonstrating our effective transition from hardware-centric to software-enabled products.

IMS also performed well, reporting margins of 12.2%, up 30 basis points from the previous year, primarily due to improved program execution, driving net positive EAC adjustments in the quarter, as well as LHX NeXt contributions and favorable mix in our Commercial Aviation Solutions business.

SAS margins declined to 11.6%, largely due to a onetime license sale in the prior year and the previously mentioned challenges on classified development programs in our space business, partially offset by LHX NeXt savings.

Aerojet Rocketdyne delivered margins of 12.6%, which included \$11 million of benefit from amortization of off-market purchase price adjustments. I'll remind you that these adjustments were always considered in our guidance. As PPA amortizes off, we continue to expect economic profit of new programs to fill in the gap.

Turning to guidance, given our strong performance so far this year, we are increasing guidance again. We now expect total company revenue of \$21.1 billion to \$21.3 billion, segment operating margin of approximately 15.5%, EPS in the range of \$12.95 to \$13.15 per share, and we're reiterating free cash flow guidance of \$2.2 billion. You can find additional segment guidance details in the earnings release and presentation on our website.

Overall, we're extremely pleased with our strong performance so far this year. Reflecting on the progress the team has made since I joined L3Harris nearly a year ago, I'm truly impressed by how we've built on our strengths. Our agility and ability to make fast informed decisions are clear differentiators and it's this culture of innovation, responsiveness, decisive leadership and being a platform-agnostic honest broker that enables this company to deliver on our customers' most mission-critical needs while staying fully aligned with the commitments we've made to our stakeholders.

Looking ahead, I'm more and more confident about L3Harris' trajectory. We've established ourselves as the Trusted Disruptor in the industry, continually pushing to disrupt through innovation, while maintaining a trusted and disciplined focus on operational excellence and financial performance.

The future of L3Harris is bright and this team will continue to unlock new opportunities to drive sustained value.

With that, back to you, Chris.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

I want to reinforce that our mission is clear. We are here to deliver for our customers' mission-critical needs. In an increasingly complex global threat environment, we are proud to be at the forefront, helping to build our nation's next arsenal of democracy. Unlike World War II, it's more than just building platforms. It's the convergence of hardware, software and AI, and we're uniquely positioned for the future. Our team's work is vital to helping the warfighter ensure the safety and security of our nation and its allies and we remain fully committed to delivering the technologies and solutions that will protect and defend democracy.

Bo, let's open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly, Mr. Kubasik. [Operator Instructions] We'll go first this morning to Sheila Kahyaoglu at Jefferies.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Good morning, Chris and Ken. Thank you so much. Maybe, Chris, if we could start off big picture, you reiterated the long term target of \$23 billion of revenue, which implies an acceleration of organic growth from 2024 levels and 2025 to 2026. So, can you maybe talk about the biggest drivers of the acceleration, what's left to capture, what are opportunities that you're looking at given the strong book-to-bills this quarter?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

All right. Good morning, Sheila, and thanks for the questions. Yeah, if you recall, in 2023, we had a book-to-bill of 1.21. We're sitting at 1.14 after nine months. And, as Ken said, we have a record backlog. I believe when I look at our portfolio that we are aligned with the important areas of the US budget and that will allow us to grow and meet our \$23 billion commitment.

When I look at CS, we talked about the NATO software defined radios. There are other opportunities in Europe that we're looking at right now and, just like we talked about last time, we still have a \$10 billion international pipeline in CS alone. On the Space side, I think there's some well-documented budget pressures here in the near term. But I think given the threat environment and as the customer continues to move missions from air to space by 2026, we should be able to see more growth in the out years.

In Aerojet Rocketdyne, the operations are improving. We're investing in the supply chain, we're investing in capacity. That expansion should hit us in 2026, which will enable us to accelerate growth. I mentioned the Glide Phase Interceptor and the Next Gen Interceptor as well. So those are large solid rocket motor opportunities that are very, very significant.

And then, of course, in IMS, we always have the international ISR opportunities which are a little lumpy, but given our good performance so far in that market, I think that can provide us upside as well.

Sheila Kahyaoglu

Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. We'll go next now to Myles Walton with Wolfe Research.

Myles Walton

Analyst, Wolfe Research LLC

Q

Thanks. Good morning. I was hoping you could touch on the cost reduction effort coming in a year ahead of time. I think in the Investor Day, you talked about when that \$1 billion cost reduction efforts was accomplished, you had \$400 million in benefit through the margins. Are you at or near that in 2025? And, if so, why aren't you knocking on the door of 16% margins in 2025?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. Let me start with that Myles – good morning – and then I'll let Ken give a little more detail. This is a top priority for me and the entire leadership team. I've talked in the past as to how we did the easy part of integration shortly after the merger, and we were disrupted with the pandemic, and this is really phase 2 of the integration, which we've – now talking about the transformation of L3Harris, we are looking at every single function, every line of business. We're down to policies, systems and, really, just focused on eliminating non-value or waste in the systems.

So, we've been very aggressive. We have dedicated leaders and team focused on this 24/7 and you're starting to see the results. I think there was a lot of skepticism. I'm proud of the team. I'm proud of the fact we're ahead of schedule and it's quite exciting and we're going to continue to push to achieve that \$1 billion next year and more thereafter, but I'll let Ken talk about the margin impact.

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. Thanks, Chris, and thanks for the question, Myles. Good morning. In terms of the margin flow-through, I would say, we are absolutely tracking to the target that we set. And I think that the team is working aggressively to try to realize additional margin opportunity out of the savings, either through – or through a combination of over-delivery of the ultimate target, as well as making sure that we can realize as much of the opportunity and turning the savings into margins as possible.

We'll give more detail on 2025 guidance in January. We mentioned in the remarks that 2026 margin target has moved from approximately 16% to at least 16%. And, as we think about that, it won't necessarily be a linear path, but we certainly see opportunity for margin improvement in 2025 as well.

Remember, these are run rate savings, so we expect them to recur and certainly have long term benefit. We're certainly focused on the long term, but we will see benefit in 2025 flow through. And, just as we look at it, again, the program is really performing well. The team is firing on all cylinders and really feel like it's delivering the results that we need.

Myles Walton

Analyst, Wolfe Research LLC

Q

All right. Thank you.

Operator: Thank you. We go next now to Richard Safran at Seaport Research Partners.

Richard Safran

Analyst, Seaport Global Securities LLC

Q

Chris, Ken, Dan, good morning. I'd like to ask you about Palantir, if I might. The partnership that you talked about. So, two things here, first, what's – if you could tell us what's the investment and profit-sharing arrangement between the two of you? And, second, could you go into a little bit about the strategic rationale for doing this? I mean, you mentioned complementary capabilities. It seems to me maybe you're looking to avoid a huge technology R&D spend here. But, that was my view. I thought we'd get your take on it.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. No, Richard, thanks. There is no up-front investment or capital for this. This relationship goes back about five years. And, before we signed a strategic relationship with another company, we wanted to make sure that the cultures were aligned, our focus on mission was aligned and there's just a lot of great teamwork, not only at the top of the two organizations, but throughout the organization. So based on that, we wanted to take it to the next level.

This will be both teams looking for opportunities to bid. We have one program where Palantir is the prime, TITAN. It's a mobile – vehicular mobile network, where we're a sub, providing the resilient comms, the comms architecture and the comm hardware. There are other programs, where we're going to prime, and then there's R&D projects we're working on together. So, I would say, it's business as usual, and it's really putting the two capabilities together.

As far as the strategic rationale, I mean, it could not have timed to the White House announcement any better that I referenced, if you hadn't had a chance to look at it. I mean, they are really putting the pressure on the DoD and the intel agencies to use AI more. And, I think what our secret sauce is, there's no one company that can do it all. They may think they can, but there really isn't, and our strategy of partnering and working with the best companies in a platform-agnostic manner, I think is a key differentiator and to have the AI skills and the algorithms and the large language models that they have is literally billions of dollars. I don't have billions of dollars in 5 or 10 years to build it. So, we are the team and work collaboratively and could not be more excited about that.

Maybe I'll let Ken – and I talked about the customer side and we also received a few calls from customers as early as yesterday, shortly after the announcement. There's a lot of excitement about this, and couldn't be more proud of the team. But we're also using their products internally as part of LHX NeXT. I don't know, Ken, do you want to give just couple examples of how that's helping us?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Sure. Thanks. Yeah, we're using a Palantir product. We call it the unified data layer. As I mentioned in my remarks, it enables us to look across all of our systems, whether those our ERP systems, manufacturing systems, engineering, labor, other, even to the point Chris talked about in terms of some of the customer opportunities, looking across the data generated out of our products in order to do some of the advanced targeting, real-time targeting and things like that, that are subject to the strategic partnership.

But again, back to some of the internals, we're using that data to make real-time data-driven decisions to drive cost down. We've seen that as a contributor in identifying not only areas for labor efficiencies, factory efficiencies, process improvements, but it is contributing significantly to the supply chain part as well. So, really excited about the partnership. I think it's one of these where there's certainly benefit on the customer side, and we are realizing that benefit up-front in our internal operations to really show how it will actually operationalize itself for our customers.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

And I'll just chime in. We recently rolled out for our program managers and their financial analysts, the ability to get data even more timely real time. And, at the end of the day, Rich, it's all about managing your programs. And the earlier you can get the data, the earlier you can identify opportunities and risks, the easier it is to either realize

those opportunities or mitigate the risks. And it's always been a struggle in this industry to get timely data, and it's exciting, our 800 financial analysts have real-time data, and I think it's going to make a difference in our operations in a positive way.

Richard Safran*Analyst, Seaport Global Securities LLC*

Q

Appreciate all the color. Thanks, guys.

Operator: We'll go next now to Doug Harned at Bernstein.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Company*

Q

Good morning. Thank you.

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

Good morning.

Douglas S. Harned*Analyst, Sanford C. Bernstein & Company*

Q

In CS, you had good results with the near-term demand for radios. But when you look at the outlook here and, I would say, first, on the Army and Marine side in the US, and then on NATO, I guess, since it's World Series day, what inning are we in outfitting the Army and Marines in the US with next gen radios? And then how do you see that playing out with NATO countries as well?

Christopher E. Kubasik*Chair & Chief Executive Officer, L3Harris Technologies, Inc.*

A

Yeah. We'll start with the US, where we can't agree whether we're in the bottom of the third or the top of the fourth, but somewhere between those two is where I think we're positioned here with the DoD. There's still a lot of strong demand. Proud of the team. We're now upselling our latest waveforms. In addition to just the software defined radios, sometimes thought of as hardware, although it's all about the waveforms. That gives us a great, great market opportunity. And every time there's an annual buy, we continue to win. So I'm pretty excited there.

I'd say, on NATO, it's probably even earlier, maybe the second innings. And what we're really seeing is the interoperability is absolutely critical within the NATO countries, our resilience, our crypto mods, these are all reasons why NATO countries are selecting us over their indigenous radio providers. It's a huge, huge opportunity.

In fact, we recently won a program with the Netherlands for \$1.4 billion over 10 years. That's going through the US Congressional notification process. I think one of the key lessons learned coming out of Ukraine is the need for this interoperability and the need for resilient comms. And majority of the NATO countries are, in fact, not only signing up but spending the 2% of GDP that they committed to.

We have a couple opportunities that we won here in Q4 already in Eastern Europe. The pipeline is healthy and we're real excited about the software defined tactical radio business and, as I said, \$10 billion international pipeline. Ken?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. Doug, just to put a couple of numbers on the US side, to your question about Army and Marine Corps. In particular, the DoD has a modernization cycle, we think that's just shy of 500,000 radios in the current cycle. And almost 150,000 of those have been awarded. We have seen about three-quarters of those, about 75% come into L3Harris. That leaves somewhere shy of 300,000 radios to go. So just to put a little bit of numbers behind Chris' comments on the US market. Feel really good about that modernization cycle, and how we're doing against the competitive landscape there. You may remember there's a competitor or two in the handhelds, as well as a different set on manpack and vehicular.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Company

Q

And if I can, as a follow-on. In CS, on ENVG, now this is something where it seems like we're on the edge of funding being stopped like every time we turn around, but then you get the next award. How do you see the outlook for the night vision goggles there?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. We're optimistic on the night vision goggles. I think they actually put money in the budget for a change. Usually, it's a zero and then we go to DC and try to get the money put back in. This time, the money is actually in there. I think it's ultimately going to be, how high VAS and the virtual reality, augmented reality plays out. I think it's pretty well documented that they're behind schedule and they're struggling and the ENVG is a superior product for our warfighters. So, I think the two are also going to be used, and there's going to be a convergence, but I think safe to say we feel a lot better about the night vision goggle business now than maybe a year or two ago.

And, again, some of these DoD procurements are split buys, and we've been winning the majority by a fair amount as we are meeting our commitments, we're delivering and our competitor is behind. So, the Army is always going to award the business to the company that's delivering and performing. That's what we're doing and we'll watch it closely, but feel pretty good about it, Doug.

Douglas S. Harned

Analyst, Sanford C. Bernstein & Company

Q

Great. Thank you.

Operator: Thank you. We'll go next now to Matt Akers with Wells Fargo.

Matthew Akers

Analyst, Wells Fargo Securities LLC

Q

Yeah. Hey, good morning. Thanks for the question. Chris, I wanted to talk about the progress you guys are making on the cost savings and obviously that – a lot of that goes to L3, but a lot of it also goes to your customers and sort of how they're responding to that, are they taking notice that – that better competitiveness maybe helping you convert on some of those orders you got this quarter?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. Thanks. Thanks, Matt. As you would imagine, I and my team spent a lot of time in DC and with the customers. And, it's always flattering when they ask you how things are going and how LHX NeXt is going. I think they're looking at it not only as a cost savings, but a transformation, the use of digital engineering, the ability to make data-driven decisions more timely.

I think it gives Ken and I and the team the flexibility as we roll up our new bids. We know what our labor costs are, we know what our materials, we know what our overhead are and it allows us to either share some of that with the customer or bid higher margin programs. We try to split the two. And based on these book-to-bill rates and the win rates, it's clearly given us an advantage. And, I couldn't be more excited about it. But it's definitely front and center with everybody we meet with.

Matthew Akers

Analyst, Wells Fargo Securities LLC

Q

Great. Thank you.

Operator: We'll go next now to David Strauss at Barclays.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Thanks. Good morning.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Good morning.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Hey, Chris. So far the margin progress that we've seen has been pretty ratable across the individual segments. As you progress from here, up above 16%, how do you see that kind of playing out? Do you still see a kind of similar margin opportunity across the individual segments?

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. Yeah, we do, David. We see it at the segment level and, of course, we see it at the sector level. We have 13 sectors and the mantra has been everybody has to improve their margins. And we have a toolbox on how to do that. As Ken mentioned, the next phase is on supply chain, both indirect and direct cost. I'm really excited about that. We've had some early progress and I think the opportunities are great.

Again, the hard part is getting all the data and once we know how much we spend with each supplier, we're able to sit down and negotiate kind of a win-win situation. So, I'm excited about that. You know, 16% is an interesting number. If we looked at our 13 sectors, I don't think there's anybody really close to 16%, Ken. There's a bunch of people well above 16% and a bunch of people below 16%. So, the guys making 11%, need to get to 11.2%, 11.5%, 11.8% and the people making 25% or 30% need to go to 26% and 32%. So, everybody is going forward. LHX NeXt, an enterprise-wide initiative, benefits are spread across the company. And, I'm excited about the progress.

I don't know, Ken, anything you want to add?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. I was just going to say, in terms of the margin progress, LHX NeXt is certainly a big part of that. But I think at the end of the day, it's also the investments we've made in the team and the tools, our performance on our programs. I think one of the big contributors is just solid performance, getting some of the negative impacts out of the system. We talk about bidding discipline and I don't want that message to come across as that means we're not bidding new work. We are bidding. We think we have a more effective cost structure than our peers and that gives us the ability to win and determine what the right amount of margin opportunity is for us and what the right amount of lower cost is for the customers.

So, as I look at it, certainly a piece of it is avoiding some of the lower margin, negative program issues we saw in the past. Certainly, working with the supply chain pricing and inflation, we sort of had to deal with some of the inflationary pressures as an industry back during the pandemic, but we're now on new programs able to reflect that more appropriate cost. And, again, really focusing on kind of bid to win and knowing what our cost is and I think having a better view that we are more competitive than many of the peers.

So, it's kind of that combination of all those various pieces that I think help us drive to the margin upside, and that's what gives us the confidence in saying we're going to get to at least that 16% in 2026.

David Strauss

Analyst, Barclays Capital, Inc.

Q

Great. That's helpful. And, a quick follow up for you, Ken. I think you talked about a low-double digit free cash flow per share growth out through 2026. It would imply a pretty significant pivot back to share repo kind of soon here as you approach your targeted leverage, I just wanted to kind of confirm that.

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. Thanks, David. That's confirmed. We talked about \$500 million in share repurchases in 2025. We have now hit that target year to date...

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

2024.

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

...I'm sorry in 2024. We have now hit that target year to date. In terms of leverage, we're at 3.1, which is near that 3.0 target that we talked about. That should enable us to get back to more value creating share repurchase levels in 2025 and 2026. 2024, we mentioned we would be at least kind of offsetting dilution from our equity incentive plans and that sort of thing. So, absolutely, I think you're thinking about it right and we're excited about this as really what we see as one of the contributors to value creation for our shareholders, that growing free cash flow per share at a solid mid-teen, double-digit clip.

David Strauss

Analyst, Barclays Capital, Inc.

Thank you.



Operator: Thank you. We go next now to Michael Ciarmoli at Truist.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Hey. Good morning, guys. Thanks for taking the question. Ken, just maybe one quick clarification on the margin performance, any EACs in the quarter? And then, just on the competitive environment, I guess, specifically as it relates to solid rocket motors, there's been some new entrants. It looks like you've got a collaboration going on with GD and Lockheed and maybe that's targeting your GMLRS program. I mean – I guess I'm just trying to get an update on your sense of confidence in maintaining or even growing some of your share in Aerojet, where you've got seemingly, like I said, some new start entrants, some existing players. So, just a general update there.



Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

Yeah. Great. Thanks, Michael. I'll start and then I'll turn it over to Chris on the – some of the new entrant question as well. Look, from a margin perspective and the question about EAC adjustments, we are, as I mentioned, delivering on our programs. Talked about – we did realize some program pressures in particular in the space area on a couple classified programs that we bid a number of years ago. These are very important programs to our customers. I think they enable critical missions and we're proud of the work that our team does in that area. Certainly realizing some schedule pressure and working to accelerate and that's been driving a little bit of cost on us.



But I think it also represents the power of our portfolio, where we were able to work on some of our other programs, realize some upside to more than offset that pressure and still generate 70 basis points of growth in margin rate year over year.

In terms of the EACs, we were positive in three of the four segments, as I mentioned, IMS was positive this quarter. Take that as a real a good sign about the performance on their programs and the stability that that team is generating on their performance. SAS, as I mentioned, did realize some challenges and ended up in the red for the third quarter. But, again, we're happy that the team is working together, all rowing in the same direction to offset, again, one of those manageable pressures that we see and a significant growth area for this company.

In terms of...

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Got it.



Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

...the question on – in terms of the question on Aerojet and new entrants, I would say, look, we recognize what's going on. Chris has talked about the importance of partnering with new entrants as a part of our Trusted Disruptor



strategy. We certainly are doing that in Aerojet as well. And, we've got a few partnerships that we're working to see if there's more upside than risk in terms of the new entrants.

To the question on GMLRS specifically, we see that as a significant growth opportunity in terms of their customer need and there's been discussion of significant increases in capacity needed there. We are working hard at Aerojet to increase our capacity. And, as the customer there is looking at how they got there, they're looking at other opportunities, we're figuring out how we maximize our share of that opportunity and that's a significant growing market for us, more than we ever anticipated at the time of acquisition and certainly at the time of diligence, and the team's working hard to make sure we get at least our fair share of that opportunity.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Yeah. I'll just, Michael...

A

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Great.

Q

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

...give you a little more on GMLRS, specifically, which I think is what that joint venture or teaming arrangement that you mentioned. The Army has recently been talking about a need for 32,000 solid rocket motors a year. We're currently producing, based on our capacity, 8,000. We're making investments to ramp to 10,000 to 14,000, call it 12,000 in the midpoint, there's just more demand than there is supply. So, we welcome the competition. We think we have the best technology. We have the infrastructure. We're building new buildings. We've already bought equipment to ramp up.

And just to put it in perspective, just out of our Camden, Arkansas facility, we deliver 100,000 solid rocket motors a year, 100,000 solid rocket motors. So that's just a data point. It takes a long time to develop new rockets, to get them qualified, get them tested. We welcome the competition, but more pleased with the acquisition of Aerojet today than I was a couple of years ago. The demand is strong and the team is performing. So, more to come.

Michael Ciarmoli

Analyst, Truist Securities, Inc.

Awesome. Great color. Thanks, guys.

Q

Operator: We'll take our next question now from Gautam Khanna at TD Cowen.

Gautam Khanna

Analyst, TD Cowen

Hey, thanks, and great results.

Q

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

Thank you.

A

Gautam Khanna

Analyst, TD Cowen

Q

Wanted to ask just if you can give us an update on Tech Refresh-3, where that stands? And then, if you could also just still opine on the margin progress you've made at IMS, getting some of those challenges that were there last year under control. Thanks.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. On F-35, I know there's been a lot of discussion on TR-3 in the last several days. I just want to clarify that we're under contract with Lockheed Martin through Lot 19. So we are not experiencing any financial headwinds or impact from their negotiations. But I will say it's a great team effort. We're all working together on this from the prime to the subs and ourselves to make sure these aircraft get delivered and fielded as soon as possible.

Overall, we're meeting our commitments on TR-3, whether you look at the core process or the memory system or the cockpit display. So it's been a good effort. We get weekly updates on the progress from the team, and I think the customers, end user and the prime are happy with what we're doing. So, pretty good in that regard.

Relative to IMS, you've seen the improvement. They are clearly performing well. We're getting a new leadership in place a few years ago. We're investing in systems. The customer relationship is improving and we're seeing pretty good progress. So, pleased with the margins on IMS, and they're kind of getting back to where they were just a few years ago, which again, I don't think anyone thought was possible. But to elaborate on what Ken was saying, it's more than LHX NeXt, it's program execution, it's negotiation, it's identifying when the customer wants changes and getting change orders. They don't want it, we don't get paid for it, if we don't do it but that goes across the board. So, good progress all the way around.

Gautam Khanna

Analyst, TD Cowen

Q

Thank you.

Operator: Thank you. We go next now to Pete Skibitski at Alembic Global.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Hey. Good morning, guys. Nice quarter.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Great. Thanks, Pete.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

I'm just wondering, at CS, you guys obviously kind of broke the year out between first half heavy domestic mix at tactical radios, second half heavy international, and we're seeing that playing out with the margins. Can you give us a sense of how 2025 might play out just versus 2024? Do you expect a similar mix, domestic/international, in 2025 versus 2024 or will it shift one way or another? Thanks.

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Thanks, Pete. In terms of CS and the margin, I would say a couple things. One, in terms of 2024, we did talk about a profile that was a bit more domestic in the first half, international in the second half, and that's playing out as we expected. Some of the first half domestic heavier mix was a catch-up from a number of international deliveries we made in late 2023. And then I think the team did a great job in responding quickly to some of the international demand that we saw and a number of the awards that CS received in the third quarter were actually not just booked into opportunities, but they were able to ship products to international customers in the same quarter.

I should make sure to highlight that the waveform strategy is working and we saw that play through as a driver of the 26% margins at CS and over 300 basis point increase in margin year-over-year.

To 2025, I would say, look, we'll give more guidance for 2025 in January, but I don't necessarily expect to see as much of a timing delta between domestic and international quarter-to-quarter, first half-second half. We've got growing demand both domestically and internationally. And as the team has expanded capacity, expanded testing ability, one of the things that they've done that I think is great at CS is invested in some test capability, where they can test multiple radios on single stands, whether those are for domestic customers or international customers, that's driving some efficiency.

And because of that, I think we'll be able to see both growing domestic and international in 2025. Again, as we think about that profile, we'll give you more information in January, but it should be, I would think, a bit more stable in the mix as we look forward.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. I'll just chime in. Our confidence in 2025, which we'll talk about in January, is probably going to be better than it has the last couple years on CS and in particular the software-defined radio business. If you recall, in 2021-2022, the supply chain was really a headwind as we talked about and kind of hard to deliver radios if you don't have all the parts.

But Ken and I were going through some things earlier this week, and I know you're going to find this hard to believe but, Pete, we actually are confident today that our supply chain is in better shape today than it was before the pandemic. So, if you talk about looking for a silver lining in the pandemic, we have a much more resilient supply chain. We have alternate parts. We've entered long-term strategic agreements where it makes sense. And I think that's going to give us confidence in that particular sector that we didn't have, not only during the pandemic, but before the pandemic. So, pretty exciting progress. We don't go back to the norm. It's the new norm and it's much better in supply chain than it ever was. So, I thought I'd share that insight.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Yeah. No, that's great. Appreciate it. A quick follow-up. So, guys, are waveforms now even higher margin than international at this point? I don't know if you want answer that or not, but the way you're talking it almost seems like it is.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yes, they are.

Pete Skibitski

Analyst, Alembic Global Advisors LLC

Q

Okay. Appreciate it. Thanks, guys.

Operator: Thank you. We go next now to Seth Seifman at JPMorgan.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Hey. Thanks very much and good morning.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Good morning.

Seth M. Seifman

Analyst, JPMorgan Securities LLC

Q

Definitely appreciate all the investment that you guys have made in Aerojet and the demand there. Just looking specifically at the cadence in the fourth quarter and just kind of getting to the low end of the range there, that requires a pretty big step-up sequentially and year-over-year, I guess, what kind of gives you the confidence in that. And then, to what degree do we think of that as something that's maybe a seasonal impact versus something that's kind of breaking free in terms of the pace of sale there?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. Thanks, Seth. Appreciate the question. At AR, we are making really good progress as we mentioned I think in really operationalizing for the capacity and to realize the opportunities that we see. In terms of revenue growth, it does take time to get some of that capacity increase in place. We're starting to see some of the investments that we made pay off and that should start to kick in from a revenue perspective.

They have been working hard on integration and their own piece of cost management, whether that's integration or LHX NeXt. And, driving that cost down has been a little bit of a headwind on revenue, as well as some of the – just the legacy contracts that were in place at the time of the acquisition hanging around for a little longer than we expected. That's also been a little bit of a headwind.

But as we look forward to the fourth quarter, there's some timing of supply chain cost flow-through and things like that, that we see giving us confidence to the full year AR revenue range for the 2024 guide. So, we're feeling pretty good about both. I think most importantly, the long term trajectory and the investments that we're making to drive our ability to realize that, as well as the full year guide on revenue and margin rate at AR.

Operator: Thank you. We'll go next now to Peter Arment at Baird.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Thanks. Good morning, Chris and Ken. Really nice results. Hey, Chris, maybe just get your latest thoughts on just maybe updated thoughts on portfolio shaping. You talk about some businesses that maybe you wanted to potentially divest and just given LHX NeXt, all the progress that you're doing there, just your latest thoughts there. Appreciate it.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Yeah. Thanks. Thanks, Peter. No, we continue the process. We have a couple of smaller properties that are in the market, so I don't know if we'll be able to get anything closed in Q4. We might announce something. And, we have a process that we're following. None of these would really, I don't think, be viewed materially, \$50 million here, \$100 million there type thing. But, no, we're really refining the portfolio. And the amount of management oversight, the time and effort with these small entities and the strategic value to us sometimes doesn't align. But, these are good businesses in the right hands. It's always who's the best owner and we have a handful that we think others would be better owners of. And, we'll keep you informed. But, I think of it in the couple hundred million here or there range. Hope that helps, Peter.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Appreciate that. And just a quick follow-up. Ken, just since you've been now at L3 for just about a year, just how are you thinking about the opportunities with working capital? And I know you touched upon free cash flow growth and just your latest thoughts there. Have you seen any opportunities with LHX NeXt, et cetera?

Kenneth L. Bedingfield

Chief Financial Officer & Senior Vice President, L3Harris Technologies, Inc.

A

Yeah. Thanks. From a working capital perspective, we certainly want to be effective managers of the capital required to run the business. That being said, we are working on our plan for profitable growth and that takes some investment. And at times that means kind of investing in, in the business, whether that's CapEx or working capital to drive those growth opportunities.

And, we're willing to make those investments. We look at that and we see it as being a part of this free cash flow growth that we drive, probably with growth in operating income driven by, again, that profitable growth at the top line flowing through with increasing margins as the biggest contributor to the free cash flow growth, but then also effective working capital management being a part of that.

But I want to be clear, we are not short-termists in terms of working capital. We think about the health of this business for the long term, and we make those important and hard decisions to invest and that is enabled by LHX NeXt managing every dollar of cost. And, as we've made difficult decisions around our workforce, around our infrastructure, around the tools that we're investing in to drive benefits in the supply chain, all of those things enable us to make the investments needed to drive that profitable growth.

So, we feel really good about it. The team certainly knows how to do effective working capital management, but really the growth and the increase in profit is the biggest contributor to that growing free cash flow that we see.

Peter J. Arment

Analyst, Robert W. Baird & Co., Inc.

Q

Appreciate all the color. Thanks, guys.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Bo, let's take the last question.

Operator: Certainly, we'll take that question now from Jason Gursky at Citi.

Jeremy E Jason

Analyst, Citigroup Global Markets, Inc.

Q

Hey, guys. This is Jeremy Jason for Jason Gursky today. Thanks for sneaking me in. I was just wondering if you could provide an update on the trends going on with TDL, Link 16 and your efforts with the Proliferated Warfighter Space Architecture programs? You guys have made some like good strides here and have been investing in facilities to support them. So I was just kind of curious if things have been tracking as planned or what do you think might be next for the company in this area. Thanks.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

A

Okay. Thanks. Thanks for the question. We actually just reviewed the TDL business case with our board of directors. We're actually a little ahead of the business case that we presented. We successfully moved everything into our Salt Lake City facility. As a part of that process, we streamlined the flow in the operations, hours are down, supply chain leverage is improving, and we've received significant orders.

There's a product called BATS-D. It's a handheld Link 16, sold the first one in a long, long time – or actually lots of them in a while. So we're really happy with the progress we've made there. Link 16 demos in space are going well. And, I talked earlier about making acquisitions that align with national defense and security and being aligned with the budget and the customer. And here's a perfect example, resilient communications. You've heard us say it for years. I'm telling you, that's the future. We're in the sweet spot. We have the technology, we've got the workforce, we've got the capability, and we're starting to see it pay off.

Christopher E. Kubasik

Chair & Chief Executive Officer, L3Harris Technologies, Inc.

So I think with that, I'll just wrap up before concluding and take a moment to acknowledge the efforts of the team. Their dedication and innovation continue to drive our success and transform not only our country but the industry. This quarter in particular, we faced significant challenges from tornadoes to hurricanes, yet our teams have consistently risen to the occasion.

This resilience of overcoming obstacles is a testament to the strength and adaptability of the workforce. Could not be prouder of what we've accomplished together. So, despite these challenges, we've made tremendous progress. I'm confident that we're well-positioned to build on this momentum in the years ahead. And I thank everybody for joining the call and we'll talk to you again in January.

Operator: Thank you, Mr. Kubasik. Ladies and gentlemen, again, that does conclude the L3Harris Technologies third quarter earnings call. Again, thanks so much for joining us, everyone, and we wish you all a great day. Goodbye.

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